

Risk and Crisis Management

To address various risks that may arise in all aspects of our management and business activities, we strive to make improvements to our risk and crisis management system to respond both promptly and appropriately to changes in the business environment, to prevent risks from manifesting and to minimize damage and loss in cases where risks manifest (i.e., when a crisis occurs).

Social issues

The growing severity of environmental issues, including climate change, plastic waste, and the depletion of water resources, environmental and human rights issues relating to the procurement of raw materials, and social issues such as the aging of society and increasing hygiene awareness have raised awareness of the environment and health among consumers, leading to a trend toward ethical consumption and growing customer demand for sustainability. In addition, the social environment has been changing dramatically, with the destabilization of political and social conditions and strained diplomatic relations.

On the other hand, stakeholders are also raising their expectations and what they require from companies in terms of corporate compliance, ensuring that products and services provide safety and security, secure information management, safeguarding of human rights, promotion of DE&I, and timely and appropriate information sharing and disclosure. In this era of volatility, uncertainty, complexity, and ambiguity (VUCA), Enterprise Risk Management (ERM) is becoming increasingly important for achieving the management targets.

Policies

We consider risks to be the effect of uncertainty on the achievement of management targets and the execution of business activities, which can result in opportunities and threats. As such, in our risk management, we

appropriately manage risks that pose various threats to management and business activities in general (e.g., reducing the impact and likelihood of risk manifestation).

We aim to properly manage the various risks and crises that could occur across our business in line with the response priorities for risks and crises detailed in the Kao Risk and Crisis Management Policy (1. Protection of human lives, 2. Environmental conservation, 3. Continuation of operations, and 4. Protection of assets).

The Risk and Crisis Management Committee has established risk and crisis management systems and activity guidelines, and our divisions and affiliates within and outside Japan conduct risk management by identifying and assessing risks and formulating and implementing appropriate countermeasures based on this activity guideline. In addition, when a crisis arises, an Emergency Response Team is launched corresponding to the severity of the emergency to promptly and appropriately address the crisis in order to minimize physical damage and financial losses.

Strategy

Risks and opportunities

Risks

Our business environment remains unclear due to intensifying market competition and changes in market structure, as well as fluctuations in the raw-material market and exchange rates. In addition, geopolitical

tensions are rising and environmental issues are becoming increasingly serious. It is therefore crucial to respond to the risks associated with various changes in the business environment. After deliberation by the Risk and Crisis Management Committee and the Management Board, the Kao Group has selected particularly significant risks as the main risks that could have a negative impact on its sustained profitable growth and contribution to the sustainability of the world. Managing divisions have established countermeasure policies for these risks and are managing their progress. Through “Corporate Risk Management,” which identifies and manages the risks that management should prioritize in their response from among such main risks, we aim to realize ERM that increases corporate value by integrally and comprehensively identifying and assessing all significant risks and implementing countermeasures.

We define risks with newness, risks for which there is insufficient data, or risks for which there is a lack of verifiable information and knowledge needed for decision-making as emerging risks. Emerging risks may seriously affect management over the long term. During our annual review of the main risks, we also identify emerging risks with a focus on those below.

Risks related to responses to social issues

In promoting the ESG strategy, the Kirei Lifestyle Plan (KLP), we recognize transition risks (introduction and/or raising carbon taxes, introduction of restrictions on plastics, raw material price increase, and preservation of biodiversity) and physical risks (natural disasters), especially with regard to climate change. In addition,

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Main risks

Main risk item	Details of risks
1. Raw material procurement	<ul style="list-style-type: none"> • Risk of dramatic fluctuations in the market price or stable procurement of raw materials • Risk that our initiatives to achieve sustainable, responsible procurement will be perceived as being inadequate
2. Response to social issues	<ul style="list-style-type: none"> • Risk of products and services not being accepted by consumers and customers due to initiatives that are inadequate or perceived as inadequate for resolving social issues, such as climate change and human rights issues. • Risk of being perceived as “greenwashing”^{*1} by not being able to adequately show progress on the ESG strategy, Kirei Lifestyle Plan <p>^{*1} Greenwashing “Washing” is exaggerating or overstating the environmental and sustainability aspects of a company’s products or services, or making unsupported claims about the environmental or sustainability actions it takes.</p> <ul style="list-style-type: none"> • Transition risks (introducing and/or raising of carbon taxes, introduction of restrictions on plastics, raw material price increases, and preservation of biodiversity) and physical risks (natural disasters) associated with rising average temperatures due to climate change • Risk of human rights violations or lack of consideration for human rights that may hinder the Kao Group’s business activities, such as maintaining its supply chains
3. Geopolitics	<ul style="list-style-type: none"> • Risk of deterioration in the business environment due to destabilization of political or social conditions, diplomatic tensions, conflicts or other reasons in countries or regions where we do business or procure raw materials • Risk of human casualties, temporary suspension of operations, and changes in consumer purchasing due to conflicts between countries or regions
4. Large-scale earthquakes, other natural disasters, and accidents	<ul style="list-style-type: none"> • Risk of obstacles emerging that hinder our ability to supply our products to the market owing to harm to employees, facilities and supply chain as a result of large-scale earthquakes, large typhoons associated with climate change, floods and other natural disasters • Risk of major harm to employees and the surrounding area due to a plant fire or explosion, etc.
5. Quality of products and other items	<ul style="list-style-type: none"> • Risk of occurrence of serious quality problems • Risk of delayed response to new safety or environmental issues, or sudden changes in laws and regulations in each country or region
6. Information security	<ul style="list-style-type: none"> • Risk relating to trade secrets leakage or personal information disclosure, as well as temporary disruption of business activities through an error or intentional action, including cyberattacks
7. Reputation	<ul style="list-style-type: none"> • Risk of the spread of negative evaluations of inappropriate or careless expressions in information provision and marketing activities through social networking services, etc.
8. Pandemics	<ul style="list-style-type: none"> • Temporary suspension of operations due to a pandemic outbreak • Shrinkage of the cosmetics market, etc., due to changes in purchasing behavior brought about by restrictions on daily life, such as going out
9. Changes in the retailing environment	<ul style="list-style-type: none"> • Risk of not being able to develop appropriate sales and marketing activities in response to the diversification and complexity of the retailing environment and purchasing behavior • Risk of failure to respond appropriately to changes in the retail environment, resulting in delivery delays and a significant increase in logistics costs
10. Business outside Japan	<ul style="list-style-type: none"> • Risk of significant business planning delays due to slow economic growth, political and social instability, sudden changes in laws, regulations and tax systems, an influx of counterfeit products, reputational risk, and others
11. Business investment	<ul style="list-style-type: none"> • Risk of being unable to generate the expected results, due to worse-than-planned performance, etc. in relation to capital investment and M&A, and others
12. Compliance	<ul style="list-style-type: none"> • Risk of serious compliance violations at Kao Group companies, contractors, etc.
13. Securing human capital	<ul style="list-style-type: none"> • Risk of being unable to implement systematically the acquisition and cultivation of human capital with high-level specialist skills, leaders able to guide change, etc.
14. Currency exchange rate fluctuations	<ul style="list-style-type: none"> • Risk that fluctuations in the exchange rates between the Japanese yen (as a functional currency) and foreign currencies will be greater than anticipated
15. Litigation	<ul style="list-style-type: none"> • Risk relating to litigation trends and others

regarding human rights issues, we recognize the risk that human rights violations or lack of consideration for human rights may hinder the Kao Group’s business activities, such as maintaining its supply chains. Furthermore, if our efforts to solve these social issues are inadequate or perceived as inadequate in relation to

our targets, our products and services may not be accepted by consumers and customers, and we may not achieve our sales and market share targets as a result. Failure to adequately show progress toward the KPIs committed to in the KLP may lead to a fall in corporate value, such as being perceived as

greenwashing. The lack of response to these issues could significantly affect management over the long term.

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Risks related to geopolitical risks

Geopolitical risks have remained high in Europe and East Asia, where the Kao Group conducts business. Geopolitical risks may also increase in the countries and regions where the Kao Group procures raw materials. The business environment in these countries and regions may deteriorate due to the destabilization of political and social conditions, diplomatic tensions, conflicts or other reasons. In such a case, if the Kao Group corporate activities are affected by human casualties, temporary suspension of operations due to supply chain disruptions, or changes in consumer purchasing due to friction among countries or areas, we may not be able to achieve our sales and profit targets. Not responding to these issues properly is a risk that could significantly affect management over the long term.



“Business Risks and Other Risks” section of our Financial Report 2023
<https://www.kao.com/content/dam/sites/kao/www-kao-com/global/en/investor-relations/pdf/securities-fy2023-all-01.pdf#page=37>

Opportunities

Faced with social issues and a changing business environment, we clarify the main risks that we face, strengthen our response to them, earn a strong sense of trust from our various stakeholders, and provide products and services deemed necessary by society. This helps us contribute to the execution of business activities, and consequently to make Kao a company with a global presence, valuable to society.

Strategy

- Clarifying and responding to main risks based on changes in the internal and external environment
- Responding to risks that may hinder the achievement of the Kao Group Mid-term Plan
- Prompt and appropriate response when risks manifest

Social impact

Risk and crisis management plays an important role in supporting sustained profitable growth and contributions to the sustainability of society. Such management contributes to providing even better products and services in a continuous manner and maintaining good relationships based on trust with consumers, customers, business partners, and other stakeholders.

Business impact

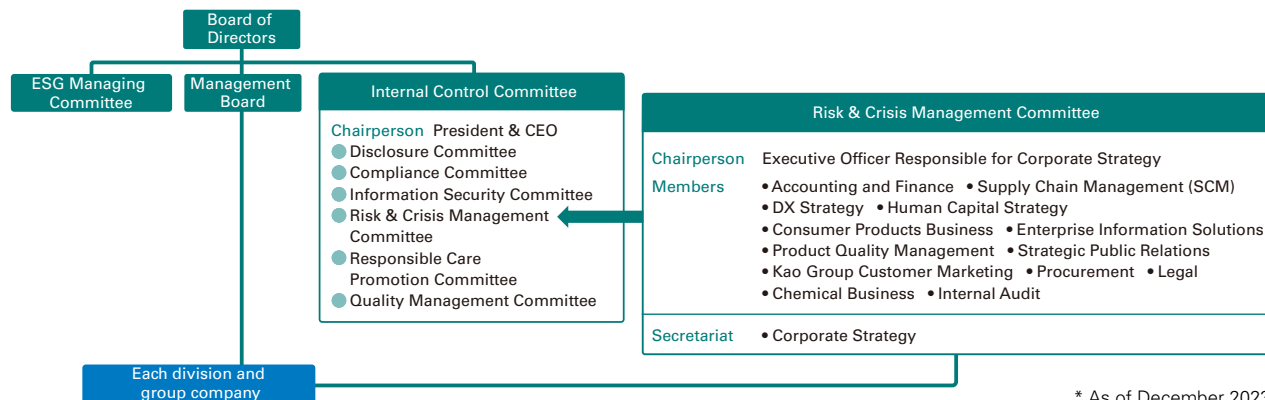
Preventing crises from occurring and minimizing any damage or losses in the event of an occurrence will contribute to achieving our business activity goals and sustained profitable growth.

Governance

Framework

Risk and crisis management is managed by the Risk & Crisis Management Committee (which meets four times per year), one of the related committees under the Internal Control Committee (meeting twice a year), which establishes management systems and activity guidelines. Risk & Crisis Management Committee is headed by the Executive Officer Responsible for Corporate Strategy. Divisions and affiliates conduct risk

Risk and crisis management system



* As of December 2023

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management by identifying and assessing risks and formulating and implementing appropriate countermeasures based on this activity guideline. In addition, we have established the Risk and Crisis Management Promotion Council, which is held once a month as a subordinate organization of the committee. It discusses proposals with the committee and promotes committee decisions.

In addition, we review main risks at least once a quarter based on changes in the business environment. Among these main risks, the Kao Group determines themes for and addresses risks that would have a major impact on management and require an enhanced response as "corporate risks." With respect to corporate risks, once a year, the Management Board revises the risk themes and risk owners (with an Executive Officer responsible for each risk theme) based on an analysis of internal risk surveys and the external environment, as well as interviews with management, and the Risk & Crisis Management Committee manages the progress.

Conversely, in the event of a crisis, in the case of corporate risks, those risk owners, or in the case of other risks, those divisions and affiliated companies responsible for addressing them, play a central role when it comes to establishing an organization for countermeasures. In addition, depending on the magnitude of the impact on the Kao Group as a whole, we also establish Emergency Countermeasure Headquarters with the President & CEO as its general manager to respond to the impact to reduce physical damage and financial loss as much as possible. The Risk Management & Responsible Care, which operates independently of our individual businesses, promotes effective management of risk and crisis in the Kao Group. Besides submitting proposals for improvement, the group also works to identify emerging risks and

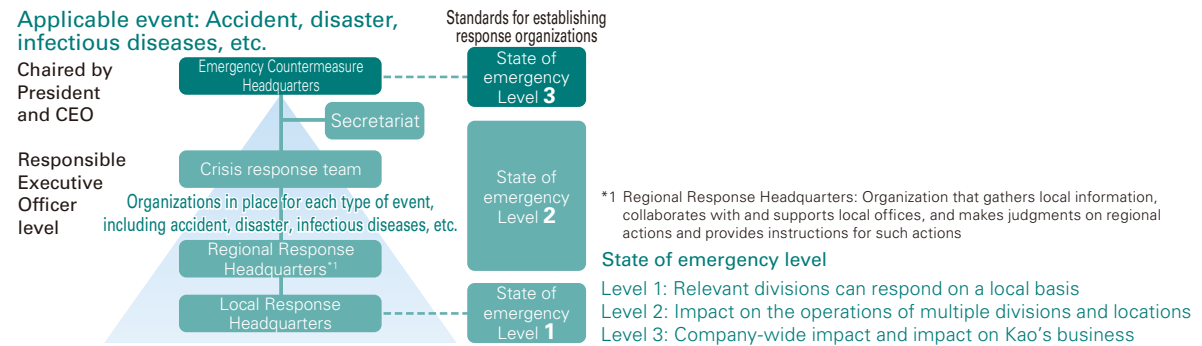
risks for which the responsible unit is unclear, and formulate response strategies. The Management Board undertakes verification of risk and crisis management activities on a periodic basis (once a year) and as needed, and this verification is approved by the Board of Directors. The Internal Control Committee monitors the status of the risk and crisis management activities and verifies the effectiveness of the activities.

The performance evaluation of the executive officer in charge of risk and crisis management and the Risk Management & Responsible Care will reflect the degree to which targets for the aforementioned activities have been achieved. The performance evaluation of the

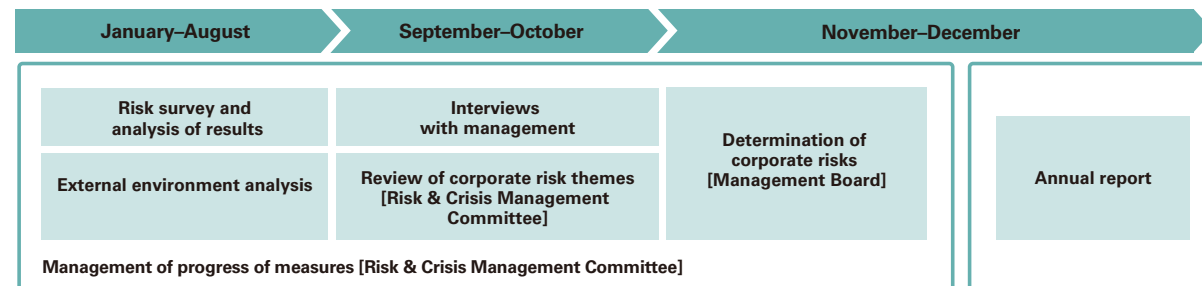
executive officer in charge of main risks and corporate risks and the lead division will also reflect the degree to which the initiatives have achieved their targets.

Management framework during times of crisis

Within the Kao Group, when a crisis occurs, the head of the crisis response team will evaluate the state of emergency level on the basis of the potential impact on the Kao Group (designating the crisis as level one, level two, or level three depending on the severity of the accident, disaster, infectious diseases, etc. in question), and an appropriate organizational framework will be established for dealing with the crisis in accordance with the level of severity.



Risk and crisis management activity process



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Education and promotion

Spreading awareness of the risk management system and activity guidelines

The Risk & Crisis Management Committee's Secretariat disseminates information about the designated risk management system and activity guidelines formulated by the committee to individual divisions and affiliates. Then, through self-audits, we confirm how well each division and company, including affiliated companies outside Japan, understands basic policy and activity guidelines, as well as the implementation progress of our activities. Additionally, through the use of our internal portal site, we inform employees about our risk management system, response flow, emergency contacts, guidelines and so on when crises occur.

Risk surveys

Risk surveys, including both comprehensive surveys and surveys with questions on designated topics, are conducted at each division and subsidiary to identify significant risks and facilitate the revision of countermeasures where necessary. The results of the surveys are reported back to each division and subsidiary to promote ongoing improvement and strengthening of the risk management capabilities of the organization and its employees. For cross-organizational risks and common risks, we are working with each division in charge to strengthen our ability to address these, and if necessary, respond to them as corporate risk themes.

Providing information on and building awareness of risks

On our internal portal site, we provide employees with an emergency contact and response structure to be

used when a risk becomes apparent. In addition, to promote an understanding of risks and an immediate, appropriate response in the event of a crisis, we also provide information and education about topics such as how to prepare for and respond to large-scale earthquakes, natural disasters, pandemics, information security risks, or reputational risks, as well as key points to note when using social media, while building awareness of various risks.

Crisis response training

We conduct regular emergency response training, comprehensive prevention drills, safety confirmation drills, media training, risk communication training, etc.

Collaboration with stakeholders

When it comes to risk and crisis management, in order to quickly and properly address these situations it is necessary to conduct activities that deepen mutual understanding with our stakeholders through communication.

For instance, when it comes to maintaining product safety and good quality, stable supply, and fulfilling our responsibility toward social issues, working with suppliers and contractors is essential. To ensure stable procurement of raw materials, we are strengthening cooperation with suppliers, including human rights protection and environmental conservation in the supply chain, by increasing facilities at our main suppliers, developing second suppliers to diversify risks, reviewing contracts, and collaborating with suppliers.

In the event of crises such as large-scale earthquakes and typhoons, it is necessary to collaborate with the government, local governments and industry

groups in order to provide relief aid to the affected areas and ensure the continuous supply of needed products and services.

Metrics and targets

Mid- to long-term targets and 2023 results

Mid- to long-term targets

By implementing the strategies stated above, we achieve risk and crisis management that helps us achieve the vision for 2030: to make Kao a company with a global presence, valuable to society.

2023 results

- Prompt and appropriate response when risks manifest
- Identifying and responding to significant risks and issues through conducting a risk survey regarding risks that would hinder the Kao Group Mid-term Plan 2025 (K25 (K27))
- Clarifying main risks, including corporate risks, and strengthening our response
- Strengthening risk management activities of divisions and subsidiaries
- Major drills for a state of emergency
- Strengthening measures against information disclosure
- Considerations for shifting to an endemic response to the COVID-19 pandemic, etc.

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Key themes and responses for corporate risk in 2023

Theme	Details of risks	Response
Response to social issues	Risk of initiatives to resolve social issues being perceived as inadequate. Risk of failure to adequately show progress toward the KPIs committed to in the KLP being perceived as “greenwashing”	<ul style="list-style-type: none"> Understanding the evaluations of our initiatives for social issues by stakeholders and other parties on a global scale and reducing reputation risks
Response to geopolitics	Risk of deterioration of the business environment in countries and regions where we develop business and procure raw materials, and risk of human casualties, temporary suspension of operations, or changes in consumer purchasing	<ul style="list-style-type: none"> Developing risk scenarios and response systems, and monitoring political and social conditions Establishment of guidelines for ensuring employee safety Strengthening the supply chain network for raw material procurement, etc.
Pandemic response	Risk of temporary suspension of operations due to a pandemic outbreak Risk of shrinking cosmetics market, etc., due to changes in purchasing behavior	<ul style="list-style-type: none"> Reviewing the guidelines, action plans, etc., in preparation for the next pandemic, based on past responses to the COVID-19 pandemic
Large-scale earthquakes and other natural disasters and BCP response	Risk of harm to employees and damage to assets, including facilities, and difficulties in supplying products resulting from large-scale earthquakes and other natural disasters such as large typhoons and floods brought on by climate change	<ul style="list-style-type: none"> Enhancing hardware and software measures based on flood risk surveys at each site, and providing disaster prevention education to protect employees and their families Formulating BCPs for long-term suspension of operations in Japan and strengthening BCPs at sites outside Japan
Response to serious product quality issues	Risk of serious product quality issues arising that would cause the loss of social credibility	<ul style="list-style-type: none"> Strengthen company-wide response in the event of serious damage arising due to product quality issues Strengthen internal awareness-raising to prevent serious quality issues from arising
Response to cyberattacks and personal information protection	Risk of leaks of confidential information or personal information due to an error or to intentional actions including cyberattacks. Risk of temporary suspension of business activities such as supply chain management activity	<ul style="list-style-type: none"> Reinforcement of security measures and the response system in case of incidents Strengthen global protection of trade secrets, personal information, and information security
Response to reputational risks	Risk that causes brand value and social credibility to decline due to the spread of negative evaluations about Kao on social media	<ul style="list-style-type: none"> Strengthen the emergency response system in the event of contingencies Strengthen the social media monitoring system Establishment of a pre-checking system and in-house training for using advertising and social media

Clarifying main risks, including corporate risks, and strengthening our response

- The details of these main risks are disclosed in “Business Risks and Other Risks” in Annual Securities Report.
- The Risk & Crisis Management Committee managed the progress of the eight corporate risk themes for FY2023.
- Based on internal and external risk analysis, the Management Board has decided on the management system for the eight corporate risk themes for 2024.

Reviews of 2023 results

We used a risk survey to identify risks that could hinder the achievement of the Kao Group Mid-term Plan (K25 (K27)), an ongoing theme since FY2021, and reflected them in our corporate risk review. Going forward, we will continue to strengthen our response by addressing the factors that cause risks in order to achieve the Kao Group Medium-term Plan (K27).

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Main initiatives

Clarifying main risks, including corporate risks, and strengthening our response

Regarding our 22 major divisions and 4 major subsidiaries within Japan, we conducted a risk survey regarding our ongoing themes from FY2021 of risks that would hinder the Kao Group Mid-term Plan K25 (K27). As a result, the significant risks identified included risks related to business and policies including new businesses, risks related to ESG, geopolitical risks, and risks related to AI. For subsidiaries outside Japan, we identified and strengthened the management of corporate risks through risk surveys. Based on the results of surveys conducted within and outside Japan, analyses of the external environment, and interviews with management, we have selected our corporate risk themes for 2024.

Strengthening risk management activities of divisions and subsidiaries

- We have strengthened the practical ability of sites outside Japan to respond to risks by checking the status of management of selected critical risks and strengthening collaboration with the Kao head office as necessary.
- At the Risk and Crisis Management Promotion Council, we shared and discussed the risk management activities of 10 divisions in Japan in order to promote improved collaboration and strengthen our risk management activities.

Strengthening risk management activities through the use of third-party organizations

- We are working to strengthen our human rights risk management by conducting Sedex assessments in our supply chain and SMETA audits for high-risk suppliers.
- We are working to strengthen our business continuity capabilities by identifying issues and enhancing our response to business continuity management (BCM) for risks that may hinder business continuity, such as large-scale earthquakes, other natural disasters, and accidents, by bringing in a third-party organization.
- We conduct third-party risk surveys to prevent and minimize the impact of fire and explosion accidents at each plant and distribution site.
- Each plant is ISO 14001 (environment) and ISO 9001 (quality) certified.

Major drills for a state of emergency

- Comprehensive prevention drills (implemented at major plants around the world)
- Emergency response training and BCP training presumed for a large-scale earthquake (Japan)
- Safety confirmation drills presumed for a large-scale earthquake (Japan)