

As stated in the mission of the Kao Group, we implement wholehearted *Yoki-Monozukuri* from a consumer and customer perspective for the satisfaction and enrichment of the lives of people globally. At all stages from raw materials to research and development (R&D), production, distribution and sales, we pursue product safety at a high level from a thorough consumer and customer perspective, and strive to continuously improve the quality of our products, in order to contribute to the sustainability of society.

ESG Keyword

Product safety management

Kao's policy on animal testing

Product quality management system

Product recall

Kao's creating value to address social issues

Social issues we are aware of

In recent years as the movement to conserve the environment grows stronger, there is also an increasing interest in how it is impacted by chemical substances. Furthermore, global society is taking steps toward the abolition of animal testing. As social issues continue to change in this manner, it is important for company's activities to actively contribute to resolving these issues. At our company, we are working to address social issues such as the environment, health, the aging population, hygiene, etc., through ESG-driven *Yoki-Monozukuri*.

Kao's creating value

We aim to ensure high levels of safety and quality by identifying risks throughout the product lifecycle from a consumer perspective. Besides providing information to help consumers use our products correctly and safely, we are also promoting Universal Design (UD) to help all consumers, including senior citizens, enjoy a stress-free lifestyle.

By means of thorough management of raw materials, production processes and products, we aim to always provide safe, high-quality products. The valuable consumer and customer feedback that we receive through each of our group companies is shared throughout the entire company, and we make effective use of this information to realize improvements in products and labeling, etc.

We also promote visualization of product quality management activities and communication of those activities with all stakeholders. Moreover, we are facilitating changes for addressing social issues through trust and cooperation.

Policies

The foundation of our quality management activities is our wholehearted commitment to consumer- and customer-driven *Yoki-Monozukuri* as expressed in our group mission, the Kao Way. We have implemented consumer- and customer-driven quality management activities with the participation of all employees, in all phases from raw material procurement to R&D, production, distribution and sales.

Basic Policy for Quality Management Activities

- Consumers / customers decide on the quality of the products
- Providing products that users want to continue using
- Ensuring safe usage for consumers / customers
- Legal compliance
- Transparency and accountability

Safety management across the product lifecycle

We ensure a high level of product safety and quality so that our products can be used safely, securely and comfortably, through company-wide safety management

following product launch, and at every stage from R&D, through commercialization, manufacturing and sales, to the after-sales stage.

As to raw materials selection at the product development stage and product ingredients after product launch, we regularly collect information on legislation and safety within and outside Japan. We evaluate a wide range of information from industry sources, NGOs and NPOs, etc., from multiple perspectives including the scientific approach and society's concerns, and formulate necessary countermeasures.

In addition, we earnestly listen to all consumer feedback following product launch, confirm the specifics, and implement precise safety checks and safety management in collaboration with a network that includes medical professionals and governmental authorities.

We exchange information with managers in Europe, the Americas, Asia, etc. on a regular basis to utilize consumer feedback from all over the world, and undertake activities to enhance our overall level of product safety from a global perspective.

Regarding our household products, cosmetics and food products, we set safety standards with the aim of ensuring a high level of safety. This is because the consumer's safety is always the highest priority.

We established new product safety standard regarding our cosmetics in April 2014. Based on our standards prior to that, we have developed a much wider range of databases, wider use of tests and more detailed safety inspections.

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- Kao Safety Standards for Household Products
www.kao.com/global/en/sustainability/topics-you-care-about/safety-quality/kao-quality/houseware-quality/
- Kao Safety Standards for Cosmetic Products
www.kao.com/global/en/sustainability/topics-you-care-about/safety-quality/kao-quality/cosmetics-quality/
- Kao Safety Standards for Food Products
www.kao.com/global/en/sustainability/topics-you-care-about/safety-quality/kao-quality/food-quality/

Kao's policy on animal testing

The global community is taking steps toward the abolition of animal testing, and the group supports this approach.

In our development of cosmetics, we do not and will not conduct animal testing nor do we outsource this task to anyone*1.

For products other than cosmetics, our policy is to not conduct animal testing unless it cannot be avoided due to lack of availability of alternative methods, regulatory requirements or other similar reasons*2. Ensuring the safety of our products is our utmost priority and, in this regard, we have established and observe the Kao safety standards. In accordance with such standards, Kao widely collects safety data, makes use of its safety information database that contains the knowledge accumulated over many years and adopts alternative methods to animal testing as much as possible. After ensuring product safety through the above, we conduct further testing of the product in actual usage settings.

We have been working on the development of alternative methods to animal testing since the late 1980s. We believe that alternative methods should be official test

methods that can be used globally. In this regard, Kao is actively working with research institutions globally for the development of alternative methods to be adopted as international guidelines. We are also a member of the project to develop alternative methods to animal testing of Cosmetics Europe. We will continue to proactively work on the development of alternative methods to animal testing in cooperation with industry associations, other companies and other related third parties within and outside Japan.

*1 This excludes instances where we need to respond to societal expectations to evidence the safety of a product or when required to do so by government agencies in particular countries.

*2 If testing on animals is unavoidable, we keep such testing to a minimum following the principles of animal welfare of the 3Rs (replacement, reduction and refinement).



- Kao's Policy on Animal Testing
www.kao.com/global/en/sustainability/topics-you-care-about/animal-testing-policy/

Education and promotion

So that our corporate philosophy permeates throughout our Group, we provide education and training based on the Kao Way and Kao Business Conduct Guidelines, which are the foundations of Kao's quality management activities. We are further strengthening education on quality awareness and regulations such as the Pharmaceutical and Medical Devices Act, Good Quality Practice and Good Vigilance Practice. We also provide education for Good Manufacturing Practice (GMP) and various ISO standards. At our Manufacturing Division, we continue its own QC circle activities based on the number of consumer and customer contacts as an indicator. We

provide various education and awareness-raising initiatives through day-to-day quality management activities and Quality Improvement Study Meetings to ensure permeation of our quality management activities policy. We are also strengthening education for those who are planning to work overseas and local employees, and are working to raise the level of quality management activities of overseas group companies. In addition, in order to increase motivation for quality management activities, we award employees who achieved excellent activities every year.

Collaboration and engagement with stakeholders

Making good use of consumer feedback in Yoki-Monozukuri

We use consumer feedback to improve our products, information and services by promptly sharing this feedback through the Kao ECHO System.

Collaboration with contractors

We hold quality-related meetings with contract manufacturers and raw material suppliers to promote consumer- and customer-driven quality improvement activities. We will cooperate with more business partners to develop consumer- and customer-driven quality management activities.

Actively engaged in industry initiatives

We actively participate in industry associations around the world, and we are taking part in international efforts to realize harmonization of national product quality and

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safety standards, establish new standards and test methods, and management of chemical substances. By doing so, we strive to provide reliable products to customers around the world.

Framework

We have established a company-wide quality management system that involves all employees at all stages from product development to post-sales, which is from R&D, marketing, production and distribution through to sales, in continuous improvement activities.

Before product launch, we adopt gate control to check quality and to verify the evidence comprehensively at the searching, development, commercialization and production stages, thus sufficiently ensuring our high safety and quality standards.

After product launch, we promote company-wide activities in pursuit of continuous product improvement and the sincere receipt of consumer and customer feedback. In these ways, we strive to be highly transparent with the public and to always fulfill our social responsibilities.

In these ways, we strive to achieve *Yoki-Monozukuri* every day. Nevertheless, the possibility of significant safety or quality related issues emerging are not negligible. For this reason, we have set up the Kao Group Critical Product Management System. The group companies both within and outside Japan respond to risk events based on this system.

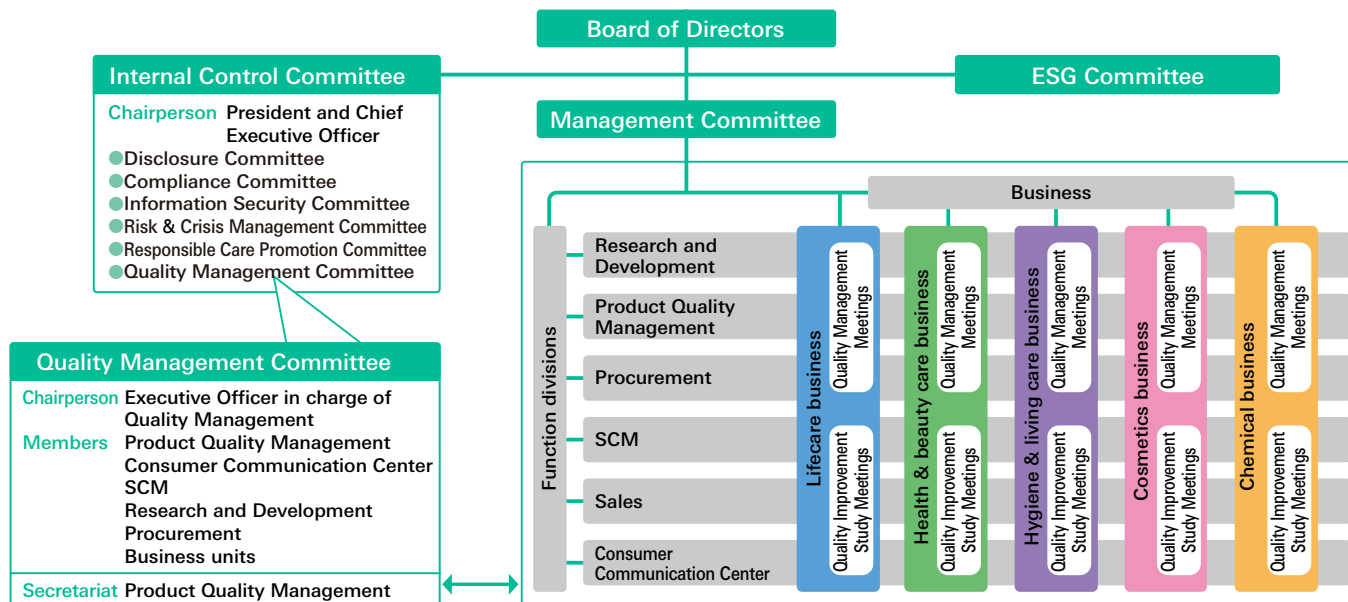
We also maintain a corporate governance system that includes internal control systems, and we hold quarterly meetings of the Quality Management Committee, which is a sub-body of the Internal Control Committee with the President and Chief Executive Officer serving as

chairperson. At the Quality Management Committee, we confirm the efficacy and reliability of company-wide quality management activities. Following the policies decided on by Quality Management Committee, we hold annual Quality Management Meetings at respective business field level and confirm the quality management activities policy, product quality issues and the progress of our quality management activities.

Furthermore, representatives of relevant divisions (Business, R&D, Product Quality Management, Procurement, SCM, Sales and Consumer Communication Center) attend monthly Quality Improvement Study Meetings, held by the president of the Business Division, to improve our products, information and services, based on consumer feedback. We hold joint Quality

Improvement Study Meetings between Japan and China in product areas such as diapers, sanitary items and cosmetics. Going forward, we plan to promote increased cooperation at each of our companies in order to strengthen the quality management activities of our group companies in Europe and the Americas. These company-wide activities are coordinated and promoted by Product Quality Management. The Managing Executive Officer in charge of quality management supervises the division's activities, submitting periodic reports on these activities at meetings of the Management Committee, and reporting on important issues as appropriate. The Managing Executive Officer in charge of quality management also participates in discussion regarding important management issues in general.

Product quality management system



* As of January 2021

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Mid- to long-term targets and performance

Mid- to long-term targets

1. Strive for world-leading levels of product quality through our committed consumer- and customer-driven approach, applying our collective capabilities and making full use of the group's assets
2. Fulfil our responsibility to consumers, customers and society as a whole and build trust through quality management activities that are underpinned by Integrity
3. Take a strategic approach to globalization and informationization, and establish a quality management system that can accommodate e-commerce and new business domains

Business impacts

- Ensuring competitiveness through proactive development of alternative technologies that meet regulatory changes and new requirements for safety and environmental issues in each country and region, as well as expanding overseas business by establishing a strategic quality management system for diversification of supply chains due to globalization
- Increasing loyal users through close communication with all stakeholders, including consumers, customers, governments, NGOs and NPOs

Social impacts

- Contributing to social sustainability by promoting ESG-driven *Yoki-Monozukuri* in order to address social issues including the environment, health, the aging population, hygiene, etc., in a situation where social conditions and the natural environment are changing drastically. In response to an aging population and the increase in the number of foreign nationals visiting and living in Japan, we are promoting Universal Design (UD) and providing multilingual information to reduce the risk of product accidents, thereby contributing toward making consumers' lives safer and securer.

Performance in 2020

Performance

COVID-19 response

Focusing on regulatory approval and speedy registration of hand sanitizer products globally

In order to quickly supply hygiene-related products (e.g. hand sanitizers and soaps) in response to increased demand due to COVID-19, together with their related departments we have promoted the following measures.

1. Emergency export of Japanese products to each country or region
Through cooperation with members in charge of the laws and regulations in each Asian country and region and the promotion of appropriate procedures in accordance with the laws and regulations of those countries, we were able to accomplish the urgent export of each hygiene-related product.
2. Supporting the launch of hand sanitizers in Thailand
In response to the COVID-19 infection in Thailand, due to quick preparations for changes in hand sanitizer regulations, we were able to contribute to their production and sale in around one-third of the normal preparation period.

Making faster improvements utilizing our Kao ECHO System

We are improving quality management activities for borderless distribution of our products by collecting and analyzing feedback received from consumers around the world with our Kao ECHO System.

Following the introduction of the ECHO System to Kao Corporation and Kanebo Cosmetics subsidiaries in Asia in 2019, we introduced it to Kanebo Cosmetics subsidiaries in Europe in 2020.

Working together with our Sales Division to provide information quickly regarding dangerous goods for cross-border EC products

The types and quantities of exported products handled by cross-border EC are increasing not only from Kao Group, but other business partners as well. With this increase it is necessary we provide quick and accurate information in response to inquiries from our business partners regarding the Transportation of United Nations (UN) dangerous goods based on United Nations Recommendations on the Transport of Dangerous Goods and other international regulations.

Therefore our department in charge of laws and regulations and our Sales Division are working together to thoroughly implement cross-border EC export operation by sharing and managing the transportation of UN dangerous goods information for each product and providing documents in response to inquiries from business partners and others in order to give timely information on dangerous goods.

Continuing follow-up activities with regards to our Declaration of Consumer-orientation

In January 2017, we announced our Declaration of Consumer-orientation. Under our corporate philosophy, the Kao Way, we promote top management's commitments to

all of our employees, ensuring corporate governance as well as achieving customer satisfaction. Moreover, we have declared our commitment to take consumer feedback seriously, utilize it to improve our products and services, provide information from the point of view of consumers and actively engage with consumers, with all employees taking part in *Yoki-Monozukuri* to provide products and brands useful to the sustainability of society. In 2020 as well, we published the annual activity report of the previous year in line with the declaration.

Company-wide promotion of quality management activities

- Quality management activity education
Within Japan: A total of 3,379 employees in 33 departments
- Education relating to GMP standards and ISO standards, etc.: 528 sessions
- Quality Improvement Study Meetings: 212 sessions (114 in Japan, 98 outside Japan)
- QC circle activities: 272 improvement issues (101 in Japan, 171 outside Japan)

Product recall over the last four years*

Year	2017	2018	2019	2020
Cases	0	0	0	0

* Product recall from consumers and the market with the company's announcement

Reviews of performance

We addressed issues such as expansion of quality management activities in response to supply chain diversification and decreases in responsiveness to the consumer due to globalization. We also centrally gathered and utilized consumer feedback from around the world, and provided appropriate information to consumers and customers.

In response to changes in the laws and regulations in each country or region, by promptly confirming legal compliance and others, we promoted improvements to company-wide quality management activities as per our plan in response to globalization.

Also, in response to the COVID-19 infection, we provided legal compliance confirmation to ensure prompt global supply of hand sanitizers, as well as providing accurate information to consumers and customers.

Going forward we will continue to take on issues associated with globalization, such as quality management audits and making improvements to our quality-related education system.

Product quality management⁴¹⁶⁻¹

Our initiatives

Company-wide consumer- and customer-driven quality management activities

Rebuilding our fundamental system of quality information

Quality control in each manufacturing process such as incoming raw materials, production, inspection and shipping control is essential for providing products providing good quality products consistently.

Until now, our plants had used different quality information systems, which is the basis of quality control, in each country and region. We standardized the quality information system and business processes to aim for further management efficiency. We have incorporated know-how cultivated from our onsite manufacturing activities and strengthened upstream and trend management to prevent the occurrence of quality issues.

Starting from 2018, we managed to introduce the new information system into all related facilities in Japan at once, and then introduced it overseas where there had been differences in the system specifications. We worked with the members of QA and IT divisions in each country and region to standardize business processes, completing the introduction of the system in Asia and Mexico in 2020.

Employees' voice

Rebuilding the fundamental system of quality information with our slogan "Q-1"

Takefumi Uehara

Quality Engineering
Fundamental Technology Group
Technology Development Center



Global members making the Q-1 pose at the wrap up meeting the start up on their site

In order to rebuild our fundamental system of quality information, it was necessary to standardize the different business processes and systems we had been using in each country and region. Therefore, the system specialist and the highly-experienced user representative on the plant side carried out the basic design after much discussion, and undertook initial development and introduction of the system together with young employees in Japan. Moreover, outside Japan, younger team members at our plants in each country and region took on leading roles in considering both global and local needs and developing the system accordingly.

With a strong commitment to standardizing our business processes and systems, we named this project the Q-1 Project after F1 (Formula One), the most prestigious automobile racing competition in the world. Utilizing this platform which we've built with all related parties as One Team, we will continue our activities aiming toward the highest level of quality in the world.

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Strengthening of quality management education programs

We have conducted quality management education to all departments involved in *Yoki-Monozukuri* each year with the aim of improving quality awareness and acquiring knowledge of quality management activities.

In 2020 we have developed and started implementing an e-learning education system to ensure that anyone can access well-designed quality management education at any time. With this system, we introduced comprehension testing that enables the company to constantly monitor and to evaluate their understanding of laws / regulations and internal rules / standards. 1,718 employees from divisions in charge of our Pharmaceuticals and Medical Devices Act-related businesses have completed the course. We also continue to provide face-to-face education for basic and specific-related issues in each department.

Verifying quality management activities through audits and self-checks

We maintain ISO 9001 and GMP certification at our worksites in Japan, Asia, the Americas and Europe. Besides, we conduct external and internal audits, self-check for contract manufacturers and raw material suppliers, and hold quality meetings. As part of our efforts to strengthen our product quality management audit and self-check frameworks, we hold Quality Audit Promotion Meeting with participants that include not only Product Quality Management Division personnel, but also leaders from relevant divisions. These meetings are used to help drive audit activities by deciding which areas auditing should focus on.

In 2020, we conducted internal audits with respect to GMP compliance within eight of our plants within Japan, and reported the results to the Internal Control Committee. In addition, the implementation status of external audits for group companies in Japan, Asia, the Americas and Europe during the previous year was reported to the Quality Management Committee.



→ Certification Status of ISO and Other Standards
www.kao.com/global/en/sustainability/our-approach-to-klp/environment-activity-data/certification/

Improvement of product development processes for products to be launched in Asian countries / regions

With globalization, the items and quantities of products produced and sold in Asia have been increasing. In light of this situation, we have standardized product development procedures of products to be launched in Asian countries / regions. By reducing the paperwork load that is generated, we improve business efficiency, and enhance documentation management through standardization.