

Product quality management 102-15, 103-1, 103-2, 103-3

We implement *Yoki-Monozokuri* in order to create a Kirei life from a consumer and customer perspective. 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 realize a safe and harmonious world for all life.

Kao's creating value to address social issues

Social issues we are aware of

As the movement to conserve the environment grows stronger, there is also an increasing interest in how it is impacted by chemical substances, and in support of movements calling to put an end to animal testing. Developed countries are already experiencing aging populations, and developing countries are also expected to have aging populations in the future. Additionally, the spread of COVID-19 has changed the hygienic awareness and behavior of consumers around the world. 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 hygiene, health, the aging population and the environment, through ESG-driven *Yoki-Monozukuri*.

Risks related to realization of What Kao Aims to Be by 2030

- Decline in corporate credibility and financial loss resulting from product recalls and/or the occurrence of serious quality troubles due to inadequate legal compliance or quality confirmation at the development stage
- Adverse effects on human health or the environment due to poor management of chemical

substances

- A delayed distribution of products incorporating technological innovations that bring new lifestyle value due to a lack of information provision

Opportunities related to realization of What Kao Aims to Be by 2030

- Maintaining a stable product supply by ensuring a high level of safety and quality
- Contributing to sustainability through careful chemical substance management
- Providing new lifestyle value and contributing to a sustainable society through technology innovation
- Offering new value after COVID-19 and for an aging society, etc.

Kao's creating value

We lead a sustainable world by pursuing high level of safety and quality together with stakeholders enabled by passion to change and the vitality of the organization coming from diversity. We also advance ESG-driven *Yoki-Monozukuri* by ensuring legal compliance as well as innovating the way we communicate our products' value to consumers. In addition, we build bonds of trust with stakeholders via thorough transparency and responsible communication.

Policies

The foundation of our quality management activities is *Yoki-Monozukuri*, which is expressed by our corporate philosophy, the Kao Way. Additionally, the first item of the Kao Business Conduct Guidelines, our code of conduct, states that "We shall always strive to develop and provide socially beneficial and high quality products and services that place emphasis on the health and safety of our consumers and customers to realize sustainable economic growth and to resolve social issues."

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

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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 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 safety standards for cosmetic products 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.



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, we widely collect safety data, make use of our safety information database that contains the knowledge accumulated over many years and adopt 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, we are 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/

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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 our quality management activities. We are further strengthening education on quality awareness and regulations such as the Pharmaceutical and Medical Devices Act, Good Quality Practice (GQP) and Good Vigilance Practice (GVP). 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 group employees outside of Japan, and are working to raise the level of quality management activities of our entire group. In addition, in order to increase motivation for quality management activities, we award employees who achieved excellent activities every year.

Furthermore, we have made the Kao Group Critical Product Trouble Management System available on the company intranet along with

emergency contact information. Quality management education is performed every year at group companies within and outside Japan, which includes the Kao Group Critical Product Trouble Management System.

Collaboration and engagement with stakeholders

We believe that collaborating with stakeholders is essential to promote legal compliance and achieve social sustainability through ESG-driven *Yoki-Monozukuri*. As such, we are promoting collaboration with stakeholders while ensuring reliability with respect to the following.

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.



Initiatives to Make Good Use Of Consumer Feedback
www.kao.com/global/en/sustainability/topics-you-care-about/safety-quality/improve/

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 activities in each country and region. By actively participating in efforts such as establishment of new standards for quality and safety as well as new test methods, we strive to provide products that can be used with peace of mind anywhere around the world.

Collaboration with administrative agency

We share our viewpoints and make proposals in administrative meetings held in each country and region to contribute to the establishment or revision of standards. We also proactively contribute to the discussions on safety and new regulations in international conferences.

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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 Trouble Management System. The group companies both within and outside Japan respond to risk events based on this system.

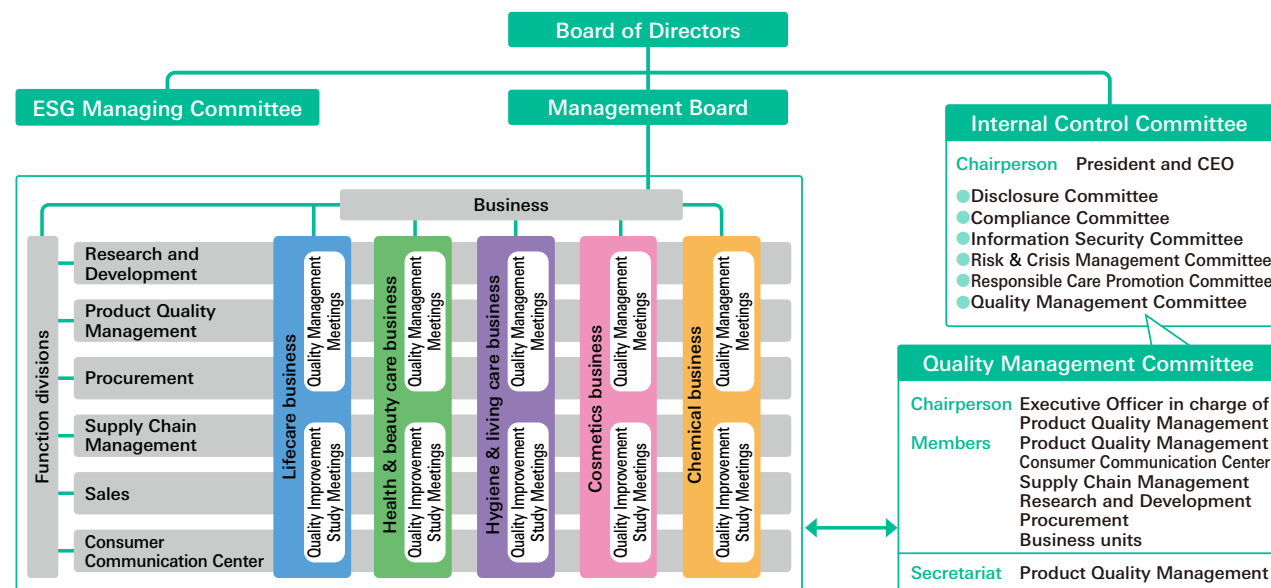
We also maintain a corporate governance system that includes internal control systems, and we hold quarterly meetings of the Quality Management Committee, which is a sub-body of the Internal Control Committee with the President serving as chairperson. At the Quality Management Committee, we confirm the 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, Supply Chain Management (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. We also 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 Board, 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. Lead a sustainable world by pursuing high level of safety and quality together with stakeholders
2. Advance ESG-driven *Yoki-Monozukuri* by ensuring legal compliance as well as innovating the way we communicate our products' value to consumers
3. Build bonds of trust with stakeholders via thorough transparency and responsible communication
4. Grow *Genba* by passion to change and the vitality of the organization coming from diversity

Business impacts

- Zero financial loss on product recalls
- Acquiring new customers and increasing our number of loyal customers by conveying the value of our products and services through efficacy claims and advertisements, and gaining consumer affinity for influencing their purchasing behavior
- Contributing to our business through expanding quality management education, sharing product trouble case studies, and while incorporating remote work, continuing audit activities to prevent legal noncompliance
- Contributing to expand overseas business by establishing a strategic quality management system for complying with regulatory changes in each country and region, as well as diversification of

supply chains by becoming borderless.

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 and hygiene, in a situation faced with challenges from COVID-19, climate change and so on. 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 and providing multilingual information to reduce the risk of product accidents, thereby contributing toward making consumers' lives safer and securer.
- Waste reduction associated with product recalls
- Building social reputation through reliability via communication with all stakeholders, including consumers, customers, government agencies, NGOs, NPOs and investors

Performance in 2021

COVID-19 response

Responding to hygiene and healthcare businesses (Lateral deployment in each Asian country and region)

As a countermeasure against COVID-19, we promoted collaborating between related divisions to ensure a stable supply of hygiene-related products where demand has increased and to expand lateral deployment across Asian countries and regions. Following manufacturing and sales in Thailand, we began manufacturing and sales in Taiwan, by ensuring prompt and appropriate compliance based on the regulatory information collected by local Professional Regulatory Affairs staff. Furthermore, we were able to start selling our Thai products to Malaysia, as well as the import and sale of our Japanese products to Singapore, Hong Kong and Indonesia. Moreover, we are preparing to begin manufacturing in Vietnam in order to secure stable product supply in anticipation of future growth in demand.

Supporting global expansion of sustainable surfactants (Bio-IOS)

We developed an original surfactant (Bio-IOS) with higher hydrophilicity than previous surfactants, which contributes to reducing

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environmental impact since it can be derived from biomass after manufacturing edible palm oil. Bio-IOS can reduce the rinsing process by half when used as a cleansing agent arising from its low foaming property after dilution. It can therefore significantly reduce CO₂ emissions throughout the life cycle. In addition, it is highly biodegradable, has low aquatic biotoxicity and is a sustainable substance that utilizes natural byproducts. Starting with its use in our laundry detergents, we are developing personal care products and cosmetics containing Bio IOS, and are also planning to provide this new material to other companies. Through its strategic registration in the fields of chemicals, household products or cosmetics and its area development from Japan to China and other countries and regions, we will expand our contributions to environmental conservation and effective use of resources.

Strengthening our global supply system in response to Chinese cosmetics regulation revisions

With the revision of the Cosmetics Supervision and Administration Regulations (effective January 1, 2021), the highest level of regulation that controls cosmetics in China, it is necessary to strengthen compliance with a wide range of requirements in quality assurance, quality control and traceability. Moreover, regarding the post-marketing safety management it is the strictest

requirement in the world, making it necessary for overseas companies to respond to a detrimental reaction monitoring system (mandatory reporting of side effects, etc.). In order to respond to these major changes, we launched a company-wide countermeasure project and are continuously reviewing our quality and safety management system that oversees everything from initial stage of product development to post-marketing management, as well as the strengthening of GMP, GVP and GQP management systems.

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 2021 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 education
Within Japan: A total of 4,600 employees in 22 departments
- Education relating to GMP standards and ISO standards, etc.: 941 sessions
- Quality Improvement Study Meetings: 185 sessions (92 in Japan, 93 outside Japan)
- QC circle activities: 299 improvement issues (124 in Japan, 175 outside Japan)

Reviews of performance

By establishing a global supply system for hygiene

Product recall over the last four years*

Year	2018	2019	2020	2021
Cases	0	0	0	0

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

products as part of our new lifestyle value proposal after COVID-19, and through expanding the use of sustainable detergent (Bio-IOS) globally, we are promoting the diffusion and expansion of products that are useful for protecting the environment as planned. Regarding the revision of Chinese cosmetics regulations, we will promptly respond after these subordinate regulations are fixed.

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Our initiatives

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 2021, we conducted internal audits of our plants in Japan with respect to GMP compliance, and conducted internal audits of our ASEAN companies with respect to drafting and managing the ASEAN Product Information File. We 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/

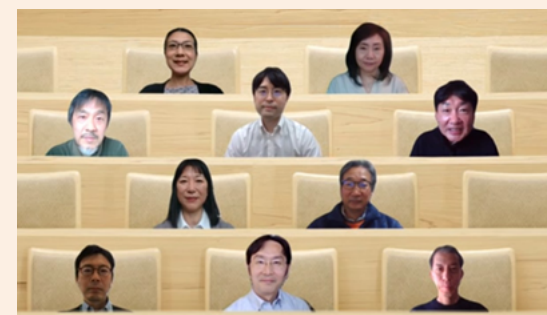
Strengthening of quality management education programs

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. Additionally we have developed and implemented 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.

We continue to expand our educational content and provide education through e-learning. In 2021, we added content related to the revision of Chinese cosmetics regulations (Cosmetics Supervision and Administration Regulations) and post-marketing safety surveillance and management based on the GVP. A total of 2,682 employees have completed the courses. We also continue to provide face-to-face education for fundamentals related to the Pharmaceutical and Medical Devices Act as well as specific-related issues in each department.

Employees' voice

Strengthening our on-site capability through quality management education program



Education content development team members

Yuuji Yamano

Director (Education)
 Product Quality Management
 -Quality Management Planning

Quality management education for employees is indispensable to prevent problems related to product quality and legal noncompliance. We are working to build an education system that allows each employee to receive training based on the specifications of their work and skills.

This year, we promoted the development of educational content and our e-learning system, focusing on employees who require a wide range of knowledge. To overcome employee weaknesses identified through comprehension tests after e-learning courses, we reinforce learning through review lectures and supplementary testing. At the same time, we provide practical education covering revisions to laws and quality case studies. We will continue to improve on-site capabilities through these educational activities.

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

Promotion of quality management activities outside Japan (the Americas and Europe, the Middle East and Africa)

In 2021, in order to promote quality management activities regarding our consumer care and salon businesses in the Americas and Europe, the Middle East and Africa (AEMEA), we established the AEMEA Quality Management Meeting.

This meeting is a subcommittee of the Quality Management Committee, the Internal Control Committee for Kao Group quality management, where the chairperson is the Managing Executive Officer in charge of our Product Quality Management, and is attended by each personnel in charge of related Business and Function divisions of Kao Group companies. By accelerating our activities through sharing company-wide quality management activity policy and maximizing the use of group assets, as well as responding to quality issues, we aim to strengthen internal quality control and improve the value of our brands.

Based on our company-wide quality management activity policy, in 2021 we discussed priority challenges with regard to our businesses and formulated quality management activity policies,

which have been implemented at related divisions. In addition to carrying out these quality management activities, at the end of the year we conducted a management review of the quality status of our businesses, which was actively discussed.

Through continuous implementation of the PDCA cycle, we will improve the quality management activities of our businesses in the Americas and Europe, the Middle East and Africa.