

# Product Quality Management

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, production, distribution and sales, we pursue thorough product safety at a high level from a consumer and customer perspective, and strive to keep raising the quality of our products, in order to realize a safe and harmonious world for all life.


## Social issues

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 the COVID-19 pandemic has changed the hygiene awareness and behavior of consumers around the world. As social issues continue to change in this manner, it is important for companies' activities to actively contribute to solving 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*."

## 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 research and development, production, distribution and sales.


 **Basic Policy for Quality Management Activities**  
<https://www.kao.com/global/en/innovation/safety-quality/safety-quality-policy/>

### **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 research and development, through commercialization, production and sales, to the after-sales stage. As to raw materials for 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 Asia, the Americas, Europe, the Middle East and Africa (AEMEA) 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 consumer products, cosmetics and food products, we set standards with the aim of ensuring a high level of safety. This is because the consumer's safety and security is always the highest priority. We regularly conduct a wide range of tests and detailed safety inspections in accordance with the Kao Safety Standards for Household Products. In the event of any concerns, we respond swiftly and appropriately, with consumer safety as the top priority.

 **Safety Standards for Household Products**  
<https://www.kao.com/global/en/innovation/safety-quality/houseware-quality/>

**Safety Standards for Cosmetic Products**  
<https://www.kao.com/global/en/innovation/safety-quality/cosmetics-quality/>

**Safety Standards for Food Products**  
<https://www.kao.com/global/en/innovation/safety-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 (including quasi-drugs), we do not and will not conduct animal testing nor do we outsource this task to anyone\*<sup>1</sup>.

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\*<sup>2</sup>.

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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 alternatives 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 alternatives to animal testing since the late 1980s. We believe that alternatives should be official test methods that can be used globally. In this regard, we are actively collaborating with research institutions globally for the development of methods to be adopted as international guidelines. We are also a member of the Cosmetics Europe project for the development of alternative to animal testing. We will continue to proactively work on the development of alternatives 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).



## Animal Testing Policy

<https://www.kao.com/global/en/innovation/safety-quality/animal-testing-policy/>

## Strategy

### Risks and opportunities

Our market is facing various changes, including the diversification of consumer values, growing awareness of environmental issues and concerns regarding the safety of chemical substances, and greater demands for disclosures that promote corporate transparency. In addition, global goods distribution is being driven by an increasingly borderless approach. In the midst of this, countries and areas have begun to build new legal frameworks with the aim of realizing a sustainable society and protecting consumers.

In this changing environment, we believe we can gain opportunities for business growth by addressing the following risks as promptly as possible.

1. Occurrence of serious quality issues.
2. Delayed disclosures and response to new safety and environmental issues.
3. Delayed compliance with regulatory changes in each country and area, delayed establishment of systems for product quality management and consumer support, and an increased burden on operations as a result.
4. Delayed response to the diversification of consumer values due to a reliance on conventional quality management systems.
5. Delayed establishment of quality management systems in new businesses and new business categories.

### Strategy

To address the stated risks and seize opportunities, we are engaging in the following initiatives.

1. Strengthening company-wide capabilities to minimize serious damage caused by quality troubles, and raising internal awareness to prevent serious quality problems from arising.
2. Promoting product developments in anticipation of social concerns, safety concerns of chemical substances, and environmental issues in each country and region; diversifying means of communicating product value with the aim of providing appropriate product information; making quality management activities more visible and strengthening communication with stakeholders by proactively disclosing information.
3. Analyzing the impact of new laws and regulations in various countries and areas, developing a system that enables rapid verification of legal compliance, and introducing a system to centrally consolidate consumer feedback from each country and region.
4. Transitioning to a quality management system that is suited to the times and can respond to diversifying values.
5. Searching for and acquiring external resources to develop a quality management system appropriate for new businesses and new business categories.

### Social impact

We will build social trust by providing products that meet the diversified quality values of consumers and by appropriately disclosing information to all stakeholders in response to growing concerns about the safety of chemical substances and environmental issues.

We also respond to requests for information disclosures that encourage corporate transparency, and

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work to build a more sustainable society and strengthen consumer protection in each country and area.

## Business impact

- Reducing financial loss on product recalls, etc.
- Acquiring new customers and increasing our number of loyal users 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 the expansion of business outside Japan by establishing a strategic quality management system for complying with regulatory changes in each country and area, as well as diversification of supply chains by becoming borderless.
- Helping new business to launch and enter the market

## Governance

### Framework

We also maintain a corporate governance structure 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 & CEO serving as chairperson. Following the policies decided on by the Quality Management Committee, we hold annual Quality Management Meetings for each business field and confirm the quality management activities policy, product quality issues and the progress of our quality management activities. At the end of each fiscal year, based on summary of the Quality Management Meetings for each business division and product quality management audit reports, the Quality Management Committee confirms the efficacy and reliability of the

company-wide quality management system and reports to the Internal Control Committee.

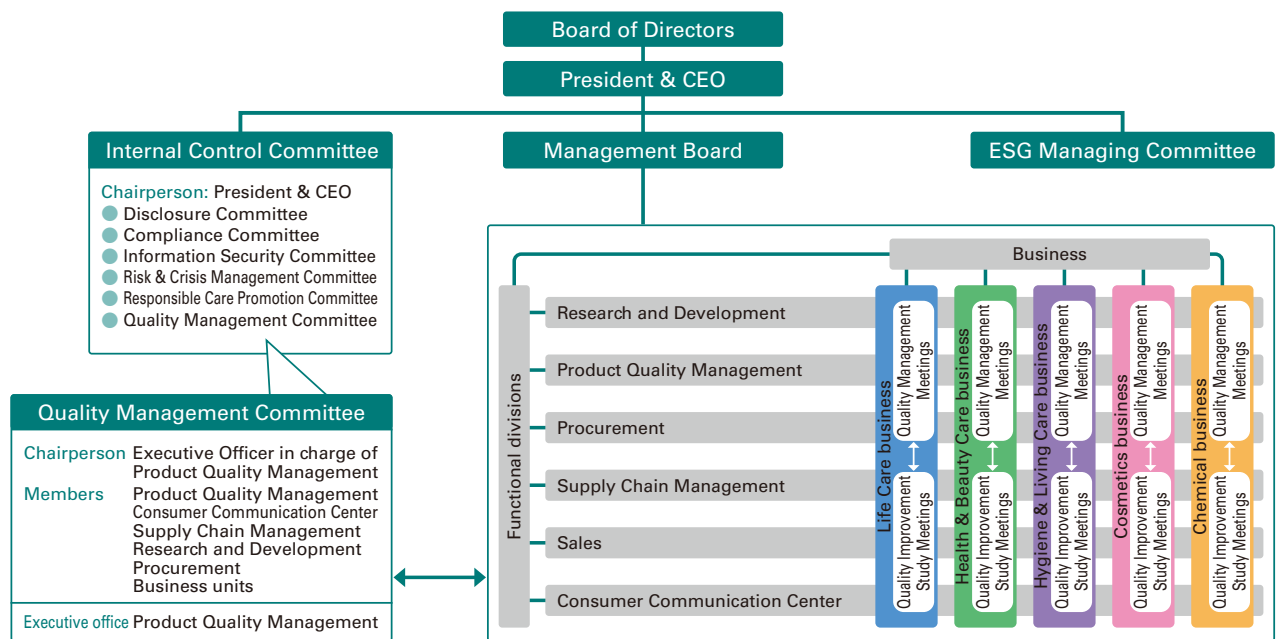
Before a product launch, we adopt gate control to check quality and to verify the evidence comprehensively at the searching, development, commercialization and production stages, thus sufficiently ensuring our high safety and quality standards. After a product is launched, the head of each business division holds a quality improvement study meeting attended by all managers from the business and functional divisions (R&D, quality assurance, purchasing, SCM, sales, and Consumer Communication Center), where opinions and suggestions from consumers and customers are carefully reviewed and applied to improve products, information, and services. We then work to improve our products, information and services based on the results of the reviews. We also hold joint Quality Improvement Study Meetings between Japan and China in product areas such as diapers, sanitary products, and cosmetics.

The Product Quality Management Division oversees and promotes company-wide quality management activities, from research and development, to marketing, production, distribution, and sales. The 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 Executive Officer also participates in discussions regarding important management issues in general.

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## Quality management system



\* As of January 2022

## 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, we reward employees who make outstanding efforts toward quality management.

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; this education includes the Kao Group Critical Product Trouble Management System.

## Collaboration with stakeholders

We believe that collaborating with stakeholders is essential to promote legal compliance and achieve sustainability of the world 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 Customer Feedback  
<https://www.kao.com/global/en/innovation/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 collaborate 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

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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 agencies

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

## Risk management

One of the major corporate risks defined by the Risk and Crisis Management Committee and the Management Committee is “6. Risks Related to Product Quality,” which manages the risks such as serious product accidents, the emergence of concerns regarding product safety or environmental issues, changes in laws and regulations in various countries, and failure to respond appropriately to requests for resolution of safety and environmental issues and transparency for product ingredients and safety.

We review feedback from consumers at Monthly Quality Improvement Study Meetings and monitor product quality directly after launch and quality issues arising from design and production factors.

In addition, we monitor the quality management system for our plants in Japan by conducting internal audits for GMP compliance and production management by contractors.

We have also set up the Kao Group Critical Product Trouble Management System to respond in the event that significant safety or quality related issues emerge,

and our group companies both within and outside Japan respond to risk events based on this system.

Furthermore, we conduct surveys and collect information on an ongoing basis to ascertain trends surrounding chemical substances in the fields of science, regulations, and society. Based on the findings, discussions are held at regular meetings attended by members of relevant divisions within the company. Risks are then determined from a broad perspective, and the policies for the use of each substance are decided. We disclose our science-based approach for substances deemed to be of high importance and work to gain the understanding of our stakeholders.

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## Targets and metrics

### Mid- to long-term targets and 2022 results

#### 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

### 2022 results

#### Contributing to the development of the hygiene and healthcare business

Started providing sanitization efficacy information against bacteria and viruses by leveraging change in regulatory framework. It has become legally acceptable for commercial skin sanitizers to claim efficacy against specific strains of bacteria and viruses thanks to the provisions of PSEHB/CND Notification No. 0225-9\*, “Provision of Information Pertaining to the Effectiveness of Pharmaceutical or Quasi-Drug Sanitizers Against Specific Strains of Bacteria or Viruses,” which was issued by the Ministry of Health, Labour and Welfare. In accordance with the notification, we have begun to provide information such as test results concerning the efficacy of our products against specific strains of bacteria and viruses of our *Bioré* brand products (<https://www.kao.co.jp/bioreu/bioreguard/awa/>) and our professional-use products (Kao Professional Services, product information, *Hand Squish EX* Long Nozzle Bottle 800 ml, kao. com).

\* The provision defines the handling of information on the efficacy of sanitizers against specific strains of bacteria or viruses; “Sanitizers,” which refer to pharmaceutical products intended for the sterilization or sanitization of the human body (skin) or objects, and to quasi-drug products intended for the sterilization and sanitization of the skin (limited to products where the efficacy and effect are not restricted to a specific bacteria or virus types).



Launching *Bioré Guard Sanitizer Foam*  
<https://www.kao.co.jp/bioreu/bioreguard/awa/> (Japanese)

*Hand Squish EX* long nozzle 800 mL commercial use  
<https://pro.kao.com/jp/products/kps01/4901301507198/> (Japanese)

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## Strengthening our internal work systems to meet the requirements of revised China's CSAR (Cosmetics Supervision and Administration Regulation) especially for the launch of monitoring system on undesired side effects.

Following the enforcement of the CSAR on January 1, 2021, the highest regulation that controls cosmetics in China, a wide range of subordinate regulations came into effect for product quality management, quality control, safety management, traceability, etc. To meet the requirements, we established a company-wide project and strengthened our GMP, GVP and GQP management systems. In regard to GVP, due to the enforcement of the relevant regulation in October 2022 for the monitoring of side effects, it has become mandatory for overseas companies operating in China to report side effects through collaborating with their local subsidiaries. By working with our customer support divisions and sales divisions in China, we strengthened our GVP system and commenced operations for compliance before the regulation came into effect. We will steadily continue post-marketing safety management for the cosmetics we sell in China.

## Company-wide promotion of quality management activities

- Quality management education  
Within and outside Japan: A total of 11,700 employees
- Education relating to GMP standards and ISO standards, etc.: 722 sessions
- Quality Improvement Study Meetings: 227 sessions (110 in Japan, 117 outside Japan)
- QC Circle activities: Three QC conventions per year (involving nine countries and a total of 1,460 participants)

## Product recalls over the last four years\*1

Year	2019	2020	2021	2022
Cases	0	0	0	2 <sup>2</sup>

\*1 Voluntary recalls from consumers and the market with announcements via press release

\*2 Applicable product: *Jergens Ultra Healing Moisturizer* (Kao US), *Curél Cream Ec* (Kao)

## Reviews of 2022 results

As it is now possible to provide information on the efficacy of commercial skin sanitizers against specific strains of bacteria or viruses, we have begun to provide information such as test results. Going forward, we will continue to monitor the responses of our customers while engaging in effective communication.

We will collaborate with local subsidiaries in China to promptly respond to any forthcoming guidelines on the Chinese cosmetics regulations.

We are also working to quickly recover the products that were recalled in 2022 to minimize the impact on customers, and we are striving to prevent recurrence by reviewing our production management system.

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## Main initiatives

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

#### Strengthening and promoting quality management activities in AEMEA

In conjunction with changes in our business structure for the Americas, Europe, the Middle East and Africa (AEMEA), we have newly established quality management meetings for each business for the AEMEA Consumer Care Division, Salon Division, and *Molton Brown*.

At these meetings, we developed priority action items based on our FY2022 company-wide policies for quality management activities. We also conducted a year-end management review in which we confirmed the progress status of the priority action items and examined the quality issues of each business. Activity outcomes were reported on at the 4th Quality Management Committee Meeting and will be reflected in our policies for company-wide quality management activities for the following fiscal year. Through continuous implementation of this PDCA cycle, we will improve the quality management activities of the Kao group in AEMEA.

#### Strengthening of quality management education programs

We have conducted quality management education for 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.

In 2022, we continued to strengthen e-learning education by adding content on such topics as the revised PMD Act (establishment of a legal compliance structure), the Consumer Product Safety Act, and pharmaceutical regulatory filings and raw materials registration. A total of 9,565 Kao Group members have completed the sessions. We also share case studies on quality-related incidents with relevant divisions through practical education, working to prevent their recurrence.

#### Verifying quality management activities through audits and self-checks

In addition to Japan, our group companies in Asia and AEMEA maintain ISO9001 and GMP certification, and two of our plants in Japan have been certified under ISO22716. We audit our own manufacturing facilities, as well as contract manufacturers and raw material suppliers, and hold meetings to improve quality with them. We also get audited by our customers and inspected by authorities.

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 2022, at our group plants in Japan, we conducted internal audits on GMP compliance and the production management of our contractors. Results were reported at meetings of the Internal Control Committee. In addition, the implementation status of external audits

for group companies in Japan, Asia, and AEMEA during the previous year was reported to the Quality Management Committee.



Certification Status of ISO and Other Standards  
<https://www.kao.com/global/en/sustainability/pdf/environment-activity-data/certification/>