

# Product Quality Management

We implement *Yoki-Monozukuri* in order to create a Kirei life from a consumer and customer perspective. At all stages, from raw materials to research and development, production, transportation and retail 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

Expansion of climate change, environmental pollution, and the resulting loss of biodiversity have exceeded the permissible level for the planet. On the other hand, hygiene issues such as drug-resistant bacteria, viruses, and mosquito-borne vector diseases are becoming the most worrisome health problems. In addition, the issues of falling birthrates and population aging are spreading from developed countries to developing countries. Their impact on environmental and social issues is an urgent challenge that must be addressed on a global scale, so rapid and global deployment of developed solutions is needed.

## Policies

The foundation of our quality management activities is *Yoki-Monozukuri*, which is expressed by our corporate philosophy, the Kao Way. Additionally, we perform activities according to the first principle of the Kao Business Conduct Guidelines, our code of conduct: "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."

Furthermore, to rapidly and globally deploy our unique products that address changes in turbulent global and social environments, we optimize quality in line with global customer needs, build a flexible quality management system to quickly respond to rapid changes, and contribute to *Monozukuri* that protects future lives.

 **Basic Policies 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 efforts 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, 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/>

**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 world 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 responses to new safety and environmental issues.
3. Delayed compliance with regulatory changes in each country and area, delayed establishment of systems for

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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. Loss of timely product provision opportunities due to 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 problems, 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 area; 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 area.
4. Transitioning to a quality management system that is suited to the times and areas and can respond to diversifying values.
5. Providing products in a timely manner with new businesses and new business categories and searching for and acquiring external resources to develop a quality management system.

## Social impact

By responding to urgent environmental and social issues through our reliable product quality management, not only do we reduce the risk of consumer and customer incidents, but we also enhance the health and well-being of the entire society. Our reliable product quality management also reduces environmental impacts and contributes to the creation of a sustainable world.

We also disclose appropriate quality information to stakeholders to provide security and benefit to the entire society.

## 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 to influence 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 diversifying of supply chains by becoming borderless.
- Contributing to business enhancement by starting new businesses swiftly and using edgy products.

## 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 a 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, product quality management, procurement, Supply Chain Management, 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 directors, audit & supervisory board members and executive officers in

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charge of quality management supervise the division's activities, submitting periodic reports on these activities at meetings of the Management Board, and reporting on important issues as appropriate. The directors, audit & supervisory board members and executive officers also participate in discussions regarding important management issues in general.

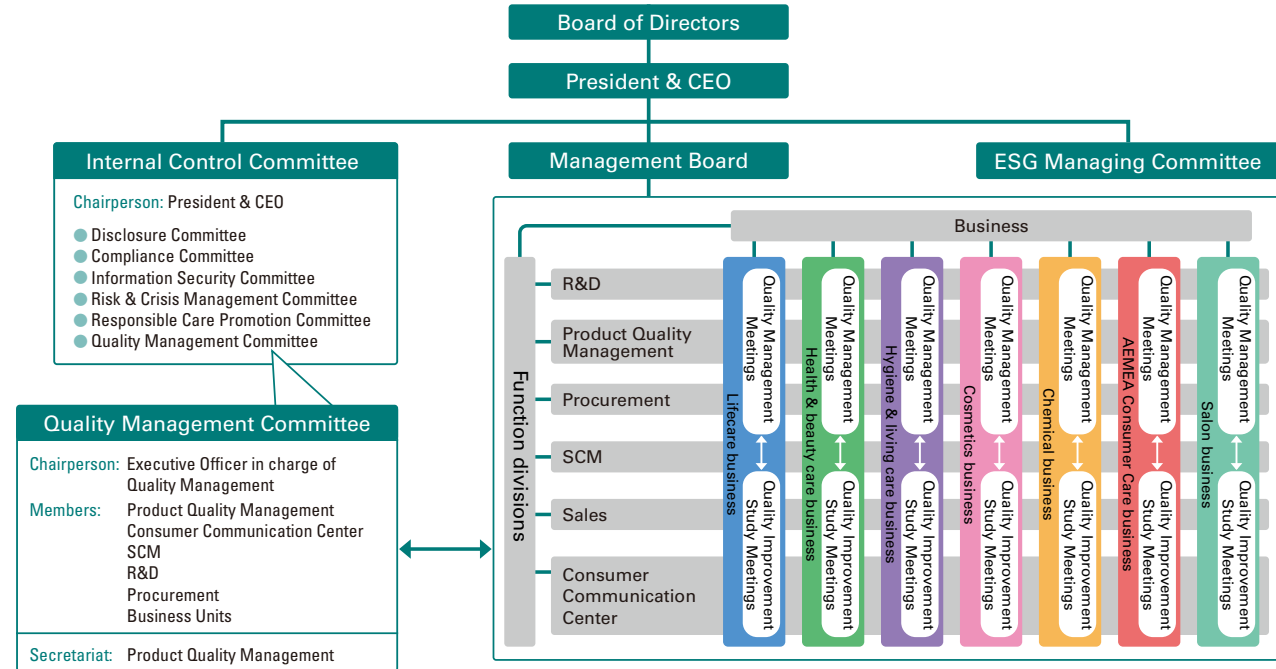
**P25** Our ESG Vision and Strategy > Governance

## 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 our 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 the 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

### Quality management system



\* As of December 2023

company intranet along with emergency contact information. Quality management education is performed periodically 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 in 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/>

# Product Quality Management GRI 416-1

## 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 area. By actively participating in efforts such as the 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 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 at international conferences.

## Risk management

We manage risks related to the occurrence of serious product incidents, and safety and environmental concerns associated with products, and related to the inability to appropriately address changes in regulatory requirements in each country, and demands for transparency regarding product composition 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 group factories 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 risk trends surrounding chemical substances in the fields of science, regulations, and society. Based on the findings, discussions are held within working groups affiliated with the Chemical Stewardship Steering Committee under the ESG Managing Committee attended by members of relevant divisions within and outside Japan. Risks are then determined from a broad perspective, and the policies for the use of each substance are decided. In addition, we disclose our science-based approach for substances deemed to be of high importance and work to gain the understanding of our stakeholders, for example, by preparing to disclose a list of raw materials that are not to be mixed into Kao products.

**P40** Our ESG Vision and Strategy > Risk management

## Metrics and targets

### Mid- to long-term targets and 2023 results

#### Mid- to long-term targets

1. Lead a sustainable world by pursuing high levels 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 full transparency and responsible communication
4. Grow *Genba* through passion for change and the vitality of the organization, which comes from diversity

#### 2023 results

#### Company-wide promotion of quality management activities

- Quality management education  
Within and outside Japan: A total of 10,100 employees
- Education relating to GMP standards and ISO standards, etc.: 770 sessions
- Quality Improvement Study Meetings: 247 sessions (116 in Japan, 131 outside Japan)
- QC Circle activities: Three QC conventions per year (involving nine countries and a total of 1,441 participants)



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

# Product Quality Management GRI 404-2, 416-1, 416-2

## Main initiatives

### Enhancement of quality management education

#### Quality management education using examples of quality issues related

So far, we have established an e-Learning system to enable learning about quality management-related regulations, internal rules, and our corporate culture, which prioritizes quality.

In 2023, educational materials were created using past examples of significant quality issues, organized into a library on the internal portal site, and made accessible. This enables employees to voluntarily acquire knowledge about the causes and measures for quality issues, thereby strengthening their on-the-ground capabilities.

#### Quality management education at group companies outside Japan

Previously, quality management education for our Asian group companies has been conducted by our Japanese headquarters. However, we believe that for the establishment and advancement of quality management activities, it is desirable to autonomously conduct quality management education locally.

Starting in 2023, we have begun to develop the capabilities of staff to conduct quality management education locally. After confirming the capabilities of the trained staff through certification exams, we will grant them certification as trainers and then allow these trainers to educate local staff, a system that is called the "Quality Management Meister System" and that was initiated at Kao (Taiwan).

We plan to introduce this system to Asian group companies in the future.

### Verifying quality management activities through audits and voluntary inspections

In addition to regular quality audits and voluntary inspections, we conduct discussions from various perspectives in the Quality Audit Promotion Meeting, which is composed of various departments, to deliberate and determine annual audit themes and to ensure that no quality risks are overlooked, strengthening the effectiveness of audits.

In 2023, we expanded the internal audits related to GMP compliance, which were previously conducted at domestic group factories, to the Asian group factories.

For the internal audits of the department managing the contract manufacturing facilities, we expanded the scope to include not only the quasi-drug and cosmetic management departments but also the household goods and food management departments.

The statuses of these internal audits and external audits that group companies received were reported to the Quality Management Committee and Internal Control Committee.

#### Product recalls over the last four years<sup>\*1</sup>

Year	2020	2021	2022	2023
Cases	0	0	2	1 <sup>*2</sup>

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

\*2 Applicable product: Bondi Sands Mineral Zinc Sunscreen SPF50+ Face Lotion 60mL  
Bondi Sands Mineral Zinc Sunscreen SPF50+ Body Lotion 120mL (Bondi Sands)

### Reviews of 2023 results

We implemented the following actions related to quality management education:

- To comply with the revision of the Japanese Medical Device QMS requirements in March 2021 (fully implemented in March 2024), we established new software validation procedures and revised operational procedures such as the quality manual. We also conducted education for the relevant departments on the revisions.
- The regulations on stealth marketing based on the Act against Unjustifiable Premiums and Misleading Representations were implemented in October 2023, and internal education to address this was conducted.
- In China, the Cosmetic Supervision and Administration Regulation was significantly revised in January 2021, leading to the issuance of numerous subsidiary regulations. To address this, we established an internal system in Japan, documented operational procedures, and provided education to relevant departments.

We promptly developed teaching materials for quality management education using e-Learning, creating an environment where everyone can learn anytime, as many times as they need.

For the 2023 voluntary recall, we are promptly conducting a retrieval of the products to minimize the impact on customers. We will continue to make every effort to prevent the recurrence in the future.



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## Employees' opinions

### Quality Management Meister system



#### Liu, Hsiu Ping

Kao Taiwan  
(E.O.) Vice President Consumer  
Product Business Division

“Kao Quality” is what we Kao (Taiwan) employees are always proud of. It is very important for all Kao employees to better understand how Kao’s PQM system operates—not only inside Japan, but also outside Japan. Therefore, Kao Taiwan pioneered this PQM Meister System, in which six certified PQM trainers conduct PQM education for all employees at their respective organizations over a period of approximately three months. Employees who received the training commented that they had a better understanding of PQM and that they were able to memorize the three important elements of safety, quality and legal compliance. It takes time to instill a culture of quality among all employees, but I am very happy to see that the mind of each and every employee is steadily moving toward “Quality First.”