

Kao's approach

As stated in the mission of Kao Group, we implement wholehearted *Yoki-Monozukuri* from a consumer and customer-driven perspective for the satisfaction and enrichment of the lives of people globally. In addition, we are striving to achieve high level of product safety for human and environment and pursuit continuous improvement in product quality at all stages of R&D, production, distribution and sales, while maintaining steadfastly a consumer- and customer-driven perspective in order to contribute to the sustainability of society.

Kao's creating value to address social issues

At the Kao Group, we are committed to delivering revolutionary products to satisfy the heart's desires of our customers, through exhaustive exploration of fundamental research and technology, product development and consumer needs. We will furthermore enhance development of products to solve social issues, such as the environment, health, aging and hygiene.

We also promote visualization of product quality management activities and communications of those activities with all stakeholders. Moreover, we facilitate changes for solving social issues through *Yoki-Monozukuri* based on trust and cooperation.

Policies

The foundation of the Kao Group's quality management activities is Kao's wholehearted commitment to consumer- and customer-driven *Yoki-Monozukuri* as expressed in the 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

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

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Framework

At the Kao Group, we have established a company-wide quality management system that involves all employees at all stages from product development to post sales, that is from R&D, marketing, production, distribution to sales in continuous improvement activities.

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

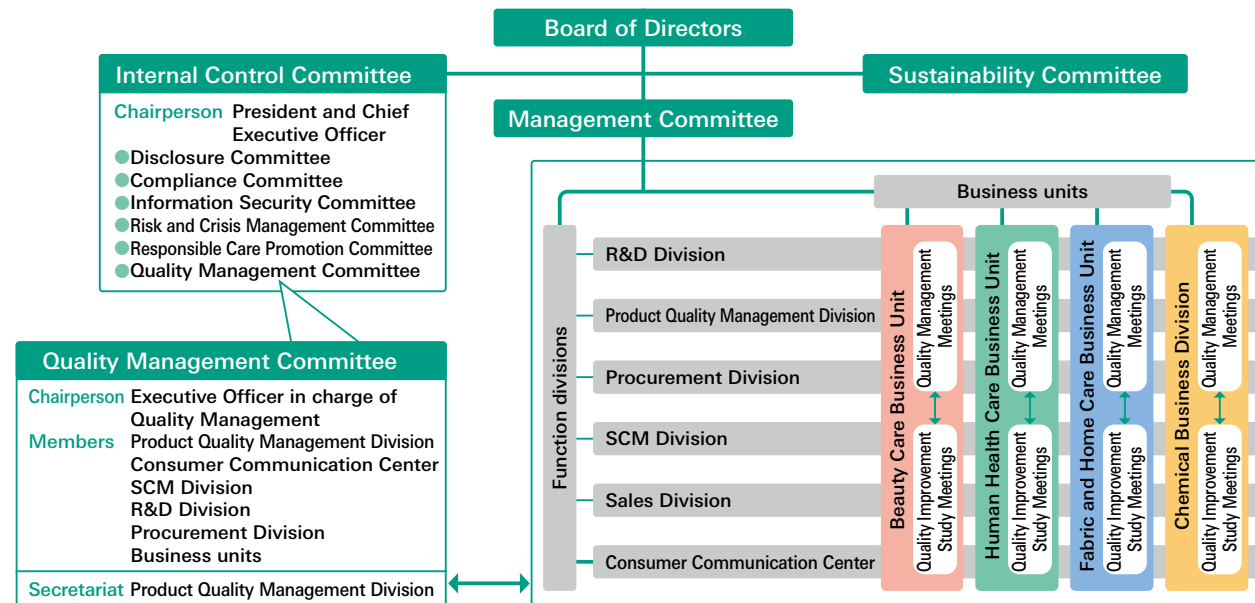
After product launch, we promote company-wide activities in pursuit of continuous product improvement and the sincere receipt of consumer and customer feedback. In these ways, we strive to be highly transparent with the public and to always fulfill our social responsibilities. In these ways, the Kao Group strives to achieve *Yoki-Monozukuri* every day. Nevertheless, the possibility of product quality issues occurring from unforeseen problems and accidents is not negligible. For this reason, we have set the Kao Group Emergency and Serious Issue Response System. The Kao Group companies both within and outside Japan respond to risk events based on this system.

Meanwhile, we also maintain a corporate governance system including internal control systems and hold the Quality Management Committee, which is a sub-body of the Internal

Control Committee with the President and CEO serving as a chairperson. At the Quality Management Committee, we confirm the efficacy and reliability group-wide quality management activities. Following the policies decided by Quality Management Committee, we hold Quality Management Meetings at respective business field level, confirm the quality management activities policy, product quality issues, and the progress of our quality management activities.

Furthermore, representatives of relevant divisions (business, manufacturing, research, consumer communications, product quality management, etc.) attend monthly Quality Improvement Study Meetings to improve products, information and services, based on consumer feedback. We will deploy these quality management activities globally. These group-wide activities are coordinated and promoted by the Product Quality Management Division.

Product Quality Management System



* As of December 2017.

Conservation
Community
Corporate Culture
Governance

Education and promotion

Through training and education, we make efforts to ensure that the Kao Way and the Kao Business Conduct Guidelines, which are fundamentals to quality management activities of the Kao Group, permeate all employees.

Moreover, we provide various education and awareness-raising initiatives as a part of our quality management activities. Quality Improvement Study Meetings ensure permeation of Kao quality management activities policy, including those outside Japan. At our manufacturing divisions, we raise awareness of consumer- and customer-driven product quality improvements through our unique QC circle activities, which use the number of consumer contacts as an index.

In addition, we actively educate employees on the matters of Good Manufacturing Practices (GMP) and various ISO standards. We present annual quality management awards for excellent activities to foster employee's motivation.

We have quality management meetings with contract manufacturers and raw materials suppliers as interconnected activities for consumer-driven quality improvement.

We will cooperate with more business partners for developing consumer-driven quality management activities.

Mid- to long-term targets and performance

Mid- to long-term targets

Kao Group has stipulated the following mid- to long-term targets regarding our quality management activities.

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 Kao Group's assets.
2. Thoroughly instill integrity and deepen high-level and responsible risk management.
3. Take a strategic approach to globalization and informationization, and establish a quality management system that can accommodate e-commerce and new business domains.

Performance in 2017

We enhanced our quality management system to accommodate to such a change in the consumer goods market as cross-border expansion of product distribution by e-commerce and inbound tourism consumption.

Enhancement of services for Chinese customers

Kao has provided a subsidiary in China with examples of inquiries regarding the products, which are exported from Japan, to improve communication with customer. In 2017, Kao put up more information of the products available on cross-border e-commerce for Chinese customers.

Providing information on dangerous goods for air transport (dangerous goods classified by the UN)

In response to increased inquiries from our customers regarding transportation of purchased products to overseas, we began to release the information on the products classified as UN dangerous goods on Kao website in October 2017. It includes the information to deal with luggage and air cargo.



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Product quality management

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Collaboration with Stakeholders

Making good use of customer feedback in *Yoki-Monozukuri*

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



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Actively engaged in industry initiatives

Kao Group actively participates in industry association around the world and works in international efforts on harmonization with national standards of product quality and safety, setting new standards and test methods, and management of chemical substances. By doing so, we strive to provide reliable products to customers around the world.

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

In order to quickly and widely deliver our cosmetics and other products to customers around the world, we are developing information systems that support product development, such as the regulatory check in each country. In 2017, we introduced this system to the Asia region.

We accumulate customer feedback in Kao ECHO System, which is our core information system for effective customer communication and consumer-oriented product development for realizing *Yoki-Monozukuri*. In 2017, we updated this ECHO system which is to consolidate customer feedback to the Kao Group all over the world.

We will continue to take advantage of the ECHO system to strengthen our quality improvement activities globally. We earnestly utilize customer feedback for product improvement. In the case of new *Blaune Hair Mascara*, we put feedback on the previous *Blaune Point Cover* into the improvement of formulation and container design. The container was reengineered not to be easily knocked down, spilled and splashed over.

In 2017, Japan Hair Color Industry Association revised a part of voluntary standards for cautionary statement on allergies. Accordingly we added supplementary instruction on package label and inserted instruction.



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Verifying quality management activities through audits and self-checks

Furthermore, the Kao group companies in Japan, Asia, Americas and Europe maintain ISO 9001 and the GMP certification. Besides, we conduct external and internal audits, self-check for contract manufactures and raw material suppliers, and quality meetings.

In 2017, the implementation status of external audits to group companies in Japan, Asia, Americas and Europe during the previous year was reported in the Quality Management Committee.



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

In order to formulate audit areas from a broad perspective, we have leaders from relevant divisions participate in the Quality Audit Promotion Meeting. The audit area in 2017 decided by this Promotion Meeting was customer feedback collection in Asian countries. We have confirmed that customer feedback is properly handled and registered in overseas subsidiaries.

Product recall over the last 3 years*

Year	2015	2016	2017
Cases	0	0	0

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

Safety management across the product lifecycle

At the Kao Group, we ensure 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 in addition to each stage of R&D, commercialization of products, manufacturing and sales.

As to raw materials selection at the product development stage and product ingredients after product launch, we regularly collect information on legislation and safety inside and outside Japan. We take necessary measures by evaluating multifaceted perspectives from a wide scope of information from within the industry, and from NGOs/NPOs and others, taking into consideration scientific perspectives and social concerns.

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

We exchange the information with Kao Group supervisors in Europe, Americas, Asia to utilize the voice of consumers which received around the world, and facilitate improvements to our overall level of product safety from a global perspective.

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

The Kao Group 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.



→ Kao Safety Standards for Household Products
<http://www.kao.com/global/en/sustainability/safety-quality/kao-quality/houseware-quality/>

→ Kao Safety Standards for Cosmetic Products
<http://www.kao.com/global/en/sustainability/safety-quality/kao-quality/cosmetics-quality/>

→ Kao Safety Standards for Food Products
<http://www.kao.com/global/en/sustainability/safety-quality/kao-quality/food-quality/>

Kao's policy on animal testing

Global society is taking steps towards the abolition of animal testing and the Kao Group supports such endeavor.

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 Group 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 globally.

*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
<http://www.kao.com/global/en/sustainability/safety-quality/animal-testing-policy/>