

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

Social issues we are aware of

Through wholehearted *Yoki-Monozukuri*, we are implementing initiatives to solve social issues, such as the environment, health, aging, hygiene.

Kao's creating value

We aim to ensure high levels of safety and quality by identifying risks throughout the product lifecycle from a consumer-focused perspective.

Besides providing information to help consumers use our products correctly and safely, we are also promoting Universal Design 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 customer feedback that we receive through customer consultation is shared throughout the 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 facilitate changes for solving social issues through *Yoki-Monozukuri* based on 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 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

Collaboration with stakeholders

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

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



→ p. 110 Community > Communication with consumers / Framework

Actively engaged in industry initiatives

We actively participate in industry association around the world, and we work 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.

Framework

At our 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 and 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 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 is not negligible. For this reason, we have set up the Kao Group Critical Product Management 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 we hold quarterly meetings of 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 of group-wide quality management

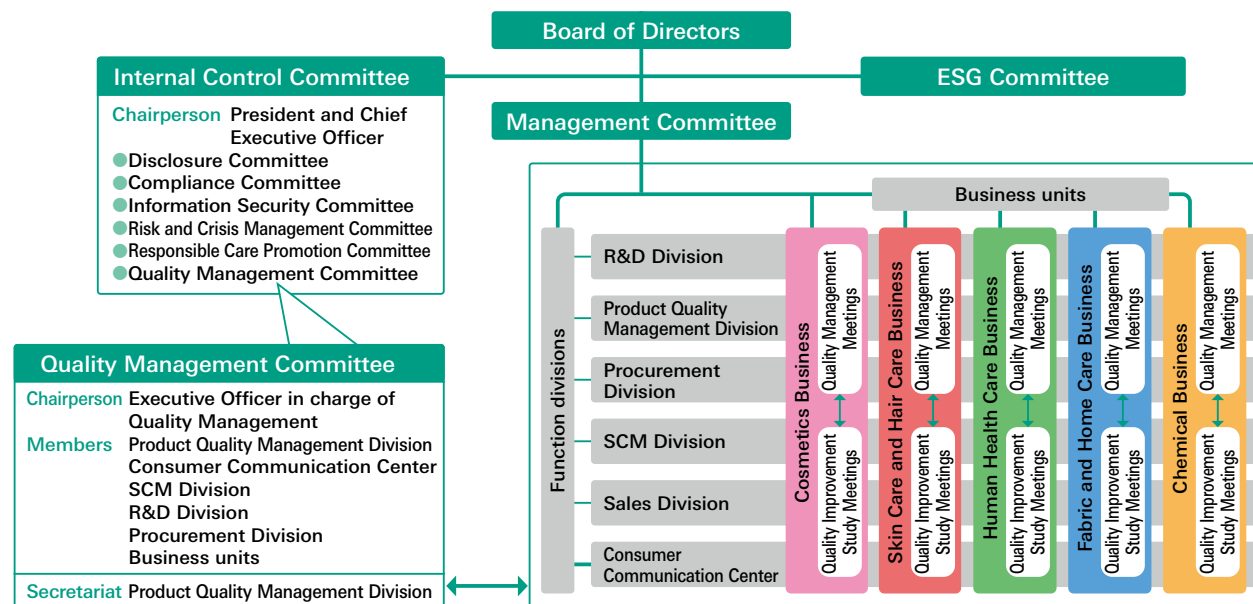
activities. Following the policies decided on by Quality Management Committee, we hold annual Quality Management Meetings at respective business field level and confirm the quality management activities policy, product quality issues and the progress of our quality management activities.

Furthermore, representatives of relevant divisions (business, manufacturing, R&D, consumer communications, product quality management, etc.) attend monthly Quality Improvement Study Meetings, held by the president of the business division, to improve products, information and services, based on

consumer feedback. We will expand these activities globally.

These group-wide activities are coordinated and promoted by the Product Quality Management Division. 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 December 2018.

Education and promotion

We implement education—including training etc.—in relation to the Kao Way and the Kao Business Conduct Guidelines, which are fundamentals to quality management activities of the group, so as to ensure that our corporate philosophy permeates throughout the enterprise.

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, not only within Japan but also at the group companies outside Japan. In 2018, a total of 223 Quality Improvement Study Meetings were held (119 in Japan and 104 outside Japan). Besides implementing periodic quality education to intensify our company-wide quality management activities, we also conduct our unique QC circle activities at our manufacturing divisions, which use the number of consumer contacts as an index. In 2018, our QC circle activities addressed a total of 350 improvement issues (including 128 within Japan, and 222 outside Japan).

In addition, education relating to the Ministerial Ordinance on Standards for Quality Assurance for Drugs, Quasi-drugs, Cosmetics and Medical Devices was implemented approximately 50 times in 2018, and education relating to the Good Manufacturing Practice (GMP) and ISO standards was implemented 398 times. We present annual quality management awards for excellent activities to foster employees' 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 results

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. Fulfill 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.

Risks related to realization of our mid- to long-term targets

- Changes in laws and regulations in each country, and growing requirements to contribute to the resolution of safety and environmental issues
- Increasing risk of product incidents due to the aging of the population and the growing number of non-Japanese visitors and residents in Japan
- Increasingly stringent requirements regarding transparency in relation to product ingredients and safety, etc.
- Weakening of quality management activities and reduced ability to respond to consumers' needs due to the diversification of the supply chain resulting from cross-border expansion of product distribution

Opportunities related to realization of our mid- to long-term targets

- Ensuring competitiveness by anticipating new requirements in relation to laws and regulations in

each country, safety and environmental issues and developing alternative technologies

- Enhancing product satisfaction by promoting Universal Design and providing multilingual information for non-Japanese visitors and residents in Japan
- Strengthening the trust that consumers, customers and society as a whole place in us by promoting visualization of product quality management activities and engaging in communication with all stakeholders
- Speeding up the globalization of our operations by intensifying quality management activities on a global, company-wide scale

Performance in 2018

Global promotion of quality management activities

In order to quickly and widely deliver our cosmetics and other products to customers around the world, we have developed information system that supports product development, for example in relation to regulatory checks in each country, etc.

Following on from the roll-out of this system in Asia in 2017, the new system was adopted in the Americas in May 2018 and in Europe in December 2018. Thus, the global system operation has now begun.

We are continuing to maintain and strengthen linkages between the group companies within and outside Japan, so as to enhance quality on a global level. In 2018, we worked to realize a further strengthening of linkages, for example through the launching of Japan-China collaborative Quality Improvement Study Meetings in relation to sanitary products such as *Merries* baby diapers.

Our initiatives

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

Application of new safety icons

In 2017, we contributed to develop new safety icons (10 types) as a leader of Safety Labeling Working Group in the Japan Soap and Detergent Association (JSDA).

Starting from 2018, we have begun displaying these products safety icons on product packaging. We are proceeding with our efforts to provide appropriate, easy-to-understand warnings for consumers.



→ p. 105 Community > Universal Design > Promoting the adoption of new safety icons for consumer products

Declaration of Consumer-orientation



→ p. 112 Community > Communication with consumers / Evaluation of consumer-oriented initiatives

Verifying quality management activities through audits and self-checks

The group companies in Japan, Asia, the Americas and Europe maintain ISO 9001 and the GMP certification. 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 2018, we conducted internal audit with respect to quasi-drug products 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/environment/activity-data/certification/

Product recall over the last 3 years*

Year	2016	2017	2018
Cases	0	0	0

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

Safety management across the product lifecycle

At our group, 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 in addition to each stage of R&D, through commercialization of products, 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.

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 the information with the group supervisors in Europe, the Americas, Asia etc. on a regular basis 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.

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.



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

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

→ Kao Safety Standards for Food Products
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
www.kao.com/global/en/sustainability/safety-quality/animal-testing-policy/