

Top Message GRI 2-22

Global Sharp Top

Striving to Be the One and Only Company Through Creation and Innovation



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As a company that protects future lives

The global COVID-19 pandemic, the multipolarity and fragmentation of the international society with growing geopolitical risks, price hikes due to soaring raw material prices, and the issue of releasing treated water have profoundly impacted Japan's economy. Meanwhile, the global movement towards decarbonization and environmental conservation to create a sustainable society is becoming even more critical.

The Kao Group aims to realize a world in which all life lives in harmony. We are moving to become an indispensable part of a sustainable society as a company that protects future lives and cherishes the connection between people and society as well as the vibrant connections between people.

A Global Sharp Top strategy that leads toward K27

In August 2023, we updated parts of the Mid-term Plan to accelerate global development and improve capital efficiency. Here, we announced K27, which has 2027 as the last year of the plan. Although our core plan has not changed, the *Global Sharp Top* strategy has been added to clarify our axes of growth.

Kao's strengths lie in our unique technologies, developed through pursuing *Essential Research*. These technologies have resolved customer concerns on a superior level by creating indispensable products or, in other words, creating value. We aim to be the one and

only company in the world to provide sharp value proposals that customers wholeheartedly support. This is the essence of the *Global Sharp Top* mindset.

Four frameworks for transformation

We have specified four frameworks as strategies that guide us toward achieving K27.

The first framework is to strengthen and expand businesses that have high customer demand and profitability on a global scale.

The second framework is to develop talented individuals with exceptional skills and creativity to address important needs. These individuals will play central roles in promoting effective organizational management.

The third framework is to continually improve capital efficiency and profitability. We will strive to maximize the value of our management capital by investing in various categories and monitoring business efficiency based on business portfolios.

The fourth framework is focused on business development through co-creation with partners. This strategy will enable us to quickly and significantly utilize our technology assets.

Build Global Sharp Top business

Shift from quantity and volume to quality and connections

Kao's *Yoki-Monozukuri* approach focuses on identifying the essence from various facets, starting with the

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consumer, to create highly unique approaches. R&D's strengths in supporting this lie in continuously incorporating and refining technology used in different fields to develop products that provide new value.

As diversity has become more prevalent, it is rare for people to seek the same product value. Instead, people now seek products that align with their personal values and have meaning to them. We are evolving manufacturing from value creation that provides a certain level of satisfaction to anyone who uses our products, to value creation with a strong focus on certain customers, thereby striving for an elevated level of satisfaction. To achieve this, we are making efforts to transform from an economy of quantity and volume toward an economy of quality and connections.

Gaining loyalty through building on a global perspective

We re-established a strong awareness of globalization to clarify the contrast between that and conventional international expansion. Instead of promoting Japanese technology and products overseas as we did in the past, we will now focus on generating value from a global perspective from the start.

We are committed to creating products and developing businesses that are indispensable to our customers, as measured by the repeat ratio (loyalty). Equally important, we are determined to maintain our top position within the important sectors for these businesses.

Global Sharp Top human capital and organization management

Fostering skilled human capital through well-balanced investments

We will steer towards an increasingly well-balanced investment in human capital. Based on Kao's Diversity, Equity, and Inclusion values, which respect diversity of people, we will establish policies that provide maximum respect for the individual characteristics and strengths of each member in our workforce.

To achieve this, we will start by focusing on developing distinct personnel that can exert leadership and those highly skilled in specific fields.

Although we provide numerous training opportunities within our human capital investments, we especially focus on innovation technology education. Currently, Kao has launched the DX Adventure Program, which allows participants to acquire top-class skills starting from a basic understanding of IT. We have also started an AI Academy to reskill advanced engineers.



Speedy decision-making and implementation with task-based management

For those with strong leadership qualities, we promote the delegation of authority and create an environment where swift decision-making is done in small teams.

While we respect the conventional matrix structure between business management divisions and functional divisions, we are now transitioning to a task-based management model with business management divisions at its core to make clearer and faster decisions.

We believe in promoting dialogue and leveraging the collective wisdom of our employees to prioritize speed in decision-making and task implementation.



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Improve capital efficiency/ profitability

Business portfolio review with ROIC* as an indicator

Since 2023, Kao has been managing business portfolios with ROIC as its foundation. The company's businesses have been quantitatively analyzed and categorized into the three sectors: Stable Earnings, Growth Drivers, and Business Transformation, with the ROIC for each sector been made clear.

The ultimate goal of K27 is to achieve an ROIC of 11%. To reach this goal, we will prioritize investments for global growth and increase sales of global businesses in the growth driver business area, which includes skin care, cosmetics, chemicals, and business products.

* Return on Invested Capital

Conducting structural reforms to pave the way for improved capital efficiency

We initiated a significant structural reform in 2023 reviewing our business portfolio, which relied heavily on China, and reorganized it to foster well-balanced global growth. Through these human capital structural reforms, we have maximized our human capital and paved the way to improved efficiency.

In Japan where there is a strong business custom of maintaining low prices for everyday products, Kao has led the industry in implementing strategic price increases to pass on the rising costs of raw materials. In this dynamic environment, Kao has harnessed digital technology to manage profit ratios from product design to sales, and are consistently challenging ourselves to deliver high-added value.

Looking ahead to 2024, we are proactively addressing logistics issues by implementing effective inventory control measures, eliminating product shortages, and enhancing shipping efficiency.

Build businesses through co-creation with partners

Breaking free from self-sufficiency to create synergy

The final framework requires building businesses through co-creation with partners. To maximize Kao's technology assets and contribute to business and society as much and fast as possible, collaboration with partners with distinctive strengths becomes essential. Our collaboration guidelines are based on whether we have the same values and ambition toward the same direction to resolve social issues. We believe that leading the industry and each having areas of strength is important when creating synergies.

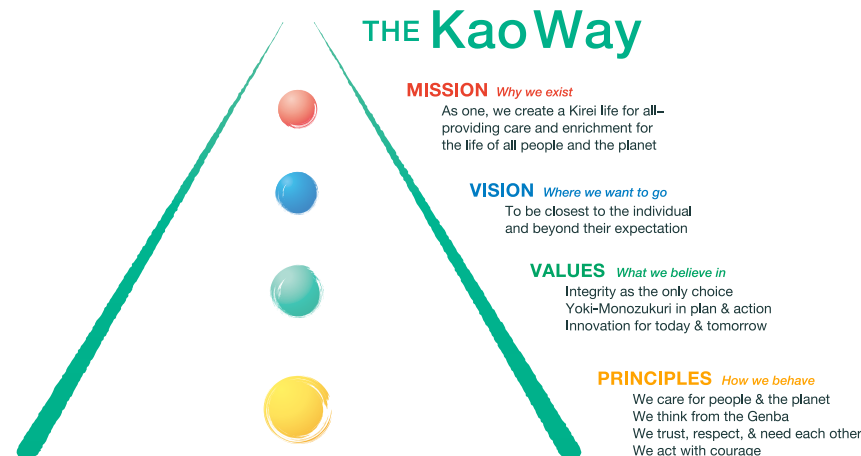
From now on, Kao will strive to break free from a self-sufficient mindset and build businesses with a higher level of products and profit with the support of many partners.

Aiming to increase corporate value under the Kao Way

The Kao Way is our corporate philosophy deeply rooted in each employee. Due to this foundation, all activities become consistent and become the driving force that brings together our diverse assets and employee capabilities.

As we propel towards K27, the power of our people will drive our aspiration to become an essential global company under our *Global Sharp Top* strategy. We will focus on maximizing the energy of our employees to further evolve *Yoki-Monozukuri* from an ESG perspective fueled by creativity and innovation.

We aim to become an essential company in a sustainable world, walking the right path by showing the world how to transition from an economy of quantity to an economy of quality.



[Guidelines to Attain K27]

▶ Pursuing the transition
from quantity to quality

▶ *Global Sharp Top*

▶ *Yoki-Monozukuri*

▶ Maximizing the power and
potential of employees