

Risk and Opportunity Management

We are reinforcing our risk and opportunity management to ensure risk mitigation and business opportunity creation under flexible and resilient ESG governance.

Risk and opportunity management at Kao

Risk management involves the Risk and Crisis Management Committee regularly monitoring the significance of the risks. Among these, risks that would have a major impact on management and require an enhanced response are designated as Corporate Risks, and for those, risk themes and risk owners are decided by the Management Board. The progress is managed by the Risk and Crisis Management Committee, and each organization addresses risks that can be managed by individual divisions and group companies.

In terms of opportunity management, we have established a structure that comprehensively manages ESG-related key themes for the entire Kao Group to build a system that promotes ESG investments through priority setting, which is connected to creating and business opportunities for strategic development.

Selection process for Kao Actions as material themes

Kao selected 19 Kao Actions in the Kao ESG Commitments and Actions through the following four steps.

Selection process



Objectives of selecting the Kao Actions

1. Targeted action in view of changing social circumstances and issues, and the changing expectations for Kao
2. Strategic implementation of ESG activities based on the Kao policy and changes in the business environment and strategy
3. Efficient investment and effective use of management resources

Selection of Kao Actions implemented in 2018

1. Identification of candidate themes

1.1 Making a list of candidate themes

We used the following to help identify candidate themes, resulting in the selection of 78 candidate themes (17 environmental, 37 social and 24 governance):

- ISO 26000
- GRI Standards
- SDGs
- Evaluation items used by ESG assessment bodies
- Global mega-trends
- In-house workshops
- Materiality at other companies
- Third-party opinions

1.2 Top management interviews

We held interviews with eight members of top management, including representative directors, directors, and managing executive officers, and compiled their thoughts and requests regarding Kao's ESG Strategy.

1.3 Region-based workshops

Using a workshop format in the regions of Asia, the Americas, and Europe, we identified activities that would simultaneously satisfy business needs, sustainability needs, and customer and consumer needs from the viewpoint of our operational sites. We then identified elements in those activities that serve the goal of becoming a company with a global presence.

2. Prioritization

Of the 78 candidate themes identified in 1.1, we asked some external stakeholders and employees to rate their priority in growing our business and increasing our corporate value. We then organized the results of their evaluations in the Matrix of Materiality, which maps materiality along two axes: priority for stakeholders and priority for Kao (Chart: Matrix of Materiality). In evaluating the level of materiality for Kao, we consider Kao’s medium- to long-term impact on the environment and society in accordance with the principle of double materiality.

The ESG Promotion Meeting, attended by division leaders, reviewed materiality based on the results of the evaluations and third-party opinions, and then selected the 19 Kao Actions. Themes that were not included in the Kao Actions despite being relatively highly rated in the evaluations will be managed and implemented under a separate structure. For instance, “disaster preparation and reconstruction assistance” was highly rated externally and has long been implemented under the Responsible Care Promotion Committee.

3. Validation

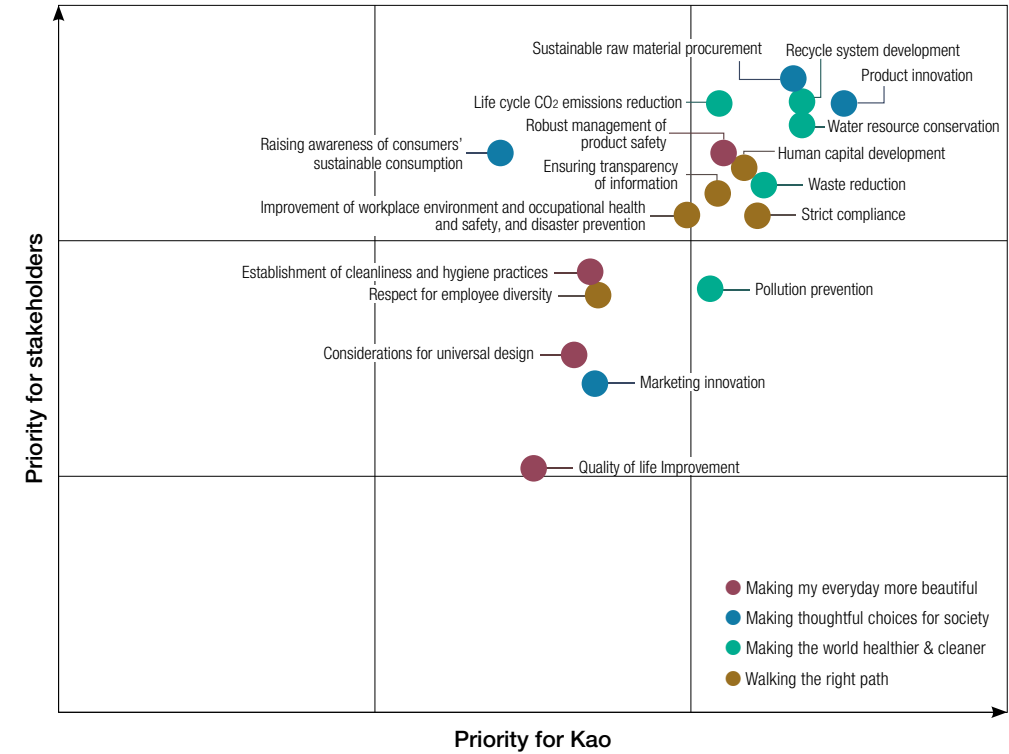
The ESG Committee (current ESG Managing Committee) reviewed the 19 Kao Actions selected in the ESG Promotion Meeting, and the Board of Directors approved them. Based on this, divisions set their own targets and action plans to conduct ESG activities.

4. Review

The 19 Kao Actions will be periodically reviewed and revised using selection steps 1 to 3. In addition, the actions are reviewed each year at a meeting of the ESG External Advisory Board.

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Matrix of Materiality



Evaluator attributes

- External stakeholders: 32 (21 Japanese and 11 non-Japanese)
 - Employees: 71 (39 Japanese and 32 non-Japanese)
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- External stakeholders who provided evaluations fall under the following groups:
 - Consumers and customers
 - Suppliers
 - Local communities
 - NGOs / NPOs
 - Academia
 - Industry groups / Peer companies
 - Shareholders / Investors

Risk Management

The Risk & Crisis Management Committee establishes risk and crisis management systems and activity policies based on the Kao Risk and Crisis Management Policy. This is done by each division and group company to identify and assess risks in accordance with activity policies set by the Risk & Crisis Management Committee, and form and implement countermeasures.

Additionally, the Risk & Crisis Management Committee, together with the Management Board, has selected the 15 main risks of particular importance that could potentially negatively impact sustainable and profitable development, as well as our contributions to the sustainability of the world. Among these main risks, we have defined corporate risks as those that have a particularly large impact on management and require a stronger response.

With respect to corporate risks, the Management Board reviews the risk themes and risk owners responsible for addressing them (Executive Officers) once a year based on its analyses of an internal risk survey and the external environment, as well as interviews with management, and the Risk & Crisis Management Committee manages the status of responses to each risk theme.

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- [Annual Securities Report II. Business Overview 3. Business Risks and Other Risks](https://www.kao.com/global/en/investor-relations/library/securities/)
<https://www.kao.com/global/en/investor-relations/library/securities/>
 - [Risk and Crisis Management](https://www.kao.com/global/en/corporate/policies/business-risks/)
<https://www.kao.com/global/en/corporate/policies/business-risks/>

Opportunity management

In 2019, each division proposed opportunity themes, from which 20 key themes were identified and set after deliberations by the ESG Committee (current ESG Managing Committee). Based on these themes, the divisions in charge incorporate them into their strategies and activities and promote their initiatives. The ESG Promotion Meeting and the ESG Managing Committee manage those key themes in an integrated manner throughout the company and verify the progress of activities.

In particular, the key to integrating ESG into business activities is to make prompt and accurate decisions regarding investments and costs. In this regard, Kao has clarified the criteria for ESG investment, as well as the deliberation and approval process at the ESG Managing Committee, in order to encourage proposals from each division and enable accurate investment decisions. Through these efforts, we are ensuring that ESG activities create opportunities and contribute to our business.

The ESG Steering Committees take the lead in driving the swift creation and realization of opportunities in business for decarbonization, plastic packaging, human rights and DE&I, and chemical stewardship.

Expansion into ESG initiatives

Implementing Kao Actions in the Kirei Lifestyle Plan (KLP themes)

- The responsible divisions design the details of the respective actions, devise the mid- to long-term targets, regularly consolidate data on divisional progress, and manage the company-wide progress.
- The target divisions devise and implement their divisional targets and activity plan for each action.

ESG promotion at divisions

- Each division creates its promotion structure. They devise their divisional targets and activity plan, and implement the PDCA cycle.
- The progress of divisional activities is reported to the ESG Promotion Meeting, which then gives the divisions feedback, including requests to revise plans.
- Global implementation by divisions is the general rule, with support for implementation by individual Kao Group companies provided as needed.
- The members of the ESG Promotion Meeting in each division give direction and guidance on incorporating the company-wide ESG Strategy into divisional strategy.
- The level of ESG activities is ramped up by linking them with the OKR framework.

Kao's ESG initiatives focus on ESG as a whole and strategically emphasize KLP themes. Based on this approach, company-wide goals and KPIs formulated for each KLP theme are deployed to divisions and translated into concrete activities. Each division carries out daily activities based on these goals, and the ESG Promotion Meeting regularly monitors their progress.

Each division holds management responsibility for ESG operations and implements specific activities in accordance with the reporting lines within the organization. We ensure effectiveness by integrating ESG into divisional policies, targets, and plans. Furthermore, ESG initiatives are promoted within Kao's global group companies, with each division driving activities and managing them at the group company level as appropriate according to the content.

The ESG governance framework functions through close coordination between the ESG Managing Committee, ESG Promotion Meeting, and ESG Steering Committees, fostering collaboration between the divisions responsible for KLP themes and other divisions. Additionally, we continue integrating ESG initiatives across all divisions, including their global operations.

Furthermore, we have incorporated ESG into our human resource evaluation system. Since the introduction of the Objectives and Key Results (OKR) system in 2021, all employees, including executive officers, set ESG targets as part of their individual objectives, and their efforts are evaluated based on how challenging their initiatives are. This system enables all employees to work together to achieve ESG targets, further accelerating our ESG activities.

CEO Message

Message from Senior Vice President of ESG

Executive Summary

Corporate Philosophy

Kao's Vision for 2030 "K30" and the Mid-Term Plan "K27"

Strategy

Metrics and Targets

Governance

Risk and Opportunity Management

Realization of The Kao Way

The Kao Way embodies our corporate philosophy and is the foundation for our business activities. By using this philosophy as our cornerstone, from the formulation of mid- to long-term business plans to daily decision-making, we ensure consistency across all activities within the Kao Group.

Kao employees do not see the Kao Way merely as a manual or set of rules; rather, they share it as a guiding principle for re-evaluating the significance of their work and the challenges they face.

Global operation / Involvement of senior management

The Kao Group has the Kao Way team at the Head Office to globally promote its corporate philosophy, the Kao Way. The Kao Way team at the Head Office works in collaboration with the Kao Way staff both within and outside Japan. In addition to providing standardized educational programs and communication tools, the team also receives activity reports and consultations from the local staff. By offering appropriate support, it helps to facilitate the Kao Way initiatives in each country and region.

Each division and group company outside Japan has designated Kao Way staff who develop programs tailored to each country/region and implement initiatives to promote the philosophy. The Kao Way team at the Head Office actively proposes global activity policies and supports the local staff in developing specific measures based on these policies. Through this approach, we have established a framework that ensures initiatives at each site maintain consistency and are adapted to the culture and business environment of individual countries and regions.

Additionally, the progress of the Kao Way implementation is regularly assessed with the management of each group company through the Japanese version of the Sarbanes-Oxley Act (J-SOX) questionnaire. If there is an insufficient progress based on the questionnaire results, the Kao Way team at the Head Office directly consults with its management and conducts follow-ups to strengthen the adoption of the philosophy.

Furthermore, for mergers and acquisitions (M&A), we implement programs at an early stage to help employees of newly integrated companies deepen their understanding of the Kao Way. Through this initiative, we foster a sense of unity within the Kao Group and create an environment where business is driven under a shared philosophy.

The promotion of the Kao Way is a key priority for senior management, with the progress regularly reported to the overseeing Executive Officer and the President and CEO. We promote the Kao Way under the active involvement of senior management, thus fostering a corporate culture that supports the sustainable growth of the Kao Group as a whole.

Initiatives

To further strengthen the adoption of the Kao Way across the entire Kao Group, we are actively promoting a variety of initiatives. In 2024, we carried out various activities based on the Kao Way within and outside Japan.

“Discover the Spirit” campaign (Japan)

To ensure that every employee continues to embody the value of *Yoki-Monozukuri*, Kao launched the “Discover the Spirit” campaign, providing an opportunity to reconnect with the Kao Spirit that has been passed down since the company was founded.

As part of this internal campaign, Kao created “History Posters,” which convey the origins of *Yoki-Monozukuri*, and “Employee Posters,” which showcase how today’s employees put these values into practice. These posters were displayed in highly visible areas, such as near employee cafeterias. Additionally, rare exhibits usually only available at the Kao Museum were also displayed to spark a greater interest in the corporate culture.

This initiative, carried out at 12 worksites in Japan, provided employees with an opportunity to connect the spirit of Kao’s founding to their own work. Unlike usual training sessions or workshops, this unique approach to embedding the corporate philosophy contributed to higher employee engagement. Kao remains committed to fostering its corporate culture, ensuring that each employee takes pride in their work and collaborates in building a better future.



"Discover the Spirit" Campaign expands to KSA (U.S.: High Point/ Texas)

Kao has expanded the initiatives developed in Japan, centered on the value of *Yoki-Monozukuri*, to its group company in the Americas as part of its efforts to enhance employee engagement. Specifically, to make the corporate philosophy more relateable, Kao distributed original T-shirts featuring the campaign logo, fostering a sense of unity among employees. Additionally, banners were displayed in areas where employees could naturally see throughout their daily routines, reinforcing the philosophy through a visual approach.

These initiatives are not intended to present the philosophy as a mere slogan, but to help each employee personally connect it to their work and put it into practice. In particular, in environments where many employees work at plants, wearing T-shirts fostered a sense of togetherness, and the visual reinforcement helped instill the philosophy into daily awareness.

Moving forward, Kao will continue to explore new methods to promote the practice of its corporate philosophy, striving to create an environment where employees can take pride in their work.



Reflecting on *Yoki-Monozukuri* at Kao Thailand's 60th anniversary event

Kao Thailand celebrated its 60th anniversary with a series of events and initiatives. As part of these efforts, Kao provided an opportunity for employees to reflect on *Yoki-Monozukuri* and launched initiatives to encourage the practice of its corporate philosophy.

One of these initiatives involved an activity where employees wrote down their personal interpretations of *Yoki-Monozukuri* on sticky notes and shared them within their workplaces. Additionally, a Short Film Contest was held, in which each department created a short film showcasing their approach to *Yoki-Monozukuri*, providing a creative way to share this value.

By incorporating elements of the Kao Way into this major anniversary event, Kao Thailand was able to naturally strengthen employee engagement and promote the adoption of its philosophy more effectively than through standalone events. As a result, this initiative became an important opportunity for employees to consider how they can embody *Yoki-Monozukuri* through their work and further encourage the practice of Kao's corporate philosophy.



The Kao Way workshops for the R&D Division (Japan)

To embrace the Kao Way, the Research and Development Division held workshops aimed at promoting its practice. Conducted across multiple research laboratories, these workshops encouraged participants to explore how the Kao Way could be applied to their work and deepen their understanding through dialogue.

Each research laboratory designed its own program, allowing participants to openly exchange ideas. This not only strengthened their connection to the Kao Way but also provided fresh perspectives on their daily work. Engaging discussions took place on topics such as how their research contributes to Kao's future growth and what can be done to generate even greater value through their work.

The Kao Way session for Kao Group employees in their second or third year (Japan)

We newly introduced the Kao Way session as part of a training program for employees in their second or third year at the Kao Group. This session aims to deepen participants' understanding of the Kao Way through dialogue with peers and encourage its application in daily work.

During the training, participants reflected on their strengths and challenges from the perspective of the Kao Way, and also recognized each other's achievements. This approach went beyond simply learning about the philosophy, helping employees experience personal growth and increasing their motivation to put it into practice.

By conducting this session at the two- to three-year mark, when employees have gained a certain amount of experience, it also serves as an opportunity to strengthen their sense of belonging and engagement with the company.

The Kao Way workshops for the Supply Chain Management leader candidates (Japan)

Since 1989, Kao has conducted Techno School, a division-level training program aimed at developing *Genba* leaders who possess both technical expertise and strong leadership qualities. This program is designed for the Supply Chain Management leader candidates within and outside Japan. In 2024, to deepen their understanding of the corporate philosophy, participants took part in a "Workshop on Kao's History and the Kao Way." Through dialogue in group work and a visit to the Kao Museum, this workshop provided future Kao employees with an opportunity to personalize the Kao Way and strengthen their commitment to its practice.



Employees'
opinions

Discover the Spirit:
Dialogue and Exhibits to
Spread and Promote the Kao
Spirit for the Future



Hiromi Fujiwara
Corporate Branding,
Strategic Public Relations
Kao Corporation

In 2024, I had the opportunity to have dialogues with employees at seven worksites about the concept of *Yoki-Monozukuri*.

It was a valuable experience to listen directly to the passionate opinions of each employee about *Yoki-Monozukuri* as they carry out their daily tasks. When speaking with people at different locations and occupations, I could sense the Kao Spirit passed down from our predecessors, and felt that our people were linked together by a shared set of values. Their opinions were incorporated into exhibits at 12 worksites, gaining reach to more employees. Moreover, we were able to share this initiative with people outside of Japan, and we took a step forward in spreading *Yoki-Monozukuri* on a global level. Going forward, I would like to expand this initiative throughout the entire Kao Group and pursue *Yoki-Monozukuri* together with more employees.

Employees'
opinions

Discover the Spirit:
Kao Thailand celebrates its 60th
anniversary with a commitment
to *Yoki-Monozukuri*



Paveena Sopon
Director, HR & Admin Services
Kao Industrial (Thailand)

Kao Thailand proudly celebrated its 60th anniversary in 2024. On this occasion, we aim to inspire our employees to take pride in our company and reflect on their contributions toward ensuring Kao's continued success for the next hundred years. We invited them to rethink *Yoki-Monozukuri*—what it means to them—and express their thoughts on sticky notes.

We received many responses from all worksites, demonstrating a deep understanding of how *Yoki-Monozukuri* has shaped our corporate culture and will continue to influence our future endeavors. Following this, we organized a Short Film Contest to showcase how each department implements *Yoki-Monozukuri* in their daily operations. This initiative not only fosters enjoyment but also encourages employees to delve deeper into the concept of *Yoki-Monozukuri*, considering how each individual can strengthen Kao Thailand through their everyday contributions.

Looking ahead, we plan to create more opportunities for employees to share specific examples of how they embody the Kao Way in their daily lives and promote dialogue among themselves.

Employees' opinions

Discover the Spirit:
A Journey to Creatively Share
the Spirit of “Yoki-Monozukuri”



Gwendolyn Glover
Manager, Human Capital
Development
Kao Specialties Americas

We have welcomed and embraced the Discover the Spirit campaign by purposefully connecting our members to a global organization while celebrating the spirit of “excellence in everything we do.”

To spark excitement, engagement, and a sense of connection to Kao’s rich history, we have displayed custom flags/posters around the site, shared Kao’s history in a shadow box display, included the campaign slogan on our anniversary cards, and even distributed “Discover the Spirit” designed cookies and T-shirts.

Importantly, this is an ongoing campaign, a journey we are all on to creatively share the spirit of *Yoki-Monozukuri*.

Employee engagement

ESG employee engagement framework

Kao conducts its business activities with the goal of realizing a “Kirei Life for All” the mission of its corporate philosophy, the Kao Way. Achieving the targets set in Kao’s mid-term corporate strategy (K27) and the ESG Strategy (KLP) requires all employees of the Kao Group to resonate with the vision of Kirei Lifestyle and take action as Kirei Ambassadors* in driving the realization of the KLP.

To this end, Kao strategically and systematically promotes employee engagement initiatives through the ESG-driven *Yoki-Monozukuri* College platform. This initiative provides employees with continuous information and inspiration, enhancing motivation and empowering them to take action.

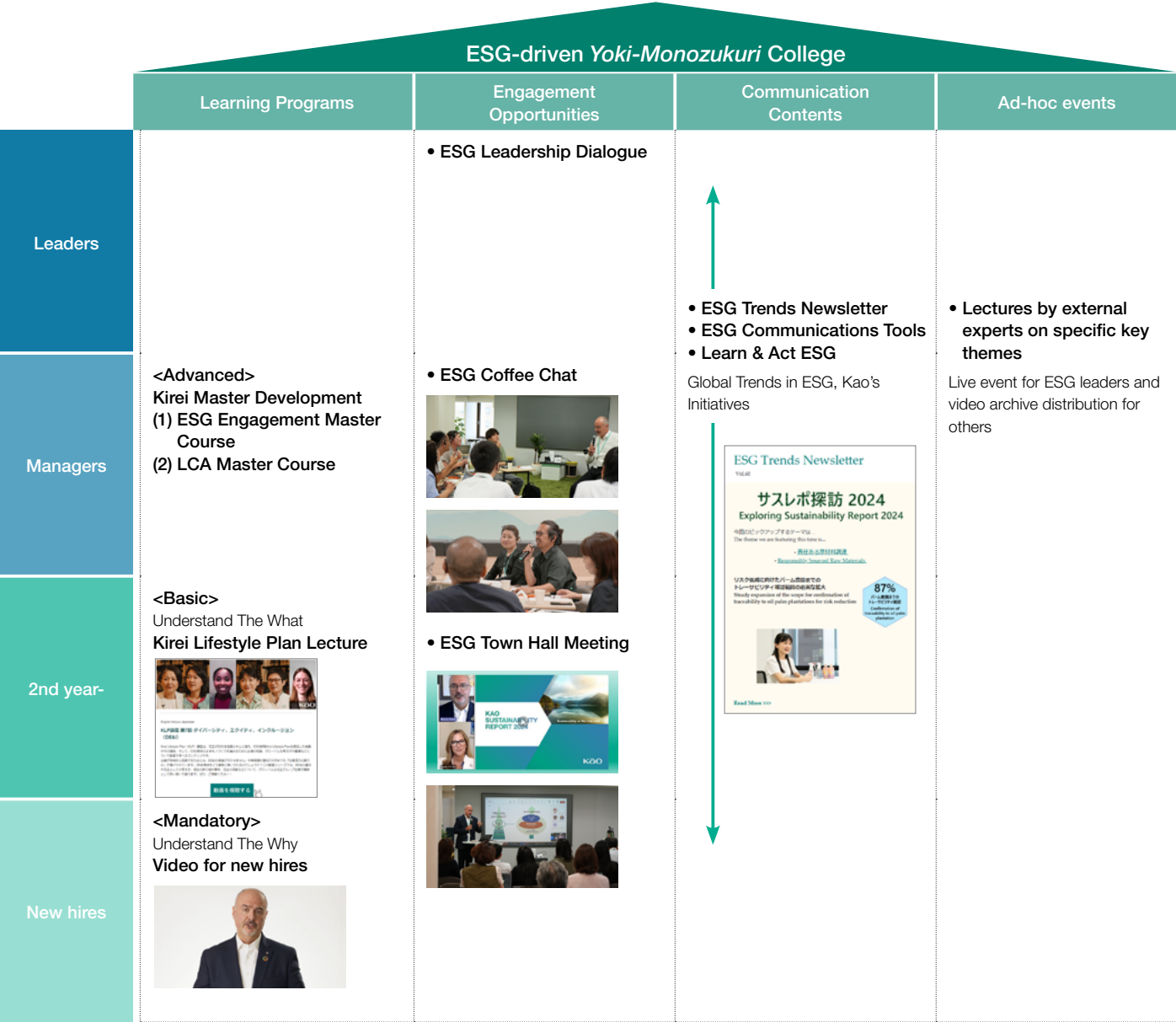
The ESG-driven *Yoki-Monozukuri* College consists of learning programs and engagement content tailored to different levels, and these programs are implemented not only in Japan but also various locations across Asia and AEMEA (the Americas, Europe, the Middle East, and Africa). Each region adapts the programs taking into account regional needs to ensure relevance and effectiveness.

* Kirei Ambassadors: Employees who have the fundamental knowledge and mindset needed to promote the KLP, act with passion, and have an impact on others.

Learning Programs

Kao offers dedicated learning programs in order to provide all employees with the knowledge necessary to advance the KLP.

As part of onboarding training for new employees and mid-career hires, we provide an annual training video in which the Senior Vice President of ESG explains why Kao is committed to ESG. For employees in their second year and



Structure of the ESG *Yoki-Monozukuri* College

beyond, Kao offers an e-learning program called the Kirei Lifestyle Plan Lecture, which allows a deeper understanding of Kao's ESG initiatives. Through this course, employees gain insights into the background and knowledge of Kao Actions, global perspectives and standards, and Kao's specific initiatives, equipping them with the knowledge and skills needed to drive the KLP forward.

These learning programs, provided in both English and Japanese, are translated into local languages across Kao's Asian subsidiaries and deployed through each company's platform to further enhance employees' understanding. In AEMEA, where sustainability initiatives are more advanced, Kao offers specialized programs such as the "Sustainability 101 Training Course" to address evolving regulatory developments.

One challenge in these initiatives is the difficulty of measuring their impact—specifically, assessing whether they are truly influencing employees' actions. Acknowledging this challenge, Kao remains committed to refining and designing effective programs to maximize their impact.

Engagement Opportunities

To provide inspiration for exploring business solutions from an ESG perspective, Kao holds ESG Coffee Chats, an informal dialogue session between the Senior Vice President of ESG and *Genba* managers. In 2024, Kao Japan conducted 12 sessions for leaders from business divisions, R&D, Supply Chain Management, and ESG promotion leaders from Kao's Asian subsidiaries, with a total of 77 participants. The sessions received highly positive feedback, with participants commenting that it provided an opportunity to re-evaluate their own work and incorporate ESG elements into their roles. These insights are expected to have a ripple effect on their teams, further embedding ESG into business operations.



Kao holds ESG Town Hall sessions to deepen the understanding of the relationship between business strategy and the KLP, as well as specific initiatives, and to encourage participants to apply these insights to their own work. In 2024, Kao Japan held its first session, reaching a total of 524 participants, including both in-person attendance and archived video views. In AEMEA, where the initiative has been ongoing since 2023, over 600 participants attended, with the total reach—including video views—amounting to 855.

As an opportunity for engagement with Kao's Asian subsidiaries, a three-day in-person meeting was held for the first time in June, bringing together ESG leaders from across Asia at the Japan headquarters. Through workshops focused on key ESG topics and discussions with relevant departments at the headquarters, participants gained a deeper understanding of the Kao Group's policies. Moving forward, these leaders are expected to take on an even greater

leadership role in implementing ESG initiatives at their respective *Genba* sites.

Kao will continue to actively promote initiatives that deepen the understanding of the importance of integrating ESG into daily operations and drive concrete actions.

Communication Contents

Kao creates and publishes communication content to help each employee worldwide gain insights into promoting ESG-driven *Yoki-Monozukuri*.

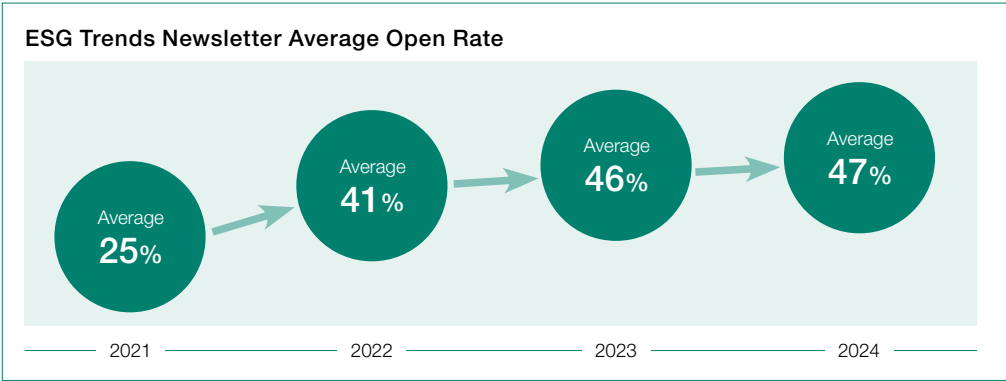
The ESG Trends Newsletter, distributed monthly to all employees of the Kao Group, provides the latest updates on global ESG trends and ESG initiatives across the Kao Group. Additionally, each issue features special topics that are relevant at the time of publication.

To communicate the significance of earning the CDP Triple A* designation for four consecutive years, Kao distributed a video message from the President and CEO to employees. Additionally, a report on Sustainable Brands 2024, a conference where many Kao employees took the stage, was shared internally. Furthermore, after publishing the Sustainability Report, Kao launched a series featuring the Executive Summary, highlighting outstanding initiatives alongside insights from the employees responsible for them.

As a result of these initiatives, the ESG Trends Newsletter has maintained a high average open rate of 47%, contributing to increased employee awareness of ESG-related information and a deeper understanding of ESG initiatives.

Additionally, internal and external ESG-related information and communication tools for the KLP have been made available on the company intranet, creating an environment where employees can actively share Kao's ESG initiatives.

* CDP Triple A: This designation is awarded to companies that receive an "A" rating in all three categories evaluated by CDP: Climate Change, Water Security, and Forests.



Ad-hoc events

To deepen understanding of key ESG themes, various companies within the Kao Group hold ad-hoc lectures and events featuring external experts, targeting different levels of employees.

At Kao Japan, a lecture on Business and Human Rights was held for employees at all levels, featuring an external expert. 236 employees participated in this open-registration event. Including archived video views, the total reach was 524. More than 30 questions, including those pre-submitted, were raised, contributing to a heightened awareness of human rights issues.

In Asia, Taiwan and Thailand, events were held to commemorate their 60th anniversaries. In Taiwan, initiatives included the production of a video to promote a broader understanding of Kirei Lifestyle and the launch of a special website, as well as internal events and a special exhibition for external audiences.

In AEMEA, an Earth Month virtual event on conservation was held in the Americas to promote understanding of environmental conservation. In addition, more than 20 workshops and learning sessions were conducted on social topics like DE&I, culture, allyship, empowerment, and human rights awareness, fostering these values in our workplaces and through our business activities.



Kao Taiwan Co-Creates Kirei Life with Community while Celebrating 60th Anniversary



Lily Shih
CP business Division-PR
Kao (Taiwan) Corporation

In the wave of ESG, companies are challenged to convey ESG concepts to all stakeholders, further expanding their influence and driving participation. Kao (Taiwan), in celebration of its 60th anniversary, adopted the theme of co-creating the Kirei lifestyle with Kao, integrating internal and external forces to maximize the positive impact of ESG.

For the first stage, to enhance people's understanding of the Kirei lifestyle, we created a video that aggregates and communicates the idea of Kirei moments in various lives. We also held events to express gratitude to the Kao employees who have worked together and the Taiwan consumers, suppliers, and partners who have long supported Kao (Taiwan).

For internal communication, an event called the Kirei Party was held to express gratitude to Kao employees. We invited all employees to the internal celebration party, which featured a team-building activity to foster the ONE TEAM spirit from everyone involved in the collaboration. Participants had the opportunity to create a handprint artwork, symbolizing our co-creation for Kao company.

In order to communicate Kao's efforts regarding ESG and brand innovations to Taiwan consumers, we integrated all

internal corporate information, adapted it to the concept of Kirei lifestyle, and developed the 60th anniversary exhibition. Before opening it to the public, we invited our employees to participate in the 60th anniversary exhibition as VIPs, in which the achievements of our employees' daily work in connection with ESG were displayed, so that our employees could feel proud of their work. This will further enhance the sense of identity and centripetal force of our employees, and they will realize the Kirei spirit in their daily work.

In the future, we will continue to promote the ESG values of Kao Group, adopt them into local activities, while inviting employees and the public to take action and practice the Kirei lifestyle in their daily lives.



Message from the ESG External Advisory Board

Go Beyond Response in Disclosure and
Mitigating Adverse Impact, and Aim for
a Problem-Solving Perspective

Rika Sueyoshi
CEO, Ethical Association

I am now in my fifth year serving on the ESG External Advisory Board.

In the past five years, Kao has always possessed foresight and has taken an enterprising and bold stance in ESG initiatives without fearing change. The landscape has been facing incredibly harsh conditions in recent years, with the need to respond to issues in a plethora of areas, including climate change, human rights and biodiversity. In the face of these circumstances, Kao has begun carrying out many measures besides its flagship efforts toward sustainable palm oil procurement. In this way, the company has accomplished a vital process of evolution.

To give just one example, the fact that Kao carried out financial impact analysis and disclosure in 2024 based on the TNFD framework unquestionably demonstrates its status as an advanced corporate group within Japan at the very least, if not across a broader geographical scope. I would like Kao to go beyond response regarding TNFD (namely, disclosure) and mitigating adverse impact, and to expand its perspective to include problem-solving as well. The TNFD calls for analyzing the impact of business for disclosure, and so it is crucial to make efforts to quantify this impact. However, a company cannot be said to have sufficiently fulfilled the social responsibility expected of it by simply describing the extent to which its business may or may not create an impact. Because Kao is a forward-thinking company, I hope that it will drive further discussion on the scope of its responsibility in biodiversity (in terms of geography and sectors), as well as the measures that can be taken to reduce adverse impact and recover natural capital.

Kao has made a highly commendable step in terms of sustainability measures by integrating data to bolster the foundations for enhancing circularity. This initiative is related to the creation of DPPs for Japan (specifically, the creation of a plastic CE platform) that the Japanese government has been considering. Going forward, I hope that Kao will participate in rulemaking around the world. Knowledge on the visualization of supply and demand regarding recycled materials will gain even more value in the future as an intellectual asset, as will knowledge on ensuring data reliability for traceability. One possible avenue for initiatives to resolve social issues would be for Kao to use the practical knowledge it has accumulated in circularity efforts to give input in

ongoing discussions about product circularity data at ISO and other international standards organizations.

One of the fundamental values in the Kao Way, Kao's corporate philosophy, is "Walking the right path," which comes from the company's founder, Tomiro Nagase. This philosophy serves as the foundation for commitment to ESG, and I would like to express my respect that Kao has demonstrated a venerable approach. For Kao to make a solid effort toward achieving its purpose of "To realize a Kirei World in which all life lives in harmony," it should not stop at simply expressing its resolve toward compliance as a company with respect to "Walking the right path." Perhaps Kao should take time to think further about how it can impact society and bring change in the world by embodying the philosophy of "Walking the right path," and to consider the results of efforts to solve social issues, including those that may not be overcome by Kao alone. I believe that Kao can gain further support and trust from a wide range of stakeholders, including consumers if each and every member of the management team and all employees take an earnest look at results with respect to "Walking the right path."

Message from Kao about the comments

The 2025 message expressed expectations for Kao to advance discussions as a leading company, not only on reducing negative impacts but also on problem-solving approaches. Citing the Taskforce on Nature-related Financial Disclosures (TNFD) disclosure efforts as an example, the message highlighted the need to explore Kao's scope of responsibility in biodiversity, as well as potential measures for reducing negative impacts and restoring natural capital.

In response, Kao has deepened its efforts through Essential Research on social issues. One example is the development of Bio IOS, a sustainable detergent base derived from oleo chemicals, which are extracted from the fruit of oil palm trees after edible oil is obtained. This initiative addresses concerns related to deforestation and raw material shortages. Kao is working to expand its applications beyond laundry detergent and actively promoting the adoption of this technology by other companies. Additionally, Kao continues to develop alternative technologies for palm (kernel) oil substitutes, utilizing natural, inedible sources of fats and oils. Moving forward, Kao will incorporate insights gained from TNFD reports and analyses from research on nature-positive initiatives. Beyond merely reducing negative impacts, Kao aims to deepen discussions from a problem-solving and value-creation perspective, pursuing activities that contribute to both nature-positive societies and economic growth, such as advancing initiatives related to agrochemicals.



Message from the ESG External Advisory Board

Leading ESG to the Next Level

Ruma Bose
CEO, Amura Group

In my third year on the advisory board, I remain hugely impressed that Kao has maintained its deep commitment to implementing leading-edge ESG policies, to advance the company’s “Sustainability is the Only Path” strategy. Kao has done this despite growing counter-veiling pressures at home and abroad, including direct attacks on and the deliberate political weaponization of ESG, especially in the United States and, increasingly, in Europe and the rest of the world.

Companies seem to be responding to these pressures in one of two ways. Many are choosing to downgrade or even abandon their ESG commitments. Others are responding by doubling down on ESG, embedding it more deeply in all that the company does. The second group is mostly of companies, such as Kao, that understand that ESG should not be seen as essentially an exercise in optics but rather that, done right, it can be a driver of superior core business performance.

Kao urgently needs to get its K30 ESG strategy back on track, after being hit by rising raw material costs, a slower economy and the associated hit to productivity. Having long been in the vanguard of ESG implementation, Kao now has an opportunity to once again be a world leader in taking ESG to the next level. In so doing it can help to disprove the critics and educate the so-called “ESG washers” in how to execute ESG strategies that genuinely create value for all the company’s stakeholders.

For many years, Kao has been a leader in reporting on and reducing its carbon footprint, achieving its scope 1 and 2 emissions target two years ahead of schedule. Now it needs to show similar progress on its admittedly harder scope 3 emissions. On biodiversity, too, having shown boldness by adopting a target of being “nature positive” by 2030, Kao must back this up with quick progress to show it can deliver on this promise.

Similarly, Kao should build quickly on the success of its early pilots in developing innovations that drive sustainability, such as low waste packaging, recycling and the development of lower cost alternatives to raw materials with fast-rising prices, such as palm oil. This innovation-led ESG strategy should be deployed throughout the company’s activities.

Kao has recognized the importance of work force transformation to deliver its ESG goals, with the new Global Sharp Tops initiative. Quick progress in implementing this will send a strong positive message both internally and outside the company.

Kao could go further in implementing its DEI policies in ways that clearly demonstrate the connection between greater workforce diversity and business performance. The company has made steady progress on improving gender equity within its workforce, but I believe it is time for Kao to accelerate significantly the rise in the percentage of women in senior management roles, in particular.

Kao has long been an outstanding global leader in ESG. At this pivotal moment, it is again well placed to lead in taking ESG to even higher levels of significance and impact. I look forward to seeing them fulfill this world changing potential.

Message from Kao about the comments

The 2025 message expressed expectations for Kao to take the lead in integrating ESG more deeply into its business activities to enhance corporate value and serve as a role model for other companies and all stakeholders. These expectations come amid growing pushback against ESG, particularly in AEMEA, with a strong focus on the Americas.

In response, we believe that by steadily implementing the KLP and developing ESG-integrated proposals unique to Kao, we can further strengthen our Global Sharp Top strategy and also increase customer loyalty. For example, the refillable container for *CuCute* dishwashing detergent, which reduces plastic consumption by approximately 40% and is designed for easier disposal, has been well received by consumers for its reduced environmental impact, leading to an increase in market share. Additionally, the My Kao digital platform, which facilitates two-way engagement with consumers, features a unique AI-driven skin analysis service that recommends personalized products based on individual results. This contributes to improving consumers’ quality of life and increasing repeat purchases. Moving forward, Kao will continue to pursue its goal of becoming a leading ESG company globally by proposing new ESG-driven value offerings and fostering deeper engagement with consumers.



Message from the ESG External Advisory Board

Implementing the Kirei Lifestyle Plan
- Next steps in the Journey

Mike Jefferson

Director, Verde Research and Consulting Ltd.

During my first year on the Kao ESG External Advisory Board, what quickly became clear to me was the strong vision senior management had developed for the company. Also, that there is a genuine commitment from the management in Kao to put sustainability at the heart of the business. During 2024, there was an increased focus on communicating the vision internally and breaking down objectives at the level of the business unit. Engaging and getting the active involvement of everyone working in the company is a significant undertaking due to the size of Kao. However, this will be essential to successfully integrate the ESG vision into the business culture and day to day activities. A good start was made in 2024 and I am sure that a continued focus on these communication and engagement activities will reap rewards in the years to come. Key will be ensuring that there are mechanisms for individual managers and employees to come forward with ideas about how progress against the ESG strategy can be achieved. We know that objectives in areas such as decarbonization and zero waste will require many hundreds of individual actions and these will need to be identified and supported.

Kao has developed comprehensive quantitative targets to monitor progress and should be commended on the transparency they are providing to stakeholders. During 2024 the business accelerated work on data and IT systems to ensure that information can be captured to report against key performance indicators. A continued focus on breaking down these targets at a business, and even individual, level will ensure resilient and sustained advances are made towards goals in the coming years.

Meaningful progress continues to be made towards objectives. This is particularly in areas where Kao has the control and the ability to make the necessary changes. An example here is that 100% of energy purchased in Japan is from renewable sources. More challenging for the business, will be to drive change where action at a country level or in other parts of the value chain may be required. For example, the collection, sorting, and recycling of post consumer plastic packaging waste in Japan and other key markets for Kao in Asia where the infrastructure is still developing. This said, Kao have pushed for change and useful trials and pilots have taken place. Strategic leadership and engagement with likeminded businesses will be required to fully implement the ESG

strategy in areas such as these.

Plastic continues to be a political priority globally and efforts remain ongoing with the UN led work to find a global instrument to tackle plastic pollution. This follows the failure to find agreement on the final text for a treaty in Busan, South Korea, at the end of 2024. I would encourage a continued focus in Kao, building on the work done so far, on plastics circularity; driven by design for recycling, increased collection for recycling, and use of post consumer recycled content.

Message from Kao about the comments

The 2025 message expressed a need to continue focusing on plastic circularity, including the collection, sorting, and recycling of post-consumer plastic packaging waste. It also emphasized that fully implementing the ESG Strategy in this area requires strategic leadership and collaboration with like-minded companies.

In response, Kao has not only driven reduce and recycling innovations within the company but has also advanced co-creation with various stakeholders to accelerate the early implementation of these initiatives in society.

In collaboration with Lion Corporation, Kao became the first in the world to commercialize refill packs partially made from recycled materials using packaging-to-packaging recycling, a horizontal material recycling process that converts used containers back to the same type of container. Additionally, Kao has collaborated with various municipalities, universities, and companies across Japan, including Kamakura and Keio University, to develop new systems for plastic resource collection and upcycling. Looking ahead, Kao plans to actively pursue further collaboration with other companies to propose new value-driven solutions that address environmental issues and broader social challenges.

To carry out these global initiatives with other companies, municipalities, and organizations, it is essential that both Kao and its partners possess complementary strengths that enable them to lead the industry. Additionally, they must share the same values and direction, working together with a shared commitment to solving issues in society. While maintaining its unique identity, Kao will continue to leverage the strengths of its many partners to develop higher-quality products and build more profitable businesses.

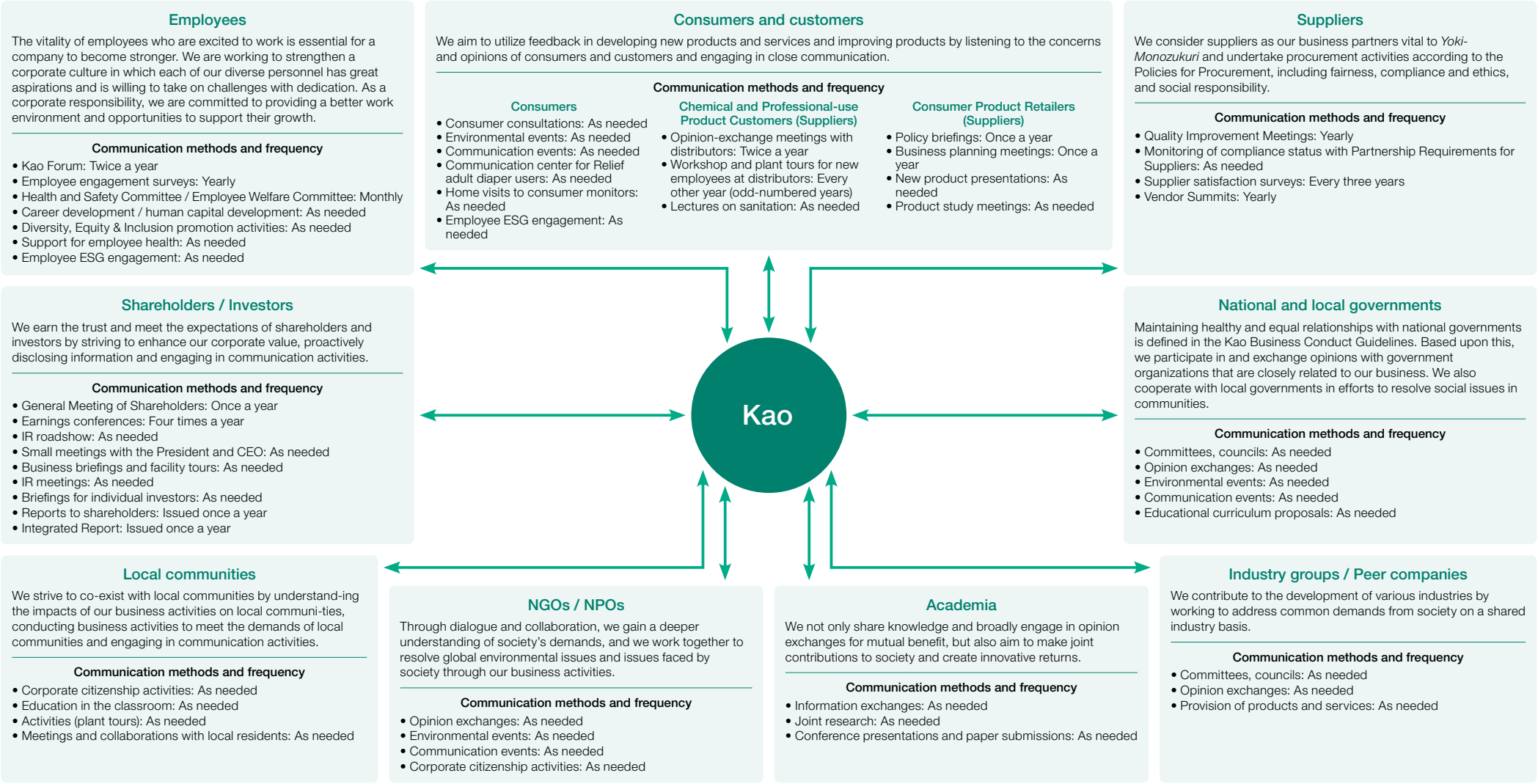
Stakeholder engagement

Kao's key stakeholders include consumers and customers as well as suppliers, employees, local communities, national and local governments, non-governmental and non-profit organizations (NGOs / NPOs), academia, organizations and corporations in our industries, and shareholders and investors.

In the Kao Way, our corporate philosophy, we define our vision as this: "By deeply knowing and understanding our world and its people, we aim to improve people's lives beyond their

expectations for a future where humans and nature thrive together." Through communication with our stakeholders, we deepen understanding and provide information useful to society and in daily life, and use feedback we receive to improve our management, corporate activities and services, including by reporting on feedback to the Management Board and Board of Directors and having feedback reflected in deliberations of material matters. Specific collaboration/ engagement initiatives with stakeholders are described in each activity report.

Key Kao stakeholders



Specific collaboration/engagement initiatives with stakeholders are described in each activity report. Click on the name of each activity under “Specific Activities” for more information.

Collaboration and engagement with stakeholders

Stakeholders	Initiatives			
Employees	<ul style="list-style-type: none">• Employee ESG engagement• Realization of the Kao Way• Improved quality of life• Habits for cleanliness, beauty & health• Universal product design• Safer healthier products• Sustainable lifestyle promotion• Purpose driven brands	<ul style="list-style-type: none">• Transformative innovation• Responsibly sourced raw materials• Decarbonization• Zero waste• Water conservation• Air & water pollution prevention• Effective corporate governance• Full transparency	<ul style="list-style-type: none">• Respecting human rights• Human capital development• Inclusive & diverse workplaces• Employee wellbeing & safety• Responsible chemicals management• Risk and crisis management• Responsible care (RC)• Product quality management	<ul style="list-style-type: none">• Information security• Digital transformation (DX)• Intellectual property• Tax strategies• Biodiversity• Communication with consumers• Process safety and disaster prevention• Corporate citizenship activities
Consumers and customers	<ul style="list-style-type: none">• Improved quality of life• Universal product design• Safer healthier products• Sustainable lifestyle promotion• Purpose driven brands	<ul style="list-style-type: none">• Responsibly sourced raw materials• Decarbonization• Zero waste• Water conservation• Air & water pollution prevention	<ul style="list-style-type: none">• Effective corporate governance• Full transparency• Respecting human rights• Employee wellbeing & safety• Responsible chemicals management	<ul style="list-style-type: none">• Responsible care (RC)• Product quality management• Digital transformation (DX)• Biodiversity• Communication with consumers
Suppliers	<ul style="list-style-type: none">• Sustainable lifestyle promotion• Responsibly sourced raw materials• Decarbonization• Zero waste	<ul style="list-style-type: none">• Water conservation• Effective corporate governance• Full transparency• Respecting human rights	<ul style="list-style-type: none">• Responsible chemicals management• Risk and crisis management• Product quality management• Information security	<ul style="list-style-type: none">• Biodiversity
Shareholders/ Investors	<ul style="list-style-type: none">• Corporate governance	<ul style="list-style-type: none">• Investor Relations websites <div> https://www.kao.com/global/en/investor-relations/</div>		
National and local governments	<ul style="list-style-type: none">• Habits for cleanliness, beauty & health• Safer healthier products• Sustainable lifestyle promotion• Purpose driven brands• Transformative innovation	<ul style="list-style-type: none">• Decarbonization• Zero waste• Water conservation• Air & water pollution prevention• Respecting human rights	<ul style="list-style-type: none">• Employee wellbeing & safety• Responsible care (RC)• Information security• Intellectual property• Tax strategies	<ul style="list-style-type: none">• Biodiversity• Communication with consumers• Corporate citizenship activities
Local communities	<ul style="list-style-type: none">• Habits for cleanliness, beauty & health• Universal product design• Purpose driven brands• Decarbonization	<ul style="list-style-type: none">• Zero waste• Water conservation• Air & water pollution prevention• Respecting human rights	<ul style="list-style-type: none">• Employee wellbeing & safety• Responsible care (RC)• Biodiversity• Communication with consumers	<ul style="list-style-type: none">• Process safety and disaster prevention• Corporate citizenship activities
NGOs / NPOs	<ul style="list-style-type: none">• Responsibly sourced raw materials• Decarbonization	<ul style="list-style-type: none">• Water conservation• Full transparency	<ul style="list-style-type: none">• Respecting human rights• Inclusive & diverse workplaces	<ul style="list-style-type: none">• Biodiversity• Corporate citizenship activities
Academia	<ul style="list-style-type: none">• Improved quality of life• Transformative innovation	<ul style="list-style-type: none">• Water conservation• Full transparency	<ul style="list-style-type: none">• Inclusive & diverse workplaces• Employee wellbeing & safety	<ul style="list-style-type: none">• Biodiversity• Corporate citizenship activities
Industry groups / Peer companies	<ul style="list-style-type: none">• Improved quality of life• Universal product design• Safer healthier products• Sustainable lifestyle promotion• Air & water pollution prevention	<ul style="list-style-type: none">• Full transparency• Respecting human rights• Human capital development• Inclusive & diverse workplaces• Employee wellbeing & safety	<ul style="list-style-type: none">• Responsible chemicals management• Risk and crisis management• Product quality management• Intellectual property• Tax strategies	<ul style="list-style-type: none">• Communication with consumers• Corporate citizenship activities

CEO Message

Message from Senior Vice President of ESG

Executive Summary

Corporate Philosophy

Kao's Vision for 2030 “K30” and the Mid-Term Plan “K27”

Strategy

Metrics and Targets

Governance

Risk and Opportunity Management