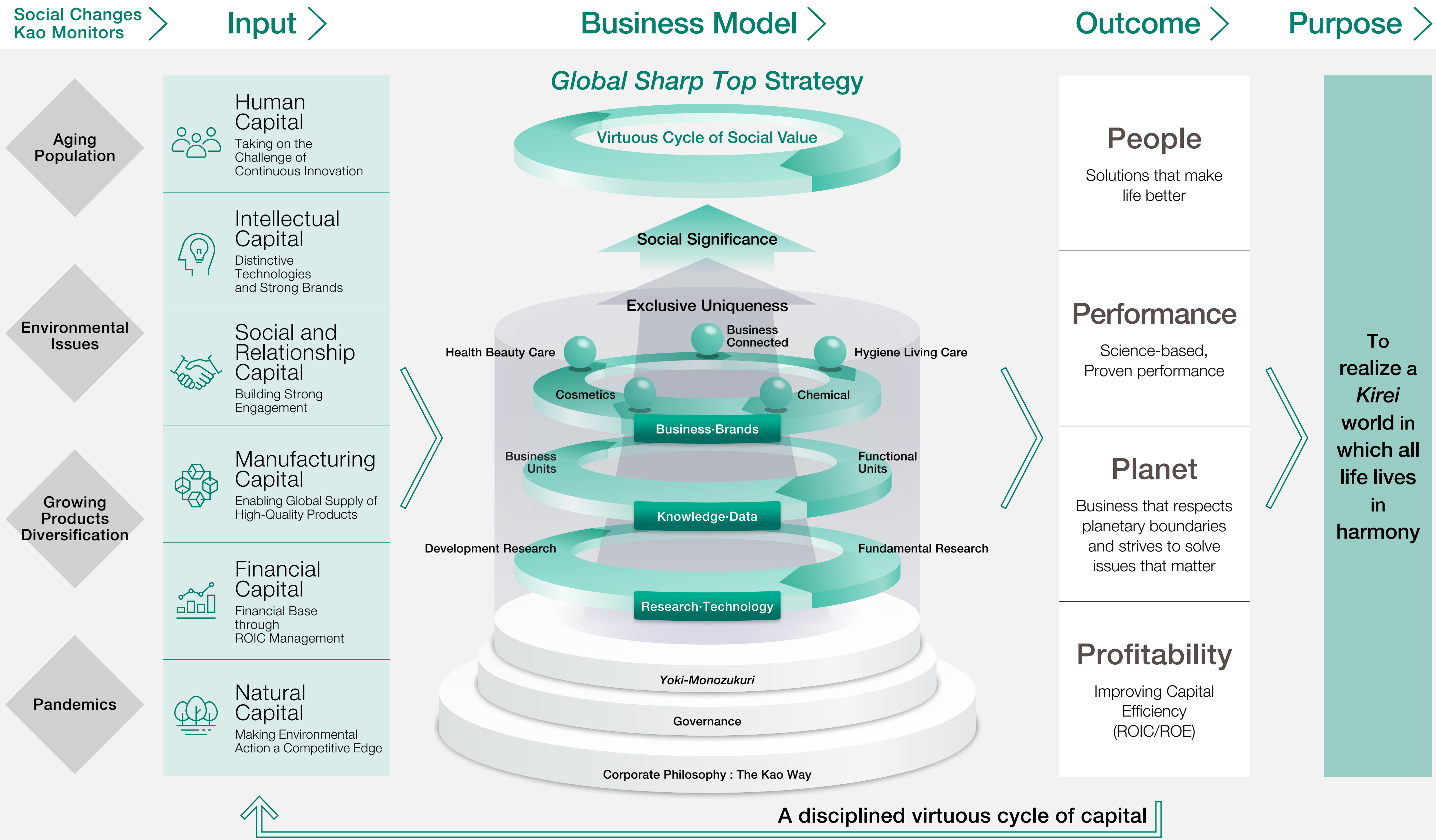
Our Value Creation Process

The Kao Group addresses critical social issues and creates value of genuine social significance through Exclusive Uniqueness. This is the *Global Sharp Top* strategy in practice. Through *Yoki-Monozukuri* across our five businesses, we create one-of-a-kind value and aim to become an indispensable company for a sustainable society.



The Six Capitals

Kao links the expertise of diverse human capital and distinctive science with strong brands, trust-based relationships with consumers and stakeholders, the manufacturing and supply platform that supports them, a financial base that emphasizes capital efficiency, and initiatives in harmony with the environment. Together, these six capitals support sustainable value creation and growth.

Capitals	Kao's Strengths	Key Indicators
Human Capital Taking on the Challenge of Continuous Innovation	We foster a culture in which our diverse human capital applies its expertise and works together globally to take on challenges. The spirit of innovation, passed down through the organization, continues to guide how we pursue growth and innovation in every aspect of our business.	● Employees engagement (Total score in KES) .... **68** (2027 target:75)*1 ● Challenge-oriented human capital .... **77** % (2027 target:80%)*2 ● Percentage of female managers relative to that of female employees .... **79.4** % (2030 target:100%) ● Number of citizen developers .... more than **4,700**
Intellectual Capital Distinctive Technologies and Strong Brands	We leverage distinctive science and technologies across our Chemical Business and Consumer Products Businesses, creating strong synergies that enable us to continuously deliver differentiated value. This foundation has also enabled us to build a portfolio of highly trusted and loyal brands, deeply rooted in consumer insights and needs.	● Number of patents held .... **13,419** ● Number of trademarks held .... **21,635** ● R&D expenses .... **61.1** billion yen ● Number of overseas R&D bases .... **17** ● Number of brands **84**
Social and Relationship Capital Building Strong Engagement	Through trust-based dialogue and co-creation with stakeholders, including partners, communities, and investors, we address social issues while growing our business. At the same time, we create opportunities and reduce risk, turning consumer relationships into a competitive advantage that supports the sustainable enhancement of corporate value.	● Number of countries /regions where products are sold ...... Approx. **140** ● IR interviews .... **407** sessions ● SR interviews .... **49** sessions [Japan Market] ● Household products market share ... **25**% (No.1)*3 ● Women's purchase rate .... **95.6** % ● Annual purchases per purchaser ... **22.6** items*4
Manufacturing Capital Enabling Global Supply of High-Quality Products	By linking raw material procurement to consumers through our global supply chain management, manufacturing sites, and technologies, we ensure a stable supply of high-quality products and respond rapidly to market demand. Enhanced supply chain competitiveness builds brand trust and enables growth investment.	● Production sites .... **37** (27 Outside Japan) ● Number of consolidated subsidiaries .... **111** (93 Outside Japan) ● Capital investment .... **50.8** billion yen ● Rigorous quality standards
Financial Capital Financial Base through ROIC Management	We use Economic Value Added (EVA) as our ultimate indicator of corporate value creation and pursue value creation that consistently exceeds the cost of capital through business-specific ROIC management and disciplined capital allocation. Through a dual-engine management approach that drives earnings growth and capital efficiency, we have built a strong financial base.	● Sales .... **1,688.6** billion yen (Overseas ratio:42.9%) ● Operating income .... **164.1** billion yen / Operating margin:9.7% ● ROIC .... **9.7**% ● EVA .... **41.1** billion yen ● Consecutive dividend increases .... **36** periods (the longest in Japan)
Natural Capital Making Environmental Action a Competitive Edge	Across the product lifecycle, from raw material procurement to usage and disposal, we strategically pursue product design that reduces our impact on natural capital such as forests and water while creating social value. By creating high added value, we will continue to fortify both environmental performance and economic returns.	● CO_2 emissions across the entire product lifecycle (Kao Group) .... **10,192** thousand tons-CO_2e ● Scope 1 + 2 CO_2 emissions .... **561** thousand tons-CO_2e ● Water consumption across the entire product lifecycle (Kao Group) ... **2,794** million m^3 ● Traceability to oil palm plantations(TTP)*5 .... **91** %

*1 KES: Kao Engagement Survey (Full score=100)
*2 Employee awareness survey (Only consolidated subsidiaries in Japan)
*3 INTAGE SRI+ (87 household products categories) , January 2025 to December 2025
*4 INTAGE SCI (86 household products categories) , January 2025 to December 2025
*5 Plantation includes oil palm smallholders

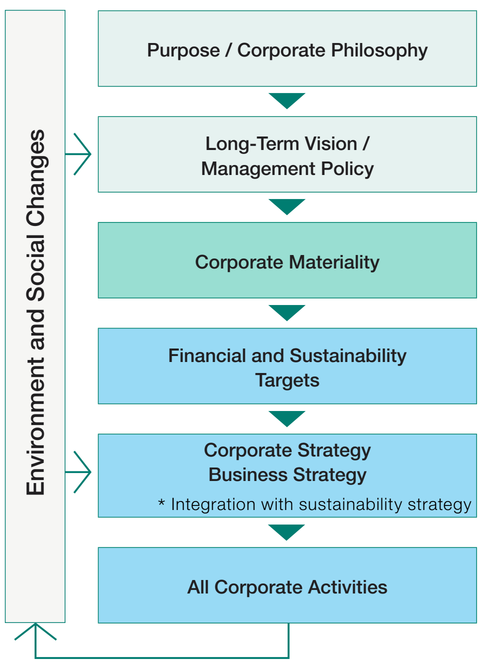
Our Materiality

To continue enhancing corporate value, Kao defines materiality as key matters for achieving its Purpose and Vision.

We position materiality at the core of management that integrates addressing environmental and social issues while creating medium- to long-term financial value.

Considering changes in the environment and society and requests from stakeholders, we reviewed the materiality established in 2018 and conducted a materiality assessment that incorporates concepts from international disclosure standards.

Positioning of Materiality



1. Materiality Identification Process

Based on the concept of double materiality, Kao assessed importance from two perspectives: the impacts of its business activities on the environment and society (Impact Materiality), and financial impact of environmental and social issues, including related risks and opportunities (Financial Materiality).

The identification process consists of the following three steps.

Step 1 Selection of Material Issues

Based on megatrends, sustainability issues in international disclosure standards, including ESRS and SASB Standards, Kao's management issues, and brand purposes, we selected candidate material issues.

For SASB industry-specific disclosure topics, we referred to Kao's applicable industries: Chemicals, Household & Personal Products.

Step 2 Impact and Financial Assessment

For the material issues, members from business and functional divisions assessed impacts and financial effects across Kao's value chain, including upstream, own operations, and downstream, considering disclosure standard requirements.

They assessed impacts of Kao's business activities on the environment and society, and risks and opportunities posed by environmental and social changes, over the short term through 2027, medium term through 2030, and long term through 2040.

For impact materiality, we assessed severity, including scale, scope, irremediability, and likelihood.

Financial materiality is assessed based on the degree of financial impact, including impacts on sales and costs, and the likelihood of occurrence.

Step 3 Validation, Approval, and Issue Identification

Based on the results of the Step 2 assessment, we conducted interviews with Executive Officers and division heads, discussions with the CEO, and dialogue with external experts to verify the validity of the assessment results.

We organized significance and priorities from the perspective of consistency between financial effects and medium- to long-term value creation.

These were deliberated and approved by the Management Board and the Board of Directors, and the material issues were finalized.

2. Assessment Results and Main Changes since the Previous Review

In this materiality assessment, we reviewed the previous assessment results considering changes in the environment and society and the evolution of our business structure.

We have prioritized responding to rising social demands as well as ensuring alignment with Kao's growth drivers and the strategic objectives and outcomes of our business activities. Consequently, we identified 26 material issues, such as business model resilience, AI/digital capabilities, biodiversity, and contributions to sustainable industries.

Major changes from the previous assessment include a review of the scope and definitions of each issue considering the increasing severity of environmental and social issues, the expansion of business domains, and progress in globalization.

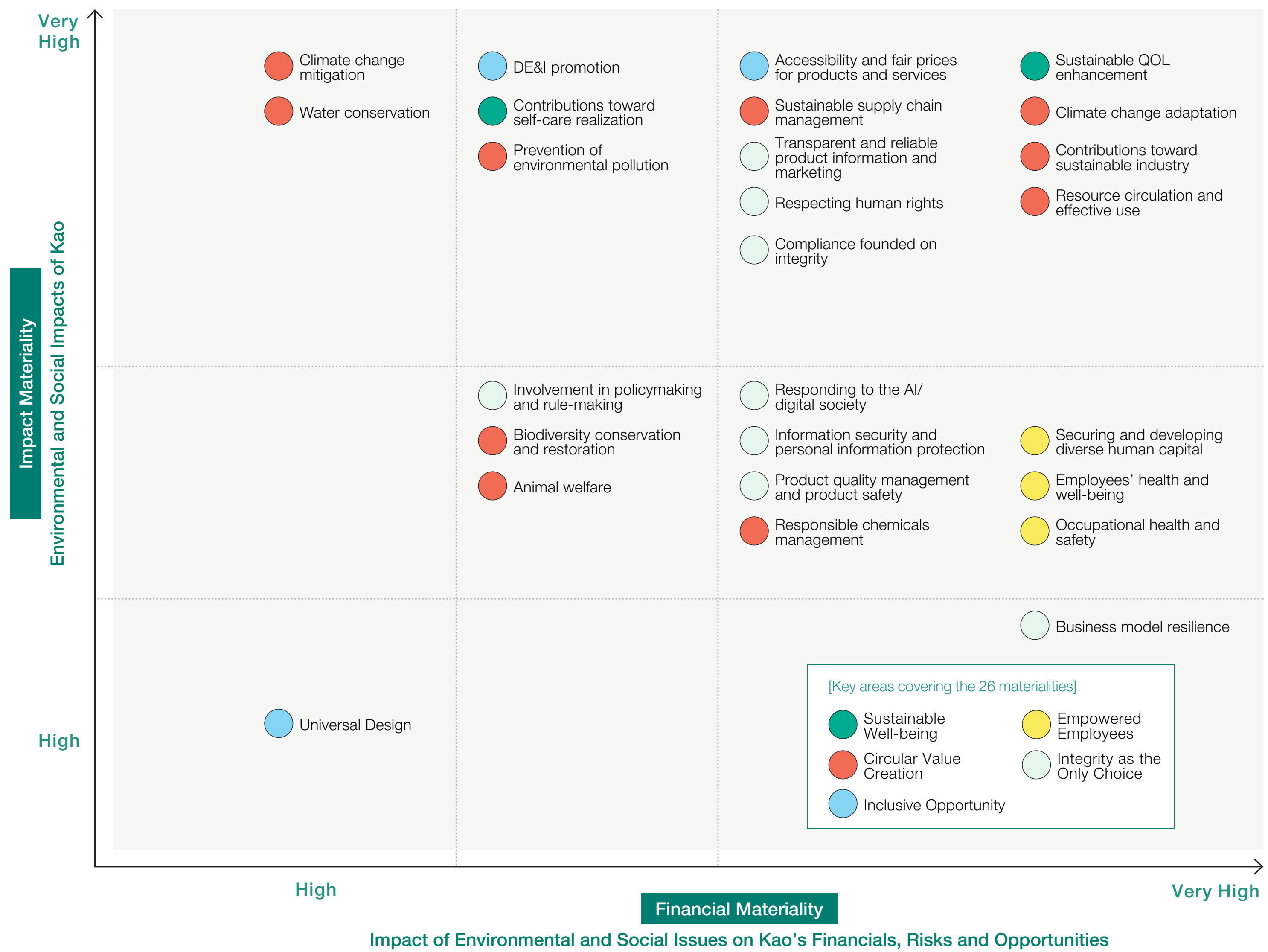
We also reorganized and integrated supply chain, resource circulation, and QOL-related items. As a result, we updated the composition of our materiality framework to better reflect business realities and future potential.

3. Looking Ahead

We are working to integrate the materiality assessment and review process with Enterprise Risk Management (ERM) and align it with the next medium-term management plan, thereby further strengthening its use in management decision-making.

At the same time, we will specify indicators and targets for each materiality item. We will also improve execution and accountability by visualizing the relationship with ROIC and linking it to executive compensation.

Materiality matrix



Direction of Transformation and Materiality

The 26 identified materiality issues have been reorganized into five priority areas from the perspectives of “Value Creation through Business” and “Management Foundation,” based on their relevance to business realities and medium- to long- term growth, with the structure designed to clarify these relationships.

The five priority areas translate the direction of transformation embodied in “Maximum with Minimum” into clearly defined management priorities and link them directly to execution.

Direction of transformation **Maximum with Minimum***

Value Creation through Business

Sustainable Well-being

We seek to enhance quality of life and the physical and mental health of all people while reducing environmental impact. Through this, we support long-term well-being for current and future generations.

Circular Value Creation

Across the value chain, we advance toward a waste-free, circular, low-carbon economy through responsible business practices. By respecting human rights, managing chemicals, and conserving biodiversity, we reduce environmental and social risks and create sustainable value.

Inclusive Opportunity

We aim to help build a society in which diverse consumers and communities can access our products and services fairly and inclusively.
Through this, we seek to enable everyone to live as themselves.

Management Foundation

Empowered Employees

Building on safety and well-being, we foster autonomy and a willingness to take on challenges. We unlock each employee’s potential through learning and opportunities and build an organization that performs and grows together with our people.

Integrity as the Only Choice

With integrity at the core of our governance, we leverage AI/digital technologies to enhance transparency, strengthen execution capabilities, improve operations, build resilient business models and earn lasting trust.

* Rather than optimizing individual elements in isolation, we maximize value for diverse customers, society, and the future while minimizing negative impacts on the environment and society.