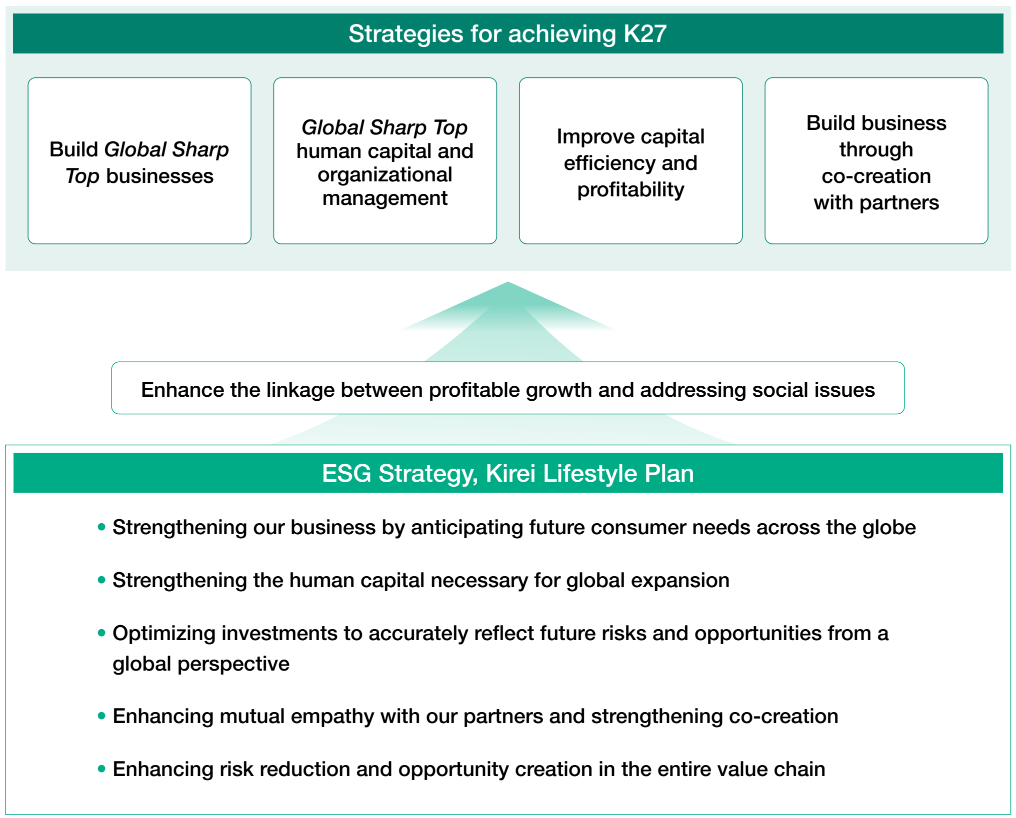
Strategy

Under the Kao Group Mid-term Plan 2027 "K27," the Kao Group has positioned becoming a company indispensable to a sustainable society as a core element of its basic policy, and aims to achieve profitable global growth and enhance corporate value over the medium to long term. Kao's approach to sustainability is an initiative to promote the creation of environmental and social value in tandem with business growth and, based on economic rationality, translate these efforts into the establishment of a sustainable competitive advantage and the enhancement of corporate value. The ESG strategy that underpins this approach is the Kirei Lifestyle Plan (KLP). By evolving *Yoki-Monozukuri* from an ESG perspective and through mitigating risks and creating opportunities that may impact the medium- to long-term enhancement of corporate value, we seek to achieve both profitable growth and contributions toward a sustainable society. Additionally, we have established the concept of "Maximum with Minimum" to represent our approach for promoting business growth while simultaneously maximizing value and minimizing negative environmental and social impact. We are pursuing efforts to implement this approach in all business activities.

Five perspectives for the KLP to enhance K27



Reinforcing K27 through the KLP

The KLP reinforces K27's four strategic frameworks in a multifaceted manner to achieve profitable growth and address social issues based on the following five perspectives.

(1) Strengthening our business by anticipating future consumer needs across the globe

In light of the needs of diverse consumers around the world as well as the growing severity of social issues, we act swiftly to seize market opportunities with high social usefulness and enhance our competitiveness by displaying unique qualities in technologies and products that can be realized by Kao. As a result, we will create new added value and contribute to building *Global Sharp Top* businesses.

(2) Strengthening the human capital necessary for global expansion

We develop people who can create value in response to diverse consumer issues, promote an approach in organizational management that allows us to fully demonstrate our unique technologies and product value globally, and fortify our *Global Sharp Top* human capital strategy.

(3) Optimizing investments to accurately reflect future risks and opportunities from a global perspective

We increase business resilience by reducing ESG-related risks and creating opportunities, and we allocate capital with a focus on fields that have high social usefulness and in which Kao can demonstrate its unique value, thereby promoting capital efficiency and profitability improvement.

(4) Enhancing mutual empathy with our partners and strengthening co-creation

To address social issues that Kao cannot easily tackle on its own, we collaborate with partners in industry, local communities, retail, and other fields, utilizing Kao's unique technologies and insights to promote business development through co-creation with our partners.

(5) Enhancing risk reduction and opportunity creation in the entire value chain

We reduce ESG-related risks at each step in the value chain, including procurement, production, distribution, retail, use, and disposal and recycling, while also creating opportunities to boost social usefulness, thereby increasing the sustainability of our business and enhancing stability in supply.

Focus Categories, Risks and Opportunities

Kao's business model and value chain have the following characteristics.

Areas related to the characteristics of Kao's business model and its sustainability

1. Manufacturing and sales of consumer products for consumers around the world
2. Manufacturing and sales of chemical products for customers in a wide range of industries around the world
3. Using chemicals as a key material shared between the Global Consumer Care Business and Chemical Business
4. A global value chain spanning from raw material production to product sales, with numerous raw materials suppliers in the upstream and numerous distributors, retailers, business partners, and customers in the downstream

When formulating the KLP, taking into account the characteristics of the business model described above as well as social issues, we defined four focus categories—Daily living, Society, Environment, and Business foundation—and identified risks and opportunities accordingly.

Daily living:

A unique area of Kao's efforts to meet the needs of consumers and enrich their lives, and it constitutes the core of our ESG strategy.

Society:

An area in which Kao engages with diverse industries and society through its globally operated value chain and the Chemical Business.

Environment:

An area of significant impact, as certain materials depend on natural capital, and products are distributed, used, and disposed of by consumers worldwide.

Business foundation:

In order to steadily promote the initiatives in the above three areas, the enhancement of the business foundation including human capital development, respect for and protection of human rights, promotion of DE&I activities, and chemical substance management, etc. is essential.

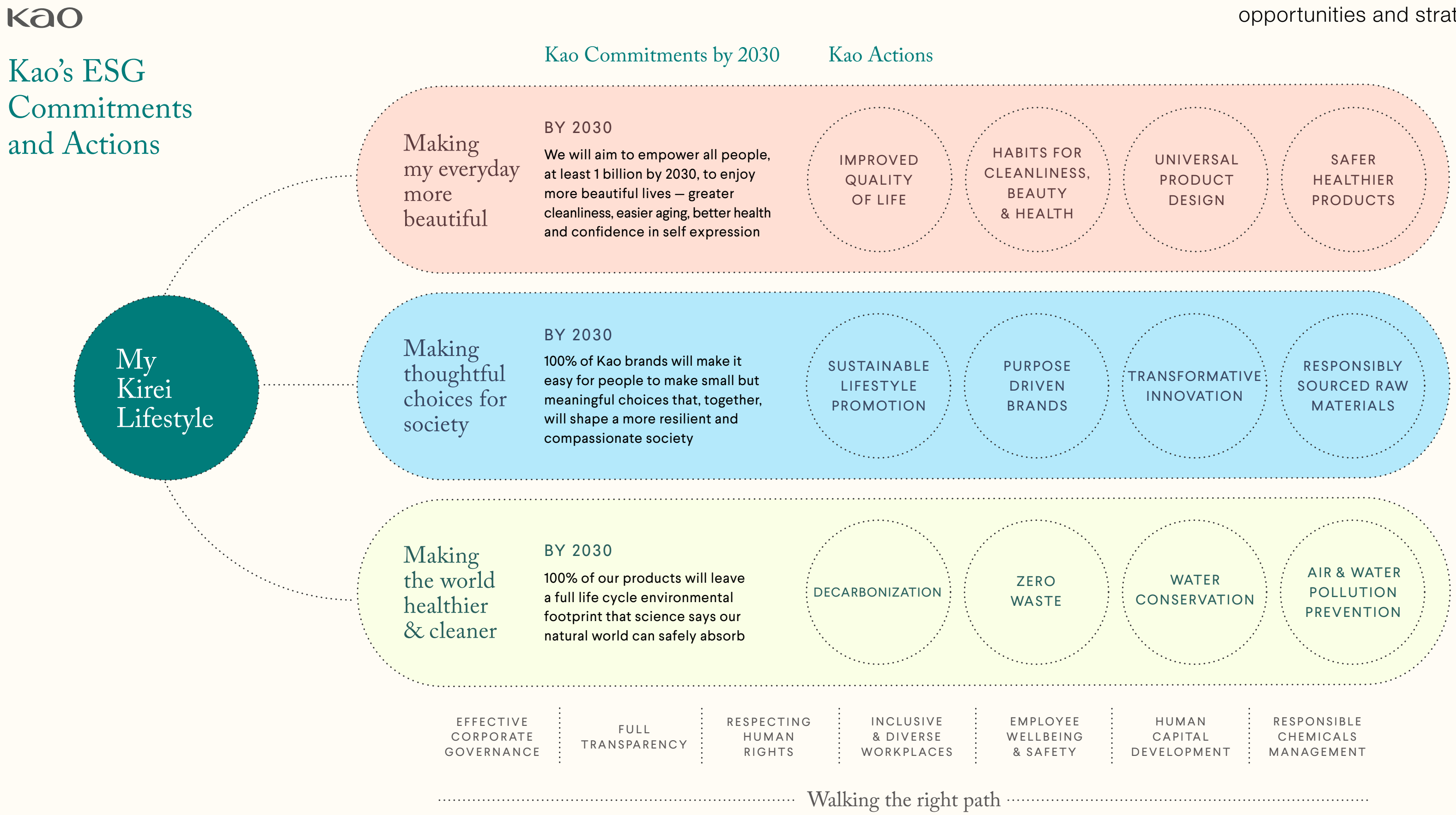
In these four categories, we identify risks and opportunities and incorporate them into specific strategies within the KLP. Additionally, by enhancing the resilience of the entire value chain, managing procurement risks, utilizing alternative raw materials, strategically procuring renewable materials, and pursuing other efforts, we aim to reduce environmental impact while also achieving stable supply. We will also enhance value propositions that are predicated on social issues and expand the potential of service and business models that go beyond conventional approaches of simply providing products.

Sustainability-related risks and opportunities and corresponding strategies

Classification	Risks	Opportunities	Strategy
Daily living	• Decrease in sales and profit due to the rise of daily necessities personal care products that prioritize price over value-added products that contribute to enriching people's lives • Stagnation in business growth due to slowing growth in the Japanese market due to a declining birthrate and aging population and a declining population	• Expansion of existing businesses and creation of new markets by providing high value-added products that meet the needs of people seeking affluence in their lives and global expansion in accordance with regional characteristics	• Product development, business development, and global expansion aimed at enriching people's lives • Strategic deployment of consumer awareness and communication initiatives aligned with business objectives
Society	• Improper management and handling of high-risk procurement, such as palm oil, resulting in procurement difficulties and reputational damage	• Business growth through increased brand loyalty that demonstrates involvement in society as its purpose • Expanded business opportunities through revolutionary products/services enabled by innovation • Stabilization of procurement through precise approaches to social issues in procurement	• Increase loyalty by strengthening the purpose driven brands • Product and service revolution through innovation • Accurate supply chain management and sustainable raw material selection
Environment	• Growing environmental challenges such as decarbonization and plastic waste, as well as expanded producer responsibility, will increase taxation and corporate burdens and squeeze profits • Business continuity disruption due to disruption of supply chains caused by loss of biodiversity and abnormal weather conditions • Product supply disruption due to plant shutdown caused by environmental pollution	• Increased revenues through risk mitigation related to environmental taxes and regulations, as well as efficiency improvements and cost reductions • Business growth driven by increased consumer/customer loyalty through advanced environmental responsiveness	• Reduction of CO_2 emissions over the entire lifecycle • Recycling of plastics and other resources • Water conservation in production and product use • Prevention of air and water pollution in production and product use
Business foundation	• Inadequate management of compliance, human rights, and chemical substances makes it difficult to continue business • Difficulty in securing excellent human resources and deterioration of corporate culture	• Improved stakeholder confidence through quality control and chemical substance management unique to Kao • Expand business and improve competitiveness by enhancing human resources	• Effective compliance • Managing human rights across the value chain • Strengthening human resources and organizational capabilities • Advanced chemical management

Embodied the ESG Strategy, the Kirei Lifestyle Plan on the next page

Incorporating the sustainability-related risks, opportunities and strategies from the previous page.



Our vision for sustainability

We aim to realize a sustainable society through business activities based on the concept that Kao's ESG activities are designed to help people around the world live more sustainably and benefit the wider society and the planet. Our value of walking the right path is presented as the foundation of these ESG activities and embodies one of the core tenets of our founder *Tomiro Nagase*: "Good fortune is given only to those who work diligently and behave with integrity."

ESG strategy: the Kirei Lifestyle Plan (KLP)

Based on Our vision for sustainability, the KLP aims to create economic value while solving social and environmental issues through value creation that puts consumers first.

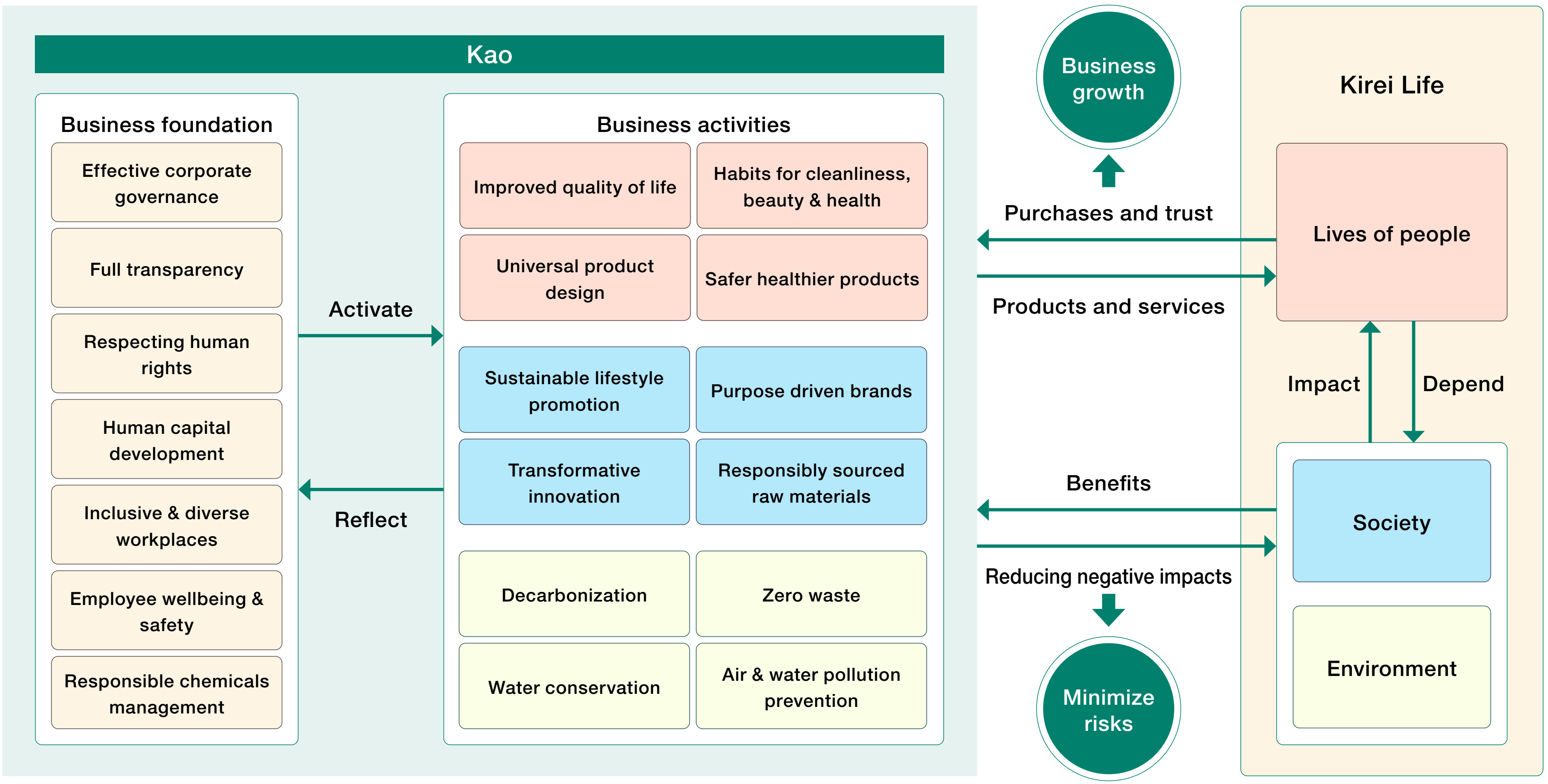
The KLP includes three main pillars, namely "Making my everyday more beautiful," "Making thoughtful choices for society" and "Making the world healthier and cleaner." Walking the right path is the foundation that supports these pillars. For each pillar, we have defined the Kao Commitments, which we aim to achieve by 2030, as well as Kao Actions, our priority action themes. By setting medium- to long-term targets and metrics and managing progress against them for each of the 19 actions, we promote effective ESG activities.

By implementing the KLP, it is possible to create a financial impact, as well as a positive impact on the environment and society, while also creating a foundation for sustainable growth to support business operations. The diagram below illustrates the structure of the KLP and its financial, environmental and social impacts, while also showing how Kao implements the KLP in its business activities to promote initiatives for business growth and minimize risks.

By providing products and services that contribute to consumer value and reinforcing value propositions that respond to social issues, we earn greater trust and loyalty from consumers. This in turn boosts our competitiveness as a brand that people continually choose and serves as a foundation to support profitable business operations. Meanwhile, our activities to curb environmental impact and reduce negative social impact, respond to regulations, mitigate procurement risk, further enhance stability in the supply chain, boost business resilience and strengthen the robustness of our management foundation.

In this way, the components of the KLP contribute toward both opportunity creation and risk reduction through a multifaceted approach that involves creating consumer value, minimizing negative environmental impact, and responding to social issues. By pursuing these efforts in an integrated manner, we aim to achieve sustainable business growth while also enriching the lives of consumers.

Structure of the KLP and its financial, environmental and social impacts



Financial impact of the KLP

Promotion of the KLP supports enhanced profitability through the structural reforms described in K27, greater competitiveness in our core brands and the global expansion of high-value-added products from the perspective of (1) Revenue growth and greater opportunities for revenue, (2) Cost reduction and improved resource efficiency, and (3) Risk management and reinforced resilience.

(1) Revenue growth and greater opportunities for revenue

- Development of markets in areas with high social usefulness and promotion of higher added value through products that have reduced environmental impact and solutions to address social issues
- Establishment of brand positioning in which the brand continues to be chosen at an appropriate price, through strengthened consumer trust and enhanced brand value
- Creation of new business opportunities aligned with trends toward the sustainability of the world, including decarbonization and resource circulation
- Establishment of a competitive advantage by accelerating the global rollout of high-value-added-products centered on proprietary technologies, quality and experiential value

(2) Cost reduction and improved resource efficiency

- Reduction of future regulatory compliance costs through proactive responses to environmental regulations and planned capital expenditure
- Strengthening resilience to raw material price volatility and supply constraints through reductions in raw material and energy consumption and improvements in resource efficiency
- Diversification of funding sources and reduction of the cost of capital through improved ESG ratings from external evaluation agencies and the use of sustainability-linked finance

(3) Risk management and reinforced resilience

- Minimization of operational risks and regulatory compliance costs through the identification and management of environmental and social risks across the supply chain
- Stabilization of raw material supply and reduction of price volatility risks by developing and procuring alternative raw materials for palm oils and expanding the procurement of raw materials with lower deforestation risk
- Reduction of reputation risk and contribution to rulemaking through the disclosure of information on chemical safety and participation in international sustainability initiatives

Specific financial benefits (Cases)

Promoting initiatives based on the KLP contributes to enhancing corporate value by expanding business opportunities and reducing risks over the medium- to long-term, in addition to creating environmental and social impacts.

Case	Initiatives	Effects
Adding high value to laundry detergents through sustainable design	Integrated implementation of measures including the adoption of bio-based surfactants; expanded use of recycled plastic containers and refill packs; lightweighting and compacting of packaging; reduction in the number of rinse cycles (conserving resources during use); and the use of renewable energy in the manufacturing process	• Improved profitability by enabling sales at appropriate prices through higher value-added offerings • Higher loyalty supports stable earnings
Strengthening cost competitiveness of dishwashing detergents through lightweighting of containers/packaging and the use of recycled materials	Lightweighting of refill packs; use of recycled plastic and plant-based plastics; and packaging design that enhances ease of disposal (designed to encourage behavioral change)	• Reinforced cost structure through a reduction in the amount of resources used • Contributions to the expansion of sales opportunities by leveraging environmental value as a differentiating factor
Business growth with climate change adaptation	In response to increasingly extreme heat and hot and humid conditions, development of skin protection businesses—including heat care, UV care products, and sweat care—in both BtoB and BtoC markets	• Creation of sales opportunities • Diversified revenue sources and increased brand value
BtoB implementation model with a focus on solving social issues	Rollout and promotion of a mechanism to encourage workplaces to keep products on hand (a recurring model in which companies purchase and replenish products)	• Establishment of stable sales through the creation of continuous replenishment demand • Strengthening of the customer base and premium opportunities
Sustainable finance	Sustainability-Linked Bond (25 billion yen), Sustainability-Linked Loan (20 billion yen), Positive Impact Finance (25 billion yen) and DBJ Employees' Health Management Rated Loan Program (10 billion yen)	• Reduced funding costs by obtaining financing at low interest rates

Environmental and social impacts of the KLP

We believe that the KLP will also generate positive impacts on the environment and society in various ways, in addition to the financial impacts described above.

Contribution to the value chain

The table below shows the 19 Kao Actions set in the Kao ESG Commitments and Actions, the KLP and their relationship to the value chain. The items indicate areas where our impact on environment and society is particularly large and where the expectations on us are similarly greater. These are high-priority areas for our business growth and increasing our corporate value. Kao has an extensive value chain that encompasses the procurement of raw materials, development, use, disposal, and recycling. For this reason, Kao can have a significant impact on suppliers, partners, consumers, communities and the environment through the implementation of the KLP. Additionally, we will contribute to the environment and society across the entire product lifecycle by developing and providing innovative products and services that reflect environmental and social considerations.

Contribution to society

Kao's innovative products and services contribute to the realization of sustainability in society. For example, in areas where hygiene and infectious disease problems are serious, we provide hygiene products to help people enjoy healthy lives with peace of mind. We also develop products and services that are easy to use for all people, including the elderly and people with disabilities, to support the comfortable lives of consumers.

Relationship between the 19 Kao Actions and the value chain

Kao Actions	Material procurement	Development / Manufacturing	Distribution	Sales	Use	Disposal / Recycling
Making my everyday more beautiful						
Improved quality of life				●	●	
Habits for cleanliness, beauty & health				●	●	
Universal product design				●	●	●
Safer healthier products					●	●
Making thoughtful choices for society						
Sustainable lifestyle promotion				●	●	●
Purpose driven brands	●	●			●	●
Transformative innovation	●	●			●	●
Responsibly sourced raw materials	●					
Making the world healthier & cleaner						
Decarbonization	●	●	●	●	●	●
Zero waste	●	●	●	●	●	●
Water conservation	●	●	●	●	●	●
Air & water pollution prevention		●			●	●
Walking the right path						
Effective corporate governance	●	●	●	●	●	●
Full transparency	●	●	●	●	●	●
Respecting human rights	●	●	●	●	●	●
Inclusive & diverse workplaces		●	●	●		
Employee wellbeing & safety		●	●	●		
Human capital development		●	●	●		
Responsible chemicals management	●	●	●	●	●	●

Furthermore, we support the sustainability of various industries and social infrastructure through products that optimize energy efficiency and resource utilization. In this way, we contribute to reducing the environmental impact and help our clients achieve their sustainability goals. In the regions where our plants are located, we also focus on environmental conservation, such as water conservation, air and water pollution prevention etc., thereby contributing to local communities.

Resilience of ESG strategies

Over the next decade, global risks will be dominated by environmental factors, including extreme weather events, biodiversity loss, ecological system collapse, critical change to Earth systems, and natural resource shortages. Notably, extreme weather events rank high even among short-term risks (spanning two years), demonstrating the urgency required in responding to climate change. In this way, while environmental risks are a challenge for the medium to long term, they have already manifested as a tangible threat. In the social domain, issues such as inequality and societal polarization rank among the most pressing concerns. As a result, social risks also continue to be recognized as significant risks over not only the short term but also the medium to long term.*[1]

Among these risks, climate change is considered to have a particularly major impact on business. Kao assesses financial impacts under 1.5°C and 4°C scenarios in line with the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD)*[2].

If we do not pass costs onto consumers or take any other action, we estimate that transition risks could increase by 2050. The financial impact of transition risks in 2050 is projected to be up to 79.1 billion yen from the palm oil price increase, up to 25.4 billion yen from a carbon tax, and up to 7.9 billion yen from plastic packaging regulations if no action is taken.

The financial impact of physical risks is projected to be up to 4.6 billion yen due to flooding and other factors.

The KLP plays a role in strengthening business resilience by reducing sustainability-related risks and creating opportunities, while reinforcing the four strategies of "K27" from a global perspective that incorporates future risks and opportunities.

For example, the business landscape may become even harsher if environmental and social risks intensify further, leading to rising costs of and restrictions on fossil-based raw materials and palm oil. However, by advancing product design, optimizing raw material selection, and enhancing production processes based on the KLP under the concept of maximizing functional and social value with minimal resource input ("Maximum with Minimum"), we can reduce CO_2 emissions, energy consumption, and raw material use throughout the entire product lifecycle. Accordingly, even in the event that risks such as raw material restrictions and increased costs do materialize, we will be able to better mitigate the impact on our business while continuing to create value.

On the other hand, if the worsening of environmental and social risks is contained and society-wide efforts make progress, our efforts based on the KLP will serve as a source of competitive advantage. In market environments that place high value on products with superior environmental performance and resource efficiency, we will contribute to the maximization of business opportunities through expanded demand and enhanced brand loyalty.

In this way, regardless of whether future risks intensify or are alleviated, we believe that the KLP enables the simultaneous achievement of environmental compatibility and economic value, thereby continuously strengthening business resilience.

*1 Global Risks Report 2026, World Economic Forum
https://reports.weforum.org/docs/WEF_Global_Risks_Report_2026.pdf

*2 P145 Our Progress > Decarbonization > Major business risks and opportunities