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

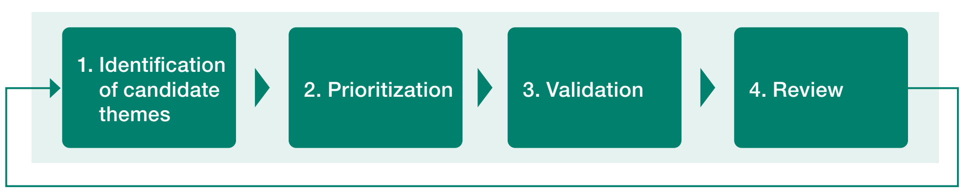
Risk management involves the Risk and Crisis Management Committee regularly monitoring the significance of the risks. Among these, risks that would have a major impact on management and require an enhanced response are designated as Corporate Risks, and for those, risk themes and risk owners are decided 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. Additionally, risks relating to societal sustainability and ESG are reviewed and deliberated at the ESG Managing Committee.

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 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. Going forward, we will align our efforts with the materiality assessment conducted in FY2025 and with the next medium-term management plan.

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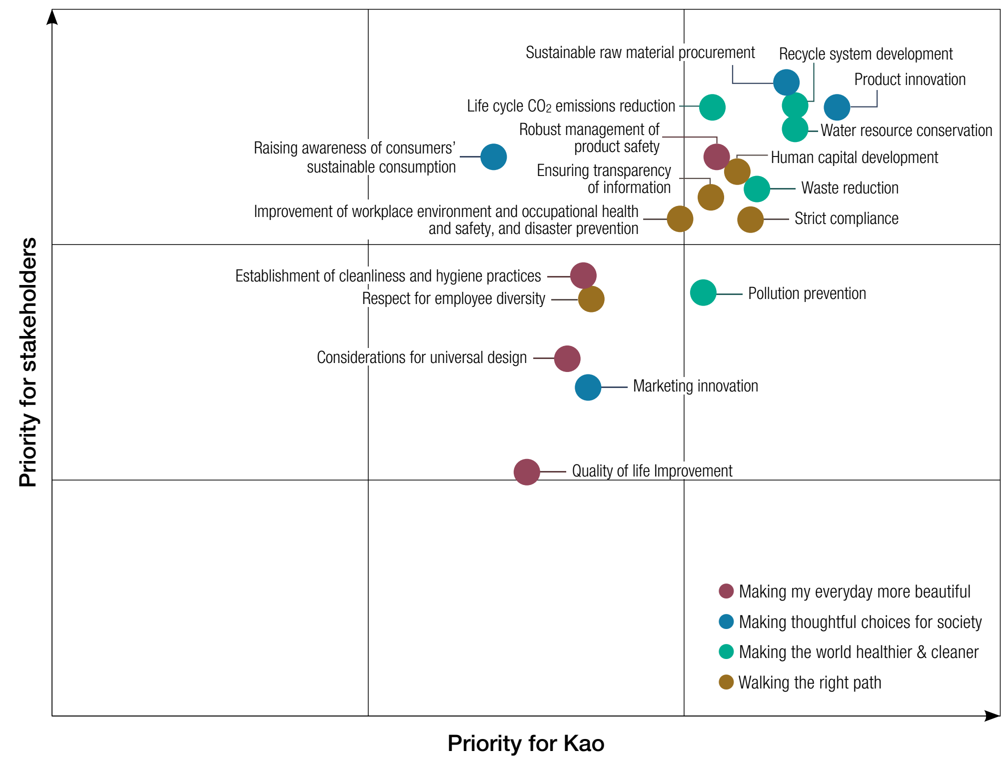
Matrix of Materiality



Evaluator attributes

- External stakeholders: 32 (21 Japanese and 11 non-Japanese)
- Employees: 71 (39 Japanese and 32 non-Japanese)

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 is one of the related committees positioned below the Internal Control Committee, and holds four meetings annually. It establishes risk management systems and activity policies based on the Kao Risk and Crisis Management Policy. Each division and subsidiary identifies and assesses risks in accordance with activity policies set by the Risk & Crisis Management Committee, and examines, selects and implements countermeasures, thereby achieving risk management. These activities are checked by the Management Board periodically (once a year), as well as at other times when required. The activities are approved by the Board of Directors, and their effectiveness is checked by the Internal Control Committee.

Kao introduced ERM* in 2016, and has been striving to enhance risk management globally ever since. In Kao's ERM, the Genba and management initiatives are powerfully integrated. We conducted a risk survey for Genba from an on-site operations perspective, held interviews with management from a managerial perspective, and analyzed the external environment to identify and assess the major risks and action issues that could hinder the achievement of the Mid-Term Plan (K27). In addition, we implement ERM in a global framework with reference to ISO 31000.

* ERM (Enterprise Risk Management): Activities to identify and assess all major risks in an integrated and comprehensive manner and to implement countermeasures to enhance corporate value.

Carrying out appropriate risk management not only fulfills the conventional role of minimizing physical damage and financial losses, but also supports efforts for taking on new challenges, boosts the probability of success in business, and further enhances our corporate value.

The Risk & Crisis Management Committee has examined the 14 main risks of particular importance that could potentially hinder sustainable growth and contributions to society, and the Management Board has made decisions regarding these main risks. The responsible divisions formulate the policy for and manage the progress of countermeasures for these main risks.

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 risk themes and risk owners responsible for addressing them (Executive Officers) are examined by the Risk & Crisis Management Committee and decided by the Management Board. Risk owners assemble countermeasure teams, formulate response plans, monitor risks, and take action when risks emerge. The Risk & Crisis Management Committee examines the effectiveness of these actions and manages their progress, and the Management Board revises the risk themes every year.

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

Risks related to societal sustainability and ESG are reviewed and deliberated at the ESG Managing Committee.

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.

Deployment of 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.

Employee engagement

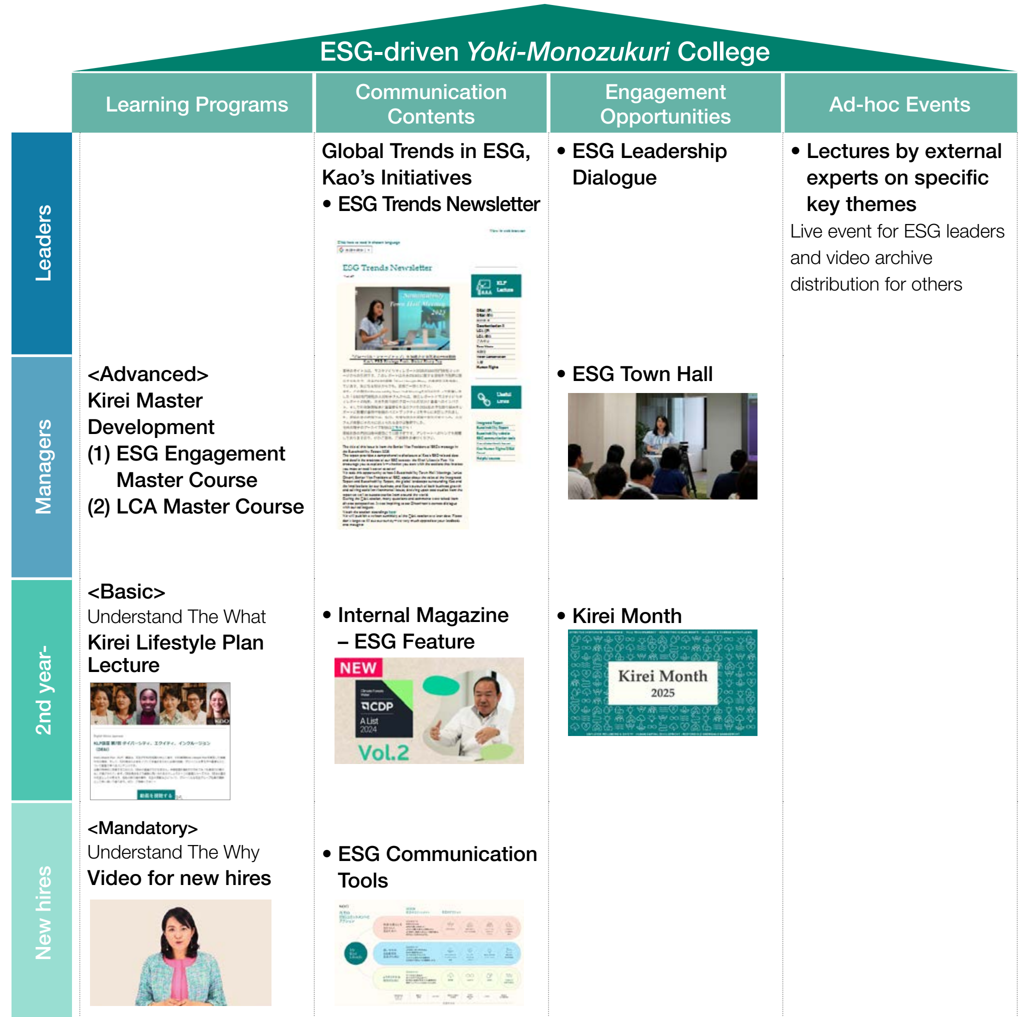
ESG Employee Engagement Framework

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, continuously offering information and inspiration to employees to boost their motivation and realize their full potential.

* 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 develops and offers dedicated learning programs tailored to different levels in order to provide all employees with the knowledge necessary to advance the KLP and encourage them to learn autonomously. As part of onboarding training for new hires, we provide a training video in which the Senior Vice President of ESG explains why Kao is committed to ESG. For employees in their second year and beyond, Kao offers an e-learning program called the Kirei Lifestyle Plan Lecture, which allows a deeper understanding of Kao's ESG initiatives. This learning program has been created in both English and Japanese, and translated into local languages across Kao's Asian subsidiaries to further enhance understanding globally. In AEMEA, where there is a strong social demand for sustainability initiatives, Kao offers specialized programs such as the "Sustainability 101 Training Course" to address evolving regulatory developments. As the need to drive forward sustainability heightens, business operations and required skillsets are evolving across areas such as production, supply chain management, and R&D. To evolve with these changes, Kao develops and provides training to equip employees with practical skills in areas such as thinking with a lifecycle perspective and environmentally conscious design to support transitions into new roles.

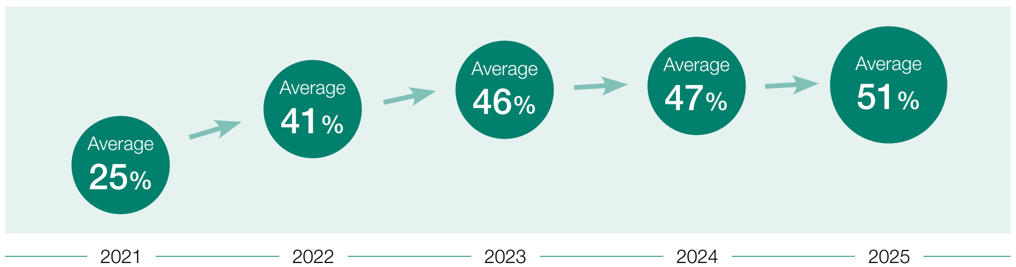


Structure of the ESG *Yoki-Monozukuri* College

Communication Contents

Kao creates and publishes communication content to help each employee worldwide gain insights into promoting ESG-driven *Yoki-Monozukuri* in plan and action. The ESG Trends Newsletter is distributed to all global employees of the Kao Group, and 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. The newsletter also aims to direct employees' attention towards engagement measures through announcements and special features. These engagement measures will be described in detail later. The ESG Trends Newsletter has boosted its average open rate to 51%, and the series titled "Kao's ESG *Genba*" posted on the global intranet in 2025 had a cumulative total of 11,000 views across the Japanese and English versions. These initiatives aim to increase employee awareness of ESG-related information and create a deeper understanding of how ESG is integrated into and implemented in work at each *Genba*.

ESG Trends Newsletter Average Open Rate



Engagement Opportunities

We plan and execute a wide range of engagement measures to boost awareness about the importance of employees engaging in their work with an ESG perspective and to inspire a sense of ownership among employees.

Targeting leaders, we carried out an event called ESG Leadership Dialogue, joined by the presidents of subsidiaries involved in the Global Consumer Care Business in Asia, as well as the Senior Vice President and Vice President of ESG. Presidents from each company shared details on the challenges that should be tackled in order to accelerate the integration of ESG and business, and reaffirmed their intent to collaborate together while utilizing the roles and strengths of each country while viewing the whole of Asia as a single value chain region. This served as an excellent opportunity to discuss the actions for Kao to take going forward.

Our ESG Town Hall sessions, serving as an opportunity for dialogue between the Senior Vice President of ESG and employees, began in 2023 in AEMEA. In 2025, we held ESG Town Hall sessions at three locations in Japan, Asia and AEMEA, reaching a total of 900 people, including both in-person participants and archive video views. The sessions were met with positive feedback from participants, with comments such as "I gained a deeper understanding of ESG trends, Kao's philosophies and initiatives, and external evaluations."

Additionally, in 2025, we collaborated with our Asian subsidiaries to organize a new globally unified employee engagement event Kirei Month. We defined decarbonization, zero waste, and human rights and DE&I as shared focus themes, and the ESG representatives of each subsidiaries planned and executed measures to meet the needs of each local company. These measures were joined by a cumulative total of 7,000 people who expressed a high level of satisfaction in participant questionnaires, with presidents from multiple subsidiaries commenting that since ESG serves as the foundation of business value, it is important for employees to have a sense of ownership, and that these activities are directly linked to brand value. We found that activities for Kirei Month enhanced employees' pride and understanding while also boosting their desire to put these ideas into practice.

When considering plans for Kirei Month, we held multiple rounds of dialogue with ESG representatives from our Asian subsidiaries,and we believe that this helped them gain a deeper understanding about the Kao Group's policy and successfully share and thoroughly discuss plans for each company.

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

The Kirei Month event held at Kao Industrial (Thailand)

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. In Japan, a lecture on Business and Human Rights was held for employees at all levels, featuring an external expert.

Employees' opinions

Our First Global Event Made Possible by the Spirit of Kirei

Saya Douglas
ESG Global Engagement,
ESG Strategy, ESG Division
Kao Corporation

What stood out most throughout Kirei Month was the passion across the Kao Group. This initiative was the first global event of its kind for the ESG Division. We approached with humility and caution, exchanging thoughts with global representatives through open dialogue. Through these conversations, we were reminded that we are united by shared values that are deeply embedded in our culture and embodied in our corporate philosophy the Kao Way and ESG strategy the Kirei Lifestyle Plan. I believe these anchors, the spirit of Kirei, made global co-creation possible.

We were moved by the strong sense of unity. With regional representatives at the helm, presidents from multiple subsidiaries endorsed local events through their participation, highlighting the importance of employees' ownership, recognizing ESG as the foundation of business value and a direct driver of brand value. We were truly inspired by the overwhelming enthusiasm and ownership from every region.

This response also confirmed that Kirei Month met global and local needs, addressing the key opportunities that we had identified upon proposal: strengthening alignment, deepening cross-regional collaboration, and most importantly, fortifying internal engagement to make sustainability an even stronger driver of value creation for the business and for the people we serve.

A key success factor in this activation was ensuring relevance across regions with diverse business portfolios, sustainability priorities, and engagement landscapes. To achieve this, we aimed for global planning with local execution. Global representatives first came together to shape Kirei Month. With a shared vision, they returned to their regions to plan and implement events taking into account each market's business landscapes, working closely with local teams. We continued to engage in dialogue with our counterparts, which also contributed to balancing consistency with adaptability.

Our analysis suggests Kirei Month strengthened unity and pride among colleagues around the world and reinforced their ambition to put these ideas into practice. For our team, the process helped us deepen our understanding of regional realities. These insights will guide our future efforts to empower colleagues worldwide to drive value creation through sustainability.

Employees' opinions

Kirei Month From Global Initiative to Local Ownership: Empowering Our People to Inspire a Kirei Life for All.

Dararat Insuwan
ESG Promotion
Corporate Strategy
Kao Industrial (Thailand)

Kirei Month is a new initiative featuring participation from teams across all regions. It serves as a symbol of global internal engagement focused on sustainability at Kao, unified under the theme 'Let's Celebrate Kirei Together'. This initiative aims to raise awareness about importance of promoting sustainability through business by empowering employees to take ownership and integrate sustainability into their specific roles, while fostering a unified culture of cross-regional collaboration and shared inspiration.

As the representative of Kao Thailand, I am immensely proud to see our team transform this global symbolic initiative into a tangible movement through the "Inspire My Kirei" program.

Our core objective was to foster understanding and employee engagement, aiming to integrate the Kirei Lifestyle Plan (KLP) daily routines at work, across personal life and empower our people to care for society and the planet, fulfilling Kao's mission of Kirei Life for All.

To achieve this, we implemented a strategic two-pillar approach:

1. Building Knowledge and Understanding of KLP.

We initiated the "Kirei Mini Conference", where our ESG team simplified complex ESG strategies into visual insights derived from Sustainability Reports and external best practices to build foundational understanding of the KLP, we empowered employees to see exactly how their individual roles contribute to ESG strategies and corporate goals. This initiative drove engagement, with 47% of participants achieving "KLP BIG FAN" status through a rigorous strategy quiz, demonstrating a profound awareness of the organization's sustainability roadmap.

2. Connecting the KLP to everyday life and work through "Kirei Moments".

We created a platform for employees to share their "Kirei Moments"—personal stories of how they integrate KLP principles into their professional tasks and daily lives. The response was overwhelming, with 62 inspiring stories shared, significantly exceeding our target. This proves that the Kirei Lifestyle is becoming more than just a strategy; it is becoming a living culture for our people.

Our Commitment and Future Challenges:

While these initial results are a great start, our ultimate challenge is to fully integrate the KLP into our business. How the KLP strategy can be applied to enhance product value—specifically, through products that minimize environmental impact and address social issues. I am firmly committed to leveraging the momentum gained from Kirei Month to further foster deep employee engagement and a sense of "Co-ownership" across the entire organization.

We are dedicated to transforming Kao Thailand into an "Indispensable Company in a Sustainable World," fully aligned with our K30 goal. By empowering every employee to take ownership of our sustainability goals and by co-creating impactful business models with our partners, we will ensure that our growth directly contributes to a better planet.

At Kao Thailand, we are not just celebrating a month; we are building a legacy of "Kirei Life for All" that will remain vital to the world for generations to come.

Message from the ESG External Advisory Board

How Kao's Capability in the Social Implementation of ESG Is Transforming Consumer Behavior

Rika Sueyoshi
Representative Director
Ethical Association

In 2025, I felt that Kao had moved ESG beyond a simple corporate strategy toward social implementation. What particularly impressed me was how the company further advanced systems that enable consumers to make planet-friendly choices from the moment they pick up a product. I believe that the product design philosophy of enabling consumers to contribute to the environment simply by choosing a product aligns with the transition to a circular economy promoted jointly by Japan's public and private sectors. As a pioneer that has embedded a refill-and-reuse culture in society for about 30 years, Kao deserves renewed recognition. Kao has reduced plastic consumption by 78% relative to its projected baseline and has achieved a structural shift in actual consumption, with refill-and-reuse products now more widely used than standard bottles. I greatly appreciate this achievement, as it goes beyond a stage in which reduction depends on conscious consumer choice and instead normalizes everyday behaviors that automatically lead to reduction, thereby realizing a consumer-driven circular society.

To advance to the next stage, Kao needs to redesign sustainable lifestyles without relying on existing product structures. For example, as an extension of its refill culture, the company could pursue bolder initiatives such as moving away from bottles altogether or encouraging their long-term use (by concentrating, solidifying, transitioning to sheets, and deploying refill stations). In addition, Kao should improve its experience design across the entire cycle, from purchase and use through to completion and feeding back into the cycle (through measures such as in-store collection systems, incentives for returning empty containers, and automated refill options on e-commerce sites). By doing so, the company can take the lead in embedding this transformation within Japanese consumption culture.

I understand that Kao's Extended Producer Responsibility (EPR) initiative for packaging is highly advanced for a voluntary corporate action. Going forward, it will be important to establish KPIs in collaboration with municipalities and to build a government support framework linked to social impact. Ideally, for example, the system should be designed to incorporate KPIs covering not only recycling rates and reduction volumes but also the scope of awareness-raising activities conducted in local communities and schools, with subsidies allocated based on the performance. In addition, regarding the Japanese Digital Product Passport (DPP) policy, which has so far focused primarily on the automotive industry, I would like Kao to take a proactive role in advancing policies related to plastic packaging for household and everyday products. Specifically, such policies would include making public-private investments in shared data formats and integrated data platforms, as well as addressing technological and institutional barriers to cross-industry circularity.

In my role as a member of Kao's ESG Advisory Board since 2019, I have been encouraged by the evolution of the company's ESG Strategy. Initially, the company adopted a more defensive approach focused on legal compliance and risk avoidance, but it has since clearly identified material issues, such as palm oil concerns, and translated its efforts into concrete actions. However, given the cost pressures facing the industry as a whole and the confusion surrounding global sustainability requirements, there remains an underlying sentiment that Kao should not be penalized for doing the right thing.

To overcome this situation, Kao needs to shift its perspective from "how the company can change internally" to "who the company needs to partner with to create broader environmental change." Beyond collaboration with existing suppliers and customers, the company needs to pursue large-scale initiatives that update consumer purchasing behavior by working closely with government bodies, financial institutions, educational institutions, and even industry peers. I believe that such initiatives can help promote rule-making that prevents companies from being disadvantaged for their ESG commitments.

Kao's strength lies in its capacity for social implementation—the ability to translate abstract policy goals into consumers' daily lives through the design and experience of everyday products. I hope that the company will lead the transformation across the entire industry by leveraging its unrivaled ability, promoting changes in consumer behavior, and collaborating with a wide range of parties. I'm confident that by sharing insights gained through repeated trial and error, companies, government, and civil society (including educational institutions) can come together to establish ESG as a foundation for society.

Message from Kao about the comments

As pointed out in the message for 2026, we recognize that not only building resource circulation mechanisms but also reshaping consumer purchasing behavior itself will be crucial to building a circular economy. Kao is creating new business models through the RNA Co-creation Consortium, jointly established with various companies, to build on technologies and insights cultivated through dermatology research and product development. By visualizing each consumer's skin condition and ensuring they can choose the right products in the right amounts, we aim to significantly improve their QOL and propose lifestyles that are distinctively Kao, and in doing so, help reduce inventory and waste to promote resource circulation.

Meanwhile, to integrate the circular economy into society, cross-industry implementation is essential. Kao has expanded the initiative jointly promoted with KOSÉ since 2021 to include the retail sector, and in 2025, Kao, KOSÉ, and AEON Retail partnered to transition the horizontal recycling of cosmetic plastic containers to full-scale implementation. Going forward, we will work toward achieving new consumer lifestyles through our proprietary technologies and collaboration with partners.

Message from the ESG External Advisory Board

Going Deeper: Kao's ESG Leadership When Others Retreat

Ruma Bose
CEO, Kayanee

In my fourth year on Kao's sustainability advisory board, I have never been more proud to be associated with the company. At a time when many businesses have abandoned or stopped talking about their ESG commitments in response to growing political hostility, particularly from the new US administration, Kao has demonstrated remarkable courage. Rather than engaging in "green hushing" or retreating from sustainability, Kao has gone deeper, embedding ESG more thoroughly in everything the company does while continuing to communicate positively about this work.

This steadfastness matters. Kao understands what many companies have forgotten: that ESG is not superficial reputation management but a superior way of doing business, *Kirei living*, that drives better financial performance by helping all stakeholders thrive.

From reducing wasteful packaging to creating more healthful skin products, Kao is providing powerful examples of how scientific rigor can simultaneously improve ESG outcomes and the bottom line.

Kao's recent strategic evolution is visionary. Embedding ESG directly into medium-term business strategy and evolving the approach to materiality to include the impact of management are steps few companies globally are taking.

My core message this year is about acceleration. With critical targets approaching in 2027 and 2030, Kao must accelerate implementation across the board, with special focus on areas where the company is not yet on track: scope 3 emissions, packaging waste reduction, and building an inclusive workforce.

On gender diversity specifically, Kao has the right infrastructure, including mandatory paid parental leave achieving around 100% take-up among eligible men. But with the 2030 target approaching, the company should consider interim annual targets at each management level, published transparently, and use data rigorously to identify bottlenecks where women are not advancing fast enough. Kao should also consider "returnship" programs to bring talented women back from career breaks into management roles.

Kao's human rights work is impressive, particularly the SMILE program supporting 5,000 oil palm smallholders in Indonesia - exactly the kind of initiative that demonstrates ESG is good business. I encourage Kao's leadership to close the remaining 12% traceability gap by 2027 and expand this model to other commodities and geographies.

The Kao Life-in-Harmony Foundation has significant potential. Kao should focus on 2-3 areas where the company's scientific expertise can have transformative impact. The company should use the foundation as a laboratory for innovations around water security and support for people with disabilities that could scale globally and eventually deliver profitable products - and it should set concrete, measurable targets for lives impacted.

Finally, Kao should communicate more boldly. Five consecutive years with CDP's Triple-A rating and 19 consecutive years as one of the World's Most Ethical Companies®, this extraordinary story matters more than ever when others are silent.

My belief is that the current hostility to ESG will eventually pass. When it does, Kao will be stronger, its stakeholders more loyal. Kao's example will have helped preserve the broader ESG movement for the next generation of businesses. That is true leadership: going deeper not despite the hostile environment, but because of it.

Message from Kao about the comments

We received valuable recommendations from the message for 2026 emphasizing the need to accelerate our overall initiatives, with a particular focus on reducing Scope 3 emissions and packaging waste, building an inclusive workforce, and advancing the ratio of female managers as a key priority in our commitment to gender diversity.

To accelerate our overall initiatives, Kao has established four Steering Committees—decarbonization, plastic packaging, human rights and DE&I, and chemical stewardship—which will, in line with the ESG Managing Committee, ensure the swift and reliable execution of initiatives across each domain. Regarding gender diversity, with the aim of incorporating diverse viewpoints across various decision-making settings to promote women's empowerment, we are focusing on three priorities: "development of potential future leaders," "support for balancing work and childcare to promote engagement," and "creation of an environment that enables unbiased training and promotion opportunities." In the Kao Group, the ratio of female managers related to that of female employees has grown to 79.4% (2030 target: 100%), with the ratio of women on the Board of Directors exceeding 35%. The Kao Group will continue to strive to develop an inclusive corporate environment where diversity is a source of strength and every individual accepts and lives in harmony with one another.

Message from the ESG External Advisory Board

Keeping a focus on ESG in increasingly complex global markets

Mike Jefferson
Director
Verde Research and Consulting Ltd.

Kao has put in place a strong foundation for its ESG strategy over recent years. Last year I commented on the increased focus on communicating the ESG vision internally and breaking down objectives at the level of the business unit to facilitate change throughout the organisation. It is good to see that ESG continues to play an important role in the company vision and that the sustainability objectives are now being consciously integrated with the management and business strategy in the K27 management plan.

With the high levels of geopolitical uncertainty and rapid developments in environmental legislation in recent years, these foundations to the ESG strategy combined with ongoing and in-depth analysis of key externalities put Kao in a good position to navigate the complexities and keep their ESG strategy on track. The company understands that sustainability and financial objectives can work together and are not mutually exclusive.

Extended Producer Responsibility (EPR), where producers take financial and operational responsibility for their products and packaging end of life, continues to grow globally with the Packaging and Packaging Waste Regulation now in force in the European Union and new legislation also in place in the UK. In Canada, EPR programmes continue to be rolled out, and a growing number of US States now either have EPR legislation in place or are developing it. Much of the policy thinking behind the legislation is aligned to ESG objectives within Kao and it should support in areas such as collection and recycling of end of waste packaging where it is difficult for one company to act in isolation. These rapid developments in legislation do of course bring some complexity for a global brand with different geographical regions sometimes having specific priorities and approaches. Kao will have to align its ESG activities with these regional policy priorities but ultimately they will present opportunities to expand Kao's collaborations with other market leaders in the area of sustainability and help facilitate the achievement of company ESG objectives.

There are often complex interactions between different environmental objectives and there is typically a need to consider multiple factors when making decisions to get the best overall environmental outcome. For example, in relation to packaging design recyclability, weight minimisation, and the ability to use recycled content must all be considered. Work on the bottle with a unique ribbed design is a good example of how Kao have evaluated these interactions and trade-offs in their packaging design.

Kao continue to invest in change at their sites, with the biomass plant in Olesa being a notable example in 2025. Their work on palm oil alternatives also has the potential to make a significant difference and it is good to see leading companies collaborate to create change.

Amid an increasingly complex market for global brands, there is always the temptation to ease back on environmental and sustainability objectives. Commendably, Kao have not taken this path and continue to integrate ESG thinking into their overall business strategy.

Message from Kao about the comments

While Kao believes that trends in international frameworks, including expanded producer responsibility (EPR), are essential, we do not view ESG as a mere regulatory response. We view ESG as a "strategy itself" for strengthening our business competitiveness and enhancing corporate value over the medium-to-long term.

For many years, Kao has been promoting Reduce initiatives, with a focus on refillable products. Such efforts have resulted in significant reductions in plastic consumption, while simultaneously achieving business growth and enhancing customer value. Rather than treating the reduction of environmental impact as an ultimate goal, Kao has stayed true to its identity by creating new value while driving business growth.

Going forward, we believe it is critical to further develop our philosophy of responsible design—an approach mindful of the entire product lifecycle that has been nurtured through our Reduce efforts—and apply it across our entire resource circulation strategy. This means implementing, in the real world, a self-sustaining cycle that integrates products, packaging containers, collection, and recycling, rather than treating recycling and the use of recycled materials as ends in themselves. With this philosophy at its core, Kao will continue to fulfill its role in expanding a resource circulation model that promotes both ESG and business growth while actively collaborating with partners across industries.

Message from the ESG External Advisory Board

Kirei Lifestyle: Leading sustainability beyond compliance

Noémie Bauer
CSO
Pernod Ricard

Kao's sustainability program, *Kirei Lifestyle*, is a clear example of leadership and innovation in the consumer goods sector.

As a new member of the ESG External Advisory Board, I have been impressed by the comprehensive strategy of the company, going beyond compliance, aligning with globally recognized standards such as GRI, SDGs, and UNGPs, and even anticipating CSRD requirements well ahead of schedule. To go further, I would recommend changing its materiality approach for the future by embedding financial metrics. The current approach prioritizes impact over financial metrics, which is misaligned with CSRD requirements and investor expectations.

Kao's forward-thinking approach is reinforced by strong governance, with frequent ESG Managing Committee meetings chaired by the CEO, a clear signal of genuine commitment at the highest level. Transparency and boldness in communication, including the CEO's acknowledgment of the paradox for a consumer goods' company to advocate for minimizing consumption, further strengthen Kao's credibility.

External recognitions, such as CDP A List (Triple-A) or Ethisphere most ethical companies, confirm the leadership positioning of Kao in ESG. To strengthen its climate leadership, I believe that Kao should pursue the scientific verification of its decarbonization targets by the Science Based Targets Initiative (SBTi) or similar.

The program delivers measurable impact: a remarkable 78% reduction in plastic use through refillable and compact formats, pioneering partnerships in horizontal recycling, and ambitious goals such as becoming waste negative, an aspiration rarely seen in the industry.

Progress on climate and water is equally impressive, with Scope 1 and 2 emissions down 42% since 2017 and lifecycle water savings exceeding 2030 targets years ahead of schedule. These achievements are complemented by innovative initiatives such as biomass-powered plants and clean water programs, demonstrating a holistic approach that combines environmental responsibility with business resilience.

Kao's sustainability program on carbon and water could be enhanced by linking sustainability into business planning and financial value creation. Kao could embed carbon and ESG metrics into cost-reduction frameworks and demonstrate clear returns on investment. Similarly, water risk assessments and avoided emissions initiatives show forward-thinking, but integration into business planning remains incomplete.

Human rights disclosures and employee health initiatives add depth to Kao's ESG framework, showcasing transparency and care across the entire value chain.

The company's proactive stance on PFAS elimination and its investment in alternative palm oil sourcing through Future Origins highlight its ability to anticipate regulatory changes and market expectations.

By embedding sustainability into product innovation and supply chain partnerships, Kao is not only mitigating risks but creating long-term value for consumers and investors.

While future opportunities include enhancing financial integration and collaboration with peers on groundbreaking initiatives, Kao's strategy sets a high benchmark for responsible business, combining innovation, transparency, and societal impact in a way that resonates strongly with stakeholders and positions the company as a true sustainability leader shaping the future of its industry.

Message from Kao about the comments

We received valuable recommendations from the message for 2026 regarding the importance of redefining materiality to incorporate financial metrics and integrating sustainability priorities, such as decarbonization and water conservation, with business plans to clarify the relationship between investment and profit in order to further elevate our *Kirei Lifestyle* initiative.

Kao views sustainability (ESG) as a critical competitive strategy that helps create high added value and address environmental and social challenges and will remain committed to enhancing corporate value and driving business growth. This revolves around the core principle of making investment decisions to maximize corporate value while viewing ESG as part of our business strategy and taking into account return on investment across individual business units. Going forward, based on the principle of double materiality, we will comply with the European Sustainability Reporting Standards (ESRS) and other external requirements, and quantify the financial value generated from the costs (investments) in environmental efforts, such as decarbonization and water conservation, while incorporating these investments into our business plans. Through these initiatives, Kao will further strengthen the unique sustainability activities that will drive the continuous growth of corporate value.

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 the Board of Directors and having feedback reflected in deliberations of material matters.

Key Kao stakeholders

Employees

The vitality of employees who are excited to work is essential for a company to become stronger. We are working to strengthen a corporate culture in which each of our diverse personnel has great aspirations and is willing to take on challenges with dedication. As a corporate responsibility, we are committed to providing a better work environment and opportunities to support their growth.

Communication methods and frequency

- Kao Forum: Twice a year
- Employee engagement surveys: Yearly
- Health and Safety Committee / Employee Welfare Committee: Monthly
- Career development / human capital development: As needed
- Diversity, Equity & Inclusion promotion activities: As needed
- Support for employee health: As needed
- Employee ESG engagement: As needed

Consumers and customers

We aim to utilize feedback in developing and improving new products and services by listening to the concerns and opinions of consumers and business partners and engaging in close communication.

Communication methods and frequency

Consumers

- Consumer consultations: As needed
- Environmental events: As needed
- Communication events: As needed
- Website feedback form: Available at all times

Chemical and professional-use product customers (Suppliers)

- Opinion-exchange meetings with distributors: Twice a year
- Workshop and plant tours for new employees at distributors: Every other year (odd-numbered years)
- Study meetings on hygiene: As needed

Consumer product retailers (Suppliers)

- Policy briefings: Once a year
- Collaboration meetings: Once a year
- Joint business plans
  Consumers, kindergartens, nurseries, schools, and others
- Educational lectures about simplifying housework, washing hands and cleaning: As needed

Suppliers

We consider suppliers as our business partners vital to *Yoki-Monozukuri* and undertake procurement activities according to the Policies for Procurement, including fairness, compliance and ethics, and social responsibility.

Communication methods and frequency

- Quality improvement activities (meetings and visits): Yearly
- Monitoring of compliance status with Partnership Requirements for Suppliers: As needed
- Supplier satisfaction surveys: Every three years
- Partner Summits and Supplier Awards: Yearly
- Supply chain reinforcement through honorary visits: As needed

Shareholders / Investors

Kao's Directors and management prioritize listening to a diverse range of shareholders, investors, and stakeholders, engaging in open, constructive dialogue. Insights from these discussions are reported to the Board and, when relevant to enhancing corporate value, integrated into management strategies and communicated transparently.

Communication methods and frequency

- General Meeting of Shareholders: Once a year
- Earnings conferences: Four times a year
- IR roadshow: Once or twice a year
- Small meetings with the President and CEO: Twice a year
- Business strategy briefings: Once or twice a year
- IR and SR meetings: As needed
- In-person events for individual investors: Twice a year
- Online events for individual investors: Twice a year
- Integrated Report: Issued once a year

Kao

National and local governments

We aim to collaborate with local and national governments as we enhance both social and business value by solving social issues. We emphasize maintaining healthy and equal relationships with national governments as defined in the Kao Business Conduct Guidelines. We share information about consumers with related ministries and government offices at a level that only Kao is capable of, and we involve ourselves in the operation of systems while ensuring compliance with laws and regulations. In addition, we also partner with local governments for cooperative efforts alongside local communities in sustainability and other areas.

Communication methods and frequency

- Committees, councils: As needed
- Opinion exchanges and information sharing: As needed
- Recommendations on laws and regulations: As needed
- Opinions and advice regarding governmental policy: As needed
- Participation and cooperation in government projects as well as projects involving industry, government, and academia: As needed
- Sustainability-related events: As needed
- Communication and educational activities: As needed

Local communities

We strive to co-exist with local communities by understanding the impacts of our business activities on local communities, conducting business activities to meet the demands of local communities and engaging in communication activities.

Communication methods and frequency

- Corporate citizenship activities: As needed
- Education in the classroom: As needed
- Activities (plant tours): As needed
- Meetings and collaborations with local residents: As needed

NGOs / NPOs

Through ongoing dialogue and collaboration with NGOs and NPOs, we create social impact through our business activities while also managing supply chain risks, engaging in corporate citizenship, and pursuing other efforts.

Communication methods and frequency

- Collaboration as experts: As needed
- Opinion exchanges: As needed
- Environmental and communication events: As needed
- Corporate citizenship activities: As needed

Academia

We share knowledge and broadly engage in opinion exchanges through a process of co-creation that fuses social issues and needs with cutting-edge research, thereby bolstering our foundations for innovation that assists the development of industry and academia.

Communication methods and frequency

- Information exchanges: As needed
- Joint research: As needed
- Conference presentations and paper submissions: As needed
- Research talent development: As needed

Industry groups / Peer companies

We participate in the activities of industry groups with an aim to engender healthy development across the industry while also solving social issues. In addition to getting involved in considerations regarding shared industry challenges and rule creation, we also share the insight we have gained through our business activities.

Communication methods and frequency

- Committees, councils: As needed
- Opinion exchanges and insight sharing: As needed
- Consideration of industry rules, guidelines, and other matters: As needed
- Collaborative surveys and projects: As needed