OASIS

April 24, 2026

Oasis is a long-term investor in Kao and has been invested in the Company for more than three years. We want to see Kao create value for all shareholders. However, we are concerned that the issues in the notice of EGM could jeopardize Kao's stated strategy of expanding into the United States and Europe and could adversely impact its growth potential.

Accordingly, we believe Kao needs to conduct a proper investigation to identify any risks and ensure that they are addressed to protect long-term corporate value.

Financial Analysis of impact

The analysis below should demonstrate that without a proper independent investigation into potential risks in Kao's supply chain, shareholders are exposed to revenue risk, regulatory fines and material reputational risk. The case studies cited below are evidence as to what Kao is exposed to in terms of fines, litigation and reputational damage in these key expansion markets.

Kao's 2024 CDP disclosures on palm oil (page 56)[1]

CDP question	Kao response
Primary financial effect of the risk	Brand damage
Time horizon over which the risk is anticipated to have a substantive effect on the organisation	Short term
Likelihood of the risk having an effect within the anticipated time horizon	Very likely
Magnitude	High
Anticipated effect of the risk on the financial position, financial performance and cash flows of the organisation in the selected future time horizons	JPY 113,000,000,000 (USD710m)
Explanation of financial effect figure	Kao's sales in the consumer products business totalled 1,210.3 billion yen. Of this amount, the Health & Beauty Care Business, which handles many products with active ingredients derived from palm oil, and Fabric & Home Care Products generate 742.0 billion yen in sales. These businesses account for about 61% of sales, and about 60% of consumers rely on word of mouth on social networking sites and other media, including negative campaigns, when purchasing daily necessities such as laundry detergent. Kao estimates that 25% of consumers will change their sales behavior when exposed to this information. If the reputational

[1] https://www.kao.com/content/dam/sites/kao/www-kao-com/global/en/sustainability/pdf/cdp2024-001.pdf#page=56

	risk associated with palm oil procurement is revealed and sales decrease by 25% as a result, the annual negative impact would be 111.3 billion yen (742 billion yen x 60% x 25%). The financial impact of this risk may materialize within a year, given the actual negative campaign as described in the company-specific explanations. We recognize that this risk could occur at any time at this time.

Kao's revenue forecast to 2027

JPY BN	2025	2027 Est	Revenue CAGR
Global Consumer Care (GCC) Revenue	**1,283.0**	**1,378.8**	**3.7%**
EU GCC Revenue	*93.8*	*104.7*	*5.7%*
US GCC Revenue	*119.8*	*129.5*	*4.0%*
US & EU GCC Combined Revenue	**213.6**	**234.2**	**4.7%**
Asia GCC Revenue	**210.8**	**219.7**	**2.1%**
US & EU Health & Beauty Revenue	171.4	189.7	5.2%
US & EU Cosmetics Revenue	39.2	44.5	6.5%
GCC Operating Profit	**133.1**	**164.7**	

Source: Bloomberg, Oasis Analysis & Calculations

The above table has been prepared using Bloomberg consensus forecast data and Oasis analysis & calculations; and indicates growth in markets such as the US and EU is higher than growth forecasts for Asia.

Key points:

- Kao's K27 Mid-Term Growth Plan is heavily dependent upon growth in overseas markets, particularly in its Cosmetics and Health & Beauty businesses[2].
- Bloomberg consensus forecast revenue CAGR for the whole of Kao's Global Consumer Care (GCC) business between 2025–27 is 3.7%.
  However, forecast revenue CAGR for 2025-27 for the US and EU for the Cosmetics business is 6.6% vs. 5.5% for the total Cosmetic segment at Kao.

[2] https://www.kao.com/global/en/corporate/strategy-and-mid-term-plan/

I.e. Revenue CAGR in the US and Europe Cosmetics business is above both the total Cosmetics segment forecast AND the entire GCC segment during the K27 plan period.
- Likewise, forecast revenue CAGR for the Health & Beauty business for 2025–27 (US + Europe combined) is 5.2% CAGR over the same period – again above the broader firmwide GCC forecast.
- By 2027, combined US and EU GCC revenue (JPY235bn (USD1.5bn)) will exceed Asian GCC revenue (JPY220bn (USD1.4bn)), according to the Bloomberg.

Regulatory and reputational exposure is therefore concentrated precisely in the segments and geographies Kao is counting on most for growth.

EU Exposure: European Union Deforestation Regulation (EUDR) Fines & Revenue Risk

- We believe that based on our research, the risk to Kao in terms of regulatory risk will come from the EUDR and EU Forced Labour Regulation.
  EUDR penalties for non-compliance range from having products banned in the EU to fines of 4.0% on EU-wide revenue.
- As per the first table above, Kao has quantified palm oil procurement risk at JPY111.3bn (USD710mn) for FY24 - approximately 9% of GCC revenue that year.
- Bloomberg consensus forecast for Kao EU GCC 2027 revenue is JPY104.7bn (USD660mn).
- Based on historical margins of 7% such sales generate a profit of JPY7.3 bn (USD46m).
  A 4.0% of revenue EUDR fine would cost Kao shareholders JPY4.2bn (US$26m) and will wipe out two thirds of assumed EU operating profit.
- In addition to fines, being investigated for EUDR violations triggers material reputational damage and revenue decline.
- Applying Kao's assumed 9.0% revenue impact from palm oil issues (referenced above) to the JPY104.7bn (USD660mn) 2027 revenue forecast yields JPY95.4bn (USD598mn) in downwardly revised revenue.
  This is approximately equivalent to what the EU GCC division recorded in 2025 revenue, i.e. this is equivalent to erasing ALL the projected revenue growth over the K27 period.
- Additionally, using the JPY95.4bn (USD98mn) revenue base and with corresponding historical operating margins at those levels of around 2.0%[3] with a 4.0% revenue fine applied, the EU GCC business posts an operating loss of approximately JPY1.5bn
- Therefore, the potential swing in EU operating profit under a supply chain issue related just to palm oil deforestation would be from +JPY7.3bn (USD46m) operating profit (base case) to -JPY1.5bn (fine + revenue collapse) or a JPY8.8bn delta.

On EU Remediation Costs

EUDR compliance costs are negligible: independent research (Profundo) puts them at

[3] https://www.kao.com/content/dam/sites/kao/www-kao-com/global/en/investor-relations/pdf/kao-earnings-fy2025-en.pdf#page=52

approximately 0.10% of annual revenues for large companies[4].
Remediation is not a credible argument against compliance — non-compliance is the far bigger financial risk. Kao shareholders are exposed to such risks.

American Exposure

US risk centres more on forced-labor regulations, problem suppliers, product seizures, lost sales, and reputational damage.

The 2024/25 L'Oréal/CeraVe benzene episode illustrates what ingredient-level controversy can do to a consumer brand: CeraVe, a EUR2 billion (USD2.4bn) global franchise owned by the world's best-run beauty company, saw US revenue come under acknowledged pressure.

If an accidental contamination with no allegation of corporate misconduct can do that, the consequences for a less sophisticated operator facing a deliberate misconduct narrative around forced labour and deforestation in a palm-oil supply chain where management should have known - given years of U.S. regulatory sanctions against FGV - are likely to be more severe and more sustained.

In terms of quantitative fallout:

- Americas forecast revenue for Kao GCC in FY27 is JPY130bn (USD815mn)
- Applying Kao's own 9.0% reputational revenue decline would reduce this to JPY117bn (USD733mn)
- We think operating profit impact: margins reset from high single digits (~JPY13bn (USD82mn) operating profit) to mid-to-low single digits (JPY4.7bn (USD29mn)) - a JPY8.3bn decline in operating profit

In aggregate, the supply chain risk we have identified represents a potential JPY17.1bn (USD106mn) on operating profit; equivalent to 10.4% of the 2027 consensus operating profit forecast of JPY164.7bn (USD1.03bn).

That is not a rounding error. That is a material shortfall.

EU Case study: L'Occitane and the cost of weak board oversight of supply-chain risk

In October 2022, France 2's *Cash Investigation* put L'Occitane in the spotlight over alleged child labor in its palm-oil supply chain.

The company said it was "deeply shocked," denied direct relationships with named suppliers FGV and Sime Darby, and launched an urgent investigation. The denial was technically defensible, but strategically beside the point.
L'Occitane's own 2022 mill list, covering 90% of traceable volumes, included multiple FGV and Erasakti Wira Forestama mills.

[4] https://profundo.nl/projects/analysis-of-eudr-compliance-costs-/

The lesson: a company can have no direct contractual relationship with a controversial supplier and still carry material exposure through deeper tiers.
That exposure is a board issue, not just a procurement one.

The U.S. Department of Labor had long flagged palm oil from Indonesia and Malaysia as associated with child and forced labor.

That classification alone should have triggered routine board-level reporting, deeper-tier traceability requirements, and clear escalation thresholds not passive reliance on certification or tier-1 assurances.

The fallout arrived in three waves.
1. **Reputational**: the allegations cut directly against L'Occitane's identity as a socially responsible brand.
The dissonance was acute enough that the company felt compelled to publicly clarify that its UNICEF-linked solidarity soaps had contained no palm oil since 2019.

2. **Operational**: post-crisis disclosures emphasized supplier codes of conduct, annual #NotJustSuppliers assessments, and corrective-action protocols.
In palm specifically, L'Occitane rolled out the Action for Sustainable Derivatives index in 2023, targeting 100% RSPO-certified palm by 2026 and reporting 91% mass-balance certification in FY2024.

These are signatures of reactive governance - building formal oversight capacity *after* a public scare rather than before one.

3. **Regulatory:** the EU's Corporate Sustainability Due Diligence Directive entered into force in July 2024, requiring in-scope companies to identify and address human-rights and environmental impacts across their full value chains.

The supply-chain blind spot that embarrassed L'Occitane in 2022 now sits firmly within the scope of mandatory board governance.

US CASE STUDY: L'OREAL

Valisure, a Connecticut-based independent lab, flagged benzene contamination in benzoyl peroxide (BPO) acne products in 2024; FDA testing confirmed elevated readings in La Roche-Posay and CeraVe products. L'Oréal issued product recalls for these lines.
CeraVe crossed EUR2bn in global sales in 2024, but L'Oréal described US performance as "stabilisation"[5] - this was widely interpreted by analysts to mean US revenue was flat-to-declining.

By H1 2025, CeraVe was described as "regaining traction" - language that implicitly confirmed ground had been lost during the recall period[6]

If a single ingredient scare can put a EUR2bn brand into reverse at the world's best-run beauty company, the reputational exposure from supply chain issues related to deforestation

[5] https://www.loreal-finance.com/eng/press-release/2024-annual-results
[6] https://www.loreal-finance.com/eng/press-release/2025-half-year-results

and forced labor at a company whose traceability disclosures cannot withstand scrutiny is likely to be more severe.

CLASS ACTION LAWSUITS

Additionally, a big risk in the US is from class action lawsuits whose financial impact is much harder to assess – it is worth noting that six class action suits have been filed across multiple jurisdictions covering both La Roche-Posay and CeraVe in relation to the benzene issues.

Even where companies ultimately prevail, supply-chain litigation is expensive.

The D.C. Circuit dismissed the cocoa forced-child-labor class action suit against Cargill, Nestlé, Hershey, Mars, and Mondelēz in July 2025, but only after years of proceedings, and only after the court had already established that plaintiffs had standing to bring such claims.

The cobalt case against Apple, Alphabet, Dell, Microsoft, and Tesla followed the same pattern: dismissed on the merits in March 2024, but only after the D.C. Circuit confirmed former child miners had standing to seek damages. Winning these cases takes years and costs money. Management attention is finite. Every quarter spent on litigation defence is a quarter not spent on competitive strategy.

Other relevant case studies

- **FGV Holdings (Malaysia, palm oil / forced labor):** U.S. Customs and Border Protection issued a Withhold Release Order on **September 30, 2020** blocking FGV palm oil and palm-oil products after an investigation found multiple forced-labor indicators and concerns about forced child labor. The order was only modified in **January 2026** after remediation.
- **Sime Darby Plantation (Malaysia, palm oil / forced labor):** U.S. authorities had already been blocking the company's goods and then issued a formal forced-labor finding in **January 2022** covering palm oil and derivative products, meaning goods could be seized at the border. CBP lifted that finding in **February 2023** after remediation.
- **Top Glove (Malaysia, gloves / forced labor):** After a **2020** Withhold Release Order, CBP issued a formal **2021** finding that certain disposable gloves were made with forced labor and could be seized at the U.S. border.
  When CBP lifted its ruling in **September 2021**, it said Top Glove had made **more than $30 million** in remediation payments and improved labor conditions.
- **JBS USA / JBS (beef, deforestation / greenwashing):** New York sued JBS USA in **February 2024**, alleging its **"Net Zero by 2040"** and anti-deforestation messaging misled consumers; the state sought civil penalties and disgorgement. In **November 2025**, JBS USA agreed to pay **$1.1 million** and change its environmental marketing. Separately, Brazil fined JBS and other meatpackers in **2024** for buying cattle raised on illegally deforested land.
- **Global Plywood and Lumber Trading (U.S. importer, Peruvian Amazon timber):** DOJ said the company pleaded guilty and was sentenced in **2021** for importing illegally sourced wood from the Peruvian Amazon, paying **$200,000 in restitution** and a **$5,000 fine**. EIA reported the wood was destroyed and the company later dissolved.

- **Tip the Scale LLC / LD Kitchen and Bath (U.S. importer, timber declarations):** In **2024**, DOJ said the company pleaded guilty over false timber declarations and was sentenced to a **$110,000 criminal fine**, a **$250,000 Customs penalty**, three years' probation, and an environmental compliance plan.

Major lawsuits, even where liability was not ultimately established

- **Bumble Bee Foods (U.S. seafood / forced labor at sea):** Four Indonesian fishermen sued Bumble Bee in California in **March 2025**, alleging forced labor and abuse on vessels in Bumble Bee's tuna supply chain.

Mostly reputational / commercial fallout rather than a fine or lawsuit

- **Procter & Gamble (palm oil / deforestation risk):** After Reuters reported in **2024** that palm oil from an allegedly illegally cleared Indonesian wildlife reserve may have entered major brands' supply chains, P&G said it investigated and suspended sourcing from the implicated suppliers; it later said it extended that suspension to **all PT AAL entities**.

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The numbers and case studies we believe speak for themselves.
Kao's fastest-growing markets - the US and EU - are precisely where regulatory and reputational exposure is most acute.

A palm oil supply chain event consistent with Kao's own assumptions would erase all projected EU revenue growth through 2027 and likely wipe out all EU operating profit through EUDR fines alone. Combined US and EU operating profit impact could reach over 10% of the 2027 consensus operating profit forecast for the core GCC business.

An independent investigation does not create these risks. It is the only credible mechanism for managing them.

We believe shareholders share our view that protecting long-term corporate value requires acting before these risks crystallize, not after.