

Oasis Responds to Kao Board's Opposition: An Open Letter to Fellow Kao Shareholders (4452 JP)

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HONG KONG — Dear Fellow Shareholders,

We are writing to you directly, and at some length, because we believe the matters at stake at Kao Corporation's ("Kao" or the "Company") forthcoming Extraordinary General Meeting of Shareholders ("EGM") scheduled for April 30, 2026 demand it, and because Kao's Board has now responded to our proposal in a way that requires careful, point-by-point responses.

The governance issues we have documented, the risks building around Kao's supply chain, and the conflicts of interest that prevent the Board from credibly investigating itself are not simple matters, and shareholders considering how to vote on April 30 deserve a full and honest account of what the record shows.

We hold over 12.5% of Kao's shares. We are long-term investors who believe Kao has the brands to be a genuinely world-class company, and who believe that ambition is being placed at serious risk by supply chain practices and governance structures that cannot withstand independent scrutiny.

In launching the **Protect Kao** campaign, Oasis is calling for a shareholder-mandated independent investigation into the **material sustainability risks in Kao's palm oil supply chain**, which could have considerable financial, reputational, and operational impacts. An independent investigation would deliver the transparency shareholders need to understand Kao's true risk profile -- and chart a credible path to remedy deficiencies -- an outcome a conflicted internal review cannot achieve.

Kao's Board issued a statement on March 27 rejecting our proposal and telling you there is nothing to investigate. We respectfully disagree. What follows is our case.

Kao's Inadequate Self-Audit

Kao's reliance on an unpublished internal review conducted in under two weeks to assure shareholders of no material deficiencies to internal controls is **inadequate**. Any self-assessment process is inherently compromised when the senior management team responsible for those controls, including President Hasebe and procurement head Masakazu Negoro, stands to see their compensation reduced if ESG controversies are discovered.

An unpublished review with undisclosed methodology and authorship cannot provide assurance over the degree of supply chain risk Kao currently faces -- particularly when the findings contradict Kao's own disclosures. Only a truly independent investigation can resolve these inconsistencies and determine whether existing controls effectively oversee supply chain risk.

Below, Oasis summarizes the key flaws in Kao's statements, each highlighting the necessity for a thorough independent investigation into past and current supply chain risk management:

1. **Limited engagement with specific supplier-level allegations:** Kao does not fully address the cases highlighted. Instead, it either:
 - i. Acknowledges exposure without explaining what actions were taken (e.g. FGV Holdings, Royal Golden Eagle ("RGE")), which leaves a gap between stated policies and actual outcomes.
 - ii. Denies direct or indirect transactions with suppliers that appear on its most recent mill list (e.g., Astra Agro Lestari ("AAL"), PT Aceh Trumon Anugerah Kita ("PT ATAK")), while providing limited transparency as to how this is assessed.
 - iii. Provides only one example of supplier engagement (IOI Group), which is a decade-old precedent that was resolved by others.
2. **Misleading statements conceal underlying issues:** Kao relies on selective and incomplete information to support its position, including:
 - i. Attributing lower Roundtable on Sustainable Palm Oil ("RSPO") certification levels to palm kernel oil ("PKO") consumption, despite similar peer exposure.
 - ii. Citing strong ESG ratings, despite a March 2026 downgrade in its MSCI ESG Rating driven by business ethics concerns and raw material sourcing.
 - iii. Referencing procurement-based CDP metrics, while not addressing its disclosure that 100% of revenues are linked to palm oil.
 - iv. Positioning its compliance hotline as an adequate supply-chain grievance mechanism, without demonstrating a comprehensive, palm-oil-specific system like its peers and contrary to best practices as laid out by the Accountability Framework Initiative to which Kao claims adherence.

Why a Fully Independent, Shareholder-mandated Investigation is Necessary

Kao's promise of **gradual disclosure enhancements in the future is insufficient to address Oasis' concerns**. Kao's current disclosure is wholly inadequate. What little is public -- including the concerns Oasis raised regarding problematic suppliers -- suggests serious internal control deficiencies posing material risks to Kao's corporate value and future growth. Management's evident reluctance to be transparent about such risks only deepens the need for an independent investigation with access beyond what little Kao has been willing to share with stakeholders.

Kao's **current governance structure creates clear conflicts of interests** making an independent investigation necessary, including the **self-audit risk posed by senior management and board members (as evidenced in Kao's recent disclosures)**. Most importantly, long standing best practices, in line with the Japan Federation of Bar Associations, call for an independent investigation to ensure objectivity, independence, and neutrality.

The Vote on April 30 Is a Vote on Accountability

The pattern across the Board's response is consistent: on every substantive point, the Board says current practice is adequate, yet on every substantive point, the evidence says otherwise. Clearly, the internal review was not sufficient to truly assess the weaknesses in internal controls and only an independent investigation will be able to find the truth.

Kao's "business as usual" approach is not a neutral position and is precisely the posture most likely to jeopardize Kao's K27 overseas growth strategy. The EUDR¹, EUFLR², and UFLPA³ are not aspirational standards -- they are enforcement mechanisms with the power to foreclose the markets Kao is targeting for growth and directly penalize the conduct the Board is defending.

1. Limited Engagement with Specific Supplier-Level Allegations

(i) Kao's admitted relationships violate its own NDPE⁴ policy and warrant closer scrutiny

FGV/FELDA

FGV/FELDA is a supplier that was subject to a U.S. Customs and Border Protection Withhold Release Order ("WRO") from September 2020 to January 2026 due to suspicions regarding forced labor, child labor, sexual violence, and debt bondage. FGV/FELDA was suspended by Unilever, Colgate-Palmolive, Procter & Gamble.

Kao's Board justifies its continued transactions with the group by claiming that it did not source from "the specific mills where issues were identified". This, however, is deeply concerning because a WRO is a group level restriction and not specified to individual mills.

A WRO is one of the strongest law enforcement tools in the US and could have triggered import bans on Kao's products for any exposure to FGV, which could have a substantial impact on Kao's corporate value and growth. This issue demonstrates weak internal controls and the Board's failure to appreciate this demonstrates a need for an independent investigation.

Royal Golden Eagle ("RGE")

Kao's Board justifies its joint venture ("JV") with Royal Golden Eagle's ("RGE") subsidiary Apical by claiming that the capital relationship gives Kao more effective influence than through it just being a supplier.

Kao created a capital alliance through its Apical JV in 2017. Apical is subsidiary of RGE, a group whose companies have faced [allegations of abduction in 2024](#) and clashes with villagers injuring 18 women and a disabled child in 2025. Kao claims this equity relationship provides "more effective influence" over RGE's conduct than supplier engagement alone. These incidents --

¹ European Union Deforestation Regulation

² European Union Forced Labour Regulation

³ Uyghur Forced Labor Prevention Act

⁴ No Deforestation, No Peat, No Exploitation

occurring after the JV was established -- directly contradict that claim. Under the Accountability Framework Initiative (“AFI”), corporate group relationships with entities linked to deforestation and human rights violations require remediation or disengagement, let alone allowing for continued equity partnership.

RGE Group, as the parent of Apical and controversial forestry entity April, falls within that scope. The conduct of RGE subsidiaries is therefore not peripheral to Kao's supply chain obligations, and is a risk exacerbated by RGE's [alleged operation of a shadow network](#) of companies -- Kao's most recent mill [list](#) includes 88 mills allegedly linked to this shadow network.

Kao's Board is either untroubled by RGE's publicly reported actions or is overly reliant on management information to recognize this as excess risk. Whatever the cause, the relationship represents a clear weakness in internal controls and evidence that oversight of capital investments is not having the intended impact.

(ii) Kao's own disclosures contradict their denials

"With respect to the suppliers identified by the Requesting Shareholders, the Board of Directors has confirmed the relevant facts. Accordingly, the Company has no direct or indirect transactions involving palm oil or palm kernel oil with those suppliers, except for the Royal Golden Eagle (RGE) Group and Felda/FGV Holdings (FGV)."
(Excerpt from Kao's March 27 Board statement)

Kao claims to have no direct or indirect transactions with the mills identified in the independent third-party report commissioned by Oasis, including Astra Agro Lestari (“AAL”), First Resources/Fangiono Group, Citra Borneo Indah/SSMS, PT Aceh Trumon Anugerah Kita (“PT ATAK”), Abdi Budi Mulia and Grupo Oleoflores. Yet each of these groups' mills were included on Kao's latest mill list.

- Astra Agro Lestari (“AAL”), [linked to accusations of human rights abuses](#) and environmental violations, is one of the largest mill groups in Kao's [most recent public mill list \(H2 2025\)](#).
- First Resources/ Fangiono Group, [linked to accusations of deforestation](#), was onboarded by Kao in 2025.
- Citra Borneo Indah/SSMS, [linked to accusations of deforestation](#) and previously suspended by [Unilever](#), was onboarded by Kao in 2024.
- PT ATAK, with [links to accusations of deforestation](#) and suspended by peers such as [Colgate](#) and [P&G](#), was onboarded to Kao's supply chain in 2025.
- Abdi Budi Mulia, linked to [accusations](#) of deforestation, has been part of Kao's supply chain since [2023](#).
- Grupo Oleoflores, with [links to accusations of land grabbing, deforestation and water dispossession](#) and on the [Louis Dreyfus](#) no buy list, was onboarded to Kao's supply chain in 2024.

(Onboarding of supplier based on their first appearance on Kao's publicly disclosed mill list.)

Kao's mill list is its disclosed map of its upstream supply network, traced through its direct suppliers. In publishing it, Kao has defined the scope of its NDPE responsibility and the obligation to verify compliance and act on what is found. The AFi framework Kao purports to follow is explicit: NDPE commitments apply across the full supply chain, not merely to direct contractual counterparties.

Problematic mills should not appear at all. Their presence is all the more alarming given that Kao does not source segregated or identity-preserved RSPO, the only certification grades that guarantee physical traceability to verified sustainable sources.

Kao's denial of any direct or indirect transactions despite its own disclosures raises questions on the information provided to the Board, whether its conclusion that no material deficiencies exist can be trusted, and highlights the vital need for an independent investigation.

(iii) Kao's Misleading Example - The IOI Case: A Decade-Old Precedent Resolved by Others

"As a specific example demonstrating the effectiveness of this approach, when the IOI Group, a major supplier, had its RSPO certification suspended... the Company fully suspended purchases of certified oil from the group, and suspended purchases of palm kernel oil except for the minimum volume necessary to maintain ongoing production."
(Excerpt from Kao's March 27 Board statement)

The Board presents the IOI episode as evidence of effective supplier oversight. The facts do not support that characterization.

Firstly, **the IOI case occurred in 2016**, a decade ago and well before Mr. Hasebe became president. Kao's inability to demonstrate a more recent example raises concerns that it has become less rigorous in its oversight over the last ten years.

Besides the age of the case, Kao taking full credit for IOI's reform is altogether incorrect. IOI's RSPO suspension was lifted by RSPO after submitting a corrective action plan under pressure from RSPO enforcement and major buyers -- Unilever, Nestlé, Kellogg's, Mars, Hershey's, Colgate-Palmolive, Johnson & Johnson, Reckitt Benckiser, Cargill, amongst others -- all fully dropping or suspending sourcing from IOI. Kao, on the contrary, did not fully suspend IOI and by the Board's own account, maintained PKO purchases throughout the suspension period.

IOI's decade-old reform was a result of pressure from its major customers taking a hard stand against the company. Kao's mischaracterization of this incident again raises questions as to whether the Board is fully aware of Kao's activities as regards ESG.

2. Misleading Statements Conceal Flaws

(i) RSPO Compliance: A Structural Argument That Does Not Survive Peer Comparison

"Palm kernel oil (PKO) is a co-product of palm oil (PO), making it difficult to increase production independently. Its complex process and distribution chain also makes physical segregation structurally extremely difficult."
(Excerpt from Kao's 120th AGM Presentation)

While Kao has meaningful exposure to PKO, this is broadly in line with peers, and supply chain risks should be managed to a consistent standard across both palm oil and PKO.

Kao's Mass Balance certification, which provides for some degree traceability through the physical supply chain, peaked at 122,920 tonnes in 2021, the year President Hasebe assumed office, and has since collapsed by 59% to just 50,803 tonnes in 2024. Today, Kao's RSPO volumes now appear to rely heavily on the lowest-tier "Book & Claim" certification (i.e. credits), which raises questions about the robustness of its 'certified' palm oil and PKO.

Similarly, Lion, Henkel, and Unilever -- all operating in the same procurement environment and sourcing from the same concentrated supply base in Indonesia and Malaysia, achieve materially higher RSPO certification rates for PKO than Kao at roughly between 75-100% of PKO volume versus less than 10% for Kao in 2024.

Kao's claim that the constraint in supply has led to a lower percentage of RSPO compliant PKO does not stand up to scrutiny when compared with its peers.

(ii) ESG Ratings: The Record Contradicts the Board's Claims

"Importantly, the Company's sustainability and supply chain management initiatives have received strong ratings by multiple external ESG assessment bodies, placing the Company above peer averages within the industry. There are no facts indicating any material deficiencies in the Company's internal control systems."
(Excerpt from Kao's March 27 Board statement)

On March 23, 2026, just four days before the Board issued its opposition statement, MSCI downgraded Kao's ESG rating to A from AA and made the opposite determination, noting:

"Kao's business ethics practices now lag those of global peers... Kao's business ethics framework appears to lack audits of ethical standards."

MSCI's Business Ethics score for Kao fell 1.8 points to 4.2, placing the Company at the 11th global percentile - below-average globally and worst-in-class within Japan at the 5th percentile. The Raw Materials Sourcing score also fell 1.5 points to 5.4, based on Kao's cumulative risk across all raw materials, including palm oil.

It is unclear whether Kao's board were made aware of the MSCI downgrade; nevertheless, contrary to its claim, Kao cannot stand behind ratings agency ratings to justify its claims of no material deficiencies, as MSCI now rates Kao's ethics below global and domestic peers.

(iii) The CDP Report – Attempt to Minimize Materiality

“However, the figures referenced in the CDP questionnaire reflect the proportion of revenue attributable to product categories that use these raw materials, and do not represent the actual usage volumes of the raw materials themselves or their share in total procurement. For example, palm oil accounts for approximately 20% of total raw material procurement. The Company’s business is not reliant on any single raw material and is composed of a diverse range of products and raw materials.”
(Excerpt from Kao’s March 27 Board statement)

Kao’s own [CDP disclosure](#) confirms that 100% of its revenue is linked to product categories that use palm oil. While this does differ from procurement share, **the key issue for materiality and risk is exposure rather than volume**. Kao’s self-disclosed revenue exposure indicates that palm oil is embedded across the Company’s revenue base, making associated supply chain risks highly material.

Kao is contradicting its own disclosures in an attempt to minimize the materiality of this issue.

(iv) Grievance Mechanism – 6% Coverage is Not a Defense

"The 'Kao Compliance Hotline' functions as a channel accessible to a wide range of stakeholders, including business partners within the supply chain... In addition, the Company has introduced the 'Kao Grievance Mechanism' as a dedicated support channel for smallholders."
(Excerpt from Kao’s March 27 Board statement)

It is common among peers to have a supply-chain-specific grievance mechanism alongside a general grievance mechanism, such as a compliance hotline. Kao’s so-called grievance mechanism for its palm oil supply **applies to only an estimated 6% of their palm oil supply chain and primarily covers topics around farming and employment advice** rather than addressing material deforestation and human rights concerns, contrary to peer practice.

AFi, to which Kao claims adherence, [is explicit](#): a grievance mechanism must be "accessible to all stakeholders" and able to receive concerns from "any individual or group of individuals that believes it has been or will be harmed by the company operations." Its purpose is to "receive and address any concerns, complaints, notices of emerging conflicts, or grievances alleging actual or potential harm." When properly implemented, AFi notes, such mechanisms "serve as a valuable risk management tool."

[Kao's own April 2025 third-party NDPE survey](#) applied these same accessibility criteria to assess suppliers. By those standards, Kao itself would fail. This is not effective risk management for a company seeking to scale in markets (like Europe and the US) that are now enforcing strict supply chain oversight.

Kao’s supply-chain specific grievance mechanism falls behind that of peers in both content and scope, potentially exposing the company to significant risks.

Seth Fischer, Founder and Chief Investment Officer of Oasis, said:

"Kao's Board has told shareholders that everything is fine - and has done so without addressing a single specific documented case of supplier misconduct. When your largest palm mill group has been subject to a US forced labor detention order for six years, when your JV partner's alleged shadow network is covered by Bloomberg, when you onboard suppliers your peers have already expelled - that is not a clean record. That is a record that demands scrutiny. Shareholders deserve an answer that comes from an independent process, not from the executives whose compensation depends on the question never being asked."

A Decision That Belongs to Shareholders

Kao's Board has made its position clear. It has reviewed itself, cleared itself, and asked you to take its word for it, on the basis of an internal assessment that has not been published, conducted in weeks, by the same management whose judgment and compensation are directly tied to its outcome.

We do not think that is good enough. We don't think you should either.

The case for an independent investigation is not a case against Kao. It is a case FOR Kao – for the integrity of its supply chain, the credibility of its ESG disclosures, the independence of its governance, and the durability of the international growth strategy that K27 depends on. If the Board is right and its controls are sound, an independent investigation will confirm that, and Kao will emerge stronger, with its claims validated by a process that shareholders, regulators, and ratings agencies can trust. If the Board is wrong, shareholders deserve to know.

We are pursuing this investigation not to damage Kao, but to protect it. We urge you to do the same.

Oasis urges all Kao shareholders to vote FOR the appointment of independent investigators at the EGM on April 30, 2026.

Full materials are available at www.ProtectKao.com.

We welcome all stakeholders to contact us at info@protectkao.com.

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