Chapter 3

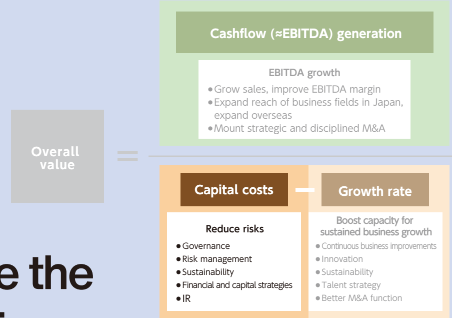
The Driving Force of Value Creation

See chapter 2 (p. 56) for more on Strategy 2 (Transition to a System of Employee Management that Creates Social Value)

This chapter contains information about the driving force behind our corporate strategy. This driving force has four components: talent strategy, sustainability strategy, investment in IT infrastructure, and risk management. The messages from the Senior Vice President, Head of divisions explain how our capital and functions work in an integrated manner to drive global business growth and make our Forest-Like Management Model a reality.

F&A Message from the Senior Vice President, Head of the Finance & Accounting Division

Conscious of our responsibility to increase the value of our organization, we are proceeding with balanced strategies for finance and capital.



The 4th Medium-Term Plan's Financial and Capital Strategies for an Optimal Balance

Our long-term vision for 2030, CCC 2030, sets out the Forest-Like Management Model and commits us to developing new businesses in Japan and expanding our business operations overseas. To achieve these goals, we are investing aggressively. To gain shareholder backing for these investments over the medium and long term, we need to deliver the dividends that shareholders expect. We can only keep increasing the value of our organization if we offer proper value to customers, employees, supply-chain partners, and society as a whole. Accordingly, the 4th medium-term plan sets out financial and capital strategies that emphasizing balancing business growth with shareholder returns, balancing short-term returns with medium-term returns, and finding the right balance between the various interests of our shareholders.

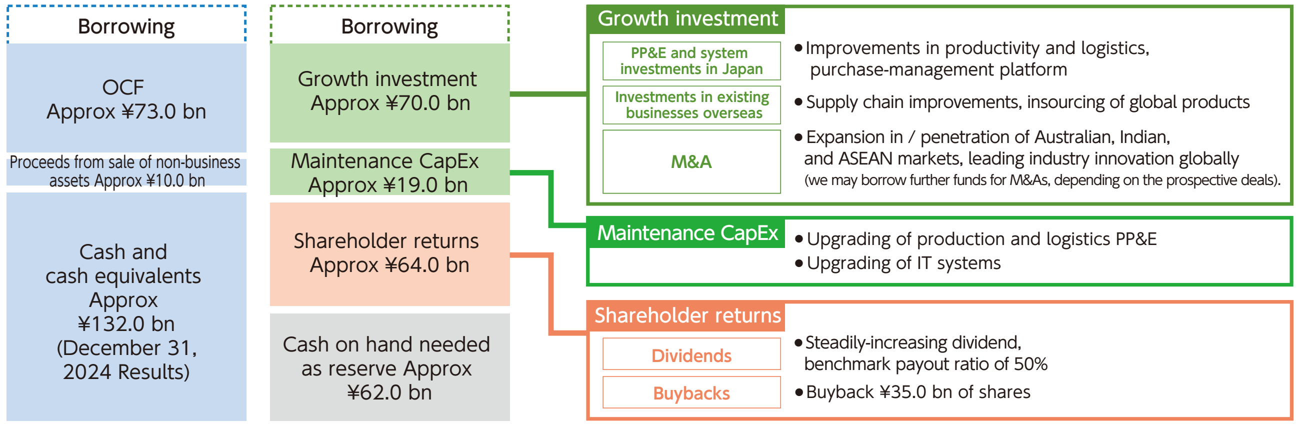
The 4th medium-term plan, titled Unite for Growth 2027, is the second stage in CCC 2030. The financial and capital strategies in the plan are intended to balance EBITDA growth with capital efficiency. It includes an EBITDA target for the final year of the plan, the year ending December 2027. The target is ¥43 billion, representing a 36% increase from the EBITDA result in the year ended December 2024.

We will allocate capital in a balanced manner with a fund of around ¥220 billion, ¥73 billion of which consists of operating cash flows over the three years of the 4th medium-term plan, and the rest of which consists of cash and cash equivalents and proceeds from the sale of cross-held shares and other non-business assets. To achieve the EBITDA target, we have budgeted ¥70 billion in growth investment. Of the ¥70 billion budget, ¥20 billion is allocated to M&A activities, although we may go over the budget depending on what prospective deals arise. We are prepared to borrow funds in this eventuality. For shareholder returns, we are committed to delivering a steadily increasing dividend for each period, taking into account any one-off profits or losses, with a 50% benchmark for consolidated payout ratio. We have also committed to buying back ¥35 billion in shares. We will manage our debt-to-equity ratio with a focus on safety and efficiency. We will, for example, try to maintain our single A rating for creditworthiness. We continue to offload cross held shares with a view to reducing these shares to less than 5% of our consolidated net assets by the end of the final year of the plan, the year ending December 2027. Alongside this, we are increasing the efficiency of our cash management processes across Kokuyo Group. The surplus cash yielded by these efforts will be reinvested to drive a virtuous cycle, bringing us closer to our 2027 ROE target of at least 9% and the 2030 target of at least 10%.

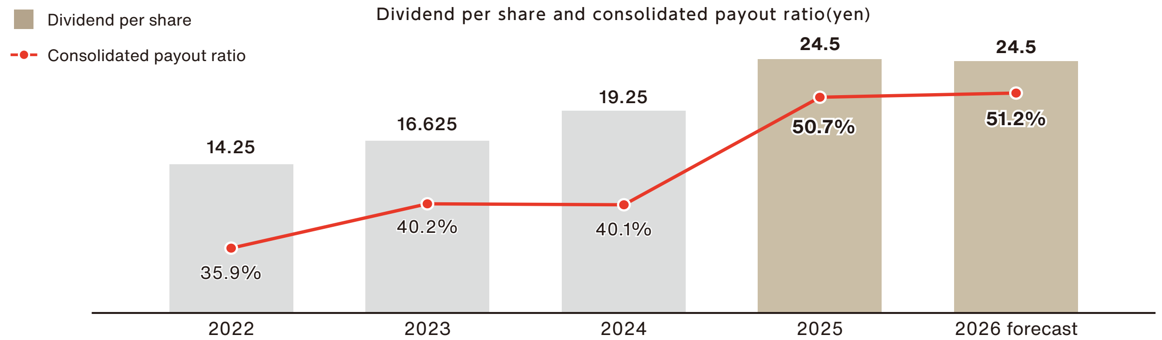
Hitoshi Honda

Managing Officer, Senior Vice President, Head of the Finance & Accounting Division

Capital allocations over the 3-year period



Shareholder returns



Note: We conducted a 4-for-1 split of common stock, which took effect on July 1, 2025.
The dividend per share for 2025 and earlier years has been retroactively adjusted to show the post-split figure.

The 4th medium-term plan sets out a mathematical framework for this approach of increasing the value of our organization. It defines business value in a simple way using the formula EV/EBITDA. The numerator, EBITDA, is used as a proxy variable for free cash flow. The Finance & Accounting Division had already been tracking company-wide return on invested capital (ROIC) divided by weighted average cost of capital (WACC). We now use the EV/EBITDA formula along with ROIC/WACC to improve the effectiveness of measures to increase the value of the organization.

Eyes on the Targets in the Final Year

In the first year of the 4th medium-term plan, ended December 2025, net sales and operating income increased. Net income decreased, but this decrease was relative to the spike in the previous year, which was attributable to gain on the sale of non-business assets. ROE reached 8.4%, exceeding the targeted level. EBITDA reached ¥34.8 billion, 10.8% higher than it was in the previous year. EBITDA margin reached 9.7%, 0.4 points higher than in the previous year. So far in the 4th medium-term plan, we have made progress in boosting the earning power of our existing businesses. When devising the 4th medium-term plan, we clarified the positioning of these businesses in our portfolio by plotting them onto a matrix with net sales growth on one axis and EBITDA margin on the other. Among the Japanese businesses, furniture, the most importantly positioned of these, achieved powerful growth, and we developed initiatives for this and other businesses in line with strategic themes. These efforts resulted in higher net sales growth and a better EBITDA margin. Among the overseas businesses, which remain at the initial investment stage, profit decreased, but we made progress in bolstering their business infrastructure.

By the end of 2025, we had reduced cross-held shares to 4.1% of our consolidated net assets, which satisfies the medium-term target of less than 5%. We will further reduce non-business assets alongside our policy of increasing the

value of, or selling off, our real-estate holdings.
For the year ended December 2025, we delivered an annual dividend of ¥24.5 per share, ¥5.25 more than that for the previous year, with a consolidated payout ratio of 50.7%. In our share buyback program, we have already repurchased ¥20 billion in shares. The annual dividend for the year ending December 2026 is the same as the dividend for the year ended December 2025, namely, ¥24.5 per share.

We are implementing good quality growth investments to pave the way for future growth. Our investments in Japan are as follows. In the furniture business, the investments will improve the profitability of the furniture business and increase efficiency across our distribution operations. The furniture business is shifting to a footing where it delivers experience value, which in this case means interior design services as opposed to just furniture products. To that end, the two production areas are being equipped with cutting-edge production tech so that they can produce a wider array of products, accommodate customization requirements, and mass produce products with high levels of efficiency and quality. In the business supply distribution business, the growth investments are being allocated to IT system projects and distribution infrastructure to further our purchase platform strategy, which is to provide a platform that lets users manage the purchases they make across multiple e-commerce websites, thereby streamlining their purchasing operations. With this strategy, more Kokuyo products will be in circulation and we will see growing fee revenue from the increased distribution, driving in profit growth. As for the overseas businesses, our investments have sowed seeds of future growth in India and Vietnam.

For more on our strategies and progress, see Message from the CSO (pages 53–56).

In the year ending December 2026, we expect to see further profit growth in the Japanese furniture business and, on the whole, huge growth in net sales and EBITDA. This performance will put us on track to achieving our targets for the final year of the medium-term plan, the year ending December 2027.

Investing to Sustain Success

One year on from the time we unveiled the 4th medium-term plan, our price-earnings ratio has increased and our price-to-book ratio is above 1. In other words, our stock is valued relatively high compared to that of our peers in Japan, suggesting a degree of confidence in our growth potential. We are doing less well in capital efficiency. Cost of equity, used as a basis for capital efficiency, was between 6% and 7% at the time we formulated the 4th medium-term plan. With a risk-free rate increase, it now stands at between 7% and 8%. We therefore need to make further efforts to improve capital efficiency. Growth investment is important in itself, but the investments must deliver sure returns to instill confidence. That is why we use exacting criteria when turning a longlist of potential M&As into a shortlist. In this selection process, we begin by considering what business could be formed by combining our own resources with those of the company in question, and whether it would be competitive. Only when we believe that a viable business could result from such a combination would we consider an M&A as an option for acquiring the capabilities for such. The next step is to vet whether the M&A makes economic sense, including the speed of expansion, whether it offers value for the money invested in marketing and business infrastructure, and whether there is a clear process for post-merger integration. Our 4th medium-term plan sets out a total growth investment budget of ¥70 billion, which includes capital expenditure and M&A activities. We have already decided how the budget is to be allocated, but we have not made these allocation decisions just to tick the growth-investment box. Rather, these decisions are the product of careful consideration, which we undertook with a profound awareness that we must be accountable for the decisions we take.

Structured Freedom: A Framework for Loosing Animal Spirits

In combination with such inorganic growth, organic business development, meaning new business development among our existing businesses, will play a vital role in improving our growth rate A change mindset increasingly prevails among the workforce, such that more and more employees are launching projects on their own initiative. The role of the corporate-level functions is to set clear guardrails—rules, official processes, and so on—within which employees can exercise autonomy with confidence. As the head of the Finance & Accounting Division, my chief responsibility is to make sure we have the necessary internal controls in place to prevent accounting malpractice and to monitor the performance of our investments. This is not about inhibiting employees' freedom. Rather, the idea is to set the minimum necessary rules upon which employees can loose their animal spirits and exercise free will. As part of this framework, we are now standardizing our accounting practices globally. This is hard work because accounting standards and language vary across our global operations, but only once we have standardized accounting can Kokuyo Group become a truly unified global team. We have already developed common accounting rules. The rules will become official in the year ending December 2027. I will remain committed to this task in the understanding that I act as a cash guardian protecting against threats to our organization's value.

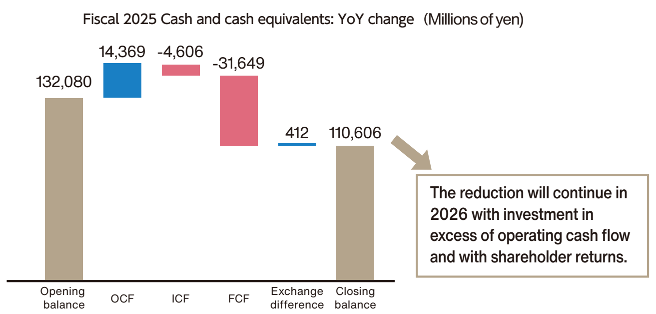
Committed to Discharging One's Responsibilities

With the mounting uncertainties in the global economy, it is more important than ever to act as the prophet by projecting future scenarios for investing cash flows to derive a set of investment options. When it comes to keeping cash allocations balanced, it is essential to maintain a sense of one's responsibility as a cash evangelist who instills in the organization an understanding of the importance of cash.

Kokuyo is fortunate to have plenty of fresh opportunities ahead to leverage its strengths. It also has the resources to take on these challenges. The important thing is to have a passion for growth. President Kuroda has brought this passion to his leadership, and this passion is catching on among employees, who are increasingly taking the initiative. Kokuyo is thus poised for even greater changes in its journey as an organization that channels autonomy and co-creation to deliver distinctive value that reaches every corner of society. I, myself, will channel a passion for growth while guarding against hubris. I am fully committed to discharging my responsibility and being accountable for achieving our organizational goals.

Progress in financial and capital strategies: Capital allocations

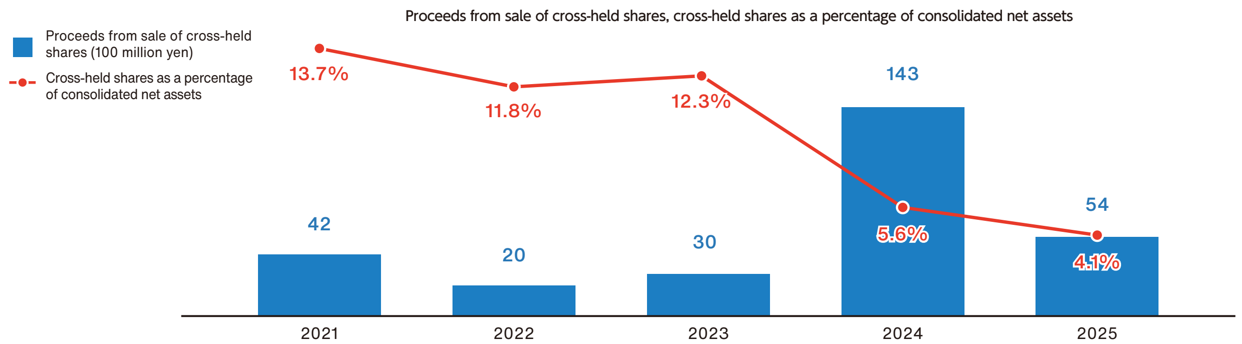
We are reducing excess cash on hand by actively investing in business growth, buying back up to ¥20 billion in shares, and delivering dividends with a dividend payout ratio of 50%.



Investing cash flow	Inflow Proceeds from sales of investment securities: ¥5.7 bn Sale of tangible fixed assets: ¥2.0 bn Outflow Capital expenditure: ¥11.2 bn
Financial cash flow	Outflow Share buybacks: ¥20.0 bn Dividends paid: ¥9.5 bn

Progress in financial and capital strategies: Cross-held shares

We continue to reduce cross-held shares. We have achieved the 4th medium-term plan's goal of having such shares account for less than 5% of consolidated net assets.

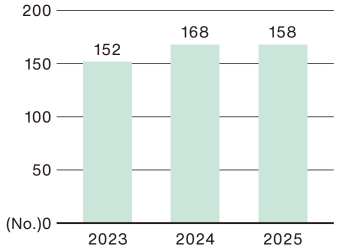


Engaging with Capital Markets

Communicating with Shareholders and Investors

As part of our efforts to sustain business growth and increase the value of our organization, we engage in dialogue with shareholders, investors, and other stakeholders. In our interactions with shareholders and investors, we focus on fostering a greater understanding of Kokuyo Group and our strategic agenda, including our long-term vision and medium-term plan. Another purpose of stakeholder dialogue is to gauge stock market opinion that we can incorporate into our business strategies. To that end, the President & CEO, Senior Vice President, Head of the Finance & Accounting Division, and the IR officer attend meetings and give briefings. We also hold separate meetings with institutional investors on an as-and-when basis to exchange views about our medium- and long-term strategies and other strategic matters and to build rapport.

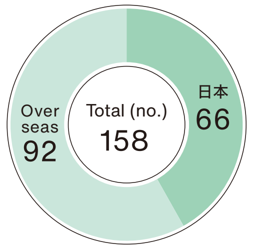
Number of institutional investor meetings by year



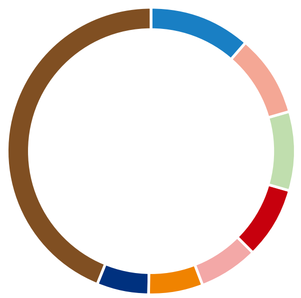
Number of investor events (January to December 2025)

Topic	No.
General Meeting of Shareholders	1
Financial results briefing	4
Separate investor briefing	6
Small meeting with investors	5
Meetings with institutional investors	158

Japanese to overseas ratio in institutional investor meetings (Fiscal 2025)



The topics investors are interested in



Breakdown

Furniture	11.4%	Stationery	6.44%
Medium- and long-term strategies	9.27%	M&A, business tie-ups	6.12%
Global expansion	8.92%	Business in Japan	6.0%
Market and competition trends	8.19%	Other	43.66%

Investor Q&As

Corporate/Strategic

Theme	Investor comments	Our response
Long-term vision, Forest-Like Management Model	What are the biggest priorities in your medium-term plan?	Two core themes are clarifying capital allocations and transforming the business portfolio. Further global expansion is essential for our success in the medium and long term because our Japanese furniture and stationery businesses face a maturing market. This global expansion will be accomplished with organic growth and by M&As.
Financial and capital strategies	Can you tell us why you shifted your focus from profit and loss to cash flow and what your shareholder returns policy is for the medium and long term?	We did once base our strategies around annual profit and loss. This changed when we began engaging with markets more after a change of leadership in 2015 and a subsequent increase in the number of outside directors. Having recognized that we had not made enough sound investments, we set out in the 4th medium-term plan clearer capital allocations and a cash flow–oriented approach. As for shareholder returns, the 4th (current) medium-term plan commits us to a basic policy of maintaining a payout ratio of 50% and to a ¥35 billion buyback program.

Business-specific strategy

Theme	Investor comments	Our response
Furniture	Given the brisk demand, do you really have cause to worry about the Japanese furniture business?	We do expect demand in Japan to remain strong beyond 2030 on the back of redevelopment projects in urban areas. However, over the longer term, population decline poses an unavoidable issue that necessitates global expansion. We are already laying the stepping stones to future growth by, among other things, extending our focus from new offices or office relocations to office renovations. We are also bringing across the brand identity in the stationery business to the furniture business. Such inter-business synergy gives us a strength our peers lack.

Fostering a Shareholder Fanbase
Our First Tour Event for Individual Shareholders

Turning Fans into Shareholders, Turning Shareholders into Fans

The 4th medium-term plan commits us to engaging better with individual shareholders in order to grow the value of our organization. In line with this policy, we are working to thicken our shareholder community, reduce variation in stock price, and reduce capital costs. We are also working to increase liquidity as part of our ¥35 billion buyback program. Individuals who invest in our company constitute a vital part of our overall community of shareholders and contribute to a steadier stock price. We therefore place importance on diversifying the community of individual shareholders and on creating opportunities to increase the overlap between shareholders and fans of our products and services.

Stock split

On July 1, 2025, we conducted a 4-for-1 split of common stock. By reducing the price per unit, we make our stock a more attractive investment proposition to investors.

Stock split ratio
4 for 1

- Record date June 30, 2025
- Effective date July 1, 2025

Tours of Offices in Tokyo and Osaka

We organized our first office tour for individual investors in The Campus (our office in Shinagawa, Tokyo) and our Osaka head office. The tour of The Campus was designed to give the investors an opportunity to learn about what we do besides stationery, with an emphasis on our furniture business. The tour of the Osaka office was designed to let investors encounter our history and encourage them to support our future efforts. Both tours focused on giving investors an encounter with our products and services. The Tokyo event was attended by the 30 shareholders selected in a raffle. The event included, besides a tour of The Campus, the Kokuyo Workplace Show, which showcases our workplace solutions for businesses. During the Kokuyo Workplace Show, the visitors tried out new products such as the office chair ingCloud, which designed to feel like a seamless extension of your body. During the tour of The Campus, visitors observed our live office environment for a close-up encounter of our workplace environment. The Osaka event was attended by the 20 shareholders selected in a raffle. The shareholders viewed historical exhibits at our history museum to learn about our 120-year history, including about our expansion into furniture and about offices of the early-Showa period (1926–1935). Visitors then toured our diversity office Hows Park, seeing examples of how we incorporate inclusive design principles.

We plan to hold more events for individual investors. Through such IR initiatives, we will build up our fanbase among our shareholders.

Feedback from visitors

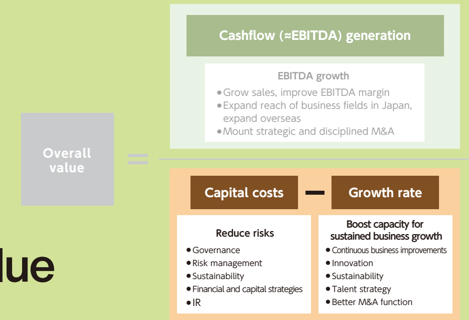
I was struck by the just how many initiatives there were for enhancing communication in the office. There is an excellent system in place, with initiatives for enhancing communication, infographics showing enrollment data, and so on.

I never knew that Kokuyo was doing so much outside of stationery. What astonished me most was Kokuyo's furniture business, with a product range and quality standards that stand comparison with that of dedicated furniture makers.

A scene from the Tokyo tour

A scene from the Osaka tour
(the Osaka head office was relocated to Grand Green Osaka in May 2026)

CSV Message from the Senior Vice President, Head of the CSV Division



Balancing Economic Value and Social Value with Distinctive Sustainability Practices

Sustainability as a Common Guiding Principle

Kokuyo signaled a major change in direction when it unveiled the Forest-Like Management Model. Guided by this model, we are proceeding with initiatives that leverage our diversified businesses. Just as forest health is maintained by an abundance of trees, Kokuyo gains agility by having a diversified array of businesses. But while the parts may be individually strong, they do not in themselves combine to form a strong whole. The individual parts must first be connected by a common soil of shared values and corporate culture. In this, sustainability has a central part to play.

Sustainability offers a reference point for building a brand, a compass point for guiding corporate strategy, and a guide employees can use when making decisions. When sustainability serves as a set of values for guiding employee decision-making, the company will gain stakeholder trust, shoring up the ground for sustained growth in the value of the organization.

At the core is the very principle we have upheld since our foundation, which is to make a positive impact through our products. While our business portfolio has evolved over the years, we have never stopped asking ourselves what we can do to serve a useful role in society. The concept of materiality is a modern-day version of this enduring ethos. We are committed to dynamic materiality, meaning that we update our material (sustainability) issues to keep them relevant to the latest developments in the external business environment.

Using a Logic Model to Identify Business Values

To further embed such values throughout the organization, we have taken actions grouped into two aspects of sustainability: mandatory practices and optional practices. Mandatory practices are the kind of sustainability practices that every company should be taking. Under this theme, we are putting in place structures for inhibiting negative environmental effects such as water pollution and for inhibiting negative social effects such as human rights threats. It is true that we were once somewhat passive in taking such action, in that we only took such action in response to societal expectations. However, we are increasingly proactive, in that we consider what sustainability strategies align with our distinctive values.

Optional practices, on the other hand, are tied to our distinctive approach to value creation. Employees attitudes have changed markedly over the past several years. Employees increasingly sense how their work contributes to the creation of social value, and we have seen a significant increase in the rate of positive responses in the employee questionnaire. In other words, employees are reappraising the value of the work they do. The task now is to make sure this change in mindset leads to higher quality action.

To improve the quality of action, we are working on means to overlap business strategies with sustainability. One of these means is a logic model. A logic model shows the reason why a particular business exists and what social impacts it creates, linking these outcomes with KPIs. Managers and employees can use the logic model to guide their everyday decision-making. We set out the KPIs on a tentative basis in 2024 and began monitoring them in 2025. The logic model remains under trial, but it is already disseminating across the organization and encouraging people to rethink the business objectives from the ground up.

Reactions within the organization have been positive. We have in the past focused on financial KPIs, market share, and competitiveness, but I have observed an increasing interest in metrics that measure employees' purpose-driven mindset—having a sense of why one is doing the job one does. In the business supply distribution business, for example, employees increasingly make decisions aligned with the purpose of the business, such as decreasing time and effort for the customer on the basis that this will free up more time for the customer to engage in creative activities.

For the theme of mandatory practices, we have improved disclosures in terms of meeting international disclosure standards, enhanced risk management processes, reorganized the monitoring processes of the Board of Directors, and established a human rights policy. For the theme of optional practices, we are making headway in eliminating social barriers, increasing the number of people who can express their individuality in work and study, developing products that incorporate inclusivity principles, and in other value-creating actions linked with business segments.

When employees understand how their job impacts the world around them, they will engage with a greater sense of purpose. Consider Tsunage Loopa, an initiative where we produce new products out of used notebooks returned by elementary schoolchildren throughout Japan. In this initiative, employees have gained inspiration from the passionate the participants showed. Osaka Live!, an event Kokuyo organized in conjunction with Osaka-Kansai Expo, was held eight times, once a month. Participants offered positive feedback, saying that they never knew Kokuyo was such a fascinating company. We gain amazing benefits when we create such opportunities for internal and external stakeholders to interact. As well as the external stakeholders becoming more informed about Kokuyo, the employees get to see how people view our organization, which gives them a sense of our organization's value and a greater pride in being part of the organization.

However, we do have issues to address. Materiality is still not given full consideration in instances of decision-making. Another issue is that employees, while understanding the environmental concerns that consumers have, still tend to prioritize net sales and costs. We can overcome these issues by accumulating a body of successful cases, listening to the opinions of outside experts, and developing internal structures incrementally. Only when grassroots action is combined with organizational backing can we change the behavior of the organization as a whole.

Envisaging the Value of the Organization in 2030

We have set a challenging target for 2030, which is to have balanced social value with economic value in 100% of our sales. More important than reaching the target is to press ahead in actions that strengthen Kokuyo's business. To take this process forward, we will put in place the structures incrementally, including those related to personnel evaluations and remuneration.

What I ultimately want to see is a situation in which the principle of balancing social value with economic value has become an entirely normalized part of decision-making, regardless of whether people are conscious of this as "sustainability." If this principle instills confidence in our organization, we will gain many more likeminded people to our side, helping our businesses expand their boundaries and supporting the value of our organization around the world.

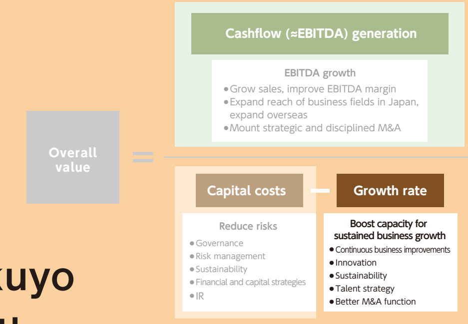
As head of the CSV Division, my role is to show the way forward, spearhead the necessary initiatives, and support employees taking on challenges. With increasing pace, we will enhance our mandatory practices and use optional practices to create value to enhance our sustainability level under the Forest-Like Management Model.

Naotaka Umeda

Managing Officer, Senior Vice President, Head of the Audit Committee Office and CSV Division (as of March 2026)

Note: This message is dated January 31, 2026. On April 1, 2026, the post of Senior Vice President, Head of the CSV Division was transferred from Naotaka Umeda to Masahiro Fukui.

H&C Message from the Senior Vice President, Head of the Human & Culture Division



With a history of unleashing creativity, Kokuyo now takes its distinctive talent strategy to the next stage.

Sustaining the Dissemination of Value

The source of Kokuyo's value creation lies in creativity. Ever since our foundation, we have traced a path of business expansion by seeking solutions that are optimal and relevant to the latest trends, guided by the question of how we can help people channel their creativity. However, we must dream even bigger dreams and take on even tougher challenges than we have done in the past if we are to achieve the goal of delivering a greater array of experience value under our Forest-Like Management Model. If we spotlight employee excellence and provide organizational structures to support challenge-taking and growth in a strategic manner, then I believe that the empathy and humanistic creativity that are the forte of our workforce will become all the stronger and enable us to keep expanding the experience value we deliver.

Kokuyo is fortunate to have seasoned veterans who are highly accomplished in a particular field, be it stationery, furniture, or interiors. With their expertise, each business has delivered outstanding value. However, for the sake of the Forest-Like Management Model, we now need to cultivate top-leadership talent that can take a big-picture view across the entire value chain and devise and execute strategies to navigate the complex business environment. Since global expansion requires us to develop businesses in regions of the world with very different market compositions and cultural contexts, we need leaders who can postulate a hypothesis, understand how a particular business fits into the wider picture, and align different organizational entities toward a common goal. If such talent is developed, and if it creates value grounded in their local community, Kokuyo will gain ever greater opportunities for success.
Another urgent priority is to cultivate creative talent, as such talent plays the core role in Kokuyo's efforts to deliver value. Until now, product development teams would remain within their respective business divisions, meaning that each division have become siloes of tacit knowledge related to expertise and creativity. We want to make such siloed creativity available as an organization-wide asset so that ideas and technologies from one division to be combined with those of another, unleashing employees' inner creativity to the maximum.

Reassignments and Growth Acceleration

In our talent strategy, we have recently placed importance on meaningful redeployment. To help junior employees understand themselves better and whet their appetite for growth, we encourage them to see redeployment as an opportunity to discover a new side of themselves and use workshops, assessments, and other events that prompt the employees to consider what they are passionate about and what areas of themselves they would like to develop.

In 2023, we launched the Talent Development Committee. At this committee, we assess the potential of individual employees from multiple perspectives to identify abilities or potential the employee might not be aware of. The committee then considers a potential redeployment and job assignment that could give the employee the experience they need to develop their hidden talent. Through this process, we use strategic redeployments to both aid the employee's own growth and enhance the competitiveness of the business.

Yasunari Koshikawa

Managing Officer,
Senior Vice President,
Head of the Human &
Culture Division,
and Chair of the
Wellbeing
Subcommittee

The actions we have taken are beginning to bear fruit. The Talent Development Committee has recently accomplished a qualitative shift. Breaking away from the conventional idea that you should place priority on achieving proficiency in a particular area, the committee now centers the discussion around the need for growth that is long-term and optimal. By changing mindset and behavior in both employees and their supervisors, we are working to increase the annual redeployment rate from its present rate of 20% in 2026 and make it a normal part of our organizational culture for employees to be redeployed to take on challenges across traditional divisional boundaries.

Findings from our engagement questionnaire offer further evidence of the progress we have made. Respondents are giving top scores for challenge-taking culture and identification with mission and vision. We have also seen an increase in scores for career opportunities. Employee net promoter score (eNPS)* has increased too. We now need to improve scores for sense of growth. To that end, high-quality opportunities for employees to challenge themselves must be provided to more employees and more frequently so that employees gain a broad range of experiences. To accelerate growth, we have shifted to a more flexible and individuated approach to talent management whereby we let employees skip certain levels of advancement if they have the right qualities. This year, we began revamping our talent development system. We are proceeding with this work in order to organizationally embed the talent management approach we have developed.

* This metric measures how likely employees are to recommend their workplace to others.

Creating a Turning Point Toward a New Kokuyo

The relocation of our Osaka head office to Umeda is a turning point in our efforts to accelerate the talent strategy. With the corporate divisions located in the Osaka head office, there was always some physical and psychological distance with the business divisions. With the relocation to Umeda, where the latest trends in business and culture intermingle, the corporate and business divisions will be collaborating in the same space. The new location will also be open as a live office to visitors from within Japan and from overseas. These factors will create an environment that naturally brings out employees' autonomy and creativity.

The relocation, along with the revamp of our corporate logo, marks a turning point toward a new Kokuyo. I would describe this as a graduation from the Kokuyo that has existed to date. Just as one transitions from high school to university and then from university to adult life, Kokuyo employees must change their mindset and behavior in preparation for the next stage. I want employees to embody workstyles that unleash people's creativity so that the new location in Umeda will showcase our values to the world.

Toward an Organization that Turns Diversity into Power

When it comes to materiality, we have committed to raising the percentage of management posts held by women and raising the take-up of paid leave because these KPIs measure our progress in radically changing our workstyles. Closely correlated with each other, they serve together as a barometer measuring the extent to which we have shifted to a corporate culture that empowers diverse talent. Take-up of paid leave measures the extent to which we have embedded a corporate culture that respects diverse workstyles, while percentage of management posts held by women represents in a visible way how far such change in culture has progressed.

It was once taken for granted that a women should take leave or work shorter hours because of the gender bias that a woman has a role in the home and so should not be assigned too much work. There was a tacit understanding that women should be spared from duties with heavy responsibilities. By contrast, men were expected to work long hours of overtime. Because this norm prevailed, men inevitably worked long hours and rarely took paid leave.

These biased norms were the direct cause of lost business opportunities. If diversity is given inadequate consideration in office design, you will be less likely to create an environment that brings out creativity to the full. We have businesses that were inspired by women's perspectives. For example, mothers with kids dreamed up Hello! Family, a brand of IoT-powered tools for monitoring one's child.

The percentage of management posts held by women is set to reach the target ahead of schedule, suggesting that the transformation is making palpable progress.

To Be a Company that Supports Creativity

My mission is to plow the soil so that employees can bloom and flourish, contributing to a forest of mighty trunks and abundant boughs and foliage, as envisaged in the Forest-Like Management Model. I will maintain my belief that the purpose of talent management structures is not to push employees around but to empower their growth. The more employees undergo new experiences and discover new potential in themselves, the more Kokuyo will deliver value in society. In this mission, I still have many challenges to overcome, but I am committed to discharging my duties so that I can hand over a rich forest soil to the next generation of leaders. I will keep enhancing our organizational structures and talent strategy so that Kokuyo can disseminate its differentiated value—to support creativity—on a more global scale.

Talent Structure, Talent Strategy

Maximizing the creativity of our talent is key to creating new value and addressing socio-environmental problems, which in turn will transform our business portfolio. We are fostering an open culture in which employees feel confident to express their individuality and apply their strengths. We are also cultivating leaders who will maximize employees' creativity.

A story of a talent strategy for unleashing Kokuyo talent

What makes our organization strong is the way our employees are diligent about meeting the customer's needs and how, to that end, they will engage their creative thinking to such an extent that they appear nerdy and quirky. To maximize creativity, the driving force of our wow-factor creation cycle, we spotlight employees' motivation and potential and foster an empathetic and comradely workplace culture where minds meet. In this way, we stoke employees' curiosity and ambition, generating many kinds of experience value that contribute to business growth. That is the talent strategy story we are weaving.

Transforming Organizational Culture

Designing Employee Experiences to Transform Culture

We want employees to feel motivated from within themselves to change their behavior. That is why we place importance on designing employee experiences. We situate the office a place for experiencing the company's vision so that employees will have a visceral sense of this vision throughout their everyday actions and relationships and put it into practice.

An example of this is a public event we hold called CULTURE SNACK. CULTURE SNACK is a cultural festival in which people discover a new side (the B-side) of the Shinagawa neighborhood and the people who work there.

The event featured merchandise, workshops, and a range of other programs. It lasted for two days and more than 2,000 people attended. We asked employees to volunteer to help run the event or to man booths. Some 200 employees stepped forward, including those from our overseas business locations. Of the employees who helped run the event, around 95% said that the event embodied Kokuyo's distinctive qualities. In our employee engagement survey, scores have improved for the item measuring identification with our mission and vision and the item measuring the extent to which employees feel we have a challenge-taking culture. With employees proactively engaging in such events, we are seeing the emergence of behavioral change toward an organizational culture that empowers challenge-taking and creativity.

Training Strategy

Spotlighting Employees and Accelerating Growth

We have established the Talent Management Policy. The policy includes the principle that Kokuyo's workforce is an asset to society. In line with the policy, management and employees have a common understanding that the management helps every employee to achieve their potential and cultivate talent that will drive business growth and contribute toward a better society.

One way we encourage employees to actively engage in career development is Kokuyo's 20% Challenge, in which employees volunteer to dedicate 20% of their working hours to working in another part of the company. Besides this, managers meet on the Talent Development Committee to discuss each employee's career potential from multiple perspectives, clarify the person's level of growth, and decide on meaningful redeployments or job allocations.

We have a talent-development institution called the Kokuyo Academy, which runs an ongoing program to hone leadership and creativity. We also encourage employees to share knowledge with each other to foster an organizational climate conducive to continual learning and challenge-taking (under our concept of yokoku, or presenting a tomorrow you can't wait for).

We also focus on cultivating leadership talent, a globally fluent workforce, and a digitally savvy workforce to drive business growth. To cultivate such talent, we have expanded our program of practical training in strategic planning and our leadership training program for junior employees. We are also using strategic reassignments to boost talent capacity. To help cultivate a globally fluent workforce, we established Global Challenge Trainee, a new status for junior employees who will take on tough assignments overseas, and began the first wave of Global Challenge Trainee assignments. To increase the digital talent across our organization as a whole, we are stepping up recruitment, both in annual recruitment of fresh graduates and recruitment of mid-career candidates.

https://www.kokuyo.com/en/sustainability/society/employee/human-resources/#human-resources-ttl-01

	KPI	Companies covered	2021	2022	2023	2024	2025
Spotlight each employee's ambition and potential							
Personalized career support	No. of employees who have participated in the 20% Challenge (cumulative total in parentheses)	Kokuyo, Kaunet	68 (129)	60 (189)	77 (266)	112 (378)	125 (503)
	Career opportunities score	Kokuyo, Kaunet	72	71	73	75	76
	Percentage of management posts held by women	Seven main group companies	7.75%	8.14%	9.41%	10.9%	13.8%
Cultivating leaders	No. of employees who have participated in the Kokuyo Marketing University (cumulative total in parentheses)	Kokuyo, Kaunet	25 (118)	25 (143)	25 (168)	24 (192)	25 (217)
	No. of employees who have participated in the Kokuyo Marketing Graduate School (cumulative total in parentheses)	Kokuyo, Kaunet	26 (73)	20 (93)	20 (113)	20 (133)	16 (149)
	Training expenditure per person	Five main group companies	¥39,107	¥42,955	¥54,554	¥62,554	¥57,846

The seven main group companies are: KOKUYO CO., LTD. Kaunet Co., Ltd., KOKUYO Marketing Co., Ltd., KOKUYO Supply Logistics Co., Ltd., KOKUYO Logitem Co., Ltd., Kokuyo & Partners Co., Ltd., and Actus Co., Ltd.
The five main group companies are: KOKUYO CO., LTD. Kaunet Co., Ltd., KOKUYO Marketing Co., Ltd., KOKUYO Supply Logistics Co., Ltd., and KOKUYO Logitem Co., Ltd.

Creating an Environment that Supports Wellbeing

Interpersonal Relationships for a Meeting of Minds Amid Diversity

We will create an organizational culture that empowers diverse employees to take challenges and shift to an approach in which employees take the initiative and act across divisional boundaries. To that end, we will encourage mutually inspiring camaraderie in an effort to support both personal growth and productivity improvements.

Another program is Kokuyo-Style Hybrid Work. This program honors diversity and individuality while encouraging employees to engage in workstyles that improve the productivity of the team as a whole. In this program, employees choose an office attendance pattern. Every three months, they undergo the experience of reviewing how effective the pattern was in terms of team productivity and team creativity and take steps to refine their workstyle.

We are working to create a workplace environment in which employees with childcare or eldercare commitments, or with other challenging circumstances, feel empowered to be themselves. To help employees meet their childcare or eldercare commitments and still have a fulfilling work life, we allow split shifts under a flextime system and have introduced wellness leave that covers medical visits to maternity clinics or infertility treatment. We support employees with babies or small children by allowing them to bring their children to work and by providing more workstyles options. We also have programs to foster greater awareness in these matters. One example is Life & Career Day, an event that focuses on themes such as maintaining a career while raising children and taking paternity leave. Other examples include a women leaders seminar, a program for managers that simulates working with limited hours, and a seminar about balancing work with eldercare.

We have a longstanding commitment to inclusivity. We started employing people with disabilities as early as 1940. In 2003, we founded a special subsidiary (disability-friendly employer) called Kokuyo K Heart. In 2006, we founded Heartland. In 2023, we took a further step in promoting diversity and inclusion by launching a diversity office called Hows Park. It is a place where people with disabilities and people with none respect one another and where diverse employees stimulate each other's personal growth in process for creating inclusive products and services.

	KPI	Companies covered	2021	2022	2023	2024	2025
Create a workplace environment and opportunities for meeting of minds							
An open organizational culture that empowers diverse employees to take on challenges	Challenge-taking culture score	Kokuyo, Kaunet	66	66	68	71	72
	Mission and vision resonance score	Kokuyo, Kaunet	73	71	72	74	74
	eNPS*	Consolidated group companies in Japan	—	—	−65.8	−62.4	−58.2
Building a workplace that empowers diverse employees	Monthly overtime (hours)	Seven main group companies	21.7	22.4	19.8	21.0	21.2
	Paid leave uptake rate	Seven main group companies	48.4%	54.3%	61.7%	71.1%	76.8%
	Paternity leave uptake rate	Kokuyo, Kaunet	—	64.3%	57.1%	64.3%	82.1%
	Percentage of employees who have a disability	Group companies implementing	2.37%	2.33%	2.38%	2.55%	2.59%

The seven main group companies are: KOKUYO CO., LTD. Kaunet Co., Ltd., KOKUYO Marketing Co., Ltd., KOKUYO Supply Logistics Co., Ltd., KOKUYO Logitem Co., Ltd., Kokuyo & Partners Co., Ltd., and Actus Co., Ltd.
* eNPS stands for "employee net promoter score." This metric measures how likely employees are to recommend their workplace to others.

Strategy 1 Improve Wellbeing among Employees and External Stakeholders

Wellbeing is the experience of feeling happy and healthy. To help improve wellbeing, we will promote work-life balance, new workstyles, and a diverse workplace (inclusive of gender, disability, and nationality) that produces innovation. To promote wellbeing in society, we will develop products with inclusive design. For this, we have two challenge goals: pitch ideas for new ways of working, and promote diversity, inclusion, and innovation.

Vision for 2030 and major initiatives

2025 result	2026 initiatives	2027 target	2030 challenge target
● Percentage of management posts held by women: 13.8% ● Take-up of paid leave: 76.8% ● Percentage of new product series that incorporate inclusive design: 48.8%	● Drive workstyle reform and encourage employees to take leave, stoking curiosity ● Help employees balance work with childcare or eldercare commitments and encourage them to be career-minded ● Develop better pitches based on inclusive design and spatial design ● Build an industry-spanning network ● Improve the impacts of collaborative research with universities	● Percentage of management posts held by women: 16% ● Take-up of paid leave: 100% ● Percentage of new product series that incorporate inclusive design: 35%	● Challenge goals for flexible work options (flextime, empowering women) 27 challenge goals (three per year for nine years) ● Percentage of new product series that incorporate inclusive design: At least 50%

Having coined the term “life-based working” to describe a situation in which the one’s workstyle, learning style, and lifestyle are balanced and embody one’s uniqueness, we have set 2030 challenge target and KPIs for our efforts to encourage more people to engage actively and spiritedly in their work and study.

As an organization committed to pitching new lifestyles and workstyles for a more abundant life, we have made wellbeing central to the Kokuyo model. We want our employees unleash their inner uniqueness and creativity in their work, yielding insights and ideas that they can then pitch to society.

To promote employee wellbeing, we are shifting to a mindset that places more value on employees’ time and promoting employee empowerment and growth. We commit to building a workplace that accommodates diverse workstyles and that empowers employees to develop their potential and build their career.

To contribute to public wellbeing, we will develop products with inclusive design. We define an inclusive design approach as one in which, from the planning stage onward, one empathizes and co-creates with individuals who have disabilities or face social barriers in order to identify and resolve the issues.

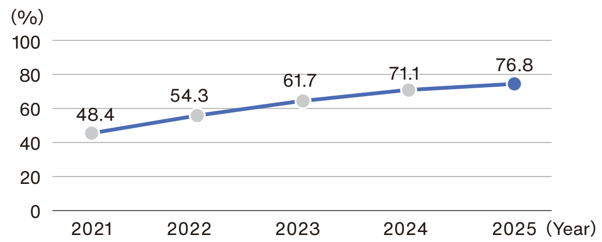
Shift to mindset that values employees’ disposable time

To help employees gain more disposable time, we are transforming employee management with new approach to workstyles and time allocation, focusing on three themes: follow-up process, 1 on 1, and leave support. For the follow-up process theme, team leaders keep track of members’ work with timely follow-ups and then modify work schedules and reallocate resources as necessary. This process helps standardize workflows and improve efficiency at each organizational unit. Alongside this, we have set days for which we encourage employees to take paid leave and encourage employees and their supervisors to hold dialogues about strategic take up of leave. Such dialogue will only be effective if there is an open organizational culture, enabling transparency in relationships. We have examined the kind of 1-on-1 sessions that best suit our organization (the frequency of the sessions, the settings in which they are held, and the tools used), resulting in the Kokuyo 1-on-1 model, which we have rolled out across our organization. We also hold communication events across divisional boundaries.

We are also actively committed to reforming workstyles in the logistics industry. Kokuyo Logitem and Kokuyo Supply Logistics have introduced flextime for distribution center staff and all other employees. With flextime, employees exercise autonomy in deciding which hours they work according to busy and slow periods. This creates more disposable time, contributing to greater wellbeing.

By taking such initiatives, we are increasing the paid leave update rate year by year.

Take-up of paid leave: Seven main group companies in Japan



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Helping employees build diverse and fulfilling careers

We use the percentage of management posts held by women as a metric to measure the extent to which we have an organizational culture that is inclusive and empowering. A material goal based on this metric is for 16% of management posts to be occupied by women in 2027.

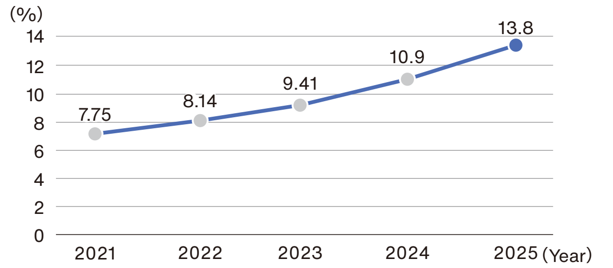
We are working to create an environment in which childcare or eldercare commitments do not become career bottlenecks.

In 2024, we provided a new workstyle option in which the employee can bring their child to the workplace. We have extended the coverage of leave to care for a sick or injured child so that employees can now use it until their child is in the sixth grade of elementary school. We have also relaxed the requirements for family care leave. To ensure that taking leave does not create a blank period in one’s record, we track the skills employees are accumulating over time and provide continual feedback to support their post-leave career growth.

For junior employees, we have Kokuyo Career Dock. Kokuyo Career Dock includes two programs run simultaneously. One is a self-development program for the junior employees. The other is a program for training subordinates attended by the employees’ supervisors. Kokuyo Career Dock is designed to foster a common understanding between supervisors and subordinates about career growth and challenge-taking. The training programs are also attended by senior managers to encourage the junior employees to commit to professional development and their supervisors to support their development.

We will continue to help employees develop their potential and forge fulfilling careers.

Percentage of management posts held by women: Seven main group companies



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Promoting Kokuyo inclusive design

Kokuyo develops products with inclusive design. In the development of such products, individuals who have disabilities or who face social barriers engage from the planning stage onward. In fiscal 2022, we named Kokuyo’s distinctive process of inclusive design Hows Design. Our target for 2024 was for 20% of all new product series from Kokuyo Group to have undergone the Hows Design process. Our target for 2027 is for 35%. Our target for 2030 is 50%. In this way, we are being inclusive to employees with disability and helping reduce the social barriers they face. In 2025, we reached 48.8%, indicating that we are on course to the target.

HOWS DESIGN
https://www.kokuyo.com/sustainability/howsdesign/
*Available in Japanese only.

HOWS DESIGN

Hows Design process

1. Identify a social barrier
2. Explore ideas for solving the problem
3. Test product samples
4. Test specific products or services

This mark appears on products and services that were created through Hows Design.

Key Hows Design releases

1. Campus Break-Resistant Eraser Parallelogram
Shaped to be easy to hold and to enable targeted corrections

2. hangout
Inclusive furniture for people to recline on in casual postures, fostering natural social interactions

3. Labelless bottle of mineral water sourced from the Tsumagoi Highlands in Japan
A bottle designed to be opened with minimal exertion

1. We discovered that users with a weak grip or large hands find conventional brick-shaped erasers unwieldy. We used a parallelogramic design so that users could grip the eraser more easily and erase small letters with greater precision. We also used packaging that is friendly to people with visual impairment.

2. Furniture to grip, lean forward on, or lean back on. Hangout is a modular furniture set that people can rest on in various postures, fostering natural communication. It provides a little place in the office to hang out for a while between work. The open, casual atmosphere facilitates communication.

3. For this mineral water product, we designed a plastic bottle that is easy to carry and open.

Strategy 3-1 Respond to the climate crisis

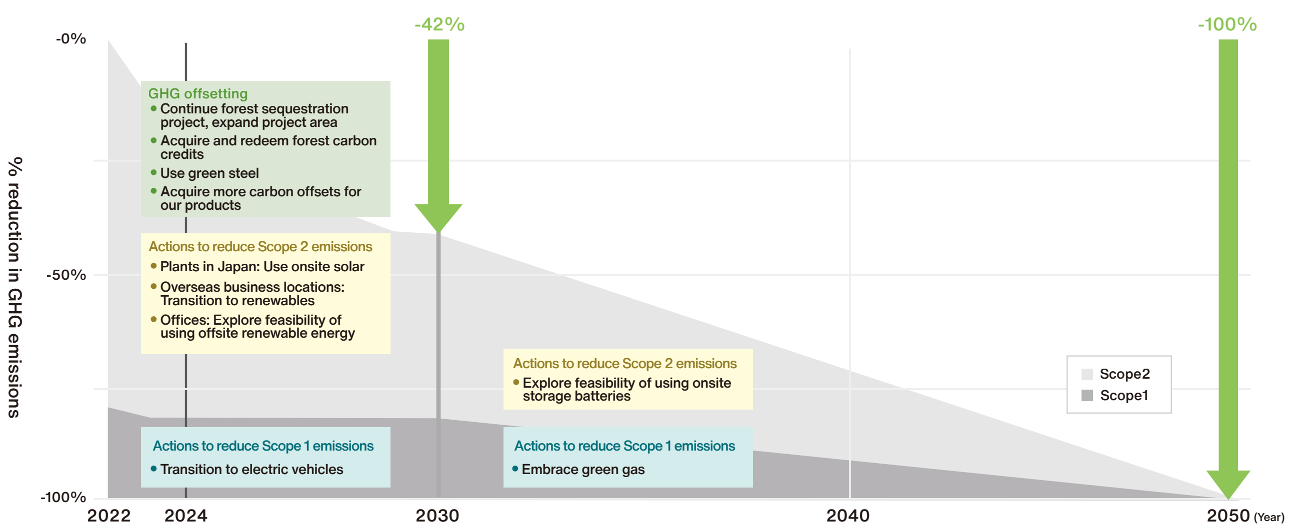
Over 90% of our CO_2 emissions are from our value chain (Scope 3), meaning that we can't contribute to carbon neutrality just by reducing emissions from our own businesses. We rely on numerous production and distribution partners. To contribute to carbon neutrality, we work with these supply chain partners on initiatives such as switching to more sustainable raw materials and delivery methods.

Vision for 2030 and major initiatives

2025 result	2026 initiatives	2027 target	2030 challenge target
CO_2 emissions reduction: ● We reduced total Scope 1 and Scope 2 greenhouse gas (GHG) emissions by 40.0% from the level in 2022. ● We collected primary data from paper makers (paper accounts for a large part of our Scope 3 emissions). We began discussing with office furniture suppliers ideas for reducing supply chain emissions. ● We learned that the suppliers committing to science-based targets represent 84,800 t-CO2 of our Scope 3 emissions.	● Conclude a corporate purchase power agreement for The Campus (our main live office, located in Shinagawa, Tokyo) ● Provide suppliers with a training course in GHG calculation	CO_2 emissions reduction: ● Reduce total Scope 1 and Scope 2 GHG emissions by 35% from the level in 2022 ● Formulate an action plan for achieving 2030 Scope 3 target (25% reduction in greenhouse gas emissions from "purchased goods and services" versus 2022 level) ● Obtain commitment toward science-based targets from suppliers covering 125,000 t-CO2 of our Scope 3 emissions	CO_2 emissions reduction: ● Reduce total Scope 1 and Scope 2 greenhouse gas emissions by 42% between 2022 and 2030 ● Reduce greenhouse gas emissions from the Scope 3 category "purchased goods and services" by 25% between 2022 and 2030 ● Have suppliers, responsible for 12.5% of our emissions from "purchased goods and services," set science-based targets by 2028 CO_2 emissions reduction: Contribute to sequestering of at least 6,000 t-CO_2 a year

Roadmap for reducing GHG emissions

We aim to become carbon neutral by 2050. In line with this commitment, we have set out a roadmap for reducing GHG emissions. In this roadmap, the initial focus is to reduce GHG emissions at Scopes 1 and 2 (emissions directly attributable to our own business operations). Our reduction efforts are supplemented by GHG offsetting. For example, mindful of how we make extensive use of forest resources, we engage in a forestry project that contributes to carbon sequestration.



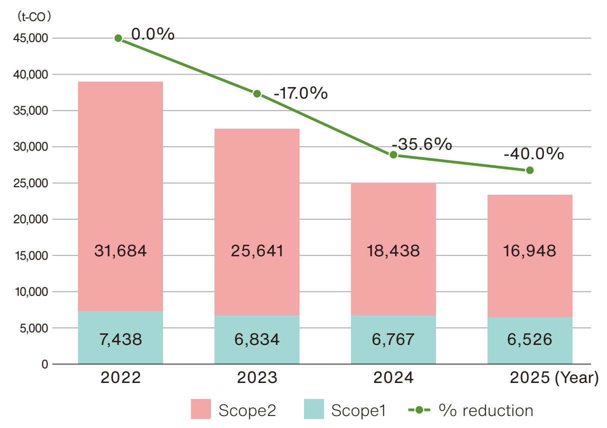
Reducing GHG Emissions at Scopes 1 and 2

For Scope 1 and 2 emissions (emissions directly attributable to our own business operations), we committed to a reduction target for 2027 of 35% from the level in 2022. In 2025, we achieved this target two years ahead of schedule. In that year, Scope 1 and 2 emissions were 40.0% down from the 2022 level.

This achievement is a product of our commitment to energy efficiency and the accelerated pace of our renewables transition. For energy efficiency, we are rolling out LED lighting in our business locations. In 2025, Kokuyo Logitem installed LED lighting on the ground floors of its distribution centers in the Greater Tokyo Area. The transition to LED has significantly contributed to energy efficiency. Facilities that converted to LED consuming 70% less energy than before.

By 2024, the renewable energy transition was completed in the Mie Plant (which manufactures office furniture), in Kokuyo Product Shiga (which processes paper products), in the Shibayama Plant (which manufactures room partitions), in Kokuyo MVP's Tottori Plant (which manufactures file binders) and in The Campus (our core live office in Shinagawa, Tokyo). In 2025, we extended these efforts to our overseas business locations, one of which was KOKUYO Commerce (Shanghai) Co., Ltd., which manufactures paper products.
Building on our accomplishments so far, we will commit to even more ambitious targets and increase the momentum of our reduction efforts.

Result compared to 2027 target (Scope 1 & 2: 35% reduction in CO_2 emissions from 2022 level)



Note: We have recalculated past year results on the basis of the scope of consolidation in 2025.

Reducing GHG Emissions at Scope 3

For Scope 3 emissions (supply chain emissions), we have committed to goal related to total reduction of Scope 3 emissions and to a goal related to supplier engagement (getting suppliers to commit to reduction goals).
For total reduction, we asked our paper suppliers to give us primary data showing the emissions per unit of production of the paper we purchase from them, mindful of the fact that much of our Scope 3 emissions is derived from paper production. The paper suppliers were supportive of what we are trying to do and provided the data we requested. We also reached out to six furniture makers in our supply chain and asked them to support us in our efforts to reduce supply chain emissions. They agreed to do so. By staying in regular contact with suppliers, we gain a better idea of how much each supplier is emitting and what we can do to expedite reduction in our supply chain emissions.
As for supplier engagement, we have conducted a questionnaire survey and interviews among a sample of suppliers accounting for 80% of our procurement spending to understand their current commitment to reducing emissions. The results revealed that the suppliers (including those founded by Kokuyo Group) committing to science-based targets represent 84,800 t-CO_2 of our Scope 3 emissions, which is 68% of our target of 125,000 t-CO_2. We will continue engaging with suppliers to reduce supply chain emissions. In 2026, we will hold workshops with suppliers to resolve any technical issues with GHG calculation.

Actus Engages in Government Model Program for GHG Reduction

Actus, a group company that sells imported furniture alongside original brands of furniture and other interior goods, was experiencing a major hurdle in its supplier engagement efforts. Namely, the majority of its suppliers did not calculate their GHG emissions. Together with three of its suppliers, Actus enrolled on a model program run by the Ministry of the Environment (Government Model Program for GHG Reduction for the year ended March 2026). The purpose of the program was to establish a best-practice model for supplier engagement in the calculation and reduction of GHG emissions. During an eight-month period, Actus provided technical support to help its suppliers to calculate their GHG emissions and commit to reduction targets. By the end of this period, two of the three suppliers had calculated their emissions. The remaining supplier committed to reduction targets. The program involves engaging with suppliers to develop an emissions reduction plan focused on production processes. The plan might involve, for example, assessing the operational status of production machinery and apparatus, improving yield rate, and identifying ways to streamline workflows. The program offers a cost incentive for suppliers by focusing on initiatives for improving yield rate and reducing leftover materials (such as by changing criteria for material selection). Drawing on the insights gained from Actus's participation in the program, we will roll out the initiatives to other suppliers in 2026 to further reduce our supply chain emissions.

Strategy 3-2 Contribute toward a circular economy

We want to use the planet's limited resources efficiently in delivering value to customers. Accordingly, we have been working to recycle more of our waste and to develop ecologically sustainable products and services. As an organization that provides products that are as accessible to as many people as possible, we also aim to promote individuated zero-waste lifestyles. We will engage partners and customers in our efforts to help build a circular economy, one that recycles and reuses rather than wastes.

Vision for 2030 and major initiatives

2025 result	2026 initiatives	2027 target	2030 challenge target
● Percentage of total product sales that are from products that incorporate circular economy policy: 11.0% ● Reduction in mixed construction waste from 2023 level: 73.4%	● Application of circular economy policy to existing products, preparing for extension to overseas products ● Increasing participants in our circular economy initiatives ● Making circularity a bigger selling point in office spatial design	● Percentage of total product sales that are from products that incorporate circular economy policy: 40% ● Recycling rate for general business waste (including dead stock): 97% ● Recycling rate for plastic waste: 100% ● Reduction in mixed construction waste from 2023 level: 75%	● Percentage of net sales attributable to products sold by group (including overseas companies) that support a transition to a circular economy: At least 80% ● Recycling rate for waste from offices, worksites, and warehouses: 100%

We will continue extending the scope of the circular economy policy Sutenai Circle to include the manufacturing of existing products and products sold overseas. Our target is for 40% of product sales to come from Sutenai Circle products.
In 2025, we established rules across Kokuyo Group for sorting garbage in order to reduce in mixed construction waste. Consequently, mixed construction waste was reduced by 73.4% from the level in 2023. The garbage sorting rules will be revised in 2026 so that we can make resource circularity a bigger selling point when pitching office spatial designs. We aim to increase the number of people participating in circularity by promoting initiatives such as Tsunage Loopa, which makes new products out of old notebooks collected and returned to us by elementary schoolchildren throughout Japan, and Loopa and Loopla, which recycle office waste.

Widening the circularity circle through a hands-on environmental learning program

We run a hands-on environmental learning program called Tsunage Loopa. Notebooks are one of the first consumable products a child is likely to own. Tsunage Loopa encourages young children not to throw away used notebooks, enabling them and their elementary schools to recycle them as a resource through us.
This provides an opportunity for children to learn by doing, simultaneously supporting their development and bringing the zero-waste society a step closer. We have received applications from many, many elementary schools since we launched the program in October 2023, and participation has grown to include 315 schools and around 93,000 children (both cumulative figures). As of February 2026, the program has recovered around 6.1 tons of paper (around 51,000 notebooks).
In 2025, we launched the Tsunage Loopa Award to honor unique and impactful initiatives. In that first year of the award program, we received entries from 24 schools and awarded four elementary schools. Through Tsunage Loopa and the award program, we will continue spotlighting children's commitment to recycling.

つなげるーぱ！
Tsunage Loopa

https://www.kaunet.com/kaunet/sustainability/tsunage-loopa
*Available in Japanese only.

Circular economy policy (Sustenai Circle): Outcomes

Shifting to a circular model in both tangible and intangible aspects

We followed our circular economy policy in 99.3% of the applicable products we developed in fiscal 2025. Consequently, 11.0% of total product sales were from products that incorporate circular economy policy. We use communication strategies to raise the recycling rate such as publicizing product information in a way that incentivizes more recycling. We are also expanding our services for collecting used products and reusing them. We are also working to reduce inventory waste and implementing other initiatives to lessen resource wastage within our organization.

SUTENAI CIRCLE

Resource procurement	Take into account resource recycling and climate change in procurement activities, reduce resource use
Design and manufacturing	Anticipate use, recovery, and recycling when designing and manufacturing
Distribution and delivery	Minimize resource waste and energy waste in distribution and deliveries
Use	Deliver information and services that resonate with the desire not to be wasteful
Recovery	Help people get rid of unwanted things with peace of mind
Recycling	Develop recycling technologies, secure traceable routes
Safety	Avoid use of hazardous substances that endanger the environment and human health

The Sutenai Circle mark appears on initiatives that align with the Sutenai Circle principles

A Classroom Desk Recycling Project in Partnership with Utsuho Academy

In partnership with Utsuho Academy, we ran a project to recycle classroom desks. In classroom desks, the upper surface is typically covered with a melamine finish, which makes it difficult to separate out the materials for recycling. After use, the desks usually end up being incinerated or deposited in landfill.
Drawing on our insights from recycling research, we ran a pilot scheme for breaking and processing the upper surfaces of disused classroom desks. The materials recovered were used as items such as furniture surface materials in a new elementary school and as message boards in a library. We will continue testing in collaboration with our partner, focusing on improving quality and strength of the materials. Through projects like this, we will make more materials recyclable and thus engaging more people in acts of co-creation and empathy toward a zero-waste society.

https://www.kokuyo.com/news/release/20250324cs1/
*Available in Japanese only.

Sutenai Station: Channeling Creative Energies to Change Mindsets About Garbage Disposal

At The Campus (our office in Shinagawa, Tokyo), we held a Sutenai Station exhibition to showcase garbage sorting. During the event, General Affairs staff, cleaning staff, and designer volunteers engaged in co-creation to tackle the practical issues in garbage sorting, including the hassle cleaning staff experience in sorting the garbage and the risk of dangerous contaminants. The purpose was to channel creative energies into transforming attitudes and behaviors among employees.
The realities of garbage sorting were visually represented in creative ways. One example was a display of "ambiguous garbage" collected over half a year. Another example was a pictorial guide that represented hazardous materials as if they were wildlife. We will now analyze behavioral changes using quantitative metrics and design waste containers to allow for easier garbage sorting to encourage employees across the organization to take a personal interest in building a zero-waste society.

https://www.kokuyo.com/news/release/251223cs1/
*Available in Japanese only.

Strategy 3-3 Promote sustainable procurement

We will foster understanding and trust with supply chain partners around our core value of co-creation with empathy, thereby fostering across our supply chain a commitment to corporate social responsibility that helps create a sustainable planet and sustainable communities.

Vision for 2030 and major initiatives

2025 result	2026 initiatives	2027 target	2030 challenge target
● 65.0% of products sourced from suppliers of at least rank B	● Improve supplier ranks (help suppliers ranked D) ● Enforce KOKUYO Group Paper and Timber Procurement Standards (among 60% of suppliers) ● Run due diligence checklists on mineral sourcing and suppliers' commitment to human rights	● At least 75% of products sourced from suppliers of at least rank B	● 100% of products sourced from suppliers of at least rank B

Requiring Suppliers to Comply with Sustainable Procurement Guidelines and Complete Questionnaire

Since 2022, we have surveyed our suppliers to monitor their commitment to sustainability. In the 2025 survey, we sent a questionnaire to 553 suppliers. Of these, 500 (90.4%) responded. We feed back the survey results to every respondent. The questionnaire gives us insights into the level of suppliers' commitment to sustainability, enabling us to identify socioeconomic risks early and make our supply chain more robust. Greater supply chain resilience means that our supply chain operations are less likely to be disrupted by future regulatory changes or societal developments. In other words, it helps ensure stable business operations.
In 2026, we will try to get a response from every supplier. Depending on the results of the questionnaire, suppliers are rated with a grade of A to D. The grade represents an overall score for the 42 questionnaire items, which are divided across six domains (quality management, respect for human rights, health and safety, environmental conservation, fair trading practices, and data security), but a supplier will get an automatic D grade if they fail in any item we have defined as a critical point. For high-risk suppliers, we convey the questionnaire findings so that the suppliers are aware of their strengths and weaknesses. We also engage and support them in ongoing efforts to improve their performance.

The grading system is as follows.
A: A score of 80% or more
B: A score of 60% to 79%
C: A score of 40% to 59%
D: A score of 39% or less or failure in any critical point

Consent forms obtained, response in 2025 survey

	No. of companies surveyed	No. of respondents
Agreement to adhere to Kokuyo's Sustainable Procurement Policy and Sustainable Procurement Standards As of December 31, 2025	1,058	1,049 (99.1%)
Questionnaire about sustainable procurement initiatives	553	500 (90.4%)

Results in 2025 questionnaire

A	B	C	D
202 (40.4%)	123 (24.6%)	19 (3.8%)	156 (31.2%)

KOKUYO Group Responsible Minerals Procurement Policy

We recognize that mining operations in, or transactions involving metals and materials sourced from, conflict regions and high-risk regions can harm human rights, damage the environment, and fund armed groups. To ensure responsible procurement of metals and minerals, we established KOKUYO Group Responsible Minerals Procurement Policy on December 1, 2025.

Respect for Human Rights

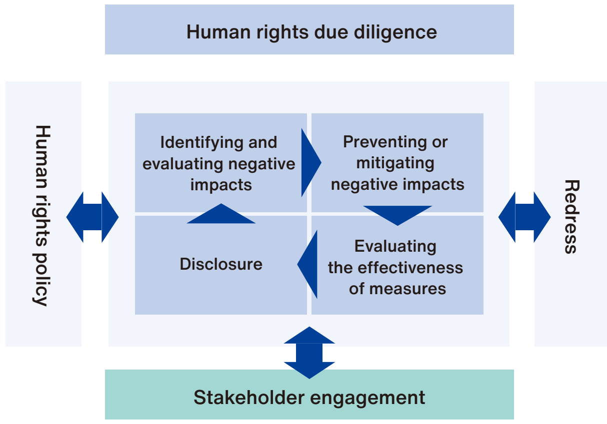
As an organization committed to supporting individuality and building a self-directed, collaborative society, it is essential that we protect people's dignity and respect their human rights. In compliance with international norms, laws, and regulations related to human rights, we will enforce a human rights policy and conduct human rights due diligence to fulfill our responsibility to safeguard the human rights of all our stakeholders no matter what country or region they are in.

Human Rights Policy

In 2025, we established the Kokuyo Group Human Rights Policy with the approval of the Board of Directors following a consultation with an external expert and discussions at the Sustainability Committee. In conjunction with this step, we assessed what could potentially be human rights risks in our value chain and identified the status quo as of the time the policy was established. We then considered policies and measures to close the gap between the status quo and the ideal to-be state.

Human Rights Due Diligence

In 2026, we will begin engaging in human rights due diligence (HRDD). We will also create a human rights roadmap for embedding an ongoing process for identifying human rights grievances, taking actions to prevent or mitigate them, and then evaluating the actions to identify how we can improve.
The first process for HRDD, to be undertaken in fiscal 2026, will be to conduct a questionnaire among group companies and suppliers. In the value chain analysis we conducted at the time we established the human rights policy, we obtained findings suggesting that we need to be mindful of work-related risks such as those related to workplace health and safety and long working hours.
In the HRDD questionnaire, we will obtain more precise data about these concerns, including whether the risks exist and what their exact nature is. From these findings, we will derive specific actions to take.



Stakeholder-Specific Human Rights Practices

1. Customers
In line with the Kokuyo Group Quality Policy, we never stop working to improve the safety and quality standards in all our products and services. Recognizing that it is of paramount importance to manage data security and safeguard personal data, we have organization-wide structures in place to manage these matters and continually enhance our practices for such. The Customer Relations Office has a helpline that customers can use to raise concerns about the quality of a product or service or about the method of delivery.

2. Suppliers
In line with the Kokuyo Group Sustainable Procurement Policy, among other publications, we use questionnaires to monitor human rights risks and give suppliers feedback to encourage a commitment to human rights across the supply chain. To identify and address issues early, we provide a Kokuyo Group hotline for suppliers and have transparent collaborative processes.

3. Kokuyo Group
In line with the Kokuyo Group Code of Conduct and the Kokuyo Group Human Rights Policy, we use pulse surveys and educational programs to manage employee health and productivity and prevent workplace bullying or harassment. We provide programs that support employees' mental and physical wellness along with educational programs. We also provide a group-wide hotline (the Kokuyo Group Hotline) for employees and other mechanisms for resolving grievances as part of our efforts to foster an open, speak-up organizational culture.

Strategy 3-4 Contribute toward a society that coexists with nature

Conservation of forests is a major imperative for us since we use a good deal of forest resources (not least in our mainstay products of notebooks and office furniture). Over the years, we have worked to conserve biodiversity and reduce our use of hazardous materials in order to minimize our impact on the environment. From fiscal 2026, we will monitor and take steps to improve our impact on the environment so that we can balance business activities with natural capital for a healthier planet.

Vision for 2030 and major initiatives

2025 result	2026 initiatives	2027 target	2030 challenge target
● Disclosed information in the stationery business in line with TNFD recommendations	● Apply KOKUYO Group Paper and Timber Procurement Standards	● Percentage of total sales that are from products that have cleared the standards for paper and timber procurement: 75% ● Visually representing environmental impacts: Complete visualization process in all major businesses	● Environmental impact of business activities visualized and carbon neutrality achieved
● Selected proposals for third environmental conservation project ● Forest conservation: 100.06 hectares of forest thinned ● Reedbed conservation: 0.69 hectares of reeds trimmed	● Begin work to obtain Sustainably Managed Natural Sites certification ● Establish processes to expand scale of project ● Promote project to motivate employees	● Number of environmental conservation projects: 3	● Forest conservation: Forests thinned at 150 hectares a year ● Reedbed conservation: Reeds trimmed at 1.5 hectares a year

Our goal for 2030 is to reduce environmental impacts and to foster in the market respect for biodiversity and a willingness to safeguard the environment. By balancing business activities with natural capital, we will help build a world in which people live in harmony with nature.
To that end, we are using infographics to graphically represent which of Kokuyo Group's business activities relate to which environmental impacts and where. We will disseminate the KOKUYO Group Timber Procurement Policy and KOKUYO Group Paper and Timber Procurement Standards among our supply chain stakeholders as part of an effort to engage such stakeholders in managing identified risks. We will continue to engage in forest conservation by making effective use of timber from forest thinning operations in the Taisho district of Shimanto, Kochi Prefecture. We will also keep protecting the reedbeds in Lake Biwa to engage to conserve the water quality and ecosystem.
A new nature conservation project for 2026 is to undertake the steps for getting the project sites nationally certified as Sustainably Managed Natural Sites. Adding to the forest conservation and reedbed conservation projects, we are now looking to begin a third environmental conservation project. The third project will be designed to conserve biodiversity in a local ecosystem and also address social issues in that local community.

Disclosures aligned with the TNFD recommendations

Taskforce on Nature-related Financial Disclosures

For more information, visit our website.
https://www.kokuyo.com/en/sustainability/environment/nature/tnfd/

Governance

The Kokuyo Group regards contributing toward a society that coexists with nature as a key element of sustainability. We take a holistic approach to managing issues relating to biodiversity and the natural environment as part of our efforts to integrate sustainability into business strategy. Issues and action plans are deliberated on by the Sustainability Committee, which is chaired by the CEO and whose membership comprises all corporate officers and managing officers. The committee regularly reports the results of its deliberations to the Board of Directors to enable board oversight.

Strategies

The LEAP approach designed by the Taskforce on Nature-related Financial Disclosures (TNFD) enables us to identify our dependencies and impacts on nature and our nature-related risks and opportunities and then develop the appropriate measures. In fiscal 2024, we subjected our stationery business to a LEAP analysis, focusing on the main group production bases for these businesses and the supply chain for key raw material paper. The process involved researching and analyzing the environmental impacts of our business processes and the anticipated risks and opportunities.

1. Identifying dependencies and impacts

We used the external Exploring Natural Capital Opportunities, Risks and Exposure (ENCORE) tool in evaluating the dependencies and impacts on nature throughout the Kokuyo Group value chain. We evaluated the dependencies and impacts for each business activity with reference to the typical business sector values provided by ENCORE. We then compiled these evaluations in a heatmap, which helps us see where we should be particularly concerned about our dependencies and impacts. The dependencies and impacts heatmap can be viewed on our website.

2. Understanding our relation to sensitive locations

We investigated how we relate to the IUCN (International Union for Conservation of Nature) protected area categories and KBAs (Key Biodiversity Areas) and our levels of flood risk and water stress and of natural environment alteration with reference to a third-party map analysis tool and following the TNFD criteria for sensitive locations. Some of our business facilities in Japan neighbor wildlife sanctuaries or nature parks. However, the emission of hazardous substances from these facilities is either limited or non-existent, or they are taking steps to minimize their impact by implementing wildlife protection measures. However, our investigation indicates that flood risk and water stress levels are high for our Shanghai Plant and Kokuyo-IK (Thailand).
We assume that upstream processes for paper products for our major suppliers are heavily reliant on water resources. We only transact directly with major suppliers in Japan and Indonesia. Our investigation has revealed that levels of water risk—water stress and flood risk—are high for our Indonesian suppliers.
We are working to establish traceability in our timber procurement. A statistical survey based on interviews with our group suppliers indicates that their procurement is concentrated in Southeast Asia and that they also source a fair proportion of resources from Australia, Chile and South Africa.

3. Identifying risks and opportunities

In our analysis of nature-related risks and opportunities, we identify dependencies and impacts and monitor forest conditions in sensitive locations and resource procurement locations. From these findings, we identify and evaluate both the risks to our value chain and the social and environmental impacts of our business activities. This is called double materiality. In our scenario analysis, we clarified the risk and opportunity scenarios specific to each important business location and local community, including the financial impacts and likelihood of occurrence.
The table below summarizes our findings on the key risks and opportunities for the stationery business.

Risk and opportunity evaluation outcomes

Category		Topic	Impacts	Risks	Opportunities	Relevant business facilities/regions	Severity	Major mitigation measures
Transition risks	Laws and regulations	Pollution control	・Contribution to local water quality improvement and water stress reduction through appropriate water intake and discharge management	・Cost of water intake and discharge management and complying with emissions regulations for water contaminants	—	Our business facilities	Low	▶Stay up to date with regulatory information ▶Upgrade facilities to improve efficiency of resource consumption
Transition risks	Laws and regulations	Environ-mental regulation	—	・Further resource allocation for measuring and reducing the environmental footprint of our products across the product life cycle	・Capture of new earnings opportunities by swiftly developing environmentally friendly products that comply with local definitions and regulations	Suppliers to our business facilities	High	▶Product lifecycle assessment ▶Appropriate information disclosure and engagement
Transition risks	Market	Response to environmentally responsible demand	・Destruction of unique ecosystems through inappropriate commercial plantation development in response to excessive demand or price competition ・Contribution to sustainable forest management through support for forest certification systems (FCS)	・Increase in procurement costs due to rising demand for FCS timber	・Higher capacity to meet environmentally responsible demand and growth in earnings through strengthening our FCS timber procurement supply chain	Regions where our suppliers procure their resources	High	▶Establish and improve traceability ▶Strengthen supplier engagement
Transition risks	Reputation	Our good standing	—	・Damage to our reputation with business partners and other stakeholders and consequent reduction in earnings opportunities due to a lack of concern for social and environmental issues in the areas where we procure resources	—	Resource procurement areas	Medium	▶Establish and improve traceability ▶Strengthen sustainability due diligence process
Transition risks	Reputation	Local environment conservation	・Restoration of local biodiversity through environmental conservation activity in our business facility environs	・Damage to our local reputation and consequent increase in engagement costs due to inappropriate plant water intake and discharge and waste product management	—	Our business facilities	Medium	▶Maintain and enhance environmental data management ▶Strengthen engagement with local authorities and downstream partners
Physical risk	Acute	Disasters affecting our business locations	—	・Increase in losses due to more severe or more frequent direct damage from natural disasters, loss of earnings opportunities due to operational shutdowns	—	Our business facilities	Medium	▶Increase diversity of BCP measures ▶Improve disaster prevention infrastructure
Physical risk	Acute	Supply chain damage	・Increased risk of flooding, wildfires, landslides, etc. through encouragement of inappropriate land development due to traceability failures	・Supply disruption due to disasters affecting our supply chains, increase in costs due to rise in timber resource prices	—	Regions where our suppliers procure their resources	High	▶Supply chain diversification ▶Climate change countermeasures (GHG emissions reduction)
Physical risk	Chronic	Reduction in resource production capacity	・Change in climate patterns or ecosystem degradation due to excessive resource extraction	・Depletion of water or timber resources that is due to spontaneous wildfire combustion or to changes in climate patterns or drainage basins, and consequent costs increase due to higher resource prices	—	Resource procurement areas	High	▶Establish and improve traceability ▶Strengthen supplier engagement ▶Active use of FCS timber

Note: Severity rating considers a range of factors, including region-specific risk metrics and estimated likelihood of the risk occurring, using external tools. See our corporate website for more information about the metrics used for severity rating.

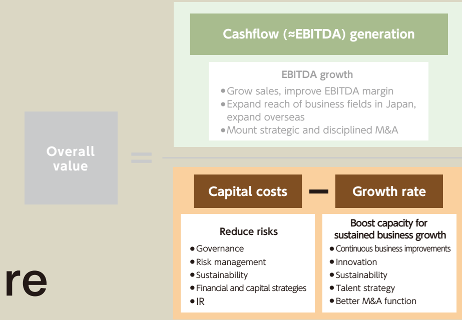
Risks and impacts management

Our Environment Subcommittee (a subcommittee of the Sustainability Committee) identifies and evaluates our dependencies and impacts on nature and our nature-related risks and opportunities in light of the findings of internal and third-party research.
In this nature-related analysis, we draw on the findings of LEAP-based analysis of the issues and requests raised in our governance and due diligence processes when delineating and evaluating items. Once the risks are identified and evaluated, they are communicated to the business divisions concerned. The strategic implications of the risks are incorporated into strategic planning by the Environment Subcommittee, while business-specific implications are addressed by the relevant business divisions. The Risk Management Committee has steered efforts across the corporate group to manage groupwide risks.

Metrics and Targets

KPIs for Material Issue 3-4: Contribute toward a society that coexists with nature (▶see p. 31–32: List of Material Issues).

GE Message from the Senior Vice President, Head of the Global Enterprise Division



We are building global IT infrastructure that is both disciplined and agile.

Kokuyo's IT Platform: First Step is to Lose the IT Liability

Under our 4th medium-term plan, Unite for Growth 2027, we are transforming our business model by expanding globally and by offering more extensive experience value. To achieve the goals set out in the 4th medium-term plan, we require an IT system and infrastructure that support the value of the organization in both defensive and offensive ways. On the defensive side, we prevent threats to the value of our organization by keeping the IT system running so that business operations do not stall. On the offensive side, we build and apply IT infrastructure that gives our business added value and contributes to profit growth.

Kokuyo has long followed a pattern in which business expansion comes first and the IT infrastructure then catches up with it driven by the momentum of the company or business area in question. Instead of total optimization, IT systems would be built around the workflows particular to the business or country in question and grow in complexity, resulting in IT infrastructure with poor adaptability. The IT infrastructure is looking increasingly at-odds with the reality of business structure that undergoes iterative updates and with the evolving IT trends. We call this an IT liability. Once we have rid ourselves of this liability, we will have a safer environment for IT infrastructure to play its offensive role.

Building Disciplined and Agile IT Infrastructure

The 4th medium-term plan commits us to building disciplined and agile IT infrastructure, so we are building such IT infrastructure at a global scale. Discipline in this context means that the system is compliant with the legal and regulatory requirements that apply in the territories we have targeted for expansion, such that supply chain partners and customers can feel safe. With this discipline in place, we are making the system sufficiently agile to deal rapidly with any cybersecurity incident.

We took the first step in this process during my first year as manager of the Global Enterprise Division. We established a CIO reporting process in which 19 overseas subsidiaries report to the CIO about the state of the IT infrastructure. To ensure high-quality reporting, we let all 19 companies state information in their local language and used common evaluative criteria that would allow standardized evaluation across all the companies. From the survey results, we identified the IT and risk situation in the overseas businesses and production areas and reported these findings to the Executive Committee and Risk Management Committee. In this way, we are helping make IT risks part of the strategic agenda. The CIO reporting process has also helped foster a common language for decision-making and evaluation processes in Kokuyo Group. This common language will enable us to appraise any incident accurately and swiftly and then deal with it effectively.

The Future of Defense: Generative AI

Generative AI has the potential to rock the business world over the next several years just as the rise of the Internet did in the 1990s. It is something we ought to make active use of.

When work processes are guided by generative AI, the role of data fundamentally changes. Data used to be an output of workflows. In the age of AI, it has been elevated in value to an input. AI brings together three elements: the operator, the data platform, and the data. Success here lies in how much high-quality data you can supply.

To integrate generative AI into the IT infrastructure and workflows, employees must be disciplined and free. The data must be made edible for AI through rules, culture, and processes (business process controls), while employees must be given the freedom to apply AI. Only once we have built and combined datasets and applied them to business processes will the true value of AI be realized.

Building a Digitally Savvy Workforce and Establishing Digital Citizenship

To foster autonomy in employees, Kokuyo Digital Academy, of which I am vice-chancellor, runs programs to build IT literacy and lower the hurdles for applying the technology. For example, we have a program in which attendees tackle real-life problems set by the manager of business division. Through this program, attendees learn AI application skills and other practical IT skills. The key point here is that digital literacy is not simply about knowledge. IT literacy is all about lowering the hurdles to applying the technology. Suppose, for example, there is a new application. It is not enough just to understand the application. To be really literate in the application, you must feel uninhibited about trying it out and have the ability to analyze the outcome in a process of self-feedback.

Digital technology is constantly evolving. What you knew a year ago may be obsolete today. However, as technology advances, the hurdles come down, giving more people access to the technology. With this series of rapid changes, we will keep assisting employees in applying technology in their work and using it to solve challenges.

Kokuyo Digital Academy: Season 3 presentations

The winning team honored at the GenAI-Lab awards

The Potential of IT to Support the Forest-Like Management Model

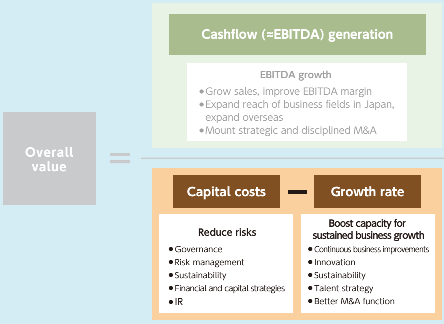
The Forest-Like Management Model represents Kokuyo's strategy of organically linked businesses that create new value. In the Forest-Like Management Model, IT is not just a tool for streamlining workflows. It plays an important role in cultivating the forest soil. It serves as a communication platform for sharing the nutrients—things like data and knowledge—among the forest soil so that the business trees will grow up healthy.

One of Kokuyo's great strengths is its give-it-a-go culture. My role is to preserve this culture while putting in place structures for assuring safety and consistency. Disciplined freedom is something that corporate divisions should be fostering. As our organization quickens the pace of business growth and as IT technology becomes ever more advanced, we need to shape our IT infrastructure into a more cross-border, cross-company formation so that it can keep pace with the trend. Team IT will unite to help increase the value of Kokuyo.

Takashi Yoshida

Managing Officer, Senior Vice President, Head of the Global Enterprise Division

RM Message from the Senior Vice President, Head of the Risk Management Division



Building a Solid Foundation for Kokuyo to Pursue Challenges

Adapting Risk Management to a New Business Model

We have committed to sustaining growth in the value of our organization under our signature Forest-Like Management Model and our 4th medium-term plan, Unite for Growth 2027. Under the 4th medium-term plan, we are pursuing global expansion with M&As as an important option for such and transforming our business model, for our existing businesses as well as our new ones, to one that emphasizes intangible experience value rather than the tangible product itself. If we look at the external business environment, we see the striking developments in AI, which offer opportunities but also pose risks. Another source of risk is legislative and regulatory developments that require a careful response. An example is the revision to the Act on Preventing Delay in Payment to Small and Medium-Sized Entrusted Business Operators in Relation to Manufacturing Consignment. Changes in the external environment will always create new risks that cannot be dealt with under existing business processes and structures.

The duty of the Risk Management Division is to control such emerging risks and to keep risk-taking within an acceptable scope for the agenda of transformation. To that end, this division builds and operates risk structures for risk management and compliance. The Risk Management Division comprises the Risk Management Office and Legal Affairs Division. Our risk management architecture has three layers. It manages company-wide risks, business-specific risks, and severe risk events. Company-wide risks are monitored by the Risk Management Committee, an advisory body to the President & CEO that convenes every quarter. In the year ended December 2025, the committee devoted plenty of time to discussing information security risks and country-specific risks. For business-specific risks, business divisions and group companies identify and manage the risks through their respective risk and compliance committees. For major risk events, we have developed defined primary reporting lines and response flows for each severity level to ensure a unified, swift, and effective response.

Progress in Developing Global Risk Management

With the 4th medium-term plan committing us to penetrating ASEAN, Indian, and other global markets, it is all the more important for our organization to control the emerging risks associated with the geographic expansion of our business assets and supply chain. The risk management architecture that we design and implement must include country-specific structures and practices, and it must strike the right balance between alignment with Kokuyo Group's common standards and respect for local rules.

For the former, we have published a basic code of conduct in each local language to inform everyone about the common standards they are expected to uphold as members of the global Kokuyo Group. Our system for internal whistleblowing is now operating much more effectively, as evidenced by the higher number of inquiries processed. This is a result of changing how the system is run. We have also developed an accounting policy that applies globally. The same goes for legal compliance. We now have a global policy for preventing bribery and corruption. The policy was developed in collaboration with overseas subsidiaries because rules related to legal compliance must take into account the local legal and regulatory landscape, local business practices, and other factors that are particular to local ASEAN markets or other overseas markets. We are also keeping an eye on legislative and regulatory developments that could have significant ramifications for business continuity.

For our operations in China, legal compliance and internal controls are managed by KOKUYO (Shanghai) Management Co., Ltd., which has a largely local workforce. In this way, we are building locally grounded structures for supporting area-based risk management. This area-based approach is central to the Risk Management Division's strategy for ASEAN, India, and other territories where Kokuyo is expanding. In the case of ASEAN, we first established the ASEAN Desk to coordinate ASEAN-wide risk management. In the case of India, local risks are primarily managed by Kokuyo Camlin, which is a local subsidiary and listed firm. We will keep enhancing such coordination to ensure compliance with country-specific regulation.

Another risk we manage is the threat to our products from Counterfeit products. Our products have a technological basis to some extent. While patent rights offer only some level of protection, our design rights are important sources of differentiation and are a critical element in Kokuyo's brand value. We therefore take steps to control this risk.

Takashi Onoda

Managing Officer, Senior Vice President, Head of the Risk Management Division

When it comes to investment risks, we are enhancing the process for M&A activities. The large array of M&A candidates go through an exacting selection process in which we exercise rigorous due diligence alongside tenacious negotiation. Even after a prospective M&A had proceeded to the negotiation phase, we would conduct a further risk assessment and may halt the negotiations depending on the findings. This tougher approach to risk management is already contributing to better quality decision-making among top executives. We will raise the level even further as we build a larger team of investment experts and accumulate more knowledge and practice in post-merger integration.

Preparing a Sure Foundation for Success in 2030

As mentioned, we are allocating our resources to global expansion to create a sure foundation for our future success. It remains the case, though, that the majority of our profit, which we use to fund investments, comes from our existing businesses in Japan, mostly in the workplace sector. This being the case, we must first make sure the risk management system in Japan is solid and able to cope with risks associated with business model transformation and IT system upgrades.

Kokuyo's Intellectual Property Strategy

Kokuyo acquires and uses, for strategic purposes, rights over the intellectual property (IP), including inventions and designs, that it or an overseas subsidiary has created. It also respects and avoids infringing the IP rights of other companies.
To fully utilize our IP in our global expansion, Kokuyo regularly exchanges information with overseas subsidiaries to improve coordination in our global IP strategy. The Legal Affairs Division's IP Unit runs training courses on IP to extend and enhance coordination with overseas subsidiary with R&D facilities. To prevent Counterfeit products, we work to acquire design rights, monitor markets, issue warning letters to counterfeiters, and send takedown requests. We also coordinate with overseas subsidiaries in seeking administrative raids, injunctions, or other legal measures against the manufacturers or distributors in question as part of a global-scale response.

For more information, visit the Intellectual Property Rights of our website.

https://www.kokuyo.com/en/sustainability/governance/intellectual-property-rights/