



Financial Report 2022

For the year ended December 31, 2022

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Kao

Management Discussion and Analysis

Management Policies

Basic Management Policies of the Kao Group

For its purpose (social significance), the Kao Group has declared that “As one, we create a *Kirei*¹ life for all—providing care and enrichment for the life of all people and the planet,” and wholeheartedly conducts ESG-driven *Yoki-Monozukuri*² from the consumer’s and customer’s perspective. We aim to continue making contributions to realizing a future of wholehearted satisfaction for people throughout the world, and to creating a sustainable world where all life can coexist.

All members of the Kao Group share the Kao Way, which is our corporate philosophy, and have been putting it into practice every day as the foundation of our approaches and actions to respond to changing times during our more than 130 years of doing business, mainly in the domains of cleanliness, beauty and health.

In 2009, we set forth our Environmental Statement to be a positive force for nature as well as for humankind, then went one step further with the aim of enriching lives in harmony with nature. In 2019, we announced our new ESG strategy, the “Kirei Lifestyle Plan (KLP),” and declared our commitment to shifting to ESG-driven management.

Now, however, crises are impinging on human lives, which are the fundamental component of “providing care and enrichment for the life of all people” as set forth in our purpose. These threats are expected to continue jeopardizing the foundations of everyday lives.

Under these circumstances, we will tackle this pressing social issue with an approach unique to Kao. With a strong determination to protect not only everyday lives and ecology, but also human lives, the Kao Group will become a company that saves future lives. Under our new corporate slogan, “*Kirei* — Making Life Beautiful,” we will help to maintain the planet as a sustainable and clean place to live, to achieve a sustainable and prosperous society, and to protect people from hazards so they can enjoy their everyday lives.

These efforts will lead to an ongoing cycle of positive financial results and returns to stakeholders. The Kao Group will continue working to enhance its corporate value at a higher level.

1. The Japanese word “*kirei*” describes something that is clean, well-ordered and beautiful, all at once. For Kao, this concept of *Kirei* not only describes appearance but also attitude—a desire to create beauty for oneself, for other people, and for the natural world around us. At Kao, *Kirei* is the value we want to bring to everyday life through our brands, products, technologies, solutions, and services—now and in the future.
2. The Kao Group defines *Yoki-Monozukuri* as a strong commitment by all members to provide products and brands of excellent value for consumer satisfaction. In Japanese, “*yoki*” means good or excellent, and “*monozukuri*” means making or craftsmanship.

Medium-to-long-term Management Strategies of the Kao Group and Management Metric Used as a Target

Long-term Management Strategy

As its commitment to becoming the company it wants to be by 2030, the Kao Group is taking a step forward from its previous aim of “making Kao a company with a global presence” by realizing sustained profitable growth while contributing to the sustainability of the world to aiming to “make Kao a company with a global presence, valuable to society.” Through ESG initiatives, we will become a valuable presence for people, society and the planet.

For the environment (E), we aim for zero waste and carbon zero, and then to become carbon negative. For society (S), we will promote one and only personalization that is closely attuned to people in the hope of ending wasteful consumption. Then, while ensuring effective governance (G), we will proceed as one team with “Integrity as the only choice³” joined by like-minded parties. Following a management guideline of “Maximum with minimum”—generating the maximum value with the minimum resources—we will continue our growth to help create a better tomorrow.

Targets for 2030

Make Kao a company with a global presence, valuable to society

- Become an essential company in a sustainable world
- A highly profitable global company that also significantly contributes to society
- Returns to stakeholders according to levels of growth

Financial targets for 2030 (as a result)

- ¥2.5 trillion in net sales
- ¥400 billion in operating income
- 41 consecutive years of increases in cash dividends

3. “Integrity as the only choice” is one of the values of the Kao Way, the corporate philosophy of the Kao Group.

Mid-term Plan

The five years from 2021 to 2025 are an important period for the Kao Group to establish the foundation for becoming the company it wants to be by 2030. To that end, Kao Group Mid-term Plan 2025 “K25” establishes a Vision of “Sustainability as the only path” and sets forth three objectives.

To become an essential company in a sustainable world, we must actively promote KLP, the new ESG strategy we

announced in 2019, and take leadership in a self-sufficient, sustainable society that curtails the generation of waste to the greatest extent possible. Moreover, we will ensure that our investments for KLP are reflected in future earnings.

By transforming to build robust business through investment, we are creating “Another Kao.” For people facing compelling problems, we will fully utilize the technologies and expertise we have cultivated as well as our digital transformation (DX) to create new businesses that “save future lives.” At the same time, we will further reinforce our current business, which serves as the foundation of this new business, revitalizing it as “Reborn Kao.”

Furthermore, to achieve these two objectives, the vitality of our employees is indispensable. Therefore, for our third objective—to maximize the power and potential of employees—we have implemented our new Objectives and Key Results (OKRs) employee empowerment system so that all employees can give their utmost to achieving the substantial goals they set for themselves. We also proactively open positions to talent from outside the Kao Group and promote external collaboration.

Achieving these three objectives will enable us to achieve our targets for record-high sales and profits (¥1.8 trillion in net sales, ¥250 billion in operating income, ¥100 billion in Economic Value Added (EVA)⁴ and the 36th consecutive fiscal year of increases in cash dividends in 2025), and to make high-level returns, according to the level of our growth, to our many stakeholders, including employees, consumers, customers,

business partners and shareholders.

While continuing to practice the “Integrity as the only choice” set forth in the Kao Way, the Kao Group will achieve these objectives together with like-minded stakeholders, and in so doing create a better tomorrow.

4. EVA is a registered trademark of Stern Stewart & Co.

Kao Group Mid-term Plan 2025 “K25”

• Vision

Sustainability as the only path

• Corporate Slogan

Kirei *—Making Life Beautiful

• Policy (Objectives)

Objective (1) Become an essential company in a sustainable world

Goal

Take leadership in a self-sufficient, sustainable society (ESG Investment = Reflection of future earnings)

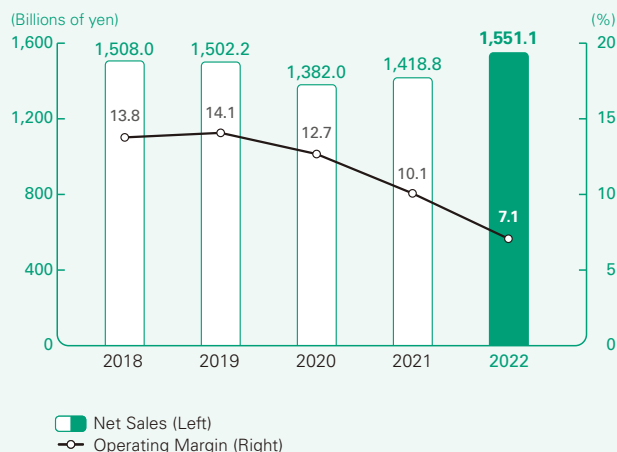
Key Results

- Carbon recycling (Conversion of carbon dioxide into raw materials)
- Positive recycling (Creation of new business through re-use of resources)
- Activities to stop pandemics (Ramp up infectious disease countermeasures and the area of prevention)

* See note 1 on page 1 for an explanation of *Kirei*.

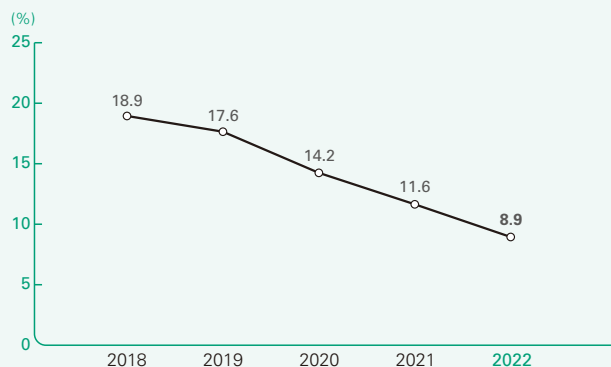
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Net Sales* / Operating Margin



* In fiscal 2020, the Kao Group changed its method of recognizing sales for certain transactions from the gross amount to the net amount.

ROE



Objective (2) Transform to build robust business through investment

Goal

Create “Another Kao” and reinforce current Kao
(Expand global business by focusing on saving lives)

Key Results

- New business: Launch the precision life care business
- Current business: Conduct drastic reform for a high-profit core business

Objective (3) Maximize the power and potential of employees

Goal

Double the productivity of our business activities
(Make challenges visible and pursue open innovation)

Key Results

- Introduce Objectives and Key Results (OKRs) system
(Fair compensation according to challenge and contribution)
- Actively utilize specialist human capital for co-creation
- Improve productivity using digital technology
(Scheduled for completion in 2023)

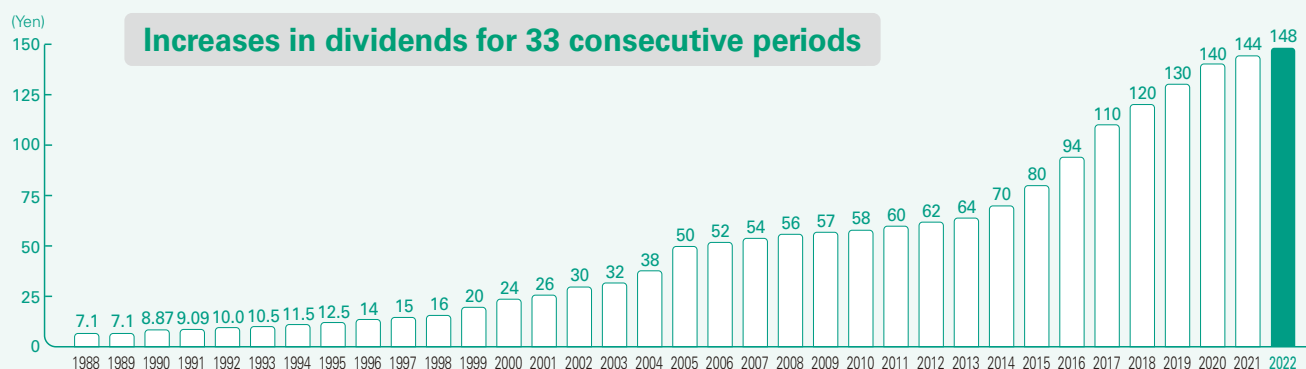
Management Metric Used as a Target

As its principal management metric, the Kao Group uses EVA, which measures true profit by factoring in the cost of invested capital. This essentially takes the perspective of shareholders and other asset owners to deploy capital efficiently and generate profits. The Kao Group believes that continuously increasing EVA will lead to increases in corporate value and thus corresponds with long-term benefits, not only for shareholders, but for all stakeholders. The target of the Kao Group’s business activities is to increase EVA while expanding its business scale. The Kao Group uses this metric to assess its businesses, to make evaluations on investment in facilities, acquisitions and other items, and to develop performance targets for each fiscal year and for its compensation system.

Issues for Management

Environmental issues such as climate change and depletion of water and forest resources, human rights issues, and social issues such as the aging society are becoming increasingly serious. In addition, due to the prolonged effect of the novel corona virus (COVID-19), awareness and lifestyles of people around the world have changed, and the market structure surrounding the Company’s business has also undergone major changes. During the fiscal year under review, the business environment remained uncertain due to hikes in raw material prices, rising logistics costs, and increasing geopolitical risks associated with the diversification and fragmentation of the international community.

Cash Dividends per Share



Note: Impact of share splits is reflected retroactively.

Amid these changes, the Company must shift its focus toward resolving social issues and break away from the existing mass-production, mass-consumption business model, which has a negative environmental footprint. Instead, we must transition to a cyclical model capable of continuing to produce attractive products with long-lasting appeal for customers while avoiding the production of excess volume. Kao Group Mid-term Plan 2025 "K25" is crucial for building the business foundation to realize such a business model.

To achieve K25, the Company is continuing to build ties with our customers through digital transformation (DX) and pursuing innovation toward a new, goal-oriented product development process that backcasts from the value we need to deliver. In addition, we will swiftly execute strategic

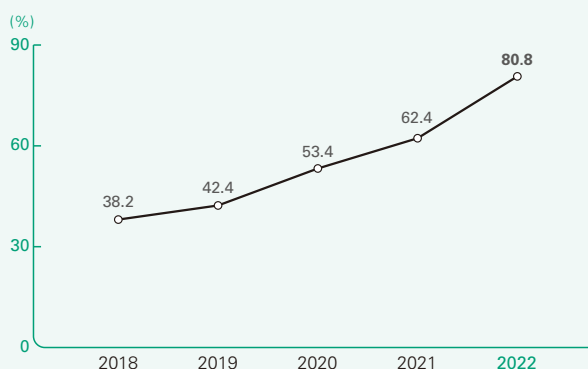
investments and M&As that are consistent with our ESG-centric management policies and strategies while emphasizing investment efficiency and clarifying priorities. To this end, we are reforming our decision-making system by evolving matrix-style management, which has been our strength, to encompass a scrum approach, in which the persons involved make bold decisions as necessary.

Furthermore, we will continue to work on further strengthening our governance system, which allows us to examine the activities of the Company from an objective perspective and discuss them from various angles, as well as our internal control system, which reflects the perspectives of compliance and risk/crisis management.

Costs, Expenses and Income as Percentages of Net Sales

Years ended December 31, 2022, 2021 and 2020	2022	2021	2020
Cost of sales.....	64.6%	59.6%	57.3%
Gross profit.....	35.4	40.4	42.7
Selling, general and administrative expenses.....	28.4	30.1	30.1
Operating income.....	7.1	10.1	12.7
Income before income taxes.....	7.5	10.6	12.6
Net income attributable to owners of the parent	5.5	7.7	9.1

Payout Ratio



Basic Approach to Selection of Accounting Standards

Having decided that unifying accounting standards within the Kao Group will contribute to improving the quality of its business management, the Kao Group has voluntarily adopted International Financial Reporting Standards (IFRS) from fiscal 2016. This enables management based on standardized procedures and information for each Group company and business, and the Kao Group intends to reinforce its management foundation in order to enhance its corporate value as a global company. The Kao Group also believes that the application of IFRS will facilitate the international comparability of its financial statements in capital markets.

Overview of Consolidated Results

In fiscal 2022, COVID-19 continued for another year to have a major impact on society, economies and people's lives worldwide. A severe business environment persisted as a result of rising energy costs due to factors including the Russia-Ukraine crisis and changes in consumption triggered by global inflation, as well as other factors such as a slowdown in the Chinese market, which had been growing.

According to retail sales and consumer purchasing survey data, the Kao Group's key markets—the household and personal care products market and the cosmetics market—grew compared with the previous fiscal year, although the cosmetics market has not recovered to the pre-pandemic level of 2019.

Amid these circumstances, the Kao Group worked hard to address the changes in people's lifestyles, consumption and the structure of sales channels, as well as hikes in raw material prices around the world and other issues.

Analysis of Income Statement

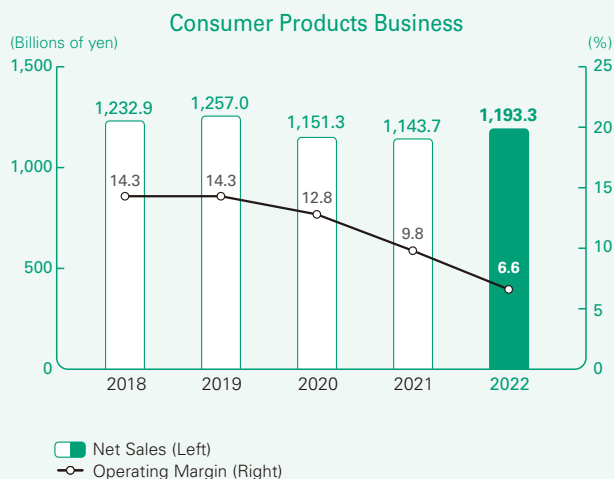
Net sales increased 9.3% compared with the previous fiscal year to ¥1,551.1 billion. On a like-for-like basis, net sales increased 3.7%. Operating income was ¥110.1 billion, a decrease of ¥33.4 billion compared with the previous fiscal year, due to the substantial impact of hikes in raw material prices, and the operating margin was 7.1%. Income before income taxes was ¥115.8 billion, a decrease of ¥34.2 billion, and net income was ¥87.7 billion, a decrease of ¥23.7 billion.

Basic earnings per share were ¥183.28, a decrease of ¥47.31, or 20.5%, from ¥230.59 in the previous fiscal year.

Basic Earnings per Share



Net Sales* / Operating Margin



* In fiscal 2020, the Kao Group changed its method of recognizing sales for certain transactions from the gross amount to the net amount.

Information by Segment

Consumer Products Business

Sales increased 4.3% compared with the previous fiscal year to ¥1,193.3 billion. On a like-for-like basis, sales decreased 0.2%.

The market environment was extremely severe during fiscal 2022, with lockdowns and a cooling market in China, logistics disruptions in the United States, and a global shift in markets to low-priced products related to inflation, among other factors. However, the Kao Group proactively implemented initiatives including concentrating investment in core brands, promoting digital transformation and conducting strategic price increases.

As a result, sales in Japan increased 0.9% to ¥775.0 billion.

In Asia, sales increased 9.9% to ¥236.0 billion. On a like-for-like basis, sales decreased 3.6%. In the Americas, sales increased 17.4% to ¥112.9 billion. On a like-for-like basis, sales decreased 1.2%. In Europe, sales increased 7.4% to ¥69.4 billion. On a like-for-like basis, sales increased 0.5%.

Operating income was ¥79.3 billion, a substantial decrease of ¥33.2 billion compared with the previous fiscal year, due to the impact of hikes in raw material prices and rising logistics costs, among other factors.

Note: The Kao Group's Consumer Products Business consists of the Hygiene and Living Care Business, the Health and Beauty Care Business, the Life Care Business, and the Cosmetics Business.

Hygiene and Living Care Business

Sales increased 4.0% compared with the previous fiscal year to ¥516.5 billion. On a like-for-like basis, sales increased 0.4%.

Sales of fabric care products increased. In Japan, market share grew and sales were steady as the Kao Group conducted strategic price increases, mainly for laundry detergents, to minimize the impact of hikes in raw material prices, and stepped up marketing activities, although conditions were tough for fabric softeners amid fierce competition. Sales decreased in Asia.

Sales of home care products were on par with the previous fiscal year in Japan, despite market shrinkage as opportunities for product use decreased due to increased opportunities for going out. Market share for *CuCute* dishwashing detergent grew substantially.

Sales of sanitary products decreased. *Laurier* sanitary napkins sold strongly in Japan and elsewhere in Asia as a result of ramping up sales promotion activities and other factors. Sales of *Merries* baby diapers decreased. Sales in China decreased due to market shrinkage and other factors. The Kao Group maintained its strong sales in Indonesia but sales in Japan were unchanged from the previous year in a shrinking market.

Operating income was ¥30.7 billion, a decrease of ¥21.1 billion from the previous fiscal year due to the substantial impact of hikes in raw material prices.

Health and Beauty Care Business

Sales increased 4.2% compared with the previous fiscal year to ¥369.5 billion. On a like-for-like basis, sales decreased 1.8%.

Sales of skin care products increased. In Japan, sales of UV care and other seasonal products were strong and market share grew substantially due to the impact of a heat wave. In Thailand, response was strongly positive to *Bioré GUARD Mos Block Serum*, a mosquito repellent lotion launched in June 2022 by the Kao Group that incorporates Kao's unique, innovative technology. In the United States, sales decreased due to the impact of a decline in consumption triggered by inflation.

Sales of hair care products decreased. In products for hair salons in the Americas and Europe, sales of the *ORIBE* brand for high-end hair salons in the United States remained strong due to substantial growth in the e-commerce channel as well as in the core salon channel. Sales of products for the mass market in Japan decreased. The Kao Group has begun a fundamental business transformation in an environment that remains fiercely competitive.

Sales of personal health products decreased. Sales of *MegRhythm* thermo products grew steadily, but sales of bath additives decreased.

Operating income decreased ¥15.1 billion compared with the previous fiscal year to ¥34.6 billion due to the substantial impact of hikes in raw material prices, among other factors.

Life Care Business

Sales increased 5.1% compared with the previous fiscal year to ¥55.7 billion. On a like-for-like basis, sales increased 1.4%.

In commercial-use hygiene products, the market in Japan recovered due to the gradual normalization of the economy and an increase in opportunities for going out. In particular, sales grew

with rising demand for kitchen cleaning agents and guest room amenities from the food service industry and lodging facilities and other establishments. In the United States, sales increased due to a recovery in customer industries and the acquisition of new customers, among other factors.

In health drinks, for *Healthya* products, which are foods for specified health uses, the Kao Group worked to increase the number of loyal users in the e-commerce channel by strengthening its links with consumers using social media. However, this initiative did not compensate for a decrease in sales among conventional mass retailers, and sales decreased.

Operating loss was ¥0.0 billion due to the impact of hikes in raw material prices, compared with operating income of ¥3.6 billion in the previous fiscal year.

Cosmetics Business

Sales increased 5.1% compared with the previous fiscal year to ¥251.5 billion. On a like-for-like basis, sales increased 0.8%.

Amid gradual market recovery in Japan, sales and market share increased due to concentrating investment on the Kao Group's "G11" global strategy brands, including the *KANEBO* prestige skin care and makeup and *KATE* makeup brands. In particular, *KATE* maintained strong sales of *LIP MONSTER* and continued to hold the top brand share in the overall makeup

market. In addition, the Kao Group made steady advances in fixed cost reductions as well as structural reforms of the makeup business. Sales decreased in China due to the substantial impact of factors including the rise of local manufacturers and changes in distribution channels, in addition to the impact of pandemic-related lockdowns and the subsequent cooling of the market. In Europe, sales remained on par with the previous fiscal year due to the impact of an economic slowdown triggered by inflation, although market share increased for *SENSAI* and *Molton Brown*.

Operating income increased ¥6.6 billion compared with the previous fiscal year to ¥14.1 billion.

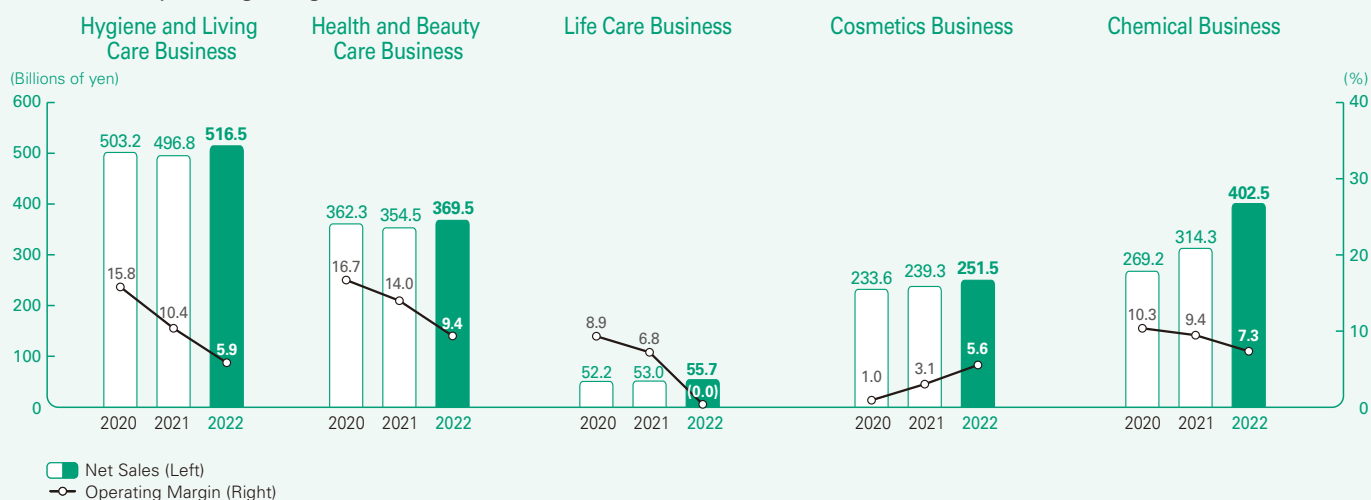
Chemical Business

Sales increased 28.1% compared with the previous fiscal year to ¥402.5 billion. On a like-for-like basis, sales increased 18.6%.

Sales of oleo chemicals increased, due in part to the contribution from efforts to adjust selling prices in line with rising prices of natural fats and oils, despite the impact of inventory adjustments at customers up to the end of the year.

Sales of performance chemicals were impacted by a decline in demand in automobile-related fields, but grew due to advances in adjusting selling prices in line with rising prices of raw materials.

Net Sales / Operating Margin



In information materials, sales of toner and toner binder grew by steadily capturing recovery in demand.

Operating income decreased ¥0.1 billion compared with the previous fiscal year to ¥29.5 billion, due in part to recording a write-down of inventory as a result of fluctuations in market conditions.

Financial Position

Total assets increased ¥22.3 billion from December 31, 2021 to ¥1,726.4 billion. The principal increases in assets were a ¥50.3 billion increase in inventories, a ¥14.4 billion increase in trade and other receivables and a ¥10.7 billion increase in property, plant and equipment. The principal decrease in assets was a ¥67.8 billion decrease in cash and cash equivalents.

Total liabilities increased ¥10.8 billion from December 31, 2021 to ¥731.0 billion. The principal increase in liabilities was a ¥14.7 billion increase in trade and other payables and the principal decrease in liabilities was an ¥11.8 billion decrease in income tax payables.

Total equity increased ¥11.5 billion from December 31, 2021 to ¥995.4 billion. The principal increases in equity were net income totaling ¥87.7 billion and exchange differences on translation of foreign operations totaling ¥48.5 billion. The principal decreases in equity were dividends totaling ¥69.3 billion and purchase of treasury shares totaling ¥50.0 billion pursuant to a resolution of the Board of Directors at a meeting held on May 11, 2022. In addition, the Company retired 9.1 million treasury shares on September 28, 2022.

The ratio of equity attributable to owners of the parent to total assets was 56.3% compared with 56.6% at December 31, 2021. Return on equity was 8.9%.

Cash Flows

The balance of cash and cash equivalents at December 31, 2022 decreased ¥67.8 billion compared with December 31, 2021 to ¥268.2 billion, including the effect of exchange rate changes.

Cash Flows from Operating Activities

Net cash flows from operating activities totaled ¥130.9 billion. The principal increases in net cash were income before income taxes of ¥115.8 billion and depreciation and amortization of ¥89.7 billion. The principal decreases in net cash were income

taxes paid of ¥39.3 billion and a ¥36.9 billion increase in inventories.

Cash Flows from Investing Activities

Net cash flows from investing activities totaled negative ¥74.9 billion. This primarily consisted of purchase of property, plant and equipment of ¥65.5 billion and purchase of intangible assets totaling ¥11.7 billion.

Free cash flow, which is the total of net cash flows from operating activities and net cash flows from investing activities, was ¥56.0 billion.

Cash Flows from Financing Activities

Net cash flows from financing activities totaled negative ¥139.3 billion. The Company emphasizes steady and continuous dividends and flexibly repurchases and retires treasury shares to improve capital efficiency from the perspective of EVA. During fiscal 2022, this primarily consisted of ¥69.4 billion for dividends paid to owners of the parent and non-controlling interests, purchase of treasury shares totaling ¥50.0 billion pursuant to a resolution of the Board of Directors at a meeting held on May 11, 2022, and ¥21.7 billion in repayments of lease liabilities.

Basic Policies regarding Distribution of Profits and Dividends for the Fiscal Years Ended December 31, 2022 and Ending December 31, 2023

The Kao Group uses EVA as its principal management metric and clearly sets the uses of its steadily generated cash flow as shown below from that viewpoint. Shareholder returns are one such use, and they are implemented after considering future demand for funds and the situation in financial markets.

Use of cash flow:

- Investment for future growth (capital expenditures, M&A, etc.)
- Steady and continuous dividends
- Share repurchases

In accordance with these policies, the Company plans to pay a year-end dividend for fiscal 2022 of ¥74 per share, an increase of ¥2 per share compared with the previous fiscal year. Consequently, annual cash dividends will increase ¥4 per share

compared with the previous fiscal year, resulting in a total of ¥148 per share. The consolidated payout ratio will be 80.8%.

For fiscal 2023, the Company plans to pay total cash dividends of ¥150 per share (79.2% payout ratio), an increase of ¥2 per share compared with the previous fiscal year. This plan is in accordance with the Company's basic policies regarding distribution of profits, and free cash flow and other factors have also been taken into consideration. As a result, the Company is aiming for its 34th consecutive fiscal year of increases in dividends.

EVA and Related Activities

EVA for fiscal 2022 was ¥14.7 billion, a decrease of ¥30.5 billion compared with the previous fiscal year, due to decreases in operating income and net operating profit after tax (NOPAT) in addition to an increase in cost of capital from the previous fiscal year.

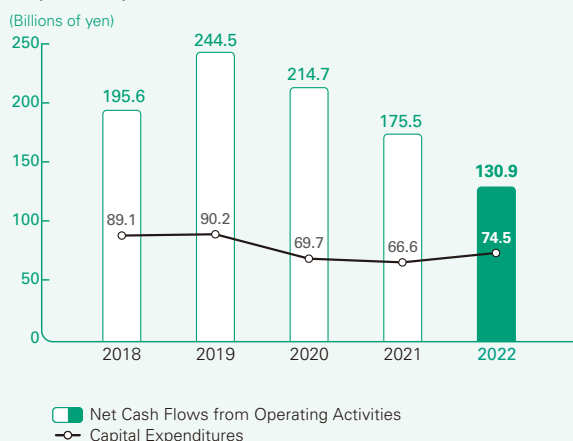
The Kao Group conducted the following EVA-related initiatives during the fiscal year.

Investing for Growth: Excluding right-of-use assets, the Kao Group's capital investments totaled ¥74.5 billion, centered on investments for future development. In the Consumer Products Business, the Kao Group invested in facilities to manufacture new products, streamlining, maintenance and renewal of facilities, and upgrading of distribution bases, in addition to expanding production capacity, mainly in Japan and Asia. In the Chemical Business, the Kao Group also invested aggressively in facilities to expand production capacity for fat and oil derivatives and other products globally.

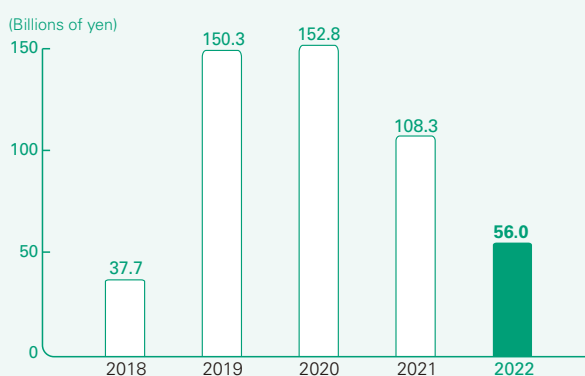
Research and development expenditures were ¥60.6 billion, equivalent to 3.9% of net sales, remaining at a high level relative to net sales.

Increasing Profit: The Consumer Products Business was impacted by the severe market environment, which included lockdowns in China, logistics disruptions in the United States, and a shift to low-priced products related to inflation. Although the Kao Group implemented initiatives including concentrating investment in core brands and conducting strategic price increases, operating income decreased substantially compared with the previous fiscal year due to hikes in raw material prices and rising logistics costs. In the Chemical

Net Cash Flows from Operating Activities / Capital Expenditures*



Free Cash Flows



Note: Free cash flow is the sum of net cash flows from operating activities and net cash flows from investing activities.

Business, despite the contribution from selling price adjustments in line with rising prices of raw materials, mainly for oleo chemicals, operating income was nearly unchanged compared with the previous fiscal year, due in part to a write-down of inventory as a result of fluctuations in market conditions.

Financial Improvement: For fiscal 2022, annual cash dividends per share were ¥148.00, a year-on-year increase of ¥4.00, or 2.8%, as announced in its forecast at the beginning of the fiscal year. As a result, the Company has achieved 33 consecutive fiscal periods of dividend growth. In addition, the Company repurchased stock totaling ¥50.0 billion to improve capital efficiency.

Business Risks and Other Risks

(1) Risk and Crisis Management System

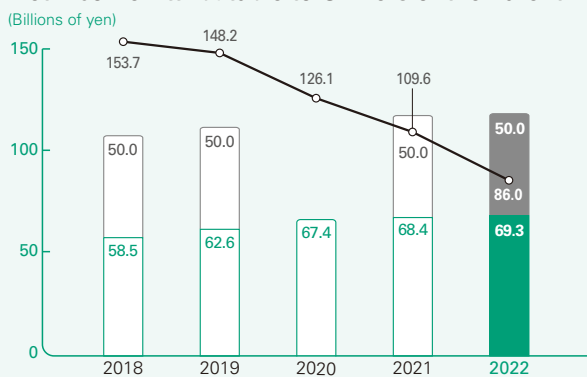
In the Kao Group Mid-term Plan 2025 “K25,” the Kao Group has established a Vision of “Sustainability as the only path” and sets forth three objectives: (1) Become an essential company in a sustainable world; (2) Transform to build robust business through investment; and (3) Maximize the power and potential of employees. See the “Management Policies” and “Issues for Management” sections for more details.

However, the Kao Group’s business environment remains

uncertain due to factors including the global spread of COVID-19 and the emergence of geopolitical risks stemming from the destabilization of political and social conditions. Moreover, amid the ongoing global expansion of business and the progress of structural changes in various fields, companies must respond promptly and appropriately to changes in the risks pertaining to their businesses. In this business environment, the Kao Group manages the following risks and crises.

The Kao Group defines a potential negative impact on achieving its management targets and on its business activities as a “risk” and the materialization of such risk as a “crisis.” The Risk and Crisis Management Committee, one of the committees under the Internal Control Committee concerned with risk, has established a system and activity guideline for risk and crisis management based on the Risk and Crisis Management Policy. Divisions, subsidiaries and affiliates manage risks by identifying and assessing risks, and formulating and implementing countermeasures based on this activity guideline. In a crisis, the Kao Group works to minimize physical damage and financial losses by establishing an Emergency Response Team Organization that corresponds to the level of emergency, and by responding promptly and appropriately. Risk and crisis management activities are reviewed by the Management Board on a regular (annual) and timely basis, and approved by the Board of Directors. The

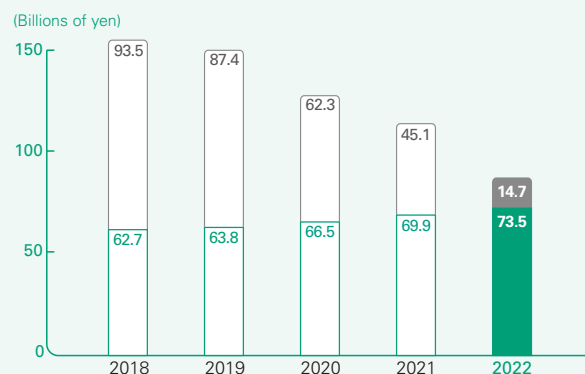
Total Dividend Payment / Share Repurchases* / Net Income Attributable to Owners of the Parent



■ Total Dividend Payment
■ Share Repurchases
—○— Net Income Attributable to Owners of the Parent

* Excludes repurchase of shares of less than one trading unit

Cost of Capital / EVA



■ Cost of Capital
■ EVA

Internal Control Committee monitors the status of risk and crisis management and confirms their effectiveness of management.

After deliberation by the Risk and Crisis Management Committee and the Management Board, the Kao Group has selected the following 15 particularly significant risks as the major risks that could have a negative impact on its sustained profitable development and contribution to the sustainability of the world. Among these major risks, the Kao Group determines themes for and addresses risks that would have a major impact on management and require an enhanced response as “corporate risks.” Once a year, the Risk and Crisis Management Committee conducts a review based on its analyses of an internal risk survey and the external environment as well as interviews with management, and the Management Board decides upon risk themes and risk owners (with an Executive Officer responsible for each risk theme). Each owner establishes a countermeasure team to conduct reviews, and the Risk and Crisis Management Committee, which meets four times a year, manages progress. (“Main Corporate Risk Themes and Response” is presented under “Main Measures.”)

These are major risks that might materialize within five years. The order in which they are listed reflects their importance as recognized as of the fiscal year ended December 31, 2022. There are risks other than the listed risks that may affect investors’ decisions.

Risk and Crisis Management Activity Process



(2) Details of Major Risks and Main Measures

Details of Major Risks	Main Measures
<p>Risks Related to Raw Material Procurement</p> <p>Background Market prices for natural fats and oils and petroleum products used as raw materials by the Kao Group are affected by factors including global business conditions, geopolitical risks, the balance between supply and demand, abnormal weather, and currency exchange rate fluctuations. In addition, the Kao Group is largely dependent on natural capital such as palm oil, paper, and pulp for its raw materials, and it must fulfill its corporate social responsibility by realizing sustainable procurement with extensive environmental considerations including resource conservation, global warming prevention and biodiversity preservation, as well as social considerations including safety, sanitation, labor conditions, and human rights.</p> <p>Risks and Impact A sudden change in market prices of raw materials could render the Kao Group unable to attain its target for profits. In addition, some raw materials are rare, thus entailing risks relating to stable procurement. If the supply of products to the market is disrupted due to demand fluctuations or other sudden changes in market conditions, or difficulties at suppliers, the Kao Group may not only be unable to attain its targets for net sales and profits, but its credibility could also decline. Furthermore, if the Kao Group's efforts for sustainable and responsible procurement are deemed to be inadequate due to supply chain issues, the Group's brand image and credibility could decline.</p>	<p>Countermeasures The Kao Group is working to reduce the impact of hikes in raw material prices by reducing costs and conducting measures such as passing increases on to selling prices. For risks relating to stable procurement, the Kao Group is augmenting facilities at its main suppliers and cultivating secondary suppliers to diversify risks. The Kao Group also reviews contracts and proactively cooperates with suppliers to reduce risks.</p> <p>On the other hand, to practice sustainable and responsible procurement, the Kao Group announced its Supply Chain ESG Promotion Guidelines and has been promoting measures to ascertain that efforts are being made to protect human rights and the environment in its supply chain. The Kao Group identifies particularly high-risk supply chains and works in collaboration with suppliers and NGOs to resolve fundamental issues. In addition, the Kao Group is working to reduce the amount of raw materials it uses and to switch to raw materials from non-edible biomass sources. It is also strengthening coordination with suppliers through initiatives such as the use of Sedex for supplier monitoring, establishment of an auditing system to eliminate compliance violations by suppliers, and the CDP Supply Chain Program. Furthermore, with the aim of building a sustainable supply chain for palm oil, the Kao Group is conducting a program in cooperation with local partners to help oil palm smallholders in Indonesia improve yields and acquire sustainable palm oil certification.</p> <p>The Kao Group strives to disclose these initiatives to its stakeholders proactively and transparently.</p>
<p>Risks Related to Response to Social Issues</p> <p>Background Climate change, the marine plastic waste problem, depletion of water resources, and environmental and human rights issues in raw material procurement, as well as growing social issues such as the aging society and hygiene have increased consumer awareness about the environment, health and other matters, leading to the trend of ethical consumption and customers' increasing demand for sustainability. We recognize climate change as an issue of particular importance.</p> <p>To help resolve these social issues, the Kao Group has identified environmental issues, population aging, pandemics, and challenges associated with diversification as social issues that Kao emphasizes in executing Kao Group Mid-term Plan 2025 "K25" and promoting the Kirei Lifestyle Plan (KLP), which is its ESG strategy. In addition to aiming for innovation at every stage, from raw material procurement to production, product use and disposal, the Kao Group has set ambitious targets for 19 Kao Actions, which are the action themes Kao must prioritize from both social and environmental perspectives, and all divisions throughout the Company are performing their respective roles. By promoting these measures and managing their progress, the Kao Group aims to contribute to the sustainability of society, while striving to engage with its stakeholders by proactively disclosing the details of its activities.</p> <p>Risks and Impact If the Kao Group's efforts to resolve these social issues are inadequate, or are deemed inadequate, its products and services may not be accepted by consumers and customers, and its targets for net sales and market share may be unattainable. In addition, inability to adequately show progress toward the KPIs committed to in the KLP may be perceived as greenwashing* and lead to a decline in corporate value.</p> <p>* Greenwashing: Exaggerating or overstating the environmental and sustainability aspects of a company's products or services, or making unsupported claims about the environmental or sustainability actions it takes.</p>	<p>Countermeasures With the aim of further integrating the KLP into its businesses, the Kao Group established four ESG steering committees under the ESG Managing Committee in April 2022 to build a robust governance structure. The ESG steering committees address the priority issues of decarbonization, plastic packaging, human rights and diversity, equity and inclusion (DEI), and chemical stewardship, respectively. Persons at the officer level are responsible for analyzing each issue and gaining an understanding of related opportunities and risks from the perspective of social, environmental, and business impact to make and promote plans. The Kao Group will thus reliably implement ESG <i>Yoki-Monozukuri</i>* with the aim of both helping to resolve social issues and achieving business growth.</p> <p>Main Corporate Risk Themes and Response Communication with external stakeholders: Through dialogue with non-profit organizations, non-governmental organizations and other parties, the Kao Group gathers information on social demands globally to accurately comprehend trends in order to avoid risks in the promotion of the KLP.</p>

* See note 2 on page 1 for an explanation of *Yoki-Monozukuri*.

Details of Major Risks	Main Measures
<p>Risks Related to Geopolitics</p> <p>Background Due to the Russia-Ukraine issue and other factors, geopolitical risks have increased significantly in Europe and East Asia, where the Kao Group conducts business. Geopolitical risks may also increase in countries and regions where the Kao Group procures raw materials.</p> <p>Risks and Impact A worsening business environment in these countries and regions caused by destabilization of political and social conditions, diplomatic tensions, conflicts or other reasons may lead to outcomes that affect the Kao Group's business activities, such as human casualties, a temporary suspension of operations due to supply chain disruptions, or changes in consumer purchasing due to friction between countries or regions, which affect the Kao Group's business activities. If such conditions arise, targets for net sales and profits may be unattainable.</p>	<p>Countermeasures The Kao Group is working to strengthen its response capabilities by preparing risk scenarios for countries and regions with high levels of geopolitical risk, providing systems to address countries and regions that require special attention, and monitoring the political and social situation, among other measures.</p> <p>Main Corporate Risk Themes and Response Response to geopolitical risks: The Kao Group selected response to geopolitical risks as a corporate risk theme. It will strengthen its response, mainly in the areas of ensuring employee safety, securing supply chain networks including raw material procurement, and managing its reputation.</p>
<p>Risks Related to Pandemics</p> <p>Background The COVID-19 pandemic has had a prolonged and major impact on the lives of people around the world. The Omicron variant, which is considered to be somewhat less virulent, has become the dominant strain of COVID-19, and many people have acquired immunity through natural infection or vaccination. As a result, signs of an end to the pandemic have appeared. However, there have been repeated outbreaks in some regions, and the situation remains uncertain due to factors including the possible emergence of a highly contagious variant.</p> <p>At the same time, there are concerns of more frequent large-scale pandemics caused by novel viruses in the future due to factors including population growth, environmental degradation and increased contact between humans and animals that harbor pathogens.</p> <p>Risks and Impact If a sudden spread of infection, significant increase in the number of cases of serious illness or similar situation occurs due to the emergence of a variant of COVID-19, a new virus or other reason, events such as lockdowns or the occurrence of multiple infections (clusters) at the Kao Group's bases or in its supply chains could lead to a temporary suspension of operations or hinder the provision of products and services. In addition, the cosmetics market could shrink due to changes in purchasing behavior caused by voluntarily refraining from going outside or other restrictions on normal daily life. The occurrence of such situations could result in a significant deviation from targets for net sales and profits.</p>	<p>Countermeasures In response to COVID-19, the Kao Group held a meeting of the Emergency Response Team Headquarters headed by the President and CEO and implemented the following countermeasures centered on ensuring the safety of employees and their families, and on continuity of business activities.</p> <ul style="list-style-type: none"> · Encouraged vaccinations of employees and their families · Cooperated with national and local governments and took other measures to continue production activities, particularly for daily necessities, in countries and regions where infections are spreading · Revised work systems and work styles (implemented hybrid work according to work characteristics, eased restrictions on business trips outside Japan, etc.) in light of factors including changes in virus characteristics, status of infections, and easing of restrictions in each country <p>Main Corporate Risk Themes and Response Pandemic response: The Kao Group is revising its guidelines and action plans for the next pandemic based on its response to COVID-19.</p>

Details of Major Risks	Main Measures
<p>Risks Related to Large-scale Earthquakes, Other Natural Disasters and Accidents</p> <p>Background For companies with large-scale plants, process safety needs have increased in the context of accidents at chemical plants and the many natural disasters that have occurred recently.</p> <p>Risks and Impact A major obstruction to the supply of products to the market due to injury to employees or damage to facilities or supply chains resulting from a large-scale earthquake or other natural disaster such as a large-scale typhoon or flood brought on by climate change could have a significant impact on business results. In addition, the occurrence of substantial injury to employees or damage to the surrounding area due to events such as a fire or explosion at a Kao Group plant could have a significant impact on business results, with a resultant loss of social credibility.</p>	<p>Countermeasures The Kao Group is working to enhance its safety capabilities in order to prevent fires, explosions and chemical spills while maintaining safe and stable operations. It prepares for emergency situations by conducting measures for facilities and periodic training premised on a natural disaster. The Kao Group has built a framework to keep track of accidents or disasters worldwide when they occur through its emergency reporting network. In addition, the Kao Group is strengthening its disaster response capabilities, enabling the immediate establishment of an Emergency Response Team Organization headed by the President and CEO to execute a plan for countermeasures that place top priority on the safeguarding of human life and a business continuity plan (BCP). To achieve this, the Group has established organizational units for disaster response in both Eastern Japan and Western Japan premised on damage to the Kao Head Office from an earthquake in the greater Tokyo metropolitan area and is enhancing communication methods.</p> <p>Main Corporate Risk Themes and Response <u>Large-scale earthquakes and other natural disasters and BCP response:</u> Based on flood risk surveys of each site in response to recent climate change-related natural disasters, such as large-scale typhoons and floods, the Kao Group stepped up countermeasures in both physical and intangible terms and carried out disaster prevention education to protect employees and their families. In addition, the Kao Group is formulating a BCP for Japan premised on a long-term suspension of operations, and is strengthening its BCP for bases outside Japan.</p>
<p>Risks Related to the Quality of Products and Other Items</p> <p>Background The basis of the Kao Group's product quality management activities is <i>Yoki-Monozukuri</i>* that incorporates a spirit of starting with the consumer, as set forth in the Kao Way. At every stage from raw materials procurement to research and development, production, logistics and sales, the Kao Group pursues a high level of product safety and strives to constantly improve quality from a thoroughgoing consumer and customer perspective. Changes occurring in the market include diversification of consumer values regarding quality, growing concerns about the safety of chemical substances and awareness of environmental issues, and demand for corporate transparency in information disclosure. In addition, global distribution of products is rising as the world becomes increasingly borderless. Under these circumstances, countries and regions have begun moving to create new legal and regulatory frameworks with the aim of a sustainable society and stronger consumer protections.</p> <p>On the other hand, the Kao Group views market diversification and changing values as opportunities, and is taking on the challenge of developing new technologies and planning to expand its business into new fields.</p> <p>Risks and Impact Inability to respond appropriately and promptly to the occurrence of serious product quality problems, new safety or environmental problems, or sudden changes in laws and regulations in each country or region could lead to a decline in credibility, not only with regard to the problems with the brand concerned, but for the entire Kao Group.</p>	<p>Countermeasures The Kao Group designs and manufactures products in compliance with product-related laws and regulations and in conformance with strict standards it has set voluntarily. At the development stage, the Kao Group thoroughly carries out testing, studies and research to confirm safety. After launch, the Kao Group strives to further improve quality by drawing on feedback, requests and other information regarding products through its Customer Communication Centers.</p> <p>In addition, the Kao Group is working to conduct product development that anticipates chemical safety concerns and demands regarding environmental issues, visualize quality management activities through proactive disclosure of information, and enhance communications with stakeholders. The Kao Group is also working to analyze the impact of new laws and regulations in each country and region, and to build a system capable of promptly confirming compliance with laws and regulations.</p> <p>Main Corporate Risk Themes and Response <u>Response to serious product quality issues:</u> The Kao Group is strengthening its Group-wide response capabilities to minimize harm in the event of critical damage due to product quality issues and is enhancing awareness within the Group to prevent the occurrence of serious product quality issues.</p>

* See note 2 on page 1 for an explanation of *Yoki-Monozukuri*.

Details of Major Risks	Main Measures
<p>Risks Related to Information Security</p> <p>Background The Kao Group uses IT to promote efficient business and operations and conducts business using data. The Kao Group possesses confidential information (trade secrets) relating to research and development, production, marketing, sales and other matters, and retains the personal information of many customers and consumers for sales promotion activities, member site management and e-commerce.</p> <p>The Kao Group is working to strengthen information security in order to protect information assets including trade secrets and personal information, as well as IT hardware, software and many kinds of data records, in accordance with Kao's Information Security Policy.</p> <p>Risks and Impact A leak of confidential information or personal information outside the Kao Group could occur due to an error or to intentional actions including a cyberattack. In addition, the supply chain and other business activities may be temporarily suspended as a result of such actions. If such an incident occurs, credibility could decline and targets for net sales and profits may be unattainable.</p>	<p>Countermeasures As personal and organizational measures for information security, the Kao Group's information security committees inside and outside Japan have established rules and systems throughout the Group and implemented activities to protect trade secrets, personal information and information security using the PDCA cycle (awareness-raising activities, self-checks, and the setting of improvement targets). The Kao Group is also strengthening its system for responding when an incident occurs. As technical measures, the Kao Group has created a strategic roadmap for security measures, in accordance with which such measures are implemented and regularly reported to the Management Board and Audit & Supervisory Board Members. To identify security risks in the supply chain, the Kao Group also interviews suppliers on their security measures and takes out cyber insurance to prepare for serious incidents.</p> <p>In new businesses, the Kao Group includes clauses regarding the handling of trade secrets and personal information (including personal data such as RNA) in its contracts with business partners, including customers, contractors and collaborators, and also works to ensure thorough information management by creating rules for handling and operation.</p> <p>Main Corporate Risk Themes and Response <u>Response to cyberattacks and personal information protection:</u> The Kao Group has strengthened security measures throughout the Group and clarified response procedures in the event that an incident occurs. It is also ramping up its activities to protect trade secrets, personal information and information security throughout the Group.</p>
<p>Risks Related to Reputation</p> <p>Background The rapid penetration of social networking services (SNS) has facilitated the transmission and spread of information by individuals and enabled a wide range of interactive communication among consumers or between consumers and companies. Information transmitted through SNS and similar media also includes negative evaluations and comments about companies, and there are concerns about an increase in reputation risk through their spread that could inflict financial or non-financial loss from a decline in brand value and corporate credibility.</p> <p>Risks and Impact For the Kao Group, transmission of various information and brand marketing activities using digital media, including SNS, are increasing year by year. The spread through SNS of negative evaluations of inappropriate or careless expressions used in such activities, could significantly lower the Kao Group's brand value or credibility.</p>	<p>Countermeasures From the perspective of ESG, the Kao Group is establishing a pre-check system and conducting internal education as measures to prevent inappropriate expressions in advertising and SNS messages. The Kao Group also globally monitors external information, including information on SNS, and strives to discover risks at an early stage. If a reputation risk incident occurs that adversely affects business and brand activities, the Kao Group responds promptly and strives to maintain its reputation by publicly announcing information, its corporate stance and other matters, as necessary, at the appropriate time.</p> <p>Main Corporate Risk Themes and Response <u>Response to reputation risk:</u> The above measures are enhancing the Kao Group's system for monitoring SNS and other external information so that risks can be discovered at an earlier stage, and the Group is further strengthening its emergency response system in the event a reputation risk incident occurs.</p>

Details of Major Risks	Main Measures
<p>Risks Related to Changes in the Retailing Environment</p> <p>Background As a result of the increasing spread of smartphones and SNS, there has been a further shift to purchasing using digital technology on a daily basis. E-commerce continues to grow and new derivative sales channels such as social commerce¹ and quick commerce² have already arisen, while brick-and-mortar retailers are also promoting OMO³ and mergers or collaboration across business formats. As a result, the Kao Group's retail channels are becoming more diversified and complex.</p> <p>As for logistics, due to a driver shortage and soaring prices for gasoline and other fuels, the increase in distribution costs has become clear, and major changes are expected in the operating environment, due in part to the application of upper limits on overtime hours for drivers in the logistics industry from 2024 under the Work Style Reform Law.</p> <p>Risks and Impact If the Kao Group is unable to conduct appropriate sales activities in response to the diversification and greater complexity of its retail channels, targets for net sales, market share and profits may be unattainable. Inability to respond appropriately to changes in the retailing environment may have an impact on the Kao Group's business activities, including delays in delivery and a significant increase in distribution costs.</p> <ol style="list-style-type: none"> 1. Social commerce: A sales channel that enables purchases of products through social media 2. Quick commerce: E-commerce with a shortened timeframe from order to delivery 3. OMO (Online Merges with Offline): A sales strategy that combines both online and offline components 	<p>Countermeasures In response to these changes, the Kao Group is stepping up initiatives with companies specializing in e-commerce, as well as promoting various other initiatives, including OMO with brick-and-mortar retailers and collaboration with start-up companies. It is also proactively increasing memberships for Kao's public accounts on SNS, and the number of registered users of <i>Kao Tokutoku News</i> has increased from 200,000 in 2021 to 2.12 million in 2022. The Kao Group is working to create loyal customers by taking on the new marketing challenge of co-creation with the retail industries, such as by transmitting information to members and directing consumers to stores through campaigns, as well as communicate directly with consumers through various means. In the area of cosmetics, the Kao Group is promoting D2C⁴ by enhancing online counseling and proactively utilizing social media, including live commerce.⁵</p> <p>For logistics, the Kao Group is participating together with the retail industry in a government initiative aimed at ensuring sustainable logistics while contributing to economic growth. In an environment where the retail industry's awareness of the need for sustainable logistics is increasing year by year, the Kao Group is working to build a sustainable logistics system. Its efforts address the issues of improving loading efficiency and standardizing logistics, including through collaboration with other manufacturers and vendors, rather than temporary measures to address costs.</p> <ol style="list-style-type: none"> 4. D2C (Direct to Consumer): A business model for selling directly to consumers through a company's own e-commerce site 5. Live commerce: A sales method that combines product introduction through internet livestreaming with product sales
<p>Risks Related to Business outside Japan</p> <p>Background As one of its growth strategies, the Kao Group is rolling out its businesses outside Japan, with a particular emphasis on strengthening its operations in Asia and other regions where the economic growth rate is high and market expansion is forecast.</p> <p>Risks and Impact In addition to the impact of COVID-19, there is the possibility of events in the course of business in each country or region that have a negative impact, including a slowdown in economic growth, political or social instability, sudden changes in laws, regulations or tax systems, a spate of counterfeit products, or reputation risk.* If there is a substantial delay in the implementation of business plans due to the impact of these events, targets for net sales and profits may be unattainable.</p> <p>* See "Risks Related to Reputation" on page 15.</p>	<p>Countermeasures The Kao Group routinely collects business-related information on the laws and regulations of each country, in addition to information on the economic, political and social conditions of the countries in which it produces or sells products, and takes necessary measures in response. The Kao Group pays particularly close attention to tightening regulations in each country relating to the environment, product safety and quality, and the impact of changes in import and export regulations on the Group. With regard to intellectual property rights infringements such as counterfeit products, the Kao Group is focusing on countermeasures against counterfeit products, especially in the Asian region, in an effort to ensure that consumers and customers can use its products with peace of mind.</p>

Details of Major Risks	Main Measures
<p>Risks Related to Business Investment</p> <p>Background The Kao Group conducts proactive capital investment and M&A for business growth and ESG based on investment decisions using EVA, which is highly correlated with corporate value. The Kao Group will continue to make these investments while striving to enhance corporate value through ongoing improvements in EVA.</p> <p>Risks and Impact If the market and business environments deteriorate to levels not anticipated at the time investment decisions were made and the expected results cannot be generated due to a deviation from plans or other factors, impairment of property, plant and equipment recorded due to capital investment or impairment of goodwill and intangible assets recorded due to M&A could have an impact on financial condition and business results.</p>	<p>Countermeasures For major investments, the Kao Group checks each time quarterly results are calculated to assess whether the expected results deviate significantly from the initial plan, and the results are reported at the Management Board meeting. In the event of a deviation, relevant departments consider future direction and measures as necessary to improve business performance.</p>
<p>Risks Related to Compliance</p> <p>Background In conducting its business activities, the Kao Group is subject to various laws and regulations on matters including product quality and safety, process safety, environmental protection, chemicals management, accounting standards, taxation, labor, and transaction management.</p> <p>Risks and Impact As competition intensifies globally, there is concern of growing temptation to commit improprieties due to factors including difficulties in achieving product differentiation, meeting product launch schedules and delivery timelines, and pressure to achieve performance targets. In addition, harassment and compliance risks in labor management may increase due to differences in values resulting from a generational gap or growing employee diversity, miscommunication resulting from sudden changes in work styles, such as remote work in response to the COVID-19 pandemic, or other factors. A serious violation of compliance by the Kao Group, its subcontractors or other related parties could have an impact on the Group's credibility, financial condition and business results.</p>	<p>Countermeasures The Kao Group regards "Integrity as the only choice" (behaving lawfully and ethically, and conducting sound and honest business activities) as the starting point of compliance, and promotes it as a foundation for earning the respect and trust of all stakeholders. As such, the Kao Group promotes activities such as ongoing education about the Kao Business Conduct Guidelines, which are its code of conduct, and responding appropriately to communications received via the compliance hotlines. Through case studies and other means, the Kao Group is raising awareness of compliance risks caused by differences in values resulting from diversification, miscommunication or other factors. In addition, as activities focused on reducing serious compliance risks, the Kao Group systematically promotes compliance with laws and regulations that apply to its business, and the Compliance Committee monitors the implementation status of particularly important laws and regulations. The Kao Group is conducting activities designed to create an open workplace that allows immediate reporting to management and an appropriate response in the event that a serious violation of compliance occurs.</p>

Details of Major Risks	Main Measures
Risks Related to Securing Human Capital Background In executing management plans, the Kao Group strives to provide opportunities for diverse human capital to take on challenges and co-create. Currently, due in part to the impact of COVID-19 in addition to intensifying competition globally and the advent of the super-aging society in Japan, the ability to innovate by responding flexibly to change is required more than ever. It is also likely that people's values with regard to their careers and working styles will become more diverse, resulting in increased mobility of human capital throughout society in general. Risks and Impact Inability to hire and develop human capital with the advanced expertise required in each area in anticipation of major environmental changes, or leaders who can direct the Group's course of transformation, could have a negative impact on the acceleration of innovation in new businesses and new product development, as well as on execution of Kao Group Mid-term Plan 2025 "K25."	Countermeasures Based on the recognition that human capital is the Kao Group's most important asset, the Group is promoting initiatives to maximize the power and potential of its employees with diverse backgrounds and specialties to fully display their skills and individuality through major challenges and co-creation spanning departments, countries and organizations. In 2021, the Kao Group implemented its Objectives and Key Results (OKRs) system to instill a spirit of challenge among all employees and stronger cooperation and co-creation inside and outside the Group. The Kao Group is also implementing measures such as making full use of its global human capital information system, and improving organizational capabilities by conducting various employee opinion surveys and questionnaires, conducting human capital management through job rank, evaluation and training systems and compensation policies that are shared globally, implementing a health promotion program and establishing flexible and diverse working environments and systems. In addition to these measures, each month the Human Capital Development Committee, with top management as members, discusses and promotes the assignment and development of human capital and effective organizational management that support sustainable growth.
Risks Related to Currency Exchange Rate Fluctuations Background Currency exchange rate fluctuations affect foreign currency-denominated sales and the cost of procuring raw materials. They also affect the conversion into yen of the amounts on the financial statements of consolidated subsidiaries outside Japan for the consolidated settlement of accounts. Risks and Impact Larger-than-expected fluctuations in foreign currency exchange rates against the yen, which is the Kao Group's functional currency, could have an impact on financial condition and business results.	Countermeasures The Kao Group mitigates the impact of foreign-currency denominated transactions on business results by hedging risk of currency exchange rate fluctuations through measures including using foreign currency accounts for transaction settlement and derivative transactions such as forward exchange contracts and currency swaps. The Kao Group does not engage in derivative transactions for the purpose of speculation. In addition, the Kao Group monitors fluctuations in major currencies and the impact of these fluctuations on its business, and reports its findings to the Management Board in a timely fashion. Under the direction of management, relevant departments consider measures to mitigate the impact on business as required.
Risks Related to Litigation Background The Kao Group conducts diverse businesses globally, and various types of litigation or other action may be brought against it. Risks and Impact During the fiscal year ended December 31, 2022, no lawsuit or other legal action was filed that had a material effect on the Kao Group. However, if such an event were to occur, developments in such litigation or other legal action could have an impact on the Kao Group's financial condition and business results.	Countermeasures The Kao Group complies with various laws and regulations relating to its business, and strives to prevent disputes by providing safe and reliable products, properly acquiring and using intellectual property rights, clarifying contract conditions, negotiating with other parties, and through other methods. In addition, the Kao Group has created a global mechanism for prompt and reliable reporting on the filing of important lawsuits and their current status, and has established a system for responding to litigation or other legal actions in cooperation with the individuals in charge at related companies in each country, law firms and other parties.

(3) Relationship of Major Risks to Kao Group Mid-term Plan 2025 "K25"

Among the 15 major risks, the Kao Group is addressing risks related to raw material procurement, risks related to response to social issues, risks related to the quality of products and other items, risks related to changes in the retailing environment, risks related to business outside Japan, risks related to business investment and risks related to securing human capital, with the recognition that they are risks with a particularly significant relationship to Kao Group Mid-term Plan 2025 "K25."

Consolidated Statement of Financial Position

Kao Corporation and Consolidated Subsidiaries
As of December 31, 2022

		(Millions of yen)	
Assets	Notes	2022	2021
Current assets			
Cash and cash equivalents	7, 33	268,248	336,069
Trade and other receivables	8, 33	230,604	216,209
Inventories	9	278,382	228,070
Other financial assets	33	3,605	6,094
Income tax receivables		4,171	2,508
Other current assets	10	22,196	20,842
Total current assets		807,206	809,792
Non-current assets			
Property, plant and equipment	11	439,325	428,609
Right-of-use assets	16	138,629	144,057
Goodwill	12	191,860	183,498
Intangible assets	12	60,183	52,636
Investments accounted for using the equity method	13	11,061	10,050
Other financial assets	33	25,325	23,588
Deferred tax assets	14	43,833	41,348
Other non-current assets	10, 18	8,928	10,429
Total non-current assets		919,144	894,215
Total assets		1,726,350	1,704,007
Liabilities and equity			
Liabilities			
Current liabilities			
Trade and other payables	17, 33	243,767	229,086
Bonds and borrowings	15, 33	65,670	6,156
Lease liabilities	15, 16, 31, 33	19,440	19,929
Other financial liabilities	16, 33	7,249	6,329
Income tax payables		12,299	24,078
Provisions	19	1,246	2,041
Contract liabilities	24	32,465	31,143
Other current liabilities	20	104,488	103,135
Total current liabilities		486,624	421,897
Non-current liabilities			
Bonds and borrowings	15, 33	62,166	121,581
Lease liabilities	15, 16, 31, 33	115,614	121,016
Other financial liabilities	16, 33	7,223	7,070
Retirement benefit liabilities	18	38,738	29,843
Provisions	19	8,803	8,187
Deferred tax liabilities	14	6,858	5,830
Other non-current liabilities		4,940	4,706
Total non-current liabilities		244,342	298,233
Total liabilities		730,966	720,130
Equity			
Share capital	21	85,424	85,424
Capital surplus	21	105,880	105,633
Treasury shares	21	(3,459)	(3,960)
Other components of equity	21	43,842	(3,723)
Retained earnings	21	740,374	781,763
Equity attributable to owners of the parent		972,061	965,137
Non-controlling interests		23,323	18,740
Total equity		995,384	983,877
Total liabilities and equity		1,726,350	1,704,007

Consolidated Statement of Income

Kao Corporation and Consolidated Subsidiaries
Year ended December 31, 2022

		(Millions of yen)	
	Notes	2022	2021
Net sales	6, 24	1,551,059	1,418,768
Cost of sales	9, 11, 12, 16, 18	(1,002,717)	(845,574)
Gross profit		548,342	573,194
Selling, general and administrative expenses	11, 12, 16, 18, 25	(440,910)	(427,045)
Other operating income	24, 26	17,391	17,304
Other operating expenses	11, 12, 16, 18, 27	(14,752)	(19,943)
Operating income	6	110,071	143,510
Financial income	6, 18, 28	5,650	6,470
Financial expenses	6, 16, 18, 28	(2,418)	(2,598)
Share of profit in investments accounted for using the equity method	6, 13	2,545	2,620
Income before income taxes	6	115,848	150,002
Income taxes	14	(28,106)	(38,587)
Net income		87,742	111,415
Attributable to:			
Owners of the parent		86,038	109,636
Non-controlling interests		1,704	1,779
Net income		87,742	111,415

Earnings per share

Basic (Yen)	29	183.28	230.59
Diluted (Yen)	29	183.27	230.57

Consolidated Statement of Comprehensive Income

Kao Corporation and Consolidated Subsidiaries
Year ended December 31, 2022

		(Millions of yen)	
	Notes	2022	2021
Net income		87,742	111,415
Other comprehensive income			
Items that will not be reclassified to profit or loss:			
Net gain (loss) on revaluation of financial assets measured at fair value through other comprehensive income	30, 33	369	390
Remeasurements of defined benefit plans	30	(8,751)	11,729
Share of other comprehensive income of investments accounted for using the equity method	30	(186)	330
Total of items that will not be reclassified to profit or loss		(8,568)	12,449
Items that may be reclassified subsequently to profit or loss:			
Exchange differences on translation of foreign operations	30	48,497	40,876
Share of other comprehensive income of investments accounted for using the equity method	30	627	392
Total of items that may be reclassified subsequently to profit or loss		49,124	41,268
Other comprehensive income, net of taxes		40,556	53,717
Comprehensive income		128,298	165,132
Attributable to:			
Owners of the parent		125,437	161,686
Non-controlling interests		2,861	3,446
Comprehensive income		128,298	165,132

Consolidated Statement of Changes in Equity

Kao Corporation and Consolidated Subsidiaries
Year ended December 31, 2022

(Millions of yen)

(millions of yen)

		Equity attributable to owners of the parent													
		Other components of equity													
	Notes	Share capital	Capital surplus	Treasury shares	Subscription rights to shares	Exchange differences on translation of foreign operations	Net gain (loss) on derivatives designated as cash flow hedges	Net gain (loss) on revaluation of financial assets measured at fair value through other comprehensive income	Remeasurements of defined benefit plans	Total	Retained earnings	Total	Non-controlling interests	Total equity	
January 1, 2022		85,424	105,633	(3,960)	175	(9,678)	(0)	5,780	—	(3,723)	781,763	965,137	18,740	983,877	
Net income		—	—	—	—	—	—	—	—	—	86,038	86,038	1,704	87,742	
Other comprehensive income		—	—	—	—	48,000	7	193	(8,801)	39,399	—	39,399	1,157	40,556	
Comprehensive income		—	—	—	—	48,000	7	193	(8,801)	39,399	86,038	125,437	2,861	128,298	
Disposal of treasury shares	21	—	(120)	50,511	(90)	—	—	—	—	(90)	(50,298)	3	—	3	
Purchase of treasury shares	21	—	(25)	(50,010)	—	—	—	—	—	—	—	(50,035)	—	(50,035)	
Share-based payment transactions	32	—	384	—	—	—	—	—	—	—	—	384	—	384	
Dividends	23	—	—	—	—	—	—	—	—	—	(68,864)	(68,864)	(414)	(69,278)	
Changes in the ownership interest in subsidiaries		—	8	—	—	—	—	—	—	—	—	8	2,136	2,144	
Transfer from other components of equity to retained earnings		—	—	—	(28)	—	—	(517)	8,801	8,256	(8,256)	—	—	—	
Other increase (decrease)		—	—	—	—	—	—	—	—	—	(9)	(9)	—	(9)	
Total transactions with the owners		—	247	501	(118)	—	—	(517)	8,801	8,166	(127,427)	(118,513)	1,722	(116,791)	
December 31, 2022		85,424	105,880	(3,459)	57	38,322	7	5,456	—	43,842	740,374	972,061	23,323	995,384	

January 1, 2021		85,424	106,618	(3,865)	268	(49,368)	(0)	5,724	—	(43,376)	778,886	923,687	14,507	938,194
Net income		—	—	—	—	—	—	—	—	—	109,636	109,636	1,779	111,415
Other comprehensive income		—	—	—	—	39,690	(0)	715	11,645	52,050	—	52,050	1,667	53,717
Comprehensive income		—	—	—	—	39,690	(0)	715	11,645	52,050	109,636	161,686	3,446	165,132
Disposal of treasury shares	21	—	(334)	51,697	(89)	—	—	—	—	(89)	(51,273)	1	—	1
Purchase of treasury shares	21	—	—	(51,792)	—	—	—	—	—	—	—	(51,792)	—	(51,792)
Share-based payment transactions	32	—	370	—	—	—	—	—	—	—	—	370	—	370
Dividends	23	—	—	—	—	—	—	—	—	—	(67,794)	(67,794)	(797)	(68,591)
Changes in the ownership interest in subsidiaries		—	(1,021)	—	—	—	—	—	—	—	—	(1,021)	1,584	563
Transfer from other components of equity to retained earnings		—	—	—	(4)	—	—	(659)	(11,645)	(12,308)	12,308	—	—	—
Total transactions with the owners		—	(985)	(95)	(93)	—	—	(659)	(11,645)	(12,397)	(106,759)	(120,236)	787	(119,449)
December 31, 2021		85,424	105,633	(3,960)	175	(9,678)	(0)	5,780	—	(3,723)	781,763	965,137	18,740	983,877

Consolidated Statement of Cash Flows

Kao Corporation and Consolidated Subsidiaries
Year ended December 31, 2022

		(Millions of yen)	
	Notes	2022	2021
Cash flows from operating activities			
Income before income taxes		115,848	150,002
Depreciation and amortization		89,738	87,341
Interest and dividend income.....		(2,049)	(1,307)
Interest expense		1,904	2,036
Share of profit in investments accounted for using the equity method.....		(2,545)	(2,620)
(Gains) losses on sale and disposal of property, plant and equipment, and intangible assets.....		3,524	4,458
(Increase) decrease in trade and other receivables.....		3,394	(4,440)
(Increase) decrease in inventories		(36,930)	(20,508)
Increase (decrease) in trade and other payables.....		5,496	8,682
Increase (decrease) in retirement benefit liabilities		7,333	(22,787)
Other.....		(17,992)	19,192
Subtotal		167,721	220,049
Interest received		1,920	1,191
Dividends received.....		2,513	2,222
Interest paid		(1,907)	(2,039)
Income taxes paid.....		(39,342)	(45,899)
Net cash flows from operating activities		130,905	175,524
Cash flows from investing activities			
Payments into time deposits		(7,426)	(11,418)
Proceeds from withdrawal of time deposits.....		10,660	12,930
Purchase of property, plant and equipment.....		(65,520)	(59,951)
Purchase of intangible assets		(11,681)	(11,568)
Other.....		(944)	2,775
Net cash flows from investing activities		(74,911)	(67,232)
Cash flows from financing activities			
Increase (decrease) in short-term borrowings		(207)	440
Proceeds from long-term borrowings.....		7,280	30,091
Repayments of long-term borrowings		(7,331)	(31,380)
Repayments of lease liabilities.....	31	(21,704)	(21,266)
Purchase of treasury shares		(50,035)	(51,792)
Dividends paid to owners of the parent.....		(68,931)	(67,859)
Dividends paid to non-controlling interests.....		(419)	(802)
Other.....		2,036	995
Net cash flows from financing activities		(139,311)	(141,573)
Net increase (decrease) in cash and cash equivalents		(83,317)	(33,281)
Cash and cash equivalents at the beginning of the year	7	336,069	353,176
Effect of exchange rate changes on cash and cash equivalents		15,496	16,174
Cash and cash equivalents at the end of the year	7	268,248	336,069

Notes to Consolidated Financial Statements

Kao Corporation and Consolidated Subsidiaries
Year ended December 31, 2022

1 Reporting Entity

Kao Corporation (hereinafter the “Company”) is a corporation established pursuant to the Companies Act of Japan (hereinafter the “Companies Act”) with its headquarters located in Chuo-ku, Tokyo.

The consolidated financial statements of the Company and its subsidiaries (hereinafter the “Group”) have a closing date of December 31 and comprise the financial statements of the Group and the interests in associates of the Company.

The Group manufactures consumer products including fabric care products, home care products, sanitary products, skin care products, hair care products, personal health products, life care products, cosmetics and chemical products including oleochemicals and surfactants. The Group delivers its products to customers through its sales companies and distributors in Japan and other countries. Details of these principal business activities of the Group are presented in Note 6 “Segment Information.”

2 Basis of Preparation

(1) Compliance with International Financial Reporting Standards (hereinafter “IFRS”)

The Group’s consolidated financial statements have been prepared in accordance with IFRS issued by the International Accounting Standards Board, as permitted by the provision of Article 93 of the Ordinance on Terminology, Forms, and Preparation Methods of Consolidated Financial Statements (Ordinance of the Ministry of Finance of Japan No. 28 of 1976), as they satisfy the requirements for an “IFRS Specified Company” in Article 1-2 of the same ordinance.

(2) Basis of Measurement

The Group’s consolidated financial statements have been prepared on the historical cost basis, except for certain assets and liabilities including financial instruments measured at fair value as presented in Note 3 “Significant Accounting Policies.”

(3) Functional Currency and Presentation Currency

The Group’s consolidated financial statements are presented in Japanese yen, which is the Company’s functional currency. All

financial information presented in Japanese yen is rounded to the nearest million yen.

(4) Changes in Presentation (Consolidated Statement of Cash Flows)

“Proceeds from issuance of bonds” and “Redemption of bonds,” which were separately presented as items within “Financing activities” for the fiscal year ended December 31, 2021, are included in “Other” for the fiscal year ended December 31, 2022 as the amounts became immaterial. The consolidated financial statements for the fiscal year ended December 31, 2021 have been reclassified to reflect these changes in presentation.

Consequently, “Proceeds from issuance of bonds,” which was presented as a cash inflow of 200 million yen and “Redemption of bonds,” which was presented as a cash outflow of 12 million yen within “Financing activities” of the consolidated statement of cash flows for the fiscal year ended December 31, 2021, are reclassified to “Other.”

3 Significant Accounting Policies

(1) Basis of Consolidation

1) Subsidiaries

Subsidiaries refer to all business entities controlled by the Company. The Company controls an entity when it has exposure, or rights, to variable returns from involvement with an investee and has the ability to affect those returns through its power over the investee.

The financial statements of subsidiaries are included in the consolidated financial statements of the Group from the date the Company gains control until the date it loses control of the subsidiary.

All intergroup balances, transactions, income and expenses and unrealized gains and losses arising from intergroup transactions are eliminated in preparing the consolidated financial statements.

A change in the Company’s ownership interest in a subsidiary, without a loss of control, is accounted for as an equity transaction. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognized directly in equity attributable to the Group.

Non-controlling interests in subsidiaries are identified separately from the Group’s equity therein. Comprehensive income of subsidiaries is attributed to owners of the parent and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

All subsidiaries have the same closing date as the Company.

2) Associates

An associate is defined as an entity over which the Company has significant influence on financial and operating policy decisions but does not have control over the entity. The Company is presumed to have significant influence over another entity when it directly or indirectly holds at least 20%, but no more than 50% of the voting rights of that entity. Entities over which the Company is able to exercise significant influence on financial and operating policy decisions are also included in associates, even if it holds less than 20% of the voting rights.

Investments in associates are initially recognized at cost, and are accounted for by the equity method from the date the Company gains significant influence until the date it loses that influence.

Goodwill recognized on acquisition of associates (less any

accumulated impairment losses) is included in investments in associates.

The closing dates of some associates differ from that of the Company. Associates with different closing dates prepare additional financial closings as of the closing date of the Company.

(2) Business Combinations

Business combinations are accounted for using the acquisition method. The consideration of an acquisition is measured as the aggregate of the acquisition-date fair value of the assets transferred, liabilities assumed and equity securities issued by the Company to the former owners of the acquiree in exchange for control of the acquiree.

Identifiable assets and liabilities of the acquiree in business combinations are measured at their acquisition-date fair value, with the following exceptions:

- Deferred tax assets or liabilities and assets or liabilities related to employee benefit arrangements are recognized and measured in accordance with IAS 12 “Income Taxes” and IAS 19 “Employee Benefits,” respectively.
- Non-current assets and disposal groups that are classified as held for sale in accordance with IFRS 5 “Non-current Assets Held for Sale and Discontinued Operations” are measured in accordance with that standard.
- Liabilities or equity instruments related to share-based payment transactions of the acquiree or share-based payment transactions of the Company entered into to replace such transactions of the acquiree are measured in accordance with IFRS 2 “Share-based Payment.”

Any excess of the consideration over the net fair value of identifiable assets acquired and liabilities assumed at the acquisition date is recognized as goodwill in the consolidated statement of financial position. Conversely, any deficit is immediately recognized as income in the consolidated statement of income.

Costs associated with business combinations, such as advisory fees, attorney fees and due diligence costs, are expensed as incurred.

The additional acquisition of non-controlling interests is accounted for as an equity transaction, and therefore no goodwill is recognized with respect to such a transaction.

Business combinations under common control are business combinations in which all of the combining entities or combining businesses are ultimately controlled by the same party or parties both before and after the business combination, and that control is not transitory. These business combinations are accounted for based on the carrying amounts.

(3) Foreign Currency Translation

1) Functional currency and presentation currency

The presentation currency used in the Group’s consolidated financial statements is Japanese yen, which is the Company’s functional currency. Subsidiaries and associates in the Group determine their own functional currencies and each entity’s transactions are measured in its functional currency.

2) Foreign currency transactions

Foreign currency transactions are translated into the functional currency at the spot exchange rate at the date of the transaction, or an exchange rate that approximates the spot rate.

At the end of each reporting period, foreign currency monetary items are translated into the functional currency using the rates at the end of each reporting period.

Non-monetary items that are measured in terms of historical cost in foreign currencies are translated using the exchange rates at the date of acquisition. Non-monetary items that are measured at fair value in foreign currencies are translated into the functional currency using the exchange rates at the date when the fair value was measured. Exchange differences arising from such translations and settlements are recognized in profit or loss. However, exchange differences arising from equity instruments measured at fair value through other comprehensive income and cash flow hedges are recognized in other comprehensive income.

3) Financial statements of foreign operations

Assets and liabilities of foreign operations are translated at the rates at the end of each reporting period. Income and expenses are translated at the average exchange rates for the period, provided that there were no significant fluctuations in the exchange rates during the period. Exchange differences arising from translation of the financial statements of foreign operations are recognized in other comprehensive income. On the disposal of a foreign operation, the cumulative amount of exchange differences relating to that foreign operation is reclassified from equity to profit or loss when the gain or loss on disposal is recognized.

(4) Financial Instruments

1) Financial assets

(i) Initial recognition and measurement

The Group initially recognizes trade and other receivables at the date they are originated. Other financial assets are initially recognized at the transaction date when the Group becomes a party to the contractual provisions of the financial instrument.

At initial recognition, all financial assets are measured at fair value, but those that are not classified as financial assets measured at fair value through profit or loss are measured at fair value plus transaction costs directly attributable to the acquisition of the financial asset. Transaction costs of financial assets measured at fair value through profit or loss are recognized in profit or loss.

(ii) Classification and subsequent measurement

The Group classifies the financial assets it holds as (a) financial assets measured at amortized cost; (b) debt instruments measured at fair value through other comprehensive income; (c) equity instruments measured at fair value through other comprehensive income; or (d) financial assets measured at fair value through profit or loss. This classification is determined at initial recognition, and measurement of financial assets after initial recognition is performed according to the classification of the financial asset as follows:

(a) Financial assets measured at amortized cost

Financial assets held by the Group are measured at amortized cost if both of the following conditions are met:

- The financial asset is held in a business model whose objective is to hold financial assets in order to collect contractual cash flows; and
- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

After initial recognition, the carrying amounts of financial assets measured at amortized cost are recognized using the effective interest method less impairment loss, if any. Amortization using the effective interest method and gains and losses on derecognition are recognized in profit or loss for the period.

(b) Debt instruments measured at fair value through other comprehensive income

Financial assets held by the Group are classified as debt instruments measured at fair value through other comprehensive income if both of the following conditions are met:

- The financial asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling the financial asset; and
- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

(c) Equity instruments measured at fair value through other comprehensive income

The Group has made an irrevocable election to present subsequent changes in the fair value of certain equity instruments in other comprehensive income, and classifies them in equity instruments measured at fair value through other comprehensive income.

These financial assets are measured at fair value after initial recognition, and changes in the fair value are included in other comprehensive income. If the Group disposes of an investment, or if the fair value of the investment declines significantly, the cumulative gain or loss recognized in other comprehensive income is reclassified from other components of equity to retained earnings.

Dividends from equity instruments measured at fair value through other comprehensive income are recognized as financial income in profit or loss.

(d) Financial assets measured at fair value through profit or loss

Financial assets that are not classified as financial assets measured at amortized cost, debt instruments measured at fair value through other comprehensive income, or equity instruments measured at fair value

through other comprehensive income are classified as financial assets measured at fair value through profit or loss. The Group's financial assets that are measured at fair value through profit or loss include certain short-term investments and derivative assets. The Group has not irrevocably designated any financial assets as measured at fair value through profit or loss.

These financial assets are measured at fair value after initial recognition, and changes in their fair value are recognized in profit or loss. Gains and losses on financial assets measured at fair value through profit or loss are recognized in profit or loss.

(iii) Impairment of financial assets

With respect to impairment of financial assets measured at amortized cost, the Group recognizes a loss allowance for expected credit losses on such financial assets.

At each reporting date, the Group assesses whether the credit risks on the financial assets have increased significantly since initial recognition.

If credit risk on a financial instrument has not increased significantly since initial recognition, the loss allowance for that financial instrument is measured at an amount equal to the 12-month expected credit losses. If credit risk on a financial instrument has increased significantly since initial recognition, the loss allowance is measured in an amount equal to the lifetime expected credit losses.

However, the loss allowance on trade receivables and others is always measured in an amount equal to the lifetime expected credit losses.

The expected credit losses of financial assets are estimated in a way that reflects the following:

- An unbiased and probability-weighted amount determined by evaluating a range of possible outcomes
- The time value of money
- Reasonable and supportable information about past events, current conditions and forecasts of economic conditions that is available without undue cost or effort at the reporting date

The amounts of these measurements are recognized in profit or loss.

If an event that reduces an impairment loss occurs after the impairment loss has been recognized, the impairment loss will be reversed to the extent of the decrease and credited to profit or loss.

(iv) Derecognition of financial assets

The Group derecognizes financial assets only when the contractual rights to the cash flows from the financial assets expire, or when the Group transfers financial assets and substantially all the risks and rewards of ownership of the financial assets.

2) Financial liabilities

(i) Initial recognition and measurement

The Group initially recognizes bonds and borrowings at the date they are issued, and other financial liabilities at the

transaction date.

Upon initial recognition, all financial liabilities are measured at fair value. However, financial liabilities measured at amortized cost are measured in the full amount after deducting directly attributable transaction costs from the fair value.

Transaction costs of financial liabilities measured at fair value through profit or loss are recognized in profit or loss.

(ii) Classification and subsequent measurement

The Group classifies financial liabilities as either financial liabilities measured at fair value through profit or loss, or financial liabilities measured at amortized cost. This classification is determined at initial recognition. Measurement of financial liabilities after initial recognition is performed as follows, according to the classification of the financial liability.

The Group's financial liabilities measured at fair value through profit or loss are derivative liabilities. The Group has not irrevocably designated any financial liabilities as measured at fair value through profit or loss at initial recognition. Financial liabilities measured at fair value through profit or loss are measured at fair value after initial recognition, and any changes in their fair value are recognized in profit or loss for the period.

Financial liabilities measured at amortized cost are subsequently measured at amortized cost using the effective interest method. Amortization using the effective interest method and gains and losses on derecognition are recognized in profit or loss for the period.

(iii) Derecognition of financial liabilities

The Group derecognizes financial liabilities when they are extinguished (i.e., when the obligation specified in the contract is discharged or cancelled or expires).

3) Offsetting of financial assets and financial liabilities

Financial assets and financial liabilities are offset and the net amount is presented in the consolidated statement of financial position only when the Group currently has a legally enforceable right to set off the recognized amount and intends either to settle on a net basis or realize the assets and settle the liabilities simultaneously.

4) Fair value of financial instruments

The Group recognizes the fair value of financial instruments using various valuation methodologies and inputs. The fair values recognized based on the observability of inputs into the valuation methodologies are grouped into the following three levels:

Level 1: Fair value measured with quoted prices in active markets for identical assets or liabilities

Level 2: Fair value measured with inputs other than quoted prices categorized within Level 1 that are observable for the asset or liability, either directly or indirectly

Level 3: Fair value measured with unobservable inputs for the asset or liability

5) Hedge accounting

The Group uses interest rate swaps and other derivatives to hedge interest rate risk. At the inception of a hedging relationship, the Group formally designates and documents the hedging relationship and the interest rate risk management objective and strategy for undertaking the hedge. The documentation includes identification of the hedging instrument, the hedged item, the nature of the risk being hedged, and the methods of assessing whether the hedging relationship meets the hedge effectiveness requirements. In addition, the Group assesses whether the hedging relationship meets the hedge effectiveness requirements at the inception and on an ongoing basis. Ongoing assessments are conducted either at each reporting date or upon a significant change in the circumstances affecting the hedge effectiveness requirements, whichever comes first.

The Group does not use cash flow hedges, fair value hedges or net investment hedges in foreign operations.

(5) Cash and Cash Equivalents

Cash and cash equivalents consist of cash on hand, demand deposits and short-term investments that are highly liquid and readily convertible to known amounts of cash subject to an insignificant risk of changes in value, and that mature or become due within three months from the date of acquisition.

Cash equivalents include certificates of deposit, time deposits, commercial paper, public and corporate bonds in investment trusts, and money in trust.

(6) Inventories

Inventories are measured at the lower of cost and net realizable value. Net realizable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale. The cost of inventories includes all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition, and are determined principally by the weighted average method.

(7) Property, Plant and Equipment

Property, plant and equipment are measured using the cost model and carried at cost less any accumulated depreciation and any accumulated impairment losses.

The cost of an item of property, plant and equipment comprises any costs directly attributable to acquisition of the asset and the initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located.

Depreciation of assets other than land and construction in progress is calculated on a straight-line basis over the estimated useful lives of the assets.

The estimated useful lives of major asset items are as follows:

- Buildings and structures: 10 to 35 years
- Machinery and vehicles: 7 to 14 years
- Tools, furniture and fixtures: 3 to 10 years

The estimated useful lives, residual values and depreciation method are reviewed at each fiscal year end, and any revisions

are applied prospectively as changes in accounting estimates.

(8) Goodwill and Intangible Assets

1) Goodwill

Goodwill arising from a business combination is not amortized, and is carried at cost, determined at the acquisition date, less any accumulated impairment losses.

In addition, goodwill is allocated to the cash generating unit or group of cash-generating units that is expected to benefit from the synergies of the business combination, and is tested for impairment at least once a year by each fiscal year end or if there are indications of impairment. Impairment loss on goodwill is recognized in profit or loss and is not reversed in subsequent periods.

Goodwill measurements at initial recognition are presented in Note 3 "Significant Accounting Policies (2) Business Combinations."

2) Intangible assets

Intangible assets are measured using the cost model and carried at cost less any accumulated amortization and any accumulated impairment losses.

The costs of separately acquired intangible assets comprise any costs directly attributable to acquisition of the assets.

The costs of intangible assets acquired in business combinations are measured at fair value at the acquisition date.

Expenditures related to internally generated intangible assets are recognized as expenses when incurred, with the exception of development expenses that meet the criteria for capitalization. Software development expense only meets the criteria for capitalization.

After initial recognition, with the exception of intangible assets with indefinite useful lives, intangible assets are amortized on a straight-line basis over their estimated useful lives.

The Group has no material intangible assets with indefinite useful lives. The estimated useful lives of major intangible assets are as follows:

- Trademarks: 20 years
- Customer relationships: 15 or 20 years
- Software: 5 or 10 years

The estimated useful lives, residual values and amortization method are reviewed at each fiscal year end, and any revisions are applied prospectively as changes in accounting estimates.

3) Research and development expenses

Research expenditures are expensed as incurred. Development expenditures are capitalized only if they can be measured reliably, future economic benefits are probable, and the Group intends to, and has sufficient resources to, complete development and to use or sell the asset. If research expenditures and development expenditures cannot be clearly distinguished, they are expensed as incurred as research expenditures.

(9) Leases

For leases in which the Group acts as the lessee, the lease liability is initially measured at the present value of the accrued lease payments. Right-of-use assets are measured at the initial amount of the lease liability adjusted for any initial direct costs and any prepaid lease payments, plus any costs including restoration obligations and other factors under the lease contracts.

Right-of-use assets are depreciated on a straight-line basis over the shorter of their estimated useful lives and lease terms. Lease payments are apportioned between the interest expenses and the reduction of the outstanding liability using the interest method. Interest expenses are presented on the consolidated statement of income separately from depreciation expenses of right-of-use assets.

The Group does not recognize right-of-use assets and lease liabilities for short-term leases with a lease term of 12 months or less and leases for which the underlying asset is of low value. The Group recognizes the lease payments associated with these leases as expenses on either a straight-line basis or another systematic basis over the lease term.

With the application of a practical expedient, rent concessions that are a direct consequence of the COVID-19 pandemic and meet specified conditions are accounted for as variable lease payments rather than being treated as lease modifications.

The Group has no significant leases in which it acts as the lessor.

(10) Impairment of Non-financial Assets

Non-financial assets, excluding inventories, deferred tax assets, non-current assets classified as held for sale and assets arising from employee benefits, are assessed at the end of each reporting period to determine whether there is any indication of impairment. If there is an indication of impairment, the recoverable amount of the asset is estimated. For goodwill, the recoverable amount is estimated at least once a year by each fiscal year end, irrespective of whether there is any indication of impairment.

The recoverable amount of an asset or a cash-generating unit is the higher of its value in use and fair value less cost of disposal. The discount rate used in calculating the asset's value in use is a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the future cash flow estimates have not been adjusted.

If it is not possible to estimate the recoverable amount of an individual asset, the recoverable amount of the cash-generating unit to which the asset belongs is measured. Goodwill acquired in business combinations is allocated to each of the cash-generating units or groups of cash-generating units of the Group that is expected to benefit from synergies of the business combinations after the acquisition date, and is tested for impairment.

As corporate assets do not generate separate cash inflows, the recoverable amount of individual corporate assets cannot be measured unless management has decided to dispose of the asset. If there is an indication that a corporate asset may be impaired, the recoverable amount of the cash-generating unit or group of cash-generating units to which the asset belongs is measured and compared with the carrying amount.

Impairment losses are recognized in profit or loss whenever the recoverable amount is less than the carrying amount. Such impairment losses of the cash-generating unit or group of cash-generating units are recognized by first reducing the carrying amount

of any goodwill allocated to the cash-generating unit or group of cash-generating units, and then allocating the rest of the losses to other assets of the unit pro rata on the basis of the carrying amount of each asset in the unit.

The Group reviews assets other than goodwill at each fiscal year end to determine whether there is any indication that previously recognized impairment losses may no longer exist or may have decreased. If there are any such indications, the Group estimates the recoverable amount of the asset.

Impairment losses on assets other than goodwill that were recognized in prior fiscal years are reversed only when there have been changes in the estimates used to determine the recoverable amount of the asset since the last impairment loss was recognized. In this case, the carrying amount of the asset is increased as a reversal of impairment loss to the recoverable amount.

Impairment losses are reversed up to the carrying amount, net of amortization or depreciation, that would have been determined had no impairment loss for the asset been recognized in prior fiscal years.

(11) Employee Benefits

1) Post-employment benefits

The Group sponsors a defined benefit plan and a defined contribution plan as post-employment benefit plans for employees.

(i) Defined benefit plan

For the defined benefit plan, the projected unit credit method is used to individually determine the present value of defined benefit obligations, related current service costs and past service costs of each plan.

The discount rate is determined by referring to market yields at the end of the fiscal year on high quality corporate bonds corresponding to the period until the expected date of future benefit payment.

The net amount of the present value of defined benefit obligations and the fair value of plan assets is accounted for as a liability or asset. However, if the defined benefit plan has surplus, the net defined benefit asset is limited to the present value of any economic benefits available in the form of refunds from the plan or reductions in the future contributions to the plan. Net interest on the net defined benefit liability (asset) is recognized in profit or loss as financial expenses (income).

Remeasurements of the net defined benefit liability (asset) are recognized in other comprehensive income and immediately reclassified to retained earnings in the period in which they occur.

Past service costs are recognized in profit or loss for the period in which they are incurred.

(ii) Defined contribution plan

Payments to the defined contribution plan are recognized as expenses when employees have rendered services entitling them to the contributions.

2) Other employee benefits

Short-term employee benefit obligations are measured on an undiscounted basis and recognized as an expense when the related services are rendered.

For bonuses, when there is a present legal or constructive obligation to make payments of bonuses, and a reliable estimate of the obligation can be made, the estimated amount to be paid is accounted for as a liability.

For the paid absence expenses, when there is a legal or constructive obligation with respect to accumulating paid absence systems and a reliable estimate of the obligation can be made, the estimated amount to be paid based on those systems is accounted for as a liability.

(12) Share-based Payments

1) Stock option plan

The Company has a stock option plan accounted for as an equity-settled share-based payment plan. Due to the introduction of a performance share plan, the stock option plan has been abolished except for the options already granted.

2) Performance share plan

The Company introduced a performance share plan accounted for as an equity-settled share-based payment plan.

The performance share plan measures services received at the fair value of the Company's shares on the date of grant, recognizing them as an expense from the date of grant through the vesting period and recognizing the same amount as an increase in capital surplus. The fair value of the Company's shares on the date of grant is determined by adjusting the market price of the shares taking expected dividends into account.

(13) Provisions

Provisions are recognized when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

The amounts recognized as provisions are the best estimates of necessary expenditures to settle the present obligation at the end of the reporting period taking into account the risks and uncertainties associated with the obligation. When the effect of the time value of money is material, the amount of provision is measured at the present value of the expenditures expected to be required to settle the obligation.

(14) Revenue

The Group recognizes revenue based on the following five-step model:

- Step 1: Identify the contract with a customer
- Step 2: Identify the performance obligations in the contract
- Step 3: Determine the transaction price
- Step 4: Allocate the transaction price to the performance obligations in the contract
- Step 5: Recognize revenue when the entity satisfies a performance obligation

The Group sells consumer products including fabric care products, home care products, sanitary products, skin care products, hair care products, personal health products, life care products, cosmetics, as well as chemical products including oleochemicals and surfactants. For sales of such products, the

performance obligation is judged to have been satisfied and revenue is therefore recognized upon delivery of the products because the customer obtains control over the products upon delivery. Revenue is measured at the consideration promised in a contract with a customer, less discounts, rebates, returned products and other items.

(15) Income Taxes

Income taxes consist of current income taxes and deferred income taxes. Income taxes are recognized as income or expenses and included in profit or loss, except for taxes related to business combinations and taxes related to items that are recognized directly in equity or in other comprehensive income.

1) Current income taxes

Current income taxes are recognized in the amount of the expected taxes payable to or receivable from the taxation authorities. Calculation of the amount of tax is based on the tax rates and tax laws enacted or substantively enacted by the end of the reporting period in countries where the Group conducts business and earns taxable income.

2) Deferred income taxes

Deferred tax assets and liabilities are recognized for temporary differences between the carrying amounts of assets or liabilities at the end of the reporting period and its tax base, and for tax loss carryforwards and tax credits.

Deferred tax assets are recognized for deductible temporary differences, the carryforwards of unused tax losses and the carryforwards of unused tax credits to the extent that it is probable that future taxable income will be available against such deferred tax assets. Deferred tax liabilities are recognized, in principle, for all taxable temporary differences.

The carrying amount of deferred tax assets is reviewed each period and reduced to the extent that it is no longer probable that sufficient future taxable income will be available to realize benefits from all or part of the assets. Unrecognized deferred tax assets are reassessed each period and are recognized to the extent that it has become probable that future taxable income will allow the deferred tax assets to be recovered.

Deferred tax assets and liabilities are not recognized for the following temporary differences:

- Taxable temporary differences arising from initial recognition of goodwill
- Temporary differences arising from initial recognition of assets and liabilities from transactions that are not business combinations and affect neither accounting income nor taxable income
- Taxable temporary differences on investments in subsidiaries and associates, when the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future
- Deductible temporary differences on investments in

subsidiaries and associates, when it is probable that the temporary differences will not reverse in the foreseeable future

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the assets are realized or the liabilities are settled based on the tax rates and tax laws enacted or substantively enacted by the end of the reporting period.

Deferred tax assets and liabilities are offset if the Group has a legally enforceable right to set off current tax assets against current tax liabilities and income taxes are levied by the same taxation authority on the same taxable entity.

The Company and some of its subsidiaries have adopted the consolidated tax system.

(16) Earnings per Share

Basic earnings per share are calculated by dividing net income attributable to owners of the parent by the weighted average number of ordinary shares outstanding during the period, adjusted for treasury shares held. Diluted earnings per share are calculated by adjusting the effects of all dilutive potential ordinary shares.

(17) Non-current Assets Held for Sale

A non-current asset or disposal group whose carrying amount is expected to be recovered principally through a sale transaction rather than through continuing use is classified as a non-current asset or disposal group held for sale if it is highly probable that the asset or disposal group will be sold within one year and is available for immediate sale in its present condition, and the Group's management has committed to a plan to sell. Non-current assets are not depreciated or amortized while they are classified as held for sale or are part of a disposal group classified as held for sale. Non-current assets or disposal groups classified as held for sale are measured at the lower of the carrying amount and fair value less costs to sell.

(18) Equity and Other Capital

1) Ordinary shares

Ordinary shares are recognized in share capital and capital surplus at their issue price. Share issuance costs are deducted from the issue price.

2) Treasury shares

Treasury shares are recognized at cost and deducted from equity. No gain or loss is recognized on the purchase, sale or retirement of the Company's treasury shares. Any difference between the carrying amount and consideration received on the sale of treasury shares is recognized directly in equity.

(19) Dividends

Dividend distributions to shareholders of the Company are recognized as liabilities in the period in which year-end dividends are resolved upon by the General Meeting of Shareholders and interim dividends are resolved upon by the Board of Directors.

4 Significant Accounting Estimates and Judgments

The Group's consolidated financial statements include estimates and assumptions made by management regarding income and expenses, measurement of the carrying amounts of assets and liabilities, and disclosure of contingencies and others at the end of the reporting period. These estimates and assumptions are based on management's best judgment at the end of the reporting period, and take into account historical experience and various other factors that can be considered as reasonable. However, due to their nature, actual results may differ from these estimates and assumptions.

The estimates and their underlying assumptions are reviewed by management on an ongoing basis. The effects of revisions to accounting estimates and assumptions are recognized in the period when the estimates are revised and in future periods.

Significant accounting estimates and judgments have been made in consideration of the impact of the COVID-19 pandemic. It has been assumed that compared with the fiscal year ended December 31, 2022, the impact in future periods will lessen due to the easing of restrictions on movement and other factors.

Estimates and assumptions that significantly affect the amounts recognized in the Group's consolidated financial statements are as follows:

(1) Impairment of Property, Plant and Equipment, Right-of-use Assets, Goodwill and Intangible Assets

The Group conducts impairment tests for property, plant and equipment, right-of-use assets, goodwill and intangible assets when there is an indication that the recoverable amount of the asset or cash-generating unit is less than the carrying amount.

Triggering events for impairment testing include, for example, significant changes with adverse effects on past or projected business performance, significant changes in the use of acquired assets, or changes in overall business strategy.

Furthermore, goodwill is tested for impairment at least once a year by each fiscal year end, irrespective of indication of impairment, to verify that the recoverable amount of the cash-generating unit to which goodwill is allocated exceeds the carrying amount.

Impairment tests are performed by comparing the carrying amount and the recoverable amount of the asset or cash-generating unit. If the recoverable amount is less than the carrying amount, the carrying amount is reduced to the recoverable amount and the reduction is recognized as an impairment loss. The recoverable amount is the higher of the value in use and the fair value less cost of disposal of the asset or cash-generating unit.

In calculating the value in use, the Group makes certain assumptions about the remaining useful life and future cash flows of the asset, discount rate, growth rate and other factors. These assumptions are based on management's best estimates and judgments, but may be affected by changes in future business plans, economic conditions or other factors. If revisions to the assumptions become necessary, such revisions could have a material effect on the amounts recognized in the consolidated financial statements in future periods.

Note 12 "Goodwill and Intangible Assets" presents the method for measuring the recoverable amount and sensitivity associated with goodwill.

(2) Lease Term of Right-of-use Assets

The Group determines the lease term as the non-cancellable period of the lease, together with any periods when it is reasonably certain such lease will be extended or will not be terminated. Specifically, the lease term is estimated in consideration of factors including variation in rent due to extension or termination of the lease, whether there is a penalty for termination, and the period for recovery of investment in improvements of important leaseholds.

Note 3 "Significant Accounting Policies (9) Leases" presents details related to lease terms. Note 33 "Financial Instruments" presents amounts.

(3) Post-employment Benefits

The Group provides a variety of post-retirement benefit plans that include a defined benefit plan. The present value of defined benefit obligations and related service costs are determined based on actuarial assumptions.

Actuarial assumptions are based on management's best estimates and judgments, but may be affected by the revision of inputs including the discount rate and mortality rate due to changes in economic conditions. If revisions to the assumptions become necessary, such revisions could have a material effect on the amounts recognized in the consolidated financial statements in future periods.

Note 18 "Employee Benefits" presents actuarial assumptions and related sensitivity.

(4) Provisions

The Group has recognized a provision for loss related to cosmetics, a provision for asset retirement obligations and other provisions in the consolidated statement of financial position.

The amounts recognized are the best estimates of the expenditures required to settle the present obligations taking into account historical experience and other factors at the end of the reporting period.

The provision for loss related to cosmetics may be affected by changes in compensation-related and other expenses.

The provision for asset retirement obligations and other provisions may be affected by factors such as changes in future business plans.

If the actual amounts paid differ from the estimates, such differences could have a material effect on the amounts recognized in the consolidated financial statements in future periods.

Note 19 "Provisions" presents the nature and amounts of these provisions.

(5) Income Taxes

The Group recognizes and measures income tax payables and income taxes based on reasonable estimates of the amounts to be paid to the taxation authorities in each country. Such estimates are made using the tax rates and tax laws enacted or substantively enacted by the end of the reporting period.

Calculating income tax payables and income taxes requires estimates and judgments of various factors, including interpretations of tax regulations by the Group and the taxation authorities and the experience of past tax audits.

Therefore, if the final tax outcome is different from the amount initially recognized, the difference is recognized in the period when the tax outcome is finalized.

Deferred tax assets are recognized for deductible temporary differences, the carryforwards of unused tax losses and the carryforwards of unused tax credits to the extent that it is probable that future taxable income will be available. The realizability of deferred tax assets is assessed using the tax rates that are expected to apply to the period when the asset is realized based on tax rates and tax laws enacted or substantively enacted by the end of the reporting period.

Recognition and measurement of deferred tax assets are based on management's best estimates and judgments, but may be affected by future changes in business plans or other conditions, or by the amendment or promulgation of related laws. Any revisions that become necessary could have a material effect on the amounts recognized in the consolidated financial statements in future periods.

Note 14 "Income Taxes" presents income taxes and amounts.

(6) Fair Value

The Group uses various inputs, including unobservable inputs, and valuation methodologies to estimate the fair value of specific assets and liabilities. When measuring fair value, the Group maximizes the use of relevant observable inputs and minimizes the use of unobservable inputs, and management's best estimates and judgments are required in that process.

The fair value of these assets and liabilities is based on management's best estimates and judgments, but could be affected by factors including changes in inputs due to changes in economic conditions. Any revisions that become necessary could have a material effect on the amounts recognized in the consolidated financial statements in future periods.

Note 33 "Financial Instruments" presents fair value measurement methods and amounts for major financial assets and liabilities measured at fair value.

(7) Contingencies

Contingencies are disclosed when there are items that could have a material effect on future business after considering the probability of occurrence and the amount of financial impact, taking into account all available evidence at the end of the reporting period.

5	New Standards and Interpretations Not Yet Adopted
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The impacts of new or revised major standards and interpretations that were issued by the date of approval presented in Note 37 "Approval of the Consolidated Financial Statements," but were not

yet early adopted by the Group as of December 31, 2022 are immaterial.

6	Segment Information
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(1) Summary of Reportable Segments

The Group's reportable segments are the components of the Group for which discrete financial information is available and are regularly reviewed by the Board of Directors in deciding how to allocate resources and in assessing their performance. Net sales and operating income are the key measures used by the Board of Directors to evaluate the performance of each segment.

The Group is organized on the basis of five businesses: the four business areas that constitute the Consumer Products Business (the Hygiene and Living Care Business, the Health and Beauty Care Business, the Life Care Business, and the Cosmetics

Business) and the Chemical Business. In each business, the Group plans comprehensive business strategies and carries out business activities on a global basis.

Accordingly, the Group has five reportable segments: the Hygiene and Living Care Business, the Health and Beauty Care Business, the Life Care Business, the Cosmetics Business and the Chemical Business.

Information about major customers has been omitted as the revenue from each customer is less than 10% of the Group's net sales.

Reportable segments		Major products	
Consumer Products Business	Hygiene and Living Care Business	Fabric care products	Laundry detergents, fabric treatments
		Home care products	Kitchen cleaning products, house cleaning products, paper cleaning products
		Sanitary products	Sanitary napkins, baby diapers
	Health and Beauty Care Business	Skin care products	Soaps, facial cleansers, body cleansers
		Hair care products	Shampoos, conditioners, hair styling agents, hair coloring agents, men's products
		Personal health products	Bath additives, oral care products, thermo products
	Life Care Business	Life care products	Commercial-use hygiene products, health drinks
	Cosmetics Business	Cosmetics	Counseling cosmetics, self-selection cosmetics
Chemical Business		Oleo chemicals	Oleochemicals, fat and oil derivatives, surfactants, fragrances
		Performance chemicals	Water-reducing admixture for concrete, casting sand binders, plastics additives, process chemicals for various industries
		Information materials	Toners/Toner binders, inkjet ink colorants, ink, fine polishing agents and cleaner for hard disk, materials and process chemicals for semiconductor

Notes to Consolidated Financial Statements

(2) Sales and Results of Reportable Segments

Fiscal year ended December 31, 2022

(Millions of yen)

	Reportable segments								
	Consumer Products Business					Chemical Business	Total	Reconciliation ¹	Consolidated
	Hygiene and Living Care Business	Health and Beauty Care Business	Life Care Business	Cosmetics Business	Subtotal				
Net sales									
Sales to customers	516,548	369,549	55,734	251,472	1,193,303	357,756	1,551,059	—	1,551,059
Intersegment sales and transfers ²	—	—	—	—	—	44,745	44,745	(44,745)	—
Total net sales	516,548	369,549	55,734	251,472	1,193,303	402,501	1,595,804	(44,745)	1,551,059
Operating income (loss)	30,674	34,596	(15)	14,086	79,341	29,516	108,857	1,214	110,071
Financial income									5,650
Financial expenses									(2,418)
Share of profit in investments accounted for using the equity method									2,545
Income before income taxes									115,848
Other items									
Depreciation and amortization ³	35,106	18,800	3,406	14,469	71,781	16,918	88,699	1,039	89,738
Impairment loss ³	—	—	—	34	34	—	34	—	34
Capital expenditures ⁴	40,011	22,425	2,356	12,370	77,162	17,022	94,184	383	94,567

Notes: 1. The operating income (loss) reconciliation of 1,214 million yen includes corporate expenses not allocated to reportable segments, as well as elimination of intersegment inventory transactions.
2. Intersegment sales and transfers are mainly calculated based on market price and manufacturing cost.
3. Note 11 "Property, Plant and Equipment," Note 12 "Goodwill and Intangible Assets" and Note 16 "Leases" present the details of depreciation, amortization and impairment loss.
4. Capital expenditures include investments in property, plant and equipment, right-of-use assets and intangible assets.

Fiscal year ended December 31, 2021

(Millions of yen)

	Reportable segments								
	Consumer Products Business					Chemical Business	Total	Reconciliation ¹	Consolidated
	Hygiene and Living Care Business	Health and Beauty Care Business	Life Care Business	Cosmetics Business	Subtotal				
Net sales									
Sales to customers	496,845	354,488	53,032	239,335	1,143,700	275,068	1,418,768	—	1,418,768
Intersegment sales and transfers ²	—	—	—	—	—	39,225	39,225	(39,225)	—
Total net sales	496,845	354,488	53,032	239,335	1,143,700	314,293	1,457,993	(39,225)	1,418,768
Operating income (loss)	51,762	49,684	3,614	7,492	112,552	29,627	142,179	1,331	143,510
Financial income									6,470
Financial expenses									(2,598)
Share of profit in investments accounted for using the equity method									2,620
Income before income taxes									150,002
Other items									
Depreciation and amortization ³	35,240	17,605	2,941	14,836	70,622	15,664	86,286	1,055	87,341
Impairment loss ³	4,533	—	—	20	4,553	—	4,553	—	4,553
Capital expenditures ⁴	39,115	19,917	3,843	10,529	73,404	13,867	87,271	495	87,766

Notes: 1. The operating income (loss) reconciliation of 1,331 million yen includes corporate expenses not allocated to reportable segments, as well as elimination of intersegment inventory transactions.
2. Intersegment sales and transfers are mainly calculated based on market price and manufacturing cost.
3. Note 11 "Property, Plant and Equipment," Note 12 "Goodwill and Intangible Assets" and Note 16 "Leases" present the details of depreciation, amortization and impairment loss.
4. Capital expenditures include investments in property, plant and equipment, right-of-use assets and intangible assets.

(3) Geographical Information

Sales to customers and non-current assets (excluding financial assets, deferred tax assets and retirement benefit assets) by region consist of the following:

Sales to Customers		(Millions of yen)
	2022	2021
Japan	847,237	823,521
Asia	356,663	312,737
Americas.....	188,444	148,995
Europe	158,715	133,515
Total	1,551,059	1,418,768

Note: Sales are classified by country or region based on the location of customers.

Non-current Assets (excluding Financial Assets, Deferred Tax Assets and Retirement Benefit Assets)		(Millions of yen)
	2022	2021
Japan	574,509	575,408
Asia.....	110,810	108,987
Americas.....	115,134	101,668
Europe	45,994	38,163
Total	846,447	824,226

7 Cash and Cash Equivalents

Cash and cash equivalents consist of the following:

		(Millions of yen)
	2022	2021
Cash and deposits	251,248	314,069
Short-term investments.....	17,000	22,000
Total	268,248	336,069

The balance of cash and cash equivalents presented in the consolidated statement of financial position is equal to the balance of cash and cash equivalents presented in the consolidated statement of cash flows.

8 Trade and Other Receivables

Trade and other receivables consist of the following:

		(Millions of yen)
	2022	2021
Trade receivables	223,064	210,321
Other receivables	9,152	7,632
Allowance for doubtful receivables.....	(1,612)	(1,744)
Total.....	230,604	216,209

Trade receivables are recognized when the Group's products are delivered because the Group's right to consideration is unconditional except for the passage of time from that point. Moreover, the Group receives payment within a short period of time after satisfying its performance obligation under separately

determined payment terms. As the period from satisfaction of the performance obligation to receipt of consideration is usually within one year or less, as a practical expedient, the Group does not adjust the promised amount of consideration for the effects of a significant financing component for such receivables.

9 Inventories

Inventories consist of the following:

	(Millions of yen)	
	2022	2021
Merchandise and finished goods.....	208,967	168,547
Work in progress	16,374	14,124
Materials and supplies.....	53,041	45,399
Total.....	278,382	228,070

The amount of inventories recognized as expenses and included in cost of sales for the fiscal years ended December 31, 2022 and 2021 were 860,511 million yen and 717,323 million yen, respectively.

Write-downs of inventories recognized as expenses for the fiscal years ended December 31, 2022 and 2021 were 10,294 million yen and 8,879 million yen, respectively.

10 Other Assets

Other assets consist of the following:

	(Millions of yen)	
	2022	2021
Other current assets		
Prepaid expenses.....	10,957	9,559
Other.....	11,239	11,283
Total.....	22,196	20,842
Other non-current assets		
Long-term prepaid expenses	2,866	2,713
Retirement benefit assets	3,539	5,053
Other.....	2,523	2,663
Total.....	8,928	10,429

11 Property, Plant and Equipment

(1) Changes in Property, Plant and Equipment

The following tables present changes in acquisition costs, accumulated depreciation and accumulated impairment losses, and carrying amounts of property, plant and equipment.

	Buildings and structures	Machinery and vehicles	Tools, furniture and fixtures	Land	Construction in progress	Total
January 1, 2021	450,746	773,325	127,052	82,268	34,314	1,467,705
Additions	284	738	517	—	53,504	55,043
Sales and disposals	(6,474)	(15,811)	(9,561)	(1,190)	—	(33,036)
Reclassification	16,064	35,176	9,244	767	(61,251)	—
Exchange differences on translation of foreign operations	7,565	18,393	2,059	790	1,462	30,269
Other	251	(712)	(42)	—	314	(189)
December 31, 2021	468,436	811,109	129,269	82,635	28,343	1,519,792
Additions	216	478	805	—	61,284	62,783
Sales and disposals	(3,003)	(35,087)	(10,476)	—	(46)	(48,612)
Reclassification	10,541	26,708	8,934	9,936	(56,119)	—
Exchange differences on translation of foreign operations	9,656	22,433	2,752	990	1,290	37,121
Other	504	(508)	(104)	—	(2,877)	(2,985)
December 31, 2022	486,350	825,133	131,180	93,561	31,875	1,568,099

	Buildings and structures	Machinery and vehicles	Tools, furniture and fixtures	Land	Construction in progress	Total
January 1, 2021	312,459	614,058	99,954	10,320	—	1,036,791
Depreciation ¹	14,033	35,175	12,079	—	—	61,287
Impairment losses ²	—	3,998	20	—	535	4,553
Sales and disposals	(5,393)	(14,819)	(9,255)	—	—	(29,467)
Exchange differences on translation of foreign operations	3,744	12,428	1,658	—	—	17,830
Other	261	(220)	148	—	—	189
December 31, 2021	325,104	650,620	104,604	10,320	535	1,091,183
Depreciation ¹	14,569	35,515	11,464	—	—	61,548
Impairment losses ²	—	1	30	—	—	31
Sales and disposals	(2,628)	(34,569)	(10,253)	—	(535)	(47,985)
Exchange differences on translation of foreign operations	5,379	16,181	2,303	—	—	23,863
Other	289	(281)	126	—	—	134
December 31, 2022	342,713	667,467	108,274	10,320	—	1,128,774

Notes: 1. Depreciation of property, plant and equipment is included in cost of sales, selling, general and administrative expenses and other operating expenses in the consolidated statement of income.

2. Impairment losses on property, plant and equipment are included in other operating expenses in the consolidated statement of income.

Carrying Amount	(Millions of yen)					
	Buildings and structures	Machinery and vehicles	Tools, furniture and fixtures	Land	Construction in progress	Total
January 1, 2021	138,287	159,267	27,098	71,948	34,314	430,914
December 31, 2021	143,332	160,489	24,665	72,315	27,808	428,609
December 31, 2022	143,637	157,666	22,906	83,241	31,875	439,325

(2) Impairment Losses

The Group allocates property, plant and equipment into cash-generating units based on the smallest identifiable group of assets that generates cash inflows that are largely independent. For idle assets, the Group evaluates whether to recognize impairment losses for individual properties based on impairment tests performed.

The Group recognized impairment losses of 31 million yen and 4,553 million yen for the fiscal years ended December 31, 2022 and 2021, respectively.

The main component of the 4,553 million yen impairment losses in the fiscal year ended December 31, 2021 was 4,533 million yen recognized in the Hygiene and Living Care Business. As the Company has decided to retire some of its assets related

to baby diapers produced in Japan, primarily machinery and equipment, it has reduced the carrying amount of these assets to zero, which is the fair value less cost of disposal. New premium-priced products have been performing well in Japan, but in order to respond promptly and effectively to changes in consumer needs and the business environment in China, which is an export destination, the Group has shifted its strategy to ramping up local production for future growth. To facilitate this, it has optimized its production facilities in Japan.

(3) Commitments

Note 36 "Commitments" presents information on commitments to acquire property, plant and equipment.

12 Goodwill and Intangible Assets

(1) Changes in Goodwill and Intangible Assets

The following tables present changes in acquisition costs, accumulated amortization and accumulated impairment losses, and carrying amounts of goodwill and intangible assets.

Acquisition Cost	(Millions of yen)					
	Intangible assets					
	Goodwill	Software	Trademarks	Customer relationships	Other ¹	Total
January 1, 2021	177,031	33,459	13,749	12,613	9,958	69,779
Additions	—	56	—	—	11,546	11,602
Sales and disposals	—	(5,500)	—	—	(196)	(5,696)
Reclassification	—	6,635	—	—	(6,635)	—
Exchange differences on translation of foreign operations	6,467	101	1,588	1,392	198	3,279
Other	—	(2,574)	—	—	(130)	(2,704)
December 31, 2021	183,498	32,177	15,337	14,005	14,741	76,260
Additions	—	336	—	—	11,417	11,753
Sales and disposals	—	(5,058)	—	—	—	(5,058)
Reclassification	—	19,173	—	—	(19,173)	—
Exchange differences on translation of foreign operations	8,362	192	2,318	2,067	276	4,853
Other	—	58	—	—	1,844	1,902
December 31, 2022	191,860	46,878	17,655	16,072	9,105	89,710

Note: 1. Software in progress is included in other in intangible assets.

Accumulated Amortization and Accumulated Impairment Losses

(Millions of yen)

	Goodwill	Intangible assets				Total
		Software	Trademarks	Customer relationships	Other	
January 1, 2021	—	16,432	2,136	1,926	1,029	21,523
Amortization ¹	—	6,062	771	760	283	7,876
Sales and disposals	—	(5,481)	—	—	(187)	(5,668)
Exchange differences on translation of foreign operations	—	76	284	231	119	710
Other	—	(817)	—	—	—	(817)
December 31, 2021	—	16,272	3,191	2,917	1,244	23,624
Amortization ¹	—	7,515	922	900	290	9,627
Sales and disposals	—	(4,994)	—	—	—	(4,994)
Exchange differences on translation of foreign operations	—	173	490	425	182	1,270
Other	—	(0)	—	—	(0)	(0)
December 31, 2022	—	18,966	4,603	4,242	1,716	29,527

Note: 1. Amortization of intangible assets is included in cost of sales, selling, general and administrative expenses and other operating expenses in the consolidated statement of income.

Carrying Amount

(Millions of yen)

	Goodwill	Intangible assets				Total
		Software	Trademarks	Customer relationships	Other	
January 1, 2021	177,031	17,027	11,613	10,687	8,929	48,256
December 31, 2021	183,498	15,905	12,146	11,088	13,497	52,636
December 31, 2022	191,860	27,912	13,052	11,830	7,389	60,183

(2) Goodwill

The following table presents the carrying amount of goodwill recognized in the Group's consolidated statement of financial position. Goodwill arising from business combinations is allocated

at the acquisition date to cash-generating units benefiting from the business combination, and the goodwill belongs to the Health and Beauty Care Business, the Life Care Business, the Cosmetics Business and the Chemical Business.

(Millions of yen)

	2022	2021
Health and Beauty Care Business	34,574	30,054
Life Care Business	22,111	19,208
Cosmetics Business	132,124	131,554
Chemical Business	3,051	2,682
Total	191,860	183,498

(3) Impairment Test for Goodwill

The Group tests goodwill for impairment at least once a year by each fiscal year end or if there are indications of impairment.

The recoverable amount on the impairment test is measured based on value in use. Goodwill recognized in the Group's consolidated statement of financial position derives mainly from business combination of Kanebo Cosmetics Inc. in the Cosmetics Business. The carrying amount in the fiscal years ended December 31, 2022 and 2021 was 119,400 million yen.

For the goodwill acquired in the business combination of Kanebo Cosmetics Inc., cash flow projections that are the basis for the value in use are estimated using medium-term plans for the Cosmetics Business that reflect past performance and forecasts. These medium-term plans include information on sales by region and brand.

The key assumptions used in formulating these estimates include sales growth rates and discount rates and the sales growth rates are consistent with the growth rate projections of the markets in which the cash-generating units operate. Estimated cash flows in years beyond the medium-term plans approved by management were calculated using an annual growth rate of 0% and were discounted to present value using a weighted average cost of capital (WACC) of 7.3% for the fiscal year ended December 31, 2022 and 6.2% for the fiscal year ended December 31, 2021. For the fiscal years ended December 31, 2022 and 2021, management determined that there was a low probability that the recoverable amounts of relevant cash-generating units would be less than their carrying amounts even in cases where key assumptions used in the impairment test changed within a reasonably possible range.

(4) Intangible Assets with Indefinite Useful Lives

The intangible assets above include no material intangible assets with indefinite useful lives.

(5) Commitments

Note 36 "Commitments" presents information on commitments associated with the acquisition of intangible assets.

13 Investments Accounted for Using the Equity Method

Investments in associates are accounted for using the equity method in the Group's consolidated financial statements. The carrying amount of investments in associates that are not individually material is as follows:

	(Millions of yen)	
	2022	2021
Investments accounted for using the equity method.....	11,061	10,050

Changes in the Group's share of net income and other comprehensive income of associates that are not individually material are as follows:

	(Millions of yen)	
	2022	2021
The Group's share of net income	2,545	2,620
The Group's share of other comprehensive income.....	441	722
The Group's share of comprehensive income	2,986	3,342

14 Income Taxes**(1) Deferred Tax Assets and Liabilities**

Details of major causes of occurrence and changes in deferred tax assets and liabilities consist of the following:

Fiscal year ended December 31, 2022 (Millions of yen)

	January 1, 2022	Recognized in profit or loss	Recognized in other compre- hensive income	Other	December 31, 2022
Deferred tax assets					
Property, plant and equipment and intangible assets	23,933	(1,734)	—	101	22,300
Lease liabilities.....	41,271	(2,353)	—	301	39,219
Retirement benefit liabilities	6,573	(876)	3,658	(113)	9,242
Accrued expenses	11,398	(1,976)	—	147	9,569
Unused tax losses	2,246	3,967	—	11	6,224
Other.....	17,851	(1,269)	—	1,043	17,625
Total deferred tax assets	103,272	(4,241)	3,658	1,490	104,179
Deferred tax liabilities					
Property, plant and equipment and intangible assets	11,241	(1,356)	—	1,132	11,017
Right-of-use assets	40,866	(2,343)	—	262	38,785
Financial assets.....	2,187	—	151	(258)	2,080
Undistributed foreign earnings	11,359	1,861	—	—	13,220
Other.....	2,101	235	(496)	262	2,102
Total deferred tax liabilities	67,754	(1,603)	(345)	1,398	67,204
Deferred tax assets, net	35,518	(2,638)	4,003	92	36,975

Fiscal year ended December 31, 2021

(Millions of yen)

	January 1, 2021	Recognized in profit or loss	Recognized in other compre- hensive income	Other	December 31, 2021
Deferred tax assets					
Property, plant and equipment and intangible assets	21,859	1,935	—	139	23,933
Lease liabilities	42,379	(1,226)	—	118	41,271
Retirement benefit liabilities	13,188	(2,204)	(4,282)	(129)	6,573
Accrued expenses	11,036	249	—	113	11,398
Unused tax losses	1,190	1,034	—	22	2,246
Other	15,102	2,244	—	505	17,851
Total deferred tax assets	104,754	2,032	(4,282)	768	103,272
Deferred tax liabilities					
Property, plant and equipment and intangible assets	10,148	701	—	392	11,241
Right-of-use assets	41,964	(1,186)	—	88	40,866
Financial assets	2,319	—	175	(307)	2,187
Undistributed foreign earnings	11,059	300	—	—	11,359
Other	1,574	(280)	369	438	2,101
Total deferred tax liabilities	67,064	(465)	544	611	67,754
Deferred tax assets, net	37,690	2,497	(4,826)	157	35,518

Deferred tax assets and liabilities recognized in the consolidated statement of financial position are as follows:

	2022	2021
Deferred tax assets	43,833	41,348
Deferred tax liabilities	6,858	5,830
Deferred tax assets, net	36,975	35,518

Deductible temporary differences and unused tax losses for which no deferred tax asset is recognized are as follows:

	2022	2021
Unused tax losses	3,398	2,624
Deductible temporary differences	11,944	11,905
Total	15,342	14,529

Unused tax losses for which no deferred tax asset is recognized will expire as follows:

	2022	2021
Not later than 1 year	611	351
Later than 1 year and not later than 2 years	451	600
Later than 2 years and not later than 3 years	189	423
Later than 3 years and not later than 4 years	64	234
Later than 4 years	2,083	1,016
Total	3,398	2,624

The aggregate amounts of taxable temporary differences associated with investments in subsidiaries and associates for which deferred tax liabilities were not recognized at December 31, 2022 and 2021 were 37,106 million yen and 20,498 million yen, respectively. The Group did not recognize deferred tax

liabilities for these temporary differences because it was able to control the timing of the reversal of these temporary differences, and it was probable that the temporary difference will not reverse in the foreseeable future.

(2) Income Taxes

Income taxes consist of the following:

	(Millions of yen)	
	2022	2021
Current taxes	25,468	41,084
Deferred taxes ¹	2,638	(2,497)
Total	28,106	38,587

Note: 1. Deferred taxes include 279 million yen and 197 million yen for the fiscal years ended December 31, 2022 and 2021, respectively, due to tax rate changes.

(3) Reconciliation of Effective Tax Rate

The details of difference between the effective statutory tax rate and the Group's average actual tax rate consist of the following:

	(%)	
	2022	2021
Effective statutory tax rate	30.62	30.62
Tax credit for experimental research costs and other	(3.55)	(2.86)
Different tax rates applied to subsidiaries	(2.57)	(2.26)
Reassessment of recoverability of unused tax losses and deferred tax assets	(2.44)	0.41
Change in tax rates	0.24	0.13
Undistributed foreign earnings	1.61	(0.20)
Other	0.36	(0.12)
Average actual tax rate	24.27	25.72

15 Bonds and Borrowings and Other

Bonds and borrowings and lease liabilities consist of the following:

	(Millions of yen)			
	2022	2021	Average interest rate ¹ (%)	Maturity
Short-term borrowings	648	848	1.23	—
Current portion of long-term borrowings	40,016	5,296	0.13	—
Long-term borrowings	36,939	71,372	1.33	2025-2032
Current portion of bonds ²	25,006	12	—	—
Bonds ²	25,227	50,209	—	—
Lease liabilities (Current)	19,440	19,929	0.50	—
Lease liabilities (Non-current)	115,614	121,016	0.87	2024-2066
Total	262,890	268,682		
Current liabilities				
Bonds and borrowings	65,670	6,156		
Lease liabilities	19,440	19,929		
Subtotal	85,110	26,085		
Non-current liabilities				
Bonds and borrowings	62,166	121,581		
Lease liabilities	115,614	121,016		
Subtotal	177,780	242,597		
Total	262,890	268,682		

Notes: 1. The average interest rate is the weighted average interest rate on the balance as of December 31, 2022.

2. Details of bonds issued are as follows:

(Millions of yen)							
Issuer	Bond name	Issue date	2022	2021	Interest rate (%)	Collateral	Maturity date
The Company	5th unsecured bonds	June 19, 2018	24,994	24,982	0.08	None	June 20, 2023
The Company	6th unsecured bonds	September 18, 2020	24,967	24,955	0.13	None	September 19, 2025
Subsidiaries	Other bonds	—	272	284	—	—	—
Total			50,233	50,221			

16 Leases

As a lessee, the Group leases assets including buildings, etc. Some lease contracts include extension options and termination options. The Group has no restrictions or covenants imposed by leases.

Income and expenses relating to leases consist of the following:

	(Millions of yen)	
	2022	2021
Depreciation charge for right-of-use assets ¹		
Buildings and structures	16,952	16,561
Other.....	1,611	1,617
Total.....	18,563	18,178
Interest expense on lease liabilities ²	1,272	1,327
Expenses relating to short-term leases ³	1,954	1,854
Other	917	783
Total.....	4,143	3,964

Notes: 1. Depreciation of right-of-use assets is included in cost of sales, selling, general and administrative expenses and other operating expenses in the consolidated statement of income.
2. Interest expense on lease liabilities is included in financial expenses in the consolidated statement of income.
3. Expenses relating to short-term leases are included in cost of sales, selling, general and administrative expenses and other operating expenses in the consolidated statement of income.

The total cash outflow for leases for the fiscal years ended December 31, 2022 and 2021 were 25,868 million yen and 25,248 million yen, respectively.

Carrying amount of right-of-use assets consists of the following:

	(Millions of yen)	
	2022	2021
Right-of-use assets		
Buildings and structures	130,532	136,125
Other.....	8,097	7,932
Total	138,629	144,057

Note 31 "Cash Flow Information" presents additions to right-of-use assets.

Note 33 "Financial Instruments" presents lease liabilities by maturity date.

17 Trade and Other Payables

Trade and other payables consist of the following:

	(Millions of yen)	
	2022	2021
Trade payables.....	172,171	155,980
Non-trade payables.....	71,596	73,106
Total.....	243,767	229,086

18 Employee Benefits**(1) Post-employment Benefits**

The Company and most of its domestic subsidiaries have a cash balance plan as a defined benefit plan and a defined contribution plan as post-employment benefits. The cash balance plan is linked to market interest rates. The defined benefit obligations held in Japan account for a large proportion of the Group's defined benefit obligations.

Cash balance plan benefits are determined using points acquired during the enrollment period and a multiplier based on the enrollment period. The Group may also pay an early retirement bonus allowance to employees who retire earlier than the retirement age.

In accordance with laws and regulations, the defined benefit plan is operated as a pension fund that is legally separated from the Group. The pension fund is managed by a Board of Representatives composed of representatives elected by the participating companies and the representatives of participating employees. Pension fund management institutions manage the

pension fund's assets in accordance with management policies specified by the Board of Representatives. The Board of Representatives and the pension fund management institutions are legally required to act in the best interests of plan participants in executing their responsibilities for managing the plan assets.

Certain foreign subsidiaries have defined benefit plans and/or defined contribution plans as post-employment benefits.

The defined benefit plan is exposed to actuarial risk and to the risk of fluctuation in the fair value of plan assets. Actuarial risk primarily involves interest rate risk. Interest rate risk involves the potential for an increase in defined benefit plan obligations if the discount rate used to determine their present value decreases, because this discount rate is based on market yields on instruments including high-quality corporate bonds. The risk of fluctuation in the fair value of plan assets involves underfunding if actual interest rates are lower than the interest rate criteria for managing the performance of the plan assets.

1) Defined benefit liabilities recognized in the consolidated statement of financial position

Net defined benefit liabilities and assets recognized in the consolidated statement of financial position, defined benefit obligations and plan assets are as follows:

	(Millions of yen)	
	2022	2021
Present value of defined benefit obligations.....	301,744	352,452
Fair value of plan assets.....	(299,668)	(327,662)
Subtotal.....	2,076	24,790
Effect of the asset ceiling.....	33,123	—
Net defined benefit liabilities.....	35,199	24,790
Amounts recognized in the consolidated statement of financial position		
Retirement benefit liabilities.....	38,738	29,843
Retirement benefit assets.....	(3,539)	(5,053)
Net defined benefit liabilities.....	35,199	24,790

2) Defined benefit obligations

Changes in the present value of defined benefit obligations are as follows:

	(Millions of yen)	
	2022	2021
The present value of the defined benefit obligations at beginning of year.....	352,452	351,077
Current service cost ¹	10,130	9,938
Interest expense ²	2,532	2,281
Remeasurements		
Actuarial (gains) losses arising from changes in demographic assumptions.....	(2,568)	(1,154)
Actuarial (gains) losses arising from changes in financial assumptions	(51,234)	(564)
Actuarial (gains) losses arising from experience adjustments.....	1,063	577
Benefits paid ³	(15,087)	(12,835)
Exchange differences on translation of foreign operations and other	4,456	3,132
The present value of the defined benefit obligations at end of year	301,744	352,452

Notes: 1. Current service cost is recognized in profit or loss and included in cost of sales, selling, general and administrative expenses and other operating expenses in the consolidated statement of income.
2. Interest expense or interest income associated with the net of the present value of the defined benefit obligations and the fair value of

plan assets is recognized in profit or loss and included in financial expenses or financial income in the consolidated statement of income.
3. The weighted average duration of the defined benefit obligations in Japan was mainly 15.4 years at December 31, 2022 and 17.2 years at December 31, 2021.

3) Plan assets

Changes in the fair value of plan assets are as follows:

	(Millions of yen)	
	2022	2021
The fair value of plan assets at beginning of year.....	327,662	302,237
Interest income.....	2,260	1,881
Remeasurements		
Return on plan assets (excluding amounts included in interest income)	(32,521)	15,239
Contributions to the plan by the employer ¹	11,747	17,056
Payments from the plan.....	(13,393)	(11,609)
Exchange differences on translation of foreign operations and other	3,913	2,858
The fair value of plan assets at end of year	299,668	327,662

Note: 1. Pursuant to laws and regulations, the Group and the pension fund review the financial condition of the pension plan regularly and recalculate contributions for allocating future benefits and maintaining the balance of pension financing when the plan is underfunded. The Group plans to contribute 10,931 million yen to the defined benefit plan for the fiscal year ending December 31, 2023.

Plan assets consist of the following:

	2022			2021		
	Market price in an active market			Market price in an active market		
	Quoted	Unquoted	Total	Quoted	Unquoted	Total
Equity securities	5,597	57,084	62,681	7,428	65,033	72,461
Japan	—	29,197	29,197	—	30,275	30,275
Overseas.....	5,597	27,887	33,484	7,428	34,758	42,186
Debt securities	12,430	213,867	226,297	14,379	230,003	244,382
Japan	—	144,933	144,933	—	154,047	154,047
Overseas.....	12,430	68,934	81,364	14,379	75,956	90,335
Other	475	10,215	10,690	669	10,150	10,819
Total	18,502	281,166	299,668	22,476	305,186	327,662

Note: Plan assets invested in pooled funds of trust banks are classified without quoted market prices in active markets.

Pension assets in Japan account for a large proportion of the Group's plan assets. The objective in managing the plan assets is to raise total returns to the greatest extent possible in order to ensure stable benefits and lump-sum payments for plan participants in the future and beneficiaries with a long-term view under acceptable risks. Specifically, the Group considers factors including

expected rate of return on investments in appropriate assets, risks of each asset, and asset combinations to set an asset mix policy for an appropriate basic portfolio in future years as the basis for maintaining asset allocation. The Group reviews the basic portfolio annually and realigns it as necessary if the asset allocation conditions have changed since the asset mix was set.

4) Effect of the asset ceiling

Changes in the effect of the asset ceiling are as follows:

	(Millions of yen)	
	2022	2021
The effect of the asset ceiling at beginning of year	—	—
Remeasurements		
Changes in the effect of the asset ceiling	33,123	—
The effect of the asset ceiling at end of year	33,123	—

5) Significant actuarial assumptions and related sensitivity analysis

Significant actuarial assumptions are as follows:

	2022	2021
Discount rate	Mainly 1.7%	Mainly 0.8%

Note: The above table presents the discount rate used by the Company and major domestic subsidiaries.

Sensitivity analysis of the effect of changes in the present value of the defined benefit obligations of the Company and major domestic subsidiaries given changes in the discount rate used as a significant actuarial assumption is as follows:

	(Millions of yen)	
	2022	2021
The impact on defined benefit obligations		
0.5% increase in discount rate	(19,661)	(25,376)
0.5% decrease in discount rate	22,202	27,248

Note: This sensitivity analysis estimates the effect on the defined benefit obligations at the end of each reporting period from changes in the discount rate while all of the other assumptions remain constant.

6) Defined contribution plans

Expenses related to the defined contribution plan recognized in profit or loss were 4,313 million yen and 4,110 million yen for the fiscal years ended December 31, 2022 and 2021, respectively and included in cost of sales, selling, general and administrative expenses and other operating expenses in the consolidated statement of income.

(2) Other Employee Benefit Expenses

Other employee benefit expenses recognized in cost of sales, selling, general and administrative expenses, and other operating expenses in the consolidated statement of income for the fiscal years ended December 31, 2022 and 2021 were 290,534 million yen and 280,798 million yen, respectively.

19 Provisions

Components of and changes in provisions consist of the following:

	Provision for loss related to cosmetics	Provision for asset retirement obligations	Other provisions	Total
January 1, 2022	4,399	4,811	1,018	10,228
Increase	265	244	455	964
Interest expense on discounted provision	5	56	—	61
Decrease (provision used)	(695)	(71)	(451)	(1,217)
Decrease (provision reversed)	—	(41)	(44)	(85)
Exchange differences on translation of foreign operations	—	38	60	98
December 31, 2022	3,974	5,037	1,038	10,049

(1) Provision for Loss Related to Cosmetics

The Group has recognized estimated compensation and other expenses related to cosmetics for brightening products of Kanebo Cosmetics containing the ingredient Rhododenol, for which a voluntary recall was announced on July 4, 2013. The Group expects its insurance policy to cover 952 million yen of the estimated expenses.

(2) Provision for Asset Retirement Obligations

The Group recognizes asset retirement obligations principally based on or pursuant to reasonably estimated future expenditures using historical experience and other factors when the Group has a legal or contractual obligation associated with the retirement of property, plant and equipment and right-of-use assets held for use.

These expenditures are generally expected to take place after a year or more, but are affected by factors including future business plans.

20 Other Current Liabilities

Other current liabilities consist of the following:

	2022	2021
Accrued expenses	79,381	77,577
Consumption tax payables	7,246	7,438
Obligation for unused paid absences	8,967	8,955
Other	8,894	9,165
Total	104,488	103,135

21 Equity and Other Equity Items

(1) Share Capital

The numbers of shares authorized and issued are as follows:

	2022	2021
Authorized	1,000,000,000	1,000,000,000
Issued ¹		
Beginning balance	475,000,000	482,000,000
Change during the year ²	(9,100,000)	(7,000,000)
Ending balance	465,900,000	475,000,000

Notes: 1. All of the issued shares of the Company are ordinary shares that have no par value and no limitations on rights. Issued shares are fully paid.

2. The number of issued shares during the fiscal years ended December 31, 2022 and 2021 decreased by 9,100,000 shares and 7,000,000 shares, respectively, due to the retirement of treasury shares pursuant to the resolution of the Board of Directors.

(2) Capital Surplus

Capital surplus consists of capital reserve and other capital surplus.

The Companies Act stipulates that over half of the capital contributed from the issue of shares must be included in share capital and that the remainder must be included in capital reserve. Moreover, capital reserve may be included in share capital by resolution of the General Meeting of Shareholders.

(3) Treasury Shares

The changes in treasury shares are as follows:

	(Shares)	
	2022	2021
Beginning balance ¹	1,117,195	1,054,019
Increase ²	9,085,601	7,135,557
Decrease ³	(9,136,836)	(7,072,381)
Ending balance ⁴	1,065,960	1,117,195

Notes: 1. 578,944 treasury shares and 582,097 treasury shares held by associates were included at December 31, 2022 and 2021, respectively.

In addition, 419,323 shares and 211,550 shares held by the Board Incentive Plan Trust (hereinafter "BIP Trust") were included at December 31, 2022 and 2021, respectively.

2. The increase of 9,085,601 shares of treasury shares during the fiscal year ended December 31, 2022 resulted from the acquisition of 9,083,800 shares by resolution of the Board of Directors and the purchase of 1,801 fractional shares.

The increase of 7,135,557 shares of treasury shares during the fiscal year ended December 31, 2021 resulted from the acquisition of 6,875,900 shares by resolution of the Board of Directors, the acquisition of 257,600 shares by the BIP Trust and the purchase of 2,057 fractional shares.

3. The decrease of 9,136,836 shares of treasury shares during the fiscal year ended December 31, 2022 resulted from the retirement of 9,100,000 shares by resolution of the Board of Directors, a decrease of 17,525 shares due to the grant to the Board of Directors by the BIP Trust, a decrease of 16,000 shares due to the exercise of stock options, a decrease of 2,941 shares due to the change of treasury shares held by associates accounted for using the equity method and the sale of 370 fractional shares.

The decrease of 7,072,381 shares of treasury shares during the fiscal year ended December 31, 2021 resulted from the retirement of 7,000,000 shares by resolution of the Board of Directors, a decrease of 49,827 shares due to the grant to the Board of Directors by the BIP Trust, a decrease of 19,000 shares due to the exercise of stock options, a decrease of 3,153 shares due to the change of treasury shares held by associates accounted for using the equity method and the sale of 401 fractional shares.

4. 576,003 shares and 578,944 shares of treasury shares held by associates were included at December 31, 2022 and 2021, respectively.

In addition, 401,798 shares and 419,323 shares held by the BIP Trust were included at December 31, 2022 and 2021, respectively.

(4) Other Components of Equity**1) Subscription rights to shares**

The Company employs a stock option system and issues subscription rights to shares in accordance with the Companies Act; however, due to the introduction of a performance share plan, the stock option plan has been abolished except for the options already granted.

Note 32 "Share-based Payments" presents information including terms and conditions and amounts.

2) Exchange differences on translation of foreign operations

Foreign currency translation differences arise from the translation of financial statements of foreign operations prepared in foreign currencies.

3) Net gain (loss) on derivatives designated as cash flow hedges

Associates hedge their exposure to the risk of variability in future cash flows. Net gain (loss) on derivatives designated as cash flow hedges is the portion of the change in the fair value of the hedging instrument that meets the hedge effectiveness requirements under hedge accounting.

4) Net gain (loss) on revaluation of financial assets measured at fair value through other comprehensive income

This is the accumulated amount of changes in the fair value of financial assets measured at fair value through other comprehensive income. The Group reclassifies net gain (loss) on revaluation of financial assets from other components of

equity to retained earnings when it disposes of an investment or when fair value declines significantly.

5) Remeasurements of defined benefit plans

Remeasurements of defined benefit plans include the effect of any variances between actuarial assumptions at the beginning of the year and actual results, the effects of changes in actuarial assumptions, actual return on plan assets and interest income on plan assets (excluding amounts included in net interest on the net defined benefit liability (asset)), and any change in the effect of the asset ceiling (excluding amounts included in net interest on the net defined benefit liability (asset)). Remeasurements of defined benefit plans are recognized in other comprehensive income and immediately reclassified from other components of equity to retained earnings in the period when they occur.

(5) Retained Earnings

Retained earnings consist of legal reserve and other retained earnings.

The Companies Act requires that an amount equal to one-tenth of dividends must be appropriated as capital reserve or as legal reserve until the total of the aggregate amount of capital reserve and legal reserve equals a quarter of share capital. Legal reserve may be appropriated to reduce a deficit, and also may be reversed by resolution of the General Meeting of Shareholders.

22 Basic Strategy for Capital Policy

The Group's capital policy follows a basic strategy of securing a sound financial structure to make investments for sustainable growth and tolerate the related risks, and to make stable, continuous returns to shareholders. To realize this policy, the Group uses Economic Value Added (hereinafter "EVA^{®1}"), a management indicator that takes capital cost into account, as its main indicator and works to enhance its corporate value by improving EVA. Guided by EVA management, which places importance on both continuous enhancements in corporate value and long-term profits for all stakeholders, the Group develops its business strategy and business plan.

The Group manages all equity and interest-bearing liabilities as capital cost and intends to optimize capital cost from the viewpoint of safety and capital efficiency. For equity, the Group aims for a streamlined and sound structure from a medium- to long-term perspective with efficiency in mind and, while maintaining interest-bearing liabilities at a moderate level, aims to maintain high credit ratings which will allow it to procure capital for large-scale investments. The Group is not subject to significant capital

regulations except for general requirements under the Companies Act and others.

Although the Group emphasizes shareholder returns, it realizes that investments for growth will meet the expectations of its stakeholders, and therefore prioritizes such investments. In addition to providing stable dividends, the Group uses surplus funds to flexibly conduct share repurchases, aiming to continuously increase dividends to reflect improvements in business results.

While making returns to shareholders and improving EVA, the Group retains the capital necessary to make timely investments for growth and to ensure the appropriate resources to deal with unexpected situations.

For the fiscal year ended December 31, 2022, EVA decreased 30.5 billion yen compared with the fiscal year ended December 31, 2021 to 14.7 billion yen due to an increase in capital cost as net operating profit after tax (hereinafter "NOPAT") decreased.

Note: 1. EVA is a monetary metric defined as NOPAT less capital cost. EVA is a registered trademark of Stern Stewart & Co.

23 Dividends

Dividends paid are as follows:

Fiscal year ended December 31, 2022

Date of resolution	Total dividends ¹ (Millions of yen)	Dividends per share (Yen)	Record date	Effective date
116th Annual General Meeting of Shareholders held on March 25, 2022	34,120	72	December 31, 2021	March 28, 2022
Board of Directors meeting held on August 3, 2022	34,744	74	June 30, 2022	September 1, 2022

Note: 1. Total dividends are reduced by dividends on treasury shares held by associates accounted for using the equity method and dividends on shares of the Company held by the BIP Trust.

The dividend resolved at the 116th Annual General Meeting of Shareholders held on March 25, 2022 was 34,191 million yen before the deduction.
The dividend resolved at the meeting of the Board of Directors held on August 3, 2022 was 34,817 million yen before the deduction.

Fiscal year ended December 31, 2021

Date of resolution	Total dividends ^{1,2} (Millions of yen)	Dividends per share (Yen)	Record date	Effective date
115th Annual General Meeting of Shareholders held on March 26, 2021	33,666	70	December 31, 2020	March 29, 2021
Board of Directors meeting held on August 3, 2021	34,119	72	June 30, 2021	September 1, 2021

Notes: 1. Total dividends are reduced by dividends on treasury shares held by associates accounted for using the equity method and dividends on shares of the Company held by the BIP Trust.

The dividend resolved at the 115th Annual General Meeting of Shareholders held on March 26, 2021 was 33,722 million yen before the deduction.
The dividend resolved at the meeting of the Board of Directors held on August 3, 2021 was 34,191 million yen before the deduction.

2. In addition to the above, dividends are paid to beneficiaries (directors, etc.) of the BIP Trust.

Dividends with an effective date after the fiscal year end are as follows:

Fiscal year ended December 31, 2022

Date of Resolution	Total dividends (Millions of yen)	Dividends per share (Yen)	Record date	Effective date
117th Annual General Meeting of Shareholders held on March 24, 2023	34,470	74	December 31, 2022	March 27, 2023

Fiscal year ended December 31, 2021

Date of Resolution	Total dividends (Millions of yen)	Dividends per share (Yen)	Record date	Effective date
116th Annual General Meeting of Shareholders held on March 25, 2022	34,191	72	December 31, 2021	March 28, 2022

24 Revenue

(1) Disaggregation of Revenue

The Group is organized on the basis of five businesses: the four business areas that constitute the Consumer Products Business (the Hygiene and Living Care Business, the Health and Beauty Care Business, the Life Care Business, and the Cosmetics Business), and the Chemical Business. Revenues of these five businesses are presented as net sales. The Board of Directors of the Company reviews them regularly to determine allocation of resources and to assess their performance. Revenue of logistics services to third parties is included in other operating income because it is not a part of the abovementioned five main businesses.

The Group disaggregates revenue from contracts with customers by separating the Consumer Products Business into the Cosmetics Business and non-Cosmetics Businesses based on contracts with customers, with the Chemical Business as a separate division. Revenue by geographic region is disaggregated based on the location of revenue recognized. The relationship between disaggregated revenue and net sales by segment is as follows:

Fiscal year ended December 31, 2022

	(Millions of yen)				
	Japan	Asia	Americas	Europe	Total
Fabric and Home Care Products	292,880	45,523	3,658	—	342,061
Sanitary Products	77,442	96,970	75	—	174,487
Hygiene and Living Care Business	370,322	142,493	3,733	—	516,548
Health and Beauty Care Business	200,187	33,861	90,624	44,877	369,549
Life Care Business	43,748	44	11,777	165	55,734
Cosmetics Business	160,718	59,564	6,816	24,374	251,472
Consumer Products Business	774,975	235,962	112,950	69,416	1,193,303
Chemical Business	140,109	98,196	70,527	93,669	402,501
Elimination of intersegment transactions	(38,523)	(3,920)	(170)	(2,132)	(44,745)
Consolidated	876,561	330,238	183,307	160,953	1,551,059
Revenue of logistics services to third parties included in other operating income	10,692	—	—	—	10,692
Total revenue from contracts with customers	887,253	330,238	183,307	160,953	1,561,751

Note: Figures for the Consumer Products Business present sales to external customers and figures for the Chemical Business include sales to the Consumer Products Business in addition to external customers.

Fiscal year ended December 31, 2021

(Millions of yen)

	Japan	Asia	Americas	Europe	Total
Fabric and Home Care Products	288,590	40,147	2,769	—	331,506
Sanitary Products	77,970	87,270	99	—	165,339
Hygiene and Living Care Business	366,560	127,417	2,868	—	496,845
Health and Beauty Care Business	205,210	29,417	78,044	41,817	354,488
Life Care Business	43,462	29	9,403	138	53,032
Cosmetics Business	152,916	57,827	5,925	22,667	239,335
Consumer Products Business	768,148	214,690	96,240	64,622	1,143,700
Chemical Business	122,124	73,917	49,031	69,221	314,293
Elimination of intersegment transactions	(33,980)	(3,394)	(36)	(1,815)	(39,225)
Consolidated	856,292	285,213	145,235	132,028	1,418,768
Revenue of logistics services to third parties included in other operating income	10,220	—	—	—	10,220
Total revenue from contracts with customers	866,512	285,213	145,235	132,028	1,428,988

Note: Figures for the Consumer Products Business present sales to external customers and figures for the Chemical Business include sales to the Consumer Products Business in addition to external customers.

1) Consumer Products Business

The Consumer Products Business sells consumer products including fabric care products, home care products, sanitary products, skin care products, hair care products, personal health products, life care products and cosmetics. Its customers are mainly retailers in Japan and retailers and wholesalers outside Japan. Revenue from such sales is recognized when control of a product is transferred to a customer, i.e., at the point in time a product is delivered and handed over at the place designated by a customer because legal title to the product, physical possession and the significant risks and rewards of ownership of the product are transferred to the customer and the customer has the right to decide the method of sale and selling price of the product.

In the Consumer Products Business, products may be sold with a rebate conditional upon achievement of certain targets such as the quantity or amount of sales (hereinafter "Achievement Rebate") or other payments. In such cases, the transaction price is determined in an amount deducting the estimated amount of the Achievement Rebate or other payments from the consideration promised in the contract with the customer. Estimates of Achievement Rebate or other payment amounts use the most likely outcome method based on historical experience and other factors, and revenue is recognized only to the extent that it is highly probable that a significant reversal will not occur.

In addition, in the event that the Group makes payments to customers such as funding for sales promotions, if the consideration paid to customers is payment for separate goods or services from the customer and fair value cannot be reasonably estimated, revenue is measured by deducting the consideration from the transaction price.

Among the products in the Consumer Products Business, cosmetics are composed of counseling cosmetics and self-

selection cosmetics. The Group may provide support to customers when they sell counseling cosmetics through counseling to final consumers.

In addition, when selling cosmetics, a certain level of product returns from customers associated with the termination of products is expected to occur. As the Group has an obligation to refund the consideration for a product if a customer returns it, the Group recognizes a liability for sales returns as a deduction from revenue for projected refunds to customers. To estimate liabilities related to such sales returns, the Group uses the most likely outcome method based on historical experience and other factors, and revenue is recognized only to the extent that it is highly probable that a significant reversal will not occur. When customers return products, the Group has the right to collect the products from the customers, but because returned goods are primarily the result of a product termination, the products returned have no asset value and therefore such assets are not recognized.

2) Chemical Business

The Chemical Business sells chemical products such as oleochemicals and surfactants. Its customers are mainly the users and distributors of the products. Revenue from such sales is recognized when control of a product is transferred to a customer, i.e., at the point in time a product is delivered and handed over at the place designated by a customer because legal title to the product, physical possession and the significant risks and rewards of ownership of the product are transferred to the customer and the customer has the right to decide the method of sale and selling price of the product. Revenue from sales of products in the Chemical Business is measured at transaction prices for contracts with customers.

(2) Liabilities from Contracts with Customers

Liabilities from contracts with customers are as follows:

Fiscal year ended December 31, 2022		(Millions of yen)	
		January 1, 2022	December 31, 2022
Contract liabilities			
Advances		1,106	1,648
Refund liabilities.....		30,037	30,817
Total		31,143	32,465

Fiscal year ended December 31, 2021		(Millions of yen)	
		January 1, 2021	December 31, 2021
Contract liabilities			
Advances		298	1,106
Refund liabilities.....		22,800	30,037
Total		23,098	31,143

Among liabilities from contracts with customers, estimates of Achievement Rebates or other payment amounts expected to be paid to customers related to sales by the end of the reporting period and liabilities for returned products are recognized as refund liabilities.

Among the balances of advances as of January 1, 2022 and 2021, the amounts recognized as revenue during the fiscal years ended December 31, 2022 and 2021, were not material. The amount of revenue recognized during the fiscal year ended December 31, 2022 from performance obligations satisfied in previous periods was not material.

(3) Transaction Price Allocated to the Remaining Performance Obligations

The Group uses the practical expedient of omitting the disclosure of information on the remaining performance obligations because it

has no significant transactions with individual expected contractual terms exceeding one year. In addition, there are no significant amounts in consideration from contracts with customers that are not included in transaction prices.

(4) Assets Recognized from the Costs of Obtaining or Fulfilling Contracts with Customers

The amount of assets recognized from the costs of obtaining or fulfilling contracts with customers during the fiscal year ended December 31, 2022 was not material. In addition, if the amortization period of the assets that the Group otherwise would have recognized is one year or less, the Group uses the practical expedient of recognizing the incremental costs of obtaining the contract as an expense when incurred.

25 Selling, General and Administrative Expenses

Selling, general and administrative expenses consist of the following:

		(Millions of yen)	
		2022	2021
Advertising.....		74,664	74,847
Sales promotion.....		47,040	47,104
Employee benefits.....		159,767	153,178
Depreciation		17,362	18,365
Amortization		9,142	7,823
Research and development.....		60,601	58,993
Other		72,334	66,735
Total		440,910	427,045

26 Other Operating Income

Other operating income consists of the following:

	(Millions of yen)	
	2022	2021
Revenue of logistics services to third parties	10,692	10,220
Royalty income	899	952
Other	5,800	6,132
Total	17,391	17,304

27 Other Operating Expenses

Other operating expenses consist of the following:

	(Millions of yen)	
	2022	2021
Expenses of logistics services to third parties	9,564	9,259
Losses on sale and disposal of property, plant and equipment	3,624	4,680
Impairment losses ¹	34	4,553
Other	1,530	1,451
Total	14,752	19,943

Note: 1. Note 11 "Property, Plant and Equipment" presents impairment losses.

28 Financial Income and Financial Expenses

Financial income consists of the following:

	(Millions of yen)	
	2022	2021
Foreign exchange gain ¹	3,278	4,991
Interest income		
Financial assets measured at amortized cost	1,927	1,176
Retirement benefit assets	178	51
Dividend income		
Financial assets measured at fair value through other comprehensive income		
Financial assets derecognized during the year	7	13
Financial assets held at year end	107	113
Financial assets measured at fair value through profit or loss	8	5
Other	145	121
Total	5,650	6,470

Financial expenses consist of the following:

	(Millions of yen)	
	2022	2021
Interest expenses ²		
Financial liabilities measured at amortized cost	632	709
Lease liabilities	1,272	1,327
Retirement benefit liabilities	450	451
Other	64	111
Total	2,418	2,598

Notes: 1. Valuation gains or losses on currency derivatives that are not designated as hedges are included in foreign exchange gain.

2. Valuation gains or losses on interest rate derivatives that are not designated as hedges are included in interest expenses.

29 Earnings per Share

(1) The Basis for Calculating Basic Earnings per Share

(Millions of yen, unless otherwise noted)

	2022	2021
Net income attributable to owners of the parent	86,038	109,636
Amounts not attributable to ordinary shareholders of the parent.....	—	—
Net income used to calculate basic earnings per share	86,038	109,636
Weighted average number of ordinary shares (Thousands of shares)	469,442	475,466
Basic earnings per share (Yen).....	183.28	230.59

(2) The Basis for Calculating Diluted Earnings per Share

(Millions of yen, unless otherwise noted)

	2022	2021
Net income used to calculate basic earnings per share	86,038	109,636
Adjustments to net income	—	—
Net income used to calculate diluted earnings per share.....	86,038	109,636
Weighted average number of ordinary shares (Thousands of shares)	469,442	475,466
Increase in ordinary shares		
Subscription rights to shares (Thousands of shares)	17	34
Weighted average number of ordinary shares after dilution (Thousands of shares).....	469,459	475,500
Diluted earnings per share (Yen).....	183.27	230.57
Summary of potential ordinary shares not included in the calculation of diluted earnings per share because they have no dilutive effect.....	—	—

30 Other Comprehensive Income

Amount arising during the fiscal year, reclassification adjustments to profit or loss and tax effects for each component of other comprehensive income are as follows:

Fiscal year ended December 31, 2022

(Millions of yen)

	Gains (losses) arising for the year	Reclassification adjustments	Before tax effect	Tax effect	After tax effect
Items that will not be reclassified to profit or loss					
Net gain (loss) on revaluation of financial assets measured at fair value through other comprehensive income	520	—	520	(151)	369
Remeasurements of defined benefit plans.....	(12,905)	—	(12,905)	4,154	(8,751)
Share of other comprehensive income of investments accounted for using the equity method.....	(268)	—	(268)	82	(186)
Total of items that will not be reclassified to profit or loss	(12,653)	—	(12,653)	4,085	(8,568)
Items that may be reclassified subsequently to profit or loss					
Exchange differences on translation of foreign operations....	48,497	—	48,497	—	48,497
Share of other comprehensive income of investments accounted for using the equity method.....	627	—	627	(0)	627
Total of items that may be reclassified subsequently to profit or loss	49,124	—	49,124	(0)	49,124
Total.....	36,471	—	36,471	4,085	40,556

Fiscal year ended December 31, 2021

(Millions of yen)

	Gains (losses) arising for the year	Reclassification adjustments	Before tax effect	Tax effect	After tax effect
Items that will not be reclassified to profit or loss					
Net gain (loss) on revaluation of financial assets measured at fair value through other comprehensive income	565	—	565	(175)	390
Remeasurements of defined benefit plans	16,380	—	16,380	(4,651)	11,729
Share of other comprehensive income of investments accounted for using the equity method	475	—	475	(145)	330
Total of items that will not be reclassified to profit or loss ..	17,420	—	17,420	(4,971)	12,449
Items that may be reclassified subsequently to profit or loss					
Exchange differences on translation of foreign operations ...	40,874	2	40,876	—	40,876
Share of other comprehensive income of investments accounted for using the equity method	392	—	392	0	392
Total of items that may be reclassified subsequently to profit or loss	41,266	2	41,268	0	41,268
Total	58,686	2	58,688	(4,971)	53,717

31 Cash Flow Information

(1) Changes in Liabilities Arising from Financing Activities

Fiscal year ended December 31, 2022

The following table presents the changes in liabilities arising from financing activities for lease liabilities.

(Millions of yen)

	January 1, 2022	Changes from financing cash flows	Non-cash changes		December 31, 2022
			New leases	Other	
Lease liabilities	140,945	(21,704)	19,589	(3,776)	135,054

Except for lease liabilities, the major changes in liabilities arising from financing activities were changes from financing cash flows and there were no significant non-cash changes for the fiscal year ended December 31, 2022.

Fiscal year ended December 31, 2021

The following table presents the changes in liabilities arising from financing activities for lease liabilities.

(Millions of yen)

	January 1, 2021	Changes from financing cash flows	Non-cash changes		December 31, 2021
			New leases	Other	
Lease liabilities	146,512	(21,266)	21,097	(5,398)	140,945

Except for lease liabilities, the major changes in liabilities arising from financing activities were changes from financing cash flows and there were no significant non-cash changes for the fiscal year ended December 31, 2021.

(2) Non-cash Transactions

For the fiscal years ended December 31, 2022 and 2021, the non-cash transactions comprised the acquisition of right-of-use assets resulted from leases of 19,672 million yen and 21,121 million yen, respectively.

32 Share-based Payments

(1) Stock Options

1) Outline of stock options

The Company issued the following type of stock options to directors and executive officers of the Company. Due to the introduction of a performance share plan, the stock option plan has been abolished except for the options already granted.

Stock options for share-based payment

Stock options for share-based payment were granted as compensation for directors and executive officers who do not concurrently serve as directors. These stock options were intended to motivate and inspire recipients to enhance

the Company's results and value of shares and to further enhance corporate value by aligning the interests of recipients with those of shareholders by further increasing the linkage among the compensation of recipients, the Company's results and value of shares.

- Vesting conditions: Set on date of grant
- Settlement: Shares settled
- Exercise period: Five years from July 1 of two years after the date the stock options were granted

2) Number of stock options and weighted average exercise price

	2022		2021	
	Number of shares	Weighted average exercise price	Number of shares	Weighted average exercise price
	(Shares)	(Yen)	(Shares)	(Yen)
Beginning balance of outstanding	31,000	1	51,000	1
Granted	—	—	—	—
Exercised	(16,000)	1	(19,000)	1
Expired at maturity.....	(5,000)	1	(1,000)	1
Ending balance of outstanding	10,000	1	31,000	1
Ending balance of exercisable	10,000	1	31,000	1

Notes: 1. The weighted average share price on the date of exercise for the fiscal years ended December 31, 2022 and 2021 was 5,390 yen and 7,195 yen, respectively.

2. The exercise price and the weighted average remaining contractual life for stock options outstanding at the end of the period are as follows:

2022			2021		
Exercise price	Number of shares	Weighted average remaining contractual life	Exercise price	Number of shares	Weighted average remaining contractual life
(Yen)	(Shares)	(Years)	(Yen)	(Shares)	(Years)
1	10,000	0.5	1	31,000	1.1

(2) Performance Share Plan

1) Outline of performance share plan

The Company introduced a performance share plan (hereinafter the "Plan") for the members of the Board of Directors (excluding Outside Directors) and Executive Officers (collectively, "Directors, etc.") as a highly transparent and objective compensation system that is closely linked to company performance. The purpose of the Plan is to improve the Company's mid- and long-term performance as well as increase the awareness of contributions to increasing corporate value.

The Company has introduced the Plan using a structure called a BIP Trust. A BIP Trust is designed as an executive incentive plan based on the performance share plans and restricted stock plans in the U.S. wherein the Company's shares that are acquired through the BIP Trust and the amount equivalent to the converted value of such shares will be vested or paid to Directors, etc. depending on their executive positions and level of achievement of performance

targets in the mid-term plan and other factors. The shares held by the BIP Trust are accounted for as treasury shares.

The Plan grants specified points (1 point = 1 share) to Directors, etc. each year depending on their executive positions and other factors on the condition that the requirements of a designated beneficiary, such as holding the office of Director, etc. on the last day of each fiscal year during the eligibility period, have been satisfied. The Company's shares or cash in the amount of the converted value of such Company's shares equivalent to the number of such points may be granted or paid following completion of settlement procedures by the designated beneficiary, after the Director, etc.'s resignation in the case of variable points, or after the end of each fiscal year during the eligibility period in the case of fixed points.

The Plan is accounted for as an equity-settled share-based payment transaction.

2) Number of points granted during the period and weighted average fair value of points

The fair value of the points on the date of grant is determined by adjusting the market price of the Company's shares taking expected dividends into account.

The number of points granted during the period and the weighted average fair value of the points are as follows:

	2022		2021	
	Variable points	Fixed points	Variable points	Fixed points
Number of points granted during the period	39,025	17,025	37,625	16,125
Weighted average fair value (Yen)	6,919	6,703	6,919	6,847

(3) Share-based Payment Expenses

The amount of share-based payment expenses recognized in the consolidated statement of income for the fiscal years ended December 31, 2022 and 2021 were 384 million yen and 370 million yen, respectively.

33 Financial Instruments

(1) Classification of Financial Instruments

The amounts of each classification of financial assets are as follows:

Financial assets	(Millions of yen)	
	2022	2021
Financial assets measured at amortized cost		
Cash and cash equivalents (Note 7)	251,248	324,069
Trade and other receivables (Note 8)	230,604	216,209
Other	12,632	16,767
Financial assets measured at fair value through profit or loss		
Cash and cash equivalents (Note 7)	17,000	12,000
Derivatives	286	22
Other	4,197	3,519
Financial assets measured at fair value through other comprehensive income		
Equity securities	11,815	9,374
Total	527,782	581,960
Current assets		
Cash and cash equivalents	268,248	336,069
Trade and other receivables	230,604	216,209
Other financial assets	3,605	6,094
Subtotal	502,457	558,372
Non-current assets		
Other financial assets	25,325	23,588
Total	527,782	581,960

Equity securities held by the Group are mainly issued by the entities that maintain business relationships with the Group and held for the long-term without speculative purposes. The Group has designated such equity securities as financial assets measured at fair value through other comprehensive income. Names of major equity securities and their fair values are as follows:

As of December 31, 2022		(Millions of yen)
Company name	Fair value	
Saral, Inc.	2,726	
Livedo Corporation	1,490	
Saiwai Trading Co., Ltd.	1,245	
Aeon Co., Ltd.	1,184	
Japan Alcohol Trading Co., Ltd.	937	
Tokio Marine Holdings, Inc.	901	
Keytrading Co., Ltd.	450	
Kawaken Fine Chemicals Co., Ltd.	314	
Izumi Co., Ltd.	300	
Kyoto Seisakusho Co., Ltd.	247	

As of December 31, 2021		(Millions of yen)
Company name	Fair value	
Livedo Corporation	1,426	
Saiwai Trading Co., Ltd.	1,352	
Aeon Co., Ltd.	1,150	
Japan Alcohol Trading Co., Ltd.	891	
Seven & i Holdings Co., Ltd.	818	
Tokio Marine Holdings, Inc.	679	
Keytrading Co., Ltd.	425	
Izumi Co., Ltd.	324	
Kawaken Fine Chemicals Co., Ltd.	298	
Kyoto Seisakusho Co., Ltd.	215	

The Group derecognizes some financial assets measured at fair value through other comprehensive income by sale for reasons including asset efficiency and changes in business relationships. The total amounts of the fair values of such financial assets at the time of sale and the cumulative gains or losses on sales are as follows:

	(Millions of yen)	
	2022	2021
Fair value	891	1,089
Cumulative gains (losses)	776	1,003

The Group transfers to retained earnings the cumulative gains or losses arising from changes in the fair value of financial assets measured at fair value through other comprehensive income recognized as other components of equity when it disposes of an investment or when fair value declines significantly. Cumulative gains or losses of other comprehensive income, net of taxes, that were transferred to retained earnings for the fiscal years ended December 31, 2022 and 2021, were 517 million yen and 659 million yen, respectively.

The amounts of each classification of financial liabilities are as follows:

	(Millions of yen)	
Financial liabilities	2022	2021
Financial liabilities measured at amortized cost		
Trade and other payables (Note 17).....	243,767	229,086
Bonds and borrowings (Note 15)	127,836	127,737
Lease liabilities (Note 16)	135,054	140,945
Other	14,310	12,921
Financial liabilities measured at fair value through profit or loss		
Derivatives	162	478
Total	521,129	511,167
Current liabilities		
Trade and other payables	243,767	229,086
Bonds and borrowings	65,670	6,156
Lease liabilities.....	19,440	19,929
Other financial liabilities	7,249	6,329
Subtotal.....	336,126	261,500
Non-current liabilities		
Bonds and borrowings	62,166	121,581
Lease liabilities.....	115,614	121,016
Other financial liabilities	7,223	7,070
Subtotal.....	185,003	249,667
Total	521,129	511,167

There are no significant assets pledged for the above financial liabilities. The Group held deposits received, which are interest-bearing liabilities in other financial liabilities, totaling 13,363 million yen and 12,230 million yen at December 31, 2022 and 2021, respectively. The average interest rate on deposits received as of December 31, 2022 was 0.13%.

(2) Risk Management on Financial Instruments

The Group manages financial instrument risk based on the following policies to avoid and mitigate market risk, credit risk and liquidity risk.

1) Market risk management

The Group is exposed to the risk of market variability such as fluctuations in exchange rates, interest rates and share prices. The Group appropriately manages market risk to mitigate risk. In addition, the Group uses derivatives mainly consisting of foreign exchange forward contracts, currency swaps and interest rate swaps with the objective of appropriately managing market risk. The Group executes and manages derivatives in accordance with the internal policies that define the objectives, position limit, scope, organizational structure and others. The Group limits the use of derivatives to actual risk mitigation needs, and does not use derivatives for trading or speculative purposes. Therefore, as a rule, changes in the fair value of derivative instruments that the Group holds effectively offset changes in the fair value or cash flows.

(i) Exchange rate risk

The Group also operates outside Japan, and therefore is exposed to the risks of exchange rate fluctuations associated with transactions conducted in foreign currencies and with net investments in foreign operations. The Group minimizes the effect of exchange rate fluctuations on operating results by settling transactions denominated in foreign currencies through foreign currency accounts, and by hedging the risk of exchange rate fluctuations using derivative instruments such as foreign exchange forward and currency swaps.

Details of foreign exchange forward contracts between the Japanese yen, which is the Group's functional currency, and its main foreign currencies including the U.S. dollar, the euro and the Chinese yuan are as follows:

The Group did not apply hedge accounting for these derivative transactions, but determined that these transactions effectively offset the impact of fluctuations in exchange rates.

(Millions of yen)						
Derivatives transactions	2022			2021		
	Contract amount	Contract amount over 1 year	Carrying amount (fair value) ¹	Contract amount	Contract amount over 1 year	Carrying amount (fair value) ¹
Foreign exchange forward contracts:						
Selling						
U.S. dollar.....	4,948	—	4	13,634	—	(6)
Euro.....	54	—	(2)	60	—	0
Buying						
Euro.....	30	—	0	75	—	(1)
Chinese yuan	—	—	—	137	—	(3)

Note: 1. Note 33 "Financial Instruments (3) Fair Value of Financial Instruments" presents the method of measuring the fair value of the above derivatives.

The above assets or liabilities related to derivative transactions are included in other financial assets or other financial liabilities in the consolidated statement of financial position.

Net exposure to exchange rate risk consists of the following. Amounts hedged against exchange rate fluctuation risk with derivatives are excluded.

(Millions of yen)			
As of December 31, 2022	U.S. dollar	Euro	Chinese yuan
Net exposure	20,362	2,856	14,838

(Millions of yen)			
As of December 31, 2021	U.S. dollar	Euro	Chinese yuan
Net exposure	20,710	1,147	12,687

The following table illustrates the impact on income before income taxes in the consolidated statement of income from foreign currency-denominated financial instruments held by the Group at the end of each fiscal year if the Japanese yen appreciated by 10% against the U.S. dollar, the euro and the Chinese yuan.

The effects of translating financial instruments denominated in the Group's functional currency, and the assets, liabilities, income and expenses of foreign operations are not included in the analysis. The analysis also assumes that currencies other than those used in the calculation remain constant.

(Millions of yen)		
	2022	2021
U.S. dollar	(2,036)	(2,071)
Euro	(286)	(115)
Chinese yuan	(1,484)	(1,269)

(ii) Interest rate fluctuation risk

The Group obtains finances through long-term borrowings and bonds for maintaining an appropriate cost of capital and strengthening its financial base for investment for growth. The Group considers interest rate market movements and the balance between floating and fixed interest rates in making decisions about long-term funding. The Group's short-term borrowings generally have floating interest rates. The Group hedges interest rate risk as necessary using derivative instruments such as interest rate swaps, and therefore estimates that its exposure to interest rate fluctuation risk is limited.

(iii) Share price fluctuation risk

The Group held marketable equity securities, primarily those of companies with which the Group has business relationships, totaling 3,268 million yen and 3,788 million yen at December 31, 2022 and 2021, respectively. These equity securities are exposed to share price fluctuation risk. However, the Group annually evaluates the rationale and reviews ongoing advisability and position size of these holdings. Fluctuations in their prices do not affect net profit or loss because all of these equity securities are designated as financial assets measured at fair value through other comprehensive income.

2) Credit risk management

The Group is exposed to credit risk such as a counterparty's default on contractual obligations resulting in financial losses to the Group.

(i) Trade and other receivables

Notes and accounts receivable are trade receivables that expose the Group to customer credit risk. The Group manages that risk with an internal process for investigating and approving customer credit on initial transactions, and by obtaining deposits, collateral or other guaranties as necessary. The Group also manages due dates and outstanding balances by customer, and periodically reconfirms the creditworthiness of major customers. Non-trade receivables expose the Group to business partner credit risk, but these receivables are almost entirely settled in the short term.

(ii) Short-term investments

Short-term investments are recognized in cash and cash equivalents and other financial assets. They are highly safe and liquid financial instruments that include commercial paper issued by entities with high bond ratings, bond investment trusts, and money held in trust.

(iii) Loan receivables

Loan receivables expose the Group to borrower credit risk. The Group manages this risk with an internal process for investigating and approving borrower credit on initial lending transactions, and by obtaining deposits, collateral or other guaranties as necessary. The Group also periodically reconfirms the creditworthiness of borrowers.

(iv) Derivatives

The Group executes and manages derivatives in accordance with the internal policies that define the objectives, position limit, scope and organizational structure. The Group limits the use of derivatives to actual risk mitigation needs, and does not use derivatives for trading or speculative purposes, and reduces credit risk by limiting transactions to highly creditworthy financial institutions.

The carrying amount after impairment of financial assets in the consolidated statement of financial position represents the Group's maximum exposure to the credit risk of financial assets. The Group is not exposed to excessive credit risk associated with a particular customer that requires exceptional management.

The Group recognizes an allowance for doubtful receivables for trade receivables and other financial assets measured at amortized cost by estimating future credit losses in consideration of recoverability and significant increases in credit risk. The Group determines if credit risk has increased significantly by evaluating changes in default risk with reference to factors including downgrading of internal credit ratings, the decline of counterparty results, and delinquency information.

Trade receivables are particularly important financial assets for the Group. The Group collectively measures expected credit losses of the financial assets for the entire period to recognize the allowance for doubtful receivables. In the following situations that would adversely affect future cash flows, however, the Group measures expected credit losses individually by treating each receivable as a credit-impaired financial asset:

- Where the customer has serious financial difficulties
- Where the customer defaults or becomes delinquent in accounts receivable payments despite repeated demands for payment
- Where it is more likely that the customer will go into bankruptcy or face a situation that forces it to reconstruct its business

The Group directly writes down the carrying amount if it does not reasonably expect to recover all or part of the trade receivables, following an internal process of investigation and approval.

The Group held security deposits for credit enhancement totaling 7,129 million yen and 6,915 million yen at December 31, 2022 and 2021, respectively.

Notes to Consolidated Financial Statements

The carrying amount of trade receivables and changes in the related allowance for doubtful receivables are as follows:

Fiscal year ended December 31, 2022

(Millions of yen)

Trade receivables	Financial assets for which loss allowances are always measured at an amount equal to expected credit losses for the entire period	Credit-impaired financial assets	Total
January 1, 2022	209,756	565	210,321
Change during the year (Recognition and derecognition)	3,848	1	3,849
Transfer to credit-impaired financial assets	(1)	1	—
Other changes	8,851	43	8,894
December 31, 2022	222,454	610	223,064

(Millions of yen)

Allowance for doubtful receivables	Financial assets for which loss allowances are always measured at an amount equal to expected credit losses for the entire period	Credit-impaired financial assets	Total
January 1, 2022	1,203	532	1,735
Increase during the year	26	10	36
Decrease during the year (charge-offs)	(109)	(3)	(112)
Decrease during the year (other)	(199)	(16)	(215)
Other changes	108	41	149
December 31, 2022	1,029	564	1,593

Fiscal year ended December 31, 2021

(Millions of yen)

Trade receivables	Financial assets for which loss allowances are always measured at an amount equal to expected credit losses for the entire period	Credit-impaired financial assets	Total
January 1, 2021	194,805	678	195,483
Change during the year (Recognition and derecognition)	7,984	(158)	7,826
Transfer to credit-impaired financial assets	(13)	13	—
Other changes	6,980	32	7,012
December 31, 2021	209,756	565	210,321

(Millions of yen)

Allowance for doubtful receivables	Financial assets for which loss allowances are always measured at an amount equal to expected credit losses for the entire period	Credit-impaired financial assets	Total
January 1, 2021	1,490	543	2,033
Increase during the year	69	27	96
Decrease during the year (charge-offs)	(339)	(57)	(396)
Decrease during the year (other)	(105)	(3)	(108)
Other changes	88	22	110
December 31, 2021	1,203	532	1,735

The following tables present an analysis of the carrying amount of trade receivables and the allowance for doubtful receivables by days past due.

As of December 31, 2022

(Millions of yen, unless otherwise noted)

	Not due	Days past due				Total
		Less than 30 days	Over 30 days	Over 60 days	Over 90 days	
Trade receivables.....	208,213	9,019	2,057	720	3,055	223,064
Allowance for doubtful receivables	128	121	43	79	1,222	1,593
Expected credit loss (%).....	0.1	1.3	2.1	11.0	40.0	0.7

As of December 31, 2021

(Millions of yen, unless otherwise noted)

	Not due	Days past due				Total
		Less than 30 days	Over 30 days	Over 60 days	Over 90 days	
Trade receivables.....	199,641	5,257	1,665	721	3,037	210,321
Allowance for doubtful receivables	187	100	64	30	1,354	1,735
Expected credit loss (%).....	0.1	1.9	3.8	4.2	44.6	0.8

3) Liquidity risk management

Liquidity risk is the risk that the Group may not be able to fulfill its obligation to pay financial liabilities that come due.

The Group uses methods such as scheduled medium- and long-term financing plans to understand its liquidity and consistently ensure the availability of sufficient funding.

The Group has also implemented the Global Cash Management System to reduce liquidity risk through the focused and efficient management of the Group's capital in Japan and overseas.

Financial liabilities including derivative instruments by maturity date consist of the following:

As of December 31, 2022

(Millions of yen)

	Carrying amount	Contract amount	Not later than 1 year	Later than 1 year but not later than 2 years	Later than 2 years but not later than 3 years	Later than 3 years but not later than 4 years	Later than 4 years but not later than 5 years	Later than 5 years
Non-derivative financial liabilities								
Trade and other payables.....	243,767	243,767	243,767	—	—	—	—	—
Bonds and borrowings.....	127,836	127,875	65,676	32	41,832	20,232	32	71
Lease liabilities ¹	135,054	144,190	20,511	16,408	12,694	10,909	8,981	74,687
Long-term deposits payable	7,141	7,141	—	—	—	—	—	7,141
Derivative financial liabilities								
Currency related	162	162	81	81	—	—	—	—
Total	513,960	523,135	330,035	16,521	54,526	31,141	9,013	81,899

Note: 1. Lease liabilities by maturity date consist of the following:

As of December 31, 2022

(Millions of yen)

	Carrying amount	Contract amount	Not later than 1 year	Later than 1 year but not later than 5 years	Later than 5 years but not later than 10 years	Later than 10 years but not later than 15 years	Later than 15 years but not later than 20 years	Later than 20 years
Lease liabilities	135,054	144,190	20,511	48,992	29,814	22,056	17,576	5,241

As of December 31, 2021

(Millions of yen)

	Carrying amount	Contract amount	Not later than 1 year	Later than 1 year but not later than 2 years	Later than 2 years but not later than 3 years	Later than 3 years but not later than 4 years	Later than 4 years but not later than 5 years	Later than 5 years
Non-derivative financial liabilities								
Trade and other payables.....	229,086	229,086	229,086	—	—	—	—	—
Bonds and borrowings.....	127,737	127,800	6,156	66,243	32	35,032	20,231	106
Lease liabilities ¹	140,945	151,477	21,124	16,729	12,596	10,314	9,268	81,446
Long-term deposits payable	6,915	6,915	—	—	—	—	—	6,915
Derivative financial liabilities								
Currency related	400	400	303	9	88	—	—	—
Interest rate related	78	78	21	—	57	—	—	—
Total	505,161	515,756	256,690	82,981	12,773	45,346	29,499	88,467

Note: 1. Lease liabilities by maturity date consist of the following:

As of December 31, 2021

(Millions of yen)

	Carrying amount	Contract amount	Not later than 1 year	Later than 1 year but not later than 5 years	Later than 5 years but not later than 10 years	Later than 10 years but not later than 15 years	Later than 15 years but not later than 20 years	Later than 20 years
Lease liabilities	140,945	151,477	21,124	48,907	30,753	23,128	18,793	8,772

(3) Fair Value of Financial Instruments**1) Fair value hierarchy levels**

For financial instruments measured at fair value, the fair values developed based on the observability of inputs into the valuation techniques used in measurement are categorized within the following three levels:

Level 1: Fair value measured with quoted prices in active markets for identical assets or liabilities

Level 2: Fair value measured with inputs other than quoted prices categorized within Level 1 that are observable for the asset or liability, either directly or indirectly

Level 3: Fair value measured with inputs not based on observable market data for the asset or liability

2) Financial instruments measured at fair value

The measurement methods for the main financial instruments measured at fair value are as follows:

(i) Short-term investments (excluding short-term investments measured at amortized cost)

Short-term investments are included in cash and cash equivalents and are designated as financial assets measured at fair value through profit or loss. Short-term investments primarily consist of bond investment trusts and money held in trust, and are measured with a financial model using observable inputs such as interest rates.

(ii) Derivative assets and derivative liabilities

Derivative assets and derivative liabilities are included in other financial assets and other financial liabilities and are designated as financial assets and financial liabilities measured at fair value through profit or loss. Consisting of instruments including foreign exchange forward contracts, currency swaps and interest rate swaps, derivative assets and derivative liabilities are primarily measured with a financial model using observable inputs such as exchange rates and interest rates.

(iii) Equity securities

Equity securities are included in other financial assets and are designated as financial assets measured at fair value through other comprehensive income. Equity securities that are categorized within Level 1 are publicly listed and traded in active markets and are measured using market prices on exchanges. Equity securities that are categorized within Level 3 are unlisted and are primarily measured using a net asset valuation model, which measures corporate value based on the net asset of the issuing company with adjustments based on fair value.

The fair value hierarchy of financial instruments measured at fair value is shown below.

The Group recognizes transfers of financial instruments between levels of the fair value hierarchy at the end of each fiscal year. No financial instruments were transferred between levels of the fair value hierarchy for the fiscal years ended December 31, 2022 or 2021.

As of December 31, 2022	(Millions of yen)			
	Level 1	Level 2	Level 3	Total
Financial assets				
Financial assets measured at fair value through profit or loss				
Short-term investments	—	17,000	—	17,000
Derivative assets	—	286	—	286
Other	—	4,197	—	4,197
Financial assets measured at fair value through other comprehensive income				
Equity securities	3,268	—	8,547	11,815
Total	3,268	21,483	8,547	33,298
Financial liabilities				
Financial liabilities measured at fair value through profit or loss				
Derivative liabilities	—	162	—	162
Total	—	162	—	162

As of December 31, 2021	(Millions of yen)			
	Level 1	Level 2	Level 3	Total
Financial assets				
Financial assets measured at fair value through profit or loss				
Short-term investments	—	12,000	—	12,000
Derivative assets	—	22	—	22
Other	—	3,519	—	3,519
Financial assets measured at fair value through other comprehensive income				
Equity securities	3,788	—	5,586	9,374
Total	3,788	15,541	5,586	24,915
Financial liabilities				
Financial liabilities measured at fair value through profit or loss				
Derivative liabilities	—	478	—	478
Total	—	478	—	478

Changes in financial instruments categorized within Level 3 are as follows:

	(Millions of yen)	
	2022	2021
Beginning balance	5,586	5,144
Gains (losses) ¹	153	392
Purchases	2,806	50
Sales	(0)	—
Other changes	2	0
Ending balance	8,547	5,586

Note: 1. All gains and losses are associated with financial assets measured at fair value through other comprehensive income at the end of each reporting period. These gains and losses are recognized in net gain (loss) on revaluation of financial assets measured at fair value through other comprehensive income in the consolidated statement of comprehensive income.

Financial instruments categorized within Level 3 are primarily unlisted equity securities. Each responsible department of the Group refers to the Group accounting policies in measuring the fair value of unlisted equity securities each quarter using recently available data, and reports any changes in fair value and the reasons to the department manager, and to senior management as necessary.

3) Financial instruments measured at amortized cost

The following tables present the measurement techniques for measuring the fair value of major financial instruments measured at amortized cost. Financial instruments for which carrying amounts are a reasonable approximation of fair value or financial instruments that are not material are not included in the tables.

- (i) Cash and cash equivalents (excluding short-term investments measured at fair value), trade and other receivables, and trade and other payables
Carrying amounts approximate fair value because these are settled in the short term.
- (ii) Bonds and borrowings
The fair value of bonds is based on market prices. The fair value of borrowings is the present value of remaining principal and interest discounted using a deemed interest rate on equivalent new borrowings.

The carrying amount and fair value hierarchy of financial instruments measured at amortized cost are as follows:

As of December 31, 2022 (Millions of yen)

	Carrying amount	Fair value			Total
		Level 1	Level 2	Level 3	
Financial liabilities					
Financial liabilities measured at amortized cost					
Bonds.....	50,233	—	50,140	—	50,140
Borrowings.....	77,603	—	77,500	—	77,500

As of December 31, 2021 (Millions of yen)

	Carrying amount	Fair value			Total
		Level 1	Level 2	Level 3	
Financial liabilities					
Financial liabilities measured at amortized cost					
Bonds.....	50,221	—	50,309	—	50,309
Borrowings.....	77,516	—	78,020	—	78,020

34 Principal Subsidiaries

Principal subsidiaries consist of the following. Voting rights at December 31, 2022 did not significantly change from December 31, 2021.

Company name	Principal businesses	Voting rights (%)
Kao Group Customer Marketing Co., Ltd.	Control of sales companies and other subsidiaries in Japan Hygiene and Living Care Health and Beauty Care Life Care Cosmetics	100.0
Kao Professional Services Company, Limited	Life Care (Commercial-use hygiene products)	100.0
Kanebo Cosmetics Inc.	Cosmetics	100.0
Kao Transport & Logistics Company Limited	Logistics and related services in Japan	100.0
Kao (China) Holding Co., Ltd.	Control of subsidiaries in China Cosmetics	100.0
Kao Corporation Shanghai	Hygiene and Living Care Health and Beauty Care Cosmetics	100.0
Kao (Hefei) Co., Ltd.	Hygiene and Living Care	100.0
Kao Commercial (Shanghai) Co., Ltd.	Hygiene and Living Care Health and Beauty Care Cosmetics	100.0
Kanebo Cosmetics (China) Co., Ltd.	Cosmetics	100.0
Kao (Shanghai) Chemical Industries Co., Ltd.	Chemical	100.0
Kao (Taiwan) Corporation	Hygiene and Living Care Health and Beauty Care Life Care (Commercial-use hygiene products) Cosmetics Chemical	92.2
Pilipinas Kao, Inc.	Chemical	100.0
Kao Industrial (Thailand) Co., Ltd.	Hygiene and Living Care Health and Beauty Care Cosmetics Chemical	100.0
Fatty Chemical (Malaysia) Sdn. Bhd.	Chemical	70.0
PT Kao Indonesia	Hygiene and Living Care Health and Beauty Care	54.6
Kao USA Inc.	Health and Beauty Care Cosmetics	100.0
Oribe Hair Care, LLC	Health and Beauty Care	100.0
Washing Systems, LLC	Life Care (Commercial-use hygiene products)	100.0
Kao America Inc.	Corporate service to subsidiaries in the U.S. Holding company for Chemical Business in the U.S.	100.0
Kao Specialties Americas LLC	Chemical	100.0
Kao Germany GmbH	Health and Beauty Care	100.0
Kao Manufacturing Germany GmbH	Health and Beauty Care	100.0
Kao Chemicals GmbH	Chemical	100.0
Molton Brown Limited	Cosmetics	100.0
Kao Chemicals Europe, S.L.	Control of subsidiaries in Chemical Business in Europe, etc.	100.0
Kao Corporation, S.A.	Chemical	100.0

35 Related Parties

(1) Transactions with Related Parties

Disclosure is omitted because there are no material related party transactions.

(2) Primary Executive Management Compensation

Primary executive management compensation consists of the following. The Group's primary executive management includes members of the Board of Directors and executive officers of the Company for each fiscal year.

	(Millions of yen)	
	2022	2021
Short-term benefits	1,566	1,200
Post-retirement benefits.....	32	33
Share-based payments	384	370
Total	1,982	1,603

36 Commitments

Commitments to acquire property, plant and equipment and intangible assets after the end of each reporting period are as follows:

	(Millions of yen)	
	2022	2021
Acquisition of property, plant and equipment.....	18,832	25,435
Acquisition of intangible assets	1,951	2,812
Total	20,783	28,247

37 Approval of the Consolidated Financial Statements

The consolidated financial statements were approved by Yoshihiro Hasebe, President and Chief Executive Officer, and by Kenichi Yamauchi, Executive Officer, Senior Vice President, Accounting and Finance, on March 14, 2023.

38 Significant Subsequent Events

The Group evaluated subsequent events through March 22, 2023, which is the issuance date of the consolidated financial statements. There were no significant subsequent events to present.

Independent Auditor's Report



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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of Kao Corporation:

Opinion

We have audited the consolidated financial statements of Kao Corporation and its subsidiaries (the "Group"), which comprise the consolidated statement of financial position as of December 31, 2022, and the consolidated statement of income, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as of December 31, 2022, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRSs").

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in Japan. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Group in accordance with the provisions of the Code of Professional Ethics in Japan, and we have fulfilled our other ethical responsibilities as auditors. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matter

A key audit matter is a matter that, in our professional judgment, was of most significance in our audit of the consolidated financial statements of the current period. The matter was addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on the matter.

Member of
Deloitte Touche Tohmatsu Limited

Valuation of goodwill related to the business combination of Kanebo Cosmetics Inc.	
Key Audit Matter Description	How the Key Audit Matter Was Addressed in the Audit
<p>Kao Corporation (hereinafter the "Company") recognized goodwill of ¥191,860 million in the consolidated statement of financial position as of December 31, 2022. As described in Note 12 to the consolidated financial statements, goodwill of ¥119,400 million was allocated to Kanebo Cosmetics Inc., which accounted for 6.9% of the total assets. The assumptions used for the impairment test for goodwill were described in Note 12.</p> <p>The Company measured the recoverable amounts based on value in use calculated by the discounted present value of future cash flows, which are based on the Cosmetic Business medium-term plan (hereinafter "medium-term plan") that reflects past years' performance and future forecasts.</p> <p>The medium-term plan includes a forecast of sales growth by region and by brand, which considers the impact of COVID-19 pandemic and changes in the cosmetics market environment. The Company assumes that the impact of COVID-19 in future periods will decrease due to the easing of restrictions and other factors. The growth rate used in the determination of the forecast is consistent with the growth rates of the market to which the cash-generating unit belongs. The estimated cash flows in the period beyond the timescale considered in the medium-term plan approved by management are calculated using an annual growth rate of zero percent and are discounted to present value using a weighted average cost of capital ("WACC") of 7.3%.</p> <p>The growth rate of sales and discount rate involve uncertainties, such as the impact of the COVID-19 pandemic, future forecasts in the cosmetic market, and require management judgment. As such, we have determined the valuation of goodwill related to the business combination of Kanebo Cosmetics Inc. as a key audit matter.</p>	<p>Our audit procedures to assess the reasonableness of the estimates of value in use for addressing the valuation of goodwill related to the business combination of Kanebo Cosmetics Inc. included the following, among others:</p> <p>(1) Internal control testing</p> <p>We tested the design and operating effectiveness of certain internal controls over the determination of whether an impairment loss on the groups of cash-generating units that include goodwill should be recognized.</p> <p>(2) Assessment of the reasonableness of the estimate of value-in-use</p> <ul style="list-style-type: none"> Concerning estimated cash flows, we compared the sales forecast by region and by brand included in the medium-term plan for previous year's impairment test with actual results and evaluated the achievement of those results in the medium-term plan retrospectively, considering the impact of COVID-19 pandemic and changes in the cosmetics market environment. We made inquiries of the person responsible for the Cosmetic Business regarding the sales strategy, which supports sales forecast by region and brand in the medium-term plan utilized in the impairment test. Concerning the forecasted market growth rate which is one of the significant assumptions for estimating value in use, and was included in the medium-term plan, we performed trend analysis using actual results and the data of cosmetic market inspection reports published by an external specialist agency. We involved valuation specialists from our member firm to assist us in assessing the appropriateness of the discount rate by comparing our estimate of WACC to the one made by management. We compared the value in use that would result from changes, within a reasonable range, in the significant assumptions used for the impairment test, to the carrying amount of the cash-generating units that include goodwill.

Other Information

Management is responsible for the other information. Audit & Supervisory Board members and the Audit & Supervisory Board are responsible for overseeing the Directors' execution of duties relating to the design and operating effectiveness of the controls over the other information. The other information comprises the information included in the Financial Report 2022, but does not include the consolidated financial statements and our auditor's report thereon.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of Management and Audit & Supervisory Board Members and the Audit & Supervisory Board for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with IFRSs, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern in accordance with IFRSs and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Audit & Supervisory Board members and the Audit & Supervisory Board are responsible for overseeing the Directors' execution of duties relating to the design and operating effectiveness of the controls over the Group's financial reporting process.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with auditing standards generally accepted in Japan will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with auditing standards generally accepted in Japan, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks. The procedures selected depend on the auditor's judgment. In addition, we obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain, when performing risk assessment procedures, an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate whether the overall presentation and disclosures of the consolidated financial statements are in accordance with IFRSs, as well as the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with Audit & Supervisory Board members and the Audit & Supervisory Board regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide Audit & Supervisory Board members and the Audit & Supervisory Board with a statement that we have complied with relevant ethical requirements regarding independence, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with Audit & Supervisory Board members and the Audit & Supervisory Board, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Interest Required to Be Disclosed by the Certified Public Accountants Act of Japan

Our firm and its designated engagement partners do not have any interest in the Group which is required to be disclosed pursuant to the provisions of the Certified Public Accountants Act of Japan.

Debitte Touche Tohmatsu LLC

March 22, 2023

Kao

Kirei—Making Life Beautiful



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