1. Regarding the structural reform expenses of 60 billion yen, you have already recorded 8.6 billion yen for the first half of the year. Where does the remaining 51.4 billion yen come from? Will you explain this for each of the three items listed on page 27 of the presentation material?

The three main points are as follows: review of inefficient businesses, acceleration of product lineup consolidation and improvement in human capital and organizational productivity. A large part is allocated to the review of inefficient businesses, in particular. Although a plan has been drafted, we will need to discuss this matter further. We cannot disclose the details now, but they will be reported once suitable progress has been achieved regarding the relevant prerequisites.

2. I would like to know the breakdown of the 30 billion yen in profit improvement effect. What will bring about this effect? Is it the elimination of currently unprofitable businesses, an improvement in gross profit, a reduction in SG&A expenses or profit created as a result of increased sales?

The reduction in fixed costs accounts for about half of the effect, with the remainder being an improvement in marginal income. Improvement in marginal income includes a review of cost design with a greater focus on profitability and profitability improvement achieved by pursuing high added value.

**Will the reform in the baby diaper business lead to fixed cost reduction?**

You are correct.

3. Sales of the Consumer Product Businesses in Japan are growing higher than Kao's plan. The expected impact of high raw material prices has also decreased from -12.0 billion yen at the beginning of FY2023 to -10.0 billion yen. Despite these circumstances, why did you leave the core operating income figure unchanged for FY2023, excluding structural reform expenses? Do you see the Chemical Business as a risk?

Although market conditions have been steadily improving since the year's second quarter, the impact of the decline in operating income in the first quarter was significant. In addition, achieving the target requires further price increases, but we also consider the changes in the market environment. Moreover, there are uncertain factors in the Chemical Business. We will not change the target announced at the beginning of FY2023 and will aim to exceed this target.
Is there any risk in your business in China? Other than that, what do you see as a risk?

Our business in the Americas and Europe, which was strong in 2022, is one of the risks. Although the logistics issue has been resolved, the effect of inventory adjustments by retailers and customers still remains. Though we expect it will be resolved soon, we do not yet have a clear prediction as to the timing of the resolution.

In addition, the travel retail business in South Korea is also one of the risks, albeit a small one. As for our business in China, we do not recognize any major risks other than baby diapers. Although the Cosmetics Business fell sharply in the first quarter, the rebranded freeplus, which is hypoallergenic and contains Japanese and Chinese botanical extracts, is growing steadily in the second quarter.

4. I would like to ask about Management Reform on page 63 of the presentation material. When did it start and what is its progress?

At the end of 2022, we established an integrated management system between sales and business departments, enabling integrated data for all departments to be visible. Our agility for sales strategies and proposals has increased regarding individual retailers and brands, improving ROIC.

I would like to know the results of Development Reform.

Speed is improving in launching new products and marketing. Successful cases are appearing, such as Attack laundry detergent and CuCute dishwashing detergent as introduced on page 19 of the presentation material. In 2024, we will be able to launch highly unique products that have yet to be available from Kao even in underperforming categories.

5. I would like to ask about your strategy for the baby diaper business in China. While Chinese consumers tend to favor locally produced premium products, Kao announced it would terminate local production. You said you would continue the business with baby diapers made in Japan amid a significant drop in births. Do you expect sales to continue to grow going forward?

We used to have a plan to compete in the baby diaper business in China with locally produced products. However, just when there was a sharp drop in births, the COVID-19 pandemic accelerated the situation and the market conditions changed significantly. Amid these circumstances, and partly due to a delay in actions for product plans, we decided to terminate local production in China from the viewpoint of ROIC. On the other hand, since there are still many loyal users of baby diapers made in Japan, we will continue the business in China.

There is no sales target under K27. Does this mean the 1.8 trillion yen target set in K25 remains unchanged? Also, what do you expect regarding sales growth in Japan?
We eliminated the sales target of 1.8 trillion yen from our targets because our activities will become a pursuit of scale if we set sales as a key performance indicator (KPI). To prioritize improving investment efficiency and global growth, we decided to implement ROIC and sales outside Japan as KPIs. Although we plan to increase sales in Japan, we will first prioritize improving ROIC.

6. **You showed in a graph on page 45 that you expect an operating income of 160 billion yen for FY2025. However, isn’t it too low, considering the structural reform effect of 30 billion yen? Where is the recovery in sales volume of skin care and cosmetics, which dropped due to the COVID-19 pandemic, included in the FY2025 target?**

We presented the figure for FY2025 only as an estimate. This estimate includes an increase due to the review of the cost design, the effect of pursuing high added value and a recovery in volume. The impact of raw material prices is based on the level in FY2023, and the recovery in inbound demand is not considered either.

You said you would increase prices to compensate for 80% of the impact of high raw material prices accumulated from FY2022 to FY2023. Will you be able to continue to do so?

We can strategically increase the prices of new products, which account for about 20% of all Kao products, while pursuing high added value. It is also important not to decrease flagship product prices, while considering consumers’ acceptance. In the consumer products industry in Japan, there has been no commercial practice to increase prices for many years. However, as a result of having increased prices ahead of competitors, we have understood that this will bring a good cycle to retailers, consumers and even employees. We will continue to promote strategic price increases with strong determination and leadership.

7. **Is it correct to understand from the graph on page 45 of the presentation material that the operating income for FY2024 is around 130 billion yen? Is my understanding correct that the structural reform expenses of 60 billion yen to be incurred in FY2023 are only temporary expenses?**

Although we have not announced the forecast of consolidated operating results for FY2024, some of the effects of increasing profits due to structural reforms will appear in FY2024. We plan to book a provision of 60 billion yen in FY2023 on structural reforms. For FY2024, we plan a V-shaped recovery.

8. **Based on the effect of price increases, sales volume, and changes in the operating income of the Chemical Business in the second half of the year, can you expect a significant increase in operating income for the first half of FY2024? As such, what are the risks?**

There are price increases in packaging materials and paper products due to a delay in the timing of price
increases, and labor costs and energy costs are also increasing. Therefore, we expect that raw material prices will not decrease very much. Although some effects from structural reforms will appear during FY2024, we do not expect a large increase in operating income.

9. **What is the impact of the structural reform expenses of 60 billion yen during FY2023 on the cash flow?**

We estimate the cash outflow to be half or less of the 60 billion yen.

You said you would maintain and continue stable dividend payments. Will you stick to the consecutive dividend increase that you have been continually achieving until now?

While boldly carrying out structural reforms to put us on a growth trajectory, we intend to maintain and continue stable dividend payments.

10. **What is your sales channel strategy for each area as you accelerate business expansion outside Japan?**

Regarding sales channels, we will actively use e-commerce to spread high-value-added products. As for communication, it is essential to improve user experience through digitalization. We can develop digital communication outside Japan, which has already been implemented in Japan. The Chemical Business has shifted from a conventional push marketing approach to a pull marketing approach after implementing digital communication, and the number of customer inquiries is increasing.

11. **Do you expect the expenses for promoting structural reform of human capital to be around 10 to 20 billion yen?**

We cannot tell you the details now.

12. **What is your plan to grow freeplus, the Curél derma care brand, and the SENSAI luxury brand in China in the future?**

*freeplus:* We are proceeding with rebranding, and sales for April and May were strong. We plan to launch new products in the second half of the year and have made progress in preparing a system for evidence-based marketing. We expect sales of freeplus to be on an increasing trend from the second half of the year onward.

*Curél:* Sales for the first quarter were poor due to inventory being piled up at the end of FY2022. However, sales achieved double-digit growth in the second quarter. As is the case with freeplus, we will enhance efforts for launching new products and evidence-based marketing in the second half of the year.

*SENSAI:* We will also ramp up off-line sales channels at full scale starting this winter by establishing our
first flagship store. Rather than expanding scale, we plan to steadily make profits through luxury marketing.

**What is the progress regarding the operating margin target of 15% in the Cosmetics Business for FY2025?**

We are slightly behind the plan. We will increase sales through strategic investment for marketing expenses during FY2024 and FY2025 and intend to reach the target profit during FY2026 and FY2027.

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**Note**

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