

Corrections: Consolidated Financial Results for the Fiscal Year Ended December 31, 2022 [IFRS]

March 7, 2023

Kao Corporation (Ticker Code:4452) makes certain corrections to “Consolidated Financial Results for the Fiscal Year Ended December 31, 2022 [IFRS]” released on February 2, 2023 and revised on February 10, 2023. Details of corrections (Corrections are underlined) and the complete revised version of the consolidated financial results are presented on the following pages.

Content of the Revision

The section entitled “1. Segment Information (2) Sales and results of reportable segments” in the “Notes to Consolidated Financial Statements” on page 22, “Capital expenditure” has been corrected.

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1. Segment Information

(2) Sales and results of reportable segments

[Correction]

Fiscal year ended December 31, 2022	Reportable Segments								(Millions of yen)
	Consumer Products Business					Chemical Business	Total	Reconciliations 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
% of net sales	5.9	9.4	-	5.6	6.6	7.3	-	-	7.1
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
Depreciation and amortization	35,106	18,800	3,406	14,469	71,781	16,918	88,699	1,039	89,738
Impairment loss	-	-	-	34	34	-	34	-	34
Capital expenditure ³	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. Capital expenditures include investments in property, plant and equipment, right-of-use assets and intangible assets.

[Original]

Fiscal year ended December 31, 2022	Reportable Segments								(Millions of yen)
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Impairment loss	-	-	-	34	34	-	34	-	34
Capital expenditure ³	39,234	22,003	2,189	12,143	75,569	16,932	92,501	240	92,741

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. Capital expenditures include investments in property, plant and equipment, right-of-use assets and intangible assets.

Consolidated Financial Results for the Fiscal Year Ended December 31, 2022 [IFRS]

February 2, 2023
 Company name: Kao Corporation Tokyo Stock Exchange in Japan
 Stock code: 4452 (URL: www.kao.com/global/en/investor-relations/library/results/)
 Representative: Yoshihiro Hasebe, President and CEO
 Contact person: Mitsuhiro Watanabe, Vice President, Investor Relations E-mail: ir@kao.co.jp
 Scheduled date of the Annual General Meeting of Shareholders: March 24, 2023
 Scheduled starting date of the dividend payments: March 27, 2023
 Supplementary documents of the financial results: Yes
 Financial results information meeting: Yes (for institutional investors and analysts)

(Millions of yen, except per share amounts)
 (Amounts less than one million yen are rounded)

**1. Consolidated financial results for the fiscal year ended December 31, 2022
 (from January 1, 2022 to December 31, 2022)**

(1) Consolidated operating results

	(Percentages indicate year-on-year changes)			
	Fiscal year ended December 31, 2022	%	Fiscal year ended December 31, 2021	%
Net sales	1,551,059	9.3	1,418,768	2.7
Operating income	110,071	(23.3)	143,510	(18.3)
Income before income taxes	115,848	(22.8)	150,002	(13.8)
Net income	87,742	(21.2)	111,415	(13.0)
Net income attributable to owners of the parent	86,038	(21.5)	109,636	(13.1)
Comprehensive income	128,298	(22.3)	165,132	22.8

	Fiscal year ended December 31, 2022	Fiscal year ended December 31, 2021
Basic earnings per share (Yen)	183.28	230.59
Diluted earnings per share (Yen)	183.27	230.57
Ratio of net income to equity attributable to owners of the parent	8.9%	11.6%
Ratio of income before income taxes to total assets	6.8%	8.9%
Ratio of operating income to net sales	7.1%	10.1%
(Reference) Share of profit in investments accounted for using the equity method	2,545	2,620

(2) Consolidated financial position

	December 31, 2022	December 31, 2021
Total assets	1,726,350	1,704,007
Total equity	995,384	983,877
Equity attributable to owners of the parent	972,061	965,137
Ratio of equity attributable to owners of the parent to total assets	56.3%	56.6%
Equity attributable to owners of the parent per share (Yen)	2,091.20	2,036.66

(3) Consolidated cash flows

	Fiscal year ended December 31, 2022	Fiscal year ended December 31, 2021
Net cash flows from operating activities	130,905	175,524
Net cash flows from investing activities	(74,911)	(67,232)
Net cash flows from financing activities	(139,311)	(141,573)
Cash and cash equivalents at the end of the year	268,248	336,069

2. Dividends

	Fiscal year ending December 31, 2023 (Forecast)	Fiscal year ended December 31, 2022	Fiscal year ended December 31, 2021
Annual cash dividends per share (Yen)			
1st quarter end	-	-	-
2nd quarter end	75.00	74.00	72.00
3rd quarter end	-	-	-
Fiscal year end	75.00	74.00	72.00
Total	150.00	148.00	144.00
Total dividend payment amount	150.00	69,287	68,383
Payout ratio (consolidated)	79.2%	80.8%	62.4%
Ratio of dividends to equity attributable to owners of the parent (consolidated)	79.2%	7.2%	7.3%

3. Forecast of consolidated operating results for the fiscal year ending December 31, 2023
(from January 1, 2023 to December 31, 2023)

(Millions of yen, except per share amounts)
(Percentages indicate year-on-year changes)

	Fiscal year ending December 31, 2023	%
Net sales	1,580,000	1.9
Operating income	120,000	9.0
Income before income taxes	121,000	4.4
Net income attributable to owners of the parent	88,000	2.3
Basic earnings per share (Yen)	189.31	-

4. Others

- (1) Changes in significant subsidiaries during the period (changes in specified subsidiaries resulting in change in scope of consolidation): None
- (2) Changes in accounting policies and changes in accounting estimates
- 1) Changes in accounting principles required by IFRS: None
 - 2) Changes in accounting principles due to reasons other than 1): None
 - 3) Changes in accounting estimates: None

(3) Number of issued shares outstanding at the end of the year (ordinary shares)

	<u>December 31, 2022</u>	<u>December 31, 2021</u>
Number of issued shares including treasury shares	465,900,000	475,000,000
Number of treasury shares	1,065,960	1,117,195
	<u>Fiscal year ended December 31, 2022</u>	<u>Fiscal year ended December 31, 2021</u>
Weighted average number of shares outstanding during the year	469,441,691	475,466,269

Notice regarding execution of audit procedures

This financial results report is exempt from audit by certified public accountants or accounting firms.

Explanation regarding the appropriate use of forecast of operating results and other special items

Forward-looking statements such as earnings forecasts and other projections contained in this release are based on information available at the time of disclosure and assumptions that management believes to be reasonable, and do not constitute guarantees of future performance. Actual results may differ materially from expectations due to various factors.

Please refer to page 1 to 13 "1. Summary of Operating Results and Financial Position" for the suppositions that form the assumptions for earnings forecasts and cautions concerning the use of earnings forecasts.

1. Summary of Operating Results and Financial Position

(1) Summary of Operating Results

Note: Changes and comparisons are all with the same period a year earlier unless otherwise noted. Like-for-like growth rates below exclude the effect of translation of local currencies into Japanese yen.

Operating Results for the Fiscal Year Ended December 31, 2022

1) Trends in Overall Results for the Fiscal Year Ended December 31, 2022

(Billions of yen, except operating margin and per share amounts)

	2022	2021	Growth
			9.3%
Net sales	1,551.1	1,418.8	Like-for-like: 3.7%
Operating income	110.1	143.5	(23.3%)
Operating margin (%)	7.1	10.1	-
Income before income taxes	115.8	150.0	(22.8%)
Net income	87.7	111.4	(21.2%)
Net income attributable to owners of the parent	86.0	109.6	(21.5%)
Basic earnings per share (Yen)	183.28	230.59	(20.5%)

In fiscal 2022, the novel coronavirus (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. Net sales increased 9.3% compared with the previous fiscal year to 1,551.1 billion yen. On a like-for-like basis, net sales increased 3.7%. Operating income was 110.1 billion yen, a decrease of 33.4 billion yen 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 yen, a decrease of 34.2 billion yen, and net income was 87.7 billion yen, a decrease of 23.7 billion yen.

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

Economic Value Added (EVA*), which the Kao Group uses as a management indicator, decreased 30.5 billion yen compared with the previous fiscal year to 14.7 billion yen due to an increase in capital cost as net operating profit after tax (NOPAT) decreased.

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

To improve capital efficiency and further increase shareholders' returns, Kao Corporation (the "Company") repurchased a total of 50.0 billion yen of the Company's stock pursuant to a resolution of its 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 main exchange rates used for translating the financial statement items (income and expenses) of foreign subsidiaries and associates were as shown below.

	First quarter	Second quarter	Third quarter	Fourth quarter
	Jan. – Mar.	Apr. – Jun.	Jul. – Sep.	Oct. – Dec.
U.S. dollar	116.30 (105.96)	129.69 (109.47)	138.27 (110.09)	141.47 (113.72)
Euro	130.45 (127.74)	138.14 (131.90)	139.25 (129.78)	144.22 (130.05)
Chinese yuan	18.32 (16.35)	19.63 (16.95)	20.20 (17.01)	19.88 (17.79)

Note: Figures in parentheses represent the exchange rates for the same period of the previous fiscal year.

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2) Trends by Segment during the Fiscal Year

Summary of Segment Information

Consolidated Results by Segment

(Billions of yen)

Fiscal year ended December 31	Net sales				Operating income			Operating margin (%)	
	2022	2021	Growth %	Like-for-like %	2022	2021	Change	2022	2021
Hygiene and Living Care Business	516.5	496.8	4.0	0.4	30.7	51.8	(21.1)	5.9	10.4
Health and Beauty Care Business	369.5	354.5	4.2	(1.8)	34.6	49.7	(15.1)	9.4	14.0
Life Care Business	55.7	53.0	5.1	1.4	(0.0)	3.6	(3.6)	(0.0)	6.8
Cosmetics Business	251.5	239.3	5.1	0.8	14.1	7.5	6.6	5.6	3.1
Consumer Products Business	1,193.3	1,143.7	4.3	(0.2)	79.3	112.6	(33.2)	6.6	9.8
Chemical Business	402.5	314.3	28.1	18.6	29.5	29.6	(0.1)	7.3	9.4
Total	1,595.8	1,458.0	9.5	3.9	108.9	142.2	(33.3)	-	-
Elimination and Reconciliation	(44.7)	(39.2)	-	-	1.2	1.3	(0.1)	-	-
Consolidated	1,551.1	1,418.8	9.3	3.7	110.1	143.5	(33.4)	7.1	10.1

Consolidated Net Sales Composition

Fiscal year ended December 31		Japan	Asia	Americas	Europe	(Billions of yen) Consolidated
Fabric and Home Care Products	2022	292.9	45.5	3.7	-	342.1
	2021	288.6	40.1	2.8	-	331.5
	Growth %	1.5	13.4	32.1	-	3.2
	Like-for-like %	1.5	0.4	19.7	-	1.5
Sanitary Products	2022	77.4	97.0	0.1	-	174.5
	2021	78.0	87.3	0.1	-	165.3
	Growth %	(0.7)	11.1	(24.6)	-	5.5
	Like-for-like %	(0.7)	(2.8)	(31.9)	-	(1.8)
Hygiene and Living Care Business	2022	370.3	142.5	3.7	-	516.5
	2021	366.6	127.4	2.9	-	496.8
	Growth %	1.0	11.8	30.1	-	4.0
	Like-for-like %	1.0	(1.8)	17.9	-	0.4
Health and Beauty Care Business	2022	200.2	33.9	90.6	44.9	369.5
	2021	205.2	29.4	78.0	41.8	354.5
	Growth %	(2.4)	15.1	16.1	7.3	4.2
	Like-for-like %	(2.4)	1.0	(2.4)	0.5	(1.8)
Life Care Business	2022	43.7	0.0	11.8	0.2	55.7
	2021	43.5	0.0	9.4	0.1	53.0
	Growth %	0.7	50.1	25.2	19.9	5.1
	Like-for-like %	0.7	33.9	4.8	11.8	1.4
Cosmetics Business	2022	160.7	59.6	6.8	24.4	251.5
	2021	152.9	57.8	5.9	22.7	239.3
	Growth %	5.1	3.0	15.1	7.5	5.1
	Like-for-like %	5.1	(10.1)	(4.1)	0.4	0.8
Consumer Products Business	2022	775.0	236.0	112.9	69.4	1,193.3
	2021	768.1	214.7	96.2	64.6	1,143.7
	Growth %	0.9	9.9	17.4	7.4	4.3
	Like-for-like %	0.9	(3.6)	(1.2)	0.5	(0.2)
Chemical Business	2022	140.1	98.2	70.5	93.7	402.5
	2021	122.1	73.9	49.0	69.2	314.3
	Growth %	14.7	32.8	43.8	35.3	28.1
	Like-for-like %	14.7	15.9	19.9	27.4	18.6
Elimination of intersegment	2022	(38.5)	(3.9)	(0.2)	(2.1)	(44.7)
	2021	(34.0)	(3.4)	(0.0)	(1.8)	(39.2)
Consolidated	2022	876.6	330.2	183.3	161.0	1,551.1
	2021	856.3	285.2	145.2	132.0	1,418.8
	Growth %	2.4	15.8	26.2	21.9	9.3
	Like-for-like %	2.4	1.4	5.9	14.5	3.7

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. Sales by geographic region are classified based on the location of the sales recognized.

Net sales to foreign customers were 45.4% of net sales compared with 42.0% for the previous fiscal year.

Consumer Products Business

Sales increased 4.3% compared with the previous fiscal year to 1,193.3 billion yen. 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 yen.

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

Operating income was 79.3 billion yen, a substantial decrease of 33.2 billion yen 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 yen. 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 yen, a decrease of 21.1 billion yen 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 yen. 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 yen compared with the previous fiscal year to 34.6 billion yen 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 yen. 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 yen due to the impact of hikes in raw material prices, compared with operating income of 3.6 billion yen in the previous fiscal year.

Cosmetics Business

Sales increased 5.1% compared with the previous fiscal year to 251.5 billion yen. 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 yen compared with the previous fiscal year to 14.1 billion yen.

Chemical Business

Sales increased 28.1% compared with the previous fiscal year to 402.5 billion yen. 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.

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

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

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Forecast for the Fiscal Year Ending December 31, 2023

(Billions of yen, except operating margin and per share amounts)

	2023	2022	Growth
Net sales	1,580.0	1,551.1	1.9%
			Like-for-like: 2.3%
Operating income	120.0	110.1	9.0%
Operating margin (%)	7.6	7.1	-
Income before income taxes	121.0	115.8	4.4%
Net income attributable to owners of the parent	88.0	86.0	2.3%
Basic earnings per share (Yen)	189.31	183.28	3.3%

**In this table and hereafter, like-for-like growth rates exclude changes due to the effect of currency translation of local currencies into Japanese yen.*

1) Forecast of Overall Business Results for the Fiscal Year Ending December 31, 2023

Three years have passed since the outbreak of the COVID-19 pandemic. Raw material prices have started to settle down, but with no vigor expected in consumption as energy costs rise and global inflation advances, the business environment is forecast to remain severe and the outlook unclear.

Under these circumstances, the Kao Group will implement a strategy based on three policies: change to a resilient business structure independent of market conditions; strengthen and expand strategic businesses globally; and generate profits from businesses that grow rapidly by anticipating change.

The Kao Group will also promote drastic structural reforms to build a corporate framework that can continuously generate profit by responding speedily to change. In addition to using digital transformation (DX) to advance reforms in all fields, the Kao Group intends to deepen EVA management by implementing return on invested capital (ROIC) as a metric in each of its businesses to maximize investment efficiency and by promoting business portfolio renovation.

In light of these circumstances, the Kao Group forecasts the following business results for the fiscal year ending December 31, 2023.

The Kao Group forecasts a 1.9% year-on-year increase in net sales to 1,580.0 billion yen (a 2.3% increase on a like-for-like basis), a 9.0% increase in operating income to 120.0 billion yen, an operating margin of 7.6%, a 4.4 increase in income before income taxes to 121.0 billion yen, a 2.3% increase in net income attributable to owners of the parent to 88.0 billion yen, and a 3.3% increase in basic earnings per share to 189.31 yen.

The Kao Group will increase Economic Value Added (EVA) by making full use of its assets to manage invested capital more efficiently, together with an increase in net operating profit after tax (NOPAT).

2) Forecast by Segment for the Fiscal Year Ending December 31, 2023

The **Hygiene and Living Care Business** provides fabric care, home care and sanitary products that support people's daily lives and society and help make lifestyles more comfortable. The business will contribute to people's lifestyles and communities around the world by helping consumers lead comfortable lives in their own unique styles through advanced cleanliness and hygiene value offerings that enable everyone to spend time at or away from home with peace of mind. The business will also work to increase market share and improve its profit margin by promoting selection and concentration to focus investment on its core brands.

As a result of the above measures, the Kao Group forecasts that sales in this business will increase 1.8% year on year on a like-for-like basis to 519.0 billion yen.

The **Health and Beauty Care Business** provides skin care, hair care and personal health products offering value unique to Kao with a thorough understanding of the entire human body, under the theme of contributing to health, beauty, cleanliness and hygiene. In addition to being useful for hygiene habits and healthy lifestyles, the business will help to support active lives by realizing positive lifestyles with peace of mind. The business will work to increase sales by conducting product development and manufacturing with an eye toward a global rollout and by ramping up offerings using digital technology and e-commerce.

As a result of the above measures, the Kao Group forecasts that sales in this business will increase 5.0% year on year on a like-for-like basis to 387.0 billion yen.

The **Life Care Business** supports people's health through a health drinks business that takes steps to realize self-cures and self-care that fit consumers' lifestyles, and a commercial-use hygiene products business that offers solutions catering to professional hygiene needs at commercial and public facilities, thereby contributing to people's safety.

The health drinks business aims to acquire more loyal users by ramping up customer-oriented product development and brand communication, among other measures.

The commercial-use hygiene products business in Japan will step up its offerings of products and services that utilize cleaning, antibacterial, deodorizing and other technologies to capture a larger market in fields including food service, tourism, medicine and nursing, and will operate a new hygiene solutions service business. In the United States, the business aims to increase its market share and improve profitability.

As a result of the above measures, the Kao Group forecasts that sales in this business will increase 2.4% year on year on a like-for-like basis to 57.0 billion yen.

The **Cosmetics Business** will continue to provide “hope” and “Kirei”^{*} to customers through solid science and abundant sensitivity attuned to each person’s beauty and individuality. The business will make proactive lifestyle offerings for the “new normal” and transform into a customer retention business model that creates bonds with customers through the promotion of DX globally. In addition, the business aims to build a more robust framework by further ramping up its rollout in China and Europe as it conducts further structural reforms in Japan.

** 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.*

As a result of the above measures, the Kao Group forecasts that sales in this business will increase 4.6% year on year on a like-for-like basis to 264.0 billion yen.

The **Chemical Business** will strive to generate social impact by resolving various issues aimed at helping to create the future of industry and a sustainable society. With its unique technologies, the business will promote initiatives among customers, industry and society for a shift to decarbonization and a circular economy by enhancing sustainable materials and proposing new eco-solutions, in addition to continuing to work to develop high-value-added products.

Despite the above measures, the Kao Group forecasts that sales in this business will decrease 2.3% year on year on a like-for-like basis to 393.0 billion yen.

3) Underlying Assumptions of the Forecast for the Fiscal Year Ending December 31, 2023

The above forecast was made assuming translation rates of one U.S. dollar to 130 yen, one euro to 138 yen and one Chinese yuan to 20 yen.

Please note that although there is potential for volatility in prices of natural fats and oils and petrochemicals, assumptions for prices are based on information currently available to the Kao Group.

(2) Summary of Financial Position

Summary of Assets, Liabilities, Equity and Cash Flows

1) Summary of Assets, Liabilities, Equity and Cash Flows for the Fiscal Year Ended December 31, 2022

Consolidated Financial Position

(Billions of yen, except per share amounts)

	December 31, 2022	December 31, 2021	Incr./ (Dcr.)
Total assets	1,726.4	1,704.0	22.3
Total liabilities	731.0	720.1	10.8
Total equity	995.4	983.9	11.5
Ratio of equity attributable to owners of the parent to total assets	56.3%	56.6%	-
Equity attributable to owners of the parent per share (Yen)	2,091.20	2,036.66	54.54
Bonds and borrowings	127.8	127.7	0.1

Consolidated Cash Flows

(Billions of yen)

	2022	2021	Incr./ (Dcr.)
Net cash flows from operating activities	130.9	175.5	(44.6)
Net cash flows from investing activities	(74.9)	(67.2)	(7.7)
Net cash flows from financing activities	(139.3)	(141.6)	2.3
Free cash flows	56.0	108.3	(52.3)

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

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

Total equity increased 11.5 billion yen from December 31, 2021 to 995.4 billion yen. The principal increases in equity were net income totaling 87.7 billion yen and exchange differences on translation of foreign operations totaling 48.5 billion yen. The principal decreases in equity were dividends totaling 69.3 billion yen and purchase of treasury shares totaling 50.0 billion yen 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%.

Net cash flows from operating activities totaled 130.9 billion yen. The principal increases in net cash were income before income taxes of 115.8 billion yen and depreciation and amortization of 89.7 billion yen. The principal decreases in net cash were income taxes paid of 39.3 billion yen and a 36.9 billion yen increase in inventories.

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

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 yen.

Net cash flows from financing activities totaled negative 139.3 billion yen. 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 yen for dividends paid to owners of the parent and non-controlling interests, purchase of treasury shares totaling 50.0 billion yen pursuant to a resolution of the Board of Directors at a meeting held on May 11, 2022, and 21.7 billion yen in repayments of lease liabilities.

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

2) Forecast of Assets, Liabilities, Equity and Cash Flows for the Fiscal Year Ending December 31, 2023

Net cash flows from operating activities are forecast to be approximately 180.0 billion yen, due in part to an increase in income.

Net cash flows from investing activities are forecast to be approximately 80.0 billion yen due to scheduled proactive investments for further growth encompassing enhancement and rationalization of production capacity, greater distribution efficiency and other purposes.

In net cash flows from financing activities, the Kao Group expects to pay cash dividends, among other expenditures.

As a result of the above, the balance of cash and cash equivalents as of December 31, 2023 is forecast to be approximately 280.0 billion yen, an increase of approximately 10.0 billion yen from a year earlier.

(3) 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 Economic Value Added (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 development (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 74.00 yen per share, an increase of 2 yen per share compared with the previous fiscal year. Consequently, annual cash dividends will increase 4 yen per share compared with the previous fiscal year, resulting in a total of 148 yen per share. The consolidated payout ratio will be 80.8%.

For fiscal 2023, the Company plans to pay total cash dividends of 150 yen per share (79.2% payout ratio), an increase of 2 yen 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.

2. 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.

Consolidated Statement of Financial Position

(Millions of yen)

	December 31, 2022	December 31, 2021	Change
Assets			
Current assets			
Cash and cash equivalents	268,248	336,069	(67,821)
Trade and other receivables	230,604	216,209	14,395
Inventories	278,382	228,070	50,312
Other financial assets	3,605	6,094	(2,489)
Income tax receivables	4,171	2,508	1,663
Other current assets	22,196	20,842	1,354
Total current assets	807,206	809,792	(2,586)
Non-current assets			
Property, plant and equipment	439,325	428,609	10,716
Right-of-use assets	138,629	144,057	(5,428)
Goodwill	191,860	183,498	8,362
Intangible assets	60,183	52,636	7,547
Investments accounted for using the equity method	11,061	10,050	1,011
Other financial assets	25,325	23,588	1,737
Deferred tax assets	43,833	41,348	2,485
Other non-current assets	8,928	10,429	(1,501)
Total non-current assets	919,144	894,215	24,929
Total assets	1,726,350	1,704,007	22,343

(Millions of yen)

	December 31, 2022	December 31, 2021	Change
Liabilities and equity			
Liabilities			
Current liabilities			
Trade and other payables	243,767	229,086	14,681
Bonds and borrowings	65,670	6,156	59,514
Lease liabilities	19,440	19,929	(489)
Other financial liabilities	7,249	6,329	920
Income tax payables	12,299	24,078	(11,779)
Provisions	1,246	2,041	(795)
Contract liabilities	32,465	31,143	1,322
Other current liabilities	104,488	103,135	1,353
Total current liabilities	486,624	421,897	64,727
Non-current liabilities			
Bonds and borrowings	62,166	121,581	(59,415)
Lease liabilities	115,614	121,016	(5,402)
Other financial liabilities	7,223	7,070	153
Retirement benefit liabilities	38,738	29,843	8,895
Provisions	8,803	8,187	616
Deferred tax liabilities	6,858	5,830	1,028
Other non-current liabilities	4,940	4,706	234
Total non-current liabilities	244,342	298,233	(53,891)
Total liabilities	730,966	720,130	10,836
Equity			
Share capital	85,424	85,424	-
Capital surplus	105,880	105,633	247
Treasury shares	(3,459)	(3,960)	501
Other components of equity	43,842	(3,723)	47,565
Retained earnings	740,374	781,763	(41,389)
Equity attributable to owners of the parent	972,061	965,137	6,924
Non-controlling interests	23,323	18,740	4,583
Total equity	995,384	983,877	11,507
Total liabilities and equity	1,726,350	1,704,007	22,343

Consolidated Statement of Income

(Millions of yen)

	Notes	Fiscal year ended December 31, 2022	Fiscal year ended December 31, 2021	Change
Net sales	1	1,551,059	1,418,768	132,291
Cost of sales		(1,002,717)	(845,574)	(157,143)
Gross profit		548,342	573,194	(24,852)
Selling, general and administrative expenses	2	(440,910)	(427,045)	(13,865)
Other operating income		17,391	17,304	87
Other operating expenses		(14,752)	(19,943)	5,191
Operating income	1	110,071	143,510	(33,439)
Financial income		5,650	6,470	(820)
Financial expenses		(2,418)	(2,598)	180
Share of profit in investments accounted for using the equity method		2,545	2,620	(75)
Income before income taxes		115,848	150,002	(34,154)
Income taxes		(28,106)	(38,587)	10,481
Net income		87,742	111,415	(23,673)
Attributable to:				
Owners of the parent		86,038	109,636	(23,598)
Non-controlling interests		1,704	1,779	(75)
Net income		87,742	111,415	(23,673)
Earnings per share				
Basic (Yen)	3	183.28	230.59	
Diluted (Yen)	3	183.27	230.57	

Consolidated Statement of Comprehensive Income

(Millions of yen)

	Fiscal year ended December 31, 2022	Fiscal year ended December 31, 2021	Change
Net income	87,742	111,415	(23,673)
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	369	390	(21)
Remeasurements of defined benefit plans	(8,751)	11,729	(20,480)
Share of other comprehensive income of investments accounted for using the equity method	(186)	330	(516)
Total of items that will not be reclassified to profit or loss	(8,568)	12,449	(21,017)
Items that may be reclassified subsequently to profit or loss:			
Exchange differences on translation of foreign operations	48,497	40,876	7,621
Share of other comprehensive income of investments accounted for using the equity method	627	392	235
Total of items that may be reclassified subsequently to profit or loss	49,124	41,268	7,856
Other comprehensive income, net of taxes	40,556	53,717	(13,161)
Comprehensive income	<u>128,298</u>	<u>165,132</u>	<u>(36,834)</u>
Attributable to:			
Owners of the parent	125,437	161,686	(36,249)
Non-controlling interests	2,861	3,446	(585)
Comprehensive income	<u>128,298</u>	<u>165,132</u>	<u>(36,834)</u>

Consolidated Statement of Changes in Equity

(Millions of yen)

	Equity attributable to owners of the parent												
	Share capital	Capital surplus	Treasury shares	Other components of equity					Total	Retained earnings	Total	Non-controlling interests	Total equity
				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					
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	-	(120)	50,511	(90)	-	-	-	-	(90)	(50,298)	3	-	3
Purchase of treasury shares	-	(25)	(50,010)	-	-	-	-	-	-	-	(50,035)	-	(50,035)
Share-based payment transactions	-	384	-	-	-	-	-	-	-	-	384	-	384
Dividends	-	-	-	-	-	-	-	-	-	(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	-	(334)	51,697	(89)	-	-	-	-	(89)	(51,273)	1	-	1
Purchase of treasury shares	-	-	(51,792)	-	-	-	-	-	-	-	(51,792)	-	(51,792)
Share-based payment transactions	-	370	-	-	-	-	-	-	-	-	370	-	370
Dividends	-	-	-	-	-	-	-	-	-	(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

(Millions of yen)

	Fiscal year ended December 31, 2022	Fiscal year ended December 31, 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	(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	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	268,248	336,069

Notes to Consolidated Financial Statements

1. Segment Information

(1) Summary of reportable segments

The Kao Group's reportable segments are the components of the Kao Group for which discrete financial information is available and which 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 Kao 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, the Cosmetics Business) and the Chemical Business. In each business, the Kao Group plans comprehensive business strategies and carries out business activities on a global basis.

Accordingly, the Kao 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 on principal customers is omitted, because no transactions with a single external customer account for 10% or more of the Kao Group's net sales.

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Major products by reportable segment are as follows:

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-based 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, Fragrance	
	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	

(2) Sales and results of reportable segments

Fiscal year ended December 31, 2022	Reportable Segments							(Millions of yen)	
	Consumer Products Business					Chemical Business	Total	Reconciliations 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	<u>516,548</u>	<u>369,549</u>	<u>55,734</u>	<u>251,472</u>	<u>1,193,303</u>	<u>402,501</u>	<u>1,595,804</u>	<u>(44,745)</u>	<u>1,551,059</u>
Operating income (loss)	<u>30,674</u>	<u>34,596</u>	<u>(15)</u>	<u>14,086</u>	<u>79,341</u>	<u>29,516</u>	<u>108,857</u>	<u>1,214</u>	<u>110,071</u>
% of net sales	5.9	9.4	-	5.6	6.6	7.3	-	-	7.1
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									<u>115,848</u>
Depreciation and amortization	35,106	18,800	3,406	14,469	71,781	16,918	88,699	1,039	89,738
Impairment loss	-	-	-	34	34	-	34	-	34
Capital expenditure ³	40,011	22,425	2,356	12,370	77,162	17,022	94,184	383	94,567

Notes:

- 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.
- Intersegment sales and transfers are mainly calculated based on market price and manufacturing cost.
- Capital expenditures include investments in property, plant and equipment, right-of-use assets and intangible assets.

Fiscal year ended December 31, 2021	Reportable Segments							(Millions of yen)	
	Consumer Products Business					Chemical Business	Total	Reconciliations 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	<u>496,845</u>	<u>354,488</u>	<u>53,032</u>	<u>239,335</u>	<u>1,143,700</u>	<u>314,293</u>	<u>1,457,993</u>	<u>(39,225)</u>	<u>1,418,768</u>
Operating income (loss)	<u>51,762</u>	<u>49,684</u>	<u>3,614</u>	<u>7,492</u>	<u>112,552</u>	<u>29,627</u>	<u>142,179</u>	<u>1,331</u>	<u>143,510</u>
% of net sales	10.4	14.0	6.8	3.1	9.8	9.4	-	-	10.1
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									<u>150,002</u>
Depreciation and amortization	35,240	17,605	2,941	14,836	70,622	15,664	86,286	1,055	87,341
Impairment loss	4,533	-	-	20	4,553	-	4,553	-	4,553
Capital expenditure ³	39,115	19,917	3,843	10,529	73,404	13,867	87,271	495	87,766

Notes:

- 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.
- Intersegment sales and transfers are mainly calculated based on market price and manufacturing cost.
- Capital expenditures include investments in property, plant and equipment, right-of-use assets and intangible assets.

(3) Geographical Information

The breakdown of sales to customers and non-current assets (excluding financial assets, deferred tax assets and retirement benefit assets) by geographic area is as follows:

(Millions of yen)

Sales to customers	Fiscal year ended December 31, 2022	Fiscal year ended December 31, 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 based on the location of customers.

Non-current assets (excluding financial assets, deferred tax assets and retirement benefit assets)	Fiscal year ended December 31, 2022	Fiscal year ended December 31, 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

2. Selling, General and Administrative Expenses

The breakdown of selling, general and administrative expenses is as follows:

(Millions of yen)

	Fiscal year ended December 31, 2022	Fiscal year ended December 31, 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

3. Earnings per Share

(1) The basis for calculating basic earnings per share

(Millions of yen)

	Fiscal year ended December 31, 2022	Fiscal year ended December 31, 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	<u>86,038</u>	<u>109,636</u>
		(Thousands of shares)
Weighted average number of ordinary shares	469,442	475,466
		(Yen)
Basic earnings per share	183.28	230.59

(2) The basis for calculating diluted earnings per share

(Millions of yen)

	Fiscal year ended December 31, 2022	Fiscal year ended December 31, 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	<u>86,038</u>	<u>109,636</u>
		(Thousands of shares)
Weighted average number of ordinary shares	469,442	475,466
Increase in ordinary shares		
Subscription rights to shares	17	34
Weighted average number of ordinary shares after dilution	<u>469,459</u>	<u>475,500</u>
		(Yen)
Diluted earnings per share	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	-	-

4. Significant Subsequent Events

None applicable.

Note regarding Assumption of Going Concern

None applicable.