



# Consolidated Financial Results for the Fiscal Year Ended December 31, 2023 [IFRS]

February 7, 2024

Company name: Kao Corporation Tokyo Stock Exchange in Japan  
 Stock code: 4452 (URL: [www.kao.com/global/en/investor-relations/library/results/](http://www.kao.com/global/en/investor-relations/library/results/))  
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 Scheduled date of the Annual General Meeting of Shareholders: March 22, 2024  
 Scheduled starting date of the dividend payments: March 25, 2024  
 Scheduled date to file annual securities report: March 22, 2024  
 Supplementary documents of the financial results: Yes  
 Financial results information meeting: Yes (for institutional investors and analysts)

(Amounts less than one million yen are rounded)

## 1. Consolidated financial results for the fiscal year ended December 31, 2023 (from January 1, 2023 to December 31, 2023)

### (1) Consolidated operating results

(Percentages indicate year-on-year changes)

	Net sales		Operating income		Income before income taxes		Net income	
	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%
Fiscal year ended								
December 31, 2023	1,532,579	(1.2)	60,035	(45.5)	63,842	(44.9)	46,157	(47.4)
December 31, 2022	1,551,059	9.3	110,071	(23.3)	115,848	(22.8)	87,742	(21.2)

	Net income attributable to owners of the parent		Comprehensive income		Basic earnings per share	Diluted earnings per share
	Millions of yen	%	Millions of yen	%	Yen	Yen
Fiscal year ended						
December 31, 2023	43,870	(49.0)	84,471	(34.2)	94.37	94.37
December 31, 2022	86,038	(21.5)	128,298	(22.3)	183.28	183.27

	Ratio of net income to equity attributable to owners of the parent	Ratio of income before income taxes to total assets	Ratio of operating income to net sales
	%	%	%
Fiscal year ended			
December 31, 2023	4.5	3.7	3.9
December 31, 2022	8.9	6.8	7.1

(Reference) Share of profit in investments accounted for using the equity method  
 For the fiscal year ended December 31, 2023 : 2,387 million yen  
 For the fiscal year ended December 31, 2022 : 2,545 million yen

Note: Core income excluding impacts of structural reform for the fiscal year ended December 31, 2023

	Millions of yen	%
Core operating income	114,706	4.2
Core income before income taxes	118,513	2.3
Core net income	88,262	0.6
Core net income attributable to owners of the parent	85,975	(0.1)
Basic core earnings per share (Yen)	184.95	

## (2) Consolidated financial position

	Total assets	Total equity	Equity attributable to owners of the parent	Ratio of equity attributable to owners of the parent to total assets	Equity attributable to owners of the parent per share
As of	Millions of yen	Millions of yen	Millions of yen	%	Yen
December 31, 2023	1,769,746	1,012,043	983,658	55.6	2,116.01
December 31, 2022	1,726,350	995,384	972,061	56.3	2,091.20

## (3) Consolidated cash flows

	Net cash flows from operating activities	Net cash flows from investing activities	Net cash flows from financing activities	Cash and cash equivalents at the end of the year
Fiscal year ended	Millions of yen	Millions of yen	Millions of yen	Millions of yen
December 31, 2023	202,481	(109,302)	(79,983)	291,663
December 31, 2022	130,905	(74,911)	(139,311)	268,248

## 2. Dividends

	Annual cash dividends per share					Total dividend payment amount	Payout ratio (Consolidated)	Ratio of dividends to equity attributable to owners of the parent (Consolidated)
	1st quarter -end	2nd quarter -end	3rd quarter -end	Fiscal year-end	Total			
	Yen	Yen	Yen	Yen	Yen	Millions of yen	%	%
Fiscal year ended December 31, 2022	—	74.00	—	74.00	148.00	69,287	80.8	7.2
Fiscal year ended December 31, 2023	—	75.00	—	75.00	150.00	69,872	158.9	7.1
Fiscal year ending December 31, 2024 (Forecast)	—	76.00	—	76.00	152.00		72.1	

## 3. Forecast of consolidated operating results for the fiscal year ending December 31, 2024 (from January 1, 2024 to December 31, 2024)

(Percentages indicate year-on-year changes)

	Net Sales		Operating income		Income before income taxes		Net income attributable to owners of the parent		Basic earnings per share
	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%	Yen
Fiscal year ending December 31, 2024	1,580,000	3.1	130,000	116.5	131,000	105.2	98,000	123.4	210.81

## 4. Others

(1) Changes in significant subsidiaries during the period (changes in specified subsidiaries resulting in change in scope of consolidation): None

Newly included: — companies (Company name) —

Excluded: — companies (Company name) —

(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)

1) Number of issued shares including treasury shares

As of December 31, 2023	465,900,000 shares
As of December 31, 2022	465,900,000 shares

2) Number of treasury shares

As of December 31, 2023	1,034,724 shares
As of December 31, 2022	1,065,960 shares

3) Weighted average number of shares outstanding during the year

Fiscal year ended December 31, 2023	464,853,547 shares
Fiscal year ended December 31, 2022	469,441,691 shares

**(Reference) Overview of non-consolidated financial results****1.Non-consolidated financial results for the fiscal year ended December 31, 2023  
(from January 1, 2023 to December 31, 2023)****(1) Non-consolidated operating results**

(Percentages indicate year-on-year changes)

Fiscal year ended	Net sales		Operating income		Ordinary income		Net income	
	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%
December 31, 2023	868,067	(0.4)	29,787	(53.4)	47,563	(52.1)	28,004	(64.6)
December 31, 2022	871,749	(0.1)	63,899	(35.3)	99,240	(26.8)	79,136	(22.1)

  

Fiscal year ended	Basic earnings per share	Diluted earnings per share
	yen	yen
December 31, 2023	60.17	60.17
December 31, 2022	168.37	168.36

**(2) Non-consolidated financial position**

As of	Total assets	Net assets	Equity-to-asset ratio	Net assets per share
	Millions of yen	Millions of yen	%	yen
December 31, 2023	1,239,775	706,951	57.0	1,518.89
December 31, 2022	1,210,102	747,868	61.8	1,606.78

(Reference) Equity

As of December 31, 2023: 706,951 million yen

As of December 31, 2022: 747,812 million yen

Note: Financial figures in the non-consolidated financial results are based on Japanese GAAP.

&lt;Reasons for differences in individual financial results compared to the actual results for the previous year&gt;

There is a difference between the actual results for the previous fiscal year and the actual results for the current fiscal year due to the recording of impacts of structural reform, a review of sales commissions to subsidiaries, and other factors in the current fiscal year.

**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**

(Caution regarding forward-looking statements, etc.)

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 2 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.

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## 1. Summary of Operating Results and Financial Position

### (1) Summary of Operating Results

*Note: Changes and comparisons are all with the previous year unless otherwise noted. Like-for-like growth rates below exclude the effect of translation of local currencies into Japanese yen. Growth by volume includes changes due to differences in product mix.*

As announced in the news release dated August 3, 2023 entitled "Notice of Revision of Operating Results Forecast," Kao Corporation has conducted structural reforms. To provide information that is useful for evaluating business performance and making forecasts, the Kao Group presents income excluding one-time gains and losses due to non-recurring factors (such as gains and losses arising from business withdrawal or downsizing, or sale or disposal of assets) as "core income," and sales excluding the impact of provision for product returns due to cosmetics brand consolidation, which are applicable as deductions, as "core net sales." In the following table, the lower line of figures and growth rates for operating income and for each of the subsequent categories has been calculated based on core income.

#### Operating Results for the Fiscal Year Ended December 31, 2023

##### 1) Trends in Overall Results for the Fiscal Year Ended December 31, 2023

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

	2023	2022	Growth
Net sales	<b>1,532.6</b>	1,551.1	(1.2%) Like-for-like: (3.8%)
Operating income	<b>60.0</b> <b>114.7</b>	110.1	(45.5%) 4.2%
Operating margin (%)	<b>3.9</b> <b>7.5</b>	7.1	-
Income before income taxes	<b>63.8</b> <b>118.5</b>	115.8	(44.9%) 2.3%
Net income	<b>46.2</b> <b>88.3</b>	87.7	(47.4%) 0.6%
Net income attributable to owners of the parent	<b>43.9</b> <b>86.0</b>	86.0	(49.0%) (0.1%)
Basic earnings per share (Yen)	<b>94.37</b> <b>184.95</b>	183.28	(48.5%) 0.9%

In fiscal 2023, the novel coronavirus (COVID-19), which has had various impacts around the world, subsided and daily life returned to normal. However, conditions in the business environment remained unclear as a result of factors including a slowdown in the Chinese market, which had been growing, geopolitical risks in Europe and the Middle East, and rising costs due to inflation.

According to retail sales and consumer purchasing survey data, the Kao Group's key market of consumer products in Japan, consisting of household and personal care products and cosmetics, grew compared with the previous fiscal year.

Amid these circumstances, the Kao Group worked hard to address changes in people's lifestyles, consumption and the structure of sales channels, as well as rising raw material prices around the world and other issues. Net sales decreased 1.2% compared with the previous fiscal year to 1,532.6 billion yen. Currency translation accounted for a 2.6% increase and net sales decreased 3.8% on a like-for-like basis (breakdown of the decrease: 3.6% decrease by volume, 0.1% decrease by price). Core net sales decreased 0.7% to 1,540.9 billion yen. On a like-for-like basis, core net sales decreased 3.2%. Operating income was 60.0 billion yen, a decrease of 50.0 billion yen compared with the previous fiscal year, due to recording 54.7 billion yen in structural reform expenses, and the operating margin was 3.9%. Core operating income increased 4.6 billion yen to 114.7 billion yen. Income before income taxes was 63.8

billion yen, a decrease of 52.0 billion yen, and net income was 46.2 billion yen, a decrease of 41.6 billion yen.

Basic earnings per share were 94.37 yen, a decrease of 88.91 yen, or 48.5%, from 183.28 yen in the previous fiscal year. Core net income per share was 184.95 yen, an increase of 1.67 yen, or 0.9%, from 183.28 yen in the previous fiscal year.

Return on invested capital (ROIC), which the Kao Group uses as a management metric, was 4.1% and Economic Value Added (EVA\*) increased 0.3 billion yen compared with the previous fiscal year to 14.9 billion yen due to an increase in capital cost as net operating profit after tax (NOPAT) increased.

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

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 Jan. – Mar.	Second quarter Apr. – Jun.	Third quarter Jul. – Sep.	Fourth quarter Oct. – Dec.
U.S. dollar	132.29 (116.30)	137.30 (129.69)	144.49 (138.27)	147.84 (141.47)
Euro	141.98 (130.45)	149.50 (138.14)	157.23 (139.25)	159.01 (144.22)
Chinese yuan	19.33 (18.32)	19.58 (19.63)	19.94 (20.20)	20.45 (19.88)

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

## 2) Trends by Segment during the Fiscal Year

### Summary of Segment Information

#### Consolidated Results by Segment

Fiscal year ended December 31

	Net sales				Operating income (upper) Core operating income (lower)					
	2022 (Billions of yen)	2023 (Billions of yen)	Growth (%)	Like-for- like (%)	2022		2023		Change (Billions of yen)	
					(Billions of yen)	Operating margin (%)	(Billions of yen)	Operating margin (%)		
Fabric and Home Care Products	342.1	349.1	2.1	1.3	40.0	11.7	50.7 51.0	14.5 14.6	10.6 10.9	
Sanitary Products	174.5	173.4	(0.6)	(2.6)	(9.4)	(5.4)	(30.6) (9.1)	(17.6) (5.2)	(21.2) 0.3	
Hygiene and Living Care Business	516.5	522.5	1.2	0.0	30.7	5.9	20.1 41.9	3.9 8.0	(10.5) 11.2	
Health and Beauty Care Business	369.5	392.9	6.3	3.1	34.6	9.4	40.5 42.8	10.3 10.9	5.9 8.2	
Life Care Business	55.7	56.3	1.0	(0.6)	(0.0)	(0.0)	(5.3) (1.3)	(9.4) (2.3)	(5.3) (1.3)	
Cosmetics Business	251.5	238.6	(5.1)	(6.7)	14.1	5.6	(5.4) 5.3	(2.3) 2.2	(19.5) (8.8)	
Consumer Products Business	1,193.3	1,210.3	1.4	(0.5)	79.3	6.6	49.9 88.7	4.1 7.3	(29.4) 9.4	
Chemical Business	402.5	366.1	(9.0)	(13.4)	29.5	7.3	23.6 24.8	6.4 6.8	(6.0) (4.8)	
Total	1,595.8	1,576.4	(1.2)	(3.7)	108.9	-	73.5 113.5	-	(35.4) 4.6	
Elimination and Reconciliation	(44.7)	(43.9)	-	-	1.2	-	(13.4) 1.2	-	* (14.6) 0.0	
Consolidated	1,551.1	1,532.6	(1.2)	(3.8)	110.1	7.1	60.0 114.7	3.9 7.5	(50.0) 4.6	

\* Corporate structural reform expenses

**Consolidated Net Sales Composition**

Fiscal year ended December 31		Japan	Asia	Americas	Europe	Consolidated
Fabric and Home Care Products	2022	292.9	45.5	3.7	-	342.1
	2023	300.3	45.1	3.8	-	349.1
	Growth (%)	2.5	(0.9)	3.4	-	2.1
	Like-for-like (%)	2.5	(6.2)	0.9	-	1.3
Sanitary Products	2022	77.4	97.0	0.1	-	174.5
	2023	80.4	92.9	0.1	-	173.4
	Growth (%)	3.9	(4.2)	(22.2)	-	(0.6)
	Like-for-like (%)	3.9	(7.7)	(23.9)	-	(2.6)
Hygiene and Living Care Business	2022	370.3	142.5	3.7	-	516.5
	2023	380.7	138.0	3.8	-	522.5
	Growth (%)	2.8	(3.2)	2.9	-	1.2
	Like-for-like (%)	2.8	(7.2)	0.4	-	0.0
Health and Beauty Care Business	2022	200.2	33.9	90.6	44.9	369.5
	2023	205.3	34.5	101.2	51.9	392.9
	Growth (%)	2.5	2.0	11.6	15.7	6.3
	Like-for-like (%)	2.5	(2.3)	4.9	5.9	3.1
Life Care Business	2022	43.7	0.0	11.8	0.2	55.7
	2023	42.1	0.1	13.9	0.1	56.3
	Growth (%)	(3.7)	67.7	18.2	(11.3)	1.0
	Like-for-like (%)	(3.7)	64.4	11.0	(18.0)	(0.6)
Cosmetics Business	2022	160.7	59.6	6.8	24.4	251.5
	2023	153.5	50.0	7.7	27.4	238.6
	Growth (%)	(4.5)	(16.0)	12.9	12.2	(5.1)
	Like-for-like (%)	(4.5)	(17.9)	5.9	2.5	(6.7)
Consumer Products Business	2022	775.0	236.0	112.9	69.4	1,193.3
	2023	781.7	222.6	126.6	79.4	1,210.3
	Growth (%)	0.9	(5.6)	12.1	14.4	1.4
	Like-for-like (%)	0.9	(9.2)	5.4	4.7	(0.5)
Chemical Business	2022	140.1	98.2	70.5	93.7	402.5
	2023	133.9	86.7	61.1	84.4	366.1
	Growth (%)	(4.5)	(11.7)	(13.3)	(9.9)	(9.0)
	Like-for-like (%)	(4.5)	(15.8)	(21.7)	(18.1)	(13.4)
Elimination of intersegment	2022	(38.5)	(3.9)	(0.2)	(2.1)	(44.7)
	2023	(38.8)	(3.2)	(0.1)	(1.9)	(43.9)
Consolidated	2022	876.6	330.2	183.3	161.0	1,551.1
	2023	876.8	306.2	187.7	162.0	1,532.6
	Growth (%)	0.0	(7.3)	2.4	0.6	(1.2)
	Like-for-like (%)	0.0	(11.0)	(5.0)	(8.3)	(3.8)

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.

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**Analysis of Change in Net Sales Compared with the Previous Fiscal Year**

	Change (%)	Currency Translation (%)	Like-for-Like (%)		
				By Volume (%)	By Price (%)
Fabric and Home Care Products	2.1	0.7	1.3	(4.0)	5.3
Sanitary Products	(0.6)	2.0	(2.6)	(7.1)	4.5
Hygiene and Living Care Business	1.2	1.1	0.0	(5.0)	5.0
Health and Beauty Care Business	6.3	3.2	3.1	1.1	2.0
Life Care Business	1.0	1.5	(0.6)	(3.2)	2.6
Cosmetics Business	(5.1)	1.6	(6.7)	(7.3)	0.6
Consumer Products Business	1.4	1.9	(0.5)	(3.5)	3.0
Chemical Business	(9.0)	4.4	(13.4)	(3.8)	(9.6)
Total	(1.2)	2.6	(3.8)	(3.6)	(0.1)

*Note: Chemical Business sales include intersegment transactions.*

Net sales to foreign customers were 44.3% of net sales compared with 45.4% for the previous fiscal year.

**Consumer Products Business**

Sales increased 1.4% compared with the previous fiscal year to 1,210.3 billion yen. Currency translation accounted for a 1.9% increase and sales decreased 0.5% on a like-for-like basis (breakdown of the decrease: 3.5% decrease by volume, 3.0% increase by price). Core net sales increased 2.1% to 1,218.7 billion yen. On a like-for-like basis, core net sales increased 0.2%.

Global market demand was on a recovery track as the COVID-19 pandemic subsided, but the market in China, which had been driving growth, slowed due to worsening business sentiment and the impact of local reaction to Japan's discharge into the ocean of water treated using the Advanced Liquid Processing System (ALPS) from the Fukushima Daiichi Nuclear Power Station. Under these circumstances, the Kao Group increased profitability by offering high-value-added products and working to strengthen brand loyalty, in addition to continuing to implement strategic price increases in response to rising raw material prices.

As a result, sales in Japan increased 0.9% to 781.7 billion yen. Core net sales increased 1.9% to 790.0 billion yen.

In Asia, sales decreased 5.6% to 222.6 billion yen. On a like-for-like basis, sales decreased 9.2%. In the Americas, sales increased 12.1% to 126.6 billion yen. On a like-for-like basis, sales increased 5.4%. In Europe, sales increased 14.4% to 79.4 billion yen. On a like-for-like basis, sales increased 4.7%.

Operating income was 49.9 billion yen, a decrease of 29.4 billion yen compared with the previous fiscal year, due to the impact of recording 38.8 billion yen in structural reform expenses, including impairment loss, among other factors. Core operating income was 88.7 billion yen, an increase of 9.4 billion yen, as a result of strategic price increases implemented to offset rising raw material prices, 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 1.2% compared with the previous fiscal year to 522.5 billion yen. Currency translation accounted for a 1.1% increase and sales increased 0.0% on a like-for-like basis (breakdown of the increase: 5.0% decrease by volume, 5.0% increase by price).

Sales of fabric and home care products increased 2.1% to 349.1 billion yen. Currency translation accounted for a 0.7% increase and sales increased 1.3% on a like-for-like basis (breakdown of the increase: 4.0% decrease by volume, 5.3% increase by price).

Market share of fabric care products in Japan grew as the implementation of strategic price increases and the launch of new and improved products for laundry detergents contributed to an increase in sales that exceeded market growth. In addition, *Wide Haiter* laundry bleach, which the Kao Group improved and implemented a price increase for in the second half of the fiscal year, sold strongly, and fabric softeners were on a recovery track.

Sales of home care products were basically unchanged. In Japan, sales and market share grew due to factors including an improvement for *CuCute* dishwashing detergent, and good performance by a new *Toilet Magiclean* product that offers a new way to clean toilets.

Core operating income for fabric and home care products increased 10.9 billion yen to 51.0 billion yen. Sales of sanitary products decreased 0.6% to 173.4 billion yen. Currency translation accounted for a 2.0% increase and sales decreased 2.6% on a like-for-like basis (breakdown of the decrease: 7.1% decrease by volume, 4.5% increase by price).

For *Laurier* sanitary napkins, sales and market share increased in Japan as the Kao Group increased brand power by using communication that resonated with consumers to raise the number of loyal users, among other factors. In China, sales were affected by restraints on sales promotion activities due to local reaction to Japan's discharge into the ocean of ALPS-treated water from the Fukushima Daiichi Nuclear Power Station. Sales of *Merries* baby diapers decreased. In Japan, the Kao Group conducted strategic price increases, but cross-border e-commerce targeting China faced tough conditions and sales decreased. In China, sales decreased due to market shrinkage and a severe competitive environment. In Indonesia, sales were strong.

In addition, on December 11, 2023, the Kao Group entered into an agreement to transfer the *Nyan Tomo Clean Toilet* cat litter box system business to S.T. CORPORATION.

Core operating income for sanitary products was negative 9.1 billion yen, an increase of 0.3 billion yen.

Operating income for the Hygiene and Living Care Business was 20.1 billion yen, a decrease of 10.5 billion yen from the previous fiscal year due to recording 21.8 billion yen in structural reform expenses, including impairment losses in the baby diaper business and elsewhere. Core operating income was 41.9 billion yen, an increase of 11.2 billion yen, as the Kao Group improved profitability in fabric and home care products by aggressively implementing strategic price increases in response to rising raw material prices.

**Health and Beauty Care Business**

Sales increased 6.3% compared with the previous fiscal year to 392.9 billion yen. Currency translation accounted for a 3.2% increase and sales increased 3.1% on a like-for-like basis (breakdown of the increase: 1.1% increase by volume, 2.0% increase by price).

Sales of skin care products increased. In Japan, in addition to a return to mobility among the populace, due to a heat wave sales and market share both grew with the contribution of UV care products, other seasonal products and a new makeup remover in the *Bioré* brand. Sales in the Americas increased.

In November 2023, the Kao Group completed its acquisition of Bondi Sands Australia Pty Ltd, which owns the *Bondi Sands* premium skin care brand, and made it a consolidated subsidiary.

Sales of hair care products increased. Amid severe market competition, sales and market share in Japan both grew due to the steady performance of new and improved *Essential* brand products and the contribution from the launch of a new product in the *Cape* hair spray brand in November. Sales in Europe increased. In products for hair salons, sales of the *ORIBE* brand for high-end hair salons in the United States were strong, primarily through e-commerce.

Sales of personal health products were basically unchanged. In Japan, sales of *MegRhythm* thermo products grew due to new marketing measures, but sales of bath additives were impacted by the shrinking market.

Operating income increased 5.9 billion yen compared with the previous fiscal year to 40.5 billion yen as the Kao Group recorded 2.3 billion yen in structural reform expenses. Core operating income increased 8.2 billion yen to 42.8 billion yen.

**Life Care Business**

Sales increased 1.0% compared with the previous fiscal year to 56.3 billion yen. Currency translation accounted for a 1.5% increase and sales decreased 0.6% on a like-for-like basis (breakdown of the decrease: 3.2% decrease by volume, 2.6% increase by price).

Sales of commercial-use hygiene products increased. In Japan, demand rose for kitchen cleaning agents and guest room amenities from the food service industry and lodging facilities and other establishments, but sales were basically unchanged due to the shrinkage of the market for sanitizers. 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, sales decreased for *Healthya* products, which are foods for specified health uses.

Operating income was negative 5.3 billion yen, a decrease of 5.3 billion yen compared with the previous fiscal year, due to recording 4.0 billion yen for a write-down on raw materials and other expenses for structural reforms. Core operating income was negative 1.3 billion yen, a decrease of 1.3 billion yen.

**Cosmetics Business**

Sales decreased 5.1% compared with the previous fiscal year to 238.6 billion yen. Currency translation accounted for a 1.6% increase and sales decreased 6.7% on a like-for-like basis (breakdown of the decrease: 7.3% decrease by volume, 0.6% increase by price). Core net sales decreased 1.8% to 246.9 billion yen. On a like-for-like basis, core net sales decreased 3.4%.

Sales decreased in Japan due to the impact of factors including the recording of structural reform-related product returns and restraints on travel retail proxy purchasing in South Korea. Core net sales increased as sales of the Kao Group's "G11" global strategy brands, including the *KANEBO* prestige skin care and makeup and *KATE* makeup brands, remained strong. Sales decreased substantially in China due to key opinion leaders voluntarily refraining from activities, restraints on sales promotion activities and other factors due to local reaction to Japan's discharge into the ocean of ALPS-treated water from the Fukushima Daiichi Nuclear Power Station. In a weak market in Europe, sales increased due to steady performance by new products from *Molton Brown* and a successful renewal of promotions for new and existing products from the *SENSAI* brand.

Operating income decreased 19.5 billion yen compared with the previous fiscal year to negative 5.4 billion yen due to recording 10.7 billion yen for a provision for product returns, disposal of raw materials and other expenses for structural reforms. Core operating income was 5.3 billion yen, a decrease of 8.8 billion yen.

### Chemical Business

Sales decreased 9.0% compared with the previous fiscal year to 366.1 billion yen. Currency translation accounted for a 4.4% increase and sales decreased 13.4% on a like-for-like basis (breakdown of the decrease: 3.8% decrease by volume, 9.6% decrease by price).

Sales of oleo chemicals decreased due to the impact of selling price adjustments in line with falling prices of natural fats and oils, and prolonged inventory adjustments by customers outside Japan.

Sales of performance chemicals decreased as some sectors were impacted by a slump in demand, despite the contribution from selling price adjustments in response to increased costs.

Sales of information materials decreased due to a continuing slump in demand in the hard disk and semiconductor-related sectors.

Operating income decreased 6.0 billion yen compared with the previous fiscal year to 23.6 billion yen, due to the impact of a decline in demand associated with delayed economic recovery and narrowing profit margins for oleo chemicals, in addition to recording 1.2 billion yen in structural reform expenses. Core operating income decreased 4.8 billion yen to 24.8 billion yen.

### **Forecast for the Fiscal Year Ending December 31, 2024**

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

	2024	2023	Growth
Net sales	1,580.0	1,532.6	3.1%
			Like-for-like: 3.6%
Operating income	130.0	60.0	116.5%
Operating margin (%)	8.2	3.9	-
Income before income taxes	131.0	63.8	105.2%
Net income attributable to owners of the parent	98.0	43.9	123.4%
Basic earnings per share (Yen)	210.81	94.37	123.4%

*\*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, 2024

Although the COVID-19 pandemic has subsided around the world, the business environment is forecast to remain severe and the outlook unclear due to factors such as rising geopolitical risks and further slowdown in China's economy.

On August 3, 2023, the Kao Group revised its Mid-term Plan 2025 ("K25") and announced its Mid-term Plan 2027 ("K27"). The Kao Group is introducing return on invested capital (ROIC) as a metric throughout the Group and decisively conducting structural reforms, and will promote its new "Global Sharp Top Strategy" to contribute as the global No. 1 with leading-edge solutions that address the critical needs of customers.

In light of these circumstances, the Kao Group forecasts the following business results for the fiscal year ending December 31, 2024.

The Kao Group forecasts a 3.1% year-on-year increase in net sales to 1,580.0 billion yen (a 3.6% increase on a like-for-like basis), a 116.5% increase in operating income to 130.0 billion yen, an operating margin of 8.2%, a 105.2% increase in income before income taxes to 131.0 billion yen, a 123.4% increase in net income attributable to owners of the parent to 98.0 billion yen, and a 123.4% increase in basic earnings per share to 210.81 yen.

The Kao Group aims to substantially improve ROIC from the 4.1% it achieved in fiscal 2023 to 8.6%, and will increase Economic Value Added (EVA) from the 14.9 billion yen it achieved in fiscal 2023 to 24.0 billion yen 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, 2024

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 work to enhance brand power by offering high-value-added products to increase customer loyalty, thus establishing a stable global profit structure.

As a result of the above measures, the Kao Group forecasts that sales in this business will decrease 0.7% year on year on a like-for-like basis to 516.0 billion yen.

The **Health and Beauty Care Business** provides skin care, hair care and personal health products offering value unique to Kao with a comprehensive understanding of the entire human body, under the theme of contributing to health, beauty, cleanliness and hygiene. Viewing people's growing health consciousness and rising interest in the resolution of social issues as business opportunities, this business will bring to the market new offerings that revitalize people and society. The business will work to increase sales by promoting digital transformation (DX) in product development, manufacturing and marketing with an eye toward a global rollout.

As a result of the above measures, the Kao Group forecasts that sales in this business will increase 8.1% year on year on a like-for-like basis to 422.0 billion yen.

The **Life Care Business** supports people's health through a commercial-use hygiene products business that contributes to people's safety by offering solutions meeting professional hygiene needs at commercial and public facilities. In Japan, it will step up 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 the new hygiene solutions service business. In the United States, the business aims to increase its market share and improve profitability. On February 1, 2024, Kao Corporation entered into an agreement to transfer the tea-catechin beverage brand *Healthya* to Kirin Beverage Company, Limited.

As a result of the above measures, the Kao Group forecasts that sales in this business will increase 0.8% year on year on a like-for-like basis to 57.0 billion yen.

The **Cosmetics Business** will continue to build strong brands that provide "hope" and "Kirei"\* to customers through solid science and abundant sensitivity attuned to each person's beauty and individuality. The business is making proactive lifestyle offerings for the post-COVID era and transforming into a customer retention business model that creates bonds with customers through the promotion of DX globally. In addition, the business aims to transition to a more robust framework in Asia and Europe by working to increase the number of loyal customers through purpose-driven branding as it improves profits through structural reforms.

*\* 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 7.1% year on year on a like-for-like basis to 254.0 billion yen.

The **Chemical Business** will strive to generate social impact by resolving various issues with the aim of 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.

As a result of the above measures, the Kao Group forecasts that sales in this business will increase 2.6% year on year on a like-for-like basis to 375.0 billion yen.

### **3) Underlying Assumptions of the Forecast for the Fiscal Year Ending December 31, 2024**

The above forecast was made assuming translation rates of one U.S. dollar to 140 yen, one euro to 155 yen and one Chinese yuan to 20 yen.

Please note that 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, 2023****Consolidated Financial Position**

	(Billions of yen, except per share amounts)		
	December 31, 2022	December 31, 2023	Incr./ (Dcr.)
Total assets	1,726.4	1,769.7	43.4
Total liabilities	731.0	757.7	26.7
Total equity	995.4	1,012.0	16.7
Ratio of equity attributable to owners of the parent to total assets	56.3%	55.6%	-
Equity attributable to owners of the parent per share (Yen)	2,091.20	2,116.01	24.81
Bonds and borrowings	127.8	138.5	10.6

**Consolidated Cash Flows**

	(Billions of yen)		
	2022	2023	Incr./ (Dcr.)
Net cash flows from operating activities	130.9	202.5	71.6
Net cash flows from investing activities	(74.9)	(109.3)	(34.4)
Free cash flows	56.0	93.2	37.2
Net cash flows from financing activities	(139.3)	(80.0)	59.3

Total assets increased 43.4 billion yen from December 31, 2022 to 1,769.7 billion yen. The principal increases in assets were a 27.0 billion yen increase in goodwill, a 23.4 billion yen increase in cash and cash equivalents and a 21.6 billion yen increase in intangible assets. The principal decreases in assets were an 18.8 billion yen decrease in property, plant and equipment and a 14.6 billion yen decrease in inventories.

Total liabilities increased 26.7 billion yen from December 31, 2022 to 757.7 billion yen. The principal increases in liabilities were a 12.8 billion yen increase in contract liabilities, a 12.7 billion yen increase in provisions and a 10.6 billion yen increase in bonds and borrowings. The principal decrease in liabilities was a 12.5 billion yen decrease in lease liabilities.

Total equity increased 16.7 billion yen from December 31, 2022 to 1,012.0 billion yen. The principal increases in equity were net income totaling 46.2 billion yen and exchange differences on translation of foreign operations totaling 40.2 billion yen. The principal decrease in equity was dividends totaling 70.2 billion yen.

The ratio of equity attributable to owners of the parent to total assets was 55.6% compared with 56.3% at December 31, 2022. Return on equity was 4.5%.

Net cash flows from operating activities totaled 202.5 billion yen. The principal increases in net cash were depreciation and amortization of 89.6 billion yen, income before income taxes of 63.8 billion yen, decrease in inventories of 29.4 billion yen, impairment losses of 21.7 billion yen, a decrease in trade and other receivables of 20.5 billion yen and a 12.5 billion yen decrease in provisions. The principal decreases in net cash were income taxes paid of 24.6 billion yen and an increase in trade and other payables of

19.4 billion yen.

Net cash flows from investing activities totaled negative 109.3 billion yen. This primarily consisted of purchase of property, plant and equipment of 54.2 billion yen, payments for business combinations of 40.8 billion yen and purchase of intangible assets totaling 12.3 billion yen.

Free cash flow, which is the total of net cash flows from operating activities and net cash flows from investing activities, was 93.2 billion yen.

Net cash flows from financing activities totaled negative 80.0 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 and ROIC. During fiscal 2023, this primarily consisted of 70.3 billion yen for dividends paid to owners of the parent and non-controlling interests and 21.4 billion yen in repayments of lease liabilities. In March 2023, the Company repaid 40.0 billion yen in borrowings and borrowed the same amount to maintain an appropriate cost of capital ratio and strengthen its financial base for investments in growth. For 20.0 billion yen of these borrowings, the Company is using sustainability-linked loans with interest rates that fluctuate depending on the achievement of sustainability performance targets (SPTs). In addition, the Company issued and redeemed corporate bonds, consisting of 24.9 billion yen in proceeds from the issuance of bonds and 25.0 billion yen for redemption of bonds. The corporate bonds the Company has issued are sustainability-linked bonds with interest rates that fluctuate depending on the achievement of SPTs.

The balance of cash and cash equivalents at December 31, 2023 increased 23.4 billion yen compared with December 31, 2022 to 291.7 billion yen, including the effect of exchange rate changes.

Of the 54.7 billion yen impact on operating income related to structural reforms, 2.5 billion yen was spent in fiscal 2023, and 13.5 billion yen is expected to be spent in fiscal 2024 or thereafter.

## **2) Forecast of Assets, Liabilities, Equity and Cash Flows for the Fiscal Year Ending December 31, 2024**

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 90.0 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, 2024 is forecast to be approximately 300.0 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, 2023 and Ending December 31, 2024**

The Kao Group uses Economic Value Added (EVA) and return on invested capital (ROIC) as its principal management metrics and clearly determines 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 2023 of 75.00 yen per share, an increase of 1 yen per share compared with the previous fiscal year. Consequently, annual cash dividends will increase 2 yen per share compared with the previous fiscal year, resulting in a total of 150 yen per share. The consolidated payout ratio will be 158.9%.

For fiscal 2024, the Company plans to pay total cash dividends of 152 yen per share (72.1% 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 35th 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 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 facilitates the international comparability of its financial statements in capital markets.

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## 3. Consolidated Financial Statements and Notes

## (1) Consolidated Statement of Financial Position

Kao Corporation and Consolidated Subsidiaries

As of December 31, 2023

	2022	2023	(Millions of yen) Change
<b>Assets</b>			
<b>Current assets</b>			
Cash and cash equivalents	268,248	291,663	23,415
Trade and other receivables	230,604	225,934	(4,670)
Inventories	278,382	263,815	(14,567)
Other financial assets	3,605	6,596	2,991
Income tax receivables	4,171	5,186	1,015
Other current assets	22,196	23,915	1,719
<b>Total current assets</b>	<u>807,206</u>	<u>817,109</u>	<u>9,903</u>
<b>Non-current assets</b>			
Property, plant and equipment	439,325	420,563	(18,762)
Right-of-use assets	138,629	126,252	(12,377)
Goodwill	191,860	218,886	27,026
Intangible assets	60,183	81,758	21,575
Investments accounted for using the equity method	11,061	11,807	746
Other financial assets	25,325	26,881	1,556
Deferred tax assets	43,833	55,519	11,686
Other non-current assets	8,928	10,971	2,043
<b>Total non-current assets</b>	<u>919,144</u>	<u>952,637</u>	<u>33,493</u>
<b>Total assets</b>	<u><u>1,726,350</u></u>	<u><u>1,769,746</u></u>	<u><u>43,396</u></u>

	(Millions of yen)		
	2022	2023	Change
Liabilities and equity			
Liabilities			
Current liabilities			
Trade and other payables	243,767	235,513	(8,254)
Bonds and borrowings	65,670	14,039	(51,631)
Lease liabilities	19,440	19,020	(420)
Other financial liabilities	7,249	7,445	196
Income tax payables	12,299	15,090	2,791
Provisions	1,246	14,406	13,160
Contract liabilities	32,465	45,264	12,799
Other current liabilities	104,488	109,157	4,669
Total current liabilities	<u>486,624</u>	<u>459,934</u>	<u>(26,690)</u>
Non-current liabilities			
Bonds and borrowings	62,166	124,441	62,275
Lease liabilities	115,614	103,572	(12,042)
Other financial liabilities	7,223	6,889	(334)
Retirement benefit liabilities	38,738	40,451	1,713
Provisions	8,803	8,352	(451)
Deferred tax liabilities	6,858	8,679	1,821
Other non-current liabilities	4,940	5,385	445
Total non-current liabilities	<u>244,342</u>	<u>297,769</u>	<u>53,427</u>
Total liabilities	<u>730,966</u>	<u>757,703</u>	<u>26,737</u>
Equity			
Share capital	85,424	85,424	—
Capital surplus	105,880	105,780	(100)
Treasury shares	(3,459)	(3,267)	192
Other components of equity	43,842	83,919	40,077
Retained earnings	740,374	711,802	(28,572)
Equity attributable to owners of the parent	<u>972,061</u>	<u>983,658</u>	<u>11,597</u>
Non-controlling interests	23,323	28,385	5,062
Total equity	<u>995,384</u>	<u>1,012,043</u>	<u>16,659</u>
Total liabilities and equity	<u><u>1,726,350</u></u>	<u><u>1,769,746</u></u>	<u><u>43,396</u></u>

(2) Consolidated Statement of Income  
Kao Corporation and Consolidated Subsidiaries  
Fiscal year ended December 31, 2023

		2022	2023	(Millions of yen) Change
	Notes			
Net sales	1	1,551,059	1,532,579	(18,480)
Cost of sales		<u>(1,002,717)</u>	<u>(972,152)</u>	30,565
Gross profit		548,342	560,427	12,085
Selling, general and administrative expenses	2	(440,910)	(466,770)	(25,860)
Other operating income		17,391	18,892	1,501
Other operating expenses		<u>(14,752)</u>	<u>(52,514)</u>	(37,762)
Operating income	1	110,071	60,035	(50,036)
Financial income		5,650	4,867	(783)
Financial expenses		(2,418)	(3,447)	(1,029)
Share of profit in investments accounted for using the equity method		2,545	2,387	(158)
Income before income taxes		<u>115,848</u>	<u>63,842</u>	(52,006)
Income taxes		<u>(28,106)</u>	<u>(17,685)</u>	10,421
Net income		<u><u>87,742</u></u>	<u><u>46,157</u></u>	<u><u>(41,585)</u></u>
Attributable to:				
Owners of the parent		86,038	43,870	(42,168)
Non-controlling interests		<u>1,704</u>	<u>2,287</u>	583
Net income		<u><u>87,742</u></u>	<u><u>46,157</u></u>	<u><u>(41,585)</u></u>
Earnings per share				
Basic (Yen)	3	183.28	94.37	
Diluted (Yen)	3	183.27	94.37	

(3) Consolidated Statement of Comprehensive Income  
Kao Corporation and Consolidated Subsidiaries  
Fiscal year ended December 31, 2023

	(Millions of yen)		
	2022	2023	Change
Net income	87,742	46,157	(41,585)
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	627	258
Remeasurements of defined benefit plans	(8,751)	(3,215)	5,536
Share of other comprehensive income of investments accounted for using the equity method	(186)	347	533
Total of items that will not be reclassified to profit or loss	(8,568)	(2,241)	6,327
Items that may be reclassified subsequently to profit or loss:			
Exchange differences on translation of foreign operations	48,497	40,221	(8,276)
Share of other comprehensive income of investments accounted for using the equity method	627	334	(293)
Total of items that may be reclassified subsequently to profit or loss	49,124	40,555	(8,569)
Other comprehensive income, net of taxes	40,556	38,314	(2,242)
Comprehensive income	<u>128,298</u>	<u>84,471</u>	<u>(43,827)</u>
Attributable to:			
Owners of the parent	125,437	80,809	(44,628)
Non-controlling interests	2,861	3,662	801
Comprehensive income	<u>128,298</u>	<u>84,471</u>	<u>(43,827)</u>

## (4) Consolidated Statement of Changes in Equity

Kao Corporation and Consolidated Subsidiaries

Fiscal year ended December 31, 2022

(Millions of yen)

	Equity attributable to owners of the parent						
	Share capital	Capital surplus	Treasury shares	Subscription rights to shares	Other components of equity		
					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
January 1, 2022	85,424	105,633	(3,960)	175	(9,678)	(0)	5,780
Net income	—	—	—	—	—	—	—
Other comprehensive income	—	—	—	—	48,000	7	193
Comprehensive income	—	—	—	—	48,000	7	193
Disposal of treasury shares	—	(120)	50,511	(90)	—	—	—
Purchase of treasury shares	—	(25)	(50,010)	—	—	—	—
Share-based payment transactions	—	384	—	—	—	—	—
Dividends	—	—	—	—	—	—	—
Changes in the ownership Interest in subsidiaries	—	8	—	—	—	—	—
Transfer from other components of equity to retained earnings	—	—	—	(28)	—	—	(517)
Other increase (decrease)	—	—	—	—	—	—	—
Total transactions with the owners	—	247	501	(118)	—	—	(517)
December 31, 2022	85,424	105,880	(3,459)	57	38,322	7	5,456

	Equity attributable to owners of the parent					
	Other components of equity		Retained earnings	Total	Non-controlling interests	Total equity
	Remeasurements of defined benefit plans	Total				
January 1, 2022	—	(3,723)	781,763	965,137	18,740	983,877
Net income	—	—	86,038	86,038	1,704	87,742
Other comprehensive income	(8,801)	39,399	—	39,399	1,157	40,556
Comprehensive income	(8,801)	39,399	86,038	125,437	2,861	128,298
Disposal of treasury shares	—	(90)	(50,298)	3	—	3
Purchase of treasury shares	—	—	—	(50,035)	—	(50,035)
Share-based payment transactions	—	—	—	384	—	384
Dividends	—	—	(68,864)	(68,864)	(414)	(69,278)
Changes in the ownership Interest in subsidiaries	—	—	—	8	2,136	2,144
Transfer from other components of equity to retained earnings	8,801	8,256	(8,256)	—	—	—
Other increase (decrease)	—	—	(9)	(9)	—	(9)
Total transactions with the owners	8,801	8,166	(127,427)	(118,513)	1,722	(116,791)
December 31, 2022	—	43,842	740,374	972,061	23,323	995,384

Fiscal year ended December 31, 2023

(Millions of yen)

	Equity attributable to owners of the parent						
	Share capital	Capital surplus	Treasury shares	Subscription rights to shares	Other components of equity		
					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
January 1, 2023	85,424	105,880	(3,459)	57	38,322	7	5,456
Net income	—	—	—	—	—	—	—
Other comprehensive income	—	—	—	—	39,126	3	981
Comprehensive income	—	—	—	—	39,126	3	981
Disposal of treasury shares	—	(177)	209	(28)	—	—	—
Purchase of treasury shares	—	—	(17)	—	—	—	—
Share-based payment transactions	—	200	—	—	—	—	—
Dividends	—	—	—	—	—	—	—
Changes in the ownership interest in subsidiaries	—	(123)	—	—	—	—	—
Transfer from other components of equity to retained earnings	—	—	—	(29)	—	—	24
Other increase (decrease)	—	—	—	—	—	—	—
Total transactions with the owners	—	(100)	192	(57)	—	—	24
December 31, 2023	85,424	105,780	(3,267)	—	77,448	10	6,461

	Equity attributable to owners of the parent					
	Other components of equity			Total	Non-controlling interests	Total equity
	Remeasurements of defined benefit plans	Total	Retained earnings			
January 1, 2023	—	43,842	740,374	972,061	23,323	995,384
Net income	—	—	43,870	43,870	2,287	46,157
Other comprehensive income	(3,171)	36,939	—	36,939	1,375	38,314
Comprehensive income	(3,171)	36,939	43,870	80,809	3,662	84,471
Disposal of treasury shares	—	(28)	(4)	0	—	0
Purchase of treasury shares	—	—	—	(17)	—	(17)
Share-based payment transactions	—	—	—	200	—	200
Dividends	—	—	(69,264)	(69,264)	(958)	(70,222)
Changes in the ownership interest in subsidiaries	—	—	—	(123)	2,358	2,235
Transfer from other components of equity to retained earnings	3,171	3,166	(3,166)	—	—	—
Other increase (decrease)	—	—	(8)	(8)	—	(8)
Total transactions with the owners	3,171	3,138	(72,442)	(69,212)	1,400	(67,812)
December 31, 2023	—	83,919	711,802	983,658	28,385	1,012,043

(5) Consolidated Statement of Cash Flows  
Kao Corporation and Consolidated Subsidiaries  
Fiscal year ended December 31, 2023

	2022	(Millions of yen) 2023
Cash flows from operating activities		
Income before income taxes	115,848	63,842
Depreciation and amortization	89,738	89,595
Impairment losses	34	21,703
Interest and dividend income	(2,049)	(3,525)
Interest expense	1,904	2,524
Share of profit in investments accounted for using the equity method	(2,545)	(2,387)
(Gains) losses on sale and disposal of property, plant and equipment, and intangible assets	3,524	4,784
(Increase) decrease in trade and other receivables	3,394	20,476
(Increase) decrease in inventories	(36,930)	29,383
Increase (decrease) in trade and other payables	5,496	(19,380)
Increase (decrease) in retirement benefit liabilities	7,333	398
Increase (decrease) in provisions	(447)	12,540
Other	(17,579)	3,779
Subtotal	167,721	223,732
Interest received	1,920	3,329
Dividends received	2,513	2,650
Interest paid	(1,907)	(2,596)
Income taxes paid	(39,342)	(24,634)
Net cash flows from operating activities	130,905	202,481
Cash flows from investing activities		
Payments into time deposits	(7,426)	(9,358)
Proceeds from withdrawal of time deposits	10,660	6,713
Purchase of property, plant and equipment	(65,520)	(54,166)
Purchase of intangible assets	(11,681)	(12,281)
Payments for business combinations	-	(40,826)
Other	(944)	616
Net cash flows from investing activities	(74,911)	(109,302)
Cash flows from financing activities		
Increase (decrease) in short-term borrowings	(207)	12,909
Proceeds from long-term borrowings	7,280	40,000
Repayments of long-term borrowings	(7,331)	(43,341)
Proceeds from issuance of bonds	-	24,937
Redemption of bonds	(12)	(24,952)
Repayments of lease liabilities	(21,704)	(21,432)
Purchase of treasury shares	(50,035)	(17)
Dividends paid to owners of the parent	(68,931)	(69,339)
Dividends paid to non-controlling interests	(419)	(962)
Other	2,048	2,214
Net cash flows from financing activities	(139,311)	(79,983)
Net increase (decrease) in cash and cash equivalents	(83,317)	13,196
Cash and cash equivalents at the beginning of the year	336,069	268,248
Effect of exchange rate changes on cash and cash equivalents	15,496	10,219
Cash and cash equivalents at the end of the year	268,248	291,663

## (6) Notes to Consolidated Financial Statements

## 1. Segment Information

## (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.

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 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	



(2) Sales and Results of Reportable Segments  
Fiscal year ended December 31, 2022

(Millions of yen)

	Reportable segments							Reconciliation <sup>1</sup>	Consolidated
	Consumer Products Business				Subtotal	Chemical Business	Total		
	Hygiene and Living Care Business	Health and Beauty Care Business	Life Care Business	Cosmetics Business					
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 <sup>2</sup>	—	—	—	—	—	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	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 expenditures <sup>3</sup>	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.

## Fiscal year ended December 31, 2023

(Millions of yen)

	Reportable segments							Reconciliation <sup>1</sup>	Consolidated
	Consumer Products Business					Chemical Business	Total		
	Hygiene and Living Care Business	Health and Beauty Care Business	Life Care Business	Cosmetics Business	Subtotal				
Net sales									
Sales to customers	522,536	392,913	56,274	238,606	1,210,329	322,250	1,532,579	—	1,532,579
Intersegment sales and transfers <sup>2</sup>	—	—	—	—	—	43,858	43,858	(43,858)	—
Total net sales	522,536	392,913	56,274	238,606	1,210,329	366,108	1,576,437	(43,858)	1,532,579
Operating income (loss)	20,126	40,474	(5,296)	(5,402)	49,902	23,565	73,467	(13,432)	60,035
Financial income									4,867
Financial expenses									(3,447)
Share of profit in investments accounted for using the equity method									2,387
Income before income taxes									63,842
Core Operating income (loss) <sup>3</sup>	41,911	42,818	(1,318)	5,324	88,735	24,757	113,492	1,214	114,706
Other items									
Depreciation and amortization	33,522	18,880	3,933	14,469	70,804	17,650	88,454	1,141	89,595
Impairment loss	19,894	—	510	4	20,408	1,295	21,703	—	21,703
Capital expenditures <sup>4</sup>	32,689	18,754	4,584	12,460	68,487	22,948	91,435	1,743	93,178

## Notes:

- The operating income (loss) reconciliation of (13,432) 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.
- Core operating income (loss) excludes impacts of structural reform. Reconciliation of operating income (loss) to core operating income (loss) is as follows. The 13,222 million yen of expenses for promoting structural reform of human capital, which is recognized by the Company and its subsidiaries in Japan and others, is included in the reconciliation as corporate expenses.

(Millions of yen)

	Reportable segments							Reconciliation <sup>1</sup>	Consolidated
	Consumer Products Business					Chemical Business	Total		
	Hygiene and Living Care Business	Health and Beauty Care Business	Life Care Business	Cosmetics Business	Subtotal				
Operating income (loss)	20,126	40,474	(5,296)	(5,402)	49,902	23,565	73,467	(13,432)	60,035
Impacts of structural reform									
Net Sales	—	—	—	8,330	8,330	—	8,330	—	8,330
Cost of sales	1,440	451	3,468	950	6,309	8	6,317	—	6,317
Impairment loss	19,894	—	510	—	20,404	1,184	21,588	—	21,588
Expenses for promoting structural reform of human capital	—	354	—	—	354	—	354	13,222	13,576
Other	451	1,539	—	1,446	3,436	—	3,436	1,424	4,860
Total impacts of structural reform	21,785	2,344	3,978	10,726	38,833	1,192	40,025	14,646	54,671
Core Operating income (loss)	41,911	42,818	(1,318)	5,324	88,735	24,757	113,492	1,214	114,706

- 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	2023
Japan	847,237	854,161
Asia	356,663	326,646
Americas	188,444	191,645
Europe	158,715	160,127
Total	<u>1,551,059</u>	<u>1,532,579</u>

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	2023
Japan	574,509	538,859
Asia	110,810	108,742
Americas	115,134	164,559
Europe	45,994	54,016
Total	<u>846,447</u>	<u>866,176</u>

## 2. Selling, General and Administrative Expenses

Selling, general and administrative expenses consist of the following:

	(Millions of yen)	
	2022	2023
Advertising	74,664	75,841
Sales promotion	47,040	51,274
Employee benefits	159,767	168,645
Depreciation	17,362	17,398
Amortization	9,142	10,421
Research and development	60,601	62,575
Other	72,334	80,616
Total	<u>440,910</u>	<u>466,770</u>

## 3. Earnings per Share

## (1) The Basis for Calculating Basic Earnings per Share

(Millions of yen, unless otherwise noted)

	2022	2023
Net income attributable to owners of the parent	86,038	43,870
Amounts not attributable to ordinary shareholders of the parent	—	—
Net income used to calculate basic earnings per share	<u>86,038</u>	<u>43,870</u>
Weighted average number of ordinary shares (Thousands of shares)	469,442	464,854
Basic earnings per share (Yen)	183.28	94.37

## (2) The Basis for Calculating Diluted Earnings per Share

(Millions of yen, unless otherwise noted)

	2022	2023
Net income used to calculate basic earnings per share	86,038	43,870
Adjustments to net income	—	—
Net income used to calculate diluted earnings per share	<u>86,038</u>	<u>43,870</u>
Weighted average number of ordinary shares (Thousands of shares)	469,442	464,854
Increase in ordinary shares		
Subscription rights to shares (Thousands of shares)	17	4
Weighted average number of ordinary shares after dilution (Thousands of shares)	<u>469,459</u>	<u>464,857</u>
Diluted earnings per share (Yen)	183.27	94.37
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.

## (7) Note regarding Assumption of Going Concern

None applicable.