

Consolidated Financial Results for the Six Months Ended June 30, 2023 [IFRS]

August 3, 2023

Company name: Kao Corporation Tokyo Stock Exchange in Japan
 Stock code: 4452 (URL: www.kao.com/global/en/investor-relations/library/results/)
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 Scheduled starting date of the dividend payments: September 1, 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 six months ended June 30, 2023 (from January 1, 2023 to June 30, 2023)

(1) Consolidated operating results

	Six months ended		Six months ended	
	June 30, 2023	%	June 30, 2022	%
Net sales	738,528	0.6	733,901	8.7
Operating income	25,900	(51.7)	53,661	(23.9)
Income before income taxes	28,639	(52.6)	60,472	(18.4)
Net income	17,731	(55.4)	39,759	(25.6)
Net income attributable to owners of the parent	16,624	(57.3)	38,888	(26.0)
Comprehensive income	67,476	(39.0)	110,587	38.3
Basic earnings per share (Yen)	35.76		82.17	
Diluted earnings per share (Yen)	35.76		82.16	
Note: Core income excluding expenses of structural reform for the six months ended June 30, 2023				
Core operating income			34,453	(35.8)
Core income before income taxes			37,192	(38.5)
Core net income			27,429	(31.0)
Core net income attributable to owners of the parent			26,322	(32.3)
Basic core earnings per share (Yen)			56.63	

(2) Consolidated financial position

	June 30, 2023	December 31, 2022
Total assets	1,743,128	1,726,350
Total equity	1,029,889	995,384
Equity attributable to owners of the parent	1,001,767	972,061
Ratio of equity attributable to owners of the parent to total assets	57.5%	56.3%
Equity attributable to owners of the parent per share (Yen)	2,154.97	2,091.20

2. Dividends

	Year ending December 31, 2023 (Forecast)	Year ending December 31, 2023	Year ended December 31, 2022
Annual cash dividends per share (Yen)			
1st quarter end		-	-
2nd quarter end		75.00	74.00
3rd quarter end	-		-
Fiscal year end	75.00		74.00
Total	150.00		148.00

Note: Revisions to the cash dividends forecast most recently announced: None

3. Forecast of consolidated operating results for the 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)

	Year ending December 31, 2023	%
Net sales	1,580,000	1.9
Operating income	60,000	(45.5)
Income before income taxes	61,000	(47.3)
Net income attributable to owners of the parent	41,000	(52.3)
Basic earnings per share (Yen)	88.20	-

Notes:

1. Revisions to the consolidated operating results forecast most recently announced: Yes		
2. Core income excluding expenses of structural reform for the fiscal year ending December 31, 2023		%
Core operating income	120,000	9.0
Core income before income taxes	121,000	4.4
Core net income attributable to owners of the parent	88,000	2.3
Basic core earnings per share (Yen)	189.30	

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 this period (ordinary shares)

	June 30, 2023	December 31, 2022
Number of issued shares including treasury shares	465,900,000	465,900,000
Number of treasury shares	1,036,224	1,065,960
	Six months ended June 30, 2023	Six months ended June 30, 2022
Weighted average number of shares outstanding during this period	464,843,575	473,275,863

Notice regarding execution of quarterly review procedures

This quarterly financial results report is exempt from quarterly review 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 7, "Qualitative Information on Financial Results for the Six Months Ended June 30, 2023 - 2. Description of Information on Outlook, Including Forecasts of Consolidated Results" for the suppositions that form the assumptions for earnings forecasts and cautions concerning the use of earnings forecasts.

Qualitative Information on Financial Results for the Six Months Ended June 30, 2023

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. Growth by volume includes changes due to differences in product mix.

As announced in the news release dated August 3, 2023 entitled "Kao Announces a Revision of Its Forecast of Consolidated Results," Kao Corporation will continue conducting structural reforms. Therefore, 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." In the following table, the lower line of figures and growth rates for operating income and for each of the categories below it for the six months ended June 30, 2023 has been calculated based on core income.

1. Description of Operating Results

(Billions of yen, except operating margin and per share amounts)			
Six months ended June 30	2023	2022	Growth
Net sales	738.5	733.9	0.6% Like-for-like: (2.3%)
Operating income	25.9	53.7	(51.7%)
	34.5		(35.8%)
Operating margin (%)	3.5	7.3	-
	4.7		-
Income before income taxes	28.6	60.5	(52.6%)
	37.2		(38.5%)
Net income	17.7	39.8	(55.4%)
	27.4		(31.0%)
Net income attributable to owners of the parent	16.6	38.9	(57.3%)
	26.3		(32.3%)
Basic earnings per share (Yen)	35.76	82.17	(56.5%)
	56.63		(31.1%)

Although the world has been returning to conditions prior to the COVID-19 pandemic, the business environment remained unclear due to geopolitical risk in Europe, a slowdown in the previously growing market of China, and persisting high costs due to inflation.

According to retail sales and consumer purchasing survey data, the consumer products (household and personal care products and cosmetics) market in Japan, which is the Kao Group's key market, grew during the period from January to June 2023 compared with the same period a year earlier.

Net sales increased 0.6% compared with the same period a year earlier to 738.5 billion yen. Currency translation accounted for a 2.9% increase and net sales decreased 2.3% on a like-for-like basis (breakdown of the decrease: 2.0% decrease by volume, 0.3% decrease by price). Operating income was

25.9 billion yen, a decrease of 27.8 billion yen compared with the same period a year earlier, due to recording 8.6 billion yen in structural reform expenses, and core operating income was 34.5 billion yen, a decrease of 19.2 billion yen. Income before income taxes was 28.6 billion yen, a decrease of 31.8 billion yen. Net income was 17.7 billion yen, a decrease of 22.0 billion yen. Results exceeded the Kao Group's plan in the Consumer Products Business, but fell short in the Chemical Business due to the impact of delayed market recovery and other factors.

The main exchange rates used for translating the financial statement items (income and expenses) of foreign consolidated subsidiaries and associates were as shown below.

	First quarter	Second quarter
	Jan. – Mar.	Apr. – Jun.
U.S. dollar	132.29 (116.30)	137.30 (129.69)
Euro	141.98 (130.45)	149.50 (138.14)
Chinese yuan	19.33 (18.32)	19.58 (19.63)

Note: Figures in parentheses represent the exchange rates for the same period a year earlier.

Summary of Segment Information

Consolidated Results by Segment

Six months ended June 30	Net sales				Operating income			Operating margin (%)	
	2023	2022	Growth %	Like-for-like %	Core operating income			Core operating margin (%)	
					2023	2022	Change	2023	2022
	(Billions of yen)								
Hygiene and Living Care Business	245.7	238.3	3.1	1.6	1.8	13.1	(11.3)	0.7	5.5
Health and Beauty Care Business	188.8	176.8	6.8	3.1	16.0	18.2	(2.2)	8.5	10.3
Life Care Business	26.7	25.8	3.3	1.2	(1.1)	(0.1)	(1.0)	(4.1)	(0.4)
Cosmetics Business	115.8	116.0	(0.2)	(1.6)	(2.5)	2.2	(4.7)	(2.2)	1.9
Consumer Products Business	576.9	556.9	3.6	1.4	14.3	33.3	(19.1)	2.5	6.0
Chemical Business	183.7	199.1	(7.8)	(12.5)	11.1	20.1	(9.0)	6.0	10.1
Total	760.6	756.0	0.6	(2.3)	25.3	53.5	(28.1)	-	-
Elimination and Reconciliation	(22.1)	(22.1)	-	-	0.6	0.2	0.4	-	-
Consolidated	738.5	733.9	0.6	(2.3)	25.9	53.7	(27.8)	3.5	7.3
					34.5		(19.2)	4.7	

Consolidated Net Sales Composition

Six months ended June 30		Japan	Asia	Americas	Europe	(Billions of yen) Consolidated
Fabric and Home Care Products	2023	134.4	22.1	2.0	-	158.6
	2022	132.6	20.9	1.7	-	155.2
	Growth %	1.4	5.7	16.9	-	2.2
	Like-for-like %	1.4	(0.9)	13.4	-	1.2
Sanitary Products	2023	40.0	47.1	0.0	-	87.1
	2022	37.0	46.0	0.0	-	83.1
	Growth %	8.0	2.3	(23.3)	-	4.8
	Like-for-like %	8.0	(2.4)	(24.0)	-	2.2
Hygiene and Living Care Business	2023	174.5	69.2	2.0	-	245.7
	2022	169.6	67.0	1.8	-	238.3
	Growth %	2.9	3.3	16.2	-	3.1
	Like-for-like %	2.9	(2.0)	12.8	-	1.6
Health and Beauty Care Business	2023	98.2	17.4	48.9	24.3	188.8
	2022	95.9	16.4	43.1	21.3	176.8
	Growth %	2.4	5.7	13.3	14.1	6.8
	Like-for-like %	2.4	0.2	4.1	6.3	3.1
Life Care Business	2023	19.9	0.0	6.7	0.1	26.7
	2022	20.3	0.0	5.4	0.1	25.8
	Growth %	(1.9)	70.8	22.8	(6.0)	3.3
	Like-for-like %	(1.9)	64.7	12.7	(9.9)	1.2
Cosmetics Business	2023	75.5	26.8	3.3	10.2	115.8
	2022	73.7	29.7	2.9	9.7	116.0
	Growth %	2.5	(10.0)	14.0	5.4	(0.2)
	Like-for-like %	2.5	(12.6)	4.1	(0.9)	(1.6)
Consumer Products Business	2023	368.1	113.4	60.9	34.6	576.9
	2022	359.4	113.2	53.2	31.1	556.9
	Growth %	2.4	0.2	14.4	11.4	3.6
	Like-for-like %	2.4	(4.4)	5.3	4.0	1.4
Chemical Business	2023	67.3	43.1	30.3	42.9	183.7
	2022	68.2	50.1	34.2	46.6	199.1
	Growth %	(1.4)	(14.0)	(11.2)	(7.8)	(7.8)
	Like-for-like %	(1.4)	(19.3)	(21.5)	(15.0)	(12.5)
Elimination of intersegment	2023	(19.4)	(1.6)	(0.1)	(1.1)	(22.1)
	2022	(19.0)	(1.9)	(0.1)	(1.1)	(22.1)
Consolidated	2023	416.0	154.9	91.2	76.5	738.5
	2022	408.7	161.4	87.3	76.5	733.9
	Growth %	1.8	(4.0)	4.4	(0.0)	0.6
	Like-for-like %	1.8	(8.8)	(5.2)	(7.3)	(2.3)

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.

Analysis of Change in Net Sales Compared with the Same Period a Year Earlier

	Change (%)	Currency Translation (%)	Like-for-Like (%)		
				By Volume (%)	By Price (%)
Hygiene and Living Care Business	3.1	1.5	1.6	(2.2)	3.8
Health and Beauty Care Business	6.8	3.7	3.1	1.2	1.9
Life Care Business	3.3	2.1	1.2	(0.3)	1.5
Cosmetics Business	(0.2)	1.4	(1.6)	(0.2)	(1.4)
Consumer Products Business	3.6	2.2	1.4	(0.6)	2.0
Chemical Business	(7.8)	4.8	(12.5)	(5.8)	(6.7)
Total	0.6	2.9	(2.3)	(2.0)	(0.3)

Note: Chemical Business sales include intersegment transactions.

Net sales to foreign customers were 45.4% of net sales compared with 46.3% for the same period a year earlier.

Consumer Products Business

Sales increased 3.6% compared with the same period a year earlier to 576.9 billion yen. Currency translation accounted for a 2.2% increase and sales increased 1.4% on a like-for-like basis (breakdown of the increase: 0.6% decrease by volume, 2.0% increase by price).

As the COVID-19 pandemic continued toward its conclusion, markets worldwide steadily recovered, but there was a market slowdown in China, which had previously been driving growth. In addition, although raw material prices appeared to be settling down somewhat after a temporary surge, they remained at a high level. Amid these circumstances, the Kao Group implemented strategic price increases and invested in new and improved products as planned, and these initiatives showed results.

In Japan, sales increased 2.4% to 368.1 billion yen.

In Asia, sales increased 0.2% to 113.4 billion yen. On a like-for-like basis, sales decreased 4.4%.

In the Americas, sales increased 14.4% to 60.9 billion yen. On a like-for-like basis, sales increased 5.3%.

In Europe, sales increased 11.4% to 34.6 billion yen. On a like-for-like basis, sales increased 4.0%.

Operating income decreased 19.1 billion yen compared with the same period a year earlier to 14.3 billion yen due to factors including the impact of recording 8.6 billion yen in structural reform expenses, which included an impairment loss, although the implementation of strategic price increases compensated for rising raw material prices. Core operating income decreased 10.5 billion yen to 22.8 billion yen.

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 3.1% compared with the same period a year earlier to 245.7 billion yen. Currency translation accounted for a 1.5% increase and sales increased 1.6% on a like-for-like basis (breakdown of the increase: 2.2% decrease by volume, 3.8% increase by price).

Sales of fabric care products increased. The implementation of price increases and the launch of improved products for laundry detergents contributed significantly to substantial increases in sales and market share, but conditions were tough for fabric softeners due to fierce competition.

Sales of home care products were basically unchanged. For *CuCute* dishwashing detergent, both sales and market share grew in Japan due to the smooth progress of a concurrent product improvement and price increase, but sales in Asia decreased.

Sales of sanitary products increased. Sales of *Laurier* sanitary napkins remained strong in China and Indonesia, and also increased in Japan, due to reinforced communication along with a price increase, among other factors. Sales of *Merries* baby diapers decreased. Although sales remained steady in Japan and Indonesia, overall sales decreased due to market shrinkage and intensifying competition in China.

Operating income decreased 11.3 billion yen compared with the same period a year earlier to 1.8 billion yen. Although the Kao Group proactively implemented strategic price increases in response to rising raw material prices, it recorded 8.0 billion yen as structural reform expenses associated with the termination of production at its factory in the baby diaper business in China. Core operating income decreased 3.2 billion yen to 9.8 billion yen.

Health and Beauty Care Business

Sales increased 6.8% compared with the same period a year earlier to 188.8 billion yen. Currency translation accounted for a 3.7% increase and sales increased 3.1% on a like-for-like basis (breakdown of the increase: 1.2% increase by volume, 1.9% increase by price).

Sales of skin care products increased. In Japan, UV care and other seasonal products and a new makeup remover contributed to sales, which exceeded market growth, and market share also increased. In the Americas, sales increased due to the resolution of the logistics disruptions that had occurred in the same period a year earlier.

Sales of hair care products were basically unchanged. In Japan, new *Essential* brand products performed steadily amid severe market competition. In products for hair salons in the Americas and Europe, sales of the *ORIBE* brand for high-end hair salons in the United States were strong, mainly driven by e-commerce sales.

Sales of personal health products decreased as sales of *MegRhythm* thermo products grew but the market for bath additives shrank as opportunities for going out increased.

Operating income decreased 2.2 billion yen compared with the same period a year earlier to 16.0 billion yen.

Life Care Business

Sales increased 3.3% compared with the same period a year earlier to 26.7 billion yen. Currency translation accounted for a 2.1% increase and sales increased 1.2% on a like-for-like basis (breakdown of the increase: 0.3% decrease by volume, 1.5% increase by price).

In commercial-use hygiene products, the market in Japan recovered and demand rose for products for the food service industry and lodging facilities and other establishments, but sales only increased slightly overall due to shrinkage of the market for sanitizers. In the United States, customer industries grew, and sales increased.

In health drinks, sales of *Healthya* products, which are foods for specified health uses, decreased.

Operating income was negative 1.1 billion yen, a decrease of 1.0 billion yen from the same period a year earlier due to the impact of rising raw material prices.

Cosmetics Business

Sales decreased 0.2% compared with the same period a year earlier to 115.8 billion yen. Currency translation accounted for a 1.4% increase and sales decreased 1.6% on a like-for-like basis (breakdown of the decrease: 0.2% decrease by volume, 1.4% decrease by price).

Amid market recovery in Japan, sales remained strong, with continuing double-digit growth for the Kao Group's "G11" global strategy brands, including the *KANEBO* prestige skin care and makeup and *KATE* makeup brands. In China, sales decreased. Sell-out for *freepius*, a hypoallergenic brand containing Japanese and Chinese botanical extracts, remained strong after its rebranding, but it was not enough to compensate for the first-quarter decline in sales. In Europe, sales decreased amid a decline in consumption due to inflation.

Operating income was negative 2.5 billion yen, a decrease of 4.7 billion yen from the same period a year earlier. Core operating income decreased 4.2 billion yen to negative 2.0 billion yen.

Chemical Business

Sales decreased 7.8% compared with the same period a year earlier to 183.7 billion yen. Currency translation accounted for a 4.8% increase and sales decreased 12.5% on a like-for-like basis (breakdown of the decrease: 5.8% decrease by volume, 6.7% decrease by price).

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

Sales of performance chemicals decreased as some fields were impacted by a slump in demand outside Japan, despite the contribution from selling price adjustments in response to rising raw material prices.

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

Operating income decreased 9.0 billion yen compared with the same period a year earlier to 11.1 billion yen as a result of the continued impact of decreased demand due to a market slump and shrinking profit margins for oleo chemicals due to falling market prices.

2. Description of Information on Outlook, Including Forecasts of Consolidated Results

Revised Forecast of Consolidated Operating Results for the Fiscal Year Ending December 31, 2023

(Billions of yen, except per share amounts)

	Net sales	Operating income	Income before income taxes	Net income attributable to owners of the parent	Basic earnings per share (Yen)
Revised forecast (A)	1,580.0	60.0	61.0	41.0	88.20
Previously announced forecast (B)	1,580.0	120.0	121.0	88.0	189.31
Change (A-B)	—	(60.0)	(60.0)	(47.0)	—
Percentage change (%)	—	(50.0)	(49.6)	(53.4)	—
(Reference) Results for the previous fiscal year (ended December 31, 2022)	1,551.1	110.1	115.8	86.0	183.28

Notes:

- (B) in the above table: Forecast of consolidated operating results for the fiscal year ending December 31, 2023, announced on May 10, 2023
- Parentheses in the above table indicate negative numbers.
- Core income for the fiscal year ending December 31, 2023, excluding expenses related to structural reform, is as follows. Percentages in parentheses are year-on-year change.

Core operating income	120.0 billion yen	(9.0%)
Core income before income taxes	121.0 billion yen	(4.4%)
Core net income attributable to owners of the parent	88.0 billion yen	(2.3%)
Basic core earnings per share	189.30 yen	

This revision of the consolidated operating results forecast is based on the implementation of structural reforms aimed at improving medium-term earnings and strengthening the business foundation, and

therefore there is no change in the forecast of consolidated operating results for existing businesses. As a result of these reforms, the Kao Group plans to record approximately 60.0 billion yen in structural reform expenses in the fiscal year ending December 31, 2023.

The Kao Group is primarily considering the following three main structural reform measures.

- (1) Drastic strategic review and reorganization of inefficient businesses
- (2) Structural reform of human capital
- (3) Reform of earning power (thoroughgoing pursuit of high added value and optimal cost design)

The main exchange rates used in the forecast of consolidated results are one U.S. dollar to 135 yen, one euro to 145 yen and one Chinese yuan to 20 yen.

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Condensed Consolidated Statement of Financial Position

(Millions of yen)

	June 30, 2023	December 31, 2022	Change
Assets			
Current assets			
Cash and cash equivalents	275,660	268,248	7,412
Trade and other receivables	216,546	230,604	(14,058)
Inventories	287,819	278,382	9,437
Other financial assets	5,164	3,605	1,559
Income tax receivables	6,433	4,171	2,262
Other current assets	22,946	22,196	750
Total current assets	814,568	807,206	7,362
Non-current assets			
Property, plant and equipment	443,147	439,325	3,822
Right-of-use assets	130,593	138,629	(8,036)
Goodwill	199,219	191,860	7,359
Intangible assets	62,564	60,183	2,381
Investments accounted for using the equity method	10,562	11,061	(499)
Other financial assets	26,658	25,325	1,333
Deferred tax assets	44,667	43,833	834
Other non-current assets	11,150	8,928	2,222
Total non-current assets	928,560	919,144	9,416
Total assets	1,743,128	1,726,350	16,778

(Millions of yen)

	June 30, 2023	December 31, 2022	Change
Liabilities and equity			
Liabilities			
Current liabilities			
Trade and other payables	235,390	243,767	(8,377)
Bonds and borrowings	10,694	65,670	(54,976)
Lease liabilities	19,124	19,440	(316)
Other financial liabilities	2,357	7,249	(4,892)
Income tax payables	12,802	12,299	503
Provisions	729	1,246	(517)
Contract liabilities	39,430	32,465	6,965
Other current liabilities	90,652	104,488	(13,836)
Total current liabilities	411,178	486,624	(75,446)
Non-current liabilities			
Bonds and borrowings	128,060	62,166	65,894
Lease liabilities	107,705	115,614	(7,909)
Other financial liabilities	6,924	7,223	(299)
Retirement benefit liabilities	38,105	38,738	(633)
Provisions	9,030	8,803	227
Deferred tax liabilities	7,210	6,858	352
Other non-current liabilities	5,027	4,940	87
Total non-current liabilities	302,061	244,342	57,719
Total liabilities	713,239	730,966	(17,727)
Equity			
Share capital	85,424	85,424	-
Capital surplus	105,733	105,880	(147)
Treasury shares	(3,257)	(3,459)	202
Other components of equity	91,225	43,842	47,383
Retained earnings	722,642	740,374	(17,732)
Equity attributable to owners of the parent	1,001,767	972,061	29,706
Non-controlling interests	28,122	23,323	4,799
Total equity	1,029,889	995,384	34,505
Total liabilities and equity	1,743,128	1,726,350	16,778

Condensed Consolidated Statement of Income

(Millions of yen)

	Notes	Six months ended June 30, 2023	Six months ended June 30, 2022	Change
Net sales	1	738,528	733,901	4,627
Cost of sales		(479,594)	(467,741)	(11,853)
Gross profit		258,934	266,160	(7,226)
Selling, general and administrative expenses	2	(227,038)	(215,017)	(12,021)
Other operating income		9,410	8,882	528
Other operating expenses		(15,406)	(6,364)	(9,042)
Operating income	1	25,900	53,661	(27,761)
Financial income		3,305	6,577	(3,272)
Financial expenses		(1,723)	(1,199)	(524)
Share of profit in investments accounted for using the equity method		1,157	1,433	(276)
Income before income taxes		28,639	60,472	(31,833)
Income taxes		(10,908)	(20,713)	9,805
Net income		17,731	39,759	(22,028)
Attributable to:				
Owners of the parent		16,624	38,888	(22,264)
Non-controlling interests		1,107	871	236
Net income		17,731	39,759	(22,028)
Earnings per share				
Basic (Yen)		35.76	82.17	
Diluted (Yen)		35.76	82.16	

Condensed Consolidated Statement of Comprehensive Income

(Millions of yen)

	Six months ended June 30, 2023	Six months ended June 30, 2022	Change
Net income	17,731	39,759	(22,028)
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	533	77	456
Share of other comprehensive income of investments accounted for using the equity method	268	(126)	394
Total of items that will not be reclassified to profit or loss	801	(49)	850
Items that may be reclassified subsequently to profit or loss:			
Exchange differences on translation of foreign operations	48,470	70,078	(21,608)
Share of other comprehensive income of investments accounted for using the equity method	474	799	(325)
Total of items that may be reclassified subsequently to profit or loss	48,944	70,877	(21,933)
Other comprehensive income, net of taxes	49,745	70,828	(21,083)
Comprehensive income	67,476	110,587	(43,111)
Attributable to:			
Owners of the parent	64,082	107,190	(43,108)
Non-controlling interests	3,394	3,397	(3)
Comprehensive income	67,476	110,587	(43,111)

Condensed Consolidated Statement of Changes in Equity

(Millions of yen)

	Equity attributable to owners of the parent											Total equity
	Other components of equity							Total	Retained earnings	Total	Non-controlling interests	
	Share capital	Capital surplus	Treasury shares	Subscription rights to shares	Exchange differences on translation of foreign operations	Net gain (loss) on derivatives designated as cash flow hedges	Net gain (loss) on revaluation of financial assets measured at fair value through other comprehensive income					
January 1, 2023	85,424	105,880	(3,459)	57	38,322	7	5,456	43,842	740,374	972,061	23,323	995,384
Net income	-	-	-	-	-	-	-	-	16,624	16,624	1,107	17,731
Other comprehensive income	-	-	-	-	46,651	5	802	47,458	-	47,458	2,287	49,745
Comprehensive income	-	-	-	-	46,651	5	802	47,458	16,624	64,082	3,394	67,476
Disposal of treasury shares	-	(177)	210	(28)	-	-	-	(28)	(4)	1	-	1
Purchase of treasury shares	-	-	(8)	-	-	-	-	-	-	(8)	-	(8)
Share-based payment transactions	-	153	-	-	-	-	-	-	-	153	-	153
Dividends	-	-	-	-	-	-	-	-	(34,399)	(34,399)	(953)	(35,352)
Changes in the ownership interest in subsidiaries	-	(123)	-	-	-	-	-	-	-	(123)	2,358	2,235
Transfer from other components of equity to retained earnings	-	-	-	(29)	-	-	(18)	(47)	47	-	-	-
Total transactions with the owners	-	(147)	202	(57)	-	-	(18)	(75)	(34,356)	(34,376)	1,405	(32,971)
June 30, 2023	85,424	105,733	(3,257)	-	84,973	12	6,240	91,225	722,642	1,001,767	28,122	1,029,889
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	-	-	-	-	-	-	-	-	38,888	38,888	871	39,759
Other comprehensive income	-	-	-	-	68,340	11	(49)	68,302	-	68,302	2,526	70,828
Comprehensive income	-	-	-	-	68,340	11	(49)	68,302	38,888	107,190	3,397	110,587
Disposal of treasury shares	-	(120)	216	(74)	-	-	-	(74)	(21)	1	-	1
Purchase of treasury shares	-	(0)	(22,583)	-	-	-	-	-	-	(22,583)	-	(22,583)
Share-based payment transactions	-	190	-	-	-	-	-	-	-	190	-	190
Dividends	-	-	-	-	-	-	-	-	(34,120)	(34,120)	(359)	(34,479)
Changes in the ownership interest in subsidiaries	-	7	-	-	-	-	-	-	-	7	2,138	2,145
Transfer from other components of equity to retained earnings	-	-	-	(28)	-	-	(347)	(375)	375	-	-	-
Total transactions with the owners	-	77	(22,367)	(102)	-	-	(347)	(449)	(33,766)	(56,505)	1,779	(54,726)
June 30, 2022	85,424	105,710	(26,327)	73	58,662	11	5,384	64,130	786,885	1,015,822	23,916	1,039,738

Condensed Consolidated Statement of Cash Flows

(Millions of yen)

	Six months ended June 30, 2023	Six months ended June 30, 2022
Cash flows from operating activities		
Income before income taxes	28,639	60,472
Depreciation and amortization	44,576	44,023
Impairment losses	7,935	-
Interest and dividend income	(1,549)	(826)
Interest expense	1,262	944
Share of profit in investments accounted for using the equity method	(1,157)	(1,433)
(Gains) losses on sale and disposal of property, plant and equipment, and intangible assets	1,874	1,210
(Increase) decrease in trade and other receivables	29,746	14,207
(Increase) decrease in inventories	4,364	(36,657)
Increase (decrease) in trade and other payables	(20,135)	(5,248)
Increase (decrease) in retirement benefit liabilities	(2,091)	(1,887)
Other	(19,609)	(22,857)
Subtotal	73,855	51,948
Interest received	1,495	728
Dividends received	2,300	2,396
Interest paid	(1,041)	(932)
Income taxes paid	(14,200)	(26,396)
Net cash flows from operating activities	62,409	27,744
Cash flows from investing activities		
Payments into time deposits	(3,987)	(4,625)
Proceeds from withdrawal of time deposits	2,701	5,842
Purchase of property, plant and equipment	(27,251)	(36,986)
Purchase of intangible assets	(5,528)	(4,691)
Other	616	411
Net cash flows from investing activities	(33,449)	(40,049)
Cash flows from financing activities		
Increase (decrease) in short-term borrowings	9,511	(160)
Proceeds from long-term borrowings	40,000	-
Repayments of long-term borrowings	(40,010)	(1,351)
Proceeds from issuance of bonds	24,937	-
Redemption of bonds	(24,946)	(6)
Repayments of lease liabilities	(10,715)	(10,831)
Purchase of treasury shares	(8)	(22,583)
Dividends paid to owners of the parent	(34,434)	(34,148)
Dividends paid to non-controlling interests	(923)	(207)
Other	2,214	2,048
Net cash flows from financing activities	(34,374)	(67,238)
Net increase (decrease) in cash and cash equivalents	(5,414)	(79,543)
Cash and cash equivalents at the beginning of the period	268,248	336,069
Effect of exchange rate changes on cash and cash equivalents	12,826	24,001
Cash and cash equivalents at the end of the period	275,660	280,527

Notes to Condensed Consolidated Financial Statements
1. Segment Information

(1) Summary of reportable segments

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

Six months ended June 30, 2023	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	245,701	188,774	26,662	115,799	576,936	161,592	738,528	-	738,528
Intersegment sales and transfers ²	-	-	-	-	-	22,071	22,071	(22,071)	-
Total net sales	245,701	188,774	26,662	115,799	576,936	183,663	760,599	(22,071)	738,528
Operating income (loss)	1,805	16,035	(1,082)	(2,505)	14,253	11,092	25,345	555	25,900
Financial income									3,305
Financial expenses									(1,723)
Share of profit in investments accounted for using the equity method									1,157
Income before income taxes									28,639
Core operating income (loss) ³	9,839	16,035	(1,082)	(1,986)	22,806	11,092	33,898	555	34,453

Notes:

- The operating income (loss) reconciliation of 555 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) excluding expenses of related to structural reforms. Reconciliation of operating income (loss) to core operating income (loss) is as follows.

The amounts recorded in the condensed consolidated financial statements for the six months ended June 30, 2023 in the table below present the sum of operating income (loss) of reportable segments for which structural reform expenses have not been incurred, and core operating income (loss).

	(Millions of yen)		
	Hygiene and Living Care Business	Cosmetics Business	Consolidated
Operating income (loss)	1,805	(2,505)	25,900
Structural reform expenses			
Cost of sales	215	519	734
Impairment loss	7,819	-	7,819
Core operating income (loss)	9,839	(1,986)	34,453

Six months ended June 30, 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	238,335	176,751	25,804	115,989	556,879	177,022	733,901	-	733,901
Intersegment sales and transfers ²	-	-	-	-	-	22,090	22,090	(22,090)	-
Total net sales	238,335	176,751	25,804	115,989	556,879	199,112	755,991	(22,090)	733,901
Operating income (loss)	13,066	18,204	(104)	2,183	33,349	20,116	53,465	196	53,661
Financial income									6,577
Financial expenses									(1,199)
Share of profit in investments accounted for using the equity method									1,433
Income before income taxes									60,472

Notes:

- The operating income (loss) reconciliation of 196 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.

2. Selling, General and Administrative Expenses

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

	(Millions of yen)	
	Six months ended June 30, 2023	Six months ended June 30, 2022
Advertising	36,610	35,814
Sales promotion	24,060	20,631
Employee benefits	83,918	79,736
Depreciation	8,463	8,646
Amortization	4,962	4,255
Research and development	31,129	30,480
Other	37,896	35,455
Total	227,038	215,017

3. Significant Subsequent Events

Implementation of structural reforms

At a meeting held on August 3, 2023, the Board of Directors of the Company resolved to conduct structural reforms with the intention of improving the Kao Group's medium-term earnings and strengthening its business foundation.

The main structural reform measures are as follows.

- (1) Drastic strategic review and reorganization of inefficient businesses
- (2) Structural reform of human capital
- (3) Reform of earning power (thoroughgoing pursuit of high added value and optimal cost design)

As a result, in the fiscal year ending December 31, 2023, the Kao Group expects to record approximately 60.0 billion yen in structural reform expenses, including 8.6 billion yen recorded as cost of sales and impairment loss in the six months ended June 30, 2023.

The Kao Group plans to announce the details of these measures as soon as possible.

Note regarding Assumption of Going Concern

None applicable.