Annual Securities Report

(“Yukashoken Hokokusho”)

(The 118th Fiscal Year)
From January 1, 2023 to December 31, 2023

Kao Corporation

This is an English translation of the original Annual Securities Report (extract) filed with the Director-General of the Kanto Local Finance Bureau via Electronic Disclosure for Investors’ Network (“EDINET”), pursuant to the Financial Instruments and Exchange Act of Japan, for reference purpose only. In the event of any discrepancy between this translated document and the Japanese original, the original shall prevail.
In this document, the term “the Company” refers to Kao Corporation and the term “the Group” refers to Kao Corporation and its subsidiaries. Some information in the original securities report in Japanese, such as “Part One. Company Information I. Overview of Company 1. Key Financial Data (2) Key Financial Data of the Company” and “V. Financial Information 2. Non-consolidated Financial Statements and Other Information,” are not included in this English translation of the securities report.

Contents

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Filed Document	Annual Securities Report (*Yukashoken Hokokusho*)
Applicable Law	Article 24, Paragraph 1 of the Financial Instruments and Exchange Act
Filed to	Director-General of the Kanto Local Finance Bureau
Filing Date	March 22, 2024
Fiscal Year	The 118th Term (from January 1, 2023 to December 31, 2023)
Company Name	Kao Kabushiki Kaisha
Company Name in English	Kao Corporation
Name and Title of Representative	Yoshihiro Hasebe, President and Chief Executive Officer
Address of Head Office	14-10, Nihonbashi Kayabacho 1-chome, Chuo-ku, Tokyo
Telephone Number	+81-3-3660-7111
Contact Person	Yoshimasa Minegishi, Vice President, Financial Controllers, Global
Contact Address	14-10, Nihonbashi Kayabacho 1-chome, Chuo-ku, Tokyo
Telephone Number	+81-3-3660-7111
Contact Person	Yoshimasa Minegishi, Vice President, Financial Controllers, Global
Place Where the Filed Document is Available for Public Inspection	Tokyo Stock Exchange, Inc. (2-1 Nihonbashi Kabutocho, Chuo-ku, Tokyo)

Part One: Company Information

I. Overview of Company

1. Key Financial Data

Key Consolidated Financial Data of Group

Term		114th	115th	116th	117th	118th
Fiscal year ended:		December 2019	December 2020	December 2021	December 2022	December 2023
Net sales	Millions of yen	1,502,241	1,381,997	1,418,768	1,551,059	1,532,579
Income before income taxes	Millions of yen	210,645	173,971	150,002	115,848	63,842
Net income attributable to owners of the parent	Millions of yen	148,213	126,142	109,636	86,038	43,870
Comprehensive income attributable to owners of the parent	Millions of yen	144,508	132,941	161,686	125,437	80,809
Equity attributable to owners of the parent	Millions of yen	857,695	923,687	965,137	972,061	983,658
Total assets	Millions of yen	1,653,919	1,665,616	1,704,007	1,726,350	1,769,746
Equity attributable to owners of the parent per share	Yen	1,783.46	1,920.56	2,036.66	2,091.20	2,116.01
Basic earnings per share	Yen	306.70	262.29	230.59	183.28	94.37
Diluted earnings per share	Yen	306.63	262.25	230.57	183.27	94.37
Ratio of equity attributable to owners of the parent to total assets	%	51.9	55.5	56.6	56.3	55.6
Ratio of net income to equity attributable to owners of the parent	%	17.6	14.2	11.6	8.9	4.5
Price earnings ratio	Times	29.4	30.4	26.1	28.7	61.5
Net cash flows from operating activities	Millions of yen	244,523	214,718	175,524	130,905	202,481
Net cash flows from investing activities	Millions of yen	(94,266)	(61,941)	(67,232)	(74,911)	(109,302)
Net cash flows from financing activities	Millions of yen	(126,166)	(87,065)	(141,573)	(139,311)	(79,983)
Cash and cash equivalents at the end of the year	Millions of yen	289,681	353,176	336,069	268,248	291,663
Number of employees [Separately, the average number of temporary employees]	Persons	33,603 [12,193]	33,409 [11,969]	33,507 [11,215]	35,411 [8,183]	34,257 [8,193]

Notes: 1. International Financial Reporting Standards (IFRS) are applied.
2. Amounts shown are rounded to the unit used for presentation. The same applies hereinafter.
3. Net sales do not include consumption taxes, etc. The same applies hereinafter.
4. Numbers in parentheses in charts are negative. The same applies hereinafter.
5. To standardize information disclosure globally, we have included full-time, indefinite-term, non-regular employees, etc. in the number of employees since the 117th term. The number of employees in the 117th term based on the criteria applied until the 116th term totals 32,895.

2. History

June 1887	Opened Nagase Shoten, a Western sundry goods dealer ―― (Foundation)
October 1890	Launched *Kao Sekken* (Kao soap)
November 1922	Completed the construction of Azuma Factory (currently Tokyo Plant (Incubation Center Tokyo))
May 1925	Established Kao Sekken Nagase Shokai Co., Ltd.
March 1935	Established Dai Nihon Yushi Co., Ltd. based on detached Azuma Factory
May 1940	Established Nihon Yuki Co., Ltd. in Nihonbashi Bakurocho ―― (Date of foundation)
September 1940	Completed the construction of Nihon Yuki's Sakata Factory (currently Sakata Plant)
December 1944	Completed the construction of Dai Nihon Yushi's Wakayama Factory (currently Wakayama Plant)
October 1946	Renamed Kao Sekken Nagase Shokai Co., Ltd. to Kao Co., Ltd.
May 1949	Renamed Nihon Yuki Co., Ltd. to Kao Soap Co., Ltd. Listed on the First Section of the Tokyo Stock Exchange
December 1949	Established Kao Yushi Co., Ltd. through the merger of Kao Co., Ltd. and Dai Nihon Yushi Co., Ltd.
August 1954	Kao Soap Co., Ltd. absorbed and merged Kao Yushi Co., Ltd.
December 1957	Completed the construction of a detergent factory on the premises of Wakayama Plant
March 1960	Listed on the First Section of the Osaka Securities Exchange (delisted in March 2003)
March 1963	Completed the construction of Kawasaki Plant
September 1964	Established Kao Industrial (Thailand) Co., Ltd.
December 1964	Established Kao (Taiwan) Corporation
April 1965	Completed the construction of Industrial Science Research Laboratories (currently Wakayama Research Laboratories) on the premises of Wakayama Plant
July 1965	Established Kao (Singapore) Private Limited (currently Kao Singapore Private Limited)
August 1967	Completed the construction of Tokyo Research Laboratories on the premises of Tokyo Plant (currently Tokyo Plant (Incubation Center Tokyo))
March 1970	Established Kao (Hong Kong) Ltd.
November 1970	Established Sinor-Kao S.A. in Spain
November 1974	Established Kao-Quaker Company, Limited
March 1975	Established Quimi-Kao, S.A. de C.V. in Mexico
December 1975	Completed the construction of Tochigi Plant
January 1977	Established Pilipinas Kao, Inc. in the Philippines
February 1978	Established Ehime Sanitary Products Co., Ltd. (currently Kao Sanitary Products Ehime Co., Ltd.)
March 1978	Completed the construction of Tochigi Research Laboratories on the premises of Tochigi Plant
May 1979	Established Molins-Kao S.A. in Spain
April 1980	Completed the construction of Kashima Plant
April 1984	Completed the construction of Toyohashi Plant
February 1985	Acquired an equity stake in P.T. Dino Indonesia Industrial Ltd. (currently PT Kao Indonesia)
September 1985	Established Kao's cosmetics sales companies at nine locations across Japan to expand the cosmetics (*Sofina*) business nationwide
October 1985	Changed the trade name of Kao Soap Co., Ltd. to Kao Corporation
May 1986	Acquired Didak Manufacturing Limited in Canada to make a full-fledged entry into the information related business
October 1986	Established Guhl Ikebana GmbH in Germany
July 1987	Acquired High Point Chemical Corporation in the U.S.
August 1987	Established Kao Corporation, S.A. in Spain through the merger of Sinor-Kao S.A. and Molins-Kao S.A.
April 1988	Established KAO (Southeast Asia) Pte. Ltd. (currently Kao Singapore Private Limited)
May 1988	Acquired The Andrew Jergens Company (currently Kao USA Inc.)
July 1988	Established Fatty Chemical (Malaysia) Sdn. Bhd.
May 1989	Acquired Goldwell AG (currently Kao Germany GmbH)
October1989	Combined nine cosmetics sales companies across Japan to establish Kao Cosmetics Sales Co., Ltd.
October 1992	Acquired Chemische Fabrik Chem-Y GmbH (currently Kao Chemicals GmbH) in Germany
August 1993	Established Kao Corporation Shanghai

March 1999	Withdrew from the information related business
April 1999	Merged eight sales companies that distribute household products across Japan (Kao Hanbai Co., Ltd.)
August 1999	Established Kao Chemicals Europe, S.L. in Spain as a company to control industrial products businesses in Europe
December 1999	Established Kao Chemicals Americas Corporation as a company to control industrial products businesses in Americas, while liquidating High Point Chemical Corporation at the same time
March 2002	Acquired KMS Research, Inc., etc. via Goldwell GmbH (currently Kao Germany GmbH)
June 2002	Established Kao (China) Holding Co., Ltd. as a business holding company
September 2002	Acquired John Frieda Professional Hair Care, Inc., etc. via The Andrew Jergens Company (currently Kao USA Inc.)
March 2003	Established Kao Commercial (Shanghai) Co., Ltd. (separating the sales function of Kao Corporation Shanghai)
July 2004	Converted Kao Hanbai Co., Ltd. into a wholly-owned subsidiary through share exchange
October 2004	Demerged and transferred the commercial-use products businesses of each of the Company and Kao Hanbai Co., Ltd. to then-existing Kao Clean & Beauty Company, Limited, and then changed the trade name of the company to Kao Professional Services Company, Limited
July 2005	Acquired Molton Brown Limited, etc. via Kao Prestige Limited in the U.K. (liquidated in November 2015)
January 2006	Acquired shares of Kanebo Cosmetics Inc. and converted the company and its group companies into subsidiaries.
April 2007	Merged Kao Hanbai Co., Ltd. and Kao Cosmetics Sales Co., Ltd. and changed the trade name of them to Kao Customer Marketing Co., Ltd.
July 2009	Acquired a plant (manufacturing facilities, etc.) of Reichardt International AG via Kao Corporation GmbH (currently Kao Manufacturing Germany GmbH)
April 2011	Established Kao (Hefei) Co., Ltd.
June 2011	Completed the construction of Eco-Technology Research Center (ETRC) on the premises of Wakayama Plant
April 2012	Established Kao (Shanghai) Chemical Industries Co., Ltd.
April 2014	Established Kao Cosmetic Products Odawara Co., Ltd.
January 2016	Kao Group Customer Marketing Co., Ltd., which took over the shares of Kao Customer Marketing Co., Ltd., Kanebo Cosmetics Sales Inc. and others, commenced operations.
September 2016	Opened Beauty Research & Innovation Center on the premises of Odawara Office
January 2018	Kao Group Customer Marketing Co., Ltd. absorbed and merged Kao Customer Marketing Co., Ltd. and Kanebo Cosmetics Sales Inc. Acquired Oribe Hair Care, LLC via Kao USA Inc.
August 2018	Acquired Washing Systems, LLC and others via Kao USA Inc.
April 2022	The Company has moved its listing venue from the First Section to the Prime Market of the Tokyo Stock Exchange following the revision of the market classification by the exchange.
November 2023	The Company, Kao USA Inc. and Kao Australia Pty. Limited acquired Bondi Sands (Bondi Sands Australia Pty Ltd and others).

3. Description of Business

The Company and its subsidiaries and associates (consisting of 113 subsidiaries and five associates) are engaged primarily in the manufacture and sale of products for the Consumer Products Business and the Chemical Business, as well as service operations ancillary to these businesses.

The descriptions of businesses and the positioning of the Company and its subsidiaries and associates in these businesses are as shown below.

Except for the “Other” business segment, the segmentation of the following businesses is the same as that stated in “V. Financial Information, 1 Consolidated Financial Statements and Other Information, (1) Consolidated Financial Statements Notes to Consolidated Financial Statements, 6. Segment Information.”

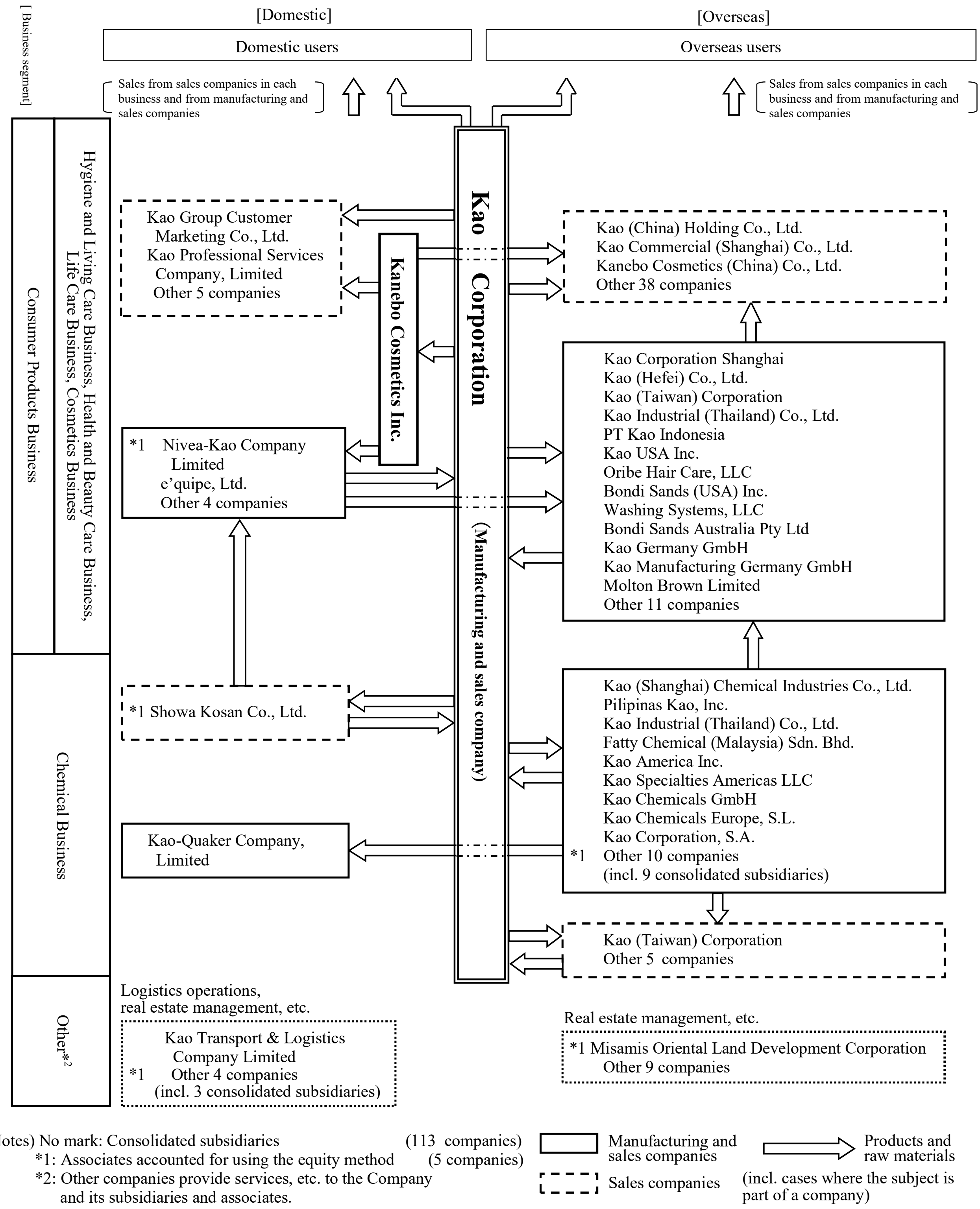
Business segment		Companies primarily responsible for the business	
Consumer Products Business	Hygiene and Living Care Business Health and Beauty Care Business Life Care Business Cosmetics Business	Domestic	The Company, Kao Group Customer Marketing Co., Ltd., Kao Professional Services Company, Limited, Nivea-Kao Company Limited, Kanebo Cosmetics Inc., e'quipe, Ltd., and other 9 companies (a total of 15 companies)
		Overseas	Kao (China) Holding Co., Ltd., Kao Corporation Shanghai, Kao (Heifei) Co., Ltd., Kao Commercial (Shanghai) Co., Ltd., Kanebo Cosmetics (China) Co., Ltd., Kao (Taiwan) Corporation, Kao Industrial (Thailand) Co., Ltd., PT Kao Indonesia, Kao USA Inc., Oribe Hair Care, LLC, Bondi Sands (USA) Inc., Washing Systems, LLC, Bondi Sands Australia Pty Ltd, Kao Germany GmbH, Kao Manufacturing Germany GmbH, Molton Brown Limited, and other 49 companies (a total of 65 companies)
Chemical Business		Domestic	The Company, Kao-Quaker Company, Limited, Showa Kosan Co., Ltd. (a total of 3 companies)
		Overseas	Kao (Shanghai) Chemical Industries Co., Ltd., Kao (Taiwan) Corporation, Pilipinas Kao, Inc., Kao Industrial (Thailand) Co., Ltd., Fatty Chemical (Malaysia) Sdn. Bhd., Kao America Inc., Kao Specialties Americas LLC, Kao Chemicals GmbH, Kao Chemicals Europe, S.L., Kao Corporation, S.A., and other 15 companies (a total of 25 companies)
Other		Domestic	Kao Transport & Logistics Company Limited and other 4 companies (a total of 5 companies)
		Overseas	Misamis Oriental Land Development Corporation and other 9 companies (a total of 10 companies)

Notes: 1. Main products for each business segment are as described in “V. Financial Information, 1 Consolidated Financial Statements and Other Information, (1) Consolidated Financial Statements Notes to Consolidated Financial Statements, 6. Segment Information, (1) Summary of Reportable Segments.”

2. In the “Segment Information,” service operations, etc. classified into “Other” are divided into the Consumer Products Business and the Chemical Business depending on the type of services provided.

3. The companies engaged in multiple businesses are included in the number of companies in each business segment.

The Group’s business structure is as shown in the diagram below.



(Notes) No mark: Consolidated subsidiaries (113 companies)
*1: Associates accounted for using the equity method (5 companies)
*2: Other companies provide services, etc. to the Company and its subsidiaries and associates.

4. Subsidiaries and Associates

(1) Parent Company

Not applicable

(2) Consolidated Subsidiaries

As of December 31, 2023

Company name	Location	Share capital or investments in capital	Description of main businesses	Ratio of voting rights held (%)	Relationship with the Company			
					Concurrent positions as Directors, Audit & Supervisory Board Members, etc.	Long-term loans receivable	Business transactions	Lease of facilities, etc.
Kao Group Customer Marketing Co., Ltd.	Chuo-ku, Tokyo	JPY10 million	Hygiene and Living Care Health and Beauty Care Life Care Cosmetics and control of beauty consulting company for the Cosmetics Business in Japan	100.0	Yes	–	Buyer of products, etc.	Yes
Kao Professional Services Company, Limited	Sumida-ku, Tokyo	JPY60 million	Life Care (commercial-use hygiene products)	100.0	Yes	–	Buyer of products, etc.	Yes
Kanebo Cosmetics Inc.	Chuo-ku, Tokyo	JPY7,500 million	Cosmetics	100.0	Yes	–	Buyer of products, etc.	Yes
Kao Transport & Logistics Company Limited	Sumida-ku, Tokyo	JPY15 million	Logistics-related operations in Japan	*2 100.0 [66.5]	Yes	–	Outsourcee of logistics operations for products, etc.	Yes
*1 Kao (China) Holding Co., Ltd.	Shanghai	CNY2,603,727 thousand	Control of subsidiaries and associates in the People's Republic of China, Cosmetics	100.0	Yes	–	Buyer of products, etc.	–
*1 Kao Corporation Shanghai	Shanghai	CNY564,200 thousand	Hygiene and Living Care Health and Beauty Care Cosmetics	*3 100.0 [15.0]	Yes	–	Supplier and buyer of products, etc.	–
*1 Kao (Hefei) Co., Ltd.	Hefei, Anhui Province	CNY588,502 thousand	Hygiene and Living Care	*4 100.0 [100.0]	Yes	–	–	–
*1 Kao Commercial (Shanghai) Co., Ltd.	Shanghai	CNY1,348,490 thousand	Hygiene and Living Care Health and Beauty Care Cosmetics	*4 100.0 [100.0]	Yes	–	Buyer of products, etc.	–
*1 Kanebo Cosmetics (China) Co., Ltd.	Shanghai	CNY1,271,687 thousand	Cosmetics	*5 100.0 [100.0]	Yes	–	–	–
*1 Kao (Shanghai) Chemical Industries Co., Ltd.	Shanghai	CNY740,000 thousand	Chemical	*6 100.0 [10.0]	Yes	–	Supplier and buyer of products, etc.	–
Kao (Taiwan) Corporation	New Taipei City	TWD597,300 thousand	Hygiene and Living Care Health and Beauty Care Life Care (commercial-use hygiene products) Cosmetics Chemical	92.2	Yes	–	Supplier and buyer of products, etc.	–
*1 Pilipinas Kao, Inc.	Philippines	USD91,435 thousand	Chemical	100.0	Yes	–	Supplier and buyer of products, etc.	–
Kao Industrial (Thailand) Co., Ltd.	Thailand	THB2,000,000 thousand	Hygiene and Living Care Health and Beauty Care Cosmetics Chemical	100.0	Yes	–	Supplier and buyer of products, etc.	–
Fatty Chemical (Malaysia) Sdn. Bhd.	Malaysia	MYR120,000 thousand	Chemical	*7 70.0 [70.0]	Yes	–	Supplier of products, etc.	–
*1 PT Kao Indonesia	Indonesia	IDR1,796,206 million	Hygiene and Living Care Health and Beauty Care	50.01	Yes	–	Buyer of products, etc.	–

Company name	Location	Share capital or investments in capital	Description of main businesses	Ratio of voting rights held (%)	Relationship with the Company			
					Concurrent positions as Directors, Audit & Supervisory Board Members, etc.	Long-term loans receivable	Business transactions	Lease of facilities, etc.
Kao USA Inc.	U.S.	USD2	Health and Beauty Care Cosmetics	100.0	Yes	–	Buyer of products, etc.	–
Oribe Hair Care, LLC	U.S.	USD8,182 thousand	Health and Beauty Care	*8 100.0 [100.0]	Yes	–	–	–
Bondi Sands (USA) Inc.	U.S.	USD0.1	Health and Beauty Care	*9 100.0 [100.0]	Yes	–	–	–
Washing Systems, LLC	U.S.	USD10	Life Care (commercial-use hygiene products)	*10 100.0 [100.0]	Yes	–	–	–
Kao America Inc.	U.S.	USD3,200 thousand	Corporate services to subsidiaries and associates in the United States, and holding company of Chemical Business in the United States	100.0	Yes	–	–	–
Kao Specialties Americas LLC	U.S.	USD1	Chemical	*11 100.0 [100.0]	Yes	–	Supplier and buyer of products, etc.	–
Bondi Sands Australia Pty Ltd	Australia	AUD40	Health and Beauty Care	*12 100.0 [100.0]	Yes	–	–	–
Kao Germany GmbH	Germany	EUR25,000 thousand	Health and Beauty Care	100.0	Yes	–	–	–
Kao Manufacturing Germany GmbH	Germany	EUR13,000 thousand	Health and Beauty Care	100.0	Yes	–	Buyer of products, etc.	–
Kao Chemicals GmbH	Germany	EUR9,101 thousand	Chemical	*13 100.0 [100.0]	Yes	Yes	Supplier and buyer of products, etc.	–
Molton Brown Limited	U.K.	GBP516 thousand	Cosmetics	100.0	Yes	–	–	–
*1 Kao Chemicals Europe, S.L.	Spain	EUR74,035 thousand	Control of Chemical Business in Europe, etc.	100.0	Yes	–	–	–
*1 Kao Corporation, S.A.	Spain	EUR56,411 thousand	Chemical	*13 100.0 [100.0]	Yes	–	Supplier and buyer of products, etc.	–

Notes: *1. The company is a specified subsidiary.
*2. The company is 66.5% owned by Kao Group Customer Marketing Co., Ltd.
*3. The company is 15.0% owned by Kao (China) Holding Co., Ltd.
*4. The company is owned by Kao (China) Holding Co., Ltd.
*5. The company is 92.1% and 7.9% owned by Kanebo Cosmetics Inc. and Kao (China) Holding Co., Ltd., respectively.
*6. The company is 10.0% owned by Kao (China) Holding Co., Ltd.
*7. The company is owned by Kao Singapore Private Limited, a subsidiary of Kao Corporation.
*8. The company is owned by Kao USA Inc.
*9. The company is owned by Bondi Sands Australia Pty Ltd, a sub-subsidiary of Kao Australia Pty. Limited, which is a subsidiary of Kao Corporation.
*10. The company is owned by Washing Systems Intermediate Holdings, Inc., a subsidiary of Kao USA Inc.
*11. The company is owned by Kao Chemicals Americas Corporation, a subsidiary of Kao America Inc.
*12. The company is owned by Bondi Sands Hold Co Pty Ltd, a subsidiary of Kao Australia Pty. Limited.
*13. The company is owned by Kao Chemicals Europe, S.L.
14. Numbers in [ ] represent the ratios of voting rights held indirectly and are included in the ratios of voting rights held.
15. Concurrent positions as Directors, Audit & Supervisory Board Members, etc. include Directors, Audit & Supervisory Board Members and employees of Kao Corporation.
16. Kao Corporation has a total of 113 consolidated subsidiaries as it has 85 smaller consolidated subsidiaries other than the above.

(3) Associates Accounted for Using the Equity Method

As of December 31, 2023

Company name	Address	Share capital or investments in capital	Description of main businesses	Ratio of voting rights held (%)	Relationship with the Company			
					Concurrent positions as Directors, Audit & Supervisory Board Members, etc.	Long-term loans receivable	Business transactions	Lease of facilities, etc.
Nivea-Kao Company Limited	Chuo-ku, Tokyo	JPY200 million	Health and Beauty Care	40.0	Yes	–	Supplier and buyer of products, etc.	Yes
Showa Kosan Co., Ltd.	Minato-ku, Tokyo	JPY550 million	Chemical	21.4	Yes	–	Supplier and buyer of products, etc.	–

Note: Kao Corporation has a total of five associates accounted for using the equity method as it has three smaller associates accounted for using the equity method other than the above.

(4) Other Subsidiaries and Associates

Not applicable

5. Employees

(1) Information about the Group

As of December 31, 2023

Name of segment	Number of employees (persons)	[Number of temporary employees (persons)]
Hygiene and Living Care Business	9,677	[3,827]
Health and Beauty Care Business	8,045	[2,447]
Life Care Business	1,157	[256]
Cosmetics Business	10,450	[1,220]
Consumer Products Business	29,329	[7,750]
Chemical Business	3,984	[197]
Corporate (common)	944	[246]
Total	34,257	[8,193]

Notes: 1. The number of employees refers solely to full-time employees of the Company and its consolidated subsidiaries (excluding the employees seconded from the Group (the Company and its consolidated subsidiaries) to outside the Group but including the employees seconded from outside the Group to the Group). The number in square brackets represents the annual average number of temporary employees, which is not included in the number of employees.
2. We have included full-time, indefinite-term, non-regular employees, etc. in the number of employees.
3. Temporary employees include part-time employees and employees on non-regular contracts hired for a definite period but exclude those dispatched from employment agencies.
4. Corporate (common) refers to the number of employees belonging to administrative and other divisions that cannot be classified into a specific segment.

(2) Information about Reporting Company

As of December 31, 2023

Number of employees (persons)	Average age (years)	Average years of employment (years)	Average annual salary (thousands of yen)
8,199	41.1	17.6	8,024

Name of segment	Number of employees (persons)
Hygiene and Living Care Business	2,510
Health and Beauty Care Business	1,898
Life Care Business	275
Cosmetics Business	1,362
Consumer Products Business	6,045
Chemical Business	1,302
Corporate (common)	852
Total	8,199

Notes: 1. The number of employees refers solely to full-time employees of the Company (excluding the employees seconded from the Company to outside the Company but including the employees seconded from outside the Company to the Company).
2. We have included full-time, indefinite-term, non-regular employees, etc. in the number of employees.
3. Average annual salary includes bonuses and extra wages.
4. Corporate (common) refers to the number of employees belonging to administrative and other divisions that cannot be classified into a specific segment.

(3) Labor Union

Part of the offices, plants, laboratories and consolidated subsidiaries have organized labor unions.

There are no particular matters to be noted regarding the relationship between the Company’s management and each of the labor unions.

(4) Indicators Related to Diversity

Indicators related to diversity for fiscal 2023 were as follows:

1) Disclosure based on the Act on the Promotion of Women's Active Engagement in Professional Life and the Act on Childcare Leave, Caregiver Leave, and Other Measures for the Welfare of Workers Caring for Children or Other Family Members

	Percentage of female employees in management positions (%)	Percentage of paternity leave taken by male employees (%)	Gender pay gap (%)		
			All employees	Employees	Temporary employees
The Company	23.9	102.1	88.9	88.0	82.7
Kao Group Customer Marketing Co., Ltd.	17.8	96.3	66.0	63.1	72.1
Kao Professional Services Company, Limited	13.6	100.0	69.2	68.3	59.2
Kao Transport & Logistics Company Limited	2.8	100.0	52.7	80.8	69.6
Kao Sanitary Products Ehime Co., Ltd.	-	150.0	73.1	76.6	69.9
Kao Beauty Brands Counseling Co., Ltd.	91.0	*	51.0	51.5	*
e'quipe, Ltd.	74.4	100.0	59.1	58.2	65.5
Kao Cosmetic Products Odawara Co., Ltd.	37.5	66.7	72.8	74.9	69.0

Notes: 1. Employees include those who are regular employees and those in full-time indefinite-term employment who are non-regular employees.
2. Temporary employees include part-time employees and employees on non-regular contracts hired for a definite period but exclude those dispatched from employment agencies.
3. All employees include the employees and temporary employees.
4. The percentage of female employees in management positions is calculated assuming those seconded to outside each company as the employees of the companies they are seconded from.
5. The percentage of paternity leave taken by male employees is calculated as follows based on the Act on Childcare Leave, Caregiver Leave, and Other Measures for the Welfare of Workers Caring for Children or Other Family Members. Those seconded to outside each company are counted as the employees of the companies they are seconded from.
The number of male employees who took their first leave associated with childcare in 2023 ÷ the number of male employees who had a child in 2023 × 100
Per the Company’s policy, paid parental leave and paternity leave, which are subject to calculation, can be taken until the end of the first April after the child turns one, and as such, the employees included in the numerator and denominator may differ.
6. The asterisk (*) denotes that there are no male employees eligible to take paternity leave.
7. The gender pay gap represents the ratio of female employees’ wages to male employees’ wages. There is no difference in wages for the same work, and this is due to the difference in the composition of the number of workers by grade. The wages for those seconded are calculated by the companies to which they are seconded.

2) Information about the Group

	Percentage of female employees in management positions (%)	Percentage of paternity leave taken by male employees (%)	Gender pay gap (%)
The Company and its consolidated subsidiaries	31.1	*	87.0
The Company and its domestic consolidated subsidiaries	24.6	100.3	67.4

Notes: 1. These are calculated based on the number of regular employees plus non-regular employees in full-time indefinite-term employment.
2. The percentage of female employees in management positions is calculated assuming those seconded to outside each company as the employees of the companies they are seconded to.
3. The percentage of paternity leave taken by male employees is calculated as follows based on the Act on Childcare Leave, Caregiver Leave, and Other Measures for the Welfare of Workers Caring for Children or Other Family Members. Those seconded to outside each company are counted as the employees of the companies they are seconded from.
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4. The asterisk (*) denotes that the percentage of paternity leave taken by male employees at overseas subsidiaries and associates is not presented as it is not calculated.
5. The gender pay gap represents the ratio of female employees’ wages to male employees’ wages. There is no difference in wages for the same work, and this is due to the difference in the composition of the number of workers by grade. The wages include base salaries and incentives including bonuses. The wages for those seconded are calculated by the companies to which they are seconded.

For details, please refer to “II. Business Overview, 2 Approach to Sustainability and Related Initiatives, (3) Human Capital.”

II. Business Overview

1. Management Policies, Management Environments and Issues to be Solved

Forward-looking statements contained in this section are based on assumptions that management believes to be reasonable as of the filing date of the Annual Securities Report and may differ significantly from actual results due to various factors.

(1) Basic Management Policies

The Group's purpose (social significance) is to realize a Kirei World in which all life lives in harmony. Through wholehearted "ESG-driven *Yoki-Monozukuri**" that considers the perspective of consumers and customers, we aim to make contributions to realizing a bright future for people all over the world and a sustainable symbiotic society in which people can live in harmony with the Earth.

The Kao Way, our corporate philosophy, is shared by all members of the Group and put into practice daily as the basis for our way of thinking and actions. It has been our guiding principle over the past 130 years as we have developed our business while responding to the changing times and focusing on the areas of cleanliness, beauty, and health.

In 2009, we released the "Kao Environmental Statement," expressing our intention to have a positive impact not only on humankind, but also on the natural environment. This statement marked a step further in our efforts toward enriching lives in harmony with nature. In 2019, we announced our new ESG strategy, the Kirei Lifestyle Plan (KLP), in which we declared a shift to management with ESG at the core.

However, a threat looms over human life—the very foundation for realizing our mission of "As one, we create a Kirei life for all—providing care and enrichment for the life of all people and the planet." This threat is expected to continue to jeopardize the bedrock of our everyday lives in the future.

Under these circumstances, we will tackle this compelling social issue with a uniquely Kao approach. With a firm commitment to protecting human life, as well as everyday lives and ecology, we will become a company dedicated to protecting future lives. Under our corporate slogan, "Kirei—Making Life Beautiful," we will contribute to keeping the planet sustainably clean as a viable place to live, ensuring society is sustainable and thriving, and helping people live in happiness, protected from harm.

These efforts will yield financial results and enable returns to stakeholders, and the framework itself will stand the test of time. Going forward, the Kao Group will continue to pursue even higher levels of corporate value enhancement.

**Yoki-Monozukuri*: The Kao Group defines *Yoki-Monozukuri* as a strong commitment by all members to provide products and brands of excellent value for consumer satisfaction. In Japanese, "*yoki*" means good or excellent, and "*monozukuri*" means making or craftsmanship.

(2) Medium- to Long-term Management Strategies and Target Management Metrics

1) Long-term Management Strategy

The Group's vision for 2030 balances the pursuit of both sustained profitable growth and contributions to the sustainability of society, taking the aim of making Kao a company with a global presence a step further to make Kao a company with a global presence, valuable to society. Through ESG, we will continue to be of value to people, society, and the Earth well into the future.

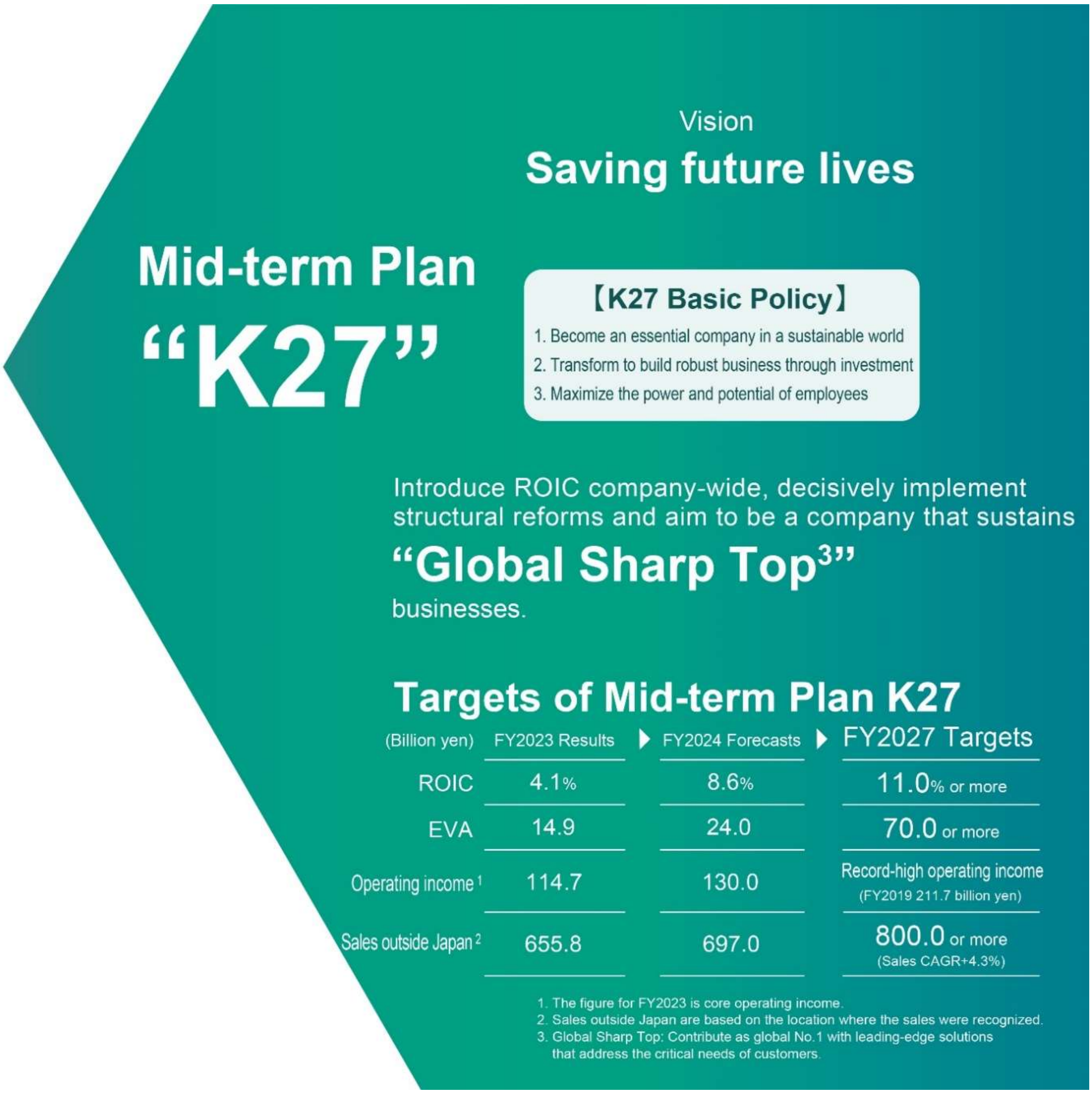
In terms of the environment (E), we aim for zero waste, zero carbon, and eventually to go carbon negative. On the social (S) front, we will continue to promote one and only personalize in the hope that wasteful consumption will be eliminated. While making sure that our governance (G) is effective, we are committed to Integrity as the only choice together with like-minded colleagues. Following the management principle of "Maximum with Minimum," which aims to create maximum value with minimum resources, we will continue to grow to create a better tomorrow.

To make Kao a company with a global presence, valuable to society, it must:

- Become an essential company in a sustainable world
- Become a high-profit global company that also significantly contributes to society
- Provide returns to stakeholders according to levels of growth

2) The Mid-term Plan

Kao Group Mid-term Plan "K27"



K27 Strategic Framework

■Progress during fiscal 2023 and future plan

To build "Global Sharp Top" businesses, the Company has made efforts to expand internationally and transition to businesses essential to consumers and customers and highly profitable businesses. In 2023, the Company successfully paved the way to expanding its skin protection businesses globally. In fact, the Company recorded strong sales of *Bioré* UV care products in Europe and Brazil, and acquired Bondi Sands, a company offering self tanning, sunscreen, and skincare products in countries such as Australia, the UK, and the US. In the Fabric and Home Care business, the Company launched new products that have significant potential to expand internationally, and the Health and Beauty Care business strengthened its European and U.S. operations with a focus on *ORIBE* brand for hair salons. The Company also launched products of each business categories on the Company's EC platform "*My Kao Mall*." In the years ahead, we will seek to further accelerate the sales growth of UV care products overseas, release high value-added sheet-type products, launch new products in the hair care business, and continue to drive the global deployment of unique technologies for eco-chemical products.

We have also worked to secure and develop human resources who support our "Global Sharp Top" businesses, and have moved forward with the reform of organizational management. We will preferentially invest in self-motivated human resources, with dialogues with them at the core, while providing our employees with more opportunities to improve themselves and learn jointly with others, handing over power to them, and ensuring transparent and fair evaluation and treatment, and optimal job assignment for them. We will also transition to a system whereby we can swiftly implement the above initiatives by organizing task-based teams independent of division/department and transition away from the matrix approach.

To improve capital efficiency and profitability, we will expand highly profitable brands, such as *Attack* and *Bioré*. In addition, we have worked to maximize the value of our management capital by improving margins through strategic price increases and structural reforms, as well as by revising our business portfolio. These initiatives will create lasting, long-term effects on its operational and financial performance. We will continue to further improve our earning power by increasing the added value of our products through disciplined portfolio management and enhancement of *Yoki-Monozukuri* focused on profitability.

Moreover, we will work to build businesses through co-creation with our partners to ultimately accelerate the maximization of the technology assets owned by the Kao Group.

All of these strategic plans are intended to enhance sales growth, generate improved returns and long-term value creation for shareholders.

3) Target Management Metrics

The Group uses Economic Value Added (EVA) and Return on Invested Capital (ROIC) as its principal management metrics. Our reason behind choosing these metrics is to use capital efficiently to generate profits in consideration of the interests of shareholders and other fund providers. We believe that continuously increasing EVA will lead to increased corporate value and is consistent with the long-term interests of not only shareholders but all our stakeholders. The goal of our business activities is to increase EVA while expanding the scale of our operations, and we use this metric in the evaluation of individual businesses, the evaluation of investments such as capital expenditures and acquisitions, as well as in annual performance management and compensation systems. We are also working to enhance EVA management by strengthening business portfolio management by using ROIC, a metric that raises awareness of capital cost in each business and enables management that take into account their respective characteristics and competitive environment. By focusing on capital efficiency alongside profits in each business, we aim to improve EVA through focused investment in growth businesses and sound portfolio improvement.

(3) Issues for Management

Environmental issues such as climate change and depletion of water and forest resources, human rights issues, and social issues such as the aging society are becoming increasingly serious. While the world has returned to the prepandemic state, the business environment remained uncertain as China's market growth slowed, and overall costs remained high in the face of geopolitical risks and inflation in Europe and the Middle East.

Amid these changes, the Company is taking part to help address social challenges and break away from the existing mass-production, mass-consumption business model, which has a negative environmental footprint. Instead, we must transition to a cyclical model capable of continuing to produce attractive products with long-lasting appeal for customers while avoiding the production of excess volume. To realize such a business model, the Company announced its Mid-term Plan "K25" in December 2020 and has continued its business activities based on the plan.

However, due to a number of external factors, the Company refocused its strategic priorities in 2023 and implemented significant changes to achieve its mid-term plan. Such external factors include soaring prices of raw materials which have remained high, loss of demand from inbound travelers and changes in the Chinese market, and delays in strategic transformation of underperforming categories. Under these circumstances, the Company reviewed primarily the structural reform and growth strategy sections of the Mid-term Plan and announced Mid-term Plan "K27" in August 2023. Specifically, we will strategically raise prices, enhance its Total Cost Reduction (TCR) initiative, and introduce Return on Invested Capital (ROIC) company-wide to decisively implement structural reforms without changing the management policy set in "K25." Aiming to be a company that sustains "Global Sharp Top" businesses, the Company will actively manage its portfolio and consider divestments as while swiftly executing strategic investments and acquisitions. The continued understanding and further support of the shareholders in corporate activities of the Kao Group will be greatly appreciated.

2. Approach to Sustainability and Related Initiatives

Forward-looking statements contained in this section are based on assumptions that management believes to be reasonable as of the filing date of the Annual Securities Report and may differ significantly from actual results due to various factors.

(1) ESG Strategy (Kirei Lifestyle Plan)

For Kao to become an essential company in a sustainable world, which is what Kao aims to be by 2030, we implement ESG perspectives at the core of management. Our ESG Strategy, the Kirei Lifestyle Plan, is unique to Kao and aims to enrich the lives of the people all over the world. It consists of 19 Kao Actions.

Based on the Kirei Lifestyle Plan, we will achieve business growth and contribute to the sustainability of the world.

1) Governance

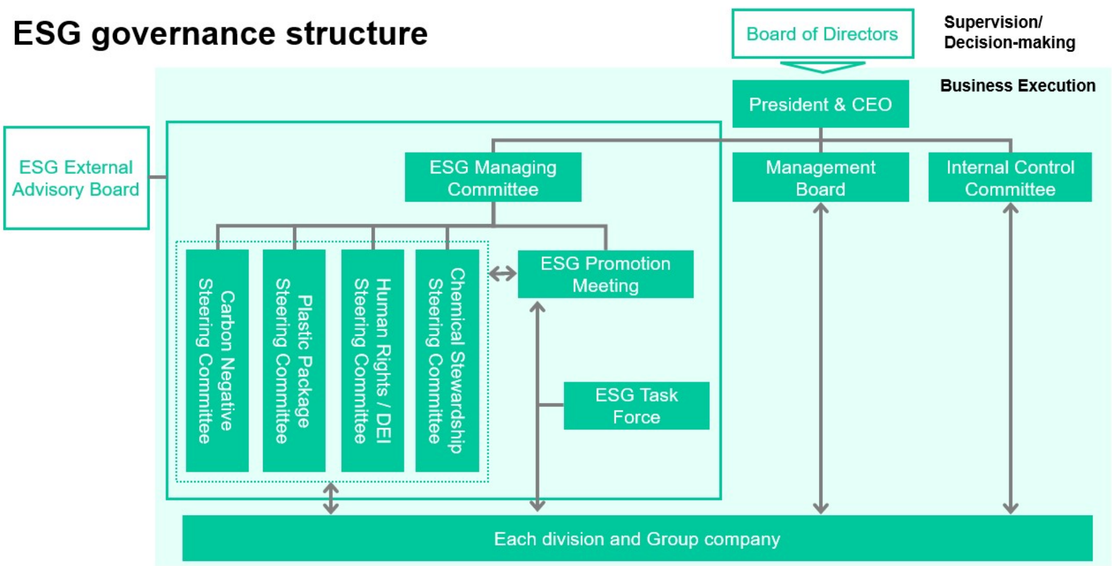
We have a flexible and robust ESG governance structure in order to strengthen our swift response to the major changes taking place globally and have more business opportunities. Characteristics of this structure include an organization with external committee member participation that functions to provide oversight and advice to management, and the swift and targeted implementation of management decisions broken down into innovation and initiatives. The Board of Directors is responsible for supervising ESG issues, including risks and opportunities, under which the President and CEO and subordinate organizations are responsible for executing business operations.

The Board of Directors ensures that it has the appropriate knowledge, experience, and competence to supervise ESG issues. The Board of Directors consists of individuals with a balance of expertise necessary to oversee overall management from multiple perspectives. As we position ESG matters also as requiring specialized knowledge to address, we appoint a number of Directors and Audit & Supervisory Board Members who are well-versed in ESG matters. In addition to regular reports twice a year, the ESG Managing Committee reports to the Board of Directors on the execution of ESG-related matters, depending on the content of the agenda as appropriate. Contents of the report include policies and strategies as well as targets, KPIs and progress of activities. The ESG-related KPIs to be reflected in the compensation policy are discussed by the Compensation Advisory Committee for Directors and Executive Officers and approved by the Board of Directors. Long-term incentive compensation (approximately 30–50% of base salary for each position) included in the compensation of Directors and Executive Officers is weighted 40% based on ESG activity indicators, which measure the degree of promotion of ESG-driven management, and the payment ratio is determined based on the evaluation by external indicators, the extent of achievement of internal goals, etc.

The overall execution of ESG is done under a structure in which the ESG Managing Committee is the highest authority. The ESG Managing Committee discusses and decides the direction of activities related to the ESG Strategy, and reports the status of activities to the Board of Directors. Comprising outside experts, the ESG External Advisory Board provides external viewpoints that are input into our ESG activities. The ESG Promotion Meeting works for each division to achieve the ESG Strategy, and the ESG Steering Committees strive to ensure reliable and timely execution of the ESG Strategy for four priority issues. Under this ESG governance, each division implements activities.

Among these organizations, the ESG External Advisory Board plays an important role in governance. The outside experts who engage in their respective fields and work in regions of the world provide advice on global trends and the status of our initiatives based on their unique knowledge and perspectives, and their advice is effectively reflected in management decision-making from ESG perspectives. The ESG External Advisory Board is comprised of two outside experts in the environmental field, two in the social field, and one in the governance field.

ESG-related risk management is carried out by the Internal Control Committee (which meets twice a year and is chaired by the Representative Director, President and CEO), and opportunity management is conducted by the ESG Managing Committee (which meets six times a year and is chaired by the Representative Director, President and CEO).



Roles, structure, frequency of meetings and agenda of each organization

Organization	Roles	Structure	Performance (2023)	
			Frequency of meetings	Main deliberated items
ESG Managing Committee	Deliberate, discuss or report the following items that concern Kao as a whole: • Basic approach to and policy of ESG • ESG policy sharing, strategy, activities, external communication, etc. • Decisions on investments for promoting ESG activities • Trends, issues and opportunities for the sustainability of the world at large and for ESG • Active stakeholder engagement by ESG Managing Committee members	Chair: Representative Director, President and Chief Executive Officer Members: Senior Managing Executive Officers, Managing Executive Officers, other executives Advisor: Chair Observer: Full-time Audit & Supervisory Board Members	Six times/ year	• Deliberated on and approved the policy on DE&I • Deliberated on and approved the disclosure policy of the Kao Sustainability Report 2023, the progress made on KPIs, and mid- to long-term commitments to be disclosed • Deliberated on and approved the establishment of a new foundation • Deliberated on and approved ESG investment projects • Deliberated on and approved the revision of the Declaration of Consumer-orientation • Deliberated on and approved the overall ESG fund budget for fiscal 2024 • Examined the proposals from the ESG External Advisory Board • Reviewed the progress made on each Kao Action in the Kirei Lifestyle Plan • Held a lecture by an external expert
ESG External Advisory Board	• Give advice and recommendations for issues raised by the ESG Managing Committee from outside viewpoints and based on a high level of expertise • Provide information to the ESG Managing Committee to enable development and implementation of world-class plans • Provide opportunities for collaboration and cooperation with external parties • Evaluate Kao's ESG activities	Members: External influential experts • Rika Sueyoshi CEO, Ethical Association Specialization: Ethical consumption, etc. • Ruma Bose Chief Growth Officer, Clearco Specialization: Human rights, entrepreneurship support, etc. • Jalal Ramelan Chairman, ESG Indonesia Specialization: Sustainable development field • Helmut Schmitz Director of Communication and Public Affairs, Der Grüne Punkt - Duales System Holding GmbH & Co. KG Specialization: Recycling systems for packaging, etc. • Laura Palmeiro Sustainable Finance Director, Danone Specialization: Sustainability, finance, etc.	Twice /year	• Proposed expectations for and risks to Kao based on the social climate • Evaluated the progress made on the Kirei Lifestyle Plan and raised issues

<table>
<tr><td colspan="2">ESG Promotion Meeting</td><td>• Implement the ESG Strategy to integrate it with business based on the direction decided by the ESG Managing Committee and its suggestions
• Supervise and examine to implement key ESG actions
• Compile the issues faced by each division and region in promoting ESG activities and propose solutions to the issues to the ESG Managing Committee</td><td>Chair: Director, Managing Executive Officer, Senior Vice President, ESG
Members: Responsible persons, etc. at business divisions, functional divisions, corporate divisions and regions</td><td>Eight times/ year</td><td>• Formulated an ESG investment strategy
• Formulated a draft policy on future activities for biodiversity
• Drafted proposed revisions to the mid- to long-term targets in the Kirei Lifestyle Plan
• Confirmed the progress and future plan for each Kao Action in the Kirei Lifestyle Plan
• Confirmed the progress of ESG activities made by each division and region
• Held a lecture by an external expert</td></tr>
<tr><td rowspan="3">ESG Steering Commitees</td><td>Decarbonization</td><td>• Draw up a GHG reduction plan
• Promote rapid decarbonization activities through centralized discussions on decarbonization response measures and business opportunities for mitigation and adaptation to achieve carbon zero in 2040
• Appropriately manage climate change risks based on the results of scenario analysis</td><td>Owner: Managing Executive Officer, Senior Vice President, R&D
Members: Staff of R&D, Procurement, Supply Chain Management, CP Business, Chemical Business, ESG</td><td>Five times/ year</td><td>• Discussed a 2030 GHG reduction strategy
• Reorganized opportunities and risks
• Discussed the progress made to achieve decarbonization-related KPIs and responses to address issues</td></tr>
<tr><td>Plastic packaging</td><td>• Discuss activities related to plastic packaging, a key issue for Kirei Lifestyle Plan Action “Zero Waste” to realize a circular society, in a centralized manner and promote activities strongly and promptly
• Promote activities in conjunction with the Decarbonization Steering Committee, Water Conservation and Biodiversity</td><td>Owner: Executive Officer, Vice President, R&D
Members: Staff of CP Business, R&D, Procurement, ESG, Corporate Strategy</td><td>Five times/ year</td><td>• Formulated a draft policy and discussed and approved the actions regarding Innovation in Recycling initiatives (collection and recycling)
• Formulated a draft policy and discussed and approved the actions regarding Innovation in Reduction initiatives (reducing the amount of materials used and using recycled materials)
• Responded to the Plastic Resource Circulation Act of Japan</td></tr>
<tr><td>Human rights and DE&I</td><td>• Under the supervision of the ESG Managing Committee, centrally promote and manage the Kao Group’s human rights-related activities, including human rights due diligence, in accordance with the Kao Human Rights Policy
• Under the supervision of the ESG Managing Committee, centrally promote and manage the Kao Group’s DE&I activities based on its DE&I Policy</td><td>Owner: Senior Executive Officer, Senior Vice President, Human Capital Strategy
Members: Staff of Human Capital Strategy, ESG, Procurement, Supply Chain Management and CP Business</td><td>Once/ month</td><td>• Developed a DE&I Policy
• Proposed and took employee awareness measures for understanding and implementing the DE&I Policy
• Promoted human rights due diligence, including holding workshops to identify potential human rights risks, updated the risks identified at the Kao Group in the risk assessment, and promoted activities at relevant divisions and subsidiaries
• Put more effort into reducing the risk of human rights violations in advertising expression
• Promoted and managed to ensure respect for human rights and DE&I across the value chain (especially among employees and business partners and in society)</td></tr>
</table>

	Chemical stewardship	• Promote voluntary management of chemical substances throughout the product lifecycle by the SAICM Promotion Committee • Develop policies and reduction/phase-out plans for the use of raw materials used in products taking into account progress of regulatory trends, science, and other factors by the Chemical Stewardship Council • Disclose information on our approach to the use of chemicals and the results of safety assessments, and communicate with stakeholders	Owner: Executive Officer, Senior Vice President, Product Quality Management Members: Staff of ESG, R&D, and Product Quality Management	Once/ month	• Understood the European Green Deal and other regulatory trends in product raw materials and identified raw materials and products subject to such policy and regulations • Developed reduction/phase-out plans for selected chemical ingredients (microplastics, propylparaben, butylparaben, etc.) • Promoted initiatives to disclose Kao's approach to ingredients of high social concern • Participated in discussions at an international meeting with the government agency to set targets for the Global Framework on Chemicals (GFC), the successor to the SAICM

2) Strategy

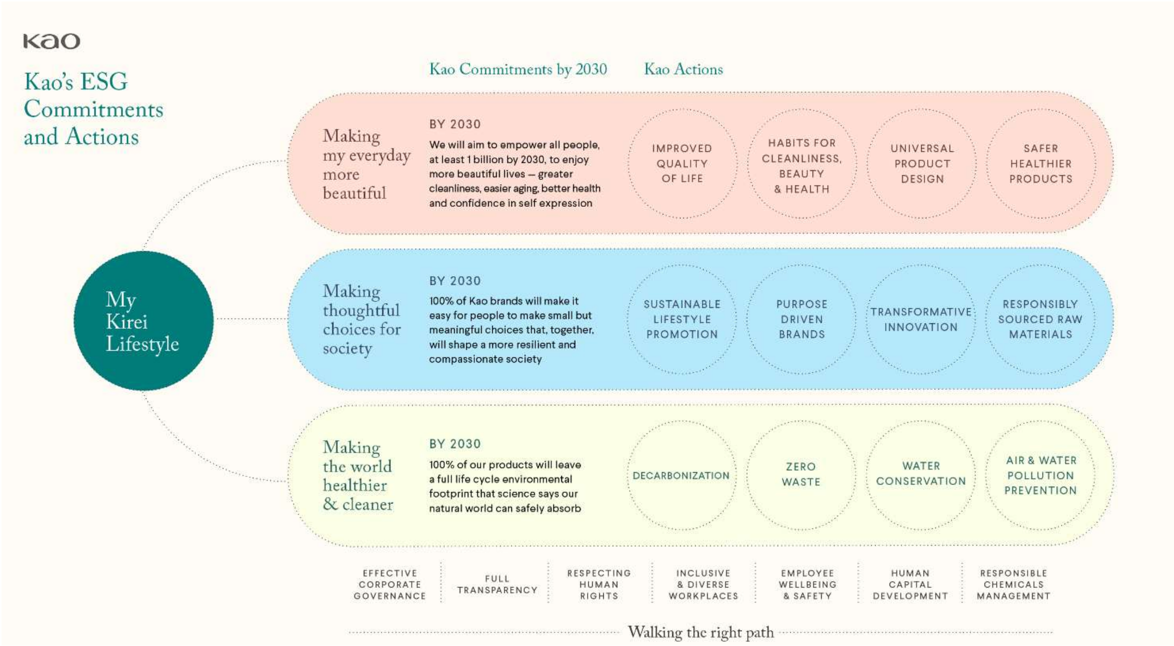
Kao has a wide range of business domains, from the Consumer Products Business to the Chemical Business. Accordingly, the scope of Kao's influence on the sustainability of the world at large can be organized into four categories, namely Daily living, Society, Environment and Business foundation.

Daily living is a unique aspect of Kao's efforts to meet the needs of the people that we serve and enrich their lives. Society is an important aspect of Kao's business activities because of its relationship with society through its global value chain and its broad involvement with society through diverse industries to operate the Chemical Business. Environment is an aspect that has a significant impact, as products are provided to, used by and disposed of by consumers around the world. To respond appropriately to these aspects, it is essential for Kao to bolster its Business foundation through human capital development, respect and protection of human rights, promotion of DE&I activities, and chemical substance management.

The risks and opportunities related to the sustainability of the world with which Kao is concerned, and the strategies to address them, are as described in the table below. It shows that these risks and opportunities are attributable to the characteristics of Kao's business. It also shows that promoting the strategies that lead to risk avoidance and opportunity creation will help to increase its corporate value and achieve business growth based on the characteristics of its business.

Classification	Risks	Opportunities	Strategies
Daily living	• Decrease in sales and profit due to the rise of daily necessities/personal care products that prioritize price over value-added products that contribute to people enriched lives • Loss of business opportunities due to product deployment that is disconnected from the lifestyles of people in each region	• Expansion of existing businesses and creation of new markets by providing high value-added products that meet the needs of people seeking affluence in their lives and global expansion in accordance with regional characteristics	• Product development, business deployment, and global expansion aimed at enriching the lives of people • Strategic development of awareness-raising and communication to encourage people to change their attitudes and behaviors in conjunction with the business
Society	• Improper management and handling of high-risk procurement, such as palm oil, resulting in procurement difficulties and deterioration of reputation	• Business growth through increased brand loyalty that demonstrates involvement in society as its purpose • Expand business opportunities by providing innovative products/services through innovation • Stabilization of procurement through precise approaches to social issues in procurement	• Increase loyalty by strengthening the Purpose Driven brand • Product and service revolution through innovation • Accurate supply chain management and sustainable raw material selection
Environment	• Growing environmental challenges such as decarbonization and plastic waste, as well as expanded producer responsibility, will increase taxation and corporate burdens and squeeze profits. • Difficulties in procuring raw materials, providing products to consumers, and continuing business due to extreme weather conditions	• Increased revenues through risk avoidance, efficiency, and cost reductions in environmental taxation and regulations • Business growth through increased consumer/customer loyalty through advanced environmental responsiveness	• Reduction of CO2 emissions over the entire life cycle • Recycling of plastics and other resources • Water conservation in production and product use • Prevention of air and water pollution in production and product use
Business foundation	• Inadequate management of compliance, human rights, and chemical substances makes it difficult to continue business • Difficulty in securing excellent human resources and deterioration of corporate culture	• Improving stakeholder confidence through quality control and chemical substance management unique to Kao • Expand business and improve competitiveness by enhancing human resources	• Effective compliance • Managing human rights across the value chain • Strengthening human resources and organizational capabilities • Advanced chemical management

The concrete strategy developed based on the four categories described in the table above is Kao's ESG Strategy, the Kirei Lifestyle Plan. It sets forth the direction we are taking with specific ESG activities that put people at the center of our actions as well as our ambitions for the future. The Kirei Lifestyle Plan consists of Kao's ESG Vision and Kao's ESG 3 commitments and 19 actions to achieve this vision. We believe that our ESG activities taken based on the ESG Strategy with the goal of enriching the lives of people and realizing a sustainable world will lead to avoiding risks and creating business opportunities, and ultimately achieving sustainable business development.



Please refer to Kao Sustainability Report 2023 (P.13) for the selection process for the Kao Actions as material themes
https://www.kao.com/content/dam/sites/kao/www-kao-com/global/en/sustainability/pdf/sustainability2023-e-all.pdf

One of the strategic approaches to realizing Kao's vision of "sustainability as the only path" outlined in our Mid-term Plan 2027 (K27) is "becoming an essential company in a sustainable world." This aims to build business models that simultaneously solve multiple social issues together with our business partners. K27 is based on the approach of developing our business for the purpose of benefiting society and achieving business growth as a result. This philosophy is symbolized by the fact that our purpose is to realize a Kirei world in which all life lives in harmony. We believe that our ESG actions taken with the goal of enriching the lives of the people all over the world and realizing a sustainable world will result in business growth and creation of a cycle where generated profit is returned to stakeholders, consumer/customer, and the wider society. The Kirei Lifestyle Plan is the main driver to achieve this management vision, and ESG activities are therefore positioned as future investments and the efforts linked to our finances.

It is said that technological innovation is essential to address the serious social issues of today and to realize a sustainable society. Kao is focusing on *Yoki-Monozukuri* based on innovation proposals, and "ESG-driven *Yoki-Monozukuri*," which incorporates innovative technologies based on *Essential Research*, will be a major strength. Furthermore, we believe that Kao can trigger innovations that transcend technology. Through innovation, we aim to have a significant impact on people, society and the planet while at the same time achieving Kao's sustainable growth.

The Kirei Lifestyle Plan will also contribute to increasing our corporate brand value and product brand value. The spirit of the Kirei Lifestyle Plan is also integrated into our products, campaigns, programs, communications and other activities. We believe that contributing to enriching the lives of people and to society and environmental sustainability will allow us to gain the trust of consumers and customers, and a wide range of stakeholders, earn a strong reputation, and contribute to enhancing our corporate brand value.
One of the Kirei Lifestyle Plan Actions is "Purpose-driven brands." It strengthens the brands' purpose/reason for existing and gains empathy from product users, thus contributing to greater brand loyalty. This is why we set purpose-driven brand development as the pillar for our management policies. We will develop strong ties with people through loyalty marketing, thereby improving our high-profit structure.

Under our management strategy, which integrates the concept of ESG, we will further strengthen "ESG-driven *Yoki-Monozukuri*" rooted in our purpose.

3) Risk management

We are reinforcing our risk and opportunity management to ensure risk mitigation and business opportunity creation under resilient ESG governance.

Risk management involves the Risk and Crisis Management Committee regularly monitoring the significance of the risks. Among these, risks that would have a major impact on management and require an enhanced response are designated as Corporate Risks. For those, risk themes and risk owners are decided by the Management Board, and progress is managed by the Risk and Crisis Management Committee. Each organization takes the lead in addressing risks that can be managed by individual divisions and group companies. In terms of opportunity management, we have established a structure that manages key themes for the entire Kao Group to set priorities and promote ESG investments, which is connected to strategic business development.

4) Metrics and targets

We are steadily implementing the ESG Strategy by setting ambitious metrics and targets, clarifying the direction of the ESG Strategy, and enabling accurate progress management. We have set metrics and targets for each of 19 actions of the ESG Strategy, the Kirei Lifestyle Plan. Under the aforementioned ESG governance structure, progress made to meet each of the metrics is monitored and reflected in initiatives based on the results.

Mid- to long-term targets for the 19 Kao Actions

Kao Actions	Indicator	Mid- to long-term targets	
		Target value	Year
Make my everyday more beautiful			
Commitment	The number of people empowered to enjoy more beautiful lives—greater cleanliness, easier aging, better health and confidence in self-expression	1 billion	2030
Improved quality of life	The number of products which contribute to a comfortable, beautiful, healthy life and touch the heart of people	7 billion	2030
Habits for cleanliness, beauty & health	Cumulative number of people reached by awareness-raising activities for acquiring habits for cleanliness, beauty & health using Kao products and services (cumulative since 2016)	0.1 billion	2030
Universal product design	% of new or improved products that meet Kao’s Universal Design Guidelines	100%	2030
Safer healthier products	% of targeted ingredients of concern on which views are disclosed	100%	2030
Make thoughtful choices for society			
Commitment	% of Kao brands that make it easy for people to make small but meaningful choices that, together, shape a more resilient and compassionate society	100%	2030
Sustainable lifestyle promotion	Cumulative number of people reached by awareness-raising activities for promoting environmentally friendly lifestyles and realizing a sustainable world (cumulative since 2016)	0.1 billion	2030
Purpose-driven brands	% of Kao brands that make a contribution to solving social issues and that make people feel and sympathize with the brand’s social usefulness	100%	2030
Transformative innovation	Cumulative number of proposed or realized products with big positive impact on lifestyles (cumulative since 2019)	10 or more	2030
	Cumulative number of proposed or realized businesses and systems with big positive impact on lifestyles (cumulative since 2019)	10 or more	2030
Responsibly sourced raw materials	% of certified paper products and pulp for consumer products	100%	2025
	Confirm traceability to small oil palm farm	Finish	2025

Make the world healthier and cleaner				
	Commitment	% of Kao products that leave a full lifecycle environmental footprint that science says our natural world can safely absorb	100%	2030
		Kao recognition or achievement level by external ratings firms	Highest evaluation level	Yearly
	Decarbonization	% reduction in absolute full lifecycle CO_2 emissions (Base year: 2017)	22%	2030
		% reduction in absolute scope 1 + 2 CO_2 emissions (Base year: 2017)	28%	2025
			55%	2030
		% of renewable energy in electricity consumption	100%	2030
	Zero waste	Quantity of fossil-based plastics used in packaging	Will peak and begin to decline	2030
		Quantity of innovative film-based packaging penetration for Kao and others per annum	300 million	2030
		% recycling rate of plastics involving Kao	50%	2030
		Practical use of innovative film-based packaging made from collected pouches	Products launch	2025
		% of recycled plastic used in PET containers (Japan)	100%	2025
		% of the waste generated from Kao sites*, ratio of waste that cannot be recycled* Beginning with production sites	0 (less than 1%)	2030
		% reduction of discarded products and discarded promotional materials (Base year: 2020)	95%	2030
	Water conservation	% reduction in full lifecycle water use per unit of sales (Base year: 2017)	10%	2030
		% reduction in full lifecycle water use per unit of sales in regions with water scarcity (Base year: 2017)	40%	2030
	Air & water pollution prevention	% of plants which disclose VOC and COD emissions	100%	2025
Walking the right path				
	Effective corporate governance	Kao recognition or achievement level by external ratings firms	Highest evaluation level	Yearly
		Number of serious compliance violations* per annum * Compliance violations that have a significant impact on management and significantly damage corporate value	0	Yearly
	Full transparency	% of consumer product brands for which people can easily access complete ingredients information	100%	2030
	Respecting human rights	% response rate to human rights due diligence (risk assessment across internal, suppliers, and contractors respectively)	100%	2030* * Suppliers: 2025
	Inclusive & diverse workplaces	Score on "Inclusive organizational culture" in our employee engagement survey (perfect score: 100)	75	2030
		% of female managers	Same as % of female employees	2030
	Employee wellbeing & safety	Lost time accident frequency rate (per million hours worked)	0.1	2030
		Average number of lost long-term work days (days/people) * Starting from Japan	105	2030
		Ratio of employees who have lost long-term work days per one thousand employees * Starting from Japan	0.12	2030
		Score on "Vitality" in our employee engagement survey (perfect score: 100)	70	2030
	Human capital development	Score on "Organizational culture in which employees are encouraged to take on challenges" in our employee engagement survey	80	2030
		Score on "Work style satisfaction" in our employee engagement survey (perfect score: 100)	75	2030
	Responsible chemicals management	% of chemical products and raw materials with disclosed information of benefits and safety to ensure safe usage for our customers	100%	2030
		% of areas where impacts on health, environment and safety from chemicals are managed responsibly and sustainably considering their stages from raw materials procurements to disposal	100%	Yearly

Please refer to Kao Sustainability Report 2024 to be issued in May 2024 for more details.
https://www.kao.com/global/en/sustainability/pdf/sustainability-report/

(2) Responses to Climate Change (Disclosures Consistent with the Recommendations of the TCFD)

Climate change poses a main risk to the realization of an enriched Kirei Lifestyle, both now and in the future. The Kao Way enunciates our mission to "create a Kirei life for all, providing care and enrichment for the life of all people and the planet," and the Kao Group is actively implementing initiatives to both mitigate and adapt to global warming. The Group announced its support for the TCFD, and proactively implements the disclosure of information relating to climate change and has dialogue with investors. Recognizing that pursuing efforts to limit the global average temperature increase to 1.5°C, which is the objective of the Paris Agreement, is necessary to realize a Kirei Lifestyle for consumers of the future, we set forth decarbonization as one of the key action themes of the Kirei Lifestyle Plan and are carrying out activities.

* TCFD: Task Force on Climate-related Financial Disclosures

1) Governance

Governance on climate change is incorporated in governance on the ESG Strategy. Please refer to "(1) ESG Strategy (Kirei Lifestyle Plan), 1) Governance" for more details.

2) Strategy

4°C increase in the global average temperature due to climate change poses an immense impact on society. As such, we recognize the importance of making significant contributions toward the aim to keep the global rise in temperature at 1.5°C. We have analyzed scenarios based on a rise in temperature of 1.5°C, 2°C and 4°C. The trends for risks and opportunities are the same for the 1.5°C and 2°C scenarios, but we recognize that the transition is faster and the level of activity is greater in the 1.5°C scenario than the 2°C scenario.

Main Business Risks and Opportunities

		1.5°C and 2°C scenarios	4°C scenario	Kao Group's strategy
Transition	Introduction and/or raising of carbon tax	Higher costs incurred due to the introduction of carbon tax worldwide	Hardly any progress in introducing carbon taxes	Set targets for Scope 1 + 2 CO_2 emissions according to the 1.5°C scenario
	Introduction of restrictions on plastics	Higher procurement costs due to a rise in the unit price of recycled plastic resulting from greater demand for recycled plastic	No significant increase in recycled plastic demand	Continue and bolster activities for plastics in a circular society
	Raw material price increase	Higher procurement costs due to a restriction on fossil-based raw materials	Higher procurement costs due to an increase in demand for fossil-based raw materials	Continue and bolster activities for minimizing the quantity of fossil-based raw materials being used, and revise sales prices based on the change in costs
	Preservation of biodiversity	Higher procurement costs for palm oils and pulp due to restrictions on new agricultural land development, regulations on the procurement of certified products, etc.	Higher procurement costs for palm oils and pulp due to the need for purifying water quality and contaminated soil following the excessive use of agrochemicals and chemical fertilizers	Continuing and strengthening the minimisation of the use of raw materials that damage biodiversity
	Changes in consumers' behavior	Increased sales of ethical products due to greater demand in all generations	Increased sales of ethical products due to greater demand in some generations	Develop and market ethical products, and inform consumers about them
Physical	Natural disasters	Greater damage	Immense damage	Conduct risk surveys at each site and carry out measures accordingly
	Rise in average temperature	Increased sales due to significantly increasing demand for UV-care products, anti-perspirants and infection control products	Increased sales due to significantly increasing demand for UV-care products, anti-perspirants and infection control products	Reinforce the development of these products for which demand is growing

3) Risk management

The main risks related to climate change are included in and managed as risks under the ESG Strategy. Please refer to "(1) ESG Strategy (Kirei Lifestyle Plan), 3) Risk management" for more details.

4) Metrics and targets

In 2021, we established and renewed our targets for 2030 based on our policy of moving toward carbon zero by 2040 and carbon negative by 2050.

- % reduction in absolute scope 1 + 2 CO_2 emissions −55% (base year: 2017)*1
- % of renewable energy in electricity consumption 100%*2
- % reduction in absolute full lifecycle CO_2 emissions −22% (base year: 2017)
- Avoided emissions *3 *4 10,000 thousand tons (CO_2 equivalent)

*1. This has been approved by the Science Based Targets Initiative (established to encourage companies to take ambitious activity in the field of climate change) as one of the targets for the 1.5°C scenario.

*2. We have become a member of RE100 (global initiative bringing together companies committed to 100% renewable electricity that they use in their business operations).

*3. The seven types of greenhouse gases (GHG) agreed upon in the 17th session of the Conference of the Parties (COP 17) to the United Nations Framework Convention on Climate Change and the seventh session of the Conference of the Parties serving as the meeting of the Parties (CMP 7) to the Kyoto Protocol.

*4. The amount of emission reductions in society as a whole as a result of products from the Kao Group.

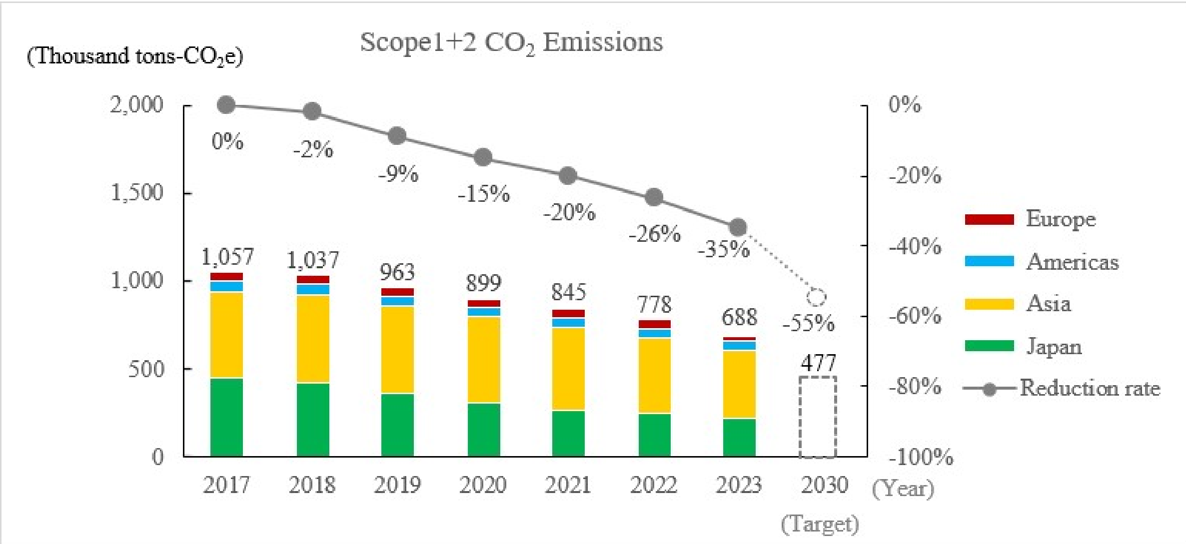
The tables and graph below show CO_2 emitted by the Kao Group. We achieved 35% reduction of Scope 1 + 2 CO_2 emissions in 2023 compared to the base year 2017 by implementing initiatives at our production sites. For example, our plant in Thailand purchased electricity from 100% renewable sources, and our production sites in Vietnam, Indonesia and Mexico started purchasing renewable electricity. In addition to these initiatives, we introduced hot water heat pumps and other low-carbon equipment and produced products according to demand. We will continue to introduce low-carbon equipment and use renewable energy.

Scope1 CO_2 emissions Thousand tons-CO_2e

	2017	2018	2019	2020	2021	2022	2023
Total	653	652	644	616	605	595	539
Japan	271	263	259	242	244	240	223
Asia	290	291	291	278	264	256	237
Americas	43	49	46	45	45	51	46
Europe	49	49	48	51	50	48	34
Reduction rate	0%	-0%	-1%	-6%	-7%	-9%	-17%

Scope2 CO_2 emissions Thousand tons-CO_2e

	2017	2018	2019	2020	2021	2022	2023
Total	404	385	319	282	240	183	149
Japan	173	157	98	68	19	3	0
Asia	208	207	214	208	213	173	143
Americas	14	14	6	6	8	7	5
Europe	8	8	1	1	1	1	0
Reduction rate	0%	-5%	-21%	-30%	-41%	-55%	-63%



Note that the amounts of CO_2 emissions in the above table have been partly updated from those in the table "Scope 2 CO_2 emissions" disclosed in Kao Sustainability Report 2022 because we found out that some non-production sites in Europe have been purchasing renewable electricity since 2017.

Please refer to Kao Sustainability Report 2024 to be issued in May 2024 for more details.
https://www.kao.com/global/en/sustainability/pdf/sustainability-report/

(3) Human Capital

Employees are a company’s most important assets. We are working to develop Global Sharp Top human capital/organizational management through decisive investment in human capital toward achieving the Mid-term Plan 2027 (K27). We will create an environment and a corporate culture in which both individuals and the company can grow together by drawing out the unlimited potential that each of our diverse employees possess and utilizing their vitality to the maximum possible extent as an organization.

1) Governance

After the Board of Directors discusses policies for human capital strategy from a management perspective, the Human Capital Development Committee, whose members consist of top executives, deliberates and decides on specific issues and initiatives (e.g., establishment of major organization and reorganization, appointment and dismissal of incumbent to key positions, plans for workforce and personnel costs, and establishment, modification, and abolishment of major guidelines/policies and procedures) and shares the status of progress.

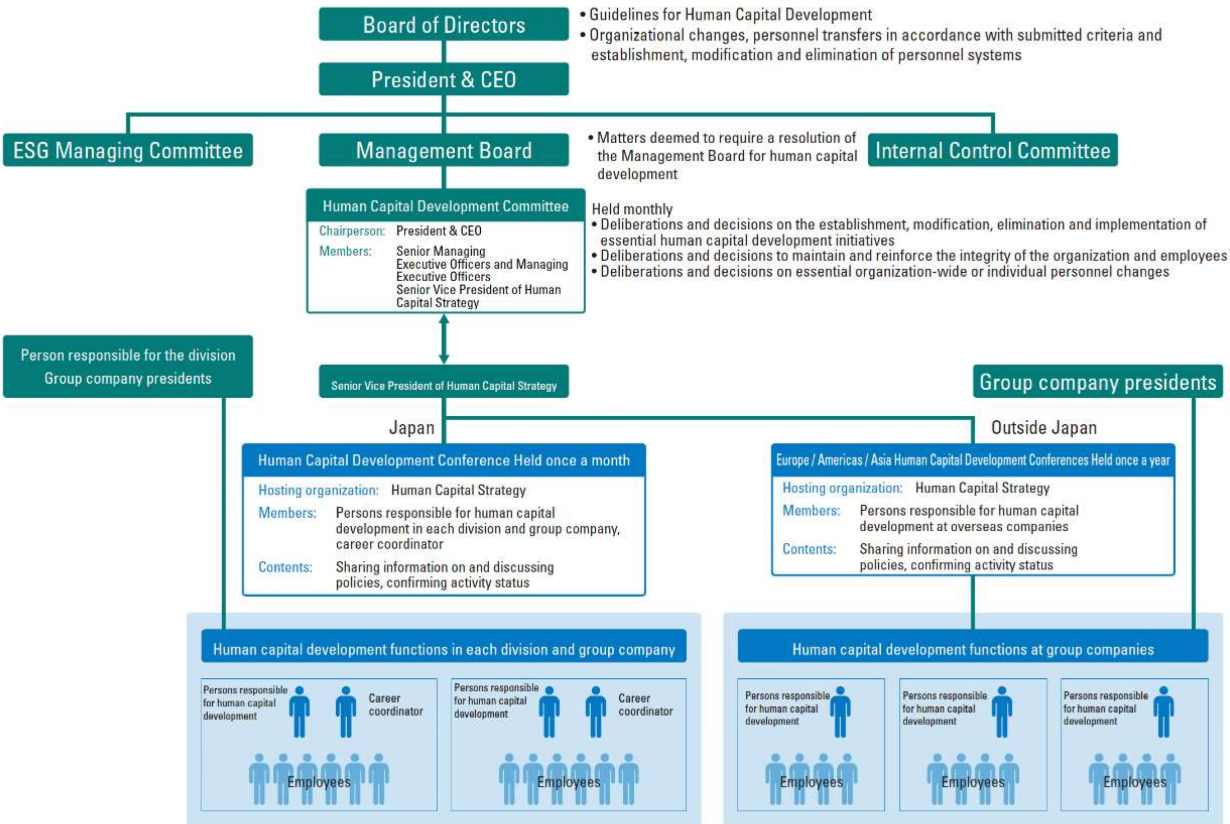
In addition, to promote activities across the Group, we have introduced a framework that is shared and utilized globally. For example, we make use of human capital information via a global human capital information system and bolster our human capital management and development through Objectives and Key Results (OKR), job grading system, performance management system, training systems, and compensation policies that are shared globally.

We pursue these activities under Senior Vice President of Human Capital Strategy in collaboration with the human capital development functions of each group company, both within and outside Japan.

Furthermore, we have set up human capital development function for major functions in Japan while also appointing “career coordinators” who oversee individual development of each employee and provide assistance with employees’ developing future career opportunity.

The Human Capital Development Conference, which is made up of the people responsible for human capital development in major functions and domestic subsidiaries, meet on a regular basis to share information on and discuss directions relating to human capital development throughout the Kao Group and the status of activities at domestic subsidiaries.

Human Capital Development Structures

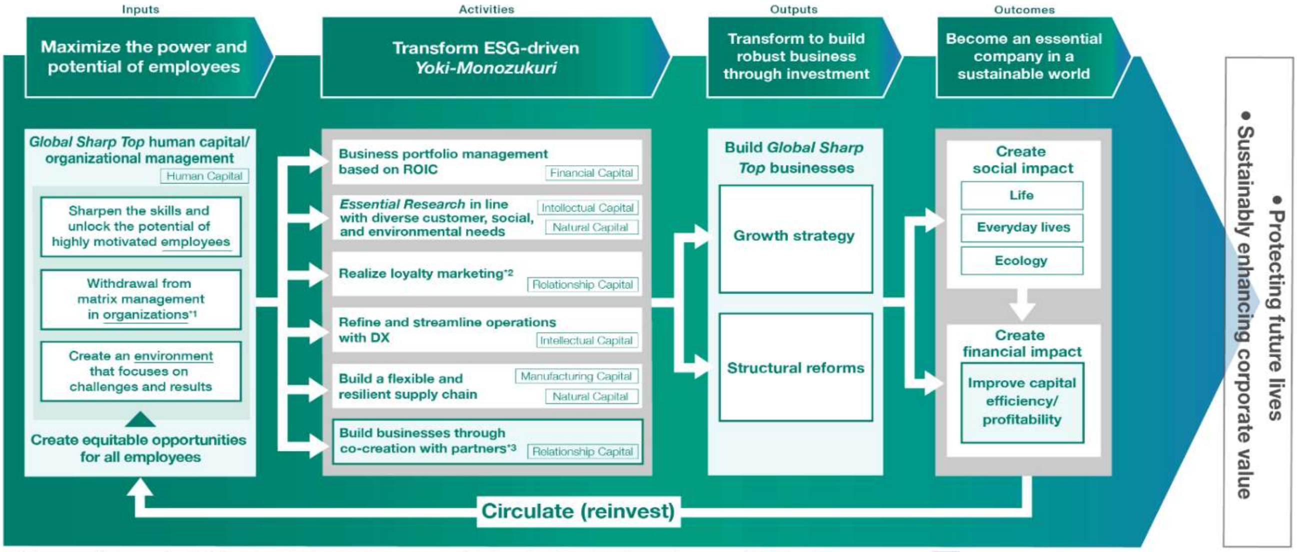


2) Strategy

Our basic policy for human capital development consists of three pillars: “From equality to equity,” “From the relative to the absolute,” and “ From the uniform and formal to the diverse and having initiative,” and we carry out activities accordingly.

Based on this policy, under the Global Sharp Top strategy, we will become an essential company in a sustainable world by further evolving *Yoki-Monozukuri* and transforming ourselves into a company that builds robust business through investment. To this end, in human capital, the driving force behind this transformation, we invest to the human capitals who are more positive and self-motivated, by focusing on dialogues at the core. Our human capital strategy, namely “Sharpen the skills and unlock the potential of highly motivated employees,” “Withdrawal from matrix management in organizations,” “Create an environment that focuses on challenges and results,” and as the foundation “Create equitable opportunities for all employees.” Under this strategy, we are maximizing the power and potential of employees by developing Global Sharp Top human capital/organizational management.

Human capital strategy linked to management strategy



*1 Achieve prompt decision making *2 Deliver optimal value to each and every consumer *3 Faster maximization of technology assets, one area of Kao's strengths
* Capitals: Capitals to be effectively applied by human capital, which has been enhanced by human capital strategies

Overview of human capital strategy

We properly examine the effectiveness of each of the initiatives, and we also periodically monitor employees’ satisfaction and motivation by annually conducting an employee engagement survey. In 2023, with the aim of maximizing the power and potential of employees on a global scale, including those at subsidiaries outside of Japan, we overhauled the contents of the employee engagement survey and conducted it. Going forward, we will confirm and verify the survey results and take actions for improvements accordingly at each workplace, thereby aiming to create an effective work environment that leads to the achievement of long-term business goals.

a. Sharpen the skills and unlock the potential of highly motivated employees: Advanced training
We are strengthening the development of human capital that have a high level of expertise and creativity as sources of innovation and that can maximize the potential of the Kao Group by the understanding of diversity, collaboration, and cooperation based on the Kao Way. Our self-development programs offer more than 9,000 commuter, distance, and e-learning opportunities, making it easy to learn anytime, anywhere. To transform ourselves from a manufacturing company to a UX (customer experience) creation company, we also offer a variety of DX-related learning opportunities to employees. Until 2022, we promoted DX education targeted mainly at core members with high digital literacy in each function, and approximately 1,000 citizen developers we have trained play active roles in each function. In the fall of 2023, we introduced a DX Adventure Program to expand the DX human capital base to all functions and companies of the Kao Group in order to create new value and accelerate business process transformation. Through this effort, we plan to train a cumulative total of 150 DX leaders across the Company, 300 individuals who promote DX in their functions, and 2,000 citizen developers by the end of fiscal 2027.

b. Sharpen the skills and unlock the potential of highly motivated employees: Optimal assignment
The Kao Group has long been systematically rotating employees under the Self Education & Development Scheme and the career coordinator system, taking into account the direction of employee development and their career interests. In addition to this, from fiscal 2024, we will expand our internal recruitment scheme to cover the entire Kao Group, which looks for members of new businesses and projects for the realization of a Global Sharp Top corporate group and will bring together human capital who are willing to take on challenges and capable of leading transformations in a timely manner in relevant organizations and projects. In this way, we will strengthen the organizational structure necessary to achieve our corporate strategy. At the same time, we will provide more opportunities for employees who are willing to take on challenges to develop their careers on their own initiative to improve the organizational climate toward autonomous career development.

c. Withdrawal from matrix management in organizations: Delegation of authority
We are evolving a matrix structure that takes advantage of the freedom of businesses/functions and working to implement scrum-style management in a way that is centered on maximizing the speed of achieving the objectives of priority tasks. We aim to make decisions in the actual sites (*Genba)* while avoiding silos and uniformity that tend to occur in large organizations.

d. Withdrawal from matrix management in organizations: Sustainable development of future leaders
We are systematically developing business leaders who will drive innovation and new value creation to realize discontinuous growth for the Kao Group and are working to achieve sustainable organizational management. We identify core human capital suitable as future candidates for key positions in senior management and specialist positions at an early stage in their careers. Through systematic and proactive assignment and training, we develop human capital that will lead the Kao Group.

e. Create an environment that focuses on challenges and results: More transparency in evaluation
We will introduce a 360-degree feedback at the Company and its domestic subsidiaries in 2024 to support the growth of management-level employees and improve the transparency and reliability of organizational operations. The 360-degree evaluation allows management-level employees to receive feedback from all directions, not merely from upper management-level employees, and to more objectively check the degree to which they demonstrate their ability and leadership to develop their skills. The evaluation is also aimed at improving the transparency and reliability of management-level employee evaluation.

f. Create an environment that focuses on challenges and results: Recognition/Compensation and Benefits
We aim to support the growth of each employee and bring out the maximum value by recognizing their diverse challenges. The Kao Group clarifies the roles and responsibilities of each position, arranges and assigns each employee according to their ability and aptitude rather than the years of service, and treats them based on an appropriate evaluation of their challenges and achievements in accordance with their roles and responsibilities.
In 2022, we renewed our award system that awards employees who set big goals and take on challenges daily. In 2023, 3.8 times more projects and 3.6 times more employees were awarded compared to the average over the past five years before the renewal, leading to further challenges and grow for our employees.

g. Create equitable opportunities for all employees: Thorough dialogue
We thoroughly engage in dialogue, which is an important element in all of our initiatives.
We implement *KURUMAZA*, an interactive program with executive officers, for middle management employees, who play a key role in leading the actual sites (*Genba)* toward achieving our management strategy, to help them develop leadership skills. Through direct dialogue with diverse executive officers, the program aims to help middle management employees (i) gain a deep and broad understanding of our management strategy and policy and, as leaders, develop the ability to more effectively integrate team activities in the direction a company is heading; (ii) build a network with middle management employees in different functions from their own to accelerate collaboration with them toward innovation; and (iii) experience and recognize the importance of engaging in dialogue among diverse participants and taking advantage of differences among them to find new directions to achieve goals.
To improve the quality of dialogue, the Company and its domestic subsidiaries hold the annual Dialogue Festival, a program aimed at improving dialogue mindset and dialogue skills, to foster a free and vigorous organizational culture. The Dialogue Festival communicates the importance of dialogue and offers programs that employees can freely participate in, such as online learning tools and webinars to enhance dialogue skills and workshops to learn about psychological safety and our corporate philosophy, the Kao Way. 60% of Dialogue Festival participants feel that their minds, behavior and ways of communication have changed. Among the management level, this figure was 70%.

h. Create equitable opportunities for all employees: OKR
We have introduced the Objectives and Key Results (OKR) approach since 2021 as a major initiative to stimulate employees to take on challenges. In the Kao Group's OKR, all employees set their own goals for what they want to achieve through their work to make the world a better place and the Kao Group a better group company under the three main pillars, namely business contribution, ESG, and one team and my dream. Employees are encouraged to set higher and more challenging goals, and we evaluate not only the results but also the process of achieving the goals to improve employee engagement and move the organization forward.
The implementation rate of OKR is 72% globally and 90% domestically. All employees of the Kao Group have access to view each individual's OKR on our system, allowing like-minded employees to freely communicate with each other and cooperate across countries, regions, jobs and positions. This accelerates the sharing of knowledge and abilities necessary to achieve their OKR, leading to increasing business speed and productivity through innovation.
According to our 2023 employee engagement survey, the number of employees working daily toward achieving their challenging goals has doubled since 2022. Notably, 25% of employees are steadily working to achieve their challenging goals with the help of those around them, achieving both personal growth and organizational growth. For 42% of employees who had trouble identifying challenges they should take on, their division heads helped them make it relevant to them personally by, for example, communicating it in an easy-to-understand way and sharing examples of challenges other employees were taking on.

i. Create equitable opportunities for all employees: DE&I
As DE&I promotion activities, we provide each of our diverse human capital with the support necessary to put down roots in an environment where they can work comfortably and obtain fair opportunities. We also work to foster an organizational culture where all employees can express their ideas with peace of mind and engage in healthy debate.

- Framework
  The Human Rights and DE&I Steering Committee carries out group-wide DE&I promotion activities for the entire corporate activities. All the organizations under the Human Capital Strategy at the Company promote DE&I in various personnel initiatives, while the DE&I, a dedicated organization, plans and implements DE&I promotion activities throughout the Company and its domestic subsidiaries. For subsidiaries outside of Japan, local DE&I promotion officers work closely with the DE&I of the Company to promote activities in each region that are tailored to their respective problems.

- Formulation and dissemination activities of Kao Group's DE&I Policy
  After having discussions at the Group's global level, we formulated and disclosed Kao Group's DE&I Policy internally and externally in order to continue to evolve DE&I promotion activities in our business through brands, products and services and all corporate activities. We also started implementing education and awareness-raising initiatives to help employees deepen their understanding of the DE&I Policy and put it into practice.

Diversity, Equity and Inclusion Policy
Guided by our corporate philosophy the Kao Way and our thinking on Diversity, Equity, and Inclusion, outlined below, we commit to continuously elevating our efforts. We believe that all of us can and need to do more. This is especially true for us, as a company whose strength lies in the breadth of the products and services that have been created through innovations that span the entire spectrum from the development of raw materials to the final product for the end user.
We are committed to further advancing our actions in Diversity, Equity, and Inclusion, by enhancing collaboration with our stakeholders, starting with our employees, and including business partners and all people, in our business through our brands, products and services, and all corporate activities to realize a society in which all people can thrive authentically.

Our Definition of Diversity, Equity, and Inclusion
Diversity
Diversity is the presence of different characteristics among individuals, groups, and communities.
We honor the uniqueness of each person and recognize all forms of diversity, including but not limited to culture, nationality, creed, race, ethnicity, sex, gender identity and gender expression, sexual orientation, age, disability, and various lifestyles and values.

Equity
Equity is advancing fairness to ensure each and every person can fulfil their potential authentically.
This includes addressing existing barriers and providing fair access to opportunities, in society and in the workplace.

Inclusion
An inclusive world is one in which all individuals are valued and respected for who they truly are with a sense of belonging. It refers to the maximization of both the individual and a team's potential through embracing various perspectives and ideas, when multiple diverse people come together.

For further detail of the DE&I Policy, please refer to the following.
https://www.kao.com/global/en/sustainability/walking-the-right-path/inclusive-diverse/dei/

- DE&I promotion activities

Improving a work environment that makes the most of diversity
As part of our structural reform of human capital, we have initiated office renovations at our Kayabacho Office in 2024. The concept of the Kayabacho Office renovation is to create a workplace that stimulates creativity through dialogue. To create a workplace where employees can work with vigor and enthusiasm according to their job types, we will create a fair work environment that matches the attendance rate of employees and their tasks and expand spaces for dialogue such as co-creation areas and discussion rooms. Going forward, we will expand this initiative to other worksites in Japan and abroad after setting priorities in consideration of factors such as the aging of the buildings and future expansion needs.
The spread of the COVID-19 pandemic has led to the establishment of diversified places and environments to work, including remote work as represented by work at homes. In 2023, we promoted specific work styles according to their duties and roles, rather than standardized rules, to enable employees to further unleash their creativity through dialogue and co-creation among employees. In promoting flexible work styles, we also introduced the Smart Work Support (SWS), an application that enables visualization of work situations during work at home telecommuting. Through such measures, we are creating an environment in which employees can work safely and efficiently.

Women's empowerment
We are working on activities to promote women's empowerment, especially in Japan, as a diversity element that relates to the greatest number of human capital and is essential for the growth of the Kao Group. We are making improvements to achieve the target of increasing the percentage of women on the Board of Directors to 30% by 2025. In an effort to increase the pipeline of women in decision-making positions, we have set a target of increasing the percentage of women in management positions to equal the percentage of women employees by 2030 and are working on three priority actions.

Leadership

(Number of employees, unless otherwise noted.)

	2021			2022			2023			2024		
	Male	Female	% of females	Male	Female	% of females	Male	Female	% of females	Male	Female	% of females
Directors*1	7 (3)	1 (1)	12.5	7 (2)	2 (2)	22.2	8 (3)	2 (2)	20.0	7 (3)	1 (1)	12.5
Audit & Supervisory Board Members*1	4 (3)	1 (0)	20.0	4 (3)	1 (0)	20.0	5 (3)	0 (0)	-	4 (2)	1 (1)	20.0
Executive officers*2	26	2	7.1	27	3	10.0	26	4	13.3	27	4	12.9

Note: As of April 1 of each year

*1. The numbers in parentheses indicate the number of Outside Directors and that of Outside Audit & Supervisory Board Members.

*2. Those who concurrently serve as Director included.

Situation of female employees

	2022			2023		
	Employees (%)	Managers (%)	Achievement rate (%)	Employees (%)	Managers (%)	Achievement rate (%)
The Group	52.9	30.5	57.7	53.1	31.1	58.6
The Company and its domestic subsidiaries	55.9	22.4	40.1	56.0	24.6	43.9
Asia	44.6	47.6	106.6	44.2	45.9	103.8
Europe	49.9	40.8	81.7	52.4	44.8	85.5
Americas	51.2	53.3	104.2	53.0	48.6	91.7

Notes: As of December 31 of each year

* Employees include those who are regular employees and those in full-time indefinite-term employment who are non-regular employees.
* The achievement rate indicates the proportion of female managers to the total female employees.

Overview of measures to promote women’s empowerment at Kao

Aim to bring diverse perspectives into various decision-making situations

Development of potential future leaders

Strengthen development from the perspective of equity

Strengthen development
- Provide leadership training programs for women

Change the mindsets of employees
- Provide career awareness opportunities (such as seminars and cross-industrial study sessions)
- Present role models
- Provide opportunities to interact with senior employees

Support for balancing work and childcare to promote engagement

Minimize career gaps caused by childcare

Support career development
- Expand the working support system
- Support employees in balancing work and childcare

Change the mindsets of employees
- Develop the awareness to do your best at both work and childcare, rather than choosing between work and childcare
- Dispel the mindset of gender-based roles at home

➡ **Encourage male employees to take paternity leave**

Create an environment that enables unbiased training and promotion opportunities

Dispel the mindset of gender-based roles

Promote unbiased human capital development
- Improve human capital development framework and its implementation

Promote diversity management
- Improve knowledge and awareness among managers
- Ensure psychological safety and tackle unconscious bias
- Dispel the mindset of gender-based roles at work

➡ **Encourage male employees to take paternity leave**

One of the three priority actions is to “provide support for balancing work and childcare to promote engagement.” The seminars on building a system for balancing work and childcare, which had previously been held for employees who are about to return to work after childcare leave, were revamped in 2023 as a mandatory training program for both men and women upon announcing their pregnancy, which is before the mindset of gender-biased roles at home arise due to women’s long-term maternity leave. Additionally, aiming to make men’s participation in childcare the norm, we have established paid leave at birth that both men and women are required to take, promoting an environment that makes it easier for employees to take childcare leave. Furthermore, for employees who return to work before the first April 30 following their child’s first birthday, which is the deadline for taking childcare leave, we introduced a system that allows them to choose more flexible work styles, helping them return to work when they wish.

As a result of these efforts, the percentage of male employees who took childcare leave at the Company and its domestic subsidiaries in 2023 was 100.3%. In addition, the proportion of female managers has been increasing year by year with the female employee ratio reaching 56.0% and the female manager ratio reaching 24.6% by the end of 2023 at the Company and its domestic subsidiaries.

The gender pay gap, one of the indicators of women's advancement, is 87.0% at the Kao Group. We believe that this gap is due to the higher percentage of men among employees with more years of service, who tend to earn higher salaries, as well as among employees in higher-paying job groups, mainly in Japan, since there is no established wage gap between male and female employees in the same roles at the Kao Group. Therefore, as part of our strategy to eliminate the gender pay gap, we will continue to take steps to further improve our retention of female employees, and as appropriate, increase the percentage of women who are managers, senior managers and executives to align with the percentage of female employees in total in order to advance women's empowerment in the workplace through our initiatives.

Upskilling and fostering a culture that makes diversity a strength for the organization
Toward developing an organizational culture that makes diversity a strength and produces good results in a team through communication, we have been focusing on psychological safety and unconscious bias as one of our key subjects to raise awareness. In 2023, we started providing Basic Knowledge of Psychological Safety as a mandatory e-learning program for all managers at the Company and its domestic subsidiaries to foster psychological safety in the organizations. We also started providing a pilot e-learning program, Basic Knowledge of Unconscious Bias.
As a result of these efforts, the score for "Inclusive organizational culture" in our employee engagement survey was 62. We will continue such activities with the goal of achieving a score of 70 in 2027.

j. Create equitable opportunities for all employees: Well-being

The fountain of business activities of the Kao Group is its vigorous and *GENKI* (being energetic, lively and bright) employees, and its foundation is the health of its employees. The Kao Group promotes Health and Productivity Management® and provides its employees and their families with equitable opportunities to receive health support. We also incorporate products and healthcare solutions developed through the analysis of basic internal and external health information and healthcare knowledge into our own health development and promote practical activities in which employees and their families participate. We proactively disseminate the best practices and findings of our initiatives to local communities, other workplaces and consumers to help them realize healthy and enriched lifestyles. Furthermore, we made the Kao Group Health Declaration and announced internally and externally our commitment to Health and Productivity Management® as a company. We have formulated a Mid-term Health Plan Kao Health 2025 to implement initiatives.

* Health and Productivity Management® is a registered trademark of Nonprofit Organization Kenkokeiei.

Kao Group Health Declaration
Along with promoting healthy bodies, we are striving to expand reliable healthcare based on evidence from inside and outside the company not only for employees and their families but also for communities, workplaces, and consumers. Together we will realize healthy and enriched lives for all.

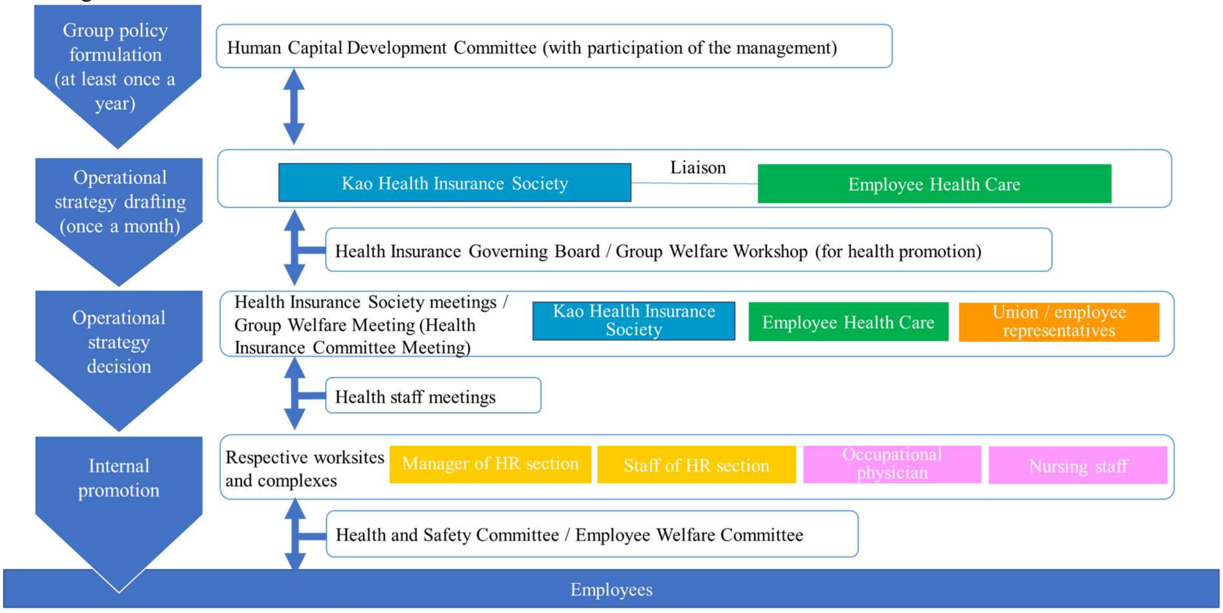
- Mid-term Health Plan: Kao Health 2025

Kao Health 2025 aims to promote a vibrant workplace and society with healthcare-conscious employees and their families by improving the lives of each individual.
As our main initiatives, we will implement six initiatives (lifestyle-related diseases, cancer, quitting smoking, mental health care, females, and seniors), provide support for balancing treatment and work, and manage employees engaged in hazardous operations and conduct a risk assessment. We will also propose health promotion programs in which not only our employees but also their families and friends can participate.

- Organizational framework

  To internally promote Health and Productivity Management®, Kao Health Insurance Society and Employee Health Care formulate plans for health promotion strategy implementation through collabohealth (i.e., close collaboration between the health insurance provider and Kao to safeguard its employees' health). We also assign the manager and staff of the HCD function at every plant/complex/branch, and these managers and staff work together with occupational physicians and nursing staff to implement the strategy in their respective areas. Information on the state of progress in Japan is shared with subsidiaries outside of Japan, and each of the subsidiaries implements a health promotion strategy in accordance with policies in their country or region. We also launched *GENKI* Project to expand the application of best practices that have been implemented within the Kao Group into local communities, and externally provide health solutions.

Organizational framework



3) Risk management

It is important for our business activities to allow diverse human capital to come together and enable each individual to demonstrate his or her abilities and individuality to the fullest. Amid the increasing mobility of human capital, a decline in our competitiveness in recruitment would prevent us from acquiring human capital as planned, and our employee turnover would lead to a decline in the overall capabilities of our organization. We consider these our greatest risks. We strive to mitigate these risks by offering our employees opportunities for growth and improving their work environments which will make it easier for them to play more active roles.

4) Metrics and targets

	KPI	2023	Target 2027
Maximize the power and potential of employees	Employee engagement: Total score in Kao Engagement Survey	63*1	75
	Response rate to employee engagement survey	90%	100%

Human capital strategy	Actions	KPI	2023	Target 2027
Sharpen the skills and unlock the potential of highly motivated employees	- Advanced training - Optimal assignment	Challenge-oriented human capital	58%*2*3	60%*2*3
		Investment in employee training	1.53 times (vs. 2020)	2.5 times (vs. 2020)
		DX Human Capital	7 times*2 (vs. 2020)	15 times*2 (vs. 2020)
		0★1Kao proposal fulfillment rate	38%	50%
		Number of assignee through internal recruitment	4 times*2 (vs. 2020)	20 times*2 (vs. 2020)
		Number of human capital works for external organizations/companies	171 people	250 people
		Number of rotations across functions	529 cases*2	500 cases*2
Withdrawal from matrix management in organizations	- Delegation of authority - Sustainable development of future leaders	Score in Kao Engagement Survey Category: Degree of promotion of Scrum-type operation	57*1	70
		Number of internal filling plan for critical positions	2.4 times	7 times
		Ratio of mid-career recruitment to total recruitment	1.8 times*2 (vs. 2020)	3 times*2 (vs. 2020)
Create an environment that focuses on challenges and results	- More transparency in evaluation - Recognition/Compensation & Benefits	Score in Kao Engagement Survey Category: Fair Evaluation	60*1	70
		Score in Kao Engagement Survey Category: Organizational culture that encourages challenge	61*1	70

Create equitable opportunities for all employees	· Thorough dialogue · OKR · DE&I · Well-being	Score in Kao Engagement Survey Category: Workplace satisfaction	61*1	70
		Score in Kao Engagement Survey Category: Dialogue	63*1	70
		Score in Kao Engagement Survey Category: Psychological safety	62*1	70
		OKR implementation rate	72%	80%
		Score in Kao Engagement Survey Category: Work style satisfaction	60*1	65
		% of female managers	31.1% (% of female Employees: 53.1%)	80% of "% of female Employees"
		Score in our employee engagement survey Category: Inclusive organizational culture	62*1	70
		Score in our employee engagement survey Category: Vitality	59*1	70
		Ratio of employees who have lost long-term work days	2.56%*4	1.30%*2
		Average number of lost long-term work days	195 days*4	120 days*2

* Counted in a group-wide basis, unless otherwise stated.

* Employees include those who are regular employees and those in full-time indefinite-term employment who are non-regular employees.

*1. The number of respondents includes 27,460 non-regular employees of the Kao Group.

*2. Only consolidated subsidiaries in Japan

*3. Employee engagement survey

*4. Among consolidated subsidiaries in Japan, Inogami Co., Ltd. is not included.

3. Business Risks and Other Risks

(1) Risk and Crisis Management System

In the Kao Group Mid-term Plan 2027 "K27," the Kao Group has set forth its basic policy: 1. Become an essential company in a sustainable world; 2. Transform to build robust business through investment; and 3. Maximize the power and potential of employees. Please refer to "1. Management Policies, Management Environments and Issues to be Solved" for more details.

However, the Kao Group's business environment remains uncertain due to such factors as the ongoing geopolitical risks stemming from the destabilization of political and social conditions, while environmental issues including climate change, human rights issues, and social issues such as the aging society are becoming increasingly serious. Moreover, amid the ongoing global expansion of business and the progress of structural changes in various fields, companies must respond promptly and appropriately to changes in the risks pertaining to their businesses. In this business environment, the Kao Group manages the following risks and crises.

Risk is the effect of uncertainty on the achievement of management targets and the execution of business activities. The Risk and Crisis Management Committee, one of the committees under the Internal Control Committee concerned with risk, has established a system and activity guideline to manage "risk" that results in threats and "crisis" that is a situation in which risk materializes, based on the Risk and Crisis Management Policy. Divisions, subsidiaries and affiliates manage risks by identifying and assessing risks, and formulating and implementing countermeasures based on this activity guideline. In a crisis, the Kao Group works to minimize physical damage and financial losses by establishing an Emergency Response Team Organization that corresponds to the level of emergency, and by responding promptly and appropriately. Risk and crisis management activities are reviewed by the Management Board on a regular (annual) and timely basis, and approved by the Board of Directors. The Internal Control Committee monitors the status of risk and crisis management and confirms their effectiveness of management. Please refer to "IV. Information about Reporting Company, 4. Corporate Governance" for more details.

After deliberation by the Risk and Crisis Management Committee and the Management Board, the Kao Group has selected the following 15 particularly significant risks as the main risks that could have a negative impact on its sustained profitable growth and contribution to the sustainability of the world. It also reviews these main risks at least once a quarter based on changes in the business environment. Among these main risks, the Kao Group determines themes for and addresses risks that would have a major impact on management and require an enhanced response as "corporate risks." Once a year, the Risk and Crisis Management Committee conducts a review based on its analyses of an internal risk survey and the external environment as well as interviews with management, and the Management Board decides upon risk themes and risk owners (with an Executive Officer responsible for each risk theme). Each owner establishes a countermeasure team to conduct reviews, and the Risk and Crisis Management Committee, which meets four times a year, manages progress.

Risk and Crisis Management Activity Process

These are main risks that might materialize within five years. The order in which they are listed reflects their importance as recognized as of the fiscal year ended December 31, 2023. There are risks other than the listed risks that may affect investors' decisions.

(2) Main Risks

Among the 15 main risks, those that the Kao Group addresses as corporate risks are marked with a circle in the table below. It also shows changes in a risk assessment (perceived impact and probability) of the main risks compared to that of the previous fiscal year in three levels (i.e., each risk increases, remains unchanged or decreases).

Main risks	Corporate risks	Changes in risk assessment
Raw material procurement		→
Response to social issues	○	↗
Geopolitics	○	↗
Large-scale earthquakes, other natural disasters and accidents	○	→
Quality of products and other items	○	→
Information security	○	→
Reputation	○	→
Pandemics	○	↘
Changes in the retailing environment		→
Business outside Japan		→
Business investment		→
Compliance		→
Securing human capital		→
Currency exchange rate fluctuations		→
Litigation		→

Changes in risk assessment (perceived impact and probability)

↗ : Risk increases

→ : Risk remains unchanged

↘ : Risk decreases

Raw material procurement
Background Market prices for natural fats and oils and petroleum products used as raw materials by the Kao Group are affected by factors including global business conditions, geopolitical risks, the balance between supply and demand, abnormal weather, and currency exchange rate fluctuations. In addition, the Kao Group is largely dependent on natural capital such as palm oil, paper and pulp for its raw materials, and it must fulfill its corporate social responsibility by realizing sustainable procurement with extensive environmental considerations including resource conservation, global warming prevention and biodiversity preservation, as well as social considerations including safety, sanitation, labor conditions, and human rights. *Risks and impact* • A sudden change in market prices of raw materials could render the Kao Group unable to attain its target for profits. • Some raw materials are rare, thus entailing risks relating to stable procurement. If the supply of products to the market is disrupted due to demand fluctuations or other sudden changes in market conditions, or difficulties at suppliers, the Kao Group may not only be unable to attain its targets for net sales and profits, but its credibility could also decline. • If the Kao Group's efforts for sustainable and responsible procurement are deemed to be inadequate due to supply chain issues, the Group's brand image and credibility could decline. *Responses* The Kao Group is working to reduce the impact of hikes in raw material prices by reducing costs and conducting measures such as passing increases on to selling prices. For risks relating to stable procurement, the Kao Group is augmenting facilities at its main suppliers and cultivating secondary suppliers to diversify risks. The Kao Group also reviews contracts and proactively cooperates with suppliers to reduce risks. On the other hand, to practice sustainable and responsible procurement, the Kao Group announced its guidelines on the ESG Promotion Activities with Suppliers and has been promoting measures to ascertain that efforts are being made to protect human rights and the environment in its supply chain. The Kao Group identifies particularly high-risk supply chains and works in collaboration with suppliers and NGOs to resolve fundamental issues. In addition, the Kao Group is working to reduce the amount of raw materials it uses and to switch to raw materials from non-edible biomass sources. It is also strengthening coordination with suppliers through the use of Sedex for supplier monitoring, establishment of an auditing system to eliminate compliance violations by suppliers, the CDP Supply Chain Program, and establishment of the guidelines on the Partnership Requirements for Suppliers. With the aim of sustainably procuring palm oil whose supply chain is one of the high-risk supply chains, the Kao Group is conducting a program in cooperation with local partners to help oil palm smallholders in Indonesia improve yields and acquire sustainable palm oil certification. The Kao Group strives to disclose these initiatives to its stakeholders proactively and transparently.

Response to social issues
Background Climate change, the marine plastic waste problem, depletion of water resources, environmental issues in raw material procurement, and human rights issues in supply chains as well as growing social issues such as the aging society and hygiene have increased consumer awareness about the environment, health and other matters, leading to the trend of ethical consumption and customers' increasing demand for sustainability. To help resolve these social issues, the Kao Group is executing Kao Group Mid-term Plan 2027 "K27" and promoting the Kirei Lifestyle Plan (KLP), which is its ESG Strategy. In addition to aiming for innovation at every stage, from raw material procurement to production, product use and disposal, the Kao Group has set targets for 19 Kao Actions, which are the action themes Kao must prioritize from both social and environmental perspectives, and all divisions throughout the Company are performing their respective roles. By promoting these measures and managing their progress, the Kao Group aims to contribute to the sustainability of society, while striving to engage with its stakeholders by proactively disclosing the details of its activities. *Risks and impact* • If the Kao Group's efforts to resolve social issues are inadequate, or are deemed inadequate, its products and services may not be accepted by consumers and customers, and its targets for net sales and market share may be unattainable. • Inability to adequately show progress toward the KPIs committed to in the KLP may be perceived as greenwashing*1 and lead to a decline in corporate value. • As for climate change-related risks, there are transition risks (introduction and/or raising of carbon tax, introduction of restrictions on plastics, raw material price increase, and preservation of biodiversity) and physical risks (natural disasters) as listed in the note*2. • Human rights violations or lack of consideration for human rights may hinder the Kao Group's business activities, such as maintaining its supply chains. *Responses* With the aim of further integrating the KLP into its businesses, the Kao Group established four ESG steering committees under the ESG Managing Committee in April 2022 to build a robust governance structure. The ESG steering committees address the priority issues of decarbonization, plastic packaging, human rights and diversity, equity and inclusion (DEI), and chemical stewardship, respectively. Persons at the officer level are responsible for analyzing each issue and gaining an understanding of related opportunities and risks from the perspective of social, environmental, and business impact to make and promote plans. The Kao Group will thus reliably implement ESG *Yoki-Monozukuri* with the aim of both helping to resolve social issues and achieving business growth. The Kao Group responds to climate change under the above governance structure. Its countermeasures against each risk are described in the "Kao Group's strategy" for the transition and physical risks as listed in the note*2. Toward the goal of zero human rights violations, the Kao Group regularly conducts a risk assessment of its supply chains to identify and address risks, and raises employee awareness of human rights issues. Deeming this main risk to be a corporate risk, the Kao Group also works to reduce reputational risk by understanding evaluations of our initiatives aimed at helping resolve social issues from stakeholders and other parties on a global scale.

*1. Greenwashing: Exaggerating or overstating the environmental and sustainability aspects of a company's products or services, or making unsupported claims about the environmental or sustainability actions it takes.
*2. Please refer to "2. Approach to Sustainability and Related Initiatives, (2) Responses to Climate Change (Disclosures Consistent with the Recommendations of the TCFD)" for more details.

Geopolitics
Background Geopolitical risks have remained high in Europe and East Asia, where the Kao Group conducts business. Geopolitical risks may also increase in countries and regions where the Kao Group procures raw materials. *Risks and impact* • In countries and regions with heightened geopolitical risks, if destabilization of political and social conditions, diplomatic tensions, conflicts or other reasons cause a deterioration in the environment surrounding our business, human casualties, a temporary suspension of operations due to supply chain disruptions, or changes in consumer purchasing, the Kao Group's targets for net sales and profits may be unattainable. *Responses* The Kao Group prepares risk scenarios for countries and regions with heightened geopolitical risks, provides systems to address countries and regions that require special attention, and monitors the political and social situation. The Kao Group established guidelines for ensuring employee safety and is working to strengthen its supply chain networks by identifying the impact of supply chain disruptions in raw material procurement and other areas on its business. The Kao Group addresses this main risk of geopolitics as a corporate risk.

Large-scale earthquakes, other natural disasters and accidents
Background For companies with large-scale plants, process safety needs have increased in the context of accidents at chemical plants and the many natural disasters that have occurred recently. *Risks and impact* • A major obstruction to the supply of products to the market due to injury to employees or damage to facilities or supply chains resulting from a large-scale earthquake or other natural disaster such as a large-scale typhoon or flood brought on by climate change could have a significant impact on business results. • The occurrence of substantial injury to employees or damage to the surrounding area due to events such as a fire or explosion at a Kao Group plant could have a significant impact on business results, with a resultant loss of social credibility. *Responses* The Kao Group is striving to enhance its safety capabilities through a regular evaluation by an external organization in addition to an internal audit in order to prevent fires, explosions and chemical spills while maintaining safe and stable operations. The Kao Group prepares for emergency situations in the event of natural disasters, including large-scale earthquakes, large-scale typhoons and floods, by having a disaster response structure in place, taking measures for facilities, educating and enlightening employees, and conducting periodic drills. Deeming this main risk to be a corporate risk, the Kao Group is analyzing the impact of and considering responses to natural disasters in Japan premised on a long-term suspension of operations, such as an earthquake in the greater Tokyo metropolitan area, Nankai Trough Earthquake and a volcanic eruption of Mt. Fuji. The Kao Group is also strengthening its BCP for bases outside Japan.

Quality of products and other items
Background The basis of the Kao Group's product quality management activities is *Yoki-Monozukuri* that incorporates a spirit of starting with the consumer, as set forth in the Kao Way. At every stage from raw materials procurement to research and development, production, logistics and sales, the Kao Group pursues a high level of product safety and strives to constantly improve quality from a thoroughgoing consumer and customer perspective. Changes occurring in the market include diversification of consumer values regarding quality, growing concerns about the safety of chemical substances and awareness of environmental issues, and demand for corporate transparency in information disclosure. In addition, global distribution of products is rising as the world becomes increasingly borderless. Under these circumstances, countries and regions have begun moving to create new legal and regulatory frameworks with the aim of a sustainable society and stronger consumer protections. On the other hand, the Kao Group views market diversification and changing values as opportunities, and is taking on the challenge of developing new technologies and planning to expand its business into new fields. *Risks and impact* • The occurrence of serious product quality problems could lead to a decline in credibility, not only with regard to the problems with the brand concerned, but for the entire Kao Group. In addition, inability to respond appropriately and promptly to the occurrence of new safety or environmental problems, or sudden changes in laws and regulations in each country or region could cause us to lose the opportunity to deliver products in a timely manner. *Responses* The Kao Group designs and manufactures products in compliance with product-related laws and regulations and in conformance with strict standards it has set voluntarily. At the development stage, the Kao Group thoroughly carries out testing, studies and research to confirm safety. After launch, the Kao Group strives to further improve quality by drawing on feedback, requests and other information regarding products through its Customer Communication Centers. The Kao Group is working to conduct product development that anticipates chemical safety concerns and demands regarding environmental issues, visualize quality management activities through proactive disclosure of information, and enhance communications with stakeholders. The Kao Group is also working to analyze the impact of new laws and regulations in each country and region, and to build a system capable of promptly confirming compliance with laws and regulations. Deeming this main risk to be a corporate risk, the Kao Group is also strengthening its Group-wide response capabilities to minimize harm in the event of critical damage due to product quality issues and is enhancing awareness within the Group to prevent the occurrence of serious product quality issues.

Information security
Background The Kao Group uses IT to promote efficient business and operations and conducts business using data. The Kao Group possesses confidential information (trade secrets) relating to research and development, production, marketing, sales and other matters, and retains the personal information of many customers and consumers for sales promotion activities, member site management and e-commerce. The Kao Group is working to strengthen information security in order to protect information assets including trade secrets and personal information, as well as IT hardware, software and many kinds of data records, in accordance with Kao's Information Security Policy. *Risks and impact* • A leak of confidential information or personal information outside the Kao Group could occur due to an error or to intentional actions including a cyberattack. In addition, the supply chain and other business activities may be temporarily suspended as a result of such actions. If such an incident occurs, credibility could decline and targets for net sales and profits may be unattainable. *Responses* As personal and organizational measures for information security, the Kao Group's information security committees inside and outside Japan have established rules and systems throughout the Group and implemented activities to protect trade secrets, personal information and information security using the PDCA cycle (awareness-raising activities, self-checks, and the setting of improvement targets). The Kao Group is also strengthening its system for responding when an incident occurs, for example, a maintenance of a Security Operation Center (SOC). As technical measures, the Kao Group has created a strategic roadmap for security measures, in accordance with which such measures are implemented and regularly reported to the Management Board and Audit & Supervisory Board Members. To identify security risks in the supply chain, the Kao Group also interviewed third-party logistics providers, suppliers and contract manufacturers on their security measures. It also takes out cyber insurance to prepare for serious incidents. In new businesses, the Kao Group includes clauses regarding the handling of trade secrets and personal information (including personal data such as RNA) in its contracts with business partners, including customers, contractors and collaborators, and also works to ensure thorough information management by creating rules for handling and operation. The Kao Group addresses this main risk of information security as a corporate risk.

Reputation
Background The development and penetration of social media have facilitated the transmission and spread of information by individuals and enabled a wide range of interactive communication among consumers or between consumers and companies. Information transmitted through social media also includes negative evaluations and comments about companies, and there are concerns about an increase in reputation risk through their spread that could inflict financial or non-financial loss from a decline in brand value and corporate credibility. *Risks and impact* • For the Kao Group, transmission of various information and brand marketing activities using social media are increasing year by year. The spread through social networking services (SNS) of negative evaluations of inappropriate or careless expressions used in such activities could significantly lower the Kao Group's brand value or credibility. *Responses* From the perspective of ESG, the Kao Group is establishing a pre-check system and conducting internal education as measures to prevent inappropriate expressions in advertising. The Kao Group also globally monitors external information on social media, and strives to discover risks at an early stage. If a reputation risk incident occurs that adversely affects business and brand activities, the Kao Group responds promptly and strives to maintain its reputation by publicly announcing information, its corporate stance and other matters, as necessary, at the appropriate time. The Kao Group addresses this main risk of reputation as a corporate risk.

Pandemics
Background The Omicron variant, which is considered to be less virulent, has become the dominant strain of COVID-19, and many people have acquired immunity through natural infection or vaccination. As a result, we have entered an endemic phase. However, we must continue to pay attention to the possible emergence of a highly contagious variant. At the same time, there are concerns of possible pandemics caused by emerging or re-emerging infectious diseases, for example, epidemics of infectious diseases caused by novel viruses due to increased contact between humans and animals that harbor pathogens resulting from population growth and environmental degradation, and the resurgence of antibiotic-resistant infectious diseases caused by resistant bacteria. *Risks and impact* • In case of a pandemic, events such as lockdowns or the occurrence of clusters at the Kao Group's bases or in its supply chains could hinder the provision of products and services. • In case of a pandemic, the cosmetics market could shrink due to changes in purchasing behavior caused by restrictions on normal daily life, including going outside. • The occurrence of such situations could result in a significant deviation from targets for net sales and profits. *Responses* Along with the transition to the endemic phase of COVID-19, the Kao Group disbanded the Emergency Response Team Headquarters headed by the President and CEO and continues to monitor the impact of variants. The Kao Group also addresses this main risk of pandemics as a corporate risk and is reviewing its guidelines, action plans, stockpiles, etc. based on its response to COVID-19 to strengthen its initial response capabilities in preparation for the next pandemic.

Changes in the retailing environment
Background The retailing environment and purchasing behavior are changing year by year due to the development and penetration of digital tools and the influence of SNS. Purchasing on major e-commerce (EC) platforms and direct-to-consumer (D2C) EC platforms has become the norm in everyday life. In addition, new EC channels such as social commerce*[1] and live commerce*[2] are increasing year by year, further diversifying the retailing environment. Furthermore, seamless consumer purchasing between physical stores and EC stores (OMO*[3]) is progressing, and consumers are demanding more convenient and personalized purchasing experiences. As for logistics, due to a driver shortage and soaring prices for gasoline and other fuels, the increase in distribution costs has become clear, and major changes are expected in the operating environment, due in part to the application of upper limits on overtime hours for drivers in the logistics industry from 2024 under the Work Style Reform Law. *Risks and impact* • If the Kao Group is unable to conduct appropriate sales and marketing activities in response to the diversification and greater complexity of the retailing environment and purchasing behavior, targets for net sales, market share and profits may be unattainable. • Inability to respond appropriately to changes in the logistics environment may have an impact on the Kao Group's business activities, including delays in delivery and a significant increase in distribution costs. *Responses* In response to these changes in the retailing environment, the Kao Group is responding to changes in consumer purchasing behavior by working with companies specializing in EC, implementing OMO with brick-and-mortar retailers, and promoting its live commerce, among other initiatives. It is also proactively increasing the membership of Kao official account on SNS *Kao Tokutoku News*, and the number of members has increased to 3.80 million in 2023. The Kao Group is working on co-creation with the retail industry by, for example, transmitting information to members and directing consumers to stores through campaigns. Furthermore, the Kao Group launched My Kao, a new interactive digital platform that connects directly with consumers, to disseminate fresh and reliable information that is useful to them, and operates a Kao official online store for the convenience of consumers and an outlet mall that helps realize a resource-circulating society. Through such direct communication with consumers, the Kao Group is carrying out activities that help not only improve convenience for consumers but also build up their trust in and loyalty to Kao, even amid various changes in the retailing environment and an abundance of diverse information. For logistics, the Kao Group is participating in a government initiative aimed at ensuring sustainable logistics to increase logistics efficiency and productivity while contributing to economic growth. The Kao Group is working to build a sustainable logistics system through collaboration with the retail industry, other manufacturers and logistics providers in addition to its own efforts. Such collaboration and efforts help improve the working environment for drivers, such as reducing truck waiting time, standardize logistics, and improve loading efficiency, among others.

*1. Social commerce: A sales channel that enables purchases of products through social media
*2. Live commerce: A sales method that combines product introduction through internet livestreaming with product sales
*3. OMO (Online Merges with Offline): A sales strategy that combines both online and offline components

Business outside Japan

Background

As one of its growth strategies, the Kao Group is rolling out its businesses outside Japan, with a particular emphasis on strengthening its operations in Asia and other regions where the economic growth rate is high and market expansion is forecast.

Risks and impact

- In addition to the impact of COVID-19, there is the possibility of events in each country or region that have a negative impact, including a slowdown in economic growth, political or social instability, sudden changes in laws, regulations or tax systems, a spate of counterfeit products, or reputation risk*. If there is a substantial delay in the implementation of business plans due to the impact of these events, targets for net sales and profits may be unattainable.

Responses

The Kao Group routinely collects business-related information on the laws and regulations of each country, in addition to information on the economic, political and social conditions of the countries in which it produces or sells products, and takes necessary measures in response. The Kao Group pays particularly close attention to tightening regulations in each country relating to the environment and product safety and quality as well as the impact of changes in import and export regulations on the Group. With regard to intellectual property rights infringements such as counterfeit products, the Kao Group is focusing on countermeasures against counterfeit products, especially in the Asian region, in an effort to ensure that consumers and customers can use its products with peace of mind.

* Please refer to "Reputation."

Business investment

Background

The Kao Group conducts proactive capital investment and M&A for business growth and ESG based on investment decisions using EVA, which is highly correlated with corporate value. The Kao Group will continue to make these investments while striving to enhance corporate value through ongoing improvements in EVA.

Risks and impact

- If the market and business environments deteriorate to levels not anticipated at the time investment decisions were made and the expected results cannot be generated due to a deviation from plans or other factors, impairment of property, plant and equipment recorded due to capital investment or impairment of goodwill and intangible assets recorded due to M&A could have an impact on financial condition and business results.

Responses

For major investments, the Kao Group checks each time quarterly results are calculated to assess whether the expected results deviate significantly from the initial plan, and the results are reported at the Management Board meeting. In the event of a deviation, relevant departments consider future direction and measures as necessary to improve business performance.

Compliance

Background

In conducting business activities, companies are required to put more effort into complying with laws and regulations on matters including product quality and safety, intellectual property, environmental conservation, disaster prevention, occupational safety, chemicals management, transaction management, and information disclosure.

Risks and impact

- As competition intensifies globally, there is concern that the risk of fraud will increase due to difficulties in achieving differentiation and meeting product launch schedules and delivery timelines as well as pressure to achieve performance targets, among others.
- Harassment and compliance risks in labor management may increase because a new work style/hybrid work model that combines working from home and working at the office in the wake of the COVID-19 pandemic has become the norm and working attitudes and aspirations are becoming more individualized and diversified than ever before.
- A serious violation of compliance by the Kao Group and its subcontractors or other related parties could have an impact on the Group's credibility, financial condition and business results.

Responses

The Kao Group regards "Integrity as the only choice" (behaving lawfully and ethically, and conducting sound and honest business activities) as the starting point of compliance, and promotes it as a foundation for earning the respect and trust of all stakeholders. As such, the Kao Group promotes activities such as ongoing education about the Kao Business Conduct Guidelines, which are its code of conduct, and responding appropriately to communications received via the compliance hotlines. Through case studies and other means, the Kao Group is raising awareness of harassment and compliance risks in labor management. It also holds a Dialogue Festival, an activity to encourage dialogue, as part of its efforts to deepen mutual understanding at its workplaces. In addition, as activities focused on reducing serious compliance risks, the Kao Group systematically promotes compliance with laws and regulations that apply to its business, and the Compliance Committee monitors the implementation status of particularly important laws and regulations. The Kao Group is conducting activities designed to create an open workplace that allows immediate reporting to management and an appropriate response in the event that a serious violation of compliance occurs.

Securing human capital

Background

In executing management plans, the Kao Group strives to provide opportunities for diverse human capital to take on challenges and co-create. However, due to intensifying competition globally, companies are required more than ever to have the ability to innovate by responding flexibly to change. In addition, people's values with regard to their careers and working styles are becoming more diverse, resulting in increased mobility of human capital throughout society in general.

Risks and impact

- Inability to secure and develop human capital with the advanced expertise required in each area in anticipation of major environmental changes, or those who will become leaders capable of directing the Group's course of transformation, could have a negative impact on the execution of Kao Group Mid-term Plan 2027 "K27."

Responses

Based on the recognition that human capital is the Kao Group's most important asset, the Group is promoting initiatives to maximize the power and potential of its employees with diverse backgrounds and specialties to fully display their skills and individuality through major challenges and co-creation spanning countries, regions and organizations.

The Kao Group believes that it can maintain its advantage in securing human capital by improving working environments where diverse human capital can come together and play active roles (in ways of promoting flexible work styles, promoting DE&I, operating an internal recruitment system, etc.). In addition, the Kao Group can expect further growth of employees by providing them with opportunities to learn on their own initiative and jointly with others (e.g., encouraging employees to broaden their experience through work and introducing programs that allow employees to autonomously learn DX and other latest topics) and encouraging employees to develop their careers autonomously.

In addition to these measures, each month the Human Capital Development Committee, with top management as members, discusses and promotes the assignment and development of human capital and effective organizational management that support sustainable growth.

Currency exchange rate fluctuations
Background Currency exchange rate fluctuations affect foreign currency-denominated sales and the cost of procuring raw materials. They also affect the conversion into yen of the amounts on the financial statements of consolidated subsidiaries outside Japan for the consolidated settlement of accounts. *Risks and impact* • Larger-than-expected fluctuations in foreign currency exchange rates against the yen, which is the Kao Group's functional currency, could have an impact on financial condition and business results. *Responses* The Kao Group mitigates the impact of foreign currency-denominated transactions on business results by hedging risk of currency exchange rate fluctuations through measures including using foreign currency accounts for transaction settlement and derivative transactions such as forward exchange contracts and currency swaps. The Kao Group does not engage in derivative transactions for the purpose of speculation. In addition, the Kao Group monitors fluctuations in major currencies and the impact of these fluctuations on its business, and reports its findings to the Management Board in a timely fashion. Under the direction of management, relevant departments consider measures to mitigate the impact on business as required.

Litigation
Background The Kao Group conducts diverse businesses globally, and various types of litigation or other legal action may be brought against it. *Risks and impact* • During the fiscal year ended December 31, 2023, no lawsuit or other legal action was filed that had a material effect on the Kao Group. However, if such an event were to occur, developments in such litigation or other legal action could have an impact on the Kao Group's financial condition and business results. *Responses* The Kao Group complies with various laws and regulations relating to its business, and strives to prevent disputes by providing safe and reliable products, properly acquiring and using intellectual property rights, clarifying contract conditions, negotiating with other parties, and through other methods. In addition, the Kao Group has created a global mechanism for prompt and reliable reporting on the filing of important lawsuits and their current status, and has established a system for responding to litigation or other legal actions in cooperation with the Group's individuals in charge in each country, law firms and other parties.

(3) Relationship of Main Risks to Kao Group Mid-term Plan 2027 "K27"

Among the 15 main risks, the Kao Group is addressing raw material procurement, response to social issues, the quality of products and other items, changes in the retailing environment, business outside Japan, business investment and securing human capital, with the recognition that they are risks with a particularly significant relationship to Kao Group Mid-term Plan 2027 "K27."

4. Management Analysis of Financial Position, Operating Results and Cash Flows

The following is a summary of the Kao Group's financial position, operating results and cash flows (hereinafter the "operating results") for fiscal 2023 and views and issues analyzed and discussed with regard to the status of the operating results from management's perspective.

Forward-looking statements contained in this section have been made based on the Company's judgment as of the end of fiscal 2023.

(1) Analysis of Operating Results

Note: 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. To provide information that is useful for evaluating business performance and making forecasts, the Kao Group presents income excluding onetime 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.

(Billions of yen, unless otherwise noted)

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

Summary of Segment Information

Consolidated Results by Segment

Fiscal year ended December 31

	Net sales				Operating income (upper) Core operating income (lower)				
					2022		2023		
	2022 (Billions of yen)	2023 (Billions of yen)	Growth (%)	Like-for-like (%)	(Billions of yen)	Operating margin (%)	(Billions of yen)	Operating margin (%)	Change (Billions of yen)
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

(Billions of yen, unless otherwise noted)

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.

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.

(2) Analysis of Financial Position

Consolidated Financial Position

(Billions of yen, unless otherwise noted)

	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

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%.

(3) Analysis of Cash Flow

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 (operating + investing activities)	56.0	93.2	37.2
Net cash flows from financing activities	(139.3)	(80.0)	59.3

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.

(4) Significant Accounting Policies and Estimates

The Company's consolidated financial statements have been prepared in accordance with the International Financial Reporting Standards issued by the International Accounting Standards Board (hereinafter "IFRS"), as permitted by the provision of Article 93 of the Regulation on Terminology, Forms, and Preparation Methods of Consolidated Financial Statements (Order of the Ministry of Finance of Japan No. 28 of 1976; the "Regulation on Consolidated Financial Statements"), as they satisfy the requirements for an "IFRS Specified Company" in Article 1-2 of the same regulation. The significant accounting policies and estimates adopted to prepare the consolidated financial statements are as described in "V. Financial Information, 1 Consolidated Financial Statements and Other Information, (1) Consolidated Financial Statements Notes to Consolidated Financial Statements, 3. Material Accounting Policies" and "4. Significant Accounting Estimates and Judgments."

(5) Analysis of Equity Resources and Liquidity of Funds

The planned amount of significant capital expenditures, including right-of-use assets, in fiscal 2024 is approximately 90.0 billion yen. We intend to effectively use funds available mainly within the Kao Group. The planned capital expenditures are as described in "III. Information about Facilities, 3 Planned Addition, Retirement and Other Changes of Significant Facilities."

(6) Results of Production, Orders Received and Sales

The Kao Group's production and sales items are extremely diverse, ranging from chemical products for industries to consumer products for the general public, and primarily manufactures these products on a forecast basis to maintain the inventory of these products at almost certain required levels. Therefore, the results of production are similar to those of sales. The results of production and sales are as described in "(1) Analysis of Operating Results."

(7) Factors That Have a Significant Impact on Operating Results

Factors that have a significant impact on operating results are as described in "3 Business Risks and Other Risks."

(8) Objective Indicators to Assess the Status of Achievement of Management Policies, Strategies and Targets

Objective indicators to assess the status of achievement of management policies, strategies and targets are as described in "1 Management Policies, Management Environment and Issues to be Solved," and the status of achievement of them is as described in "(1) Analysis of Operating Results."

5. Material Contracts

(1) Share transfer agreement

The Company entered into an agreement to acquire all of the shares of Bondi Sands Hold Co Pty Ltd through Kao Australia Pty. Limited, a subsidiary of the Company in Australia, on July 27, 2023, and completed the transaction on November 1, 2023. Bondi Sands Hold Co Pty Ltd offers self-tanning, sunscreen and skincare products in over 32 countries, including Australia, the U.K. and the U.S.

(2) Joint venture agreements

Country	Counterparty	Name of joint venture	Shareholding ratio*1	Date of contract
Malaysia	IOI Oleochemical Industries Berhad	Fatty Chemical (Malaysia) Sdn. Bhd.	70.0% *2	February 29, 1988
Indonesia	PT Rodamas	PT Kao Indonesia	50.01%	August 29, 1994

*1. Shareholding ratio is as of the end of fiscal 2023.

*2. The shareholding ratio is indirect. Kao Singapore Private Limited (fully invested by the Company) invested in Fatty Chemical (Malaysia) Sdn. Bhd.

6. Research and Development Activities

With our mission to realize a sustainable Kirei World in which all life forms lives in harmony, we aim to contribute to people, society and the planet as a company that protects future lives. Our R&D works to develop innovative products and technologies that will create new value and markets by understanding the various cultures and needs of consumers in diverse countries and regions and combining them with our unique seeds.

One of our R&D efforts is the release of *Babywell Check*[*1] with our collaborative partner. *Babywell Check* is a mail-in testing service for examining skin barrier functions in infants using Skin Surface Lipids-RNA Monitoring Technology[*2]. With this testing service, parents have a non-invasive method for collecting sebum by simply applying oil blotting film to the skin. Sebum RNA data collected at home provides information about the skin barrier functions and helps determine appropriate care for the skin. The potential application of this technology has been identified through collaborative research between industry and academia for the early detection of atopic dermatitis and assessment of its symptoms in both infants and adults. Kao will continue to apply its proprietary technologies to various fields of testing business and take on the challenge of entering new business domains.

As part of our efforts to bolster our existing businesses, we launched *Bioré UV Aqua Rich Aqua Protect Mist* to bring new value to UV products. The mist envelops the skin, quickly turns into a gel and adheres to the skin tightly and evenly. The new sunscreen's ease of use has been well received by consumers, catering to their unmet need for UV protection while away from home. We will continue to strive to create new value in existing business domains.

Approximately 2,900 Kao Group employees are engaged in R&D activities.

The Kao Group's research and development expenses for fiscal 2023 amounted to 62.6 billion yen (4.1% of net sales), and the primary results are as follows:

*1. This service is not intended to diagnose disease.
*2. A technology that uses RNA in sebum collected from the skin surface to analyze not only individual differences but also changes in physical condition such as aging, fatigue and illness, as well as the effects of external stresses.

Consumer Products Business

Hygiene and Living Care Business

We are engaged in R&D in a wide range of fields to meet the diverse needs of people's lifestyles and values and to deliver cleaning and hygiene products that can help everyone live comfortably and with peace of mind.

In the fabric care product category, we launched *Attack ZERO Perfect Stick*, a stick-shaped powdered laundry detergent that allows consumers to simply put it in the washing machine. Formulated with effective cleaning, deodorizing and antibacterial[*1] ingredients, the effervescent powder dissolves quickly in water to remove stubborn sebum stains without pre-washing[*2]. To reduce the environmental impact, the product is packaged in pouches instead of hard plastic containers for all product sizes, reducing the amount of plastic used per wash[*3].

In the home care product category, we launched *Toilet Magiclean No-Scrub Foam Pack* from the *Toilet Magiclean* toilet cleaner line. The new cleaner features a non-sag, non-drip absorbent foam that adheres to the inside of toilet bowls, effectively trapping dirt and allowing for easy cleaning without the need for scrubbing with a toilet brush[*4].

Research and development expenses for this business segment amounted to 16.0 billion yen.

*1. This does not guarantee suppression of all bacterial growth.
*2. May not clean completely depending on the degree of dirt buildup.
*3. For a wash using 30 liters of water, the *Attack ZERO Perfect Stick* pouch reduces the amount of plastic used by approximately 64% compared to a regular container of Kao's non-concentrated liquid detergent.
*4. Cannot remove stuck-on dirt.

Health and Beauty Care Business

We are engaged in R&D to achieve healthy beauty, cleanliness and hygiene through *Essential Research* and product propositions. Specifically, we conduct *Essential Research* to deeply understand the skin and hair of people around the world and to improve their quality of life by making the most of their inherent ability to maintain their health. In product propositions, we propose unique and high-value-added products based on innovative technology and quality.

In the skin care product category, we launched *Bioré The CLEANSE Oil Makeup Remover* from the *Bioré* line. The new makeup remover instantly dissolves makeup by simply applying it, reducing the stress associated with makeup removal and helping to maintain healthy bare skin.

In the hair care product category, we launched three products from the *Essential THE BEAUTY* series, the core of the *Essential* line: *Barrier Shampoo*, *Barrier Conditioner* and *Shine and Moisture Hair Pack*. All products in this series contain 18-MEA oil[*1] (for hair protection), a naturally derived hair-beautifying oil that keeps hair smooth, silky and manageable even on rainy or dry days.

In the personal health product category, we launched the *PureOra 36500* series from the *PureOra* oral care brand. Formulated with BGA[*2] to increase gum resistance[*3], the toothpaste protects gums from dirt and bacteria and helps prevent periodontal disease[*4] by strengthening the gums themselves.

Research and development expenses for this business segment amounted to 21.6 billion yen.

*1. Lanolin fatty acid.
*2. Beta-glycyrrhetinic acid, an anti-inflammatory ingredient.
*3. Protects gums from stains and bacteria with anti-inflammatory action.
*4. A general term for gingivitis and periodontitis.

Life Care Business

Aiming to develop highly functional products and provide highly accurate solutions to each individual by leveraging our monitoring technology, we are conducting research to support people's physical and mental health and help improve their wellness.

From the *Healthya* health drink brand, we launched *Healthya Green Tea Plus Immune Care* in limited quantities through co-creation with Kirin iMUSE, an immune care brand of Kirin Holdings Company, Limited. The product contains tea catechins, which help reduce visceral fat in people with a higher BMI, and *Lactococcus lactis* strain Plasma, which helps maintain immune function in healthy people. We have successfully raised awareness of the importance of taking care of both visceral fat and immunity, thus contributing to the maintenance of people's health.

Research and development expenses for this business segment amounted to 2.4 billion yen.

Cosmetics Business

We aim to create new value of beauty by fusing the solid evidence from *Essential Research*, which deep-dives into the skin of people around the world, with beauty that appeals to the five senses based on sensitivity research.

In the category of counseling cosmetics, we launched *KANEBO COMFORT SKIN WEAR*, a new serum foundation from the *KANEBO* brand. The new foundation offers both a long-lasting makeup base and a smooth veil, enveloping the skin in a soft glow with a comfortable feel.

In the *est* brand, we revamped *est SERUM O.N.E.* and launched *est SERUM O.N.E. ADVANCED*, a foam-type carbonated[*1] serum that helps reduce wrinkles and prevent age spots[*2]. Using Kao's proprietary carbonated[*1] foam technology, the ultra-fine, micro carbonated[*1] foam-type serum adheres to the skin and penetrates deep into the stratum corneum. The active ingredient niacinamide helps reduce wrinkles and prevent age spots[*2].

Research and development expenses for this business segment amounted to 11.3 billion yen.

*1. Carbonated gas (spray).
*2. Suppresses melanin production and prevents age spots and freckles.

Chemical Business

We are engaged in research and development with the aim to deliver unique chemical products that cater to diverse needs in a wide variety of industries. To this end, we have delved into the results of our research and development in the fields of fat and oil science, surface science, polymer science, etc.

We have also worked to develop proprietary catalyst and process technologies for oleochemicals and tertiary amines in the product category of oleo chemicals, and value-added products that help reduce the environmental burden in the product category of performance chemicals. *NEWTLAC 6000SMA*, an asphalt modifier made from waste PET is one of such products. Asphalt pavements may have gaps (voids) between the asphalt and the aggregate[*1]. In snowy and cold regions, voids can easily form holes (potholes) as water penetrating the pavement changes its volume during freeze-thaw cycles. To address this road problem, we improved the adhesion between the aggregate and the asphalt to reduce voids and improve pavement durability.

In addition, *LUNAFLEX*, a composite material using biomass-derived cellulose nanofibers, helps improve the physical properties of plastic products, thereby contributing greatly to the efficient use of resources.

In the product category of information materials, we will further expand business in the field of printing with *LUNATONE*, an ultra-low temperature fixable toner developed drawing fully on the polymer design technology, and *LUNAJET*, a water-based pigment inkjet ink featuring our proprietary VOC-free design[*2].

Research and development expenses for this business segment amounted to 11.5 billion yen.

*1. Gravel and sand used together with asphalt as materials for road paving.
*2. "VOC-free" is defined as emitting less than 700 ppmC (in carbon conversion terms) of volatile organic compounds (VOCs) during the printing process. VOC emissions have been regulated under the revised Air Pollution Control Act (2006).

III. Information about Facilities

1. Overview of Capital Expenditures

During fiscal 2023, the aggregate amount of capital expenditures, etc. was 93,036 million yen. The breakdown of capital expenditures by segment is as follows:

Name of segment		Amount (millions of yen)
	Hygiene and Living Care Business	32,637
	Health and Beauty Care Business	18,725
	Life Care Business	4,581
	Cosmetics Business	12,416
Consumer Products Business		68,359
Chemical Business		22,942
Other		1,735
Total		93,036

Notes: 1. The amounts do not include consumption taxes, etc.
2. Capital expenditures include investments in property, plant and equipment, right-of-use assets and intangible assets. The amount does not include increases in property, plant and equipment and right-of use assets associated with provision for asset retirement obligations.
3. Investments that do not fall under any business segments are included in “Other.”

In the Consumer Products Business, in addition to the reinforcement, streamlining, maintenance and upgrading of facilities in each business, the Group restructured logistics bases and information systems. In the Hygiene and Living Care Business, the Group reinforced both new and improved products, expanded its production capacity and took other measures in Japan and overseas. In the Health and Beauty Care Business, the Group expanded its production capacity and took other measures in Japan and overseas.

In the Chemical Business, the Group expanded its production capacity mainly overseas through a range of measures, including the construction of production facilities for tertiary amines in the United States to strengthen its stable supply system in the U.S. market. The Group also streamlined, maintained and upgraded facilities, restructured information systems, etc.

The Group globally and effectively used its capital to cover the necessary capital expenditures above.

2. Major Facilities

The major facilities of the Group as of the end of fiscal 2023 were as follows:

(1) The Company

As of December 31, 2023

Name of worksite (location)	Name of segment	Type of facilities	Carrying amount (millions of yen)						Number of employees (persons)
			Buildings and structures	Machinery and vehicles	Land (area in thousands of m^2)	Other	Right-of-use assets (area in thousands of m^2)	Total	
Wakayama Plant and Wakayama Research Laboratories (Wakayama-shi, Wakayama)	Hygiene and Living Care Business Health and Beauty Care Business Life Care Business Chemical Business	Production facilities Research and development facilities	15,159	23,367	854 (603)	4,827	814	45,021	1,816 [190]
Tokyo Plant (Incubation Center Tokyo), Tokyo Research Laboratories and Sumida Office (Sumida-ku, Tokyo)	Health and Beauty Care Business Life Care Business Cosmetics Business Chemical Business	Production facilities Research and development facilities Other facilities	14,757	460	445 (44)	1,511	255	17,428	1,880 [224]
Sakata Plant (Sakata-shi, Yamagata)	Hygiene and Living Care Business Health and Beauty Care Business	Production facilities	6,173	3,619	931 (252)	450	3,106	14,279	268 [29]
Kawasaki Plant (Kawasaki-ku, Kawasaki-shi, Kanagawa)	Hygiene and Living Care Business Health and Beauty Care Business Life Care Business	Production facilities	6,202	15,765	7,726 (101)	1,835	65	31,593	274 [21]
Tochigi Plant and Tochigi Research Laboratories (Ichikai-machi, Haga-gun, Tochigi)	Hygiene and Living Care Business Chemical Business	Production facilities Research and development facilities	9,560	6,771	2,648 (276)	1,735	862 (32)	21,576	1,085 [69]
Kashima Plant (Kamisu-shi, Ibaraki)	Hygiene and Living Care Business Life Care Business Chemical Business	Production facilities	5,045	7,049	6,392 (354)	875	47	19,408	282 [21]
Toyohashi Plant (Toyohashi-shi, Aichi)	Hygiene and Living Care Business Health and Beauty Care Business Cosmetics Business	Production facilities	9,073	8,222	6,290 (314)	459	68	24,112	198 [11]
Ehime Plant (Kao Sanitary Products Ehime) (Saijo-shi, Ehime)	Hygiene and Living Care Business	Production facilities	3,322	1,801	1,025 (52)	319	187	6,654	– [–]
Odawara Plant (Kao Cosmetic Products Odawara), Odawara Research Laboratories and Odawara Office (Odawara-shi, Kanagawa)	Cosmetics Business	Research and development facilities Production facilities	8,822	3,815	144 (2)	956	1,016 (1)	14,753	454 [23]
Kawasaki Logistics Center (Kawasaki-ku, Kawasaki-shi, Kanagawa)	Hygiene and Living Care Business Health and Beauty Care Business Life Care Business	Logistics facilities	243	1,022	2,903 (27)	20	–	4,188	– [–]
Iwatsuki Logistics Center (Iwatsuki-ku, Saitama-shi, Saitama)	Hygiene and Living Care Business Health and Beauty Care Business Life Care Business	Logistics facilities	268	828	1,529 (21)	28	566	3,219	– [–]

Name of worksite (location)	Name of segment	Type of facilities	Carrying amount (millions of yen)						Number of employees (persons)
			Buildings and structures	Machinery and vehicles	Land (area in thousands of m^2)	Other	Right-of-use assets (area in thousands of m^2)	Total	
Sakai Logistics Center (Nishi-ku, Sakai-shi, Osaka)	Hygiene and Living Care Business Health and Beauty Care Business Life Care Business	Logistics facilities	209	669	1,931 (37)	24	395	3,228	– [–]
Atsugi Logistics Center (Aikawa-machi, Aiko-gun, Kanagawa)	Cosmetics Business	Logistics facilities	2,062	194	2,810 (33)	5	–	5,071	– [–]
Hachioji Logistics Center (Hachioji-shi, Tokyo)	Hygiene and Living Care Business Health and Beauty Care Business Life Care Business	Logistics facilities	84	69	9,936 (31)	11	1,360	11,460	– [–]
Head Office (Chuo-ku, Tokyo)	Hygiene and Living Care Business Health and Beauty Care Business Life Care Business Cosmetics Business Corporate (common)	Other facilities	1,722	16	– (–)	146	38,293	40,177	1,850 [210]

(2) Domestic Subsidiaries

As of December 31, 2023

Company name	Name of worksite (location)	Name of segment	Type of facilities	Carrying amount (millions of yen)						Number of employees (persons)
				Buildings and structures	Machinery and vehicles	Land (area in thousands of m^2)	Other	Right-of-use assets (area in thousands of m^2)	Total	
Kao Group Customer Marketing Co., Ltd.	Head Office (Chuo-ku, Tokyo)	Hygiene and Living Care Business Health and Beauty Care Business Life Care Business Cosmetics Business	Sales facilities	456	–	4,759 (72)	5,266	3,225 (3)	13,706	5,988 [847]
Kanebo Cosmetics Inc.	Odawara Plant (Kao Cosmetic Products Odawara) (Odawara-shi, Kanagawa)	Cosmetics Business	Production facilities Other facilities	–	–	4,641 (62)	459	56	5,156	17 [48]

(3) Overseas Subsidiaries

As of December 31, 2023

Company name	Name of worksite (location)	Name of segment	Type of facilities	Carrying amount (millions of yen)						Number of employees (persons)
				Buildings and structures	Machinery and vehicles	Land (area in thousands of m^2)	Other	Right-of-use assets (area in thousands of m^2)	Total	
Kao Corporation Shanghai	Shanghai Plant (Shanghai)	Hygiene and Living Care Business Health and Beauty Care Business Cosmetics Business	Production facilities	1,431	4,158	– (–)	586	13 (–)	6,188	338 [–]

Company name	Name of worksite (location)	Name of segment	Type of facilities	Carrying amount (millions of yen)						Number of employ-ees (persons)
				Buildings and structures	Machinery and vehicles	Land (area in thousands of m^2)	Other	Right-of-use assets (area in thousands of m^2)	Total	
Kao (Shanghai) Chemical Industries Co., Ltd.	Shanghai Plant (Shanghai)	Chemical Business	Production facilities	3,655	5,170	– (–)	229	760 (83)	9,814	111 [–]
Kao (Hefei) Co., Ltd.	Hefei Plant (Hefei, Anhui Province)	Hygiene and Living Care Business	Production facilities	3,694	–	– (–)	648	804 (124)	5,146	6 [–]
Kao (Taiwan) Corporation	Hsinchu Plant and Hsinchu Research Laboratories (Hsinchu County)	Hygiene and Living Care Business Health and Beauty Care Business Life Care Business	Production facilities Research and development facilities	1,795	3,601	162 (58)	482	497	6,507	528 [5]
Pilipinas Kao, Inc.	Jasaan Plant (Misamis Oriental, Philippines)	Chemical Business	Production facilities	1,609	13,824	– (–)	631	129 (329)	16,193	201 [–]
Kao Industrial (Thailand) Co., Ltd.	Chonburi Plant (Chonburi, Thailand)	Hygiene and Living Care Business Health and Beauty Care Business Chemical Business	Production facilities Research and development facilities	2,230	3,350	1,261 (171)	2,097	1,012	9,950	1,049 [–]
Fatty Chemical (Malaysia) Sdn. Bhd.	Main Plant (Penang, Malaysia)	Chemical Business	Production facilities	2,502	4,575	– (–)	2,262	4,136 (118)	13,475	273 [–]
PT Kao Indonesia	Karawang Plant (Karawang, Indonesia)	Hygiene and Living Care Business Health and Beauty Care Business	Production facilities	7,913	11,599	4,231 (141)	311	2,052 (252)	26,106	1,685 [553]
PT Kao Indonesia Chemicals	Karawang Plant (Karawang, Indonesia)	Chemical Business	Production facilities	4,247	2,297	– (–)	101	622 (64)	7,267	279 [10]
Kao USA Inc.	Main Plant & Research Laboratories (Cincinnati, Ohio, U.S.)	Health and Beauty Care Business Cosmetics Business	Production facilities Research and development facilities	3,486	2,738	34 (35)	2,000	4,857	13,115	872 [23]
Kao Chemicals Americas Corporation	Main Plant (High Point, North Carolina, U.S.)	Chemical Business	Production facilities Research and development facilities	1,386	1,308	3,226 (723)	5,130	36	11,086	158 [–]
Kao Manufacturing Germany GmbH	Main Plant (Darmstadt, Germany)	Health and Beauty Care Business	Production facilities	1,050	1,155	550 (50)	804	366 (27)	3,925	297 [9]
Kao Chemicals GmbH	Main Plant (Emmerich, Germany)	Chemical Business	Production facilities	7,556	1,712	195 (74)	484	397	10,344	201 [53]
Kao Corporation, S.A.	Olesa Plant (Barcelona, Spain)	Chemical Business	Production facilities	5,579	1,962	1,119 (264)	2,465	234	11,359	429 [20]

Notes: 1. The name of a representative worksite is presented for a company holding multiple worksites.
2. The land area is presented separately in ( ).
3. In the carrying amount section, "Other" refers to tools, furniture and fixtures and construction in progress under property, plant and equipment.
4. In the number of employees column, the number of temporary employees is presented separately in [ ].
5. Kao Chemicals Americas Corporation includes High Point Textile Auxiliaries LLC, Kao Specialties Americas LLC, and STAR (Delaware) Realty LLC, its subsidiaries, and HPC Realty, Inc., a subsidiary of Kao America Inc.

3. Planned Addition, Retirement and Other Changes of Facilities

The amount of planned capital expenditures (addition, expansion, etc.) of the Group (the Company and its consolidated subsidiaries) for fiscal 2024 will be approximately 90,000 million yen. The breakdown by business segment is as follows:

<table>
<tr><th>Name of segment</th><th>Planned capital investment (millions of yen)</th><th>Description and main purpose of investment</th></tr>
<tr><td>Hygiene and Living Care Business</td><td rowspan="4">22,000</td><td rowspan="4">Streamlining, maintenance, update of facilities, etc., in addition to expansion of production capacity of each of the Kao Group’s businesses in Japan and overseas</td></tr>
<tr><td>Health and Beauty Care Business</td></tr>
<tr><td>Life Care Business</td></tr>
<tr><td>Cosmetics Business</td></tr>
<tr><td>Chemical Business</td><td>28,000</td><td>Streamlining, maintenance, update of facilities, etc., in addition to expansion of plant capacity in Japan and overseas</td></tr>
<tr><td rowspan="2">Corporate (common) and Other</td><td>30,000</td><td>R&D related investments, expansion, maintenance and update of logistics facilities, IT-related investments, etc.</td></tr>
<tr><td>10,000</td><td>Right-of-use assets</td></tr>
<tr><td>Total</td><td>90,000</td><td></td></tr>
</table>

Notes: 1. The amounts do not include consumption taxes, etc.
2. Capital expenditures include investments in property, plant and equipment, right-of-use assets and intangible assets.
3. There are no plans to dispose of or sell major facilities, excluding the disposal and sale of facilities for regular updating.
4. Most of the above planned investments will be financed using the Kao Group’s internal funds.
5. Planned capital investments that are common to all business segments are included in “Corporate (common) and Other.”

IV. Information about Reporting Company

1. Company’s Shares and Other Information

(1) Total Number of Shares and Issued Shares

1) Total number of shares

As of December 31, 2023

Class	Total number of authorized shares (shares)
Ordinary shares	1,000,000,000
Total	1,000,000,000

2) Issued shares

Class	Number of issued shares as of the end of the fiscal year (shares) (December 31, 2023)	Number of issued shares as of the filing date (shares) (March 22, 2024)	Name(s) of the financial instruments exchange(s) on which the Company is listed or of the authorized financial instruments firms association(s) where the Company is registered	Description
Ordinary shares	465,900,000	465,900,000	Tokyo Stock Exchange, Prime Market	These shares are standard shares of the Company with no restrictions on rights. The number of shares constituting one unit is 100 shares.
Total	465,900,000	465,900,000	–	–

(2) Subscription Rights to Shares

1) Stock option plans

Not applicable

2) Rights plans

Not applicable

3) Subscription rights to shares for other uses

Not applicable

(3) Exercise of Moving Strick Convertible Bonds

Not applicable

(4) Changes in Total Number of Issued Shares, Share Capital and Legal Capital Surplus

Date	Changes in total number of issued shares (thousands of shares)	Total number of shares issued and outstanding (thousands of shares)	Changes in share capital (millions of yen)	Balance of share capital (millions of yen)	Changes in legal capital surplus (millions of yen)	Balance of legal capital surplus (millions of yen)
December 31, 2019 (Note 1)	(6,700)	482,000	–	85,424	–	108,889
December 31, 2020	–	482,000	–	85,424	–	108,889
December 31, 2021 (Note 2)	(7,000)	475,000	–	85,424	–	108,889
December 31, 2022 (Note 3)	(9,100)	465,900	–	85,424	–	108,889
December 31, 2023	–	465,900	–	85,424	–	108,889

Notes: 1. Retirement of 6,700 thousand treasury shares on July 12, 2019

2. Retirement of 7,000 thousand treasury shares on June 23, 2021

3. Retirement of 9,100 thousand treasury shares on September 28, 2022

(5) Shareholding by Shareholder Category

As of December 31, 2023

Category	Status of shares (Number of shares constituting one unit: 100 shares)								Status of shares of less than one unit (shares)
	National and local governments	Financial institutions	Security companies	Other Japanese companies	Companies and individuals in foreign countries		Individuals and others	Total	
					Non-individuals	Individuals			
Number of shareholders (persons)	–	184	41	1,308	907	620	141,338	144,398	–
Number of shares held (units)	–	1,683,275	361,692	229,717	1,654,466	1,572	719,149	4,649,871	912,900
Ratio of shares held (%)	–	36.20	7.78	4.94	35.58	0.03	15.47	100.00	–

Notes: 1. Of the 86,255 treasury shares, 862 units are included in “Individuals and others” and 55 shares are included in “Status of shares of less than one unit.”

2. The figures of “Other Japanese companies” include 57 units of shares in the name of Japan Securities Depository Center, Incorporated.

(6) Status of Major Shareholders

As of December 31, 2023

Name / Company name	Address	Number of shares (thousands of shares)	Ratio of shares held to total number of issued shares (excluding treasury shares) (%)
The Master Trust Bank of Japan, Ltd. (Trust Account)	11-3, Hamamatsucho 2-chome, Minato-ku, Tokyo	87,856	18.86
Custody Bank of Japan, Ltd. (Trust Account)	8-12, Harumi 1-chome, Chuo-ku, Tokyo	33,377	7.17
SMBC Nikko Securities Inc.	3-1, Marunouchi 3-chome, Chiyoda-ku, Tokyo	11,450	2.46
STATE STREET BANK WEST CLIENT – TREATY 505234 (Standing proxy: Settlement & Clearing Services Department, Mizuho Bank, Ltd.)	1776 Heritage Drive, North Quincy, MA 02171, U.S.A. (Shinagawa Intercity Tower A, 15-1, Konan 2-chome, Minato-ku, Tokyo)	8,854	1.90
JP MORGAN CHASE BANK 385632 (Standing proxy: Settlement & Clearing Services Department, Mizuho Bank, Ltd.)	25 Bank Street, Canary Wharf, London E14 5JP, United Kingdom (Shinagawa Intercity Tower A, 15-1, Konan 2-chome, Minato-ku, Tokyo)	7,702	1.65
JAPAN SECURITIES FINANCE CO., LTD.	2-10, Nihonbashi Kayabacho 1-chome, Chuo-ku, Tokyo	6,869	1.47
Nippon Life Insurance Company (Standing proxy: The Master Trust Bank of Japan, Ltd.)	6-6, Marunouchi 1-chome, Chiyoda-ku, Tokyo	6,691	1.44
THE BANK OF NEW YORK 134104 (Standing proxy: Settlement & Clearing Services Department, Mizuho Bank, Ltd.)	Boulevard Anspach 1, 1000 Brussels, Belgium (Shinagawa Intercity Tower A, 15-1, Konan 2-chome, Minato-ku, Tokyo)	6,603	1.42
JPMorgan Securities Japan Co., Ltd. (Standing proxy: Settlement & Clearing Services Department, Mizuho Bank, Ltd.)	Tokyo Building, 7-3, Marunouchi 2-chome, Chiyoda-ku, Tokyo	6,541	1.40
STATE STREET BANK AND TRUST COMPANY 505223 (Standing proxy: Settlement & Clearing Services Department, Mizuho Bank, Ltd.)	P.O. BOX 351 Boston, MA 02101, U.S.A. (Shinagawa Intercity Tower A, 15-1, Konan 2-chome, Minato-ku, Tokyo)	6,440	1.38
Total	–	182,383	39.15

Notes: 1. The number of shares in the list above may include the number of shares held in trusts or subject to share administration.

2. The amendment to the large shareholdings report filed by BlackRock Japan Co., Ltd. and 11 other persons on April 20, 2022, which is open to the public, it is stated that they held shares of the Company as shown below as of April 15, 2022. However, these shareholdings were not included in the above list of major shareholders because the Company could not confirm the number of beneficial shares as of December 31, 2023.

Name	Number of shares (thousands of shares)	Shareholding ratio (%)
BlackRock Japan Co., Ltd. and 11 other persons	34,539	7.27

3. The amendment to the large shareholdings report filed by Nomura Asset Management Co., Ltd. on November 7, 2023, which is open to the public, it is stated that it held shares of the Company as shown below as of October 31, 2023. However, these shareholdings were not included in the above list of major shareholders because the Company could not confirm the number of beneficial shares as of December 31, 2023.

Name	Number of shares (thousands of shares)	Shareholding ratio (%)
Nomura Asset Management Co., Ltd.	25,282	5.43

Also, in the amendment to the large shareholdings report filed by Nomura Securities Co., Ltd. and two other persons on January 19, 2024 which is open to the public, it is stated that the number of shares of the Company they held as of January 15, 2024 increased to 26,173 thousand shares which is 5.62% to the total number of outstanding shares.

4. The amendment to the large shareholdings report filed by Sumitomo Mitsui Trust Asset Management Co., Ltd. and another person on December 6, 2023, which is open to the public, it is stated that they held shares of the Company as shown below as of November 30, 2023. However, these shareholdings were not included in the above list of major shareholders because the Company could not confirm the number of beneficial shares as of December 31, 2023.

Name	Number of shares (thousands of shares)	Shareholding ratio (%)
Sumitomo Mitsui Trust Asset Management Co., Ltd. and another person	26,747	5.74

Also, in the amendment to the large shareholdings report filed by Sumitomo Mitsui Trust Asset Management Co., Ltd. and another person on March 6, 2024, which is open to the public, it is stated that the number of shares of the Company they held as of February 29, 2024 increased to 28,893 thousand shares which is 6.20% to the total number of outstanding shares.

5. The large shareholdings report filed by Mitsubishi UFJ Trust and Banking Corporation and two other persons on January 5, 2024, which is open to the public, it is stated that they held shares of the Company as shown below as of December 25, 2023. However, these shareholdings were not included in the above list of major shareholders because the Company could not confirm the number of beneficial shares as of December 31, 2023.

Name	Number of shares (thousands of shares)	Shareholding ratio (%)
Mitsubishi UFJ Trust and Banking Corporation and two other persons	23,814	5.11

(7) Voting Rights

1) Issued shares

As of December 31, 2023

Category	Number of shares (shares)	Number of voting rights (units)	Description
Shares without voting rights	–	–	–
Shares with limited voting rights (treasury shares, etc.)	–	–	–
Shares with limited voting rights (others)	–	–	–
Shares with full voting rights (treasury shares, etc.)	(Treasury shares) Ordinary shares 86,200	–	The description of the ordinary shares is as provided in (1) Total Number of Shares and Issued Shares, 2) Issued shares, “Description” above.
Shares with full voting rights (others) (Note)	Ordinary shares 464,900,900	4,649,009	Same as above
Shares of less than one unit	Ordinary shares 912,900	–	Same as above
Total number of issued shares	465,900,000	–	–
Total number of voting rights	–	4,649,009	–

Note: The figure of “Number of shares” for “Shares with full voting rights (others)” includes 375,673 shares (3,756 voting rights) of the Company held by the Board Incentive Plan (BIP) Trust account and 5,700 shares (57 voting rights) in the name of Japan Securities Depository Center, Incorporated.

2) Treasury shares, etc.

As of December 31, 2023

Shareholder name	Shareholder address	Number of shares held in own name (shares) (Note)	Number of shares held in others’ names (shares)	Total number of shares held (shares)	Ratio of shares held to total number of issued shares (%)
Kao Corporation	14-10, Nihonbashi Kayabacho 1-chome, Chuo-ku, Tokyo	86,200	–	86,200	0.02
Total	–	86,200	–	86,200	0.02

Note: The figures of “Number of shares held in own name” do not include shares of the Company held by the BIP Trust account.

(8) Stock Ownership Plans for Directors, Audit & Supervisory Board Members, Executive Officers and Employees

(Performance-based share incentive plan for Directors, excluding Outside Directors and Executive Officers of the Company)

The Company has introduced a performance-based share incentive plan for its Directors (excluding Outside Directors) and its Executive Officers who satisfy the beneficiary requirements (hereinafter, the "Plan") with the aim of boosting awareness of contributing to improvements in the Company's performance and corporate value over the mid- to long-term.

Under the Plan, trust money of up to 4,640 million yen is contributed concerning the fiscal years subject to the Company's mid-term plan (the initial period to be covered being the period of four fiscal years from fiscal 2024 to fiscal 2027), and the Company's shares are acquired through a trust and are then vested, etc., through the trust, mainly based on the degree of achievement of performance targets set forth in the mid-term plan.

The Company has not allocated any stock options as remuneration since fiscal 2017.

2. Acquisition and Disposal of Treasury Shares

Class of Shares, etc.

Acquisition of ordinary shares under Article 155, Item 7 of the Companies Act

(1) Acquisition by Resolution of Shareholders Meeting

Not applicable

(2) Acquisition by Resolution of Board of Directors Meeting

Not applicable

(3) Acquisition Not Based on Resolution of Shareholders Meeting or Board of Directors Meeting

Category	Number of shares (shares)	Total amount (yen)
Treasury shares acquired during the fiscal year ended December 31, 2023	3,208	17,154,217
Treasury shares acquired during the subsequent period (Note)	193	1,124,993

Note: The subsequent period refers to the period from the day following the end of the fiscal year ended December 31, 2023 to the filing date of this Annual Securities Report. However, the number of treasury shares acquired during the subsequent period does not include shares of less than one unit purchased from March 1, 2024 to the filing date of this Annual Securities Report.

(4) Disposal of Acquired Treasury Shares and Number of Treasury Shares Held

Category	Fiscal year ended December 31, 2023		Subsequent period (Note 1)	
	Number of shares (shares)	Total amount disposed (yen)	Number of shares (shares)	Total amount disposed (yen)
Acquired treasury shares for which subscribers were solicited	–	–	–	–
Acquired treasury shares that were retired	–	–	–	–
Acquired treasury shares that were transferred due to merger, share exchange, share delivery or company split	–	–	–	–
Other				
(Exercise of stock options)	5,000	27,584,000	–	–
(Sale of shares of less than one unit)	112	617,668	–	–
Number of treasury shares held (Note 2)	86,255	–	86,448	–

Notes: 1. The subsequent period refers to the period from the day following the end of the fiscal year ended December 31, 2023 to the filing date of this Annual Securities Report. However, the disposal of acquired treasury shares and the number of treasury shares held during the subsequent period do not include shares of less than one unit sold or purchased from March 1, 2024 to the filing date of this Annual Securities Report.

2. The figures of “Number of treasury shares held” do not include shares of the Company held by the BIP Trust account.

3. Dividend Policy

The Kao Group uses EVA and ROIC as its principal management metrics and clearly sets the use of its steadily generated cash flow as shown below from those viewpoints. 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 cash dividends
- Share repurchases

In accordance with these policies, the Company paid a year-end dividend for the fiscal year ended December 31, 2023 of 75.00 yen per share, an increase of 1 yen per share compared with the previous fiscal year.

Consequently, annual cash dividends increased 2 yen per share compared with the previous fiscal year, resulting in a total of 150 yen per share. The consolidated payout ratio was 158.9%.

The Company’s basic policy is to distribute the retained earnings twice a year as an interim dividend and a year-end dividend. The decision-making bodies of these distributions of retained earnings are the General Meeting of Shareholders for the year-end dividend and the Board of Directors for the interim dividend. The Company’s Articles of Incorporation stipulate that the Company may, by resolution of the Board of Directors, make a payment of interim dividends, with the record date of interim dividends being June 30 of each year.

The distribution of retained earnings for the fiscal year ended December 31, 2023 were as follows:

Date of resolution	Total dividends (millions of yen)	Dividends per share (yen)
Board of Directors meeting held on August 3, 2023	34,936	75
118th Annual General Meeting of Shareholders held on March 22, 2024	34,936	75

4. Corporate Governance

(1) Overview of Corporate Governance

In order to sustainably enhance corporate value over the long term while working to realize a Kirei World in which all life lives in harmony, which is our purpose of our corporate philosophy "The Kao Way," and to become an essential company in a sustainable world, Kao positions corporate governance as a top-priority management issue and continuously strengthens governance in both systems and operations. Kao's corporate governance is a framework for transparent, fair, prompt and decisive decision-making. It takes into account the perspectives of all stakeholders and responds in a timely and appropriate manner to changes that are increasingly diverse, complex, and difficult to predict so that we can contribute to society and continuously enhance corporate value. The foundations of our efforts to achieve this are establishing and operating the necessary management structures and internal control systems, implementing the necessary measures in a timely manner, and demonstrating accountability. In addition, we work to understand social trends at all times and actively engage in dialogue with stakeholders to review the status of corporate governance from time to time and implement appropriate and necessary countermeasures and improvements.

1) Corporate governance structure

a. Overview of corporate governance structure

The Company has introduced, within the framework of a "Company with an Audit & Supervisory Board," the executive officer system in order to separate the supervision function from the execution function. Following the conclusion of the 118th Annual General Meeting of Shareholders held in March 2024, the Company has: eight (8) Directors, including four (4) Outside Directors; five (5) Audit & Supervisory Board Members, including three (3) Outside Audit & Supervisory Board Members; and 31 Executive Officers (including Executive Officers concurrently serving on the Board of Directors). All Outside Directors and all Outside Audit & Supervisory Board Members maintain their neutrality, independent from the Company's management. In order to improve the transparency and other aspects of discussions in the Board of Directors, an Independent Outside Director has become the chairperson of the Board after the 108th Annual General Meeting of Shareholders held in March 2014. The term of office for Directors and Executive Officers is one (1) year.

15 meetings, including an extraordinary meeting, of the Board of Directors were held during the fiscal year ended December 31, 2023. The attendance rates of all Outside Directors and all Outside Audit & Supervisory Board Members at their meetings as of December 31, 2023 were both 100%. To allow for active discussions at meetings of the Board of Directors, materials on matters such as the background, purposes, and content of the respective agenda items of the Board of Directors meetings are distributed to Outside Directors and Outside Audit & Supervisory Board Members prior to the meeting, and sufficient explanations are provided by the Board of Directors Secretariat and other relevant staff as necessary.

The Company has established the Committee for the Examination of Nominees for Directors and Audit & Supervisory Board Members and the Compensation Advisory Committee for Directors and Executive Officers which fulfill functions similar to the nominating committee and compensation committee of a "Company with Committees."

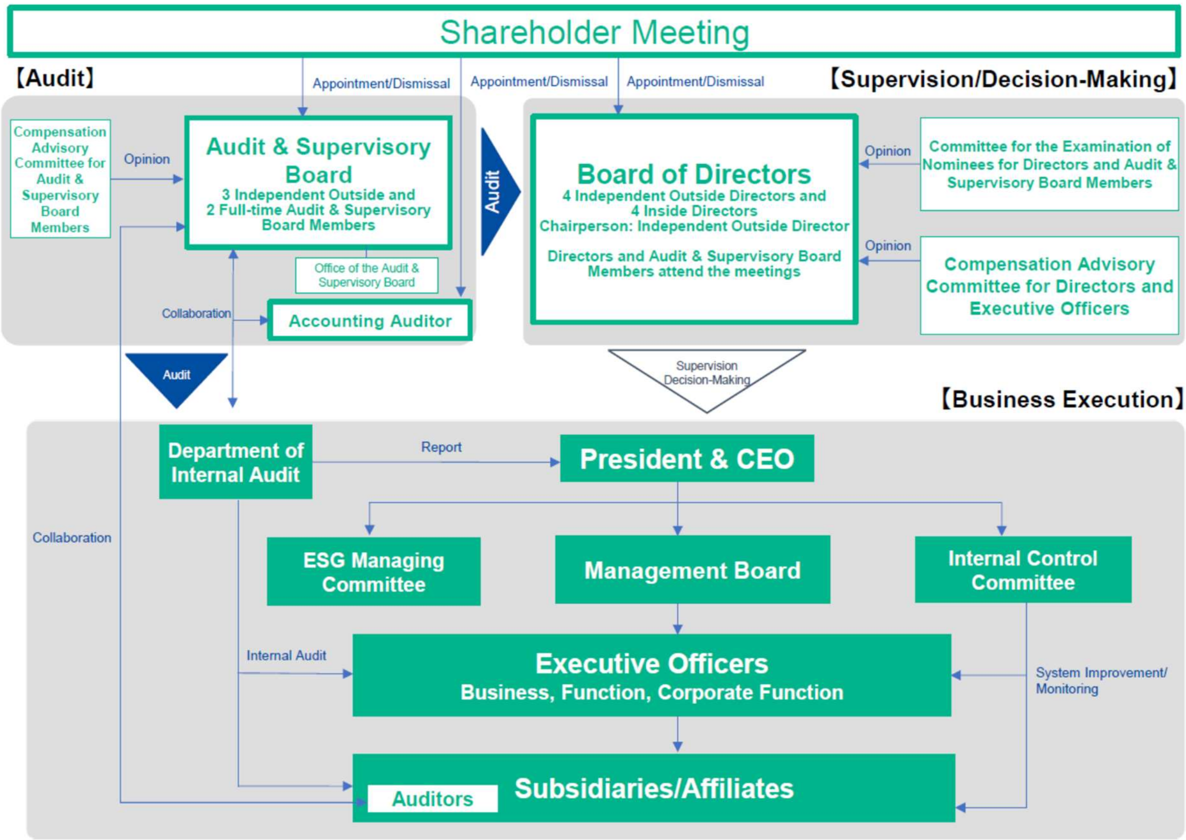
The activities of individual committees are described in "5) Activities of the Board of Directors, Committee for the Examination of Nominees for Directors and Audit & Supervisory Board Members, Compensation Advisory Committee for Directors and Executive Officers, and Compensation Advisory Committee for Audit & Supervisory Board Members."

b. Reasons for adopting a corporate governance structure

The Company has made continuous efforts to improve its corporate governance structure in order to respond to changes in the business and management environment. The Company will continue to examine the issue of corporate governance structure improvement as part of its managerial challenges. The Company considers it appropriate to make efforts to improve its corporate governance structure through establishing the Committee for the Examination of Nominees and the Compensation Advisory Committee for Directors and Executive Officers, on the basis of its current structure as a "Company with an Audit & Supervisory Board" which has the Board of Directors that consists of four (4) Inside Directors and four (4) Outside Directors and the Audit & Supervisory Board that consists of two (2) Inside Audit & Supervisory Board Members and three (3) Outside Audit & Supervisory Board Members.

The following is a diagram of our system of business execution and management oversight, our internal control system, and our risk management system.

Corporate Governance Structure (As of March 22, 2024)



Members of the Board of Directors, Audit & Supervisory Board, and Voluntary Committees and the Chairpersons are as follows:

(As of March 22, 2024)

Title	Name	Board of Directors	Audit & Supervisory Board	Committee for the Examination of Nominees for Directors and Audit & Supervisory Board Members	Compensation Advisory Committee for Directors and Executive Officers	Compensation Advisory Committee for Audit & Supervisory Board Members
Representative Director	Yoshihiro Hasebe	✓			✓	✓
Representative Director	Masakazu Negoro	✓				
Representative Director	Toru Nishiguchi	✓				
Director	David J. Muenz	✓				
Outside Director	Osamu Shinobe	Chairperson		✓	Chairperson	✓
Outside Director	Eriko Sakurai	✓		Chairperson	✓	
Outside Director	Takaaki Nishii	✓		✓	✓	
Outside Director	Makoto Takashima	✓		✓	✓	
Full-time Audit & Supervisory Board Member	Yasushi Wada	✓	Chairperson			
Full-time Audit & Supervisory Board Member	Sadanao Kawashima	✓	✓			
Outside Audit & Supervisory Board Member	Hideki Amano	✓	✓			Chairperson
Outside Audit & Supervisory Board Member	Nobuhiro Oka	✓	✓	✓		✓
Outside Audit & Supervisory Board Member	Saeko Arai	✓	✓			✓

✓ = Attending member

c. Other Matters Related to Corporate Governance

● Status of Internal Control System

The Company has established the Internal Control Committee (chaired by the Representative Director, President and Chief Executive Officer) as an operational form of the Management Board, which deliberates and decides on basic policies and operational plans for internal control, monitors the activities of related committees, and confirms the effectiveness of internal control activities. The following related committees have been established under the Internal Control Committee.

- Disclosure Committee
- Compliance Committee
- Information Security Committee
- Risk & Crisis Management Committee
- Responsible Care Promotion Committee
- Quality Management Committee

● Status of Risk and Crisis Management System

With regard to the risk of losses, the Kao Group regards the effect of uncertainty on the achievement of management targets and the execution of business activities as risks, and has established systems to appropriately manage the "risks" of such threats and "crisis," a situation where the risks are manifested. The Risk and Crisis Management Committee, chaired by the Executive Officer in charge of risk and crisis management, has established a system and activity guideline for risk and crisis management based on the Risk and Crisis Management Policy. Divisions, subsidiaries and affiliates manage risks by identifying and assessing risks, and considering and implementing countermeasures based on this activity guideline.

After deliberation by the Risk and Crisis Management Committee and the Management Board, the Kao Group has selected significant main risks that could have a negative impact on its sustained profitable development and contribution to the sustainability of the society. Among these main risks, the Kao Group defines risks that would have a major impact on management and require an enhanced response as "corporate risks." Once a year, the Management Board decides upon risk themes and risk owners (with an Executive Officer responsible for each risk theme) based on its analyses of internal and external risks as well as interviews with management. Each risk owner establishes a countermeasure team to conduct reviews, and the Risk and Crisis Management Committee manages progress.

Meanwhile, in a crisis, an Emergency Response Team Organization is established under the initiative of a responsible risk owner for corporate risks and of a responsible division, subsidiary, or affiliate for other risks. In addition, depending on the magnitude of the impact of the crisis on the Kao Group as a whole, the Group works to minimize physical damage and financial losses by establishing a countermeasures headquarters with Representative Director, President and Chief Executive Officer or another person as its general manager, and by responding to the crisis promptly and appropriately.

Risk and crisis management activities are reviewed by the Management Board on a regular and timely basis, and approved by the Board of Directors.

● Overview of Internal Control System Operation

<Efforts Concerning Compliance>

The Compliance Committee, chaired by the Managing Executive Officer responsible for compliance, promotes and facilitates initiatives, involving both domestic and overseas Kao Group companies, such as by improving relevant regulations, including the Kao Business Conduct Guidelines (BCG), which is the code of conduct for implementing the Kao Way, as well as by carrying out educational and awareness activities and setting up and properly operating the Compliance Hotline. The following efforts are made in order to reduce material compliance risks:

・ In the event of a compliance violation, the Company has implemented through system to immediately report to the senior management or Audit & Supervisory Board Members. For all reported/consulted incidents, we confirm and assess how these incidents have been addressed, while taking into account the evaluation and suggestions, from a third-party perspective, of an outside attorney who attends the monthly Compliance Committee Secretariat Meeting as an advisor. For the incidents that require special attention, we identify the incidents that could constitute material compliance violations and conduct a root cause analysis. We then implement countermeasures against these incidents in cooperation with the departments in which such potential compliance violations took place in a bid to prevent their recurrence. The Compliance Committee, which is convened quarterly, confirms the status of countermeasures taken by the departments in which the incidents took place or the departments that are principally in charge of the issues involved, to reduce the risk of similar incidents taking place in any other departments.

・ The Compliance Hotline (counselors and lawyers) is put in place both outside and inside the Company. During the current fiscal year, we received 639 reports and consultations (including inquiries). For all reported and consulted incidents, we conducted fact-finding investigations into the incidents where investigations were requested, and resolved each incident one by one, while implementing necessary measures based on the awareness that there are issues that we should address to maintain a positive workplace climate as the Company. We have also worked to foster an "open corporate climate" that would make it easier for people both inside and outside the Company to voice their opinions, thereby preventing the spread and prolongation of compliance violations.

・ In an effort to prevent compliance violations, Chairperson of the Compliance Committee posted poster conveying the importance of raising one's voice, and the managers of each organization sent out compliance messages to maintain and raise the compliance awareness of each and every one of their employees. The managers of each organization sent out compliance messages to maintain and raise the compliance awareness of everyone. Further, a BCG verification test and compliance awareness survey was conducted on all global Kao Group employees (excluding temporary and part-time employees). In addition, the Company provides enlightening information on compliance case studies via the intranet of Kao Group, and in Japan, it builds compliance awareness using posters with a four-frame cartoon printed on them.

・ Tasks were identified based on the analysis of evaluation items obtained from the principal external evaluation organizations. The improvement measures for these tasks were added to future activity plans.
Practical examples for fiscal 2023 include: (1) outsourcing the Compliance Hotline to an outside service provider to make it easier for whistleblowers to voice their opinions (by opening the Hotline for longer hours and also on weekends and holidays), (2) implementing a process to verify, after a certain period of time, whether the measures to prevent the reoccurrence of compliance violations that have been conducted by the department where the compliance violations occurred which dig into the root cause of such violations have been effective, (3) sharing the information about reported/consulted incidents, communicating the lessons learnt from these incidents, and implementing activities to encourage the exchange of opinions among the employees within an organization so they can recognize the differences in opinions with others, (4) creating and putting up posters themed on compliance in multiple languages as an effort to keep all employees informed of compliance information issued by the Company, and (5) continuing to conduct self-evaluation on compliance activities to identify issues and consider taking measures to improve the situation in the future.

<Efforts Concerning Risk and Crisis Management>

By identifying risks that have a particularly large impact on management and require enhanced responses, as “corporate risks,” we determined the themes and owners of such risks (those responsible to address these themes: Executive Officers) at the Management Board. Specifically, we worked to strengthen measures for risk themes, including major earthquakes, natural disasters and BCP; serious quality issues; geopolitical risk; cyber-attacks and protection of personal information; and reputation risk. Through the investigation into these risk themes, we identified material risks that hamper the achievement of the Mid-term Plan “K27,” confirmed the progress of these measures and issues on a global scale, and made clear the issues that constitute material risks or bottleneck issues.
While we had addressed the global COVID-19 pandemic by establishing the Emergency Response Headquarters (headed by the President and CEO) in 2020, we dissolved the Emergency Response Headquarters in February 2023 in view of the changes in characteristics of the virus and the state of infections, etc., to transition to a stage where we treat COVID-19 as endemic.

<Efforts Concerning Subsidiary Management>

The executive officers in charge provide guidance on the establishment and operation of the internal control system to subsidiaries in accordance with the segregation of duties.
Overseas subsidiaries are required to internally share information concerning any material risks and the measures to be taken, at the time of management meetings at such subsidiaries. In addition, risks that may be identified by the respective subsidiaries based on instructions given by the Company are reported to the Company’s departments that are principally in charge of the matters involved, along with the measures to be taken.
At periodic meetings established based on the businesses and the functions for supporting such businesses, agenda items have been submitted and reports made whenever necessary, based on the criteria for submission of agenda items. In addition, the Company confirmed that proposals and reports have been made in accordance with regulations, etc., by receiving checklists from each department responsible for internal control and by conducting site visits by the Department of Internal Audit.
Regarding important matters of subsidiaries, agenda items were submitted and reports were made from subsidiaries to the Company whenever necessary, in accordance with the Subsidiary Management rules, known as the “Policy Manual,” that set forth matters for which the subsidiaries should obtain prior approval from or report to the Company. Based on the “Policy Manual,” all matters pointed out by the Department of Internal Audit are shared among directors and officers of the relevant subsidiaries, at the time of management meetings at such subsidiaries, along with the measures to be taken and the results thereof and are reported to the Company’s departments that are principally in charge of the matters involved.

d. Summary of liability limitation agreements

Pursuant to Article 427, Paragraph 1 of the Companies Act and the Articles of Incorporation of the Company, the Company entered into an agreement with each Director (excluding those who are Executive Directors, etc.) and Audit & Supervisory Board Member to the effect that each of their liability under Article 423, Paragraph 1 of the Companies Act will be limited to the higher of: 10 million yen; or any amount prescribed by applicable laws and regulations.

e. Summary of directors and officers liability insurance in which nominees for Directors are the insured

The Company has entered into a directors and officers liability insurance contract with an insurance company, as provided for in Article 430-3, Paragraph 1 of the Companies Act, insuring the Directors, Audit & Supervisory Board Members, and Executive Officers, etc., of the Company and the Kao Group. This contract covers compensation for damages and legal costs that may be incurred by the insured if they receive a claim for damages as a result of their actions (including omissions) committed by them in connection with their duties as officers, etc. of the Company and the Kao Group. However, the contract does not cover damages arising from actions taken by the insured with the knowledge that they were in violation of the law, so as not to impair the appropriate execution of duties by the insured. Insurance premiums are covered by the Company and the Kao Group.

2) Requirements for resolution for election of Directors

The Company's Articles of Incorporation stipulate that the resolution for election of Directors requires an affirmative vote of a majority of votes of the shareholders present, who hold one-third (1/3) or more of the total number of voting rights of all the shareholders with exercisable voting rights, at the General Meeting of Shareholders. The Articles of Incorporation also stipulate that cumulative voting shall not be used for the election of Directors.

3) Matters to be resolved at the General Meeting of Shareholders that may be resolved by the Board of Directors and reason thereof

a. Acquisition of own shares

The Company's Articles of Incorporation stipulate that the Company may acquire its own shares by resolution of the Board of Directors in order to promptly respond to changes in business environment and other circumstances.

b. Limitation of liabilities of Directors and Audit & Supervisory Board Members

To allow Directors and Audit & Supervisory Board Members to fully demonstrate their expected roles, the Company's Articles of Incorporation stipulate that the Company may, by resolution of the Board of Directors, limit the liabilities of a Director (including a former Director) or an Audit & Supervisory Board Member (including a former Audit & Supervisory Board Member) in respect of his/her liabilities under Article 423, Paragraph 1 of the Companies Act; provided that such Director or Audit & Supervisory Board Member must have acted in good faith and without gross negligence in performing his/her duties and provided that such limitation of the liabilities will be in accordance with the parameters set forth in applicable laws and regulations.

c. Interim dividends

To enable flexible return of profits to shareholders, the Company's Articles of Incorporation stipulate that the Company may, by resolution of the Board of Directors, make a payment of interim dividends pursuant to the provisions of Article 454, Paragraph 5 of the Companies Act, with the record date of interim dividends being June 30 of each year.

4) Requirements for special resolution of the General Meeting of Shareholders

To further ensure that the will of shareholders who exercise their voting rights is reflected in the resolutions for agenda items that require special resolution, the Company's Articles of Incorporation stipulate that the resolutions of the General Meeting of Shareholders set forth in Article 309, Paragraph 2 of the Companies Act shall be adopted by an affirmative vote of two-thirds (2/3) or more of the shareholders present, who hold one-third (1/3) or more of the total number of voting rights of all the shareholders with exercisable voting rights.

5) Activities of the Board of Directors, Committee for the Examination of Nominees for Directors and Audit & Supervisory Board Members, Compensation Advisory Committee for Directors and Executive Officers, and Compensation Advisory Committee for Audit & Supervisory Board Members

a. Activities of the Board of Directors

The activities of the Board of Directors in fiscal 2023 were as follows:

Title	Name	Attendance rate
Director, Chair	Michitaka Sawada	100% (15 out of 15 meetings)
Representative Director	Yoshihiro Hasebe	100% (15 out of 15 meetings)
Representative Director	Masakazu Negoro	100% (11 out of 11 meetings)
Director	Toru Nishiguchi	100% (11 out of 11 meetings)
Director	David J. Muenz	100% (15 out of 15 meetings)
Outside Director	Osamu Shinobe	100% (15 out of 15 meetings)
Outside Director	Chiaki Mukai	100% (15 out of 15 meetings)
Outside Director	Nobuhide Hayashi	100% (15 out of 15 meetings)
Outside Director	Eriko Sakurai	100% (15 out of 15 meetings)
Outside Director	Takaaki Nishii	100% (11 out of 11 meetings)
Full-time Audit & Supervisory Board Member	Yasushi Wada	100% (11 out of 11 meetings)
Full-time Audit & Supervisory Board Member	Sadanao Kawashima	100% (15 out of 15 meetings)
Outside Audit & Supervisory Board Member	Hideki Amano	100% (15 out of 15 meetings)
Outside Audit & Supervisory Board Member	Nobuhiro Oka	100% (15 out of 15 meetings)
Outside Audit & Supervisory Board Member	Takahiro Nakazawa	100% (15 out of 15 meetings)

Note: From January to December 2023, 15 meetings of the Board of Directors were held. After Mr. Masakazu Negoro, Mr. Toru Nishiguchi and Mr. Takaaki Nishii took office as Directors and Mr. Yasushi Wada took office as Audit & Supervisory Board Member, 11 meetings of the Board of Directors were held.

In fiscal 2023, the Board of Directors, in accordance with the Board of Directors' approach confirmed in fiscal 2022, focused its deliberations on the following points.

<How the Board of Directors should function>

Kao's Board of Directors will conduct a substantial delegation of authority to the executive organizations, and further strengthen its monitoring function to encourage appropriate risk-taking by management and prompt and bold decision-making. In particular, the Board will effectively supervise the appropriate allocation of management resources, including human capital, and the adequate implementation of strategies by management. It also recognizes that it is the responsibility of the Board to develop internal controls and risk and crisis management systems, and will build and operate these systems appropriately.

■ Monitoring of the progress of the Mid-term plan and issues

The Board of Directors monitored business indicators and the progress of the Kao Group's Mid-term plan "K25" at monthly meetings, and held an interim review of K25 to discuss structural reforms and growth strategies. As a result of the interim review of K25, the Kao Group Mid-Term Management Plan "K27" was re-formulated, and discussions and implementation of structural reforms are in progress.

■Human capital strategy

The Board of Directors confirmed the recognition of issues in the human capital strategy and the direction of response to the issues found therein and discussed the human capital strategy to realize the Company's growth strategy. It was pointed out that it is necessary to further deepen the discussion on the requirements, training, and acquisition of human resources to take charge of the growth strategy. The Board will continue to ensure that time is set aside for discussion and that the growth strategy is implemented. The Board also continue to deliberate on the progress and results following the introduction of the new human capital revitalization system OKR (Objectives and Key Results), which encourages employees to take on new challenges. The Board will ensure that diverse challenges in various Group locations will increase and expand, and that further collaboration will be promoted through dialogue.

■Sustainability (Climate Change Risks/Human Rights, etc.)

The Board of Directors received reports on the Kao Group's initiatives, including global ESG trends and the incorporation of "decarbonization" and "biodiversity" strategies into business plans, and confirmed their promotion status. The Board will continue to review issues related to sustainability.

■Establishment and Operation of Internal Control System
The Board of Directors was confirmed that the internal control system has been established and is operating without any major problems.

In addition to the above, monthly reports on execution are made by directors who concurrently serve as executive officers and reports on matters deliberated by the Management Board are made by the executive officer in charge.

On an annual basis, an evaluation is conducted at a meeting of the Board of Directors in order to make improvements aimed at enhancing the effectiveness of the Board of Directors. Based on the idea that the roles and responsibilities of the Board of Directors must be shared by the entire Board of Directors, the Company believes that it is effective for all members who participate in meetings of the Board of Directors, including Audit & Supervisory Board Members, to conduct an evaluation using a method that entails expressing their own opinions and engaging in free and open discussion. However, the Company also recognizes the usefulness of an objective evaluation by a third party, with an eye to introducing activities that further enhance the effectiveness of the Board of Directors.
For the fiscal 2023 evaluation, prior to the self-assessment at the meeting of the Board of Directors held in January 2024, a survey of the 10 Directors and five Audit & Supervisory Board Members was conducted on the topics below. Feedback on the results was then provided before the meeting, during which the Board engaged in discussions and exchanged opinions with a focus on areas where there is room for improvement. The Committee for Examination of Nominees for Directors and Audit & Supervisory Board Members and the Compensation Advisory Committee for Directors and Executive Officers were evaluated at the same time. Furthermore, third parties provided advice on the formulation and analysis of questionnaire items so that objective perspectives can be reflected in the questionnaires and analysis.
Overall, it was found that the Board of Directors has adequately exercised its supervisory functions, and that its effectiveness has been maintained. However, the evaluation also identified issues to be addressed in order to further improve the Board's effectiveness, and opinions were shared regarding future initiatives.
The results of the effectiveness assessment are published in the Company's Corporate Governance Report.
www.kao.com/content/dam/sites/kao/www-kao-com/global/en/corporate/policies/pdf/governance_001.pdf

b. Activities of the Committee for the Examination of Nominees for Directors and Audit & Supervisory Board Members
To incorporate an independent and objective perspective, the Committee for the Examination of Nominees for Directors and Audit & Supervisory Board Members consists of all Outside Directors and one (1) Outside Audit & Supervisory Board Member, with the chairperson chosen by the members, and in fiscal 2023 an Independent Outside Director held the position again. Prior to the election or re-election of Directors (including Representative Directors, Chair and President and CEO) and Audit & Supervisory Board Members, the Committee conducts examinations and submits its opinions on the nominees' appropriateness to the Board of Directors. In addition, President and CEO is also evaluated as a top executive officer at this Committee. Furthermore, the Committee discusses the size, composition and diversity of the Board of Directors and the Audit & Supervisory Board and the qualities and abilities required of President and CEO, Directors, and Audit & Supervisory Board Members, as well as succession plans, and reports the results of these examinations to the Board of Directors. The Committee deliberates in a timely manner when circumstances necessitate the dismissal of a Director, an Audit & Supervisory Board Member, or President and CEO.

The activities of the Committee for the Examination of Nominees for Directors and Audit & Supervisory Board Members in fiscal 2023 were as follows:

	Title	Name	Attendance rate
Chairperson	Outside Director	Chiaki Mukai	100% (3 out of 3 meetings)
Member	Outside Director	Osamu Shinobe	100% (3 out of 3 meetings)
Member	Outside Director	Nobuhide Hayashi	100% (3 out of 3 meetings)
Member	Outside Director	Eriko Sakurai	100% (3 out of 3 meetings)
Member	Outside Director	Takaaki Nishii	100% (3 out of 3 meetings)
Member	Outside Audit & Supervisory Board Member	Nobuhiro Oka	100% (3 out of 3 meetings)

With the appointment by the chairperson, President and CEO attends the meeting to contribute by submitting necessary and sufficient documents for an examination (including a summary of the new management structure, incorporating a classification of duties of the Directors and Executive Officers, in addition to materials related to the subjects of the examination) to each member of the Committee and work to enhance the examination by making arrangements such as creating opportunities for nominees and the Committee members to meet beforehand.

● Major topics discussed by the Committee
In fiscal 2023, the committee members discussed the composition of the Board of Directors, the structure of the Board of Directors and Audit & Supervisory Board Members, and the CEO's succession plan and submitted reports to the Board of Directors. Committee members discussed the skills, diversity, and term of office requirements of directors and Audit & Supervisory Board Members. The committee members also discussed the CEO's succession plan with regard to the development plan for the candidates for the CEO who were selected based on the personnel requirements, how to narrow down the candidates in the future, and the points of contact between the candidates and the Board of Directors.

c. Activities of the Compensation Advisory Committee for Directors and Executive Officers

The compensation system and compensation standards for the Directors and Executive Officers, including details of individual remuneration for the Directors are examined by the Compensation Advisory Committee for Directors and Executive Officers and determined by the Board of Directors. The Compensation Advisory Committee for Directors and Executive Officers comprises the Company's Representative Director, President and CEO, and all of the Company's Outside Directors. The chairperson is elected by mutual vote, and again this fiscal year, an Outside Director served as chairperson.

The activities of the Compensation Advisory Committee for Directors and Executive Officers in fiscal 2023 were as follows:

	Title	Name[2]	Attendance rate
Chairperson	Outside Director	Nobuhide Hayashi	100% (8 out of 8 meetings)
Member	Outside Director	Osamu Shinobe	100% (8 out of 8 meetings)
Member	Outside Director	Chiaki Mukai	100% (8 out of 8 meetings)
Member	Outside Director	Eriko Sakurai	100% (8 out of 8 meetings)
Member	Outside Director	Takaaki Nishii	100% (7 out of 7 meetings)[1]
Member	Representative Director	Yoshihiro Hasebe	100% (8 out of 8 meetings)

Notes 1. During fiscal 2023, eight meetings of the Compensation Advisory Committee for Directors and Executive Officers were held. After Mr. Takaaki Nishii took office as Outside Director, seven meetings of the Committee were held.

2. On July 5, 2023, the composition of the Compensation Advisory Committee for Directors and Executive Officers was reviewed with the purpose of promoting specialized and intensive deliberations in the Committee. Before the change to the composition of the Committee, there were three meetings that were held of which Mr. Michitaka Sawada, Mr. Hideki Amano, Mr. Nobuhiro Oka, and Mr. Takahiro Nakazawa attended all three of them. In addition, there were two meetings of the Committee held since the appointment of Mr. Masakazu Negoro and before the review of the composition of the Committee on July 5, 2023, of which he attended both of them.

● Major topics discussed by the Committee members

In fiscal 2023, the committee members discussed the overall nature of executive compensation and the level of compensation. The committee also exchanged opinions on policies for revising the compensation structure to achieve "K27" management goals and enhance corporate value. The committee also discussed the amount of executive compensation for fiscal 2024 and revision of Performance-based share incentive plan, and decided on the content of the report to the Board of Directors.

d. Activities of the Compensation Advisory Committee for Audit & Supervisory Board Members

Compensation standards for Audit & Supervisory Board Members are determined by discussions of the Audit & Supervisory Board. Furthermore, the Company has established a Compensation Advisory Committee for Audit & Supervisory Board Members, and examines the validity and transparency in the decision-making process of compensation amounts for Audit & Supervisory Board Members from an objective perspective. The committee is composed of all Outside Audit & Supervisory Board Members, the President and CEO, and one Outside Director. The chairperson is elected from among the Outside Audit & Supervisory Board Members.

The activities of the Compensation Advisory Committee for Audit & Supervisory Board Members in fiscal 2023 were as follows:

	Title	Name	Attendance rate
Chairperson	Outside Audit & Supervisory Board Member	Hideki Amano	100% (1 out of 1 meeting)
Member	Outside Audit & Supervisory Board Member	Nobuhiro Oka	100% (1 out of 1 meeting)
Member	Outside Audit & Supervisory Board Member	Takahiro Nakazawa	100% (1 out of 1 meeting)
Member	Outside Director	Osamu Shinobe	100% (1 out of 1 meeting)
Member	Representative Director	Yoshihiro Hasebe	100% (1 out of 1 meeting)

● Major topics discussed by the Committee members

The amount of compensation for Audit & Supervisory Board members for fiscal 2023 was deliberated prior to deliberation by the Audit & Supervisory Board.

(2) Directors and Audit Supervisory Board Members

1) List of Directors and Audit Supervisory Board Members

11 men and two women (Women percentage to total number of Directors and Audit Supervisory Board Members is 15.4%)

Position	Name	Date of birth	Career summary		Term of office	Share ownership (shares)
Representative Director, President and Chief Executive Officer	Yoshihiro Hasebe	July 30, 1960	Apr. 1990	Jointed the Company	*1	16,700
			Jul. 2003	Head of Laboratory 4, Research and Development – Performance Chemicals Research		
			Mar. 2008	Head of Laboratory 1, Household Products Research, Research and Development -Fabric & Home Care Research		
			Mar. 2011	Vice President, Research and Development - Beauty Research - Hair Beauty Research		
			Jan. 2014	Vice President, Research and Development - Core Technology		
			Mar. 2014	Executive Officer; Vice President, Research and Development, Global; Vice President, Research and Development - Core Technology		
			Mar. 2015	Executive Officer; Senior Vice President, Research and Development, Global		
			Jan. 2016	Managing Executive Officer; Senior Vice President, Research and Development, Global		
			Mar. 2016	Director, Managing Executive Officer; Senior Vice President, Research and Development, Global		
			Jan. 2018	Director, Senior Managing Executive Officer, Senior Vice President, Research and Development, Global; Responsible for Corporate Functions, Global		
			Apr. 2018	Director, Senior Managing Executive Officer; Senior Vice President, Research and Development, Global; Senior Vice President, Strategic Innovative Technology; Responsible for Corporate Functions, Global		
			Mar. 2019	Representative Director, Senior Managing Executive Officer; Senior Vice President, Research and Development, Global; Senior Vice President, Strategic Innovative Technology		
			Jan. 2021	Representative Director, President and Chief Executive Officer (current)		
			Jan. 2023	Responsible for DX Strategy (current)		
Representative Director, Senior Managing Executive Officer; Responsible for Management Finance (Accounting and Finance, Business Structure Reforms, Procurement, Human Capital Strategy)	Masakazu Negoro	January 7, 1960	Apr. 1983	Jointed the Company	*1	10,500
			Mar. 1999	Business Manager, Oleo & Specialties, Kao Specialties Americas LLC		
			Jul. 2003	Vice President, Oleo & Specialties, Kao Specialties Americas LLC		
			Jul. 2005	Senior Manager, Business Planning, Chemical Business		
			Jul. 2006	Vice President, Sales, Oleo Chemical Business, Chemical Business		
			Apr. 2007	Vice President, Sales and Planning, Oleo Chemical Business, Chemical Business		
			Jul. 2009	President, Oleo Chemical Business, Chemical Business		
			Mar. 2013	Executive Officer; President, Chemical Division Unit; Chairperson of the Board of Directors, Pilipinas Kao, Inc.; Chairperson of the Board of Directors, Fatty Chemical (Malaysia) Sdn. Bhd.; Chairperson of the Board, Kao Chemicals Europe, S.L.		
			Jan. 2019	Managing Executive Officer; Senior Vice President, Procurement, Global		
			Jan. 2021	Managing Executive Officer; Senior Vice President, Procurement, Global; Responsible for Accounting and Finance		
			Jan. 2022	Managing Executive Officer; Responsible for Management Strategy; Global; Senior Vice President, Procurement, Global; Responsible for Accounting and Finance		
			Jan. 2023	Senior Managing Executive Officer; Responsible for Management Finance (Accounting and Finance, Business Structure Reforms, Procurement, Human Capital Strategy) (current)		
			Mar. 2023	Representative Director (current)		

Position	Name	Date of birth	Career summary		Term of office	Share ownership (shares)
Representative Director, Senior Managing Executive Officer; Responsible for Consumer Products, Global; President, Consumer Products - Life Care Business, Global; Responsible for Kao Professional Services Company, Limited	Toru Nishiguchi	November 18, 1961	Apr. 1985	Jointed the Company	*1	17,200
			Mar. 2006	Manager, International Business, Consumer Products, Asia		
			Nov. 2006	Senior Vice President, Market Division, Kao Commercial (Shanghai) Co., Ltd.		
			May 2007	Vice President; Vice President, Marketing, Kao Commercial (Shanghai) Co., Ltd.		
			Jul. 2008	Vice President; Vice President, Marketing, Kao Commercial (Shanghai) Co., Ltd.		
			Feb. 2014	President, Kao (Taiwan) Corporation		
			Jan. 2017	Chairperson of the Board of Directors & President, Kao (Taiwan) Corporation		
			Jan. 2018	President, PT Kao Indonesia		
			Jan. 2019	Vice President, Consumer Products, Asia; President, PT Kao Indonesia		
			Jan. 2020	Executive Officer; President, Consumer Products, Asia; Chairperson of the Board and President, Kao (China) Holding Co., Ltd.; Chairperson of the Board and President, Kao Corporation Shanghai; Chairperson of the Board, Kao Commercial (Shanghai) Co., Ltd.; Chairperson of the Board and President, Kao (Hefei) Co., Ltd.		
			Jan. 2021	Managing Executive Officer; President, Consumer Products, Asia; Responsible for Consumer Products - Merries Business; Chairperson of the Board and President, Kao (China) Holding Co., Ltd.; Chairperson of the Board and President, Kao Corporation Shanghai; Chairperson of the Board, Kao Commercial (Shanghai) Co., Ltd.; Chairperson of the Board, Kanebo Cosmetics (China) Co., Ltd.; Chairperson of the Board and President, Kao (Hefei) Co., Ltd.		
			Jan. 2023	Senior Managing Executive Officer; Vice President, Consumer Products, Global		
			Mar. 2023	Director, Senior Managing Executive Officer; Responsible for Consumer Products, Global; Responsible for Kao Professional Services Company, Limited (current)		
			Jan. 2024	President, Consumer Products - Life Care Business, Global (current)		
			Mar. 2024	Representative Director (current)		
Director, Managing Executive Officer; Senior Vice President, ESG, Global; Responsible for Strategic Public Relations	David J. Muenz	November 15, 1960	Jul. 2003	Joined The Andrew Jergens Company (currently, Kao USA Inc.) Senior Vice President, Research and Development, US	*1	500
			Nov. 2012	Regional Executive Officer, Vice President, Beauty Research, Americas Research Laboratories, US, Kao USA Inc.		
			Jan. 2014	Vice President, Beauty Care Skin Care & Hair Care Business Unit, Global (Flagship Brand Manager, John Frieda & Jergens)		
			Jan. 2018	Vice President, Mass Business, Americas & EMEA		
			Jul. 2018	Senior Vice President, ESG, Global (current)		
			Jan. 2019	Executive Officer		
			Jan. 2022	Managing Executive Officer		
			Mar. 2022	Director, Managing Executive Officer (current)		
			Jan. 2023	Responsible for Strategic Public Relations (current)		
Director	Osamu Shinobe	November 11, 1952	Apr. 1976	Joined ALL NIPPON AIRWAYS CO., LTD. (currently, ANA HOLDINGS INC.)	*1	2,600
			Jun. 2007	Member of the Board, ALL NIPPON AIRWAYS CO., LTD.		
			Apr. 2009	Executive Vice President (jomu torishimariyaku), ALL NIPPON AIRWAYS CO., LTD.		
			Jun. 2011	Executive Vice President (senmu torishimariyaku), ALL NIPPON AIRWAYS CO., LTD.		
			Apr. 2012	Senior Executive Vice President, ALL NIPPON AIRWAYS CO., LTD.		
			Apr. 2013	Member of the Board, ANA HOLDINGS INC. President and Chief Executive Officer, ALL NIPPON AIRWAYS CO., LTD.		
			Apr. 2017	Member of the Board, Vice Chairman, ANA HOLDINGS INC.		
			Mar. 2018	Director, the Company (current)		
			Apr. 2019	Special Advisor, ANA HOLDINGS INC. (current)		

Position	Name	Date of birth	Career summary		Term of office	Share ownership (shares)
Director	Eriko Sakurai	November 16, 1960	Jun. 1987 May 2008 Mar. 2009 Jun. 2018 Aug. 2020 Mar. 2022	Joined Dow Corning Corporation Director, Dow Corning Toray Co., Ltd. Chairman and CEO, Dow Corning Toray Co., Ltd. Chairman and CEO, Dow Toray Co., Ltd. President, Dow Chemical Japan Limited Director, the Company (current)	*1	300
Director	Takaaki Nishii	December 27, 1959	Apr. 1982 Jun. 2013 Aug. 2013 Jun. 2015 Jun. 2021 Apr. 2022 Jun. 2022 Mar. 2023	Joined Ajinomoto Co., Inc. Member of the Board & Corporate Vice President, Ajinomoto Co., Inc. President, Ajinomoto do Brasil Indústria e Comércio de Alimentos Ltda. Representative Director, President & Chief Executive Officer, Ajinomoto Co., Inc. Director, Representative Executive Officer, President & CEO, Ajinomoto Co., Inc. Director, Executive Officer, Ajinomoto Co., Inc. Senior Corporate Advisor, Ajinomoto Co., Inc. (current) Director, the Company (current)	*1	4,000
Director	Makoto Takashima	March 31, 1958	Apr. 1982 Apr. 2012 Apr. 2014 Apr. 2015 Dec. 2016 Apr. 2017 Jun. 2017 Apr. 2023 Jun. 2023 Mar. 2024	Joined Sumitomo Bank, Limited Managing Executive Officer, Head of Americas Division, Sumitomo Mitsui Banking Corporation (SMBC) Senior Managing Executive Officer, Co-Head of International Banking Unit (Europe, Americas), SMBC Senior Managing Executive Officer, Co-Head of International Banking Unit (Europe, Middle East and Africa, Americas), SMBC Director and Senior Managing Executive Officer, Co-Head of International Banking Unit (Europe, Middle East and Africa, Americas), SMBC President and Chief Executive Officer, SMBC President and Chief Executive Officer, SMBC; Director, Sumitomo Mitsui Financial Group, Inc. (SMFG) Chairman of the Board, SMBC; Director, SMFG Chairman of the Board, SMBC (current) Director, the Company (current)	*1	-
Full-time Audit & Supervisory Board Member	Yasushi Wada	July 30, 1959	Apr. 1984 Mar. 2014 Mar. 2015 Jan. 2019 Jan. 2021 Jan. 2022 Jan. 2023 Mar. 2023	Jointed the Company Executive Officer Executive Officer; Vice President, Supply Chain Management - Demand and Supply Planning Center, Global Managing Executive Officer; Senior Vice President, Product Quality Management, Global Managing Executive Officer; Senior Vice President, Product Quality Management, Global; Responsible for Legal and Compliance Managing Executive Officer; Senior Vice President, Product Quality Management, Global; Responsible for Legal and Governance Fellow for Special Mission Full-time Audit & Supervisory Board Member, the Company (current)	*2	14,600
Full-time Audit & Supervisory Board Member	Sadanao Kawashima	May 22, 1959	Apr. 1983 Mar. 2007 Jun. 2011 Sep. 2015 Mar. 2019 Mar. 2021	Jointed the Company Audit & Supervisory Board Member, Kanebo Cosmetics Inc. Vice President, Corporate Strategy-Investor Relations, Global Vice President, Internal Audit, Global Director, Corporate Strategy-Office of the Audit & Supervisory Board Full-time Audit & Supervisory Board Member, the Company (current)	*3	17,900

Position	Name	Date of birth	Career summary		Term of office	Share ownership (shares)
Audit & Supervisory Board Member	Hideki Amano	November 26, 1953	Apr. 1976 Sep. 1980 Jun. 1984 Sep. 1992 Sep. 2011 Jul. 2015 Mar. 2017	Entered Arthur Andersen Registered as Certified Public Accountant Resided in Dusseldorf Office of Arthur Andersen Representative employee, Inoue Saito Eiwa Audit Corporation Vice President (Audit Management), KPMG AZSA LLC.; and Member, KPMG Global Audit Steering Group Executive Senior Partner, KPMG AZSA LLC. Audit & Supervisory Board Member, the Company (current)	*3	4,000
Audit & Supervisory Board Member	Nobuhiro Oka	April 5, 1963	Apr. 1993 Apr. 1997 Oct. 2004 Apr. 2012 Oct. 2013 Mar. 2014 Jan. 2016 Mar. 2018	Registered as an attorney-at-law, Joined Kajitani Law Offices Representative Partner, Takekawa and Oka Law Office Representative Partner, Takekawa, Oka and Yoshino Law Office Professor, Keio University Law School (current) Representative, Oka-Partners Law Office (current) Outside Audit & Supervisory Board Member, Kao Customer Marketing Co., Ltd. Audit & Supervisory Board Member, Kao Group Customer Marketing Co., Ltd. (current) Audit & Supervisory Board Member, the Company (current)	*4	3,200
Audit & Supervisory Board Member	Saeko Arai	February 6, 1964	Oct. 1987 Aug. 1992 Oct. 1993 Apr. 1997 Sep. 1998 Feb. 2000 Nov. 2002 Nov. 2002 Mar. 2024	Joined Arthur Andersen & Co. (currently, KPMG AZSA LLC) Registered as Certified Public Accountant (Reregistered in January 1997) Joined Sasaki Certified Public Accountants Office Joined Internet Research Institute, Inc. (IRI) Director, CFO, IRI Director and CFO, IRI USA, Inc. Director, President, Chief Executive Officer and Secretary, IRI USA, Inc. Established Gratia, Inc. (currently, Acuray, Inc.), and assumed the position of President (current) Audit & Supervisory Board Member, the Company (current)	*5	-
Total						91,500

Notes:
1. Mr. Osamu Shinobe, Ms. Eriko Sakurai, Mr. Takaaki Nishii and Mr. Makoto Takashima are Outside Directors.
2. Mr. Hideki Amano, Mr. Nobuhiro Oka and Ms. Saeko Arai are Outside Audit & Supervisory Board Members.
3. The terms of office of Directors and Audit & Supervisory Board Members are as follows.
   *1. From the close of the Annual General Meeting of Shareholders for the fiscal year ended December 31, 2023 to the close of the Annual General Meeting of Shareholders for the fiscal year ended December 31, 2024
   *2. From the close of the Annual General Meeting of Shareholders for the fiscal year ended December 31, 2022 to the close of the Annual General Meeting of Shareholders for the fiscal year ended December 31, 2026
   *3. From the close of the Annual General Meeting of Shareholders for the fiscal year ended December 31, 2020 to the close of the Annual General Meeting of Shareholders for the fiscal year ended December 31, 2024
   *4. From the close of the Annual General Meeting of Shareholders for the fiscal year ended December 31, 2021 to the close of the Annual General Meeting of Shareholders for the fiscal year ended December 31, 2025
   *5. From the close of the Annual General Meeting of Shareholders for the fiscal year ended December 31, 2023 to the close of the Annual General Meeting of Shareholders for the fiscal year ended December 31, 2027
4. The Company has introduced an executive officer system. The Company has 31 Executive Officers, four of whom concurrently serve as Directors.

2) Status of Outside Directors and Outside Audit & Supervisory Board Members

a. Number of Outside Directors and Outside Audit & Supervisory Board Members, and personal, capital, business, and other interests of outside directors and outside corporate auditors in the Company

The Company has four Outside Directors and three Audit & Supervisory Board Members.

Mr. Shinobe previously had executive authority at ALL NIPPON AIRWAYS CO., LTD., but ceased to have such authority from April 2017. ALL NIPPON AIRWAYS CO., LTD. provides public transportation services as an airline company, and the Kao Group engages in regular transactions with ALL NIPPON AIRWAYS CO., LTD. and its group companies in terms of the directors, officers and employees of the Company using its services as a means of transportation in making business trips, however, the amounts involved in such transactions account for less than 0.1% of the ALL NIPPON AIRWAYS group's consolidated net sales and the Kao's consolidated net sales for the latest fiscal year, respectively. While there are transactions to sell Kao Group's products to ALL NIPPON AIRWAYS group, the amounts involved in such transactions account for less than 0.1% of the ALL NIPPON AIRWAYS group's consolidated net sales and the Kao Group's consolidated net sales for the latest fiscal year, respectively. He currently has executive authority at the Japan Institute of International Affairs. The Company pays membership fees to the Institute, however, the ratios of the amount involved in such transactions account for less than 0.1% of the Institute's ordinary income and the Kao Group's consolidated net sales for the latest fiscal year, respectively.

Ms. Sakurai previously had executive authority at Dow Chemical Japan Limited, but ceased to have such authority from July 2022. As a Japanese subsidiary of a US chemical manufacturer, Dow Chemical Japan Limited manufactures, imports, and sells various chemical products and provides technical services. The Kao Group conducts transactions related to the purchase of raw materials, etc. with the corporate group to which Dow Chemical Japan Limited is affiliated; however, the amounts involved in such transactions account for less than 0.1% of such group's consolidated net sales and less than 0.5% of the Kao Group's consolidated net sales for the latest fiscal year.

Mr. Nishii previously had executive authority at Ajinomoto Co., Inc., but ceased to have such authority from June 2022. The Ajinomoto Group is engaged in business that uses amino acids as raw materials, and there are raw material purchasing and other relations between the Ajinomoto Group and the Kao Group, however, the amounts involved in such transactions accounted for less than 0.5% of Ajinomoto Group's consolidated net sales, and less than 0.1% of Kao Group's consolidated net sales for the latest fiscal year. He also has executive authority at FINET, INC. The Kao Group pays usage fees for services provided by FINET, INC., however, the amounts involved in such transactions accounted for less than 0.1% of FINET, INC.'s net sales and the Kao Group's consolidated net sales for the latest fiscal year, respectively.

Mr. Takashima previously had executive authority at Sumitomo Mitsui Banking Corporation, but ceased to have such authority from April 2023. Although the Kao Group has transactions with the Sumitomo Mitsui Financial Group, such as the use of corporate credit cards, the ratios of the amount involved in such transactions account for less than 0.1% of the Sumitomo Mitsui Financial Group's consolidated ordinary income and the Kao Group's consolidated net sales for the latest fiscal year, respectively. In addition, although the Kao Group has regular banking transactions with and borrows from the Sumitomo Mitsui Financial Group, the amount borrowed by the Kao Group from the group as of the end of the latest fiscal year accounts for less than 1.5% of the total consolidated assets of the Kao Group.

Mr. Oka serves as a Professor at the Keio University Law School, and is involved in business execution. The Kao Group has transactions with Keio University related to joint research, instructions on research, etc.; however, the amounts of such transactions account for less than 0.1% of the university's income from education activities and the Company's net sales for the latest fiscal year, respectively.

b. Functions and roles of Outside Directors and Outside Audit & Supervisory Board Members in the Company's corporate governance

The Outside Directors are expected to share, in the course of management of the Company, their considerable experience and expertise as management of global companies and those in their respective fields, and the Outside Directors fulfill the checking functions from neutral positions, independent of the Company's management, to ensure that the managerial decisions of the Company are not biased by the views of its internal members.

Also, the Company expects the Outside Audit & Supervisory Board Members to utilize their perspectives based on their high expertise and wealth of experience and knowledge as certified public accountants and lawyers in auditing.

c. Details of criteria or policies regarding independence for appointing Outside Directors and Outside Audit & Supervisory Board Members

The Company has adopted at a meeting of its Board of Directors the "Standards for Independence of Outside Directors/Audit & Supervisory Board Members of Kao Corporation" as described below, with the unanimous consent of its Audit & Supervisory Board Members. The purpose of establishing these Standards is to provide clear criteria for an Outside Director/Audit & Supervisory Board Member to qualify as an independent director/audit & supervisory board member. Given the importance of Outside Directors and Outside Audit & Supervisory Board Members being independent of the Company, the Company places importance on independence based on these Standards when examining candidates for Outside Directors and Outside Audit & Supervisory Board Members.

Four Outside Directors, Mr. Osamu Shinobe, Ms. Eriko Sakurai, Mr. Takaaki Nishii and Mr. Makoto Takashima, and three Outside Audit & Supervisory Board Members, Mr. Hideki Amano, Mr. Nobuhiro Oka, and Ms. Saeko Arai, were deemed not to present a risk of conflict of interest with general shareholders in light of the said standards, and are reported as independent directors and audit & supervisory board members as defined by Tokyo Stock Exchange, Inc.

"Standards for Independence of Outside Directors/Audit & Supervisory Board Members of Kao Corporation" is disclosed on the Company's website.

www.kao.com/content/dam/sites/kao/www-kao-com/global/en/corporate/policies/corporate-governance/policy/pdf/governance_002.pdf

d. Appointment of Outside Directors and Outside Audit & Supervisory Board Member

	Name	Material Position	Reason for Nomination
Outside Director	Osamu Shinobe	Special Advisor, ANA HOLDINGS INC.	He has considerable experience and expertise in relation to global corporate management and risk management, gleaned principally from his time in the maintenance sections of an international airline which carries both cargo and passengers where safety and security took top priority. He has been actively presenting opinions and proposals in deliberations of the Board of Directors concerning material matters in the management of the Kao Group, based on his considerable experience and expertise. Since March 2022, he has demonstrated outstanding leadership as the Chairperson of the Board in enhancing the effectiveness of the Board of Directors toward enhancing the corporate value. The Company expects him to continue to supervise the management of the Kao Group as an Independent Outside Director. At the meeting of the Board of Directors following the General Meeting of Shareholders held on March 22, 2024, in addition to continuing to serve as Chairperson of the Board of Directors, he was newly appointed Chairperson of the Advisory Committee on Compensation for Directors and Executive Officers.
	Eriko Sakurai	Outside Director of the Company	She has a wealth of experience in global companies, including many years of corporate management at the Japanese subsidiary of a US chemical manufacturer with global business operations, as well as supervision of management as an Outside Director at a major manufacturer and a financial institution. Based on her experience in the chemical industry, she also has a high level of expertise in the Chemical Business, which comprises the two key pillars of the Kao Group together with the Consumer Products Business. From this perspective, she has been actively giving opinions and making proposals at Board of Directors meetings. In addition, she has been providing advice based on her experience in planning and executing human resources strategies such as remuneration, developing and placement of human capital in global business. The Company expects her to continue to supervise the management of the Kao Group as an Independent Outside Director by leveraging her wealth of experience and high level of insight. At the meeting of the Board of Directors following the General Meeting of Shareholders held on March 22, 2024, she was newly appointed as Chairperson of the Committee for the Examination of the Nominees for Directors and Audit & Supervisory Board Members.
	Takaaki Nishii	Senior Corporate Advisor, Ajinomoto Co., Inc.	He has been involved in corporate management for many years at a food manufacturer with global business operations, and has displayed strong leadership in transforming the company’s corporate culture and continuously enhancing corporate value. He has also held important positions in the human resources department and overseas subsidiaries, and has extensive knowledge of human capital strategies and business outside Japan. The Company expects him to supervise the management of the Kao Group as an Independent Outside Director by leveraging his wealth of experience and high level of insight.
	Makoto Takashima	Chairman of the Board, SMBC	He has considerable experience, expertise, and ability in global corporate management that responds to change, including many years of experience in international operations and corporate planning at a major financial institution, followed by service as a manager in the changing business environment of the global financial industry. The Company expects him to supervise the management of the Kao Group as an Independent Outside Director by leveraging his wealth of experience and high level of insight.

	Name	Material Position	Reason for Nomination
Outside Audit & Supervisory Board Member	Hideki Amano	Certified Public Accountant	He has a high level of professional expertise as a certified public accountant. Based on his experience and insight gained from working globally at a major auditing firm as a member of management, he has served as an Audit & Supervisory Board Member of the Company since March 2017, effectively auditing the Kao Group, which operates globally, from a professional perspective. The Company expects that he will make full use of his experience in the auditing of the entire Kao Group.
	Nobuhiro Oka	Attorney-at-Law	He, in his career as an attorney and a university professor, has obtained considerable professional expertise and experience in relation to corporate legal affairs and corporate governance. Having served as an audit & supervisory board member of principal subsidiary of the Company since 2014, he also has expertise in relation to the business of the Kao Group. He has served as an Audit & Supervisory Board Member of the Company since March 2018, conducting effective audits from a professional perspective including group governance. The Company expects that he will make full use of his experience in the auditing of the entire Kao Group.
	Saeko Arai	Certified Public Accountant	She has served as an outside director and outside audit & supervisory board member for several companies, leveraging her extensive knowledge of accounting and finance as a certified public accountant to support corporate management such as establishing internal control systems. In addition to management experience as CFO of a venture company, she also has extensive international experience, including serving as a representative of a U.S. corporation. The Company expects that she will make full use of his experience in the auditing of the entire Kao Group.

3) Mutual collaboration among supervision or audits by Outside Directors and Outside Audit & Supervisory Board Members, internal audits, audits by Audit & Supervisory Board Members and audits by the Accounting Auditor, and relationship with the internal control divisions

Outside Directors and Outside Audit & Supervisory Board Members attend the Board of Directors meetings to receive reports on audits (including audits conducted by the Accounting Auditor) from Audit & Supervisory Board Members; reports on internal audits from the Department of Internal Audit, which is the division responsible for internal auditing; and reports on the development and operation of the internal control system from the Internal Control Committee on a regular basis, and express their opinions as necessary.

In addition to this, Outside Audit & Supervisory Board Members share information with the Audit & Supervisory Board and Full-time Audit & Supervisory Board Members in a timely manner, and, together with Full-time Audit & Supervisory Board Members, they exchange opinions with the Accounting Auditor and the Department of Internal Audit on a regular basis. They also attend interviews conducted by Audit & Supervisory Board Members with divisions relevant to internal control to confirm the status of development and monitoring of internal control, as well as to offer advice and opinions from an objective perspective, drawing on their wealth of knowledge and experience in various fields. Furthermore, they exchange opinions with auditors of the Kao Group companies to promote mutual collaboration.

In addition, Outside Directors and Outside Audit & Supervisory Board Members exchange opinions on a regular basis to share the Group’s current status and issues, among other topics.

(3) Status of Audits

1) Status of audits by Audit & Supervisory Board Members

a. Audit policy

During the fiscal 2023, as the business environment remained uncertain in the face of rising geopolitical risks and other factors, we were required to make a major transformation toward achieving profitable growth. Under these circumstances, with a shared sense of urgency and necessity of reforms recognized by management, the Company adopted a policy to audit the progress of implementation of management strategies and response to management environmental risks, while conducting auditing activities, including ESG related activities, in view of the requests and views of society and stakeholders.

<Particularly important points in Audit & Supervisory Board Members' activities>

■Lively exchange of opinions

The Audit & Supervisory Board Members attend meetings of the Board of Directors, the Management Board and other important meetings with regard to auditing the duties of Directors. They put emphasis on confirming decision-making process for reaching resolutions, and express their opinions as appropriate.

■Dialogue with people at the actual sites (*Genba*)

In addition, the Audit & Supervisory Board Members conduct on-site audits and interviews of each division and subsidiary and affiliates. By placing importance on dialogue with people at the actual sites (*Genba*), they confirm the degree of how well corporate strategy is being shared and whether proactive efforts are being made.

At the beginning of the visit and hearing, the results of the previous audit are reconfirmed, and at the end of the audit, the auditor's comments are shared on the spot by dividing them into areas of guidance and requests, as well as areas of advice and outstanding efforts. At the end of the audit, the Audit & Supervisory Board Members' comments are shared on the spot, divided into guidance and requested items, as well as advice and excellent initiatives, and each department makes use of them in its own initiatives. The aim is to improve effectiveness through PDCA (Plan-Do-Check-Act) processes. At least one Outside Audit & Supervisory Board Member has participated in approximately 60% of the interviews.

b. Organization and personnel

The Audit & Supervisory Board consists of five Audit & Supervisory Board Members (two Full-time Audit & Supervisory Board Members and three Outside Audit & Supervisory Board Members). The Full-time Audit & Supervisory Board Members with extensive internal execution experience and diverse knowledge, and Outside Audit & Supervisory Board Members with their respective expertise (certified public accountant, attorney-at-law) and abundant knowledge gained from experience as officers of other companies share audit-related information in a timely manner and conduct deliberations from various perspectives.

The Office of the Audit & Supervisory Board was established directly under the Audit & Supervisory Board, to assist the Audit & Supervisory Board Members with their duties and to allow the members to serve concurrently as Auditors of subsidiaries.

Title	Name	Career
Chairperson Full-time Audit & Supervisory Board Member	Yasushi Wada	He has held important positions in the departments responsible for process engineering and product quality management at the Company, and has a deep understanding and extensive knowledge of production sites. In addition, he has a global perspective gained from extensive experience in operations related to production outside Japan. Having served as the officer in charge of legal affairs and Chairperson of the Compliance Committee, he also has knowledge of legal affairs and risk management.
Full-time Audit & Supervisory Board Member	Sadanao Kawashima	He has considerable expertise in finance and accounting, having worked in accounting and finance at the Company for many years and held key positions in Investor Relations and at the Department of Internal Audit. In addition, he has a wealth of experience in group management, including being stationed at overseas subsidiaries and serving as an auditor of an affiliated company.
Outside Audit & Supervisory Board Member	Hideki Amano	As a certified public accountant, he has considerable knowledge of finance and accounting, having been involved in corporate accounting practices of global companies for many years in Japan and abroad, including experience as vice-chairman of an audit firm at a major audit firm and overseas assignments.
Outside Audit & Supervisory Board Member	Nobuhiro Oka	As an attorney-at-law, he has expertise in corporate legal affairs and corporate governance. He has extensive insight through his experience as a member of a major corporate investigative committee and a professor at a university.
Outside Audit & Supervisory Board Member	Takahiro Nakazawa	As a representative partner of a major audit firm as a certified public accountant, he has been engaged in auditing and accounting advisory services for corporate accounting of global companies for many years and has considerable knowledge of finance and accounting.

Reasons for the appointment of Outside Audit & Supervisory Board Members are stated in "(2) Directors and Audit Supervisory Board Members 2) Status of Outside Directors and Outside Audit & Supervisory Board Members d. Appointment of Outside Directors and Outside Audit & Supervisory Board Member"

c. Deliberations by the Audit & Supervisory Board

- Number of meetings held: 11 times
- Attendance rate: 100%
- Duration: Average of one hour and 51 minutes

Main agenda of the Audit & Supervisory Board

- 26 resolutions:
  Audit policy, division of duties, critical auditing items, annual plan, audit report, Audit & Supervisory Board rules, internal control matters, Accounting Auditor matters (including agreement on compensation, and deliberation on reappointment), appointment and compensation of Audit & Supervisory Board Members, etc.
- Nine matters considered:
  Audit findings on critical auditing items, revision of Audit & Supervisory Board rules, closely monitoring issues concerning internal control, exchange of opinions with Representative Directors and Outside Directors, confirmation of the effectiveness evaluation process, etc.

Irrespective of agenda items at the Audit & Supervisory Board meetings, opinions regarding medium- to long-term issues are exchanged freely as needed.

d. Critical auditing items, achievements and evaluation of effectiveness

Critical auditing items	Audit method	Activity results and evaluation of effectiveness	Division of audit	
			Full-time	Outside
Status of execution of duties by Directors	Attend meetings of the Board of Directors to confirm the status of deliberations and resolutions, and express opinions if necessary	All Audit & Supervisory Board Members attended all meetings. All of them actively expressed their opinions.	✓	✓
	Attend important meetings such as the Management Board to confirm decision-making process, request explanations as necessary, and expressed opinions in a timely manner	Attendance rate was 100%, reviewed decision-making process and commented on matters to be considered.	✓	—
	Meetings to exchange opinions with management	Kao: Representative Directors (three times). Outside Directors (two times), Executive Officers with titles (six times) Important subsidiaries: Representative Directors (two times) Exchanged frank opinions regarding management issues, future governance., etc. Discussed the priority levels of risks and issues with Outside Directors, and shared the results of such discussions with Representative Directors, etc. to deepen understanding	✓	✓
	On-site audits and interviews of worksites, divisions, domestic and overseas subsidiaries and affiliates (During on-site inspections and hearings, we also confirm priority audit items such as internal control.)	107 times - Emphasis placed on dialogue (using half the hours of interviews for the exchange of opinions) - Confirmed the improvement status at a later date, seeking for the completion of reporting on audit findings. Shared the findings with executive officers as appropriate along with excellent on-site initiatives	✓	At any time
	Attend the Committee for the Examination of the Nominees for Directors and Audit & Supervisory Board Members and Compensation Advisory Committee for Directors and Executive Officers	7 times	—	✓
Effective-ness of the Group govern-ance	- Systematize the Kao Group's structure of Audit & Supervisory Board (the Company, affiliates, and subsidiaries) - Improve the effectiveness of auditing activities tailored to each company's characteristics, under the unified management of the Group	- Under a system in which members of the Office of the Audit & Supervisory Board concurrently serve as Auditors of subsidiaries - All Auditors of subsidiaries and affiliates regularly exchanged opinions to identify and review risks (five times). Provided training to improve their skills - Conducted effectiveness evaluation of the Auditors at important subsidiaries	✓	At any time
	- Exchange opinions between the Accounting Auditor, Audit & Supervisory Board Members and related departments - Report accounting audit results to the Board of Directors meetings	Exchanged opinions (15 times), and reported to the Board of Directors meetings (two times) - Audit plan, accounting audit results, key audit matters, disclosure of non-financial information, non-assurance services management, audit quality, etc. -Held global meetings to exchange opinions with domestic and overseas auditors and shared issues of each company	✓	✓
Develop-ment and operation of internal control	- Hold interviews with the departments in charge of the second line of internal control - Attend the meetings or check the minutes of Internal Control Committee and major subordinate committees - Check the response status of the Compliance Hotline	Every quarter or semi-annually - Confirmed that voluntary inspection and monitoring were firmly in place and issues had been improved - Expressed opinion on matters reported to the hotline and how these matters were handled. Confirmed that the progress was seen in the hotline system	✓	At any time
	Collaboration with the Department of Internal Audit which is the division responsible for internal auditing	- Held regular meetings (four times) to share audit plans and issues - Vice President of the Department of Internal Audit attended the Audit & Supervisory Board meetings and the meetings to exchange opinions among auditors of the Group, as needed.	✓	At any time
	Evaluation of the construction and operation status of the internal control system using a checklist	Generally valid	✓	—
Proactive disclosure	Investigate into requests of society and stakeholders for information disclosure of the Company and confirmed its disclosure status and external evaluations	- Looked into how the Company had responded to such requests. Confirmed that the system for promoting and the status of information disclosure were generally satisfactory - Promoted the disclosure of activities of the Audit & Supervisory Board Members	✓	—

<Evaluation of the effectiveness of the Audit & Supervisory Board>

Each year, the Board sets evaluation items, with a focus on critical auditing items, and evaluates the effectiveness of the Board from a multifaceted and objective perspective. For the fiscal 2023, through comprehensive and unfettered discussions at the Audit & Supervisory Board meetings based on the self-evaluation by each Audit & Supervisory Board Member, the exchange of opinions with Representative Directors, and feedbacks from Outside Directors and other related parties, it was concluded that the system of the Board as a whole was functioning effectively.

The Audit & Supervisory Board observed and assessed at *Genba*, the degree of utilization of ROIC in each business segment and the progress of structural reforms, which are part of management strategies; compiled the results of such observation and assessment into a proposal and shared the proposal with Directors. The Board will continue to observe the ROIC in each business segment. As for the threefold auditing structure, to further strengthen the collaboration between three organizations, we understand that we need to share auditing plans and issues with other organizations.

The issues identified through the effectiveness evaluation will be reflected in auditing activities and critical auditing items for the next fiscal year so that the effectiveness of the Board will be further improved.

Please find the link below for the overview of evaluation of the effectiveness of the Audit & Supervisory Board.
www.kao.com/content/dam/sites/kao/www-kao-com/global/en/corporate/policies/pdf/audit_001.pdf

2) Status of internal audits

a. Organization, personnel and procedures

The Department of Internal Audit, which is in charge of the Kao Group’s internal audits, consists of 37 members in Japan and abroad as of the filing date. The Department of Internal Audit is under direct control of the Representative Director, President and CEO and separated from other business lines so that it can evaluate the overall management activities of the Company and domestic and overseas Kao Group companies from an independent and objective standpoint. Specifically, the Department evaluates the development and operation of internal control from the perspectives of legal compliance, the appropriateness of financial reporting, and the effectiveness and efficiency of business operations. Based on the evaluation results, it provides reasonable assurance on the reliability of their management activities and make suggestions to further enhance their internal controls.

Basic plans and policy for the effectiveness of internal control over financial reporting under the Financial Instruments and Exchange Act are determined by the Internal Control Committee. The Department of Internal Audit evaluates the status of company-wide internal control and business process control at important sites on behalf of the Representative Director, President and CEO, and reports the evaluation results to the Representative Director, President and CEO.

As for efforts concerning subsidiary management, the Company has established the Group Management rules, known as the “Policy Manual,” that set forth matters regarding which subsidiaries are required to obtain prior approval from the Company or to make a report to the Company. All matters pointed out in audits by the Department of Internal Audit fall into matters to be reported under these rules, and are shared among directors and other officers of relevant subsidiaries, at the time of regular management meetings at such subsidiaries, along with the measures to be taken and the results thereof.

b. Mutual collaboration among internal audits, audits by Audit & Supervisory Board Members and audits by the Accounting Auditor, and relationship between these audits and internal control

The Department of Internal Audit and Audit & Supervisory Board Members receive explanations from the Accounting Auditor on audit plans, priority audit items and accounting audit results (quarterly review and annual audit) and major audit considerations, and exchange opinions on a regular and necessary basis.

The Department of Internal Audit and the Accounting Auditor also strive to cooperate with each other while sharing information as appropriate on the development and evaluation of internal controls related to financial reporting and the status of activities of internal audits.

c. Efforts to ensure the effectiveness of internal audits

The results of the internal auditing activities are reported at the Management Board and Board of Directors meetings on a regular basis. In addition, the Department of Internal Audit and Audit & Supervisory Board Members share information and exchange opinions on each other’s audit plans, internal audit results, findings from on-site hearings by Audit & Supervisory Board Members, etc. not only at regular meetings (four times a year) but also as necessary.

Furthermore, the Vice President of the Department of Internal Audit attends meetings of the Audit & Supervisory Board and the Conference of Auditors for Domestic Group Companies as appropriate.

3) Status of accounting audits

a. Accounting Auditor

Deloitte Touche Tohmatsu LLC

b. Number of years of continuous audit

46 years

In 2014, the Company conducted a screening of candidates for the Accounting Auditor, expanding the list of candidates subject to appointment beyond the current auditing firm.

The auditing firm's engagement partners are rotated appropriately to ensure that none of them are involved in the Company's accounting audits for more than seven consecutive accounting periods. Meanwhile, a lead engagement partner is not involved in the Company's audits for more than five consecutive accounting periods.

c. Certified Public Accountants engaged in the audit

Designated Limited Liability Partners/Engagement Partners: Junichi Yamanobe, Koji Inoue, and Yuichiro Nakashima

d. Assistants to the audit

15 CPAs and 44 others

e. Policy and reason for selecting the auditing firm

For selecting the Accounting Auditor, the Audit & Supervisory Board gathers information from the Company's Accounting and Finance Department, the Department of Internal Audit and the Accounting Auditor at its meetings every year, and evaluates and makes decisions on the independence of the Accounting Auditor, the auditing system and the status of implementation of audits, as well as on the quality of audits based on the evaluation criteria formulated by the Audit & Supervisory Board. If any item of Article 340, Paragraph 1 of the Companies Act is found to apply to the Accounting Auditor, the Audit & Supervisory Board will dismiss the Accounting Auditor with the consent of all Audit & Supervisory Board Members. In such case, the Audit & Supervisory Board Member selected by the Audit & Supervisory Board will report the dismissal of the Accounting Auditor and reason for the dismissal at the first General Meeting of Shareholders held after the dismissal.

f. Evaluation of the auditing firm by the Audit & Supervisory Board Members and the Audit & Supervisory Board

The Company's Audit & Supervisory Board gathered information from the Accounting Auditor on the quality of audits, including the independence of the Accounting Auditor, the auditing system, and the status of implementation of audits. The Audit & Supervisory Board also exchanged opinions at joint meetings with Company's Accounting and Finance Department and Department of Internal Audit, and then evaluated the appropriateness of the reappointment of the Accounting Auditor. As a result, the quality control system is in place, ongoing improvement activities are being implemented, and the auditing system within the auditing firm is also functioning effectively. The integrated auditing system for domestic Group companies is also functioning, and the provision of information to Audit & Supervisory Board Members is also good. The Audit & Supervisory Board confirmed that information sharing was good for each overseas Group company by establishing a cooperative system with each Accounting Auditor. Furthermore, risk awareness using IT and appropriate proposals and advice for improving audit efficiency are being made, and effective communication with related departments is also being attempted. Based on these results and the status of the response to the pre-approval process for non-assurance services, the Audit & Supervisory Board determined that it was appropriate to reappoint Deloitte Touche Tohmatsu LLC, recognizing the audit methods, results, and quality as appropriate. The Audit & Supervisory Board also exchanged opinions on the continuous audit period and rotation of the current auditing firm.

4) Details of audit fees, etc.

a. Audit fees paid to certified public accountants and others

Category	Fiscal year ended December 31, 2022		Fiscal year ended December 31, 2023	
	Audit fees (millions of yen)	Non-audit fees (millions of yen)	Audit fees (millions of yen)	Non-audit fees (millions of yen)
Reporting company	147	20	157	39
Consolidated subsidiaries	61	–	64	–
Total	208	20	221	39

Fiscal year ended December 31, 2022

Non-audit services received by the Company includes the entrustment of macro economy and risk information provision services and others.

Fiscal year ended December 31, 2023

Non-audit services received by the Company includes the entrustment of macro economy and risk information provision services and others.

b. Fees for organizations that belong to the same network (Deloitte Touche Tohmatsu Limited) to which the certified public accountants and others belong (excluding fees specified in a. above)

Category	Fiscal year ended December 31, 2022		Fiscal year ended December 31, 2023	
	Audit fees (millions of yen)	Non-audit fees (millions of yen)	Audit fees (millions of yen)	Non-audit fees (millions of yen)
Reporting company	–	11	–	36
Consolidated subsidiaries	509	102	613	119
Total	509	113	613	155

Fiscal year ended December 31, 2022

Non-audit services received by the Company includes advisory services on corporate analysis.

Non-audit services received by consolidated subsidiaries include tax consulting services.

Fiscal year ended December 31, 2023

Non-audit services received by the Company includes advisory services on product offerings.

Non-audit services received by consolidated subsidiaries include tax consulting services.

c. Details of other material audit fees

Fiscal year ended December 31, 2022

Information on the details of other material audit fees is omitted, because there are no such fees.

Fiscal year ended December 31, 2023

Information on the details of other material audit fees is omitted, because there are no such fees.

d. Policy for determining audit fees

The Company determines the amount of remuneration to be paid to certified public accountants and others by considering, among other things, the content of audit plans that take into account the size and corporate structure of the Company, etc. and number of days required for the planned audits.

e. Reason for the Audit & Supervisory Board's consent to remuneration, etc. for the Accounting Auditor

The Company's Audit & Supervisory Board examined the content of audit plans prepared by the Accounting Auditor, the status of execution of its duties, and basis for calculation of estimated remuneration amount in light of changes in environment to roles and responsibilities expected of the Accounting Auditor, among other things. As a result of the examination, the Audit & Supervisory Board determined that the amount of remuneration, etc. to be paid to the Accounting Auditor was appropriate and gave consent in accordance with Article 399, Paragraph 1 of the Companies Act.

(4) Director Remuneration

1) Discloser policy on determining remuneration amounts and calculation methods

The purpose of the Company's compensation system for Directors, Audit & Supervisory Board Members and Executive Officers is as follows:

・Securing and retaining diverse and excellent talent to establish and improve competitive advantages;
・Promoting prioritized measures for continuous increases in corporate value; and
・Sharing interests in common with shareholders.

Remuneration of Directors, other than Outside Directors, and Executive Officers consists of (a) a base salary, (b) a bonus as short-term incentive compensation, and (c) performance-based share incentive plan as long-term incentive compensation, and is designed to provide an impetus for continuing annual improvement in business results and medium-to-long-term growth. Linkage of remuneration to business results increases with rank and takes into account the responsibilities of each position and individual performance. An overview of the components of remuneration is as follows:

a. Base salary

A base salary is paid as fixed monthly remuneration in an amount determined in accordance with duties as a Director or Executive Officer and rank.

b. Bonus as short-term incentive compensation

When the bonus payment rate is paid at 100%, the bonus is set at 50% of the base salary for the President and CEO, 40% of the base salary for the Executive Officers with titles other than the CEO and 30% to 35% of the base salary for other Executive Officers. In order to achieve "profitable growth," the Company determines the bonus payment rate by looking at sales and profit results against the single-year target, improvement from the previous year's results and the achievement level of target EVA which is a management index that the Company holds in high regard as an indicator to measure the degree of corporate value. The bonus payment rate is set within a range of 0% to 200%.

The net sales and profit targets have been made consistent between Directors, other than Outside Directors, and Executive Officers and employees so that they can work together to achieve them.

These targets are different from the figures in the announced forecasts, taking into account a certain level of relevance and consent as the companywide goals. On the other hand, regarding the EVA target, the Company has set target based on publicly announced performance forecasts as executive performance indicators (The target value for bonus calculation may exceed the announced performance forecast.)

The single-year targets for these evaluation indicators for the fiscal year under review were sales (sales calculated based on the accounting standards used before the adoption of IFRS 15) of 1,676.0 billion yen, profit (gross profit minus selling, general administrative expenses) of 124.8 billion yen, with EVA single-year target of 24.2 billion yen. The actual results were sales of 1,634.8 billion yen, profit of 93.7 billion yen, and EVA of 14.9 billion yen. In addition to the above, the percentage improvement from the results of the previous fiscal year is used as an evaluation indicator for sales and profit. The rate of business performance-based remuneration based on these results for the fiscal year under review came in at 58.59%.

c. Performance-based share incentive plan as long-term incentive compensation

i) Fiscal 2023

Company shares, etc., are delivered to Directors, other than Outside Directors, and Executive Officers based on factors such as the degree of achievement of the key performance targets adopted under the Mid-term Plan “K25.” (Initially, the applicable period was set to five fiscal years up to the fiscal year ending December 31, 2025. However, since the Mid-term Plan “K27” was announced, the period has been changed to three fiscal years up to the fiscal year ended December 31, 2023.) This performance-based share incentive plan comprises two parts: a variable portion in which Company share, etc. is delivered in accordance with the degree of achievement of targets adopted under the mid-term plan, etc., and a fixed portion in which a certain number of Company share, etc. is delivered annually. The purpose of the variable portion of the system is to provide an impetus for achieving the targets of the Company’s mid-term plan as well as to increase the link between performance and compensation over the medium to long term. The purpose of the fixed portion of the system is to strengthen shared interest with the Company’s shareholders by promoting the holding of shares by the Directors, other than Outside Directors, and Executive Officers. The variable portion accounts for 70% of shares delivered, with the fixed portion accounting for 30%. When the variable coefficient for the variable portion of the system is at 100%, the yearly share remuneration amount is set at approximately 30% to 50% of a base salary.
The variable portion is delivered after the Director, etc. retire, reflecting their achievement level. The fixed portion is delivered after the end of each fiscal year. A portion of the amount is delivered in Company shares and the remainder is delivered in the amount of Company shares cashed within the trust for delivering shares.
In calculating the variable coefficient, in order to promote “contributing to an ‘enriched sustainable society’ and growing the businesses of the company through proactive engagement in ESG activities and investment,” which is the goal of “K25,” “growth potential evaluation (degree of growth in overall business sales and profit, etc.)”; “ESG potential evaluation (evaluation by external indicators, status of realization of internal indicators, etc.)”; and “management potential evaluation (evaluation of management activities by our employees, etc.)” are used as evaluation indicators and evaluations are made based on the degree of achievement. Depending on the results of evaluating these indicators, the range will be from 0% to 200% and the shares will be issued after the performance is confirmed.
Through an overall evaluation of these indicators based on the degree of achievement as of the end of fiscal 2023 and subsequent assessments by the Compensation Advisory Committee for Directors and Executive Officers, the variable coefficient for “K25” has been determined at 80% by the Board of Directors.

ii) From the next fiscal year onwards

Company shares, etc., are delivered to Directors, other than Outside Directors, and Executive Officers based on factors such as the degree of achievement of the key performance targets adopted under the Mid-term Plan “K27.” In calculating the coefficient of variation for long-term incentive compensation, in order to become a company with "Global Sharp Top" business as stated in "K27" and to promote aggressive governance to achieve this goal, the Company will use the existing evaluation indicators of "growth potential evaluation (degree of growth of overall business sales and profits, etc.)," "ESG potential evaluation (evaluation by external indicators, status of realization of internal indicators, etc.)," “management potential evaluation (evaluation of management activities by our employees, etc.)” are used as evaluation indicators and evaluations are made based on the degree of achievement. In addition, the Company will introduce new evaluation indicators of "EVA (economic value added)" and "TSR (total shareholder return)" and conduct evaluation based on the degree of achievement of those indicators. Moreover, non-Japanese directors, to whom long-term incentive compensation had been paid in cash, have been added to the scope of this system in order to motivate them to further increase the share price.
In order to improve the incentive nature of the Board of Directors to enhance corporate value and achieve performance targets, the Company will revise the performance-linked remuneration ratio in the remuneration of Directors and Executive Officers, excluding Outside Directors, beginning in fiscal 2024.

Details of revisions to the ratios of short-time incentive compensation (bonus) and long-term incentive compensation (performance-based stock compensation)

Category	Short-term incentive compensation (bonus)		Long-term incentive compensation (performance-based stock compensation)	
	Before revision	After revision	Before revision	After revision
President and CEO	50% of base salary	100% of base salary	30% to 50% of base salary	30% to 100% of base salary
Executive Officers with titles (excluding President and CEO)	40% of base salary	50% to 70% of base salary		
Other Executive Officers	30% to 35% of base salary	30% to 50% of base salary		

**The levels of base salary will not be revised in fiscal 2024.*

Compensation for the Outside Directors and Audit & Supervisory Board Members, who hold a position independent from the Company's business execution function, is limited to a fixed monthly salary.
The Company has no retirement bonus system for the Directors or Audit & Supervisory Board Members.

The compensation system and compensation standards for the Directors and Executive Officers, including details of individual remuneration for the Directors are examined by the Compensation Advisory Committee for Directors and Executive Officers and determined by the Board of Directors. The Compensation Advisory Committee for Directors and Executive Officers comprises all Outside Directors and Representative Director, President and CEO. As such, over half of the Committee's members are independent. The chairperson is elected from the Outside Directors.
In determining the details of compensation for individual Directors for the current fiscal year, the Compensation Advisory Committee for Directors and Executive Officers performed a comprehensive review of the draft proposal, including consistency with the objectives of the Company's remuneration for Directors prior to submitting its report, and based on the results of the Board of Directors' confirmation of the details of the Committee's review and report, the Board of Directors has determined that the compensation details are consistent with the objectives of the Company's remuneration for Directors, etc.
Compensation standards for Audit & Supervisory Board Members are determined by discussions of the Audit & Supervisory Board. Furthermore, the Company has established a Compensation Advisory Committee for Audit & Supervisory Board Members and examines the validity and transparency in the decision-making process of compensation amounts for Audit & Supervisory Board Members from an objective perspective. The committee is composed of all Outside Audit & Supervisory Board Members, the President and CEO, and one Outside Director. The chairperson is elected from the Outside Audit & Supervisory Board Members.

Compensation standards for the Directors, Executive Officers, and Audit & Supervisory Board Members are determined each year after ascertaining standards at other major manufacturers of a similar size, industry category, and business type to the Company using officer compensation survey data from an external survey organization.

2) Compensation Paid for Individual Directors in Fiscal Year ended December 31, 2023
Aggregate Amount of Remuneration, etc., Paid to Directors and Audit & Supervisory Board Members during fiscal 2023
(Millions of yen)

Category	Number of members	Aggregate amount of remuneration, etc.	Components of Remuneration			
			Base salary	Short-term incentive compensation (Performance-based share incentive plan)	Long-term incentive compensation (Performance-based share incentive plan)	
					Variable portion	Fixed portion
Directors (including, in parentheses, Outside Directors)	12 (5)	674 (89)	490 (89)	82 (-)	66 (-)	36 (-)
Audit & Supervisory Board Members (including, in parentheses, Outside Audit & Supervisory Board Members)	6 (3)	120 (47)	120 (47)	- (-)	- (-)	- (-)
Total (including, in parentheses, Outside Directors and Outside Audit & Supervisory Board Members)	18 (8)	794 (136)	610 (136)	82 (-)	66 (-)	36 (-)

Notes:

1. The above numbers of Directors/Audit & Supervisory Board Members include two Inside Directors and one Inside Audit & Supervisory Board Member who resigned at the conclusion of the 117th Annual General Meeting of Shareholders held on March 24, 2023.
2. The variable portion of the long-term incentive compensation (performance-based stock compensation will be finalized as the fiscal year under review falls on the final year of the Mid-term Plan "K25." Initially, the applicable period was set to five fiscal years up to the fiscal year ending December 31, 2025. However, since the Mid-term Plan "K27" was announced, the period is expected to be changed to three fiscal years up to the fiscal year ended December 31, 2023. As the amount of provision for long-term incentive compensation recognized for the current fiscal year is 112 million yen, while the amount of reversal of provision for prior years based on the degree of achievement of "K25" is 46 million yen, the difference between them is shown in the table above.
   For Directors of foreign nationals, we plan to pay cash equivalent to the variable portion of long-term incentive compensation (performance-based stock compensation).

3. The maximum amounts of remuneration, etc. are as follows:

(1) Maximum aggregate amount of monetary remuneration, etc., to be paid to Directors:

An annual amount of 630 million yen (as resolved at the 101st Annual General Meeting of Shareholders held on June 28, 2007). The Company had 15 Directors (including two Outside Directors) at the time such resolution was adopted. Such maximum aggregate amount includes the maximum annual amount of 100 million yen to be paid to Outside Directors (as resolved at the 110th Annual General Meeting of Shareholders held on March 25, 2016) but does not include the salary amounts, etc. to be paid to Directors who also serve as employees of the Company, for their service as employees. The Company had seven Directors (including three Outside Directors) at the time such resolution was adopted.

Based on a resolution adopted at the 115th Annual General Meeting of Shareholders held on March 26, 2021, the Company has introduced a performance-based share incentive plan for its Directors (excluding Outside Directors) and its Executive Officers, which shall be applicable separately from the maximum aggregate amount of monetary remuneration, etc., for the Directors. Under this share incentive plan, trust money of up to 3.65 billion yen is contributed concerning the fiscal years subject to the Company's mid-term plan (the initial period to be covered being the period of five fiscal years from the fiscal year ended December 31, 2021 to the fiscal year ending December 31, 2025), and the Company's shares are acquired through a trust and are then vested, etc., through the trust, based on the evaluation indicators consisting of growth potential evaluation indicators (such as the degree of growth in overall business sales and profit, etc.), ESG potential evaluation indicators (such as evaluation by external indicators), and management potential evaluation indicators (such as evaluation of management activities by the Company's employees). The Company had four Directors (excluding Outside Directors) at the time such resolution was adopted.

(2) Maximum aggregate amount of remuneration, etc., to be paid to Audit & Supervisory Board Members:

An annual amount of 120 million yen (as resolved at the 113th Annual General Meeting of Shareholders held on March 26, 2019). The Company had five Audit & Supervisory Board Members (including three Outside Audit & Supervisory Board Members) at the time such resolution was adopted.

4. Aggregate amount of remuneration, etc. paid to Outside Directors and Outside Audit & Supervisory Board Members by the Company's subsidiaries, etc., other than the aggregate amount of remuneration, etc. paid to Outside Directors and Outside Audit & Supervisory Board Members:

Remuneration paid to one Outside Audit & Supervisory Board Member for his service as an Audit & Supervisory Board Member of Kao Group Customer Marketing Co., Ltd. was 4 million yen.

3) Aggregate amount of remuneration, etc. by officer

Name (title)	Aggregate amount of remuneration, etc. (millions of yen)	Company category	Components of remuneration (millions of yen)			
			Base salary	Short-term incentive compensation (performance-based bonus)	Long-term incentive compensation (performance-based share incentive plan)	
					Variable portion	Fixed portion
Michitaka Sawada (Director)	119	Reporting company	104	-	7	8
Yoshihiro Hasebe (Director)	141	Reporting company	87	29	13	12
David J. Muenz (Director)	159	Reporting company	119	23	17	-

Notes:

1. The variable portion of the long-term incentive compensation (performance-based stock compensation will be finalized as the fiscal year under review falls on the final year of the Mid-term Plan "K25." Initially, the applicable period was set to five fiscal years up to the fiscal year ending December 31, 2025. However, since the Mid-term Plan "K27" was announced, the period is expected to be changed to three fiscal years up to the fiscal year ended December 31, 2023. The difference between the amount of provision for the current fiscal year and the amount of provision recorded for the prior fiscal year based on the achievement of K25 performance and other factors is shown.
   For Directors of foreign nationals, we plan to pay cash equivalent to the variable portion of long-term incentive compensation (performance-based stock compensation).
2. The table above includes information only on those whose aggregate remuneration, etc. exceeds 100 million yen.

(5) Shareholdings

1) Standards for and views on classification of investment shares

The Kao Group classifies shares held for the purpose of purely generating capital gains through changes in stock prices or income through dividends from the shares as “investment shares held for pure investment” and others as “investment shares held for purposes other than pure investment.” The Company does not hold any investment shares held for pure investment.

2) Investment shares held for purposes other than pure investment

a. Shareholding policy, method of verification of the rationale for shareholdings, and details of verification by the Board of Directors, etc. of the appropriateness of shareholdings in individual stocks

The Kao Group holds the shares of other listed companies only in cases where it considers such shareholdings, including the number of shares held, to be reasonable in consideration of their necessity in terms of business activities such as maintaining and strengthening business alliances and transactions and other matters. These cross shareholdings are subject to the impact of trends in stock markets and the business environment in which the Group operates. However, each year the Board of Directors, etc. ascertains the reasonableness of cross-shareholdings and reviews their continuance and the number of shares held for each stock, by considering the following criteria: purpose of retention, unrealized gains and losses, EVA, trading volume and others. There were no stocks that failed to satisfy the quantitative criteria as of December 31, 2023.

The Company exercises the voting rights of cross-shareholdings after comprehensively determining whether the proposals contribute to the establishment of a proper corporate governance system and to increasing the medium to long-term corporate value of the issuing company, as well as their impact on the Company. The Company engages in dialogue with the issuing company on the details of the proposals and other matters as necessary.

b. Number of stocks and total amount on the balance sheet

	Number of stocks	Total amount on the balance sheet (millions of yen)
Unlisted stocks	28	3,854
Stock other than unlisted stocks	14	2,814

Stocks whose shares held by the Company increased during the fiscal year ended December 31, 2023

	Number of stocks	Total acquisition cost for increased shares (millions of yen)	Reason for increase in number of shares
Unlisted stocks	2	110	To strengthen business relationships
Stock other than unlisted stocks	1	3	Shares purchased through a stock ownership association

Stocks whose shares held by the Company decreased during the fiscal year ended December 31, 2023

	Number of stocks	Total sale amount for decreased shares (millions of yen)
Unlisted stocks	1	0
Stock other than unlisted stocks	2	85

c. Number and balance sheet amount of specified investment shares by stock

Specified investment shares

Stock	Fiscal year ended December 31, 2023 Number of shares (shares) Balance sheet amount (millions of yen)	Fiscal year ended December 31, 2022 Number of shares (shares) Balance sheet amount (millions of yen)	Purpose of shareholdings, outline of business alliances, etc., quantitative effects of shareholdings and reason for increase in number of shares	Shares of common stock owned by each company
Tokio Marine Holdings, Inc.	318,510	318,510	(Purpose of shareholding) The company mainly provides insurance services to the Group, and the Group holds the shares to maintain cooperation in its risk management.	No (Note 2)
	1,124	901		
AEON Co., Ltd.	281,679	280,713	(Purpose of shareholding) The company is a purchaser of products provided by the Consumer Products Business, and the Group holds the shares to maintain cooperation in its business transactions. (Reason for increase in number of shares) The number of shares increased due to shares purchased through a stock ownership association.	No
	888	781		
Zeon Corporation	130,000	130,000	(Purpose of shareholding) The company is a business partner of the Chemical Business, and the Group holds the shares to maintain cooperation in its business transactions, etc.	Yes
	170	174		
Sumitomo Mitsui Financial Group, Inc.	24,033	24,033	(Purpose of shareholding) The company is a counterparty to the Group’s financing and other financial transactions, and the Group holds the shares to maintain cooperation in its financial transactions.	No (Note 2)
	165	127		
NICHIREKI CO., LTD.	52,807	52,807	(Purpose of shareholding) The company is a purchaser of products provided by the Chemical Business, and the Group holds the shares to maintain cooperation in its business transactions.	No
	128	66		
The Yamagata Bank, Ltd.	113,458	113,458	(Purpose of shareholding) The bank is a counterparty to the Group’s financing and other financial transactions, and the Group holds the shares to maintain cooperation in its financial transactions.	Yes
	121	140		
SANKYO KASEI CORPORATION	35,112	35,112	(Purpose of shareholding) The company is a business partner of the Chemical Business, and the Group holds the shares to maintain cooperation in its business transactions, etc.	Yes
	106	109		
Mizuho Financial Group, Inc.	14,477	14,477	(Purpose of shareholding) The company is a counterparty to the Group’s financing and other financial transactions, and the Group holds the shares to maintain cooperation in its financial transactions.	No (Note 2)
	35	27		
PLANET, INC.	24,000	24,000	(Purpose of shareholding) The company is in a collaborative relationship with the Group in developing common infrastructure in the toiletries industry, and the Group holds the shares to maintain cooperation in standardization activities across the industry including the Group.	No
	29	29		
Mebuki Financial Group, Inc.	50,223	50,223	(Purpose of shareholding) The company is a counterparty to the Group’s financing and other financial transactions, and the Group holds the shares to maintain cooperation in its financial transactions.	No
	22	17		
ASIA PILE HOLDINGS CORPORATION	11,000	11,000	(Purpose of shareholding) The company is a purchaser of products provided by the Chemical Business, and the Group holds the shares to maintain cooperation in its business transactions.	No
	8	6		
FUJIYA CO., LTD.	3,000	3,000	(Purpose of shareholding) The company is a purchaser of products provided by the Chemical Business, and the Group holds the shares to maintain cooperation in its business transactions.	No
	7	8		
TOHO Co., Ltd.	2,400	2,400	(Purpose of shareholding) The company is a business partner of the Life Care Business, and the Group holds the shares to maintain cooperation in its business transactions.	No
	7	4		
NIPPON CONCRETE INDUSTRIES CO., LTD.	14,000	14,000	(Purpose of shareholding) The company is a purchaser of products provided by the Chemical Business, and the Group holds the shares to maintain cooperation in its business transactions.	No
	4	3		
Sumitomo Mitsui Trust Holdings, Inc.	–	11,337	(Purpose of shareholding) The company mainly provides trust services to the Group, and the Group holds the shares to maintain cooperation in its financial transactions.	No
	–	52		

Mitsubishi UFJ Financial Group, Inc.	–	25,630	(Purpose of shareholding) The company is a counterparty to the Group's financing and other financial transactions, and the Group holds the shares to maintain cooperation in its financial transactions.	No
	–	23		

Notes: 1. While it is difficult to describe the quantitative effects of shareholdings, each year the Board of Directors, etc. ascertains the reasonableness of cross-shareholdings and reviews their continuance and the number of shares held for each stock, by considering the following criteria: purpose of retention, unrealized gains and losses, EVA, trading volume and others. The Company sold two stocks during fiscal 2023, and there were no stocks that failed to satisfy the quantitative criteria as of December 31, 2023.

2. While the company whose shares the Company holds does not hold the Company's shares, a subsidiary(ies) of the company hold(s) the Company's shares.

3. "–" indicates that the Company does not hold these stocks.

V. Financial Information

1. Basis of Preparation of Consolidated Financial Statements

(1) The Company's consolidated financial statements have been prepared in accordance with the International Financial Reporting Standards issued by the International Accounting Standards Board (hereinafter "IFRS"), as permitted by the provision of Article 93 of the Regulation on Terminology, Forms, and Preparation Methods of Consolidated Financial Statements (Order of the Ministry of Finance of Japan No. 28 of 1976; the "Regulation on Consolidated Financial Statements").

2. Audit Certificate

The Company's consolidated for the fiscal year from January 1, 2023 to December 31, 2023 were audited by Deloitte Touche Tohmatsu Limited, in accordance with the provisions of Article 193-2, Paragraph 1 of the Financial Instruments and Exchange Act.

3. Special Efforts to Ensure the Appropriateness of Consolidated Financial Statements, etc. and Development of a System for the Appropriate Preparation of Consolidated Financial Statements, etc. in Accordance with IFRS

The Company has made special efforts to ensure the appropriateness of its consolidated financial statements, etc. and developed a system for the appropriate preparation of its consolidated financial statements, etc. in accordance with IFRS. The details are as follows.

(1) The Company has joined the Financial Accounting Standards Foundation to deepen its understanding through seminars and reference books and developed a system that allows the Company to accurately respond to changes in accounting standards, etc. To prepare appropriate consolidated financial statements, etc., the Company has developed internal rules and manuals and established a Disclosure Committee within the Internal Control Committee to conduct a preliminary review of the content of consolidated financial statements, etc. prepared in accordance with prescribed procedures.

(2) In applying IFRS, the Company obtains press releases and standards issued by the International Accounting Standards Board as needed to keep track of the latest standards. In addition, in order to prepare appropriate consolidated financial statements, etc. in accordance with IFRS, the Company has prepared the Group's accounting policies in compliance with IFRS and performs accounting processes in accordance with these policies.

1. Consolidated Financial Statements and Other Information

(1) Consolidated Financial Statements

1) Consolidated Statement of Financial Position

Kao Corporation and Consolidated Subsidiaries

As of December 31, 2023

(Millions of yen)

	Notes	2022	2023
Assets			
Current assets			
Cash and cash equivalents	8, 34	268,248	291,663
Trade and other receivables	9, 34	230,604	225,934
Inventories	10	278,382	263,815
Other financial assets	34	3,605	6,596
Income tax receivables		4,171	5,186
Other current assets	11	22,196	23,915
Total current assets		807,206	817,109
Non-current assets			
Property, plant and equipment	12	439,325	420,563
Right-of-use assets	17	138,629	126,252
Goodwill	13	191,860	218,886
Intangible assets	13	60,183	81,758
Investments accounted for using the equity method	14	11,061	11,807
Other financial assets	34	25,325	26,881
Deferred tax assets	15	43,833	55,519
Other non-current assets	11, 19	8,928	10,971
Total non-current assets		919,144	952,637
Total assets		1,726,350	1,769,746

(Millions of yen)

	Notes	2022	2023
Liabilities and equity			
Liabilities			
Current liabilities			
Trade and other payables	18, 34	243,767	235,513
Bonds and borrowings	16, 34	65,670	14,039
Lease liabilities	16, 17, 32, 34	19,440	19,020
Other financial liabilities	17, 34	7,249	7,445
Income tax payables		12,299	15,090
Provisions	20	1,246	14,406
Contract liabilities	25	32,465	45,264
Other current liabilities	21	104,488	109,157
Total current liabilities		486,624	459,934
Non-current liabilities			
Bonds and borrowings	16, 34	62,166	124,441
Lease liabilities	16, 17, 32, 34	115,614	103,572
Other financial liabilities	17, 34	7,223	6,889
Retirement benefit liabilities	19	38,738	40,451
Provisions	20	8,803	8,352
Deferred tax liabilities	15	6,858	8,679
Other non-current liabilities		4,940	5,385
Total non-current liabilities		244,342	297,769
Total liabilities		730,966	757,703
Equity			
Share capital	22	85,424	85,424
Capital surplus	22	105,880	105,780
Treasury shares	22	(3,459)	(3,267)
Other components of equity	22	43,842	83,919
Retained earnings	22	740,374	711,802
Equity attributable to owners of the parent		972,061	983,658
Non-controlling interests		23,323	28,385
Total equity		995,384	1,012,043
Total liabilities and equity		1,726,350	1,769,746

2) Consolidated Statement of Income

Kao Corporation and Consolidated Subsidiaries
Fiscal year ended December 31, 2023

(Millions of yen)

	Notes	2022	2023
Net sales	6, 25	1,551,059	1,532,579
Cost of sales	10, 12, 13, 17, 19	(1,002,717)	(972,152)
Gross profit		548,342	560,427
Selling, general and administrative expenses	12, 13, 17, 19, 26	(440,910)	(466,770)
Other operating income	25, 27	17,391	18,892
Other operating expenses	12, 13, 17, 19, 28	(14,752)	(52,514)
Operating income	6	110,071	60,035
Financial income	6, 19, 29	5,650	4,867
Financial expenses	6, 17, 19, 29	(2,418)	(3,447)
Share of profit in investments accounted for using the equity method	6, 14	2,545	2,387
Income before income taxes	6	115,848	63,842
Income taxes	15	(28,106)	(17,685)
Net income		87,742	46,157
Attributable to:			
Owners of the parent		86,038	43,870
Non-controlling interests		1,704	2,287
Net income		87,742	46,157
Earnings per share			
Basic (Yen)	30	183.28	94.37
Diluted (Yen)	30	183.27	94.37

3) Consolidated Statement of Comprehensive Income

Kao Corporation and Consolidated Subsidiaries

Fiscal year ended December 31, 2023

(Millions of yen)

	Notes	2022	2023
Net income		87,742	46,157
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	31, 34	369	627
Remeasurements of defined benefit plans	31	(8,751)	(3,215)
Share of other comprehensive income of investments accounted for using the equity method	31	(186)	347
Total of items that will not be reclassified to profit or loss		(8,568)	(2,241)
Items that may be reclassified subsequently to profit or loss:			
Exchange differences on translation of foreign operations	31	48,497	40,221
Share of other comprehensive income of investments accounted for using the equity method	31	627	334
Total of items that may be reclassified subsequently to profit or loss		49,124	40,555
Other comprehensive income, net of taxes		40,556	38,314
Comprehensive income		128,298	84,471
Attributable to:			
Owners of the parent		125,437	80,809
Non-controlling interests		2,861	3,662
Comprehensive income		128,298	84,471

4) Consolidated Statement of Changes in Equity

Kao Corporation and Consolidated Subsidiaries

Fiscal year ended December 31, 2022

(Millions of yen)

	Notes	Equity attributable to owners of the parent						
					Other components of equity			
		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, 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	22	—	(120)	50,511	(90)	—	—	—
Purchase of treasury shares	22	—	(25)	(50,010)	—	—	—	—
Share-based payment transactions	33	—	384	—	—	—	—	—
Dividends	24	—	—	—	—	—	—	—
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

	Notes	Equity attributable to owners of the parent				Non-controlling interests	Total equity
		Other components of equity					
		Remeasurements of defined benefit plans	Total	Retained earnings	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	22	—	(90)	(50,298)	3	—	3
Purchase of treasury shares	22	—	—	—	(50,035)	—	(50,035)
Share-based payment transactions	33	—	—	—	384	—	384
Dividends	24	—	—	(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)

	Notes	Equity attributable to owners of the parent						
					Other components of equity			
		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
Net income		—	—	—	—	—	—	—
Other comprehensive income		—	—	—	—	39,126	3	981
Comprehensive income		—	—	—	—	39,126	3	981
Disposal of treasury shares	22	—	(177)	209	(28)	—	—	—
Purchase of treasury shares	22	—	—	(17)	—	—	—	—
Share-based payment transactions	33	—	200	—	—	—	—	—
Dividends	24	—	—	—	—	—	—	—
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

	Notes	Equity attributable to owners of the parent				Non-controlling interests	Total equity
		Other components of equity					
		Remeasurements of defined benefit plans	Total	Retained earnings	Total		
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	22	—	(28)	(4)	0	—	0
Purchase of treasury shares	22	—	—	—	(17)	—	(17)
Share-based payment transactions	33	—	—	—	200	—	200
Dividends	24	—	—	(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

(Millions of yen)

	Notes	2022	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 provision		(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	32	—	(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	32	(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	8	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	8	268,248	291,663

Notes to Consolidated Financial Statements

Kao Corporation and Consolidated Subsidiaries
Fiscal year ended December 31, 2023

1. Reporting Entity

The Company is a corporation established pursuant to the Companies Act of Japan (hereinafter the "Companies Act") with its headquarters located in Chuo-ku, Tokyo.
The consolidated financial statements of the Group have a closing date of December 31 and comprise the financial statements of the Group and the interests in associates of the Company.
The Group manufactures consumer products including fabric care products, home care products, sanitary products, skin care products, hair care products, personal health products, life care products, cosmetics and chemical products including oleochemicals and surfactants. The Group delivers its products to customers through its sales companies and distributors in Japan and other countries. Details of these principal business activities of the Group are presented in Note 6 "Segment Information."

2. Basis of Preparation

(1) Compliance with International Financial Reporting Standards (hereinafter "IFRS")

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

(2) Functional Currency and Presentation Currency

The Group's consolidated financial statements are presented in Japanese yen, which is the Company's functional currency. All financial information presented in Japanese yen is rounded to the nearest million yen.

(3) Changes in Presentation

(Consolidated Statement of Cash Flows)
"Impairment losses" and "Increase (decrease) in provisions," which were included in "Other" within "Operating activities" for the fiscal year ended December 31, 2022, are separately presented from the fiscal year ended December 31, 2023 as the amounts became material. The consolidated financial statements for the fiscal year ended December 31, 2022 have been reclassified to reflect these changes in presentation.
Consequently, "Other," which was presented as a cash outflow of (17,992) million yen within "Operating activities" of the consolidated statement of cash flows for the fiscal year ended December 31, 2022, is reclassified to "Impairment losses " as a cash inflow of 34 million yen, "Increase (decrease) in provisions" as a cash outflow of (447) million yen and "Other" as a cash outflow of (17,579) million yen.
"Redemption of bonds," which was included in "Other" within "Financing activities" for the fiscal year ended December 31, 2022, are separately presented from the fiscal year ended December 31, 2023 as the amount became material. The consolidated financial statements for the fiscal year ended December 31, 2022 have been reclassified to reflect this change in presentation.
Consequently, "Other," which was presented as a cash inflow of 2,036 million yen within "Financing activities" of the consolidated statement of cash flows for the fiscal year ended December 31, 2022, is reclassified to "Redemption of bonds" as a cash outflow of (12) million yen, and "Other" as a cash inflow of 2,048 million yen.

3. Material Accounting Policies

(1) Basis of Consolidation

1) Subsidiaries

Subsidiaries refer to all business entities controlled by the Company. The Company controls an entity when it has exposure, or rights, to variable returns from involvement with an investee and has the ability to affect those returns through its power over the investee.
The financial statements of subsidiaries are included in the consolidated financial statements of the Group from the date the Company gains control until the date it loses control of the subsidiary.
All intergroup balances, transactions, income and expenses and unrealized gains and losses arising from intergroup transactions are eliminated in preparing the consolidated financial statements.
A change in the Company's ownership interest in a subsidiary, without a loss of control, is accounted for as an equity transaction. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognized directly in equity attributable to the Group.
Non-controlling interests in subsidiaries are identified separately from the Group's equity therein. Comprehensive income of subsidiaries is attributed to owners of the parent and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.
The closing dates of some subsidiaries differ from that of the Company. Subsidiaries with different closing dates prepare additional financial closings as of the closing date of the Company.

2) Associates

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

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

Goodwill recognized on acquisition of associates (less any accumulated impairment losses) is included in investments in associates.

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

(2) Business Combinations

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

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

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

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

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

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

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

(3) Foreign Currency Translation

1) Functional currency and presentation currency

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

2) Foreign currency transactions

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

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

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

3) Financial statements of foreign operations

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

(4) Financial Instruments

1) Financial assets

(i) Initial recognition and measurement

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

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

(ii) Classification and subsequent measurement

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

(a) Financial assets measured at amortized cost

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

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

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

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

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

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

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

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

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

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

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

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

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

(iii) Impairment of financial assets

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

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

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

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

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

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

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

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

(iv) Derecognition of financial assets

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

2) Financial liabilities

(i) Initial recognition and measurement

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

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

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

(ii) Classification and subsequent measurement

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

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

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

(iii) Derecognition of financial liabilities

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

3) Offsetting of financial assets and financial liabilities

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

4) Fair value of financial instruments

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

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

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

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

5) Hedge accounting

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

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

(5) Cash and Cash Equivalents

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

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

(6) Inventories

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

(7) Property, Plant and Equipment

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

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

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

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

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

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

(8) Goodwill and Intangible Assets

1) Goodwill

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

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

Goodwill measurements at initial recognition are presented in Note 3 “Material Accounting Policies (2) Business Combinations.”

2) Intangible assets

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

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

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

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

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

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

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

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

3) Research and development expenses

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

(9) Leases

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

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

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

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

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

(10) Impairment of Non-financial Assets

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

The recoverable amount of an asset or a cash-generating unit is the higher of its value in use and fair value less cost of disposal. The discount rate used in calculating the asset's value in use is a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the future cash flow estimates have not been adjusted. If it is not possible to estimate the recoverable amount of an individual asset, the recoverable amount of the cash-generating unit to which the asset belongs is measured. Goodwill acquired in business combinations is allocated to each of the cash-generating units or groups of cash-generating units of the Group that is expected to benefit from synergies of the business combinations after the acquisition date, and is tested for impairment.

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

Impairment losses are recognized in profit or loss whenever the recoverable amount is less than the carrying amount. Such impairment losses of the cash-generating unit or group of cash-generating units are recognized by first reducing the carrying amount of any goodwill allocated to the cash-generating unit or group of cash-generating units, and then allocating the rest of the losses to other assets of the unit pro rata on the basis of the carrying amount of each asset in the unit.

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

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

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

(11) Employee Benefits

1) Post-employment benefits

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

(i) Defined benefit plan

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

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

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

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

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

(ii) Defined contribution plan

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

2) Other employee benefits

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

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

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

(12) Share-based Payments

1) Stock option plan

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

2) Performance share plan

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

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

(13) Provisions

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

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

(14) Revenue

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

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

The Group sells consumer products including fabric care products, home care products, sanitary products, skin care products, hair care products, personal health products, life care products, cosmetics, as well as chemical products including oleochemicals and surfactants. For sales of such products, the performance obligation is judged to have been satisfied and revenue is therefore recognized upon delivery of the products because the customer obtains control over the products upon delivery. Revenue is measured at the consideration promised in a contract with a customer, less discounts, rebates, returned products and other items.

(15) Income Taxes

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

1) Current income taxes

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

2) Deferred income taxes

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

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

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

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

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

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

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

The Group has applied the temporary exception in the amendments to IAS 12 Income Taxes: International Tax Reform—Pillar Two Model Rules issued in May 2023.

The Company and most of its domestic subsidiaries have adopted the group tax sharing system, and some of its foreign subsidiaries have adopted the consolidated tax system.

(16) Earnings per Share

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

(17) Non-current Assets Held for Sale

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

(18) Equity and Other Capital

1) Ordinary shares

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

2) Treasury shares

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

(19) Dividends

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

4. Significant Accounting Estimates and Judgments

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

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

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

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

The Group conducts impairment tests for property, plant and equipment, right-of-use assets, goodwill and intangible assets when there is an indication that the recoverable amount of the asset or cash-generating unit is less than the carrying amount. Triggering events for impairment testing include, for example, significant changes with adverse effects on past or projected business performance, significant changes in the use of acquired assets, or changes in overall business strategy.

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

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

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

Note 13 "Goodwill and Intangible Assets" presents the method for measuring the recoverable amount and sensitivity associated with goodwill.

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

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

Note 3 "Material Accounting Policies (9) Leases" presents details related to lease terms. Note 34 "Financial Instruments" presents amounts.

(3) Post-employment Benefits

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

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

Note 19 "Employee Benefits" presents actuarial assumptions and related sensitivity.

(4) Provisions

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

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

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

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

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

Note 20 “Provisions” presents the nature and amounts of these provisions.

(5) Income Taxes

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

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

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

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

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

Note 15 “Income Taxes” presents income taxes and amounts.

(6) Fair Value

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

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

Note 34 “Financial Instruments” presents fair value measurement methods and amounts for major financial assets and liabilities measured at fair value.

(7) Contingencies

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

5. New Standards and Interpretations Not Yet Adopted

The impacts of new or revised major standards and interpretations that were issued by the date of approval presented in Note 38 “Approval of the Consolidated Financial Statements,” but were not yet early adopted by the Group as of December 31, 2023 are immaterial.

6. 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:

<table>
<tr><th colspan="2">Reportable segments</th><th colspan="2">Major products</th></tr>
<tr><td rowspan="8">Consumer Products Business</td><td rowspan="3">Hygiene and Living Care Business</td><td>Fabric care products</td><td>Laundry detergents, fabric treatments</td></tr>
<tr><td>Home care products</td><td>Kitchen cleaning products, house cleaning products, paper cleaning products</td></tr>
<tr><td>Sanitary products</td><td>Sanitary napkins, baby diapers</td></tr>
<tr><td rowspan="3">Health and Beauty Care Business</td><td>Skin care products</td><td>Soaps, facial cleansers, body cleansers</td></tr>
<tr><td>Hair care products</td><td>Shampoos, conditioners, hair styling agents, hair coloring agents, men's products</td></tr>
<tr><td>Personal health products</td><td>Bath additives, oral care products, thermo products</td></tr>
<tr><td>Life Care Business</td><td>Life care products</td><td>Commercial-use hygiene products, health drinks</td></tr>
<tr><td>Cosmetics Business</td><td>Cosmetics</td><td>Counseling cosmetics, self-selection cosmetics</td></tr>
<tr><td colspan="2" rowspan="3">Chemical Business</td><td>Oleo chemicals</td><td>Oleochemicals, fat and oil derivatives, surfactants, fragrances</td></tr>
<tr><td>Performance chemicals</td><td>Water-reducing admixture for concrete, casting sand binders, plastics additives, process chemicals for various industries</td></tr>
<tr><td>Information materials</td><td>Toners/Toner binders, inkjet ink colorants, ink, fine polishing agents and cleaner for hard disk, materials and process chemicals for semiconductor</td></tr>
</table>

(2) Sales and Results of Reportable Segments

Fiscal year ended December 31, 2022

(Millions of yen)

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

Notes:

1. The operating income (loss) reconciliation of 1,214 million yen includes corporate expenses not allocated to reportable segments, as well as elimination of intersegment inventory transactions.
2. Intersegment sales and transfers are mainly calculated based on market price and manufacturing cost.
3. Note 12 “Property, Plant and Equipment,” Note 13 “Goodwill and Intangible Assets” and Note 17 “Leases” present the details of depreciation, amortization and impairment losses.
4. 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								
	Consumer Products Business								
	Hygiene and Living Care Business	Health and Beauty Care Business	Life Care Business	Cosmetics Business	Subtotal	Chemical Business	Total	Reconciliation[1]	Consolidated
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[2]	—	—	—	—	—	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)[3]	41,911	42,818	(1,318)	5,324	88,735	24,757	113,492	1,214	114,706
Other items									
Depreciation and amortization[4]	33,522	18,880	3,933	14,469	70,804	17,650	88,454	1,141	89,595
Impairment losses[4]	19,894	—	510	4	20,408	1,295	21,703	—	21,703
Capital expenditures[5]	32,689	18,754	4,584	12,460	68,487	22,948	91,435	1,743	93,178

Notes:

1. 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.
2. Intersegment sales and transfers are mainly calculated based on market price and manufacturing cost.
3. Core operating income (loss) excludes impacts of structural reform. Reconciliation of operating income (loss) to core operating income (loss) is as follows. Note 12 “Property, Plant and Equipment” and Note 20 “Provisions” present the details of impairment losses and expenses for promoting structural reform of human capital. 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								
	Consumer Products Business								
	Hygiene and Living Care Business	Health and Beauty Care Business	Life Care Business	Cosmetics Business	Subtotal	Chemical Business	Total	Reconciliation[1]	Consolidated
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 losses	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

4. Note 12 “Property, Plant and Equipment,” Note 13 “Goodwill and Intangible Assets” and Note 17 “Leases” present the details of depreciation, amortization and impairment losses.
5. 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	1,551,059	1,532,579

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	846,447	866,176

7. Business Combination

(1) Outline of Business Combination

Name of the acquired business and the acquiree: Bondi Sands
Business outline: Development and sales of self tanning, suncare, skincare and body products
Acquisition date: November 1, 2023
Acquisition method: Cash consideration to acquire equity shares
Percentage of voting rights acquired: 100%

(2) Primary Reason for Business Combination

Bondi Sands specializes in self tanning, suncare, skincare and body products. Bondi Sands suncare products are available in over 32 countries, including Australia, the United Kingdom, and the United States. Their high quality and sustainable practices have gained a loyal consumer base.

The Group has positioned skincare as one of the key growth drivers in its mid-term management plan. With the acquisition of Bondi Sands, the Company will put an even greater focus on the skin protection category, helping consumers to protect their skin from external environmental factors to establish a firm position globally in the sunscreen and self tanning markets. By leveraging the Company's vast UV care technologies in the Japanese market and self tanning technologies in the U.S. market, the Company will expand its global business portfolio and further accelerate its business growth.

(3) Acquisition Cost of Acquired Business and Acquiree and Its Components

Acquisition cost of acquired business and acquiree:	41,247 million yen
Components of acquisition cost: Cash	41,247 million yen

The acquisition cost has not been finalized and is a provisional amount as the final amount payable under the acquisition agreement has not been determined.

(4) Fair Value of Assets Acquired and Liabilities Assumed at the Acquisition Date

Current assets	5,682 million yen
Trademarks	15,587 million yen
Customer relationships	3,616 million yen
Other non-current assets	1,231 million yen
Total assets	26,116 million yen
Current liabilities	8,704 million yen
Non-current liabilities	976 million yen
Total liabilities	9,680 million yen

These are provisional fair values calculated based on currently available information as the allocation of the acquisition cost has not been completed.

(5) Goodwill

Goodwill recognized: 20,961 million yen

Components of goodwill:

Goodwill recognized for this business combination reflects excess earning powers in future from using newly acquired brands, products and sales networks from Bondi Sands.

A portion of goodwill recognized is expected to be deductible for tax purposes.

The amount of goodwill is calculated on a provisional basis as the acquisition cost has not been finalized or allocated.

(6) Net Sales and Income of Acquired Business

Information on income associated with this business combination after the acquisition date and information on income assuming that the business combination took place on the date of January 1, 2023 are not presented because the impacts on the consolidated statement of income are immaterial.

8. Cash and Cash Equivalents

Cash and cash equivalents consist of the following:

(Millions of yen)

	2022	2023
Cash and deposits	251,248	286,663
Short-term investments	17,000	5,000
Total	268,248	291,663

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

9. Trade and Other Receivables

Trade and other receivables consist of the following:

(Millions of yen)

	2022	2023
Trade receivables	223,064	218,275
Other receivables	9,152	9,734
Allowance for doubtful receivables	(1,612)	(2,075)
Total	230,604	225,934

Trade receivables are recognized when the Group’s products are delivered because the Group’s right to consideration is unconditional except for the passage of time from that point. Moreover, the Group receives payment within a short period of time after satisfying its performance obligation under separately determined payment terms. As the period from satisfaction of the performance obligation to receipt of consideration is usually within one year or less, as a practical expedient, the Group does not adjust the promised amount of consideration for the effects of a significant financing component for such receivables.

10. Inventories

Inventories consist of the following:

(Millions of yen)

	2022	2023
Merchandise and finished goods	208,967	203,231
Work in progress	16,374	15,842
Materials and supplies	53,041	44,742
Total	278,382	263,815

The amount of inventories recognized as expenses and included in cost of sales for the fiscal years ended December 31, 2022 and 2023 were 860,511 million yen and 839,513 million yen, respectively.
Write-downs of inventories recognized as expenses for the fiscal years ended December 31, 2022 and 2023 were 10,294 million yen and 11,979 million yen, respectively.

11. Other Assets

Other assets consist of the following:

(Millions of yen)

	2022	2023
Other current assets		
Prepaid expenses	10,957	11,327
Other	11,239	12,588
Total	22,196	23,915
Other non-current assets		
Long-term prepaid expenses	2,866	3,754
Retirement benefit assets	3,539	4,061
Other	2,523	3,156
Total	8,928	10,971

12. Property, Plant and Equipment

(1) Changes in Property, Plant and Equipment

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

Acquisition Cost (Millions of yen)

	Buildings and structures	Machinery and vehicles	Tools, furniture and fixtures	Land	Construction in progress	Total
January 1, 2022	468,436	811,109	129,269	82,635	28,343	1,519,792
Additions	216	478	805	—	61,284	62,783
Sales and disposals	(3,003)	(35,087)	(10,476)	—	(46)	(48,612)
Reclassification	10,541	26,708	8,934	9,936	(56,119)	—
Exchange differences on translation of foreign operations	9,656	22,433	2,752	990	1,290	37,121
Other	504	(508)	(104)	—	(2,877)	(2,985)
December 31, 2022	486,350	825,133	131,180	93,561	31,875	1,568,099
Additions	177	685	876	—	51,987	53,725
Sales and disposals	(6,305)	(16,201)	(9,239)	—	(44)	(31,789)
Reclassification	22,000	26,877	8,662	46	(57,585)	—
Exchange differences on translation of foreign operations	8,996	18,906	2,804	983	1,974	33,663
Other	(195)	(13)	53	(191)	(41)	(387)
December 31, 2023	511,023	855,387	134,336	94,399	28,166	1,623,311

Accumulated Depreciation and Accumulated Impairment Losses (Millions of yen)

	Buildings and structures	Machinery and vehicles	Tools, furniture and fixtures	Land	Construction in progress	Total
January 1, 2022	325,104	650,620	104,604	10,320	535	1,091,183
Depreciation[1]	14,569	35,515	11,464	—	—	61,548
Impairment losses[2]	—	1	30	—	—	31
Sales and disposals	(2,628)	(34,569)	(10,253)	—	(535)	(47,985)
Exchange differences on translation of foreign operations	5,379	16,181	2,303	—	—	23,863
Other	289	(281)	126	—	—	134
December 31, 2022	342,713	667,467	108,274	10,320	—	1,128,774
Depreciation[1]	15,305	33,941	11,062	—	—	60,308
Impairment losses[2]	7,850	10,996	201	—	2,648	21,695
Sales and disposals	(5,794)	(14,829)	(9,035)	—	(37)	(29,695)
Exchange differences on translation of foreign operations	5,152	14,176	2,323	—	(4)	21,647
Other	(204)	68	157	—	(2)	19
December 31, 2023	365,022	711,819	112,982	10,320	2,605	1,202,748

Notes:

1. Depreciation of property, plant and equipment is included in cost of sales, selling, general and administrative expenses and other operating expenses in the consolidated statement of income.
2. Impairment losses on property, plant and equipment are included in other operating expenses in the consolidated statement of income.

Carrying Amount (Millions of yen)

	Buildings and structures	Machinery and vehicles	Tools, furniture and fixtures	Land	Construction in progress	Total
January 1, 2022	143,332	160,489	24,665	72,315	27,808	428,609
December 31, 2022	143,637	157,666	22,906	83,241	31,875	439,325
December 31, 2023	146,001	143,568	21,354	84,079	25,561	420,563

(2) Impairment Losses

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

The Group recognized impairment losses of 31 million yen and 21,695 million yen for the fiscal years ended December 31, 2022 and 2023, respectively.

The Group recognized impairment losses of 21,703 million yen (including 21,695 million yen for property, plant and equipment) for the fiscal year ended December 31, 2023, of which 19,894 million yen (including 19,890 million yen for property, plant and equipment) was recognized in the Hygiene and Living Care Business. The Group has reduced the carrying amount of fixed assets related to baby diapers produced in Japan and China to the fair value less cost of disposal. This relates to the production optimization in the baby diaper business in Japan and the termination of the production of baby diapers in China. These decisions are based on a drastic strategic review and reorganization of inefficient businesses as part of measures to improve profits and strengthen the business foundation over the medium term through strategic reforms.

Impairment losses are included in other operating expenses in the consolidated statement of income.

For assets related to baby diapers produced in Japan, the fair value is measured at cost using the replacement cost of similar buildings, taking into account the age of the buildings. For assets related to diapers produced in China, the fair value is measured based on reasonable estimates, such as the expected selling price. Both are categorized as Level 3 of the fair value hierarchy.

Note 34 “Financial Instruments” presents information on the fair value hierarchy.

(3) Commitments

Note 37 “Commitments” presents information on commitments to acquire property, plant and equipment.

13. Goodwill and Intangible Assets

(1) Changes in Goodwill and Intangible Assets

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

Acquisition Cost (Millions of yen)

	Goodwill	Intangible assets				
		Software	Trademarks	Customer relationships	Other[1]	Total
January 1, 2022	183,498	32,177	15,337	14,005	14,741	76,260
Additions	—	336	—	—	11,417	11,753
Sales and disposals	—	(5,058)	—	—	—	(5,058)
Reclassification	—	19,173	—	—	(19,173)	—
Exchange differences on translation of foreign operations	8,362	192	2,318	2,067	276	4,853
Other	—	58	—	—	1,844	1,902
December 31, 2022	191,860	46,878	17,655	16,072	9,105	89,710
Additions	—	60	—	—	12,126	12,186
Acquisitions through business combinations	20,961	—	15,587	3,616	—	19,203
Sales and disposals	—	(6,626)	(164)	—	(1,513)	(8,303)
Reclassification	—	10,838	—	—	(10,838)	—
Exchange differences on translation of foreign operations	6,065	266	821	1,091	254	2,432
Other	—	58	—	—	(241)	(183)
December 31, 2023	218,886	51,474	33,899	20,779	8,893	115,045

Note:

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

Accumulated Amortization and Accumulated Impairment Losses (Millions of yen)

	Goodwill	Intangible assets				
		Software	Trademarks	Customer relationships	Other	Total
January 1, 2022	—	16,272	3,191	2,917	1,244	23,624
Amortization[1]	—	7,515	922	900	290	9,627
Sales and disposals	—	(4,994)	—	—	—	(4,994)
Exchange differences on translation of foreign operations	—	173	490	425	182	1,270
Other	—	(0)	—	—	(0)	(0)
December 31, 2022	—	18,966	4,603	4,242	1,716	29,527
Amortization[1]	—	8,658	1,103	1,005	184	10,950
Impairment losses	—	4	—	—	—	4
Sales and disposals	—	(6,620)	(164)	—	(1,513)	(8,297)
Exchange differences on translation of foreign operations	—	219	332	323	204	1,078
Other	—	6	—	—	19	25
December 31, 2023	—	21,233	5,874	5,570	610	33,287

Note:

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

Carrying Amount (Millions of yen)

	Goodwill	Intangible assets				
		Software	Trademarks	Customer relationships	Other	Total
January 1, 2022	183,498	15,905	12,146	11,088	13,497	52,636
December 31, 2022	191,860	27,912	13,052	11,830	7,389	60,183
December 31, 2023	218,886	30,241	28,025	15,209	8,283	81,758

(2) Goodwill

The following table presents the carrying amount of goodwill recognized in the Group's consolidated statement of financial position. Goodwill arising from business combinations is allocated at the acquisition date to cash-generating units benefiting from the business combination, and the goodwill belongs to the Health and Beauty Care Business, the Life Care Business, the Cosmetics Business and the Chemical Business.

(Millions of yen)

	2022	2023
Health and Beauty Care Business	34,574	58,308
Life Care Business	22,111	23,646
Cosmetics Business	132,124	133,646
Chemical Business	3,051	3,286
Total	191,860	218,886

(3) Impairment Test for Goodwill

The Group tests goodwill for impairment at least once a year by each fiscal year end or if there are indications of impairment. The recoverable amount on the impairment test is measured based on value in use. Goodwill recognized in the Group's consolidated statement of financial position derives mainly from business combination of Kanebo Cosmetics Inc. in the Cosmetics Business. The carrying amount in the fiscal years ended December 31, 2022 and 2023 was 119,400 million yen. For the goodwill acquired in the business combination of Kanebo Cosmetics Inc., cash flow projections that are the basis for the value in use are estimated using medium-term plans for the Cosmetics Business that reflect past performance and forecasts. These medium-term plans include information on sales by region and brand. The key assumptions used in formulating these estimates include sales growth rates and discount rates and the sales growth rates are consistent with the growth rate projections of the markets in which the cash-generating units operate. Estimated cash flows in years beyond the medium-term plans approved by management were calculated using an annual growth rate of 0% and were discounted to present value using a weighted average cost of capital (WACC) of 7.3% for the fiscal year ended December 31, 2022 and 7.9% for the fiscal year ended December 31, 2023. For the fiscal years ended December 31, 2022 and 2023, management determined that there was a low probability that the recoverable amounts of relevant cash-generating units would be less than their carrying amounts even in cases where key assumptions used in the impairment test changed within a reasonably possible range.

(4) Intangible Assets with Indefinite Useful Lives

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

(5) Commitments

Note 37 "Commitments" presents information on commitments associated with the acquisition of intangible assets.

14. Investments Accounted for Using the Equity Method

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

(Millions of yen)

	2022	2023
Investments accounted for using the equity method	11,061	11,807

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

(Millions of yen)

	2022	2023
The Group's share of net income	2,545	2,387
The Group's share of other comprehensive income	441	681
The Group's share of comprehensive income	2,986	3,068

15. Income Taxes

(1) Deferred Tax Assets and Liabilities

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

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

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

Fiscal year ended December 31, 2023 (Millions of yen)

	January 1, 2023	Recognized in profit or loss	Recognized in other comprehensive income	Other	December 31, 2023
Deferred tax assets					
Property, plant and equipment and intangible assets	22,300	3,239	—	179	25,718
Lease liabilities	39,219	(5,520)	—	999	34,698
Retirement benefit liabilities	9,242	(857)	1,378	158	9,921
Accrued expenses	9,569	32	—	549	10,150
Unused tax losses	6,224	(757)	—	457	5,924
Other	17,625	7,472	—	496	25,593
Total deferred tax assets	104,179	3,609	1,378	2,838	112,004
Deferred tax liabilities					
Property, plant and equipment and intangible assets	11,017	590	—	1,102	12,709
Right-of-use assets	38,785	(5,134)	—	1,000	34,651
Financial assets	2,080	—	300	(10)	2,370
Undistributed foreign earnings	13,220	(321)	—	—	12,899
Other	2,102	44	36	353	2,535
Total deferred tax liabilities	67,204	(4,821)	336	2,445	65,164
Deferred tax assets, net	36,975	8,430	1,042	393	46,840

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

(Millions of yen)

	2022	2023
Deferred tax assets	43,833	55,519
Deferred tax liabilities	6,858	8,679
Deferred tax assets, net	36,975	46,840

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

(Millions of yen)

	2022	2023
Unused tax losses	3,398	7,796
Deductible temporary differences	11,944	21,420
Total	15,342	29,216

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

(Millions of yen)

	2022	2023
Not later than 1 year	611	419
Later than 1 year and not later than 2 years	451	—
Later than 2 years and not later than 3 years	189	576
Later than 3 years and not later than 4 years	64	2,235
Later than 4 years	2,083	4,566
Total	3,398	7,796

The aggregate amounts of taxable temporary differences associated with investments in subsidiaries and associates for which deferred tax liabilities were not recognized at December 31, 2022 and 2023 were 37,106 million yen and 39,441 million yen, respectively. The Group did not recognize deferred tax liabilities for these temporary differences because it was able to control the timing of the reversal of these temporary differences, and it was probable that the temporary difference will not reverse in the foreseeable future.

(2) Income Taxes

Income taxes consist of the following:

(Millions of yen)

	2022	2023
Current taxes	25,468	26,115
Deferred taxes[1]	2,638	(8,430)
Total	28,106	17,685

Note:

1. Deferred taxes include 279 million yen and 229 million yen for the fiscal years ended December 31, 2022 and 2023, respectively, due to tax rate changes. The amount of income taxes expected to be affected by the International Tax Reform—Pillar Two Model Rules (Amendments to IAS 12) is immaterial.

(3) Reconciliation of Effective Tax Rate

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

(%)

	2022	2023
Effective statutory tax rate	30.62	30.62
Tax credit for experimental research costs and other	(3.55)	(8.07)
Different tax rates applied to subsidiaries	(2.57)	(2.94)
Reassessment of recoverability of unused tax losses and deferred tax assets	(2.44)	4.72
Change in tax rates	0.24	0.36
Undistributed foreign earnings	1.61	(0.50)
Other	0.36	3.51
Average actual tax rate	24.27	27.70

16. Bonds and Borrowings and Other

Bonds and borrowings and lease liabilities consist of the following:

(Millions of yen)

	2022	2023	Average interest rate[1] (%)	Maturity
Short-term borrowings	648	14,017	0.38	—
Current portion of long-term borrowings	40,016	10	1.30	—
Long-term borrowings	36,939	74,270	0.63	2025～2032
Current portion of bonds[2]	25,006	12	—	—
Bonds[2]	25,227	50,171	—	—
Lease liabilities (Current)	19,440	19,020	0.69	—
Lease liabilities (Non-current)	115,614	103,572	1.27	2025～2066
Total	262,890	261,072		
Current liabilities				
Bonds and borrowings	65,670	14,039		
Lease liabilities	19,440	19,020		
Subtotal	85,110	33,059		
Non-current liabilities				
Bonds and borrowings	62,166	124,441		
Lease liabilities	115,614	103,572		
Subtotal	177,780	228,013		
Total	262,890	261,072		

Notes:

1. The average interest rate is the weighted average interest rate on the balance as of December 31, 2023.
2. Details of bonds issued are as follows:

(Millions of yen)

Issuer	Bond name	Issue date	2022	2023	Interest rate (%)	Collateral	Maturity date
The Company	5th unsecured bonds	June 19, 2018	24,994	—	0.08	None	June 20, 2023
The Company	6th unsecured bonds	September 18, 2020	24,967	24,979	0.13	None	September 19, 2025
The Company[3]	7th unsecured bonds	June 15, 2023	—	24,944	0.35	None	June 20, 2028
Subsidiaries	Other bonds	—	272	260	—	—	—
Total			50,233	50,183			

3. The 7th unsecured bond is a sustainability-linked bond and the interest rate may vary from June 20, 2027 onward depending on the achievement of the Sustainability Performance Targets (SPTs).

17. Leases

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

Income and expenses relating to leases consist of the following:

(Millions of yen)

	2022	2023
Depreciation charge for right-of-use assets[1]		
Buildings and structures	16,952	16,598
Other	1,611	1,738
Total	18,563	18,336
Interest expense on lease liabilities[2]	1,272	1,438
Expenses relating to short-term leases[3]	1,954	2,204
Other	917	1,247
Total	4,143	4,889

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

The total cash outflow for leases for the fiscal years ended December 31, 2022 and 2023 were 25,868 million yen and 26,341 million yen, respectively.

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

(Millions of yen)

	2022	2023
Right-of-use assets		
Buildings and structures	130,532	113,709
Other	8,097	12,543
Total	138,629	126,252

Note 32 “Cash Flow Information” presents additions to right-of-use assets.
Note 34 “Financial Instruments” presents lease liabilities by maturity date.

18. Trade and Other Payables

Trade and other payables consist of the following:

(Millions of yen)

	2022	2023
Trade payables	172,171	161,938
Non-trade payables	71,596	73,575
Total	243,767	235,513

19. Employee Benefits

(1) Post-employment Benefits

The Company and most of its domestic subsidiaries have a cash balance plan as a defined benefit plan and a defined contribution plan as post-employment benefits. The cash balance plan is linked to market interest rates. The defined benefit obligations held in Japan account for a large proportion of the Group's defined benefit obligations.
Cash balance plan benefits are determined using points acquired during the enrollment period and a multiplier based on the enrollment period. The Group may also pay an early retirement bonus allowance to employees who retire earlier than the retirement age.
In accordance with laws and regulations, the defined benefit plan is operated as a pension fund that is legally separated from the Group. The pension fund is managed by a Board of Representatives composed of representatives elected by the participating companies and the representatives of participating employees. Pension fund management institutions manage the pension fund's assets in accordance with management policies specified by the Board of Representatives. The Board of Representatives and the pension fund management institutions are legally required to act in the best interests of plan participants in executing their responsibilities for managing the plan assets.
Certain foreign subsidiaries have defined benefit plans and/or defined contribution plans as post-employment benefits.

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

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

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

(Millions of yen)

	2022	2023
Present value of defined benefit obligations	301,744	299,825
Fair value of plan assets	(299,668)	(326,268)
Subtotal	2,076	(26,443)
Effect of the asset ceiling	33,123	62,833
Net defined benefit liabilities	35,199	36,390
Amounts recognized in the consolidated statement of financial position		
Retirement benefit liabilities	38,738	40,451
Retirement benefit assets	(3,539)	(4,061)
Net defined benefit liabilities	35,199	36,390

2) Defined benefit obligations

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

(Millions of yen)

	2022	2023
The present value of the defined benefit obligations at beginning of year	352,452	301,744
Current service cost[1]	10,130	7,825
Interest expense[2]	2,532	4,960
Remeasurements		
Actuarial (gains) losses arising from changes in demographic assumptions	(2,568)	73
Actuarial (gains) losses arising from changes in financial assumptions	(51,234)	(1,582)
Actuarial (gains) losses arising from experience adjustments	1,063	269
Benefits paid[3]	(15,087)	(16,638)
Exchange differences on translation of foreign operations and other	4,456	3,174
The present value of the defined benefit obligations at end of year	301,744	299,825

Notes:

1. Current service cost is recognized in profit or loss and included in cost of sales, selling, general and administrative expenses and other operating expenses in the consolidated statement of income.
2. Interest expense or interest income associated with the net of the present value of the defined benefit obligations and the fair value of plan assets is recognized in profit or loss and included in financial expenses or financial income in the consolidated statement of income.
3. The weighted average duration of the defined benefit obligations in Japan was mainly 15.4 years at December 31, 2022 and 15.1 years at December 31, 2023.

3) Plan assets

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

(Millions of yen)

	2022	2023
The fair value of plan assets at beginning of year	327,662	299,668
Interest income	2,260	4,617
Remeasurements		
Return on plan assets (excluding amounts included in interest income)	(32,521)	23,491
Contributions to the plan by the employer[1]	11,747	10,827
Payments from the plan	(13,393)	(14,494)
Exchange differences on translation of foreign operations and other	3,913	2,159
The fair value of plan assets at end of year	299,668	326,268

Note:

1. Pursuant to laws and regulations, the Group and the pension fund review the financial condition of the pension plan regularly and recalculate contributions for allocating future benefits and maintaining the balance of pension financing when the plan is underfunded. The Group plans to contribute 10,897 million yen to the defined benefit plan for the fiscal year ending December 31, 2024.

Plan assets consist of the following:

(Millions of yen)

	2022			2023		
	Market price in an active market			Market price in an active market		
	Quoted	Unquoted	Total	Quoted	Unquoted	Total
Equity securities	5,597	57,084	62,681	6,585	62,209	68,794
Japan	—	29,197	29,197	—	30,059	30,059
Overseas	5,597	27,887	33,484	6,585	32,150	38,735
Debt securities	12,430	213,867	226,297	13,050	229,766	242,816
Japan	—	144,933	144,933	—	151,532	151,532
Overseas	12,430	68,934	81,364	13,050	78,234	91,284
Other	475	10,215	10,690	608	14,050	14,658
Total	18,502	281,166	299,668	20,243	306,025	326,268

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

Pension assets in Japan account for a large proportion of the Group's plan assets. The objective in managing the plan assets is to raise total returns to the greatest extent possible in order to ensure stable benefits and lump-sum payments for plan participants in the future and beneficiaries with a long-term view under acceptable risks. Specifically, the Group considers factors including expected rate of return on investments in appropriate assets, risks of each asset, and asset combinations to set an asset mix policy for an appropriate basic portfolio in future years as the basis for maintaining asset allocation. The Group reviews the basic portfolio annually and realigns it as necessary if the asset allocation conditions have changed since the asset mix was set.

4) Effect of the asset ceiling

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

(Millions of yen)

	2022	2023
The effect of the asset ceiling at beginning of year	—	33,123
Interest income	—	422
Remeasurements		
Changes in the effect of the asset ceiling	33,123	29,288
The effect of the asset ceiling at end of year	33,123	62,833

5) Significant actuarial assumptions and related sensitivity analysis

Significant actuarial assumptions are as follows:

	2022	2023
Discount rate	Mainly 1.7%	Mainly 1.7%

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

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

(Millions of yen)

	2022	2023
The impact on defined benefit obligations		
0.5% increase in discount rate	(19,661)	(19,014)
0.5% decrease in discount rate	22,202	21,422

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

6) Defined contribution plans

Expenses related to the defined contribution plan recognized in profit or loss were 4,313 million yen and 4,552 million yen for the fiscal years ended December 31, 2022 and 2023, respectively and included in cost of sales, selling, general and administrative expenses and other operating expenses in the consolidated statement of income.

(2) Other Employee Benefit Expenses

Other employee benefit expenses recognized in cost of sales, selling, general and administrative expenses, and other operating expenses in the consolidated statement of income for the fiscal years ended December 31, 2022 and 2023 were 290,534 million yen and 309,167 million yen, respectively.

20. Provisions

Components of and changes in provisions consist of the following:

(Millions of yen)

	Provision for loss related to cosmetics	Provision for asset retirement obligations	Provision for promoting structural reform of human capital	Other provisions	Total
January 1, 2023	3,974	5,037	—	1,038	10,049
Increase	—	148	13,501	299	13,948
Interest expense on discounted provision	29	39	—	—	68
Decrease (provision used)	(732)	(46)	(123)	(451)	(1,352)
Decrease (provision reversed)	—	(4)	—	(77)	(81)
Exchange differences on translation of foreign operations	—	56	(4)	74	126
December 31, 2023	3,271	5,230	13,374	883	22,758

(1) Provision for Loss Related to Cosmetics

The Group has recognized estimated compensation and other expenses related to cosmetics for brightening products of Kanebo Cosmetics containing the ingredient Rhododenol, for which a voluntary recall was announced on July 4, 2013. The Group expects its insurance policy to cover 741 million yen of the estimated expenses.

(2) Provision for Asset Retirement Obligations

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

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

(3) Provision for Promoting Structural Reform of Human Capital

The Group recognizes estimated expenditures for the special career support plan that utilizes the voluntary early retirement program. This plan is designed to promote the structural reform of human capital as part of measures to improve profits and strengthen the business foundation over the medium to long term through structural reforms.

21. Other Current Liabilities

Other current liabilities consist of the following:

(Millions of yen)

	2022	2023
Accrued expenses	79,381	75,750
Consumption tax payables	7,246	11,304
Obligation for unused paid absences	8,967	9,078
Other	8,894	13,025
Total	104,488	109,157

22. Equity and Other Equity Items

(1) Share Capital

The numbers of shares authorized and issued are as follows:

(Shares)

	2022	2023
Authorized	1,000,000,000	1,000,000,000
Issued[1]		
Beginning balance	475,000,000	465,900,000
Change during the year[2]	(9,100,000)	―
Ending balance	465,900,000	465,900,000

Notes:

1. All of the issued shares of the Company are ordinary shares that have no par value and no limitations on rights. Issued shares are fully paid.
2. The number of issued shares during the fiscal years ended December 31, 2022 decreased by 9,100,000 shares, due to the retirement of treasury shares pursuant to the resolution of the Board of Directors.

(2) Capital Surplus

Capital surplus consists of capital reserve and other capital surplus.

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

(3) Treasury Shares

The changes in treasury shares are as follows:

(Shares)

	2022	2023
Beginning balance[1]	1,117,195	1,065,960
Increase[2]	9,085,601	3,208
Decrease[3]	(9,136,836)	(34,444)
Ending balance[4]	1,065,960	1,034,724

Notes:

1. 578,944 treasury shares and 576,003 treasury shares held by associates were included at December 31, 2022 and 2023, respectively.
   In addition, 419,323 shares and 401,798 shares held by the Board Incentive Plan Trust (hereinafter "BIP Trust") were included at December 31, 2022 and 2023, respectively.
2. The increase of 9,085,601 shares of treasury shares during the fiscal year ended December 31, 2022 resulted from the acquisition of 9,083,800 shares by resolution of the Board of Directors and the purchase of 1,801 fractional shares.
   The increase of 3,208 shares of treasury shares during the fiscal year ended December 31, 2023 resulted from the purchase of 3,208 fractional shares.
3. The decrease of 9,136,836 shares of treasury shares during the fiscal year ended December 31, 2022 resulted from the retirement of 9,100,000 shares by resolution of the Board of Directors, a decrease of 17,525 shares due to the grant to the Board of Directors by the BIP Trust, a decrease of 16,000 shares due to the exercise of stock options, a decrease of 2,941 shares due to the change of treasury shares held by associates accounted for using the equity method and the sale of 370 fractional shares.

The decrease of 34,444 shares of treasury shares during the fiscal year ended December 31, 2023 resulted from a decrease of 26,125 shares due to the grant to the Board of Directors by the BIP Trust, a decrease of 5,000 shares due to the exercise of stock options, a decrease of 3,207 shares due to the change of treasury shares held by associates accounted for using the equity method and the sale of 112 fractional shares.

4. 576,003 shares and 572,796 shares of treasury shares held by associates were included at December 31, 2022 and 2023, respectively.
   In addition, 401,798 shares and 375,673 shares held by the BIP Trust were included at December 31, 2022 and 2023, respectively.

(4) Other Components of Equity

1) Subscription rights to shares

The Company employs a stock option system and issues subscription rights to shares in accordance with the Companies Act; however, due to the introduction of a performance share plan, the stock option plan has been abolished except for the options already granted.
Note 33 “Share-based Payments” presents information including terms and conditions and amounts.

2) Exchange differences on translation of foreign operations

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

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

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

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

This is the accumulated amount of changes in the fair value of financial assets measured at fair value through other comprehensive income. The Group reclassifies net gain (loss) on revaluation of financial assets from other components of equity to retained earnings when it disposes of an investment or when fair value declines significantly.

5) Remeasurements of defined benefit plans

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

(5) Retained Earnings

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

23. Basic Strategy for Capital Policy

The Group’s capital policy follows a basic strategy of securing a sound financial structure to make investments for sustainable growth and tolerate the related risks, and to make stable, continuous returns to shareholders. To realize this policy, the Group uses Economic Value Added (hereinafter “EVA®[1]”) and Return on Invested Capital (hereinafter ROIC), management indicators that take capital cost and capital efficiency into account, as its main indicators and work to enhance its corporate value by improving EVA and ROIC. Guided by EVA and ROIC management, which place importance on both continuous enhancements in corporate value and long-term profits for all stakeholders, the Group develops its business strategy and business plan.
The Group manages all equity and interest-bearing liabilities as capital cost and intends to optimize capital cost from the viewpoint of safety and capital efficiency. For equity, the Group aims for a streamlined and sound structure from a medium- to long-term perspective with efficiency in mind and, while maintaining interest-bearing liabilities at a moderate level, aims to maintain high credit ratings which will allow it to procure capital for large-scale investments. The Group is not subject to significant capital regulations except for general requirements under the Companies Act and others.
Although the Group emphasizes shareholder returns, it realizes that investments for growth will meet the expectations of its stakeholders, and therefore prioritizes such investments. In addition to providing stable dividends, the Group uses surplus funds to flexibly conduct share repurchases, aiming to continuously increase dividends to reflect improvements in business results.
While making returns to shareholders and improving EVA and ROIC, the Group retains the capital necessary to make timely investments for growth and to ensure the appropriate resources to deal with unexpected situations.

For the fiscal year ended December 31, 2023, ROIC was 4.1% and EVA increased 0.3 billion yen compared with the fiscal year ended December 31, 2022 to 14.9 billion yen due to an increase in capital cost as net operating profit after tax (hereinafter “NOPAT”) increased.

Note:

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

24. Dividends

Dividends paid are as follows:

Fiscal year ended December 31, 2022

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

Note:

1. Total dividends are reduced by dividends on treasury shares held by associates accounted for using the equity method and dividends on shares of the Company held by the BIP Trust.
   The dividend resolved at the 116th Annual General Meeting of Shareholders held on March 25, 2022 was 34,191 million yen before the deduction. The dividend resolved at the meeting of the Board of Directors held on August 3, 2022 was 34,817 million yen before the deduction.

Fiscal year ended December 31, 2023

Date of resolution	Total dividends[1,2] (Millions of yen)	Dividends per share (Yen)	Record date	Effective date
117th Annual General Meeting of Shareholders held on March 24, 2023	34,398	74	December 31, 2022	March 27, 2023
Board of Directors meeting held on August 3, 2023	34,865	75	June 30, 2023	September 1, 2023

Notes:

1. Total dividends are reduced by dividends on treasury shares held by associates accounted for using the equity method and dividends on shares of the Company held by the BIP Trust.
   The dividend resolved at the 117th Annual General Meeting of Shareholders held on March 24, 2023 was 34,470 million yen before the deduction. The dividend resolved at the meeting of the Board of Directors held on August 3, 2023 was 34,936 million yen before the deduction.
2. In addition to the above, dividends are paid to beneficiaries (directors, etc.) of the BIP Trust.

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

Fiscal year ended December 31, 2022

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

Fiscal year ended December 31, 2023

Date of Resolution	Total dividends (Millions of yen)	Dividends per share (Yen)	Record date	Effective date
118th Annual General Meeting of Shareholders held on March 22, 2024	34,936	75	December 31, 2023	March 25, 2024

25. Revenue

(1) Disaggregation of Revenue

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

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

Fiscal year ended December 31, 2022

(Millions of yen)

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

Note:

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

Fiscal year ended December 31, 2023

(Millions of yen)

	Japan	Asia	Americas	Europe	Total
Fabric and Home Care Products	300,258	45,092	3,784	—	349,134
Sanitary Products	80,441	92,902	59	—	173,402
Hygiene and Living Care Business	380,699	137,994	3,843	—	522,536
Health and Beauty Care Business	205,270	34,549	101,162	51,932	392,913
Life Care Business	42,139	74	13,915	146	56,274
Cosmetics Business	153,544	50,013	7,693	27,356	238,606
Consumer Products Business	781,652	222,630	126,613	79,434	1,210,329
Chemical Business	133,871	86,722	61,130	84,385	366,108
Elimination of intersegment transactions	(38,768)	(3,152)	(76)	(1,862)	(43,858)
Consolidated	876,755	306,200	187,667	161,957	1,532,579
Revenue of logistics services to third parties included in other operating income	11,506	—	—	—	11,506
Total revenue from contracts with customers	888,261	306,200	187,667	161,957	1,544,085

Note:

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

1) Consumer Products Business

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

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

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

Among the products in the Consumer Products Business, cosmetics are composed of counseling cosmetics and self-selection cosmetics. The Group may provide support to customers when they sell counseling cosmetics through counseling to final consumers.

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

2) Chemical Business

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

(2) Liabilities from Contracts with Customers

Liabilities from contracts with customers are as follows:

Fiscal year ended December 31, 2022

(Millions of yen)

	January 1, 2022	December 31, 2022
Contract liabilities		
Advances	1,106	1,648
Refund liabilities	30,037	30,817
Total	31,143	32,465

Fiscal year ended December 31, 2023

(Millions of yen)

	January 1, 2023	December 31, 2023
Contract liabilities		
Advances	1,648	1,934
Refund liabilities	30,817	43,330
Total	32,465	45,264

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

Among the balances of advances as of January 1, 2022 and 2023, the amounts recognized as revenue during the fiscal years ended December 31, 2022 and 2023, were not material. The amount of revenue recognized during the fiscal year ended December 31, 2023 from performance obligations satisfied in previous periods was not material.

(3) Transaction Price Allocated to the Remaining Performance Obligations
The Group uses the practical expedient of omitting the disclosure of information on the remaining performance obligations because it has no significant transactions with individual expected contractual terms exceeding one year. In addition, there are no significant amounts in consideration from contracts with customers that are not included in transaction prices.

(4) Assets Recognized from the Costs of Obtaining or Fulfilling Contracts with Customers
The amount of assets recognized from the costs of obtaining or fulfilling contracts with customers during the fiscal year ended December 31, 2023 was not material. In addition, if the amortization period of the assets that the Group otherwise would have recognized is one year or less, the Group uses the practical expedient of recognizing the incremental costs of obtaining the contract as an expense when incurred.

26. 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	440,910	466,770

27. Other Operating Income

Other operating income consists of the following:

(Millions of yen)

	2022	2023
Revenue of logistics services to third parties	10,692	11,506
Royalty income	899	1,095
Other	5,800	6,291
Total	17,391	18,892

28. Other Operating Expenses

Other operating expenses consist of the following:

(Millions of yen)

	2022	2023
Expenses of logistics services to third parties	9,564	10,474
Losses on sale and disposal of property, plant and equipment	3,624	4,896
Impairment losses[1]	34	21,703
Expenses for promoting structural reform of human capital[2]	—	13,576
Other	1,530	1,865
Total	14,752	52,514

Notes:
1. Note 12 “Property, Plant and Equipment” presents impairment losses.
2. Note 20 “Provisions” presents expenses for promoting structural reform of human capital.

29. Financial Income and Financial Expenses

Financial income consists of the following:

(Millions of yen)

	2022	2023
Foreign exchange gain[1]	3,278	1,032
Interest income		
Financial assets measured at amortized cost	1,927	3,400
Retirement benefit assets	178	96
Dividend income		
Financial assets measured at fair value through other comprehensive income		
Financial assets derecognized during the year	7	—
Financial assets held at year end	107	119
Financial assets measured at fair value through profit or loss	8	6
Other	145	214
Total	5,650	4,867

Financial expenses consist of the following:

(Millions of yen)

	2022	2023
Interest expenses[2]		
Financial liabilities measured at amortized cost	632	1,086
Lease liabilities	1,272	1,438
Retirement benefit liabilities	450	861
Other	64	62
Total	2,418	3,447

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

30. 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	86,038	43,870
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	86,038	43,870
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)	469,459	464,857
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	————	————

31. Other Comprehensive Income

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

Fiscal year ended December 31, 2022

(Millions of yen)

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

Fiscal year ended December 31, 2023

(Millions of yen)

	Gains (losses) arising for the year	Reclassification adjustments	Before tax effect	Tax effect	After tax effect
Items that will not be reclassified to profit or loss					
Net gain (loss) on revaluation of financial assets measured at fair value through other comprehensive income	927	―	927	(300)	627
Remeasurements of defined benefit plans	(4,557)	―	(4,557)	1,342	(3,215)
Share of other comprehensive income of investments accounted for using the equity method	500	―	500	(153)	347
Total of items that will not be reclassified to profit or loss	(3,130)	―	(3,130)	889	(2,241)
Items that may be reclassified subsequently to profit or loss					
Exchange differences on translation of foreign operations	40,333	(112)	40,221	―	40,221
Share of other comprehensive income of investments accounted for using the equity method	334	―	334	0	334
Total of items that may be reclassified subsequently to profit or loss	40,667	(112)	40,555	0	40,555
Total	37,537	(112)	37,425	889	38,314

32. Cash Flow Information

(1) Payments for Business Combinations

Payments for business combinations consist of the following:

(Millions of yen)

	2023
Cash and cash equivalents paid for acquisition	41,094
Cash and cash equivalents held by the acquiree at the time of acquisition	(268)
Payments for business combinations	40,826

(2) Changes in Liabilities Arising from Financing Activities

Fiscal year ended December 31, 2022

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

(Millions of yen)

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

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

Fiscal year ended December 31, 2023

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

(Millions of yen)

	January 1, 2023	Changes from financing cash flows	Non-cash changes		December 31, 2023
			New leases	Other	
Lease liabilities	135,054	(21,432)	27,236	(18,266)	122,592

Except for lease liabilities, the major changes in liabilities arising from financing activities were changes from financing cash flows and there were no significant non-cash changes for the fiscal year ended December 31, 2023. "Other" in non-cash changes mainly consists of a decrease of (15,809) million yen due to the shortening of lease terms for logistics bases and other facilities.

(3) Non-cash Transactions

For the fiscal years ended December 31, 2022 and 2023, the non-cash transactions comprised the acquisition of right-of-use assets resulted from leases of 19,672 million yen and 27,268 million yen, respectively.

33. Share-based Payments

(1) Stock Options

1) Outline of stock options

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

Stock options for share-based payment

Stock options for share-based payment were granted as compensation for directors and executive officers who do not concurrently serve as directors. These stock options were intended to motivate and inspire recipients to enhance the Company's results and value of shares and to further enhance corporate value by aligning the interests of recipients with those of shareholders by further increasing the linkage among the compensation of recipients, the Company's results and value of shares.

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

2) Number of stock options and weighted average exercise price

	2022		2023	
	Number of shares (Shares)	Weighted average exercise price (Yen)	Number of shares (Shares)	Weighted average exercise price (Yen)
Beginning balance of outstanding	31,000	1	10,000	1
Granted	—	—	—	—
Exercised	(16,000)	1	(5,000)	1
Expired at maturity	(5,000)	1	(5,000)	1
Ending balance of outstanding	10,000	1	—	—
Ending balance of exercisable	10,000	1	—	—

Notes:

1. The weighted average share price on the date of exercise for the fiscal years ended December 31, 2022 and 2023 was 5,390 yen and 5,071 yen, respectively.
2. The exercise price and the weighted average remaining contractual life for stock options outstanding at the end of the period are as follows:

2022			2023		
Exercise price (Yen)	Number of shares (Shares)	Weighted average remaining contractual life (Years)	Exercise price (Yen)	Number of shares (Shares)	Weighted average remaining contractual life (Years)
1	10,000	0.5	—	—	—

(2) Performance Share Plan

1) Outline of performance share plan

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

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

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

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

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

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

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

	2022		2023	
	Variable points	Fixed points	Variable points	Fixed points
Number of points granted during the period	39,025	17,025	14,238	15,540
Weighted average fair value (Yen)	6,919	6,703	6,919	6,559

(3) Share-based Payment Expenses

The amount of share-based payment expenses recognized in the consolidated statement of income for the fiscal years ended December 31, 2022 and 2023 were 384 million yen and 200 million yen, respectively.

34. Financial Instruments

(1) Classification of Financial Instruments

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

(Millions of yen)

Financial assets	2022	2023
Financial assets measured at amortized cost		
Cash and cash equivalents (Note 8)	251,248	286,663
Trade and other receivables (Note 9)	230,604	225,934
Other	12,632	15,982
Financial assets measured at fair value through profit or loss		
Cash and cash equivalents (Note 8)	17,000	5,000
Derivatives	286	58
Other	4,197	4,661
Financial assets measured at fair value through other comprehensive income		
Equity securities	11,815	12,776
Total	527,782	551,074
Current assets		
Cash and cash equivalents	268,248	291,663
Trade and other receivables	230,604	225,934
Other financial assets	3,605	6,596
Subtotal	502,457	524,193
Non-current assets		
Other financial assets	25,325	26,881
Total	527,782	551,074

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

As of December 31, 2022

(Millions of yen)

Company name	Fair value
Future Origins, Inc.	2,726
Livedo Corporation	1,490
Saiwai Trading Co., Ltd.	1,245
Aeon Co., Ltd.	1,184
Japan Alcohol Trading Co., Ltd.	937
Tokio Marine Holdings, Inc.	901
Keytrading Co., Ltd.	450
Kawaken Fine Chemicals Co., Ltd.	314
Izumi Co., Ltd.	300
Kyoto Seisakusho Co., Ltd.	247

As of December 31, 2023

(Millions of yen)

Company name	Fair value
Future Origins, Inc.	2,833
Livedo Corporation	1,494
Saiwai Trading Co., Ltd.	1,349
Aeon Co., Ltd.	1,344
Tokio Marine Holdings, Inc.	1,124
Japan Alcohol Trading Co., Ltd.	1,016
Keytrading Co., Ltd.	478
Izumi Co., Ltd.	364
Kawaken Fine Chemicals Co., Ltd	328
Yamato-Esulon Co., Ltd.	281

Note: Saral, Inc. has changed its company name to Future Origins, Inc. on October 27, 2023.

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

(Millions of yen)

	2022	2023
Fair value	891	85
Cumulative gains (losses)	776	37

The Group transfers to retained earnings the cumulative gains or losses arising from changes in the fair value of financial assets measured at fair value through other comprehensive income recognized as other components of equity when it disposes of an investment or when fair value declines significantly. Cumulative gains or losses of other comprehensive income, net of taxes, that were transferred to retained earnings for the fiscal years ended December 31, 2022 and 2023, were 517 million yen and (24) million yen, respectively.

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

(Millions of yen)

Financial liabilities	2022	2023
Financial liabilities measured at amortized cost		
Trade and other payables (Note 18)	243,767	235,513
Bonds and borrowings (Note 16)	127,836	138,480
Lease liabilities (Note 17)	135,054	122,592
Other	14,310	14,229
Financial liabilities measured at fair value through profit or loss		
Derivatives	162	105
Total	521,129	510,919
Current liabilities		
Trade and other payables	243,767	235,513
Bonds and borrowings	65,670	14,039
Lease liabilities	19,440	19,020
Other financial liabilities	7,249	7,445
Subtotal	336,126	276,017
Non-current liabilities		
Bonds and borrowings	62,166	124,441
Lease liabilities	115,614	103,572
Other financial liabilities	7,223	6,889
Subtotal	185,003	234,902
Total	521,129	510,919

There are no significant assets pledged for the above financial liabilities. The Group held deposits received, which are interest-bearing liabilities in other financial liabilities, totaling 13,363 million yen and 13,438 million yen at December 31, 2022 and 2023, respectively. The average interest rate on deposits received as of December 31, 2023 was 0.13%.

(2) Risk Management on Financial Instruments

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

1) Market risk management

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

(i) Exchange rate risk

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

Details of foreign exchange forward contracts between the Japanese yen, which is the Group's functional currency, and its main foreign currencies including the U.S. dollar, the euro and the Chinese yuan are as follows:
The Group did not apply hedge accounting for these derivative transactions, but determined that these transactions effectively offset the impact of fluctuations in exchange rates.

(Millions of yen)

Derivative transactions	2022			2023		
	Contract amount	Contract amount over 1 year	Carrying amount (fair value)[1]	Contract amount	Contract amount over 1 year	Carrying amount (fair value)[1]
Foreign exchange forward contracts:						
Selling						
U.S. dollar	4,948	—	4	—	—	—
Euro	54	—	(2)	32	—	(1)
Buying						
Euro	30	—	0	62	—	1

Note:
Note 34 "Financial Instruments (3) Fair Value of Financial Instruments" presents the method of measuring the fair value of the above derivatives.

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

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

As of December 31, 2022 (Millions of yen)

	U.S. dollar	Euro	Chinese yuan
Net exposure	20,362	2,856	14,838

As of December 31, 2023 (Millions of yen)

	U.S. dollar	Euro	Chinese yuan
Net exposure	1,894	4,414	9,100

The following table illustrates the impact on income before income taxes in the consolidated statement of income from foreign currency-denominated financial instruments held by the Group at the end of each fiscal year if the Japanese yen appreciated by 10% against the U.S. dollar, the euro and the Chinese yuan.
The effects of translating financial instruments denominated in the Group's functional currency, and the assets, liabilities, income and expenses of foreign operations are not included in the analysis. The analysis also assumes that currencies other than those used in the calculation remain constant.

(Millions of yen)

	2022	2023
U.S. dollar	(2,036)	(189)
Euro	(286)	(441)
Chinese yuan	(1,484)	(910)

(ii) Interest rate fluctuation risk

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

(iii) Share price fluctuation risk

The Group held marketable equity securities, primarily those of companies with which the Group has business relationships, totaling 3,268 million yen and 3,732 million yen at December 31, 2022 and 2023, respectively. These equity securities are exposed to share price fluctuation risk. However, the Group annually evaluates the rationale and reviews ongoing advisability and position size of these holdings. Fluctuations in their prices do not affect net profit or loss because all of these equity securities are designated as financial assets measured at fair value through other comprehensive income.

2) Credit risk management

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

(i) Trade and other receivables

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

(ii) Short-term investments

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

(iii) Loan receivables

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

(iv) Derivatives

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

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

The Group recognizes an allowance for doubtful receivables for trade receivables and other financial assets measured at amortized cost by estimating future credit losses in consideration of recoverability and significant increases in credit risk. The Group determines if credit risk has increased significantly by evaluating changes in default risk with reference to factors including downgrading of internal credit ratings, the decline of counterparty results, and delinquency information. Trade receivables are particularly important financial assets for the Group. The Group collectively measures expected credit losses of the financial assets for the entire period to recognize the allowance for doubtful receivables. In the following situations that would adversely affect future cash flows, however, the Group measures expected credit losses individually by treating each receivable as a credit-impaired financial asset:

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

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

The Group held security deposits for credit enhancement totaling 7,129 million yen and 6,876 million yen at December 31, 2022 and 2023, respectively.

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

Fiscal year ended December 31, 2022

(Millions of yen)

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

(Millions of yen)

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

Fiscal year ended December 31, 2023

(Millions of yen)

Trade receivables	Financial assets for which loss allowances are always measured at an amount equal to expected credit losses for the entire period	Credit-impaired financial assets	Total
January 1, 2023	222,454	610	223,064
Change during the year (Recognition and derecognition)	(13,354)	73	(13,281)
Transfer to credit-impaired financial assets	(6)	6	—
Other changes	8,420	72	8,492
December 31, 2023	217,514	761	218,275

(Millions of yen)

Allowance for doubtful receivables	Financial assets for which loss allowances are always measured at an amount equal to expected credit losses for the entire period	Credit-impaired financial assets	Total
January 1, 2023	1,029	564	1,593
Increase during the year	354	30	384
Decrease during the year (charge-offs)	(46)	(4)	(50)
Decrease during the year (other)	(34)	(11)	(45)
Other changes	106	65	171
December 31, 2023	1,409	644	2,053

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

As of December 31, 2022

(Millions of yen, unless otherwise noted)

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

As of December 31, 2023

(Millions of yen, unless otherwise noted)

	Not due	Days past due				Total
		Less than 30 days	Over 30 days	Over 60 days	Over 90 days	
Trade receivables	205,255	7,429	2,243	651	2,697	218,275
Allowance for doubtful receivables	578	101	88	44	1,242	2,053
Expected credit loss (%)	0.3	1.4	3.9	6.8	46.1	0.9

3) Liquidity risk management

Liquidity risk is the risk that the Group may not be able to fulfill its obligation to pay financial liabilities that come due. The Group uses methods such as scheduled medium- and long-term financing plans to understand its liquidity and consistently ensure the availability of sufficient funding.

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

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

As of December 31, 2022

(Millions of yen)

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

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

(Millions of yen)

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

As of December 31, 2023

(Millions of yen)

	Carrying amount	Contract amount	Not later than 1 year	Later than 1 year but not later than 2 years	Later than 2 years but not later than 3 years	Later than 3 years but not later than 4 years	Later than 4 years but not later than 5 years	Later than 5 years
Non-derivative financial liabilities								
Trade and other payables	235,513	235,513	235,513	—	—	—	—	—
Bonds and borrowings	138,480	138,556	14,039	39,172	20,233	20,032	45,032	48
Lease liabilities[1]	122,592	133,110	20,471	16,323	12,965	9,865	7,949	65,537
Long-term deposits payable	6,890	6,890	—	—	—	—	—	6,890
Derivative financial liabilities								
Currency related	105	105	105	—	—	—	—	—
Total	503,580	514,174	270,128	55,495	33,198	29,897	52,981	72,475

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

(Millions of yen)

	Carrying amount	Contract amount	Not later than 1 year	Later than 1 year but not later than 5 years	Later than 5 years but not later than 10 years	Later than 10 years but not later than 15 years	Later than 15 years but not later than 20 years	Later than 20 years
Lease liabilities	122,592	133,110	20,471	47,102	29,964	18,842	13,469	3,262

(3) Fair Value of Financial Instruments

1) Fair value hierarchy levels

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

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

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

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

2) Financial instruments measured at fair value

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

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

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

(ii) Derivative assets and derivative liabilities

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

(iii) Equity securities

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

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

The Group recognizes transfers of financial instruments between levels of the fair value hierarchy at the end of each fiscal year. No financial instruments were transferred between levels of the fair value hierarchy for the fiscal years ended December 31, 2022 or 2023.

As of December 31, 2022

(Millions of yen)

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

As of December 31, 2023

(Millions of yen)

	Level 1	Level 2	Level 3	Total
Financial assets				
Financial assets measured at fair value through profit or loss				
Short-term investments	—	5,000	—	5,000
Derivative assets	—	58	—	58
Other	—	4,661	—	4,661
Financial assets measured at fair value through other comprehensive income				
Equity securities	3,732	—	9,044	12,776
Total	3,732	9,719	9,044	22,495
Financial liabilities				
Financial liabilities measured at fair value through profit or loss				
Derivative liabilities	—	105	—	105
Total	—	105	—	105

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

(Millions of yen)

	2022	2023
Beginning balance	5,586	8,547
Gains (losses)[1]	153	384
Purchases	2,806	110
Sales	(0)	(0)
Other changes	2	3
Ending balance	8,547	9,044

Note:

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

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

3) Financial instruments measured at amortized cost

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

(i) Cash and cash equivalents (excluding short-term investments measured at fair value), trade and other receivables, and trade and other payables

Carrying amounts approximate fair value because these are settled in the short term.

(ii) Bonds and borrowings

The fair value of bonds is based on market prices. The fair value of borrowings is the present value of remaining principal and interest discounted using a deemed interest rate on equivalent new borrowings.

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

As of December 31, 2022

(Millions of yen)

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

As of December 31, 2023

(Millions of yen)

	Carrying amount	Fair value			
		Level 1	Level 2	Level 3	Total
Financial liabilities					
Financial liabilities measured at amortized cost					
Bonds	50,183	—	50,088	—	50,088
Borrowings	88,297	—	88,586	—	88,586

35. Principal Subsidiaries

Principal subsidiaries consist of the following.

Voting rights at December 31, 2023 did not significantly change from December 31, 2022.

Company name	Principal businesses	Voting rights (%)
Kao Group Customer Marketing Co., Ltd.	Hygiene and Living Care Health and Beauty Care Life Care Cosmetics and control of a counseling service company in the Cosmetics Business in Japan	100.0
Kao Professional Services Company, Limited	Life Care (Commercial-use hygiene products)	100.0
Kanebo Cosmetics Inc.	Cosmetics	100.0
Kao Transport & Logistics Company Limited	Logistics and related services in Japan	100.0
Kao (China) Holding Co., Ltd.	Control of subsidiaries in China Cosmetics	100.0
Kao Corporation Shanghai	Hygiene and Living Care Health and Beauty Care Cosmetics	100.0
Kao (Hefei) Co., Ltd.	Hygiene and Living Care	100.0
Kao Commercial (Shanghai) Co., Ltd.	Hygiene and Living Care Health and Beauty Care Cosmetics	100.0
Kanebo Cosmetics (China) Co., Ltd.	Cosmetics	100.0
Kao (Shanghai) Chemical Industries Co., Ltd.	Chemical	100.0
Kao (Taiwan) Corporation	Hygiene and Living Care Health and Beauty Care Life Care (Commercial-use hygiene products) Cosmetics Chemical	92.2
Pilipinas Kao, Inc.	Chemical	100.0
Kao Industrial (Thailand) Co., Ltd.	Hygiene and Living Care Health and Beauty Care Cosmetics Chemical	100.0
Fatty Chemical (Malaysia) Sdn. Bhd.	Chemical	70.0
PT Kao Indonesia	Hygiene and Living Care Health and Beauty Care	50.01
Kao USA Inc.	Health and Beauty Care Cosmetics	100.0
Oribe Hair Care, LLC	Health and Beauty Care	100.0
Bondi Sands (USA) Inc.	Health and Beauty Care	100.0
Washing Systems, LLC	Life Care (Commercial-use hygiene products)	100.0
Kao America Inc.	Corporate service to subsidiaries in the U.S. Holding company for Chemical Business in the U.S.	100.0
Kao Specialties Americas LLC	Chemical	100.0
Bondi Sands Australia Pty Ltd	Health and Beauty Care	100.0
Kao Germany GmbH	Health and Beauty Care	100.0
Kao Manufacturing Germany GmbH	Health and Beauty Care	100.0
Kao Chemicals GmbH	Chemical	100.0
Molton Brown Limited	Cosmetics	100.0
Kao Chemicals Europe, S.L.	Control of subsidiaries in Chemical Business in Europe, etc.	100.0
Kao Corporation, S.A.	Chemical	100.0

36. Related Parties

(1) Transactions with Related Parties

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

(2) Primary Executive Management Compensation

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

(Millions of yen)

	2022	2023
Short-term benefits	1,566	1,749
Post-retirement benefits	32	42
Share-based payments	384	200
Total	1,982	1,991

37. Commitments

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

(Millions of yen)

	2022	2023
Acquisition of property, plant and equipment	18,832	20,975
Acquisition of intangible assets	1,951	3,891
Total	20,783	24,866

38. Approval of the Consolidated Financial Statements

The consolidated financial statements were approved by Yoshihiro Hasebe, President and Chief Executive Officer, and by Hideo Makino, Executive Officer, Senior Vice President, Accounting and Finance, on March 12, 2024.

39. Significant Subsequent Events

The Group evaluated subsequent events through March 21, 2024, which is the issuance date of the consolidated financial statements. There were no significant subsequent events to present.

(2) Other Information

1) Quarterly information for the fiscal year ended December 31, 2023

(Quarterly cumulative period)	First three months	First six months	First nine months	Fiscal year ended December 31, 2023
Net sales (millions of yen)	347,794	738,528	1,125,883	1,532,579
Income before income taxes (millions of yen)	8,439	28,639	54,582	63,842
Net income attributable to owners of the parent (millions of yen)	4,817	16,624	32,542	43,870
Basic earnings per share (yen)	10.36	35.76	70.01	94.37

(Fiscal period)	First quarter	Second quarter	Third quarter	Fourth quarter
Basic earnings per share (yen)	10.36	25.40	34.24	24.37

2) Information after the fiscal year-end

Not applicable

3) Litigation

Although there are some pending lawsuits that the Kao Group is involved in, the Company believes they will not have any material impact on the Group's financial position, operating results or cash flows.

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VI. Outline of Share-related Administration of Reporting Company

Fiscal year	From January 1 to December 31
Annual General Meeting of Shareholders	In March
Record date	December 31
Record date for distribution of retained earnings	June 30 (interim dividends), December 31 (year-end dividends)
Number of shares constituting one unit	100 shares
Purchase or additional purchase of shares of less than one unit	
Handling office	Stock Transfer Agency Business Planning Dept., Sumitomo Mitsui Trust Bank, Limited (Special account management institution) 4-1, Marunouchi 1-chome, Chiyoda-ku, Tokyo
Transfer agent	Sumitomo Mitsui Trust Bank, Limited (Special account management institution) 4-1, Marunouchi 1-chome, Chiyoda-ku, Tokyo
Purchase or additional purchase fee	Free of charge
Method of public notice	Public notice of the Company shall be given by means of electronic notification. However, in case electronic notification is not available due to an accident or any other unavoidable reason, notices shall be given in the Nihon Keizai Shimbun. (URL for public notice: www.kao.com/global/en/investor-relations/notice/)
Special benefits for shareholders	Not applicable

Notes: 1. Purchases and additional purchases of shares of less than one unit recorded in transfer accounts other than the special account are handled through financial service providers with which the transfer accounts were opened and other account management institutions.

2. The Company's Articles of Incorporation stipulate that the Company's shareholders holding shares of less than one unit may not exercise their rights except the followings:

(1) Rights provided in Article 189, Paragraph 2 of the Companies Act;
(2) Right to demand according to Article 166, Paragraph 1 of the Companies Act;
(3) Right to receive the allotment of offered shares or offered subscription rights to shares per number of holding shares;
(4) Right to request for sale in relation to any shares that are less than one unit.

VII. Reference Information of Reporting Company

1. Information about Parent of Reporting Company

The Company does not have a parent company, etc. as prescribed in Article 24-7, Paragraph 1 of the Financial Instruments and Exchange Act.

2. Other Reference Information

From the beginning of this fiscal year until the filing date of this Annual Securities Report, the Company has filed the following documents:

(1) Annual Securities Report, attached documents and Confirmation Letter	For the 117th term	From January 1, 2022 to December 31, 2022	Filed with the Director-General of the Kanto Local Finance Bureau on March 24, 2023
(2) Internal Control Report and attached documents			Filed with the Director-General of the Kanto Local Finance Bureau on March 24, 2023
(3) Quarterly Securities Report and Confirmation Letter	For the first quarter of the 118th term	From January 1, 2023 to March 31, 2023	Filed with the Director-General of the Kanto Local Finance Bureau on May 12, 2023
	For the second quarter of the 118th term	From April 1, 2023 to June 30, 2023	on August 10, 2023
	For the third quarter of the 118th term	From July 1, 2023 to September 30, 2023	on November 14, 2023
(4) Extraordinary Report	Extraordinary Report prepared pursuant to the provisions of Article 24-5, Paragraph 4 of the Financial Instruments and Exchange Act and Article 19, Paragraph 2, Item 9-2 (Results of exercise of voting rights at a general meeting of shareholders) of the Cabinet Office Ordinance on Disclosure of Corporate Affairs		Filed with the Director-General of the Kanto Local Finance Bureau on March 27, 2023
(5) Shelf Registration Statement (Share Certificates, Corporate Bond Certificates, Etc.) and Accompanying Documents			Filed with the Director-General of the Kanto Local Finance Bureau on May 17, 2023
(6) Shelf Registration Supplements (Share Certificates, Corporate Bond Certificates, Etc.) and Accompanying Documents			Filed with the Director-General of the Kanto Local Finance Bureau on June 9, 2023
(7) Amended Shelf Registration Statement			Filed with the Director-General of the Kanto Local Finance Bureau on May 17, 2023

Part Two: Information about Reporting Company’s Guarantor, etc.

Not applicable

(TRANSLATION)

INDEPENDENT AUDITOR'S REPORT

March 21, 2024

To the Board of Directors of
Kao Corporation:

Deloitte Touche Tohmatsu LLC
Tokyo office

Designated Engagement Partner,
Certified Public Accountant:

Junichi Yamanobe

Designated Engagement Partner,
Certified Public Accountant:

Koji Inoue

Designated Engagement Partner,
Certified Public Accountant:

Yuichiro Nakashima

<Audit of Consolidated Financial Statements>

Opinion

Pursuant to the first paragraph of Article 193-2 of the Financial Instruments and Exchange Act, we have audited the consolidated financial statements of Kao Corporation and its consolidated subsidiaries (the "Group") included in the Financial Section, namely, the consolidated balance sheet as of December 31, 2023, and the consolidated statement of income, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the fiscal year from January 1, 2023 to December 31, 2023, and a summary of significant accounting policies and other explanatory information, and the consolidated supplementary schedules.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as of December 31, 2023, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRSs").

Basis for Opinion

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

(TRANSLATION)

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

<table>
<tr><th colspan="2">Valuation of goodwill related to the business combination of Kanebo Cosmetics Inc.</th></tr>
<tr><th>Key Audit Matter Description</th><th>How the Key Audit Matter Was Addressed in the Audit</th></tr>
<tr><td>Kao Corporation (hereinafter the "Company") recognized goodwill of ¥218,886 million in the consolidated statement of financial position as of December 31, 2023. As described in Note 13 to the consolidated financial statements, goodwill of ¥119,400 million was allocated to Kanebo Cosmetics Inc., which accounted for 6.7% of the total assets. The assumptions used for the impairment test for goodwill were described in Note 13.

The Company measured the recoverable amounts based on value in use calculated by the discounted present value of future cash flows, which are based on the Cosmetic Business medium-term plan (hereinafter "medium-term plan") that reflects past years' performance and future forecasts.

The medium-term plan includes a forecast of sales growth by region and by brand, which considers market trends in China and changes in the cosmetics market environment. The growth rate used in the determination of the forecast is consistent with the growth rates of the market to which the cash-generating unit belongs. The estimated cash flows in the period beyond the timescale considered in the medium-term plan approved by management are calculated using an annual growth rate of zero percent and are discounted to present value using a weighted average cost of capital ("WACC") of 7.9%.

The growth rate of sales and discount rate involve uncertainties, such as market trends in China, future forecasts in the cosmetic market, and require management judgment. As such, we have determined the valuation of goodwill related to the business combination of Kanebo Cosmetics Inc. as a key audit matter.</td><td>Our audit procedures to assess the reasonableness of the estimates of value in use for addressing the valuation of goodwill related to the business combination of Kanebo Cosmetics Inc. included the following, among others:

(1) Internal control testing

We tested the design and operating effectiveness of certain internal controls over the determination of whether an impairment loss on the groups of cash-generating units that include goodwill should be recognized.

(2) Assessment of the reasonableness of the estimate of value-in-use

• Concerning estimated cash flows, we compared the sales forecast by region and by brand included in the medium-term plan for previous year's impairment test with actual results and evaluated the achievement of those results in the medium-term plan retrospectively, considering market trends in China and changes in the cosmetics market environment.

• We made inquiries of the person responsible for the Cosmetic Business regarding the sales strategy, which supports sales forecast by region and brand in the medium-term plan utilized in the impairment test.

• Concerning the forecasted market growth rate which is one of the significant assumptions for estimating value in use, and was included in the medium-term plan, we performed trend analysis using actual results and the data of cosmetic market inspection reports published by an external specialist agency.

• We involved valuation specialists from our member firm to assist us in assessing the appropriateness of the discount rate by comparing our estimate of WACC to the one made by management.

• We compared the value in use that would result from changes, within a reasonable range, in the significant assumptions used for the impairment test, to the carrying amount of the cash-generating units that include goodwill.</td></tr>
</table>

<table>
<tr><td colspan="2">Accounting for the termination of production at its own factory in China</td></tr>
<tr><td>Key Audit Matter Description</td><td>How the Key Audit Matter Was
Addressed in the Audit</td></tr>
<tr><td>The Board of Directors of the Company resolved to undertake structural reforms in order to improve profits and strengthen its business base over the medium term. As part of the main part of the structural reforms "Conduct a drastic strategic review and reorganization of inefficient business," the Company resolved to terminate production of baby diapers at its own factory in China, which was in the Hygiene and Living Care Business, on August 3, 2023.

As a result, as described in Note 6. Segment Information, the Company recorded expenses totaling ¥21,785 million related to the impact of structural reform in the Hygiene and Living Care Business, including an impairment loss on related property, plant and equipment of ¥9,090 million and expenditures of ¥1,049 million incurred due to the termination of production at the factory in China.

In recording the impairment loss, the Company estimated the fair value of factory assets based on information, such as the estimated selling price of the real estate and reduced the carrying amount of the assets to the fair value less costs of disposal. Also, the Company identified and recorded the comprehensive expenditures incurred due to the termination of the factory, such as severance payments to the employee.

The accounting process related to the termination of production at its own factory in China, such as the fair value estimate of the assets and the estimate and comprehensive identification of expenditures incurred due to the termination of the factory, is affected by management judgment on utilization policies of the assets and the Chinese legal system and business practices, and involves uncertainties. As such, we identified the accounting for the termination of production at its own factory in China as a key audit matter.</td><td>Our audit procedures to assess the appropriateness of accounting for the termination of production at its own factory in China with the assistance of the component auditor and its valuation specialists of our network firm included the following, among others:

(1) Internal control testing

We tested the design and operating effectiveness of internal controls over recording expenses incurred due to the termination of production at the factory appropriately.

(2) Assessment of the reasonableness of the estimated fair value less costs of disposal

• We made inquiries of the person responsible for the business in China and inspected the minutes of the Board of Directors meetings in order to understand the plan and the progress of the factory assets disposal.

• We compared the estimated fair value less costs of disposal of the factory assets to the carrying amount in order to evaluate whether the amount of impairment loss was properly determined.

• We inspected the real estate appraisal report obtained from an external valuation specialist by the Company, documents related to the estimated selling price of the real estate provided by the prospective buyer and records on the status of negotiations with the prospective buyer, in order to evaluate the fair value.

• We observed the factory assets in order to evaluate whether the assumptions measure at the fair values based on the estimated selling price, were ready for sale in their present conditions.

(3) Test of the expenses recorded due to the termination of production at the factory

• We inspected minutes of the Board of Directors meeting that determined the amount of severance payments to be paid employees, and examined records of the cash disbursements to test the severance payments.

• We inspected a list of related contracts, each contract and related documents such as cash disbursements in order to test expenses such as penalties arisen from early termination of contracts due to the termination of production at the factory.</td></tr>
</table>

	(4) Evaluation of completeness of the expenses incurred due to the termination of production at the factory • We made inquiries of the person responsible for the business in China and inspected the minutes of the Board of Directors meetings in order to understand the plan and progress of the termination. • We assessed the expenses ordinarily expected to incur from the termination of production in China. • We tested the valuation of other assets such as inventories and accounts receivables and the possibility of additional expenses incurred.

Other Information

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

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

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

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

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

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

In preparing the consolidated financial statements, management is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern in accordance with IFRSs.

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

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

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

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

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks. The procedures selected depend on the auditor's judgment. In addition, we obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion.

- Obtain, when performing risk assessment procedures, an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate whether the overall presentation and disclosures of the consolidated financial statements are in accordance with IFRSs, as well as the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

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

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

<Audit of Internal Control>

Opinion

Pursuant to the second paragraph of Article 193-2 of the Financial Instruments and Exchange Act, we have audited management's report on internal control over financial reporting of the Company as of December 31, 2023.

In our opinion, management's report on internal control over financial reporting referred to above, which represents that the internal control over financial reporting of the Company as of December 31, 2023, is effectively maintained, presents fairly, in all material respects, the results of the assessment of internal control over financial reporting in accordance with assessment standards for internal control over financial reporting generally accepted in Japan.

Basis for Opinion

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

Responsibilities of Management and Audit & Supervisory Board Members and the Audit & Supervisory Board for Report on Internal Control

Management is responsible for designing and operating effective internal control over financial reporting and for the preparation and fair presentation of its report on internal control in accordance with assessment standards for internal control over financial reporting generally accepted in Japan. Audit & Supervisory Board members and the Audit & Supervisory Board are responsible for overseeing and verifying the design and operating effectiveness of internal control over financial reporting. There is a possibility that misstatements may not be completely prevented or detected by internal control over financial reporting.

Auditor's Responsibilities for the Internal Control Audit

Our objectives are to obtain reasonable assurance about whether management's report on internal control over financial reporting is free from material misstatement and to issue an auditor's report that includes our opinion.

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

- Perform audit procedures to obtain audit evidence regarding the results of the assessment of internal control over financial reporting in management's report on internal control. The procedures selected depend on the auditor's judgment, including the significance of effects on reliability of financial reporting.

- Examine representations on the scope, procedures and results of the assessment of internal control over financial reporting made by management, as well as evaluating the overall presentation of management's report on internal control.

- Obtain sufficient appropriate audit evidence regarding the results of the assessment of internal control over financial reporting. We are responsible for the direction, supervision and performance of the internal control audit. We remain solely responsible for our audit opinion.

We communicate with Audit & Supervisory Board members and the Audit & Supervisory Board regarding, among other matters, the planned scope and timing of the internal control audit, result of the internal control audit, including any identified material weakness which should be disclosed and the result of remediation.

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

(TRANSLATION)

<Fee-Related Information>

Fees for audit and other services for the year ended December 31, 2023, which were charged by us and our network firms to the Company and its subsidiaries are disclosed in (3) Status of Audits, Corporate Governance, Information about reporting company of the Annual Securities Report.

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

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

Notes to the Readers of Independent Auditor's Report

This is an English translation of the independent auditor's report as required by the Financial Instruments and Exchange Act of Japan for the conveniences of the reader.