Annual Securities Report

(“Yukashoken Hokokusho”)

(The 119th Fiscal Year)
From January 1, 2024 to December 31, 2024

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.

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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 21, 2025
Fiscal Year	The 119th Term (from January 1, 2024 to December 31, 2024)
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		115th	116th	117th	118th	119th
Fiscal year ended:		December 2020	December 2021	December 2022	December 2023	December 2024
Net sales	Millions of yen	1,381,997	1,418,768	1,551,059	1,532,579	1,628,448
Income before income taxes	Millions of yen	173,971	150,002	115,848	63,842	151,024
Net income attributable to owners of the parent	Millions of yen	126,142	109,636	86,038	43,870	107,767
Comprehensive income attributable to owners of the parent	Millions of yen	132,941	161,686	125,437	80,809	155,475
Equity attributable to owners of the parent	Millions of yen	923,687	965,137	972,061	983,658	1,066,776
Total assets	Millions of yen	1,665,616	1,704,007	1,726,350	1,769,514	1,867,237
Equity attributable to owners of the parent per share	Yen	1,920.56	2,036.66	2,091.20	2,116.01	2,296.69
Basic earnings per share	Yen	262.29	230.59	183.28	94.37	231.94
Diluted earnings per share	Yen	262.25	230.57	183.27	94.37	—
Ratio of equity attributable to owners of the parent to total assets	%	55.5	56.6	56.3	55.6	57.1
Ratio of net income to equity attributable to owners of the parent	%	14.2	11.6	8.9	4.5	10.5
Price earnings ratio	Times	30.4	26.1	28.7	61.5	27.5
Net cash flows from operating activities	Millions of yen	214,718	175,524	130,905	202,481	201,585
Net cash flows from investing activities	Millions of yen	(61,941)	(67,232)	(74,911)	(109,302)	(45,902)
Net cash flows from financing activities	Millions of yen	(87,065)	(141,573)	(139,311)	(79,983)	(104,578)
Cash and cash equivalents at the end of the year	Millions of yen	353,176	336,069	268,248	291,663	357,713
Number of employees [Separately, the average number of temporary employees]	Persons	33,409 [11,969]	33,507 [11,215]	35,411 [8,183]	34,257 [8,193]	32,566 [8,502]

Notes: 1. International Financial Reporting Standards (IFRS Accounting Standards) 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.
6. The provisional accounting for business combination was finalized in the 119th term, and the figures related to the provisional accounting in “Key Financial Data” for the 118th term reflects the details of finalization of the provisional accounting.
7. Diluted earnings per share for the 119th term is not listed since there are no potential ordinary shares.

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).
December 2024	Liquidated Kao (Hefei) Co., Ltd.

3. Description of Business

The Company and its subsidiaries and associates (consisting of 111 subsidiaries and seven 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."

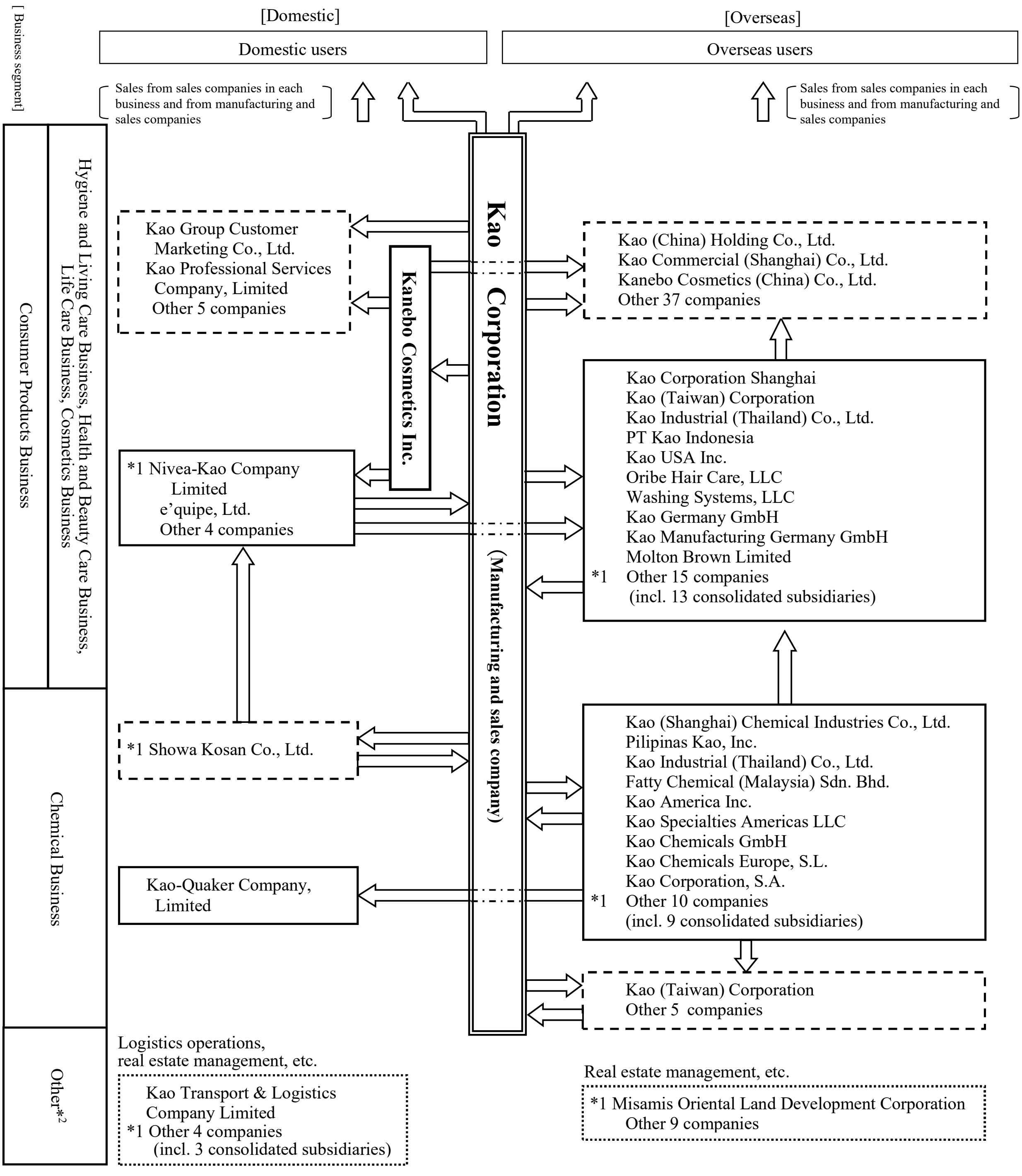
<table>
<tr><th colspan="2">Business segment</th><th colspan="2">Companies primarily responsible for the business</th></tr>
<tr><td rowspan="2">Consumer Products Business</td><td rowspan="2">Hygiene and Living Care Business
Health and Beauty Care Business
Life Care Business
Cosmetics Business</td><td>Domestic</td><td>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)</td></tr>
<tr><td>Overseas</td><td>Kao (China) Holding Co., Ltd., Kao Corporation Shanghai, 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, Washing Systems, LLC, Kao Germany GmbH, Kao Manufacturing Germany GmbH, Molton Brown Limited, and other 52 companies (a total of 65 companies)</td></tr>
<tr><td colspan="2" rowspan="2">Chemical Business</td><td>Domestic</td><td>The Company, Kao-Quaker Company, Limited, Showa Kosan Co., Ltd. (a total of 3 companies)</td></tr>
<tr><td>Overseas</td><td>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)</td></tr>
<tr><td colspan="2" rowspan="2">Other</td><td>Domestic</td><td>Kao Transport & Logistics Company Limited and other 4 companies (a total of 5 companies)</td></tr>
<tr><td>Overseas</td><td>Misamis Oriental Land Development Corporation and other 9 companies (a total of 10 companies)</td></tr>
</table>

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 (111 companies)
*1: Associates accounted for using the equity method (7 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, 2024

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 Life Care (commercial-use hygiene products) Cosmetics	*3 100.0 [15.0]	Yes	–	Supplier and buyer of products, etc.	–
*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.	–
*1 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.	–
Kao USA Inc.	U.S.	USD4	Health and Beauty Care Cosmetics	100.0	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.
Oribe Hair Care, LLC	U.S.	USD8,182 thousand	Health and Beauty Care	*8 100.0 [100.0]	Yes	–	–	–
Washing Systems, LLC	U.S.	USD10	Life Care (commercial-use hygiene products)	*9 100.0 [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	*10 100.0 [100.0]	Yes	–	Supplier and buyer of products, etc.	–
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	*11 100.0 [100.0]	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	*11 100.0 [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 Washing Systems Intermediate Holdings, Inc., a subsidiary of Kao USA Inc.
*10. The company is owned by Kao Chemicals Americas Corporation, a subsidiary of Kao America Inc.
*11. The company is owned by Kao Chemicals Europe, S.L.
12. Numbers in [ ] represent the ratios of voting rights held indirectly and are included in the ratios of voting rights held.
13. Concurrent positions as Directors, Audit & Supervisory Board Members, etc. include Directors, Audit & Supervisory Board Members and employees of Kao Corporation.
14. Kao Corporation has a total of 111 consolidated subsidiaries as it has 86 smaller consolidated subsidiaries other than the above.

(3) Associates Accounted for Using the Equity Method

As of December 31, 2024

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 seven associates accounted for using the equity method as it has five 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, 2024

Name of segment	Number of employees (persons)	[Number of temporary employees (persons)]
Hygiene and Living Care Business	8,954	[4,031]
Health and Beauty Care Business	7,859	[2,522]
Life Care Business	970	[210]
Cosmetics Business	9,804	[1,247]
Consumer Products Business	27,587	[8,010]
Chemical Business	3,969	[230]
Corporate (common)	1,010	[262]
Total	32,566	[8,502]

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, 2024

Number of employees (persons)	Average age (years)	Average years of employment (years)	Average annual salary (thousands of yen)
7,861	40.8	17.0	8,108

Name of segment	Number of employees (persons)
Hygiene and Living Care Business	2,264
Health and Beauty Care Business	1,897
Life Care Business	148
Cosmetics Business	1,337
Consumer Products Business	5,646
Chemical Business	1,278
Corporate (common)	937
Total	7,861

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 2024 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	27.7	96.8	90.5	89.3	79.2
Kao Group Customer Marketing Co., Ltd.	18.5	98.2	67.3	63.2	80.4
Kao Professional Services Company, Limited	14.7	94.4	73.5	72.3	62.7
Kao Transport & Logistics Company Limited	2.6	50.0	52.9	81.0	70.3
Kao Sanitary Products Ehime Co., Ltd.	0	93.8	74.2	78.9	56.3
Kao Beauty Brands Counseling Co., Ltd.	73.9	*	51.5	52.2	*
e'quipe, Ltd.	63.8	100.0	60.4	60.6	37.8
Kao Cosmetic Products Odawara Co., Ltd.	13.5	100.0	73.8	77.1	64.9

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 to.
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 2024 ÷ the number of male employees who had a child in 2024 × 100

   The Company has introduced a paid childcare leave system, which is subject to the calculation of the percentage of taking paternity leave, and all employees who had a child are required to take the leave. In calculating the percentage of taking paternity leave based on the law, the total percentage is not necessarily equal to 100% since the range of eligible employees in the numerator and denominator may differ due to the difference between the fiscal year and the deadline for taking such parental leave or paternity leave.
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	32.6	*	89.5
The Company and its domestic consolidated subsidiaries	26.5	95.8	73.8

Notes: 1. Employees include those who are regular employees and those in full-time indefinite-term employment who are non-regular employees.

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.

   The number of male employees who took their first leave associated with childcare in 2024 ÷ the number of male employees who had a child in 2024 × 100
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"

(Billion yen)	FY2023 Results	FY2024 Revised Plan*3	FY2024 Results	FY2025 Plan*4	FY2027 Targets
ROIC	4.1%	8.8%	9.2%	9.4%	11.0% or more
EVA	14.9	27.0 or more	33.2	37.0	70.0 or more
Operating income	114.7*2	140.0	146.6	160.0	Record-high operating income (FY2019 211.7 bn)
Sales outside Japan*1	655.8	Approx. 700.0	705.5	730.0	800.0 or more (Sales CAGR +4.3%)

*1 Based on the locations where the sales were recognized. *2 Core operating income *3 Announced on August 8, 2024. *4 Announced on February 6, 2025.

K27 Strategic Framework

■Progress during fiscal 2024 and future plan

In the fiscal year under review, the effect of the large-scale structural reforms launched last year became more visible, and as a result, profits continued to recover. Under these circumstances, the Company proactively invested in marketing, enhanced the competitive advantages of our core brands, and struck a balance between a higher market share and improved profits. As a result, in fiscal 2024, Return on Invested Capital (ROIC), Economic Added Value (EVA), operating income, and sales outside Japan, which are target metrics in the Mid-term Plan "K27," were all better than forecast.

In the Growth Driver areas*, in fiscal 2023, the Company successfully paved the way to expand its skin protection businesses globally. As a result, the business recorded net sales of 43.2 billion yen for fiscal 2024 up from 23.3 billion yen for fiscal 2021, backed mainly by sales growth in Japan, Europe, North America, South America, and Asia. To achieve net sales of 74.0 billion yen in 2027, the Company aims to grow further globally. In the Cosmetics Business, the Company has proactively invested in marketing to expand sales of six core brands, accelerating the sales expansion of high-value-added products globally. In the Chemical Business, from fiscal 2021 to fiscal 2024, net sales grew at a CAGR (average annual growth rate) of 11.6% in the overseas markets, which represent 60% of overall sales of the business. In the Stable Earnings areas*, where the Company holds an overwhelming market share, we have secured funds for investing in growth opportunities supported by a high level of profitability and a strong capacity to generate cash flows. The Company has achieved increases in sales volume, while improving the profitability of primarily the Fabric and Home Care business, by drawing on its strong brand equity and continuing to strategically increase product prices implemented ahead of competitors. In the Business Transformation areas*, the transformation of the Hair Care business has progressed, accelerating its expansion into the Growth Driver areas. With the launch of *melt* in April 2024, the Company has pushed ahead with *Yoki-Monozukuri* to shorten the time for development to a quarter of the typical time required.

The Mid-Term Plan "K27" has progressed as scheduled as all Kao Group employees have worked closely together to move ahead with the plan. The Company has maximized the power and potential of employees with decisive investment in human capital, while, at the same time, has steadily improved both the quality and pace of *Yoki-Monozukuri* through reinforcing a scrum-type management approach, in which employees capable of prompt decision-making are brought together for key tasks. Further, the Company will accelerate the maximization of the Kao Group's technological assets by building businesses through co-creation with partners, such as collaboration with the Charoen Pokphand (CP) Group in Thailand. Through these strategies, the Company aims to further improve its earnings and realize value creation over the long term.

* *Stable Earnings: Fabric care, Home care, Personal health; Growth Driver: Skin care, Chemical, Cosmetics, Commercial-use hygiene products; Business Transformation: Hair care, Sanitary*

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

In 2024, while the economy was returning to where it was before the COVID-19 pandemic, international communities continued to become more multipolar and divided with further expansion of geopolitical risks. In Japan, although we see bright signs in its economy, such as the number of inbound travelers exceeding the pre-pandemic level, its outlook still remains uncertain. In fact, we still need to keep watching closely the weakening yen and soaring costs of living as these trends could negatively affect consumer sentiment. Amid these circumstances, the Kao Group is pressed to address social challenges and break away from the existing mass-production, mass-consumption business model, which has a negative environmental footprint. Now, the Company 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.

As part of the efforts to realize such a business model, in August 2023, the Company announced the Mid-term Plan "K27" which is centered on structural reforms and growth strategies. Based on the plan, the Company will revise the prices of its products by adding more value to them, enhance its Total Cost Reduction (TCR) initiative, and introduce the Return on Invested Capital (ROIC) metrics across the organization to decisively implement large-scale structural reforms to ultimately further globalize its operations. Aiming to be a company that sustains "Global Sharp Top" businesses, the Company will swiftly forge ahead with investments and acquisitions for the growth and restructuring of its businesses along with the strategic management of its portfolio.

* *Global Sharp Top: Contributing as global No.1 to addressing the critical needs of customers with leading-edge solutions*

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 a company with a global presence that is valuable to society, which is what Kao aims to be by 2030, we implement sustainability perspectives at the core of management. The Kirei Lifestyle Plan (KLP), which defines Kao’s initiatives in the areas of environment, society, and governance (ESG), is an ESG strategy unique to Kao and aims to enrich the lives of people all over the world. It consists of 19 Kao Actions.

Based on the KLP, 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 swiftly respond to the major changes taking place globally, aiming to expand business and to address social issues. Our ESG governance provides a system for supervising and promoting ESG initiatives to incorporate environmental (E) and social (S) perspectives into Kao’s management and business activities, and supports the realization of the Mid-term Plan “K27” and the Long-term Management Vision “K30”. Under this system, the President and CEO as well as divisions and Group companies are responsible for executing business operations under the supervision of the Board of Directors, which is responsible for decision-making. Characteristics of this system include the ability to provide the swift and targeted implementation and to promote the creation of innovation by incorporating third-party perspectives from outside directors and experts into management decisions and new businesses.

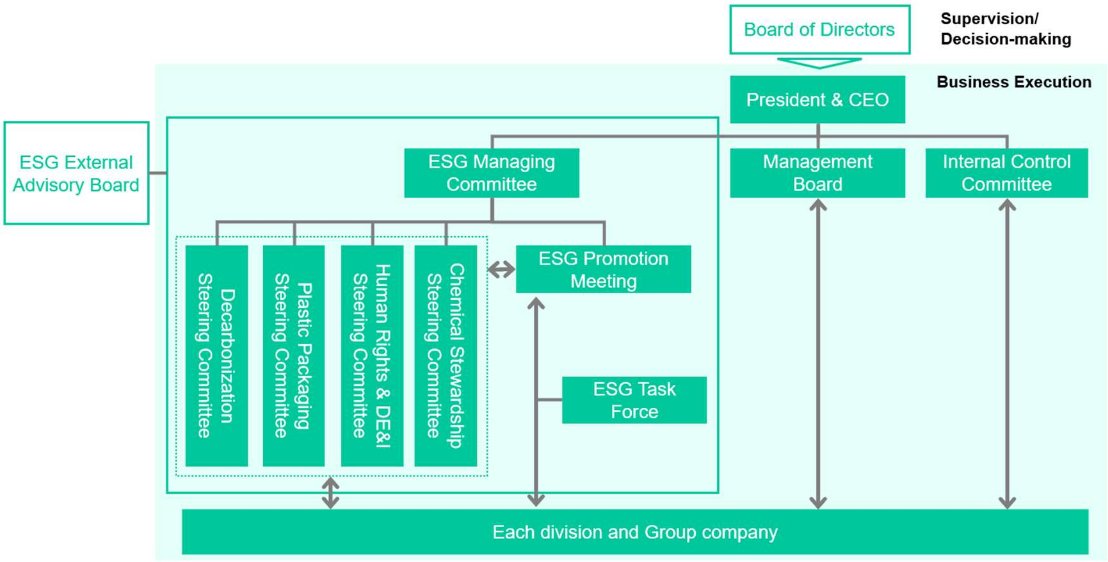
The Board of Directors ensures that it has the appropriate knowledge, experience, and competence to supervise ESG issues. In order to oversee overall management from multiple perspectives, we consider a balance of expertise and position ESG matters also as requiring specialized knowledge to address. Therefore, we appoint a number of Directors and Audit & Supervisory Board Members who are well-versed in ESG matters. The Board of Directors receives regular reports twice a year and reports on policies and strategies as well as targets, KPIs and progress of activities from the ESG Managing Committee, which deliberates and discusses ESG issues. In this way, the Board of Directors oversees the execution status. 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. Starting from fiscal 2024, the ratio of short-term and long-term incentive compensation against base salary has been revised to 1:1:1 for the Representative Director, President and Chief Executive Officer. Long-term incentive compensation incorporates the “ESG Activities Evaluation indicators” consisting of the achievement of the KLP’s priority targets (weighted at 25%) and the results of external evaluations by major ESG evaluation organizations (weighted at 15%). The achievement of KLP’s priority targets is based on a multifaceted evaluation and consists of decarbonization (CO_2 emissions reduction rate), zero waste (plastic recycling rate), percentage of female managers, and the number of serious compliance violations. For details, please refer to “IV. Information about Reporting Company, 4 Corporate Governance, (4) Director Remuneration”.

The overall execution of ESG has a governance structure with the ESG Managing Committee chaired by the Representative Director, President and Chief Executive Officer as the highest authority. The ESG Managing Committee, which consists of management, discusses and decides on the direction of activities related to the KLP, and reports the status of activities to the Board of Directors. In addition, the ESG External Advisory Board, which is comprised of outside experts, provides reports and recommendations in response to the consultations of the ESG Managing Committee, and reflects the third-party perspectives of outside directors and experts in management.

We have established the ESG Promotion Meeting, which works to achieve the KLP, and the ESG Steering Committee, which strives to ensure reliable and timely execution for priority issues. Based on the decision made by the ESG Managing Committee, the ESG Promotion Meeting promotes ESG-related activities throughout the Kao Group and monitors the progress of each department. The ESG Promotion Meeting is chaired by the Senior Vice President and the Executive Officer of the ESG division, and the meeting attendees are made up of the people responsible for business divisions, regions, functional divisions, and corporate divisions. The ESG Steering Committee will promote initiatives based on the priority issues of decarbonization, plastic packaging, human rights and DE&I, and chemical stewardship, respectively. People at the officer level are responsible as the owners of each issue and are granted a certain level of decision-making rights. The ESG Steering Committee works in conjunction with the ESG Managing Committee to ensure that initiatives are implemented promptly and reliably in each area. The ESG Task Force, which proposes activities related to key themes, plays a role in promoting the activities of each division and group company.

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).

ESG governance structure



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

Organization	Roles	Structure (As of January 2025)	Performance (2024)	
			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 Observer: Full-time Audit & Supervisory Board Members	Six times/ year	• Deliberated on and approved the disclosure policy of the Kao Sustainability Report 2024, the details of disclosure including the progress made on KPIs • Deliberated on and discussed proposals submitted by the ESG Steering Committee • Deliberated on and approved the disclosure of financial impact information based on TNFD • Deliberated on and approved ESG investment projects • Deliberated on and approved the ESG fund budget for fiscal 2025 • Examined the proposals from the ESG External Advisory Board • Reviewed the progress made on each Kao Action in the KLP

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 the 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. • Mike Jefferson Director, Verde Research and Consulting Ltd. Specialization: Waste management, Recycling systems, etc.	Twice /year	• Proposed expectations for and risks to Kao based on the social climate • Evaluated the progress made on the KLP and raised issues • Provided advice on ESG investment and the disclosure of its impact information • Provided advice for circular economy and advocacy activities • Provided advice for compliance with European regulations (environment, information disclosure, etc.) • Provided advice on DE&I and human rights approaches and initiatives • Provided advice on sustainable marketing • Provided advice for ESG communication • Provided advice for internal engagement
ESG Promotion Meeting	• 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	Chair: Executive Officer, Senior Vice President, ESG Members: Responsible persons, etc. at business divisions, functional divisions, corporate divisions and regions	Eight times/ year	• Drafted proposed revisions to the mid- to long-term targets in the KLP • Confirmed the progress and future plan for each action theme in the KLP • Formulated concrete plans for integrating ESG with business • Formulated an ESG investment strategy • Decided on the direction of the information disclosure in the Kao Sustainability Report 2024 • Global compliance to new laws and regulations • Confirmed the promotion of ESG activities in each division and region and identified issues • Enhanced global collaboration between groups • Increased engagement with employees • Established a cooperative system with the Kao Life-in-Harmony Foundation and implemented collaborative activities
ESG Steering Committees Decarbonization	• 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	Owner: Managing Executive Officer, Senior Vice President, R&D Members: Staff of R&D, Procurement, Supply Chain Management, Global Consumer Care Business, Chemical Business, ESG	Five times/ year	• Discussed a 2030 GHG reduction strategy • Discussed the progress made to achieve decarbonization-related KPIs and responses to address issues • Discussed on fixation of carbon dioxide

	Plastic packaging	• 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	Owner: Executive Officer, Vice President, R&D Business Research Center (Beauty & Healthcare field) and Deputy Director, Research Strategy Promotion Center Members: Staff of Corporate Planning, R&D, Procurement, Global Consumer Care, ESG	Eight times/ year	• 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
	Human rights and DE&I	• 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 • Centrally promote and manage the Kao Group’s DE&I activities based on its DE&I Policy	Owner: Senior Executive Officer, Senior Vice President, Human Capital Strategy Members: Staff of Human Capital Strategy, ESG, Procurement, Supply Chain Management and Global Consumer Care Business	Once/ month	• Promoted activities based on the human rights and DE&I Policy • Proposed and took employee awareness measures for understanding and implementing the DE&I Policy • Enhanced global expansion of human rights due diligence, including holding workshops to identify potential human rights risks, shared the risks identified in the risk assessment, and promoted activities at relevant divisions and subsidiaries • Discussed initiatives for living wages as part of human rights due diligence
	Chemical stewardship	• Promote voluntary management of chemical substances throughout the product lifecycle by the GFC* Promotion Committee • Develop policies and reduction/phase-out plans for the use of raw materials used in products taking into account the 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 *Global Framework on Chemicals – For a Planet Free of Harm from Chemicals and Waste	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 • Disclosed ingredients of high social concern among which are not used in Kao’s consumer products • Participated in the domestic policy discussions as a member of the industrial association, which was initiated in response to the results of an international meeting to set targets for the GFC • Participated and contributed to the World Business Council for Sustainable Development (WBCSD) and the European Chemical Industry Council (Cefic)

2) Strategy

We have integrated sustainability perspectives into the core of management in order to make Kao a company with a global presence that is valuable to society, which is our aim to achieve by 2030. To this end, based on the KLP, we promote ESG-driven *Yoki-Monozukuri,* with the aim of realizing a sustainable society through profitable business growth and solutions to social issues.

Enhancement of K27 through the KLP

"K27" is our Mid-term Plan to enhance Kao's global presence, realize a sustainable society, and achieve company growth. The KLP reinforces K27's four strategies in a multifaceted manner to achieve profitable growth and address social issues in the following five perspectives:

1. Strengthening our business by accurately understanding future consumer needs across the globe
   By accurately anticipating the needs and expectations of diverse consumers around the world and enhancing the competitiveness of our products and services, we will create new markets and add value to our products and contribute to building *Global Sharp Top* businesses.

2. Strengthening the human capital necessary for global expansion
   Development of people that can meet the needs of global consumers in marketing, product development, and sales, will fortify our *Global Sharp Top* human capital strategy.

3. Optimizing investments to accurately reflect future risks and opportunities from a global perspective
   We promote capital efficiency and profitability improvement by reducing ESG-related risks, increasing business resilience, creating opportunities and optimizing capital allocation.

4. Enhancing mutual empathy with our partners and strengthening co-creation
   Partnership collaboration is essential for addressing social issues that Kao cannot tackle alone. We promote business development through co-creation by expanding our collaborative relationships with our partners in diverse ways.

5. Enhancing risk reduction and opportunity creation in the entire value chain
   ESG-related risks and opportunities exist throughout the value chain in which our business operates. By reducing risks and creating opportunities across the value chain, we strengthen K27 achievement across the organization and increase the sustainability of our business.

Enhancement of K27 through the KLP

Enhancement of business growth through the KLP
As mentioned above, the KLP strengthens K27, enhancing business growth. It contributes to business growth in the following three perspectives:

1. Providing products and services that foster high loyalty
   Products and services that embed ESG perspectives and are developed with unique technologies can gain a high level of loyalty from consumers and customers, enhance competitive advantage, and contribute to business growth.

2. Expanding business by creating new business domains
   By addressing sustainability-related issues facing consumers and society, we develop product value in new domains and drive diverse business development.

3. Expanding business by creating new value in existing categories
   By reassessing the needs of consumers and customers from an ESG-driven perspective, we create new value within existing product categories and services, develop new market domains, and expand the scope of our business.

Through ESG-driven *Yoki-Monozukuri* based on the KLP, we will continue to achieve K27 and strengthen sustainable business growth.

Risks and Opportunities
In formulating the KLP, we identified ESG-related risks and opportunities based on our business model and social issues. Kao's business model and value chain have the following characteristics.

<u>Four areas related to the characteristics of Kao's business model and sustainability</u>
1. Manufacturing and sales of consumer products for consumers around the world
2. Manufacturing and sales of chemical products for customers in a wide range of industries around the world
3. Using chemicals as a key material shared between the Consumer Products Business and Chemical Business
4. A global value chain formed around raw material production to product sales, with numerous raw materials suppliers in the upstream and numerous distributors, retailers, business partners, and customers in the downstream

Based on these characteristics, the areas of Kao’s involvement in the sustainability of society are organized into four categories, namely Daily living, Society, Environment and Business foundation.

Daily living: A unique area of Kao’s efforts to meet the needs of consumers and enrich their lives, and it is the core of our ESG strategy.

Society: An area in which Kao has relationships with diverse industries and society through its globally operated value chain and the Chemical Business.

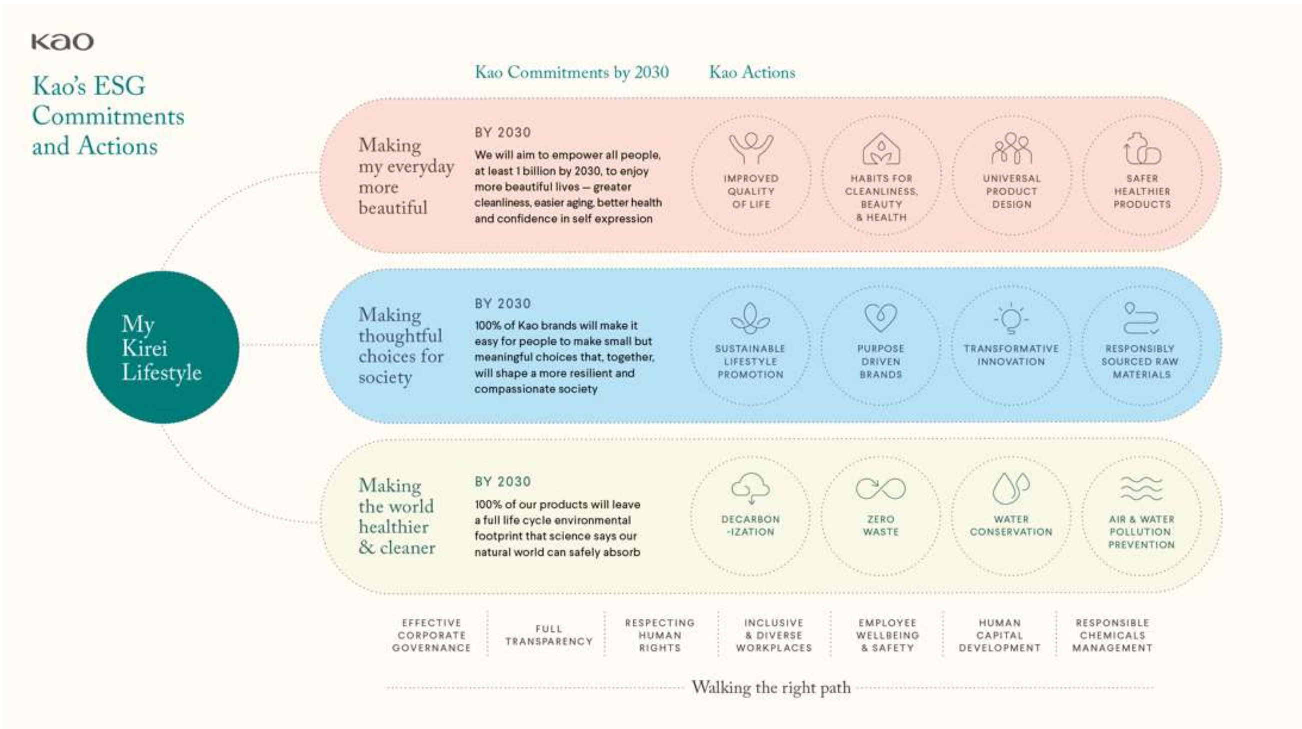
Environment: An area that has a significant impact, since some materials are dependent on natural capital, and because products are provided to, used by and disposed of by consumers around the world.

Business foundation: In order to steadily promote the initiatives in the above three areas, the enhancement of the business foundation including human capital development, respect for and protection of human rights, promotion of DE&I activities, and chemical substance management, etc. is essential.

These are based on Kao’s business characteristics and this strategy will lead to an increase of corporate value and business growth based on these business characteristics. By implementing these strategies, Kao will provide high-value-added services based on sustainability, which will also lead to a shift to a sustainable and innovative business model that goes beyond conventional product offerings and sales. For example, by precisely collecting and analyzing data on each individual’s physical condition, contamination on clothes, the occurrence of disease and pests on crops, and providing value-added services based on this data, we can improve the customer experience and create new markets. Furthermore, our approach from a sustainability perspective contributes to the enhanced management of the value chain. By appropriately managing raw material procurement risks, promoting the use of alternative raw materials, and strategically sourcing recycled materials, we will be able to reduce environmental impact and ensure stable supply. The KLP embodies the strategies derived from these risk and opportunity analyses.

In these four areas, we identify ESG-related risks and opportunities and develop strategies to address them.

Classification	Risks	Opportunities	Strategy
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 •Business growth stagnated due to slowing growth in the Japanese market due to a declining birthrate and aging population and a declining population	•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 development, and global expansion aimed at enriching the lives of people •Strategic development of awareness-raising and communication 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 revolutionary 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. •Difficulty in continuing the business due to disruption of supply chains caused by loss of biodiversity and abnormal weather conditions •Difficulty in supplying products due to plant shutdown caused by environmental pollution	•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 CO_2 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 KLP

The KLP 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. It consists of our vision for a sustainable society through our ESG activities, "Kao's Commitment," which sets the targets to be achieved by 2030, and "Kao's Actions," which are the 19 actions that we focus our efforts on.

<u>Our vision for sustainability</u>

Kao's vision for a sustainable society is based on the concept that our ESG activities are designed to help people around the world live more sustainably and benefit the wider society and the planet. Our value of walking the right path is presented as the foundation of our ESG activities and embodies one of the core tenets of our founder Tomiro Nagase: "Good fortune is given only to those who work diligently and behave with integrity."

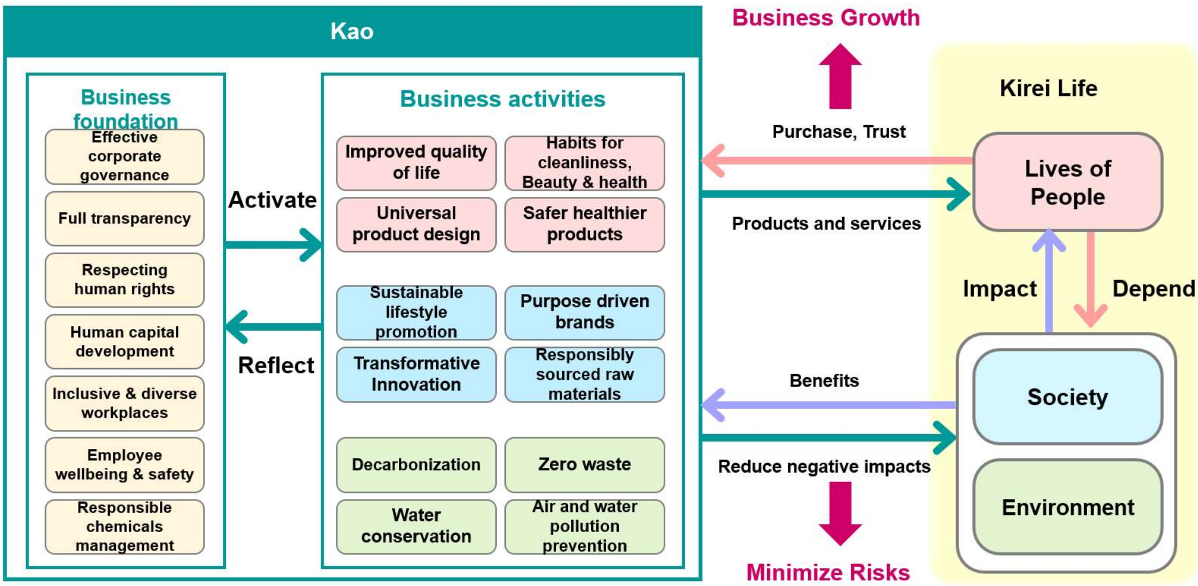
<u>Kao's commitment and Kao's actions</u>

The KLP includes three main pillars connected to enriching the lives of people, namely "Making my everyday more beautiful," "Making thoughtful choices for society" and "Making the world healthier and cleaner." Walking the right path is the foundation that supports these pillars. For each pillar, we have set our commitments, which are ambitious targets to achieve by 2030, as well as Kao's Actions, our priority action themes. By setting medium- to long-term targets for each of the 19 actions, we promote reliable and effective activities.

By implementing the KLP, it is possible to create a financial impact, as well as a positive impact on the environment and society. The diagram below shows how it works. Kao supports the lives of consumers through its products and services. For that reason, earning the trust of people contributes to the purchase of products and services, leading to profitable business growth. Through this virtuous cycle, the KLP will foster a long-term relationship between Kao and consumers and strengthen sustainable business growth.

Additionally, based on the KLP, we can minimize Kao's risks through activities to curb environmental impact and to reduce negative impact on society. This contribution to the environment and society will further enhance the reputation and credibility of Kao among consumers, who rely on both the environment and society, and lead to business growth.

The actions that form the foundation of these initiatives are crucial components supporting the KLP and act as a driving force to revitalize overall business activities. By promoting the KLP unique to Kao that places people at the center, Kao will achieve sustainable growth and enrich the lives of people.



Structure of the KLP and its financial, environmental and social impacts

Financial impact / environmental and social impact of the KLP

The KLP aims to earn the trust and loyalty of consumers and achieve business growth through the provision of products and services that address social issues and the needs of consumers, while at the same time, minimizing risks by reducing environmental impact and addressing social issues. We believe that the promotion of the KLP will create a virtuous cycle that will enable Kao to achieve sustainable growth, enrich the lives of consumers, and achieve social sustainability, thereby creating a positive impact on finance, environment and society.

Financial impact through the KLP

Kao believes that the promotion of the KLP will generate the following financial impacts from the perspective of (1) Revenue growth, (2) Cost reduction, and (3) Risk management.

1. Revenue growth
   - Development of new markets and addition of high value through products that have reduced environmental impact and solutions to address social issues
   - Sales growth through improved brand value
   - Creation of new business opportunities centered on social sustainability
   - Establishment of a competitive advantage through our unique environmental technologies

2. Cost reduction
   - Reduction of corresponding costs including taxes related to regulations by improving our ability to comply with environmental regulations
   - Reduction of funding costs / improved funding advantage by improving ESG evaluation
   - Cost reduction through energy efficiency, resource recycling and conservation

3. Risk management
   - Minimizing the cost of complying with environmental regulations
   - Reduction of reputation risk / Reduction of supply chain risk
   - Securing stable procurement of raw materials

Specific Financial Benefits (Cases)

By promoting initiatives based on the KLP, we are creating financial impacts valuable for our stakeholders, leading to long-term returns of profits.

Case 1: Investment in the supply chain
Initiatives: Continuous purchase of RSPO-certified oil and support for oil palm smallholders
Effect: Avoid risks associated with palm oil procurement, reputational risks and ensure stable procurement

Case 2: Investment to create business opportunities
Initiatives: Promotion of the #GUARD OUR FUTURE project
Effect: Expand the area of business / improve brand value

Case 3: Investment in corporate communications
Initiatives: Communication originating from "Wastefulness-*Mottainai*. Never today, nor tomorrow"
Effect: Achieve a purchase promotion that exceeds the investment amount / Increase in corporate brand value

Case 4: Investment in environmental conservation
Initiatives: Pollution prevention measures around the plant / Biodiversity conservation around the plant
Effects: Ensure business continuity through stable operation

Case 5: Sustainable finance
Initiatives: Sustainability-linked Bond (25 billion yen), Sustainability-linked Loan (20 billion yen), Positive Impact Finance (25 billion yen), DBJ Employees' Health Management Rated Loan (10 billion yen)
Effect: Fluctuation of interest rate terms, etc. according to the achievement of environment-related targets

Environmental and social impact of the KLP

We believe that the KLP will also generate positive impacts on the environment and society in various ways, in addition to the financial impacts described above.

Contribution to the value chain

The table below shows the 19 Kao Actions set in the Kao ESG Commitments and Actions, the KLP and their relationship to the value chain. The items indicate areas where our impact on society is particularly large and where the expectations on us are similarly greater. These are high-priority areas for our business growth and increasing our corporate value. Kao has an extensive value chain that encompasses the procurement of raw materials, development, use, disposal, and recycling. For this reason, Kao's implementation of the KLP can have a significant impact on suppliers, partners, consumers, communities and the environment. At the same time, we will contribute to the environment and society through the entire product lifecycle by developing and providing innovative products and services that reflect environmental and social considerations.

Contribution to society

Kao's innovative products and services contribute to the realization of sustainability in society. For example, in areas where hygiene and infectious disease problems are serious, we provide hygiene products to help people enjoy healthy lives with peace of mind. We also develop products and services that are easy to use for all people, including the elderly and people with disabilities, to support the comfortable lives of consumers.

Relationship between the 19 Kao Actions and the value chain

Kao Actions	Material procurement	Development / Manufacturing	Distribution	Sales	Use	Disposal / Recycling
Making my everyday more beautiful						
Improved quality of life				●	●	
Habits for cleanliness, beauty & health				●	●	
Universal product design				●	●	●
Safer healthier products					●	●
Making thoughtful choices for society						
Sustainable lifestyle promotion				●	●	●
Purpose driven brands	●	●			●	●
Transformative innovation	●	●			●	●
Responsibly sourced raw materials	●					
Making the world healthier & cleaner						
Decarbonization	●	●	●	●	●	●
Zero waste	●	●	●	●	●	●
Water conservation	●	●	●	●	●	●
Air & water pollution prevention		●			●	●
Walking the right path						
Effective corporate governance	●	●	●	●	●	●
Full transparency	●	●	●	●	●	●
Respecting human rights	●	●	●	●	●	●
Inclusive & diverse workplaces		●	●	●		
Employee wellbeing & safety		●	●	●		
Human capital development		●	●	●		
Responsible chemicals management	●	●	●	●	●	●

Furthermore, we support the sustainability of various industries and social infrastructure through products that optimize energy efficiency and resource utilization. In this way, we contribute to reducing the environmental impact and help our clients achieve their sustainability goals.

In the regions where our plants are located, we focus on environmental conservation, such as water conservation, air pollution prevention, and water pollution prevention, etc., thereby contributing to local communities.

Contributing to the SDGs

Looking ahead to 2030, Kao is focused on the SDGs that have been agreed upon and adopted by the international community. As indicators for realizing a sustainable society, the SDGs set forth an integrated approach for improving the economy, society and the environment. Contributions by companies are considered extremely important to achieve the SDGs. As shown in the table below, the KLP is committed to the goals of the SDGs, and we contribute to them in concrete and practical ways through our products and business activities. From addressing environmental issues to promoting health and achieving gender equality, Kao's initiatives play an important role in achieving the SDGs. In this way, we not only fulfill our responsibilities as a company, but also contribute to the sustainable development of society as a whole.

The SDGs that the 19 Kao Action topics contribute to

Kao Actions	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17
Making my everyday more beautiful																	
Improved quality of life			●		●							●					●
Habits for cleanliness, beauty & health			●			●											●
Universal product design										●		●					●
Safer healthier products			●									●		●			●
Making thoughtful choices for society																	
Sustainable lifestyle promotion				●							●	●					●
Purpose driven brands												●					●
Transformative innovation									●			●	●				●
Responsibly sourced raw materials								●		●		●			●		●
Making the world healthier & cleaner																	
Decarbonization							●					●	●				●
Zero waste												●		●	●		●
Water conservation						●						●			●		●
Air & water pollution prevention			●			●						●		●			●
Walking the right path																	
Effective corporate governance								●								●	
Full transparency								●				●				●	●
Respecting human rights					●			●		●							●
Inclusive & diverse workplaces					●			●		●							
Employee wellbeing & safety			●					●									
Human capital development			●	●	●			●		●							
Responsible chemicals management			●			●						●		●			●

3) Risk management

We are reinforcing our risk and opportunity management to ensure risk mitigation and business opportunity creation under flexible and 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, and for those, risk themes and risk owners are decided by the Management Board. The progress is managed by the Risk and Crisis Management Committee, and each organization addresses risks that can be managed by individual divisions and group companies.

In terms of opportunity management, we have established a structure that comprehensively manages ESG-related key themes for the entire Kao Group to build a system that promotes ESG investments through priority setting, which is connected to creating and business opportunities for strategic development.

4) Metrics and targets

We are steadily implementing the KLP by setting ambitious metrics and targets, clarifying the direction of the KLP, and accurately managing the progress. We have set metrics and targets for each of the 19 actions of the KLP. 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 of the KLP

Kao Actions		Metrics	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 (Japan)◆	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

<table>
<tr><td colspan="5">Make the world healthier and cleaner</td></tr>
<tr><td></td><td>Commitment</td><td>% of Kao products that leave a full lifecycle environmental footprint that science says our natural world can safely absorb</td><td>100%</td><td>2030</td></tr>
<tr><td rowspan="16"></td><td></td><td>Kao recognition or achievement level by external ratings firms</td><td>Highest evaluation level</td><td>Yearly</td></tr>
<tr><td rowspan="4">Decarbonization</td><td>% reduction in absolute full lifecycle CO_2 emissions (Base year: 2017)</td><td>22%</td><td>2030</td></tr>
<tr><td rowspan="2">% reduction in absolute scope 1 + 2 CO_2 emissions (Base year: 2017)</td><td>28%</td><td>2025</td></tr>
<tr><td>55%</td><td>2030</td></tr>
<tr><td>% of renewable energy in electricity consumption</td><td>100%</td><td>2030</td></tr>
<tr><td rowspan="6">Zero waste</td><td>Quantity of fossil-based plastics used in packaging</td><td>Will peak and begin to decline</td><td>2030</td></tr>
<tr><td>Quantity of innovative film-based packaging penetration for Kao and others per annum</td><td>0.3 billion</td><td>2030</td></tr>
<tr><td>% recycling rate of plastics involving Kao</td><td>50%</td><td>2030</td></tr>
<tr><td>% of recycled plastic used in PET containers (Japan)</td><td>100%</td><td>2025</td></tr>
<tr><td>% of the waste generated from Kao sites*, ratio of waste that cannot be recycled* Beginning with production sites</td><td>0
(less than 1%)</td><td>2030</td></tr>
<tr><td>% reduction of discarded products and discarded promotional materials (Base year: 2020)</td><td>95%</td><td>2030</td></tr>
<tr><td rowspan="2">Water conservation</td><td>% reduction in full lifecycle water use per unit of sales (Base year: 2017)</td><td>10%</td><td>2030</td></tr>
<tr><td>% of sites that achieved the individually set water management (related to water withdrawal) targets for manufacturing sites in drought areas◆</td><td>100%◆</td><td>2030</td></tr>
<tr><td>Air & water pollution prevention</td><td>% of plants which disclose VOC and COD emissions</td><td>100%</td><td>2025</td></tr>
<tr><td colspan="5">Walking the right path</td></tr>
<tr><td rowspan="15"></td><td rowspan="2">Effective corporate governance</td><td>Kao recognition or achievement level by external ratings firms</td><td>Highest evaluation level</td><td>Yearly</td></tr>
<tr><td>Number of serious compliance violations* per annum
* Compliance violations that have a significant impact on management and significantly damage corporate value</td><td>0</td><td>Yearly</td></tr>
<tr><td>Full transparency</td><td>% of consumer product brands for which people can easily access complete ingredients information</td><td>100%</td><td>2030</td></tr>
<tr><td>Respecting human rights</td><td>% response rate to human rights due diligence (risk assessment across internal, suppliers, and contractors respectively)</td><td>100%</td><td>2030*
* Suppliers: 2025</td></tr>
<tr><td rowspan="2">Inclusive & diverse workplaces</td><td>Score on “Inclusive organizational culture” in our employee engagement survey (perfect score: 100)</td><td>75</td><td>2030</td></tr>
<tr><td>% of female managers related to that of female employees*
*Calculated as a weighted average based on the number of management positions at each group company◆</td><td>100%◆</td><td>2030</td></tr>
<tr><td rowspan="4">Employee wellbeing & safety</td><td>Lost time accident frequency rate (per million hours worked)</td><td>0.15◆</td><td>2030</td></tr>
<tr><td>Average number of lost long-term work days (days/people) * Starting from Japan</td><td>105</td><td>2030</td></tr>
<tr><td>Ratio of employees who have lost long-term work days per one thousand employees * Starting from Japan</td><td>0.12</td><td>2030</td></tr>
<tr><td>Score on “Vitality” in our employee engagement survey (perfect score: 100)</td><td>70</td><td>2030</td></tr>
<tr><td rowspan="2">Human capital development</td><td>Score on “Organizational culture in which employees are encouraged to take on challenges” in our employee engagement survey (perfect score: 100)</td><td>80</td><td>2030</td></tr>
<tr><td>Score on “Work style satisfaction” in our employee engagement survey (perfect score: 100)</td><td>75</td><td>2030</td></tr>
<tr><td rowspan="2">Responsible chemicals management</td><td>% of chemical products and raw materials with disclosed information of benefits and safety to ensure safe usage for our customers</td><td>100%</td><td>2030</td></tr>
<tr><td>% 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</td><td>100%</td><td>Yearly</td></tr>
</table>

◆Changes in indicators and target values

Please refer to Kao Sustainability Report 2025 issued in May 2025 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 a 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 KLP and are carrying out activities.

* TCFD: Task Force on Climate-related Financial Disclosures

1) Governance

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

2) Strategy

A global average temperature increase of 4°C due to climate change will pose an immense impact on society. As such, we recognize the importance of making significant contributions toward the aim to limit the global temperature increase to 1.5°C. We assess financial impacts under scenarios based on 1.5°C and 4°C temperature increases. The financial impact is calculated as the amount of loss if no action is taken, such as price pass-on. The financial impact of transition risks in 2050 is projected to be up to 79.1 billion yen from the palm oil price increase, up to 25.4 billion yen from a carbon tax, and up to 7.9 billion yen from plastic packaging containers if no action is taken. In both scenarios, the risk of palm oil procurement includes higher costs due to supply shortages relative to demand. In response to this risk, the Company is developing raw materials for high-performance agents such as bio-IOS and alternative raw materials. By strategically taking the initiative to differentiate our company through innovation, we can not only reduce risks but also create new business opportunities.

The financial impact of physical risks is projected to be approximately 4 to 4.6 billion yen due to flooding and other factors. Opportunities to contribute to mitigation include increased demand for water- and energy-saving products and products that reduce plastic waste in Consumer Products business, and for products that help customers reduce climate change risks in Chemical Business. Opportunities for adaptation include increased demand for UV care, self-tanning, and other skin protection products that comply with global warming, as well as for products that reduce the risk of infectious diseases, such as disinfectants, detergents, and repellents. We will mitigate risks and create business opportunities by promoting product development in line with the Kao Sustainable Product Development Policy.

Main Business Risks and Opportunities

<table>
<tr><th colspan="3" rowspan="2"></th><th rowspan="2">Assessment items</th><th rowspan="2">Assessed financial impact</th><th colspan="2">Financial Impact in 2050
(Unit: 100 million yen)
*Amount of loss if no action is taken, such as price pass-on</th><th rowspan="2">Kao’s response</th></tr>
<tr><th>1.5°C scenario</th><th>4°C scenario</th></tr>
<tr><td rowspan="7">Risk</td><td rowspan="6">Transition</td><td rowspan="3">Policy and Legal</td><td>Introduction and/or raising of carbon tax</td><td>Higher operating costs due to the introduction and increase of carbon tax</td><td>−254</td><td>−93</td><td>• Set 2030 Scope 1+2 emissions reduction target and promote systematic capital investment</td></tr>
<tr><td rowspan="2">Introduction of restrictions on plastics</td><td>Taxation of fossil-derived packaging materials</td><td>−79</td><td>–</td><td>• Reduce innovation: Reduce plastic usage through innovative packaging
• Reduce product waste: Enhance e-commerce, inventory refinement through AI forecasting</td></tr>
<tr><td>Cost increases due to mandatory use of recycled plastic</td><td>−46</td><td>–</td><td>• Recycling innovation: Develop Film-to-Film recycling technology that achieves both quality and cost, and establish a recycling system with stakeholders.</td></tr>
<tr><td rowspan="3">Market</td><td>Energy price increase</td><td>Fluctuations in electricity retail prices</td><td>−11</td><td>−11</td><td>• Sourcing of renewable energy: Adopt corporate PPA to secure long-term stability at fixed prices, etc.
• Promote introduction of photovoltaic power generation equipment</td></tr>
<tr><td rowspan="2">Raw material price increase</td><td>Higher prices of fossil-based raw materials</td><td>–[1]</td><td>–[1]</td><td>• Continue to study reduction of fossil-based raw materials by deepening product design</td></tr>
<tr><td>Higher procurement costs for palm oil[2]</td><td>−791</td><td>−761</td><td>• Maximize utilization of palm oil, a limited resource: Develop raw materials for high-performance agents (bio IOS)
• Promote research and development of usage of alternative raw materials (algae-derived oils, unused biomass, CO_2, etc.)</td></tr>
<tr><td>Physical</td><td>Acute</td><td>Intensification of extreme weather</td><td>Increase in flood damages</td><td>−4</td><td>−46</td><td>• Establish a production system that takes BCP into account
• Conduct risk surveys for suppliers</td></tr>
<tr><td>Opportunity</td><td colspan="2">Product and Service</td><td colspan="4">Mitigation
• Consumer Products Business: Expand ethical products (water-saving, energy-saving, plastic waste reduction, third-party certified label products, etc.) business
• Chemical Business: Develop and sell products that help customers reduce climate change risks
• Common: Promote products utilizing CCUS (CO_2 utilization) technology
Adaptation
• Enhance products that contribute to clean and comfortable living even in higher temperatures (detergent, antibacterial, antiperspirants, repellents, etc.)
• Enhance products that protect skin from strong sunlight (Skin Protection business)
• Sales target of Skin Protection business (UV care, self-tanning, repellents, etc.) in 2030: 100 billion yen</td><td>• Promote product development in line with the Kao Sustainable Product Development Policy
• Promote sales of Sustainable Chemical Products</td></tr>
</table>

(1) At the time of the survey, raw material prices had already spiked and remained high due to heightened geopolitical risks and did not appear as a financial impact.
(2) Future prices were estimated by introducing a multiple regression analysis method based on past palm oil/kernel oil price trends.

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.

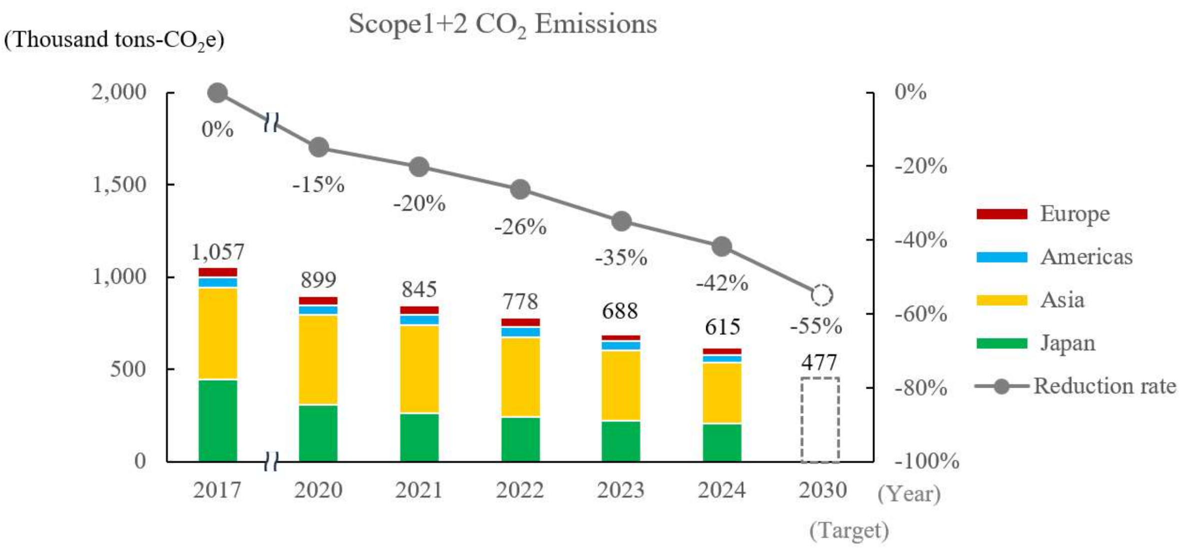
The tables and graph below show CO_2 emitted by the Kao Group. In 2024, we achieved a 42% reduction of Scope 1 + 2 CO_2 emissions compared to the base year 2017 by implementing initiatives to promote the sourcing of renewable energy at our plants in the Philippines, Thailand, Vietnam, Indonesia, Malaysia, the U.S., and Mexico, and to increase the ratio of renewable energy to total electricity consumption, including in-house power generation facilities, at our plants in Kawasaki and Malaysia. We will continue to introduce low-carbon equipment and use renewable energy.

Scope 1 CO_2 emissions Thousand tons-CO_2e

	2017	2020	2021	2022	2023	2024
Total	653	616	605	595	539	503
Japan	271	242	244	240	223	206
Asia	290	278	264	256	237	221
Americas	43	45	45	51	46	41
Europe	49	51	50	48	34	35
Reduction rate	0%	−6%	−7%	−9%	−17%	−23%

Scope 2 CO_2 emissions Thousand tons-CO_2e

	2017	2020	2021	2022	2023	2024
Total	404	282	240	183	149	112
Japan	173	68	19	3	0	0
Asia	208	208	213	173	143	109
Americas	14	6	8	7	5	2
Europe	8	1	1	1	0	1
Reduction rate	0%	−30%	−41%	−55%	−63%	−72%



Please refer to Kao Sustainability Report 2025 to be issued in May 2025 for more details.
https://www.kao.com/global/en/sustainability/pdf/sustainability-report/

(3) Human Capital

Maximizing the power and potential of our *human capital*, our greatest strength and asset, is an important theme that supports our *Global Sharp Top* strategy to achieve the Mid-term Plan K27. We will create an environment and a corporate culture in which both individuals and the company can grow together by providing equitable opportunities for diverse human capital, unlocking the full potential of all employees, and maximizing their power and potential 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 the 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.

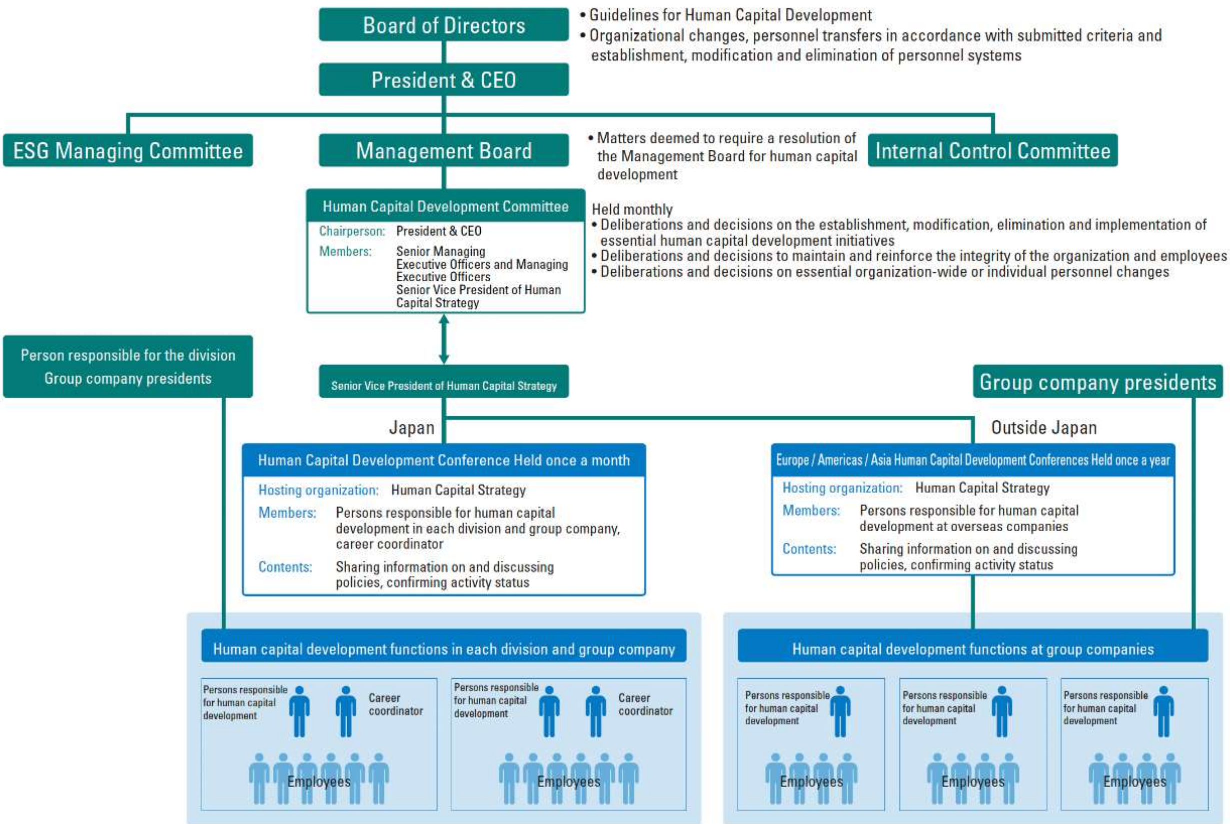
In addition, to promote activities across the Group, we have introduced a framework that is shared and utilized globally. For example, we make use of human capital information via a global human capital information system and bolster our human capital management and development through Objectives and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

We pursue these activities under Senior Vice President of Human Capital Strategy in collaboration with the human capital development- related functions of each company in the Group.

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

The Human Capital Development Conference, which is made up of the people responsible for human capital development in major functions and domestic subsidiaries, meets 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

To maximize the power and potential of employees of the Kao Group, which underpins its sustainable growth, it is important that we establish effective human capital/organization development strategies and framework of initiatives, which is in line with our philosophy and business targets and implement related measures effectively and efficiently. We have established the Guidelines for Human Capital Development, which constitutes the premise for our approach to these initiatives, based on the Kao Way and Kao Business Conduct Guidelines.

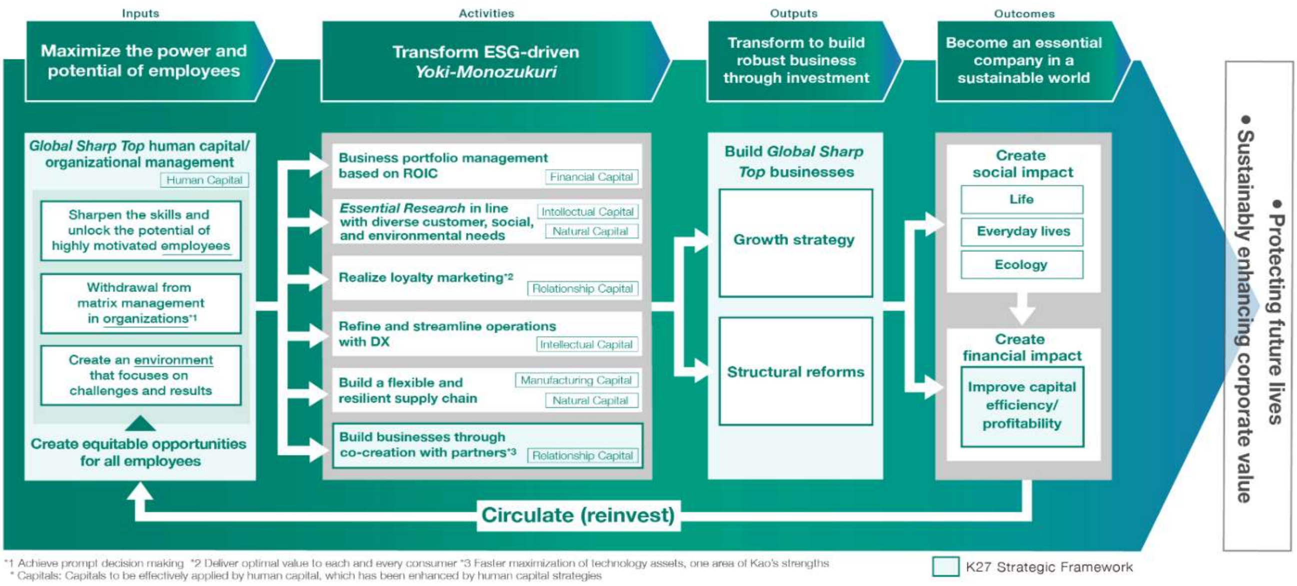
Guidelines for Human Capital Development

- Pursuit of efficiency
  Continuously improve overall efficiency based on creative and innovative activities aimed at the sustainable growth of the Kao Group through *Yoki-Monozukuri*.
- Respect for human dignity
  Provide a work environment where each individual's dignity is respected, and which makes full use of employees' autonomy and diversity, since the enthusiasm of all employees to display their boundless wisdom is the wellspring of creation and innovation.
- Efforts aimed at integration
  Integrate organizational efforts and individual efforts through creative and innovative activities so as to achieve evolution for all. Make efforts to improve policies in order to offer all individuals freedom to display wisdom, and to enable combined individual efforts to lead the Kao Group to further prosperity.

We have moved forward with activities to develop human capital based on the directions for activities aimed at realizing the guidelines: “From equality to equity,” “From the relative to the absolute,” and “From the uniform and formal to the diverse and having initiative.”

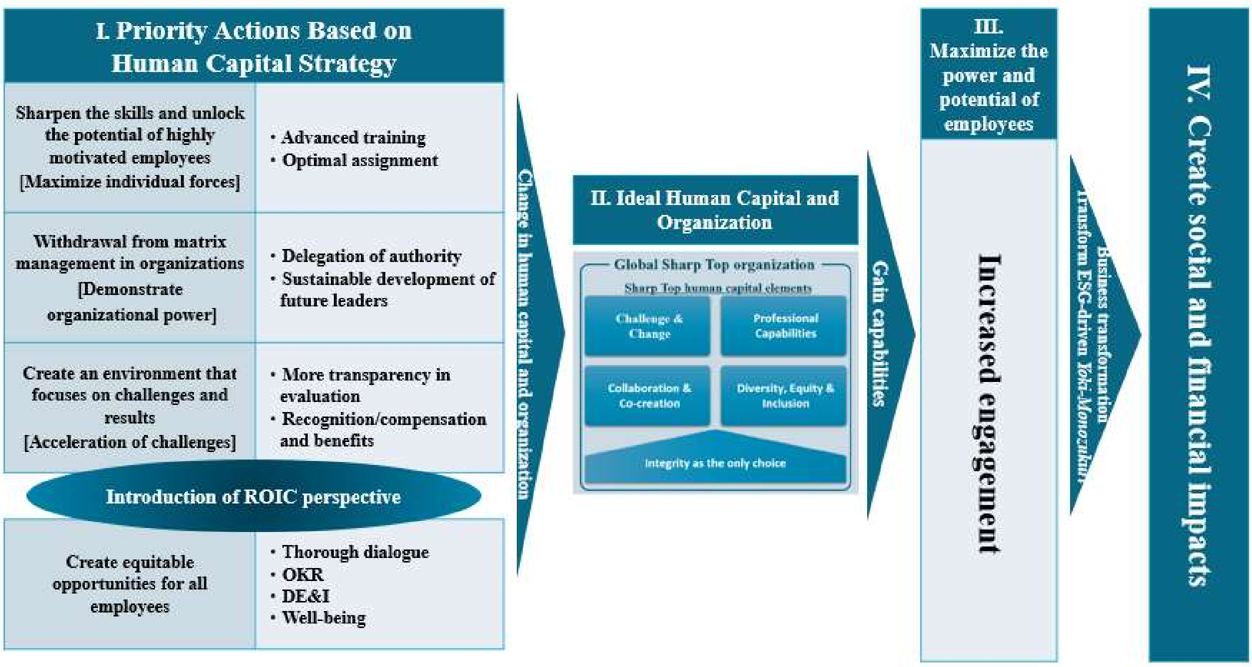
Based on these directions, to realize the vision in K27 “Protecting future lives,” under the *Global Sharp Top* strategy, we will become an essential company in a sustainable world by further evolving *Yoki-Monozukuri* and transforming ourselves into a company that builds robust business through investment. To this end, in human capital, the driving force behind this transformation, we invest in the human capitals who are more positive and self-motivated, by focusing on dialogues at the core. Specifically, we have set the following human capital strategies: “Sharpen the skills and unlock the potential of highly motivated employees,” “Withdraw 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 these strategies, we will implement priority actions to transform both the human capital and organization into *Global Sharp Top* human capital and organization that have the capabilities necessary to realize K27, maximizing the power and potential of employees and create social and financial impacts efficiently.

A value creation cycle toward enhancing corporate value



Human capital strategies toward K27

Creating outcomes through human capital development



We properly examine the effectiveness of each of the initiatives. We also periodically monitor employees' satisfaction and motivation by conducting an employee engagement survey. To maximize the power and potential of our employees, since 2023, we have conducted an employee engagement survey (called "KES") by first "visualizing the statuses of employees and the organization," and then "discovering issues in managing the organization and identifying actions to effectively improve workplaces," and finally "implementing these actions at each workplace, thereby providing employees with a sense of satisfaction to ultimately improve their engagement." In 2024, the Kao Group conducted the survey on a global scale, including those at subsidiaries outside of Japan, analyzed and identified major factors both group-wide and at each organization and swiftly implemented all the available actions. We aim to create a comfortable work environment that leads to the achievement of long-term business goals by continuing to confirm/verify outcomes at each workplace and to work on corresponding initiatives for improvement.

a. Sharpen the skills and unlock the potential of highly motivated employees: Advanced training
We are strengthening the development of highly motivated human capital who can maximize the potential of the Kao Group by the understanding of diversity, collaboration, and cooperation based on the Kao Way. To help each of our employees further improve their strengths and grow stronger as a team, we have put in place a range of training programs to help them sharpen their transformation ability, professional expertise, adaptability to diversity, co-creation ability, and the ability to stay on the right track. These training programs include the programs shared across the Group, specialized programs designed for each department, and more than 9,000 self-development programs to support employees to learn on their own, jointly with others, and continue learning.

b. Sharpen the skills and unlock the potential of highly motivated employees: Optimal assignment
The Kao Group has engaged in a strategic assignment of employees which is linked to our corporate strategy. Specifically, we drive business growth and innovation by speedily assigning our employees to appropriate roles in consideration of the areas for growth and the areas for improving efficiency on a global scale. Our subsidiaries both in Japan and abroad have 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 2024, we have expanded our internal recruitment to cover the entire Kao Group, including its subsidiaries both in Japan and abroad, to look for members to join new businesses and projects for the realization of a *Global Sharp Top* corporate group. The expanded scheme helps to 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 are strengthening the organizational structure necessary to achieve our corporate strategy. At the same time, we are offering more opportunities for employees eager to take on challenges and shape their own careers, thereby improving the organizational climate toward autonomous career development.

c. Withdrawal from matrix management in organizations: Delegation of authority
We are enhancing a matrix structure that takes advantage of the professional expertise of businesses/functions and are working to implement scrum-style management in a way that is centered on maximizing the speed and scale of responses to priority issues. Through these initiatives, we are facilitating decision-making and implementation at actual sites (*Genba)*.

d. Withdrawal from matrix management in organizations: Sustainable development of future leaders
We systematically develop business leaders toward creating human capital and an organization for *Global Sharp Top* businesses. Specifically, we identify core human capital suitable as future candidates for key positions in senior management and specialist positions at an early stage, and then assign them positions and challenges. In addition, we provide those in management positions with a 360-degree assessment to help them identify their strengths and weaknesses in their leadership management practices. After the assessment, we provide them with group training opportunities to allow them to reflect upon their past behaviors, as well as optional learning programs relating to ambition, challenges, and co-creation to encourage their autonomous learning.

e. Create an environment that focuses on challenges and results: More transparency in evaluation
We set Objectives and Key Results (OKR) targets which help evaluate employees by taking into account medium- to long-term time horizons and the directions of the organizations they belong to. At the end of each fiscal year, we assess a diversity of challenges they took on including their contributions and related processes basically during a year, in addition to the progress of OKR. Further, we conduct activities to share and recognize each other's accomplishments (meetings to share their experience/achievements of challenges) to create a corporate culture that encourages its employees to take on challenges. At the end of every fiscal year, each employee is evaluated from a range of clearly-defined perspectives including, the level of difficulty, creativity, co-creation and collaboration, efficiency, and autonomy, etc. This method makes clear the key points in communicating feedback, makes the evaluation more convincing, and contributes to enhancing its transparency.

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.
The Kao Group also believes that it is important to nurture and stimulate the willingness of its employees to develop own abilities and improve operating performance, evaluate and appreciate fairly their efforts and accomplishments, and share such efforts and accomplishments broadly across its employees, and present them as role models to be sought for by employees. To this end, the Group selects the initiatives of organizations/individuals that made notable achievements in terms of the level of challenges they had taken on, creativity, the degree of contribution, important perspectives for the division and the type of job, and grant a Division Award to the division they belong to. Then, among the activities of the winner of the Division Award, we carefully select those activities that helped promote the *Global Sharp Top* strategy and made a significant contribution to business and grant them a CEO Award in January of the following year, and announces such activities/contributions group-wide. Through these activities, the Group nurtures awareness and corporate culture for taking on challenges in our global business field and withdrawal from matrix management in organizations.

g. Create equitable opportunities for all employees: Thorough dialogue
While we work on a variety of activities to maximize the power and potential of employees, thorough dialogue constitutes a basis for practicing these activities. We believe it is important that each employee frequently have a dialogue with their supervisors, colleagues, and members of other divisions to better understand the strategies and direction of the Company, and how the activities of each employee are linked to an increase in corporate value. To drive a such better understanding, we hold the Dialogue Festival at the Company and its subsidiaries in Japan every year.

h. Create equitable opportunities for all employees: OKR
It has been four years since we introduced the Objectives and Key Results (OKR) approach in 2021. Our employees better understand and use the approach more broadly today. In fact, a review we conducted in 2024 shows that more than 70% of our employees have set goals and are practicing activities that help both individual employees and organizations develop, which is an evidence that a corporate culture that encourages employees to take on challenges is firmly in place. In addition, since 2025, each division has moved forward with activities to review and align OKR of individual employees based on ROIC perspective, one of its KPIs. More specifically, divisions create an ROIC Reverse Tree based on which employees link their individual targets to contribution to the organization they belong to through dialogues with their supervisors.

i. Create equitable opportunities for all employees: DE&I
Under the DE&I Policy to realize a society in which all people can thrive authentically while collaborating with all stakeholders, we have worked on initiatives for our employees with the aim of realizing the Kao Group which is inclusive and equitable organization where diversity is valued and is seen as our strength. Seeking to raise the cognitive diversity of the organization and to make such cognitive diversity as one of its organizational strengths, as activities to promote diversity and equity, we are committed to providing support and establishing a workplace environment where each one of our human capital can work comfortably and obtain equitable opportunities. In addition, as activities to promote inclusion, we have worked to foster an inclusive organizational culture where all employees can better understand and practice and thrive while accepting themselves as they are.
*Cognitive diversity: Internal diversity relating to recognition including the perspectives and ways of judging things

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/

- Framework
The Human Rights and DE&I Steering Committee carries out group-wide DE&I promotion activities. Among such activities, for employees, the Human Capital Strategy at the Company has reflected DE&I perspectives 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.

- DE&I promotion activities
Improving a work environment that makes the most of diversity
While employees have become increasingly diverse, we have worked to build work-friendly and flexible work environments and styles. One of such work styles is a work-from-home option. At the moment, we have worked to promote an optimum work style tailored to their duties and roles of each employee rather than standardized rules so that employees can further unleash their creativity through dialogues and co-creation with other employees. In addition, we have introduced and made use of 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 efficiently with peace of mind, while ensuring their safety.

Women’s empowerment
We are working on activities to promote women’s empowerment, primarily 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. In an effort to increase the pipeline of women in decision-making positions, we have set a target of increasing the percentage of female managers related to that of female employees to 100% by 2030 and are working on three priority actions.

Female in 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

Notes: 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.

Female employees

	2022			2023			2024		
	Employees (%)	Managers (%)	Percentage of female managers related to that of female employees*1 (%)	Employees (%)	Managers (%)	Percentage of female managers related to that of female employees*1 (%)	Employees (%)	Managers (%)	Percentage of female managers related to that of female employees*1 (%)
The Group	52.9	30.5	75.9	53.1	31.1	76.2	53.2	32.6	78.1
The Company and its domestic subsidiaries	55.9	22.4	65.9	56.0	24.6	67.3	56.5	26.5	69.7
Asia	44.6	47.6	104.2	44.2	45.9	102.8	44.2	46.0	103.7
Europe	49.9	40.8	82.6	52.4	44.8	86.2	52.5	45.0	83.6
Americas	51.2	53.3	95.5	53.0	48.6	94.2	48.6	46.7	97.2

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.

*1. Calculated as a weighted average based on the number of management positions at each company

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**

Among these measures, for the development of potential future leaders, we dispatched a total of 62 female employees who belonged to each layer of the positions from immediately below managerial positions to executive candidates to outside training programs for female leaders. As a result, a total of 31 participants in these programs have been promoted to higher positions. We have also worked to change the mindset of our female employees. To this end, we have continued to hold small-group roundtable talks participated by a former female executive and candidates for section heads since 2021. For the objectives of changing mindset positively toward career advancement and expanding their network to sympathize each other across the divisions, we held in-person and online meetings eight times, totally 27 female employees participated in the meetings as opportunities to share concerns and issues and finds solutions to their issues through dialogues. Further, in 2024, we held career panel discussion online, presenting female leaders in the positions of department heads as role models, at study sessions that are voluntarily planned and operated together with companies from various industries sharing the same willingness to promote women's empowerment. This discussion brought together more than 200 female employees from companies including Kao Corporation, resulting in positive changes in mindset towards career advancement and leadership.
As a result of these efforts, the percentage of female managers has been increasing year by year. As of December 31, 2024, the percentage of female managers related to that of female employees* reached 69.7% at the Company and its domestic subsidiaries.

*Calculated as a weighted average based on the number of management positions at the Company and its domestic subsidiaries.

The gender pay gap, one of the indicators of women's advancement, is 89.5% 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, we will 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.

Fostering an inclusive organizational culture
Toward developing an organizational culture centered on dialogues, we have been focusing on psychological safety and unconscious bias as one of our key subjects in raising awareness. In 2024, we provided the e-learning program titled "Basic Knowledge of Unconscious Bias" to managers and "Basic Knowledge of Psychological Safety" to non-managers as a mandatory e-learning program.
As a result of these efforts, the score for "Inclusive organizational culture" in our employee engagement survey was 63. 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 mental and physical health of our employees is the source of our business activities, as well as an important factor in maximizing individual growth and organizational growth. 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 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

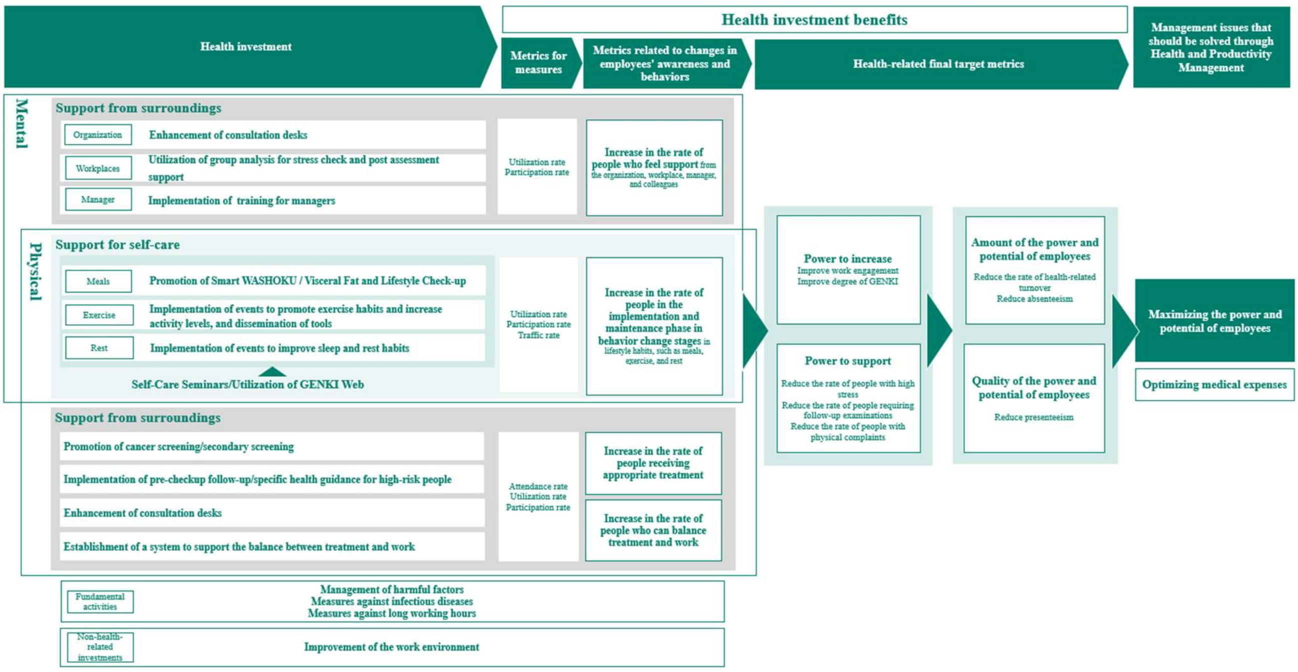
Along with promoting healthy bodies, we are striving to expand reliable healthcare based on evidence from inside and outside the company not only for employees and their families but also for communities, workplaces, and consumers. Together we will realize healthy and enriched lives for all.

- 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. Under the Kao Health 2025, 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.

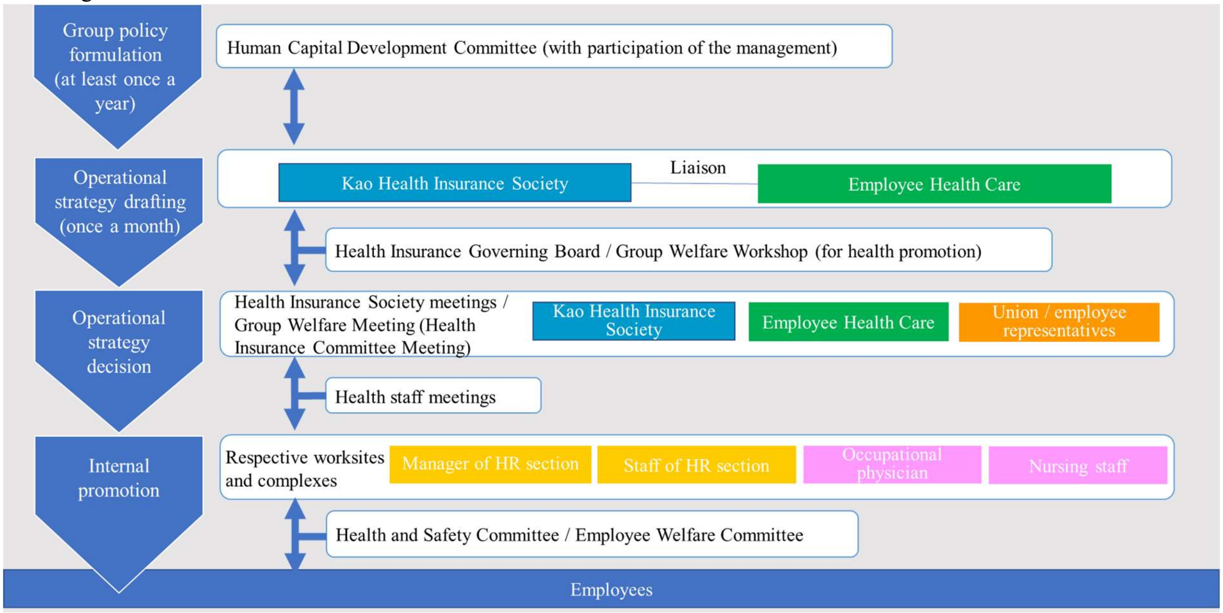
- Strategic roadmap for Health and Productivity Management

  To maximize the power and potential of employees and reduce medical expenses, the Company draws up a strategic roadmap for achieving the Health and Productivity Management.



- Organizational framework
  Kao Health Insurance Society and Employee Health Care have collaborated to jointly formulate plans for health initiatives. We also assign the manager and staff of the HCD function at every workplace or area, 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

In managing risks associated with human capital development, we have implemented necessary measures by identifying related risks not only from a short-term perspective but also from the perspective of retaining and securing talented human capital over the medium- to long-term. Also, in view of revisions to laws and regulations and changes in social trends, the Human Capital Strategy division comprehensively deliberates on these risks after confirming the feedback from employees obtained through opportunities such as Employee-Management Dialogue Meetings, engagement surveys, opinions of external experts, etc. The Internal Control Committee looks into identified risks, and Senior Vice President of Human Capital Strategy and people responsible for the Human Capital Strategy division from each division/company identify issues to be addressed and discuss countermeasures at a Human Capital Development Meeting they participate in. For measures that will have a significant impact on the entire Group, the Human Capital Development Committee chaired by President & CEO discusses and implement such measures.

4) Metrics and targets

I. Actions Based on Human Capital Strategy			
2022	2023	2024	Target value 2027
Investment in employee training (compared to 2020)			
1.3x	1.53x	2.02x	2.5x
DX human capital (compared to 2020)			
1.5x*2	7x*2	10x*2	15x*2
Personnel transferred through internal recruitment (compared to 2020)			
–	4x*2	16x*2	20x*2
Ratio of mid-career recruitment in total recruitment (compared to 2020)			
0.9x	1.8x*2	1.9x*2	3x*2
KES score: Fair evaluation			
–	60*1	61	70
KES score: Dialogue			
–	63*1	64	70
KES score: Work style satisfaction			
–	60*1	63	65
Percentage of female managers related to that of female employees *4			
75.9%	76.2%	78.1%	90%
KES score: Vitality			
–	59*1	61	70

II. Ideal Human Capital and Organization - Global Sharp Top human capital / organization -			
2022	2023	2024	Target value 2027
Challenge-oriented human capital			
25%*2*3	58%*2*3	71%*2*3	75%*2*3*5
KES score: Organizational culture that encourages challenges			
-	61*1	63	70
KES score: Degree of promotion of Scrum-type operation			
-	57*1	58	70
KES score: Inclusive organizational culture			
-	62*1	63	70

III. Maximize the power and potential of employee			
2022	2023	2024	Target value 2027
Employees engagement (Total score in KES)			
-	63*1	65	75
KES score: Workplace satisfaction			
-	61*1	62	70

IV. Create Social and Financial Impacts			
2022	2023	2024	Target value 2027
Efficient impact creation (compared to 2022)			
100%	92%	120%	150%

Efficient impact creation = Added value / Total annual hours workload

- 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.
- KES refers to Kao Engagement Survey.

*1. The number of respondents including non-regular employees of the Kao Group was 27,460.
*2. Only consolidated subsidiaries in Japan
*3. Employee awareness survey
*4. Calculated as a weighted average based on the number of management positions at the Company and its subsidiaries
*5. Numerical target was revised upward from 60% to 75%.

3. Business Risks and Other Risks

Forward-looking statements contained in this section are based on assumptions that management believes to be reasonable as of the end of the fiscal year ended December 31, 2024 and may differ significantly from actual results due to various factors.

(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 14 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 every six months 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 (responsible persons: Executive Officer). 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, 2024. There are risks other than the listed risks that may affect investors’ decisions.

(2) Main Risks

Among the 14 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		→
Large-scale earthquakes, other natural disasters, and accidents	○	↗
Geopolitics	○	↗
Information security	○	↗
Responses to social issues	○	→
Quality of products and other items	○	→
Reputation	○	→
Pandemics	○	↘
Securing human capital		→
Changes in the retailing environment		→
Business investment		→
Compliance		→
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 securing 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.

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.

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 of its business.

The Kao Group addresses this main risk of geopolitics as a corporate risk.

Information security

Background

The Kao Group uses IT and AI 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, with Computer Security Incident Response Team (CSIRT) and Security Operation Center (SOC) in place. 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 response to cyber-attacks as a corporate risk.

Response to social issues
Background Climate change, the marine plastic waste problem, depletion of water resources, loss of biodiversity, pollution by hazardous chemicals, environmental and human rights issues throughout the value chain, including raw material procurement, and growing social issues such as the aging society and hygiene problems 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 in a highly transparent manner 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. Meanwhile, if the Kao Group refrains from actively disclosing or disseminating ESG information for fear of greenwashing, it may be perceived as greenhushing*2 and leads to the risk of declining the trust from society and customers. • As for climate change-related risks, there are transition risks (introduction and/or raising of carbon tax, introduction of restrictions on plastics, energy price increase, and raw material price increase) and physical risks (intensification of extreme weather) as listed in "Main Business Risks and Opportunities" in "2. Approach to Sustainability and Related Initiatives, (2) Responses to Climate Change (Disclosures Consistent with the Recommendations of the TCFD)." • If the Kao Group's consideration for human rights infringement or respect for human rights is perceived as insufficient, such perception could affect its ability to continue business activities, such as maintaining value chains. • If the Kao Group fails to respond appropriately and promptly to revisions to regulations on chemical substances, not only its business activities may be affected but also its credibility from society and customers may decline. *Responses* With the aim of both helping to achieve business growth and contribution to society, the Kao Group established four ESG steering committees under the ESG Managing Committee 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 issues and gaining an understanding of related opportunities and risks from the perspective of social, environmental, and business impact to make and promote response plans. The Kao Group thus has reliably implemented ESG *Yoki–Monozukuri*. The Kao Group responds to climate change under the above governance structure. Its countermeasures against each risk are described in "Kao Group's strategy" for the transition and physical risks as listed in "Kao's response" in "Main Business Risks and Opportunities" in "2. Approach to Sustainability and Related Initiatives, (2) Responses to Climate Change (Disclosures Consistent with the Recommendations of the TCFD)." Toward the goal of zero human rights violations, the Kao Group conducts a risk assessment of its value 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. Greenhushing: Refraining from disclosing or disseminating information about a company's environmental initiatives and climate change measures for fear of greenwashing.

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 consumers and customers, 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 society include diversification of consumer values regarding quality, growing concerns about the safety of chemical substances, awareness of environmental issues, and demand for corporate transparency in information disclosure. In addition, cross-border manufacturing and product distribution have been expanding globally. Meanwhile, countries and regions have begun moving to create new legal and regulatory frameworks with the aim of a sustainable society and stronger consumer protections.

Under these circumstances, 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.

Reputation

Background

The evolution and spread of social media have caused the communication methods of individuals and companies to diversify, enabling them to distribute information promptly and broadly. While companies are now able to enhance their engagement with consumers through diverse marketing activities on social media, as negative information and misunderstanding spread instantaneously, companies need to remain highly cautious of reputation risk, which could undermine their reputation and brands. Reputation risk could bring both financial and non-financial loss to companies.

Risks and impact

- The Kao Group disseminates diverse information and is engaged in various marketing activities. However, the spread of negative evaluations or misunderstandings about inappropriate or careless expressions used in these activities on social media or other means could constitute reputation risk to ultimately undermine its brand value and corporate credibility.
- Business activities entail a variety of risks. In cases where these risks materialize, the responses and stances of companies may be questioned on social media. In these cases, companies have to address both reputation risk and materialized risks. Inability to respond appropriately to these risks could undermine their brand value and credibility.

Responses

To prevent the use of inappropriate expressions in advertising, the Kao Group has put in place a pre-check system from the perspective of ESG and has also focused on internal education. The Group also strives to discover risks at an early stage by monitoring social media both inside and outside Japan. In the event a risk materializes, the Kao Group publicly announces correct information and corporate stance to maintain the Group's reputation (credibility).

The Kao Group addresses this main risk of reputation as a corporate risk.

Pandemics
Background COVID-19 has entered an endemic* phase and is now classified as a general infection prevention measures. However, there still are concerns about possible pandemics caused by emerging or re-emerging infectious diseases, etc. that are immune to antibiotics. *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* The Kao Group addresses strengthening the response to the pandemic as a corporate risk, and has revised its guidelines, is formulating action plans for each country, and is reviewing stockpiles, etc. based on its experience during the COVID-19 pandemic.

* Endemic: Repeated presence of an infectious disease in a particular region at a constant prevalence rate or in a particular season

Securing human capital
Background An important theme that underpins the Kao Group's "Global Sharp Top" strategy is to maximize the vitality of human resources, which are our greatest strength and asset. However, competition for human resources is intensifying globally, and the values of individual careers and work styles are more diverse than ever. *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* The Kao 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.

Changes in the retailing environment
Background In recent years, with the rapid evolution of digital tools and the spread of social media, the retailing environment and purchasing behavior of consumers have been changing constantly and dramatically. In fact, the retailing environment has become increasingly diversified and complicated with the expansion of new e-commerce (EC) channels, including major EC platforms, direct-to-consumer (D2C) platforms, social commerce*1 and live-commerce.*2 Further, with the development of seamless consumer purchasing between physical stores and EC stores (OMO*3), consumers have come to demand more convenient and personalized purchasing experience. As for logistics, increases in logistics costs have become prominent in the face of the shortage of drivers and soaring fuel costs. Furthermore, companies are required to streamline logistics, as shippers, by shortening the time for drivers to wait for cargos to be loaded and to transport them and improving loading rates, for instance, to comply with the revised Act on Advancement of Integration and Streamlining of Distribution Business, which is aimed at addressing the issue of truck driver shortage. *Risks and impact* • Inability to respond adequately to increasingly diversified and complicated retailing environment and purchasing behaviors could hamper the Kao Group’s sales and marketing activities, making it difficult for the Group to attain targets for net sales, market share, and profits. • 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* To address these changes in the retailing environment, the Kao Group has implemented measures to respond to changes in the purchasing behavior of consumers, such as working with companies specializing in EC, promoting OMO with retail businesses, and conducting live-commerce on its own. The Group has also made proactive efforts to increase the membership of Kao official account on SNS Kao Tokutoku News. As a result, the number of members increased to 8.30 million (2.2 times the number in the previous year). The Kao Group has been strengthening co-creation with retail businesses by, for example, transmitting information to members and directing consumers to stores through campaigns. Furthermore, the Kao Group has deployed My Kao, a new interactive digital platform that connects the Group directly with consumers, to disseminate fresh and reliable information that is useful to them, and operates sites such as a Kao official online store and My Kao Member Salon for creating better products and services jointly with consumers. Through such direct communication with consumers, the Kao Group has continued activities that not only improve convenience for consumers but also build up their trust in and loyalty to the Kao brand even amid the diversifying 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, standardizing logistics, and improving loading efficiency, among others.

*1. Social commerce: An e-commerce format to sell products and services via social media
*2. Live commerce: An e-commerce format to sell products and services while interacting with viewers through internet livestreaming
*3. Online Merges with Offline: A sales method to provide seamless purchasing experience by eliminating boundaries between online and offline sales

Business investment
Background The Kao Group conducts proactive capital investment and M&A for business growth and sustainability 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. • With the penetration of a hybrid work model that combines working from home and working at the office and the increasing diversification of work style, the frequency of contact at the office has been decreasing. In addition, an excessive sense of vigilance against compliance could reduce communication at the workplace and cast a negative impact on personal relationships and the workplace environment. As a consequence, harassment and compliance risks in labor management may increase. • 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.

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 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, 2024, 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 14 main risks, the Kao Group is addressing raw material procurement, response to social issues, the quality of products and other items, securing human capital, changes in the retailing environment, and business investment, 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 2024 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 2024.

(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. In the following table, the lower line of figures and growth rates for operating income and for each of the categories below it have been calculated based on core income, excluding the impacts of structural reforms for the fiscal year ended December 31, 2023.

(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)
2024	1,628.4	146.6	9.0	151.0	110.4	107.8	231.94
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
Growth	6.3%	144.3%	–	136.6%	139.1%	145.7%	145.8%
	Like-for-like: 3.3%	27.8%	–	27.4%	25.1%	25.3%	25.4%

In the global economy during fiscal 2024, geopolitical risks in Europe and the Middle East and international tensions between major powers impeded recovery. Protracted inflation and monetary tightening also weakened recovery in consumption and investment. In Japan, amid persistently high prices, the movement toward wage increases has been gaining momentum, and recovery in domestic demand has become the linchpin of economic growth. For these reasons, the business environment remained unclear.

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.

To successfully carry out its Mid-term Plan 2027 ("K27"), the Kao Group has been steadily conducting a *Global Sharp Top* Strategy to contribute as global No. 1 with leading-edge solutions that address the critical needs of customers.

Net sales increased 6.3% compared with the previous fiscal year to 1,628.4 billion yen. Currency translation accounted for a 3.0% increase and net sales increased 3.3% on a like-for-like basis (breakdown of the increase: 1.7% increase by volume, 1.5% increase by price). Operating income was 146.6 billion yen, an increase of 86.6 billion yen compared with the previous fiscal year, and the operating margin was 9.0%. Income before income taxes was 151.0 billion yen, an increase of 87.2 billion yen, and net income was 110.4 billion yen, an increase of 64.2 billion yen.

Basic earnings per share were 231.94 yen, an increase of 137.57 yen, or 145.8%, from 94.37 yen in the previous fiscal year.

Return on invested capital (ROIC), which the Kao Group uses as a management metric, was 9.2% and although capital cost increased slightly, Economic Value Added (EVA*) increased 18.3 billion yen compared with the previous fiscal year to 33.2 billion yen as net operating profit after tax (NOPAT) increased substantially.

* 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	148.22	(132.29)	155.72	(137.30)	149.44	(144.49)	152.30	(147.84)
Euro	160.99	(141.98)	167.68	(149.50)	164.04	(157.23)	162.55	(159.01)
Chinese yuan	20.63	(19.33)	21.51	(19.58)	20.84	(19.94)	21.19	(20.45)

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)				
					2023		2024		
	2023 (Billions of yen)	2024 (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	349.1	375.7	7.6	6.8	50.7 51.0	14.5 14.6	68.4	18.2	17.7 17.4
Sanitary Products	173.4	168.6	(2.8)	(5.4)	(30.6) (9.1)	(17.6) (5.2)	7.3	4.4	37.9 16.4
Hygiene and Living Care Business	522.5	544.3	4.2	2.8	20.1 41.9	3.9 8.0	75.8	13.9	55.6 33.9
Health and Beauty Care Business	392.9	424.0	7.9	4.1	40.5 42.8	10.3 10.9	34.4	8.1	(6.0) (8.4)
Life Care Business	56.3	55.9	(0.7)	(2.6)	(5.3) (1.3)	(9.4) (2.3)	6.3	11.3	11.6 7.6
Cosmetics Business	238.6	244.1	2.3	0.0	(5.4) 5.3	(2.3) 2.2	(3.7)	(1.5)	1.7 (9.0)
Consumer Products Business	1,210.3	1,268.2	4.8	2.4	49.9 88.7	4.1 7.3	112.8	8.9	62.9 24.1
Chemical Business	366.1	405.9	10.9	6.1	23.6 24.8	6.4 6.8	34.6	8.5	11.1 9.9
Total	1,576.4	1,674.1	6.2	3.3	73.5 113.5	- -	147.5	-	74.0 34.0
Elimination and Reconciliation	(43.9)	(45.7)	-	-	(13.4) 1.2	- -	(0.8)	-	12.6 (2.0)
Consolidated	1,532.6	1,628.4	6.3	3.3	60.0 114.7	3.9 7.5	146.6	9.0	86.6 31.9

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	2023	300.3	45.1	3.8	-	349.1
	2024	327.9	44.3	3.5	-	375.7
	Growth (%)	9.2	(1.8)	(8.1)	-	7.6
	Like-for-like (%)	9.2	(7.3)	(14.5)	-	6.8
Sanitary Products	2023	80.4	92.9	0.1	-	173.4
	2024	76.5	92.1	-	-	168.6
	Growth (%)	(4.9)	(0.9)	-	-	(2.8)
	Like-for-like (%)	(4.9)	(5.7)	-	-	(5.4)
Hygiene and Living Care Business	2023	380.7	138.0	3.8	-	522.5
	2024	404.4	136.4	3.5	-	544.3
	Growth (%)	6.2	(1.2)	(9.5)	-	4.2
	Like-for-like (%)	6.2	(6.2)	(15.8)	-	2.8
Health and Beauty Care Business	2023	205.3	34.5	101.2	51.9	392.9
	2024	212.1	36.7	112.5	62.7	424.0
	Growth (%)	3.3	6.2	11.2	20.7	7.9
	Like-for-like (%)	3.3	0.7	3.2	11.2	4.1
Life Care Business	2023	42.1	0.1	13.9	0.1	56.3
	2024	40.2	0.2	15.2	0.2	55.9
	Growth (%)	(4.5)	234.2	9.4	32.0	(0.7)
	Like-for-like (%)	(4.5)	219.9	1.8	19.9	(2.6)
Cosmetics Business	2023	153.5	50.0	7.7	27.4	238.6
	2024	166.5	39.1	7.9	30.6	244.1
	Growth (%)	8.4	(21.8)	2.6	11.8	2.3
	Like-for-like (%)	8.4	(26.7)	(4.6)	2.9	0.0
Consumer Products Business	2023	781.7	222.6	126.6	79.4	1,210.3
	2024	823.2	212.5	139.1	93.5	1,268.2
	Growth (%)	5.3	(4.6)	9.9	17.7	4.8
	Like-for-like (%)	5.3	(9.7)	2.0	8.4	2.4
Chemical Business	2023	133.9	86.7	61.1	84.4	366.1
	2024	138.4	105.0	68.3	94.2	405.9
	Growth (%)	3.4	21.0	11.8	11.7	10.9
	Like-for-like (%)	3.4	13.6	4.8	3.5	6.1
Elimination of intersegment	2023	(38.8)	(3.2)	(0.1)	(1.9)	(43.9)
	2024	(38.6)	(3.7)	(0.1)	(3.2)	(45.7)
Consolidated	2023	876.8	306.2	187.7	162.0	1,532.6
	2024	923.0	313.7	207.3	184.5	1,628.4
	Growth (%)	5.3	2.4	10.5	13.9	6.3
	Like-for-like (%)	5.3	(3.3)	2.9	5.2	3.3

Note: Figures for the Consumer Products Business present sales to external customers and figures for the Chemical Business include sales to the Consumer Products Business in addition to external customers. Sales by geographic region are classified based on the location of the sales recognized.

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

	Change (%)	Currency Translation (%)	Like-for-Like (%)	By Volume (%)	By Price (%)
Fabric and Home Care Products	7.6	0.8	6.8	3.3	3.6
Sanitary Products	(2.8)	2.6	(5.4)	(8.1)	2.7
Hygiene and Living Care Business	4.2	1.4	2.8	(0.5)	3.3
Health and Beauty Care Business	7.9	3.8	4.1	4.0	0.1
Life Care Business	(0.7)	1.9	(2.6)	(2.9)	0.3
Cosmetics Business	2.3	2.3	0.0	(1.6)	1.7
Consumer Products Business	4.8	2.4	2.4	0.6	1.8
Chemical Business	10.9	4.8	6.1	5.6	0.5
Total	6.3	3.0	3.3	1.7	1.5

Note: Chemical Business sales include intersegment transactions.

Net sales to foreign customers were 44.5% of net sales compared with 44.3% for the previous fiscal year.

Consumer Products Business

Sales increased 4.8% compared with the previous fiscal year to 1,268.2 billion yen. Currency translation accounted for a 2.4% increase and sales increased 2.4% on a like-for-like basis (breakdown of the increase: 0.6% increase by volume, 1.8% increase by price).

Globally, while the consumer preference for low prices continued, demand increased for high-cost-performance products offering superior quality and functionality. In the market in Japan, inflation persisted and consumer spending remained cautious. In the market in China, sluggish personal consumption persisted due to the economic slowdown and other factors. Under these circumstances, the Kao Group conducted initiatives including upgrading its marketing methods through digital transformation (DX), offering high-value-added products and adjusting selling prices to reflect that added value.

As a result, sales in Japan increased 5.3% to 823.2 billion yen.

In Asia, sales decreased 4.6% to 212.5 billion yen. On a like-for-like basis, sales decreased 9.7%. In the Americas, sales increased 9.9% to 139.1 billion yen. On a like-for-like basis, sales increased 2.0%. In Europe, sales increased 17.7% to 93.5 billion yen. On a like-for-like basis, sales increased 8.4%.

Operating income was 112.8 billion yen, an increase of 62.9 billion yen compared with the previous fiscal year, as the Kao Group improved its earning power through measures including structural reform initiatives that began in 2023.

Note: The Kao Group's Consumer Products Business consists of the Hygiene and Living Care Business, the Health and Beauty Care Business, the Life Care Business, and the Cosmetics Business.

Hygiene and Living Care Business

Sales increased 4.2% compared with the previous fiscal year to 544.3 billion yen. Currency translation accounted for a 1.4% increase and sales increased 2.8% on a like-for-like basis (breakdown of the increase: 0.5% decrease by volume, 3.3% increase by price).

Sales of fabric and home care products increased 7.6% to 375.7 billion yen. Currency translation accounted for a 0.8% increase and sales increased 6.8% on a like-for-like basis (breakdown of the increase: 3.3% increase by volume, 3.6% increase by price). Scrum-style operation facilitated faster product development and smooth promotion of high-value-added products.

Sales of fabric care products increased. In Japan, new and improved laundry detergents and other products sold strongly amid market growth spurred by factors including the increased frequency of doing laundry as the extreme heat continued until October, and both market share and sales volume increased. In addition, sales of *Wide Haiter* laundry bleach were strong, and fabric softeners were on a recovery track.

Sales of home care products increased. In Japan, market share continued to grow due to factors including an improvement for *CuCute* dishwashing detergent, and new and improved *Magiclean* brand products sold strongly. Growth in market share of toilet cleaners was particularly substantial.

Operating income for fabric and home care products increased 17.7 billion yen to 68.4 billion yen.

Sales of sanitary products decreased 2.8% to 168.6 billion yen. Currency translation accounted for a 2.6% increase and sales decreased 5.4% on a like-for-like basis (breakdown of the decrease: 8.1% decrease by volume, 2.7% increase by price).

Sales of *Laurier* sanitary napkins increased. In Japan, sales grew due to the strong performance of new high-value-added *Shiawase Suhad*a *Mochi-Fuwa (Soft and Fluffy) fit*, among other factors. Sales of *Merries* baby diapers decreased. Sales in Japan decreased due to a decline in exports to China and other countries, but market share grew. Sales in China were affected by market shrinkage and intensifying competition.

Operating income for sanitary products was 7.3 billion yen, an increase of 37.9 billion yen, due to the effects of structural reforms in the baby diaper business conducted in fiscal 2023, activities to enhance brand power and a gain recorded on the transfer of the pet care business, among other factors.

Operating income for the Hygiene and Living Care Business was 75.8 billion yen, an increase of 55.6 billion yen from the previous fiscal year.

Health and Beauty Care Business

Sales increased 7.9% compared with the previous fiscal year to 424.0 billion yen. Currency translation accounted for a 3.8% increase and sales increased 4.1% on a like-for-like basis (breakdown of the increase: 4.0% increase by volume, 0.1% increase by price).

Sales of skin care products increased. Strong sellers in Japan included *Bioré* makeup remover, UV care products and new sheet-related products. The skin protection business, including UV care products, which the Kao Group is developing as part of its *Global Sharp Top* Strategy, progressed as planned. Sales of the *Bondi Sands* premium skin care brand, which the Kao Group acquired in November 2023, also contributed to results.

Sales of hair care products increased. In Japan, a new product in the *Cape* hair spray brand and rebranded *Essential* sold strongly and sales of new hair care brands *melt* and *THE ANSWER* exceeded the plan as the Kao Group steadily carried out its new premium strategy. In the Americas and Europe, new *JOHN FRIEDA* products performed strongly. Sales of products for hair salons increased, with strong sales of the *ORIBE* brand for high-end hair salons in the United States, primarily through e-commerce, and growth in sales of the *GOLDWELL* brand in Europe.

Sales of personal health products decreased.

Operating income decreased 6.0 billion yen compared with the previous fiscal year to 34.4 billion yen as the Kao Group recorded marketing expenses for growth and structural reform expenses at subsidiaries in the Americas and Europe, among other factors.

Life Care Business

Sales decreased 0.7% compared with the previous fiscal year to 55.9 billion yen. Currency translation accounted for a 1.9% increase and sales decreased 2.6% on a like-for-like basis (breakdown of the decrease: 2.9% decrease by volume, 0.3% increase by price).

Sales of commercial-use hygiene products increased. In Japan, demand rose for kitchen cleaning agents, guest room amenities and cleaning items from the food service industry and lodging facilities and other establishments, but sales were basically unchanged due to the continued shrinkage of the market for sanitizers. In the United States, sales increased due to factors including acquisition of new customers through new products.

In addition, the transfer of the tea-catechin beverage *Healthya* business to Kirin Beverage Company, Limited was completed on August 1, 2024.

Operating income was 6.3 billion yen, an increase of 11.6 billion yen compared with the previous fiscal year, due to recording a gain on a business transfer, among other factors.

Cosmetics Business

Sales increased 2.3% compared with the previous fiscal year to 244.1 billion yen. Currency translation accounted for a 2.3% increase and sales increased 0.0% on a like-for-like basis (breakdown of the increase: 1.6% decrease by volume, 1.7% increase by price. However, if the impact of China, provision for product returns due to cosmetics brand consolidation in Japan that was implemented in the previous fiscal year, and other factors are also excluded, sales increased approximately 4% on a like-for-like basis.)

Sales in Japan increased as the market remained favorable, driven by *KANEBO* prestige skin care and makeup, and also due to strong performance by the *SOFINA iP* skin care, *Curél* derma care and *SENSAI* luxury brands, among others. In Asia excluding China, sales of *Curél*, *KATE* and other products were strong as the Kao Group further strengthened its online-merges-with-offline (OMO) initiatives. In China, however, as market growth slowed and the competitive environment continued to intensify, the Kao Group optimized distribution inventory by restricting shipments. As a result, overall sales in Asia decreased substantially. Sales in Europe increased due to factors including strong sales of the *SENSAI* supreme skin care line and *Total Lip Treatment Stick*, an anti-aging lip serum, as well as steady sales of *MOLTON BROWN* products.

Operating income increased 1.7 billion yen compared with the previous fiscal year to negative 3.7 billion yen.

Chemical Business

Sales increased 10.9% compared with the previous fiscal year to 405.9 billion yen. Currency translation accounted for a 4.8% increase and sales increased 6.1% on a like-for-like basis (breakdown of the increase: 5.6% increase by volume, 0.5% increase by price).

Sales of oleo chemicals increased amid a recovery in customer demand, due to the start-up of new facilities, increased sales volume, and selling price adjustments in line with rising raw material prices.

Sales of performance chemicals were basically unchanged due to the continued impact of a slump in some target markets such as the automobile-related sector and intensifying competition outside Japan.

Sales of information materials increased as a result of steadily capturing recovery in demand in the hard disk, semiconductor-related and other target sectors.

Operating income increased 11.1 billion yen compared with the previous fiscal year to 34.6 billion yen due to increased sales from factors including sales promotion of high-value-added products in the electronics materials and other sectors, as well as the contribution of improved profit margins, mainly in oleo chemicals.

(2) Analysis of Financial Position

Provisional accounting treatment for business combinations was finalized during the fiscal year ended December 31, 2024. Accordingly, finalized figures have been used for comparisons with the previous fiscal year and for analysis.

Consolidated Financial Position

(Billions of yen, unless otherwise noted)

	December 31, 2023	December 31, 2024	Incr./(Dcr.)
Total assets	1,769.5	1,867.2	97.7
Total liabilities	757.5	768.4	10.9
Total equity	1,012.0	1,098.8	86.8
Ratio of equity attributable to owners of the parent to total assets	55.6%	57.1%	-
Equity attributable to owners of the parent per share (Yen)	2,116.01	2,296.69	180.68
Bonds and borrowings	138.5	131.1	(7.4)

Total assets increased 97.7 billion yen from December 31, 2023 to 1,867.2 billion yen. The principal increases in assets were a 66.1 billion yen increase in cash and cash equivalents, a 12.1 billion yen increase in trade and other receivables, and a 10.9 billion yen increase in inventories.

Total liabilities increased 10.9 billion yen from December 31, 2023 to 768.4 billion yen. The principal increase in liabilities was a 22.5 billion yen increase in trade and other payables, and the principal decrease in liabilities was an 11.8 billion yen decrease in provisions.

Total equity increased 86.8 billion yen from December 31, 2023 to 1,098.8 billion yen. The principal increases in equity were net income totaling 110.4 billion yen and exchange differences on translation of foreign operations totaling 48.6 billion yen. The principal decrease in equity was dividends totaling 71.4 billion yen.

The ratio of equity attributable to owners of the parent to total assets was 57.1% compared with 55.6% at December 31, 2023. Return on equity (ROE) was 10.5%.

(3) Analysis of Cash Flow

Consolidated Cash Flows

(Billions of yen)

	2023	2024	Incr./(Dcr.)
Net cash flows from operating activities	202.5	201.6	(0.9)
Net cash flows from investing activities	(109.3)	(45.9)	63.4
Free cash flows (operating + investing activities)	93.2	155.7	62.5
Net cash flows from financing activities	(80.0)	(104.6)	(24.6)

Net cash flows from operating activities totaled 201.6 billion yen. The principal increases in net cash were income before income taxes of 151.0 billion yen, depreciation and amortization of 88.4 billion yen and an increase in trade and other payables of 11.0 billion yen. The principal decreases in net cash were 27.6 billion yen in income taxes paid, a 12.3 billion yen decrease in provisions and a 10.6 billion yen gain on business transfer.

Net cash flows from investing activities totaled negative 45.9 billion yen. The principal increases in net cash outflow were purchase of property, plant and equipment of 57.4 billion yen and purchase of intangible assets totaling 10.1 billion yen. The principal decrease in net cash outflow was 11.8 billion yen in proceeds from business transfer.

Free cash flow, which is the total of net cash flows from operating activities and net cash flows from investing activities, was 155.7 billion yen.

Net cash flows from financing activities totaled negative 104.6 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 2024, this primarily consisted of 71.5 billion yen for dividends paid to owners of the parent and non-controlling interests, 21.6 billion yen in repayments of lease liabilities and a 14.3 billion yen decrease in short-term borrowings.

The balance of cash and cash equivalents at December 31, 2024 increased 66.1 billion yen compared with December 31, 2023 to 357.7 billion yen, including the effect of exchange rate changes.

(4) Significant Accounting Estimates and Assumptions Used for the Estimates

The Company's consolidated financial statements have been prepared in accordance with the International Financial Reporting Standards (hereinafter "IFRS Accounting Standards") issued by the International Accounting Standards Board, as permitted by the provision of Article 312 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 2025 is approximately 88.0 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

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 2024.

*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 live 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.

As one of these initiatives, we have started the transformation of its leading Hair Care business. Based on the business vision of "Hair: The Power of Life," the Kao Group has launched new brands by rebuilding its hair care brand formation to align with consumers' emotional needs. Specifically, we launched the following two new brands: *melt* which offers "beauty care for relaxing moments," and *THE ANSWER* which contains repairing ingredients developed from 100 years of our research. Through this business transformation, the Kao Group pushes forward with efforts to constantly manufacture better products than what are expected by consumers, while building the Hair Care business into a growth driver.

In the Chemical business, the Kao Group launched *LULNAFLOW RA*, a mold release agent for use in smoothly removing rubber and resin products from molds during manufacture. *LUNAFLOW RA* is made using cellulose nanofibers (CNF), a biomass material made from fibers obtained from wood and other materials that are micronized to the nanoparticle level, and features superior demolding performance and durability. The product not only improves work efficiency in the manufacturing process but also is designed to be friendly to both workers and the environment as it is both solvent- and fluorine-free. Going forward, Kao also plans to adapt this mold release technology using CNF to other applications, including products that are more stain-resistant.

Approximately 2,800 Kao Group employees are engaged in R&D activities.

The Kao Group's research and development expenses for fiscal 2024 amounted to 62.1 billion yen (3.8% of net sales) and the primary results are as follows:

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 an upgraded version of *Attack ZERO* series, a line of concentrated liquid laundry detergent, which offers a sterile-level deodorizing power[*1] that exceeds antibacterial and sanitizing detergents[*2] by thorough removal[*3] of a bio-film[*4] (a bio-film is one of the reasons for odors to come back).

In the home care product category, we launched an upgraded *Haiter Kitchen Stain Remover* (foam bleach for kitchen) with the volume and durability of its foam improved to realize adhesive foam. We upgraded[*5] the product for the first time in 27 years since its first launch in 1998. At the same time, we newly launched Haiter Kitchen Stain Remover Non-Pungent type (odorless-type foam bleach for the kitchen) which eliminates bacteria[*6], bleach, and deodorizes with adhesive foam while reducing chlorine odor when used.

In the sanitary product category, we launched *Laurier Soft and Fluffy Fit* from the sanitary pad brand *Laurier.* With soft and fluffy cushion and V–shaped design, the pad gently fits your body curves. The pad stays dry and does not leak even during heavy flow.

Research and development expenses for this business segment amounted to 14.8 billion yen.

*1 Having no unpleasant odor and being free from odor-causing bacteria
*2 Kao's oxygen formula bleach, antibacterial and sanitizing detergent products
*3 Thorough cleaning in view of the fundamental mechanism for removing stains
*4 Polysaccharide stains caused by bacteria
*5 Improvement in the (liquid) formula
*6 No guarantee that all bacteria are eliminated.

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 the *Bioré Zero* series from the *Bioré* brand. High transpiration powder, which continues to dry sweat and wraps around the skin like a veil, leaves the skin feeling dry for a long time. Using a product from the series in the morning before leaving home will keep you comfortable even if you sweat while commuting to work, school, or during other activities throughout the day.
In addition, as part of the initiatives to protect future lives, we launched *Bioré GUARD Mos Block Serum* in Singapore and Malaysia, a repellant formulated with a unique anti-landing technology to prevent mosquitoes from landing and staying on the skin. We will continue working to find solutions to social issues.
In the hair care product category, as part of the initiatives to transform the hair care business, we strengthened some of the existing brands. For instance, we launched the *Essential Premium* series from the *Essential* brand, a mainstay hair care brand under the concept of *Brighten Me Up!*, as a rebranded line of the basic Essential series. From the *Segreta* brand, we launched the *Segreta PREMIER* series from the *Segreta* brand consisting of anti-aging hair care products. We also refreshed the package design of the existing *Segreta* basic series, and upgraded and relaunched these products, while adding *Segreta Sheer Coat Hair Mist* and *Segreta Smooth Fit Hair Oil*, hair treatment products that need not be rinsed off, to the lineup.
In the personal health product category, we launched *MegRhythm Medical Eye Care Mask*, a controlled medical device* for the first time for the Kao Group, on some of the e-commerce sites before putting them in physical stores for sale. Through years of academic research on the efficacy of steam heat to relieve the discomfort in eyes from dryness, the product has been approved as a controlled medical device.

Research and development expenses for this business segment amounted to 22.1 billion yen.

* Under Article 2, Paragraph 4 of the Act on Securing Quality, Efficacy and Safety of Products Including Pharmaceuticals and Medical Devices, the term "medical device" refers to appliances or instruments, etc. which are intended for use in the diagnosis, treatment or prevention of disease in humans or animals, or intended to affect the structure or functioning of the bodies of humans or animals, and which are specified by Cabinet Order. Among them, under Article 2, Paragraph 6 of the Act on Securing Quality, Efficacy and Safety of Products Including Pharmaceuticals and Medical Devices, "controlled medical device" refers to a medical device requiring proper management.

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.

As part of the activities relating to sebum RNA monitoring*, Kao Corporation and istyle Inc. jointly established the RNA Co-creation Consortium, aimed at achieving business co-creation and sustainable growth of the beauty and health industries. The Consortium's work will include setting and standardizing parameters for making, selling and selecting beauty and health services, testing business use cases, supporting business tie-ups, and other activities.

In addition, via Healthcare Systems Co., Ltd., we have started a service to commission the analysis of sebum RNA using Kao's sebum RNA monitoring technology. We expect that we can use the technology and the service for research and product development in a variety of fields, including dermatology, health science, and healthcare.

Research and development expenses for this business segment amounted to 1.8 billion yen.

* A technology that uses RNA in sebum collected from the skin surface to analyze not only individual differences but also changes in physical conditions such as aging, fatigue and illness, as well as the effects of external stresses.

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 ROUGE STAR VIBRANT*, a long-lasting lipstick that makes lips look alive with enduring vibrancy, lasting redness, gloss, and moisture. We also launched *KANEBO FUSHION-ING SOLUTION,* a serum that forms a veil that fuses with the skin to create an even, smooth finish to create captivatingly smooth skin by reducing moisture evaporation and keeping skin hydrated.

From the *Curél* brand, we launched *Curél Intensive Moisture Care Powder in Balm*, a moisturizer. The product not only protects skin from irritation due to physical irritants such as hair or dust but also blurs pores and uneven texture., forming a smooth barrier film on the skin.

From the *SOFINA iP* brand, we launched *SOFINA iP night treatment cream*. By using the product before going to bed at night, the moisturizing ingredients of the cream penetrate the cornified layer of skin to create smooth and glossy skin the next morning.

Research and development expenses for this business segment amounted to 11.7 billion yen.

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.

The Kao Group has built the proprietary plant factory *Smart Garden Meguri*, which uses equipment able to capture and purify carbon dioxide (CO_2) emitted from an incinerator plant owned by Saga City in Saga Prefecture. The *Smart Garden Meguri* is able to efficiently cultivate plants while decreasing environmental impacts from electricity and water consumption. Additionally, the Group has developed a technology to build an end-to-end process for controlling plant compounds, from cultivating plants to extracting essence to obtain botanical extracts with high purity and efficacy.

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.

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*.

Research and development expenses for this business segment amounted to 11.8 billion yen.

* "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 2024, the aggregate amount of capital expenditures, etc. was 92,973 million yen. The breakdown of capital expenditures by segment is as follows:

Name of segment		Amount (millions of yen)
	Hygiene and Living Care Business	28,382
	Health and Beauty Care Business	18,624
	Life Care Business	1,927
	Cosmetics Business	15,099
Consumer Products Business		64,032
Chemical Business		28,382
Other		559
Total		92,973

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 production and research facilities in each business, the Group restructured 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 2024 were as follows:

(1) The Company

As of December 31, 2024

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	14,530	22,411	854 (603)	5,938	891	44,624	1,725 [222]
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	14,851	871	445 (44)	2,741	332	19,240	1,860 [245]
Sakata Plant (Sakata-shi, Yamagata)	Hygiene and Living Care Business Health and Beauty Care Business	Production facilities	5,775	3,263	931 (252)	1,811	2,855	14,635	218 [36]
Kawasaki Plant (Kawasaki-ku, Kawasaki-shi, Kanagawa)	Hygiene and Living Care Business Health and Beauty Care Business Life Care Business	Production facilities	6,199	15,037	7,726 (101)	1,312	3,737	34,011	265 [26]
Tochigi Plant and Tochigi Research Laboratories (Ichikai-machi, Haga-gun, Tochigi)	Hygiene and Living Care Business Chemical Business	Production facilities Research and development facilities	8,688	5,762	2,648 (276)	1,623	1,081 (32)	19,802	933 [87]
Kashima Plant (Kamisu-shi, Ibaraki)	Hygiene and Living Care Business Life Care Business Chemical Business	Production facilities	4,677	6,678	6,392 (354)	764	46	18,557	254 [24]
Toyohashi Plant (Toyohashi-shi, Aichi)	Hygiene and Living Care Business Health and Beauty Care Business Cosmetics Business	Production facilities	8,465	6,775	6,290 (314)	639	98	22,267	195 [9]
Ehime Plant (Kao Sanitary Products Ehime) (Saijo-shi, Ehime)	Hygiene and Living Care Business	Production facilities	3,061	1,825	1,025 (52)	281	156	6,348	– [–]
Odawara Plant (Kao Cosmetic Products Odawara), Odawara Research Laboratories and Odawara Office (Odawara-shi, Kanagawa)	Cosmetics Business	Research and development facilities Production facilities	8,122	3,830	144 (2)	690	942 (1)	13,728	360 [27]
Kawasaki Logistics Center (Kawasaki-ku, Kawasaki-shi, Kanagawa)	Hygiene and Living Care Business Health and Beauty Care Business Life Care Business	Logistics facilities	215	966	2,903 (27)	17	–	4,101	– [–]
Iwatsuki Logistics Center (Iwatsuki-ku, Saitama-shi, Saitama)	Hygiene and Living Care Business Health and Beauty Care Business Life Care Business	Logistics facilities	260	785	1,529 (21)	22	523	3,119	– [–]

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	190	692	1,931 (37)	38	376	3,227	– [–]
Atsugi Logistics Center (Aikawa-machi, Aiko-gun, Kanagawa)	Cosmetics Business	Logistics facilities	1,899	161	2,810 (33)	6	–	4,876	– [–]
Hachioji Logistics Center (Hachioji-shi, Tokyo)	Hygiene and Living Care Business Health and Beauty Care Business Life Care Business	Logistics facilities	169	100	9,936 (31)	8	1,199	11,412	– [–]
Head Office (Chuo-ku, Tokyo)	Hygiene and Living Care Business Health and Beauty Care Business Life Care Business Cosmetics Business Corporate (common)	Other facilities	1,734	14	– (–)	223	32,336	34,307	1,956 [199]

(2) Domestic Subsidiaries

As of December 31, 2024

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 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	391	–	4,482 (72)	4,686	2,970 (3)	12,529	5,274 [930]
Kanebo Cosmetics Inc.	Odawara Plant (Kao Cosmetic Products Odawara) (Odawara-shi, Kanagawa)	Cosmetics Business	Production facilities Other facilities	79	–	4,641 (62)	404	18	5,142	17 [43]

(3) Overseas Subsidiaries

As of December 31, 2024

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 Corporation Shanghai	Shanghai Plant (Shanghai)	Hygiene and Living Care Business Health and Beauty Care Business Cosmetics Business	Production facilities	–	4,923	– (–)	234	21 (–)	5,178	300 [–]

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	3,708	4,644	– (–)	201	792 (83)	9,345	109 [–]
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	1,750	3,050	168 (58)	691	435	6,094	526 [4]
Pilipinas Kao, Inc.	Jasaan Plant (Misamis Oriental, Philippines)	Chemical Business	Production facilities	1,672	13,557	– (–)	804	121 (329)	16,154	197 [–]
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	2,282	4,988	1,397 (171)	895	1,027	10,589	1,038 [–]
Fatty Chemical (Malaysia) Sdn. Bhd.	Main Plant (Penang, Malaysia)	Chemical Business	Production facilities	2,834	5,460	– (–)	1,596	4,618 (118)	14,508	280 [1]
PT Kao Indonesia	Karawang Plant (Karawang, Indonesia)	Hygiene and Living Care Business Health and Beauty Care Business	Production facilities	7,779	10,261	4,461 (141)	570	1,528 (252)	24,599	1,670 [513]
PT Kao Indonesia Chemicals	Karawang Plant (Karawang, Indonesia)	Chemical Business	Production facilities	4,136	1,994	– (–)	163	693 (64)	6,986	259 [12]
Kao USA Inc.	Main Plant & Research Laboratories (Cincinnati, Ohio, U.S.)	Health and Beauty Care Business Cosmetics Business	Production facilities Research and development facilities	4,022	2,949	37 (35)	3,077	5,588	15,673	937 [30]
Kao Chemicals Americas Corporation	Main Plant (High Point, North Carolina, U.S.)	Chemical Business	Production facilities Research and development facilities	1,390	1,176	3,569 (723)	21,561	52	27,748	160 [–]
Kao Manufacturing Germany GmbH	Main Plant (Darmstadt, Germany)	Health and Beauty Care Business	Production facilities	1,323	1,086	571 (50)	656	294 (27)	3,939	301 [4]
Kao Chemicals GmbH	Main Plant (Emmerich, Germany)	Chemical Business	Production facilities	6,265	3,073	202 (74)	402	370	10,312	207 [52]
Kao Corporation, S.A.	Olesa Plant (Barcelona, Spain)	Chemical Business	Production facilities	6,059	2,404	1,163 (264)	1,640	1,467	12,733	428 [25]

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 88,000 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">21,400</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>26,000</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>35,600</td><td>R&D related investments, expansion, maintenance and update of logistics facilities, IT-related investments, etc.</td></tr>
<tr><td>5,000</td><td>Right-of-use assets</td></tr>
<tr><td>Total</td><td>88,000</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, 2024

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, 2024)	Number of issued shares as of the filing date (shares) (March 21, 2025)	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, 2020	–	482,000	–	85,424	–	108,889
December 31, 2021 (Note 1)	(7,000)	475,000	–	85,424	–	108,889
December 31, 2022 (Note 2)	(9,100)	465,900	–	85,424	–	108,889
December 31, 2023	–	465,900	–	85,424	–	108,889
December 31, 2024	–	465,900	–	85,424	–	108,889

Notes: 1. Retirement of 7,000 thousand treasury shares on June 23, 2021
2. Retirement of 9,100 thousand treasury shares on September 28, 2022

(5) Shareholding by Shareholder Category

As of December 31, 2024

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)	–	166	50	1,158	903	540	125,767	128,584	–
Number of shares held (units)	–	1,618,933	318,771	220,960	1,844,962	1,447	644,502	4,649,575	942,500
Ratio of shares held (%)	–	34.82	6.86	4.75	39.68	0.03	13.86	100.00	–

Notes: 1. Of the 89,268 treasury shares, 892 units are included in “Individuals and others” and 68 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, 2024

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)	1-8-1 Akasaka, Minato-ku, Tokyo	88,024	18.90
Custody Bank of Japan, Ltd. (Trust Account)	8-12, Harumi 1-chome, Chuo-ku, Tokyo	32,182	6.91
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)	10,521	2.26
SMBC Nikko Securities Inc.	3-1, Marunouchi 3-chome, Chiyoda-ku, Tokyo	8,975	1.93
Oasis Opportunities Fund One SPC - ECHO SP （Standing proxy: Goldman Sachs Japan Co.,Ltd.）	PO Box 309, Ugland Hause, Grand Cayman, KY1-1104, Cayman Islands (Toranomon Hills Station Tower, Toranomon 2-6-1, Minato-ku, Tokyo)	6,879	1.48
Mizuho Securities Co., Ltd.	1-5-1 Otemachi, Chiyoda-ku, Tokyo	6,858	1.47
JAPAN SECURITIES FINANCE CO., LTD.	2-10, Nihonbashi Kayabacho 1-chome, Chuo-ku, Tokyo	6,799	1.46
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
STATE STREET BANK AND TRUST COMPANY 505001 (Standing proxy: Settlement & Clearing Services Department, Mizuho Bank, Ltd.)	One Congress Street, Suite 1 Boston, MA U.S.A. (Shinagawa Intercity Tower A, 15-1, Konan 2-chome, Minato-ku, Tokyo)	6,567	1.41
JP MORGAN CHASE BANK 385781 (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)	6,456	1.39
Total	—	179,952	38.63

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, 2024.

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 Securities Co., Ltd. and three other persons on April 19, 2024, which is open to the public, stating that they held shares of the Company as shown below as of April 15, 2024. 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, 2024.

Name	Number of shares (thousands of shares)	Shareholding ratio (%)
Nomura Securities Co., Ltd. and 3 other persons	26,964	5.79

4. The amendment to the large shareholdings report filed by Sumitomo Mitsui Trust Asset Management Co., Ltd. and another person on September 5, 2024, which is open to the public, stating that they held shares of the Company as shown below as on August 30, 2024. 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, 2024.

Name	Number of shares (thousands of shares)	Shareholding ratio (%)
Sumitomo Mitsui Trust Asset Management Co., Ltd. and another person	30,281	6.50

Also, in the amendment to the large shareholdings report filed by Sumitomo Mitsui Trust Asset Management Co., Ltd. and another person on March 6, 2025, which is open to the public, it is stated that the number shares of the Company they held as of February 28, 2025 decreased to 30,200 thousand shares which is 6.48% to the total number of outstanding shares.

5. The large shareholdings report filed by Oasis Management Company Ltd. on December 10, 2024, which is open to the public, stating that they held shares of the Company as shown below as on December 5, 2024. 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, 2024.

Name	Number of shares (thousands of shares)	Shareholding ratio (%)
Oasis Management Company Ltd.	24,347	5.23

(7) Voting Rights

1) Issued shares

As of December 31, 2024

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 89,200	–	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 464,868,300	4,648,683	Same as above
Shares of less than one unit	Ordinary shares 942,500	–	Same as above
Total number of issued shares	465,900,000	–	–
Total number of voting rights	–	4,648,683	–

Note: The figure of "Number of shares" for "Shares with full voting rights (others)" includes 753,269shares (7,532 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, 2024

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	89,200	–	89,200	0.02
Total	–	89,200	–	89,200	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, 2024	3,066	19,600,545
Treasury shares acquired during the subsequent period (Note)	201	1,273,406

Note: The subsequent period refers to the period from the day following the end of the fiscal year ended December 31, 2024 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, 2025 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, 2024		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)	–	–	–	–
(Sale of shares of less than one unit)	53	292,825	–	–
Number of treasury shares held (Note 2)	89,268	–	89,469	–

Notes: 1. The subsequent period refers to the period from the day following the end of the fiscal year ended December 31, 2024 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, 2025 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, 2024 of 76.00 yen per share, an increase of 1 yen per share compared with the previous fiscal year.

As a result, annual cash dividends increased 2 yen per share compared with the previous fiscal year, resulting in a total of 152 yen per share. The consolidated payout ratio was 65.5%.

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, 2024 were as follows:

Date of resolution	Total dividends (millions of yen)	Dividends per share (yen)
Board of Directors meeting held on August 8, 2024	35,402	76
119th Annual General Meeting of Shareholders held on March 21, 2025	35,402	76

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

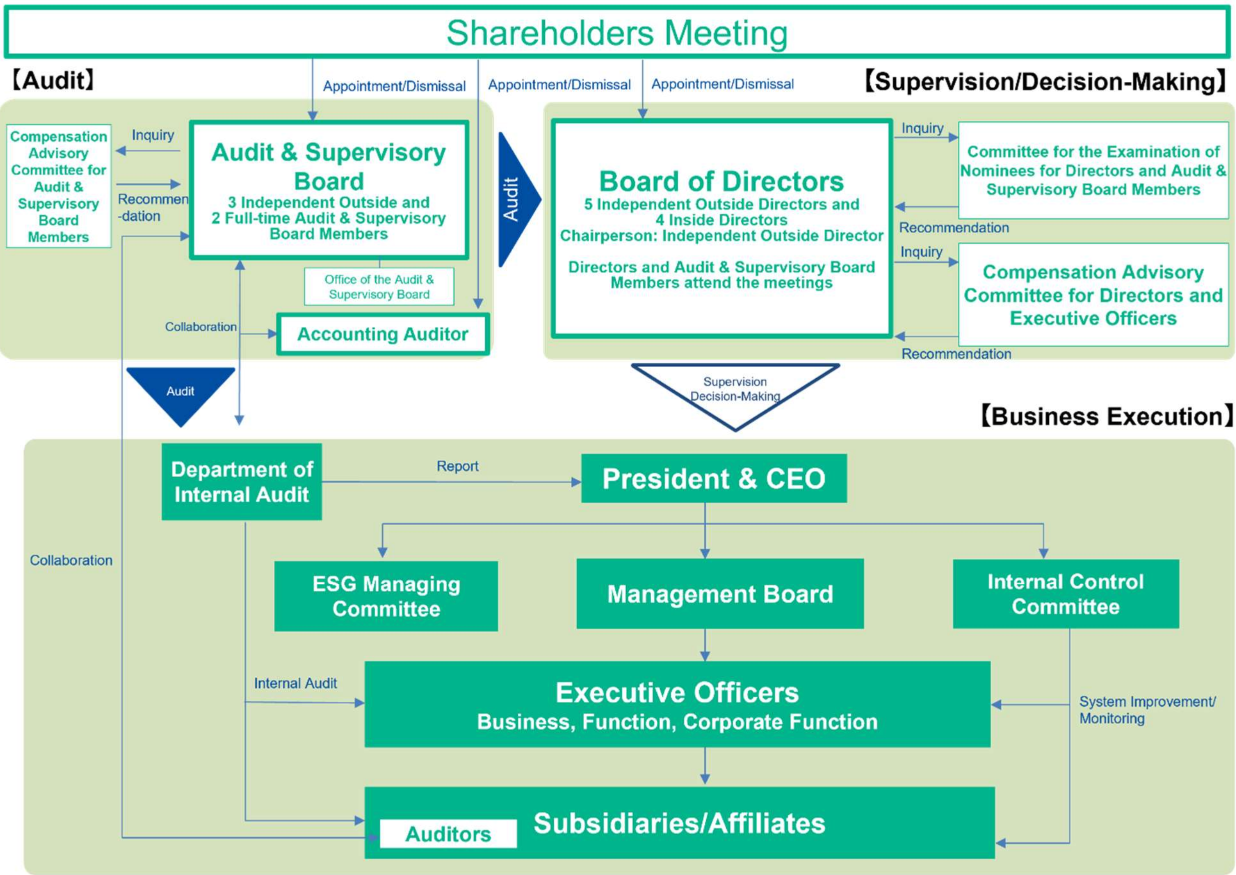
a. Overview of corporate governance structure

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 119th Annual General Meeting of Shareholders held in March 2025, the Company has: nine (9) Directors, including five (5) Outside Directors; five (5) Audit & Supervisory Board Members, including three (3) Outside Audit & Supervisory Board Members; and 30 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.
14 meetings, including an extraordinary meeting, of the Board of Directors were held during the fiscal year ended December 31, 2024. The attendance rates of all Outside Directors and all Outside Audit & Supervisory Board Members at their meetings as of December 31, 2024 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 five (5) Outside Directors and the Audit & Supervisory Board that consists of two (2) Full-time 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 21, 2025)



Members of the Board of Directors, Audit & Supervisory Board, and Voluntary Committees and the Chairpersons are as follows:
(As of March 21, 2025)

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	Lisa MacCallum	✓				
Outside Director	Osamu Shinobe	Chairperson		✓	Chairperson	✓
Outside Director	Eriko Sakurai	✓		Chairperson	✓	
Outside Director	Takaaki Nishii	✓		✓	✓	
Outside Director	Makoto Takashima	✓		✓	✓	
Outside Director	Sarah L. Casanova	✓		✓	✓	
Full-time Audit & Supervisory Board Member	Yasushi Wada	✓	Chairperson			
Full-time Audit & Supervisory Board Member	Mami Murata	✓	✓			
Outside Audit & Supervisory Board Member	Nobuhiro Oka	✓	✓	✓		✓
Outside Audit & Supervisory Board Member	Saeko Arai	✓	✓			Chairperson
Outside Audit & Supervisory Board Member	Junya Naito	✓	✓			✓

✓ = 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 formulating 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 particularly significant main risks that could have a negative impact on its sustained profitable growth and contribution to the sustainability of 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 (responsible persons: Executive Office) 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 a 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 a thorough 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 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 is put in place both outside (lawyers) and inside the Company. During the current fiscal year, we received 427 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 makes 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, the Chairperson of the Compliance Committee posted posters 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. Further, a BCG verification test and compliance awareness survey were 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 Kao Group's intranet, and in Japan, it builds compliance awareness using posters with a four-panel 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 2024 include: (1) implementing a process to verify, after a certain period of time, whether the measures to prevent the reoccurrence of compliance violations conducted by the department that committed compliance violations and dug into the root cause of such violations have been effective, (2) sharing the information about reported/consulted incidents, communicating the lessons learned 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, (3) 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 (4) continuing to conduct self-evaluation on compliance activities to identify issues and consider measures to be taken to improve the situation in the future.

<Efforts Concerning Risk and Crisis Management>

By defining risks that have a particularly large impact on management and require enhanced responses as "corporate risks," we have determined the themes and owners of such risks (those responsible for addressing these themes: Executive Officers) at the Management Board. Specifically, in 2024, the Company worked to strengthen measures against risks, including social issues; geopolitical risks; major earthquakes, natural disasters, and BCP; serious quality issues; cyber-attacks and protection of personal information; reputation risks; and pandemic.

With regard to material risks that may hamper the achievement of the Mid-Term Plan "K27," through the investigation into these risks and interviews with management, we made clear what the material risks for our *Global Sharp Top* strategy are. Although we have addressed many of these risks, we will address other risks that we have yet to fully respond to as corporate risks for 2025.

On the basis of our response to the 2024 Noto Peninsula Earthquake, we strengthened our support to send relief supplies to the region in cooperation with the Tsunami Response Headquarters, government agencies, and industrial associations. In addition, we promptly responded to the alert about a possible megaquake around the Nankai Trough issued by the Japanese government the other day, as we had been preparing for how to respond to any emergency information.

<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 the 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 2024 were as follows:

Title	Name	Attendance rate
Representative Director	Yoshihiro Hasebe	100% (14 out of 14 meetings)
Representative Director	Masakazu Negoro	100% (14 out of 14 meetings)
Representative Director	Toru Nishiguchi	100% (14 out of 14 meetings)
Director	David J. Muenz	100% (14 out of 14 meetings)
Outside Director	Osamu Shinobe	100% (14 out of 14 meetings)
Outside Director	Eriko Sakurai	100% (14 out of 14 meetings)
Outside Director	Takaaki Nishii	100% (14 out of 14 meetings)
Outside Director	Makoto Takashima	100% (11 out of 11 meetings)
Full-time Audit & Supervisory Board Member	Yasushi Wada	100% (14 out of 14 meetings)
Full-time Audit & Supervisory Board Member	Sadanao Kawashima	100% (14 out of 14 meetings)
Outside Audit & Supervisory Board Member	Hideki Amano	100% (14 out of 14 meetings)
Outside Audit & Supervisory Board Member	Nobuhiro Oka	100% (14 out of 14 meetings)
Outside Audit & Supervisory Board Member	Saeko Arai	100% (11 out of 11 meetings)

Note: During fiscal 2024, 14 meetings of the Board of Directors were held. After Mr. Makoto Takashima took office as Director, and Ms. Saeko Arai took office as Audit & Supervisory Board Member, 11 meetings were held.

In fiscal 2024, 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 introduction of ROIC by business segment has enabled the Board of Directors to discuss the profitability of the Company’s businesses from a medium- to long-term perspective. They have continuously discussed challenging businesses and key themes in each meeting, and they have seen results, particularly in the sanitary business, hair care business, as well as the divestiture of the pet care business and beverage business. In fiscal 2025, in order to sustainably enhance the Company’s earning power and establish a solid foundation for accelerated growth, they plan to regularly monitor the progress of "K27" and discuss global strategies and growth strategies, including the cosmetics business and salon business.

■Human capital strategy

The progress of human capital strategy activities (including the human capital structural reforms implemented in fiscal 2023) to realize the Company's growth strategy and the evaluation of management activities by the Company's employees (results of the engagement survey) were reported, and future actions based on these reports were discussed. The Board also continuously deliberates on the new human capital revitalization system OKR (Objectives and Key Results), which encourages employees to take on new challenges, as well as the progress and results after the introduction of internal open recruitment. The Board of Directors will continue to confirm that diverse challenges are increasing and expanding across the group, and that further collaboration through dialogue is being promoted.

■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, directors who concurrently serve as executive officer reports on execution and executive officers in charge report on matters deliberated by the Management Board.

Also, with an eye to enhancing its corporate value in a sustainable manner, the Company aims to improve the functions of the Board of Directors by evaluating and analyzing the effectiveness of the Board of Directors as a whole, including through a self-assessment of each Director, and discloses a summary of the results.
Since fiscal 2015, evaluations have been conducted once a year based on a survey of all Directors and Audit & Supervisory Board Members and discussions by the Board of Directors. In fiscal 2023, the Company sought to improve objectivity by receiving advice from a third-party organization regarding the preparation of the survey and the analysis of the results. In fiscal 2024, with the aim of further enhancing these evaluations and improving objectivity, some Directors were interviewed, and a third-party organization conducted an evaluation of the effectiveness of the Board of Directors. The Committee for Examination of Nominees for Directors and Audit & Supervisory Board Members (the “Committee for Examination of Nominees”) and the Compensation Advisory Committee for Directors and Executive Officers (the “Compensation Advisory Committee”) were evaluated at the same time. Going forward, the Company plans to have a third-party organization conduct evaluations once every three years.
The results of the effectiveness evaluation for fiscal 2024 are published below.
www.kao.com/global/en/corporate/policies/corporate-governance/directors/

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 2024 an Independent Outside Director held the position again. This committee maintains a high level of objectivity since all its members are independent. The Committee, given inquiry from the Board of Directors, first discusses the desirable composition (diversity, skills, ratio of outsiders, size, etc.) in light of the strategy and business environment. Subsequently, based on this framework, the committee will review candidates suitable for the next Board of Directors composition. For new candidates, the committee will review resumes and skill matrices, followed by interviews with the candidates. The Committee will then deliberate on whether the candidates can fulfill the expected roles and whether they possess the necessary experience, expertise, and engagement, before submitting its recommendations to the Board of Directors. The Board will ultimately decide on the Director candidates, respecting the recommendations of the Committee. Since the Company has shortened the term of Directors to one year, all Director candidates, including those for reappointment, undergo a rigorous review every year.
With regard to nominees for Audit & Supervisory Board Members, the Audit & Supervisory Board, which includes three Independent Outside Audit & Supervisory Board Members as its members, examines the appropriateness and qualifications, etc. of each nominee, based on its independent and objective perspective and in accordance with the above-described policy and the policy of nominating nominees for Audit & Supervisory Board Members established by the Audit & Supervisory Board. Eventually, with the consent of the Audit & Supervisory Board, the Board of Directors determines such nominees as the nominees for Audit & Supervisory Board Members based on the opinions of the Committee for the Examination of Nominees for Directors and Audit & Supervisory Board Members.

The activities of the Committee for the Examination of Nominees for Directors and Audit & Supervisory Board Members in fiscal 2024 were as follows:

	Title	Name	Attendance rate
Chairperson	Outside Director	Eriko Sakurai	100% (5 out of 5 meetings)
Member	Outside Director	Osamu Shinobe	100% (5 out of 5 meetings)
Member	Outside Director	Takaaki Nishii	100% (5 out of 5 meetings)
Member	Outside Director	Makoto Takashima	100% (5 out of 5 meetings)
Member	Outside Audit & Supervisory Board Member	Nobuhiro Oka	100% (5 out of 5 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 2024, upon the inquiry of the Board of Directors, the committee deliberated on the composition of the Board, the elements required for director candidates, the skill matrix, the next Director and Audit & Supervisory Board member candidates, the CEO succession plan, and the director candidates proposed by shareholders. The committee then submitted our recommendations to the Board of Directors.

Regarding the composition of the Board, it was discussed that the Company should remain similar in size to ensure efficient decision-making and substantive discussions while ensuring diversity. The committee also considered diverse talents with high expertise and sufficient management experience and discussed to achieve the goal of having a 30% female ratio on the Board. Additionally, it was concluded that this year the Board should particularly strengthen brand strategy, including corporate branding and marketing, as a skill. Based on this approach, the committee conducted a rigorous review of Director and Audit & Supervisory Board member candidates, including document checks and interviews, and submitted the review results to the Board of Directors.

Regarding the CEO succession plan, a list of multiple successor candidates, including emergency successors, was presented based on the talent requirements. The committee discussed development plans such as tough assignments and areas of knowledge to be strengthened, as well as the future process and points of contact between candidates and the Board of Directors.

Furthermore, the Company received proposals from shareholders for Outside Director candidates. Following the inquiry from the Board of Directors, the committee conducted a rigorous review, including document checks and interviews, in accordance with the appropriate process. As a result, the committee concluded that none of the candidates possessed the experience, expertise, and engagement expected of an Outside Director, and therefore, the committee did not recommend them as Outside Director candidates. The committee reported this conclusion to the Board of Directors.

Further, the procedure for determining the dismissal of Directors and Audit & Supervisory Board Members is in accordance with the Companies Act. In case the CEO, Directors and Audit & Supervisory Board Members should be dismissed, the Committee would be convened timely and conduct deliberations. Then, it would report to the Board of Directors for further deliberations and resolutions.

With regard to Senior Management, the titles and responsibilities of all nominees of Executive Officers are reported to the Committee for the Examination of Nominees for Directors and Audit & Supervisory Board Members and decisions are subsequently made by the Board of Directors. In case Senior Management should be dismissed, the Board of Directors conducts deliberations in a timely manner.

(For Reference)

Stance on Balance among Knowledge, Experience and Skills, and on Diversity and Size of the Board of Directors

At Board of Directors meetings (attended by Directors and Audit & Supervisory Board Members), Directors provide broad direction regarding business strategies and Directors and Audit & Supervisory Board Members deliberate on their appropriateness and the risks related to their realization and other matters in an objective and multidimensional fashion.

The Kao Group Mid-term Plan “K27” includes the vision of “Protecting future lives.” To accomplish this, the Company’s management is executing business in line with the Company’s strategies of (1) becoming an essential company in a sustainable world, (2) transforming to build a robust business through investment, and (3) maximizing the power and potential of employees. The Board of Directors considers it important for Inside and Outside Directors and Audit & Supervisory Board Members to complement each other with each of their knowledge, experience, and abilities, and to be able to demonstrate high effectiveness as a whole, in order to supervise that management is implementing business execution in a framework for transparent, fair, prompt and decisive decision-making accordance with the above strategies.

In addition to knowledge, experience and ability, the Company recognizes that diverse perspectives that come from the diversity of the Board of Directors in terms of gender, nationality, race and age contribute to the promotion of business, global expansion and proper supervision and auditing, and promotes the appointment of such diverse personnel as Directors and Audit & Supervisory Board Members. The Company’s target for the ratio of women on the Board of Directors is 30% by 2025. The items of experience, knowledge, and expertise are reviewed annually by the Committee for the Examination of the Nominees for Directors and Audit & Supervisory Board Members in terms of their importance to the Company’s sustainable growth. Based on the skills matrix, the committee deliberates on the composition of the Board of Directors and candidates for the upcoming fiscal year.

The Company aims for a small Board of Directors to accelerate decision-making while also considering the balance between having diverse personnel required to conduct the proper deliberations and supervision of execution. It has also set the number of Outside Directors to comprise at least half of the Board of Directors and is considering increasing it to the majority to ensure its diversity and influence and emphasizes their independence. In addition, the Company aims to have a majority of Outside Audit & Supervisory Board Members who meet the Standards for Independence.

Policy on Nomination of Director and Audit & Supervisory Board Member Candidates

In accordance with our approach to the balance, diversity, scale of the knowledge, experience, and capabilities of the Board of Directors, the Company will nominate appropriate Directors and Audit & Supervisory Board Members. It is necessary for Directors and Audit & Supervisory Board Members to secure sufficient time to perform their duties as Directors and Audit & Supervisory Board Members of the Company, the number of concurrent positions held by Directors and Audit & Supervisory Board Members in listed companies, excluding the Company, is limited to three, in principle. At the time of reappointment, the Company requires the Directors and Audit & Supervisory Board Members to have attended at least 75% of the Board of Directors meetings in the most recent fiscal year. The tenure is determined by considering independence and objectivity, while placing importance on the ability to discuss from a medium- to long-term perspective and capacity for stable management. In addition, to promote sharing of the knowledge and information obtained related to the Company’s management and businesses from predecessor to successor, the Company sets staggered terms of office for Outside Directors and Outside Audit & Supervisory Board Members.

The human capital strategy, including the successor to the President and CEO, is regarded as one of the most critical management issues, and it has been discussed continuously at the Board of Directors meetings and at the Committee for the Examination of Nominees for Directors and Audit & Supervisory Board Members.

Members of Senior Management are nominated with emphasis on their understanding of the business environment and of the status of the Kao Group’s businesses and management in order to deal with such environment necessary to plan the business strategies, and on their experience and ability to display strong leadership in quickly and properly executing the business strategies set by 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 2024 were as follows:

	Title	Name	Attendance rate
Chairperson[1]	Outside Director	Osamu Shinobe	100% (7 out of 7 meetings)
Member	Outside Director	Eriko Sakurai	100% (7 out of 7 meetings)
Member	Outside Director	Takaaki Nishii	100% (7 out of 7 meetings)
Member	Outside Director	Makoto Takashima	100% (4 out of 4 meetings)[2]
Member	Representative Director	Yoshihiro Hasebe	100% (7 out of 7 meetings)

Notes: 1. Due to the resignation of Outside Director Mr. Hayashi, the chairperson of the Compensation Advisory Committee for Directors and Executive Officers has been replaced by Outside Director Mr. Shinobe as of August 7, 2024.

2. During fiscal 2024, seven meetings of the Compensation Advisory Committee for Directors and Executive Officers were held. After Mr. Takashima took office as Outside Director, four meetings of the Committee were held. At the close of our Annual General Meeting of Shareholders held on March 22, 2024, Mr. Hayashi and Ms. Mukai, who resigned, held three meetings until their retirement, and they attended three meetings.

● Major topics discussed by the Committee members

For the fiscal 2024, based on the inquiry from the Board of Directors, the Compensation Advisory Committee for Directors and Executive Officers deliberated on the STI payout rate for the fiscal 2023, the proposal for the performance-linked stock compensation plan "K27" (hereinafter referred to as the "K27 Stock Compensation Plan") submitted to the 118th Annual General Meeting of Shareholders in March 2024, the levels of remuneration for inside directors and executive officers, the appropriateness of the maximum annual amount of remuneration for directors, the evaluation method for the K27 stock compensation, partial revisions to the Rule of Compensation for Directors and Executive Officers and the Share Incentive Plan Rules.

Regarding the K27 Stock Compensation Plan, discussions were centered on ESG activities evaluation indicators and top management activities evaluation indicators to evaluate in a more quantitative and objective manner aiming to achieve the management goals and enhance corporate value of "K27". Additionally, for executive remuneration for fiscal 2025, after confirming market levels, the committee decided on the content of the recommendations to the Board of Directors.

In January 2025, the Company received proposals from a shareholder regarding the remuneration of directors. Based on inquiry from the Board of Directors, the committee scrutinized and deliberated on the three remuneration-related proposals in the shareholder proposals (revision of compensation for outside directors, grant of restricted stock units for outside directors, and approval of the equity compensation plan for directors excluding outside directors). After careful consideration, the committee concluded that there is currently no need to introduce any of these proposals and submitted our recommendations to the Board of Directors accordingly.

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 2024 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	Saeko Arai	- *
Member	Outside Director	Osamu Shinobe	100% (1 out of 1 meeting)
Member	Representative Director	Yoshihiro Hasebe	100% (1 out of 1 meeting)

*During fiscal 2024, one meeting of the Compensation Advisory Committee for Audit & Supervisory Board was held and once before the retirement of Outside Audit & Supervisory Board Member Mr. Nakazawa and has not met since the appointment of Outside Audit & Supervisory Board Member Ms. Arai.

● Major topics discussed by the Committee members

For the fiscal year ended December 31, 2024, in response to a request for consultation from the Audit & Supervisory Board, the Committee deliberated on the revision to the amount of compensation, etc. for Audit & Supervisory Board Members, which was submitted to the 118th Annual General Meeting of Shareholders for approval. For the Company to enable its Audit & Supervisory Board Members to fulfill their increasing responsibilities and carry out the level of auditing activities expected of them, it needs to secure diverse human capital with professional expertise and broader perspectives and consider increasing their number. For this reason, the Committee discussed the possibility of revising upward their compensation from 120 million yen or less a year to 180 million yen or less a year. The Committee also confirmed the market level of their compensation, etc., and, as a result, has decided on the content of the report to the Audit & Supervisory Board.

(2) Directors and Audit Supervisory Board Members

1) List of Directors and Audit Supervisory Board Members

Nine men and five women (Women percentage to total number of Directors and Audit Supervisory Board Members is 35.7%)

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	18,000
			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		
Representative Director, Representative Director, Senior Managing Executive Officer; Responsible for Management Finance Unit	Masakazu Negoro	January 7, 1960	Apr. 1983	Jointed the Company	*1	12,400
			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)		
			Mar. 2023	Representative Director, Senior Managing Executive Officer (current); Responsible for Management Finance (Accounting and Finance, Business Structure Reforms, Procurement, Human Capital Strategy)		
			Jan. 2025	Responsible for Management Finance Unit (current)		

Position	Name	Date of birth	Career summary	Term of office	Share ownership (shares)
Representative Director, Senior Managing Executive Officer; Responsible for Global Consumer Care Business, Global; President, Global Consumer Care, Asia	Toru Nishiguchi	November 18, 1961	Apr. 1985 Jointed the Company 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 Jan. 2024 Director, Senior Managing Executive Officer (current); Responsible for Consumer Products, Global; President, Consumer Products - Life Care Business, Global; Responsible for Kao Professional Services Company, Limited Mar. 2024 Representative Director, Senior Managing Executive Officer(current); Responsible for Consumer Products, Global; President, Consumer Products - Life Care Business, Global; Responsible for Kao Professional Services Company, Limited Jan. 2025 Responsible for Global Consumer Care Business, Global; President, Global Consumer Care, Asia (current)	*1	17,800
Director, Corporate Executive Fellow (Responsible for Corporate Branding) (current)	Lisa MacCallum	April 10, 1972	Feb. 1998 Founding Executive, Business Breakthrough, Inc. (currently, Aoba-BBT, Inc.) Nov. 2001 USA Business Senior Executive, NIKE, Inc. Jun. 2006 Managing Director, Nike Foundation May. 2010 Vice President, NIKE, Inc. Aug. 2015 Founder and President, Inspired Companies Pty Ltd. (current) Jul. 2019 ESG External Advisory Board, the Company Sep. 2021 Corporate Executive Fellow Jan. 2025 Corporate Executive Fellow (Responsible for Corporate Branding) (current) Mar. 2025 Director, the Company (current)	*1	-
Director	Osamu Shinobe	November 11, 1952	Apr. 1976 Joined ALL NIPPON AIRWAYS CO., LTD. (currently, ANA HOLDINGS INC.) 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)	*1	3,100

Position	Name	Date of birth	Career summary	Term of office	Share ownership (shares)
Director	Eriko Sakurai	November 16, 1960	Jun. 1987 Joined Dow Corning Corporation May. 2008 Director, Dow Corning Toray Co., Ltd. Mar. 2009 Chairman and CEO, Dow Corning Toray Co., Ltd. Jun. 2018 Chairman and CEO, Dow Toray Co., Ltd. Aug. 2020 President, Dow Chemical Japan Limited Mar. 2022 Director, the Company (current)	*1	500
Director	Takaaki Nishii	December 27, 1959	Apr. 1982 Joined Ajinomoto Co., Inc. Jun. 2013 Member of the Board & Corporate Vice President, Ajinomoto Co., Inc. Aug. 2013 President, Ajinomoto do Brasil Indústria e Comércio de Alimentos Ltda. Jun. 2015 Representative Director, President & Chief Executive Officer, Ajinomoto Co., Inc. Jun. 2021 Director, Representative Executive Officer, President & CEO, Ajinomoto Co., Inc. Apr. 2022 Director, Executive Officer, Ajinomoto Co., Inc. Jun. 2022 Senior Corporate Advisor, Ajinomoto Co., Inc. (current) Mar. 2023 Director, the Company (current)	*1	4,000
Director	Makoto Takashima	March 31, 1958	Apr. 1982 Joined Sumitomo Bank, Limited Apr. 2012 Managing Executive Officer, Head of Americas Division, Sumitomo Mitsui Banking Corporation (SMBC) Apr. 2014 Senior Managing Executive Officer, Co-Head of International Banking Unit (Europe, Americas), SMBC Apr. 2015 Senior Managing Executive Officer, Co-Head of International Banking Unit (Europe, Middle East and Africa, Americas), SMBC Dec. 2016 Director and Senior Managing Executive Officer, Co-Head of International Banking Unit (Europe, Middle East and Africa, Americas), SMBC Apr. 2017 President and Chief Executive Officer, SMBC Jun. 2017 President and Chief Executive Officer, SMBC; Director, Sumitomo Mitsui Financial Group, Inc. (SMFG) Apr. 2023 Chairman of the Board, SMBC; Director, SMFG Jun. 2023 Chairman of the Board, SMBC (current) Mar. 2024 Director, the Company (current)	*1	-
Director	Sarah L. Casanova	April 6, 1965	Jan. 1991 Joined McDonald’s Canada Oct. 2004 Vice President, Marketing, McDonald’s Company (Japan), Ltd. Apr. 2007 Senior Vice President, Business Development, McDonald’s Company (Japan), Ltd. Jul. 2009 Managing Director, McDonald’s Malaysia and Brunei Jun. 2012 Managing Director, McDonald’s Malaysia and Brunei; Regional Manager, McDonald’s Malaysia, Singapore and Brunei Aug. 2013 Representative Director, President and CEO, McDonald’s Company (Japan), Ltd. Mar. 2014 Representative Director, President and CEO, McDonald’s Company (Japan), Ltd.; Representative Director, President and CEO of McDonald’s Holdings Company (Japan), Ltd. Mar. 2019 Representative Director, Chairman of the Board, McDonald’s Company (Japan), Ltd. Mar. 2021 Representative Director, Chairman of the Board, McDonald’s Company (Japan), Ltd.; Representative Director, Chairman of the Board, McDonald’s Holdings Company (Japan), Ltd. Mar. 2025 Director, the Company (current)	*1	-
Full-time Audit & Supervisory Board Member	Yasushi Wada	July 30, 1959	Apr. 1984 Jointed the Company Mar. 2014 Executive Officer Mar. 2015 Executive Officer; Vice President, Supply Chain Management - Demand and Supply Planning Center, Global Jan. 2019 Managing Executive Officer; Senior Vice President, Product Quality Management, Global Jan. 2021 Managing Executive Officer; Senior Vice President, Product Quality Management, Global; Responsible for Legal and Compliance Jan. 2022 Managing Executive Officer; Senior Vice President, Product Quality Management, Global; Responsible for Legal and Governance Jan. 2023 Fellow for Special Mission Mar. 2023 Full-time Audit & Supervisory Board Member, the Company (current)	*2	14,700

Position	Name	Date of birth	Career summary	Term of office	Share ownership (shares)
Full-time Audit & Supervisory Board Member	Mami Murata	June 16, 1965	Apr. 1991 Jointed the Company Jan. 2015 Sofina Regional Brand Manager, Beauty Care - Cosmetics Business Unit - Sofina Business Jan. 2016 Vice President, Beauty Care - Cosmetics Business Unit – Sofina Business; Sofina est Brand Manager, Beauty Care - Cosmetics Business Unit - Sofina Business; Sofina Holistic Beauty Manager, Beauty Care - Cosmetics Business Unit -Sofina Business Jan. 2017 President, Beauty Care - Cosmetics Business Unit - Sofina Business; Sofina Asia Business Development Manager, Beauty Care – Cosmetics Business Unit - Sofina Business Jan. 2018 President, Consumer Products - Sofina Business Jan. 2019 Vice President, Consumer Products - Marketing Emergence, Global; Vice President, Consumer Products - Marketing Emergence - Brand Management Development, Global Jan. 2021 Executive Officer; Vice President, Corporate Strategy - Strategic Public Relations Center, Global Jan. 2023 Executive Officer; Senior Vice President, Strategic Public Relations, Global; Vice President, Strategic Public Relations, Strategic Public Relations Center Jan. 2025 Fellow for Special Mission (current) Mar. 2025 Full-time Audit & Supervisory Board Member, the Company (current)	*3	1,500
Audit & Supervisory Board Member	Nobuhiro Oka	April 5, 1963	Apr. 1993 Registered as an attorney-at-law, Joined Kajitani Law Offices Apr. 1997 Representative Partner, Takekawa and Oka Law Office Oct. 2004 Representative Partner, Takekawa, Oka and Yoshino Law Office Apr. 2012 Professor, Keio University Law School (current) Oct. 2013 Representative, Oka-Partners Law Office (current) Mar. 2014 Outside Audit & Supervisory Board Member, Kao Customer Marketing Co., Ltd. Jan. 2016 Audit & Supervisory Board Member, Kao Group Customer Marketing Co., Ltd. (current) Mar. 2018 Audit & Supervisory Board Member, the Company (current)	*4	4,500
Audit & Supervisory Board Member	Saeko Arai	February 6, 1964	Oct. 1987 Joined Arthur Andersen & Co. (currently, KPMG AZSA LLC) Aug. 1992 Registered as Certified Public Accountant (Reregistered in January 1997) Oct. 1993 Joined Sasaki Certified Public Accountants Office Apr. 1997 Joined Internet Research Institute, Inc. (IRI) Sep. 1998 Director, CFO, IRI Feb. 2000 Director and CFO, IRI USA, Inc. Nov. 2002 Director, President, Chief Executive Officer and Secretary, IRI USA, Inc. Nov. 2002 Established Gratia, Inc. (currently, Acuray, Inc.), and assumed the position of President (current) Mar. 2024 Audit & Supervisory Board Member, the Company (current)	*5	200
Audit & Supervisory Board Member	Junya Naito	August 22, 1964	Apr. 1991 Admitted to Japanese Bar; Joined Momo-o, Matsuo & Namba May. 1995 Graduated from Columbia University, Law School Sep. 1995 Weil, Gotshal & Manges LLP in New York Mar. 1996 Admitted to New York Bar Sep. 1997 Returned to Momo-o, Matsuo & Namba Jan. 1999 Partner, Momo-o, Matsuo & Namba (current) Mar. 2025 Audit & Supervisory Board Member, the Company (current)	*3	-
Total					76,700

Notes:1. Mr. Shinobe, Ms. Sakurai, Mr. Nishii, Mr. Takashima and Ms. Casanova are Outside Directors.
2. Mr. Oka, Ms. Arai and Mr. Naito 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, 2024 to the close of the Annual General Meeting of Shareholders for the fiscal year ended December 31, 2025
*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, 2024 to the close of the Annual General Meeting of Shareholders for the fiscal year ended December 31, 2028
*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 30 Executive Officers, three 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 five 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 Group'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, as well as transactions involving training programs held by the Company, 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 previously had executive authority at the Japan Institute of International Affairs, but ceased to have such authority from June 2023. 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 0.1% 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 the Ajinomoto Group's consolidated net sales and less than 0.1% of 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.

Five Outside Directors, Mr. Shinobe, Ms. Sakurai, Mr. Nishii, Mr. Takashima and Ms. Casanova and three Outside Audit & Supervisory Board Members, Mr. Oka, Ms. Arai and Mr. Naito, 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 extensive experience and deep insight in global corporate management and risk management, having served as an executive at an airline that actively operates both passenger and cargo businesses worldwide. During Board discussions, he has actively contributed by providing insights and recommendations on key management issues for Kao Group. Since March 2022, he has served as Chairperson of the Board, demonstrating strong leadership in enhancing the effectiveness of the Board and contributing to the Company's corporate value. Additionally, since March 2024, he has chaired the Compensation Advisory Committee for Directors and Executive Officers, playing a key role in ensuring transparency and fairness in executive compensation discussions. Given his extensive experience and expertise, we expect him to continue overseeing Kao Group's management as an independent outside director. At the meeting of the Board of Directors following the General Meeting of Shareholders held on March 21, 2025, in addition to continuing to serve as Chairperson of the Board of Directors and Chairperson of the Advisory Committee on Compensation for Directors and Executive Officers.
	Eriko Sakurai	Outside Director of the Company	She has extensive experience in corporate management, having served for many years at the Japanese subsidiary of a U.S.-based chemical manufacturer with a global presence. She has also held outside director positions at multiple major manufacturers and financial institutions, contributing to governance oversight at global companies. With her background in the chemical industry, she possesses deep insights into Kao Group's chemical business, which operates alongside its consumer products business. She has actively contributed to Board discussions by providing valuable input from this perspective. Additionally, she has offered strategic guidance on compensation, talent development, and human resources management based on her experience in formulating and executing HR strategies in global business environments. Since March 2024, she has served as Chairperson of the Committee for Examination of Nominees for Directors and Audit & Supervisory Board Members, overseeing discussions on Board composition, the skills required for directors to achieve K27, candidate selection, and succession planning. Given her extensive experience and deep expertise, we expect her to continue supervising Kao Group's management as an independent outside director. At the meeting of the Board of Directors following the General Meeting of Shareholders held on March 21, 2025, in addition to continuing to serve 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 a long history of corporate management in a globally operating food manufacturer, where he demonstrated strong leadership in driving corporate cultural transformation and enhancing sustainable corporate value through ROIC-based management. At Kao's Board meetings, he has consistently provided insights and recommendations from a capital efficiency perspective, which has contributed to embedding ROIC principles within the Company. Additionally, with his extensive experience in key HR and overseas subsidiary leadership roles in the food industry, he has provided valuable insights on talent strategy and international business operations, actively contributing to Board discussions. Furthermore, based on his experience implementing effective governance reforms, he has offered guidance on optimizing Board oversight. Given his wealth of experience and strong expertise, we expect him to continue supervising Kao Group's management as an independent outside director.
	Makoto Takashima	Chairman of the Board, SMBC	He has extensive experience in global corporate management, having worked in international operations and corporate planning at a major global financial institution for many years. He later served as an executive in a rapidly evolving global financial industry, demonstrating strong leadership in adapting to change. At Kao's Board meetings, he has actively contributed by providing insights and recommendations on key areas such as Investor Relations (IR), Shareholder Relations (SR), and global partnerships. Leveraging his vast experience and deep expertise, we expect him to continue overseeing Kao Group's management as an independent outside director.

	Name	Material Position	Reason for Nomination
	Sarah L. Casanova	Outside Director of the Company	She has extensive experience in marketing across multiple countries, including Japan, at a major global restaurant chain. With extensive experience as an executive and regional leader in various country subsidiaries, she demonstrated exceptional management skills as the CEO of the Japanese company from 2013 to 2019, executing growth strategies which led to significant business performance improvements. She also has experience engaging with capital markets as the executive of a publicly listed company. Given her extensive experience and expertise, our strong view is that Ms. Casanova will provide valuable oversight as an independent outside director, particularly for Kao Group’s global growth strategies, brand strategy, and marketing initiatives.
Outside Audit & Supervisory Board Member	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 a 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.
	Junya Naito	Attorney-at-Law	He is a licensed attorney in both Japan and the state of New York, with extensive knowledge and experience in corporate law, commercial law, international business transactions, international arbitration, and cross-border disputes. He has also served as an outside auditor or audit committee member for multiple companies, gaining substantial experience in auditing practices. Given his expertise, we are confident he will contribute effectively to Kao Group’s audit functions.

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

The Kao Group has worked to introduce ROIC company-wide and has decisively implemented structural reforms, aiming to be a company that sustains *Global Sharp Top* businesses. With a shared sense of urgency and necessity of reforms recognized by management, the Company has adopted a policy to audit the progress of implementation of the K27 Strategic Framework and the management's responses to management environmental risks, while conducting auditing activities, including sustainability-related activities, in view of the requests and views of society and shareholders.

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

■ Lively exchange of opinions

In the course of auditing the execution of duties by Directors and Executive Officers, the Audit & Supervisory Board Members put importance on expressing opinions concerning decision-making processes and resolutions at meetings of the Board of Directors, the Management Board and other important meetings, as well as lively exchange of opinions with management, including unfettered discussions at meetings to exchange opinions with management.

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

The Audit & Supervisory Board Members conduct on-site audits on and interviews with each division and each group company, placing emphasis on understanding the degree of how well corporate strategy is being shared, whether their proactive efforts are being made, the challenges they are facing, their requests and opinions to management through dialogues in such onsite audits and interviews. They also share the results of these audits and interviews with management, as appropriate. After the on-site audits and interviews, these divisions and group companies make use of the comments of the Audit & Supervisory Board Members in their initiatives through a PDCA cycle in which they add these comments to the lists of guidance and request items, and share the contents of these lists divided into advice and excellent initiatives across their organizations to improve the effectiveness of auditing. At least one Outside Audit & Supervisory Board Member has participated in approximately 80% of the on-site audits/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 have leadership experience, high expertise, and insight. They share relevant information related to audits in a timely manner and conduct discussions 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	Saeko Arai	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.

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: 10 times
- Attendance rate: 100%
- Duration: Average of two hours

Main agenda of the Audit & Supervisory Board

- 24 resolutions:
  Audit policy, division of duties, critical auditing items, annual plan, audit report, policy on selection of candidate Audit & Supervisory Board Members, internal control matters, Accounting Auditor matters (including agreement on compensation, and deliberation on reappointment), appointment and compensation of Audit & Supervisory Board Members, etc.
- 14 matters considered:
  Audit findings, revision of the policy on selection of candidate Audit & Supervisory Board Members, a process of auditing internal control system, exchange of opinions with Representative Directors and Outside Directors, confirmation of the effectiveness evaluation process, etc.

Besides agenda items discussed at the Audit & Supervisory Board meetings, the members freely exchange opinions regarding the skills of the Audit & Supervisory Board Members, management and other issues they are concerned about as needed.

d. Critical auditing items, achievements and evaluation of effectiveness

Critical auditing items	Audit method and efforts	Activity results and evaluation of effectiveness	Division of audit	
			Full-time	Outside
Status of execution of duties by Directors and Executive Officers	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 (four times) Important subsidiaries: Representative Directors (two times) • With Representative Directors, exchanged opinions mainly on the implementation status of the K27 Strategic Framework and the progress of structural reforms. • With Outside Directors, had in-depth discussions on critical issues and reported the results of such discussions to Representative Directors.	✓	✓
	On-site audits and interviews at worksites, divisions, domestic and overseas subsidiaries and affiliates (During on-site audits and interviews, we also confirm critical audit items such as internal control.)	113 times • Confirmed the degree of awareness about ROIC activities and the progress of structural reforms in each business • Reported the risks and concerns identified in the process of auditing and the feedback, such as worries and opinions, from worksites to management	✓	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	Six times	—	✓

Critical auditing items	Audit method and efforts	Activity results and evaluation of effectiveness	Division of audit	
			Full-time	Outside
Effectiveness of the Group governance	• 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	• Maintained a structure in which members of the Office of the Audit & Supervisory Board concurrently serve as auditors of subsidiaries • Held meetings to exchange opinions among all auditors of subsidiaries and affiliates (three times) • Conducted effectiveness evaluation of auditors at important subsidiaries and shared issues and risks identified with the directors of these subsidiaries	✓	At any time
	• Exchange opinions between the Accounting Auditor, Audit & Supervisory Board Members and related departments • Report accounting audit results of the Accounting Auditor to the Board of Directors meetings	Exchanged opinions (12 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	✓	✓
	Strengthen collaboration in Three Types of Audits (between the Audit & Supervisory Board Members, the Accounting Auditor, and the Department of Internal Audit)	• Held meetings (three times) to share audit plans and critical audit issues • Exchanged opinions on the disclosure of non-financial information, a medium- to long-term issue	✓	At any time
Development 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 • Confirmed that the regulations for the Compliance Hotline were established and put in place. Expressed opinions on matters reported to the hotline and how these matters were handled	✓	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, to share audit findings and the awareness of risks	✓	At any time
	Evaluate the construction and operation status of the internal control system using a checklist	Generally valid	✓	—
Proactive disclosure	Investigate requests of society and stakeholders for information disclosure of the Company and confirmed its disclosure status and external evaluations	• Looked into how the division mainly responsible for the disclosure of non-financial information had responded to such requests • Promoted the disclosure of activities of the Audit & Supervisory Board Members	✓	At any time

<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 year under review, through comprehensive and unfettered discussions at the Audit & Supervisory Board meetings based on the self-evaluation by each Audit & Supervisory Board Member, and feedbacks from Representative Directors, Outside Directors and other related parties, it was concluded that the system of the Board as a whole was functioning effectively.
Regarding ROIC by business extracted in the previous fiscal year, the Audit & Supervisory Board confirmed the progress of the utilization of ROIC by business in Business, Sales, Production, R & D and other organizations through on-site audits and interviews and shared them with the Board of Directors. In addition, to further strengthen cooperation among the three types of Audits (Audit & Supervisory Board, Accounting Auditor, and the Department of Internal Audit, they began holding meetings and sharing their audit plans and key issues among them. They also exchanged opinions on disclosure of non-financial information as a medium to long-term issue.
In the process of evaluating the implementation status of the K27 Strategic Framework and the progress of structural reforms, the Audit & Supervisory Board Members confirmed that initiatives aimed at improving capital efficiency and profitability had been put in place and identified specific outcomes of these initiatives through on-site audits. The members will keep track of the progress in the development of the *Global Sharp Top* businesses including the development of growth strategies for the Cosmetics Business Regarding Group governance in Japan, the effectiveness of each auditing activity was improved, because of the system in which the members of the Office of the Audit & Supervisory Board concurrently serve as auditors of Group companies, and the sharing of findings in regular meetings at which all auditors of subsidiaries and affiliates exchange opinions. In overseas, we will continue to observe the design of the cross-functional overseas governance by the Headquarters.
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_2025.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 35 members in Japan and abroad as of the filing date. The Department of Internal Audit is under the 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 makes suggestions to further enhance their internal controls.

Basic plans and policies 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 the 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 (interim 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.

*During the fiscal year under review, the Accounting Auditor conducted a quarterly review in the first quarter and a semi-annual review, as review during the period, since quarterly reports were abolished due to a partial revision to the Financial Instruments and Exchange Act and a shift in regulatory requirements from quarterly reviews to a review during the period.

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 at the meetings of threefold auditing members (three times a year).

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

47 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 36 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 the 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 the 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, 2023		Fiscal year ended December 31, 2024	
	Audit fees (millions of yen)	Non-audit fees (millions of yen)	Audit fees (millions of yen)	Non-audit fees (millions of yen)
Reporting company	157	39	156	3
Consolidated subsidiaries	64	–	62	–
Total	221	39	218	3

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.

Fiscal year ended December 31, 2024

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

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, 2023		Fiscal year ended December 31, 2024	
	Audit fees (millions of yen)	Non-audit fees (millions of yen)	Audit fees (millions of yen)	Non-audit fees (millions of yen)
Reporting company	–	36	–	49
Consolidated subsidiaries	613	119	678	139
Total	613	155	678	188

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.

Fiscal year ended December 31, 2024

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, 2023

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

Fiscal year ended December 31, 2024

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 the basis for calculation of estimated remuneration amount in light of changes in the 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 100% of the base salary for the President and CEO, 50% to 70% of the base salary for the Executive Officers with titles other than the CEO and 30% to 50% 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, improvements from the previous year’s results, business results that reflect the achievement level of the single-year target EVA, which is a management index that the Company holds in high regard as an indicator to measure the degree of corporate value, and the results of individual evaluation. The bonus payment rate is set within a range of 0% to 200%.

The net sales, profit, and EVA 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. In the process of individual evaluation, the Company has put in place a process of evaluation by Outside Directors and Outside Audit & Supervisory Board Members to ensure objectivity and transparency of the evaluation.

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 1,680.3 billion yen, profit (gross profit minus selling, general administrative expenses) of 130.5 billion yen, with EVA single-year target of 24.0 billion yen. The actual results were sales of 1,737.9 billion yen, profit of 140.3 billion yen, and EVA of 33.2 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 139.86%.

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

With four years from 2024 to 2027 as the period applicable to the Mid-term Plan “K27,” the Company’s shares, etc., are delivered to Directors, other than Outside Directors, and Executive Officers based on factors such as the degree of achievement against the key performance targets adopted under “K27.” This performance-based share incentive plan consists of two parts: a variable portion in which Company shares, etc. are delivered in accordance with the degree of achievement against targets adopted under the mid-term plan, etc., and a fixed portion in which a certain number of Company shares, etc. are 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 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 100%, the yearly share remuneration amount is set at approximately 30% to 100% of a base salary.

The variable portion is delivered after Directors, etc. retire (or after the applicable period for Directors with foreign nationalities, etc.) depending on the level of their achievement. The fixed portion is delivered after the end of each fiscal year. A certain proportion of the amount is delivered in the Company’s shares and the remainder is delivered in the amount of the Company’s 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 “K27,” “Business Growth Evaluation (degree of growth in overall business sales, profit, and EVA, etc.)”; “ESG Activities Evaluation (evaluation by external indicators, status of realization of internal indicators, etc.)”; and “Top Management Activities Evaluation (evaluation of management potential (Total Shareholder Return (TSR) and evaluation of management activities by employees, etc.)” are used as evaluation indicators and evaluations are made based on the degree of achievement. The degree of achievement that is reflected in the variable portion will be determined within the range of 0% to 200% depending on the evaluation results of these indicators after the applicable period from 2024 to 2027.

Kao also has put in place a clawback provision, which allows the Company to reclaim the stock compensation paid through a resolution by the Board of Directors in the event that it had to correct its financial statements after filing them due to material misstatements or misconduct in accounting, or a Director or an Audit & Supervisory Board Member committed an act of disloyalty, for instance.

Evaluation indicators for the variable portion of the performance-based share incentive plan

<table>
<tr><th></th><th colspan="2">Evaluation indicator</th><th>Weight</th><th>Scale</th><th>Objective</th></tr>
<tr><td>Business Growth Evaluation</td><td colspan="2">Degree of overall business growth, sales, profit, and EVA (ROIC)</td><td>40%</td><td>5-point scale</td><td>The degree of contribution to continued growth and sound financial management is evaluated.</td></tr>
<tr><td rowspan="2">ESG Activities Evaluation</td><td colspan="2">Achievement level of KLP (Kao Kirei Life Plan) priority targets
Decarbonization (CO_2 emissions reduction rate), Zero Waste (Plastic recycling rate), Ratio of female managers, Number of serious compliance violations, etc.</td><td>25%</td><td>7-point scale</td><td rowspan="2">Solution to a variety of social issues and contribution to a sustainable society are evaluated from multiple perspectives.</td></tr>
<tr><td colspan="2">External evaluation results by major ESG rating agencies</td><td>15%</td><td>7-point scale</td></tr>
<tr><td rowspan="3">Top Management Activities Evaluation</td><td rowspan="2">Relative TSR evalu-ation</td><td>Comparison with TOPIX (including dividends)</td><td>5%</td><td>7-point scale</td><td rowspan="3">The adequacy of corporate governance is evaluated.</td></tr>
<tr><td>Comparison with benchmark companies</td><td>5%</td><td>7-point scale</td></tr>
<tr><td colspan="2">Employee engagement survey results</td><td>10%</td><td>7-point scale</td></tr>
</table>

Compensation for 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 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 the Company’s Representative Director, President and CEO, and all of the Company’s Outside Directors. As such, over half of the Committee’s members are independent. The chairperson is elected from among the Outside Directors.
Regarding determining individual compensation for Directors for the current fiscal year, the Compensation Advisory Committee for Directors and Executive Officers conducted a comprehensive review of the proposed plan, including its alignment with the objectives of the Company’s executive remuneration policy, and submitted its recommendations. After reviewing and deliberating the committee’s findings and recommendations, the Board of Directors confirmed that the remuneration structure is consistent with the stated objectives of executive remuneration, and has approved them.
The levels of compensation for Audit & Supervisory Board Members are determined through discussions by 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 levels of compensation for Directors, Executive Officers, and Audit & Supervisory Board Members are determined each year after ascertaining the levels of other major manufacturers of a similar size, industry category, and business type to the Company and other companies that are comparable to the Company in terms of the direction of management strategies and business form, using officer compensation survey data from an external survey organization.

2) Compensation Paid for Individual Directors in Fiscal Year ended December 31, 2024

Aggregate Amount of Remuneration, etc., Paid to Directors and Audit & Supervisory Board Members during fiscal 2024

(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)	11 (6)	821 (80)	402 (80)	207 (-)	149 (-)	63 (-)
Audit & Supervisory Board Members (including, in parentheses, Outside Audit & Supervisory Board Members)	6 (4)	127 (50)	127 (50)	- (-)	- (-)	- (-)
Total (including, in parentheses, Outside Directors and Outside Audit & Supervisory Board Members)	17 (10)	948 (130)	529 (130)	207 (-)	149 (-)	63 (-)

Notes:

1. The above numbers of Directors/Audit & Supervisory Board Members include one Inside Director, two Outside Directors, and one Outside Audit & Supervisory Board Member who resigned at the conclusion of this 118th Annual General Meeting of Shareholders held on March 22, 2024.
2. The variable portion of the long-term incentive compensation (performance-based stock compensation) will be finalized on the final year of the applicable period of four fiscal years from 2024 to 2027 of the Mid-term Plan “K27.” As such, the variable portion equals the amount of provision for long-term incentive compensation recognized in the current fiscal year.
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 conclusion of this Annual General Meeting of Shareholders. 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 conclusion of this Annual General Meeting of Shareholders.
Based on a resolution adopted at the 118th Annual General Meeting of Shareholders held on March 22, 2024, 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 Directors. Under this share incentive plan, trust money of up to 4.64 billion yen is contributed during 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 the fiscal year ended December 31, 2024 to the fiscal year ending December 31, 2027), 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 Business Growth Evaluation indicators (such as the degree of growth in overall business sales, profit, and EVA), ESG Activities Evaluation indicators (such as evaluation by external indicators and status of realization of internal indicators), and Top Management Activities Evaluation indicators (such as TSR (Total Shareholder Return) and evaluation of management activities by the Company’s employees). The Company had four Directors (excluding Outside Directors) at the conclusion of this Annual General Meeting of Shareholders.

(2) Maximum aggregate amount of remuneration, etc., to be paid to Audit & Supervisory Board Members:
An annual amount of 180 million yen (as resolved at the 118th Annual General Meeting of Shareholders held on March 22, 2024). The Company had five Audit & Supervisory Board Members (including three Outside Audit & Supervisory Board Members) at the conclusion of this Annual General Meeting of Shareholders.

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

<table>
<tr><th rowspan="3">Name
(title)</th><th rowspan="3">Aggregate amount of remuneration, etc.
(millions of yen)</th><th rowspan="3">Company category</th><th colspan="4">Components of remuneration (millions of yen)</th></tr>
<tr><th rowspan="2">Base salary</th><th rowspan="2">Short-term incentive compensation (performance-based bonus)</th><th colspan="2">Long-term incentive compensation (performance-based share incentive plan)</th></tr>
<tr><th>Variable portion</th><th>Fixed portion</th></tr>
<tr><td>Yoshihiro Hasebe
(Director)</td><td>297</td><td>Reporting company</td><td>87</td><td>112</td><td>69</td><td>29</td></tr>
<tr><td>Masakazu Negoro
(Director)</td><td>128</td><td>Reporting company</td><td>49</td><td>43</td><td>25</td><td>11</td></tr>
<tr><td>Toru Nishiguchi
(Director)</td><td>127</td><td>Reporting company</td><td>48</td><td>43</td><td>25</td><td>11</td></tr>
<tr><td>David J. Muenz
(Director)</td><td>164</td><td>Reporting company</td><td>112</td><td>9</td><td>30</td><td>13</td></tr>
</table>

Notes:

1. The variable portion of the long-term incentive compensation (performance-based stock compensation) will be determined at the end of the final fiscal year of the four fiscal years from 2024 to 2027, which are subject to our mid-term management plan "K27." Therefore, the variable portion will be recorded as an accrued amount for the current fiscal year.
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, 2024.

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	4,181
Stock other than unlisted stocks	13	3,273

Stocks whose shares held by the Company increased during the fiscal year ended December 31, 2024

	Number of stocks	Total acquisition cost for increased shares (millions of yen)	Reason for increase in number of shares
Unlisted stocks	1	79	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, 2024

	Number of stocks	Total sale amount for decreased shares (millions of yen)
Unlisted stocks	1	60
Stock other than unlisted stocks	3	542

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

Specified investment shares

Stock	Fiscal year ended December 31, 2024 Number of shares (shares) Balance sheet amount (millions of yen)	Fiscal year ended December 31, 2023 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.	265,460 1,521	318,510 1,124	(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)
AEON Co., Ltd.	282,541 1,044	281,679 888	(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
Zeon Corporation	130,000 195	130,000 170	(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
SANKYO KASEI CORPORATION	35,112 151	35,112 106	(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
NICHIREKI GROUP CO., LTD.	52,807 142	52,807 128	(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
The Yamagata Bank, Ltd.	73,458 74	113,458 121	(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
Mizuho Financial Group, Inc.	14,477 56	14,477 35	(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)
Mebuki Financial Group, Inc.	50,223 32	50,223 22	(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
PLANET, INC.	24,000 30	24,000 29	(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
ASIA PILE HOLDINGS CORPORATION	11,000 9	11,000 8	(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
FUJIYA CO., LTD.	3,000 8	3,000 7	(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
TOHO Co., Ltd.	2,400 7	2,400 7	(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
NIPPON CONCRETE INDUSTRIES CO., LTD.	14,000 5	14,000 4	(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
Sumitomo Mitsui Financial Group, Inc.	– –	24,033 165	(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

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 three stocks during fiscal 2024, and there were no stocks that failed to satisfy the quantitative criteria as of December 31, 2024.

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

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 Accounting Standards"), as permitted by the provision of Article 312 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 financial statements for the fiscal year from January 1, 2024 to December 31, 2024 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 Accounting Standards

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 Accounting Standards. 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 Accounting Standards, 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 Accounting Standards, the Company has prepared the Group's accounting policies in compliance with IFRS Accounting Standards 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, 2024

(Millions of yen)

	Notes	2023	2024
Assets			
Current assets			
Cash and cash equivalents	8, 35	291,663	357,713
Trade and other receivables	9, 35	225,934	238,077
Inventories	10	263,753	274,628
Other financial assets	35	6,596	10,525
Income tax receivables		5,186	5,467
Other current assets	11	24,931	26,053
Subtotal		818,063	912,463
Non-current assets held for sale	12	—	1,562
Total current assets		818,063	914,025
Non-current assets			
Property, plant and equipment	13	420,563	423,251
Right-of-use assets	18	126,252	116,637
Goodwill	14	220,227	228,413
Intangible assets	14	79,435	81,947
Investments accounted for using the equity method	15	11,807	14,526
Other financial assets	35	26,881	28,132
Deferred tax assets	16	55,315	49,044
Other non-current assets	11, 20	10,971	11,262
Total non-current assets		951,451	953,212
Total assets		1,769,514	1,867,237

(Millions of yen)

	Notes	2023	2024
Liabilities and equity			
Liabilities			
Current liabilities			
Trade and other payables	19, 35	235,513	258,035
Bonds and borrowings	17, 35	14,039	35,749
Lease liabilities	17, 18, 33, 35	19,020	20,146
Other financial liabilities	18, 35	7,445	7,280
Income tax payables		15,090	20,984
Provisions	21	14,406	2,773
Contract liabilities	26	45,264	43,878
Other current liabilities	22	109,157	120,755
Total current liabilities		459,934	509,600
Non-current liabilities			
Bonds and borrowings	17, 35	124,441	95,310
Lease liabilities	17, 18, 33, 35	103,572	94,123
Other financial liabilities	18, 35	6,889	6,370
Retirement benefit liabilities	20	40,451	39,460
Provisions	21	8,352	8,223
Deferred tax liabilities	16	8,447	9,754
Other non-current liabilities		5,385	5,562
Total non-current liabilities		297,537	258,802
Total liabilities		757,471	768,402
Equity			
Share capital	23	85,424	85,424
Capital surplus	23	105,780	106,256
Treasury shares	23	(3,267)	(5,924)
Other components of equity	23	83,919	132,239
Retained earnings	23	711,802	748,781
Equity attributable to owners of the parent		983,658	1,066,776
Non-controlling interests		28,385	32,059
Total equity		1,012,043	1,098,835
Total liabilities and equity		1,769,514	1,867,237

2) Consolidated Statement of Income

Kao Corporation and Consolidated Subsidiaries

Fiscal year ended December 31, 2024

(Millions of yen)

	Notes	2023	2024
Net sales	6, 26	1,532,579	1,628,448
Cost of sales	10, 13, 14, 18, 20	(972,152)	(990,044)
Gross profit		560,427	638,404
Selling, general and administrative expenses	13, 14, 18, 20, 27	(466,770)	(498,140)
Other operating income	26, 28	18,892	30,354
Other operating expenses	13, 14, 18, 20, 29	(52,514)	(23,974)
Operating income	6	60,035	146,644
Financial income	6, 20, 30	4,867	4,988
Financial expenses	6, 18, 20, 30	(3,447)	(4,090)
Share of profit in investments accounted for using the equity method	6, 15	2,387	3,482
Income before income taxes	6	63,842	151,024
Income taxes	16	(17,685)	(40,650)
Net income		46,157	110,374
Attributable to:			
Owners of the parent		43,870	107,767
Non-controlling interests		2,287	2,607
Net income		46,157	110,374
Earnings per share			
Basic (Yen)	31	94.37	231.94
Diluted (Yen)	31	94.37	—

3) Consolidated Statement of Comprehensive Income

Kao Corporation and Consolidated Subsidiaries

Fiscal year ended December 31, 2024

(Millions of yen)

	Notes	2023	2024
Net income		46,157	110,374
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	32, 35	627	1,334
Remeasurements of defined benefit plans	32	(3,215)	(936)
Share of other comprehensive income of investments accounted for using the equity method	32	347	430
Total of items that will not be reclassified to profit or loss		(2,241)	828
Items that may be reclassified subsequently to profit or loss:			
Exchange differences on translation of foreign operations	32	40,221	48,601
Share of other comprehensive income of investments accounted for using the equity method	32	334	574
Total of items that may be reclassified subsequently to profit or loss		40,555	49,175
Other comprehensive income, net of taxes		38,314	50,003
Comprehensive income		84,471	160,377
Attributable to:			
Owners of the parent		80,809	155,475
Non-controlling interests		3,662	4,902
Comprehensive income		84,471	160,377

4) Consolidated Statement of Changes in Equity

Kao Corporation and Consolidated Subsidiaries

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	23	—	(177)	209	(28)	—	—	—
Purchase of treasury shares	23	—	—	(17)	—	—	—	—
Share-based payment transactions	34	—	200	—	—	—	—	—
Dividends	25	—	—	—	—	—	—	—
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		Retained earnings	Total		
		Remeasurements of defined benefit plans	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	23	—	(28)	(4)	0	—	0
Purchase of treasury shares	23	—	—	—	(17)	—	(17)
Share-based payment transactions	34	—	—	—	200	—	200
Dividends	25	—	—	(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

Fiscal year ended December 31, 2024

(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, 2024		85,424	105,780	(3,267)	—	77,448	10	6,461
Net income		—	—	—	—	—	—	—
Other comprehensive income		—	—	—	—	46,873	(4)	1,780
Comprehensive income		—	—	—	—	46,873	(4)	1,780
Disposal of treasury shares	23	—	(182)	189	—	—	—	—
Purchase of treasury shares	23	—	—	(2,846)	—	—	—	—
Share-based payment transactions	34	—	653	—	—	—	—	—
Dividends	25	—	—	—	—	—	—	—
Changes in the ownership interest in subsidiaries		—	5	—	—	—	—	—
Transfer from other components of equity to retained earnings		—	—	—	—	—	—	(329)
Total transactions with the owners		—	476	(2,657)	—	—	—	(329)
December 31, 2024		85,424	106,256	(5,924)	—	124,321	6	7,912

	Notes	Equity attributable to owners of the parent				Non-controlling interests	Total equity
		Other components of equity					
		Remeasure-ments of defined benefit plans	Total	Retained earnings	Total		
January 1, 2024		—	83,919	711,802	983,658	28,385	1,012,043
Net income		—	—	107,767	107,767	2,607	110,374
Other comprehensive income		(941)	47,708	—	47,708	2,295	50,003
Comprehensive income		(941)	47,708	107,767	155,475	4,902	160,377
Disposal of treasury shares	23	—	—	(7)	0	—	0
Purchase of treasury shares	23	—	—	—	(2,846)	—	(2,846)
Share-based payment transactions	34	—	—	—	653	—	653
Dividends	25	—	—	(70,169)	(70,169)	(1,207)	(71,376)
Changes in the ownership interest in subsidiaries		—	—	—	5	(21)	(16)
Transfer from other components of equity to retained earnings		941	612	(612)	—	—	—
Total transactions with the owners		941	612	(70,788)	(72,357)	(1,228)	(73,585)
December 31, 2024		—	132,239	748,781	1,066,776	32,059	1,098,835

5) Consolidated Statement of Cash Flows

Kao Corporation and Consolidated Subsidiaries

Fiscal year ended December 31, 2024

(Millions of yen)

	Notes	2023	2024
Cash flows from operating activities			
Income before income taxes		63,842	151,024
Depreciation and amortization		89,595	88,422
Impairment losses		21,703	1,813
Gain on transfer of business		—	(10,590)
Interest and dividend income		(3,525)	(4,678)
Interest expense		2,524	2,729
Share of profit in investments accounted for using the equity method		(2,387)	(3,482)
(Gains) losses on sale and disposal of property, plant and equipment, and intangible assets		4,784	2,361
(Increase) decrease in trade and other receivables		20,476	1,184
(Increase) decrease in inventories		29,383	(1,414)
Increase (decrease) in trade and other payables		(19,380)	10,991
Increase (decrease) in retirement benefit liabilities		398	(1,793)
Increase (decrease) in provision		12,540	(12,293)
Other		3,779	790
Subtotal		223,732	225,064
Interest received		3,329	4,428
Dividends received		2,650	2,343
Interest paid		(2,596)	(2,622)
Income taxes paid		(24,634)	(27,628)
Net cash flows from operating activities		202,481	201,585
Cash flows from investing activities			
Payments into time deposits		(9,358)	(16,977)
Proceeds from withdrawal of time deposits		6,713	13,554
Purchase of property, plant and equipment		(54,166)	(57,404)
Proceeds from sale of property, plant and equipment		223	9,827
Purchase of intangible assets		(12,281)	(10,072)
Payments for business combinations		(40,826)	—
Proceeds from transfer of business		—	11,783
Other		393	3,387
Net cash flows from investing activities		(109,302)	(45,902)
Cash flows from financing activities			
Increase (decrease) in short-term borrowings		12,909	(14,299)
Proceeds from long-term borrowings		40,000	10,000
Repayments of long-term borrowings		(43,341)	(4,375)
Proceeds from issuance of bonds		24,937	—
Redemption of bonds		(24,952)	(12)
Repayments of lease liabilities	33	(21,432)	(21,637)
Dividends paid to owners of the parent		(69,339)	(70,246)
Dividends paid to non-controlling interests		(962)	(1,227)
Other		2,197	(2,782)
Net cash flows from financing activities		(79,983)	(104,578)
Net increase (decrease) in cash and cash equivalents		13,196	51,105
Cash and cash equivalents at the beginning of the year	8	268,248	291,663
Effect of exchange rate changes on cash and cash equivalents		10,219	14,945
Cash and cash equivalents at the end of the year	8	291,663	357,713

Notes to Consolidated Financial Statements

Kao Corporation and Consolidated Subsidiaries
Fiscal year ended December 31, 2024

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 Accounting Standards")

The Group's consolidated financial statements have been prepared in accordance with IFRS Accounting Standards issued by the International Accounting Standards Board, as permitted by the provision of Article 312 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)

"Proceeds from sale of property, plant and equipment," which was included in "Other" within "Investing activities" for the fiscal year ended December 31, 2023, is separately presented from the fiscal year ended December 31, 2024 as the amounts became material. The consolidated financial statements for the fiscal year ended December 31, 2023 have been reclassified to reflect these changes in presentation.
Consequently, "Other," which was presented as a cash inflow of 616 million yen within "Investing activities" of the consolidated statement of cash flows for the fiscal year ended December 31, 2023, is reclassified to "Proceeds from sale of property, plant and equipment, " which is presented as a cash inflow of 223 million yen and "Other," which is presented as a cash inflow of 393 million yen.
"Purchase of treasury shares," which was separately presented as items within "Financing activities" for the fiscal year ended December 31, 2023, is included in "Other" for the fiscal year ended December 31, 2024 as the amounts became immaterial. The consolidated financial statements for the fiscal year ended December 31, 2023 have been reclassified to reflect these changes in presentation.
Consequently, "Purchase of treasury shares," which was presented as a cash outflow of (17) million yen within "Financing activities" of the consolidated statement of cash flows for the fiscal year ended December 31, 2023, is reclassified to "Other."

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.
All subsidiaries have the same closing date as the Company from the fiscal year ended December 31, 2024.The closing dates of some subsidiaries differed from that of the Company for the fiscal year ended December 31, 2023. Subsidiaries with different closing dates prepare additional financial closings as of the closing date of the Company for the fiscal year ended December 31, 2023.

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.

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 14 "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 35 "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 20 "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, a provision for business transformation at subsidiaries in Europe and the Americas 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 21 “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 16 “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 35 “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

New or revised major standards and interpretations that were issued by the date of approval presented in Note 39 “Approval of the Consolidated Financial Statements,” but were not yet early adopted by the Group as of December 31, 2024 are as follows. The Group is currently evaluating the possible impacts on the consolidated financial statements resulting from the adoption and the estimates are currently not available.

IFRS	Title	Mandatory adoption (From the fiscal year beginning)	Adoption by the Group	Overview of new or revised Standards and Interpretations
IFRS 9 IFRS 7	Contracts Referencing Nature dependent Electricity	January 1, 2026	Fiscal year ending December 31, 2026	Amendments to better reflect contracts referencing nature dependent electricity in the financial statements
IFRS 18	Presentation and Disclosure in Financial Statements	January 1, 2027	Fiscal year ending December 31, 2027	Revised Presentation and Disclosure in Financial Statements

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, UV care products</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</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, 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 reforms. Reconciliation of operating income (loss) to core operating income (loss) is as follows. Note 13 “Property, Plant and Equipment” and Note 21 “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 reforms									
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 13 “Property, Plant and Equipment,” Note 14 “Goodwill and Intangible Assets” and Note 18 “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.

Fiscal year ended December 31, 2024

(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	544,278	423,967	55,899	244,102	1,268,246	360,202	1,628,448	—	1,628,448
Intersegment sales and transfers[2]	—	—	—	—	—	45,678	45,678	(45,678)	—
Total net sales	544,278	423,967	55,899	244,102	1,268,246	405,880	1,674,126	(45,678)	1,628,448
Operating income (loss)	75,771	34,433	6,293	(3,664)	112,833	34,634	147,467	(823)	146,644
Financial income									4,988
Financial expenses									(4,090)
Share of profit in investments accounted for using the equity method									3,482
Income before income taxes									151,024
Other items									
Depreciation and amortization[3]	30,309	19,633	3,631	13,297	66,870	19,479	86,349	2,073	88,422
Impairment losses[3]	726	76	3	69	874	658	1,532	281	1,813
Capital expenditures[4]	28,394	18,632	1,928	15,132	64,086	28,385	92,471	1,059	93,530

Notes:

1. The operating income (loss) reconciliation of (823) 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 13 “Property, Plant and Equipment,” Note 14 “Goodwill and Intangible Assets” and Note 18 “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.

(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)

	2023	2024
Japan	854,161	903,857
Asia	326,646	332,029
Americas	191,645	213,270
Europe	160,127	179,292
Total	1,532,579	1,628,448

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)

	2023	2024
Japan	538,859	519,501
Asia	108,742	101,924
Americas	164,505	192,254
Europe	53,088	57,555
Total	865,194	871,234

7. Business Combination

(Adjustment to the provisional amounts)

The business combination with Bondi Sands on November 1, 2023 was provisionally accounted for, as the allocation of the acquisition consideration had not been completed in the fiscal year ended December 31, 2023. However, the allocation was completed in the fiscal year ended December 31, 2024.

With the finalization of this provisional accounting treatment, the consolidated statement of financial position for the fiscal year ended December 31, 2023 was retrospectively adjusted. Compared to the figures before the retrospective adjustment, inventories for the fiscal year ended December 31, 2023 decreased by 62 million yen, other current assets increased by 1,016 million yen, intangible assets decreased by 2,323 million yen, deferred tax assets decreased by 204 million yen, deferred tax liabilities decreased by 232 million yen, and as a result, goodwill increased by 1,341 million yen.

(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:	40,247 million yen
Components of acquisition cost: Cash	40,247 million yen

The acquisition cost was finalized at the end of the fiscal year ended December 31, 2024. As a result, it decreased by 1,000 million yen compared to the initial provisional amount.

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

Current assets	5,620 million yen
Trademarks	13,303 million yen
Customer relationships	3,616 million yen
Other non-current assets	435 million yen
Total assets	22,974 million yen
Current liabilities	8,704 million yen
Non-current liabilities	152 million yen
Total liabilities	8,856 million yen

The fair values of the assets acquired and liabilities assumed were finalized at the end of the fiscal year ended December 31, 2024. As a result, total assets and total liabilities decreased by 3,142 million yen and 824 million yen, respectively, compared to the initial provisional amounts.

(5) Goodwill

Goodwill recognized:	22,280 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.
None of the goodwill is expected to be deductible for tax purposes.
The amount of goodwill was finalized at the end of the fiscal year ended December 31, 2024. As a result, it increased by 1,319 million yen compared to the initial provisional amount.

(6) Net Sales and Income of Acquired Business

Information on income associated with this business combination after the acquisition date 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)

	2023	2024
Cash and deposits	286,663	319,704
Short-term investments	5,000	38,009
Total	291,663	357,713

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)

	2023	2024
Trade receivables	218,275	232,755
Other receivables	9,734	7,164
Allowance for doubtful receivables	(2,075)	(1,842)
Total	225,934	238,077

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)

	2023	2024
Merchandise and finished goods	203,169	209,163
Work in progress	15,842	15,193
Materials and supplies	44,742	50,272
Total	263,753	274,628

The amount of inventories recognized as expenses and included in cost of sales for the fiscal years ended December 31, 2023 and 2024 were 839,513 million yen and 851,413 million yen, respectively.
Write-downs of inventories recognized as expenses for the fiscal years ended December 31, 2023 and 2024 were 11,979 million yen and 10,945 million yen, respectively.

11. Other Assets

Other assets consist of the following:

(Millions of yen)

	2023	2024
Other current assets		
Prepaid expenses	11,327	13,757
Other	13,604	12,296
Total	24,931	26,053
Other non-current assets		
Long-term prepaid expenses	3,754	3,797
Retirement benefit assets	4,061	4,802
Other	3,156	2,663
Total	10,971	11,262

12. Non-current Assets Held for Sale

Certain assets including the office buildings of a foreign subsidiary were classified as non-current assets held for sale in the fiscal year ended December 31, 2024, pursuant to the decision to sell these assets.
These assets were measured at their carrying amount as the fair value less costs to sell (the sales value under the sales agreement) exceeded the carrying amount.
The fair value of these assets was categorized within Level 3 of the fair value hierarchy.

13. 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, 2023	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
Additions	1,600	309	959	351	58,365	61,584
Sales and disposals	(16,557)	(29,219)	(12,224)	(5,469)	(892)	(64,361)
Reclassification	9,463	22,894	8,613	―	(40,970)	―
Reclassification to assets held for sale	(5,267)	―	―	―	―	(5,267)
Exchange differences on translation of foreign operations	9,404	22,907	2,744	799	1,823	37,677
Other	(1,156)	944	(899)	―	65	(1,046)
December 31, 2024	508,510	873,222	133,529	90,080	46,557	1,651,898

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, 2023	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
Depreciation[1]	14,987	31,459	10,200	―	―	56,646
Impairment losses[2]	661	244	16	245	622	1,788
Sales and disposals	(12,456)	(28,706)	(12,011)	(1,155)	(816)	(55,144)
Reclassification to assets held for sale	(3,725)	―	―	―	―	(3,725)
Exchange differences on translation of foreign operations	6,003	18,012	2,284	―	68	26,367
Other	140	314	(45)	―	(442)	(33)
December 31, 2024	370,632	733,142	113,426	9,410	2,037	1,228,647

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, 2023	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
December 31, 2024	137,878	140,080	20,103	80,670	44,520	423,251

(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 21,695 million yen and 1,788 million yen for the fiscal years ended December 31, 2023 and 2024, 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 35 “Financial Instruments” presents information on the fair value hierarchy.

(3) Commitments

Note 38 “Commitments” presents information on commitments to acquire property, plant and equipment.

14. 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, 2023	191,860	46,878	17,655	16,072	9,105	89,710
Additions	—	60	—	—	12,126	12,186
Acquisitions through business combinations	22,280	—	13,303	3,616	—	16,919
Sales and disposals	—	(6,626)	(164)	—	(1,513)	(8,303)
Reclassification	—	10,838	—	—	(10,838)	—
Exchange differences on translation of foreign operations	6,087	266	782	1,091	254	2,393
Other	—	58	—	—	(241)	(183)
December 31, 2023	220,227	51,474	31,576	20,779	8,893	112,722
Additions	—	79	—	—	9,944	10,023
Sales and disposals	—	(7,098)	—	—	(318)	(7,416)
Reclassification	—	13,371	—	—	(13,371)	—
Exchange differences on translation of foreign operations	8,186	182	3,350	2,004	367	5,903
Other	—	488	—	—	20	508
December 31, 2024	228,413	58,496	34,926	22,783	5,535	121,740

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, 2023	—	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
Amortization[1]	—	9,184	1,694	1,284	27	12,189
Sales and disposals	—	(7,105)	—	—	(318)	(7,423)
Exchange differences on translation of foreign operations	—	115	686	590	348	1,739
Other	—	1	—	—	—	1
December 31, 2024	—	23,428	8,254	7,444	667	39,793

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, 2023	191,860	27,912	13,052	11,830	7,389	60,183
December 31, 2023	220,227	30,241	25,702	15,209	8,283	79,435
December 31, 2024	228,413	35,068	26,672	15,339	4,868	81,947

(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)

	2023	2024
Health and Beauty Care Business	59,649	63,708
Life Care Business	23,646	26,161
Cosmetics Business	133,646	134,952
Chemical Business	3,286	3,592
Total	220,227	228,413

(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, 2023 and 2024 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 7.9% for the fiscal year ended December 31, 2023 and 7.5% for the fiscal year ended December 31, 2024. For the fiscal years ended December 31, 2023 and 2024, 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 38 “Commitments” presents information on commitments associated with the acquisition of intangible assets.

15. 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)

	2023	2024
Investments accounted for using the equity method	11,807	14,526

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)

	2023	2024
The Group's share of net income	2,387	3,482
The Group's share of other comprehensive income	681	1,004
The Group's share of comprehensive income	3,068	4,486

16. 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, 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	—	1,135	26,674
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	3,794	112,960
Deferred tax liabilities					
Property, plant and equipment and intangible assets	11,017	590	—	2,030	13,637
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	3,373	66,092
Deferred tax assets, net	36,975	8,430	1,042	421	46,868

Fiscal year ended December 31, 2024 (Millions of yen)

	January 1, 2024	Recognized in profit or loss	Recognized in other comprehensive income	Other	December 31, 2024
Deferred tax assets					
Property, plant and equipment and intangible assets	26,674	(1,020)	—	136	25,790
Lease liabilities	34,698	(2,575)	—	417	32,540
Retirement benefit liabilities	9,921	(1,067)	399	(23)	9,230
Accrued expenses	10,150	(21)	—	125	10,254
Unused tax losses	5,924	285	—	129	6,338
Other	25,593	(4,391)	—	161	21,363
Total deferred tax assets	112,960	(8,789)	399	945	105,515
Deferred tax liabilities					
Property, plant and equipment and intangible assets	13,637	700	—	905	15,242
Right-of-use assets	34,651	(2,745)	—	416	32,322
Financial assets	2,370	—	578	(147)	2,801
Undistributed foreign earnings	12,899	513	—	—	13,412
Other	2,535	33	19	(139)	2,448
Total deferred tax liabilities	66,092	(1,499)	597	1,035	66,225
Deferred tax assets, net	46,868	(7,290)	(198)	(90)	39,290

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

(Millions of yen)

	2023	2024
Deferred tax assets	55,315	49,044
Deferred tax liabilities	8,447	9,754
Deferred tax assets, net	46,868	39,290

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

(Millions of yen)

	2023	2024
Unused tax losses	7,796	16,216
Deductible temporary differences	21,420	11,279
Total	29,216	27,495

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

(Millions of yen)

	2023	2024
Not later than 1 year	419	—
Later than 1 year and not later than 2 years	—	—
Later than 2 years and not later than 3 years	576	236
Later than 3 years and not later than 4 years	2,235	458
Later than 4 years	4,566	15,522
Total	7,796	16,216

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, 2023 and 2024 were 39,441 million yen and 57,384 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)

	2023	2024
Current taxes	26,115	33,360
Deferred taxes[1]	(8,430)	7,290
Total	17,685	40,650

Note:

1. Deferred taxes include 229 million yen and 410 million yen for the fiscal years ended December 31, 2023 and 2024, 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:

(%)

	2023	2024
Effective statutory tax rate	30.62	30.62
Tax credit for experimental research costs and other	(8.07)	(3.54)
Different tax rates applied to subsidiaries	(2.94)	(0.91)
Reassessment of recoverability of unused tax losses and deferred tax assets	4.72	0.25
Change in tax rates	0.36	0.27
Undistributed foreign earnings	(0.50)	0.34
Other	3.51	(0.11)
Average actual tax rate	27.70	26.92

17. Bonds and Borrowings and Other

Bonds and borrowings and lease liabilities consist of the following:

(Millions of yen)

	2023	2024	Average interest rate[1] (%)	Maturity
Short-term borrowings	14,017	724	2.35	—
Current portion of long-term borrowings	10	10,022	0.12	—
Long-term borrowings	74,270	70,118	0.26	2026～2032
Current portion of bonds[2]	12	25,003	—	—
Bonds[2]	50,171	25,192	—	—
Lease liabilities (Current)	19,020	20,146	0.77	—
Lease liabilities (Non-current)	103,572	94,123	1.69	2026～2066
Total	261,072	245,328		
Current liabilities				
Bonds and borrowings	14,039	35,749		
Lease liabilities	19,020	20,146		
Subtotal	33,059	55,895		
Non-current liabilities				
Bonds and borrowings	124,441	95,310		
Lease liabilities	103,572	94,123		
Subtotal	228,013	189,433		
Total	261,072	245,328		

Notes:

1. The average interest rate is the weighted average interest rate on the balance as of December 31, 2024.
2. Details of bonds issued are as follows:

(Millions of yen)

Issuer	Bond name	Issue date	2023	2024	Interest rate (%)	Collateral	Maturity date
The Company	6th unsecured bonds	September 18, 2020	24,979	24,991	0.13	None	September 19, 2025
The Company	7th unsecured bonds[3]	June 15, 2023	24,944	24,956	0.35	None	June 20, 2028
Subsidiaries	Other bonds	—	260	248	—	—	—
Total			50,183	50,195			

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).

18. 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)

	2023	2024
Depreciation charge for right-of-use assets[1]		
Buildings and structures	16,598	17,470
Other	1,738	2,117
Total	18,336	19,587
Interest expense on lease liabilities[2]	1,438	1,771
Expenses relating to short-term leases[3]	2,204	1,748
Other	1,247	1,315
Total	4,889	4,834

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, 2023 and 2024 were 26,341 million yen and 26,491 million yen, respectively.

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

(Millions of yen)

	2023	2024
Right-of-use assets		
Buildings and structures	113,709	102,881
Other	12,543	13,756
Total	126,252	116,637

Note 33 “Cash Flow Information” presents additions to right-of-use assets.
Note 35 “Financial Instruments” presents lease liabilities by maturity date.

19. Trade and Other Payables

Trade and other payables consist of the following:

(Millions of yen)

	2023	2024
Trade payables	161,938	172,907
Non-trade payables	73,575	85,128
Total	235,513	258,035

The Group has entered into supplier finance arrangements with third-party financial institutions. Under these arrangements, the Group makes payments to the third-party financial institutions 120 to 130 days after the invoice date, based on agreements with each supplier. The due dates are similar to those of comparable trade payables that are not part of a supplier finance arrangement. Suppliers may, at their discretion, receive early payment at a discount from a third-party financial institution. The Group has not pledged any assets or provided any third-party guarantees for supplier finance arrangements.
The carrying amounts of financial liabilities related to supplier finance arrangements for the fiscal years ended December 31, 2023 and 2024 were 68,008 million yen and 68,844 million yen, respectively, and are included in trade and other payables above. Of these amounts, 7,715 million yen was paid to suppliers in the fiscal year ended December 31, 2024. The Group has applied the transitional provisions of “Supplier Finance Arrangements” (Amendments to IAS 7 and IFRS 7) and has not disclosed information at the beginning of the first year of application.

The supplier finance arrangements entered into by the Group are not expected to result in a concentration or significant extension of payment due dates compared to the normal payment terms agreed with other suppliers not participating in the arrangements, and the Group is not exposed to significant liquidity risk arising from these arrangements.

For the fiscal year ended December 31, 2024, there were no significant non-cash changes in the carrying amounts of financial liabilities subject to the supplier finance arrangements.

20. 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)

	2023	2024
Present value of defined benefit obligations	299,825	278,526
Fair value of plan assets	(326,268)	(340,169)
Subtotal	(26,443)	(61,643)
Effect of the asset ceiling	62,833	96,301
Net defined benefit liabilities	36,390	34,658
Amounts recognized in the consolidated statement of financial position		
Retirement benefit liabilities	40,451	39,460
Retirement benefit assets	(4,061)	(4,802)
Net defined benefit liabilities	36,390	34,658

2) Defined benefit obligations

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

(Millions of yen)

	2023	2024
The present value of the defined benefit obligations at beginning of year	301,744	299,825
Current service cost[1]	7,825	7,447
Interest expense[2]	4,960	5,009
Remeasurements		
Actuarial (gains) losses arising from changes in demographic assumptions	73	3,059
Actuarial (gains) losses arising from changes in financial assumptions	(1,582)	(19,545)
Actuarial (gains) losses arising from experience adjustments	269	(868)
Benefits paid[3]	(16,638)	(19,292)
Exchange differences on translation of foreign operations and other	3,174	2,891
The present value of the defined benefit obligations at end of year	299,825	278,526

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 15.1 years at December 31, 2023 and 13.8 years at December 31, 2024.

3) Plan assets

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

(Millions of yen)

	2023	2024
The fair value of plan assets at beginning of year	299,668	326,268
Interest income	4,617	5,052
Remeasurements		
Return on plan assets (excluding amounts included in interest income)	23,491	13,991
Contributions to the plan by the employer[1]	10,827	10,517
Payments from the plan	(14,494)	(18,010)
Exchange differences on translation of foreign operations and other	2,159	2,351
The fair value of plan assets at end of year	326,268	340,169

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 10,323 million yen to the defined benefit plan for the fiscal year ending December 31, 2025.

Plan assets consist of the following:

(Millions of yen)

	2023			2024		
	Market price in an active market			Market price in an active market		
	Quoted	Unquoted	Total	Quoted	Unquoted	Total
Equity securities	6,585	62,209	68,794	2,680	64,828	67,508
Japan	—	30,059	30,059	—	31,597	31,597
Overseas	6,585	32,150	38,735	2,680	33,231	35,911
Debt securities	13,050	229,766	242,816	14,525	232,960	247,485
Japan	—	151,532	151,532	—	151,881	151,881
Overseas	13,050	78,234	91,284	14,525	81,079	95,604
Other	608	14,050	14,658	5,125	20,051	25,176
Total	20,243	306,025	326,268	22,330	317,839	340,169

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)

	2023	2024
The effect of the asset ceiling at beginning of year	33,123	62,833
Interest income	422	807
Remeasurements		
Changes in the effect of the asset ceiling	29,288	32,661
The effect of the asset ceiling at end of year	62,833	96,301

5) Significant actuarial assumptions and related sensitivity analysis

Significant actuarial assumptions are as follows:

	2023	2024
Discount rate	Mainly 1.7%	Mainly 2.3%

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)

	2023	2024
The impact on defined benefit obligations		
0.5% increase in discount rate	(19,014)	(16,049)
0.5% decrease in discount rate	21,422	18,049

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 4,552 million yen and 4,911 million yen for the fiscal years ended December 31, 2023 and 2024, 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, 2023 and 2024 were 309,167 million yen and 312,169 million yen, respectively.

21. 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	Provision for business transformation at subsidiaries in Europe and the Americas	Other provisions	Total
January 1, 2024[1]	3,271	5,230	13,374	101	782	22,758
Increase	—	557	108	3,234	1,796	5,695
Interest expense on discounted provision	18	32	—	—	—	50
Decrease (provision used)	(752)	(63)	(13,098)	(1,227)	(1,843)	(16,983)
Decrease (provision reversed)	—	(23)	(395)	(83)	(63)	(564)
Exchange differences on translation of foreign operations	—	36	11	(80)	73	40
December 31, 2024	2,537	5,769	—	1,945	745	10,996

Note:

1. “Provision for business transformation at subsidiaries in Europe and the Americas,” which was included in “Other provisions” for the fiscal year ended December 31, 2023, is separately presented from the fiscal year ended December 31, 2024 as the amounts became material. To reflect this change in presentation, the balance as of January 1, 2024 has been reclassified. Consequently, “Other provisions,” which was presented as 883 million yen in the balance as of December 31, 2023, is reclassified to “Provision for business transformation at subsidiaries in Europe and the Americas” of 101 million yen and “Other provisions” of 782 million yen in the balance as of January 1, 2024.

(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 622 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 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.

(4) Provision for Business Transformation at Subsidiaries in Europe and the Americas

The Group recognizes estimated expenditures for the business transformation at subsidiaries in Europe and the Americas.

22. Other Current Liabilities

Other current liabilities consist of the following:

(Millions of yen)

	2023	2024
Accrued expenses	75,750	86,161
Consumption tax payables	11,304	12,280
Obligation for unused paid absences	9,078	8,843
Other	13,025	13,471
Total	109,157	120,755

23. Equity and Other Equity Items

(1) Share Capital

The numbers of shares authorized and issued are as follows:

(Shares)

	2023	2024
Authorized	1,000,000,000	1,000,000,000
Issued[1]		
Beginning balance	465,900,000	465,900,000
Change during the year	—	—
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) 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)

	2023	2024
Beginning balance[1]	1,065,960	1,034,724
Increase[2]	3,208	407,766
Decrease[3]	(34,444)	(27,157)
Ending balance[4]	1,034,724	1,415,333

Notes:

1. 576,003 treasury shares and 572,796 treasury shares held by associates were included at December 31, 2023 and 2024, respectively.
   In addition, 401,798 shares and 375,673 shares held by the Board Incentive Plan Trust (hereinafter “BIP Trust”) were included at December 31, 2023 and 2024, respectively.
2. 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.
   The increase of 407,766 shares of treasury shares during the fiscal year ended December 31, 2024 resulted from the acquisition of 404,700 shares by resolution of the Board of Directors and the purchase of 3,066 fractional shares.
3. 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.
   The decrease of 27,157 shares of treasury shares during the fiscal year ended December 31, 2024 resulted from a decrease of 27,104 shares due to the grant to the Board of Directors by the BIP Trust and the sale of 53 fractional shares.
4. 572,796 shares of treasury shares held by associates were included at December 31, 2023 and 2024.
   In addition, 375,673 shares and 753,269 shares held by the BIP Trust were included at December 31, 2023 and 2024, 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 34 “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.

24. 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[1]), 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, 2024, ROIC was 9.2% and although capital cost increased slightly, EVA increased 18.3 billion yen compared with the fiscal year ended December 31, 2023 to 33.2 billion yen as net operating profit after tax (NOPAT) increased substantially.

Note:
1. EVA is a monetary metric obtained by deducting capital costs from NOPAT, while ROIC is a ratio metric obtained by dividing NOPAT by invested capital. EVA is a registered trademark of Stern Stewart & Co.
   The Group defines NOPAT as net income which the interest expenses with tax adjustments are added back; capital costs as invested capital multiplied by the group's WACC; and invested capital as the average of the beginning and ending balances of total capital which a part of corporate bonds, borrowings, and other financial liabilities are added.

25. Dividends

Dividends paid are as follows:

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

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 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.

Fiscal year ended December 31, 2024

Date of resolution	Total dividends[1,2] (Millions of yen)	Dividends per share (Yen)	Record date	Effective date
118th Annual General Meeting of Shareholders held on March 22, 2024	34,865	75	December 31, 2023	March 25, 2024
Board of Directors meeting held on August 8, 2024	35,301	76	June 30, 2024	September 2, 2024

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 118th Annual General Meeting of Shareholders held on March 22, 2024 was 34,936 million yen before the deduction. The dividend resolved at the meeting of the Board of Directors held on August 8, 2024 was 35,402 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, 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

Fiscal year ended December 31, 2024

Date of resolution	Total dividends (Millions of yen)	Dividends per share (Yen)	Record date	Effective date
119th Annual General Meeting of Shareholders held on March 21, 2025	35,402	76	December 31, 2024	March 24, 2025

26. 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, 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.

Fiscal year ended December 31, 2024

(Millions of yen)

	Japan	Asia	Americas	Europe	Total
Fabric and Home Care Products	327,934	44,292	3,476	—	375,702
Sanitary Products	76,469	92,107	—	—	168,576
Hygiene and Living Care Business	404,403	136,399	3,476	—	544,278
Health and Beauty Care Business	212,083	36,703	112,502	62,679	423,967
Life Care Business	40,231	247	15,228	193	55,899
Cosmetics Business	166,487	39,129	7,892	30,594	244,102
Consumer Products Business	823,204	212,478	139,098	93,466	1,268,246
Chemical Business	138,362	104,950	68,331	94,237	405,880
Elimination of intersegment transactions	(38,597)	(3,732)	(107)	(3,242)	(45,678)
Consolidated	922,969	313,696	207,322	184,461	1,628,448
Revenue of logistics services to third parties included in other operating income	12,467	—	—	—	12,467
Total revenue from contracts with customers	935,436	313,696	207,322	184,461	1,640,915

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, 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

Fiscal year ended December 31, 2024

(Millions of yen)

	January 1, 2024	December 31, 2024
Contract liabilities		
Advances	1,934	1,862
Refund liabilities	43,330	42,016
Total	45,264	43,878

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, 2023 and 2024, the amounts recognized as revenue during the fiscal years ended December 31, 2023 and 2024, were not material. The amount of revenue recognized during the fiscal year ended December 31, 2024 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, 2024 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.

27. Selling, General and Administrative Expenses

Selling, general and administrative expenses consist of the following:

(Millions of yen)

	2023	2024
Advertising	75,841	88,270
Sales promotion	51,274	54,327
Employee benefits	168,645	176,955
Depreciation	17,398	16,696
Amortization	10,421	11,637
Research and development	62,575	62,092
Other	80,616	88,163
Total	466,770	498,140

28. Other Operating Income

Other operating income consists of the following:

(Millions of yen)

	2023	2024
Revenue of logistics services to third parties	11,506	12,467
Royalty income	1,095	1,155
Gain on sale of businesses	—	10,590
Other	6,291	6,142
Total	18,892	30,354

29. Other Operating Expenses

Other operating expenses consist of the following:

(Millions of yen)

	2023	2024
Expenses of logistics services to third parties	10,474	11,169
Losses on sale and disposal of property, plant and equipment	4,896	3,788
Expenses for business transformation at subsidiaries in Europe and the Americas	—	3,359
Impairment losses[1]	21,703	1,813
Expenses for promoting structural reform of human capital[2]	13,576	—
Cancellation penalty	—	1,615
Other	1,865	2,230
Total	52,514	23,974

Notes:

1. Note 13 “Property, Plant and Equipment” presents impairment losses.
2. Note 21 “Provisions” presents expenses for promoting structural reform of human capital.

30. Financial Income and Financial Expenses

Financial income consists of the following:

(Millions of yen)

	2023	2024
Foreign exchange gain[1]	1,032	—
Interest income		
Financial assets measured at amortized cost	3,400	4,518
Retirement benefit assets	96	122
Dividend income		
Financial assets measured at fair value through other comprehensive income		
Financial assets derecognized during the year	—	0
Financial assets held at year end	119	125
Financial assets measured at fair value through profit or loss	6	34
Other	214	189
Total	4,867	4,988

Financial expenses consist of the following:

(Millions of yen)

	2023	2024
Foreign exchange loss[1]	—	427
Interest expenses[2]		
Financial liabilities measured at amortized cost	1,086	958
Lease liabilities	1,438	1,771
Retirement benefit liabilities	861	886
Other	62	48
Total	3,447	4,090

Notes:
1. Valuation gains or losses on currency derivatives that are not designated as hedges are included in foreign exchange gain or loss.
2. Valuation gains or losses on interest rate derivatives that are not designated as hedges are included in interest expenses.

31. Earnings per Share

(1) The Basis for Calculating Basic Earnings per Share

(Millions of yen, unless otherwise noted)

	2023	2024
Net income attributable to owners of the parent	43,870	107,767
Amounts not attributable to ordinary shareholders of the parent	—	—
Net income used to calculate basic earnings per share	43,870	107,767
Weighted average number of ordinary shares (Thousands of shares)	464,854	464,625
Basic earnings per share (Yen)	94.37	231.94

(2) The Basis for Calculating Diluted Earnings per Share

(Millions of yen, unless otherwise noted)

	2023	2024
Net income used to calculate basic earnings per share	43,870	—
Adjustments to net income	—	—
Net income used to calculate diluted earnings per share	43,870	—
Weighted average number of ordinary shares (Thousands of shares)	464,854	—
Increase in ordinary shares		
Subscription rights to shares (Thousands of shares)	4	—
Weighted average number of ordinary shares after dilution (Thousands of shares)	464,857	—
Diluted earnings per share (Yen)	94.37	—
Summary of potential ordinary shares not included in the calculation of diluted earnings per share because they have no dilutive effect	————	————

Note: Diluted earnings per share for the fiscal year ended December 31,2024 are not presented because there were no potential ordinary shares.

32. 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, 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

Fiscal year ended December 31, 2024

(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	1,912	—	1,912	(578)	1,334
Remeasurements of defined benefit plans	(1,316)	—	(1,316)	380	(936)
Share of other comprehensive income of investments accounted for using the equity method	620	—	620	(190)	430
Total of items that will not be reclassified to profit or loss	1,216	—	1,216	(388)	828
Items that may be reclassified subsequently to profit or loss					
Exchange differences on translation of foreign operations	48,878	(277)	48,601	—	48,601
Share of other comprehensive income of investments accounted for using the equity method	574	—	574	(0)	574
Total of items that may be reclassified subsequently to profit or loss	49,452	(277)	49,175	(0)	49,175
Total	50,668	(277)	50,391	(388)	50,003

33. Cash Flow Information

(1) Changes in Liabilities Arising from Financing Activities

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.

Fiscal year ended December 31, 2024

The following table presents the changes in liabilities arising from financing activities for lease liabilities.

(Millions of yen)

	January 1, 2024	Changes from financing cash flows	Non-cash changes		December 31, 2024
			New leases	Other	
Lease liabilities	122,592	(21,637)	21,395	(8,081)	114,269

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, 2024.

(2) Non-cash Transactions

For the fiscal years ended December 31, 2023 and 2024, the non-cash transactions comprised the acquisition of right-of-use assets resulted from leases of 27,268 million yen and 21,922 million yen, respectively.

34. 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

	2023		2024	
	Number of shares (Shares)	Weighted average exercise price (Yen)	Number of shares (Shares)	Weighted average exercise price (Yen)
Beginning balance of outstanding	10,000	1	—	—
Granted	—	—	—	—
Exercised	(5,000)	1	—	—
Expired at maturity	(5,000)	1	—	—
Ending balance of outstanding	—	—	—	—
Ending balance of exercisable	—	—	—	—

Notes: The weighted average share price on the date of exercise for the fiscal years ended December 31, 2023 was 5,071 yen.

(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:

	2023		2024	
	Variable points	Fixed points	Variable points	Fixed points
Number of points granted during the period	14,238	15,540	66,885	28,665
Weighted average fair value (Yen)	6,919	6,559	6,863	6,787

(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, 2023 and 2024 were 200 million yen and 653 million yen, respectively.

35. Financial Instruments

(1) Classification of Financial Instruments

The amounts of each classification of financial assets are as follows:

(Millions of yen)

Financial assets	2023	2024
Financial assets measured at amortized cost		
Cash and cash equivalents (Note 8)	286,663	338,713
Trade and other receivables (Note 9)	225,934	238,077
Other	15,982	19,129
Financial assets measured at fair value through profit or loss		
Cash and cash equivalents (Note 8)	5,000	19,000
Derivatives	58	78
Other	4,661	5,356
Financial assets measured at fair value through other comprehensive income		
Equity securities	12,776	14,094
Total	551,074	634,447
Current assets		
Cash and cash equivalents	291,663	357,713
Trade and other receivables	225,934	238,077
Other financial assets	6,596	10,525
Subtotal	524,193	606,315
Non-current assets		
Other financial assets	26,881	28,132
Total	551,074	634,447

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, 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.

As of December 31, 2024

(Millions of yen)

Company name	Fair value
Future Origins, Inc.	3,134
Livedo Corporation	1,656
Tokio Marine Holdings, Inc.	1,521
Saiwai Trading Co., Ltd.	1,501
Aeon Co., Ltd.	1,580
Japan Alcohol Trading Co., Ltd.	1,116
Keytrading Co., Ltd.	527
Kawaken Fine Chemicals Co., Ltd	346
Izumi Co., Ltd.	325
Yamato-Esulon Co., Ltd.	314

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)

	2023	2024
Fair value	85	682
Cumulative gains (losses)	37	480

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, 2023 and 2024, were (24) million yen and 329 million yen, respectively.

The amounts of each classification of financial liabilities are as follows:

(Millions of yen)

Financial liabilities	2023	2024
Financial liabilities measured at amortized cost		
Trade and other payables (Note 19)	235,513	258,035
Bonds and borrowings (Note 17)	138,480	131,059
Lease liabilities (Note 18)	122,592	114,269
Other	14,229	13,565
Financial liabilities measured at fair value through profit or loss		
Derivatives	105	85
Total	510,919	517,013
Current liabilities		
Trade and other payables	235,513	258,035
Bonds and borrowings	14,039	35,749
Lease liabilities	19,020	20,146
Other financial liabilities	7,445	7,280
Subtotal	276,017	321,210
Non-current liabilities		
Bonds and borrowings	124,441	95,310
Lease liabilities	103,572	94,123
Other financial liabilities	6,889	6,370
Subtotal	234,902	195,803
Total	510,919	517,013

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 13,438 million yen and 13,038 million yen at December 31, 2023 and 2024, respectively. The average interest rate on deposits received as of December 31, 2024 was 0.36%.

(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	2023			2024		
	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						
Euro	32	–	(1)	–	–	–
Buying						
Euro	62	–	1	–	–	–

Note:
Note 35 "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, 2023

(Millions of yen)

	U.S. dollar	Euro	Chinese yuan
Net exposure	1,894	4,414	9,100

As of December 31, 2024

(Millions of yen)

	U.S. dollar	Euro	Chinese yuan
Net exposure	(3,439)	4,116	2,419

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)

	2023	2024
U.S. dollar	(189)	344
Euro	(441)	(412)
Chinese yuan	(910)	(242)

(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 3,732 million yen and 4,148 million yen at December 31, 2023 and 2024, 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 6,876 million yen and 6,355 million yen at December 31, 2023 and 2024, respectively.

The carrying amount of trade receivables and changes in the related allowance for doubtful receivables are as follows:

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

Fiscal year ended December 31, 2024

(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, 2024	217,514	761	218,275
Change during the year (Recognition and derecognition)	7,529	(64)	7,465
Transfer to credit-impaired financial assets	(25)	25	–
Other changes	6,977	38	7,015
December 31, 2024	231,995	760	232,755

(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, 2024	1,409	644	2,053
Increase during the year	164	23	187
Decrease during the year (charge-offs)	(206)	(231)	(437)
Decrease during the year (other)	(51)	(36)	(87)
Other changes	73	32	105
December 31, 2024	1,389	432	1,821

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, 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

As of December 31, 2024

(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	218,832	9,009	1,870	686	2,358	232,755
Allowance for doubtful receivables	614	188	36	68	915	1,821
Expected credit loss (%)	0.3	2.1	1.9	9.9	38.8	0.8

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, 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

As of December 31, 2024

(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	258,035	258,035	258,035	—	—	—	—	—
Bonds and borrowings	131,059	131,111	35,758	25,234	25,033	45,033	11	42
Lease liabilities[1]	114,269	126,471	21,875	17,904	12,988	9,411	7,496	56,797
Long-term deposits payable	6,370	6,370	—	—	—	—	—	6,370
Derivative financial liabilities								
Currency related	85	85	85	—	—	—	—	—
Total	509,818	522,072	315,753	43,138	38,021	54,444	7,507	63,209

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	114,269	126,471	21,875	47,799	27,822	16,468	10,051	2,456

(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, 2023 or 2024.

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

As of December 31, 2024

(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	―	19,000	―	19,000
Derivative assets	―	78	―	78
Other	―	5,356	―	5,356
Financial assets measured at fair value through other comprehensive income				
Equity securities	4,148	―	9,946	14,094
Total	4,148	24,434	9,946	38,528
Financial liabilities				
Financial liabilities measured at fair value through profit or loss				
Derivative liabilities	―	85	―	85
Total	―	85	―	85

Changes in financial instruments categorized within Level 3 are as follows:

(Millions of yen)

	2023	2024
Beginning balance	8,547	9,044
Gains (losses)[1]	384	879
Purchases	110	79
Sales	(0)	(60)
Other changes	3	4
Ending balance	9,044	9,946

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, 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

As of December 31, 2024

(Millions of yen)

	Carrying amount	Fair value			
		Level 1	Level 2	Level 3	Total
Financial liabilities					
Financial liabilities measured at amortized cost					
Bonds	50,195	—	49,681	—	49,681
Borrowings	80,864	—	80,363	—	80,363

36. Principal Subsidiaries

Principal subsidiaries consist of the following.

Voting rights at December 31, 2024 did not significantly change from December 31, 2023.

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 Life Care (Commercial-use hygiene products) Cosmetics	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
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
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

37. 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)

	2023	2024
Short-term benefits	1,749	2,028
Post-retirement benefits	42	37
Share-based payments	200	653
Total	1,991	2,718

38. Commitments

Commitments to acquire property, plant and equipment and intangible assets after the end of each reporting period are as follows:

(Millions of yen)

	2023	2024
Acquisition of property, plant and equipment	20,975	30,159
Acquisition of intangible assets	3,891	4,932
Total	24,866	35,091

39. 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 18, 2025.

40. Significant Subsequent Events

The Group evaluated subsequent events through March 19, 2025, which is the issuance date of the consolidated financial statements. There were no significant subsequent events to present.

(2) Other Information

1) Semi-annual information for the fiscal year ended December 31, 2024

	For the six months ended June 30, 2024	Fiscal year ended December 31, 2024
Net sales (millions of yen)	787,987	1,628,448
Income before income taxes (millions of yen)	64,408	151,024
Net income attributable to owners of the parent (millions of yen)	43,413	107,767
Basic earnings per share (yen)	93.41	231.94

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.

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 118th term	From January 1, 2023 to December 31, 2023	Filed with the Director-General of the Kanto Local Finance Bureau on March 22, 2024
(2) Internal Control Report and attached documents			Filed with the Director-General of the Kanto Local Finance Bureau on March 22, 2024
(3) Quarterly Securities Report and Confirmation Letter	For the first quarter of the 119th term	From January 1, 2024 to March 31, 2024	Filed with the Director-General of the Kanto Local Finance Bureau on May 14, 2024
(4) Semi-annual Securities Report and Confirmation Letter	For the first half of the 119th term	From January 1, 2024 to June 30, 2024	Filed with the Director-General of the Kanto Local Finance Bureau on August 9, 2024
(5) 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 25, 2024
	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 3 (Change in the specified subsidiary company of a reporting company) of the Cabinet Office Ordinance on Disclosure of Corporate Affairs		on January 8, 2025
(6) Amended Shelf Registration Statement			Filed with the Director-General of the Kanto Local Finance Bureau on March 25, 2024 and January 8, 2025

Part Two: Information about Reporting Company's Guarantor, etc.

Not applicable

(TRANSLATION)

INDEPENDENT AUDITOR'S REPORT

March 19, 2025

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 statement of financial position as of December 31, 2024, 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, 2024 to December 31, 2024, and material accounting policy information 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, 2024, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with IFRS Accounting Standards.

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 Matter

A key audit matter is a matter that, in our professional judgment, was of most significance in our audit of the consolidated financial statements of the current period. The matter was 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 the matter.

<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 ¥228,413 million in the consolidated statement of financial position as of December 31, 2024. As described in Note 14 to the consolidated financial statements, goodwill of ¥119,400 million was allocated to Kanebo Cosmetics Inc., which accounted for 6.4% of the total assets. The assumptions used for the impairment test for goodwill were described in Note 14.

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. This includes growth forecasts from further focused investment in high value-added brands, growth forecasts from strengthening global expansion, and the expected recovery from the slowdown in the Chinese Cosmetics Business due to shipment control implemented in the current period for the purpose of optimizing distribution inventory. 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 7.5%.

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, as well as the expected recovery from the slowdown in the Chinese Cosmetics Business due to shipment control implemented in the current period for the purpose of optimizing distribution inventory.

• 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>

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 IFRS Accounting Standards, 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 IFRS Accounting Standards.

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 IFRS Accounting Standards, 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, 2024.

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, 2024, 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.

(TRANSLATION)

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, actions taken to eliminate threats or safeguards applied.

<Fee-Related Information>

Fees for audit and other services for the year ended December 31, 2024, which were charged by us and our network firms to the Company and its subsidiaries are disclosed in (3) Status of Auditing, 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.