Financial Report 2021

For the year ended December 31, 2021

Kao

Management Discussion and Analysis

Management Policies

Basic Management Policies of the Kao Group

For its purpose (social significance), the Kao Group has declared that "As one, we create a *Kirei*[1] life for all—providing care and enrichment for the life of all people and the planet," and wholeheartedly conducts ESG-driven *Yoki-Monozukuri*[2] from the consumer's and customer's perspective. We aim to continue making contributions to realizing a future of wholehearted satisfaction for people throughout the world, and to creating a sustainable world where all life can coexist.

All members of the Kao Group share the Kao Way, which is our corporate philosophy, and have been putting it into practice every day as the foundation of our approaches and actions to respond to changing times during our more than 130 years of doing business, mainly in the domains of cleanliness, beauty and health.

In 2009, we set forth our Environmental Statement to be a positive force for nature as well as for humankind, then went one step further with the aim of enriching lives in harmony with nature. In 2019, we announced our new ESG strategy, the "Kirei[1] Lifestyle Plan (KLP)," and declared our commitment to shifting to ESG-driven management.

Now, however, crises are impinging on human lives, which are the fundamental component of "providing care and enrichment for the life of all people" as set forth in our purpose. These threats are expected to continue jeopardizing the foundations of everyday lives.

Under these circumstances, we will tackle this pressing social issue with an approach unique to Kao. With a strong determination to protect not only everyday lives and ecology, but also human lives, the Kao Group will become a company that saves future lives. Under our new corporate slogan, "*Kirei*[1]—Making Life Beautiful," we will help to maintain the planet as a sustainable and clean place to live, to achieve a sustainable and prosperous society, and to protect people from hazards so they can enjoy their everyday lives.

These efforts will lead to an ongoing cycle of positive financial results and returns to stakeholders. The Kao Group will continue working to enhance its corporate value at a higher level.

1. The Japanese word "*kirei*" describes something that is clean, well-ordered and beautiful, all at once. For Kao, this concept of *Kirei* not only describes appearance but also attitude—a desire to create beauty for oneself, for other people, and for the natural world around us. At Kao, *Kirei* is the value we want to bring to everyday life through our brands, products, technologies, solutions, and services—now and in the future.
2. 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.

Medium-to-long-term Management Strategies of the Kao Group and Management Metric Used as a Target

Long-term Management Strategy

As its commitment to becoming the company it wants to be by 2030, the Kao Group is taking a step forward from its previous aim of "making Kao a company with a global presence" by realizing sustained profitable growth while contributing to the sustainability of the world to aiming to "make Kao a company with a global presence, valuable to society." Through ESG initiatives, we will become a valuable presence for people, society and the planet.

For the environment (E), we aim for zero waste and carbon zero, and then to become carbon negative. For society (S), we will promote one and only personalization that is closely attuned to people in the hope of ending wasteful consumption. Then, while ensuring effective governance (G), we will proceed as one team with "Integrity as the only choice[3]," joined by like-minded parties. Following a management guideline of "Maximum with minimum"—generating the maximum value with the minimum resources—we will continue our growth to help create a better tomorrow.

Targets for 2030

Make Kao a company with a global presence, valuable to society

- Become an essential company in a sustainable world
- A highly profitable global company that also significantly contributes to society
- Returns to stakeholders according to levels of growth

  Financial targets for 2030 (as a result)
  - ¥2.5 trillion in net sales
  - ¥400 billion in operating income
  - 41 consecutive years of increases in cash dividends

3. "Integrity as the only choice" is one of the values of the Kao Way, the corporate philosophy of the Kao Group.

Mid-term Business Plan

The five years from 2021 to 2025 are an important period for the Kao Group to establish the foundation for becoming the company it wants to be by 2030. To that end, the Kao Group Mid-term Plan 2025 "K25" establishes a Vision of "Sustainability as the only path" and sets forth three objectives. To become an essential company in a sustainable world, we must actively promote KLP, the new ESG strategy we announced in 2019, and take leadership in a self-sufficient, sustainable society that curtails the generation of waste to the greatest extent possible. Moreover, we will ensure that our investments for KLP are reflected in future earnings. By transforming to build robust business through investment, we will create "Another Kao." For people facing compelling problems, we will fully utilize the technologies and expertise we have cultivated as well as our digital transformation (DX) to create new businesses that "save future lives." At the same time, we will further reinforce our current business, which serves as the foundation of this new business, revitalizing it as "Reborn Kao." Furthermore, to achieve these two objectives, the vitality of our employees is indispensable. Therefore, for our third objective—to maximize the power and potential of employees—we newly implemented our Objectives and Key Results (OKRs) employee empowerment system in January 2021 so that all employees can give their utmost to achieving the substantial goals they set for themselves. We will also proactively open positions to talent from outside the Kao Group and promote external collaboration.

Achieving these three objectives will enable us to achieve our targets for record-high sales and profits (¥1.8 trillion in net sales, ¥250 billion in operating income, ¥100 billion in EVA[4] and the 36th consecutive fiscal year of increases in cash dividends in 2025), and to make high-level returns, according to the level of our growth, to our many stakeholders, including employees, consumers, customers, business partners and shareholders. While continuing to practice the "Integrity as the only choice" set forth in the Kao Way, the Kao Group will achieve these objectives together with like-minded stakeholders, and in so doing create a better tomorrow.

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

Kao Group Mid-term Plan 2025 "K25"

- **Vision**
  Sustainability as the only path

- **Corporate Slogan**
  Kirei *—Making Life Beautiful

- **Policy (Objectives)**

Objective (1) Become an essential company in a sustainable world

Goal

Take leadership in a self-sufficient, sustainable society (ESG Investment = Reflection of future earnings)

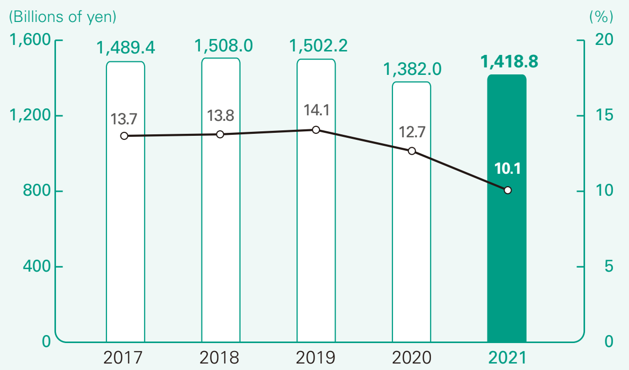
Key Results

- Carbon recycling (Conversion of carbon dioxide into raw materials)
- Positive recycling (Creation of new business through re-use of resources)
- Stop pandemics (Ramp up infectious disease countermeasures and the area of prevention)

* See notes 1 on page 1 for explanations of *Kirei*.

Continued on page 3.

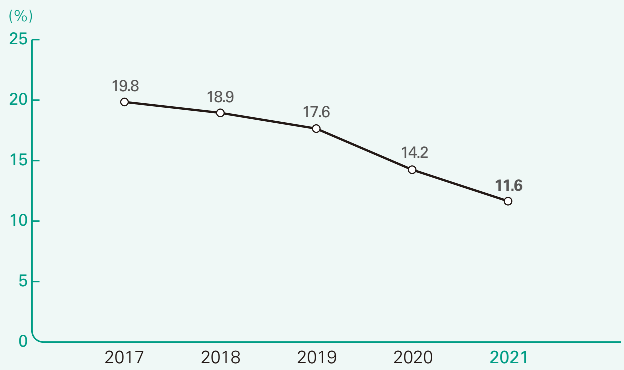
Net Sales* / Operating Margin



Net Sales (Left)
Operating Margin (Right)

* In fiscal 2017, the Kao Group adopted IFRS 15 early in tandem with a revision of its sales system for the Consumer Products Business in Japan. As a result, certain items formerly treated as SG&A expenses are accounted for as reductions of net sales or cost of sales. In fiscal 2020, the Kao Group changed its method of recognizing sales for certain transactions from the gross amount to the net amount.

ROE



Objective (2) Transform to build robust business through investment

Goal

Create "Another Kao" and reinforce current Kao (Expand global business by focusing on saving lives)

Key Results

- New business: Launch the digital life platform (high-precision bioanalysis and homeostasis enhancement solution)
- Current business: Conduct drastic reform for a high-profit core business

Objective (3) Maximize the power and potential of employees

Goal

Double the productivity of our business activities (Make challenges visible and pursue open innovation)

Key Results

- Introduce Objectives and Key Results (OKRs) system (fair compensation according to challenge and contribution)
- Actively utilize specialist human capital for co-creation
- Improve productivity using digital technology

(completion scheduled for 2023)

Management Metric Used as a Target

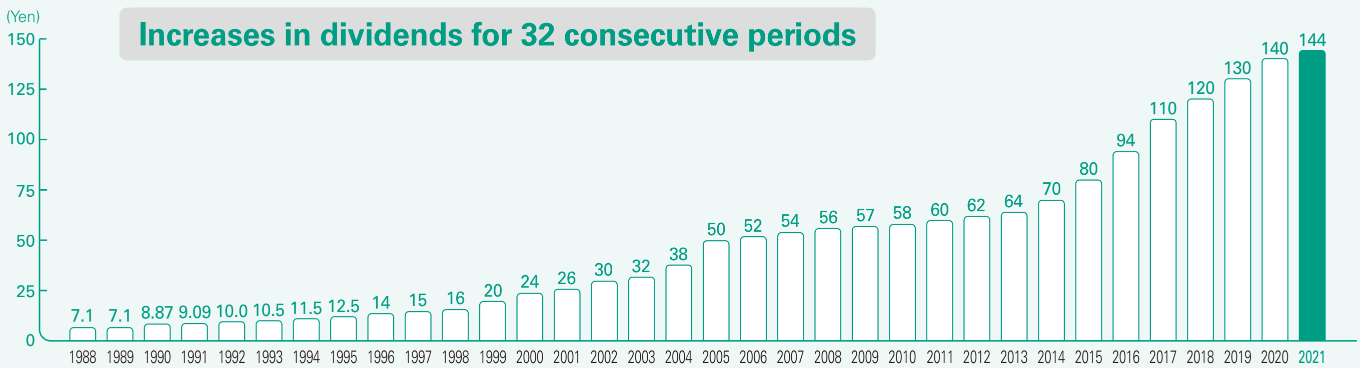
As its principal management metric, the Kao Group uses EVA, which measures true profit by factoring in the cost of invested capital. This essentially takes the perspective of shareholders and other asset owners to deploy capital efficiently and generate profits. The Kao Group believes that continuously increasing EVA will lead to increases in corporate value and thus corresponds with long-term benefits, not only for shareholders, but for all stakeholders. The target of the Kao Group's business activities is to increase EVA while expanding its business scale. The Kao Group uses this metric to assess its businesses, to make evaluations on investment in facilities, acquisitions and other items, and to develop performance targets for each fiscal year and for its compensation system.

Issues for Management

Infectious diseases are spreading widely around the world and environmental issues in areas such as climate change, water and forest resources are becoming more serious. Moreover, the importance of efforts for human rights is growing, and market structure and consumer attitudes are changing considerably together with growing social issues such as Japan's aging society. In this significantly changing business environment, with doubts about the continuance of the sustainable society itself, the Kao Group considers sustainable corporate growth to be difficult using only its current business model.

Reducing shortages as much as possible and avoiding lost opportunities during consumer purchasing leads to stable business performance, but on the other hand, it is a cause of over-procurement and excess inventory. In addition, an excessive focus on meeting people's needs for consumption makes a company likely to opt for a wide-ranging lineup with

Cash Dividends per Share



Note: Impact of share splits is reflected retroactively.

short-term product revisions, discontinuances and other measures, causing some products to be discarded without ever being used. This outcome is a negative factor for environmental conservation.

To lead to a resolution of these issues, we must urgently build a consumption cycle model for achieving a sustainable society. Through *Yoki-Monozukuri** of products that can be regularly used as long as possible, we will establish a new business model that neither makes nor delivers useless items.

Furthermore, we believe that we have not yet established the value of our existence for a sustainable society globally. We must take on new challenges to realize the Kao Group's purpose: "As one, we create a *Kirei** life for all—providing care and enrichment for the life of all people and the planet." We aim to lead the world in offering ESG-driven products and services as we continue to grow centered on these offerings, while also becoming a leading company that contributes to the businesses of numerous other companies.

Achieving this goal will require a unique co-creation platform including new businesses. To that end, we believe that the extensive fundamental research that has supported our product development research will serve as an engine for the Kao Group. In particular, fundamental research into matters such as the properties, variations, transmission, elimination and prevention of things that are harmful to people and the environment will surely significantly benefit society in the future. Now, as the world faces a crisis, we are determined to focus on helping to resolve compelling social issues.

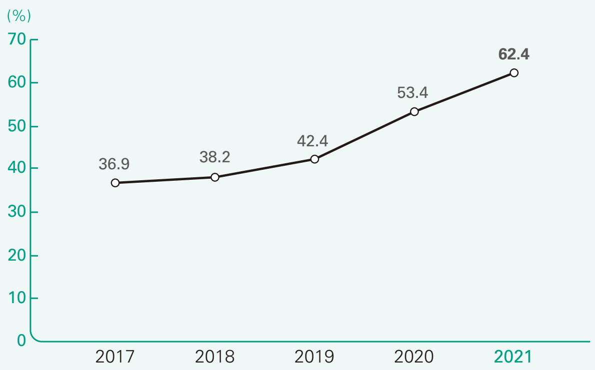
The Kao Group Mid-term Plan 2025 "K25" is crucial for building the business foundation that will be essential for resolving these issues to become the company we want to be by 2030. The Kao Group will continue to take on the challenge of helping to resolve major issues such as these.

* See notes 1 and 2 on page 1 for explanations of *Kirei* and *Yoki-Monozukuri*, respectively.

Costs, Expenses and Income as Percentages of Net Sales

Years ended December 31, 2021, 2020 and 2019	2021	2020	2019
Cost of sales	59.6%	57.3%	56.5%
Gross profit	40.4	42.7	43.5
Selling, general and administrative expenses	30.1	30.1	29.5
Operating income	10.1	12.7	14.1
Income before income taxes	10.6	12.6	14.0
Net income attributable to owners of the parent	7.7	9.1	9.9

Payout Ratio



Reference: Addressing Climate Change

Disclosure Based on TCFD Recommendations

Climate change poses a significant risk to realizing a Kirei* Lifestyle for current and future generations. Having made "As one, we create a Kirei* life for all—providing care and enrichment for the life of all people and the planet" the Mission of the Kao Way, the Kao Group proactively conducts activities to mitigate and adapt to global warming. The Group endorses the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD) and proactively discloses information on climate change as part of its efforts to engage in dialogue with investors. To realize a Kirei* Lifestyle for future generations, we must help achieve the Paris Agreement's goal of limiting the increase in average global temperature to 1.5°C. Accordingly, we are addressing climate change through actions that include decarbonization as a key theme.

* See notes 1 on page 1 for explanations of *Kirei*.

Governance

Under the oversight of Kao's Board of Directors, the ESG Managing Committee, which is chaired by the Representative Director, President and Chief Executive Officer, meets six times a year to review and deliberate on basic policies and important matters related to climate change.

In April 2021, the ESG Managing Committee passed resolutions on matters including a basic policy of becoming carbon zero by 2040 and carbon negative by 2050, as well as on targets for 2030, expediting the development of CO_2 recycling technologies to achieve those targets earlier, joining RE100,[1] and enhancing the internal carbon pricing system.

(For details, please refer to the diagram on page 6.)

1. A global corporate initiative bringing together hundreds of businesses committed to 100% renewable energy sources for the electricity used in their operations

Business Strategy

Because a 4°C increase in average temperature due to climate change would have an extremely large impact on society, we recognize the importance of making a meaningful contribution to achieving the global goal of limiting the temperature increase to 1.5°C.

Kao has conducted an analysis of 1.5°C, 2°C and 4°C scenarios. Although the tendencies for risks and opportunities are the same for the 1.5°C and 2°C scenarios, they will develop faster and Kao's actions will be at a higher level in the 1.5°C scenario than in the 2°C scenario.

(For details, please refer to the table on page 6.)

In fiscal 2021, we conducted a detailed assessment of future water-related risk at some of our business sites and confirmed that the risk of insufficient water resources there is likely to rise. In addition to increasing the number of sites subject to assessment, we will consider measures to prevent water-related risks from materializing and countermeasures to be taken if they do materialize.

Risk Management

The main risks related to climate change are incorporated into the overall risk management process for the Kao Group and are managed as part of corporate risks.

(See "Business Risks and Other Risks" on page 13)

Indicators and Targets

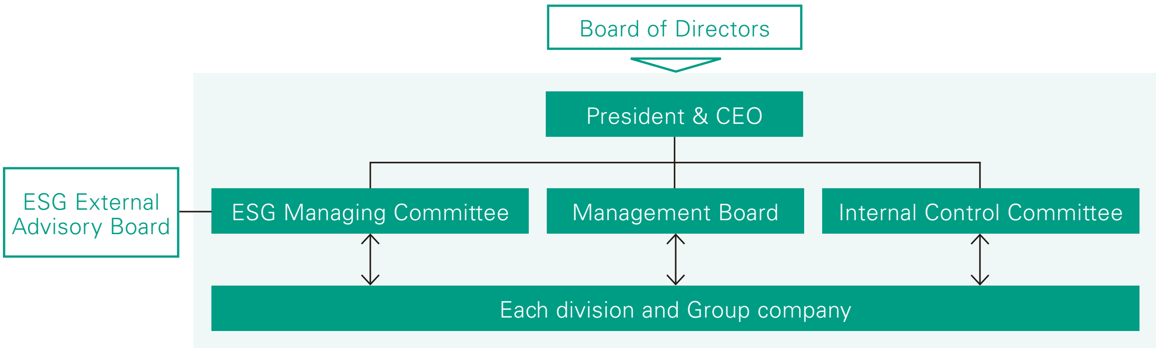
In fiscal 2021, the Kao Group set or updated its targets for 2030 based on its policy of becoming carbon zero by 2040 and carbon negative by 2050.

- Percentage reduction in absolute Scope 1 and 2 emissions of CO_2 -55% (vs. fiscal 2017)[2]
- Percentage of electricity consumption from renewable energy sources 100%[3]
- Percentage reduction in absolute lifecycle emissions of CO_2 -22% (vs. fiscal 2017)[4]
- Avoided greenhouse gas emissions[4,5] 10,000 thousand tons of CO_2

2. The Science Based Targets initiative (SBTi) has validated that Kao's target is in line with the 1.5°C scenario.
3. Membership in RE100
4. The seven greenhouse gases specified by the Seventeenth Session of the Conference of Parties (COP17) and the seventh meeting of the Parties to the Kyoto Protocol (CMP7), both held by the United Nations Framework Convention on Climate Change in Durban, South Africa, in 2011
5. Total emission reductions resulting from all products of the Kao Group.

For details, please see upcoming *Kao Sustainability Report 2022*.
www.kao.com/global/en/sustainability/

ESG governance structure



Main Business Risks and Opportunities

		1.5°C/2°C	4°C	Kao's Action
Transition	Introduction and increase in carbon taxes	Rising cost burden as carbon taxes are introduced globally	Little progress in carbon tax introduction	Set emission reduction targets for Scope 1 and 2 in line with a 1.5°C scenario
	Introduction of plastic regulations	Increase in procurement costs as unit price of recycled plastic rises due to increased demand	No significant increase in demand for recycled plastic	Ramp up activities for a plastic recycling society
	Rising raw material prices	Increase in procurement costs due to restrictions on the use of fossil-based raw materials	Increase in procurement costs as demand for fossil-based raw materials	Ramp up efforts to minimize amount of fossil-based raw materials used; pass on costs in selling prices
	Preservation of biodiversity	Increase in procurement costs for palm oil and pulp due to restrictions on new agricultural land development and on procurement of certified products, etc.	Increase in procurement costs for palm oil and pulp due to remediation of water and soil resources that have been contaminated from excessive use of pesticides and chemical fertilizers, etc.	Ramp up efforts to minimize amount of plant-based raw materials (biomass, etc.) used; pass on costs in selling prices
	Changes in consumer behavior	Growth in demand for ethical products among all ages	Growth in demand for ethical products in some age brackets	Develop and launch ethical products
Physical factors	Natural disasters	Scale of damage increases	Scale of damage increases profoundly	Risk surveys and countermeasures at business sites
	Rising temperatures	Longer period of demand for summer products	Even longer period of demand for summer products	Ramp up development of summer products

Basic Approach to Selection of Accounting Standards

Having decided that unifying accounting standards within the Kao Group will contribute to improving the quality of its business management, the Kao Group has voluntarily adopted International Financial Reporting Standards (IFRS) from fiscal 2016. This enables management based on standardized procedures and information for each Group company and business, and the Kao Group intends to reinforce its management foundation in order to enhance its corporate value as a global company. The Kao Group also believes that the application of IFRS will facilitate the international comparability of its financial statements in capital markets.

Overview of Consolidated Results

In fiscal 2021, the novel coronavirus (COVID-19) continued for the second year to have a major impact on society, economies and people's lives worldwide.

The Kao Group worked to respond to the changes in people's lifestyles, consumption and the structure of sales channels, as well as to hikes in raw material prices around the world and other issues, but its efforts were impacted by significantly delayed market recovery, particularly in Japan, where inbound demand disappeared and a state of emergency was repeatedly declared, among other factors.

In the Kao Group's key markets, according to retail sales and consumer purchasing survey data, the household and personal care products market remained on par with the previous fiscal year. On the other hand, the cosmetics market remained on par with the previous fiscal year, but has not recovered to its pre-pandemic level.

Analysis of Income Statement

Net sales increased 2.7% compared with the previous fiscal year to ¥1,418.8 billion. On a like-for-like basis, net sales increased 0.3%. Operating income was ¥143.5 billion, a decrease of ¥32.1 billion compared with the previous fiscal year, due in part to a strategic shift for future growth that involved recording a ¥4.5 billion impairment loss in the baby diaper business and a ¥2.5 billion loss on liquidation of inventory, and the operating margin was 10.1%. Income before income taxes was ¥150.0 billion, a decrease of ¥24.0 billion, and net income was ¥111.4 billion, a decrease of ¥16.7 billion.

Basic earnings per share were ¥230.59, a decrease of ¥31.70, or 12.1%, from ¥262.29 in the previous fiscal year.

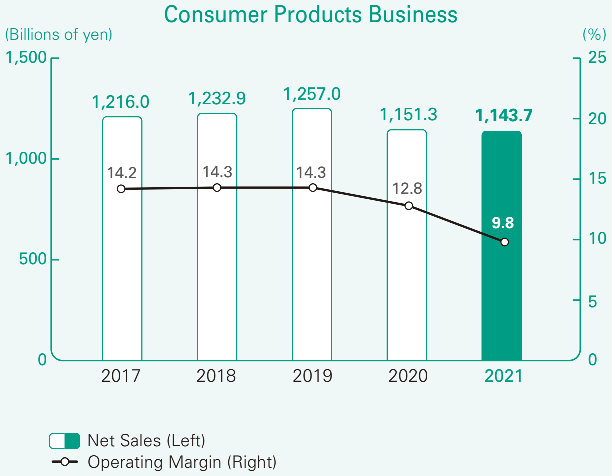
Information by Segment

The following is an overview of changes in reportable segments implemented as of the three months ended March 31, 2021. Please refer to the diagram at the bottom of the next page for details.

Basic Earnings per Share

Net Sales* / Operating Margin

Consumer Products Business



* In fiscal 2017, the Kao Group adopted IFRS 15 early in tandem with a revision of its sales system for the Consumer Products Business in Japan. In fiscal 2018, due to the reorganization of the sales organization of the Consumer Products Business in Japan, operating income for the previous fiscal year has been restated. In fiscal 2020, the Kao Group changed its method of recognizing sales for certain transactions from the gross amount to the net amount.

1. The Hygiene and Living Care Business has been newly established and incorporate sanitary products from the former Human Health Care Business in addition to fabric care products and home care products, which were previously classified in the Fabric and Home Care Business.
2. The Health and Beauty Care Business has been newly established and incorporates personal health products, which were previously classified in the Human Health Care Business, in addition to skin care products and hair care products, which were previously classified in the Skin Care and Hair Care Business.
3. The Life Care Business has been newly established and incorporates health drinks, which were previously classified in the Human Health Care Business, in addition to commercial-use hygiene products, which were previously classified in the Fabric and Home Care Business.
4. Due to the reorganization of segments described in 1 to 3 above, sales and operating income for the previous fiscal year have been restated.

Consumer Products Business

Sales decreased 0.7% compared with the previous fiscal year to ¥1,143.7 billion. On a like-for-like basis, sales decreased 2.6%.

During fiscal 2021, factors such as changes in consumer preferences and lifestyles, as well as in sales channels, had a major impact on the business environment in various ways due to the continued spread of COVID-19 for the second year. Under these conditions, the Kao Group proactively conducted initiatives including concentrating investment in core brands, promoting digital transformation and stepping up e-commerce. However, the business environment remained severe due to hikes in raw material prices around the world and disruptions in logistics.

As a result, sales in Japan decreased 5.3% to ¥768.1 billion.

In Asia, sales increased 7.2% to ¥214.7 billion. On a like-for-like basis, sales increased 0.3%. In the Americas, sales increased 15.1% to ¥96.2 billion. On a like-for-like basis, sales increased 10.8%. In Europe, sales increased 14.5% to ¥64.6 billion. On a like-for-like basis, sales increased 5.9%.

Operating income decreased ¥34.6 billion compared with the previous fiscal year to ¥112.6 billion.

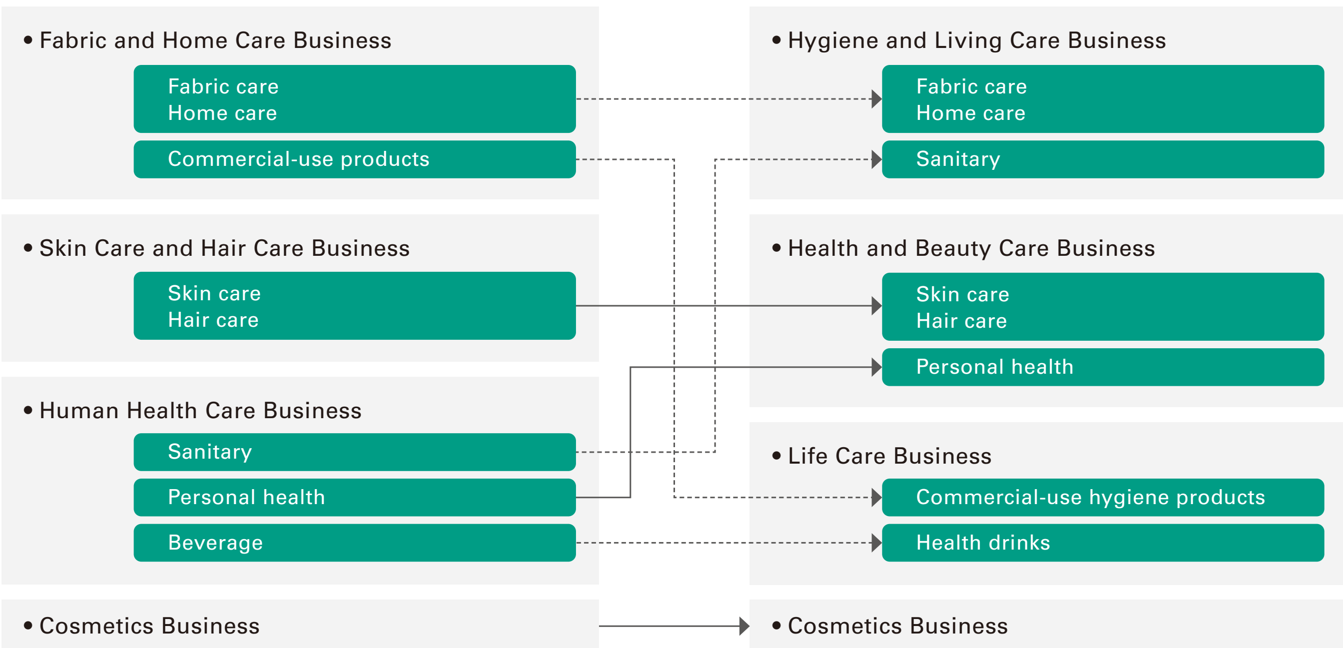
Note: The Kao Group's Consumer Products Business consists of the Hygiene and Living Care Business, the Health and Beauty Care Business, the Life Care Business, and the Cosmetics Business.

Hygiene and Living Care Business

Sales decreased 1.3% compared with the previous fiscal year to ¥496.8 billion. On a like-for-like basis, sales decreased 2.8%.

Changes in Business Segments (As of January 2021)

The Consumer Products Business was restructured in January 2021 to conduct business with a focus on the fundamental value people seek. The Kao Group established the Hygiene and Living Care Business, which contributes to more comfortable lifestyles with support for people's daily lives and society, and the Health and Beauty Care Business, which offers care for the entire body to maximize healthy beauty. The Kao Group also established the Life Care Business to promote new businesses that protect human lives by fully utilizing the fundamental technologies that have supported the Kao Group.



The market for fabric care products grew in Japan amid rising awareness of cleanliness due to the COVID-19 pandemic, but competition was fierce for laundry detergents and fabric softeners. By launching an improved version of *Attack* laundry detergent and making a concentrated investment in marketing, the Kao Group improved the brand's image and maintained the top market share.

Home care products in Japan were impacted by the shrinkage of the overall market for hygiene-related products such as kitchen bleach and house cleaning agents in the absence of the special demand that arose in the previous fiscal year, but bathroom cleaners substantially acquired market share with the September 2021 launch of *Bath Magiclean Airjet*, a new product that makes bathtub cleaning easier and quicker. In Asia, in June the Kao Group launched a new *Magiclean* disinfectant for greater strength in the areas of peace of mind and hygiene, and sales were steady, centered on hygiene-related products.

In sanitary products, sales of *Laurier* sanitary napkins were nearly on par with the previous fiscal year. Sales decreased in Japan, where the market shrank as people voluntarily refrained from going outside, but sales and market share grew steadily in China due to stepping up e-commerce and other factors. Sales of *Merries* baby diapers grew substantially in Indonesia, partly due to the launch of a high-value-added product in August 2021. In Japan, new premium-priced products performed well. In China, the Kao Group took measures to improve brand value in the first half of the year, launched new products in the rapidly growing super premium market in August, and conducted reforms to revitalize the brand. In addition, the Kao Group changed to a policy of ramping up local production to quickly and effectively respond to changes in consumer needs and the business environment in China. As a result, the Kao Group recorded a ¥4.5 billion impairment loss on production equipment in Japan.

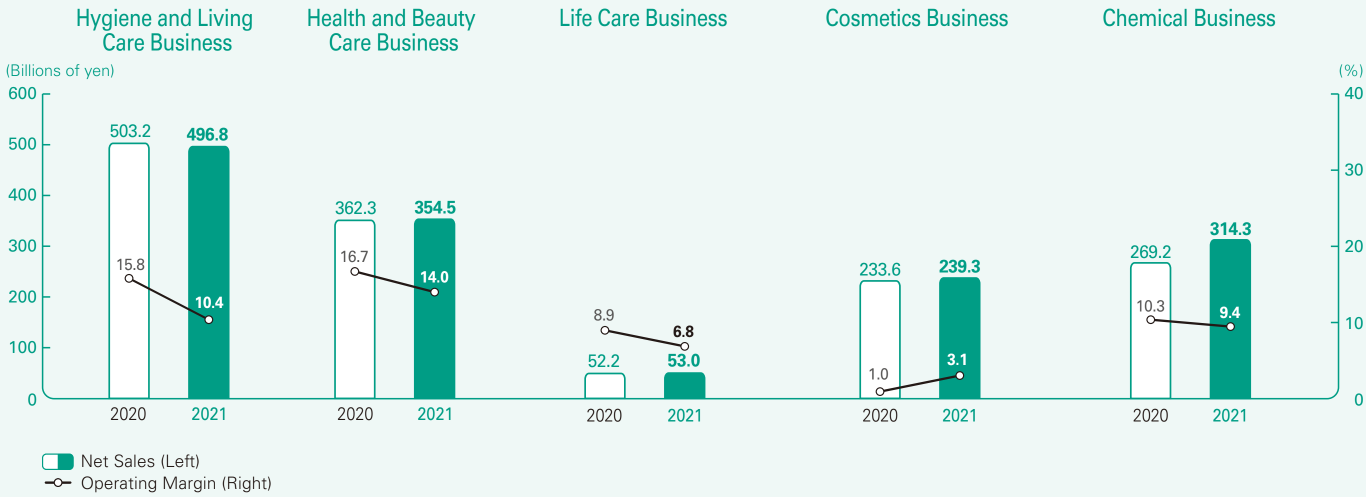
Operating income was ¥51.8 billion, a decrease of ¥27.8 billion from the previous fiscal year due to factors including additional costs associated with hikes in raw material prices and the absence of the special demand that arose in the previous year, as well as the impairment loss.

Health and Beauty Care Business

Sales decreased 2.2% compared with the previous fiscal year to ¥354.5 billion. On a like-for-like basis, sales decreased 4.2%.

Sales of skin care products decreased in Japan due to substantial shrinkage of the market for hand soap and hand sanitizer, which expanded rapidly in the previous fiscal year, but market share in these two product categories grew significantly compared with fiscal 2019, before the COVID-19 pandemic. In addition, UV care and other seasonal products were significantly impacted by people voluntarily refraining from going outside and inclement weather in Japan and Asia. In the Americas, amid a recovery trend in the market due to policies to manage both COVID-19 countermeasures and the

Net Sales* / Operating Margin



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4. Due to the reorganization of segments described in 1 to 3 above, sales and operating income for the previous fiscal year have been restated.

economy, the Kao Group made new offerings targeting the increased opportunities to go out, but sales fell slightly short of the previous fiscal year.

In hair care products, the Kao Group worked to revitalize the market by launching new products for the mass market in Japan, but sales decreased as it was unable to sufficiently differentiate its products. Sales of products for hair salons grew substantially. In the Americas, the *Oribe* brand for high-end hair salons performed strongly in the e-commerce channel. In Europe, the market gradually recovered.

Sales of personal health products remained at nearly the same level as the previous fiscal year as strong sales of bath additives in Japan due to demand from people staying home offset a negative impact on sales of the decline in inbound demand.

Operating income decreased ¥10.8 billion compared with the previous fiscal year to ¥49.7 billion due to factors including the decrease in sales caused by the absence of the special demand that arose in Japan in the previous fiscal year and inclement weather.

Life Care Business

Sales increased 1.7% compared with the previous fiscal year to ¥53.0 billion. On a like-for-like basis, sales increased 1.0%.

Despite ongoing demand for hand sanitizers and other products at medical facilities, restaurants and other establishments with a particular need for hygiene management and infectious disease countermeasures, sales of commercial-use hygiene products decreased in Japan due to the significant impact of restrictions on going out and on mobility, and requests to restaurants and other establishments for temporary closure or shortened operating hours. Sales increased substantially in the Americas due to an increase in volume handled for customers and a business upturn at customer industries.

In health drinks, sales of *Healthya* products, which are foods for specified health uses, decreased due to market shrinkage caused by repeated extensions of the state of emergency in Japan, among other factors, despite growth in sales in the e-commerce channel backed by demand from people staying home.

Operating income decreased ¥1.1 billion compared with the previous fiscal year to ¥3.6 billion.

Cosmetics Business

Sales increased 2.5% compared with the previous fiscal year to ¥239.3 billion. On a like-for-like basis, sales decreased 0.6%.

In Japan, the Kao Group focused on building bonds between customers and brands, including online counseling and the start of in-house e-commerce operations, as it vigorously promoted structural reforms. The Kao Group created hit products including *KATE*, which captured top market share for makeup brands, arising from new offerings for lifestyles in which the COVID-19 pandemic has made mask-wearing a common practice and various measures using digital technology. However, sales were significantly impacted by the delay in market recovery due to the disappearance of inbound demand and repeated declarations of a state of emergency, among other factors. In Asia, in addition to continuing strong sales in China, mainly through the e-commerce channel, of *freeplus*, which is hypoallergenic and contains Japanese and Chinese botanical extracts, and *Curél*, a derma care brand, the Kao Group began a full-scale rollout of its prestige cosmetics, including the start of duty-free sales on Hainan Island. In Europe, sales of the *Molton Brown* and *SENSAI* brands grew substantially as a result of promoting Online Merges with Offline (OMO).

Operating income increased ¥5.1 billion compared with the previous fiscal year to ¥7.5 billion.

Chemical Business

Sales increased 16.7% compared with the previous fiscal year to ¥314.3 billion. On a like-for-like basis, sales increased 12.9%. The Kao Group benefited from recovery in customer industries, and sales of fat and oil derivative products and other products were firm.

Sales of oleo chemicals grew due to firm sales of fat and oil derivative products for disinfection, cleaning and other applications and ongoing efforts to adjust selling prices in line with higher prices for natural fats and oils. Sales of performance chemicals grew as a result of capturing the trend toward a recovery in demand in automobile-related and other fields, as well as adjusting selling prices in line with higher raw material prices. The Kao Group also proactively rolled out products with an ESG perspective, including highly durable asphalt modifier made from waste PET. In specialty chemicals, toner and toner binder were on a recovery track from the previous fiscal year's decrease in demand, and sales of semiconductor-related products were firm.

Operating income increased ¥1.9 billion compared with the previous fiscal year to ¥29.6 billion.

Financial Position

Total assets increased ¥38.4 billion from December 31, 2020 to ¥1,704.0 billion. The principal increases in assets were a ¥30.4 billion increase in inventories and a ¥16.1 billion increase in trade and other receivables. The principal decrease in assets was a ¥17.1 billion decrease in cash and cash equivalents.

Total liabilities decreased ¥7.3 billion from December 31, 2020 to ¥720.1 billion. The principal increase in liabilities was a ¥13.2 billion increase in trade and other payables and the principal decrease in liabilities was a ¥22.0 billion decrease in retirement benefit liabilities.

Total equity increased ¥45.7 billion from December 31, 2020 to ¥983.9 billion. The principal increases in equity were net income totaling ¥111.4 billion, exchange differences on translation of foreign operations totaling ¥40.9 billion and remeasurements of defined benefit plans totaling ¥11.7 billion. The principal decreases in equity were dividends totaling ¥68.6 billion and purchase of treasury shares totaling ¥50.0 billion pursuant to a resolution of the Board of Directors at a meeting held on February 3, 2021. In addition, the Company retired 7 million treasury shares on June 23, 2021.

The ratio of equity attributable to owners of the parent to total assets was 56.6% compared with 55.5% at December 31, 2020. Return on equity was 11.6%.

Cash Flows

The balance of cash and cash equivalents at December 31, 2021 decreased ¥17.1 billion compared with December 31, 2020 to ¥336.1 billion, including the effect of exchange rate changes.

Cash Flows from Operating Activities

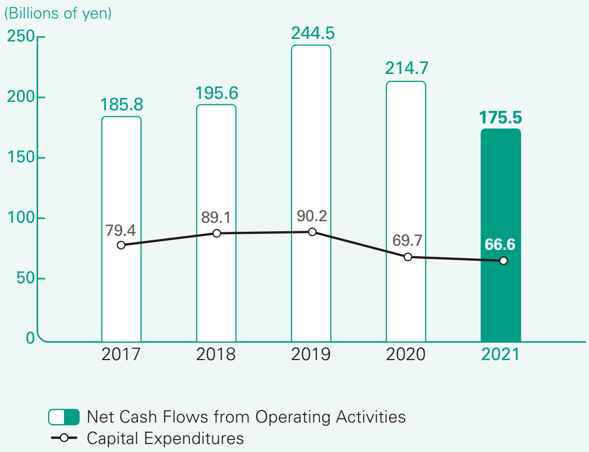
Net cash flows from operating activities totaled ¥175.5 billion. The principal increases in net cash were income before income taxes of ¥150.0 billion and depreciation and amortization of ¥87.3 billion. The principal decreases in net cash were income taxes paid of ¥45.9 billion, a ¥22.8 billion decrease in retirement benefit liabilities and a ¥20.5 billion increase in inventories.

Cash Flows from Investing Activities

Net cash flows from investing activities totaled negative ¥67.2 billion. This primarily consisted of purchase of property, plant and equipment of ¥60.0 billion for capacity expansion at production bases in Japan and proactive capital investments in Asia, where growth is notable, and purchase of intangible assets totaling ¥11.6 billion.

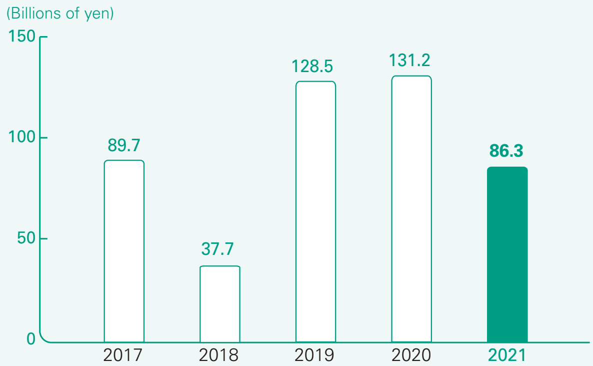
Adjusted free cash flow, the sum of net cash flows from operating activities and net cash flows from investing activities less depreciation of right-of-use assets and other expenses, was ¥86.3 billion.

Net Cash Flows from Operating Activities / Capital Expenditures*



* Excluding right-of-use assets from fiscal 2019

Free Cash Flows



Note: Free cash flow is the sum of net cash flows from operating activities and net cash flows from investing activities.
From fiscal 2019, cash flows from operating activities is adjusted for depreciation of right-of-use assets.

Cash Flows from Financing Activities

Net cash flows from financing activities totaled negative ¥141.6 billion. The Company emphasizes steady and continuous dividends and flexibly repurchases and retires treasury shares to improve capital efficiency from the perspective of EVA. During fiscal 2021, this primarily consisted of ¥68.7 billion for dividends paid to owners of the parent and non-controlling interests, purchase of treasury shares totaling ¥50.0 billion pursuant to a resolution of the Board of Directors at a meeting held on February 3, 2021, and ¥21.3 billion in repayments of lease liabilities. The Company repaid ¥10.0 billion in borrowings in March 2021 and borrowed the same amount to maintain an appropriate cost of capital ratio and to reinforce its financial base for growth investments. The Company also repaid ¥20.0 billion in borrowings in September and borrowed the same amount for the same purposes using positive impact finance that features the disclosure of information on the degree of contribution to achieving the SDGs and other benchmarks as an evaluation index.

Basic Policies regarding Distribution of Profits and Dividends for the Fiscal Years Ended December 31, 2021 and Ending December 31, 2022

The Kao Group uses economic value added (EVA) as its principal management metric and clearly sets the uses of its steadily generated cash flow as shown below from that viewpoint. Shareholder returns are one such use, and they are implemented after considering future demand for funds and the situation in financial markets.

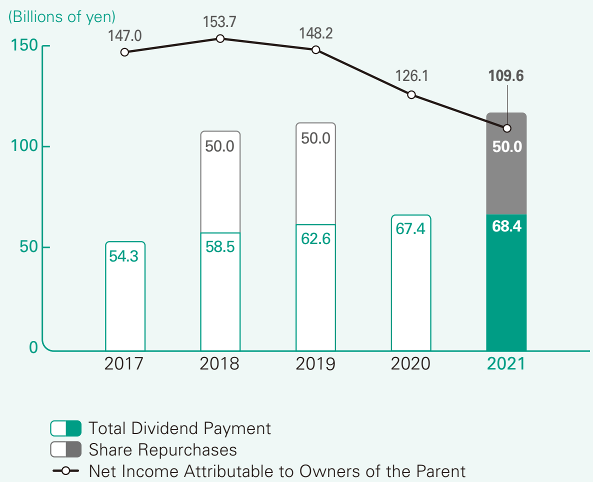
Use of cash flow:

- Investment for future growth (capital expenditures, M&A, etc.)
- Steady and continuous dividends (40% payout ratio target)
- Share repurchases

In accordance with these policies, the Company plans to pay a year-end dividend for fiscal 2021 of ¥72 per share, an increase of ¥2 per share compared with the previous fiscal year. Consequently, annual cash dividends will increase ¥4 per share compared with the previous fiscal year, resulting in a total of ¥144 per share. The consolidated payout ratio will be 62.4%.

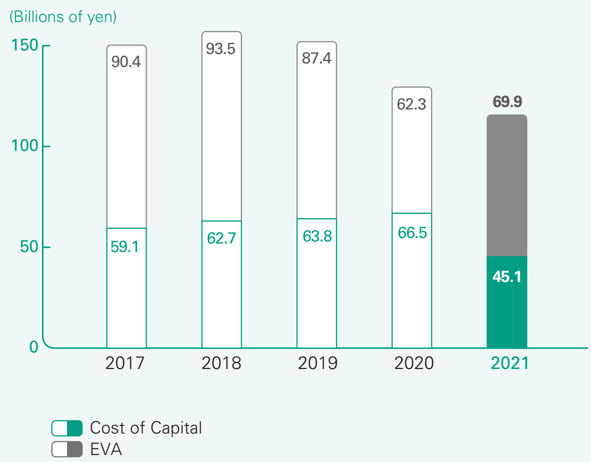
For fiscal 2022, the Company plans to pay total cash dividends of ¥148 per share (59.9% payout ratio), an increase of ¥4 per share compared with the previous fiscal year. This plan is in accordance with the Company's basic policies regarding distribution of profits, and free cash flow and other factors have also been taken into consideration. As a result, the Company is aiming for its 33rd consecutive fiscal year of increases in dividends.

Total Dividend Payment / Share Repurchases* / Net Income Attributable to Owners of the Parent



* Excludes repurchase of shares of less than one trading unit

Cost of Capital / EVA



EVA and Related Activities

EVA for fiscal 2021 was ¥45.1 billion, a decrease of ¥17.1 billion compared with the previous fiscal year, due to decreases in operating income and net operating profit after tax (NOPAT) in addition to an increase in cost of capital from the previous fiscal year.

The Kao Group conducted the following EVA-related initiatives during the fiscal year.

Investing for Growth: Excluding right-of-use assets, the Kao Group's capital investments totaled ¥66.6 billion, centered on investments for future development. In the Consumer Products Business, the Kao Group invested in facilities to manufacture new products, streamlining, maintenance and renewal of facilities, and upgrading of distribution bases, in addition to expanding production capacity, mainly in Japan and Asia. In the Chemical Business, the Kao Group also invested aggressively in facilities to expand production capacity for fat and oil derivatives and other products globally.

Research and development expenditures were ¥59.0 billion, equivalent to 4.2% of net sales, remaining at a high level relative to net sales.

Increasing Profit: In the Consumer Products Business, operating income decreased due to market shrinkage in the absence of the special demand for hygiene-related products that arose in fiscal 2020 as a result of the COVID-19 pandemic, hikes in raw material prices and other factors. In the Chemical Business, operating income increased as a result of the Kao Group's efforts to increase sales by adjusting selling prices in line with hikes in raw material prices, as well as firm sales of products such as fat and oil derivative products for disinfection and cleaning.

Financial Improvement: For fiscal 2021, annual cash dividends per share were ¥144.00, a year-on-year increase of ¥4.00, or 3%, as announced in its forecast at the beginning of the fiscal year. As a result, the Company has achieved 32 consecutive fiscal periods of dividend growth. In addition, the Company repurchased stock totaling ¥50.0 billion to improve capital efficiency.

Business Risks and Other Risks

In the Kao Group Mid-term Plan 2025 "K25," the Kao Group has established a Vision of "Sustainability as the only path" and sets forth three objectives: (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. See the "Management Policies" and "Issues for Management" sections for more details.

However, with the prolonged global spread of COVID-19, the Kao Group's business environment remains uncertain.

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.

The Kao Group defines a potential negative impact on achieving its management targets and on its business activities as a "risk" and the materialization of such risk as a "crisis." The Risk and Crisis Management Committee has established a system and activity guideline for risk and crisis management based on the Kao 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 responding promptly and appropriately.

After deliberation by the Risk and Crisis Management Committee and the Management Board, the Kao Group has selected the following 14 particularly significant risks as the main risks that could have a negative impact on its sustained profitable development and contribution to the sustainability of the world. Among these main risks, the Kao Group designates risks that would have a major impact on management and require an enhanced response as "corporate risks," and once a year, based on internal and external risk surveys and interviews with management, the Management Board selects risk themes and the individuals (executive officers) in charge of handling each theme, while the Risk and Crisis Management Committee manages progress.

The Risk and Crisis Management Committee also reports on its activities to the Management Board and the Board of Directors on a regular (annual) and timely basis. (Note: Main corporate risk themes and countermeasures are presented in "Main Initiatives.")

These are the main risks that might materialize within five years as recognized as of the fiscal year ended December 31, 2021. In addition, there are risks other than the listed risks that may affect investors' decisions.

Details of Main Risks	Main Initiatives
Risks Related to the Novel Coronavirus Pandemic The COVID-19 pandemic continues to have a major impact on social and economic activities and the lives of people around the world. Even as vaccinations progress in countries around the world, the business environment remains unclear, due in part to the spread of variants. The prolonged COVID-19 pandemic has caused changes in people's awareness of hygiene, and changes in values regarding makeup and related products as people have voluntarily refrained from going outside and wearing masks has become common practice. It has caused changes in consumer behavior including a rapid increase in the use of e-commerce. Under these circumstances, the household and personal care products market in Japan, which is a key market for the Kao Group, has not made a full recovery due to repeated waves of infection and the absence of the increase in demand that arose in fiscal 2020. In addition, given the substantial impact of the states of emergency that have continued in various regions of Japan, the recovery of the cosmetics market lacks vigor. In this environment, risks associated with the COVID-19 pandemic and related changes in people's behavior are as follows. Inability to take appropriate measures could cause net sales and profits to deviate significantly from targets. · Temporary suspension of operations or the occurrence of obstacles to providing products and services associated with a request from a national or local government or multiple infections (clusters) at the Kao Group's bases or in its supply chains due to factors such as the impact of a highly infectious variant · Delays in product development and launch plans because of work that cannot be performed remotely · Delays in the recovery of the cosmetics market or other business area due to a resurgence or prolongation of infections · A decrease in competitiveness due to insufficient response to changes in people's awareness and values, and changes in consumer behavior	In response to COVID-19, the Kao Group held a meeting of the Emergency Response Team Headquarters headed by the President and CEO and implemented the following countermeasures centered on ensuring the safety of employees and their families, and on continuity of business activities. · As crisis management measures, followed national and local government policies, and implemented work systems and styles compatible with the status of infection (promotion of remote work/teleworking, restrictions on business trips, restrictions on training/events/tours, etc.) · Identified the status of infected employees and family members or those who have been in close contact with infected persons, and implemented care as applicable, and measures to prevent the occurrence of clusters · Conducted workplace vaccinations for employees and their families · Strengthened infection control measures in countries and regions where infections are spreading, and implemented business continuity activities through collaboration among Kao Group companies · Promoted further digitalization of operations and revised company systems for remote work and other new work styles In addition, as business strategies the Kao Group implemented initiatives including concentrating investment on core brands, promoting digitalization in response to new lifestyles, and ramping up e-commerce. • Main Corporate Risk Themes and Countermeasures Pandemics: The Kao Group revised its guidelines and action plans for the next pandemic based on its experience with COVID-19.
Risks Related to Response to Social Issues The Kao Group's Consumer Products Business and Chemical Business are affected by economic cycles and changes in the needs of consumers and customers. The marine plastic waste problem, climate change, depletion of water resources, and environmental and human rights issues in raw material procurement, as well as growing social issues such as the aging society and hygiene have increased consumer awareness about the environment, health and other matters, leading to the trend of ethical consumption and customers' increasing demand for sustainability. Moreover, the global spread of COVID-19 is further heightening these trends. Inability to provide appropriate products and services in response to changes in consumer awareness and customer needs relating to these social issues may reduce competitiveness, making targets for net sales and market share unattainable. In addition, if efforts to address social issues are deemed inadequate, corporate value could decline.	Under the "Kirei* Lifestyle Plan" (KLP), an ESG strategy that integrates an ESG perspective with business strategy, the Kao Group aims to contribute to the sustainability of the world through technology innovations at every stage from raw material procurement to production, point of use and product disposal, and KLP promotion activities to ensure all Kao Group members correctly understand the purpose and content of KLP so they can fulfill their respective roles and responsibilities. In addition, while steadily implementing initiatives, the Kao Group is working proactively to disclose these initiatives to stakeholders in order to demonstrate their results at an early stage. In the Consumer Products Business, the Kao Group clarifies social issues to be addressed through each of its brands, which are a point of contact with consumers, and is conducting Life Value Solution Marketing, which is marketing that originates from the concept of life value rather than the concept of products. Through ESG *Yoki-Monozukuri** that considers social and environmental issues from the product design stage, the Kao Group strives to contribute to better lives for consumers and the sustainability of society by maximizing the Group's assets. In the Chemical Business, the Kao Group helps to resolve social issues through innovations in chemical technologies to respond to changes in customer needs and advances in technology. By strengthening the development of natural fat and oil derivatives and other sustainable and distinctive products, the information materials and performance materials businesses will also provide solutions that lead to further reduction of environmental impact.

* See notes 1 and 2 on page 1 for explanations of *Kirei* and *Yoki-Monozukuri*, respectively.

Details of Main Risks	Main Initiatives
Risks Related to Changes in the Retailing Environment Due to the COVID-19 pandemic, e-commerce is continuing to grow at an accelerated rate, and new derivative sales channels such as social commerce[1] and quick commerce[2] have already arisen. Meanwhile, brick-and-mortar retailers are also responding to this changing environment based on discrete strategies such as promotion of OMO[3] and mergers or integrations across business formats. If appropriate sales activities cannot be developed in response to these changes in the retailing environment and their accelerating pace, targets for net sales, market share and profits may be unattainable. As for logistics, a driver shortage and increased costs have become evident with the increase in shipping volume, and major changes in the operating environment are expected, due in part to the application of upper limits on overtime hours for drivers in the logistics industry from 2024 under the Work Style Reform Law. The Kao Group is aware that inability to respond appropriately to these changes in its operating environment may have an impact on its activities, including delays in delivery and a significant increase in distribution costs. 1. Social commerce: A sales channel that enables purchases of products through social media 2. Quick commerce: E-commerce with a shortened timeframe from order to delivery 3. OMO (Online Merges with Offline): A sales strategy that combines both online and offline components	In response to these changes in its operating environment, the Kao Group is stepping up initiatives with companies specializing in e-commerce, as well as promoting proactive measures such as initiatives for OMO with brick-and-mortar retailers and collaboration with start-up companies in quick commerce and other areas. It is also vigorously increasing Kao account memberships on SNS and working on new approaches including directly communicating information to members and directing customers to stores through campaigns. In the area of cosmetics, the Kao Group will promote D2C,[4] including enhanced online counseling as well as live commerce[5] and other proactive utilization of social media. For logistics, the Kao Group is participating together with the retail industry in a government initiative aimed at ensuring stable logistics while contributing to economic growth. The Kao Group will work to build a sustainable logistics system. Efforts will include collaboration with other manufacturers and vendors, rather than temporary measures to address costs. 4. D2C (Direct to Consumer): A business model for selling directly to consumers through a company's own e-commerce site 5. Live commerce: A sales method that combines product introduction through Internet livestreaming with product sales
Risks Related to Business outside Japan As one of its growth strategies, the Kao Group is rolling out its businesses outside Japan, with a particular emphasis on strengthening its operations in Asia and other regions where the economic growth rate is high and market expansion is forecast. However, in each country or region, in addition to the impact of COVID-19, in the course of business there is the possibility of events arising including a slowdown in economic growth, political or social instability, problems at retail outlets, agents or other business partners, sudden changes in laws, regulations or tax systems, a spate of counterfeit products, or reputation risk.* If there is a substantial delay in the implementation of business plans due to the impact of these events, targets for net sales and profits may be unattainable. * See "Risks Related to Reputation" on page 17.	The Kao Group routinely collects business-related information on the laws and regulations of each country, in addition to information on the economic, political and social conditions of the countries in which it produces or sells products, and takes necessary measures in response. The Kao Group pays particularly close attention to tightening regulations in each country relating to the environment, product safety and quality, and the impact of changes in import and export regulations on the Group. With regard to intellectual property rights infringements such as counterfeit products, the Kao Group is focusing on countermeasures against counterfeit products, especially in the Asian region, in an effort to ensure that consumers and customers can use its products with peace of mind.
Risks Related to Business Investment The Kao Group conducts proactive capital investment and M&A for business growth based on investment decisions using EVA, which is highly correlated with corporate value. The Kao Group will continue to make these investments for growth while striving to enhance corporate value through ongoing improvements in EVA. However, if the market and business environments deteriorate to levels not anticipated at the time investment decisions were made and the expected cash flows cannot be generated due to a deviation from business performance plans or other factors, impairment of property, plant and equipment recorded due to capital expenditures or impairment of goodwill and intangible assets recorded due to M&A could have an impact on financial condition and business results.	For major investments, the Kao Group checks performance at the time quarterly results are calculated to ensure that there is no significant deviation from the initial plan, and the results are reported at the Management Board meeting. As necessary, relevant departments consider future direction and measures to improve business performance.

Details of Main Risks	Main Initiatives
Risks Related to Product Quality	
The basis of the Kao Group's product quality management activities is *Yoki-Monozukuri** that enriches the lives of consumers and customers, as set forth in the Kao Way. At every stage from raw materials procurement to research and development, production, transportation and sales, the Kao Group pursues a high level of product safety and strives to constantly improve quality from a thoroughgoing consumer/customer perspective. However, the occurrence of serious product incidents or concerns about product safety and environmental issues could lead to a decline in credibility, not only with regard to the problems with the brand concerned, but for the entire Kao Group. The proliferation of incorrect methods of hygiene-related product use during the COVID-19 pandemic and the high risk of product incidents involving the elderly persist. In addition, changes in laws and regulations in each country, as well as requirements for contribution to the resolution of safety and environmental issues and transparency in relation to product ingredients, safety and other matters, are on the rise. In particular, the expansion of sales areas due to increasingly borderless product retailing poses risks related to legal compliance in multiple regions.	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 prior to launch, the Kao Group thoroughly carries out testing, studies and research to confirm safety. After launch, the Kao Group strives to further improve quality by centrally collecting feedback, requests and other information regarding products through Customer Communication Centers in each country and sharing it throughout the Group. In addition, to respond to changes in risks relating to product quality management, the Kao Group is enhancing its communication of information through product FAQs and other methods to disseminate correct methods of use; improving product satisfaction for diverse customers by promoting universal design and by providing multilingual information; ensuring competitiveness by developing alternative technologies that anticipate new requirements in relation to laws and regulations in each country, and to safety and environmental issues; increasing reliability by promoting visualization of product quality management activities and by engaging in communication with all stakeholders; and building a system capable of promptly confirming compliance with the laws and regulations of each country, introducing a mechanism for centralized collection of consumer feedback across countries and regions and implementing other measures to enhance quality management activities on a global scale. • Main Corporate Risk Themes and Countermeasures Risk of occurrence of serious product quality issues: The Kao Group is strengthening its Group-wide response capabilities in the event serious damage occurs due to product quality issues and is enhancing awareness within the Group to prevent the occurrence of serious product quality issues.
Risks Related to Large-scale Earthquakes, Other Natural Disasters and Accidents	
For companies with large-scale plants, process safety needs have increasingly heightened in the context of accidents at chemical plants and the many natural disasters that have occurred recently. 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. In addition, the occurrence of substantial injury to employees or damage to the surrounding area due to events such as a fire or explosion at a plant of the Kao Group could have a significant impact on business results, with a resultant loss of social credibility.	The Kao Group is working to enhance its safety capabilities in order to prevent fires, explosions and chemical spills while maintaining safe and stable operations. It prepares for emergency situations by conducting measures for facilities and periodic training premised on a natural disaster. The Kao Group has built a framework to keep track of accidents or disasters worldwide when they occur through its emergency reporting network. In addition, the Kao Group is strengthening its disaster response capabilities, enabling the immediate establishment of an Emergency Response Team Organization headed by the President and CEO to execute a plan for countermeasures that place top priority on the safeguarding of human life and a business continuity plan (BCP). To achieve this, the Group has established organizational units for disaster response in both Eastern Japan and Western Japan premised on damage to the Kao Head Office from an earthquake in the greater Tokyo metropolitan area and is enhancing communication methods. • Main Corporate Risk Themes and Countermeasures Large-scale earthquakes and other natural disasters: In response to recent large-scale typhoons, floods and other natural disasters brought on by climate change, the Kao Group conducted flood risk surveys at each site, stepped up countermeasures in both physical and intangible terms and carried out disaster prevention education for employees regarding hazard maps and evacuation. In addition, the Kao Group has strengthened its disaster response capabilities through emergency response training to address the possibility of large-scale earthquakes, enhancements to communication methods and BCP training.

* See notes 2 on page 1 for explanations of *Yoki-Monozukuri*.

Details of Main Risks	Main Initiatives
Risks Related to Information Security	
The Kao Group uses IT to promote efficient business and operations and conducts business using data. The Kao Group possesses confidential information (trade secrets) relating to research and development, production, marketing, sales and other matters, and retains the personal information of many customers and consumers for sales promotion activities, member site management and e-commerce. The Kao Group is working to strengthen information security in order to protect information assets including trade secrets and personal information, as well as IT hardware, software and many kinds of data records, in accordance with Kao's Information Security Policy. However, 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.	As personal and organizational measures for information security, the Kao Group has established rules and systems globally 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. As technical measures, the Information Security Committee has determined a policy on security measures, and has implemented measures including the elimination of vulnerabilities by introducing anti-virus software and updating software, as well as the prevention of unauthorized access and the prevention of e-mail phishing. • Main Corporate Risk Themes and Countermeasures Risks related to cyberattacks and personal information protection: The Kao Group has created response procedures in the event that an incident occurs, and has conducted relevant training. The Group is also reinforcing its global information security and personal information protection systems.
Risks Related to Reputation	
The rapid penetration of social networking services (SNS) on a global scale has enabled a wide range of interactive communication among consumers or between consumers and companies. In addition, while voluntarily refraining from going outside due to the COVID-19 pandemic, a wide range of people, regardless of age or gender, have come to use SNS in search of extensive information and connections. However, SNS comments also include negative evaluations and comments about companies, and there are concerns about an increase in reputation risk through their dissemination that could inflict financial or non-financial loss from a decline in brand value and corporate credibility. The Kao Group expects to continue increasing communication of various information and brand marketing activities using SNS. However, the spread through SNS of inappropriate expressions in the advertisements or other publications of the Group, or the spread of negative evaluations or erroneous information about the Group's business activities or brand image could lower the Kao Group's brand value or credibility.	From the perspective of ESG, the Kao Group is establishing a pre-check system and conducting internal education as measures to prevent inappropriate expressions in advertising and SNS messages. The Kao Group also globally monitors external information, including information on SNS, and strives to discover risks at an early stage. If a reputation risk incident occurs that adversely affects business and brand activities, the Kao Group responds promptly and strives to maintain its reputation by publicly announcing information, its corporate stance and other matters, as necessary, at the appropriate time. • Main Corporate Risk Themes and Countermeasures Reputation risk: The above measures are enhancing the Kao Group's system for monitoring SNS and other external information so that risks can be discovered at an earlier stage, and the Group is further strengthening its emergency response system in the event a reputation risk incident occurs.. Risks associated with the use of digital media: The Kao Group strengthened its activities for predicting and preventing potential reputation risks, such as inappropriate expressions in advertisements and stealth marketing, through ongoing external SNS certification and internal education.
Risks Related to Raw Material Procurement	
Market prices for natural fats and oils and petroleum products used as raw materials for the Kao Group's products are affected by factors including global business conditions, geopolitical risks, the balance between supply and demand, abnormal weather, and currency exchange rate fluctuations. A sudden change in market prices could render the Kao Group unable to attain its target for profits. In addition, some of the raw materials used in the Kao Group's products are rare, thus entail risks relating to stable procurement. If the supply of products to the market is disrupted due to a sudden change in demand 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. At the same time, 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. However, 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.	The Kao Group is working to reduce the impact of increases in raw material prices by reducing costs and conducting measures to pass increases on to selling prices. In addition, for risks relating to stable procurement, the Kao Group is augmenting facilities at its main suppliers and cultivating secondary suppliers to diversify risks. The Kao Group also reviews contracts and proactively cooperates with suppliers to reduce risks. On the other hand, to practice sustainable and responsible procurement, the Kao Group has announced the new Supply Chain ESG Promotion Guidelines and is promoting measures to ascertain the protection of 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 initiatives such as the use of Sedex for supplier monitoring, establishment of an auditing system to eliminate compliance violations by suppliers, and the CDP Supply Chain Program. Furthermore, with the aim of building a sustainable supply chain for palm oil, 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.

Details of Main Risks	Main Initiatives
Risks Related to Compliance In conducting its business activities, the Kao Group is subject to various laws and regulations on matters including product quality and safety, process safety, environmental protection, chemicals management, accounting standards, taxation, labor, and transaction management. As competition intensifies globally, there is concern of growing temptation to commit improprieties due to factors including difficulties in achieving product differentiation, meeting product launch schedules and delivery timelines, and pressure to achieve performance targets. The risk of harassment may increase due to the generational gap in values and growing employee diversity. A serious violation of compliance by the Kao Group, its subcontractors or other related parties could have an impact on the Group's credibility, financial condition and business results.	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. 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. Furthermore, 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.
Risks Related to Securing Human Capital In executing management plans, the Kao Group strives to provide opportunities for diverse human capital to take on challenges and co-create. Currently, given the spread of COVID-19 in addition to intensifying competition globally and the advent of the super-aging society in Japan, the ability to innovate by responding flexibly to change is required more than ever. It is also likely that people's values with regard to their careers and working styles will become more diverse, resulting in increased mobility of human capital throughout society in general. Under these circumstances, an inability to hire and develop human capital with the advanced expertise required in each area in anticipation of major environmental changes, or leaders who can direct the Group's course of transformation, could have a negative impact on the acceleration of innovation in new businesses and new product development, as well as on execution of the mid-term plan.	Based on the recognition that human capital is the Kao Group's most important asset, the Group is promoting initiatives to maximize the power and potential of its employees with diverse backgrounds and specialties to fully display their skills and individuality through major challenges and co-creation spanning departments, countries and organizations. In 2021, the Kao Group implemented its Objectives and Key Results (OKRs) system to instill a spirit of challenge among all employees and stronger cooperation and co-creation inside and outside the Group. In addition, the Kao Group is implementing measures such as making full use of its global human capital information system, and improving organizational capabilities by conducting various employee opinion surveys and questionnaires, conducting human capital management through job rank, evaluation and training systems and compensation policies that are shared globally, implementing a health promotion program and establishing flexible and diverse working environments and systems. 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.
Risks Related to Currency Exchange Rate Fluctuations The Kao Group also conducts business activities outside Japan, and currency exchange rate fluctuations affect foreign currency-denominated sales and the cost of procuring raw materials. They also affect the conversion into yen of the amounts on the financial statements of consolidated subsidiaries outside Japan for the consolidated settlement of accounts. 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.	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.
Risks Related to Litigation During the fiscal year ended December 31, 2021, no lawsuit or other legal action was filed that had a material effect on the Kao Group. However, the Kao Group conducts diverse businesses globally, and various types of litigation or other action may be brought against it. The result of such litigation or other legal action could have an impact on the Kao Group's financial condition and business results.	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 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 individuals in charge at related companies in each country, law firms and other parties.

Consolidated Statement of Financial Position

Kao Corporation and Consolidated Subsidiaries
As of December 31, 2021

(Millions of yen)

Assets	Notes	2021	2020
Current assets			
Cash and cash equivalents	7, 33	336,069	353,176
Trade and other receivables	8, 33	216,209	200,087
Inventories	9	228,070	197,641
Other financial assets	33	6,094	7,257
Income tax receivables		2,508	2,085
Other current assets	10	20,842	18,150
Total current assets		809,792	778,396
Non-current assets			
Property, plant and equipment	11	428,609	430,914
Right-of-use assets	16	144,057	149,543
Goodwill	12	183,498	177,031
Intangible assets	12	52,636	48,256
Investments accounted for using the equity method	13	10,050	8,657
Other financial assets	33	23,588	23,608
Deferred tax assets	14	41,348	42,274
Other non-current assets	10, 18	10,429	6,937
Total non-current assets		894,215	887,220
Total assets		1,704,007	1,665,616

Liabilities and equity	Notes	2021	2020
Liabilities			
Current liabilities			
Trade and other payables	17, 33	229,086	215,842
Bonds and borrowings	15, 33	6,156	30,465
Lease liabilities	15, 16, 31, 33	19,929	19,787
Other financial liabilities	16, 33	6,329	6,571
Income tax payables		24,078	28,109
Provisions	19	2,041	1,811
Contract liabilities	24	31,143	23,098
Other current liabilities	20	103,135	99,721
Total current liabilities		421,897	425,404
Non-current liabilities			
Bonds and borrowings	15, 33	121,581	97,229
Lease liabilities	15, 16, 31, 33	121,016	126,725
Other financial liabilities	16, 33	7,070	7,862
Retirement benefit liabilities	18	29,843	51,858
Provisions	19	8,187	9,175
Deferred tax liabilities	14	5,830	4,584
Other non-current liabilities		4,706	4,585
Total non-current liabilities		298,233	302,018
Total liabilities		720,130	727,422
Equity			
Share capital	21	85,424	85,424
Capital surplus	21	105,633	106,618
Treasury shares	21	(3,960)	(3,865)
Other components of equity	21	(3,723)	(43,376)
Retained earnings	21	781,763	778,886
Equity attributable to owners of the parent		965,137	923,687
Non-controlling interests		18,740	14,507
Total equity		983,877	938,194
Total liabilities and equity		1,704,007	1,665,616

Consolidated Statement of Income

Kao Corporation and Consolidated Subsidiaries
Year ended December 31, 2021

(Millions of yen)

	Notes	2021	2020
Net sales	6, 24	1,418,768	1,381,997
Cost of sales	9, 11, 12, 16, 18	(845,574)	(791,304)
Gross profit		573,194	590,693
Selling, general and administrative expenses	11, 12, 16, 18, 25	(427,045)	(415,826)
Other operating income	24, 26	17,304	15,801
Other operating expenses	11, 12, 16, 18, 27	(19,943)	(15,105)
Operating income	6	143,510	175,563
Financial income	6, 18, 28	6,470	1,711
Financial expenses	6, 16, 18, 28	(2,598)	(5,839)
Share of profit in investments accounted for using the equity method	6, 13	2,620	2,536
Income before income taxes	6	150,002	173,971
Income taxes	14	(38,587)	(45,904)
Net income		111,415	128,067
Attributable to:			
Owners of the parent		109,636	126,142
Non-controlling interests		1,779	1,925
Net income		111,415	128,067
Earnings per share			
Basic (Yen)	29	230.59	262.29
Diluted (Yen)	29	230.57	262.25

Consolidated Statement of Comprehensive Income

Kao Corporation and Consolidated Subsidiaries
Year ended December 31, 2021

(Millions of yen)

	Notes	2021	2020
Net income		111,415	128,067
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	30, 33	390	168
Remeasurements of defined benefit plans	30	11,729	16,365
Share of other comprehensive income of investments accounted for using the equity method	30	330	25
Total of items that will not be reclassified to profit or loss		12,449	16,558
Items that may be reclassified subsequently to profit or loss:			
Exchange differences on translation of foreign operations	30	40,876	(9,942)
Share of other comprehensive income of investments accounted for using the equity method	30	392	(167)
Total of items that may be reclassified subsequently to profit or loss		41,268	(10,109)
Other comprehensive income, net of taxes		53,717	6,449
Comprehensive income		165,132	134,516
Attributable to:			
Owners of the parent		161,686	132,941
Non-controlling interests		3,446	1,575
Comprehensive income		165,132	134,516

Consolidated Statement of Changes in Equity

Kao Corporation and Consolidated Subsidiaries
Year ended December 31, 2021

(Millions of yen)

		Equity attributable to owners of the parent												
					Other components of equity									
	Notes	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	Remeasurements of defined benefit plans	Total	Retained earnings	Total	Non-controlling interests	Total equity
January 1, 2021		85,424	106,618	(3,865)	268	(49,368)	(0)	5,724	—	(43,376)	778,886	923,687	14,507	938,194
Net income		—	—	—	—	—	—	—	—	—	109,636	109,636	1,779	111,415
Other comprehensive income		—	—	—	—	39,690	(0)	715	11,645	52,050	—	52,050	1,667	53,717
Comprehensive income		—	—	—	—	39,690	(0)	715	11,645	52,050	109,636	161,686	3,446	165,132
Disposal of treasury shares	21	—	(334)	51,697	(89)	—	—	—	—	(89)	(51,273)	1	—	1
Purchase of treasury shares	21	—	—	(51,792)	—	—	—	—	—	—	—	(51,792)	—	(51,792)
Share-based payment transactions	32	—	370	—	—	—	—	—	—	—	—	370	—	370
Dividends	23	—	—	—	—	—	—	—	—	—	(67,794)	(67,794)	(797)	(68,591)
Changes in the ownership interest in subsidiaries		—	(1,021)	—	—	—	—	—	—	—	—	(1,021)	1,584	563
Transfer from other components of equity to retained earnings		—	—	—	(4)	—	—	(659)	(11,645)	(12,308)	12,308	—	—	—
Total transactions with the owners		—	(985)	(95)	(93)	—	—	(659)	(11,645)	(12,397)	(106,759)	(120,236)	787	(119,449)
December 31, 2021		85,424	105,633	(3,960)	175	(9,678)	(0)	5,780	—	(3,723)	781,763	965,137	18,740	983,877

	Notes	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	Remeasurements of defined benefit plans	Total	Retained earnings	Total	Non-controlling interests	Total equity
January 1, 2020		85,424	108,715	(4,309)	448	(39,630)	—	6,208	—	(32,974)	700,839	857,695	13,726	871,421
Net income		—	—	—	—	—	—	—	—	—	126,142	126,142	1,925	128,067
Other comprehensive income		—	—	—	—	(9,738)	(0)	184	16,353	6,799	—	6,799	(350)	6,449
Comprehensive income		—	—	—	—	(9,738)	(0)	184	16,353	6,799	126,142	132,941	1,575	134,516
Disposal of treasury shares	21	—	(98)	471	(177)	—	—	—	—	(177)	(194)	2	—	2
Purchase of treasury shares	21	—	—	(27)	—	—	—	—	—	—	—	(27)	—	(27)
Share-based payment transactions	32	—	(394)	—	—	—	—	—	—	—	—	(394)	—	(394)
Dividends	23	—	—	—	—	—	—	—	—	—	(64,925)	(64,925)	(1,269)	(66,194)
Changes in the ownership interest in subsidiaries		—	(1,605)	—	—	—	—	—	—	—	—	(1,605)	475	(1,130)
Transfer from other components of equity to retained earnings		—	—	—	(3)	—	—	(668)	(16,353)	(17,024)	17,024	—	—	—
Total transactions with the owners		—	(2,097)	444	(180)	—	—	(668)	(16,353)	(17,201)	(48,095)	(66,949)	(794)	(67,743)
December 31, 2020		85,424	106,618	(3,865)	268	(49,368)	(0)	5,724	—	(43,376)	778,886	923,687	14,507	938,194

Consolidated Statement of Cash Flows

Kao Corporation and Consolidated Subsidiaries
Year ended December 31, 2021

(Millions of yen)

	Notes	2021	2020
Cash flows from operating activities			
Income before income taxes		150,002	173,971
Depreciation and amortization		87,341	86,080
Interest and dividend income		(1,307)	(1,571)
Interest expense		2,036	2,533
Share of profit in investments accounted for using the equity method		(2,620)	(2,536)
(Gains) losses on sale and disposal of property, plant and equipment, and intangible assets		4,458	3,301
(Increase) decrease in trade and other receivables		(4,440)	6,443
(Increase) decrease in inventories		(20,508)	646
Increase (decrease) in trade and other payables		8,682	(4,227)
Increase (decrease) in retirement benefit liabilities		(22,787)	(28,818)
Other		19,192	31,852
Subtotal		220,049	267,674
Interest received		1,191	1,516
Dividends received		2,222	2,060
Interest paid		(2,039)	(2,650)
Income taxes paid		(45,899)	(53,882)
Net cash flows from operating activities		175,524	214,718
Cash flows from investing activities			
Payments into time deposits		(11,418)	(14,053)
Proceeds from withdrawal of time deposits		12,930	19,661
Purchase of property, plant and equipment		(59,951)	(59,396)
Purchase of intangible assets		(11,568)	(10,454)
Other		2,775	2,301
Net cash flows from investing activities		(67,232)	(61,941)
Cash flows from financing activities			
Increase (decrease) in short-term borrowings		440	(41)
Proceeds from long-term borrowings		30,091	1,080
Repayments of long-term borrowings		(31,380)	(48)
Proceeds from issuance of bonds		200	24,939
Redemption of bonds		(12)	(24,942)
Repayments of lease liabilities	31	(21,266)	(20,912)
Purchase of treasury shares		(51,792)	(28)
Dividends paid to owners of the parent		(67,859)	(64,987)
Dividends paid to non-controlling interests		(802)	(1,235)
Other		807	(891)
Net cash flows from financing activities		(141,573)	(87,065)
Net increase (decrease) in cash and cash equivalents		(33,281)	65,712
Cash and cash equivalents at the beginning of the year	7	353,176	289,681
Effect of exchange rate changes on cash and cash equivalents		16,174	(2,217)
Cash and cash equivalents at the end of the year	7	336,069	353,176

Notes to Consolidated Financial Statements

Kao Corporation and Consolidated Subsidiaries
Year ended December 31, 2021

1 Reporting Entity

Kao Corporation (hereinafter 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 Company and its subsidiaries (hereinafter 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 fatty alcohols and surfactants. The Group delivers its products to customers through its sales companies and distributors in Japan and other countries. Details of these principal business activities of the Group are presented in Note 6 "Segment Information."

2 Basis of Preparation

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

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

(2) Basis of Measurement

The Group's consolidated financial statements have been prepared on the historical cost basis, except for certain assets and liabilities including financial instruments measured at fair value as presented in Note 3 "Significant Accounting Policies."

(3) 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 Significant 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.

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 "Significant 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 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 assets. The Group recognizes the lease payments associated with these leases as expenses on either a straight-line basis or another systematic basis over the lease term.

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

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

(10) Impairment of Non-financial Assets

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

The recoverable amount of an asset or a cash-generating unit is the higher of its value in use and fair value less cost of disposal. The discount rate used in calculating the asset's value in use is a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the future cash flow estimates have not been adjusted.

If it is not possible to estimate the recoverable amount of an individual asset, the recoverable amount of the cash-generating unit to which the asset belongs is measured. Goodwill acquired in business combinations is allocated to each of the cash-generating units or groups of cash-generating units of the Group that is expected to benefit from synergies of the business combinations after the acquisition date, and is tested for impairment.

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

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

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

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

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

(11) Employee Benefits

1) Post-employment benefits

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

(i) Defined benefit plan

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

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

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

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

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

(ii) Defined contribution plan

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

2) Other employee benefits

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

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

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

(12) Share-based Payments

1) Stock option plan

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

2) Performance share plan

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

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

(13) Provisions

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

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

(14) Revenue

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

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

The Group sells consumer products including fabric care products, home care products, sanitary products, skin care products, hair care products, personal health products, life care products, cosmetics, as well as chemical products including fatty alcohols 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 from transactions that are not business combinations and affect neither accounting income nor taxable income
- 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 Company and some of its 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.

Significant accounting estimates and judgments have been made in consideration of the impact of the COVID-19 pandemic. As countries aim to achieve a balance between their infectious disease countermeasures and their economies, the Group believes that the pandemic will continue to have a significant impact on the business environment, and its impact may continue beyond the current fiscal year, but a gradual recovery in the future is assumed.

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 12 "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 "Significant Accounting Policies (9) Leases" presents details related to lease terms. Note 33 "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 18 "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 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 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 19 "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 14 "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 33 "Financial Instruments" presents fair value measurement methods and amounts for major financial assets and liabilities measured at fair value.

(7) Contingencies

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

5 New Standards and Interpretations Not Yet Adopted

The impacts of new or revised major Standards and Interpretations that were issued by the date of approval presented in Note 38 "Approval of the Consolidated Financial Statements," but were not yet early adopted by the Group as of December 31, 2021 are immaterial.

6 Segment Information

(1) Summary of Reportable Segments

The Group's reportable segments are the components of the Group for which discrete financial information is available and are regularly reviewed by the Board of Directors in deciding how to allocate resources and in assessing their performance. Net sales and operating income are the key measures used by the Board of Directors to evaluate the performance of each segment.

The Group is organized on the basis of five businesses: the four business areas that constitute the Consumer Products Business (the Hygiene and Living Care Business, the Health and Beauty Care Business, the Life Care Business, and the Cosmetics Business) and the Chemical Business. In each business, the Group plans comprehensive business strategies and carries out business activities on a global basis.

Accordingly, the Group has five reportable segments: the Hygiene and Living Care Business, the Health and Beauty Care Business, the Life Care Business, the Cosmetics Business and the Chemical Business.

Due to a change in organization as of January 1, 2021, the Group reclassified its five former reportable segments (the Cosmetics Business, the Skin Care and Hair Care Business, the Human Health Care Business, the Fabric and Home Care Business and the Chemical Business) into the above-noted 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) from the three months ended March 31, 2021. Segment information for the fiscal year ended December 31, 2020 has been restated to reflect the reclassification.

Information about major customers has been omitted as the revenue from each customer is less than 10% of the Group's net sales.

Reportable segments		Major products	
Consumer Products Business	Hygiene and Living Care Business	Fabric care products	Laundry detergents, fabric treatments
		Home care products	Kitchen cleaning products, house cleaning products, paper cleaning products
		Sanitary products	Sanitary napkins, baby diapers
	Health and Beauty Care Business	Skin care products	Soaps, facial cleansers, body cleansers
		Hair care products	Shampoos, conditioners, hair styling agents, hair coloring agents, men's products
		Personal health products	Bath additives, oral care products, thermo products
	Life Care Business	Life care products	Commercial-use hygiene products, health drinks
	Cosmetics Business	Cosmetics	Counseling cosmetics, self-selection cosmetics
Chemical Business		Oleo chemicals	Fatty alcohols, fatty amines, fatty acids, glycerin, commercial-use edible fats and oils
		Performance chemicals	Surfactants, plastics additives, superplasticizers for concrete admixtures, asphalt additives
		Specialty chemicals	Toner and toner binder for copiers and printers, ink and water-based pigment inkjet ink, fragrances and aroma chemicals

(2) Sales and Results of Reportable Segments

Fiscal year ended December 31, 2021 (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	496,845	354,488	53,032	239,335	1,143,700	275,068	1,418,768	—	1,418,768
Intersegment sales and transfers[2]	—	—	—	—	—	39,225	39,225	(39,225)	—
Total net sales	496,845	354,488	53,032	239,335	1,143,700	314,293	1,457,993	(39,225)	1,418,768
Operating income	51,762	49,684	3,614	7,492	112,552	29,627	142,179	1,331	143,510
Financial income									6,470
Financial expenses									(2,598)
Share of profit in investments accounted for using the equity method									2,620
Income before income taxes									150,002
Other items									
Depreciation and amortization[3]	35,240	17,605	2,941	14,836	70,622	15,664	86,286	1,055	87,341
Impairment loss[3]	4,533	—	—	20	4,553	—	4,553	—	4,553
Capital expenditures[4]	39,115	19,917	3,843	10,529	73,404	13,867	87,271	495	87,766

Notes: 1. The operating income reconciliation of 1,331 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 11 "Property, Plant and Equipment," Note 12 "Goodwill and Intangible Assets" and Note 16 "Leases" present the details of depreciation, amortization and impairment loss.
4. Capital expenditures include investments in property, plant and equipment, right-of-use assets and intangible assets.

Fiscal year ended December 31, 2020 (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	503,208	362,332	52,160	233,603	1,151,303	230,694	1,381,997	—	1,381,997
Intersegment sales and transfers[2]	—	—	—	—	—	38,517	38,517	(38,517)	—
Total net sales	503,208	362,332	52,160	233,603	1,151,303	269,211	1,420,514	(38,517)	1,381,997
Operating income	79,606	60,471	4,666	2,422	147,165	27,692	174,857	706	175,563
Financial income									1,711
Financial expenses									(5,839)
Share of profit in investments accounted for using the equity method									2,536
Income before income taxes									173,971
Other items									
Depreciation and amortization[3]	35,383	17,510	2,758	14,640	70,291	14,733	85,024	1,056	86,080
Impairment loss[3]	—	—	—	31	31	384	415	—	415
Capital expenditures[4]	33,185	19,202	4,235	13,346	69,968	14,619	84,587	1,562	86,149

Notes: 1. The operating income reconciliation of 706 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 11 "Property, Plant and Equipment," Note 12 "Goodwill and Intangible Assets" and Note 16 "Leases" present the details of depreciation, amortization and impairment loss.
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)

	2021	2020
Japan	823,521	853,628
Asia	312,737	284,114
Americas	148,995	128,721
Europe	133,515	115,534
Total	1,418,768	1,381,997

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)

	2021	2020
Japan	575,408	588,781
Asia	108,987	100,138
Americas	101,668	92,282
Europe	38,163	37,119
Total	824,226	818,320

7 Cash and Cash Equivalents

Cash and cash equivalents consist of the following:

(Millions of yen)

	2021	2020
Cash and deposits	314,069	328,376
Short-term investments	22,000	24,800
Total	336,069	353,176

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.

8 Trade and Other Receivables

Trade and other receivables consist of the following:

(Millions of yen)

	2021	2020
Trade receivables	210,321	195,483
Other receivables	7,632	6,647
Allowance for doubtful receivables	(1,744)	(2,043)
Total	216,209	200,087

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.

9 Inventories

Inventories consist of the following:

(Millions of yen)

	2021	2020
Merchandise and finished goods	168,547	149,471
Work in progress	14,124	12,847
Materials and supplies	45,399	35,323
Total	228,070	197,641

The amount of inventories recognized as expenses and included in cost of sales for the fiscal years ended December 31, 2021 and 2020 were 717,323 million yen and 668,508 million yen, respectively.

Write-downs of inventories recognized as expenses for the fiscal years ended December 31, 2021 and 2020 were 8,879 million yen and 7,457 million yen, respectively.

10 Other Assets

Other assets consist of the following:

(Millions of yen)

	2021	2020
Other current assets		
Prepaid expenses	9,559	7,892
Other	11,283	10,258
Total	20,842	18,150
Other non-current assets		
Long-term prepaid expenses	2,713	1,522
Retirement benefit assets	5,053	3,018
Other	2,663	2,397
Total	10,429	6,937

11 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, 2020	433,786	761,311	125,409	79,511	41,755	1,441,772
Additions	356	240	508	20	58,059	59,183
Sales and disposals	(2,034)	(14,680)	(8,968)	—	(5)	(25,687)
Reclassification	19,967	31,120	10,902	3,210	(65,199)	—
Exchange differences on translation of foreign operations	(1,170)	(5,054)	(343)	(473)	(543)	(7,583)
Other	(159)	388	(456)	—	247	20
December 31, 2020	450,746	773,325	127,052	82,268	34,314	1,467,705
Additions	284	738	517	—	53,504	55,043
Sales and disposals	(6,474)	(15,811)	(9,561)	(1,190)	—	(33,036)
Reclassification	16,064	35,176	9,244	767	(61,251)	—
Exchange differences on translation of foreign operations	7,565	18,393	2,059	790	1,462	30,269
Other	251	(712)	(42)	—	314	(189)
December 31, 2021	468,436	811,109	129,269	82,635	28,343	1,519,792

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, 2020	300,753	597,049	96,819	10,320	—	1,004,941
Depreciation[1]	13,760	33,583	12,344	—	—	59,687
Impairment losses[2]	172	204	22	—	—	398
Sales and disposals	(1,818)	(13,891)	(8,650)	—	—	(24,359)
Exchange differences on translation of foreign operations	(395)	(3,181)	(287)	—	—	(3,863)
Other	(13)	294	(294)	—	—	(13)
December 31, 2020	312,459	614,058	99,954	10,320	—	1,036,791
Depreciation[1]	14,033	35,175	12,079	—	—	61,287
Impairment losses[2]	—	3,998	20	—	535	4,553
Sales and disposals	(5,393)	(14,819)	(9,255)	—	—	(29,467)
Exchange differences on translation of foreign operations	3,744	12,428	1,658	—	—	17,830
Other	261	(220)	148	—	—	189
December 31, 2021	325,104	650,620	104,604	10,320	535	1,091,183

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, 2020	133,033	164,262	28,590	69,191	41,755	436,831
December 31, 2020	138,287	159,267	27,098	71,948	34,314	430,914
December 31, 2021	143,332	160,489	24,665	72,315	27,808	428,609

(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 4,553 million yen and 398 million yen for the fiscal years ended December 31, 2021 and 2020, respectively.

The main component of the 4,553 million yen impairment losses in the fiscal year ended December 31, 2021 was 4,533 million yen recognized in the Hygiene and Living Care Business. As the Company has decided to retire some of its assets related to baby diapers produced in Japan, primarily machinery and equipment, it has reduced the carrying amount of these assets to zero, which is the fair value less cost of disposal. New premium-priced products have been performing well in Japan, but in order to respond promptly and effectively to changes in consumer needs and the business environment in China, which is an export destination, the Group has shifted its strategy to ramping up local production for future growth. To facilitate this, it has optimized its production facilities in Japan.

(3) Commitments

Note 36 “Commitments” presents information on commitments to acquire property, plant and equipment.

12 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)

		Intangible assets				
	Goodwill	Software	Trademarks	Customer relationships	Other[1]	Total
January 1, 2020	179,707	31,286	14,500	13,234	7,549	66,569
Additions	—	102	—	—	10,368	10,470
Sales and disposals	—	(5,786)	—	—	(16)	(5,802)
Reclassification	—	7,788	—	—	(7,788)	—
Exchange differences on translation of foreign operations	(2,676)	43	(751)	(621)	(84)	(1,413)
Other	—	26	—	—	(71)	(45)
December 31, 2020	177,031	33,459	13,749	12,613	9,958	69,779
Additions	—	56	—	—	11,546	11,602
Sales and disposals	—	(5,500)	—	—	(196)	(5,696)
Reclassification	—	6,635	—	—	(6,635)	—
Exchange differences on translation of foreign operations	6,467	101	1,588	1,392	198	3,279
Other	—	(2,574)	—	—	(130)	(2,704)
December 31, 2021	183,498	32,177	15,337	14,005	14,741	76,260

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

Accumulated Amortization and Accumulated Impairment Losses (Millions of yen)

		Intangible assets				
	Goodwill	Software	Trademarks	Customer relationships	Other	Total
January 1, 2020	—	15,266	1,489	1,256	788	18,799
Amortization[1]	—	6,896	750	737	307	8,690
Sales and disposals	—	(5,783)	—	—	(16)	(5,799)
Exchange differences on translation of foreign operations	—	43	(103)	(67)	(46)	(173)
Other	—	10	—	—	(4)	6
December 31, 2020	—	16,432	2,136	1,926	1,029	21,523
Amortization[1]	—	6,062	771	760	283	7,876
Sales and disposals	—	(5,481)	—	—	(187)	(5,668)
Exchange differences on translation of foreign operations	—	76	284	231	119	710
Other	—	(817)	—	—	—	(817)
December 31, 2021	—	16,272	3,191	2,917	1,244	23,624

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)

		Intangible assets				
	Goodwill	Software	Trademarks	Customer relationships	Other	Total
January 1, 2020	179,707	16,020	13,011	11,978	6,761	47,770
December 31, 2020	177,031	17,027	11,613	10,687	8,929	48,256
December 31, 2021	183,498	15,905	12,146	11,088	13,497	52,636

(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)

	2021	2020
Health and Beauty Care Business	30,054	26,968
Life Care Business	19,208	17,219
Cosmetics Business	131,554	130,398
Chemical Business	2,682	2,446
Total	183,498	177,031

(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, 2021 and 2020 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 6.2% for the fiscal year ended December 31, 2021 and 7.3% for the fiscal year ended December 31, 2020. For the fiscal years ended December 31, 2021 and 2020, 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.

Goodwill acquired in the business combination of Kanebo Cosmetics Inc. has been reallocated to the group of cash-generating units of the Cosmetics Business excluding the Molton Brown Group due to a change in the reporting structure based on the integration of Cosmetics Business operations inside and outside Japan from the fiscal year ended December 31, 2021.

(4) Intangible Assets with Indefinite Useful Lives

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

(5) Commitments

Note 36 "Commitments" presents information on commitments associated with the acquisition of intangible assets.

13 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)

	2021	2020
Investments accounted for using the equity method	10,050	8,657

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)

	2021	2020
The Group's share of net income	2,620	2,536
The Group's share of other comprehensive income	722	(142)
The Group's share of comprehensive income	3,342	2,394

14 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, 2021 (Millions of yen)

	January 1, 2021	Recognized in profit or loss	Recognized in other comprehensive income	Other	December 31, 2021
Deferred tax assets					
Property, plant and equipment and intangible assets	21,859	1,935	—	139	23,933
Lease liabilities	42,379	(1,226)	—	118	41,271
Retirement benefit liabilities	13,188	(2,204)	(4,282)	(129)	6,573
Accrued expenses	11,036	249	—	113	11,398
Unused tax losses	1,190	1,034	—	22	2,246
Other	15,102	2,244	—	505	17,851
Total deferred tax assets	104,754	2,032	(4,282)	768	103,272
Deferred tax liabilities					
Property, plant and equipment and intangible assets	10,148	701	—	392	11,241
Right-of-use assets	41,964	(1,186)	—	88	40,866
Financial assets	2,319	—	175	(307)	2,187
Undistributed foreign earnings	11,059	300	—	—	11,359
Other	1,574	(280)	369	438	2,101
Total deferred tax liabilities	67,064	(465)	544	611	67,754
Deferred tax assets, net	37,690	2,497	(4,826)	157	35,518

Fiscal year ended December 31, 2020 (Millions of yen)

	January 1, 2020	Recognized in profit or loss	Recognized in other comprehensive income	Other	December 31, 2020
Deferred tax assets					
Property, plant and equipment and intangible assets	20,715	1,220	—	(76)	21,859
Lease liabilities	46,026	(2,917)	—	(730)	42,379
Retirement benefit liabilities	21,419	(1,395)	(6,888)	52	13,188
Accrued expenses	10,240	800	—	(4)	11,036
Unused tax losses	387	804	—	(1)	1,190
Other	16,005	(983)	—	80	15,102
Total deferred tax assets	114,792	(2,471)	(6,888)	(679)	104,754
Deferred tax liabilities					
Property, plant and equipment and intangible assets	9,948	462	—	(262)	10,148
Right-of-use assets	45,926	(3,324)	—	(638)	41,964
Financial assets	2,516	—	97	(294)	2,319
Undistributed foreign earnings	11,533	(474)	—	—	11,059
Other	740	609	133	92	1,574
Total deferred tax liabilities	70,663	(2,727)	230	(1,102)	67,064
Deferred tax assets, net	44,129	256	(7,118)	423	37,690

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

(Millions of yen)

	2021	2020
Deferred tax assets	41,348	42,274
Deferred tax liabilities	5,830	4,584
Deferred tax assets, net	35,518	37,690

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

(Millions of yen)

	2021	2020
Unused tax losses	2,624	2,434
Deductible temporary differences	11,905	12,037
Total	14,529	14,471

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

(Millions of yen)

	2021	2020
Not later than 1 year	351	465
Later than 1 year and not later than 2 years	600	291
Later than 2 years and not later than 3 years	423	520
Later than 3 years and not later than 4 years	234	388
Later than 4 years	1,016	770
Total	2,624	2,434

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, 2021 and 2020 were 20,498 million yen and 15,353 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)

	2021	2020
Current taxes	41,084	46,160
Deferred taxes[1]	(2,497)	(256)
Total	38,587	45,904

Note: 1. Deferred taxes include 197 million yen and 145 million yen for the fiscal years ended December 31, 2021 and 2020, respectively, due to tax rate changes.

(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:

(%)

	2021	2020
Effective statutory tax rate	30.62	30.62
Tax credit for experimental research costs and other	(2.86)	(2.24)
Different tax rates applied to subsidiaries	(2.26)	(1.81)
Reassessment of recoverability of unused tax losses and deferred tax assets	0.41	0.15
Change in tax rates	0.13	0.08
Other	(0.32)	(0.41)
Average actual tax rate	25.72	26.39

15 Bonds and Borrowings and Other

Bonds and borrowings and lease liabilities consist of the following:

(Millions of yen)

	2021	2020	Average interest rate[1] (%)	Maturity
Short-term borrowings	848	408	1.41	—
Current portion of long-term borrowings	5,296	30,045	4.56	—
Long-term borrowings	71,372	47,232	0.19	2023-2032
Current portion of bonds[2]	12	12	—	—
Bonds[2]	50,209	49,997	—	—
Lease liabilities (Current)	19,929	19,787	0.52	—
Lease liabilities (Non-current)	121,016	126,725	0.93	2023-2066
Total	268,682	274,206		
Current liabilities				
Bonds and borrowings	6,156	30,465		
Lease liabilities	19,929	19,787		
Subtotal	26,085	50,252		
Non-current liabilities				
Bonds and borrowings	121,581	97,229		
Lease liabilities	121,016	126,725		
Subtotal	242,597	223,954		
Total	268,682	274,206		

Notes: 1. The average interest rate is the weighted average interest rate on the balance as of December 31, 2021.
2. Details of bonds issued are as follows:

(Millions of yen)

Issuer	Bond name	Issue date	2021	2020	Interest rate (%)	Collateral	Maturity date
The Company	5th unsecured bonds	June 19, 2018	24,982	24,971	0.08	None	June 20, 2023
The Company	6th unsecured bonds	September 18, 2020	24,955	24,942	0.13	None	September 19, 2025
Subsidiaries	Other bonds	—	284	96	—	—	—
Total			50,221	50,009			

16 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)

	2021	2020
Depreciation charge for right-of-use assets[1]		
Buildings and structures	16,561	16,249
Other	1,617	1,454
Total	18,178	17,703
Interest expense on lease liabilities[2]	1,327	1,490
Expenses relating to short-term leases[3]	1,854	1,686
Other	783	669
Total	3,964	3,845

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, 2021 and 2020 were 25,248 million yen and 24,777 million yen, respectively.

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

(Millions of yen)

	2021	2020
Right-of-use assets		
Buildings and structures	136,125	141,728
Other	7,932	7,815
Total	144,057	149,543

Note 31 "Cash Flow Information" presents additions to right-of-use assets.
Note 33 "Financial Instruments" presents lease liabilities by maturity date.

17 Trade and Other Payables

Trade and other payables consist of the following:

(Millions of yen)

	2021	2020
Trade payables	155,980	137,680
Non-trade payables	73,106	78,162
Total	229,086	215,842

18 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)

	2021	2020
Present value of defined benefit obligations	352,452	351,077
Fair value of plan assets	(327,662)	(302,237)
Net defined benefit liabilities	24,790	48,840
Amounts recognized in consolidated statement of financial position		
Retirement benefit liabilities	29,843	51,858
Retirement benefit assets	(5,053)	(3,018)
Net defined benefit liabilities	24,790	48,840

2) Defined benefit obligations

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

(Millions of yen)

	2021	2020
The present value of the defined benefit obligations at beginning of year	351,077	362,080
Current service cost[1]	9,938	10,639
Interest expense[2]	2,281	2,209
Remeasurements		
Actuarial (gains) losses arising from changes in demographic assumptions	(1,154)	(337)
Actuarial (gains) losses arising from changes in financial assumptions	(564)	(8,622)
Actuarial (gains) losses arising from experience adjustments	577	399
Benefits paid[3]	(12,835)	(14,120)
Exchange differences on translation of foreign operations and other	3,132	(1,171)
The present value of the defined benefit obligations at end of year	352,452	351,077

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 17.2 years at December 31, 2021 and 17.2 years at December 31, 2020.

3) Plan assets

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

(Millions of yen)

	2021	2020
The fair value of plan assets at beginning of year	302,237	283,647
Interest income	1,881	1,675
Remeasurements		
Return on plan assets (excluding amounts included in interest income)	15,239	14,826
Contributions to the plan by the employer[1]	17,056	15,714
Payments from the plan	(11,609)	(12,880)
Exchange differences on translation of foreign operations and other	2,858	(745)
The fair value of plan assets at end of year	327,662	302,237

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 12,026 million yen to the defined benefit plan for the fiscal year ending December 31, 2022.

Plan assets consist of the following:

(Millions of yen)

	2021			2020		
	Market price in an active market			Market price in an active market		
	Quoted	Unquoted	Total	Quoted	Unquoted	Total
Equity securities	7,428	65,033	72,461	11,651	62,649	74,300
Japan	—	30,275	30,275	—	30,996	30,996
Overseas	7,428	34,758	42,186	11,651	31,653	43,304
Debt securities	14,379	230,003	244,382	7,248	208,061	215,309
Japan	—	154,047	154,047	—	138,520	138,520
Overseas	14,379	75,956	90,335	7,248	69,541	76,789
Other	669	10,150	10,819	462	12,166	12,628
Total	22,476	305,186	327,662	19,361	282,876	302,237

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) Significant actuarial assumptions and related sensitivity analysis

Significant actuarial assumptions are as follows:

	2021	2020
Discount rate	Mainly 0.8%	Mainly 0.8%

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)

	2021	2020
The impact on defined benefit obligations		
0.5% increase in discount rate	(25,376)	(25,482)
0.5% decrease in discount rate	27,248	26,815

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.

5) Defined contribution plans

Expenses related to the defined contribution plan recognized in profit or loss were 4,110 million yen and 3,488 million yen for the fiscal years ended December 31, 2021 and 2020, 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, 2021 and 2020 were 280,798 million yen and 277,244 million yen, respectively.

19 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	Other provisions	Total
January 1, 2021	5,126	4,695	1,165	10,986
Increase	—	226	514	740
Interest expense on discounted provision	8	56	—	64
Decrease (provision used)	(735)	(180)	(493)	(1,408)
Decrease (provision reversed)	—	—	(235)	(235)
Exchange differences on translation of foreign operations	—	14	67	81
December 31, 2021	4,399	4,811	1,018	10,228

(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 1,031 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.

20 Other Current Liabilities

Other current liabilities consist of the following:

(Millions of yen)

	2021	2020
Accrued expenses	77,577	72,701
Consumption tax payables	7,438	10,508
Obligation for unused paid absences	8,955	8,201
Other	9,165	8,311
Total	103,135	99,721

21 Equity and Other Equity Items

(1) Share Capital

The numbers of shares authorized and issued are as follows:

(Shares)

	2021	2020
Authorized	1,000,000,000	1,000,000,000
Issued[1]		
Beginning balance	482,000,000	482,000,000
Change during the year[2]	(7,000,000)	—
Ending balance	475,000,000	482,000,000

Notes: 1. All of the issued shares of the Company are ordinary shares that have no par value and no limitations on rights. Issued shares are fully paid.
2. The number of issued shares during the fiscal year ended December 31, 2021 decreased by 7,000,000 shares due to the retirement of treasury shares pursuant to the resolution of the Board of Directors.

(2) Capital Surplus

Capital surplus consists of capital reserve and other capital surplus.

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

(3) Treasury Shares

The changes in treasury shares are as follows:

(Shares)

	2021	2020
Beginning balance[1]	1,054,019	1,083,466
Increase[2]	7,135,557	28,823
Decrease[3]	(7,072,381)	(58,270)
Ending balance[4]	1,117,195	1,054,019

Notes: 1. 582,097 treasury shares and 556,492 treasury shares held by associates were included at December 31, 2021 and 2020, respectively.
In addition, 211,550 shares and 226,550 shares held by the Board Incentive Plan Trust (hereinafter "BIP Trust") were included at December 31, 2021 and 2020, respectively.
2. The increase of 7,135,557 shares of treasury shares during the fiscal year ended December 31, 2021 resulted from the acquisition of 6,875,900 shares by resolution of the Board of Directors, the acquisition of 257,600 shares by BIP Trust and the purchase of 2,057 fractional shares.
The increase of 28,823 shares of treasury shares during the fiscal year ended December 31, 2020 resulted from an increase of 25,605 shares due to changes in treasury shares held by associates accounted for by the equity method and the purchase of 3,218 fractional shares.
3. The decrease of 7,072,381 shares of treasury shares during the fiscal year ended December 31, 2021 resulted from the retirement of 7,000,000 shares by resolution of the Board of Directors, a decrease of 49,827 shares due to the grant to the Board of Directors by the BIP Trust, a decrease of 19,000 shares due to the exercise of stock options, a decrease of 3,153 shares due to the change of treasury shares held by associates accounted for using the equity method and the sale of 401 fractional shares.
The decrease of 58,270 shares of treasury shares during the fiscal year ended December 31, 2020 resulted from a decrease of 43,000 shares due to the exercise of stock options, a decrease of 15,000 shares due to the grant to the Board of Directors by the BIP Trust and the sale of 270 fractional shares.
4. 578,944 shares and 582,097 shares of treasury shares held by associates were included at December 31, 2021 and 2020, respectively.
In addition, 419,323 shares and 211,550 shares held by the BIP Trust were included at December 31, 2021 and 2020, 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 32 "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.

22 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]"), a management indicator that takes capital cost into account, as its main indicator and works to enhance its corporate value by improving EVA. Guided by EVA management, which places 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, 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, 2021, EVA decreased 17.1 billion yen compared with the previous fiscal year to 45.1 billion yen due to a decrease in net operating profit after tax (hereinafter "NOPAT").

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

23 Dividends

Dividends paid are as follows:

Fiscal year ended December 31, 2021

Date of resolution	Total dividends[1,2] (Millions of yen)	Dividends per share (Yen)	Record date	Effective date
115th Annual General Meeting of Shareholders held on March 26, 2021	33,666	70	December 31, 2020	March 29, 2021
Board of Directors meeting held on August 3, 2021	34,119	72	June 30, 2021	September 1, 2021

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 115th Annual General Meeting of Shareholders held on March 26, 2021 was 33,722 million yen before the deduction. The dividend resolved at the meeting of the Board of Directors held on August 3, 2021 was 34,191 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, 2020

Date of resolution	Total dividends[1] (Millions of yen)	Dividends per share (Yen)	Record date	Effective date
114th Annual General Meeting of Shareholders held on March 25, 2020	31,260	65	December 31, 2019	March 26, 2020
Board of Directors meeting held on July 29, 2020	33,666	70	June 30, 2020	September 1, 2020

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 114th Annual General Meeting of Shareholders held on March 25, 2020 was 31,310 million yen before the deduction. The dividend resolved at the meeting of the Board of Directors held on July 29, 2020 was 33,721 million yen before the deduction.

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

Fiscal year ended December 31, 2021

Date of Resolution	Total dividends (Millions of yen)	Dividends per share (Yen)	Record date	Effective date
116th Annual General Meeting of Shareholders held on March 25, 2022	34,191	72	December 31, 2021	March 28, 2022

Fiscal year ended December 31, 2020

Date of Resolution	Total dividends (Millions of yen)	Dividends per share (Yen)	Record date	Effective date
115th Annual General Meeting of Shareholders held on March 26, 2021	33,722	70	December 31, 2020	March 29, 2021

24 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:

Due to a change in organization as of January 1, 2021, the Group reclassified its reportable segments from the three months ended March 31, 2021. Disaggregation of revenue for the fiscal year ended December 31, 2020 has been restated to reflect the reclassification. Changes in segment classification are presented in Note 6 "Segment Information (1) Summary of Reportable Segments."

Fiscal year ended December 31, 2021 (Millions of yen)

	Japan	Asia	Americas	Europe	Total
Fabric and Home Care Products	288,590	40,147	2,769	—	331,506
Sanitary Products	77,970	87,270	99	—	165,339
Hygiene and Living Care Business	366,560	127,417	2,868	—	496,845
Health and Beauty Care Business	205,210	29,417	78,044	41,817	354,488
Life Care Business	43,462	29	9,403	138	53,032
Cosmetics Business	152,916	57,827	5,925	22,667	239,335
Consumer Products Business	768,148	214,690	96,240	64,622	1,143,700
Chemical Business	122,124	73,917	49,031	69,221	314,293
Elimination of intersegment transactions	(33,980)	(3,394)	(36)	(1,815)	(39,225)
Consolidated	856,292	285,213	145,235	132,028	1,418,768
Revenue of logistics services to third parties included in other operating income	10,220	—	—	—	10,220
Total revenue from contracts with customers	866,512	285,213	145,235	132,028	1,428,988

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, 2020 (Millions of yen)

	Japan	Asia	Americas	Europe	Total
Fabric and Home Care Products	287,743	40,617	2,367	—	330,727
Sanitary Products	86,805	85,569	107	—	172,481
Hygiene and Living Care Business	374,548	126,186	2,474	—	503,208
Health and Beauty Care Business	227,727	28,706	68,630	37,269	362,332
Life Care Business	45,028	25	6,971	136	52,160
Cosmetics Business	163,699	45,354	5,540	19,010	233,603
Consumer Products Business	811,002	200,271	83,615	56,415	1,151,303
Chemical Business	111,084	56,472	42,773	58,882	269,211
Elimination of intersegment transactions	(34,029)	(2,626)	(72)	(1,790)	(38,517)
Consolidated	888,057	254,117	126,316	113,507	1,381,997
Revenue of logistics services to third parties included in other operating income	10,203	—	—	—	10,203
Total revenue from contracts with customers	898,260	254,117	126,316	113,507	1,392,200

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 fatty alcohols 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, 2021 (Millions of yen)

	January 1, 2021	December 31, 2021
Contract liabilities		
Advances	298	1,106
Refund liabilities	22,800	30,037
Total	23,098	31,143

Fiscal year ended December 31, 2020 (Millions of yen)

	January 1, 2020	December 31, 2020
Contract liabilities		
Advances	384	298
Refund liabilities	20,232	22,800
Total	20,616	23,098

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.

The balances of advances as of January 1, 2021 and 2020 were recognized as revenue during the fiscal years ended December 31, 2021 and 2020, respectively. The amount of revenue recognized during the fiscal year ended December 31, 2021 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, 2021 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.

25 Selling, General and Administrative Expenses

Selling, general and administrative expenses consist of the following:

(Millions of yen)

	2021	2020
Advertising	74,847	71,984
Sales promotion	47,104	45,543
Employee benefits	153,178	148,281
Depreciation	18,365	18,586
Amortization	7,823	8,632
Research and development	58,993	58,509
Other	66,735	64,291
Total	427,045	415,826

26 Other Operating Income

Other operating income consists of the following:

(Millions of yen)

	2021	2020
Revenue of logistics services to third parties	10,220	10,203
Royalty income	952	1,002
Other	6,132	4,596
Total	17,304	15,801

27 Other Operating Expenses

Other operating expenses consist of the following:

(Millions of yen)

	2021	2020
Expenses of logistics services to third parties	9,259	9,311
Losses on sale and disposal of property, plant and equipment	4,680	3,347
Impairment losses[1]	4,553	415
Other	1,451	2,032
Total	19,943	15,105

Note: 1. Note 11 "Property, Plant and Equipment" presents impairment losses.

28 Financial Income and Financial Expenses

Financial income consists of the following:

(Millions of yen)

	2021	2020
Foreign exchange gain[1]	4,991	—
Interest income		
Financial assets measured at amortized cost	1,176	1,415
Retirement benefit assets	51	23
Dividend income		
Financial assets measured at fair value through other comprehensive income		
Financial assets derecognized during the year	13	16
Financial assets held at year end	113	135
Financial assets measured at fair value through profit or loss	5	4
Other	121	118
Total	6,470	1,711

Financial expenses consist of the following:

(Millions of yen)

	2021	2020
Foreign exchange loss[1]	—	2,624
Interest expenses[2]		
Financial liabilities measured at amortized cost	709	1,043
Lease liabilities	1,327	1,490
Retirement benefit liabilities	451	557
Other	111	125
Total	2,598	5,839

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

29 Earnings per Share

(1) The Basis for Calculating Basic Earnings per Share

(Millions of yen, unless otherwise noted)

	2021	2020
Net income attributable to owners of the parent	109,636	126,142
Amounts not attributable to ordinary shareholders of the parent	—	—
Net income used to calculate basic earnings per share	109,636	126,142
Weighted average number of ordinary shares (Thousands of shares)	475,466	480,929
Basic earnings per share (Yen)	230.59	262.29

(2) The Basis for Calculating Diluted Earnings per Share

(Millions of yen, unless otherwise noted)

	2021	2020
Net income used to calculate basic earnings per share	109,636	126,142
Adjustments to net income	—	—
Net income used to calculate diluted earnings per share	109,636	126,142
Weighted average number of ordinary shares (Thousands of shares)	475,466	480,929
Increase in ordinary shares		
Subscription rights to shares (Thousands of shares)	34	68
Weighted average number of ordinary shares after dilution (Thousands of shares)	475,500	480,998
Diluted earnings per share (Yen)	230.57	262.25
Summary of potential ordinary shares not included in the calculation of diluted earnings per share because they have no dilutive effect	—	—

30 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, 2021 (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	565	—	565	(175)	390
Remeasurements of defined benefit plans	16,380	—	16,380	(4,651)	11,729
Share of other comprehensive income of investments accounted for using the equity method	475	—	475	(145)	330
Total of items that will not be reclassified to profit or loss	17,420	—	17,420	(4,971)	12,449
Items that may be reclassified subsequently to profit or loss					
Exchange differences on translation of foreign operations	40,874	2	40,876	—	40,876
Share of other comprehensive income of investments accounted for using the equity method	392	—	392	0	392
Total of items that may be reclassified subsequently to profit or loss	41,266	2	41,268	0	41,268
Total	58,686	2	58,688	(4,971)	53,717

Fiscal year ended December 31, 2020

(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	265	—	265	(97)	168
Remeasurements of defined benefit plans	23,386	—	23,386	(7,021)	16,365
Share of other comprehensive income of investments accounted for using the equity method	36	—	36	(11)	25
Total of items that will not be reclassified to profit or loss	23,687	—	23,687	(7,129)	16,558
Items that may be reclassified subsequently to profit or loss					
Exchange differences on translation of foreign operations	(9,936)	(6)	(9,942)	—	(9,942)
Share of other comprehensive income of investments accounted for using the equity method	(167)	—	(167)	0	(167)
Total of items that may be reclassified subsequently to profit or loss	(10,103)	(6)	(10,109)	0	(10,109)
Total	13,584	(6)	13,578	(7,129)	6,449

31 Cash Flow Information

(1) Changes in Liabilities Arising from Financing Activities

Fiscal year ended December 31, 2021

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

(Millions of yen)

			Non-cash changes		
	January 1, 2021	Changes from financing cash flows	New leases	Other	December 31, 2021
Lease liabilities	146,512	(21,266)	21,097	(5,398)	140,945

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, 2021.

Fiscal year ended December 31, 2020

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

(Millions of yen)

			Non-cash changes		
	January 1, 2020	Changes from financing cash flows	New leases	Other	December 31, 2020
Lease liabilities	161,091	(20,912)	16,358	(10,025)	146,512

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, 2020.

(2) Non-cash Transactions

For the fiscal years ended December 31, 2021 and 2020, the non-cash transactions comprised the acquisition of right-of-use assets resulted from leases of 21,121 million yen and 16,496 million yen, respectively.

32 Share-based Payments

(1) Stock Options

1) Outline of stock options

The Company issued the following type of stock option 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

	2021		2020	
	Number of shares	Weighted average exercise price	Number of shares	Weighted average exercise price
	(Shares)	(Yen)	(Shares)	(Yen)
Beginning balance of outstanding	51,000	1	95,000	1
Granted	—	—	—	—
Exercised	(19,000)	1	(43,000)	1
Expired at maturity	(1,000)	1	(1,000)	1
Ending balance of outstanding	31,000	1	51,000	1
Ending balance of exercisable	31,000	1	51,000	1

Notes: 1. The weighted average share price on the date of exercise for the fiscal years ended December 31, 2021 and 2020 was 7,195 yen and 8,400 yen, respectively.
2.. The exercise price and the weighted average remaining contractual life for stock options outstanding at the end of the period are as follows:

2021			2020		
Exercise price	Number of shares	Weighted average remaining contractual life	Exercise price	Number of shares	Weighted average remaining contractual life
(Yen)	(Shares)	(Years)	(Yen)	(Shares)	(Years)
1	31,000	1.1	1	51,000	1.7

(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 (the end of the eligibility period for the previous fiscal year) in the case of variable points (performance-linked points for the previous fiscal year), 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:

	2021		2020	
	Variable points	Fixed points	Performance -linked points	Fixed points
Number of points granted during the period	37,625	16,125	34,125	14,625
Weighted average fair value (Yen)	6,919	6,847	6,821	6,443

(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, 2021 and 2020 were 370 million yen of expenses and 394 million yen of reversal of expenses, respectively.

33 Financial Instruments

(1) Classification of Financial Instruments

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

(Millions of yen)

Financial assets	2021	2020
Financial assets measured at amortized cost		
Cash and cash equivalents (Note 7)	324,069	338,276
Trade and other receivables (Note 8)	216,209	200,087
Other	16,767	17,907
Financial assets measured at fair value through profit or loss		
Cash and cash equivalents (Note 7)	12,000	14,900
Derivatives	22	81
Other	3,519	3,034
Financial assets measured at fair value through other comprehensive income		
Equity securities	9,374	9,843
Total	581,960	584,128
Current assets		
Cash and cash equivalents	336,069	353,176
Trade and other receivables	216,209	200,087
Other financial assets	6,094	7,257
Subtotal	558,372	560,520
Non-current assets		
Other financial assets	23,588	23,608
Total	581,960	584,128

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, 2021 (Millions of yen)

Company name	Fair value
Livedo Corporation	1,426
Saiwai Trading Co., Ltd.	1,352
Aeon Co., Ltd.	1,150
Japan Alcohol Trading Co., Ltd.	891
Seven & i Holdings Co., Ltd.	818
Tokio Marine Holdings, Inc.	679
Keytrading Co., Ltd.	425
Izumi Co., Ltd.	324
Kawaken Fine Chemicals Co., Ltd.	298
Kyoto Seisakusho Co., Ltd.	215

As of December 31, 2020 (Millions of yen)

Company name	Fair value
Aeon Co., Ltd.	1,433
Seven & i Holdings Co., Ltd.	1,375
Saiwai Trading Co., Ltd.	1,308
Livedo Corporation	1,286
Japan Alcohol Trading Co., Ltd.	739
Tokio Marine Holdings, Inc.	677
Keytrading Co., Ltd.	431
Izumi Co., Ltd.	374
Kawaken Fine Chemicals Co., Ltd.	272
Kyoto Seisakusho Co., Ltd.	194

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)

	2021	2020
Fair value	1,089	1,224
Cumulative gains (losses)	1,003	968

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, 2021 and 2020, were 659 million yen and 668 million yen, respectively.

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

(Millions of yen)

Financial liabilities	2021	2020
Financial liabilities measured at amortized cost		
Trade and other payables (Note 17)	229,086	215,842
Bonds and borrowings (Note 15)	127,737	127,694
Lease liabilities (Note 16)	140,945	146,512
Other	12,921	14,065
Financial liabilities measured at fair value through profit or loss		
Derivatives	478	368
Total	511,167	504,481
Current liabilities		
Trade and other payables	229,086	215,842
Bonds and borrowings	6,156	30,465
Lease liabilities	19,929	19,787
Other financial liabilities	6,329	6,571
Subtotal	261,500	272,665
Non-current liabilities		
Bonds and borrowings	121,581	97,229
Lease liabilities	121,016	126,725
Other financial liabilities	7,070	7,862
Subtotal	249,667	231,816
Total	511,167	504,481

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 12,230 million yen and 12,789 million yen at December 31, 2021 and 2020, respectively. The average interest rate on deposits received as of December 31, 2021 was 0.12%.

(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)

Derivatives transactions	2021 Contract amount	2021 Contract amount over 1 year	2021 Carrying amount (fair value)[1]	2020 Contract amount	2020 Contract amount over 1 year	2020 Carrying amount (fair value)[1]
Foreign exchange forward contracts:						
Selling						
U.S. dollar	13,634	—	(6)	10,776	—	(0)
Euro	60	—	0	80	—	2
Buying						
Euro	75	—	(1)	31	—	(0)
Chinese yuan	137	—	(3)	111	—	(0)

Note: 1. Note 33 "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, 2021 (Millions of yen)

	U.S. dollar	Euro	Chinese yuan
Net exposure	20,710	1,147	12,687

As of December 31, 2020 (Millions of yen)

	U.S. dollar	Euro	Chinese yuan
Net exposure	23,198	2,201	11,074

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)

	2021	2020
U.S. dollar	(2,071)	(2,320)
Euro	(115)	(220)
Chinese yuan	(1,269)	(1,107)

(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 3,788 million yen and 4,699 million yen at December 31, 2021 and 2020, 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 6,915 million yen and 7,001 million yen at December 31, 2021 and 2020, respectively.

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

Fiscal year ended December 31, 2021

(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, 2021	194,805	678	195,483
Change during the year (Recognition and derecognition)	7,984	(158)	7,826
Transfer to credit-impaired financial assets	(13)	13	—
Other changes	6,980	32	7,012
December 31, 2021	209,756	565	210,321

(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, 2021	1,490	543	2,033
Increase during the year	69	27	96
Decrease during the year (charge-offs)	(339)	(57)	(396)
Decrease during the year (other)	(105)	(3)	(108)
Other changes	88	22	110
December 31, 2021	1,203	532	1,735

Fiscal year ended December 31, 2020

(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, 2020	203,690	632	204,322
Change during the year (Recognition and derecognition)	(7,907)	(30)	(7,937)
Transfer to credit-impaired financial assets	(59)	59	—
Other changes	(919)	17	(902)
December 31, 2020	194,805	678	195,483

(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, 2020	1,114	520	1,634
Increase during the year	565	82	647
Decrease during the year (charge-offs)	(157)	(1)	(158)
Decrease during the year (other)	(95)	(16)	(111)
Transfer to credit-impaired financial assets	57	(57)	—
Other changes	6	15	21
December 31, 2020	1,490	543	2,033

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, 2021 (Millions of yen, unless otherwise noted)

	Not due	Days past due: Less than 30 days	Over 30 days	Over 60 days	Over 90 days	Total
Trade receivables	199,641	5,257	1,665	721	3,037	210,321
Allowance for doubtful receivables	187	100	64	30	1,354	1,735
Expected credit loss (%)	0.1	1.9	3.8	4.2	44.6	0.8

As of December 31, 2020 (Millions of yen, unless otherwise noted)

	Not due	Days past due: Less than 30 days	Over 30 days	Over 60 days	Over 90 days	Total
Trade receivables	183,636	6,066	1,685	1,150	2,946	195,483
Allowance for doubtful receivables	265	57	134	199	1,378	2,033
Expected credit loss (%)	0.1	0.9	8.0	17.3	46.8	1.0

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, 2021 (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	229,086	229,086	229,086	—	—	—	—	—
Bonds and borrowings	127,737	127,800	6,156	66,243	32	35,032	20,231	106
Lease liabilities[1]	140,945	151,477	21,124	16,729	12,596	10,314	9,268	81,446
Long-term deposits payable	6,915	6,915	—	—	—	—	—	6,915
Derivative financial liabilities								
Currency related	400	400	303	9	88	—	—	—
Interest rate related	78	78	21	—	57	—	—	—
Total	505,161	515,756	256,690	82,981	12,773	45,346	29,499	88,467

Note: 1. Lease liabilities by maturity date consist of the following:

As of December 31, 2021 (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	140,945	151,477	21,124	48,907	30,753	23,128	18,793	8,772

As of December 31, 2020 (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	215,842	215,842	215,842	—	—	—	—	—
Bonds and borrowings	127,694	127,781	30,465	5,879	66,126	22	25,022	267
Lease liabilities[1]	146,512	157,905	21,088	16,985	12,495	10,403	9,634	87,300
Long-term deposits payable	7,001	7,001	—	—	—	—	—	7,001
Derivative financial liabilities								
Currency related	222	222	164	48	10	—	—	—
Interest rate related	146	146	—	44	—	102	—	—
Total	497,417	508,897	267,559	22,956	78,631	10,527	34,656	94,568

Note: 1. Lease liabilities by maturity date consist of the following:

As of December 31, 2020 (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	146,512	157,905	21,088	49,517	33,987	22,787	18,588	11,938

(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, 2021 or 2020.

As of December 31, 2021 (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	—	12,000	—	12,000
Derivative assets	—	22	—	22
Other	—	3,519	—	3,519
Financial assets measured at fair value through other comprehensive income				
Equity securities	3,788	—	5,586	9,374
Total	3,788	15,541	5,586	24,915
Financial liabilities				
Financial liabilities measured at fair value through profit or loss				
Derivative liabilities	—	478	—	478
Total	—	478	—	478

As of December 31, 2020 (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	—	14,900	—	14,900
Derivative assets	—	81	—	81
Other	—	3,034	—	3,034
Financial assets measured at fair value through other comprehensive income				
Equity securities	4,699	—	5,144	9,843
Total	4,699	18,015	5,144	27,858
Financial liabilities				
Financial liabilities measured at fair value through profit or loss				
Derivative liabilities	—	368	—	368
Total	—	368	—	368

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

(Millions of yen)

	2021	2020
Beginning balance	5,144	4,892
Gains (losses)[1]	392	203
Purchases	50	50
Sales	—	(0)
Other changes	0	(1)
Ending balance	5,586	5,144

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

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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, 2021 (Millions of yen)

		Fair value			
	Carrying amount	Level 1	Level 2	Level 3	Total
Financial liabilities					
Financial liabilities measured at amortized cost					
Bonds	50,221	—	50,309	—	50,309
Borrowings	77,516	—	78,020	—	78,020

As of December 31, 2020 (Millions of yen)

		Fair value			
	Carrying amount	Level 1	Level 2	Level 3	Total
Financial liabilities					
Financial liabilities measured at amortized cost					
Bonds	50,009	—	50,094	—	50,094
Borrowings	77,685	—	78,164	—	78,164

34 Principal Subsidiaries

Principal subsidiaries consist of the following. Voting rights at December 31, 2021 did not significantly change from December 31, 2020.

Company name	Principal businesses	Voting rights (%)
Kao Group Customer Marketing Co., Ltd.	Control of sales companies and other subsidiaries in Japan Hygiene and Living Care Health and Beauty Care Life Care Cosmetics	100.0
Kao Professional Services Company, Limited	Life Care (Commercial-use hygiene products)	100.0
Kanebo Cosmetics Inc.	Cosmetics	100.0
Kao Transport & Logistics Company Limited	Logistics and related services in Japan	100.0
Kao (China) Holding Co., Ltd.	Control of subsidiaries in China Cosmetics	100.0
Kao Corporation Shanghai	Hygiene and Living Care Health and Beauty Care Cosmetics	100.0
Kao (Hefei) Co., Ltd.	Hygiene and Living Care	100.0
Kao Commercial (Shanghai) Co., Ltd.	Hygiene and Living Care Health and Beauty Care Cosmetics	100.0
Kanebo Cosmetics (China) Co., Ltd.	Cosmetics	100.0
Kao (Shanghai) Chemical Industries Co., Ltd.	Chemical	100.0
Kao (Taiwan) Corporation	Hygiene and Living Care Health and Beauty Care Life Care (Commercial-use hygiene products) Cosmetics Chemical	92.2
Pilipinas Kao, Inc.	Chemical	100.0
Kao Industrial (Thailand) Co., Ltd.	Hygiene and Living Care Health and Beauty Care Cosmetics Chemical	100.0
Fatty Chemical (Malaysia) Sdn. Bhd.	Chemical	70.0
PT Kao Indonesia	Hygiene and Living Care Health and Beauty Care	60.1
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

35 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)

	2021	2020
Short-term benefits	1,200	1,213
Post-retirement benefits	33	32
Share-based payments	370	(394)
Total	1,603	851

36 Commitments

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

(Millions of yen)

	2021	2020
Acquisition of property, plant and equipment	25,435	22,611
Acquisition of intangible assets	2,812	1,883
Total	28,247	24,494

37 Significant Subsequent Events

There were no significant subsequent events to present.

38 Approval of the Consolidated Financial Statements

The Consolidated Financial Statements were approved by Yoshihiro Hasebe, President and Chief Executive Officer, and by Kenichi Yamauchi, Executive Officer, Senior Vice President, Accounting and Finance, on March 15, 2022.

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of Kao Corporation:

Opinion

We have audited the consolidated financial statements of Kao Corporation and its subsidiaries (the "Group"), which comprise the consolidated statement of financial position as of December 31, 2021, 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 year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

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, 2021, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRSs").

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in Japan. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Group in accordance with the provisions of the Code of Professional Ethics in Japan, and we have fulfilled our other ethical responsibilities as auditors. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

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.

Valuation of goodwill related to the business combination of Kanebo Cosmetics	
Key Audit Matter Description	How the Key Audit Matter Was Addressed in the Audit
Kao Corporation (hereinafter the "Company") recognized goodwill of ¥183,498 million in the consolidated statement of financial position as of December 31, 2021. As described in Note 12 to the consolidated financial statements, goodwill of ¥119,400 million was allocated to Kanebo Cosmetics, which accounted for 7.0% of the total assets. The assumptions used for the impairment test for goodwill were described in Note 12. The goodwill has been reallocated to the group of cash-generating units of the Cosmetics Business excluding the Molton Brown Group, due to the change in reporting structure based on the integration of Cosmetics Business operations inside and outside Japan, from the fiscal year ended December 31, 2021. 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 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. While the impact of the COVID-19 pandemic may continue for a certain period beyond the current year, a gradual recovery in the future is assumed. 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 6.2%. The growth rate of sales and discount rate involve uncertainties, such as the impact of the COVID-19 pandemic, 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 as a key audit matter.	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 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 • With regard to business strategies and brand management that support the reallocation of the goodwill to the group of cash-generating units, we made inquiries of the person responsible for the Cosmetics Business and the sales management division and inspected the related documents. • 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 the market environment due to the impact of the COVID-19 pandemic. • We made inquiries of the person responsible for the Cosmetic Business regarding the sales strategy, which supports sales forecast by region and brand in the medium-term plan utilized in the impairment test. • Concerning the forecasted market growth rate which is one of the significant assumptions for estimating value in use, and was included in the medium-term plan, we performed trend analysis using actual results and the data of cosmetic market inspection reports published by an external specialist agency. • We involved valuation specialists from our member firm to assist us in assessing the appropriateness of the discount rate by comparing our estimate of WACC to the one made by management. • We compared the value in use that would result from changes, within a reasonable range, in the significant assumptions used for the impairment test, to the carrying amount of the cash-generating units that include goodwill.

Responsibilities of Management and Audit & Supervisory Board Members and the Audit & Supervisory Board for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with IFRSs, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern in accordance with IFRSs and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

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. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with auditing standards generally accepted in Japan will always detect a material misstatement when it exists. 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. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain, when performing risk assessment procedures, an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate whether the overall presentation and disclosures of the consolidated financial statements are in accordance with IFRSs, as well as the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with Audit & Supervisory Board members and the Audit & Supervisory Board regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide Audit & Supervisory Board members and the Audit & Supervisory Board with a statement that we have complied with relevant ethical requirements regarding independence, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

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.

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.

Deloitte Touche Tohmatsu LLC
March 15, 2022

Kirei—Making Life Beautiful

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