

Consolidated Financial Results for the Three Months Ended March 31, 2021 [IFRS]

May 7, 2021

Company name: Kao Corporation
 Stock code: 4452 (URL: www.kao.com/global/en/investor-relations/library/results/)
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 Scheduled starting date of the dividend payments: -
 Supplementary documents of the financial results: Yes
 Financial results information meeting: Yes (for institutional investors and analysts)

(Millions of yen, except per share amounts)
 (Amounts less than one million yen are rounded)

1. Consolidated financial results for the three months ended March 31, 2021 (from January 1, 2021 to March 31, 2021)

(1) Consolidated operating results

	(Percentages indicate year-on-year changes)			
	Three months ended March 31, 2021	%	Three months ended March 31, 2020	%
Net sales	320,558	(5.1)	337,767	(2.6)
Operating income	30,937	(21.2)	39,279	2.8
Income before income taxes	33,901	(9.1)	37,277	(3.4)
Net income	26,228	(3.4)	27,159	0.6
Net income attributable to owners of the parent	25,719	(3.5)	26,665	0.9
Comprehensive income	50,480	263.0	13,908	(54.6)
Basic earnings per share (Yen)	53.61		55.45	
Diluted earnings per share (Yen)	53.60		55.44	

(2) Consolidated financial position

	March 31, 2021	December 31, 2020
Total assets	1,604,621	1,665,616
Total equity	924,137	938,194
Equity attributable to owners of the parent	908,792	923,687
Ratio of equity attributable to owners of the parent to total assets	56.6%	55.5%
Equity attributable to owners of the parent per share (Yen)	1,906.19	1,920.56

2. Dividends

	Year ending December 31, 2021 (Forecast)	Year ending December 31, 2021	Year ended December 31, 2020
Annual cash dividends per share (Yen)			
1st quarter end		-	-
2nd quarter end	72.00		70.00
3rd quarter end	-		-
Fiscal year end	72.00		70.00
Total	144.00		140.00

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

3. Forecast of consolidated operating results for the year ending December 31, 2021 (from January 1, 2021 to December 31, 2021)

(Millions of yen, except per share amounts)
(Percentages indicate year-on-year changes)

	Year ending	
	December 31, 2021	%
Net sales	1,430,000	3.5
Operating income	177,000	0.8
Income before income taxes	177,000	1.7
Net income attributable to owners of the parent	127,000	0.7
Basic earnings per share (Yen)	267.02	-

Note: Revisions to the consolidated operating results forecast most recently announced: None

4. Others

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

(2) Changes in accounting policies and changes in accounting estimates

1) Changes in accounting principles required by IFRS: None

2) Changes in accounting principles due to reasons other than 1): None

3) Changes in accounting estimates: None

(3) Number of issued shares outstanding at the end of this period (ordinary shares)

	March 31, 2021	December 31, 2020
Number of issued shares including treasury shares	482,000,000	482,000,000
Number of treasury shares	5,242,913	1,054,019
	Three months ended March 31, 2021	Three months ended March 31, 2020
Weighted average number of shares outstanding during this period	479,743,737	480,914,148

Notice regarding execution of quarterly review procedures

This quarterly financial results report is exempt from quarterly review by certified public accountants or accounting firms.

Explanation regarding the appropriate use of forecast of operating results and other special items

Forward-looking statements such as earnings forecasts and other projections contained in this release are based on information available at the time of disclosure and assumptions that management believes to be reasonable, and do not constitute guarantees of future performance. Actual results may differ materially from expectations due to various factors.

Please refer to page 7, "Qualitative Information on Financial Results for the Three Months Ended March 31, 2021 - 2. Description of Information on Outlook, Including Forecasts of Consolidated Results" for the suppositions that form the assumptions for earnings forecasts and cautions concerning the use of earnings forecasts.

Qualitative Information on Financial Results for the Three Months Ended March 31, 2021

Note: Like-for-like growth rates below exclude the effect of translation of local currencies into Japanese yen.

1. Description of Operating Results

(Billions of yen, except operating margin and per share amounts)			
Three months ended March 31	2021	2020	Growth
Net sales	320.6	337.8	(5.1%) Like-for-like: (5.7%)
Operating income	30.9	39.3	(21.2%)
Operating margin (%)	9.7	11.6	-
Income before income taxes	33.9	37.3	(9.1%)
Net income	26.2	27.2	(3.4%)
Net income attributable to owners of the parent	25.7	26.7	(3.5%)
Basic earnings per share (Yen)	53.61	55.45	(3.3%)

The novel coronavirus (COVID-19) pandemic continued to have a major impact on social and economic activities and the lives of people around the world. Expectations for vaccines are growing, but conditions in the global economy remained unclear, with delays in the recovery of consumption due to border controls, restrictions on going outside, mandated temporary store closures and other factors in each country and region as the number of new infections repeatedly rises and falls.

According to retail sales and consumer purchasing survey data, the consumer products (cosmetics and household and personal care products) market in Japan, which is the Kao Group's key market, shrank year-on-year during the period from January to March 2021, reflecting the absence of the increase in demand, mainly for hygiene-related products, that occurred in the same period a year earlier when the pandemic began in Japan. Average unit prices for household and personal care products increased by 7 points compared with the same period a year earlier due to a shift to larger-volume product sizes.

Amid these circumstances, net sales decreased 5.1% compared with the same period a year earlier to 320.6 billion yen. On a like-for-like basis, net sales decreased 5.7%. Operating income was 30.9 billion yen, a decrease of 8.3 billion yen compared with the same period a year earlier, and income before income taxes was 33.9 billion yen, a decrease of 3.4 billion yen. Net income was 26.2 billion yen, a decrease of 0.9 billion yen.

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

	First quarter Jan. – Mar.
U.S. dollar	105.96 (108.95)
Euro	127.74 (120.18)
Chinese yuan	16.35 (15.61)

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

Summary of Segment Information

The following is an overview of changes in reportable segments implemented as of the three months ended March 31, 2021 (Reference: Page 14, “1. Segment Information” in “Notes to Condensed Consolidated Financial Statements”).

1. The Hygiene and Living Care Business has been newly established and incorporates 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 same period a year earlier have been restated.

Consolidated Results by Segment

(Billions of yen)

	Net sales				Operating income			Operating margin (%)	
	2021	2020	Growth %	Like-for-like %	2021	2020	Change	2021	2020
Three months ended March 31									
Hygiene and Living Care Business	112.3	119.6	(6.1)	(6.5)	13.2	17.9	(4.8)	11.7	15.0
Health and Beauty Care Business	81.5	86.7	(6.0)	(6.3)	11.3	13.4	(2.1)	13.8	15.5
Life Care Business	11.8	11.5	3.0	3.4	0.8	0.3	0.4	6.4	3.0
Cosmetics Business	51.0	59.1	(13.7)	(14.7)	(3.0)	0.1	(3.1)	(5.9)	0.2
Consumer Products Business	256.6	276.9	(7.3)	(7.8)	22.2	31.8	(9.6)	8.7	11.5
Chemical Business	73.1	69.8	4.7	3.6	8.8	7.8	1.0	12.0	11.1
Total	329.7	346.7	(4.9)	(5.5)	31.0	39.6	(8.6)	-	-
Elimination and Reconciliation	(9.1)	(8.9)	-	-	(0.0)	(0.3)	0.3	-	-
Consolidated	320.6	337.8	(5.1)	(5.7)	30.9	39.3	(8.3)	9.7	11.6

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Consolidated Net Sales Composition

Three months ended March 31		Japan	Asia	Americas	Europe	(Billions of yen) Consolidated
Fabric and Home Care Products	2021	59.8	9.7	0.7	-	70.2
	2020	60.5	11.0	0.7	-	72.2
	Growth %	(1.1)	(11.9)	1.7	-	(2.7)
	Like-for-like %	(1.1)	(12.1)	(10.8)	-	(2.9)
Sanitary Products	2021	19.9	22.1	0.0	-	42.1
	2020	22.4	25.1	0.0	-	47.5
	Growth %	(10.9)	(11.8)	55.4	-	(11.3)
	Like-for-like %	(10.9)	(13.1)	36.4	-	(12.0)
Hygiene and Living Care Business	2021	79.8	31.8	0.7	-	112.3
	2020	82.9	36.0	0.7	-	119.6
	Growth %	(3.7)	(11.8)	3.3	-	(6.1)
	Like-for-like %	(3.7)	(12.8)	(9.4)	-	(6.5)
Health and Beauty Care Business	2021	46.9	7.5	18.2	8.9	81.5
	2020	51.6	7.8	18.4	8.9	86.7
	Growth %	(9.2)	(2.6)	(1.1)	(0.3)	(6.0)
	Like-for-like %	(9.2)	(3.7)	0.7	(5.9)	(6.3)
Life Care Business	2021	9.7	0.0	2.0	0.0	11.8
	2020	9.3	0.0	2.1	0.1	11.5
	Growth %	4.2	3.8	(1.2)	(43.6)	3.0
	Like-for-like %	4.2	(0.4)	1.1	(46.2)	3.4
Cosmetics Business	2021	33.9	12.2	1.3	3.5	51.0
	2020	43.2	10.3	1.4	4.1	59.1
	Growth %	(21.5)	18.1	(5.0)	(14.9)	(13.7)
	Like-for-like %	(21.5)	13.6	(2.6)	(18.8)	(14.7)
Consumer Products Business	2021	170.4	51.5	22.4	12.4	256.6
	2020	187.1	54.1	22.6	13.1	276.9
	Growth %	(8.9)	(4.8)	(1.2)	(5.1)	(7.3)
	Like-for-like %	(8.9)	(6.5)	0.2	(10.2)	(7.8)
Chemical Business	2021	28.5	17.0	10.7	16.8	73.1
	2020	27.6	14.1	12.1	15.9	69.8
	Growth %	3.3	20.7	(11.9)	5.6	4.7
	Like-for-like %	3.3	19.4	(8.6)	(0.6)	3.6
Elimination of intersegment	2021	(7.9)	(0.8)	(0.0)	(0.5)	(9.1)
	2020	(7.8)	(0.7)	(0.0)	(0.5)	(8.9)
Consolidated	2021	191.0	67.7	33.1	28.8	320.6
	2020	207.0	67.5	34.8	28.6	337.8
	Growth %	(7.7)	0.3	(4.9)	0.7	(5.1)
	Like-for-like %	(7.7)	(1.3)	(2.8)	(5.0)	(5.7)

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

Net sales to foreign customers were 43.1% of net sales compared with 41.1% for the same period a year earlier.

Consumer Products Business

Sales decreased 7.3% compared with the same period a year earlier to 256.6 billion yen. On a like-for-like basis, sales decreased 7.8%.

The market shrank in various categories, reflecting the absence of the increase in demand, mainly for hygiene-related products, that occurred in the same period a year earlier when the pandemic began worldwide. Lockdowns or declarations of a state of emergency in each country or region also had an impact.

In Japan, sales decreased 8.9% to 170.4 billion yen.

In Asia, sales decreased 4.8% to 51.5 billion yen. On a like-for-like basis, sales decreased 6.5%.

In the Americas, sales decreased 1.2% to 22.4 billion yen. On a like-for-like basis, sales increased 0.2%. In Europe, sales decreased 5.1% to 12.4 billion yen. On a like-for-like basis, sales decreased 10.2%.

Operating income decreased 9.6 billion yen compared with the same period a year earlier to 22.2 billion yen.

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

Hygiene and Living Care Business

Sales decreased 6.1% compared with the same period a year earlier to 112.3 billion yen, reflecting the substantial impact of the absence of the increase in demand that occurred in Japan and elsewhere in Asia in the same period a year earlier when the pandemic began. On a like-for-like basis, sales decreased 6.5%.

In fabric care products, sales of laundry detergent were firm in Japan, due in part to heightened awareness of cleanliness amid the COVID-19 pandemic, but decreased in Asia.

In home care products, sales decreased in Japan as the overall market shrank mainly due to the market downturn in kitchen bleach, house cleaning agents and other hygiene-related products, but remained strong in Asia.

In sanitary products, sales of *Laurier* sanitary napkins grew steadily in China, but sales decreased substantially in Japan as the market shrank significantly compared with the same period a year earlier. Sales of *Merries* baby diapers decreased in China but were almost in line with the Kao Group's plan overall.

Operating income decreased 4.8 billion yen compared with the same period a year earlier to 13.2 billion yen.

Health and Beauty Care Business

Sales decreased 6.0% compared with the same period a year earlier to 81.5 billion yen, reflecting factors including the absence of the increase in demand, mainly for hygiene-related products, that occurred in the

same period a year earlier. On a like-for-like basis, sales decreased 6.3%.

Sales of skin care products decreased in Japan due to the absence of the significant expansion of the market for hand soaps and other hygiene-related products in the same period a year earlier, but market share increased. In the Americas, sales were impacted by a decrease in demand in comparison with the high demand in the same period a year earlier.

Sales of hair care products declined. In Japan, market recovery was delayed, and in the business for hair salons in the Americas and Europe, sales in Europe were affected by lockdowns, although sales of *Oribe*, a brand in the Americas for high-end hair salons, grew due to strong e-commerce sales and other factors.

Sales of personal health products decreased compared with the same period a year earlier. Bath additives sold strongly due to demand from people staying home, but the decline in inbound demand had a negative impact on sales.

Operating income decreased 2.1 billion yen compared with the same period a year earlier to 11.3 billion yen.

Life Care Business

Sales increased 3.0% compared with the same period a year earlier to 11.8 billion yen. On a like-for-like basis, sales increased 3.4%.

Sales of commercial-use hygiene products increased in Japan as the pandemic continued and demand for hand sanitizers and other products grew at medical facilities, restaurants and other establishments with a particular need for hygiene management and infectious disease countermeasures. Sales increased in the Americas due in part to the recovery of customer industries.

In health drinks, sales of *Healthya* products, which are foods for specified health uses, decreased due to a market slump caused by an extension of the state of emergency in Japan, among other factors.

Operating income increased 0.4 billion yen compared with the same period a year earlier to 0.8 billion yen due to the increase in sales.

Cosmetics Business

Sales decreased 13.7% compared with the same period a year earlier to 51.0 billion yen. On a like-for-like basis, sales decreased 14.7%.

In the Cosmetics Business, sales in Japan decreased substantially as market recovery was delayed due to the disappearance of inbound demand, as well as the impact of an extension of the state of emergency, among other factors. In Europe, mandated temporary store closures due to lockdowns had a negative effect. In Asia, on the other hand, sales increased substantially with continued strong sales in China of *freeplus*,

which is hypoallergenic and contains Japanese and Chinese botanical extracts, and *Curél*, a derma care brand.

Operating income was negative 3.0 billion yen, a decrease of 3.1 billion yen from the same period a year earlier, due to the substantial decrease in sales.

Chemical Business

Sales increased 4.7% compared with the same period a year earlier to 73.1 billion yen. On a like-for-like basis, sales increased 3.6%.

Sales of oleo chemicals increased due to firm sales of fat and oil derivative products for disinfection and cleaning applications, as well as efforts to adjust selling prices in line with rising prices of natural fats and oils.

Sales of performance chemicals were firm, due in part to a recovery in demand in automobile-related and other fields.

Sales of specialty chemicals decreased due to the impact of a decline in demand for toner and toner binder, although the specialty chemicals market was on a recovery track following a temporary slump.

Operating income increased 1.0 billion yen compared with the same period a year earlier to 8.8 billion yen.

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

Although the business environment is expected to remain uncertain due to the COVID-19 pandemic, the Kao Group aims to achieve the figures announced in its forecast by steadily implementing the strategies of the Kao Group Mid-term Plan 2025 “K25” covering the five years starting this fiscal year. Therefore, there is no change from the forecast of consolidated results announced on February 3, 2021.

The main exchange rates used in the forecast of consolidated results are one U.S. dollar to 107 yen, one euro to 127 yen and one Chinese yuan to 16 yen.

Condensed Consolidated Statement of Financial Position

(Millions of yen)

	March 31, 2021	December 31, 2020	Change
Assets			
Current assets			
Cash and cash equivalents	276,344	353,176	(76,832)
Trade and other receivables	185,439	200,087	(14,648)
Inventories	218,288	197,641	20,647
Other financial assets	6,397	7,257	(860)
Income tax receivables	4,322	2,085	2,237
Other current assets	20,061	18,150	1,911
Total current assets	710,851	778,396	(67,545)
Non-current assets			
Property, plant and equipment	433,514	430,914	2,600
Right-of-use assets	145,840	149,543	(3,703)
Goodwill	181,273	177,031	4,242
Intangible assets	50,130	48,256	1,874
Investments accounted for using the equity method	7,917	8,657	(740)
Other financial assets	24,484	23,608	876
Deferred tax assets	43,560	42,274	1,286
Other non-current assets	7,052	6,937	115
Total non-current assets	893,770	887,220	6,550
Total assets	1,604,621	1,665,616	(60,995)

(Millions of yen)

	March 31, 2021	December 31, 2020	Change
Liabilities and equity			
Liabilities			
Current liabilities			
Trade and other payables	206,665	215,842	(9,177)
Bonds and borrowings	20,598	30,465	(9,867)
Lease liabilities	19,490	19,787	(297)
Other financial liabilities	3,268	6,571	(3,303)
Income tax payables	11,861	28,109	(16,248)
Provisions	1,452	1,811	(359)
Contract liabilities	23,178	23,098	80
Other current liabilities	87,018	99,721	(12,703)
Total current liabilities	373,530	425,404	(51,874)
Non-current liabilities			
Bonds and borrowings	107,128	97,229	9,899
Lease liabilities	123,191	126,725	(3,534)
Other financial liabilities	7,733	7,862	(129)
Retirement benefit liabilities	50,289	51,858	(1,569)
Provisions	9,212	9,175	37
Deferred tax liabilities	4,775	4,584	191
Other non-current liabilities	4,626	4,585	41
Total non-current liabilities	306,954	302,018	4,936
Total liabilities	680,484	727,422	(46,938)
Equity			
Share capital	85,424	85,424	-
Capital surplus	106,618	106,618	-
Treasury shares	(34,307)	(3,865)	(30,442)
Other components of equity	(19,976)	(43,376)	23,400
Retained earnings	771,033	778,886	(7,853)
Equity attributable to owners of the parent	908,792	923,687	(14,895)
Non-controlling interests	15,345	14,507	838
Total equity	924,137	938,194	(14,057)
Total liabilities and equity	1,604,621	1,665,616	(60,995)

Condensed Consolidated Statement of Income

(Millions of yen)

	Notes	Three months ended March 31, 2021	Three months ended March 31, 2020	Change
Net sales	1	320,558	337,767	(17,209)
Cost of sales		(189,822)	(193,432)	3,610
Gross profit		130,736	144,335	(13,599)
Selling, general and administrative expenses	2	(100,688)	(106,243)	5,555
Other operating income		3,994	4,383	(389)
Other operating expenses		(3,105)	(3,196)	91
Operating income	1	30,937	39,279	(8,342)
Financial income		2,803	560	2,243
Financial expenses		(665)	(3,277)	2,612
Share of profit in investments accounted for using the equity method		826	715	111
Income before income taxes		33,901	37,277	(3,376)
Income taxes		(7,673)	(10,118)	2,445
Net income		26,228	27,159	(931)
Attributable to:				
Owners of the parent		25,719	26,665	(946)
Non-controlling interests		509	494	15
Net income		26,228	27,159	(931)
Earnings per share				
Basic (Yen)		53.61	55.45	
Diluted (Yen)		53.60	55.44	

Condensed Consolidated Statement of Comprehensive Income

(Millions of yen)

	Three months ended March 31, 2021	Three months ended March 31, 2020	Change
Net income	26,228	27,159	(931)
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	261	(454)	715
Share of other comprehensive income of investments accounted for using the equity method	213	(266)	479
Total of items that will not be reclassified to profit or loss	474	(720)	1,194
Items that may be reclassified subsequently to profit or loss:			
Exchange differences on translation of foreign operations	23,530	(12,520)	36,050
Share of other comprehensive income of investments accounted for using the equity method	248	(11)	259
Total of items that may be reclassified subsequently to profit or loss	23,778	(12,531)	36,309
Other comprehensive income, net of taxes	24,252	(13,251)	37,503
Comprehensive income	50,480	13,908	36,572
Attributable to:			
Owners of the parent	49,309	14,364	34,945
Non-controlling interests	1,171	(456)	1,627
Comprehensive income	50,480	13,908	36,572

Condensed Consolidated Statement of Changes in Equity

(Millions of yen)

	Equity attributable to owners of the parent											Non-controlling interests	Total equity
	Other components of equity							Retained earnings	Total				
	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			Total			
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	-	-	-	-	-	-	-	-	25,719	25,719	509	26,228	
Other comprehensive income	-	-	-	-	23,115	1	474	23,590	-	23,590	662	24,252	
Comprehensive income	-	-	-	-	23,115	1	474	23,590	25,719	49,309	1,171	50,480	
Disposal of treasury shares	-	-	97	(54)	-	-	-	(54)	(42)	1	-	1	
Purchase of treasury shares	-	-	(30,539)	-	-	-	-	-	-	(30,539)	-	(30,539)	
Dividends	-	-	-	-	-	-	-	-	(33,666)	(33,666)	(333)	(33,999)	
Transfer from other components of equity to retained earnings	-	-	-	-	-	-	(136)	(136)	136	-	-	-	
Total transactions with the owners	-	-	(30,442)	(54)	-	-	(136)	(190)	(33,572)	(64,204)	(333)	(64,537)	
March 31, 2021	85,424	106,618	(34,307)	214	(26,253)	1	6,062	(19,976)	771,033	908,792	15,345	924,137	
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	-	-	-	-	-	-	-	-	26,665	26,665	494	27,159	
Other comprehensive income	-	-	-	-	(11,580)	(2)	(719)	(12,301)	-	(12,301)	(950)	(13,251)	
Comprehensive income	-	-	-	-	(11,580)	(2)	(719)	(12,301)	26,665	14,364	(456)	13,908	
Disposal of treasury shares	-	-	119	(55)	-	-	-	(55)	(63)	1	-	1	
Purchase of treasury shares	-	-	(6)	-	-	-	-	-	-	(6)	-	(6)	
Share-based payment transactions	-	82	-	-	-	-	-	-	-	82	-	82	
Dividends	-	-	-	-	-	-	-	-	(31,260)	(31,260)	(772)	(32,032)	
Transfer from other components of equity to retained earnings	-	-	-	-	-	-	(178)	(178)	178	-	-	-	
Total transactions with the owners	-	82	113	(55)	-	-	(178)	(233)	(31,145)	(31,183)	(772)	(31,955)	
March 31, 2020	85,424	108,797	(4,196)	393	(51,210)	(2)	5,311	(45,508)	696,359	840,876	12,498	853,374	

Condensed Consolidated Statement of Cash Flows

(Millions of yen)

	Three months ended March 31, 2021	Three months ended March 31, 2020
Cash flows from operating activities		
Income before income taxes	33,901	37,277
Depreciation and amortization	21,704	21,426
Interest and dividend income	(317)	(492)
Interest expense	529	796
Share of profit in investments accounted for using the equity method	(826)	(715)
(Gains) losses on sale and disposal of property, plant and equipment, and intangible assets	458	495
(Increase) decrease in trade and other receivables	21,336	9,224
(Increase) decrease in inventories	(15,375)	(6,062)
Increase (decrease) in trade and other payables	(11,578)	(9,289)
Increase (decrease) in retirement benefit liabilities	(2,098)	(1,236)
Other	(22,569)	(7,312)
Subtotal	25,165	44,112
Interest received	325	450
Dividends received	2,092	2,059
Interest paid	(502)	(714)
Income taxes paid	(27,599)	(39,345)
Net cash flows from operating activities	(519)	6,562
Cash flows from investing activities		
Payments into time deposits	(673)	(1,737)
Proceeds from withdrawal of time deposits	1,774	3,843
Purchase of property, plant and equipment	(16,117)	(19,686)
Purchase of intangible assets	(2,383)	(3,791)
Other	1,403	71
Net cash flows from investing activities	(15,996)	(21,300)
Cash flows from financing activities		
Increase (decrease) in short-term borrowings	140	(41)
Proceeds from long-term borrowings	10,000	-
Repayments of long-term borrowings	(10,389)	(13)
Repayments of lease liabilities	(5,229)	(5,344)
Purchase of treasury shares	(30,539)	(8)
Dividends paid to owners of the parent	(32,940)	(30,766)
Dividends paid to non-controlling interests	(3)	(3)
Other	(5)	(6)
Net cash flows from financing activities	(68,965)	(36,181)
Net increase (decrease) in cash and cash equivalents	(85,480)	(50,919)
Cash and cash equivalents at the beginning of the period	353,176	289,681
Effect of exchange rate changes on cash and cash equivalents	8,648	(3,759)
Cash and cash equivalents at the end of the period	276,344	235,003

Notes to Condensed Consolidated Financial Statements

1. Segment Information

(1) Summary of reportable segments

The Kao Group's reportable segments are the components of the Kao Group for which discrete financial information is available and which 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 Kao 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, the Cosmetics Business) and the Chemical Business. In each business, the Kao Group plans comprehensive business strategies and carries out business activities on a global basis.

Accordingly, the Kao 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, in the three months ended March 31, 2021 the Kao 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). Segment information for the same period a year earlier has been restated to reflect the reclassification.

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Major products by reportable segment are as follows:

Reportable Segments		Major Products	
Consumer Products Business	Hygiene and Living Care Business	Fabric care products	Laundry detergents, Fabric treatments
		Home care products	Kitchen cleaning products, House cleaning products, Paper cleaning products
		Sanitary products	Sanitary napkins, Baby diapers
	Health and Beauty Care Business	Skin care products	Soaps, Facial cleansers, Body cleansers
		Hair care products	Shampoos, Conditioners, Hair styling agents, Hair coloring agents, Men's products
		Personal health products	Bath additives, Oral care products, Thermo products
	Life Care Business	Life care products	Commercial-use hygiene products, Health drinks
	Cosmetics Business	Cosmetics	Counseling cosmetics, Self-selection cosmetics
Chemical Business		Oleo chemicals	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

Three months ended March 31, 2021	Reportable Segments							(Millions of yen)	
	Consumer Products Business					Chemical Business	Total	Reconciliations ¹	Consolidated
	Hygiene and Living Care Business	Health and Beauty Care Business	Life Care Business	Cosmetics Business	Subtotal				
Net sales									
Sales to customers	112,295	81,545	11,816	50,993	256,649	63,909	320,558	-	320,558
Intersegment sales and transfers ²	-	-	-	-	-	9,141	9,141	(9,141)	-
Total net sales	112,295	81,545	11,816	50,993	256,649	73,050	329,699	(9,141)	320,558
Operating income (loss)	13,181	11,293	755	(3,015)	22,214	8,759	30,973	(36)	30,937
% of net sales	11.7	13.8	6.4	(5.9)	8.7	12.0	-	-	9.7
Financial income									2,803
Financial expenses									(665)
Share of profit in investments accounted for using the equity method									826
Income before income taxes									33,901

Notes:

1. The operating income (loss) reconciliation of -36 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.

Three months ended March 31, 2020	Reportable Segments							(Millions of yen)	
	Consumer Products Business					Chemical Business	Total	Reconciliations ¹	Consolidated
	Hygiene and Living Care Business	Health and Beauty Care Business	Life Care Business	Cosmetics Business	Subtotal				
Net sales									
Sales to customers	119,631	86,716	11,471	59,089	276,907	60,860	337,767	-	337,767
Intersegment sales and transfers ²	-	-	-	-	-	8,908	8,908	(8,908)	-
Total net sales	119,631	86,716	11,471	59,089	276,907	69,768	346,675	(8,908)	337,767
Operating income (loss)	17,948	13,420	349	112	31,829	7,773	39,602	(323)	39,279
% of net sales	15.0	15.5	3.0	0.2	11.5	11.1	-	-	11.6
Financial income									560
Financial expenses									(3,277)
Share of profit in investments accounted for using the equity method									715
Income before income taxes									37,277

Notes:

1. The operating income (loss) reconciliation of -323 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.

2. Selling, General and Administrative Expenses

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

	(Millions of yen)	
	Three months ended March 31, 2021	Three months ended March 31, 2020
Advertising	14,594	16,137
Sales promotion	10,050	12,502
Employee benefits	38,205	37,394
Depreciation	4,602	4,626
Amortization	2,104	2,153
Research and development	14,908	15,110
Other	16,225	18,321
Total	100,688	106,243

Note regarding Assumption of Going Concern

None applicable.