Consolidated Financial Results for the Fiscal Year Ended December 31, 2019 [IFRS]

February 4, 2020

Company name: Kao Corporation — Tokyo Stock Exchange in Japan
Stock code: 4452 — (URL: www.kao.com/global/en/investor-relations/library/results/)
Representative: Michitaka Sawada, President and CEO
Contact person: Mitsuhiro Watanabe, Vice President, Investor Relations — E-mail: ir@kao.co.jp
Scheduled date of the Annual General Meeting of Shareholders: March 25, 2020
Scheduled starting date of the dividend payments: March 26, 2020
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 fiscal year ended December 31, 2019 (from January 1, 2019 to December 31, 2019)

(1) Consolidated operating results

(Percentages indicate year-on-year changes)

	Fiscal year ended December 31, 2019	%	Fiscal year ended December 31, 2018	%
Net sales	1,502,241	(0.4)	1,508,007	1.2
Operating income	211,723	1.9	207,703	1.4
Income before income taxes	210,645	1.6	207,251	1.4
Net income	150,349	(3.2)	155,331	4.5
Net income attributable to owners of the parent	148,213	(3.6)	153,698	4.5
Comprehensive income	146,621	19.0	123,247	(31.5)

	Fiscal year ended December 31, 2019	Fiscal year ended December 31, 2018
Basic earnings per share (Yen)	306.70	314.25
Diluted earnings per share (Yen)	306.63	314.12
Ratio of net income to equity attributable to owners of the parent	17.6%	18.9%
Ratio of income before income taxes to total assets	13.5%	14.4%
Ratio of operating income to net sales	14.1%	13.8%
(Reference) Share of profit in investments accounted for using the equity method	2,126	2,082

(2) Consolidated financial position

	December 31, 2019	December 31, 2018
Total assets	1,653,919	1,460,986
Total equity	871,421	835,509
Equity attributable to owners of the parent	857,695	822,360
Ratio of equity attributable to owners of the parent to total assets	51.9%	56.3%
Equity attributable to owners of the parent per share (Yen)	1,783.46	1,689.82

(3) Consolidated cash flows

	Fiscal year ended December 31, 2019	Fiscal year ended December 31, 2018
Net cash flows from operating activities	244,523	195,610
Net cash flows from investing activities	(94,266)	(157,895)
Net cash flows from financing activities	(126,166)	(108,579)
Cash and cash equivalents at the end of the year	289,681	265,978

2. Dividends

	Fiscal year ending December 31, 2020 (Forecast)	Fiscal year ended December 31, 2019	Fiscal year ended December 31, 2018
Annual cash dividends per share (Yen)			
1st quarter end	-	-	-
2nd quarter end	70.00	65.00	60.00
3rd quarter end	-	-	-
Fiscal year end	70.00	65.00	60.00
Total	140.00	130.00	120.00
Total dividend payment amount		62,621	58,493
Payout ratio (consolidated)	41.8% - 43.7%	42.4%	38.2%
Ratio of dividends to equity attributable to owners of the parent (consolidated)		7.5%	7.2%

3. Forecast of consolidated operating results for the fiscal year ending December 31, 2020 (from January 1, 2020 to December 31, 2020)

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

	Fiscal year ending December 31, 2020	%
Net sales	1,510,000 - 1,530,000	0.5 - 1.8
Operating income	220,000 - 230,000	3.9 - 8.6
Income before income taxes	220,000 - 230,000	4.4 - 9.2
Net income attributable to owners of the parent	154,000 - 161,000	3.9 - 8.6
Basic earnings per share (Yen)	320.22 - 334.78	-

Note:
As of the fiscal year ending December 31, 2020, the Company plans to change its method of recognizing sales for some transactions from the total amount to the net amount. Applying the same method to the forecast of consolidated operating results for the previous fiscal year would have increased net sales between 2.8% and 4.2%.

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: Yes
For details, please refer to page 24, "Changes in Accounting Policies" in "Notes to Consolidated Financial Statements."

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 the year (ordinary shares)

	December 31, 2019	December 31, 2018
Number of issued shares including treasury shares	482,000,000	488,700,000
Number of treasury shares	1,083,466	2,043,272

	Fiscal year ended December 31, 2019	Fiscal year ended December 31, 2018
Weighted average number of shares outstanding during the year	483,251,577	489,089,471

Notice regarding execution of audit procedures

This financial results report is exempt from audit 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 1 to 14, "1. Summary of Operating Results and Financial Position" for the suppositions that form the assumptions for earnings forecasts and cautions concerning the use of earnings forecasts.

1. Summary of Operating Results and Financial Position

(1) Summary of Operating Results

Operating Results for the Fiscal Year Ended December 31, 2019

1) Trends in Overall Results for the Fiscal Year Ended December 31, 2019

Amid substantial changes in the social conditions and natural environment in which it operates, the Kao Group has declared a major shift to ESG management to build a foundation that will enable sustainable growth. In April 2019, the Kao Group announced the "Kirei* Lifestyle Plan," its ESG strategy, and activities kicked into gear.

* Kirei *is a Japanese word that represents the concept of cleanliness, beauty, health, purity, and fairness.*

The Kao Group will strive to enhance its corporate value as it continues to achieve profitable growth while contributing to the sustainability of society.

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

(Billions of yen, except operating margin and per share amounts)

	2019	2018	Growth
Net sales	1,502.2	1,508.0	(0.4)% Like-for-like: 0.7%
Operating income	211.7	207.7	1.9%
Operating margin (%)	14.1	13.8	-
Income before income taxes	210.6	207.3	1.6%
Net income	150.3	155.3	(3.2)%
Net income attributable to owners of the parent	148.2	153.7	(3.6)%
Basic earnings per share (Yen)	306.70	314.25	(2.4)%

Conditions in the global economy are unclear due to factors including international trade issues, geopolitical risks in the Middle East and an uncertain economic outlook in Asian countries, and in Japan, economic recovery has been delayed following the increase in the consumption tax rate in October.

In 2019, the markets for household and personal care products and cosmetics in Japan, which are key markets for the Kao Group, were in solid condition throughout the year according to retail sales and consumer purchasing survey data, although there was substantial fluctuation due to factors including last-minute demand ahead of the consumption tax rate increase and the decline thereafter. In every product category, the share of the e-commerce channel increased further and average unit prices for household and personal care products increased by 2 percentage points compared with the previous fiscal year.
Under these circumstances, the Kao Group increased operating income for the tenth consecutive fiscal year

and achieved record-high operating income for the seventh consecutive fiscal year.

Net sales decreased 0.4% compared with the previous fiscal year to 1,502.2 billion yen. On a like-for-like basis, net sales increased 0.7%. Operating income was 211.7 billion yen, an increase of 4.0 billion yen compared with the previous fiscal year, the operating margin was 14.1% and income before income taxes was 210.6 billion yen, an increase of 3.4 billion yen. Net income was 150.3 billion yen, a decrease of 5.0 billion yen.

Basic earnings per share were 306.70 yen, a decrease of 7.55 yen, or 2.4%, from 314.25 yen in the previous fiscal year.

Economic value added (EVA*), which the Kao Group uses as a management indicator, decreased 6.1 billion yen compared with the previous fiscal year to 87.4 billion yen due to a decrease in net operating profit after tax (NOPAT).

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

To improve capital efficiency and further increase shareholder returns, Kao Corporation resolved at a meeting of its Board of Directors held on April 24, 2019 to repurchase its own shares, and repurchased shares totaling 50.0 billion yen. Kao Corporation retired 6.7 million treasury shares on July 12, 2019.

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

	First quarter Jan. – Mar.	Second quarter Apr. – Jun.	Third quarter Jul. – Sep.	Fourth quarter Oct. – Dec.
Yen/U.S. dollar	110.09 (108.44)	109.99 (109.08)	107.32 (111.44)	108.71 (112.82)
Yen/Euro	125.10 (133.23)	123.58 (130.09)	119.39 (129.62)	120.34 (128.76)
Yen/Chinese yuan	16.31 (17.04)	16.13 (17.11)	15.31 (16.39)	15.43 (16.31)

Note: Figures in parentheses represent the exchange rates for the same period of the previous fiscal year.

2) Trends by Segment during the Fiscal Year

Summary of Segment Information

Consolidated Results by Segment

(Billions of yen)

Fiscal year ended December 31	Net sales 2019	Net sales 2018	Net sales Growth %	Net sales Like-for-like %	Operating income 2019	Operating income 2018	Operating income Change	Operating margin (%) 2019	Operating margin (%) 2018
Cosmetics Business	301.5	279.6	7.8	9.0	41.4	27.7	13.7	13.7	9.9
Skin Care and Hair Care Business	340.8	341.4	(0.2)	1.1	49.5	48.8	0.7	14.5	14.3
Human Health Care Business	255.2	267.7	(4.7)	(3.5)	17.2	27.9	(10.7)	6.7	10.4
Fabric and Home Care Business	359.5	344.1	4.5	4.6	71.8	71.2	0.5	20.0	20.7
Consumer Products Business	1,257.0	1,232.9	2.0	2.9	179.9	175.7	4.2	14.3	14.3
Chemical Business	285.9	312.8	(8.6)	(6.6)	30.8	30.6	0.2	10.8	9.8
Total	1,543.0	1,545.7	(0.2)	0.9	210.7	206.3	4.4	-	-
Elimination and Reconciliation	(40.7)	(37.7)	-	-	1.0	1.4	(0.4)	-	-
Consolidated	1,502.2	1,508.0	(0.4)	0.7	211.7	207.7	4.0	14.1	13.8

Consolidated Net Sales Composition

(Billions of yen)

Fiscal year ended December 31		Japan	Asia	Americas	Europe	Consolidated
Cosmetics Business	2019	232.1	42.7	6.0	20.6	301.5
	2018	217.7	34.7	6.4	20.8	279.6
	Growth %	6.6	23.2	(5.5)	(1.0)	7.8
	Like-for-like %	6.6	29.0	(3.8)	4.9	9.0
Skin Care and Hair Care Business	2019	199.5	28.5	71.4	41.3	340.8
	2018	195.8	28.5	72.8	44.3	341.4
	Growth %	1.9	(0.1)	(1.9)	(6.7)	(0.2)
	Like-for-like %	1.9	1.9	(0.1)	(1.4)	1.1
Human Health Care Business	2019	160.3	94.8	0.1	0.0	255.2
	2018	171.6	96.0	0.1	-	267.7
	Growth %	(6.6)	(1.2)	14.7	-	(4.7)
	Like-for-like %	(6.6)	1.9	23.3	-	(3.5)
Fabric and Home Care Business	2019	307.7	40.3	11.2	0.3	359.5
	2018	298.7	39.6	5.7	0.1	344.1
	Growth %	3.0	2.0	96.5	128.8	4.5
	Like-for-like %	3.0	2.3	102.4	142.2	4.6
Consumer Products Business	2019	899.6	206.3	88.8	62.2	1,257.0
	2018	883.9	198.7	85.0	65.2	1,232.9
	Growth %	1.8	3.8	4.5	(4.6)	2.0
	Like-for-like %	1.8	6.7	6.6	0.9	2.9
Chemical Business	2019	123.4	57.3	46.1	59.1	285.9
	2018	126.6	67.5	51.8	66.9	312.8
	Growth %	(2.5)	(15.0)	(11.1)	(11.7)	(8.6)
	Like-for-like %	(2.5)	(12.8)	(10.0)	(5.7)	(6.6)
Elimination of intersegment	2019	(35.9)	(2.9)	(0.1)	(1.9)	(40.7)
	2018	(32.9)	(3.1)	(0.1)	(1.6)	(37.7)
Consolidated	2019	987.2	260.8	134.9	119.4	1,502.2
	2018	977.6	263.1	136.8	130.5	1,508.0
	Growth %	1.0	(0.9)	(1.4)	(8.5)	(0.4)
	Like-for-like %	1.0	1.8	0.3	(2.8)	0.7

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 37.0% of net sales compared with 37.7% for the previous fiscal year.

Consumer Products Business

Sales increased 2.0% compared with the previous fiscal year to 1,257.0 billion yen. On a like-for-like basis, sales increased 2.9%.

The Kao Group worked for more effective marketing and sales activities, including launching new and improved products that address the diversification of consumer values and strengthening activities in the e-commerce channel in line with changes in purchasing behavior.

Sales in the Cosmetics Business continued to grow steadily, while growth in the Skin Care and Hair Care Business was basically unchanged. The Human Health Care Business was affected by a slowdown in the baby diaper business in the Chinese market. Sales increased in the Fabric and Home Care Business, partly due to launches of new and improved products.

In Japan, sales increased 1.8% to 899.6 billion yen due to launches of new and improved products, the Kao Group's response to the consumption tax rate increase and other factors.

In Asia, sales grew steadily, increasing 3.8% to 206.3 billion yen. On a like-for-like basis, sales increased 6.7%.

In the Americas, sales increased 4.5% to 88.8 billion yen. On a like-for-like basis, sales increased 6.6%. In Europe, sales decreased 4.6% to 62.2 billion yen. However, on a like-for-like basis, sales increased 0.9%.

Operating income increased 4.2 billion yen compared with the previous fiscal year to 179.9 billion yen.

Note: The Kao Group's Consumer Products Business consists of the Cosmetics Business, the Skin Care and Hair Care Business, the Human Health Care Business, and the Fabric and Home Care Business.

Cosmetics Business

Sales increased 7.8% compared with the previous fiscal year to 301.5 billion yen. On a like-for-like basis, sales increased 9.0%.

The growth strategy for the Cosmetics Business proceeded smoothly. Sales remained strong in Asia, and were on a growth track in Japan. Sales grew strongly for the 11 brands ("G11") the Kao Group selected for its global strategy and the eight regional brands ("R8") it is nurturing, centered on Japan. Amid signs of a slowdown in inbound demand, G11 brands *Curél*, a derma care brand, and *freeplus,* which is hypoallergenic and contains Japanese and Chinese botanical extracts, performed well in Japan and the Chinese market, and sales of *SUQQU* and *SOFINA iP* grew steadily. To strengthen its high-prestige range, the Kao Group made a strong start with the rebranding of the super-prestige brand *SENSAI* in Europe in May. Sales began in Japan in September. The Kao Group offered the *est G.P.* line of skin care cosmetics in November and products that apply Fine Fiber Technology for the formation of layered ultra-thin membranes in December. The Kao Group also reinforced its activities in the growing e-commerce and travel retail channels and promoted a shift to digital marketing.

Operating income was 41.4 billion yen, an increase of 13.7 billion yen from the previous fiscal year, due to the effect of increased sales of strongly performing brands, among other factors.

Skin Care and Hair Care Business

Sales decreased 0.2% compared with the previous fiscal year to 340.8 billion yen. On a like-for-like basis, sales increased 1.1%.

Sales of skin care products increased. In Japan, new body cleanser *Bioré u The Body* steadily increased sales and market share, despite the impact of adverse weather conditions in the first half of the fiscal year. Sales were firm in Asia, but decreased in the Americas due to the impact of stiff competition.

Sales of hair care products were basically unchanged from the previous fiscal year. Sales were strong for hair color products in Japan and for *Oribe*, a brand in the Americas for high-end hair salons, and the Kao Group launched new and improved premium-price shampoos, conditioners and other products in Japan and Europe. However, overall sales of hair care products were affected by the shrinking mass market.

Operating income increased 0.7 billion yen compared with the previous fiscal year to 49.5 billion yen.

Human Health Care Business

Sales decreased 4.7% compared with the previous fiscal year to 255.2 billion yen. On a like-for-like basis, sales decreased 3.5%.

Sales of *Merries* baby diapers decreased. In Japan, demand for the purpose of resale in the Chinese market fell substantially. Sales in the Chinese market, including cross-border e-commerce, were on a recovery track but decreased compared with the previous fiscal year. On the other hand, locally manufactured products targeting the middle-class consumer segment performed strongly in Indonesia. *Merries* also gained broad acceptance among consumers in Russia and neighboring countries.

For *Laurier* sanitary napkins, high-value-added products performed strongly and increased market share in Japan, while sales by Kao China grew as a result of an increase in new retail outlets, enhanced activities in the e-commerce channel and other factors. Sales were also strong in Indonesia.

For personal health products, sales increased with steady performance of oral care products and bath additives.

Operating income decreased 10.7 billion yen compared with the previous fiscal year to 17.2 billion yen due to the decrease in sales of *Merries*, fluctuations in exchange rates and other factors.

Fabric and Home Care Business

Sales increased 4.5% compared with the previous fiscal year to 359.5 billion yen. On a like-for-like basis, sales increased 4.6%. In Japan, sales increased due to the Kao Group's response to last-minute demand ahead of the consumption tax rate increase in October, but fell short of its plan because market growth was lower than expected.

In fabric care products, sales of laundry detergents grew due to the launch in Japan of *Attack ZERO*, an innovative new laundry detergent. Sales of fabric softeners were firm given the severely competitive market environment. In addition, U.S.-based Washing Systems, LLC, which Kao acquired in August 2018, contributed to sales and income.

In home care products, the Kao Group launched the *Quickle Joan* series of antibacterial household cleaning products that are gentle on the skin. Dishwashing detergents were impacted by stiff competition, but sales and market share grew steadily as sales of *CuCute* remained strong, among other factors.

Operating income increased 0.5 billion yen compared with the previous fiscal year to 71.8 billion yen due to the effect of increased sales, despite an increase in marketing expenses for new product launches.

Chemical Business

Sales decreased 8.6% compared with the previous fiscal year to 285.9 billion yen. On a like-for-like basis, sales decreased 6.6%.

Sales of oleo chemicals decreased due to the substantial impact of selling price adjustments associated with a decline in prices for natural fats and oils, in addition to a trend toward declining demand for some products. Sales of performance chemicals and specialty chemicals decreased due to the impact of sluggish demand associated with slowing economic growth, especially outside Japan.

Operating income increased 0.2 billion yen compared with the previous fiscal year to 30.8 billion yen due to promotion of high-value-added products, including among oleo chemical products outside Japan.

(Remainder of page intentionally left blank.)

Forecast for the Fiscal Year Ending December 31, 2020

(Billions of yen, except operating margin and per share amounts)

	2020	2019	Growth
Net sales	1,510.0-1,530.0	1,502.2	0.5-1.8%[1]
		Like-for-like[2]:	2.3-3.6%
Operating income	220.0-230.0	211.7	3.9-8.6%
Operating margin (%)	14.6-15.0	14.1	-
Income before income taxes	220.0-230.0	210.6	4.4-9.2%
Net income attributable to owners of the parent	154.0-161.0	148.2	3.9-8.6%
Basic earnings per share (Yen)	320.22-334.78	306.70	4.4-9.2%

1. As of the fiscal year ending December 31, 2020, the Company plans to change its method of recognizing sales for some transactions from the gross amount to the net amount. Applying the same method to the forecast of consolidated operating results for the previous fiscal year would have increased net sales between 2.8% and 4.2%.

2. In this table and hereinafter, like-for-like growth rates exclude changes due to the abovementioned method of recognizing sales and the effect of translation of local currencies into Japanese yen.

1) Forecast of Overall Business Results for the Fiscal Year Ending December 31, 2020

Fiscal 2020 is the final year of the Kao Group Mid-term Plan 2020 (K20) covering the four years from 2017 to 2020. All Kao Group employees will resolutely take on this challenge as they maintain the "*Integrity**" to strive for the enrichment of the lives of people globally and to contribute to the sustainability of the world as set forth in the Kao Way, the Group's corporate philosophy, and endeavor to meet its targets while continuing to achieve profitable growth and returns to stakeholders.

* Integrity *is one of the values of the Kao Way, the corporate philosophy of the Kao Group.*

Specifically, the Kao Group will promote technology innovations that will have a substantial impact on people, society, and the planet. In addition, the Kao Group will work to further expand its growth businesses such as cosmetics and to revitalize the baby diaper business. The Kao Group will also proactively conduct launches of new and improved products and various marketing activities to respond to travelers coming to Japan to attend the Tokyo Olympics and Paralympics and for other reasons, and to address the fierce heat expected in Japan. Moreover, as a specific action of the "Kirei Lifestyle Plan," its ESG strategy, the Kao Group will integrate the first phase of its "Kirei Innovation-focused Actions" with its business strategy.

However, the operating environment is expected to remain uncertain due to unpredictable risks worldwide, including international trade issues, geopolitical risks in the Middle East and the impact of the threat of contagion from the new strain of coronavirus on inbound demand. For this reason, the Kao Group announces its forecast of consolidated business results within certain ranges.

The Kao Group forecasts that net sales for fiscal 2020 will increase between 0.5% and 1.8% year on year to between 1,510.0 billion yen and 1,530.0 billion yen, respectively. On a like-for-like basis, the Kao Group forecasts that net sales will increase between 2.3% and 3.6%.

With regard to raw material prices, prices for natural fats and oils have been increasing since the second half of fiscal 2019 and the Kao Group forecasts that prices for raw material overall will rise slightly compared with 2019, but it will continue to conduct Total Cost Reduction (TCR) activities, reforms of its marketing and sales activities, and other measures to support sustainable growth.

Based on these assumptions, the Kao Group forecasts an increase of between 3.9% and 8.6% in operating income to between 220.0 billion yen and 230.0 billion yen, respectively, an operating margin of between 14.6% and 15.0%, an increase of between 4.4% and 9.2% in income before income taxes to between 220.0 billion yen and 230.0 billion yen, respectively, an increase of between 3.9% and 8.6% in net income attributable to owners of the parent to between 154.0 billion yen and 161.0 billion yen, respectively, and an increase of between 4.4% and 9.2% in basic earnings per share to between 320.22 yen and 334.78 yen, respectively.

The Kao Group will increase economic value added (EVA) by making full use of its assets to manage invested capital more efficiently, together with an increase in net operating profit after tax (NOPAT).

2) Forecast by Segment for the Fiscal Year Ending December 31, 2020

In the Cosmetics Business, the Kao Group will further enhance its “G11” global strategy brands and “R8” regional strategy brands. Among the “G11” brands, in addition to launching *athletia*, a lifestyle brand that takes an environmentally conscious, ethical approach, the Kao Group will work to create high-value-added products that leverage its original technologies and conduct a rebranding of *KANEBO* and cultivate the *est G.P.* line as well as roll out the super-prestige brand *SENSAI* in the Chinese market. In addition, the Kao Group will reinforce initiatives in the growing e-commerce and travel retail channels and work to further step up its operations in Asia as it makes greater progress in its structural reforms in Japan.

As a result, the Kao Group forecasts that sales in this business will increase 5.1% year on year on a like-for-like basis to 319.0 billion yen. Over the medium term to 2025, the Kao Group aims to achieve sales of 400.0 billion yen and an operating margin of 15%.

In the Skin Care and Hair Care Business, the Kao Group will work to revitalize the market by assessing changes in consumer values and lifestyle habits as it adds greater value to products and offering its own original and appealing proposals. The Kao Group will also respond to market segmentation and proactively take on challenges in new areas and categories. In skin care products, the Kao Group will expand sales in Japan and Asia by nurturing UV care and other products that deal with environmental stress on the skin, and the cleansing products that are the foundation of the business. The Kao Group will also launch new and improved products to respond to travelers coming to Japan to attend the Tokyo Olympics and Paralympics and for other reasons, and to address the fierce heat expected in Japan. In hair care products, the Kao Group intends to expand sales by working to increase brand value and revitalize the market with distinctive product offerings while balancing mass brands and premium brands.

As a result, the Kao Group forecasts that sales in this business will increase 2.8% year on year on a like-for-like basis to 317.0 billion yen.

Please note that the Company plans to change its method of recognizing sales for some transactions from the gross amount to the net amount.

The Human Health Care Business will promote product development focused on health care for both body and mind. The Kao Group aims to create sanitary products that are gentle on skin and that offer greater comfort and a sense of confidence. The Kao Group will strengthen the brand power of *Merries* baby diapers with measures to cultivate pants-type diapers, which are a growing category in the Chinese market, where competition is intensifying. In Indonesia, the Kao Group expects growth exceeding market growth from further promotion of educational and awareness-raising activities. For *Laurier* sanitary napkins, which are performing well, the Kao Group will expand the business by further promoting high-value-added products in Japan and elsewhere in Asia. The Kao Group will work to further raise the brand value of its personal health products by offering products that address rising health awareness and diversifying needs. In beverage products, the Kao Group will forefront the unique appeal of *Healthya* functional drinks in helping to reduce visceral fat and work to develop its brands.

As a result, the Kao Group forecasts that sales in this business will increase 2.7% year on year on a like-for-like basis to 264.0 billion yen.

In the Fabric and Home Care Business, the Kao Group will develop products with high added value for consumers based on insights into changing consumer lifestyles to realize cleanliness, comfort and enjoyment in various everyday situations. The Kao Group will also work to reduce the amount of plastic it uses by shifting to refill products and large-capacity pouches. In fabric care products, the Kao Group will further strengthen *Attack ZERO*, a laundry detergent launched in 2019, and offer products tailored to various consumer needs. For home care products, the Kao Group will focus on changes in family composition and saving time on housework in continuing to offer products that substantially reduce the burden of housekeeping.

As a result, the Kao Group forecasts that sales in this business will increase 2.6% year on year on a like-for-like basis to 369.0 billion yen.

In the Chemical Business, the Kao Group will promote global supply of distinctive chemical products that meet the diverse needs of a wide range of industries. In response to rising concern about the global environment, the Kao Group will endeavor to augment its lineup of eco-chemical products that reduce environmental impact, and continue to work to develop high-value-added products that are not affected by fluctuations in raw material prices.

As a result, the Kao Group forecasts that sales in this business will increase 7.1% year on year on a like-for-like basis to 309.0 billion yen.

Sales for each of the above businesses have been calculated based on net sales of 1,530.0 billion yen as stated in the forecast of consolidated operating results for the fiscal year ending December 31, 2020.

3) Underlying Assumptions of the Forecast for the Fiscal Year Ending December 31, 2020

The above forecast was made assuming translation rates of one U.S. dollar to 110 yen, one euro to 125 yen and one Chinese yuan to 16 yen.

Please note that although there is potential for volatility in prices of natural fats and oils and petrochemicals, assumptions for prices are based on information currently available to the Kao Group.

(Remainder of page intentionally left blank.)

(2) Summary of Financial Position

Summary of Assets, Liabilities, Equity and Cash Flows

1) Summary of Assets, Liabilities, Equity and Cash Flows for the Fiscal Year Ended December 31, 2019

Consolidated Financial Position

(Billions of yen, except per share amounts)

	December 31, 2019	December 31, 2018	Incr./(Dcr.)
Total assets	1,653.9	1,461.0	192.9
Total liabilities	782.5	625.5	157.0
Total equity	871.4	835.5	35.9
Ratio of equity attributable to owners of the parent to total assets	51.9%	56.3%	-
Equity attributable to owners of the parent per share (Yen)	1,783.46	1,689.82	93.64
Bonds and borrowings	127.1	120.8	6.3

Consolidated Cash Flows

(Billions of yen)

	2019	2018	Incr./(Dcr.)
Net cash flows from operating activities	244.5	195.6	48.9
Net cash flows from investing activities	(94.3)	(157.9)	63.6
Net cash flows from financing activities	(126.2)	(108.6)	(17.6)

Total assets increased 192.9 billion yen from December 31, 2018 to 1,653.9 billion yen. The principal increases in assets were a 164.8 billion yen increase in right-of-use assets due to the application of IFRS 16, a 23.7 billion yen increase in cash and cash equivalents, and a 17.9 billion yen increase in property, plant and equipment. The principal decrease in assets was a 14.3 billion yen decrease in trade and other receivables.

Total liabilities increased 157.0 billion yen from December 31, 2018 to 782.5 billion yen. The principal increase in liabilities was a 161.1 billion yen increase in lease liabilities due to the application of IFRS 16.

Total equity increased 35.9 billion yen from December 31, 2018 to 871.4 billion yen. The principal increase in equity was net income totaling 150.3 billion yen. The principal decreases in equity were dividends totaling 61.7 billion yen and purchase of treasury shares from the market totaling 50.0 billion yen. In addition, the Company retired 6.7 million treasury shares on July 12, 2019.

The ratio of equity attributable to owners of the parent to total assets was 51.9% compared with 56.3% at December 31, 2018. The Kao Group maintained return on equity at the high level of 17.6%.

Net cash flows from operating activities totaled 244.5 billion yen. The principal increases in net cash were income before income taxes of 210.6 billion yen, depreciation and amortization of 83.4 billion yen and decrease in trade and other receivables of 12.9 billion yen. The principal decrease in net cash was income taxes paid of 56.7 billion yen.

Net cash flows from investing activities totaled negative 94.3 billion yen. This primarily consisted of purchase of property, plant and equipment of 84.0 billion yen for capacity expansion at production bases in Japan and proactive capital investments in Asia, where growth is notable.

Net cash flows from financing activities totaled negative 126.2 billion yen. The Company emphasizes steady and continuous dividends and flexibly repurchases and retires treasury shares to improve capital efficiency from the perspective of EVA. During fiscal 2019, this primarily consisted of 61.8 billion yen for dividends paid to owners of the parent and non-controlling interests and 50.0 billion yen for purchase of treasury shares.

Free cash flow, the sum of net cash flows from operating activities and net cash flows from investing activities adjusted for depreciation of right-of-use assets and other expenses, was 128.5 billion yen.

The balance of cash and cash equivalents at December 31, 2019 increased 23.7 billion yen compared with December 31, 2018 to 289.7 billion yen, including the effect of exchange rate changes.

2) Forecast of Assets, Liabilities, Equity and Cash Flows for the Fiscal Year Ending December 31, 2020

Net cash flows from operating activities are forecast to be approximately 250.0 billion yen, due in part to an increase in income. This amount includes the effect of the adoption of IFRS 16 “Leases” in fiscal 2019. Excluding this factor, net cash flows from operating activities are expected to be approximately 230.0 billion yen.

Net cash flows from investing activities are forecast to be approximately 90.0 billion yen due to scheduled proactive investments for further growth encompassing enhancement and rationalization of production capacity, greater distribution efficiency and other purposes.

In net cash flows from financing activities, the Kao Group expects to pay cash dividends and to make other expenditures.

As a result of the above, the balance of cash and cash equivalents as of December 31, 2020 is forecast to be approximately 360.0 billion yen, an increase of approximately 70.0 billion yen from a year earlier.

(3) Basic Policies regarding Distribution of Profits and Dividends for the Fiscal Years Ended December 31, 2019 and Ending December 31, 2020

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 and early repayment of interest-bearing debt including borrowings

In accordance with these policies, the Company plans to pay a year-end dividend for fiscal 2019 of 65 yen per share, an increase of 5 yen per share compared with the previous fiscal year. Consequently, annual cash dividends will increase 10 yen per share compared with the previous fiscal year, resulting in a total of 130 yen per share. The consolidated payout ratio will be 42.4%.

For fiscal 2020, the Company plans to pay total cash dividends of 140 yen per share (41.8% payout ratio), an increase of 10 yen 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 31st consecutive fiscal year of increases in dividends.

The figures presented above in section 2) Forecast of Assets, Liabilities, Equity and Cash Flows for the Fiscal Year Ending December 31, 2020 under (2) Summary of Financial Position and in (3) Basic Policies regarding Distribution of Profits and Dividends for the Fiscal Years Ended December 31, 2019 and Ending December 31, 2020 have been calculated based on operating income of 230.0 billion yen as stated in the forecast of consolidated operating results for the fiscal year ending December 31, 2020.

2. Management Policies

1) Basic Management Policies of the Kao Group

The Kao Group's mission is to strive for the wholehearted satisfaction and enrichment of the lives of people globally and to contribute to the sustainability of the world, with products and brands of excellent value that are created from the consumer's and customer's perspective.

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. Moreover, to continue our profitable growth, in recent years we have created a post-deflation growth model and have been implementing governance reforms aimed at achieving a compact, highly diverse Board of Directors, among other measures, and we have endeavored to contribute to consumers, customers and society by providing products that facilitate clean, beautiful and healthy living, as well as industrial-use products that contribute to the development of industry.

However, social conditions and the natural environment are changing significantly and globally at a rapid pace, and people's values are diversifying accordingly. To deal with this situation, we consider it important not only to respond promptly to change, but also to take initiatives that anticipate change. The key point is ESG. We have announced a major shift to ESG-driven management. By contributing to people, society and the planet while continuing our profitable growth, we aim to enhance our corporate value at a higher level.

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

(1) <u>Long-term Management Strategy</u>

In December 2016, the Kao Group set forth "making Kao a company with a global presence" as its vision to be achieved by 2030 by realizing sustained profitable growth while contributing to the sustainability of the world. To achieve this vision, it will be important to reinforce existing businesses based on "*Yoki-Monozukuri*[1]" from an ESG perspective and to create new businesses and expand business fields from an ESG perspective. Through activities under the slogan "Transforming Ourselves to Drive Change," rather than a continuation of what it has been doing, the Kao Group aims to become a company with a global presence.

Make the Kao Group a company with a global presence

- ■ A distinctive corporate image
- ■ A high-profit global consumer goods company that exceeds:
  - 2.5 trillion yen in net sales (1.0 trillion yen outside Japan)
  - 17% operating margin
  - 20% ROE

---

1 *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 *literally means "good/excellent," and* Monozukuri *means "development/manufacturing of products."*

■ A high level of returns to stakeholders

(2) Mid-term Business Plan

Fiscal 2020 is the final year of the Kao Group Mid-term Plan 2020 (K20), the four-year business plan from fiscal 2017. It is a crucial year that will be a linchpin for realizing the Kao Group's vision for 2030. Among the three goals of K20, the Kao Group will steadily implement "fostering a distinctive corporate image" through innovation while linking the "Kirei[2] Lifestyle Plan," the ESG strategy it announced in 2019, with its business strategy. For the goal of "returns to stakeholders," the Kao Group will continue to provide a high level of returns to its many stakeholders, including consumers, customers, employees, business partners and shareholders. In the rapidly changing business environment, the Kao Group aims to achieve the goal of "profitable growth" by raising the level of its "*Yoki-Monozukuri*" and fully communicating product value. Regarding its commitment to profitable growth, taking into account factors including the current status of the Chemical Business, the progress of businesses with issues, and the possibility of a decrease in inbound demand, the Kao Group has revised its target for net sales CAGR[3] on a like-for-like[4] basis to +3% from +5%. The Kao Group aims for an operating margin of 15%, as planned.

K20 Goals – Three Commitments

■ Commitment to fostering a distinctive corporate image

■ Commitment to profitable growth

- Continue to set new record highs for profits
- Aim for like-for-like net sales CAGR of +3%, operating margin of 15%
- Three 100 billion yen brands (*Merries* baby diapers, *Attack* laundry detergents, *Bioré* skin care products)

■ Commitment to returns to stakeholders

- Shareholders: Continuous cash dividend increases (40% payout ratio target)
- Employees: Continuous improvement in compensation, benefits and health support
- Customers: Maximization of win-win relationships
- Society: Advanced measures to address social issues

(3) 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.

---

[2] *Kirei is a Japanese word that represents the concept of cleanliness, beauty, health, purity, and fairness.*

[3] *CAGR: Compound annual growth rate*

[4] *Like-for-like: Excluding the effect of currency translation, change of sales system, etc.*

3) Issues for Management

With intensifying market competition, changing market structure and volatility in raw material market conditions and currency exchange rates, the operating environment remains uncertain. Changes in the attitudes of consumers regarding the environment, health and other matters and associated changes in their purchasing attitudes, as well as the aging society, hygiene and other social issues, are growing in significance. Moreover, amid the global expansion of business and the progress of structural changes in various fields, companies must deal with changes in the risks entailed in their businesses. The Kao Group will therefore address and deal appropriately with the following issues.

- To respond to changes in risks pertaining to its business, the Kao Group defines risks that have a particularly large impact on management and for which it must augment its response as corporate risks, and will work to prevent damage to the corporate value of the Group as a whole by further reinforcing its management system.

- Given the current rapid progress of factors such as the diversification of consumer values associated with technology innovation and the accompanying changes in purchasing behavior and the structure of retailing, our business model targeting the mass market, which could formerly be conducted efficiently, must be reviewed from all aspects, including research and development, production, logistics, sales and marketing. To resolve these issues, the Kao Group will proactively promote the enhancement of Essential Research[5] and the use of artificial intelligence, the Internet of Things, robotics and other cutting-edge technologies.

- To promote an ESG strategy unique to Kao, the Kirei Lifestyle Plan, all members of the Kao Group must have a proper understanding of its purpose and content, and fulfill their respective roles and responsibilities. To that end, the Kao Group will step up its awareness-raising activities to implement the Kirei Lifestyle Plan at the global level. It will also be necessary to go through the PDCA (plan, do, check, act) cycle under a sound governance system. In addition to creating standards and evaluation mechanisms for the smooth progress of the Kirei Lifestyle Plan, the Kao Group will step up its activities even further by making use of the Board of Directors and third-party checks and opinions from External ESG Advisory Board to make sure it does not become complacent.

3. 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 will enable 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.

[5] *Research that pursues the essence of things for both humans and materials from a scientific standpoint*

Consolidated Statement of Financial Position

(Millions of yen)

	December 31, 2019	December 31, 2018	Change
Assets			
Current assets			
Cash and cash equivalents	289,681	265,978	23,703
Trade and other receivables	208,839	223,102	(14,263)
Inventories	199,672	197,571	2,101
Other financial assets	13,788	15,146	(1,358)
Income tax receivables	2,440	2,066	374
Other current assets	22,606	22,449	157
Total current assets	737,026	726,312	10,714
Non-current assets			
Property, plant and equipment	436,831	418,935	17,896
Right-of-use assets	164,822	-	164,822
Goodwill	179,707	180,286	(579)
Intangible assets	47,770	46,549	1,221
Investments accounted for using the equity method	8,287	7,931	356
Other financial assets	26,104	23,540	2,564
Deferred tax assets	47,876	49,158	(1,282)
Other non-current assets	5,496	8,275	(2,779)
Total non-current assets	916,893	734,674	182,219
Total assets	1,653,919	1,460,986	192,933

(Millions of yen)

	December 31, 2019	December 31, 2018	Change
Liabilities and equity			
Liabilities			
Current liabilities			
Trade and other payables	222,314	225,560	(3,246)
Bonds and borrowings	25,505	40,488	(14,983)
Lease liabilities	19,653	-	19,653
Other financial liabilities	6,766	6,880	(114)
Income tax payables	36,208	34,198	2,010
Provisions	2,054	2,873	(819)
Contract liabilities	20,616	18,387	2,229
Other current liabilities	99,411	102,452	(3,041)
Total current liabilities	432,527	430,838	1,689
Non-current liabilities			
Bonds and borrowings	101,636	80,339	21,297
Lease liabilities	141,438	-	141,438
Other financial liabilities	7,527	9,506	(1,979)
Retirement benefit liabilities	80,579	84,552	(3,973)
Provisions	10,122	12,175	(2,053)
Deferred tax liabilities	3,747	2,864	883
Other non-current liabilities	4,922	5,203	(281)
Total non-current liabilities	349,971	194,639	155,332
Total liabilities	782,498	625,477	157,021
Equity			
Share capital	85,424	85,424	-
Capital surplus	108,715	108,245	470
Treasury shares	(4,309)	(11,282)	6,973
Other components of equity	(32,974)	(30,029)	(2,945)
Retained earnings	700,839	670,002	30,837
Equity attributable to owners of the parent	857,695	822,360	35,335
Non-controlling interests	13,726	13,149	577
Total equity	871,421	835,509	35,912
Total liabilities and equity	1,653,919	1,460,986	192,933

Consolidated Statement of Income

(Millions of yen)

	Notes	Fiscal year ended December 31, 2019	Fiscal year ended December 31, 2018	Change
Net sales	1	1,502,241	1,508,007	(5,766)
Cost of sales		(848,723)	(853,989)	5,266
Gross profit		653,518	654,018	(500)
Selling, general and administrative expenses	2	(442,912)	(444,845)	1,933
Other operating income		15,192	14,288	904
Other operating expenses		(14,075)	(15,758)	1,683
Operating income	1	211,723	207,703	4,020
Financial income		2,027	1,717	310
Financial expenses		(5,231)	(4,251)	(980)
Share of profit in investments accounted for using the equity method		2,126	2,082	44
Income before income taxes		210,645	207,251	3,394
Income taxes		(60,296)	(51,920)	(8,376)
Net income		150,349	155,331	(4,982)
Attributable to:				
Owners of the parent		148,213	153,698	(5,485)
Non-controlling interests		2,136	1,633	503
Net income		150,349	155,331	(4,982)
Earnings per share				
Basic (Yen)	3	306.70	314.25	
Diluted (Yen)	3	306.63	314.12	

Consolidated Statement of Comprehensive Income

(Millions of yen)

	Fiscal year ended December 31, 2019	Fiscal year ended December 31, 2018	Change
Net income	150,349	155,331	(4,982)
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	(6)	(2)	(4)
Remeasurements of defined benefit plans	(1,180)	(15,524)	14,344
Share of other comprehensive income of investments accounted for using the equity method	(17)	(345)	328
Total of items that will not be reclassified to profit or loss	(1,203)	(15,871)	14,668
Items that may be reclassified subsequently to profit or loss:			
Exchange differences on translation of foreign operations	(2,489)	(16,140)	13,651
Share of other comprehensive income of investments accounted for using the equity method	(36)	(73)	37
Total of items that may be reclassified subsequently to profit or loss	(2,525)	(16,213)	13,688
Other comprehensive income, net of taxes	(3,728)	(32,084)	28,356
Comprehensive income	146,621	123,247	23,374
Attributable to:			
Owners of the parent	144,508	122,324	22,184
Non-controlling interests	2,113	923	1,190
Comprehensive income	146,621	123,247	23,374

Consolidated Statement of Changes in Equity

(Millions of yen)

	Equity attributable to owners of the parent												
					Other components of equity								
	Share capital	Capital surplus	Treasury shares	Subscription rights to shares	Exchange differences on translation of foreign operations	Net gain (loss) on derivatives designated as cash flow hedges	Net gain (loss) on revaluation of financial assets measured at fair value through other compre-hensive income	Remeasure-ments of defined benefit plans	Total	Retained earnings	Total	Non-controlling interests	Total equity
January 1, 2019 (as previously reported)	85,424	108,245	(11,282)	546	(37,032)	(1)	6,458	-	(30,029)	670,002	822,360	13,149	835,509
Changes in accounting policy[1]	-	-	-	-	-	-	-	-	-	740	740	-	740
January 1, 2019 (after adjustment)	85,424	108,245	(11,282)	546	(37,032)	(1)	6,458	-	(30,029)	670,742	823,100	13,149	836,249
Net income	-	-	-	-	-	-	-	-	-	148,213	148,213	2,136	150,349
Other comprehensive income	-	-	-	-	(2,598)	1	(23)	(1,085)	(3,705)	-	(3,705)	(23)	(3,728)
Comprehensive income	-	-	-	-	(2,598)	1	(23)	(1,085)	(3,705)	148,213	144,508	2,113	146,621
Disposal of treasury shares	-	(108)	57,006	(98)	-	-	-	-	(98)	(56,799)	1	-	1
Purchase of treasury shares	-	-	(50,033)	-	-	-	-	-	-	-	(50,033)	-	(50,033)
Share-based payment transactions	-	337	-	-	-	-	-	-	-	-	337	-	337
Dividends	-	-	-	-	-	-	-	-	-	(60,459)	(60,459)	(1,290)	(61,749)
Changes in the ownership interest in subsidiaries	-	241	-	-	-	-	-	-	-	-	241	(246)	(5)
Transfer from other components of equity to retained earnings	-	-	-	-	-	-	(227)	1,085	858	(858)	-	-	-
Total transactions with the owners	-	470	6,973	(98)	-	-	(227)	1,085	760	(118,116)	(109,913)	(1,536)	(111,449)
December 31, 2019	85,424	108,715	(4,309)	448	(39,630)	-	6,208	-	(32,974)	700,839	857,695	13,726	871,421

Note:
1. The adoption of IFRS 16 "Leases"

	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 compre-hensive income	Remeasure-ments of defined benefit plans	Total	Retained earnings	Total	Non-controlling interests	Total equity
January 1, 2018	85,424	107,980	(9,593)	731	(21,540)	4	8,490	-	(12,315)	634,885	806,381	12,983	819,364
Net income	-	-	-	-	-	-	-	-	-	153,698	153,698	1,633	155,331
Other comprehensive income	-	-	-	-	(15,492)	(5)	(338)	(15,539)	(31,374)	-	(31,374)	(710)	(32,084)
Comprehensive income	-	-	-	-	(15,492)	(5)	(338)	(15,539)	(31,374)	153,698	122,324	923	123,247
Disposal of treasury shares	-	(99)	48,345	(167)	-	-	-	-	(167)	(47,961)	118	-	118
Purchase of treasury shares	-	-	(50,034)	-	-	-	-	-	-	-	(50,034)	-	(50,034)
Share-based payment transactions	-	364	-	-	-	-	-	-	-	-	364	-	364
Dividends	-	-	-	-	-	-	-	-	-	(56,793)	(56,793)	(746)	(57,539)
Transfer from other components of equity to retained earnings	-	-	-	(18)	-	-	(1,694)	15,539	13,827	(13,827)	-	-	-
Other increase (decrease)	-	-	-	-	-	-	-	-	-	-	-	(11)	(11)
Total transactions with the owners	-	265	(1,689)	(185)	-	-	(1,694)	15,539	13,660	(118,581)	(106,345)	(757)	(107,102)
December 31, 2018	85,424	108,245	(11,282)	546	(37,032)	(1)	6,458	-	(30,029)	670,002	822,360	13,149	835,509

Consolidated Statement of Cash Flows

(Millions of yen)

	Fiscal year ended December 31, 2019	Fiscal year ended December 31, 2018
Cash flows from operating activities		
Income before income taxes	210,645	207,251
Depreciation and amortization	83,369	60,662
Interest and dividend income	(1,885)	(1,578)
Interest expense	2,840	1,256
Share of profit in investments accounted for using the equity method	(2,126)	(2,082)
(Gains) losses on sale and disposal of property, plant and equipment, and intangible assets	3,323	4,531
(Increase) decrease in trade and other receivables	12,862	(12,591)
(Increase) decrease in inventories	(2,848)	(15,677)
Increase (decrease) in trade and other payables	696	3,951
Increase (decrease) in retirement benefit liabilities	(3,788)	20,740
Other	(2,936)	(21,437)
Subtotal	300,152	245,026
Interest received	1,711	1,273
Dividends received	2,146	2,312
Interest paid	(2,806)	(1,293)
Income taxes paid	(56,680)	(51,708)
Net cash flows from operating activities	244,523	195,610
Cash flows from investing activities		
Payments into time deposits	(35,188)	(26,768)
Proceeds from withdrawal of time deposits	36,660	26,987
Purchase of property, plant and equipment	(83,959)	(80,295)
Purchase of intangible assets	(9,819)	(7,703)
Payments for business combinations	(195)	(73,915)
Other	(1,765)	3,799
Net cash flows from investing activities	(94,266)	(157,895)
Cash flows from financing activities		
Increase (decrease) in short-term borrowings	19	230
Proceeds from long-term borrowings	46,220	-
Repayments of long-term borrowings	(40,054)	(67)
Proceeds from issuance of bonds	-	25,060
Redemption of bonds	(12)	(24,939)
Repayments of lease liabilities	(20,565)	-
Purchase of treasury shares	(50,033)	(50,035)
Dividends paid to owners of the parent	(60,512)	(56,838)
Dividends paid to non-controlling interests	(1,287)	(745)
Other	58	(1,245)
Net cash flows from financing activities	(126,166)	(108,579)
Net increase (decrease) in cash and cash equivalents	24,091	(70,864)
Cash and cash equivalents at the beginning of the year	265,978	343,076
Effect of exchange rate changes on cash and cash equivalents	(388)	(6,234)
Cash and cash equivalents at the end of the year	289,681	265,978

Notes to Consolidated Financial Statements

Changes in Accounting Policies

Adoption of IFRS 16 “Leases"

The Kao Group adopted IFRS 16 “Leases” (issued in January 2016; hereafter, “IFRS 16”) in the fiscal year ended December 31, 2019. As a transitional measure upon the adoption of IFRS 16, the Kao Group applies this Standard retrospectively with the cumulative effect of initially applying this Standard recognized at the date of initial application.

In transitioning to IFRS 16, the Kao Group has chosen the practical expedient detailed in IFRS 16 paragraph C3 and grandfathered its assessments of whether contracts contain leases based on IAS 17 “Leases” (hereafter, “IAS 17”) and IFRIC 4 “Determining whether an Arrangement contains a Lease.” From the date of application, this assessment is determined based on the provisions of IFRS 16.

For leases that the Kao Group as lessee previously classified as operating leases applying IAS 17, right-of-use assets and lease liabilities are recognized at the date of initial application. These lease liabilities have been measured at the present value of the remaining lease payments discounted using the lessee’s incremental borrowing rate at the date of initial application. The weighted average of the lessee’s incremental borrowing rates is 1.0%. Right-of-use assets are initially measured at the initial measurement amount of the lease liability adjusted for the prepaid lease payments and other factors.

For leases that the Kao Group as lessee previously classified as finance leases applying IAS 17, the carrying amounts of right-of-use assets and lease liabilities at the date of initial application are the carrying amounts of lease assets and lease liabilities, respectively, immediately before that date measured applying IAS 17.

The following is a reconciliation of non-cancellable operating lease contracts applying IAS 17 as of December 31, 2018 and lease liabilities recognized in the consolidated statement of financial position at the date of initial application.

	(Millions of yen)
Non-cancellable operating lease contracts as of December 31, 2018	25,018
Finance lease liabilities as of December 31, 2018	2,419
Cancellable operating lease contracts, etc.	139,998
Lease liabilities as of January 1, 2019	167,435

Right-of-use assets recognized at the date of initial application in the consolidated statement of financial position were 171,890 million yen.

The following practical expedients are used in the application of IFRS 16.

- A single discount rate is applied to portfolios of leases with reasonably similar characteristics.
- As an alternative to performing an impairment review, the Kao Group relies on its assessment of whether leases are onerous applying IAS 37 “Provisions, Contingent Liabilities and Contingent Assets” immediately before the date of initial application.
- Initial direct costs are excluded from the measurement of right-of-use assets at the date of initial application.

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 an organization comprising five main businesses – the Cosmetics Business, the Skin Care and Hair Care Business, the Human Health Care Business, the Fabric and Home Care Business (collectively, the "Consumer Products Business") and the Chemical Business. In each business, the Kao Group plans comprehensive strategies and carries out activities on a global basis.

Therefore, the Kao Group has five 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.

Information on principal customers is omitted, because no transactions with a single external customer account for 10% or more of the Kao Group's net sales.

Major products by reportable segment are as follows:

Reportable Segments		Major Products	
Consumer Products Business	Cosmetics Business	Cosmetics	Counseling cosmetics, Self-selection cosmetics
	Skin Care and Hair Care Business	Skin care products	Soaps, Facial cleansers, Body cleansers
		Hair care products	Shampoos, Conditioners, Hair styling agents, Hair coloring agents, Men's products
	Human Health Care Business	Sanitary products	Sanitary napkins, Baby diapers
		Personal health products	Bath additives, Oral care products, Thermo products
		Beverage products	Beverages
	Fabric and Home Care Business	Fabric care products	Laundry detergents, Fabric treatments
		Home care products	Kitchen cleaning products, House cleaning products, Paper cleaning products, Commercial-use products
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
		Specialty chemicals	Toner and toner binder for copiers and printers, Ink and colorants for inkjet printers, Fragrances and aroma chemicals

(2) Sales and results of reportable segments

(Millions of yen)

Fiscal year ended December 31, 2019	Reportable Segments								
	Consumer Products Business								
	Cosmetics Business	Skin Care and Hair Care Buiness	Human Health Care Business	Fabric and Home Care Business	Subtotal	Chemical Business	Total	Reconciliations[1]	Consolidated
Net sales									
Sales to customers	301,547	340,757	255,224	359,507	1,257,035	245,206	1,502,241	-	1,502,241
Intersegment sales and transfers[2]	-	-	-	-	-	40,729	40,729	(40,729)	-
Total net sales	301,547	340,757	255,224	359,507	1,257,035	285,935	1,542,970	(40,729)	1,502,241
Operating income	41,398	49,524	17,166	71,774	179,862	30,839	210,701	1,022	211,723
% of net sales	13.7	14.5	6.7	20.0	14.3	10.8	-	-	14.1
Financial income									2,027
Financial expenses									(5,231)
Share of profit in investments accounted for using the equity method									2,126
Income before income taxes									210,645
Depreciation and amortization	14,865	13,814	21,627	17,899	68,205	14,205	82,410	959	83,369
Capital expenditure[3]	17,962	18,389	27,314	22,139	85,804	24,189	109,993	3,394	113,387

Notes:
1. The operating income reconciliation of 1,022 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. Capital expenditures include investments in property, plant and equipment, right-of-use assets and intangible assets.

(Millions of yen)

Fiscal year ended December 31, 2018	Reportable Segments								
	Consumer Products Business								
	Cosmetics Business	Skin Care and Hair Care Buiness	Human Health Care Business	Fabric and Home Care Business	Subtotal	Chemical Business	Total	Reconciliations[1]	Consolidated
Net sales									
Sales to customers	279,635	341,419	267,702	344,105	1,232,861	275,146	1,508,007	-	1,508,007
Intersegment sales and transfers[2]	-	-	-	-	-	37,661	37,661	(37,661)	-
Total net sales	279,635	341,419	267,702	344,105	1,232,861	312,807	1,545,668	(37,661)	1,508,007
Operating income	27,710	48,827	27,907	71,249	175,693	30,631	206,324	1,379	207,703
% of net sales	9.9	14.3	10.4	20.7	14.3	9.8	-	-	13.8
Financial income									1,717
Financial expenses									(4,251)
Share of profit in investments accounted for using the equity method									2,082
Income before income taxes									207,251
Depreciation and amortization	10,908	9,593	17,602	10,299	48,402	12,000	60,402	260	60,662
Capital expenditure[3]	11,597	17,021	19,259	18,107	65,984	23,032	89,016	81	89,097

Notes:
1. The operating income reconciliation of 1,379 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. Capital expenditures include investments in property, plant and equipment and intangible assets.

(3) Geographical Information

The breakdown of sales to customers and non-current assets (excluding financial assets, deferred tax assets and retirement benefit assets) by geographic area is as follows:

(Millions of yen)

Sales to customers	Fiscal year ended December 31, 2019	Fiscal year ended December 31, 2018
Japan	947,096	939,463
Asia	293,388	295,714
Americas	137,819	140,637
Europe	123,938	132,193
Total	1,502,241	1,508,007

Note: Sales are classified based on the location of customers.

Non-current assets (excluding financial assets, deferred tax assets and retirement benefit assets)	Fiscal year ended December 31, 2019	Fiscal year ended December 31, 2018
Japan	597,950	448,357
Asia	104,643	88,843
Americas	98,730	96,426
Europe	39,444	27,184
Total	840,767	660,810

2. Selling, General and Administrative Expenses

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

(Millions of yen)

	Fiscal year ended December 31, 2019	Fiscal year ended December 31, 2018
Advertising	77,545	80,274
Sales promotion	56,943	55,308
Employee benefits	148,431	148,220
Depreciation	18,775	9,186
Amortization	7,950	6,860
Research and development	59,143	57,673
Other	74,125	87,324
Total	442,912	444,845

As a transitional measure upon the adoption of IFRS 16, the Kao Group applies this Standard retrospectively with the cumulative effect of initially applying this Standard recognized at the date of initial application and thus has not restated the amounts for the comparative period. As a result, expenses of 9,581 million yen previously included in other are accounted for as depreciation.

3. Earnings per Share

(1) The basis for calculating basic earnings per share

(Millions of yen)

	Fiscal year ended December 31, 2019	Fiscal year ended December 31, 2018
Net income attributable to owners of the parent	148,213	153,698
Amounts not attributable to ordinary shareholders of the parent	-	-
Net income used to calculate basic earnings per share	148,213	153,698

(Thousands of shares)

Weighted average number of ordinary shares	483,252	489,089

(Yen)

Basic earnings per share	306.70	314.25

(2) The basis for calculating diluted earnings per share

(Millions of yen)

	Fiscal year ended December 31, 2019	Fiscal year ended December 31, 2018
Net income used to calculate basic earnings per share	148,213	153,698
Adjustments to net income	-	-
Net income used to calculate diluted earnings per share	148,213	153,698

(Thousands of shares)

Weighted average number of ordinary shares	483,252	489,089
Increase in ordinary shares		
Subscription rights to shares	104	199
Weighted average number of ordinary shares after dilution	483,356	489,289

(Yen)

Diluted earnings per share	306.63	314.12
Summary of potential ordinary shares not included in the calculation of diluted earnings per share because they have no dilutive effect	-	-

4. Significant Subsequent Events

None applicable.

Note regarding Assumption of Going Concern

None applicable.