

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/)
 Representative: Yoshihiro Hasebe, President and CEO
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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)

| Three months ended March 31 | Net sales | | | | Operating income | | | Operating margin (%) | |
|----------------------------------|-----------|-------|----------|-----------------|------------------|-------|--------|----------------------|------|
| | 2021 | 2020 | Growth % | Like-for-like % | 2021 | 2020 | Change | 2021 | 2020 |
| 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 | | | | | | | | | | | Total equity |
|---|---|-----------------|-----------------|-------------------------------|---|---|--|----------|-------------------|----------|---------------------------|--------------|
| | Other components of equity | | | | | | | Total | Retained earnings | Total | Non-controlling interests | |
| | Share capital | Capital surplus | Treasury shares | Subscription rights to shares | Exchange differences on translation of foreign operations | Net gain (loss) on derivatives designated as cash flow hedges | Net gain (loss) on revaluation of financial assets measured at fair value through other comprehensive income | | | | | |
| January 1, 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 | <u>100,688</u> | <u>106,243</u> |

Note regarding Assumption of Going Concern

None applicable.