

Consolidated Financial Results for the Nine Months Ended September 30, 2020 [IFRS]

October 28, 2020

Company name: Kao Corporation
 Stock code: 4452 (URL: www.kao.com/global/en/investor-relations/library/results/)
 Representative: Michitaka Sawada, 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 nine months ended September 30, 2020 (from January 1, 2020 to September 30, 2020)

(1) Consolidated operating results

	(Percentages indicate year-on-year changes)			
	Nine months ended September 30, 2020	%	Nine months ended September 30, 2019	%
Net sales	1,005,260	(9.4)	1,109,330	1.0
Operating income	120,062	(20.5)	150,972	6.2
Income before income taxes	119,148	(20.3)	149,437	5.3
Net income	87,352	(16.9)	105,071	4.4
Net income attributable to owners of the parent	85,941	(17.0)	103,579	4.2
Comprehensive income	75,695	(18.9)	93,302	(4.1)
Basic earnings per share (Yen)	178.70		213.99	
Diluted earnings per share (Yen)	178.67		213.94	

(2) Consolidated financial position

	September 30, 2020	December 31, 2019
Total assets	1,604,678	1,653,919
Total equity	882,101	871,421
Equity attributable to owners of the parent	867,789	857,695
Ratio of equity attributable to owners of the parent to total assets	54.1%	51.9%
Equity attributable to owners of the parent per share (Yen)	1,804.36	1,783.46

2. Dividends

	Year ending December 31, 2020 (Forecast)	Year ending December 31, 2020	Year ended December 31, 2019
Annual cash dividends per share (Yen)			
1st quarter end		-	-
2nd quarter end		70.00	65.00
3rd quarter end		-	-
Fiscal year end	70.00		65.00
Total	140.00		130.00

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

3. Forecast of consolidated operating results for the 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)

	Year ending December 31, 2020	%
Net sales	1,430,000	(4.8)
Operating income	190,000	(10.3)
Income before income taxes	189,000	(10.3)
Net income attributable to owners of the parent	134,000	(9.6)
Basic earnings per share (Yen)	278.62	(9.2)

Notes:

- Revisions to the consolidated operating results forecast most recently announced: None
- As of the fiscal year ending December 31, 2020, the Company has changed its method of recognizing sales for some transactions from the gross amount to the net amount. Applying the same method to the consolidated operating results for the previous fiscal year would result in a 2.6% decrease in the net sales forecast for FY2020.

4. Others

- Changes in significant subsidiaries during the period (changes in specified subsidiaries resulting in change in scope of consolidation): None
- Changes in accounting policies and changes in accounting estimates
 - Changes in accounting principles required by IFRS: None
 - Changes in accounting principles due to reasons other than 1): Yes
For details, please refer to page 13, "Changes in Accounting Policies" in "Notes to Condensed Consolidated Financial Statements."
 - Changes in accounting estimates: None
- Number of issued shares outstanding at the end of this period (ordinary shares)

	September 30, 2020	December 31, 2019
Number of issued shares including treasury shares	482,000,000	482,000,000
Number of treasury shares	1,061,171	1,083,466
	Nine months ended September 30, 2020	Nine months ended September 30, 2019
Weighted average number of shares outstanding during this period	480,925,176	484,038,764

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 6, "Qualitative Information on Financial Results for the Nine Months Ended September 30, 2020 - 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 Nine Months Ended September 30, 2020

Note: The Company has changed its method of recognizing sales for some transactions from the gross amount to the net amount. 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. Description of Operating Results

(Billions of yen, except operating margin and per share amounts)			
Nine months ended September 30	2020	2019	Growth
Net sales	1,005.3	1,109.3	(9.4%) Like-for-like: (6.5%)
Operating income	120.1	151.0	(20.5%)
Operating margin (%)	11.9	13.6	-
Income before income taxes	119.1	149.4	(20.3%)
Net income	87.4	105.1	(16.9%)
Net income attributable to owners of the parent	85.9	103.6	(17.0%)
Basic earnings per share (Yen)	178.70	213.99	(16.5%)

The novel coronavirus (COVID-19) pandemic continues to have a major impact on people's lives and corporate activities worldwide. The Kao Group has rallied its comprehensive strength in striving to provide products, services and information to contribute to the lifestyles and safety of people around the world.

In the Kao Group's key markets during the nine months ended September 30, 2020, according to retail sales and consumer purchasing survey data, the cosmetics market in Japan shrank significantly from the previous year due to a substantial decline in inbound demand, people's voluntary restraint in going outside, and the impact of last-minute demand ahead of a consumption tax rate increase implemented in October 2019. On the other hand, the household and personal care products market grew as a result of a substantial increase in demand for hygiene-related products, despite the impact of last-minute demand ahead of the consumption tax rate increase. Consumer purchase prices for main household and personal care products increased by 4 points compared with the same period a year earlier.

Amid these circumstances, net sales decreased 9.4% compared with the same period a year earlier to 1,005.3 billion yen. On a like-for-like basis, net sales decreased 6.5%. Operating income was 120.1 billion yen, a decrease of 30.9 billion yen compared with the same period a year earlier, and income before income taxes was 119.1 billion yen, a decrease of 30.3 billion yen. Net income was 87.4 billion yen, a decrease of 17.7 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.	Second quarter Apr. – Jun.	Third quarter Jul. – Sep.
U.S. dollar	108.95 (110.09)	107.54 (109.99)	106.17 (107.32)
Euro	120.18 (125.10)	118.41 (123.58)	124.05 (119.39)
Chinese yuan	15.61 (16.31)	15.18 (16.13)	15.34 (15.31)

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

Summary of Segment Information

Consolidated Results by Segment

(Billions of yen)									
Nine months ended September 30	Net sales				Operating income			Operating margin (%)	
	2020	2019	Growth %	Like-for-like %	2020	2019	Change	2020	2019
Cosmetics Business	160.6	214.3	(25.0)	(24.6)	(7.2)	25.2	(32.3)	(4.5)	11.7
Skin Care and Hair Care Business	233.0	257.8	(9.6)	0.8	41.2	38.2	3.0	17.7	14.8
Human Health Care Business	170.6	187.3	(8.9)	(7.7)	8.7	11.9	(3.3)	5.1	6.4
Fabric and Home Care Business	270.5	264.1	2.4	2.7	56.6	51.4	5.2	20.9	19.5
Consumer Products Business	834.8	923.4	(9.6)	(6.4)	99.3	126.7	(27.4)	11.9	13.7
Chemical Business	199.3	216.6	(8.0)	(6.6)	20.7	23.4	(2.8)	10.4	10.8
Total	1,034.1	1,140.1	(9.3)	(6.5)	120.0	150.1	(30.2)	-	-
Elimination and Reconciliation	(28.9)	(30.7)	-	-	0.1	0.8	(0.7)	-	-
Consolidated	1,005.3	1,109.3	(9.4)	(6.5)	120.1	151.0	(30.9)	11.9	13.6

Consolidated Net Sales Composition

Nine months ended September 30		(Billions of yen)				
		Japan	Asia	Americas	Europe	Consolidated
Cosmetics Business	2020	114.3	30.6	3.8	11.8	160.6
	2019	166.0	31.2	4.1	12.9	214.3
	Growth %	(31.1)	(1.8)	(7.5)	(8.2)	(25.0)
	Like-for-like %	(31.1)	0.8	(6.1)	(7.1)	(24.6)
Skin Care and Hair Care Business	2020	134.5	19.4	52.2	26.9	233.0
	2019	152.1	21.9	53.3	30.5	257.8
	Growth %	(11.5)	(11.5)	(2.0)	(11.9)	(9.6)
	Like-for-like %	5.9	(10.0)	(0.2)	(10.8)	0.8
Human Health Care Business	2020	103.9	66.6	0.1	0.0	170.6
	2019	117.0	70.2	0.1	-	187.3
	Growth %	(11.2)	(5.1)	11.8	-	(8.9)
	Like-for-like %	(11.2)	(1.9)	15.3	-	(7.7)
Fabric and Home Care Business	2020	233.0	30.4	7.0	0.1	270.5
	2019	225.5	29.8	8.6	0.2	264.1
	Growth %	3.3	2.0	(18.0)	(44.8)	2.4
	Like-for-like %	3.3	4.1	(16.0)	(43.7)	2.7
Consumer Products Business	2020	585.7	147.0	63.2	38.9	834.8
	2019	660.6	153.1	66.1	43.6	923.4
	Growth %	(11.3)	(4.0)	(4.4)	(10.9)	(9.6)
	Like-for-like %	(7.8)	(1.3)	(2.6)	(9.8)	(6.4)
Chemical Business	2020	81.5	40.7	32.7	44.4	199.3
	2019	92.3	42.4	36.2	45.7	216.6
	Growth %	(11.6)	(4.2)	(9.6)	(2.8)	(8.0)
	Like-for-like %	(11.6)	(2.6)	(5.2)	(1.2)	(6.6)
Elimination of intersegment	2020	(25.5)	(1.9)	(0.1)	(1.4)	(28.9)
	2019	(27.1)	(2.1)	(0.0)	(1.5)	(30.7)
Consolidated	2020	641.8	185.7	95.9	81.9	1,005.3
	2019	725.8	193.4	102.3	87.8	1,109.3
	Growth %	(11.6)	(4.0)	(6.3)	(6.7)	(9.4)
	Like-for-like %	(8.4)	(1.5)	(3.5)	(5.3)	(6.5)

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 38.4% of net sales compared with 37.1% for the same period a year earlier.

Consumer Products Business

Sales decreased 9.6% compared with the same period a year earlier to 834.8 billion yen. On a like-for-like basis, sales decreased 6.4%.

Business activities were substantially impacted by the COVID-19 pandemic. Sales of hygiene-related products grew as the Kao Group raised its supply capacity in Japan along with the increase in demand, but sales of the Cosmetics Business decreased substantially.

In Japan, sales decreased 11.3% to 585.7 billion yen due to a downturn in the Cosmetics Business and a change in the method of recognizing some transactions from the gross amount to the net amount, among other factors. On a like-for-like basis, sales decreased 7.8%.

In Asia, sales decreased 4.0% to 147.0 billion yen. On a like-for-like basis, sales decreased 1.3%.

In the Americas, sales decreased 4.4% to 63.2 billion yen. On a like-for-like basis, sales decreased 2.6%. In Europe, sales decreased 10.9% to 38.9 billion yen. On a like-for-like basis, sales decreased 9.8%.

Operating income decreased 27.4 billion yen compared with the same period a year earlier to 99.3 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 decreased 25.0% compared with the same period a year earlier to 160.6 billion yen. On a like-for-like basis, sales decreased 24.6%.

Cosmetics Business sales decreased substantially due to a significant decline in inbound demand, as well as the impact of regulations and other restrictions on going outside enacted around the world. Sales of makeup products in particular decreased, as wearing masks became common practice.

In Japan, in addition to the decrease in inbound demand, a state of emergency was declared in April, with impact from people voluntarily refraining from going outside and temporary retail store closures.

Furthermore, the number of newly infected people began to rise again in July, delaying market recovery. In Europe, temporary store closures had a negative impact, but signs of a recovery have appeared. In Asia, on the other hand, Kao China has enhanced its e-commerce and other initiatives and sales were steady for *freeplus*, which is hypoallergenic and contains Japanese and Chinese botanical extracts, and *Curél*, a derma care brand.

Operating income was negative 7.2 billion yen, a decrease of 32.3 billion yen from the same period a year earlier.

Skin Care and Hair Care Business

Sales decreased 9.6% compared with the same period a year earlier to 233.0 billion yen due to the change in the method of recognizing sales for some transactions from the gross amount to the net amount, among other factors. On a like-for-like basis, sales increased 0.8%.

In skin care products, sales of *Bioré* *u* hand soap, hand sanitizer and other hygiene-related products increased, due in part to the Kao Group's adjustments to its supply capabilities in Japan to respond to increased demand resulting from the pandemic.

In hair care products, sales of the business for hair salons in the Americas and Europe decreased due to temporary salon closures by customers of the Kao Group, among other factors, but the business has been gradually recovering.

Operating income increased 3.0 billion yen compared with the same period a year earlier to 41.2 billion yen.

Human Health Care Business

Sales decreased 8.9% compared with the same period a year earlier to 170.6 billion yen. On a like-for-like basis, sales decreased 7.7%.

Sales of *Laurier* sanitary napkins were firm, with high-value-added products contributing to performance in Japan. In Asia, sales at Kao China grew steadily.

Sales of *Merries* baby diapers grew steadily in Indonesia, but decreased both in Japan and at Kao China.

Sales of personal health products decreased slightly due to a severe competitive environment.

Operating income decreased 3.3 billion yen compared with the same period a year earlier to 8.7 billion yen.

Fabric and Home Care Business

Sales increased 2.4% compared with the same period a year earlier to 270.5 billion yen. On a like-for-like basis, sales increased 2.7%.

In Japan, demand increased for hygiene-related products, primarily home care products, and overall sales of fabric and home care products grew, overcoming a challenging year-on-year hurdle due to the substantial impact of last-minute demand ahead of the consumption tax rate increase implemented in October 2019. Sales of hygiene-related products also grew in Asia. For commercial-use products, the Kao Group substantially ramped up its production capacity for hand sanitizers to supply the food service industry including restaurants, as well as lodging facilities, medical institutions, nursing facilities and other locations where hygiene management is particularly necessary.

Operating income increased 5.2 billion yen compared with the same period a year earlier to 56.6 billion yen.

Chemical Business

Sales decreased 8.0% compared with the same period a year earlier to 199.3 billion yen. On a like-for-like basis, sales decreased 6.6%.

In oleo chemicals, amid a downward trend in demand, sales of fat and oil derivatives for disinfection and cleansing were firm. Sales of performance chemicals decreased, impacted by a decline in demand in automobile-related and other fields. In specialty chemicals, toner and toner binder were impacted by sluggish market conditions.

Operating income decreased 2.8 billion yen compared with the same period a year earlier to 20.7 billion yen.

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

Although the market has been gradually recovering, there is no telling for certain when the COVID-19 pandemic will subside, and the uncertain business environment is expected to continue.

Under these circumstances, the Kao Group will thoroughly implement every possible measure and aims to achieve the figures it has announced. Therefore, there is no change from the forecast of consolidated results announced on July 29, 2020.

The main exchange rates used in the forecast of consolidated results are one U.S. dollar to 107 yen, one euro to 122 yen and one Chinese yuan to 15 yen.

Condensed Consolidated Statement of Financial Position

(Millions of yen)

	September 30, 2020	December 31, 2019	Change
Assets			
Current assets			
Cash and cash equivalents	295,059	289,681	5,378
Trade and other receivables	172,613	208,839	(36,226)
Inventories	212,505	199,672	12,833
Other financial assets	7,318	13,788	(6,470)
Income tax receivables	7,632	2,440	5,192
Other current assets	17,353	22,606	(5,253)
Total current assets	712,480	737,026	(24,546)
Non-current assets			
Property, plant and equipment	430,000	436,831	(6,831)
Right-of-use assets	148,292	164,822	(16,530)
Goodwill	177,908	179,707	(1,799)
Intangible assets	47,855	47,770	85
Investments accounted for using the equity method	8,210	8,287	(77)
Other financial assets	24,842	26,104	(1,262)
Deferred tax assets	49,455	47,876	1,579
Other non-current assets	5,636	5,496	140
Total non-current assets	892,198	916,893	(24,695)
Total assets	1,604,678	1,653,919	(49,241)

(Millions of yen)

	September 30, 2020	December 31, 2019	Change
Liabilities and equity			
Liabilities			
Current liabilities			
Trade and other payables	208,235	222,314	(14,079)
Bonds and borrowings	30,468	25,505	4,963
Lease liabilities	19,220	19,653	(433)
Other financial liabilities	2,482	6,766	(4,284)
Income tax payables	22,692	36,208	(13,516)
Provisions	1,024	2,054	(1,030)
Contract liabilities	23,404	20,616	2,788
Other current liabilities	90,260	99,411	(9,151)
Total current liabilities	397,785	432,527	(34,742)
Non-current liabilities			
Bonds and borrowings	97,040	101,636	(4,596)
Lease liabilities	126,018	141,438	(15,420)
Other financial liabilities	7,723	7,527	196
Retirement benefit liabilities	75,718	80,579	(4,861)
Provisions	10,050	10,122	(72)
Deferred tax liabilities	3,470	3,747	(277)
Other non-current liabilities	4,773	4,922	(149)
Total non-current liabilities	324,792	349,971	(25,179)
Total liabilities	722,577	782,498	(59,921)
Equity			
Share capital	85,424	85,424	-
Capital surplus	108,814	108,715	99
Treasury shares	(3,926)	(4,309)	383
Other components of equity	(44,730)	(32,974)	(11,756)
Retained earnings	722,207	700,839	21,368
Equity attributable to owners of the parent	867,789	857,695	10,094
Non-controlling interests	14,312	13,726	586
Total equity	882,101	871,421	10,680
Total liabilities and equity	1,604,678	1,653,919	(49,241)

Condensed Consolidated Statement of Income

(Millions of yen)

	Notes	Nine months ended September 30, 2020	Nine months ended September 30, 2019	Change
Net sales	1	1,005,260	1,109,330	(104,070)
Cost of sales		(578,743)	(629,775)	51,032
Gross profit		426,517	479,555	(53,038)
Selling, general and administrative expenses	2	(307,672)	(329,841)	22,169
Other operating income		11,870	11,373	497
Other operating expenses		(10,653)	(10,115)	(538)
Operating income	1	120,062	150,972	(30,910)
Financial income		1,317	1,424	(107)
Financial expenses		(4,330)	(4,773)	443
Share of profit in investments accounted for using the equity method		2,099	1,814	285
Income before income taxes		119,148	149,437	(30,289)
Income taxes		(31,796)	(44,366)	12,570
Net income		87,352	105,071	(17,719)
Attributable to:				
Owners of the parent		85,941	103,579	(17,638)
Non-controlling interests		1,411	1,492	(81)
Net income		87,352	105,071	(17,719)
Earnings per share				
Basic (Yen)		178.70	213.99	
Diluted (Yen)		178.67	213.94	

Condensed Consolidated Statement of Comprehensive Income

(Millions of yen)

	Nine months ended September 30, 2020	Nine months ended September 30, 2019	Change
Net income	87,352	105,071	(17,719)
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	(190)	(120)	(70)
Remeasurements of defined benefit plans	-	(2)	2
Share of other comprehensive income of investments accounted for using the equity method	(138)	(148)	10
Total of items that will not be reclassified to profit or loss	(328)	(270)	(58)
Items that may be reclassified subsequently to profit or loss:			
Exchange differences on translation of foreign operations	(11,246)	(11,432)	186
Share of other comprehensive income of investments accounted for using the equity method	(83)	(67)	(16)
Total of items that may be reclassified subsequently to profit or loss	(11,329)	(11,499)	170
Other comprehensive income, net of taxes	(11,657)	(11,769)	112
Comprehensive income	75,695	93,302	(17,607)
Attributable to:			
Owners of the parent	74,839	92,122	(17,283)
Non-controlling interests	856	1,180	(324)
Comprehensive income	75,695	93,302	(17,607)

Condensed Consolidated Statement of Changes in Equity

(Millions of yen)

	Equity attributable to owners of the parent										Non-controlling interests	Total equity	
	Other components of equity												
	Share capital	Capital surplus	Treasury shares	Subscription rights to shares	Exchange differences on translation of foreign operations	Net gain (loss) on derivatives designated as cash flow hedges	Net gain (loss) on revaluation of financial assets measured at fair value through other comprehensive income	Remeasurements of defined benefit plans	Total	Retained earnings			Total
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	-	-	-	-	-	-	-	-	-	85,941	85,941	1,411	87,352
Other comprehensive income	-	-	-	-	(10,774)	0	(328)	-	(11,102)	-	(11,102)	(555)	(11,657)
Comprehensive income	-	-	-	-	(10,774)	0	(328)	-	(11,102)	85,941	74,839	856	75,695
Disposal of treasury shares	-	(98)	402	(137)	-	-	-	-	(137)	(165)	2	-	2
Purchase of treasury shares	-	-	(19)	-	-	-	-	-	-	-	(19)	-	(19)
Share-based payment transactions	-	245	-	-	-	-	-	-	-	-	245	-	245
Dividends	-	-	-	-	-	-	-	-	-	(64,925)	(64,925)	(1,269)	(66,194)
Changes in the ownership interest in subsidiaries	-	(48)	-	-	-	-	-	-	-	-	(48)	999	951
Transfer from other components of equity to retained earnings	-	-	-	(3)	-	-	(514)	-	(517)	517	-	-	-
Total transactions with the owners	-	99	383	(140)	-	-	(514)	-	(654)	(64,573)	(64,745)	(270)	(65,015)
September 30, 2020	85,424	108,814	(3,926)	308	(50,404)	0	5,366	-	(44,730)	722,207	867,789	14,312	882,101
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	-	-	-	-	-	-	-	-	-	103,579	103,579	1,492	105,071
Other comprehensive income	-	-	-	-	(11,186)	(2)	(267)	(2)	(11,457)	-	(11,457)	(312)	(11,769)
Comprehensive income	-	-	-	-	(11,186)	(2)	(267)	(2)	(11,457)	103,579	92,122	1,180	93,302
Disposal of treasury shares	-	(108)	56,982	(85)	-	-	-	-	(85)	(56,788)	1	-	1
Purchase of treasury shares	-	-	(50,027)	-	-	-	-	-	-	-	(50,027)	-	(50,027)
Share-based payment transactions	-	253	-	-	-	-	-	-	-	-	253	-	253
Dividends	-	-	-	-	-	-	-	-	-	(60,459)	(60,459)	(1,229)	(61,688)
Transfer from other components of equity to retained earnings	-	-	-	-	-	-	(57)	2	(55)	55	-	-	-
Total transactions with the owners	-	145	6,955	(85)	-	-	(57)	2	(140)	(117,192)	(110,232)	(1,229)	(111,461)
September 30, 2019	85,424	108,390	(4,327)	461	(48,218)	(3)	6,134	-	(41,626)	657,129	804,990	13,100	818,090

Note:

1. It represents the financial effect from the adoption of IFRS 16 "Leases."

Condensed Consolidated Statement of Cash Flows

(Millions of yen)

	Nine months ended September 30, 2020	Nine months ended September 30, 2019
Cash flows from operating activities		
Income before income taxes	119,148	149,437
Depreciation and amortization	64,144	64,625
Interest and dividend income	(1,208)	(1,321)
Interest expense	1,985	2,227
Share of profit in investments accounted for using the equity method	(2,099)	(1,814)
(Gains) losses on sale and disposal of property, plant and equipment, and intangible assets	2,225	2,463
(Increase) decrease in trade and other receivables	32,436	24,609
(Increase) decrease in inventories	(15,096)	(9,666)
Increase (decrease) in trade and other payables	(7,784)	(849)
Increase (decrease) in retirement benefit liabilities	(4,644)	(4,711)
Other	(2,152)	(11,676)
Subtotal	186,955	213,324
Interest received	1,202	1,223
Dividends received	2,032	2,068
Interest paid	(2,066)	(2,114)
Income taxes paid	(52,016)	(53,255)
Net cash flows from operating activities	136,107	161,246
Cash flows from investing activities		
Payments into time deposits	(9,001)	(15,713)
Proceeds from withdrawal of time deposits	14,414	21,036
Purchase of property, plant and equipment	(47,632)	(59,949)
Purchase of intangible assets	(7,402)	(5,638)
Other	597	(1,400)
Net cash flows from investing activities	(49,024)	(61,664)
Cash flows from financing activities		
Increase (decrease) in short-term borrowings	(41)	(16)
Proceeds from long-term borrowings	1,080	43,140
Repayments of long-term borrowings	(37)	(40,044)
Proceeds from issuance of bonds	24,939	-
Redemption of bonds	(24,942)	(12)
Repayments of lease liabilities	(15,598)	(15,149)
Purchase of treasury shares	(21)	(50,027)
Dividends paid to owners of the parent	(64,415)	(59,963)
Dividends paid to non-controlling interests	(1,220)	(1,225)
Other	1,148	63
Net cash flows from financing activities	(79,107)	(123,233)
Net increase (decrease) in cash and cash equivalents	7,976	(23,651)
Cash and cash equivalents at the beginning of the period	289,681	265,978
Effect of exchange rate changes on cash and cash equivalents	(2,598)	(3,152)
Cash and cash equivalents at the end of the period	295,059	239,175

Notes to Condensed Consolidated Financial Statements

Changes in Accounting Policies

Early adoption of Amendment to IFRS 16 "Leases," "Covid-19-Related Rent Concessions"

In the nine months ended September 30, 2020, the Kao Group early adopted Amendment to IFRS 16 "Leases," "Covid-19-Related Rent Concessions" (issued in May 2020).

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

Variable lease payments are included in selling, general and administrative expenses in the condensed consolidated statement of income for the nine months ended September 30, 2020, but their impact is immaterial.

1. Segment Information

(1) Summary of reportable segments

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, Road 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

Nine months ended September 30, 2020	Reportable Segments							(Millions of yen)	
	Consumer Products Business					Chemical Business	Total	Reconciliations ¹	Consolidated
	Cosmetics Business	Skin Care and Hair Care Business ³	Human Health Care Business	Fabric and Home Care Business	Subtotal				
Net sales									
Sales to customers	160,615	233,043	170,620	270,504	834,782	170,478	1,005,260	-	1,005,260
Intersegment sales and transfers ²	-	-	-	-	-	28,857	28,857	(28,857)	-
Total net sales	160,615	233,043	170,620	270,504	834,782	199,335	1,034,117	(28,857)	1,005,260
Operating income (loss)	(7,160)	41,204	8,659	56,596	99,299	20,654	119,953	109	120,062
% of net sales	(4.5)	17.7	5.1	20.9	11.9	10.4	-	-	11.9
Financial income									1,317
Financial expenses									(4,330)
Share of profit in investments accounted for using the equity method									2,099
Income before income taxes									119,148

Notes:

1. The operating income (loss) reconciliation of 109 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. The Company has changed its method of recognizing sales for some transactions from the gross amount to the net amount.

Nine months ended September 30, 2019	Reportable Segments							(Millions of yen)	
	Consumer Products Business					Chemical Business	Total	Reconciliations ¹	Consolidated
	Cosmetics Business	Skin Care and Hair Care Business	Human Health Care Business	Fabric and Home Care Business	Subtotal				
Net sales									
Sales to customers	214,268	257,814	187,299	264,059	923,440	185,890	1,109,330	-	1,109,330
Intersegment sales and transfers ²	-	-	-	-	-	30,750	30,750	(30,750)	-
Total net sales	214,268	257,814	187,299	264,059	923,440	216,640	1,140,080	(30,750)	1,109,330
Operating income (loss)	25,162	38,167	11,942	51,436	126,707	23,425	150,132	840	150,972
% of net sales	11.7	14.8	6.4	19.5	13.7	10.8	-	-	13.6
Financial income									1,424
Financial expenses									(4,773)
Share of profit in investments accounted for using the equity method									1,814
Income before income taxes									149,437

Notes:

1. The operating income (loss) reconciliation of 840 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)	
	Nine months ended September 30, 2020	Nine months ended September 30, 2019
Advertising	51,643	56,442
Sales promotion	32,575	40,263
Employee benefits	111,511	111,581
Depreciation	13,798	16,089
Amortization	6,534	5,915
Research and development	43,474	44,369
Other	48,137	55,182
Total	307,672	329,841

Note regarding Assumption of Going Concern

None applicable.