

Consolidated Financial Results for the Fiscal Year Ended December 31, 2020 [IFRS]

February 3, 2021
 Company name: Kao Corporation Tokyo Stock Exchange in Japan
 Stock code: 4452 (URL: www.kao.com/global/en/investor-relations/library/results/)
 Representative: Yoshihiro Hasebe, President and CEO
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 Scheduled date of the Annual General Meeting of Shareholders: March 26, 2021
 Scheduled starting date of the dividend payments: March 29, 2021
 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, 2020 (from January 1, 2020 to December 31, 2020)

(1) Consolidated operating results

	(Percentages indicate year-on-year changes)			
	Fiscal year ended December 31, 2020	%	Fiscal year ended December 31, 2019	%
Net sales	1,381,997	(8.0)	1,502,241	(0.4)
Operating income	175,563	(17.1)	211,723	1.9
Income before income taxes	173,971	(17.4)	210,645	1.6
Net income	128,067	(14.8)	150,349	(3.2)
Net income attributable to owners of the parent	126,142	(14.9)	148,213	(3.6)
Comprehensive income	134,516	(8.3)	146,621	19.0
	Fiscal year ended December 31, 2020		Fiscal year ended December 31, 2019	
Basic earnings per share (Yen)	262.29		306.70	
Diluted earnings per share (Yen)	262.25		306.63	
Ratio of net income to equity attributable to owners of the parent	14.2%		17.6%	
Ratio of income before income taxes to total assets	10.5%		13.5%	
Ratio of operating income to net sales	12.7%		14.1%	
(Reference) Share of profit in investments accounted for using the equity method	2,536		2,126	

(2) Consolidated financial position

	December 31, 2020	December 31, 2019
Total assets	1,665,616	1,653,919
Total equity	938,194	871,421
Equity attributable to owners of the parent	923,687	857,695
Ratio of equity attributable to owners of the parent to total assets	55.5%	51.9%
Equity attributable to owners of the parent per share (Yen)	1,920.56	1,783.46

(3) Consolidated cash flows

	Fiscal year ended December 31, 2020	Fiscal year ended December 31, 2019
Net cash flows from operating activities	214,718	244,523
Net cash flows from investing activities	(61,941)	(94,266)
Net cash flows from financing activities	(87,065)	(126,166)
Cash and cash equivalents at the end of the year	353,176	289,681

2. Dividends

	Fiscal year ending December 31, 2021 (Forecast)	Fiscal year ended December 31, 2020	Fiscal year ended December 31, 2019
Annual cash dividends per share (Yen)			
1st quarter end	-	-	-
2nd quarter end	72.00	70.00	65.00
3rd quarter end	-	-	-
Fiscal year end	72.00	70.00	65.00
Total	144.00	140.00	130.00
Total dividend payment amount		67,443	62,621
Payout ratio (consolidated)	53.9%	53.4%	42.4%
Ratio of dividends to equity attributable to owners of the parent (consolidated)		7.6%	7.5%

3. Forecast of consolidated operating results for the fiscal 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)

	Fiscal 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)	266.98	-

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): Yes
For details, please refer to page 26, "Changes in Accounting Policies" in "Notes to Consolidated Financial Statements."
 - 3) Changes in accounting estimates: None

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

	<u>December 31, 2020</u>	<u>December 31, 2019</u>
Number of issued shares including treasury shares	482,000,000	482,000,000
Number of treasury shares	1,054,019	1,083,466
	<u>Fiscal year ended December 31, 2020</u>	<u>Fiscal year ended December 31, 2019</u>
Weighted average number of shares outstanding during the year	480,929,483	483,251,577

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

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.

Operating Results for the Fiscal Year Ended December 31, 2020

1) Trends in Overall Results for the Fiscal Year Ended December 31, 2020

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

	2020	2019	Growth
			(8.0%)
Net sales	1,382.0	1,502.2	Like-for-like: (5.2%)
Operating income	175.6	211.7	(17.1%)
Operating margin (%)	12.7	14.1	-
Income before income taxes	174.0	210.6	(17.4%)
Net income	128.1	150.3	(14.8%)
Net income attributable to owners of the parent	126.1	148.2	(14.9%)
Basic earnings per share (Yen)	262.29	306.70	(14.5%)

In fiscal 2020, the novel coronavirus (COVID-19) pandemic had a major impact on people's lives and corporate activities worldwide. The Kao Group has been rallying its comprehensive strength in striving to provide products, services and information to contribute to the daily lives and safety of people around the world. Due to heightened awareness of hygiene, demand rose for hand soaps, hand sanitizers and home care products in general, resulting in growth in sales and profits compared with the previous fiscal year, mainly in Japan. On the other hand, sales and profits in the Cosmetics Business decreased substantially in Japan as inbound demand disappeared and the market contracted significantly, due in part to the impact of people voluntarily refraining from going outside. Outside Japan, the Kao Group was affected by mandated temporary store closures and restrictions on going outside all over the world except China, and also incurred extra expenses to respond to the pandemic, resulting in an overall decrease in consolidated financial results compared with the previous fiscal year.

In the Kao Group's key markets, 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 and people's voluntary restraint in going outside. On the other hand, the household and personal care products market grew because of a substantial increase in demand for hygiene-related products, among other factors. 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 5 points compared with the previous fiscal year.

Amid these circumstances, net sales decreased 8.0% compared with the previous fiscal year to 1,382.0

billion yen. On a like-for-like basis, net sales decreased 5.2%. Operating income was 175.6 billion yen, a decrease of 36.2 billion yen compared with the previous fiscal year, the operating margin was 12.7% and income before income taxes was 174.0 billion yen, a decrease of 36.7 billion yen. Net income was 128.1 billion yen, a decrease of 22.3 billion yen.

Basic earnings per share were 262.29 yen, a decrease of 44.41 yen, or 14.5%, from 306.70 yen in the previous fiscal year.

Economic value added (EVA*), which the Kao Group uses as a management indicator, decreased 25.1 billion yen compared with the previous fiscal year to 62.3 billion yen due to a decrease in net operating profit after tax (NOPAT).

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

In addition, 2020 was the final year of the Kao Group Mid-term Plan “K20”, under which the Kao Group set and aimed to achieve the following three goals. The Kao Group was able to achieve all of its targets other than “continue to set new record highs for profits” and “like-for-like net sales CAGR* of +5% and operating margin of 15%” under “commitment to profitable growth” (for details, see “FY2020 Summary of Earnings Conference”).

- Commitment to fostering a distinctive corporate image
- Commitment to profitable growth
- Commitment to returns to stakeholders

*CAGR: Compound annual growth rate

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.
U.S. dollar	108.95 (110.09)	107.54 (109.99)	106.17 (107.32)	104.47 (108.71)
Euro	120.18 (125.10)	118.41 (123.58)	124.05 (119.39)	124.55 (120.34)
Chinese yuan	15.61 (16.31)	15.18 (16.13)	15.34 (15.31)	15.77 (15.43)

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				Operating income			Operating margin (%)	
	2020	2019	Growth %	Like-for-like %	2020	2019	Change	2020	2019
Cosmetics Business	234.1	301.5	(22.4)	(22.1)	2.6	41.4	(38.8)	1.1	13.7
Skin Care and Hair Care Business	308.9	340.8	(9.3)	1.4	50.8	49.5	1.3	16.5	14.5
Human Health Care Business	234.0	255.2	(8.3)	(7.3)	12.9	17.2	(4.3)	5.5	6.7
Fabric and Home Care Business	374.4	359.5	4.1	4.5	80.9	71.8	9.1	21.6	20.0
Consumer Products Business	1,151.3	1,257.0	(8.4)	(5.3)	147.2	179.9	(32.7)	12.8	14.3
Chemical Business	269.2	285.9	(5.8)	(4.7)	27.7	30.8	(3.1)	10.3	10.8
Total	1,420.5	1,543.0	(7.9)	(5.2)	174.9	210.7	(35.8)	-	-
Elimination and Reconciliation	(38.5)	(40.7)	-	-	0.7	1.0	(0.3)	-	-
Consolidated	1,382.0	1,502.2	(8.0)	(5.2)	175.6	211.7	(36.2)	12.7	14.1

Consolidated Net Sales Composition

Fiscal year ended December 31		Japan	Asia	Americas	Europe	(Billions of yen) Consolidated
Cosmetics Business	2020	164.2	45.4	5.5	19.0	234.1
	2019	232.1	42.7	6.0	20.6	301.5
	Growth %	(29.3)	6.2	(8.4)	(7.9)	(22.4)
	Like-for-like %	(29.3)	7.6	(6.3)	(6.9)	(22.1)
Skin Care and Hair Care Business	2020	177.7	25.3	68.6	37.2	308.9
	2019	199.5	28.5	71.4	41.3	340.8
	Growth %	(10.9)	(11.1)	(3.9)	(9.9)	(9.3)
	Like-for-like %	7.4	(9.4)	(1.7)	(9.6)	1.4
Human Health Care Business	2020	144.9	88.9	0.1	0.0	234.0
	2019	160.3	94.8	0.1	0.0	255.2
	Growth %	(9.6)	(6.2)	5.1	596.1	(8.3)
	Like-for-like %	(9.6)	(3.5)	7.5	597.3	(7.3)
Fabric and Home Care Business	2020	324.2	40.6	9.3	0.1	374.4
	2019	307.7	40.3	11.2	0.3	359.5
	Growth %	5.4	0.7	(17.0)	(47.1)	4.1
	Like-for-like %	5.4	3.1	(14.9)	(46.1)	4.5
Consumer Products Business	2020	811.0	200.3	83.6	56.4	1,151.3
	2019	899.6	206.3	88.8	62.2	1,257.0
	Growth %	(9.9)	(2.9)	(5.9)	(9.3)	(8.4)
	Like-for-like %	(6.3)	(0.7)	(3.7)	(8.8)	(5.3)
Chemical Business	2020	111.1	56.5	42.8	58.9	269.2
	2019	123.4	57.3	46.1	59.1	285.9
	Growth %	(10.0)	(1.5)	(7.2)	(0.3)	(5.8)
	Like-for-like %	(10.0)	0.0	(2.2)	0.1	(4.7)
Elimination of intersegment	2020	(34.0)	(2.6)	(0.1)	(1.8)	(38.5)
	2019	(35.9)	(2.9)	(0.1)	(1.9)	(40.7)
Consolidated	2020	888.1	254.1	126.3	113.5	1,382.0
	2019	987.2	260.8	134.9	119.4	1,502.2
	Growth %	(10.0)	(2.6)	(6.3)	(4.9)	(8.0)
	Like-for-like %	(6.8)	(0.5)	(3.2)	(4.5)	(5.2)

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 38.2 % of net sales compared with 37.0% for the previous fiscal year.

Consumer Products Business

Sales decreased 8.4% compared with the previous fiscal year to 1,151.3 billion yen. On a like-for-like basis, sales decreased 5.3%.

During fiscal 2020, business activities worldwide were substantially impacted by the COVID-19 pandemic.

In Japan, sales increased as demand for hygiene-related products grew, but Cosmetics Business sales

decreased substantially. With additional factors including a change in the method of recognizing some transactions from the gross amount to the net amount, sales decreased 9.9% to 811.0 billion yen. On a like-for-like basis, sales decreased 6.3%.

In Asia, sales decreased 2.9% to 200.3 billion yen. On a like-for-like basis, sales decreased 0.7%. In the Americas, sales decreased 5.9% to 83.6 billion yen. On a like-for-like basis, sales decreased 3.7%. In Europe, sales decreased 9.3% to 56.4 billion yen. On a like-for-like basis, sales decreased 8.8%.

Operating income decreased 32.7 billion yen compared with the previous fiscal year to 147.2 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 22.4% compared with the previous fiscal year to 234.1 billion yen. On a like-for-like basis, sales decreased 22.1%.

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

In Japan, in addition to the decrease in inbound demand, there was an impact from people voluntarily refraining from going outside and voluntary temporary retail store closures. Furthermore, the number of newly infected people began to rise again even after the declaration of a state of emergency in April, delaying market recovery. In Europe, mandated temporary store closures had a negative impact. In Asia, on the other hand, the Kao Group enhanced its e-commerce and other initiatives in China, where sales were steady for *freepius*, which is hypoallergenic and contains Japanese and Chinese botanical extracts, and *Curél*, a derma care brand.

Operating income was 2.6 billion yen, a decrease of 38.8 billion yen from the previous fiscal year.

Skin Care and Hair Care Business

Sales decreased 9.3% compared with the previous fiscal year to 308.9 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 1.4%.

In skin care products, sales of *Bioré* u hand soap, hand sanitizer and other hygiene-related products increased due to the Kao Group's efforts to concentrate all its capabilities on meeting increased demand in Japan resulting from the pandemic.

Sales of hair care products decreased as sales of hair coloring products grew in Japan with increased opportunities for hair care at home as people voluntarily refrained from going outside, but sales of the business for hair salons in the Americas and Europe decreased due to mandated temporary salon closures by customers of the Kao Group, among other factors.

Operating income increased 1.3 billion yen compared with the previous fiscal year to 50.8 billion yen.

Human Health Care Business

Sales decreased 8.3% compared with the previous fiscal year to 234.0 billion yen. On a like-for-like basis, sales decreased 7.3%.

Sales of *Laurier* sanitary napkins in Japan remained basically unchanged from the previous fiscal year in a fluctuating market, with special demand but also fewer occasions for use because people voluntarily refrained from going outside. In Asia, sales grew substantially due to smooth progress of e-commerce initiatives in China.

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

Sales of personal health products decreased. Bath additives performed strongly due to demand from people spending more time at home, among other factors, but sales of oral care products declined due to intense competition.

Operating income decreased 4.3 billion yen compared with the previous fiscal year to 12.9 billion yen.

Fabric and Home Care Business

Sales increased 4.1% compared with the previous fiscal year to 374.4 billion yen. On a like-for-like basis, sales increased 4.5%.

In fabric care products in Japan, competition remained fierce in the markets for both laundry detergents and fabric softeners. Under these conditions, sales and market share of fabric care products held firm as the Kao Group launched new and improved laundry detergent products. Sales of home care products increased substantially as a result of enhanced promotion of antibacterial and anti-virus measures amid growing demand for hygiene-related products due to the pandemic. Sales of hygiene-related products also grew in Asia. In addition, sales of commercial-use products grew as 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 9.1 billion yen compared with the previous fiscal year to 80.9 billion yen.

Chemical Business

Sales decreased 5.8% compared with the previous fiscal year to 269.2 billion yen. On a like-for-like basis, sales decreased 4.7%.

Amid a decline in demand for oleo chemicals due to the economic slowdown, sales of fat and oil derivative products for disinfection and cleaning were firm. Sales of performance chemicals decreased due to the ongoing impact of a decline in demand in automobile-related and other fields. Specialty chemicals were impacted by a slump in the market for toner and toner binder.

Operating income decreased 3.1 billion yen compared with the previous fiscal year to 27.7 billion yen.

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Forecast for the Fiscal Year Ending December 31, 2021

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

	2021	2020	Growth
Net sales	1,430.0	1,382.0	3.5%
			Like-for-like: 4.0%
Operating income	177.0	175.6	0.8%
Operating margin (%)	12.4	12.7	-
Income before income taxes	177.0	174.0	1.7%
Net income attributable to owners of the parent	127.0	126.1	0.7%
Basic earnings per share (Yen)	266.98	262.29	1.8%

**In this table and hereafter, like-for-like growth rates exclude changes due to the effect of currency translation of local currencies into Japanese yen.*

1) Forecast of Overall Business Results for the Fiscal Year Ending December 31, 2021

The Kao Group has started the Kao Group Mid-term Plan 2025 “K25” covering the five years from 2021 to 2025. This is a new plan established to become the company the Kao Group wants to be by 2030 (“K30”) (for details, see “2. Management Policies”). All Kao Group employees will resolutely take on the challenge of achieving its targets as they maintain the “*Integrity*”¹ 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.

¹ Integrity is one of the values of the Kao Way, the corporate philosophy of the Kao Group.

Around the world, expectations for COVID-19 vaccines are widespread, but the threat of the spread of infection remains, economic recovery has been weak, and the management environment is expected to remain uncertain. At the same time, the Kao Group’s business environment and people’s values are changing significantly. There are expectations that from today’s world centered on mass production-driven consumption, a new framework for a sustainable society will take form. Now, in the transitional period, the Kao Group must create a new business model in response.

For this purpose, the Kao Group restructured its Consumer Products Business as of January 1, 2021 to conduct business with a focus on the fundamental value people seek. The Kao Group has established a Hygiene and Living Care Business that supports people’s daily lives and society and helps to make lifestyles more comfortable, and a Health and Beauty Care Business that offers care for the entire body that maximizes healthy beauty. The Kao Group also established a new Life Care Business to promote new businesses that protect human life by fully utilizing the fundamental technologies that have supported the Kao Group. In the Cosmetics Business, the Kao Group will use the changes in people and markets as an opportunity to shift to a new management structure in order to connect more deeply with customers and to create strong brands.

Moreover, amid drastic changes in the structure of retailing and the ongoing digitalization of daily life, the Kao Group will proactively promote digital transformation (DX). The Kao Group will use DX not only to create new businesses, but also to transform its core businesses by strengthening relationships with consumers and customers to create new user experiences. In this way, the Kao Group will also accelerate decision-making and global growth to enhance corporate value, including revitalizing Group businesses with issues.

Through its focus on building a business foundation to support “K25,” in fiscal 2021 the Kao Group forecasts a 3.5% year-on-year increase in net sales to 1,430.0 billion yen (a 4.0% increase on a like-for-like basis), a 0.8% increase in operating income to 177.0 billion yen, an operating margin of 12.4%, a 1.7% increase in income before income taxes to 177.0 billion yen, a 0.7% increase in net income attributable to owners of the parent to 127.0 billion yen, and a 1.8% increase in basic earnings per share to 266.98 yen.

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, 2021

The **Hygiene and Living Care Business** supports the social infrastructure as an indispensable category for the everyday lives of the members of any household. The business will help people around the world live comfortably as their lifestyles and values change, by providing cleaning and hygiene products that enable everyone to live with peace of mind. In particular, the Kao Group will proactively ramp up Monozukuri² from an ESG perspective, reduce environmental impact, enhance hygiene products and offer value-added products that lighten the load of household chores.

As a result of the above measures, the Kao Group forecasts that sales in this business will increase 1.6% year on year on a like-for-like basis to 509.0 billion yen.

² In Japanese Monozukuri means “development/manufacturing of products.”

The **Health and Beauty Care Business** intends to make offerings unique to Kao for the human body as a whole. In addition to offerings that address the health consciousness that is rising year after year due to the aging society, the rapidly growing field of infectious disease prevention, and good hygiene habits, our offerings for hygiene and healthy beauty will help to restore the links between people and society that have been broken by the spread of infectious disease. In Japan, the desire to improve healthy beauty is increasing as women’s advancement in society becomes established, and this business will work to further enhance brand value by offering high-performance products that meet high-level personal needs.

As a result of the above measures, the Kao Group forecasts that sales in this business will increase 3.6% year on year on a like-for-like basis to 372.0 billion yen.

The **Life Care Business** has accumulated numerous assets from existing businesses such as food for specified health uses and food with function claims in connection with people's rising health consciousness in the age of the 100-year lifespan. The business will begin operations with the main purpose of saving future lives worldwide by helping to resolve compelling social issues related to infection prevention and human lives by also utilizing essential cleaning and hygiene technologies. The Kao Group will build a foundation for the business by enhancing collaboration with parties outside the Group and by boldly utilizing cutting-edge technologies.

As a result of the above measures, the Kao Group forecasts that sales in this business will increase 11.1% year on year on a like-for-like basis to 58.0 billion yen.

The **Cosmetics Business** will continue to provide "hope" and "Kirei³" to customers through solid science and abundant sensitivity attuned to each person's beauty and individuality. To further accelerate the current growth strategy, the business will shift to a strategic business unit management system and integrate its specialized counseling companies into a single company. In addition, the Kao Group will ramp up e-commerce by promoting DX globally and conduct structural reforms in Japan while selectively reinforcing its growing business in China.

As a result of the above measures, the Kao Group forecasts that sales in this business will increase 6.7% year on year on a like-for-like basis to 249.0 billion yen.

³ The Japanese word "kirei" describes something that is clean, well-ordered and beautiful, all at the same time. For Kao, this concept of kirei not only describes appearance, but also attitude— to seek to create beauty for oneself, and also for other people and for the natural world around us. At Kao, Kirei is the value we want to bring to everyday life through our brands, products and services – now and in the future.

The **Chemical Business** 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 of the above measures, the Kao Group forecasts that sales in this business will increase 5.6% year on year on a like-for-like basis to 283.0 billion yen.

3) Underlying Assumptions of the Forecast for the Fiscal Year Ending December 31, 2021

The above forecast was made assuming translation rates of one U.S. dollar to 104 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.

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(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, 2020

Consolidated Financial Position

	(Billions of yen, except per share amounts)		
	December 31, 2020	December 31, 2019	Incr./ (Dcr.)
Total assets	1,665.6	1,653.9	11.7
Total liabilities	727.4	782.5	(55.1)
Total equity	938.2	871.4	66.8
Ratio of equity attributable to owners of the parent to total assets	55.5%	51.9%	-
Equity attributable to owners of the parent per share (Yen)	1,920.56	1,783.46	137.10
Bonds and borrowings	127.7	127.1	0.6

Consolidated Cash Flows

	(Billions of yen)		
	2020	2019	Incr./ (Dcr.)
Net cash flows from operating activities	214.7	244.5	(29.8)
Net cash flows from investing activities	(61.9)	(94.3)	32.3
Net cash flows from financing activities	(87.1)	(126.2)	39.1
Adjusted free cash flows*	131.2	128.5	2.6

*Adjusted free cash flow is the sum of net cash flows from operating activities and net cash flows from investing activities less depreciation of right-of-use assets and other expenses.

Total assets increased 11.7 billion yen from December 31, 2019 to 1,665.6 billion yen. The principal increase in assets was a 63.5 billion yen increase in cash and cash equivalents. The principal decreases in assets were a 15.3 billion decrease in right-of-use assets and an 8.8 billion yen decrease in trade and other receivables.

Total liabilities decreased 55.1 billion yen from December 31, 2019 to 727.4 billion yen. The principal decreases in liabilities were a 28.7 billion yen decrease in retirement benefit liabilities, a 14.6 billion yen increase in lease liabilities and an 8.1 billion yen decrease in income tax payables.

Total equity increased 66.8 billion yen from December 31, 2019 to 938.2 billion yen. The principal increases in equity were net income totaling 128.1 billion yen and remeasurements of defined benefit plans totaling 16.4 billion yen. The principal decreases in equity were dividends totaling 66.2 billion yen and exchange differences on translation of foreign operations totaling 9.9 billion yen.

The ratio of equity attributable to owners of the parent to total assets was 55.5% compared with 51.9% at December 31, 2019. The Kao Group maintained return on equity at the high level of 14.2%.

Net cash flows from operating activities totaled 214.7 billion yen. The principal increases in net cash were income before income taxes of 174.0 billion yen and depreciation and amortization of 86.1 billion yen. The principal decreases in net cash were income taxes paid of 53.9 billion yen and a decrease in retirement benefit liabilities of 28.8 billion yen.

Net cash flows from investing activities totaled negative 61.9 billion yen. This primarily consisted of purchase of property, plant and equipment of 59.4 billion yen for capacity expansion at production bases in Japan and proactive capital investments in Asia, where growth is notable, and purchase of intangible assets totaling 10.5 billion yen.

Net cash flows from financing activities totaled negative 87.1 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 2020, this primarily consisted of 66.2 billion yen for dividends paid to owners of the parent and non-controlling interests and 20.9 billion yen in repayments of lease liabilities. To maintain an appropriate cost of capital ratio and to reinforce its financial base for growth investments, the Company issues and redeems corporate bonds, which consisted of 24.9 billion yen in proceeds from issuance of bonds and 24.9 billion yen in redemption of bonds.

Adjusted free cash flow was 131.2 billion yen.

The balance of cash and cash equivalents at December 31, 2020 increased 63.5 billion yen compared with December 31, 2019 to 353.2 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, 2021

Net cash flows from operating activities are forecast to be approximately 220.0 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 190.0 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, to repurchase shares and to make other expenditures.

As a result of the above, the balance of cash and cash equivalents as of December 31, 2021 is forecast to be approximately 340.0 billion yen, a decrease of approximately 10.0 billion yen from a year earlier.

(3) Basic Policies regarding Distribution of Profits and Dividends for the Fiscal Years Ended December 31, 2020 and Ending December 31, 2021

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 2020 of 70.00 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 140 yen per share. The consolidated payout ratio will be 53.4%.

For fiscal 2021, the Company plans to pay total cash dividends of 144 yen per share (53.9% payout ratio), an increase of 4 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 32nd 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, 2021 under (2) Summary of Financial Position and in (3) Basic Policies regarding Distribution of Profits and Dividends for the Fiscal Years Ended December 31, 2020 and Ending December 31, 2021 reflect the impact of the decision on matters related to the purchase of the Company's stock set forth in "Notes to Consolidated Financial Statements, 4. Significant Subsequent Events." on page 30.

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 to respond to changing times during our more than 130 years of doing business, mainly in the domains of cleanliness, beauty and health. 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, while also endeavoring 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.

In 2009, we set forth our Environmental Statement to be a positive force for nature as well as for humankind, then went one step further with the aim of enriching lives in harmony with nature. In 2019, we announced our new ESG strategy, the "Kirei¹ Lifestyle Plan (KLP) ," and declared our commitment to shifting to ESG-driven management.

Now, however, crises are impinging on human lives, which are the cornerstone for realizing the "enrichment of the lives of people" set forth in our mission. These threats are expected to continue jeopardizing the foundations of everyday lives.

Under these circumstances, we will tackle this pressing social issue with an approach unique to Kao. With a strong determination to protect not only everyday lives and ecology, but also human lives, the Kao Group will become a company that saves future lives. Under our K25 basic principles toward 2030, "Kirei—Making Life Beautiful," we will help to maintain the planet as a sustainable and clean place to live, to achieve a sustainable and prosperous society, and to protect people from hazards so they can enjoy their everyday lives.

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

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

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

(1) Long-term Management Strategy

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

For the environment (E), we aim for zero waste and carbon zero. For society (S), we will promote one and only personalization that is closely attuned to people in the hope of ending wasteful consumption. Then, while ensuring effective governance (G), we will proceed as one team with “*Integrity*²”, joined by like-minded parties. Following a management guideline of “Maximum with minimum”—generating the maximum value with the minimum resources—we will continue our growth to help create a better tomorrow.

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

- Become an essential company in a sustainable world
- A highly profitable global company that also significantly contributes to society
- Returns to stakeholders according to levels of growth
 - Financial targets (as a result)
 - 2.5 trillion yen in net sales
 - 400 billion yen in operating income
 - 41 consecutive years of increases in cash dividends

(2) Mid-term Business Plan

The five years from 2021 to 2025 are an important period for the Kao Group to establish the foundation for becoming the company it wants to be by 2030. To that end, the Kao Group Mid-term Plan 2025 “K25” establishes a vision of “Sustainability as the only path” and sets forth three objectives.

To become an essential company in a sustainable world, we must actively promote KLP, the new ESG strategy we announced in 2019, and take leadership in a self-sufficient, sustainable society that curtails the generation of waste to the greatest extent possible. Moreover, we will ensure that our investments for KLP are reflected in future earnings.

By transforming to build robust business through investment, we will create “Another Kao.” For people facing compelling problems, we will fully utilize the technologies and expertise we have cultivated as well as our digital transformation (DX) to create new businesses that “save future lives.” At the same time, we will

² Integrity is one of the values of the Kao Way, the corporate philosophy of the Kao Group.

further reinforce our current business, which serves as the foundation of this new business, revitalizing it as “Reborn Kao.”

Furthermore, to achieve these two objectives, the vitality of our employees is indispensable. Therefore, for our third objective—to maximize the power and potential of employees—we will newly implement an Objectives and Key Results (OKR) employee empowerment system in January 2021 so that all employees can give their utmost to achieving the substantial goals they set for themselves. We will also proactively open positions to talent from outside the Kao Group and promote external collaboration.

Achieving these three objectives will enable us to achieve our targets for record-high sales and profits (1.8 trillion yen in net sales, 250 billion yen in operating income and the 36th consecutive fiscal year of increases in cash dividends in 2025), and to make high-level returns, according to the level of our growth, to our many stakeholders, including employees, consumers, customers, business partners and shareholders.

While continuing to practice the “*Integrity*” set forth in the Kao Way, the Kao Group will achieve these objectives together with like-minded stakeholders, and in so doing create a better tomorrow.

Kao Group Mid-term Plan 2025 “K25”

■ Vision

Sustainability as the only path

■ Concept

Kirei—Making Life Beautiful

■ Policy (Objectives)

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

Goal

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

Key Results

- Carbon recycling (Conversion of carbon dioxide into raw materials)
- Positive recycling (Creation of new business through re-use)
- Stop pandemic (Eradicate the source of infectious diseases)

Objective (2) Transform to build robust business through investment

Goal

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

Key Results

- New business: Launch digital and precision healthcare business (high-precision bioanalysis and homeostasis enhancement solution)
- Current business: Invest in outstanding products and expand business
- Cosmetics business and sanitary business: Pursue next innovation

Objective (3) Maximize the power and potential of employees

Goal

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

Key Results

- Fair compensation according to challenge and contribution (implementation of OKR globally)
- Active promotion of talent from outside Kao and doubling the results of collaboration
- Reform to become “digital Kao” to be completed by 2023

(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.

3) Issues for Management

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

Reducing shortages as much as possible and avoiding lost opportunities during consumer purchasing leads to stable business performance, but on the other hand, it is a cause of over-procurement and excess inventory. In addition, an excessive focus on meeting people's needs for consumption makes a company likely to opt for a wide-ranging lineup with short-term product revisions, discontinuances and other measures, causing some products to be discarded without ever being used. This outcome is a negative factor for environmental conservation.

To lead to a resolution of these issues, we must urgently build a consumption cycle model for achieving a sustainable society. Through *Yoki-Monozukuri*³ of products that can be regularly used as long as possible, we will establish a new business model that neither makes nor delivers useless items.

Furthermore, we believe that we have not yet established the value of our existence for a sustainable society globally. We must take on new challenges to realize the Kao Group's Mission "to strive for the wholehearted satisfaction and enrichment of the lives of people globally and to contribute to the sustainability of the world." We aim to lead the world in offering ESG-driven products and services as we continue to grow centered on these offerings, while also becoming a leading company that contributes to the businesses of numerous other companies.

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

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

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 enables management based on standardized procedures and information for each Group company and business, and the Kao Group intends to reinforce its management foundation in order to enhance its corporate value as a global company. The Kao Group also believes that the application of IFRS will facilitate the international comparability of its financial statements in capital markets.

³ 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."

Consolidated Statement of Financial Position

(Millions of yen)

	December 31, 2020	December 31, 2019	Change
Assets			
Current assets			
Cash and cash equivalents	353,176	289,681	63,495
Trade and other receivables	200,087	208,839	(8,752)
Inventories	197,641	199,672	(2,031)
Other financial assets	7,257	13,788	(6,531)
Income tax receivables	2,085	2,440	(355)
Other current assets	18,150	22,606	(4,456)
Total current assets	778,396	737,026	41,370
Non-current assets			
Property, plant and equipment	430,914	436,831	(5,917)
Right-of-use assets	149,543	164,822	(15,279)
Goodwill	177,031	179,707	(2,676)
Intangible assets	48,256	47,770	486
Investments accounted for using the equity method	8,657	8,287	370
Other financial assets	23,608	26,104	(2,496)
Deferred tax assets	42,274	47,876	(5,602)
Other non-current assets	6,937	5,496	1,441
Total non-current assets	887,220	916,893	(29,673)
Total assets	1,665,616	1,653,919	11,697

(Millions of yen)

	December 31, 2020	December 31, 2019	Change
Liabilities and equity			
Liabilities			
Current liabilities			
Trade and other payables	215,842	222,314	(6,472)
Bonds and borrowings	30,465	25,505	4,960
Lease liabilities	19,787	19,653	134
Other financial liabilities	6,571	6,766	(195)
Income tax payables	28,109	36,208	(8,099)
Provisions	1,811	2,054	(243)
Contract liabilities	23,098	20,616	2,482
Other current liabilities	99,721	99,411	310
Total current liabilities	425,404	432,527	(7,123)
Non-current liabilities			
Bonds and borrowings	97,229	101,636	(4,407)
Lease liabilities	126,725	141,438	(14,713)
Other financial liabilities	7,862	7,527	335
Retirement benefit liabilities	51,858	80,579	(28,721)
Provisions	9,175	10,122	(947)
Deferred tax liabilities	4,584	3,747	837
Other non-current liabilities	4,585	4,922	(337)
Total non-current liabilities	302,018	349,971	(47,953)
Total liabilities	727,422	782,498	(55,076)
Equity			
Share capital	85,424	85,424	-
Capital surplus	106,618	108,715	(2,097)
Treasury shares	(3,865)	(4,309)	444
Other components of equity	(43,376)	(32,974)	(10,402)
Retained earnings	778,886	700,839	78,047
Equity attributable to owners of the parent	923,687	857,695	65,992
Non-controlling interests	14,507	13,726	781
Total equity	938,194	871,421	66,773
Total liabilities and equity	1,665,616	1,653,919	11,697

Consolidated Statement of Income

(Millions of yen)

	Notes	Fiscal year ended December 31, 2020	Fiscal year ended December 31, 2019	Change
Net sales	1	1,381,997	1,502,241	(120,244)
Cost of sales		(791,304)	(848,723)	57,419
Gross profit		590,693	653,518	(62,825)
Selling, general and administrative expenses	2	(415,826)	(442,912)	27,086
Other operating income		15,801	15,192	609
Other operating expenses		(15,105)	(14,075)	(1,030)
Operating income	1	175,563	211,723	(36,160)
Financial income		1,711	2,027	(316)
Financial expenses		(5,839)	(5,231)	(608)
Share of profit in investments accounted for using the equity method		2,536	2,126	410
Income before income taxes		173,971	210,645	(36,674)
Income taxes		(45,904)	(60,296)	14,392
Net income		128,067	150,349	(22,282)
Attributable to:				
Owners of the parent		126,142	148,213	(22,071)
Non-controlling interests		1,925	2,136	(211)
Net income		128,067	150,349	(22,282)
Earnings per share				
Basic (Yen)	3	262.29	306.70	
Diluted (Yen)	3	262.25	306.63	

Consolidated Statement of Comprehensive Income

(Millions of yen)

	Fiscal year ended December 31, 2020	Fiscal year ended December 31, 2019	Change
Net income	128,067	150,349	(22,282)
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	168	(6)	174
Remeasurements of defined benefit plans	16,365	(1,180)	17,545
Share of other comprehensive income of investments accounted for using the equity method	25	(17)	42
Total of items that will not be reclassified to profit or loss	16,558	(1,203)	17,761
Items that may be reclassified subsequently to profit or loss:			
Exchange differences on translation of foreign operations	(9,942)	(2,489)	(7,453)
Share of other comprehensive income of investments accounted for using the equity method	(167)	(36)	(131)
Total of items that may be reclassified subsequently to profit or loss	(10,109)	(2,525)	(7,584)
Other comprehensive income, net of taxes	6,449	(3,728)	10,177
Comprehensive income	134,516	146,621	(12,105)
Attributable to:			
Owners of the parent	132,941	144,508	(11,567)
Non-controlling interests	1,575	2,113	(538)
Comprehensive income	134,516	146,621	(12,105)

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	-	-	-	-	-	-	-	-	-	126,142	126,142	1,925	128,067
Other comprehensive income	-	-	-	-	(9,738)	(0)	184	16,353	6,799	-	6,799	(350)	6,449
Comprehensive income	-	-	-	-	(9,738)	(0)	184	16,353	6,799	126,142	132,941	1,575	134,516
Disposal of treasury shares	-	(98)	471	(177)	-	-	-	-	(177)	(194)	2	-	2
Purchase of treasury shares	-	-	(27)	-	-	-	-	-	-	-	(27)	-	(27)
Share-based payment transactions	-	(394)	-	-	-	-	-	-	-	-	(394)	-	(394)
Dividends	-	-	-	-	-	-	-	-	-	(64,925)	(64,925)	(1,269)	(66,194)
Changes in the ownership interest in subsidiaries	-	(1,605)	-	-	-	-	-	-	-	-	(1,605)	475	(1,130)
Transfer from other components of equity to retained earnings	-	-	-	(3)	-	-	(668)	(16,353)	(17,024)	17,024	-	-	-
Total transactions with the owners	-	(2,097)	444	(180)	-	-	(668)	(16,353)	(17,201)	(48,095)	(66,949)	(794)	(67,743)
December 31, 2020	85,424	106,618	(3,865)	268	(49,368)	(0)	5,724	-	(43,376)	778,886	923,687	14,507	938,194
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. It represents the financial effect from the adoption of IFRS 16 "Leases."

Consolidated Statement of Cash Flows

(Millions of yen)

	Fiscal year ended December 31, 2020	Fiscal year ended December 31, 2019
Cash flows from operating activities		
Income before income taxes	173,971	210,645
Depreciation and amortization	86,080	83,369
Interest and dividend income	(1,571)	(1,885)
Interest expense	2,533	2,840
Share of profit in investments accounted for using the equity method	(2,536)	(2,126)
(Gains) losses on sale and disposal of property, plant and equipment, and intangible assets	3,301	3,323
(Increase) decrease in trade and other receivables	6,443	12,862
(Increase) decrease in inventories	646	(2,848)
Increase (decrease) in trade and other payables	(4,227)	696
Increase (decrease) in retirement benefit liabilities	(28,818)	(3,788)
Other	31,852	(2,936)
Subtotal	267,674	300,152
Interest received	1,516	1,711
Dividends received	2,060	2,146
Interest paid	(2,650)	(2,806)
Income taxes paid	(53,882)	(56,680)
Net cash flows from operating activities	214,718	244,523
Cash flows from investing activities		
Payments into time deposits	(14,053)	(35,188)
Proceeds from withdrawal of time deposits	19,661	36,660
Purchase of property, plant and equipment	(59,396)	(83,959)
Purchase of intangible assets	(10,454)	(9,819)
Other	2,301	(1,960)
Net cash flows from investing activities	(61,941)	(94,266)
Cash flows from financing activities		
Increase (decrease) in short-term borrowings	(41)	19
Proceeds from long-term borrowings	1,080	46,220
Repayments of long-term borrowings	(48)	(40,054)
Proceeds from issuance of bonds	24,939	-
Redemption of bonds	(24,942)	(12)
Repayments of lease liabilities	(20,912)	(20,565)
Purchase of treasury shares	(28)	(50,033)
Dividends paid to owners of the parent	(64,987)	(60,512)
Dividends paid to non-controlling interests	(1,235)	(1,287)
Other	(891)	58
Net cash flows from financing activities	(87,065)	(126,166)
Net increase (decrease) in cash and cash equivalents	65,712	24,091
Cash and cash equivalents at the beginning of the year	289,681	265,978
Effect of exchange rate changes on cash and cash equivalents	(2,217)	(388)
Cash and cash equivalents at the end of the year	353,176	289,681

Notes to Consolidated Financial Statements

Changes in Accounting Policies

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

In the fiscal year ended December 31, 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 consolidated statement of income for the fiscal year ended December 31, 2020, but their impact is immaterial.

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, 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

Fiscal year ended December 31, 2020	(Millions of yen)							
	Reportable Segments							Consolidated
	Consumer Products Business					Chemical Business	Total	
	Cosmetics Business	Skin Care and Hair Care Business ⁴	Human Health Care Business	Fabric and Home Care Business	Subtotal			Reconciliations ¹
Net sales								
Sales to customers	234,068	308,897	233,971	374,367	1,151,303	230,694	1,381,997	-
Intersegment sales and transfers ²	-	-	-	-	-	38,517	38,517	(38,517)
Total net sales	234,068	308,897	233,971	374,367	1,151,303	269,211	1,420,514	(38,517)
Operating income	2,584	50,823	12,850	80,908	147,165	27,692	174,857	706
% of net sales	1.1	16.5	5.5	21.6	12.8	10.3	-	-
Financial income								12.7
Financial expenses								1,711
Share of profit in investments accounted for using the equity method								(5,839)
Income before income taxes								2,536
								173,971
Depreciation and amortization	14,644	14,795	22,214	18,638	70,291	14,733	85,024	1,056
Capital expenditure ³	13,366	16,284	16,487	23,831	69,968	14,619	84,587	1,562

Notes:

1. The operating income reconciliation of 706 million yen includes corporate expenses not allocated to reportable segments, as well as elimination of intersegment inventory transactions.
2. Intersegment sales and transfers are mainly calculated based on market price and manufacturing cost.
3. Capital expenditures include investments in property, plant and equipment, right-of-use assets and intangible assets.
4. The Company has changed its method of recognizing sales for some transactions from the gross amount to the net amount.

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

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.

(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, 2020	Fiscal year ended December 31, 2019
Japan	853,628	947,096
Asia	284,114	293,388
Americas	128,721	137,819
Europe	115,534	123,938
Total	1,381,997	1,502,241

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, 2020	Fiscal year ended December 31, 2019
Japan	588,781	597,950
Asia	100,138	104,643
Americas	92,282	98,730
Europe	37,119	39,444
Total	818,320	840,767

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, 2020	Fiscal year ended December 31, 2019
Advertising	71,984	77,545
Sales promotion	45,543	56,943
Employee benefits	148,281	148,431
Depreciation	18,586	18,775
Amortization	8,632	7,950
Research and development	58,509	59,143
Other	64,291	74,125
Total	415,826	442,912

3. Earnings per Share

(1) The basis for calculating basic earnings per share

(Millions of yen)

	Fiscal year ended December 31, 2020	Fiscal year ended December 31, 2019
Net income attributable to owners of the parent	126,142	148,213
Amounts not attributable to ordinary shareholders of the parent	-	-
Net income used to calculate basic earnings per share	<u>126,142</u>	<u>148,213</u>
Weighted average number of ordinary shares	480,929	(Thousands of shares) 483,252
Basic earnings per share	262.29	(Yen) 306.70

(2) The basis for calculating diluted earnings per share

(Millions of yen)

	Fiscal year ended December 31, 2020	Fiscal year ended December 31, 2019
Net income used to calculate basic earnings per share	126,142	148,213
Adjustments to net income	-	-
Net income used to calculate diluted earnings per share	<u>126,142</u>	<u>148,213</u>
Weighted average number of ordinary shares	480,929	(Thousands of shares) 483,252
Increase in ordinary shares		
Subscription rights to shares	68	104
Weighted average number of ordinary shares after dilution	<u>480,998</u>	<u>483,356</u>
Diluted earnings per share	262.25	(Yen) 306.63
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

At a meeting held on February 3, 2021, the Board of Directors resolved to purchase up to a maximum of 7.0 million shares or 50.0 billion yen of the Company's common stock from February 4 to April 30, 2021, in accordance with Article 156 of the Corporation Law applicable pursuant to Article 165, paragraph 3 of the said Law.

Note regarding Assumption of Going Concern

None applicable.