

Consolidated Financial Results for the Nine Months Ended September 30, 2019 [IFRS]

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

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

1. Consolidated financial results for the nine months ended September 30, 2019 (from January 1, 2019 to September 30, 2019)

(1) Consolidated operating results

	(Percentages indicate year-on-year changes)			
	Nine months ended September 30, 2019	%	Nine months ended September 30, 2018	%
Net sales	1,109,330	1.0	1,097,809	1.6
Operating income	150,972	6.2	142,187	3.2
Income before income taxes	149,437	5.3	141,893	3.3
Net income	105,071	4.4	100,606	3.5
Net income attributable to owners of the parent	103,579	4.2	99,436	3.1
Comprehensive income	93,302	(4.1)	97,286	(5.2)
Basic earnings per share (Yen)	213.99		202.97	
Diluted earnings per share (Yen)	213.94		202.87	

(2) Consolidated financial position

	September 30, 2019	December 31, 2018
Total assets	1,567,272	1,460,986
Total equity	818,090	835,509
Equity attributable to owners of the parent	804,990	822,360
Ratio of equity attributable to owners of the parent to total assets	51.4%	56.3%
Equity attributable to owners of the parent per share (Yen)	1,673.87	1,689.82

2. Dividends

	Year ending December 31, 2019 (Forecast)	Year ending December 31, 2019	Year ended December 31, 2018
Annual cash dividends per share (Yen)			
1st quarter end		-	-
2nd quarter end		65.00	60.00
3rd quarter end		-	-
Fiscal year end	65.00		60.00
Total	130.00		120.00

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

3. Forecast of consolidated operating results for the year ending December 31, 2019
(from January 1, 2019 to December 31, 2019)

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

	Year ending December 31, 2019	%
Net sales	1,580,000	4.8
Operating income	225,000	8.3
Income before income taxes	225,000	8.6
Net income attributable to owners of the parent	162,000	5.4
Basic earnings per share (Yen)	335.23	-

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

4. Others

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

	September 30, 2019	December 31, 2018
Number of issued shares including treasury shares	482,000,000	488,700,000
Number of treasury shares	1,085,696	2,043,272
	Nine months ended September 30, 2019	Nine months ended September 30, 2018
Weighted average number of shares outstanding during this period	484,038,764	489,911,868

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, 2019 - 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, 2019

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

1. Description of Operating Results

(Billions of yen, except operating margin and per share amounts)			
Nine months ended September 30	2019	2018	Growth
Net sales	1,109.3	1,097.8	1.0% Like-for-like: 2.2%
Operating income	151.0	142.2	6.2%
Operating margin (%)	13.6	13.0	-
Income before income taxes	149.4	141.9	5.3%
Net income	105.1	100.6	4.4%
Net income attributable to owners of the parent	103.6	99.4	4.2%
Basic earnings per share (Yen)	213.99	202.97	5.4%

The markets for household and personal care products and cosmetics in Japan, which are key markets for the Kao Group, were steady on a value basis, according to retail sales and consumer purchasing survey data. In every product category, the share of the e-commerce channel increased further and average unit prices for household and personal care products increased by 2 points compared with the same period a year earlier.

Net sales increased 1.0% compared with the same period a year earlier to 1,109.3 billion yen. On a like-for-like basis, net sales increased 2.2%. Operating income was 151.0 billion yen, an increase of 8.8 billion yen compared with the same period a year earlier, and income before income taxes was 149.4 billion yen, an increase of 7.5 billion yen. Net income was 105.1 billion yen, an increase of 4.5 billion yen.

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

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

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

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 (%)	
	2019	2018	Growth %	Like-for-like %	2019	2018	Change	2019	2018
Cosmetics Business	214.3	193.8	10.6	11.8	25.2	11.7	13.4	11.7	6.0
Skin Care and Hair Care Business	257.8	257.6	0.1	1.2	38.2	37.4	0.8	14.8	14.5
Human Health Care Business	187.3	196.4	(4.7)	(3.4)	11.9	22.3	(10.3)	6.4	11.3
Fabric and Home Care Business	264.1	241.7	9.2	9.4	51.4	46.9	4.5	19.5	19.4
Consumer Products Business	923.4	889.5	3.8	4.7	126.7	118.3	8.4	13.7	13.3
Chemical Business	216.6	235.7	(8.1)	(6.2)	23.4	23.3	0.1	10.8	9.9
Total	1,140.1	1,125.2	1.3	2.4	150.1	141.6	8.5	-	-
Elimination and Reconciliation	(30.7)	(27.4)	-	-	0.8	0.6	0.3	-	-
Consolidated	1,109.3	1,097.8	1.0	2.2	151.0	142.2	8.8	13.6	13.0

Consolidated Net Sales Composition

Nine months ended September 30		Japan	Asia	Americas	Europe	(Billions of yen) Consolidated
Cosmetics Business	2019	166.0	31.2	4.1	12.9	214.3
	2018	151.4	25.4	4.3	12.8	193.8
	Growth %	9.7	22.8	(2.7)	0.8	10.6
	Like-for-like %	9.7	28.5	(1.9)	7.7	11.8
Skin Care and Hair Care Business	2019	152.1	21.9	53.3	30.5	257.8
	2018	148.4	22.1	54.1	33.0	257.6
	Growth %	2.5	(0.6)	(1.5)	(7.5)	0.1
	Like-for-like %	2.5	1.7	(0.4)	(2.3)	1.2
Human Health Care Business	2019	117.0	70.2	0.1	-	187.3
	2018	125.9	70.5	0.1	-	196.4
	Growth %	(7.0)	(0.5)	11.9	-	(4.7)
	Like-for-like %	(7.0)	2.9	20.0	-	(3.4)
Fabric and Home Care Business	2019	225.5	29.8	8.6	0.2	264.1
	2018	209.5	29.5	2.7	0.0	241.7
	Growth %	7.6	1.1	217.3	319.4	9.2
	Like-for-like %	7.6	1.7	225.0	347.2	9.4
Consumer Products Business	2019	660.6	153.1	66.1	43.6	923.4
	2018	635.1	147.4	61.2	45.8	889.5
	Growth %	4.0	3.8	8.1	(4.9)	3.8
	Like-for-like %	4.0	6.9	9.4	0.9	4.7
Chemical Business	2019	92.3	42.4	36.2	45.7	216.6
	2018	92.7	51.4	40.4	51.2	235.7
	Growth %	(0.5)	(17.4)	(10.3)	(10.7)	(8.1)
	Like-for-like %	(0.5)	(15.4)	(9.6)	(4.7)	(6.2)
Elimination of intersegment	2019	(27.1)	(2.1)	(0.0)	(1.5)	(30.7)
	2018	(23.8)	(2.3)	(0.1)	(1.2)	(27.4)
Consolidated	2019	725.8	193.4	102.3	87.8	1,109.3
	2018	704.0	196.5	101.5	95.9	1,097.8
	Growth %	3.1	(1.6)	0.8	(8.4)	1.0
	Like-for-like %	3.1	1.2	1.9	(2.5)	2.2

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 37.1% of net sales compared with 38.5% for the same period a year earlier.

Consumer Products Business

Sales increased 3.8% compared with the same period a year earlier to 923.4 billion yen. On a like-for-like basis, sales increased 4.7%.

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

Sales in the Cosmetics Business continued to grow. Recovery was underway in the Skin Care and Hair Care Business and the Human Health Care Business from the third quarter. In addition, sales grew steadily in the Fabric and Home Care Business, partly due to the impact of last-minute demand ahead of the increase in the consumption tax rate in Japan in October.

In Japan, sales increased 4.0% to 660.6 billion yen due to the Kao Group's response to the consumption tax rate increase, launches of new products and other factors.

In Asia, sales grew steadily, increasing 3.8% to 153.1 billion yen. On a like-for-like basis, sales increased 6.9%.

In the Americas, sales increased 8.1% to 66.1 billion yen. On a like-for-like basis, sales increased 9.4%. In Europe, sales decreased 4.9% to 43.6 billion yen. However, on a like-for-like basis, sales increased 0.9%.

Operating income increased 8.4 billion yen compared with the same period a year earlier to 126.7 billion yen.

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

Cosmetics Business

Sales increased 10.6% compared with the same period a year earlier to 214.3 billion yen. On a like-for-like basis, sales increased 11.8%.

The growth strategy for the Cosmetics Business proceeded smoothly. Sales remained strong in Asia and were on a growth track in Japan. Sales grew strongly for the 11 brands ("G11") the Kao Group selected for its global strategy and the eight brands ("R8") it is nurturing regionally, centered on Japan. In particular, G11 brands *Curél*, a derma care brand, and *freeplus*, which is hypoallergenic and contains Japanese and Chinese botanical extracts, performed well in Japan and China. The Kao Group also reinforced its activities in the growing e-commerce and travel retail channels and promoted a shift to digital marketing. Moreover, to strengthen its high prestige range the Kao Group conducted a September launch in Japan of the G11 super-prestige brand *SENSAI*, which has been rolled out in more than 40 countries, mainly in Europe.

Operating income was 25.2 billion yen, an increase of 13.4 billion yen from the same period a year earlier, due to the effect of increased sales of strongly performing brands, among other factors.

Skin Care and Hair Care Business

Sales increased 0.1% compared with the same period a year earlier to 257.8 billion yen. On a like-for-like basis, sales increased 1.2%.

Sales of skin care products increased. In Japan, the Kao Group launched *Bioré u The Body*, a new body cleanser from the *Bioré* brand, and increased sales and market share. Sales were firm in Asia, but in the Americas the Kao Group was unable to achieve sales growth due to the impact of stiff competition.

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

Operating income increased 0.8 billion yen compared with the same period a year earlier to 38.2 billion yen.

Human Health Care Business

Sales decreased 4.7% compared with the same period a year earlier to 187.3 billion yen. On a like-for-like basis, sales decreased 3.4%.

Sales of *Merries* baby diapers decreased. In the Japanese market, demand for the purpose of resale in the Chinese market fell substantially. On the other hand, sales in the Chinese market, including cross-border e-commerce, began to recover in the second quarter. In Indonesia, locally manufactured products targeting the middle-class consumer segment performed strongly, and sales grew in Russia and neighboring countries as the products gained broad acceptance among consumers.

For *Laurier* sanitary napkins, high-value-added products performed strongly and increased market share in Japan, while sales in China grew as a result of product rollouts to more cities, enhanced activities in the e-commerce channel and other factors.

Sales of personal health products were steady.

Operating income decreased 10.3 billion yen compared with the same period a year earlier to 11.9 billion yen due to the decrease in sales of *Merries*, fluctuations in exchange rates and other factors.

Fabric and Home Care Business

Sales increased 9.2% compared with the same period a year earlier to 264.1 billion yen. On a like-for-like basis, sales increased 9.4%. In Japan, the Kao Group increased sales significantly with the success of various measures it took in response to the consumption tax rate increase in October.

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

Sales of home care products were steady, despite the impact of competition.

Operating income increased 4.5 billion yen compared with the same period a year earlier to 51.4 billion yen due to the effect of increased sales and other factors.

Chemical Business

Sales decreased 8.1% compared with the same period a year earlier to 216.6 billion yen. On a like-for-like basis, sales decreased 6.2%.

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

Operating income increased 0.1 billion yen compared with the same period a year earlier to 23.4 billion yen due to promotion of high-value-added products, including among oleo chemical products outside Japan.

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

With signs of a global economic slowdown, the competitive environment is becoming increasingly severe, not just in Japan but elsewhere. Aiming to achieve the Kao Group Mid-term Plan “K20,” the Kao Group intends to meet its forecast of consolidated results for the year ending December 31, 2019 by further strengthening businesses that drive its growth, as well as by steadily restoring businesses with issues. There is no change from the forecast of consolidated results announced on July 31, 2019.

The main exchange rates used in the forecast of consolidated results are one U.S. dollar to 110 yen, one euro to 125 yen and one Chinese yuan to 16 yen.

Condensed Consolidated Statement of Financial Position

(Millions of yen)

	September 30, 2019	December 31, 2018	Change
Assets			
Current assets			
Cash and cash equivalents	239,175	265,978	(26,803)
Trade and other receivables	193,556	223,102	(29,546)
Inventories	204,103	197,571	6,532
Other financial assets	9,949	15,146	(5,197)
Income tax receivables	2,309	2,066	243
Other current assets	21,125	22,449	(1,324)
Total current assets	670,217	726,312	(56,095)
Non-current assets			
Property, plant and equipment	423,186	418,935	4,251
Right-of-use assets	163,326	-	163,326
Goodwill	178,607	180,286	(1,679)
Intangible assets	45,414	46,549	(1,135)
Investments accounted for using the equity method	7,811	7,931	(120)
Other financial assets	24,850	23,540	1,310
Deferred tax assets	49,528	49,158	370
Other non-current assets	4,333	8,275	(3,942)
Total non-current assets	897,055	734,674	162,381
Total assets	1,567,272	1,460,986	106,286

(Millions of yen)

	September 30, 2019	December 31, 2018	Change
Liabilities and equity			
Liabilities			
Current liabilities			
Trade and other payables	216,653	225,560	(8,907)
Bonds and borrowings	25,467	40,488	(15,021)
Lease liabilities	20,261	-	20,261
Other financial liabilities	3,665	6,880	(3,215)
Income tax payables	26,156	34,198	(8,042)
Provisions	797	2,873	(2,076)
Contract liabilities	21,865	18,387	3,478
Other current liabilities	90,831	102,452	(11,621)
Total current liabilities	405,695	430,838	(25,143)
Non-current liabilities			
Bonds and borrowings	98,443	80,339	18,104
Lease liabilities	139,264	-	139,264
Other financial liabilities	7,377	9,506	(2,129)
Retirement benefit liabilities	79,200	84,552	(5,352)
Provisions	11,761	12,175	(414)
Deferred tax liabilities	2,386	2,864	(478)
Other non-current liabilities	5,056	5,203	(147)
Total non-current liabilities	343,487	194,639	148,848
Total liabilities	749,182	625,477	123,705
Equity			
Share capital	85,424	85,424	-
Capital surplus	108,390	108,245	145
Treasury shares	(4,327)	(11,282)	6,955
Other components of equity	(41,626)	(30,029)	(11,597)
Retained earnings	657,129	670,002	(12,873)
Equity attributable to owners of the parent	804,990	822,360	(17,370)
Non-controlling interests	13,100	13,149	(49)
Total equity	818,090	835,509	(17,419)
Total liabilities and equity	1,567,272	1,460,986	106,286

Condensed Consolidated Statement of Income

(Millions of yen)

	Notes	Nine months ended September 30, 2019	Nine months ended September 30, 2018	Change
Net sales	1	1,109,330	1,097,809	11,521
Cost of sales		(629,775)	(627,289)	(2,486)
Gross profit		479,555	470,520	9,035
Selling, general and administrative expenses	2	(329,841)	(327,255)	(2,586)
Other operating income		11,373	9,856	1,517
Other operating expenses		(10,115)	(10,934)	819
Operating income	1	150,972	142,187	8,785
Financial income		1,424	1,182	242
Financial expenses		(4,773)	(3,199)	(1,574)
Share of profit in investments accounted for using the equity method		1,814	1,723	91
Income before income taxes		149,437	141,893	7,544
Income taxes		(44,366)	(41,287)	(3,079)
Net income		105,071	100,606	4,465
Attributable to:				
Owners of the parent		103,579	99,436	4,143
Non-controlling interests		1,492	1,170	322
Net income		105,071	100,606	4,465
Earnings per share				
Basic (Yen)		213.99	202.97	
Diluted (Yen)		213.94	202.87	

Condensed Consolidated Statement of Comprehensive Income

(Millions of yen)

	Nine months ended September 30, 2019	Nine months ended September 30, 2018	Change
Net income	105,071	100,606	4,465
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	(120)	627	(747)
Remeasurements of defined benefit plans	(2)	(12)	10
Share of other comprehensive income of investments accounted for using the equity method	(148)	(74)	(74)
Total of items that will not be reclassified to profit or loss	(270)	541	(811)
Items that may be reclassified subsequently to profit or loss:			
Exchange differences on translation of foreign operations	(11,432)	(3,867)	(7,565)
Share of other comprehensive income of investments accounted for using the equity method	(67)	6	(73)
Total of items that may be reclassified subsequently to profit or loss	(11,499)	(3,861)	(7,638)
Other comprehensive income, net of taxes	(11,769)	(3,320)	(8,449)
Comprehensive income	93,302	97,286	(3,984)
Attributable to:			
Owners of the parent	92,122	96,550	(4,428)
Non-controlling interests	1,180	736	444
Comprehensive income	93,302	97,286	(3,984)

Condensed Consolidated Statement of Changes in Equity

(Millions of yen)

	Equity attributable to owners of the parent												Non-controlling interests	Total equity
	Other components of equity								Retained earnings	Total				
	Share capital	Capital surplus	Treasury shares	Subscription rights to shares	Exchange differences on translation of foreign operations	Net gain (loss) on derivatives designated as cash flow hedges	Net gain (loss) on revaluation of financial assets measured at fair value through other comprehensive income	Remeasurements of defined benefit plans			Total			
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. The adoption of IFRS 16 "Leases"

January 1, 2018	85,424	107,980	(9,593)	731	(21,540)	4	8,490	-	(12,315)	634,885	806,381	12,983	819,364		
Net income	-	-	-	-	-	-	-	-	-	99,436	99,436	1,170	100,606		
Other comprehensive income	-	-	-	-	(3,423)	(4)	553	(12)	(2,886)	-	(2,886)	(434)	(3,320)		
Comprehensive income	-	-	-	-	(3,423)	(4)	553	(12)	(2,886)	99,436	96,550	736	97,286		
Disposal of treasury shares	-	(99)	48,216	(93)	-	-	-	-	(93)	(47,906)	118	-	118		
Purchase of treasury shares	-	-	(50,027)	-	-	-	-	-	-	-	(50,027)	-	(50,027)		
Share-based payment transactions	-	273	-	-	-	-	-	-	-	-	273	-	273		
Dividends	-	-	-	-	-	-	-	-	-	(56,793)	(56,793)	(746)	(57,539)		
Transfer from other components of equity to retained earnings	-	-	-	(18)	-	-	(43)	12	(49)	49	-	-	-		
Other increase (decrease)	-	-	-	-	-	-	-	-	-	-	-	(12)	(12)		
Total transactions with the owners	-	174	(1,811)	(111)	-	-	(43)	12	(142)	(104,650)	(106,429)	(758)	(107,187)		
September 30, 2018	85,424	108,154	(11,404)	620	(24,963)	0	9,000	-	(15,343)	629,671	796,502	12,961	809,463		

Condensed Consolidated Statement of Cash Flows

(Millions of yen)

	Nine months ended September 30, 2019	Nine months ended September 30, 2018
Cash flows from operating activities		
Income before income taxes	149,437	141,893
Depreciation and amortization	64,625	44,592
Interest and dividend income	(1,321)	(1,080)
Interest expense	2,227	895
Share of profit in investments accounted for using the equity method	(1,814)	(1,723)
(Gains) losses on sale and disposal of property, plant and equipment, and intangible assets	2,463	2,850
(Increase) decrease in trade and other receivables	24,609	12,696
(Increase) decrease in inventories	(9,666)	(17,866)
Increase (decrease) in trade and other payables	(849)	(8,067)
Increase (decrease) in retirement benefit liabilities	(4,711)	(1,715)
Other	(11,676)	(2,379)
Subtotal	213,324	170,096
Interest received	1,223	926
Dividends received	2,068	2,189
Interest paid	(2,114)	(813)
Income taxes paid	(53,255)	(50,614)
Net cash flows from operating activities	161,246	121,784
Cash flows from investing activities		
Payments into time deposits	(15,713)	(21,760)
Proceeds from withdrawal of time deposits	21,036	22,618
Purchase of property, plant and equipment	(59,949)	(65,145)
Purchase of intangible assets	(5,638)	(4,528)
Payments for business combinations	(195)	(73,819)
Other	(1,205)	468
Net cash flows from investing activities	(61,664)	(142,166)
Cash flows from financing activities		
Increase (decrease) in short-term borrowings	(16)	148
Proceeds from long-term borrowings	43,140	-
Repayments of long-term borrowings	(40,044)	(49)
Proceeds from issuance of bonds	-	25,060
Redemption of bonds	(12)	(24,939)
Repayments of lease liabilities	(15,149)	-
Purchase of treasury shares	(50,027)	(50,028)
Dividends paid to owners of the parent	(59,963)	(56,307)
Dividends paid to non-controlling interests	(1,225)	(745)
Other	63	(1,082)
Net cash flows from financing activities	(123,233)	(107,942)
Net increase (decrease) in cash and cash equivalents	(23,651)	(128,324)
Cash and cash equivalents at the beginning of the period	265,978	343,076
Effect of exchange rate changes on cash and cash equivalents	(3,152)	(3,461)
Cash and cash equivalents at the end of the period	239,175	211,291

Notes to Condensed Consolidated Financial Statements

Changes in Accounting Policies

Adoption of IFRS 16 "Leases"

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

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

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

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

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

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

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

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

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

1. Segment Information

(1) Summary of reportable segments

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
		Food and beverage products	Beverages
	Fabric and Home Care Business	Fabric care products	Laundry detergents, Fabric treatments
		Home care products	Kitchen cleaning products, House cleaning products, Paper cleaning products, Commercial-use products
Chemical Business		Oleo chemicals	Fatty alcohols, Fatty amines, Fatty acids, Glycerin, Commercial-use edible fats and oils
		Performance chemicals	Surfactants, Plastics additives, Superplasticizers for concrete admixtures
		Specialty chemicals	Toner and toner binder for copiers and printers, Ink and colorants for inkjet printers, Fragrances and aroma chemicals

(2) Sales and results of reportable segments

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	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 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.

Nine months ended September 30, 2018	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	193,807	257,555	196,442	241,737	889,541	208,268	1,097,809	-	1,097,809
Intersegment sales and transfers ²	-	-	-	-	-	27,400	27,400	(27,400)	-
Total net sales	193,807	257,555	196,442	241,737	889,541	235,668	1,125,209	(27,400)	1,097,809
Operating income	11,718	37,359	22,282	46,931	118,290	23,317	141,607	580	142,187
% of net sales	6.0	14.5	11.3	19.4	13.3	9.9	-	-	13.0
Financial income									1,182
Financial expenses									(3,199)
Share of profit in investments accounted for using the equity method									1,723
Income before income taxes									141,893

Notes:

1. The operating income reconciliation of 580 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, 2019	Nine months ended September 30, 2018
Advertising	56,442	58,376
Sales promotion	40,263	38,637
Employee benefits	111,581	111,644
Depreciation	16,089	6,845
Amortization	5,915	4,792
Research and development	44,369	43,076
Other	55,182	63,885
Total	<u>329,841</u>	<u>327,255</u>

As a transitional measure upon the adoption of IFRS 16, the Kao Group applies this Standard retrospectively with the cumulative effect of initially applying this Standard recognized at the date of initial application and thus has not restated the amounts for the comparative period. As a result, expenses of 9,207 million yen previously included in employee benefits and other are accounted for as depreciation.

Note regarding Assumption of Going Concern

None applicable.