

Consolidated Financial Results for the Six Months Ended June 30, 2021 [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: September 1, 2021
 Supplementary documents of the financial results: Yes
 Financial results information meeting: Yes (for institutional investors and analysts)

August 3, 2021

Tokyo Stock Exchange in Japan

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

1. Consolidated financial results for the six months ended June 30, 2021 (from January 1, 2021 to June 30, 2021)

(1) Consolidated operating results

	(Percentages indicate year-on-year changes)			
	Six months ended June 30, 2021	%	Six months ended June 30, 2020	%
Net sales	675,179	1.2	667,158	(7.5)
Operating income	70,551	(5.3)	74,484	(13.8)
Income before income taxes	74,133	0.5	73,730	(13.8)
Net income	53,455	3.7	51,543	(11.5)
Net income attributable to owners of the parent	52,538	3.8	50,600	(11.7)
Comprehensive income	79,988	94.2	41,191	(18.0)
Basic earnings per share (Yen)	110.12		105.21	
Diluted earnings per share (Yen)	110.12		105.20	

(2) Consolidated financial position

	June 30, 2021	December 31, 2020
Total assets	1,620,608	1,665,616
Total equity	932,673	938,194
Equity attributable to owners of the parent	915,770	923,687
Ratio of equity attributable to owners of the parent to total assets	56.5%	55.5%
Equity attributable to owners of the parent per share (Yen)	1,932.50	1,920.56

2. Dividends

	Year ending December 31, 2021 (Forecast)	Year ending December 31, 2021	Year ended December 31, 2020
Annual cash dividends per share (Yen)			
1st quarter end		-	-
2nd quarter end		72.00	70.00
3rd quarter end	-		-
Fiscal year end	72.00		70.00
Total	144.00		140.00

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

**3. Forecast of consolidated operating results for the year ending December 31, 2021
(from January 1, 2021 to December 31, 2021)**

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

	Year ending	
	December 31, 2021	%
Net sales	1,430,000	3.5
Operating income	177,000	0.8
Income before income taxes	177,000	1.7
Net income attributable to owners of the parent	127,000	0.7
Basic earnings per share (Yen)	267.11	-

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

4. Others

(1) Changes in significant subsidiaries during the period (changes in specified subsidiaries resulting in change in scope of consolidation): None

(2) Changes in accounting policies and changes in accounting estimates

1) Changes in accounting principles required by IFRS: None

2) Changes in accounting principles due to reasons other than 1): None

3) Changes in accounting estimates: None

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

	June 30, 2021	December 31, 2020
Number of issued shares including treasury shares	475,000,000	482,000,000
Number of treasury shares	1,121,651	1,054,019
	Six months ended June 30, 2021	Six months ended June 30, 2020
Weighted average number of shares outstanding during this period	477,079,090	480,918,350

Notice regarding execution of quarterly review procedures

This quarterly financial results report is exempt from quarterly review by certified public accountants or accounting firms.

Explanation regarding the appropriate use of forecast of operating results and other special items

Forward-looking statements such as earnings forecasts and other projections contained in this release are based on information available at the time of disclosure and assumptions that management believes to be reasonable, and do not constitute guarantees of future performance. Actual results may differ materially from expectations due to various factors.

Please refer to page 7, "Qualitative Information on Financial Results for the Six Months Ended June 30, 2021 - 2. Description of Information on Outlook, Including Forecasts of Consolidated Results" for the suppositions that form the assumptions for earnings forecasts and cautions concerning the use of earnings forecasts.

Qualitative Information on Financial Results for the Six Months Ended June 30, 2021

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

1. Description of Operating Results

(Billions of yen, except operating margin and per share amounts)			
Six months ended June 30	2021	2020	Growth
Net sales	675.2	667.2	1.2% Like-for-like: (0.6%)
Operating income	70.6	74.5	(5.3%)
Operating margin (%)	10.4	11.2	-
Income before income taxes	74.1	73.7	0.5%
Net income	53.5	51.5	3.7%
Net income attributable to owners of the parent	52.5	50.6	3.8%
Basic earnings per share (Yen)	110.12	105.21	4.7%

The novel coronavirus (COVID-19) pandemic continued to have a major impact on social and economic activities and the lives of people around the world. Even as more people were being vaccinated in countries around the world, the number of infections continue to fluctuate, and the business environment remained unclear.

During the period from January to June 2021, the household and personal care products market in Japan, which is the Kao Group's key market, shrank compared with the same period a year earlier, reflecting the absence of the increase in demand, mainly for hygiene-related products, that arose in the previous year due to the pandemic, but grew compared with the same period two years before. On the other hand, the cosmetics market shrank compared with the same period a year earlier and has not recovered due to the substantial impact of factors including the declaration of a state of emergency, which continued in various regions.

Amid these circumstances, net sales increased 1.2% compared with the same period a year earlier to 675.2 billion yen. On a like-for-like basis, net sales decreased 0.6%. Operating income was 70.6 billion yen, a decrease of 3.9 billion yen compared with the same period a year earlier, and income before income taxes was 74.1 billion yen, an increase of 0.4 billion yen. Net income was 53.5 billion yen, an increase of 1.9 billion yen.

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

	First quarter	Second quarter
	Jan. – Mar.	Apr. – Jun.
U.S. dollar	105.96 (108.95)	109.47 (107.54)
Euro	127.74 (120.18)	131.90 (118.41)
Chinese yuan	16.35 (15.61)	16.95 (15.18)

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

Summary of Segment Information

The following is an overview of changes in reportable segments implemented as of the three months ended March 31, 2021 (Reference: Page 14, “1. Segment Information” in “Notes to Condensed Consolidated Financial Statements”).

1. The Hygiene and Living Care Business has been newly established and incorporates sanitary products from the former Human Health Care Business in addition to fabric care products and home care products, which were previously classified in the Fabric and Home Care Business.
2. The Health and Beauty Care Business has been newly established and incorporates personal health products, which were previously classified in the Human Health Care Business, in addition to skin care products and hair care products, which were previously classified in the Skin Care and Hair Care Business.
3. The Life Care Business has been newly established and incorporates health drinks, which were previously classified in the Human Health Care Business, in addition to commercial-use hygiene products, which were previously classified in the Fabric and Home Care Business.
4. Due to the reorganization of segments described in 1 to 3 above, sales and operating income for the same period a year earlier have been restated.

Consolidated Results by Segment

Six months ended June 30	Net sales				Operating income			Operating margin (%)	
	2021	2020	Growth %	Like-for-like %	2021	2020	Change	(Billions of yen)	
								2021	2020
Hygiene and Living Care Business	234.8	242.1	(3.0)	(4.1)	26.0	36.1	(10.0)	11.1	14.9
Health and Beauty Care Business	174.0	176.0	(1.2)	(2.6)	26.3	28.3	(2.0)	15.1	16.1
Life Care Business	24.9	23.3	6.6	6.5	1.6	1.3	0.3	6.3	5.6
Cosmetics Business	110.6	109.6	0.9	(1.5)	(0.5)	(4.9)	4.4	(0.4)	(4.5)
Consumer Products Business	544.2	551.1	(1.2)	(2.7)	53.4	60.8	(7.3)	9.8	11.0
Chemical Business	150.4	135.4	11.1	8.0	16.8	14.4	2.4	11.1	10.6
Total	694.6	686.4	1.2	(0.6)	70.2	75.2	(5.0)	-	-
Elimination and Reconciliation	(19.4)	(19.3)	-	-	0.4	(0.7)	1.0	-	-
Consolidated	675.2	667.2	1.2	(0.6)	70.6	74.5	(3.9)	10.4	11.2

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Consolidated Net Sales Composition

Six months ended June 30		Japan	Asia	Americas	Europe	(Billions of yen) Consolidated
Fabric and Home Care Products	2021	132.7	19.7	1.4	-	153.8
	2020	131.1	20.3	1.2	-	152.6
	Growth %	1.3	(3.3)	13.3	-	0.7
	Like-for-like %	1.3	(6.0)	(2.8)	-	0.3
Sanitary Products	2021	38.7	42.2	0.1	-	81.0
	2020	44.0	45.4	0.0	-	89.4
	Growth %	(12.0)	(7.0)	15.1	-	(9.4)
	Like-for-like %	(12.0)	(11.0)	(0.9)	-	(11.5)
Hygiene and Living Care Business	2021	171.5	61.9	1.4	-	234.8
	2020	175.1	65.7	1.3	-	242.1
	Growth %	(2.1)	(5.9)	13.3	-	(3.0)
	Like-for-like %	(2.1)	(9.4)	(2.8)	-	(4.1)
Health and Beauty Care Business	2021	100.4	15.3	38.3	19.9	174.0
	2020	109.4	14.8	35.2	16.6	176.0
	Growth %	(8.2)	3.7	9.0	19.5	(1.2)
	Like-for-like %	(8.2)	(0.3)	8.1	9.2	(2.6)
Life Care Business	2021	20.2	0.0	4.6	0.1	24.9
	2020	19.9	0.0	3.4	0.1	23.3
	Growth %	1.8	7.0	34.9	(13.5)	6.6
	Like-for-like %	1.8	0.3	34.3	(21.3)	6.5
Cosmetics Business	2021	72.3	27.5	2.6	8.1	110.6
	2020	79.1	20.9	2.6	7.0	109.6
	Growth %	(8.5)	31.2	1.3	15.9	0.9
	Like-for-like %	(8.5)	22.0	1.6	6.2	(1.5)
Consumer Products Business	2021	364.4	104.7	47.0	28.1	544.2
	2020	383.4	101.5	42.4	23.7	551.1
	Growth %	(5.0)	3.2	10.7	18.3	(1.2)
	Like-for-like %	(5.0)	(1.6)	9.5	8.2	(2.7)
Chemical Business	2021	59.3	34.8	22.4	33.9	150.4
	2020	55.5	26.7	22.8	30.4	135.4
	Growth %	7.0	30.1	(1.8)	11.6	11.1
	Like-for-like %	7.0	25.4	(2.8)	2.6	8.0
Elimination of intersegment	2021	(16.7)	(1.6)	(0.0)	(1.0)	(19.4)
	2020	(17.0)	(1.4)	(0.0)	(0.9)	(19.3)
Consolidated	2021	407.0	137.9	69.3	60.9	675.2
	2020	421.9	126.9	65.2	53.2	667.2
	Growth %	(3.5)	8.7	6.3	14.5	1.2
	Like-for-like %	(3.5)	3.9	5.2	5.0	(0.6)

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 42.2% of net sales compared with 39.2% for the same period a year earlier.

Consumer Products Business

Sales decreased 1.2% compared with the same period a year earlier to 544.2 billion yen. On a like-for-like basis, sales decreased 2.7%.

In the first half of the fiscal year, the business environment remained severe due to a rise in raw material prices, in addition to the impact of the pandemic. Amid the impact of the absence of the special demand, mainly for hygiene-related products, that arose in the previous year, the Kao Group concentrated investment on core brands, promoted digital transformation to address new lifestyles and stepped up e-commerce, among other initiatives. Second-quarter results improved compared with the first quarter due to factors including a proactive rollout of marketing measures, continued strong performance in China, and the recovery of target markets in the Americas and Europe.

As a result of the above factors, sales in Japan decreased 5.0% to 364.4 billion yen.

In Asia, sales increased 3.2% to 104.7 billion yen. On a like-for-like basis, sales decreased 1.6%.

In the Americas, sales increased 10.7% to 47.0 billion yen. On a like-for-like basis, sales increased 9.5%. In Europe, sales increased 18.3% to 28.1 billion yen. On a like-for-like basis, sales increased 8.2%.

Operating income decreased 7.3 billion yen compared with the same period a year earlier to 53.4 billion yen.

Note: The Kao Group's Consumer Products Business consists of the Hygiene and Living Care Business, the Health and Beauty Care Business, the Life Care Business and the Cosmetics Business.

Hygiene and Living Care Business

Sales decreased 3.0% compared with the same period a year earlier to 234.8 billion yen due to the substantial impact of the absence of the increase in demand that arose in the previous year. On a like-for-like basis, sales decreased 4.1%.

In fabric care products, sales and market share increased in Japan due to heightened awareness of cleanliness amid the COVID-19 pandemic and the launch of improved laundry detergent products.

In home care products, while sales decreased in Japan as the overall market for hygiene-related products such as kitchen bleach and house cleaning agents shrank compared with the previous year, market share increased. Sales remained strong in Asia.

In sanitary products, sales of *Laurier* sanitary napkins grew strongly in China, but sales decreased in Japan due to factors including the absence of special demand. Sales of *Merries* baby diapers were steady in Indonesia but decreased in China.

Operating income decreased 10.0 billion yen compared with the same period a year earlier to 26.0 billion yen.

Health and Beauty Care Business

Sales decreased 1.2% compared with the same period a year earlier to 174.0 billion yen, reflecting the absence of the increase in demand, mainly for hygiene-related products, that arose in the previous year. On a like-for-like basis, sales decreased 2.6%.

Sales of skin care products decreased in Japan, with substantial shrinkage of the market for hand soap, hand sanitizer and other hygiene-related products. In the Americas, sales continued to be impacted by a decrease in demand in comparison with the high demand in the same period a year earlier.

In hair care products, sales of products for the mass market decreased due to delayed market recovery for hair coloring and other products in Japan. In the business for hair salons, sales were affected by lockdowns in Europe in the first quarter, but increased as a result of factors including subsequent market recovery and strong e-commerce sales of *Oribe*, a brand in the Americas for high-end hair salons.

Sales of personal health products decreased slightly compared with the same period a year earlier as a decline in inbound demand had a negative impact on sales, although bath additives sold strongly due to demand from people staying home.

Operating income decreased 2.0 billion yen compared with the same period a year earlier to 26.3 billion yen.

Life Care Business

Sales increased 6.6% compared with the same period a year earlier to 24.9 billion yen. On a like-for-like basis, sales increased 6.5%.

Sales of commercial-use hygiene products increased in Japan due to ongoing demand for hand sanitizers and other products grew at medical facilities, restaurants and other establishments with a particular need for hygiene management and infectious disease countermeasures as the pandemic continued. Sales increased substantially in the Americas due to an increase in customer share and a business upturn at customer industries.

In health drinks, sales of *Healthya* products, which are foods for specified health uses, decreased due to market shrinkage caused by a continuation of the state of emergency in Japan, among other factors.

Operating income increased 0.3 billion yen compared with the same period a year earlier to 1.6 billion yen due to the increase in sales.

Cosmetics Business

Sales increased 0.9% compared with the same period a year earlier to 110.6 billion yen. On a like-for-like basis, sales decreased 1.5%.

Sales in Japan decreased compared with the same period a year earlier due to a delay in market recovery caused by factors including the disappearance of inbound demand and the continuation of the state of emergency, with tough conditions for makeup brands in particular, but second-quarter sales increased compared with the same period a year earlier due to proactive marketing measures. In Asia, sales increased substantially with continuing strong e-commerce sales in China of *freepius*, which is hypoallergenic and contains Japanese and Chinese botanical extracts, and *Curél*, a derma care brand. In Europe, sales increased as a result of stepping up e-commerce, in addition to market recovery due to the easing of lockdowns.

Operating income was negative 0.5 billion yen, an increase of 4.4 billion yen from the same period a year earlier.

Chemical Business

Sales increased 11.1% compared with the same period a year earlier to 150.4 billion yen. On a like-for-like basis, sales increased 8.0%.

The Kao Group benefited from recovery in its customer industries, and sales of fat and oil derivative products remained strong.

Sales of oleo chemicals increased due to firm sales of fat and oil derivative products for disinfection, cleaning and other applications, as well as ongoing efforts to adjust selling prices in line with rising prices of natural fats and oils.

Sales of performance chemicals grew as the Kao Group steadily benefited from a recovery in demand in automobile-related and other fields.

In specialty chemicals, toner and toner binder were on a recovery track from last year's market slump, and sales of semiconductor-related products were firm.

Operating income increased 2.4 billion yen compared with the same period a year earlier to 16.8 billion yen.

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

Although the business environment is expected to remain uncertain due to factors including the COVID-19 pandemic and concerns about rising raw material prices, the Kao Group aims to achieve the figures announced in its forecast by steadily implementing the strategies of the Kao Group Mid-term Plan 2025 "K25" covering the five years starting this fiscal year. Therefore, there is no change from the forecast of consolidated results announced on May 7, 2021.

The main exchange rates used in the forecast of consolidated results are one U.S. dollar to 108 yen, one euro to 127 yen and one Chinese yuan to 16 yen.

Condensed Consolidated Statement of Financial Position

(Millions of yen)

	June 30, 2021	December 31, 2020	Change
Assets			
Current assets			
Cash and cash equivalents	296,127	353,176	(57,049)
Trade and other receivables	183,046	200,087	(17,041)
Inventories	220,523	197,641	22,882
Other financial assets	6,729	7,257	(528)
Income tax receivables	5,864	2,085	3,779
Other current assets	18,084	18,150	(66)
Total current assets	730,373	778,396	(48,023)
Non-current assets			
Property, plant and equipment	432,551	430,914	1,637
Right-of-use assets	142,350	149,543	(7,193)
Goodwill	181,295	177,031	4,264
Intangible assets	49,957	48,256	1,701
Investments accounted for using the equity method	8,450	8,657	(207)
Other financial assets	24,709	23,608	1,101
Deferred tax assets	43,599	42,274	1,325
Other non-current assets	7,324	6,937	387
Total non-current assets	890,235	887,220	3,015
Total assets	1,620,608	1,665,616	(45,008)

(Millions of yen)

	June 30, 2021	December 31, 2020	Change
Liabilities and equity			
Liabilities			
Current liabilities			
Trade and other payables	206,847	215,842	(8,995)
Bonds and borrowings	20,617	30,465	(9,848)
Lease liabilities	19,522	19,787	(265)
Other financial liabilities	2,022	6,571	(4,549)
Income tax payables	22,541	28,109	(5,568)
Provisions	1,500	1,811	(311)
Contract liabilities	29,020	23,098	5,922
Other current liabilities	84,979	99,721	(14,742)
Total current liabilities	387,048	425,404	(38,356)
Non-current liabilities			
Bonds and borrowings	106,455	97,229	9,226
Lease liabilities	119,678	126,725	(7,047)
Other financial liabilities	7,769	7,862	(93)
Retirement benefit liabilities	48,409	51,858	(3,449)
Provisions	9,290	9,175	115
Deferred tax liabilities	4,653	4,584	69
Other non-current liabilities	4,633	4,585	48
Total non-current liabilities	300,887	302,018	(1,131)
Total liabilities	687,935	727,422	(39,487)
Equity			
Share capital	85,424	85,424	-
Capital surplus	105,448	106,618	(1,170)
Treasury shares	(3,970)	(3,865)	(105)
Other components of equity	(17,953)	(43,376)	25,423
Retained earnings	746,821	778,886	(32,065)
Equity attributable to owners of the parent	915,770	923,687	(7,917)
Non-controlling interests	16,903	14,507	2,396
Total equity	932,673	938,194	(5,521)
Total liabilities and equity	1,620,608	1,665,616	(45,008)

Condensed Consolidated Statement of Income

(Millions of yen)

	Notes	Six months ended June 30, 2021	Six months ended June 30, 2020	Change
Net sales	1	675,179	667,158	8,021
Cost of sales		(397,754)	(384,211)	(13,543)
Gross profit		277,425	282,947	(5,522)
Selling, general and administrative expenses	2	(208,753)	(209,768)	1,015
Other operating income		8,892	8,298	594
Other operating expenses		(7,013)	(6,993)	(20)
Operating income	1	70,551	74,484	(3,933)
Financial income		3,537	1,027	2,510
Financial expenses		(1,297)	(2,989)	1,692
Share of profit in investments accounted for using the equity method		1,342	1,208	134
Income before income taxes		74,133	73,730	403
Income taxes		(20,678)	(22,187)	1,509
Net income		53,455	51,543	1,912
Attributable to:				
Owners of the parent		52,538	50,600	1,938
Non-controlling interests		917	943	(26)
Net income		53,455	51,543	1,912
Earnings per share				
Basic (Yen)		110.12	105.21	
Diluted (Yen)		110.12	105.20	

Condensed Consolidated Statement of Comprehensive Income

(Millions of yen)

	Six months ended June 30, 2021	Six months ended June 30, 2020	Change
Net income	53,455	51,543	1,912
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	512	(256)	768
Share of other comprehensive income of investments accounted for using the equity method	184	(178)	362
Total of items that will not be reclassified to profit or loss	696	(434)	1,130
Items that may be reclassified subsequently to profit or loss:			
Exchange differences on translation of foreign operations	25,589	(9,888)	35,477
Share of other comprehensive income of investments accounted for using the equity method	248	(30)	278
Total of items that may be reclassified subsequently to profit or loss	25,837	(9,918)	35,755
Other comprehensive income, net of taxes	26,533	(10,352)	36,885
Comprehensive income	79,988	41,191	38,797
Attributable to:			
Owners of the parent	78,380	40,537	37,843
Non-controlling interests	1,608	654	954
Comprehensive income	79,988	41,191	38,797

Condensed Consolidated Statement of Changes in Equity

(Millions of yen)

	Equity attributable to owners of the parent											Total equity	
				Other components of equity					Total	Retained earnings	Total		Non-controlling interests
	Share capital	Capital surplus	Treasury shares	Subscription rights to shares	Exchange differences on translation of foreign operations	Net gain (loss) on derivatives designated as cash flow hedges	Net gain (loss) on revaluation of financial assets measured at fair value through other comprehensive income						
January 1, 2021	85,424	106,618	(3,865)	268	(49,368)	(0)	5,724	(43,376)	778,886	923,687	14,507	938,194	
Net income	-	-	-	-	-	-	-	-	52,538	52,538	917	53,455	
Other comprehensive income	-	-	-	-	25,143	3	696	25,842	-	25,842	691	26,533	
Comprehensive income	-	-	-	-	25,143	3	696	25,842	52,538	78,380	1,608	79,988	
Disposal of treasury shares	-	(334)	51,682	(78)	-	-	-	(78)	(51,268)	2	-	2	
Purchase of treasury shares	-	-	(51,787)	-	-	-	-	-	-	(51,787)	-	(51,787)	
Share-based payment transactions	-	185	-	-	-	-	-	-	-	185	-	185	
Dividends	-	-	-	-	-	-	-	-	(33,676)	(33,676)	(796)	(34,472)	
Changes in the ownership interest in subsidiaries	-	(1,021)	-	-	-	-	-	-	-	(1,021)	1,584	563	
Transfer from other components of equity to retained earnings	-	-	-	(3)	-	-	(338)	(341)	341	-	-	-	
Total transactions with the owners	-	(1,170)	(105)	(81)	-	-	(338)	(419)	(84,603)	(86,297)	788	(85,509)	
June 30, 2021	85,424	105,448	(3,970)	187	(24,225)	3	6,082	(17,953)	746,821	915,770	16,903	932,673	
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	-	-	-	-	-	-	-	-	50,600	50,600	943	51,543	
Other comprehensive income	-	-	-	-	(9,628)	(1)	(434)	(10,063)	-	(10,063)	(289)	(10,352)	
Comprehensive income	-	-	-	-	(9,628)	(1)	(434)	(10,063)	50,600	40,537	654	41,191	
Disposal of treasury shares	-	(98)	377	(126)	-	-	-	(126)	(152)	1	-	1	
Purchase of treasury shares	-	-	(12)	-	-	-	-	-	-	(12)	-	(12)	
Share-based payment transactions	-	163	-	-	-	-	-	-	-	163	-	163	
Dividends	-	-	-	-	-	-	-	-	(31,260)	(31,260)	(1,254)	(32,514)	
Changes in the ownership interest in subsidiaries	-	130	-	-	-	-	-	-	-	130	999	1,129	
Transfer from other components of equity to retained earnings	-	-	-	(3)	-	-	(323)	(326)	326	-	-	-	
Total transactions with the owners	-	195	365	(129)	-	-	(323)	(452)	(31,086)	(30,978)	(255)	(31,233)	
June 30, 2020	85,424	108,910	(3,944)	319	(49,258)	(1)	5,451	(43,489)	720,353	867,254	14,125	881,379	

Condensed Consolidated Statement of Cash Flows

(Millions of yen)

	Six months ended June 30, 2021	Six months ended June 30, 2020
Cash flows from operating activities		
Income before income taxes	74,133	73,730
Depreciation and amortization	43,641	42,696
Interest and dividend income	(631)	(931)
Interest expense	1,020	1,424
Share of profit in investments accounted for using the equity method	(1,342)	(1,208)
(Gains) losses on sale and disposal of property, plant and equipment, and intangible assets	1,476	1,290
(Increase) decrease in trade and other receivables	24,710	35,995
(Increase) decrease in inventories	(16,924)	(17,061)
Increase (decrease) in trade and other payables	(9,073)	(3,765)
Increase (decrease) in retirement benefit liabilities	(4,097)	(2,854)
Other	(18,434)	(14,462)
Subtotal	94,479	114,854
Interest received	571	933
Dividends received	2,173	2,078
Interest paid	(1,020)	(1,504)
Income taxes paid	(31,617)	(42,907)
Net cash flows from operating activities	64,586	73,454
Cash flows from investing activities		
Payments into time deposits	(6,200)	(7,075)
Proceeds from withdrawal of time deposits	7,066	12,560
Purchase of property, plant and equipment	(32,650)	(35,513)
Purchase of intangible assets	(4,357)	(5,200)
Other	1,488	206
Net cash flows from investing activities	(34,653)	(35,022)
Cash flows from financing activities		
Increase (decrease) in short-term borrowings	160	(41)
Proceeds from long-term borrowings	10,091	-
Repayments of long-term borrowings	(11,159)	(24)
Redemption of bonds	(6)	(24,936)
Repayments of lease liabilities	(10,700)	(10,403)
Purchase of treasury shares	(51,787)	(13)
Dividends paid to owners of the parent	(33,708)	(31,286)
Dividends paid to non-controlling interests	(321)	(943)
Other	808	1,147
Net cash flows from financing activities	(96,622)	(66,499)
Net increase (decrease) in cash and cash equivalents	(66,689)	(28,067)
Cash and cash equivalents at the beginning of the period	353,176	289,681
Effect of exchange rate changes on cash and cash equivalents	9,640	(2,850)
Cash and cash equivalents at the end of the period	296,127	258,764

Notes to Condensed Consolidated Financial Statements

1. Segment Information

(1) Summary of reportable segments

The Kao Group's reportable segments are the components of the Kao Group for which discrete financial information is available and which are regularly reviewed by the Board of Directors in deciding how to allocate resources and in assessing their performance. Net sales and operating income are the key measures used by the Board of Directors to evaluate the performance of each segment.

The Kao Group is organized on the basis of five businesses: the four business areas that constitute the Consumer Products Business (the Hygiene and Living Care Business, the Health and Beauty Care Business, the Life Care Business, the Cosmetics Business) and the Chemical Business. In each business, the Kao Group plans comprehensive business strategies and carries out business activities on a global basis.

Accordingly, the Kao Group has five reportable segments: the Hygiene and Living Care Business, the Health and Beauty Care Business, the Life Care Business, the Cosmetics Business and the Chemical Business.

Due to a change in organization as of January 1, 2021, in the three months ended March 31, 2021 the Kao Group reclassified its five former reportable segments (the Cosmetics Business, the Skin Care and Hair Care Business, the Human Health Care Business, the Fabric and Home Care Business and the Chemical Business) into the above-noted five reportable segments (the Hygiene and Living Care Business, the Health and Beauty Care Business, the Life Care Business, the Cosmetics Business and the Chemical Business). Segment information for the same period a year earlier has been restated to reflect the reclassification.

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Major products by reportable segment are as follows:

Reportable Segments		Major Products	
Consumer Products Business	Hygiene and Living Care Business	Fabric care products	Laundry detergents, Fabric treatments
		Home care products	Kitchen cleaning products, House cleaning products, Paper cleaning products
		Sanitary products	Sanitary napkins, Baby diapers
	Health and Beauty Care Business	Skin care products	Soaps, Facial cleansers, Body cleansers
		Hair care products	Shampoos, Conditioners, Hair styling agents, Hair coloring agents, Men's products
		Personal health products	Bath additives, Oral care products, Thermo products
	Life Care Business	Life care products	Commercial-use hygiene products, Health drinks
	Cosmetics Business	Cosmetics	Counseling cosmetics, Self-selection cosmetics
Chemical Business	Oleo chemicals	Fatty alcohols, Fatty amines, Fatty acids, Glycerin, Commercial-use edible fats and oils	
	Performance chemicals	Surfactants, Plastics additives, Superplasticizers for concrete admixtures, Asphalt additives	
	Specialty chemicals	Toner and toner binder for copiers and printers, Ink and water-based pigment inkjet ink, Fragrances and aroma chemicals	

(2) Sales and results of reportable segments

Six months ended June 30, 2021	Reportable Segments							(Millions of yen)	
	Consumer Products Business					Chemical Business	Total	Reconciliations ¹	Consolidated
	Hygiene and Living Care Business	Health and Beauty Care Business	Life Care Business	Cosmetics Business	Subtotal				
Net sales									
Sales to customers	234,772	173,959	24,867	110,576	544,174	131,005	675,179	-	675,179
Intersegment sales and transfers ²	-	-	-	-	-	19,398	19,398	(19,398)	-
Total net sales	234,772	173,959	24,867	110,576	544,174	150,403	694,577	(19,398)	675,179
Operating income (loss)	26,048	26,296	1,571	(477)	53,438	16,756	70,194	357	70,551
% of net sales	11.1	15.1	6.3	(0.4)	9.8	11.1	-	-	10.4
Financial income									3,537
Financial expenses									(1,297)
Share of profit in investments accounted for using the equity method									1,342
Income before income taxes									74,133

Notes:

1. The operating income (loss) reconciliation of 357 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.

Six months ended June 30, 2020	Reportable Segments							(Millions of yen)	
	Consumer Products Business					Chemical Business	Total	Reconciliations ¹	Consolidated
	Hygiene and Living Care Business	Health and Beauty Care Business	Life Care Business	Cosmetics Business	Subtotal				
Net sales									
Sales to customers	242,077	176,010	23,332	109,632	551,051	116,107	667,158	-	667,158
Intersegment sales and transfers ²	-	-	-	-	-	19,281	19,281	(19,281)	-
Total net sales	242,077	176,010	23,332	109,632	551,051	135,388	686,439	(19,281)	667,158
Operating income (loss)	36,082	28,313	1,299	(4,919)	60,775	14,379	75,154	(670)	74,484
% of net sales	14.9	16.1	5.6	(4.5)	11.0	10.6	-	-	11.2
Financial income									1,027
Financial expenses									(2,989)
Share of profit in investments accounted for using the equity method									1,208
Income before income taxes									73,730

Notes:

1. The operating income (loss) reconciliation of -670 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)	
	Six months ended June 30, 2021	Six months ended June 30, 2020
Advertising	35,317	36,051
Sales promotion	21,057	23,227
Employee benefits	77,027	74,069
Depreciation	9,243	9,209
Amortization	4,202	4,347
Research and development	29,593	28,885
Other	32,314	33,980
Total	<u>208,753</u>	<u>209,768</u>

Note regarding Assumption of Going Concern

None applicable.