Consolidated Financial Results for the Three Months Ended March 31, 2019 [IFRS]

April 24, 2019

Company name: Kao Corporation — Tokyo Stock Exchange in Japan
Stock code: 4452 (URL: www.kao.com/global/en/investor-relations/library/results/)
Representative: Michitaka Sawada, President and CEO
Contact person: Mitsuhiro Watanabe, Vice President, Investor Relations — E-mail: ir@kao.co.jp
Scheduled starting date of the dividend payments: -
Supplementary documents of the financial results: Yes
Financial results information meeting: Yes (for institutional investors and analysts)

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

1. Consolidated financial results for the three months ended March 31, 2019 (from January 1, 2019 to March 31, 2019)

(1) Consolidated operating results

(Percentages indicate year-on-year changes)

	Three months ended March 31, 2019	%	Three months ended March 31, 2018	%
Net sales	346,904	(1.1)	350,645	1.6
Operating income	38,207	(3.1)	39,445	2.2
Income before income taxes	38,603	(0.2)	38,663	1.7
Net income	27,006	(4.1)	28,156	14.3
Net income attributable to owners of the parent	26,440	(4.8)	27,774	14.9
Comprehensive income	30,667	116.8	14,143	(25.1)
Basic earnings per share (Yen)	54.33		56.36	
Diluted earnings per share (Yen)	54.32		56.33	

(2) Consolidated financial position

	March 31, 2019	December 31, 2018
Total assets	1,575,808	1,460,986
Total equity	836,796	835,509
Equity attributable to owners of the parent	823,843	822,360
Ratio of equity attributable to owners of the parent to total assets	52.3%	56.3%
Equity attributable to owners of the parent per share (Yen)	1,692.81	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 forecasts 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)	332.87	-

Note: Revisions to the consolidated operating results forecasts 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)

	March 31, 2019	December 31, 2018
Number of issued shares including treasury shares	488,700,000	488,700,000
Number of treasury shares	2,028,272	2,043,272

	Three months ended March 31, 2019	Three months ended March 31, 2018
Weighted average number of shares outstanding during this period	486,665,845	492,801,175

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 Three Months Ended March 31, 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 Three Months Ended March 31, 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)

Three months ended March 31	**2019**	2018	Growth
Net sales	**346.9**	350.6	(1.1%) Like-for-like: (0.2%)
Operating income	**38.2**	39.4	(3.1%)
Operating margin (%)	**11.0**	11.2	-
Income before income taxes	**38.6**	38.7	(0.2%)
Net income	**27.0**	28.2	(4.1%)
Net income attributable to owners of the parent	**26.4**	27.8	(4.8%)
Basic earnings per share (Yen)	**54.33**	56.36	(3.6%)

During the three months ended March 31, 2019, the markets for household and personal care products and cosmetics in Japan, which are key markets for the Kao Group, were in solid condition 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 percentage points compared with the same period a year earlier.

Net sales decreased 1.1% compared with the same period a year earlier to 346.9 billion yen. On a like-for-like basis, net sales decreased 0.2%. Operating income was 38.2 billion yen, a decrease of 1.2 billion yen compared with the same period a year earlier, and income before income taxes was 38.6 billion yen, a decrease of 0.1 billion yen. Net income was 27.0 billion yen, a decrease of 1.1 billion yen. Overall results were generally within the Kao Group's expectations given the severely competitive market environment.

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

	First quarter Jan. – Mar.
Yen/U.S. dollar	110.09 (108.44)
Yen/Euro	125.10 (133.23)
Yen/Chinese yuan	16.31 (17.04)

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)

	Net sales				Operating income			Operating margin (%)	
Three months ended March 31	2019	2018	Growth %	Like-for-like %	2019	2018	Change	2019	2018
Cosmetics Business	67.3	60.6	11.2	12.1	6.2	0.8	5.4	9.2	1.3
Skin Care and Hair Care Business	80.6	79.4	1.6	2.2	10.7	9.1	1.6	13.2	11.5
Human Health Care Business	61.1	69.5	(12.1)	(10.8)	2.9	10.9	(8.0)	4.7	15.7
Fabric and Home Care Business	74.3	69.8	6.5	6.6	11.0	11.4	(0.4)	14.9	16.3
Consumer Products Business	283.4	279.2	1.5	2.2	30.8	32.2	(1.4)	10.9	11.5
Chemical Business	73.4	79.7	(7.9)	(6.4)	7.7	7.3	0.4	10.5	9.2
Total	356.8	358.9	(0.6)	0.3	38.5	39.5	(1.1)	-	-
Elimination and Reconciliation	(9.9)	(8.3)	-	-	(0.3)	(0.1)	(0.2)	-	-
Consolidated	346.9	350.6	(1.1)	(0.2)	38.2	39.4	(1.2)	11.0	11.2

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Consolidated Net Sales Composition

(Billions of yen)

Three months ended March 31		Japan	Asia	Americas	Europe	Consolidated
Cosmetics Business	2019	51.4	10.3	1.4	4.3	67.3
	2018	46.8	8.1	1.4	4.2	60.6
	Growth %	9.8	27.5	(4.1)	0.9	11.2
	Like-for-like %	9.8	31.7	(5.1)	7.1	12.1
Skin Care and Hair Care Business	2019	46.1	7.5	17.1	9.9	80.6
	2018	43.7	7.1	17.7	11.0	79.4
	Growth %	5.6	6.1	(3.0)	(10.0)	1.6
	Like-for-like %	5.6	8.1	(3.6)	(5.4)	2.2
Human Health Care Business	2019	35.0	26.0	0.0	-	61.1
	2018	41.4	28.0	0.0	-	69.5
	Growth %	(15.5)	(7.0)	19.2	-	(12.1)
	Like-for-like %	(15.5)	(4.0)	28.5	-	(10.8)
Fabric and Home Care Business	2019	61.6	9.8	2.8	0.1	74.3
	2018	59.4	9.9	0.5	-	69.8
	Growth %	3.8	(0.8)	471.9	-	6.5
	Like-for-like %	3.8	(0.0)	475.5	-	6.6
Consumer Products Business	2019	194.1	53.7	21.3	14.2	283.4
	2018	191.3	53.1	19.6	15.2	279.2
	Growth %	1.5	1.2	8.7	(6.6)	1.5
	Like-for-like %	1.5	3.8	8.2	(1.5)	2.2
Chemical Business	2019	30.0	14.5	12.3	16.6	73.4
	2018	29.5	18.0	14.4	17.8	79.7
	Growth %	1.8	(19.5)	(14.8)	(6.6)	(7.9)
	Like-for-like %	1.8	(18.5)	(15.5)	(0.5)	(6.4)
Elimination of intersegment	2019	(8.6)	(0.7)	(0.0)	(0.6)	(9.9)
	2018	(7.0)	(0.8)	(0.0)	(0.4)	(8.3)
Consolidated	2019	215.5	67.6	33.6	30.2	346.9
	2018	213.8	70.3	34.0	32.6	350.6
	Growth %	0.8	(3.9)	(1.3)	(7.1)	(1.1)
	Like-for-like %	0.8	(1.6)	(1.8)	(1.5)	(0.2)

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 39.9% of net sales compared with 41.8% for the same period a year earlier.

Consumer Products Business

Sales increased 1.5% compared with the same period a year earlier to 283.4 billion yen. On a like-for-like basis, sales increased 2.2%.

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 enhancing activities in the e-commerce channel in line with changes in purchasing behavior.

In Japan, sales increased 1.5% to 194.1 billion yen.

In Asia, sales were steady, increasing 1.2% to 53.7 billion yen. On a like-for-like basis, sales increased 3.8%.

In the Americas, sales increased 8.7% to 21.3 billion yen. On a like-for-like basis, sales increased 8.2%. In Europe, sales decreased 6.6% to 14.2 billion yen. On a like-for-like basis, sales decreased 1.5%.

Operating income decreased 1.4 billion yen compared with the same period a year earlier to 30.8 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 11.2% compared with the same period a year earlier to 67.3 billion yen. On a like-for-like basis, sales increased 12.1%.

The growth strategy for the Cosmetics Business proceeded smoothly. The Kao Group made efforts including selection and concentration of key strategic brands, enhancement of activities in the e-commerce channel and a shift to digital marketing. Sales were steady in Japan and increased substantially in Asia, led by China. By product, sales grew strongly for the global strategy brands *freeplus*, which is hypoallergenic and contains Japanese and Chinese botanical extracts, and *Curél*, a derma care brand.

Operating income was 6.2 billion yen, an increase of 5.4 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 1.6% compared with the same period a year earlier to 80.6 billion yen. On a like-for-like basis, sales increased 2.2%.

In skin care products, sales of *Bioré* UV care products grew strongly in Japan and Asia, but sales in the Americas were impacted by stiff competition.

Sales of hair care products decreased as shampoos and conditioners were impacted by the shrinking mass market and intensifying competition in Japan and the severe competitive environment for businesses for hair salons persisted in the Americas and Europe. However, sales were strong for hair color products in Japan and for *Oribe*, a super-premium-price brand in the Americas for hair salons.

Operating income increased 1.6 billion yen compared with the same period a year earlier to 10.7 billion yen due to factors including the effect of increased sales of skin care products in Japan and in Asia.

Human Health Care Business

Sales decreased 12.1% compared with the same period a year earlier to 61.1 billion yen. On a like-for-like basis, sales decreased 10.8%.

For *Merries* baby diapers, sales in both Japan and China decreased substantially due to factors including the impact of the e-commerce law in China, which came into effect as of January 2019, and the impact of a drop in prices in China of *Merries* manufactured in Japan and purchased for resale. On the other hand, locally manufactured products targeting the middle-class consumer segment performed well in Indonesia and market share 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 basically unchanged compared with the same period a year earlier.

Operating income decreased 8.0 billion yen compared with the same period a year earlier to 2.9 billion yen due to the decrease in sales of baby diapers, higher raw material costs and other factors.

Fabric and Home Care Business

Sales increased 6.5% compared with the same period a year earlier to 74.3 billion yen. On a like-for-like basis, sales increased 6.6%.

Sales of fabric care products grew due to shipments of *Attack ZERO*, which hit the shelves on April 1, 2019 from the *Attack* lineup of laundry detergents. *Attack ZERO* is an innovative new product that realizes "Three Zeros": "Zero stubborn stains," "Zero musty odor" and "Zero detergent residue" and revives garments. In fabric softeners, market share steadily increased for *Flair Fragrance*, which was improved in 2018. Sales of home care products were firm.

Operating income decreased 0.4 billion yen compared with the same period a year earlier year to 11.0 billion yen due to factors including higher costs for petrochemicals.

Chemical Business

Sales decreased 7.9% compared with the same period a year earlier to 73.4 billion yen. On a like-for-like basis, sales decreased 6.4%.

Sales of oleo chemicals decreased due to the impact of selling price adjustments associated with a drop in prices for natural fats and oils, although demand outside Japan was firm. Sales of performance chemicals were impacted by sluggish demand outside Japan associated with slowing economic growth. Sales of specialty chemicals were impacted by a decrease in demand for hard disk-related products, although sales of toner and toner binder increased.

Operating income increased 0.4 billion yen compared with the same period a year earlier to 7.7 billion yen due to growth in sales of oleo chemicals outside Japan and promotion of high-value-added products.

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 February 4, 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.

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Condensed Consolidated Statement of Financial Position

(Millions of yen)

	March 31, 2019	December 31, 2018	Change
Assets			
Current assets			
Cash and cash equivalents	217,668	265,978	(48,310)
Trade and other receivables	208,410	223,102	(14,692)
Inventories	210,610	197,571	13,039
Other financial assets	11,576	15,146	(3,570)
Income tax receivables	2,391	2,066	325
Other current assets	23,758	22,449	1,309
Total current assets	674,413	726,312	(51,899)
Non-current assets			
Property, plant and equipment	419,337	418,935	402
Right-of-use assets	169,909	-	169,909
Goodwill	180,818	180,286	532
Intangible assets	46,360	46,549	(189)
Investments accounted for using the equity method	6,976	7,931	(955)
Other financial assets	24,774	23,540	1,234
Deferred tax assets	48,822	49,158	(336)
Other non-current assets	4,399	8,275	(3,876)
Total non-current assets	901,395	734,674	166,721
Total assets	1,575,808	1,460,986	114,822

(Millions of yen)

	March 31, 2019	December 31, 2018	Change
Liabilities and equity			
Liabilities			
Current liabilities			
Trade and other payables	214,030	225,560	(11,530)
Bonds and borrowings	472	40,488	(40,016)
Lease liabilities	19,301	-	19,301
Other financial liabilities	3,502	6,880	(3,378)
Income tax payables	12,395	34,198	(21,803)
Provisions	1,883	2,873	(990)
Contract liabilities	18,182	18,387	(205)
Other current liabilities	92,048	102,452	(10,404)
Total current liabilities	361,813	430,838	(69,025)
Non-current liabilities			
Bonds and borrowings	120,415	80,339	40,076
Lease liabilities	146,304	-	146,304
Other financial liabilities	7,627	9,506	(1,879)
Retirement benefit liabilities	83,184	84,552	(1,368)
Provisions	11,807	12,175	(368)
Deferred tax liabilities	2,742	2,864	(122)
Other non-current liabilities	5,120	5,203	(83)
Total non-current liabilities	377,199	194,639	182,560
Total liabilities	739,012	625,477	113,535
Equity			
Share capital	85,424	85,424	-
Capital surplus	108,329	108,245	84
Treasury shares	(11,169)	(11,282)	113
Other components of equity	(26,654)	(30,029)	3,375
Retained earnings	667,913	670,002	(2,089)
Equity attributable to owners of the parent	823,843	822,360	1,483
Non-controlling interests	12,953	13,149	(196)
Total equity	836,796	835,509	1,287
Total liabilities and equity	1,575,808	1,460,986	114,822

Condensed Consolidated Statement of Income

(Millions of yen)

	Notes	Three months ended March 31, 2019	Three months ended March 31, 2018	Change
Net sales	1	346,904	350,645	(3,741)
Cost of sales		(200,726)	(204,399)	3,673
Gross profit		146,178	146,246	(68)
Selling, general and administrative expenses	2	(108,381)	(106,328)	(2,053)
Other operating income		3,629	3,115	514
Other operating expenses		(3,219)	(3,588)	369
Operating income	1	38,207	39,445	(1,238)
Financial income		688	354	334
Financial expenses		(949)	(1,740)	791
Share of profit in investments accounted for using the equity method		657	604	53
Income before income taxes		38,603	38,663	(60)
Income taxes		(11,597)	(10,507)	(1,090)
Net income		27,006	28,156	(1,150)
Attributable to:				
Owners of the parent		26,440	27,774	(1,334)
Non-controlling interests		566	382	184
Net income		27,006	28,156	(1,150)
Earnings per share				
Basic (Yen)		54.33	56.36	
Diluted (Yen)		54.32	56.33	

Condensed Consolidated Statement of Comprehensive Income

(Millions of yen)

	Three months ended March 31, 2019	Three months ended March 31, 2018	Change
Net income	27,006	28,156	(1,150)
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	(214)	(476)	262
Remeasurements of defined benefit plans	0	(12)	12
Share of other comprehensive income of investments accounted for using the equity method	129	(95)	224
Total of items that will not be reclassified to profit or loss	(85)	(583)	498
Items that may be reclassified subsequently to profit or loss:			
Exchange differences on translation of foreign operations	3,730	(13,271)	17,001
Share of other comprehensive income of investments accounted for using the equity method	16	(159)	175
Total of items that may be reclassified subsequently to profit or loss	3,746	(13,430)	17,176
Other comprehensive income, net of taxes	3,661	(14,013)	17,674
Comprehensive income	30,667	14,143	16,524
Attributable to:			
Owners of the parent	29,866	14,195	15,671
Non-controlling interests	801	(52)	853
Comprehensive income	30,667	14,143	16,524

Condensed Consolidated Statement of Changes in Equity

(Millions of yen)

	Equity attributable to owners of the parent												
				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 compre-hensive income	Remeasure-ments of defined benefit plans	Total	Retained earnings	Total	Non-controlling interests	Total equity
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	-	-	-	-	-	-	-	-	-	26,440	26,440	566	27,006
Other comprehensive income	-	-	-	-	3,512	(1)	(85)	0	3,426	-	3,426	235	3,661
Comprehensive income	-	-	-	-	3,512	(1)	(85)	0	3,426	26,440	29,866	801	30,667
Disposal of treasury shares	-	-	121	(51)	-	-	-	-	(51)	(70)	0	-	0
Purchase of treasury shares	-	-	(8)	-	-	-	-	-	-	-	(8)	-	(8)
Share-based payment transactions	-	84	-	-	-	-	-	-	-	-	84	-	84
Dividends	-	-	-	-	-	-	-	-	-	(29,199)	(29,199)	(997)	(30,196)
Transfer from other components of equity to retained earnings	-	-	-	-	-	-	-	(0)	(0)	0	-	-	-
Total transactions with the owners	-	84	113	(51)	-	-	-	(0)	(51)	(29,269)	(29,123)	(997)	(30,120)
March 31, 2019	85,424	108,329	(11,169)	495	(33,520)	(2)	6,373	-	(26,654)	667,913	823,843	12,953	836,796
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	-	-	-	-	-	-	-	-	-	27,774	27,774	382	28,156
Other comprehensive income	-	-	-	-	(12,993)	(3)	(571)	(12)	(13,579)	-	(13,579)	(434)	(14,013)
Comprehensive income	-	-	-	-	(12,993)	(3)	(571)	(12)	(13,579)	27,774	14,195	(52)	14,143
Disposal of treasury shares	-	-	258	(45)	-	-	-	-	(45)	(144)	69	-	69
Purchase of treasury shares	-	-	(12)	-	-	-	-	-	-	-	(12)	-	(12)
Share-based payment transactions	-	91	-	-	-	-	-	-	-	-	91	-	91
Dividends	-	-	-	-	-	-	-	-	-	(27,595)	(27,595)	(108)	(27,703)
Transfer from other components of equity to retained earnings	-	-	-	-	-	-	(5)	12	7	(7)	-	-	-
Other increase (decrease)	-	-	-	-	-	-	-	-	-	-	-	(28)	(28)
Total transactions with the owners	-	91	246	(45)	-	-	(5)	12	(38)	(27,746)	(27,447)	(136)	(27,583)
March 31, 2018	85,424	108,071	(9,347)	686	(34,533)	1	7,914	-	(25,932)	634,913	793,129	12,795	805,924

Condensed Consolidated Statement of Cash Flows

(Millions of yen)

	Three months ended March 31, 2019	Three months ended March 31, 2018
Cash flows from operating activities		
Income before income taxes	38,603	38,663
Depreciation and amortization	21,151	14,543
Interest and dividend income	(390)	(288)
Interest expense	723	292
Share of profit in investments accounted for using the equity method	(657)	(604)
(Gains) losses on sale and disposal of property, plant and equipment, and intangible assets	765	1,258
(Increase) decrease in trade and other receivables	15,938	11,214
(Increase) decrease in inventories	(12,232)	(7,863)
Increase (decrease) in trade and other payables	(13,076)	(17,344)
Increase (decrease) in retirement benefit liabilities	(1,358)	(260)
Other	(17,064)	(8,362)
Subtotal	32,403	31,249
Interest received	381	284
Dividends received	1,990	2,064
Interest paid	(619)	(172)
Income taxes paid	(33,298)	(32,273)
Net cash flows from operating activities	857	1,152
Cash flows from investing activities		
Payments into time deposits	(5,244)	(8,655)
Proceeds from withdrawal of time deposits	9,252	7,649
Purchase of property, plant and equipment	(17,388)	(21,221)
Purchase of intangible assets	(1,771)	(1,320)
Payments for business combinations	-	(44,164)
Other	(1,511)	229
Net cash flows from investing activities	(16,662)	(67,482)
Cash flows from financing activities		
Increase (decrease) in short-term borrowings	(22)	70
Proceeds from long-term borrowings	40,100	-
Repayments of long-term borrowings	(40,016)	(18)
Repayments of lease liabilities	(4,920)	-
Dividends paid to owners of the parent	(27,692)	(26,101)
Dividends paid to non-controlling interests	(757)	(84)
Other	(14)	(813)
Net cash flows from financing activities	(33,321)	(26,946)
Net increase (decrease) in cash and cash equivalents	(49,126)	(93,276)
Cash and cash equivalents at the beginning of the period	265,978	343,076
Effect of exchange rate changes on cash and cash equivalents	816	(4,652)
Cash and cash equivalents at the end of the period	217,668	245,148

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

(Millions of yen)

Three months ended March 31, 2019	Reportable Segments								
	Consumer Products Business								
	Cosmetics Business	Skin Care and Hair Care Buiness	Human Health Care Business	Fabric and Home Care Business	Subtotal	Chemical Business	Total	Reconciliations[1]	Consolidated
Net sales									
Sales to customers	67,341	80,646	61,082	74,303	283,372	63,532	346,904	-	346,904
Intersegment sales and transfers[2]	-	-	-	-	-	9,871	9,871	(9,871)	-
Total net sales	67,341	80,646	61,082	74,303	283,372	73,403	356,775	(9,871)	346,904
Operating income	6,175	10,651	2,898	11,048	30,772	7,689	38,461	(254)	38,207
% of net sales	9.2	13.2	4.7	14.9	10.9	10.5	-	-	11.0
Financial income									688
Financial expenses									(949)
Share of profit in investments accounted for using the equity method									657
Income before income taxes									38,603

Notes:

1. The operating income reconciliation of -254 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.

(Millions of yen)

Three months ended March 31, 2018	Reportable Segments								
	Consumer Products Business								
	Cosmetics Business	Skin Care and Hair Care Buiness	Human Health Care Business	Fabric and Home Care Business	Subtotal	Chemical Business	Total	Reconciliations[1]	Consolidated
Net sales									
Sales to customers	60,566	79,414	69,457	69,788	279,225	71,420	350,645	-	350,645
Intersegment sales and transfers[2]	-	-	-	-	-	8,270	8,270	(8,270)	-
Total net sales	60,566	79,414	69,457	69,788	279,225	79,690	358,915	(8,270)	350,645
Operating income	771	9,097	10,938	11,405	32,211	7,324	39,535	(90)	39,445
% of net sales	1.3	11.5	15.7	16.3	11.5	9.2	-	-	11.2
Financial income									354
Financial expenses									(1,740)
Share of profit in investments accounted for using the equity method									604
Income before income taxes									38,663

Notes:

1. The operating income reconciliation of -90 million yen includes corporate expenses not allocated to reportable segments, as well as elimination of intersegment inventory transactions.
2. Intersegment sales and transfers are mainly calculated based on market price and manufacturing cost.

2. Selling, General and Administrative Expenses

The breakdown of selling, general and administrative expenses is as follows:

(Millions of yen)

	Three months ended March 31, 2019	Three months ended March 31, 2018
Advertising	16,362	17,610
Sales promotion	13,120	12,043
Employee benefits	38,160	37,377
Depreciation	5,378	2,255
Amortization	1,968	1,617
Research and development	15,255	14,551
Other	18,138	20,875
Total	108,381	106,328

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 adjusted the amounts for the comparative period. As a result, expenses of 3,004 million yen previously included in employee benefits and other are accounted for as depreciation.

Note regarding Assumption of Going Concern

None applicable.