Consolidated Financial Results for the Six Months Ended June 30, 2019 [IFRS]

July 31, 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
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Scheduled starting date of the dividend payments: September 2, 2019
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 six months ended June 30, 2019 (from January 1, 2019 to June 30, 2019)

(1) Consolidated operating results

(Percentages indicate year-on-year changes)

	Six months ended June 30, 2019	%	Six months ended June 30, 2018	%
Net sales	721,399	(1.0)	729,030	1.6
Operating income	86,386	(4.8)	90,755	3.9
Income before income taxes	85,515	(4.9)	89,904	3.7
Net income	58,232	(8.3)	63,488	11.5
Net income attributable to owners of the parent	57,295	(8.8)	62,805	11.2
Comprehensive income	50,233	(2.3)	51,417	(9.8)
Basic earnings per share (Yen)	117.98		127.76	
Diluted earnings per share (Yen)	117.95		127.70	

(2) Consolidated financial position

	June 30, 2019	December 31, 2018
Total assets	1,544,008	1,460,986
Total equity	806,201	835,509
Equity attributable to owners of the parent	793,572	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)	1,650.14	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)

	June 30, 2019	December 31, 2018
Number of issued shares including treasury shares	488,700,000	488,700,000
Number of treasury shares	7,789,012	2,043,272

	Six months ended June 30, 2019	Six months ended June 30, 2018
Weighted average number of shares outstanding during this period	485,627,882	491,576,495

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 Six Months Ended June 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 Six Months Ended June 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)

Six months ended June 30	**2019**	2018	Growth
Net sales	**721.4**	729.0	(1.0)% Like-for-like: (0.2)%
Operating income	**86.4**	90.8	(4.8)%
Operating margin (%)	**12.0**	12.4	-
Income before income taxes	**85.5**	89.9	(4.9)%
Net income	**58.2**	63.5	(8.3)%
Net income attributable to owners of the parent	**57.3**	62.8	(8.8)%
Basic earnings per share (Yen)	**117.98**	127.76	(7.7)%

During the six months ended June 30, 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 points compared with the same period a year earlier.

Net sales decreased 1.0% compared with the same period a year earlier to 721.4 billion yen. On a like-for-like basis, net sales decreased 0.2%. Operating income was 86.4 billion yen, a decrease of 4.4 billion yen compared with the same period a year earlier, and income before income taxes was 85.5 billion yen, a decrease of 4.4 billion yen. Net income was 58.2 billion yen, a decrease of 5.3 billion yen. Results were slightly lower than expected due to the severe market environment.

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 resolved at a meeting of its Board of Directors held on June 28, 2019 to retire 6.7 million treasury shares.

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

	First quarter Jan. – Mar.	Second quarter Apr. – Jun.
Yen/U.S. dollar	110.09 (108.44)	109.99 (109.08)
Yen/Euro	125.10 (133.23)	123.58 (130.09)
Yen/Chinese yuan	16.31 (17.04)	16.13 (17.11)

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 (%)	
Six months ended June 30	2019	2018	Growth %	Like-for-like %	2019	2018	Change	2019	2018
Cosmetics Business	140.0	128.2	9.3	10.3	14.7	7.3	7.4	10.5	5.7
Skin Care and Hair Care Business	168.6	170.8	(1.3)	(0.6)	22.9	22.6	0.3	13.6	13.3
Human Health Care Business	124.9	136.3	(8.3)	(7.1)	7.3	18.1	(10.8)	5.8	13.3
Fabric and Home Care Business	162.3	153.1	6.0	6.1	25.3	27.7	(2.3)	15.6	18.1
Consumer Products Business	595.9	588.4	1.3	2.0	70.2	75.7	(5.5)	11.8	12.9
Chemical Business	146.1	158.7	(7.9)	(6.6)	16.0	14.8	1.3	11.0	9.3
Total	742.0	747.0	(0.7)	0.2	86.2	90.4	(4.2)	-	-
Elimination and Reconciliation	(20.6)	(18.0)	-	-	0.2	0.3	(0.1)	-	-
Consolidated	721.4	729.0	(1.0)	(0.2)	86.4	90.8	(4.4)	12.0	12.4

Consolidated Net Sales Composition

(Billions of yen)

Six months ended June 30		Japan	Asia	Americas	Europe	Consolidated
Cosmetics Business	2019	107.5	21.5	2.7	8.4	140.0
	2018	99.7	17.3	2.8	8.4	128.2
	Growth %	7.8	24.5	(5.0)	(0.1)	9.3
	Like-for-like %	7.8	29.4	(5.8)	5.5	10.3
Skin Care and Hair Care Business	2019	96.8	15.3	36.1	20.4	168.6
	2018	96.2	15.2	37.2	22.3	170.8
	Growth %	0.7	0.6	(2.8)	(8.4)	(1.3)
	Like-for-like %	0.7	2.7	(3.2)	(4.1)	(0.6)
Human Health Care Business	2019	76.4	48.5	0.1	-	124.9
	2018	86.6	49.6	0.0	-	136.3
	Growth %	(11.8)	(2.3)	43.6	-	(8.3)
	Like-for-like %	(11.8)	1.0	52.2	-	(7.1)
Fabric and Home Care Business	2019	136.8	19.7	5.6	0.1	162.3
	2018	132.3	19.9	0.9	-	153.1
	Growth %	3.4	(0.8)	523.4	-	6.0
	Like-for-like %	3.4	(0.1)	528.7	-	6.1
Consumer Products Business	2019	417.5	105.0	44.5	28.9	595.9
	2018	414.8	102.0	41.0	30.6	588.4
	Growth %	0.6	3.0	8.7	(5.7)	1.3
	Like-for-like %	0.6	5.9	8.4	(1.1)	2.0
Chemical Business	2019	61.7	28.3	24.7	31.4	146.1
	2018	61.5	34.8	27.6	34.8	158.7
	Growth %	0.3	(18.6)	(10.3)	(9.9)	(7.9)
	Like-for-like %	0.3	(17.2)	(11.1)	(4.5)	(6.6)
Elimination of intersegment	2019	(18.2)	(1.4)	(0.0)	(1.0)	(20.6)
	2018	(15.5)	(1.6)	(0.0)	(0.8)	(18.0)
Consolidated	2019	461.0	132.0	69.2	59.2	721.4
	2018	460.8	135.1	68.5	64.7	729.0
	Growth %	0.0	(2.3)	1.1	(8.4)	(1.0)
	Like-for-like %	0.0	0.2	0.6	(3.4)	(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 38.5% of net sales compared with 39.6% for the same period a year earlier.

Consumer Products Business

Sales increased 1.3% compared with the same period a year earlier to 595.9 billion yen. On a like-for-like basis, sales increased 2.0%.

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.

The Cosmetics Business performed strongly and the Human Health Care Business was on a recovery track. However, the Skin Care and Hair Care Business was affected by market contraction due to adverse weather conditions, and the Fabric and Home Care Business made aggressive outlays of marketing expenses for an innovative new product.

In Japan, sales were basically flat compared with the same period a year earlier, increasing 0.6% to 417.5 billion yen.

In Asia, sales grew steadily, increasing 3.0% to 105.0 billion yen. On a like-for-like basis, sales increased 5.9%.

In the Americas, sales increased 8.7% to 44.5 billion yen. On a like-for-like basis, sales increased 8.4%. In Europe, sales decreased 5.7% to 28.9 billion yen. On a like-for-like basis, sales decreased 1.1%.

Operating income decreased 5.5 billion yen compared with the same period a year earlier to 70.2 billion yen.

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

Cosmetics Business

Sales increased 9.3% compared with the same period a year earlier to 140.0 billion yen. On a like-for-like basis, sales increased 10.3%.

The growth strategy for the Cosmetics Business proceeded smoothly. 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 enhanced its activities in the growing sales channels of e-commerce and travel retail and promoted a shift to digital marketing.

Operating income was 14.7 billion yen, an increase of 7.4 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 decreased 1.3% compared with the same period a year earlier to 168.6 billion yen. On a like-for-like basis, sales decreased 0.6%.

In skin care products, the Kao Group launched new and improved UV care products from *Bioré* in Japan, increasing sales and market share, but results were lower than planned due to the impact of market contraction caused by adverse weather conditions. Sales were firm in Asia but continued to be impacted by stiff competition in the Americas.

Sales of hair care products decreased as shampoos and conditioners were affected by the shrinking mass market, although 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 0.3 billion yen compared with the same period a year earlier to 22.9 billion yen due to factors including the effective use of expenses.

Human Health Care Business

Sales decreased 8.3% compared with the same period a year earlier to 124.9 billion yen. On a like-for-like basis, sales decreased 7.1%.

For *Merries* baby diapers, sales in the Chinese market, including cross-border e-commerce, began to recover in the second quarter, as expected. In Indonesia, locally manufactured products targeting the middle-class consumer segment performed strongly, 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 10.8 billion yen compared with the same period a year earlier to 7.3 billion yen due to the decrease in sales of *Merries* and other factors.

Fabric and Home Care Business

Sales increased 6.0% compared with the same period a year earlier to 162.3 billion yen. On a like-for-like basis, sales increased 6.1%.

Sales of fabric care products grew in Japan due to the launch of *Attack ZERO*, an innovative new laundry detergent. Sales of fabric softeners were firm given the severely competitive market environment. In

addition, sales of Washing Systems, LLC, which Kao acquired in August 2018, were as planned.

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

Operating income decreased 2.3 billion yen compared with the same period a year earlier year to 25.3 billion yen due to factors including upfront marketing investment for the launch of *Attack ZERO*.

Chemical Business

Sales decreased 7.9% compared with the same period a year earlier to 146.1 billion yen. On a like-for-like basis, sales decreased 6.6%.

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 were affected by sluggish demand associated with slowing economic growth, especially outside Japan. Sales of specialty chemicals were affected by a decrease in demand for hard disk-related products, although sales of toner and toner binder increased.

Operating income increased 1.3 billion yen compared with the same period a year earlier to 16.0 billion yen due to growth in sales of oleo chemical products 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 April 24, 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)

	June 30, 2019	December 31, 2018	Change
Assets			
Current assets			
Cash and cash equivalents	209,886	265,978	(56,092)
Trade and other receivables	198,839	223,102	(24,263)
Inventories	208,021	197,571	10,450
Other financial assets	11,745	15,146	(3,401)
Income tax receivables	1,882	2,066	(184)
Other current assets	19,631	22,449	(2,818)
Total current assets	650,004	726,312	(76,308)
Non-current assets			
Property, plant and equipment	420,666	418,935	1,731
Right-of-use assets	163,373	-	163,373
Goodwill	178,794	180,286	(1,492)
Intangible assets	45,531	46,549	(1,018)
Investments accounted for using the equity method	7,000	7,931	(931)
Other financial assets	24,382	23,540	842
Deferred tax assets	49,914	49,158	756
Other non-current assets	4,344	8,275	(3,931)
Total non-current assets	894,004	734,674	159,330
Total assets	1,544,008	1,460,986	83,022

(Millions of yen)

	June 30, 2019	December 31, 2018	Change
Liabilities and equity			
Liabilities			
Current liabilities			
Trade and other payables	210,972	225,560	(14,588)
Bonds and borrowings	25,460	40,488	(15,028)
Lease liabilities	18,945	-	18,945
Other financial liabilities	2,441	6,880	(4,439)
Income tax payables	23,884	34,198	(10,314)
Provisions	1,330	2,873	(1,543)
Contract liabilities	20,014	18,387	1,627
Other current liabilities	90,527	102,452	(11,925)
Total current liabilities	393,573	430,838	(37,265)
Non-current liabilities			
Bonds and borrowings	95,420	80,339	15,081
Lease liabilities	140,112	-	140,112
Other financial liabilities	7,495	9,506	(2,011)
Retirement benefit liabilities	81,909	84,552	(2,643)
Provisions	11,774	12,175	(401)
Deferred tax liabilities	2,552	2,864	(312)
Other non-current liabilities	4,972	5,203	(231)
Total non-current liabilities	344,234	194,639	149,595
Total liabilities	737,807	625,477	112,330
Equity			
Share capital	85,424	85,424	-
Capital surplus	108,306	108,245	61
Treasury shares	(61,011)	(11,282)	(49,729)
Other components of equity	(37,925)	(30,029)	(7,896)
Retained earnings	698,778	670,002	28,776
Equity attributable to owners of the parent	793,572	822,360	(28,788)
Non-controlling interests	12,629	13,149	(520)
Total equity	806,201	835,509	(29,308)
Total liabilities and equity	1,544,008	1,460,986	83,022

Condensed Consolidated Statement of Income

(Millions of yen)

	Notes	Six months ended June 30, 2019	Six months ended June 30, 2018	Change
Net sales	1	721,399	729,030	(7,631)
Cost of sales		(411,632)	(416,513)	4,881
Gross profit		309,767	312,517	(2,750)
Selling, general and administrative expenses	2	(224,564)	(221,266)	(3,298)
Other operating income		7,665	6,427	1,238
Other operating expenses		(6,482)	(6,923)	441
Operating income	1	86,386	90,755	(4,369)
Financial income		965	830	135
Financial expenses		(2,766)	(2,598)	(168)
Share of profit in investments accounted for using the equity method		930	917	13
Income before income taxes		85,515	89,904	(4,389)
Income taxes		(27,283)	(26,416)	(867)
Net income		58,232	63,488	(5,256)
Attributable to:				
Owners of the parent		57,295	62,805	(5,510)
Non-controlling interests		937	683	254
Net income		58,232	63,488	(5,256)
Earnings per share				
Basic (Yen)		117.98	127.76	
Diluted (Yen)		117.95	127.70	

Condensed Consolidated Statement of Comprehensive Income

(Millions of yen)

	Six months ended June 30, 2019	Six months ended June 30, 2018	Change
Net income	58,232	63,488	(5,256)
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	(437)	249	(686)
Remeasurements of defined benefit plans	(2)	(12)	10
Share of other comprehensive income of investments accounted for using the equity method	(37)	(122)	85
Total of items that will not be reclassified to profit or loss	(476)	115	(591)
Items that may be reclassified subsequently to profit or loss:			
Exchange differences on translation of foreign operations	(7,452)	(12,112)	4,660
Share of other comprehensive income of investments accounted for using the equity method	(71)	(74)	3
Total of items that may be reclassified subsequently to profit or loss	(7,523)	(12,186)	4,663
Other comprehensive income, net of taxes	(7,999)	(12,071)	4,072
Comprehensive income	50,233	51,417	(1,184)
Attributable to:			
Owners of the parent	49,523	51,211	(1,688)
Non-controlling interests	710	206	504
Comprehensive income	50,233	51,417	(1,184)

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	-	-	-	-	-	-	-	-	-	57,295	57,295	937	58,232
Other comprehensive income	-	-	-	-	(7,294)	(2)	(474)	(2)	(7,772)	-	(7,772)	(227)	(7,999)
Comprehensive income	-	-	-	-	(7,294)	(2)	(474)	(2)	(7,772)	57,295	49,523	710	50,233
Disposal of treasury shares	-	(108)	292	(70)	-	-	-	-	(70)	(114)	0	-	0
Purchase of treasury shares	-	-	(50,021)	-	-	-	-	-	-	-	(50,021)	-	(50,021)
Share-based payment transactions	-	169	-	-	-	-	-	-	-	-	169	-	169
Dividends	-	-	-	-	-	-	-	-	-	(29,199)	(29,199)	(1,230)	(30,429)
Transfer from other components of equity to retained earnings	-	-	-	-	-	-	(56)	2	(54)	54	-	-	-
Total transactions with the owners	-	61	(49,729)	(70)	-	-	(56)	2	(124)	(29,259)	(79,051)	(1,230)	(80,281)
June 30, 2019	85,424	108,306	(61,011)	476	(44,326)	(3)	5,928	-	(37,925)	698,778	793,572	12,629	806,201

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	-	-	-	-	-	-	-	-	-	62,805	62,805	683	63,488
Other comprehensive income	-	-	-	-	(11,703)	(7)	128	(12)	(11,594)	-	(11,594)	(477)	(12,071)
Comprehensive income	-	-	-	-	(11,703)	(7)	128	(12)	(11,594)	62,805	51,211	206	51,417
Disposal of treasury shares	-	(99)	481	(82)	-	-	-	-	(82)	(224)	76	-	76
Purchase of treasury shares	-	-	(50,019)	-	-	-	-	-	-	-	(50,019)	-	(50,019)
Share-based payment transactions	-	182	-	-	-	-	-	-	-	-	182	-	182
Dividends	-	-	-	-	-	-	-	-	-	(27,595)	(27,595)	(460)	(28,055)
Transfer from other components of equity to retained earnings	-	-	-	-	-	-	(5)	12	7	(7)	-	-	-
Other increase (decrease)	-	-	-	-	-	-	-	-	-	-	-	(298)	(298)
Total transactions with the owners	-	83	(49,538)	(82)	-	-	(5)	12	(75)	(27,826)	(77,356)	(758)	(78,114)
June 30, 2018	85,424	108,063	(59,131)	649	(33,243)	(3)	8,613	-	(23,984)	669,864	780,236	12,431	792,667

Condensed Consolidated Statement of Cash Flows

(Millions of yen)

	Six months ended June 30, 2019	Six months ended June 30, 2018
Cash flows from operating activities		
Income before income taxes	85,515	89,904
Depreciation and amortization	42,649	29,494
Interest and dividend income	(873)	(738)
Interest expense	1,522	595
Share of profit in investments accounted for using the equity method	(930)	(917)
(Gains) losses on sale and disposal of property, plant and equipment, and intangible assets	1,567	2,128
(Increase) decrease in trade and other receivables	21,506	7,207
(Increase) decrease in inventories	(12,393)	(12,038)
Increase (decrease) in trade and other payables	(6,061)	(7,212)
Increase (decrease) in retirement benefit liabilities	(2,305)	(268)
Other	(13,805)	(10,154)
Subtotal	116,392	98,001
Interest received	788	579
Dividends received	2,065	2,186
Interest paid	(1,514)	(627)
Income taxes paid	(38,085)	(35,940)
Net cash flows from operating activities	79,646	64,199
Cash flows from investing activities		
Payments into time deposits	(15,098)	(12,812)
Proceeds from withdrawal of time deposits	19,098	13,898
Purchase of property, plant and equipment	(42,280)	(40,162)
Purchase of intangible assets	(3,760)	(2,702)
Payments for business combinations	(11)	(44,164)
Other	(1,453)	688
Net cash flows from investing activities	(43,504)	(85,254)
Cash flows from financing activities		
Increase (decrease) in short-term borrowings	(22)	58
Proceeds from long-term borrowings	40,100	-
Repayments of long-term borrowings	(40,029)	(32)
Proceeds from issuance of bonds	-	24,940
Redemption of bonds	(6)	(24,939)
Repayments of lease liabilities	(10,072)	-
Purchase of treasury shares	(50,021)	(50,020)
Dividends paid to owners of the parent	(29,222)	(27,620)
Dividends paid to non-controlling interests	(1,206)	(422)
Other	63	(942)
Net cash flows from financing activities	(90,415)	(78,977)
Net increase (decrease) in cash and cash equivalents	(54,273)	(100,032)
Cash and cash equivalents at the beginning of the period	265,978	343,076
Effect of exchange rate changes on cash and cash equivalents	(1,819)	(5,101)
Cash and cash equivalents at the end of the period	209,886	237,943

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)

Six months ended June 30, 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	140,038	168,626	124,905	162,344	595,913	125,486	721,399	-	721,399
Intersegment sales and transfers[2]	-	-	-	-	-	20,615	20,615	(20,615)	-
Total net sales	140,038	168,626	124,905	162,344	595,913	146,101	742,014	(20,615)	721,399
Operating income	14,685	22,909	7,298	25,305	70,197	16,023	86,220	166	86,386
% of net sales	10.5	13.6	5.8	15.6	11.8	11.0	-	-	12.0
Financial income									965
Financial expenses									(2,766)
Share of profit in investments accounted for using the equity method									930
Income before income taxes									85,515

Notes:
1. The operating income reconciliation of 166 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)

Six months ended June 30, 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	128,156	170,804	136,260	153,139	588,359	140,671	729,030	-	729,030
Intersegment sales and transfers[2]	-	-	-	-	-	17,985	17,985	(17,985)	-
Total net sales	128,156	170,804	136,260	153,139	588,359	158,656	747,015	(17,985)	729,030
Operating income	7,325	22,649	18,064	27,653	75,691	14,755	90,446	309	90,755
% of net sales	5.7	13.3	13.3	18.1	12.9	9.3	-	-	12.4
Financial income									830
Financial expenses									(2,598)
Share of profit in investments accounted for using the equity method									917
Income before income taxes									89,904

Notes:
1. The operating income reconciliation of 309 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, 2019	Six months ended June 30, 2018
Advertising	39,271	40,443
Sales promotion	27,269	25,983
Employee benefits	75,018	74,440
Depreciation	10,756	4,529
Amortization	3,958	3,180
Research and development	30,055	28,914
Other	38,237	43,777
Total	224,564	221,266

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 6,175 million yen previously included in employee benefits and other are accounted for as depreciation.

Note regarding Assumption of Going Concern

None applicable.