

Consolidated Financial Results for the Nine Months Ended September 30, 2021 [IFRS]

November 2, 2021
 Tokyo Stock Exchange in Japan
 Company name: Kao Corporation (URL: www.kao.com/global/en/investor-relations/library/results/)
 Stock code: 4452
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 Scheduled starting date of the dividend payments: -
 Supplementary documents of the financial results: Yes
 Financial results information meeting: Yes (for institutional investors and analysts)

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

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

(1) Consolidated operating results

	(Percentages indicate year-on-year changes)			
	Nine months ended September 30, 2021	%	Nine months ended September 30, 2020	%
Net sales	1,020,959	1.6	1,005,260	(9.4)
Operating income	108,994	(9.2)	120,062	(20.5)
Income before income taxes	113,509	(4.7)	119,148	(20.3)
Net income	83,362	(4.6)	87,352	(16.9)
Net income attributable to owners of the parent	82,070	(4.5)	85,941	(17.0)
Comprehensive income	111,259	47.0	75,695	(18.9)
Basic earnings per share (Yen)	172.42		178.70	
Diluted earnings per share (Yen)	172.40		178.67	

(2) Consolidated financial position

	September 30, 2021	December 31, 2020
Total assets	1,632,789	1,665,616
Total equity	929,915	938,194
Equity attributable to owners of the parent	912,383	923,687
Ratio of equity attributable to owners of the parent to total assets	55.9%	55.5%
Equity attributable to owners of the parent per share (Yen)	1,925.35	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)

	<u>September 30, 2021</u>	<u>December 31, 2020</u>
Number of issued shares including treasury shares	475,000,000	482,000,000
Number of treasury shares	1,120,039	1,054,019
	<u>Nine months ended September 30, 2021</u>	<u>Nine months ended September 30, 2020</u>
Weighted average number of shares outstanding during this period	476,000,663	480,925,176

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 Nine Months Ended September 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 Nine Months Ended September 30, 2021

Note: Changes and comparisons are all with the same period a year earlier unless otherwise noted. Like-for-like growth rates below exclude the effect of translation of local currencies into Japanese yen.

1. Description of Operating Results

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

Nine months ended September 30	2021	2020	Growth
Net sales	1,021.0	1,005.3	1.6% Like-for-like:(0.4%)
Operating income	109.0	120.1	(9.2%)
Operating margin (%)	10.7	11.9	-
Income before income taxes	113.5	119.1	(4.7%)
Net income	83.4	87.4	(4.6%)
Net income attributable to owners of the parent	82.1	85.9	(4.5%)
Basic earnings per share (Yen)	172.42	178.70	(3.5%)

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 vaccinations progressed in countries around the world, the number of infections continue to fluctuate, and the business environment remained unclear.

During the period from January to September 2021, the household and personal care products market in Japan, which is the Kao Group's key market, began to show signs of recovery but shrank due to repeated resurgences of infections and the absence of the increase in demand that arose in the previous year. In addition, the cosmetics market shrank, and recovery lacked force due to the substantial impact of the state of emergency, which continued in various regions of Japan.

Amid these circumstances, net sales increased 1.6% to 1,021.0 billion yen. On a like-for-like basis, net sales decreased 0.4%. Operating income was 109.0 billion yen, a decrease of 11.1 billion yen, and income before income taxes was 113.5 billion yen, a decrease of 5.6 billion yen. Net income was 83.4 billion yen, a decrease of 4.0 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	Third quarter
	Jan. – Mar.	Apr. – Jun.	Jul. – Sep.
U.S. dollar	105.96 (108.95)	109.47 (107.54)	110.09 (106.17)
Euro	127.74 (120.18)	131.90 (118.41)	129.78 (124.05)
Chinese yuan	16.35 (15.61)	16.95 (15.18)	17.01 (15.34)

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 15, “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

(Billions of yen)

Nine months ended September 30	Net sales				Operating income			Operating margin (%)	
	2021	2020	Growth %	Like-for-like %	2021	2020	Change	2021	2020
Hygiene and Living Care Business	357.2	367.2	(2.7)	(4.0)	41.1	55.9	(14.8)	11.5	15.2
Health and Beauty Care Business	261.2	269.7	(3.2)	(4.8)	41.3	47.4	(6.1)	15.8	17.6
Life Care Business	38.1	37.6	1.4	1.1	2.5	3.2	(0.7)	6.5	8.5
Cosmetics Business	165.9	160.3	3.5	0.8	0.1	(7.3)	7.4	0.1	(4.5)
Consumer Products Business	822.4	834.8	(1.5)	(3.1)	85.0	99.3	(14.3)	10.3	11.9
Chemical Business	228.0	199.3	14.4	11.0	23.3	20.7	2.7	10.2	10.4
Total	1,050.3	1,034.1	1.6	(0.4)	108.3	120.0	(11.6)	-	-
Elimination and Reconciliation	(29.4)	(28.9)	-	-	0.7	0.1	0.6	-	-
Consolidated	1,021.0	1,005.3	1.6	(0.4)	109.0	120.1	(11.1)	10.7	11.9

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Consolidated Net Sales Composition

Nine months ended September 30		Japan	Asia	Americas	Europe	(Billions of yen) Consolidated
Fabric and Home Care Products	2021	206.0	29.0	2.1	-	237.1
	2020	207.2	30.4	1.8	-	239.5
	Growth %	(0.6)	(4.6)	14.8	-	(1.0)
	Like-for-like %	(0.6)	(7.6)	1.7	-	(1.5)
Sanitary Products	2021	57.0	63.0	0.1	-	120.1
	2020	63.6	64.1	0.1	-	127.8
	Growth %	(10.4)	(1.7)	(24.4)	-	(6.0)
	Like-for-like %	(10.4)	(6.9)	(33.6)	-	(8.6)
Hygiene and Living Care Business	2021	263.0	92.0	2.2	-	357.2
	2020	270.8	94.5	1.9	-	367.2
	Growth %	(2.9)	(2.6)	13.0	-	(2.7)
	Like-for-like %	(2.9)	(7.1)	0.0	-	(4.0)
Health and Beauty Care Business	2021	150.7	21.8	58.1	30.6	261.2
	2020	168.7	21.9	52.2	26.9	269.7
	Growth %	(10.7)	(0.3)	11.3	13.6	(3.2)
	Like-for-like %	(10.7)	(4.9)	9.2	5.0	(4.8)
Life Care Business	2021	31.0	0.0	7.0	0.1	38.1
	2020	32.3	0.0	5.2	0.1	37.6
	Growth %	(4.0)	15.3	35.3	(1.5)	1.4
	Like-for-like %	(4.0)	6.8	33.0	(10.5)	1.1
Cosmetics Business	2021	107.2	41.0	4.0	13.7	165.9
	2020	114.0	30.6	3.8	11.8	160.3
	Growth %	(6.0)	33.8	4.5	15.9	3.5
	Like-for-like %	(6.0)	23.5	3.3	6.6	0.8
Consumer Products Business	2021	551.8	154.8	71.3	44.4	822.4
	2020	585.7	147.0	63.2	38.9	834.8
	Growth %	(5.8)	5.3	12.9	14.3	(1.5)
	Like-for-like %	(5.8)	(0.4)	10.5	5.5	(3.1)
Chemical Business	2021	89.8	51.3	35.6	51.2	228.0
	2020	81.5	40.7	32.7	44.4	199.3
	Growth %	10.2	26.2	8.9	15.2	14.4
	Like-for-like %	10.2	21.0	5.7	7.3	11.0
Elimination of intersegment	2021	(25.5)	(2.4)	(0.0)	(1.5)	(29.4)
	2020	(25.5)	(1.9)	(0.1)	(1.4)	(28.9)
Consolidated	2021	616.2	203.7	106.9	94.1	1,021.0
	2020	641.8	185.7	95.9	81.9	1,005.3
	Growth %	(4.0)	9.7	11.6	14.9	1.6
	Like-for-like %	(4.0)	4.0	8.9	6.6	(0.4)

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 42.1% of net sales compared with 38.4% for the same period a year earlier.

Consumer Products Business

Sales decreased 1.5% to 822.4 billion yen. On a like-for-like basis, sales decreased 3.1%.

In the first nine months of the fiscal year, the business environment remained severe due to higher raw material prices and the impact of the pandemic. Particularly in the third quarter, there was a substantial impact from a resurgence of infections in Japan and ASEAN, in addition to the impact of higher raw material prices. 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.

As a result of the above factors, sales in Japan decreased 5.8% to 551.8 billion yen.

In Asia, sales increased 5.3% to 154.8 billion yen. On a like-for-like basis, sales decreased 0.4%.

In the Americas, sales increased 12.9% to 71.3 billion yen. On a like-for-like basis, sales increased 10.5%.

In Europe, sales increased 14.3% to 44.4 billion yen. On a like-for-like basis, sales increased 5.5%.

Operating income decreased 14.3 billion yen to 85.0 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 2.7% to 357.2 billion yen. On a like-for-like basis, sales decreased 4.0%.

In fabric care products, the market grew in Japan amid rising awareness of cleanliness during the COVID-19 pandemic, but competition was intense for laundry detergents and fabric softeners. The Kao Group launched an improved version of *Attack* laundry detergent, maintaining the top market share for the brand.

In home care products, sales decreased in Japan as the overall market shrank due to the absence of the special demand for hygiene-related products such as kitchen bleach and house cleaning agents that arose in the previous year, but bathroom cleaners substantially recovered market share with the launch of new *Bath Magiclean Airjet*. In Asia, the Kao Group launched a new disinfectant version of *Magiclean* household cleaner and sales remained firm, centered on hygiene-related products.

In sanitary products, sales of *Laurier* sanitary napkins grew strongly in China, but sales and market share decreased in Japan as the market shrank due to the impact of people voluntarily refraining from going out. Sales of *Merries* baby diapers were steady in Indonesia. In China, reforms continued.

Operating income decreased 14.8 billion yen to 41.1 billion yen.

Health and Beauty Care Business

Sales decreased 3.2% to 261.2 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 4.8%.

Sales of skin care products decreased in Japan, with substantial shrinkage of the market for hand soap and hand sanitizer, but market share grew substantially compared with the same period two years earlier, before the COVID-19 pandemic. Sales of UV care and other seasonal products decreased due to the substantial impact of people voluntarily refraining from going out and inclement weather. In the Americas, sales in the first half of the fiscal year continued to be impacted by a decrease in demand in comparison with the high demand in the same period a year earlier, but with the easing of lockdowns in the third quarter, sales for the nine-month period recovered to nearly the level of 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. Sales of products for hair salons in Europe gradually recovered as the number of COVID-19 infections continued to fluctuate. Sales in the Americas grew due to strong e-commerce sales of *Oribe*, a brand for high-end hair salons.

Sales of personal health products decreased slightly 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 6.1 billion yen to 41.3 billion yen.

Life Care Business

Sales increased 1.4% to 38.1 billion yen. On a like-for-like basis, sales increased 1.1%.

Sales of commercial-use hygiene products decreased substantially in Japan due to the significant impact of restrictions on going out and on mobility, and requests to restaurants and other establishments for temporary closure or shortened operating hours as the state of emergency continued into the second half of the fiscal year, despite ongoing demand in the first half for hand sanitizers and other products at medical facilities, restaurants and other establishments with a particular need for hygiene management and infectious disease countermeasures. 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 repeated extensions of the state of emergency in Japan, among other factors, despite growth in sales in the e-commerce channel backed by demand from people staying home.

Operating income decreased 0.7 billion yen to 2.5 billion yen.

Cosmetics Business

Sales increased 3.5% to 165.9 billion yen. On a like-for-like basis, sales increased 0.8%.

Sales in Japan decreased due to a delay in market recovery caused by a decrease in inbound demand and the continuation of the state of emergency, with tough conditions for makeup brands in particular. However, sales have been on a recovery track with the creation of hit products arising from new offerings for mask wearers during the COVID-19 pandemic and various measures using digital technology. In Asia, sales increased substantially with continuing strong sales in China, mainly through e-commerce channel, of *freeplus*, 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 a recovery trend in the market due to the easing of lockdowns.

Operating income was 0.1 billion yen, an increase of 7.4 billion yen.

Chemical Business

Sales increased 14.4% to 228.0 billion yen. On a like-for-like basis, sales increased 11.0%.

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

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 2.7 billion yen to 23.3 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 August 3, 2021.

The main exchange rates used in the forecast of consolidated results are one U.S. dollar to 109 yen, one euro to 130 yen and one Chinese yuan to 17 yen.

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Condensed Consolidated Statement of Financial Position

(Millions of yen)

	<u>September 30, 2021</u>	<u>December 31, 2020</u>	<u>Change</u>
Assets			
Current assets			
Cash and cash equivalents	298,967	353,176	(54,209)
Trade and other receivables	180,825	200,087	(19,262)
Inventories	232,813	197,641	35,172
Other financial assets	6,111	7,257	(1,146)
Income tax receivables	6,908	2,085	4,823
Other current assets	19,209	18,150	1,059
Total current assets	744,833	778,396	(33,563)
Non-current assets			
Property, plant and equipment	430,621	430,914	(293)
Right-of-use assets	140,233	149,543	(9,310)
Goodwill	181,707	177,031	4,676
Intangible assets	51,022	48,256	2,766
Investments accounted for using the equity method	9,319	8,657	662
Other financial assets	24,339	23,608	731
Deferred tax assets	42,937	42,274	663
Other non-current assets	7,778	6,937	841
Total non-current assets	887,956	887,220	736
Total assets	1,632,789	1,665,616	(32,827)

(Millions of yen)

	September 30, 2021	December 31, 2020	Change
Liabilities and equity			
Liabilities			
Current liabilities			
Trade and other payables	217,822	215,842	1,980
Bonds and borrowings	2,722	30,465	(27,743)
Lease liabilities	19,444	19,787	(343)
Other financial liabilities	2,994	6,571	(3,577)
Income tax payables	21,739	28,109	(6,370)
Provisions	1,243	1,811	(568)
Contract liabilities	27,647	23,098	4,549
Other current liabilities	95,133	99,721	(4,588)
Total current liabilities	388,744	425,404	(36,660)
Non-current liabilities			
Bonds and borrowings	124,655	97,229	27,426
Lease liabilities	117,705	126,725	(9,020)
Other financial liabilities	7,169	7,862	(693)
Retirement benefit liabilities	46,484	51,858	(5,374)
Provisions	8,939	9,175	(236)
Deferred tax liabilities	4,631	4,584	47
Other non-current liabilities	4,547	4,585	(38)
Total non-current liabilities	314,130	302,018	12,112
Total liabilities	702,874	727,422	(24,548)
Equity			
Share capital	85,424	85,424	-
Capital surplus	105,540	106,618	(1,078)
Treasury shares	(3,958)	(3,865)	(93)
Other components of equity	(16,840)	(43,376)	26,536
Retained earnings	742,217	778,886	(36,669)
Equity attributable to owners of the parent	912,383	923,687	(11,304)
Non-controlling interests	17,532	14,507	3,025
Total equity	929,915	938,194	(8,279)
Total liabilities and equity	1,632,789	1,665,616	(32,827)

Condensed Consolidated Statement of Income

(Millions of yen)

	Notes	Nine months ended September 30, 2021	Nine months ended September 30, 2020	Change
Net sales	1	1,020,959	1,005,260	15,699
Cost of sales		(604,175)	(578,743)	(25,432)
Gross profit		416,784	426,517	(9,733)
Selling, general and administrative expenses	2	(309,985)	(307,672)	(2,313)
Other operating income		12,979	11,870	1,109
Other operating expenses		(10,784)	(10,653)	(131)
Operating income	1	108,994	120,062	(11,068)
Financial income		4,496	1,317	3,179
Financial expenses		(1,953)	(4,330)	2,377
Share of profit in investments accounted for using the equity method		1,972	2,099	(127)
Income before income taxes		113,509	119,148	(5,639)
Income taxes		(30,147)	(31,796)	1,649
Net income		83,362	87,352	(3,990)
Attributable to:				
Owners of the parent		82,070	85,941	(3,871)
Non-controlling interests		1,292	1,411	(119)
Net income		83,362	87,352	(3,990)
Earnings per share				
Basic (Yen)		172.42	178.70	
Diluted (Yen)		172.40	178.67	

Condensed Consolidated Statement of Comprehensive Income

(Millions of yen)

	Nine months ended September 30, 2021	Nine months ended September 30, 2020	Change
Net income	83,362	87,352	(3,990)
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	520	(190)	710
Remeasurements of defined benefit plans	(193)	-	(193)
Share of other comprehensive income of investments accounted for using the equity method	339	(138)	477
Total of items that will not be reclassified to profit or loss	666	(328)	994
Items that may be reclassified subsequently to profit or loss:			
Exchange differences on translation of foreign operations	26,949	(11,246)	38,195
Share of other comprehensive income of investments accounted for using the equity method	282	(83)	365
Total of items that may be reclassified subsequently to profit or loss	27,231	(11,329)	38,560
Other comprehensive income, net of taxes	27,897	(11,657)	39,554
Comprehensive income	111,259	75,695	35,564
Attributable to:			
Owners of the parent	109,022	74,839	34,183
Non-controlling interests	2,237	856	1,381
Comprehensive income	111,259	75,695	35,564

Condensed Consolidated Statement of Changes in Equity

(Millions of yen)

	Equity attributable to owners of the parent												
	Other components of equity							Total	Retained earnings	Total	Non-controlling interests	Total equity	
	Share capital	Capital surplus	Treasury shares	Subscription rights to shares	Exchange differences on translation of foreign operations	Net gain (loss) on derivatives designated as cash flow hedges	Net gain (loss) on revaluation of financial assets measured at fair value through other comprehensive income						Remeasurements of defined benefit plans
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	-	-	-	-	-	-	-	-	-	82,070	82,070	1,292	83,362
Other comprehensive income	-	-	-	-	26,286	0	859	(193)	26,952	-	26,952	945	27,897
Comprehensive income	-	-	-	-	26,286	0	859	(193)	26,952	82,070	109,022	2,237	111,259
Disposal of treasury shares	-	(334)	51,697	(89)	-	-	-	-	(89)	(51,272)	2	-	2
Purchase of treasury shares	-	-	(51,790)	-	-	-	-	-	-	-	(51,790)	-	(51,790)
Share-based payment transactions	-	277	-	-	-	-	-	-	-	-	277	-	277
Dividends	-	-	-	-	-	-	-	-	-	(67,794)	(67,794)	(797)	(68,591)
Changes in the ownership interest in subsidiaries	-	(1,021)	-	-	-	-	-	-	-	-	(1,021)	1,585	564
Transfer from other components of equity to retained earnings	-	-	-	(4)	-	-	(516)	193	(327)	327	-	-	-
Total transactions with the owners	-	(1,078)	(93)	(93)	-	-	(516)	193	(416)	(118,739)	(120,326)	788	(119,538)
September 30, 2021	85,424	105,540	(3,958)	175	(23,082)	0	6,067	-	(16,840)	742,217	912,383	17,532	929,915
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	-	-	-	-	-	-	-	-	-	85,941	85,941	1,411	87,352
Other comprehensive income	-	-	-	-	(10,774)	0	(328)	-	(11,102)	-	(11,102)	(555)	(11,657)
Comprehensive income	-	-	-	-	(10,774)	0	(328)	-	(11,102)	85,941	74,839	856	75,695
Disposal of treasury shares	-	(98)	402	(137)	-	-	-	-	(137)	(165)	2	-	2
Purchase of treasury shares	-	-	(19)	-	-	-	-	-	-	-	(19)	-	(19)
Share-based payment transactions	-	245	-	-	-	-	-	-	-	-	245	-	245
Dividends	-	-	-	-	-	-	-	-	-	(64,925)	(64,925)	(1,269)	(66,194)
Changes in the ownership interest in subsidiaries	-	(48)	-	-	-	-	-	-	-	-	(48)	999	951
Transfer from other components of equity to retained earnings	-	-	-	(3)	-	-	(514)	-	(517)	517	-	-	-
Total transactions with the owners	-	99	383	(140)	-	-	(514)	-	(654)	(64,573)	(64,745)	(270)	(65,015)
September 30, 2020	85,424	108,814	(3,926)	308	(50,404)	0	5,366	-	(44,730)	722,207	867,789	14,312	882,101

Condensed Consolidated Statement of Cash Flows

(Millions of yen)

	Nine months ended September 30, 2021	Nine months ended September 30, 2020
Cash flows from operating activities		
Income before income taxes	113,509	119,148
Depreciation and amortization	65,666	64,144
Interest and dividend income	(975)	(1,208)
Interest expense	1,527	1,985
Share of profit in investments accounted for using the equity method	(1,972)	(2,099)
(Gains) losses on sale and disposal of property, plant and equipment, and intangible assets	2,703	2,225
(Increase) decrease in trade and other receivables	26,919	32,436
(Increase) decrease in inventories	(28,830)	(15,096)
Increase (decrease) in trade and other payables	972	(7,784)
Increase (decrease) in retirement benefit liabilities	(5,868)	(4,644)
Other	(11,651)	(2,152)
Subtotal	162,000	186,955
Interest received	900	1,202
Dividends received	2,174	2,032
Interest paid	(1,511)	(2,066)
Income taxes paid	(42,271)	(52,016)
Net cash flows from operating activities	121,292	136,107
Cash flows from investing activities		
Payments into time deposits	(6,466)	(9,001)
Proceeds from withdrawal of time deposits	7,827	14,414
Purchase of property, plant and equipment	(46,238)	(47,632)
Purchase of intangible assets	(7,294)	(7,402)
Other	1,959	597
Net cash flows from investing activities	(50,212)	(49,024)
Cash flows from financing activities		
Increase (decrease) in short-term borrowings	320	(41)
Proceeds from long-term borrowings	30,091	1,080
Repayments of long-term borrowings	(31,173)	(37)
Proceeds from issuance of bonds	-	24,939
Redemption of bonds	(12)	(24,942)
Repayments of lease liabilities	(15,982)	(15,598)
Purchase of treasury shares	(51,790)	(21)
Dividends paid to owners of the parent	(67,152)	(64,415)
Dividends paid to non-controlling interests	(802)	(1,220)
Other	807	1,148
Net cash flows from financing activities	(135,693)	(79,107)
Net increase (decrease) in cash and cash equivalents	(64,613)	7,976
Cash and cash equivalents at the beginning of the period	353,176	289,681
Effect of exchange rate changes on cash and cash equivalents	10,404	(2,598)
Cash and cash equivalents at the end of the period	298,967	295,059

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

Nine months ended September 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	357,171	261,177	38,115	165,895	822,358	198,601	1,020,959	-	1,020,959
Intersegment sales and transfers ²	-	-	-	-	-	29,357	29,357	(29,357)	-
Total net sales	357,171	261,177	38,115	165,895	822,358	227,958	1,050,316	(29,357)	1,020,959
Operating income (loss)	41,136	41,318	2,471	97	85,022	23,304	108,326	668	108,994
% of net sales	11.5	15.8	6.5	0.1	10.3	10.2	-	-	10.7
Financial income									4,496
Financial expenses									(1,953)
Share of profit in investments accounted for using the equity method									1,972
Income before income taxes									113,509

Notes:

1. The operating income (loss) reconciliation of 668 million yen includes corporate expenses not allocated to reportable segments, as well as elimination of intersegment inventory transactions.
2. Intersegment sales and transfers are mainly calculated based on market price and manufacturing cost.

Nine months ended September 30, 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	367,244	269,695	37,572	160,271	834,782	170,478	1,005,260	-	1,005,260
Intersegment sales and transfers ²	-	-	-	-	-	28,857	28,857	(28,857)	-
Total net sales	367,244	269,695	37,572	160,271	834,782	199,335	1,034,117	(28,857)	1,005,260
Operating income (loss)	55,933	47,436	3,208	(7,278)	99,299	20,654	119,953	109	120,062
% of net sales	15.2	17.6	8.5	(4.5)	11.9	10.4	-	-	11.9
Financial income									1,317
Financial expenses									(4,330)
Share of profit in investments accounted for using the equity method									2,099
Income before income taxes									119,148

Notes:

1. The operating income (loss) reconciliation of 109 million yen includes corporate expenses not allocated to reportable segments, as well as elimination of intersegment inventory transactions.
2. Intersegment sales and transfers are mainly calculated based on market price and manufacturing cost.

2. Selling, General and Administrative Expenses

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

	(Millions of yen)	
	Nine months ended September 30, 2021	Nine months ended September 30, 2020
Advertising	52,458	51,643
Sales promotion	31,009	32,575
Employee benefits	114,963	111,511
Depreciation	13,923	13,798
Amortization	6,290	6,534
Research and development	43,768	43,474
Other	47,574	48,137
Total	<u>309,985</u>	<u>307,672</u>

Note regarding Assumption of Going Concern

None applicable.