Consolidated Financial Results for the Nine Months Ended September 30, 2017 [IFRS]

October 30, 2017

Company name: Kao Corporation — Tokyo Stock Exchange in Japan
Stock code: 4452 (URL: http://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: -
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, 2017 (from January 1, 2017 to September 30, 2017)

(1) Consolidated operating results

(Percentages indicate year-on-year changes)

	Nine months ended September 30, 2017	%	Nine months ended September 30, 2016	%
Net sales	1,080,250	2.4	1,055,089	(0.9)
Operating income	137,791	5.0	131,202	12.7
Income before income taxes	137,362	8.2	126,970	10.5
Net income	97,222	11.6	87,085	19.4
Net income attributable to owners of the parent	96,423	11.7	86,357	18.1
Comprehensive income	102,649	158.4	39,719	(33.2)
Basic earnings per share (Yen)	195.64		172.25	
Diluted earnings per share (Yen)	195.50		172.08	

Note: In the three months ended March 31, 2017, the Kao Group adopted IFRS 15, “Revenue from Contracts with Customers” and its amendments early in tandem with a revision of its sales system for the Consumer Products Business in Japan (Reference: Page 13, “Changes in Accounting Policies” in "Notes to Condensed Consolidated Financial Statements"). Net sales growth adjusted for the impact of these changes and excluding the effect of currency translation would have been 6.0%.

(2) Consolidated financial position

	September 30, 2017	December 31, 2016
Total assets	1,357,105	1,338,309
Total equity	742,138	691,463
Equity attributable to owners of the parent	730,136	679,842
Ratio of equity attributable to owners of the parent to total assets	53.8%	50.8%
Equity attributable to owners of the parent per share (Yen)	1,481.73	1,379.37

2. Dividends

	Year ending December 31, 2017 (Forecast)	Year ending December 31, 2017	Year ended December 31, 2016
Annual cash dividends per share (Yen)			
1st quarter end		-	-
2nd quarter end		54.00	46.00
3rd quarter end		-	-
Fiscal year end	54.00		48.00
Total	108.00		94.00

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

3. Forecast of consolidated operating results for the year ending December 31, 2017 (from January 1, 2017 to December 31, 2017)

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

	Year ending December 31, 2017	%
Net sales	1,470,000	0.9
Operating income	200,000	7.8
Income before income taxes	199,000	8.5
Net income attributable to owners of the parent	138,000	9.0
Basic earnings per share (Yen)	280.06	-

Notes: 1) In the fiscal year ending December 31, 2017, the Kao Group adopted IFRS 15, “Revenue from Contracts with Customers” and its amendments early in tandem with a revision of its sales system for the Consumer Products Business in Japan. As a result, certain items formerly treated as expenses are accounted for as reductions of net sales.
Calculating net sales for the previous year using the same standard, growth rates in the forecast of consolidated business results would be 5.3%.

2) 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: None

2) Changes in accounting principles due to reasons other than 1): Yes
For details, please refer to page 13, "Changes in Accounting Policies” in "Notes to Condensed Consolidated Financial Statements"

3) Changes in accounting estimates: None

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

	September 30, 2017	December 31, 2016
Number of issued shares including treasury shares	495,000,000	504,000,000
Number of treasury shares	2,241,116	11,137,654

	Nine months ended September 30, 2017	Nine months ended September 30, 2016
Weighted average number of shares outstanding during the period	492,854,195	501,348,223

Notice regarding execution of quarterly review procedures

This quarterly financial results report is exempt from quarterly review.

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

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

Please refer to page 6, "Qualitative Information on Financial Results for the Nine Months Ended September 30, 2017 - (2) Description of Information on Outlook, Including Forecast 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, 2017

(1) Description of Operating Results

In the three months ended March 31, 2017, the Kao Group adopted IFRS 15, “Revenue from Contracts with Customers” and its amendments early in tandem with a revision of its sales system for the Consumer Products Business in Japan (Reference: Page 13, “Changes in Accounting Policies” in “Notes to Condensed Consolidated Financial Statements”). To facilitate comparison, growth adjusted for the impact of these changes and excluding the effect of currency translation is presented as “like-for-like” below.

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

Nine months ended September 30	2017	2016	Growth
Net sales	1,080.2	1,055.1	2.4% Like-for-like: 6.0%
Operating income	137.8	131.2	5.0%
Operating margin (%)	12.8	12.4	-
Income before income taxes	137.4	127.0	8.2%
Net income	97.2	87.1	11.6%
Net income attributable to owners of the parent	96.4	86.4	11.7%
Basic earnings per share (Yen)	195.64	172.25	13.6%

During the nine months ended September 30, 2017, according to retail store sales data, the household and personal care products market in Japan, a key market for the Kao Group, shrank 1% on a value basis compared with the same period a year earlier. However, according to data on consumer purchasing that includes the e-commerce channel, the market grew 3%. Consumer purchase prices increased 1%. The cosmetics market in Japan including the e-commerce channel was flat, excluding inbound demand (demand from visitors to Japan).

Net sales increased 2.4% compared with the same period a year earlier to 1,080.2 billion yen. On a like-for-like basis, net sales increased 6.0%. Sales of skin care products, sanitary products in Japan and Asia and the Chemical Business increased substantially.

As for profits, due to more effective deployment of expenses and other factors in addition to the effect of increased sales in the Human Health Care Business, operating income was 137.8 billion yen, an increase of 6.6 billion yen compared with the same period a year earlier, and income before income taxes was 137.4 billion yen, an increase of 10.4 billion yen. Net income was 97.2 billion yen, an increase of 10.1 billion yen.

Kao Corporation retired 9.0 million treasury shares on March 1, 2017.

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

	First quarter Jan. – Mar.	Second quarter Apr. – Jun.	Third quarter Jul. – Sep.
Yen/U.S. dollar	113.71 (115.31)	111.13 (108.05)	110.97 (102.38)
Yen/Euro	121.13 (127.15)	122.28 (122.05)	130.35 (114.24)
Yen/Chinese yuan	16.50 (17.63)	16.19 (16.55)	16.63 (15.36)

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 (%)	
Nine months ended September 30	2017	2016	Growth %	Like-for-like%	2017	2016	Change	2017	2016
Beauty Care Business	425.6	441.6	(3.6)	1.0	35.4	37.0	(1.6)	8.3	8.4
Human Health Care Business	213.0	193.3	10.2	15.8	28.5	18.2	10.4	13.4	9.4
Fabric and Home Care Business	239.6	244.7	(2.1)	2.1	51.0	53.5	(2.5)	21.3	21.9
Consumer Products Business	878.3	879.6	(0.2)	4.5	114.9	108.6	6.3	13.1	12.3
Chemical Business	229.1	201.9	13.5	11.8	21.5	21.8	(0.3)	9.4	10.8
Total	1,107.4	1,081.5	2.4	5.9	136.4	130.4	6.0	-	-
Elimination and Reconciliation	(27.1)	(26.4)	-	-	1.3	0.8	0.6	-	-
Consolidated	1,080.2	1,055.1	2.4	6.0	137.8	131.2	6.6	12.8	12.4

Consolidated Net Sales Composition

(Billions of yen)

Nine months ended September 30		Japan	Asia	Americas	Europe	Consolidated
Beauty Care Business						
Cosmetics	2017	138.7	16.1	1.8	12.0	168.6
	2016	153.3	13.6	1.8	12.0	180.7
	Growth %	(9.5)	18.1	2.4	0.3	(6.7)
	Like-for-like %	(2.8)	28.6	(1.0)	2.3	(0.1)
Skin care/hair care products	2017	146.2	23.5	55.0	32.3	257.0
	2016	148.1	25.3	52.1	35.4	260.9
	Growth %	(1.3)	(7.2)	5.5	(8.6)	(1.5)
	Like-for-like %	3.0	7.1	3.5	(10.3)	1.7
	2017	284.9	39.6	56.8	44.3	425.6
	2016	301.4	39.0	53.9	47.3	441.6
	Growth %	(5.5)	1.6	5.4	(6.4)	(3.6)
	Like-for-like %	0.0	14.6	3.4	(7.1)	1.0
Human Health Care Business	2017	140.9	72.1	0.0	—	213.0
	2016	132.9	60.4	—	—	193.3
	Growth %	6.0	19.3	—	—	10.2
	Like-for-like %	10.1	28.2	—	—	15.8
Fabric and Home Care Business	2017	209.4	28.8	1.5	—	239.6
	2016	211.7	31.7	1.3	—	244.7
	Growth %	(1.1)	(9.3)	16.0	—	(2.1)
	Like-for-like %	2.4	(0.4)	12.1	—	2.1
Consumer Products Business	2017	635.2	140.4	58.3	44.3	878.3
	2016	646.1	131.1	55.2	47.3	879.6
	Growth %	(1.7)	7.2	5.7	(6.4)	(0.2)
	Like-for-like %	2.9	17.2	3.6	(7.1)	4.5
Chemical Business	2017	91.2	50.6	39.4	47.9	229.1
	2016	87.3	42.7	32.4	39.5	201.9
	Growth %	4.5	18.6	21.6	21.2	13.5
	Like-for-like %	4.5	15.4	18.9	18.0	11.8
Elimination of intersegment	2017	(23.4)	(2.4)	(0.1)	(1.2)	(27.1)
	2016	(23.1)	(2.2)	(0.0)	(1.1)	(26.4)
Consolidated	2017	703.0	188.6	97.6	91.0	1,080.2
	2016	710.2	171.5	87.5	85.8	1,055.1
	Growth %	(1.0)	10.0	11.6	6.1	2.4
	Like-for-like %	3.2	16.9	9.3	4.3	6.0

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. To facilitate comparison, sales for the same period a year earlier are restated using the same method. Sales by geographic region are classified based on the location of the sales recognized.

Net sales to foreign customers were 37.5% of net sales compared with 34.4% for the same period a year earlier.

Consumer Products Business

Sales decreased 0.2% compared with the same period a year earlier to 878.3 billion yen. On a like-for-like basis, sales increased 4.5%.

In Japan, sales decreased 1.7% to 635.2 billion yen. On a like-for-like basis, sales increased 2.9%. The Kao Group made efforts that included launching numerous high-value-added products and enhancing proposal-oriented sales activities amid 3% growth in the market including the e-commerce channel.

In Asia, sales increased 7.2% to 140.4 billion yen, with strong growth centered on China, Indonesia and elsewhere. On a like-for-like basis, sales increased 17.2%.

In the Americas, sales increased 5.7% to 58.3 billion yen. On a like-for-like basis, sales increased 3.6%. In Europe, sales decreased 6.4% to 44.3 billion yen. On a like-for-like basis, sales decreased 7.1%.

Operating income increased 6.3 billion yen compared with the same period a year earlier to 114.9 billion yen due to the effect of increased sales in the Human Health Care Business.

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

Beauty Care Business

Sales decreased 3.6% compared with the same period a year earlier to 425.6 billion yen. On a like-for-like basis, sales increased 1.0%.

Sales of cosmetics decreased 6.7% to 168.6 billion yen. On a like-for-like basis, sales decreased 0.1%. In Japan, sales decreased due in part to a decline in sales related to inbound demand, which had increased in the previous year, and to the effect of the different timing of launches of improved products compared with the previous year. Outside Japan, on the other hand, sales grew strongly as the Kao Group stepped up its operations in Asia.

Major reforms of the cosmetics business are progressing steadily. *SOFINA iP* is being rolled out across sales channels in Japan, receiving a positive reception from many consumers, and performed well in Asia as well as in Japan. Sales of the global brand *KANEBO* grew steadily in Japan and Asia, and a rollout in Europe began.

Sales of skin care and hair care products decreased 1.5% to 257.0 billion yen. On a like-for-like basis, sales increased 1.7%. Among skin care products, sales of *Bioré* facial cleanser grew steadily, with good performance in Japan, Asia and the Americas, and a rollout in Europe. In addition, sales were strong for *Curél* derma care products in Japan and Asia. On the other hand, sales of hair care products decreased due to the impact of intensifying competition, despite the launch of premium products.

Operating income decreased 1.6 billion yen compared with the same period a year earlier to 35.4 billion yen.

Human Health Care Business

Sales increased 10.2% compared with the same period a year earlier to 213.0 billion yen. On a like-for-like basis, sales increased 15.8%.

Sales of sanitary products increased. Sales of *Merries* baby diapers grew steadily. In Japan, sales increased in the domestic market and cross-border e-commerce for the Chinese market is also growing substantially. In China, sales grew due in part to initial shipments following a distribution channel change as part of structural reforms that have been underway since 2016 and to increased shipments for e-commerce. In Indonesia, sales of locally produced products targeting the middle-class consumer segment grew steadily.

Sales of personal health products increased. Sales of oral care products increased, with the launch of a new product and steady sales of high-performance products. Sales of *MegRhythm Steam Eye Mask* grew steadily with an increase in new users in Japan, despite a decrease in inbound demand.

Operating income increased 10.4 billion yen compared with the same period a year earlier to 28.5 billion yen, mainly due to the effect of increased sales in Japan and Asia.

Fabric and Home Care Business

Sales decreased 2.1% compared with the same period a year earlier to 239.6 billion yen. On a like-for-like basis, sales increased 2.1%.

In Japan, sales of fabric care products increased on a like-for-like basis. Sales of laundry detergents were nearly flat due to the severe market environment, despite the launch of improved *Attack Neo Antibacterial EX W Power* amid rising consumer awareness of bacteria. Sales of fabric softeners were firm. Sales of home care products grew steadily with consumer acceptance of high-value-added products.

In a severe competitive environment in Asia, sales on a like-for-like basis nearly recovered to the level of the same period a year earlier.

Operating income decreased 2.5 billion yen compared with the same period a year earlier to 51.0 billion yen due to factors including the effects of higher raw material prices and decreased sales in Asia.

Chemical Business

Sales increased 13.5% compared with the same period a year earlier to 229.1 billion yen. On a like-for-like basis, sales increased 11.8%.

Sales of oleo chemicals increased due to factors including efforts to adjust selling prices globally in line with rising raw material prices. Sales of performance chemicals increased with market conditions in infrastructure-related fields in Japan on a recovery track, in addition to an increase in automobile production volume in Japan, China and elsewhere. Sales of specialty chemicals increased steadily with growth in demand for information material-related products amid a recovery trend among customer industries. To expedite the development of water-based pigment inkjet ink that contributes to the mitigation of environmental impact and to accelerate the global expansion of such business, the Kao Group acquired companies in the United States and Europe and made them consolidated subsidiaries as of July 2016 for the company in the United States and as of April 2017 for the company in Europe.

Operating income decreased 0.3 billion yen compared with the same period a year earlier to 21.5 billion yen due to the impact of sharp fluctuations in prices of natural fats and oils used as raw materials, despite the growth in sales.

(2) Description of Information on Outlook, Including Forecast of Consolidated Results

The Kao Group Mid-term Plan “K20,” which covers the four years to fiscal 2020, started from the three months ended March 31, 2017. The Kao Group aims to achieve its targets by steadily executing the strategies incorporated in the plan, one by one.

There is no change from the forecast of consolidated operating results for the year ending December 31, 2017 that was announced on July 27, 2017.

The main exchange rates used in the forecast of consolidated results are 110 yen per U.S. dollar, 123 yen per euro and 16.8 yen per Chinese yuan.

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Condensed Consolidated Statement of Financial Position

(Millions of yen)

	September 30, 2017	December 31, 2016
Assets		
Current assets		
Cash and cash equivalents	292,430	303,026
Trade and other receivables	196,324	208,459
Inventories	183,094	165,200
Other financial assets	13,996	13,038
Income tax receivables	4,570	1,462
Other current assets	19,752	23,812
Subtotal	710,166	714,997
Non-current assets held for sale	147	344
Total current assets	710,313	715,341
Non-current assets		
Property, plant and equipment	389,160	370,835
Goodwill	138,653	137,783
Intangible assets	15,190	14,689
Investments accounted for using the equity method	5,905	4,701
Other financial assets	26,628	25,473
Deferred tax assets	53,158	50,939
Other non-current assets	18,098	18,548
Total non-current assets	646,792	622,968
Total assets	1,357,105	1,338,309

Condensed Consolidated Statement of Financial Position

(Millions of yen)

	September 30, 2017	December 31, 2016
Liabilities and equity		
Liabilities		
Current liabilities		
Trade and other payables	217,791	216,893
Bonds and borrowings	25,259	30,289
Other financial liabilities	5,037	8,164
Income tax payables	25,206	32,621
Provisions	3,600	11,370
Contract liabilities	17,255	-
Other current liabilities	100,335	131,112
Total current liabilities	394,483	430,449
Non-current liabilities		
Bonds and borrowings	95,336	90,357
Other financial liabilities	10,214	11,666
Retirement benefit liabilities	95,164	94,773
Provisions	13,928	13,809
Deferred tax liabilities	599	528
Other non-current liabilities	5,243	5,264
Total non-current liabilities	220,484	216,397
Total liabilities	614,967	646,846
Equity		
Share capital	85,424	85,424
Capital surplus	107,897	107,648
Treasury shares	(9,674)	(57,124)
Other components of equity	(16,550)	(21,821)
Retained earnings	563,039	565,715
Equity attributable to owners of the parent	730,136	679,842
Non-controlling interests	12,002	11,621
Total equity	742,138	691,463
Total liabilities and equity	1,357,105	1,338,309

Condensed Consolidated Statement of Income

(Millions of yen)

	Notes	Nine months ended September 30, 2017	Nine months ended September 30, 2016
Net sales	1	1,080,250	1,055,089
Cost of sales		(610,066)	(463,123)
Gross profit		470,184	591,966
Selling, general and administrative expenses	2	(333,841)	(461,461)
Other operating income		10,492	9,978
Other operating expenses		(9,044)	(9,281)
Operating income	1	137,791	131,202
Financial income		1,011	1,007
Financial expenses		(3,083)	(6,766)
Share of profit in investments accounted for using the equity method		1,643	1,527
Income before income taxes		137,362	126,970
Income taxes		(40,140)	(39,885)
Net income		97,222	87,085
Attributable to:			
Owners of the parent		96,423	86,357
Non-controlling interests		799	728
Net income		97,222	87,085
Earnings per share			
Basic (Yen)		195.64	172.25
Diluted (Yen)		195.50	172.08

Condensed Consolidated Statement of Comprehensive Income

(Millions of yen)

	Nine months ended September 30, 2017	Nine months ended September 30, 2016
Net income	97,222	87,085
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	817	(1,367)
Remeasurements of defined benefit plans	29	(468)
Share of other comprehensive income of investments accounted for using the equity method	291	(131)
Total of items that will not be reclassified to profit or loss	1,137	(1,966)
Items that may be reclassified subsequently to profit or loss:		
Exchange differences on translation of foreign operations	4,305	(45,356)
Share of other comprehensive income of investments accounted for using the equity method	(15)	(44)
Total of items that may be reclassified subsequently to profit or loss	4,290	(45,400)
Other comprehensive income, net of taxes	5,427	(47,366)
Comprehensive income	102,649	39,719
Attributable to:		
Owners of the parent	101,848	40,456
Non-controlling interests	801	(737)
Comprehensive income	102,649	39,719

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, 2017	85,424	107,648	(57,124)	911	(29,761)	4	7,025	-	(21,821)	565,715	679,842	11,621	691,463
Net income	-	-	-	-	-	-	-	-	-	96,423	96,423	799	97,222
Other comprehensive income	-	-	-	-	4,290	(1)	1,108	28	5,425	-	5,425	2	5,427
Comprehensive income	-	-	-	-	4,290	(1)	1,108	28	5,425	96,423	101,848	801	102,649
Disposal of treasury shares	-	-	49,281	(103)	-	-	-	-	(103)	(48,885)	293	-	293
Purchase of treasury shares	-	-	(1,831)	-	-	-	-	-	-	-	(1,831)	-	(1,831)
Share-based payment transactions	-	249	-	-	-	-	-	-	-	-	249	-	249
Dividends	-	-	-	-	-	-	-	-	-	(50,265)	(50,265)	(369)	(50,634)
Transfer from other components of equity to retained earnings	-	-	-	(15)	-	-	(8)	(28)	(51)	51	-	-	-
Other increase (decrease)	-	-	-	-	-	-	-	-	-	-	-	(51)	(51)
Total transactions with the owners	-	249	47,450	(118)	-	-	(8)	(28)	(154)	(99,099)	(51,554)	(420)	(51,974)
September 30, 2017	85,424	107,897	(9,674)	793	(25,471)	3	8,125	-	(16,550)	563,039	730,136	12,002	742,138
January 1, 2016	85,424	108,659	(8,202)	902	(13,513)	(3)	8,430	-	(4,184)	499,299	680,996	10,991	691,987
Net income	-	-	-	-	-	-	-	-	-	86,357	86,357	728	87,085
Other comprehensive income	-	-	-	-	(43,926)	(5)	(1,498)	(472)	(45,901)	-	(45,901)	(1,465)	(47,366)
Comprehensive income	-	-	-	-	(43,926)	(5)	(1,498)	(472)	(45,901)	86,357	40,456	(737)	39,719
Disposal of treasury shares	-	-	1,012	(163)	-	-	-	-	(163)	(361)	488	-	488
Purchase of treasury shares	-	-	(28,473)	-	-	-	-	-	-	-	(28,473)	-	(28,473)
Share-based payment transactions	-	-	-	227	-	-	-	-	227	-	227	-	227
Dividends	-	-	-	-	-	-	-	-	-	(44,139)	(44,139)	(955)	(45,094)
Changes in the ownership interest in a subsidiary	-	(363)	-	-	-	-	-	-	-	-	(363)	363	-
Transfer from other components of equity to retained earnings	-	-	-	(29)	-	-	(157)	472	286	(286)	-	-	-
Other increase (decrease)	-	-	-	-	-	-	-	-	-	-	-	(187)	(187)
Total transactions with the owners	-	(363)	(27,461)	35	-	-	(157)	472	350	(44,786)	(72,260)	(779)	(73,039)
September 30, 2016	85,424	108,296	(35,663)	937	(57,439)	(8)	6,775	-	(49,735)	540,870	649,192	9,475	658,667

Condensed Consolidated Statement of Cash Flows

(Millions of yen)

	Nine months ended September 30, 2017	Nine months ended September 30, 2016
Cash flows from operating activities		
Income before income taxes	137,362	126,970
Depreciation and amortization	40,275	38,169
Interest and dividend income	(903)	(899)
Interest expense	917	1,166
Share of profit in investments accounted for using the equity method	(1,643)	(1,527)
(Gains) losses on sale and disposal of property, plant and equipment, and intangible assets	1,991	2,281
(Increase) decrease in trade and other receivables	14,886	26,550
(Increase) decrease in inventories	(15,595)	(21,060)
Increase (decrease) in trade and other payables	6,219	(5,612)
Increase (decrease) in retirement benefit liabilities	(217)	(1,801)
Other	(22,501)	(22,217)
Subtotal	160,791	142,020
Interest received	778	760
Dividends received	1,945	1,383
Interest paid	(851)	(1,126)
Income taxes paid	(53,041)	(46,580)
Net cash flows from operating activities	109,622	96,457
Cash flows from investing activities		
Payments into time deposits	(19,196)	(5,044)
Proceeds from withdrawal of time deposits	18,575	1,934
Purchase of property, plant and equipment	(62,207)	(56,059)
Purchase of intangible assets	(3,394)	(2,477)
Acquisition of subsidiaries and businesses	(2,906)	(3,659)
Other	(323)	2,257
Net cash flows from investing activities	(69,451)	(63,048)
Cash flows from financing activities		
Increase (decrease) in short-term borrowings	(59)	(44)
Proceeds from long-term borrowings	30,000	-
Repayments of long-term borrowings	(30,072)	(55)
Purchase of treasury shares	(1,831)	(28,473)
Dividends paid to owners of the parent	(49,782)	(42,888)
Dividends paid to non-controlling interests	(369)	(955)
Other	(377)	(206)
Net cash flows from financing activities	(52,490)	(72,621)
Net increase (decrease) in cash and cash equivalents	(12,319)	(39,212)
Cash and cash equivalents at the beginning of the period	303,026	309,922
Effect of exchange rate changes on cash and cash equivalents	1,723	(13,388)
Cash and cash equivalents at the end of the period	292,430	257,322

Notes to Condensed Consolidated Financial Statements

Changes in Accounting Policies
Early Adoption of IFRS 15 “Revenue from Contracts with Customers” and its amendments

In the three months ended March 31, 2017, the Kao Group early adopted IFRS 15 “Revenue from Contracts with Customers” (issued in May 2014) and “Clarifications to IFRS 15” (issued in April 2016) (together, hereinafter “IFRS 15”). As a transitional measure upon the early adoption of IFRS 15, the Kao Group applies this Standard retrospectively with the cumulative effect of initially applying this Standard recognized at the date of initial application.

In accordance with the adoption of IFRS 15, revenue is recognized based on the following five-step model.

Step 1: Identify the contract with a customer
Step 2: Identify the performance obligations in the contract
Step 3: Determine the transaction price
Step 4: Allocate the transaction price to the performance obligations in the contract
Step 5: Recognize revenue when the entity satisfies a performance obligation

The Kao Group sells consumer products including cosmetics, skin care products, hair care products, sanitary products and fabric care products, as well as chemical products including fatty alcohols and surfactants. For sales of such products, because the customer obtains control over the products upon delivery, the performance obligation is judged to have been satisfied and revenue is therefore recognized upon delivery of the products. Revenue is measured at the consideration promised in a contract with a customer, less discounts, rebates, returned products and other items.

Based on the above five-step model, as a result of identification of performance obligations under contracts with customers, the portion of sales promotion and other expenses that is consideration paid by the Kao Group to customers, which had previously been accounted for as selling, general and administrative expenses, is accounted for as reductions of net sales from the three months ended March 31, 2017. In addition, freight/warehouse expenses, employee benefits and other expenses necessary for satisfying performance obligations that had previously been accounted for as selling, general and administrative expenses are accounted for as cost of sales from the three months ended March 31, 2017.

As a result, compared with the application of the former accounting standard, net sales decreased by 32,238 million yen, selling, general and administrative expenses decreased by 126,524 million yen, and cost of sales increased by 94,286 million yen on the condensed consolidated statement of income for the nine months ended September 30, 2017. These changes had no effect on operating income and net income.

In addition, with the application of IFRS 15, liabilities for returned products, which were previously included in “Provisions” under current liabilities, and refund liabilities for rebates and other payments and advances received from customers, which had previously been included in “Other current liabilities,” are presented as “Contract liabilities.”

As a result, compared with the application of the former accounting standard, as of the beginning and end of the nine months ended September 30, 2017, “Provisions” under current liabilities decreased by 3,965 million yen and 2,854 million yen, respectively, and “Other current liabilities” decreased by 12,582 million yen and 14,401 million yen, respectively, on the condensed consolidated statement of financial position.

1. Segment Information

(1) Summary of reportable segments

Major products by reportable segment are as follows:

Reportable Segments		Major Products	
Consumer Products Business	Beauty Care Business	Cosmetics	Counseling cosmetics, Self-selection cosmetics
		Skin care products	Soaps, Facial cleansers, Body cleansers
		Hair care products	Shampoos, Conditioners, Hair styling agents, Hair coloring agents
	Human Health Care Business	Food and beverage products	Beverages
		Sanitary products	Sanitary napkins, Baby diapers
		Personal health products	Bath additives, Oral care products, Men's products, Thermo products
	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

Sales and Results of Reportable Segments

(Millions of yen)

Nine months ended September 30, 2017	Reportable Segments							
	Consumer Products Business							
	Beauty Care Business	Human Health Care Business	Fabric and Home Care Business	Subtotal	Chemical Business	Total	Reconciliations[1]	Consolidated
Net sales								
Sales to customers	425,618	213,040	239,627	878,285	201,965	1,080,250	-	1,080,250
Intersegment sales and transfers[2]	-	-	-	-	27,147	27,147	(27,147)	-
Total net sales	425,618	213,040	239,627	878,285	229,112	1,107,397	(27,147)	1,080,250
Operating income (loss)	35,377	28,544	50,981	114,902	21,548	136,450	1,341	137,791
% of net sales	8.3	13.4	21.3	13.1	9.4	-	-	12.8
Financial income								1,011
Financial expenses								(3,083)
Share of profit in investments accounted for using the equity method								1,643
Income before income taxes								137,362

Notes:

1. The operating income reconciliation of 1,341 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)

Nine months ended September 30, 2016	Reportable Segments							
	Consumer Products Business							
	Beauty Care Business	Human Health Care Business	Fabric and Home Care Business	Subtotal	Chemical Business	Total	Reconciliations[1]	Consolidated
Net sales								
Sales to customers	441,638	193,301	244,686	879,625	175,464	1,055,089	-	1,055,089
Intersegment sales and transfers[2]	-	-	-	-	26,440	26,440	(26,440)	-
Total net sales	441,638	193,301	244,686	879,625	201,904	1,081,529	(26,440)	1,055,089
Operating income (loss)	36,955	18,176	53,494	108,625	21,824	130,449	753	131,202
% of net sales	8.4	9.4	21.9	12.3	10.8	-	-	12.4
Financial income								1,007
Financial expenses								(6,766)
Share of profit in investments accounted for using the equity method								1,527
Income before income taxes								126,970

Notes:

1. The operating income reconciliation of 753 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, 2017	Nine months ended September 30, 2016
Freight/warehouse	74	42,254
Advertising	64,907	69,323
Sales promotion	42,502	58,581
Employee benefits	110,081	142,312
Depreciation	6,656	8,318
Amortization	3,533	4,955
Research and development	42,550	40,028
Other	63,538	95,690
Total	333,841	461,461

The note “Changes in Accounting Policies” in “Notes to Condensed Consolidated Financial Statements” presents the impact on selling, general and administrative expenses resulting from the adoption of IFRS 15. As a transitional measure upon the adoption of IFRS 15, 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. Expenses of 13,103 million yen, 86 million yen, 17,548 million yen and 1,501 million yen previously included in “Freight/warehouse,” “Advertising,” “Sales promotion” and “Other,” respectively, are accounted for as reductions of net sales. Expenses of 32,610 million yen, 1,952 million yen, 39,091 million yen, 2,118 million yen, 72 million yen and 18,443 million yen previously included in “Freight/warehouse,” “Sales promotion,” “Employee benefits,” “Depreciation,” “Amortization” and “Other,” respectively, are accounted for as cost of sales. As a result, compared with the application of the former accounting standard, selling, general and administrative expenses decreased by 126,524 million yen.

Furthermore, as an additional item other than the adoption of IFRS 15 impacting selling, general and administrative expenses, the Kao Group revised its sales system for the Consumer Products Business in Japan in the three months ended March 31, 2017. Expenses of 1,474 million yen and 14,202 million yen previously included in “Sales promotion” and “Other,” respectively, are accounted for as reductions of net sales. As a result, selling, general and administrative expenses decreased by 15,676 million yen.

Changes in significant subsidiaries during this quarterly period: None

Note regarding Assumption of Going Concern : None