Consolidated Financial Results for the Three Months Ended March 31, 2018 [IFRS]

April 27, 2018

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
Contact person: Mitsuhiro Watanabe, Vice President, Investor Relations — E-mail: ir@kao.co.jp
Scheduled starting date of the dividend payments: -
Supplementary documents of the financial results for the period: Yes
Holding quarterly financial results information meeting: Yes (for institutional investors and analysts)

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

1. Consolidated financial results for the three months ended March 31, 2018 (from January 1, 2018 to March 31, 2018)

(1) Consolidated operating results

(Percentages indicate year-on-year changes)

	Three months ended March 31, 2018	%	Three months ended March 31, 2017	%
Net sales	350,645	1.6	345,179	3.0
Operating income	39,445	2.2	38,609	12.1
Income before income taxes	38,663	1.7	38,013	15.4
Net income	28,156	14.3	24,624	17.0
Net income attributable to owners of the parent	27,774	14.9	24,169	16.2
Comprehensive income	14,143	(25.1)	18,891	234.4
Basic earnings per share (Yen)	56.36		49.03	
Diluted earnings per share (Yen)	56.33		48.99	

(2) Consolidated financial position

	March 31, 2018	December 31, 2017
Total assets	1,357,566	1,427,375
Total equity	805,924	819,364
Equity attributable to owners of the parent	793,129	806,381
Ratio of equity attributable to owners of the parent to total assets	58.4%	56.5%
Equity attributable to owners of the parent per share (Yen)	1,609.36	1,636.41

2. Dividends

	Year ending December 31, 2018 (Forecast)	Year ending December 31, 2018	Year ended December 31, 2017
Annual cash dividends per share (Yen)			
1st quarter end		-	-
2nd quarter end	60.00		54.00
3rd quarter end	-		-
Fiscal year end	60.00		56.00
Total	120.00		110.00

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

3. Forecast of consolidated operating results for the year ending December 31, 2018 (from January 1, 2018 to December 31, 2018)

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

	Year ending December 31, 2018	%
Net sales	1,540,000	3.4
Operating income	215,000	5.0
Income before income taxes	215,000	5.2
Net income attributable to owners of the parent	152,000	3.4
Basic earnings per share (Yen)	308.43	-

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

4. Others

(1) Changes in significant subsidiaries during the period (changes in specified subsidiaries resulting in change in scope of consolidation): Yes
New: None
Excluded: 1 company (Company Name) Kao Customer Marketing Co., Ltd.
For details, please refer to page 15, "Changes in significant subsidiaries during this quarterly peried" in "Notes to Condensed Consolidated Financial Statements"

(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 the periods (ordinary shares)

	March 31, 2018	December 31, 2017
Number of issued shares including treasury shares	495,000,000	495,000,000
Number of treasury shares	2,179,162	2,225,561

	Three months ended March 31, 2018	Three months ended March 31, 2017
Weighted average number of shares outstanding during the period	492,801,175	492,915,858

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, "1. Qualitative Information on Financial Results for the Three Months Ended March 31, 2018 - (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.

1. Qualitative Information on Financial Results for the Three Months Ended March 31, 2018

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

(1) Description of Operating Results

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

Three months ended March 31	**2018**	2017	Growth
Net sales	**350.6**	345.2	1.6% Like-for-like: 0.9%
Operating income	**39.4**	38.6	2.2%
Operating margin (%)	**11.2**	11.2	-
Income before income taxes	**38.7**	38.0	1.7%
Net income	**28.2**	24.6	14.3%
Net income attributable to owners of the parent	**27.8**	24.2	14.9%
Basic earnings per share (Yen)	**56.36**	49.03	15.0%

During the three months ended March 31, 2018, 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 particular, the e-commerce channel grew and inbound demand (demand from visitors to Japan) for cosmetics increased significantly, mainly in the department store channel. Average unit prices for household and personal care products increased by one percentage point compared with the same period a year earlier.

Net sales increased 1.6% compared with the same period a year earlier to 350.6 billion yen. On a like-for-like basis, net sales increased 0.9%.

Operating income was 39.4 billion yen, an increase of 0.8 billion yen compared with the same period a year earlier, and income before income taxes was 38.7 billion yen, an increase of 0.6 billion yen. Net income was 28.2 billion yen, an increase of 3.5 billion yen.

Overall results were as expected given the severely competitive market environment.

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

	First quarter Jan. – Mar.
Yen/U.S. dollar	108.44 (113.71)
Yen/Euro	133.23 (121.13)
Yen/Chinese yuan	17.04 (16.50)

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

Summary of Segment Information

As of the three months ended March 31, 2018, the following changes have been made (Reference: Page 13, "1. Segment Information" in "Notes to Condensed Consolidated Financial Statements").

1. The Beauty Care Business has been divided into the Cosmetics Business and the Skin Care and Hair Care Business, changing the four former reportable segments into five.
2. The *Curél* derma care brand, which formerly had been classified as skin care and hair care products, has been included in the Cosmetics Business, and the *Success* men's products brand, which formerly had been classified in the Human Health Care Business, has been included in the Skin Care and Hair Care Business. Net sales and operating income for the same period a year earlier have been restated accordingly.
3. Due to the reorganization of the sales organization of the Consumer Products Business in Japan, operating income for the same period a year earlier has been restated.

Consolidated Results by Segment

(Billions of yen)

	Net sales				Operating income			Operating margin (%)	
Three months ended March 31	2018	2017	Growth %	Like-for-like %	2018	2017	Change	2018	2017
Cosmetics Business	60.6	58.4	3.6	3.0	0.8	(2.3)	3.1	1.3	(4.0)
Skin Care and Hair Care Business	79.4	77.1	3.0	2.8	9.1	10.5	(1.4)	11.5	13.7
Human Health Care Business	69.5	71.6	(3.0)	(3.5)	10.9	10.5	0.4	15.7	14.7
Fabric and Home Care Business	69.8	69.6	0.2	0.1	11.4	12.0	(0.6)	16.3	17.2
Consumer Products Business	279.2	276.8	0.9	0.5	32.2	30.7	1.6	11.5	11.1
Chemical Business	79.7	76.6	4.0	2.3	7.3	8.0	(0.7)	9.2	10.4
Total	358.9	353.4	1.6	0.9	39.5	38.6	0.9	-	-
Elimination and Reconciliation	(8.3)	(8.2)	-	-	(0.1)	(0.0)	(0.1)	-	-
Consolidated	350.6	345.2	1.6	0.9	39.4	38.6	0.8	11.2	11.2

Consolidated Net Sales Composition

(Billions of yen)

Three months ended March 31		Japan	Asia	Americas	Europe	Consolidated
Cosmetics Business	2018	46.8	8.1	1.4	4.2	60.6
	2017	47.6	5.8	1.4	3.7	58.4
	Growth %	(1.7)	40.8	1.4	15.1	3.6
	Like-for-like %	(1.7)	38.6	6.3	6.2	3.0
Skin Care and Hair Care Business	2018	43.7	7.1	17.7	11.0	79.4
	2017	42.0	6.8	17.7	10.6	77.1
	Growth %	4.0	3.5	0.1	4.0	3.0
	Like-for-like %	4.0	3.2	4.7	(5.1)	2.8
Human Health Care Business	2018	41.4	28.0	0.0	-	69.5
	2017	42.8	28.8	-	-	71.6
	Growth %	(3.3)	(2.7)	-	-	(3.0)
	Like-for-like %	(3.3)	(3.8)	-	-	(3.5)
Fabric and Home Care Business	2018	59.4	9.9	0.5	-	69.8
	2017	59.7	9.4	0.5	-	69.6
	Growth %	(0.5)	5.3	(2.2)	-	0.2
	Like-for-like %	(0.5)	4.3	(1.3)	-	0.1
Consumer Products Business	2018	191.3	53.1	19.6	15.2	279.2
	2017	192.2	50.8	19.6	14.2	276.8
	Growth %	(0.4)	4.5	0.2	6.9	0.9
	Like-for-like %	(0.4)	3.4	4.7	(2.2)	0.5
Chemical Business	2018	29.5	18.0	14.4	17.8	79.7
	2017	29.6	17.6	13.5	16.0	76.6
	Growth %	(0.3)	2.6	7.1	11.0	4.0
	Like-for-like %	(0.3)	1.9	10.5	0.9	2.3
Elimination of intersegment	2018	(7.0)	(0.8)	(0.0)	(0.4)	(8.3)
	2017	(7.0)	(0.8)	(0.0)	(0.4)	(8.2)
Consolidated	2018	213.8	70.3	34.0	32.6	350.6
	2017	214.7	67.6	33.0	29.9	345.2
	Growth %	(0.4)	4.1	3.0	8.9	1.6
	Like-for-like %	(0.4)	3.0	7.1	(0.7)	0.9

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 41.8% of net sales compared with 40.7% for the same period a year earlier.

Consumer Products Business

Sales increased 0.9% compared with the same period a year earlier to 279.2 billion yen. On a like-for-like basis, sales increased 0.5%.

In Japan, in addition to conducting marketing activities that respond to changes in consumer purchasing behavior and values, the Kao Group enhanced its proposal-oriented sales activities and its sales channels that are growing notably, such as e-commerce. However, due to the effect of a difference in the timing of new and improved product launches compared with the same period a year earlier, among other factors, sales decreased 0.4% to 191.3 billion yen.

In Asia, sales were steady, increasing 4.5% to 53.1 billion yen. On a like-for-like basis, sales increased 3.4%.

In the Americas, sales increased 0.2% to 19.6 billion yen. On a like-for-like basis, sales increased 4.7%. In Europe, sales increased 6.9% to 15.2 billion yen. On a like-for-like basis, sales decreased 2.2%.

Operating income increased 1.6 billion yen compared with the same period a year earlier to 32.2 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 3.6% compared with the same period a year earlier to 60.6 billion yen. On a like-for-like basis, sales increased 3.0%.

SUQQU and *est the lotion,* which are available in the department store channel, and the *Curél* derma care brand, which was newly included in this business from the three months ended March 31, 2018, continued their strong performance from the previous year. Sales also grew substantially in Asia, mainly China. For the mid-price and high-price cosmetics segments in Japan, which have issues, the Kao Group will conduct full-scale structural reform under its new management.

Operating income was 0.8 billion yen, an improvement of 3.1 billion yen from the same period a year earlier, due to the effects of increased sales of strongly performing brands and the Asia business, among other factors.

Skin Care and Hair Care Business

Sales increased 3.0% compared with the same period a year earlier to 79.4 billion yen. On a like-for-like basis, sales increased 2.8%.

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

In hair care products, sales in Europe decreased due to the continued effect of intensifying competition. In January 2018, U.S.-based Oribe Hair Care, LLC, which owns the *Oribe* brand for hair salons, became a consolidated subsidiary following the completion of its acquisition.

Operating income decreased 1.4 billion yen compared with the same period a year earlier to 9.1 billion yen due to intensifying competition in the Americas and Europe.

Human Health Care Business

Sales decreased 3.0% compared with the same period a year earlier to 69.5 billion yen. On a like-for-like basis, sales decreased 3.5%.

Sales of *Merries* baby diapers decreased in China due to the initial shipments associated with reforms of the sales structure there in the same period a year earlier, among other factors, but in Indonesia sales of locally produced products targeting the middle-class consumer segment grew steadily.

Sales of *Laurier* sanitary napkins grew, with strong performance by high-value-added products.

Sales of *Bub* bath additives were strong due to the promotion of new value proposals that match contemporary lifestyles and enhanced in-store merchandising. Sales of *MegRhythm* steam thermo sheets increased steadily.

Operating income increased 0.4 billion yen compared with the same period a year earlier to 10.9 billion yen, mainly due to the effect of increased sales of sanitary napkins.

Fabric and Home Care Business

Sales increased 0.2% compared with the same period a year earlier to 69.8 billion yen. On a like-for-like basis, sales increased 0.1%.

Sales of fabric care products were unchanged from the same period a year earlier in an intensely competitive environment, while home care products posted firm growth in Japan and Asia.

Operating income decreased 0.6 billion yen compared with the same period a year earlier to 11.4 billion yen due to factors including an increase in raw material costs and a loss on disposal of property, plant and equipment.

Chemical Business

Sales increased 4.0% compared with the same period a year earlier to 79.7 billion yen. On a like-for-like basis, sales increased 2.3%.

Sales of oleo chemicals increased due to factors including firm demand outside Japan. Sales of performance chemicals increased, due in part to a recovery in market conditions in infrastructure-related fields in Japan and Southeast Asia. Sales of specialty chemicals increased due to the contribution of an inkjet ink company in Europe that became a consolidated subsidiary in April 2017, despite the impact of a decrease in customer demand for toner and toner binder.

Operating income decreased 0.7 billion yen compared with the same period a year earlier to 7.3 billion yen due to the effect of selling price adjustments associated with fluctuations in raw material prices, among other factors.

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

The current fiscal year is the second year of the Kao Group Mid-term Plan “K20,” which covers the four years to fiscal 2020. The Kao Group aims to achieve its targets by further strengthening businesses that drive its growth, as well as by steadily restoring businesses with issues.

There is no change from the forecast of consolidated results announced on February 1, 2018.

The main exchange rates used in the forecast of consolidated results are one U.S. dollar to 110 yen, one euro to 135 yen and one Chinese yuan to 17.0 yen.

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Condensed Consolidated Statement of Financial Position

(Millions of yen)

	March 31, 2018	December 31, 2017	Change
Assets			
Current assets			
Cash and cash equivalents	245,148	343,076	(97,928)
Trade and other receivables	200,888	216,507	(15,619)
Inventories	190,024	183,921	6,103
Other financial assets	15,926	14,914	1,012
Income tax receivables	4,653	2,653	2,000
Other current assets	23,734	28,162	(4,428)
Subtotal	680,373	789,233	(108,860)
Non-current assets held for sale	147	147	-
Total current assets	680,520	789,380	(108,860)
Non-current assets			
Property, plant and equipment	398,837	395,800	3,037
Goodwill	161,257	138,735	22,522
Intangible assets	33,984	16,829	17,155
Investments accounted for using the equity method	6,004	7,682	(1,678)
Other financial assets	27,106	27,345	(239)
Deferred tax assets	40,534	40,918	(384)
Other non-current assets	9,324	10,686	(1,362)
Total non-current assets	677,046	637,995	39,051
Total assets	1,357,566	1,427,375	(69,809)

Condensed Consolidated Statement of Financial Position

(Millions of yen)

	March 31, 2018	December 31, 2017	Change
Liabilities and equity			
Liabilities			
Current liabilities			
Trade and other payables	204,956	224,893	(19,937)
Bonds and borrowings	65,332	25,262	40,070
Other financial liabilities	4,633	7,739	(3,106)
Income tax payables	14,119	34,255	(20,136)
Provisions	4,047	4,822	(775)
Contract liabilities	19,464	17,296	2,168
Other current liabilities	93,597	107,404	(13,807)
Total current liabilities	406,148	421,671	(15,523)
Non-current liabilities			
Bonds and borrowings	55,306	95,322	(40,016)
Other financial liabilities	10,053	10,091	(38)
Retirement benefit liabilities	63,769	64,694	(925)
Provisions	10,665	10,617	48
Deferred tax liabilities	677	435	242
Other non-current liabilities	5,024	5,181	(157)
Total non-current liabilities	145,494	186,340	(40,846)
Total liabilities	551,642	608,011	(56,369)
Equity			
Share capital	85,424	85,424	-
Capital surplus	108,071	107,980	91
Treasury shares	(9,347)	(9,593)	246
Other components of equity	(25,932)	(12,315)	(13,617)
Retained earnings	634,913	634,885	28
Equity attributable to owners of the parent	793,129	806,381	(13,252)
Non-controlling interests	12,795	12,983	(188)
Total equity	805,924	819,364	(13,440)
Total liabilities and equity	1,357,566	1,427,375	(69,809)

Condensed Consolidated Statement of Income

(Millions of yen)

	Notes	Three months ended March 31, 2018	Three months ended March 31, 2017	Change
Net sales	1	350,645	345,179	5,466
Cost of sales		(204,399)	(196,803)	(7,596)
Gross profit		146,246	148,376	(2,130)
Selling, general and administrative expenses	2	(106,328)	(110,252)	3,924
Other operating income		3,115	3,251	(136)
Other operating expenses		(3,588)	(2,766)	(822)
Operating income	1	39,445	38,609	836
Financial income		354	336	18
Financial expenses		(1,740)	(1,462)	(278)
Share of profit in investments accounted for using the equity method		604	530	74
Income before income taxes		38,663	38,013	650
Income taxes		(10,507)	(13,389)	2,882
Net income		28,156	24,624	3,532
Attributable to:				
Owners of the parent		27,774	24,169	3,605
Non-controlling interests		382	455	(73)
Net income		28,156	24,624	3,532
Earnings per share				
Basic (Yen)		56.36	49.03	
Diluted (Yen)		56.33	48.99	

Condensed Consolidated Statement of Comprehensive Income

(Millions of yen)

	Three months ended March 31, 2018	Three months ended March 31, 2017	Change
Net income	28,156	24,624	3,532
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	(476)	146	(622)
Remeasurements of defined benefit plans	(12)	29	(41)
Share of other comprehensive income of investments accounted for using the equity method	(95)	56	(151)
Total of items that will not be reclassified to profit or loss	(583)	231	(814)
Items that may be reclassified subsequently to profit or loss:			
Exchange differences on translation of foreign operations	(13,271)	(5,942)	(7,329)
Share of other comprehensive income of investments accounted for using the equity method	(159)	(22)	(137)
Total of items that may be reclassified subsequently to profit or loss	(13,430)	(5,964)	(7,466)
Other comprehensive income, net of taxes	(14,013)	(5,733)	(8,280)
Comprehensive income	14,143	18,891	(4,748)
Attributable to:			
Owners of the parent	14,195	18,702	(4,507)
Non-controlling interests	(52)	189	(241)
Comprehensive income	14,143	18,891	(4,748)

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, 2018	85,424	107,980	(9,593)	731	(21,540)	4	8,490	-	(12,315)	634,885	806,381	12,983	819,364
Net income	-	-	-	-	-	-	-	-	-	27,774	27,774	382	28,156
Other comprehensive income	-	-	-	-	(12,993)	(3)	(571)	(12)	(13,579)	-	(13,579)	(434)	(14,013)
Comprehensive income	-	-	-	-	(12,993)	(3)	(571)	(12)	(13,579)	27,774	14,195	(52)	14,143
Disposal of treasury shares	-	-	258	(45)	-	-	-	-	(45)	(144)	69	-	69
Purchase of treasury shares	-	-	(12)	-	-	-	-	-	-	-	(12)	-	(12)
Share-based payment transaction	-	91	-	-	-	-	-	-	-	-	91	-	91
Dividends	-	-	-	-	-	-	-	-	-	(27,595)	(27,595)	(108)	(27,703)
Transfer from other components of equity to retained earnings	-	-	-	-	-	-	(5)	12	7	(7)	-	-	-
Other increase (decrease)	-	-	-	-	-	-	-	-	-	-	-	(28)	(28)
Total transactions with the owners	-	91	246	(45)	-	-	(5)	12	(38)	(27,746)	(27,447)	(136)	(27,583)
March 31, 2018	85,424	108,071	(9,347)	686	(34,533)	1	7,914	-	(25,932)	634,913	793,129	12,795	805,924
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	-	-	-	-	-	-	-	-	-	24,169	24,169	455	24,624
Other comprehensive income	-	-	-	-	(5,692)	(5)	202	28	(5,467)	-	(5,467)	(266)	(5,733)
Comprehensive income	-	-	-	-	(5,692)	(5)	202	28	(5,467)	24,169	18,702	189	18,891
Disposal of treasury shares	-	-	48,887	(32)	-	-	-	-	(32)	(48,681)	174	-	174
Purchase of treasury shares	-	-	(8)	-	-	-	-	-	-	-	(8)	-	(8)
Dividends	-	-	-	-	-	-	-	-	-	(23,657)	(23,657)	(117)	(23,774)
Transfer from other components of equity to retained earnings	-	-	-	-	-	-	(5)	(28)	(33)	33	-	-	-
Other increase (decrease)	-	-	-	-	-	-	-	-	-	-	-	(35)	(35)
Total transactions with the owners	-	-	48,879	(32)	-	-	(5)	(28)	(65)	(72,305)	(23,491)	(152)	(23,643)
March 31, 2017	85,424	107,648	(8,245)	879	(35,453)	(1)	7,222	-	(27,353)	517,579	675,053	11,658	686,711

Condensed Consolidated Statement of Cash Flows

(Millions of yen)

	Three months ended March 31, 2018	Three months ended March 31, 2017
Cash flows from operating activities		
Income before income taxes	38,663	38,013
Depreciation and amortization	14,543	13,089
Interest and dividend income	(288)	(268)
Interest expense	292	299
Share of profit in investments accounted for using the equity method	(604)	(530)
(Gains) losses on sale and disposal of property, plant and equipment, and intangible assets	1,258	531
(Increase) decrease in trade and other receivables	11,214	28,329
(Increase) decrease in inventories	(7,863)	(6,301)
Increase (decrease) in trade and other payables	(17,344)	(578)
Increase (decrease) in retirement benefit liabilities	(260)	(321)
Other	(8,362)	(36,979)
Subtotal	31,249	35,284
Interest received	284	260
Dividends received	2,064	1,732
Interest paid	(172)	(237)
Income taxes paid	(32,273)	(33,642)
Net cash flows from operating activities	1,152	3,397
Cash flows from investing activities		
Payments into time deposits	(8,655)	(5,231)
Proceeds from withdrawal of time deposits	7,649	256
Purchase of property, plant and equipment	(21,221)	(21,090)
Purchase of intangible assets	(1,320)	(1,359)
Payments for business combinations	(44,164)	-
Other	229	(1,031)
Net cash flows from investing activities	(67,482)	(28,455)
Cash flows from financing activities		
Increase (decrease) in short-term borrowings	70	(0)
Proceeds from long-term borrowings	-	10,000
Repayments of long-term borrowings	(18)	(10,018)
Dividends paid to owners of the parent	(26,101)	(22,234)
Dividends paid to non-controlling interests	(84)	(103)
Other	(813)	(56)
Net cash flows from financing activities	(26,946)	(22,411)
Net increase (decrease) in cash and cash equivalents	(93,276)	(47,469)
Cash and cash equivalents at the beginning of the period	343,076	303,026
Effect of exchange rate changes on cash and cash equivalents	(4,652)	(1,712)
Cash and cash equivalents at the end of the period	245,148	253,845

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 an organization comprising five main businesses – the Cosmetics Business, the Skin Care and Hair Care Business, the Human Health Care Business, the Fabric and Home Care Business (collectively, the "Consumer Products Business") and the Chemical Business. In each business, the Kao Group plans comprehensive strategies and carries out activities on a global basis.

Therefore, the Kao Group has five 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.

Due to a change in organization as of January 1, 2018, from the three months ended March 31, 2018 the Kao Group has reclassified its four former reportable segments (the Beauty Care Business, the Human Health Care Business, the Fabric and Home Care Business and the Chemical Business) into five (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). Segment information for the same period a year earlier has been restated to reflect the reclassification.

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	Food and beverage products	Beverages
		Sanitary products	Sanitary napkins, Baby diapers
		Personal health products	Bath additives, Oral care 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

(Millions of yen)

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

Notes:

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

(Millions of yen)

Three months ended March 31, 2017	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	58,449	77,079	71,618	69,623	276,769	68,410	345,179	-	345,179
Intersegment sales and transfers[2]	-	-	-	-	-	8,190	8,190	(8,190)	-
Total net sales	58,449	77,079	71,618	69,623	276,769	76,600	353,369	(8,190)	345,179
Operating income (loss)	(2,333)	10,529	10,502	11,959	30,657	7,989	38,646	(37)	38,609
% of net sales	(4.0)	13.7	14.7	17.2	11.1	10.4	-	-	11.2
Financial income									336
Financial expenses									(1,462)
Share of profit in investments accounted for using the equity method									530
Income before income taxes									38,013

Notes:

1. The operating income (loss) reconciliation of -37 million yen includes corporate expenses not allocated to reportable segments, as well as elimination of intersegment inventory transactions.")
2. Intersegment sales and transfers are mainly calculated based on market price and manufacturing cost.

2. Selling, General and Administrative Expenses

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

(Millions of yen)

	Three months ended March 31, 2018	Three months ended March 31, 2017
Advertising	17,610	19,782
Sales promotion	12,043	14,365
Employee benefits	37,377	36,808
Depreciation	2,255	2,213
Amortization	1,617	1,126
Research and development	14,551	14,345
Other	20,875	21,613
Total	106,328	110,252

Changes in significant subsidiaries during this quarterly period:

Kao Customer Marketing Co., Ltd., which was a specified subsidiary of the Kao Corporation, was dissolved in an absorption-type merger conducted as of January 1, 2018, with Kao Group Customer Marketing Co., Ltd. as the surviving company. Therefore, from the three months ended March 31, 2018, it has been excluded from the scope of consolidation.

Note regarding Assumption of Going Concern : None