Consolidated Financial Results for the Nine Months Ended September 30, 2018 [IFRS]

October 24, 2018

Company name: Kao Corporation — Tokyo Stock Exchange in Japan
Stock code: 4452 (URL: www.kao.com/global/en/investor-relations/library/results/)
Representative: Michitaka Sawada, President and CEO
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Scheduled starting date of the dividend payments: -
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, 2018 (from January 1, 2018 to September 30, 2018)

(1) Consolidated operating results

(Percentages indicate year-on-year changes)

	Nine months ended September 30, 2018	%	Nine months ended September 30, 2017	%
Net sales	1,097,809	1.6	1,080,250	2.4
Operating income	142,187	3.2	137,791	5.0
Income before income taxes	141,893	3.3	137,362	8.2
Net income	100,606	3.5	97,222	11.6
Net income attributable to owners of the parent	99,436	3.1	96,423	11.7
Comprehensive income	97,286	(5.2)	102,649	158.4
Basic earnings per share (Yen)	202.97		195.64	
Diluted earnings per share (Yen)	202.87		195.50	

(2) Consolidated financial position

	September 30, 2018	December 31, 2017
Total assets	1,384,016	1,427,375
Total equity	809,463	819,364
Equity attributable to owners of the parent	796,502	806,381
Ratio of equity attributable to owners of the parent to total assets	57.6%	56.5%
Equity attributable to owners of the parent per share (Yen)	1,636.74	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)	312.35	-

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

4. Others

(1) Changes in significant subsidiaries during this 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 period" 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 this period (ordinary shares)

	September 30, 2018	December 31, 2017
Number of issued shares including treasury shares	488,700,000	495,000,000
Number of treasury shares	2,059,505	2,225,561

	Nine months ended September 30, 2018	Nine months ended September 30, 2017
Weighted average number of shares outstanding during this period	489,911,868	492,854,195

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 Nine Months Ended September 30, 2018 - (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.

1. Qualitative Information on Financial Results for the Nine Months Ended September 30, 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)

Nine months ended September 30	**2018**	2017	Growth
Net sales	**1,097.8**	1,080.2	1.6% Like-for-like: 1.4%
Operating income	**142.2**	137.8	3.2%
Operating margin (%)	**13.0**	12.8	-
Income before income taxes	**141.9**	137.4	3.3%
Net income	**100.6**	97.2	3.5%
Net income attributable to owners of the parent	**99.4**	96.4	3.1%
Basic earnings per share (Yen)	**202.97**	195.64	3.7%

During the nine months ended September 30, 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 both markets, the share of the e-commerce channel increased further and inbound demand (demand from visitors to Japan) grew. Average unit prices for household and personal care products increased by two percentage points compared with the same period a year earlier.

Under these conditions, the Kao Group made proactive investments for the future and an all-out effort to enhance its marketing and sales activities to respond to diversification of consumer values and changes in the structure of retailing in order to achieve the targets of the Kao Group Mid-term Plan “K20.”

Net sales increased 1.6% compared with the same period a year earlier to 1,097.8 billion yen. On a like-for-like basis, net sales increased 1.4%. Operating income was 142.2 billion yen, an increase of 4.4 billion yen compared with the same period a year earlier, and income before income taxes was 141.9 billion yen, an increase of 4.5 billion yen. Net income was 100.6 billion yen, an increase of 3.4 billion yen.

To improve capital efficiency and further increase shareholder returns, Kao Corporation resolved at a meeting of its Board of Directors held on April 27, 2018 to repurchase its own shares, and repurchased shares totaling 50.0 billion yen. Kao Corporation retired 6.3 million treasury shares on September 14, 2018.

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

	First quarter Jan. – Mar.	Second quarter Apr. – Jun.	Third quarter Jul. – Sep.
Yen/U.S. dollar	108.44 (113.71)	109.08 (111.13)	111.44 (110.97)
Yen/Euro	133.23 (121.13)	130.09 (122.28)	129.62 (130.35)
Yen/Chinese yuan	17.04 (16.50)	17.11 (16.19)	16.39 (16.63)

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 (%)	
Nine months ended September 30	2018	2017	Growth %	Like-for-like %	2018	2017	Change	2018	2017
Cosmetics Business	193.8	185.2	4.6	4.2	11.7	0.3	11.4	6.0	0.2
Skin Care and Hair Care Business	257.6	250.0	3.0	3.0	37.4	38.7	(1.3)	14.5	15.5
Human Health Care Business	196.4	203.4	(3.4)	(3.4)	22.3	25.3	(3.1)	11.3	12.5
Fabric and Home Care Business	241.7	239.6	0.9	0.9	46.9	51.1	(4.2)	19.4	21.3
Consumer Products Business	889.5	878.3	1.3	1.2	118.3	115.5	2.8	13.3	13.1
Chemical Business	235.7	229.1	2.9	2.0	23.3	21.5	1.8	9.9	9.4
Total	1,125.2	1,107.4	1.6	1.3	141.6	137.0	4.6	-	-
Elimination and Reconciliation	(27.4)	(27.1)	-	-	0.6	0.8	(0.2)	-	-
Consolidated	1,097.8	1,080.2	1.6	1.4	142.2	137.8	4.4	13.0	12.8

Consolidated Net Sales Composition

(Billions of yen)

Nine months ended September 30		Japan	Asia	Americas	Europe	Consolidated
Cosmetics Business	2018	151.4	25.4	4.3	12.8	193.8
	2017	150.9	18.1	4.2	12.0	185.2
	Growth %	0.3	40.4	0.8	6.7	4.6
	Like-for-like %	0.3	38.5	3.0	2.5	4.2
Skin Care and Hair Care Business	2018	148.4	22.1	54.1	33.0	257.6
	2017	143.5	21.6	52.6	32.3	250.0
	Growth %	3.4	2.3	2.9	2.1	3.0
	Like-for-like %	3.4	3.0	5.3	(2.6)	3.0
Human Health Care Business	2018	125.9	70.5	0.1	-	196.4
	2017	131.4	72.0	0.0	-	203.4
	Growth %	(4.2)	(2.1)	229.8	-	(3.4)
	Like-for-like %	(4.2)	(2.1)	242.0	-	(3.4)
Fabric and Home Care Business	2018	209.5	29.5	2.7	0.0	241.7
	2017	209.4	28.8	1.5	-	239.6
	Growth %	0.0	2.6	84.7	-	0.9
	Like-for-like %	0.0	2.5	87.9	-	0.9
Consumer Products Business	2018	635.1	147.4	61.2	45.8	889.5
	2017	635.2	140.4	58.3	44.3	878.3
	Growth %	(0.0)	5.0	4.9	3.5	1.3
	Like-for-like %	(0.0)	4.8	7.3	(1.1)	1.2
Chemical Business	2018	92.7	51.4	40.4	51.2	235.7
	2017	91.2	50.6	39.4	47.9	229.1
	Growth %	1.7	1.5	2.4	7.0	2.9
	Like-for-like %	1.7	0.4	5.0	1.6	2.0
Elimination of intersegment	2018	(23.8)	(2.3)	(0.1)	(1.2)	(27.4)
	2017	(23.4)	(2.4)	(0.1)	(1.2)	(27.1)
Consolidated	2018	704.0	196.5	101.5	95.9	1,097.8
	2017	703.0	188.6	97.6	91.0	1,080.2
	Growth %	0.1	4.2	3.9	5.4	1.6
	Like-for-like %	0.1	3.8	6.4	0.4	1.4

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 38.5% of net sales compared with 37.5% for the same period a year earlier.

Consumer Products Business

Sales increased 1.3% compared with the same period a year earlier to 889.5 billion yen. On a like-for-like basis, sales increased 1.2%.

The Kao Group worked for more effective marketing and sales activities, including launching new and improved products that address the diversification of consumer values and enhancing activities in the e-commerce channel in line with changes in purchasing behavior.

In Japan, sales were basically flat at 635.1 billion yen.

In Asia, sales were steady, increasing 5.0% to 147.4 billion yen. On a like-for-like basis, sales increased 4.8%.

In the Americas, sales increased 4.9% to 61.2 billion yen. On a like-for-like basis, sales increased 7.3%. In Europe, sales increased 3.5% to 45.8 billion yen. On a like-for-like basis, sales decreased 1.1%.

Operating income increased 2.8 billion yen compared with the same period a year earlier to 118.3 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 4.6% compared with the same period a year earlier to 193.8 billion yen. On a like-for-like basis, sales increased 4.2%.

Counseling cosmetics *SUQQU* and *RMK,* which are available in the department store channel, and in self-selection cosmetics, *freeplus*, which is hypoallergenic and contains Japanese and Chinese botanical extracts, and the *Curél* derma care brand sold strongly. *SOFINA iP* base essence was improved in September 2018, and sales grew steadily as it gained acceptance among an increasing number of consumers. Sales increased substantially in the strongly growing Asian region, mainly in China. The Kao Group will continue to develop its Cosmetics Business in line with the new growth strategy it announced in May 2018 as it steadily promotes ongoing structural reforms.

Operating income was 11.7 billion yen, a substantial improvement of 11.4 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 257.6 billion yen. On a like-for-like basis, sales increased 3.0%.

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

In hair care products, in Japan the Kao Group launched *Rerise*, an innovative next-generation brand for gray hair care, and its performance was strong. Sales of shampoos and conditioners decreased amid severe competitive environments in Japan and Europe. 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 1.3 billion yen compared with the same period a year earlier to 37.4 billion yen due to factors including expenses incurred for structural reforms in the Americas and Europe, although operating income improved in the three-month period from July to September 2018.

Human Health Care Business

Sales decreased 3.4% compared with the same period a year earlier to 196.4 billion yen. On a like-for-like basis, sales decreased 3.4%.

For *Merries* baby diapers, the Kao Group worked to add higher value to products amid an environment of intensifying competition, but sales decreased in China due to the impact of competition from local manufacturers, downward pressure on prices and other factors. On the other hand, sales of locally produced products targeting the middle-class consumer segment grew steadily in Indonesia.

Sales of *Laurier* sanitary napkins grew, with strong performance by high-value-added products in Japan, China and elsewhere.

In adult incontinence products, sales grew steadily for a line of *Relief* ultra-thin pants-type diapers designed to be like regular underwear.

Sales of personal health products were firm.

Operating income decreased 3.1 billion yen compared with the same period a year earlier to 22.3 billion yen, due to higher raw material costs, increased depreciation expenses and other factors, despite the effect of increased sales of sanitary napkins and other products.

Fabric and Home Care Business

Sales increased 0.9% compared with the same period a year earlier to 241.7 billion yen. On a like-for-like basis, sales increased 0.9%.

Sales of fabric care products were basically flat compared with the same period a year earlier amid an environment of severe competition in Japan. The Kao Group worked to enhance communication of the value

of *Attack* laundry detergent in “changing tap water for washing to antibacterial water” and sales of fabric softeners were steady with the launch of improved products.

In home care products, sales of kitchen cleaning products, house cleaning products and other products were firm in Japan.

Sales were firm in Asia as the Kao Group launched high-value-added products and enhanced in-store merchandising in Thailand and other countries. In addition, to strengthen its commercial-use products business outside Japan, the Kao Group completed the acquisition of U.S.-based Washing Systems, LLC and made it a consolidated subsidiary in August 2018.

Operating income decreased 4.2 billion yen compared with the same period a year earlier to 46.9 billion yen due to factors including an increase in costs of petrochemicals and other raw materials and loss on disposal of property, plant and equipment.

Chemical Business

Sales increased 2.9% compared with the same period a year earlier to 235.7 billion yen. On a like-for-like basis, sales increased 2.0%.

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. Sales of specialty chemicals increased due to the contribution of an 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 increased 1.8 billion yen compared with the same period a year earlier to 23.3 billion yen due to growth in sales of oleo chemicals outside Japan and promotion of high-value-added products.

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

With signs of a global economic slowdown, the competitive environment is becoming increasingly severe, not just in Japan but elsewhere. Aiming to achieve the Kao Group Mid-term Plan “K20,” the Kao Group intends to meet its forecast of consolidated results for the year ending December 31, 2018 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 July 26, 2018.

The main exchange rates used in the forecast of consolidated results are one U.S. dollar to 110 yen, one euro to 130 yen and one Chinese yuan to 17 yen.

Condensed Consolidated Statement of Financial Position

(Millions of yen)

	September 30, 2018	December 31, 2017	Change
Assets			
Current assets			
Cash and cash equivalents	211,291	343,076	(131,785)
Trade and other receivables	202,977	216,507	(13,530)
Inventories	202,633	183,921	18,712
Other financial assets	14,888	14,914	(26)
Income tax receivables	3,985	2,653	1,332
Other current assets	20,243	28,162	(7,919)
Subtotal	656,017	789,233	(133,216)
Non-current assets held for sale	-	147	(147)
Total current assets	656,017	789,380	(133,363)
Non-current assets			
Property, plant and equipment	416,343	395,800	20,543
Goodwill	190,580	138,735	51,845
Intangible assets	34,933	16,829	18,104
Investments accounted for using the equity method	7,922	7,682	240
Other financial assets	27,902	27,345	557
Deferred tax assets	41,083	40,918	165
Other non-current assets	9,236	10,686	(1,450)
Total non-current assets	727,999	637,995	90,004
Total assets	1,384,016	1,427,375	(43,359)

Condensed Consolidated Statement of Financial Position

(Millions of yen)

	September 30, 2018	December 31, 2017	Change
Liabilities and equity			
Liabilities			
Current liabilities			
Trade and other payables	211,433	224,893	(13,460)
Bonds and borrowings	40,415	25,262	15,153
Other financial liabilities	4,304	7,739	(3,435)
Income tax payables	25,585	34,255	(8,670)
Provisions	2,609	4,822	(2,213)
Contract liabilities	22,085	17,296	4,789
Other current liabilities	99,091	107,404	(8,313)
Total current liabilities	405,522	421,671	(16,149)
Non-current liabilities			
Bonds and borrowings	80,342	95,322	(14,980)
Other financial liabilities	9,507	10,091	(584)
Retirement benefit liabilities	62,668	64,694	(2,026)
Provisions	10,632	10,617	15
Deferred tax liabilities	540	435	105
Other non-current liabilities	5,342	5,181	161
Total non-current liabilities	169,031	186,340	(17,309)
Total liabilities	574,553	608,011	(33,458)
Equity			
Share capital	85,424	85,424	-
Capital surplus	108,154	107,980	174
Treasury shares	(11,404)	(9,593)	(1,811)
Other components of equity	(15,343)	(12,315)	(3,028)
Retained earnings	629,671	634,885	(5,214)
Equity attributable to owners of the parent	796,502	806,381	(9,879)
Non-controlling interests	12,961	12,983	(22)
Total equity	809,463	819,364	(9,901)
Total liabilities and equity	1,384,016	1,427,375	(43,359)

Condensed Consolidated Statement of Income

(Millions of yen)

	Notes	Nine months ended September 30, 2018	Nine months ended September 30, 2017	Change
Net sales	1	1,097,809	1,080,250	17,559
Cost of sales		(627,289)	(610,066)	(17,223)
Gross profit		470,520	470,184	336
Selling, general and administrative expenses	2	(327,255)	(333,841)	6,586
Other operating income		9,856	10,492	(636)
Other operating expenses		(10,934)	(9,044)	(1,890)
Operating income	1	142,187	137,791	4,396
Financial income		1,182	1,011	171
Financial expenses		(3,199)	(3,083)	(116)
Share of profit in investments accounted for using the equity method		1,723	1,643	80
Income before income taxes		141,893	137,362	4,531
Income taxes		(41,287)	(40,140)	(1,147)
Net income		100,606	97,222	3,384
Attributable to:				
Owners of the parent		99,436	96,423	3,013
Non-controlling interests		1,170	799	371
Net income		100,606	97,222	3,384
Earnings per share				
Basic (Yen)		202.97	195.64	
Diluted (Yen)		202.87	195.50	

Condensed Consolidated Statement of Comprehensive Income

(Millions of yen)

	Nine months ended September 30, 2018	Nine months ended September 30, 2017	Change
Net income	100,606	97,222	3,384
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	627	817	(190)
Remeasurements of defined benefit plans	(12)	29	(41)
Share of other comprehensive income of investments accounted for using the equity method	(74)	291	(365)
Total of items that will not be reclassified to profit or loss	541	1,137	(596)
Items that may be reclassified subsequently to profit or loss:			
Exchange differences on translation of foreign operations	(3,867)	4,305	(8,172)
Share of other comprehensive income of investments accounted for using the equity method	6	(15)	21
Total of items that may be reclassified subsequently to profit or loss	(3,861)	4,290	(8,151)
Other comprehensive income, net of taxes	(3,320)	5,427	(8,747)
Comprehensive income	97,286	102,649	(5,363)
Attributable to:			
Owners of the parent	96,550	101,848	(5,298)
Non-controlling interests	736	801	(65)
Comprehensive income	97,286	102,649	(5,363)

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	-	-	-	-	-	-	-	-	-	99,436	99,436	1,170	100,606
Other comprehensive income	-	-	-	-	(3,423)	(4)	553	(12)	(2,886)	-	(2,886)	(434)	(3,320)
Comprehensive income	-	-	-	-	(3,423)	(4)	553	(12)	(2,886)	99,436	96,550	736	97,286
Disposal of treasury shares	-	(99)	48,216	(93)	-	-	-	-	(93)	(47,906)	118	-	118
Purchase of treasury shares	-	-	(50,027)	-	-	-	-	-	-	-	(50,027)	-	(50,027)
Share-based payment transactions	-	273	-	-	-	-	-	-	-	-	273	-	273
Dividends	-	-	-	-	-	-	-	-	-	(56,793)	(56,793)	(746)	(57,539)
Transfer from other components of equity to retained earnings	-	-	-	(18)	-	-	(43)	12	(49)	49	-	-	-
Other increase (decrease)	-	-	-	-	-	-	-	-	-	-	-	(12)	(12)
Total transactions with the owners	-	174	(1,811)	(111)	-	-	(43)	12	(142)	(104,650)	(106,429)	(758)	(107,187)
September 30, 2018	85,424	108,154	(11,404)	620	(24,963)	0	9,000	-	(15,343)	629,671	796,502	12,961	809,463
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

Condensed Consolidated Statement of Cash Flows

(Millions of yen)

	Nine months ended September 30, 2018	Nine months ended September 30, 2017
Cash flows from operating activities		
Income before income taxes	141,893	137,362
Depreciation and amortization	44,592	40,275
Interest and dividend income	(1,080)	(903)
Interest expense	895	917
Share of profit in investments accounted for using the equity method	(1,723)	(1,643)
(Gains) losses on sale and disposal of property, plant and equipment, and intangible assets	2,850	1,991
(Increase) decrease in trade and other receivables	12,696	14,886
(Increase) decrease in inventories	(17,866)	(15,595)
Increase (decrease) in trade and other payables	(8,067)	6,219
Increase (decrease) in retirement benefit liabilities	(1,715)	(217)
Other	(2,379)	(22,501)
Subtotal	170,096	160,791
Interest received	926	778
Dividends received	2,189	1,945
Interest paid	(813)	(851)
Income taxes paid	(50,614)	(53,041)
Net cash flows from operating activities	121,784	109,622
Cash flows from investing activities		
Payments into time deposits	(21,760)	(19,196)
Proceeds from withdrawal of time deposits	22,618	18,575
Purchase of property, plant and equipment	(65,145)	(62,207)
Purchase of intangible assets	(4,528)	(3,394)
Payments for business combinations	(73,819)	(2,906)
Other	468	(323)
Net cash flows from investing activities	(142,166)	(69,451)
Cash flows from financing activities		
Increase (decrease) in short-term borrowings	148	(59)
Proceeds from long-term borrowings	-	30,000
Repayments of long-term borrowings	(49)	(30,072)
Proceeds from issuance of bonds	25,060	-
Redemption of bonds	(24,939)	-
Purchase of treasury shares	(50,028)	(1,831)
Dividends paid to owners of the parent	(56,307)	(49,782)
Dividends paid to non-controlling interests	(745)	(369)
Other	(1,082)	(377)
Net cash flows from financing activities	(107,942)	(52,490)
Net increase (decrease) in cash and cash equivalents	(128,324)	(12,319)
Cash and cash equivalents at the beginning of the period	343,076	303,026
Effect of exchange rate changes on cash and cash equivalents	(3,461)	1,723
Cash and cash equivalents at the end of the period	211,291	292,430

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)

Nine months ended September 30, 2018	Reportable Segments								
	Consumer Products Business								
	Cosmetics Business	Skin Care and Hair Care Buiness	Human Health Care Business	Fabric and Home Care Business	Subtotal	Chemical Business	Total	Reconciliations[1]	Consolidated
Net sales									
Sales to customers	193,807	257,555	196,442	241,737	889,541	208,268	1,097,809	-	1,097,809
Intersegment sales and transfers[2]	-	-	-	-	-	27,400	27,400	(27,400)	-
Total net sales	193,807	257,555	196,442	241,737	889,541	235,668	1,125,209	(27,400)	1,097,809
Operating income	11,718	37,359	22,282	46,931	118,290	23,317	141,607	580	142,187
% of net sales	6.0	14.5	11.3	19.4	13.3	9.9	-	-	13.0
Financial income									1,182
Financial expenses									(3,199)
Share of profit in investments accounted for using the equity method									1,723
Income before income taxes									141,893

Notes:

1. The operating income reconciliation of 580 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, 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	185,211	250,003	203,444	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	185,211	250,003	203,444	239,627	878,285	229,112	1,107,397	(27,147)	1,080,250
Operating income	296	38,701	25,348	51,129	115,474	21,548	137,022	769	137,791
% of net sales	0.2	15.5	12.5	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 769 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, 2018	Nine months ended September 30, 2017
Advertising	58,376	64,907
Sales promotion	38,637	42,502
Employee benefits	111,644	110,081
Depreciation	6,845	6,656
Amortization	4,792	3,533
Research and development	43,076	42,550
Other	63,885	63,612
Total	327,255	333,841

Changes in significant subsidiaries during this 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