

Consolidated Financial Results for the Nine Months Ended September 30, 2016 [IFRS]

Company name: Kao Corporation
 Stock code: 4452
 Representative: Michitaka Sawada, President and CEO
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 Scheduled starting date of the dividend payments: -
 Supplementary documents of the financial results for the period: None
 Holding quarterly financial results information meeting: None

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 Tokyo Stock Exchange in Japan

(URL: http://www.kao.com/jp/en/corp_ir/investors.html)

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(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, 2016 (from January 1, 2016 to September 30, 2016)

(1) Consolidated operating results

	(Percentages indicate year-on-year changes)			
	Nine months ended September 30, 2016	%	Nine months ended September 30, 2015	%
Net sales	1,055,089	(0.9)	1,064,573	-
Operating income	131,202	12.7	116,454	-
Income before income taxes	126,970	10.5	114,891	-
Net income	87,085	19.4	72,919	-
Net income, attributable to owners of the parent	86,357	18.1	73,112	-
Comprehensive income	39,719	(33.2)	59,443	-
Basic earnings per share (Yen)	172.25		145.84	
Diluted earnings per share (Yen)	172.08		145.63	

(2) Consolidated financial position

	September 30, 2016	December 31, 2015
Total assets	1,223,593	1,311,064
Total equity	658,667	691,987
Equity attributable to owners of the parent	649,192	680,996
Ratio of equity attributable to owners of the parent to total assets	53.1%	51.9%
Equity attributable to owners of the parent per share (Yen)	1,307.31	1,358.03

2. Dividends

	Year ending December 31, 2016 (Forecast)	Year ending December 31, 2016	Year ended December 31, 2015
Annual cash dividends per share (Yen)			
1st quarter end		-	-
2nd quarter end		46.00	38.00
3rd quarter end		-	-
Fiscal year end	46.00		42.00
Total	92.00		80.00

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

3. Forecast of consolidated operating results for the year ending December 31, 2016 (from January 1, 2016 to December 31, 2016)

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

	Year ending	
	December 31, 2016	%
Net sales	1,480,000	0.4
Operating income	184,000	10.0
Income before income taxes	183,000	10.2
Net income, attributable to owners of the parent	120,000	14.1
Basic earnings per share (Yen)	240.31	-

Notes: 1) The figures for the fiscal year ended December 31, 2015 used in growth rate comparisons with the previous fiscal year are final figures that conform to International Financial Reporting Standards (IFRS).

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): None

3) Changes in accounting estimates: Yes

For details, please refer to "2. Items Related to Summary Information (Notes), (2) Changes in accounting principles and changes in accounting estimates"

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

	September 30, 2016	December 31, 2015
Number of issued shares including treasury shares	504,000,000	504,000,000
Number of treasury shares	7,413,649	2,541,816
	Nine months ended September 30, 2016	Nine months ended September 30, 2015
Weighted average number of shares outstanding during the period	501,348,223	501,319,914

Notice regarding execution of quarterly review procedures

This quarterly financial results report is exempt from quarterly review based on the Financial Instruments and Exchange Law of Japan. At the time of disclosure of this report, quarterly review procedures for the quarterly financial statements are in progress.

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 "1. Qualitative Information on Financial Results for the Nine Months Ended September 30, 2016 - (3) 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.

Adoption of International Financial Reporting Standards (IFRS)

The Group has adopted International Financial Reporting Standards (IFRS) from the first quarter of the fiscal year ending December 31, 2016. Presentation of figures in the consolidated financial statements for the period of the previous year also conforms to IFRS.

For differences between IFRS and Japanese GAAP in the financial statements, see information on first-time adoption of IFRS in the Investor Relations section of the Company's website.

1. Qualitative Information on Financial Results for the Nine Months Ended September 30, 2016

(1) Description of Operating Results

The Kao Group has adopted International Financial Reporting Standards (IFRS) from the first quarter of 2016. In addition, financial figures for the same nine-month period a year earlier and the previous fiscal year have been restated using IFRS for comparative analysis.

(Billions of yen, except per share amounts)			
Nine months ended September 30	2016	2015	Growth %
Net sales	1,055.1	1,064.6	(0.9)
Operating income	131.2	116.5	12.7
Income before income taxes	127.0	114.9	10.5
Net income	87.1	72.9	19.4
Net income, attributable to owners of the parent	86.4	73.1	18.1
Basic earnings per share (Yen)	172.25	145.84	18.1

During the nine months ended September 30, 2016, the global economy recovered moderately overall, although weakness was apparent in some emerging countries in Asia. The Japanese economy continued on a moderate recovery track, although weakness has also become apparent recently. Moreover, the yen appreciated substantially in foreign exchange markets. The household and personal care products market in Japan, a key market for the Kao Group, grew by 2% on a value basis and consumer purchase prices remained flat compared with the same period a year earlier. The cosmetics market in Japan grew by 1%, excluding inbound demand (demand from visitors to Japan).

Under these circumstances, the Kao Group worked to launch and nurture products with high added value in response to changes in consumer needs based on its concept of "Yoki-Monozukuri,"* which emphasizes research and development geared to customers and consumers. The Kao Group also conducted cost reduction activities and other measures.

* The Kao Group defines Yoki-Monozukuri as a strong commitment by all members to provide products and brands of excellent value for consumer satisfaction. In Japanese, Yoki literally means "good/excellent," and Monozukuri means "development/manufacturing of products."

At a meeting of the Board of Directors held on August 25, 2016, Kao Corporation resolved that it would repurchase its own stock up to 10.0 million shares or 50.0 billion yen during the period from August 26 to October 25, 2016 to improve capital efficiency and increase shareholder returns.

Net sales decreased 0.9% compared with the same period a year earlier to 1,055.1 billion yen. Excluding the effect of currency translation, net sales would have increased 3.6%. In the Consumer Products Business, sales increased in Japan due to factors including market growth, launches of new and improved products, and further enhancement of sales promotion activities. Outside Japan, sales in Asia increased, excluding the

effect of currency translation. In the Chemical Business, sales increased compared with the same period a year earlier, excluding the effect of currency translation, as the Kao Group worked to adjust selling prices in response to rising costs for natural fats and oils, although sales were impacted by a decline in demand in some customer industries.

As for profits, due to the effect of increased sales in the Consumer Products Business in Japan and Asia, a decrease in the cost of petrochemical raw materials and other factors, operating income was 131.2 billion yen, an increase of 14.7 billion yen compared with the same period a year earlier, and income before income taxes was 127.0 billion yen, an increase of 12.1 billion yen compared with the same period a year earlier. Net income was 87.1 billion yen, an increase of 14.2 billion yen compared with the same period a year earlier.

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

	First quarter Jan. – Mar.		Second quarter Apr. – Jun.		Third quarter Jul. – Sep.	
Yen/U.S. dollar	115.31	(119.15)	108.05	(121.33)	102.38	(122.23)
Yen/Euro	127.15	(134.43)	122.05	(134.14)	114.24	(135.91)
Yen/Chinese yuan	17.63	(19.11)	16.55	(19.56)	15.36	(19.41)

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

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Summary of Segment Information

Consolidated Results by Segment

Nine months ended September 30	(Billions of yen)							
	Net sales		Growth %		Operating income			
	2016	2015	Like-for-like*		2016	2015	Change	% of net sales
Beauty Care	441.6	438.6	0.7	4.9	37.0	25.6	11.3	8.4
Human Health Care	193.3	200.8	(3.7)	0.8	18.2	24.1	(6.0)	9.4
Fabric and Home Care	244.7	237.1	3.2	5.2	53.5	44.2	9.3	21.9
Total Consumer Products	879.6	876.5	0.4	4.0	108.6	94.0	14.7	12.3
Chemical	201.9	216.7	(6.8)	0.7	21.8	21.9	(0.1)	10.8
Total	1,081.5	1,093.2	(1.1)	3.4	130.4	115.9	14.6	12.1
Reconciliations	(26.4)	(28.6)	-	-	0.8	0.6	0.2	-
Consolidated	1,055.1	1,064.6	(0.9)	3.6	131.2	116.5	14.7	12.4

Note:

* Like-for-like growth rates exclude the currency translation effect related to translation of local currencies into Japanese yen.

Consolidated Net Sales Composition

Nine months ended September 30	(Billions of yen)			
	Net sales		Growth %	
	2016	2015	Like-for-like*	
Beauty Care	310.0	293.5	5.6	5.6
Human Health Care	151.3	157.8	(4.1)	(4.1)
Fabric and Home Care	212.6	202.3	5.1	5.1
Total Japan	673.9	653.6	3.1	3.1
Asia	134.5	134.9	(0.3)	14.7
Americas	60.0	67.3	(10.9)	(0.5)
Europe	57.1	64.8	(11.9)	(0.6)
Eliminations	(45.8)	(44.1)	-	-
Total Consumer Products	879.6	876.5	0.4	4.0
Japan	91.1	95.7	(4.8)	(4.8)
Asia	73.0	80.6	(9.5)	4.4
Americas	33.2	37.1	(10.5)	4.3
Europe	44.7	49.6	(9.9)	0.4
Eliminations	(40.1)	(46.4)	-	-
Total Chemical	201.9	216.7	(6.8)	0.7
Total	1,081.5	1,093.2	(1.1)	3.4
Reconciliations	(26.4)	(28.6)	-	-
Consolidated	1,055.1	1,064.6	(0.9)	3.6

Note:

* Like-for-like growth rates exclude the currency translation effect related to translation of local currencies into Japanese yen.

Reference: Consolidated Results by Geographic Area¹

Nine months ended September 30	(Billions of yen)							
	Net sales				Operating income			
	2016	2015	Growth %		2016	2015	Change	% of net sales
				Like-for-like ²				
Japan	742.0	724.9	2.4	2.4	98.5	84.4	14.1	13.3
Asia	205.3	212.6	(3.4)	11.2	17.1	19.0	(2.0)	8.3
Americas	93.2	104.4	(10.8)	1.2	6.4	5.5	0.9	6.8
Europe	101.5	114.2	(11.1)	(0.2)	7.4	8.7	(1.2)	7.3
Total	1,142.0	1,156.2	(1.2)	3.6	129.3	117.5	11.8	11.3
Reconciliations	(86.9)	(91.6)	-	-	1.9	(1.1)	2.9	-
Consolidated	1,055.1	1,064.6	(0.9)	3.6	131.2	116.5	14.7	12.4

Notes:

1. Information on consolidated results by geographic area is for reference.
2. Like-for-like growth rates exclude the currency translation effect related to translation of local currencies into Japanese yen.

Net sales to foreign customers were 34.4% of net sales compared with 36.3% for the same period a year earlier.

Consumer Products Business

Sales increased 0.4% compared with the same period a year earlier to 879.6 billion yen. Excluding the effect of currency translation, sales would have increased 4.0%.

In Japan, sales increased 3.1% to 673.9 billion yen. The Kao Group made efforts that included working to respond to changing consumer lifestyles, and social issues such as the environment, health, the aging society and hygiene, launching numerous high-value-added products and enhancing proposal-oriented sales activities.

In Asia, sales decreased 0.3% to 134.5 billion yen. Excluding the effect of currency translation, sales would have increased 14.7%. Growth continued, excluding the effect of currency translation, as the Kao Group worked in areas such as launching and nurturing products targeting the middle-class consumer segment, collaborating with retailers, utilizing wholesale channels and expanding sales regions.

In the Americas, sales decreased 10.9% to 60.0 billion yen. Excluding the effect of currency translation, sales would have decreased 0.5%. Although sales of skin care products and professional hair care products grew, sales of hair care products decreased compared with the same period a year earlier.

In Europe, sales decreased 11.9% to 57.1 billion yen. Excluding the effect of currency translation, sales would have decreased 0.6%. Although sales of professional hair care products grew, sales of hair care products decreased compared with the same period a year earlier.

Operating income increased 14.7 billion yen compared with the same period a year earlier to 108.6 billion

yen due to factors including the effect of increased sales in the Beauty Care Business and the Fabric and Home Care Business in Japan and a decrease in the cost of raw materials.

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 increased 0.7% compared with the same period a year earlier to 441.6 billion yen. Excluding the effect of currency translation, sales would have increased 4.9%.

Sales of cosmetics increased 3.1% compared with the same period a year earlier to 180.7 billion yen. Excluding the effect of currency translation, sales would have increased 5.6%. In Japan, sales increased due to factors including good performance by new products launched in the previous year and enhanced in-store sales promotion activities. Major reforms in the cosmetics business started in September, and shipments of the *SOFINA iP* series, for which sales channels have expanded, and of the new global brand *KANEBO* are progressing steadily. In counseling cosmetics, the *ALBLANC* skin brightening brand and the *RMK* brand performed strongly, and in self-selection cosmetics, sales of *KATE TOKYO* and *media* makeup grew. Sales increased outside Japan, due in part to strong performance in China and Taiwan.

Sales of skin care products increased compared with the same period a year earlier. In Japan, sales increased due to growth in sales of *Bioré* facial cleanser and UV care as well as *Curél* derma care products. Sales also grew in Asia and in the Americas as *Bioré* sold strongly.

Sales of hair care products were flat compared with the same period a year earlier. In Japan, sales increased partly due to a complete renewal of *Essential* shampoos and conditioners. The Kao Group launched new easy-to-use, environmentally conscious refill products, which gained the support of consumers. Outside Japan, sales were flat in Asia with the impact of intensifying competition and decreased in the Americas and Europe.

Operating income increased 11.3 billion yen compared with the same period a year earlier to 37.0 billion yen, due to the effect of increased sales in Japan, the completion of amortization of trademarks related to Kanebo Cosmetics, and other factors.

Human Health Care Business

Sales decreased 3.7% compared with the same period a year earlier to 193.3 billion yen. Excluding the effect of currency translation, sales would have increased 0.8%.

For food and beverage products, signs of recovery became apparent as the Kao Group strengthened its promotion of the function of highly concentrated tea catechins in *Healthya Green Tea*, a functional drink that enhances the body's ability to metabolize fat and facilitates reduction of body fat.

Sales of sanitary products increased compared with the same period a year earlier. Sales of the *Laurier* brand of sanitary napkins grew steadily. In Japan, a high-value-added scented version of *Laurier Slim Guard*, which offers both high absorbency and comfort, was launched and gained consumer support. In Asia, sales of high-value-added products increased strongly. Sales of *Merries* baby diapers were flat compared with the same period a year earlier, in part because the Kao Group is currently transforming its sales structure in response to changes in distribution channels in Japan and China. In Japan, sales decreased as demand for purchasing with the purpose of resale in the Chinese market decreased compared with the same period a year earlier. The Kao Group has mostly resolved prolonged shortages in stores, and resumed marketing activities. Market share is on a recovery trend, supported by the launch of an improved product with even better breathability in June 2016. In China, sales of *Merries* increased. In Indonesia, sales of locally produced *Merries* targeting the middle-class consumer segment were favorable.

Sales of personal health products increased compared with the same period a year earlier. Sales of oral care products increased compared with the same period a year earlier, with good performance by *Pure Oral* toothpaste and mouthwash. Sales of bath additives increased compared with the same period a year earlier. Sales of *MegRhythm* steam thermo sheets decreased compared with the same period a year earlier, impacted by a decline in inbound demand.

Operating income decreased 6.0 billion yen compared with the same period a year earlier to 18.2 billion yen due to factors including the effect of aggressive marketing expenditures, an increase in depreciation, the effect of exchange rate fluctuations and a slowdown in inbound demand.

Fabric and Home Care Business

Sales increased 3.2% compared with the same period a year earlier to 244.7 billion yen. Excluding the effect of currency translation, sales would have increased 5.2%.

Sales of fabric care products increased compared with the same period a year earlier. In Japan's fiercely competitive market environment, both sales and market share increased from responding to the larger-sized products category and the contribution of new and improved products. Sales of laundry detergents increased, centered on improved *Ultra Attack Neo* and *Attack Neo Antibacterial EX W Power* ultra-concentrated liquid laundry detergents. For fabric softeners, as the market for high-value-added products expanded, the Kao Group launched a new *Flair Fragrance* product that features a new fragrance release function and *Flair Fragrance IROKA*, a premium fabric softener. *Humming Fine*, which has a strong deodorizing effect, sold strongly. Sales also increased in Asia compared with the same period a year earlier. In particular, sales were strong for *Attack Jaz1*, a powder detergent for hand washing targeting the middle-class consumer segment in Indonesia.

Sales of home care products increased compared with the same period a year earlier. In Japan, sales of *CuCute* dishwashing detergent increased steadily with the launch of a new foam spray type product. Sales of *Magiclean* household cleaners for the bath, toilet, kitchen and other areas grew with value-added

offerings such as deodorizing, disinfecting and anti-staining. In addition, sales of *Resesh* clothing, fabric and air refresher and *Quickle* household cleaning mop kit were steady.

Operating income increased 9.3 billion yen compared with the same period a year earlier to 53.5 billion yen due to factors including the effect of increased sales and a decrease in the cost of raw materials.

Chemical Business

Sales decreased 6.8% compared with the same period a year earlier to 201.9 billion yen. Excluding the effect of currency translation, sales would have increased 0.7%.

In Japan, sales were impacted by a trend toward a decrease in demand in some customer industry markets, including construction materials. Outside Japan, excluding the effect of currency translation, sales increased compared with the same period a year earlier, despite the negative effects from the decrease in demand among customer industries, as the Kao Group worked to expand sales and adjust the selling prices of oleo chemicals.

Sales of oleo chemicals continued to increase as the Kao Group worked to adjust selling prices in line with the continuing rise of raw material prices. In performance chemicals, the Kao Group worked to develop and expand sales of high-value-added products with a reduced environmental footprint, but was impacted by worsening conditions in the construction materials and other markets. Sales of specialty chemicals decreased compared with the same period a year earlier due to ongoing sluggish demand and structural changes in the personal computer market.

Operating income decreased 0.1 billion yen compared with the same period a year earlier to 21.8 billion yen.

In June 2016, the Kao Group announced the acquisition of ink companies in the United States and Europe to accelerate the development of its water-based pigment inkjet ink, which contributes to reducing environmental footprint, and the global rollout of the business. The company in the United States became a consolidated subsidiary in July 2016.

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(2) Description of Financial Condition

Summary of Consolidated Financial Position

	(Billions of yen, except per share amounts)		
	September 30, 2016	December 31, 2015	Incr./ (Dcr.)
Total assets	1,223.6	1,311.1	(87.5)
Total liabilities	564.9	619.1	(54.2)
Total equity	658.7	692.0	(33.3)
Ratio of equity attributable to owners of the parent to total assets	53.1%	51.9%	-
Equity attributable to owners of the parent per share (Yen)	1,307.31	1,358.03	(50.72)
Bonds and borrowings	120.7	120.5	0.1

Summary of Consolidated Cash Flows

	(Billions of yen)		
Nine months ended September 30	2016	2015	Incr./ (Dcr.)
Net cash flows from operating activities	96.5	111.4	(14.9)
Net cash flows from investing activities	(63.0)	(51.1)	(12.0)
Free cash flow*	33.4	60.3	(26.9)
Net cash flows from financing activities	(72.6)	17.9	(54.7)

*Free cash flow is the sum of net cash flows from operating activities and net cash flows from investing activities.

Total assets decreased 87.5 billion yen from December 31, 2015 to 1,223.6 billion yen. The principal increases in assets were a 9.2 billion yen increase in inventories and a 9.0 billion yen increase in property, plant and equipment. The principal decreases in assets were a 52.6 billion yen decrease in cash and cash equivalents and a 44.5 billion yen decrease in trade and other receivables.

Total liabilities decreased 54.2 billion yen from December 31, 2015 to 564.9 billion yen. The principal decreases in liabilities were a 12.7 billion yen decrease in trade and other payables, a 5.3 billion yen decrease in income tax payables, an 11.3 billion yen decrease in provisions and an 18.2 billion yen decrease in other current liabilities.

Total equity decreased 33.3 billion yen from December 31, 2015 to 658.7 billion yen. The principal increase in equity was net income totaling 87.1 billion yen. The principal decreases in equity were 28.5 billion yen due to purchase of treasury shares, exchange differences on translation of foreign operations of 43.9 billion yen and dividends totaling 45.1 billion yen.

As a result of the above factors, the ratio of equity attributable to owners of the parent to total assets was 53.1% compared with 51.9% at December 31, 2015.

Net cash flows from operating activities totaled 96.5 billion yen. The principal increases in net cash were income before income taxes of 127.0 billion yen, depreciation and amortization of 38.2 billion yen and

decrease in trade and other receivables of 26.5 billion yen. The principal decreases in net cash were increase in inventories of 21.1 billion yen, decrease in trade and other payables of 5.6 billion yen, other, which includes accrued expenses, of 22.2 billion yen and income taxes paid of 46.6 billion yen.

Net cash flows from investing activities totaled negative 63.0 billion yen. This primarily consisted of purchase of property, plant and equipment of 56.1 billion yen.

Free cash flow, the sum of net cash flows from operating activities and net cash flows from investing activities, was 33.4 billion yen.

Net cash flows from financing activities totaled negative 72.6 billion yen. This primarily consisted of 28.5 billion yen for purchase of treasury shares and 43.8 billion yen for dividends paid to owners of the parent and non-controlling interests.

The balance of cash and cash equivalents at September 30, 2016 decreased 52.6 billion yen compared with December 31, 2015 to 257.3 billion yen, including the effect of exchange rate fluctuations.

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

A continuing moderate recovery of the global economy is expected, although there are concerns about the risk of a downturn due to factors including the impact of moves to normalize monetary policy in the United States, the economic outlook for China and other emerging nations, and the effects of crude oil prices, rapid fluctuations of exchange rates and other factors. In addition, attention must be paid to mounting uncertainty about the global economy due to factors including concerns about the United Kingdom's decision to leave the European Union. In Japan, the economy is expected to recover moderately, underpinned by the effects of economic measures, but there is a possibility of impact from an economic downturn outside Japan. Moreover, the Kao Group assumes that the operating environment will remain unclear, including market conditions for raw materials and trends in exchange rates.

The household and personal care products market and cosmetics market in Japan up to the third quarter has been solid despite a slowdown in inbound demand. However, consumer sentiment is weak, leaving open the possibility of a market downturn. In addition, market competition is intensifying.

Taking into account the above outlook and performance in the first three quarters, the forecast of consolidated operating results for the fiscal year ending December 31, 2016 announced on July 28, 2016 is unchanged.

The Kao Group will continue to aim for long-term growth by anticipating changes in consumers, retailers and markets, shifting to high-value-added products, and further strengthening marketing activities. In addition, the Kao Group will further transform its sales structure for *Merries* baby diapers, and will continue to invest in major reforms in the cosmetics business, in *Healthya* functional drinks, which are approved as a Food for Specified Health Use, and in other businesses that support future growth.

Amid these circumstances, the Kao Group will continue to promote "*Yoki-Monozukuri*," which emphasizes research and development geared to customers and consumers, and aim for sustained "profitable growth." In addition, the Kao Group aims to become a company with a global presence as it also works for "contributions to the sustainability of the world" by offering proposals to resolve social issues and conducting social contribution activities through its business activities.

The main exchange rates used in the forecast of consolidated operating results are 108 yen per U.S. dollar, 120 yen per euro and 16 yen per Chinese yuan.

2. Items Related to Summary Information (Notes)

(1) Changes in material subsidiaries during this quarterly period: None

(2) Changes in accounting principles and changes in accounting estimates:

Change in useful lives of property, plant and equipment

In conducting proactive capital investment, mainly in machinery and equipment, the Kao Group recognizes that the comparability of manufacturing costs for consideration on a global level of optimization of production bases is one of the issues it must address from a management perspective.

Consequently, the Kao Group globally unified its fixed asset systems in January 2016. The Kao Group decided to take advantage of this change to make the useful lives of machinery and equipment consistent (generally 9 or 10 years depending on the type of equipment) from the first quarter of 2016 to better reflect the actual use of machinery and equipment in global production. The effect of this change in accounting estimates on the consolidated financial statements is immaterial.

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Condensed Consolidated Statement of Financial Position

(Millions of yen)

	September 30, 2016	December 31, 2015	Transition date January 1, 2015
Assets			
Current assets			
Cash and cash equivalents	257,322	309,922	228,967
Trade and other receivables	166,205	210,707	212,742
Inventories	160,459	151,271	151,876
Current income tax assets	3,865	2,077	1,261
Other financial assets	7,786	5,065	4,034
Other current assets	37,324	38,005	47,299
Subtotal	632,961	717,047	646,179
Non-current assets held for sale	198	1,330	-
Total current assets	633,159	718,377	646,179
Non-current assets			
Property, plant and equipment	346,992	337,997	319,282
Goodwill	135,860	138,251	138,751
Intangible assets	13,580	15,705	23,626
Investments accounted for using the equity method	4,246	4,209	3,544
Other financial assets	26,006	29,339	26,088
Other non-current assets	14,999	17,732	7,966
Deferred tax assets	48,751	49,454	61,194
Total non-current assets	590,434	592,687	580,451
Total assets	1,223,593	1,311,064	1,226,630

Condensed Consolidated Statement of Financial Position

(Millions of yen)

	September 30, 2016	December 31, 2015	Transition date January 1, 2015
Liabilities and equity			
Liabilities			
Current liabilities			
Trade and other payables	194,041	206,760	193,460
Bonds and borrowings	30,288	339	21,422
Income tax payables	26,837	32,184	28,283
Other financial liabilities	5,445	6,929	5,765
Provisions	5,523	16,772	33,360
Other current liabilities	107,186	125,422	123,916
Total current liabilities	369,320	388,406	406,206
Non-current liabilities			
Bonds and borrowings	90,390	120,207	80,188
Retirement benefit liabilities	71,424	75,706	77,895
Other financial liabilities	11,074	11,817	12,813
Provisions	17,689	17,704	5,296
Other non-current liabilities	4,599	4,919	5,411
Deferred tax liabilities	430	318	433
Total non-current liabilities	195,606	230,671	182,036
Total liabilities	564,926	619,077	588,242
Equity			
Share capital	85,424	85,424	85,424
Capital surplus	108,296	108,659	109,561
Treasury shares	(35,663)	(8,202)	(9,719)
Other components of equity	(49,735)	(4,184)	7,601
Retained earnings	540,870	499,299	431,975
Equity attributable to owners of the parent	649,192	680,996	624,842
Non-controlling interests	9,475	10,991	13,546
Total equity	658,667	691,987	638,388
Total liabilities and equity	1,223,593	1,311,064	1,226,630

Condensed Consolidated Statement of Income

(Millions of yen)

	Notes	Nine months ended September 30, 2016	Nine months ended September 30, 2015
Net sales	1	1,055,089	1,064,573
Cost of sales		(463,123)	(483,053)
Gross profit		591,966	581,520
Selling, general and administrative expenses	2	(461,461)	(464,969)
Other operating income		9,978	10,718
Other operating expenses		(9,281)	(10,815)
Operating income	1	131,202	116,454
Financial income		1,007	984
Financial expenses		(6,766)	(3,765)
Share of profit in investments accounted for using the equity method		1,527	1,218
Income before income taxes		126,970	114,891
Income taxes		(39,885)	(41,972)
Net income		87,085	72,919
Attributable to:			
Owners of the parent		86,357	73,112
Non-controlling interests		728	(193)
Net income		87,085	72,919
Earnings per share			
Basic (Yen)		172.25	145.84
Diluted (Yen)		172.08	145.63

Condensed Consolidated Statement of Comprehensive Income

(Millions of yen)

	Nine months ended September 30, 2016	Nine months ended September 30, 2015
Net income	87,085	72,919
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	(1,367)	1,471
Remeasurements of defined benefit plans	(468)	(491)
Share of other comprehensive income of investments accounted for using the equity method	(131)	347
Total of items that will not be reclassified to profit or loss	(1,966)	1,327
Items that may be reclassified subsequently to profit or loss:		
Exchange differences on translation of foreign operations	(45,356)	(14,801)
Net gain (loss) on derivatives designated as cash flow hedges	-	12
Share of other comprehensive income of investments accounted for using the equity method	(44)	(14)
Total of items that may be reclassified subsequently to profit or loss	(45,400)	(14,803)
Other comprehensive income, net of taxes	(47,366)	(13,476)
Comprehensive income	39,719	59,443
Attributable to:		
Owners of the parent	40,456	61,556
Non-controlling interests	(737)	(2,113)
Comprehensive income	39,719	59,443

Condensed Consolidated Statement of Changes in Equity

(Millions of yen)

	Equity attributable to owners of the parent											Non-controlling interests	Total equity
	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 comprehensive income	Remeasur-ements of defined benefit plans	Total	Retained earnings	Total		
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
January 1, 2015	85,424	109,561	(9,719)	980	-	(4)	6,625	-	7,601	431,975	624,842	13,546	638,388
Net income	-	-	-	-	-	-	-	-	-	73,112	73,112	(193)	72,919
Other comprehensive income	-	-	-	-	(12,889)	6	1,819	(492)	(11,556)	-	(11,556)	(1,920)	(13,476)
Comprehensive income	-	-	-	-	(12,889)	6	1,819	(492)	(11,556)	73,112	61,556	(2,113)	59,443
Disposal of treasury shares	-	-	1,466	(216)	-	-	-	-	(216)	(335)	915	-	915
Purchase of treasury shares	-	-	(40)	-	-	-	-	-	-	-	(40)	-	(40)
Share-based payment transactions	-	-	-	225	-	-	-	-	225	-	225	-	225
Dividends	-	-	-	-	-	-	-	-	-	(37,091)	(37,091)	(1,248)	(38,339)
Changes in the ownership interest in a subsidiary	-	(902)	-	-	-	-	-	-	-	-	(902)	(334)	(1,236)
Transfer from other components of equity to retained earnings	-	-	-	-	-	-	(41)	492	451	(451)	-	-	-
Other increase (decrease)	-	-	-	-	-	-	-	-	-	-	-	(115)	(115)
Total transactions with the owners	-	(902)	1,426	9	-	-	(41)	492	460	(37,877)	(36,893)	(1,697)	(38,590)
September 30, 2015	85,424	108,659	(8,293)	989	(12,889)	2	8,403	-	(3,495)	467,210	649,505	9,736	659,241

Condensed Consolidated Statement of Cash Flows

(Millions of yen)

	Nine months ended September 30, 2016	Nine months ended September 30, 2015
Cash flows from operating activities		
Income before income taxes	126,970	114,891
Depreciation and amortization	38,169	42,019
Interest and dividend income	(899)	(871)
Interest expense	1,166	1,164
Share of profit in investments accounted for using the equity method	(1,527)	(1,218)
(Gains) losses on sale and disposal of property, plant and equipment, and intangible assets	2,281	2,466
(Increase) decrease in trade and other receivables	26,550	32,522
(Increase) decrease in inventories	(21,060)	(8,316)
Increase (decrease) in trade and other payables	(5,612)	(4,998)
Increase (decrease) in retirement benefit liabilities	(1,801)	(967)
Other	(22,217)	(22,327)
Subtotal	142,020	154,365
Interest received	760	721
Dividends received	1,383	1,222
Interest paid	(1,126)	(1,116)
Income taxes paid	(46,580)	(43,808)
Net cash flows from operating activities	96,457	111,384
Cash flows from investing activities		
Payments into time deposits	(5,044)	(10)
Proceeds from withdrawal of time deposits	1,934	1,355
Purchase of property, plant and equipment	(56,059)	(50,610)
Purchase of intangible assets	(2,477)	(3,103)
Acquisition of subsidiaries	(3,659)	-
Other	2,257	1,297
Net cash flows from investing activities	(63,048)	(51,071)
Cash flows from financing activities		
Increase (decrease) in short-term borrowings	(44)	261
Proceeds from long-term borrowings	-	40,080
Repayments of long-term borrowings	(55)	(20,049)
Purchase of treasury shares	(28,473)	(40)
Dividends paid to owners of the parent	(42,888)	(35,859)
Dividends paid to non-controlling interests	(955)	(1,248)
Other	(206)	(1,020)
Net cash flows from financing activities	(72,621)	(17,875)
Net increase (decrease) in cash and cash equivalents	(39,212)	42,438
Cash and cash equivalents at the beginning of the period	309,922	228,967
Effect of exchange rate changes on cash and cash equivalents	(13,388)	(5,370)
Cash and cash equivalents at the end of the period	257,322	266,035

Notes to Consolidated Financial Statements

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
	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

Nine months ended September 30, 2016	Reportable Segments							(Millions of yen)
	Consumer Products Business				Chemical Business	Total	Reconciliations ¹	Consolidated
	Beauty Care Business	Human Health Care Business	Fabric and Home Care Business	Subtotal				
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	12.1	-	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.

Nine months ended September 30, 2015	Reportable Segments							
	Consumer Products Business				Chemical Business	Total	Reconciliations ¹	Consolidated
	Beauty Care Business	Human Health Care Business	Fabric and Home Care Business	Subtotal				
Net sales								
Sales to customers	438,563	200,796	237,134	876,493	188,080	1,064,573	-	1,064,573
Intersegment sales and transfers ²	-	-	-	-	28,596	28,596	(28,596)	-
Total net sales	438,563	200,796	237,134	876,493	216,676	1,093,169	(28,596)	1,064,573
Operating income (loss)	25,628	24,143	44,186	93,957	21,903	115,860	594	116,454
% of net sales	5.8	12.0	18.6	10.7	10.1	10.6	-	10.9
Financial income								984
Financial expenses								(3,765)
Share of profit in investments accounted for using the equity method								1,218
Income before income taxes								114,891

Notes:

1. The operating income reconciliation of 594 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, 2016	Nine months ended September 30, 2015
Freight/warehouse	42,254	44,110
Advertising	69,323	68,768
Sales promotion	58,581	56,942
Employee benefits	142,312	142,691
Depreciation	8,318	8,581
Amortization	4,955	10,400
Research and development	40,028	39,152
Other	95,690	94,325
Total	461,461	464,969

Notes regarding Assumption of Going Concern

None applicable.