

## Summary of Consolidated Business Results for the Nine Months Ended September 30, 2014

Tokyo, October 28, 2014 - Kao Corporation today announced its consolidated business results for the nine months ended September 30, 2014, the third quarter of the fiscal year ending December 31, 2014. The following summary of the business results is unaudited and for reference only.

Ticker code: 4452

### Consolidated Financial Highlights

(Millions of yen, millions of U.S. dollars, except per share data)

Jan. - Sep.	Nine-month period				Fiscal year ended
	2014	2013	Growth	2014	Dec. 31, 2013
	Yen	Yen	%	U.S. dollars	Yen
Net sales	<b>1,007,245</b>	950,538	6.0	<b>9,199.4</b>	1,315,217
Operating income	<b>80,920</b>	81,864	(1.2)	<b>739.1</b>	124,656
Ordinary income	<b>84,405</b>	84,509	(0.1)	<b>770.9</b>	128,053
Net income	<b>50,670</b>	39,552	28.1	<b>462.8</b>	64,764
Comprehensive income	<b>56,861</b>	63,981	(11.1)	<b>519.3</b>	109,627
Total assets	<b>1,102,969</b>	1,054,000	4.6	<b>10,073.7</b>	1,133,276
Total net assets	<b>621,979</b>	596,969	4.2	<b>5,680.7</b>	642,640
Net worth <sup>1</sup>	<b>608,524</b>	583,738	4.2	<b>5,557.8</b>	628,709
Net worth ratio <sup>2</sup>	<b>55.2%</b>	55.4%	-	<b>55.2%</b>	55.5%
Net worth per share (Yen/US\$) <sup>3</sup>	<b>1,210.61</b>	1,139.84	6.2	<b>11.06</b>	1,227.54
Net income per share (Yen/US\$) <sup>4</sup>	<b>99.12</b>	76.88	28.9	<b>0.91</b>	126.03
Net income per share, fully diluted (Yen/US\$)	<b>98.98</b>	76.80	28.9	<b>0.90</b>	125.89
Net cash provided by operating activities	<b>91,795</b>	133,612	-	<b>838.4</b>	178,745
Net cash used in investing activities	<b>(47,335)</b>	(45,037)	-	<b>(432.3)</b>	(57,778)
Net cash used in financing activities	<b>(76,432)</b>	(65,756)	-	<b>(698.1)</b>	(67,459)
Cash and cash equivalents, end of period	<b>196,219</b>	188,894	-	<b>1,792.1</b>	227,598

Notes:

1. Net worth is net assets, excluding minority interests and stock acquisition rights.
2. The net worth ratio is defined as net worth divided by total assets.
3. Net worth per share is computed based on the number of shares outstanding at the end of the periods excluding treasury stock.
4. Net income per share is computed based on the weighted average number of shares outstanding during each respective period.
5.

Number of issued shares outstanding at the end of the periods (common stock)	September 30, 2014	December 31, 2013
Number of issued shares including treasury stock	516,000,000 shares	516,000,000 shares
Number of shares of treasury stock	13,342,456 shares	3,829,950 shares
6.

Weighted average number of shares outstanding during the nine months	Ended September 30, 2014	Ended September 30, 2013
	511,208,451 shares	514,463,824 shares

## Consolidated Results by Segment

Jan. - Sep.	Net sales				Operating income		
	Billions of yen		Growth %		Billions of yen		
	2014	2013	Like-for-like *		2014	2013	Change
Beauty Care	424.7	414.5	2.5	0.5	12.3	11.7	0.6
Human Health Care	167.7	151.4	10.7	10.1	12.3	11.8	0.4
Fabric and Home Care	230.9	220.9	4.5	4.6	39.7	42.1	(2.4)
Consumer Products Total	823.3	786.8	4.6	3.5	64.3	65.7	(1.4)
Chemical	214.2	191.2	12.1	8.5	16.6	16.0	0.6
Total	1,037.5	977.9	6.1	4.5	80.9	81.7	(0.8)
Reconciliations	(30.2)	(27.4)	-	-	(0.0)	0.2	(0.2)
Consolidated	1,007.2	950.5	6.0	4.3	80.9	81.9	(0.9)

Jan. - Sep.	Net sales				Operating income		
	Millions of U.S. dollars		Growth %		Millions of U.S. dollars		
	2014	2013	Like-for-like *		2014	2013	Change
Beauty Care	3,878.7	3,785.6	2.5	0.5	112.3	106.8	5.6
Human Health Care	1,531.4	1,382.7	10.7	10.1	112.0	108.2	3.8
Fabric and Home Care	2,109.0	2,017.3	4.5	4.6	363.0	384.9	(21.8)
Consumer Products Total	7,519.0	7,185.6	4.6	3.5	587.3	599.9	(12.5)
Chemical	1,956.6	1,746.0	12.1	8.5	151.8	146.3	5.5
Total	9,475.6	8,931.7	6.1	4.5	739.1	746.2	(7.0)
Reconciliations	(276.2)	(250.2)	-	-	(0.1)	1.5	(1.6)
Consolidated	9,199.4	8,681.5	6.0	4.3	739.1	747.7	(8.6)

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

## Consolidated Net Sales Composition

Jan. - Sep.	Billions of yen		Growth %	Millions of U.S. dollars	
	2014	2013		2014	2013
<b>Consumer Products</b>					
Beauty Care	299.5	296.8	0.9	2,735.1	2,710.3
Human Health Care	139.3	130.7	6.5	1,272.0	1,194.1
Fabric and Home Care	203.2	194.6	4.4	1,855.7	1,777.5
Total Japan	641.9	622.1	3.2	5,862.7	5,681.9
Asia	99.4	85.3	16.5	908.1	779.5
Americas*	57.2	51.0	12.1	522.3	465.8
Europe*	60.2	51.7	16.6	550.1	471.9
Eliminations	(35.5)	(23.4)	-	(324.1)	(213.4)
<b>Total</b>	<b>823.3</b>	<b>786.8</b>	<b>4.6</b>	<b>7,519.0</b>	<b>7,185.6</b>
<b>Chemical</b>					
Japan	97.1	91.2	6.4	886.6	833.2
Asia	81.1	61.4	31.9	740.4	561.1
Americas	34.1	29.8	14.6	311.3	271.8
Europe	51.7	46.0	12.5	472.3	419.8
Eliminations	(49.7)	(37.2)	-	(454.1)	(339.9)
<b>Total</b>	<b>214.2</b>	<b>191.2</b>	<b>12.1</b>	<b>1,956.6</b>	<b>1,746.0</b>
<b>Total before Reconciliations</b>	<b>1,037.5</b>	<b>977.9</b>	<b>6.1</b>	<b>9,475.6</b>	<b>8,931.7</b>
Reconciliations	(30.2)	(27.4)	-	(276.2)	(250.2)
<b>Consolidated</b>	<b>1,007.2</b>	<b>950.5</b>	<b>6.0</b>	<b>9,199.4</b>	<b>8,681.5</b>

\* As of January 2014, certain changes have been made in inter-company transactions among subsidiaries in the Consumer Products Business in the Americas and Europe. The rates of change based on the same transaction method that was used in the same period a year earlier would have increased 4.5% for the Americas and 9.1% for Europe.

**Reference: Consolidated Results by Geographic Area<sup>1</sup>**

Jan. - Sep.	Net sales				Operating income		
	Billions of yen		Growth %		Billions of yen		
	2014	2013	Like-for-like <sup>2</sup>		2014	2013	Change
Japan	713.4	689.9	3.4	3.4	64.1	63.8	0.2
Asia	177.2	144.1	23.0	19.6	9.0	10.0	(1.1)
Americas <sup>3</sup>	91.2	80.6	13.1	6.8	2.9	4.1	(1.2)
Europe <sup>3</sup>	111.7	97.5	14.6	4.7	4.2	4.4	(0.2)
Total	1,093.5	1,012.1	8.0	6.1	80.2	82.4	(2.2)
Reconciliations	(86.2)	(61.6)	-	-	0.7	(0.5)	1.3
Consolidated	1,007.2	950.5	6.0	4.3	80.9	81.9	(0.9)

Jan. - Sep.	Net sales				Operating income		
	Millions of U.S. dollars		Growth %		Millions of U.S. dollars		
	2014	2013	Like-for-like <sup>2</sup>		2014	2013	Change
Japan	6,515.4	6,301.1	3.4	3.4	585.2	583.1	2.0
Asia	1,618.6	1,316.4	23.0	19.6	82.1	91.7	(9.6)
Americas <sup>3</sup>	832.6	736.1	13.1	6.8	26.8	37.4	(10.6)
Europe <sup>3</sup>	1,020.4	890.0	14.6	4.7	38.4	40.3	(1.9)
Total	9,986.9	9,243.7	8.0	6.1	732.6	752.6	(20.1)
Reconciliations	(787.5)	(562.2)	-	-	6.5	(4.9)	11.4
Consolidated	9,199.4	8,681.5	6.0	4.3	739.1	747.7	(8.6)

*Notes:*

- Information on consolidated results by geographic area is for reference.
- Like-for-like growth rates exclude the currency translation effect related to translation of local currencies into Japanese yen.
- As of January 2014, certain changes have been made in inter-company transactions among subsidiaries in the Consumer Products Business in the Americas and Europe. The rates of change based on the same transaction method that was used in the same period a year earlier would have increased 8.3% for the Americas (an increase of 2.3% excluding the effect of currency translation) and 10.7% for Europe (1.1% excluding the effect of currency translation.)
- Net sales to foreign customers were 33.4% of net sales compared with 31.3% for the same period a year earlier.

**Forecast of Consolidated Results for the Fiscal Year Ending December 31, 2014**

(Billions of yen, millions of U.S. dollars, except per share data)

	Fiscal Year ending December 31, 2014		
	Yen	Growth %	U.S. dollars
Net sales	1,390.0	5.7	12,695.2
Operating income	130.0	4.3	1,187.3
Ordinary income	133.0	3.9	1,214.7
Net income	75.0	15.8	685.0
Net income per share (Yen/US\$)*	147.45	17.0	1.35
Cash dividends per share (Yen/US\$)	68.00	-	0.62

\* Net income per share is computed based on the estimated weighted average number of shares outstanding during the fiscal year.

**Note for This News Release:**

*U.S. dollar amounts represent translations using the approximate exchange rate on September 30, 2014 of 109.49 yen = 1 U.S. dollar, and are presented solely for the convenience of readers.*

**Forward-Looking Statements**

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

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## 1. Qualitative Information on Business Results for the Nine Months Ended September 30, 2014

### (1) Description of Results of Operations

Jan. – Sep.	(Billions of yen, except per share data)		
	Nine-month period		
	2014	2013	Growth %
Net sales	<b>1,007.2</b>	950.5	6.0
Operating income	<b>80.9</b>	81.9	(1.2)
Ordinary income	<b>84.4</b>	84.5	(0.1)
Net income	<b>50.7</b>	39.6	28.1
Net income per share (Yen)	<b>99.12</b>	76.88	28.9
Net income per share, fully diluted (Yen)	<b>98.98</b>	76.80	28.9

During the nine months ended September 30, 2014, the global economy recovered moderately, although weakness was apparent in some sectors. Despite weakness apparent recently in the Japanese economy, a moderate recovery trend continued. Personal consumption stalled, due in part to the impact of adverse weather conditions during the summer, although a tendency toward improvement continued. 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 increased, both compared with the same period a year earlier. In addition, the cosmetics market in Japan grew by 1%.

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 worked to the utmost to supply products responding to the last-minute surge in demand associated with the consumption tax rate increase, and strove to stimulate the market by launching numerous new and improved products after the consumption tax rate increase.

\* *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."*

Regarding Kanebo Cosmetics brightening products containing the ingredient Rhododenol, for which a voluntary recall was announced on July 4, 2013, the entire Kao Group is working to prevent a recurrence. In addition, the Kao Group has been wholeheartedly supporting the recovery and compensation of people who have experienced vitiligo-like symptoms.

Net sales increased 6.0% compared with the same period a year earlier to 1,007.2 billion yen. Excluding the effect of currency translation, net sales would have increased 4.3%. In the Consumer Products Business, sales and market share both grew in Japan despite the impact of adverse weather conditions during the summer, and sales in Asia grew steadily. Sales in the Chemical Business increased as the Kao Group worked to adjust selling prices in connection with higher prices for natural fats and oils used as raw materials and to increase sales volume.

Profits were affected by aggressively increased marketing and other expenses for new and improved products and the impact of higher prices for raw materials, despite the effect of increased sales of the Consumer Products Business in Japan and Asia and the Chemical Business. In addition, due in part to the impact of a delayed recovery from the pullback from the last-minute surge in demand associated with the consumption tax rate increase in April in Japan, operating income decreased 0.9 billion yen compared with the same period a year earlier to 80.9 billion yen and ordinary income decreased 0.1 billion yen compared with the same period a year earlier to 84.4 billion yen. Due in part to expenses related to the voluntary recall totaling 8.5 billion yen that were recorded as an extraordinary loss in the same period a year earlier, net income increased 11.1 billion yen compared with the same period a year earlier to 50.7 billion yen.

Operating income before amortization of goodwill and other items related to acquisitions (EBITA) decreased 2.7 billion yen compared with the same period a year earlier to 100.9 billion yen, which is equivalent to 10.0% of net sales.

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	102.87 (92.57)	102.16 (99.23)	103.92 (98.06)
Yen/Euro	140.94 (122.02)	140.13 (129.56)	137.78 (130.72)

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

## **Summary of Segment Information**

### ***Consolidated Results by Segment***

#### **Consumer Products Business**

Sales increased 4.6% compared with the same period a year earlier to 823.3 billion yen. Excluding the effect of currency translation, sales would have increased 3.5%.

In Japan, sales increased 3.2% to 641.9 billion yen. Sales and market share both grew as the Kao Group responded to changing consumer lifestyles and social issues such as the environment, health consciousness and the aging society, and enhanced proposal-based sales, among other measures, while working to supply products responding to the last-minute surge in demand associated with the consumption tax rate increase and striving to stimulate the market by launching numerous new and improved products after the consumption tax rate increase. On the other hand, sales of Kanebo Cosmetics decreased compared with the same period a year earlier, mainly due to the voluntary recall in 2013 and its associated impact.

In Asia, sales increased 16.5% to 99.4 billion yen. Excluding the effect of currency translation, sales would have increased 14.3%. Sales continued to grow 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 increased 12.1% to 57.2 billion yen. Excluding the effect of currency translation, sales would have increased 5.8%. Sales based on the same inter-company transaction method used in the same period a year earlier would have increased 4.5% (a decrease of 1.4% excluding the effect of currency translation). Excluding the effect of currency translation, sales of skin care products were flat, and sales of hair care products decreased compared with the same period a year earlier.

In Europe, sales increased 16.6% to 60.2 billion yen. Excluding the effect of currency translation, sales would have increased 6.7%. Sales based on the same inter-company transaction method used in the same period a year earlier would have increased 9.1% (a decrease of 0.1% excluding the effect of currency translation). Excluding the effect of currency translation, sales of hair care products decreased compared with the same period a year earlier.

Operating income decreased 1.4 billion yen compared with the same period a year earlier to 64.3 billion yen, mainly due to aggressively increased marketing and other expenses for new

and improved products and the impact of higher prices for raw materials, despite the effect of increased sales in Japan and Asia.

*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 2.5% compared with the same period a year earlier to 424.7 billion yen. Excluding the effect of currency translation, sales would have increased 0.5%.

Sales of cosmetics decreased 0.5% compared with the same period a year earlier to 180.5 billion yen. Excluding the effect of currency translation, sales would have decreased 1.5%. In Japan, the Kao Group continued to work to reinforce focal brands and expanded sales of *SOFINA Primavista* base makeup and *COFFRET D'OR* makeup in counseling cosmetics, as well as renewed *KATE* makeup in self-selection cosmetics. However, sales decreased compared with the same period a year earlier, due in part to adverse weather conditions during the summer and the voluntary recall announced in 2013 by Kanebo Cosmetics and its associated impact. Outside Japan, sales increased compared with the same period a year earlier, excluding the effect of currency translation.

Sales of skin care products increased compared with the same period a year earlier. In Japan, sales increased with strong performance by *Bioré* facial cleanser, *Bioré U* body cleanser and *Curél* derma care products, including new and improved products. In Asia, *Bioré* performed steadily and sales grew. In the Americas, sales excluding the effect of currency translation increased compared with the same period a year earlier, due in part to the launch of improved *Jergens* hand and body lotion products.

Sales of hair care products were flat compared with the same period a year earlier. In Japan, although hair coloring products were impacted by market contraction, sales increased with strong performance by shampoos, conditioners and hair styling products, including the contribution from new products. In Asia, sales decreased compared with the same period a year earlier amid severe competitive conditions. In the Americas and Europe, the Kao Group launched an improved styling product line from *John Frieda*, but sales excluding the effect of currency translation decreased compared with the same period a year earlier in the severe competitive environment.

Operating income increased 0.6 billion yen compared with the same period a year earlier to 12.3 billion yen due to the effect of increased sales and a decrease in depreciation and amortization expenses. Operating income before amortization of goodwill and other items



related to acquisitions (EBITA) decreased 1.1 billion yen compared with the same period a year earlier to 32.3 billion yen, which is equivalent to 7.6% of sales.

*Human Health Care Business*

Sales increased 10.7% compared with the same period a year earlier to 167.7 billion yen. Excluding the effect of currency translation, sales would have increased 10.1%.

Sales of food and beverage products decreased compared with the same period a year earlier in a severe market environment, despite efforts in green tea to strengthen promotion of the function of tea catechins in increasing the body's fat-burning ability and the launch of an improved coffee drink with enhanced flavor, both under the *Healthya* brand of functional drinks that promote body fat utilization.

Sales of sanitary products increased substantially compared with the same period a year earlier. The *Laurier* brand of sanitary napkins increased its market share in Japan due to growth in sales of high-value-added products such as *Laurier F*, which protects skin from dampness and chafing, and *Laurier Slim Guard*, which offers both high absorbency and comfort. *Laurier* sales also increased steadily in Asia.

*Merries* baby diapers continued to sell strongly in Japan, where the Kao Group increased production capacity, and sales also grew in China and Russia. In China, the Kao Group worked to expand sales of locally produced products launched last year targeting middle-class consumers and in Indonesia began sales of locally produced products targeting middle-class consumers in September.

Sales of personal health products increased compared with the same period a year earlier. Sales of oral care products were flat, although the Kao Group launched improved products and nurtured high-value-added products. Sales of bath additives were flat, due in part to stiff competition, but sales of *MegRhythm* steam thermo power pads increased substantially.

Operating income increased 0.4 billion yen compared with the same period a year earlier to 12.3 billion yen due to the impact of increased sales, largely offset by aggressively increased marketing and other expenses.

*Fabric and Home Care Business*

Sales increased 4.5% compared with the same period a year earlier to 230.9 billion yen. Excluding the effect of currency translation, sales would have increased 4.6%.

Sales of fabric care products increased compared with the same period a year earlier. In Japan, the Kao Group's efforts to highlight the environmental appeal of conserving water, electricity and resources with the *Neo* series included promotion of the reduced laundry time resulting from the strong cleaning power of *Ultra Attack Neo* ultra-concentrated liquid laundry detergent and an improved version of *Attack Neo Antibacterial EX W Power* ultra-concentrated liquid laundry detergent containing more of an anti-mold agent, which was launched in May. For *Attack Reset* powder laundry detergent, the Kao Group stimulated the powder laundry detergent market with the launch of a refill product that reduces environmental impact. Due in part to these activities, sales increased despite the impact of adverse weather conditions during the summer. In fabric softeners, the Kao Group launched *Humming Fine* with a deodorant effect that lasts for 24 hours, and both it and *Flair Fragrance* performed firmly. *Wide Hailer EX Power*, a fabric bleach for color garments with strengthened deodorizing and antibacterial functions, performed well. In Asia, sales increased compared with the same period a year earlier. For *Attack* laundry detergent, sales increased in Indonesia due in part to the launch of *Attack Jaz1*, a powder detergent for hand washing targeting middle-class consumers, and in Taiwan and Hong Kong, where liquid laundry detergent with a strengthened antibacterial function that was launched last year performed well.

Sales of home care products increased compared with the same period a year earlier. In Japan, the Kao Group launched an improved version of *CuCute* dishwashing detergent with significantly higher cleaning power as well as both long-lasting suds and easy rinsing, and it performed well, as did *Kitchen Hailer* bleach. Sales of household cleaners increased due to the contribution from *Bath Magiclean Antibacterial Deodorizer Plus* and *Toilet Magiclean Aroma Deodorizer*. In addition, sales of *Quickle Wiper* household mop kits and sheets grew.

Operating income decreased 2.4 billion yen compared with the same period a year earlier to 39.7 billion yen due in part to aggressively increased marketing and other expenses and the impact of higher prices for raw materials, despite the Kao Group's cost reduction activities in addition to the effect of increased sales.

### **Chemical Business**

Sales increased 12.1% compared with the same period a year earlier to 214.2 billion yen. Excluding the effect of currency translation, sales would have increased 8.5%.

Amid overall weakness in customer industries in Japan, demand increased in certain customer industries, including export-related industries due to the depreciation of the yen and those related to reconstruction following the Great East Japan Earthquake. Conditions remained

firm in the Americas, and a moderate recovery became apparent in Europe.

In oleo chemicals, the Kao Group worked to increase sales volume of fatty alcohols, for which it expanded its facilities last year, and to adjust selling prices in connection with higher prices for natural fats and oils used as raw materials. In performance chemicals, sales were firm as the Kao Group worked to develop and expand sales of high-value-added products with reduced environmental impact. Sales of specialty chemicals, which were impacted by structural changes in the personal computer market, decreased compared with the same period a year earlier.

Operating income increased 0.6 billion yen compared with the same period a year earlier to 16.6 billion yen, despite the impact of higher prices for natural fats and oils used as raw materials, due to the effect of increased sales from growth in sales volume and cost reduction activities.

## (2) Description of Financial Condition

### Summary of Consolidated Financial Condition

	Billions of yen			Millions of U.S. dollars
	Q3/FY2014 Sep. 30, 2014	FY2013 Dec. 31, 2013	Incr./(Dcr.)	Q3/FY2014 Sep. 30, 2014
Total assets	<b>1,103.0</b>	1,133.3	(30.3)	<b>10,073.7</b>
Total net assets	<b>622.0</b>	642.6	(20.7)	<b>5,680.7</b>
Net worth ratio	<b>55.2%</b>	55.5%	-	<b>55.2%</b>
Net worth per share (Yen/US\$)	<b>1,210.61</b>	1,227.54	(16.93)	<b>11.06</b>
Total debt	<b>101.4</b>	101.4	0.0	<b>926.0</b>

### Summary of Consolidated Cash Flows

Jan. – Sep.	Billions of yen			Millions of U.S. dollars
	2014	2013	Incr./(Dcr.)	2014
Net cash provided by operating activities	<b>91.8</b>	133.6	(41.8)	<b>838.4</b>
Net cash used in investing activities	<b>(47.3)</b>	(45.0)	(2.3)	<b>(432.3)</b>
Free cash flow*	<b>44.5</b>	88.6	(44.1)	<b>406.1</b>
Net cash used in financing activities	<b>(76.4)</b>	(65.8)	(10.7)	<b>(698.1)</b>

\* Free cash flow is the sum of net cash provided by operating activities and net cash used in investing activities.

Total assets decreased 30.3 billion yen from the end of fiscal 2013 to 1,103.0 billion yen. The principal increases in assets were a 14.5 billion yen increase in short-term investments, a 13.2 billion yen increase in merchandise and finished goods, a 5.6 billion yen increase in raw

materials and supplies and a 17.8 billion yen increase in property, plant and equipment. The principal decreases in assets were a 46.1 billion yen decrease in cash and time deposits, a 25.5 billion yen decrease in notes and accounts receivable – trade and an 18.9 billion yen decrease in intangible assets due to the progress of amortization of trademarks and other intellectual property rights and goodwill.

Total liabilities decreased 9.6 billion yen from the end of fiscal 2013 to 481.0 billion yen. The principal increase in liabilities was an 8.3 billion yen increase in notes and accounts payable – trade. The principal decreases in liabilities were a 13.8 billion yen decrease in income taxes payable and a 2.5 billion yen decrease in liability for employee retirement benefits.

Total net assets decreased 20.7 billion yen from the end of fiscal 2013 to 622.0 billion yen. The principal increases in net assets were net income totaling 50.7 billion yen and foreign currency translation adjustments of 4.8 billion yen. The principal decreases in net assets were 43.0 billion yen due to purchase of treasury stock and 33.8 billion yen for payments of dividends from retained earnings.

As a result, the net worth ratio (defined as net worth divided by total assets) was 55.2% compared with 55.5% at the end of fiscal 2013.

Net cash provided by operating activities totaled 91.8 billion yen. The principal increases in net cash were income before income taxes and minority interests of 82.9 billion yen, depreciation and amortization of 57.7 billion yen, change in trade receivables of 29.6 billion yen and change in trade payables of 5.0 billion yen. The principal decreases in net cash were change in inventories of 19.7 billion yen, change in accounts payable – other and accrued expenses of 14.1 billion yen and income taxes paid of 42.1 billion yen.

Net cash used in investing activities totaled 47.3 billion yen. This primarily consisted of purchase of property, plant and equipment of 38.6 billion yen.

Free cash flow, the sum of net cash provided by operating activities and net cash used in investing activities, was 44.5 billion yen.

Net cash used in financing activities totaled 76.4 billion yen. The principal components were 43.0 billion yen for purchase of treasury stock and 33.7 billion yen for payments of cash dividends, including to minority shareholders. In September, the Kao Group repaid 20.0 billion yen in borrowings and borrowed the same amount to maintain an appropriate capital cost ratio and to enhance its financial base for investments for growth.

The balance of cash and cash equivalents at September 30, 2014 decreased 31.4 billion yen compared with the end of fiscal 2013 to 196.2 billion yen.

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

A continuing moderate recovery is forecast for the global economy, although there are concerns about the risk of a downturn due to factors including the impact of the tapering of quantitative easing in the United States, the public debt problem in Europe and the economic outlook in emerging nations. Moreover, although prices of natural gas and oils and other raw materials are trending downward, unstable conditions persist. In Japan, although economic recovery is expected to continue, underpinned by the effects of economic measures, the outlook for the operating environment remains unclear, due in part to the impact of the rapid depreciation of the yen.

Amid these circumstances, the Kao Group will promote “*Yoki-Monozukuri*,” which emphasizes research and development geared to customers and consumers, and work for both sustained “profitable growth” through the development of high-value-added products and “contribution to the sustainability of the world” by helping to resolve social issues through its business activities and conducting social responsibility activities as it aims to become a company with a global presence.

During the fiscal year, the Kao Group will proactively invest for global business development to achieve the Kao Group Mid-term Plan 2015 (K15).

In addition, with regard to operating structure, through the global management integration of the Consumer Products Business, the Kao Group will strengthen its matrix management of business units and functional divisions, and promote reformation of its profit structure from a perspective of what is best for the Group as a whole.

The Kao Group aims to achieve its forecast results through the above activities. Consequently, the forecast of consolidated results for the fiscal year is unchanged from the figures announced on July 29, 2014.

The main exchange rates used in the forecast of consolidated results are 104 yen per U.S. dollar and 140 yen per euro.

**2. Items Related to Summary Information (Notes)**

- (1) Changes in material subsidiaries during this quarterly period:** None
- (2) Accounting procedures specific to the preparation of quarterly consolidated financial statements:** None
- (3) Changes in accounting principles, changes in accounting estimates, and retrospective restatements:** None

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**Consolidated Balance Sheet***Millions of yen*

	Q3/FY2014	FY2013
	Sep. 30, 2014	Dec. 31, 2013
<b>Assets</b>		
<b>Current assets</b>		
Cash and time deposits	80,240	126,314
Notes and accounts receivable - trade	156,399	181,882
Short-term investments	104,636	90,145
Merchandise and finished goods	112,667	99,453
Work in process	13,447	11,340
Raw materials and supplies	33,901	28,315
Other	64,656	58,185
Allowance for doubtful receivables	(1,548)	(1,669)
<b>Total current assets</b>	<b>564,398</b>	<b>593,965</b>
<b>Fixed assets</b>		
Property, plant and equipment		
Property, plant and equipment	1,233,043	1,201,853
Accumulated depreciation	(937,995)	(924,569)
<b>Total property, plant and equipment</b>	<b>295,048</b>	<b>277,284</b>
Intangible assets		
Goodwill	143,410	152,286
Trademarks	18,482	28,498
Other	11,776	11,834
<b>Total intangible assets</b>	<b>173,668</b>	<b>192,618</b>
Investments and other assets		
Investments and other assets	70,516	70,143
Allowance for doubtful receivables	(661)	(734)
<b>Total investments and other assets</b>	<b>69,855</b>	<b>69,409</b>
<b>Total fixed assets</b>	<b>538,571</b>	<b>539,311</b>
<b>Total assets</b>	<b>1,102,969</b>	<b>1,133,276</b>

**Consolidated Balance Sheet***Millions of yen*

	Q3/FY2014 Sep. 30, 2014	FY2013 Dec. 31, 2013
<b>Liabilities</b>		
<b>Current liabilities</b>		
Notes and accounts payable - trade	124,254	115,997
Short-term loans	1,291	1,278
Current portion of long-term loans	20,012	20,009
Income taxes payable	18,558	32,322
Other	167,573	168,708
<b>Total current liabilities</b>	<b>331,688</b>	<b>338,314</b>
<b>Long-term liabilities</b>		
Bonds	50,000	50,000
Long-term loans	30,084	30,094
Liability for employee retirement benefits	46,356	48,847
Other	22,862	23,381
<b>Total long-term liabilities</b>	<b>149,302</b>	<b>152,322</b>
<b>Total liabilities</b>	<b>480,990</b>	<b>490,636</b>
<b>Net assets</b>		
<b>Shareholders' equity</b>		
Common stock	85,424	85,424
Capital surplus	109,561	109,561
Retained earnings	488,240	471,383
Treasury stock, at cost	(51,327)	(9,397)
<b>Total shareholders' equity</b>	<b>631,898</b>	<b>656,971</b>
<b>Accumulated other comprehensive income</b>		
Unrealized gain on available-for-sale securities	5,013	4,733
Deferred gain (loss) on derivatives under hedge accounting	1	12
Foreign currency translation adjustments	(23,619)	(28,416)
Post retirement liability adjustments for foreign consolidated subsidiaries	(4,769)	(4,590)
<b>Total accumulated other comprehensive income</b>	<b>(23,374)</b>	<b>(28,261)</b>
<b>Stock acquisition rights</b>	<b>983</b>	<b>1,120</b>
<b>Minority interests</b>	<b>12,472</b>	<b>12,810</b>
<b>Total net assets</b>	<b>621,979</b>	<b>642,640</b>
<b>Total liabilities and net assets</b>	<b>1,102,969</b>	<b>1,133,276</b>



**Consolidated Statement of Income***Millions of yen*

	Q3/FY2014	Q3/FY2013
	Jan. - Sep.	Jan. - Sep.
<b>Net sales</b>	<b>1,007,245</b>	<b>950,538</b>
Cost of sales	456,913	415,496
<b>Gross profit</b>	<b>550,332</b>	<b>535,042</b>
Selling, general and administrative expenses	469,412	453,178
<b>Operating income</b>	<b>80,920</b>	<b>81,864</b>
Non-operating income		
Interest income	587	693
Dividend income	112	101
Equity in earnings of nonconsolidated subsidiaries and affiliates	1,640	1,957
Foreign currency exchange gain	308	-
Other	2,584	2,125
Total non-operating income	5,231	4,876
Non-operating expenses		
Interest expense	918	945
Foreign currency exchange loss	-	255
Other	828	1,031
Total non-operating expenses	1,746	2,231
<b>Ordinary income</b>	<b>84,405</b>	<b>84,509</b>
Extraordinary gain		
Gain on sales of fixed assets	98	43
Gain on transfer of business	-	350
Other	110	413
Total extraordinary gain	208	806
Extraordinary loss		
Loss on sales/disposals of fixed assets	1,556	1,895
Loss related to cosmetics	-	8,504
Other	196	427
Total extraordinary loss	1,752	10,826
<b>Income before income taxes and minority interests</b>	<b>82,861</b>	<b>74,489</b>
Income taxes		
Income taxes - current	27,858	36,360
Income taxes - deferred	3,519	(2,442)
Total income taxes	31,377	33,918
<b>Income before minority interests</b>	<b>51,484</b>	<b>40,571</b>
Minority interests	814	1,019
<b>Net income</b>	<b>50,670</b>	<b>39,552</b>

**Consolidated Statement of Comprehensive Income***Millions of yen*

	Q3/FY2014	Q3/FY2013
	Jan. - Sep.	Jan. - Sep.
<b>Income before minority interests</b>	<b>51,484</b>	<b>40,571</b>
Other comprehensive income		
Unrealized gain (loss) on available-for-sale securities	198	1,306
Foreign currency translation adjustments	5,258	25,179
Share in other comprehensive income of associates applied for equity method	119	243
Post retirement liability adjustments for foreign consolidated subsidiaries	(198)	(3,318)
Other comprehensive income	5,377	23,410
<b>Comprehensive income</b>	<b>56,861</b>	<b>63,981</b>
Attributable to:		
Shareholders of Kao Corporation	55,557	62,960
Minority interests	1,304	1,021

**Major Items of Consolidated Selling, General and Administrative Expenses***Millions of yen*

	Q3/FY2014	Q3/FY2013
	Jan. - Sep.	Jan. - Sep.
Freight/warehouse	58,870	55,626
Advertising	69,955	63,586
Sales promotion	52,515	50,444
Salaries and bonuses	98,861	97,791
Research and development	38,763	36,616

**Consolidated Statement of Cash Flows**

Millions of yen

	Q3/FY2014	Q3/FY2013
	Jan. - Sep.	Jan. - Sep.
<b>Operating activities:</b>		
Income before income taxes and minority interests	82,861	74,489
Adjustments for:		
Depreciation and amortization	57,662	56,166
Interest and dividend income	(699)	(794)
Interest expense	918	945
Unrealized foreign currency exchange (gain) loss	425	2,671
Equity in (earnings) losses of nonconsolidated subsidiaries and affiliates	(1,640)	(1,957)
(Gain) loss on sales and retirement of fixed assets	1,458	1,851
(Gain) loss on transfer of business	-	(350)
Change in trade receivables	29,636	35,484
Change in inventories	(19,679)	(9,862)
Change in trade payables	4,963	7,184
Change in accounts payable - other and accrued expenses	(14,055)	(5,893)
Other, net	(9,628)	(588)
Subtotal	132,222	159,346
Interest and cash dividends received	2,582	2,704
Interest paid	(923)	(963)
Income taxes paid	(42,086)	(27,475)
<b>Net cash provided by operating activities</b>	<b>91,795</b>	<b>133,612</b>
<b>Investing activities:</b>		
Payments into time deposits	(1,411)	(4,802)
Proceeds from withdrawal of time deposits	88	7,190
Purchase of short-term investments	-	(7,998)
Proceeds from the redemption and sales of short-term investments	-	8,000
Purchase of property, plant and equipment	(38,558)	(40,571)
Purchase of intangible assets	(2,640)	(3,666)
Payments for long-term prepaid expenses	(2,903)	(3,583)
Change in short-term loans, net	147	764
Payments for long-term loans	(389)	(240)
Purchase of investments in subsidiaries resulting in change in scope of consolidation	-	(891)
Other, net	(1,669)	760
<b>Net cash used in investing activities</b>	<b>(47,335)</b>	<b>(45,037)</b>
<b>Financing activities:</b>		
Change in short-term loans, net	(27)	(1,928)
Proceeds from long-term loans	20,001	0
Repayments of long-term loans	(20,004)	(4)
Proceeds from issuance of bonds	-	50,000
Redemption of bonds	-	(50,000)
Purchase of treasury stock	(43,010)	(30,025)
Payments of cash dividends	(32,609)	(32,602)
Payments of cash dividends to minority shareholders	(1,107)	(1,161)
Other, net	324	(36)
<b>Net cash used in financing activities</b>	<b>(76,432)</b>	<b>(65,756)</b>
<b>Translation adjustments on cash and cash equivalents</b>	<b>593</b>	<b>5,017</b>
<b>Net increase (decrease) in cash and cash equivalents</b>	<b>(31,379)</b>	<b>27,836</b>
<b>Cash and cash equivalents, beginning of period</b>	<b>227,598</b>	<b>160,435</b>
<b>Cash and cash equivalents from newly consolidated subsidiaries, increase</b>	<b>-</b>	<b>623</b>
<b>Cash and cash equivalents, end of period</b>	<b>196,219</b>	<b>188,894</b>

**Consolidated Segment Information**

## Major Products by Reportable Segment

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	

**Consolidated Segment Information**

Millions of yen

Q3/FY2014 Jan. - Sep.	Consumer Products Business				Chemical Business	Total	Reconciliations	Consolidated
	Beauty Care Business	Human Health Care Business	Fabric and Home Care Business	Total				
<b>Net sales</b>								
Sales to customers	424,676	167,668	230,917	823,261	183,984	1,007,245	-	1,007,245
Intersegment sales	-	-	-	-	30,242	30,242	(30,242)	-
<b>Total</b>	424,676	167,668	230,917	823,261	214,226	1,037,487	(30,242)	1,007,245
<b>Operating income</b>	12,299	12,260	39,748	64,307	16,622	80,929	(9) *	80,920
% of net sales	2.9	7.3	17.2	7.8	7.8	7.8	-	8.0

Q3/FY2013 Jan. - Sep.	Consumer Products Business				Chemical Business	Total	Reconciliations	Consolidated
	Beauty Care Business	Human Health Care Business	Fabric and Home Care Business	Total				
<b>Net sales</b>								
Sales to customers	414,486	151,395	220,871	786,752	163,786	950,538	-	950,538
Intersegment sales	-	-	-	-	27,389	27,389	(27,389)	-
<b>Total</b>	414,486	151,395	220,871	786,752	191,175	977,927	(27,389)	950,538
<b>Operating income</b>	11,691	11,849	42,140	65,680	16,018	81,698	166 *	81,864
% of net sales	2.8	7.8	19.1	8.3	8.4	8.4	-	8.6

\* Reconciliation of operating income includes elimination of intersegment inventory transactions.

**Significant Change in Shareholders' Equity**

Kao Corporation purchased its own stock pursuant to a resolution of its Board of Directors at a meeting held on July 29, 2014. Consequently, treasury stock increased by 41,929 million yen during the nine months ended September 30, 2014 and totaled 51,327 million yen as of September 30, 2014.