

Consolidated Financial Results for the Three Months Ended March 31, 2016 [IFRS]

April 27, 2016

Company name: Kao Corporation Tokyo Stock Exchange in Japan
 Stock code: 4452 (URL: http://www.kao.com/jp/en/corp_ir/investors.html)
 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

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

1. Consolidated financial results for the three months ended March 31, 2016 (from January 1, 2016 to March 31, 2016)

(1) Consolidated operating results

	(Percentages indicate year-on-year changes)			
	Three months ended March 31, 2016	%	Three months ended March 31, 2015	%
Net sales	335,092	1.7	329,549	-
Operating income	34,449	51.5	22,741	-
Income before income taxes	32,927	40.5	23,428	-
Net income	21,047	74.1	12,086	-
Net income, attributable to owners of the parent	20,801	73.1	12,020	-
Comprehensive income	5,648	8.5	5,204	-
Basic earnings per share (Yen)	41.47		23.98	
Diluted earnings per share (Yen)	41.43		23.95	

(2) Consolidated financial position

	March 31, 2016	December 31, 2015
Total assets	1,230,933	1,311,064
Total equity	676,145	691,987
Equity attributable to owners of the parent	665,771	680,996
Ratio of equity attributable to owners of the parent to total assets	54.1%	51.9%
Equity attributable to owners of the parent per share (Yen)	1,327.29	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)

	(Percentages indicate year-on-year changes)			
	Six months ending June 30, 2016		Year ending December 31, 2016	
		%		%
Net sales	710,000	1.9	1,510,000	2.4
Operating income	65,000	1.5	184,000	10.0
Income before income taxes	65,000	3.5	183,000	10.2
Net income, attributable to owners of the parent	38,000	3.0	120,000	14.1
Basic earnings per share (Yen)	75.76	-	239.23	-

Notes: 1) The figures for the results of the fiscal year ended December 31, 2015 used for the growth rate compared with the previous fiscal year and the same period a year earlier are final figures that conform to International Financial Reporting Standards (IFRS).

Because the actual IFRS figures used in the Business Results for the Fiscal Year Ended December 31, 2015 were estimates, growth rates have changed.

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)

	March 31, 2016	December 31, 2015
Number of issued shares including treasury shares	504,000,000 shares	504,000,000 shares
Number of treasury shares	2,397,174 shares	2,541,816 shares
	Three months ended March 31, 2016	Three months ended March 31, 2015
Weighted average number of shares outstanding during the period	501,557,747 shares	501,198,858 shares

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 Three Months Ended March 31, 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 the Investor Relations section of the Company's website, where information on first-time adoption of IFRS is scheduled to be presented.

1. Qualitative Information on Financial Results for the Three Months Ended March 31, 2016

(1) Description of Operating Results

The Kao Group has adopted International Financial Reporting Standards (IFRS) from the first quarter of 2016 (January 1, 2016 to March 31, 2016). In addition, financial figures for the previous first quarter and the previous fiscal year have been restated using IFRS for comparative analysis.

(Billions of yen, except per share amounts)

Three months ended March 31	2016	2015	Growth
Net sales	335.1	329.5	1.7%
Operating income	34.4	22.7	51.5%
Income before income taxes	32.9	23.4	40.5%
Net income	21.0	12.1	74.1%
Net income, attributable to owners of the parent	20.8	12.0	73.1%
Basic earnings per share (Yen)	41.47	23.98	72.9%

During the three months ended March 31, 2016, the global economy recovered moderately, 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. The household and personal care products market in Japan, a key market for the Kao Group, grew by 3% on a value basis and consumer purchase prices increased compared with the same period a year earlier. The cosmetics market in Japan grew by 2%, 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."*

Net sales increased 1.7% compared with the same period a year earlier to 335.1 billion yen. Excluding the effect of currency translation, net sales would have increased 4.3%. 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 growth in Asia continued from the previous year. In the Chemical Business, sales decreased with the impact of 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 34.4 billion yen,

an increase of 11.7 billion yen compared with the same period a year earlier, and income before income taxes was 32.9 billion yen, an increase of 9.5 billion yen compared with the same period a year earlier. Net income was 21.0 billion yen, an increase of 9.0 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.	
Yen/U.S. dollar	115.31	(119.15)
Yen/Euro	127.15	(134.43)
Yen/Chinese yuan	17.63	(19.11)

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

Three months ended March 31	(Billions of yen)							
	Net sales				Operating income			
	2016	2015	Growth %		2016	2015	Change	% of net sales
			Like-for-like*					
Beauty Care	138.4	134.2	3.1	5.2	6.8	(0.5)	7.3	4.9
Human Health Care	67.1	65.4	2.6	5.8	8.5	6.8	1.7	12.6
Fabric and Home Care	71.0	67.9	4.5	6.3	12.9	10.1	2.8	18.2
Total Consumer Products	276.6	267.5	3.4	5.6	28.2	16.4	11.8	10.2
Chemical	66.8	70.8	(5.7)	(1.8)	6.5	6.6	(0.0)	9.8
Total	343.3	338.4	1.5	4.1	34.7	22.9	11.7	10.1
Reconciliations	(8.2)	(8.8)	-	-	(0.2)	(0.2)	(0.0)	-
Consolidated	335.1	329.5	1.7	4.3	34.4	22.7	11.7	10.3

Note:

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

Consolidated Net Sales Composition

Three months ended March 31	(Billions of yen)				
	Net sales			Growth %	
	2016	2015		Like-for-like*	
Beauty Care	94.0	88.3	6.4	6.4	
Human Health Care	50.0	50.7	(1.3)	(1.3)	
Fabric and Home Care	59.8	56.6	5.6	5.6	
Total Japan	203.8	195.6	4.2	4.2	
Asia	48.4	44.3	9.2	19.3	
Americas	20.3	21.6	(6.2)	(2.3)	
Europe	20.0	20.1	(0.7)	5.0	
Eliminations	(15.8)	(14.1)	-	-	
Total Consumer Products	276.6	267.5	3.4	5.6	
Japan	29.5	31.0	(4.6)	(4.6)	
Asia	24.0	27.2	(11.6)	(4.0)	
Americas	11.4	12.4	(7.5)	0.8	
Europe	15.2	16.6	(8.3)	(3.1)	
Eliminations	(13.4)	(16.3)	-	-	
Total Chemical	66.8	70.8	(5.7)	(1.8)	
Total	343.3	338.4	1.5	4.1	
Reconciliations	(8.2)	(8.8)	-	-	
Consolidated	335.1	329.5	1.7	4.3	

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

Three months ended March 31	(Billions of yen)							
	Net sales				Operating income			
	2016	2015	Growth %		2016	2015	Change	% of net sales
			Like-for-like ²					
Japan	226.1	219.2	3.1	3.1	21.7	13.4	8.4	9.6
Asia	71.7	70.5	1.6	10.8	9.0	7.0	1.9	12.5
Americas	31.7	33.9	(6.6)	(1.2)	0.3	0.2	0.1	1.0
Europe	35.1	36.6	(4.1)	1.4	2.4	2.2	0.2	6.9
Total	364.6	360.3	1.2	4.1	33.4	22.8	10.7	9.2
Reconciliations	(29.5)	(30.8)	-	-	1.0	(0.0)	1.1	-
Consolidated	335.1	329.5	1.7	4.3	34.4	22.7	11.7	10.3

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.

Net sales to foreign customers were 37.3% of net sales compared with 38.3% for the same period a year earlier.

Consumer Products Business

Sales increased 3.4% compared with the same period a year earlier to 276.6 billion yen. Excluding the effect of currency translation, sales would have increased 5.6%.

In Japan, sales increased 4.2% to 203.8 billion yen. The Kao Group made efforts that included responding 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 increased 9.2% to 48.4 billion yen. Excluding the effect of currency translation, sales would have increased 19.3%. Growth continued 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 6.2% to 20.3 billion yen. Excluding the effect of currency translation, sales would have decreased 2.3%. 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 0.7% to 20.0 billion yen. Excluding the effect of currency translation, sales would have increased 5.0%. Sales of hair care products grew.

Operating income increased 11.8 billion yen compared with the same period a year earlier to 28.2 billion yen due to the effect of increased sales in the Beauty Care Business and the Fabric and Home Care Business in

Japan, as well as the Consumer Products Business in 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 3.1% compared with the same period a year earlier to 138.4 billion yen. Excluding the effect of currency translation, sales would have increased 5.2%.

Sales of cosmetics increased 5.9% compared with the same period a year earlier to 56.1 billion yen. Excluding the effect of currency translation, sales would have increased 7.3%. 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. Among counseling cosmetics, the *ALBLANC* skin brightening brand, which was renewed in the previous year, performed well, while sales of self-selection cosmetics *KATE TOKYO* makeup and *ALLIE* sunscreen grew. Outside Japan, sales increased excluding the effect of currency translation, due in part to strong performance in China and elsewhere in Asia.

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, which was improved in February 2016, and *Curél* derma care products. In Asia, sales grew. In the Americas, sales grew as *Bioré* sold well.

Sales of hair care products decreased compared with the same period a year earlier. In Japan, new easy-to-use, environmentally conscious refill products for shampoos and conditioners steadily increased market share by gaining consumer support, among other factors, but overall sales of hair care products including hair coloring products decreased. In Asia and the Americas, sales decreased due to factors including intensifying competition. In Europe, sales increased, with solid sales of *John Frieda*.

Operating income increased 7.3 billion yen compared with the same period a year earlier to 6.8 billion yen, due to the effect of increased sales in Japan, more efficient use of expenses and other factors.

Human Health Care Business

Sales increased 2.6% compared with the same period a year earlier to 67.1 billion yen. Excluding the effect of currency translation, sales would have increased 5.8%.

Sales of food and beverage products decreased compared with the same period a year earlier, although signs of recovery became apparent for the *Healthya* brand of functional drinks that promote body fat utilization as the Kao Group strengthened its promotion of the function of highly concentrated tea catechins.

Sales of sanitary products increased compared with the same period a year earlier. Sales of the *Laurier* brand of sanitary napkins increased in Japan with growth in the market share of high-value-added products such as *Laurier F*, which wicks moisture away to be gentle on the skin, and *Laurier Slim Guard*, which offers

both high absorbency and comfort. *Laurier* sales also increased in Asia with good performance by high-value-added products. Sales of *Merries* baby diapers grew steadily. In Japan, the Kao Group took measures including a continuing increase in production and on-shelf inventory levels in stores began to return to normal. In China, sales of imports from Japan grew substantially, continuing from last year. In Indonesia, sales of locally produced products targeting the middle-class consumer segment grew steadily.

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 improved *Pure Oral* toothpaste, which was improved in the previous year. Sales of bath additives increased compared with the same period a year earlier. Sales of *MegRhythm* steam thermo sheets increased substantially, mainly for *MegRhythm Steam Eye Masks*.

Operating income increased 1.7 billion yen compared with the same period a year earlier to 8.5 billion yen, mainly due to the effect of increased sales in Asia.

Fabric and Home Care Business

Sales increased 4.5% compared with the same period a year earlier to 71.0 billion yen. Excluding the effect of currency translation, sales would have increased 6.3%.

Sales of fabric care products increased compared with the same period a year earlier. In Japan, the Kao Group improved *Attack Neo Antibacterial EX W Power* ultra-concentrated liquid laundry detergent in an intensely competitive environment, and sales of laundry detergents increased compared with the same period a year earlier. Sales and market share of fabric softeners both increased compared with the same period a year earlier due to factors including the popularity of *Humming Fine*, which has a strong deodorizing effect. In Asia, sales increased compared with the same period a year earlier. Sales of *Attack* laundry detergent grew, with good performance in Indonesia by *Attack Jaz1*, a powder detergent for hand washing targeting the middle-class consumer segment.

Sales of home care products increased compared with the same period a year earlier. In Japan, *CuCute* dishwashing detergent continued its strong sales from last year. Sales of *Magiclean* household cleaners for the bath, toilet, kitchen and other areas grew with value-added offerings such as deodorizing, disinfecting and stainproofing.

Operating income increased 2.8 billion yen compared with the same period a year earlier to 12.9 billion yen due to factors including the effect of increased sales and a decrease in the cost of raw materials.

Chemical Business

Sales decreased 5.7% compared with the same period a year earlier to 66.8 billion yen. Excluding the effect of currency translation, sales would have decreased 1.8%.

The Kao Group was impacted by a trend toward a decrease in demand in some customer industries in Japan. Outside Japan, conditions also remained severe.

Sales of oleo chemicals increased as the Kao Group worked to adjust selling prices in line with the uptrend in raw material prices of natural fats and oils. 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 remained almost flat compared with the same period a year earlier at 6.5 billion yen due to the lower cost of petrochemical raw materials and cost reduction activities.

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(2) Description of Financial Condition

Summary of Consolidated Financial Position

		(Billions of yen)	
	March 31, 2016	December 31, 2015	Incr./((Dcr.)
Total assets	1,230.9	1,311.1	(80.1)
Total liabilities	554.8	619.1	(64.3)
Total equity	676.1	692.0	(15.8)
Ratio of equity attributable to owners of the parent to total assets	54.1%	51.9%	-
Equity attributable to owners of the parent per share (Yen)	1,327.29	1,358.03	(30.74)
Total debt	120.5	120.5	(0.1)

Summary of Consolidated Cash Flows

		(Billions of yen)	
Three months ended March 31	2016	2015	Incr./((Dcr.)
Cash flows from operating activities	(1.6)	0.0	(1.6)
Cash flows from investing activities	(17.3)	(14.6)	(2.7)
Free cash flow*	(18.9)	(14.6)	(4.3)
Cash flows from financing activities	(20.4)	1.6	(22.0)

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

Total assets decreased 80.1 billion yen from December 31, 2015 to 1,230.9 billion yen. The principal increase in assets was a 7.8 billion yen increase in inventories. The principal decreases in assets were a 43.4 billion yen decrease in cash and cash equivalents and a 37.9 billion yen decrease in trade and other receivables.

Total liabilities decreased 64.3 billion yen from December 31, 2015 to 554.8 billion yen. The principal decreases in liabilities were a 17.3 billion yen decrease in trade and other payables, an 18.3 billion yen decrease in income taxes payable and an 18.6 billion yen decrease in other current liabilities.

Total equity decreased 15.8 billion yen from December 31, 2015 to 676.1 billion yen. The principal increase in equity was net income totaling 21.0 billion yen. The principal decreases in equity were exchange differences on translation of foreign operations of 13.8 billion yen and dividends totaling 21.8 billion yen.

As a result of the above factors, the ratio of equity attributable to owners of the parent to total assets was 54.1% compared with 51.9% at December 31, 2015.

Cash flows from operating activities totaled negative 1.6 billion yen. The principal increases in net cash were income before income taxes of 32.9 billion yen, depreciation and amortization of 13.9 billion yen and change in trade and other receivables of 32.4 billion yen. The principal decreases in net cash were change in inventories of 11.4 billion yen, change in trade and other payables of 12.7 billion yen, other, net, which includes accrued expenses, of 26.4 billion yen and income taxes paid of 30.3 billion yen.

Cash flows from investing activities totaled negative 17.3 billion yen. This primarily consisted of purchase of property, plant and equipment of 18.4 billion yen.

Free cash flow, the sum of cash flows from operating activities and cash flows from investing activities, was negative 18.9 billion yen.

Cash flows from financing activities totaled negative 20.4 billion yen. This primarily consisted of 20.4 billion yen for dividends paid to owners of the parent and non-controlling interests.

The balance of cash and cash equivalents at March 31, 2016 decreased 43.4 billion yen compared with December 31, 2015 to 266.6 billion yen.

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(3) Description of Information on Outlook, Including Forecasts of Consolidated 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 and Europe, the economic outlook for China and other emerging nations, and the effects of crude oil and other prices and foreign exchange fluctuations. 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 overseas. Moreover, the outlook for the operating environment remains unclear, including market conditions for raw materials and trends in exchange rates.

Amid these circumstances, the Kao Group will promote "*Yoki-Monozukuri*," which emphasizes research and development geared to customers and consumers, and aim for sustained "profitable growth" through the development of high-value-added products. 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.

With regard to operating structure, through the global management integration of the Consumer Products Business, the Kao Group is strengthening its matrix management of business units and functional divisions, and promoting reformation of its profit structure from a perspective of what is best for the Group as a whole. In the Chemical Business, the Kao Group's efforts will include developing high-value-added products that are not affected by fluctuations in the cost of raw materials and enhancing its eco-chemicals with a reduced environmental footprint.

Fiscal 2016 has been positioned as a year of preparation for continuing growth toward the next mid-term plan. Through these activities, the Kao Group intends to achieve its results forecast.

The forecasts of consolidated results for the six months ending June 30, 2016 and the fiscal year ending December 31, 2016 remain the same as announced on February 3, 2016.

The main exchange rates used in the forecast of consolidated results are 115 yen per U.S. dollar, 126 yen per euro and 17.2 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) as of the first quarter ended March 31, 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)

	March 31, 2016	December 31, 2015	Transition date January 1, 2015
Assets			
Current assets			
Cash and cash equivalents	266,556	309,922	228,967
Trade and other receivables	172,772	210,707	212,742
Inventories	159,107	151,271	151,876
Current income tax assets	2,631	2,077	1,261
Other financial assets	3,660	5,065	4,034
Other current assets	40,157	38,005	47,299
Subtotal	644,883	717,047	646,179
Non-current assets held for sale	1,330	1,330	-
Total current assets	646,213	718,377	646,179
Non-current assets			
Property, plant and equipment	336,999	337,997	319,282
Goodwill	136,698	138,251	138,751
Intangible assets	14,290	15,705	23,626
Investments accounted for using the equity method	3,316	4,209	3,544
Other financial assets	27,308	29,339	26,088
Other non-current assets	16,571	17,732	7,966
Deferred tax assets	49,538	49,454	61,194
Total non-current assets	584,720	592,687	580,451
Total assets	1,230,933	1,311,064	1,226,630

Condensed Consolidated Statement of Financial Position

(Millions of yen)

	March 31, 2016	December 31, 2015	Transition date January 1, 2015
Liabilities and equity			
Liabilities			
Current liabilities			
Trade and other payables	189,504	206,760	193,460
Bonds and borrowings	10,303	339	21,422
Income tax payables	13,905	32,184	28,283
Other financial liabilities	5,019	6,929	5,765
Provisions	11,172	16,772	33,360
Other current liabilities	106,786	125,422	123,916
Total current liabilities	<u>336,689</u>	<u>388,406</u>	<u>406,206</u>
Non-current liabilities			
Bonds and borrowings	110,193	120,207	80,188
Retirement benefit liabilities	73,369	75,706	77,895
Other financial liabilities	11,588	11,817	12,813
Provisions	17,837	17,704	5,296
Other non-current liabilities	4,808	4,919	5,411
Deferred tax liabilities	304	318	433
Total non-current liabilities	<u>218,099</u>	<u>230,671</u>	<u>182,036</u>
Total liabilities	<u>554,788</u>	<u>619,077</u>	<u>588,242</u>
Equity			
Share capital	85,424	85,424	85,424
Capital surplus	108,659	108,659	109,561
Treasury shares	(7,619)	(8,202)	(9,719)
Other components of equity	(19,137)	(4,184)	7,601
Retained earnings	498,444	499,299	431,975
Equity attributable to owners of the parent	<u>665,771</u>	<u>680,996</u>	<u>624,842</u>
Non-controlling interests	10,374	10,991	13,546
Total equity	<u>676,145</u>	<u>691,987</u>	<u>638,388</u>
Total liabilities and equity	<u><u>1,230,933</u></u>	<u><u>1,311,064</u></u>	<u><u>1,226,630</u></u>

Condensed Consolidated Statement of Income

(Millions of yen)

	Notes	Three months ended March 31, 2016	Three months ended March 31, 2015
Net sales	3	335,092	329,549
Cost of sales		(150,348)	(156,001)
Gross profit		184,744	173,548
Selling, general and administrative expenses	4	(150,552)	(151,032)
Other operating income		2,914	3,212
Other operating expenses		(2,657)	(2,987)
Operating income	3	34,449	22,741
Financial income		362	822
Financial expenses		(2,508)	(605)
Share of profit in investments accounted for using the equity method		624	470
Income before income taxes		32,927	23,428
Income taxes		(11,880)	(11,342)
Net income		21,047	12,086
Attributable to:			
Owners of the parent		20,801	12,020
Non-controlling interests		246	66
Net income		21,047	12,086
Earnings per share			
Basic (Yen)		41.47	23.98
Diluted (Yen)		41.43	23.95

Condensed Consolidated Statement of Comprehensive Income

(Millions of yen)

	Three months ended March 31, 2016	Three months ended March 31, 2015
Net income	21,047	12,086
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	(860)	1,193
Remeasurements of defined benefit plans	(468)	(374)
Share of other comprehensive income of investments accounted for using the equity method	(162)	76
Total of items that will not be reclassified to profit or loss	(1,490)	895
Items that may be reclassified subsequently to profit or loss:		
Exchange differences on translation of foreign operations	(13,896)	(7,776)
Net gain (loss) on derivatives designated as cash flow hedges	-	12
Share of other comprehensive income of investments accounted for using the equity method	(13)	(13)
Total of items that may be reclassified subsequently to profit or loss	(13,909)	(7,777)
Other comprehensive income, net of taxes	(15,399)	(6,882)
Comprehensive income	5,648	5,204
Attributable to:		
Owners of the parent	5,524	5,614
Non-controlling interests	124	(410)
Comprehensive income	5,648	5,204

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								Total	Retained earnings	Total		
	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	Remeasurements of defined benefit plans					
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	-	-	-	-	-	-	-	-	-	20,801	20,801	246	21,047
Other comprehensive income	-	-	-	-	(13,783)	(4)	(1,022)	(468)	(15,277)	-	(15,277)	(122)	(15,399)
Comprehensive income	-	-	-	-	(13,783)	(4)	(1,022)	(468)	(15,277)	20,801	5,524	124	5,648
Disposal of treasury shares	-	-	587	(65)	-	-	-	-	(65)	(206)	316	-	316
Purchase of treasury shares	-	-	(4)	-	-	-	-	-	-	-	(4)	-	(4)
Dividends	-	-	-	-	-	-	-	-	-	(21,061)	(21,061)	(710)	(21,771)
Transfer from other components of equity to retained earnings	-	-	-	-	-	-	(79)	468	389	(389)	-	-	-
Other increase (decrease)	-	-	-	-	-	-	-	-	-	-	-	(31)	(31)
Total transactions with the owners	-	-	583	(65)	-	-	(79)	468	324	(21,656)	(20,749)	(741)	(21,490)
March 31, 2016	85,424	108,659	(7,619)	837	(27,296)	(7)	7,329	-	(19,137)	498,444	665,771	10,374	676,145
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	-	-	-	-	-	-	-	-	-	12,020	12,020	66	12,086
Other comprehensive income	-	-	-	-	(7,299)	(2)	1,270	(375)	(6,406)	-	(6,406)	(476)	(6,882)
Comprehensive income	-	-	-	-	(7,299)	(2)	1,270	(375)	(6,406)	12,020	5,614	(410)	5,204
Disposal of treasury shares	-	-	812	(100)	-	-	-	-	(100)	(163)	549	-	549
Purchase of treasury shares	-	-	(14)	-	-	-	-	-	-	-	(14)	-	(14)
Dividends	-	-	-	-	-	-	-	-	-	(18,039)	(18,039)	(931)	(18,970)
Changes in the ownership interest in a subsidiary	-	(902)	-	-	-	-	-	-	-	-	(902)	(334)	(1,236)
Transfer from other components of equity to retained earnings	-	-	-	-	-	-	(7)	375	368	(368)	-	-	-
Other increase (decrease)	-	-	-	-	-	-	-	-	-	-	-	(31)	(31)
Total transactions with the owners	-	(902)	798	(100)	-	-	(7)	375	268	(18,570)	(18,406)	(1,296)	(19,702)
March 31, 2015	85,424	108,659	(8,921)	880	(7,299)	(6)	7,888	-	1,463	425,425	612,050	11,840	623,890

Condensed Consolidated Statement of Cash Flows

(Millions of yen)

	Three months ended March 31, 2016	Three months ended March 31, 2015
Cash flows from operating activities		
Income before income taxes	32,927	23,428
Depreciation and amortization	13,950	13,691
Interest and dividend income	(287)	(242)
Interest expense	432	350
Share of profit in investments accounted for using the equity method	(624)	(470)
(Gains) losses on sale and disposal of property, plant and equipment, intangible assets	619	563
(Increase) decrease in trade and other receivables	32,398	35,308
(Increase) decrease in inventories	(11,395)	(6,771)
Increase (decrease) in trade and other payables	(12,652)	(13,648)
Increase (decrease) in retirement benefit liabilities	(1,560)	(645)
Other	(26,371)	(23,007)
Subtotal	27,437	28,557
Interest received	295	246
Dividends received	1,387	1,052
Interest paid	(382)	(404)
Income taxes paid	(30,300)	(29,436)
Net cash flows from operating activities	(1,563)	15
Cash flows from investing activities		
Proceeds from withdrawal of time deposits	1,502	336
Purchase of property, plant and equipment	(18,430)	(13,773)
Purchase of intangible assets	(773)	(1,336)
Other	369	126
Net cash flows from investing activities	(17,332)	(14,647)
Cash flows from financing activities		
Increase (decrease) in short-term borrowings	(32)	266
Proceeds from long-term borrowings	0	40,000
Repayments of long-term borrowings	(19)	(20,015)
Dividends paid to owners of the parent	(19,721)	(16,818)
Dividends paid to non-controlling interests	(701)	(892)
Other	83	(946)
Net cash flows from financing activities	(20,390)	1,595
Net increase (decrease) in cash and cash equivalents	(39,285)	(13,037)
Cash and cash equivalents at the beginning of the period	309,922	228,967
Effect of exchange rate changes on cash and cash equivalents	(4,081)	(2,530)
Cash and cash equivalents at the end of the period	266,556	213,400

Notes to Consolidated Financial Statements

1. Significant Accounting Policies

The accounting policies of Kao Corporation (herein after, the "Company") and its subsidiaries (hereinafter, collectively, the "Group") have been prepared in accordance with the mandatory provisions of IFRS which are required to be adopted as of March 31, 2016, except for exemptions and mandatory exceptions recognized in the provisions of IFRS 1 First-time Adoption of International Financial Reporting Standards (hereinafter, "IFRS 1") and IFRS 9 Financial Instruments (issued in November 2009, revised in July 2014) (hereinafter, IFRS 9), which the Group has early adopted.

Significant accounting policies are applied consistently for all periods presented in these quarterly financial statements (including the consolidated statement of financial position on the transition date), except as otherwise provided.

(1) Basis of Consolidation

1) Subsidiaries

Subsidiaries refer to all business entities controlled by the Company. The Company controls an entity when it has exposure, or rights, to variable returns from involvement with an investee and has the ability to affect those returns through its power over the investee.

The financial statements of subsidiaries are included in the consolidated financial statements of the Company from the date the Company gains control until the date it ceases to control the subsidiary.

All intergroup balances, transactions, income and expenses and unrealized gains and losses arising from transactions are eliminated in preparing the consolidated financial statements.

A change in the Company's ownership interest in a subsidiary, without a loss of control, is accounted for as an equity transaction. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognized directly in equity attributable to the Group.

Non-controlling interests in subsidiaries are identified separately from the Group's equity therein. Comprehensive income of subsidiaries is attributed to owners of the parent company and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

All subsidiaries have the same fiscal year end as the Company.

2) Associates

An associate is defined as an entity over which the Company has significant influence on financial and operating policy decisions but does not have control over those policies. The Company is presumed to have significant influence over another entity when it directly or indirectly holds at least 20% but less than 50% of the voting rights of that entity. Entities over which the Company is able to exercise significant influence on financial and operating policy decisions are also included in

associates, even if it holds less than 20% of voting rights.

Investments in associates are initially recognized at cost, and are accounted for by the equity method from the date the Company gains significant influence until the date it loses that influence.

Goodwill recognized on acquisition (less any accumulated impairment losses) is included in investments in associates.

The fiscal year-end dates of some associates differ from that of the Company. Associates with different fiscal year-end dates prepare additional financial information as of the reporting date of the Company.

(2) Business Combinations

Business combinations are accounted for using the acquisition method. The cost of an acquisition is measured as the aggregate of the acquisition date fair value of the assets transferred, liabilities assumed and equity instruments issued by the Company to the former owners of the acquiree in exchange for control of the acquiree.

Identifiable assets and liabilities of the acquiree in business combinations are measured at their acquisition date fair value, with the following exceptions:

- Deferred tax assets or liabilities and assets or liabilities related to employee benefit arrangements are recognized and measured in accordance with IAS 12 Income Taxes and IAS 19 Employee Benefits.
- Non-current assets and disposal groups that are classified as held for sale in accordance with IFRS 5 Non-current Assets Held for Sale and Discontinued Operations are measured in accordance with that Standard.
- Liabilities or equity instruments related to share-based payment transactions of the acquiree or share-based payment transactions of the Company entered into to replace such transactions of the acquiree are measured in accordance with IFRS 2 Share-based Payment.

Any excess of the consideration transferred over the net fair value of identifiable assets acquired and liabilities assumed at the acquisition date is recognized as goodwill in the consolidated statement of financial position. Conversely, any deficit is immediately recognized as income in the consolidated statement of income.

Costs associated with business combinations, such as advisory fees, attorney fees and due diligence costs, are expensed as incurred.

The additional acquisition of non-controlling interests is accounted for as a capital transaction, and therefore no goodwill is recognized with respect to such a transaction.

Business combinations under common control are business combinations in which all of the combining entities or combining businesses are ultimately controlled by the same party or parties both before and

after the business combination, and that control is not transitory. These business combinations are accounted for based on the carrying amounts.

(3) Foreign Currency Translation

1) Functional currency and reporting currency

The reporting currency used in the Group's consolidated financial statements is Japanese yen, which is the Company's functional currency. Subsidiaries and associates in the Group determine their own functional currencies and each company's transactions are measured in its functional currency.

2) Foreign currency transactions

Foreign currency transactions are translated into the functional currency at the spot exchange rate at the date of the transaction, or an exchange rate that approximates the spot rate.

At the end of each reporting period, foreign currency monetary items are translated into the functional currency using the closing rate. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction. Non-monetary items that are measured at fair value in a foreign currency are translated into the functional currency using the exchange rates at the date when the fair value was measured. Exchange differences arising from such translations and settlements are recognized in profit or loss. However, exchange differences arising from financial assets measured at fair value through other comprehensive income and cash flow hedges are recognized in other comprehensive income.

3) Financial statements of foreign operations

Assets and liabilities of foreign operations are translated at the closing rates. Income and expenses are translated at the average exchange rates for the period, provided that there were no significant changes in the exchange rates during the period. Exchange differences arising from translation of the financial statements of foreign operations are recognized in other comprehensive income. On the disposal of a foreign operation, the cumulative amount of exchange differences relating to that foreign operation is reclassified from equity to profit or loss when the gain or loss on disposal is recognized.

(4) Financial Instruments

The Group has early adopted IFRS 9 effective from the IFRS transition date.

1) Financial assets

(i) Initial recognition and measurement

The Group initially recognizes trade and other receivables on the date they are originated. Other financial assets are initially recognized on the transaction date when the Group becomes a party to the contractual provisions of the financial instrument.

At initial recognition, all financial assets are measured at fair value, but those that are not classified as financial assets measured at fair value through profit or loss are measured at fair value plus transaction costs directly attributable to acquisition of the financial asset. Transaction

costs of financial assets measured at fair value through profit or loss are recognized in profit or loss.

(ii) Classification and subsequent measurement

The Group classifies the financial assets it holds as (a) financial assets measured at amortized cost; (b) debt instruments measured at fair value through other comprehensive income; (c) equity instruments measured at fair value through other comprehensive income; or (d) financial assets measured at fair value through profit or loss. This classification is determined at initial recognition, and measurement of financial assets after initial recognition is performed as follows according to the classification of the financial asset.

(a) Financial assets measured at amortized cost

Financial assets held by the Group are measured at amortized cost if both of the following conditions are met:

- The financial asset is held in a business model whose objective is to hold financial assets in order to collect contractual cash flows; and
- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding. After initial recognition, the carrying amounts of financial assets measured at amortized cost are recognized using the effective interest method less impairment loss, if any. Amortization using the effective interest method and gains and losses on derecognition are recognized in profit or loss for the period.

(b) Debt instruments measured at fair value through other comprehensive income

Financial assets held by the Group are classified as debt instruments measured at fair value through other comprehensive income if both of the following conditions are met:

- The financial asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling the financial asset; and
- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

(c) Equity instruments measured at fair value through other comprehensive income

The Group has made an irrevocable election to disclose changes in fair value of certain equity instruments in other comprehensive income, and classifies them in equity instruments measured at fair value through other comprehensive income.

These financial assets are measured at fair value after initial recognition, and changes in fair value are included in other comprehensive income. If the Group disposes of an investment, or if the fair value of the investment declines significantly, the cumulative gain or loss recognized in other comprehensive income is reclassified from other components of equity to retained earnings.

Dividends from financial assets measured at fair value through other comprehensive

income are recognized as financial income in profit or loss.

(d) Financial assets measured at fair value through profit or loss

Financial assets that are not classified as financial assets measured at amortized cost, debt instruments measured at fair value through other comprehensive income, or equity instruments measured at fair value through other comprehensive income are classified as financial assets measured at fair value through profit or loss. The Group's financial assets that are measured at fair value through profit or loss include short-term investments and derivative assets. The Group has not irrevocably designated any financial assets as measured at fair value through profit or loss.

These financial assets are measured at fair value after initial recognition, and changes in their fair value are recognized in profit or loss. Gains and losses on financial assets measured at fair value through profit or loss are recognized in profit or loss.

(iii) Impairment of financial assets

With respect to impairment of financial assets measured at amortized cost, the Group recognizes a loss allowance for expected credit losses on such financial assets.

At each reporting date, the Group assesses whether the credit risks on the financial assets have increased significantly since initial recognition.

If credit risk on a financial asset has not increased significantly since initial recognition, the loss allowance for that financial asset is measured at an amount equal to the 12-month expected credit losses. If credit risk on a financial asset has increased significantly since initial recognition, the loss allowance is measured in an amount equal to the lifetime expected credit losses.

However, the loss allowance on trade receivables is always measured in an amount equal to the lifetime expected credit losses.

The expected credit losses of financial assets are estimated in a way that reflects the following:

- An unbiased and probability-weighted amount determined by evaluating a range of possible outcomes
- The time value of money
- Reasonable and supportable information about past events, current conditions and forecasts of economic conditions that is available without undue cost or effort at the reporting date

The amounts of these measurements are recognized in profit or loss.

If an event that reduces an impairment loss occurs after the impairment loss has been recognized, the impairment loss will be reversed to the extent of the decrease and credited to profit or loss.

(iv) Derecognition of financial assets

The Group derecognizes financial assets only when the contractual rights to the cash flows from the financial assets expire, or when the Group transfers financial assets and substantially all the risks and rewards of ownership of the financial assets.

2) Financial liabilities

(i) Initial recognition and measurement

The Group initially recognizes bonds and borrowings at the date they are issued, and other financial liabilities at the transaction date.

Upon initial recognition, all financial liabilities are measured at fair value. However, financial liabilities measured at amortized value are measured in the full amount after deducting directly attributable transaction costs from the fair value.

Transaction costs of financial liabilities measured at fair value through profit or loss are recognized in profit or loss.

(ii) Classification and subsequent measurement

The Group classifies financial liabilities as either financial liabilities measured at fair value through profit or loss, or financial liabilities measured at amortized cost. This classification is determined at initial recognition. Measurement of financial liabilities after initial recognition is performed as follows, according to the classification of the financial liability.

The Group's financial liabilities measured at fair value through profit or loss are derivative liabilities. The Group has not irrevocably designated any financial liabilities as measured at fair value through profit or loss at initial recognition. Financial liabilities measured at fair value through profit or loss are measured at fair value after initial recognition, and any changes in their fair value are recognized in profit or loss for the period.

Financial liabilities measured at amortized cost are subsequently measured at amortized cost using the effective interest method. Amortization using the effective interest method and gains and losses on derecognition are recognized in profit or loss for the period.

(iii) Derecognition of financial liabilities

The Group derecognizes financial liabilities when they are extinguished (i.e., when the obligation specified in the contract is discharged, cancelled or expired).

3) Offsetting of financial assets and financial liabilities

Financial assets and financial liabilities are offset and the net amount is presented in the consolidated statement of financial position only when the Group currently has a legally enforceable right to set off the recognized amount and intends either to settle on a net basis or realize the assets and settle the liabilities simultaneously.

4) Fair value of financial instruments

The Group recognizes the fair value of financial instruments using various valuation methodologies and inputs. The fair values recognized based on the observability of inputs into the valuation methodologies are grouped into the following three levels:

Level 1: Fair value measured with quoted prices in active markets for identical assets or liabilities

Level 2: Fair value measured with inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly

Level 3: Fair value measured with unobservable inputs for the asset or liability

5) Hedge accounting

The Group uses interest rate swaps and other derivatives to hedge interest rate risk. At the inception of a hedging relationship, the Group formally designates and documents the hedging relationship and the interest rate risk management objective and strategy for undertaking the hedge. The documentation includes identification of the hedging instrument, the hedged item, the nature of the risk being hedged, and the methods of assessing whether the hedging relationship meets the hedge effectiveness requirements. In addition, the Group assesses whether the hedging relationship meets the hedge effectiveness requirements, both at the inception and on an ongoing basis. Ongoing assessments are conducted either at each reporting date or upon a significant change in the circumstances affecting the hedge effectiveness requirements, whichever comes first.

In accordance with the Group's risk management policy, derivatives that meet the criteria for hedge accounting with respect to interest rate risk are designated as cash flow hedges and accounted for as follows.

Derivatives designated as hedging instruments in cash flow hedges are interest rate swaps to convert floating-rate financial liabilities to fixed-rate financial liabilities. The effective portion of changes in the fair values of derivatives designated as cash flow hedges are recognized in other components of equity until the associated hedged transactions are executed and profit or loss is recognized. Gains or losses on derivatives recognized in other components of equity are reclassified into profit or loss at the time that the associated hedged transactions are recognized in profit or loss. However, any ineffective portion of the change in fair value of the derivatives is recognized immediately in profit or loss.

Hedge accounting is discontinued prospectively only when the hedging relationship ceases to meet the qualifying criteria. This includes instances when the hedging instrument expires or is sold, terminated or exercised.

The Group does not use fair value hedges or net investment hedges in foreign operations.

(5) Cash and Cash Equivalents

Cash and cash equivalents consist of cash on hand, demand deposits and short-term investments that are readily convertible to known amounts of cash, subject to an insignificant risk of changes in value and highly liquid, and that mature or become due within three months from the date of acquisition.

Cash and cash equivalents include certificates of deposit, time deposits, commercial paper, public and

corporate bonds in investment trusts, and money in trust.

(6) Inventories

Inventories are measured at the lower of cost and net realizable value. Net realizable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale. The cost of inventories includes all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition, and are determined principally by the weighted average method.

(7) Property, Plant and Equipment

Property, plant and equipment are measured using the cost model and carried at cost less any accumulated depreciation and any accumulated impairment losses.

The cost of an item of property, plant and equipment comprises any costs directly attributable to acquisition of the asset and the initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located.

Depreciation of assets other than land and construction in progress is calculated on a straight-line basis over the useful lives of the assets.

The useful lives of major asset items are as follows:

- Buildings and structures: 10 to 35 years
- Machinery and vehicles: 7 to 14 years
- Tools, furniture and fixtures: 3 to 10 years

The useful lives, residual values and depreciation method are reviewed at each fiscal year end, and any revisions are applied prospectively as changes in accounting estimates.

The Group changed useful lives as of the first quarter ended March 31, 2016. For details, see "2. Items Related to Summary Information (Notes) (2) Changes in accounting principles and changes in accounting estimates" on page 7 of the attached materials to the quarterly business results.

(8) Goodwill and Intangible Assets

1) Goodwill

Goodwill is not amortized, and is carried at cost less any accumulated impairment losses.

Goodwill measurements at initial recognition are presented in Note 1 – Significant Accounting Policies (2) Business Combinations.

2) Intangible assets

Intangible assets are measured using the cost model and carried at cost less any accumulated amortization and any accumulated impairment losses.

The costs of separately acquired intangible assets comprise any costs directly attributable to acquisition of the assets.

The costs of intangible assets acquired in business combinations are measured at fair value at the acquisition date.

Expenditures related to internally generated intangible assets are recognized as expenses when incurred, with the exception of development expenses that meet the criteria for capitalization. Software development expense only meets the criteria for capitalization.

After initial recognition, with the exception of intangible assets with indefinite useful lives, intangible assets are amortized on a straight-line basis over their useful lives.

The Group has no intangible assets with indefinite useful lives. The useful lives of major intangible assets are as follows:

- Trademarks: 10 years
- Software: 5 years

The useful lives, residual values and amortization method are reviewed at each fiscal year end, and any revisions are applied prospectively as changes in accounting estimates.

3) Research and development expenses

Research expenditures are expensed as incurred. Development expenditures are capitalized only if they can be measured reliably, future economic benefits are probable, and the Group intends to, and has sufficient resources to, complete development and to use or sell the asset. If research expenditures and development expenditures cannot be clearly distinguished, they are expensed as incurred as research expenditures.

(9) Leases

The Group classifies a lease that transfers substantially all the risks and rewards incidental to ownership of an asset as a finance lease and a lease other than a finance lease as an operating lease.

In finance lease transactions, leased assets and lease obligations are initially recognized at the lower of the fair value of leased property and the present value of the minimum lease payments, each determined at the inception of the lease.

Leased assets are depreciated on a straight-line basis over the shorter of their useful lives and lease terms. Lease payments are apportioned between the finance charges and the reduction of the outstanding liability using the interest method.

Lease payments under operating leases are recognized as an expense on a straight-line basis over the lease term.

Determination of whether an arrangement is, or contains, a lease is based on the substance of the

arrangement, in accordance with IFRIC Interpretation 4, Determining Whether an Arrangement Contains a Lease.

(10) Investment Property

Investment property is property held to earn rentals or for capital appreciation or both.

Investment property is measured using the cost model and carried at cost less any accumulated depreciation and any accumulated impairment losses.

(11) Impairment of Non-financial Assets

Non-financial assets, excluding inventories, deferred tax assets, non-current assets classified as held for sale and assets arising from employee benefits, are assessed at the end of each reporting period to determine whether there is any indication of impairment. If there is an indication of impairment, the recoverable amount of the asset is estimated. For goodwill, the recoverable amount is estimated at least once a year by each fiscal year end, irrespective of whether there is any indication of impairment.

The recoverable amount of an asset or a cash-generating unit is the higher of its value in use and fair value less cost of disposal. The discount rate used in calculating the asset's value in use is a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the asset, for which the future cash flow estimates have not been adjusted.

If it is not possible to estimate the recoverable amount of an individual asset, the recoverable amount of the cash-generating unit to which the asset belongs is measured. Goodwill acquired in business combinations is allocated to each of the cash-generating units or groups of cash-generating units of the Group that is expected to benefit from synergies of the business combinations, and is tested for impairment.

Because corporate assets do not generate separate cash inflows, the recoverable amount of individual corporate assets cannot be measured unless management has decided to dispose of the asset. If there is an indication that a corporate asset may be impaired, the recoverable amount of the cash-generating unit or group of cash-generating units to which the asset belongs is measured and compared with the carrying amount.

Impairment losses are recognized as loss whenever the recoverable amount is less than the carrying amount. Such impairment losses of the cash-generating unit or group of cash-generating units are recognized by first reducing the carrying amount of any goodwill allocated to the cash-generating unit or group of cash-generating units, and then allocating the rest of losses to other assets of the unit pro rata on the basis of the carrying amount of each asset in the unit.

The Group reviews assets other than goodwill at each fiscal year end to determine whether there is any indication that previously recognized impairment losses may no longer exist or may have decreased. If there are any such indications, the Group estimates the recoverable amount of the asset.

Impairment losses on assets other than goodwill that were recognized in prior fiscal years are reversed

only when there have been changes in the estimates used to determine the recoverable amount of the asset since the last impairment loss was recognized. In this case, the carrying amount of the asset is increased as a reversal of impairment loss to the recoverable amount.

Impairment losses are reversed up to the carrying amount, net of amortization or depreciation, that would have been determined had no impairment loss for the asset been recognized in prior fiscal years.

(12) Employee Benefits

1) Post-employment benefits

The Group sponsors a defined benefit plan and a defined contribution plan as post-employment benefit plans for employees.

The projected unit credit method is used to individually determine the present value of defined benefit obligations, related current service costs and past service costs of each plan.

The discount rate is determined by reference to market yields at the end of the fiscal year on high quality corporate bonds corresponding to the period until the expected date of future benefit payment.

For the defined benefit plan, the net amount of the present value of defined benefit obligations and the fair value of plan assets is accounted for as a liability or asset. However, if the defined benefit plan has surplus, the net defined benefit asset is limited to the present value of any economic benefits available in the form of refunds from the plan or reductions in the future contributions to the plan. Net interest on the net defined benefit liability (asset) is recognized in profit or loss as financial expenses (financial income).

Remeasurements of the net defined benefit liability (asset) are recognized in other comprehensive income and immediately reclassified to retained earnings in the period in which they occur.

Past service costs are recognized in profit or loss for the period in which they are incurred.

Payments to defined contribution benefits are recognized as expenses when employees have rendered service entitling them to the contributions.

2) Other employee benefits

Short-term employee benefit obligations are measured on an undiscounted basis, and are recognized as an expense when the related services are rendered.

For bonuses, when there is a present legal or constructive obligation to make payments of bonuses, and a reliable estimate of the obligation can be made, the estimated amount to be paid is accounted for as a liability.

For the paid absence expenses, when there is a legal or constructive obligation with respect to accumulating paid absence systems and a reliable estimate of the obligation can be made, the

estimated amount to be paid based on those systems is accounted for as a liability.

(13) Share-based Payments

The Company has a stock option plan accounted for as an equity-settled share-based payment plan.

Stock options are estimated using its fair value at the grant date and recognized in profit or loss as expense over the vesting periods with corresponding increases to equity and taking into account the estimated number of options to be vested. The fair value of options granted is measured using the Black-Scholes model based on the terms and conditions of the options.

The terms and conditions are periodically reviewed and the estimated number of options vested is revised as necessary.

(14) Provisions

Provisions are recognized when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefit will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

The amounts recognized as provisions are the best estimates of necessary expenditures to settle the present obligation at the end of the fiscal period, taking into account the risks and uncertainties associated with the obligation. When the effect of the time value of money is material, the amount of provision is measured at the present value of the expenditures expected to be required to settle the obligation.

(15) Revenue

The Group is engaged in the sale of consumer products, including cosmetics, skin care products, hair care products, sanitary products and fabric care products, as well as chemical products, including fatty alcohols and surfactants. Revenue from the sale of these goods is recognized when the Group has transferred the significant risks and rewards of ownership of the goods to the buyer; the Group retains neither continuing managerial involvement nor effective control over the goods sold; it is probable that economic benefits related to the transaction will flow to the Group; and these benefits and corresponding costs can be measured reliably. Therefore, revenue is usually recognized at the time of delivery of goods to customers. Revenue is measured at the fair value of the consideration received or receivable less any discounts, rebates, consumption taxes and other taxes.

(16) Government Grants

Government grants are recognized at fair value when there is reasonable assurance that the conditions attaching to them will be complied with and that the grants will be received. Grants related to income are recognized as income in the same fiscal year in reporting the related expenses. When the grant relates to an asset, the amount of the grants is deducted from the acquisition cost of the asset. And the amount of grants is recognized in profit or loss on a systematic and rational basis over the useful life of the depreciable asset as a reduction of depreciation expenses.

(17) Income Taxes

Income taxes consist of current income taxes and deferred income taxes. Income taxes are recognized as income or expense and included in profit or loss, except for taxes related to business combinations and taxes related to items that are recognized directly in equity or in other comprehensive income.

1) Current income taxes

Current income taxes are recognized in the amount of the expected taxes payable to or receivable from the taxation authorities. Calculation of the amount of tax is based on the tax rates and tax laws enacted or substantively enacted by the end of the fiscal year in countries where the Group conducts businesses and earns taxable income.

2) Deferred income taxes

Deferred tax assets and liabilities are recognized for taxable temporary differences between the carrying amounts of assets or liabilities in the statement of financial position and its tax base, and for tax loss carryforwards and tax credits.

Deferred tax assets are recognized for deductible temporary differences, the carryforwards of unused tax losses and the carryforwards of unused tax credits to the extent that it is probable that future taxable income will be available against which such deferred tax assets can be utilized. Deferred tax liabilities are recognized, in principle, for all taxable temporary differences.

The carrying amount of deferred tax assets is reviewed each period and reduced to the extent that it is no longer probable that sufficient future taxable income will be available to realize benefits from all or part of the assets. Unrecognized deferred tax assets are reassessed each period and are recognized to the extent that it has become probable that future taxable income will allow the deferred tax assets to be recovered.

Deferred tax assets and liabilities are not recognized for the following taxable temporary differences:

- Taxable temporary differences arising from initial recognition of goodwill
- Taxable temporary differences arising from initial recognition of assets and liabilities from transactions that are not business combinations and affect neither accounting income nor taxable income
- Taxable temporary differences on investments in subsidiaries and associates, when the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future
- Deductible temporary differences on investments in subsidiaries and associates, when it is probable that the temporary differences will not reverse in the foreseeable future

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the assets are realized or the liabilities are settled, based on the tax rates and tax laws enacted or substantively enacted by the fiscal year end.

Deferred tax assets and liabilities are offset if the Group has a legally enforceable right to set off current tax assets against current tax liabilities and income taxes are levied by the same taxation

authority on the same taxable entity.

The Company and some of its subsidiaries have adopted the consolidated tax system.

Quarterly income taxes are recognized based on the estimated annual effective tax rate.

(18) Earnings per Share

Basic earnings per share are calculated by dividing net income, attributable to owners of the parent by the weighted average number of ordinary shares outstanding during the period, adjusted for treasury shares held. Diluted earnings per share are calculated by adjusting for the effects of all dilutive potential ordinary shares.

(19) Non-current Assets Held for Sale

A non-current asset or disposal group whose carrying amount is expected to be recovered principally through a sale transaction rather than through continuing use is classified as a non-current asset or disposal group held for sale if it is highly probable that the asset or disposal group will be sold within one year and is available for immediate sale in its present condition, and the Group's management is committed to a plan to sell. Non-current assets are not depreciated or amortized while they are classified as held for sale or are part of a disposal group classified as held for sale. Non-current assets or disposal groups classified as held for sale are measured at the lower of the carrying amount and fair value less costs to sell.

(20) Equity and Other Capital

1) Ordinary shares

Ordinary shares are recognized in share capital and capital surplus at their issue price. Share issuance costs are deducted from the issue price.

2) Treasury shares

Treasury shares are recognized at cost and deducted from equity. No gain or loss is recognized on the purchase, sale or retirement of the Company's treasury shares. Any difference between the carrying amount and consideration received on the sale of treasury shares is recognized directly in equity.

(21) Dividends

Dividend distributions to shareholders of the Company are recognized as liabilities in the period in which year-end dividends are resolved upon by the General Meeting of Shareholders and interim dividends are resolved upon by the Board of Directors.

2. Significant Accounting Estimates and Judgments

The Group's quarterly consolidated financial statements include estimates and assumptions made by the Group's management regarding income and expenses, measurement of assets and liabilities, and disclosure of contingencies as of the reporting date. These estimates and assumptions are based on management's best judgment as of the reporting date, and take into account historical experience and various other factors

that can be considered as reasonable. However, due to their nature, actual results may differ from these estimates.

The estimates and their underlying assumptions are reviewed by management on an ongoing basis. The effects of revisions to accounting estimates and assumptions are recognized in the period in which the estimates are revised and in future periods.

Estimates and assumptions that significantly affect the amounts recognized in the Group's quarterly consolidated financial statements are as follows.

(1) Impairment of Property, Plant and Equipment, Goodwill and Intangible Assets

The Group conducts impairment tests for property, plant and equipment, goodwill and intangible assets when there is an indication that the recoverable amount of the asset or cash-generating unit is less than the carrying amount.

Triggering events for impairment testing include, for example, significant changes with adverse effects on past or projected business performance, significant changes in the use of acquired assets, or changes in overall business strategy.

Goodwill is tested for impairment at least once a year by each fiscal year end, irrespective of indication of impairment, to verify that the recoverable amount of the cash-generating unit to which goodwill is allocated exceeds the carrying amount.

Impairment tests are performed by comparing the carrying amount and the recoverable amount of the asset or cash-generating unit. If the recoverable amount is less than the carrying amount, the carrying amount is reduced to the recoverable amount and the reduction is recognized as an impairment loss. The recoverable amount is the higher of the value in use and the fair value less cost of disposal of the asset or cash-generating unit.

In calculating the value in use, the Group makes certain assumptions about the remaining useful life and future cash flows of the asset, discount rate, growth rate and other factors. These assumptions are based on management's best estimates and judgments, but may be affected by changes in future business plans, economic conditions or other factors. If revisions to the assumptions become necessary, such revisions could have a material effect on the amounts recognized in the consolidated financial statements in future quarterly periods.

(2) Useful Lives of Property, Plant and Equipment

The Group reviews the useful lives of property, plant and equipment at each fiscal year end, and any revisions are applied prospectively as changes in accounting estimates.

If revisions to the useful lives become necessary, such revisions could have a material effect on the amounts recognized in the consolidated financial statements in future quarterly periods.

(3) Provisions

The Group has recognized a provision for loss related to cosmetics, a provision for sales returns, a provision for asset retirement obligations and other provisions in the consolidated statement of financial position.

The amounts recognized are the best estimates of the expenditures required to settle the present obligations, taking into account historical experience and other factors as of the reporting date.

The provision for loss related to cosmetics may be affected by changes in compensation-related and other expenses.

The provision for sales returns may be affected by factors such as plans to discontinue production and sales of products.

The provision for asset retirement obligations and other provisions may be affected by factors such as changes in future business plans.

If the actual amounts paid differ from the estimates, such differences could have a material effect on the amounts recognized in the consolidated financial statements in future quarterly periods.

(4) Income Taxes

The Group recognizes and measures current income taxes payable and income taxes based on reasonable estimates of the amounts to be paid to the taxation authorities in each country. Such estimates are made using the tax rates and tax laws enacted or substantively enacted by the reporting date.

Calculating income taxes payable and income taxes requires estimates and judgments of various factors, including interpretations of tax regulations by the Group and the taxation authorities and the experience of past tax audits.

Therefore, if the final tax outcome is different from the amount initially recognized, the difference is recognized in the period for current tax of prior periods.

Deferred tax assets are recognized for deductible temporary differences, the carryforwards of unused tax losses and the carryforwards of unused tax credits to the extent that it is probable that future taxable income will be available. The realizability of deferred tax assets is assessed using the tax rates that are expected to apply to the period when the asset is realized, based on tax rates and tax laws enacted or substantively enacted by the reporting date.

Recognition and measurement of deferred tax assets are based on management's best estimates and judgments, but may be affected by future changes in business plans or other conditions, or by the amendment or promulgation of related laws. Any revisions that become necessary could have a material effect on the consolidated financial statements in future quarterly periods.

(5) Fair Value

The Group uses various inputs, including unobservable inputs, and valuation methodologies to estimate the fair value of specific assets and liabilities. When measuring fair value, the Group maximizes the use of relevant observable inputs and minimizes the use of unobservable inputs, and management's best estimates and judgments are required in that process.

The fair value of these assets and liabilities is based on management's best estimates and judgments, but could be affected by factors including changes in inputs due to changes in economic conditions. Any revisions that become necessary could have a material effect on the amounts recognized in the consolidated financial statements in future quarterly periods.

In its first-time adoption of IFRS, the Group applies the exemption under IFRS 1 and uses the deemed cost as the acquisition cost for certain property, plant and equipment. For fair value measurement methods and amounts for these assets, see the Investor Relations section of the Company's website, where information on first-time adoption of IFRS is scheduled to be presented.

(6) Contingencies

Contingencies are disclosed when there were items that could have a material effect on future business after considering the probability of occurrence and the impact, taking into account all available evidence as of the reporting date.

(Remainder of page intentionally left blank.)

3. Segment Information

(1) Summary of reportable segments

The Group's reportable segments are the components of the 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 Group is an organization comprising four main business units – the Beauty 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 unit, the Group plans comprehensive business strategies and carries out business activities on a global basis.

Therefore, the Group has four reportable segments: the Beauty Care Business, the Human Health Care Business, the Fabric and Home Care Business and the Chemical Business.

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

Three months ended March 31, 2016	Reportable Segments							Reconciliations ¹	Consolidated
	Consumer Products Business				Chemical Business	Total			
	Beauty Care Business	Human Health Care Business	Fabric and Home Care Business	Subtotal					
Net sales									
Sales to customers	138,447	67,093	71,015	276,555	58,537	335,092	-	335,092	
Intersegment sales and transfers ²	-	-	-	-	8,245	8,245	(8,245)	-	
Total net sales	138,447	67,093	71,015	276,555	66,782	343,337	(8,245)	335,092	
Operating income (loss)	6,797	8,468	12,895	28,160	6,529	34,689	(240)	34,449	
% of net sales	4.9	12.6	18.2	10.2	9.8	10.1	-	10.3	
Financial income								362	
Financial expenses								(2,508)	
Share of profit in investments accounted for using the equity method								624	
Income before income taxes								32,927	

Notes:

1. The operating income reconciliation of -240 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.

Three months ended March 31, 2015	Reportable Segments							Reconciliations ¹	Consolidated
	Consumer Products Business				Chemical Business	Total			
	Beauty Care Business	Human Health Care Business	Fabric and Home Care Business	Subtotal					
Net sales									
Sales to customers	134,230	65,365	67,948	267,543	62,006	329,549	-	329,549	
Intersegment sales and transfers ²	-	-	-	-	8,824	8,824	(8,824)	-	
Total net sales	134,230	65,365	67,948	267,543	70,830	338,373	(8,824)	329,549	
Operating income (loss)	(544)	6,799	10,111	16,366	6,575	22,941	(200)	22,741	
% of net sales	(0.4)	10.4	14.9	6.1	9.3	6.8	-	6.9	
Financial income								822	
Financial expenses								(605)	
Share of profit in investments accounted for using the equity method								470	
Income before income taxes								23,428	

Notes:

1. The operating income reconciliation of -200 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.

4. Selling, General and Administrative Expenses

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

(Millions of yen)

	Three months ended March 31, 2016	Three months ended March 31, 2015
Freight/warehouse	13,960	13,955
Advertising	21,502	21,428
Sales promotion	18,091	18,297
Employee benefits	47,127	47,186
Depreciation	2,810	2,816
Amortization	2,105	3,568
Research and development	13,203	13,298
Other	31,754	30,484
Total	150,552	151,032