

Consolidated Financial Results for the Three Months Ended March 31, 2017 [IFRS]

April 26, 2017

Company name: Kao Corporation
 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: Yes
 Holding quarterly financial results information meeting: Yes (for institutional investors and analysts)

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

1. Consolidated financial results for the three months ended March 31, 2017 (from January 1, 2017 to March 31, 2017)

(1) Consolidated operating results

	Three months ended		Three months ended	
	March 31, 2017	%	March 31, 2016	%
Net sales	345,179	3.0	335,092	1.7
Operating income	38,609	12.1	34,449	51.5
Income before income taxes	38,013	15.4	32,927	40.5
Net income	24,624	17.0	21,047	74.1
Net income attributable to owners of the parent	24,169	16.2	20,801	73.1
Comprehensive income	18,891	234.4	5,648	8.5
Basic earnings per share (Yen)	49.03		41.47	
Diluted earnings per share (Yen)	48.99		41.43	

Note: In the three months ended March 31, 2017, the Kao Group adopted IFRS 15, "Revenue from Contracts with Customers" and its amendments early in tandem with a revision of its sales system for the Consumer Products Business in Japan (Reference: Page 13, "Changes in Accounting Policies" in "Notes to Condensed Consolidated Financial Statements"). Net sales growth adjusted for the impact of these changes and excluding the effect of currency translation would have been 8.6%.

(2) Consolidated financial position

	March 31, 2017	December 31, 2016
Total assets	1,270,643	1,338,309
Total equity	686,711	691,463
Equity attributable to owners of the parent	675,053	679,842
Ratio of equity attributable to owners of the parent to total assets	53.1%	50.8%
Equity attributable to owners of the parent per share (Yen)	1,369.43	1,379.37

2. Dividends

	Year ending December 31, 2017 (Forecast)	Year ending December 31, 2017	Year ended December 31, 2016
Annual cash dividends per share (Yen)			
1st quarter end		-	-
2nd quarter end	54.00		46.00
3rd quarter end	-		-
Fiscal year end	54.00		48.00
Total	108.00		94.00

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

3. Forecast of consolidated operating results for the year ending December 31, 2017 (from January 1, 2017 to December 31, 2017)

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

	Six months ending		Year ending	
	June 30, 2017	%	December 31, 2017	%
Net sales	700,000	0.1	1,470,000	0.9
Operating income	82,000	1.1	200,000	7.8
Income before income taxes	82,000	6.3	199,000	8.5
Net income attributable to owners of the parent	52,000	4.0	138,000	9.0
Basic earnings per share (Yen)	105.49	-	279.95	-

Notes: 1) In the fiscal year ending December 31, 2017, the Kao Group adopted IFRS 15, "Revenue from Contracts with Customers" and its amendments early in tandem with a revision of its sales system for the Consumer Products Business in Japan. As a result, certain items formerly treated as expenses are accounted for as reductions of net sales.

Calculating net sales for the previous year using the same standard, growth rates in the forecast of consolidated business results would be 4.5% for the interim period and 5.3% for the full fiscal year.

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): Yes

For details, please refer to page 13, "Changes in Accounting Policies" in "Notes to Condensed Consolidated Financial Statements"

3) Changes in accounting estimates: None

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

	March 31, 2017	December 31, 2016
Number of issued shares including treasury shares	495,000,000	504,000,000
Number of treasury shares	2,053,983	11,137,654
	Three months ended March 31, 2017	Three months ended March 31, 2016
Weighted average number of shares outstanding during the period	492,915,858	501,557,747

Notice regarding execution of quarterly review procedures

This quarterly financial results report is exempt from quarterly review.

Explanation regarding the appropriate use of forecast of operating results and other special items

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

Please refer to page 6, "1. Qualitative Information on Financial Results for the Three Months Ended March 31, 2017 - (2) Description of Information on Outlook, Including Forecasts of Consolidated Results" for the suppositions that form the assumptions for earnings forecasts and cautions concerning the use of earnings forecasts.

1. Qualitative Information on Financial Results for the Three Months Ended March 31, 2017

(1) Description of Operating Results

In the three months ended March 31, 2017, the Kao Group adopted IFRS 15, "Revenue from Contracts with Customers" and its amendments early in tandem with a revision of its sales system for the Consumer Products Business in Japan (Reference: Page 13, "Changes in Accounting Policies" in "Notes to Condensed Consolidated Financial Statements"). To facilitate comparison, growth adjusted for the impact of these changes and excluding the effect of currency translation is presented as "like-for-like" below.

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

Three months ended March 31	2017	2016	Growth
Net sales	345.2	335.1	3.0% Like-for-like: 8.6%
Operating income	38.6	34.4	12.1%
Operating margin (%)	11.2	10.3	-
Income before income taxes	38.0	32.9	15.4%
Net income	24.6	21.0	17.0%
Net income attributable to owners of the parent	24.2	20.8	16.2%
Basic earnings per share (Yen)	49.03	41.47	18.2%

During the three months ended March 31, 2017, the household and personal care products market in Japan, a key market for the Kao Group, was flat on a value basis and consumer purchase prices increased compared with the same period a year earlier. The cosmetics market in Japan was also flat, excluding inbound demand (demand from visitors to Japan).

Net sales increased 3.0% compared with the same period a year earlier to 345.2 billion yen. On a like-for-like basis, net sales would have increased 8.6%. Sales of skin care products and sales of sanitary products in Japan and Asia grew significantly. Chemical Business sales also increased substantially.

As for profits, due to the sizable effect of the increase in sales, particularly in the Chemical Business and Human Health Care Business, operating income was 38.6 billion yen, an increase of 4.2 billion yen compared with the same period a year earlier, and income before income taxes was 38.0 billion yen, an increase of 5.1 billion yen. Net income was 24.6 billion yen, an increase of 3.6 billion yen.

Kao Corporation retired 9.0 million treasury shares on March 1, 2017.

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	113.71 (115.31)
Yen/Euro	121.13 (127.15)
Yen/Chinese yuan	16.50 (17.63)

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

Summary of Segment Information

Consolidated Results by Segment

Three months ended March 31	Net sales				Operating income			(Billions of yen) Operating margin (%)	
	FY2017	FY2016	Growth %	Like-for- like %	FY2017	FY2016	Change	FY2017	FY2016
Beauty Care Business	132.9	138.4	(4.0)	2.0	7.2	6.8	0.4	5.4	4.9
Human Health Care Business	74.3	67.1	10.7	18.2	11.4	8.5	3.0	15.4	12.6
Fabric and Home Care Business	69.6	71.0	(2.0)	2.9	11.9	12.9	(1.0)	17.1	18.2
Consumer Products Business	276.8	276.6	0.1	6.2	30.6	28.2	2.4	11.0	10.2
Chemical Business	76.6	66.8	14.7	17.4	8.0	6.5	1.5	10.4	9.8
Total	353.4	343.3	2.9	8.3	38.5	34.7	3.9	-	-
Elimination and Reconciliation	(8.2)	(8.2)	-	-	0.1	(0.2)	0.3	-	-
Consolidated	345.2	335.1	3.0	8.6	38.6	34.4	4.2	11.2	10.3

Consolidated Net Sales Composition

Three months ended March 31		(Billions of yen)				
		Japan	Asia	Americas	Europe	Consolidated
Cosmetics	2017	43.6	5.1	0.6	3.7	53.0
	2016	46.7	4.7	0.6	4.0	56.1
	Growth %	(6.5)	7.1	(3.9)	(9.2)	(5.5)
	Like-for-like %	0.3	21.6	(2.7)	1.3	2.2
Skin care/Hair care	2017	43.3	7.5	18.5	10.6	79.9
	2016	44.5	8.1	17.6	12.2	82.4
	Growth %	(2.6)	(7.5)	5.1	(13.3)	(3.0)
	Like-for-like %	1.4	8.6	7.6	(9.3)	1.9
Beauty Care Business	2017	87.0	12.6	19.1	14.2	132.9
	2016	91.2	12.9	18.2	16.2	138.4
	Growth %	(4.6)	(2.1)	4.8	(12.3)	(4.0)
	Like-for-like %	0.9	13.4	7.3	(6.7)	2.0
Human Health Care Business	2017	45.5	28.8	—	—	74.3
	2016	43.8	23.3	—	—	67.1
	Growth %	3.9	23.5	—	—	10.7
	Like-for-like %	7.6	38.2	—	—	18.2
Fabric and Home Care Business	2017	59.7	9.4	0.5	—	69.6
	2016	59.4	11.1	0.5	—	71.0
	Growth %	0.5	(15.4)	7.8	—	(2.0)
	Like-for-like %	3.9	(2.4)	7.1	—	2.9
Consumer Products Business	2017	192.2	50.8	19.6	14.2	276.8
	2016	194.4	47.3	18.7	16.2	276.6
	Growth %	(1.1)	7.4	4.9	(12.3)	0.1
	Like-for-like %	3.3	21.9	7.3	(6.7)	6.2
Chemical Business	2017	29.6	17.6	13.5	16.0	76.6
	2016	28.2	14.1	11.2	13.3	66.8
	Growth %	4.7	24.9	20.7	20.1	14.7
	Like-for-like %	4.8	27.8	25.6	26.0	17.4
Elimination of intersegment	2017	(7.0)	(0.8)	(0.0)	(0.4)	(8.2)
	2016	(7.2)	(0.8)	(0.0)	(0.3)	(8.2)
Consolidated	2017	214.7	67.6	33.0	29.9	345.2
	2016	215.4	60.6	29.8	29.3	335.1
	Growth %	(0.3)	11.4	10.8	2.2	3.0
	Like-for-like %	3.7	23.4	14.1	8.0	8.6

Note: Figures for the Consumer Products Business present sales to external customers and figures for the Chemical Business include sales to the Consumer Products Business in addition to external customers. To facilitate comparison, sales for the same period a year earlier are restated using the same method. Sales by geographic region are classified based on the location of the sales recognized.

Net sales to foreign customers were 40.7% of net sales compared with 37.3% for the same period a year earlier.

Consumer Products Business

Sales increased 0.1% compared with the same period a year earlier to 276.8 billion yen. On a like-for-like basis, sales would have increased 6.2%.

In Japan, sales decreased 1.1% to 192.2 billion yen as the Kao Group made efforts that included launching numerous high-value-added products and enhancing proposal-oriented sales activities amid flat market growth. On a like-for-like basis, sales would have increased 3.3%.

In Asia, sales increased 7.4% to 50.8 billion yen, with strong growth centered on China, Indonesia and elsewhere. On a like-for-like basis, sales would have increased 21.9%.

In the Americas, sales increased 4.9% to 19.6 billion yen. On a like-for-like basis, sales would have increased 7.3%. In Europe, sales decreased 12.3% to 14.2 billion yen. On a like-for-like basis, sales would have decreased 6.7%.

Operating income increased 2.4 billion yen compared with the same period a year earlier to 30.6 billion yen due to the effect of increased sales in the Human Health Care Business.

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 decreased 4.0% compared with the same period a year earlier to 132.9 billion yen. On a like-for-like basis, sales would have increased 2.0%.

Sales of cosmetics decreased 5.5% to 53.0 billion yen. On a like-for-like basis, sales would have increased 2.2%. Major reforms of the cosmetics business began in earnest in September 2016, and for the SOFINA, SOFINA *IP*, which is being rolled out across sales channels in Japan, received a positive reception from many consumers, and a rollout started in Asia. As for Kanebo Cosmetics, sales of the new global brand KANEBO began in Japan and Asia. In Japan, *suisai* skin care and other products were impacted by a decline in inbound demand. Outside Japan, sales were strong in China and elsewhere in Asia.

Sales of skin care and hair care products decreased 3.0% to 79.9 billion yen. On a like-for-like basis, sales would have increased 1.9%. Among skin care products, sales were strong for *Bioré* facial cleanser in Japan, Asia and the Americas, and for *Curél* derma care products in Japan and Asia. On the other hand, sales of hair care products decreased due to the impact of intensifying competition.

Operating income increased 0.4 billion yen compared with the same period a year earlier to 7.2 billion yen.

Human Health Care Business

Sales increased 10.7% compared with the same period a year earlier to 74.3 billion yen. On a like-for-like basis, sales would have increased 18.2%.

In food and beverage products, the Kao Group is continuing to strengthen its promotion of the function of highly concentrated tea catechins for the *Healthya* functional drinks.

Sales of sanitary products increased. *Merries* baby diapers performed strongly and sales grew. In Japan, sales are on a recovery track due to marketing activities that were restarted in the latter half of 2016, among other factors, and cross-border e-commerce sales for the Chinese market are also growing. In China, sales grew substantially, due in part to the start of distribution following a change in the sales channel as part of structural reforms that have been underway since 2016. In Indonesia, sales of locally produced products targeting the middle-class consumer segment grew steadily.

Sales of personal health products were nearly flat. Sales of oral care products increased, with steady sales of high-performance products. Sales of *MegRhythm* steam thermo sheets decreased with the impact of a decline in inbound demand, but exceeded the plan due to the stimulation of new demand.

Operating income increased 3.0 billion yen compared with the same period a year earlier to 11.4 billion yen, mainly due to the effect of increased sales in Asia.

Fabric and Home Care Business

Sales decreased 2.0% compared with the same period a year earlier to 69.6 billion yen. On a like-for-like basis, sales would have increased 2.9%.

In Japan, sales of fabric care products increased. Sales of laundry detergents increased with strong performance by products featuring antibacterial and deodorizing functions that respond to consumer concerns about odors and microlevel stains. Sales of fabric softeners increased with the further stimulation of the high-value-added market. Sales of home care products continued to grow steadily.

In Asia, sales decreased in a severe competitive environment.

Operating income decreased 1.0 billion yen compared with the same period a year earlier to 11.9 billion yen due to factors including the effects of higher raw material prices and decreased sales in Asia.

Chemical Business

Sales increased 14.7% compared with the same period a year earlier to 76.6 billion yen. On a like-for-like basis, sales would have increased 17.4%.

Sales of oleo chemicals increased due to factors including efforts to adjust selling prices outside Japan in line

with rising raw material prices. Sales of performance chemicals increased in Japan, with market conditions in infrastructure-related fields on a recovery track. In Asia, automobile production volume increased in China and elsewhere, leading to growth in sales of related products. Sales of specialty chemicals increased steadily with growth in demand for information material-related products amid a recovery trend among customer industries.

Operating income increased 1.5 billion yen compared with the same period a year earlier to 8.0 billion yen due to the growth in sales.

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

The Kao Group Mid-term Plan “K20,” which covers the four years to fiscal 2020, started from the three months ended March 31, 2017. The Kao Group aims to achieve its targets by steadily executing the strategies incorporated in the plan, one by one.

There is no change from the forecast of consolidated results announced on February 2, 2017.

The main exchange rates used in the forecast of consolidated results are 110 yen per U.S. dollar, 123 yen per euro and 16.8 yen per Chinese yuan.

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Condensed Consolidated Statement of Financial Position

(Millions of yen)

	March 31, 2017	December 31, 2016
Assets		
Current assets		
Cash and cash equivalents	253,845	303,026
Trade and other receivables	177,658	208,459
Inventories	169,656	165,200
Other financial assets	18,096	13,038
Income tax receivables	3,397	1,462
Other current assets	23,854	23,812
Subtotal	646,506	714,997
Non-current assets held for sale	344	344
Total current assets	646,850	715,341
Non-current assets		
Property, plant and equipment	373,118	370,835
Goodwill	137,282	137,783
Intangible assets	14,888	14,689
Investments accounted for using the equity method	4,520	4,701
Other financial assets	25,736	25,473
Deferred tax assets	49,955	50,939
Other non-current assets	18,294	18,548
Total non-current assets	623,793	622,968
Total assets	1,270,643	1,338,309

Condensed Consolidated Statement of Financial Position

(Millions of yen)

	March 31, 2017	December 31, 2016
Liabilities and equity		
Liabilities		
Current liabilities		
Trade and other payables	211,754	216,893
Bonds and borrowings	20,288	30,289
Other financial liabilities	5,597	8,164
Income tax payables	13,422	32,621
Provisions	6,281	11,370
Contract liabilities	14,712	-
Other current liabilities	86,886	131,112
Total current liabilities	358,940	430,449
Non-current liabilities		
Bonds and borrowings	100,344	90,357
Other financial liabilities	11,082	11,666
Retirement benefit liabilities	94,093	94,773
Provisions	13,700	13,809
Deferred tax liabilities	641	528
Other non-current liabilities	5,132	5,264
Total non-current liabilities	224,992	216,397
Total liabilities	583,932	646,846
Equity		
Share capital	85,424	85,424
Capital surplus	107,648	107,648
Treasury shares	(8,245)	(57,124)
Other components of equity	(27,353)	(21,821)
Retained earnings	517,579	565,715
Equity attributable to owners of the parent	675,053	679,842
Non-controlling interests	11,658	11,621
Total equity	686,711	691,463
Total liabilities and equity	1,270,643	1,338,309

Condensed Consolidated Statement of Income

(Millions of yen)

	Notes	Three months ended March 31, 2017	Three months ended March 31, 2016
Net sales	1	345,179	335,092
Cost of sales		(196,803)	(150,348)
Gross profit		148,376	184,744
Selling, general and administrative expenses	2	(110,252)	(150,552)
Other operating income		3,251	2,914
Other operating expenses		(2,766)	(2,657)
Operating income	1	38,609	34,449
Financial income		336	362
Financial expenses		(1,462)	(2,508)
Share of profit in investments accounted for using the equity method		530	624
Income before income taxes		38,013	32,927
Income taxes		(13,389)	(11,880)
Net income		24,624	21,047
Attributable to:			
Owners of the parent		24,169	20,801
Non-controlling interests		455	246
Net income		24,624	21,047
Earnings per share			
Basic (Yen)		49.03	41.47
Diluted (Yen)		48.99	41.43

Condensed Consolidated Statement of Comprehensive Income

(Millions of yen)

	Three months ended March 31, 2017	Three months ended March 31, 2016
Net income	24,624	21,047
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	146	(860)
Remeasurements of defined benefit plans	29	(468)
Share of other comprehensive income of investments accounted for using the equity method	56	(162)
<u>Total of items that will not be reclassified to profit or loss</u>	<u>231</u>	<u>(1,490)</u>
Items that may be reclassified subsequently to profit or loss:		
Exchange differences on translation of foreign operations	(5,942)	(13,896)
Share of other comprehensive income of investments accounted for using the equity method	(22)	(13)
<u>Total of items that may be reclassified subsequently to profit or loss</u>	<u>(5,964)</u>	<u>(13,909)</u>
<u>Other comprehensive income, net of taxes</u>	<u>(5,733)</u>	<u>(15,399)</u>
<u>Comprehensive income</u>	<u>18,891</u>	<u>5,648</u>
Attributable to:		
Owners of the parent	18,702	5,524
Non-controlling interests	189	124
<u>Comprehensive income</u>	<u>18,891</u>	<u>5,648</u>

Condensed Consolidated Statement of Changes in Equity

(Millions of yen)

	Equity attributable to owners of the parent												Total equity
	Other components of equity								Total	Retained earnings	Total	Non-controlling interests	
	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, 2017	85,424	107,648	(57,124)	911	(29,761)	4	7,025	-	(21,821)	565,715	679,842	11,621	691,463
Net income	-	-	-	-	-	-	-	-	-	24,169	24,169	455	24,624
Other comprehensive income	-	-	-	-	(5,692)	(5)	202	28	(5,467)	-	(5,467)	(266)	(5,733)
Comprehensive income	-	-	-	-	(5,692)	(5)	202	28	(5,467)	24,169	18,702	189	18,891
Disposal of treasury shares	-	-	48,887	(32)	-	-	-	-	(32)	(48,681)	174	-	174
Purchase of treasury shares	-	-	(8)	-	-	-	-	-	-	-	(8)	-	(8)
Dividends	-	-	-	-	-	-	-	-	-	(23,657)	(23,657)	(117)	(23,774)
Transfer from other components of equity to retained earnings	-	-	-	-	-	-	(5)	(28)	(33)	33	-	-	-
Other increase (decrease)	-	-	-	-	-	-	-	-	-	-	-	(35)	(35)
Total transactions with the owners	-	-	48,879	(32)	-	-	(5)	(28)	(65)	(72,305)	(23,491)	(152)	(23,643)
March 31, 2017	85,424	107,648	(8,245)	879	(35,453)	(1)	7,222	-	(27,353)	517,579	675,053	11,658	686,711
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

Condensed Consolidated Statement of Cash Flows

(Millions of yen)

	Three months ended March 31, 2017	Three months ended March 31, 2016
Cash flows from operating activities		
Income before income taxes	38,013	32,927
Depreciation and amortization	13,089	13,950
Interest and dividend income	(268)	(287)
Interest expense	299	432
Share of profit in investments accounted for using the equity method	(530)	(624)
(Gains) losses on sale and disposal of property, plant and equipment, and intangible assets	531	619
(Increase) decrease in trade and other receivables	28,329	32,398
(Increase) decrease in inventories	(6,301)	(11,395)
Increase (decrease) in trade and other payables	(578)	(12,652)
Increase (decrease) in retirement benefit liabilities	(321)	(1,560)
Other	(36,979)	(26,371)
Subtotal	35,284	27,437
Interest received	260	295
Dividends received	1,732	1,387
Interest paid	(237)	(382)
Income taxes paid	(33,642)	(30,300)
Net cash flows from operating activities	3,397	(1,563)
Cash flows from investing activities		
Payments into time deposits	(5,231)	-
Proceeds from withdrawal of time deposits	256	1,502
Purchase of property, plant and equipment	(21,090)	(18,430)
Purchase of intangible assets	(1,359)	(773)
Other	(1,031)	369
Net cash flows from investing activities	(28,455)	(17,332)
Cash flows from financing activities		
Increase (decrease) in short-term borrowings	(0)	(32)
Proceeds from long-term borrowings	10,000	0
Repayments of long-term borrowings	(10,018)	(19)
Dividends paid to owners of the parent	(22,234)	(19,721)
Dividends paid to non-controlling interests	(103)	(701)
Other	(56)	83
Net cash flows from financing activities	(22,411)	(20,390)
Net increase (decrease) in cash and cash equivalents	(47,469)	(39,285)
Cash and cash equivalents at the beginning of the period	303,026	309,922
Effect of exchange rate changes on cash and cash equivalents	(1,712)	(4,081)
Cash and cash equivalents at the end of the period	253,845	266,556

Notes to Condensed Consolidated Financial Statements

Changes in Accounting Policies

Early Adoption of IFRS 15 “Revenue from Contracts with Customers” and its amendments

In the three months ended March 31, 2017, the Kao Group early adopted IFRS 15 “Revenue from Contracts with Customers” (issued in May 2014) and “Clarifications to IFRS 15” (issued in April 2016) (together, hereinafter “IFRS 15”). As a transitional measure upon the early adoption of IFRS 15, the Kao Group applies this Standard retrospectively with the cumulative effect of initially applying this Standard recognized at the date of initial application.

In accordance with the adoption of IFRS 15, revenue is recognized based on the following five-step model.

- Step 1: Identify the contract with a customer
- Step 2: Identify the performance obligations in the contract
- Step 3: Determine the transaction price
- Step 4: Allocate the transaction price to the performance obligations in the contract
- Step 5: Recognize revenue when the entity satisfies a performance obligation

The Kao Group sells 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. For sales of such products, because the customer obtains control over the products upon delivery, the performance obligation is judged to have been satisfied and revenue is therefore recognized upon delivery of the products. Revenue is measured at the consideration promised in a contract with a customer, less discounts, rebates, returned products and other items.

Based on the above five-step model, as a result of identification of performance obligations under contracts with customers, the portion of sales promotion and other expenses that is consideration paid by the Kao Group to customers, which had previously been accounted for as selling, general and administrative expenses, is accounted for as reductions of net sales from the three months ended March 31, 2017. In addition, freight/warehouse expenses, employee benefits and other expenses necessary for satisfying performance obligations that had previously been accounted for as selling, general and administrative expenses are accounted for as cost of sales from the three months ended March 31, 2017.

As a result, compared with the application of the former accounting standard, net sales decreased by 9,629 million yen, selling, general and administrative expenses decreased by 39,277 million yen, and cost of sales increased by 29,648 million yen on the condensed consolidated statement of income for the three months ended March 31, 2017.

In addition, with the application of IFRS 15, liabilities for returned products, which were previously included in “Provisions” under current liabilities, and refund liabilities for rebates and other payments and advances received from customers, which had previously been included in “Other current liabilities,” are presented as “Contract liabilities”.

As a result, compared with the application of the former accounting standard, as of the beginning and end of the three months ended March 31, 2017, "Provisions" under current liabilities decreased by 3,965 million yen and 3,659 million yen, respectively, and "Other current liabilities" decreased by 11,126 million yen and 11,053 million yen, respectively, on the condensed consolidated statement of financial position.

1. Segment Information

(1) Summary of reportable segments

Major products by reportable segment are as follows:

Reportable Segments		Major Products	
Consumer Products Business	Beauty Care Business	Cosmetics	Counseling cosmetics, Self-selection cosmetics
		Skin care products	Soaps, Facial cleansers, Body cleansers
		Hair care products	Shampoos, Conditioners, Hair styling agents, Hair coloring agents
	Human Health Care Business	Food and beverage products	Beverages
		Sanitary products	Sanitary napkins, Baby diapers
		Personal health products	Bath additives, Oral care products, Men's products, Thermo products
	Fabric and Home Care Business	Fabric care products	Laundry detergents, Fabric treatments
		Home care products	Kitchen cleaning products, House cleaning products, Paper cleaning products, Commercial-use products
	Chemical Business	Oleo chemicals	Fatty alcohols, Fatty amines, Fatty acids, Glycerin, Commercial-use edible fats and oils
Performance chemicals		Surfactants, Plastics additives, Superplasticizers for concrete admixtures	
Specialty chemicals		Toner and toner binder for copiers and printers, Ink and colorants for inkjet printers, Fragrances and aroma chemicals	

(2) Sales and results of reportable segments

Three months ended March 31, 2017	Reportable Segments							(Millions of yen)	
	Consumer Products Business				Chemical Business	Total	Reconciliations ¹	Consolidated	
	Beauty Care Business	Human Health Care Business	Fabric and Home Care Business	Subtotal					
Net sales									
Sales to customers	132,864	74,282	69,623	276,769	68,410	345,179	-	345,179	
Intersegment sales and transfers ²	-	-	-	-	8,190	8,190	(8,190)	-	
Total net sales	<u>132,864</u>	<u>74,282</u>	<u>69,623</u>	<u>276,769</u>	<u>76,600</u>	<u>353,369</u>	<u>(8,190)</u>	<u>345,179</u>	
Operating income (loss)	<u>7,196</u>	<u>11,423</u>	<u>11,934</u>	<u>30,553</u>	<u>7,989</u>	<u>38,542</u>	<u>67</u>	<u>38,609</u>	
% of net sales	5.4	15.4	17.1	11.0	10.4	-	-	11.2	
Financial income								336	
Financial expenses								(1,462)	
Share of profit in investments accounted for using the equity method								530	
Income before income taxes								<u>38,013</u>	

Notes:

1. The operating income reconciliation of 67 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, 2016	Reportable Segments							(Millions of yen)	
	Consumer Products Business				Chemical Business	Total	Reconciliations ¹	Consolidated	
	Beauty Care Business	Human Health Care Business	Fabric and Home Care Business	Subtotal					
Net sales									
Sales to customers	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	<u>138,447</u>	<u>67,093</u>	<u>71,015</u>	<u>276,555</u>	<u>66,782</u>	<u>343,337</u>	<u>(8,245)</u>	<u>335,092</u>	
Operating income (loss)	<u>6,797</u>	<u>8,468</u>	<u>12,895</u>	<u>28,160</u>	<u>6,529</u>	<u>34,689</u>	<u>(240)</u>	<u>34,449</u>	
% of net sales	4.9	12.6	18.2	10.2	9.8	-	-	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								<u>32,927</u>	

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.

2. Selling, General and Administrative Expenses

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

	(Millions of yen)	
	Three months ended March 31, 2017	Three months ended March 31, 2016
Freight/warehouse	33	13,960
Advertising	19,782	21,502
Sales promotion	14,365	18,091
Employee benefits	36,808	47,127
Depreciation	2,213	2,810
Amortization	1,126	2,105
Research and development	14,345	13,203
Other	21,580	31,754
Total	110,252	150,552

The note "Changes in Accounting Policies" in "Notes to Condensed Consolidated Financial Statements" presents the impact on selling, general and administrative expenses resulting from the adoption of IFRS 15. As a transitional measure upon the adoption of IFRS 15, the Kao Group applies this Standard retrospectively with the cumulative effect of initially applying this Standard recognized at the date of initial application and thus has not adjusted the amounts for the comparative period. Expenses of 3,900 million yen, 5,216 million yen and 477 million yen previously included in "Freight/warehouse," "Sales promotion" and "Other," respectively, are accounted for as reductions of net sales. Expenses of 10,341 million yen, 357 million yen, 12,186 million yen, 689 million yen, 24 million yen and 6,087 million yen previously included in "Freight/warehouse," "Sales promotion," "Employee benefits," "Depreciation," "Amortization" and "Other," respectively, are accounted for as cost of sales. As a result, compared with the application of the former accounting standard, selling, general and administrative expenses decreased by 39,277 million yen.

Furthermore, as an additional item other than the adoption of IFRS 15 impacting selling, general and administrative expenses, the Kao Group revised its sales system for the Consumer Products Business in Japan in the three months ended March 31, 2017. Expenses of 512 million yen and 4,242 million yen previously included in "Sales promotion" and "Other," respectively, are accounted for as reductions of net sales. As a result, selling, general and administrative expenses decreased by 4,754 million yen.

Changes in material subsidiaries during this quarterly period: None

Note regarding Assumption of Going Concern : None