Consolidated Financial Results for the Six Months Ended June 30, 2017 [IFRS]

July 27, 2017

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
Contact person: Mitsuhiro Watanabe, Vice President, Investor Relations — E-mail: ir@kao.co.jp
Scheduled starting date of the dividend payments: September 1, 2017
Supplementary documents of the financial results for the six-month period: Yes
Holding the first six months 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 six months ended June 30, 2017 (from January 1, 2017 to June 30, 2017)

(1) Consolidated operating results

(Percentages indicate year-on-year changes)

	Six months ended June 30, 2017	%	Six months ended June 30, 2016	%
Net sales	717,304	2.5	699,529	0.4
Operating income	87,354	7.7	81,095	26.6
Income before income taxes	86,711	12.4	77,149	22.9
Net income	56,948	12.4	50,645	37.4
Net income attributable to owners of the parent	56,468	12.9	50,004	35.6
Comprehensive income	57,034	665.1	7,455	(81.4)
Basic earnings per share (Yen)	114.56		99.69	
Diluted earnings per share (Yen)	114.47		99.58	

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 7.3%.

(2) Consolidated financial position

	June 30, 2017	December 31, 2016
Total assets	1,324,868	1,338,309
Total equity	723,091	691,463
Equity attributable to owners of the parent	711,533	679,842
Ratio of equity attributable to owners of the parent to total assets	53.7%	50.8%
Equity attributable to owners of the parent per share (Yen)	1,444.03	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)

	Year ending December 31, 2017	%
Net sales	1,470,000	0.9
Operating income	200,000	7.8
Income before income taxes	199,000	8.5
Net income attributable to owners of the parent	138,000	9.0
Basic earnings per share (Yen)	280.07	-

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 5.3%.

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)

	June 30, 2017	December 31, 2016
Number of issued shares including treasury shares	495,000,000	504,000,000
Number of treasury shares	2,258,999	11,137,654

	Six months ended June 30, 2017	Six months ended June 30, 2016
Weighted average number of shares outstanding during the period	492,906,070	501,603,748

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, "Qualitative Information on Financial Results for the Six Months Ended June 30, 2017 - (2) Description of Information on Outlook, Including Forecast of Consolidated Results" for the suppositions that form the assumptions for earnings forecasts and cautions concerning the use of earnings forecasts.

Qualitative Information on Financial Results for the Six Months Ended June 30, 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)

Six months ended June 30	2017	2016	Growth
Net sales	717.3	699.5	2.5% Like-for-like: 7.3%
Operating income	87.4	81.1	7.7%
Operating margin (%)	12.2	11.6	-
Income before income taxes	86.7	77.1	12.4%
Net income	56.9	50.6	12.4%
Net income attributable to owners of the parent	56.5	50.0	12.9%
Basic earnings per share (Yen)	114.56	99.69	14.9%

During the six months ended June 30, 2017, according to retail store sales data, the household and personal care products market in Japan, a key market for the Kao Group, shrank 1% on a value basis compared with the same period a year earlier. However, according to data on consumer purchasing that includes the e-commerce channel, the market grew 3%. Consumer purchase prices increased 1%. The cosmetics market in Japan including the e-commerce channel was flat, excluding inbound demand (demand from visitors to Japan).

Net sales increased 2.5% compared with the same period a year earlier to 717.3 billion yen. On a like-for-like basis, net sales would have increased 7.3%. Sales of skin care products, sanitary products in Japan and Asia and the Chemical Business increased substantially.

As for profits, due to more effective deployment of expenses and other factors in addition to the effect of increased sales in the Human Health Care Business, operating income was 87.4 billion yen, an increase of 6.3 billion yen compared with the same period a year earlier, and income before income taxes was 86.7 billion yen, an increase of 9.6 billion yen. Net income was 56.9 billion yen, an increase of 6.3 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 subsidiaries and associates were as shown below.

	First quarter Jan. – Mar.	Second quarter Apr. – Jun.
Yen/U.S. dollar	113.71 (115.31)	111.13 (108.05)
Yen/Euro	121.13 (127.15)	122.28 (122.05)
Yen/Chinese yuan	16.50 (17.63)	16.19 (16.55)

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

Summary of Segment Information

Consolidated Results by Segment

(Billions of yen)

	Net sales				Operating income			Operating margin (%)	
Six months ended June 30	2017	2016	Growth %	Like-for-like%	2017	2016	Change	2017	2016
Beauty Care Business	284.2	292.7	(2.9)	2.6	23.1	20.8	2.3	8.1	7.1
Human Health Care Business	146.1	132.9	9.9	16.7	19.8	13.6	6.2	13.6	10.2
Fabric and Home Care Business	152.3	155.8	(2.3)	2.2	28.9	31.5	(2.6)	19.0	20.2
Consumer Products Business	582.6	581.4	0.2	5.7	71.8	65.9	5.9	12.3	11.3
Chemical Business	152.5	135.5	12.5	13.4	14.6	14.8	(0.2)	9.6	10.9
Total	735.1	717.0	2.5	7.2	86.4	80.7	5.7	-	-
Elimination and Reconciliation	(17.8)	(17.4)	-	-	1.0	0.4	0.6	-	-
Consolidated	717.3	699.5	2.5	7.3	87.4	81.1	6.3	12.2	11.6

Consolidated Net Sales Composition

(Billions of yen)

Six months ended June 30		Japan	Asia	Americas	Europe	Consolidated
Cosmetics	2017	93.2	10.8	1.2	7.4	112.6
	2016	100.5	9.2	1.2	8.1	119.0
	Growth %	(7.2)	16.8	0.8	(8.6)	(5.3)
	Like-for-like %	(0.2)	29.8	(0.1)	(0.8)	2.1
Skin care/hair care products	2017	96.2	15.7	38.1	21.5	171.6
	2016	96.5	17.6	35.4	24.3	173.7
	Growth %	(0.3)	(10.4)	7.7	(11.2)	(1.2)
	Like-for-like %	3.9	5.2	8.1	(9.4)	3.0
Beauty Care Business	2017	189.4	26.5	39.3	29.0	284.2
	2016	196.9	26.8	36.6	32.4	292.7
	Growth %	(3.8)	(1.0)	7.5	(10.6)	(2.9)
	Like-for-like %	1.8	13.7	7.8	(7.3)	2.6
Human Health Care Business	2017	96.0	50.1	0.0	—	146.1
	2016	90.8	42.1	—	—	132.9
	Growth %	5.8	18.8	—	—	9.9
	Like-for-like %	9.8	31.5	—	—	16.7
Fabric and Home Care Business	2017	132.4	18.8	1.0	—	152.3
	2016	133.2	21.8	0.9	—	155.8
	Growth %	(0.6)	(13.6)	17.9	—	(2.3)
	Like-for-like %	2.9	(2.6)	16.3	—	2.2
Consumer Products Business	2017	417.9	95.4	40.4	29.0	582.6
	2016	420.9	90.7	37.5	32.4	581.4
	Growth %	(0.7)	5.2	7.8	(10.6)	0.2
	Like-for-like %	3.9	18.1	8.1	(7.3)	5.7
Chemical Business	2017	60.5	33.5	26.8	31.7	152.5
	2016	58.2	28.7	21.7	26.9	135.5
	Growth %	4.0	16.6	23.6	17.7	12.5
	Like-for-like %	4.0	16.9	24.8	20.6	13.4
Elimination of intersegment	2017	(15.3)	(1.7)	(0.0)	(0.7)	(17.8)
	2016	(15.2)	(1.5)	(0.0)	(0.7)	(17.4)
Consolidated	2017	463.0	127.2	67.1	59.9	717.3
	2016	463.9	117.9	59.1	58.6	699.5
	Growth %	(0.2)	7.9	13.6	2.2	2.5
	Like-for-like %	4.0	17.9	14.2	5.3	7.3

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 38.2% of net sales compared with 35.4% for the same period a year earlier.

Consumer Products Business

Sales increased 0.2% compared with the same period a year earlier to 582.6 billion yen. On a like-for-like basis, sales would have increased 5.7%.

In Japan, sales decreased 0.7% to 417.9 billion yen as the Kao Group made efforts that included launching numerous high-value-added products and enhancing proposal-oriented sales activities amid 3% growth in the market including the e-commerce channel. On a like-for-like basis, sales would have increased 3.9%.

In Asia, sales increased 5.2% to 95.4 billion yen, with strong growth centered on China, Indonesia and elsewhere. On a like-for-like basis, sales would have increased 18.1%.

In the Americas, sales increased 7.8% to 40.4 billion yen. On a like-for-like basis, sales would have increased 8.1%. In Europe, sales decreased 10.6% to 29.0 billion yen. On a like-for-like basis, sales would have decreased 7.3%.

Operating income increased 5.9 billion yen compared with the same period a year earlier to 71.8 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 2.9% compared with the same period a year earlier to 284.2 billion yen. On a like-for-like basis, sales would have increased 2.6%.

Sales of cosmetics decreased 5.3% to 112.6 billion yen. On a like-for-like basis, sales would have increased 2.1%. Amid a severe competitive environment in Japan, sales were nearly flat on a like-for-like basis, due in part to a decline in sales related to inbound demand, which had increased in the previous year. Outside Japan, on the other hand, sales grew strongly in China, Taiwan and elsewhere in Asia.

Major reforms of the cosmetics business are progressing as planned. *SOFINA iP* is being rolled out across sales channels in Japan, receiving a positive reception from many consumers, and made a strong start in Asia as well as in Japan. Sales of the new global brand *KANEBO* have grown steadily in Japan and Asia.

Sales of skin care and hair care products decreased 1.2% to 171.6 billion yen. On a like-for-like basis, sales would have increased 3.0%. Among skin care products, sales of *Bioré* facial cleanser grew steadily, with good performance in Japan, Asia and the Americas, and a rollout in Europe. In addition, sales were strong 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, despite the launch of premium products.

Operating income increased 2.3 billion yen compared with the same period a year earlier to 23.1 billion yen.

Human Health Care Business

Sales increased 9.9% compared with the same period a year earlier to 146.1 billion yen. On a like-for-like basis, sales would have increased 16.7%.

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

Sales of sanitary products increased. Sales of *Merries* baby diapers grew steadily. In Japan, sales increased in the domestic market and cross-border e-commerce for the Chinese market is also growing. In China, sales continued to grow, due in part to initial shipments following a distribution channel change as part of structural reforms that have been underway since 2016 and to increased shipments for e-commerce. In Indonesia, sales of locally produced products targeting the middle-class consumer segment grew steadily.

Sales of personal health products increased. Sales of oral care products increased, with steady sales of high-performance products. Sales of *MegRhythm* steam thermo sheets were impacted by a decline in inbound demand, but the Kao Group stimulated new demand and sales recovered to the level of the same period a year earlier.

Operating income increased 6.2 billion yen compared with the same period a year earlier to 19.8 billion yen, mainly due to the effect of increased sales in Japan and Asia.

Fabric and Home Care Business

Sales decreased 2.3% compared with the same period a year earlier to 152.3 billion yen. On a like-for-like basis, sales would have increased 2.2%.

In Japan, sales of fabric care products increased on a like-for-like basis in an increasingly severe market environment. Sales of laundry detergents increased with the launch of improved *Attack Neo Antibacterial EX W Power* amid rising consumer awareness of bacteria. In addition, sales of fabric softeners were firm. Sales of home care products continued to grow steadily.

In Asia, sales decreased in a severe competitive environment.

Operating income decreased 2.6 billion yen compared with the same period a year earlier to 28.9 billion yen due to factors including the effects of higher raw material prices and decreased sales in Asia.

Chemical Business

Sales increased 12.5% compared with the same period a year earlier to 152.5 billion yen. On a like-for-like basis, sales would have increased 13.4%.

Sales of oleo chemicals increased due to factors including efforts to adjust selling prices globally 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. To expedite the development of water-based inkjet ink that contributes to the mitigation of environmental impact and to accelerate the global expansion of such business, the Kao Group acquired companies in the United States and Europe and made them consolidated subsidiaries as of July 2016 for the company in the United States and as of April 2017 for the company in Europe.

Operating income decreased 0.2 billion yen compared with the same period a year earlier to 14.6 billion yen due to the impact of sharp fluctuations in prices of natural fats and oils used as raw materials, despite the growth in sales.

(2) Description of Information on Outlook, Including Forecast 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.

Although results for the first half exceeded the consolidated forecast, there is no change from the forecast of consolidated operating results for the year ending December 31, 2017 announced on April 26, 2017 due to expectations of a severe competitive environment and other factors in the second half.

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.

(Remainder of page intentionally left blank.)

Condensed Consolidated Statement of Financial Position

(Millions of yen)

	June 30, 2017	December 31, 2016
Assets		
Current assets		
Cash and cash equivalents	292,370	303,026
Trade and other receivables	181,796	208,459
Inventories	178,162	165,200
Other financial assets	12,601	13,038
Income tax receivables	3,674	1,462
Other current assets	20,664	23,812
Subtotal	689,267	714,997
Non-current assets held for sale	344	344
Total current assets	689,611	715,341
Non-current assets		
Property, plant and equipment	381,547	370,835
Goodwill	138,393	137,783
Intangible assets	15,400	14,689
Investments accounted for using the equity method	4,971	4,701
Other financial assets	26,891	25,473
Deferred tax assets	50,166	50,939
Other non-current assets	17,889	18,548
Total non-current assets	635,257	622,968
Total assets	1,324,868	1,338,309

Condensed Consolidated Statement of Financial Position

(Millions of yen)

	June 30, 2017	December 31, 2016
Liabilities and equity		
Liabilities		
Current liabilities		
Trade and other payables	217,095	216,893
Bonds and borrowings	45,261	30,289
Other financial liabilities	4,843	8,164
Income tax payables	28,028	32,621
Provisions	4,881	11,370
Contract liabilities	15,448	-
Other current liabilities	85,159	131,112
Total current liabilities	400,715	430,449
Non-current liabilities		
Bonds and borrowings	75,350	90,357
Other financial liabilities	11,165	11,666
Retirement benefit liabilities	94,875	94,773
Provisions	13,884	13,809
Deferred tax liabilities	588	528
Other non-current liabilities	5,200	5,264
Total non-current liabilities	201,062	216,397
Total liabilities	601,777	646,846
Equity		
Share capital	85,424	85,424
Capital surplus	107,814	107,648
Treasury shares	(9,769)	(57,124)
Other components of equity	(21,652)	(21,821)
Retained earnings	549,716	565,715
Equity attributable to owners of the parent	711,533	679,842
Non-controlling interests	11,558	11,621
Total equity	723,091	691,463
Total liabilities and equity	1,324,868	1,338,309

Condensed Consolidated Statement of Income

(Millions of yen)

	Notes	Six months ended June 30, 2017	Six months ended June 30, 2016
Net sales	1	717,304	699,529
Cost of sales		(403,105)	(308,634)
Gross profit		314,199	390,895
Selling, general and administrative expenses	2	(227,579)	(310,387)
Other operating income		6,690	6,701
Other operating expenses		(5,956)	(6,114)
Operating income	1	87,354	81,095
Financial income		720	753
Financial expenses		(2,271)	(5,617)
Share of profit in investments accounted for using the equity method		908	918
Income before income taxes		86,711	77,149
Income taxes		(29,763)	(26,504)
Net income		56,948	50,645
Attributable to:			
Owners of the parent		56,468	50,004
Non-controlling interests		480	641
Net income		56,948	50,645
Earnings per share			
Basic (Yen)		114.56	99.69
Diluted (Yen)		114.47	99.58

Condensed Consolidated Statement of Comprehensive Income

(Millions of yen)

	Six months ended June 30, 2017	Six months ended June 30, 2016
Net income	56,948	50,645
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	947	(1,730)
Remeasurements of defined benefit plans	29	(468)
Share of other comprehensive income of investments accounted for using the equity method	127	(289)
Total of items that will not be reclassified to profit or loss	1,103	(2,487)
Items that may be reclassified subsequently to profit or loss:		
Exchange differences on translation of foreign operations	(997)	(40,658)
Share of other comprehensive income of investments accounted for using the equity method	(20)	(45)
Total of items that may be reclassified subsequently to profit or loss	(1,017)	(40,703)
Other comprehensive income, net of taxes	86	(43,190)
Comprehensive income	57,034	7,455
Attributable to:		
Owners of the parent	56,723	8,024
Non-controlling interests	311	(569)
Comprehensive income	57,034	7,455

Condensed Consolidated Statement of Changes in Equity

(Millions of yen)

	Equity attributable to owners of the parent												
				Other components of equity									
	Share capital	Capital surplus	Treasury shares	Subscription rights to shares	Exchange differences on translation of foreign operations	Net gain (loss) on derivatives designated as cash flow hedges	Net gain (loss) on revaluation of financial assets measured at fair value through other compre-hensive income	Remeasure-ments of defined benefit plans	Total	Retained earnings	Total	Non-controlling interests	Total equity
January 1, 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	-	-	-	-	-	-	-	-	-	56,468	56,468	480	56,948
Other comprehensive income	-	-	-	-	(846)	-	1,073	28	255	-	255	(169)	86
Comprehensive income	-	-	-	-	(846)	-	1,073	28	255	56,468	56,723	311	57,034
Disposal of treasury shares	-	-	49,178	(53)	-	-	-	-	(53)	(48,843)	282	-	282
Purchase of treasury shares	-	-	(1,823)	-	-	-	-	-	-	-	(1,823)	-	(1,823)
Share-based payment transactions	-	166	-	-	-	-	-	-	-	-	166	-	166
Dividends	-	-	-	-	-	-	-	-	-	(23,657)	(23,657)	(369)	(24,026)
Transfer from other components of equity to retained earnings	-	-	-	-	-	-	(5)	(28)	(33)	33	-	-	-
Other increase (decrease)	-	-	-	-	-	-	-	-	-	-	-	(5)	(5)
Total transactions with the owners	-	166	47,355	(53)	-	-	(5)	(28)	(86)	(72,467)	(25,032)	(374)	(25,406)
June 30, 2017	85,424	107,814	(9,769)	858	(30,607)	4	8,093	-	(21,652)	549,716	711,533	11,558	723,091
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	-	-	-	-	-	-	-	-	-	50,004	50,004	641	50,645
Other comprehensive income	-	-	-	-	(39,474)	(15)	(2,019)	(472)	(41,980)	-	(41,980)	(1,210)	(43,190)
Comprehensive income	-	-	-	-	(39,474)	(15)	(2,019)	(472)	(41,980)	50,004	8,024	(569)	7,455
Disposal of treasury shares	-	-	906	(122)	-	-	-	-	(122)	(324)	460	-	460
Purchase of treasury shares	-	-	(9)	-	-	-	-	-	-	-	(9)	-	(9)
Share-based payment transactions	-	-	-	227	-	-	-	-	227	-	227	-	227
Dividends	-	-	-	-	-	-	-	-	-	(21,061)	(21,061)	(955)	(22,016)
Transfer from other components of equity to retained earnings	-	-	-	-	-	-	(113)	472	359	(359)	-	-	-
Other increase (decrease)	-	-	-	-	-	-	-	-	-	-	-	(179)	(179)
Total transactions with the owners	-	-	897	105	-	-	(113)	472	464	(21,744)	(20,383)	(1,134)	(21,517)
June 30, 2016	85,424	108,659	(7,305)	1,007	(52,987)	(18)	6,298	-	(45,700)	527,559	668,637	9,288	677,925

Condensed Consolidated Statement of Cash Flows

(Millions of yen)

	Six months ended June 30, 2017	Six months ended June 30, 2016
Cash flows from operating activities		
Income before income taxes	86,711	77,149
Depreciation and amortization	26,565	25,856
Interest and dividend income	(629)	(654)
Interest expense	571	796
Share of profit in investments accounted for using the equity method	(908)	(918)
(Gains) losses on sale and disposal of property, plant and equipment, and intangible assets	1,310	1,525
(Increase) decrease in trade and other receivables	26,999	25,985
(Increase) decrease in inventories	(12,231)	(13,419)
Increase (decrease) in trade and other payables	10,196	(5,347)
Increase (decrease) in retirement benefit liabilities	(138)	(1,712)
Other	(38,117)	(25,403)
Subtotal	100,329	83,858
Interest received	516	521
Dividends received	1,940	1,376
Interest paid	(573)	(771)
Income taxes paid	(36,130)	(33,968)
Net cash flows from operating activities	66,082	51,016
Cash flows from investing activities		
Payments into time deposits	(11,670)	(5,044)
Proceeds from withdrawal of time deposits	12,198	1,934
Purchase of property, plant and equipment	(45,135)	(36,123)
Purchase of intangible assets	(2,344)	(1,567)
Acquisition of subsidiaries and businesses	(2,906)	(34)
Other	(969)	689
Net cash flows from investing activities	(50,826)	(40,145)
Cash flows from financing activities		
Increase (decrease) in short-term borrowings	(54)	(43)
Proceeds from long-term borrowings	10,000	0
Repayments of long-term borrowings	(10,053)	(34)
Dividends paid to owners of the parent	(23,669)	(21,087)
Dividends paid to non-controlling interests	(349)	(955)
Other	(1,971)	(15)
Net cash flows from financing activities	(26,096)	(22,134)
Net increase (decrease) in cash and cash equivalents	(10,840)	(11,263)
Cash and cash equivalents at the beginning of the period	303,026	309,922
Effect of exchange rate changes on cash and cash equivalents	184	(12,013)
Cash and cash equivalents at the end of the period	292,370	286,646

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 21,029 million yen, selling, general and administrative expenses decreased by 82,872 million yen, and cost of sales increased by 61,843 million yen on the condensed consolidated statement of income for the six months ended June 30, 2017. These changes had no effect on operating income and net income.

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 six months ended June 30, 2017, “Provisions” under current liabilities decreased by 3,965 million yen and 2,947 million yen, respectively, and “Other current liabilities” decreased by 12,582 million yen and 12,501 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

(Millions of yen)

Six months ended June 30, 2017	Reportable Segments							
	Consumer Products Business							
	Beauty Care Business	Human Health Care Business	Fabric and Home Care Business	Subtotal	Chemical Business	Total	Reconciliations[1]	Consolidated
Net sales								
Sales to customers	284,239	146,095	152,278	582,612	134,692	717,304	-	717,304
Intersegment sales and transfers[2]	-	-	-	-	17,787	17,787	(17,787)	-
Total net sales	284,239	146,095	152,278	582,612	152,479	735,091	(17,787)	717,304
Operating income (loss)	23,095	19,803	28,932	71,830	14,563	86,393	961	87,354
% of net sales	8.1	13.6	19.0	12.3	9.6	-	-	12.2
Financial income								720
Financial expenses								(2,271)
Share of profit in investments accounted for using the equity method								908
Income before income taxes								86,711

Notes:

1. The operating income reconciliation of 961 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.

Six months ended June 30, 2016	Reportable Segments							
	Consumer Products Business							
	Beauty Care Business	Human Health Care Business	Fabric and Home Care Business	Subtotal	Chemical Business	Total	Reconciliations[1]	Consolidated
Net sales								
Sales to customers	292,694	132,912	155,830	581,436	118,093	699,529	-	699,529
Intersegment sales and transfers[2]	-	-	-	-	17,425	17,425	(17,425)	-
Total net sales	292,694	132,912	155,830	581,436	135,518	716,954	(17,425)	699,529
Operating income (loss)	20,785	13,594	31,543	65,922	14,765	80,687	408	81,095
% of net sales	7.1	10.2	20.2	11.3	10.9	-	-	11.6
Financial income								753
Financial expenses								(5,617)
Share of profit in investments accounted for using the equity method								918
Income before income taxes								77,149

Notes:

1. The operating income reconciliation of 408 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)

	Six months ended June 30, 2017	Six months ended June 30, 2016
Freight/warehouse	43	28,449
Advertising	44,688	47,151
Sales promotion	29,662	38,372
Employee benefits	74,370	95,512
Depreciation	4,429	5,565
Amortization	2,352	3,456
Research and development	28,698	26,727
Other	43,337	65,155
Total	227,579	310,387

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 8,425 million yen, 11,624 million yen and 980 million yen previously included in “Freight/warehouse,” “Sales promotion” and “Other,” respectively, are accounted for as reductions of net sales. Expenses of 21,574 million yen, 1,276 million yen, 25,406 million yen, 1,399 million yen, 48 million yen and 12,140 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 82,872 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 1,250 million yen and 9,096 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 10,346 million yen.

Changes in significant subsidiaries during this quarterly period: None

Note regarding Assumption of Going Concern : None