Consolidated Financial Results for the Six Months Ended June 30, 2018 [IFRS]

July 26, 2018

Company name: Kao Corporation — Tokyo Stock Exchange in Japan
Stock code: 4452 (URL: www.kao.com/global/en/investor-relations/library/results/)
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 3, 2018
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, 2018 (from January 1, 2018 to June 30, 2018)

(1) Consolidated operating results

(Percentages indicate year-on-year changes)

	Six months ended June 30, 2018	%	Six months ended June 30, 2017	%
Net sales	729,030	1.6	717,304	2.5
Operating income	90,755	3.9	87,354	7.7
Income before income taxes	89,904	3.7	86,711	12.4
Net income	63,488	11.5	56,948	12.4
Net income attributable to owners of the parent	62,805	11.2	56,468	12.9
Comprehensive income	51,417	(9.8)	57,034	665.1
Basic earnings per share (Yen)	127.76		114.56	
Diluted earnings per share (Yen)	127.70		114.47	

(2) Consolidated financial position

	June 30, 2018	December 31, 2017
Total assets	1,358,843	1,427,375
Total equity	792,667	819,364
Equity attributable to owners of the parent	780,236	806,381
Ratio of equity attributable to owners of the parent to total assets	57.4%	56.5%
Equity attributable to owners of the parent per share (Yen)	1,603.37	1,636.41

2. Dividends

	Year ending December 31, 2018 (Forecast)	Year ending December 31, 2018	Year ended December 31, 2017
Annual cash dividends per share (Yen)			
1st quarter end		-	-
2nd quarter end		60.00	54.00
3rd quarter end	-		-
Fiscal year end	60.00		56.00
Total	120.00		110.00

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

3. Forecast of consolidated operating results for the year ending December 31, 2018 (from January 1, 2018 to December 31, 2018)

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

	Year ending December 31, 2018	%
Net sales	1,540,000	3.4
Operating income	215,000	5.0
Income before income taxes	215,000	5.2
Net income attributable to owners of the parent	152,000	3.4
Basic earnings per share (Yen)	312.36	-

Note: Revisions to the consolidated operating results forecasts most recently announced: None

4. Others

(1) Changes in significant subsidiaries during this period (changes in specified subsidiaries resulting in change in scope of consolidation): Yes
New: None
Excluded: 1 company (Company Name) Kao Customer Marketing Co., Ltd.
For details, please refer to page 15, "Changes in significant subsidiaries during this period" in "Notes to Condensed Consolidated Financial Statements"

(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: None

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

	June 30, 2018	December 31, 2017
Number of issued shares including treasury shares	495,000,000	495,000,000
Number of treasury shares	8,378,625	2,225,561

	Six months ended June 30, 2018	Six months ended June 30, 2017
Weighted average number of shares outstanding during this period	491,576,495	492,906,070

Notice regarding execution of quarterly review procedures

This quarterly financial results report is exempt from quarterly review by certified public accountants or accounting firms.

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 Six Months Ended June 30, 2018 - (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 Six Months Ended June 30, 2018

Note: Like-for-like growth rates below exclude the effect of translation of local currencies into Japanese yen.

(1) Description of Operating Results

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

Six months ended June 30	**2018**	2017	Growth
Net sales	**729.0**	717.3	1.6% Like-for-like: 1.0%
Operating income	**90.8**	87.4	3.9%
Operating margin (%)	**12.4**	12.2	-
Income before income taxes	**89.9**	86.7	3.7%
Net income	**63.5**	56.9	11.5%
Net income attributable to owners of the parent	**62.8**	56.5	11.2%
Basic earnings per share (Yen)	**127.76**	114.56	11.5%

During the six months ended June 30, 2018, the markets for household and personal care products and cosmetics in Japan, which are key markets for the Kao Group, were in solid condition according to retail sales and consumer purchasing survey data. In both markets, the share of the e-commerce channel increased further and inbound demand (demand from visitors to Japan) grew. Average unit prices for household and personal care products increased by one percentage point compared with the same period a year earlier.

Net sales increased 1.6% compared with the same period a year earlier to 729.0 billion yen. On a like-for-like basis, net sales increased 1.0%.

Operating income was 90.8 billion yen, an increase of 3.4 billion yen compared with the same period a year earlier, and income before income taxes was 89.9 billion yen, an increase of 3.2 billion yen. Net income was 63.5 billion yen, an increase of 6.5 billion yen. Overall results were as expected given the severely competitive market environment.

To improve capital efficiency and further increase shareholder returns, Kao Corporation resolved at a meeting of its Board of Directors held on April 27, 2018 to repurchase its own shares, and repurchased shares totaling 50.0 billion yen.

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

	First quarter Jan. – Mar.	Second quarter Apr. – Jun.
Yen/U.S. dollar	108.44 (113.71)	109.08 (111.13)
Yen/Euro	133.23 (121.13)	130.09 (122.28)
Yen/Chinese yuan	17.04 (16.50)	17.11 (16.19)

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

Summary of Segment Information

As of the three months ended March 31, 2018, the following changes have been made (Reference: Page 13, "1. Segment Information" in "Notes to Condensed Consolidated Financial Statements").

1. The Beauty Care Business has been divided into the Cosmetics Business and the Skin Care and Hair Care Business, changing the four former reportable segments into five.
2. The *Curél* derma care brand, which formerly had been classified as skin care and hair care products, has been included in the Cosmetics Business, and the *Success* men's products brand, which formerly had been classified in the Human Health Care Business, has been included in the Skin Care and Hair Care Business. Net sales and operating income for the same period a year earlier have been restated accordingly.
3. Due to the reorganization of the sales organization of the Consumer Products Business in Japan, operating income for the same period a year earlier has been restated.

Consolidated Results by Segment

(Billions of yen)

	Net sales				Operating income			Operating margin (%)	
Six months ended June 30	2018	2017	Growth %	Like-for-like %	2018	2017	Change	2018	2017
Cosmetics Business	128.2	123.6	3.7	3.0	7.3	(0.2)	7.5	5.7	(0.2)
Skin Care and Hair Care Business	170.8	166.8	2.4	2.2	22.6	25.6	(2.9)	13.3	15.3
Human Health Care Business	136.3	139.9	(2.6)	(3.1)	18.1	17.9	0.2	13.3	12.8
Fabric and Home Care Business	153.1	152.3	0.6	0.5	27.7	29.1	(1.4)	18.1	19.1
Consumer Products Business	588.4	582.6	1.0	0.6	75.7	72.4	3.3	12.9	12.4
Chemical Business	158.7	152.5	4.1	2.5	14.8	14.6	0.2	9.3	9.6
Total	747.0	735.1	1.6	1.0	90.4	86.9	3.5	-	-
Elimination and Reconciliation	(18.0)	(17.8)	-	-	0.3	0.4	(0.1)	-	-
Consolidated	729.0	717.3	1.6	1.0	90.8	87.4	3.4	12.4	12.2

Consolidated Net Sales Composition

(Billions of yen)

Six months ended June 30		Japan	Asia	Americas	Europe	Consolidated
Cosmetics Business	2018	99.7	17.3	2.8	8.4	128.2
	2017	101.3	12.0	2.8	7.4	123.6
	Growth %	(1.7)	43.6	0.7	12.8	3.7
	Like-for-like %	(1.7)	40.2	4.1	5.7	3.0
Skin Care and Hair Care Business	2018	96.2	15.2	37.2	22.3	170.8
	2017	94.2	14.5	36.5	21.5	166.8
	Growth %	2.1	4.9	1.8	3.3	2.4
	Like-for-like %	2.1	4.9	5.0	(4.2)	2.2
Human Health Care Business	2018	86.6	49.6	0.0	-	136.3
	2017	89.9	50.1	0.0	-	139.9
	Growth %	(3.6)	(1.0)	608.5	-	(2.6)
	Like-for-like %	(3.6)	(2.3)	617.2	-	(3.1)
Fabric and Home Care Business	2018	132.3	19.9	0.9	-	153.1
	2017	132.4	18.8	1.0	-	152.3
	Growth %	(0.1)	5.8	(12.2)	-	0.6
	Like-for-like %	(0.1)	4.9	(11.4)	-	0.5
Consumer Products Business	2018	414.8	102.0	41.0	30.6	588.4
	2017	417.9	95.4	40.4	29.0	582.6
	Growth %	(0.7)	6.9	1.5	5.7	1.0
	Like-for-like %	(0.7)	5.6	4.6	(1.7)	0.6
Chemical Business	2018	61.5	34.8	27.6	34.8	158.7
	2017	60.5	33.5	26.8	31.7	152.5
	Growth %	1.6	3.9	2.8	9.9	4.1
	Like-for-like %	1.6	2.3	5.9	1.6	2.5
Elimination of intersegment	2018	(15.5)	(1.6)	(0.0)	(0.8)	(18.0)
	2017	(15.3)	(1.7)	(0.0)	(0.7)	(17.8)
Consolidated	2018	460.8	135.1	68.5	64.7	729.0
	2017	463.0	127.2	67.1	59.9	717.3
	Growth %	(0.5)	6.2	2.0	7.9	1.6
	Like-for-like %	(0.5)	4.8	5.2	0.1	1.0

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. Sales by geographic region are classified based on the location of the sales recognized.

Net sales to foreign customers were 39.6% of net sales compared with 38.2% for the same period a year earlier.

Consumer Products Business

Sales increased 1.0% compared with the same period a year earlier to 588.4 billion yen. On a like-for-like basis, sales increased 0.6%.

In Japan, in addition to conducting marketing activities that respond to changes in consumer purchasing behavior and values, the Kao Group enhanced its proposal-oriented sales activities and its sales channels that are growing notably, such as e-commerce. However, the severe competitive environment persisted and sales decreased 0.7% to 414.8 billion yen.

In Asia, sales were steady, increasing 6.9% to 102.0 billion yen. On a like-for-like basis, sales increased 5.6%.

In the Americas, sales increased 1.5% to 41.0 billion yen. On a like-for-like basis, sales increased 4.6%. In Europe, sales increased 5.7% to 30.6 billion yen. On a like-for-like basis, sales decreased 1.7%.

Operating income increased 3.3 billion yen compared with the same period a year earlier to 75.7 billion yen.

Note: The Kao Group's Consumer Products Business consists of the Cosmetics Business, the Skin Care and Hair Care Business, the Human Health Care Business, and the Fabric and Home Care Business.

Cosmetics Business

Sales increased 3.7% compared with the same period a year earlier to 128.2 billion yen. On a like-for-like basis, sales increased 3.0%.

Counseling cosmetics *SUQQU* and *RMK,* which are available in the department store channel, and in self-selection cosmetics, *freeplus*, which is hypoallergenic and contains Japanese and Chinese botanical extracts, and the *Curél* derma care brand sold strongly. Sales of mid-price-range cosmetics in Japan decreased compared with the same period a year earlier as the market contracted. Sales increased substantially in the strongly growing Asian region, mainly in China. For mid-price and high-price-range cosmetics in Japan, which have issues, the Kao Group will conduct a full-scale implementation of the new growth strategy it announced in May 2018 as it steadily promotes structural reform.

Operating income was 7.3 billion yen, a substantial improvement of 7.5 billion yen from the same period a year earlier, due to the effects of increased sales of strongly performing brands and the Asia business, among other factors.

Skin Care and Hair Care Business

Sales increased 2.4% compared with the same period a year earlier to 170.8 billion yen. On a like-for-like basis, sales increased 2.2%.

In skin care products, sales of the *Bioré* brand grew steadily in Japan and Asia. In the Americas, *Bioré* was impacted by stiff competition but *Jergens* hand and body lotions performed well.

In hair care products, in Japan the Kao Group launched *Rerise*, a high-value-added next-generation brand for gray hair care, and its performance has been strong. Sales of shampoos and conditioners decreased amid severe competitive environments in Japan and Europe. In addition, U.S.-based Oribe Hair Care, LLC, which owns the *Oribe* brand for hair salons, became a consolidated subsidiary in January 2018 following the completion of its acquisition.

Operating income decreased 2.9 billion yen compared with the same period a year earlier to 22.6 billion yen with the impact of intensifying competition in the Americas and Europe.

Human Health Care Business

Sales decreased 2.6% compared with the same period a year earlier to 136.3 billion yen. On a like-for-like basis, sales decreased 3.1%.

For *Merries* baby diapers, the Kao Group worked to add higher value to products amid an environment of intensifying competition, but sales decreased, due in part to the impact of initial shipments in China in the same period a year earlier. In Indonesia, sales of locally produced products targeting the middle-class consumer segment grew steadily.

Sales of *Laurier* sanitary napkins grew, with strong performance by high-value-added products in Japan and Asia.

In adult incontinence products, sales grew steadily for a line of *Relief* ultra-thin paper pants-type diapers designed to be like regular underwear.

Sales of personal health products were firm.

In food and beverage products, the Kao Group conducted reforms to reinforce profitability that included narrowing down sales channels, and results gradually began to materialize.

Operating income increased 0.2 billion yen compared with the same period a year earlier to 18.1 billion yen, mainly due to the effect of increased sales of sanitary napkins, despite the impact of increased depreciation expenses, exchange rate fluctuations and other factors.

Fabric and Home Care Business

Sales increased 0.6% compared with the same period a year earlier to 153.1 billion yen. On a like-for-like basis, sales increased 0.5%.

Sales of fabric care products were basically flat compared with the same period a year earlier amid an environment of severe competition in Japan. For *Attack* laundry detergent, the Kao Group worked to enhance communication of its value in “changing tap water for washing to antibacterial water,” and in fabric softeners, it improved *Humming Fine* with a strong deodorizing effect.

In home care products, sales of kitchen cleaning products, house cleaning products and other products were firm in Japan.

Sales were steady in Asia as the Kao Group launched high-value-added products and enhanced in-store merchandising in Thailand and other countries.

Operating income decreased 1.4 billion yen compared with the same period a year earlier to 27.7 billion yen due to factors including an increase in costs of petrochemicals and other raw materials and loss on disposal of property, plant and equipment.

Chemical Business

Sales increased 4.1% compared with the same period a year earlier to 158.7 billion yen. On a like-for-like basis, sales increased 2.5%.

Sales of oleo chemicals increased due to factors including firm demand outside Japan. Sales of performance chemicals increased, due in part to a recovery in market conditions in infrastructure-related fields. Sales of specialty chemicals increased due to the contribution of an ink company in Europe that became a consolidated subsidiary in April 2017, despite the impact of a decrease in customer demand for toner and toner binder.

Operating income increased 0.2 billion yen compared with the same period a year earlier to 14.8 billion yen due to growth in sales of oleo chemicals outside Japan and promotion of high-value-added products.

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

The current fiscal year is the second year of the Kao Group Mid-term Plan “K20,” which covers the four years to fiscal 2020. The Kao Group aims to achieve its targets by further strengthening businesses that drive its growth, as well as by steadily restoring businesses with issues.

There is no change from the forecast of consolidated results announced on April 27, 2018.

The main exchange rates used in the forecast of consolidated results are one U.S. dollar to 110 yen, one euro to 135 yen and one Chinese yuan to 17.0 yen.

Condensed Consolidated Statement of Financial Position

(Millions of yen)

	June 30, 2018	December 31, 2017	Change
Assets			
Current assets			
Cash and cash equivalents	237,943	343,076	(105,133)
Trade and other receivables	204,498	216,507	(12,009)
Inventories	194,299	183,921	10,378
Other financial assets	13,382	14,914	(1,532)
Income tax receivables	3,789	2,653	1,136
Other current assets	19,660	28,162	(8,502)
Subtotal	673,571	789,233	(115,662)
Non-current assets held for sale	-	147	(147)
Total current assets	673,571	789,380	(115,809)
Non-current assets			
Property, plant and equipment	404,571	395,800	8,771
Goodwill	162,142	138,735	23,407
Intangible assets	34,241	16,829	17,412
Investments accounted for using the equity method	6,375	7,682	(1,307)
Other financial assets	28,076	27,345	731
Deferred tax assets	40,649	40,918	(269)
Other non-current assets	9,218	10,686	(1,468)
Total non-current assets	685,272	637,995	47,277
Total assets	1,358,843	1,427,375	(68,532)

Condensed Consolidated Statement of Financial Position

(Millions of yen)

	June 30, 2018	December 31, 2017	Change
Liabilities and equity			
Liabilities			
Current liabilities			
Trade and other payables	212,268	224,893	(12,625)
Bonds and borrowings	40,317	25,262	15,055
Other financial liabilities	3,513	7,739	(4,226)
Income tax payables	25,993	34,255	(8,262)
Provisions	3,003	4,822	(1,819)
Contract liabilities	21,494	17,296	4,198
Other current liabilities	89,567	107,404	(17,837)
Total current liabilities	396,155	421,671	(25,516)
Non-current liabilities			
Bonds and borrowings	80,241	95,322	(15,081)
Other financial liabilities	9,758	10,091	(333)
Retirement benefit liabilities	63,670	64,694	(1,024)
Provisions	10,675	10,617	58
Deferred tax liabilities	488	435	53
Other non-current liabilities	5,189	5,181	8
Total non-current liabilities	170,021	186,340	(16,319)
Total liabilities	566,176	608,011	(41,835)
Equity			
Share capital	85,424	85,424	-
Capital surplus	108,063	107,980	83
Treasury shares	(59,131)	(9,593)	(49,538)
Other components of equity	(23,984)	(12,315)	(11,669)
Retained earnings	669,864	634,885	34,979
Equity attributable to owners of the parent	780,236	806,381	(26,145)
Non-controlling interests	12,431	12,983	(552)
Total equity	792,667	819,364	(26,697)
Total liabilities and equity	1,358,843	1,427,375	(68,532)

Condensed Consolidated Statement of Income

(Millions of yen)

	Notes	Six months ended June 30, 2018	Six months ended June 30, 2017	Change
Net sales	1	729,030	717,304	11,726
Cost of sales		(416,513)	(403,105)	(13,408)
Gross profit		312,517	314,199	(1,682)
Selling, general and administrative expenses	2	(221,266)	(227,579)	6,313
Other operating income		6,427	6,690	(263)
Other operating expenses		(6,923)	(5,956)	(967)
Operating income	1	90,755	87,354	3,401
Financial income		830	720	110
Financial expenses		(2,598)	(2,271)	(327)
Share of profit in investments accounted for using the equity method		917	908	9
Income before income taxes		89,904	86,711	3,193
Income taxes		(26,416)	(29,763)	3,347
Net income		63,488	56,948	6,540
Attributable to:				
Owners of the parent		62,805	56,468	6,337
Non-controlling interests		683	480	203
Net income		63,488	56,948	6,540
Earnings per share				
Basic (Yen)		127.76	114.56	
Diluted (Yen)		127.70	114.47	

Condensed Consolidated Statement of Comprehensive Income

(Millions of yen)

	Six months ended June 30, 2018	Six months ended June 30, 2017	Change
Net income	63,488	56,948	6,540
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	249	947	(698)
Remeasurements of defined benefit plans	(12)	29	(41)
Share of other comprehensive income of investments accounted for using the equity method	(122)	127	(249)
Total of items that will not be reclassified to profit or loss	115	1,103	(988)
Items that may be reclassified subsequently to profit or loss:			
Exchange differences on translation of foreign operations	(12,112)	(997)	(11,115)
Share of other comprehensive income of investments accounted for using the equity method	(74)	(20)	(54)
Total of items that may be reclassified subsequently to profit or loss	(12,186)	(1,017)	(11,169)
Other comprehensive income, net of taxes	(12,071)	86	(12,157)
Comprehensive income	51,417	57,034	(5,617)
Attributable to:			
Owners of the parent	51,211	56,723	(5,512)
Non-controlling interests	206	311	(105)
Comprehensive income	51,417	57,034	(5,617)

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, 2018	85,424	107,980	(9,593)	731	(21,540)	4	8,490	-	(12,315)	634,885	806,381	12,983	819,364
Net income	-	-	-	-	-	-	-	-	-	62,805	62,805	683	63,488
Other comprehensive income	-	-	-	-	(11,703)	(7)	128	(12)	(11,594)	-	(11,594)	(477)	(12,071)
Comprehensive income	-	-	-	-	(11,703)	(7)	128	(12)	(11,594)	62,805	51,211	206	51,417
Disposal of treasury shares	-	(99)	481	(82)	-	-	-	-	(82)	(224)	76	-	76
Purchase of treasury shares	-	-	(50,019)	-	-	-	-	-	-	-	(50,019)	-	(50,019)
Share-based payment transactions	-	182	-	-	-	-	-	-	-	-	182	-	182
Dividends	-	-	-	-	-	-	-	-	-	(27,595)	(27,595)	(460)	(28,055)
Transfer from other components of equity to retained earnings	-	-	-	-	-	-	(5)	12	7	(7)	-	-	-
Other increase (decrease)	-	-	-	-	-	-	-	-	-	-	-	(298)	(298)
Total transactions with the owners	-	83	(49,538)	(82)	-	-	(5)	12	(75)	(27,826)	(77,356)	(758)	(78,114)
June 30, 2018	85,424	108,063	(59,131)	649	(33,243)	(3)	8,613	-	(23,984)	669,864	780,236	12,431	792,667
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

Condensed Consolidated Statement of Cash Flows

(Millions of yen)

	Six months ended June 30, 2018	Six months ended June 30, 2017
Cash flows from operating activities		
Income before income taxes	89,904	86,711
Depreciation and amortization	29,494	26,565
Interest and dividend income	(738)	(629)
Interest expense	595	571
Share of profit in investments accounted for using the equity method	(917)	(908)
(Gains) losses on sale and disposal of property, plant and equipment, and intangible assets	2,128	1,310
(Increase) decrease in trade and other receivables	7,207	26,999
(Increase) decrease in inventories	(12,038)	(12,231)
Increase (decrease) in trade and other payables	(7,212)	10,196
Increase (decrease) in retirement benefit liabilities	(268)	(138)
Other	(10,154)	(38,117)
Subtotal	98,001	100,329
Interest received	579	516
Dividends received	2,186	1,940
Interest paid	(627)	(573)
Income taxes paid	(35,940)	(36,130)
Net cash flows from operating activities	64,199	66,082
Cash flows from investing activities		
Payments into time deposits	(12,812)	(11,670)
Proceeds from withdrawal of time deposits	13,898	12,198
Purchase of property, plant and equipment	(40,162)	(45,135)
Purchase of intangible assets	(2,702)	(2,344)
Payments for business combinations	(44,164)	(2,906)
Other	688	(969)
Net cash flows from investing activities	(85,254)	(50,826)
Cash flows from financing activities		
Increase (decrease) in short-term borrowings	58	(54)
Proceeds from long-term borrowings	-	10,000
Repayments of long-term borrowings	(32)	(10,053)
Proceeds from issuance of bonds	24,940	-
Redemption of bonds	(24,939)	-
Purchase of treasury shares	(50,020)	(1,822)
Dividends paid to owners of the parent	(27,620)	(23,669)
Dividends paid to non-controlling interests	(422)	(349)
Other	(942)	(149)
Net cash flows from financing activities	(78,977)	(26,096)
Net increase (decrease) in cash and cash equivalents	(100,032)	(10,840)
Cash and cash equivalents at the beginning of the period	343,076	303,026
Effect of exchange rate changes on cash and cash equivalents	(5,101)	184
Cash and cash equivalents at the end of the period	237,943	292,370

Notes to Condensed Consolidated Financial Statements

1. Segment Information

(1) Summary of reportable segments

The Kao Group's reportable segments are the components of the Kao 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 Kao Group is an organization comprising five main businesses – the Cosmetics Business, the Skin Care and Hair 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, the Kao Group plans comprehensive strategies and carries out activities on a global basis.

Therefore, the Kao Group has five reportable segments: the Cosmetics Business, the Skin Care and Hair Care Business, the Human Health Care Business, the Fabric and Home Care Business and the Chemical Business.

Due to a change in organization as of January 1, 2018, from the three months ended March 31, 2018 the Kao Group has reclassified its four former reportable segments (the Beauty Care Business, the Human Health Care Business, the Fabric and Home Care Business and the Chemical Business) into five (the Cosmetics Business, the Skin Care and Hair Care Business, the Human Health Care Business, the Fabric and Home Care Business and the Chemical Business). Segment information for the same period a year earlier has been restated to reflect the reclassification.

Major products by reportable segment are as follows:

Reportable Segments		Major Products	
Consumer Products Business	Cosmetics Business	Cosmetics	Counseling cosmetics, Self-selection cosmetics
	Skin Care and Hair Care Business	Skin care products	Soaps, Facial cleansers, Body cleansers
		Hair care products	Shampoos, Conditioners, Hair styling agents, Hair coloring agents, Men's products
	Human Health Care Business	Food and beverage products	Beverages
		Sanitary products	Sanitary napkins, Baby diapers
		Personal health products	Bath additives, Oral care 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, 2018	Reportable Segments								
	Consumer Products Business								
	Cosmetics Business	Skin Care and Hair Care Buiness	Human Health Care Business	Fabric and Home Care Business	Subtotal	Chemical Business	Total	Reconciliations[1]	Consolidated
Net sales									
Sales to customers	128,156	170,804	136,260	153,139	588,359	140,671	729,030	-	729,030
Intersegment sales and transfers[2]	-	-	-	-	-	17,985	17,985	(17,985)	-
Total net sales	128,156	170,804	136,260	153,139	588,359	158,656	747,015	(17,985)	729,030
Operating income (loss)	7,325	22,649	18,064	27,653	75,691	14,755	90,446	309	90,755
% of net sales	5.7	13.3	13.3	18.1	12.9	9.3	-	-	12.4
Financial income									830
Financial expenses									(2,598)
Share of profit in investments accounted for using the equity method									917
Income before income taxes									89,904

Notes:

1. The operating income (loss) reconciliation of 309 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.

(Millions of yen)

Six months ended June 30, 2017	Reportable Segments								
	Consumer Products Business								
	Cosmetics Business	Skin Care and Hair Care Buiness	Human Health Care Business	Fabric and Home Care Business	Subtotal	Chemical Business	Total	Reconciliations[1]	Consolidated
Net sales									
Sales to customers	123,614	166,779	139,941	152,278	582,612	134,692	717,304	-	717,304
Intersegment sales and transfers[2]	-	-	-	-	-	17,787	17,787	(17,787)	-
Total net sales	123,614	166,779	139,941	152,278	582,612	152,479	735,091	(17,787)	717,304
Operating income (loss)	(206)	25,580	17,913	29,067	72,354	14,563	86,917	437	87,354
% of net sales	(0.2)	15.3	12.8	19.1	12.4	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 (loss) reconciliation of 437 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, 2018	Six months ended June 30, 2017
Advertising	40,443	44,688
Sales promotion	25,983	29,662
Employee benefits	74,440	74,370
Depreciation	4,529	4,429
Amortization	3,180	2,352
Research and development	28,914	28,698
Other	43,777	43,380
Total	221,266	227,579

Changes in significant subsidiaries during this period:

Kao Customer Marketing Co., Ltd., which was a specified subsidiary of the Kao Corporation, was dissolved in an absorption-type merger conducted as of January 1, 2018, with Kao Group Customer Marketing Co., Ltd. as the surviving company. Therefore, from the three months ended March 31, 2018, it has been excluded from the scope of consolidation.

Note regarding Assumption of Going Concern : None