

Information on First-Time Adoption of IFRS

The Kao Group presents IFRS-compliant consolidated financial statements from the fiscal year ended December 31, 2016. The most recent consolidated financial statements prepared in accordance with generally accepted accounting principles in Japan (hereinafter, "Japanese GAAP") were for the fiscal year ended December 31, 2015, and the date of transition to IFRS is January 1, 2015.

Under IFRS, entities adopting IFRS for the first time must, in principle, apply the standards required under IFRS retrospectively. However, IFRS 1 First-time Adoption of International Financial Reporting Standards (hereinafter, "IFRS 1") provides optional exemptions from retrospective application and mandatory exceptions prohibiting retrospective application of some requirements of IFRS. The Group mainly applies the following exemptions:

IFRS 1 Exemptions

(1) Business combinations

Under IFRS 1, entities may elect to either retrospectively apply or prospectively apply IFRS 3 Business Combinations (hereinafter, "IFRS 3"). The Group has elected not to retrospectively apply IFRS 3 to past business combinations that occurred before the transition date. As a result, the Group has applied the accounting treatment under Japanese GAAP to the business combinations that occurred before the transition date and no reconciliations were made.

With respect to goodwill arising in business combinations, the Group has kept the Japanese GAAP carrying amounts that had been applied before the transition to IFRS, in principle, and has translated all foreign currency-denominated goodwill at the exchange rate at the closing date for the retrospective application of IAS 21 "The Effects of Changes in Foreign Exchange Rates."

Goodwill is tested for impairment at the transition date, irrespective of indications of impairment.

(2) Deemed cost

Under IFRS 1, entities may elect to measure property, plant and equipment at fair value at the transition date and use the fair value as deemed cost at that date. The Group uses fair value at the transition date as the deemed cost for certain property, plant and equipment.

(3) Cumulative translation differences for foreign operations

Under IFRS 1, the cumulative translation differences for all foreign operations may be deemed to be zero at the transition date, or the cumulative translation differences may be recalculated retrospectively up until the date the subsidiary or associate was established or acquired. The Group has elected to reset the cumulative translation differences to zero at the transition date.

(4) Designation of previously recognized financial instruments

Under IFRS 1, entities may designate financial instruments recognized before the transition date in accordance with IFRS 9 Financial Instruments (issued in November 2009, revised in July 2014) (hereinafter, "IFRS 9") on the basis of the facts and circumstances that exist at the transition date. The Group has designated financial instruments in accordance with IFRS 9 on the basis of the facts and circumstances that exist at the transition date.

Mandatory exceptions of IFRS 1

IFRS 1 prohibits retrospective application of IFRS for estimates, derecognition of financial assets and financial liabilities, hedge accounting, non-controlling interests, classification and measurement of financial assets, and impairment of financial assets. The Group has prospectively applied IFRS for these items from the transition date.

The table below presents reconciliations requiring disclosure in first-time adoption of IFRS.

In the table, items that do not affect retained earnings and comprehensive income are included in the "Reclassification" column, differences from Japanese GAAP resulting from a review of the scope of consolidation under IFRS are included in the "Consolidation scope differences" column, and items that affect retained earnings and comprehensive income are included in the "Recognition and measurement differences" column.

Reconciliations of equity as of the IFRS transition date (January 1, 2015)

(Millions of yen)

Accounts under Japanese GAAP	Japanese GAAP	Reclassification	Consolidation scope differences	Recognition and measurement differences	IFRS	Notes	Accounts under IFRS
Assets							Assets
Current assets							Current assets
Cash and time deposits	107,412	121,251	304	-	228,967	(13),(14)	Cash and cash equivalents
Notes and accounts receivable - trade	204,060	7,279	1,290	113	212,742	(14)	Trade and other receivables
Short-term investments	110,639	(110,639)	-	-	-	(13)	
Inventories	157,787	(2,892)	1,161	(4,180)	151,876	(1),(14)	Inventories
Prepaid expenses	6,832	(6,832)	-	-	-		
Deferred tax assets	20,232	(20,232)	-	-	-	(13)	
	-	1,023	238	-	1,261	(14)	Current income tax assets
	-	4,130	(96)	-	4,034	(13),(14)	Other financial assets
Other	36,420	10,428	(33)	484	47,299	(13),(14)	Other current assets
Allowance for doubtful receivables	(1,648)	1,648	-	-	-		
Total current assets	641,734	5,164	2,864	(3,583)	646,179		Total current assets
Fixed assets							Non-current assets
Property, plant and equipment							Property, plant and equipment
Property, plant and equipment	307,615	10,432	2,119	(884)	319,282	(2),(13),(14)	Property, plant and equipment
Intangible assets							Goodwill
Goodwill	139,941	-	-	(1,190)	138,751	(3)	Goodwill
Trademarks	15,145	(15,145)	-	-	-		
Other	12,844	(12,844)	-	-	-		
	-	27,965	7	(4,346)	23,626	(4),(14)	Intangible assets
Investments and other assets							Investments accounted for using the equity method
Investment securities	20,984	(20,984)	-	-	-		
	-	9,264	(5,505)	(215)	3,544	(14)	Investments accounted for using the equity method
Long-term loans	1,432	(1,432)	-	-	-		
Long-term prepaid expenses	17,281	(17,281)	-	-	-	(13)	
Asset for retirement benefits	9,692	(9,692)	-	-	-		
	-	23,916	424	1,748	26,088	(5),(13),(14)	Other financial assets
Other	11,612	4,982	44	(8,672)	7,966	(9),(14)	Other non-current assets
Deferred tax assets	20,630	20,232	1,189	19,143	61,194	(6),(13),(14)	Deferred tax assets
Allowance for doubtful receivables	(677)	677	-	-	-		
Total fixed assets	556,499	20,090	(1,722)	5,584	580,451		Total non-current assets
Total assets	1,198,233	25,254	1,142	2,001	1,226,630		Total assets

(Millions of yen)

Accounts under Japanese GAAP	Japanese GAAP	Reclassification	Consolidation scope differences	Recognition and measurement differences	IFRS	Notes	Accounts under IFRS
Liabilities							Liabilities
Current liabilities							Current liabilities
Notes and accounts payable - trade	129,711	65,491	(1,742)	-	193,460	(14)	Trade and other payables
Short-term loans	1,137	(1,137)	-	-	-		
Current portion of long-term loans	20,013	(20,013)	-	-	-		
Accounts payable - other	-	21,150	272	-	21,422	(14)	Bonds and borrowings
Accrued expenses	66,230	(66,230)	-	-	-		
Income taxes payable	94,666	(94,666)	-	-	-		
Income taxes payable	28,108	112	63	-	28,283	(14)	Income tax payables
Liability for loss related to cosmetics	8,220	(8,220)	-	-	-	(13)	
	-	10,122	(4,375)	18	5,765	(13),(14)	Other financial liabilities
	-	35,962	(2)	(2,600)	33,360	(7),(13),(14)	Provisions
Other	32,451	81,754	4,210	5,501	123,916	(8),(13),(14)	Other current liabilities
Total current liabilities	380,536	24,325	(1,574)	2,919	406,206		Total current liabilities
Long-term liabilities							Non-current liabilities
Bonds	50,000	(50,000)	-	-	-		
Long-term loans	30,083	(30,083)	-	-	-		
	-	80,083	202	(97)	80,188	(14)	Bonds and borrowings
Liability for retirement benefits	42,414	798	763	33,920	77,895	(9),(14)	Retirement benefit liabilities
	-	11,877	936	-	12,813	(13),(14)	Other financial liabilities
	-	4,447	370	479	5,296	(13),(14)	Provisions
Other	22,807	(19,614)	108	2,110	5,411	(10),(13),(14)	Other non-current liabilities
	-	3,421	-	(2,988)	433	(6),(13)	Deferred tax liabilities
Total long-term liabilities	145,304	929	2,379	33,424	182,036		Total non-current liabilities
Total liabilities	525,840	25,254	805	36,343	588,242		Total liabilities
Net assets							Equity
Common stock	85,424	-	-	-	85,424		Share capital
Capital surplus	109,561	-	-	-	109,561		Capital surplus
Treasury stock, at cost	(9,719)	-	-	-	(9,719)		Treasury shares
Unrealized gain on available-for-sale securities	5,507	(5,507)	-	-	-		
Deferred gain (loss) on derivatives under hedge accounting	8	(8)	-	-	-		
Foreign currency translation adjustments	(4,853)	4,853	-	-	-		
Remeasurements of defined benefit plans	3,619	(3,619)	-	-	-		
Stock acquisition rights	944	(944)	-	-	-		
	-	5,225	(302)	2,678	7,601	(11),(14)	Other components of equity
Retained earnings	468,684	-	151	(36,860)	431,975	(12),(14)	Retained earnings
					624,842		Equity attributable to owners of the parent
Minority interests	13,218	-	488	(160)	13,546	(14)	Non-controlling interests
Total net assets	672,393	-	337	(34,342)	638,388		Total equity
Total liabilities and net assets	1,198,233	25,254	1,142	2,001	1,226,630		Total liabilities and equity

Notes on reconciliations of equity as of the IFRS transition date (January 1, 2015)

(1) Adjustment to inventories

Mainly, goods for sales promotion recognized in supplies under Japanese GAAP are recognized in an adjustment to retained earnings as they do not meet the definition of assets under IFRS.

(2) Adjustment to property, plant and equipment

Property, plant and equipment is adjusted mainly by applying deemed cost as follows.

The Group uses fair value as the deemed cost at the transition date for certain items of property, plant and equipment. At the transition date, the carrying amount of property, plant and equipment to which deemed cost was applied was 1,851 million yen under Japanese GAAP, and the fair value was 848 million yen.

As a result of the above, property, plant and equipment at the transition date decreased by 1,003 million yen, and the adjustment is recognized in retained earnings.

Fair value is based on valuation by independent appraisers with appropriate qualifications and other methods, and is classified in level 3.

(3) Adjustment to goodwill

Under Japanese GAAP, certain foreign currency-denominated goodwill was translated at the exchange rate at the acquisition date, whereas under IFRS, all foreign currency-denominated goodwill is translated at the exchange rate at the closing date and recognized in adjustments to retained earnings.

(4) Adjustment to intangible assets

Certain intangible assets recognized under Japanese GAAP are recognized in adjustments to retained earnings as they do not meet the definition of assets under IFRS.

(5) Adjustment to other financial assets (non-current assets)

Under Japanese GAAP, non-marketable equity instruments were carried at the acquisition cost, and impairment loss was recognized as required depending on the financial condition of the issuing company. Under IFRS, these equity instruments are designated as financial assets measured at fair value through other comprehensive income, and are measured at fair value irrespective of existence of market activity with the change recognized as other comprehensive income and reclassified to retained earnings in case of derecognition or a significant decrease in fair value.

(6) Adjustments to deferred tax assets and deferred tax liabilities

The amounts of deferred tax assets and deferred tax liabilities are adjusted mainly due to taxable temporary differences arising as a result of adjustments from Japanese GAAP to IFRS.

(7) Adjustment to provisions (current liabilities)

Under Japanese GAAP, future expenses that fulfilled the required conditions were recognized as provisions, but are recognized in an adjustment to retained earnings as they do not meet the conditions for recognition of provisions under IFRS.

(8) Adjustment to other current liabilities

Mainly, unused paid absence that was not recognized as a liability under Japanese GAAP is recognized as a liability under IFRS and recognized in an adjustment to retained earnings.

(9) Adjustments to retirement benefit liabilities and other non-current assets

Under Japanese GAAP, actuarial gains and losses were recognized in other comprehensive income as incurred, and were recognized in profit or loss from the fiscal year when incurred, amortized on a straight-line basis over a certain number of years no longer than the average remaining service period of employees. Under IFRS, these actuarial gains and losses are recognized in other comprehensive income as incurred, and immediately reclassified to retained earnings. Moreover, under Japanese GAAP, past service costs were recognized in other comprehensive income as incurred, and were recognized in profit or loss from the fiscal year when incurred, amortized on a straight-line basis over a certain number of years no longer than the average remaining service period of employees whereas under IFRS they are recognized in profit or loss as incurred.

Under Japanese GAAP the Company adopted the "Accounting Standard for Retirement Benefits" of the Accounting Standards Board of Japan (hereinafter "ASBJ") (ASBJ Statement No. 26 issued on May 17, 2012, hereinafter "Retirement Benefits Accounting Standard") and the "Guidance on Accounting Standard for Retirement Benefits" (ASBJ Guidance No. 25 issued on March 26, 2015, hereinafter "Retirement Benefits Guidance") as of the fiscal year ended December 31, 2015, revising the methods for calculating retirement benefit obligations and service costs and changing the method for calculating projected retirement benefits from the straight-line basis to the benefit formula basis. In addition, determination of the discount rate changed from a method based on the number of years for the underlying obligations approximating the average remaining years of service of the eligible employees to a method that uses several discount rates that are set for each expected retirement benefit payment period. In accordance with the transitional handling set forth in Article 37 of the Retirement Benefits Accounting Standard, the effect associated with the change in the method of calculating retirement benefit obligations and service costs was recognized by adjusting retained earnings at the beginning of the fiscal year ended December 31, 2015. Consequently, as the changes due to the revisions of the Retirement Benefits Accounting Standard and the Retirement Benefits Guidance were not recognized in the consolidated balance sheet under Japanese GAAP, which was already disclosed as of the transition date, the differences with the consolidated statement of financial position are recognized in retained earnings under IFRS.

(10) Adjustment to other non-current liabilities

Special paid leave and bonuses granted conditional on a certain number of years of employment, which were not recognized as liabilities under Japanese GAAP, are recognized as liabilities under IFRS and recognized in adjustments to retained earnings.

(11) Adjustment to other components of equity

- a. As an exemption elected under IFRS 1, the cumulative translation differences for all foreign operations are reclassified to retained earnings as of January 1, 2015, the transition date. As a result, other components of equity increased by 4,853 million yen.
- b. Based on the fair value of non-marketable equity instruments stated in (5) above, other components of equity increased by 1,120 million yen.

- c. Due to the impact of adjustment to retirement benefit liabilities stated in (9) above, other components of equity decreased by 3,318 million yen.

(12) Adjustments to retained earnings

	(Millions of yen)
	Transition date January 1, 2015
Adjustment to inventories	(4,180)
Adjustment to property, plant and equipment	(884)
Adjustment to goodwill	(1,190)
Adjustment to intangible assets	(4,346)
Adjustment to provisions (current liabilities)	2,600
Adjustment to other current liabilities	(5,501)
Adjustment to retirement benefit liabilities	(36,366)
Adjustment to other non-current liabilities	(2,110)
Adjustment to exchange differences on translation of foreign operations	(4,853)
Other adjustments	402
Subtotal	(56,428)
Adjustment for tax effects	19,414
Adjustment for non-controlling interests	154
Total	(36,860)

(13) Reclassifications

Reclassifications are made to comply with the provisions of IFRS. The main reclassifications are as follows:

- a. Time deposits with deposit terms of more than three months in "Cash and time deposits" under Japanese GAAP are classified as "Other financial assets" in current assets under IFRS. Among "Short-term investments" and "Other (current assets)" under Japanese GAAP, short-term investments redeemable within three months from the date of acquisition are classified as "Cash and cash equivalents" under IFRS.
- b. "Deferred tax assets" and "Deferred tax liabilities" classified as current items under Japanese GAAP are classified as non-current items under IFRS.
- c. Store fixtures for cosmetics were classified as "Long-term prepaid expenses" under Japanese GAAP, but are classified as "Property, plant and equipment" under IFRS.
- d. Financial assets and financial liabilities are disclosed separately based on the requirements of IFRS.
- e. The provision for losses on returned products and the asset retirement obligation, which were included in "Other (current liabilities)" and "Other (non-current liabilities)" and the gross amount of liability for loss related to cosmetics under Japanese GAAP, are classified as "Provisions" under IFRS.

(14) Differences in scope of consolidation

Certain subsidiaries of minor importance were not included in the scope of consolidation under Japanese GAAP and the equity method was applied, but all subsidiaries are included in the scope of consolidation under IFRS.

Reconciliations of equity as of December 31, 2015

(Millions of yen)

Accounts under Japanese GAAP	Japanese GAAP	Reclassification	Consolidation scope differences	Recognition and measurement differences	IFRS	Notes	Accounts under IFRS
Assets							Assets
Current assets							Current assets
Cash and time deposits	125,159	184,279	484	-	309,922	(11),(12)	Cash and cash equivalents
Notes and accounts receivable - trade	205,603	3,921	1,147	36	210,707	(12)	Trade and other receivables
Short-term investments	158,651	(158,651)	-	-	-	(11)	
Inventories	158,134	(2,953)	814	(4,724)	151,271	(1),(12)	Inventories
Prepaid expenses	7,048	(7,048)	-	-	-		
Deferred tax assets	20,763	(20,763)	-	-	-	(11)	
	-	1,899	178	-	2,077	(12)	Current income tax assets
	-	5,301	(236)	-	5,065	(11),(12)	Other financial assets
Other	59,501	(21,971)	15	460	38,005	(11),(12)	Other current assets
Allowance for doubtful receivables	(1,626)	1,626	-	-	-		
	733,233	(14,360)	2,402	(4,228)	717,047		Subtotal
	-	1,330	-	-	1,330	(11)	Non-current assets held for sale
Total current assets	733,233	(13,030)	2,402	(4,228)	718,377		Total current assets
Fixed assets							Non-current assets
Property, plant and equipment	327,730	9,299	1,865	(897)	337,997	(2),(11),(12)	Property, plant and equipment
Intangible assets							
Goodwill	127,099	-	-	11,152	138,251	(3)	Goodwill
Trademarks	1,791	(1,791)	-	-	-		
Other	14,832	(14,832)	-	-	-		
	-	16,602	2	(899)	15,705	(4),(12)	Intangible assets
Investments and other assets							
Investment securities	22,331	(22,331)	-	-	-		
	-	9,384	(4,956)	(219)	4,209	(12)	Investments accounted for using the equity method
Long-term loans	1,171	(1,171)	-	-	-		
Long-term prepaid expenses	17,583	(17,583)	-	-	-	(11)	
Asset for retirement benefits	1,027	(1,027)	-	-	-		
	-	26,862	440	2,037	29,339	(5),(11),(12)	Other financial assets
Other	11,860	5,846	61	(35)	17,732	(12)	Other non-current assets
Deferred tax assets	23,896	20,763	995	3,800	49,454	(6),(11),(12)	Deferred tax assets
Allowance for doubtful receivables	(684)	684	-	-	-		
Total fixed assets	548,636	30,705	(1,593)	14,939	592,687		Total non-current assets
Total assets	1,281,869	17,675	809	10,711	1,311,064		Total assets

(Millions of yen)

Accounts under Japanese GAAP	Japanese GAAP	Reclassification	Consolidation scope differences	Recognition and measurement differences	IFRS	Notes	Accounts under IFRS
Liabilities							Liabilities
Current liabilities							Current liabilities
Notes and accounts payable - trade	133,728	74,741	(1,709)	-	206,760	(12)	Trade and other payables
Short-term loans	47	(47)	-	-	-		
Current portion of long-term loans	15	(15)	-	-	-		
Accounts payable - other	76,078	(76,078)	-	-	-		Bonds and borrowings
Accrued expenses	99,033	(99,033)	-	-	-	(12)	
Income taxes payable	32,073	-	111	-	32,184	(12)	Income tax payables
Liability for loss related to cosmetics	2,891	(2,891)	-	-	-	(11)	
	-	11,335	(4,406)	-	6,929	(11),(12)	Other financial liabilities
	-	16,712	-	60	16,772	(11)	Provisions
Other	33,628	82,225	3,920	5,649	125,422	(7),(11),(12)	Other current liabilities
Total current liabilities	377,493	7,011	(1,807)	5,709	388,406		Total current liabilities
Long-term liabilities							Non-current liabilities
Bonds	50,000	(50,000)	-	-	-		
Long-term loans	70,060	(70,060)	-	-	-		
	-	120,060	222	(75)	120,207	(12)	Bonds and borrowings
Liability for retirement benefits	74,178	804	724	-	75,706	(12)	Retirement benefit liabilities
Liability for loss related to cosmetics	2,474	(2,474)	-	-	-	(11)	
	-	11,093	724	-	11,817	(11),(12)	Other financial liabilities
	-	16,880	365	459	17,704	(11),(12)	Provisions
Other	20,531	(17,790)	83	2,095	4,919	(8),(11),(12)	Other non-current liabilities
	-	2,151	-	(1,833)	318	(6),(11)	Deferred tax liabilities
Total long-term liabilities	217,243	10,664	2,118	646	230,671		Total non-current liabilities
Total liabilities	594,736	17,675	311	6,355	619,077		Total liabilities
Net assets							Equity
Common stock	85,424	-	-	-	85,424		Share capital
Capital surplus	108,659	-	-	-	108,659		Capital surplus
Treasury stock, at cost	(8,202)	-	-	-	(8,202)		Treasury shares
Unrealized gain on available-for-sale securities	7,063	(7,063)	-	-	-		
Deferred gain (loss) on derivatives under hedge accounting	(3)	3	-	-	-		
Foreign currency translation adjustments	(19,315)	19,315	-	-	-		
Remeasurements of defined benefit plans	(152)	152	-	-	-		
Stock acquisition rights	889	(889)	-	-	-		
	-	(11,518)	(218)	7,552	(4,184)	(9),(12)	Other components of equity
Retained earnings	502,134	-	246	(3,081)	499,299	(10),(12)	Retained earnings
					680,996		Equity attributable to owners of the parent
Minority interests	10,636	-	470	(115)	10,991	(12)	Non-controlling interests
Total net assets	687,133	-	498	4,356	691,987		Total equity
Total liabilities and net assets	1,281,869	17,675	809	10,711	1,311,064		Total liabilities and equity

Notes on reconciliations of equity as of December 31, 2015

(1) Adjustment to inventories

Mainly, goods for sales promotion recognized in supplies under Japanese GAAP are recognized in an adjustment to retained earnings as they do not meet the definition of assets under IFRS.

(2) Adjustment to property, plant and equipment

Property, plant and equipment is adjusted mainly by applying deemed cost as follows.

The Group uses fair value as the deemed cost at the transition date for certain items of property, plant and equipment. As a result, property, plant and equipment at the transition date decreased by 1,003 million yen, and the adjustment is recognized in retained earnings. At the transition date, the carrying amount of property, plant and equipment to which deemed cost was applied was 1,851 million yen under Japanese GAAP, and the fair value was 848 million yen.

Fair value is based on valuation by independent appraisers with appropriate qualifications and other methods, and is classified in level 3.

(3) Adjustment to goodwill

a. Under Japanese GAAP, the amortization period of goodwill was effectively estimated and goodwill was amortized over the amortization period, but under IFRS, amortization of goodwill is discontinued as of the transition date.

b. Under Japanese GAAP, certain foreign currency-denominated goodwill was translated at the exchange rate at the acquisition date, whereas under IFRS, all foreign currency-denominated goodwill is translated at the exchange rate at the closing date and recognized in adjustments to other components of equity.

(4) Adjustment to intangible assets

Certain intangible assets that were recognized under Japanese GAAP are recognized in adjustments to retained earnings as they do not meet the definition of assets under IFRS.

(5) Adjustment to other financial assets (non-current assets)

Under Japanese GAAP, non-marketable equity instruments were carried at the acquisition cost, and impairment loss was recognized as required depending on the financial condition of the issuing company. Under IFRS, these equity instruments are designated as financial assets measured at fair value through other comprehensive income, and are measured at fair value irrespective of existence of market activity with the change recognized as other comprehensive income and reclassified to retained earnings in case of derecognition or a significant decrease in fair value.

(6) Adjustments to deferred tax assets and deferred tax liabilities

The amounts of deferred tax assets and deferred tax liabilities are adjusted mainly due to taxable temporary differences arising as a result of adjustments from Japanese GAAP to IFRS.

(7) Adjustment to other current liabilities

Mainly, unused paid absence that was not recognized as a liability under Japanese GAAP is recognized as a liability under IFRS and recognized in an adjustment to retained earnings.

(8) Adjustment to other non-current liabilities

Special paid leave and bonuses granted conditional on a certain number of years of employment, which were not recognized as liabilities under Japanese GAAP, are recognized as liabilities under IFRS and recognized in adjustments to retained earnings.

(9) Adjustment to other components of equity

a. As an exemption elected under the provisions of IFRS 1, the cumulative translation differences for all foreign operations are reclassified to retained earnings as of January 1, 2015, the transition date. In addition, under IFRS, the cumulative translation differences associated with the liquidation of foreign operations during the fiscal year were reclassified to retained earnings. As a result, other components of equity increased by 6,070 million yen.

b. Based on the fair value of non-marketable equity instruments stated in (5) above, other components of equity increased by 1,368 million yen.

(10) Adjustments to retained earnings

(Millions of yen)

	<u>December 31, 2015</u>
Adjustment to inventories	(4,724)
Adjustment to property, plant and equipment	(897)
Adjustment to goodwill	11,687
Adjustment to intangible assets	(899)
Adjustment to other current liabilities	(5,649)
Adjustment to retirement benefit liabilities	(220)
Adjustment to other non-current liabilities	(2,095)
Adjustment to exchange differences on translation of foreign operations	(6,070)
Other adjustments	(33)
Subtotal	(8,900)
Adjustment for tax effects	5,755
Adjustment for non-controlling interests	64
Total	(3,081)

(11) Reclassifications

Reclassifications are made to comply with the provisions of IFRS. The main reclassifications are as follows:

- a. Time deposits with deposit terms of more than three months in "Cash and time deposits" under Japanese GAAP are classified as "Other financial assets" in current assets under IFRS. Among "Short-term investments" and "Other (current assets)" under Japanese GAAP, short-term investments redeemable within three months from the date of acquisition are classified as "Cash and cash equivalents" under IFRS.
- b. "Deferred tax assets" and "Deferred tax liabilities" classified as current items under Japanese GAAP are classified as non-current items under IFRS.
- c. Store fixtures for cosmetics were classified as "Long-term prepaid expenses" under Japanese GAAP, but are classified as "Property, plant and equipment" under IFRS.
- d. Financial assets, financial liabilities and non-current assets held for sale are disclosed separately based on the requirements of IFRS.
- e. The provision for losses on returned products and the asset retirement obligation, which were included in "Other (current liabilities)" and "Other (non-current liabilities)" and the gross amount of liability for loss related to cosmetics under Japanese GAAP, are classified as "Provisions" under IFRS.

(12) Differences in scope of consolidation

Certain subsidiaries of minor importance were not included in the scope of consolidation under Japanese GAAP and the equity method was applied, but all subsidiaries are included in the scope of consolidation under IFRS.

Reconciliations of profit or loss and comprehensive income for the fiscal year ended December 31, 2015
(January 1 to December 31, 2015)

(Millions of yen)

Accounts under Japanese GAAP	Japanese GAAP	Reclassification	Consolidation scope differences	Recognition and measurement differences	IFRS	Notes	Accounts under IFRS
Net sales	1,471,791	-	2,759	-	1,474,550	(6)	Net sales
Cost of sales	(658,221)	(647)	198	(195)	(658,865)	(2),(6)	Cost of sales
Gross profit	813,570	(647)	2,957	(195)	815,685		Gross profit
Selling, general and administrative expenses	(649,190)	(3,882)	(2,234)	12,577	(642,729)	(1),(2),(6)	Selling, general and administrative expenses
	-	4,403	9,758	(62)	14,099	(4),(6)	Other operating income
	-	(9,627)	(8,824)	(1,286)	(19,737)	(4),(6)	Other operating expenses
Operating income	164,380	(9,753)	1,657	11,034	167,318		Operating income
	-	1,788	3	(375)	1,416	(4),(6)	Financial income
	-	2,508	(85)	(6,636)	(4,213)	(1),(2),(4),(6)	Financial expenses
	-	2,656	(1,113)	(26)	1,517	(4),(6)	Share of profit in investments accounted for using the equity method
Non-operating income	7,600	(7,600)	-	-	-	(4)	
Non-operating expenses	(2,707)	2,707	-	-	-	(4)	
Extraordinary gain	1,561	(1,561)	-	-	-	(4)	
Extraordinary loss	(9,255)	9,255	-	-	-	(4)	
Income before income taxes and minority interests	161,579	-	462	3,997	166,038		Income before income taxes
Total income taxes	(62,099)	-	(596)	2,609	(60,086)	(3),(6)	Income taxes
Income before minority interests	99,480	-	(134)	6,606	105,952		Net income
	-	98,862	(182)	6,516	105,196		Attributable to:
Minority interests	618	-	48	90	756		Owners of the parent
Net income	98,862	(98,862)	-	-	-		Non-controlling interests

(Millions of yen)

Accounts under Japanese GAAP	Japanese GAAP	Reclassification	Consolidation scope differences	Recognition and measurement differences	IFRS	Notes	Accounts under IFRS
Income before minority interests	99,480	-	(134)	6,606	105,952		Net income
Other comprehensive income							Other comprehensive income
Unrealized gain (loss) on available-for-sale securities	1,310	-	0	485	1,795	(6)	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
Remeasurements of defined benefit plans	(3,712)	-	6	2,936	(770)	(5),(6)	Remeasurements of defined benefit plans
	-	167	78	-	245	(6)	Share of other comprehensive income of investments accounted for using the equity method
					1,270		Total of items that will not be reclassified to profit or loss
Foreign currency translation adjustments	(15,793)	-	(213)	942	(15,064)	(6)	Items that may be reclassified subsequently to profit or loss: Exchange differences on translation of foreign operations
	-	-	-	12	12		Net gain (loss) on derivatives designated as cash flow hedges
Share in other comprehensive income of associates applied for equity method	(9)	(167)	150	7	(19)	(6)	Share of other comprehensive income of investments accounted for using the equity method
					(15,071)		Total of items that may be reclassified subsequently to profit or loss
Other comprehensive income	(18,204)	-	21	4,382	(13,801)		Other comprehensive income, net of taxes
Comprehensive income	81,276	-	(113)	10,988	92,151		Comprehensive income

Notes on reconciliations of profit or loss and comprehensive income for the fiscal year ended December 31, 2015 (January 1 to December 31, 2015)

(1) Adjustment to selling, general and administrative expenses

- a. Under Japanese GAAP, expected return on plan assets and interest expenses relating to retirement benefits were classified in cost of sales and selling, general and administrative expenses as retirement benefit expenses, but net interest relating to retirement benefits is classified in financial expenses under IFRS. As a result, negative 3,863 million yen has been reclassified from selling, general and administrative expenses to financial expenses.
- b. Under Japanese GAAP, actuarial gains and losses relating to retirement benefits were recognized in other comprehensive income as incurred, and were recognized in profit or loss from the fiscal year when incurred, amortized on a straight-line basis over a certain number of years no longer than the average remaining service period of employees. Under IFRS, these actuarial gains and losses are recognized in other comprehensive income as incurred, and immediately reclassified to retained earnings. Moreover, under Japanese GAAP, past service costs were recognized in other comprehensive income as incurred, and were

recognized in profit or loss from the fiscal year when incurred, amortized on a straight-line basis over a certain number of years no longer than the average remaining service period of employees, whereas under IFRS, they are recognized in profit or loss as incurred. As a result, defined benefit cost increased by 1,152 million yen compared with Japanese GAAP.

- c. Under Japanese GAAP, the amortization period of goodwill was effectively estimated and goodwill was amortized over the amortization period, but amortization of goodwill is discontinued under IFRS. As a result, amortization of goodwill decreased by 12,879 million yen compared with Japanese GAAP.
- d. The intangible assets recognized under Japanese GAAP that do not meet the definition of assets under IFRS are not recognized as assets. As a result, amortization of intangible assets decreased by 3,329 million yen compared with Japanese GAAP.
- e. Under Japanese GAAP, future expenses were recognized as provisions, but are recognized in an adjustment to retained earnings as they do not meet the conditions for recognition of provisions under IFRS. As a result, selling, general and administrative expenses increased by 1,710 million yen compared with Japanese GAAP.

(2) Adjustment to financial expenses

- a. Under Japanese GAAP, expected return on plan assets and interest expenses relating to retirement benefits were recognized in cost of sales and selling, general and administrative expenses as retirement benefit expenses, but net interest relating to retirement benefits is classified as financial expenses under IFRS. As a result, 4,529 million yen has been reclassified from cost of sales and selling, general and administrative expenses to financial expenses.
- b. Under Japanese GAAP, interest expenses, determined by multiplying the discount rate by retirement benefit obligations, and expected return on plan assets, determined by multiplying the expected rate of return on plan assets by plan assets, respectively, were recognized as retirement benefit expenses, but under IFRS the net interest amount determined by multiplying the net amount of retirement benefit obligations and the plan assets by the discount rate is recognized as retirement benefit expenses. As a result, financial expenses increased by 5,558 million yen.
- c. As an exemption elected under the provisions of IFRS 1, the cumulative translation differences for all foreign operations are reclassified to retained earnings as of January 1, 2015, the transition date. As a result, foreign exchange losses associated with the liquidation of foreign operations during the fiscal year increased by 1,064 million yen compared with Japanese GAAP.

(3) Adjustment to income taxes

The amount of income taxes is adjusted due to taxable temporary differences that arise as a result of adjustment from Japanese GAAP to IFRS.

(4) Other reclassifications

In addition to the above, reclassifications are made to comply with the provisions of IFRS. The main reclassifications are as follows.

Among items that were classified in non-operating income, non-operating expenses, extraordinary gain and extraordinary loss under Japanese GAAP, finance-related items and foreign exchange gain or loss are classified in financial income or financial expenses under IFRS and other items are classified in other operating income, other operating expenses or share of profit in investments accounted for using the equity method.

(5) Adjustment to remeasurements of defined benefit plans

Under Japanese GAAP, actuarial gains and losses were recognized in other comprehensive income as incurred, and were recognized in profit or loss from the fiscal year when incurred, amortized on a straight-line basis over a certain number of years no longer than the average remaining service period of employees. Under IFRS, these actuarial gains and losses are recognized in other comprehensive income as incurred, and immediately reclassified to retained earnings.

Moreover, under Japanese GAAP, past service costs were recognized in other comprehensive income as incurred, and were recognized in profit or loss from the fiscal year when incurred, amortized on a straight-line basis over a certain number of years no longer than the average remaining service period of employees, whereas under IFRS, they are recognized in profit or loss as incurred.

(6) Differences in scope of consolidation

Certain subsidiaries of minor importance were not included in the scope of consolidation under Japanese GAAP and the equity method was applied, but all subsidiaries are included in the scope of consolidation under IFRS.

Reconciliations of cash flows for the fiscal year ended December 31, 2015 (January 1 to December 31, 2015)

There are no significant differences between the disclosed consolidated statement of cash flows under Japanese GAAP and the disclosed consolidated statement of cash flows under IFRS.