

# Business Report

My name is Kenichi Yamauchi and I am in charge of Accounting and Finance.

# Review of Operations

I am going to briefly report on the business report and consolidated financial statements in the convocation notice that we have already distributed.

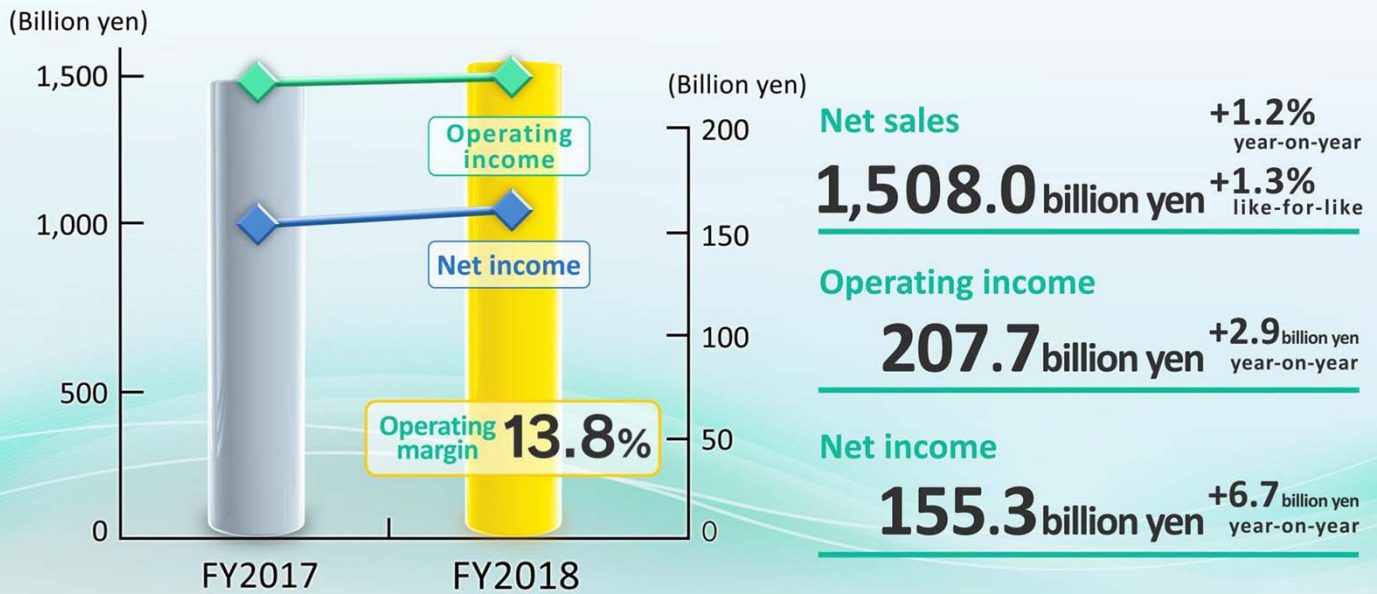
- **The Beauty Care Business has been divided into the Cosmetics Business and the Skin Care and Hair Care Business, changing the four former reportable segments into five.**
- **The *Curél* derma care brand, which formerly had been classified as skin care and hair care products, has been included in 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 previous fiscal year have been restated accordingly.**

In the FY2018, the Kao Group has reclassified the Beauty Care Business into the Cosmetics Business and the Skin Care and Hair Care Business, and changed its reportable segments to five.

At the same time, *Curél* derma care brand which had been classified as Skin Care and Hair Care Business was added to the Cosmetics Business. For the men's products brand *Success* which had been classified in the Human Health Care Business, is now in the Skin Care and Hair Care Business.

To facilitate comparison, growth adjusted for the impact of these changes and excluding the effect of currency translation is presented as "like-for-like".

## Consolidated Sales and Profits

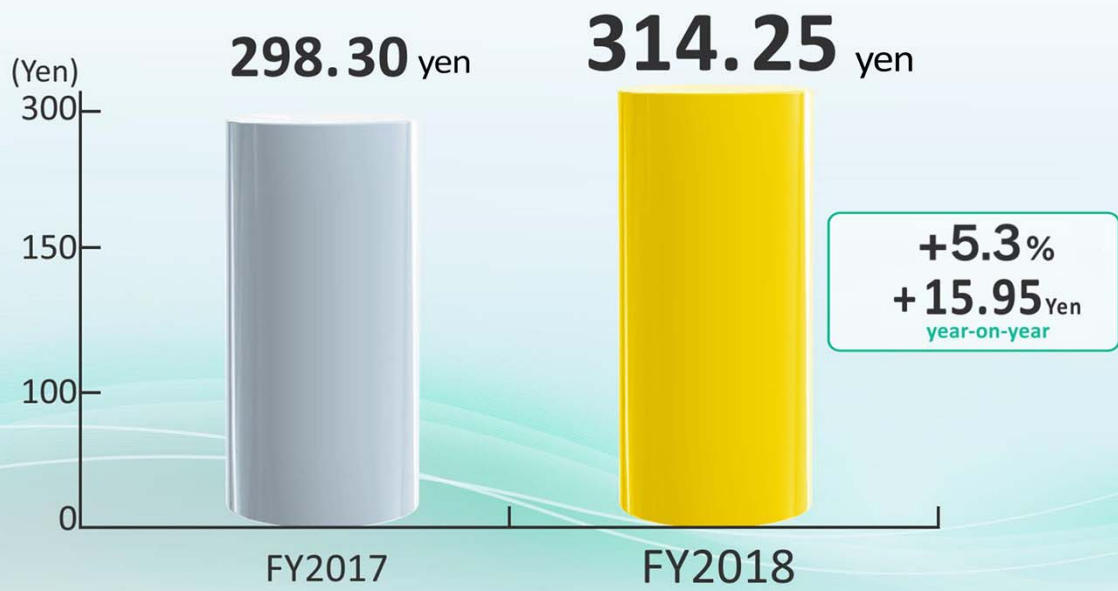


In the fiscal year ended December 31, 2018, net sales increased 1.2% compared with the previous fiscal year to 1,508.0 billion yen. On a like-for-like basis, net sales increased 1.3%.

Despite an increase in depreciation expenses due to an increase in capital expenditures and other costs, operating income increased 2.9 billion to 207.7 billion yen due to the effects of higher sales in the Consumer Products Business in Asia and improved efficiency in marketing expenses using digital technology. The operating margin was 13.8%.

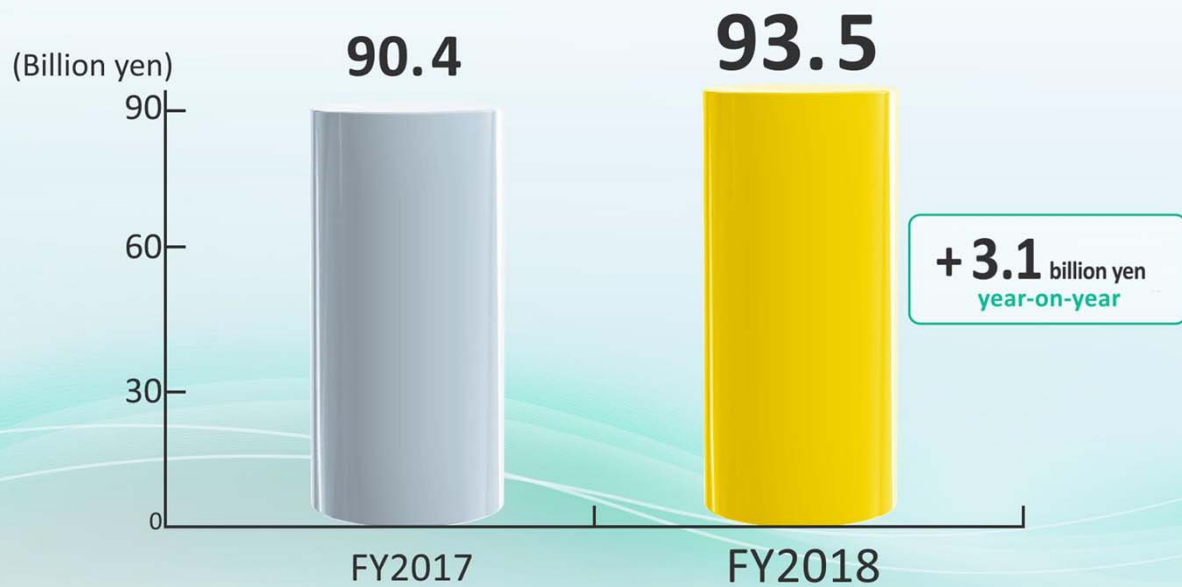
Net income increased 6.7 billion yen to 155.3 billion yen.

## Basic Earnings Per Share



Basic earnings per share increased 15.95 yen to 314.25 yen.

## EVA(Economic Value Added)



*\*EVA is a registered trademark of Stern Stewart & Co.*

EVA (Economic Value Added) increased 3.1 billion yen to 93.5 billion yen due to an increase in after-tax operating income.

## Consolidated Results by Segment

Cosmetics Business

Skin Care and Hair Care Business

Human Health Care Business

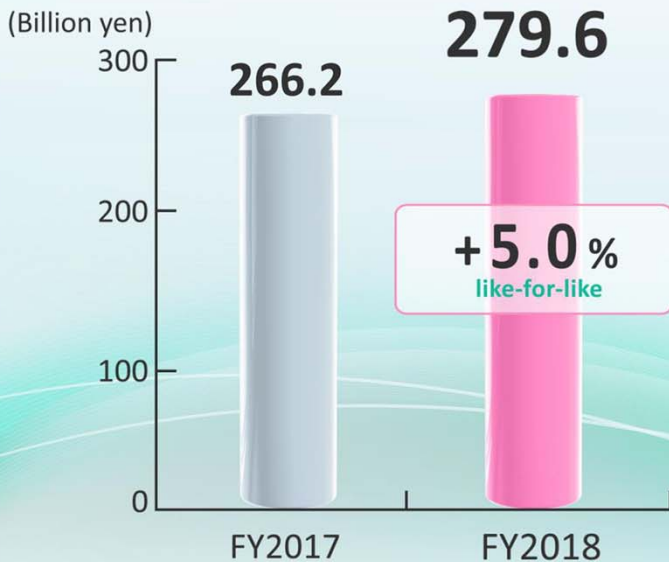
Fabric and Home Care Business

Chemical Business

Next, let me explain about results by segment.

## Cosmetics Business

### Net sales



### Operating income

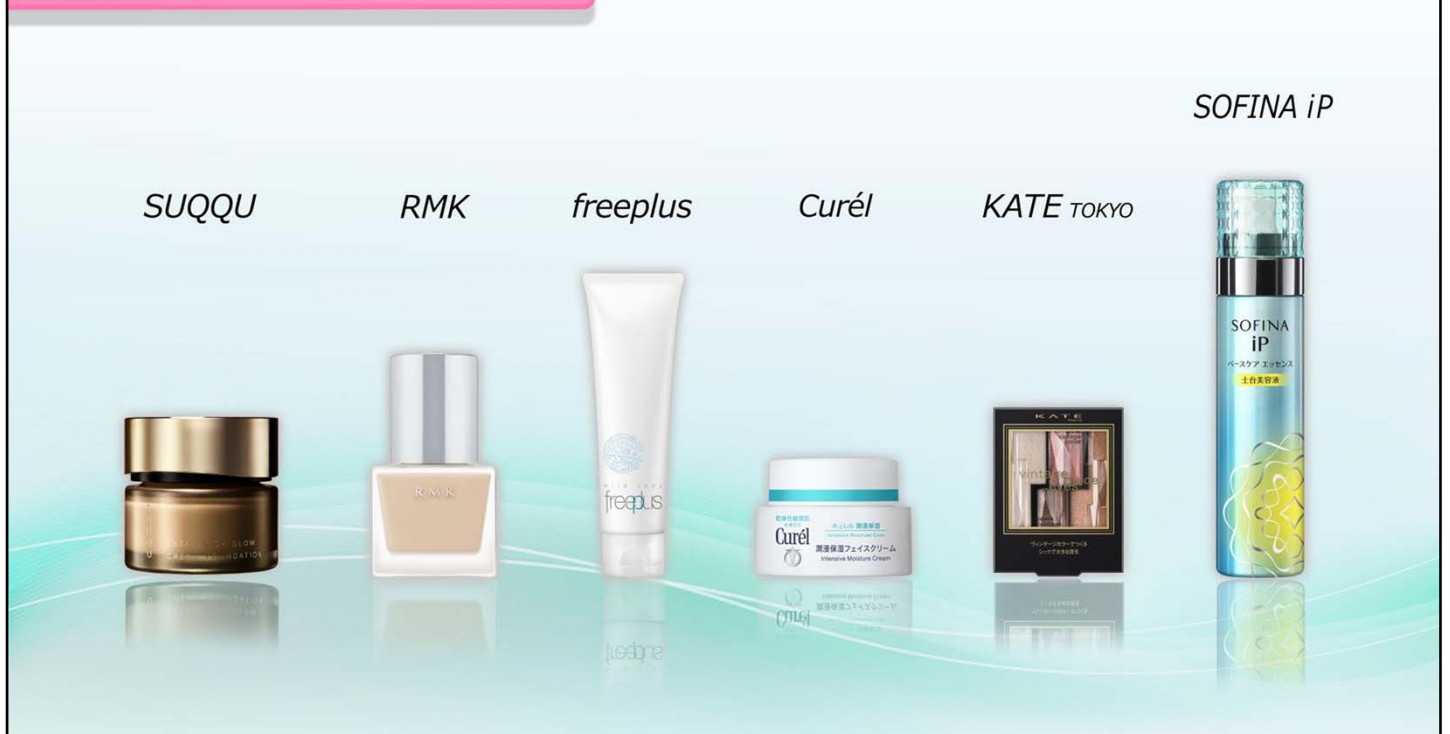


In the Cosmetics Business, we announced a new growth strategy, identified key strategic brands, and pursued selection and concentration.

Sales increased 5.0% compared with the previous fiscal year to 279.6 billion yen and operating income jumped 14.7 billion yen to 27.7 billion yen.



## Cosmetics Business

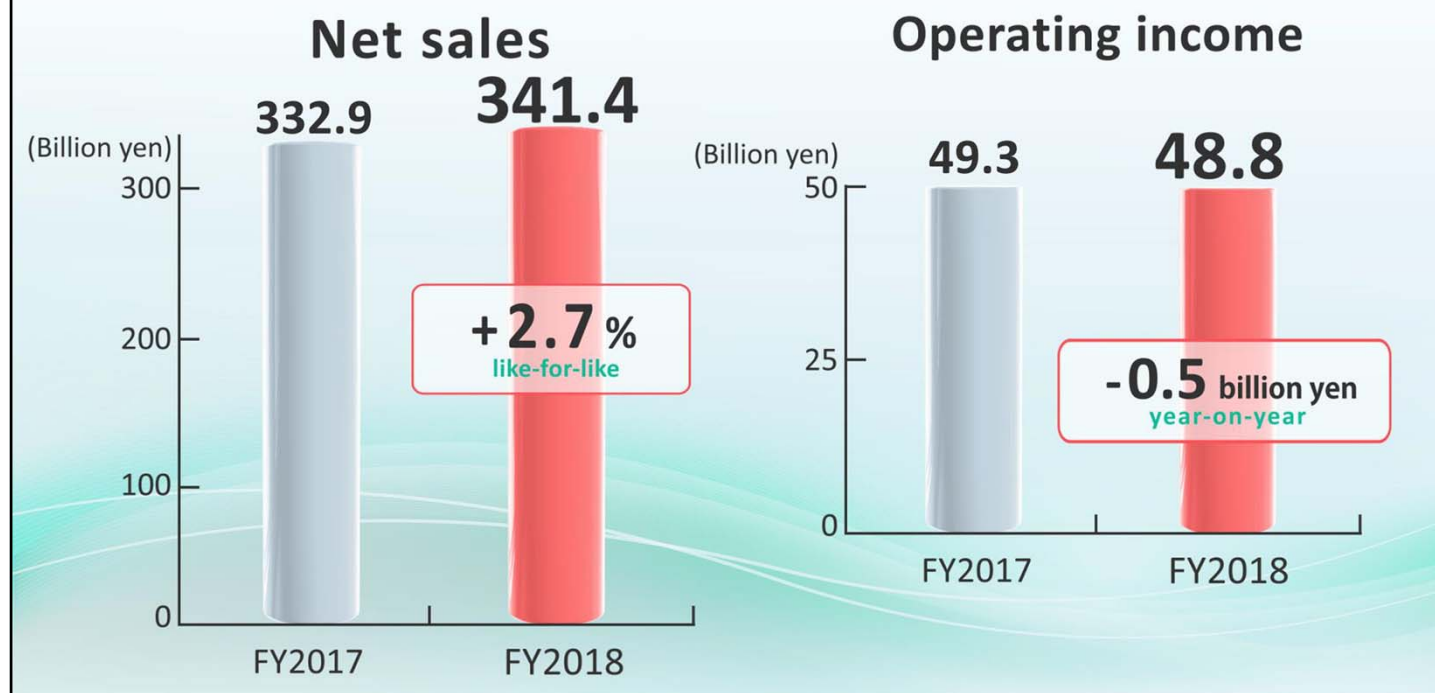


Sales of the counseling cosmetics *SUQQU*, *RMK*, and self-selection cosmetics *freeplus*, and the *Curél* derma care brand were strong.

*Sofina iP* base essence was improved in September 2018, and its sales also grew steadily.

In Asian markets, sales and profits grew significantly, supported by strong sales of *freeplus*, *Curél* and *KATE*, mainly in China.

## Skin Care and Hair Care Business



In the Skin Care and Hair Care Business, sales were 341.4 billion, an increase of 2.7% like-for-like.

Operating income was 48.8 billion yen, a decrease of 0.5 billion yen from the previous fiscal year, mainly due to factors including expenses incurred for structural reforms in the Americas and Europe.

## Skin Care and Hair Care Business



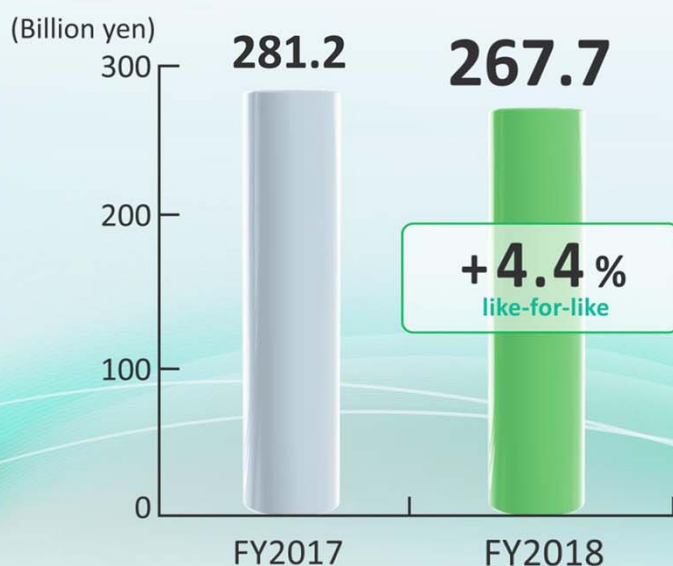
Sales of *Bioré* skin care products grew steadily in Japan and Asia, but sales in the U.S. were impacted by fierce competition from similar products.

In hair care products, the Kao Group launched *Rerise*, innovative gray hair care product and its performance was strong in Japan. However, sales of shampoo and conditioner products for the mass market were sluggish, resulting in a year-on-year decline in sales.

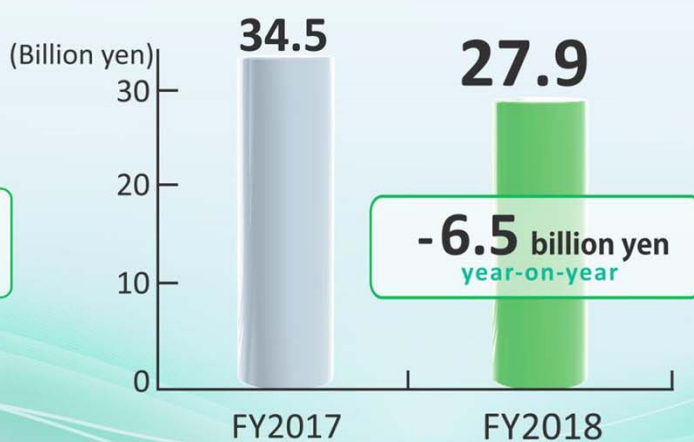
In January 2018, U.S.-based Oribe Hair Care, LLC, which owns *Oribe*, a super-premium-price brand for hair salons, became a consolidated subsidiary and it is performing well.

## Human Health Care Business

### Net sales



### Operating income



Sales in the Human Health Care business decreased 4.4% like-for-like to 267.7 billion yen.

Operating income fell 6.5 billion yen year-on-year to 27.9 billion yen, mainly due to lower sales of baby diapers and higher pulp prices.

## Human Health Care Business

*Merries*



*Laurier*



*Relief*



*Pure Ora*



*MegRhythm*



As for *Merries* baby diapers, sales in Japan declined from the previous fiscal year due to a sharp decline in demand for the purpose of resale in China. Mr. Sawada will be explaining in detail later.

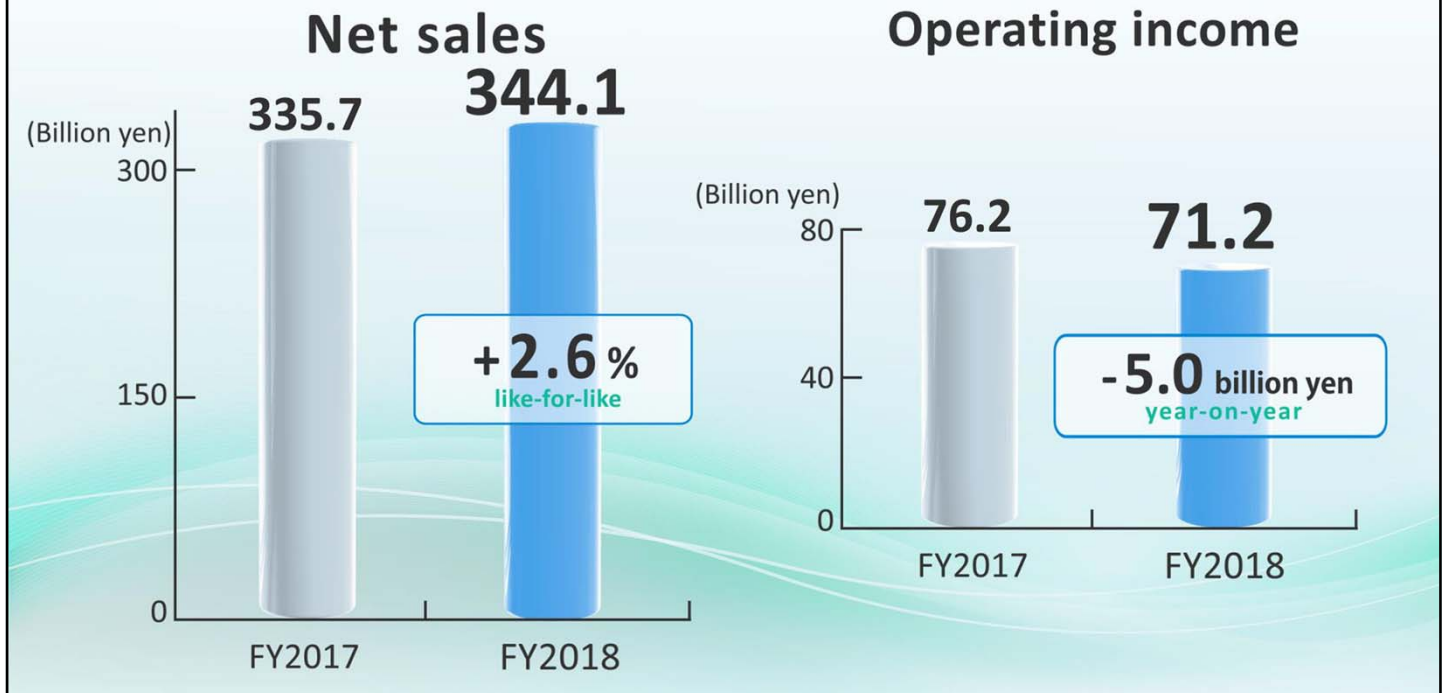
In China, sales declined from the previous year as resellers' inventories hit the market at low prices.

On the other hand, in Indonesia, locally produced *Merries* were strong.

Sales of *Laurier* feminine care products were favorable in Japan, China, and other countries, while sales of *Relief* pants-type adult incontinence products grew steadily.

Sales of oral care products, bath additives, and *MegRhythm* thermo products grew steadily.

## Fabric and Home Care Business



Overall sales in the Fabric and Home Care business were 344.1 billion yen, an increase of 2.6% like-for-like.

Operating income decreased by 5.0 billion yen year-on-year to 71.2 billion yen, mainly due to the impact of increased costs for petrochemicals.



Attack  
Antibacterial EX  
Super Clear Gel

Attack Neo  
Antibacterial EX  
W Power

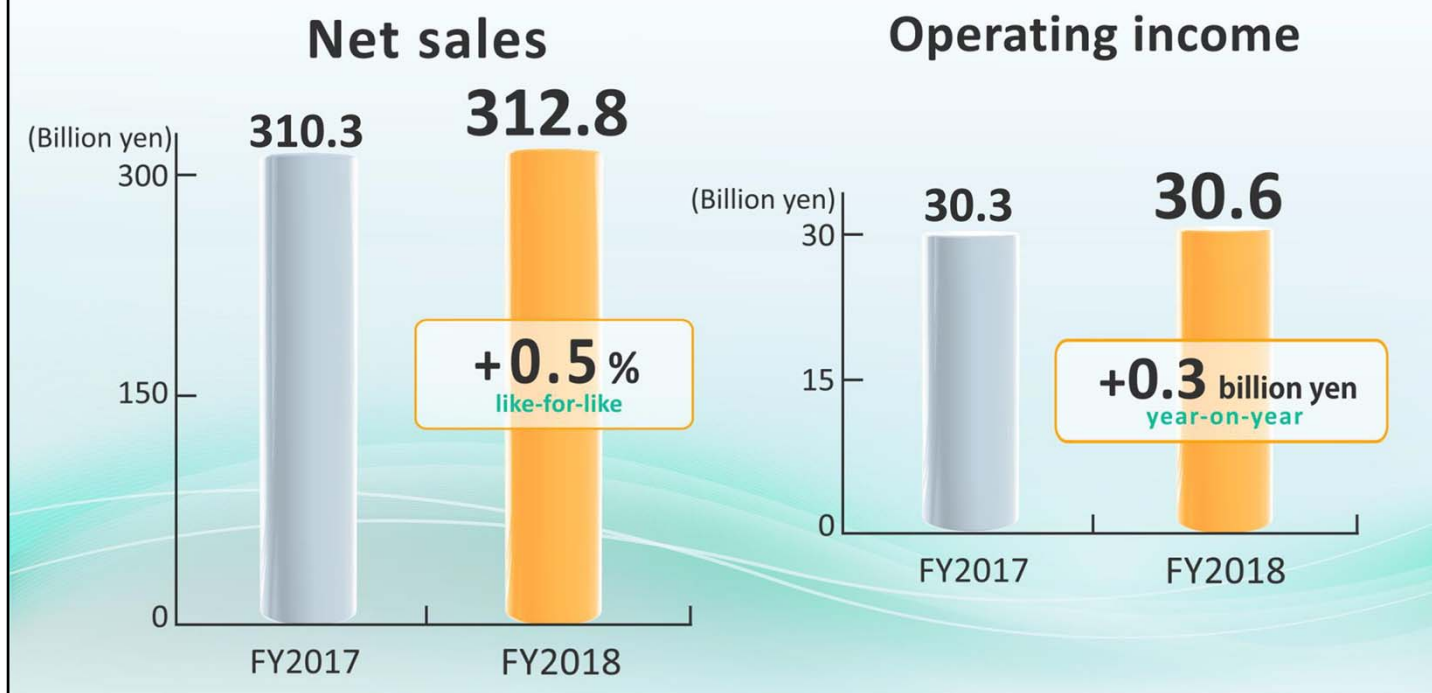
Flair Fragrance

CuCute Foam Spray-type

In the fabric care products business, competition with major competitors is extremely fierce, but sales of *Attack* laundry detergent with enhanced value communication, and improved *Flair Fragrance* fabric softeners were firm.

In home care products, sales were strong in Japan thanks to improvements of *CuCute foam spray-type* dishwashing detergent.

## Chemical Business



Net sales in the Chemical Business increased 0.5% like-for-like basis to 312.8 billion yen.

Operating income increased 0.3 billion yen to 30.6 billion yen, reaching a record high.



## Chemical Business

Oleo chemicals



Hard disk-related products



Additives for asphalt pavement



Water-based pigment inkjet ink

Sales of oleo chemicals decreased due to the impact of selling price adjustments associated with a drop in prices for natural fats and oils, although demand outside Japan was firm.

In infrastructure-related fields, sales of additives for asphalt pavement and in information material-related fields, sales of hard-disk related products were firm. We are also working to expand sales of inkjet inks.

Overall, the performance of *Merries* baby diapers and shampoo and conditioner were sluggish, and we covered this with other products. In particular, the Cosmetics Business made a significant contribution.

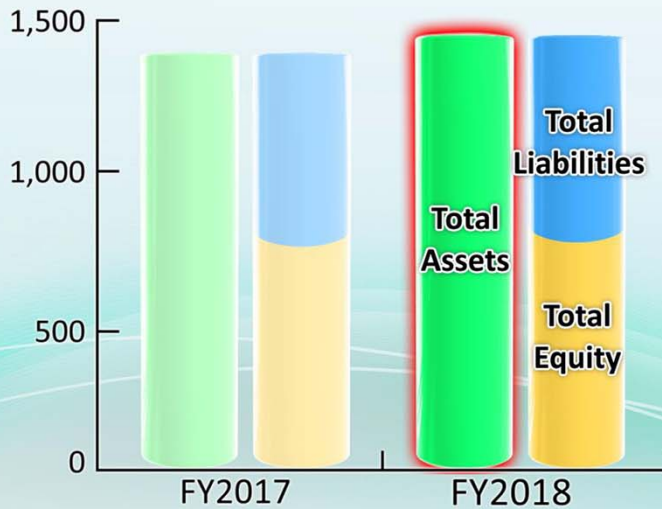
# **Consolidated Financial Statements**

Next, I will report on the consolidated financial statements.

# Consolidated Statement of Financial Position

## Total Assets

(Billion yen) **1,427.4** billion yen → **1,461.0** billion yen  
+33.6 billion yen



### The principal increases

Inventories	13.7 billion yen
Property, plant and equipment	23.1 billion yen
Goodwill	41.6 billion yen
Intangible assets	29.7 billion yen

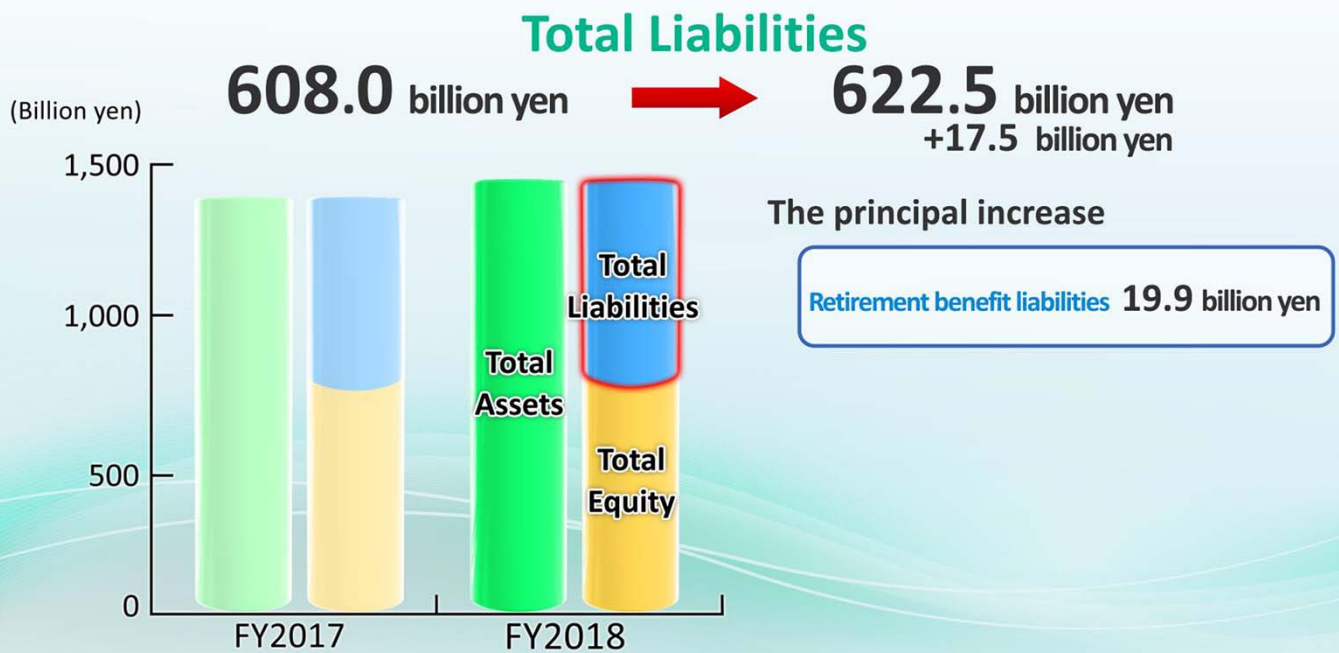
### The principal decrease

Cash and cash equivalents	77.1 billion yen
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On the consolidated statement of financial position, total assets increased 33.6 billion yen from the end of FY2017 to 1,461.0 billion yen.

As you can see, the breakdown shows the results of aggressive capital investment and M&A.

# Consolidated Statement of Financial Position

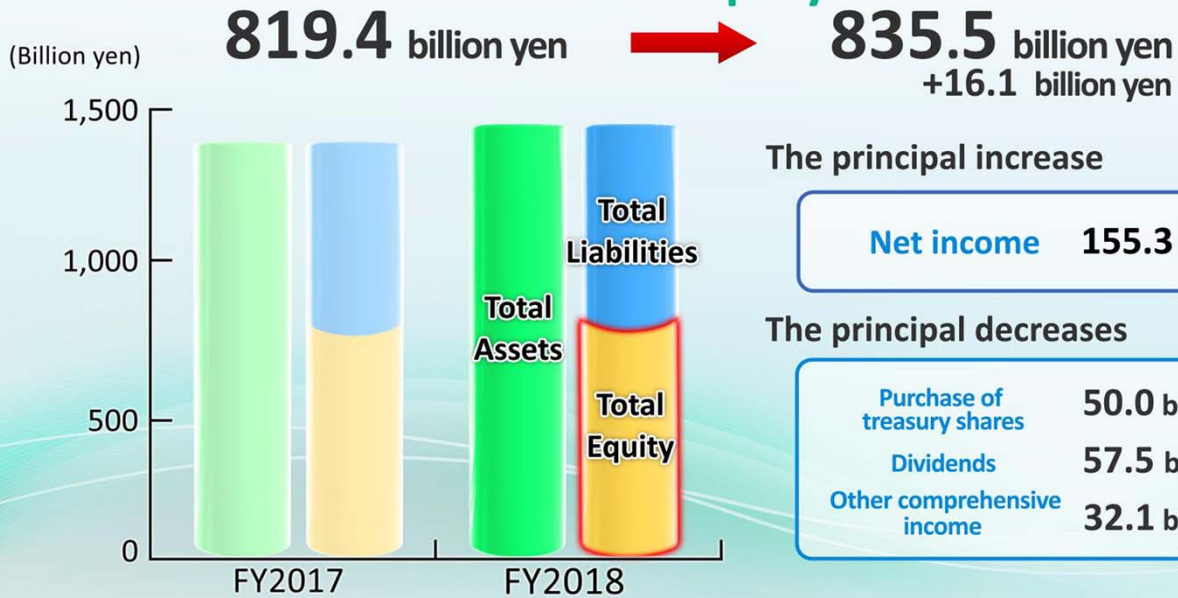


Total liabilities increased 17.5 billion yen from the previous fiscal year to 622.5 billion yen.

This was due to an increase in retirement benefit liabilities.

# Consolidated Statement of Financial Position

## Total Equity

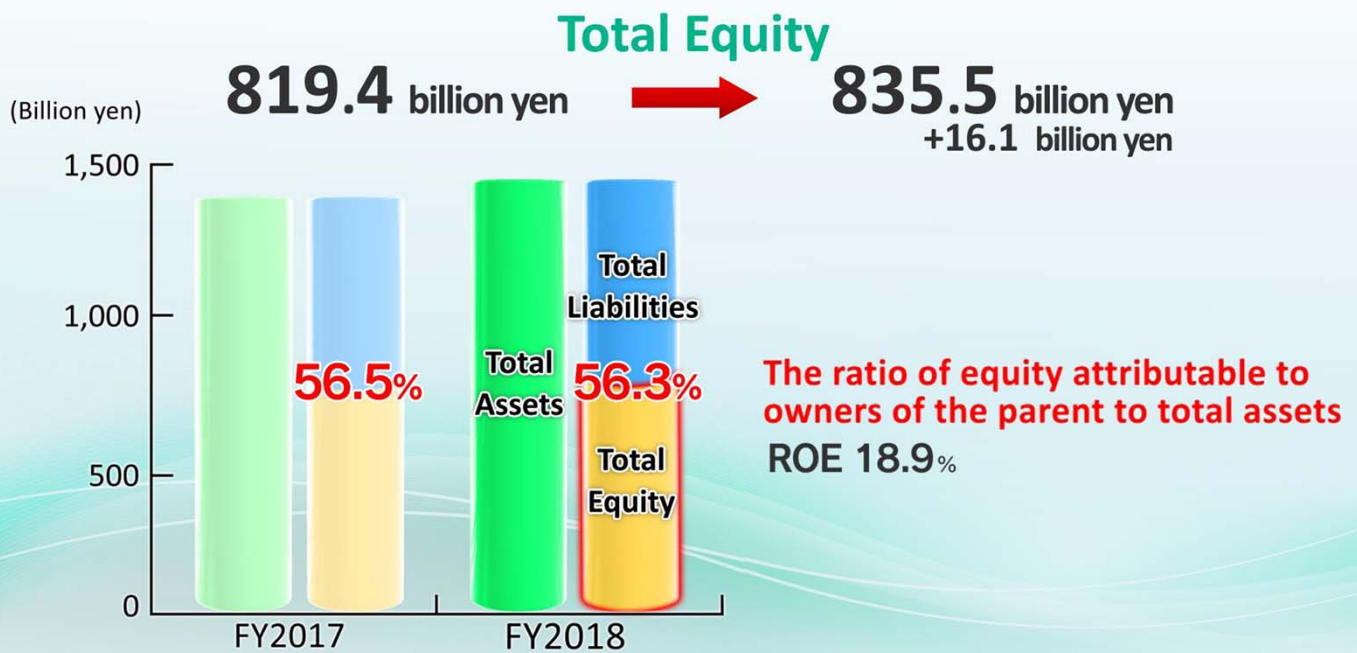


Total equity increased 16.1 billion yen to 835.5 billion yen from the end of FY2017.

You can see the breakdown.

In FY2018, the Company repurchased a total of 50.0 billion yen in treasury stock and retired 6.30 million shares.

# Consolidated Statement of Financial Position



As a result, the equity attributable to owners of the parent ratio was 56.3%.

Now, ROE is 18.9% and maintaining a high level.

Please refer to the convocation notice on hand regarding the status of capital investment, the status of financing, and issues to be addressed.

The Kao logo is displayed in a teal color. It features the letters 'K', 'a', and 'o' in a lowercase, rounded, sans-serif font. The 'K' is slightly larger than the 'a' and 'o', and the 'o' has a small gap at the top.

Enriching lives, in harmony with nature.

This report outlines the Kao Group's business reports and consolidated financial statements. Thank you very much.