

Kao

**Kao Corporation**

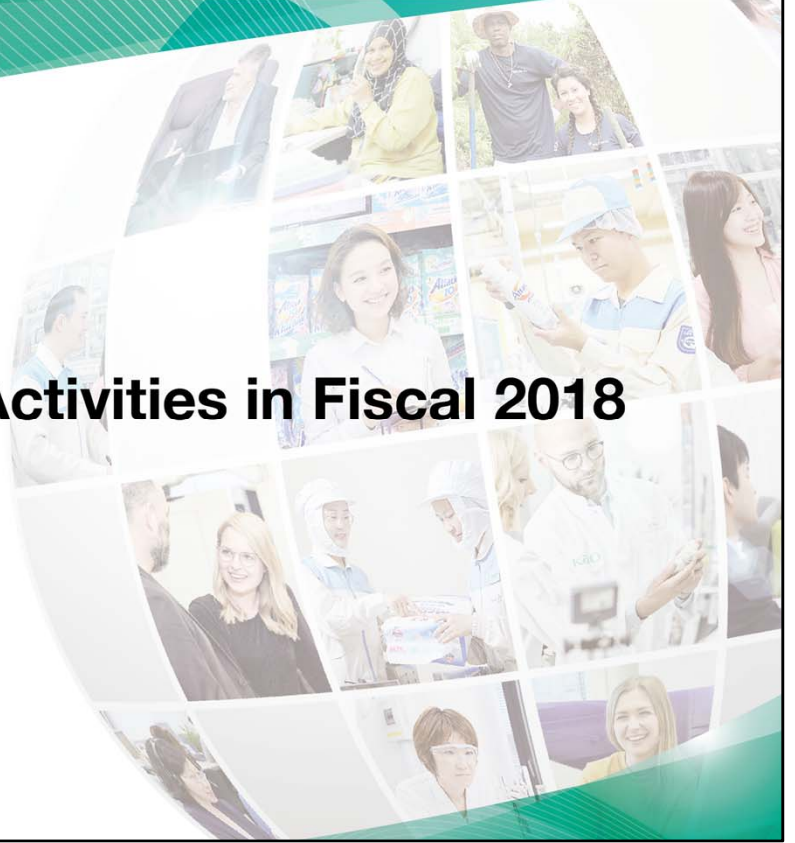
**The 113th**

---

**Annual General Meeting of Shareholders**



- **Overview of the Activities in Fiscal 2018**
- **Future Direction**



Now, I would like to take a moment to talk about the Kao Group's activities in fiscal 2018 and its future direction from my perspective.

## “K20” Goals — Three Commitments

### **1. Commitment to fostering a distinctive corporate image**

### **2. Commitment to “profitable growth”**

- Continue to set new record highs for profits
- Aim for like-for-like net sales CAGR of +5.0%, operating margin of 15.0%
- Three ¥100 billion brands

### **3. Commitment to returns to stakeholders**

kao

In 2018, as the second year of Kao Group Mid-term Plan "K20," we have been making efforts to maintain growth and to steadily prepare for 2020 and beyond.

## Highlights of Consolidated Financial Results

	FY2017	FY2018	Growth/Change
Net sales	1,489.4 billion yen	1,508.0 billion yen	+1.3% like-for-like
Operating income	204.8 billion yen	207.7 billion yen	+2.9 billion yen
Net income attributable to owners of the parent	147.0 billion yen	153.7 billion yen	+6.7 billion yen
Basic earnings per share	298.30 yen	314.25 yen	+15.95 yen

**9th consecutive fiscal year of increase in profits**  
**6th consecutive fiscal year of record high operating income**

kaō

As a result, as reported in the previous business report, we were able to achieve year-on-year increases in both sales and profits and 9th consecutive fiscal year of increases in profits, and 6th consecutive fiscal year of record high operating income. This is the result of the support of our shareholders. I would like to take this opportunity to express my gratitude to you.

## K20 Profitable Growth

### ⟨“K20” Goals⟩

**Net sales CAGR +5.0%**  
**Operating margin 15.0%**

### ⟨FY2018 Results⟩

**Net sales CAGR +1.3%** (like-for-like)  
**Operating margin 13.8%**

### ⟨FY2017 Results⟩

**Net sales CAGR +5.6%** (like-for-like)  
**Operating margin 13.7%**

**K20**

kao

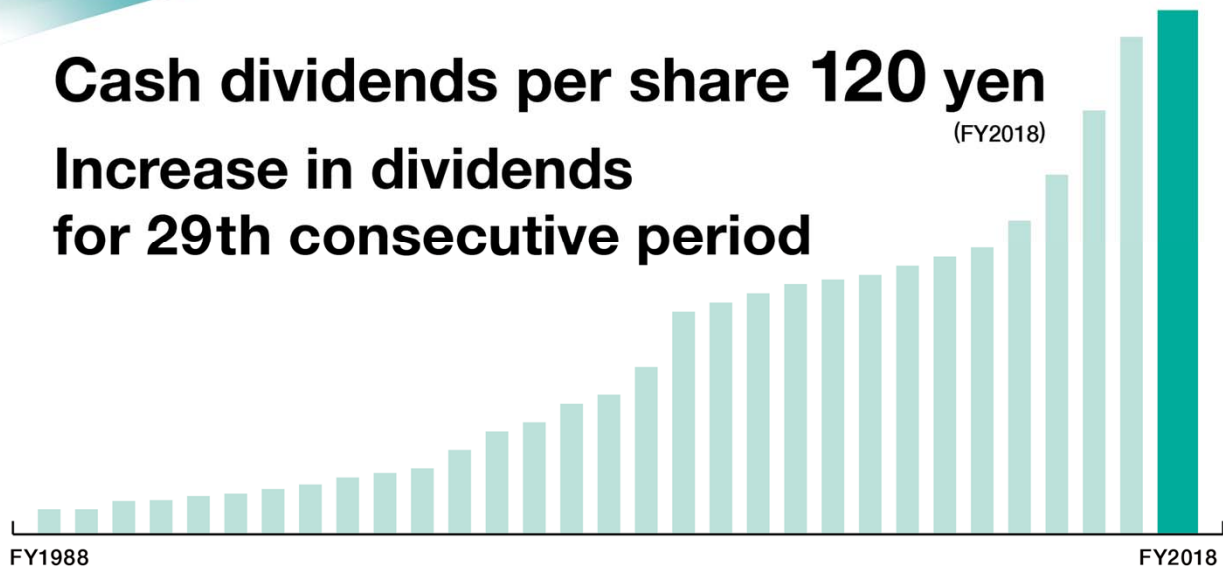
However, due to major changes in the business environment, other than net income, we fell short of our announced forecasts, resulting in a challenging year.

Incidentally, the like-for-like sales growth was +1.3% and the operating income margin was 13.8%, which was slightly below the “K20” profitable growth target. This year, we will make up for this gap and work toward the achievement of “K20.”



## Shareholder Returns

**Cash dividends per share 120 yen**  
(FY2018)  
**Increase in dividends  
for 29th consecutive period**



kao

We intend to use the profits we have generated to invest in future growth and return them to our employees, society, and our shareholders.

Regarding the shareholders returns, we plan to pay a year-end dividend of ¥60 per share, as planned. As a result, the annual dividend will be ¥120 per share.

If you approve today's dividend proposal, we will increase the dividends for the 29th consecutive year. We intend to continue our efforts to increase our dividends.

Now, I would like to use this valuable opportunity to talk about some topics relating to our activities in fiscal 2018 in more detail.

## Fiscal 2018 Topics

	FY2018 Forecast	FY2018 Results
Net sales	1,540.0 billion yen	1,508.0 billion yen +1.3% like-for-like
Operating income	215.0 billion yen	207.7 billion yen +2.9 billion yen
Operating margin	14.0%	13.8%

kaO

First of all, with regard to net sales, we have deviated from the announced forecast by 32 billion yen. The main factors were baby diapers and hair care products for the mass market. On the other hand, the Cosmetics Business performed well, and the recovery trend became clear.

In Fiscal 2018, we worked hard to achieve an operating income of 10.2 billion yen above the previous year, however, the fourth quarter was difficult, and the year-on-year increase was 2.9 billion yen. The main factors behind this decline were lower profits in the baby diaper business and the Fabric and Home Care Business.

Next, I would like to explain the baby diapers business and Cosmetics Business in more detail.

## Baby Diapers

Past five years

Operating income **+18.0 billion yen**  
Operating margin **8% → 15%**

Fiscal 2018

**Struggled in China**



Over the past five years, we have achieved profit growth of 18 billion yen for baby diapers. The profit margin also rose from 8% to 15%, which has been the driving force behind the overall consumer products business. Last year, baby diapers were in a difficult situation, with sales at 91% compared with the previous year.

Resellers' lowered selling prices affected exports and cross-border business. In addition, a sharp slowdown in purchasing by resellers prior to the new China Electronic Commerce Law, which was enacted in fiscal 2019, took place toward the end of the year, forcing us to operate in a difficult situation. While it was possible to conduct sales with an emphasis on sales volume at the expense of selling prices, we did not intentionally do so given our desire for continued growth. I believe we have been able to minimize the impact of Merries brand decline, so we will revitalize our business this year.

To this end, we will dramatically change our strategy.



## Baby Diapers

### Fiscal 2019 Revitalize *Merries* baby diapers in China

- Launch high priced products
- Introduce latest technology from outside Japan



**Drive the entire Consumer Products Business**



In addition to traditional premium *Merries*, we plan to launch even higher-priced products. Also, we will change the idea that Japan is the first for anything, and applying the latest technologies from outside Japan. By doing so, we hope to achieve results that exceed fiscal 2017, when we achieved our highest sales and profits.

Outside China, Indonesia grew by 133% and Russia by 111%, so I think we can expect the similar result this year as well.

In any event, baby diapers must be able to drive the overall consumer products business for a while. The Chinese birth rate fell by more than 2 million from the previous year, and the economic slowdown is becoming evident. This is a cause of concern, but the entire Group will continue to work to drive growth.

## Cosmetics Business

Fiscal 2018 Significant profit increase due to implementation of new growth strategy

Net sales : +105% year-on-year Operating margin : 9.9%



Next is the Cosmetics Business. In the Cosmetics Business, which had been sluggish to date, we made clear our growth strategy in the spring of last year, and as a result of the concerted efforts of our members, we achieved a 105% year-on-year increase in sales and a significant increase in profits.

Our operating margin more than doubled from the previous year to approximately 10%, and achieved our target for 2020 ahead of schedule. The main driver of this growth was the growth of G11, which we have chosen to drive future growth. These brands account for half of sales and 80% of profits of the Cosmetics Business. Sales grew 118% over the previous year. In particular, sales of Asian cosmetics, centered on *Curél* and *freeplus*, and brands from e'quipe LTD. such as *SUQQU* and *RMK*, were strong.

Looking ahead, we will concentrate investments in brands centered on G11, and aim for further growth by thoroughly cultivating brands.

## Kao's Technology Innovations

Fine Fiber

RNA  
Monitoring

Created  
Color

Bio IOS

Package  
RecyCreation



Next, I want to touch on the presentation of "Technological Innovation to Support the Future," which was held to emphasize the high technological capabilities of the Kao Group.

On November 27, 2018 we announced five technological innovations, Fine Fiber; RNA Monitoring; Created Color; Bio IOS; and Package RecyCreation.

I am going to explain briefly about Fine Fiber, it took us more than ten years and is the result of the deepening and integration of skin science and fiber science's "essence research." Fine Fiber technology creates a light, soft, and natural ultra-thin membrane on the surface of the skin. This layered membrane is formed by directly spraying the skin with superfine fibers. As a result, the surface of the skin is even and smooth, and cosmetic products are evenly distributed due to capillary action. Kao will continue pursuing fine fiber applications in cosmetic products such as skincare and makeup items, while also considering adaptations of this technology for use in the therapeutic field.

In RNA Monitoring, unlike DNA, which possesses genetic information unique to humans, RNA is gene expression information that reflects changes in skin conditions. We have developed RNA monitoring, a new technology in which RNA is isolated from facial sebum and examined. With this technology, it will be possible to easily analyze many of the phenomena occurring in the skin, measure product effects, and monitor future skin changes. Furthermore, it's been found that RNA is related to phenomena taking place inside the body. As such, using this technology for internal risk assessment is under consideration.

Created Color is the technology to change hair colors safely and freely, Bio IOS thoroughly removes stains and makes future staining difficult due to its innovative surface-coating abilities. Package RecyCreation offers revolutions in plastic containers and new recycling proposals.

The goal is to demonstrate the high level of the Kao Group's technological capabilities, as I mentioned earlier, and at the same time, we believe that this will lead to open innovation that is unique to Kao. There has been a huge response, and many applications for collaboration have been received.



## Launch *Attack ZERO*, Revolutionary Liquid Laundry Detergent

***Attack ZERO* is the first of a product series formulated with Kao's exclusively developed, all-time best detergent base, Bio IOS "Zero Cleaning" to revive garments**



These technologies will be put into practical use starting this year. The first one is *Attack ZERO*, a revolutionary product that will completely transform the concept of laundry and product presentation was held on January 23, 2019.

We have made great strides to achieve zero stubborn stains, zero musty odors and zero detergent residues. We have been able to achieve the highest cleaning power compared to previous detergents. The effect of *Attack ZERO* is enhanced with repeated washing, and it revives garments.

*Attack Zero* comes in a variety of types, including a detergent exclusively for front loader washing machines and one-push handy-type. It will be released from April 1, 2019.

We will continue to offer exciting proposals going forward.

- Overview of the Activities in Fiscal 2018
- **Future Direction**



Finally, I will talk about the future direction.

We have positioned this year as a "year to make things happen" for achieving the K20 goals, and we will actively work for it.



## Forecast for Fiscal 2019

	FY2018	FY2019 Forecast	Growth/Change
<b>Net sales</b>	<b>1,508.0 billion yen</b>	<b>1,580.0 billion yen</b>	<b>+5.8% like-for-like</b>
<b>Operating income</b>	<b>207.7 billion yen</b>	<b>225.0 billion yen</b>	<b>+17.3 billion yen</b>
<b>Operating margin</b>	<b>13.8%</b>	<b>14.2%</b>	<b>—</b>
<b>Net income attributable to owners of the parent</b>	<b>153.7 billion yen</b>	<b>162.0 billion yen</b>	<b>+8.3 billion yen</b>
<b>Cash dividends per share</b>	<b>120 yen</b>	<b>130 yen</b>	<b>+10 yen</b>

kaō

The forecasts for fiscal 2019 are net sales of 1,580 billion yen, operating income of 225 billion yen, operating margin of 14.2%, and net income attributable to owners of the parent of 162 billion yen.

On a like-for-like basis, the net sales will increase 5.8%. This is a challenging goal for us. We aim to achieve our goals by successfully riding out the consumption tax rate increase in Japan scheduled for October 2019, while further growing the Cosmetics Business, revitalizing the baby diapers business, rebuilding the hair care business centered on shampoos and conditioners and the Americas and European consumer products business, and advancing innovations in fabric care and the commercializing technological innovations.

The Company plans to pay a dividend of 130 yen per share, an increase of 10 yen from fiscal 2018.

## Enhance Non-Financial Activities

**E** : Environmental

**S** : Social

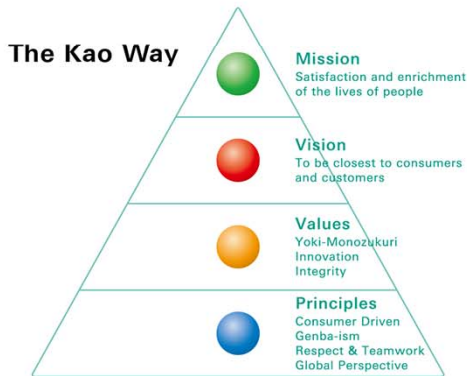
**G** : Governance

kao

In parallel with these financial activities, we must strengthen our non-financial activities. In July of last year, we established an ESG division.

Together with Dave Muenz who is on the stage today, we are going to pursue aggressive ESG through recognizing ESG initiatives as an investment for the future, not as a cost. We will finalize and implement specific action plans in April 2019.

**“to strive for the wholehearted satisfaction and enrichment of the lives of people globally and to contribute to the sustainability of the world.”**



The entire Group will work together to achieve the goals I have explained today.

As stated in the Kao Way, which is our corporate philosophy, we will continue our efforts to fulfill our mission “to strive for the wholehearted satisfaction and enrichment of the lives of people globally and to contribute to the sustainability of the world.”

We appreciate your understanding of these basic stances and thank you for your continuous support in the future.

This concludes my presentation. Thank you very much.

# KaO

Enriching lives, in harmony with nature.