

Fiscal 2018

From January 1 to December 31, 2018

Kao Corporation

February 4, 2019



Kao

Enriching lives, in harmony with nature.

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www.kao.com/global/en/investor-relations/library/presentations/

Forward-looking statements such as earnings forecasts and other projections contained in this release are based on information available at this time and assumptions that management believes to be reasonable, and do not constitute guarantees of future performance. Actual results may differ materially from those expectations due to various factors.

- Kao Corporation changed its fiscal year end from March 31 to December 31 from the fiscal year ended December 31, 2012.

[Term of consolidation for FY2012]

- Group companies whose fiscal year end was previously March 31*: April - December 2012
- Group companies whose fiscal year end was already December 31: January - December 2012

* Kao Corporation and certain consolidated subsidiaries with the same fiscal year end

- The Kao Group adopted International Financial Reporting Standards (IFRS) from the fiscal year ended December 31, 2016.
- In the fiscal year ended December 31, 2017, the Kao Group adopted IFRS 15, “Revenue from Contracts with Customers” and its amendments early in tandem with a revision of its sales system for the Consumer Products Business in Japan.
- In the fiscal year ended December 31, 2018, the following changes have been made.
 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 Financial Results for the Year Ended December 31, 2018 and FY2019 Forecast

Kenichi Yamauchi

**Executive Officer
Senior Vice President, Accounting & Finance**

Kao Corporation

February 4, 2019



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Overview of Consolidated Financial Results for the Year Ended December 31, 2018

Fiscal 2018 Initiatives

- Continue the growth that got off to a smooth start in 2017 toward the targets of the Kao Group Mid-term Plan K20
- Prepare for growth toward 2020 (technology innovations and promote strategic application of cutting-edge technologies)
- Conduct ESG activities with characteristics befitting Kao

Overview of Consolidated Financial Results for Fiscal 2018

- **Reached new record highs for profits (6th consecutive fiscal year of record high operating income)/9th consecutive fiscal year of increases in profits, but fell short of forecast, except for net income attributable to owners of the parent**
- 1.3% like-for-like net sales growth/13.8% operating margin
- In a persistently severe competitive environment, the Kao Group enhanced marketing and sales activities to respond to changes in consumers, markets and retailing, but net sales and operating income fell short of the announced forecast. Although the Cosmetics Business improved significantly, baby diapers and the Consumer Products Business in the Americas and Europe struggled.

Shareholder Returns for Fiscal 2018

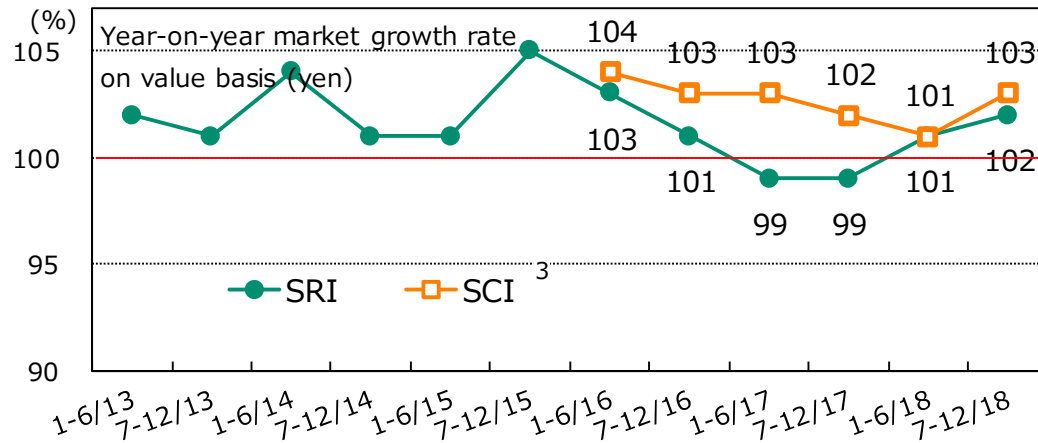
- Repurchased 6.23 million shares of the Company's stock for 50 billion yen and retired 6.30 million treasury shares.
- Planning cash dividends per share of 120 yen, a year-on-year increase of 10 yen per share, is in line with the announced forecast, for the **29th consecutive fiscal year of increases in dividends**.

Business Strategies and Progress

Cosmetics:	Achieved growth in sales and a substantial increase in operating income in Japan and in Asia by cultivating the business through concentrated investment in strategic brands based on the new global portfolio, shifting to digital marketing and enhancing activities in the e-commerce channel.
Skin Care and Hair Care:	Skin care products performed steadily in Japan and in Asia but Bioré struggled in the Americas due to competition from similar goods. The situation remained severe for hair care products due to more rapid shrinkage of the mass market for shampoos and conditioners, and tough conditions for professional-use hair color products in the Americas and Europe.
Human Health Care:	Sales of <i>Merries</i> baby diapers to consumers in China struggled due to a decrease in demand for the purpose of resale from Japan to China and the impact of resellers' inventories. The share of the market for consumers in Japan grew. Sales increased in Indonesia and Russia. Sales and operating income for <i>Laurier</i> sanitary napkins increased. Sales of <i>MegRhythm Steam Eye Mask</i> were strong. Structural reforms improved profitability for <i>Healthya</i> functional drinks.
Fabric and Home Care:	Fabric care products struggled, with price competition in Japan. Home care product sales were firm in Japan and in Asia. The operating margin decreased due to higher raw material costs and an increase in fixed expenses.
Chemical:	Achieved record-high operating income due to factors including growth in sales and operating income from fatty alcohol derivatives. Stepped up promotion of high-value-added products.
Technology innovations:	To contribute to the future of society by creating new value in cooperation with industry, government, academia and others, the Kao Group announced five technologies it aims to realize in 2019: Fine Fiber, RNA Monitoring, Created Color, Bio IOS and Package RecyCreation.
Cutting-edge technologies:	The Kao Group began initiatives for transformation in areas ranging from research and development to its supply chain and marketing to respond to changes in consumers, society, and markets.
ESG:	Established an ESG Division to discuss and define ESG measures unique to Kao.

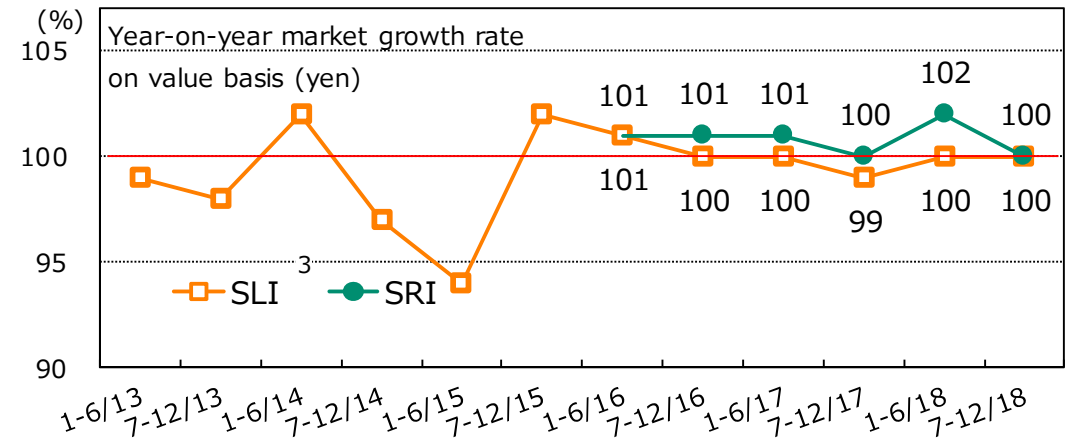
Consumer Products Market in Japan

Growth of household and personal care market¹



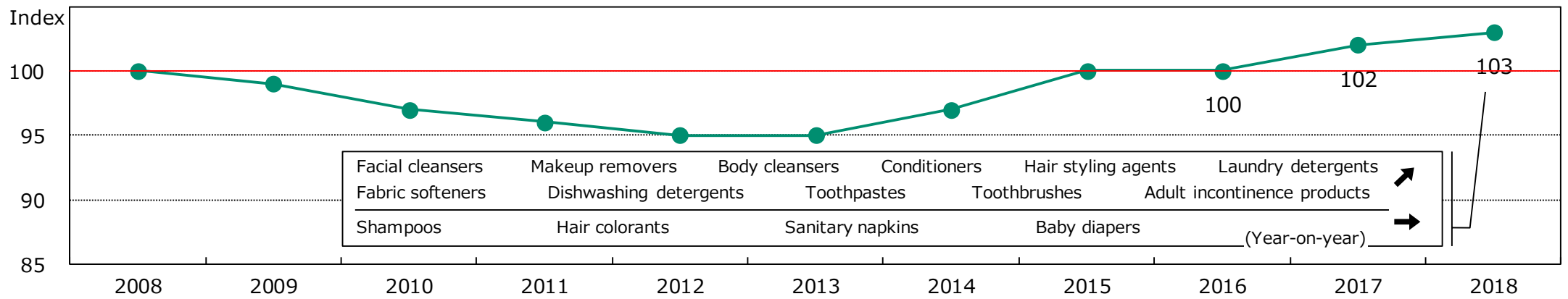
(Source: SRI POS data & SCI survey by INTAGE Inc.)

Growth of cosmetics market²



(Source: SRI POS data & SLI survey by INTAGE Inc. based on Kao's definition)
(Survey does not include inbound demand)

Consumer purchase price for 15 major household and personal care categories⁴



(Source: SRI POS data by INTAGE Inc.)

- 82 major household and personal care product categories
- 26 cosmetics product categories
- SRI: Estimates based on POS data from approx. 4,000 retail outlets nationwide / SCI: Purchasing data from approx. 50,000 consumer monitors nationwide / SLI: Purchasing data for cosmetics, skin care and hair care products from approx. 40,000 female monitors nationwide
- Index with January to December 2008 as 100

Highlights of Consolidated Financial Results

Consolidated Operating Results (Year ended December 31)

(Billion yen)	FY2017	FY2018	Growth %	Change	vs.Forecast	FY2018 Forecast
Net sales	1,489.4	1,508.0	+1.2	+18.6	(32.0)	1,540.0
	Effect of currency translation ¹		(0.1)	(1.0)	-	+2.6
	Like-for-like, excluding effect of currency translation		+1.3	+19.6	-	+48.0
Operating income	204.8	207.7	+1.4	+2.9	(7.3)	215.0
Operating margin	13.7%	13.8%	-	-	-	14.0%
Income before income taxes	204.3	207.3	+1.4	+3.0	(7.7)	215.0
Net income	148.6	155.3	+4.5	+6.7	-	-
Net income attributable to owners of the parent	147.0	153.7	+4.5	+6.7	+1.7	152.0
EBITDA (Operating income + Depr. & amort.)	259.3	268.4	+3.5	+9.1	(6.6)	275.0
ROE(%)	19.8	18.9	-	-	-	18.5
Basic earnings per share (yen)	298.30	314.25	+5.3	+15.95	+1.90	312.35
Cash dividends per share (yen)	110.00	120.00	-	+10.00	-	120.00

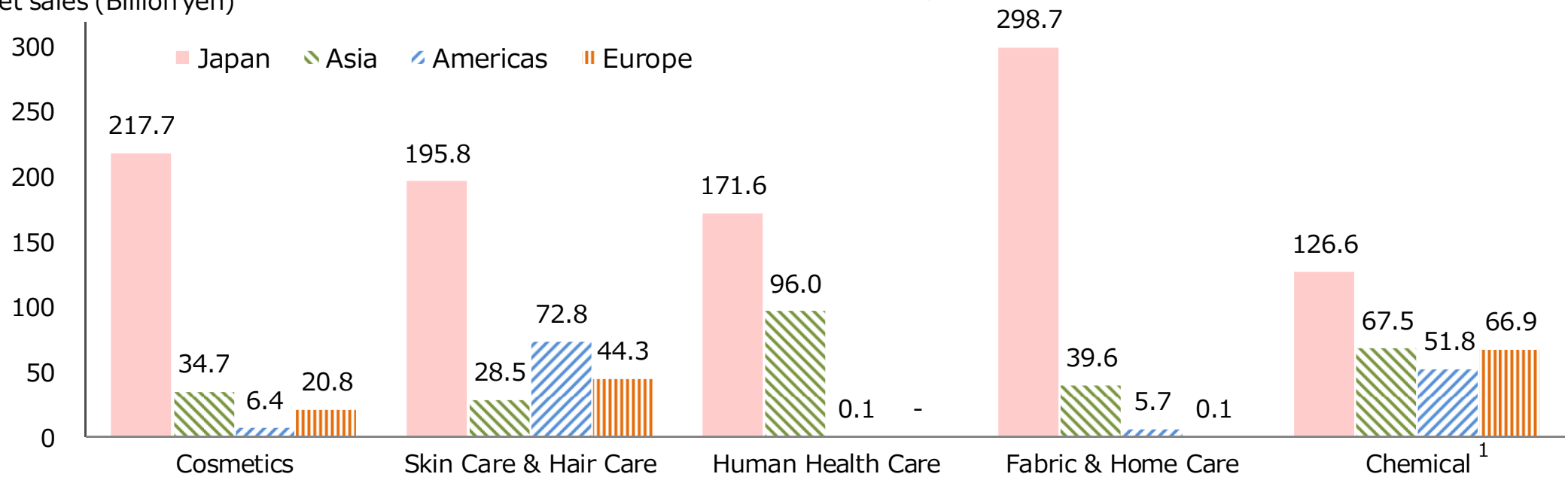
Cash flow	Free cash flow ²	37.7 billion yen
	Payments of cash dividends ³	57.6 billion yen
	Purchase of treasury shares ⁴	50.0 billion yen

1. Exchange rates: 110.45 yen/USD, 130.42 yen/Euro, 16.71 yen/Yuan
2. Free cash flow = Net cash flows from operating activities + Net cash flows from investing activities
3. Includes payments of cash dividends to non-controlling interests
4. Excludes share repurchases of less than one trading unit

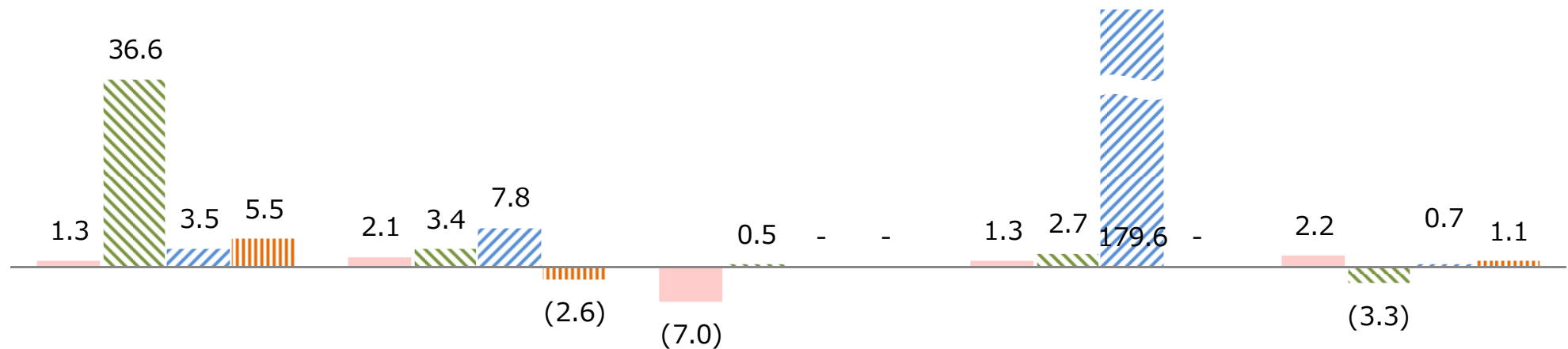
Consolidated Net Sales by Segment/Geographic Area

Year ended December 31, 2018

Net sales (Billion yen)



Like-for-like growth (%)²



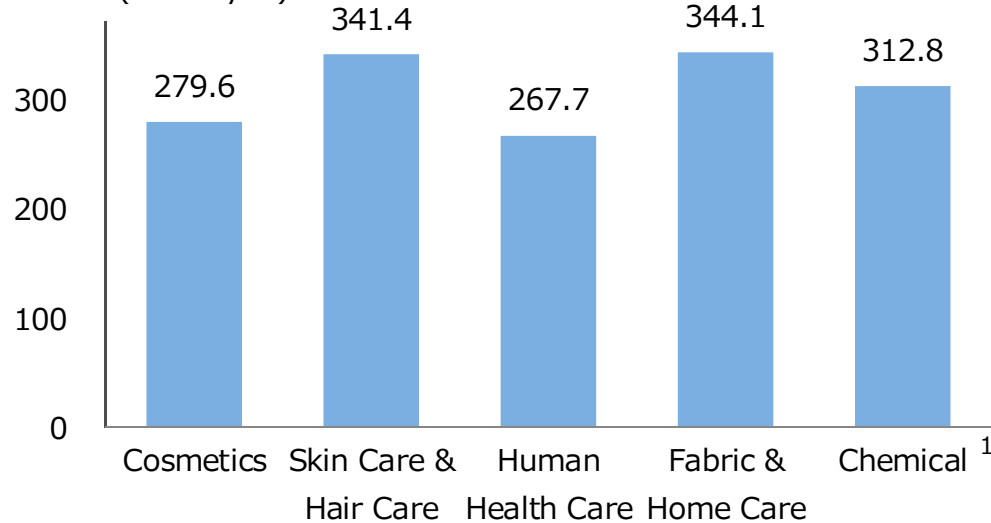
1. Net sales of the Chemical Business include intersegment transactions

2. Excluding the effect of currency translation

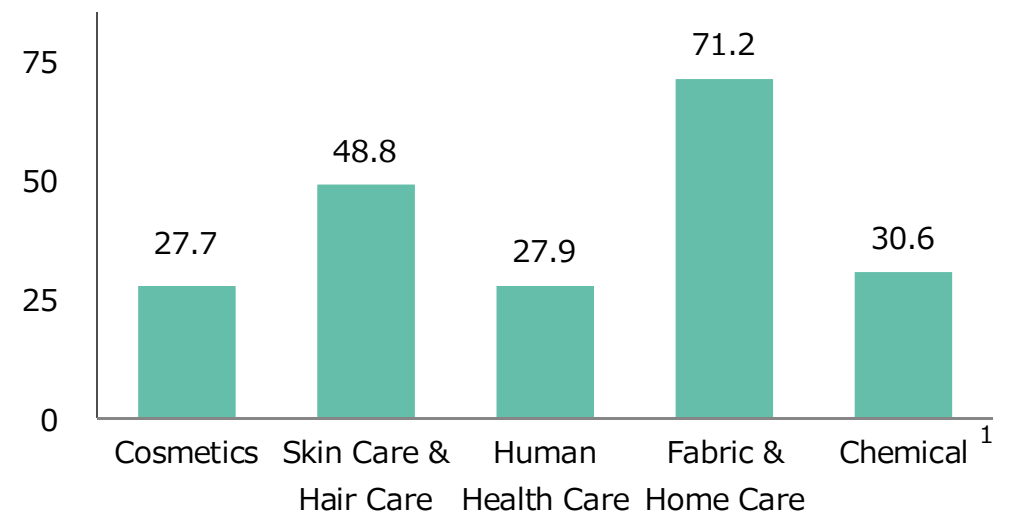
Consolidated Results by Segment

Year ended December 31, 2018

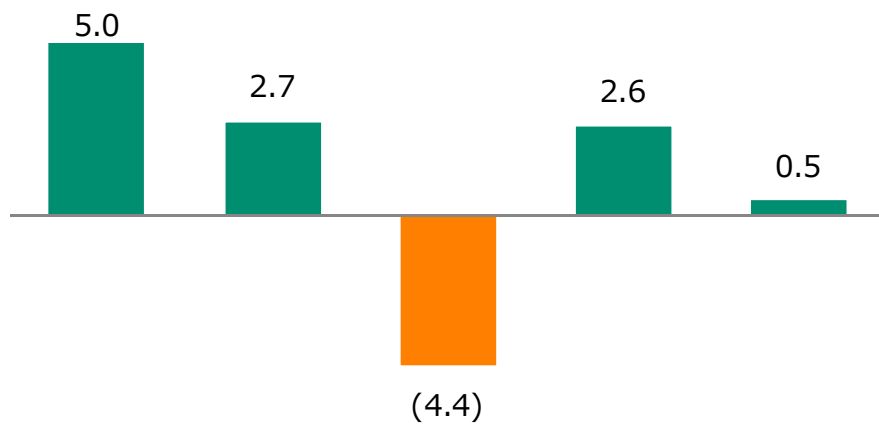
Net sales (Billion yen)



Operating income (Billion yen)



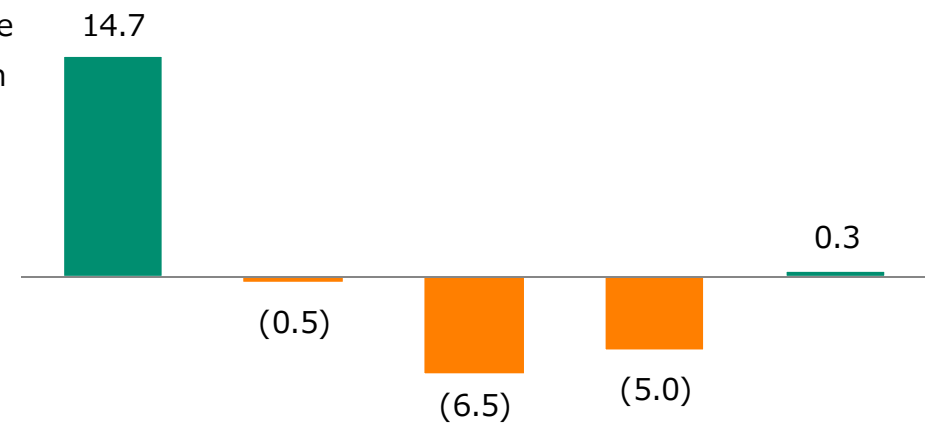
Like-for-like growth (%)²



Operating margin (%)

9.9 14.3 10.4 20.7 9.8

Change (Billion yen)



1. Net sales and operating income of the Chemical Business include intersegment transactions

2. Excluding the effect of currency translation

Consumer Products Business

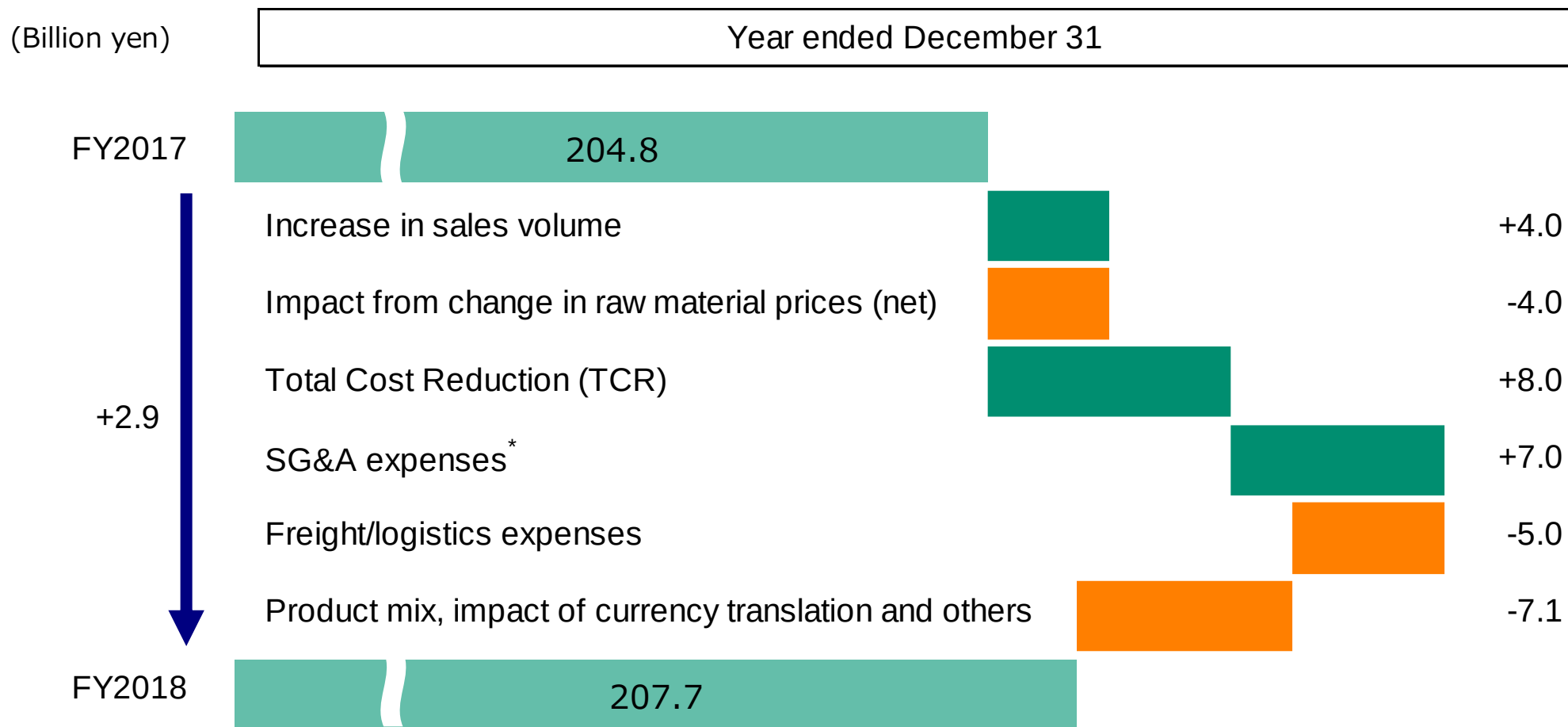
Year ended December 31									
(Billion yen)	Net sales				Operating income			Operating margin %	
	FY2017	FY2018	Growth %	Like-for-like % ¹	FY2017	FY2018	Change	FY2017	FY2018
Japan	886.2	883.9	(0.3)	(0.3)	144.6	144.1	(0.5)	16.3	16.3
Asia	188.8	198.7	5.3	6.3	19.2	24.3	5.1	10.2	12.2
Americas	77.3	85.0	10.0	12.1	3.7	5.5	1.8	4.8	6.5
Europe	63.8	65.2	2.3	0.1	5.4	1.7	(3.7)	8.5	2.6
Consumer Products Business	1,216.0	1,232.9	1.4	1.6	173.0	175.7	2.7	14.2	14.3

Net sales growth rates of	China:	8% ²	Taiwan:	-5%	Vietnam:	13%
major countries and regions (Like-for-like %)	Indonesia:	11%	Thailand:	3%	Hong Kong:	11%

1. Excluding the effect of currency translation

2. 12% growth rate excluding the impact of initial shipments in the first quarter of fiscal 2017 following a distribution channel change as part of structural reforms of sales

Analysis of Change in Consolidated Operating Income



* Excluding the effect of currency translation

Fiscal 2019 Initiatives

- Address issues related to the consumption tax rate increase in Japan (October)
- Revitalize the baby diapers business
- Conduct further structural reforms and business expansion in the Cosmetics Business
- Strengthen the Consumer Products Business outside Japan, including in the Americas and Europe
- Pave the way to new business and vitalize *Healthya* functional drinks
- Promote high-value-added products in the Chemical Business
- Realize technology innovations
Fine Fiber, RNA Monitoring, Created Color, Bio IOS and Package RecyCreation
- Strategically utilize advanced technologies
Transform research and development, the supply chain and marketing to respond to diversification of consumer needs and changes in society
- Conduct ESG activities unique to Kao
 - Give shape to and execute Kirei Action
 - Address the problem of marine plastics and other kinds of waste and climate change

Major Assumptions for FY2019 Forecast

- Year-on-year growth rate of household and personal care market size in value (yen) in Japan
- Year-on-year growth rate of cosmetics market size in value (yen) in Japan

Slightly higher
than previous year

		Growth
■ Net sales	¥1,580.0 billion	+4.8%
Effect of currency translation	-¥14.9 billion	-1.0%
Sales growth excluding effect of currency translation	+¥86.9 billion	+5.8%

		Estimated impact on income
■ Impact from change in raw material prices	Gross impact	-¥4.0 billion
	Net impact	-¥5.0 billion
■ Total Cost Reduction (TCR) activities		+¥6.0 billion
■ Capital expenditures/depreciation and amortization	Capital expenditures	¥100.0 billion
	Depreciation and amortization*	¥65.0 billion

■ Exchange rate assumptions

110 yen/USD	(FY2018 actual exchange rate [average]	110.45 yen/USD)
125 yen/Euro	(FY2018 actual exchange rate [average]	130.42 yen/Euro)
16 yen/Yuan	(FY2018 actual exchange rate [average]	16.71 yen/Yuan)

* Excluding the impact of IFRS 16 "Leases"

Consolidated Operating Results Forecast for FY2019

Fiscal year (January 1 to December 31)

(Billion yen)	FY2018	Growth %	FY2019 (Forecast)	Growth %	Change
Net sales	1,508.0	+1.2	1,580.0	+4.8	+72.0
		Effect of currency translation ¹		(1.0)	(14.9)
		Like-for-like, excluding effect of currency translation		+5.8	+86.9
Operating income	207.7	+1.4	225.0	+8.3	+17.3
Operating margin	13.8%	-	14.2%	-	-
Income before income taxes	207.3	+1.4	225.0	+8.6	+17.7
[% of Net sales]	13.7%	-	14.2%	-	-
Net income attributable to owners of the parent	153.7	+4.5	162.0	+5.4	+8.3
[% of Net sales]	10.2%	-	10.3%	-	-
EBITDA (Operating income + Depr. & amort.)	268.4	+3.5	290.0 ²	+8.1	+21.6
ROE	18.9%	-	18.6%	-	-
Basic earnings per share (yen)	314.25	+5.3	332.88	+5.9	+18.63
Cash dividends per share (yen)	120.00	-	130.00	-	+10.00

1. Exchange rate assumptions: 110 yen/USD, 125 yen/Euro, 16 yen/Yuan

2. Excluding the impact of IFRS 16 "Leases"

Sales Forecast for FY2019

Consolidated Net Sales (Year ending December 31)							
FY2019 (Forecast)	Japan		Consolidated			Consolidated	
(Billion yen)		Growth (%)		Like-for-like growth (%) ¹			Like-for-like growth (%) ¹
Cosmetics Business	223.0	2.4	290.0	4.5	Japan	1,029.0	5.3
Skin Care and Hair Care Business	209.0	6.8	357.0	5.7	Asia	275.0	6.7
Human Health Care Business	184.0	7.2	286.0	7.8	Americas	148.0	9.6
Fabric and Home Care Business	318.0	6.4	371.0	8.0	Europe	128.0	2.9
Consumer Products Business	934.0	5.7	1,304.0	6.5			
Chemical Business ²			311.0	0.9			
Consolidated			1,580.0	5.8	Consolidated	1,580.0	5.8

1. Excluding the effect of currency translation

2. Net sales of the Chemical Business include intersegment transactions

Use of Cash Flow* and Shareholder Returns

Use steadily generated cash flow effectively from an EVA standpoint as shown below toward further growth.

- Investment for future growth (capital expenditures, M&A, etc.)
- Steady and continuous cash dividends (40% payout ratio target)
- Share repurchases and early repayment of interest-bearing debt including borrowings

* Net cash flows from operating activities

ESG Initiatives to Enhance Corporate Value

Enhancing the Promotion System

- **Establishment of an ESG Promotion System**

Kao established the ESG Committee, the highest decision-making body for ESG, under the control of the Board of Directors, to lead to long-term enhancement of corporate value. Kao also established a new division dedicated to promoting activities.

Resource Recycling

- **Announcement of “Our Philosophy & Action on Plastic Packaging”**

Kao announced its stance on plastic packaging on its website, declaring that it will make innovative offerings that do not harm the natural environment.

- **Development of Bio IOS, Kao’s all-time best detergent base**

A sustainable detergent base that can be made from the residue from pressing palm fruit to extract edible oil, it has revolutionary features for high cleaning power, even when used in small amounts, which leave laundry free of detergent residue.

- **Launch of Attack ZERO in April 2019**

Using Kao’s all-time best detergent base, Bio IOS, as its main ingredient, this product aims to revive garments with Zero Cleaning (zero stubborn stains, zero musty odor and zero detergent residue) and achieves the highest cleaning power in liquid laundry detergent Attack’s history.

Cleanliness and Hygiene

- **Start of the Water and Sanitation Project for Schools in Vietnam**

To contribute to the establishment of cleanliness and hygiene habits in Vietnam, Kao started this project, which includes Leader Development for Infection Control, the Scholarship for Hygiene Management, the Water and Sanitation Project for Schools, and Handwashing Lessons, where children can enjoy learning how to wash their hands properly.

- **Educational Programs in Japan and in Asia to Establish Hygiene Habits**

Kao conducted courses in Japan, Thailand, Taiwan, Indonesia and elsewhere in which children can enjoy learning how to wash their hands properly.



Using the easily replaceable *Raku-raku Eco Pack Refill* with its special *Smart Holder*



Attack ZERO liquid laundry detergent uses Kao’s all-time best detergent base, Bio IOS as its main ingredient to offer the ultimate in cleaning power



Signing ceremony for the Hygiene Development Program held at Hanoi Medical University in Vietnam

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ESG Investment Indices and Evaluations from External Organizations

ESG indices for which Kao has been selected



Evaluations from external organizations



* ESG Investment: Investment that takes into consideration Environmental, Social and Governance factors

Appendices

Business Segments and Main Product Categories

Consumer Products Business

Cosmetics Business

Counseling cosmetics, Self-selection cosmetics

FY2018

Sales: ¥279.6 billion
 Like-for-like growth:¹ +5.0%
 Share of net sales: 18.5%
 Operating margin: 9.9%



Skin Care and Hair Care Business

Skin care (mass products), Hair care (mass products), Professional hair care products

FY2018

Sales: ¥341.4 billion
 Like-for-like growth:¹ +2.7%
 Share of net sales: 22.6%
 Operating margin: 14.3%



Human Health Care Business

Beverages, Oral care, Sanitary products, Blood circulation enhancement products (incl. bath additives and thermal pads)

FY2018

Sales: ¥267.7 billion
 Like-for-like growth:¹ -4.4%
 Share of net sales: 17.8%
 Operating margin: 10.4%



Fabric and Home Care Business

Laundry detergents, Fabric treatments, Products for kitchen, bath, toilet and living room care

FY2018

Sales: ¥344.1 billion
 Like-for-like growth:¹ +2.6%
 Share of net sales: 22.8%
 Operating margin: 20.7%



Chemical Business

FY2018

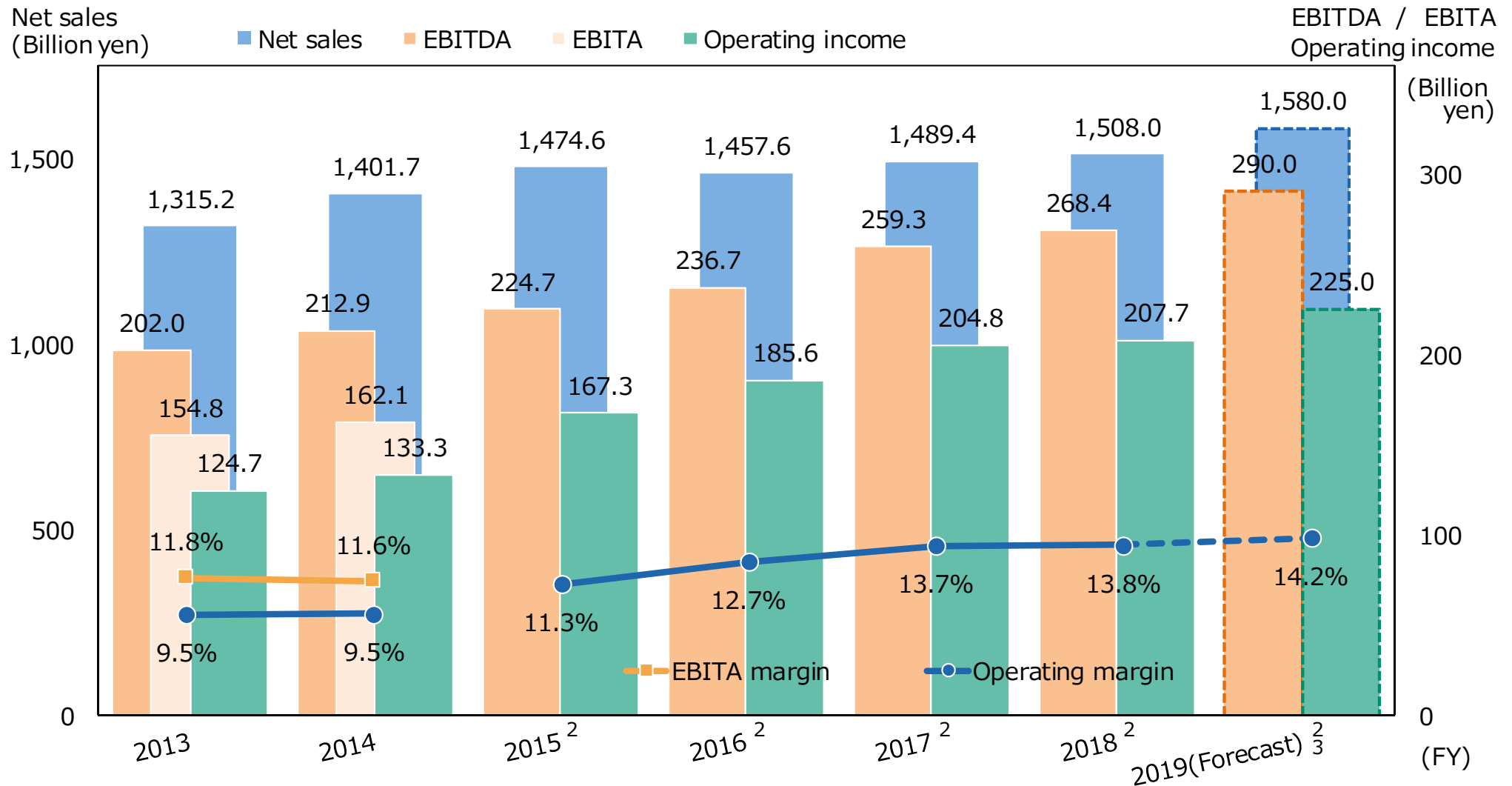
Sales: ¥312.8 billion²
 Like-for-like growth:¹ +0.5%
 Share of net sales:³ 18.3%
 Operating margin: 9.8%

Oleo chemicals,
 Performance chemicals,
 Specialty chemicals



1. Excluding the effect of currency translation
2. Net sales of the Chemical Business include intersegment transactions
3. Share of net sales is calculated based on sales to customers

Consolidated Net Sales/EBITDA/EBITA¹/Operating Income



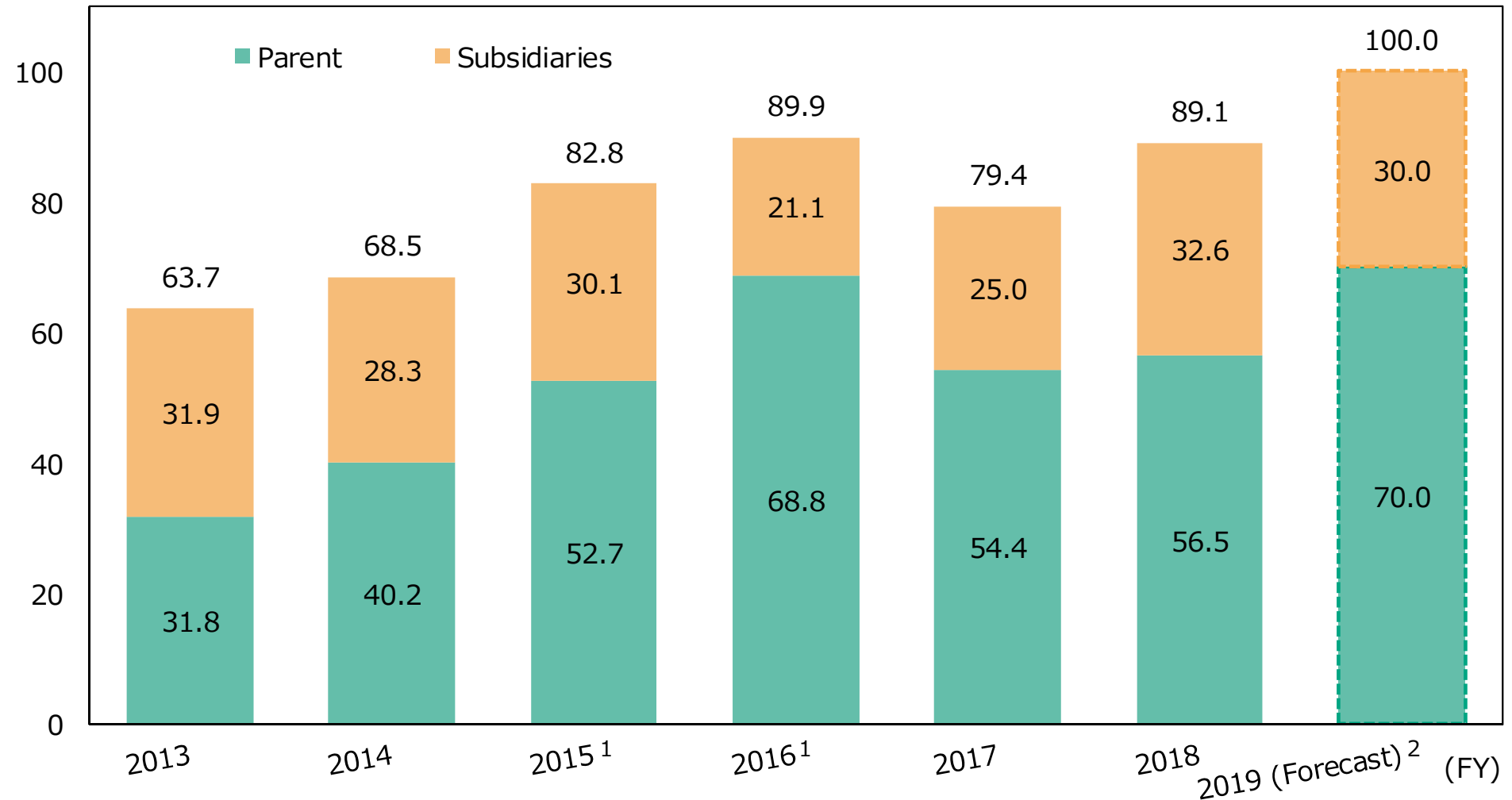
1. Operating income before amortization of goodwill and intellectual property rights related to M&A

2. IFRS adopted in FY2016. FY2015 figures are calculations based on IFRS. EBITA is not presented from FY2015 because amortization of goodwill has been discontinued under IFRS.

3. Excluding the impact of IFRS 16 "Leases"

Capital Expenditures

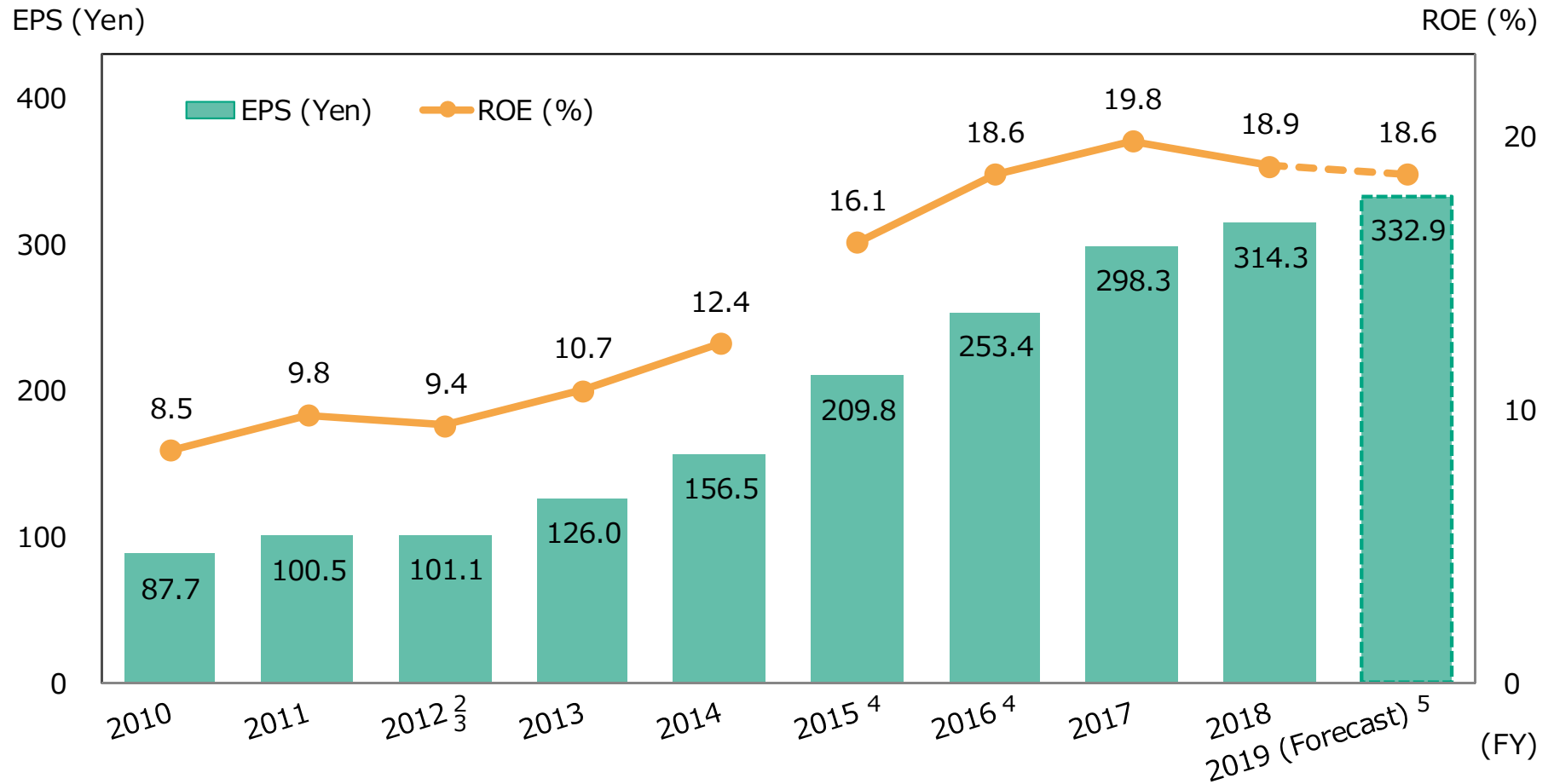
(Billion yen)



1. IFRS adopted in FY2016. FY2015 figures are calculations based on IFRS.

2. Including the impact of IFRS 16 "Leases"

ROE & EPS¹

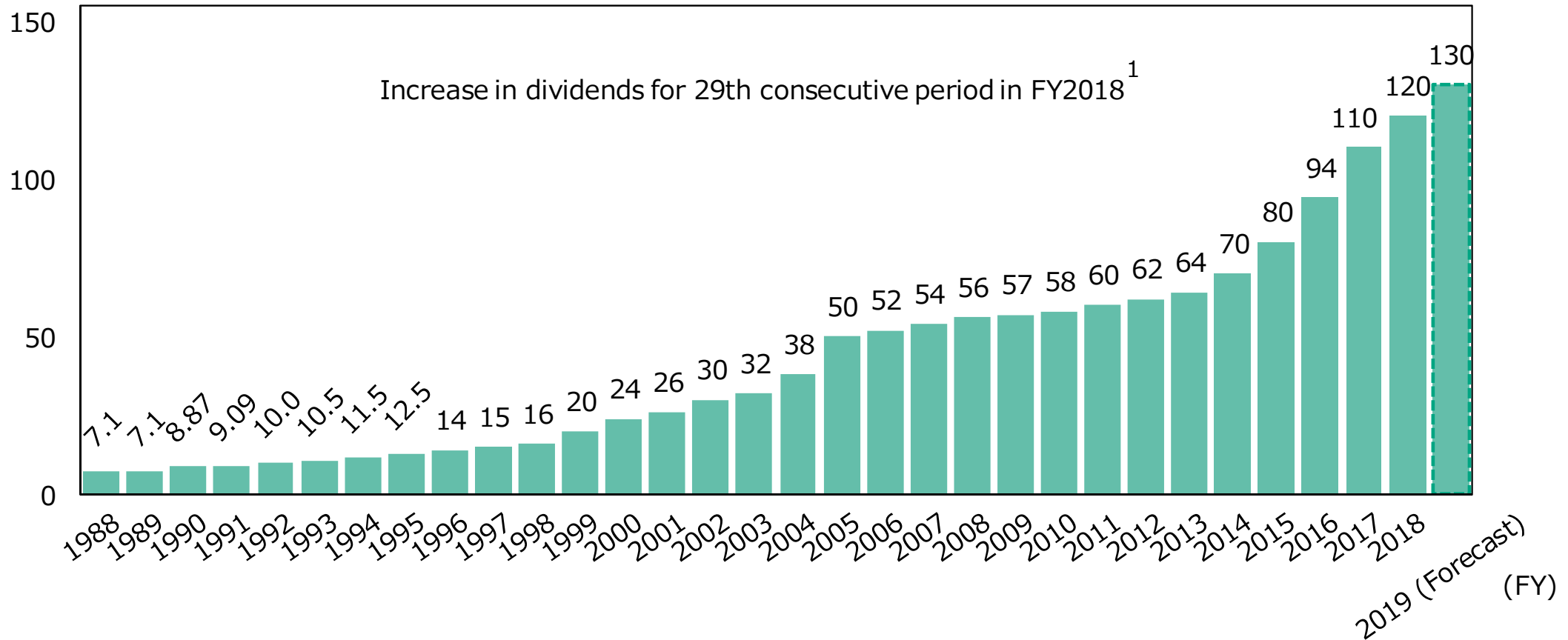


Weighted average number of shares outstanding (Million shares)	533.0	521.9	521.8	513.9	508.7	501.4	499.4	492.8	489.1	486.7
Net income [J-GAAP] / Net income attributable to owners of the parent [IFRS] (Billion yen)	46.7	52.4	52.8	64.8	79.6	105.2	126.6	147.0	153.7	162.0

1. Net income per share [J-GAAP] / Basic earnings per share [IFRS]
2. Fiscal year end is December 31 from FY2012 (Please refer to slide 2 for details)
3. ROE of FY2012 is for the transitional period connected with the change in fiscal year end
4. IFRS adopted in FY2016. FY2015 figures are calculations based on IFRS.
5. Including the impact of IFRS 16 "Leases"

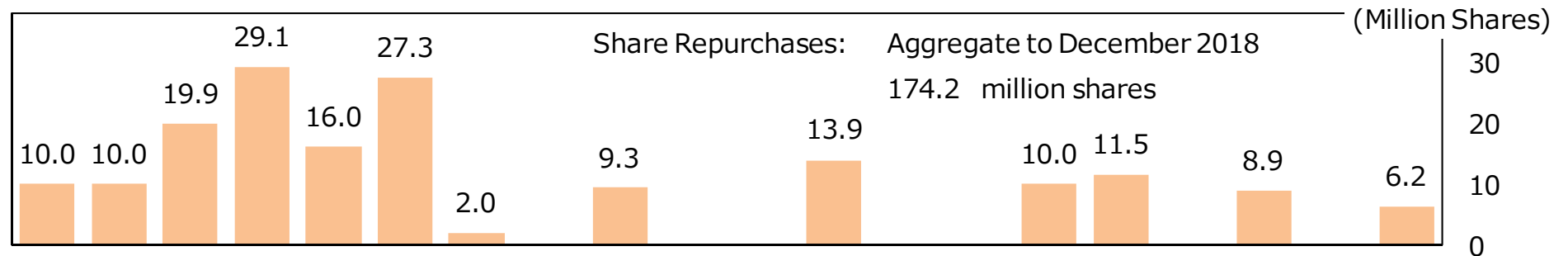
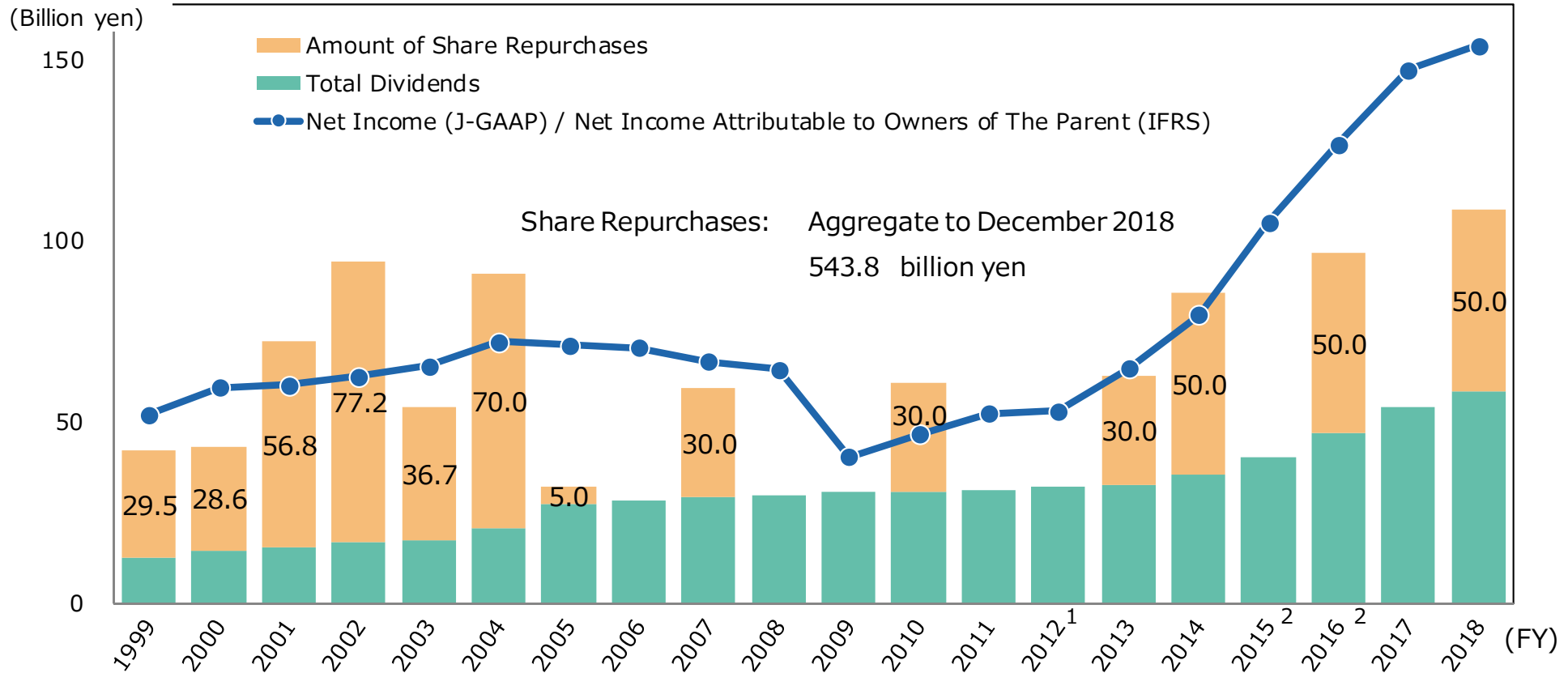
Cash Dividends per Share

Cash Dividends per Share (Yen)



1. Formally decided at the Annual General Meeting of Shareholders
2. Impacts of share splits are retroactively reflected

Shareholder Returns



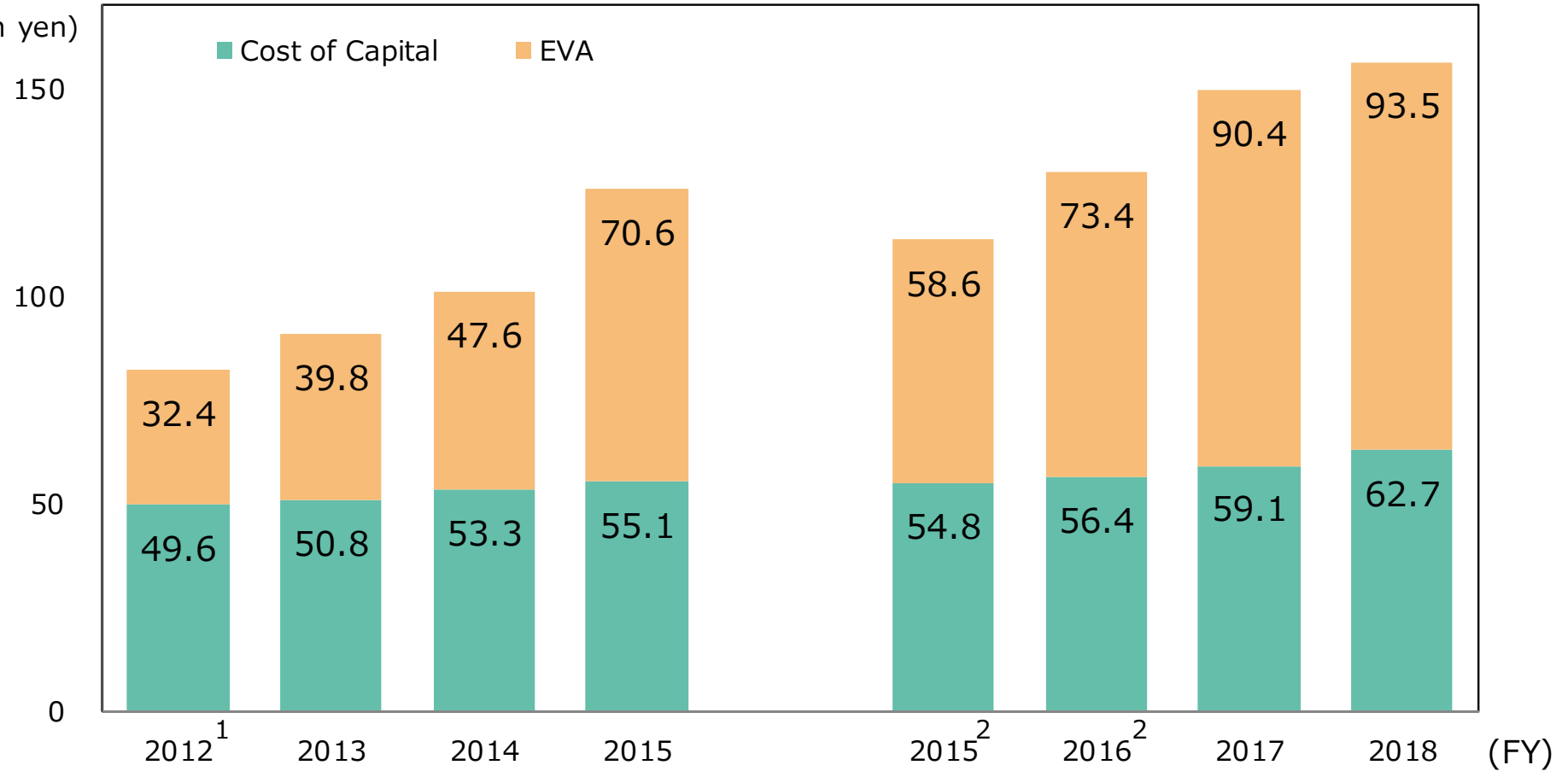
1. Fiscal year end is December 31 from FY2012. Figures for FY2012 are for the period from January 1 to December 31, 2012.
(Please refer to slide 2 for details.)
2. IFRS adopted in FY2016. FY2015 figures are calculations based on IFRS.

EVA

EVA

Cost of Capital

(Billion yen)



1. Fiscal year end is December 31 from FY2012. Figures for FY2012 are for the period from January 1 to December 31, 2012. (Please refer to slide 2 for details.)

2. IFRS adopted in FY2016. FY2015 figures are calculations based on IFRS.

The logo for Kao, featuring the word "Kao" in a bold, teal-colored sans-serif font. The letter "K" is slightly larger and more prominent than the "a" and "o".

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