

# 1st Half of FY2016

From January 1 to June 30, 2016

Kao Corporation

July 28, 2016

This is a translation of materials used for the analyst meeting held in Japan on July 28, 2016.



These presentation materials are available on our website in PDF format:

[http://www.kao.com/jp/en/corp\\_ir/presentations.html](http://www.kao.com/jp/en/corp_ir/presentations.html)

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.

- Fiscal year end is December 31 from FY2012

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

- IFRS applied from FY2016

- Results of the 1st Half of FY2016 and FY2016 Forecast
- Review of the 1st Half of FY2016 and the Kao Group's Targeted Direction

# **Results of the 1st Half of FY2016 and FY2016 Forecast**

**Kao Corporation**

July 28, 2016

**Kenichi Yamauchi**

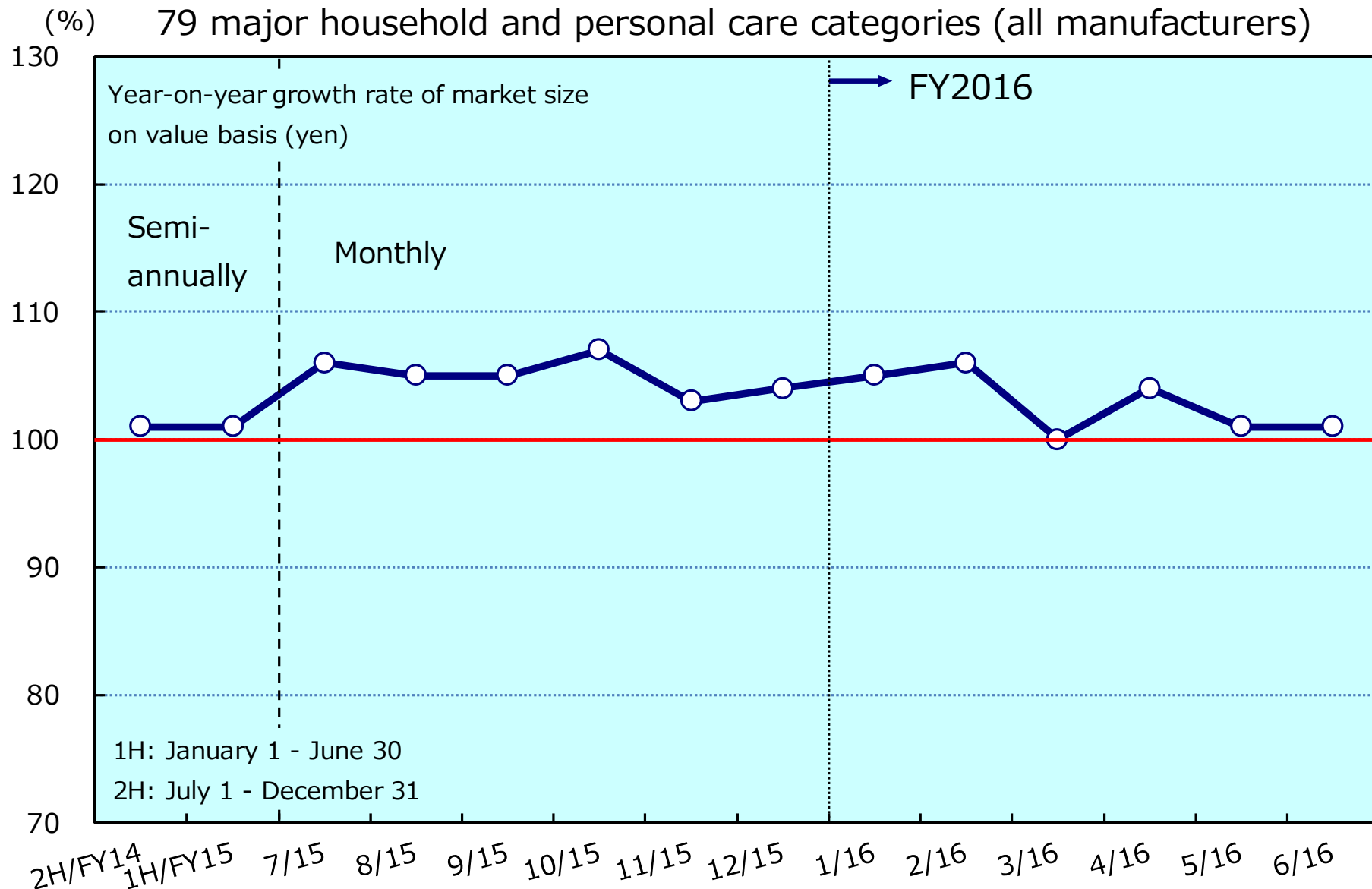
**Vice President**

**Financial Controllers, Global**

# **Business Environment**

## **January 1 - June 30, 2016**

# Consumer Products<sup>1</sup> Market in Japan



1 Consumer products do not include cosmetics

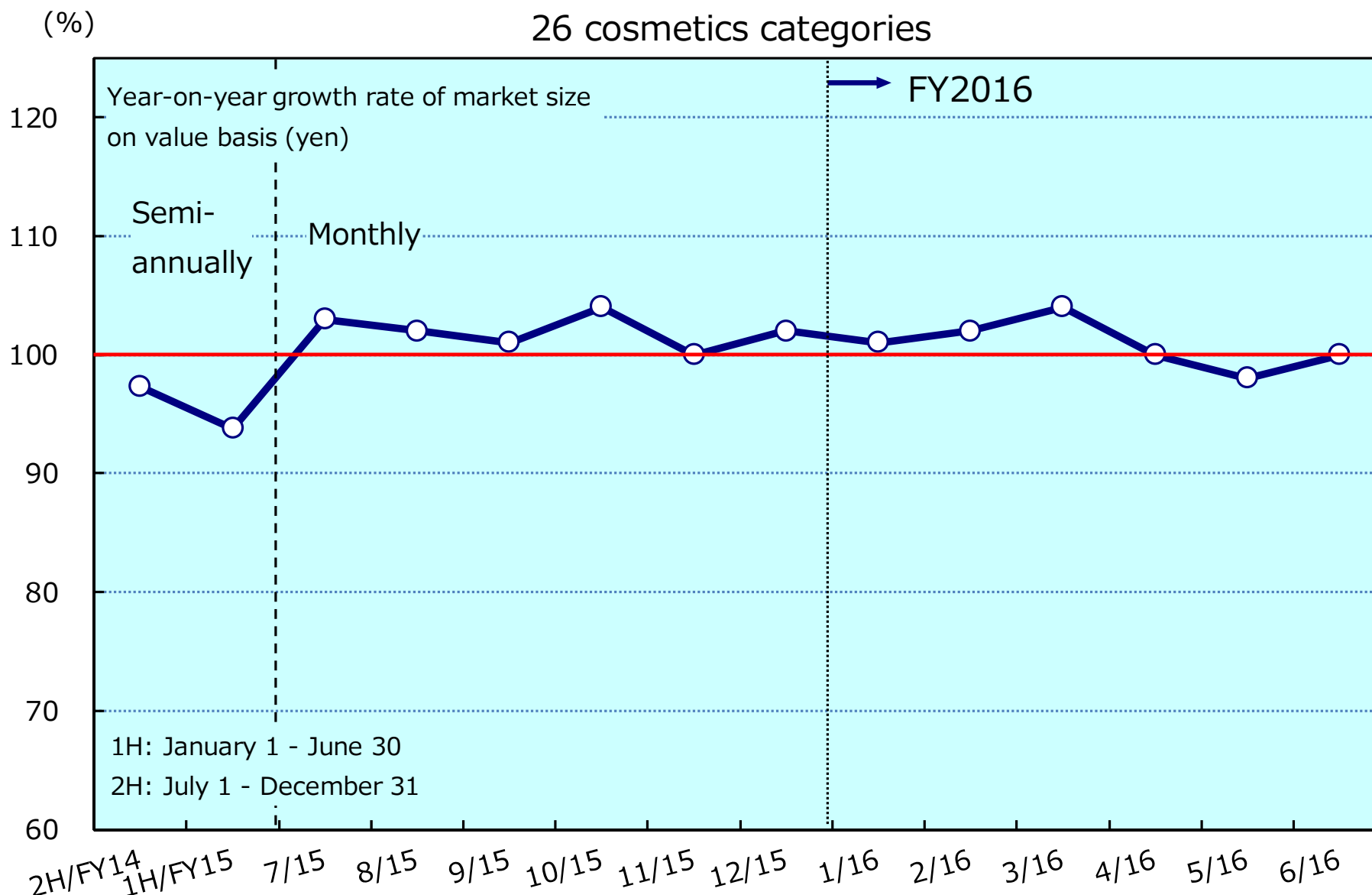
(Source: SRI POS data by INTAGE Inc.)

2 An increase in Japan's consumption tax rate to 8% from 5% on April 1, 2014 had an impact on the domestic market.

**Kao**

Enriching lives, in harmony with nature.

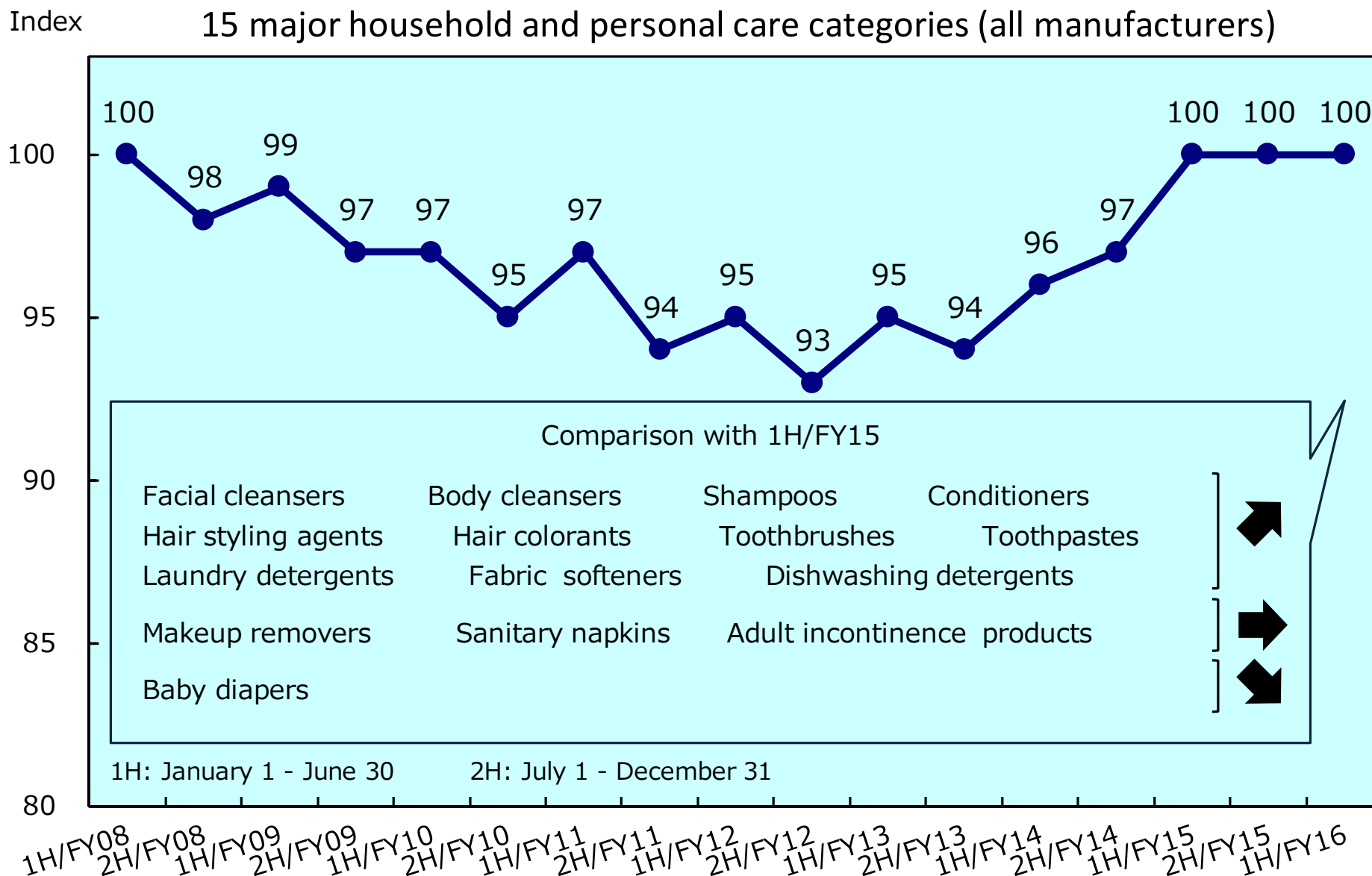
# Cosmetics Products Market in Japan



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

\* An increase in Japan's consumption tax rate to 8% from 5% on April 1, 2014 had an impact on the domestic market.

# Consumer Purchase Prices in Japan



(Source: SRI POS data by INTAGE Inc.)



# Consolidated Financial Results

## January 1 - June 30, 2016

# Key Points in 1H/FY2016

## Japan sales related

1. Growth of household and personal care market in Japan <sup>1</sup>	+3% year-on-year
2. Growth of cosmetics market in Japan <sup>2</sup>	+1% year-on-year
3. Consumer purchase price of 15 major household & personal care categories market in Japan <sup>3</sup>	Flat

## Income statement related

		Growth <sup>4</sup>
1. Net sales	¥699.5 billion	+0.4%
- Effect of currency translation	-¥25.7 billion	-3.7%
- Sales growth excluding effect of currency translation	+¥28.7 billion	+4.1%
2. Operating income	¥81.1 billion	+26.6%
- Changes	+¥17.1 billion	

## Cash flow related

1. Free cash flow <sup>5</sup>	¥10.9 billion
2. Payments of cash dividends <sup>6</sup>	¥22.0 billion

1 Source: SRI POS data by INTAGE Inc.

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

3 Index with the 1<sup>st</sup> half of FY2008 as 100. (Source: SRI POS data by INTAGE Inc.)

4 IFRS applied from FY2016. Comparison with FY2015 IFRS.

5 Free cash flow = Net cash flows from operating activities + Net cash flows from investing activities.

6 Includes payments of cash dividends to non-controlling interests.

# Consolidated Operating Results

Billion yen

	1H/FY2015	1H/FY2016	Growth %	Changes
Net Sales	696.6	699.5	0.4	2.9
Operating Income	64.0	81.1	26.6	17.1
[% of Net Sales]	9.2%	11.6%	-	-
Income before income taxes	62.8	77.1	22.9	14.4
Net income, attributable to owners of the parent	36.9	50.0	35.6	13.1
EBITDA (Operating Income + Depr.&Amort.)	91.7	107.0	16.7	15.3
Basic earnings per share (yen)	73.57	99.69	35.5	26.12

\* IFRS applied from FY2016. 1H/FY2015 are calculations based on IFRS.

# Consolidated Net Sales [1]

Billion yen

	1H/FY2015	1H/FY2016	Growth %	Like-for-like %
Beauty Care Business	191.8	202.5	5.6	5.6
Human Health Care Business	104.3	103.6	(0.6)	(0.6)
Fabric & Home Care Business	126.1	133.8	6.1	6.1
Japan total	422.2	439.9	4.2	4.2
Asia	90.5	92.9	2.6	15.8
Americas	45.0	41.2	(8.5)	(0.8)
Europe	42.0	39.1	(6.9)	1.2
Eliminations	(28.8)	(31.6)	-	-
Consumer Products Business	570.9	581.4	1.8	4.9

\* IFRS applied from FY2016. 1H/FY2015 are calculations based on IFRS.

Like-for-like % are growth excluding the effect of currency translation.

# Consolidated Net Sales [2]

Billion yen

	1H/FY2015	1H/FY2016	Growth %	Like-for-like %
Japan	63.0	60.8	(3.5)	(3.5)
Asia	54.4	49.2	(9.5)	1.8
Americas	24.7	22.3	(9.8)	2.0
Europe	33.1	30.4	(8.1)	(0.9)
Eliminations	(31.4)	(27.2)	-	-
Chemical Business	143.8	135.5	(5.8)	0.0
Reconciliations	(18.2)	(17.4)	-	-
Consolidated Net Sales	696.6	699.5	0.4	4.1

\* IFRS applied from FY2016. 1H/FY2015 are calculations based on IFRS.

Like-for-like % are growth excluding the effect of currency translation.

# Consolidated Statement of Income

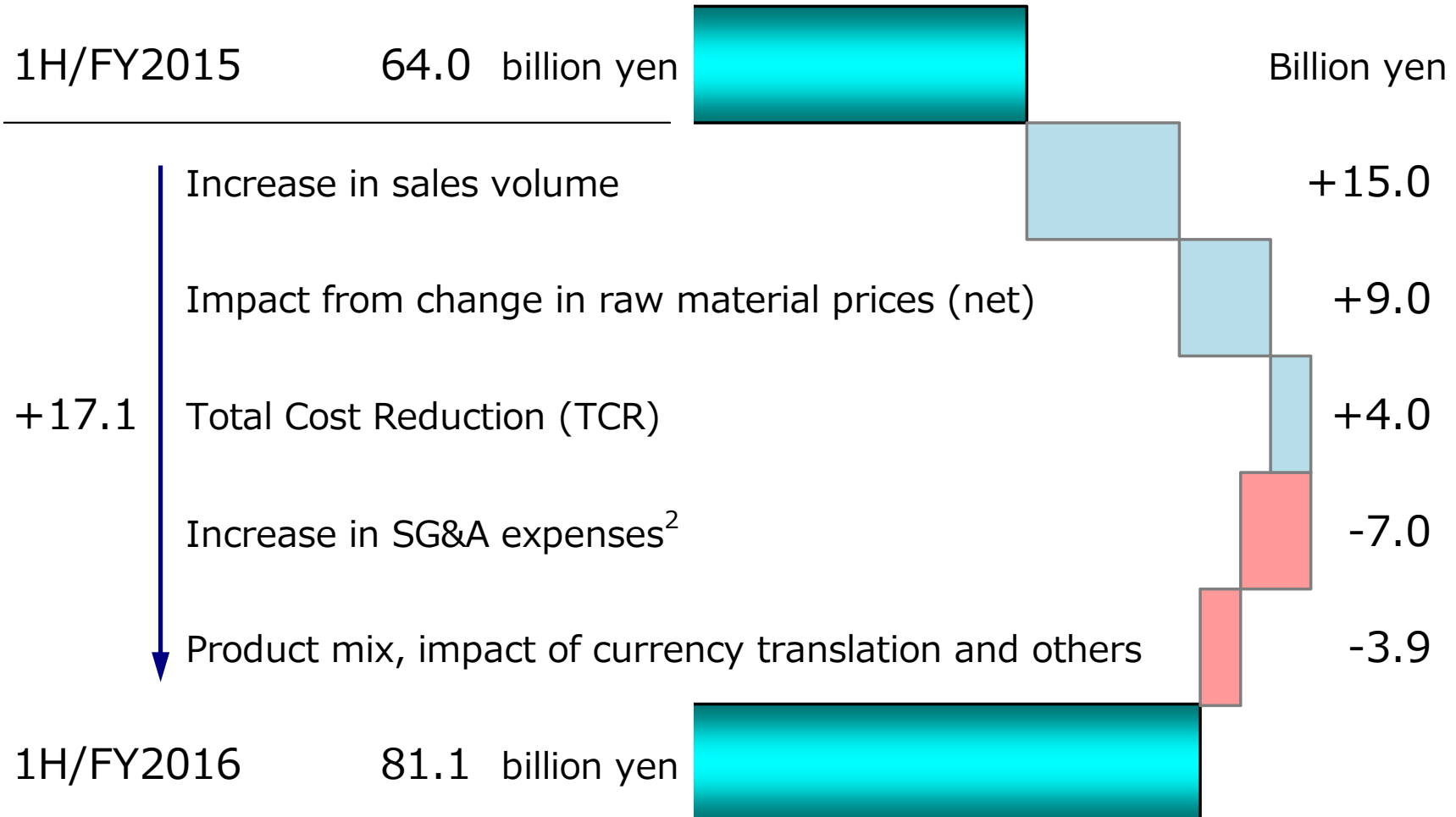
Billion yen

	1H/FY2015	% of Net Sales	1H/FY2016	% of Net Sales	Changes
Net Sales	696.6	100.0	699.5	100.0	2.9
Cost of Sales	(319.7)	45.9	(308.6)	44.1	11.1
Gross Profit	376.9	54.1	390.9	55.9	14.0
SG&A Expenses	(312.5)	44.9	(310.4)	44.4	2.1
Other Operating Income/Expenses	(0.4)	0.1	0.6	0.1	0.9
Operating Income	64.0	9.2	81.1	11.6	17.1
Financial Income/Expenses	(2.0)	0.3	(4.9)	0.7	(2.9)
Share of profit in investments accounted for using the equity method	0.7	0.1	0.9	0.1	0.2
Income Before Income Taxes	62.8	9.0	77.1	11.0	14.4
Income Taxes	(25.9)	3.7	(26.5)	3.8	(0.6)
Net Income	36.9	5.3	50.6	7.2	13.8
Attributable to owners of the parent	36.9	5.3	50.0	7.1	13.1
Attributable to non-controlling interests	(0.0)	(0.0)	0.6	0.1	0.7

\* IFRS applied from FY2016. 1H/FY2015 are calculations based on IFRS.

# 1H/FY2016 Consolidated Operating Income Analysis

Operating Income<sup>1</sup>



1 IFRS applied from FY2016. 1H/FY2015 are calculations based on IFRS.

2 Excluding the impact of currency translation.

# Consolidated Results by Segment

Billion yen		1H/FY2015		1H/FY2016		Changes	Growth
			% of Net Sales		% of Net Sales		%
Beauty Care Business	Net Sales	288.0	-	292.7	-	4.7	1.6
	Operating Income	10.9	3.8	20.8	7.1	9.8	89.9
Human Health Care Business	Net Sales	133.4	-	132.9	-	(0.4)	(0.3)
	Operating Income	13.4	10.1	13.6	10.2	0.2	1.3
Fabric & Home Care Business	Net Sales	149.6	-	155.8	-	6.3	4.2
	Operating Income	24.5	16.3	31.5	20.2	7.1	29.0
Chemical Business	Net Sales	143.8	-	135.5	-	(8.3)	(5.8)
	Operating Income	15.0	10.4	14.8	10.9	(0.2)	(1.2)
Consolidated	Net Sales	696.6	-	699.5	-	2.9	0.4
	Operating Income	64.0	9.2	81.1	11.6	17.1	26.6

\* IFRS applied from FY2016. 1H/FY2015 are calculations based on IFRS. Net sales and operating income of segments are before elimination of intersegment transactions.



# Breakdown of Beauty Care Business [Reference]

Billion yen		1H/FY2015		1H/FY2016		Changes	Growth
		% of Net Sales		% of Net Sales			%
Beauty Care Business	Net Sales	288.0	-	292.7	-	4.7	1.6
	Operating Income	10.9	3.8	20.8	7.1	9.8	89.9
Cosmetics	Net Sales	114.8	-	119.0	-	4.2	3.7
	Operating Income	(8.9)	(7.7)	(2.9)	(2.4)	5.9	-
Skin care/Hair care (mass products) & professional hair care products	Net Sales	173.2	-	173.7	-	0.5	0.3
	Operating Income	19.8	11.4	23.7	13.6	3.9	19.7
Kanebo Cosmetics	Net Sales	slightly more than 80.0 billion yen		approximately 85.0 billion yen			
	Operating Margin	slightly less than 1%		slightly more than 2%			

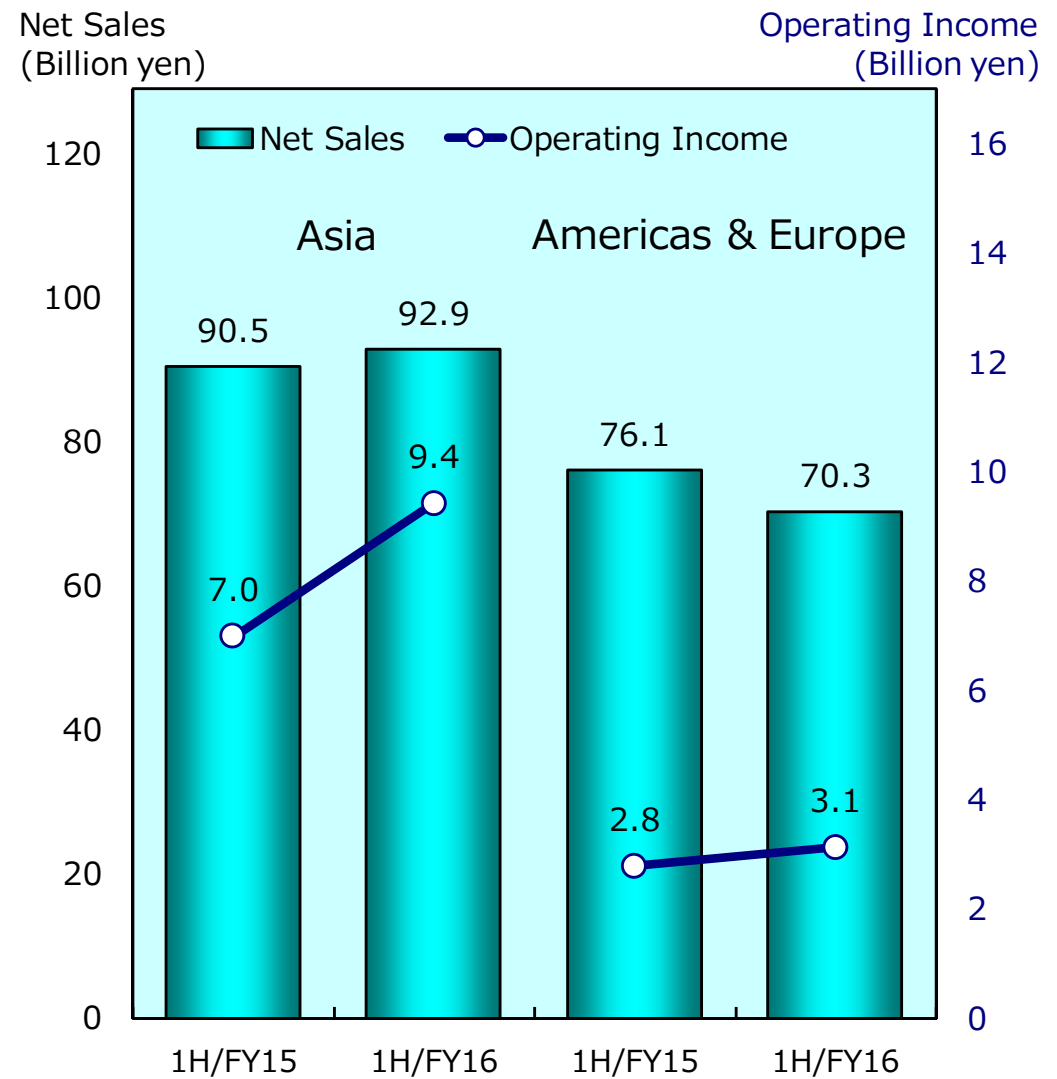
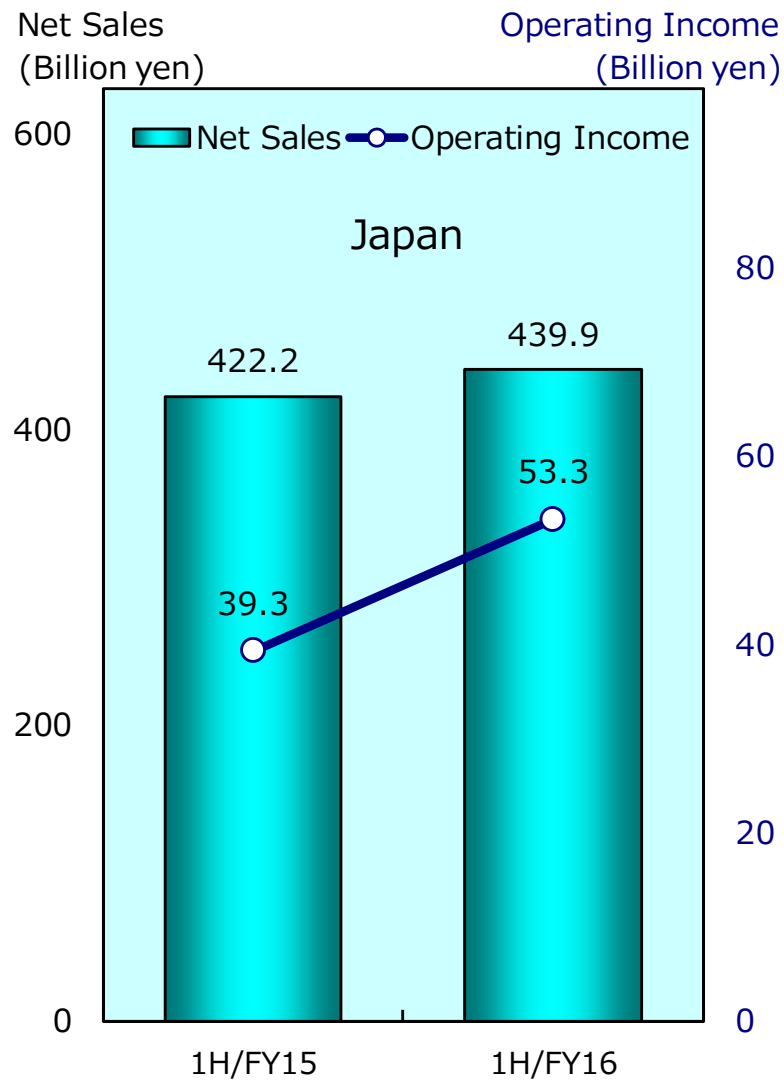
\* IFRS applied from FY2016. 1H/FY2015 are calculations based on IFRS. Operating margin of Kanebo Cosmetics is before deduction of royalties.

# Consolidated Results by Geographic Area [Reference]

Billion yen		1H/FY2015		1H/FY2016		Changes	Growth
			% of Net Sales		% of Net Sales		%
Japan	Net Sales	469.9	-	485.5	-	15.6	3.3
	Operating Income	44.4	9.5	59.2	12.2	14.8	33.4
Asia	Net Sales	143.0	-	140.6	-	(2.4)	(1.7)
	Operating Income	11.1	7.8	12.8	9.1	1.7	15.2
Americas	Net Sales	69.6	-	63.4	-	(6.2)	(8.9)
	Operating Income	3.2	4.6	2.6	4.0	(0.7)	(20.7)
Europe	Net Sales	75.0	-	69.4	-	(5.6)	(7.4)
	Operating Income	5.8	7.7	5.1	7.3	(0.7)	(12.1)
Consolidated	Net Sales	696.6	-	699.5	-	2.9	0.4
	Operating Income	64.0	9.2	81.1	11.6	17.1	26.6

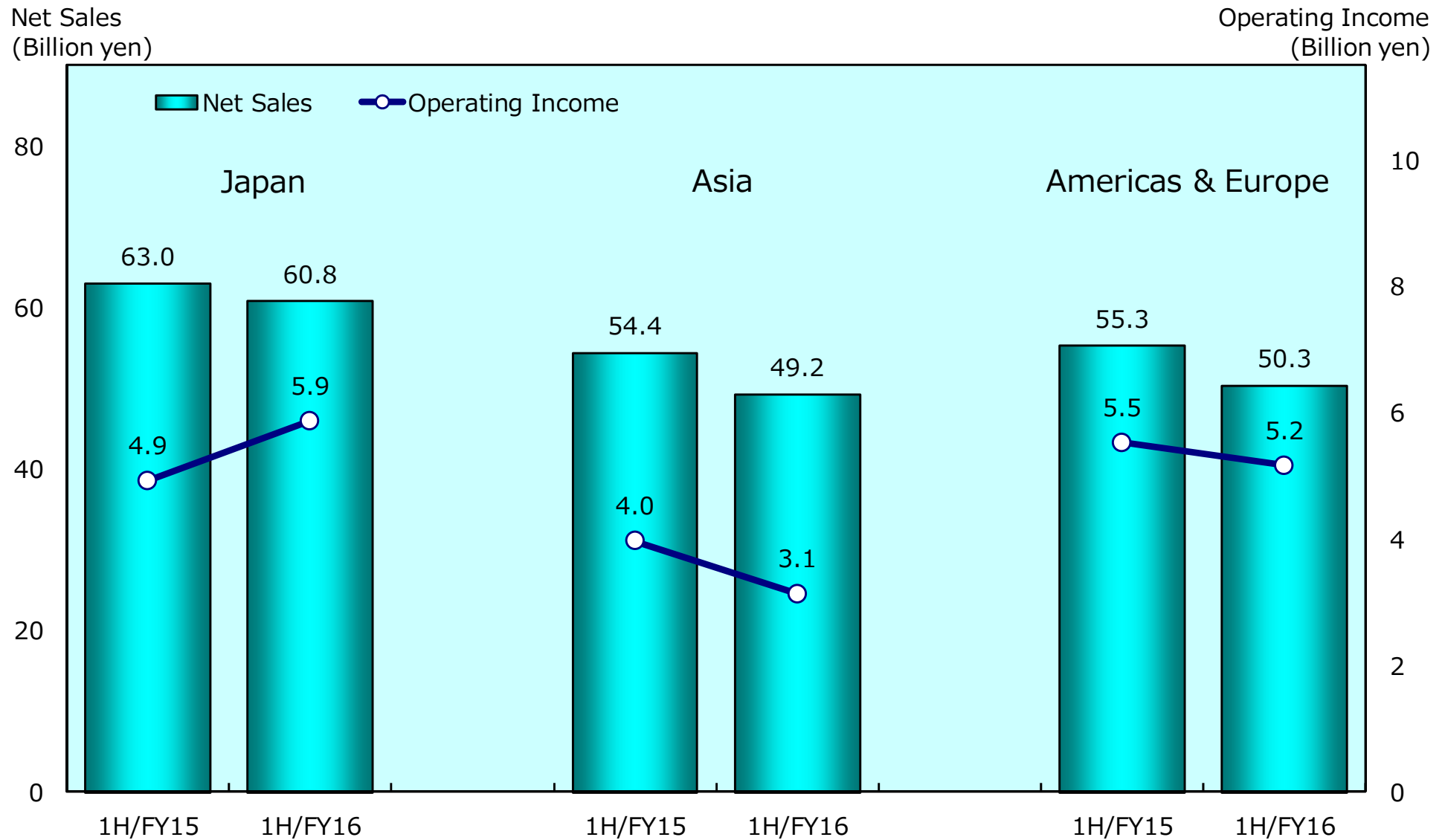
\* IFRS applied from FY2016. 1H/FY2015 are calculations based on IFRS. Net sales and operating income by geographic area are before elimination of transactions among geographic areas.

# Consumer Products Business by Geographic Area [Reference]



\* IFRS applied from FY2016. 1H/FY15 are calculations based on IFRS.  
Before elimination of transactions among segments or geographic areas.

# Chemical Business by Geographic Area [Reference]



\* IFRS applied from FY2016. 1H/FY15 are calculations based on IFRS.  
Before elimination of transactions among segments or geographic areas.

# Consolidated Statement of Financial Position [Reference]

Billion yen	Dec/2015	Jun/2016	Changes		Dec/2015	Jun/2016	Changes
<b>Assets</b>				<b>Liabilities and equity</b>			
Current assets				Liabilities			
Cash and cash equivalents	309.9	286.6	(23.3)	Current liabilities			
Trade and other receivables	210.7	168.0	(42.8)	Trade and other payables	206.8	190.6	(16.2)
Inventories	151.3	153.5	2.2	Bonds and borrowings	0.3	10.3	10.0
Current income tax assets	2.1	2.0	(0.1)	Income tax payables	32.2	24.4	(7.7)
Other financial assets	5.1	7.8	2.7	Other financial liabilities	6.9	5.4	(1.6)
Other current assets	38.0	35.7	(2.4)	Provisions	16.8	8.2	(8.6)
Subtotal	717.0	653.4	(63.6)	Other current liabilities	125.4	101.2	(24.2)
Non-current assets held for sale	1.3	1.3	(0.1)	Total current liabilities	388.4	340.0	(48.4)
Total current assets	718.4	654.7	(63.7)				
				Non-current liabilities			
Non-current assets				Bonds and borrowings	120.2	110.2	(10.0)
Property, plant and equipment	338.0	336.5	(1.5)	Retirement benefit liabilities	75.7	71.7	(4.0)
Goodwill	138.3	134.6	(3.7)	Other financial liabilities	11.8	11.0	(0.8)
Intangible assets	15.7	13.7	(2.1)	Provisions	17.7	17.8	0.1
Investments accounted for using the equity method	4.2	3.5	(0.8)	Other non-current liabilities	4.9	4.6	(0.3)
Other financial assets	29.3	26.3	(3.1)	Deferred tax liabilities	0.3	0.3	(0.0)
Other non-current assets	17.7	15.2	(2.5)	Total non-current liabilities	230.7	215.6	(15.1)
Deferred tax assets	49.5	49.1	(0.3)	Total liabilities	619.1	555.6	(63.5)
Total non-current assets	592.7	578.8	(13.9)				
Total assets	1,311.1	1,233.5	(77.5)	Equity			
				Share capital	85.4	85.4	-
				Capital surplus	108.7	108.7	-
				Treasury shares	(8.2)	(7.3)	0.9
				Other components of equity	(4.2)	(45.7)	(41.5)
				Retained earnings	499.3	527.6	28.3
				Equity attributable to owners of the parent	681.0	668.6	(12.4)
				Non-controlling interests	11.0	9.3	(1.7)
				Total equity	692.0	677.9	(14.1)
				Total liabilities and equity	1,311.1	1,233.5	(77.5)

\* IFRS applied from FY2016. Dec/2015 are calculations based on IFRS.

# Consolidated Statement of Cash Flows

[Reference]

Billion yen	1H/FY2015	1H/FY2016	Changes
Net Cash flows from Operating Activities	55.1	51.0	(4.1)
Net Cash flows from Investing Activities	(31.9)	(40.1)	(8.2)
Net Cash flows from Financing Activities	0.0	(22.1)	(22.1)
Net Increase (Decrease) in Cash and Cash Equivalents	23.2	(11.3)	(34.5)
Cash and Cash Equivalents at the Beginning of the Period	229.0	309.9	81.0
Effect of Exchange Rate Changes on Cash and Cash Equivalents	(0.7)	(12.0)	(11.3)
Cash and Cash Equivalents at the End of the Period	251.4	286.6	35.2
Bonds and Borrowings at the End of the Period	121.9	120.5	(1.4)
Free Cash Flow	23.2	10.9	(12.3)

\* IFRS applied from FY2016. FY2015 are calculations based on IFRS.

Free cash flow = Net cash flows from operating activities + Net cash flows from investing activities

## Net cash flows from investing activities

### Capital expenditures:

- Production capacity expansion for sanitary products in Japan
- Production capacity expansion for consumer products in Indonesia

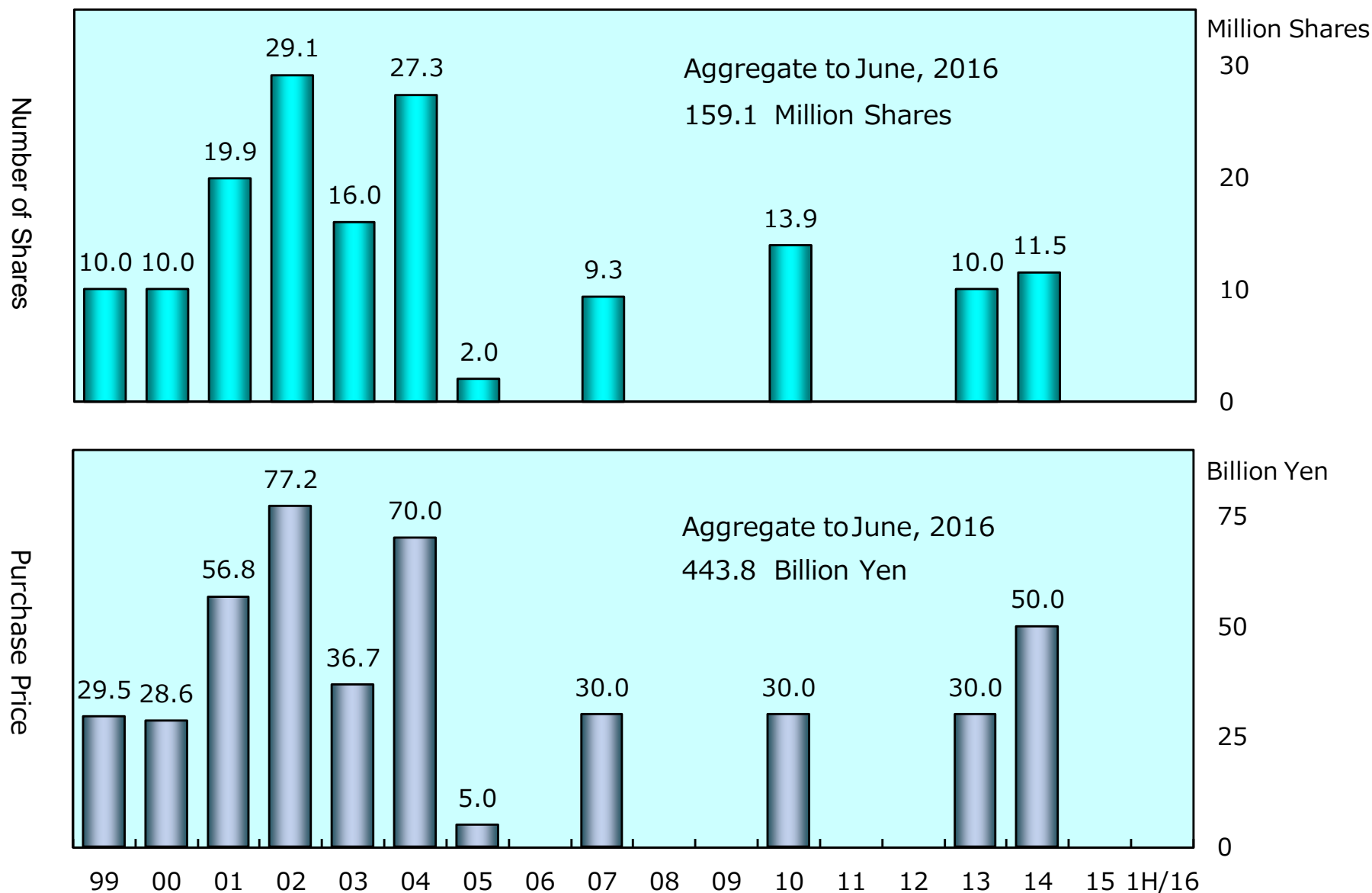
## Net cash flows from financing activities

- Payments of cash dividends (Includes payments of cash dividends to non-controlling interests)

22.0 billion yen

# Share Repurchase

[Reference]



\* Share repurchase from the market. Number of issued shares including treasury shares as of June 30, 2016 is 504.0 million shares.

# Forecast for FY 2016



# Major Assumptions for FY2016 Forecast

◆ Year-on-year growth rate of consumer products <sup>1</sup> market size in value (yen) in Japan		+1%
◆ Year-on-year growth rate of cosmetics market size in value (yen) in Japan <sup>2</sup>		Flat
		<u>Growth<sup>3</sup></u>
◆ Net sales	¥1,480.0 billion	+0.4%
• Effect of currency translation	-¥60.4 billion	-4.1%
• Sales growth excluding effect of currency translation	+¥65.9 billion	+4.5%
	<u>Estimated impact on income</u>	
◆ Impact from change in raw material prices	• Gross impact	+¥10.0 billion
	• Net impact	+¥11.0 billion
◆ Total Cost Reduction (TCR) activities		+¥9.0 billion
◆ Capital expenditures/depreciation and amortization	• Capital expenditures	¥100.0 billion
	• Depreciation and amortization	¥53.0 billion

## Exchange rate assumptions

◆ 108 yen/USD	(FY2015 actual exchange rate [average]	121.05 yen/USD)
◆ 120 yen/Euro	(FY2015 actual exchange rate [average]	134.37 yen/Euro)
◆ 16 yen/Yuan	(FY2015 actual exchange rate [average]	19.27 yen/Yuan)

1 Consumer products do not include cosmetics.

2 Excludes inbound demand.

3 IFRS applied from FY2016. Comparison with FY2015 IFRS.

# Consolidated Operating Results Forecast<sup>1</sup>

Billion yen

	FY2015 <sup>2</sup>	FY2016 (F) <sup>3</sup>	Growth%	April 27, 2016 Forecast
Net Sales	1,474.6	1,480.0	0.4	1,510.0
Operating Income	167.3	184.0	10.0	184.0
[% of Net Sales]	11.3%	12.4%	-	-
Income before income taxes	166.0	183.0	10.2	183.0
[% of Net Sales]	11.3%	12.4%	-	-
Net income, attributable to owners of the parent	105.2	120.0	14.1	120.0
[% of Net Sales]	7.1%	8.1%	-	-
Basic earnings per share (yen)	209.82	239.20	14.0	239.23
ROE	16.1%	17.2%	-	-
EBITDA (Operating Income + Depr. & Amort.)	224.7	237.0	5.5	-
Cash Dividends per Share (yen)	80.0	92.0	15.0	92.0

1 IFRS applied from FY2016. FY2015 are calculations based on IFRS.

Exchange rate assumptions: 108 yen/USD, 120 yen/Euro, 16 yen/Yuan

2 Kanebo Cosmetics (Jan.-Dec.2015): Net sales = slightly less than 180.0 billion yen / operating margin before deduction of royalties = approximately 2%; amortization related to Kanebo Cosmetics: 10.0 billion yen

3 Kanebo Cosmetics (Jan.-Dec.2016): Net sales = approximately 180.0 billion yen / operating margin before deduction of royalties = approximately 5%; amortization related to Kanebo Cosmetics: 1.3 billion yen

# Sales Outlook by Segment - FY2016

	Billion yen	Growth <sup>1</sup>
Consolidated Net Sales	1,480.0	0.4%

Billion yen

By Segment <sup>2</sup>			Reference: By Geographic Area <sup>2</sup>		
		Growth <sup>1</sup>			Growth <sup>1</sup>
Beauty Care	609.0	0.1%	Japan	1,049.0	2.9%
Human Health Care	286.0	1.5%	Asia	288.0	1.1%
Fabric & Home Care	344.0	2.6%	Americas	125.0	(9.3)%
Chemical	281.0	(2.5)%	Europe	140.0	(9.3)%

<sup>1</sup> IFRS applied from FY2016. Comparison with FY2015 IFRS

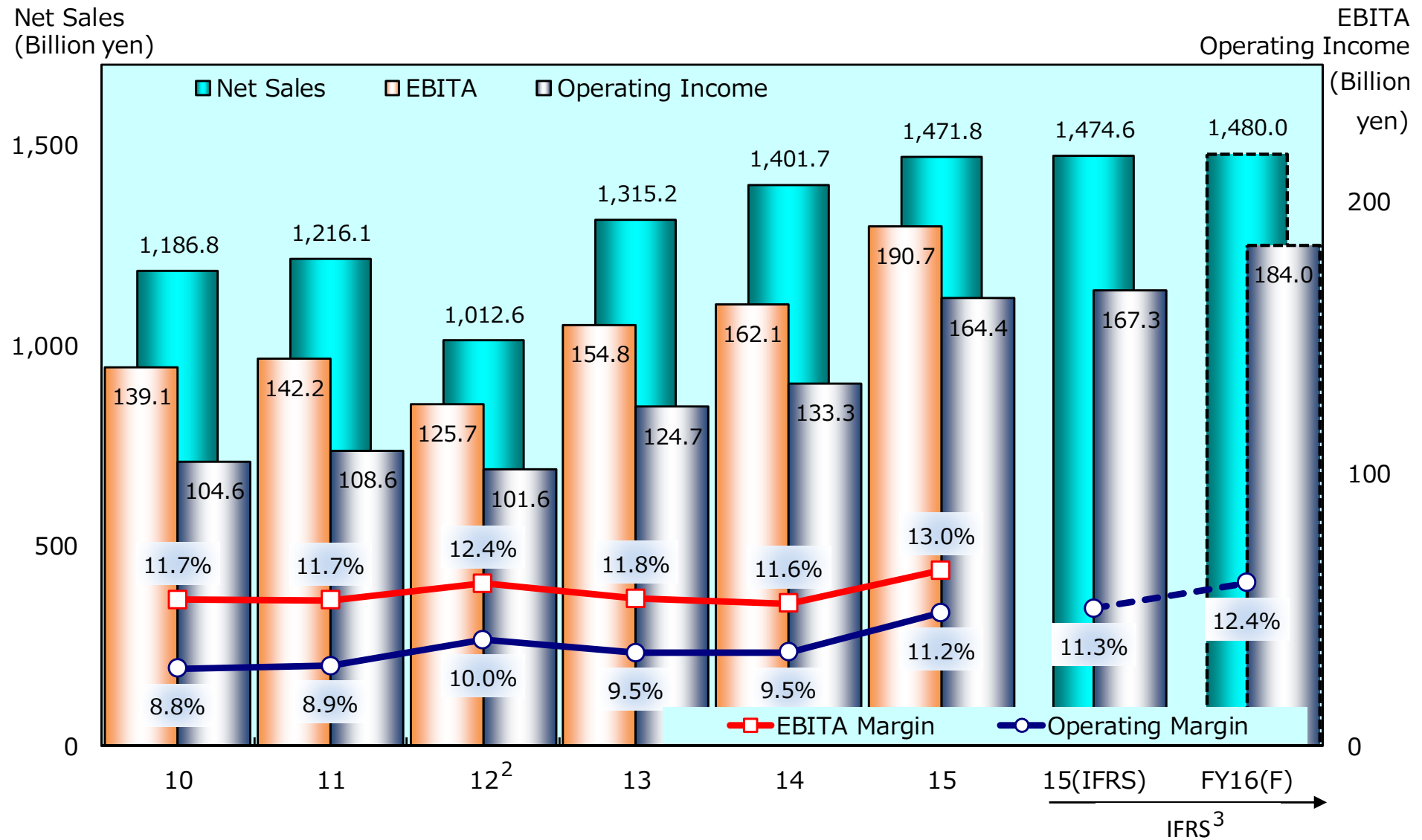
<sup>2</sup> Before elimination of transactions among segments or geographic areas.

# Sales Outlook for the Consumer Products Business in Japan - FY2016 <sup>[Reference]</sup>

Billion yen	1st Half			Full year		
	FY2015 Actual	FY2016 Actual	Growth %	FY2015 Actual	FY2016 Forecast	Growth %
Beauty Care	191.8	202.5	5.6	412.3	426.0	3.3
Human Health Care	104.3	103.6	(0.6)	222.7	225.0	1.1
Fabric & Home Care	126.1	133.8	6.1	288.8	304.0	5.2
Consumer Products Business	422.2	439.9	4.2	923.8	955.0	3.4

\* IFRS applied from FY2016. FY2015 are calculations based on IFRS.

# Consolidated Net Sales/EBITA<sup>1</sup>/Operating Income [Reference]



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

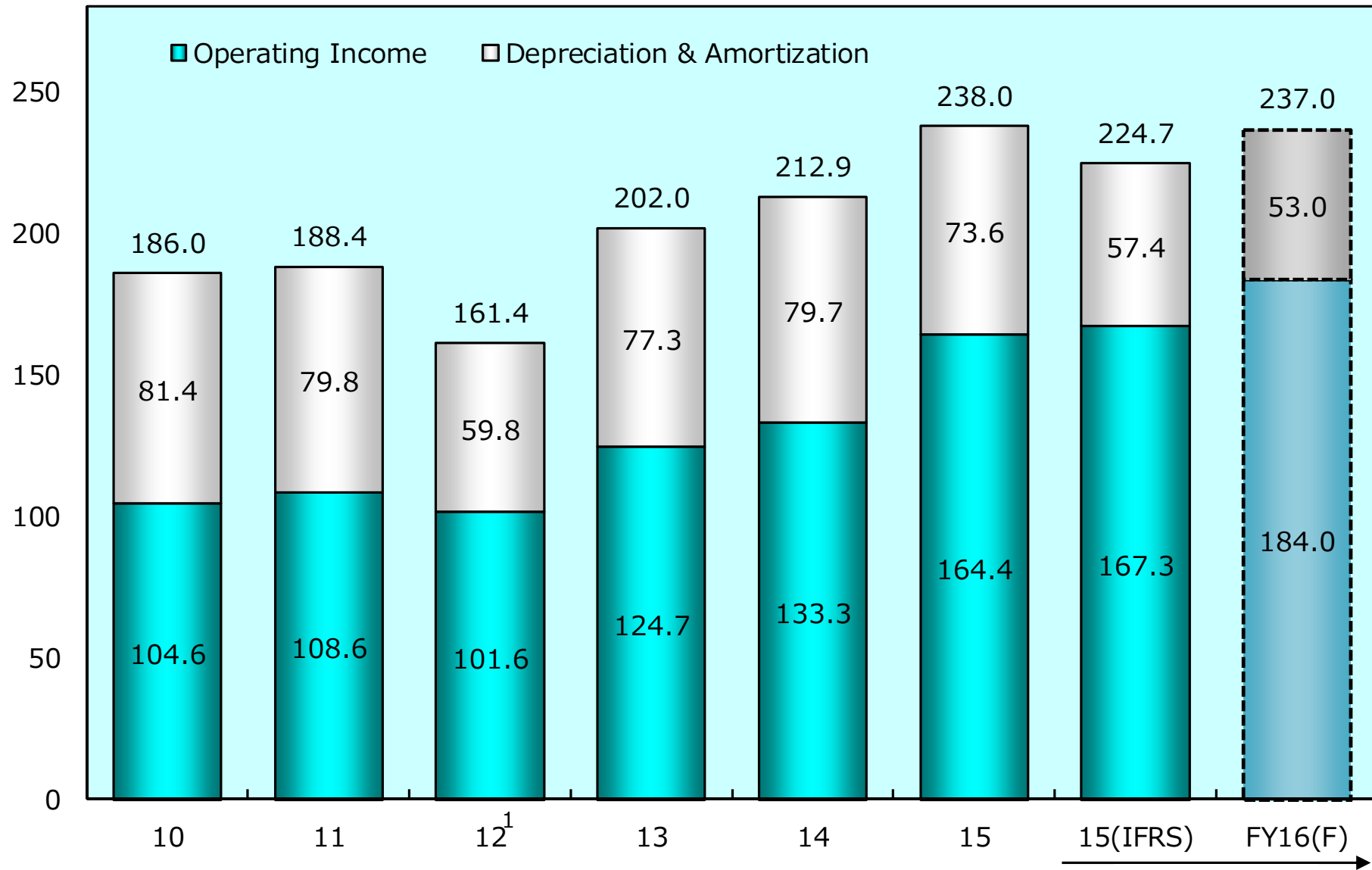
2 Fiscal year end is December 31 from FY2012. (Please refer to slide 2 for details.)

3 IFRS applied from FY2016. FY2015 are calculations based on IFRS. EBITA is not presented because amortization of goodwill has been discontinued under IFRS.

# EBITDA

[Reference]

(Billion yen)



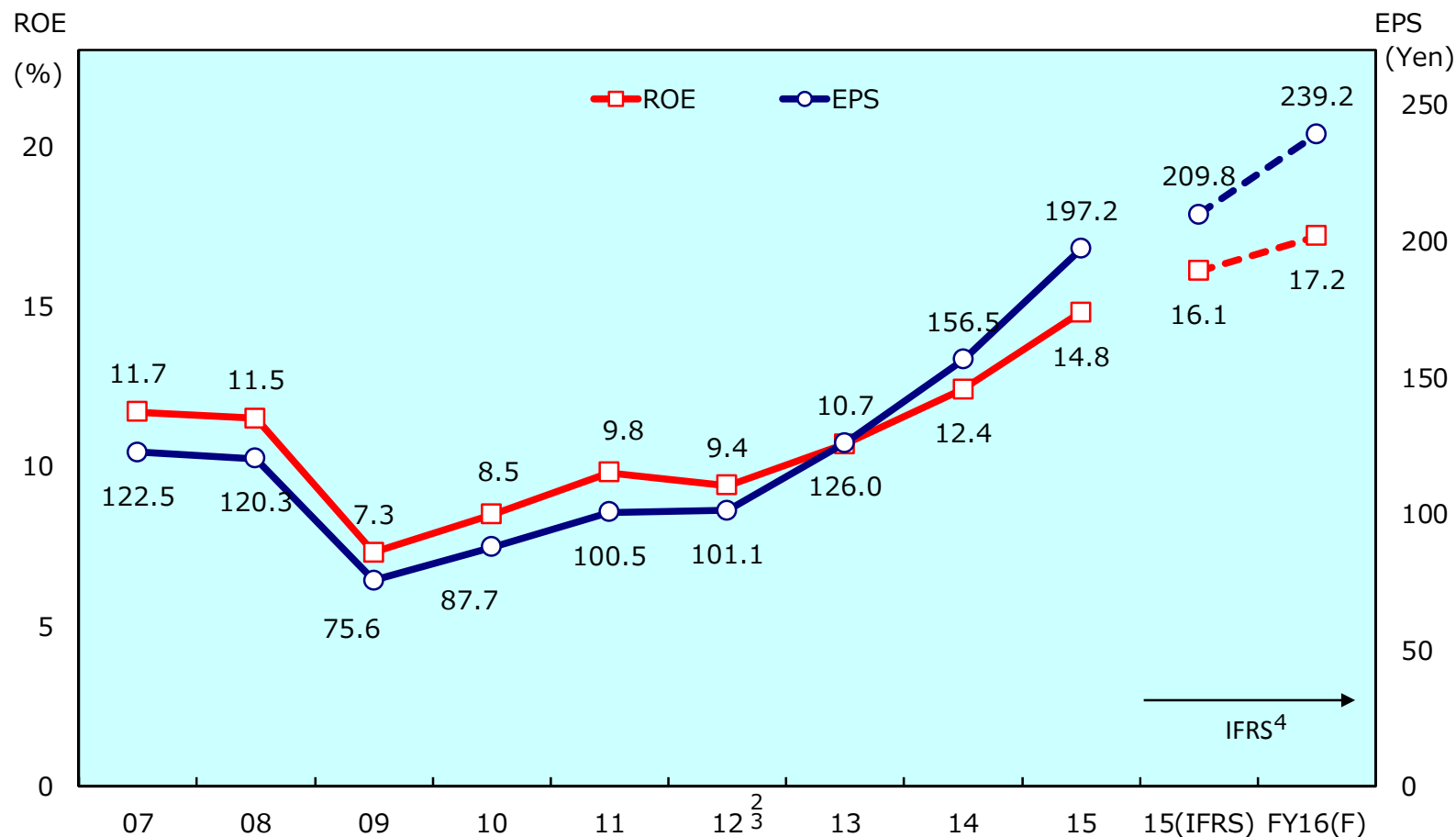
1 Fiscal year end is December 31 from FY2012. (Please refer to slide 2 for details.)

2 IFRS applied from FY2016. FY2015 are calculations based on IFRS.

IFRS<sup>2</sup>

# ROE & EPS<sup>1</sup>

[Reference]



Weighted Average Number of Shares Outstanding (Million Shares)	543.2	536.1	536.0	533.0	521.9	521.8	513.9	508.7	501.4	501.4	501.7
Net Income [J-GAAP] / Net income, attributable to owners of the parent [IFRS] (Billion yen)	66.6	64.5	40.5	46.7	52.4	52.8	64.8	79.6	98.9	105.2	120.0

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.)

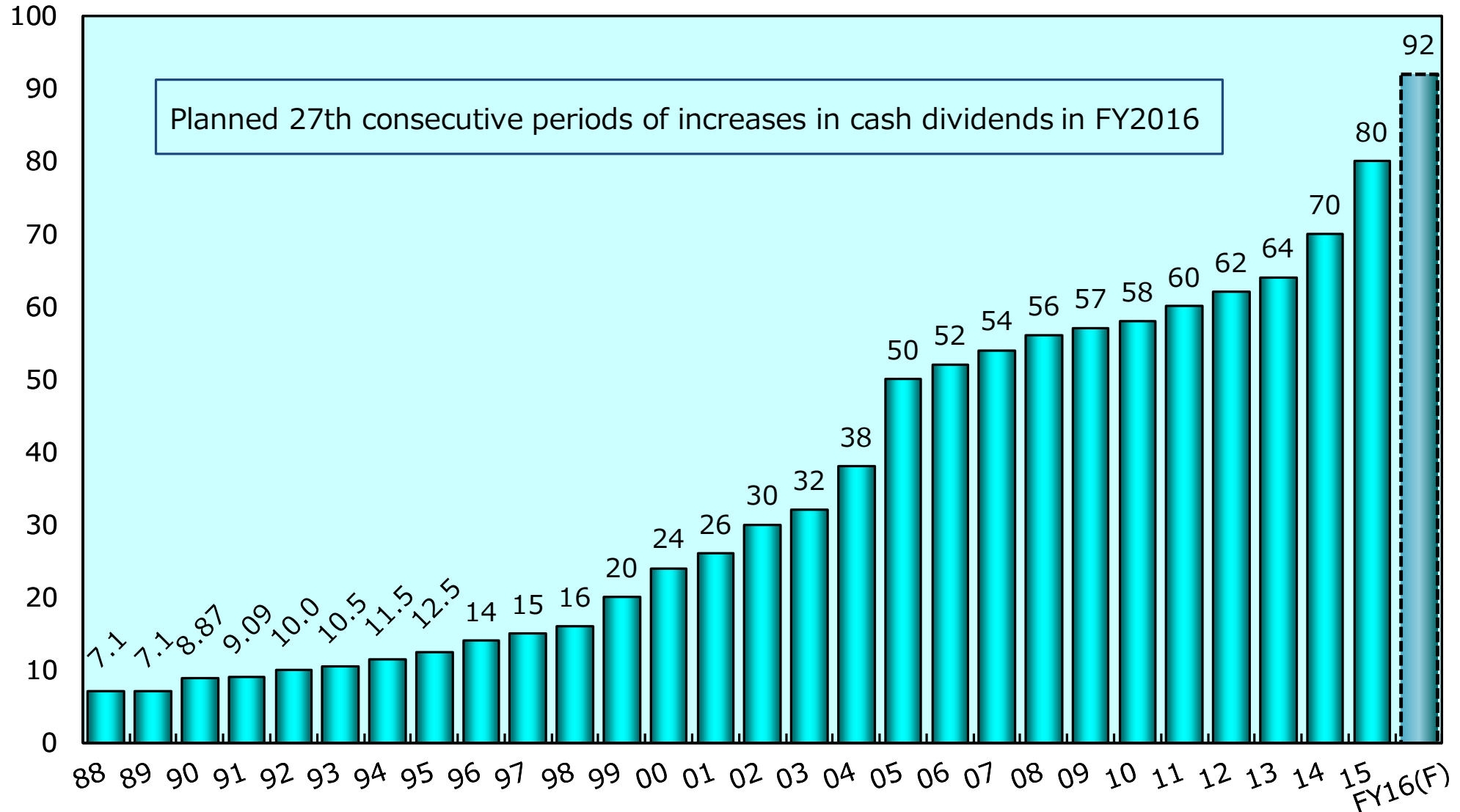
3 ROE of FY2012 are for the transitional period connected with the change in fiscal year end.

4 IFRS applied from FY2016. FY2015 are calculations based on IFRS.

# Cash Dividends per Share

[Reference]

Cash Dividends per Share (Yen)



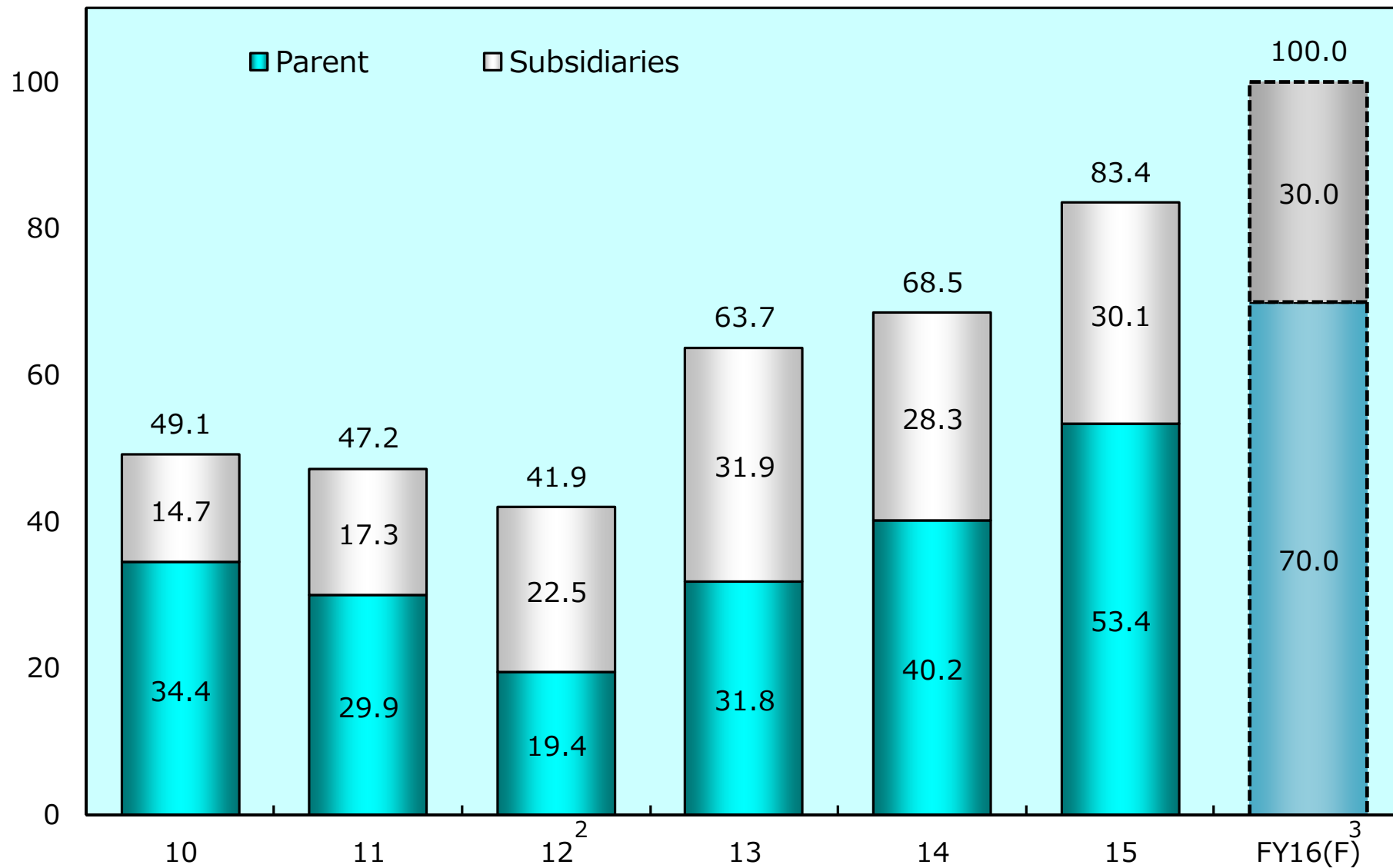
\* Impacts of share splits are retroactively reflected.



# Capital Expenditures<sup>1</sup>

[Reference]

(Billion yen)



1 Includes long-term prepaid expenses.

2 Fiscal year end is December 31 from FY2012. (Please refer to slide 2 for details.)

3 IFRS applied from FY2016.



# **Review of the 1st Half of FY2016 and the Kao Group's Targeted Direction**

**Kao Corporation**

July 28, 2016

**Michitaka Sawada**

**President and CEO**



# Review of the 1st Half of FY2016

# Positioning of FY2016

## **FY2016 is a year of preparation for continuous growth**

**Prepare thoughtfully for the next mid-term plan K20 so that Kao can respond to various changes in external factors**

- 1. Achieve the forecast and a seventh consecutive fiscal year of growth in net sales and profits\***
  - Further expand growing businesses
  - Get poorly performing businesses onto a growth trajectory
  - Proactively launch new and improved products
  - Accelerate growth of the Consumer Products Business in Asia
- 2. Launch full preparations for businesses that will drive future growth**
  - Execute major reforms in the cosmetics business
    - Start at Kanebo Cosmetics this year following Kao Sofina last year
  - Rebuild *Healthya* functional drinks and prepare for entrance into food- and health-related businesses
  - Prepare for “discontinuous growth” of the Consumer Products Business in Americas and Europe
  - Create businesses in bordering areas including hygiene
  - Expand and create businesses with proactive M&A

\* Excludes the impact of the change in financial term in 2012 and the application of IFRS from the first quarter of 2016.

# Executive Summary

- **Operating income greatly exceeded the forecast\* announced at the beginning of FY2016 and grew substantially year on year. Net sales increased slightly, but were below the forecast at the beginning of FY2016 due to the effect of currency translation.**
- **Preparation for the next mid-term plan K20 is underway as scheduled**
- **Shareholder returns**
  - Cash dividends per share at the end of the 1st half of FY2016 are 46 yen, an increase of 8 yen as forecast.
- **ESG (environment, social, governance) information**
  - Compact Board of Directors, which enhances supervision of execution and continues discussion from a medium-to-long-term perspective
  - New offerings of refill products combining universal design and environmental consciousness
  - Kao is the first company in Japan to use FSC®-certified (the Forest Stewardship Council) corrugated cartons to reduce environmental impact.

\*Forecast announced on February 3, 2016

# Initiatives to Reduce Environmental Impact

## ■ New offerings of refill products combining universal design and environmental consciousness

- Plan to extend to other brands following *Essential* and *Merit* shampoos and conditioners launched in January and April 2016, respectively



Merit



Essential



## ■ Kao is the first company in Japan to use FSC®-certified (the Forest Stewardship Council) corrugated cartons to reduce environmental impact.\*

- Kao began procurement of FSC-certified corrugated cartons in March 2016, and by the end of 2016, approximately 50 percent of corrugated cartons used by Kao will be FSC-certified.

Example of FSC Certification Label



\* For further details, please refer to the release ([http://www.kao.com/jp/en/corp\\_news/2016/20160603\\_001.html](http://www.kao.com/jp/en/corp_news/2016/20160603_001.html))

# Progress of Preparations for Businesses That Will Drive Future Growth

## Major reforms in the cosmetics business

### ■ Reinforce skin care

- Define features of brands clearly and enhance counseling

### ■ Kao Sofina

- Cosmetics that capture beauty from the perspective of the body as a whole (holistic beauty)
- *SOFINA iP* skin care
  - Kao held an exclusive presale for two *SOFINA iP* products in November 2015, extended sales channels to department stores from January 2016, and will further extend channels to drug stores and general merchandising stores (GMS) in September 2016.
- Core basic skin care products will be renewed in September 2016.

### ■ Kanebo Cosmetics

- Cosmetics for experiencing beauty through the five senses
- Global brand *KANEBO*
  - "New prestige" brand targeting women who pursue essential qualities and relate to universal beauty
  - In September 2016, the brand will be launched in department stores and some specialty stores
  - Brand originality is chrono-beauty
  - 24 items ranging from skin care to base makeup to point makeup

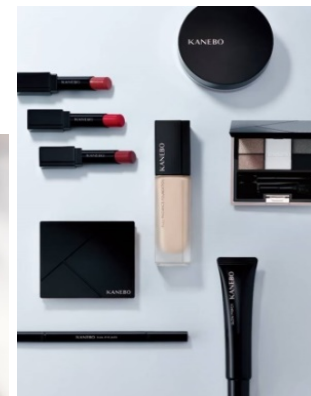


*Sofina iP*



Basic care  
*Beauté* line

*Grace* line



*KANEBO*

**Kao**

自然と調和する こそる豊かな毎日をめざして



# Progress of Preparations for Businesses That Will Drive Future Growth

## Rebuild *Healthya* functional drinks and prepare for entrance into food- and health-related businesses

### ■ Rebuild *Healthya*

- Enhance communication of value unique to *Healthya*, which contains highly concentrated tea catechins
  - New benefit claim: enhances ability to metabolize fat and facilitates reduction of body fat
  - Kao discovered the mechanism of metabolism, which consists of breakdown and consumption, as a result of in-depth research into tea catechins.
  - Bottle for *Healthya* green tea was renewed in July 2016
- Advance sales of *Healthya Malt Style* non-alcoholic beverage with beer flavor began in July 2016 in a limited retail channel.



*Healthya green tea*



*Healthya Malt Style*

### ■ Preparation for entrance into food- and health-related businesses

# Progress of Preparations for Businesses That Will Drive Future Growth

## Expand and create businesses with proactive M&A

### ■ Taking on the challenge of changing the printing world with Kao's innovative water-based pigment inkjet ink

- The ink will contribute to reduction of environmental impact in the global industrial digital printing market.
- Kao's technology: The world's first volatile organic compounds (VOC)-free water-based pigment inkjet ink. It applies Kao's unique pigment nano-dispersion technology.<sup>1</sup>
- Acquired through M&A: Advanced ink designing technologies in addition to manufacturing equipment and sales networks in the Americas and Europe

### ■ Acquisition of two ink companies in the Americas and Europe<sup>2</sup>

- Collins Inkjet Corporation
  - Headquarters: Ohio, U.S.A.
  - Completion of acquisition: July 2016
- Chimigraf Group
  - Headquarters: Barcelona, Spain
  - Completion of acquisition: April 2017 (plan)



1 For further details, please refer to the release ([http://www.kao.com/jp/en/corp\\_news/2016/20160510\\_001.html](http://www.kao.com/jp/en/corp_news/2016/20160510_001.html))

2 For further details, please refer to the releases ([http://www.kao.com/jp/en/corp\\_news/2016/20160620\\_002.html](http://www.kao.com/jp/en/corp_news/2016/20160620_002.html) and [http://www.kao.com/jp/en/corp\\_news/2016/20160620\\_001.html](http://www.kao.com/jp/en/corp_news/2016/20160620_001.html))

# The Kao Group's Targeted Direction

# The Kao Group's Targeted Direction

**Aiming to become a company with a global presence  
by combining profitable growth and  
contributions to sustainability of the world**

**In order to fulfill the role of a leading company and increase corporate value,**

## **1. Insist on sustainable growth**

- Continuously increase net sales and profits
- Prioritize profits over sales expansion
- Advance the post-deflation growth model and proactively invest in M&A
- Create and propose profitable businesses

## **2. Provide sustainable returns to stakeholders**

- To employees: Continuously increase compensation and benefits
- To society: Pay taxes, provide employment and conduct social contribution activities
- To shareholders: Continuously increase cash dividends

# Use of Cash Flow\* and Shareholder Returns

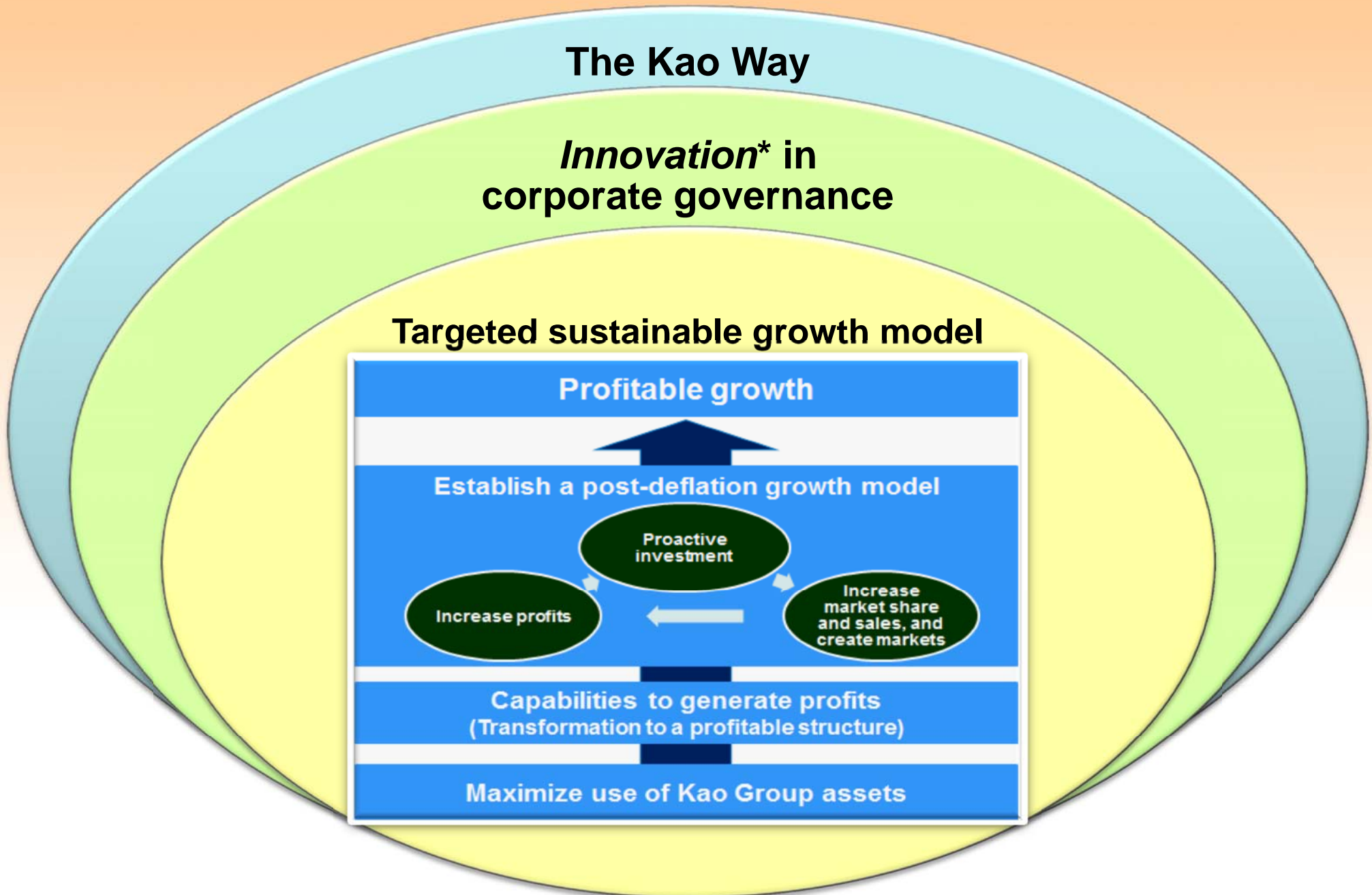
*Use steadily generated cash flow effectively in order of priority shown below from an EVA standpoint toward further growth.*

1. Investment for future growth  
(capital expenditures, M&A, etc.)
2. Steady and continuous cash dividends
3. Share repurchases and early repayment of  
interest-bearing debt including borrowings

\* Net cash provided by operating activities

# Appendices

# Profitable Growth and Corporate Governance



\* Innovation is one of the values of The Kao Way, the corporate philosophy of the Kao Group.

# Contributions to Sustainability of the World

## Contribution to society through business activities

Key areas

Conservation

Community

Culture

Fulfill our role as a public entity of society based on the Kao Way



### ■ Contribute to the resolution of global social issues through innovative products and services

- Product development considering the environment, health, the aging society, hygiene, etc.

### ■ Continue and reinforce social contribution activities as a corporate citizen

- Collaboration with stakeholders and local communities

### ■ Act on global issues

- Participation in the United Nations' Global Compact, RSPO\* membership and sustainable palm oil procurement, respect for diversity

\* RSPO: Roundtable on Sustainable Palm Oil, an international non-governmental organization that pursues solutions to issues related to palm oil production, including the destruction of ecosystems by rainforest logging and poor labor conditions for workers on plantations



# Business Segments and Main Product Categories

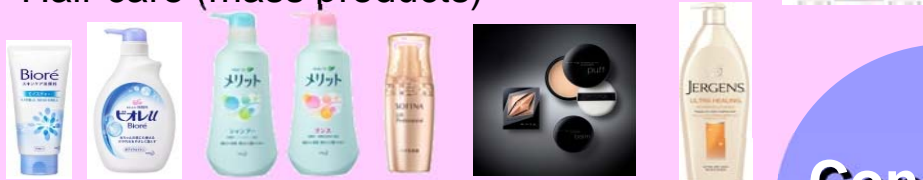
Consumer Products  
Business

## Beauty Care

1H/FY2016 sales: ¥292.7 billion

[Growth: +1.6% / Share of net sales: 41.8%]

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



Consumer  
driven

## Human Health Care

1H/FY2016 sales: ¥132.9 billion

[Growth: -0.3% / Share of net sales: 19.0%]

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



Consumer Products  
Business

Consumer Products  
Business

## Fabric and Home Care

1H/FY2016 sales: ¥155.8 billion

[Growth: +4.2% / Share of net sales: 22.3%]

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



## Chemical

1H/FY2016 sales: ¥135.5 billion

[Growth: -5.8% / Share of net sales: 16.9%]

Oleo chemicals  
Performance chemicals  
Specialty chemicals



Chemical Business

Note: Sales include intersegment sales. Share of net sales is calculated based on sales to customers.

# SRI Indexes and External CSR Evaluations

## SRI indexes for which Kao has been selected

MEMBER OF

**Dow Jones  
Sustainability Indices**

In Collaboration with RobecoSAM



FTSE4Good



MSCI

2016 Constituent  
MSCI Global  
Sustainability Indexes  
<https://www.msci.com/esg-integration>



## CSR-related evaluations from external organizations



Gold Class 2016および

Industry Mover 2016同時受賞



CSR: Corporate Social Responsibility  
SRI: Socially Responsible Investment

(As of July 28, 2016)

The Kao logo is rendered in a bold, teal-colored, sans-serif typeface. The letters are closely spaced, with the 'K' and 'a' being particularly prominent due to their size and weight.

Enriching lives, in harmony with nature.