



Chapter

4

Performance in FY2018

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Overview of Kao's Business (FY2018)

		Net Sales 1,508.0 billion yen	Operating Income 207.7 billion yen	Operating Margin 13.8 %
Consumer Products Business ^{*1}	Cosmetics Business 	279.6 billion yen (+5.0% year-on-year ^{*2}) (18.5% share of net sales ^{*3})	27.7 billion yen (13.4% share of operating income ^{*3})	9.9 % (+5.0% percentage points year-on-year)
	Skin Care and Hair Care Business 	341.4 billion yen (+2.7% year-on-year ^{*2}) (22.6% share of net sales ^{*3})	48.8 billion yen (23.7% share of operating income ^{*3})	14.3 % (-0.5% percentage points year-on-year)
	Human Health Care Business 	267.7 billion yen (-4.4% year-on-year ^{*2}) (17.8% share of net sales ^{*3})	27.9 billion yen (13.5% share of operating income ^{*3})	10.4 % (-1.9% percentage points year-on-year)
	Fabric and Home Care Business 	344.1 billion yen (+2.6% year-on-year ^{*2}) (22.8% share of net sales ^{*3})	71.2 billion yen (34.5% share of operating income ^{*3})	20.7 % (-2.0% percentage points year-on-year)
Chemical Business	Chemical Business 	312.8 billion yen ^{*4} (+0.5% year-on-year ^{*2}) (18.3% share of net sales ^{*3})	30.6 billion yen ^{*4} (14.9% share of operating income ^{*3})	9.8 % (+0.0% percentage points year-on-year)

^{*1} As of the fiscal year ended December 31, 2018, the following changes have been made.

- 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
- Due to the reorganization of the sales organization of the Consumer Products Business in Japan, operating income for the previous fiscal year has been restated.

^{*2} Like-for-like growth excluding the effect of currency translation.

^{*3} Share of net sales is calculated based on sales to customers. Share of operating income is calculated before the elimination of intersegment transactions.

^{*4} Net sales and operating income of the Chemical Business include intersegment transactions.

Cosmetics Business

Kao created a new brand portfolio based on the new growth strategy that Kao announced in May 2018, and we promote brand selection and concentration. We have already been working to focus resources on measures targeting key brands and to implement the transition to digital marketing. There has been a particularly noticeable improvement in sales of counseling cosmetics *SUQQU* and *RMK*, and of self-service cosmetics *freeplus* and *Curél*. With robust sales in the Asia market and particularly strong sales growth in China, there has been a substantial improvement in the operating income of the Cosmetics Business as a whole. Kao will continue to steadily implement the new growth strategy.

Skin Care and Hair Care Business

In the Skin care products, there was steady growth in sales of *Bioré* in Asia including Japan, and of *Jergens* in the Americas. In the Hair care products, there was robust sales performance by both *Rerise*, Kao's innovative next-generation brand for gray hair, and hair salon brand *Oribe*. However, sales of shampoos and conditioners decreased. Operating income decreased, because the increase in skincare product revenue in Japan and Asia was offset by restructuring costs in the Americas and Europe. We are continuing our efforts to strengthen the product development system in the Americas and Europe, and to drive a shift towards high-value-added products in these regions.

Human Health Care Business

Merries baby diapers, one of our core brands, faced severe competition in China, but market share rose in the consumer segment in Japan. There was also significant growth in Indonesia and Russia. Sales of *Laurier* sanitary napkins and *MegRhythm* thermo products remained strong, and there was also an improvement in the earnings performance of the *Healthya* functional beverage product thanks to structural reforms. Operating income decreased due to rising raw material costs and an increase in depreciation expenses. We aim to achieve a further development of this business by reinvigorating our Baby diaper business and by strengthening e-commerce operations in China.

Fabric and Home Care Business

In the Fabric care products, sales performance of *Attack* laundry detergent, one of our core brands, was robust, and improvements to *Flair Fragrance* contributed to market share growth in the fabric softener segment. In the Home care products, Kao maintained strong sales performance in Japan and in the Asian market as a whole. Kao continued to strengthen its Professional-use products business in international markets, particularly through the acquisition of U.S. company Washing Systems, LLC in FY2018. Operating income decreased due to rising raw material costs including petrochemical materials. In the future, Kao will be working to develop high-value-added products and to develop solutions that enrich people's lives.

Chemical Business

In the Oleo chemicals segment, sales of alcohol derivatives were robust, while the Performance chemicals segment saw an increase in sales that was partly due to sales growth in the infrastructure-related market segment. The Specialty chemicals segment saw an improvement in sales of hard disk related products. Operating income in the Chemical Business rose to a historic high, thanks to increased sales of Oleo chemicals in international markets and a shift towards high-value-added products. In the future, we will be working to increase the share of sales contributed by high-value-added products, which are less affected by fluctuations in raw materials costs, and to strengthen the production of environmentally friendly chemicals that have reduced environmental impacts.

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.

Key Non-financial Data

Conservation

Materiality	Vision	Items	Results				Targets	Results	Targets	SDGs ^{*7}
			2014	2015	2016	2017	2018	2020		
Conservation	Minimize environmental impact from our business activities and contribute to the realization of the One Planet Living vision for environmental sustainability									
	Reduction rate for CO ₂ emissions ^{*1}									
	Scope 1 and 2	-28%	-29%	-30%	-31%	-32%	-33%	-35%	12 13	
	Consumer products, across the lifecycle	-15%	-17%	-14%	-14%	—	-17%	—		
	Consumer products in Japan, across the lifecycle	-16%	-17%	-16%	-15%	—	-18%	-35%		
	Reduction rate for water usage ^{*1}									
	All Kao Group plants and offices	-38%	-43%	-42%	-43%	-39%	-42%	-40%	6 12	
	Consumer products, across the lifecycle	-18%	-21%	-17%	-19%	—	-21%	—		
	Consumer products in Japan, during product use	-22%	-24%	-22%	-24%	—	-24%	-30%		
	Reduction rate for waste production ^{*1}									
	All Kao Group plants and offices	-27%	-27%	-25%	-25%	-32%	-26%	-33%	12	
	Percentage of sales from products displaying the "eco together" logo ^{*2}	27%	28%	29%	29%	—	29%	—	6 9 12 13	
	Procurement of sustainable palm oil ^{*3}	—	PKO ^{*3} Completed traceability to the mills ^{*4}	PKO ^{*3} Completed traceability to the mills	PO ^{*3} Completed traceability to the mills to 97%	PO ^{*3} Traceability to the mills	PO ^{*3} Completed traceability to the mills to 98%	Traceability to the plantations	15	
	Procurement rate for sustainable paper and pulp ^{*5}	—	96%	99%	100%	—	100%	100%	15	
	Promote further environmental activities by engaging in environmental communication with society									
	Cumulative number of participants in environmental communication ^{*6} (thousands of people)	240	460	690	910	1,200	1,230	1,000	12	
	Aim to contribute to the realization of a sustainable society by promoting sound chemical management through Strategic Approach to International Chemicals Management (SAICM) activities									
	Number of released safety summaries for Kao priority risk assessment substances	—	7 (Total 7)	3 (Total 10)	3 (Total 13)	3	3 (Total 16)	Total 20	3 12	
	Number of released GPS safety summaries for chemical products	47 (Total 77)	12 (Total 89)	18 (Total 107)	18 (Total 125)	16	16 (Total 141)	Total 150	3 12	

*1 Per unit (of sales), relative to FY2005

*2 Consumer products in Japan; sales rate of products that meet the criteria for "eco together" certification
"eco together" certification:
www.kao.com/global/en/sustainability/environment/statement-policy/eco-friendly-products/eco-together-logo/

*3 Progress of activities to trace the palm oil used by the Kao Group back to the plantation; PKO: palm kernel oil, PO: palm oil

*4 As of the end of 2015, we were unable to establish the traceability of some of the derivatives that we had no choice but to purchase from other companies.

*5 Recycled and sustainable paper and pulp and packaging materials used in our products

*6 Cumulative number of participants in educational programs, factory tours, environmental events, etc., since 2014

*7 The goals to which the Kao Group can contribute among 17 Sustainable Development Goals



Community

Materiality	Vision	Items	Results				Targets	Results	Targets	SDGs
			2014	2015	2016	2017	2018	2020		
Health	Improve and prevent obesity and lifestyle diseases by contributing to the creation of a society conducive to a healthy life									
	Number of participants in health educational programs* ⁸ (thousands of people)	1,610	2,610	2,320	2,880	100	100	—	3	
Hygiene	Prevent the spread of infectious diseases by contributing to the creation of a society conducive to a hygienic life									
	Number of participants in the educational programs of hygiene habits* ⁹ (thousands of people)	6,120	7,540	7,530	8,290	6,820	7,230	12,000	3612	
Aging	Support the lifestyles of the elderly by contributing to the creation of a society conducive to healthy aging, both mentally and physically									
	Cumulative number of the products improved with Universal Design considerations* ¹⁰	2,066	2,876	3,585	4,666	—	5,658	—	12	
	Implementation rate of improvements with Universal Design considerations* ¹⁰	80%	91%	71%	63%	—	56%	—		
Partnership with the community	Engage in social activities with local communities to contribute to an improved quality of life									
	Number of times information was provided to employees regarding volunteer activities	79	71	67	50	75	33	80	17	
	Educational activities for external parties provided through transmitted information	71	99	59	60	70	50	80		

*⁸ Number of participants in walking events and events for measuring visceral fat and teeth brushing education; QUPiO users; the QUPiO business was sold in April 2018, and accordingly, QUPiO users are not included.

QUPiO: A program aimed at providing support for health promotion and preventive, lifestyle improvement measures based on knowledge obtained from joint research undertaken with the University of Tokyo using a database of health checkup data for one million people that covers an extended period of time.

*⁹ Number of participants in the educational programs for infant care, hand and hair washing, laundry and cleaning, and menstrual hygiene (including the delivery of educational samples and tools) in Japan and the rest of Asia

*¹⁰ Products improved with Universal Design considerations represent products improved from considerations including accessibility, safety and usability. The implementation rate of improvements is the percentage of products improved with Universal Design considerations among all new and improved product items. The data until 2015 covers Japan, the data for 2016 covers Japan and the Americas, and the data for 2017 covers Japan, the Americas and Europe (not including salons and Molton Brown Ltd.).

Corporate Culture

Materiality	Vision	Items	Results				Targets	Results	Targets	SDGs
			2014	2015	2016	2017	2018		2020	
Integrity	Instillment of Integrity throughout the entire Kao Group									
	BCG test rate	87.2%	96.4%	97.5%	97.1%	—	—*16	100%	16	
	Number of serious compliance violations*11	0	0	0	0	0	0	0		
Diversity and Inclusion	Maximize employee potential through Diversity and Inclusion									
	Percentage of female managers	27.6%	27.5%	25.4%*12	25.1%	—	27.3%	30%*13	5	
	Percentage of female managers (Japan)	10.1%	10.4%	13.1%*12	14.6%	—	18.4%	15%*13	5	
	Cumulative attendance rate for manager training on diversity and increasing management capabilities	—	—	8.2%	55.7%	100%	94.0%	200%*14	10	
Employee health and safe workplaces	Improvement of health literacy and safety awareness among employees									
	Total participants for health promotion programs	—	—	31,885	36,259	—	40,768	35,900	8	
	Lost time accident frequency rate*15	0.54	0.61	0.67	0.55	0.20	0.77	Less than 0.10	8	

*¹¹ Serious compliance violations relating to the Kao Group's operations are internally defined and managed within the Kao Group.

*¹² The definition of "manager" was revised in 2016 following the promotion of integrated Group management.

*¹³ Not established as targets for 2020, but targets to be quickly realized as future milestones

*¹⁴ Cumulative attendance rate for manager training since 2016

*¹⁵ Number of persons dead or seriously injured in occupational accidents per million hours worked (including only accidents involving at least one lost work day and also the loss of a part of the body or a bodily function)

*¹⁶ Not implemented in 2018 due to a review of BCG activities.

Key Financial Data

Historical Data

IFRS	(Millions of yen)			
	Dec. 2018	Dec. 2017	Dec. 2016	Dec. 2015
For the year:				
Economic Value Added (EVA®)	93,530	90,394	73,357	58,557
Net sales	1,508,007	1,489,421	1,457,610	1,474,550
Operating income	207,703	204,791	185,571	167,318
(% of sales)	13.8	13.7	12.7	11.3
Income before income taxes	207,251	204,290	183,430	166,038
Net income	155,331	148,607	127,889	105,952
Net income attributable to owners of the parent	153,698	147,010	126,551	105,196
Net cash flows from operating activities	195,610	185,845	184,307	181,672
Net cash flows from investing activities	(157,895)	(96,146)	(88,639)	(74,124)
Free cash flow	37,715	89,699	95,668	107,548
Net cash flows from financing activities	(108,579)	(53,244)	(95,043)	(20,773)
Capital expenditures	89,097	79,355	89,900	82,848
Depreciation and amortization	60,662	54,508	51,116	57,423
Research and development	57,673	56,703	54,567	52,699
(% of sales)	3.8	3.8	3.7	3.6
Advertising	80,274	89,935	97,437	94,745
(% of sales)	5.3	6.0	6.7	6.4
At year end:				
Total assets	1,460,986	1,427,375	1,338,309	1,311,064
Equity attributable to owners of the parent	822,360	806,381	679,842	680,996
Ratio of equity attributable to owners of the parent to total assets (%)	56.3	56.5	50.8	51.9
Number of employees (people)	33,664	33,560	33,195	32,282
Per share:				
Basic earnings per share (EPS) (yen)	314.25	298.30	253.43	209.82
Annual cash dividends per share (yen)	120.00	110.00	94.00	80.00
Number of issued shares, including treasury shares, at the end of the year (in thousands of shares)	488,700	495,000	504,000	504,000
Share price at the end of the year (yen)	8,154	7,619	5,541	6,255
Key financial ratios:				
Ratio of net income to equity attributable to owners of the parent (ROE) (%)	18.9	19.8	18.6	16.1
Ratio of income before income taxes to total assets (ROA) (%)	14.4	14.8	13.8	13.1

1. The Kao Group adopted IFRS for the fiscal year ended December 31, 2016.
2. Free cash flow = Net cash flows from operating activities + Net cash flows from investing activities.
3. Capital expenditures include investments in property, plant and equipment, intangible assets, and other non-current assets.
4. EVA® is a registered trademark of Stern Stewart & Co.

Japanese GAAP

For the year:

Net sales

Business segments

Beauty Care Business
Human Health Care Business
Fabric and Home Care Business
Consumer Products Business
Chemical Business
Eliminations

Geographic areas

Japan
Asia
Asia and Oceania
Americas
North America
Europe
Eliminations

Operating income

Net income attributable to owners of the parent

Capital expenditures
Depreciation and amortization
Cash flows
Research and development
(% of sales)
Advertising
(% of sales)

At year end:

Total assets
Net worth
Number of employees (people)

Per share:

Net income per share (EPS) (yen)
Annual cash dividends per share (yen)
Net worth (yen)
Weighted average number of shares outstanding during the period (in thousands of shares)

Key financial ratios:

Return on sales (%)
Return on equity (ROE) (%)
Net worth ratio (%)

(Millions of yen)

Dec. 2015	Dec. 2014	Dec. 2013	Dec. 2012 (Restated)	Dec. 2012	Mar. 2012	Mar. 2011	Mar. 2010
1,471,791	1,401,707	1,315,217	1,220,359	1,012,595	1,216,096	1,186,831	1,184,385
607,692	589,907	570,268	537,814	444,425	537,938	533,514	547,944
280,723	240,077	210,628	189,614	151,977	181,758	175,761	183,151
334,416	324,505	311,023	291,988	236,748	285,645	279,008	276,918
1,222,831	1,154,489	1,091,919	1,019,416	833,150	1,005,341	988,283	1,008,013
288,456	288,022	261,192	236,473	208,071	247,635	231,997	207,834
(39,496)	(40,804)	(37,894)	(35,530)	(28,626)	(36,880)	(33,449)	(31,462)
1,019,016	997,309	959,405	933,767	720,789	925,339	912,443	918,499
281,533	244,903	199,655	160,005	159,857	—	—	—
—	—	—	—	—	173,588	152,361	131,699
137,827	124,216	108,599	89,998	89,998	—	—	—
—	—	—	—	—	85,397	80,328	79,200
154,350	152,056	134,168	110,519	110,519	117,005	112,123	111,158
(120,935)	(116,777)	(86,610)	(73,930)	(68,568)	(85,233)	(70,424)	(56,171)
164,380	133,270	124,656	111,791	101,567	108,590	104,591	94,034
98,862	79,590	64,764	53,107	52,765	52,435	46,738	40,507
83,414	68,484	63,687	—	41,929	47,178	49,101	44,868
73,623	79,660	77,297	—	59,788	79,798	81,380	84,778
135,394	125,436	109,497	—	80,200	101,960	97,028	95,269
51,987	51,739	49,650	—	37,493	48,171	45,516	44,911
3.5	3.7	3.8	—	3.7	4.0	3.8	3.8
94,496	92,410	86,406	—	67,045	82,209	81,082	86,359
6.4	6.6	6.6	—	6.6	6.8	6.8	7.3
1,281,869	1,198,233	1,133,276	—	1,030,347	991,272	1,022,799	1,065,751
675,608	658,232	628,709	—	582,699	538,030	528,895	565,133
33,026	32,707	33,054	—	33,350	34,069	34,743	34,913
197.19	156.46	126.03	101.77	101.12	100.46	87.69	75.57
80.00	70.00	64.00	—	62.00	60.00	58.00	57.00
1,347.29	1,313.63	1,227.54	—	1,116.61	1,031.08	1,013.05	1,054.31
501,352	508,687	513,880	—	521,824	521,936	532,980	536,009
6.7	5.7	4.9	4.4	5.2	4.3	3.9	3.4
14.8	12.4	10.7	9.5	9.4	9.8	8.5	7.3
52.7	54.9	55.5	—	56.6	54.3	51.7	53.0

1. Starting from the year ended December 31, 2012, Kao Corporation's fiscal year end was changed from March 31 to December 31. Due to this change, the term of consolidation for the fiscal period ended December 31, 2012 consists of the 9 months from April to December for Kao Corporation and its subsidiaries whose fiscal year end was previously March 31 and the 12 months from January to December for subsidiaries whose fiscal year end was December 31.
2. December 2012 (restated) represents figures for the year from January 1 to December 31, 2012, for Kao Group companies whose fiscal year end was previously March 31.
3. As of January 2014, certain changes were made in inter-company transactions among subsidiaries in the Consumer Products Business in the Americas and Europe.
4. Australia and New Zealand, which had been included in Asia and Oceania until the fiscal year ended March 31, 2012, were reclassified under Americas from the fiscal period ended December 31, 2012.
5. Net sales by segment include inter-segment sales and transfers.
6. Net sales by geographic area including inter-region sales are classified based on the location of Kao Group companies.
7. The Kao Group has adopted the "Accounting Standard for Business Combinations" (ASBJ Statement No. 21, September 13, 2013) and other standards. Accordingly, "net income" has been changed to "net income attributable to owners of the parent."
8. Cash flows are defined as net income attributable to owners of the parent plus depreciation and amortization minus cash dividends.
9. Net income per share is computed based on the weighted average number of shares outstanding during the respective years.
10. Cash dividends per share are the amounts applicable to the respective years, including dividends to be paid after the end of the year.
11. Net worth is equity, excluding non-controlling interests and stock acquisition rights.

Key Financial Data

Consolidated Statement of Financial Position

(Millions of yen)

	Current fiscal year (As of December 31, 2018)	Previous fiscal year (As of December 31, 2017)
Assets		
Current assets		
Cash and cash equivalents	265,978	343,076
Trade and other receivables	223,102	216,507
Inventories	197,571	183,921
Other financial assets	15,146	14,914
Income tax receivables	2,066	2,653
Other current assets	22,449	28,162
Subtotal	726,312	789,233
Non-current assets held for sale	—	147
Total current assets	726,312	789,380
Non-current assets		
Property, plant and equipment	418,935	395,800
Goodwill	180,286	138,735
Intangible assets	46,549	16,829
Investments accounted for using the equity method	7,931	7,682
Other financial assets	23,540	27,345
Deferred tax assets	49,158	40,918
Other non-current assets	8,275	10,686
Total non-current assets	734,674	637,995
Total assets	1,460,986	1,427,375
Liabilities and equity		
Liabilities		
Current liabilities		
Trade and other payables	225,560	224,893
Bonds and borrowings	40,488	25,262
Other financial liabilities	6,880	7,739
Income tax payables	34,198	34,255
Provisions	2,873	4,822
Contract liabilities	18,387	17,296
Other current liabilities	102,452	107,404
Total current liabilities	430,838	421,671
Non-current liabilities		
Bonds and borrowings	80,339	95,322
Other financial liabilities	9,506	10,091
Retirement benefit liabilities	84,552	64,694
Provisions	12,175	10,617
Deferred tax liabilities	2,864	435
Other non-current liabilities	5,203	5,181
Total non-current liabilities	194,639	186,340
Total liabilities	625,477	608,011
Equity		
Share capital	85,424	85,424
Capital surplus	108,245	107,980
Treasury shares	(11,282)	(9,593)
Other components of equity	(30,029)	(12,315)
Retained earnings	670,002	634,885
Equity attributable to owners of the parent	822,360	806,381
Non-controlling interests	13,149	12,983
Total equity	835,509	819,364
Total liabilities and equity	1,460,986	1,427,375

Consolidated Statement of Income

(Millions of yen)

	Current fiscal year (January 1, 2018–December 31, 2018)	Previous fiscal year (January 1, 2017–December 31, 2017)
Net sales	1,508,007	1,489,421
Cost of sales	(853,989)	(834,107)
Gross profit	654,018	655,314
Selling, general and administrative expenses	(444,845)	(452,666)
Other operating income	14,288	14,909
Other operating expenses	(15,758)	(12,766)
Operating income	207,703	204,791
Financial income	1,717	1,452
Financial expenses	(4,251)	(3,960)
Share of profit in investments accounted for using the equity method	2,082	2,007
Income before income taxes	207,251	204,290
Income taxes	(51,920)	(55,683)
Net income	155,331	148,607
Attributable to:		
Owners of the parent	153,698	147,010
Non-controlling interests	1,633	1,597
Net income	155,331	148,607
Earnings per share		
Basic earnings per share (Yen)	314.25	298.30
Diluted earnings per share (Yen)	314.12	298.09

Consolidated Statement of Comprehensive Income

(Millions of yen)

	Current fiscal year (January 1, 2018–December 31, 2018)	Previous fiscal year (January 1, 2017–December 31, 2017)
Net income	155,331	148,607
Other comprehensive income		
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	(2)	1,166
Remeasurements of defined benefit plans	(15,524)	21,260
Share of other comprehensive income of investments accounted for using the equity method	(345)	317
Total of items that will not be reclassified to profit or loss	(15,871)	22,743
Items that may be reclassified subsequently to profit or loss:		
Exchange differences on translation of foreign operations	(16,140)	8,541
Share of other comprehensive income of investments accounted for using the equity method	(73)	(1)
Total of items that may be reclassified subsequently to profit or loss	(16,213)	8,540
Other comprehensive income, net of taxes	(32,084)	31,283
Comprehensive income	123,247	179,890
Comprehensive income attributable to:		
Owners of the parent	122,324	178,020
Non-controlling interests	923	1,870
Comprehensive income	123,247	179,890

Key Financial Data

Consolidated Statement of Changes in Equity

Current fiscal year (from January 1, 2018 to December 31, 2018)

(Millions of yen)

	Equity attributable to owners of the parent					
	Share capital	Capital surplus	Treasury shares	Other components of equity		
				Subscription rights to shares	Exchange differences on translation of foreign operations	Net gain (loss) on derivatives designated as cash flow hedges
January 1, 2018	85,424	107,980	(9,593)	731	(21,540)	4
Net income	—	—	—	—	—	—
Other comprehensive income	—	—	—	—	(15,492)	(5)
Comprehensive income	—	—	—	—	(15,492)	(5)
Disposal of treasury shares	—	(99)	48,345	(167)	—	—
Purchase of treasury shares	—	—	(50,034)	—	—	—
Share-based payment transactions	—	364	—	—	—	—
Dividends	—	—	—	—	—	—
Transfer from other components of equity to retained earnings	—	—	—	(18)	—	—
Other increase (decrease)	—	—	—	—	—	—
Total transactions with the owners	—	265	(1,689)	(185)	—	—
December 31, 2018	85,424	108,245	(11,282)	546	(37,032)	(1)

(Millions of yen)

	Equity attributable to owners of the parent					Non-controlling interests	Total equity
	Other components of equity			Retained earnings	Total		
	Net gain (loss) on revaluation of financial assets measured at fair value through other comprehensive income	Remeasurements of defined benefit plans	Total				
January 1, 2018	8,490	—	(12,315)	634,885	806,381	12,983	819,364
Net income	—	—	—	153,698	153,698	1,633	155,331
Other comprehensive income	(338)	(15,539)	(31,374)	—	(31,374)	(710)	(32,084)
Comprehensive income	(338)	(15,539)	(31,374)	153,698	122,324	923	123,247
Disposal of treasury shares	—	—	(167)	(47,961)	118	—	118
Purchase of treasury shares	—	—	—	—	(50,034)	—	(50,034)
Share-based payment transactions	—	—	—	—	364	—	364
Dividends	—	—	—	(56,793)	(56,793)	(746)	(57,539)
Transfer from other components of equity to retained earnings	(1,694)	15,539	13,827	(13,827)	—	—	—
Other increase (decrease)	—	—	—	—	—	(11)	(11)
Total transactions with the owners	(1,694)	15,539	13,660	(118,581)	(106,345)	(757)	(107,102)
December 31, 2018	6,458	—	(30,029)	670,002	822,360	13,149	835,509

Previous fiscal year (from January 1, 2017 to December 31, 2017)

(Millions of yen)

	Equity attributable to owners of the parent					
	Share capital	Capital surplus	Treasury shares	Other components of equity		
				Subscription rights to shares	Exchange differences on translation of foreign operations	Net gain (loss) on derivatives designated as cash flow hedges
January 1, 2017	85,424	107,648	(57,124)	911	(29,761)	4
Net income	—	—	—	—	—	—
Other comprehensive income	—	—	—	—	8,221	(0)
Comprehensive income	—	—	—	—	8,221	(0)
Disposal of treasury shares	—	—	49,373	(165)	—	—
Purchase of treasury shares	—	—	(1,842)	—	—	—
Share-based payment transactions	—	332	—	—	—	—
Dividends	—	—	—	—	—	—
Changes in the ownership interest in a subsidiary	—	(0)	—	—	—	—
Transfer from other components of equity to retained earnings	—	—	—	(15)	—	—
Other increase (decrease)	—	—	—	—	—	—
Total transactions with the owners	—	332	47,531	(180)	—	—
December 31, 2017	85,424	107,980	(9,593)	731	(21,540)	4

(Millions of yen)

	Equity attributable to owners of the parent					Non-controlling interests	Total equity
	Other components of equity			Retained earnings	Total		
	Net gain (loss) on revaluation of financial assets measured at fair value through other comprehensive income	Remeasurements of defined benefit plans	Total				
January 1, 2017	7,025	—	(21,821)	565,715	679,842	11,621	691,463
Net income	—	—	—	147,010	147,010	1,597	148,607
Other comprehensive income	1,472	21,317	31,010	—	31,010	273	31,283
Comprehensive income	1,472	21,317	31,010	147,010	178,020	1,870	179,890
Disposal of treasury shares	—	—	(165)	(48,914)	294	—	294
Purchase of treasury shares	—	—	—	—	(1,842)	—	(1,842)
Share-based payment transactions	—	—	—	—	332	—	332
Dividends	—	—	—	(50,265)	(50,265)	(369)	(50,634)
Changes in the ownership interest in a subsidiary	—	—	—	—	(0)	—	(0)
Transfer from other components of equity to retained earnings	(7)	(21,317)	(21,339)	21,339	—	—	—
Other increase (decrease)	—	—	—	—	—	(139)	(139)
Total transactions with the owners	(7)	(21,317)	(21,504)	(77,840)	(51,481)	(508)	(51,989)
December 31, 2017	8,490	—	(12,315)	634,885	806,381	12,983	819,364

Key Financial Data

Consolidated Statement of Cash Flows

(Millions of yen)

	Current fiscal year (January 1, 2018–December 31, 2018)	Previous fiscal year (January 1, 2017–December 31, 2017)
Cash flows from operating activities		
Income before income taxes	207,251	204,290
Depreciation and amortization	60,662	54,508
Interest and dividend income	(1,578)	(1,295)
Interest expense	1,256	1,339
Share of profit in investments accounted for using the equity method	(2,082)	(2,007)
(Gains) losses on sale and disposal of property, plant and equipment, and intangible assets	4,531	3,111
(Increase) decrease in trade and other receivables	(12,591)	(3,464)
(Increase) decrease in inventories	(15,677)	(15,349)
Increase (decrease) in trade and other payables	3,951	14,637
Increase (decrease) in retirement benefit liabilities	20,740	(30,886)
Other	(21,437)	14,476
Subtotal	245,026	239,360
Interest received	1,273	1,069
Dividends received	2,312	2,047
Interest paid	(1,293)	(1,329)
Income taxes paid	(51,708)	(55,302)
Net cash flows from operating activities	195,610	185,845
Cash flows from investing activities		
Payments into time deposits	(26,768)	(26,673)
Proceeds from withdrawal of time deposits	26,987	25,349
Purchase of property, plant and equipment	(80,295)	(83,663)
Purchase of intangible assets	(7,703)	(6,273)
Payments for business combinations	(73,915)	(2,906)
Other	3,799	(1,980)
Net cash flows from investing activities	(157,895)	(96,146)
Cash flows from financing activities		
Increase (decrease) in short-term borrowings	230	(59)
Proceeds from long-term borrowings	—	30,000
Repayments of long-term borrowings	(67)	(30,090)
Proceeds from issuance of bonds	25,060	—
Redemption of bonds	(24,939)	—
Purchase of treasury shares	(50,035)	(1,842)
Dividends paid to owners of the parent	(56,838)	(50,299)
Dividends paid to non-controlling interests	(745)	(369)
Other	(1,245)	(585)
Net cash flows from financing activities	(108,579)	(53,244)
Net increase (decrease) in cash and cash equivalents	(70,864)	36,455
Cash and cash equivalents at the beginning of the year	343,076	303,026
Effect of exchange rate changes on cash and cash equivalents	(6,234)	3,595
Cash and cash equivalents at the end of the year	265,978	343,076

Corporate Information

(As of December 31, 2018)

Corporate Overview

Company: Kao Corporation

Head Office: 14-10, Nihonbashi Kayabacho 1-chome, Chuo-ku, Tokyo 103-8210, Japan

Founded: June 19, 1887

Incorporated: May 21, 1940

Share Capital: 85,424,265,916 yen

Employees: 7,655 (Number of employees in Kao Group consolidated companies: 33,664)

Subsidiaries: 117 (of which 96 are overseas subsidiaries)

Affiliated Companies: 6

Accounting Auditor: Deloitte Touche Tohmatsu LLC

Stock Information

Stock Listing: Tokyo Stock Exchange

Ticker Symbol Number: 4452

Total Number of Authorized Shares: 1,000,000,000 shares

Total Number of Issued Shares: 488,700,000 shares

Number of Shareholders: 58,077

Administrator of Shareholder Register: Sumitomo Mitsui Trust Bank, Limited

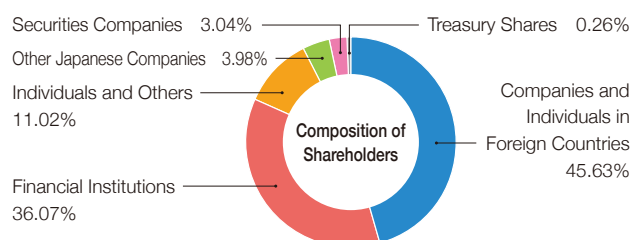
4-1, Marunouchi 1-chome, Chiyoda-ku, Tokyo 100-0005, Japan

Status of Top 10 Shareholders

Name of Shareholder	Number of Shares (thousand shares)	Shareholding (percentage)
The Master Trust Bank of Japan, Ltd. (Trust Account)	47,134	9.67
Japan Trustee Services Bank, Ltd. (Trust Account)	33,953	6.97
JPMorgan Chase Bank 380055	13,664	2.80
State Street Bank and Trust Company 505223	13,340	2.74
Japan Trustee Services Bank, Ltd. (Trust Account 5)	9,531	1.96
Japan Trustee Services Bank, Ltd. (Trust Account 7)	9,072	1.86
State Street Bank West Client – Treaty 505234	8,374	1.72
JPMorgan Chase Bank 385151	7,717	1.58
SSBTC CLIENT OMNIBUS ACCOUNT	7,388	1.52
State Street Bank and Trust Company 505001	6,915	1.42

Notes:

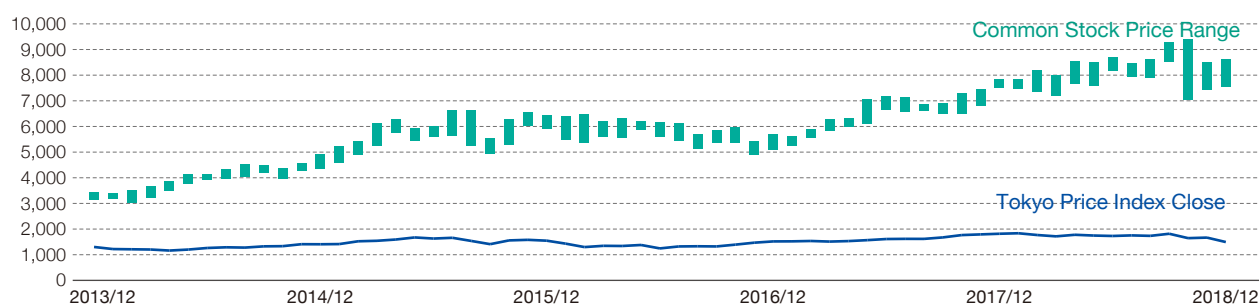
- The number of shares in the above list may include the number of shares held in trusts or subject to share administration.
- The ratio of shareholding for each shareholder above has been calculated based on the number of issued shares excluding treasury shares.



6,300,000 treasury shares were cancelled on September 14, 2018.

Share Price Range and Trading Volume (Tokyo Stock Exchange)

Share Price Range (Yen)



Monthly Trading Volume (Million shares)

