



1-14-10, Nihonbashi Kayabacho, Chuo-ku, TOKYO 103-8210 JAPAN

February 28, 2019

NOTICE OF THE 113th ANNUAL GENERAL MEETING OF SHAREHOLDERS

To Our Shareholders:

Kao Corporation (the "Company") is pleased to announce that the 113th Annual General Meeting of Shareholders of the Company ("AGM") will be held on March 26, 2019 at 10:00 a.m., Japan time, at The Prince Park Tower Tokyo, Ballroom, B2 (8-1 Shiba Koen 4-chome, Minato-ku, Tokyo, Japan). At the AGM, shareholders who hold one hundred (100) or more shares of record as of December 31, 2018 ("Shareholders") will be presented with the Business Report, the Consolidated Financial Documents and Financial Documents for the fiscal year which ended on December 31, 2018. For your reference, we have enclosed a copy of our Business Results announced on February 4, 2019 and an English summary of the Business Report. At the AGM, Shareholders will be asked to vote on the following agenda items: *(Please note that a shareholder is entitled to one vote per unit of shares, with each unit consisting of one hundred (100) shares.)*

- 1. Proposal for Appropriation of Retained Earnings**
- 2. Election of eight (8) Directors**
- 3. Election of one (1) Audit & Supervisory Board Member**
- 4. Revision to the Aggregate Amount of Remuneration of Audit & Supervisory Board Members**

As we attach great importance to your exercise of voting rights at the AGM, we have enclosed, for your convenience, an English summary of the Proxy Statement, the original of which is in the Japanese language and is being distributed to all registered shareholders or their standing proxies in Japan. We strongly urge you to exercise your voting rights at the AGM.

As part of our ongoing effort to improve the quality of communications with our foreign investors and to increase the voting participation of foreign investors at the AGM, the Company has retained Georgeson as our Global Information Agent to assist us with the AGM. If you have any questions, please contact Cherryl Tirol at +001-201-222-4375 or ctirol@georgeson.com, or Michael Menahem at +001-201-222-4374 or mmenahem@georgeson.com. The enclosed materials are also available on our website at <http://www.kao.com/global/en/investor-relations/stock-information/shareholders/>

PLEASE CONTACT YOUR BROKER OR CUSTODIAN WITH YOUR VOTING INSTRUCTIONS AS SOON AS POSSIBLE.

Thank you very much for your attention.

Very truly yours,

Michitaka Sawada
Representative Director
President and Chief Executive Officer

ISIN	JP3205800000
SEDOL	6483809
TSE	4452

Kao Corporation

English Summary of the PROXY STATEMENT

The Proxy Statement of Kao Corporation (the “Company”) in the Japanese language has been prepared for the purpose of the 113th Annual General Meeting of Shareholders of the Company (the “AGM”) to be held on March 26, 2019 at 10:00 a.m. Japan time, at The Prince Park Tower Tokyo, Ball Room, B2 (8-1 Shiba Koen 4-chome, Minato-ku, Tokyo, Japan), and is to be furnished to all shareholders of the Company holding at least one Unit Share* (“Shareholders”) of record as of December 31, 2018 (the “Record Date”).

All Shareholders have valid voting rights and are entitled to vote at the AGM. In order to properly transact business at the AGM, Shareholders holding more than one third of all the voting rights as of the Record Date must be present either in person or be represented by proxy at the AGM.

**Note: A shareholder is entitled to one voting right per Unit Share, with each Unit Share consisting of one hundred (100) shares.*

PROPOSAL 1: PROPOSAL FOR APPROPRIATION OF RETAINED EARNINGS

In order to achieve profitable growth, the Company secures an internal reserve for capital investment and acquisitions from a medium-to-long-term management perspective and places priority on providing shareholders with steady and continuous dividends. In addition, the Company flexibly considers the repurchase and retirement of shares from the standpoint of improving capital efficiency.

The following distribution of year-end retained earnings is proposed:

- (1) Matters concerning Assets to be Distributed to Shareholders and Aggregate Amount thereof
60.00 yen per share of common share of the Company
Aggregate amount of distribution: 29,247,353,700 yen
- (2) Effective Date of Distribution of Retained Earnings
March 27, 2019

If this proposal is adopted without any amendment, then, by adding the interim dividends of **60.00 yen per share** to the above year-end dividends of **60.00 yen per share**, the total dividends for this fiscal year will be **120.00 yen per share**, an increase of 10.00 yen per share over the previous fiscal year, representing a consolidated payout ratio of 38.2%.

<p>THE BOARD OF DIRECTORS UNANIMOUSLY RECOMMENDS A VOTE IN FAVOR OF PROPOSAL 1.</p>
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PROPOSAL 2: ELECTION OF EIGHT (8) DIRECTORS

The terms of office of all seven (7) incumbent Directors will expire at the conclusion of the AGM. Accordingly, with a view to enhancing the diversity of the Board of Directors, enabling decisions to be made based on more in-depth discussions, and further strengthening its supervisory functions, the Company proposes that there be an increase of one (1) Outside Director and that eight (8) Directors, including one (1) female among four (4) Outside Directors, be elected. The nominees for Directors are as shown below.

Provided below is the list of the nominees followed by their personal information and career summary.

Also, if nominees of Proposal 2 is elected, as proposed by the Company, there will be four (4) Independent Outside Directors and three (3) Independent Outside Audit & Supervisory Board Members, according to "Standards for Independence of Outside Directors/Audit & Supervisory Board Members of Kao Corporation." Accordingly, seven (7) out of thirteen (13) attendees of the meeting of the Board of Directors will be independent, so the Company believes that adequate discussions will be possible at the meetings of the Board of Directors, based on such independent and neutral opinions.

Please refer to the following page 12 for details of "Standards for Independence of Outside Directors/Audit & Supervisory Board Members of Kao Corporation."

No.	Names of Nominees		Status at the Company and Other Material Position(s) Held	Board Tenure	Attendance Rate
1.	Michitaka Sawada	Re-nomination	Representative Director, President and Chief Executive Officer; Responsible for Human Capital Development	10 years and 9 months	100% (15/15)
2.	Toshiaki Takeuchi	Re-nomination	Representative Director, Senior Managing Executive Officer; [Other material position(s) held] Representative Director, President, Kao Group Customer Marketing Co., Ltd.	5 years	100% (15/15)
3.	Yoshihiro Hasebe	Re-nomination	Director, Senior Managing Executive Officer; Senior Vice President, Research and Development, Global; Senior Vice President, Strategic Innovative Technology, Global ; Responsible for Compliance	3 years	100% (15/15)
4.	Tomoharu Matsuda	New nomination	Managing Executive Officer; Senior Vice President, Consumer Products, Global; Responsible for Skin Care and Hair Care Business; Responsible for Human Health Care Business; Responsible for Fabric and Home Care Business [Other material position(s) held] Chairman of the Board, Oribe Hair Care, LLC	—	—
5.	Sonosuke Kadonaga	Re-nomination; Outside Director; Independent Director	Director [Other material position(s) held] President, Intrinsic; Member of the Board, Business Breakthrough Inc.; Outside Director, Sumitomo Mitsui Banking Corporation; Vice President, Business Breakthrough University	6 years and 9 months	100% (15/15)
6.	Osamu Shinobe	Re-nomination; Outside Director; Independent Director	Director [Other material position(s) held] Member of the Board, Vice Chairman, ANA HOLDINGS INC.	1 year	100% (13/13)
7.	Chiaki Mukai	New nomination; Outside Director; Independent Director	Corporate Executive Fellow [Other material position(s) held] Vice President, Tokyo University of Science; Astronaut, Medical Doctor; M.D., Ph.D.; Outside Director, Fujitsu Limited	—	—
8.	Nobuhide Hayashi	New nomination; Outside Director; Independent Director	— [Other material position(s) held] Director, Chairman, Mizuho Bank, Ltd.	—	—

1. Michitaka Sawada (Date of Birth: December 20, 1955)

Re-nomination



Attendance to the Meeting
of the Board of Directors:
15/15 (100%)

Number of the Company
shares owned:
31,800 shares

Term of office at the
conclusion of this AGM:
10 years and 9 months

[Career summary, status and duties at the Company]

April 1981	Joined the Company
June 2006	Executive Officer
June 2008	Director, Executive Officer
June 2012	Representative Director, President and Chief Executive Officer (current)
January 2019	Responsible for Human Capital Development (current)

[Reason for appointment as a nominee for Director]

Ever since assuming office as Representative Director, President and Chief Executive Officer in 2012, Mr. Sawada has been at the forefront of furthering the “Yoki-Monozukuri”^{*} philosophy, which emphasizes R&D functions, as well as in aiming to “Make Kao a company with global presence,” working to achieve both “profitable growth” and “social sustainability,” and enhancing corporate value, through the best use of the Kao Group’s assets. In 2018, he continued to steadily promote the Kao Group Mid-Term Plan “K20” under its slogan of “Transforming ourselves to drive change.” The Company expects that Mr. Sawada will continue to strongly promote K20, with the objective of realizing what Kao aims to be by 2030. Taking all stakeholders into account, and strengthening the decision-making functions of the Board of Directors concerning material matters, to ensure sustainable growth of the Kao Group, the Company hereby appoints him as a nominee to continue as a Director.

^{}The Kao Group defines Yoki-Monozukuri as a strong commitment by all members to provide products and brands of excellent value for consumer satisfaction. In Japanese, Yoki literally means “good/excellent,” and Monozukuri means “development/manufacturing of products.”*

2. Toshiaki Takeuchi (Date of Birth: March 22, 1959)

Re-nomination



[Career summary, status and duties at the Company]

April 1981	Joined the Company
June 2012	Executive Officer
March 2014	Representative Director, Managing Executive Officer
January 2016	Representative Director, Senior Managing Executive Officer (current); Representative Director, President, Kao Group Customer Marketing Co., Ltd. (current)

Attendance to the Meeting of the Board of Directors: **15/15 (100%)**

Number of the Company shares owned: **21,400 shares**

Term of office at the conclusion of this AGM: **5 years**

[Other material position(s) held]

Representative Director, President, Kao Group Customer Marketing Co., Ltd.

[Reason for appointment as a nominee for Director]

Over many years, Mr. Takeuchi has been involved in sales operations for delivering to consumers the products produced based on the “*Yoki-Monozukuri*” philosophy, and is therefore well acquainted with the actual sites of sales, including distribution and retail businesses operating on a global basis. Based on his considerable expertise in relation to both domestic and overseas sales business, he currently serves as Representative Director and President of Kao Group Customer Marketing Co., Ltd. which controls the sales, beauty counseling and merchandising functions of consumer products. He is familiar with the global competition environment, changes of consumers and business partners, the expectations from stakeholders surrounding the Company, and the strengths of and tasks facing the Company concerning the same, and has been actively presenting opinions and proposals in deliberations of the Board of Directors concerning material matters in the management of the Company, based on his considerable experience and expertise. The Company has determined that Mr. Takeuchi will be able to contribute to further enhancing the corporate value of the Kao Group by using his experience and expertise in the planning and deliberation of management strategies, etc. at the Board of Directors and supervision of execution, and for this reason appoints him as a nominee to continue as a Director.

3. Yoshihiro Hasebe (Date of Birth: July 30, 1960)

Re-nomination



Attendance to the Meeting of the Board of Directors:
15/15 (100%)

Number of the Company shares owned:
10,100 shares

Term of office at the conclusion of this AGM:
3 years

[Career summary, status and duties at the Company]

April 1990	Joined the Company
March 2014	Executive Officer
March 2015	Senior Vice President, Research and Development, Global (current)
January 2016	Managing Executive Officer
March 2016	Director, Managing Executive Officer
January 2018	Director, Senior Managing Executive Officer (current)
April 2018	Senior Vice President, Strategic Innovative Technology, Global (current)
January 2019	Responsible for Compliance (current)

[Reason for appointment as a nominee for Director]

Over many years, Mr. Hasebe has been involved in R&D activities in various fields, including fundamental research and product development research, and has been the driving force in providing the world with innovative products which contribute to enriching people's lifestyles. He is familiar with the global competition environment, changes of consumers and business partners, the expectations from stakeholders surrounding the Company, and the strengths of and tasks facing the Company concerning the same. Furthermore, since assuming office as Senior Vice President, Strategic Innovative Technology, Global in April 2018, he has been promoting strategic digital transformation such as by utilizing artificial intelligence (AI) in management, in order to accomplish business transformations and improved business efficiency. In addition, since becoming responsible for compliance in January 2019, he has taken leadership in carrying out compliance promotion activities. The Company has determined that Mr. Hasebe will be able to contribute to further enhancing the corporate value of the Kao Group by using his experience and expertise in the planning and deliberation of management strategies, etc. at the Board of Directors and supervision of execution, and for this reason appoints him as a nominee to continue as a Director.

4. Tomoharu Matsuda (Date of Birth: November 15, 1959) New Nominee



Number of the Company
shares owned:
8,200 shares

[Career summary]

April 1983	Joined the Company
January 2008	President, Kao (Hong Kong) Ltd.
March 2010	Chairman of the Board and President, Kao (Taiwan) Corporation
March 2013	President, Beauty Care, Skin Care and Hair Care Business Unit, Global
March 2014	Executive Officer
January 2018	Managing Executive Officer (current); Senior Vice President, Consumer Products, Global (current); Responsible for Skin Care and Hair Care Business (current); Responsible for Human Health Care Business (current); Responsible for Fabric and Home Care Business (current); Chairman of the Board, Oribe Hair Care, LLC (current)

[Other material position(s) held]

Chairman of the Board, Oribe Hair Care, LLC

[Reason for appointment as a nominee for Director]

Over many years, Mr. Matsuda has been involved in product development, namely, the core function of *Yoki-Monozukuri*, and also in the marketing activities for communicating the essential value of such products to consumers. He also has experience in management of the Company's overseas subsidiaries. He currently carries out his duties as Senior Vice President, Consumer Products, Global, based on his high level of expertise in such business both in Japan and overseas, and is familiar with matters such as global competition environment, changes in consumers and business partners, expectations from stakeholders surrounding the Company, and the strengths and tasks for the Company. The Company has determined that Mr. Matsuda will be able to contribute to further enhancing the corporate value of the Kao Group by using his experience and expertise in the planning and deliberation of management strategies, etc. at the Board of Directors and supervision of execution, and for this reason appoints him as a nominee for Director.

5. Sonosuke Kadonaga (Date of Birth: August 5, 1952)

Re-nomination

Outside Director

Independent
Director



[Career summary, status and duties at the Company]

April 1976	Joined Chiyoda Corporation
June 1981	Master of Science in Chemical Engineering, Massachusetts Institute of Technology, School of Engineering, U.S.A.
August 1986	Joined McKinsey & Company, Inc., Japan
July 2009	President, Intrinsic (current)
June 2012	Director, Kao Corporation (current)

Attendance to the Meeting of the Board of Directors:
15/15 (100%)

Number of the Company shares owned:
10,000 shares

Term of office at the conclusion of this AGM:
6 years and 9 months

[Other material position(s) held]

President, Intrinsic; Member of the Board, Business Breakthrough Inc.; Outside Director, Sumitomo Mitsui Banking Corporation; Vice President, Business Breakthrough University

[Reason for appointment as a nominee for Outside Director]

Mr. Kadonaga has expertise in relation to international corporate management gleaned from his considerable experience at a foreign-affiliated consulting company. In addition, as a measure to enhance the neutrality and independence of the Board of Directors, Mr. Kadonaga, as an Independent Outside Director, has chaired the meetings of the Board of Directors since March 2014, and has thereby contributed to enabling active discussions at such meetings without any distinction between Inside/Outside Directors. In view of these facts, the Company has determined that it would be most suitable if Mr. Kadonaga were to continue to supervise the management of the Company as an Independent Outside Director, and for this reason appoints him as a nominee to continue as an Outside Director.

[Matters regarding independency]

The Company has reported to the Tokyo Stock Exchange, Inc. that Mr. Kadonaga is an Independent Director as set forth in the Regulations of the Tokyo Stock Exchange, Inc. The Company will continue the above report if he is reelected and assumes office as an Outside Director. He is involved in executing business at Business Breakthrough Inc., a company engaged in remote management education business. Although the Company has transactions with Business Breakthrough Inc. which involve the payment of training session fees and the receipt of lecturer fees. However, the amounts involved in such transactions account for less than 0.1% of Business Breakthrough Inc.'s net sales and the Company's net sales for the latest fiscal year, respectively.

6. Osamu Shinobe (Date of Birth: November 11, 1952)

Re-nomination

Outside Director

Independent
Director



Attendance to the Meeting of the Board of Directors (since his appointment on March 23, 2018) : **13/13 (100%)**

Number of the Company shares owned:
100 shares

Term of office at the conclusion of this AGM:
1 year

[Career summary, status and duties at the Company]

April 1976	Joined ALL NIPPON AIRWAYS CO., LTD. (currently ANA HOLDINGS INC.)
June 2007	Member of the Board, ALL NIPPON AIRWAYS CO., LTD.
April 2009	Executive Vice President (jomu torishimariyaku), ALL NIPPON AIRWAYS CO., LTD.
June 2011	Executive Vice President (senmu torishimariyaku), ALL NIPPON AIRWAYS CO., LTD.
April 2012	Senior Executive Vice President, ALL NIPPON AIRWAYS CO., LTD.
April 2013	Member of the Board, ANA HOLDINGS INC. President and Chief Executive Officer, ALL NIPPON AIRWAYS CO., LTD.
April 2017	Member of the Board, Vice Chairman, ANA HOLDINGS INC. (current)
March 2018	Director, Kao Corporation (current)

[Other material position(s) held]

Member of the Board, Vice Chairman, ANA HOLDINGS INC.

[Reason for appointment as a nominee for Outside Director]

Mr. Shinobe has considerable experience and expertise in relation to global corporate management and risk management, gleaned principally from his time in the maintenance sections where safety and security took top priority at airline company which actively promotes passenger and cargo businesses around the world, that enable appropriate responses to changes in business environment. He has been actively presenting opinions and proposals in deliberations of the Board of Directors concerning material matters in the management of the Company, based on his considerable experience and expertise. In view of these facts, the Company has determined that it would be most suitable if Mr. Shinobe were to continue to supervise the management of the Company as an Independent Outside Director, and for this reason appoints him as a nominee to continue as an Outside Director.

[Matters regarding independency]

The Company has reported to the Tokyo Stock Exchange, Inc. that Mr. Shinobe is an Independent Director as set forth in the Regulations of the Tokyo Stock Exchange, Inc. The Company will continue the above report if he is reelected and assumes office as a Director.

He previously had executive authority at ALL NIPPON AIRWAYS CO., LTD., but ceased to have such authority from April 2017. ALL NIPPON AIRWAYS CO., LTD. provides public transportation services as an airline company, and the Company engages in regular transactions with ALL NIPPON AIRWAYS CO., LTD. in terms of the directors, officers and employees of the Company using its services as a means of transportation in making business trips and there are transactions related to the payment of advertising expenses for its in-flight magazine. However, the amounts involved in such transactions account for less than 0.1% of the ALL NIPPON AIRWAYS CO., LTD.'s net sales and the Company's net sales for the latest fiscal year, respectively.

7. **Chiaki Mukai** (Date of Birth: May 6, 1952)

New Nominee

Outside Director

Independent
Director



Number of the Company
shares owned:

0 shares

Career summary]

April 1977	Staff, Department of Surgery, Keio University School of Medicine
August 1985	Payload Specialist, the National Space Development Agency of Japan (currently, the Japan Aerospace Exploration Agency; JAXA)
June 1987	Visiting Scientist, Division of Cardiovascular Physiology, Space Biomedical Research Institute, NASA Johnson Space Center
September 1992	Research Instructor of the Department of Surgery, Baylor College of Medicine
April 2000	Visiting Professor of the Department of Surgery, Keio University School of Medicine (current)
April 2015	Vice president, Tokyo University of Science; Senior Technical Advisor, JAXA
January 2016	Corporate Executive Fellow, Kao Corporation (current)
April 2016	Vice president, Tokyo University of Science (current)

** Ms. Mukai will be scheduled to retire from Corporate Executive Fellow of the Company as of March 26, 2019.*

[Other material position(s) held]

Vice President, Tokyo University of Science; Astronaut; Medical Doctor; M.D., Ph.D.; Outside Director, Fujitsu Limited

[Reason for appointment as a nominee for Outside Director]

Ms. Mukai has an extensive and high level of expertise in scientific fields, gleaned through her experience as an astronaut and medical doctor. Since January 2016, she has been serving as a Corporate Executive Fellow of the Company and has been actively giving advice principally in respect of the Company's R&D activities. Although she has never been directly involved in company management other than through her experience as an outside director, the Company expects that she will offer proposals helpful to the Company in further implementing the K20 slogan "Transforming ourselves to drive change," based on the above-described achievements and from a female perspective. In view of these facts, the Company has determined that it would be most suitable if Ms. Mukai were to supervise the management of the Company as an Independent Outside Director, and for this reason appoints her as a nominee for Outside Director.

[Matters regarding independency]

If Ms. Mukai is elected and assumes office as a Director, the Company will report to the Tokyo Stock Exchange, Inc. that she is an Independent Director as set forth in the Regulations of the Tokyo Stock Exchange, Inc.

She previously had executive authority at Tokyo University of Science, but ceased to have such authority from April 2016. In addition, although the Company makes donations to Tokyo University of Science, the amounts of such donations account for less than 0.1% of the university's income from educational activities for the latest fiscal year. Also, she has served as a Corporate Executive Fellow of the Company since January 2016, based on her expertise in space science, the Company receives advice on our R&D activities. However, the annual compensation amount is well below the 10 million yen limit set forth in the "Standards for Independence of Outside Directors/Outside Audit & Supervisory Board Members of Kao Corporation."

8. Nobuhide Hayashi (Date of Birth: March 27, 1957)

New Nominee

Outside Director

Independent
Director



Number of the Company
shares owned:
0 shares

[Career summary]

April 1980	Joined The Fuji Bank, Limited
April 2007	Executive Officer – Corporate Banking Division #13, Mizuho Corporate Bank, Ltd.
April 2009	Managing Executive Officer – Japanese Business Promotion, Mizuho Corporate Bank, Ltd.
June 2011	Managing Director and Head of International Banking Unit, Mizuho Corporate Bank, Ltd.
April 2013	Deputy President & Deputy President Executive Officer, Mizuho Financial Group Inc.;
	Deputy President & Deputy President Executive Officer, Mizuho Bank, Ltd.;
	Representative Director, Deputy President, Mizuho Corporate Bank, Ltd.
June 2013	Director, Deputy President, Mizuho Financial Group Inc.
July 2013	Representative Director, Deputy President, Mizuho Bank, Ltd.
April 2014	Representative Director, President and CEO, Mizuho Bank, Ltd.
April 2017	Director, Chairman, Mizuho Bank, Ltd. (current)

[Other material position(s) held]

Director, Chairman, Mizuho Bank, Ltd.

[Reason for appointment as a nominee for Outside Director]

Over many years, Mr. Hayashi has played an active role on an international basis in the fields of finance and financial affairs, such as by experiencing an extensive range of duties in sales, international business planning, etc. at leading financial institutions. He has an abundance of experience and a high level of expertise in company management, such as having served as a corporate manager amidst global changes in the business environment surrounding the financial industry. Based on such achievements, the Company expects that he will offer proposals helpful to the Company in achieving “Make Kao a company with a global presence.” In view of these facts, the Company has determined that it would be most suitable if Mr. Hayashi were to supervise the management of the Company as an Independent Outside Director, and for this reason appoints him as a nominee for Outside Director.

[Matters regarding independency]

If Mr. Hayashi is elected and assumes office as a Director, the Company will report to the Tokyo Stock Exchange, Inc. that he is an Independent Director as set forth in the Regulations of the Tokyo Stock Exchange, Inc.

He previously had executive authority at Mizuho Bank, Ltd., but ceased to have such authority from April 2017. The Company conducts regular bank transactions with Mizuho Bank, Ltd., and receives consulting service in overseas markets, however, the amounts involved in such transactions account for less than 0.1% of Mizuho Bank, Ltd.’s ordinary income and the Company’s net sales for the latest fiscal year, respectively.

[Special notes concerning nominees for Directors]

■ **Special relationship between the Company and the nominees for Directors**

There are no special interests between the Company and the nominees for Directors.

■ **Matters regarding Outside Directors**

Of the nominees for Directors, Mr. Sonosuke Kadonaga, Mr. Osamu Shinobe, Ms. Chiaki Mukai and Mr. Nobuhide Hayashi are nominees for Outside Directors.

■ **Summary of liability limitation agreements**

Pursuant to Article 427, Paragraph 1 of the Companies Act and the Articles of Incorporation of the Company, the Company entered into an agreement with Messrs. Sonosuke Kadonaga and Osamu Shinobe, respectively, to the effect that his liability under Article 423, Paragraph 1 of the Companies Act will be limited to the higher of: 10 million yen; or any amount prescribed by applicable laws and regulations. If they are reelected and assume office, the Company will continue these agreements with them. In addition, if Ms. Chiaki Mukai and Mr. Nobuhide Hayashi, nominees for Outside Directors, are elected and assume office as Outside Directors, the Company and each of Ms. Chiaki Mukai and Mr. Nobuhide Hayashi will enter into an agreement under the same terms and conditions.

- **In case a nominee for outside director was in office as officer, director or audit and supervisory board member of another company/companies during the past five years, the fact that a violation of any laws, regulations and/or the Articles of Incorporation, or of any improper execution of duties, was made during his/her tenure at such other company/companies, as well as the actions taken in advance by said candidate to prevent said fact and post-facto actions taken as responses to said fact.**

Not applicable

THE BOARD OF DIRECTORS UNANIMOUSLY RECOMMENDS A VOTE IN FAVOR OF THIS PROPOSAL 2.

(For Reference)

Summary of “Standards for Independence of Outside directors/Audit & Supervisory Board Members of Kao Corporation”

1. In order for the board of directors of Kao Corporation (the “Company”) to determine an outside director or outside Audit & Supervisory Board Member of the Company (collectively, the “outside director/ Audit & Supervisory Board Member”) qualifies as independent, the relevant outside director/Audit & Supervisory Board Member must be neutral and independent from the management of the Company and must not be described by any of the following items (an outside director/Audit & Supervisory Board Member who is qualified as independent is hereinafter referred to as an “independent director/Audit & Supervisory Board Member”):
 - (a) A person executing the operations (“executing person”) of the Company or its affiliate companies (collectively, the “Kao Group”);
 - (b) A party for whom the Kao Group is a principal business partner or an executing person of such party;
 - (c) A principal business partner of the Kao Group or an executing person of such party;
 - (d) A large shareholder of the Company (a party which directly or indirectly holds 10% or more of the total voting rights of the Company) or an executing person of such party;
 - (e) An executing person of a party in which the Kao Group is a large investor (a party, 10% or more of whose voting rights are directly or indirectly held by the Kao Group);
 - (f) A party which has received a significant amount of donation from the Kao Group or an executing person of such party;
 - (g) A consultant, an accounting professional such as a certified public accountant or a legal professional such as an attorney-at-law who has received a significant amount of money or other property from the Kao Group, other than as compensation for being a director and/or an Audit & Supervisory Board Member (if the party having received such property is a corporation, partnership or any other entity, this item refers to a person belonging to the relevant entity);
 - (h) A person belonging to the auditing firm engaged to conduct the statutory audit of the Company;
 - (i) In the case where any executing person of the Kao Group currently serves, or served within the past three (3) years, as an outside director/Audit & Supervisory Board Member of any other company, an executing person of such other company;
 - (j) Any person who was described by any of the items (a) to (i) above in the past three (3) years; and
 - (k) An immediate family member, etc. of any of the persons listed below:
 - a. Any person described in items (b) through (i) above; provided, however, that an “executing person” in items (b) through (f) is limited to key executing persons ; a “person belonging to the relevant entity” in item (g) is limited to key executing persons, and if the relevant entity is an auditing firm, a law firm or any other professional entity, such person is limited to persons with professional qualifications such as certified public accountants, attorneys-at-law; a “person belonging to the auditing firm” in item (h) is limited to key executing persons and other persons with professional qualifications such as certified public accountants; and “an executing person of such other company” in item (i) is limited to key executing persons of such other company;
 - b. A key executing person of the Kao Group; and
 - c. Any person who was described by item b. above in the past three (3) years.
2. In addition to the requirements set forth in the preceding Article there must not be any circumstances that are reasonably deemed to prevent an independent director/Audit & Supervisory Board Member from performing his or her duties as an independent director/Audit & Supervisory Board Member.
3. An independent director/Audit & Supervisory Board Member must make efforts to maintain independence as set forth in these Standards until retirement or resignation from his or her position. If an independent director/Audit & Supervisory Board Member loses his or her independence as set forth in these Standards, he or she shall notify the Company immediately.

For further information please see the following website:

www.kao.com/content/dam/sites/kao/www-kao-com/global/en/about/pdf/governance_002.pdf

PROPOSAL 3: ELECTION OF ONE (1) AUDIT & SUPERVISORY BOARD MEMBER

Of the five (5) incumbent Audit & Supervisory Board Members, the term of office of Mr. Toshiharu Numata will expire at the conclusion of the AGM. Accordingly, the Company proposes that one (1) Audit & Supervisory Board Member be elected as a Full-time Audit & Supervisory Board Member.

The Audit & Supervisory Board has approved the submission of this proposal to the AGM. Provided below is the relevant personal information and career summary held by the nominee.

Hideko Aoki (Date of Birth: August 21, 1954)

New Nominee



[Career summary]

- August 1982 Joined the Company
- April 2007 Vice President, Product Quality Management Division
- June 2010 Executive Officer
- March 2015 Managing Executive Officer (current)
- January 2019 Responsible for Special Missions (current)

** Ms. Aoki will be scheduled to retire from Managing Executive Officer, Responsible for Special Missions of the Company as of March 26, 2019.*

Number of the Company shares owned:
31,935 shares

[Reason for appointment as a nominee for Audit & Supervisory Board Member]

Ms. Aoki has an abundance of experience in quality assurance, such as having held a number of senior management positions at departments in charge of consumer relations and quality assurance, where she has pursued the highest level of product safety, while focusing on a consumer/customer perspective to the fullest extent, and has made constant efforts to improve product quality. She has a high level of expertise concerning the Kao Group’s business, gleaned through such career. The Company has determined that Ms. Aoki will be able to make full use of her experience and expertise in the auditing of the Kao Group, and for this reason appoints her as a nominee for Audit & Supervisory Board Member.

[Special relationship between the Company and the nominee for Audit & Supervisory Board Members]

There are no special interests between the Company and the nominee for an Audit & Supervisory Board Member.

[Summary of liability limitation agreements]

If Ms. Hideko Aoki is elected and assume office as an Audit & Supervisory Board Member, the Company will, pursuant to Article 427, Paragraph 1 of the Companies Act and the Articles of Incorporation of the Company, enter into an agreement with her, to the effect that her liability under Article 423, Paragraph 1 of the Corporation Law will be limited to the higher of: 10 million yen; or any amount prescribed by applicable laws and regulations.

THE BOARD OF DIRECTORS UNANIMOUSLY RECOMMENDS A VOTE IN FAVOR OF THIS PROPOSAL 3.

(For Reference)

Policy on Nomination of Directors and Audit & Supervisory Board Members Candidates

The Directors and Audit & Supervisory Board Members who attend the Board of Directors meetings deliberate on the appropriateness of the business strategies, the risks related to their realization and other matters in an objective and multifaceted fashion. They also supervise and audit the status of execution. To conduct these tasks, the Company considers it important those parties from inside and outside the Company with a greater diversity of experience, knowledge, expertise and insight conduct examinations through joint contributions of opinions from various perspectives. Consequently, the Company nominates the appropriate Directors and Audit & Supervisory Board Members to realize this objective.

In addition, to promote sharing of the knowledge and information obtained related to the Company's management and businesses from predecessor to successor, the Company sets staggered terms of office for Outside Directors and Outside Audit & Supervisory Board Members.

Stance on Balance among Knowledge, Experience and Skills, and on Diversity and Size of the Board of Directors

In accordance with the above policy on nomination, the Company ensures diversity and a balance among the knowledge, experience and skills of the Board of Directors as a whole as follows. In addition, the Company sets the appropriate size of the Board of Directors in consideration of the simplification of the Board of Directors to accelerate decision-making for dealing with business expansion and other matters, and the balance of diverse personnel required to conduct the proper deliberations and supervision of execution, premised on the delegation of responsibility to appropriately placed Executive Officers.

Inside Directors are nominated with emphasis on their experience of the operation, including global operation, of R&D, marketing, sales, production and other divisions related to *Yoki-Monozukuri* and the operation of divisions related to corporate functions that support these divisions, as well as their understanding of the business environment in which the Company operates and the Company's strengths and issues for dealing with it, necessary for the appropriate planning and deliberation of business strategies.

Outside Directors are nominated with emphasis on diverse experience, their knowledge and high level of insight obtained from such experience that cannot be obtained from Inside Directors alone in deliberations on business strategies, together with consideration for their independence. Examples include experience, including global experience, managing a company that provides products and services in a different field from the Company, and consulting or academic experience. In addition, the Company aims to have Outside Directors comprise approximately half of the Board of Directors to ensure its diversity and influence.

Full-time Audit & Supervisory Board Members are nominated with emphasis on the balance of business experience of each person to date and the knowledge gained therefrom, experience working overseas, and qualities that can ensure independence from persons executing business. The nominees are selected from inside the Company from persons involved in corporate management of accounting and finance, operation of business, the supply chain from R&D to production and sales and persons with overseas and other business experience.

Outside Audit & Supervisory Board Members are nominated with emphasis on factors necessary for auditing, including a high level of expertise, insight and abundance of experience relating to accounting and finance and laws and their high level of ethics as professionals, as well as by considering the legal and regulatory requirement for externality and independence. In addition, to increase the independence and neutrality of the Audit & Supervisory Board, a majority are Outside Audit & Supervisory Board Members who meet the Standards for Independence. When nominating Audit & Supervisory Board Members, the Company emphasizes experience, disposition, expertise and other characteristics necessary for deliberation, etc. of the business strategies.

Moreover, the Company recognizes that, in addition to knowledge, experience and ability, the diverse perspectives of people of various genders, races and nationalities and others contribute to the promotion of business, global expansion and proper supervision and auditing, and promotes the appointment of such diverse personnel as Directors, Audit & Supervisory Board Members and Executive Officers.

Procedures for the Nomination of Director and Audit & Supervisory Board Member Candidates

To objectively confirm that all Director candidates, including candidates for President and CEO, conform with the policy and stance in paragraph above, the Company has a Committee for the Examination of the Nominees for the Members of the Board, composed exclusively of all Outside Directors and Outside Audit & Supervisory Board Members. Prior to the election or re-election of Directors, first the Committee deliberates about validity of above policies and other related matters. Then, it deliberates on each candidate's eligibility and submits its opinions of the nominees' appropriateness to a meeting of the Board of Directors.

With regard to nominees for Audit & Supervisory Board Members, the Audit & Supervisory Board, which includes all Outside Audit & Supervisory Board Members as its members, discuss the appropriateness and qualifications, etc. of each nominee, based on its independent and objective perspective and in accordance with the above-described policy and the policy of nominating nominees for Audit & Supervisory Board Members established by the Audit & Supervisory Board. Furthermore, with the consent of the Audit & Supervisory Board, the Board of Directors determines such nominees as the nominees for Audit & Supervisory Board Members to be

presented in a proposal for the General Meeting of Shareholders.

PROPOSAL 4: REVISION OF AUDIT & SUPERVISORY BOARD MEMBERS' REMUNERATION

It was approved at the 78th Annual General Meeting of Shareholders held on June 29, 1984 that the maximum aggregate amount of remuneration, etc., to be paid to Audit & Supervisory Board Members be set at an annual amount of 85 million yen. Although such maximum aggregate amount has continued to apply to date, the Company proposes that this amount be revised and changed to an annual amount of 120 million yen, taking into consideration subsequent factors such as the increased responsibilities of Audit & Supervisory Board Members, the increase in the number of Audit & Supervisory Board Members, and the necessary level of remuneration to secure competent personnel.

Although the Audit & Supervisory Board currently has five (5) members (out of which three (3) are Outside Audit & Supervisory Board Members), the number of Audit & Supervisory Board Members will not be changed even if Proposal 3 is approved and adopted as proposed.

THE BOARD OF DIRECTORS UNANIMOUSLY RECOMMENDS A VOTE IN FAVOR OF THIS PROPOSAL 4.

- End -

BUSINESS REPORT

(From January 1, 2018 to December 31, 2018)

I. Current Condition of the Kao Group

1. Business Progress and Results

Please see the attached *Consolidated Financial Results for the Fiscal Year Ended December 31, 2018*.

2. Status of Capital Investments

The aggregate amount of capital investments, etc., for this fiscal year was 88.9 billion yen.

In the Consumer Products Business, the reinforcement, streamlining, maintenance and renewal, etc. of facilities were conducted in each business. In the Human Health Care Business, the production capacity of sanitary product plants in Japan and overseas were expanded in order to reinforce the supply system. Furthermore, the expansion of production capacity and streamlining, etc. were conducted in the Skin Care and Hair Care Business in Japan.

In the Chemical Business, the expansion of production capacity, streamlining, maintenance and renewal, etc. of facilities were conducted in Japan and overseas.

3. Financing Status

Kao Corporation (the “Company”) globally and effectively used its group’s capital to cover necessary operating activities and investing activities including capital investments, corporate acquisitions, etc. In addition, to reinforce its financial base in order to maintain an appropriate capital cost rate and to invest for growth, the Kao Group issued and redeemed corporate bonds, which resulted in 25.1 billion yen in proceeds from issuance of bonds and payments totaling 24.9 billion yen for redemption of bonds.

4. Issues for Management

With intensifying market competition, changing market structure and volatility in raw material market conditions and exchange rates, the operating environment remains uncertain. Changes in the attitudes of consumers regarding the environment, health and other matters and associated changes in their purchasing attitudes, as well as the aging society, hygiene and other social issues, are growing in significance. Moreover, amid the global expansion of business and the progress of structural changes in various fields, companies must deal with changes in the risks entailed in their businesses. Under these conditions, the Kao Group will promote both profitable growth and contributions to the sustainability of society through *Yoki-Monozukuri** that is a half-step ahead of these changes. To that end, it will address and deal appropriately with the following issues.

** The Kao Group defines Yoki-Monozukuri as a strong commitment by all members to provide products and brands of excellent value for consumer satisfaction. In Japanese, Yoki literally means “good/excellent,” and Monozukuri means “development/manufacturing of products.”*

- To deal with changes in the risks entailed in its businesses, the Kao Group will define risks that have a particularly large impact on management and for which it must enhance its response as corporate risks and work to prevent damage to the corporate value of the Group as a whole by further enhancing its management system.
- Given the current rapid progress of factors such as the diversification of values brought on by technology innovations and the accompanying changes in purchasing behavior and the structure of retailing, our business model targeting the mass market, which could formerly be conducted efficiently, must be reconsidered from all aspects, including research and development, production, logistics, sales and marketing. To resolve these issues, the Kao Group will proactively promote the enhancement of essential research and the use of artificial intelligence, the Internet of Things, robotics and other cutting-edge technologies.
- To sustainably enhance its corporate value, the Kao Group must appropriately address social issues in the areas of environmental preservation and resource conservation such as problems with marine plastic and other kinds of trash, depletion of water resources, sustainable and responsible procurement, as well as safety and human rights, among others. Therefore, the Kao Group will globally roll out and accelerate the ESG-related initiatives it has been conducting, primarily through the ESG Division, and enhance its management system for conducting checks and administering these initiatives. In October 2018, the Kao Group announced “Our Philosophy & Action on Plastic Packaging.”

All members of the Kao Group will continue to share and practice the Group’s commitment to “Integrity” as set forth in the corporate philosophy the Kao Way. In addition, Kao Group members will make further efforts and work closely together to realize the mission specified in the Kao Way, namely, “to strive for the

wholehearted satisfaction and enrichment of the lives of people globally and to contribute to the sustainability of the world,” as well as the corporate message, “enriching lives, in harmony with nature.”

The continued understanding and further support of the shareholders in business operations of the Kao Group will be greatly appreciated.

5. Transitions of Assets and Profits and Losses

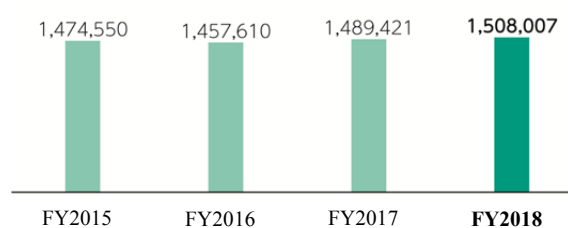
(Million yen)

	FY2015	FY2016	FY2017	FY2018
Net Sales	1,474,550	1,457,610	1,489,421	1,508,007
Operating income	167,318	185,571	204,791	207,703
Income before income taxes	166,038	183,430	204,290	207,251
Net income	105,952	127,889	148,607	155,331
Net income, attributable to owners of the parent	105,196	126,551	147,010	153,698
Total assets	1,311,064	1,338,309	1,427,375	1,460,986
Total equity	691,987	691,463	819,364	835,509
Basic earnings per share (yen)	209.82	253.43	298.30	314.25

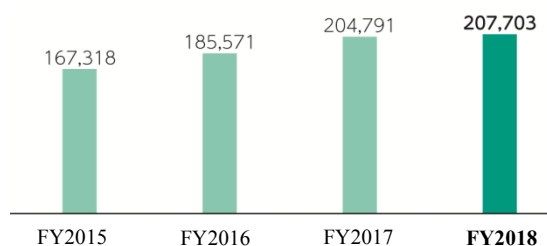
Notes:

1. The Kao Group has voluntarily adopted IFRS from the FY 2016. The figures for FY 2015 have also been converted into IFRS-based figures.
2. In the FY 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.

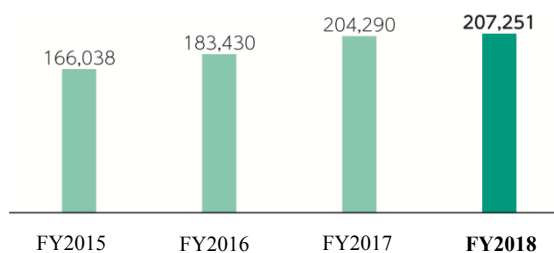
Net Sales (million yen)



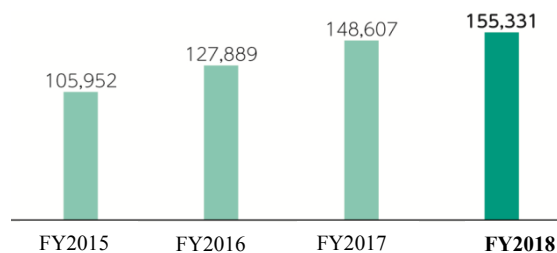
Operating Income (million yen)



Income before Income Taxes (million yen)



Net Income (million yen)



6. Main Businesses of the Kao Group (as of December 31, 2018)

Business Category		Main Products
Consumer Products Business	Cosmetics Business	[Cosmetics] Counseling cosmetics, Self-selection cosmetics
	Skin Care and Hair Care Business	[Skin care products] Soaps, Facial cleansers, Body cleansers
		[Hair care products] Shampoos, Conditioners, Hair styling agents, Hair coloring agents, Men's products
	Human Health Care Business	[Food and beverage products] Beverages
		[Sanitary products] Sanitary napkins, Baby diapers
		[Personal health products] Bath additives, Oral care products, Thermo products
	Fabric and Home Care Business	[Fabric care products] Laundry detergents, Fabric treatments
		[Home care products] Kitchen cleaning products, House cleaning products, Paper cleaning products, Commercial-use products
Chemical Business	[Oleo chemicals] Fatty alcohols, Fatty amines, Fatty acids, Glycerin, Commercial-use edible fats and oils	
	[Performance chemicals] Surfactants, Plastics additives, Superplasticizers for concrete admixtures	
	[Specialty chemicals] Toner and toner binder for copiers and printers, Ink and colorants for inkjet printers, Fragrances and aroma chemicals	

7. Main Subsidiaries (as of December 31, 2018)

Name of Company	Capital Stock	Ratio of Voting Rights	Main Businesses
Kao Group Customer Marketing Co., Ltd.	JPY 10 million	100%	Control of affiliates in the business of sales of consumer products in Japan and sales of consumer products.
Kanebo Cosmetics Inc.	JPY 7,500 million	100%	Manufacture and sales of cosmetics products
Kao Transport & Logistics Co., Ltd.	JPY 15 million	100%	Transportation and inventory management of consumer products
Kao (China) Holding Co., Ltd.	CNY 2,603,727 thousand	100%	Control of affiliates in the People's Republic of China and sales of cosmetics products
Kao Corporation Shanghai	CNY 564,200 thousand	100%	Manufacture and sales of consumer products
Kao (Hefei) Co., Ltd.	CNY 588,502 thousand	100%	Manufacture and sales of consumer products
Kao Commercial (Shanghai) Co., Ltd.	CNY 1,348,490 thousand	100%	Sales of consumer products
Kanebo Cosmetics (China) Co., Ltd.	CNY 1,271,687 thousand	100%	Sales of cosmetics products
Kao (Shanghai) Chemical Industries Co., Ltd.	CNY 740,000 thousand	100%	Manufacture and sales of chemical products
Kao (Taiwan) Corporation	TWD 597,300 thousand	92%	Manufacture and sales of consumer products and sales of chemical products
Pilipinas Kao, Inc.	USD 91,435 thousand	100%	Manufacture and sales of oleo chemicals products
Kao Industrial (Thailand) Co., Ltd.	THB 2,000,000 thousand	100%	Manufacture and sales of consumer products and chemical products
Kao Commercial (Thailand) Co., Ltd.	THB 2,000 thousand	100%	Sales of consumer products
Fatty Chemical (Malaysia) Sdn. Bhd.	MYR 120,000 thousand	70%	Manufacture and sales of oleo chemicals products
PT Kao Indonesia	IDR 1,064,706 million	72%	Manufacture and sales of consumer products
Kao USA Inc.	USD 1	100%	Manufacture and sales of cosmetics products, skin care and hair care products, and sales of hair care products for beauty salons
Oribe Hair Care, LLC	USD 8,182 thousand	100%	Manufacture and sales of skin care and hair care products and hair care products for beauty salons
Washing Systems, LLC	USD 10	100%	Manufacture and sales of detergent for professional-use
Kao America Inc.	USD 3,200 thousand	100%	Provision of corporate services to affiliates in the United States
Kao Specialties Americas LLC	USD 1	100%	Manufacture and sales of chemical products
Kao Germany GmbH	EUR 25,000 thousand	100%	Sales of cosmetics and skin care products and hair care products for beauty salons
Kao Manufacturing Germany GmbH	EUR 13,000 thousand	100%	Manufacture and sales of hair care products
Kao Chemicals GmbH	EUR 9,101 thousand	100%	Manufacture and sales of chemical products
Molton Brown Limited	GBP 516 thousand	100%	Manufacture and sales of cosmetics products
Kao Chemicals Europe, S.L.	EUR 74,035 thousand	100%	Control of affiliates in the business of chemical products in Europe, etc.
Kao Corporation S.A.	EUR 56,411 thousand	100%	Manufacture and sales of chemical products

Notes:

1. The above ratio of voting rights has been calculated based on the total number of voting rights held by the Company and its subsidiaries.
2. On January 1, 2018, Kao Group Customer Marketing Co., Ltd. merged Kao Customer Marketing Co., Ltd. and Kanebo Cosmetics Sales Inc.
3. The Company completed the acquisition of Oribe Hair Care, LLC through a subsidiary in the U.S. on January 17, 2018 and it became a subsidiary.
4. The Company completed the acquisition of Washing Systems, LLC through a subsidiary in the U.S. on August 9, 2018 and it became a subsidiary.

8. Main Offices, Plants, Laboratories, and Subsidiaries (as of December 31, 2018)

(1) The Company

Name	Location
Head Office	Chuo-ku, Tokyo
Sumida Office	Sumida-ku, Tokyo
Osaka Office	Nishi-ku, Osaka-shi, Osaka
Odawara Office	Odawara-shi, Kanagawa
Sakata Plant	Sakata-shi, Yamagata
Tochigi Plant	Ichikai-machi, Haga-gun, Tochigi
Kashima Plant	Kamisu-shi, Ibaraki
Tokyo Plant	Sumida-ku, Tokyo
Kawasaki Plant	Kawasaki-ku, Kawasaki-shi, Kanagawa
Toyohashi Plant	Toyohashi-shi, Aichi
Wakayama Plant	Wakayama-shi, Wakayama
Tochigi Research Laboratories	Ichikai-machi, Haga-gun, Tochigi
Tokyo Research Laboratories	Sumida-ku, Tokyo
Odawara Research Laboratories	Odawara-shi, Kanagawa
Wakayama Research Laboratories	Wakayama-shi, Wakayama

(2) Subsidiaries

1) Japan

Company	Location
Kao Group Customer Marketing Co., Ltd.	Chuo-ku, Tokyo (Head Office) and 8 regional headquarter offices
Kanebo Cosmetics Inc.	Chuo-ku, Tokyo (Head Office)
Kao Transport & Logistics Co., Ltd.	Sumida-ku, Tokyo (Head Office) and 43 offices
Kao Cosmetic Products Odawara Co., Ltd.	Odawara-shi, Kanagawa (Head Office)
Kao Sanitary Products Ehime Co., Ltd.	Saijo-shi, Ehime (Head Office)

2) Outside Japan

Company	Country/Region
Kao (China) Holding Co., Ltd.	China
Kao Corporation Shanghai	China
Kao (Hefei) Co., Ltd.	China
Kao Commercial (Shanghai) Co., Ltd.	China
Kanebo Cosmetics (China) Co., Ltd.	China
Kao (Shanghai) Chemical Industries Co., Ltd.	China
Kao (Taiwan) Corporation	Taiwan
Pilipinas Kao, Inc.	Philippines
Kao Industrial (Thailand) Co., Ltd.	Thailand
Kao Commercial (Thailand) Co., Ltd.	Thailand
Fatty Chemical (Malaysia) Sdn. Bhd.	Malaysia
PT Kao Indonesia	Indonesia
Kao USA Inc.	United States
Oribe Hair Care, LLC	United States
Washing Systems, LLC	United States
Kao America Inc.	United States
Kao Specialties Americas LLC	United States
Kao Germany GmbH	Germany
Kao Manufacturing Germany GmbH	Germany
Kao Chemicals GmbH	Germany
Molton Brown Limited	United Kingdom
Kao Chemicals Europe, S.L.	Spain
Kao Corporation S.A.	Spain

9. Employees of the Kao Group (as of December 31, 2018)

Business Category	Number of Employees
Consumer Products Business	29,057
Cosmetics Business	11,812
Skin Care and Hair Care Business	6,252
Human Health Care Business	5,619
Fabric and Home Care Business	5,374
Chemical Business	3,860
Others	747
Total	33,664

Notes:

1. The total number of employees has increased by 104 from the previous fiscal year.
2. Of the above, the number of the Company's employees is 7,655.

10. Main Lenders (as of December 31, 2018)

Not applicable

II. Shares of the Company (as of December 31, 2018)

1. Number of authorized shares :1,000,000,000 shares

2. Number of issued shares: 488,700,000shares

Notes:

1. In September 2018, the Company retired 6,300,000 treasury shares.
2. The number of issued shares includes 1,244,105 treasury shares.

3. Number of shareholders: 58,077

4. Major Shareholders (Top 10)

	Number of shares (thousand shares)	Ratio of 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
JP MORGAN 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
JP MORGAN 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:

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

III. Stock Acquisition Rights, etc., of the Company

The Company issues stock acquisition rights (*shinkabu yoyakuken*), allotted as remuneration to the Directors and Executive Officers of the Company who are not the Directors of the Company. The amount to be paid-in by an allottee at the time of the allotment of the stock acquisition rights is set off against the remuneration to be received by the allottee, and the exercise price is one (1) yen per share. Share remuneration type stock options are allotted for the purpose of enhancing the motivation and morale of the allottees to improve the corporate performance and stock value of the Company through further strengthening the correlation between remuneration to the allottees and the performance and stock value of the Company, as well as for the purpose of further increasing the Company's corporate value through promoting the shared interests of the allottees and the Company's shareholders.

Please note that the Company has not allotted any share remuneration type stock options since FY 2017, in line with approval having been obtained at the 111th Annual General Meeting of Shareholders held on March 21, 2017, concerning the Company introducing a performance-based stock incentive plan for the purpose of improving the Company's mid- and long-term performance as well as increasing the awareness of contributions to increasing corporate value.

1. Stock Acquisition Rights (as of December 31, 2018)

Name (Date of Issue)	Number of Stock Acquisition Rights	Type and Number of Shares to be Delivered upon Exercise of Stock Acquisition Rights	Amount Paid in for Allotment of Stock Acquisition Rights	Value of Assets Contributed upon Exercise of Stock Acquisition Rights	Period for Exercising Stock Acquisition Rights
11 th Stock Acquisition Rights (August 23, 2012)	15	15,000 shares of the Company's common stock	2,119,000 yen per stock acquisition right	1 yen per share	July 1, 2014 - June 28, 2019
12 th Stock Acquisition Rights (May 23, 2013)	22	22,000 shares of the Company's common stock	3,027,000 yen per stock acquisition right	1 yen per share	July 1, 2015 - June 30, 2020
13 th Stock Acquisition Rights (May 22, 2014)	28	28,000 shares of the Company's common stock	3,808,000 yen per stock acquisition right	1 yen per share	July 1, 2016 - June 30, 2021
14 th Stock Acquisition Rights (May 21, 2015)	27	27,000 shares of the Company's common stock	5,630,000 yen per stock acquisition right	1 yen per share	July 1, 2017 - June 30, 2022
15 th Stock Acquisition Rights (May 26, 2016)	33	33,000 shares of the Company's common stock	5,681,000 yen per stock acquisition right	1 yen per share	July 1, 2018 - June 30, 2023

2. Stock Acquisition Rights Held by Directors and Audit & Supervisory Board Members of the Company (as of December 31, 2018)

(1) Stock Acquisition Rights Held by Members of the Board (Excluding Outside Directors)

Name	Number of Stock Acquisition Rights Holders	Number of Stock Acquisition Rights Allotted	Number of Shares to be Delivered upon Exercise of Stock Acquisition Rights
12 th Stock Acquisition Rights	1	2	2,000
13 th Stock Acquisition Rights	1	4	4,000
14 th Stock Acquisition Rights	2	5	5,000
15 th Stock Acquisition Rights	2	7	7,000

Note: From FY 2017, the Company does not allot stock acquisition rights to its Directors.

(2) Stock Acquisition Rights Held by Outside Directors

Name	Number of Stock Acquisition Rights Holders	Number of Stock Acquisition Rights Allotted	Number of Shares to be Delivered upon Exercise of Stock Acquisition Rights
11 th Stock Acquisition Rights	1	2	2,000
12 th Stock Acquisition Rights	1	1	1,000
13 th Stock Acquisition Rights	2	3	3,000
14 th Stock Acquisition Rights	2	3	3,000

Note: From FY 2016, the Company does not allot stock acquisition rights to its Outside Directors in accordance with the revision of the compensation system for Outside Directors.

(3) Stock Acquisition Rights Held by Audit & Supervisory Board Members

Name	Number of Stock Acquisition Rights Holders	Number of Stock Acquisition Rights Allotted	Number of Shares to be Delivered upon Exercise of Stock Acquisition Rights
12 th Stock Acquisition Rights	1	3	3,000
13 th Stock Acquisition Rights	1	3	3,000

Note: The Company does not allot stock acquisition rights to its Audit & Supervisory Board Members. The Stock Acquisition Rights held by Audit & Supervisory Board Members described above were allotted to them when they were Executive Officers who were not Directors.

3. Stock Acquisition Rights, Allotted to Employees, etc., of the Company during This Fiscal Year

Not applicable

IV. Directors and Audit & Supervisory Board Members of the Company

1. Status of Directors and Audit & Supervisory Board Members (as of December 31, 2018)

Title	Name	Duties at the Company and Other Material Position(s) Held
Representative Director, President and Chief Executive Officer	Michitaka Sawada	
Representative Director, Senior Managing Executive Officer	Katsuhiko Yoshida	President, Consumer Products, Global; Senior Vice President, Marketing Research and Development, Global; Responsible for Kao Professional Services Co., Ltd.
Representative Director, Senior Managing Executive Officer	Toshiaki Takeuchi	Representative Director, President, Kao Group Customer Marketing Co., Ltd.
Director, Senior Managing Executive Officer	Yoshihiro Hasebe	Senior Vice President, Research and Development, Global; Senior Vice President, Strategic Innovative Technology, Global; Responsible for Corporate Functions, Global
Outside Director	Sonosuke Kadonaga	President, Intrinsic; Director, Business Breakthrough Inc.; Outside Director, Sumitomo Mitsui Banking Corporation; Vice President, Business Breakthrough University
Outside Director	Masayuki Oku	Outside Director, Panasonic Corporation; Outside Audit & Supervisory Board Member, Nankai Electric Railway Co., Ltd.; Outside Director, Komatsu Ltd.; Outside Director, Chugai Pharmaceutical Co., Ltd.; Non-executive Director, The Bank of East Asia, Limited
Outside Director	Osamu Shinobe	Member of the Board, Vice Chairman, ANA HOLDINGS INC.
Full-time Audit & Supervisory Board Member	Toshiharu Numata	
Full-time Audit & Supervisory Board Member	Katsuya Fujii	
Outside Audit & Supervisory Board Member	Toraki Inoue	Certified Public Accountant; Representative Director, President, Accounting Advisory Co., Ltd.; Outside Audit & Supervisory Board Member, Aozora Bank, Ltd.
Outside Audit & Supervisory Board Member	Hideki Amano	Certified Public Accountant; Outside Director, TOPPAN FORMS CO., LTD.; Outside Audit & Supervisory Board Member, Ajinomoto Co., Inc.
Outside Audit & Supervisory Board Member	Nobuhiro Oka	Attorney-at Law; Audit & Supervisory Board Member, Kao Group Customer Marketing Co., Ltd. ; Outside Director, Yamatane Corporation; Professor, Keio University Law School

Notes:

1. Messrs. Sonosuke Kadonaga, Masayuki Oku and Osamu Shinobe are Outside Directors.
2. Messrs. Toraki Inoue, Hideki Amano and Nobuhiro Oka are Outside Audit & Supervisory Board Members.
3. Mr. Katsuya Fujii has had many years of experience in the Company's accounting management, and has considerable expertise in finance and accounting.
4. Messrs. Toraki Inoue and Hideki Amano, who are qualified as a Certified Public Accountant, have considerable expertise in finance and accounting.
5. The Company reported Messrs. Sonosuke Kadonaga, Masayuki Oku, Osamu Shinobe, Toraki Inoue, Hideki Amano and Nobuhiro Oka to the Tokyo Stock Exchange, Inc. as Independent Directors/Audit & Supervisory Board Members as set forth in the Regulations of the Tokyo Stock Exchange, Inc.
6. Personnel changes in Directors and Audit & Supervisory Board Members during this fiscal year:
 - (1) Mr. Osamu Shinobe was elected, and took office, as a Director and Mr. Nobuhiro Oka was elected, and took office, as an Audit & Supervisory Board Member, respectively, at the 112th Annual General Meeting of Shareholders held on March 23, 2018.
 - (2) Mr. Yukio Nagira, a Director and Ms. Yumiko Waseda, an Audit & Supervisory Board Member retired from their offices upon the expiration of their term at the close of the 112th Annual General Meeting of Shareholders held on March 23, 2018.

7. *Mr. Yoshihiro Hasebe, a Director, Managing Executive Officer, was newly elected and took office as Director, Senior Managing Executive Officer as of January 1, 2018. As of the same date, he became responsible for Corporate Functions, Global. Furthermore, as of April 1, 2018, he also took office as Senior Vice President, Strategic Innovative Technology, Global.*
8. *Mr. Hideki Amano has served as Outside Audit & Supervisory Board Member, Ajinomoto Co., Inc. since June 26, 2018.*

2. Summary of Liability Limitation Agreements

According to Article 427, Paragraph 1 of the Companies Act and Articles of Incorporation of the Company, the Company entered into an agreement with each Director (excluding Executive Director, etc.) and Audit & Supervisory Board Member to the effect that the liability of each Director (excluding Executive Director, etc.) or Audit & Supervisory Board Member under Article 423, Paragraph 1 of the Companies Act will be limited to the higher of: 10 million yen; or any amount prescribed by applicable laws and regulations.

3. Remuneration, etc., Paid to Directors and Audit & Supervisory Board Members

(1) Policy for Determining Amount and Calculation Method of Remuneration

The Company's compensation system for Directors, Audit & Supervisory Board Members and Executive Officers is aimed at i) securing and retaining diverse and excellent personnel to establish and improve competitive advantages; ii) promoting prioritized measures for lasting increases in corporate value; and iii) sharing interests in common with shareholders.

Remuneration of Directors, other than Outside Directors, and Executive Officers consists of (a) a base salary, (b) a bonus as short-term incentive compensation, and (c) performance-based share incentive plan as long-term incentive compensation, and is designed to provide an impetus for continuing annual improvement in business results and medium-to-long-term growth. Linkage of remuneration to business results increases with rank and takes into account the responsibilities of each position and individual performance. An overview of the components of remuneration is as follows.

(a) Base salary

A base salary is paid as fixed monthly remuneration in an amount determined in accordance with duties as a Director or Executive Officer and rank.

(b) Bonus as short-term incentive compensation

When the full bonus payment rate is paid, the bonus is set at 50% of the base salary for the President and Chief Executive Officer, 40% of the base salary for the Executive Officers with titles other than the Chief Executive Officer, and 30% of the base salary for other Executive Officers. The bonus payment rate is set within a range of 0% to 200%, depending on the degree of achievement of targets for net sales and income (gross profit less selling, general and administrative expenses), the degree of their improvement from the previous year, and the degree of achievement of the target for Economic Value Added (EVA), the Company's main management metric, which takes into account capital cost.

(c) Performance-based share incentive plan as long-term incentive compensation

Within a four-year target period from FY2017 to FY2020, the period covered by the current mid-term plan, Company shares, etc. are delivered to Directors, other than Outside Directors, and Executive Officers based on factors such as the level of achievement of the performance targets adopted under the mid-term plan and the non-financial targets related to ESG (Environment, Social and Governance) perspective. This performance-based share incentive plan comprises two parts: a performance-based part in which Company share, etc. is delivered in accordance with the degree of achievement of targets adopted under the mid-term plan, etc., and a fixed part in which a certain number of Company share, etc. is delivered annually. The purpose of the performance-based part of the system is to provide an impetus for achieving the targets of the Company's mid-term plan as well as to increase the link between performance and compensation over the medium to long term. The purpose of the fixed part of the system is to strengthen shared interest with the Company's shareholders by promoting the holding of shares by the Directors, other than Outside Directors, and Executive Officers. The performance-based part accounts for 70% of shares delivered, with the fixed part accounting for 30%. When the performance-based coefficient for the performance-based part of the system is at 100%, the yearly share remuneration amount is set at approximately 40% to 50% of a base salary.

Compensation for the Outside Directors, who hold a position independent from the Company's business execution function, is limited to a fixed monthly salary.

The compensation system and compensation standards for the Directors and Executive Officers are examined by the Compensation Advisory Committee and determined by the Board of Directors. The Compensation Advisory Committee comprises all of the Company's representative directors, all of the

Company's Outside Directors and all of the Outside Audit & Supervisory Board members, from the perspective of ensuring objectivity and transparency in the decision-making process. As such, over half of the Committee's members are independent.

Compensation for Audit & Supervisory Board Members consists of fixed monthly remuneration. Compensation standards are determined at meetings of the Audit & Supervisory Board.

Compensation standards for the Directors, Executive Officers, and Audit & Supervisory Board Members are determined each year after ascertaining standards at other major manufacturers of a similar size, industry category, and business type to the Company using officer compensation survey data from an external survey organization.

The Company has no retirement bonus system for the Directors or Audit & Supervisory Board Members.

(2) Aggregate Amount of Remuneration, etc., Paid to Directors and Audit & Supervisory Board Members in this Fiscal Year

Category	Number of Directors/Audit & Supervisory Board Members	Aggregate Amount of Remuneration, etc.
Directors (including, in parentheses, Outside Directors)	8 (4)	480 million yen (60 million yen)
Audit & Supervisory Board Members (including, in parentheses, Outside Audit & Supervisory Board Members)	6 (4)	78 million yen (30 million yen)
Total (including, in parentheses, Outside Directors and Outside Audit & Supervisory Board Members)	14 (8)	558 million yen (90 million yen)

Notes:

1. The above numbers of Directors/Audit & Supervisory Board Members include 1 Outside Director and 1 Outside Audit & Supervisory Board Member who resigned at the conclusion of the 112th Annual General Meeting of Shareholders held on March 23, 2018.
2. The aggregate amount of remuneration, etc., paid to Directors includes the following amounts:
 - (1) The amount to be paid as the bonuses to Directors
106 million yen to 4 Directors
 - (2) The amount accounted for as performance-based share incentive plan.
114 million yen to 4 Directors
3. Maximum aggregate amounts of remuneration, etc., are as follows:
 - (i) Maximum aggregate amounts of remuneration, etc., to be paid to Directors
 - (i) An annual amount of 630 million yen (resolved at the 101st Annual General Meeting of Shareholders held on June 28, 2007)
This amount includes an annual amount of 100 million yen for Outside Directors (resolved at the 110th Annual General Meeting of Shareholders held on March 25, 2016), and does not include remuneration paid to Directors who also serve as employees of the Company, for their services as employees.

(For reference) Based on a resolution adopted at the 111th Annual General Meeting of Shareholders held on March 21, 2017, the Company has introduced a performance-based share incentive plan for its Directors (excluding Outside Directors) and its Executive Officers, which shall be applicable separately from the maximum aggregate amount of remuneration, etc., for the Directors. Under this stock incentive plan, trust money of up to 1.85 billion yen is contributed concerning the fiscal years subject to the Company's mid-term plan (the initial period to be covered being the period of four fiscal years from the fiscal year ending December 31, 2017 to the fiscal year ending December 31, 2020), and the Company's shares are acquired through a trust and are then vested, etc. through the trust, based on factors such as the level of achievement of performance targets in the mid-term plan and the non-financial targets related to ESG perspective.

- (2) The maximum aggregate amount of remuneration, etc., to be paid to Audit & Supervisory Board Members
An annual amount of 85 million yen (resolved at the 78th Annual General Meeting of Shareholders held on June 29, 1984)
- (3) In addition to the aggregate amount of remuneration, etc. paid to Outside Directors and Outside

Audit & Supervisory Board Members, the following aggregate amount of remuneration, etc. was paid to Outside Directors and Outside Audit & Supervisory Board Members by the Company's subsidiaries, etc.:

Remuneration paid to one Audit & Supervisory Board Member for his service as an Audit & Supervisory Board Member of Kao Group Customer Marketing Co., Ltd.: 4 million yen

4. Outside Directors and Outside Audit & Supervisory Board Members

(1) Relationships between the Company and Entities where Outside Directors and Outside Audit & Supervisory Board Members Hold Positions

Title	Name	Material Position(s) Held	Relationship with the Company
Director	Sonosuke Kadonaga	Intrinsics	No special relation
		Business Breakthrough Inc.	The Company has transactions with Business Breakthrough Inc., which involve the payment of training session fees and the receipt of lecturer fees.
		Sumitomo Mitsui Banking Corporation	The Company engages in regular bank transactions with, and has loans from, Sumitomo Mitsui Banking Corporation.
		Business Breakthrough University	No special relation
Director	Masayuki Oku	Panasonic Corporation	The Company outsources services and sells its products to Panasonic Corporation and the receipt of sponsorship fees and patent license fees.
		Nankai Electric Railway Co., Ltd.	The Company pays office rental fee to Nankai Electric Railway Co., Ltd.
		Komatsu Ltd.	No special relation
		Chugai Pharmaceutical Co., Ltd.	No special relation
		The Bank of East Asia, Limited	No special relation
Director	Osamu Shinobe	ANA HOLDINGS INC.	No special relation
Audit & Supervisory Board Member	Toraki Inoue	Accounting Advisory Co., Ltd.	No special relation
		Aozora Bank, Ltd.	No special relation
Audit & Supervisory Board Member	Hideki Amano	TOPPAN FORMS CO., LTD.	The Company purchases some products from TOPPAN FORMS CO. LTD.
		Ajinomoto Co., Inc.	The Company has transactions with Ajinomoto Co., Inc., which involve the payment of storage fees concerning the Company's products.
Audit & Supervisory Board Member	Nobuhiro Oka	Kao Group Customer Marketing Co., Ltd.	Kao Group Customer Marketing Co., Ltd. is a subsidiary of the Company.
		Yamatane Corporation	The Company has transactions with Yamatane Corporation, which involve the payment of transportation fees, etc. concerning the Company's products.
		Keio University	The Company has transactions with Keio University, which involve the payment of R&D expenses and sponsorship fees, etc.

(2) Principal Activities during this Fiscal Year

Title	Name	Attendance at Meetings of the Board of Directors	Attendance at Meetings of the Audit & Supervisory Board	Comments at Meetings
Director	Sonosuke Kadonaga	15 out of 15 meetings	—	As the chairman of the Board, he contributed to the activation and the streamlining of the proceedings. Also, at meetings of the Board of Directors, he made comments principally based on his considerable experience as a management consultant.
Director	Masayuki Oku	15 out of 15 meetings	—	At meetings of the Board of Directors, he made comments principally based on his considerable experience as a manager of a financial institution.
Director	Osamu Shinobe	13 out of 13 meetings	—	At meetings of the Board of Directors, he made comments principally based on his considerable experience as a manager of an airline company.
Audit & Supervisory Board Member	Toraki Inoue	15 out of 15 meetings	8 out of 8 meetings	At meetings of the Board of Directors and meetings of the Audit & Supervisory Board, he made comments principally based on his professional opinion as a certified public accountant.
Audit & Supervisory Board Member	Hideki Amano	14 out of 15 meetings	8 out of 8 meetings	At meetings of the Board of Directors and meetings of the Audit & Supervisory Board, he made comments principally based on his professional opinion as a certified public accountant.
Audit & Supervisory Board Member	Nobuhiro Oka	13 out of 13 meetings	6 out of 6 meetings	At meetings of the Board of Directors and meetings of the Audit & Supervisory Board, he made comments principally based on her professional opinion as an attorney-at-law.

Note: During this fiscal year, 15 meetings of the Board of Directors and 8 meetings of Audit & Supervisory Board were held. After Mr. Osamu Shinobe took office as a Director and Mr. Nobuhiro Oka as an Audit & Supervisory Board Member, 13 meetings of the Board of Directors and 6 meetings of the Audit & Supervisory Board were held.

(For Reference) Status of Executive Officers (as of January 1, 2019)

Title	Name	Duties at the Company and Other Material Position(s) Held
President and CEO	Michitaka Sawada	Responsible for Human Capital Development
Senior Managing Executive Officer	Katsuhiko Yoshida	President, Consumer Products, Global; Responsible for Kao Professional Services Co., Ltd.
Senior Managing Executive Officer	Toshiaki Takeuchi	Representative Director, President, Kao Group Customer Marketing Co., Ltd.
Senior Managing Executive Officer	Yoshihiro Hasebe	Senior Vice President, Research and Development, Global; Senior Vice President, Strategic Innovative Technology, Global; Responsible for Compliance
Managing Executive Officer	Masumi Natsusaka	Responsible for Special Missions
Managing Executive Officer	Yasushi Aoki	Representative Director, Chairman of the Board, Senior Executive Officer, Responsible for Special Missions, Kanebo Cosmetics Inc.
Managing Executive Officer	Hideko Aoki	Responsible for Special Missions
Managing Executive Officer	Tomoharu Matsuda	Senior Vice President, Consumer Products, Global; Responsible for Skin Care and Hair Care Business; Responsible for Human Health Care Business; Responsible for Fabric and Home Care Business; Chairman of the Board, Oribe Hair Care, LLC
Managing Executive Officer	Shigeru Ueyama	Senior Vice President, Corporate Strategy, Global
Managing Executive Officer	Masakazu Negoro	Senior Vice President, Procurement, Global
Managing Executive Officer	Yasushi Wada	Senior Vice President, Product Quality Management, Global
Managing Executive Officer	Osamu Tabata	Senior Vice President, Supply Chain Management, Global; Responsible for TCR Promotion
Executive Officer	Hitoshi Hosokawa	Vice President, Research and Development - Skin Care Products Research, Global; Responsible for Research and Development - Global Beauty Care
Executive Officer	Hiroyuki Yamashita	Vice President, Supply Chain Management - Technology Development Center, Global
Executive Officer	Minoru Nakanishi	President, Consumer Products, Asia; Chairman of the Board and President, Kao (China) Holding Co., Ltd.; Chairman of the Board and President, Kao Corporation Shanghai; Chairman of the Board and President, Kao Commercial (Shanghai) Co., Ltd.; Chairman of the Board and President, Kao (Hefei) Co., Ltd.; Chairman of the Board, Kanebo Cosmetics (China) Co., Ltd.
Executive Officer	Akemi Ishiwata	Senior Vice President, Corporate Communications, Global
Executive Officer	Satoru Tanaka	President, Consumer Products, Americas and EMEA; Chairman of the Board, Kao USA Inc.; Chairman of the Board, Washing Systems, LLC
Executive Officer	Kenichi Yamauchi	Senior Vice President, Accounting and Finance, Global; President, Kao America Inc.
Executive Officer	Hideaki Kubo	Vice President, Research and Development, Global; Responsible for Research and Development - Core Technology

Executive Officer	Yoshihiro Murakami	Responsible for Cosmetics Business; Representative Director, President, Kanebo Cosmetics Inc.; Chairman of the Board, Molton Brown Limited
Executive Officer	Ryoichi Harada	Senior Vice President, Enterprise Information Solutions, Global; Vice President, Strategic Innovative Technology, Global
Executive Officer	Hiroaki Taki	Senior Vice President, Marketing Emergence, Global
Executive Officer	David J. Muenz	Senior Vice President, ESG, Global
Executive Officer	Akio Matsui	Senior Vice President, Human Capital Development, Global; President, Kao Group Corporate Pension Fund; Chairman of the Board, Kao America Inc.
Executive Officer	Hideichi Nitta	Vice President, Supply Chain Management - Demand and Supply Planning Center, Global
Executive Officer	Masahiro Katayose	President, Chemical Business, Global; Chairman of the Board, Fatty Chemical (Malaysia) Sdn. Bhd.; Chairman of the Board, Pilipinas Kao, Inc.; Presidente, Kao Chemicals Europe, S.L.
Executive Officer	Shigeo Nakai	Vice President, Research and Development - Performance Chemicals Research, Global; Responsible for Research and Development - Environmental New Business
Executive Officer	Hideki Mamiya	Representative Director, Senior Managing Executive Officer, Kao Group Customer Marketing Co., Ltd.
Executive Officer	Masaru Takeyasu	Senior Vice President, Legal and Compliance, Global

V. The Accounting Auditor of the Company

1. Name of the Accounting Auditor

Deloitte Touche Tohmatsu LLC

2. Amount of Remuneration, etc., to be Paid to the Accounting Auditor for this Fiscal Year

- (1) Amount of remuneration, etc., to be paid by the Company as Accounting Auditor fees:
100 million yen
- (2) Aggregate amount of monetary and other proprietary benefits to be paid by the Company and its subsidiaries:
159 million yen

Notes:

1. *The audit contract between the Company and the Accounting Auditor does not clearly distinguish between remuneration, etc., paid for the audit conducted in accordance with the Companies Act from that paid for the audit conducted in accordance with the Financial Instruments and Exchange Law, and it is practically impossible to make such a distinction. The amount of remuneration, etc., specified in (1) above, is the aggregate amount of remuneration, etc., for these two types of audits.*
2. *After having performed the necessary verification as to the appropriateness of matters such as the content of the Accounting Auditor's audit plan, the status of performance of duties by the Accounting Auditor, and the basis for the calculation of the estimated remuneration for the Accounting Auditor, the Audit & Supervisory Board has decided to consent to the amount of remuneration, etc. to be paid to the Accounting Auditor.*
3. *In addition to the audit certification services prescribed in Article 2.1 of the Certified Public Accountant Law, the Company entrusted the Accounting Auditor with other services such as preparation of a comfort letter in relation to an issuance of straight bonds.*
4. *Of the Company's main subsidiaries listed on page 19 audits (limited to audits under the Companies Act or the Financial Instruments and Exchange Law, and including audits under equivalent foreign laws and regulations), in respect of Kao (China) Holding Co., Ltd., Kao Corporation Shanghai, Kao (Hefei) Co., Ltd., Kao Commercial (Shanghai) Co., Ltd., Kanebo Cosmetics (China) Co., Ltd., Kao (Shanghai) Chemical Industries Co., Ltd., Kao (Taiwan) Corporation, Pilipinas Kao, Inc., Kao Industrial (Thailand) Co., Ltd., Kao Commercial (Thailand) Co., Ltd., Fatty Chemical (Malaysia) Sdn. Bhd., PT Kao Indonesia, Kao Germany GmbH, Kao Manufacturing Germany GmbH, Kao Chemicals GmbH, Molton Brown Limited, Kao Chemicals Europe, S.L., and Kao Corporation S.A. have been performed, by certified public accountants or accounting firms other than the Company's Accounting Auditor (including those with equivalent foreign qualifications).*

3. Policy for Determining the Dismissal or Non-reappointment of the Accounting Auditor

If any item of Article 340, Paragraph 1 of the Companies Act is found to apply to the Accounting Auditor, the Audit & Supervisory Board will dismiss the Accounting Auditor with the consent of all Audit & Supervisory Board Members. In such case, the Audit & Supervisory Board Members selected by the Audit & Supervisory Board will report the dismissal of the Accounting Auditor and the reason for the dismissal at the first General Meeting of Shareholders held after the dismissal. Furthermore, if the Audit & Supervisory Board finds any problem in the qualifications, independence, or reliability of the Accounting Auditor, the content of a proposal to be submitted to the General Meeting of Shareholders for dismissal or non-reappointment of the Accounting Auditor will be determined.

If the Board of Directors finds any problem, such as in the qualifications, independence, or reliability of the Accounting Auditor, the Board of Directors will request the Audit & Supervisory Board to cause the dismissal or non-reappointment of the Accounting Auditor to be proposed to the General Meeting of Shareholders, and the Audit & Supervisory Board shall decide upon the content of the relevant proposal to be submitted to the General Meeting of Shareholders after having determined the appropriateness of such matter.

VI. Systems to Assure Appropriate Business Operations of the Company and Outline of Management of such Systems

1. Systems to Assure Appropriate Business Operations of the Company

The Board of Directors made the following resolution with respect to the “Policy regarding the Development of the Internal Control System.”

Basic Policy Regarding the Internal Control System

The Company has established an Internal Control Committee chaired by the President and Chief Executive Officer. An important task of the committee is to develop a management structure, organization and system that facilitates legally compliant, efficient, sound and highly transparent management that aims to consistently increase corporate value, and for this objective, the Company implements the following systems:

(1) A system to ensure that execution of duties of Directors and employees of the Company and its subsidiaries conforms to laws and the Articles of Incorporation

Directors, Executive Officers and employees of the Company and its subsidiaries (Kao Group) should act with integrity based on “Kao’s Business Conduct Guidelines (BCG),” which governs compliance with laws, the Articles of Incorporation, internal rules and social ethics. The Compliance Committee, chaired by the Director in charge of compliance, promotes Kao Group’s compliance as a whole. On the basis of the provision of BCG which declares Kao’s position to reject any relationship with anti-social forces, the Company promotes cooperation with governmental agencies, etc. and collection and management of information regarding anti-social forces and establishes and maintains its internal system. Monitoring by the Department of Internal Audit as well as notices and reports to the Compliance Reporting Hotline from concerned parties in and outside the Company enable Kao to quickly gauge the state of compliance, work to quickly resolve any issues that arise, and take appropriate steps to prevent the recurrence of similar cases.

(2) A system for retention and management of information concerning Directors’ execution of their duties

Information (minutes, decision records and their relevant materials, account books and records, and other information and the like) related to the Directors’ execution of their duties is properly retained and managed according to the document retention and management policies and other related policies. The Directors, Audit & Supervisory Board Members and employees designated by them may access such information at any time.

(3) Rules and other systems concerning management of risk of losses by the Company and its subsidiaries

With regard to the risk of losses, the Company regards potential negative impact on management targets and business activities as “risks” and the manifestation of such risks as a “crisis,” and has established systems for appropriate risk and crisis management. Based on the Risk and Crisis Management Policy, the Risk & Crisis Management Committee, chaired by the Director or Executive Officer in charge of risk and crisis management, ascertains the progress of cross-divisional Company-wide risk management and establishes a plan for the preparation and application of risk and crisis management activities. Based on this policy and plan, departments concerned with risk or subsidiaries and affiliates appropriately manage risk by ascertaining and assessing risks, formulating and implementing necessary countermeasures, and other activities. In addition, after deliberation by the Management Committee, the President and Chief Executive Officer specifies major Company-wide risks as corporate risk and appoints a person to appropriately manage such risk. When a crisis occurs, the Company responds promptly by establishing an organization for countermeasures centered on this person in charge for corporate risk, and on departments concerned with risk or subsidiaries and affiliates for other types of risk. In addition, depending on the magnitude of the impact on the Group as a whole, the Company also establishes a countermeasures headquarters with the President and Chief Executive Officer or other person as its general manager. Management of the abovementioned risks and crises is reported to and discussed at the Meeting of the Board of Directors or the Management Committee on a regular basis as well as in a timely fashion whenever necessary.

(4) A system to ensure that Directors of the Company and its subsidiaries efficiently execute their duties

After determining the direction to be focused on in a mid-term business plan, the Board of Directors reflects such direction in the mid-term plans of each department and subsidiary. The mid-term plans are reviewed annually by the Board of Directors and the Management Committee, and necessary adjustments are made in response to the progress of the plans and changes in the business environment. The Management Committee reviews, monthly or whenever appropriate, the progress of the revenue and expenditure plan and other important business plans of each division and subsidiary, extracts the main issues and then implements measures in response. In order to separate supervision and execution functions and to ensure the effectiveness of these functions and to accelerate execution, the decision rules for the Board of Directors and the Management Committee including items that arise from subsidiaries are established and reviewed as necessary.

(5) A system to ensure the appropriateness of business operations in the Company and its subsidiaries

The Internal Control Committee and related committees promote various policies to make sure that the business activities of the Kao Group conform to laws and the respective Articles of Incorporation. In addition, they promote and monitor efforts to ensure the appropriateness and efficiency of business operations throughout the Kao Group, and report regularly to the Board of Directors. Representative Directors, Directors and Executive Officers in charge of business operations provide guidance for the development of appropriate internal control systems for subsidiaries, according to their respective duties.

(6) A system concerning reporting to the Company regarding execution of duties of Directors of the Company's subsidiaries

The Company applies the Group Management rules (Policy Manual) to all subsidiaries, which require prior approvals of or reporting to the Company. The Company requires them to gain prior approvals or make a report on important management matters to the Board of Directors, Management Committee or an executive officer who are in charge of the subsidiary in accordance with such rules as well as the decision and reporting rules for the Board of Directors and Management Committee. In addition, Directors of the Company's subsidiaries, regularly or as necessary, discuss or report to the periodic meetings held every month in principle and established by each business area or functional area which supports business. Also, Department of Internal Audit and responsible divisions, regularly or as necessary, monitor the state of implementation of prior approvals or reporting based on the rules.

(7) A system to ensure the reliability of financial reports

In order to ensure the reliability of financial reports, the Company evaluates, improves and documents in writing the state of the Company's internal control system and the process of business operations based on the principles of the Internal Control Committee and the Board of Directors confirms these activities regularly.

(8) Employees to be assigned if Audit & Supervisory Board Members request staff to assist in their duties

In the event that a request is made by Audit & Supervisory Board Members for the assignment of staff to provide assistance to conduct their audits effectively, the Directors should assign employees after discussing the selection of specific personnel with the Audit & Supervisory Board Members.

(9) Independence of employees in the preceding paragraph from Directors and ensuring effectiveness of instruction by Audit & Supervisory Board Members to such employees

In assignment, evaluation, transfer and disciplinary action of or to employees who assist in the duties of Audit & Supervisory Board Members, the prior consent of the Audit & Supervisory Board should be obtained. Instructions by the Audit & Supervisory Board to such employees should not be restricted unreasonably, and such employees must follow the instructions.

(10) A system for Directors, Executive Officers and employees of the Company and Directors, Auditors and employees, etc. of the Company's subsidiaries to report to Audit & Supervisory Board Members of the Company

Audit & Supervisory Board Members may attend meetings of the Management Committee, the Internal Control Committee and related committees, and may access the minutes, decision records and other documents of important meetings at any time. They may also receive activity reports from the head of

each division and subsidiary regularly or as necessary, and have periodic exchanges of views with Representative Directors of the Company and major subsidiaries and exchanges of views with Representative Directors of the Company's subsidiaries when conducting an audit. In addition, Directors, Executive Officers and employees of the Company and Directors, Auditors and employees of subsidiaries, etc. should promptly report to Audit & Supervisory Board Members when any fact that may potentially cause significant harm to the Company or to its subsidiaries or any fact of a serious violation of laws or the Articles of Incorporation occurred or when those fact were reported. Compliance Committee reports information delivered to Compliance Hotline and Department of Internal Audit reports audit results to Audit & Supervisory Board Members regularly or as necessary. Auditors of subsidiaries share audit results with Audit & Supervisory Board Members of the Company at the Conference of Auditors for Domestic Group Companies held periodically.

(11) A system to ensure that those who made such reports in the preceding paragraph shall not receive any disadvantageous treatment due to his/her submission of the reports

Directors and employees of Kao Group who made reports to Compliance Hotline or to Audit & Supervisory Board Members, etc. shall not receive any disadvantageous treatment due to his/her submission of the reports and the Company stipulates prohibiting any disadvantageous treatment in Kao Business Conduct Guideline and ensures compliance of this rule.

(12) Policy concerning payment or reimbursement of expenses pertaining to execution of duties by Audit & Supervisory Board Members including advance payment of expenses and reimbursement procedure, etc.

In the event of requests for appropriation to the fiscal year budget for the payment of expenses and other expenditures arising in the execution of the duties of Audit & Supervisory Board Members, a budget is accordingly provided. When expenses provided for in the budget arise, or when the necessity arises for the execution of non-budgeted emergency or additional auditing or other duties and Audit & Supervisory Board Members charge expenses pertaining to execution of their duties or debt disposal, the Company shall promptly accept such requests, except in the cases set forth in Article 388 of the Companies Act.

(13) A system to ensure that audits by Audit & Supervisory Board Members are conducted effectively

In order to conduct efficient and effective audits, Audit & Supervisory Board Members maintain a close cooperative relationship (including through exchanges of information) with the Accounting Auditor, Department of Internal Audit, internal auditing departments, as well as with Auditors and internal auditing departments of subsidiaries. In addition, Audit & Supervisory Board Members are entitled to hold meetings with Outside Directors to exchange information and opinions and independently receive support from outside specialists such as lawyers and certified public accountants when necessary.

(14) Implement of a system to ensure the appropriateness of business operations

The Board of Directors conducts periodic reviews of implement of a system to ensure the appropriateness of Kao Group's business operations, and includes the summary of state of implement in the business report.

2. Outline of Management of Systems to Assure Appropriate Business Operations of the Company

Based on the above policies, the Company is working to set up and properly operate its internal control system. Principal efforts made during this fiscal year, which are considered to be important in terms of internal control, include the following:

Efforts Concerning Compliance

Under the initiative of the Compliance Committee chaired by the Director, responsible for compliance, efforts have been continuously made in this area, involving both domestic and overseas Kao Group companies, such as by improving related regulations, including Kao's Business Conduct Guidelines, which are conduct guidelines for implementing the Kao Way, as well as by carrying out educational and awareness activities and setting up and properly operating the Compliance Hotline.

This fiscal year, the following efforts have been made in order to reduce material compliance risks:

- To further ensure thorough compliance with the laws and regulations, applicable laws and regulations relating to the Company's business have been identified and departments primarily in charge of promoting

compliance with such laws and regulations have been specified. Similar measures have also been taken in relation to other material compliance risks.

- To create workplaces which have a favorable communication flow, which will allow for any wrongdoing to be reported at an early stage and appropriate measures to be taken, training sessions have been conducted in which Executive Officers directly explained to the employees of their departments matters such as the importance of initial reporting in the event of a breach of compliance, and the need to take thorough care of others when exercising one's own words and deeds.
- In the month of October 2018, which was designated as "Compliance Month," posters containing messages from the Chairman of the Compliance Committee and the presidents of the respective overseas subsidiaries were posted in workplaces. Furthermore, relevant measures were taken, such as introducing matters which have given rise to numerous reports, in order to enhance the awareness of compliance.
- Tasks were sorted out from the evaluation items obtained through the principal outside surveys and such tasks were added to the future activity plans.

Efforts Concerning Risk and Crisis Management

This fiscal year, efforts were primarily made to strengthen our practical abilities in responding to corporate risks, namely, material risks involved in corporate operations, and to strengthen overseas subsidiaries' management of material risks, with the Risk & Crisis Management Committee managing the progress thereof. Corporate risks include not only risks such as natural disasters (e.g. large earthquakes) or pandemics which would affect the continuation of business, but also risks affecting the maintenance of corporate credibility or those involved in management strategies. As a means for strengthening overseas subsidiaries' risk management, systems have been developed in order for the material risks of each company to be identified and for the management of each company to promote the PDCA (plan-do-check-act) cycle of countermeasures against such risks. In order to enhance the ability to respond to crises upon the occurrence thereof, efforts were made such as conducting training drills based on large-earthquake scenarios, with management also participating therein. Furthermore, commentaries and information concerning risk-related subjects were issued each month via the Company's intranet to enhance employees' awareness and sensitivity toward risks.

Efforts Concerning Subsidiary Management

Agenda items have been submitted and reports made from subsidiaries to the Company whenever necessary, in accordance with the Group Management rules, known as the "Policy Manual," that set forth matters regarding which subsidiaries are required to obtain prior approval from the Company or to make a report to the Company. Based on the "Policy Manual", all matters pointed out by the Department of Internal Audit (in its roles as the department in charge of internal audits) are to be shared among directors and officers of the relevant subsidiaries, at the time of ordinary executive meetings at such subsidiaries, along with the measures to be taken and the results thereof.

At periodic meetings established based on the businesses and the functions for supporting such businesses, agenda items have been submitted and reports made whenever necessary, based on the criteria for submission of agenda items. In addition, the Department of Internal Audit and sections in charge of subsidiary management have verified that agenda items have been submitted and reports made in accordance with regulations, etc., by way of site visits for auditing purposes or by causing checklists to be submitted. Moreover, Executive Officers have supervised the setting up and operation of an internal control system in respect of subsidiaries, in accordance with the division of their duties.

Efforts Concerning Auditing by Audit & Supervisory Board Members

The Audit & Supervisory Board members have attended important meetings such as meetings of the Board of Directors, the Management Committee, the Internal Control Committee and related committees, etc., made site visits to plants and research laboratories, etc. for auditing purposes, heard opinions from business sections and functional sections, heard opinions from domestic and overseas subsidiaries, held meetings for exchanging opinions with Representative Directors of the Company and its material subsidiaries, and Conference of Auditors of Domestic Group Companies and strengthen cooperation with the Compliance Hotline.

Accounting Auditors are while supervising independence and appropriateness of audits, a report on the audit plan (annual) and reports on accounting audit results (in respect of each quarterly review and year-end closing of accounts) have been received and information and opinions exchanged, and the Audit & Supervisory Board members have thereby been working to improve the effectiveness of audits in general. Furthermore, the Audit & Supervisory Board members hold meetings with Outside Directors to exchange information and opinions from this fiscal year.

Status of Revisions to Basic Policy Regarding the Internal Control Systems

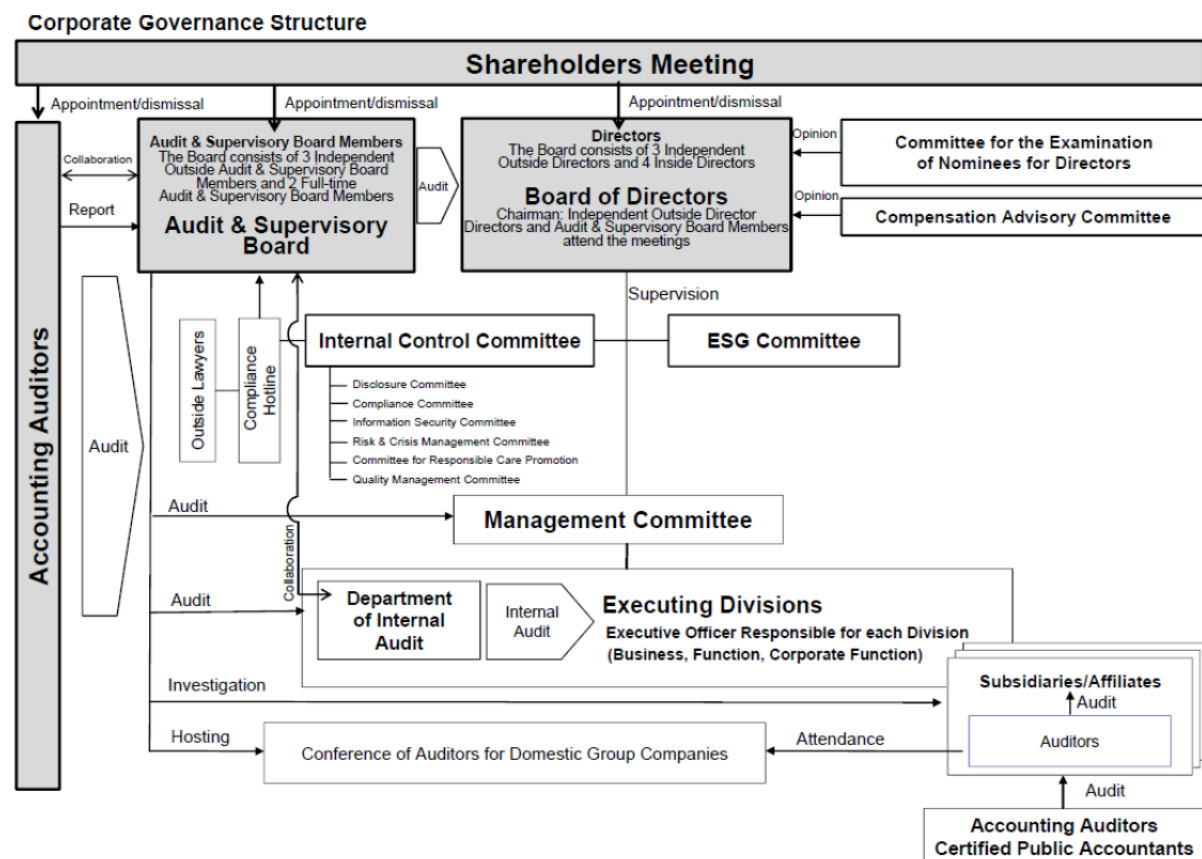
As a part of the efforts to enable integrated disclosure of the business report and an annual securities report, a resolution to partially amend the Basic Policy Regarding the Internal Control Systems was adopted at a meeting of the Board of Directors held in December 2018 in order to make necessary changes to the relevant terms and to clearly state that meetings for the exchange of opinions between all Inside/Outside Audit & Supervisory Board Members and all Outside Directors were being held starting from this fiscal year.

(For your reference)

Basic Views of Corporate Governance

Basic Policy

Our vision by 2030 is to make Kao a company with a global presence. In addition to financial strategies and initiatives including financial results, non-financial strategies and initiatives should be strengthened. It is important that the fruits from those strategies and initiatives are used as investments for sustainable growth. The Company has announced that it recognizes ESG (Environmental, Social and Governance) initiatives as an investment for the future, not as a cost, and is promoting them. The Company considers good corporate governance as a prerequisite and a driving force for strongly promoting the achievement of such a goal. The Company’s basic stance on measures related to corporate governance is to set up and operate a management structure and an internal control system, timely implement necessary measures and achieve accountability so that the Company can swiftly respond to changes, realize efficient management that is sound, fair, and highly transparent, and continuously enhance corporate value. The Company views accomplishing such tasks as one of its most important management issues and has been actively engaging in activities to listen to stakeholders’ voices. Based on input from stakeholders and social trends, it conducts reviews of its corporate governance and implements the necessary measures and improvements, as needed, in an appropriate manner.



1. Board of Directors

In order to promote sustainable growth and medium-to-long-term enhances in corporate value, the Company principally deliberates from various perspectives, including evaluation of risks, and determines the overall direction of management such as business strategies. In addition, Inside Directors and Full-time Audit & Supervisory Board Members who are familiar with the strengths and tasks involved in the management and business of the Kao Group, as well as Outside Directors and Outside Audit & Supervisory Board Members

who have neutral and objective perspectives based on their abundant experience and high level of professional skill and expertise, work together to oversee the appropriate execution of management strategies from various perspectives. Moreover, the Company draws sharp distinctions between risks through the establishment of internal control and risk management systems. In these ways the Company has created an environment that allows for a more proactive style of management.

2. Audit & Supervisory Board

Composed of both Full-time Audit & Supervisory Board Members who are well informed about internal affairs and Outside Audit & Supervisory Board Members who have a high level of professional skill and expertise in the field of accounting/finance or law, the Audit & Supervisory Board engages in meaningful discussions from an independent and objective perspective. Furthermore, the Audit & Supervisory Board performs highly effective audits through its cooperation with the Accounting Auditor and various internal auditing related departments.

3. Committee for the Examination of Nominees for Directors and the Compensation Advisory Committee

To ensure thorough fairness and transparency in the processes for determining Director appointments and compensation, the Company has voluntarily established the Committee for the Examination of Nominees for Directors and the Compensation Advisory Committee.

1) Committee for the Examination of Nominees for Directors

This committee is composed of all Outside Directors and all Outside Audit & Supervisory Board Members and it conducts prior examinations concerning the appropriateness of nominees for Directors and submits its opinions to the Board of Directors. Furthermore, the committee discusses the size, composition and diversity of the Board of Directors, as well as the qualities and abilities required of the CEO and Directors, and reports the results of these examinations to the Board of Directors.

2) Compensation Advisory Committee

This committee is composed of all Representative Directors, all Outside Directors and all Outside Audit & Supervisory Board Members. The committee conducts prior examinations concerning the compensation systems and levels for Directors and Executive Officers and submits its opinions to the Board of Directors.

The Board of Directors, the Committee for the Examination of Nominees for Directors and the Compensation Advisory Committee are each chaired by an Independent Outside Director. In addition, an effectiveness evaluation is conducted every year in respect of all of the four governing bodies described above.

- End -

Consolidated Financial Results for the Fiscal Year Ended December 31, 2018 [IFRS]

February 5, 2019

Company name: Kao Corporation Tokyo Stock Exchange in Japan
 Stock code: 4452 (URL: www.kao.com/global/en/investor-relations/library/results/)
 Representative: Michitaka Sawada, President and CEO
 Contact person: Mitsuhiro Watanabe, Vice President, Investor Relations E-mail: ir@kao.co.jp
 Scheduled starting date of the dividend payments: March 27, 2019
 Supplementary documents of the financial results: Yes
 Financial results information meeting: Yes (for institutional investors and analysts)

(Millions of yen, except per share amounts)
 (Amounts less than one million yen are rounded)

1. Consolidated financial results for the fiscal year ended December 31, 2018 (from January 1, 2018 to December 31, 2018)

(1) Consolidated operating results

	(Percentages indicate year-on-year changes)			
	Fiscal year ended December 31, 2018	%	Fiscal year ended December 31, 2017	%
Net sales	1,508,007	1.2	1,489,421	2.2
Operating income	207,703	1.4	204,791	10.4
Income before income taxes	207,251	1.4	204,290	11.4
Net income	155,331	4.5	148,607	16.2
Net income attributable to owners of the parent	153,698	4.5	147,010	16.2
Comprehensive income	123,247	(31.5)	179,890	91.1

	Fiscal year ended December 31, 2018	Fiscal year ended December 31, 2017
Basic earnings per share (Yen)	314.25	298.30
Diluted earnings per share (Yen)	314.12	298.09
Ratio of net income to equity attributable to owners of the parent	18.9%	19.8%
Ratio of income before income taxes to total assets	14.4%	14.8%
Ratio of operating income to net sales	13.8%	13.7%
(Reference) Share of profit in investments accounted for using the equity method	2,082	2,007

(2) Consolidated financial position

	December 31, 2018	December 31, 2017
Total assets	1,460,986	1,427,375
Total equity	835,509	819,364
Equity attributable to owners of the parent	822,360	806,381
Ratio of equity attributable to owners of the parent to total assets	56.3%	56.5%
Equity attributable to owners of the parent per share (Yen)	1,689.82	1,636.41

(3) Consolidated cash flows

	<u>Fiscal year ended December 31, 2018</u>	<u>Fiscal year ended December 31, 2017</u>
Net cash flows from operating activities	195,610	185,845
Net cash flows from investing activities	(157,895)	(96,146)
Net cash flows from financing activities	(108,579)	(53,244)
Cash and cash equivalents at the end of the year	265,978	343,076

2. Dividends

	<u>Year ending December 31, 2019 (Forecast)</u>	<u>Year ended December 31, 2018</u>	<u>Year ended December 31, 2017</u>
Annual cash dividends per share (Yen)			
1st quarter end	-	-	-
2nd quarter end	65.00	60.00	54.00
3rd quarter end	-	-	-
<u>Fiscal year end</u>	<u>65.00</u>	<u>60.00</u>	<u>56.00</u>
Total	130.00	120.00	110.00
Total dividend payment amount	██████████	58,493	54,293
Payout ratio (consolidated)	39.1%	38.2%	36.9%
Ratio of dividends to equity attributable to owners of the parent (consolidated)	██████████	7.2%	7.3%

3. Forecast of consolidated operating results for the fiscal year ending December 31, 2019
(from January 1, 2019 to December 31, 2019)

(Millions of yen, except per share amounts)
(Percentages indicate year-on-year changes)

	<u>Year ending December 31, 2019</u>	<u>%</u>
Net sales	1,580,000	4.8
Operating income	225,000	8.3
Income before income taxes	225,000	8.6
Net income attributable to owners of the parent	162,000	5.4
Basic earnings per share (Yen)	332.88	-

4. Others

(1) Changes in significant subsidiaries during this year (changes in specified subsidiaries resulting in change in scope of consolidation): Yes

New: None

Excluded: 1 company (Company Name) Kao Customer Marketing Co., Ltd.

For details, please refer to page 28, "Changes in significant subsidiaries during this year" in "Notes to Consolidated Financial Statements"

(2) Changes in accounting policies and changes in accounting estimates

1) Changes in accounting principles required by IFRS: None

2) Changes in accounting principles due to reasons other than 1): None

3) Changes in accounting estimates: None

(3) Number of issued shares outstanding at the end of the year (ordinary shares)

	<u>December 31, 2018</u>	<u>December 31, 2017</u>
Number of issued shares including treasury shares	488,700,000	495,000,000
Number of treasury shares	2,043,272	2,225,561
	<u>Fiscal year ended December 31, 2018</u>	<u>Fiscal year ended December 31, 2017</u>
Weighted average number of shares outstanding during the year	489,089,471	492,832,099

Notice regarding execution of audit procedures

This financial results report is exempt from audit by certified public accountants or accounting firms.

Explanation regarding the appropriate use of forecast of operating results and other special items

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

Please refer to page 1 to 14, "1. Summary of Operating Results and Financial Position" for the suppositions that form the assumptions for earnings forecasts and cautions concerning the use of earnings forecasts.

1. Summary of Operating Results and Financial Position

(1) Summary of Operating Results

Operating Results for the Fiscal Year Ended December 31, 2018

Note: Like-for-like growth rates below exclude the effect of translation of local currencies into Japanese yen.

(Billions of yen, except operating margin and per share amounts)			
	2018	2017	Growth
Net sales	1,508.0	1,489.4	1.2% Like-for-like: 1.3%
Operating income	207.7	204.8	1.4%
Operating margin (%)	13.8	13.7	-
Income before income taxes	207.3	204.3	1.4%
Net income	155.3	148.6	4.5%
Net income attributable to owners of the parent	153.7	147.0	4.5%
Basic earnings per share (Yen)	314.25	298.30	5.3%

1) Trends in Overall Results for the Fiscal Year Ended December 31, 2018

Conditions in the global economy are unclear due to factors including trends in trade issues, the economic outlook for China and other emerging countries in Asia and the impact of uncertainty about the policies of the Americas and Europe.

From January to December 2018, the markets for household and personal care products and cosmetics in Japan, which are key markets for the Kao Group, were in solid condition according to retail sales and consumer purchasing survey data. In every product category, the share of the e-commerce channel increased further and average unit prices for household and personal care products increased by 1 percentage point compared with the same period a year earlier.

Under these circumstances, the Kao Group completed the second fiscal year of the Kao Group Mid-term Plan "K20" covering the four years from 2017 to 2020. With technology innovations such as artificial intelligence and the Internet of Things, the structure of retailing and purchasing behavior and other factors are changing rapidly worldwide and consumer values are diversifying. The Kao Group invested proactively for the future and made efforts that included enhancing new and improved product launches, marketing and sales activities that address these changes. As a result, in its consolidated operating results the Kao Group increased operating income and net income for the ninth consecutive fiscal year and achieved record-high operating income for the sixth consecutive fiscal year. The Kao Group did not reach its forecast of consolidated operating results excluding net income attributable to owners of the parent, but the entire Group will continue to work to achieve "K20."

Net sales increased 1.2% compared with the previous fiscal year to 1,508.0 billion yen. On a like-for-like basis, net sales increased 1.3%. In the Consumer Products Business in Japan, the Kao Group made efforts including launches of new and improved products and further enhancement of its sales promotion activities, but sales decreased slightly. Outside Japan, sales increased. The Chemical Business was impacted by factors including selling price adjustments associated with a drop in prices for natural fats and oils, but sales increased due to promotion of high-value-added products.

As for profits, depreciation expenses and other costs increased, but due to more efficient deployment of marketing expenses and the effect of increased sales in the Consumer Products Business in Asia, among other factors, operating income was 207.7 billion yen, an increase of 2.9 billion yen compared with the previous fiscal year, the operating margin was 13.8% and income before income taxes was 207.3 billion yen, an increase of 3.0 billion yen. Net income was 155.3 billion yen, an increase of 6.7 billion yen.

Basic earnings per share were 314.25 yen, an increase of 15.95 yen, or 5.3%, from 298.30 yen in the previous fiscal year.

Economic value added (EVA*), which the Kao Group uses as a management indicator, increased 3.1 billion yen compared with the previous fiscal year to 93.5 billion yen, due to an increase in net operating profit after tax (NOPAT).

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

To improve capital efficiency and further increase shareholder returns, Kao Corporation (the Company) resolved at a meeting of its Board of Directors held on April 27, 2018 to repurchase its own shares, and repurchased shares totaling 50.0 billion yen. The Company retired 6.3 million treasury shares on September 14, 2018.

The main exchange rates used for translating the financial statement items (income and expenses) of foreign subsidiaries and associates were as shown below.

	First quarter Jan. – Mar.	Second quarter Apr. – Jun.	Third quarter Jul. – Sep.	Fourth quarter Oct. – Dec.
Yen/U.S. dollar	108.44 (113.71)	109.08 (111.13)	111.44 (110.97)	112.82 (112.92)
Yen/Euro	133.23 (121.13)	130.09 (122.28)	129.62 (130.35)	128.76 (132.95)
Yen/Chinese yuan	17.04 (16.50)	17.11 (16.19)	16.39 (16.63)	16.31 (17.07)

Note: Figures in parentheses represent the exchange rates for the same period of the previous fiscal year.

2) Trends by Segment during the Fiscal Year

Summary of Segment Information

As of the fiscal year ended December 31, 2018, the following changes have been made (Reference: Page 25, "1. Segment Information" in "Notes to Consolidated Financial Statements").

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 previous fiscal year have been restated accordingly.
3. 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.

Consolidated Results by Segment

(Billions of yen)

Fiscal year ended December 31	Net sales				Operating income			Operating margin (%)	
	2018	2017	Growth %	Like-for-like %	2018	2017	Change	2018	2017
Cosmetics Business	279.6	266.2	5.0	5.0	27.7	13.0	14.7	9.9	4.9
Skin Care and Hair Care Business	341.4	332.9	2.6	2.7	48.8	49.3	(0.5)	14.3	14.8
Human Health Care Business	267.7	281.2	(4.8)	(4.4)	27.9	34.5	(6.5)	10.4	12.3
Fabric and Home Care Business	344.1	335.7	2.5	2.6	71.2	76.2	(5.0)	20.7	22.7
Consumer Products Business	1,232.9	1,216.0	1.4	1.6	175.7	173.0	2.7	14.3	14.2
Chemical Business	312.8	310.3	0.8	0.5	30.6	30.3	0.3	9.8	9.8
Total	1,545.7	1,526.3	1.3	1.3	206.3	203.3	3.0	-	-
Elimination and Reconciliation	(37.7)	(36.9)	-	-	1.4	1.5	(0.1)	-	-
Consolidated	1,508.0	1,489.4	1.2	1.3	207.7	204.8	2.9	13.8	13.7

Consolidated Net Sales Composition

Fiscal year ended December 31		(Billions of yen)				
		Japan	Asia	Americas	Europe	Consolidated
Cosmetics Business	2018	217.7	34.7	6.4	20.8	279.6
	2017	215.0	25.4	6.3	19.5	266.2
	Growth %	1.3	36.7	1.9	6.6	5.0
	Like-for-like %	1.3	36.6	3.5	5.5	5.0
Skin Care and Hair Care Business	2018	195.8	28.5	72.8	44.3	341.4
	2017	191.9	27.9	68.9	44.2	332.9
	Growth %	2.1	2.0	5.7	0.2	2.6
	Like-for-like %	2.1	3.4	7.8	(2.6)	2.7
Human Health Care Business	2018	171.6	96.0	0.1	-	267.7
	2017	184.5	96.7	0.0	-	281.2
	Growth %	(7.0)	(0.8)	109.9	-	(4.8)
	Like-for-like %	(7.0)	0.5	118.9	-	(4.4)
Fabric and Home Care Business	2018	298.7	39.6	5.7	0.1	344.1
	2017	294.8	38.8	2.1	-	335.7
	Growth %	1.3	2.0	174.4	-	2.5
	Like-for-like %	1.3	2.7	179.6	-	2.6
Consumer Products Business	2018	883.9	198.7	85.0	65.2	1,232.9
	2017	886.2	188.8	77.3	63.8	1,216.0
	Growth %	(0.3)	5.3	10.0	2.3	1.4
	Like-for-like %	(0.3)	6.3	12.1	0.1	1.6
Chemical Business	2018	126.6	67.5	51.8	66.9	312.8
	2017	123.9	69.6	52.6	64.2	310.3
	Growth %	2.2	(3.0)	(1.5)	4.3	0.8
	Like-for-like %	2.2	(3.3)	0.7	1.1	0.5
Elimination of intersegment	2018	(32.9)	(3.1)	(0.1)	(1.6)	(37.7)
	2017	(31.8)	(3.4)	(0.1)	(1.6)	(36.9)
Consolidated	2018	977.6	263.1	136.8	130.5	1,508.0
	2017	978.2	255.0	129.8	126.4	1,489.4
	Growth %	(0.1)	3.2	5.4	3.3	1.2
	Like-for-like %	(0.1)	3.8	7.5	0.6	1.3

Note: Figures for the Consumer Products Business present sales to external customers and figures for the Chemical Business include sales to the Consumer Products Business in addition to external customers. Sales by geographic region are classified based on the location of the sales recognized.

Net sales to foreign customers were 37.7% of net sales compared with 37.0% for the same period a year earlier.

Consumer Products Business

Sales increased 1.4% compared with the previous fiscal year to 1,232.9 billion yen. On a like-for-like basis, sales increased 1.6%.

The Kao Group worked for more effective marketing and sales activities, including launching new and improved products that address the diversification of consumer values and enhancing activities in the e-commerce channel in line with changes in purchasing behavior.

In Japan, sales decreased slightly by 0.3% to 883.9 billion yen.

In Asia, sales were steady, increasing 5.3% to 198.7 billion yen. On a like-for-like basis, sales increased 6.3%.

In the Americas, sales increased 10.0% to 85.0 billion yen. On a like-for-like basis, sales increased 12.1%.

In Europe, sales increased 2.3% to 65.2 billion yen. On a like-for-like basis, sales increased 0.1%.

Operating income increased 2.7 billion yen compared with the previous fiscal year to 175.7 billion yen.

Note: The Kao Group's Consumer Products Business consists of the Cosmetics Business, the Skin Care and Hair Care Business, the Human Health Care Business, and the Fabric and Home Care Business.

Cosmetics Business

Sales increased 5.0% compared with the previous fiscal year to 279.6 billion yen. On a like-for-like basis, sales increased 5.0%.

The Kao Group announced a new growth strategy in May 2018, and was able to achieve some success from optimizing the brand portfolio, enhancing marketing and other measures. The Kao Group determined key strategic brands to promote selection and concentration, and enhanced digital marketing in response to changes in consumer purchasing behavior.

Counseling cosmetics *SUQQU* and *RMK*, which are available in the department store channel, and in self-selection cosmetics, *freeplus*, which is hypoallergenic and contains Japanese and Chinese botanical extracts, and the *Curél* derma care brand sold strongly. *SOFINA* *IP* base essence was improved in September 2018, and sales grew steadily as it gained acceptance among an increasing number of consumers. Sales increased substantially in the strongly growing Asian region, led by China. The Kao Group will further develop the Cosmetics Business by executing its new growth strategy as it steadily implements structural reforms.

Operating income was 27.7 billion yen, a substantial improvement of 14.7 billion yen from the previous fiscal year, due to the effects of increased sales of strongly performing brands and the Asia business, among other factors.

Skin Care and Hair Care Business

Sales increased 2.6% compared with the previous fiscal year to 341.4 billion yen. On a like-for-like basis, sales increased 2.7%.

In skin care products, sales of the *Bioré* brand grew steadily in Japan and Asia, but were impacted by stiff competition in the Americas. *Jergens* hand and body lotions performed steadily in the Americas.

In hair care products in Japan, the Kao Group launched *Rerise*, an innovative next-generation brand for gray hair care, and its performance was strong but sales of shampoos and conditioners decreased due to a delayed response to the growing premium market and the impact of the shrinking mass market. In Europe, the *John Frieda* hair care brand was affected by intense market competition.

In January 2018, U.S.-based Oribe Hair Care, LLC, which owns *Oribe*, a super-premium-price brand for hair salons, became a consolidated subsidiary and its sales were strong.

Operating income decreased 0.5 billion yen compared with the previous fiscal year to 48.8 billion yen due to factors including expenses incurred for structural reforms in the Americas and Europe, despite the effect of increased sales of skin care products in Japan and in Asia.

Human Health Care Business

Sales decreased 4.8% compared with the previous fiscal year to 267.7 billion yen. On a like-for-like basis, sales decreased 4.4%.

For *Merries* baby diapers, sales in Japan decreased. The Kao Group gained greater consumer support in Japan by conducting product improvements and enhancing sampling and other sales promotion activities, but due to factors including the impact of the new e-commerce law in China, which came into effect as of January 2019, there was a substantial downturn in demand for the purpose of resale in China. Sales in China also decreased due to factors including intensifying price competition and aggressive activities by local manufacturers. On the other hand, locally produced products targeting the middle-class consumer segment performed well in Indonesia and market share grew in Russia and neighboring countries as the products gained broad acceptance among consumers.

For *Laurier* sanitary napkins, high-value-added products performed strongly in Japan, China and elsewhere, and among adult incontinence products, sales grew steadily in Japan for a line of *Relief* ultra-thin pants-type diapers designed to be like regular underwear.

Sales of personal health products were steady. In oral care and bath additives, high-performance products sold steadily. Sales of *MegRhythm* thermo products grew as the Kao Group increased the number of loyal users through measures such as launching improved items and enhancing digital marketing.

In food and beverage products, the Kao Group conducted business reforms and the profit structure improved.

Operating income decreased 6.5 billion yen compared with the previous fiscal year to 27.9 billion yen, due to the decrease in sales of baby diapers, higher raw material costs, increased depreciation expenses and other factors.

Fabric and Home Care Business

Sales increased 2.5% compared with the previous fiscal year to 344.1 billion yen. On a like-for-like basis, sales increased 2.6%.

Sales of fabric care products were firm amid an environment of severe competition in Japan. The Kao Group worked to enhance communication of the value of *Attack* laundry detergent in “changing tap water for washing to antibacterial water” and increased the market share of fabric softeners by improving *Flair Fragrance* amid the ongoing expansion of the market for high-value-added products.

Sales of home care products were firm. In Japan, the Kao Group cultivated new users by improving foam spray-type *CuCute* dishwashing detergent, and sales grew steadily.

Sales were firm in Asia as the Kao Group launched high-value-added products and enhanced in-store merchandising in Thailand and other countries. In addition, to strengthen its commercial-use products business outside Japan, the Kao Group completed the acquisition of U.S.-based Washing Systems, LLC and made it a consolidated subsidiary in August 2018.

Operating income decreased 5.0 billion yen compared with the previous fiscal year to 71.2 billion yen due to factors including the impact of increased costs for petrochemicals and other raw materials in a severe competitive environment.

Chemical Business

Sales increased 0.8% compared with the previous fiscal year to 312.8 billion yen. On a like-for-like basis, sales increased 0.5%.

Sales of oleo chemicals decreased due to the impact of selling price adjustments associated with a drop in prices for natural fats and oils, although demand outside Japan was firm. Sales of performance chemicals increased, due in part to the contribution from growth in sales volume in infrastructure-related fields. In specialty chemicals, sales of hard disk-related products were steady, despite the impact of a decrease in customer demand for toner and toner binder.

Operating income increased 0.3 billion yen compared with the previous fiscal year to a record high of 30.6 billion yen due to growth in sales of oleo chemicals outside Japan and promotion of high-value-added products.

Forecast for the Fiscal Year Ending December 31, 2019

(Billions of yen, except operating margin and per share amounts)

	2019	2018	Growth
Net sales	1,580.0	1,508.0	4.8%
			Like-for-like*: 5.8%
Operating income	225.0	207.7	8.3%
Operating margin (%)	14.2	13.8	-
Income before income taxes	225.0	207.3	8.6%
Net income attributable to owners of the parent	162.0	153.7	5.4%
Basic earnings per share (Yen)	332.88	314.25	5.9%

* In this table and hereinafter, like-for-like growth rates exclude the effect of translation of local currencies into Japanese yen.

1) Forecast of Overall Business Results for the Fiscal Year Ending December 31, 2019

The Kao Group considers fiscal 2019 to be a decisive year in achieving the targets of the Kao Group Mid-term Plan "K20." The Kao Group will make maximum use of the successes it has achieved and the technologies and knowledge it has accumulated to deal decisively with the issues that have become apparent during the two years since the start of "K20." To do so, the Kao Group must thoroughly instill "Integrity," which is one of the Values of the Kao Way, its corporate philosophy, as it puts into practice its slogan of "Transforming Ourselves to Drive Change" set forth in "K20" on a high level.

In the Consumer Products Business, the Kao Group will make full use of digital marketing to transform its method of conveying value while introducing more new and improved products than before. The Kao Group will respond decisively to the increase in the consumption tax rate in Japan that will be implemented in October 2019, and conduct business activities centered on further advancing the reform of the Cosmetics Business and the revitalization of baby diapers and the Consumer Products Business in the Americas and Europe.

In the Chemical Business, the Kao Group will work to develop high-value-added products that are not affected by fluctuations in raw material costs and to enhance its eco-chemical products with reduced environmental impact.

The Kao Group forecasts that net sales will increase 4.8% year on year to 1,580.0 billion yen. On a like-for-like basis, the Kao Group forecasts that net sales will increase 5.8%. The Kao Group expects an increase in sales volume from working to stimulate the market with measures including numerous launches of new and improved products that address diverse preferences and values.

Overall, the Kao Group expects higher raw material prices compared with the previous fiscal year, with prices for natural fats and oils and petrochemicals forecast to remain at a relatively stable level and market prices for pulp, paper and other materials forecast to rise. The Kao Group will continue to conduct Total Cost Reduction (TCR) activities, reforms of its marketing and sales activities, and other measures to support

sustainable growth.

Based on these assumptions, the Kao Group forecasts an 8.3% increase in operating income to 225.0 billion yen, an operating margin of 14.2%, an 8.6% increase in income before income taxes to 225.0 billion yen, and a 5.4% increase in net income attributable to owners of the parent to 162.0 billion yen.

The Kao Group will increase economic value added (EVA) by making full use of its assets to manage invested capital more efficiently, together with an increase in net operating profit after tax (NOPAT).

2) Forecast by Segment for the Fiscal Year Ending December 31, 2019

In the Consumer Products Business, the markets for household and personal care products and cosmetics, including inbound demand, are projected to grow slightly on a value basis in Japan. In markets outside Japan, growth is expected to continue in Asia, mainly in China and Indonesia, and moderate growth is projected in the Americas and Europe. Among sales channels, e-commerce is expected to continue to grow globally.

In the Cosmetics Business, the Kao Group will step up promotion of the new growth strategy it announced in May 2018 and further strengthen its G11 global strategy brands and R8 regional strategy brands. While working to create high-value-added products that leverage its original technologies, the Kao Group will clearly define its core brands, refine each brand and enhance initiatives in the growing e-commerce and travel retail channels to build a strategic brand portfolio. Moreover, while working to further enhance its operations in Asia centered on China, where performance is strong, the Kao Group will make greater progress in its structural reforms in Japan.

As a result, the Kao Group forecasts that sales in this business will increase 4.5% year on year on a like-for-like basis to 290.0 billion yen.

In the Skin Care and Hair Care Business, the Kao Group will work to revitalize the market by assessing changes in consumer values and lifestyle habits as it adds greater value to products and offering its own original and appealing proposals. The Kao Group will also respond to market segmentation and proactively take on challenges in new areas and categories. In skin care products, the Kao Group will launch UV care products from the *Bioré* brand using the world's first formula* for preventing uneven application by spreading into micro crevices. In operations in the Americas and Europe, the Kao Group will work to rebuild the business with a reorganization that reinforces development/manufacturing of products. The Kao Group will also promote reforms of marketing activities and sales methods in line with changes in consumer purchasing behavior.

As a result, the Kao Group forecasts that sales in this business will increase 5.7% year on year on a like-for-like basis to 357.0 billion yen.

** A unique sunscreen formula exclusively produced by the Company. The formula incorporates capsules with a UV protection agent consisting of amphiphilic ingredients with hydrophilic and hydrophobic properties including glyceryl behenate and sorbitan distearate. (Based on a survey of prior technology and a survey conducted in July 2018 by the Company inside the Mintel Japan database.)*

The Human Health Care Business will promote product development focused on health care for both body and mind. The Kao Group aims to create sanitary products that are gentle on skin and that offer greater comfort and a sense of confidence. Measures to revitalize *Merries* baby diapers will include further strengthening its strategic initiatives in the growing e-commerce channel in China, where growth slowed in 2018. For sanitary napkins, the Kao Group will expand the business by promoting high-value-added products. The Kao Group will work to further raise the brand value of its personal health products by continuing to make original new offerings with products that can become healthy daily lifestyle habits. In food and beverage products, the Kao Group will enhance the unique appeal of *Healthya* functional drinks, reform the business structure and pave the way into new fields.

As a result, the Kao Group forecasts that sales in this business will increase 7.8% year on year on a like-for-like basis to 286.0 billion yen.

In the Fabric and Home Care Business, the Kao Group will enhance its brands and offer proposals for enriched daily lives based on insights into changing consumer lifestyles, developing higher-value-added products that offer cleanliness, comfort and enjoyment in various everyday situations. In fabric care products in Japan, as the first step in commercialization of the technologies announced at the Kao Group Technology Innovation Session held in November 2018, the Kao Group will launch *Attack ZERO*, a laundry detergent incorporating an innovative technology that will completely transform the concept of washing. For home care products, the Kao Group's efforts will include offering high-value-added products that substantially reduce the burden of housekeeping in light of the major changes in lifestyles, attitudes toward housework and image of the roles of family members. In collaboration with retailers, the Kao Group will continue to promote its "eco together" environmental statement through measures including instructional activities aimed at reducing environmental impact throughout the entire product lifecycle with refill products for concentrated liquid laundry detergents, fabric softeners, household cleaners and other products.

As a result, the Kao Group forecasts that sales in this business will increase 8.0% year on year on a like-for-like basis to 371.0 billion yen.

In the Chemical Business, the Kao Group will promote global supply of distinctive high-value-added chemical products that meet the diverse needs of a wide range of industries. In oleo chemicals, the Kao Group will raise the proportion of fatty alcohols, fatty amines and higher-value-added derivatives made from natural fats and oils in its lineup, mainly in Asia. In performance chemicals, the Kao Group will expand its solutions business given growth outside Japan and increased demand for infrastructure in Japan, among other factors. In specialty chemicals, the Kao Group will work to expand sales of products related to information materials and strive to offer products that anticipate customer trends. In addition, the Kao Group will respond to rising concern about the global environment by enhancing development of new products and materials using its unique technologies that contribute to reducing environmental impact while expanding sales by cultivating the markets of emerging nations, where growth is expected.

As a result, including adjustments in selling prices in response to fluctuations in raw material prices, the Kao Group forecasts that sales in this business will increase 0.9% year on year on a like-for-like basis to 311.0 billion yen.

Amid a drastically changing social environment and rapid diversification of values, it is becoming difficult to continue growing by using only methods that have previously been successful. The Kao Group will continue to make new offerings to benefit society from fresh perspectives. In addition, the Kao Group will work toward the application of the five technological innovations it announced in November 2018 (Fine Fiber,¹ RNA Monitoring,² Created Color,³ Bio IOS⁴ and Package RecyCreation⁵) and the launch of new businesses.

1. *Technology for the formation of a layered, ultra-thin membrane made of submicron fibers on the surface of the skin*
2. *Technology for isolating and analyzing Ribonucleic acid (RNA) expression information, which reflects daily changes in skin conditions, from facial sebum*
3. *Development technology for safer hair coloring agents that produce more appealing colors*
4. *Surfactant technology for transforming the fats and oil extracted from the flesh of oil palm fruit, which is the largest part of the fruit, into ingredients suitable for cleaning applications*
5. *Development technology for air-in-film bottles with the aim of reducing marine plastic waste to zero, using 100% recycled plastic and leaving no residual liquid product*

3) Underlying Assumptions of the Forecast for the Fiscal Year Ending December 31, 2019

The above forecast was made assuming translation rates of one U.S. dollar to 110 yen, one euro to 125 yen and one Chinese yuan to 16 yen.

Please note that although there is potential for volatility in prices of natural fats and oils and petrochemicals, assumptions for prices are based on information currently available to the Kao Group.

(2) Summary of Financial Position

Summary of Assets, Liabilities, Equity and Cash Flows

1) Summary of Assets, Liabilities, Equity and Cash Flows for the Fiscal Year Ended December 31, 2018

Consolidated Financial Position

(Billions of yen, except per share amounts)			
	December 31, 2018	December 31, 2017	Incr./ (Dcr.)
Total assets	1,461.0	1,427.4	33.6
Total liabilities	625.5	608.0	17.5
Total equity	835.5	819.4	16.1
Ratio of equity attributable to owners of the parent to total assets	56.3%	56.5%	-
Equity attributable to owners of the parent per share (Yen)	1,689.82	1,636.41	53.41
Bonds and borrowings	120.8	120.6	0.2

Consolidated Cash Flows

(Billions of yen)			
	2018	2017	Incr./ (Dcr.)
Net cash flows from operating activities	195.6	185.8	9.8
Net cash flows from investing activities	(157.9)	(96.1)	(61.7)
Free cash flow*	37.7	89.7	(52.0)
Net cash flows from financing activities	(108.6)	(53.2)	(55.3)

*Free cash flow is the sum of net cash flows from operating activities and net cash flows from investing activities.

Total assets increased 33.6 billion yen from December 31, 2017 to 1,461.0 billion yen. The principal increases in assets were a 13.7 billion yen increase in inventories, a 23.1 billion yen increase in property, plant and equipment, a 41.6 billion yen increase in goodwill and a 29.7 billion yen increase in intangible assets. The principal decrease in assets was a 77.1 billion yen decrease in cash and cash equivalents.

Total liabilities increased 17.5 billion yen from December 31, 2017 to 625.5 billion yen. The principal increase in liabilities was a 19.9 billion yen increase in retirement benefit liabilities.

Total equity increased 16.1 billion yen from December 31, 2017 to 835.5 billion yen. The principal increase in equity was net income totaling 155.3 billion yen. The principal decreases in equity were purchase of treasury shares from the market totaling 50.0 billion yen, dividends totaling 57.5 billion yen and other comprehensive income totaling 32.1 billion yen.

As a result of the above factors, the ratio of equity attributable to owners of the parent to total assets was 56.3% compared with 56.5% at December 31, 2017. The Kao Group maintained return on equity at the high level of 18.9%.

In addition, the Company retired 6.3 million treasury shares on September 14, 2018.

Net cash flows from operating activities totaled 195.6 billion yen. The principal increases in net cash were income before income taxes of 207.3 billion yen, depreciation and amortization of 60.7 billion yen and increase in retirement benefit liabilities of 20.7 billion yen. The principal decreases in net cash were increase in trade and other receivables of 12.6 billion yen, increase in inventories of 15.7 billion yen and income taxes paid of 51.7 billion yen.

Net cash flows from investing activities totaled negative 157.9 billion yen. This primarily consisted of purchase of property, plant and equipment of 80.3 billion yen for capacity expansion at production bases in Japan and proactive capital investments in Asia, where growth is notable, and payments for business combinations of 73.9 billion yen for businesses for hair salons, commercial-use products and other purposes where synergies with existing business are expected.

Free cash flow, the sum of net cash flows from operating activities and net cash flows from investing activities, was 37.7 billion yen.

Net cash flows from financing activities totaled negative 108.6 billion yen. The Company emphasizes steady and continuous dividends and flexibly repurchases and retires treasury shares to improve capital efficiency from the perspective of EVA. During fiscal 2018, this primarily consisted of 57.6 billion yen for dividends paid to owners of the parent and non-controlling interests and 50.0 billion yen for purchase of treasury shares. In addition, to reinforce its financial base in order to maintain an appropriate capital cost rate and to invest for growth, the Kao Group issued and redeemed corporate bonds, which resulted in 25.1 billion yen in proceeds from issuance of bonds and payments totaling 24.9 billion yen for redemption of bonds.

The balance of cash and cash equivalents at December 31, 2018 decreased 77.1 billion yen compared with December 31, 2017 to 266.0 billion yen, including the effect of exchange rate changes.

2) Forecast of Assets, Liabilities, Equity and Cash Flows for the Fiscal Year Ending December 31, 2019

Net cash flows from operating activities are forecast to be approximately 230.0 billion yen, due in part to an increase in income. This amount includes the effect of the scheduled adoption of IFRS 16 "Leases" from fiscal 2019. Excluding this factor, net cash flows from operating activities are expected to be approximately 210.0 billion yen.

Net cash flows from investing activities are forecast to be approximately 100.0 billion yen due to scheduled proactive investments for further growth encompassing enhancement and rationalization of production capacity, greater distribution efficiency and other purposes.

In net cash flows from financing activities, the Kao Group expects to pay cash dividends and to make other

expenditures.

As a result of the above, the balance of cash and cash equivalents as of December 31, 2019 is forecast to be approximately 310.0 billion yen, an increase of approximately 40.0 billion yen from a year earlier.

(3) Basic Policies regarding Distribution of Profits and Dividends for the Fiscal Years Ended December 31, 2018 and Ending December 31, 2019

The Kao Group uses economic value added (EVA) as its principal management metric and clearly sets the uses of its steadily generated cash flow as shown below from that viewpoint. Shareholder returns are one such use, and they are implemented after considering future demand for funds and the situation in financial markets.

Use of cash flow:

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

In accordance with these policies, the Company plans to pay a year-end dividend for fiscal 2018 of 60 yen per share, an increase of 4 yen per share compared with the previous fiscal year. Consequently, annual cash dividends will increase 10 yen per share compared with the previous fiscal year, resulting in a total of 120 yen per share. The consolidated payout ratio will be 38.2%.

For fiscal 2019, the Company plans to pay total cash dividends of 130 yen per share (39.1% payout ratio), an increase of 10 yen per share compared with the previous fiscal year. This plan is in accordance with the Company's basic policies regarding distribution of profits, and free cash flow and other factors have also been taken into consideration. As a result, the Company is aiming for its 30th consecutive fiscal year of increases in dividends.

2. Management Policies

1) Management Policies of the Kao Group

The Kao Group's mission is to strive for the wholehearted satisfaction and enrichment of the lives of people globally and to contribute to the sustainability of the world, with products and brands of excellent value that are created from the consumer's and customer's perspective.

The Kao Way, which is the corporate philosophy of the Kao Group, serves as the foundation of all our activities. All members of the Kao Group will share the Kao Way and put it into practice every day as the foundation of our approaches and actions. Moreover, this commitment is embraced by all members of the Kao Group as we further promote efforts to fully utilize our assets and work together with passion to continue to share joy with consumers and customers in our core domains of cleanliness, beauty, health and chemicals.

Social conditions and the natural environment are changing dramatically. For the Kao Group to continue to grow sustainably, we must transform ourselves to drive change. We will deepen our Essential Research¹ to proactively offer innovations on a level that exerts an impact on society.

In addition, the Kao Group considers non-financial as well as financial strategies and initiatives to be a top management priority, and will conduct more substantive ESG activities globally under the name "Kirei² Action." To help create the future that people worldwide envision, we will take an approach unique to the Kao Group in squarely confronting the social issues raised by the Sustainable Development Goals (SDGs) and addressing matters such as the strengthening of environmental laws and regulations and the ethical concerns of consumers. As we achieve profitable growth and a high level of returns to stakeholders, we will become a corporate group with a global presence by 2030.

Among the various elements of ESG, the Kao Group views corporate governance as the cornerstone of management for supporting management's intentions and ambitions from both "proactive" and "protective" aspects and for continuously increasing its corporate value. For this purpose, the Kao Group works for ongoing "Innovation"³ and will further enhance its internal controls for the execution of management that is swift, efficient and sound, as well as impartial and transparent.

1. Research that pursues the essence of things for both humans and materials from a scientific standpoint.
2. Kirei is a Japanese word that represents the concept of cleanliness, beauty, health, purity, and fairness.
3. Innovation is one of the values of the Kao Way, the corporate philosophy of the Kao Group.

2) Management Metric Used as a Target

As its principal management metric, the Kao Group uses EVA, which measures true profit by factoring in the cost of invested capital. This essentially takes the perspective of shareholders and other asset owners to deploy capital efficiently and generate profits. The Kao Group believes that continuously increasing EVA will lead to increases in corporate value and thus corresponds with long-term benefits, not only for shareholders,

but for all stakeholders. The target of the Kao Group's business activities is to increase EVA while expanding its business scale. The Kao Group uses this metric to assess its businesses, to make evaluations on investment in facilities, acquisitions and other items, and to develop performance targets for each fiscal year and for its compensation system.

3) Medium-to-long-term Management Strategies of the Kao Group

(1) Long-term Management Strategy

As its vision by 2030 based on the above management policies, the Kao Group aims to make Kao a company with a global presence by combining sustained "profitable growth," and "contributions to the sustainability of the world" with proposals to resolve social issues and social contribution activities conducted through its business operations. To achieve this vision, the Kao Group will promote the further reinforcement of the existing businesses that are its strength and the creation of new markets from a global perspective utilizing the R&D capabilities that will create value for the future, in addition to implementing basic measures to further raise the level of safety and reliability.

It is becoming difficult to predict the various changes that will occur throughout the world in all aspects, such as speed, size and direction. To deal with this situation, the Kao Group aims to achieve the above vision by fully embracing the slogan of "Transforming Ourselves to Drive Change."

The Kao Group's vision by 2030 is as follows.

Make the Kao Group a company with a global presence that

- Has a distinctive corporate image
 - Become a company that is always by the consumer's side
- Is a high-profit global consumer goods company that exceeds:
 - 2.5 trillion yen in net sales (1.0 trillion yen outside Japan)
 - 17% operating margin
 - 20% ROE
- Provides a high level of returns to stakeholders

(2) Mid-term Business Plan

The Kao Group regards its mid-term business plan for the period to 2020 as an important milestone toward achieving its vision by 2030. To enhance corporate value, it established the Kao Group Mid-term Plan 2020 "K20" targeting the four years from fiscal 2017 to fiscal 2020 and announced it publicly on December 12, 2016. To further enhance its ESG activities, the Kao Group will thoroughly instill the "Integrity" set forth in the Kao Way, the Kao Group's corporate philosophy, by sharing and practicing it among all employees while deepening Essential Research. In July 2018, we established a new ESG Division to set up a structure for promoting ESG activities globally. In addition, by utilizing artificial intelligence, the Internet of Things, robotics and other cutting-edge technologies to take the full use of its assets to the next dimension, the Kao Group will realize profitable growth at a high level of quality and create new assets to achieve the following

goals.

K20 Goals – Three Commitments

- Commitment to fostering a distinctive corporate image
- Commitment to profitable growth
 - Continue to set new record highs for profits
 - Aim for like-for-like* net sales CAGR of +5%, operating margin of 15%
 - Three 100 billion yen brands (*Merries* baby diapers, *Attack* laundry detergents, *Bioré* skin care products)
 - * *Excluding the effect of currency translation, change of sales system, etc.*
- Commitment to returns to stakeholders
 - Shareholders: Continuous cash dividend increases (40% payout ratio target)
 - Employees: Continuous improvement in compensation, benefits and health support
 - Customers: Maximization of win-win relationships
 - Society: Advanced measures to address social issues

The Kao Group must securely build this foundation under K20 to achieve its vision by 2030. This entails promoting the evolution of its post-deflation growth model of using proactive investments to generate earning power, thus achieving profitable growth. Doing so will require drastically revising current procedures, approaches and concepts to maximize and make full use of Kao Group assets. While remaining committed to thoroughly instilling “*Integrity*,” the Kao Group will put into practice the K20 slogan of “Transforming Ourselves to Drive Change.”

4) Issues for Management

With intensifying market competition, changing market structure and volatility in raw material market conditions and exchange rates, the operating environment remains uncertain. Changes in the attitudes of consumers regarding the environment, health and other matters and associated changes in their purchasing attitudes, as well as the aging society, hygiene and other social issues, are growing in significance. Moreover, amid the global expansion of business and the progress of structural changes in various fields, companies must deal with changes in the risks entailed in their businesses. Under these conditions, the Kao Group will promote both profitable growth and contributions to the sustainability of society through *Yoki-Monozukuri** that is a half-step ahead of these changes. To that end, it will address and deal appropriately with the following issues.

* *The Kao Group defines Yoki-Monozukuri as a strong commitment by all members to provide products and brands of excellent value for consumer satisfaction. In Japanese, Yoki literally means “good/excellent,” and Monozukuri means “development/manufacturing of products.”*

- To deal with changes in the risks entailed in its businesses, the Kao Group will define risks that have a particularly large impact on management and for which it must enhance its response as corporate risks and work to prevent damage to the corporate value of the Group as a whole by further enhancing its management system.

- Given the current rapid progress of factors such as the diversification of values brought on by technology innovations and the accompanying changes in purchasing behavior and the structure of retailing, our business model targeting the mass market, which could formerly be conducted efficiently, must be reconsidered from all aspects, including research and development, production, logistics, sales and marketing. To resolve these issues, the Kao Group will proactively promote the enhancement of Essential Research and the use of artificial intelligence, the Internet of Things, robotics and other cutting-edge technologies.

- To sustainably enhance its corporate value, the Kao Group must appropriately address social issues in the areas of environmental preservation and resource conservation such as problems with marine plastic and other kinds of trash, depletion of water resources, sustainable and responsible procurement, as well as safety and human rights, among others. Therefore, the Kao Group will globally roll out and accelerate the ESG-related initiatives it has been conducting, primarily through the ESG Division, and enhance its management system for conducting checks and administering these initiatives. In October 2018, the Kao Group announced “Our Philosophy & Action on Plastic Packaging.”

3. Basic Approach to Selection of Accounting Standards

Having decided that unifying accounting standards within the Kao Group will contribute to improving the quality of its business management, the Kao Group has voluntarily adopted International Financial Reporting Standards (IFRS) from fiscal 2016. This will enable management based on standardized procedures and information for each Group company and business, and the Kao Group intends to reinforce its management foundation in order to increase its corporate value as a global company. The Kao Group also believes that the application of IFRS will facilitate the international comparability of its financial statements in capital markets.

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Consolidated Statement of Financial Position

(Millions of yen)

	<u>December 31, 2018</u>	<u>December 31, 2017</u>	<u>Change</u>
Assets			
Current assets			
Cash and cash equivalents	265,978	343,076	(77,098)
Trade and other receivables	223,102	216,507	6,595
Inventories	197,571	183,921	13,650
Other financial assets	15,146	14,914	232
Income tax receivables	2,066	2,653	(587)
<u>Other current assets</u>	<u>22,449</u>	<u>28,162</u>	<u>(5,713)</u>
Subtotal	726,312	789,233	(62,921)
<u>Non-current assets held for sale</u>	<u>-</u>	<u>147</u>	<u>(147)</u>
Total current assets	726,312	789,380	(63,068)
Non-current assets			
Property, plant and equipment	418,935	395,800	23,135
Goodwill	180,286	138,735	41,551
Intangible assets	46,549	16,829	29,720
Investments accounted for using the equity method	7,931	7,682	249
Other financial assets	23,540	27,345	(3,805)
Deferred tax assets	49,158	40,918	8,240
<u>Other non-current assets</u>	<u>8,275</u>	<u>10,686</u>	<u>(2,411)</u>
Total non-current assets	734,674	637,995	96,679
<u>Total assets</u>	<u>1,460,986</u>	<u>1,427,375</u>	<u>33,611</u>

(Millions of yen)

	December 31, 2018	December 31, 2017	Change
Liabilities and equity			
Liabilities			
Current liabilities			
Trade and other payables	225,560	224,893	667
Bonds and borrowings	40,488	25,262	15,226
Other financial liabilities	6,880	7,739	(859)
Income tax payables	34,198	34,255	(57)
Provisions	2,873	4,822	(1,949)
Contract liabilities	18,387	17,296	1,091
Other current liabilities	102,452	107,404	(4,952)
Total current liabilities	430,838	421,671	9,167
Non-current liabilities			
Bonds and borrowings	80,339	95,322	(14,983)
Other financial liabilities	9,506	10,091	(585)
Retirement benefit liabilities	84,552	64,694	19,858
Provisions	12,175	10,617	1,558
Deferred tax liabilities	2,864	435	2,429
Other non-current liabilities	5,203	5,181	22
Total non-current liabilities	194,639	186,340	8,299
Total liabilities	625,477	608,011	17,466
Equity			
Share capital	85,424	85,424	-
Capital surplus	108,245	107,980	265
Treasury shares	(11,282)	(9,593)	(1,689)
Other components of equity	(30,029)	(12,315)	(17,714)
Retained earnings	670,002	634,885	35,117
Equity attributable to owners of the parent	822,360	806,381	15,979
Non-controlling interests	13,149	12,983	166
Total equity	835,509	819,364	16,145
Total liabilities and equity	1,460,986	1,427,375	33,611

Consolidated Statement of Income

(Millions of yen)

	Notes	Fiscal year ended December 31, 2018	Fiscal year ended December 31, 2017	Change
Net sales	1	1,508,007	1,489,421	18,586
Cost of sales		(853,989)	(834,107)	(19,882)
Gross profit		654,018	655,314	(1,296)
Selling, general and administrative expenses	2	(444,845)	(452,666)	7,821
Other operating income		14,288	14,909	(621)
Other operating expenses		(15,758)	(12,766)	(2,992)
Operating income	1	207,703	204,791	2,912
Financial income		1,717	1,452	265
Financial expenses		(4,251)	(3,960)	(291)
Share of profit in investments accounted for using the equity method		2,082	2,007	75
Income before income taxes		207,251	204,290	2,961
Income taxes		(51,920)	(55,683)	3,763
Net income		155,331	148,607	6,724
Attributable to:				
Owners of the parent		153,698	147,010	6,688
Non-controlling interests		1,633	1,597	36
Net income		155,331	148,607	6,724
Earnings per share				
Basic (Yen)	3	314.25	298.30	
Diluted (Yen)	3	314.12	298.09	

Consolidated Statement of Comprehensive Income

(Millions of yen)

	Fiscal year ended December 31, 2018	Fiscal year ended December 31, 2017	Change
Net income	155,331	148,607	6,724
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	(1,168)
Remeasurements of defined benefit plans	(15,524)	21,260	(36,784)
Share of other comprehensive income of investments accounted for using the equity method	(345)	317	(662)
Total of items that will not be reclassified to profit or loss	(15,871)	22,743	(38,614)
Items that may be reclassified subsequently to profit or loss:			
Exchange differences on translation of foreign operations	(16,140)	8,541	(24,681)
Share of other comprehensive income of investments accounted for using the equity method	(73)	(1)	(72)
Total of items that may be reclassified subsequently to profit or loss	(16,213)	8,540	(24,753)
Other comprehensive income, net of taxes	(32,084)	31,283	(63,367)
Comprehensive income	<u>123,247</u>	<u>179,890</u>	<u>(56,643)</u>
Attributable to:			
Owners of the parent	122,324	178,020	(55,696)
Non-controlling interests	923	1,870	(947)
Comprehensive income	<u>123,247</u>	<u>179,890</u>	<u>(56,643)</u>

Consolidated Statement of Changes in Equity

(Millions of yen)

	Equity attributable to owners of the parent												Total equity
	Share capital	Capital surplus	Treasury shares	Other components of equity					Total	Retained earnings	Total	Non-controlling interests	
				Subscription rights to shares	Exchange differences on translation of foreign operations	Net gain (loss) on derivatives designated as cash flow hedges	Net gain (loss) on revaluation of financial assets measured at fair value through other comprehensive income	Remeasurements of defined benefit plans					
January 1, 2018	85,424	107,980	(9,593)	731	(21,540)	4	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	-	-	-	-	(15,492)	(5)	(338)	(15,539)	(31,374)	-	(31,374)	(710)	(32,084)
Comprehensive income	-	-	-	-	(15,492)	(5)	(338)	(15,539)	(31,374)	153,698	122,324	923	123,247
Disposal of treasury shares	-	(99)	48,345	(167)	-	-	-	-	(167)	(47,961)	118	-	118
Purchase of treasury shares	-	-	(50,034)	-	-	-	-	-	-	-	(50,034)	-	(50,034)
Share-based payment transactions	-	364	-	-	-	-	-	-	-	-	364	-	364
Dividends	-	-	-	-	-	-	-	-	-	(56,793)	(56,793)	(746)	(57,539)
Transfer from other components of equity to retained earnings	-	-	-	(18)	-	-	(1,694)	15,539	13,827	(13,827)	-	-	-
Other increase (decrease)	-	-	-	-	-	-	-	-	-	-	-	(11)	(11)
Total transactions with the owners	-	265	(1,689)	(185)	-	-	(1,694)	15,539	13,660	(118,581)	(106,345)	(757)	(107,102)
December 31, 2018	85,424	108,245	(11,282)	546	(37,032)	(1)	6,458	-	(30,029)	670,002	822,360	13,149	835,509
January 1, 2017	85,424	107,648	(57,124)	911	(29,761)	4	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	-	-	-	-	8,221	(0)	1,472	21,317	31,010	-	31,010	273	31,283
Comprehensive income	-	-	-	-	8,221	(0)	1,472	21,317	31,010	147,010	178,020	1,870	179,890
Disposal of treasury shares	-	-	49,373	(165)	-	-	-	-	(165)	(48,914)	294	-	294
Purchase of treasury shares	-	-	(1,842)	-	-	-	-	-	-	-	(1,842)	-	(1,842)
Share-based payment transactions	-	332	-	-	-	-	-	-	-	-	332	-	332
Dividends	-	-	-	-	-	-	-	-	-	(50,265)	(50,265)	(369)	(50,634)
Changes in the ownership interest in a subsidiary	-	(0)	-	-	-	-	-	-	-	-	(0)	-	(0)
Transfer from other components of equity to retained earnings	-	-	-	(15)	-	-	(7)	(21,317)	(21,339)	21,339	-	-	-
Other increase (decrease)	-	-	-	-	-	-	-	-	-	-	-	(139)	(139)
Total transactions with the owners	-	332	47,531	(180)	-	-	(7)	(21,317)	(21,504)	(77,840)	(51,481)	(508)	(51,989)
December 31, 2017	85,424	107,980	(9,593)	731	(21,540)	4	8,490	-	(12,315)	634,885	806,381	12,983	819,364

Consolidated Statement of Cash Flows

(Millions of yen)

	Fiscal year ended December 31, 2018	Fiscal year ended 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

Notes to Consolidated Financial Statements

1. Segment Information

(1) Summary of reportable segments

The Kao Group's reportable segments are the components of the Kao Group for which discrete financial information is available and which are regularly reviewed by the Board of Directors in deciding how to allocate resources and in assessing their performance. Net sales and operating income are the key measures used by the Board of Directors to evaluate the performance of each segment.

The Kao Group is an organization comprising five main businesses – the Cosmetics Business, the Skin Care and Hair Care Business, the Human Health Care Business, the Fabric and Home Care Business (collectively, the "Consumer Products Business") and the Chemical Business. In each business, the Kao Group plans comprehensive strategies and carries out activities on a global basis.

Therefore, the Kao Group has five reportable segments: the Cosmetics Business, the Skin Care and Hair Care Business, the Human Health Care Business, the Fabric and Home Care Business and the Chemical Business.

Due to a change in organization as of January 1, 2018, in the fiscal year ended December 31, 2018 the Kao Group reclassified its four former reportable segments (the Beauty Care Business, the Human Health Care Business, the Fabric and Home Care Business and the Chemical Business) into five (the Cosmetics Business, the Skin Care and Hair Care Business, the Human Health Care Business, the Fabric and Home Care Business and the Chemical Business). Segment information for the same period a year earlier has been restated to reflect the reclassification.

Information on principal customers is omitted, because no transactions with a single external customer account for 10% or more of the Kao Group's net sales.

Major products by reportable segment are as follows:

Reportable Segments		Major Products	
Consumer Products Business	Cosmetics Business	Cosmetics	Counseling cosmetics, Self-selection cosmetics
	Skin Care and Hair Care Business	Skin care products	Soaps, Facial cleansers, Body cleansers
		Hair care products	Shampoos, Conditioners, Hair styling agents, Hair coloring agents, Men's products
	Human Health Care Business	Food and beverage products	Beverages
		Sanitary products	Sanitary napkins, Baby diapers
		Personal health products	Bath additives, Oral care products, Thermo products
	Fabric and Home Care Business	Fabric care products	Laundry detergents, Fabric treatments
		Home care products	Kitchen cleaning products, House cleaning products, Paper cleaning products, Commercial-use products
Chemical Business	Oleo chemicals	Fatty alcohols, Fatty amines, Fatty acids, Glycerin, Commercial-use edible fats and oils	
	Performance chemicals	Surfactants, Plastics additives, Superplasticizers for concrete admixtures	
	Specialty chemicals	Toner and toner binder for copiers and printers, Ink and colorants for inkjet printers, Fragrances and aroma chemicals	

(2) Sales and results of reportable segments

Fiscal year ended December 31, 2018	Reportable Segments							(Millions of yen)	
	Consumer Products Business					Chemical Business	Total	Reconciliations ¹	Consolidated
	Cosmetics Business	Skin Care and Hair Care Business	Human Health Care Business	Fabric and Home Care Business	Subtotal				
Net sales									
Sales to customers	279,635	341,419	267,702	344,105	1,232,861	275,146	1,508,007	-	1,508,007
Intersegment sales and transfers ²	-	-	-	-	-	37,661	37,661	(37,661)	-
Total net sales	<u>279,635</u>	<u>341,419</u>	<u>267,702</u>	<u>344,105</u>	<u>1,232,861</u>	<u>312,807</u>	<u>1,545,668</u>	<u>(37,661)</u>	<u>1,508,007</u>
Operating income	<u>27,710</u>	<u>48,827</u>	<u>27,907</u>	<u>71,249</u>	<u>175,693</u>	<u>30,631</u>	<u>206,324</u>	<u>1,379</u>	<u>207,703</u>
% of net sales	9.9	14.3	10.4	20.7	14.3	9.8	-	-	13.8
Financial income									1,717
Financial expenses									(4,251)
Share of profit in investments accounted for using the equity method									2,082
Income before income taxes									<u>207,251</u>
Depreciation and amortization	10,908	9,593	17,602	10,299	48,402	12,000	60,402	260	60,662
Capital expenditure ³	11,597	17,021	19,259	18,107	65,984	23,032	89,016	81	89,097

Notes:

1. The operating income reconciliation of 1,379 million yen includes corporate expenses not allocated to reportable segments, as well as elimination of intersegment inventory transactions.
2. Intersegment sales and transfers are mainly calculated based on market price and manufacturing cost.
3. Capital expenditures include investments in property, plant and equipment and intangible assets.

Fiscal year ended December 31, 2017	Reportable Segments							(Millions of yen)	
	Consumer Products Business					Chemical Business	Total	Reconciliations ¹	Consolidated
	Cosmetics Business	Skin Care and Hair Care Business	Human Health Care Business	Fabric and Home Care Business	Subtotal				
Net sales									
Sales to customers	266,214	332,872	281,201	335,709	1,215,996	273,425	1,489,421	-	1,489,421
Intersegment sales and transfers ²	-	-	-	-	-	36,860	36,860	(36,860)	-
Total net sales	<u>266,214</u>	<u>332,872</u>	<u>281,201</u>	<u>335,709</u>	<u>1,215,996</u>	<u>310,285</u>	<u>1,526,281</u>	<u>(36,860)</u>	<u>1,489,421</u>
Operating income	<u>12,989</u>	<u>49,329</u>	<u>34,453</u>	<u>76,247</u>	<u>173,018</u>	<u>30,299</u>	<u>203,317</u>	<u>1,474</u>	<u>204,791</u>
% of net sales	4.9	14.8	12.3	22.7	14.2	9.8	-	-	13.7
Financial income									1,452
Financial expenses									(3,960)
Share of profit in investments accounted for using the equity method									2,007
Income before income taxes									<u>204,290</u>
Depreciation and amortization	10,333	7,730	15,822	8,884	42,769	11,479	54,248	260	54,508
Capital expenditure ³	11,267	16,450	23,596	12,676	63,989	15,245	79,234	121	79,355

Notes:

1. The operating income reconciliation of 1,474 million yen includes corporate expenses not allocated to reportable segments, as well as elimination of intersegment inventory transactions.
2. Intersegment sales and transfers are mainly calculated based on market price and manufacturing cost.
3. Capital expenditures include investments in property, plant and equipment and intangible assets.

(3) Geographical Information

The breakdown of sales to customers and non-current assets (excluding financial assets, deferred tax assets and retirement benefit assets) by geographic area is as follows:

(Millions of yen)

Sales to customers	Fiscal year ended December 31, 2018	Fiscal year ended December 31, 2017
Japan	939,463	938,074
Asia	295,714	288,087
(China)	135,629	134,751
Americas	140,637	134,219
(United States)	110,783	102,763
Europe	132,193	129,041
Total	1,508,007	1,489,421

Note: Sales are classified based on the location of customers.

Non-current assets (excluding financial assets, deferred tax assets and retirement benefit assets)	Fiscal year ended December 31, 2018	Fiscal year ended December 31, 2017
Japan	448,357	431,673
Asia	88,843	85,290
Americas	96,426	22,610
Europe	27,184	28,935
Total	660,810	568,508

2. Selling, General and Administrative Expenses

The breakdown of selling, general and administrative expenses is as follows:

(Millions of yen)

	Fiscal year ended December 31, 2018	Fiscal year ended December 31, 2017
Advertising	80,274	89,935
Sales promotion	55,308	58,940
Employee benefits	148,220	147,007
Depreciation	9,186	8,870
Amortization	6,860	4,784
Research and development	57,673	56,703
Other	87,324	86,427
Total	444,845	452,666

3. Earnings per Share

(1) The basis for calculating basic earnings per share

(Millions of yen)

	Fiscal year ended December 31, 2018	Fiscal year ended December 31, 2017
Net income attributable to owners of the parent	153,698	147,010
Amounts not attributable to ordinary shareholders of the parent	-	-
Net income used to calculate basic earnings per share	<u>153,698</u>	<u>147,010</u>

	(Thousands of shares)	
Weighted average number of ordinary shares	489,089	492,832

	(Yen)	
Basic earnings per share	314.25	298.30

(2) The basis for calculating diluted earnings per share

(Millions of yen)

	Fiscal year ended December 31, 2018	Fiscal year ended December 31, 2017
Net income used to calculate basic earnings per share	153,698	147,010
Adjustments to net income	-	-
Net income used to calculate diluted earnings per share	<u>153,698</u>	<u>147,010</u>

	(Thousands of shares)	
Weighted average number of ordinary shares	489,089	492,832
Increase in ordinary shares		
Subscription rights to shares	199	337
Weighted average number of ordinary shares after dilution	<u>489,289</u>	<u>493,170</u>

	(Yen)	
Diluted earnings per share	314.12	298.09

Summary of potential ordinary shares not included in the calculation of diluted earnings per share because they have no dilutive effect

- -

4. Significant Subsequent Events

None applicable.

Changes in significant subsidiaries during this year

Kao Customer Marketing Co., Ltd., which was a specified subsidiary of the Kao Corporation, was dissolved in an absorption-type merger conducted as of January 1, 2018, with Kao Group Customer Marketing Co., Ltd. as the surviving company. Therefore, in the fiscal year ended December 31, 2018, it was excluded from the scope of consolidation.

Note regarding Assumption of Going Concern

None applicable.