Consolidated Financial Results

for the Three Months Ended March 31, 2017

Kao Corporation

April 26, 2017

FASF MEMBERSHIP

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http://www.kao.com/jp/en/corp_ir/presentations.html

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

- In the three months ended March 31, 2017, the Kao Group adopted IFRS 15, “Revenue from Contracts with Customers” and its amendments early in tandem with a revision of its sales system for the Consumer Products Business in Japan.

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Summary of Consolidated Financial Results
for the Three Months Ended March 31, 2017

Commitments for 2017

1. Business model change:

   Deepen the post-deflation growth model and maximization of use of Kao Group assets executed in Kao Group Mid-term Plan K15, and establish a top-down business model.

2. Achieve the forecast announced for fiscal 2017 to ensure accomplishment of Kao Group Mid-term Plan K20.

Overview of Consolidated Financial Results for 1Q

- Off to a smooth start toward accomplishing K20. Good 1Q results were in line with expectations. However, the fiscal 2017 forecast is highly challenging. 1H results must exceed the same period a year earlier at the very least to prepare for 2H, when a severe competitive environment is expected.

- Top-down management to streamline expenses is functioning well.

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Summary of Consolidated Financial Results
for the Three Months Ended March 31, 2017

Strategies and Progress

Beauty Care

Cosmetics: Amid brand proliferation as values diversify, Sofina and Kanebo Cosmetics have both been conducting major reforms since last year. Successive rollouts also underway in Asia. 1Q results adequate in Japan and Asia. In Japan, new and improved products will be launched in 2H.

Skin care/Hair care: Amid brand proliferation, distinctive new skin care products performed strongly for *Bioré, Curél* and other brands. Meanwhile, premiumization of existing hair care products is underway. Expectations for new products from 2Q onward.

Human Health Care: Better-than-planned progress for *Merries* baby diapers in 1Q. Substantial sales growth in China resulting from start of distribution following channel change due to sales reforms. Sales and market share on a recovery track in Japan. Sanitary napkins in Asia also a growth driver. Steady demand for *MegRhythm* steam thermo sheets in Japan.

Fabric and Home Care: Growth of antibacterial-type laundry detergents with rising demand for a shift from visible to microlevel stains (odors). Similar types of fabric softeners also performed well. Home care sales also grew as foam-type dishwashing detergent launched in 2016 helped to stimulate the market.

Chemical: Promoted high-value added products. Adjustments to selling prices in line with rising prices of natural fats and oils and strong growth from high-value added products. From 2Q onward, trends in prices of natural fats and oils will require attention. Uncertainty will persist in 2H.

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Impact of Adoption of IFRS 15 and Revision of Sales System on Consolidated Statement of Income

Consolidated Operating Results (Three months ended March 31)

(Billion yen)	FY2016	FY2017	Change	Sales System + IFRS 15	Sales System	IFRS 15
Net sales	335.1	345.2	+10.1	(14.4)	(4.8)	(9.6)
					[Reductions of net sales]	
Cost of sales	(150.3)	(196.8)	(46.5)	(29.6)	-	(29.6)
[% of Net sales]	44.9%	57.0%				
Gross profit	184.7	148.4	(36.4)			
SG&A expenses	(150.6)	(110.3)	+40.3	+44.0	+4.8	+39.3
		Sales promotion expenses, Center fees, etc.				9.6
		Logistics/Freight expenses, personnel expenses, etc.				29.7
		Sales commissions, etc.			4.8	
[% of Net sales]	44.9%	31.9%				

Note: In FY2017, the Kao Group adopted IFRS 15 early in tandem with a revision of its sales system for the Consumer Products Business in Japan. As a result, certain items formerly treated as SG&A expenses are accounted for as reductions of net sales or cost of sales.

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Highlights of Consolidated Financial Results
for the Three Months Ended March 31, 2017

Consumer Products Market (January - March 2017)

Growth of household and personal care market in Japan:[1]	Flat
Growth of cosmetics market in Japan:[2]	Flat
Consumer purchase price for 15 major household and personal care categories in Japan:[3]	+1 pt.

Consolidated Operating Results (Three months ended March 31)

(Billion yen)	FY2016	FY2017	Growth %	Change
Net sales	335.1	345.2	+3.0	+10.1
Impact of IFRS 15 & revision of sales system[4]			(4.3)	(14.4)
Effect of currency translation			(1.3)	(4.2)
Like-for-like, excluding impact of above			+8.6	+28.7
Operating income	34.4	38.6	+12.1	+4.2
Operating margin	10.3%	11.2%	-	-
Income before income taxes	32.9	38.0	+15.4	+5.1
Net income	21.0	24.6	+17.0	+3.6
Net income attributable to owners of the parent	20.8	24.2	+16.2	+3.4
EBITDA (Operating income + Depr. & amort.)	48.4	51.7	+6.8	+3.3
Basic earnings per share (yen)	41.47	49.03	+18.2	+7.56

1 Year-on-year growth rate of market size on value basis (yen). Source: SRI POS data by INTAGE Inc.
2 Year-on-year growth rate of market size on value basis (yen). Source: SLI data by INTAGE Inc. based on Kao's definition. Survey excludes inbound demand.
3 Comparison with the same period of the previous fiscal year using an index with the 1st half of FY2008 as 100. (Source: SRI POS data by INTAGE Inc.)
4 In FY2017, the Kao Group adopted IFRS 15 early in tandem with a revision of its sales system for the Consumer Products Business in Japan.

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Consolidated Net Sales by Segment/Geographic Area

(Billion yen)		Three months ended March 31				
		Japan	Asia	Americas	Europe	Consolidated
Cosmetics	FY2017	43.6	5.1	0.6	3.7	53.0
	Growth %	(6.5)	7.1	(3.9)	(9.2)	(5.5)
	Like-for-like %	0.3	21.6	(2.7)	1.3	2.2
Skin care/Hair care	FY2017	43.3	7.5	18.5	10.6	79.9
	Growth %	(2.6)	(7.5)	5.1	(13.3)	(3.0)
	Like-for-like %	1.4	8.6	7.6	(9.3)	1.9
Beauty Care Business	FY2017	87.0	12.6	19.1	14.2	132.9
	Growth %	(4.6)	(2.1)	4.8	(12.3)	(4.0)
	Like-for-like %	0.9	13.4	7.3	(6.7)	2.0
Human Health Care Business	FY2017	45.5	28.8	-	-	74.3
	Growth %	3.9	23.5	-	-	10.7
	Like-for-like %	7.6	38.2	-	-	18.2
Fabric and Home Care Business	FY2017	59.7	9.4	0.5	-	69.6
	Growth %	0.5	(15.4)	7.8	-	(2.0)
	Like-for-like %	3.9	(2.4)	7.1	-	2.9
Consumer Products Business	FY2017	192.2	50.8	19.6	14.2	276.8
	Growth %	(1.1)	7.4	4.9	(12.3)	0.1
	Like-for-like %	3.3	21.9	7.3	(6.7)	6.2
Chemical Business	FY2017	29.6	17.6	13.5	16.0	76.6
	Growth %	4.7	24.9	20.7	20.1	14.7
	Like-for-like %	4.8	27.8	25.6	26.0	17.4
Consolidated	FY2017	214.7	67.6	33.0	29.9	345.2
	Growth %	(0.3)	11.4	10.8	2.2	3.0
	Like-for-like %	3.7	23.4	14.1	8.0	8.6

1 Growth % and Like-for-like % are comparisons with the same period of the previous fiscal year.
2 Like-for-like % excludes the impact of IFRS 15, the revision of the sales system for the Consumer Products Business in Japan and the effect of currency translation.
3 Net sales of the Chemical Business include intersegment transactions.

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Consolidated Results by Segment

(Billion yen)	Three months ended March 31								
	Net Sales				Operating Income			Operating Margin %	
	FY2016	FY2017	Growth %	Like-for-Like %[1]	FY2016	FY2017	Change	FY2016	FY2017
Beauty Care Business	138.4	132.9	(4.0)	2.0	6.8	7.2	0.4	4.9	5.4
Human Health Care Business	67.1	74.3	10.7	18.2	8.5	11.4	3.0	12.6	15.4
Fabric and Home Care Business	71.0	69.6	(2.0)	2.9	12.9	11.9	(1.0)	18.2	17.1
Consumer Products Business	276.6	276.8	0.1	6.2	28.2	30.6	2.4	10.2	11.0
Chemical Business[2]	66.8	76.6	14.7	17.4	6.5	8.0	1.5	9.8	10.4
Consolidated	335.1	345.2	3.0	8.6	34.4	38.6	4.2	10.3	11.2

1 Excluding the impact of IFRS 15, the revision of the sales system for the Consumer Products Business in Japan and the effect of currency translation.
2 Net sales and operating income of the Chemical Business include intersegment transactions.

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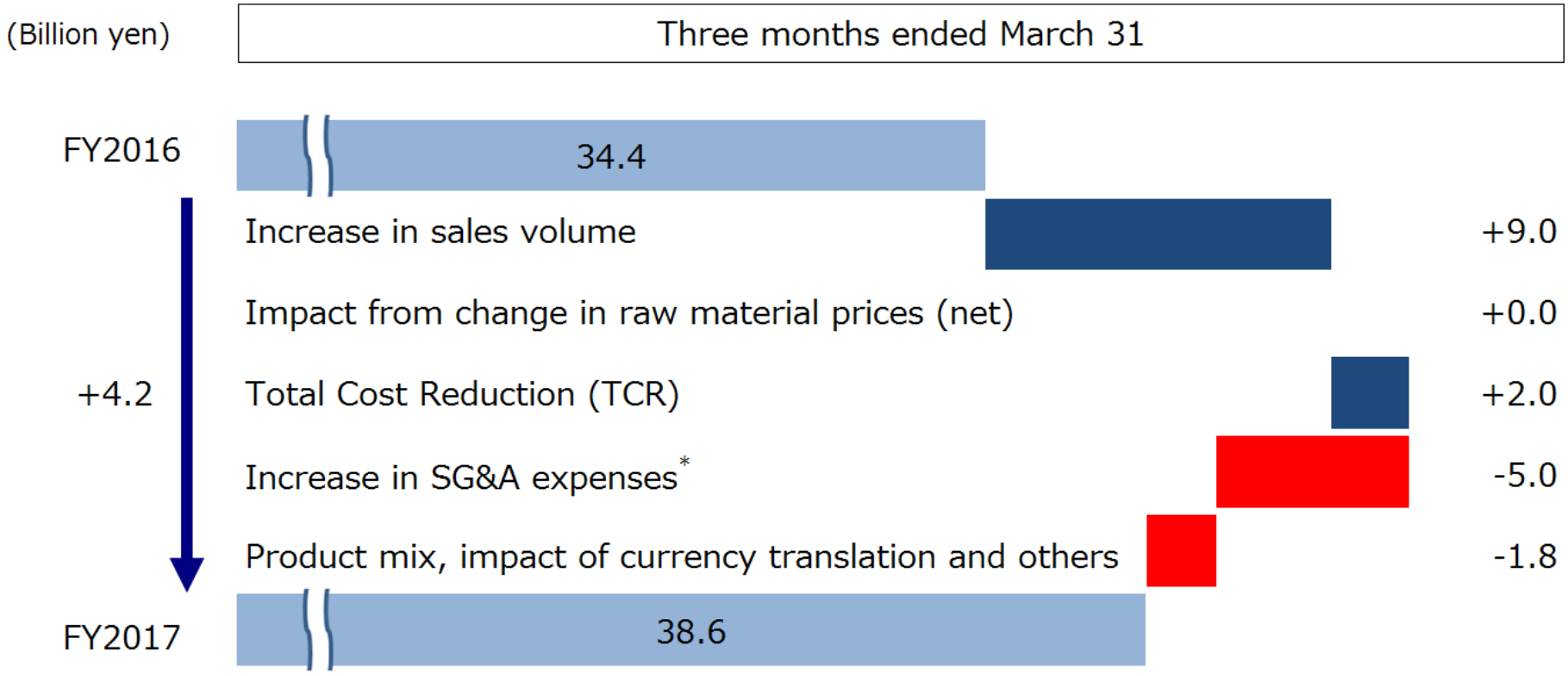
Analysis of Change in Consolidated Operating Income



* Excluding the impact of IFRS 15, the revision of the sales system for the Consumer Products Business in Japan and the effect of currency translation.

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