Fiscal 2017

From January 1 to December 31, 2017

Kao Corporation

February 1, 2018

FASF MEMBERSHIP

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

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

  [Term of consolidation for FY2012]
  - Group companies whose fiscal year end was previously March 31*: April - December 2012
  - Group companies whose fiscal year end was already December 31: January - December 2012

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

- The Kao Group adopted International Financial Reporting Standards (IFRS) from the fiscal year ended December 31, 2016.

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

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Consolidated Financial Results for the Year Ended December 31, 2017 and FY2018 Forecast

Kenichi Yamauchi

Executive Officer
Senior Vice President, Accounting & Finance

Kao Corporation

February 1, 2018

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Overview of Consolidated Financial Results
for the Year Ended December 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 Fiscal 2017

- Deepened efforts to maximize use of assets, such as more efficient deployment of marketing investment, to build an evolutionary post-deflation growth model.
- Achieved results forecast as planned to achieve the targets of Kao Group Mid-term Plan K20.
  5.6% like-for-like net sales growth/13.7% operating margin → steady progress toward K20 targets
  New record highs for profit (5th consecutive fiscal year of record high operating income)/8th consecutive fiscal year of increases in profit

Shareholder Returns

- Planning cash dividends per share for fiscal 2017 of 110 yen, a year-on-year increase of 16 yen, or 2 yen higher than the forecast, for the **28th consecutive fiscal year of increases in dividends**. Retired 9.0 million treasury shares on March 1, 2017.

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Business Strategies and Progress

Overall: Gain a foothold for further growth from 2018

- Deepen initiatives in the e-commerce channel, including strengthening e-commerce business in China and cross-border e-commerce for the Chinese market, and expanding e-commerce business in Japan.
- For cosmetics in Asia, focus investment on brands to substantially grow sales and income.
- Enter the business for top-class hair salons with the acquisition of Oribe Hair Care, LLC, which owns *Oribe*, a super-premium brand in the U.S.
- Expand marketing initiatives for the digital generation and develop a new media mix.
- Establish a three-base structure in Japan, the United States and Europe to develop and accelerate the global rollout of water-based pigment inkjet ink.
- Use R&D capabilities to advance innovation and prepare a system that can speedily propose innovative products.

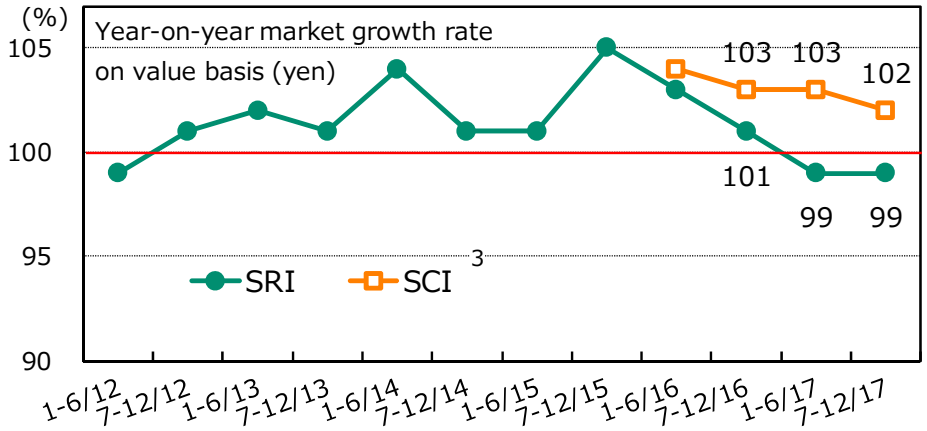
Outstanding Issues

- Cosmetics in Japan: The Kao Group renewed est and DEW skin care brands in fall 2017 as additions to SOFINA iP base essence and the global brand KANEBO, which partly offset factors such as the decline in inbound sales. A revision of strategy is required.
- Hair care products: The Kao Group must address the premium market, including the market for natural/organic products.
- Food and beverage products: Healthya functional drink has been unable to sufficiently convey its unique value in a market inundated with Foods for Specified Health Uses (FOSHU) and foods with functional claims.

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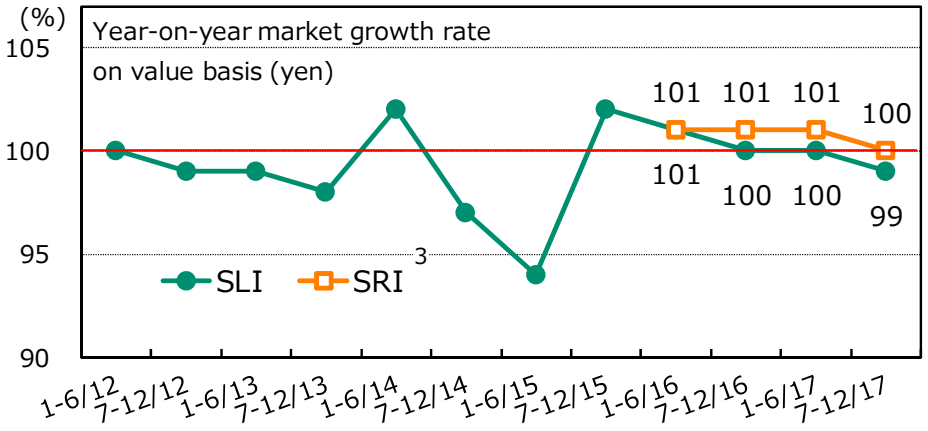
Consumer Products Market in Japan

Growth of household and personal care market[1]



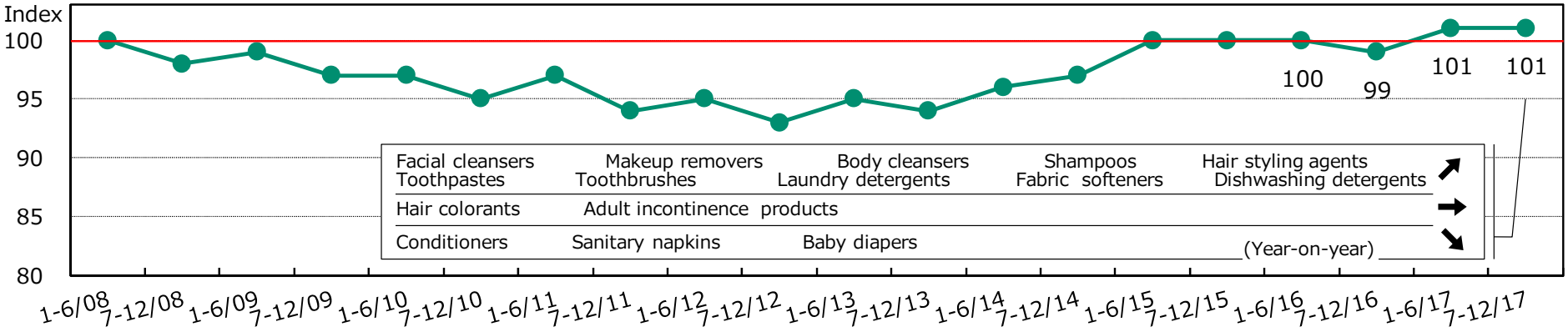
(Source: SRI POS data & SCI survey by INTAGE Inc.)

Growth of cosmetics market[2]



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

Consumer purchase price for 15 major household and personal care categories[4]



(Source: SRI POS data by INTAGE Inc.)

1. 79 major household and personal care product categories
2. 26 cosmetics product categories
3. SRI: Estimates based on POS data from approx. 3,000 retail outlets nationwide / SCI: Purchasing data from approx. 50,000 consumer monitors nationwide / SLI: Purchasing data for cosmetics, skin care and hair care products from approx. 40,000 female monitors
4. Index with January to June 2008 as 100

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Highlights of Consolidated Financial Results

Year ended December 31						
(Billion yen)	FY2016	FY2017	Growth %	Change	vs.Forecast	FY2017 Forecast
Net sales	1,457.6	1,489.4	+2.2	+31.8	+19.4	1,470.0
Impact of adoption of IFRS 15 and revision of sales system[1]			(4.7)	(69.1)	-	-
Effect of currency translation[2]			+1.3	+18.8	-	-
Like-for-like, excluding impact of above			+5.6	+82.1	-	-
Operating income	185.6	204.8	+10.4	+19.2	+4.8	200.0
Operating margin	12.7%	13.7%	-	-	-	-
Income before income taxes	183.4	204.3	+11.4	+20.9	+5.3	199.0
Net income	127.9	148.6	+16.2	+20.7	-	-
Net income attributable to owners of the parent	126.6	147.0	+16.2	+20.5	+9.0	138.0
EBITDA (Operating income + Depr. & amort.)	236.7	259.3	+9.6	+22.6	-	-
ROE(%)	18.6	19.8	-	-	-	-
Basic earnings per share (yen)	253.43	298.30	+17.7	+44.87	+18.24	280.06
Cash dividends per share (yen)	94.00	110.00	-	+16.00	+2.00	108.00

Cash flow			
	Free cash flow[3]	89.7	billion yen
	Payments of cash dividends[4]	50.7	billion yen

1. 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.
2. Exchange rates: 112.18 yen/USD, 126.68 yen/Euro, 16.60 yen/Yuan
3. Free cash flow = Net cash flows from operating activities + Net cash flows from investing activities
4. Includes payments of cash dividends to non-controlling interests.

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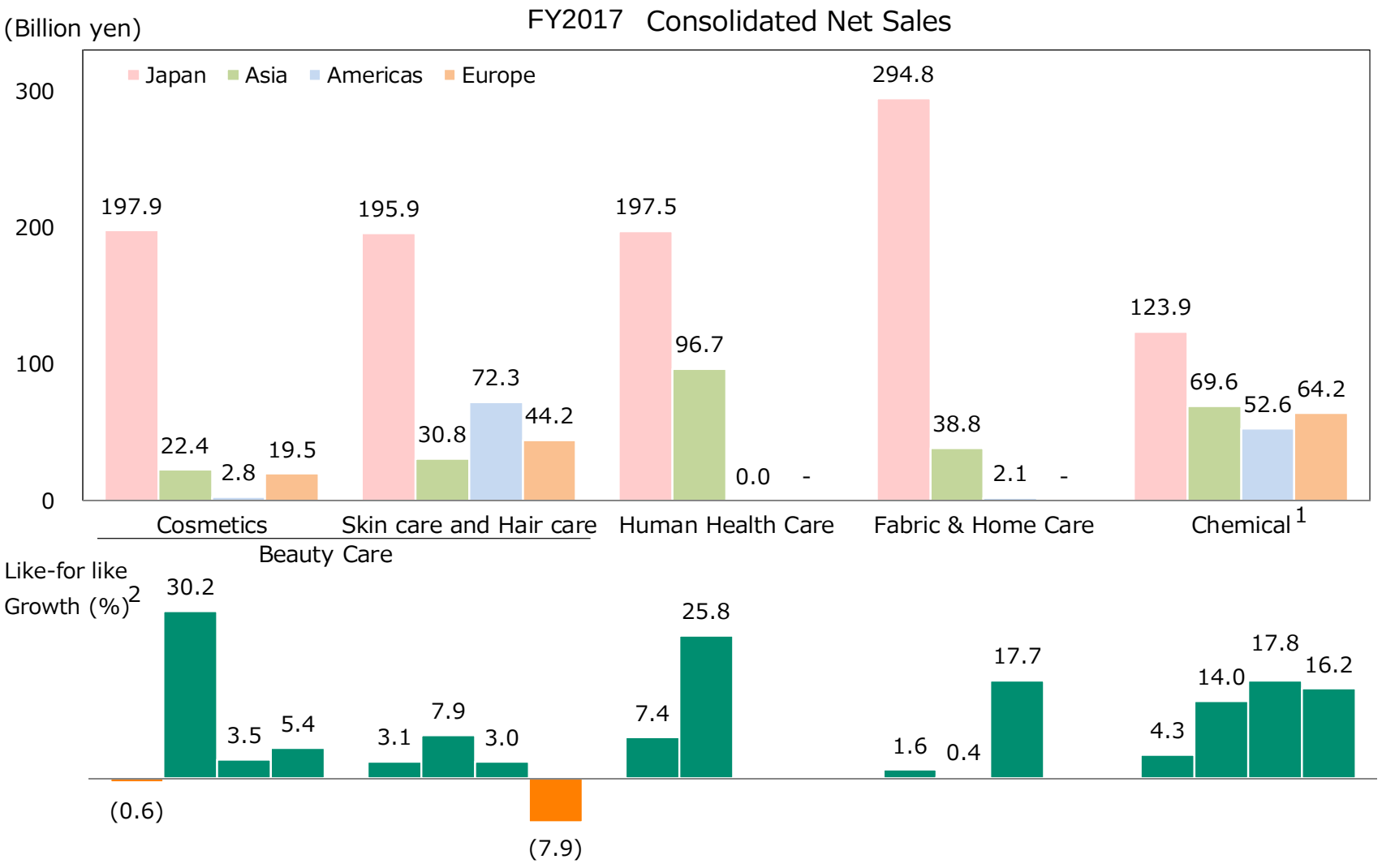
Impact of Adoption of IFRS 15 and Revision of Sales System on Consolidated Statement of Income

Year ended December 31							
(Billion yen)	FY2016	FY2017	Change	Sales system + IFRS 15	Sales system	IFRS 15	% of Net Sales Excluding Impact of Adoption of IFRS 15 and Revision of Sales System
Net sales	1,457.6	1,489.4	+31.8	(69.1)	(23.4)	(45.7)	
					[Reductions of net sales]		
Cost of sales	(637.5)	(834.1)	(196.6)	(129.3)	-	(129.3)	
[% of Net sales]	43.7%	56.0%					45.2%
Gross profit	820.1	655.3	(164.8)				
SG&A expenses	(633.4)	(452.7)	+180.7	+198.4	+23.4	+175.0	
Sales promotion expenses, Center fees, etc.					1.7	45.7	
Logistics/Freight expenses, personnel expenses, etc.						129.3	
Sales commissions, etc.					21.7		
[% of Net sales]	43.5%	30.4%					41.8%

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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Consolidated Net Sales by Segment/Geographic Area

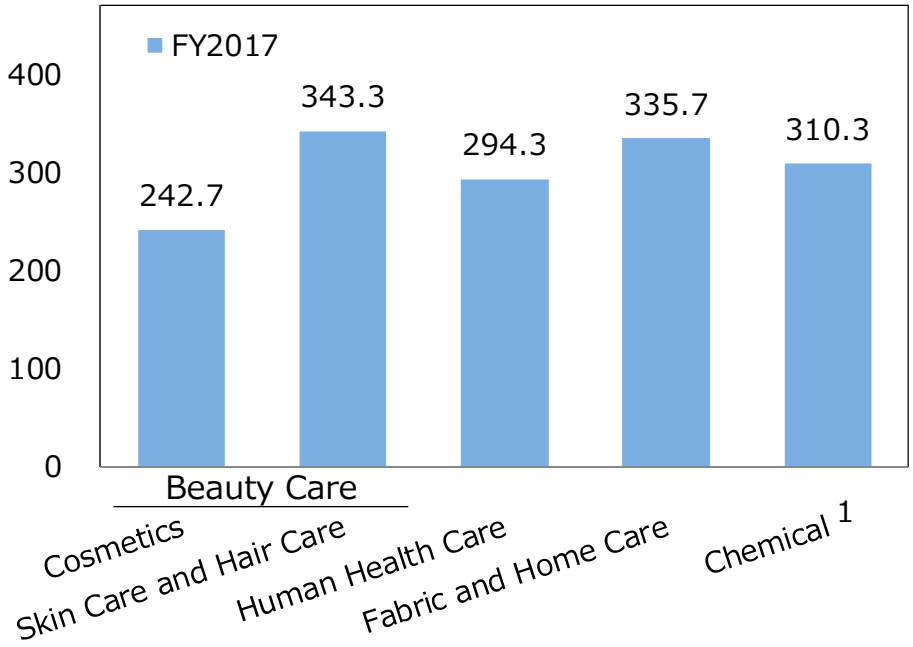


1. Net sales of the Chemical Business include intersegment transactions.
2. Excluding the impact of IFRS 15, the revision of the sales system for the Consumer Products Business in Japan and the effect of currency translation.

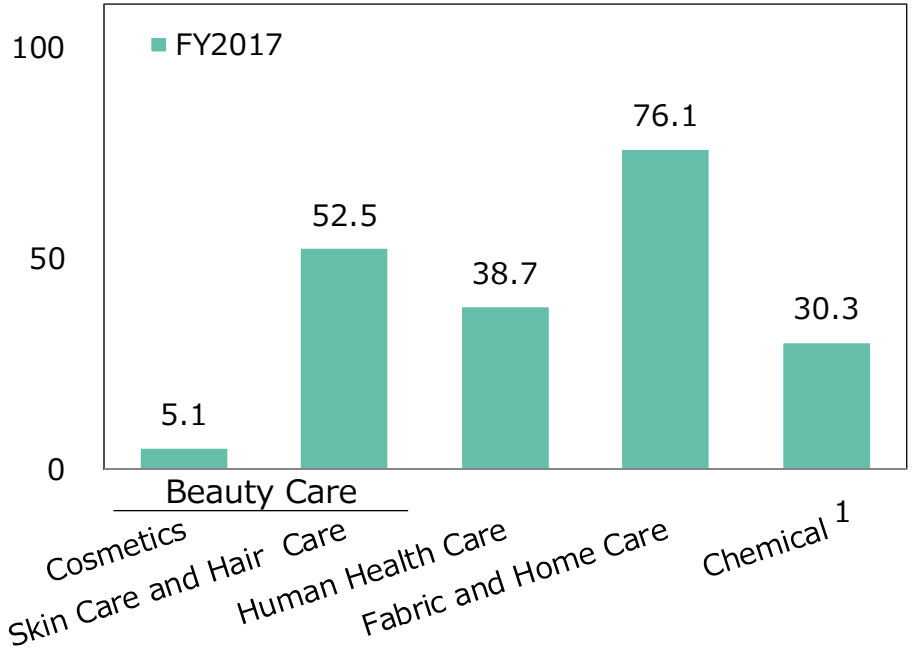
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Consolidated Results by Segment

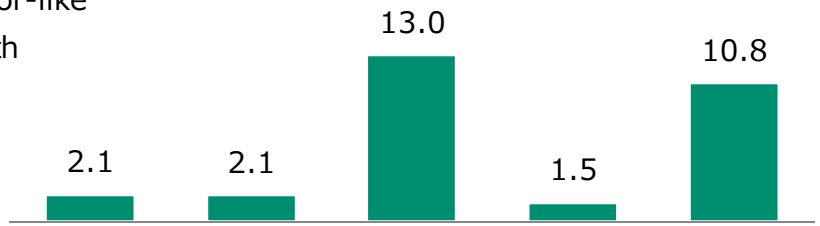
Net sales (Billion yen)



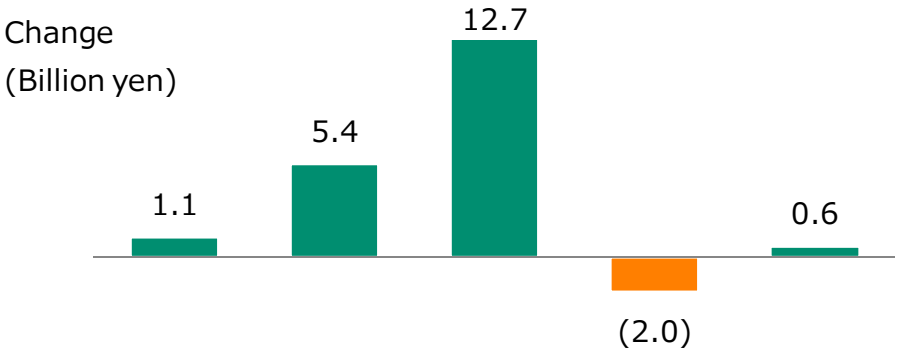
Operating income (Billlion yen)



Like-for-like Growth (%)[2]



Change (Billion yen)



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

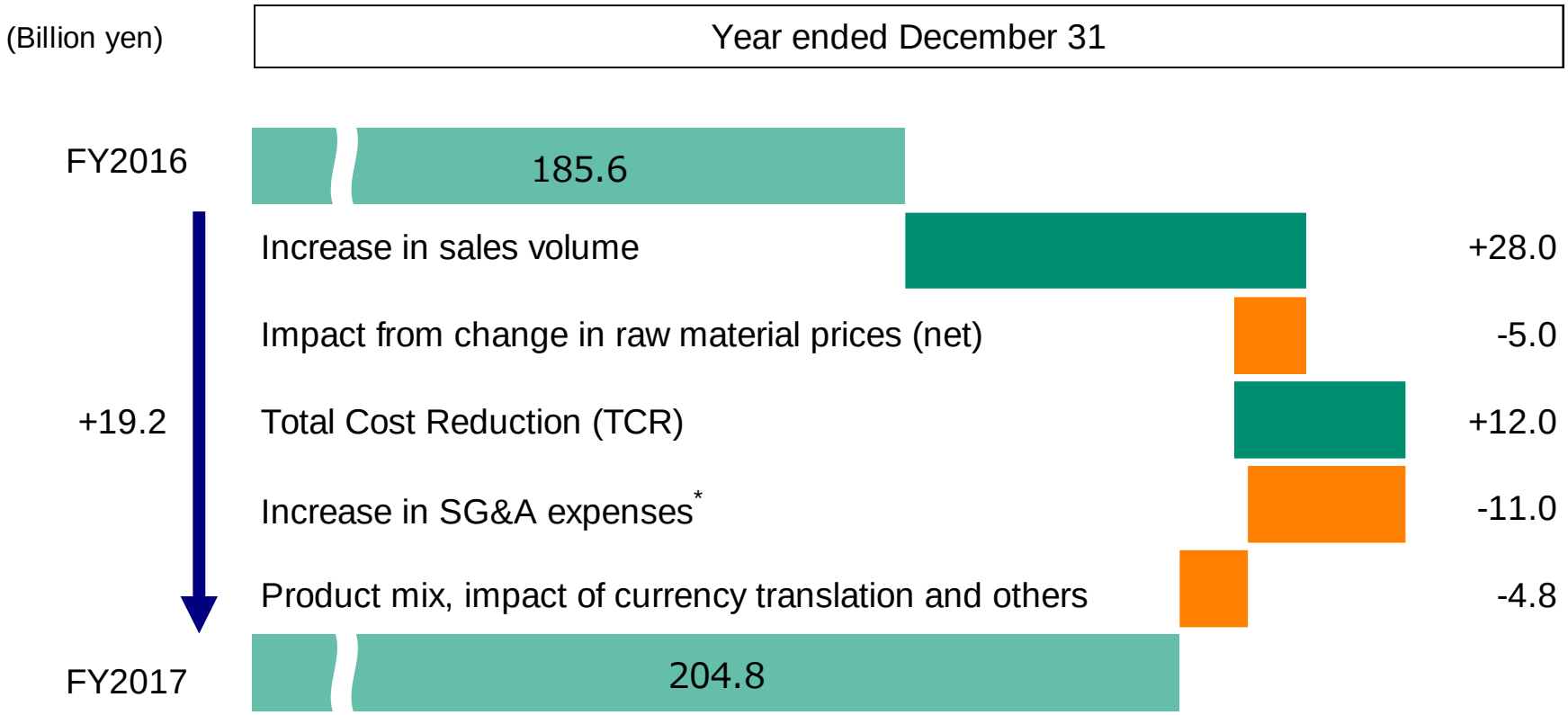
Year ended December 31									
(Billion yen)	Net sales				Operating income			Operating margin %	
	FY2016	FY2017	Growth %	Like-for-like %*	FY2016	FY2017	Change	FY2016	FY2017
Japan	905.6	886.2	(2.1)	2.6	132.2	143.9	11.7	14.6	16.2
Asia	176.2	188.8	7.1	16.8	15.8	19.2	3.5	9.0	10.2
Americas	73.3	77.3	5.5	3.5	2.9	3.7	0.9	3.9	4.8
Europe	64.8	63.8	(1.5)	(4.1)	4.3	5.4	1.2	6.6	8.5
Consumer Products Business	1,219.8	1,216.0	(0.3)	4.4	155.1	172.3	17.2	12.7	14.2

Net sales growth rates of main countries and regions (Like-for-like %)						
	China:	36%	Taiwan:	4%	Vietnam:	13%
	Indonesia:	14%	Thailand:	2%		

* 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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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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Fiscal 2018 Initiatives

- Structural Reform of the Consumer Products Business

  Reorganize into a flat structure with fewer hierarchies to further speed decision-making and accelerate global growth, and place younger persons in charge.

- Structural Reform of Sales in Japan

  1. Marketing, sales and negotiations
  2. Beauty counseling
  3. In-store merchandising (display etc.)

  ] Function-based organization centered on three functions

  Establishment of companies specializing in beauty counselling
  - ➢ Promote major reforms and ways of working in the Cosmetics Business

- In the Cosmetics Business, conduct measures tailored to each price segment and enhance responses to inbound demand and e-commerce.

- Aim for a significant recovery by making new proposals for the mass hair care market in addition to proactively addressing the premium hair care market.

- In food and beverage products, shift from conveying value via mass media and displaying merchandise in stacks at stores to using digital marketing to make total health proposals that attract new users.

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Reform of the Structure of the Consumer Products Business

◆ Beauty Care Business to be managed as two separate businesses: the Cosmetics Business and the Skin Care and Hair Care Business

As of January 1, 2018

Beauty Care Business	→	**Cosmetics Business**
		Skin Care and Hair Care Business
Human Health Care Business	→	**Human Health Care Business**
Fabric and Home Care Business	→	**Fabric and Home Care Business**
[Chemical Business]	→	[Chemical Business]

◆ Reclassification of *Curél* derma care brand from Beauty Care to Cosmetics and *Success* men's products brand from Human Health Care to Skin Care and Hair Care

As of January 1, 2018

Curél Sales above 25 billion yen/operating margin above 20%

Beauty Care Business (Skin care and hair care products) → **Cosmetics Business**

***Success* men's products** Sales just under 14 billion yen/operating margin above 20%

Human Health Care Business → **Skin Care and Hair Care Business**

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Major Assumptions for FY2018 Forecast

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

Slightly higher than previous year

		Growth
■ Net sales	¥1,540.0 billion	+3.4%
Effect of currency translation	+¥2.6 billion	+0.2%
Sales growth excluding effect of currency translation	+¥48.0 billion	+3.2%

		Estimated impact on income
■ Impact from change in raw material prices	Gross impact	0.0 billion
	Net impact	-¥4.0 billion
■ Total Cost Reduction (TCR) activities		+¥6.0 billion
■ Capital expenditures/depreciation and amortization	Capital expenditures	¥90.0 billion
	Depreciation and amortization	¥60.0 billion

Exchange rate assumptions

■ 110 yen/USD (FY2017 actual exchange rate [average] 112.18 yen/USD)
135 yen/Euro (FY2017 actual exchange rate [average] 126.68 yen/Euro)
17.0 yen/Yuan (FY2017 actual exchange rate [average] 16.60 yen/Yuan)

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Consolidated Operating Results Forecast

Fiscal year (January 1 to December 31)

(Billion yen)	FY2017	Growth %	FY2018 (Forecast)	Growth %	Change
Net sales	1,489.4	+2.2	1,540.0	+3.4	+50.6
			Effect of currency translation*	+0.2	+2.6
			Like-for-like (%)	+3.2	+48.0
Operating income	204.8	+10.4	215.0	+5.0	+10.2
Operating margin	13.7%	-	14.0%	-	-
Income before income taxes	204.3	+11.4	215.0	+5.2	+10.7
[% of Net sales]	13.7%	-	14.0%	-	-
Net income attributable to owners of the parent	147.0	+16.2	152.0	+3.4	+5.0
[% of Net sales]	9.9%	-	9.9%	-	-
EBITDA (Operating income + Depr. & amort.)	259.3	+9.6	275.0	+6.1	+15.7
ROE	19.8%	-	17.8%	-	-
Basic earnings per share (yen)	298.30	+17.7	308.46	+3.4	+10.16
Cash dividends per share (yen)	110.00	-	120.00	-	+10.00

* Exchange rate assumptions: 110 yen/USD, 135 yen/Euro, 17.0 yen/Yuan

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Sales Forecast

Consolidated Net Sales (Year ending December 31)

(Billion yen)	FY2018 (Forecast)	Like-for-like growth (%)[2]
Cosmetics Business[1]	273.8	2.3
Skin Care and Hair Care Business[1]	356.2	7.1
Human Health Care Business[1]	291.0	3.5
Fabric and Home Care Business	346.0	3.1
Consumer Products Business	1,267.0	4.1
Chemical Business[3]	311.0	(0.3)
Consolidated	1,540.0	3.2

	FY2018 (Forecast)	Like-for-like growth (%)[2]
Japan	999.0	2.1
Asia	268.0	5.1
Americas	138.0	9.1
Europe	135.0	1.9
Consolidated	1,540.0	3.2

1. Segment sales and growth rates are based on the new operating structure introduced in fiscal 2018.
2. Like-for-like growth excludes the effect of currency translation.
3. Net sales of the Chemical Business include intersegment transactions.

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Use of Cash Flow* and Shareholder Returns

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

1. Investment for future growth (capital expenditures, M&A, etc.)

2. Steady and continuous cash dividends (40% payout ratio target)

3. Share repurchases and early repayment of interest-bearing debt including borrowings

* Net cash flows from operating activities

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FY2017 Announcement of Results

February 1, 2018

Future Direction of the Kao Group

- Reaffirmation of Kao Group Mid-term Plan “K20”
- Review of FY2017
- Planned Activities for FY2018 and Beyond

Michitaka Sawada

President and CEO

Kao Corporation

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Kao Group Mid-term Plan “K20”

2017-2020

Transforming Ourselves to Drive Change

Our Vision by 2030

Make Kao a company with a global presence

- A distinctive corporate image
- A high-profit global consumer goods company that exceeds:
  - ¥2.5 trillion in net sales (¥1.0 trillion outside Japan)
  - 17% operating margin
  - 20% ROE
- A high level of returns to stakeholders

"K20" is an important milestone toward achieving our vision by 2030.

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“K20” Goals — Three Commitments

1. Commitment to fostering a distinctive corporate image

   Become a company that is always by the consumer’s side

   – Proposed image: Kao is a company that embodies *KIREI*[1]

2. Commitment to “profitable growth”

   – Continue to set new record highs for profits

   – Aim for like-for-like[2] net sales CAGR of +5%, operating margin of 15%

   – Three ¥100 billion brands (*Merries* baby diapers, *Attack* laundry detergents, *Bioré* skin care products)

3. Commitment to returns to stakeholders

   – Shareholders: Continuous cash dividend increases

   (40% payout ratio target)

   27th consecutive period in FY2016 : Longest in Japan

   – Employees: Continuous improvement in compensation, benefits and health support

   – Customers: Maximization of win-win relationships

   – Society: Advanced measures to address social issues

Notes:
1. ***KIREI*** is a Japanese word that represents the concept of cleanliness, beauty, health, purity, and fairness.
2. Excluding the effect of currency translation, change of sales system, etc.

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“Profitable Growth” 2020 Strategy and “K20” Promotion Projects

1. Commitment to fostering a distinctive corporate image
2. 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 brands (*Merries* baby diapers, *Attack* laundry detergents, *Bioré* skin care products)
3. Commitment to returns to stakeholders

“Profitable Growth” 2020 Strategy

- Thoroughly instill “integrity”
- Make full use of Kao Group assets: Stage II
- Maximize Kao Group assets
- Build new assets

“K20” Promotion Projects

- Innovate current procedures, approaches and concepts
- Foster a distinctive corporate image
- Create the Kao Group’s future
- Maintain the health of employees and their families
- Apply state-of-the-art technologies and infrastructure

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Announced Forecast for FY2017 and K20 Targets

	FY2017 Forecast	FY2017 Results
Net sales	¥ 1,470.0 billion	¥1,489.4 billion
(Growth rate)	Like-for-like +4.7%	Like-for-like +5.6%
Operating income	¥200.0 billion	¥204.8 billion
(Operating margin)	13.6%	13.7%
Net income attributable to owners of the parent	¥138.0 billion	¥147.0 billion

K20 Targets (Profitable Growth)

→ Net sales CAGR of +5%

→ Operating margin of 15%

Fifth consecutive fiscal year of record-high operating income → Set new record highs for profits

Sales of *Merries* baby diapers, *Attack* laundry detergents and *Bioré* skin care products each exceeded ¥100 billion → Three ¥100 billion brands

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Status of FY2017 Activities

- Thanks to everyone, we achieved our announced forecast, despite various difficulties.
  We are particularly proud of becoming the first household and personal care products and cosmetics manufacturer in Japan to exceed 200 billion yen in operating income.
- We were able to advance overall in a form close to our targeted image.
  Compared with targets of 5% growth in net sales with a 3% increase in expenses and above 8% growth in operating income, actual results were 5.6% growth in net sales with a 2.2% increase in expenses and 10.4% growth in operating income.
- The market has changed substantially and competition was fierce. Also, there was a clear mix of results among businesses and areas.
  With the growth of the small mass market and e-commerce, former procedures no longer work, and some operations have not been able to change smoothly. Competitive conditions have also changed significantly. However, there is still ample room for growth overall if we achieve recovery and growth in businesses with outstanding issues. We will work to build on our fiscal 2016 results.
- We have not generated sufficient innovation-based proposals, but preparations are under way
  We will use what we have accumulated from strengthening fundamental research for proposals during the three years from fiscal 2018.
- M&A activities progressed essentially as planned (centered on B-to-B)
  2016: Two ink companies in the United States and Europe; 2017: *Oribe* brand for top-class hair salons

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Core Activities for K20

1. Strengthen non-financial activities (especially ESG activities) throughout the Group

2. Achieve rapid recovery and growth in businesses with outstanding issues

3. Realize the generation of innovation, create new assets and proactively promote M&A

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Topics for FY2018 Activities

- Escalate non-financial (ESG) activities and aggressively promote applications for advanced technologies.
- Maintain businesses that are performing well and make a rapid recovery in businesses with outstanding issues (cosmetics, hair care, beverages).

  Make proactive innovation-based proposals and prepare to create new businesses.

  Continue to strengthen M&A initiatives, mainly in the B-to-B field.
- Eliminate the business unit system and shift to a new operating structure.

  Substantially change the persons in charge and promote young employees to speed decision-making and accelerate global growth.
- Separate the former Beauty Care Business into the cosmetics business field and the skin care and hair care business field, and make responsibilities clear.

  In doing so, manage the *Curél* derma care brand as part of the cosmetics business field, in line with how the brand is actually sold at stores.

  Also, move the *Success* brand of men's products to the skin care and hair care business field.
- Make innovation-based proposals in each field by 2020.

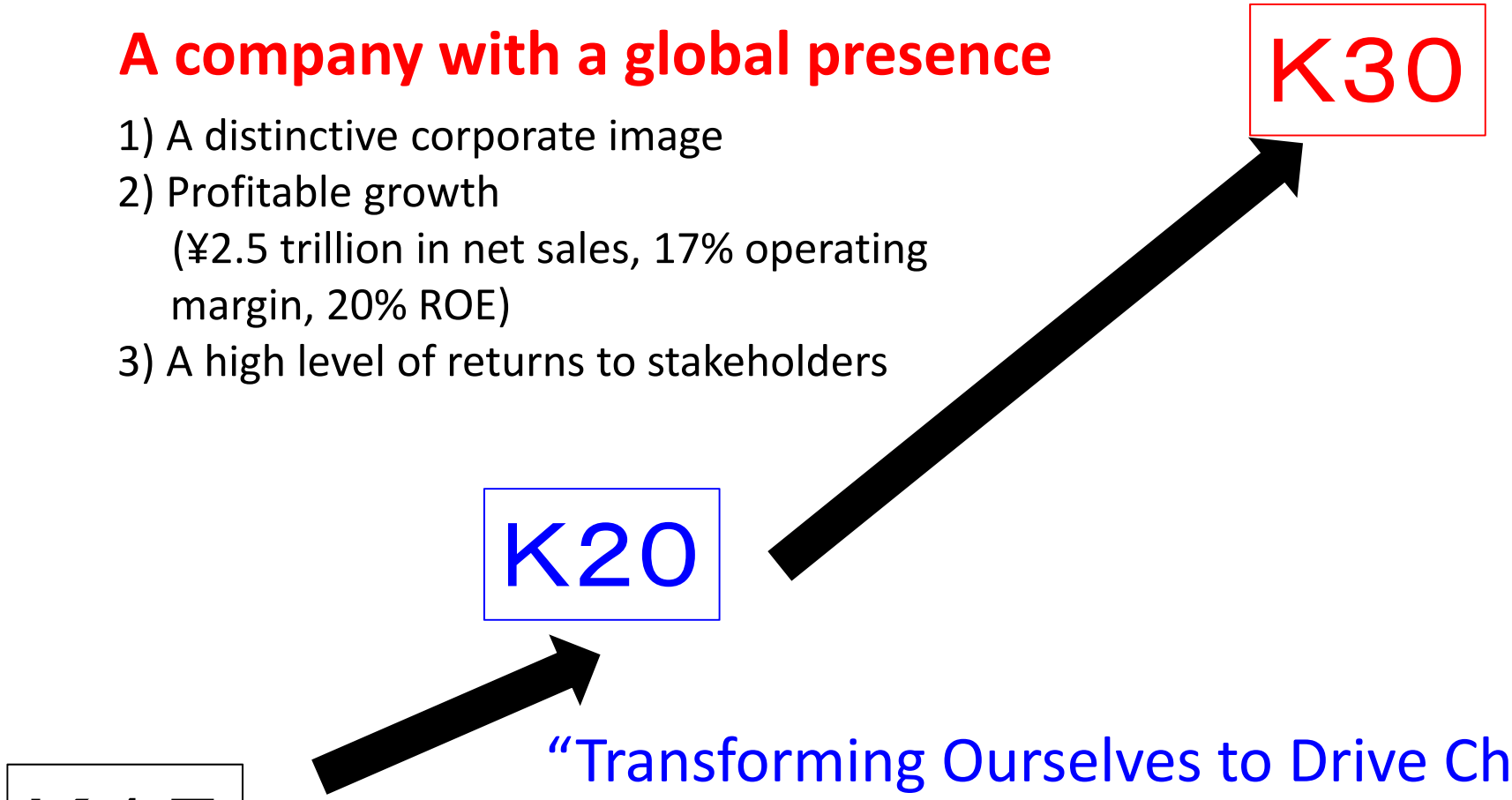
  Scheduled for Skin Care and Hair Care Business, Human Health Care Business, and Cosmetics Business in FY2018

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Lay the Groundwork by 2020

A company with a global presence

1) A distinctive corporate image
2) Profitable growth
   (¥2.5 trillion in net sales, 17% operating margin, 20% ROE)
3) A high level of returns to stakeholders



"Transforming Ourselves to Drive Change"

Cornerstone 1: **Strengthen non-financial strategies and initiatives**

Cornerstone 2: **Build an evolutionary "post-deflation growth model"**

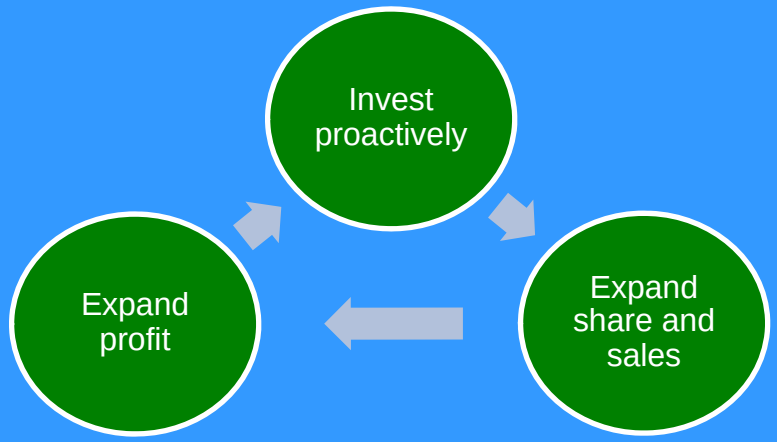
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Evolutionary “Post-deflation Growth Model”

Profitable growth at a high level of quality and creation of new assets

Generate proactive earning power

Build an evolutionary post-deflation growth model



Fundamentally change current procedures, approaches and concepts

Take the maximization of use of Kao Group assets to the next dimension

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Three Elements That Contribute to the Formation of a Sustainable Society

E: Environment

S: Society

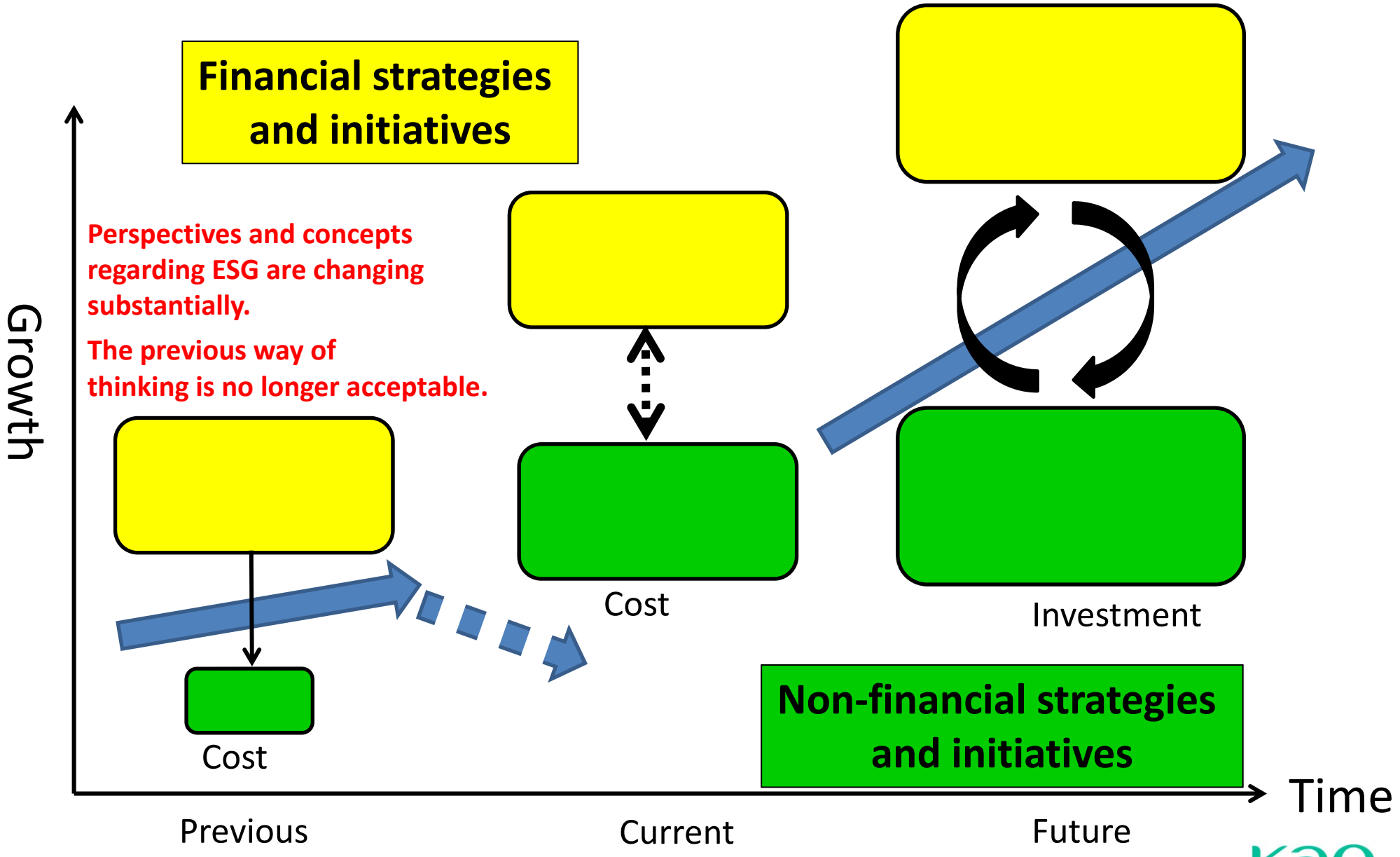
G: Governance



We play a key role in implementing the Sustainable Development Goals to energize Japan and the world!

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Changing Concepts for Sustained Corporate Growth



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The Kao Group's ESG Activities

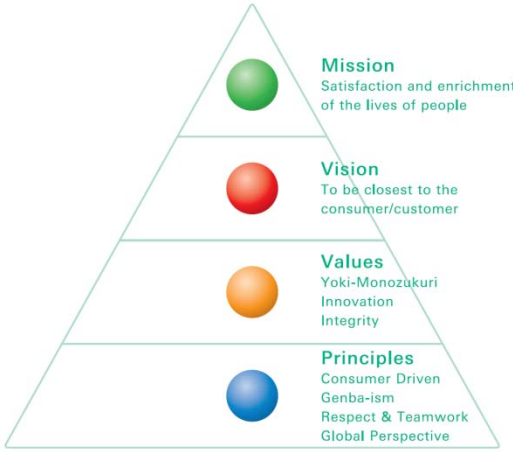
The Kao Group's non-financial (ESG) activities　Kirei Action

Key message: "Kirei - Making Life Beautiful"

The Kao Group aims to create unique experiences and touch the hearts of consumers through products filled with passion.

Corporate message:

"Enriching lives, in harmony with nature"



The Kao Way

* Kirei: Please refer to slide 22

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Appendices

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Business Segments and Main Product Categories

Consumer Products Business

Beauty Care Business

FY2017

Sales: ¥586.0 billion
Like-for-like growth:[1] +2.1%
Share of net sales: 39.3%

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



Human Health Care Business

FY2017

Sales: ¥294.3 billion
Like-for-like growth:[1] +13.0%
Share of net sales: 19.8%

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



Fabric and Home Care Business

FY2017

Sales: ¥335.7 billion
Like-for-like growth:[1] +1.5%
Share of net sales: 22.5%

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



Chemical Business

FY2017

Sales: ¥310.3 billion[2]
Like-for-like growth:[1] +10.8%
Share of net sales:[3] 18.4%

Oleo chemicals
Performance chemicals
Specialty chemicals



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 of the Chemical Business include intersegment transactions.
3. Share of net sales is calculated based on sales to customers.

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ESG Initiatives to Enhance Corporate Value

Resource Recycling



・Reducing Plastic through Refill and Replacement Products

Kao introduced refill and replacement products in Japan in 1991 to promote reduction of the amount of plastic used in packaging.

・Easy-to-Use Containers with Low Environmental Impact

In addition to reducing environmental impact, Kao is expanding the use of the *Raku-raku Eco Pack* refill which prevent spillage and enables all contents to be dispensed, to all shampoos and conditioners and to *Bioré u body wash*.



Kao has also begun selling the *Smart Holder*, which enables the use of a *Raku-raku Eco Pack* refill by simply inserting a pump into it.

Cleanliness and Hygiene



・Educational Programs in Japan and Asia to Establish Hygiene Habits

Kao conducts classes in Japan, Thailand, Taiwan, Indonesia and elsewhere to teach children how to wash their hands properly.

・ Cooperating with UNICEF in school sanitation improvement project in Vietnam

Conducting sanitation education at 10 schools for approximately 3,000 children, and renovating toilets and other sanitary facilities at 19 schools. Also providing volunteer leader and community leader development.

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Evaluations from External Organizations

- Selected for inclusion in the Dow Jones Sustainability World Index (DJSI World) and Dow Jones Sustainability Asia/Pacific Index (DJSI Asia/Pacific) for the fourth consecutive year
- Included in the global FTSE4Good socially responsible investment (SRI) index for the 10th consecutive year
- Received a Climate Change 2017 score of A-, a Water 2017 score of A- and a Forests 2017 score of A- from UK-based non-profit environmental assessment organization CDP
- Named one of the World's Most Ethical Companies for the 11th consecutive year

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- Selected by Government Pension Investment Fund (GPIF) for the new ESG indices FTSE Blossom Japan Index and MSCI Japan ESG Select Leaders Index
- Selected by TSE as the Grand Prix recipient for the Corporate Value Improvement Award
- Selected as a Health and Productivity Management Brand for the third consecutive year
- Received the highest rating for the second time in Development Bank of Japan Inc.'s DBJ Employees' Health Management Rated Loan Program

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- Received a certificate from the Ministry of Health, Labour and Welfare for achieving 15.2 million hours without a lost time accident involving death or serious injury at its Tochigi factory in Japan (September 1, 2002 – June 28, 2017).
- Received the 16th Green & Sustainable Chemistry (GSC) Award from the Minister of Economy, Trade and Industry for development of a pulp-based runner channel for casting

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ESG Investment Indices and Evaluations from External Organizations

ESG indices for which Kao has been selected

MEMBER OF Dow Jones Sustainability Indices In Collaboration with RobecoSAM

MSCI 2017 Constituent MSCI Global Sustainability Indexes

MSCI 2017 Constituent MSCI ESG Leaders Indexes

MSCI 2017 Constituent MSCI Japan ESG Select Leaders Index

FTSE4Good FTSE Blossom Japan

included in ETHIBEL SUSTAINABILITY INDEX EXCELLENCE Global

member of the INVESTMENT REGISTER ETHIBEL PIONEER & EXCELLENCE

EURONEXT vigeo eiris INDICES WORLD 120

ECPI Sense in sustainability

TOP 100 COMPANY 2017 Thomson Reuters Diversity & Inclusion Index

MS-SRI

Evaluations from external organizations

CDP SUPPLIER ENGAGEMENT LEADER 2018

ROBECOSAM Sustainability Award Bronze Class 2017

Corporate Responsibility Prime rated by oekom research

2017 WORLD'S MOST ETHICAL COMPANIES® WWW.ETHISPHERE.COM

DBJ健康格付 2016

2017 健康経営銘柄 Health and Productivity

LISTED COMPANY AWARD 2016

DIVERSITY MANAGEMENT SELECTION 100 2013

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* ESG Investment: Investment that takes into consideration Environmental, Society and Governance factors
SRI: Socially Responsible Investment

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Financial Data

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Consolidated Net Sales by Segment/Geographic Area

Consolidated Net Sales (Year ended December 31)						
(Billion yen)		Japan	Asia	Americas	Europe	Consolidated
Cosmetics	FY2017	197.9	22.4	2.8	19.5	242.7
	Year-on-year change (%)	(8.1)	20.6	7.0	6.2	(4.8)
	Like-for-like (%)[1]	(0.6)	30.2	3.5	5.4	2.1
Skin care/hair care products	FY2017	195.9	30.8	72.3	44.2	343.3
	Year-on-year change (%)	(1.2)	(6.7)	4.9	(4.6)	(1.0)
	Like-for-like (%)[1]	3.1	7.9	3.0	(7.9)	2.1
Beauty Care Business	FY2017	393.8	53.3	75.1	63.8	586.0
	Year-on-year change (%)	(4.8)	3.1	5.0	(1.5)	(2.6)
	Like-for-like (%)[1]	1.2	15.9	3.1	(4.1)	2.1
Human Health Care Business	FY2017	197.5	96.7	0.0	-	294.3
	Year-on-year change (%)	3.5	17.6	-	-	7.8
	Like-for-like (%)[1]	7.4	25.8	-	-	13.0
Fabric and Home Care Business	FY2017	294.8	38.8	2.1	-	335.7
	Year-on-year change (%)	(2.1)	(8.3)	21.2	-	(2.7)
	Like-for-like (%)[1]	1.6	0.4	17.7	-	1.5
Consumer Products Business	FY2017	886.2	188.8	77.3	63.8	1,216.0
	Year-on-year change (%)	(2.1)	7.1	5.5	(1.5)	(0.3)
	Like-for-like (%)[1]	2.6	16.8	3.5	(4.1)	4.4
Chemical Business[2]	FY2017	123.9	69.6	52.6	64.2	310.3
	Year-on-year change (%)	4.2	18.2	21.0	22.1	13.3
	Like-for-like (%)[1]	4.3	14.0	17.8	16.2	10.8
Consolidated	FY2017	978.2	255.0	129.8	126.4	1,489.4
	Year-on-year change (%)	(1.5)	9.9	11.2	9.0	2.2
	Like-for-like (%)[1]	2.9	16.2	8.8	5.0	5.6

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 of the Chemical Business include intersegment transactions.

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Consolidated Results by Segment

Year ended December 31									
(Billion yen)	Net sales				Operating income (loss)			Operating margin %	
	FY2016	FY2017	Growth %	Like-for-like %[1]	FY2016	FY2017	Change	FY2016	FY2017
Cosmetics	255.0	242.7	(4.8)	2.1	4.0	5.1	1.1	1.6	2.1
Skin care/hair care products	346.7	343.3	(1.0)	2.1	47.1	52.5	5.4	13.6	15.3
Beauty Care Business	601.6	586.0	(2.6)	2.1	51.1	57.6	6.5	8.5	9.8
Human Health Care Business	273.1	294.3	7.8	13.0	25.9	38.7	12.7	9.5	13.1
Fabric and Home Care Business	345.2	335.7	(2.7)	1.5	78.1	76.1	(2.0)	22.6	22.7
Consumer Products Business	1,219.8	1,216.0	(0.3)	4.4	155.1	172.3	17.2	12.7	14.2
Chemical Business[2]	273.8	310.3	13.3	10.8	29.7	30.3	0.6	10.8	9.8
Consolidated	1,457.6	1,489.4	2.2	5.6	185.6	204.8	19.2	12.7	13.7

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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Consolidated Statement of Financial Position

(Billion yen)	Dec.2016	Dec.2017	Change
Assets			
Current assets			
Cash and cash equivalents	303.0	343.1	40.0
Trade and other receivables	208.5	216.5	8.0
Inventories	165.2	183.9	18.7
Other financial assets	13.0	14.9	1.9
Income tax receivables	1.5	2.7	1.2
Other current assets	23.8	28.2	4.3
Subtotal	715.0	789.2	74.2
Non-current assets held for sale	0.3	0.1	(0.2)
Total current assets	715.3	789.4	74.0
Non-current assets			
Property, plant and equipment	370.8	395.8	25.0
Goodwill	137.8	138.7	1.0
Intangible assets	14.7	16.8	2.1
Investments accounted for using the equity method	4.7	7.7	3.0
Other financial assets	25.5	27.3	1.9
Deferred tax assets	50.9	40.9	(10.0)
Other non-current assets	18.5	10.7	(7.9)
Total non-current assets	623.0	638.0	15.0
Total assets	1,338.3	1,427.4	89.1

	Dec.2016	Dec.2017	Change
Liabilities and equity			
Liabilities			
Current liabilities			
Trade and other payables	216.9	224.9	8.0
Bonds and borrowings	30.3	25.3	(5.0)
Other financial liabilities	8.2	7.7	(0.4)
Income tax payables	32.6	34.3	1.6
Provisions	11.4	4.8	(6.5)
Contract liabilities	-	17.3	17.3
Other current liabilities	131.1	107.4	(23.7)
Total current liabilities	430.4	421.7	(8.8)
Non-current liabilities			
Bonds and borrowings	90.4	95.3	5.0
Other financial liabilities	11.7	10.1	(1.6)
Retirement benefit liabilities	94.8	64.7	(30.1)
Provisions	13.8	10.6	(3.2)
Deferred tax liabilities	0.5	0.4	(0.1)
Other non-current liabilities	5.3	5.2	(0.1)
Total non-current liabilities	216.4	186.3	(30.1)
Total liabilities	646.8	608.0	(38.8)
Equity			
Share capital	85.4	85.4	-
Capital surplus	107.6	108.0	0.3
Treasury shares	(57.1)	(9.6)	47.5
Other components of equity	(21.8)	(12.3)	9.5
Retained earnings	565.7	634.9	69.2
Equity attributable to owners of the parent	679.8	806.4	126.5
Non-controlling interests	11.6	13.0	1.4
Total equity	691.5	819.4	127.9
Total liabilities and equity	1,338.3	1,427.4	89.1

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Consolidated Statement of Income

Year ended December 31

(Billion yen)	FY2016	% of Net sales	FY2017	% of Net sales	Change
Net sales	1,457.6	100.0	1,489.4	100.0	31.8
Cost of sales	(637.5)	43.7	(834.1)	56.0	(196.6)
Gross profit	820.1	56.3	655.3	44.0	(164.8)
SG&A expenses	(633.4)	43.5	(452.7)	30.4	180.7
Other operating income/expenses	(1.2)	0.1	2.1	0.1	3.3
Operating income	185.6	12.7	204.8	13.7	19.2
Financial income/expenses	(4.0)	0.3	(2.5)	0.2	1.5
Share of profit in investments accounted for using the equity method	1.9	0.1	2.0	0.1	0.1
Income before income taxes	183.4	12.6	204.3	13.7	20.9
Income taxes	(55.5)	3.8	(55.7)	3.7	(0.1)
Net income	127.9	8.8	148.6	10.0	20.7
Attributable to owners of the parent	126.6	8.7	147.0	9.9	20.5
Attributable to non-controlling interests	1.3	0.1	1.6	0.1	0.3

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Breakdown of Consolidated SG&A Expenses

Year ended December 31

(Billion yen)	FY2016	FY2017	Change
Total SG&A expenses	633.4	452.7	(180.7)
Freight/warehouse	58.2	0.1	(58.1)
Advertising	97.4	89.9	(7.5)
Sales promotion	83.2	58.9	(24.2)
Employee benefits	191.1	147.0	(44.1)
Depreciation	11.2	8.9	(2.4)
Amortization	6.2	4.8	(1.4)
Research and development	54.6	56.7	2.1
Others	131.5	86.4	(45.1)

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Consolidated Statement of Cash Flows

Year ended December 31

(Billion yen)	FY2016	FY2017	Change
Net cash flows from operating activities	184.3	185.8	1.5
Net cash flows from investing activities	(88.6)	(96.1)	(7.5)
Net cash flows from financing activities	(95.0)	(53.2)	41.8
Net increase (decrease) in cash and cash equivalents	0.6	36.5	35.8
Cash and cash equivalents at the beginning of the period	309.9	303.0	(6.9)
Effect of exchange rate changes on cash and cash equivalents	(7.5)	3.6	11.1
Cash and cash equivalents at the end of the period	303.0	343.1	40.0
Bonds and borrowings at the end of the period	120.6	120.6	(0.1)
Free cash flow	95.7	89.7	(6.0)

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

Net cash flows from investing activities

Capital expenditures:

- Production capacity expansion for sanitary products in Japan
- Production capacity expansion for beauty care products in Japan
- Production capacity expansion for fabric care and home care products in Japan

Net cash flows from financing activities

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

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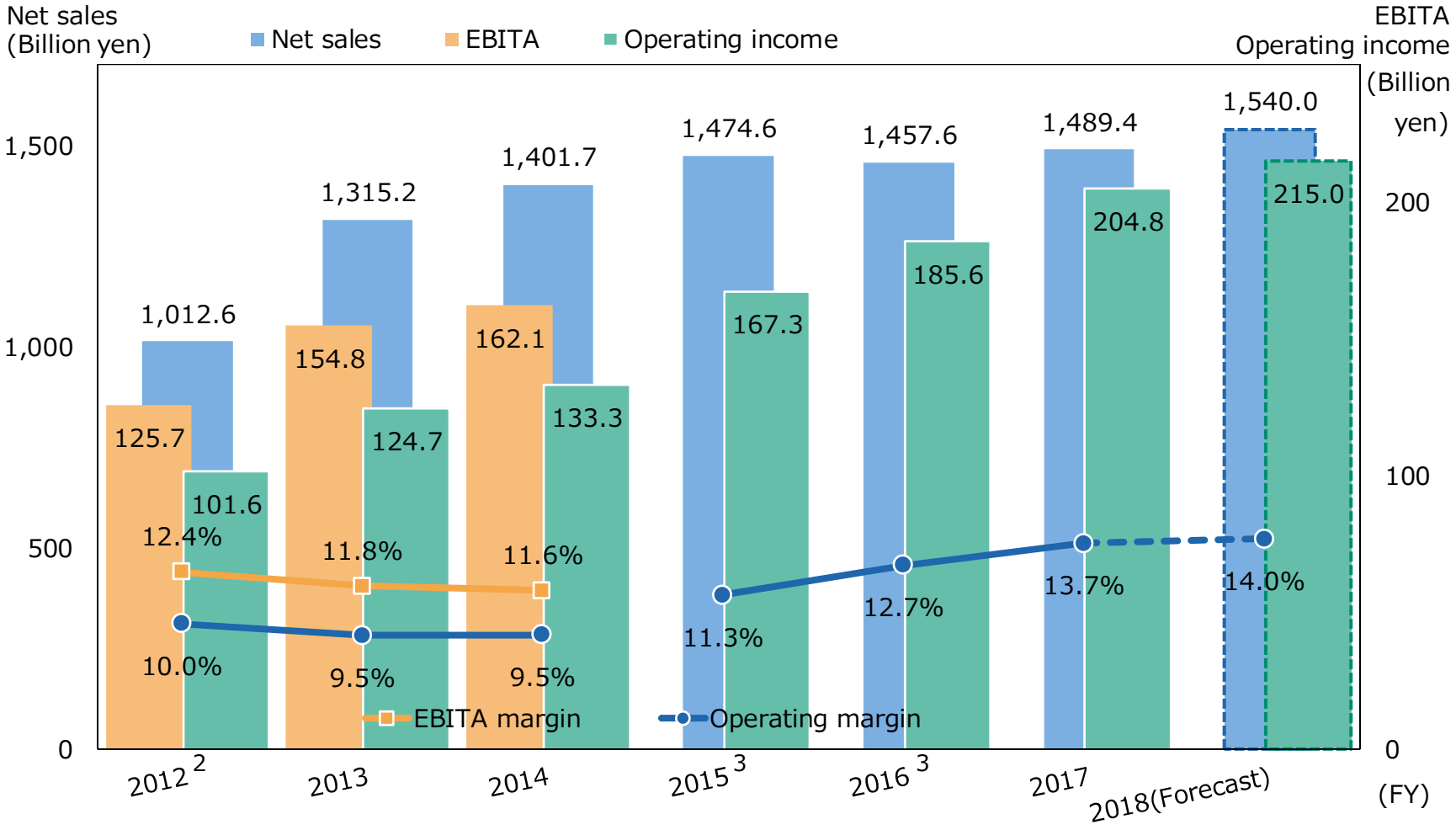
Sales Outlook for the Consumer Products Business in Japan

(Billion yen)	FY2018 (Forecast)	Growth (%)
Cosmetics Business*	219.0	1.8
Skin Care and Hair Care Business*	200.0	4.2
Human Health Care Business*	187.0	1.4
Fabric and Home Care Business	302.0	2.4
Consumer Products Business	908.0	2.5

* Segment sales and growth rates are based on the new operating structure introduced in fiscal 2018.

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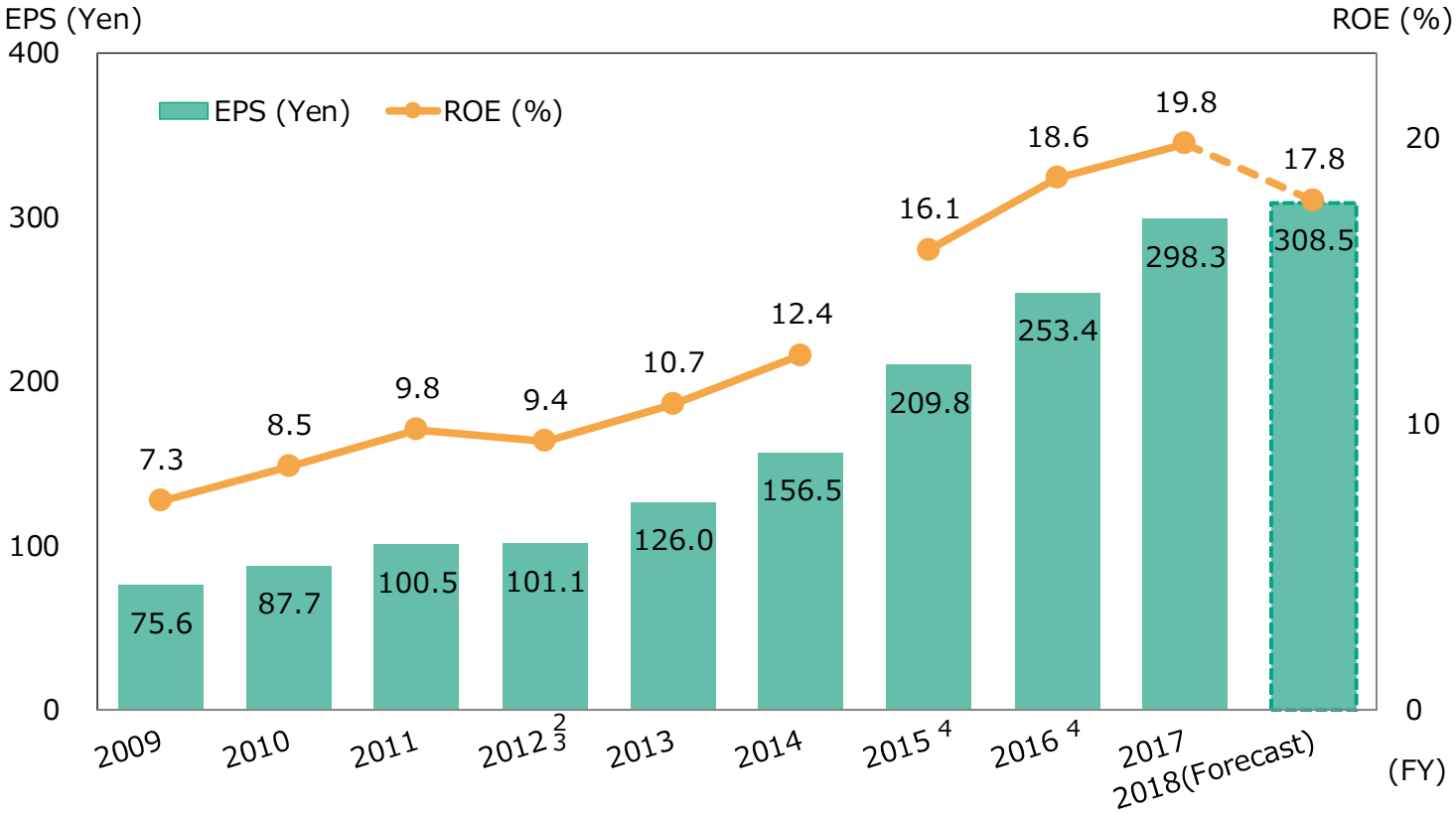
Consolidated Net Sales/EBITA[1]/Operating Income



1. Operating income before amortization of goodwill and intellectual property rights related to M&A.
2. Fiscal year end is December 31 from FY2012. (Please refer to slide 2 for details.)
3. IFRS adopted in FY2016. FY2015 figures are calculations based on IFRS. EBITA is not presented from FY2015 because amortization of goodwill has been discontinued under IFRS.

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ROE & EPS[1]

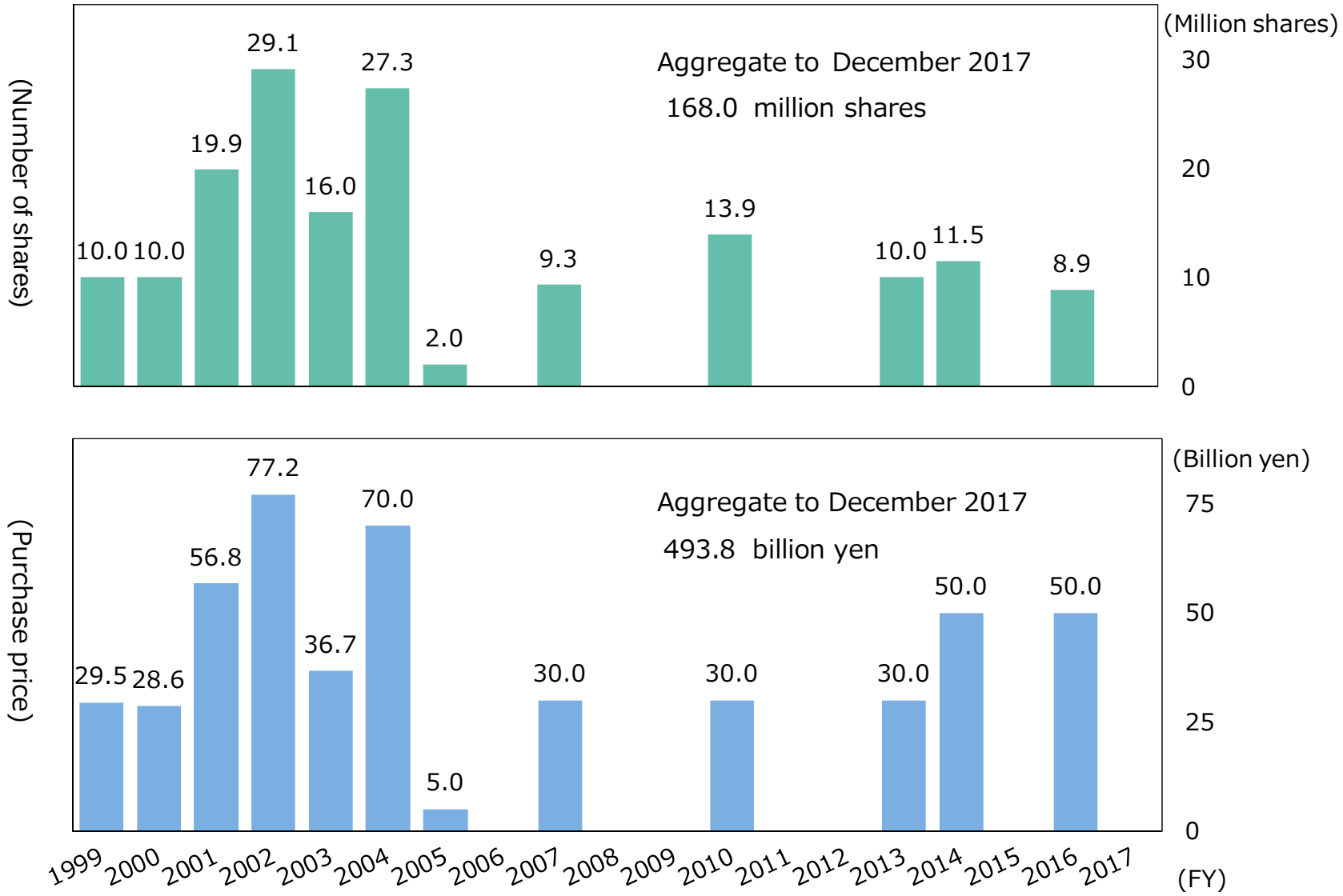


Weighted average number of shares outstanding (Million shares)	536.0	533.0	521.9	521.8	513.9	508.7	501.4	499.4	492.8	492.8
Net income [J-GAAP] / Net income attributable to owners of the parent [IFRS] (Billion yen)	40.5	46.7	52.4	52.8	64.8	79.6	105.2	126.6	147.0	152.0

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

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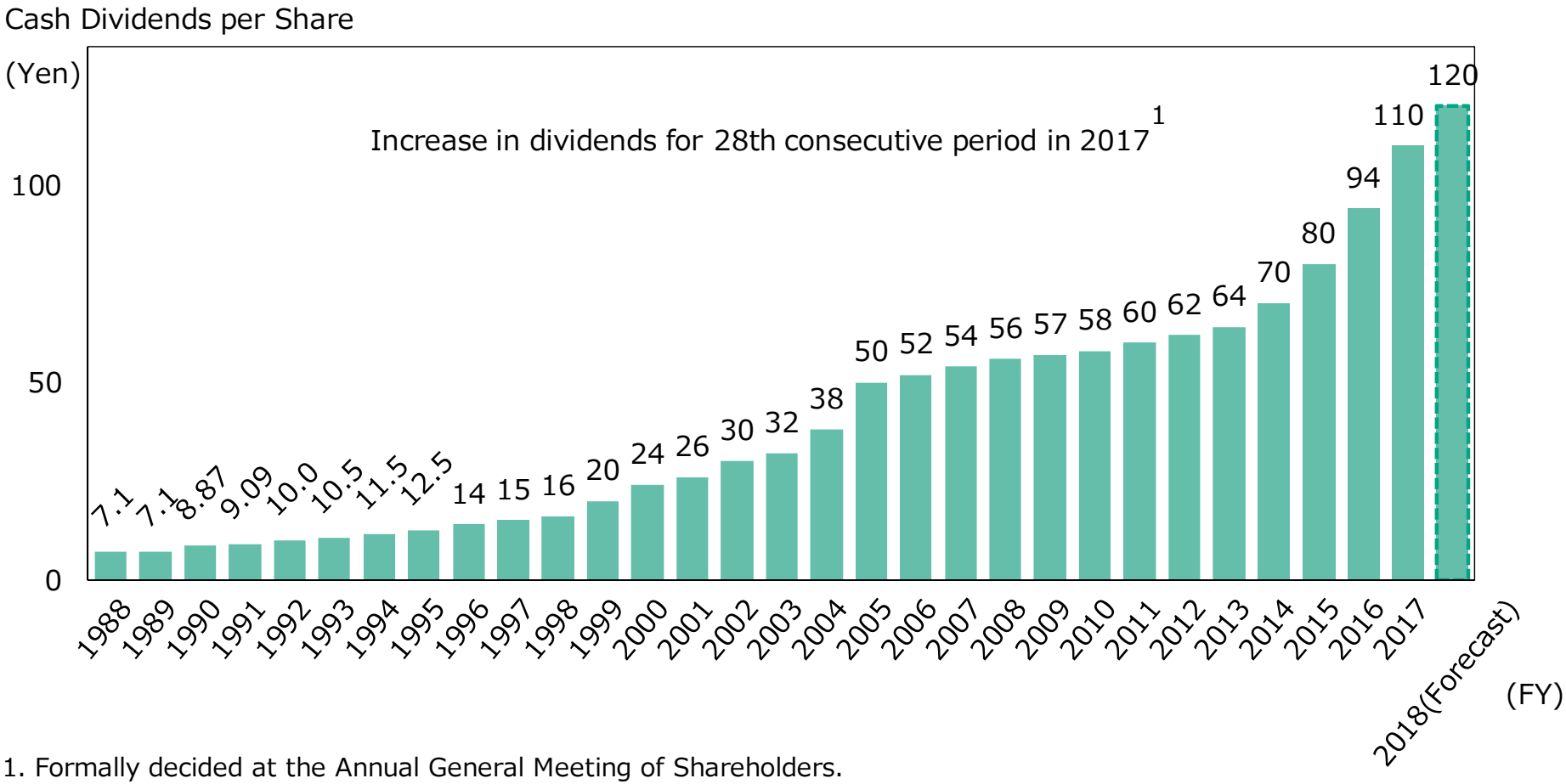
Share Repurchase



Note: Excludes repurchase of shares of less than one trading unit and shares acquired through the Board Incentive Plan Trust ("BIP Trust"). Number of issued shares including treasury shares as of December 31, 2017 is 495.0 million.

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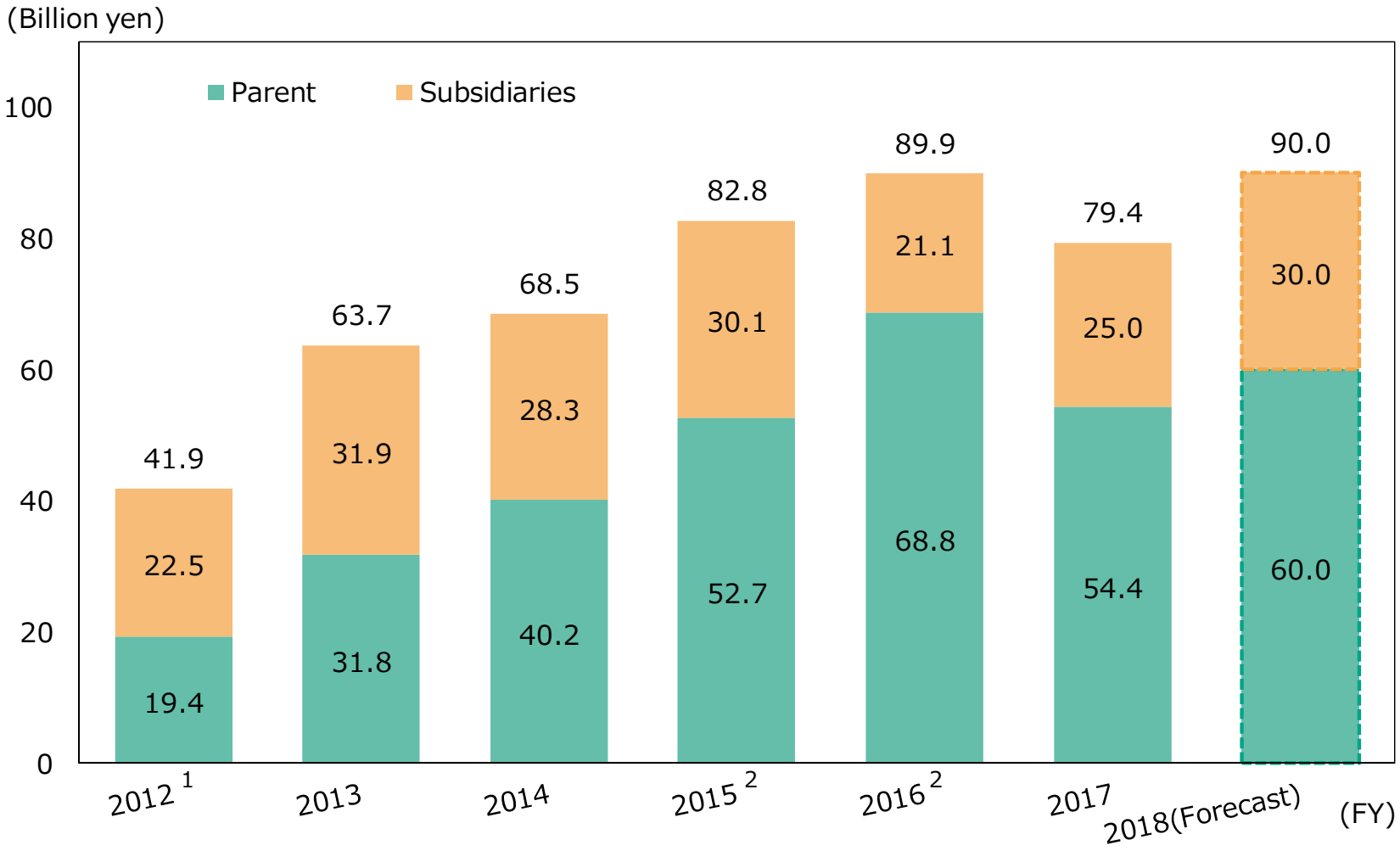
Cash Dividends per Share



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

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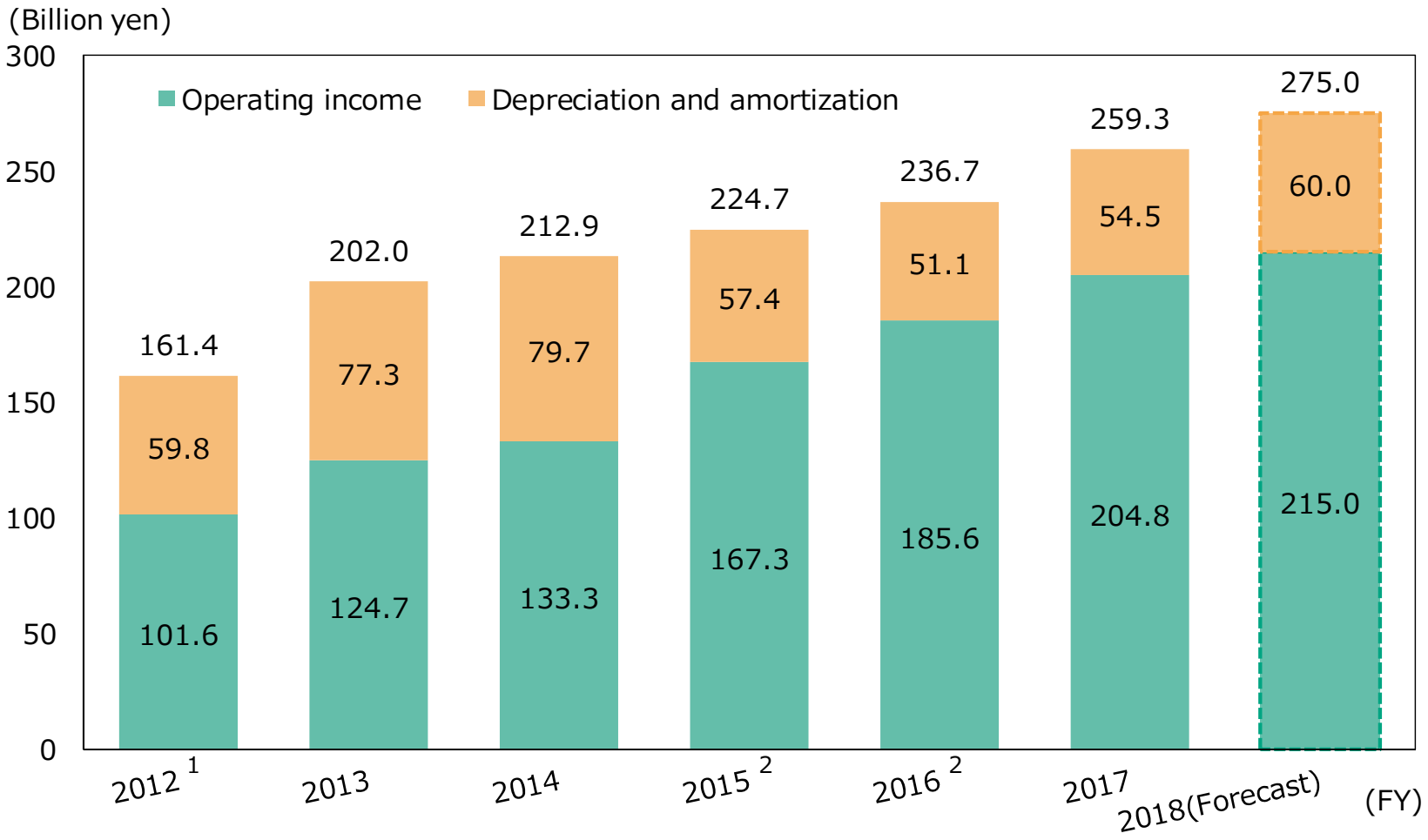
Capital Expenditures



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

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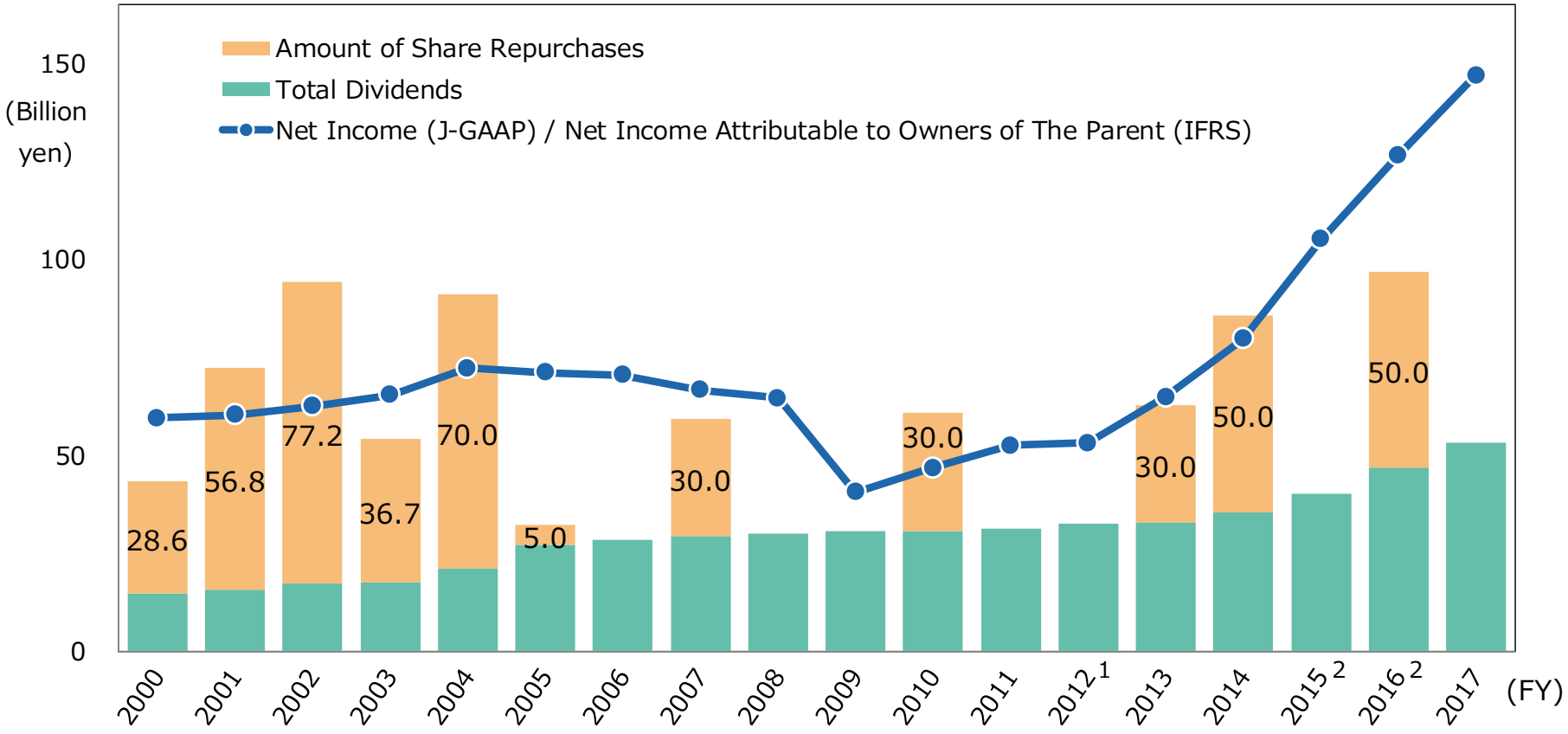
EBITDA



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

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Shareholder Returns

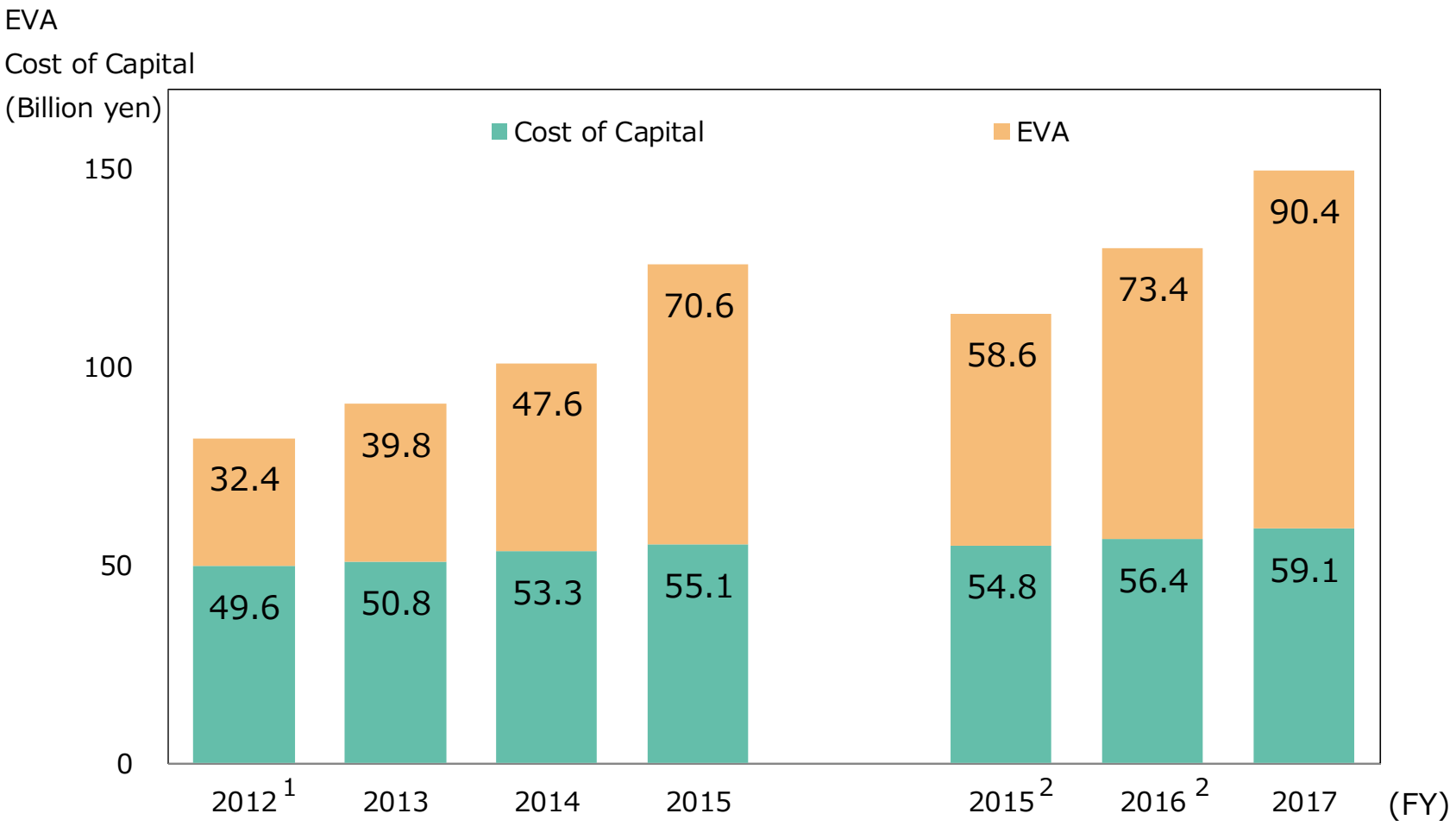


1. Fiscal year end is December 31 from FY2012. Figures for FY2012 are for the period from January 1 to December 31, 2012. (Please refer to slide 2 for details.)

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

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EVA



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

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

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