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

February 2018

NOTICE OF THE 112th ANNUAL GENERAL MEETING OF SHAREHOLDERS

To Our Shareholders:

Kao Corporation (the "Company") is pleased to announce that the 112th Annual General Meeting of Shareholders of the Company ("AGM") will be held on March 23, 2018 at 10:00 a.m., 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, 2017 ("Shareholders") will be presented with the Business Report, the Consolidated Financial Documents and Financial Documents for the fiscal year which ended on December 31, 2017. For your reference, we have enclosed a copy of our Business Results announced on February 1, 2018 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 seven (7) Members of the Board**
3. **Election of one (1) Audit & Supervisory Board Member**

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
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 112th Annual General Meeting of Shareholders of the Company (the "AGM") to be held on March 23, 2018 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, 2017 (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
56.00 yen per share of common share of the Company
Aggregate amount of distribution: 27,640,940,936 yen

(2) Effective Date of Distribution of Retained Earnings
March 26, 2018

If this proposal is adopted without any amendment, then, by adding the interim dividends of **54.00 yen per share** to the above year-end dividends of **56.00 yen per share**, the total dividends for this fiscal year will be **110.00 yen per share**, an increase of 16.00 yen per share over the previous fiscal year, representing a consolidated payout ratio of 36.9%.

THE BOARD OF DIRECTORS UNANIMOUSLY RECOMMENDS A VOTE IN FAVOR OF PROPOSAL 1.

PROPOSAL 2: ELECTION OF SEVEN (7) MEMBERS OF THE BOARD

The terms of office of all seven (7) incumbent Members of the Board will expire at the conclusion of the AGM. Accordingly, the Company proposes that a total of seven (7) Members of the Board, including three (3) Outside Directors, be elected.
Provided below is the list of the nominees followed by their personal information and career summary.
Also, if nominees of Proposal 2 and Proposal 3 are elected, as proposed by the Company, there will be three (3) 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, six (6) out of twelve (12) attendees of the meeting of the Board of Directors will be independent, so the Company believes that adequate dicussions will be possible at the meetings of the Board of Directors, based on such independent and neutral opinions.
Please refer to the following website for details of "Standards for Independence of Outside Directors/ Audit & Supervisory Board Members of Kao Corporation."
http://www.kao.com/content/dam/sites/kao/www-kao-com/global/en/about/pdf/governance_002.pdf

No.	Names of Nominees		Status at the Company and Other Material Position(s) Held	Board Tenure	Attendance Rate
1.	Michitaka Sawada	Re-nomination	Member of the Board Representative Director, President and Chief Executive Officer	9 years and 9 months	100% (15/15)
2.	Katsuhiko Yoshida	Re-nomination	Member of the Board Representative Director, Senior Managing Executive Officer	4 years	100% (15/15)
3.	Toshiaki Takeuchi	Re-nomination	Member of the Board Representative Director, Senior Managing Executive Officer [Other material position(s) held] Representive Director, President, Kao Group Customer Marketing Co., Ltd.	4 years	100% (15/15)
4.	Yoshihiro Hasebe	Re-nomination	Member of the Board Senior Managing Executive Officer	2 years	100% (15/15)
5.	Sonosuke Kadonaga	Re-nomination Outside Director Independent Director	Member of the Board [Other material position(s) held] President, Intrinsics; Member of the Board, Business Breakthrough Inc.; Outside Director, Sumitomo Mitsui Banking Corporation; and Vice President, Business Breakthrough University	5 years and 9 months	100% (15/15)
6.	Masayuki Oku	Re-nomination Outside Director Independent Director	Member of the Board [Other material position(s) held] Outside Director, Panasonic Corporation; Outside Audit & Supervisory Board Member, Nankai Electric Railway Co., Ltd.; Outside Director, Komatsu Ltd.; Outside Director, Chugai Pharmaceutical Co., Ltd.; and Non-executive Director, The Bank of East Asia, Limited	4 years	100% (15/15)
7.	Osamu Shinobe	New nomination Outside Director Independent Director	— [Other material position(s) held] Member of the Board, Vice Chairman, ANA HOLDINGS INC.	—	—

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: **28,900 shares**

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

[Career summary, status and duties at the Company]

April 1981	Joined the Company
June 2006	Executive Officer
June 2008	Member of the Board, Executive Officer
June 2012	Representative Director, President and Chief Executive Officer (current)

[Reason for appointment as a nominee for Member of the Board]

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 existence," working to achieve both "profitable growth" and "social sustainability," and increasing corporate value, through the best use of the Kao Group's assets. In 2017, the Kao Group started to apply, and has steadily carried out, the "Kao Group Mid-term Plan K20," under the 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 eunsure sustainable growth of the Kao Group, the Company hereby appoints Mr. Sawada as a nominee to continue as a Member of the Board.

**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. Katsuhiko Yoshida (Date of Birth: April 5, 1954) Re-nomination



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

Number of the Company shares owned: **41,200 shares**

Term of office at the conclusion of this AGM: **4 years**

[Career summary, status and duties at the Company]

April 1979	Joined the Company
June 2007	Executive Officer
June 2012	Managing Executive Officer
March 2014	Representative Director, Managing Executive Officer; President, Consumer Products, Global; and Responsible for Kao Professional Services Co., Ltd. (current)
March 2015	Representative Director, Senior Managing Executive Officer (current)
January 2017	Responsible for Marketing Research and Development, Global
January 2018	President, Consumer Products, Global (current); and Senior Vice President, Marketing Research and Development, Global (current)

[Reason for appointment as a nominee for Member of the Board]

Over many years, Mr. Yoshida has been involved in product development which constitutes the core function of the *"Yoki-Monozukuri"* philosophy, as well as in marketing operations for communicating the essential value of such philosophy to consumers. Mr. Yoshida currently performs the duties of being in overall charge of the Consumer Products Business, based on his expertise in relation to such business both in Japan and overseas. Mr. Yoshida 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 in relation to the same. Mr. Yoshida 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. Yoshida will be able to contribute to further increasing 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 Mr. Yoshida as a nominee to continue as a Member of the Board.

3. Toshiaki Takeuchi (Date of Birth: March 22, 1959) Re-nomination



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

Number of the Company shares owned: **19,900 shares**

Term of office at the conclusion of this AGM: **4 years**

[Career summary, status and duties at the Company]

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

[Other material position(s) held]

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

[Reason for appointment as a nominee for Member of the Board]

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, Mr. Takeuchi 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. Mr. Takeuchi 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 increasing 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 Mr. Takeuchi as a nominee to continue as a Member of the Board.

4. Yoshihiro Hasebe (Date of Birth: July 30, 1960) Re-nomination



Attendance to the Meeting of the Board of Directors (Since his appoinment on March 25, 2016): **15/15 (100%)**

Number of the Company shares owned: **7,400 shares**

Term of office at the conclusion of this AGM: **2 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	Member of the Board, Manageing Executive Officer
January 2018	Member of the Board, Senior Managing Executive Officer (current); and Responsible for Corporate Functions, Global (current)

[Reason for appointment as a nominee for Member of the Board]

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. Mr. Hasebe 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. From January 2018, he has also been in charge of the Company's corporate function sections. Mr. Hasebe 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. Hasebe will be able to contribute to further increasing 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 Mr. Hasebe as a nominee to continue as a Member of the Board.

5. Sonosuke Kadonaga (Date of Birth: August 5, 1952) Re-nomination | Outside Director | Independent Director



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: **5 years and 9 months**

[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, Intrinsics (current)
June 2012	Member of the Board, Kao Corporation (current)

[Other material position(s) held]

President, Intrinsics; Member of the Board, Business Breakthrough Inc.; Outside Director, Sumitomo Mitsui Banking Corporation; and 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 Mr. Kadonaga 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 Mr. Sonosuke Kadonaga is reelected and assumes office as a Member of the Board.

6. Masayuki Oku (Date of Birth: December 2, 1944) Re-nomination | Outside Director | Independent Director



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

Number of the Company shares owned: **0 share**

Term of office at the conclusion of this AGM: **4 years**

[Career summary, status and duties at the Company]

April 1968	Joined Sumitomo Bank
May 1975	LL.M, University of Michigan Law School, U.S.A.
January 1991	Branch Manager, Chicago Branch, Sumitomo Bank
June 1994	Director, Sumitomo Bank
November 1998	Managing Director, Sumitomo Bank
June 1999	Managing Director and Managing Executive Officer, Sumitomo Bank
January 2001	Senior Managing Director and Senior Managing Executive Officer, Sumitomo Bank
April 2001	Senior Managing Director and Senior Managing Executive Officer, Sumitomo Mitsui Banking Corporation
December 2002	Senior Managing Director, Sumitomo Mitsui Financial Group, Inc.
June 2003	Deputy President and Executive Officer, Sumitomo Mitsui Banking Corporation
June 2005	Chairman of the Board, Sumitomo Mitsui Financial Group, Inc.; and President and Chief Executive Officer, Sumitomo Mitsui Banking Corporation
March 2014	Member of the Board, Kao Corporation (current)

[Other material position(s) held]

Outside Director, Panasonic Corporation; Outside Audit & Supervisory Board Member, Nankai Electric Railway Co., Ltd.; Outside Director, Komatsu Ltd.; Outside Director, Chugai Pharmaceutical Co., Ltd.; and Non-executive Director, The Bank of East Asia, Limited

[Reason for appointment as a nominee for Outside Director]

Mr. Oku has played an active role internationally in the fields of finance and financial affairs, such as being a manager of a major financial institution, and has considerable experience and expertise in relation to global corporate management. Mr. Oku 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. Oku were to continue to supervise the management of the Company as an Independent Outside Director, and for this reason appoints Mr. Oku as a nominee to continue as an Outside Director.

[Matters regarding independency]

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

Mr. Oku had executive authority at Sumitomo Mitsui Banking Corporation (SMBC), but no longer has such authority since April 2011 in SMBC. The Company conducts regular bank transactions with SMBC and the Company has loans from SMBC, but the total amounts of loans were less than 2%of the total assets of the Company as of the end of the lastest fiscal year.

7. Osamu Shinobe (Date of Birth: November 11, 1952) New Nominee | Outside Director | Independent Director



Number of the Company shares owned: **0 shares**

[Career summary]

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)

[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 pricipally 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. Mr. Shinobe exercised active leadership in pursuing the creation of value with an emphasis on customer satisfaction, as well as diversity of human resources such as utilizing female workforce and promoting work style reforms, thereby obtaining a sense of security and trust toward the company among various stakeholders, and the company grew into a world leading airline. Based on such achievements, the Company expects that Mr. Shinobe will offer proposals helpful to the Company in furthering its management emphasized on its responsibility to the environment and society. In view of these facts, the Company has determined that it would be most suitable if Mr. Shinobe were to supervise the management of the Company as an Independent Outside Director, and for this reason appoints Mr. Shinobe as a nominee to continue as an Outside Director.

[Matters regarding independency]

If Mr. Shinobe is elected and assumes office as a Member of the Board, the Company will report 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.
Mr. Shinobe 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. However, the amounts involved in such transactions account for less than 0.1% of the Company's net sales and ALL NIPPON AIRWAYS CO. LTD.'s net sales for the latest fiscal year, respectively.

[Special notes concerning nominees]

■ **Special relationship between the Company and the nominees for Members of the Board**

There are no special interests between the Company and the nominees for Members of the Board.

■ **Matters regarding Outside Directors**

Of the nominees for Members of the Board, Messrs. Sonosuke Kadonaga, Masayuki Oku and Osamu Shinobe 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 Masayuki Oku, 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 Mr. Osamu Shinobe, a nominee for Outside Director, is elected and assumes office as an Outside Director, the Company and Mr. Osamu Shinobe 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.**

In December 2012, Panasonic Corporation, where Mr. Masayuki Oku, a nominee for Outside Director, has been serving as an Outside Director since June 2008, received an order from the European Commission to pay fines for Panasonic Corporation's violation of antitrust laws conducted in relation to its cathode-ray tube (CRT) business. Although Panasonic Corporation challenged the case in court, the European Court of Justice dismissed its petition with prejudice in July 2016, whereby the fines were finalized. Furthermore, in December 2016, Panasonic Corporation also paid fines to the European Commission in order to obtain a settlement for its violation of antitrust laws conducted in relation to its rechargeable battery business. However, at the time Panasonic Corporation engaged in such violations, Mr. Masayuki Oku had not yet assumed office as its Outside Director. Moreover, Panasonic Corporation entered into an agreement with the United States Department of Justice in July 2013,and the Canadian Competition Bureau in February 2014, respectively, for Panasonic Corporation to pay fines with respect to its violation of antitrust laws conducted in relation to its automotive parts business. Mr. Masayuki Oku was unaware of such violations until these relevant facts were revealed, but he had been executing his day-to-day duties through the Board of Directors, etc., from the perspective of ensuring compliance with laws and regulations, striving to avoid any execution of business in conflict with applicable laws and regulations. Since the aforementioned violation was revealed, Mr. Masayuki Oku has verified the content of Panasonic Corporation's efforts to avoid the recurrence thereof.

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

(For Reference)
[Policy on Nomination of Members of the Board and Audit & Supervisory Board Member Candidates]
The Members of the Board and Audit & Supervisory Board Members who attend the meeting of the Board of Directors 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 that 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 Members of the Board 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 a high level of expertise and insight from their experience as lawyers, certified public accountant, academic or other profession, and their legal qualification in terms of being outside the Company and their 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 women, non-Japanese and others contribute to the promotion of business, global expansion and proper supervision and auditing, and promotes the appointment of such diverse personnel as Members of the Board of Directors, Audit & Supervisory Board Members and Executive Officers.

[Procedures for the Nomination of Members of the Board and Audit & Supervisory Board Member Candidates]

To objectively confirm that all Members of the Board candidates, including candidates for the Member of the Board who will become President and Chief Executive Officer, conform with the above policy and stance, the Company has a Committee for the Examination of the Nominees for the Members of the Board of Directors, composed exclusively of all Independent Directors and Audit & Supervisory Board Members, etc. This committee also deliberates as necessary on the above nomination policies and other related matters.

With regard to nominees for Audit & Supervisory Board Members, the Audit & Supervisory Board, which includes independent Outside Audit & Supervisory Board Members as its members, examines 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 Annual General Meeting of Shareholders.

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

Of the five (5) incumbent Audit & Supervisory Board Members, the term of office of Ms. Yumiko Waseda will expire at the conclusion of the AGM. Accordingly, the Company proposes that one (1) Audit & Supervisory Board Member be elected as an Outside 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.

New Nominee | Outside Audit & Supervisory Board Member | Independent Audit & Supervisory Board Member

1. Nobuhiro Oka (Date of Birth: April 5, 1963)



Number of the Company shares owned: **0 shares**

[Career summary]

April 1993	Registered as an attorney-at-law, Joined Kajitani Law Offices
April 1997	Representative Partner, Takekawa and Oka Law Office
October 2004	Representative Partner, Takekawa, Oka and Yoshino Law Office
April 2012	Professor, Keio University Law School (current)
October 2013	Representative, Oka-Partners Law Office (current)
March 2014	Outside Audit & Supervisory Board Member, Kao Customer Marketing Co., Ltd.
January 2016	Audit & Supervisory Board Member, Kao Group Customer Marketing Co., Ltd. (current)

[Other material position(s) held]

Attorney-at-law; Audit & Supervisory Board Member, Kao Group Customer Marketing Co., Ltd.; Outside Director, Yamatane Corporation; and Professor, Keio University Law School

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

Mr. Oka, in his career as an attorney, has obtained considerable professional expertise and experience in relation to corporate legal affairs and corporate governance. Having served as an audit & supervisory board member of principal subsidiaries of the Company since 2014, Mr. Oka also has expertise in relation to the business of the Kao Group. The Company believes that Mr. Oka will make full use of his expertise and experience in the auditing of the entire Kao Group, and for this reason appoints Mr. Oka as a nominee for Outside Audit & Supervisory Board Member.

[Matters regarding independency]

If Mr. Oka is elected and assumes office as an Audit & Supervisory Board Member, the Company will report to the Tokyo Stock Exchange, Inc. that Mr. Oka is an Independent Audit & Supervisory Board Member as set forth in the Regulations of the Tokyo Stock Exchange, Inc.

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

There are no special interests between the Company and the nominees for Audit & Supervisory Board Members.

[Matters regarding the nominee(s) for Outside Audit & Supervisory Board Member]

Mr. Oka is a nominee for Outside Audit & Supervisory Board Member.

[Summary of liability limitation agreement(s)]

If Mr. Oka is elected and assume office as an Audit & Supervisory Board Member, the Company will enter into an agreement with him, 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.

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

- End -

BUSINESS REPORT
(From January 1, 2017 to December 31, 2017)

I. Current Condition of the Kao Group

1. Business Progress and Results

Please see the attached *Business Results* pages 1 through 7 for the summary.

2. Status of Capital Investments

The aggregate amount of capital investments, etc., for this fiscal year was 79.3 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. In the Beauty Care Business, the construction of a new production building was completed in Taiwan in order to strengthen production capacity. 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.

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 the serious company-wide risks among its main risks as corporate risks and work to prevent damage to the corporate value of the Group as a whole by further enhancing its management system.
- Regarding brightening products containing the ingredient Rhododenol sold by Kanebo Cosmetics, for which a voluntary recall was announced on July 4, 2013, Kanebo Cosmetics has been responding earnestly with support for the recovery and compensation of people who have experienced vitiligo-like symptoms. In addition, the entire Kao Group is making efforts with a view of the tasks before it as working to prevent recurrence while striving to ensure greater safety and reliability.
- During fiscal 2017, a portion of cosmetics production at the Company's Odawara Plant near Tokyo, Japan was found to be non-compliant with the Fire Service Act. In addition to suspending that portion of production and improving the production system to comply with the Fire Service Act, the Company inspected the status of compliance with said Act at each of its locations and confirmed that they are operating lawfully. The Company will strengthen its management system to prevent a recurrence and promote thorough compliance with laws and regulations.

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.

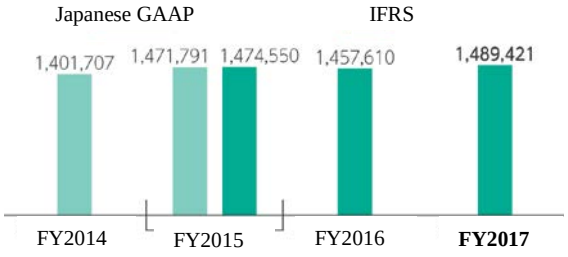
5. **Transitions of Assets and Profits and Losses** (Million yen)

	Japanese GAAP		IFRS		
	FY 2014	**FY 2015**		**FY 2016**	**FY 2017**
Net Sales	1,401,707	1,471,791	1,474,550	1,457,610	**1,489,421**
Operating income	133,270	164,380	167,318	185,571	**204,791**
Income before income taxes	126,761	161,579	166,038	183,430	**204,290**
Net income	80,422	99,480	105,952	127,889	**148,607**
Net income, attributable to owners of the parent	79,590	98,862	105,196	126,551	**147,010**
Total assets	1,198,233	1,281,869	1,311,064	1,338,309	**1,427,375**
Total equity	672,393	687,133	691,987	691,463	**819,364**
Basic earnings per share (yen)	156.46	197.19	209.82	253.43	**298.30**

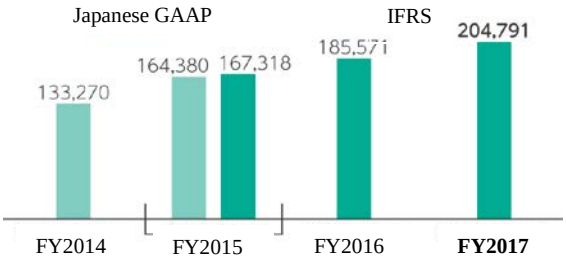
Notes:

1. The Kao Group has voluntarily adopted IFRS from the FY 2016.
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.
3. "Transitions of Assets and Profits and Losses" are indicated using the terms based on the IFRS. The terms based on the IFRS respectively correspond to the following terms under the Japanese GAAP: "Income before income taxes" corresponds to "Income before income taxes and minority interests"; "Net income" corresponds to "Income before minority interests"; "Net income, attributable to owners of the parent" corresponds to "Net income"; "Total equity" corresponds to "Total net assets"; and "Basic earnings per share" corresponds to "Net income per share".

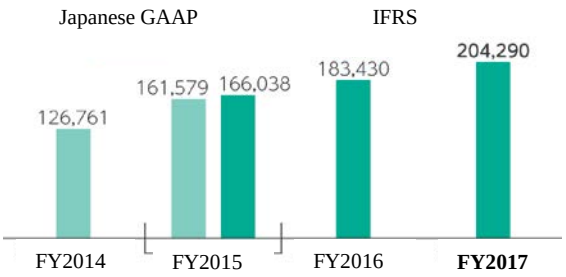
Net Sales (million yen)



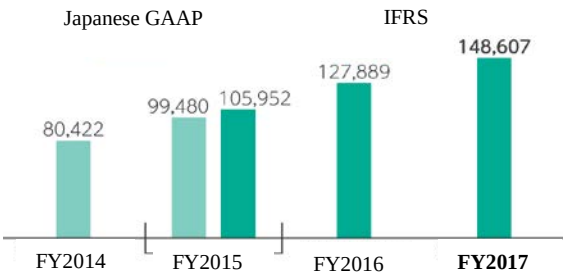
Operating Income (million yen)



Income before Income Taxes (million yen)



Net Income (million yen)



6. Main Businesses of the Kao Group (as of December 31, 2017)

Business Category		Main Products
Consumer Products Business	**Beauty Care Business**	[Cosmetics] counseling cosmetics, self-selection cosmetics
		[Skin care products] soaps, facial cleansers, body cleansers
		[Hair care products] shampoos, conditioners, hair styling agents, hair coloring agents
	Human Health Care Business	[Food and beverage products] beverages
		[Sanitary products] sanitary napkins, baby diapers
		[Personal health products] bath additives, oral care products, men's products, thermo products
	Fabric & 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, 2017)

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
Kao Customer Marketing Co., Ltd.	JPY 1,830 million	100%	Sales of consumer products
Kanebo Cosmetics Inc.	JPY 7,500 million	100%	Manufacture and sales of cosmetics products
Kanebo Cosmetics Sales Inc.	JPY 100 million	100%	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 721,000 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 73,835 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 skin care and hair care products, and sales of hair care products for beauty salons
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 skin care products, and manufacture and sales of 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.*

8. Main Offices, Plants, Laboratories, and Subsidiaries (as of December 31, 2017)

(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) Domestic

Company	Location
Kao Group Customer Marketing Co., Ltd.	Chuo-ku, Tokyo (Head Office) and 8 regional headquarter offices
Kao Customer Marketing Co., Ltd.	Chuo-ku, Tokyo (Head Office) and 8 regional headquarter offices
Kanebo Cosmetics Inc.	Chuo-ku, Tokyo (Head Office)
Kanebo Cosmetics Sales Co., Ltd.	Chuo-ku, Tokyo (Head Office) and 8 regional headquarter offices
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) Overseas

Company	Location
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
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 Kao Group (as of December 31, 2017)

Business Category	Number of Employees
Consumer Products Business	28,233
Beauty Care Business	17,642
Human Health Care Business	5,689
Fabric & Home Care Business	4,902
Chemical Business	3,663
Others	1,664
Total	33,560

Notes:

1. The total number of employees has increased by 365 from the previous fiscal year.

2. Of the above, the number of the Company's employees is 7,332.

10. Main Lenders (as of December 31, 2017)

No relevant information.

II. Shares of the Company (as of December 31, 2017)

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

2. Number of issued shares 495,000,000 shares

Notes:
1. In March 2017, the Company retired 9,000,000 treasury shares.
2. The number of issued shares includes 1,411,769 treasury shares.

3. Number of shareholders 52,986

4. Major Shareholders (Top 10)

Shareholders	Investment in Kao by Shareholders	
	Number of shares (thousand shares)	Ratio of shareholding (percentage)
The Master Trust Bank of Japan, Ltd. (Trust Account)	38,370	7.77
Japan Trustee Services Bank, Ltd. (Trust Account)	29,564	5.99
JP Morgan Chase Bank 380055	16,993	3.44
State Street Bank and Trust Company 505223	14,738	2.99
Japan Trustee Services Bank, Ltd. (Trust Account 5)	9,377	1.90
State Street Bank West Client – Treaty 505234	8,913	1.81
Tokio Marine & Nichido Fire Insurance Co., Ltd.	7,598	1.54
Japan Trustee Services Bank, Ltd. (Trust Account 7)	7,538	1.53
Japan Trustee Services Bank, Ltd. (Trust Account 1)	6,965	1.41
Japan Trustee Services Bank, Ltd. (Trust Account 2)	6,873	1.39

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*), as the two types of stock options described below, to the members of the Board of Directors (the "Board") , Executive Officers, and employees of the Company and its affiliated companies.

・Share Remuneration Type Stock Options

Share remuneration type stock options are allotted as remuneration, to the Members of the Board of the Company as well as to the Executive Officers of the Company who are not members of the Board 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.

In the following list, the 10th-A, 11th, 12th, 13th, 14th and 15th Stock Acquisition Rights were issued as share remuneration type stock options.

Please note that the Company has not allotted any share remuneration type stock options since FY2017, 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.

・Traditional Type Stock Options

Traditional type stock options are allotted as an incentive to the employees of the Company as well as to the Members of the Board and employees of the Company's affiliated companies. There is no amount to be paid-in by an allottee at the time of the allotment of the stock acquisition rights, and the exercise price is decided based on the Company's stock price as of the date of the allotment. Traditional type stock options are allotted for the purpose of further increasing the Company's corporate value through promoting the shared interests of the allottees and the Company's shareholders.

In the following list, the 10th-B Stock Acquisition Rights were issued as traditional type stock options.

From FY 2012, the Company does not allot traditional type stock options in accordance with the revision of the Kao Group's remuneration and incentive plans for managers.

1. Stock Acquisition Rights (as of December 31, 2017)

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
10th - A Stock Acquisition Rights (August 25, 2011)	19	19,000 shares of the Company's common stock	1,718,000 yen per stock acquisition right	1 yen per share	July 1, 2013 - June 29, 2018
10th - B Stock Acquisition Rights (August 25, 2011)	135	135,000 shares of the Company's common stock	*Gratis*	2,254 yen per share	September 1, 2013 - August 31, 2018
11th Stock Acquisition Rights (August 23, 2012)	27	27,000 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

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
12th Stock Acquisition Rights (May 23, 2013)	31	31,000 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
13th Stock Acquisition Rights (May 22, 2014)	31	31,000 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
14th Stock Acquisition Rights (May 21, 2015)	30	30,000 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
15th Stock Acquisition Rights (May 26, 2016)	40	40,000 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 Members of the Board and Audit & Supervisory Board Members of the Company (as of December 31, 2017)

(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
12th Stock Acquisition Rights	1	3	3,000
13th Stock Acquisition Rights	1	4	4,000
14th Stock Acquisition Rights	2	5	5,000
15th Stock Acquisition Rights	4	12	12,000

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
11th Stock Acquisition Rights	1	2	2,000
12th Stock Acquisition Rights	1	1	1,000
13th Stock Acquisition Rights	2	3	3,000
14th 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
11th Stock Acquisition Rights	1	2	2,000
12th Stock Acquisition Rights	1	3	3,000
13th 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 are not Members of the Board.

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

No relevant information

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

1. Status of Members of the Board and Audit & Supervisory Board Members (as of December 31, 2017)

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; and Responsible for Kao Professional Services Co., Ltd.
Representative Director, Senior Managing Executive Officer	Toshiaki Takeuchi	Representative Director, President, Kao Group Customer Marketing Co., Ltd.; and Representative Director, President, Kao Customer Marketing Co., Ltd.
Director, Managing Executive Officer	Yoshihiro Hasebe	Senior Vice President, Research and Development, Global
Member of the Board	Sonosuke Kadonaga	President, Intrinsics; Member of the Board, Business Breakthrough Inc.; Outside Director, Sumitomo Mitsui Banking Corporation; and Vice President, Business Breakthrough University
Member of the Board	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.; and Non-executive Director, The Bank of East Asia, Limited
Member of the Board	Yukio Nagira	Advisor, Nitto Denko Corporation
Full-time Audit & Supervisory Board Member	Toshiharu Numata	
Full-time Audit & Supervisory Board Member	Katsuya Fujii	
Audit & Supervisory Board Member	Yumiko Waseda	Attorney-at-Law; Outside Audit & Supervisory Board Member, Asahi Group Holdings, Ltd.
Audit & Supervisory Board Member	Toraki Inoue	Certified Public Accountant; Representative Director, President, Accounting Advisory Co., Ltd.; and Outside Audit & Supervisory Board Member, Aozora Bank, Ltd.
Audit & Supervisory Board Member	Hideki Amano	Certified Public Accountant; Outside Director, TOPPAN FORMS CO., LTD.

Notes:

1. *Messrs. Sonosuke Kadonaga, Masayuki Oku and Yukio Nagira are Outside Directors.*
2. *Ms. Yumiko Waseda, Messrs. Toraki Inoue and Hideki Amano 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, Yukio Nagira and Ms. Yumiko Waseda, Messrs. Toraki Inoue and Hideki Amano 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 Members of the Board and Audit & Supervisory Board Members during this fiscal year:*

(1) Mr. Yukio Nagira was elected, and took office, as a Member of the Board and Messers. Katsuya Fujii and Hideki Amano were elected, and took office, as an Audit & Supervisory Board Member, respectively, at the 111th Annual General Meeting of Shareholders held on March 21, 2017.

(2) Messers. Toru Nagashima, a Member of the Board, Shoji Kobayashi and Norio Igarashi, Audit & Supervisory Board Members retired from their offices upon the expiration of their term at the close of the 111th Annual General Meeting of Shareholders held on March 21, 2017.

7. Mr. Sonosuke Kadonaga has served as Outside Director, Sumitomo Mitsui Banking Corporation since June 29, 2017.

8. Mr. Masayuki Oku served as Chairman of the Board, Sumitomo Mitsui Financial Group, Inc. from January 1, 2017 to March 31, 2017 and Director from April 1, 2017 to June 29 2017.

9. Mr. Yukio Nagira served as Representative Director, Chairman, Nitto Denko Corporation from January 1, 2017 to June 16, 2017 and Advisor, Nitto Denko Corporation from June 26, 2017.

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 Member of the Board (excluding Executive Director, etc.) and Audit & Supervisory Board Member to the effect that the liability of each Member of the Board (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 Members of the Board and Audit & Supervisory Board Members

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

The Company's compensation system for Members of the Board, 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 Members of the Board, 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 Member of the Board 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 Board of Directors and 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 (hereinafter, the target period), the period covered by the current mid-term plan, Company shares, etc. are delivered to the Members of the Board excluding Outside Directors and Executive Officers in accordance with the degree of achievement of targets adopted under the mid-term plan, etc. 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 Members of the Board excluding 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 Members of the Board and Executive Officers are examined by the Compensation Advisory Committee and determined by the Board of Directors. The Compensation Advisory Committee comprises the chairman of the Board of Directors as well as all of the Company's representative directors. In addition, the Committee includes all of the Company's Outside Directors and 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 Members of the Board, 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 Members of the Board or Audit & Supervisory Board Members.

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

Category	**Number of Directors/Audit & Supervisory Board Members**	**Aggregate Amount of Remuneration, etc.**
Members of the Board (including, in parentheses, Outside Directors)	8 (4)	501 million yen (60 million yen)
Audit & Supervisory Board Members(including, in parentheses, Outside Audit & Supervisory Board Members)	7 (4)	78 million yen (30 million yen)
Total (including, in parentheses, Outside Directors and Outside Audit & Supervisory Board Members)	15 (8)	579 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 111th Annual General Meeting of Shareholders held on March 21, 2017.*
2. *The aggregate amount of remuneration, etc., paid to Members of the Board includes the following amounts:*
   (1) The amount to be paid as the bonuses to Members of the Board
   145 million yen to 4 Members of the Board
   (2) The amount accounted for as performance-based share incentive plan.
   105 million yen to 4 Members of the Board
3. *Maximum aggregate amounts of remuneration, etc., are as follows:*
   (1) Maximum aggregate amounts of remuneration, etc., to be paid to Members of the Board
   (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 Members of the Board 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 members of the Board of Directors (excluding Outside Directors) and its Executive Officers, which shall be applicable separately from the maximum aggregate amount of

remuneration, etc., for the members of the Board. 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, depending on factors such as the level of achievement of performance targets in the mid-term plan.

(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)

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
Member of the Board	Sonosuke Kadonaga	Intrinsics	No special relation
		Business Breakthrough Inc.	No special relation
		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
Member of the Board	Masayuki Oku	Panasonic Corporation	The Company outsources services and sells its products to Panasonic Corporation.
		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
Member of the Board	Yukio Nagira	Nitto Denko Corporation	The Company purchases some products from Nitto Denko Corporation.
Audit & Supervisory Board Member	Yumiko Waseda	Asahi Group Holdings, Ltd.	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.

Note:

There is no special relation between the Company and Sumitomo Mitsui Financial Group, Inc. which Mr. Masayuki Oku served as Member of the Board until June 29, 2017.

(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
Member of the Board	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.
Member of the Board	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.

Title	Name	Attendance at Meetings of the Board of Directors	Attendance at Meetings of the Audit & Supervisory Board	Comments at Meetings
Member of the Board	Yukio Nagira	12 out of 12 meetings	—	At meetings of the Board of Directors, he made comments principally based on his considerable experience as a manager of a manufacturing company
Audit & Supervisory Board Member	Yumiko Waseda	15 out of 15 meetings	9 out of 9 meetings	At meetings of the Board of Directors and meetings of the Audit & Supervisory Board, she made comments principally based on her professional opinion as an attorney-at-law.
Audit & Supervisory Board Member	Toraki Inoue	15 out of 15 meetings	9 out of 9 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	12 out of 12 meetings	7 out of 7 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.

Note:

During this fiscal year, 15 meetings of the Board of Directors and 9 meetings of Audit & Supervisory Board were held. After Mr. Yukio Nagira took offices as a Board of Director and Hideki Amano as an Audit & Supervisory Board Member, 12 meetings of the Board of Directors and 7 meetings of the Audit & Supervisory Board were held.

(For Reference) Status of Executive Officers (as of January 1, 2018)

Title	Name	Duties at the Company and Other Material Position(s) Held
President and Chief Executive Officer	Michitaka Sawada	
Senior Managing Executive Officer	Katsuhiko Yoshida	President, Consumer Products, Global; Senior Vice President, Marketing Research and Development, Global; and 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; and Responsible for Corporate Functions, Global
Managing Executive Officer	Masumi Natsusaka	Responsible for Special Missions, Global
Managing Executive Officer	Motohiro Morimura	Senior Vice President, Supply Chain Management, Global; and Responsible for TCR Promotion
Managing Executive Officer	Yasushi Aoki	Senior Vice President, Human Capital Development, Global; Representative Director, Chairman of the Board, Kanebo Cosmetics Inc.; Senior Executive Officer, Senior Vice President, Human Resources and Administration, Kanebo Cosmetics Inc.; and President, Kao Group Corporate Pension Fund
Managing Executive Officer	Hideko Aoki	Senior Vice President, Product Quality Management, Global
Managing Executive Officer	Kozo Saito	President, Consumer Products - International Business Management, Global; and Chairman of the Board, Kao USA Inc.
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; and Responsible for Fabric and Home Care Business
Managing Executive Officer	Shigeru Ueyama	Senior Vice President, Corporate Strategy, Global
Executive Officer	Tadaaki Sugiyama	Senior Vice President, Legal and Compliance, Global
Executive Officer	Masakazu Negoro	President, Chemical Business, Global; Chairman of the Board, Fatty Chemical (Malaysia) Sdn, Bhd.; Chairman of the Board, Pilipinas Kao, Inc.; and Presidente, Kao Chemicals Europe, S.L.
Executive Officer	Hideki Tanaka	Senior Vice President, Procurement, Global
Executive Officer	Takehiko Shinto	Representative Director, Executive Vice President, Kao Group Customer Marketing Co., Ltd.
Executive Officer	Jun Shida	Vice President, Research and Development - Development Research - Health Care/ Household, Global
Executive Officer	Yasushi Wada	Vice President, Supply Chain Management - Demand and Supply Planning Center, Global
Executive Officer	Hitoshi Hosokawa	Vice President, Research and Development - Development Research - Skin Care/ Hair Care/ Cosmetics, Global
Executive Officer	Hiroyuki Yamashita	Vice President, Supply Chain Management - Technology Development Center, Global
Executive Officer	Minoru Nakanishi	Regional Executive Officer, President, Consumer Products, Greater China; 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.; and Chairman of the Board, Kanebo Cosmetics (China) Co., Ltd.

Title	Name	Duties at the Company and Other Material Position(s) Held
Executive Officer	Akemi Ishiwata	Senior Vice President, Corporate Communications, Global
Executive Officer	Satoru Tanaka	Senior Vice President, Media Planning and Management, Global
Executive Officer	Kenichi Yamauchi	Senior Vice President, Accounting and Finance, Global; and President, Kao Americas Inc.
Executive Officer	Osamu Tabata	Vice President, Supply Chain Management - Demand and Supply Planning Center - Chemical, Global; Vice President, Supply Chain Management - Technology Development Center - Project Management, Global; and Vice President, Supply Chain Management - Technology Development Center - Production Technology, Global
Executive Officer	Hideaki Kubo	Vice President, Research and Development - Core Technology, Global
Executive Officer	Yoshihiro Murakami	Responsible for Cosmetics Business; Representative Director, President, Kanebo Cosmetics Inc.; and Chairman of the Board, Molton Brown Limited
Executive Officer	Ryoichi Harada	Senior Vice President, Enterprise Information Solutions, 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:
92 million yen
(2) Aggregate amount of monetary and other proprietary benefits to be paid by the Company and its subsidiaries:
165 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 those pertaining to the procedures required to be carried out in preparing the consolidated financial results.*

4. *Of the Company's main subsidiaries listed on page 4 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 Members of the Board and employees of the Company and its subsidiaries conforms to laws and the Articles of Incorporation

Members of the Board, 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 govern compliance with laws, the Articles of Incorporation, internal rules and social ethics. The Compliance Committee, chaired by the Member of the Board 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 Members of the Board's 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 Members of the Board's execution of their duties is properly retained and managed according to the document retention and management policies and other related policies. The Members of the Board, 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 member of the Board of Directors 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 Members of the Board 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, Members of the Board 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 Members of the Board of the Company's subsidiaries

The Company applies the Group Management rules 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, Members of the Board 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 Members of the Board 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 Members of the Board 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 Members of the Board, Executive Officers and employees of the Company and Members of the Board, Audit & Supervisory Board Members 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, members of the Board, Executive Officers and employees of the Company and members of the Board, Audit & Supervisory Board Members 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. Audit & Supervisory Board Members of subsidiaries share audit results with Audit & Supervisory Board Members of the Company at the meeting of Audit & Supervisory Board Members of Domestic Kao Group 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

Members of the Board 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

To conduct efficient and effective audits, Audit & Supervisory Board Members maintain a close cooperative relationship, which includes the exchange of information, with the Accounting Auditor and the internal audit functional departments such as Department of Internal Audit, as well as Audit & Supervisory Board Members and internal audit departments of subsidiaries. In addition, Audit & Supervisory Board Members may 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 Representative Director, efforts have been continuously made in this area, involving both domestic and overseas Kao Group companies, such as by setting up related regulations, including Kao's Business Conduct Guidelines (BCG), which are conduct guidelines for implementing the Kao Way, setting up and operating the Compliance Hotline, carrying out educational and awareness activities (e-learning, verification tests, training programs (e.g. lectures and discussions, etc.).

During this fiscal year, in order to ensure the proper practice of the Kao Group's commitment to Integrity, the Company revised the "BCG Case Book," a material designed to communicate compliance issues to the members of the Kao Group companies in an easy-to-understand way, based on various case studies. The case studies were revised and 26 cases which were commonly applicable globally were selected, and illustrations were added to improve the readability of the case book. The new BCG Case Book was translated into a wide variety of languages and copies in 19 languages were distributed throughout the Kao Group and in the respective areas in Japan and overseas. During the "Compliance Month" which took place in October 2017, posters containing messages from the Chairman of the Compliance Committee were posted, and BCG verification tests, etc. were performed. In addition, members of the Administration Office of the Compliance Committee acted as lecturers in the managerial training sessions held at several domestic and overseas companies, and the participating managers were requested to thoroughly inform their members of the contents thereof, in order to ensure further familiarity with compliance issues. Moreover, "activities of obtaining employee opinions" were conducted immediately after the training sessions to investigate the compliance awareness/status among overseas employees, and to check the levels of understanding concerning, and familiarity with, compliance issues, in order to improve future compliance activities.

(Efforts Concerning Risk and Crisis Management)

As for the principal activities this fiscal year, efforts were made to strengthen the practical abilities in responding to corporate risks, namely, material risks in management, 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 involved in management strategies. Furthermore, as a means for strengthening the abilities of overseas subsidiaries and affiliates to respond to risks, systems have been developed in order for the material risks of each company to be selected and for the management of each company to promote the PDCA (plan-do-check-act) cycle of countermeasures against such risks. With regard to strengthening the ability to respond to risks upon the occurrence thereof, guidelines and action plans have been formulated, revised and thoroughly informed internally, and systems for the operation thereof have been developed. In addition, efforts have been made to strengthen the ability to respond to crises, by way of improving the information collection systems and information analysis abilities, and performing training for responding to crises upon the occurrence thereof.

(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.

In addition, 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, Representative Directors and 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, performed investigations concerning domestic and overseas subsidiaries, held meetings for exchanging opinions with Representative Directors of the Company and its material subsidiaries, and held meetings by Audit & Supervisory Board Members of Domestic Group Companies (which are held semiannually and intended principally for the exchange of opinions between the Audit & Supervisory Board members of the Company and its subsidiaries).
In relation to the Accounting Auditor, 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 have been working closely with the Department of Internal Audit and other internal auditing sections, such as by exchanging information and opinions on a regular basis and whenever necessary, and have thereby been working to improve the effectiveness and efficiency of audits in general.

(Status of Revisions to Basic Policy Regarding the Internal Control Systems)
This fiscal year, no revisions have been made to applicable laws and regulations which would necessitate changes to the Basic Policy Regarding the Internal Control Systems (hereinafter, the “Policies”). Furthermore, as a result of interviews with subordinate committees of the Internal Control Committee, relevant departments, Audit & Supervisory Board Members and others, it has been confirmed that internal control systems are in fact being operated in accordance with the Policies. For this reason, it was resolved, at a meeting of the Board of Directors held in December 2016, that no changes were required to be made to the Policies.

- End -

Consolidated Financial Results for the Fiscal Year Ended December 31, 2017 [IFRS]

February 1, 2018

Company name: Kao Corporation — Tokyo Stock Exchange in Japan
Stock code: 4452 (URL: http://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 26, 2018
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, 2017 (from January 1, 2017 to December 31, 2017)

(1) Consolidated operating results

(Percentages indicate year-on-year changes)

	Fiscal year ended December 31, 2017	%	Fiscal year ended December 31, 2016	%
Net sales	1,489,421	2.2	1,457,610	(1.1)
Operating income	204,791	10.4	185,571	10.9
Income before income taxes	204,290	11.4	183,430	10.5
Net income	148,607	16.2	127,889	20.7
Net income attributable to owners of the parent	147,010	16.2	126,551	20.3
Comprehensive income	179,890	91.1	94,129	2.1

Note: 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 (Reference: Page 25, “Changes in Accounting Policies” in "Notes to Consolidated Financial Statements"). Net sales growth adjusted for the impact of these changes and excluding the effect of currency translation was 5.6%.

	Fiscal year ended December 31, 2017	Fiscal year ended December 31, 2016
Basic earnings per share (Yen)	298.30	253.43
Diluted earnings per share (Yen)	298.09	253.18
Ratio of net income to equity attributable to owners of the parent	19.8%	18.6%
Ratio of income before income taxes to total assets	14.8%	13.8%
Ratio of operating income to net sales	13.7%	12.7%
(Reference) Share of profit/loss in investments accounted for using the equity method	2,007	1,894

(2) Consolidated financial position

	December 31, 2017	December 31, 2016
Total assets	1,427,375	1,338,309
Total equity	819,364	691,463
Equity attributable to owners of the parent	806,381	679,842
Ratio of equity attributable to owners of the parent to total assets	56.5%	50.8%
Equity attributable to owners of the parent per share (Yen)	1,636.41	1,379.37

(3) Consolidated cash flows

	Fiscal year ended December 31, 2017	Fiscal year ended December 31, 2016
Net cash flows from operating activities	185,845	184,307
Net cash flows from investing activities	(96,146)	(88,639)
Net cash flows from financing activities	(53,244)	(95,043)
Cash and cash equivalents at the end of the year	343,076	303,026

2. Dividends

	Year ending December 31, 2018 (Forecast)	Year ended December 31, 2017	Year ended December 31, 2016
Annual cash dividends per share (Yen)			
1st quarter end	-	-	-
2nd quarter end	60.00	54.00	46.00
3rd quarter end	-	-	-
Fiscal year end	60.00	56.00	48.00
Total	120.00	110.00	94.00
Total dividend payment amount		54,293	46,787
Payout ratio (consolidated)	38.9%	36.9%	37.1%
Ratio of dividends to equity attributable to owners of the parent (consolidated)		7.3%	6.9%

3. Forecast of consolidated operating results for the fiscal year ending December 31, 2018 (from January 1, 2018 to December 31, 2018)

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

	Year ending December 31, 2018	%
Net sales	1,540,000	3.4
Operating income	215,000	5.0
Income before income taxes	215,000	5.2
Net income attributable to owners of the parent	152,000	3.4
Basic earnings per share (Yen)	308.46	-

4. Others

(1) Changes in significant subsidiaries during the year (changes in specified subsidiaries resulting in change in scope of consolidation): None

(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): Yes
For details, please refer to page 25, "Changes in Accounting Policies" in "Notes to Consolidated Financial Statements"

3) Changes in accounting estimates: None

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

	December 31, 2017	December 31, 2016
Number of issued shares including treasury shares	495,000,000	504,000,000
Number of treasury shares	2,225,561	11,137,654

	Fiscal year ended December 31, 2017	Fiscal year ended December 31, 2016
Weighted average number of shares outstanding during the year	492,832,099	499,355,189

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, 2017

In the fiscal year ended December 31, 2017 (fiscal 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 (Reference: Page 25, "Changes in Accounting Policies" in "Notes to Consolidated Financial Statements"). To facilitate comparison, growth adjusted for the impact of these changes and excluding the effect of currency translation is presented as "like-for-like" below.

(Billions of yen, except per share amounts)

	2017	2016	Growth
Net sales	1,489.4	1,457.6	2.2% Like-for-like: 5.6%
Operating income	204.8	185.6	10.4%
Operating margin (%)	13.7	12.7	-
Income before income taxes	204.3	183.4	11.4%
Net income	148.6	127.9	16.2%
Net income attributable to owners of the parent	147.0	126.6	16.2%
Basic earnings per share (Yen)	298.30	253.43	17.7%

1) Trends in Overall Results for the Fiscal Year Ended December 31, 2017

The Kao Group got off to a smooth start in fiscal 2017, the first fiscal year of the Kao Group Mid-term Plan "K20" covering the four years from 2017 to 2020. Consolidated operating results met the forecast announced on October 30, 2017, and the Kao Group was able to increase operating income and net income for the eighth consecutive fiscal year and achieve record-high operating income for the fifth consecutive fiscal year.

From January to December 2017, the markets for household and personal care products and cosmetics in Japan, which are key markets for the Kao Group, were in solid condition on a value basis according to retail sales and consumer purchasing survey data. In particular, the e-commerce channel grew substantially and inbound demand (demand from visitors to Japan) for cosmetics increased significantly, mainly in the department store channel. Average unit prices for household and personal care products increased by one point.

Under these circumstances, the Kao Group worked to launch and nurture products with high added value in response to changes in consumer needs based on its concept of "*Yoki-Monozukuri,*"* which emphasizes research and development geared to consumers and customers. The Kao Group also conducted cost reduction activities and other measures.

* *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."*

Net sales increased 2.2% compared with the previous fiscal year to 1,489.4 billion yen. On a like-for-like basis, net sales increased 5.6%. In the Consumer Products Business, sales increased in Japan due to factors including market growth, launches of new and improved products, and further enhancement of sales promotion activities. Outside Japan, sales in Asia and the Americas increased. In the Chemical Business, sales increased as the Kao Group worked to adjust selling prices in response to increased costs for natural fats and oils.

As for profits, although costs for natural fats and oils and other raw materials increased, due to the effect of increased sales in the Consumer Products Business in Japan and Asia, among other factors, operating income was 204.8 billion yen, an increase of 19.2 billion yen compared with the previous fiscal year, the operating margin was 13.7% and income before income taxes was 204.3 billion yen, an increase of 20.9 billion yen. Net income was 148.6 billion yen, an increase of 20.7 billion yen.

Basic earnings per share were 298.30 yen, an increase of 44.87 yen, or 17.7%, from 253.43 yen in the previous fiscal year.

Economic value added (EVA*), which the Kao Group uses as a management indicator, increased 17.0 billion yen compared with the previous fiscal year to 90.4 billion yen, due to a substantial increase in net operating profit after tax (NOPAT).

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

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	113.71 (115.31)	111.13 (108.05)	110.97 (102.38)	112.92 (109.41)
Yen/Euro	121.13 (127.15)	122.28 (122.05)	130.35 (114.24)	132.95 (117.88)
Yen/Chinese yuan	16.50 (17.63)	16.19 (16.55)	16.63 (15.36)	17.07 (16.01)

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

Consolidated Results by Segment

(Billions of yen)

	Net sales				Operating income			Operating margin (%)	
Fiscal year ended December 31	2017	2016	Growth %	Like-for-like%	2017	2016	Change	2017	2016
Beauty Care Business	586.0	601.6	(2.6)	2.1	57.6	51.1	6.5	9.8	8.5
Human Health Care Business	294.3	273.1	7.8	13.0	38.7	25.9	12.7	13.1	9.5
Fabric and Home Care Business	335.7	345.2	(2.7)	1.5	76.1	78.1	(2.0)	22.7	22.6
Consumer Products Business	1,216.0	1,219.8	(0.3)	4.4	172.3	155.1	17.2	14.2	12.7
Chemical Business	310.3	273.8	13.3	10.8	30.3	29.7	0.6	9.8	10.8
Total	1,526.3	1,493.6	2.2	5.5	202.6	184.8	17.8	-	-
Elimination and Reconciliation	(36.9)	(36.0)	-	-	2.2	0.8	1.4	-	-
Consolidated	1,489.4	1,457.6	2.2	5.6	204.8	185.6	19.2	13.7	12.7

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Consolidated Net Sales Composition

(Billions of yen)

Fiscal year ended December 31		Japan	Asia	Americas	Europe	Consolidated
Beauty Care Business						
Cosmetics	2017	197.9	22.4	2.8	19.5	242.7
	2016	215.3	18.6	2.6	18.4	255.0
	Growth %	(8.1)	20.6	7.0	6.2	(4.8)
	Like-for-like %	(0.6)	30.2	3.5	5.4	2.1
Skin care/hair care products	2017	195.9	30.8	72.3	44.2	343.3
	2016	198.3	33.1	68.9	46.4	346.7
	Growth %	(1.2)	(6.7)	4.9	(4.6)	(1.0)
	Like-for-like %	3.1	7.9	3.0	(7.9)	2.1
Beauty Care Business	2017	393.8	53.3	75.1	63.8	586.0
	2016	413.7	51.7	71.6	64.8	601.6
	Growth %	(4.8)	3.1	5.0	(1.5)	(2.6)
	Like-for-like %	1.2	15.9	3.1	(4.1)	2.1
Human Health Care Business	2017	197.5	96.7	0.0	-	294.3
	2016	190.8	82.2	0.0	-	273.1
	Growth %	3.5	17.6	-	-	7.8
	Like-for-like %	7.4	25.8	-	-	13.0
Fabric and Home Care Business	2017	294.8	38.8	2.1	-	335.7
	2016	301.1	42.3	1.7	-	345.2
	Growth %	(2.1)	(8.3)	21.2	-	(2.7)
	Like-for-like %	1.6	0.4	17.7	-	1.5
Consumer Products Business	2017	886.2	188.8	77.3	63.8	1,216.0
	2016	905.6	176.2	73.3	64.8	1,219.8
	Growth %	(2.1)	7.1	5.5	(1.5)	(0.3)
	Like-for-like %	2.6	16.8	3.5	(4.1)	4.4
Chemical Business	2017	123.9	69.6	52.6	64.2	310.3
	2016	118.9	58.8	43.5	52.6	273.8
	Growth %	4.2	18.2	21.0	22.1	13.3
	Like-for-like %	4.3	14.0	17.8	16.2	10.8
Elimination of intersegment	2017	(31.8)	(3.4)	(0.1)	(1.6)	(36.9)
	2016	(31.5)	(3.1)	(0.1)	(1.4)	(36.0)
Consolidated	2017	978.2	255.0	129.8	126.4	1,489.4
	2016	993.0	232.0	116.7	116.0	1,457.6
	Growth %	(1.5)	9.9	11.2	9.0	2.2
	Like-for-like %	2.9	16.2	8.8	5.0	5.6

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. To facilitate comparison, sales for the previous fiscal year are restated using the same method. Sales by geographic region are classified based on the location of the sales recognized.

Net sales to foreign customers were 37.0% of net sales compared with 33.8% for the previous fiscal year.

Consumer Products Business

Sales decreased 0.3% compared with the previous fiscal year to 1,216.0 billion yen. On a like-for-like basis, sales increased 4.4%.

In Japan, sales decreased 2.1% to 886.2 billion yen. On a like-for-like basis, sales increased 2.6%. The Kao Group made efforts that included launching numerous high-value-added products and enhancing proposal-oriented sales activities, in addition to strengthening its response to the e-commerce channel.

In Asia, sales increased 7.1% to 188.8 billion yen, with strong growth centered on China, Indonesia and elsewhere. On a like-for-like basis, sales increased 16.8%.

In the Americas, sales increased 5.5% to 77.3 billion yen. On a like-for-like basis, sales increased 3.5%. In Europe, sales decreased 1.5% to 63.8 billion yen. On a like-for-like basis, sales decreased 4.1%.

Operating income increased 17.2 billion yen compared with the previous fiscal year to 172.3 billion yen due to the effect of increased sales in the Human Health Care Business.

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

Beauty Care Business

Sales decreased 2.6% compared with the previous fiscal year to 586.0 billion yen. On a like-for-like basis, sales increased 2.1%.

Sales of cosmetics decreased 4.8% to 242.7 billion yen. On a like-for-like basis, sales increased 2.1%. Outside Japan, the Kao Group was able to substantially expand sales, with strong performance in Asia, mainly in China. However, sales in Japan fell slightly short of the previous fiscal year on a like-for-like basis. In addition to a decline in inbound sales, which grew significantly in 2016, mid-price skin care brands faced an uphill battle. On the other hand, major reforms of the cosmetics business are progressing steadily, and *SOFINA iP* base essence, which also started a rollout in Asia, performed well. The global brand *KANEBO* started a rollout in Europe, in addition to Japan and Asia. Sales of *SUQQU*, a prestige brand available in the department store channel, and *est the lotion*, which was launched in fall 2017, grew strongly.

Sales of skin care and hair care products decreased 1.0% to 343.3 billion yen. On a like-for-like basis, sales increased 2.1%. In skin care products, sales of *Bioré* grew steadily, with good performance in Japan, Asia and the Americas, and a rollout in Europe. In addition, sales of *Curél* derma care products grew strongly in Japan and Asia, due in part to the launch of new products for the aging care market and progress in building a lineup in the cosmetics category. On the other hand, sales of hair care products decreased in Japan due to the impact of the shrinking mass market. In Europe, sales of the *John Frieda* hair care brand decreased, but sales of professional hair care products were nearly on par with the previous fiscal year.

In December 2017, the Kao Group announced the acquisition of Oribe Hair Care, LLC, which owns *Oribe*, a super-premium-price brand in the United States for hair salons.

Operating income increased 6.5 billion yen compared with the previous fiscal year to 57.6 billion yen.

Human Health Care Business

Sales increased 7.8% compared with the previous fiscal year to 294.3 billion yen. On a like-for-like basis, sales increased 13.0%.

Sales of food and beverage products faced an uphill battle as the Kao Group was unable to sufficiently convey the value of the functional drink *Healthya*, which has been approved as a Food for Specified Health Uses (FOSHU), due in part to launches in numerous different fields of FOSHU products and Foods with Functional Claims related to body fat.

Sales of sanitary products increased. Sales of *Merries* baby diapers grew substantially. In Japan, amid fierce competition, sales increased in the domestic market and cross-border e-commerce for the Chinese market also grew substantially. In China, sales grew substantially, due in part to good progress in reforms of the sales structure that have been underway since fiscal 2016 and to increased shipments for e-commerce. In Indonesia, sales of locally manufactured products targeting the middle-class consumer segment grew steadily. Sales of *Laurier* sanitary napkins increased. The brand was hard pressed by fierce competition in Japan, while on the other hand, sales in Asia grew steadily.

Sales of personal health products increased. Sales of oral care products increased with the launch of new products and steady sales of high-performance products. Sales of *MegRhythm Steam Eye Mask* grew steadily as the Kao Group cultivated new users in Japan, despite a decrease in inbound demand compared with the previous fiscal year.

Operating income increased 12.7 billion yen compared with the previous fiscal year to 38.7 billion yen, mainly due to the effect of increased sales in Japan and Asia.

Fabric and Home Care Business

Sales decreased 2.7% compared with the previous fiscal year to 335.7 billion yen. On a like-for-like basis, sales increased 1.5%.

In Japan, sales of fabric care products increased on a like-for-like basis. Sales of laundry detergents were nearly flat in a severe market environment, despite the launch of improved *Attack Neo Antibacterial EX W Power* amid rising consumer awareness of bacteria. Sales of fabric softeners were steady. Growth in sales of home care products was firm due to consumer acceptance of high-value-added products. Sales of *CuCute* dishwashing detergent grew with the market penetration of a spray foam-type product.

In Asia, although price competition in laundry detergents was severe in Thailand and Indonesia, sales were nearly on par with the previous fiscal year.

Operating income decreased 2.0 billion yen compared with the previous fiscal year to 76.1 billion yen due to factors including the effects of increased raw material costs.

Chemical Business

Sales increased 13.3% compared with the previous fiscal year to 310.3 billion yen. On a like-for-like basis, sales increased 10.8%.

Sales of oleo chemicals increased due to factors including efforts to adjust selling prices globally in line with increased raw material costs. Sales of performance chemicals increased, partly due to a market recovery trend in infrastructure-related fields in Japan, in addition to an increase in automobile production volume in Japan, China and elsewhere. Sales of specialty chemicals increased steadily with growth in demand for information material-related, hard disk-related and other products. To expedite the development of water-based pigment inkjet ink that contributes to the mitigation of environmental impact and to accelerate the global expansion of such business, the Kao Group acquired companies in the United States and Europe and made them consolidated subsidiaries as of July 2016 for the company in the United States and as of April 2017 for the company in Europe.

Operating income increased 0.6 billion yen compared with the previous fiscal year to 30.3 billion yen, despite the impact of sharp fluctuations in raw material costs.

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Forecast for the Fiscal Year Ending December 31, 2018 (Billions of yen, except per share amounts)

	2018	2017	Growth
Net sales	1,540.0	1,489.4	3.4%
		Like-for-like*:	3.2%
Operating income	215.0	204.8	5.0%
Operating margin (%)	14.0	13.7	-
Income before income taxes	215.0	204.3	5.2%
Net income attributable to owners of the parent	152.0	147.0	3.4%
Basic earnings per share (Yen)	308.46	298.30	3.4%

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

1) Forecast of Overall Business Results for the Fiscal Year Ending December 31, 2018

In fiscal 2018, which is the second year of the Kao Group Mid-term Plan "K20," the Kao Group must lay the foundation for achieving K20 while steadily addressing outstanding issues. The Kao Group will thoroughly instill "*Integrity*," which is one of the Values of the Kao Way, its corporate philosophy, as it undergoes the reforms of "Transforming Ourselves to Drive Change" set forth in K20 in order to make full use of its assets on an even higher level.

In the Consumer Products Business, the Kao Group will respond with precision to various changes in the business environment as it aims for sustained profitable growth globally with consumer-driven high-value-added products. 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.

As of January 1, 2018, the Kao Group has made major changes in the structure of the Consumer Products Business in Japan. By eliminating the former business unit system to develop a new operating structure, the Kao Group will further speed decision-making and accelerate global growth to achieve profitable growth that includes the revitalization of businesses with issues. Accordingly, from the fiscal year ending December 31, 2018, the former Beauty Care Business will be managed as two separate businesses: the Skin Care and Hair Care Business, which targets the mass market, and the Cosmetics Business. In addition, to improve its comprehensive strengths, expertise, and productivity in its sales structure, the Kao Group combined its sales companies and reorganized its divisional structure into a functional structure, including the establishment of new companies specializing in in-store beauty counseling for cosmetics.

The Kao Group forecasts that net sales will increase 3.4% year on year to 1,540.0 billion yen. On a like-for-like basis, the Kao Group forecasts that net sales will increase 3.2%. 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 costs compared with the previous fiscal year, with prices for natural fats and oils forecast to remain at a relatively stable level and market prices for petrochemicals 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 a 5.0% increase in operating income to 215.0 billion yen, an operating margin of 14.0%, a 5.2% increase in income before income taxes to 215.0 billion yen, and a 3.4% increase in net income attributable to owners of the parent to 152.0 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, 2018

The following sales figures and growth rates for each business segment are based on the new operating structure implemented in fiscal 2018.

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 use its reorganization of the operating structure and sales organization to accelerate the major reforms of cosmetics that are currently under way. It will promote structural reforms in Japan while further strengthening its operations in Asia centered on China, where performance is strong. While working to create high-value-added products that leverage its original technologies, the Kao Group will clearly define its core brands and refine each brand to build a strategic brand portfolio. The Kao Group will also reclassify the *Curél* derma care brand, which had formerly been classified as a skin care and hair care product, into this business in fiscal 2018 for management in a new portfolio to further expand the derma care market.

As a result, the Kao Group forecasts that sales in this business will increase 2.3% year on year on a like-for-like basis to 273.8 billion yen.

In the Skin Care and Hair Care Business, the Kao Group will work to revitalize the market by assessing changes in consumer attitudes toward beauty and lifestyle habits as it adds greater value to products and proposes its own originality and appeal. The Kao Group will promote initiatives including launches and cultivation of distinctive new products tailored to changes in consumer needs and reform of marketing activities and sales methods to meet changes in consumer purchasing behavior. In fiscal 2018, the Kao Group will also reclassify *Success* men's products, which had formerly been classified in the Human Health Care Business, into this business for management in a new portfolio to enhance its total hair care proposals.

As a result, the Kao Group forecasts that sales in this business will increase 7.1% year on year on a like-for-like basis to 356.2 billion yen.

The Human Health Care Business will promote product development focused on health care for both body and spirit. In food and beverage products, the Kao Group will reform the business structure to enhance the unique appeal of *Healthya* functional drinks as a FOSHU business differentiated by its high level of functional health value. The Kao Group aims to create sanitary products that are gentle on skin and that offer greater comfort and a sense of confidence. In China, the Kao Group will further strengthen its strategic initiatives in the growing e-commerce channel. In Indonesia, the Kao Group will expand its rollout of baby diapers produced locally targeting the middle-class consumer segment. The Kao Group will work to further raise the brand value of its personal health products by continuing to make original new proposals with products that can become healthy daily lifestyle habits.

As a result, the Kao Group forecasts that sales in this business will increase 3.5% year on year on a like-for-like basis to 291.0 billion yen.

In the Fabric and Home Care Business, the Kao Group will strengthen 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 collaboration with retailers, the Kao Group will further 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 laundry detergents, fabric softeners, household cleaners and other products. The Kao Group will work to develop and nurture products that incorporate its technologies to meet local consumer needs in Asia and will expand its rollout of laundry detergent targeting the middle-class consumer segment in Indonesia.

As a result, the Kao Group forecasts that sales in this business will increase 3.1% year on year on a like-for-like basis to 346.0 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 stably supply high-quality products to meet increasing demand for fatty alcohols, fatty amines and higher-value-added derivatives made from natural fats and oils, mainly in Asia. In performance chemicals, growth is forecast outside Japan and increased demand for infrastructure is forecast in Japan. 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 work to expand sales by enhancing development of new products and materials using its unique technologies that contribute to reducing environmental impact in response to rising concern about the global environment, while 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 0.2% year on year to 311.0 billion yen. On a like-for-like basis, sales will decrease 0.3%.

3) Underlying Assumptions of the Forecast for the Fiscal Year Ending December 31, 2018

The above forecast was made assuming translation rates of one U.S. dollar to 110 yen, one euro to 135 yen and one Chinese yuan to 17.0 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.

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(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, 2017

Consolidated Financial Position

(Billions of yen, except per share amounts)

	December 31, 2017	December 31, 2016	Incr./(Dcr.)
Total assets	1,427.4	1,338.3	89.1
Total liabilities	608.0	646.8	(38.8)
Total equity	819.4	691.5	127.9
Ratio of equity attributable to owners of the parent to total assets	56.5%	50.8%	-
Equity attributable to owners of the parent per share (Yen)	1,636.41	1,379.37	257.04
Bonds and borrowings	120.6	120.6	(0.1)

Consolidated Cash Flows

(Billions of yen)

	2017	2016	Incr./(Dcr.)
Net cash flows from operating activities	185.8	184.3	1.5
Net cash flows from investing activities	(96.1)	(88.6)	(7.5)
Free cash flow*	89.7	95.7	(6.0)
Net cash flows from financing activities	(53.2)	(95.0)	41.8

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

Total assets increased 89.1 billion yen from December 31, 2016 to 1,427.4 billion yen. The principal increases in assets were a 40.0 billion yen increase in cash and cash equivalents, an 8.0 billion yen increase in trade and other receivables, an 18.7 billion yen increase in inventories and a 25.0 billion yen increase in property, plant and equipment. The principal decrease in assets was a 10.0 billion yen decrease in deferred tax assets.

Total liabilities decreased 38.8 billion yen from December 31, 2016 to 608.0 billion yen. The principal increase in liabilities was an 8.0 billion yen increase in trade and other payables. The principal decrease in liabilities was a 30.1 billion yen decrease in retirement benefit liabilities.

Total equity increased 127.9 billion yen from December 31, 2016 to 819.4 billion yen. The principal increases in equity were net income totaling 148.6 billion yen and other comprehensive income totaling 31.3 billion yen. The principal decrease in equity was dividends totaling 50.6 billion yen.

As a result of the above factors, the ratio of equity attributable to owners of the parent to total assets was 56.5% compared with 50.8% at December 31, 2016.

In addition, Kao Corporation retired 9.0 million treasury shares on March 1, 2017.

Net cash flows from operating activities totaled 185.8 billion yen. The principal increases in net cash were income before income taxes of 204.3 billion yen, depreciation and amortization of 54.5 billion yen, increase in trade and other payables of 14.6 billion yen and other, which includes accrued expenses, of 14.5 billion yen. The principal decreases in net cash were increase in inventories of 15.3 billion yen, decrease in retirement benefit liabilities of 30.9 billion yen and income taxes paid of 55.3 billion yen.

Net cash flows from investing activities totaled negative 96.1 billion yen. This primarily consisted of purchase of property, plant and equipment of 83.7 billion yen and purchase of intangible assets of 6.3 billion yen.

Free cash flow, the sum of net cash flows from operating activities and net cash flows from investing activities, was 89.7 billion yen.

Net cash flows from financing activities totaled negative 53.2 billion yen. This primarily consisted of 50.7 billion yen for dividends paid to owners of the parent and non-controlling interests. The Kao Group repaid borrowings of 10.0 billion yen in March 2017 and 20.0 billion yen in September 2017 and borrowed the same amounts, respectively, in order to maintain an appropriate capital cost ratio and strengthen its financial base for growth investments.

The balance of cash and cash equivalents at December 31, 2017 increased 40.0 billion yen compared with December 31, 2016 to 343.1 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, 2018

Net cash flows from operating activities are forecast to be approximately 200.0 billion yen, due in part to an increase in income before income taxes.

Net cash flows from investing activities are planned to be approximately negative 140.0 billion yen, which will include proactive investments for further growth encompassing enhancement and rationalization of production capacity, greater distribution efficiency and other purposes, and payment for the acquisition of the business related to hair salons announced in December 2017.

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, 2018 is forecast to be approximately 340.0 billion yen, nearly the same level as in the previous fiscal year.

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(3) Basic Policies Regarding Distribution of Profits and Dividends for the Fiscal Years Ended December 31, 2017 and Ending December 31, 2018

The Kao Group uses economic value added (EVA) as its principal management metric and clearly sets the priority of the uses of its steadily generated cash flow 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.

Priority for use of cash flow:

1. Investment for future growth (capital expenditures, M&A, etc.)
2. Steady and continuous dividends (40% payout ratio target)
3. 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 2017 of 56.00 yen per share, an increase of 2.00 yen per share from the forecast announced on October 30, 2017 and an increase of 8.00 yen per share compared with the previous fiscal year. Consequently, cash dividends for the fiscal year will increase 16.00 yen per share compared with the previous fiscal year, resulting in a total of 110.00 yen per share. The consolidated payout ratio will be 36.9%.

For fiscal 2018, the Company plans to pay total cash dividends of 120.00 yen per share (38.9% payout ratio), an increase of 10.00 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 29th consecutive fiscal year of increases in dividends.

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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. Under this mission, the Kao Group considers its response to the environment, society and governance (ESG) – three elements that contribute to the formation of a sustainable society – to be an investment in the future and will achieve "profitable growth" by placing greater emphasis on this area.

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 share joy with consumers and customers in our core domains of cleanliness, beauty, health and chemicals.

The Kao Group aims to be a global company that is closest to the consumers and customers in each market, earning the respect and trust of its shareholders and all other stakeholders.

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"** and further enhances its internal controls for the execution of management that is swift, efficient and sound, as well as impartial and transparent, with the aim of being a company with a global presence.

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

The Kao Way is the corporate philosophy of the Kao Group. To implement the above policies, 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.

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.

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 further enhancing non-financial (ESG) activities. In addition, by taking 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.

The Kao Group has established “*Kirei** – Making Life Beautiful” as the key message for its ESG activities. The Kao Group aims to create unique experiences and touch the hearts of consumers through products filled with its passion.

**Kirei is a Japanese word that represents the concept of cleanliness, beauty, health, purity, and fairness.*

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.

(1) To deal with changes in the risks entailed in its businesses, the Kao Group will define the serious company-wide risks among its main risks as corporate risks and work to prevent damage to the corporate value of the Group as a whole by further enhancing its management system.

(2) Regarding brightening products containing the ingredient Rhododenol sold by Kanebo Cosmetics, for

which a voluntary recall was announced on July 4, 2013, Kanebo Cosmetics has been responding earnestly with support for the recovery and compensation of people who have experienced vitiligo-like symptoms. In addition, the entire Kao Group is making efforts with a view of the tasks before it as working to prevent recurrence while striving to ensure greater safety and reliability.

(3) During fiscal 2017, a portion of cosmetics production at Kao Corporation's Odawara Factory near Tokyo, Japan was found to be non-compliant with the Fire Service Act. In addition to suspending that portion of production and improving the production system to comply with the Fire Service Act, Kao Corporation inspected the status of compliance with said Act at each of its locations and confirmed that they are operating lawfully. Kao Corporation will strengthen its management system to prevent a recurrence and promote thorough compliance with laws and regulations.

5) 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 the 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)

	December 31, 2017	December 31, 2016
Assets		
Current assets		
Cash and cash equivalents	343,076	303,026
Trade and other receivables	216,507	208,459
Inventories	183,921	165,200
Other financial assets	14,914	13,038
Income tax receivables	2,653	1,462
Other current assets	28,162	23,812
Subtotal	789,233	714,997
Non-current assets held for sale	147	344
Total current assets	789,380	715,341
Non-current assets		
Property, plant and equipment	395,800	370,835
Goodwill	138,735	137,783
Intangible assets	16,829	14,689
Investments accounted for using the equity method	7,682	4,701
Other financial assets	27,345	25,473
Deferred tax assets	40,918	50,939
Other non-current assets	10,686	18,548
Total non-current assets	637,995	622,968
Total assets	1,427,375	1,338,309

(Millions of yen)

	December 31, 2017	December 31, 2016
Liabilities and equity		
Liabilities		
Current liabilities		
Trade and other payables	224,893	216,893
Bonds and borrowings	25,262	30,289
Other financial liabilities	7,739	8,164
Income tax payables	34,255	32,621
Provisions	4,822	11,370
Contract liabilities	17,296	-
Other current liabilities	107,404	131,112
Total current liabilities	421,671	430,449
Non-current liabilities		
Bonds and borrowings	95,322	90,357
Other financial liabilities	10,091	11,666
Retirement benefit liabilities	64,694	94,773
Provisions	10,617	13,809
Deferred tax liabilities	435	528
Other non-current liabilities	5,181	5,264
Total non-current liabilities	186,340	216,397
Total liabilities	608,011	646,846
Equity		
Share capital	85,424	85,424
Capital surplus	107,980	107,648
Treasury shares	(9,593)	(57,124)
Other components of equity	(12,315)	(21,821)
Retained earnings	634,885	565,715
Equity attributable to owners of the parent	806,381	679,842
Non-controlling interests	12,983	11,621
Total equity	819,364	691,463
Total liabilities and equity	1,427,375	1,338,309

Consolidated Statement of Income

(Millions of yen)

	Notes	Fiscal year ended December 31, 2017	Fiscal year ended December 31, 2016
Net sales	1	1,489,421	1,457,610
Cost of sales		(834,107)	(637,502)
Gross profit		655,314	820,108
Selling, general and administrative expenses	2	(452,666)	(633,368)
Other operating income		14,909	13,677
Other operating expenses		(12,766)	(14,846)
Operating income	1	204,791	185,571
Financial income		1,452	1,389
Financial expenses		(3,960)	(5,424)
Share of profit in investments accounted for using the equity method		2,007	1,894
Income before income taxes		204,290	183,430
Income taxes		(55,683)	(55,541)
Net income		148,607	127,889
Attributable to:			
Owners of the parent		147,010	126,551
Non-controlling interests		1,597	1,338
Net income		148,607	127,889
Earnings per share			
Basic (Yen)	3	298.30	253.43
Diluted (Yen)	3	298.09	253.18

Consolidated Statement of Comprehensive Income

(Millions of yen)

	Fiscal year ended December 31, 2017	Fiscal year ended December 31, 2016
Net income	148,607	127,889
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	1,166	(906)
Remeasurements of defined benefit plans	21,260	(16,111)
Share of other comprehensive income of investments accounted for using the equity method	317	(72)
Total of items that will not be reclassified to profit or loss	22,743	(17,089)
Items that may be reclassified subsequently to profit or loss:		
Exchange differences on translation of foreign operations	8,541	(16,661)
Share of other comprehensive income of investments accounted for using the equity method	(1)	(10)
Total of items that may be reclassified subsequently to profit or loss	8,540	(16,671)
Other comprehensive income, net of taxes	31,283	(33,760)
Comprehensive income	179,890	94,129
Attributable to:		
Owners of the parent	178,020	93,284
Non-controlling interests	1,870	845
Comprehensive income	179,890	94,129

Consolidated Statement of Changes in Equity

(Millions of yen)

	Equity attributable to owners of the parent												
				Other components of equity									
	Share capital	Capital surplus	Treasury shares	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 compre-hensive income	Remeasure-ments of defined benefit plans	Total	Retained earnings	Total	Non-controlling interests	Total equity
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
January 1, 2016	85,424	108,659	(8,202)	902	(13,513)	(3)	8,430	-	(4,184)	499,299	680,996	10,991	691,987
Net income	-	-	-	-	-	-	-	-	-	126,551	126,551	1,338	127,889
Other comprehensive income	-	-	-	-	(16,248)	7	(970)	(16,056)	(33,267)	-	(33,267)	(493)	(33,760)
Comprehensive income	-	-	-	-	(16,248)	7	(970)	(16,056)	(33,267)	126,551	93,284	845	94,129
Disposal of treasury shares	-	-	1,099	(189)	-	-	-	-	(189)	(404)	506	-	506
Purchase of treasury shares	-	-	(50,021)	-	-	-	-	-	-	-	(50,021)	-	(50,021)
Share-based payment transactions	-	-	-	227	-	-	-	-	227	-	227	-	227
Dividends	-	-	-	-	-	-	-	-	-	(44,139)	(44,139)	(955)	(45,094)
Changes in the ownership interest in subsidiaries	-	(1,011)	-	-	-	-	-	-	-	-	(1,011)	1,007	(4)
Transfer from other components of equity to retained earnings	-	-	-	(29)	-	-	(435)	16,056	15,592	(15,592)	-	-	-
Other increase (decrease)	-	-	-	-	-	-	-	-	-	-	-	(267)	(267)
Total transactions with the owners	-	(1,011)	(48,922)	9	-	-	(435)	16,056	15,630	(60,135)	(94,438)	(215)	(94,653)
December 31, 2016	85,424	107,648	(57,124)	911	(29,761)	4	7,025	-	(21,821)	565,715	679,842	11,621	691,463

Consolidated Statement of Cash Flows

(Millions of yen)

	Fiscal year ended December 31, 2017	Fiscal year ended December 31, 2016
Cash flows from operating activities		
Income before income taxes	204,290	183,430
Depreciation and amortization	54,508	51,116
Interest and dividend income	(1,295)	(1,247)
Interest expense	1,339	1,484
Share of profit in investments accounted for using the equity method	(2,007)	(1,894)
(Gains) losses on sale and disposal of property, plant and equipment, and intangible assets	3,111	3,466
(Increase) decrease in trade and other receivables	(3,464)	(4,049)
(Increase) decrease in inventories	(15,349)	(17,450)
Increase (decrease) in trade and other payables	14,637	4,388
Increase (decrease) in retirement benefit liabilities	(30,886)	19,967
Other	14,476	(7,175)
Subtotal	239,360	232,036
Interest received	1,069	1,003
Dividends received	2,047	1,479
Interest paid	(1,329)	(1,503)
Income taxes paid	(55,302)	(48,708)
Net cash flows from operating activities	185,845	184,307
Cash flows from investing activities		
Payments into time deposits	(26,673)	(11,570)
Proceeds from withdrawal of time deposits	25,349	3,703
Purchase of property, plant and equipment	(83,663)	(74,637)
Purchase of intangible assets	(6,273)	(5,060)
Acquisition of subsidiaries and businesses	(2,906)	(3,659)
Other	(1,980)	2,584
Net cash flows from investing activities	(96,146)	(88,639)
Cash flows from financing activities		
Increase (decrease) in short-term borrowings	(59)	(44)
Proceeds from long-term borrowings	30,000	200
Repayments of long-term borrowings	(30,090)	(317)
Purchase of treasury shares	(1,842)	(50,021)
Dividends paid to owners of the parent	(50,299)	(44,188)
Dividends paid to non-controlling interests	(369)	(955)
Other	(585)	282
Net cash flows from financing activities	(53,244)	(95,043)
Net increase (decrease) in cash and cash equivalents	36,455	625
Cash and cash equivalents at the beginning of the year	303,026	309,922
Effect of exchange rate changes on cash and cash equivalents	3,595	(7,521)
Cash and cash equivalents at the end of the year	343,076	303,026

Notes to Consolidated Financial Statements

Changes in Accounting Policies
Early Adoption of IFRS 15 “Revenue from Contracts with Customers” and its amendments

In the fiscal year ended December 31, 2017, the Kao Group early adopted IFRS 15 “Revenue from Contracts with Customers” (issued in May 2014) and “Clarifications to IFRS 15” (issued in April 2016) (together, hereinafter “IFRS 15”). As a transitional measure upon the early adoption of IFRS 15, the Kao Group applies this Standard retrospectively with the cumulative effect of initially applying this Standard recognized at the date of initial application.

In accordance with the adoption of IFRS 15, revenue is recognized based on the following five-step model.

Step 1: Identify the contract with a customer
Step 2: Identify the performance obligations in the contract
Step 3: Determine the transaction price
Step 4: Allocate the transaction price to the performance obligations in the contract
Step 5: Recognize revenue when the entity satisfies a performance obligation

The Kao Group sells consumer products including cosmetics, skin care products, hair care products, sanitary products and fabric care products, as well as chemical products including fatty alcohols and surfactants. For sales of such products, because the customer obtains control over the products upon delivery, the performance obligation is judged to have been satisfied and revenue is therefore recognized upon delivery of the products. Revenue is measured at the consideration promised in a contract with a customer, less discounts, rebates, returned products and other items.

Based on the above five-step model, as a result of identification of performance obligations under contracts with customers, the portion of sales promotion and other expenses that is consideration paid by the Kao Group to customers, which had previously been accounted for as selling, general and administrative expenses, is accounted for as reductions of net sales from the fiscal year ended December 31, 2017. In addition, freight/warehouse expenses, employee benefits and other expenses necessary for satisfying performance obligations that had previously been accounted for as selling, general and administrative expenses are accounted for as cost of sales from the fiscal year ended December 31, 2017.

As a result, compared with the application of the former accounting standard, net sales decreased by 45,742 million yen, selling, general and administrative expenses decreased by 174,999 million yen, and cost of sales increased by 129,257 million yen on the consolidated statement of income for the fiscal year ended December 31, 2017. These changes had no effect on operating income and net income.

In addition, with the application of IFRS 15, under current liabilities, refund liabilities for rebates, which had previously been included in “Trade and other payables,” liabilities for returned products, which had previously been included in “Provisions,” and refund liabilities for rebates and other payments and advances received from customers, which had previously been included in “Other current liabilities” are presented as “Contract liabilities.”

As a result, compared with the application of the former accounting standard, as of the end of the fiscal year ended December 31, 2017, “Trade and other payables” under current liabilities decreased 2,279 million yen and as of the beginning and end of the fiscal year ended December 31, 2017, “Provisions” under current liabilities decreased by 3,965 million yen and 3,049 million yen, respectively, and “Other current liabilities” decreased by 12,582 million yen and 11,968 million yen, respectively, on the consolidated statement of financial position.

1. Segment Information

(1) Summary of reportable segments

Major products by reportable segment are as follows:

Reportable Segments		Major Products	
Consumer Products Business	Beauty Care Business	Cosmetics	Counseling cosmetics, Self-selection cosmetics
		Skin care products	Soaps, Facial cleansers, Body cleansers
		Hair care products	Shampoos, Conditioners, Hair styling agents, Hair coloring agents
	Human Health Care Business	Food and beverage products	Beverages
		Sanitary products	Sanitary napkins, Baby diapers
		Personal health products	Bath additives, Oral care products, Men's 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

(Millions of yen)

Fiscal year ended December 31, 2017	Reportable Segments							
	Consumer Products Business							
	Beauty Care Business	Human Health Care Business	Fabric and Home Care Business	Subtotal	Chemical Business	Total	Reconciliations[1]	Consolidated
Net sales								
Sales to customers	585,995	294,292	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	585,995	294,292	335,709	1,215,996	310,285	1,526,281	(36,860)	1,489,421
Operating income (loss)	57,596	38,661	76,057	172,314	30,299	202,613	2,178	204,791
% of net sales	9.8	13.1	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								204,290
Depreciation and amortization	17,855	16,031	8,883	42,769	11,479	54,248	260	54,508
Capital Expenditure[3]	27,422	23,892	12,675	63,989	15,245	79,234	121	79,355

Notes:

1. The operating income reconciliation of 2,178 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.

(Millions of yen)

Fiscal year ended December 31, 2016	Reportable Segments							
	Consumer Products Business							
	Beauty Care Business	Human Health Care Business	Fabric and Home Care Business	Subtotal	Chemical Business	Total	Reconciliations[1]	Consolidated
Net sales								
Sales to customers	601,620	273,067	345,163	1,219,850	237,760	1,457,610	-	1,457,610
Intersegment sales and transfers[2]	-	-	-	-	36,025	36,025	(36,025)	-
Total net sales	601,620	273,067	345,163	1,219,850	273,785	1,493,635	(36,025)	1,457,610
Operating income (loss)	51,086	25,948	78,099	155,133	29,683	184,816	755	185,571
% of net sales	8.5	9.5	22.6	12.7	10.8	-	-	12.7
Financial income								1,389
Financial expenses								(5,424)
Share of profit in investments accounted for using the equity method								1,894
Income before income taxes								183,430
Depreciation and amortization	18,399	12,930	7,876	39,205	11,650	50,855	261	51,116
Capital Expenditure[3]	20,135	41,752	16,050	77,937	11,877	89,814	86	89,900

Notes:

1. The operating income reconciliation of 755 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, intangible assets and other non-current 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, 2017	Fiscal year ended December 31, 2016
Japan	938,074	964,904
Asia	288,087	251,284
(China)	134,751	103,346
Americas	134,219	120,782
(United States)	102,763	93,148
Europe	129,041	120,640
Total	1,489,421	1,457,610

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, 2017	Fiscal year ended December 31, 2016
Japan	431,673	415,993
Asia	85,290	81,927
Americas	22,610	22,854
Europe	28,935	24,731
Total	568,508	545,505

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, 2017	Fiscal year ended December 31, 2016
Freight/warehouse	55	58,168
Advertising	89,935	97,437
Sales promotion	58,940	83,161
Employee benefits	147,007	191,122
Depreciation	8,870	11,236
Amortization	4,784	6,173
Research and development	56,703	54,567
Other	86,372	131,504
Total	452,666	633,368

The note “Changes in Accounting Policies” in “Notes to Consolidated Financial Statements” presents the impact on selling, general and administrative expenses resulting from the adoption of IFRS 15. As a transitional measure upon the adoption of IFRS 15, the Kao Group applies this Standard retrospectively with the cumulative effect of initially applying this Standard recognized at the date of initial application and thus has not adjusted the amounts for the comparative period. Expenses of 17,703 million yen, 1,344 million

yen, 24,653 million yen and 2,042 million yen previously included in “Freight/warehouse,” “Advertising,” “Sales promotion” and “Other,” respectively, are accounted for as reductions of net sales. Expenses of 44,887 million yen, 3,106 million yen, 52,725 million yen, 2,874 million yen, 96 million yen and 25,569 million yen previously included in “Freight/warehouse,” “Sales promotion,” “Employee benefits,” “Depreciation,” “Amortization” and “Other,” respectively, are accounted for as cost of sales. As a result, compared with the application of the former accounting standard, selling, general and administrative expenses decreased by 174,999 million yen.

Furthermore, as an additional item other than the adoption of IFRS 15 impacting selling, general and administrative expenses, the Kao Group revised its sales system for the Consumer Products Business in Japan in the fiscal year ended December 31, 2017. Expenses of 1,735 million yen and 21,672 million yen previously included in “Sales promotion” and “Other,” respectively, are accounted for as reductions of net sales. As a result, selling, general and administrative expenses decreased by 23,407 million yen.

3. Earnings per Share

(1) The basis for calculating basic earnings per share

	Fiscal year ended December 31, 2017	Fiscal year ended December 31, 2016
		(Millions of yen)
Net income attributable to owners of the parent	147,010	126,551
Amounts not attributable to ordinary shareholders of the parent	-	-
Net income used to calculate basic earnings per share	147,010	126,551
		(Thousands of shares)
Weighted average number of ordinary shares	492,832	499,355
		(Yen)
Basic earnings per share	298.30	253.43

(2) The basis for calculating diluted earnings per share

	Fiscal year ended December 31, 2017	Fiscal year ended December 31, 2016
		(Millions of yen)
Net income used to calculate basic earnings per share	147,010	126,551
Adjustments to net income	-	-
Net income used to calculate diluted earnings per share	147,010	126,551
		(Thousands of shares)
Weighted average number of ordinary shares	492,832	499,355
Increase in ordinary shares		
Subscription rights to shares	337	483
Weighted average number of ordinary shares after dilution	493,170	499,838
		(Yen)
Diluted earnings per share	298.09	253.18
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.

Notes regarding Assumption of Going Concern

None applicable.