Consolidated Financial Results

for the Three Months Ended March 31, 2018

Kao Corporation

April 27, 2018

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

■ As of the three months ended March 31, 2018, the following changes have been made.

1. The Beauty Care Business has been divided into the Cosmetics Business and the Skin Care and Hair Care Business, changing the four former reportable segments into five.
2. The *Curél* derma care brand, which formerly had been classified as skin care and hair care products, has been included in the Cosmetics Business, and the *Success* men's products brand, which formerly had been classified in the Human Health Care Business, has been included in the Skin Care and Hair Care Business. Net sales and operating income for the same period a year earlier have been restated accordingly.
3. Due to the reorganization of the sales organization of the Consumer Products Business in Japan, operating income for the same period a year earlier has been restated.

Overview of January-March 2018

Started the year as expected in a persistently severe competitive market environment. The Kao Group aims to achieve its full-year targets by launching more new and improved products from April onward.

- Cosmetics Business
  Under new management, sales in Asia and sales of the *Curél* and *SUQQU* brands remained strong. More efficient use of expenses in the mid-price segment improved profitability substantially. The Kao Group will conduct full-scale structural reform of business in the mid-price and high-price segments in Japan toward achievement of K20.
- Skin Care and Hair Care Business
  In skin care products, *Bioré* grew steadily in Japan and Asia but struggled in the U.S. due to intensifying competition. Sales of *Jergens* grew in the U.S. Meanwhile, in hair care products, *John Frieda* continued to struggle amid intense competition in Europe.
- Human Health Care Business
  Sales of *Merries* baby diapers decreased in China due to the effect of the initial shipments associated with reforms of the sales structure there in the same period a year earlier, among other factors. Operating income increased due to the growth in sales of *Laurier* sanitary napkins and *MegRhythm* steam thermo sheets.
- Fabric and Home Care Business
  Sales of fabric care products were unchanged from the same period a year earlier in an intensely competitive environment. Sales of home care products grew steadily. Operating income decreased due to factors including intensifying competition, an increase in raw material costs and a loss on disposal of property, plant and equipment.
- Chemical Business
  Sales of oleo chemicals and performance chemicals grew due to firm demand. Sales of specialty chemicals increased due to the contribution of an inkjet ink operating company in Europe that became a consolidated subsidiary in April 2017. Operating income decreased due to the impact of selling price adjustments associated with fluctuations in raw material prices.

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Highlights of Consolidated Financial Results

Consumer Products Market[1] (January - March 2018)

Growth of household and personal care market in Japan:[2]	SRI: Flat / SCI: Flat
Growth of cosmetics market in Japan:[3]	Flat (Substantial growth in inbound market)
Consumer purchase price for 15 major household and personal care categories in Japan:[4]	+1 point

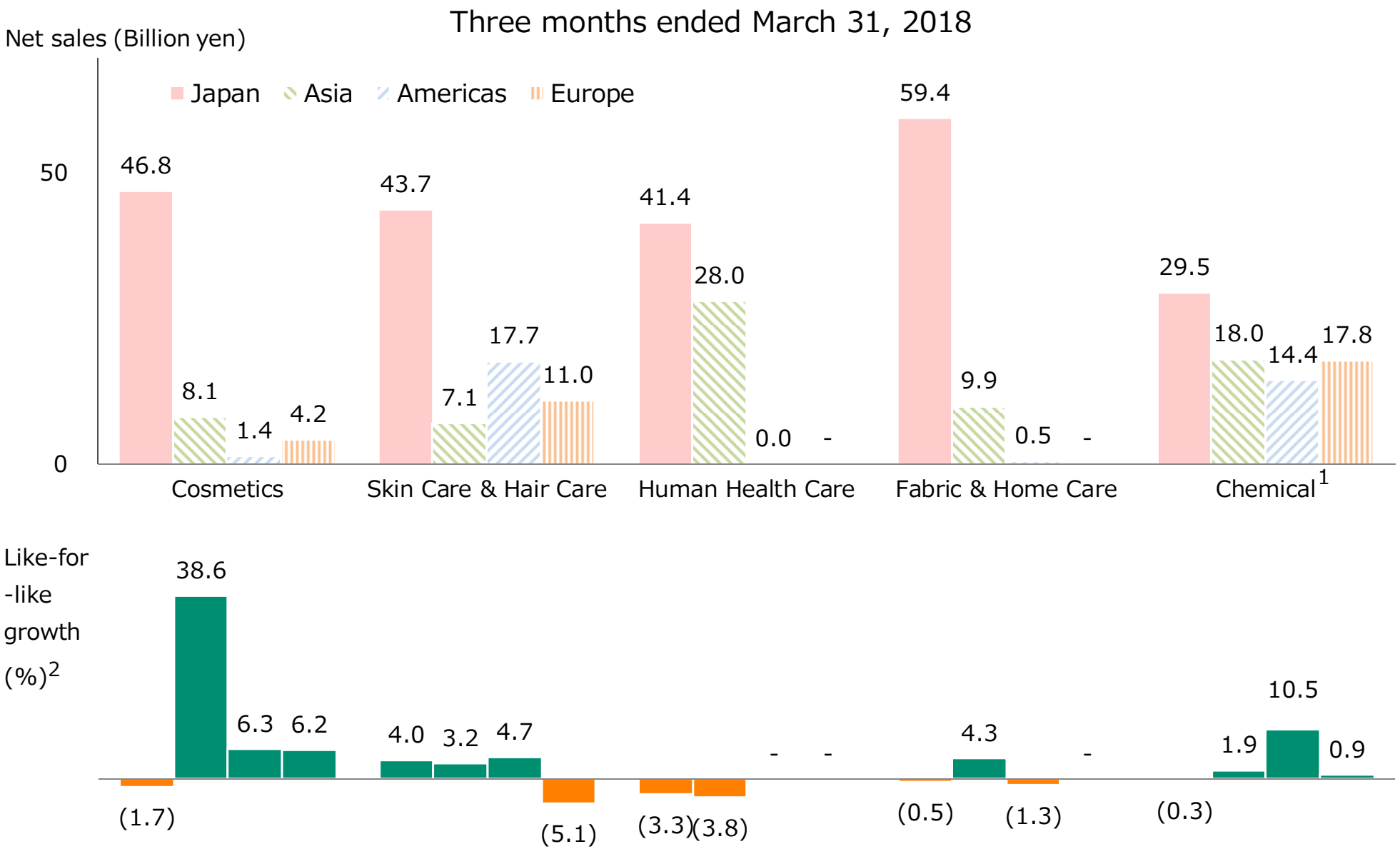
Consolidated Operating Results (Three months ended March 31)

(Billion yen)	FY2017	FY2018	Growth %	Change
Net sales	345.2	350.6	+1.6	+5.5
		Effect of currency translation[5]	+0.6	+2.2
		Like-for-like, excluding effect of currency translation	+0.9	+3.2
Operating income	38.6	39.4	+2.2	+0.8
Operating margin	11.2%	11.2%	-	-
Income before income taxes	38.0	38.7	+1.7	+0.6
Net income	24.6	28.2	+14.3	+3.5
Net income attributable to owners of the parent	24.2	27.8	+14.9	+3.6
EBITDA (Operating income + Depr. & amort.)	51.7	54.0	+4.4	+2.3
Basic earnings per share (yen)	49.03	56.36	+15.0	+7.33

1. SRI: Estimates based on POS data from approx. 4,000 retail outlets nationwide / SCI: Purchasing data from approx. 50,000 consumer monitors nationwide / SLI: Purchasing data for cosmetics, skin care and hair care products from approx. 40,000 female monitors nationwide. [Surveys by INTAGE Inc.]
2. Year-on-year growth rate of market size on a value basis (yen). (Source: SRI POS data, SCI data.)
3. Year-on-year growth rate of market size on a value basis (yen). (Source: SLI data based on Kao's definition. Survey excludes inbound demand.)
4. Comparison with the same period of the previous fiscal year using an index with January to December 2008 as 100. (Source: SRI POS data)
5. Exchange rates: 108.44 yen/USD, 133.23 yen/Euro, 17.04 yen/Yuan

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Consolidated Net Sales by Segment/Geographic Area



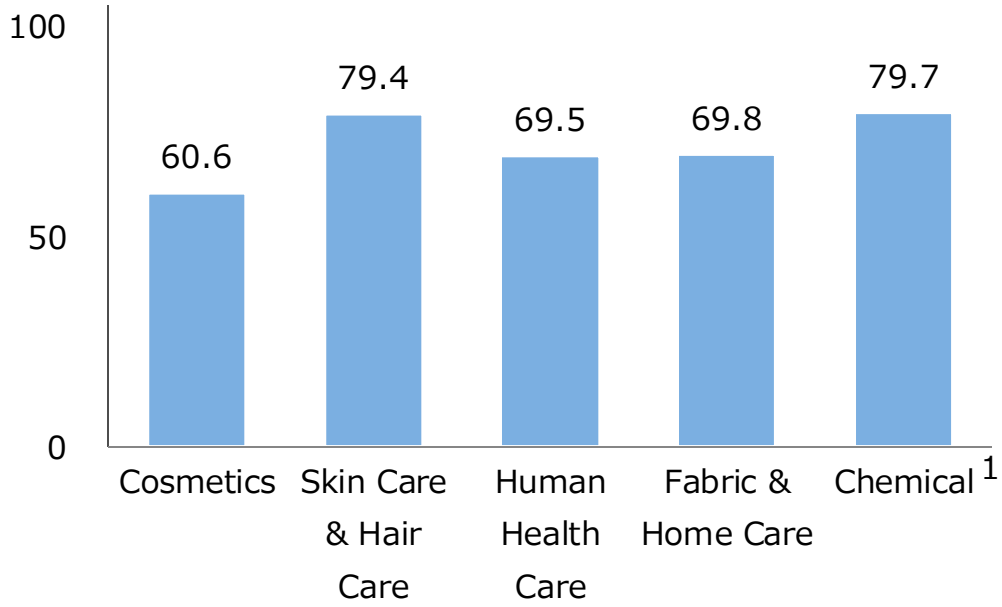
1. Net sales of the Chemical Business include intersegment transactions.
2. Excluding the effect of currency translation.

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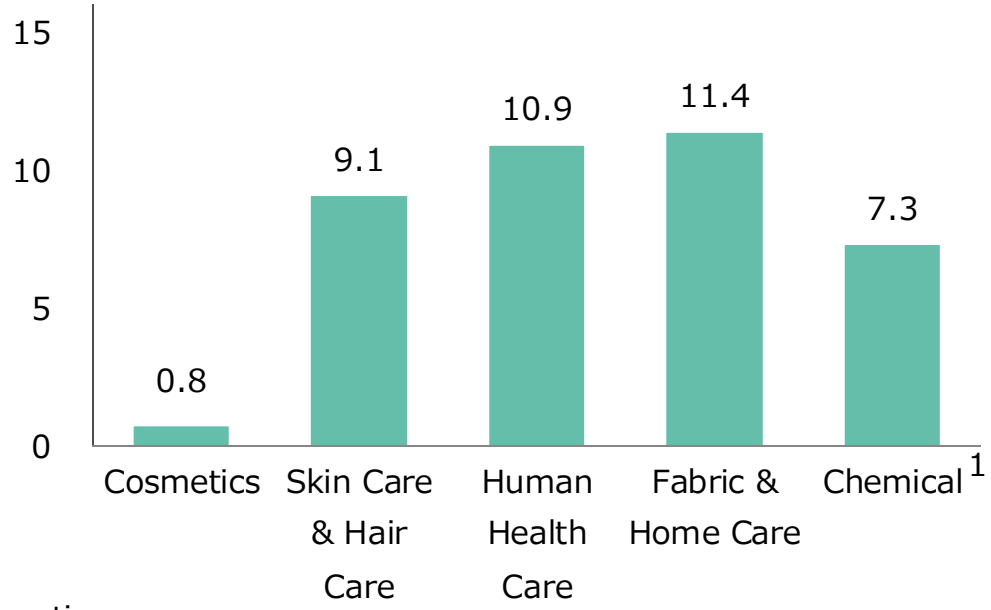
Consolidated Results by Segment

Three months ended March 31, 2018

Net sales (Billion yen)

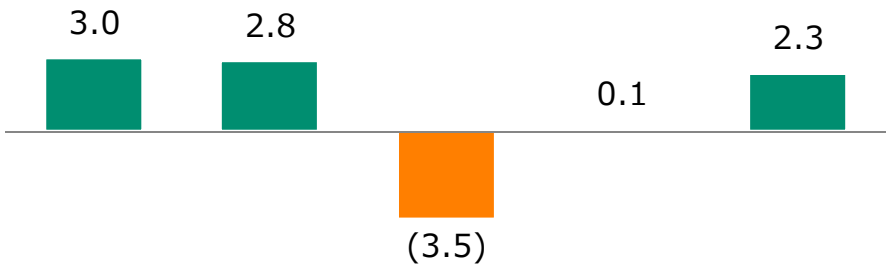


Operating income (Billion yen)

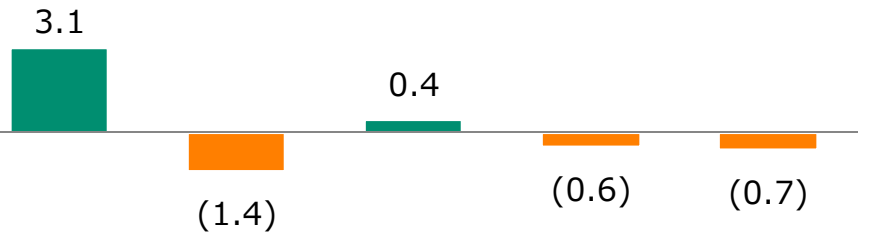


Operating margin (%)	Cosmetics	Skin Care & Hair Care	Human Health Care	Fabric & Home Care	Chemical
	1.3	11.5	15.7	16.3	9.2

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



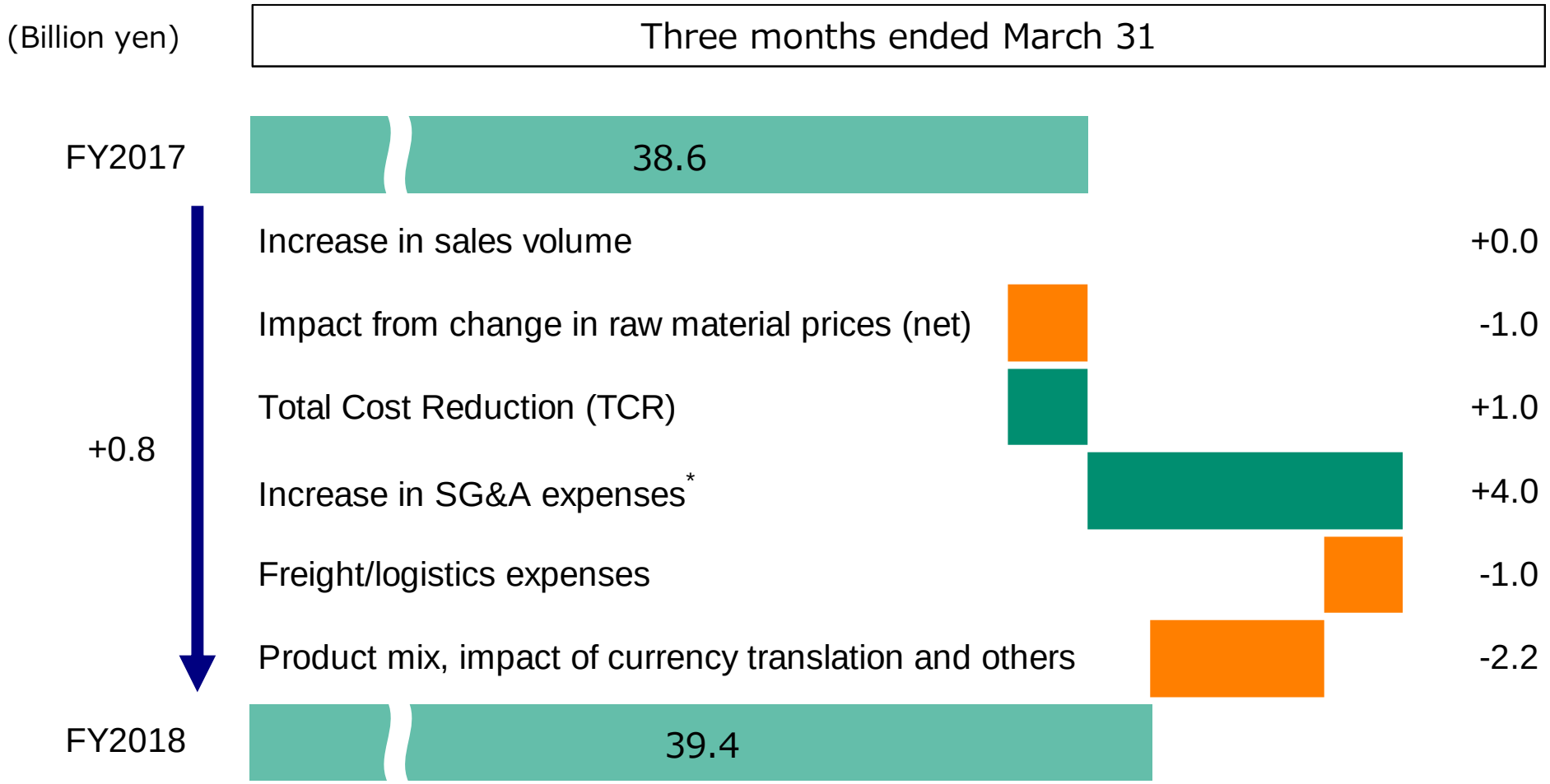
Change (Billion yen)



1. Net sales and operating income of the Chemical Business include intersegment transactions.
2. Excluding the effect of currency translation.

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Analysis of Change in Consolidated Operating Income



* Excluding the effect of currency translation.

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