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

February 4, 2019

Company name: Kao Corporation — Tokyo Stock Exchange in Japan
Stock code: 4452 (URL: www.kao.com/global/en/investor-relations/library/results/)
Representative: Michitaka Sawada, President and CEO
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Scheduled starting date of the dividend payments: March 27, 2019
Supplementary documents of the financial results: Yes
Financial results information meeting: Yes (for institutional investors and analysts)

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

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

(1) Consolidated operating results

(Percentages indicate year-on-year changes)

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

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

(2) Consolidated financial position

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

(3) Consolidated cash flows

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

2. Dividends

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

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

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

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

4. Others

(1) Changes in significant subsidiaries during this year (changes in specified subsidiaries resulting in change in scope of consolidation): Yes
New: None
Excluded: 1 company (Company Name) Kao Customer Marketing Co., Ltd.
For details, please refer to page 28, "Changes in significant subsidiaries during this year" in "Notes to Consolidated Financial Statements"

(2) Changes in accounting policies and changes in accounting estimates
1) Changes in accounting principles required by IFRS: None
2) Changes in accounting principles due to reasons other than 1): None
3) Changes in accounting estimates: None

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

	December 31, 2018	December 31, 2017
Number of issued shares including treasury shares	488,700,000	495,000,000
Number of treasury shares	2,043,272	2,225,561

	Fiscal year ended December 31, 2018	Fiscal year ended December 31, 2017
Weighted average number of shares outstanding during the year	489,089,471	492,832,099

Notice regarding execution of audit procedures

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

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

Forward-looking statements such as earnings forecasts and other projections contained in this release are based on information available at the time of disclosure and assumptions that management believes to be reasonable, and do not constitute guarantees of future performance. Actual results may differ materially from expectations due to various factors.
Please refer to page 1 to 14, "1. Summary of Operating Results and Financial Position" for the suppositions that form the assumptions for earnings forecasts and cautions concerning the use of earnings forecasts.

1. Summary of Operating Results and Financial Position

(1) Summary of Operating Results

Operating Results for the Fiscal Year Ended December 31, 2018

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

2) Trends by Segment during the Fiscal Year

Summary of Segment Information

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

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

Consolidated Results by Segment

(Billions of yen)

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

Consolidated Net Sales Composition

(Billions of yen)

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

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

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

Consumer Products Business

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

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

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

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

In the Americas, sales increased 10.0% to 85.0 billion yen. On a like-for-like basis, sales increased 12.1%. In Europe, sales increased 2.3% to 65.2 billion yen. On a like-for-like basis, sales increased 0.1%.

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

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

Cosmetics Business

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

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

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

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

Skin Care and Hair Care Business

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

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

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

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

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

Human Health Care Business

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

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

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

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

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

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

Fabric and Home Care Business

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

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

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

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

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

Chemical Business

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

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

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

Forecast for the Fiscal Year Ending December 31, 2019

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

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

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

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

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

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

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

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

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

sustainable growth.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Amid a drastically changing social environment and rapid diversification of values, it is becoming difficult to continue growing by using only methods that have previously been successful. The Kao Group will continue to make new offerings to benefit society from fresh perspectives. In addition, the Kao Group will work toward the application of the five technological innovations it announced in November 2018 (Fine Fiber,[1] RNA Monitoring,[2] Created Color,[3] Bio IOS[4] and Package RecyCreation[5]) and the launch of new businesses.

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

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

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

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

(2) Summary of Financial Position

Summary of Assets, Liabilities, Equity and Cash Flows

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

Consolidated Financial Position

(Billions of yen, except per share amounts)

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

Consolidated Cash Flows

(Billions of yen)

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

expenditures.

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

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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.

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

Social conditions and the natural environment are changing dramatically. For the Kao Group to continue to grow sustainably, we must transform ourselves to drive change. We will deepen our Essential Research[1] to proactively offer innovations on a level that exerts an impact on society.
In addition, the Kao Group considers non-financial as well as financial strategies and initiatives to be a top management priority, and will conduct more substantive ESG activities globally under the name "Kirei[2] Action." To help create the future that people worldwide envision, we will take an approach unique to the Kao Group in squarely confronting the social issues raised by the Sustainable Development Goals (SDGs) and addressing matters such as the strengthening of environmental laws and regulations and the ethical concerns of consumers. As we achieve profitable growth and a high level of returns to stakeholders, we will become a corporate group with a global presence by 2030.

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

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

2) Management Metric Used as a Target

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

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

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

(1) Long-term Management Strategy

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

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

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

Make the Kao Group a company with a global presence that

■ Has a distinctive corporate image

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

■ Is a high-profit global consumer goods company that exceeds:

- 2.5 trillion yen in net sales (1.0 trillion yen outside Japan)
- 17% operating margin
- 20% ROE

■ Provides a high level of returns to stakeholders

(2) Mid-term Business Plan

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

goals.

K20 Goals – Three Commitments

■ Commitment to fostering a distinctive corporate image

■ Commitment to profitable growth

- Continue to set new record highs for profits
- Aim for like-for-like* net sales CAGR of +5%, operating margin of 15%
- Three 100 billion yen brands (*Merries* baby diapers, *Attack* laundry detergents, *Bioré* skin care products)

** Excluding the effect of currency translation, change of sales system, etc.*

■ Commitment to returns to stakeholders

- Shareholders: Continuous cash dividend increases (40% payout ratio target)
- Employees: Continuous improvement in compensation, benefits and health support
- Customers: Maximization of win-win relationships
- Society: Advanced measures to address social issues

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

4) Issues for Management

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

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

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

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

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

3. Basic Approach to Selection of Accounting Standards

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

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Consolidated Statement of Financial Position

(Millions of yen)

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

(Millions of yen)

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

Consolidated Statement of Income

(Millions of yen)

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

Consolidated Statement of Comprehensive Income

(Millions of yen)

	Fiscal year ended December 31, 2018	Fiscal year ended December 31, 2017	Change
Net income	155,331	148,607	6,724
Other comprehensive income			
Items that will not be reclassified to profit or loss:			
Net gain (loss) on revaluation of financial assets measured at fair value through other comprehensive income	(2)	1,166	(1,168)
Remeasurements of defined benefit plans	(15,524)	21,260	(36,784)
Share of other comprehensive income of investments accounted for using the equity method	(345)	317	(662)
Total of items that will not be reclassified to profit or loss	(15,871)	22,743	(38,614)
Items that may be reclassified subsequently to profit or loss:			
Exchange differences on translation of foreign operations	(16,140)	8,541	(24,681)
Share of other comprehensive income of investments accounted for using the equity method	(73)	(1)	(72)
Total of items that may be reclassified subsequently to profit or loss	(16,213)	8,540	(24,753)
Other comprehensive income, net of taxes	(32,084)	31,283	(63,367)
Comprehensive income	123,247	179,890	(56,643)
Attributable to:			
Owners of the parent	122,324	178,020	(55,696)
Non-controlling interests	923	1,870	(947)
Comprehensive income	123,247	179,890	(56,643)

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, 2018	85,424	107,980	(9,593)	731	(21,540)	4	8,490	-	(12,315)	634,885	806,381	12,983	819,364
Net income	-	-	-	-	-	-	-	-	-	153,698	153,698	1,633	155,331
Other comprehensive income	-	-	-	-	(15,492)	(5)	(338)	(15,539)	(31,374)	-	(31,374)	(710)	(32,084)
Comprehensive income	-	-	-	-	(15,492)	(5)	(338)	(15,539)	(31,374)	153,698	122,324	923	123,247
Disposal of treasury shares	-	(99)	48,345	(167)	-	-	-	-	(167)	(47,961)	118	-	118
Purchase of treasury shares	-	-	(50,034)	-	-	-	-	-	-	-	(50,034)	-	(50,034)
Share-based payment transactions	-	364	-	-	-	-	-	-	-	-	364	-	364
Dividends	-	-	-	-	-	-	-	-	-	(56,793)	(56,793)	(746)	(57,539)
Transfer from other components of equity to retained earnings	-	-	-	(18)	-	-	(1,694)	15,539	13,827	(13,827)	-	-	-
Other increase (decrease)	-	-	-	-	-	-	-	-	-	-	-	(11)	(11)
Total transactions with the owners	-	265	(1,689)	(185)	-	-	(1,694)	15,539	13,660	(118,581)	(106,345)	(757)	(107,102)
December 31, 2018	85,424	108,245	(11,282)	546	(37,032)	(1)	6,458	-	(30,029)	670,002	822,360	13,149	835,509
January 1, 2017	85,424	107,648	(57,124)	911	(29,761)	4	7,025	-	(21,821)	565,715	679,842	11,621	691,463
Net income	-	-	-	-	-	-	-	-	-	147,010	147,010	1,597	148,607
Other comprehensive income	-	-	-	-	8,221	(0)	1,472	21,317	31,010	-	31,010	273	31,283
Comprehensive income	-	-	-	-	8,221	(0)	1,472	21,317	31,010	147,010	178,020	1,870	179,890
Disposal of treasury shares	-	-	49,373	(165)	-	-	-	-	(165)	(48,914)	294	-	294
Purchase of treasury shares	-	-	(1,842)	-	-	-	-	-	-	-	(1,842)	-	(1,842)
Share-based payment transactions	-	332	-	-	-	-	-	-	-	-	332	-	332
Dividends	-	-	-	-	-	-	-	-	-	(50,265)	(50,265)	(369)	(50,634)
Changes in the ownership interest in a subsidiary	-	(0)	-	-	-	-	-	-	-	-	(0)	-	(0)
Transfer from other components of equity to retained earnings	-	-	-	(15)	-	-	(7)	(21,317)	(21,339)	21,339	-	-	-
Other increase (decrease)	-	-	-	-	-	-	-	-	-	-	-	(139)	(139)
Total transactions with the owners	-	332	47,531	(180)	-	-	(7)	(21,317)	(21,504)	(77,840)	(51,481)	(508)	(51,989)
December 31, 2017	85,424	107,980	(9,593)	731	(21,540)	4	8,490	-	(12,315)	634,885	806,381	12,983	819,364

Consolidated Statement of Cash Flows

(Millions of yen)

	Fiscal year ended December 31, 2018	Fiscal year ended December 31, 2017
Cash flows from operating activities		
Income before income taxes	207,251	204,290
Depreciation and amortization	60,662	54,508
Interest and dividend income	(1,578)	(1,295)
Interest expense	1,256	1,339
Share of profit in investments accounted for using the equity method	(2,082)	(2,007)
(Gains) losses on sale and disposal of property, plant and equipment, and intangible assets	4,531	3,111
(Increase) decrease in trade and other receivables	(12,591)	(3,464)
(Increase) decrease in inventories	(15,677)	(15,349)
Increase (decrease) in trade and other payables	3,951	14,637
Increase (decrease) in retirement benefit liabilities	20,740	(30,886)
Other	(21,437)	14,476
Subtotal	245,026	239,360
Interest received	1,273	1,069
Dividends received	2,312	2,047
Interest paid	(1,293)	(1,329)
Income taxes paid	(51,708)	(55,302)
Net cash flows from operating activities	195,610	185,845
Cash flows from investing activities		
Payments into time deposits	(26,768)	(26,673)
Proceeds from withdrawal of time deposits	26,987	25,349
Purchase of property, plant and equipment	(80,295)	(83,663)
Purchase of intangible assets	(7,703)	(6,273)
Payments for business combinations	(73,915)	(2,906)
Other	3,799	(1,980)
Net cash flows from investing activities	(157,895)	(96,146)
Cash flows from financing activities		
Increase (decrease) in short-term borrowings	230	(59)
Proceeds from long-term borrowings	-	30,000
Repayments of long-term borrowings	(67)	(30,090)
Proceeds from issuance of bonds	25,060	-
Redemption of bonds	(24,939)	-
Purchase of treasury shares	(50,035)	(1,842)
Dividends paid to owners of the parent	(56,838)	(50,299)
Dividends paid to non-controlling interests	(745)	(369)
Other	(1,245)	(585)
Net cash flows from financing activities	(108,579)	(53,244)
Net increase (decrease) in cash and cash equivalents	(70,864)	36,455
Cash and cash equivalents at the beginning of the year	343,076	303,026
Effect of exchange rate changes on cash and cash equivalents	(6,234)	3,595
Cash and cash equivalents at the end of the year	265,978	343,076

Notes to Consolidated Financial Statements

1. Segment Information

(1) Summary of reportable segments

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

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

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

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

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

Major products by reportable segment are as follows:

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

(2) Sales and results of reportable segments

(Millions of yen)

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

Notes:

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

(Millions of yen)

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

Notes:

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

(3) Geographical Information

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

(Millions of yen)

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

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

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

2. Selling, General and Administrative Expenses

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

(Millions of yen)

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

3. Earnings per Share

(1) The basis for calculating basic earnings per share

(Millions of yen)

	Fiscal year ended December 31, 2018	Fiscal year ended December 31, 2017
Net income attributable to owners of the parent	153,698	147,010
Amounts not attributable to ordinary shareholders of the parent	-	-
Net income used to calculate basic earnings per share	153,698	147,010
		(Thousands of shares)
Weighted average number of ordinary shares	489,089	492,832
		(Yen)
Basic earnings per share	314.25	298.30

(2) The basis for calculating diluted earnings per share

(Millions of yen)

	Fiscal year ended December 31, 2018	Fiscal year ended December 31, 2017
Net income used to calculate basic earnings per share	153,698	147,010
Adjustments to net income	-	-
Net income used to calculate diluted earnings per share	153,698	147,010
		(Thousands of shares)
Weighted average number of ordinary shares	489,089	492,832
Increase in ordinary shares		
Subscription rights to shares	199	337
Weighted average number of ordinary shares after dilution	489,289	493,170
		(Yen)
Diluted earnings per share	314.12	298.09
Summary of potential ordinary shares not included in the calculation of diluted earnings per share because they have no dilutive effect	-	-

4. Significant Subsequent Events

None applicable.

Changes in significant subsidiaries during this year

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

Note regarding Assumption of Going Concern

None applicable.