Consolidated Financial Results

for the Three Months Ended March 31, 2019

Kao Corporation

April 24, 2019

FASF MEMBERSHIP

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

- The Kao Group adopted IFRS 16 “Leases” in the three months ended March 31, 2019.

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Overview of January-March 2019 and Forecasts

- The Cosmetics Business performed strongly in both Japan and Asia, exceeding plans. The operating margin was 9.2%. Sales of the eleven global strategy brands (G11) increased 18% compared with the same period a year earlier, and the eight regional strategy brands (R8) grew 9%. The Kao Group will aim for further growth, mainly from structural reforms and G11 enhancements such as a prestige skin care brand expansion in autumn.
- In the Skin Care and Hair Care Business, new UV care products for the *Bioré* skin care brand made a strong start in Japan. *Bioré* UV care products also remained strong in Asia. In the Americas, sales of *Oribe,* a brand for high-end hair salons were strong, but *Bioré* continued to struggle. Aiming for a recovery from April. In hair care products, the Kao Group aims for growth from enhancing its premium lineup of shampoos and conditioners by introducing the new brand *and and* in Japan, improving *Merit PYUAN*, and other measures.
- Sales of *Laurier* sanitary napkins continued to grow in Japan and China. Sales and operating income for *Merries* baby diapers decreased as resellers' purchase of products from Japan to sell in China declined due to China's new e-commerce law, resellers lowered selling prices in China due to their inventory adjustments and cross-border e-commerce continued to face tough conditions. Cross-border e-commerce is expected to recover from April. The Kao Group intends to strengthen *Merries*' brand equity by launching a super premium product in China. In Japan, the Kao Group intends to increase market share through sales promotion enhancements and other measures, and aims to recover during the full fiscal year and improve profitability.
- In the Fabric and Home Care Business in Japan, initial shipments of the innovative new laundry detergent *Attack ZERO* and sales of *Flair Fragrance* fabric softener, which was improved in 2018, were steady. The Kao Group will strengthen investment in marketing for *Attack ZERO* and other new and improved products with the aim of expanding market share to deal with the increase in the consumption tax rate.
- In the Chemical Business, sales fell below the plan due to a drop in prices of natural fats and oils, but operating income was as planned. The Kao Group intends to expand high-value-added businesses.

- From April, the Kao Group will expand sales and operating income by nurturing *Attack ZERO*, expanding UV care products for the peak demand season, enhancing the *Merries* brand with the launch of super premium products in China, stepping up initiatives toward the consumption tax rate hike in October and expanding its prestige skin care brands including *SENSAI, est* and other brands in the autumn, among other measures, with the aim of achieving its forecast of consolidated operating results for the fiscal year ending December 31, 2019.

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Highlights of Consolidated Financial Results

Consumer Products Market[1] (January - March 2019)

Growth of household and personal care market in Japan:[2] SRI +3 points/SCI +5 points

Growth of cosmetics market in Japan:[3] Slightly higher than the same period a year earlier

Consumer purchase price for 15 major household and personal care categories in Japan:[4] +2 points

Consolidated Operating Results (Three months ended March 31)

(Billion yen)	FY2018	FY2019	Growth %	Change
Net sales	350.6	346.9	(1.1)	(3.7)
Effect of currency translation[5]			(0.9)	(3.2)
Like-for-like, excluding effect of currency translation			(0.2)	(0.5)
Operating income	39.4	38.2	(3.1)	(1.2)
Operating margin	11.2%	11.0%	-	-
Income before income taxes	38.7	38.6	(0.2)	(0.1)
Net income	28.2	27.0	(4.1)	(1.1)
Net income attributable to owners of the parent	27.8	26.4	(4.8)	(1.3)
EBITDA (Operating income + Depr. & amort.)	54.0	54.1[6]	+0.1	+0.1
Basic earnings per share (yen)	56.36	54.33	(3.6)	(2.03)

1. SRI: Estimates based on POS data from approx. 3,000 retail outlets nationwide / SCI: Purchasing data from approx. 50,000 consumer monitors nationwide
   SLI: Purchasing data for cosmetics, skin care and hair care products from approx. 40,000 female monitors 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: 110.09 yen/USD, 125.10 yen/Euro, 16.31 yen/Yuan
6. Excluding depreciation of right-of-use assets resulting from the impact of adoption of IFRS 16 “Leases.”

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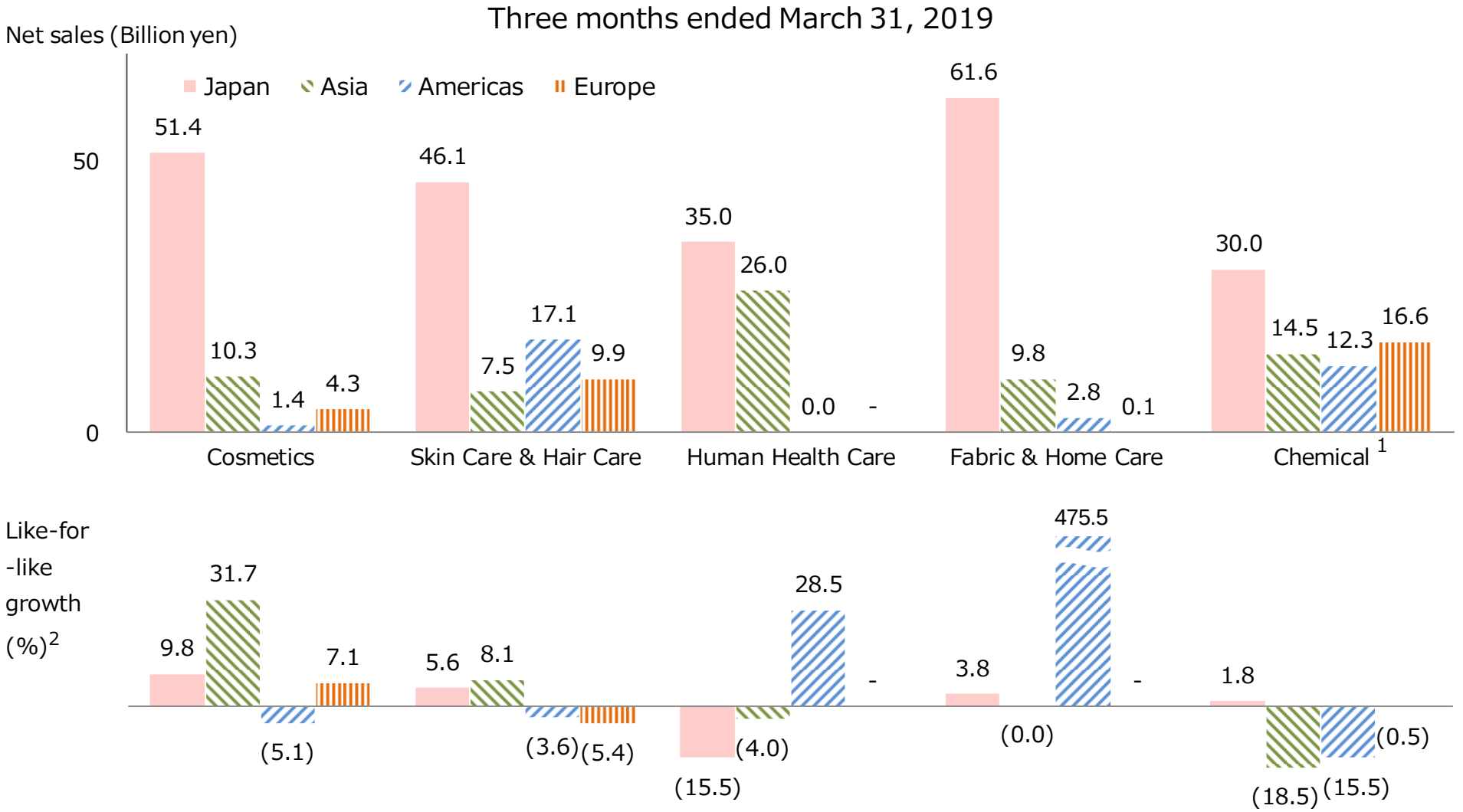
Consolidated Net Sales by Segment/Geographic Area



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

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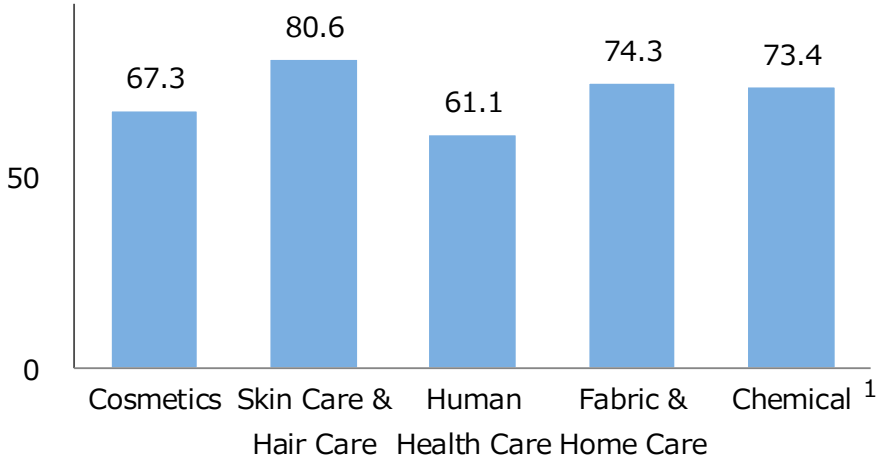
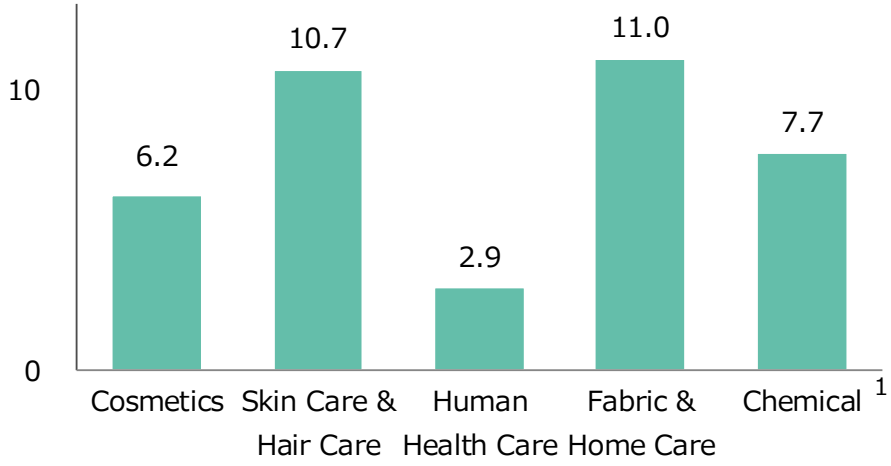
Consolidated Results by Segment

Three months ended March 31, 2019

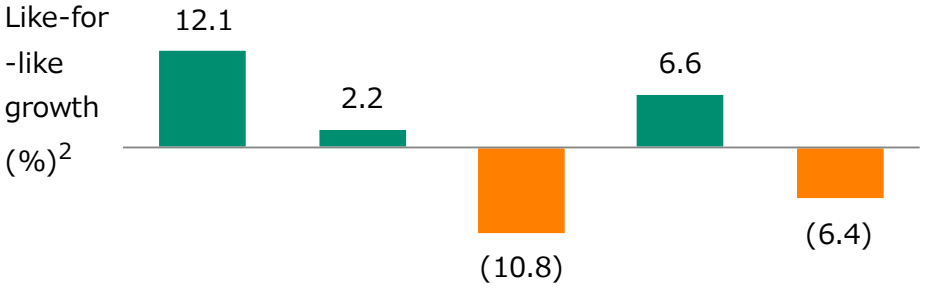
Net sales (Billion yen)



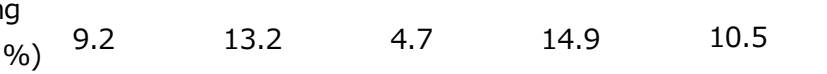
Operating income (Billion yen)



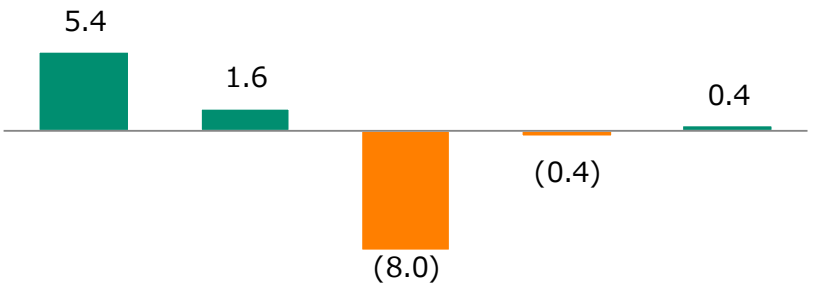
Like-for-like growth (%)[2]



Operating margin (%)



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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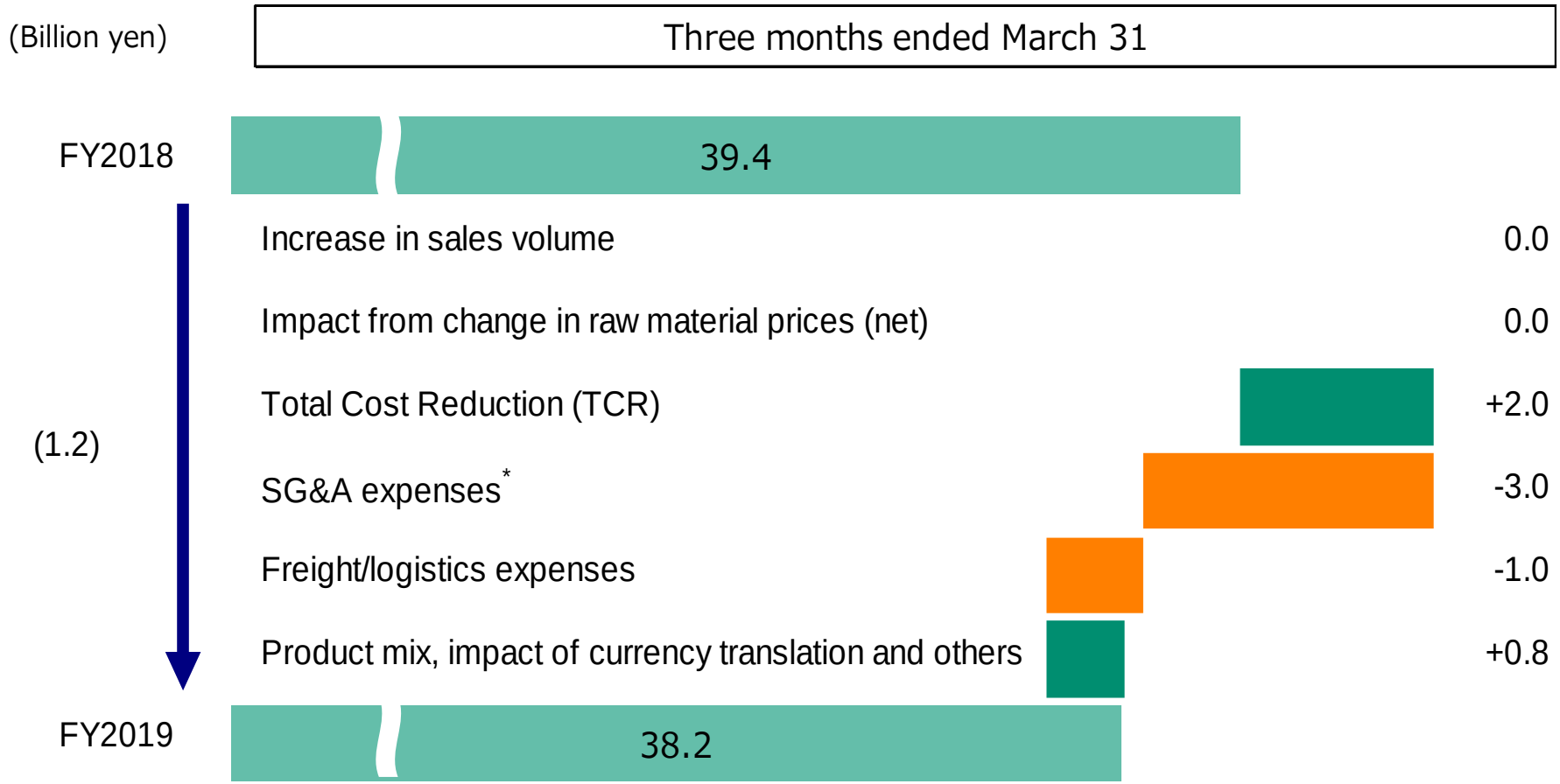
Analysis of Change in Consolidated Operating Income



* Excluding the effect of currency translation

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Impact of Adoption of IFRS 16

The Kao Group adopted IFRS 16 “Leases” in the three months ended March 31, 2019.
For lease contracts previously accounted for as operating leases, right-of-use assets and lease liabilities are recognized in the consolidated financial statements. The impact of this change on each of the consolidated financial statements in the three months ended March 31, 2019 is shown below.

(Billion yen)

Amount of transition at beginning of current period

Consolidated Statement of Financial Position			
Assets		Liabilities and equity	
Right-of-use assets	**+171.9**	**Lease liabilities**	**+167.4**
Other	**-6.4**	**Other**	**-1.9**
Total impact of IFRS Adoption	+165.5		+165.5

Three Months ended March 31, 2019

Consolidated Statement of Income		
Net sales	-	
Lease payments	+5.3	(Decrease)
Depreciation	-5.1	(Increase)
Operating income	**+0.2**	
Financial expenses (Interest expenses)	-0.4	(Increase)
Income before income taxes	**-0.2**	

Consolidated Statement of Cash Flows	
Income before income taxes	-0.2
Depreciation	+5.1
Net cash flows from operating activities	**+4.9**
Net cash flows from investing activities	-
Repayments of lease liabilities	-4.9
Net cash flows from financing activities	**-4.9**
Net increase (decrease) in cash and cash equivalents	-

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