

Highlights for the 1st Half of FY2012

(Ended September 30, 2012)

October 23, 2012

Kao Corporation

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President and CEO



KaO

Enriching lives, in harmony with nature.

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http://www.kao.com/jp/en/corp_ir/presentations.html

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.

Note: The yen amounts in these presentation materials, which were previously truncated to their respective units for presentation, are rounded to the nearest unit from FY2012, ending December 31, 2012.

Agenda

- ■ **Summary of the 1st Half of FY2012**
- ■ **Summary of FY2012 Forecast**
- ■ **Kao Group's Future Direction**

Summary of the 1st Half of FY2012

Financial Overview – 1st Half of FY2012

- Global economic outlook is increasingly uncertain due to credit insecurity in Europe, substantially decreased exports from Asia including China, etc.
- In Japan, deflation continues and consumer sentiment has turned gloomy, mainly due to concerns about the future caused by an uncertain economic outlook.

		<u>Year-on-year</u>	<u>Forecast²</u>
Net sales	¥609.0 billion	-1.0%	¥615.0 billion
EBITA¹ [% of sales]	¥69.7 billion [11.4%]	-6.2%	
Operating income [% of sales]	¥53.4 billion [8.8%]	-7.2%	¥53.0 billion
Net income [% of sales]	¥35.9 billion [5.9%]	+16.6%	¥33.0 billion
Net income per share	¥68.72	+16.7%	¥63.24
Shareholder returns			
Cash dividends per share	¥31	+¥2	¥31

1. Operating income before amortization of goodwill and intellectual property rights related to M&A

2. Forecast announced on July 25, 2012

Executive Summary – 1st Half of FY2012

■ The results for the 1st half of FY2012 were generally in line with the forecast.¹

- Net sales decreased 1.0% year-on-year, but grew 0.5% on a like-for-like basis.²
- Operating income in the 1st quarter and the 2nd quarter of FY2012 was -29.1% and +15.5% year-on-year, respectively. As a result, operating income in the 1st half decreased 7.2%, but progressed as forecast.

■ Interim cash dividend per share is raised 2 yen to 31 yen as planned.

- Cash dividend per share is planned to be 31 yen for the year-end, totaling 62 yen for FY2012, an increase of 2 yen per share compared with the previous fiscal year.

1. Forecast announced on July 25, 2012

2. Like-for-like growth rate excludes effect of currency translation

Summary of Sales by Segment – 1st Half of FY2012

■ Consumer Products Business:

Grew 0.2% year-on-year (like-for-like* +1.2%) and performed solidly overall due to the launch and nurture of high-value-added products.

- **Beauty Care Business: -1.7% year-on-year (Like-for-like -0.3%)**

Prestige cosmetics performed solidly. Sales of *Bioré* skin care products and *Jergens* hand and body lotions grew in premium skin care products. In premium hair care products, the performance of shampoos, conditioners and hair coloring products was weak in Japan, but foam hair color performed strongly outside Japan.

- **Human Health Care Business: +3.5% (Like-for-like +4.0%)**

Sanitary products delivered strong results, while sales of beverage products and oral care products decreased year-on-year due to intensified competition.

- **Fabric and Home Care Business: +1.9% (Like-for-like +2.4%)**

Fabric care products performed solidly due to the strong performance of fabric softeners and bleaches in Japan and the launch of new products under the *Attack* brand in Asia. Home care products also performed well.

■ Chemical Business:

Decreased 6.4% year-on-year (like-for-like -2.9%) mainly due to factors such as decreased demand in customer industries and selling price adjustments made in connection with significantly lower raw material prices. The results were worse than expected.

* Like-for-like growth rate excludes effect of currency translation

Summary of FY2012 Forecast

Fiscal year end is December 31 from FY2012

Term of consolidation for FY2012 as a transitional period

- **Group companies whose fiscal year end was previously March 31*:
April-December 2012**
- **Group companies whose fiscal year end is December 31:
January-December 2012**

Record dates for FY2012

- **Interim dividend: End of September 2012**
- **Year-end dividend: End of December 2012**

Adjusted year-on-year growth rate

Comparison with the nine-month period from April 1 to December 31, 2011 for group companies with a fiscal year end in March

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

Summary of FY2012 Forecast

		<u>Adjusted year-on-year ²</u>
Net sales	¥1,020.0 billion	+1.2%
EBITA ¹ [% of sales]	¥123.8 billion [12.1%]	-0.2%
Operating income [% of sales]	¥100.0 billion [9.8%]	+1.6%
Net income [% of sales]	¥60.0 billion [5.9%]	+16.1%
Net income per share	¥114.98	+16.0%
ROE ³	10.9%	-
Shareholder returns		
Cash dividends per share [Consolidated payout ratio]	¥62 [53.9%]	+¥2

[Risks related to achieving the forecast]

- Further worsening of the business environment for the Chemical Business mainly due to slower growth in emerging countries
- Downturn in consumer sentiment and selective consumption in Japan, mainly due to sluggish economy and continued deflation
- Intensified competition toward the year-end in the Consumer Products Business in Japan

1. Operating income before amortization of goodwill and intellectual property rights related to M&A

2. Year-on-year comparison excluding impact of change in financial term (see slide 8 for details).

3. ROE forecast is for the transitional period connected with the change in fiscal year end.

Kao Group's Future Direction

Kao Group's Vision for the Future

A company with a global presence



"Continuous innovation"

- Maintain a spirit of challenge
- Provide attractive products and services that create markets
- Exert the comprehensive capabilities of the Kao Group

Achieve both sustained "profitable growth" and "contributions to society"

Corporate philosophy of the Kao Group (The Kao Way)

To strive for the wholehearted satisfaction and enrichment of the lives of people globally and to contribute to the sustainability of the world

Sustained Profitable Growth

1. Expand the Consumer Products Business globally

- Growth markets: Expand the business significantly by proposing products in the "cleanliness" domain that target the growing middle-class consumer segment
- Mature markets: Accelerate growth with high-value-added products

2. Accelerate profitable growth in the Beauty Care and Human Health Care Businesses

- Propose products and services through new approaches with the themes of "health" and "the aging society"

3. Reinforce the Chemical Business

- Rapid progress toward an eco-chemical business by leveraging eco-technology research
- Further collaboration with the Consumer Products Business

Strengthening Production in Asia

***Capital expenditure to accelerate global growth:
Total amount of approximately ¥28 billion***

Consumer Products Business

New plant in China

Hefei City, Anhui Province

Initial investment: Approx. ¥6 billion

Operation to start at the end of 2012

New plant in Indonesia

Karawang, West Java

Investment: Approx. ¥10 billion

Operation to start at the end of 2013

Chemical Business

New plant in Indonesia

Karawang, West Java

Investment: Approx. ¥4 billion

Operation to start in January 2013

Production capacity expansion in the Philippines

Luz Banzon, Jasaan

Investment: Approx. ¥3 billion

Operation to start in August 2013

New plant in China

Jinshan District, Shanghai

Investment: Approx. ¥5 billion

Operation to start in 2014

Use of Free Cash Flow*

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

1. Capital expenditures and M&A for future growth

2. Steady and continuous cash dividends

FY2012
forecast



- Cash dividends per share: ¥62
- Consolidated payout ratio: 53.9%

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

* Free cash flow = Net cash provided by operating activities + Net cash used in investing activities

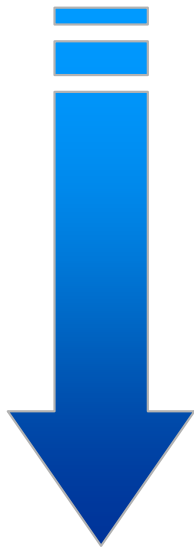
Sustained Contributions to Society

- **Fulfill our role as a public entity**
 - *Employment, tax payment, etc.*
- **Contribute to the resolution of social issues**
 - *Environment, aging society, health, etc.*
- **Continue and reinforce social contribution activities**
 - *Systematic activities to nurture the next generation in the areas of environment, education and community, disaster relief, etc.*
- **Collaborate with the global community**
 - *Participation in Global Compact*
 - *RSPO* membership and sustainable palm oil procurement*

* RSPO: Roundtable on Sustainable Palm Oil, an international non-profit organization that pursues solutions to issues related to palm oil production, including the destruction of ecosystems by rainforest logging and poor labor conditions for workers on plantations.

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Appendices

Business Segments and Main Product Categories



Note: Sales include intersegment sales. Share of net sales is calculated based on sales to customers.

1H/FY2012 Breakdown of Beauty Care Business

		Billion yen	Increase (Decrease) ¹
Beauty Care	Net sales	267.2	-1.7%
	Operating income ²	7.3	+0.3
	Operating margin	2.7%	+10bps
Prestige cosmetics	Net sales	125.2	-0.1%
	Operating income ²	-10.2	+2.4
	Operating margin	-8.1%	+200bps
Premium mass products and professional hair care products	Net sales	142.0	-3.1%
	Operating income ²	17.5	-2.1
	Operating margin	12.3%	-110bps

Kanebo Cosmetics

- Net sales:
Slightly more than ¥90 billion
(1H/FY2011: Slightly more than ¥90 billion)
- EBITA as a % of sales:³
Approx. 5%
(1H/FY2011: Approx. 3%)

1. Increase (decrease) in percent for net sales and billion yen for operating income

2. Includes amortization of goodwill and intellectual property rights related to M&A

• Beauty Care: ¥16.3 billion

- Prestige cosmetics: ¥14.2 billion

- Premium mass products and professional hair care products: ¥2.1 billion

3. Operating income ratio before deduction of royalties

Rebuilding Prestige Cosmetics Business in Japan

Initiatives:

□ Reform of brands

↳ Narrow down number of brands

□ Reform of marketing

↳ Raise efficiency of marketing expenditures

□ Reform of sales methods

↳ Optimize deployment of human capital

↳ Create synergy between the sales activities of Kao Customer Marketing Co., Ltd. and Kanebo Cosmetics Sales Inc.

Achievements in the 1st Half of FY2012

Efficient use of expenses by both Kao Sofina and Kanebo Cosmetics

↳ Marketing expenses: -1.1% year-on-year

↳ Personnel expenses: -2.1% year-on-year

Prestige Cosmetics in Japan – 1st Half of FY2012

Cosmetics market in Japan

[Year-on-year growth on a value (yen) basis]	Apr. -Sep. 12	Apr. 11-Mar. 12
Total market	+0.4%	-3.5%
High-priced segment (over ¥5,000):	+0.2%	-4.4%
Mid-priced segment (¥2,000-5,000):	-1.1%	-4.2%
Low-priced segment (below ¥2,000):	+2.8%	-1.2%
Kao Group total (Kanebo Cosmetics + Kao Sofina)	+3.3%	+1.6%

Source: SLI survey by INTAGE Inc. (Data based on tracking service of 40,060 female consumers nationwide in Japan)

SRI Indexes and External CSR Evaluation

SRI indexes for which Kao has been selected



CSR-related evaluation from external organization



(As of October 23, 2012)

CSR: Corporate Social Responsibility
SRI: Socially Responsible Investment

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