

Semi-Annual Financial Review

From April 1, 2012 to September 30, 2012

Kao Corporation

October 23, 2012

This is a translation of materials used for the analyst meeting held in Japan on October 23, 2012.



These presentation materials are available on our website in PDF format:

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

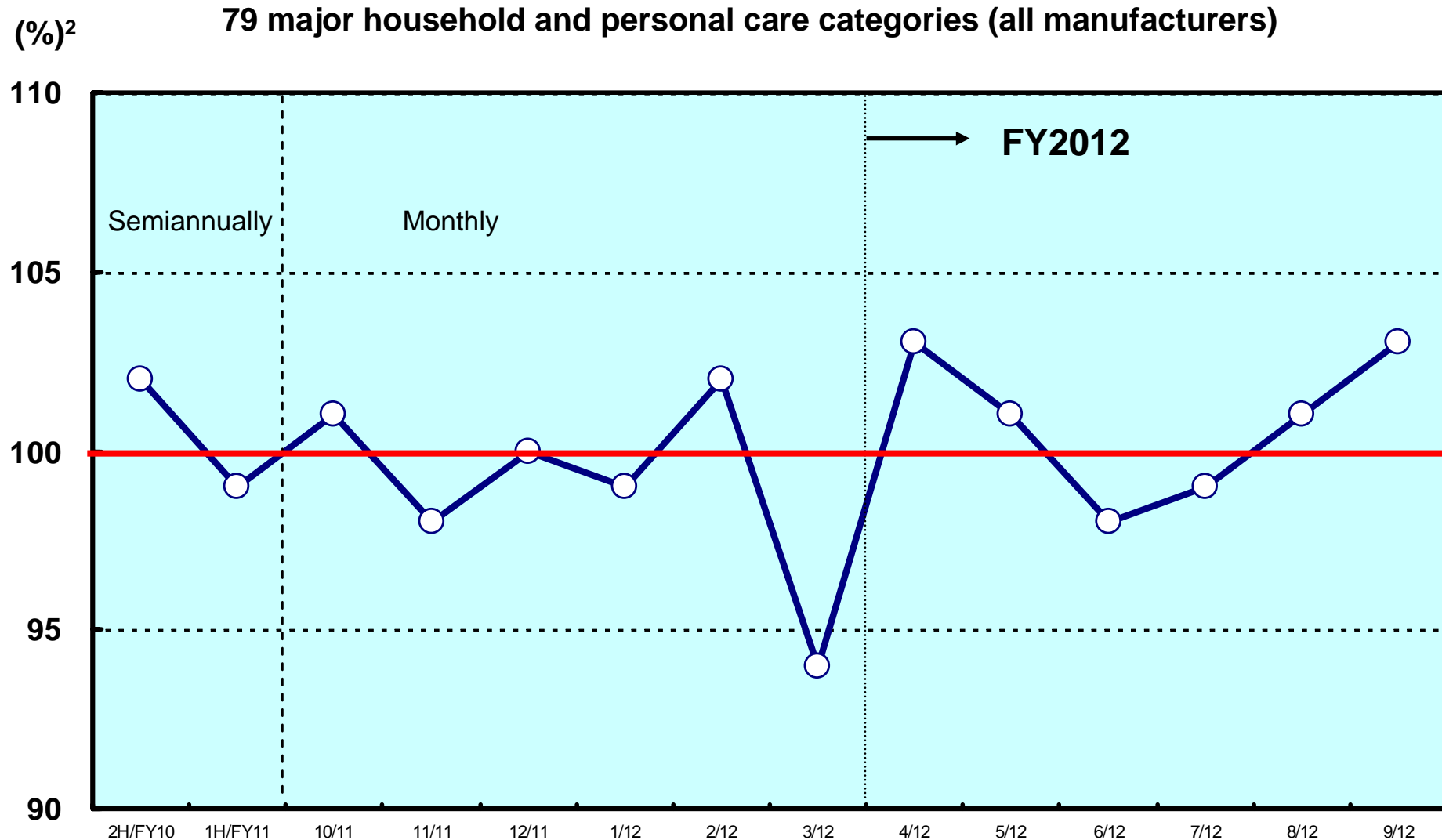
Forward-looking statements such as earnings forecasts and other projections contained in this release are based on information available at this time and assumptions that management believes to be reasonable, and do not constitute guarantees of future performance. Actual results may differ materially 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. Figures for FY2011, ended March 31, 2012, and prior fiscal years have also been restated for ease of comparison.

1. Business Environment

April 1, 2012– September 30, 2012

Consumer Products¹ Market in Japan

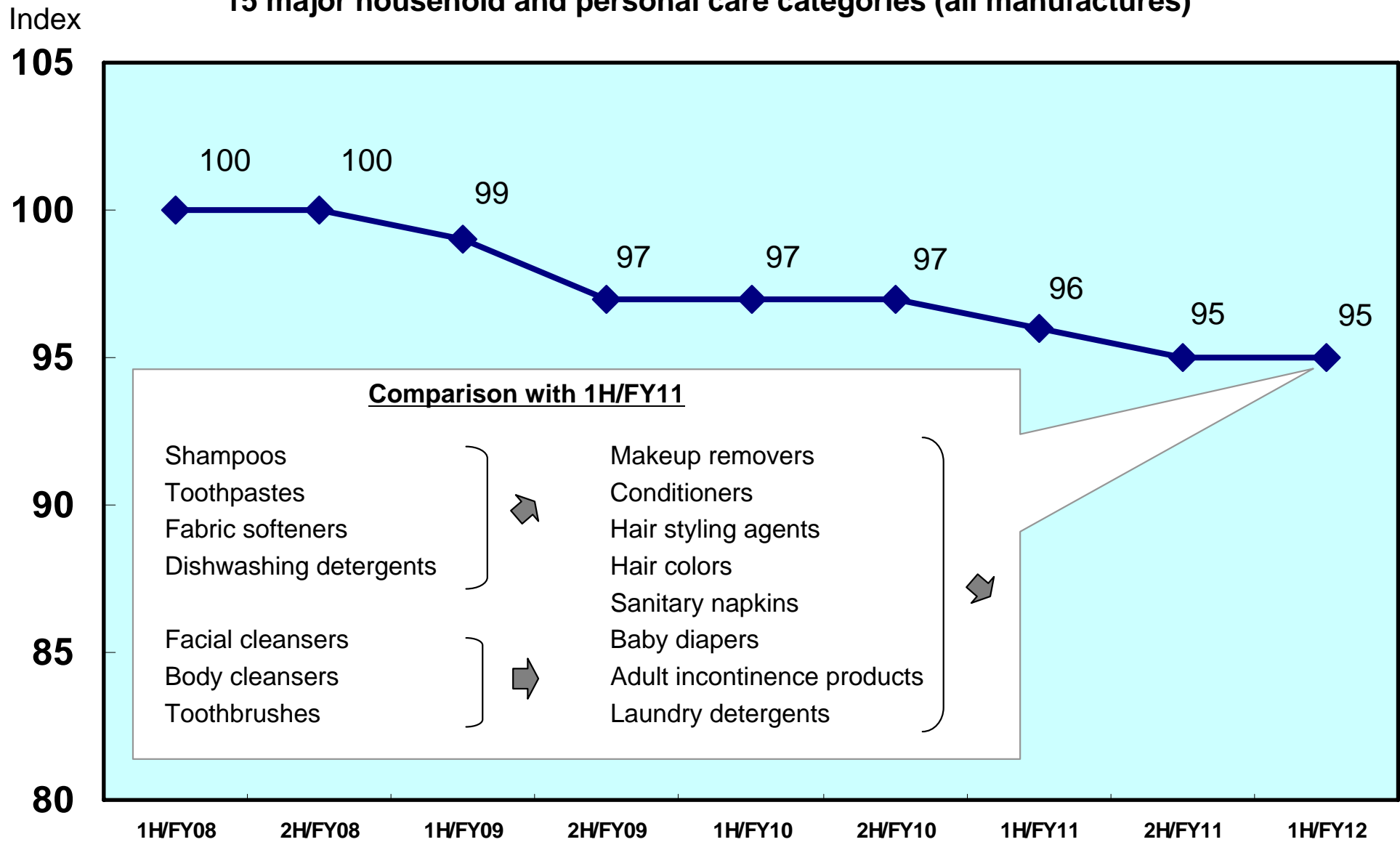


- 1 Consumer products do not include prestige cosmetics.
- 2 Year-on-year growth rate of market size in value (yen)
3. The data of 2H/FY10 includes hoarding due to the earthquake in March 2011.

(Source: SRI POS data by INTAGE Inc.)

Consumer Purchase Prices in Japan

15 major household and personal care categories (all manufactures)



(Source: SRI POS data by INTAGE Inc.)

2. Consolidated Business Results

April 1, 2012 – September 30, 2012

Key Points in 1H/FY2012

Japan sales related

1. Consumer purchase price of 15 major household and personal care categories market in Japan¹: -1 point year-on-year
2. Growth of household and personal care market in Japan²: +1%
3. Growth of the cosmetics market in Japan³: +0.4%

Income statements related

1. Net sales:	¥609.0 billion	(-1.0% year-on-year)
• Effect of currency translation:	-¥9.3 billion	(-1.5% year-on-year)
• Like-for-like sales growth:	+¥3.4 billion	(+0.5% year-on-year)
2. Increase/decrease in operating income ⁴ :	-¥4.1 billion	

Cash flow related

1. Free cash flow ⁵	¥33.3 billion
2. Payments of cash dividends ⁶ :	¥18.5 billion

1 Index with the 1st half of FY2008 as 100 (Source: SRI POS data by INTAGE Inc.)

2 Source: SRI POS data by INTAGE Inc.

3 Source: SLI data by INTAGE Inc.

4 Please refer to slide 12 for details

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

6 Includes payments of cash dividends to minority shareholders

1H/FY2012 Consolidated Results

Billion yen	<u>1H/FY10</u>	<u>1H/FY11</u>	<u>1H/FY12</u>	Growth	Changes
Net Sales	601.4	614.9	609.0	-1.0%	-5.9
EBITA*	75.2	74.3	69.7	-6.2%	-4.6
<i>EBITA* Margin</i>	12.5%	12.1%	11.4%		
Operating Income	57.9	57.5	53.4	-7.2%	-4.1
<i>Operating Margin</i>	9.6%	9.4%	8.8%		
Ordinary Income	56.4	58.9	55.4	-6.0%	-3.5
Net Income	27.8	30.7	35.9	+16.6%	+5.1
EBITDA	98.4	96.8	91.6	-5.4%	-5.2
EPS (yen)	51.93	58.89	68.72	+16.7%	+9.83

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

Consolidated Net Sales [1]

	1H/FY2011		1H/FY2012		
	Billion yen	% Growth	Billion yen	%	
				Growth	Like-for-like ¹
Beauty Care Business	204.4	-1.1	203.6	-0.4	-0.4
Human Health Care Business	82.0	+1.4	84.9	+3.4	+3.4
Fabric and Home Care Business	130.5	+2.0	132.6	+1.6	+1.6
Japan Total	416.9	+0.4	421.1	+1.0	+1.0
Asia ²	40.8	+5.4	42.4	+3.7	+8.0
North America ²	29.2	-0.8	28.1	-3.9	-1.4
Europe	31.3	+6.1	27.4	-12.5	-3.5
Eliminations	-12.6	-	-12.0	-	-
Consumer Products Business	505.8	+0.6	507.0	+0.2	+1.2

1: Like-for-like: excludes effect of currency translation

2: Australia and New Zealand, which had been included in Asia until FY2011, have been reclassified to North America from FY2012. The results of FY2011 have been restated for the purpose of comparison.

Consolidated Net Sales [2]

	1H/FY2011		1H/FY2012		
	Billion yen	% Growth	Billion yen	%	
				Growth	Like-for-like*
Japan	63.1	+2.0	60.3	-4.4	-4.4
Asia	49.5	+48.6	39.6	-20.0	-17.3
North America	19.1	+27.0	17.4	-8.9	-3.3
Europe	29.9	+15.2	27.0	-9.5	+1.1
Eliminations	-33.4	-	-24.4	-	-
Chemical Business	128.1	+11.3	119.9	-6.4	-2.9
Eliminations	-19.0	-	-17.9	-	-
Consolidated Net Sales	614.9	+2.3	609.0	-1.0	+0.5

*Like-for-like: excludes effect of currency translation

Consolidated Income Statements

	1H/FY2011		1H/FY2012		Changes ¹
	Billion yen	%	Billion yen	%	Billion yen
Net Sales	614.9	100.0	609.0	100.0	-5.9
Cost of Sales	263.5	42.9	262.9	43.2	-0.6
Gross Profit	351.4	57.1	346.0	56.8	-5.3
SG&A Expenses ²	293.9	47.8	292.7	48.1	-1.2
Operating Income	57.5	9.4	53.4	8.8	-4.1
Non-operating Income/Expenses	1.4	0.2	2.0	0.3	+0.6
Ordinary Income	58.9	9.6	55.4	9.1	-3.5
Extraordinary Gain/Loss	-3.0	-0.5	-0.7	-0.1	+2.4
Income Before Income Taxes and Minority Interests	55.9	9.1	54.7	9.0	-1.2
Income Taxes	24.2	3.9	18.2	3.0	-6.0
Income Before Minority Interests	31.7	5.1	36.5	6.0	+4.8
Minority Interests	0.9	0.1	0.6	0.1	-0.3
Net Income	30.7	5.0	35.9	5.9	+5.1

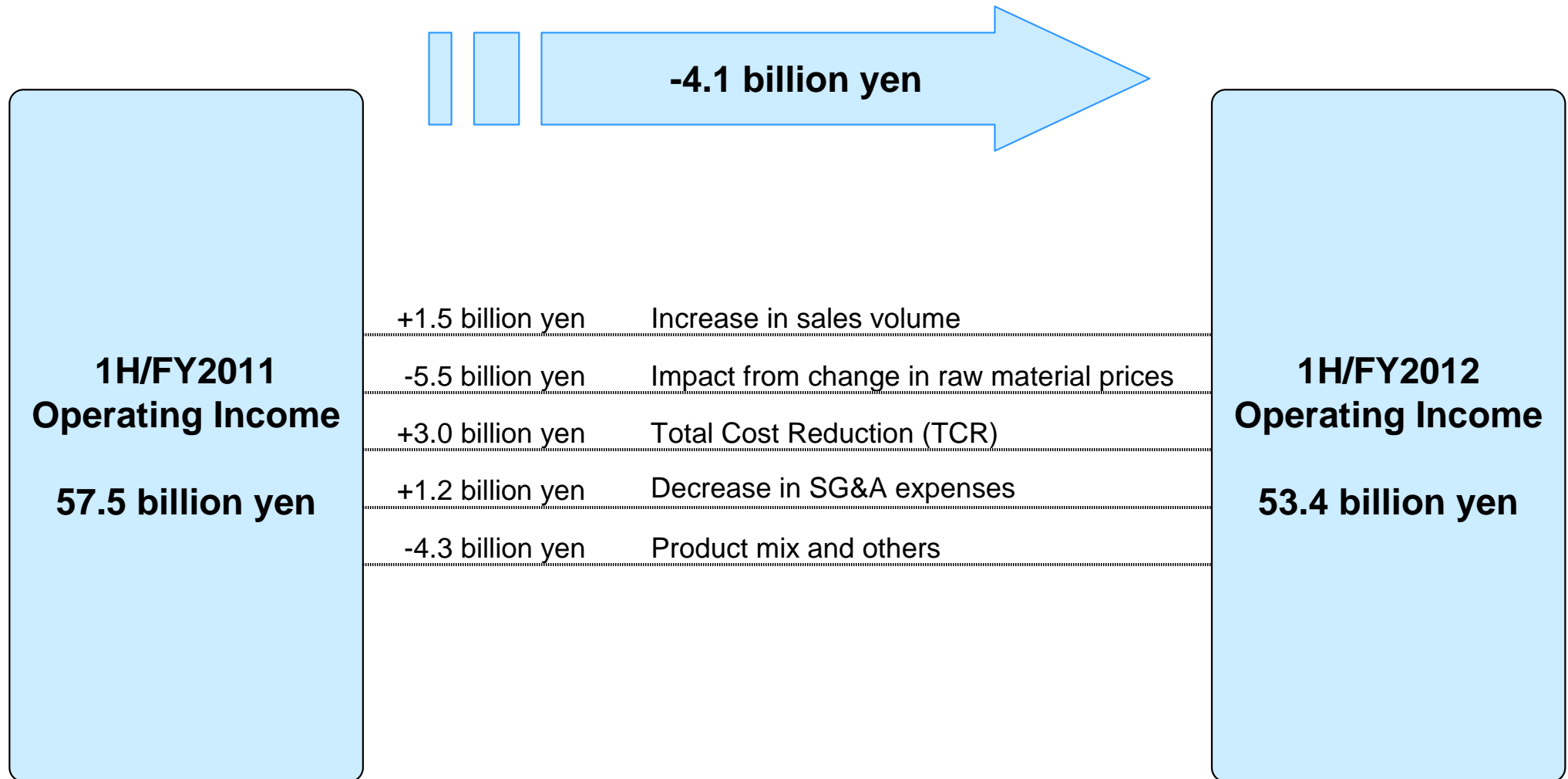
1 Changes = 1H/FY2012 – 1H/FY2011

2 Amortization related to Kanebo Cosmetics

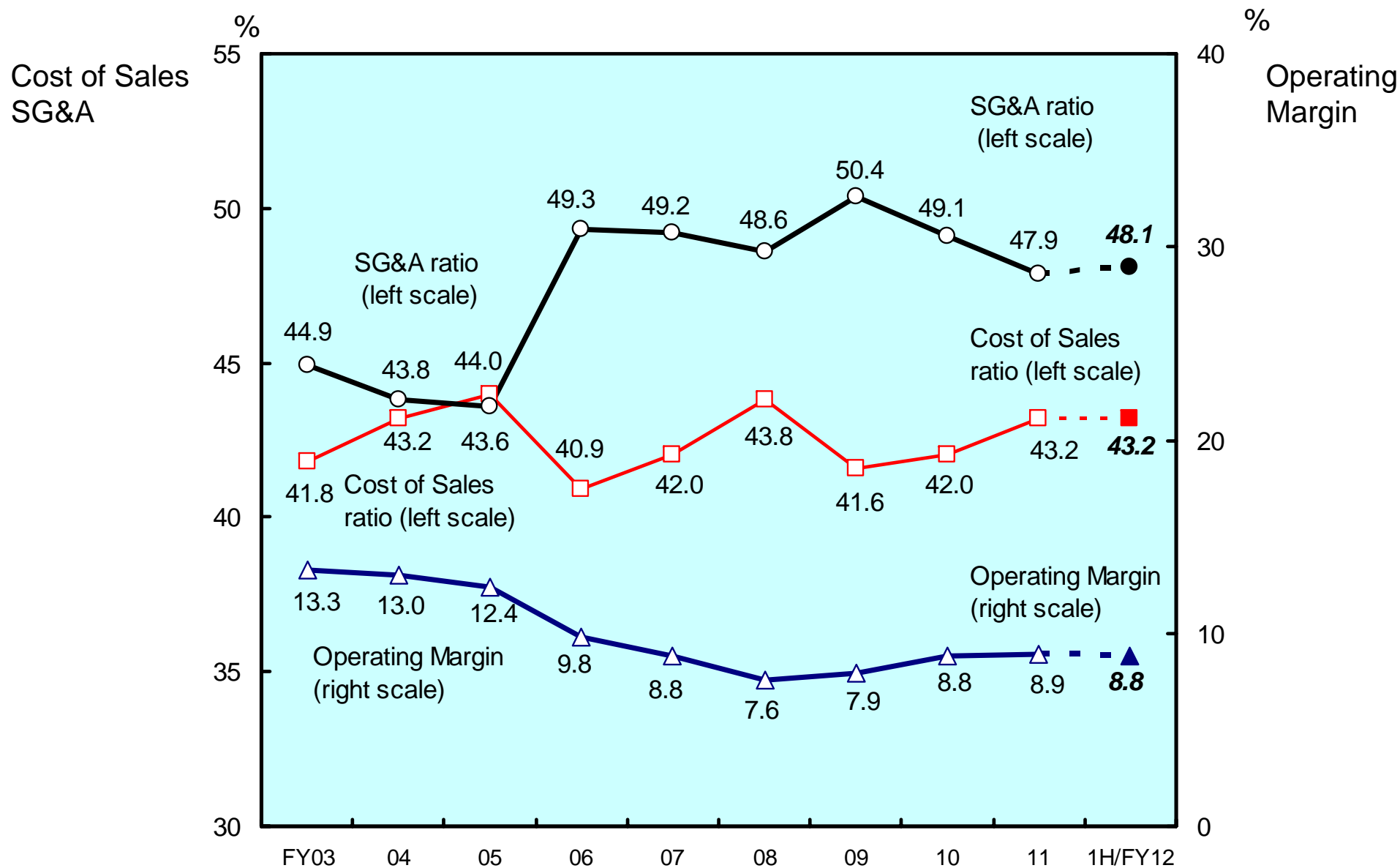
1H/FY2011: 13.7 billion yen, 1H/FY2012: 13.7 billion yen

1H/FY2012 Consolidated Operating Income Analysis

Comparison with 1H/FY2011



Consolidated Cost of Sales and SG&A to Net Sales



*Structure has changed significantly since FY2006 due to the consolidation of Kanebo Cosmetics.

Breakdown of Major Consolidated SG&A Expenses

(Billion yen)

	1H/FY2011	1H/FY2012	Changes*
Total SG&A Expenses	293.9	292.7	-1.2

Freight/Warehouse	34.8	34.9	+0.1
Advertising	43.7	43.2	-0.5
Sales Promotion	31.8	31.3	-0.5
Salaries and Bonuses	61.1	60.7	-0.4
R&D	23.6	24.0	+0.4

* Changes = 1H/FY2012 – 1H/FY2011

Effect of currency translation on SG&A expenses: -2.7 billion yen

Consolidated Non-operating Income/Expenses and Extraordinary Gain/Loss

(Billion yen)

Non-operating Income/Expenses	1H/FY2011	1H/FY2012	Changes*
Non-operating Income	3.3	3.2	-0.1
Interest Income	0.4	0.5	
Dividend Income	0.1	0.1	
Equity in Earnings of Nonconsolidated Subsidiaries and Affiliates	1.4	1.2	
Foreign Currency Exchange Gain	-	0.1	
Other	1.4	1.3	
Non-operating Expenses	1.9	1.2	-0.7
Interest Expense	1.2	0.8	
Foreign Currency Exchange Loss	0.3	-	
Other	0.4	0.4	

Extraordinary Gain/Loss	1H/FY2011	1H/FY2012	Changes*
Extraordinary Gain	0.2	0.5	+0.3
Gain on Sales of Fixed Assets	0.1	0.1	
Gain on Sales of Stock of Subsidiary	-	0.3	
Other	0.1	0.1	
Extraordinary Loss	3.2	1.1	-2.1
Loss on Sales/Disposals of Fixed Assets	1.2	1.1	
Other	2.1	0.0	

* Changes = 1H/FY2012 – 1H/FY2011

Consolidated Results by Segment

		1H/FY2011		1H/FY2012		Changes Billion yen	Growth %
		Billion yen	% of net sales	Billion yen	% of net sales		
Beauty Care Business	Net Sales ¹	271.8	-	267.2	-	-4.6	-1.7%
	EBITA ²	23.8	8.8%	23.6	8.8%	-0.2	-0.7%
	Operating Income	7.0	2.6%	7.3	2.7%	+0.3	+4.7%
Human Health Care Business	Net Sales ¹	90.7	-	93.8	-	+3.2	+3.5%
	Operating Income	8.2	9.1%	5.8	6.2%	-2.4	-28.8%
Fabric and Home Care Business	Net Sales ¹	143.3	-	146.0	-	+2.7	+1.9%
	Operating Income	28.8	20.1%	31.0	21.2%	+2.2	+7.5%
Chemical Business	Net Sales ¹	128.1	-	119.9	-	-8.3	-6.4%
	EBITA ²	13.5	10.6%	9.2	7.7%	-4.3	-31.9%
	Operating Income	13.5	10.5%	9.2	7.7%	-4.3	-32.0%
Consolidated	Net Sales	614.9	-	609.0	-	-5.9	-1.0%
	EBITA ²	74.3	12.1%	69.7	11.4%	-4.6	-6.2%
	Operating Income	57.5	9.4%	53.4	8.8%	-4.1	-7.2%

1 Before elimination of intersegment transfers

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

[Reference] Consolidated Results by Geographic Area

		1H/FY2011		1H/FY2012		Changes Billion yen	Growth %
		Billion yen	% of net sales	Billion yen	% of net sales		
Japan	Net Sales ¹	463.2	-	465.6	-	+2.3	+0.5%
	EBITA ²	61.0	13.2%	62.4	13.4%	+1.5	+2.4%
	Operating Income	45.2	9.7%	47.0	10.1%	+1.9	+4.1%
Asia ³	Net Sales ¹	88.8	-	80.5	-	-8.3	-9.3%
	Operating Income	6.3	7.1%	3.3	4.1%	-3.0	-47.2%
North America ³	Net Sales ¹	48.3	-	45.4	-	-2.9	-5.9%
	EBITA ²	3.3	6.7%	1.2	2.5%	-2.1	-64.6%
	Operating Income	2.9	6.0%	0.8	1.8%	-2.0	-70.9%
Europe	Net Sales ¹	61.1	-	54.4	-	-6.7	-11.0%
	EBITA ²	4.9	8.0%	2.8	5.2%	-2.1	-42.8%
	Operating Income	4.2	6.9%	2.2	4.0%	-2.1	-48.4%
Consolidated	Net Sales	614.9	-	609.0	-	-5.9	-1.0%
	EBITA ²	74.3	12.1%	69.7	11.4%	-4.6	-6.2%
	Operating Income	57.5	9.4%	53.4	8.8%	-4.1	-7.2%

¹ Before elimination of intersegment transfers

² Operating income before amortization of goodwill and intellectual property rights related to M&A

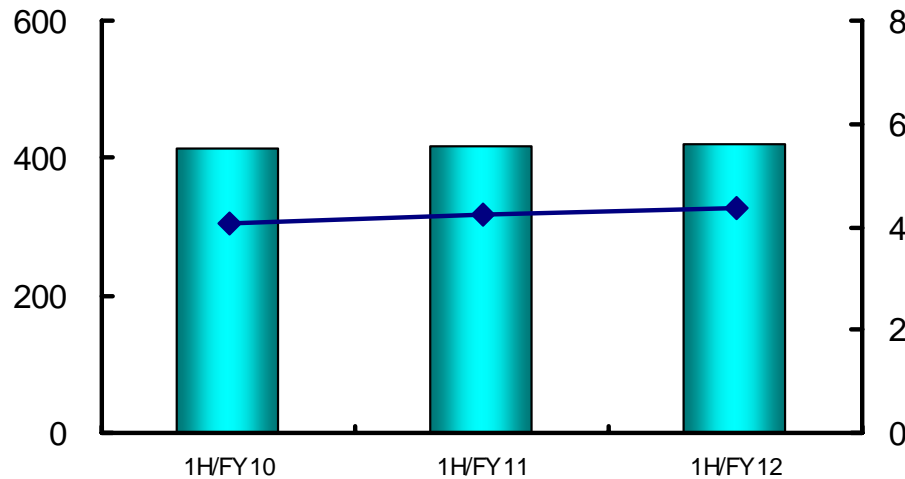
³ Australia and New Zealand, which had been included in Asia until FY2011, have been reclassified to North America from FY2012. The results of FY2011 have been restated for the purpose of comparison.

Consumer Products Business by Geographic Area

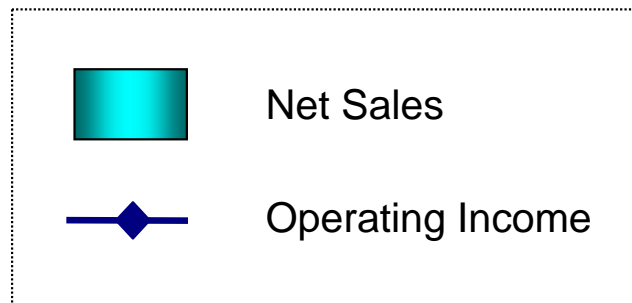
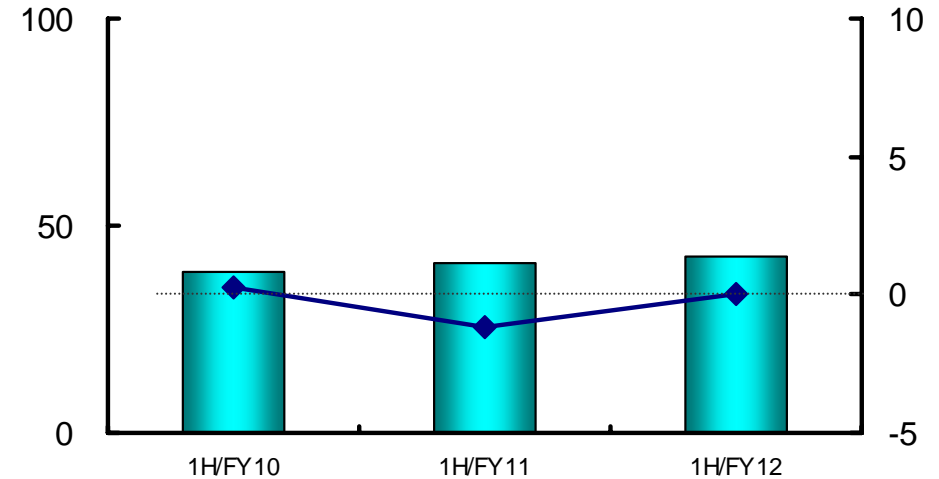
Japan

Sales (Billion yen)

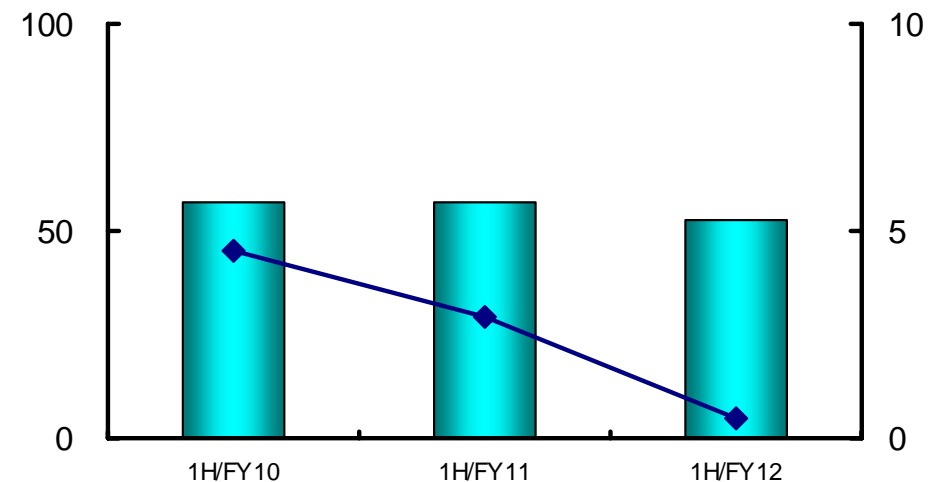
Operating Income
(Billion yen)



Asia



North America & Europe

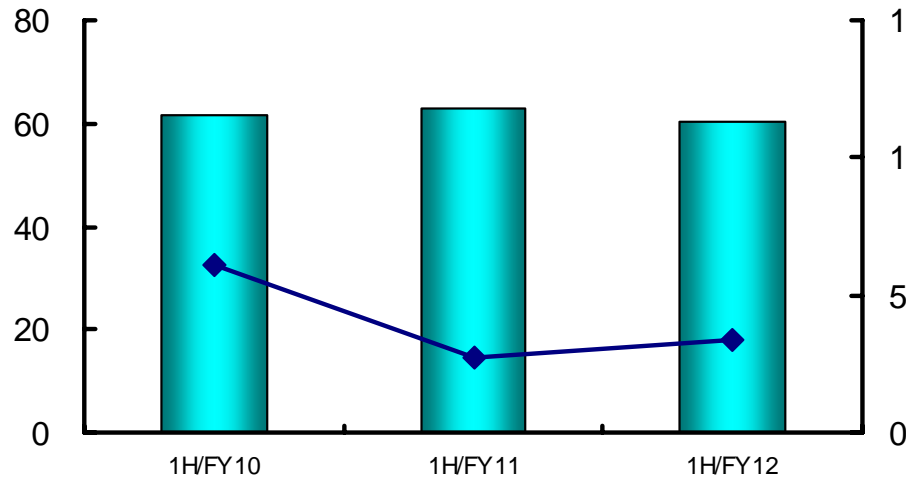


* Australia and New Zealand, which had been included in Asia until FY2011, have been reclassified to North America from FY2012. The results of FY2011 have been restated for the purpose of comparison.

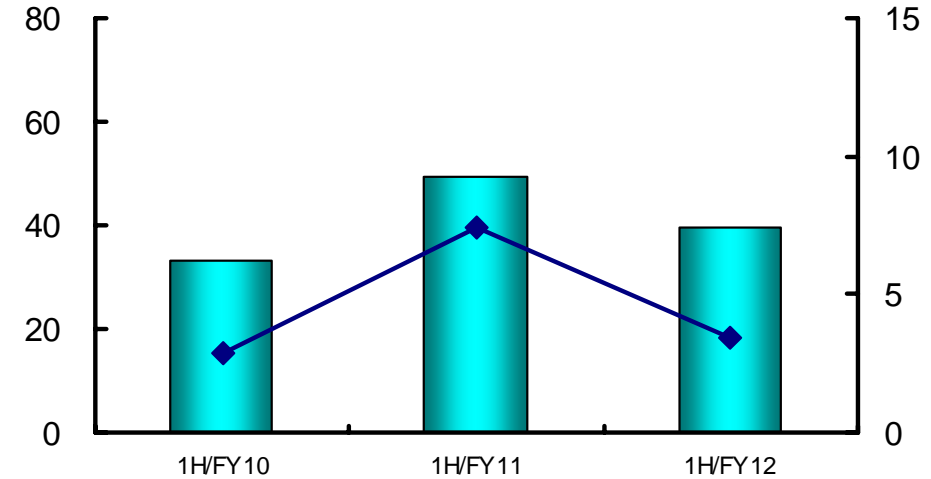
Chemical Business by Geographic Area

Japan

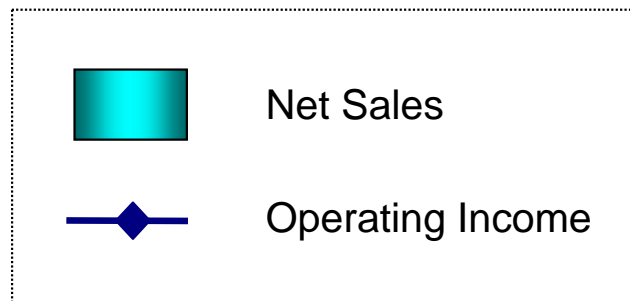
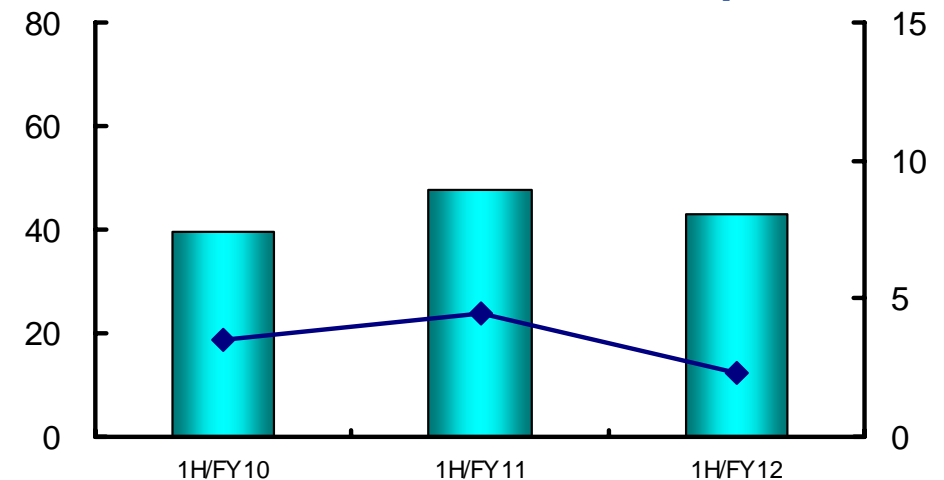
Sales (Billion yen)



Asia



North America & Europe



Consolidated Balance Sheets

(Billion yen)

	Mar/12	Sep/12	Changes		Mar/12	Sep/12	Changes
Current Assets	432.9	455.2	+22.3	Current Liabilities	274.9	315.7	+40.8
Cash and Time Deposits	85.5	92.2	+6.7	Notes and Accounts Payable - Trade	110.7	105.5	-5.1
Notes and Accounts Receivable - Trade	142.9	142.1	-0.7	Bonds/Short-term Debt (incl. Current Portion of Bonds/Long-term Debt)	2.1	53.5	+51.4
Short-term Investments	46.8	52.3	+5.5	Accrued Income Taxes	18.3	18.1	-0.2
Inventories	120.7	122.7	+2.0	Other	143.9	138.5	-5.4
Other	37.1	45.9	+8.8				
Fixed Assets	558.3	546.4	-11.9	Long-term Liabilities	166.7	115.4	-51.2
Property, Plant and Equipment	240.6	240.5	-0.1	Bonds/Long-term Debt	100.0	50.0	-50.0
Intangible Assets	237.5	220.6	-16.8	Other	66.6	65.4	-1.2
Investments and Other Assets	80.3	85.4	+5.1	Total Liabilities	441.6	431.1	-10.5
				Shareholders' equity	633.5	653.3	+19.7
				-Common Stock	85.4	85.4	-
				-Capital Surplus	109.6	109.6	-
				-Retained Earnings	447.6	467.3	+19.7
				-Treasury Stock, at Cost	-9.1	-9.0	0.0
				Accumulated other comprehensive income	-95.5	-94.3	+1.2
				- Unrealized Gain on Available-for-sale Securities	2.3	2.3	-0.0
				- Deferred Gain (Loss) on Derivatives under Hedges Accounting	-0.0	-0.0	0.0
				- Foreign Currency Translation Adjustments	-96.1	-94.8	+1.3
				- Post retirement adjustments for foreign consolidated subsidiaries	-1.7	-1.7	-0.0
				Stock Acquisition Rights	1.2	1.3	+0.1
				Minority Interests	10.4	10.2	-0.2
				Total Net Assets	549.7	570.5	+20.8
Total Assets	991.3	1,001.6	+10.4	Total Liabilities and Total Net Assets	991.3	1,001.6	+10.4

Consolidated Statements of Cash Flows

(Billion yen)

	1H/FY2011	1H/FY2012	Changes ¹
Net Cash Provided by Operating Activities	62.6	63.9	+1.3
Net Cash Used in Investing Activities	-29.8	-30.6	-0.7
Net Cash Used in Financing Activities	-69.1	-16.2	+52.9
Translation Adjustments on Cash and Cash Equivalents	2.1	0.0	-2.0
Net Increase (Decrease) in Cash and Cash Equivalents	-34.3	17.2	+51.5
Cash and Cash Equivalents, Beginning of Period	143.1	129.7	-13.4
Cash and Cash Equivalents from Newly Consolidated Subsidiary, Increase	-	0.3	+0.3
Cash and Cash Equivalents, End of Period	108.9	147.2	+38.4
<hr/>			
Total Debt at End of Period	103.8	103.6	-0.2
<hr/>			
Free Cash Flow ²	32.8	33.3	+0.6

1: Changes = 1H/FY2012 – 1H/FY2011

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

<Net cash used in investing activities>

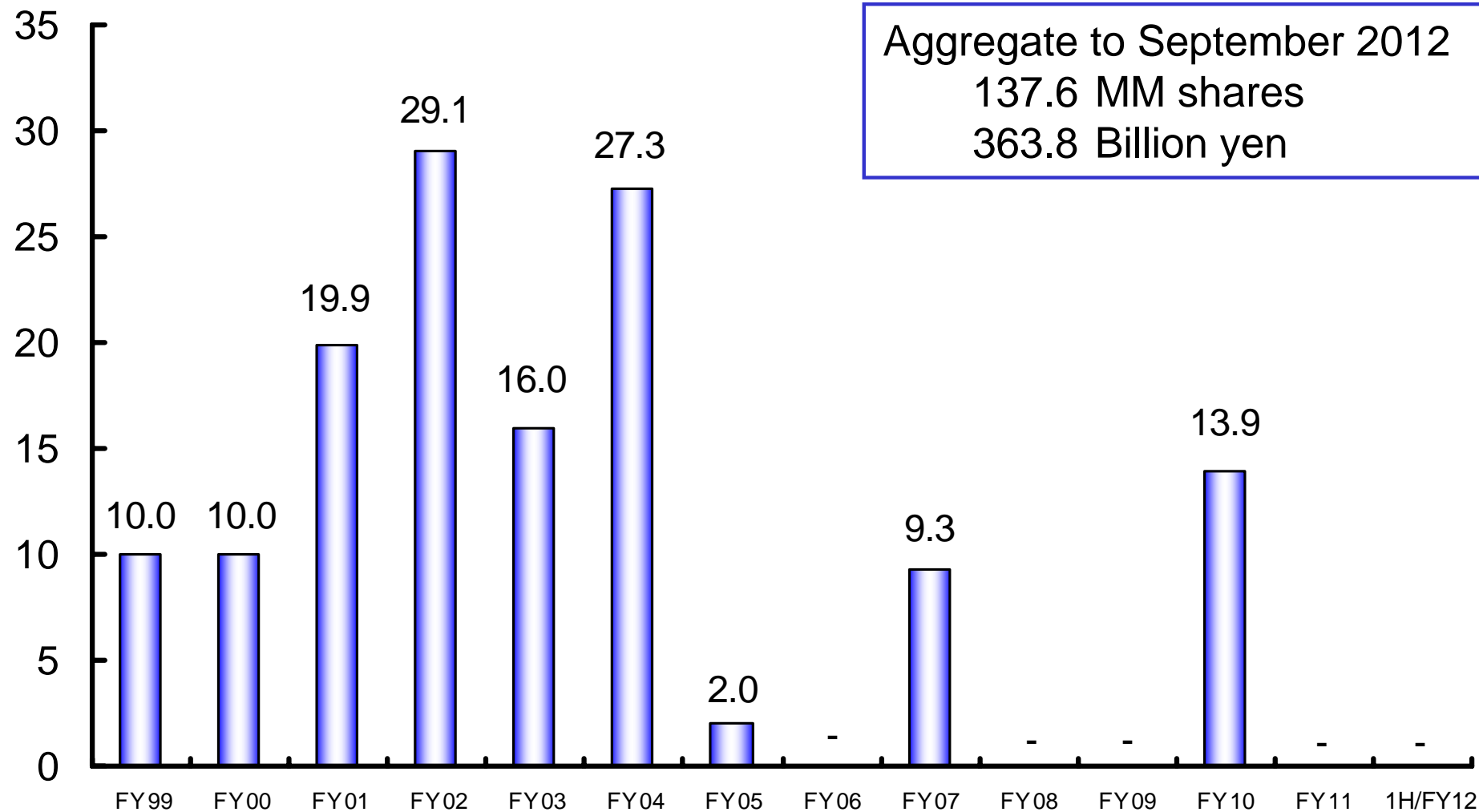
- Capital expenditures:
- Construction of new plants in China and Indonesia
 - Production capacity enhancement of fatty alcohols in the Philippines
 - Production facilities for new products
 - Production capacity expansion
 - Optimization of distribution bases
 - IT related, etc.

<Net cash used in financing activities>

Payments of cash dividends (Includes payments of cash dividends to minority shareholders) : 18.5 billion yen

Share Repurchase

(Million Shares)



Aggregate to September 2012
137.6 MM shares
363.8 Billion yen

Billion yen	FY99	FY00	FY01	FY02	FY03	FY04	FY05	FY06	FY07	FY08	FY09	FY10	FY11	1H/FY12
	29.5	28.6	56.8	77.2	36.7	70.0	5.0	-	30.0	-	-	30.0	-	-

* Share repurchase from the market

3. Forecast for FY 2012

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

Major Assumptions for FY2012 Forecast

- ◆ Year-on-year growth rate of market size in value (yen) for the Consumer Products Business¹ in Japan: 0% to +1% year-on-year
- ◆ Year-on-year growth rate of cosmetics market size in value (yen) in Japan: -1% to 0% year-on-year
- ◆ Net sales:

	¥1,020.0 billion	Adjusted % growth ²
		(+1.2% year-on-year)
• Effect of currency translation:	-¥13.0 billion	(-1.2% year-on-year)
• Like-for-like sales growth:	+¥24.7 billion	(+2.4% year-on-year)

Estimated impact on income
- ◆ Impact of change in raw material prices:
 - Gross impact of +¥13 billion
 - Net impact: -¥7 billion
- ◆ Total Cost Reduction (TCR) activities: +¥6 billion
- ◆ Capital expenditures/depreciation and amortization
 - Capital expenditures: ¥44 billion
 - Depreciation and amortization: ¥60 billion

Exchange rate assumptions

- ◆ 79 yen/USD (FY2011 actual exchange rate [quarterly average]: 79.63yen/USD)
- ◆ 102 yen/Euro (FY2011 actual exchange rate [quarterly average]: 111.42 yen/Euro)

1 Excludes prestige cosmetics.

2 Excludes impact of change in financial term (see slide 23 for details).

Consolidated Sales and Profit Forecast

	FY2010 ²		FY2011 ³		FY2012(F) ¹ ₄	
	Billion yen	% Growth	Billion yen	% Growth	Billion yen	Adjusted ⁵ % Growth
Net Sales	1,186.8	+0.2	1,216.1	+2.5	1,020.0	+1.2
Operating Income	104.6	+11.2	108.6	+3.8	100.0	+1.6
[% of Sales]	8.8%		8.9%		9.8%	
Ordinary Income	103.3	+10.4	110.0	+6.5	101.0	+0.9
[% of Sales]	8.7%		9.0%		9.9%	
Net Income	46.7	+15.4	52.4	+12.2	60.0	+16.1
[% of Sales]	3.9%		4.3%		5.9%	

Net Income per Share (yen)	87.69	+16.0	100.46	+14.6	114.98	+16.0
ROE ⁶	8.5%	-	9.8%	-	10.9%	-
EBITDA (Operating Income + Depr. & Amort.)	186.0	+4.0	188.4	+1.3	160.0	-0.4
Cash Dividends per Share (yen)	58.0	+1.8	60.0	+3.4	62.0	+3.3

1 Exchange rate assumptions: 79 yen/USD, 102 yen/Euro

2 Kanebo Cosmetics (Apr. 2010-Mar. 2011) : Net sales = slightly less than ¥190 billion / operating margin before deduction of royalties = approximately 3%; amortization related to Kanebo Cosmetics: ¥27.4 billion

3 Kanebo Cosmetics (Apr. 2011-Mar. 2012) : Net sales = approximately ¥190 billion / operating margin before deduction of royalties = approximately 6%; amortization related to Kanebo Cosmetics: ¥27.4 billion

4 Kanebo Cosmetics (Apr. 2012-Dec. 2012) : Net sales = approximately ¥150 billion / operating margin before deduction of royalties = approximately 8%; amortization related to Kanebo Cosmetics: ¥20.3 billion

5 Excludes the impact of change in financial term (see slide 23 for details).

6. ROE forecast of FY2012 is for the transitional period connected with the change in fiscal year end.

Sales Outlook by Segment – FY2012

<Billion yen>

Adjusted
% Growth²

Consolidated Net Sales

1,020 +1.2%

By Segment¹

Reference:
By Geographic Area¹

		Adjusted % Growth ²			Adjusted % Growth ²
Beauty Care	444	-0.1%	Japan	723	+1.5%
Human Health Care	150	+4.1%	Asia	161	-3.1% ³
Fabric and Home Care	236	+2.4%	North America	89	-3.8% ³
Chemical	210	-3.8%	Europe	108	-7.7%

1 Sales are before elimination of transactions between segments or geographic areas.

2 Excludes impact of change in financial term (see slide 23 for details).

3 Australia and New Zealand, which had been included in Asia & Oceania until FY2011, have been reclassified to North America from FY2012. FY2011 sales of both countries are reclassified in adjusted growth rate.

Sales Outlook – FY2012

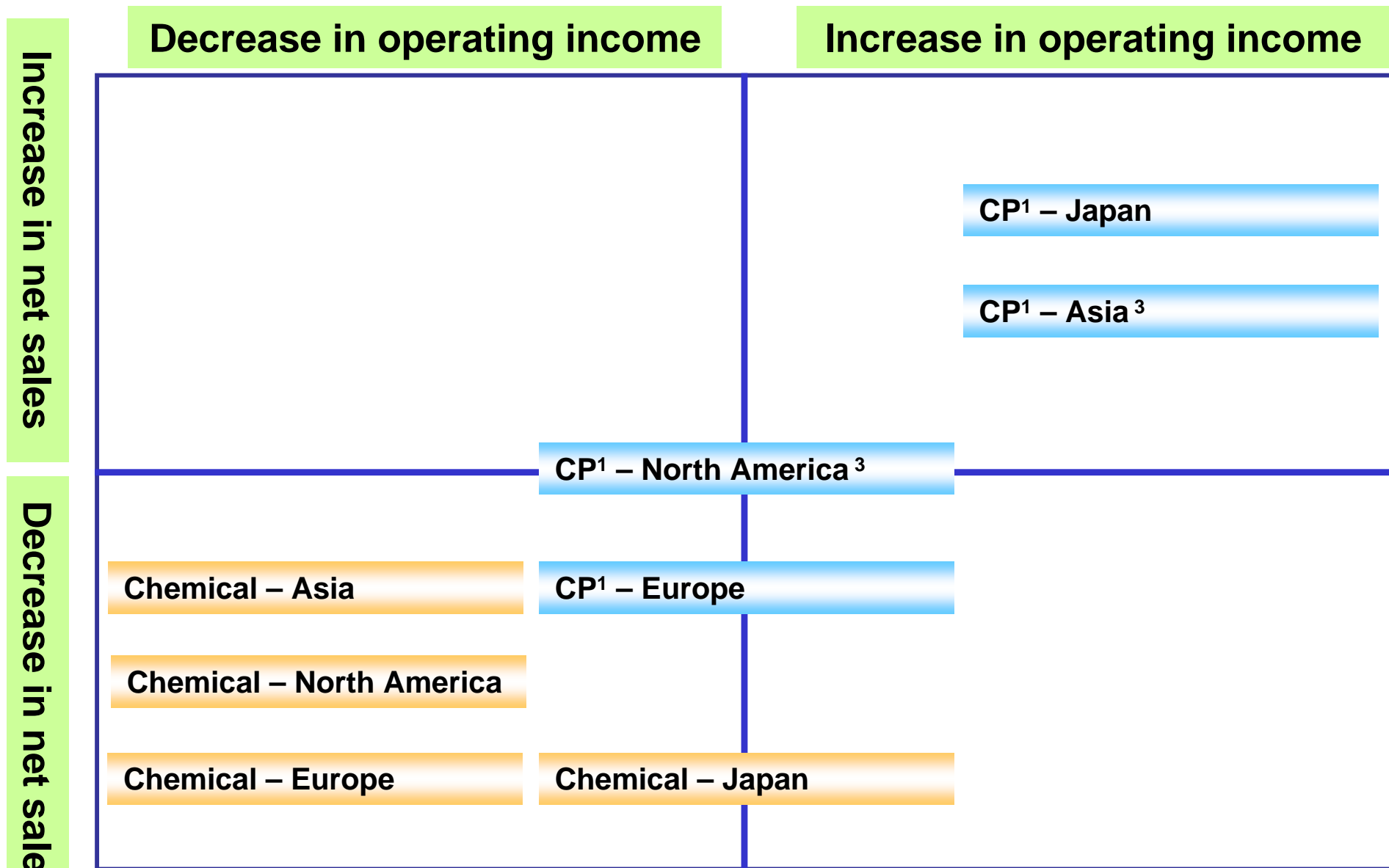
- Consumer Products Business in Japan -

<Billion yen>

	1st Half			Full Year		
	FY2011 Actual	FY2012 Actual	% Growth	FY2011 Actual (12 months)	FY2012 Forecast (9 months)	Adjusted % Growth*
Beauty Care	204.4	203.6	-0.4%	407.7	312.0	0.0%
Human Health Care	82.0	84.9	+3.4%	164.6	132.0	+4.9%
Fabric and Home Care	130.5	132.6	+1.6%	260.0	209.0	+2.2%
Consumer Products Business	416.9	421.1	+1.0%	832.3	653.0	+1.7%

*Excludes impact of change in financial term (see slide 23 for details).

FY2012 Outlook by Segment



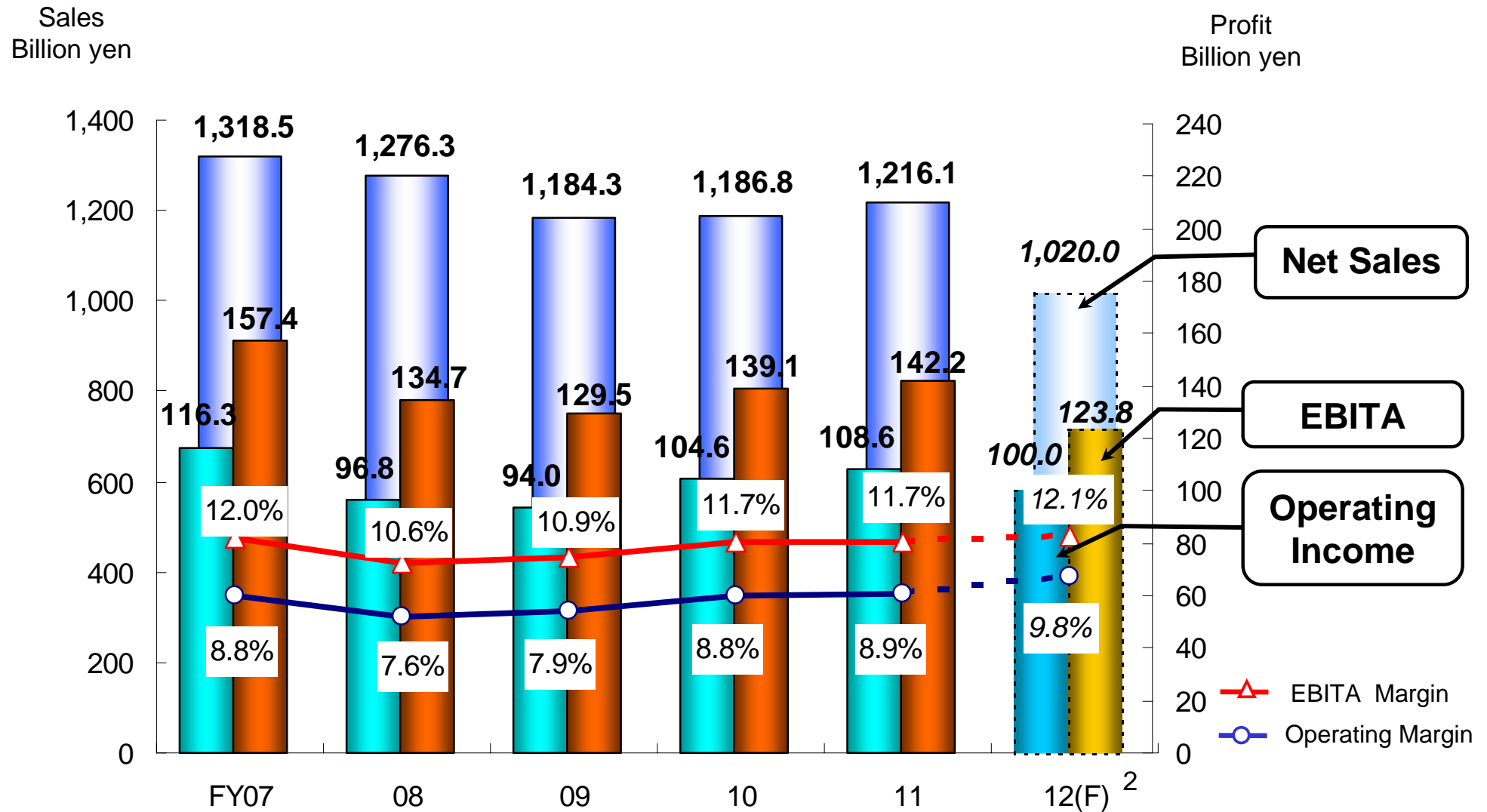
1: CP = Consumer Products

2: Excludes impact of change in financial term (see slide 23 for details).

3 Australia and New Zealand had been included in Asia & Oceania until FY2011 and have been reclassified to North America from FY2012. Sales and operating income of both countries for FY2011 are presented based on the FY2012 reclassification.

Consolidated Net Sales/EBITA¹/Operating Income

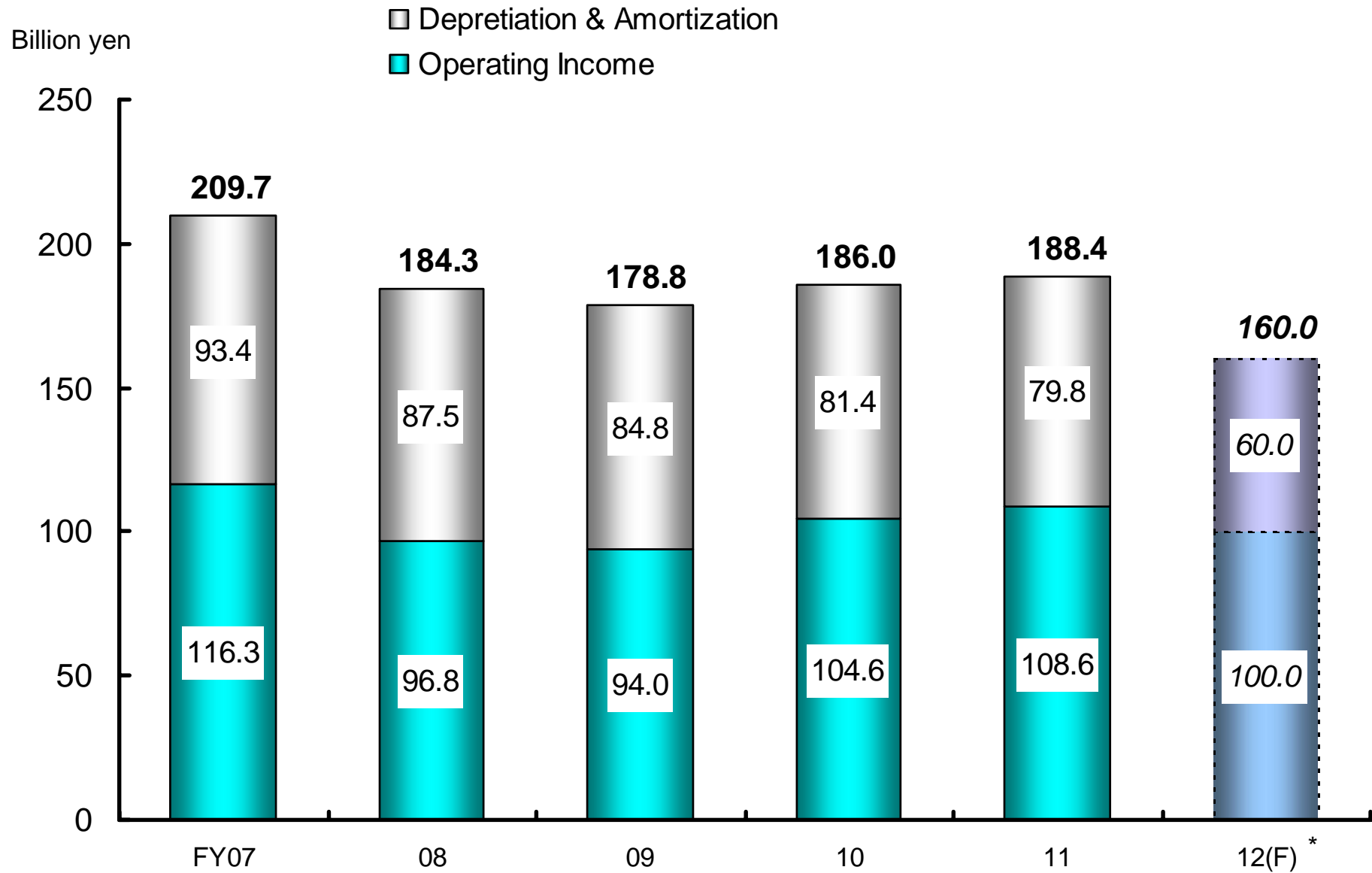
[Full Year]



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

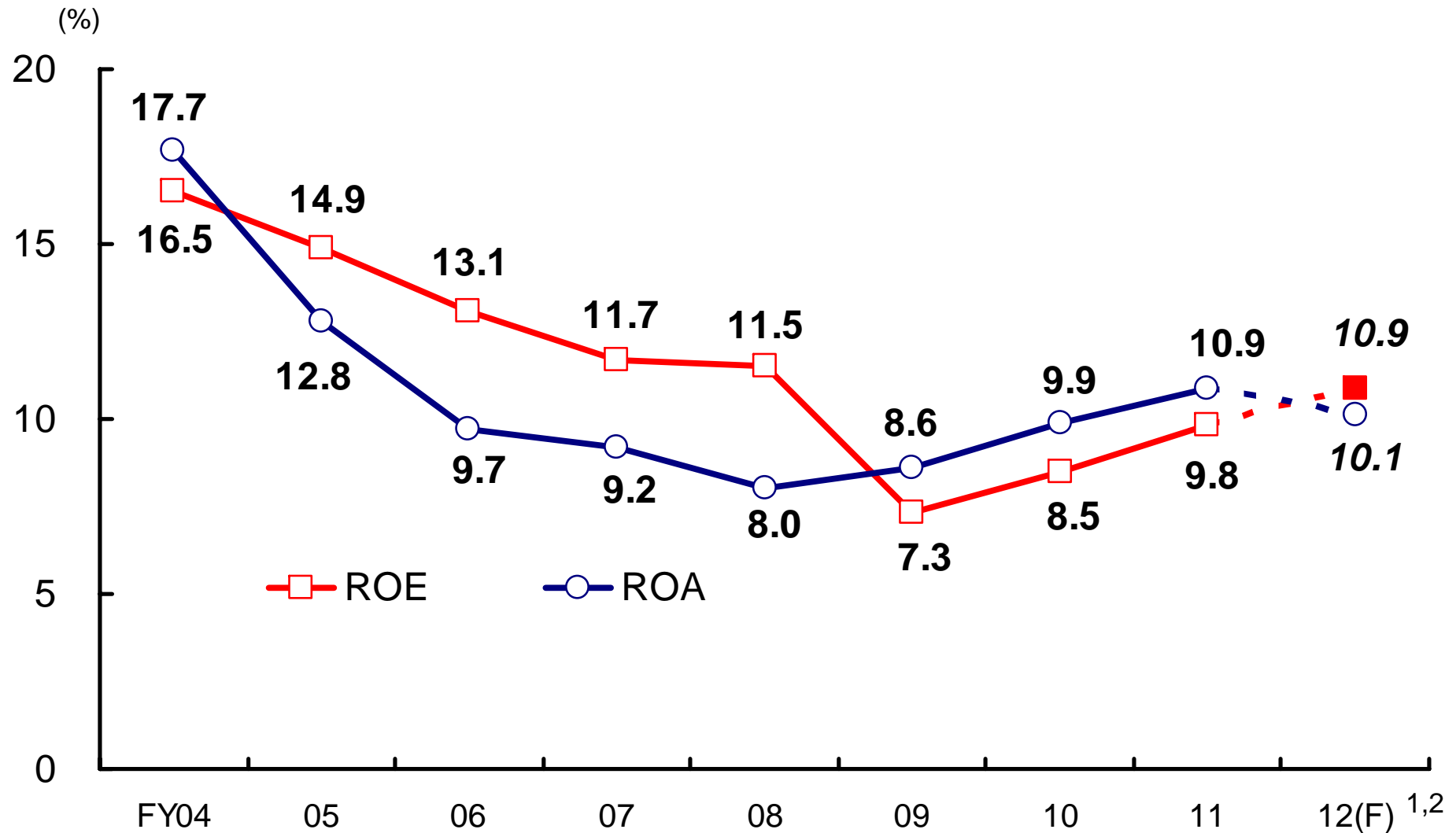
2 Fiscal year end is December 31 from FY2012 (see slide 23 for details).

EBITDA



*Fiscal year end is December 31 from FY2012 (see slide 23 for details).

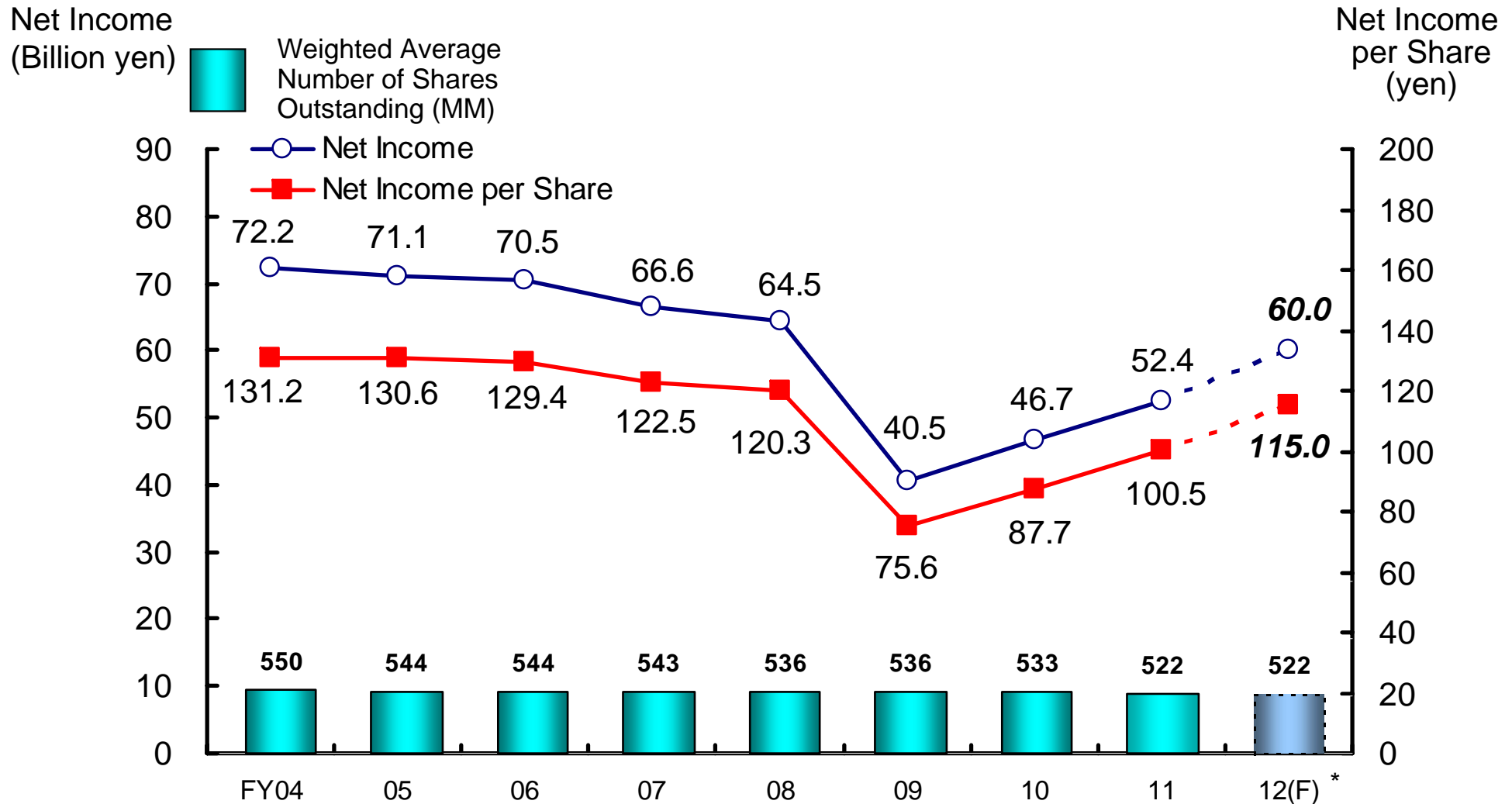
ROE & ROA



ROA: Ordinary Income / Total assets

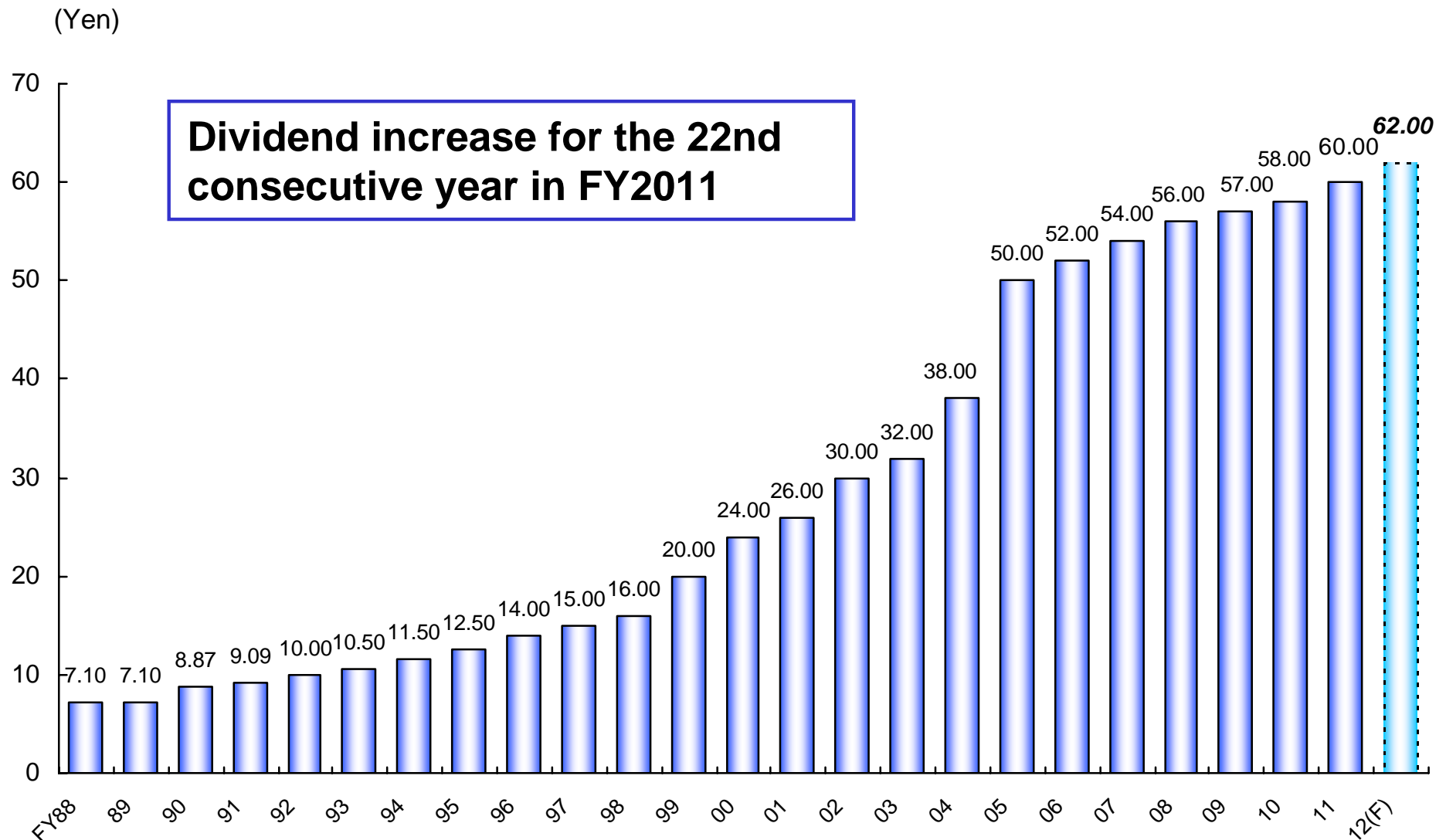
- 1 Fiscal year end is December 31 from FY2012 (see slide 23 for details).
- 2 Forecasts of ROE and ROA are for the transitional period connected with the change in fiscal year end.

Net Income per Share



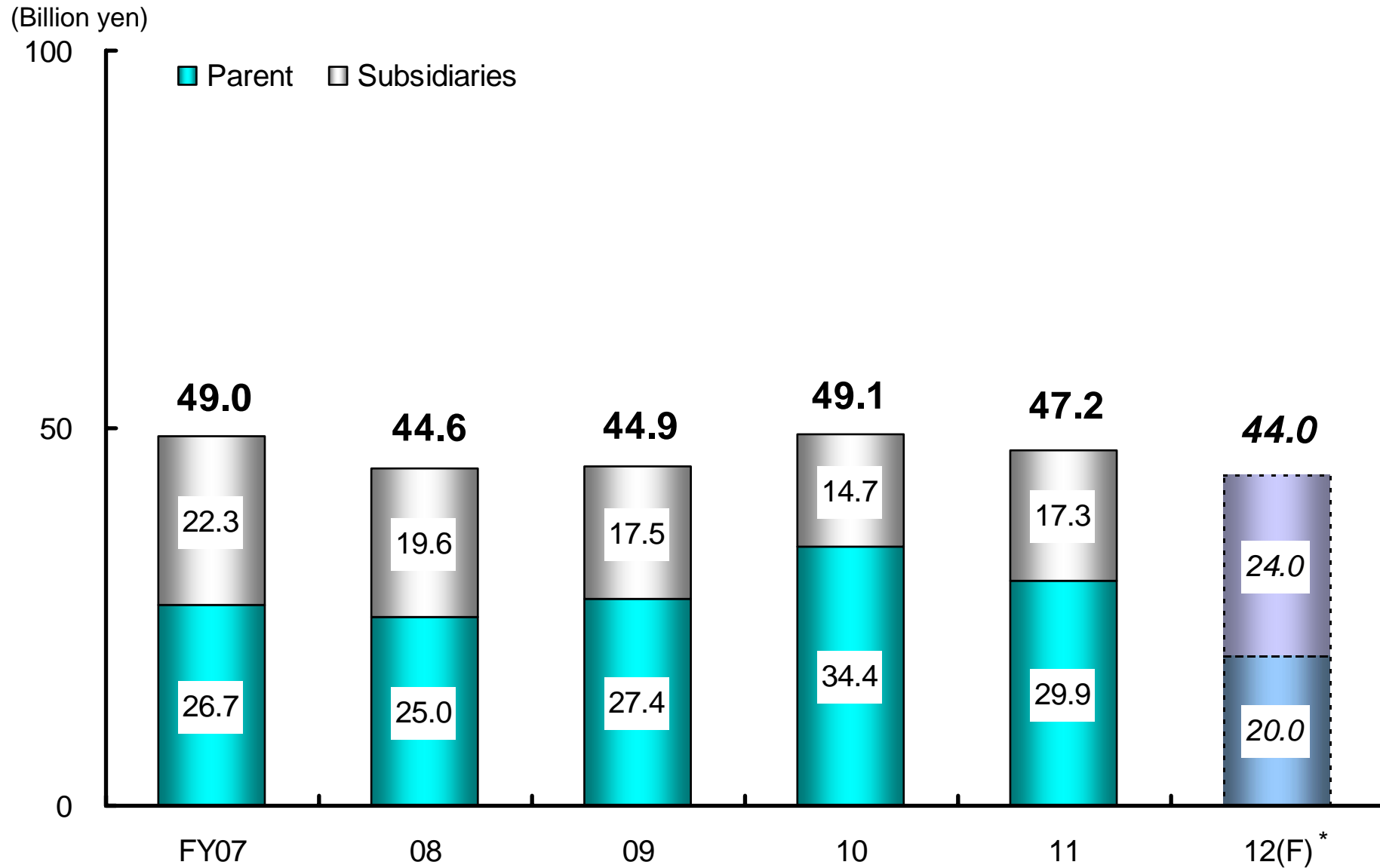
* Fiscal year end is December 31 from FY2012 (see slide 23 for details).

Cash Dividends per Share



*Impacts of share splits are retroactively reflected.

Capital Expenditures

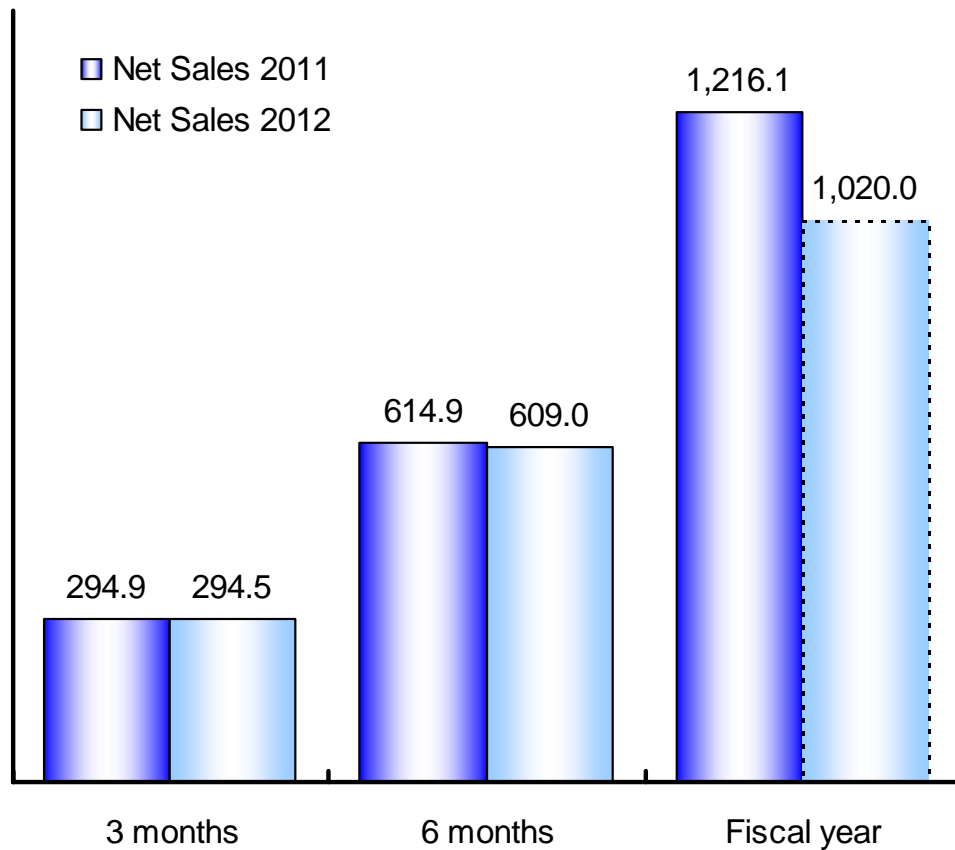


* Fiscal year end is December 31 from FY2012 (see slide 23 for details).

FY2012 Quarterly Consolidated Sales and Profit Forecast

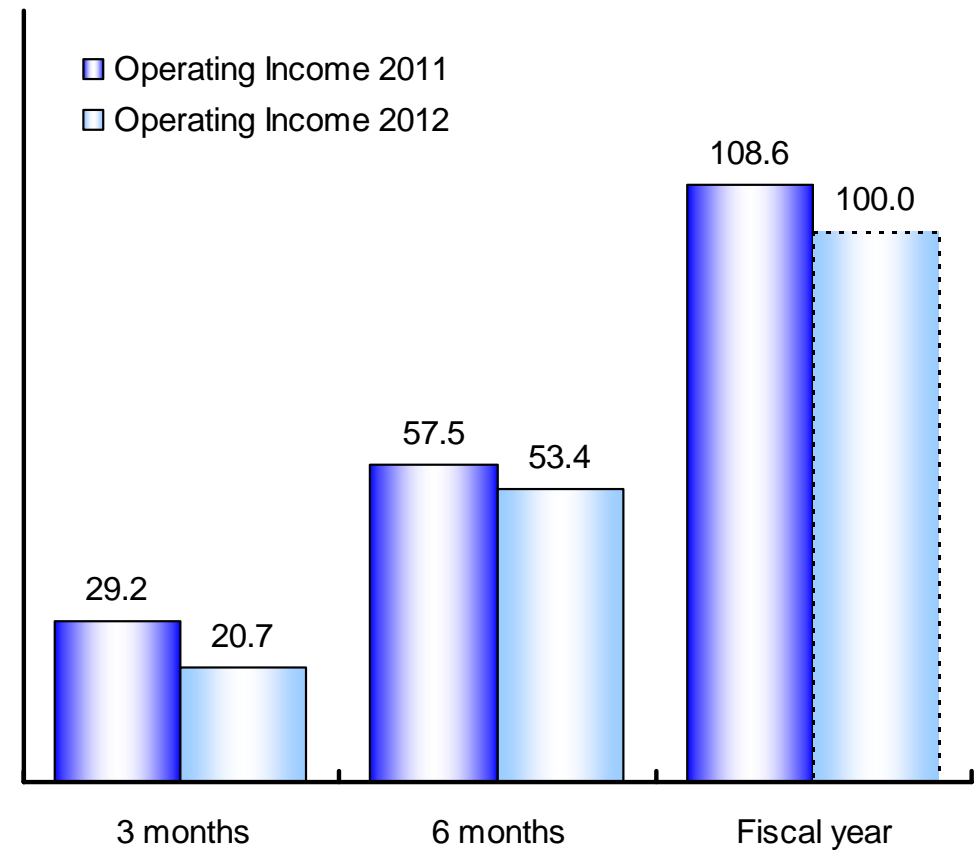
Net Sales

(Billion yen)



Operating Income

(Billion yen)



* Fiscal year end is December 31 from FY2012 (see slide 23 for details).

KaO

Enriching lives, in harmony with nature.