

Highlights for FY2013

(Ended December 31, 2013)

February 4, 2014

Kao Corporation

Michitaka Sawada

President and CEO



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.

Agenda

 **Summary of FY2013**

 **Summary of FY2014 Forecast**

 **Mid-term Growth Strategies**

Summary of FY2013

Fiscal year end is December 31 from FY2012

Term of consolidation for FY2012

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

Restated FY2012

Figures for the period from January 1 to December 31, 2012 for the purpose of comparison with FY2013 (January 1 to December 31, 2013).

Adjusted growth

Comparison with restated FY2012

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

Vitiligo-like Symptoms from Kanebo Cosmetics* Brightening Products Containing Rhododenol and the Kao Group's Response

- **Make thorough efforts to prevent the problem from spreading and gain an understanding of the conditions of people who are experiencing symptoms**
- **Respond in a sincere manner to those with vitiligo-like symptoms**
- **Reinforce the organization to prevent a recurrence**
 - (1) Ensure greater safety and reliability
 - (2) Respond swiftly to customer comments and information gathered in stores; cooperate with government agencies, the Japanese Dermatological Association and others
 - (3) Promote integration of Kanebo Cosmetics and Kao Corporation

* Manufactured and sold by Kanebo Cosmetics Inc., Lissage Ltd. and e'quipe, Ltd. of the Kao Group

Financial Overview – FY2013

		<u>Adjusted growth³</u>	<u>Forecast⁴</u>
Net sales	¥1,315.2 billion	+7.8%	¥1,300.0 billion
EBITA¹ [% of sales]	¥154.8 billion [11.8%]	+7.6%	-
Operating income [% of sales]	¥124.7 billion [9.5%]	+11.5%	¥116.0 billion
Net income [% of sales]	¥64.8 billion [4.9%]	+21.9%	¥64.0 billion
Net income per share	¥126.03	+23.8%	¥124.97
ROE²	10.7%	-	-
Shareholder returns			
Cash dividends per share	¥64	+¥2	¥64
Consolidated payout ratio	50.8%		
Share repurchases	¥30.0 billion		

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

2. ROE of FY2013 is not comparable with that of FY2012, which was a transitional period due to the change in fiscal year end.

3. Excludes the impact of the change in financial term. (Please refer to slide 4 for details.)

4. Forecast announced on October 30, 2013

Executive Summary

■ Net sales and profits

- Achieved four consecutive fiscal years of increases in net sales and profits¹
- Net sales and profits exceeded the forecast announced on October 30, 2013
- Operating income and ordinary income broke previous records
- Overseas sales ratio²: 30.9%

■ Voluntary recall of Kanebo Cosmetics brightening products containing Rhododenol

- Goods returned from retailers: -2.4 billion yen
- Extraordinary loss: -9.7 billion yen

■ The Consumer Products Business in Japan and Asia drove expansion of net sales and operating income

- Offset the impact on results from the voluntary recall of Kanebo Cosmetics products

■ The Chemical Business contributed to the increase in profits

- Operating income exceeded the forecast due to increased sales volume in the second half of FY2013

■ Shareholder returns

- Annual cash dividends per share are planned to be 64 yen, an increase of 2 yen, which will be the 24th consecutive fiscal year of increases in cash dividends
- Share repurchases: 30 billion yen
- Retirement of treasury stock: 10.2 million shares

1. Excludes the impact of the change in financial term in 2012. (Please refer to slide 4 for details.)

2. Ratio of net sales to foreign customers to consolidated net sales

Summary of Sales by Segment – FY2013

Adjusted growth¹ Like-for-like²

Consumer Products Business	+7.1%	+2.9%
-----------------------------------	--------------	--------------

● Beauty Care Business	+6.0%	+0.2%
-------------------------------	--------------	--------------

● Human Health Care Business	+11.1%	+7.8%
-------------------------------------	---------------	--------------

● Fabric and Home Care Business	+6.5%	+4.5%
--	--------------	--------------

Chemical Business	+10.5%	-1.0%
--------------------------	---------------	--------------

Consolidated net sales	+7.8%	+2.1%
-------------------------------	--------------	--------------

1. Excludes the impact of the change in financial term. (Please refer to slide 4 for details.)

2. Adjusted growth excluding the effect of currency translation

Strongly Performing Products in FY2013

Beauty Care



Grace Sofina

Skin care cosmetics
(Japan)



Bioré U Aroma Time

Body cleanser (Japan)



Jergens Natural Glow

Sunless self-tanning
lotion (North America)



Segreta

Volumizing
shampoo (Japan)



Guhl Deep Repair

Hair care products
(Europe)



**Goldwell Kerasilk
Keratin Treatment**

Professional hair care
products (Americas
and Europe)

Human Health Care



Healthya Coffee (Japan)



Merries

Baby diapers (Japan, China,
Russia)



Laurier

Sanitary napkins (Japan, Asia)



Megurhythm

Steam thermo power pads
(Japan, Hong Kong)

Fabric and Home Care



Attack

Laundry detergent (Japan, Asia)



**Flair
Fragrance**

Fabric softener
(Japan)



**Wide Haiter
EX Power**

Fabric bleach
(Japan)



Bath Magiclean

Bath cleaner
(Japan)



Enriching lives, in harmony with nature.

FY2013 Topics by Geographic Area in the Consumer Products Business

■ Japan

- Thoroughly carry out basic activities and maximize use of Kao Group assets to revitalize existing products and propose new value (launch of new and improved products)

■ Asia

- Results from the integration of business operations in Asia, including Japan
- Strong performance in Thailand, Indonesia and Hong Kong
- Good progress toward achieving net sales in China of 50 billion yen in FY2015
 - ➔ Sales and profits trended upward, driven mainly by *Merries* baby diapers, with contributions from *Attack* laundry detergent and *Laurier* sanitary napkins

■ Progress in products targeting the middle-class consumer segment in growth markets

- China
 - ◆ *Merries* manufactured in China: Distributing to retailers who understand their value and working to establish a firm foothold among consumers through trial use (samples)
 - ◆ *Attack Power Soaking* powder laundry detergent for hand washing: Sold from July 2013 in the provinces of Jiangsu, Zhejiang and Guangdong
- Indonesia
 - ◆ Start-up in stages of a second plant, including a manufacturing facility for sanitary products such as baby diapers, is scheduled from the 2nd quarter of FY2014

Summary of FY2014 Forecast

Key Points in FY2014 Forecast

- **Aiming to achieve five consecutive fiscal years of increases in net sales and profits¹ and break previous records for net sales and net income**
 - Invest aggressively to achieve K15² while maintaining momentum from FY2013
 - Achieve profitable growth (maximize use of Kao Group assets)
- **Dealing with the consumption tax increase in Japan**
 - Production prepared for last-minute surge in demand before the tax increase
 - Dealing with the temporary decline in demand after the tax increase
 - ◆ Launch new and improved high-value-added products
 - ◆ Enhance proposal-based sales
- **Recovery of the Kanebo Cosmetics business**
 - Operating margin before deduction of royalties
 - ◆ FY2013 actual: Slightly less than 5%
 - ◆ FY2014 forecast: Approximately 8%
- **Contribution of the Chemical Business to profits**
 - Further reinforce oleo chemicals
 - Propose high-value-added products
- **Enhancement of shareholder returns**
 - Annual cash dividends per share for FY2014 of 68 yen, an increase of 4 yen (25th consecutive fiscal year of increases in cash dividends)

1. Excludes the impact of the change in financial term in 2012. (Please refer to slide 4 for details.)

2. Please refer to slide 16 for details.

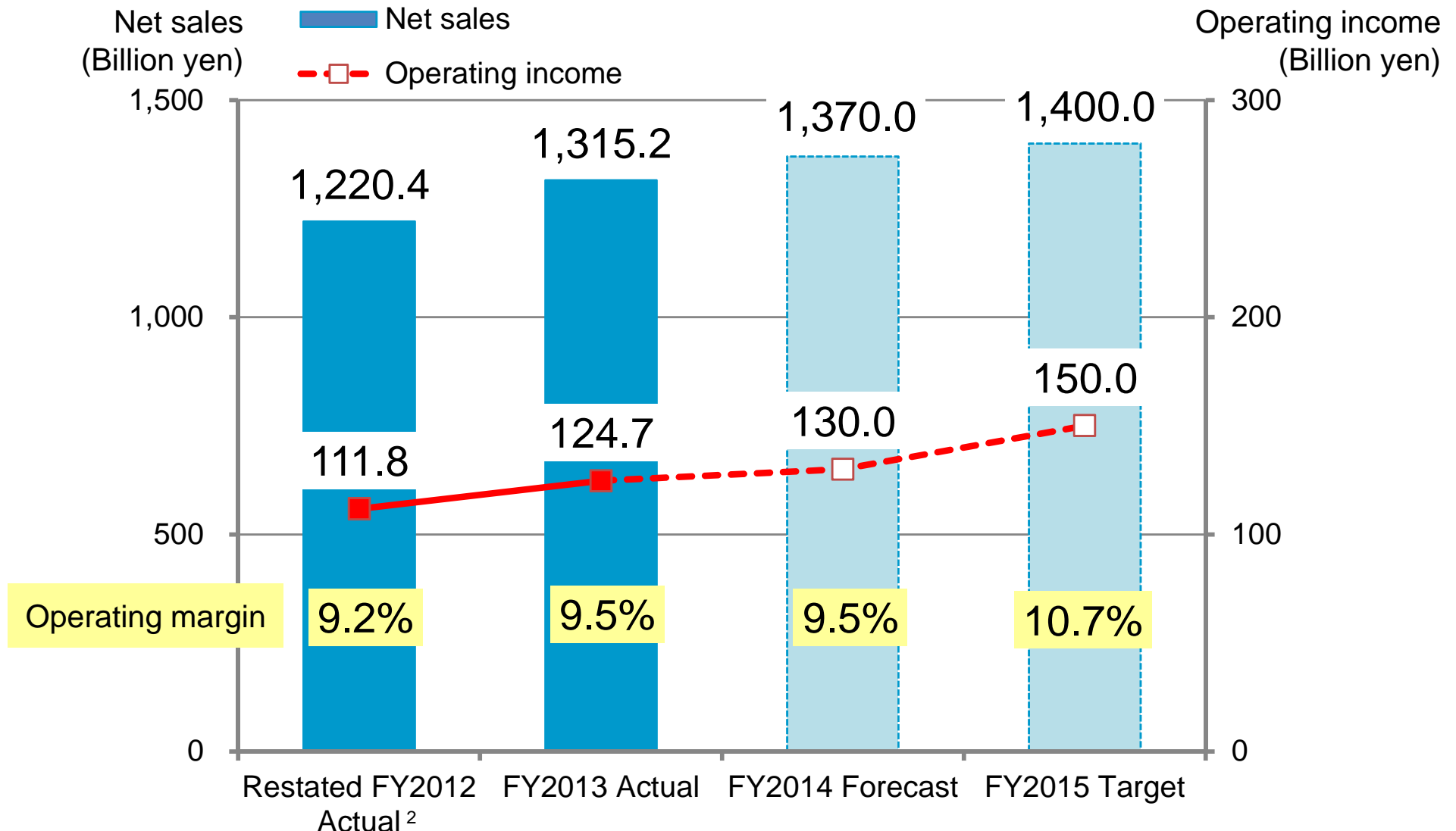
Summary of FY2014 Forecast

		<u>Growth</u>
Net sales	¥1,370.0 billion	+4.2%
EBITA* [% of sales]	¥156.3 billion [11.4%]	+1.0%
Operating income [% of sales]	¥130.0 billion [9.5%]	+4.3%
Net income [% of sales]	¥75.0 billion [5.5%]	+15.8%
Net income per share	¥146.44	+16.2%
ROE	11.5%	+80 bps
Shareholder returns		
Cash dividends per share	¥68	+¥4
Consolidated payout ratio	46.4%	

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

K15¹ Net Sales and Operating Income

FY2014 is an important year toward the achievement of K15



1. Please refer to slide 16 for details.

2. Excludes the impact of the change in financial term in 2012. (Please refer to slide 4 for details.)

Mid-term Growth Strategies

Kao Group Mid-term Plan 2015 (K15)

Target 1: Break previous records for net sales and profits

Target 2: Achieve numerical management targets for FY2015

Numerical Management Targets for FY2015

- **Net sales:**
1.4 trillion yen
- **Operating income:**
150 billion yen
- **Overseas sales ratio* :**
30% or more

* Ratio of net sales to foreign customers to consolidated net sales

Growth Strategies to Achieve K15

1. Expand the Consumer Products Business globally

- Growth markets: Expand the business significantly by proposing products in the domain of “cleanliness” including laundry detergents, baby diapers and sanitary napkins that target the growing middle-class consumer segment
- Mature markets: Accelerate growth with high-value-added products

2. Further reinforce the Fabric and Home Care Business, and accelerate profitable growth in the Beauty Care and Human Health Care Businesses

Fabric and Home Care Business

- Maintain or capture the top share in each product category

Beauty Care Business and Human Health Care Business

- Move the cosmetics business to a phase of profitable growth
- Propose products and services through new approaches focused on health and the aging society

3. Reinforce the Chemical Business

- Promote to generate higher value by leveraging eco-technology research
- Strengthen synergy with the Consumer Products Business

Four Projects to Achieve K15

1. Innovation Creation Project

- Global innovation and area innovation

2. Global Expansion Project

- FY2015 sales of the Consumer Products Business in China: 50 billion yen
- Triple the business in Vietnam
- Reinforce and expand businesses in the ASEAN region including the Mekong region
- Prepare to build the foundations to tap into markets in Russia, Brazil, India, the Middle East, etc.
- Operating margin target for the Consumer Products Business in Asia: 5%

3. Transformation for Profitable Growth (TPG) Project

- Strengthen Kao's capacity to accelerate global growth and be competitive in the future by optimizing the assets that Kao has (top-down approach)
- Continue to focus on the approach to cost reduction activities (TCR) that has been ongoing since 1986

4. Visibility Project

Aiming to Achieve K15

■ Stick with the targets of K15

- Target 1: Break previous records for net sales and profits
- Target 2: Achieve numerical management targets for FY2015
 - Net sales: 1.4 trillion yen
 - Operating income: 150 billion yen
 - Overseas sales ratio*: 30% or more

■ Execute three growth strategies and four projects as the basis for achieving K15

- Invest aggressively to drive faster growth
- Realize profitable growth

■ Profitable growth in the cosmetics business

- Rebuild the Kanebo brand
- Expand Kao Sofina

■ Reinforce the Chemical Business

- Expand sales of high-value-added products

* Ratio of net sales to foreign customers to consolidated net sales

Sustained Contributions to Society

Contribution to society through business activities

Key areas

Conservation

Community

Culture

Fulfill our role as a public entity of society based on the Kao Way



■ Contribute to the resolution of global social issues through innovative products and services

- *Product development considering environment, health, aging society, sanitation, etc.*

■ Continue and reinforce social contribution activities as a corporate citizen

- *Collaboration with stakeholders and local communities*

■ Act on global issues

- *Participation in the United Nations' Global Compact, RSPO* membership and sustainable palm oil procurement, respect for diversity*

* 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

Kao Group's Vision for the Future

A company with a global presence

Profitable growth

Contributions to society

Further innovation

Products and services that
are “a half-step ahead”

Maximum use of human
resources and organization

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 society

Kao Sustainability Statement

Kao Group's basic direction of contribution to the sustainability of society

Key areas

Conservation

Community

Culture

Appendices

Use of Free Cash Flow* and Shareholder Returns

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

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

Business Segments and Main Product Categories



Note: Sales include intersegment sales. Share of net sales is calculated based on sales to customers. Adjusted growth rate excludes the impact of the change in financial term. (Please refer to slide 4 for details.)

FY2013 Breakdown of Beauty Care Business

		Billion yen	Adjusted increase (decrease) ¹
Beauty Care	Net sales	570.3	6.0%
	Operating income ²	23.9	+3.8 billion yen
	Operating margin	4.2%	+50bps
Cosmetics	Net sales	257.1	-1.1%
	Operating income ²	-17.3	-2.8 billion yen
	Operating margin	-6.7%	-110bps
Skin care/hair care (mass products) and professional hair care products	Net sales	313.2	12.7%
	Operating income ²	41.2	+6.6 billion yen
	Operating margin	13.2%	+70bps

Kanebo Cosmetics

- Net sales:
Approx. ¥180 billion
(Restated FY2012: Slightly less than ¥190 billion)
- Profit as a % of sales³:
Slightly less than 5%
(Restated FY2012: Approx. 7%)

3. Operating margin before deduction of royalties

1. Comparison with restated FY2012, excluding the impact of the change in financial term. (Please refer to slide 4 for details.)
2. Includes amortization of goodwill and intellectual property rights related to M&A
 - Beauty Care: ¥30.1 billion
 - Cosmetics: ¥28.1 billion
 - Skin care/hair care (mass products) and professional hair care products: ¥2.0 billion

Cosmetics in Japan – FY2013

Cosmetics market in Japan

[Year-on-year growth on a value (yen) basis]	Jan. - Dec. 13	Jan. - Dec. 12
Total market	-1.5%	-0.6%
High-priced segment (over ¥5,000):	+0.3%	-1.3%
Mid-priced segment (¥2,000- ¥5,000):	-3.4%	-1.0%
Low-priced segment (below ¥2,000):	-0.9%	+0.8%
Kao Group total (Kanebo Cosmetics + Kao Sofina)	-3.5%	+2.7%

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



FTSE4Good



CSR-related evaluations from external organizations



CSR: Corporate Social Responsibility
SRI: Socially Responsible Investment

(As of February 4, 2014)

KaO

Enriching lives, in harmony with nature.