

Revision of “Summary of Consolidated Business Results for the Six Months Ended June 30, 2013”

December 5, 2013

Kao Corporation (Ticker Code: 4452) has revised “Summary of Consolidated Business Results for the Six Months Ended June 30, 2013” and presentation materials which were released on July 30, 2013, as follows.

1. Reason for and Content of the Revision

Please refer to “Revision of Securities Report, Business Results and Other Reports,” which was released on November 21, 2013.

2. Corrections

Because the corrections are numerous, the full pre-revision and post-revision texts are both attached with the corrections underlined.

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Kao Corporation

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Highlights for the 1st Half of FY2013

(Ended June 30, 2013)

The full pre-revision and post revision texts are both attached with the corrections underlined

Correction

Page

16 Summary of FY2013 Forecast

Post-revision

Highlights for the 1st Half of FY2013

(Ended June 30, 2013)

July 30, 2013

Kao Corporation

Michitaka Sawada

President and CEO



KAO

Enriching lives, in harmony with nature.

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 the 1st Half of FY2013**
- ■ **Summary of FY2013 Forecast**
- ■ **Mid-term Growth Strategies**

Summary of the 1st Half of FY2013

Fiscal year end is December 31 from FY2012

Term of consolidation for 1H/FY2012

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

Restated 1H/FY2012

Figures for the six-month period from January 1 to June 30, 2012 for the purpose of comparison with 1H/FY2013 (January 1 to June 30, 2013).

Adjusted growth

Comparison with the restated 1H/FY2012

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

Voluntary Recall of Kanebo Cosmetics Products Containing Rhododenol*

On July 4, Kanebo Cosmetics Inc., Lissage Ltd. and e'quipe Ltd. announced a voluntary recall of brightening products containing the ingredient Rhododenol that are manufactured and sold by the three companies.

[Current actions and top priorities in dealing with this matter]

- Currently in the process of responding in a sincere manner to each customer, retailer and other related party, including answering inquiries
- Execute the recall (from customers, retailers, etc.)
- Personally visit each customer who reports symptoms
- Set up a Rhododenol Task Force (establish a support system and promote prompt medical treatment, investigate the cause and develop preventive measures)

Estimate at the time of this presentation

Impact on 1H/FY2013 business results:	-¥8.4 billion
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○ Cost of sales:	-¥2.8 billion
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○ Extraordinary loss:	-¥5.6 billion
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* Please refer to the following Kanebo Cosmetics press releases for details.

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Financial Overview – 1st Half of FY2013

- Global economic recovery remained slow, with the United States showing a moderate recovery trend.
- In the Japanese economy, there were early signs of recovery, including in personal consumption, due to a sense of expectation regarding government economic measures.

		<u>Adjusted growth²</u>	<u>Forecast³</u>
Net sales	¥625.0 billion	+8.0%	¥600.0 billion
EBITA¹ [% of sales]	¥57.5 billion [9.2%]	+11.5%	-
Operating income [% of sales]	¥42.9 billion [6.9%]	+23.2%	¥32.0 billion
Net income [% of sales]	¥18.3 billion [2.9%]	-5.1%	¥19.0 billion
Net income per share	¥35.41	-4.0%	¥36.85
Shareholder returns			
Cash dividends per share	¥32	+¥1	¥32
Share repurchases	¥30.0 billion		

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

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

3. Forecast announced on April 30, 2013

Executive Summary

■ Net sales and operating income exceeded the forecast announced on April 30, 2013.

- Net sales: Increased 8.0% with the strong results of the Consumer Products Business in Japan and Asia and the positive effect of currency translation of +5.5%.
- Operating income: Increased as sales growth in the Consumer Products Business offset estimated expenses related to the voluntary recall.
- Net income: Fell short of the forecast due to loss related to cosmetics in extraordinary loss.

■ Shareholder returns

- Cash dividends per share at the end of the 1st half of FY2013 are 32 yen, an increase of 1 yen.
- Share repurchases: 30 billion yen during the period from February 6 to April 5, 2013.
- Retirement of treasury stock: 10.2 million shares in June 2013.

■ Launch of unsecured straight bonds totaling 50 billion yen in June 2013

- Maintain an appropriate capital cost ratio and enhance Kao's financial base for investment in growth

Summary of Sales by Segment – 1st Half of FY2013

[Comments below are based on a like-for-like growth basis.]

■ Consumer Products Business:

Adjusted growth¹ +8.6% (like-for-like² +4.4%)

- **Beauty Care Business: Adjusted growth +8.5% (like-for-like +3.1%)**

Sales of skin care products increased, with strong sales of *Bioré* skin care products and UV care products in Japan and Asia, and *Jergens* hand and body lotions in the Americas. Sales of hair care products were flat year-on-year due to intensified competition in shampoos and conditioners and the contraction of the hair coloring market in Japan, although sales outside Japan grew. Cosmetics sales grew 1.8% on a like-for-like basis.

- **Human Health Care Business: Adjusted growth +11.1% (like-for-like +7.8%)**

Sales of food & beverage products, sanitary products and personal health products grew. *Healthya Coffee*, launched in April in Japan, delivered strong results and sales of baby diapers expanded in Japan, China and Russia. Locally manufactured baby diapers targeting the middle-class consumer segment were launched in China.

- **Fabric and Home Care Business: Adjusted growth +7.2% (like-for-like +4.8%)**

Sales of fabric care products grew due to the continued strong performance of fabric softeners and bleaches in Japan and the reinforcement of the *Attack* brand in Japan, Indonesia and Thailand. Sales of home care products grew, mainly in Japan.

■ Chemical Business:

Adjusted growth +5.0% (like-for-like -5.1%)

Sales decreased with the impact on oleo chemicals sales of fluctuations in selling prices due to lower prices for natural fats and oils used as raw materials, although sales volume is slowly recovering.

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 the 1st Half of FY2013



Healthya Coffee

A coffee drink approved as a Food for Specified Health Uses that promotes body fat utilization (Japan)



Attack Powder Laundry Detergent

Powder laundry detergent and refill for the Attack brand, the market leader in Japan (Japan)



Merries

Baby diapers featuring superior breathability and gentleness on the skin in addition to their basic function of absorbency (Japan, China, Russia)



Merries manufactured in China



Bioré U Aroma Time

Body cleansers for an enjoyable bath time with high-quality aromatic scents (Japan)



Grace Sofina

Skin care targeting women in their 50s (Japan)



Jergens Natural Glow

Sunless self-tanning lotion that safely gives the skin a natural-looking color (North America)



Laurier Active Day Double Comfort

Innovative and easy-to-wash slim-type sanitary napkins that meet local needs (Indonesia)

Healthya Coffee*

Harness the forces of natural ingredients

Healthya promotes healthy living through drinks containing the two principal polyphenols consumed by Japanese people

Catechins in tea
(Healthya green tea, etc.)

Chlorogenic acids in coffee
(Healthya Coffee)

- Launched in early April 2013 in Japan
- Delivering strong sales, mainly in convenience stores, supermarkets and drugstores
- Currently actively executing initiatives to promote regular intake in order to establish the new segment of FOSHU-approved canned coffee



* A coffee drink for those concerned about body fat. It promotes body fat utilization through the action of polyphenol chlorogenic acids contained in coffee beans. (Approved as a Food for Specified Health Uses (FOSHU))

Attack Consistently Leads Innovation in Laundry Detergents

New proposals from *Attack*, which has built a market-leading position in Japan through continuous improvements since its launch in 1987

Refill for *Attack* Powder Laundry Detergents

- New proposal of a unique refill product for powder detergents that focuses on “the environment,” “convenience” and “ease of use”
- Reduction of environmental impact¹
 - CO₂ emissions from packaging: Approximately 60% reduction
 - Disposal of packaging: Approximately 90% reduction



Ultra Attack Neo ultra-concentrated liquid laundry detergent

- Deeper cleaning ability thanks to Kao's original next-generation cleaning ingredient Ultra-anion, which quickly penetrates and breaks down stains
- Removes stains and odors effectively, even in washing machines on a quick-wash setting², as a new proposal to meet the strong needs of homemakers for shorter laundering time



1. Comparison with the regular product, assuming the reuse of the box and the scoop
2. Wash cycle with short washing time

Strengthening Global Development of Baby Diapers

Sales were strong in China and Russia as well as in Japan.

- **Construction of a third plant for sanitary products in Japan at the Sakata Plant Complex (Yamagata Prefecture)**
 - Strengthening the stable product supply system to meet the sharp increase in demand for *Merries* baby diapers in both the Japanese and global markets
 - Taking into consideration higher demand for products related to the aging society such as increasing cases of light urinary incontinence
 - Investment is approximately 5 billion yen and construction will start in September 2013, with the start of operation scheduled for spring 2014
- **Full-scale commercial production of *Merries* baby diapers targeting the middle-class consumer segment in China started at a facility in Hefei City, Anhui Province in October 2012 and sales began in January 2013**
- **A second consumer products plant in Indonesia, including a manufacturing facility for sanitary products such as baby diapers, is under construction**
 - Investment is approximately 10 billion yen and the start of operation is scheduled for the 2nd quarter of FY2014



Consumer Products Business in Asia

- Sales expansion of UV care products across Asia
- Strong performance of sanitary napkins and laundry detergents in Thailand and Indonesia
- China
 - Sales of *Merries* baby diapers imported from Japan continue to grow
 - Sales of products targeting the middle-class consumer segment start as planned
 - ◆ *Merries* baby diapers: From January 2013
 - ◆ *Attack Power Soaking* powder laundry detergent for hand washing: From July 2013 in the provinces of Jiangsu, Zhejiang and Guangdong



UV care products in Asia



Merries baby diapers



Laurier Active Day Double Comfort



Attack 3D Deep & Fast



Attack Power Soaking

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Summary of FY2013 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 was already December 31:
January-December 2012**

Adjusted growth

Comparison with the twelve-month period from January 1 to December 31, 2012 for Group companies whose fiscal years ended in March before the fiscal year end change

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

Summary of FY2013 Forecast

	Forecast announced on April 30, 2013	Forecast announced on July 30, 2013	
	(Billion yen)	(Billion yen)	
Net sales	1,270.0	1,300.0	<ul style="list-style-type: none"> + Sales expansion of Consumer Products Business + Effect of currency translation - Decline in sales related to the voluntary recall*
Operating income	116.0	116.0	<ul style="list-style-type: none"> + Increased gross profit due to sales expansion - Increased raw material costs due to the weak yen - Expenses and the decline in sales related to the voluntary recall
Net income	73.0	67.0	<ul style="list-style-type: none"> - Extraordinary loss related to the voluntary recall

* Please refer to slide 5 for details

Summary of FY2013 Forecast

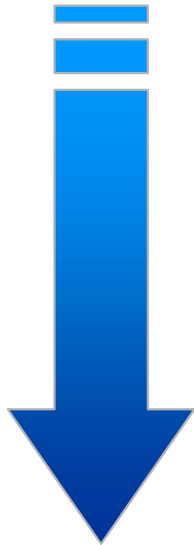
		<u>Adjusted growth²</u>
Net sales	¥1,300.0 billion	+6.5%
EBITA¹ [% of sales]	¥145.0 billion [11.2%]	+0.8%
Operating income [% of sales]	¥116.0 billion [8.9%]	+3.8%
Net income [% of sales]	¥67.0 billion [5.2%]	<u>+26.2%</u>
Net income per share	¥130.84	<u>+28.6%</u>
ROE³	<u>11.2%</u>	-
Shareholder returns		
Cash dividends per share	¥64	+¥2
Consolidated payout ratio	48.9%	

1. Operating income before amortization of goodwill and intellectual property rights related to M&A
2. Excludes the impact of the change in financial term. (Please refer to slide 14 for details.)
3. Forecast is not comparable with ROE for FY2012, which was a transitional period due to the change in fiscal year end.

Mid-term Growth Strategies

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 society

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 foundation 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)
- Continued focus on ongoing bottom-up approach to cost reduction activities (TCR) since 1986

4. Visibility Project

Sustained Contributions to Society

Basic principle is to contribute to society through business activities

- **Contribute to the resolution of social issues through strategic CSR**

- *Environment, aging society, health, etc.*

- **Fulfill our role as a public entity of society, based on laws, regulations and ethical conduct**

- *Employment, tax payment, etc.*

- **Continue and reinforce social contribution activities as a corporate citizen**

- *Systematic activities to nurture the next generation in the areas of environment, education and community, disaster relief, etc.*

- **Action on global issues**

- *Participation in the United Nations' 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.

Recent Topics of Sustained Contributions to Society

- **Kao Wakayama Plant receives supply chain certification from RSPO for sustainable palm oil and palm kernel oil¹**
- **Kao is named a “Nadeshiko Brand²” by the Ministry of Economy, Trade and Industry (METI) and the Tokyo Stock Exchange as a listed enterprise that is exceptional in encouraging women’s success in the workplace, and is also selected as a winner of the “Diversity Management Selection 100³” by METI**
- **Kao and China’s Ministry of Environmental Protection jointly promote “Nationwide Cleanliness and Water-saving Initiatives” for the second year⁴**
- **Kao is named one of the “World's Most Ethical Companies” for seven consecutive years⁵**

1. URL of news release: http://www.kao.com/jp/en/corp_news/2013/20130625_001.html

2. URL of METI webpage: http://www.meti.go.jp/english/press/2013/0226_03.html

3. URL of METI webpage: http://www.meti.go.jp/english/press/2013/0322_01.html

4. URL of news release: http://www.kao.com/jp/en/corp_news/2013/20130328_001.html

5. URL of news release: http://www.kao.com/jp/en/corp_news/2013/20130307_001.html

Kao Sustainability Statement



Kao'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 society. By developing innovative products and services, we work to conserve the environment and foster well-being in the communities we serve now and in the future.

To do this, in partnership with our stakeholders, we promote a culture of integrity in everything we do and we provide a workplace that maximizes the potential of each and every one of our employees.

To advance our business responsibly and sustainably, we are focusing our efforts on the three key areas of Conservation, Community and Culture.

(Announced on July 1, 2013)

URL: http://www.kao.com/jp/en/corp_csr/csr_action_00.html

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

Consumer Products
Business

Beauty Care

1H/FY2013 sales: ¥278.6 billion

[Adjusted growth: +8.5% / Share of net sales: 44.6%]

- Professional hair care products
- Cosmetics
- Skin care (mass products)
- Hair care (mass products)



Consumer Products
Business

Fabric and Home Care

1H/FY2013 sales: ¥138.5 billion

[Adjusted growth: +7.2% / Share of net sales: 22.2%]

- Laundry detergents and fabric treatments
- Products for kitchen, bath, toilet and living room care



Consumer driven

Human Health Care

1H/FY2013 sales: ¥99.6 billion

[Adjusted growth: +11.1% / Share of net sales: 15.9%]

- Beverages
- Oral care
- Blood circulation enhancement products (incl. bath additives and thermal pads)
- Sanitary products



Consumer Products
Business

Chemical

1H/FY2013 sales: ¥125.9 billion

[Adjusted growth: +5.0% / Share of net sales: 17.3%]

- Oleo chemicals
- Performance chemicals
- Specialty chemicals



Chemical Business

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.)

1H/FY2013 Breakdown of Beauty Care Business

		Billion yen	Adjusted increase (decrease) ¹
Beauty Care	Net sales	278.6	8.5%
	Operating income ²	3.1	+3.1 billion yen
	Operating margin	1.1%	+110bps
Cosmetics	Net sales	126.3	3.7%
	Operating income ²	-13.9	-2.0 billion yen
	Operating margin	-11.0%	-120bps
Skin care/hair care (mass products) and professional hair care products	Net sales	152.3	12.9%
	Operating income ²	17.0	+5.1 billion yen
	Operating margin	11.2%	+240bps

Kanebo Cosmetics

- Net sales:
Approx. ¥90 billion
(Restated 1H/FY2012: Slightly less than ¥90 billion)
- Profit as a % of sales³:
Approx. 2%
(Restated 1H/FY2012: Approx. 4%)

3. Operating margin before deduction of royalties

1. Comparison with the restated 1H/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: ¥14.5 billion
 - Cosmetics: ¥14.1 billion
 - Skin care/hair care (mass products) and professional hair care products: ¥0.5 billion

Cosmetics in Japan – 1st Half of FY2013

Cosmetics market in Japan

[Year-on-year growth on a value (yen) basis]	Jan. - Jun. 13	Jan. - Dec. 12
Total market	-0.9%	-0.6%
High-priced segment (over ¥5,000):	+0.3%	-1.3%
Mid-priced segment (¥2,000-¥5,000):	-2.8%	-1.0%
Low-priced segment (below ¥2,000):	+0.6%	+0.8%
Kao Group total (Kanebo Cosmetics + Kao Sofina)	+1.5%	+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 July 30, 2013)

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Enriching lives, in harmony with nature.

Pre-revision

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Baby diapers featuring superior breathability and gentleness on the skin in addition to their basic function of absorbency (Japan, China, Russia)



Merries manufactured in China



Bioré U Aroma Time

Body cleansers for an enjoyable bath time with high-quality aromatic scents (Japan)



Grace Sofina

Skin care targeting women in their 50s (Japan)



Jergens Natural Glow

Sunless self-tanning lotion that safely gives the skin a natural-looking color (North America)



Laurier Active Day Double Comfort

Innovative and easy-to-wash slim-type sanitary napkins that meet local needs (Indonesia)

Healthya Coffee*

Harness the forces of natural ingredients

Healthya promotes healthy living through drinks containing the two principal polyphenols consumed by Japanese people

Catechins in tea
(Healthya green tea, etc.)

Chlorogenic acids in coffee
(Healthya Coffee)

- Launched in early April 2013 in Japan
- Delivering strong sales, mainly in convenience stores, supermarkets and drugstores
- Currently actively executing initiatives to promote regular intake in order to establish the new segment of FOSHU-approved canned coffee



* A coffee drink for those concerned about body fat. It promotes body fat utilization through the action of polyphenol chlorogenic acids contained in coffee beans. (Approved as a Food for Specified Health Uses (FOSHU))

Attack Consistently Leads Innovation in Laundry Detergents

New proposals from *Attack*, which has built a market-leading position in Japan through continuous improvements since its launch in 1987

Refill for *Attack* Powder Laundry Detergents

- New proposal of a unique refill product for powder detergents that focuses on “the environment,” “convenience” and “ease of use”
- Reduction of environmental impact¹
 - CO₂ emissions from packaging: Approximately 60% reduction
 - Disposal of packaging: Approximately 90% reduction



Ultra Attack Neo ultra-concentrated liquid laundry detergent

- Deeper cleaning ability thanks to Kao's original next-generation cleaning ingredient Ultra-anion, which quickly penetrates and breaks down stains
- Removes stains and odors effectively, even in washing machines on a quick-wash setting², as a new proposal to meet the strong needs of homemakers for shorter laundering time



1. Comparison with the regular product, assuming the reuse of the box and the scoop
2. Wash cycle with short washing time

Strengthening Global Development of Baby Diapers

Sales were strong in China and Russia as well as in Japan.

- **Construction of a third plant for sanitary products in Japan at the Sakata Plant Complex (Yamagata Prefecture)**
 - Strengthening the stable product supply system to meet the sharp increase in demand for *Merries* baby diapers in both the Japanese and global markets
 - Taking into consideration higher demand for products related to the aging society such as increasing cases of light urinary incontinence
 - Investment is approximately 5 billion yen and construction will start in September 2013, with the start of operation scheduled for spring 2014
- **Full-scale commercial production of *Merries* baby diapers targeting the middle-class consumer segment in China started at a facility in Hefei City, Anhui Province in October 2012 and sales began in January 2013**
- **A second consumer products plant in Indonesia, including a manufacturing facility for sanitary products such as baby diapers, is under construction**
 - Investment is approximately 10 billion yen and the start of operation is scheduled for the 2nd quarter of FY2014



Consumer Products Business in Asia

- Sales expansion of UV care products across Asia
- Strong performance of sanitary napkins and laundry detergents in Thailand and Indonesia
- China
 - Sales of *Merries* baby diapers imported from Japan continue to grow
 - Sales of products targeting the middle-class consumer segment start as planned
 - ◆ *Merries* baby diapers: From January 2013
 - ◆ *Attack Power Soaking* powder laundry detergent for hand washing: From July 2013 in the provinces of Jiangsu, Zhejiang and Guangdong



UV care products in Asia



Merries baby diapers



Laurier Active Day Double Comfort



Attack 3D Deep & Fast



Attack Power Soaking

KaO

Enriching lives, in harmony with nature.

Summary of FY2013 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 was already December 31:
January-December 2012**

Adjusted growth

Comparison with the twelve-month period from January 1 to December 31, 2012 for Group companies whose fiscal years ended in March before the fiscal year end change

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

Summary of FY2013 Forecast

	Forecast announced on April 30, 2013	Forecast announced on July 30, 2013	
	(Billion yen)	(Billion yen)	
Net sales	1,270.0	1,300.0	<ul style="list-style-type: none"> + Sales expansion of Consumer Products Business + Effect of currency translation - Decline in sales related to the voluntary recall*
Operating income	116.0	116.0	<ul style="list-style-type: none"> + Increased gross profit due to sales expansion - Increased raw material costs due to the weak yen - Expenses and the decline in sales related to the voluntary recall
Net income	73.0	67.0	<ul style="list-style-type: none"> - Extraordinary loss related to the voluntary recall

* Please refer to slide 5 for details

Summary of FY2013 Forecast

		<u>Adjusted growth²</u>
Net sales	¥1,300.0 billion	+6.5%
EBITA¹ [% of sales]	¥145.0 billion [11.2%]	+0.8%
Operating income [% of sales]	¥116.0 billion [8.9%]	+3.8%
Net income [% of sales]	¥67.0 billion [5.2%]	<u>+6.8%</u>
Net income per share	¥130.84	<u>+8.8%</u>
ROE³	<u>11.0%</u>	-
Shareholder returns		
Cash dividends per share	¥64	+¥2
Consolidated payout ratio	48.9%	

1. Operating income before amortization of goodwill and intellectual property rights related to M&A
2. Excludes the impact of the change in financial term. (Please refer to slide 14 for details.)
3. Forecast is not comparable with ROE for FY2012, which was a transitional period due to the change in fiscal year end.

Mid-term Growth Strategies

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 society

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 foundation 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)
- Continued focus on ongoing bottom-up approach to cost reduction activities (TCR) since 1986

4. Visibility Project

Sustained Contributions to Society

Basic principle is to contribute to society through business activities

■ **Contribute to the resolution of social issues through strategic CSR**

- *Environment, aging society, health, etc.*

■ **Fulfill our role as a public entity of society, based on laws, regulations and ethical conduct**

- *Employment, tax payment, etc.*

■ **Continue and reinforce social contribution activities as a corporate citizen**

- *Systematic activities to nurture the next generation in the areas of environment, education and community, disaster relief, etc.*

■ **Action on global issues**

- *Participation in the United Nations' 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.

Recent Topics of Sustained Contributions to Society

- **Kao Wakayama Plant receives supply chain certification from RSPO for sustainable palm oil and palm kernel oil¹**
- **Kao is named a “Nadeshiko Brand²” by the Ministry of Economy, Trade and Industry (METI) and the Tokyo Stock Exchange as a listed enterprise that is exceptional in encouraging women’s success in the workplace, and is also selected as a winner of the “Diversity Management Selection 100³” by METI**
- **Kao and China’s Ministry of Environmental Protection jointly promote “Nationwide Cleanliness and Water-saving Initiatives” for the second year⁴**
- **Kao is named one of the “World's Most Ethical Companies” for seven consecutive years⁵**

1. URL of news release: http://www.kao.com/jp/en/corp_news/2013/20130625_001.html

2. URL of METI webpage: http://www.meti.go.jp/english/press/2013/0226_03.html

3. URL of METI webpage: http://www.meti.go.jp/english/press/2013/0322_01.html

4. URL of news release: http://www.kao.com/jp/en/corp_news/2013/20130328_001.html

5. URL of news release: http://www.kao.com/jp/en/corp_news/2013/20130307_001.html

Kao Sustainability Statement



Kao'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 society. By developing innovative products and services, we work to conserve the environment and foster well-being in the communities we serve now and in the future.

To do this, in partnership with our stakeholders, we promote a culture of integrity in everything we do and we provide a workplace that maximizes the potential of each and every one of our employees.

To advance our business responsibly and sustainably, we are focusing our efforts on the three key areas of Conservation, Community and Culture.

(Announced on July 1, 2013)

URL: http://www.kao.com/jp/en/corp_csr/csr_action_00.html

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

Consumer Products Business

Beauty Care

1H/FY2013 sales: ¥278.6 billion
[Adjusted growth: +8.5% / Share of net sales: 44.6%]

Professional hair care products
Cosmetics
Skin care (mass products)
Hair care (mass products)



Consumer Products Business

Human Health Care

1H/FY2013 sales: ¥99.6 billion
[Adjusted growth: +11.1% / Share of net sales: 15.9%]

Beverages
Oral care
Blood circulation enhancement products (incl. bath additives and thermal pads)
Sanitary products



Consumer Products Business

Fabric and Home Care

1H/FY2013 sales: ¥138.5 billion
[Adjusted growth: +7.2% / Share of net sales: 22.2%]

Laundry detergents and fabric treatments
Products for kitchen, bath, toilet and living room care



Chemical Business

Chemical

1H/FY2013 sales: ¥125.9 billion
[Adjusted growth: +5.0% / Share of net sales: 17.3%]

Oleo chemicals
Performance chemicals
Specialty chemicals



Consumer
driven

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.)

1H/FY2013 Breakdown of Beauty Care Business

		Billion yen	Adjusted increase (decrease) ¹
Beauty Care	Net sales	278.6	8.5%
	Operating income ²	3.1	+3.1 billion yen
	Operating margin	1.1%	+110bps
Cosmetics	Net sales	126.3	3.7%
	Operating income ²	-13.9	-2.0 billion yen
	Operating margin	-11.0%	-120bps
Skin care/hair care (mass products) and professional hair care products	Net sales	152.3	12.9%
	Operating income ²	17.0	+5.1 billion yen
	Operating margin	11.2%	+240bps

Kanebo Cosmetics

- Net sales:
Approx. ¥90 billion
(Restated 1H/FY2012: Slightly less than ¥90 billion)
- Profit as a % of sales³:
Approx. 2%
(Restated 1H/FY2012: Approx. 4%)

3. Operating margin before deduction of royalties

1. Comparison with the restated 1H/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: ¥14.5 billion
 - Cosmetics: ¥14.1 billion
 - Skin care/hair care (mass products) and professional hair care products: ¥0.5 billion

Cosmetics in Japan – 1st Half of FY2013

Cosmetics market in Japan

[Year-on-year growth on a value (yen) basis]	Jan. - Jun. 13	Jan. - Dec. 12
Total market	-0.9%	-0.6%
High-priced segment (over ¥5,000):	+0.3%	-1.3%
Mid-priced segment (¥2,000-¥5,000):	-2.8%	-1.0%
Low-priced segment (below ¥2,000):	+0.6%	+0.8%
Kao Group total (Kanebo Cosmetics + Kao Sofina)	+1.5%	+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 July 30, 2013)

KaO

Enriching lives, in harmony with nature.