

Highlights for FY2014

(Ended December 31, 2014)

Kao Corporation

February 4, 2015

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.

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

Agenda

- **Kao Group Mid-term Plan 2015 (K15)
and Summary of FY2014**
- **Summary of FY2015 Forecast**
- **The Kao Group's Vision for the Future**

Kao Group Mid-term Plan 2015 (K15) and Summary of FY2014

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

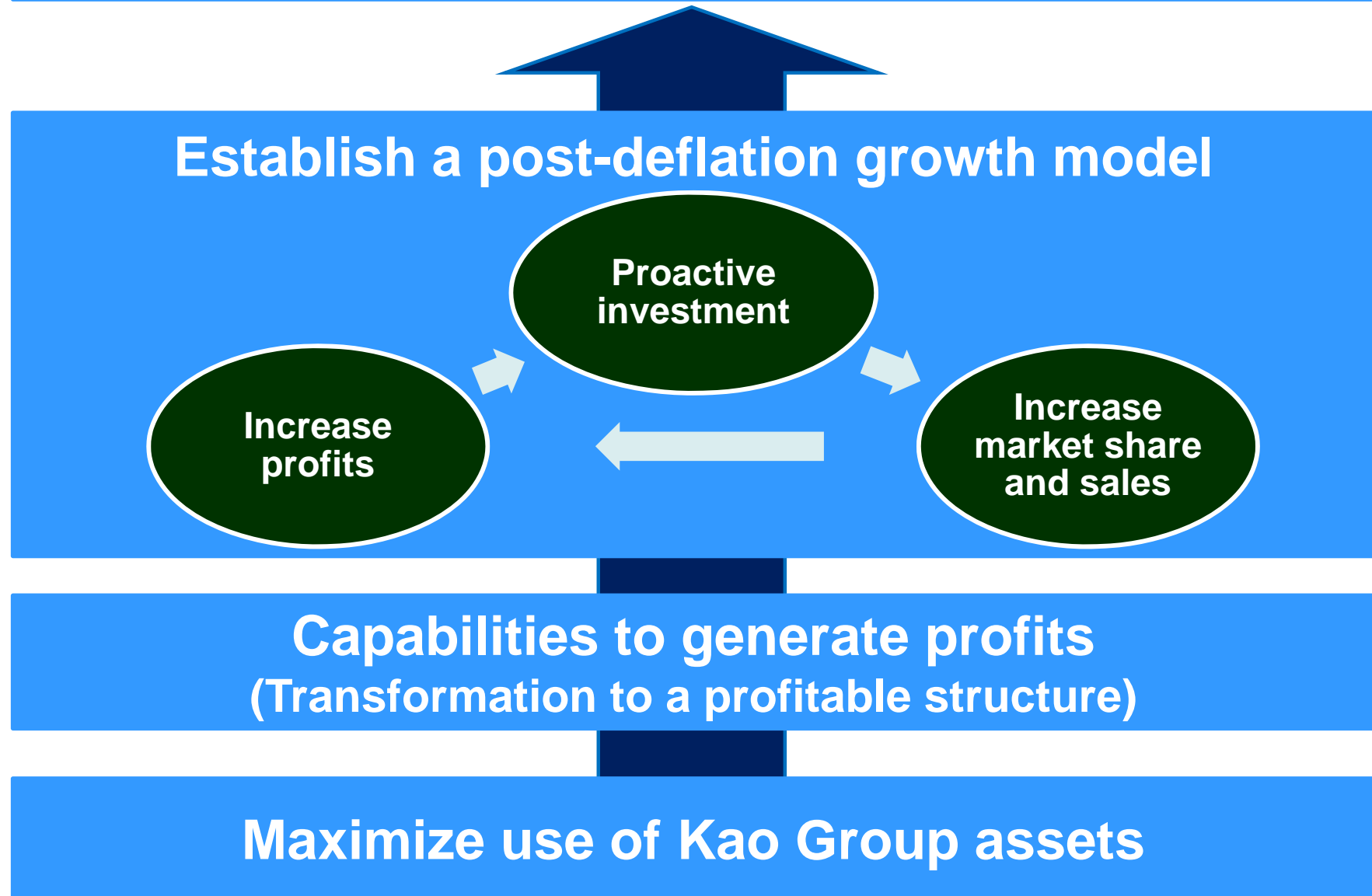
- Move the cosmetics business to a phase of profitable growth
- Propose products and services through new approaches focused on health and the aging society

3. Reinforce the Chemical Business

- Promote higher added value
- Strengthen synergy with the Consumer Products Business

Targeted Sustainable Growth Model

Profitable growth, creation of new assets



Financial Overview – FY2014

		<u>Year-on-year growth</u>	<u>Forecast²</u>
Net sales	¥1,401.7 billion	+6.6%	¥1,390.0 billion
EBITA¹ [% of sales]	¥162.1 billion [11.6%]	+4.7%	-
Operating income [% of sales]	¥133.3 billion [9.5%]	+6.9%	¥130.0 billion
Net income [% of sales]	¥79.6 billion [5.7%]	+22.9%	¥75.0 billion
Net income per share	¥156.46	+24.1%	¥147.45
ROE	12.4%	+170 bps	-
Shareholder returns			
Cash dividends per share	¥70	+¥6	¥68
Consolidated payout ratio	44.7%		
Share repurchases	¥50.0 billion		

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

2. Forecast announced on October 28, 2014

Executive Summary (1)

- **Targeted sustainable growth model is about to be established**
- **Net sales and profits grew for the fifth consecutive fiscal year* and slightly exceeded the projections of K15**
 - Net sales and profits achieved the forecast announced on October 28, 2014
 - Net sales and net income broke previous records
 - Operating income and ordinary income broke previous records for the second year in a row
 - 8.9 billion yen of compensation-related and other expenses in connection with brightening products containing Rhododenol was recorded as an extraordinary loss
- **Growth drivers of net sales and operating income**
 - Consumer Products Business in Japan
 - Appropriate response to last-minute surge in demand before the consumption tax increase and pullback that followed
 - Market share expansion through proactive initiatives
 - Overall results excluding cosmetics were solid with strong performance by sanitary products, while *Healthya* functional drinks struggled
 - In cosmetics, Kanebo Cosmetics is on the path to recovery
 - Impacted by adverse weather conditions in July-August, but recovered in the fourth quarter
 - Consumer Products Business in Asia
 - Indonesia, China, Hong Kong and Singapore drove growth
 - Sales of baby diapers targeting the middle-class consumer segment are expanding in China and Indonesia

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

Executive Summary (2)

■ Shareholder returns

- Annual cash dividends per share for FY2014: Planned increase of 6 yen compared with the previous fiscal year to 70 yen, 2 yen higher than the forecast and the 25th consecutive fiscal year of increases in cash dividends
- Share repurchases: 50 billion yen
- Retirement of treasury stock: 12 million shares

Executive Summary (3)

■ The Kao Group's response to vitiligo-like symptoms experienced by some customers of Kanebo Cosmetics brightening products containing Rhododenol

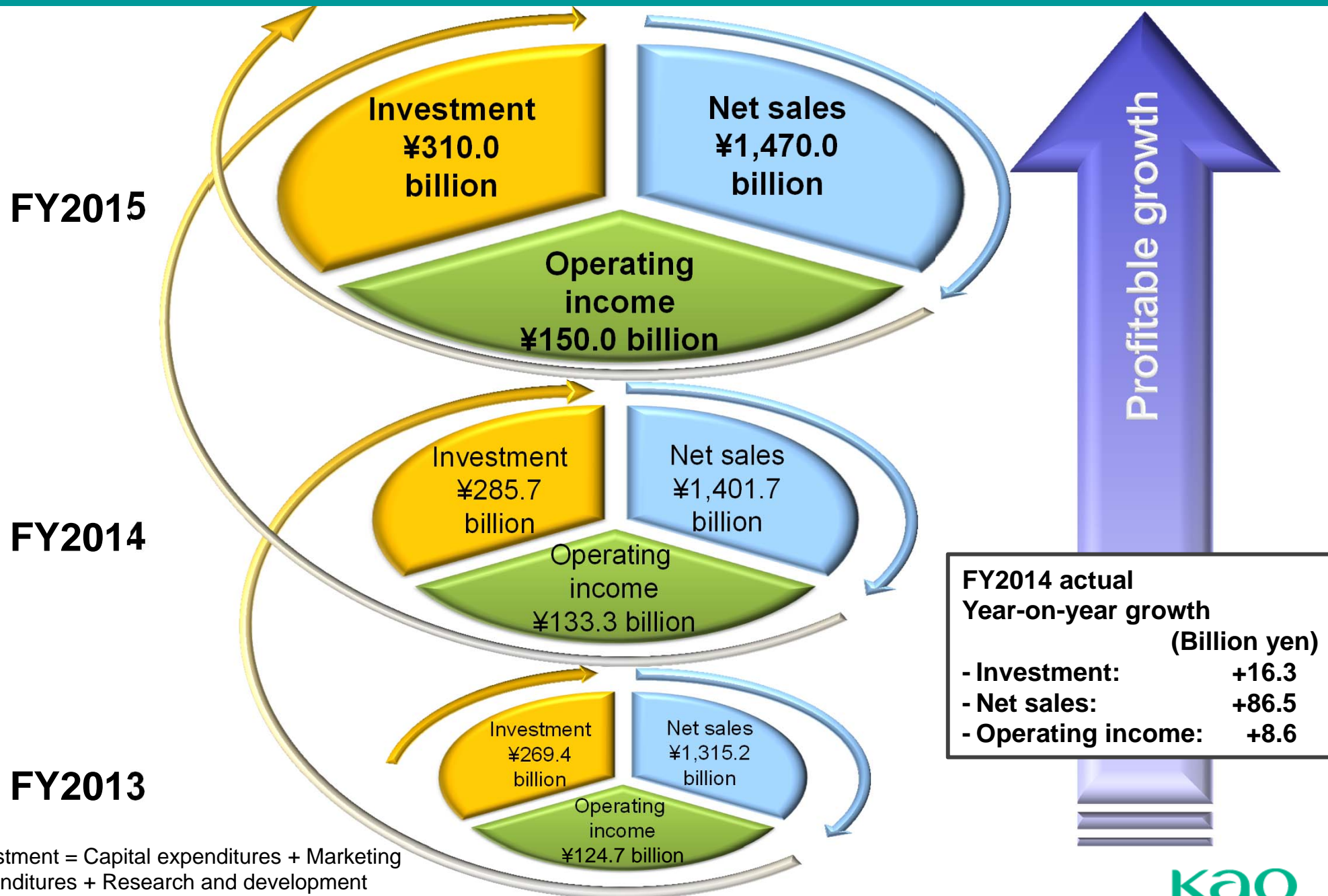
- Respond in a sincere manner to those with vitiligo-like symptoms
 - Efforts to investigate the cause and establish therapeutic methods
 - Deal with compensation in a sincere manner (Announcement of implementation of compensation similar to damages payable for aftereffects in addition to the previous compensation)
- Ensure greater safety and reliability to prevent recurrence

■ Corporate governance system

- *Innovation** in corporate governance
- Enhancement of outside perspective
 - Equal number of inside directors and outside directors
 - An independent outside director has assumed the position of chairman of the Board of Directors
- Separation of the supervisory function and execution
 - Delegation of authority
 - Accelerated decision-making

* Innovation is one of the values of The Kao Way, the corporate philosophy of the Kao Group.

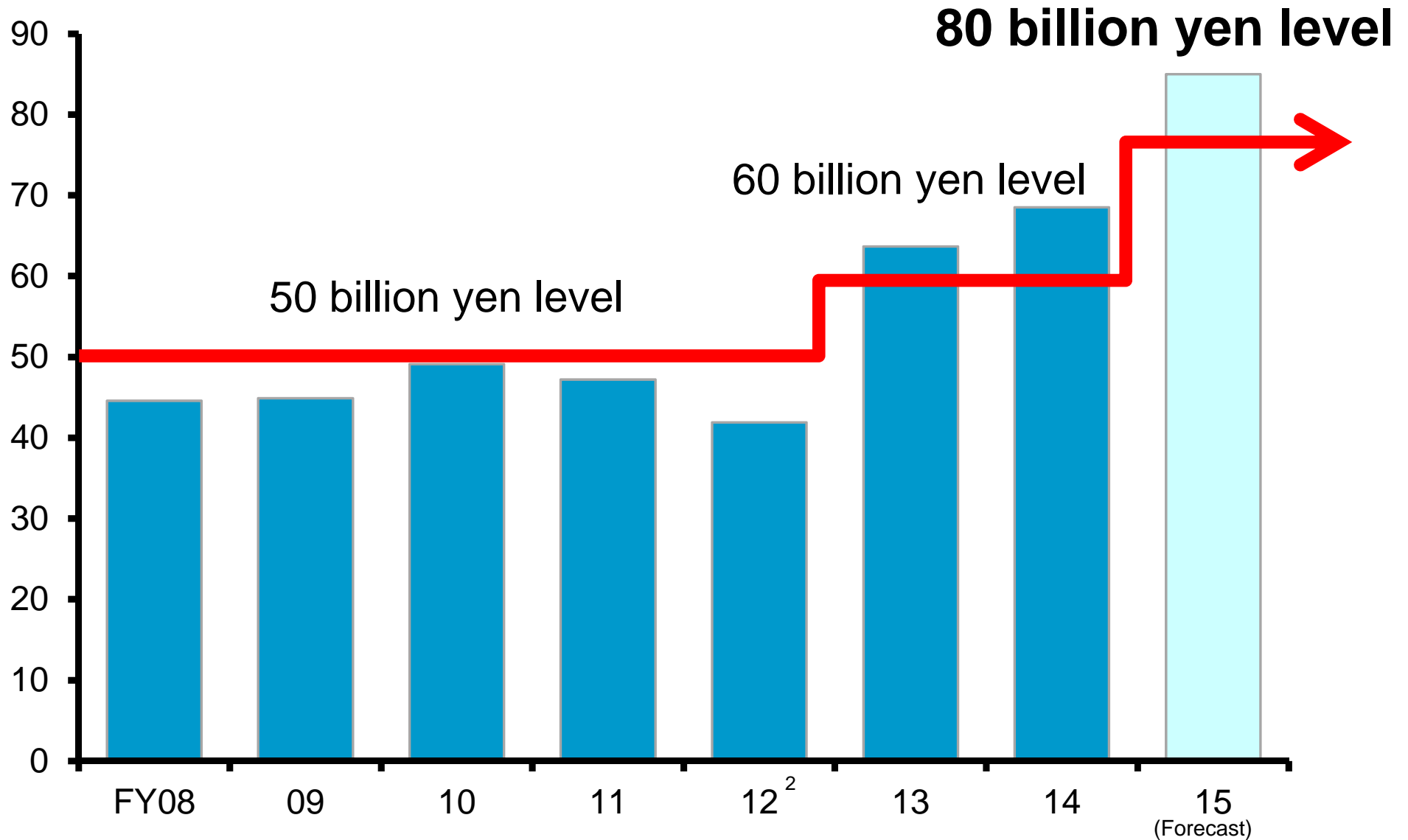
Growth Model for Exiting Deflation with Proactive Investment*



* Investment = Capital expenditures + Marketing expenditures + Research and development expenditures

Proactive Capital Expenditures¹ to Accelerate Global Growth

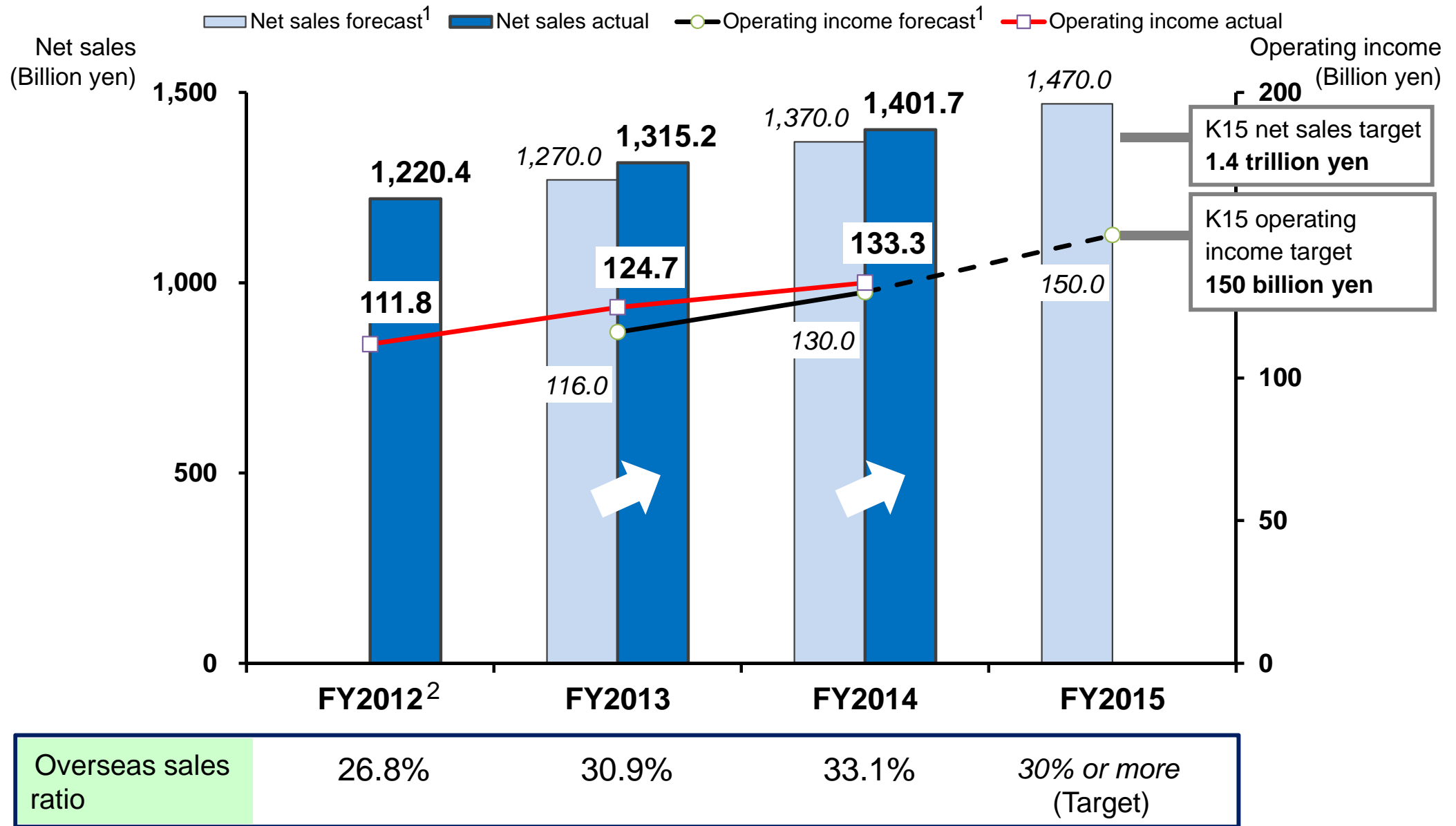
(Billion yen)



1 Long-term prepaid expenses are included in capital expenditures.

2 Fiscal year end is December 31 from FY2012. (Please refer to slide 2 for details.)

K15 Net Sales and Operating Income



1. Forecast at the beginning of each fiscal year

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

New and Improved Products in Japan in FY2014

Beauty Care



Human Health Care



Fabric and Home Care



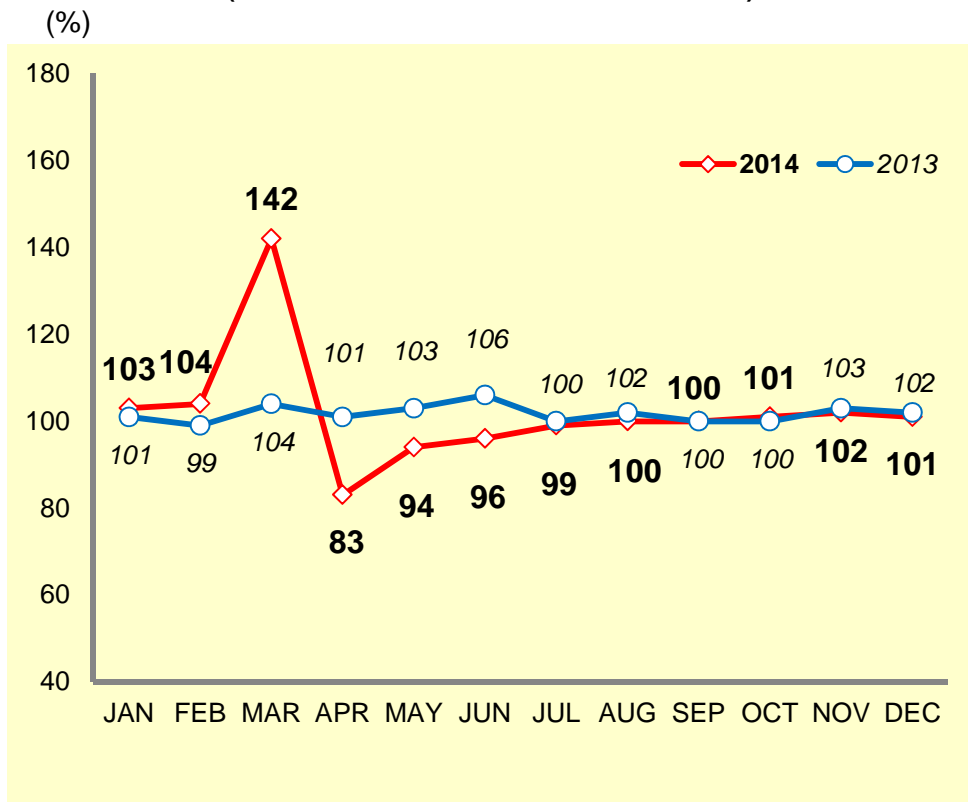
KaO

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Impact of the Consumption Tax Increase* on the Japanese Market

Household and personal care

Jan. - Dec. 2014: 102
(Jan. - Dec. 2013: 102)

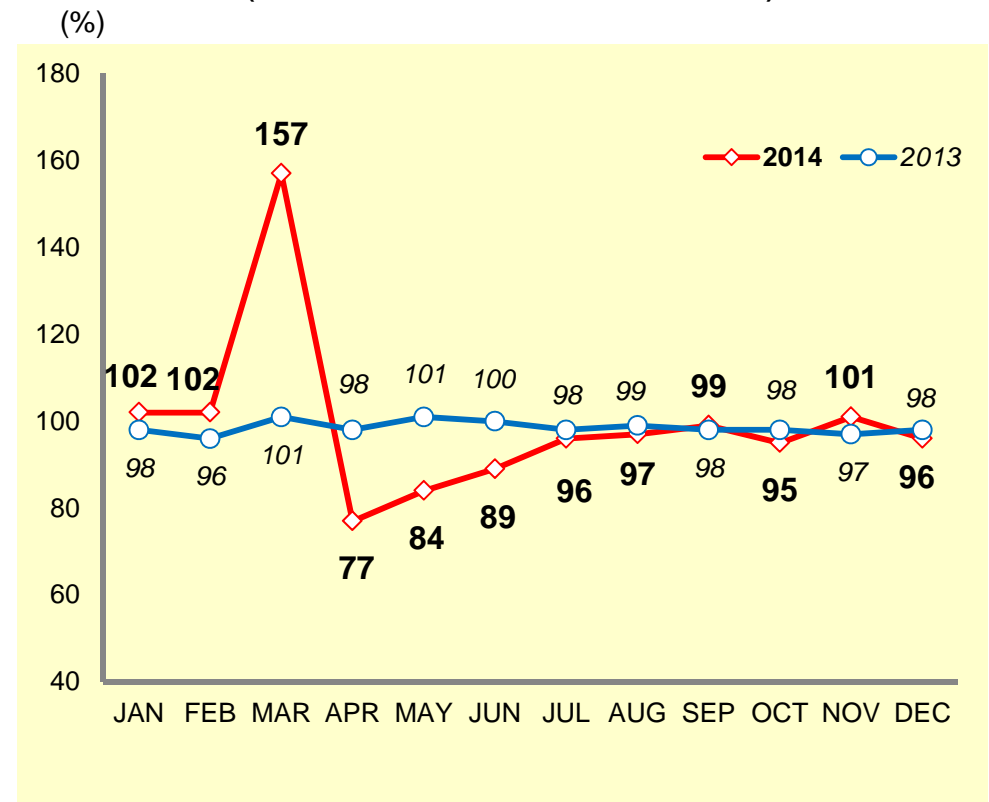


79 categories; year-on-year growth rate of market size on value basis (yen)

(Source: SRI POS data by INTAGE Inc.)

Cosmetics

Jan. - Dec. 2014: 100
(Jan. - Dec. 2013: 99)



26 categories; year-on-year growth rate of market size on value basis (yen)

(Source: SLI survey by INTAGE Inc. based on Kao's definition)

* The consumption tax rate was raised to 8% from 5% on April 1, 2014.

Consumer Products Business in Asia

Proactive value offerings for the growing middle-class consumer segment

FY2015

Aiming for a 5% operating margin while expanding sales

FY2014

Launch of products targeting the middle-class consumer segment

- Baby diapers: Indonesia
- Laundry detergents: Indonesia, Vietnam

FY2013

Launch of baby diapers and laundry detergents targeting the middle-class consumer segment in China

To FY2012

Establishment of a foundation to accelerate growth through the integration of business operations in Asia



Attack 10
Hands Power
(Vietnam)



Merries Pants
Good Skin
(Indonesia)



Attack Jaz1
(Indonesia)



Merries
Shun
Shuang
Tou Qi
(China)



Attack Power
Soaking powder
laundry detergent
for hand washing
(China)

Summary of FY2015 Forecast

Key Points in FY2015 Forecast (1)

- **Aiming to achieve the sixth consecutive fiscal year of increases in net sales and profits* and K15 targets**

Promote a post-deflation growth model and maximize use of Kao Group assets

(1) Growth of the Consumer Products Business in Japan

- Value offerings in response to social issues including the environment, health, the aging society and hygiene
- Proactive initiatives including launch of new and improved products and marketing investment
- Reinforce *Healthya* functional drinks

(2) Recovery of trust and improvement of business performance for Kanebo Cosmetics

- Respond in a sincere manner to those with vitiligo-like symptoms
- Operating margin before deduction of royalties
 - ◆FY2014 actual: Slightly more than 7%
 - ◆FY2015 forecast: Approximately 8%

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

Key Points in FY2015 Forecast (2)

- (3) Proactive development of business targeting the growing middle-class consumer segment in the Consumer Products Business in Asia**
- (4) Improvement of profitability of the Consumer Products Business in the Americas and Europe**
- (5) Stable growth of the Chemical Business in a changing global business environment**
 - Offer high-value-added products and further reinforce oleo chemicals

■ Enhancement of shareholder returns

- Annual cash dividends per share for FY2015 of 76 yen, an increase of 6 yen compared with the previous fiscal year (planned 26th consecutive fiscal year of increases in cash dividends)

Factors Affecting FY2015 Forecast

Negative factors in FY2014

- Impact from the delay in recovery from the pullback after the consumption tax increase in Japan
- Adverse weather conditions during the summer in Japan
- Negative impact from the fluctuation of raw material prices
- More intense competition in the FOSHU* drink market in Japan

Uncertainties in FY2015

- Impact of the trend toward normalization of monetary policy in the United States
- Public debt problem in European economies
- Unclear economic outlook in emerging nations
- An economic downturn overseas due to volatility of exchange rates and crude oil prices and its impact on the operating environment in Japan

* Food for Specified Health Uses

Summary of FY2015 Forecast

		<u>Year-on-year growth</u>
Net sales	¥1,470.0 billion	+4.9%
EBITA* [% of sales]	¥176.1 billion [12.0%]	+8.7%
Operating income [% of sales]	¥150.0 billion [10.2%]	+12.6%
Net income [% of sales]	¥87.0 billion [5.9%]	+9.3%
Net income per share	¥173.63	+11.0%
ROE	12.7%	+30 bps
Shareholder returns		
Cash dividends per share	¥76	+¥6
Consolidated payout ratio	43.8%	

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

The Kao Group's Vision for the Future

The Kao Group's Vision for the Future

A company with a global presence

Profitable growth

Further innovation

**Contributions to
sustainability of the world**

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 the world

Kao Sustainability Statement

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

Key areas

Conservation

Community

Culture

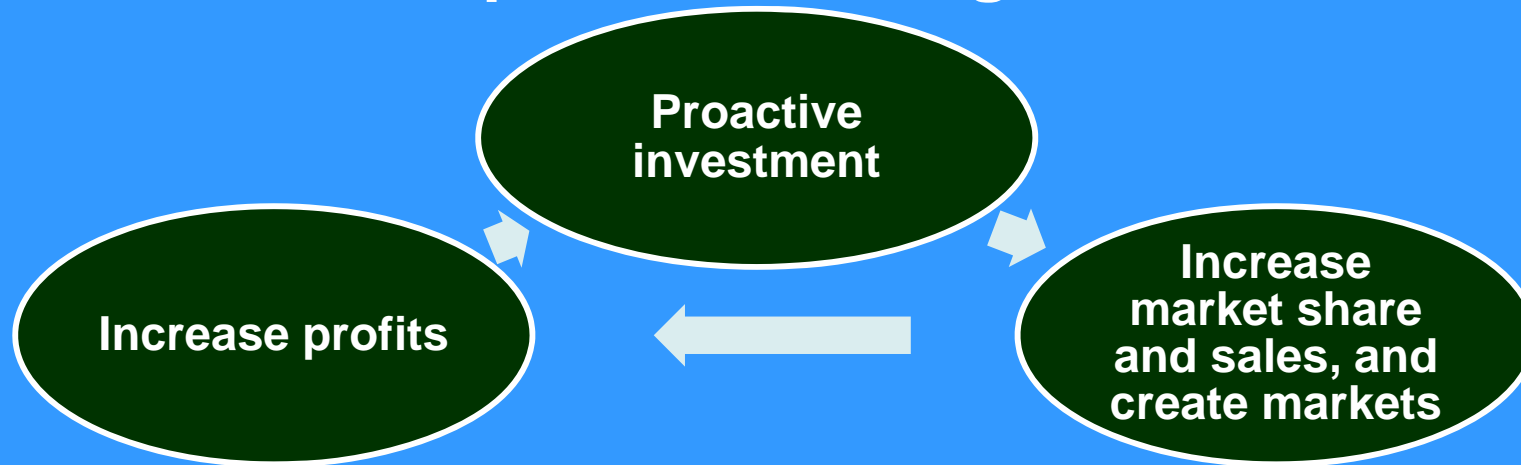
Direction of Mid-term Growth Strategies (3 to 5 Years) after K15

- **Accelerate global expansion of the Consumer Products Business**
- **High-value-added offerings that resolve social issues including the environment, health, the aging society and hygiene**
- **Return the cosmetics business to a growth path**
- **Achieve sales expansion and stable profitability in the Chemical Business**

Targeted Sustainable Growth Model

Profitable growth

Establish a post-deflation growth model



Capabilities to generate profits
(Transformation to a profitable structure)

Maximize use of Kao Group assets

Use of Cash Flow* and Shareholder Returns

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

1. Investment for future growth
(capital expenditures, M&A, etc.)
2. Steady and continuous cash dividends
3. Share repurchases and early repayment of
interest-bearing debt including borrowings

* Net cash provided by operating activities

Contributions to Sustainability of the World

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 the environment, health, the aging society, hygiene, 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-governmental 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

Appendices

Business Segments and Main Product Categories

Consumer Products
Business

Beauty Care

FY2014 sales: ¥589.9 billion

[Growth: +3.4% / Share of net sales: 42.1%]

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



Consumer Products
Business

Fabric and Home Care

FY2014 sales: ¥324.5 billion

[Growth: +4.3% / Share of net sales: 23.2%]

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



Consumer
driven

Human Health Care

FY2014 sales: ¥240.1 billion

[Growth: +14.0% / Share of net sales: 17.1%]

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



Consumer Products
Business

Chemical

FY2014 sales: ¥288.0 billion

[Growth: +10.3% / Share of net sales: 17.6%]

Oleo chemicals
Performance chemicals
Specialty chemicals



Chemical Business

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

FY2014 Breakdown of Beauty Care Business

		Billion yen	Increase/decrease
Beauty Care	Net sales	589.9	+3.4%
	Operating income ¹	28.4	+4.5 billion yen
	Operating margin	4.8%	+60 bps
Cosmetics	Net sales	260.6	+1.4%
	Operating income ¹	-12.0	+5.3 billion yen
	Operating margin	-4.6%	+210 bps
Skin care/hair care (mass products) and professional hair care products	Net sales	329.3	+5.1%
	Operating income ¹	40.4	-0.8 billion yen
	Operating margin	12.3%	-90 bps

Kanebo Cosmetics

- Net sales:
Slightly less than ¥180 billion (FY2013: Approx.¥180 billion)
- Profit as a % of sales²:
Slightly more than 7% (FY2013: Slightly less than 5%)

2. Operating margin before deduction of royalties

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

- Beauty Care: ¥28.8 billion
- Cosmetics: ¥27.9 billion
- Skin care/hair care (mass products) and professional hair care products: ¥0.9 billion

Cosmetics in Japan – FY2014

Cosmetics market in Japan

[Year-on-year growth on a value (yen) basis]	Jan. - Dec. 14	Jan. - Dec. 13
Total market	-0.2%	-1.5%
High-priced segment (over ¥5,000):	+0.1%	+0.3%
Mid-priced segment (¥2,000- ¥5,000):	+0.3%	-3.4%
Low-priced segment (below ¥2,000):	-1.2%	-0.9%
Kao Group total (Kanebo Cosmetics + Kao Sofina)	-0.5%	-3.5%

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

ROE Enhancement

■ Operating margin improvement

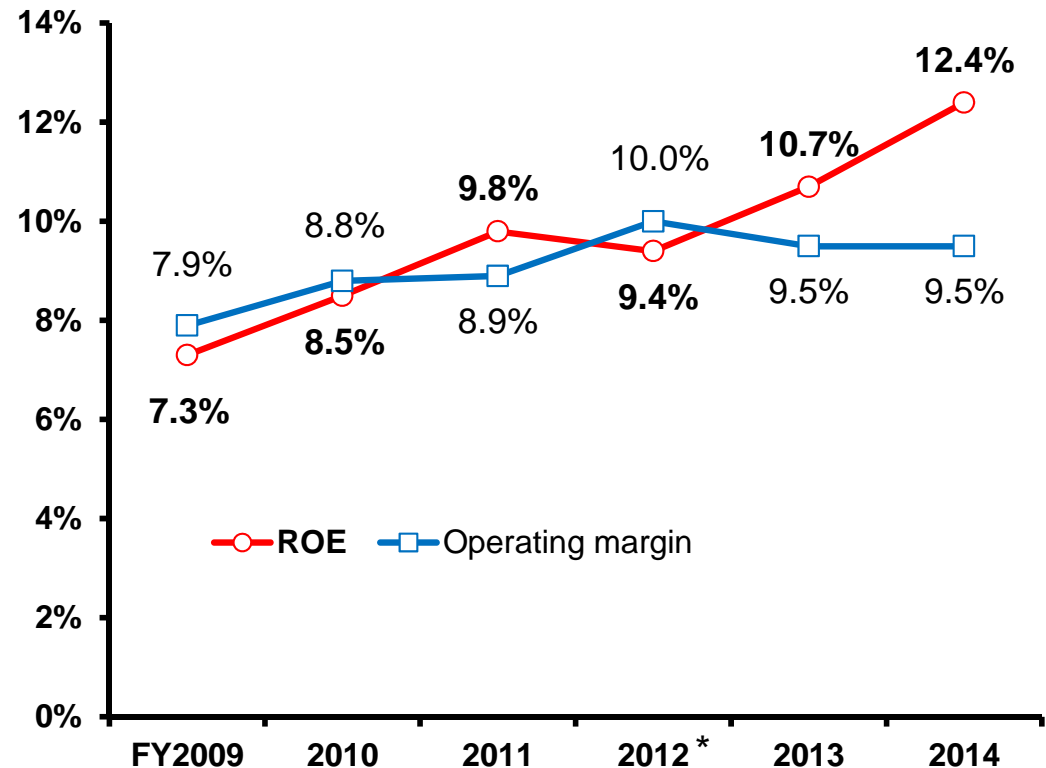
- Improve operating margin while increasing operating income

■ EVA perspective

- Proactive investment for growth
- Balance sheet management that considers cost of capital

■ Shareholder returns as a use of cash flow

- Steady and continuous cash dividends (planned 25th consecutive fiscal year of increases in cash dividends in FY2014)
- Share repurchases



* Fiscal year end is December 31 from FY2012. (Please refer to slide 2 for details.) ROE of FY2012 is for the transitional period associated with the change in fiscal year end.

SRI Indexes and External CSR Evaluations

SRI indexes for which Kao has been selected

MEMBER OF

**Dow Jones
Sustainability Indices**

In Collaboration with RobecoSAM



CSR-related evaluations from external organizations



Kao Corporation also received Gold Class 2015 and Industry Mover 2015

CSR: Corporate Social Responsibility
SRI: Socially Responsible Investment

(As of February 4, 2015)

The Kao logo is rendered in a bold, dark blue, sans-serif typeface. The letters are closely spaced, with the 'K' and 'a' sharing a common vertical stroke on the left side. The 'O' is a simple, rounded circle.

Enriching lives, in harmony with nature.