

Annual Financial Review

From January 1 to December 31, 2014

Kao Corporation

February 4, 2015

This is a translation of materials used for the analyst meeting held in Japan on February 4, 2015.



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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

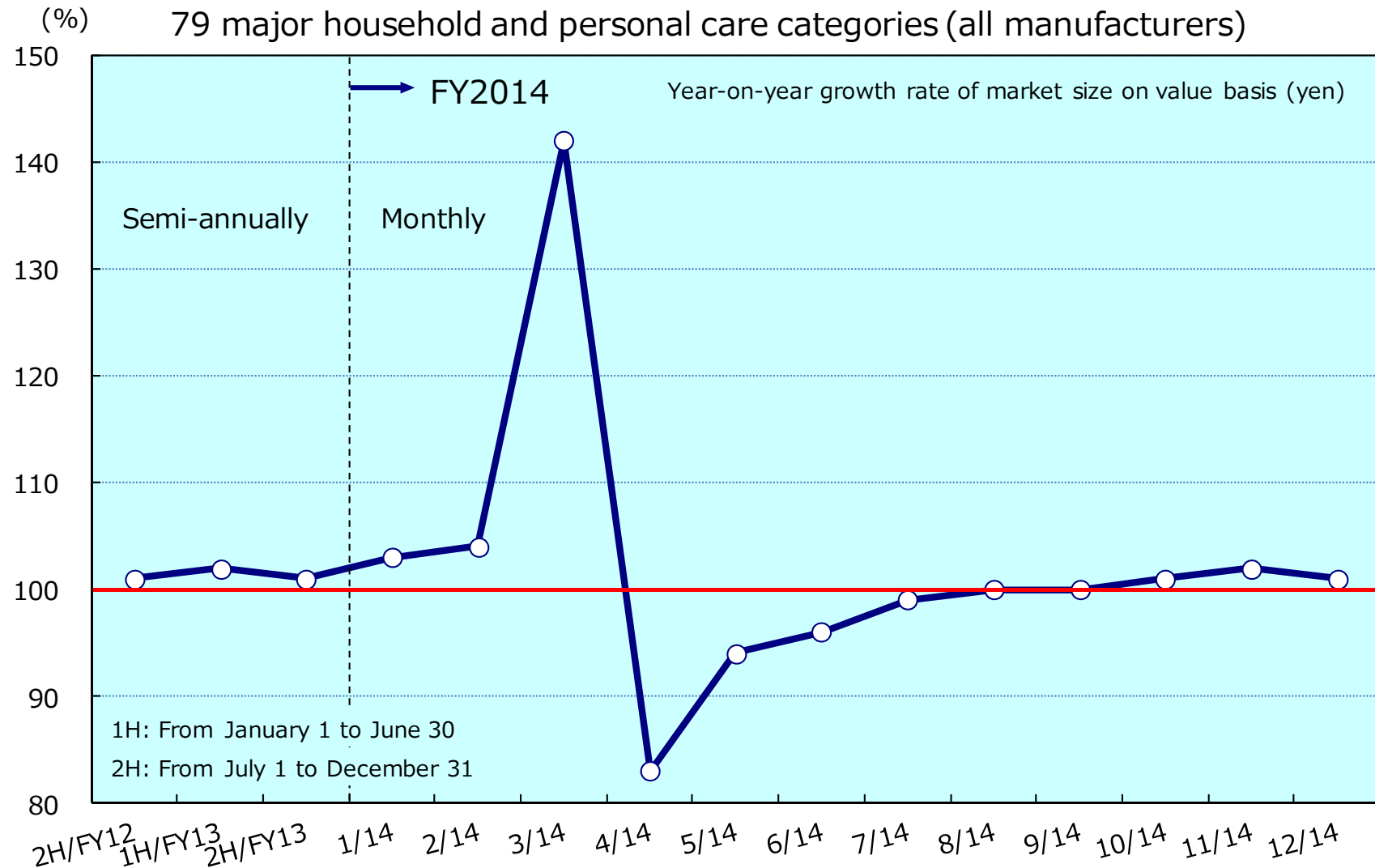
Comparison with restated FY2012

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

1. Business Environment

January 1 – December 31, 2014

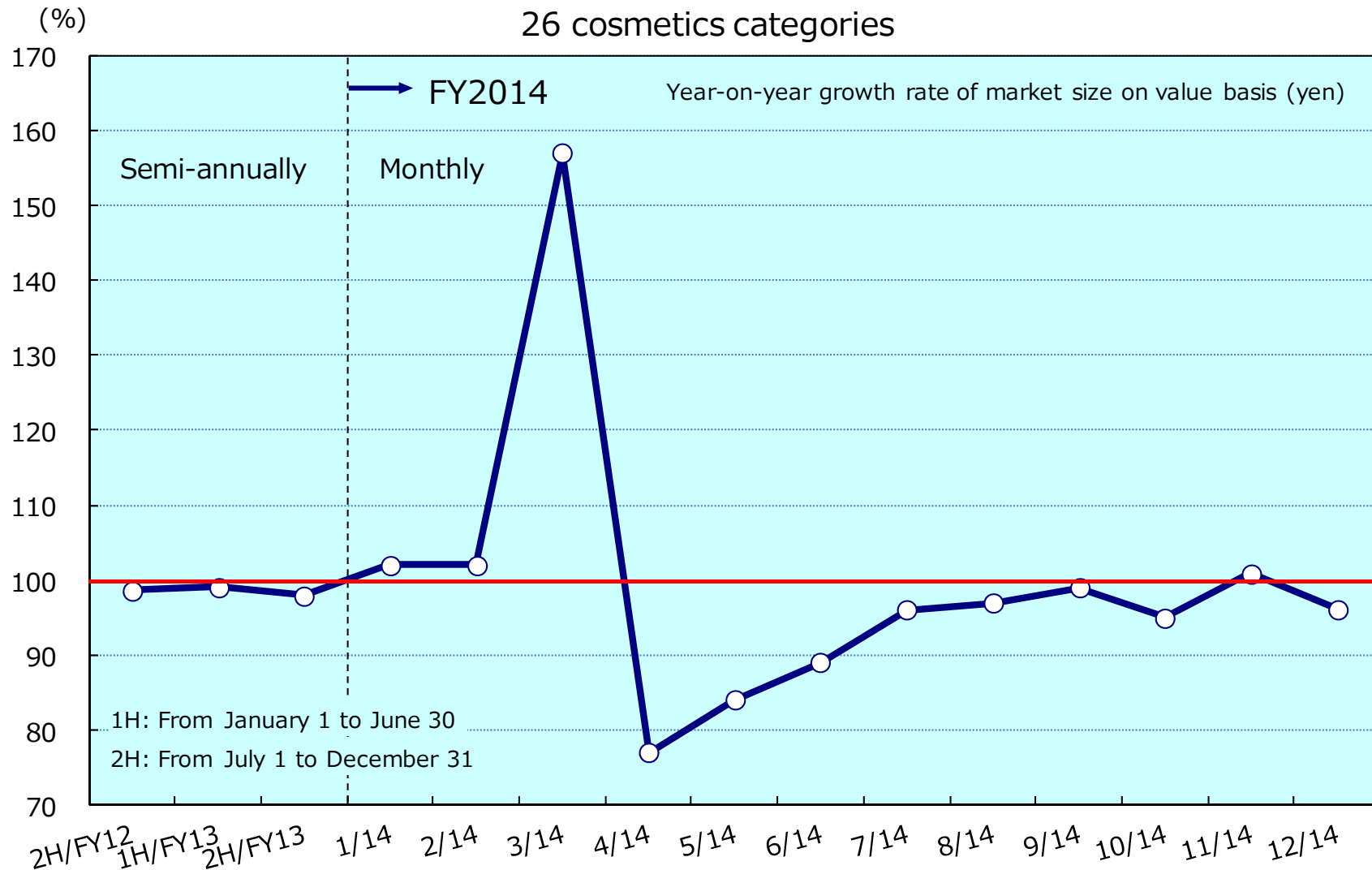
Consumer Products* Market in Japan



* Consumer products do not include cosmetics

(Source: SRI POS data by INTAGE Inc.)

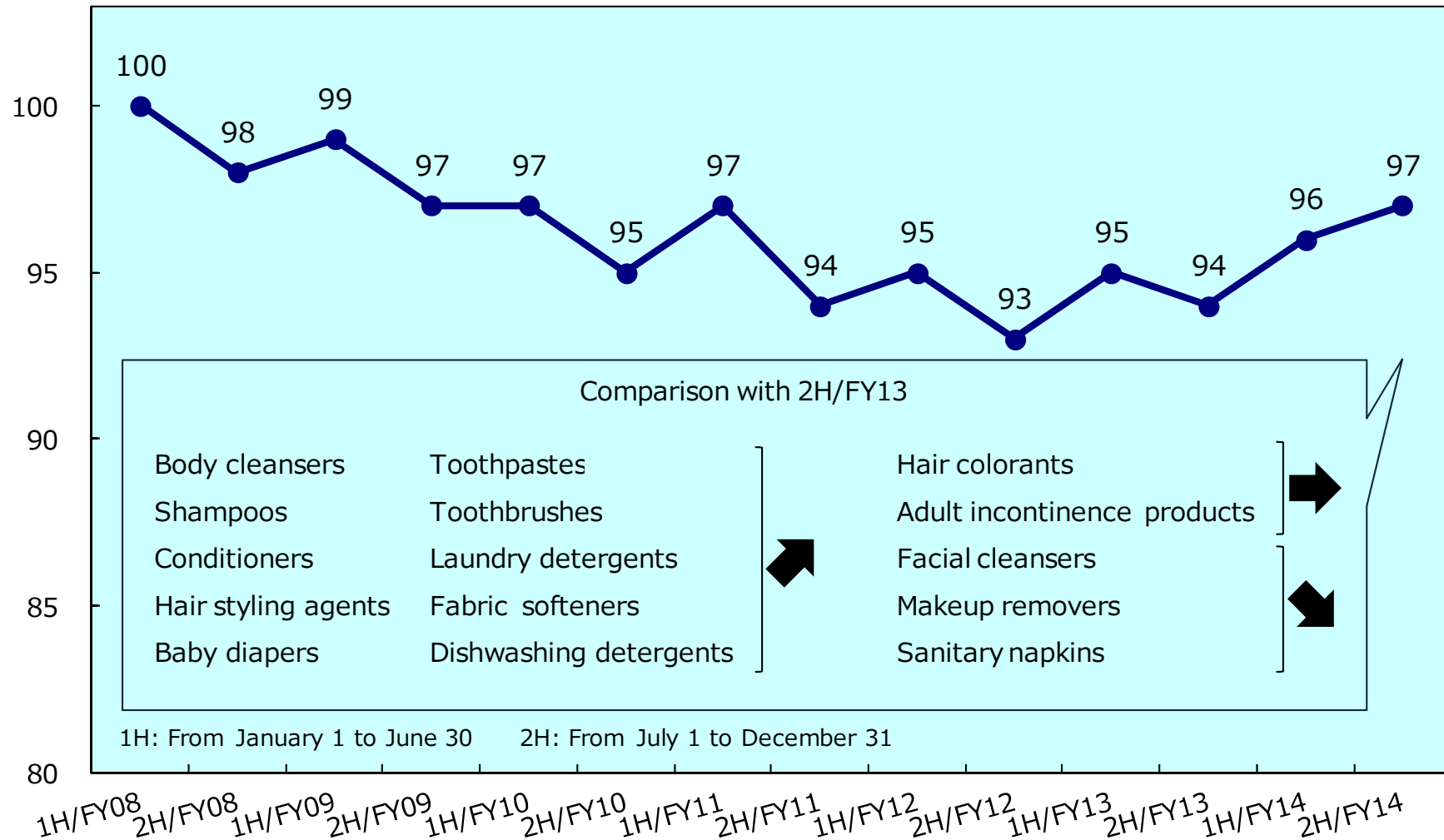
Cosmetics Products Market in Japan



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

Consumer Purchase Prices in Japan

Index 15 major household and personal care categories (all manufactures)



(Source: SRI POS data by INTAGE Inc.)

2. Consolidated Business Results

January 1 – December 31, 2014

Key Points in FY2014

Japan market-related

1. Growth of household and personal care market in Japan ¹ :		+2% year-on-year
2. Growth of the cosmetics market in Japan ² :		Flat year-on-year
3. Consumer purchase price of 15 major household & personal care categories market in Japan ³ :	1 st half	+1 point year-on-year
	2 nd half	+3 point year-on-year

Sales and income statement-related

		Growth
1. Net sales:	¥1,401.7 billion	+6.6%
- Effect of currency translation:	+¥24.9 billion	+1.9%
- Sales growth excluding effect of currency translation:	+¥61.6 billion	+4.7%
2. Increase/decrease in operating income:	+¥8.6 billion	

Cash flow-related

1. Free cash flow ⁴ :	¥81.3 billion
2. Payments of cash dividends ⁵ :	¥35.0 billion
3. Share repurchase ⁶ :	¥ 50.0 billion
4. Retirement of treasury stock:	12.0 million shares

1 Source: SRI POS data by INTAGE Inc.

2 Source: SLI data by INTAGE Inc. based on Kao's definition

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

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

5 Includes payments of cash dividends to minority shareholders

6 Excludes repurchase of shares less than one unit

FY2014 Consolidated Results

Billion yen	Restated ¹		FY2014	Growth	Changes
	FY2012	FY2013			
Net Sales	1,220.4	1,315.2	1,401.7	+6.6%	+86.5
EBITA ²	143.8	154.8	162.1	+4.7%	+7.3
<i>EBITA Margin</i>	11.8%	11.8%	11.6%		
Operating Income	111.8	124.7	133.3	+6.9%	+8.6
<i>Operating Margin</i>	9.2%	9.5%	9.5%		
Ordinary Income	114.1	128.1	138.8	+8.4%	+10.7
Net Income	53.1	64.8	79.6	+22.9%	+14.8
EBITDA (Operating Income + Depr.&Amort.)	189.2	202.0	212.9	+5.4%	+11.0
ROE	9.5%	10.7%	12.4%		
EPS (yen)	101.77	126.03	156.46	+24.1%	+30.43

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

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

Consolidated Net Sales [1]

Billion yen	FY2013	Adjusted % Growth ¹	FY2014	% Growth	(% Like- for-like ²)
Beauty Care Business	408.6	+0.1	415.5	+1.7	+1.7
Human Health Care Business	181.9	+6.8	198.7	+9.2	+9.2
Fabric & Home Care Business	275.9	+4.3	285.8	+3.6	+3.6
Japan total	866.4	+2.8	900.0	+3.9	+3.9
Asia	116.4	+33.3	140.5	+20.7	+16.1
Americas ³	68.9	+21.7	79.9	+15.9	+7.8
Europe ³	72.1	+26.0	84.2	+16.7	+7.9
Eliminations	-32.0	-	-50.1	-	-
Consumer Products Business	1,091.9	+7.1	1,154.5	+5.7	+4.3

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

2 Growth excluding the effect of currency translation

3 As of January 2014, certain changes have been made in inter-company transactions among subsidiaries in the Consumer Products Business in the Americas and Europe. The rates of change based on the same transaction method that was used in the same period a year earlier would have increased 7.5% for the Americas and 9.1% for Europe.

Consolidated Net Sales [2]

Billion yen	FY2013		FY2014		
		Adjusted % Growth ¹		% Growth	(% Like- for-like ²)
Japan	125.6	+3.1	131.9	+5.0	+5.0
Asia	86.8	+14.8	108.8	+25.4	+19.3
Americas	39.9	+18.9	44.5	+11.5	+4.5
Europe	62.3	+16.4	68.1	+9.4	+1.5
Eliminations	-53.3	-	-65.3	-	-
Chemical Business	261.2	+10.5	288.0	+10.3	+6.7
Reconciliations	-37.9	-	-40.8	-	-
Consolidated Net Sales	1,315.2	+7.8	1,401.7	+6.6	+4.7

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

2 Growth excluding the effect of currency translation

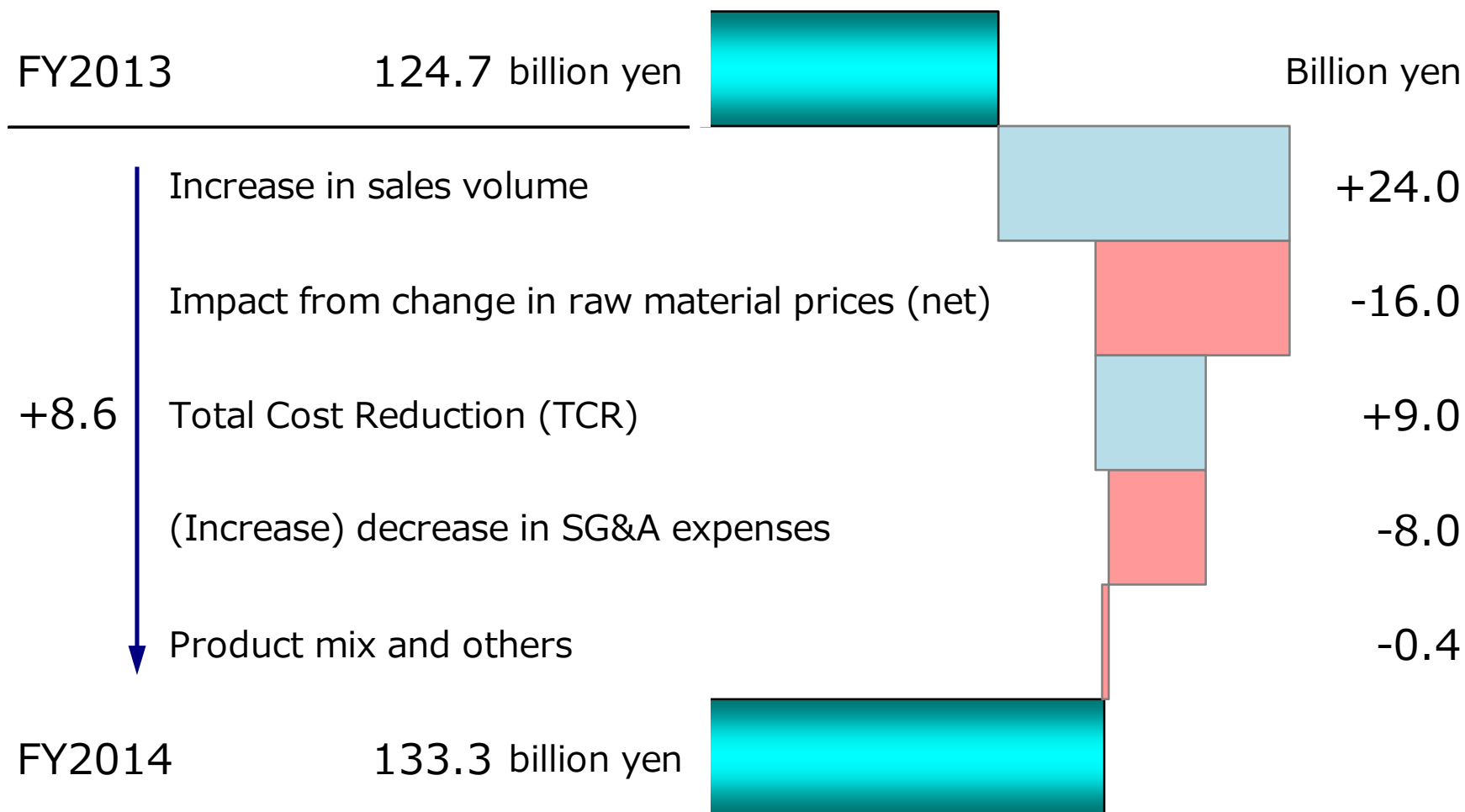
Consolidated Income Statement

Billion yen	FY2013		FY2014		Changes
	% of Net Sales		% of Net Sales		
Net Sales	1,315.2	100.0	1,401.7	100.0	+86.5
Cost of Sales	572.8	43.5	632.2	45.1	+59.4
Gross Profit	742.4	56.5	769.5	54.9	+27.1
SG&A Expenses*	617.8	47.0	636.2	45.4	+18.4
Operating Income	124.7	9.5	133.3	9.5	+8.6
Non-operating Income/Expenses	3.4	0.3	5.5	0.4	+2.1
Ordinary Income	128.1	9.7	138.8	9.9	+10.7
Extraordinary Gain/Loss	-13.1	-1.0	-12.0	-0.9	+1.1
Income Before Income Taxes & Minority Interests	114.9	8.7	126.8	9.0	+11.8
Income Taxes	49.1	3.7	46.3	3.3	-2.8
Income Before Minority Interests	65.8	5.0	80.4	5.7	+14.6
Minority Interests	1.0	0.1	0.8	0.1	-0.2
Net Income	64.8	4.9	79.6	5.7	+14.8

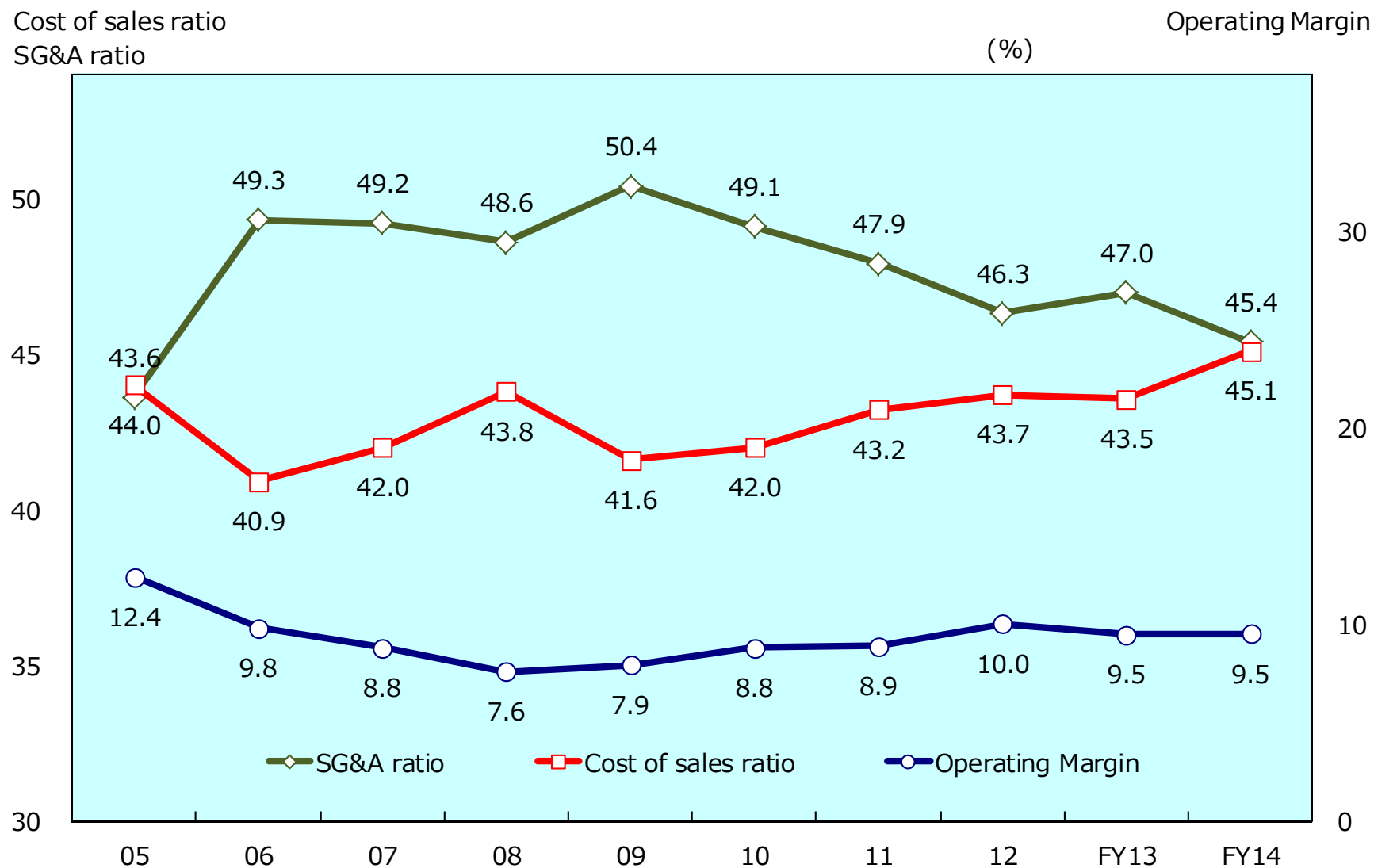
* Amortization related to Kanebo Cosmetics - FY2013: 26.8billion yen, FY2014: 24.3billion yen

FY2014 Consolidated Operating Income Analysis

Operating Income



Consolidated Cost of Sales and SG&A to Net Sales



* Structure has changed significantly since FY2006 due to the consolidation of Kanebo Cosmetics.
The impact of the change in financial term is included in FY2012. (Please refer to slide 2 for details.)

Breakdown of Major Consolidated SG&A Expenses

Billion yen	FY2013	FY2014	Changes
Total SG&A Expenses	617.8	636.2	+18.4
Freight/Warehouse	77.3	81.4	+4.1
Advertising	86.4	92.4	+6.0
Sales Promotion	69.6	73.1	+3.5
Salaries and Bonuses	130.3	131.0	+0.7
R&D	49.7	51.7	+2.1

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

Billion yen	FY2013	FY2014	Changes
Non-operating Income	6.3	7.8	+1.5
Interest Income	1.0	0.8	
Dividend Income	0.2	0.2	
Equity in Earnings of Nonconsolidated Subsidiaries and Affiliates	2.3	2.2	
Foreign Currency Exchange Gain	-	1.2	
Other	2.8	3.4	
Non-operating Expenses	2.9	2.3	-0.6
Interest Expense	1.2	1.3	
Foreign Currency Exchange Loss	0.3	-	
Other	1.3	1.0	
Extraordinary Gain	0.9	0.3	-0.6
Gain on Sales of Fixed Assets	0.1	0.2	
Gain on Transfer of Business	0.4	-	
Other	0.5	0.1	
Extraordinary Loss	14.0	12.4	-1.7
Loss on Sales/Disposals of Fixed Assets	2.7	2.9	
Loss related to cosmetics	9.7	8.9	
Other	1.6	0.6	

Consolidated Results by Segment

Billion yen		FY2013		FY2014		Changes	Growth
		% of Net Sales		% of Net Sales			%
Beauty Care Business	Net Sales ¹	570.3	-	589.9	-	+19.6	+3.4
	EBITA ²	54.0	9.5	57.3	9.7	+3.2	+5.9
	Operating Income	23.9	4.2	28.4	4.8	+4.5	+18.8
Human Health Care Business	Net Sales ¹	210.6	-	240.1	-	+29.5	+14.0
	Operating Income	16.9	8.0	21.9	9.1	+5.0	+29.8
Fabric & Home Care Business	Net Sales ¹	311.0	-	324.5	-	+13.5	+4.3
	Operating Income	62.2	20.0	61.0	18.8	-1.2	-2.0
Chemical Business	Net Sales ¹	261.2	-	288.0	-	+26.8	+10.3
	Operating Income	21.5	8.2	22.1	7.7	+0.6	+2.6
Consolidated	Net Sales	1,315.2	-	1,401.7	-	+86.5	+6.6
	EBITA ²	154.8	11.8	162.1	11.6	+7.3	+4.7
	Operating Income	124.7	9.5	133.3	9.5	+8.6	+6.9

1 Before elimination of transactions among segments

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

[Reference] Consolidated Results by Geographic Area

Billion yen		FY2013		FY2014		Changes	Growth
		% of Net Sales		% of Net Sales			%
Japan	Net Sales ¹	959.4	-	997.3	-	+37.9	+4.0
	EBITA ²	128.2	13.4	135.7	13.6	+7.5	+5.9
	Operating Income	101.3	10.6	111.4	11.2	+10.1	+10.0
Asia	Net Sales ¹	199.7	-	244.9	-	+45.2	+22.7
	Operating Income	12.8	6.4	11.3	4.6	-1.5	-11.6
Americas ³	Net Sales ¹	108.6	-	124.2	-	+15.6	+14.4
	EBITA ²	6.5	6.0	7.0	5.6	+0.5	+7.3
	Operating Income	5.2	4.8	6.1	4.9	+0.9	+17.2
Europe ³	Net Sales ¹	134.2	-	152.1	-	+17.9	+13.3
	EBITA ²	9.3	6.9	7.6	5.0	-1.7	-18.4
	Operating Income	7.3	5.4	3.9	2.6	-3.4	-46.1
Consolidated	Net Sales	1,315.2	-	1,401.7	-	+86.5	+6.6
	EBITA ²	154.8	11.8	162.1	11.6	+7.3	+4.7
	Operating Income	124.7	9.5	133.3	9.5	+8.6	+6.9

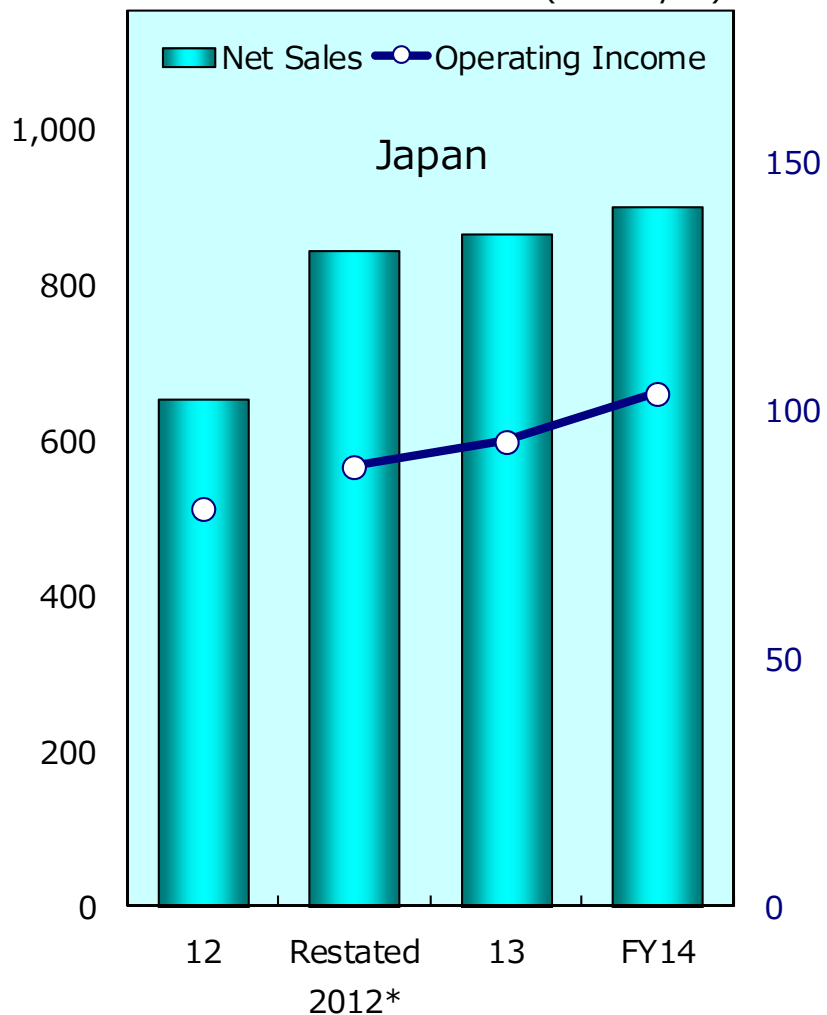
1 Before elimination of transactions among geographic areas

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

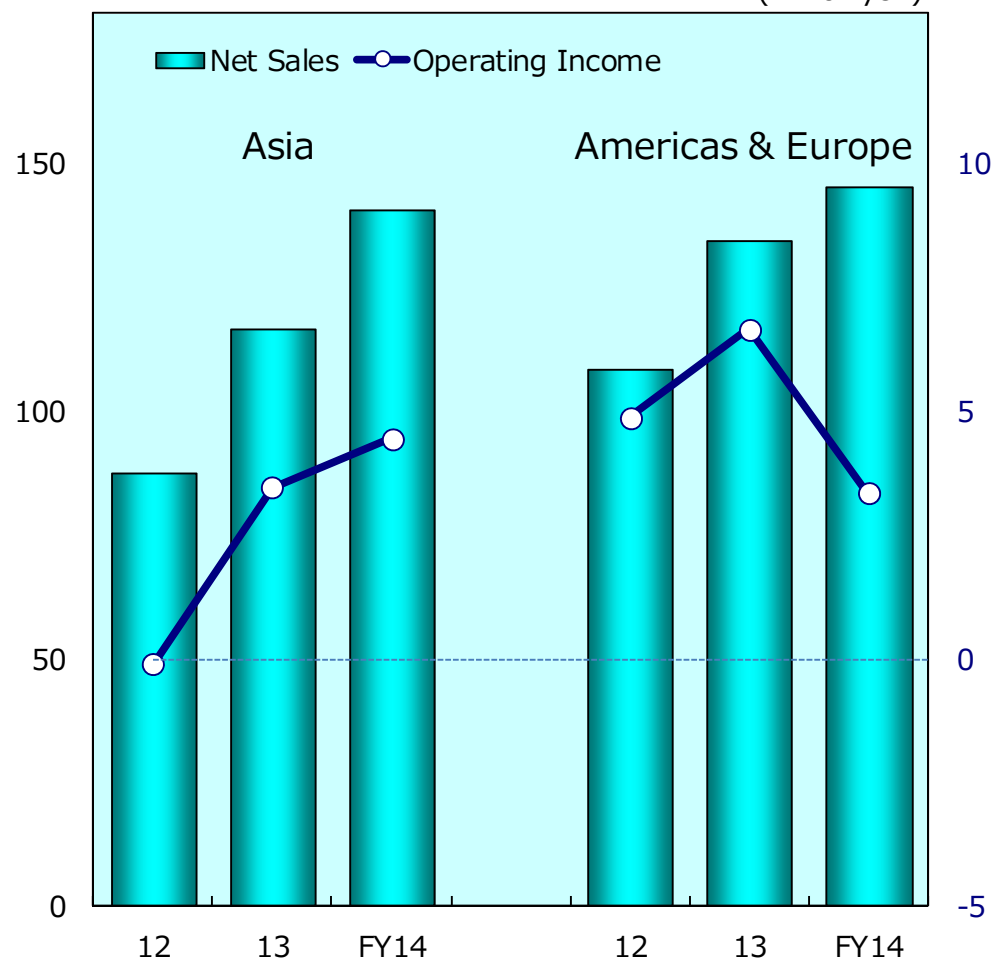
3 As of January 2014, certain changes have been made in inter-company transactions among subsidiaries in the Consumer Products Business in the Americas and Europe. The rates of change based on the same transaction method that was used in the same period a year earlier would have increased 9.1% for the Americas and 9.2% for Europe.

Consumer Products Business by Geographic Area

Net Sales
Operating Income (Billion yen)

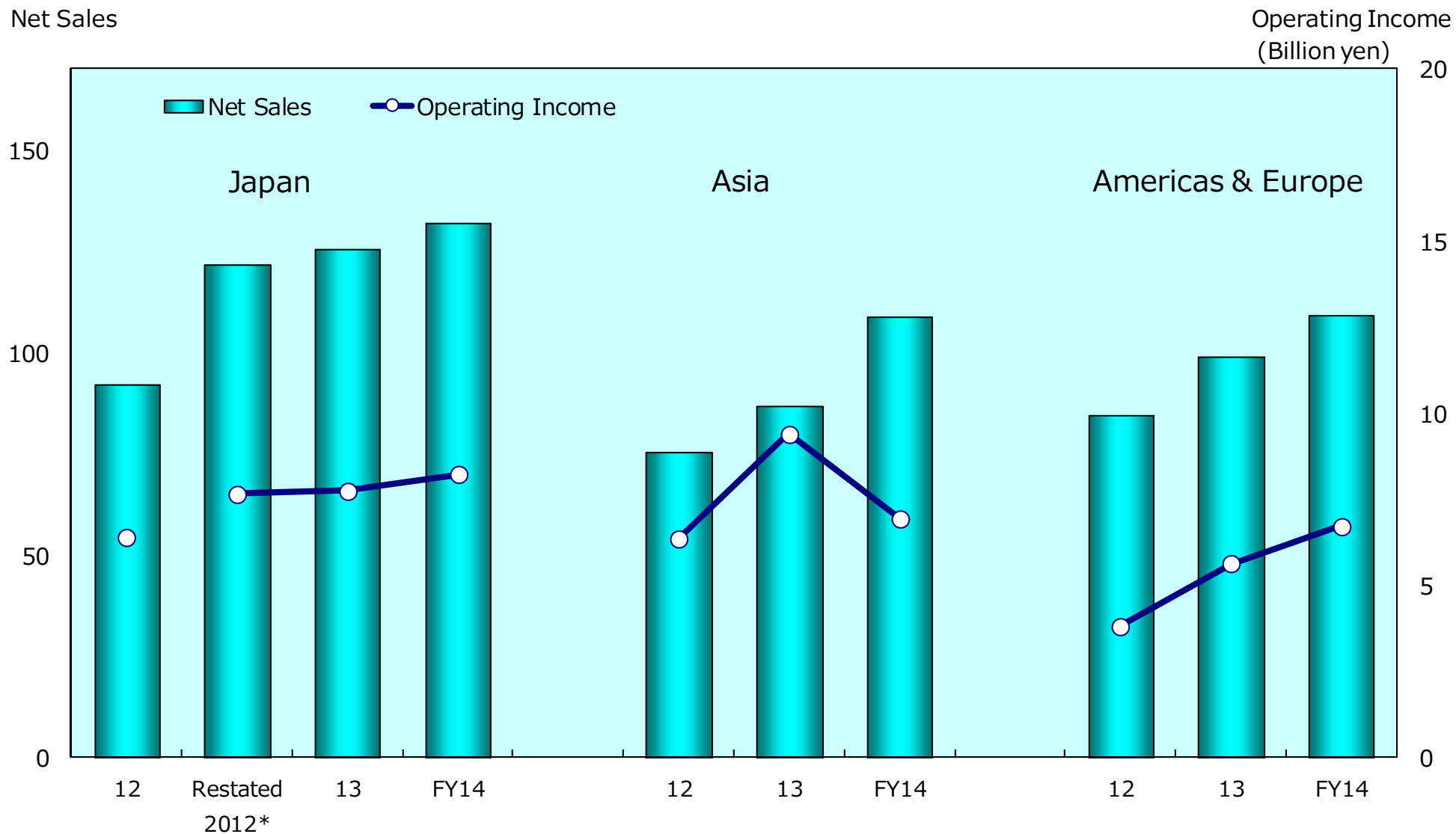


Net Sales
Operating Income (Billion yen)



* Restated FY12: Excludes the impact of the change in financial term in 2012 (Please refer to slide 2 for details.)

Chemical Business by Geographic Area



* Restated FY12: Excludes the impact of the change in financial term in 2012 (Please refer to slide 2 for details.)

Consolidated Balance Sheet

Billion yen	Dec/2013	Dec/2014	Changes		Dec/2013	Dec/2014	Changes
Current Assets	594.0	641.7	+47.8	Current Liabilities	338.3	380.5	+42.2
Cash and Time Deposits	126.3	107.4	-18.9	Notes and Accounts Payable - Trade	116.0	129.7	+13.7
Notes and Accounts Receivable - Trade	181.9	204.1	+22.2	Short-term Loans	21.3	21.1	-0.1
Short-term Investments	90.1	110.6	+20.5	(incl. Current Portion of Long-term Loans)			
Inventories	139.1	157.8	+18.7	Income Taxes Payable	32.3	28.1	-4.2
Other	56.5	61.8	+5.3	Liability for loss related to cosmetics	1.4	8.2	+6.9
Fixed Assets	539.3	556.5	+17.2	Other	167.4	193.3	+26.0
Property, Plant and Equipment	277.3	307.6	+30.3	Long-term Liabilities	152.3	145.3	-7.0
Intangible Assets	192.6	167.9	-24.7	Bonds/Long-term Loans	80.1	80.1	-0.0
Investments and Other Assets	69.4	81.0	+11.5	Other	72.2	65.2	-7.0
				Total Liabilities	490.6	525.8	+35.2
				Shareholders' equity	657.0	654.0	-3.0
				-Common Stock	85.4	85.4	-
				-Capital Surplus	109.6	109.6	-
				-Retained Earnings	471.4	468.7	-2.7
				-Treasury Stock, at Cost	-9.4	-9.7	-0.3
				Accumulated other comprehensive income	-28.3	4.3	+32.5
				-Unrealized Gain on Available-for-sale Securities	4.7	5.5	+0.8
				-Deferred Gain (Loss) on Derivatives under Hedges Accounting	0.0	0.0	-0.0
				-Foreign Currency Translation Adjustments	-28.4	-4.9	+23.6
				-Post Retirement Liability Adjustments for Foreign consolidated subsidiaries	-4.6	-	+4.6
				-Remeasurements of Defined Benefit Plans	-	3.6	+3.6
				Stock Acquisition Rights	1.1	0.9	-0.2
				Minority Interests	12.8	13.2	+0.4
Total Assets	1,133.3	1,198.2	+65.0	Total Net Assets	642.6	672.4	+29.8
				Total Liabilities and Total Net Assets	1,133.3	1,198.2	+65.0

Consolidated Statement of Cash Flows

Billion yen	FY2013	FY2014	Changes
Net Cash Provided by Operating Activities	178.7	145.1	-33.6
Net Cash Used in Investing Activities	-57.8	-63.8	-6.0
Net Cash Used in Financing Activities	-67.5	-85.0	-17.6
Translation Adjustments on Cash and Cash Equivalents	13.0	4.8	-8.3
Net Increase (Decrease) in Cash and Cash Equivalents	66.5	1.1	-65.5
Cash and Cash Equivalents, Beginning of Period	160.4	227.6	+67.2
Cash and Cash Equivalents from Newly Consolidated Subsidiary, Increase	0.6	-	-0.6
Cash and Cash Equivalents, End of Period	227.6	228.7	+1.1
Total Debt at End of Period	101.4	101.2	-0.1
Free Cash Flow*	121.0	81.3	-39.7

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

Net cash used in investing activities

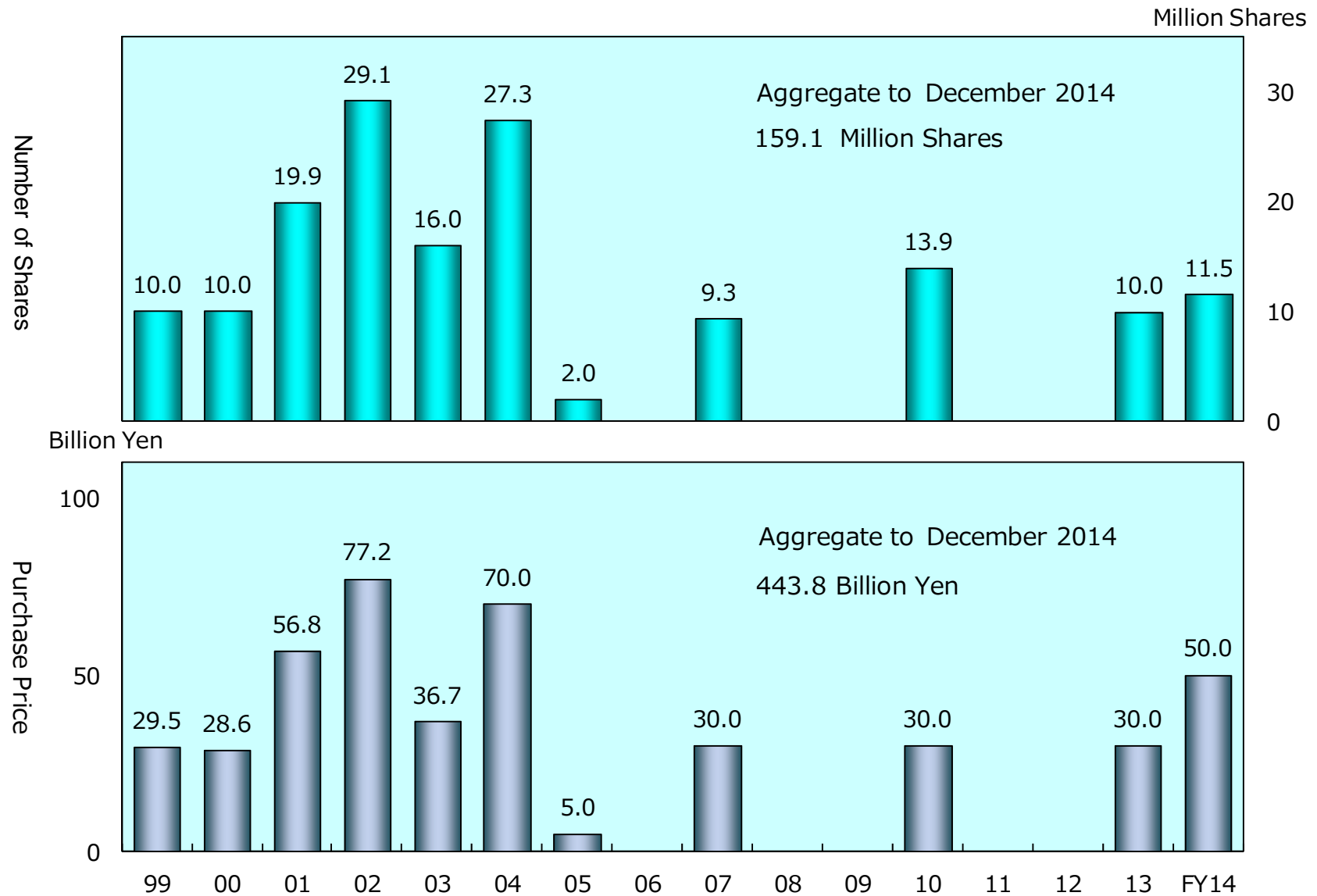
Capital expenditures:

- Production capacity expansion for sanitary products in Japan
- Production capacity expansion for fabric and home care products in Japan
- Construction of new plants in Indonesia
- Construction of a new chemical plant in China

Net cash used in financing activities

- Payments of cash dividends (Includes payments of cash dividends to minority shareholders) 35.0 billion yen
- Purchase of treasury stock (Excludes repurchase of shares of less than one unit) 50.0 billion yen
- Retirement of treasury stock 12.0 million shares

Share Repurchase*



* Share repurchase from the market

3. Forecast for FY 2015

Major Assumptions for FY2015 Forecast

◆ Year-on-year growth rate of consumer products* market size in value (yen) in Japan		+1%
◆ Year-on-year growth rate of cosmetics market size in value (yen) in Japan		Flat
		<u>Growth</u>
◆ Net sales	¥1,470.0 billion	+4.9%
• Effect of currency translation	+¥11.3 billion	+0.8%
• Sales growth excluding effect of currency translation	+¥57.0 billion	+4.1%
		<u>Estimated impact on income</u>
◆ Impact from change in raw material prices		• Gross impact +¥5.0 billion
		• Net impact +¥3.0 billion
◆ Total Cost Reduction (TCR) activities		+¥6.0 billion
◆ Capital expenditures/depreciation and amortization		
	• Capital expenditures	¥85.0 billion
	• Depreciation and amortization	¥75.0 billion

Exchange rate assumptions

◆ 115 yen/USD	(FY2014 actual exchange rate [average]	105.88 yen/USD)
◆ 135 yen/Euro	(FY2014 actual exchange rate [average]	140.43 yen/Euro)

* Consumer products do not include cosmetics

Consolidated Sales and Profit Forecast

Billion yen	FY2013 ³	Adjusted %Growth ²	FY2014 ⁴	% Growth	FY2015 (F) ¹ ₅	% Growth
Net Sales	1,315.2	+7.8	1,401.7	+6.6	1,470.0	+4.9
Operating Income	124.7	+11.5	133.3	+6.9	150.0	+12.6
[% of Net Sales]	9.5%		9.5%		10.2%	
Ordinary Income	128.1	+12.2	138.8	+8.4	153.0	+10.2
[% of Net Sales]	9.7%		9.9%		10.4%	
Net Income	64.8	+21.9	79.6	+22.9	87.0	+9.3
[% of Net Sales]	4.9%		5.7%		5.9%	
Net Income per Share (yen)	126.03	+23.8	156.46	+24.1	173.63	+11.0
ROE	10.7%	-	12.4%	-	12.7%	-
EBITDA (Operating Income + Depr. & Amort.)	202.0	+6.8	212.9	+5.4	225.0	+5.7
Cash Dividends per Share (yen)	64.0	+3.2	70.0	+9.4	76.0	+8.6

1 Exchange rate assumptions: 115 yen/USD, 135 yen/Euro

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

3 Kanebo Cosmetics (Jan.-Dec.2013): Net sales = approximately 180.0 billion yen / operating margin before deduction of royalties = slightly less than 5%; amortization related to Kanebo Cosmetics: 26.8 billion yen

4 Kanebo Cosmetics (Jan.-Dec.2014): Net sales = slightly less than 180.0 billion yen / operating margin before deduction of royalties = slightly more than 7%; amortization related to Kanebo Cosmetics: 24.3 billion yen

5 Kanebo Cosmetics (Jan.-Dec.2015): Net sales = slightly more than 180.0 billion yen / operating margin before deduction of royalties = approximately 8%; amortization related to Kanebo Cosmetics: 23.8 billion yen

Sales Outlook by Segment – FY2015

Consolidated Net Sales¹ Billion yen Growth
 1,470 +4.9%

Billion yen

By Segment ²			Reference: By Geographic Area ²		
		Growth			Growth
Beauty Care ³	600	+1.7%	Japan ⁴	1,023	+2.6%
Human Health Care	267	+11.2%	Asia	280	+14.3%
Fabric & Home Care	336	+3.5%	Americas	139	+11.9%
Chemical	307	+6.6%	Europe	153	+0.6%

1 Growth of +5.5% excluding the impact of the revision of the sales system for *Kao Sofina*

2 Before elimination of transactions among segments or geographic areas

3 Growth of +3.1% excluding the impact of the revision of the sales system for *Kao Sofina*

4 Growth of +3.4% excluding the impact of the revision of the sales system for *Kao Sofina*

Sales Outlook – FY2015

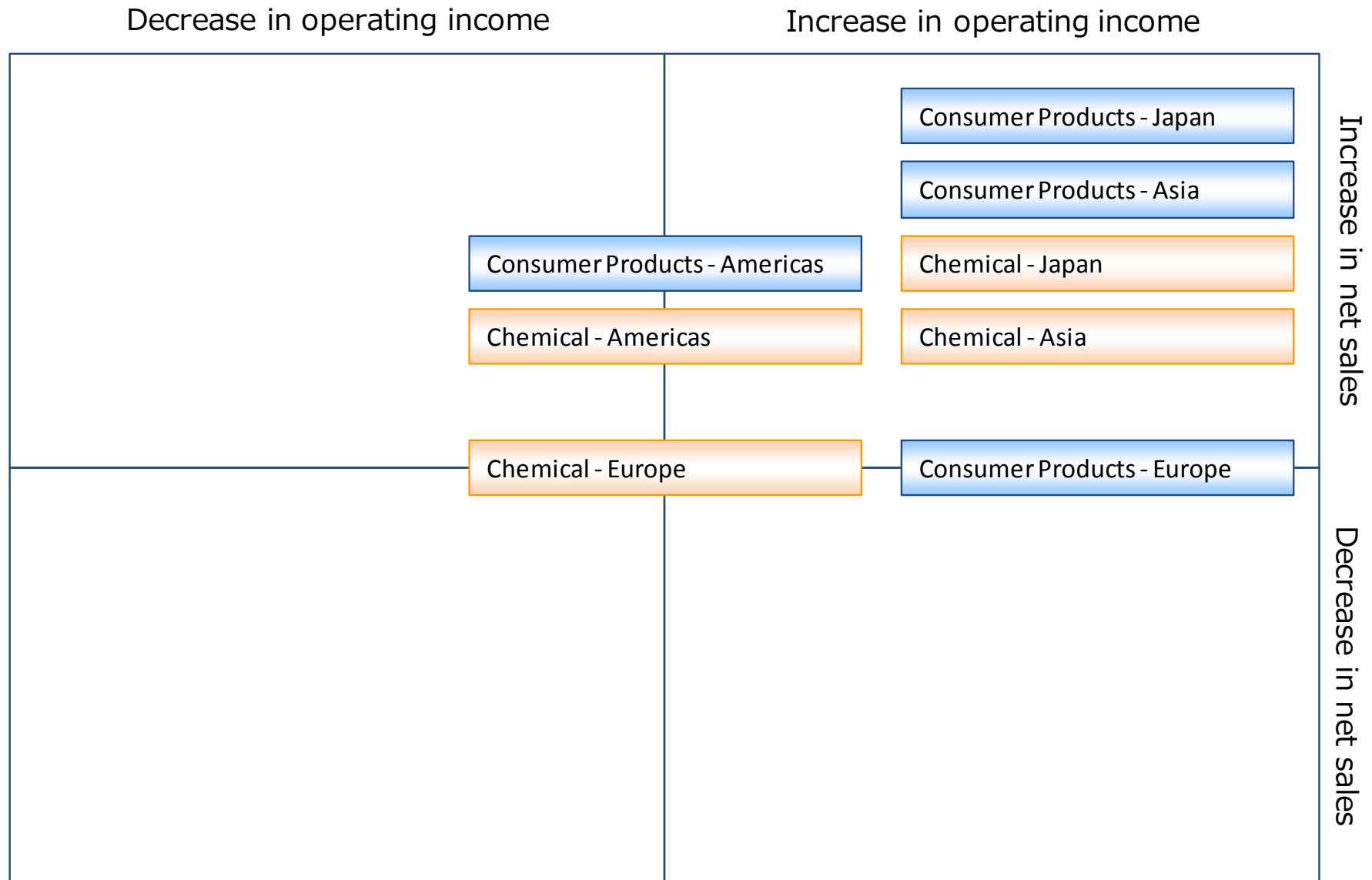
Consumer Products Business in Japan

Billion yen	1st Half			Full year		
	FY2014 Actual	FY2015 Forecast	% Growth	FY2014 Actual	FY2015 Forecast	% Growth
Beauty Care ¹	200.5	197.0	-1.7	415.5	416.0	+0.1
Human Health Care	91.6	98.0	+7.0	198.7	211.0	+6.2
Fabric & Home Care	130.3	129.0	-1.0	285.8	293.0	+2.5
Consumer Products Business ²	422.3	424.0	+0.4	900.0	920.0	+2.2

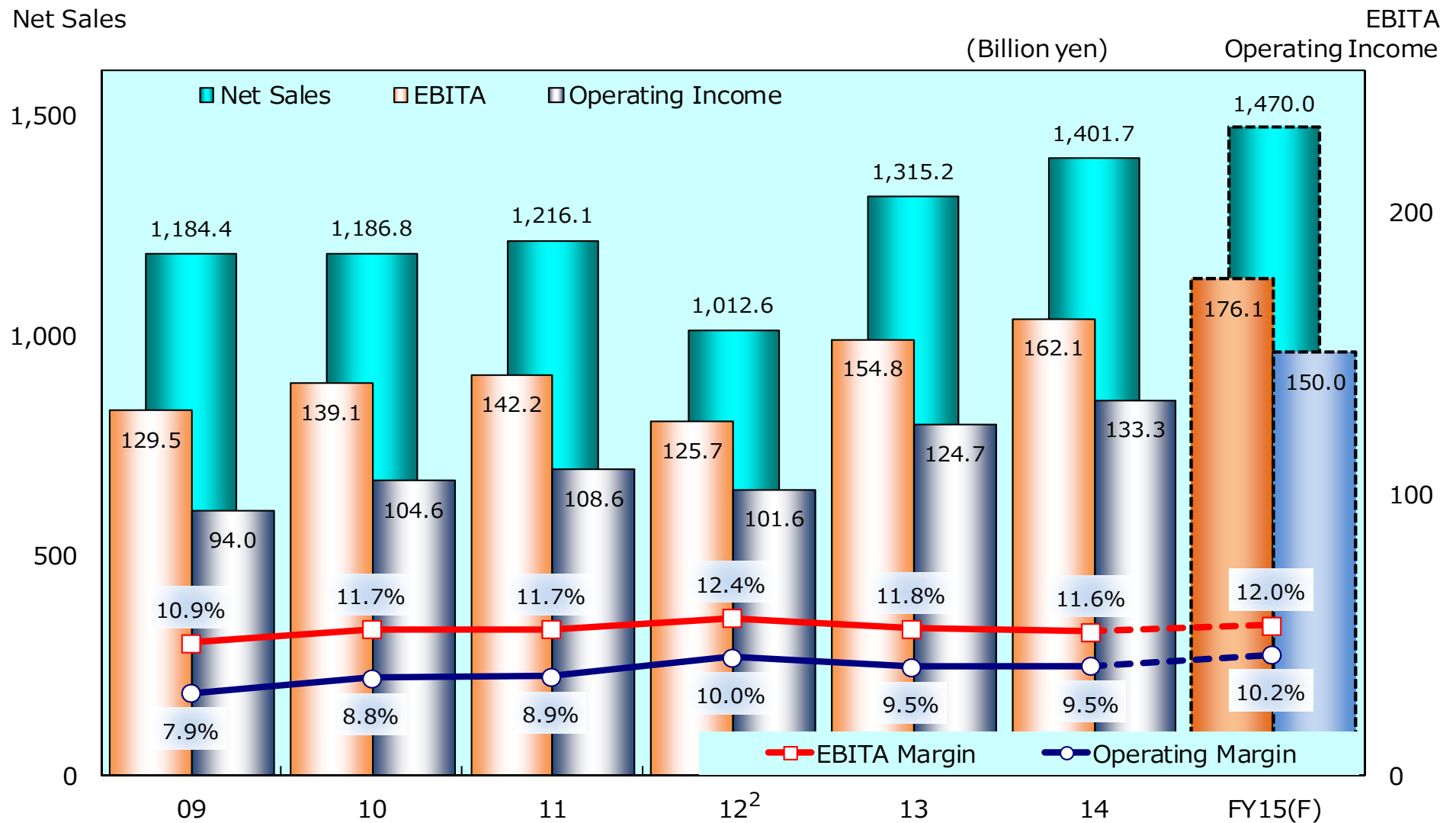
1 Growth of +0.1% for the first half and +2.0% for the full year excluding the impact of the revision of the sales system for *Kao Sofina*

2 Growth of +1.3% for the first half and +3.1% for the full year excluding the impact of the revision of the sales system for *Kao Sofina*

FY2015 Outlook by Segment/Geographic Area



Consolidated Net Sales/EBITA¹/Operating Income

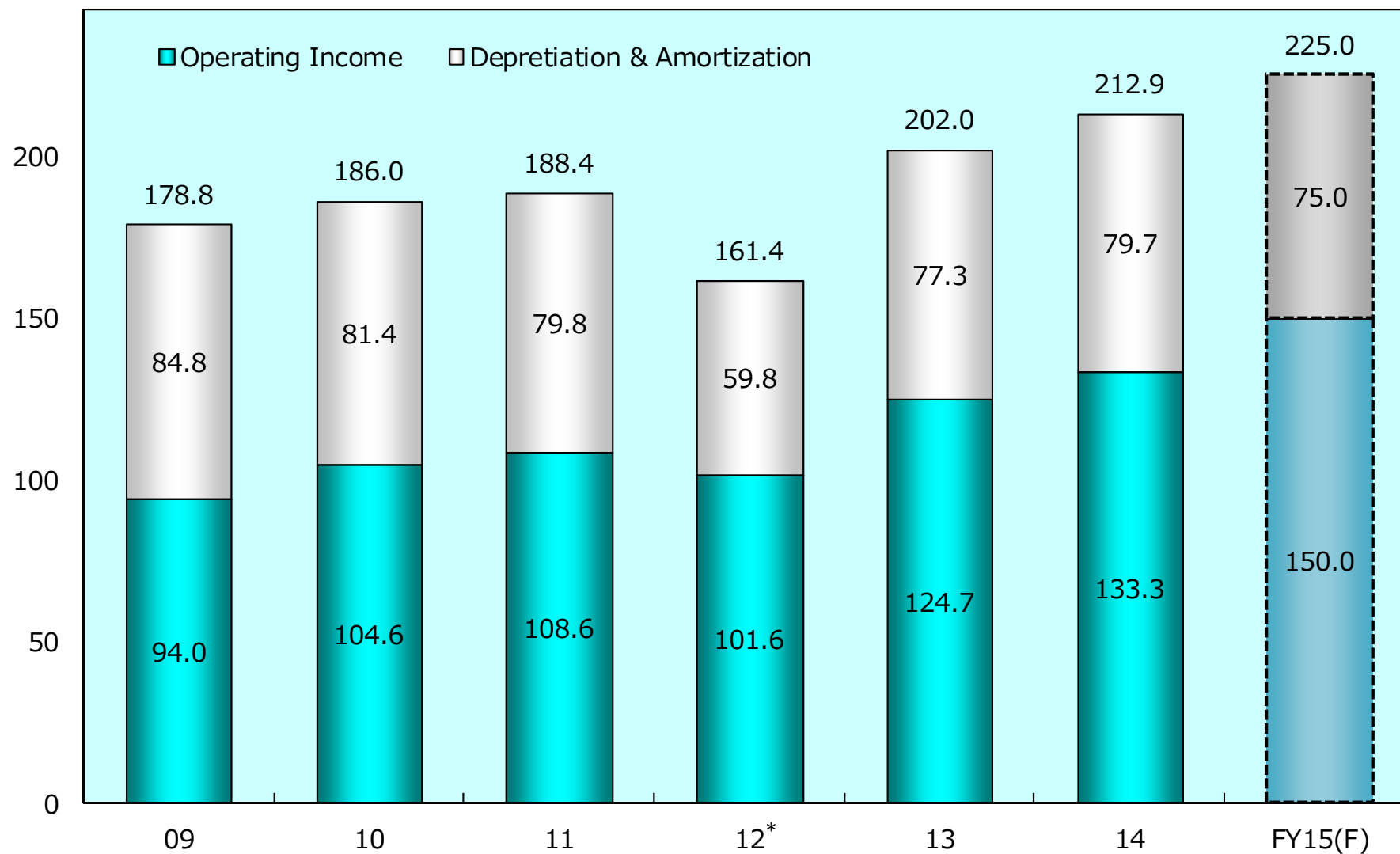


1 Operating income before amortization of goodwill and intellectual property rights related to M&A

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

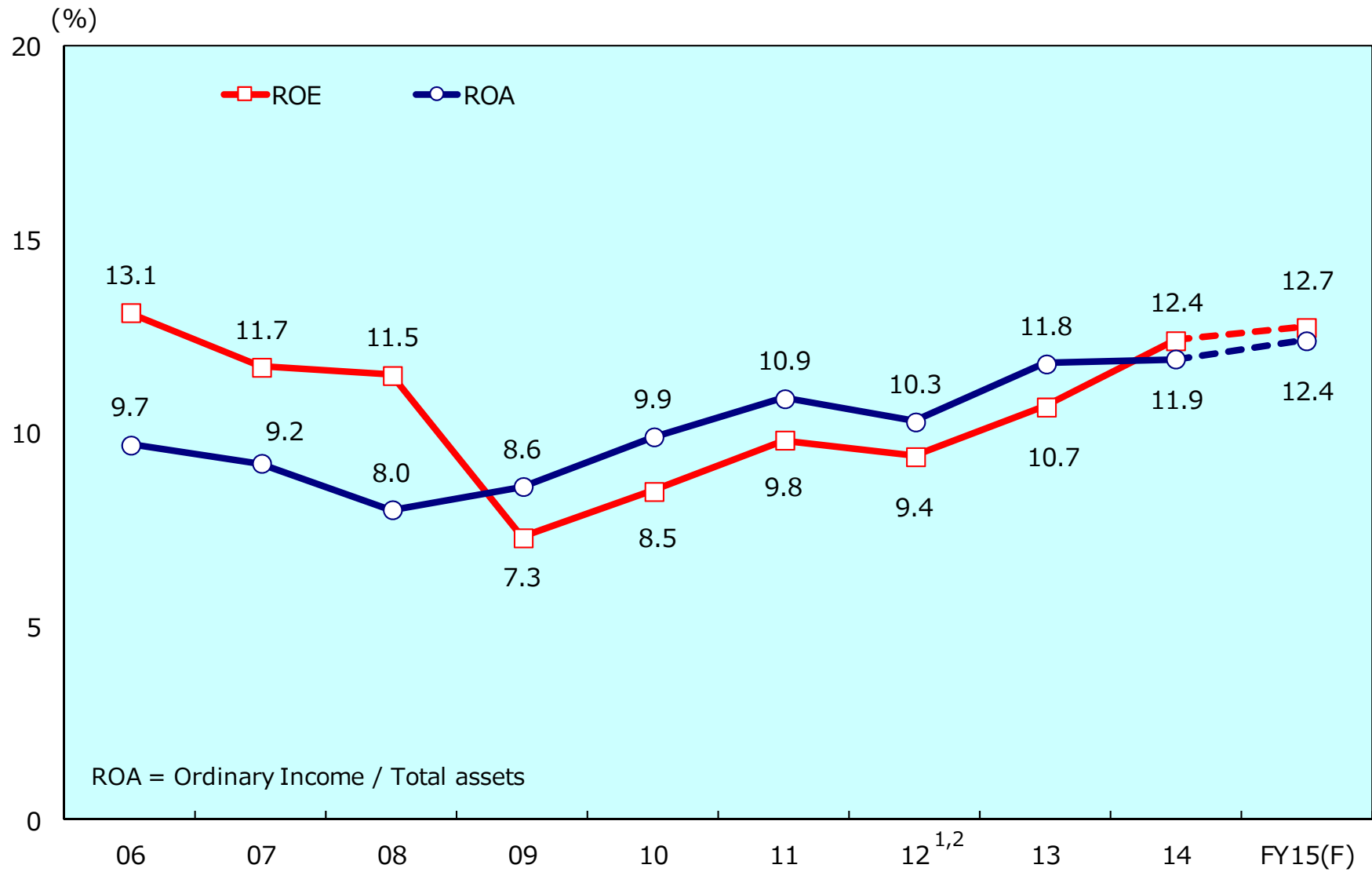
EBITDA

(Billion yen)



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

ROE & ROA



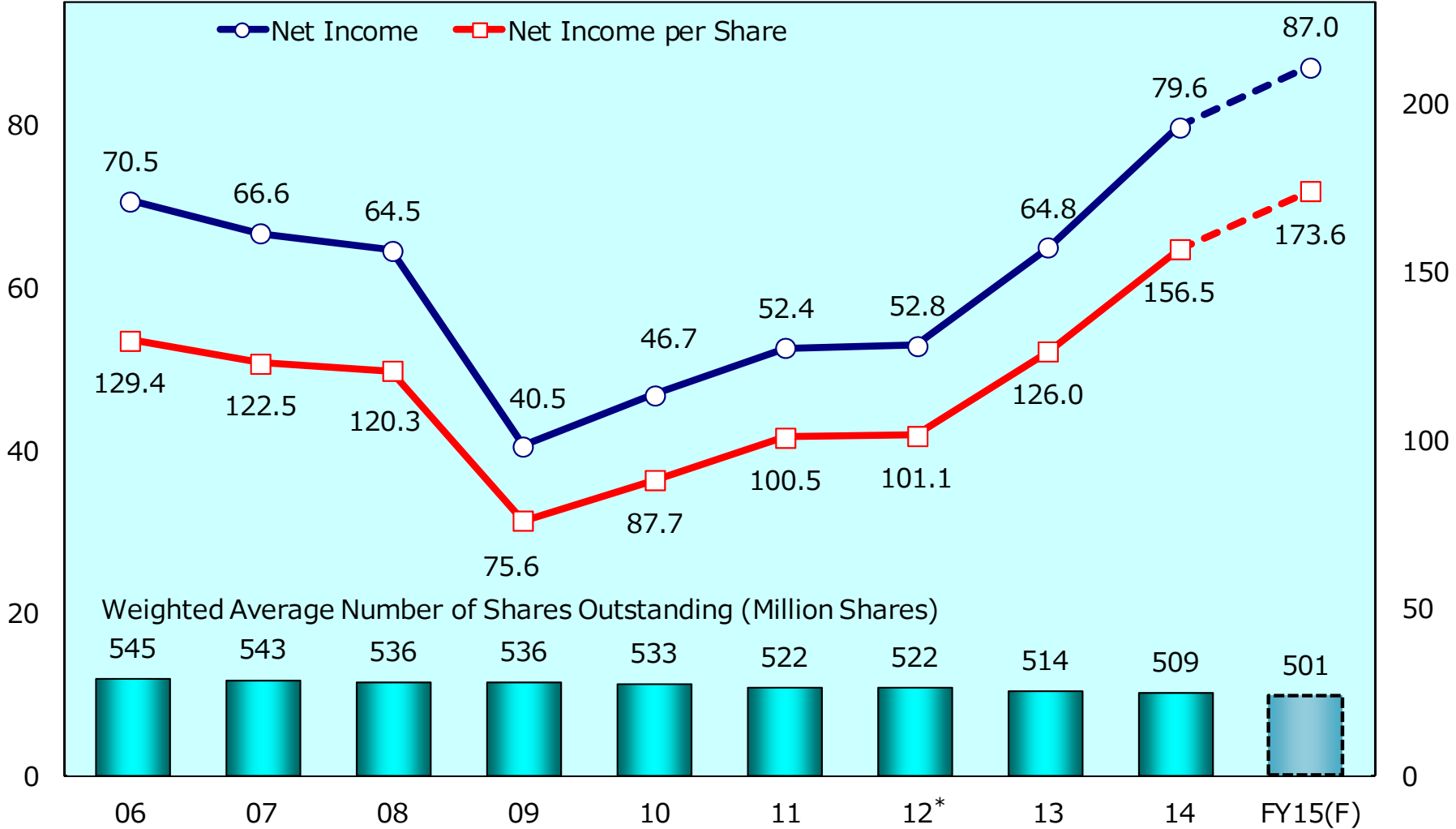
1 Fiscal year end is December 31 from FY2012. (Please refer to slide 2 for details.)

2 ROE and ROA of FY2012 are for the transitional period connected with the change in fiscal year end.

Net Income per Share

Net Income
(Billion yen)

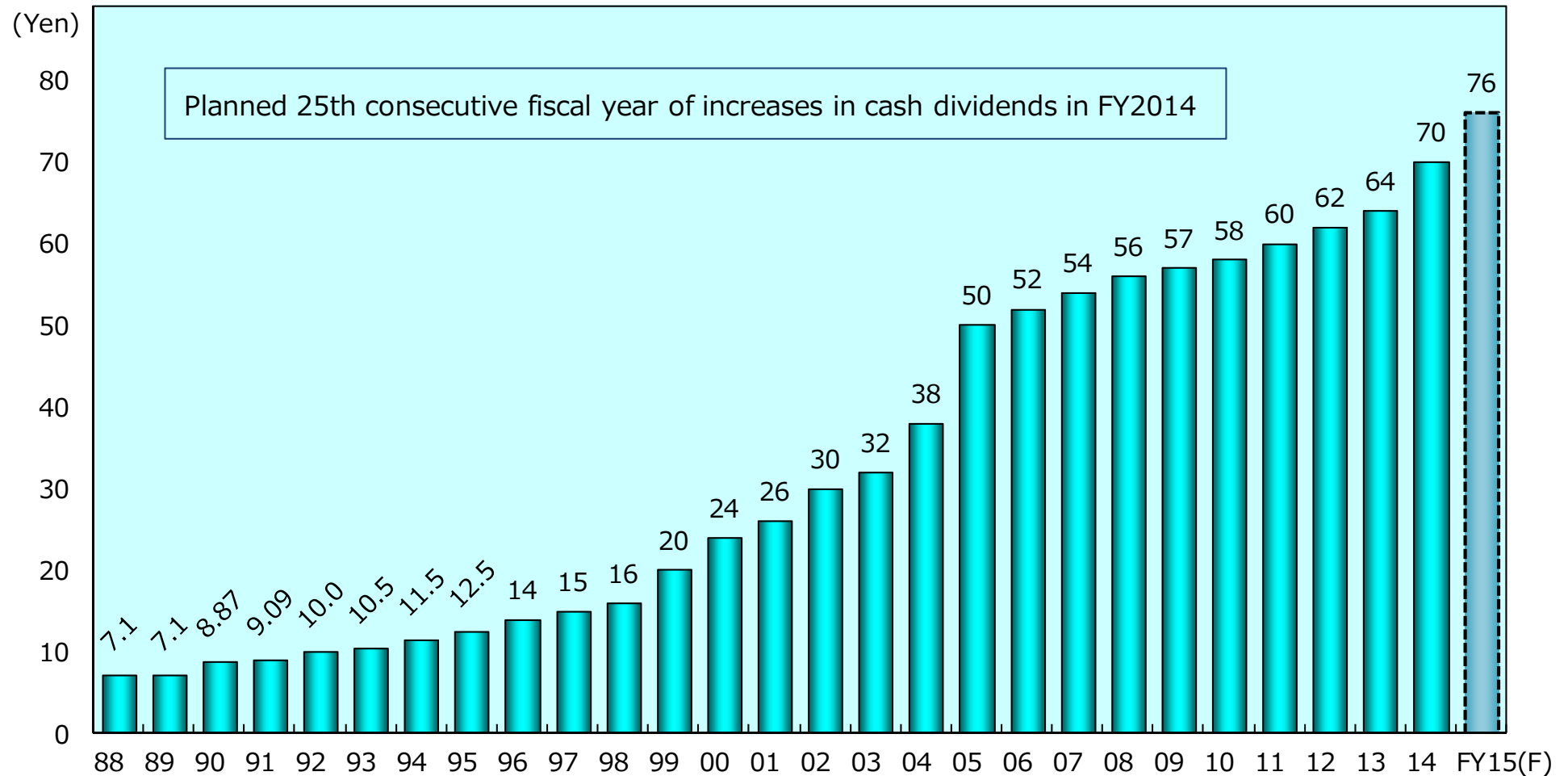
Net Income per Share
(Yen)



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

Cash Dividends per Share

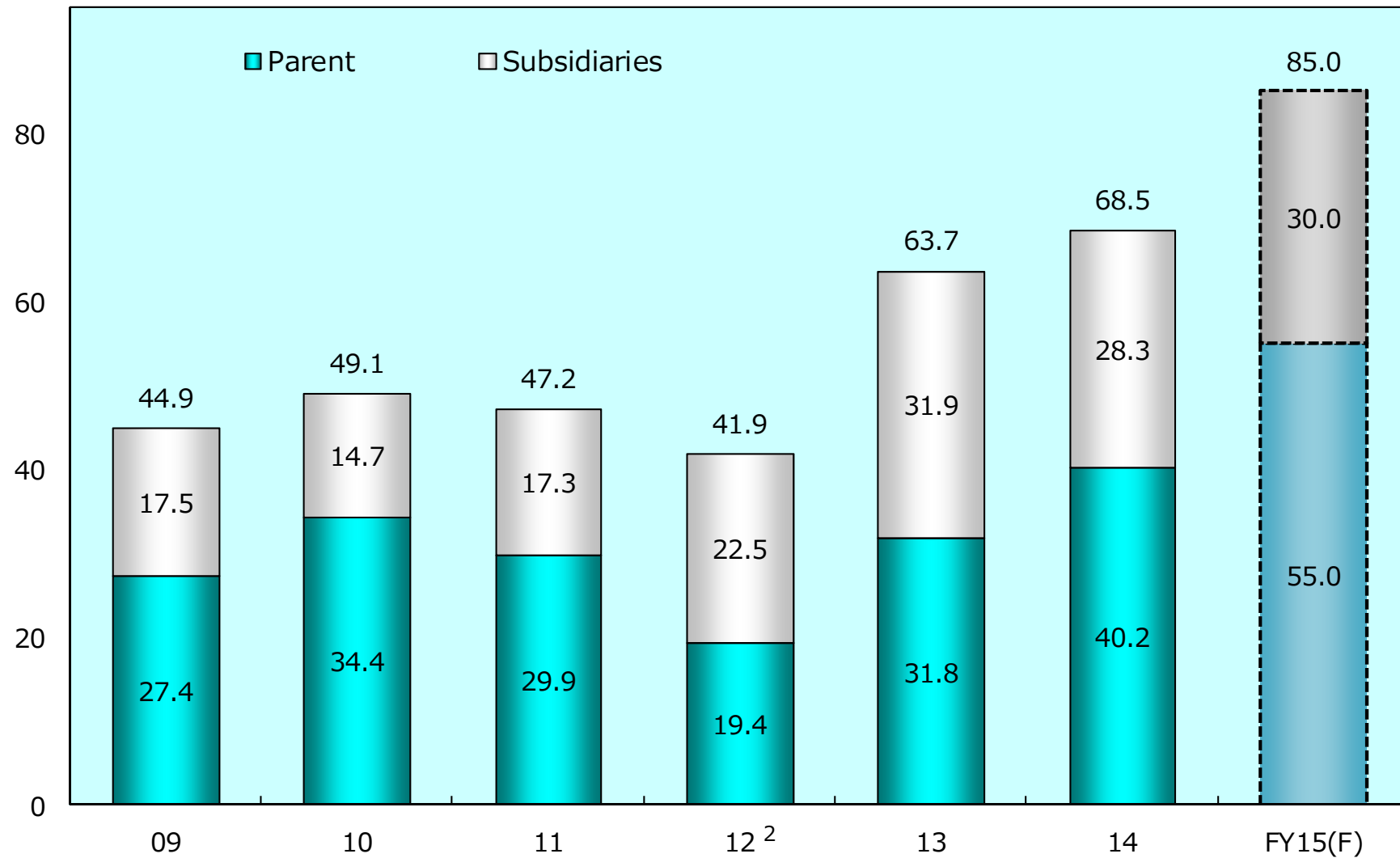
Cash Dividends per Share



* Impacts of share splits are retroactively reflected.

Capital Expenditures¹

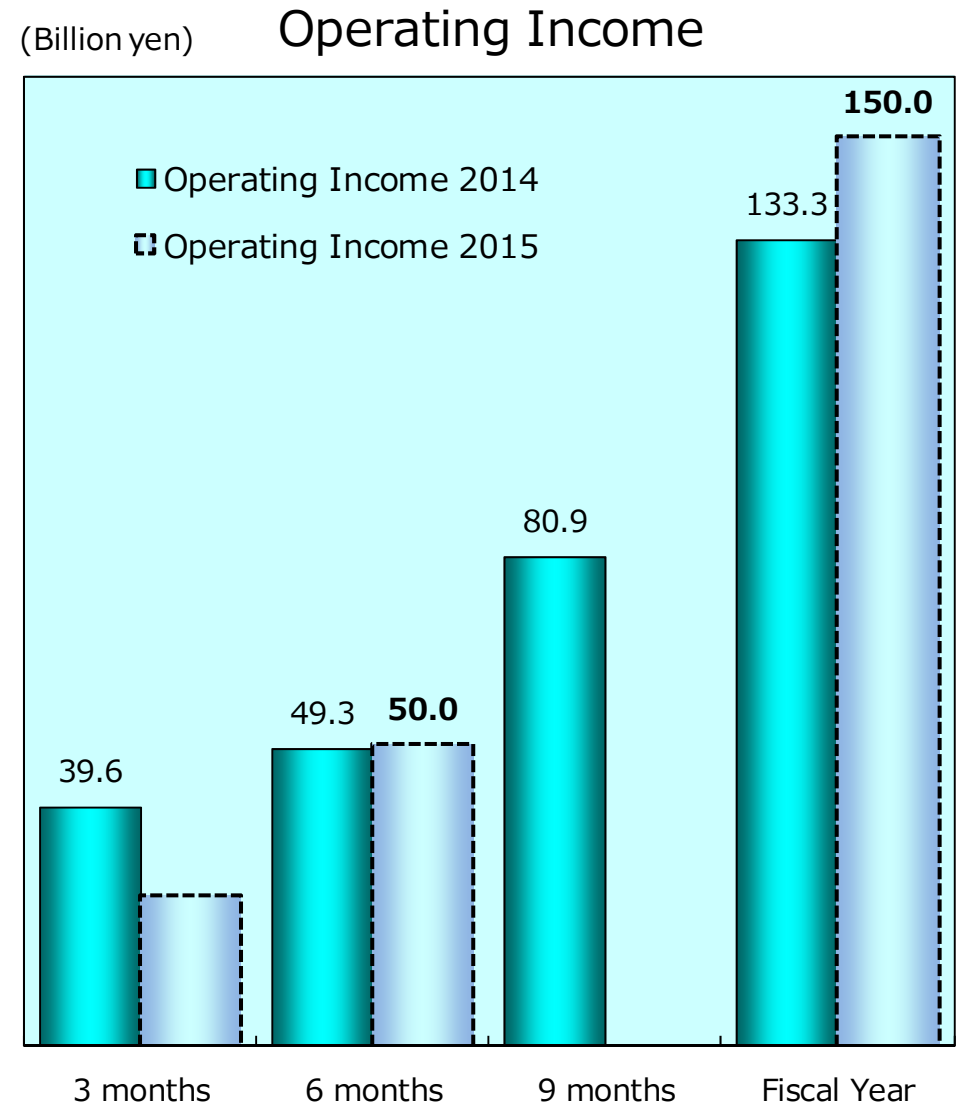
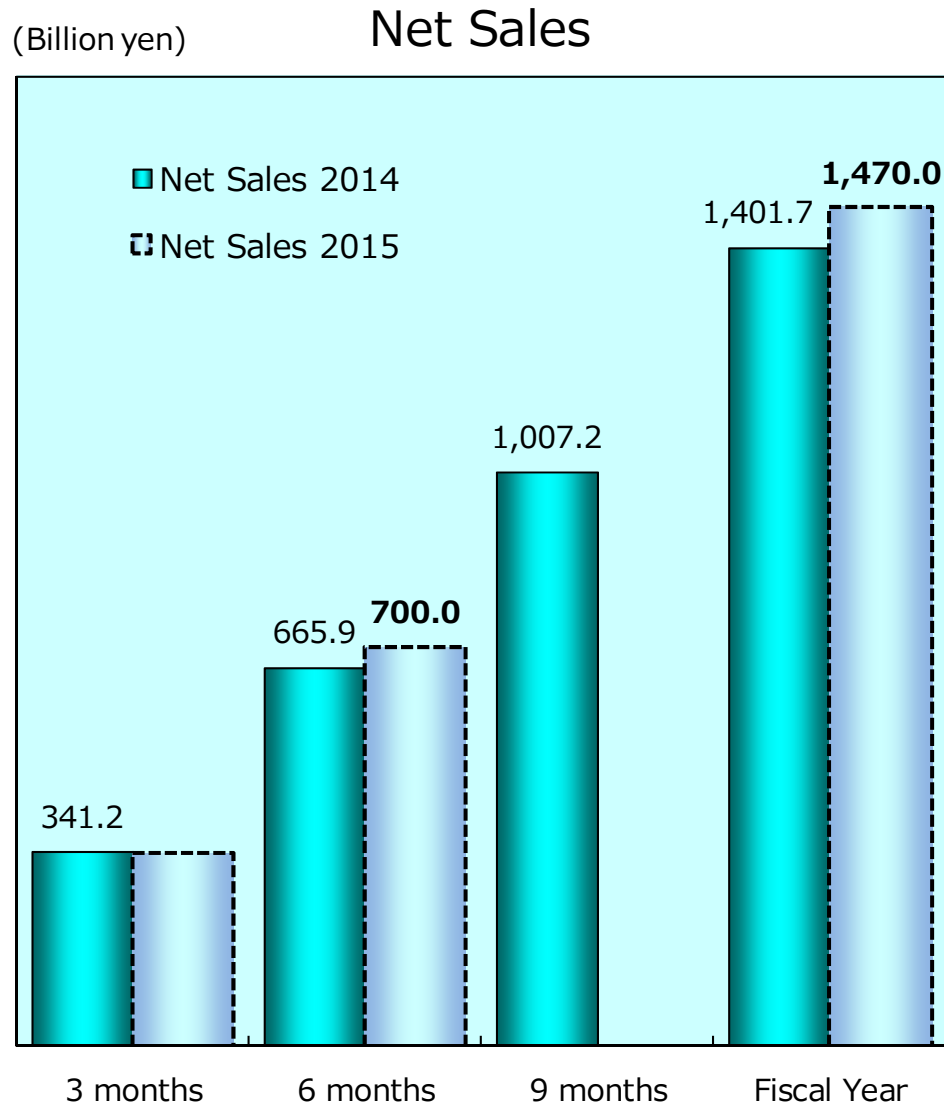
(Billion yen)



1 Includes long-term prepaid expenses.

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

FY2015 Quarterly Consolidated Sales and Profit Forecast



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Enriching lives, in harmony with nature.