

Semi-Annual Financial Review

From January 1 to June 30, 2014

Kao Corporation

July 29, 2014

This is a translation of materials used for the analyst meeting held in Japan on July 29, 2014.



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

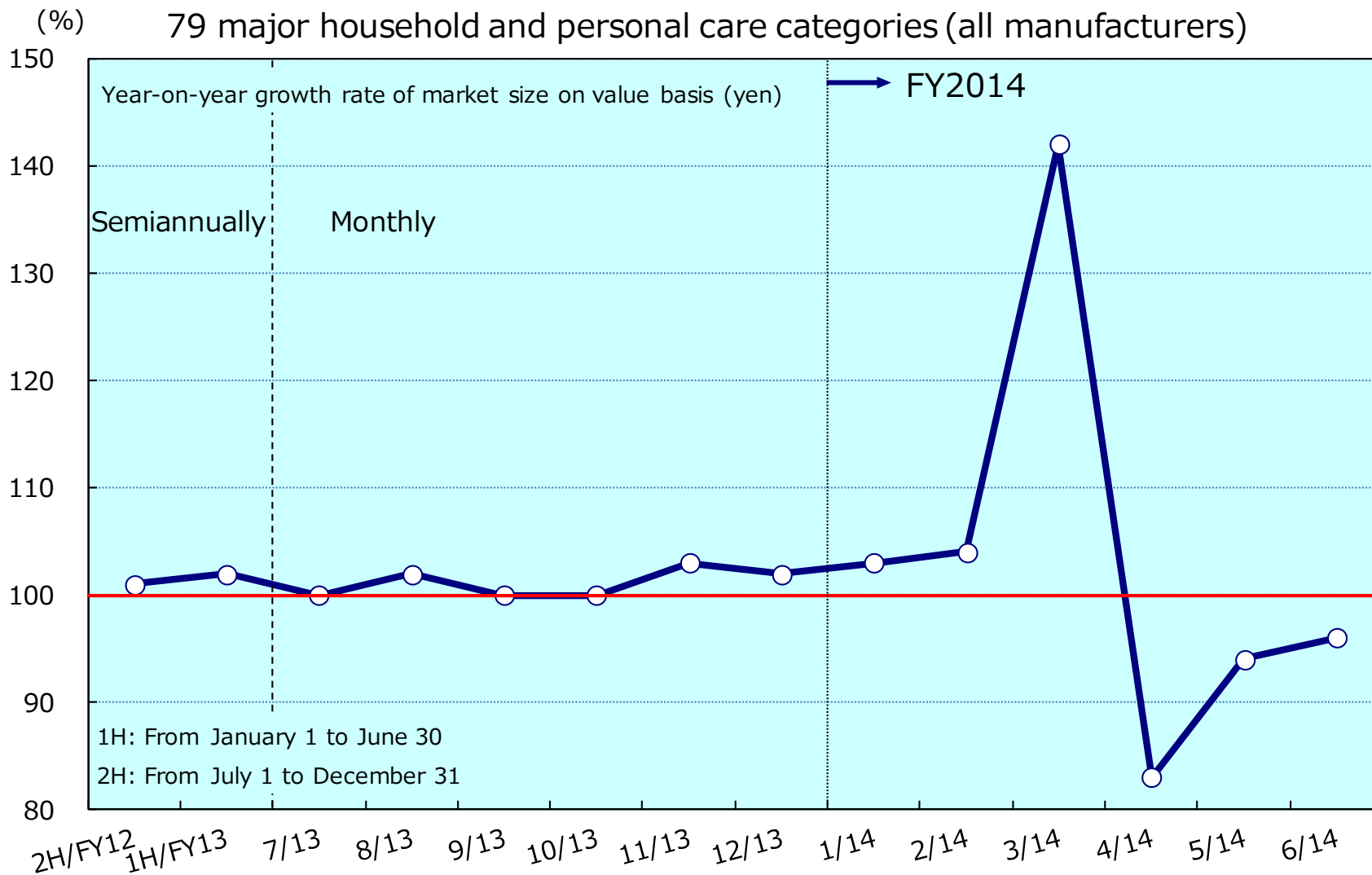
Comparison with restated FY2012

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

1. Business Environment

January 1 – June 30, 2014

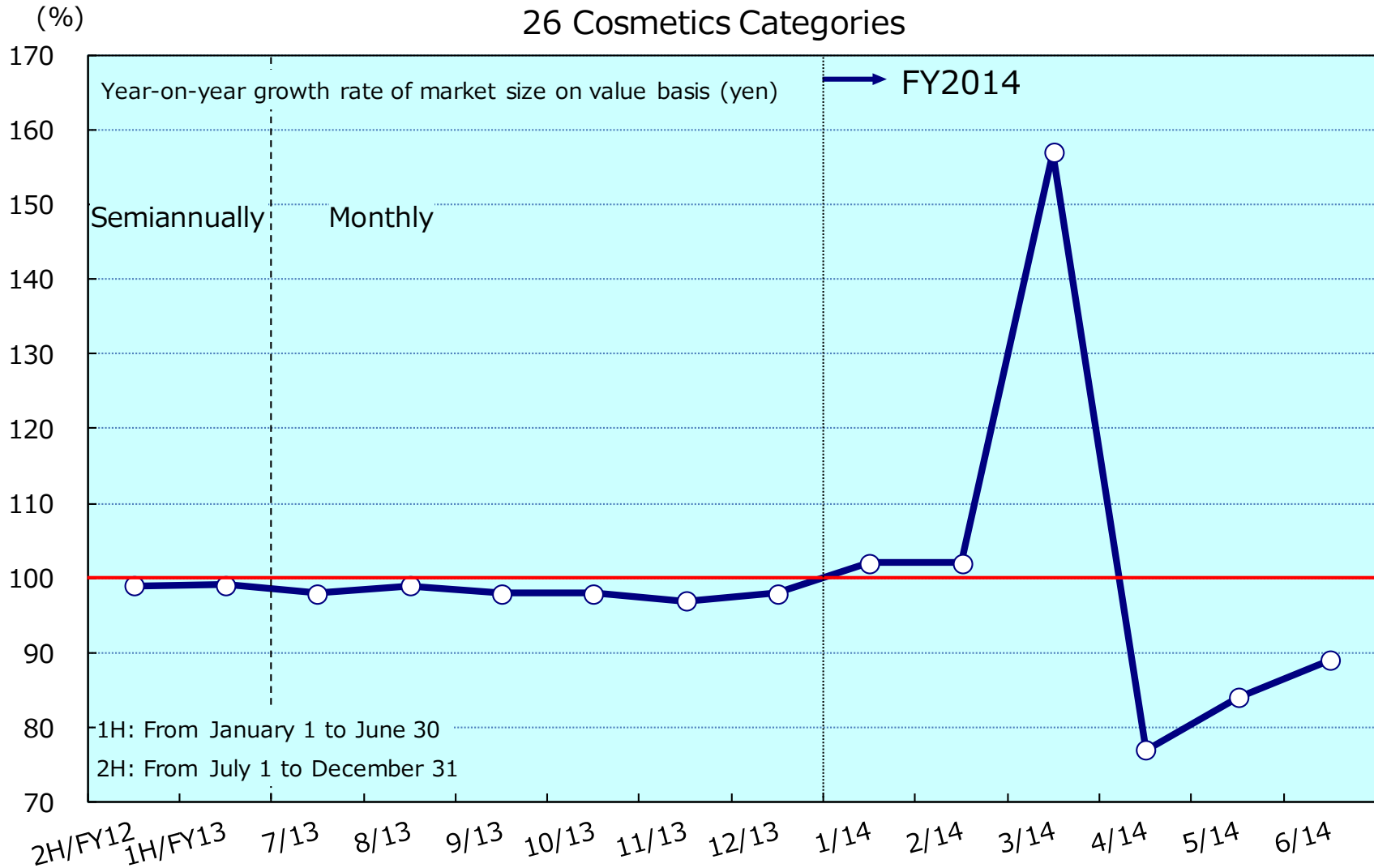
Consumer Products* Market in Japan



* Consumer products do not include cosmetics

(Source: SRI POS data by INTAGE Inc.)

Cosmetics Products Market in Japan

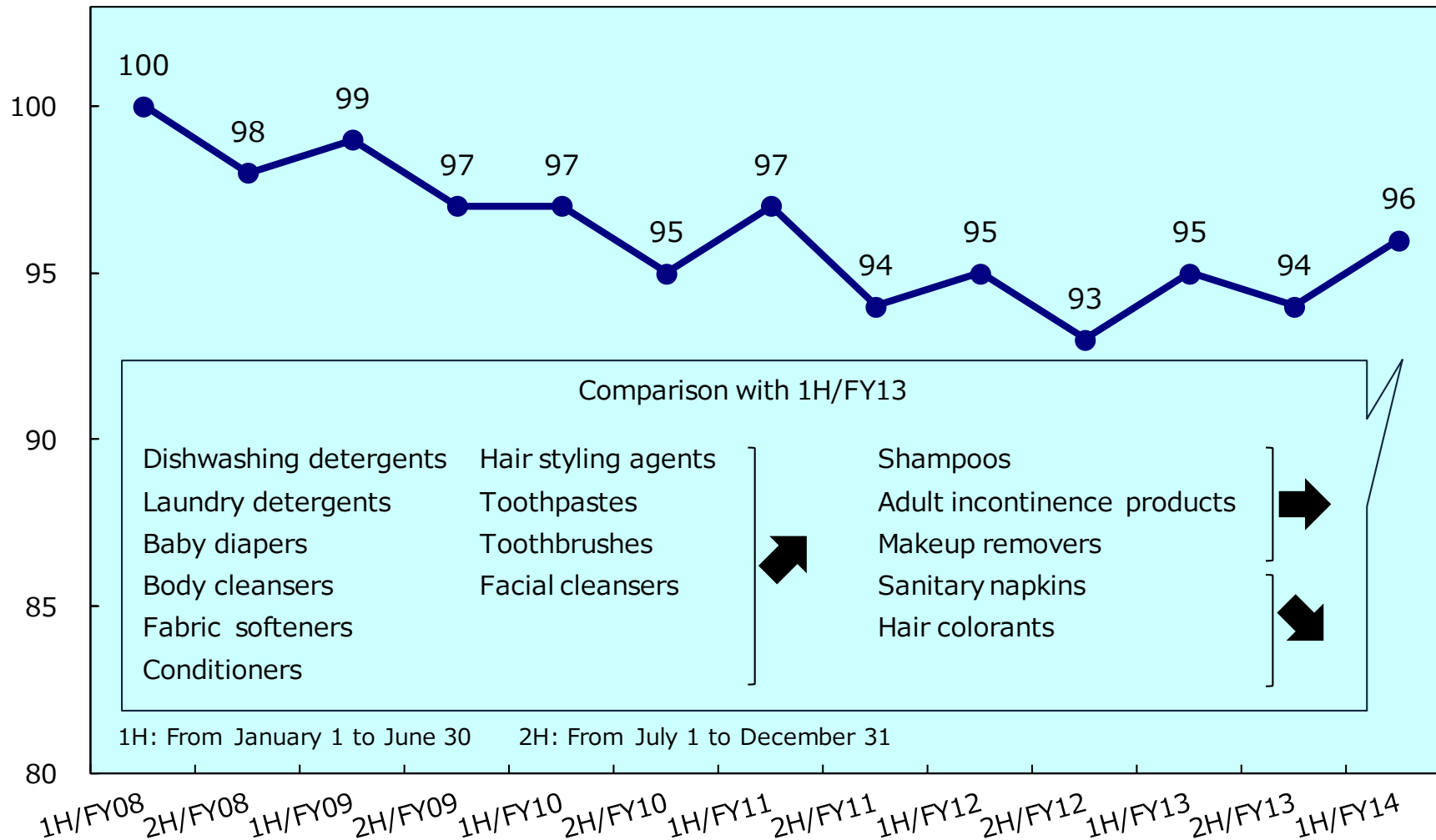


(Source: SLI survey by INTAGE Inc.)

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 – June 30, 2014

Key Points in 1H/FY2014

Japan sales related

- | | |
|--|-----------------------|
| 1. Growth of household and personal care market in Japan ¹ : | +4% year-on-year |
| 2. Growth of the cosmetics market in Japan ² : | +2.4% year-on-year |
| 3. Consumer purchase price of 15 major household & personal care categories market in Japan ³ : | +1 point year-on-year |

Income statement related

		Growth
1. Net sales:	¥665.9 billion	+6.6%
- Effect of currency translation:	+¥10.8 billion	+1.7%
- Sales growth excluding effect of currency translation:	+¥30.2 billion	+4.8%
2. Increase/decrease in operating income:	+¥6.4 billion	

Cash flow related

1. Free cash flow ⁴ :	¥29.3 billion
2. Payments of cash dividends ⁵ :	¥17.5 billion

1 Source: SRI POS data by INTAGE Inc.

2 Source: SLI data by INTAGE Inc.

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

1H/FY2014 Consolidated Results

Billion yen	Restated ¹		1H/FY2014	Growth	Changes
	1H/FY2012	1H/FY2013			
Net Sales	578.7	625.0	665.9	+6.6%	+41.0
EBITA ²	51.5	57.5	62.8	+9.2%	+5.3
<i>EBITA Margin</i>	8.9%	9.2%	9.4%		
Operating Income	34.8	42.9	49.3	+14.9%	+6.4
<i>Operating Margin</i>	6.0%	6.9%	7.4%		
Ordinary Income	36.1	44.9	51.5	+14.6%	+6.6
Net Income	19.2	18.3	31.6	+73.3%	+13.4
EBITDA	74.3	80.1	87.8	+9.6%	+7.7
EPS (yen)	36.87	35.41	61.77	+74.4%	+26.36

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	1H/FY2013	Adjusted % Growth ¹	1H/FY2014		
			% Growth	(% Like- for-like ²)	
Beauty Care Business	200.3	+3.5	200.5	+0.1	+0.1
Human Health Care Business	86.0	+6.7	91.6	+6.5	+6.5
Fabric & Home Care Business	121.0	+4.4	130.3	+7.7	+7.7
Japan total	407.2	+4.4	422.3	+3.7	+3.7
Asia	56.7	+33.8	64.5	+13.8	+12.7
Americas ³	34.3	+22.2	38.2	+11.4	+5.2
Europe ³	34.0	+24.1	39.7	+16.7	+5.3
Eliminations	-15.6	-	-23.5	-	-
Consumer Products Business	516.7	+8.6	541.3	+4.8	+3.7

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

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 3.9% for the Americas and 9.3% for Europe.

Consolidated Net Sales [2]

Billion yen	1H/FY2013		1H/FY2014		
		Adjusted % Growth ¹		% Growth	(% Like- for-like ²)
Japan	59.8	-1.1	65.7	+10.0	+10.0
Asia	40.8	+2.9	54.5	+33.8	+30.3
Americas	19.8	+14.0	23.1	+16.5	+10.1
Europe	30.5	+12.9	35.8	+17.5	+5.0
Eliminations	-24.9	-	-34.0	-	-
Chemical Business	125.9	+5.0	145.2	+15.4	+11.4
Reconciliations	-17.6	-	-20.6	-	-
Consolidated Net Sales	625.0	+8.0	665.9	+6.6	+4.8

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

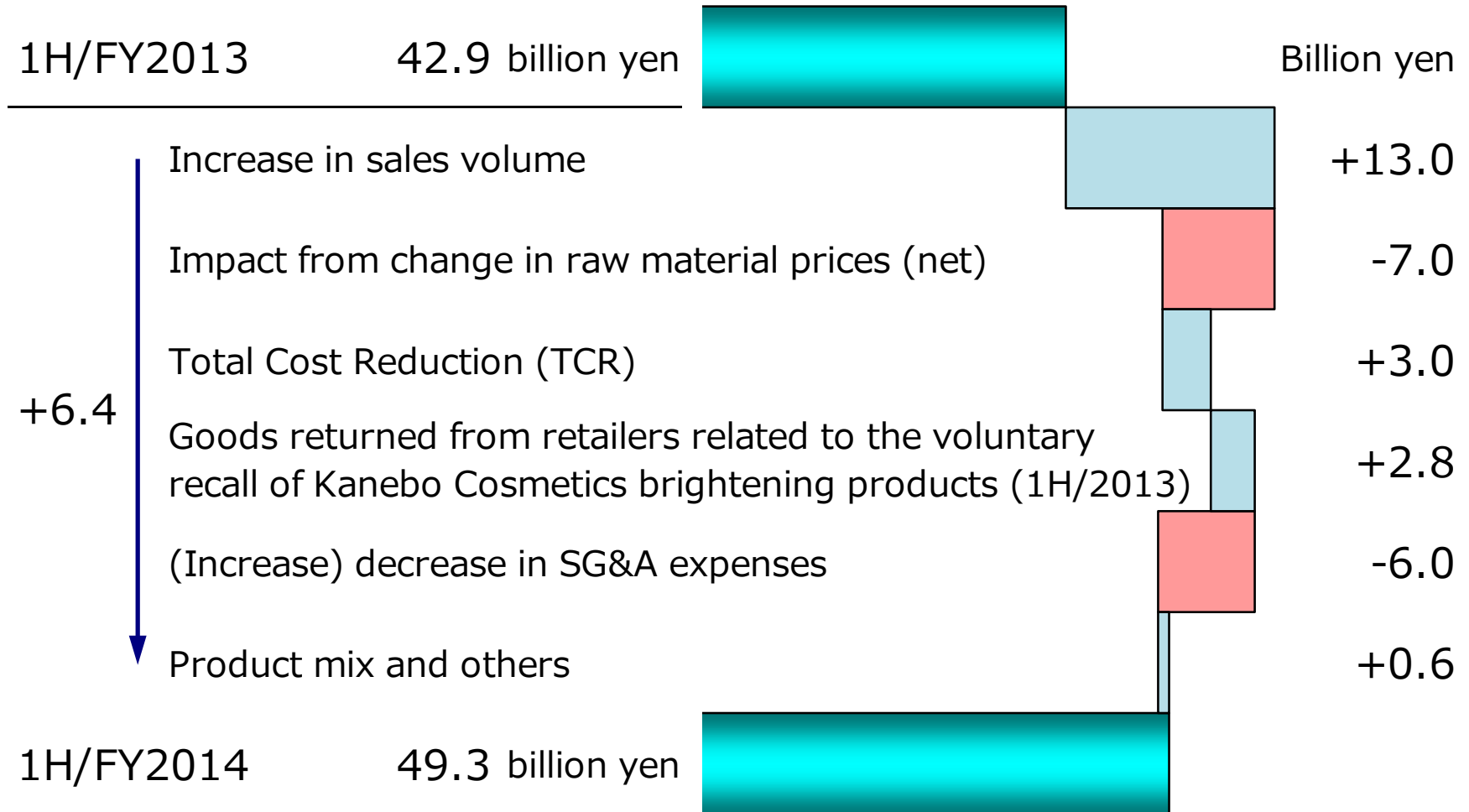
Consolidated Income Statement

Billion yen	1H/FY2013		1H/FY2014		Changes
	% of Net Sales		% of Net Sales		
Net Sales	625.0	100.0	665.9	100.0	+41.0
Cost of Sales	276.0	44.2	299.7	45.0	+23.7
Gross Profit	349.0	55.8	366.3	55.0	+17.3
SG&A Expenses*	306.0	49.0	316.9	47.6	+10.9
Operating Income	42.9	6.9	49.3	7.4	+6.4
Non-operating Income/Expenses	2.0	0.3	2.1	0.3	+0.2
Ordinary Income	44.9	7.2	51.5	7.7	+6.6
Extraordinary Gain/Loss	-6.5	-1.0	-1.1	-0.2	+5.5
Income Before Income Taxes & Minority Interests	38.4	6.1	50.4	7.6	+12.0
Income Taxes	19.3	3.1	18.2	2.7	-1.1
Income Before Minority Interests	19.1	3.0	32.2	4.8	+13.2
Minority Interests	0.8	0.1	0.6	0.1	-0.2
Net Income	18.3	2.9	31.6	4.8	+13.4

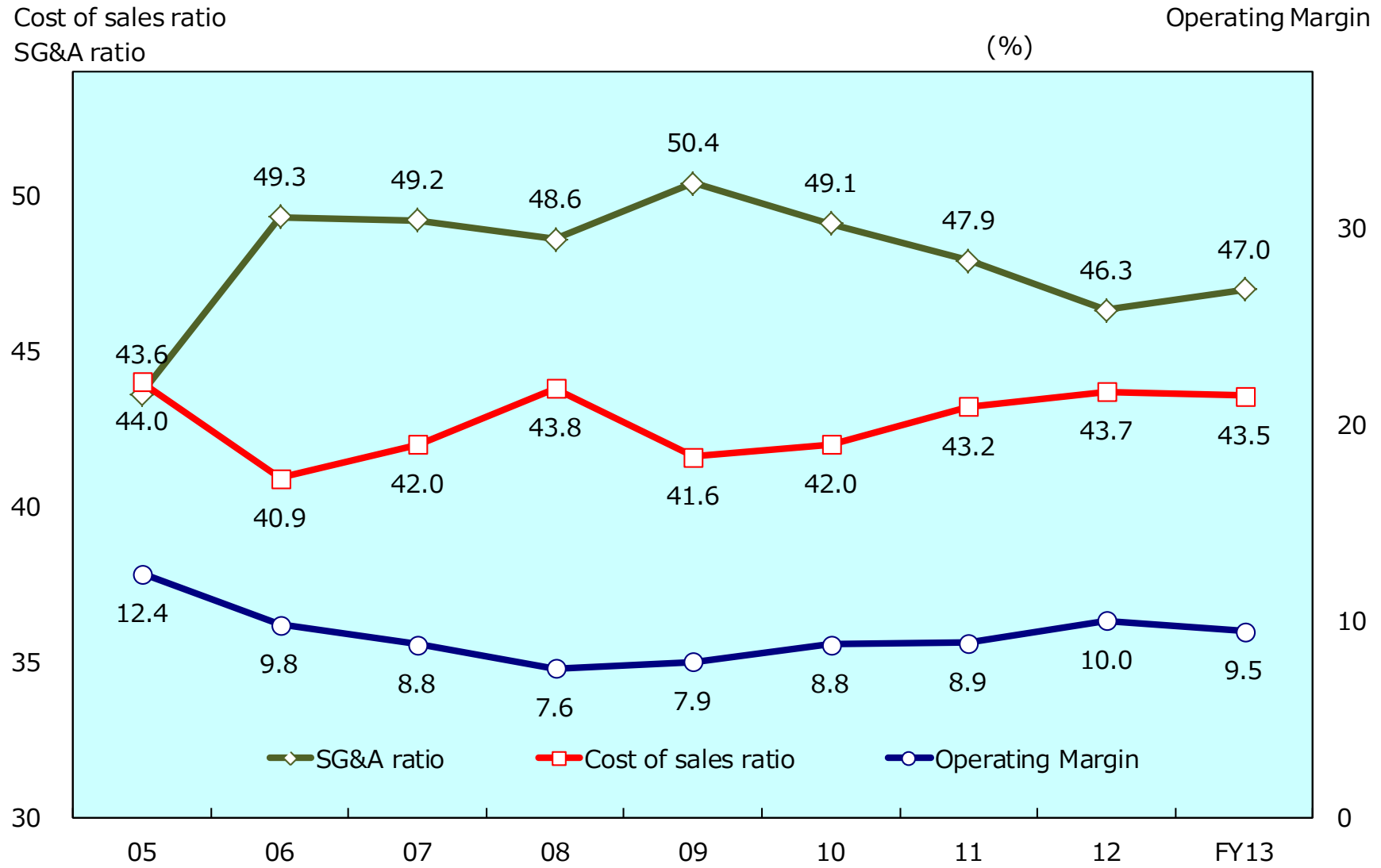
* Amortization related to Kanebo Cosmetics - 1H/FY2013: 13.4billion yen, 1H/FY2014: 12.2billion yen

1H/FY2014 Consolidated Operating Income Analysis

Operating Income



[Reference] 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	1H/FY2013	1H/FY2014	Changes
Total SG&A Expenses	306.0	316.9	+10.9
Freight/Warehouse	36.0	39.0	+3.0
Advertising	44.8	49.1	+4.3
Sales Promotion	34.1	34.7	+0.7
Salaries and Bonuses	66.1	66.3	+0.2
R&D	24.5	26.2	+1.7

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

Billion yen	1H/FY2013	1H/FY2014	Changes
Non-operating Income	3.5	3.4	-0.1
Interest Income	0.5	0.4	
Dividend Income	0.1	0.1	
Equity in Earnings of Nonconsolidated Subsidiaries and Affiliates	1.1	1.0	
Foreign Currency Exchange Gain	0.3	-	
Other	1.5	1.9	
Non-operating Expenses	1.6	1.3	-0.3
Interest Expense	0.7	0.6	
Foreign Currency Exchange Loss	-	0.5	
Other	0.9	0.2	
Extraordinary Gain	0.8	0.1	-0.7
Gain on Sales of Fixed Assets	0.0	0.1	
Gain on Transfer of Business	0.4	-	
Other	0.4	0.0	
Extraordinary Loss	7.3	1.2	-6.2
Loss on Sales/Disposals of Fixed Assets	1.4	1.1	
Loss related to cosmetics	5.6	-	
Other	0.4	0.1	

Consolidated Results by Segment

Billion yen		1H/FY2013		1H/FY2014		Changes	Growth
		% of Net Sales		% of Net Sales			%
Beauty Care Business	Net Sales ¹	278.6	-	283.5	-	+5.0	+1.8
	EBITA ²	17.6	6.3	19.8	7.0	+2.2	+12.8
	Operating Income	3.1	1.1	6.4	2.3	+3.4	+108.9
Human Health Care Business	Net Sales ¹	99.6	-	109.6	-	+10.0	+10.0
	Operating Income	6.7	6.7	7.2	6.6	+0.6	+8.4
Fabric & Home Care Business	Net Sales ¹	138.5	-	148.2	-	+9.7	+7.0
	Operating Income	23.7	17.1	23.1	15.6	-0.6	-2.5
Chemical Business	Net Sales ¹	125.9	-	145.2	-	+19.3	+15.4
	Operating Income	9.4	7.5	12.6	8.7	+3.2	+33.8
Consolidated	Net Sales	625.0	-	665.9	-	+41.0	+6.6
	EBITA ²	57.5	9.2	62.8	9.4	+5.3	+9.2
	Operating Income	42.9	6.9	49.3	7.4	+6.4	+14.9

1 Before elimination of intersegment transfers

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

[Reference] Consolidated Results by Geographic Area

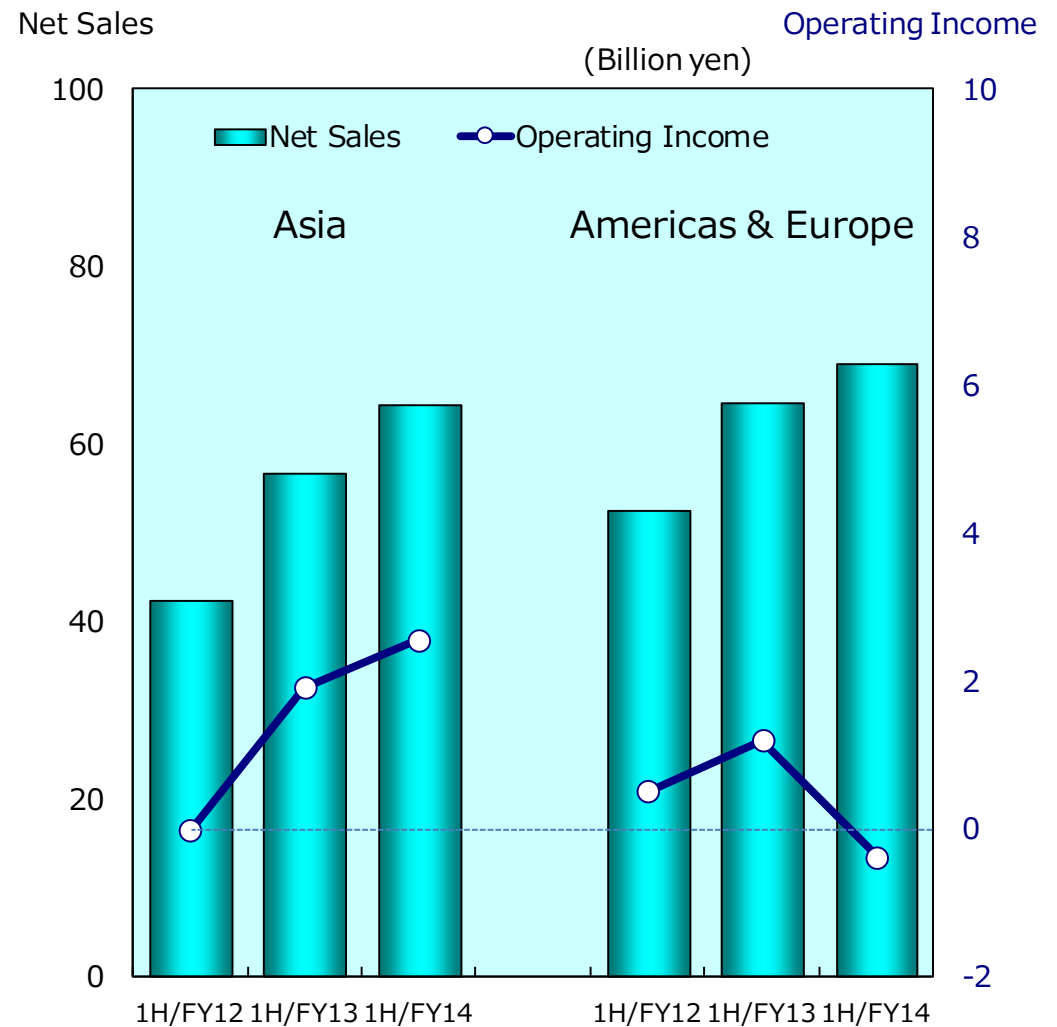
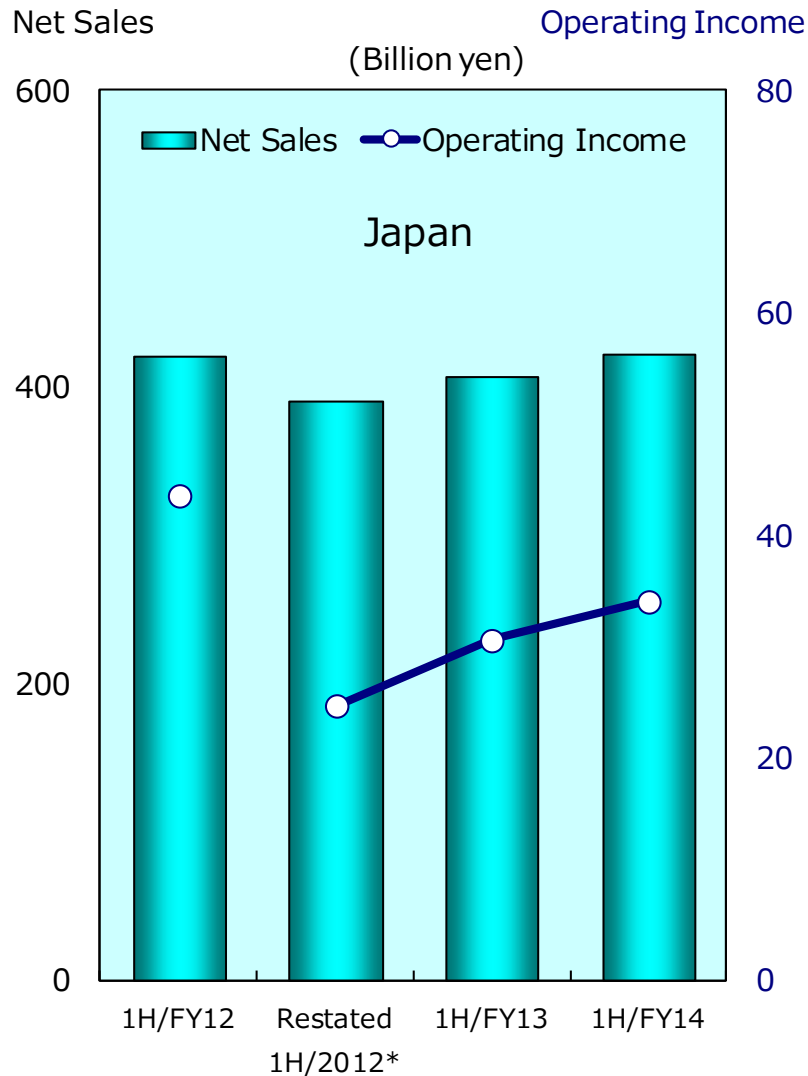
Billion yen		1H/FY2013		1H/FY2014		Changes	Growth
		% of Net Sales		% of Net Sales			%
Japan	Net Sales ¹	452.0	-	470.5	-	+18.4	+4.1
	EBITA ²	47.7	10.5	50.0	10.6	+2.3	+4.9
	Operating Income	34.2	7.6	37.8	8.0	+3.5	+10.4
Asia	Net Sales ¹	95.6	-	116.9	-	+21.3	+22.2
	Operating Income	5.8	6.1	6.2	5.3	+0.4	+6.6
Americas ³	Net Sales ¹	54.0	-	61.3	-	+7.2	+13.3
	EBITA ²	2.1	3.9	1.9	3.1	-0.2	-11.2
	Operating Income	1.8	3.3	1.5	2.4	-0.3	-18.7
Europe ³	Net Sales ¹	64.4	-	75.4	-	+11.0	+17.1
	EBITA ²	2.6	4.1	3.6	4.8	+1.0	+38.6
	Operating Income	1.9	2.9	2.9	3.9	+1.0	+53.9
Consolidated	Net Sales	625.0	-	665.9	-	+41.0	+6.6
	EBITA ²	57.5	9.2	62.8	9.4	+5.3	+9.2
	Operating Income	42.9	6.9	49.3	7.4	+6.4	+14.9

1 Before elimination of intersegment transfers

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

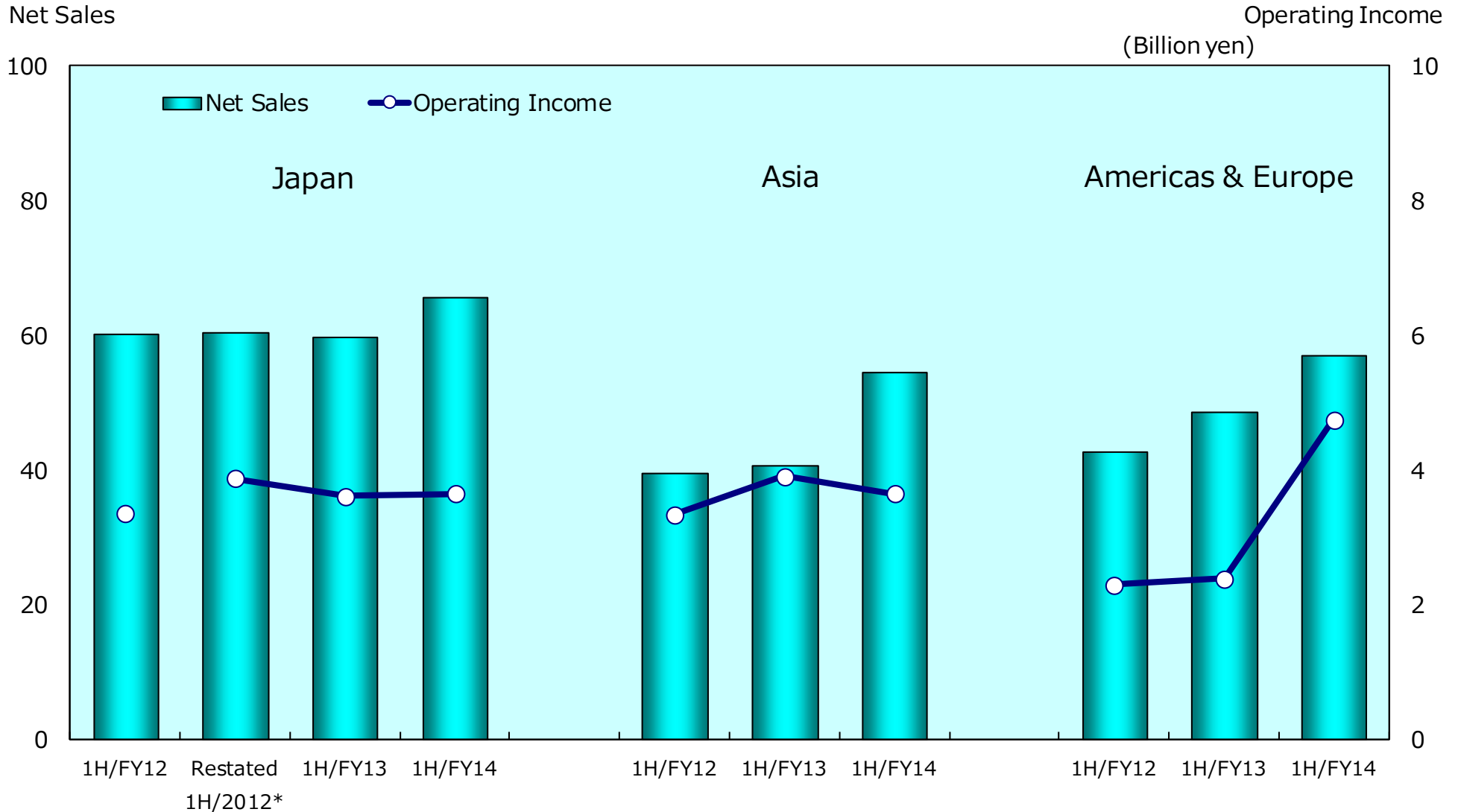
3 As of January 2014, certain changes have been made in inter-company transactions among subsidiaries in the Consumer Products Business in the Americas and Europe. The rates of change based on the same transaction method that was used in the same period a year earlier would have increased 8.6% for the Americas and 13.2% for Europe.

Consumer Products Business by Geographic Area



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

Chemical Business by Geographic Area



* Restated 1H/2012 : 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	Jun/2014	Changes		Dec/2013	Jun/2014	Changes
Current Assets	594.0	586.0	-8.0	Current Liabilities	338.3	342.3	+4.0
Cash and Time Deposits	126.3	99.4	-26.9	Notes and Accounts Payable - Trade	116.0	123.2	+7.2
Notes and Accounts Receivable - Trade	181.9	153.0	-28.8	Short-term Loans (incl. Current Portion of Long-term Loans)	21.3	41.2	+19.9
Short-term Investments	90.1	124.6	+34.5	Accrued Income Taxes	32.3	15.6	-16.7
Inventories	139.1	156.6	+17.5	Other	168.7	162.3	-6.4
Other	56.5	52.3	-4.2				
Fixed Assets	539.3	533.9	-5.4	Long-term Liabilities	152.3	128.7	-23.6
Property, Plant and Equipment	277.3	286.3	+9.1	Bonds/Long-term Loans	80.1	60.1	-20.0
Intangible Assets	192.6	178.3	-14.3	Other	72.2	68.6	-3.6
Investments and Other Assets	69.4	69.3	-0.1	Total Liabilities	490.6	471.0	-19.6
				Shareholders' equity	657.0	673.0	+16.1
				-Common Stock	85.4	85.4	-
				-Capital Surplus	109.6	109.6	+0.0
				-Retained Earnings	471.4	486.6	+15.3
				-Treasury Stock, at Cost	-9.4	-8.6	+0.8
				Accumulated other comprehensive income	-28.3	-37.2	-9.0
				-Unrealized Gain on Available-for-sale Securities	4.7	4.8	+0.1
				-Deferred Gain (Loss) on Derivatives under Hedges Accounting	0.0	0.0	-0.0
				-Foreign Currency Translation Adjustments	-28.4	-37.2	-8.8
				-Post retirement Adjustments for Foreign consolidated subsidiaries	-4.6	-4.8	-0.2
				Stock Acquisition Rights	1.1	1.1	+0.0
				Minority Interests	12.8	12.0	-0.8
				Total Net Assets	642.6	648.9	+6.3
Total Assets	1,133.3	1,119.9	-13.4	Total Liabilities and Total Net Assets	1,133.3	1,119.9	-13.4

Consolidated Statement of Cash Flows

Billion yen	1H/FY2013	1H/FY2014	Changes
Net Cash Provided by Operating Activities	78.9	57.0	-21.8
Net Cash Used in Investing Activities	-41.9	-27.7	+14.2
Net Cash Used in Financing Activities	-50.7	-17.2	+33.5
Translation Adjustments on Cash and Cash Equivalents	11.2	-2.9	-14.2
Net Increase (Decrease) in Cash and Cash Equivalents	-2.5	9.1	+11.7
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	158.5	236.7	+78.2
Total Debt at End of Period	101.4	101.3	-0.1
Free Cash Flow [*]	36.9	29.3	-7.6

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

Net cash used in investing activities

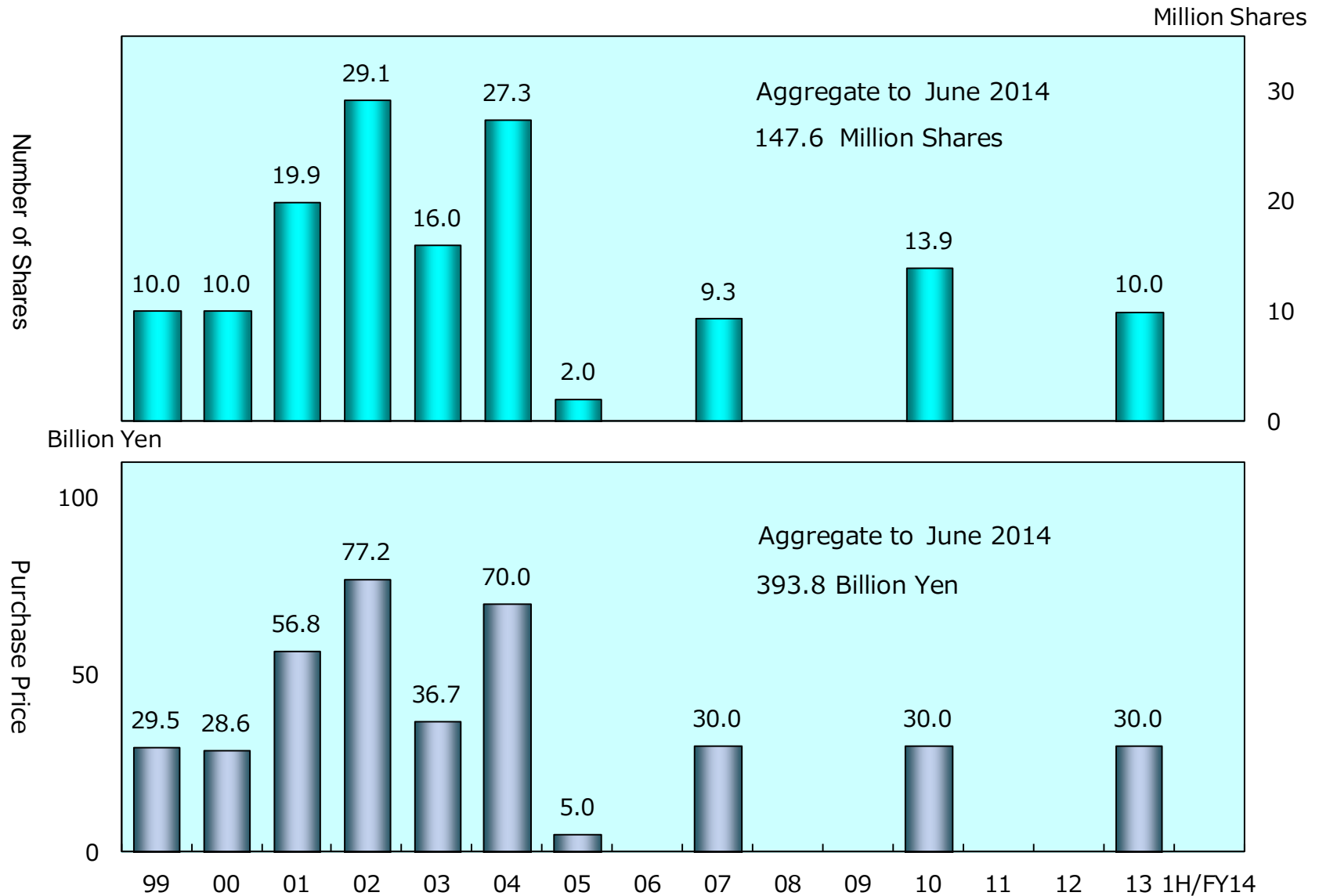
Capital expenditures:

- Construction of new plants in Indonesia
- Construction of a new chemical plant in China
- Production capacity expansion for sanitary products in Japan
- Reinforcement of distribution bases, IT related, etc.

Net cash used in financing activities

Payments of cash dividends (Includes payments of cash dividends to minority shareholders) : 17.5 billion yen

Share Repurchase*



* Share repurchase from the market

3. Forecast for FY 2014

Major Assumptions for FY2014 Forecast

◆ Year-on-year growth rate of market size in value (yen) for the Consumer Products Business ¹ in Japan:		+1%
◆ Year-on-year growth rate of cosmetics market size in value (yen) in Japan:		Flat
◆ Net sales:	¥1,390.0 billion	<u>Growth</u> +5.7%
• Effect of currency translation:	+¥10.8 billion	+0.8%
• Sales growth excluding effect of currency translation:	+¥64.0 billion	+4.9%
		<u>Estimated impact on income</u>
◆ Impact from change in raw material prices:	• Gross impact:	-¥32.0 billion
	• Net impact:	-¥13.0 billion
◆ Total Cost Reduction (TCR) activities:		+¥7.0 billion
◆ Capital expenditures/depreciation and amortization:	• Capital expenditures:	¥66.0 billion
	• Depreciation and amortization:	¥79.0 billion
◆ Share repurchase ²		¥50.0 billion

Exchange rate assumptions

- ◆ 101 yen/USD (FY2013 actual exchange rate [average]: 97.99 yen/USD)
- ◆ 138 yen/Euro (FY2013 actual exchange rate [average]: 130.56 yen/Euro)

1 Excludes cosmetics

2 Excludes repurchase of shares less than one unit

Consolidated Sales and Profit Forecast

Billion yen	Restated FY2012 ²	FY2013 ⁴	Adjusted % Growth ²	FY2014 (F) ¹ % Growth ⁵	April 25, 2014 Forecast
Net Sales	1,220.4	1,315.2	+7.8	1,390.0 +5.7	1,370.0
Operating Income	111.8	124.7	+11.5	130.0 +4.3	130.0
[% of Net Sales]	9.2%	9.5%		9.4%	
Ordinary Income	114.1	128.1	+12.2	133.0 +3.9	133.0
[% of Net Sales]	9.4%	9.7%		9.6%	
Net Income	53.1	64.8	+21.9	75.0 +15.8	75.0
[% of Net Sales]	4.4%	4.9%		5.4%	
Net Income per Share (yen)	101.77	126.03	+23.8	147.54 +17.1	146.40
ROE ³	9.5%	10.7%	-	12.1% -	
EBITDA(=operating Income + Depr. & Amort.)	189.2	202.0	+6.8	209.0 +3.5	
Cash Dividends per Share (yen)	62.0	64.0	+3.2	68.0 +6.3	68.0

1 Exchange rate assumptions: 101 yen/USD, 138 yen/Euro

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

Kanebo Cosmetics (Jan.–Dec.2012): Net sales = slightly less than 190.0 billion yen / operating margin before deduction of royalties = approximately 7%; amortization related to Kanebo Cosmetics: 27.4 billion yen

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

4 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

5 Kanebo Cosmetics (Jan.–Dec.2014): Net sales = slightly more than 180.0 billion yen / operating margin before deduction of royalties = approximately 8%; amortization related to Kanebo Cosmetics: 24.3 billion yen

Sales Outlook by Segment – FY2014

Consolidated Net Sales Billion yen Growth
 1,390 +5.7%

Billion yen

By Segment*		
		Growth
Beauty Care	588	+3.1%
Human Health Care	228	+8.2%
Fabric & Home Care	325	+4.5%
Chemical	292	+11.8%

Reference: By Geographic Area*		
		Growth
Japan	990	+3.2%
Asia	240	+20.2%
Americas	122	+12.3%
Europe	154	+14.8%

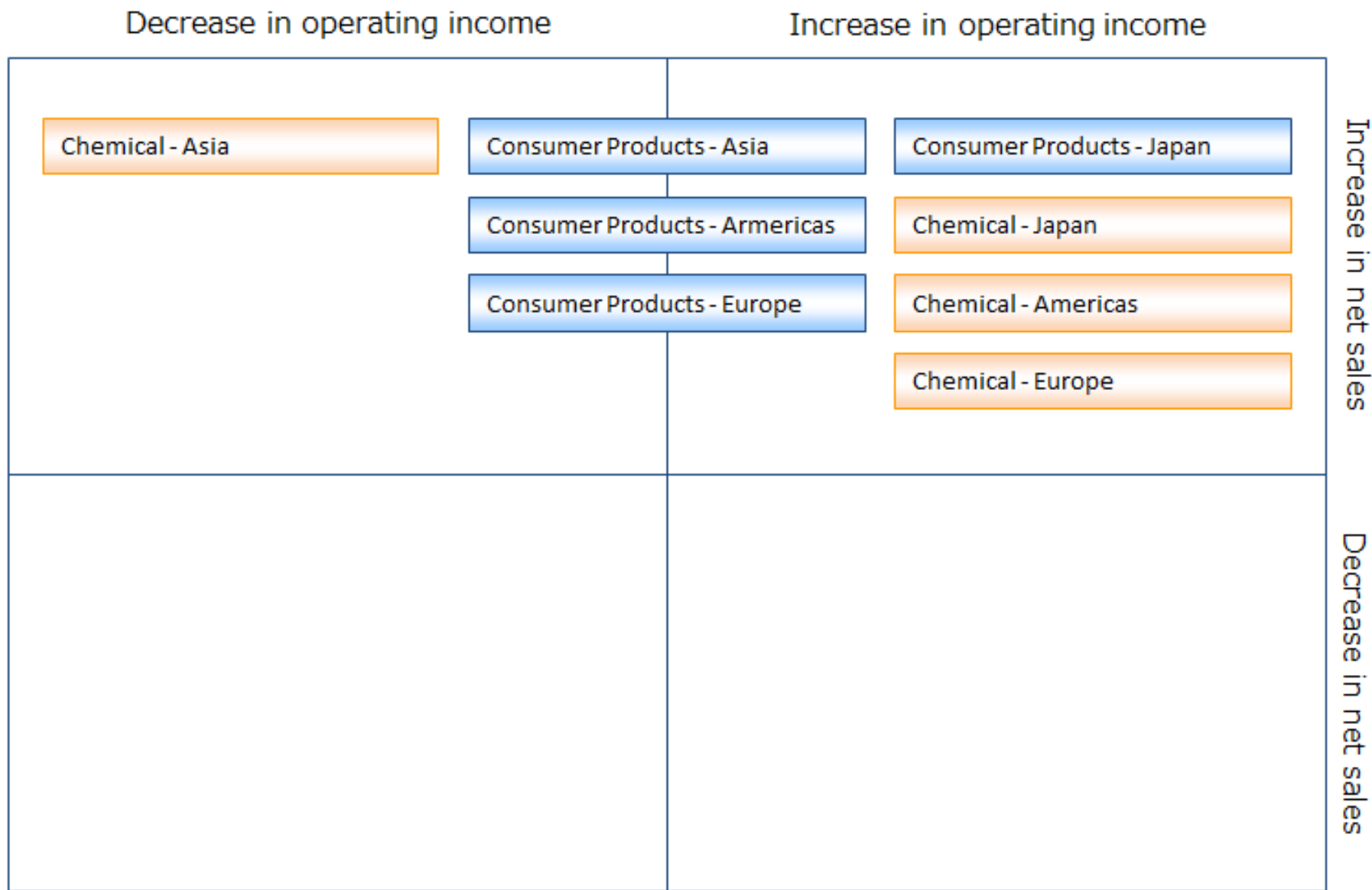
* Sales are before elimination of transactions between segments or geographic areas.

Sales Outlook – FY2014

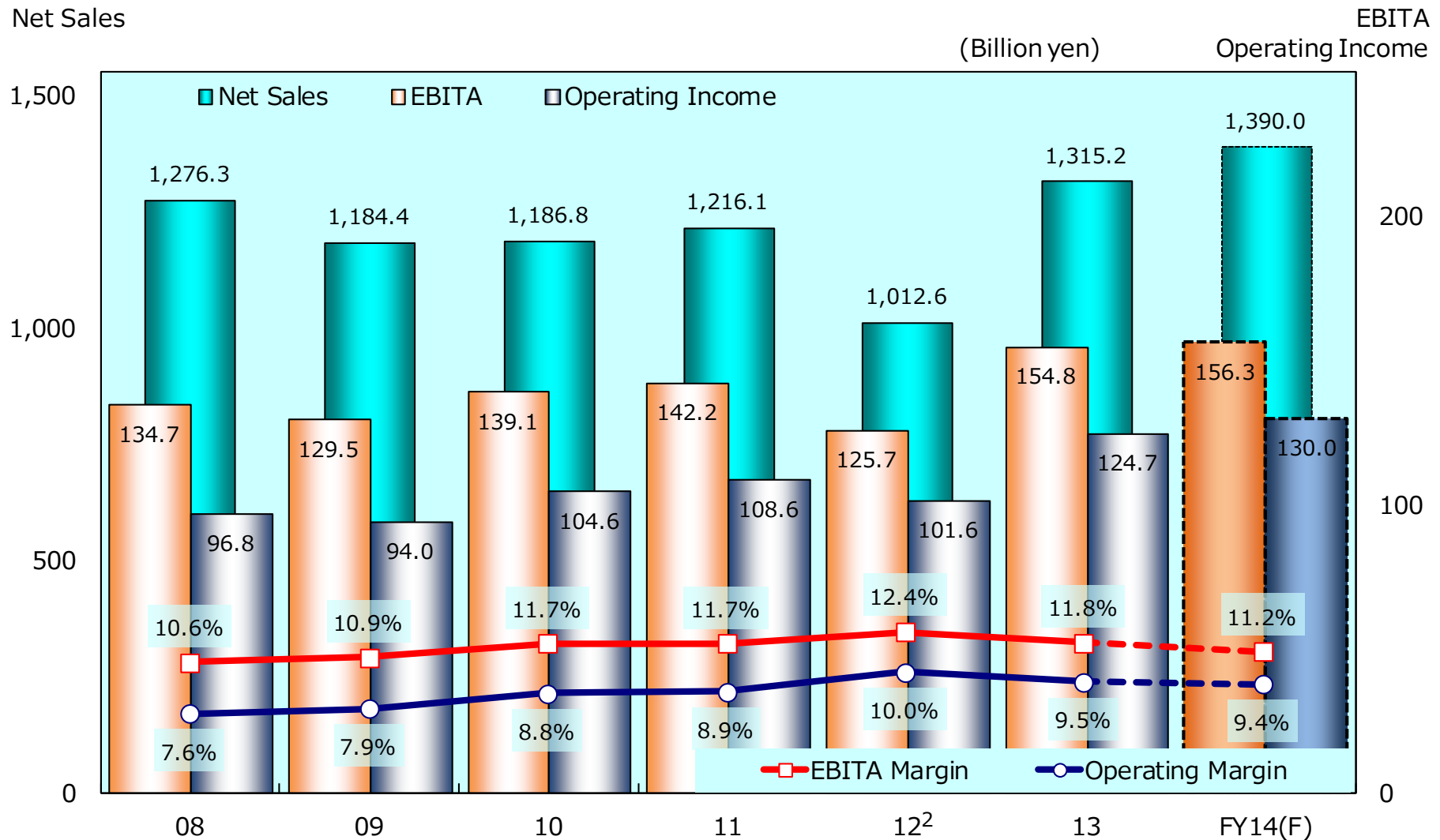
Consumer Products Business in Japan

Billion yen	1st Half			Full year		
	FY2013 Actual	FY2014 Actual	%Growth	FY2013 Actual	FY2014 Forecast	%Growth
Beauty Care	200.3	200.5	+0.1	408.6	416.0	+1.8
Human Health Care	86.0	91.6	+6.5	181.9	190.0	+4.4
Fabric & Home Care	121.0	130.3	+7.7	275.9	287.0	+4.0
Consumer Products Business	407.2	422.3	+3.7	866.4	893.0	+3.1

FY2014 Outlook by Segment/Geographic Area



Consolidated Net Sales/EBITA¹/Operating Income

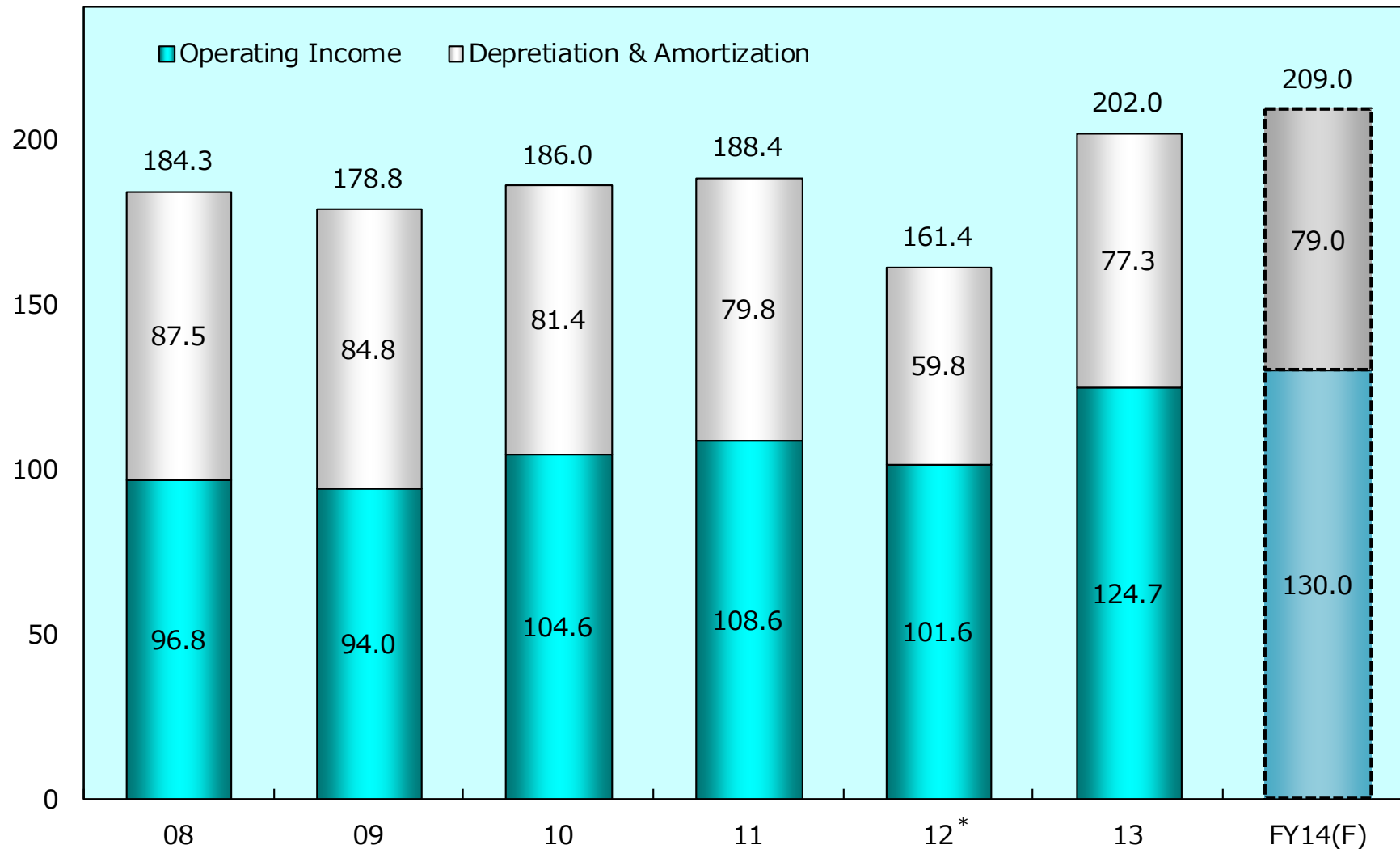


¹ Operating income before amortization of goodwill and intellectual property rights related to M&A

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

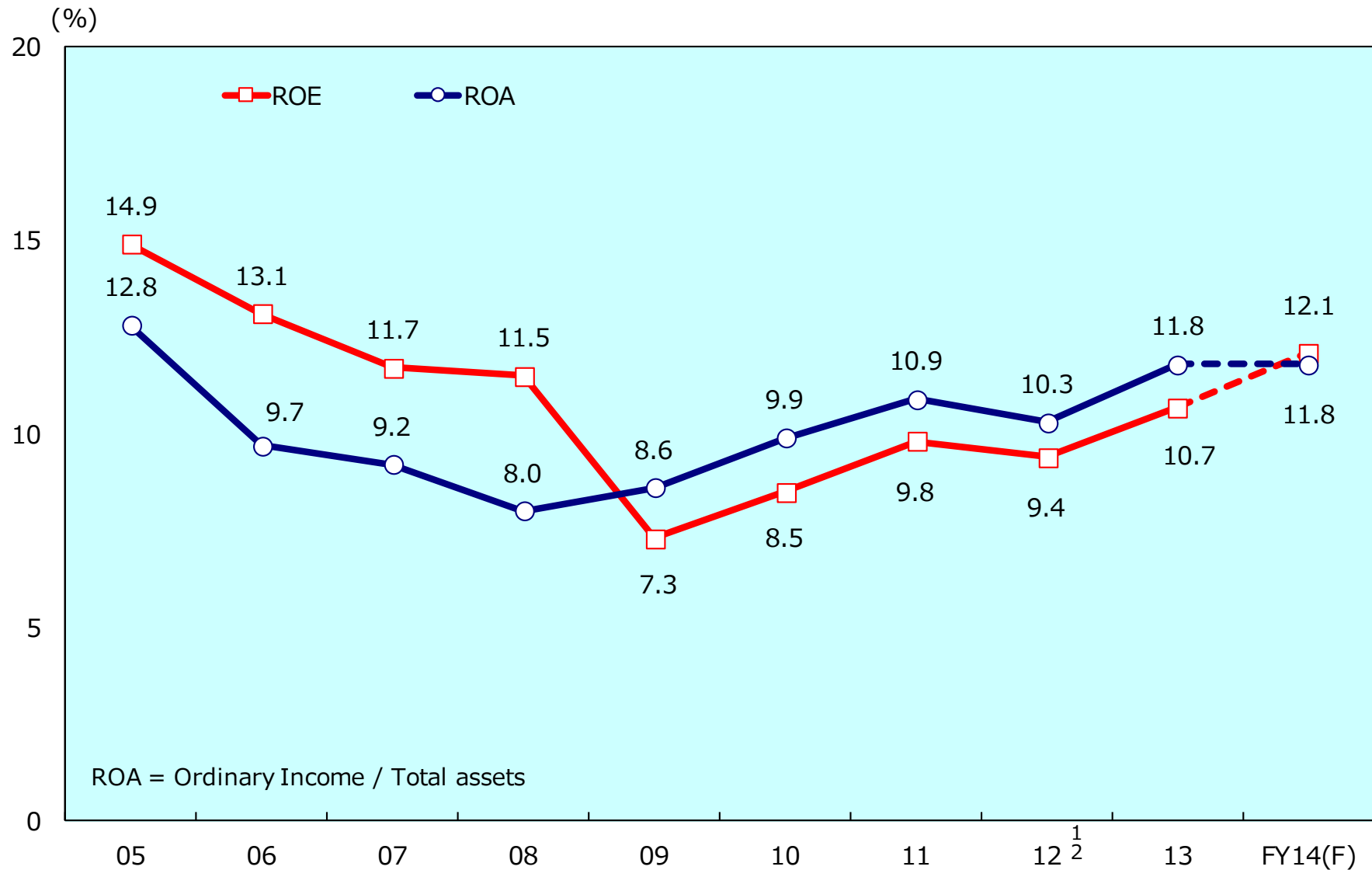
EBITDA

(Billion yen)



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

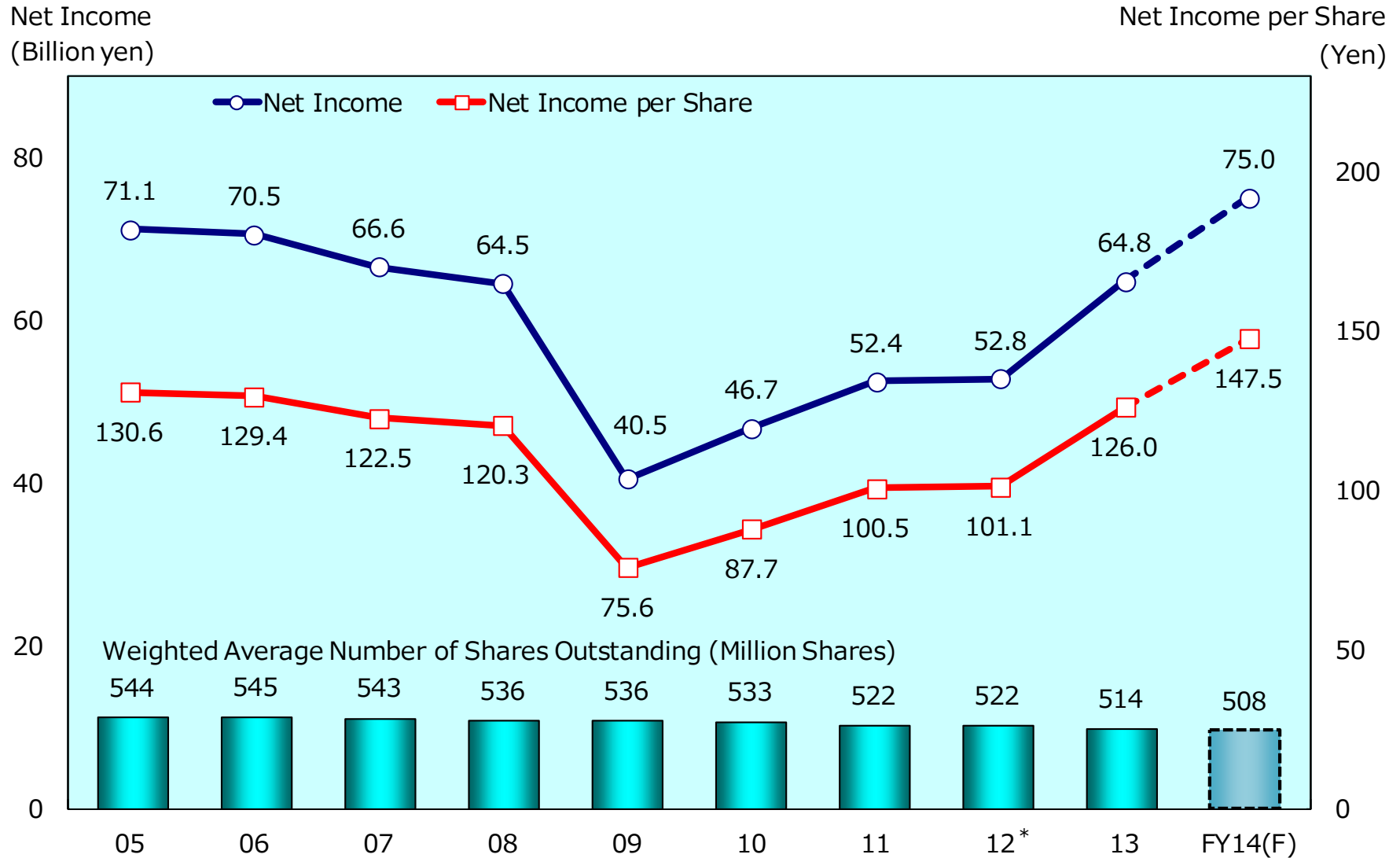
ROE & ROA



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.

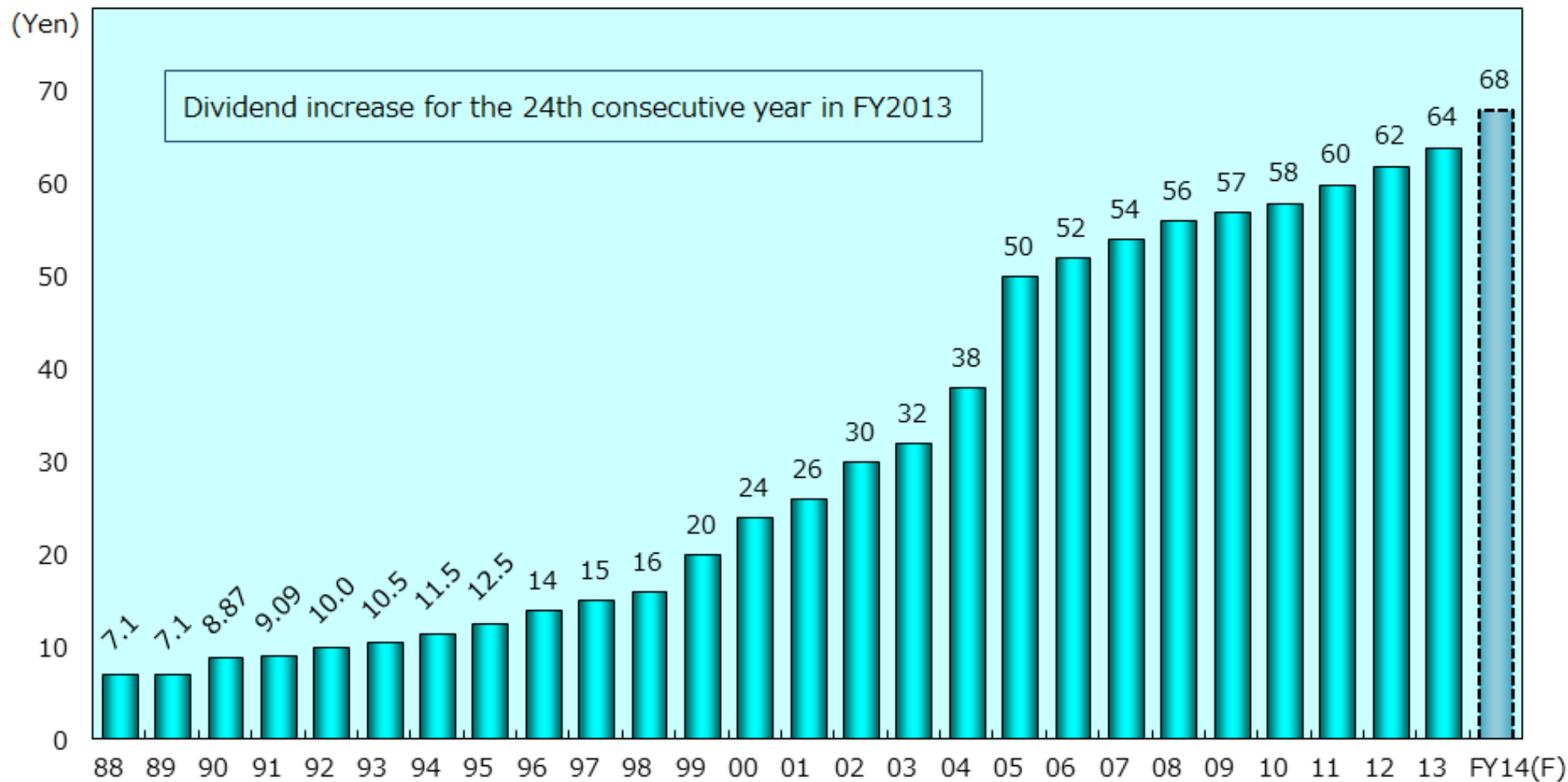
Net Income per Share



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

Cash Dividends per Share

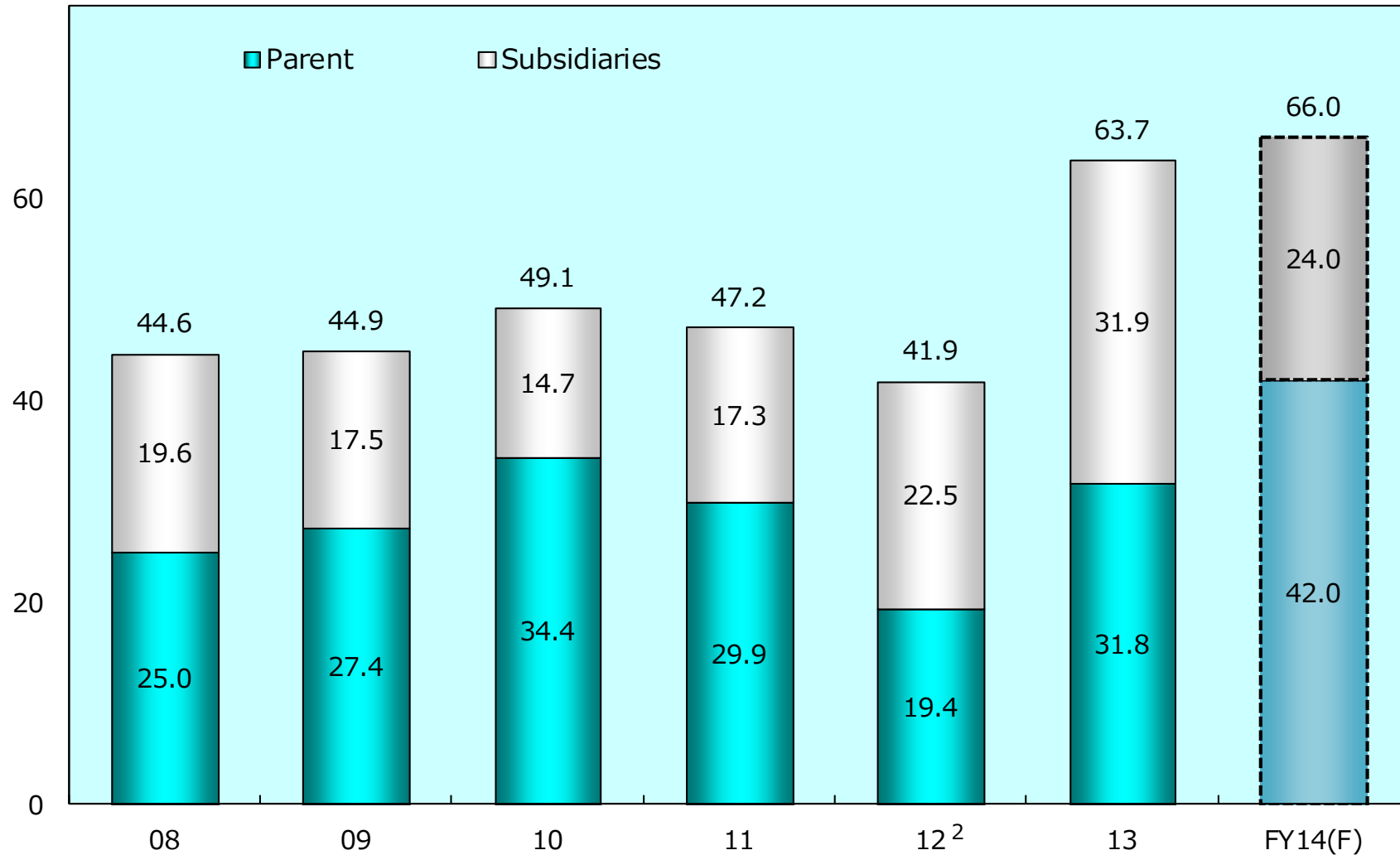
Cash Dividends per Share



* Impacts of share splits are retroactively reflected.

Capital Expenditures¹

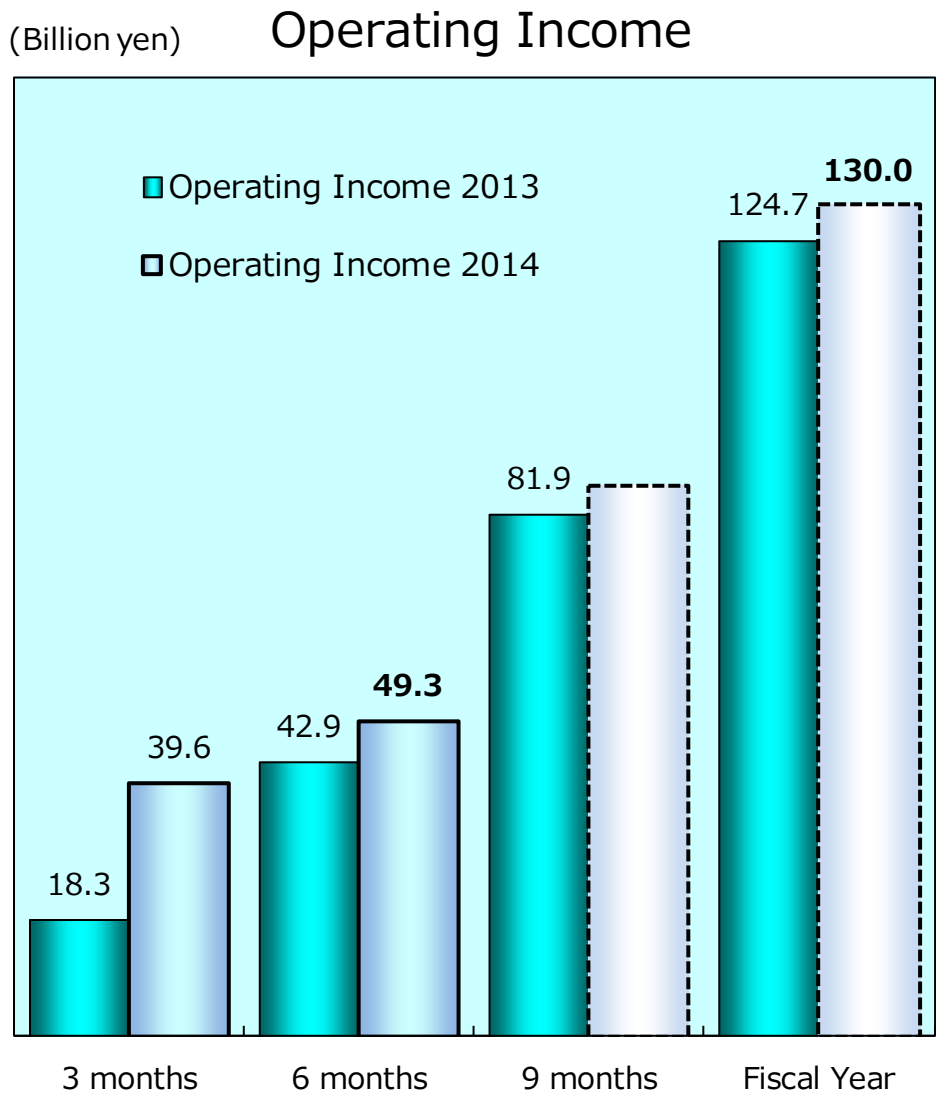
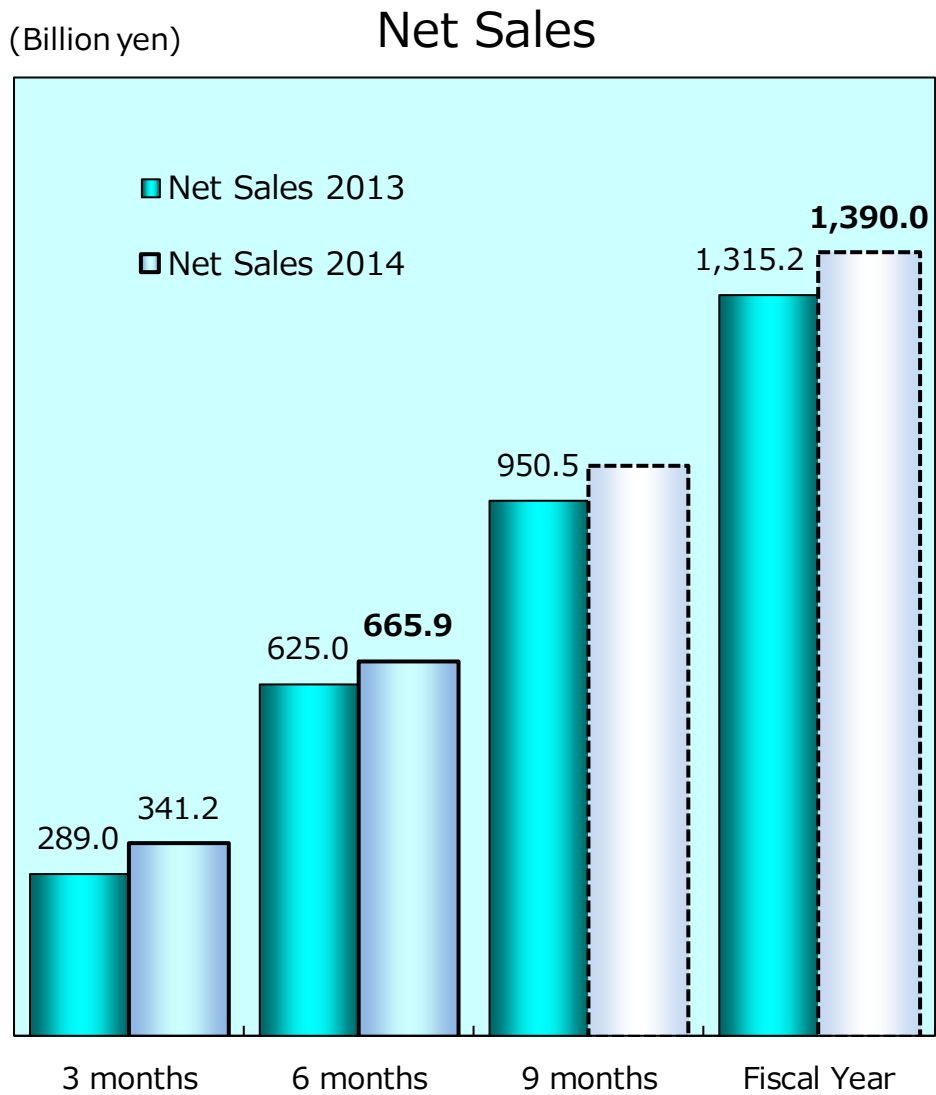
(Billion yen)



1 Includes long-term prepaid expenses.

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

FY2014 Quarterly Consolidated Sales and Profit Forecast



KaO

Enriching lives, in harmony with nature.