

Highlights for FY2015

(Ended December 31, 2015)

Kao Corporation

February 3, 2016

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

- **Summary of FY2015**
- **Review of Kao Group Mid-term Plan 2015 (K15)**
- **Summary of FY2016 Forecast and the Kao Group's Targeted Direction**

Summary of FY2015

Financial Overview – FY2015

		<u>Year-on-year growth</u>	<u>Forecast¹</u>	<u>K15 target</u>
Net sales	¥1,471.8 billion	+5.0%	¥1,470.0 billion	¥1,400.0 billion
EBITA² [% of sales]	¥190.7 billion [13.0%]	+17.7%	-	-
Operating income [% of sales]	¥164.4 billion [11.2%]	+23.3%	¥155.0 billion	¥150.0 billion
Net income [% of sales]	¥98.9 billion [6.7%]	+24.2%	¥91.0 billion	-
Net income per share	¥197.19	+26.0%	¥181.48	-
ROE	14.8%	+240 bps	-	-
Overseas sales ratio³	35.0%	+190 bps	-	30% or more
Shareholder returns				
Cash dividends per share	¥80	+¥10	¥76	-
Consolidated payout ratio	40.6%			

1. Forecast announced on October 23, 2015

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

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

Executive Summary

- **Kao achieved the forecast¹ and the targets of K15² with a sixth consecutive fiscal year of growth in net sales and profits³**
- **Factors in achievement of the forecast**
 - The household and personal care products market and the cosmetics market were solid
→ Prioritized quality over price
 - Kao continued to gain share in the household and personal care products market
 - The Consumer Products Business excluding cosmetics in Japan, driven mainly by baby diapers, sanitary napkins, *MegRhythm* steam thermo products, skincare, hair care and home care, and the Consumer Products Business in Asia performed strongly
- **Transformation to a profitable structure (improved capabilities to generate profits) by maximizing use of Kao Group assets enabled proactive investments and brought the post-deflation growth model closer to establishment**
- **The cosmetics business and beverages (*Healthya* functional drinks) are the issues to address**
- **Shareholder returns**
 - Annual cash dividends per share for FY2015: Planned increase of 10 yen compared with the previous fiscal year to 80 yen, 4 yen higher than the forecast and the 26th consecutive fiscal year of increases in cash dividends
- **Corporate governance**
 - Kao systematically organized its corporate governance activities and disclosed the implementation status of each principle stated in the Corporate Governance Code in July 2015
 - Kao routinely enhanced its corporate governance activities and continued its disclosure

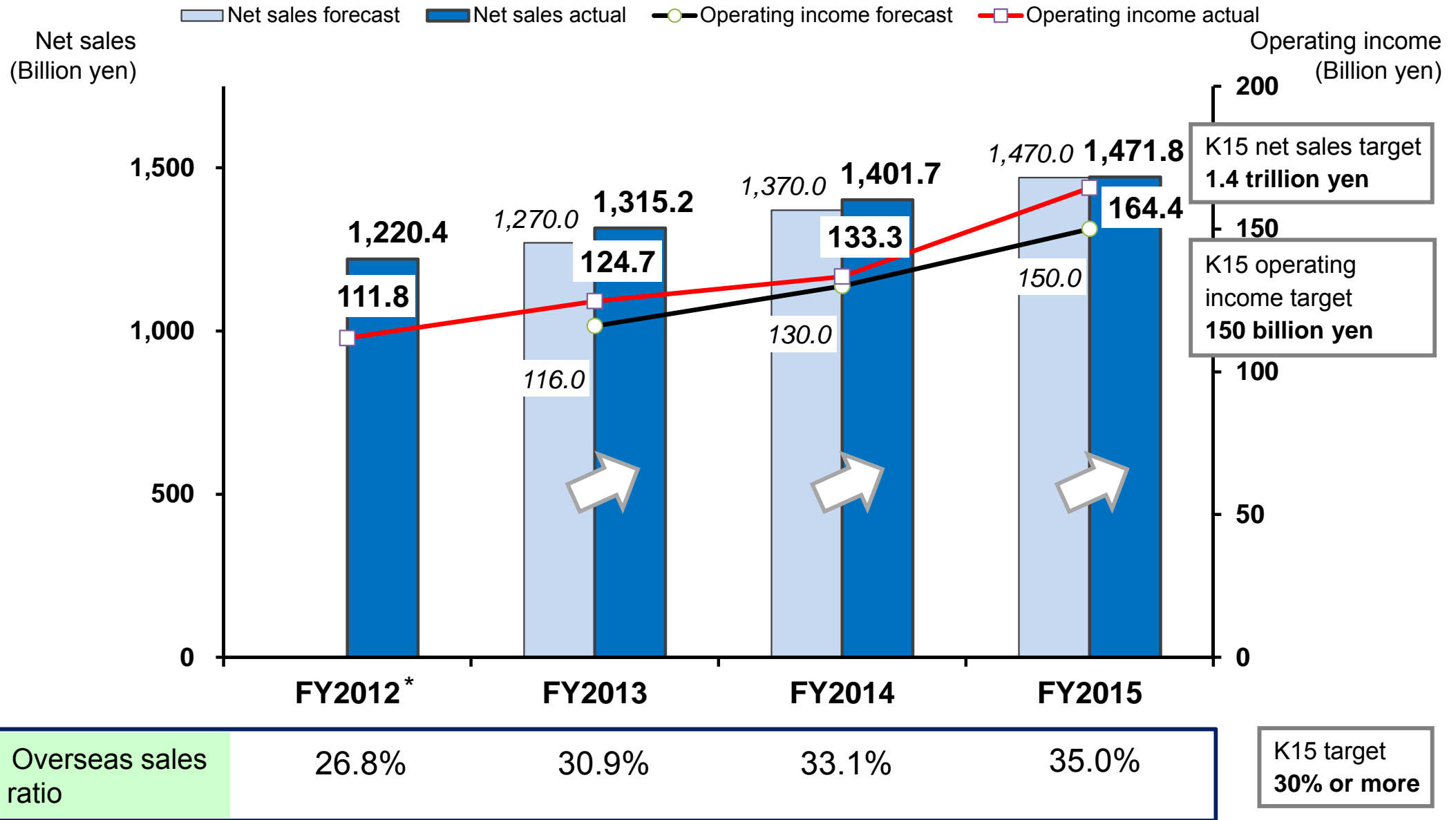
1. Forecast announced on October 23, 2015

2. Please refer to slide 9 for details.

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

Review of Kao Group Mid-term Plan 2015 (K15)

K15 Net Sales and Operating Income



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

Kao achieved all targets of K15

- **Target 1: Break previous records for net sales and profits**
- **Target 2: Achieve numerical management targets for FY2015**
 - Net sales: 1,471.8 billion yen (Target 1,400 billion yen)
 - Operating income: 164.4 billion yen (Target 150 billion yen)
 - Overseas sales ratio*: 35.0% (Target 30% or more)

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

Achievements and Issues in K15

■ Achievements

- **Establishment of the post-deflation growth model progressed as planned**
- **Changed the structure of net sales and operating income**
 - Overseas sales ratio increased
 - Rectified the disproportionate weight of Fabric and Home Care Business in operating income by increasing operating income of other business segments while maintaining high operating margin in Fabric and Home Care Business
- **Nurtured products and categories that drove sustainable growth**
 - Baby diapers, sanitary napkins and *MegRhythm* steam thermo products contributed to significant expansion of net sales and operating income
 - *Bioré* skin care products, *Curél* for sensitive skin, and hair care and home care in Japan grew strongly
- **Improved the profitability of the Consumer Products Business in Asia**
 - China: Baby diapers and sanitary napkins manufactured both in Japan and locally continued to perform strongly
 - Indonesia: Baby diapers and laundry detergents that target the growing middle-class consumer segment contributed to sales expansion
 - The cosmetic business in Asia, including Kanebo Cosmetics and Kao Sofina, moved into the black

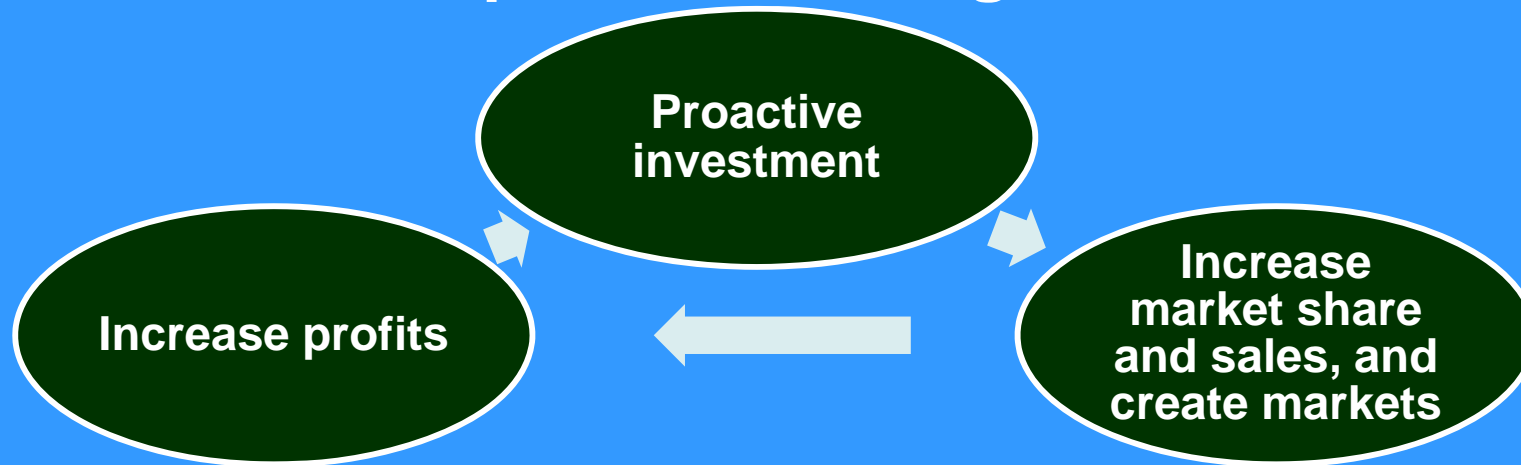
■ Issues

- **Improve profitability of cosmetics business**
- **Rebuild beverages (*Healthya* functional drinks)**

Targeted Sustainable Growth Model

Profitable growth

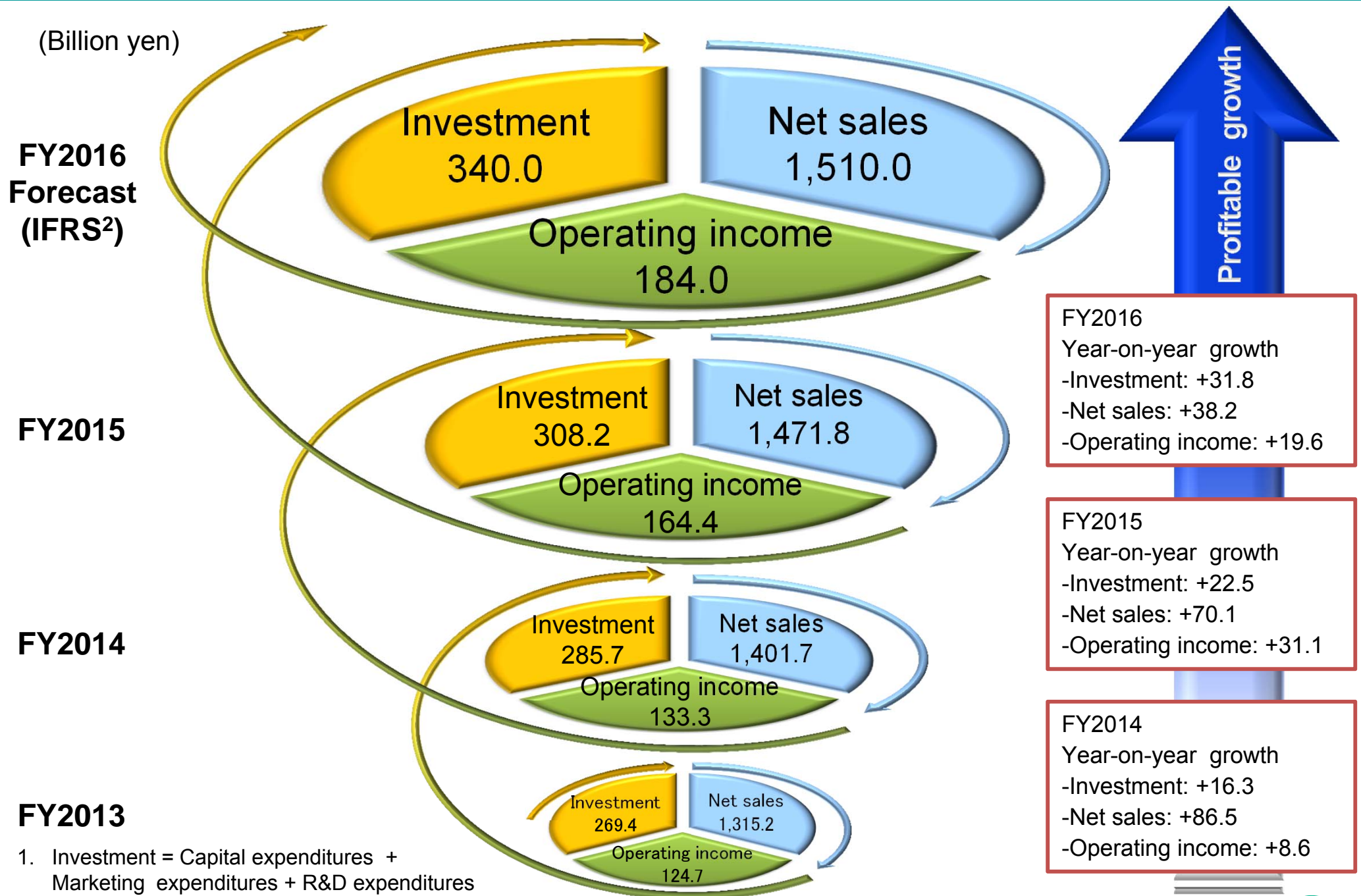
Establish a post-deflation growth model



Capabilities to generate profits
(Transformation to a profitable structure)

Maximize use of Kao Group assets

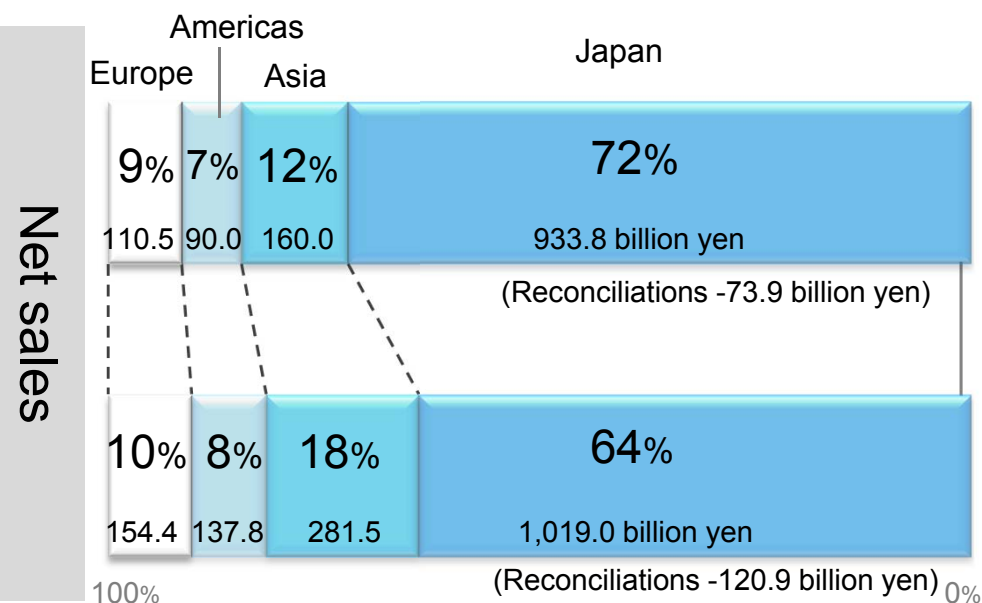
Post-deflation Growth Model with Proactive Investment¹



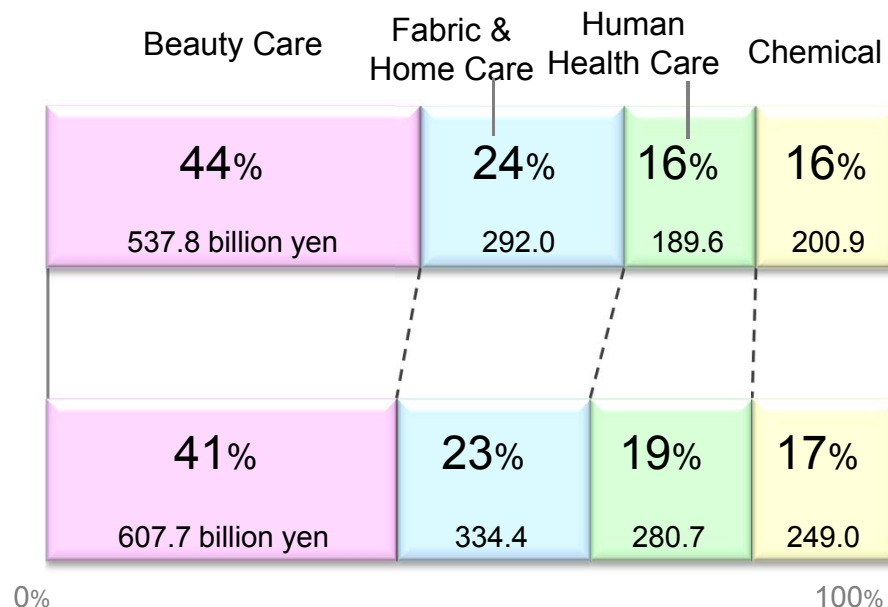
1. Investment = Capital expenditures + Marketing expenditures + R&D expenditures
2. IFRS from FY2016

Changed the Structure of Net Sales and Operating Income

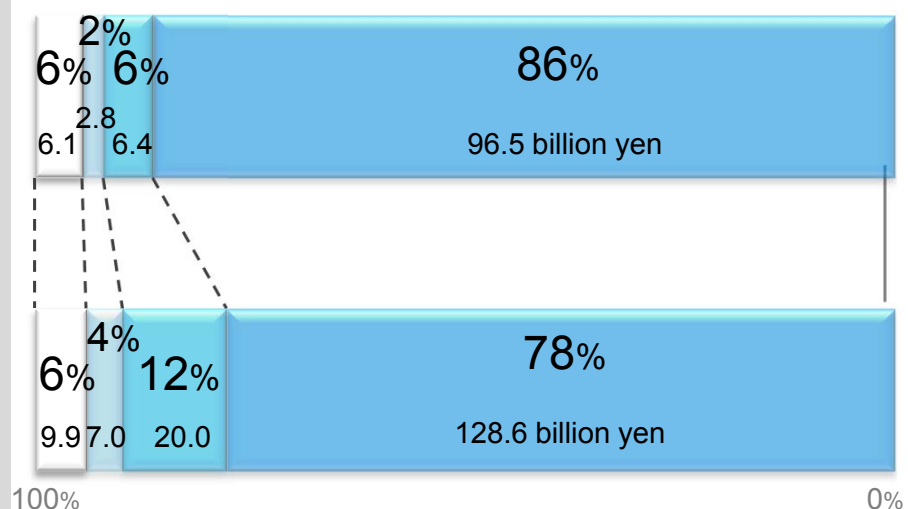
Changed share by geographic area:
Increased overseas contribution



Changed share by business segment³:
More dispersed among segments



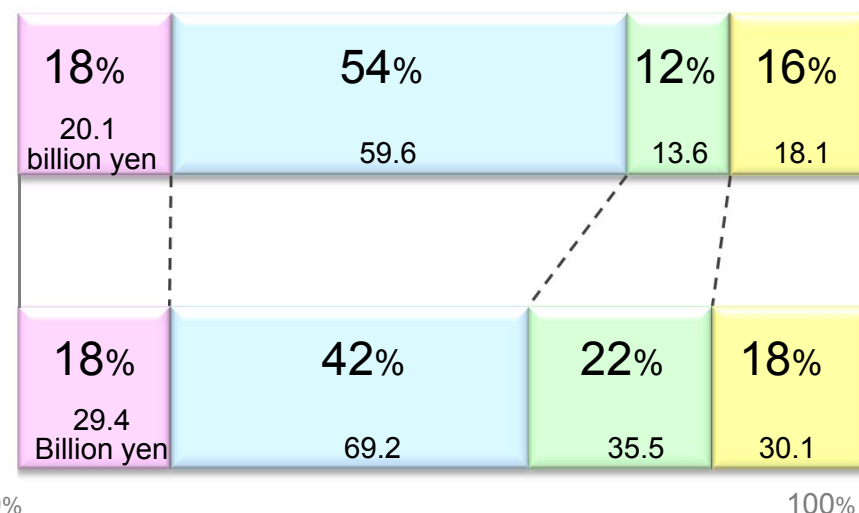
Operating income



FY2012¹
111.8
billion yen

+52.6
billion yen

FY2015
164.4
billion yen



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

2. Overseas sales ratio (ratio of net sales to foreign customers to consolidated net sales): 27% in FY2012 and 35% in FY2015

3. Shares are calculated on a pre-reconciliation basis, except net sales by business segment.

Summary of FY2016 Forecast and the Kao Group's Targeted Direction

Summary of FY2016 Forecast

(Billion yen)	FY2015		FY2015		FY2016 Forecast	
	[Japanese GAAP]	Growth %	[IFRS ¹]		[IFRS]	Growth % ²
Net sales	1,471.8	+5.0	1,474.6		1,510.0	+2.4
Operating income	164.4	+23.3	167.8		184.0	+9.7
[% of net sales]	11.2%		11.4%		12.2%	
Net income, attributable to owners of parent	98.9 ³	+24.2	105.1		120.0	+14.2
[% of net sales]	6.7%		7.1%		7.9%	
Basic earnings per share (yen)	197.19 ⁴	+26.0	209.64		239.30	+14.1
ROE	14.8%	+240 bps	16.1%		16.6%	+50 bps
Shareholder returns						
Cash dividends per share (yen)	80.0	+14.3	80.0		92.0	+15.0
Consolidated payout ratio	40.6%	-	38.2%		38.4%	-

1. FY2015 [IFRS] figures are provisionally restated based on Japanese GAAP and subject to change based on the results of an accounting audit.

2. Growth % for FY2016 Forecast [IFRS] is comparison with FY2015 [IFRS].

3. The figure for FY2015 is “net income” based on Japanese GAAP.

4. The figure for FY2015 is “net income per share” based on Japanese GAAP.

Positioning of FY2016

FY2016 is a year of preparation for continuous growth

Prepare thoughtfully for the next mid-term plan K20 so that it can respond to various changes in external factors

1. Achieve the forecast and a seventh consecutive fiscal year of growth in net sales and profits*

- Further expand growing businesses
- Get poorly performing businesses onto a growth trajectory
- Proactively launch new and improved products
- Accelerate growth of the Consumer Products Business in Asia

2. Launch full preparations for businesses that will drive future growth

- Execute major reforms in the cosmetics business
 - Start at Kanebo Cosmetics this year following Kao Sofina last year
- Prepare for entrance into food- and health-related businesses
- Prepare for “discontinuous growth” of the Consumer Products Business in Americas and Europe
- Create businesses in bordering areas including hygiene
- Expand and create businesses with proactive M&A activities

* Excludes the impact of the change in financial term in 2012. (Please refer to slide 2 for details.)
Also excludes the impact of the application of IFRS from the first quarter of 2016.

The Kao Group's Targeted Direction

**Aiming to become a company with a global presence
by combining profitable growth and
contributions to sustainability of the world**

In order to fulfill the role of a leading company and increase corporate value,

1. Insist on sustainable growth

- Continuously increase net sales and profits
- Prioritize profits over sales expansion
- Advance the post-deflation growth model and proactively invest in M&A
- Create and propose profitable businesses

2. Provide sustainable returns to stakeholders

- To employees: Continuously increase compensation and benefits
- To society: Pay taxes, provide employment and conduct social contribution activities
- To shareholders: Continuously increase cash dividends

Use of Cash Flow* and Shareholder Returns

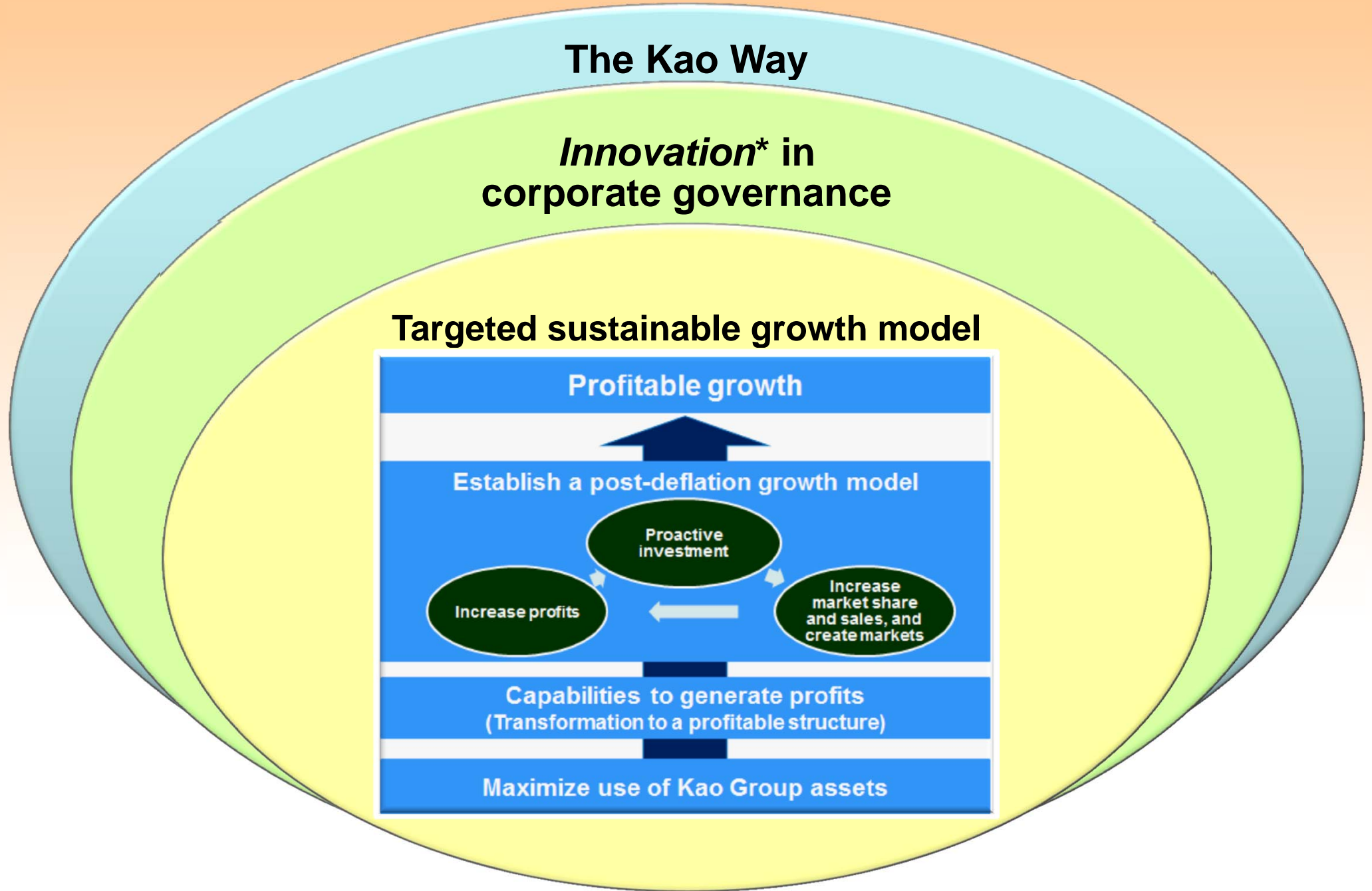
Use steadily generated cash flow effectively in order of priority shown below from an EVA standpoint toward further growth.

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

Appendices

Profitable Growth and Corporate Governance



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

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

Business Segments and Main Product Categories

Consumer Products
Business

Beauty Care

FY2015 sales: ¥607.7 billion

[Growth: +3.0% / Share of net sales: 41.3%]

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



Consumer Products
Business

Fabric and Home Care

FY2015 sales: ¥334.4 billion

[Growth: +3.1% / Share of net sales: 22.7%]

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



Consumer
driven

Human Health Care

FY2015 sales: ¥280.7 billion

[Growth: +16.9% / Share of net sales: 19.1%]

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



Consumer Products
Business

Chemical

FY2015 sales: ¥288.5 billion

[Growth: +0.2% / Share of net sales: 16.9%]

Oleo chemicals
Performance chemicals
Specialty chemicals



Chemical Business

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

FY2015 Breakdown of Beauty Care Business

		Billion yen	Increase/decrease
Beauty Care	Net sales	607.7	+3.0% ¹
	Operating income ²	29.4	+1.0 billion yen
	Operating margin	4.8%	0 bps
Cosmetics	Net sales	254.7	-2.3% ¹
	Operating income ²	-18.3	-6.3 billion yen
	Operating margin	-7.2%	-260 bps
Skin care/hair care (mass products) and professional hair care products	Net sales	353.0	+7.2%
	Operating income ²	47.7	+7.2 billion yen
	Operating margin	13.5%	+120 bps

Kanebo Cosmetics

- Net sales:
Slightly less than 180 billion yen
(FY2014: Slightly less than 180 billion yen)
- Profit as a % of sales³:
Slightly more than 5%
(FY2014: Slightly more than 7%)

3. Operating margin before deduction of royalties

1. Increase/decrease excluding the impact of the revision of the sales system for Kao Sofina:
Beauty Care +4.3%, Cosmetics +0.6%
2. Includes amortization of goodwill and intellectual property rights related to M&A
 - Beauty Care: 26.4 billion yen
 - Cosmetics: 25.4 billion yen
 - Skin care/hair care (mass products) and professional hair care products: 1.0 billion yen

Cosmetics in Japan – FY2015

Cosmetics market in Japan

[Year-on-year growth on a value (yen) basis]	Jan. - Dec. 15	Jan. - Dec. 14
Total market	-2.2%	-0.2%
High-priced segment (over ¥5,000):	-1.0%	+0.1%
Mid-priced segment (¥2,000- ¥5,000):	-3.0%	+0.3%
Low-priced segment (below ¥2,000):	-2.6%	-1.2%
Kao Group total (Kanebo Cosmetics + Kao Sofina)	-3.4%	-0.5%

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

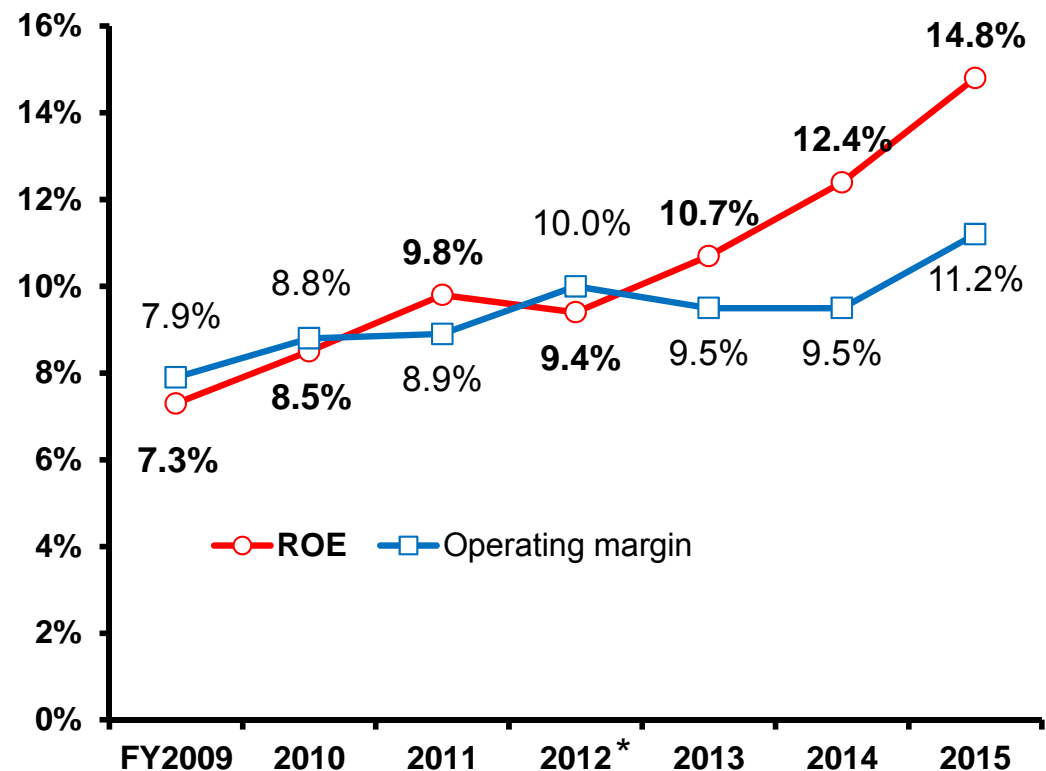
- Improve operating margin while increasing operating income

■ 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 26th consecutive fiscal year of increases in cash dividends in FY2015)
- 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



FTSE4Good



CSR-related evaluations from external organizations



Kao Corporation also received Gold Class 2016 and Industry Mover 2016



(As of February 3, 2016)

CSR: Corporate Social Responsibility
SRI: Socially Responsible Investment

KAO

Enriching lives, in harmony with nature.

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 shape. The overall appearance is clean and professional.

Enriching lives, in harmony with nature.