

Semi-Annual Financial Review

From January 1 to June 30, 2015

Kao Corporation

July 28, 2015

This is a translation of materials used for the analyst meeting held in Japan on July 28, 2015.



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

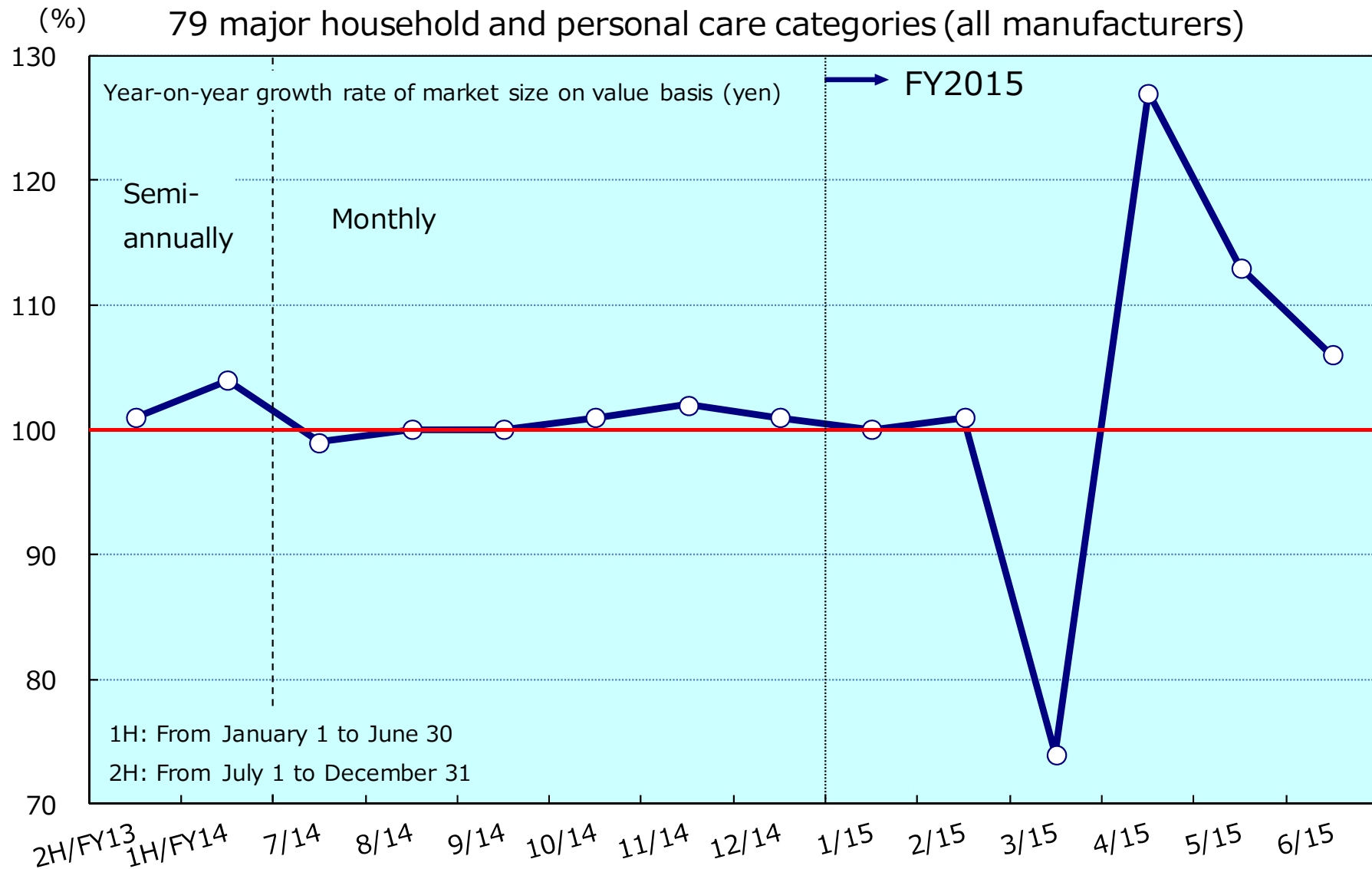
Comparison with restated FY2012

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

1. Business Environment

January 1 – June 30, 2015

Consumer Products*1 Market in Japan

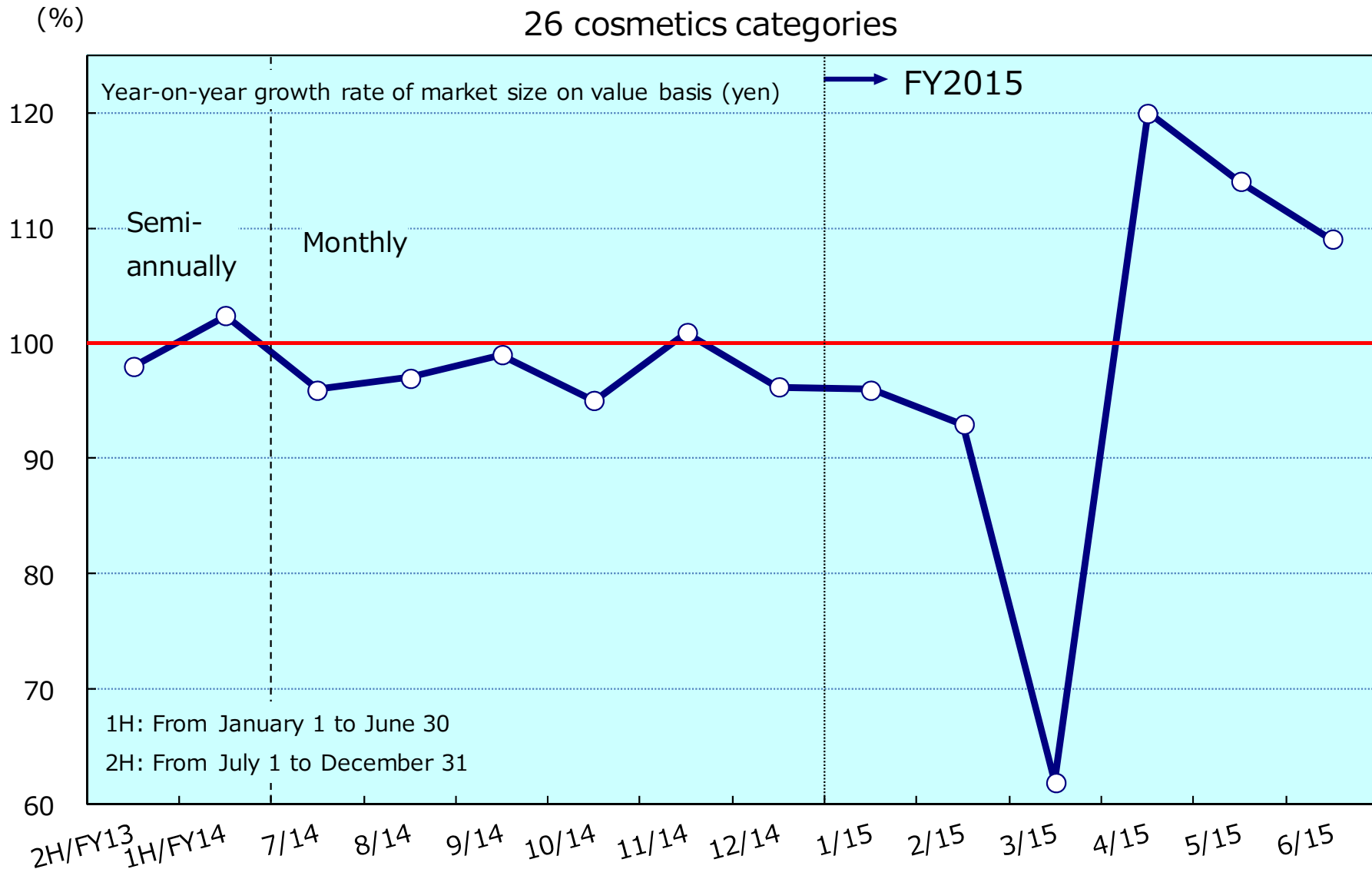


*1 Consumer products do not include cosmetics

(Source: SRI POS data by INTAGE Inc.)

*2 An increase in Japan's consumption tax rate to 8% from 5% on April 1, 2014 had an impact on the domestic market.

Cosmetics Products Market in Japan



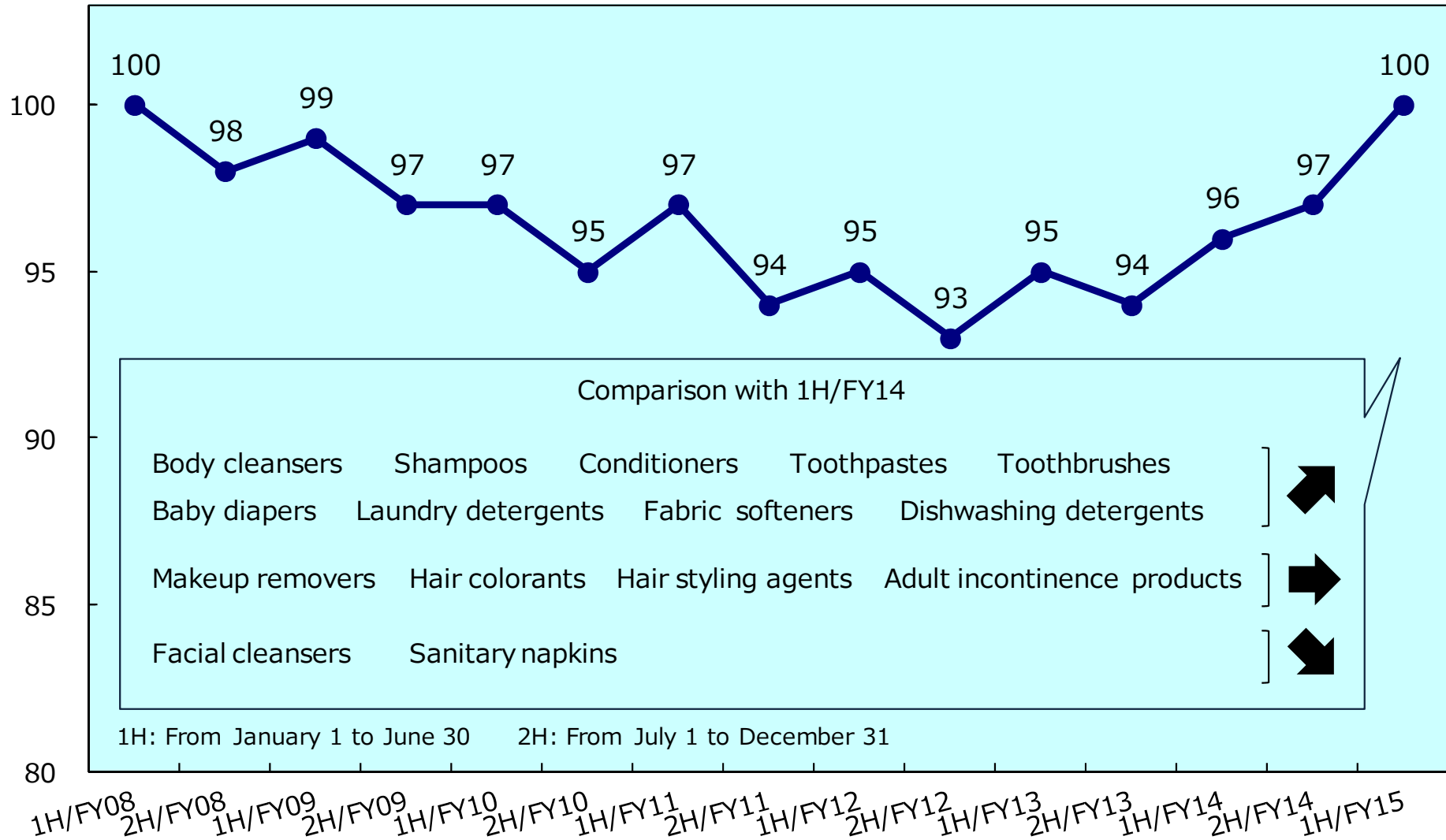
(Source: SLI survey by INTAGE Inc. based on Kao's definition)

* An increase in Japan's consumption tax rate to 8% from 5% on April 1, 2014 had an impact on the domestic market.

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, 2015

Key Points in 1H/FY2015

Japan sales related

- | | |
|---|-----------------------|
| 1. Growth of household and personal care market in Japan* ¹ | +1% year-on-year |
| 2. Growth of the cosmetics market in Japan* ² | -6% year-on-year |
| 3. Consumer purchase price of 15 major household & personal care categories market in Japan* ³ | +4 point year-on-year |

Income statement related

		Growth
1. Net sales	¥695.2 billion	+4.4%
- Effect of currency translation	+¥21.8 billion	+3.3%
- Sales growth excluding effect of currency translation	+¥7.4 billion	+1.1%
2. Increase/decrease in operating income	+¥10.7 billion	

Cash flow related

- | | |
|--|---------------|
| 1. Free cash flow* ⁴ | ¥23.4 billion |
| 2. Payments of cash dividends* ⁵ | ¥19.3 billion |
| 3. Long-term loans: Proceeds from long-term loans 40.0 billion yen, Repayments of long-term loans 20.0 billion yen | |

*1 Source: SRI POS data by INTAGE Inc.

*2 Source: SLI survey 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 = Cash flows from operating activities + Cash flows from investing activities

*5 Includes payments of cash dividends to minority shareholders

1H/FY2015 Consolidated Results

Billion yen

	1H/FY2013	1H/FY2014	1H/FY2015	% Growth	Changes
Net Sales	625.0	665.9	695.2	+4.4	+29.2
EBITA*	57.5	62.8	73.3	+16.8	+10.5
<i>EBITA Margin</i>	9.2%	9.4%	10.5%		
Operating Income	42.9	49.3	60.1	+21.8	+10.7
<i>Operating Margin</i>	6.9%	7.4%	8.6%		
Ordinary Income	44.9	51.5	61.2	+18.9	+9.8
Net Income	18.3	31.6	34.0	+7.6	+2.4
EBITDA (Operating Income + Depr.&Amort.)	80.1	87.8	95.8	+9.1	+8.0
EPS (yen)	35.41	61.77	67.92	+10.0	+6.15

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

Consolidated Net Sales [1]

Billion yen	1H/FY2014		1H/FY2015		
		% Growth		% Growth	(% Like-for-like ^{*1})
Beauty Care Business	200.5	+0.1	191.8	-4.3 ^{*2}	-4.3
Human Health Care Business	91.6	+6.5	103.9	+13.5	+13.5
Fabric & Home Care Business	130.3	+7.7	126.1	-3.2	-3.2
Japan total	422.3	+3.7	421.8	-0.1 ^{*3}	-0.1
Asia	64.5	+13.8	88.8	+37.7	+21.7
Americas	38.2	+11.4	45.0	+17.7	+1.7
Europe	39.7	+16.7	42.0	+5.8	+4.3
Eliminations	-23.5	-	-28.2	-	-
Consumer Products Business	541.3	+4.8	569.5	+5.2	+2.1

*1 Growth excluding the effect of currency translation

*2 Growth of -2.6% excluding the impact of the revision of the sales system for Kao Sofina

*3 Growth of +0.7% excluding the impact of the revision of the sales system for Kao Sofina

Consolidated Net Sales [2]

Billion yen	1H/FY2014		1H/FY2015		(% Like-for-like ^{*1})
		% Growth		% Growth	
Japan	65.7	+10.0	63.0	-4.2	-4.2
Asia	54.5	+33.8	54.4	-0.2	-12.5
Americas	23.1	+16.5	24.7	+6.8	-5.0
Europe	35.8	+17.5	33.1	-7.6	-3.4
Eliminations	-34.0	-	-31.4	-	-
Chemical Business	145.2	+15.4	143.8	-1.0	-4.7
Reconciliations	-20.6	-	-18.1	-	-
Consolidated Net Sales	665.9	+6.6	695.2	+4.4^{*2}	+1.1

*1 Growth excluding the effect of currency translation

*2 Growth of +4.9% excluding the impact of the revision of the sales system for Kao Sofina

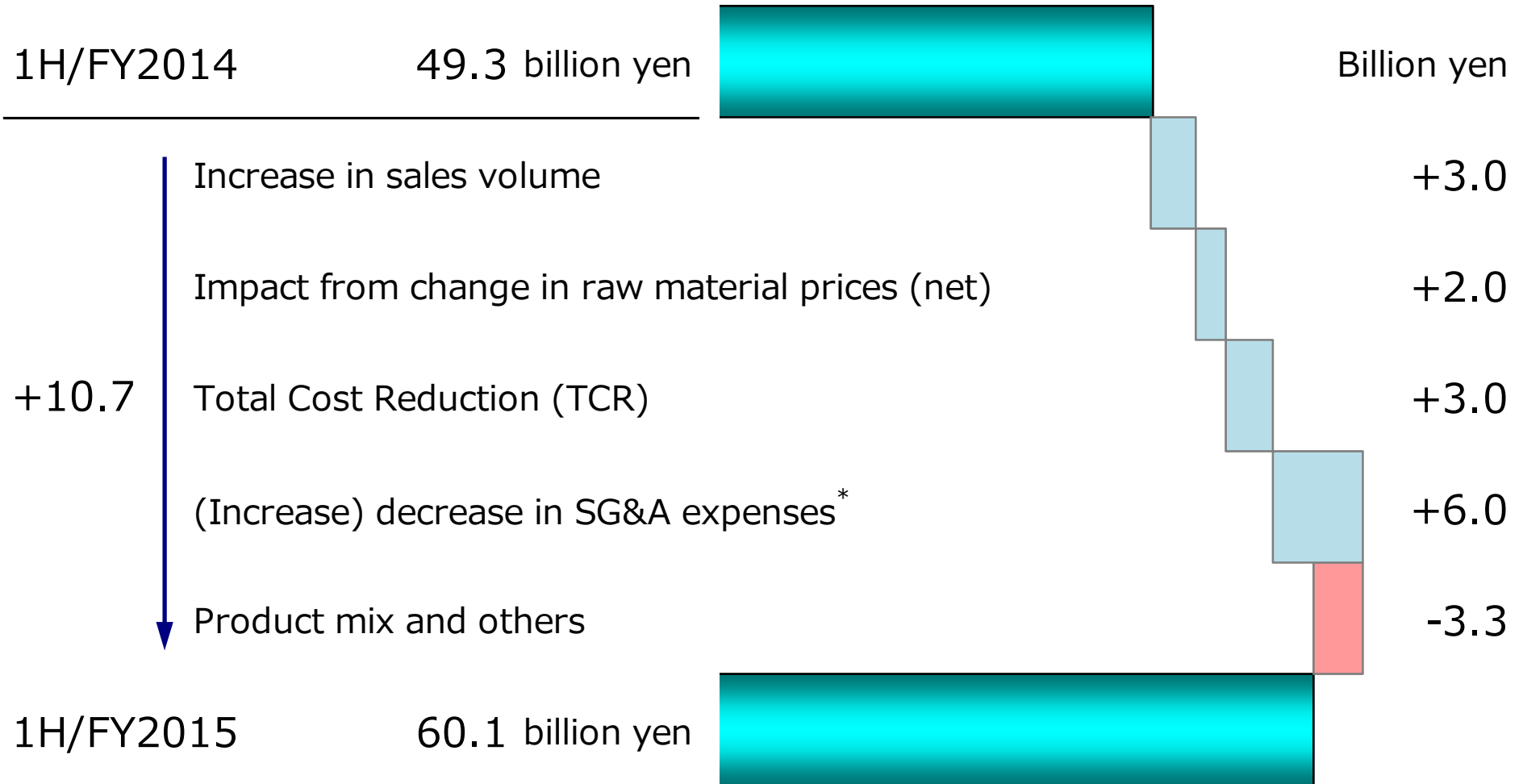
Consolidated Income Statement

Billion yen	1H/FY2014		1H/FY2015		Changes
		% of Net Sales		% of Net Sales	
Net Sales	665.9	100.0	695.2	100.0	+29.2
Cost of Sales	299.7	45.0	319.5	46.0	+19.9
Gross Profit	366.3	55.0	375.6	54.0	+9.4
SG&A Expenses*	316.9	47.6	315.5	45.4	-1.4
Operating Income	49.3	7.4	60.1	8.6	+10.7
Non-operating Income/Expenses	2.1	0.3	1.1	0.2	-1.0
Ordinary Income	51.5	7.7	61.2	8.8	+9.8
Extraordinary Gain/Loss	-1.1	-0.2	-2.1	-0.3	-1.0
Income Before Income Taxes & Minority Interests	50.4	7.6	59.1	8.5	+8.8
Income Taxes	18.2	2.7	25.1	3.6	+6.9
Income Before Minority Interests	32.2	4.8	34.0	4.9	+1.8
Minority Interests	0.6	0.1	-0.0	-0.0	-0.6
Net Income	31.6	4.8	34.0	4.9	+2.4

* Amortization related to Kanebo Cosmetics - 1H/FY2014: 12.2billion yen, 1H/FY2015: 12.0billion yen

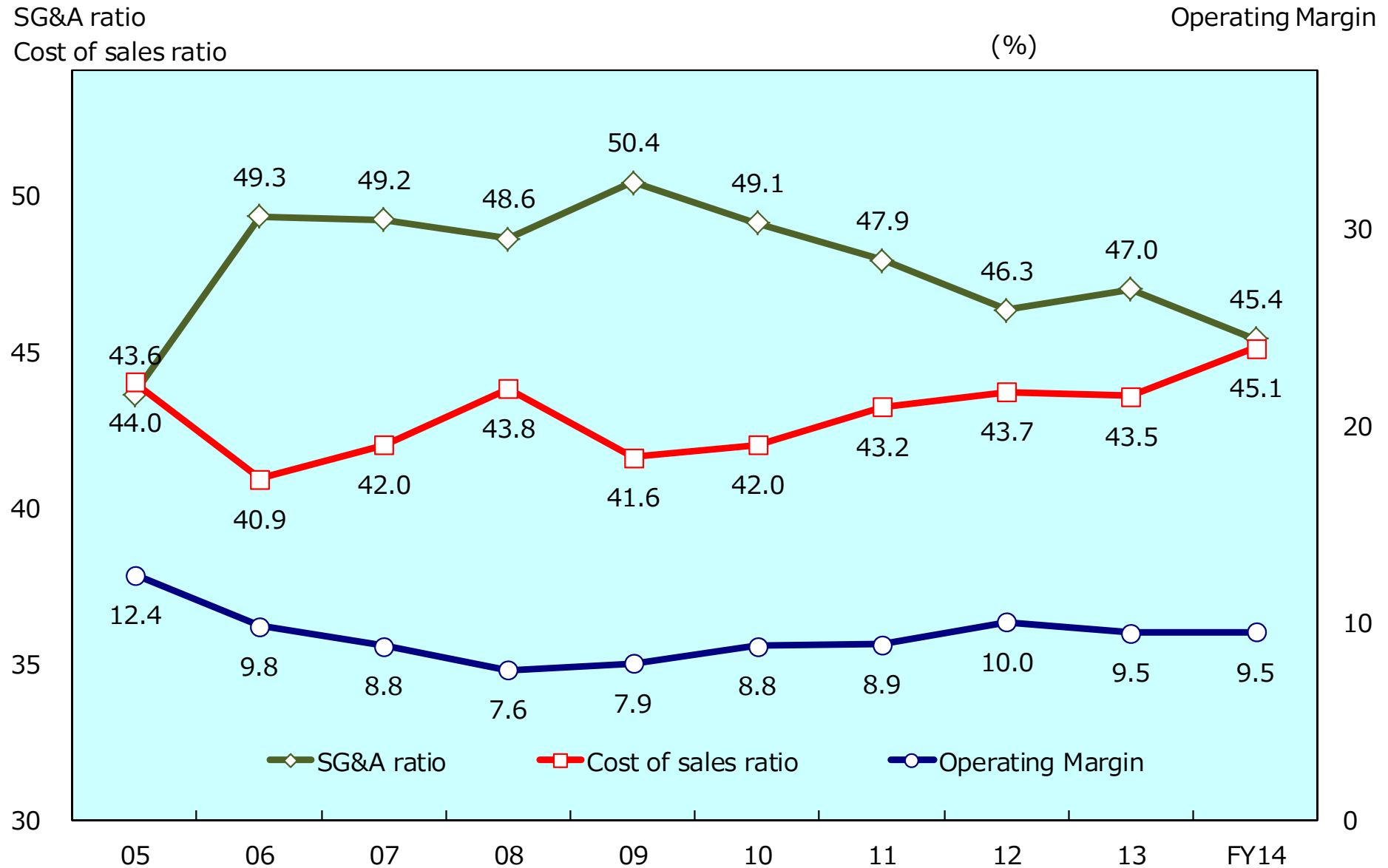
1H/FY2015 Consolidated Operating Income Analysis

Operating Income



* Excluding the impact of the revision of the sales system for Kao Sofina

[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/FY2014	1H/FY2015	Changes
Total SG&A Expenses	316.9	315.5	-1.4
Freight/Warehouse	39.0	40.3	+1.3
Advertising	49.1	48.5	-0.6
Sales Promotion	34.7	37.0	+2.2
Salaries and Bonuses	66.3	66.8	+0.5
R&D	26.2	25.9	-0.3

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

Billion yen	1H/FY2014	1H/FY2015	Changes
Non-operating Income	3.4	3.5	+0.1
Interest Income	0.4	0.5	
Dividend Income	0.1	0.1	
Equity in Earnings of Nonconsolidated Subsidiaries and Affiliates	1.0	1.2	
Other	1.9	1.8	
Non-operating Expenses	1.3	2.4	+1.1
Interest Expense	0.6	0.7	
Foreign Currency Exchange Loss	0.5	1.4	
Other	0.2	0.3	
Extraordinary Gain	0.1	0.7	+0.6
Gain on Sales of Fixed Assets	0.1	0.3	
Other	0.0	0.3	
Extraordinary Loss	1.2	2.8	+1.6
Loss on Sales/Disposals of Fixed Assets	1.1	2.1	
Other	0.1	0.6	

Consolidated Results by Segment

Billion yen		1H/FY2014		1H/FY2015		Changes	Growth
			% of Net Sales		% of Net Sales		%
Beauty Care Business	Net Sales ^{*1}	283.5	-	287.5	-	+4.0	+1.4 ^{*3}
	EBITA ^{*2}	19.8	7.0	17.7	6.2	-2.1	-10.6
	Operating Income	6.4	2.3	4.6	1.6	-1.9	-29.0
Human Health Care Business	Net Sales ^{*1}	109.6	-	132.9	-	+23.2	+21.2
	Operating Income	7.2	6.6	14.4	10.9	+7.2	+99.7
Fabric & Home Care Business	Net Sales ^{*1}	148.2	-	149.1	-	+1.0	+0.7
	Operating Income	23.1	15.6	25.8	17.3	+2.7	+11.6
Chemical Business	Net Sales ^{*1}	145.2	-	143.8	-	-1.5	-1.0
	Operating Income	12.6	8.7	15.3	10.6	+2.7	+21.4
Consolidated	Net Sales	665.9	-	695.2	-	+29.2	+4.4 ^{*4}
	EBITA ^{*2}	62.8	9.4	73.3	10.5	+10.5	+16.8
	Operating Income	49.3	7.4	60.1	8.6	+10.7	+21.8

*1 Before elimination of transactions among segments

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

*3 Growth of +2.6% excluding the impact of the revision of the sales system for Kao Sofina

*4 Growth of +4.9% excluding the impact of the revision of the sales system for Kao Sofina

[Reference] Consolidated Results by Geographic Area

Billion yen		1H/FY2014		1H/FY2015		Changes	Growth
			% of Net Sales		% of Net Sales		%
Japan	Net Sales ^{*1}	470.5	-	469.5	-	-1.0	-0.2 ^{*3}
	EBITA ^{*2}	50.0	10.6	54.9	11.7	+4.9	+9.8
	Operating Income	37.8	8.0	42.9	9.1	+5.1	+13.6
Asia	Net Sales ^{*1}	116.9	-	141.4	-	+24.5	+20.9
	Operating Income	6.2	5.3	10.9	7.7	+4.7	+75.4
Americas	Net Sales ^{*1}	61.3	-	69.6	-	+8.4	+13.7
	EBITA ^{*2}	1.9	3.1	2.9	4.2	+1.1	+55.7
	Operating Income	1.5	2.4	2.5	3.5	+1.0	+68.7
Europe	Net Sales ^{*1}	75.4	-	75.0	-	-0.5	-0.6
	EBITA ^{*2}	3.6	4.8	4.9	6.6	+1.3	+35.1
	Operating Income	2.9	3.9	4.2	5.7	+1.3	+45.8
Consolidated	Net Sales	665.9	-	695.2	-	+29.2	+4.4 ^{*4}
	EBITA ^{*2}	62.8	9.4	73.3	10.5	+10.5	+16.8
	Operating Income	49.3	7.4	60.1	8.6	+10.7	+21.8

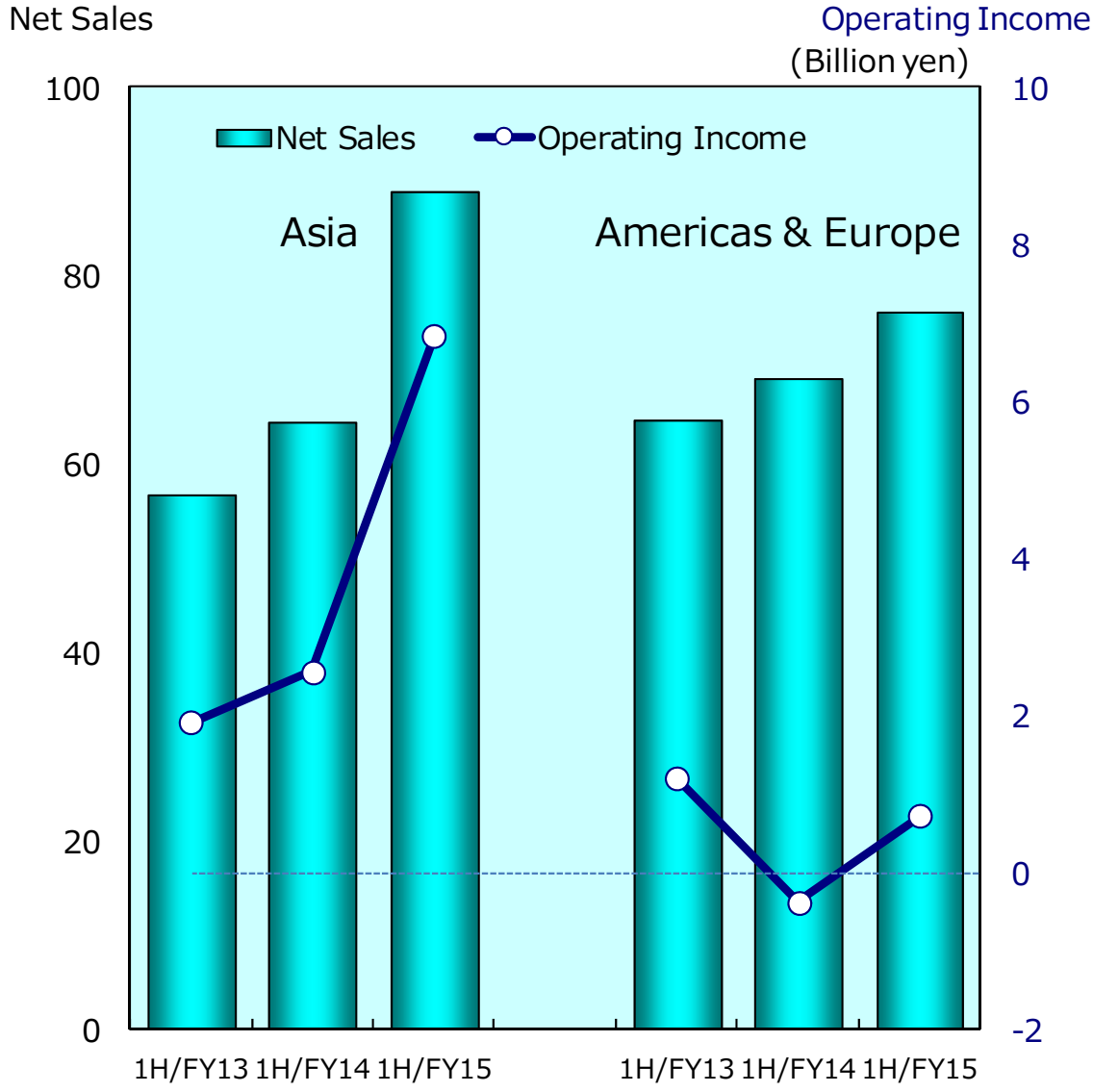
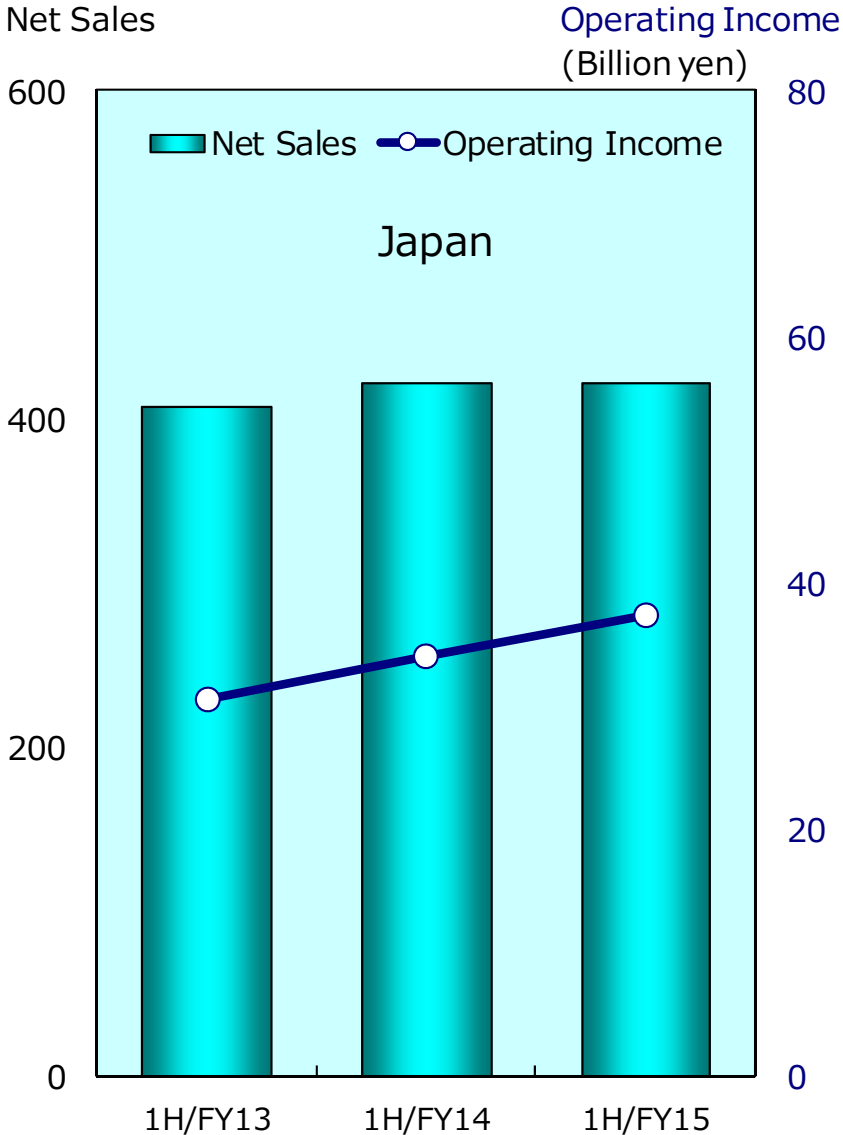
*1 Before elimination of transactions among geographic areas

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

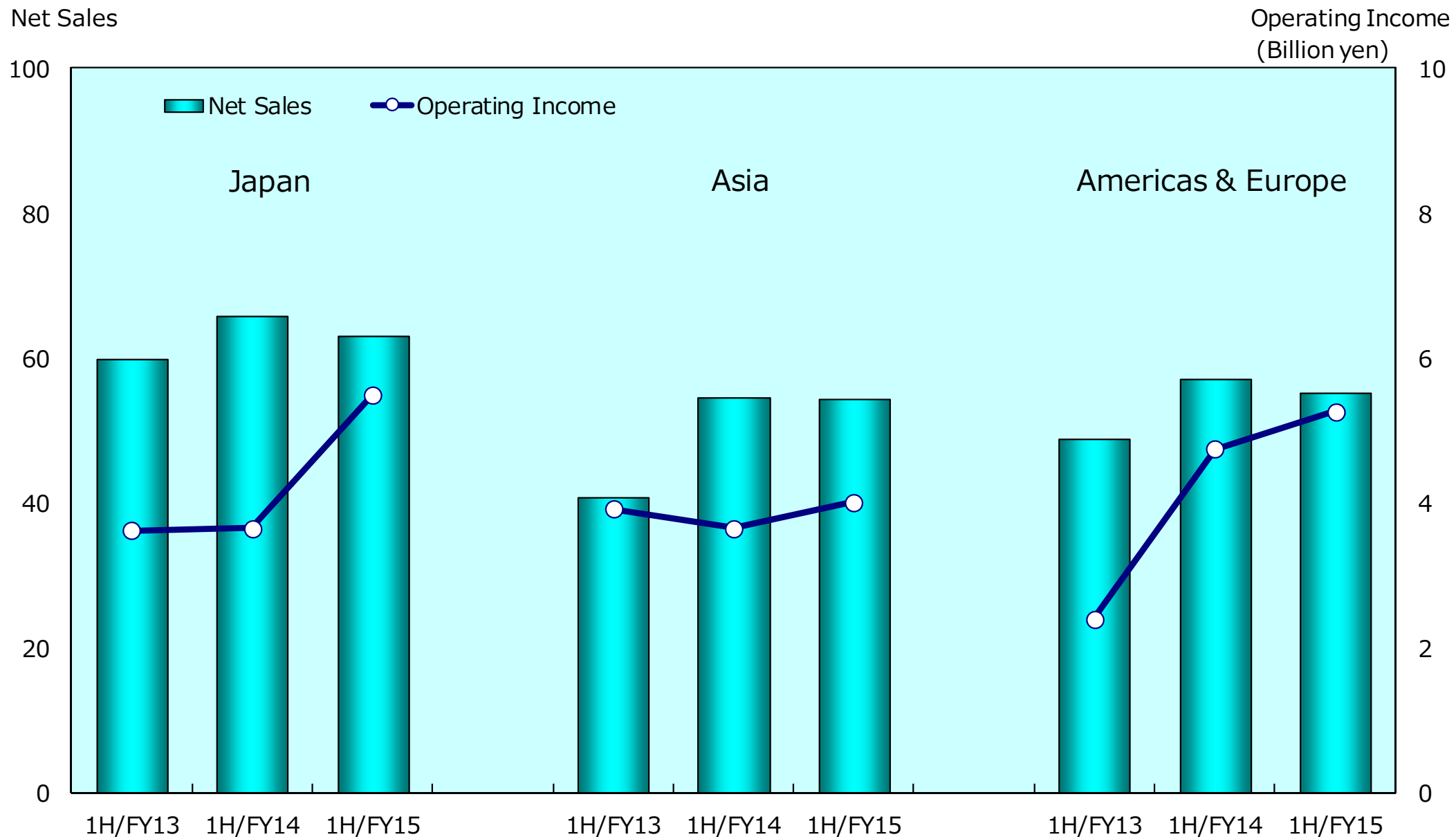
*3 Growth of +0.5% excluding the impact of the revision of the sales system for Kao Sofina

*4 Growth of +4.9% excluding the impact of the revision of the sales system for Kao Sofina

Consumer Products Business by Geographic Area



Chemical Business by Geographic Area



Consolidated Balance Sheet

Billion yen	Dec/2014	Jun/2015	Changes		Dec/2014	Jun/2015	Changes
Current Assets	641.7	638.6	-3.1	Current Liabilities	380.5	318.0	-62.5
Cash and Time Deposits	107.4	123.6	+16.2	Notes and Accounts Payable - Trade	129.7	127.1	-2.6
Notes and Accounts Receivable - Trade	204.1	174.1	-30.0	Short-term Loans	21.1	1.4	-19.7
Short-term Investments	110.6	112.6	+2.0	(incl. Current Portion of Long-term Loans)			
Inventories	157.8	161.3	+3.5	Income Taxes Payable	28.1	10.7	-17.4
Other	61.8	67.0	+5.2	Liability for loss related to cosmetics	8.2	7.0	-1.2
				Other	193.3	171.8	-21.5
Fixed Assets	556.5	554.8	-1.7	Long-term Liabilities	145.3	213.2	+67.9
Property, Plant and Equipment	307.6	319.0	+11.4	Bonds/Long-term Loans	80.1	120.1	+40.0
Intangible Assets	167.9	155.2	-12.7	Other	65.2	93.1	+27.9
Investments and Other Assets	81.0	80.6	-0.4	Total Liabilities	525.8	531.2	+5.3
				Shareholders' equity	654.0	642.0	-11.9
				-Common Stock	85.4	85.4	-
				-Capital Surplus	109.6	108.7	-0.9
				-Retained Earnings	468.7	456.5	-12.2
				-Treasury Stock, at Cost	-9.7	-8.5	+1.2
				Accumulated other comprehensive income	4.3	8.0	+3.7
				-Unrealized Gain on Available-for-sale Securities	5.5	7.3	+1.8
				-Deferred Gain (Loss) on Derivatives under Hedges Accounting	0.0	0.0	-0.0
				-Foreign Currency Translation Adjustments	-4.9	-3.7	+1.2
				-Remeasurements of Defined Benefit Plans	3.6	4.4	+0.8
				Stock Acquisition Rights	0.9	1.0	+0.1
				Minority Interests	13.2	11.2	-2.1
				Total Net Assets	672.4	662.2	-10.2
Total Assets	1,198.2	1,193.4	-4.8	Total Liabilities and Total Net Assets	1,198.2	1,193.4	-4.8

Consolidated Statement of Cash Flows

Billion yen	1H/FY2014	1H/FY2015	Changes
Cash flows from Operating Activities	57.0	54.7	-2.3
Cash flows from Investing Activities	-27.7	-31.3	-3.5
Cash flows from Financing Activities	-17.2	0.2	+17.4
Translation Adjustments on Cash and Cash Equivalents	-2.9	-1.0	+1.9
Net Increase (Decrease) in Cash and Cash Equivalents	9.1	22.6	+13.4
Cash and Cash Equivalents, Beginning of Period	227.6	228.7	+1.1
Cash and Cash Equivalents, End of Period	236.7	251.2	+14.5
Total Debt at End of Period	101.3	121.5	+20.3
Free Cash Flow*	29.3	23.4	-5.8

* Free cash flow = Cash flows from operating activities + Cash flows from investing activities

Cash flows from investing activities

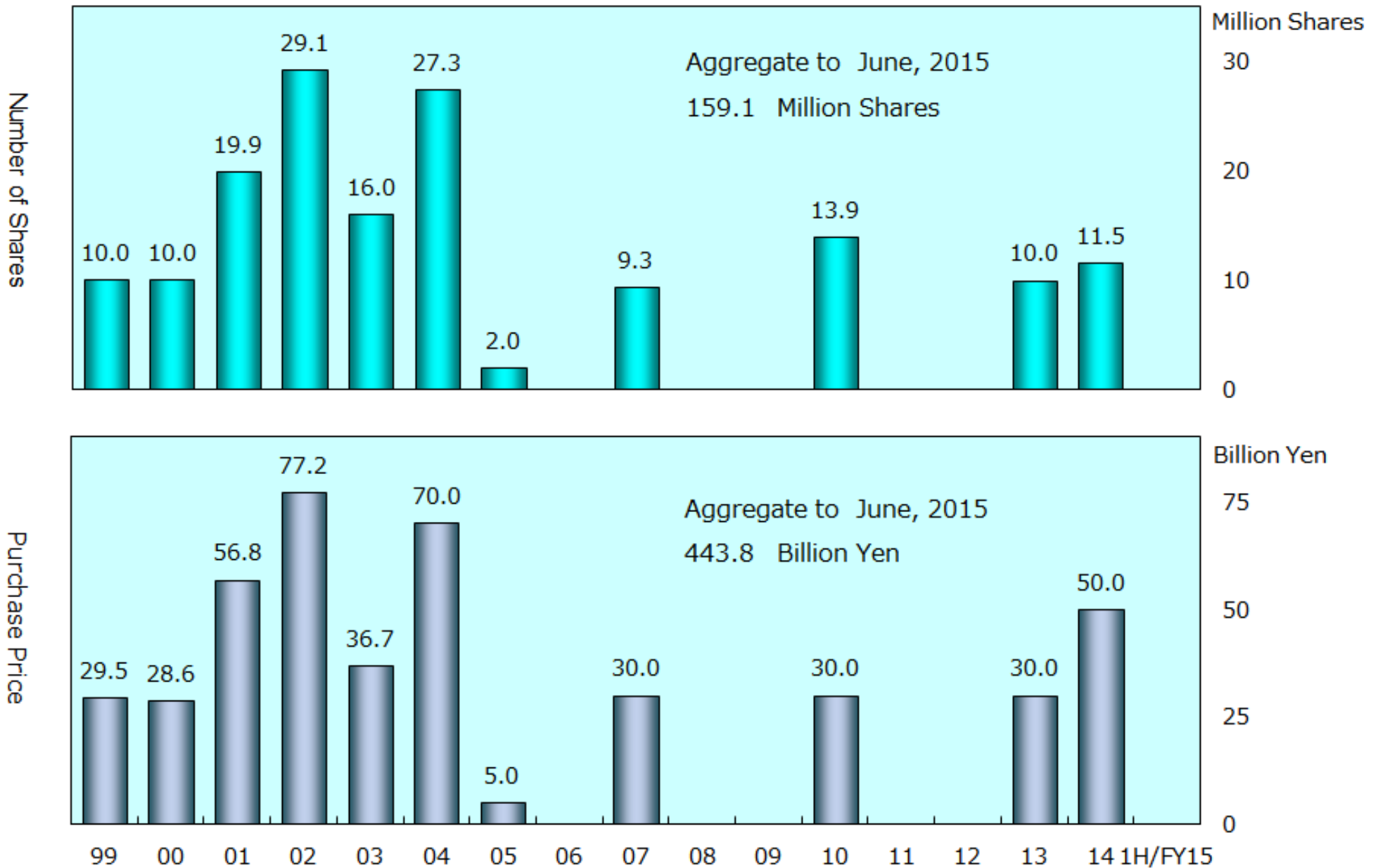
Capital expenditures:

- 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

Cash flows from financing activities

- Payments of cash dividends (Includes payments of cash dividends to minority shareholders) 19.3 billion yen
- Proceeds from long-term loans 40.0 billion yen
- Repayments of long-term loans 20.0 billion yen

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		-2%
		<u>Growth</u>
◆ Net sales	¥1,470.0 billion	+4.9%
• Effect of currency translation	+¥29.3 billion	+2.1%
• Sales growth excluding effect of currency translation	+¥39.0 billion	+2.8%
		<u>Estimated impact on income</u>
◆ Impact from change in raw material prices	• Gross impact	+¥10.0 billion
	• Net impact	+¥8.0 billion
◆ Total Cost Reduction (TCR) activities		+¥7.0 billion
◆ Capital expenditures/depreciation and amortization	• Capital expenditures	¥85.0 billion
	• Depreciation and amortization	¥75.0 billion

Exchange rate assumptions

◆ 120 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} % Growth ^{*5}		April 23, 2015 Forecast
Net Sales	1,315.2	+7.8	1,401.7	+6.6	1,470.0	+4.9	1,470.0
Operating Income	124.7	+11.5	133.3	+6.9	150.0	+12.6	150.0
[% of Net Sales]	9.5%		9.5%		10.2%		
Ordinary Income	128.1	+12.2	138.8	+8.4	153.0	+10.2	153.0
[% of Net Sales]	9.7%		9.9%		10.4%		
Net Income	64.8	+21.9	79.6	+22.9	87.0	+9.3	87.0
[% of Net Sales]	4.9%		5.7%		5.9%		
Net Income per Share (yen)	126.03	+23.8	156.46	+24.1	173.52	+10.9	173.56
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	76.0

*1 Exchange rate assumptions: 120 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 less than 180.0 billion yen / operating margin before deduction of royalties = approximately 6%; amortization related to Kanebo Cosmetics: 23.9 billion yen

Sales Outlook by Segment – FY2015

Consolidated Net Sales Billion yen Growth
 1,470 +4.9%^{*1}

Billion yen

By Segment ^{*2}			Reference: By Geographic Area ^{*2}		
		Growth			Growth
Beauty Care	603	+2.2% ^{*3}	Japan	1,012	+1.5% ^{*4}
Human Health Care	276	+14.9%	Asia	288	+17.6%
Fabric & Home Care	336	+3.5%	Americas	141	+13.5%
Chemical	295	+2.4%	Europe	154	+1.3%

*1 Growth of +5.4% 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 +3.5% excluding the impact of the revision of the sales system for *Kao Sofina*

*4 Growth of +2.3% excluding the impact of the revision of the sales system for *Kao Sofina*

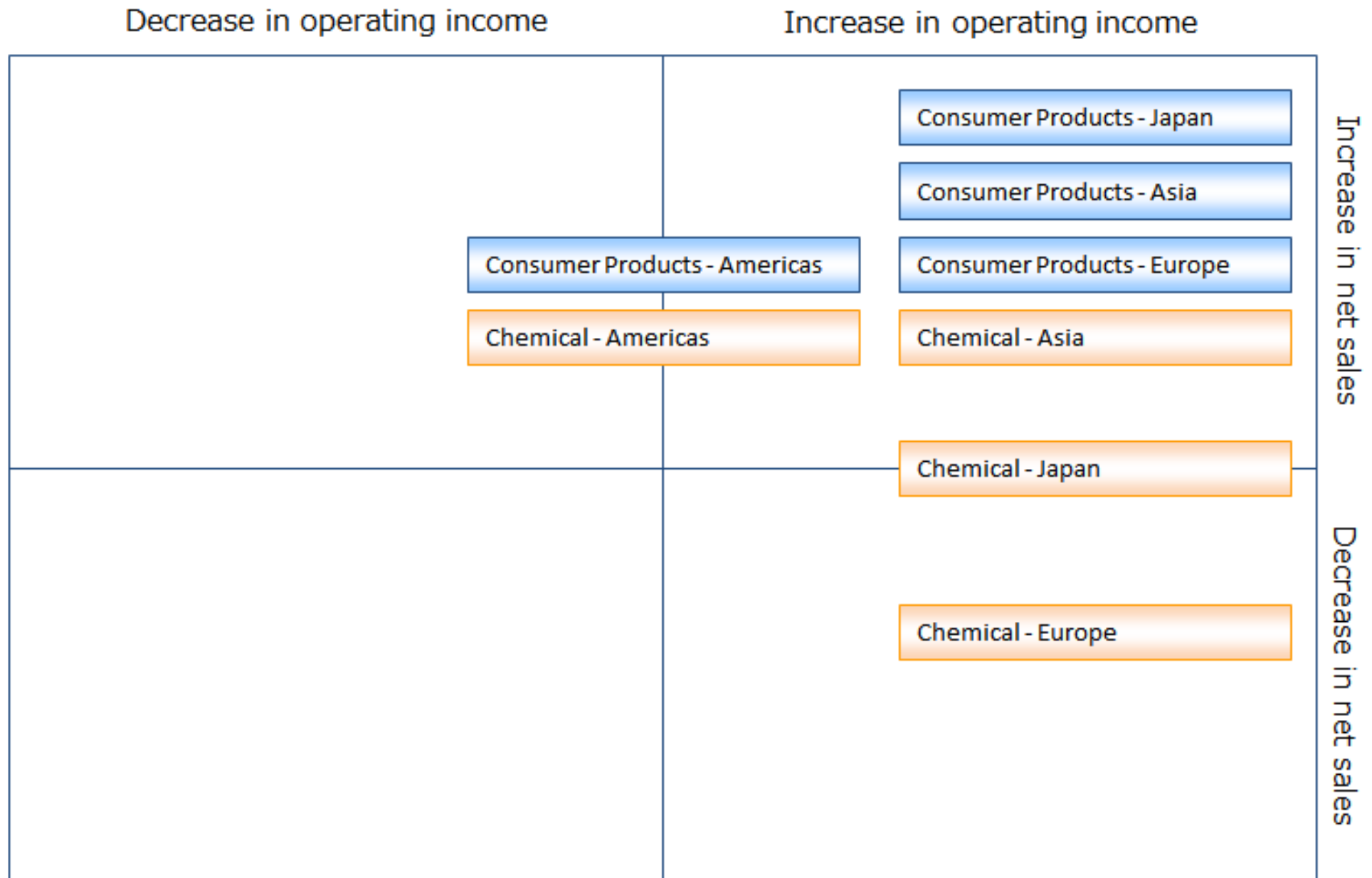
Sales Outlook for the Consumer Products Business in Japan – FY2015

Billion yen	1st Half			Full year		
	FY2014 Actual	FY2015 Actual	% Growth	FY2014 Actual	FY2015 Forecast	% Growth
Beauty Care	200.5	191.8	-4.3 ^{*1}	415.5	408.0	-1.8 ^{*1}
Human Health Care	91.6	103.9	+13.5	198.7	215.0	+8.2
Fabric & Home Care	130.3	126.1	-3.2	285.8	291.0	+1.8
Consumer Products Business	422.3	421.8	-0.1 ^{*2}	900.0	914.0	+1.5 ^{*2}

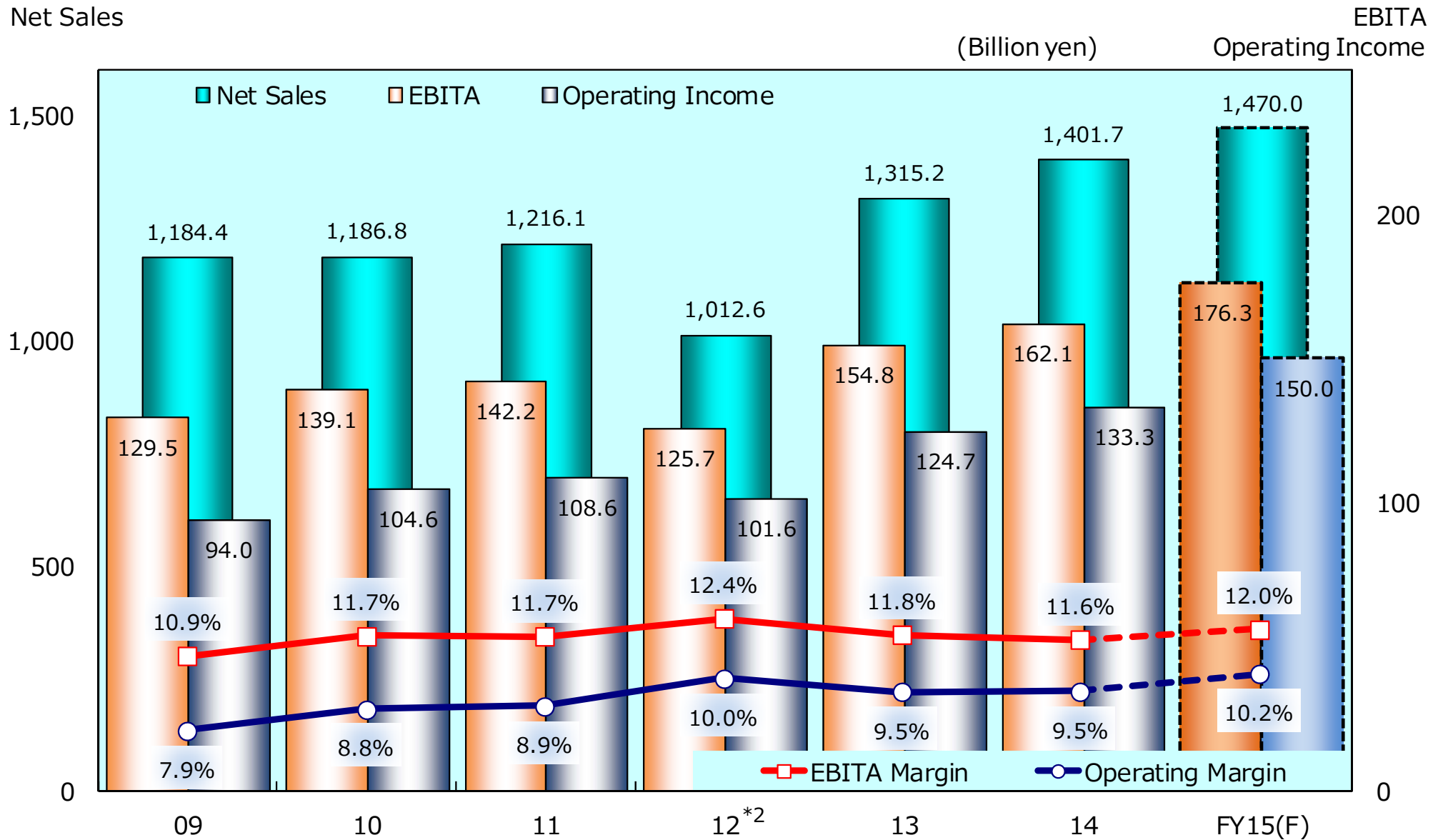
*1 Growth of -2.6% for the first half and +0.0% for the full year excluding the impact of the revision of the sales system for *Kao Sofina*

*2 Growth of +0.7% for the first half and +2.4% 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/EBITA*1/Operating Income

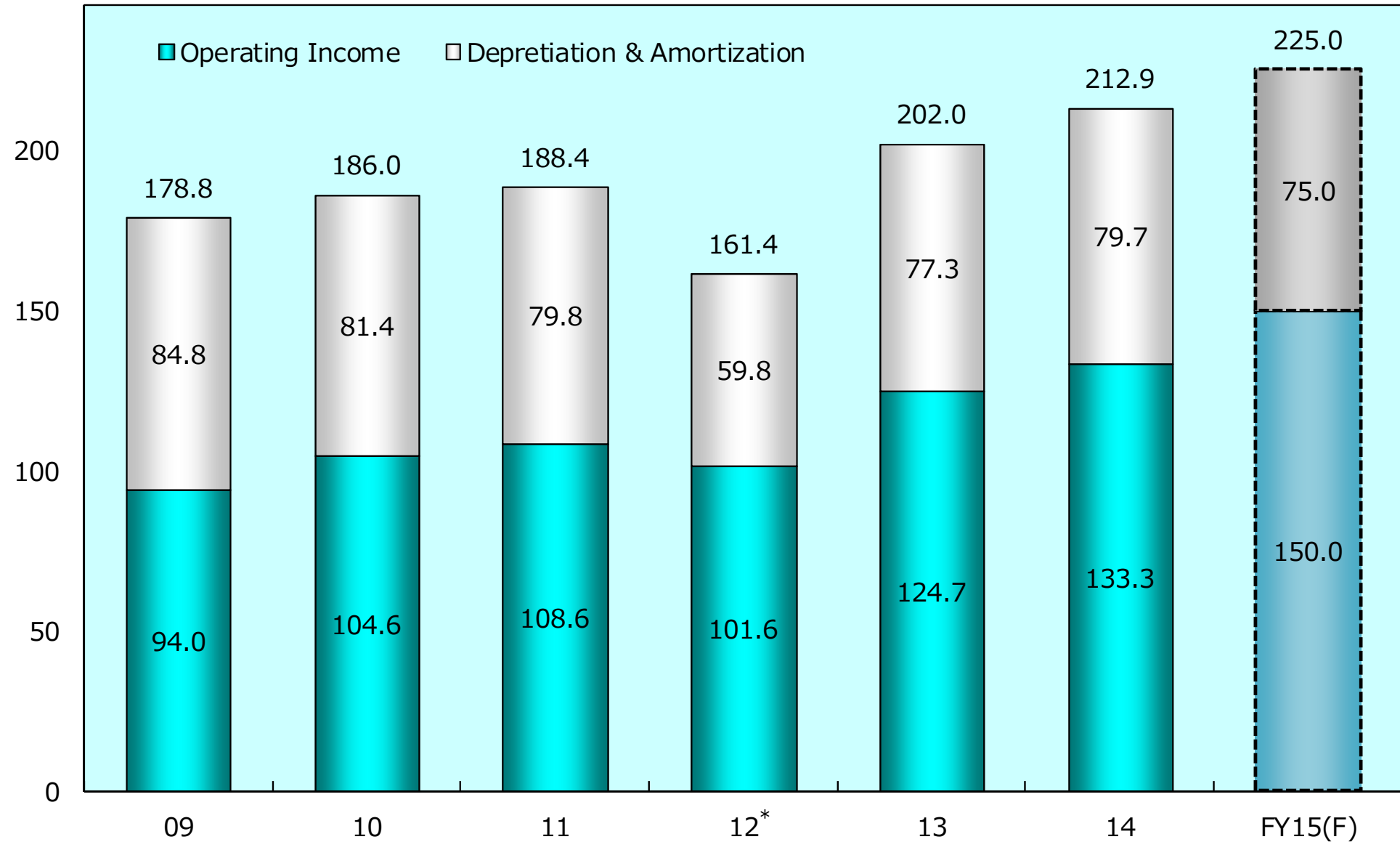


*1 Operating income before amortization of goodwill and intellectual property rights related to M&A

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

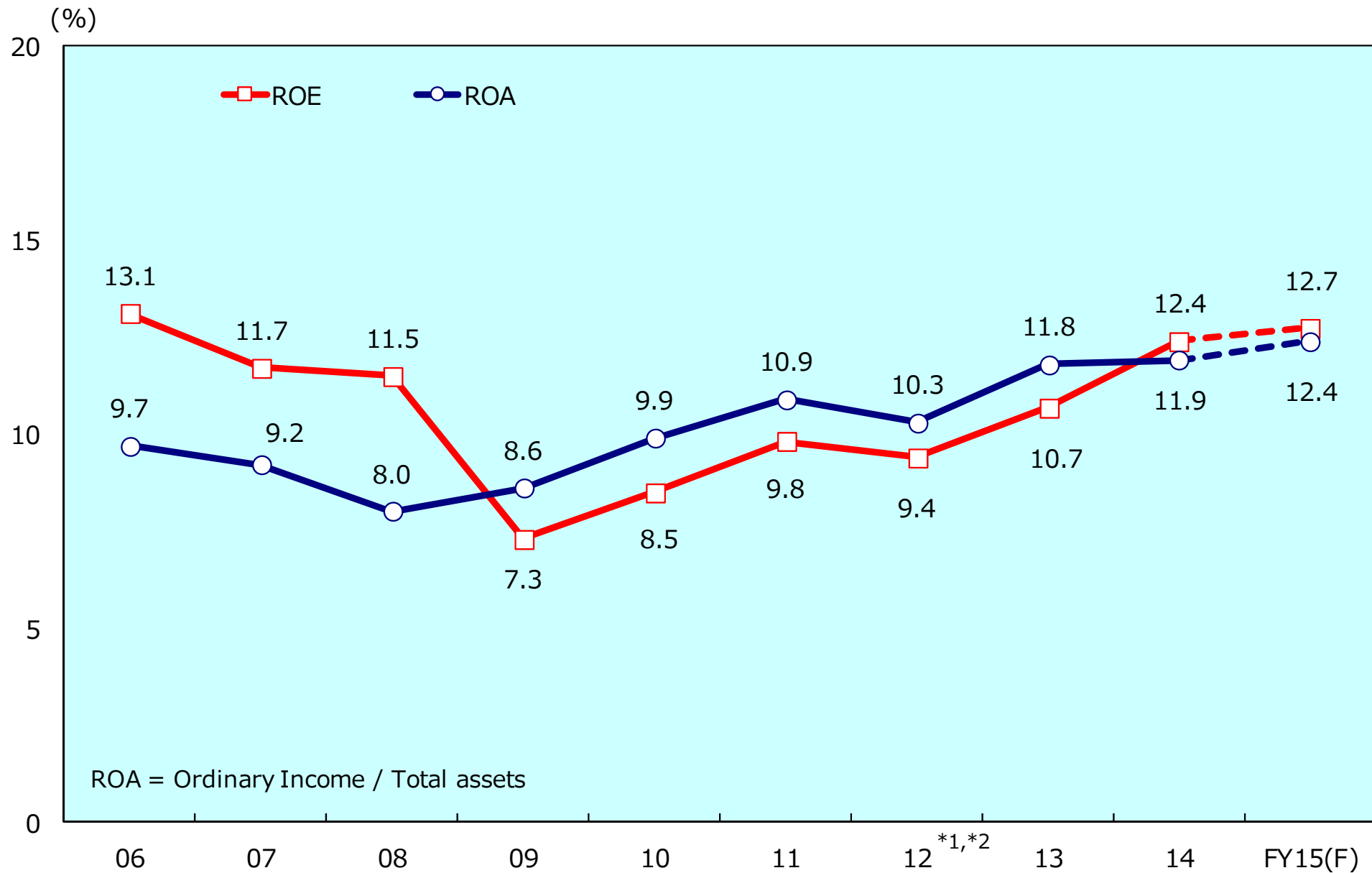
EBITDA

(Billion yen)



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

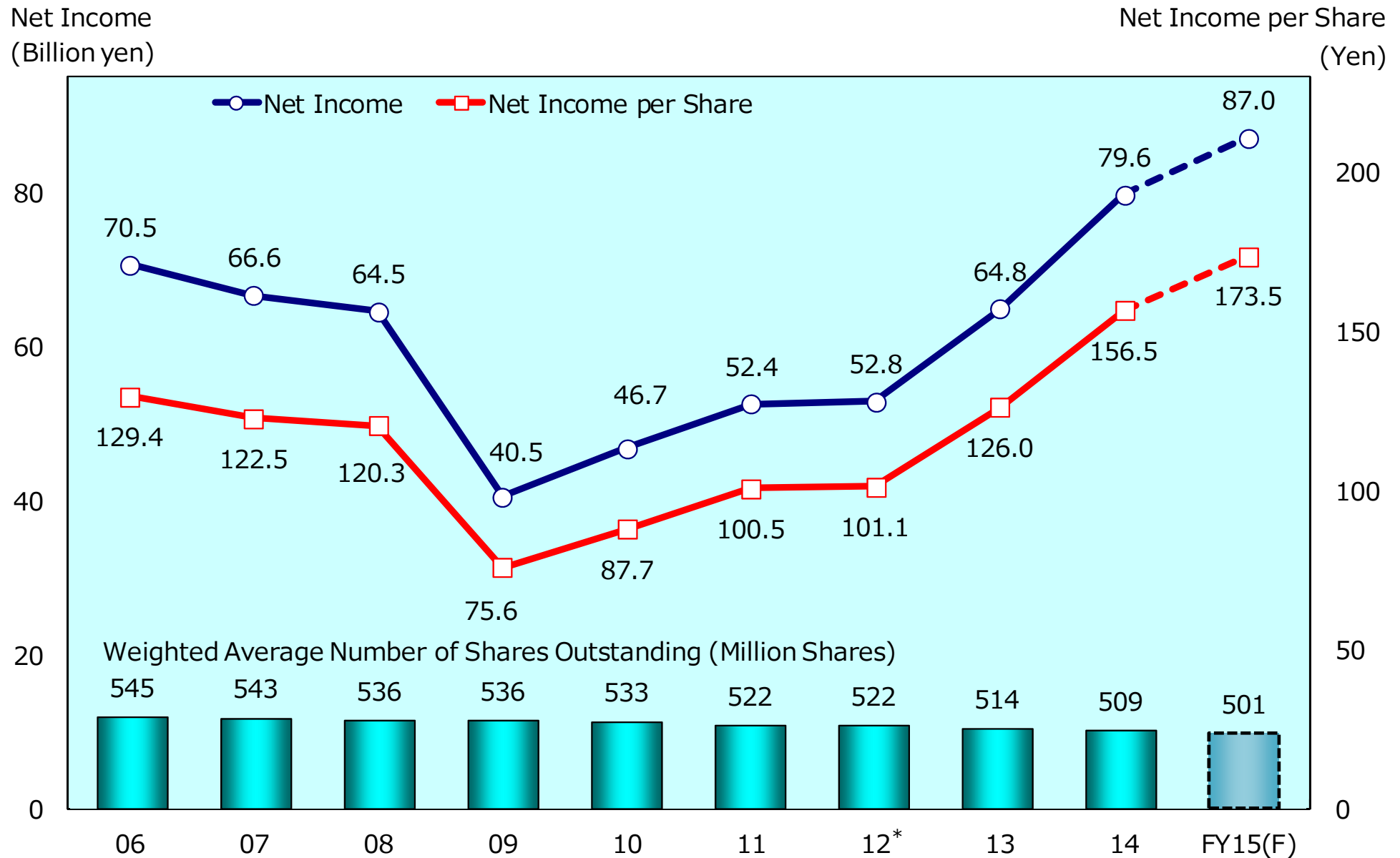
ROE & ROA



*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.

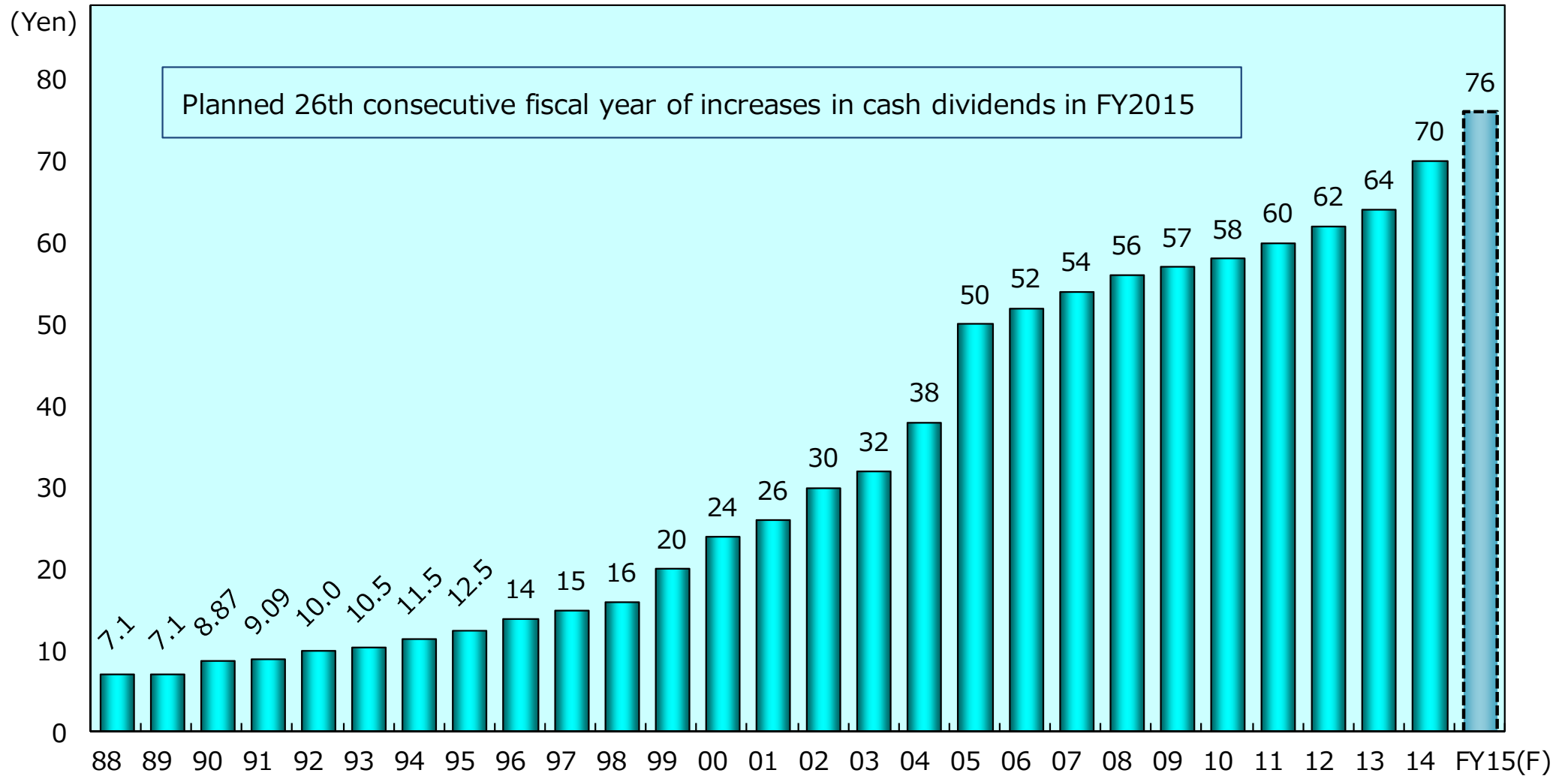
Net Income per Share



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

Cash Dividends per Share

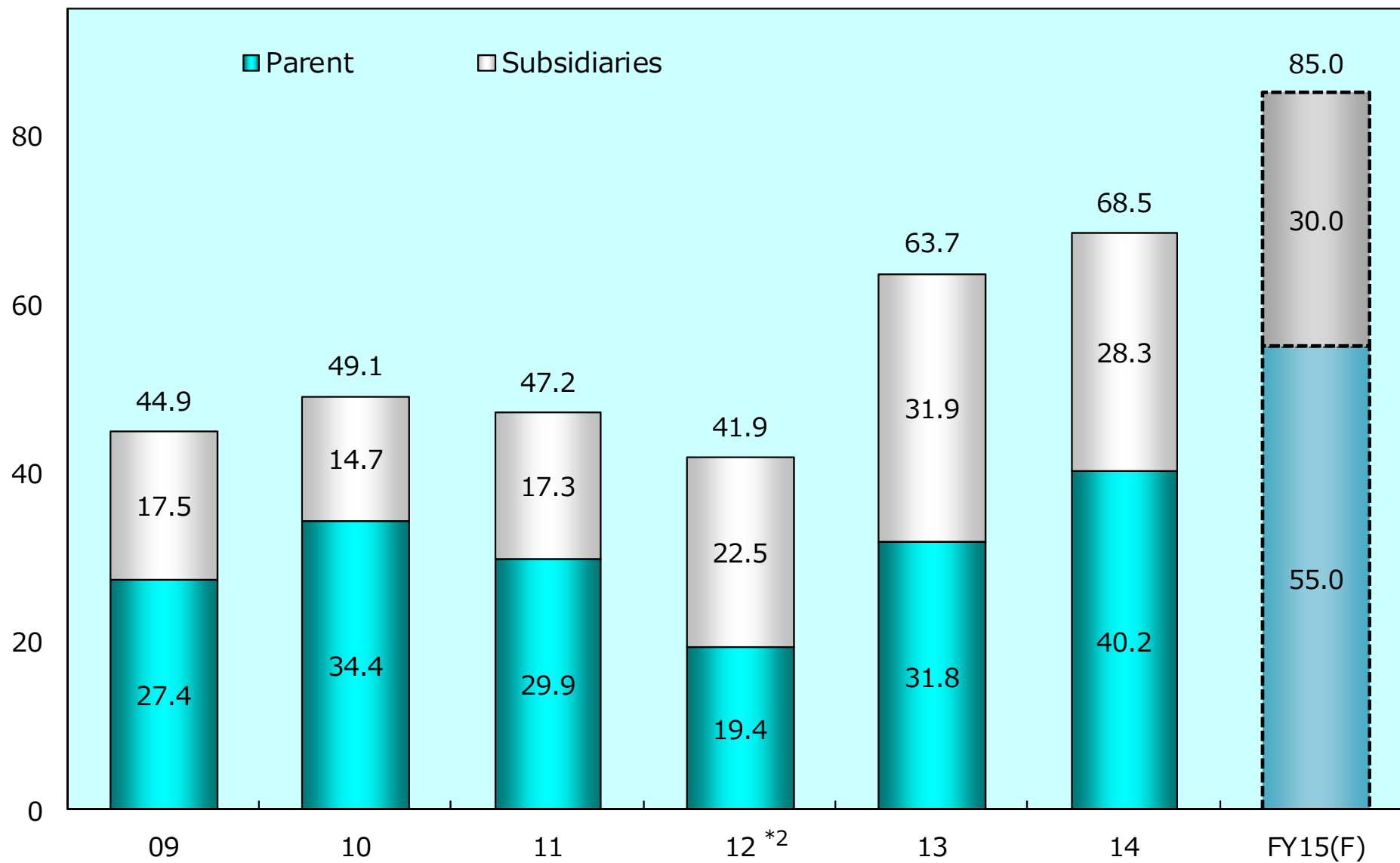
Cash Dividends per Share



* Impacts of share splits are retroactively reflected.

Capital Expenditures*1

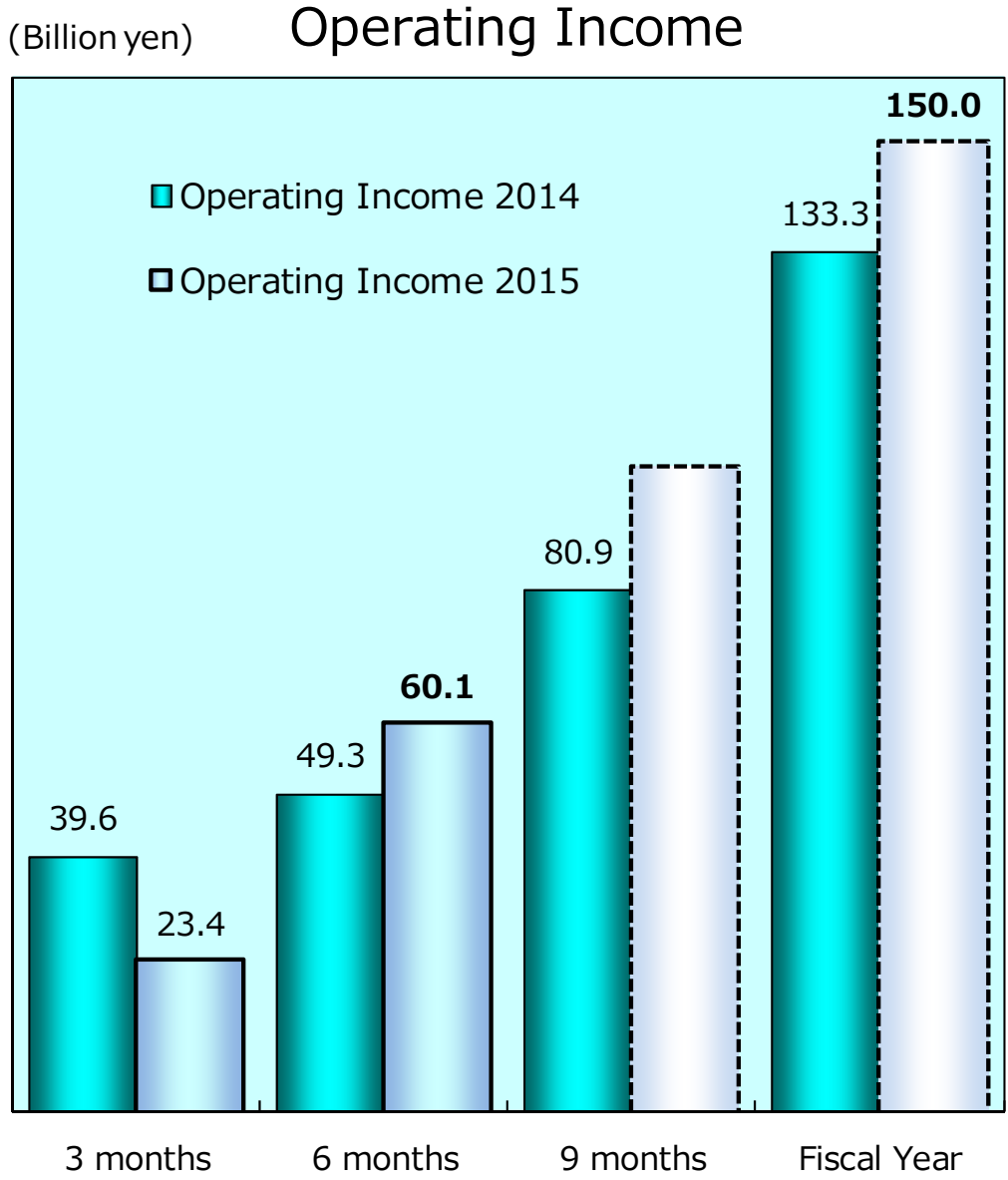
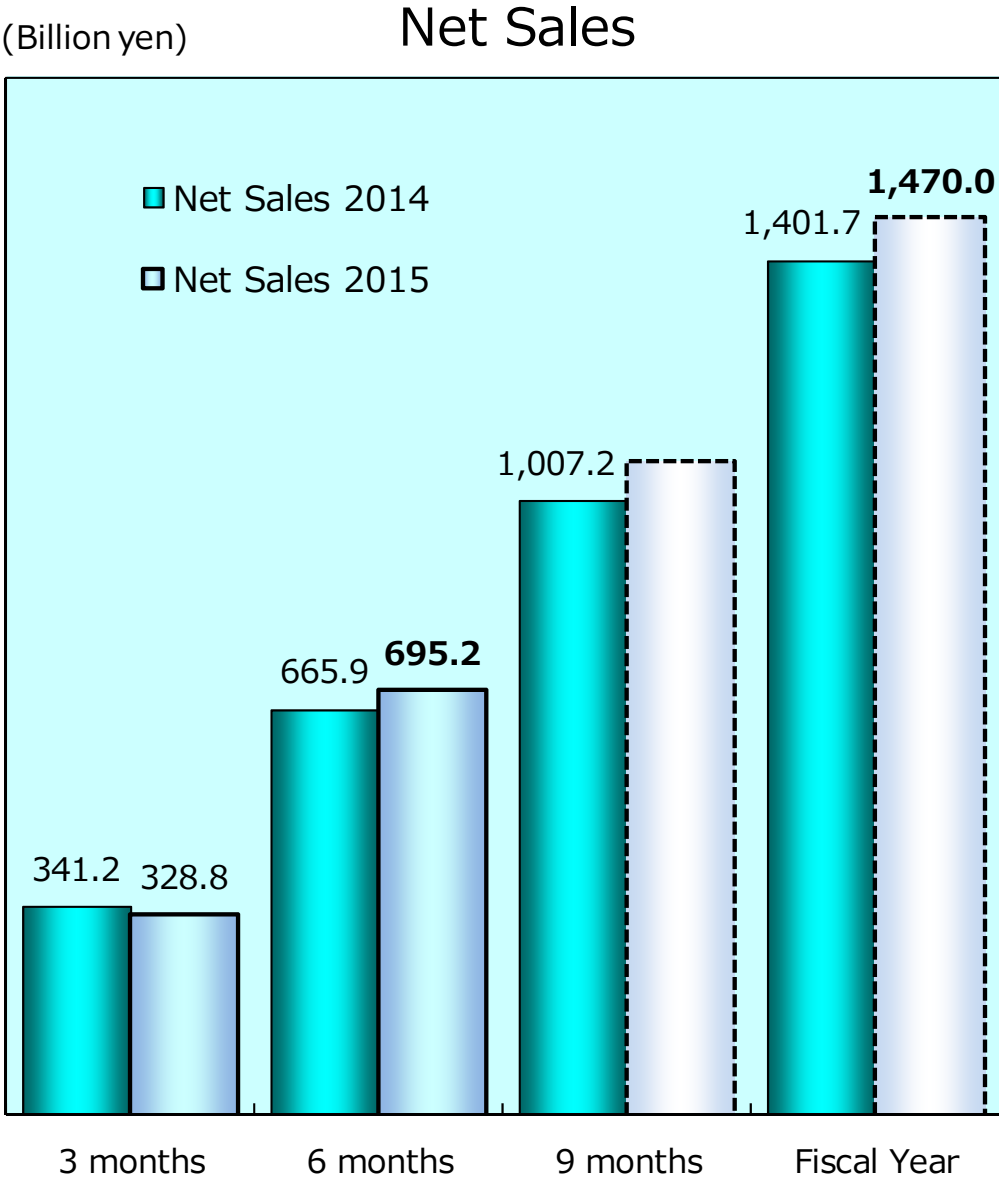
(Billion yen)



*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



Kao

Enriching lives, in harmony with nature.