Highlights for FY2012

(Ended December 31, 2012)

February 5, 2013

Kao Corporation

Michitaka Sawada

President and CEO

FASF MEMBERSHIP

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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.

Note: The yen amounts in these presentation materials, which were previously truncated to their respective units for presentation, are rounded to the nearest unit from FY2012, ended December 31, 2012.

Agenda

- Summary of FY2012
- Mid-term Growth Strategies
- Summary of FY2013 Forecast

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Summary of FY2012

Fiscal year end is December 31 from FY2012

Term of consolidation for FY2012 as a transitional period

- **Group companies whose fiscal year end was previously March 31 *:**
  April-December 2012
- **Group companies whose fiscal year end is already December 31:**
  January-December 2012

Adjusted growth
Comparison with the nine-month period from April 1 to December 31, 2011 for group companies that previously had a fiscal year end in March

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

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Financial Overview – FY2012

- **Global economic recovery remained slow due to credit insecurity in Europe and other factors.**
- **In Japan, deflation continued and consumer sentiment has turned gloomy, mainly due to concerns about the future caused by the difficult economic conditions.**

		Adjusted growth [2]	Forecast [3]
Net sales	**¥1,012.6 billion**	+0.4%	¥1,020.0 billion
EBITA [1] [% of sales]	**¥125.7 billion [12.4%]**	+1.2%	¥123.8 billion
Operating income [% of sales]	**¥101.6 billion [10.0%]**	+3.2%	¥100.0 billion
Net income [% of sales]	**¥62.4 billion [6.2%]**	+20.5%	¥60.0 billion
Net income per share	**¥119.55**	+20.6%	¥114.98
ROE [4]	**11.0%**	-	10.9%
Shareholder returns			
Cash dividends per share	**¥62**	+¥2	¥62
Consolidated payout ratio	**51.9%**		

1. Operating income before amortization of goodwill and intellectual property rights related to M&A
2. Excludes the impact of the change in financial term. (Please refer to slide 4 for details.)
3. Forecast announced on October 23, 2012
4. ROE is for the transitional period connected with the change in fiscal year end.

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Executive Summary

- **Three consecutive years of increased net sales and operating income.[1] Operating income exceeded the forecast.[2]**
  - The Consumer Products Business, including outside Japan, offset weak performance in the Chemical Business.
- **Full-year cash dividends per share for FY2012 are planned to increase 2 yen to 62 yen and share repurchases are planned in FY2013.**
  - As previously announced, the planned year-end cash dividend per share is 31 yen, for a total dividend per share of 62 yen for FY2012, an increase of 2 yen per share compared with the previous fiscal year.
  - Share repurchases: Up to 30 billion yen or up to 12.5 million shares planned during the period from February 6 to April 26, 2013

1. Net sales and operating income increases in FY2012 exclude the impact of the change in financial term. (Please refer to slide 4 for details.)
2. Forecast announced on October 23, 2012

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Use of Free Cash Flow* and Shareholder Returns

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

1. Capital expenditures and M&A for future growth

2. Steady and continuous cash dividends

3. Share repurchases and repayment of interest-bearing debt including borrowings

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

Summary of Sales by Segment – FY2012

Consumer Products Business:

Grew +2.1% like-for-like* year-on-year and performed solidly overall due to the launch and nurture of high-value-added products.

- **Beauty Care Business: +0.5% like-for-like year-on-year**

  Prestige cosmetics performed solidly. In premium skin care products, sales of *Bioré* skin care products in Japan and Asia grew, as did *Jergens* hand and body lotions in the Americas. In premium hair care products, the performance of shampoos, conditioners and hair coloring products was weak in Japan, but foam hair color performed strongly outside Japan.

- **Human Health Care Business: +5.5% like-for-like year-on-year**

  Sanitary products delivered strong results in Japan and Asia, while sales of beverage products and oral care products decreased year-on-year due to intensified competition in Japan.

- **Fabric and Home Care Business: +2.9% like-for-like year-on-year**

  Fabric care products performed solidly due to the strong performance of fabric softeners and bleaches in Japan and the launch of new products under the *Attack* brand in Asia. Home care products grew mainly in Japan.

Chemical Business:

Decreased 3.1% like-for-like year-on-year mainly due to the continued challenging conditions for oleo chemicals and specialty chemicals caused by factors such as decreased demand in customer industries and selling price adjustments made in connection with lower raw material prices.

* Excludes the effect of currency translation and the impact of the change in financial term.
(Please refer to slide 4 for details.)

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Strongly Performing Products Backed by Kao's Technologies



Merries
Baby diapers featuring superior breathability and gentleness to the skin in addition to their basic function of absorbency (Japan, China, Russia)



Flair Fragrance
Fabric softener featuring appealing scents and a wet sensor that releases fragrance upon exposure to perspiration or other moisture (Japan)



Laurier Active Day Double Comfort
Innovative and easy-to-wash slim type sanitary napkins that meet local needs (Indonesia)



Jergens Natural Glow
Sunless self-tanning lotion that safely gives the skin a natural-looking color (North America)



Goldwell Nectaya
Ammonia-free hair color for professional use (North America and Europe)

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Mid-term Growth Strategies

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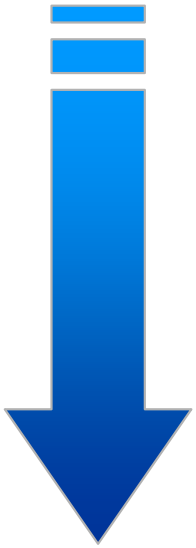
Kao Group's Vision for the Future

A company with a global presence



"Continuous innovation"

- Maintain a spirit of challenge
- Provide attractive products and services that create markets
- Exert the comprehensive capabilities of the Kao Group

Achieve both sustained "profitable growth" and "contributions to society"

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

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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

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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 prestige 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

- Rapid progress toward an eco-chemical business by leveraging eco-technology research
- Strengthen synergy with the Consumer Products Business

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Drivers to Achieve K15

1. **Aggressive investment**

2. **Innovation**

3. **Structural reform**
   (Transformation into a structure capable of generating greater profit while growing)

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Aggressive Investment in Growing Asian Markets

Consumer Products Business

- **China:**
  - Full-scale production of baby diapers at a new manufacturing facility started at the end of 2012 in Hefei City, Anhui Province
- **Indonesia:**
  - New plant is under construction (investment of approximately 10 billion yen, operation to start at the end of 2013) for business reinforcement in FY2014 and beyond
  - Kao plans to enter the baby diaper market, in addition to the existing Consumer Products Business

Chemical Business

- **Strengthening production**
  - New plant in Indonesia (investment of approximately 6 billion yen, operation to start in April 2013)
  - Production capacity expansion in the Philippines (investment of approximately 3 billion yen, operation to start in August 2013)
  - New plant in China (investment of approximately 5 billion yen, operation to start in 2014)

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Innovation: *Merries* Baby Diapers

- **Baby diapers with a product concept of "gentle on skin" based on Kao's knowledge of skin care and breathability**
- **Contribution to improved quality of life for parents and children by supporting healthy daily lives for babies**
- **Starting from the launch in China in January 2013, Kao will expand the baby diaper business targeting middle-class Asian consumers, which will also contribute to improving the hygienic environment**







Merries manufactured in China

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Innovation: *Healthya Coffee*

- **A coffee drink for those concerned about body fat. It promotes body fat utilization through the action of polyphenol chlorogenic acids contained in coffee beans. (Approved as Food for Specified Health Uses)**
- **To be launched in early April 2013 in Japan**

Increase number of loyal users of *Healthya* by acquiring new customers

Promote healthy living through drinks containing the two principal polyphenols consumed by Japanese people

Catechin in tea	Chlorogenic acids in coffee

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Innovation:
Refill for *Attack* Powder Laundry Detergents

- **New proposal of a unique refill product for powder detergents that focuses on "the environment," "convenience" and "ease of use" (Seven patent applications)**
- **Use of Kao's superior research and technology in the area of packaging**
- **Reduction of environmental impact***
  - **CO_2 emission from packaging: Approximately 60% reduction**
  - **Disposal of packaging: Approximately 90% reduction**
- **To be launched in late April 2013 in Japan**





*Comparison with the regular product, assuming the reuse of the box and the scoop

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Structural Reform

- **Currently rebuilding the prestige cosmetics business in Japan (Kao Sofina, Kanebo Cosmetics) and structurally reforming the Consumer Products Business in China**
- **Going forward, transform into a structure capable of generating greater profit while growing through a horizontal rollout of the above concept of structural reform**

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Sustained Contributions to Society

Basic principle is to contribute to society through business activities

- **Contribute to the resolution of social issues through strategic CSR**
  - *Environment, aging society, health, etc.*
- **Fulfill our role as a public entity, based on laws, regulations and ethical conduct**
  - *Employment, tax payment, etc.*
- **Continue and reinforce social contribution activities as a corporate citizen**
  - *Systematic activities to nurture the next generation in the areas of environment, education and community, disaster relief, etc.*
- **Action on global issues**
  - *Participation in Global Compact*
  - *RSPO* membership and sustainable palm oil procurement*

* RSPO: Roundtable on Sustainable Palm Oil, an international non-profit 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.

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Summary of FY2013 Forecast

Fiscal year end is December 31 from FY2012

Term of consolidation for FY2012 as a transitional period

- **Group companies whose fiscal year end was previously March 31*:**
  April-December 2012
- **Group companies whose fiscal year end is already December 31:**
  January-December 2012

Adjusted growth
Comparison with the twelve-month period from January 1 to December 31, 2012 for group companies whose fiscal years ended in March before the fiscal year end change

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

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Summary of FY2013 Forecast

		Adjusted growth [2]
Net sales	**¥1,270.0 billion**	+4.1%
EBITA [1] [% of sales]	**¥144.4 billion** [11.4%]	+0.4%
Operating income [% of sales]	**¥116.0 billion** [9.1%]	+3.8%
Net income [% of sales]	**¥73.0 billion** [5.7%]	+16.4%
Net income per share	**¥142.60**	+18.6%
ROE [3]	**12.2%**	-
Shareholder returns		
Cash dividends per share	**¥64**	+¥2
Consolidated payout ratio	**44.9%**	
Share repurchases	**¥30.0 billion**	

1. Operating income before amortization of goodwill and intellectual property rights related to M&A
2. Excludes the impact of the change in financial term. (Please refer to slide 21 for details.)
3. ROE forecast is not comparable with that of FY2012 due to the transitional period connected with the change in fiscal year end.

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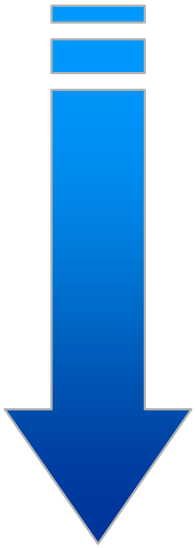
Kao Group's Vision for the Future

A company with a global presence



"Continuous innovation"

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Appendices

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Business Segments and Main Product Categories

Consumer Products Business

Beauty Care

FY2012 sales: ¥444.4 billion

[Adjusted growth: -0.0% / Share of net sales: 43.9%]

Professional hair care products
Prestige cosmetics
Premium skin care
Premium hair care



Consumer Products Business

Human Health Care

FY2012 sales: ¥152.0 billion

[Adjusted growth: +5.5% / Share of net sales: 15.0%]

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



Consumer driven

Consumer Products Business

Fabric and Home Care

FY2012 sales: ¥236.7 billion

[Adjusted growth: +2.8% / Share of net sales: 23.4%]

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



Chemical

FY2012 sales: ¥208.1 billion

[Adjusted growth: -5.1% / Share of net sales: 17.7%]

Oleo chemicals
Performance chemicals
Specialty chemicals



Chemical Business

Note: Sales include intersegment sales. Share of net sales is calculated based on sales to customers. Adjusted growth rate excludes the impact of the change in financial term. (Please refer to slide 4 for details.)

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FY2012 Breakdown of Beauty Care Business

		Billion yen	Adjusted increase (decrease)[2]
Beauty Care	Net sales	444.4	-0.0%
	Operating income[3]	21.8	+4.8 billion yen
	Operating margin	4.9%	+110bps
Prestige cosmetics	Net sales	205.4	0.1%
	Operating income[3]	-8.9	+2.7 billion yen
	Operating margin	-4.3%	+130bps
Premium mass products and professional hair care products	Net sales	239.0	-0.1%
	Operating income[3]	30.7	+2.1 billion yen
	Operating margin	12.8%	+90bps

Kanebo Cosmetics

- Net sales:
  Approx. ¥150 billion
  (FY2011: Approx. ¥190 billion)
- Profit as a % of sales:[4]
  Slightly more than 7%
  (FY2011: Approx. 6%)

4. Operating margin before deduction of royalties

1. Fiscal year end is December 31 from FY2012. (Please refer to slide 4 for details.)
2. Adjusted increase (decrease) in percent for net sales and billion yen for operating income, excluding the impact of the change in financial term. (Please refer to slide 4 for details.)
3. Includes amortization of goodwill and intellectual property rights related to M&A
   - Beauty Care: ¥24.1 billion
     - Prestige cosmetics: ¥21.6 billion
     - Premium mass products and professional hair care products: ¥2.5 billion

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Move the Prestige Cosmetics Business to a Phase of Profitable Growth

Profitability has improved steadily due to rebuilding the prestige cosmetics business in Japan



3 sciences that form the foundation of the Kao Group's cosmetics

- **Skin science**
- **Health science**
- **Sensitivity science**

Move to a phase of profitable growth through sales expansion while maintaining an efficient cost structure

Future sales growth driver

- **Clearly define the positioning of Kanebo Cosmetics and Kao Sofina**
  - **Kanebo Cosmetics**: *Feel your beauty*: cosmetics that enable consumers to feel beautiful with all five senses by combining skin science and sensitivity science
  - **Kao Sofina**: *Holistic beauty*: evidence-based cosmetics that encompass skin science and health science for beauty of the body as a whole
- **Expand globally**

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Rebuilding Prestige Cosmetics Business in Japan

Initiatives:

- **Reform of brands**
  - Narrow down number of brands
- **Reform of marketing**
  - Raise efficiency of marketing expenditures
- **Reform of sales methods**
  - Optimize deployment of human capital
  - Create synergy between the sales activities of Kao Customer Marketing Co., Ltd. and Kanebo Cosmetics Sales Inc.

Achievements in FY2012

Efficient use of expenses by both Kao Sofina and Kanebo Cosmetics

- Marketing expenses: -0.9%*
- Personnel expenses: -2.0%*

* Adjusted growth rate excludes the impact of the change in financial term. (Please refer to slide 4 for details.)

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Prestige Cosmetics in Japan – FY2012

Cosmetics market in Japan

[Year-on-year growth on a value (yen) basis]	Apr. -Dec. 12	Apr. 11-Mar. 12
Total market	-0.2%	-3.5%
High-priced segment (over ¥5,000):	-0.1%	-4.4%
Mid-priced segment (¥2,000-5,000):	-1.6%	-4.2%
Low-priced segment (below ¥2,000):	+1.6%	-1.2%
Kao Group total (Kanebo Cosmetics + Kao Sofina)	+1.9%	+1.6%

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

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Consumer Products Business in China

Execute structural reform for better profitability and aggressive investment to accelerate growth at the same time

Consumer Products excluding prestige cosmetics

- **Growth drivers to achieve net sales of 50 billion yen in FY2015**
  - **Launch of laundry detergents, baby diapers and sanitary napkins targeting middle-class consumers**
- **Promising initial results from January 2013 launch of *Merries* baby diapers manufactured in China and targeting middle-class consumers**



Prestige cosmetics

- **Prioritize investment in strategic areas and focal brands**
- **Promote rebuilding**

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SRI Indexes and External CSR Evaluation

SRI indexes for which Kao has been selected

FTSE4Good

member of the INVESTMENT REGISTER
ETHIBEL EXCELLENCE

ECPI Sense in sustainability

MS-SRI モーニングスター社会的責任投資株価指数 Morningstar Socially Responsible Investment Index

CSR-related evaluation from external organization

2012 WORLD'S MOST ETHICAL COMPANIES
WWW.ETHISPHERE.COM

(As of February 5, 2013)

CSR: Corporate Social Responsibility
SRI: Socially Responsible Investment



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