

Semi-Annual Financial Review

From January 1 to June 30, 2013

Kao Corporation

July 30, 2013

This is a translation of materials used for the analyst meeting held in Japan on July 30, 2013.



These presentation materials are available on our website in PDF format:

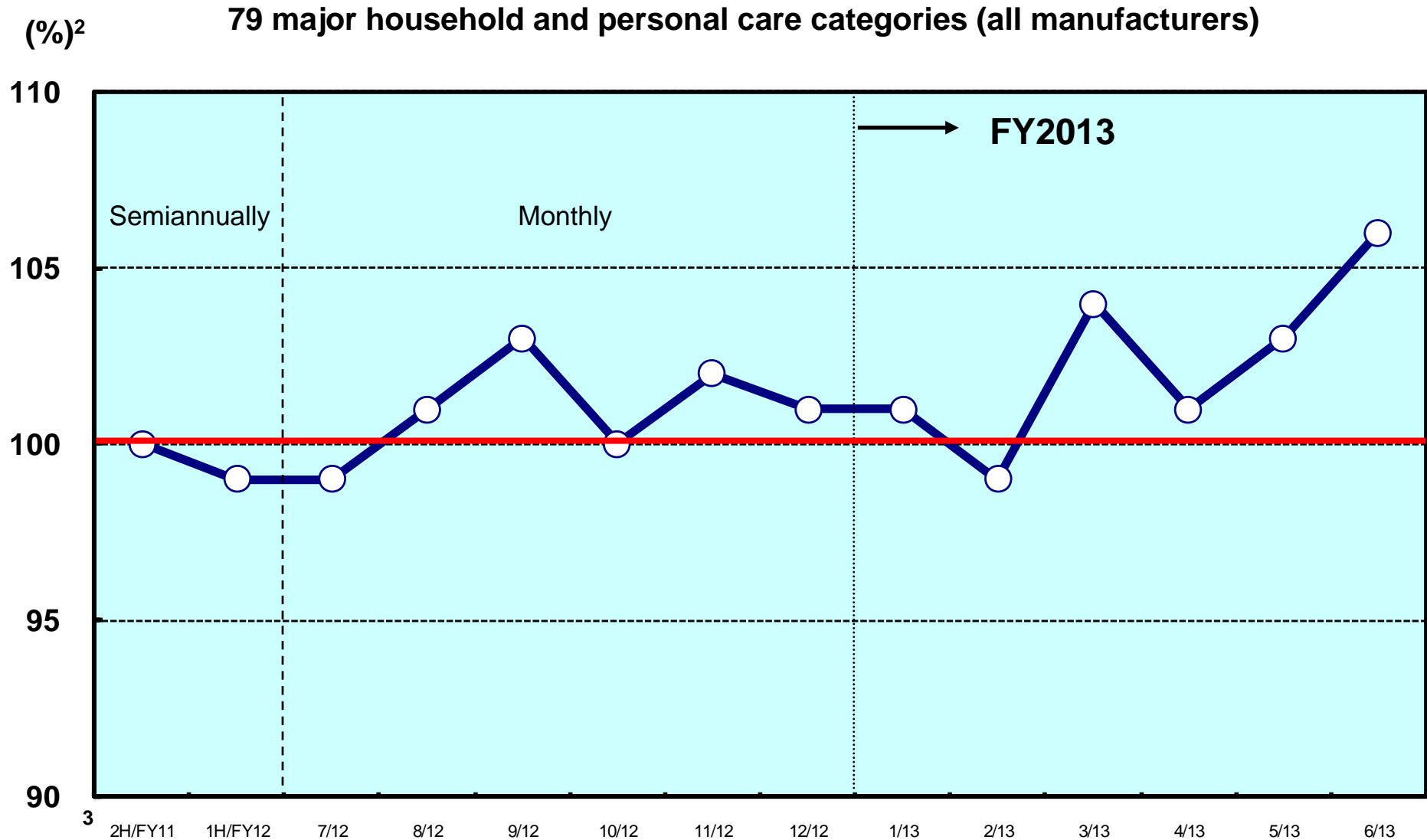
http://www.kao.com/jp/en/corp_ir/presentations.html

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.

1. Business Environment

January 1 – June 30, 2013

Consumer Products¹ Market in Japan



1 Consumer products do not include cosmetics.

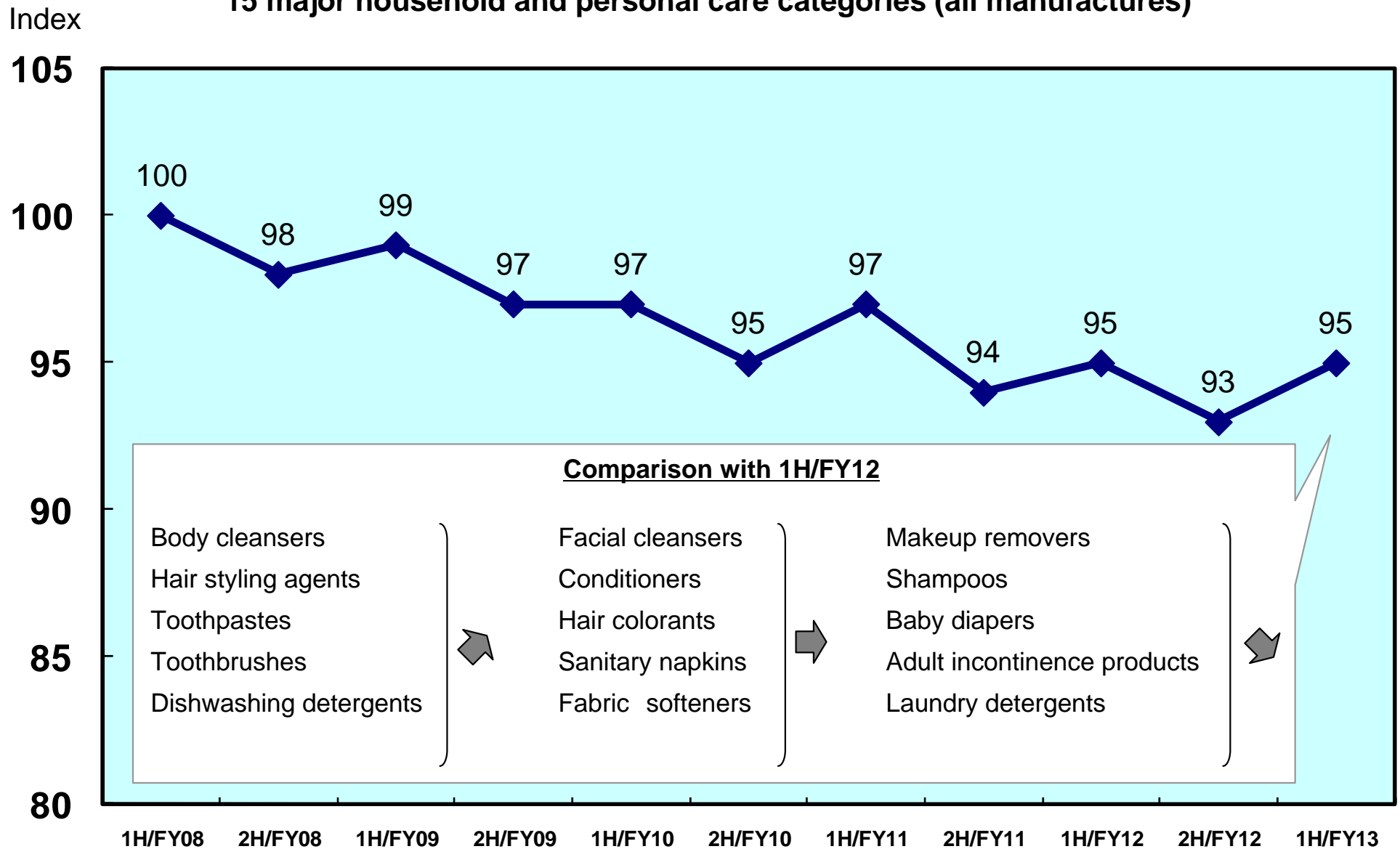
2 Year-on-year growth rate of market size in value (yen)

3. 1H: From January 1 to June 30, 2H: From July 1 to December 31

(Source: SRI POS data by INTAGE Inc.)

Consumer Purchase Prices in Japan

15 major household and personal care categories (all manufactures)



*1H: From January 1 to June 30, 2H: From July 1 to December 31

(Source: SRI POS data by INTAGE Inc.)

2. Consolidated Business Results

January 1 – June 30, 2013

Fiscal year end is December 31 from FY2012

Term of consolidation for 1H/FY2012

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

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 1H/FY2012

Figures for the six-month period from January 1 to June 30, 2012 for the purpose of comparison with 1H/ FY2013 (January 1 to June 30, 2013).

Adjusted growth / Adjusted change Comparison with the restated 1H/FY2012

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

Key Points in 1H/FY2013

Japan sales related

1. Consumer purchase price of 15 major household and personal care categories market in Japan¹: Flat year-on-year
2. Growth of household and personal care market in Japan²: +2% year-on-year
3. Growth of the cosmetics market in Japan³: -0.9% year-on-year

Income statements related

		<u>Adjusted growth⁴</u>
1. Net sales:	¥625.0 billion	+8.0%
• Effect of currency translation:	+¥31.9 billion	+5.5%
• Sales growth excluding effect of currency translation:	+¥14.4 billion	+2.5%
2. Increase/decrease in operating income ⁵ :	+¥8.1 billion	

Cash flow related

1. Free cash flow ⁶ :	¥36.9 billion
2. Payments of cash dividends ⁷ :	¥18.6 billion
3. Share repurchase ⁸ :	¥30.0 billion
4. Bonds :	Redemption ¥50.0 billion / Issuance ¥50.0 billion
5. Retirement of treasury stock:	10.2 million shares

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

2 Source: SRI POS data by INTAGE Inc.

3 Source: SLI data by INTAGE Inc.

4 Please refer to slide 6 for details.

5 Please refer to slide 12 for details.

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

7 Includes payments of cash dividends to minority shareholders.

8 Excludes repurchase of shares less than one unit

1H/FY2013 Consolidated Results

Billion yen	Restated		1H/FY13	Adjusted growth ¹
	1H/FY12 ¹	1H/FY12 ¹		
Net Sales	609.0	578.7	625.0	+8.0%
EBITA ²	69.7	51.5	57.5	+11.5%
<i>EBITA Margin</i>	11.4%	8.9%	9.2%	
Operating Income	53.4	34.8	42.9	+23.2%
<i>Operating Margin</i>	8.8%	6.0%	6.9%	
Ordinary Income	55.4	36.1	44.9	+24.4%
Net Income	35.9	19.2	18.3	-5.1%
EBITDA	91.6	74.3	80.1	+7.9%
EPS (yen)	68.72	36.87	35.41	-4.0%

1 Please refer to slide 6 for details.

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

Consolidated Net Sales [1]

	Restated 1H/FY2012 ¹	1H/FY2013		
	Billion yen	Billion yen	% Growth	
			Adjusted ¹	Like-for-like ²
Beauty Care Business	193.5	200.3	+3.5	+3.5
Human Health Care Business	80.6	86.0	+6.7	+6.7
Fabric and Home Care Business	115.8	121.0	+4.4	+4.4
Japan total	390.0	407.2	+4.4	+4.4
Asia	42.4	56.7	+33.8	+11.1
Americas	28.1	34.3	+22.2	+1.8
Europe	27.4	34.0	+24.1	+3.1
Eliminations	-12.2	-15.6	-	-
Consumer Products Business	475.6	516.7	+8.6	+4.4

1: Please refer to slide 6 for details.

2: Adjusted growth excluding the effect of currency translation

Consolidated Net Sales [2]

	Restated 1H/FY2012 ¹	1H/FY2013		
	Billion yen	Billion yen	% Growth	
			Adjusted ¹	Like-for-like ²
Japan	60.4	59.8	-1.1	-1.1
Asia	39.6	40.8	+2.9	-14.7
Americas	17.4	19.8	+14.0	-6.6
Europe	27.0	30.5	+12.9	-6.9
Eliminations	-24.6	-24.9	-	-
Chemical Business	119.9	125.9	+5.0	-5.1
Reconciliations	-16.8	-17.6	-	-
Consolidated net sales	578.7	625.0	+8.0	+2.5

1: Please refer to slide 6 for details.

2: Adjusted growth excluding the effect of currency translation

Consolidated Income Statements

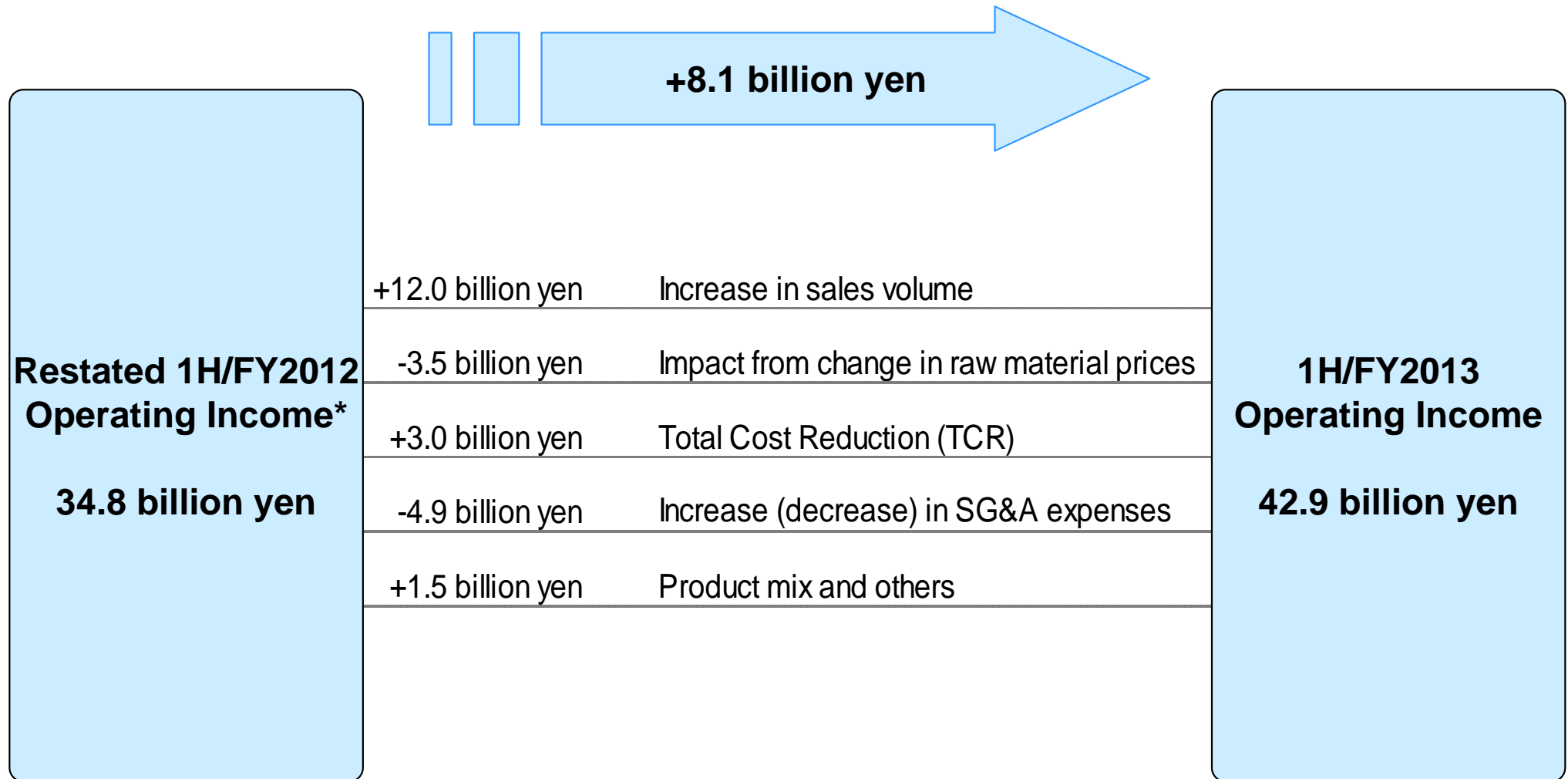
	1H/FY2012 ¹		1H/FY2013		Adjusted % growth ¹
	Billion yen	%	Billion yen	%	
Net Sales	609.0	100.0	625.0	100.0	+8.0
Cost of Sales	262.9	43.2	276.0	44.2	
Gross Profit	346.0	56.8	349.0	55.8	
SG&A Expenses ²	292.7	48.1	306.0	49.0	
Operating Income	53.4	8.8	42.9	6.9	+23.2
Non-operating Income/Expenses	2.0	0.3	2.0	0.3	
Ordinary Income	55.4	9.1	44.9	7.2	+24.4
Extraordinary Gain/Loss	-0.7	-0.1	-6.5	-1.0	
Income Before Income Taxes and Minority Interests	54.7	9.0	38.4	6.1	
Income Taxes	18.2	3.0	19.3	3.1	
Income Before Minority Interests	36.5	6.0	19.1	3.0	
Minority Interests	0.6	0.1	0.8	0.1	
Net Income	35.9	5.9	18.3	2.9	-5.1

1 Please refer to slide 6 for details.

2 Amortization related to Kanebo Cosmetics

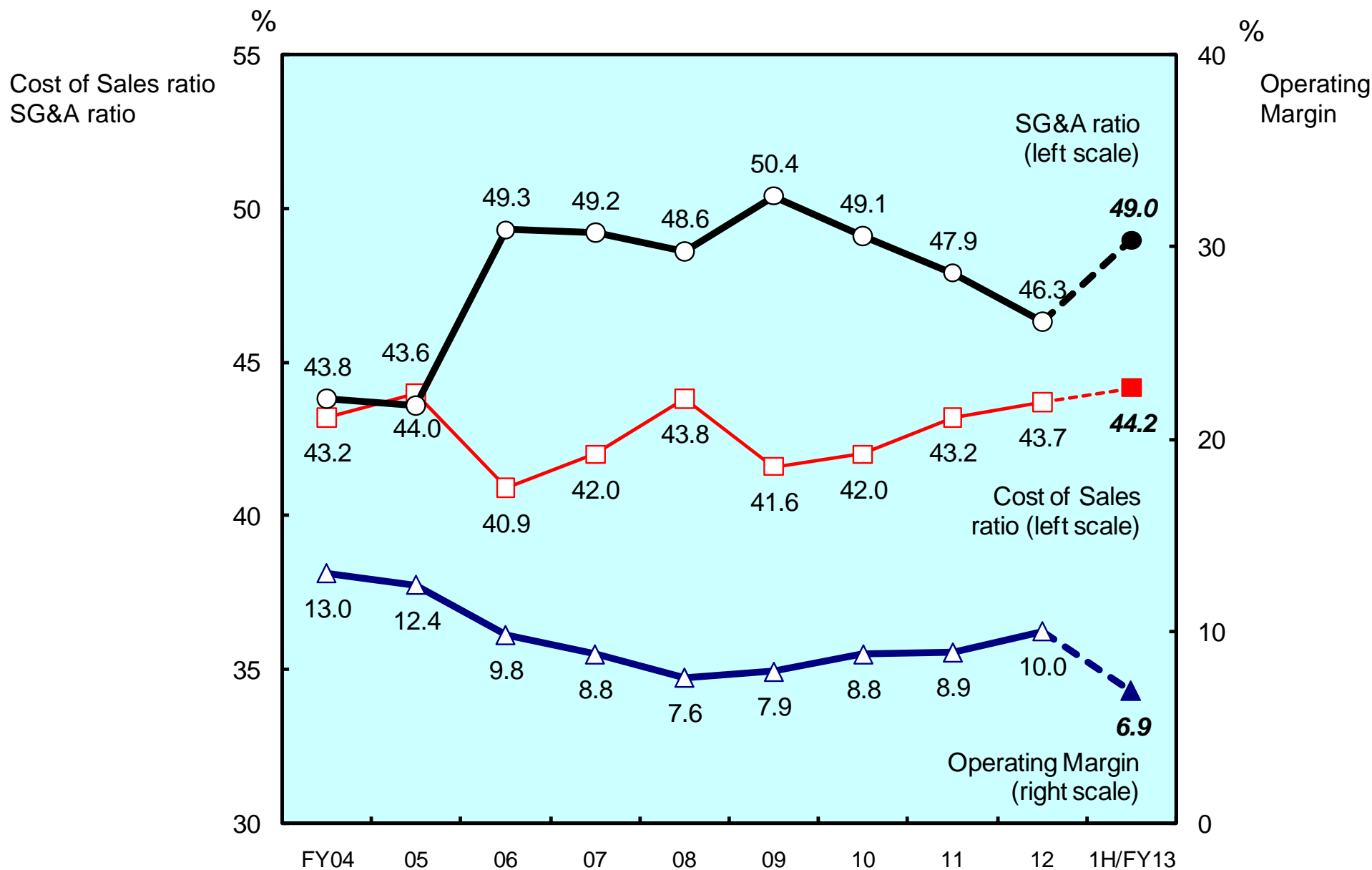
1H/FY2012: 13.7 billion yen, 1H/FY2013: 13.4 billion yen

1H/FY2013 Consolidated Operating Income Analysis



* Please refer to slide 6 for details.

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 6 for details.)

Breakdown of Major Consolidated SG&A Expenses

(Billion yen)

	1H/FY2012 [*]	1H/FY2013
Total SG&A Expenses	292.7	306.0

Freight/Warehouse	34.9	36.0
Advertising	43.2	44.8
Sales Promotion	31.3	34.1
Salaries and Bonuses	60.7	66.1
R&D	24.0	24.5

*Please refer to slide 6 for details.

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

(Billion yen)

Non-operating Income/Expenses	1H/FY2012*	1H/FY2013
Non-operating Income	3.2	3.5
Interest Income	0.5	0.5
Dividend Income	0.1	0.1
Equity in Earnings of Nonconsolidated Subsidiaries and Affiliates	1.2	1.1
Foreign Currency Exchange Gain	0.1	0.3
Other	1.3	1.5
Non-operating Expenses	1.2	1.6
Interest Expense	0.8	0.7
Other	0.4	0.9

Extraordinary Gain/Loss	1H/FY2012*	1H/FY2013
Extraordinary Gain	0.5	0.8
Gain on Sales of Fixed Assets	0.1	0.0
Gain on Sales of Stock of Subsidiary	0.3	-
Gain on Transfer of Business	-	0.4
Other	0.1	0.4
Extraordinary Loss	1.1	7.3
Loss on Sales/Disposals of Fixed Assets	1.1	1.4
Loss related to cosmetics	-	5.6
Other	0.0	0.4

*Please refer to slide 6 for details.

Consolidated Results by Segment

		Restated 1H/FY2012 ³		1H/FY2013		Adjusted changes ³	Adjusted growth ³
		Billion yen	% of net sales	Billion yen	% of net sales	Billion yen	%
Beauty Care Business	Net Sales ¹	256.7	-	278.6	-	+21.9	+8.5%
	EBITA ²	16.7	6.5%	17.6	6.3%	+0.9	+5.6%
	Operating Income	0.0	0.0%	3.1	1.1%	+3.1	NA
Human Health Care Business	Net Sales ¹	89.7	-	99.6	-	+9.9	+11.1%
	Operating Income	4.2	4.7%	6.7	6.7%	+2.5	+59.2%
Fabric and Home Care Business	Net Sales ¹	129.2	-	138.5	-	+9.3	+7.2%
	Operating Income	20.8	16.1%	23.7	17.1%	+2.8	+13.5%
Chemical Business	Net Sales ¹	119.9	-	125.9	-	+6.0	+5.0%
	EBITA ²	9.7	8.1%	9.4	7.5%	-0.3	-2.7%
	Operating Income	9.7	8.1%	9.4	7.5%	-0.2	-2.5%
Consolidated	Net Sales	578.7	-	625.0	-	+46.3	+8.0%
	EBITA ²	51.5	8.9%	57.5	9.2%	+5.9	+11.5%
	Operating Income	34.8	6.0%	42.9	6.9%	+8.1	+23.2%

1 Before elimination of intersegment transfers

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

3 Please refer to slide 6 for details.

[Reference] Consolidated Results by Geographic Area

		Restated 1H/FY2012 ³		1H/FY2013		Adjusted changes ³	Adjusted growth ³
		Billion yen	% of net sales	Billion yen	% of net sales	Billion yen	%
Japan	Net Sales ¹	435.8	-	452.0	-	+16.3	+3.7%
	EBITA ²	44.4	10.2%	47.7	10.5%	+3.2	+7.3%
	Operating Income	28.7	6.6%	34.2	7.6%	+5.5	+19.3%
Asia	Net Sales ¹	80.5	-	95.6	-	+15.1	+18.7%
	Operating Income	3.3	4.1%	5.8	6.1%	+2.5	+75.3%
Americas	Net Sales ¹	45.4	-	54.0	-	+8.6	+19.0%
	EBITA ²	1.2	2.7%	2.1	3.9%	+0.9	+76.3%
	Operating Income	0.9	2.0%	1.8	3.3%	+0.9	+99.5%
Europe	Net Sales ¹	54.4	-	64.4	-	+10.0	+18.5%
	EBITA ²	2.8	5.2%	2.6	4.1%	-0.2	-6.4%
	Operating Income	2.2	4.0%	1.9	2.9%	-0.3	-13.4%
Consolidated	Net Sales	578.7	-	625.0	-	+46.3	+8.0%
	EBITA ²	51.5	8.9%	57.5	9.2%	+5.9	+11.5%
	Operating Income	34.8	6.0%	42.9	6.9%	+8.1	+23.2%

1 Before elimination of intersegment transfers

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

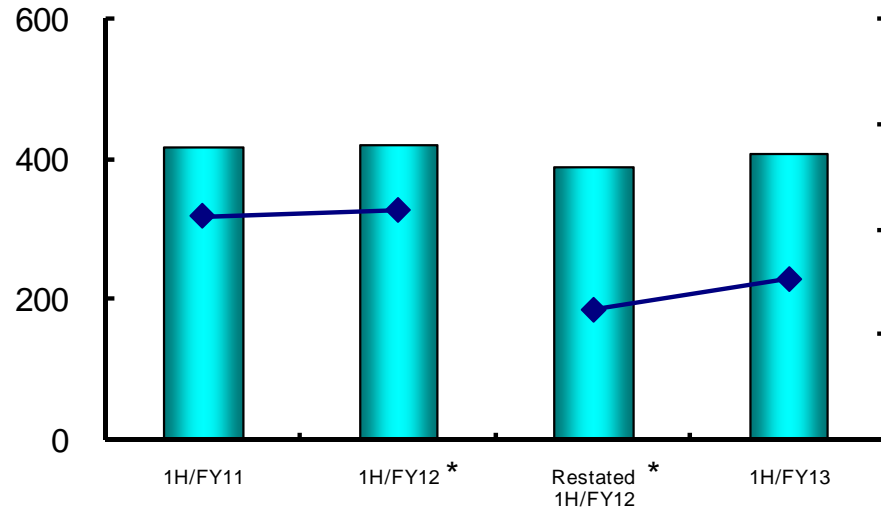
3 Please refer to slide 6 for details.

Consumer Products Business by Geographic Area

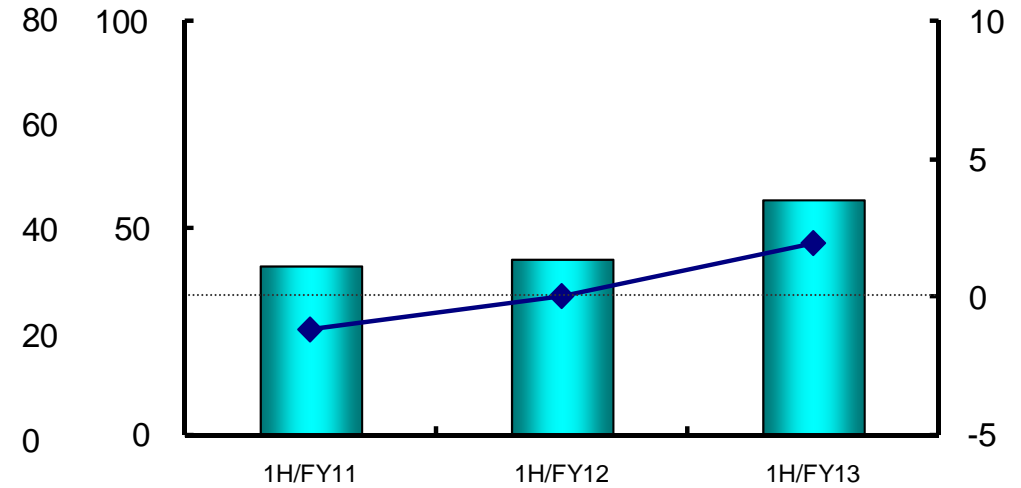
Japan

Sales (Billion yen)

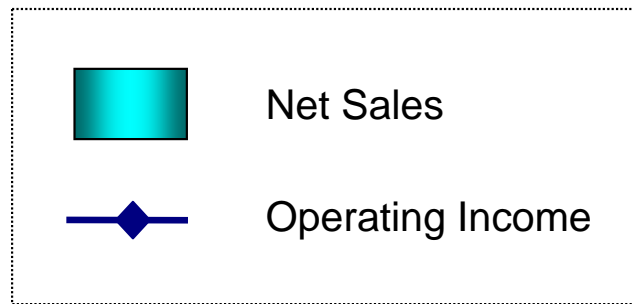
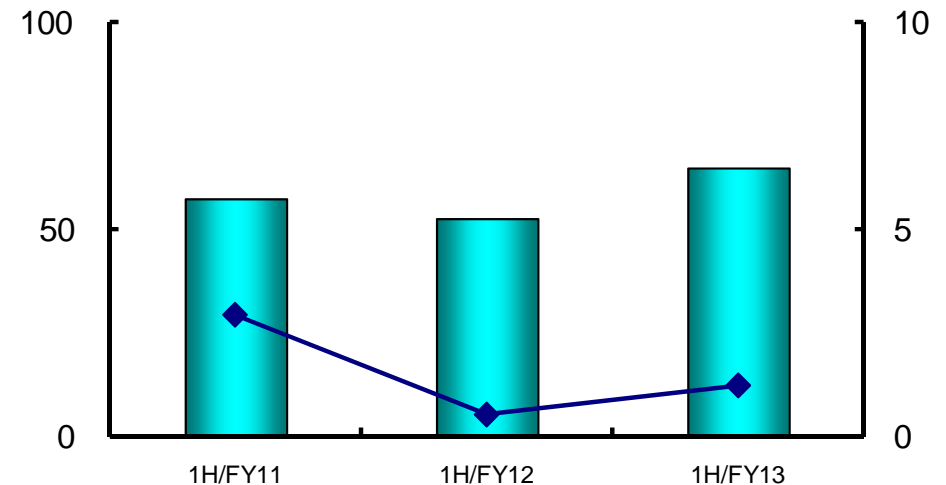
Operating Income
(Billion yen)



Asia



Americas & Europe

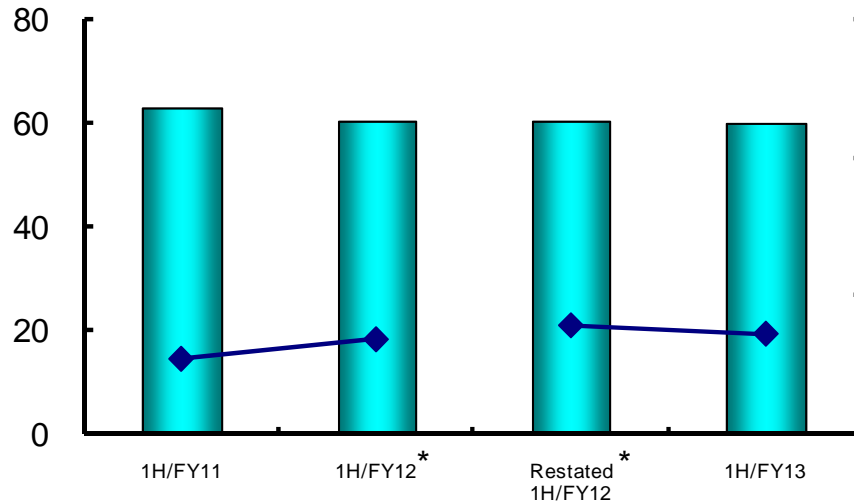


* Please refer to slide 6 for details on 1H/FY2012 and restated 1H/FY2012 of Japan.

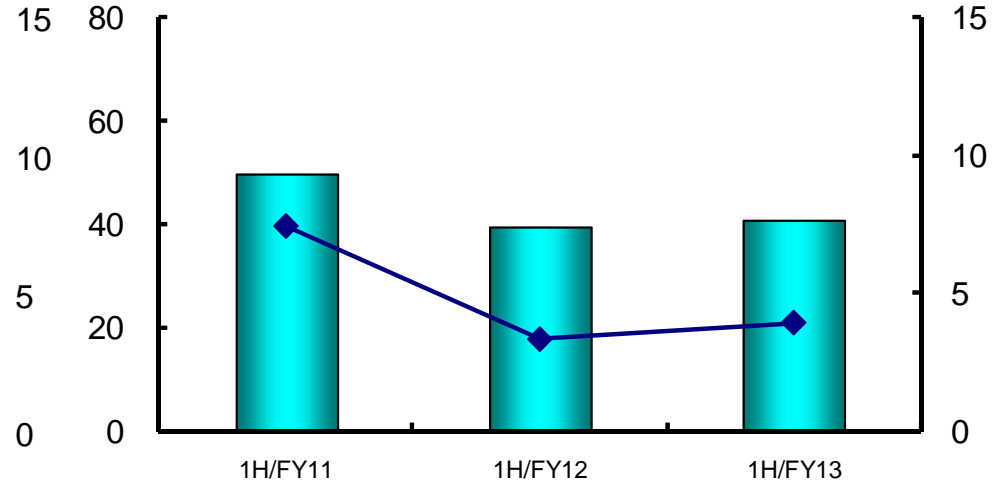
Chemical Business by Geographic Area

Japan

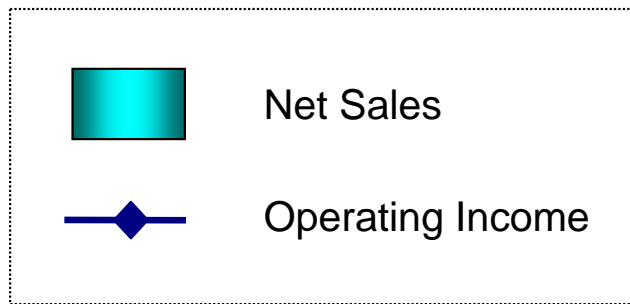
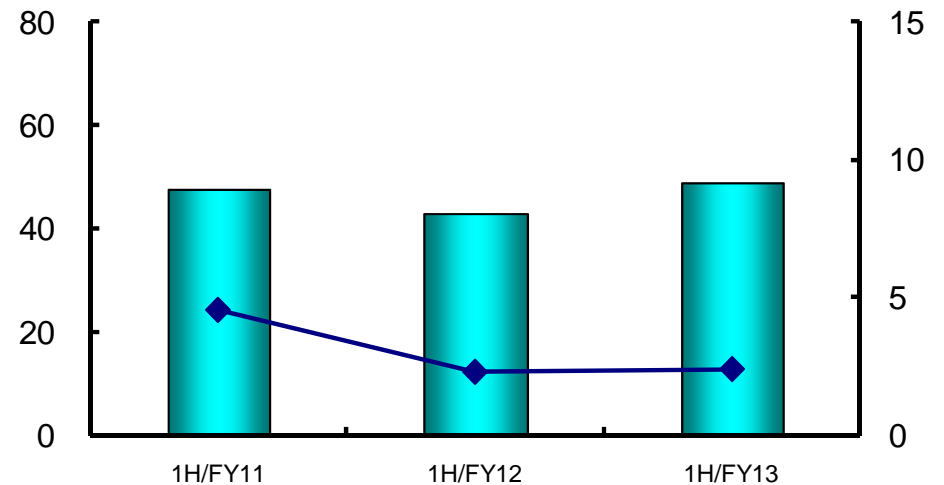
Sales (Billion yen)



Asia



Americas & Europe



* Please refer to slide 6 for details on 1H/FY2012 and restated 1H/FY2012 of Japan.

Consolidated Balance Sheets

(Billion yen)

	Dec/12	Jun/13	Changes		Dec/12	Jun/13	Changes
Current Assets	493.4	515.3	+21.9	Current Liabilities	315.9	292.1	-23.8
Cash and Time Deposits	99.3	94.6	-4.8	Notes and Accounts Payable - Trade	105.5	111.6	+6.1
Notes and Accounts Receivable - Trade	164.3	163.2	-1.1	Bonds/Short-term Loans (incl. Current Portion of Bonds/Long-term Loans)	53.1	1.3	-51.8
Short-term Investments	57.4	68.4	+10.9	Accrued Income Taxes	11.7	16.5	+4.8
Inventories	122.2	132.0	+9.8	Other	145.6	162.7	+17.1
Other	50.2	57.2	+7.1				
Fixed Assets	546.6	554.6	+8.0	Long-term Liabilities	118.4	174.4	+56.0
Property, Plant and Equipment	252.3	269.2	+16.9	Bonds/Long-term Loans	50.1	100.1	+50.0
Intangible Assets	215.9	205.6	-10.4	Other	68.3	74.4	+6.0
Investments and Other Assets	78.3	79.8	+1.5	Total Liabilities	434.3	466.6	+32.3
				Shareholders' equity	663.6	636.3	-27.4
				-Common Stock	85.4	85.4	-
				-Capital Surplus	109.6	109.6	-
				-Retained Earnings	477.6	450.9	-26.7
				-Treasury Stock, at Cost	-9.0	-9.7	-0.7
				Accumulated other comprehensive income	-71.3	-46.8	+24.5
				- Unrealized Gain on Available-for-sale Securities	2.4	4.0	+1.5
				- Deferred Gain (Loss) on Derivatives under Hedges Accounting	0.0	0.0	+0.0
				- Foreign Currency Translation Adjustments	-71.9	-46.1	+25.7
				- Post retirement adjustments for foreign consolidated subsidiaries	-1.9	-4.7	-2.8
				Stock Acquisition Rights	1.3	1.2	-0.1
				Minority Interests	12.1	12.7	+0.6
				Total Net Assets	605.7	603.3	-2.4
Total Assets	1,040.0	1,069.9	+29.9	Total Liabilities and Total Net Assets	1,040.0	1,069.9	+29.9

Consolidated Statements of Cash Flows

(Billion yen)

	1H/FY2012 ¹	1H/FY2013
Net Cash Provided by Operating Activities	63.9	78.9
Net Cash Used in Investing Activities	-30.6	-41.9
Net Cash Used in Financing Activities	-16.2	-50.7
Translation Adjustments on Cash and Cash Equivalents	0.0	11.2
Net Increase (Decrease) in Cash and Cash Equivalents	17.2	-2.5
Cash and Cash Equivalents, Beginning of Period	129.7	160.4
Cash and Cash Equivalents from Newly Consolidated Subsidiary, Increase	0.3	0.6
Cash and Cash Equivalents, End of Period	147.2	158.5
Total Debt at End of Period	103.6	101.4
Free Cash Flow ²	33.3	36.9

<Net cash used in investing activities>

Capital expenditures:

- Construction of new plants in Indonesia
- Production capacity enhancement of fatty alcohols in the Philippines
- Production facilities for new products
- Production capacity expansion
- Optimization of distribution bases
- IT related, etc.

<Net cash used in financing activities>

Payments of cash dividends (Includes payments of cash dividends to minority shareholders) : 18.6 billion yen

Purchase of treasury stock³ : 30.0 billion yen

Bonds : Redemption 50.0 billion yen / Issuance 50.0 billion yen

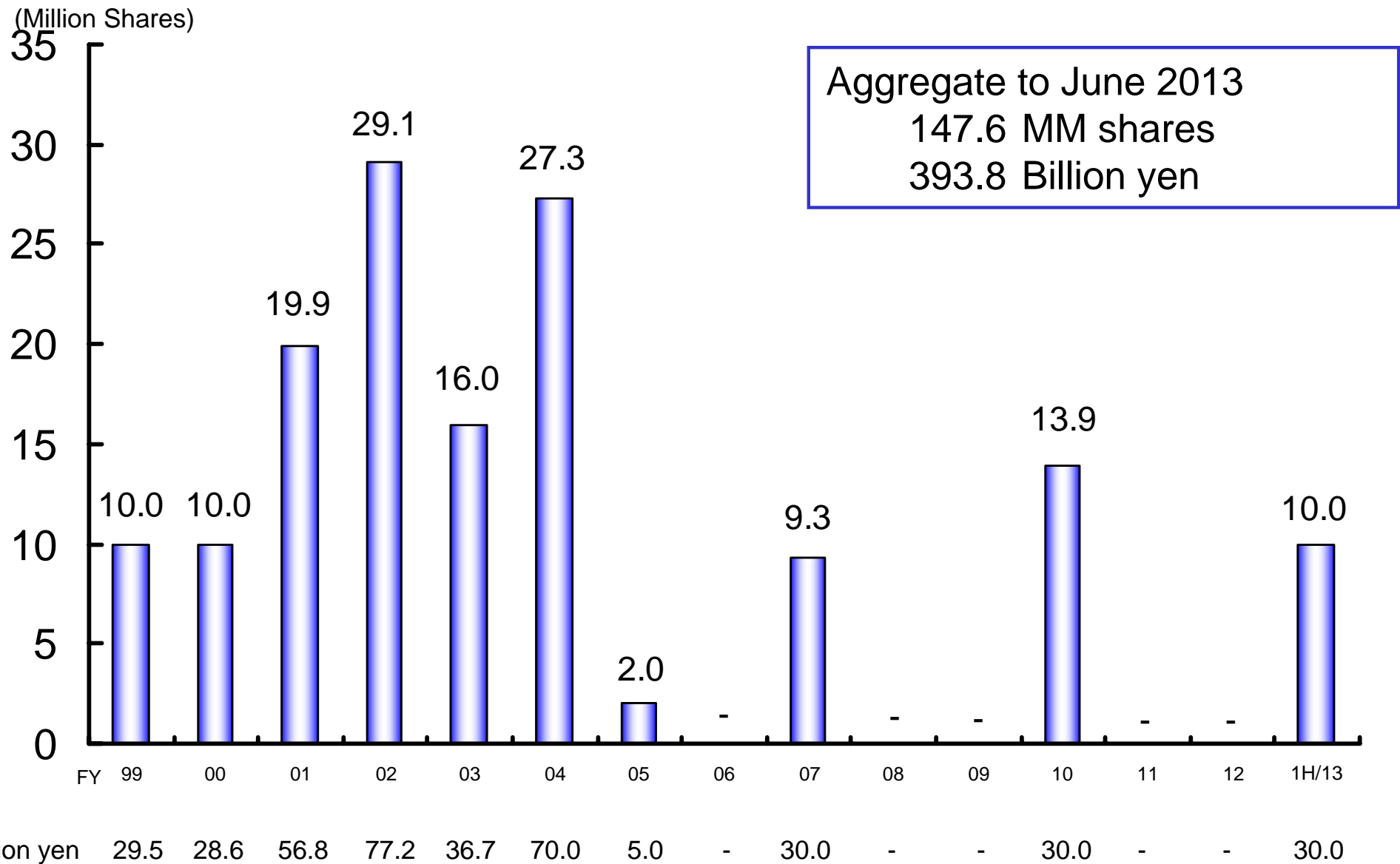
Retirement of treasury stock: 10.2 million shares

1 Please refer to slide 6 for details.

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

3 Excludes repurchase of shares less than one unit

Share Repurchase *



* Share repurchase from the market

3. Forecast for FY 2013

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 twelve-month period from January 1 to December 31, 2012 for group companies whose fiscal year end was previously March 31

Adjusted growth

- FY2012 actual

Comparison with the nine-month period from April 1 to December 31, 2011 for group companies whose fiscal year end was previously March before the fiscal year end change

- FY2013 forecast

Comparison with the restated FY2012

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

Major Assumptions for FY2013 Forecast

- ◆ Year-on-year growth rate of market size in value (yen) for the Consumer Products Business¹ in Japan: +1 to +2%
- ◆ Year-on-year growth rate of cosmetics market size in value (yen) in Japan: 0 to +1%

		<u>Adjusted growth²</u>
◆ Net sales:	¥1,300.0 billion	+6.5%
• Effect of currency translation:	+¥60.0 billion	+4.9%
• Sales growth excluding effect of currency translation:	+¥19.6 billion	+1.6%
<u>Estimated impact on income</u>		

- ◆ Impact from change in raw material prices:
 - Gross impact: +¥9 billion
 - Net impact: -¥7 billion
- ◆ Total Cost Reduction (TCR) activities: +¥6 billion
- ◆ Capital expenditures/depreciation and amortization:
 - Capital expenditures: ¥60 billion
 - Depreciation and amortization: ¥76 billion

Exchange rate assumptions

- ◆ 95 yen/USD (FY2012 actual exchange rate [average]: 80.12 yen/USD)
- ◆ 125 yen/Euro (FY2012 actual exchange rate [average]: 103.46 yen/Euro)

1 Excludes cosmetics.

2 Please refer to slide 23 for details.

Consolidated Sales and Profit Forecast

	4 FY2012		[Reference] 2 Restated FY2012	1 FY2013(F) 5	
	Billion yen	Adjusted 2 % growth	Billion yen	Billion yen	Adjusted 2 % growth
Net Sales	1,012.6	+0.4	1,220.4	1,300.0	+6.5
Operating Income	101.6	+3.2	111.8	116.0	+3.8
[% of Sales]	10.0%		9.2%	8.9%	
Ordinary Income	104.2	+4.0	114.1	118.0	+3.4
[% of Sales]	10.3%		9.4%	9.1%	
Net Income	62.4	+20.5	62.7	67.0	+6.8
[% of Sales]	6.2%		5.1%	5.2%	
Net Income per Share (yen)	119.55	+20.6	120.21	130.84	+8.8
ROE 3	11.0%	-	11.1%	11.0%	-
EBITDA (Operating Income + Depr. & Amort.)	161.4	+0.4	189.2	192.0	+1.5
Cash Dividends per Share (yen)	62.0	+3.3	62.0	64.0	+3.2

1 Exchange rate assumptions: 95 yen/USD, 125 yen/Euro

2 Please refer to slide 23 for details.

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

4 Kanebo Cosmetics (Apr. -Dec. 2012) : Net sales = approximately ¥150 billion / operating margin before deduction of royalties = slightly more than 7%; amortization related to Kanebo Cosmetics: ¥20.5 billion

5 Kanebo Cosmetics (Jan. -Dec. 2013) : Net sales = slightly more than ¥180 billion / operating margin before deduction of royalties = approximately 6%; amortization related to Kanebo Cosmetics: ¥26.8 billion

Sales Outlook by Segment – FY2013

<Billion yen>

Consolidated Net Sales

By Segment¹

1,300 ^{Adjusted growth²} +6.5%

Reference:
By Geographic Area¹

		Adjusted growth ²		Adjusted growth ²
Beauty Care	565	+5.1%	Japan	956 +2.4%
Human Health Care	210	+10.8%	Asia	191 +19.4%
Fabric and Home Care	309	+5.8%	Americas	106 +17.8%
Chemical	250	+5.7%	Europe	128 +15.8%

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

2 Please refer to slide 23 for details.

Sales Outlook – FY2013

- Consumer Products Business in Japan -

<Billion yen>

	1st Half			Full Year		
	Restated FY2012 Actual	FY2013 Actual	Adjusted growth*	Restated FY2012 Actual	FY2013 Forecast	Adjusted growth*
Beauty Care	193.5	200.3	+3.5%	408.3	407.0	-0.3%
Human Health Care	80.6	86.0	+6.7%	170.3	181.0	+6.3%
Fabric and Home Care	115.8	121.0	+4.4%	264.4	274.0	+3.6%
Consumer Products Business	390.0	407.2	+4.4%	843.0	862.0	+2.3%

* Please refer to slide 23 for details.

FY2013 Outlook by Segment/Geographic Area

Decrease in operating income

Increase in operating income

Increase in net sales

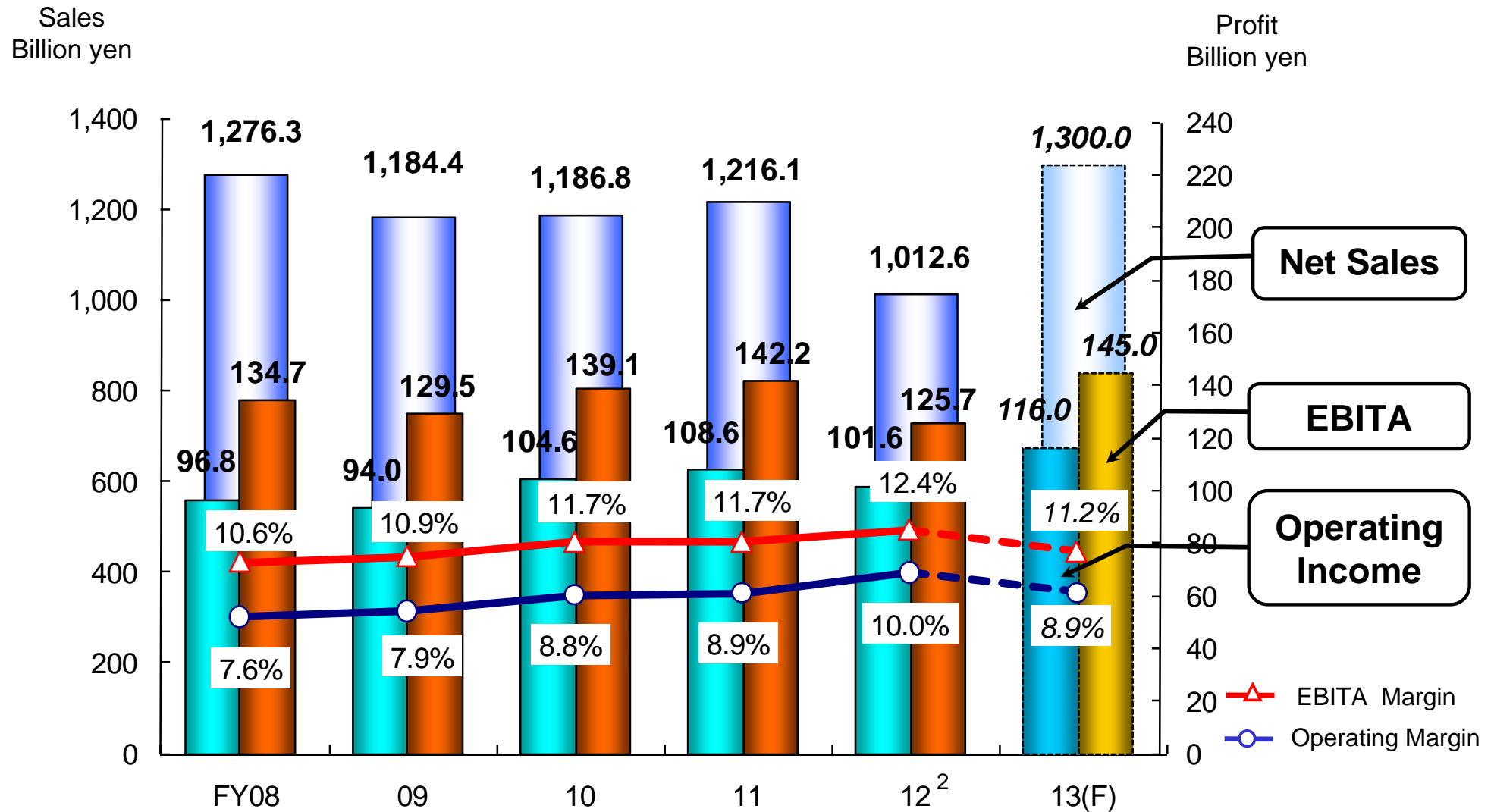
Decrease in net sales

		<p>CP¹ – Japan</p> <p>CP¹ – Asia</p> <p>CP¹ – Americas</p> <p>CP¹ – Europe</p> <p>Chemical – Asia</p> <p>Chemical – Americas</p> <p>Chemical – Europe</p>
	Chemical – Japan	

1: CP = Consumer Products

2: Excludes the impact of the change in financial term. (Please refer to slide 23 for details.)

Consolidated Net Sales/EBITA¹/Operating Income

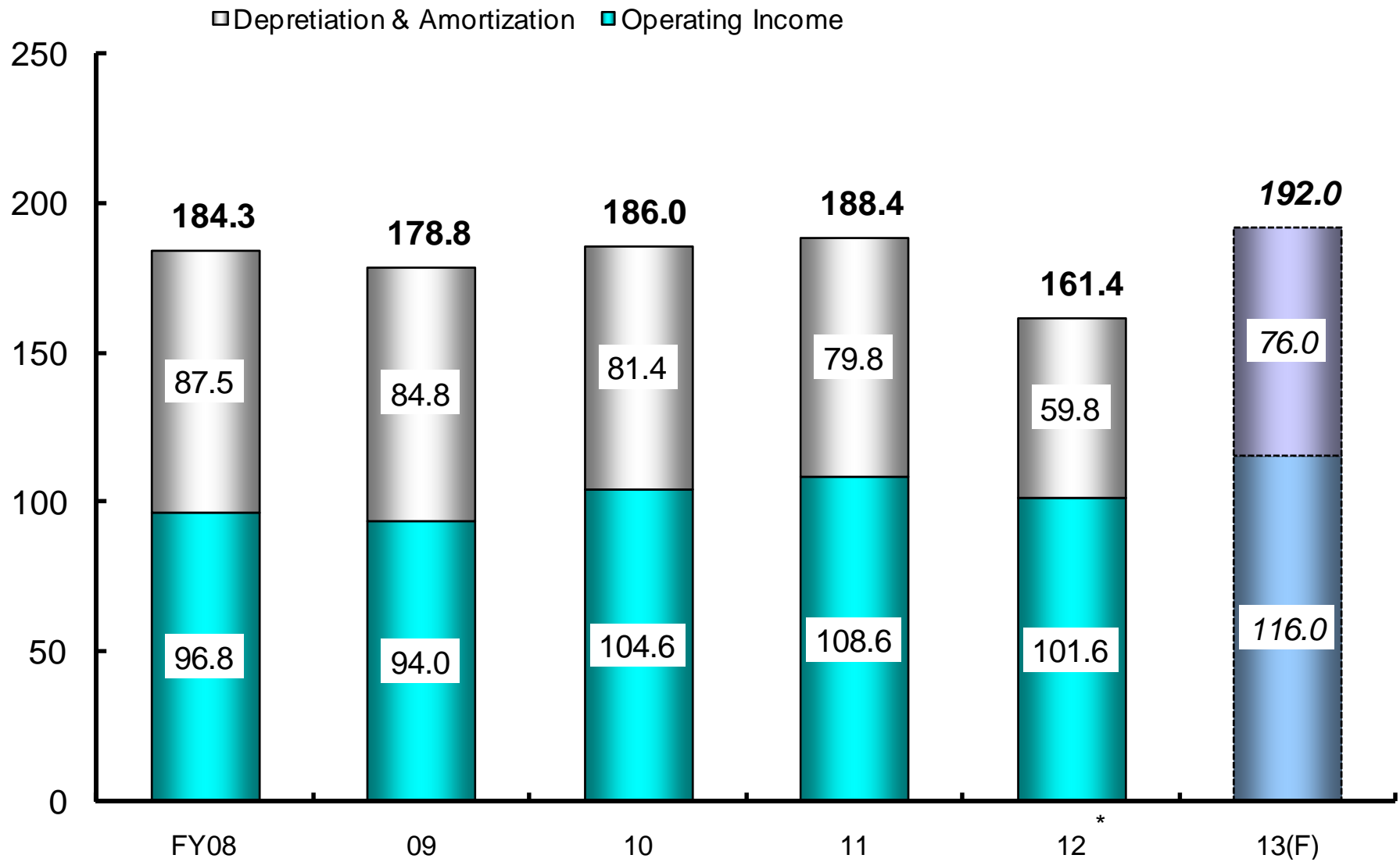


1 Operating income before amortization of goodwill and intellectual property rights related to M&A

2 Fiscal year end is December 31 from FY2012. (Please refer to slide 23 for details.)

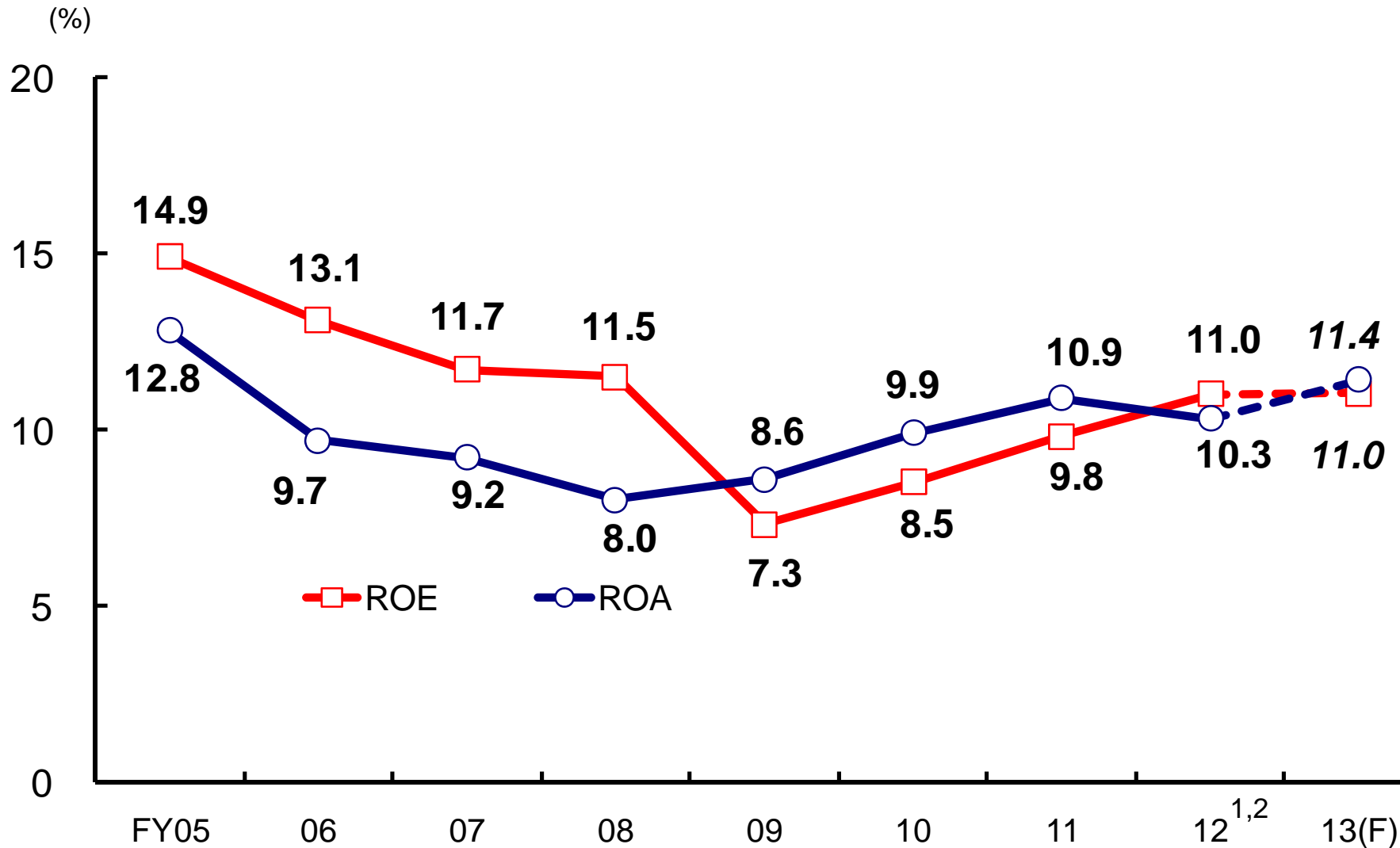
EBITDA

Billion yen



*Fiscal year end is December 31 from FY2012. (Please refer to slide 23 for details.)

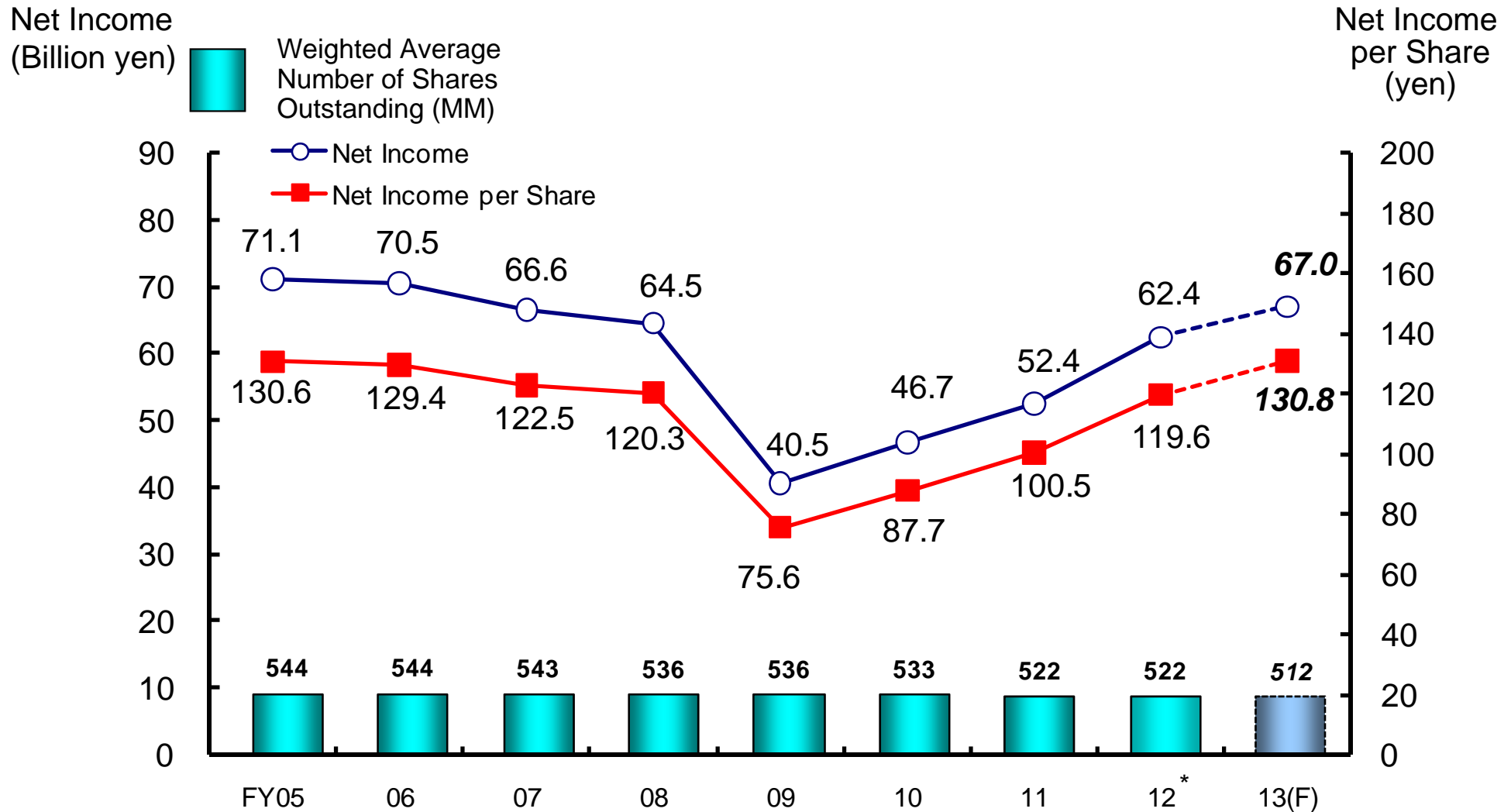
ROE & ROA



ROA: Ordinary Income / Total assets

- 1 Fiscal year end is December 31 from FY2012. (Please refer to slide 23 for details.)
- 2 ROE and ROA of FY2012 are for the transitional period connected with the change in fiscal year end.

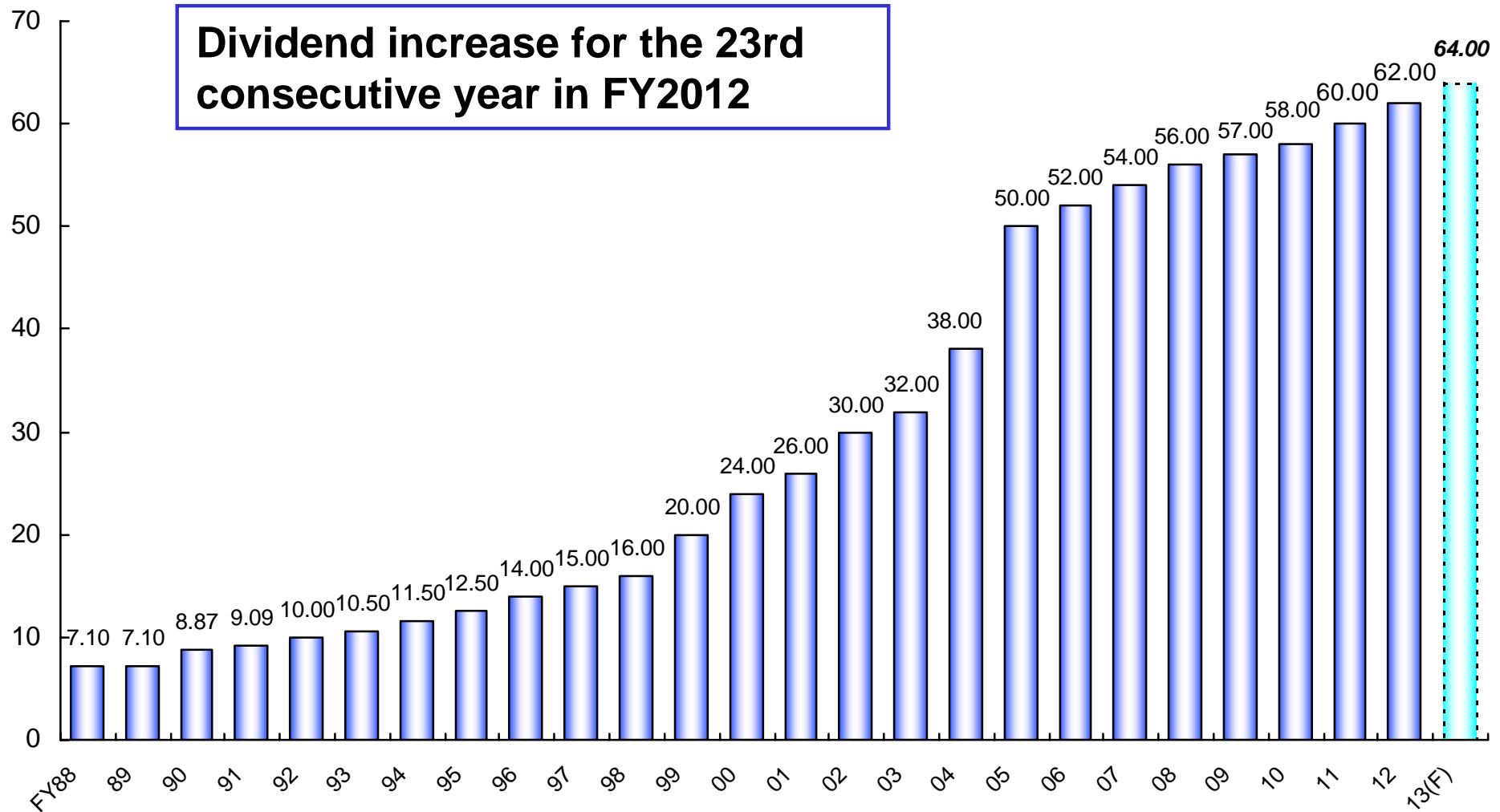
Net Income per Share



* Fiscal year end is December 31 from FY2012. (Please refer to slide 23 for details.)

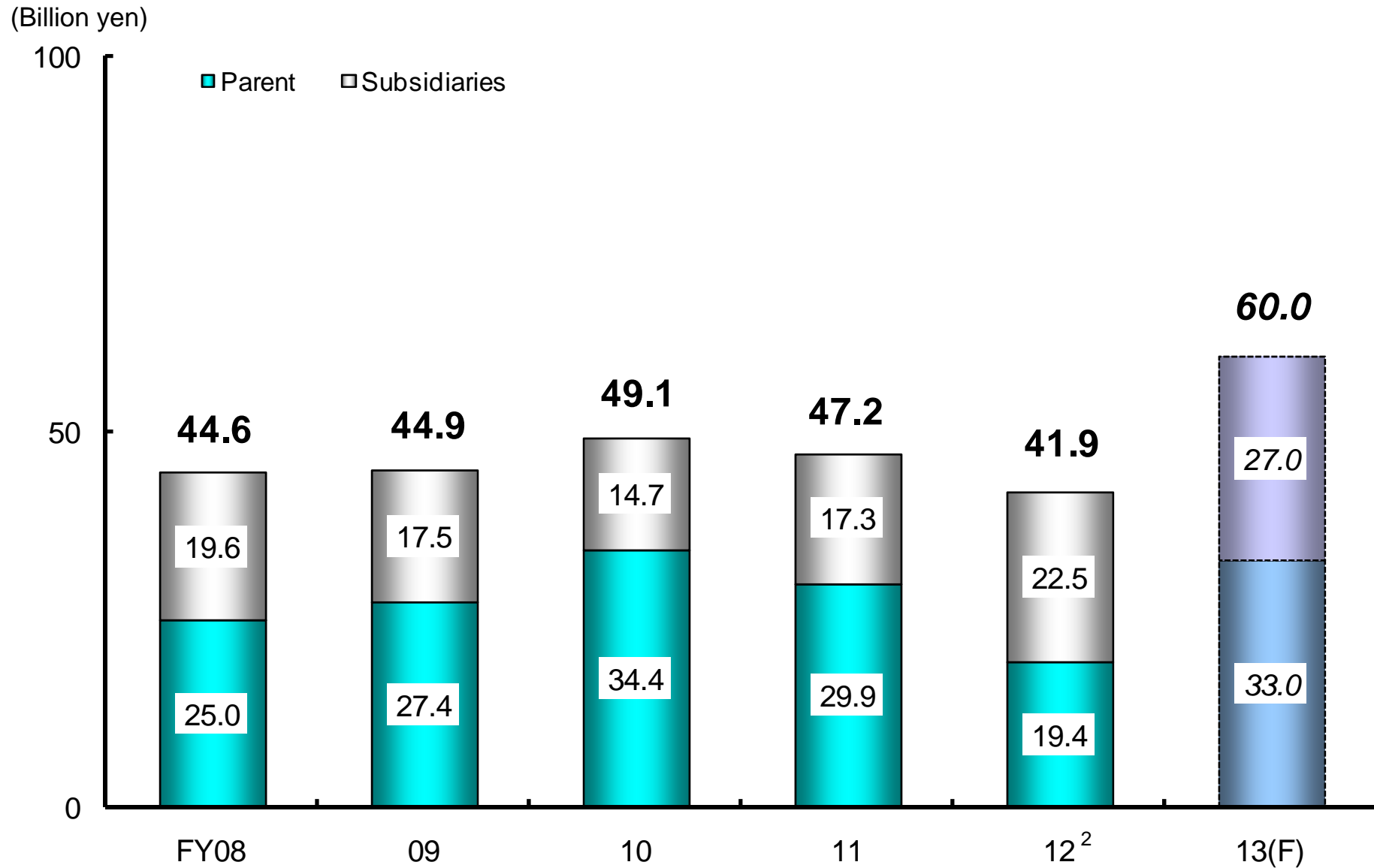
Cash Dividends per Share

(Yen)



*Impacts of share splits are retroactively reflected.

Capital Expenditures



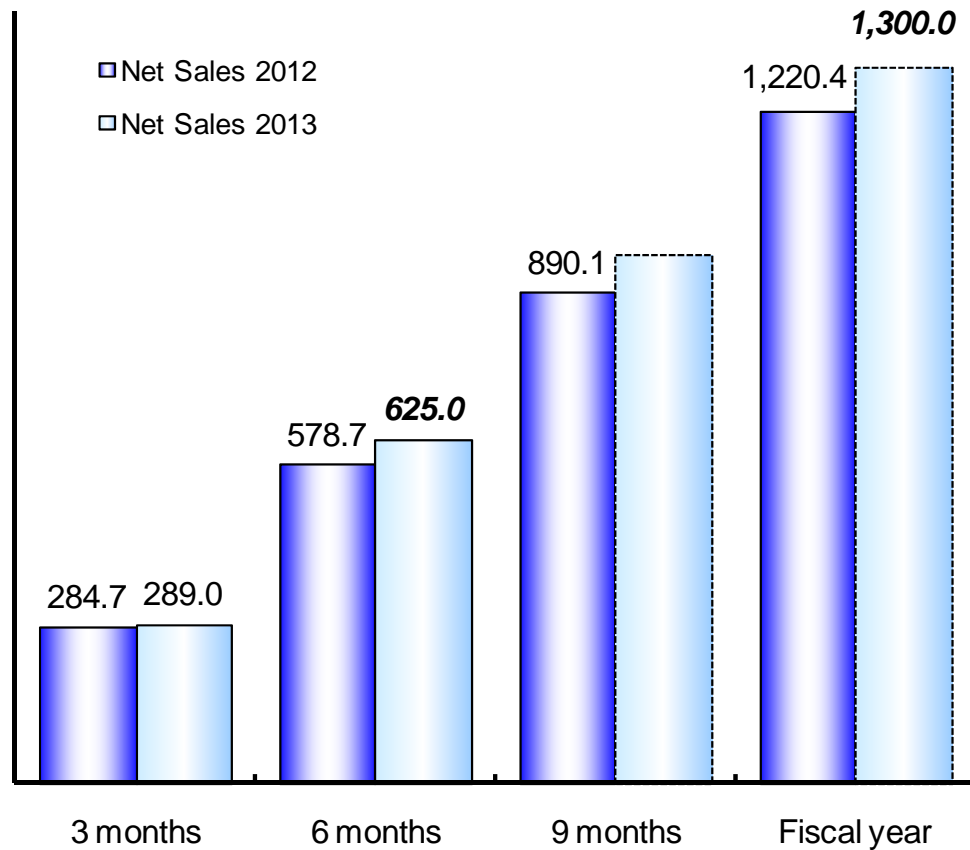
1 Includes long-term prepaid expenses.

2 Fiscal year end is December 31 from FY2012. (Please refer to slide 23 for details.)

FY2013 Quarterly Consolidated Sales and Profit Forecast

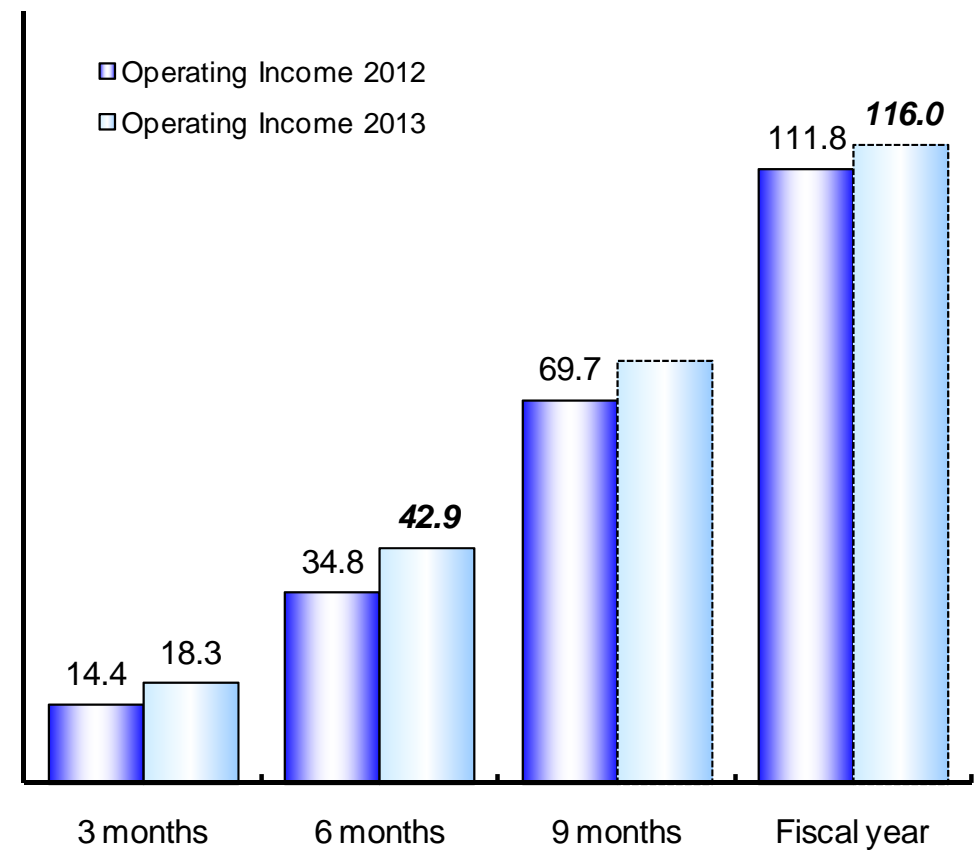
Net Sales

(Billion yen)



Operating Income

(Billion yen)



* Fiscal year end is December 31 from FY2012. Figures for the twelve-month period from January 1 to December 31, 2012 for Kao Corporation and its subsidiaries whose fiscal year end was previously March 31. (Please refer to slide 23 for details.)

KaO

Enriching lives, in harmony with nature.