

Annual Financial Review

From January 1 to December 31, 2013

Kao Corporation

February 4, 2014

This is a translation of materials used for the analyst meeting held in Japan on February 4, 2014.



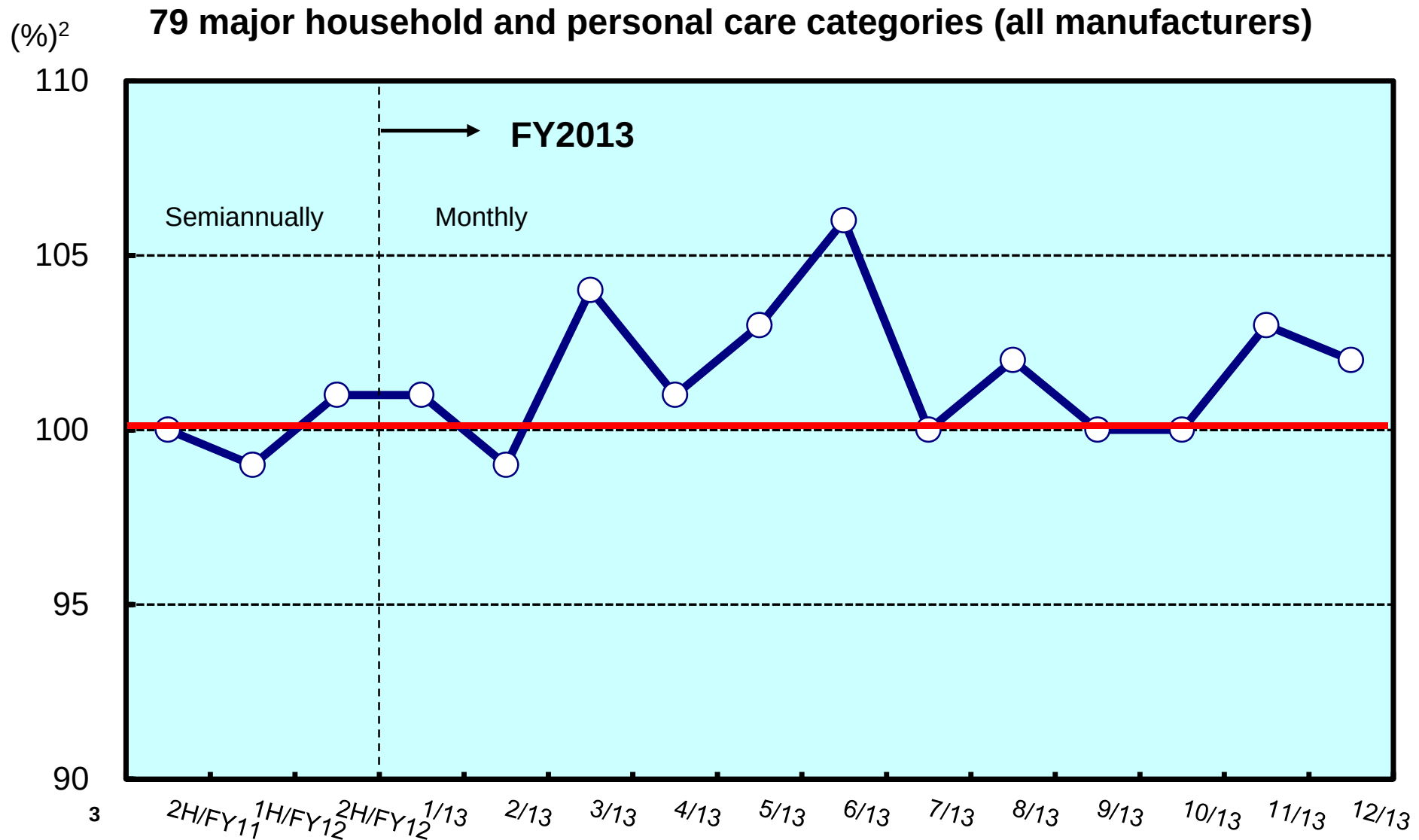
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Forward-looking statements such as earnings forecasts and other projections contained in this release are based on information available at this time and assumptions that management believes to be reasonable, and do not constitute guarantees of future performance. Actual results may differ materially from those expectations due to various factors.

1. Business Environment

January 1 - December 31, 2013

Consumer Products¹ Market in Japan



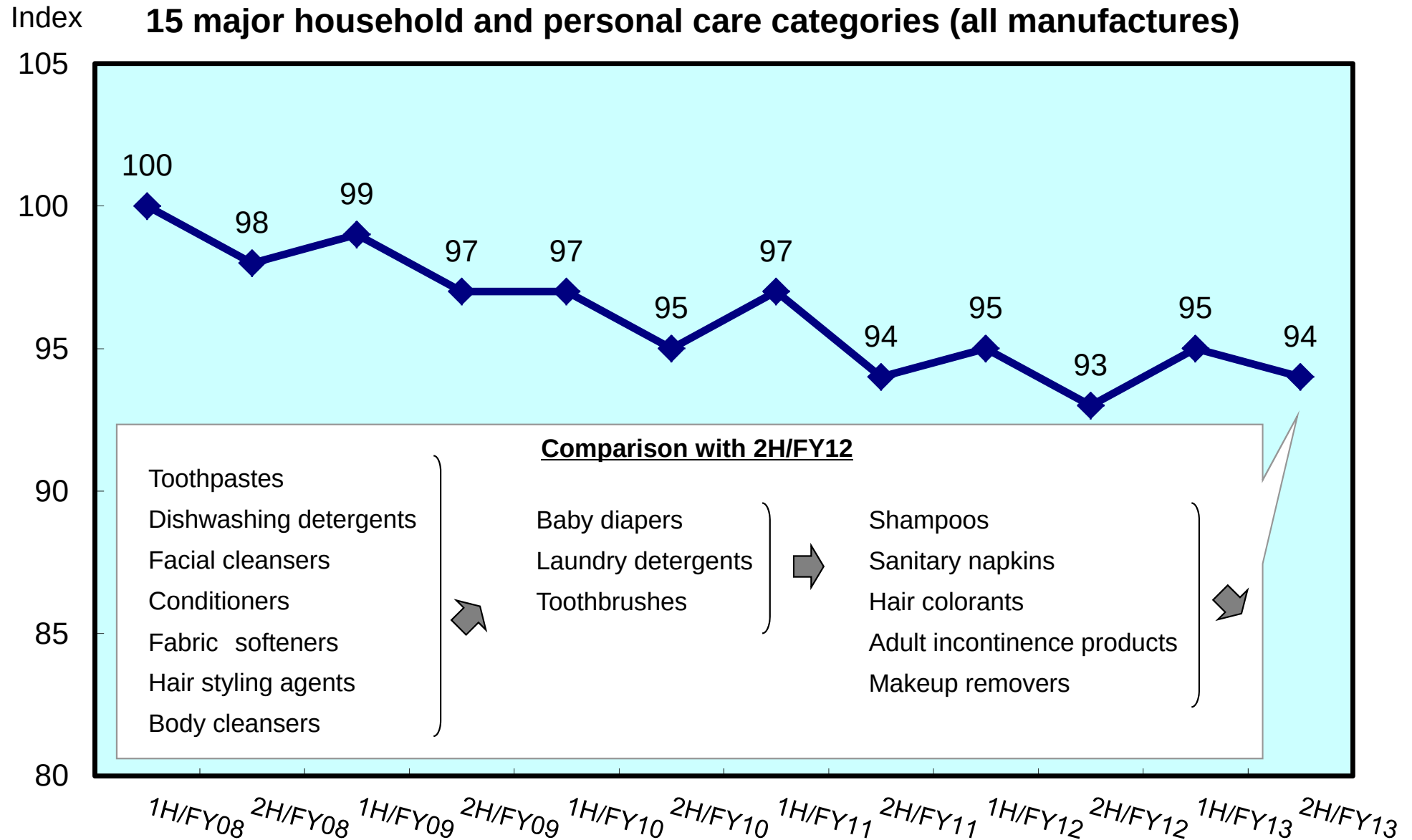
1 Consumer products do not include cosmetics.

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



*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 - December 31, 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 period from January 1 to December 31, 2012 for the purpose of comparison with FY2013 (January 1 to December 31, 2013).

Adjusted growth / Adjusted change

Comparison with the restated FY2012

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

Key Points in FY2013

Japan sales related

1. Consumer purchase price of 15 major household and personal care categories market in Japan¹:

1 st half :	Flat year-on-year
2 nd half :	+1 point year-on-year
2. Growth of household and personal care market in Japan² (Jan.-Dec.): +2%
3. Growth of the cosmetics market in Japan³ (Jan.-Dec.): -1.5%

Income statements related

		<u>Adjusted growth⁴</u>
1. Net sales:	¥ 1,315.2 billion	+7.8%
• Effect of currency translation ⁴ :	+¥ 69.8 billion	+5.7%
• Sales growth excluding effect of currency translation ⁴ :	+¥ 25.0 billion	+2.1%
2. Increase/decrease in operating income ^{4,5} :	+¥ 12.9 billion	

Cash flow related

1. Free cash flow ⁶ :	¥ 121.0 billion
2. Payments of cash dividends ⁷ :	¥ 35.0 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 Adjusted (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

FY2013 Consolidated Results

Billion yen	<u>FY12¹</u>	Restated <u>FY12¹</u>	<u>FY13</u>	Adjusted growth ¹
Net Sales	1,012.6	1,220.4	1,315.2	+7.8%
EBITA ²	125.7	143.8	154.8	+7.6%
<i>EBITA Margin</i>	12.4%	11.8%	11.8%	
Operating Income	101.6	111.8	124.7	+11.5%
<i>Operating Margin</i>	10.0%	9.2%	9.5%	
Ordinary Income	104.2	114.1	128.1	+12.2%
Net Income	52.8	53.1	64.8	+21.9%
EBITDA	161.4	189.2	202.0	+6.8%
ROE ³	9.4%	9.5%	10.7%	
EPS (yen)	101.12	101.77	126.03	+23.8%

1 Please refer to slide 6 for details.

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

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

Consolidated Net Sales [1]

	Restated FY2012 ¹	FY2013		
	Billion yen	Billion yen	% Growth	
			Adjusted ¹	Like-for-like ²
Beauty Care Business	408.3	408.6	+0.1	+0.1
Human Health Care Business	170.3	181.9	+6.8	+6.8
Fabric and Home Care Business	264.4	275.9	+4.3	+4.3
Japan total	843.0	866.4	+2.8	+2.8
Asia	87.3	116.4	+33.3	+11.0
Americas	56.6	68.9	+21.7	+0.5
Europe	57.3	72.1	+26.0	+1.0
Eliminations	-24.8	-32.0	-	-
Consumer Products Business	1,019.4	1,091.9	+7.1	+2.9

1 Please refer to slide 6 for details.

2 Adjusted growth excluding the effect of currency translation

Consolidated Net Sales [2]

	Restated FY2012 ¹	FY2013		
	Billion yen	Billion yen	% Growth	
			Adjusted ¹	Like-for-like ²
Japan	121.8	125.6	+3.1	+3.1
Asia	75.6	86.8	+14.8	-4.9
Americas	33.6	39.9	+18.9	-3.5
Europe	53.5	62.3	+16.4	-7.7
Eliminations	-47.9	-53.3	-	-
Chemical Business	236.5	261.2	+10.5	-1.0
Reconciliations	-35.5	-37.9	-	-
Consolidated net sales	1,220.4	1,315.2	+7.8	+2.1

1 Please refer to slide 6 for details.

2 Adjusted growth excluding the effect of currency translation

Consolidated Income Statements

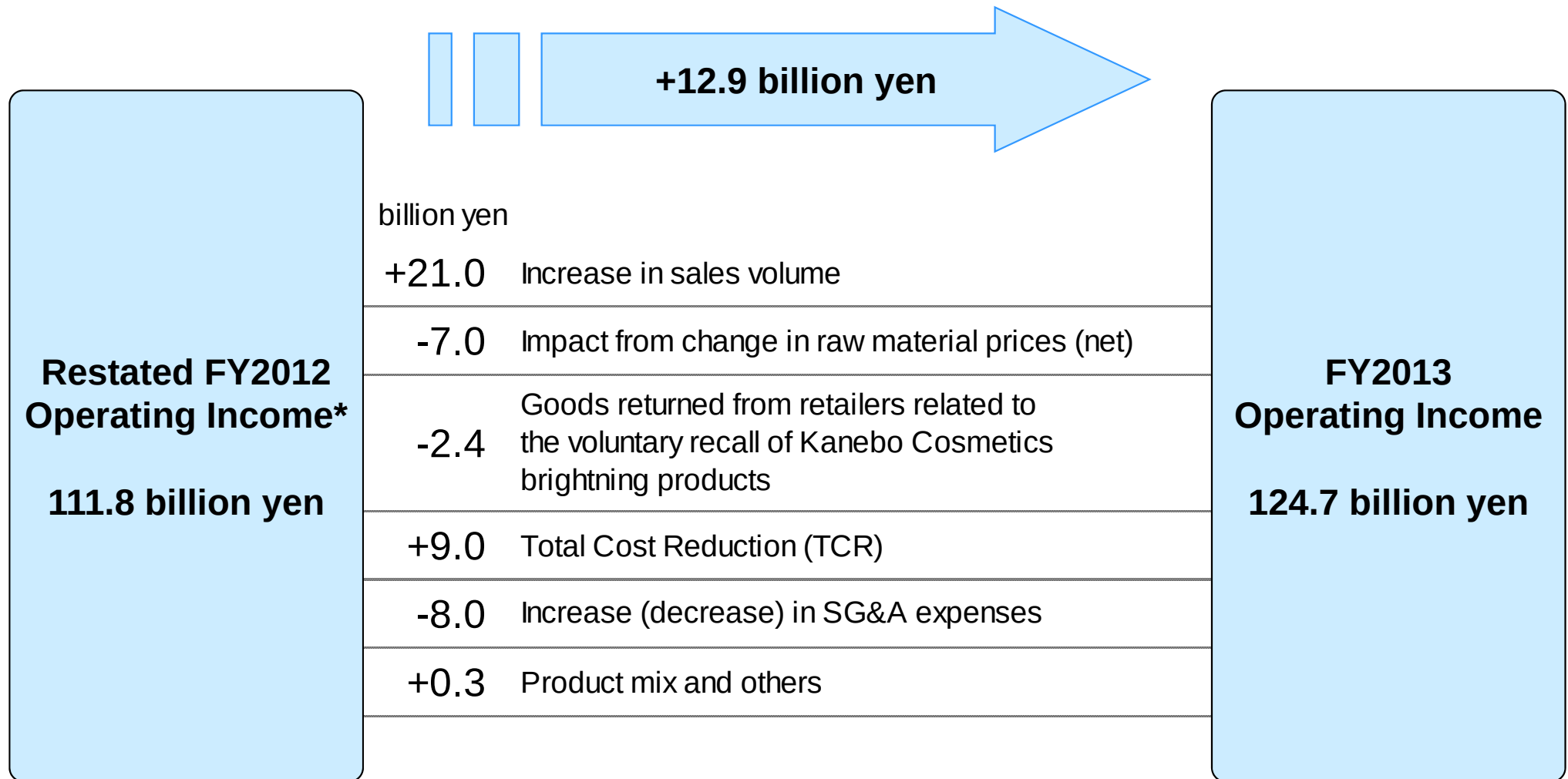
	FY2012 ¹		FY2013		Adjusted % growth ¹
	Billion yen	%	Billion yen	%	
Net Sales	1,012.6	100.0	1,315.2	100.0	+7.8
Cost of Sales	442.5	43.7	572.8	43.5	
Gross Profit	570.1	56.3	742.4	56.5	
SG&A Expenses ²	468.5	46.3	617.8	47.0	
Operating Income	101.6	10.0	124.7	9.5	+11.5
Non-operating Income/Expenses	2.6	0.3	3.4	0.3	
Ordinary Income	104.2	10.3	128.1	9.7	+12.2
Extraordinary Gain/Loss	-1.9	-0.2	-13.1	-1.0	
Income Before Income Taxes and Minority Interests	102.3	10.1	114.9	8.7	
Income Taxes	48.2	4.8	49.1	3.7	
Income Before Minority Interests	54.1	5.3	65.8	5.0	
Minority Interests	1.4	0.1	1.0	0.1	
Net Income	52.8	5.2	64.8	4.9	+21.9

1 Please refer to slide 6 for details.

2 Amortization related to Kanebo Cosmetics

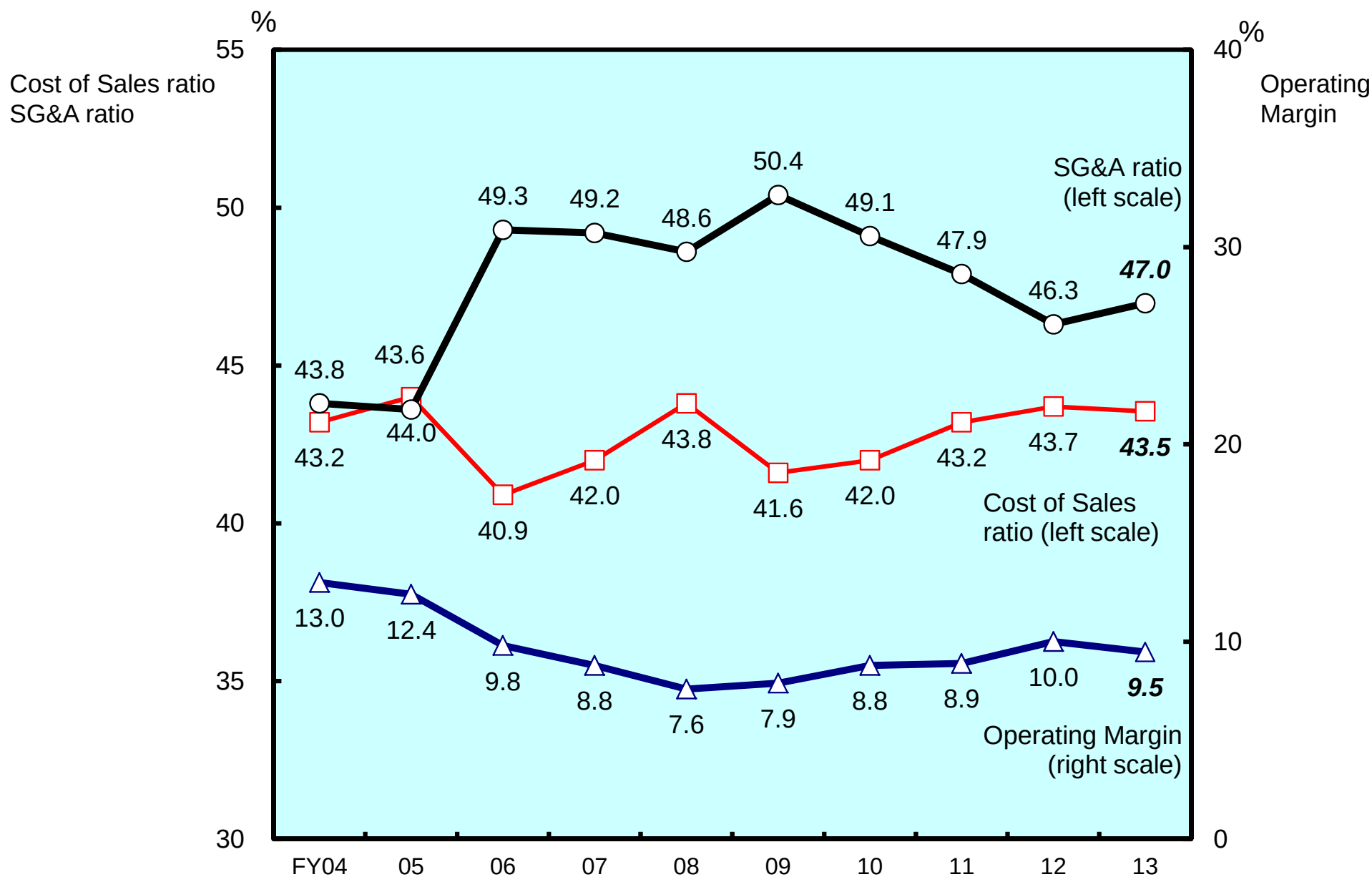
FY2012: 20.5 billion yen, FY2013: 26.8 billion yen

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)

	FY2012 [*]	FY2013
Total SG&A Expenses	468.5	617.8

Freight/Warehouse	56.8	77.3
Advertising	67.0	86.4
Sales Promotion	52.1	69.6
Salaries and Bonuses	97.7	130.3
R&D	37.5	49.7

*Please refer to slide 6 for details.

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

(Billion yen)

Non-operating Income/Expenses	FY2012*	FY2013
Non-operating Income	5.0	6.3
Interest Income	0.8	1.0
Dividend Income	0.2	0.2
Equity in Earnings of Nonconsolidated Subsidiaries and Affiliates	1.7	2.3
Other	2.3	2.8
Non-operating Expenses	2.3	2.9
Interest Expense	1.2	1.2
Foreign Currency Exchange Loss	0.3	0.3
Other	0.9	1.3

Extraordinary Gain/Loss	FY2012*	FY2013
Extraordinary Gain	0.6	0.9
Gain on Sales of Fixed Assets	0.1	0.1
Gain on Sales of Stock of Subsidiary	0.3	-
Gain on Transfer of Business	-	0.4
Other	0.2	0.5
Extraordinary Loss	2.6	14.0
Loss on Sales/Disposals of Fixed Assets	2.2	2.7
Loss related to cosmetics	-	9.7
Other	0.3	1.6

*Please refer to slide 6 for details.

Consolidated Results by Segment

		Restated FY2012 ³		FY2013		Adjusted change ³ Billion yen	Adjusted growth ³ %
		Billion yen	% of net sales	Billion yen	% of net sales		
Beauty Care Business	Net Sales ¹	537.8	-	570.3	-	+32.5	+6.0%
	EBITA ²	52.1	9.7%	54.0	9.5%	+2.0	+3.8%
	Operating Income	20.1	3.7%	23.9	4.2%	+3.8	+18.9%
Human Health Care Business	Net Sales ¹	189.6	-	210.6	-	+21.0	+11.1%
	Operating Income	13.6	7.2%	16.9	8.0%	+3.2	+23.8%
Fabric and Home Care Business	Net Sales ¹	292.0	-	311.0	-	+19.0	+6.5%
	Operating Income	59.6	20.4%	62.2	20.0%	+2.6	+4.3%
Chemical Business	Net Sales ¹	236.5	-	261.2	-	+24.7	+10.5%
	EBITA ²	18.2	7.7%	21.5	8.2%	+3.4	+18.5%
	Operating Income	18.1	7.7%	21.5	8.2%	+3.4	+18.9%
Consolidated	Net Sales	1,220.4	-	1,315.2	-	+94.9	+7.8%
	EBITA ²	143.8	11.8%	154.8	11.8%	+11.0	+7.6%
	Operating Income	111.8	9.2%	124.7	9.5%	+12.9	+11.5%

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 FY2012 ³		FY2013		Adjusted change ³	Adjusted growth ³
		Billion yen	% of net sales	Billion yen	% of net sales	Billion yen	%
Japan	Net Sales ¹	933.8	-	959.4	-	+25.6	+2.7%
	EBITA ²	126.6	13.6%	128.2	13.4%	+1.5	+1.2%
	Operating Income	96.5	10.3%	101.3	10.6%	+4.9	+5.0%
Asia	Net Sales ¹	160.0	-	199.7	-	+39.6	+24.8%
	Operating Income	6.4	4.0%	12.8	6.4%	+6.4	+99.5%
Americas	Net Sales ¹	90.0	-	108.6	-	+18.6	+20.7%
	EBITA ²	3.4	3.8%	6.5	6.0%	+3.1	+91.4%
	Operating Income	2.8	3.1%	5.2	4.8%	+2.4	+87.1%
Europe	Net Sales ¹	110.5	-	134.2	-	+23.6	+21.4%
	EBITA ²	7.4	6.7%	9.3	6.9%	+1.9	+26.0%
	Operating Income	6.1	5.5%	7.3	5.4%	+1.2	+19.0%
Consolidated	Net Sales	1,220.4	-	1,315.2	-	+94.9	+7.8%
	EBITA ²	143.8	11.8%	154.8	11.8%	+11.0	+7.6%
	Operating Income	111.8	9.2%	124.7	9.5%	+12.9	+11.5%

1 Before elimination of intersegment transfers

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

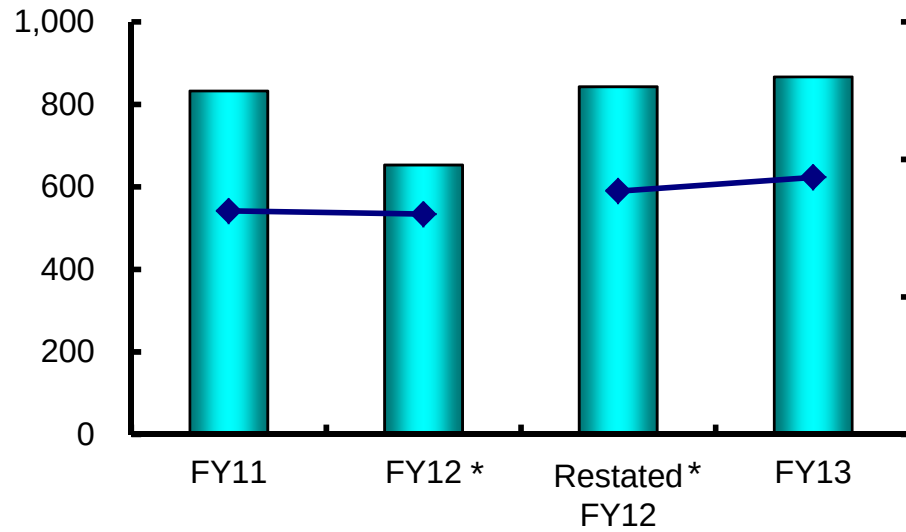
3 Please refer to slide 6 for details.

Consumer Products Business by Geographic Area

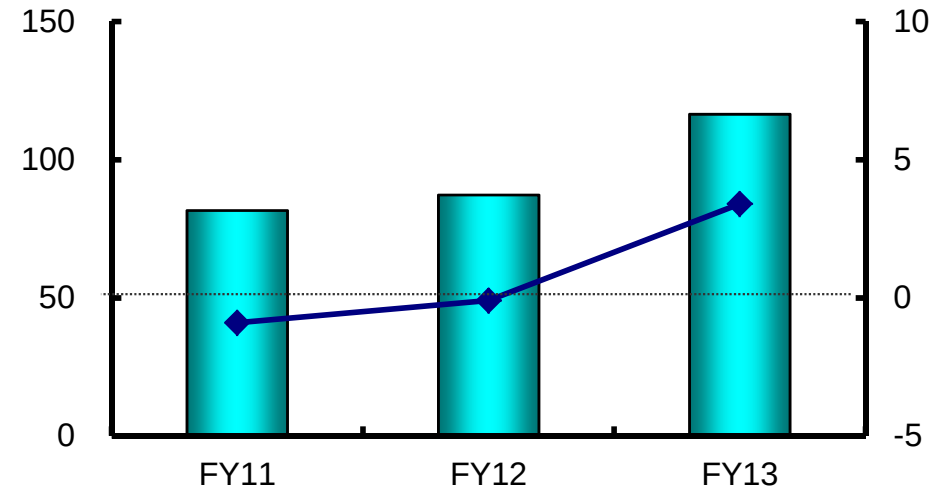
Japan

Sales (Billion yen)

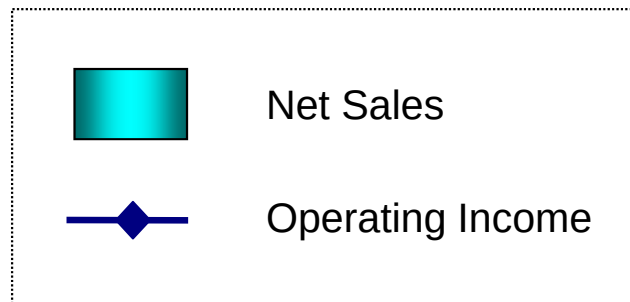
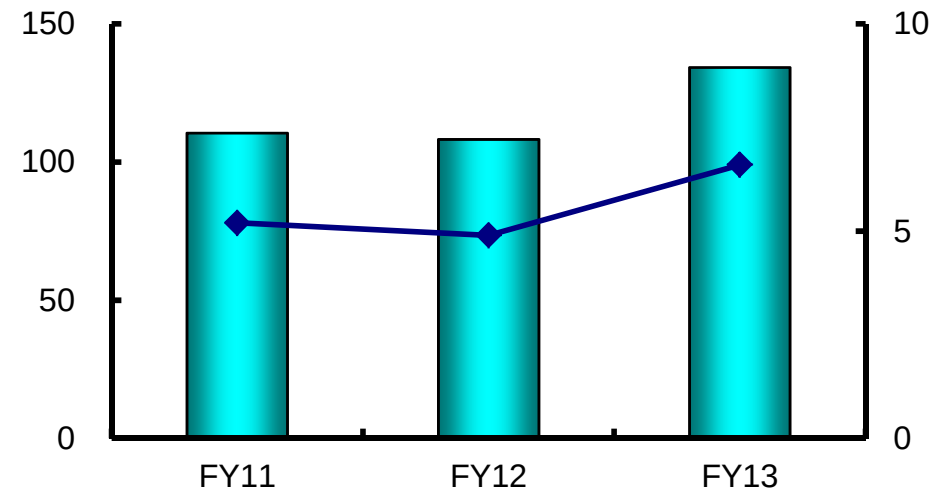
Operating Income
(Billion yen)



Asia



Americas & Europe

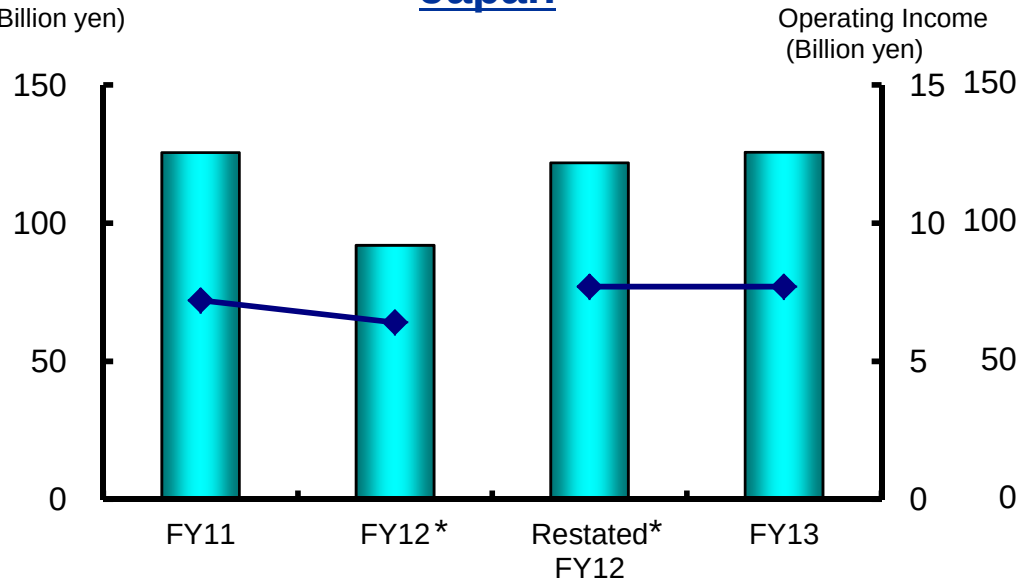


* Please refer to slide 6 for details on FY2012 and restated FY2012 of Japan.

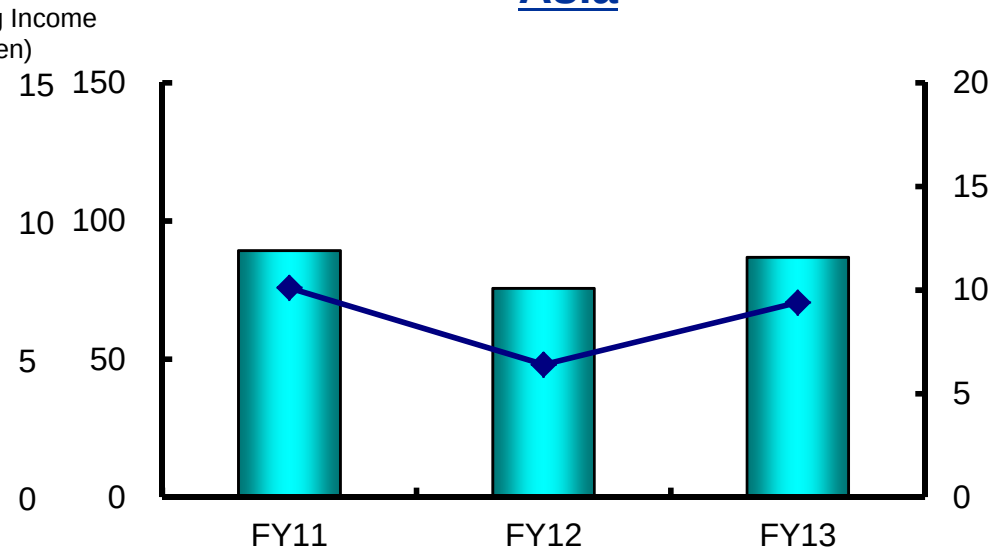
Chemical Business by Geographic Area

Japan

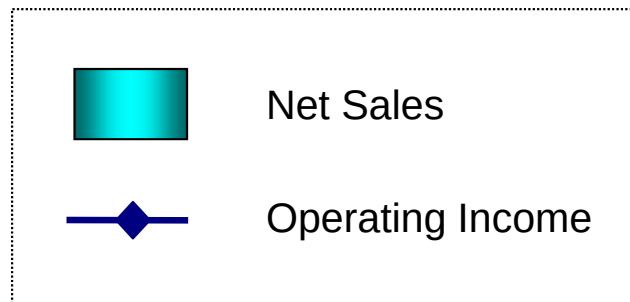
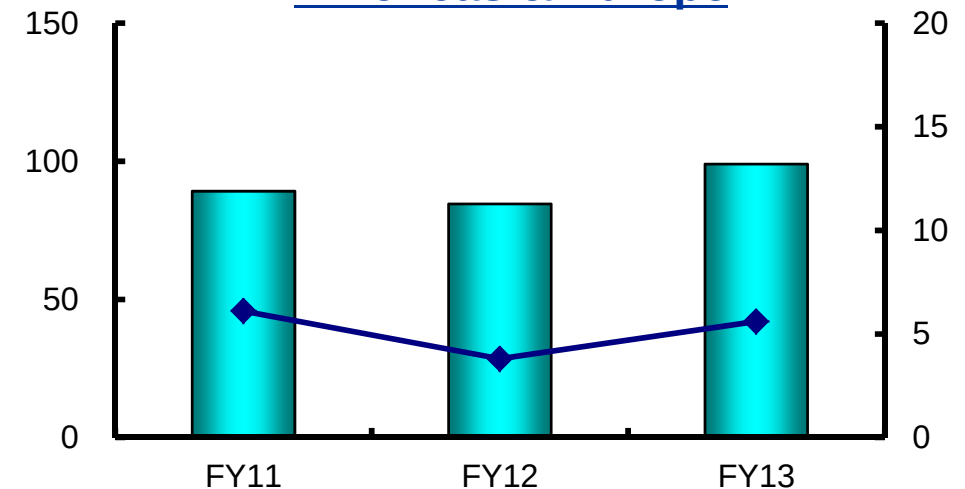
Sales (Billion yen)



Asia



Americas & Europe



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

Consolidated Balance Sheets

(Billion yen)							
	Dec/12	Dec/13	Change		Dec/12	Dec/13	Change
Current Assets	493.4	594.0	+100.6	Current Liabilities	315.9	338.3	+22.4
Cash and Time Deposits	99.3	126.3	+27.0	Notes and Accounts Payable - Trade	105.5	116.0	+10.5
Notes and Accounts Receivable - Trade	164.3	181.9	+17.6	Bonds/Short-term Loans (incl. Current Portion of Bonds/Long-term Loans)	53.1	21.3	-31.8
Short-term Investments	57.4	90.1	+32.7	Accrued Income Taxes	11.7	32.3	+20.7
Inventories	122.2	139.1	+16.9	Other	145.6	168.7	+23.1
Other	50.2	56.5	+6.3				
Fixed Assets	536.9	539.3	+2.4	Long-term Liabilities	118.4	152.3	+33.9
Property, Plant and Equipment	252.3	277.3	+24.9	Bonds/Long-term Loans	50.1	80.1	+30.0
Intangible Assets	215.9	192.6	-23.3	Other	68.3	72.2	+3.9
Investments and Other Assets	68.7	69.4	+0.7	Total Liabilities	434.3	490.6	+56.4
				Shareholders' equity	654.0	657.0	+3.0
				-Common Stock	85.4	85.4	-
				-Capital Surplus	109.6	109.6	-
				-Retained Earnings	468.0	471.4	+3.4
				-Treasury Stock, at Cost	-9.0	-9.4	-0.4
				Accumulated other comprehensive income	-71.3	-28.3	+43.1
				- Unrealized Gain on Available-for-sale Securities	2.4	4.7	+2.3
				- Deferred Gain (Loss) on Derivatives under Hedges Accounting	0.0	0.0	+0.0
				- Foreign Currency Translation Adjustments	-71.9	-28.4	+43.5
				- Post retirement adjustments for foreign consolidated subsidiaries	-1.9	-4.6	-2.7
				Stock Acquisition Rights	1.3	1.1	-0.2
				Minority Interests	12.1	12.8	+0.7
				Total Net Assets	596.1	642.6	+46.6
Total Assets	1,030.3	1,133.3	+102.9	Total Liabilities and Total Net Assets	1,030.3	1,133.3	+102.9

Consolidated Statements of Cash Flows

(Billion yen)

	FY2012 ¹	FY2013
Net Cash Provided by Operating Activities	97.4	178.7
Net Cash Used in Investing Activities	-44.6	-57.8
Net Cash Used in Financing Activities	-32.0	-67.5
Translation Adjustments on Cash and Cash Equivalents	9.7	13.0
Net Increase (Decrease) in Cash and Cash Equivalents	30.4	66.5
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	160.4	227.6
Total Debt at End of Period	103.2	101.4
Free Cash Flow ²	52.7	121.0

<Net cash used in investing activities>

- Capital expenditures:
- Construction of a new consumer products plant 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>

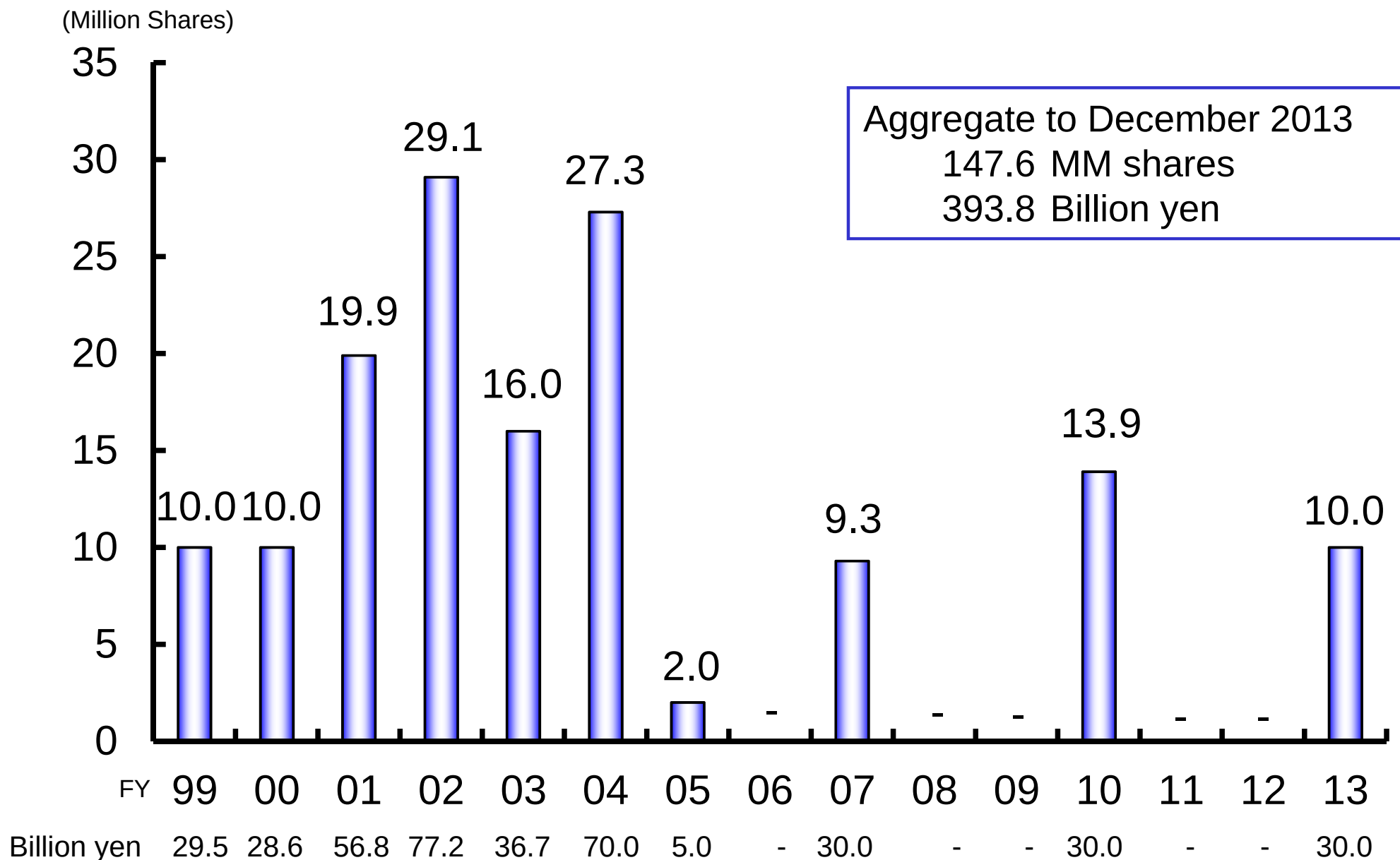
Payments of cash dividends (Includes payments of cash dividends to minority shareholders) : 35.0 billion yen
 Purchase of treasury stock³ : 30.0 billion yen
 Bonds : Redemption 50.0 billion yen / Issuance 50.0 billion yen
 Retirement of treasury stock: 10.2 million shares

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 of less than one unit

Share Repurchase*



* Share repurchase from the market

3. Forecast for FY2014

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 / Adjusted change

Comparison with the restated FY2012

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

Major Assumptions for FY2014 Forecast

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

		<u>Growth</u>
◆ Net sales:	¥1,370.0 billion	+4.2%
• Effect of currency translation:	+¥4.8 billion	+0.4%
• Sales growth excluding effect of currency translation:	+¥50.0 billion	+3.8%
◆ Impact from change in raw material prices:	<u>Estimated impact on income</u>	
• Gross impact:	-¥16 billion	
• Net impact:	-¥5 billion	
◆ Total Cost Reduction (TCR) activities:	+¥5 billion	
◆ Capital expenditures/depreciation and amortization:		
• Capital expenditures:	¥55 billion	
• Depreciation and amortization:	¥79 billion	

Exchange rate assumptions

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

1 Excludes cosmetics.

Consolidated Sales and Profit Forecast

	[Reference] Restated FY2012 ²	FY2013 ³		FY2014(F) ^{1 4}	
	Billion yen	Billion yen	Adjusted % growth	Billion yen	% Growth
Net Sales	1,220.4	1,315.2	+7.8	1,370.0	+4.2
Operating Income	111.8	124.7	+11.5	130.0	+4.3
[% of Sales]	9.2%	9.5%		9.5%	
Ordinary Income	114.1	128.1	+12.2	133.0	+3.9
[% of Sales]	9.4%	9.7%		9.7%	
Net Income	53.1	64.8	+21.9	75.0	+15.8
[% of Sales]	4.4%	4.9%		5.5%	
Net Income per Share (yen)	101.77	126.03	+23.8	146.44	+16.2
ROE	9.5%	10.7%	-	11.5%	-
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

1 Exchange rate assumptions: 100 yen/USD, 135 yen/Euro

2 Please refer to slide 23 for details.

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

3 Kanebo Cosmetics (Jan. – Dec. 2013): Net sales = approximately ¥180.0 billion / operating margin before deduction of royalties = slightly less than 5% ; amortization related to Kanebo Cosmetics: ¥26.8 billion

4 Kanebo Cosmetics (Jan. – Dec. 2014): Net sales = slightly more than ¥180.0 billion / operating margin before deduction of royalties = approximately 8% ; amortization related to Kanebo Cosmetics: ¥24.1 billion

Sales Outlook by Segment – FY2014

<Billion yen>

Consolidated Net Sales

By Segment*

Growth

1,370 +4.2%

Reference:
By Geographic Area*

Growth

Beauty Care	586	+2.8%
Human Health Care	228	+8.2%
Fabric and Home Care	318	+2.2%
Chemical	276	+5.7%

Growth

Japan	979	+2.0%
Asia	223	+11.7%
Americas	115	+5.9%
Europe	144	+7.3%

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

Sales Outlook – FY2014

- Consumer Products Business in Japan -

<Billion yen>

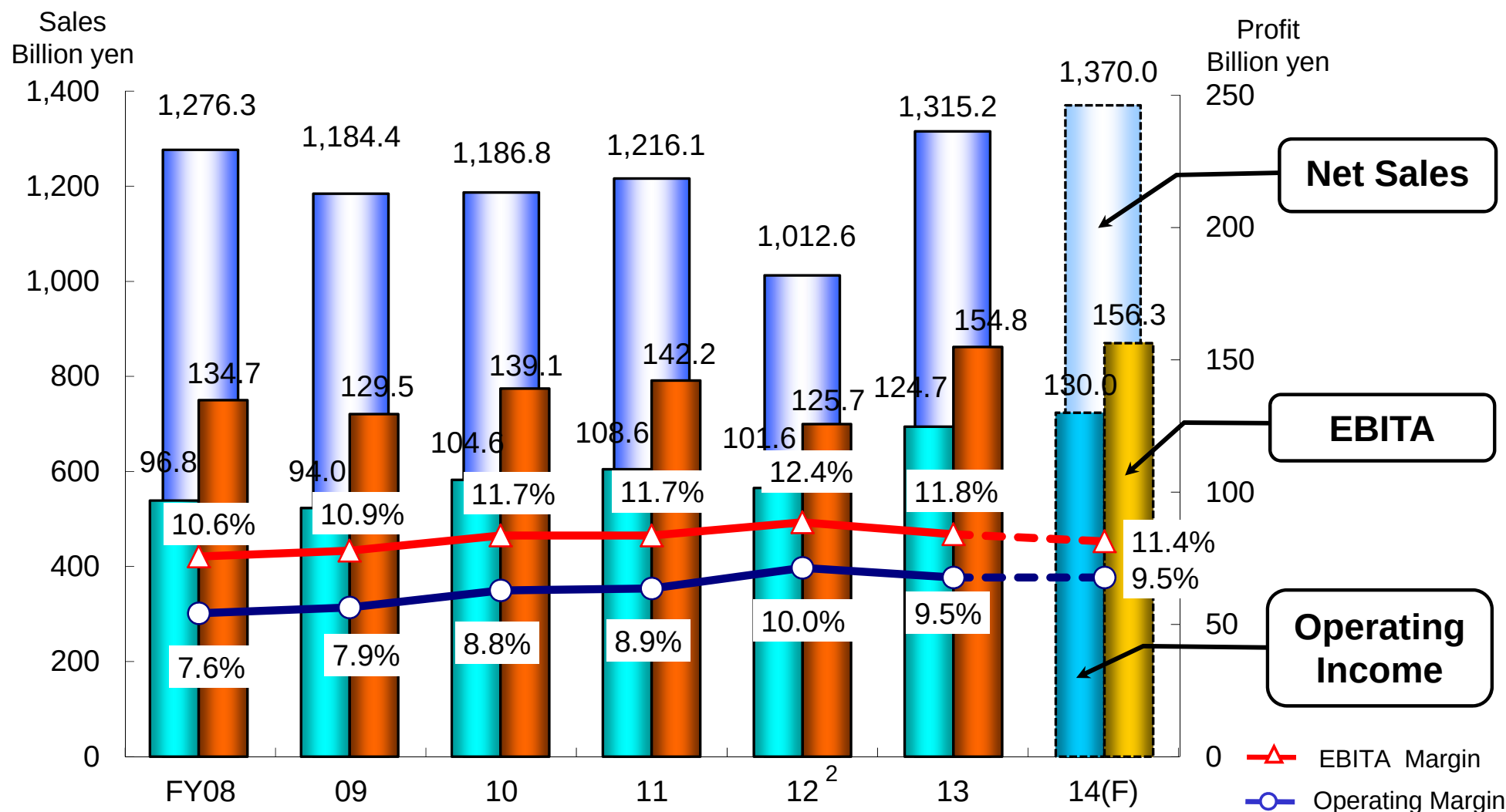
	1st Half			Full Year		
	FY2013 Actual	FY2014 Forecast	Growth	FY2013 Actual	FY2014 Forecast	Growth
Beauty Care	200.3	196.0	-2.1%	408.6	412.0	+0.8%
Human Health Care	86.0	91.0	+5.8%	181.9	190.0	+4.4%
Fabric and Home Care	121.0	123.0	+1.7%	275.9	280.0	+1.5%
Consumer Products Business	407.2	410.0	+0.7%	866.4	882.0	+1.8%

FY2014 Outlook by Segment/Geographic Area

	Decrease in operating income	Increase in operating income
Increase in net sales	CP* – Europe	CP* – Japan CP* – Asia CP* – Americas Chemical – Japan Chemical – Asia Chemical – Americas Chemical – Europe
Decrease in net sales		

*CP = Consumer Products

Consolidated Net Sales/EBITA¹/Operating Income



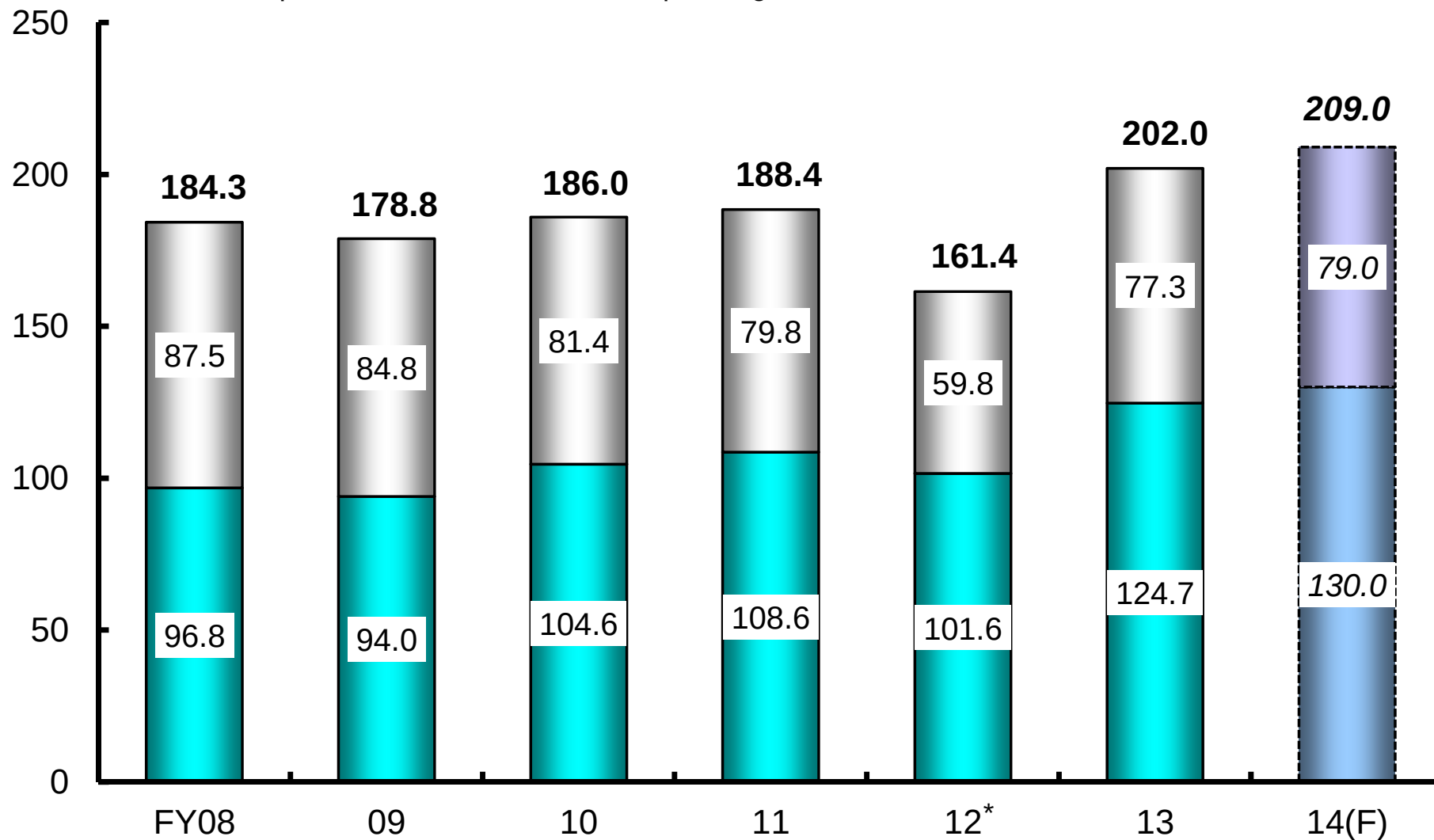
1 Operating income before amortization of goodwill and intellectual property rights related to M&A

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

EBITDA

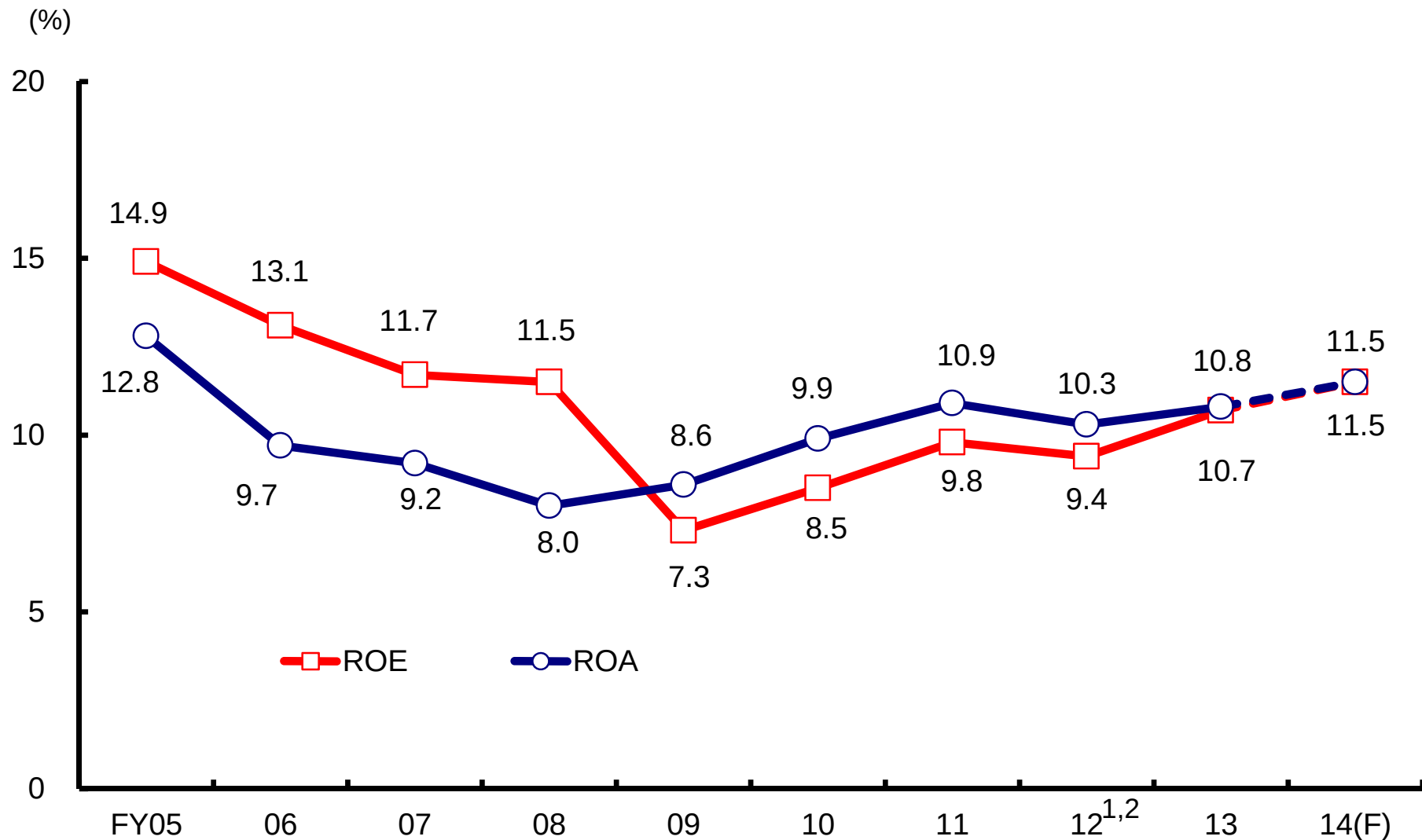
Billion yen

□ Depretiation & Amortization ■ Operating Income



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

ROE & ROA

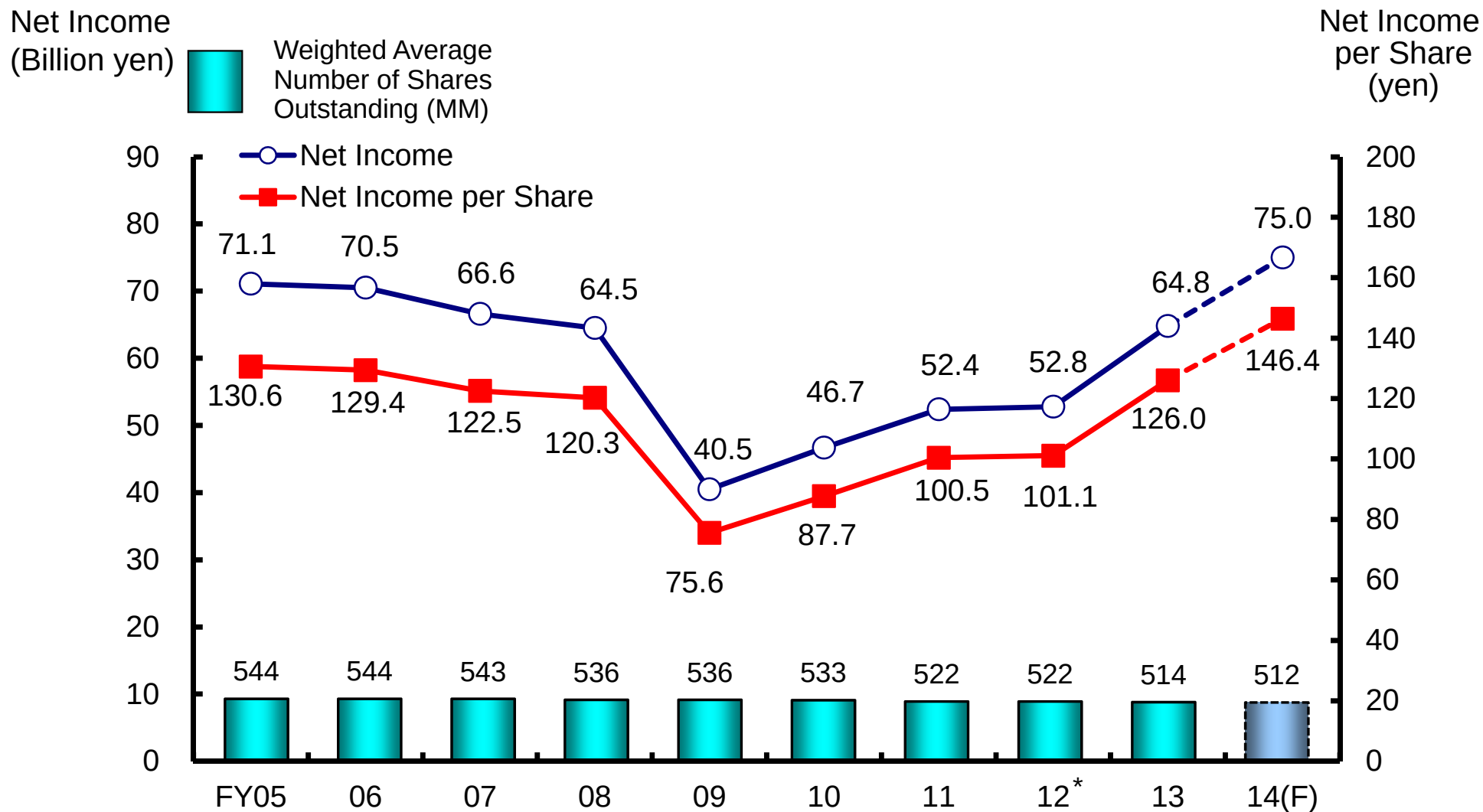


ROA: Ordinary Income / Total assets

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

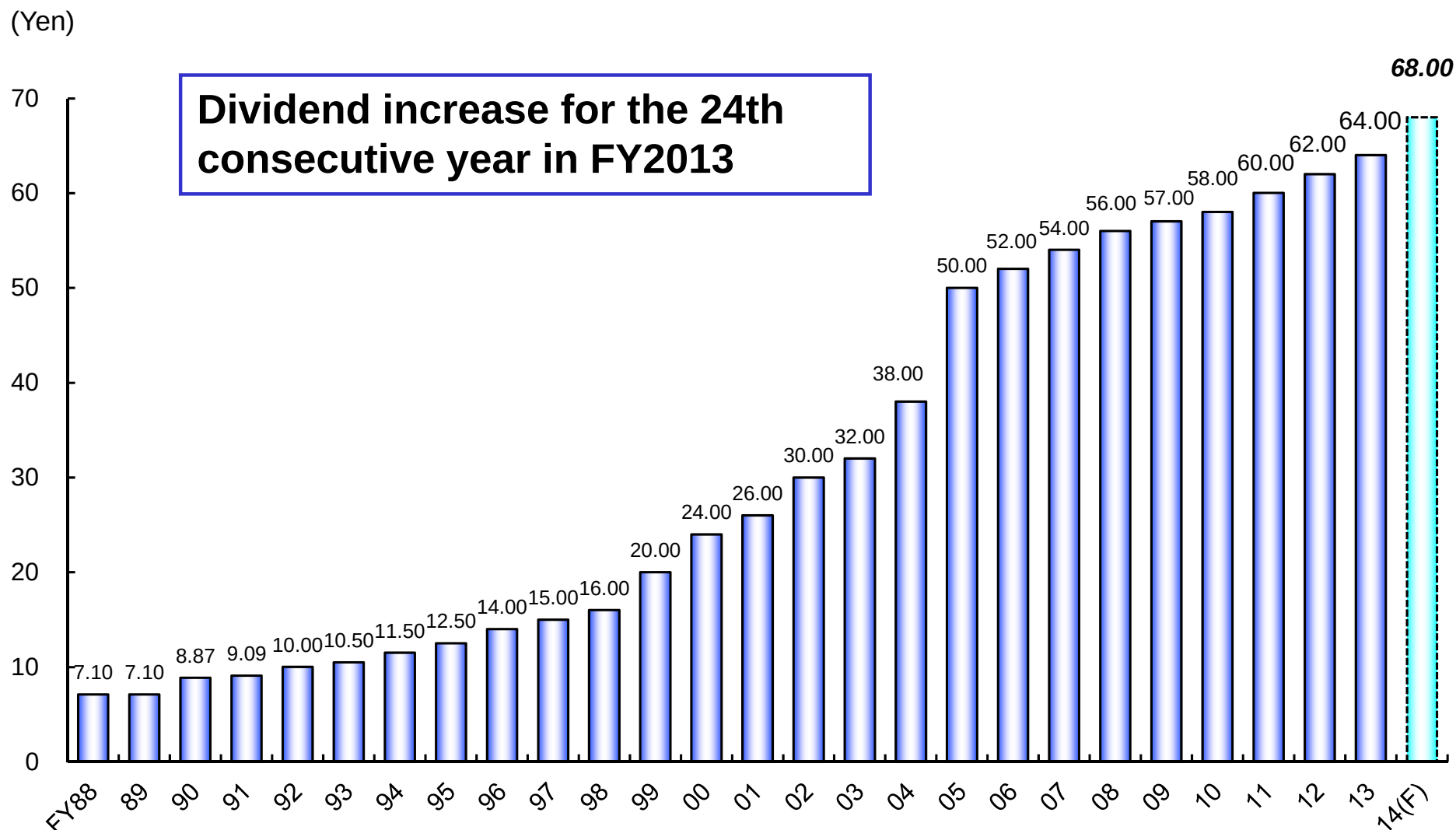
2 ROE and ROA of FY2012 are for the transitional period connected with the change in fiscal year end.

Net Income per Share



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

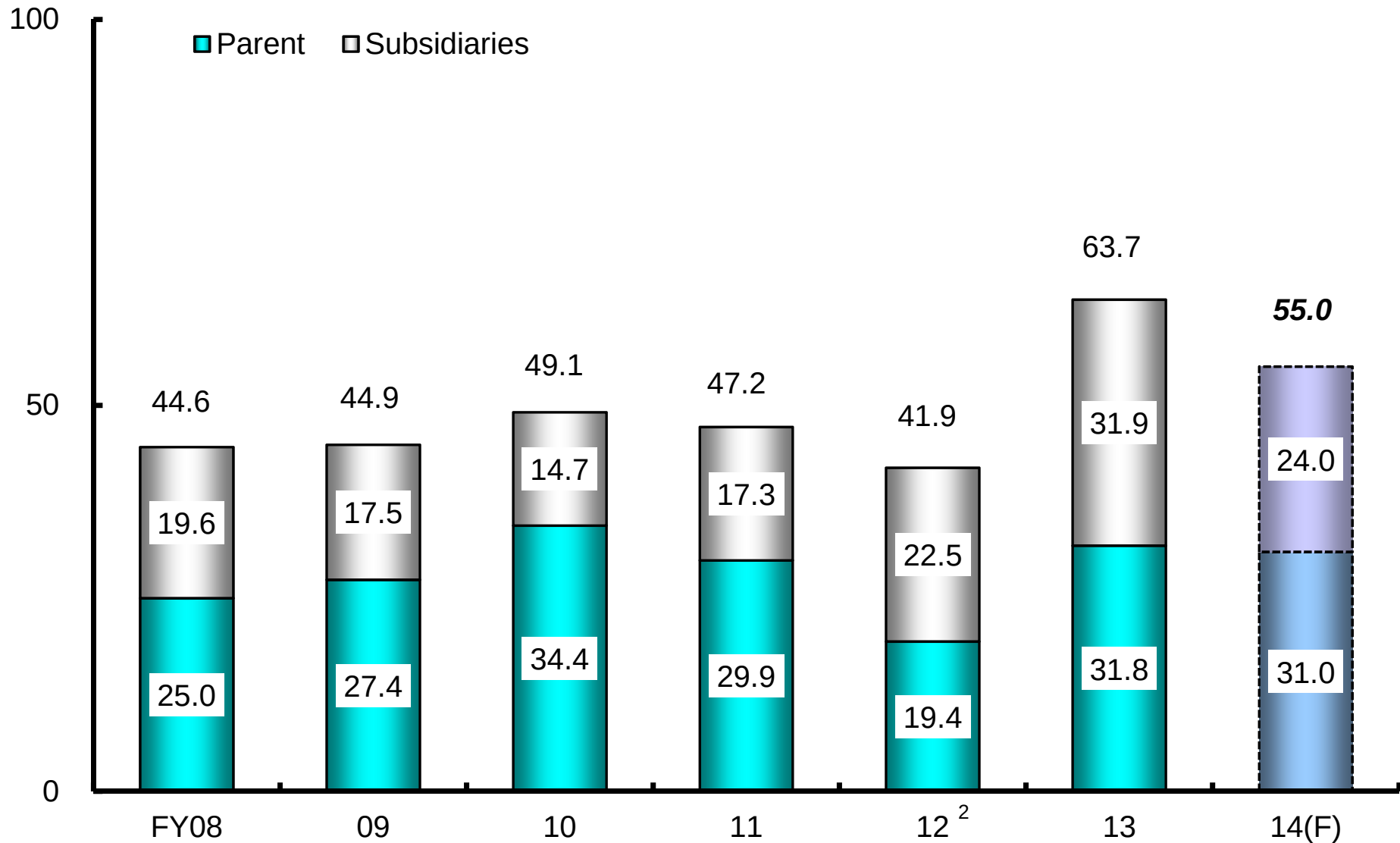
Cash Dividends per Share



*Impacts of share splits are retroactively reflected.

Capital Expenditures

(Billion yen)



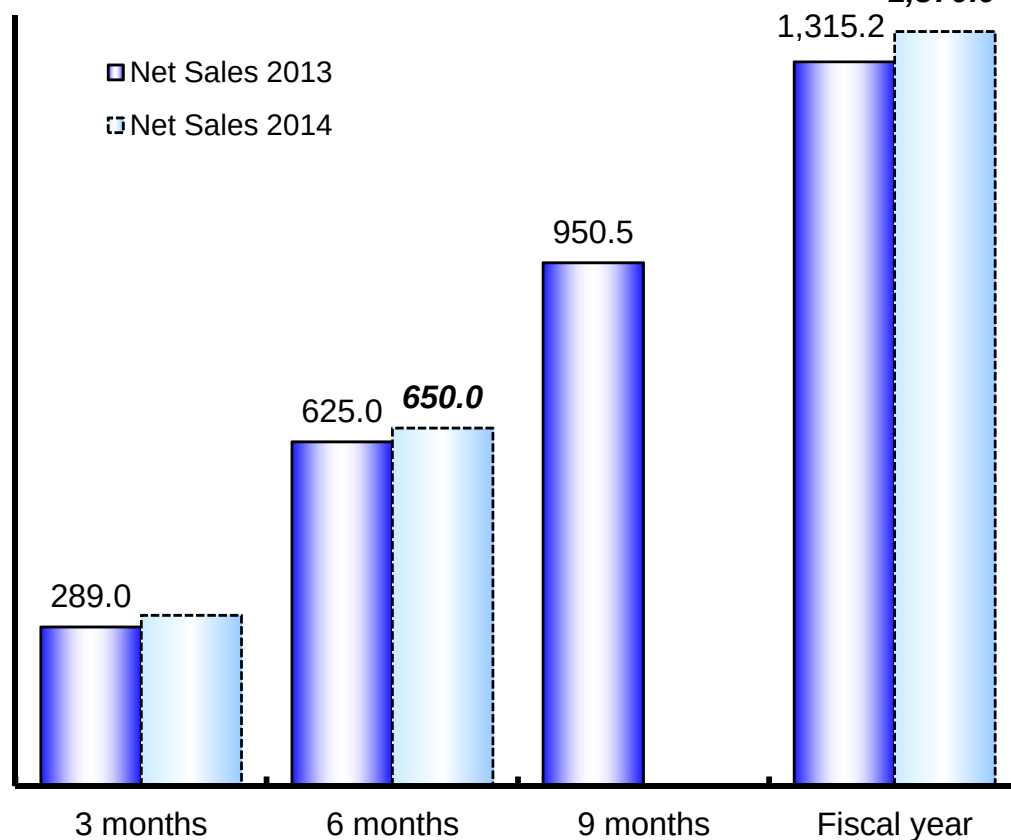
1 Includes long-term prepaid expenses.

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

FY2014 Quarterly Consolidated Sales and Profit Forecast

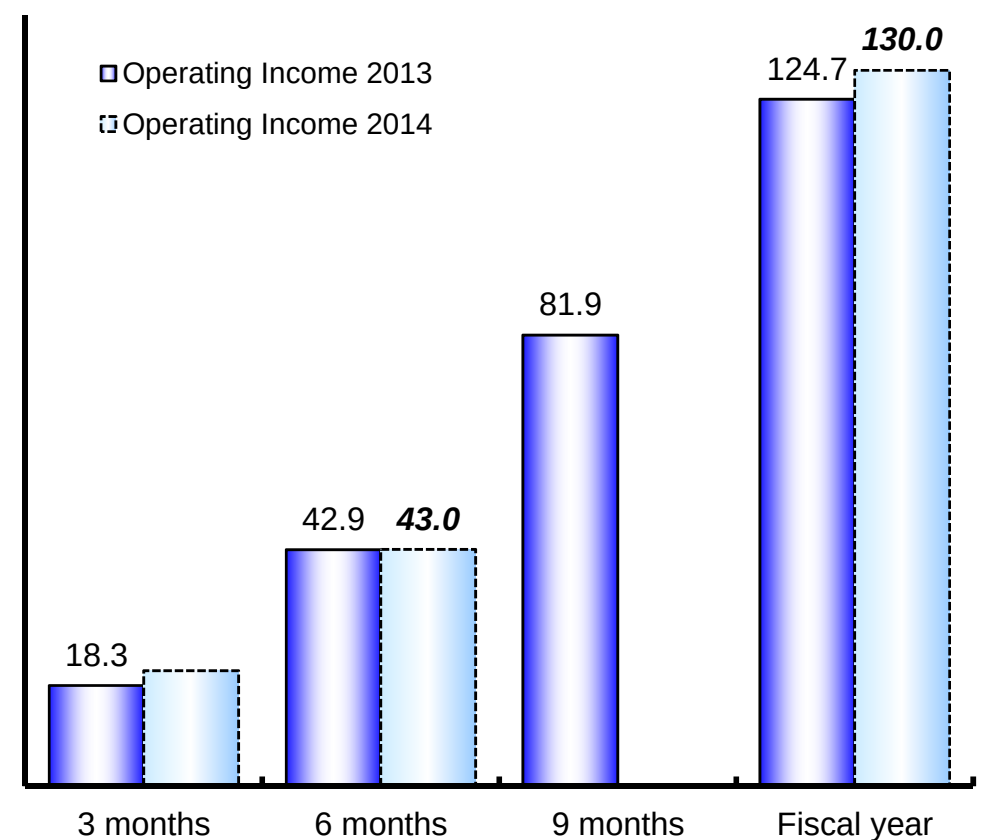
Net Sales

(Billion yen)



Operating Income

(Billion yen)



Kao

Enriching lives, in harmony with nature.