

**Revision of “Summary of Consolidated Business Results for the Fiscal Year Ended December 31, 2012”**

December 5, 2013

Kao Corporation (Ticker Code: 4452) has revised “Summary of Consolidated Business Results for the Fiscal Year Ended December 31, 2012” and presentation materials, which were released on February 5, 2013, as follows.

1. Reason for and Content of the Revision

Please refer to “Revision of Securities Report, Business Results and Other Reports,” which was released on November 21, 2013.

2. Corrections

Because the corrections are numerous, the full pre-revision and post-revision texts are both attached with the corrections underlined.

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## Kao Corporation Reports Business Results

Tokyo, February 5, 2013 — Kao Corporation today announced its consolidated business results for the fiscal year ended December 31, 2012. The following summary of the business results is unaudited and for reference only.

Due to a change in the fiscal year end, the term of consolidation for the fiscal year ended December 31, 2012 is the nine-month period from April to December for Kao Corporation and its subsidiaries whose fiscal year end was previously March 31 and the twelve-month period from January to December for subsidiaries whose year end was December 31.

Ticker code: 4452

### Consolidated Financial Highlights

(Millions of yen, millions of U.S. dollars, except per share data)

Fiscal year	2012	2011	Adjusted growth	2012
	Yen	Yen	%	U.S. dollars
Net sales	<b>1,012,595</b>	1,216,096	0.4	<b>11,695.5</b>
Operating income	<b>101,567</b>	108,590	3.2	<b>1,173.1</b>
Ordinary income	<b>104,214</b>	110,027	4.0	<b>1,203.7</b>
Net income	<b>52,765</b>	52,435	<u>1.9</u>	<b>609.4</b>
Comprehensive income	<b>79,524</b>	41,395	<u>97.9</u>	<b>918.5</b>
ROE (Net income / Net worth)	<b>9.4%</b>	9.8%	-	<b>9.4%</b>
ROA (Ordinary income / Total assets)	<b>10.3%</b>	10.9%	-	<b>10.3%</b>
Operating income / Net sales	<b>10.0%</b>	8.9%	-	<b>10.0%</b>
			Growth	
			%	
Total assets	<b>1,030,347</b>	991,272	<u>3.9</u>	<b>11,900.5</b>
Total net assets	<b>596,083</b>	549,704	<u>8.4</u>	<b>6,884.8</b>
Net worth	<b>582,699</b>	538,030	<u>8.3</u>	<b>6,730.2</b>
Net worth ratio	<b>56.6%</b>	54.3%	-	<b>56.6%</b>
Fiscal year	2012	2011	Adjusted growth	2012
	Yen	Yen	%	U.S. dollars
Net worth per share (Yen/US\$)	<b>1,116.61</b>	1,031.08	<u>8.5</u>	<b>12.90</b>
Net income per share (Yen/US\$)	<b>101.12</b>	100.46	<u>2.0</u>	<b>1.17</b>
Net income per share, fully diluted (Yen/US\$)	<b>101.08</b>	100.43	<u>2.0</u>	<b>1.17</b>
	Yen	Yen		U.S. dollars
Net cash provided by operating activities	<b>97,357</b>	125,032	-	<b>1,124.5</b>
Net cash used in investing activities	<b>(44,641)</b>	(48,952)	-	<b>(515.6)</b>
Net cash used in financing activities	<b>(32,028)</b>	(86,163)	-	<b>(369.9)</b>
Cash and cash equivalents, end of period	<b>160,435</b>	129,737	-	<b>1,853.0</b>

#### Notes:

- Adjusted growth is a comparison with a FY2011 business results adjusted to nine-month period from April 1 to December 31, 2011 for Kao Corporation and its consolidated subsidiaries with a fiscal year end in March.
- Net worth is net assets, excluding minority interests and stock acquisition rights.
- The net worth ratio is defined as net worth divided by total assets.
- Net worth per share is computed based on the number of shares outstanding at the end of the periods excluding treasury stock.
- Net income per share is computed based on the weighted average number of shares outstanding during each respective period.
- Number of shares outstanding at the end of the periods (common stock):
  - Number of shares including treasury stock:  
526,212,501 shares as of December 31, 2012; 526,212,501 shares as of March 31, 2012.
  - Number of shares of treasury stock:  
4,368,145 shares as of December 31, 2012; 4,402,474 shares as of March 31, 2012.
- Weighted average number of shares outstanding during the fiscal year:  
521,824,203 shares ended December 31, 2012; 521,936,275 shares ended March 31, 2012.

## Consolidated Results by Segment

Fiscal year	Net sales				Operating income		
	Billions of yen		Growth %		Billions of yen		
	2012	Restated 2011 <sup>1</sup>	Adjusted <sup>1</sup>	Like-for-like <sup>2</sup>	2012	Restated 2011 <sup>1</sup>	Change
Beauty Care	444.4	444.5	(0.0)	0.5	21.8	17.0	4.8
Human Health Care	152.0	144.1	5.5	5.5	11.5	12.6	(1.0)
Fabric and Home Care	236.7	230.4	2.8	2.9	51.4	47.2	4.1
Consumer Products Total	833.2	819.0	1.7	2.1	84.7	76.9	7.9
Chemical	208.1	219.2	(5.1)	(3.1)	16.8	21.7	(4.9)
Total	1,041.2	1,038.3	0.3	1.0	101.6	98.6	3.0
Reconciliations	(28.6)	(30.0)	-	-	0.0	(0.1)	0.1
Consolidated	1,012.6	1,008.3	0.4	1.1	101.6	98.5	3.1

Fiscal year	Net sales				Operating income		
	Millions of U.S. dollars		Growth %		Millions of U.S. dollars		
	2012	Restated 2011 <sup>1</sup>	Adjusted <sup>1</sup>	Like-for-like <sup>2</sup>	2012	Restated 2011 <sup>1</sup>	Change
Beauty Care	5,133.1	5,134.1	(0.0)	0.5	252.0	196.9	55.1
Human Health Care	1,755.3	1,664.6	5.5	5.5	133.4	145.5	(12.1)
Fabric and Home Care	2,734.4	2,661.2	2.8	2.9	593.3	545.6	47.7
Consumer Products Total	9,622.9	9,459.9	1.7	2.1	978.7	888.0	90.7
Chemical	2,403.2	2,532.2	(5.1)	(3.1)	194.2	250.8	(56.6)
Total	12,026.1	11,992.1	0.3	1.0	1,172.9	1,138.7	34.2
Reconciliations	(330.6)	(346.2)	-	-	0.2	(1.5)	1.7
Consolidated	11,695.5	11,645.8	0.4	1.1	1,173.1	1,137.2	35.9

## Reference: Consolidated Results by Geographic Area

Fiscal year	Net sales				Operating income		
	Billions of yen		Growth %		Billions of yen		
	2012	Restated 2011 <sup>1</sup>	Adjusted <sup>1</sup>	Like-for-like <sup>2</sup>	2012	Restated 2011 <sup>1</sup>	Change
Japan	720.8	712.3	1.2	1.2	86.5	77.6	9.0
Asia <sup>3</sup>	159.9	167.6	(4.6)	(4.2)	6.3	9.4	(3.2)
Americas <sup>3</sup>	90.0	90.9	(1.0)	(0.8)	2.7	3.7	(0.9)
Europe	110.5	117.0	(5.5)	0.7	6.1	8.0	(1.9)
Total	1,081.2	1,087.9	(0.6)	0.1	101.7	98.7	2.9
Reconciliations	(68.6)	(79.6)	-	-	(0.1)	(0.3)	0.2
Consolidated	1,012.6	1,008.3	0.4	1.1	101.6	98.5	3.1

Fiscal year	Net sales				Operating income		
	Millions of U.S. dollars		Growth %		Millions of U.S. dollars		
	2012	Restated 2011 <sup>1</sup>	Adjusted <sup>1</sup>	Like-for-like <sup>2</sup>	2012	Restated 2011 <sup>1</sup>	Change
Japan	8,325.1	8,227.6	1.2	1.2	999.5	896.0	103.5
Asia <sup>3</sup>	1,846.4	1,935.9	(4.6)	(4.2)	72.3	109.0	(36.7)
Americas <sup>3</sup>	1,039.5	1,049.8	(1.0)	(0.8)	31.6	42.3	(10.7)
Europe	1,276.5	1,351.4	(5.5)	0.7	70.8	92.9	(22.0)
Total	12,487.4	12,564.7	(0.6)	0.1	1,174.2	1,140.1	34.1
Reconciliations	(792.0)	(918.9)	-	-	(1.1)	(2.9)	1.8
Consolidated	11,695.5	11,645.8	0.4	1.1	1,173.1	1,137.2	35.9

## Notes:

1. Restated FY2011 and adjusted growth present figures for the nine-month period from April 1 to December 31, 2011 for Kao Corporation and its consolidated subsidiaries with a fiscal year end in March.
2. Like-for-like growth rates exclude the currency translation effect related to translation of local currencies into Japanese yen and a comparison with FY2011 business results adjusted to a nine-month period from April 1 to December 31, 2011 for Kao Corporation and its consolidated subsidiaries with a fiscal year end in March.
3. Australia and New Zealand, which had been included in Asia until the fiscal year ended March 31, 2012, have been reclassified under Americas from the fiscal year ended December 31, 2012. Amounts and percentage of growth for the previous fiscal year have been restated for the purpose of comparison.
4. Information on consolidated results by geographic area is for reference.
5. Consolidated net sales of fiscal year were 1,012.6 billion yen and net sales to foreign customers were as follows; Asia 130.2 billion yen, Americas 93.4 billion yen and Europe 98.5 billion yen.

**Dividend**

(Millions of yen, millions of U.S. dollars, except per share data)

	Dec. 31, 2012	Mar. 31, 2012	Dec. 31, 2012
	Yen		U.S. dollars
Annual cash dividends per share (Yen/US\$)	<b>62.00</b>	60.00	<b>0.72</b>
Total dividend payment amount	<b>32,388</b>	31,342	<b>374.08</b>
Payout ratio (consolidated)	<b>61.3%</b>	59.7%	<b>61.3%</b>
Cash dividends / Total net assets (consolidated)	<b>5.8%</b>	5.9%	<b>5.8%</b>

**Forecast of Consolidated Results for the Year Ending December 31, 2013**

(Billions of yen, millions of U.S. dollars, except per share data)

	Six months ending June 30, 2013			Year ending December 31, 2013		
	Yen	Adjusted growth (%)	U.S. dollars	Yen	Adjusted growth (%)	U.S. dollars
Net sales	600.0	3.7	6,930.0	1,270.0	4.1	14,668.5
Operating income	32.0	(8.2)	369.6	116.0	3.8	1,339.8
Ordinary income	33.0	(8.5)	381.2	117.0	2.5	1,351.4
Net income	19.0	(1.2)	219.5	73.0	<u>37.5</u>	843.2
Net income per share (Yen/US\$)	37.11	-	0.43	142.60	-	1.65
Cash dividends per share (Yen/US\$)	32.00	-	0.37	64.00	-	0.74

*Notes:*

1. Adjusted growth is a comparison with FY2012 business results adjusted to a twelve-month period from January 1 to December 31, 2012.
2. Net income per share is computed based on the estimated weighted average number of shares outstanding during the fiscal year.

**Notes for This News Release:**

1. Figures in the Company's consolidated financial statements and other items, which were previously truncated to their respective units for presentation, are rounded to the nearest unit from the fiscal year ended December 31, 2012. Figures for the previous fiscal year have been restated for ease of comparison.
2. U.S. dollar amounts represent translations using the approximate exchange rate on December 31, 2012 of 86.58 yen=US\$1, and are presented solely for the convenience of readers.

**Forward-Looking Statements**

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.

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**1. Consolidated Business Results****1.1. Analysis of Business Results and Financial Condition**

Due to a change in the fiscal year end, the term of consolidation for the fiscal year ended December 31, 2012 is the nine-month period from April to December for Kao Corporation and its subsidiaries whose fiscal year end was previously March 31 and the twelve-month period from January to December for subsidiaries whose fiscal year end was December 31.

	(Billions of yen, except per share data)			
	FY2012	(For reference) Restated FY2011*	Adjusted growth*	FY2011
Net sales	1,012.6	1,008.3	0.4%	1,216.1
Operating income	101.6	98.5	3.2%	108.6
Ordinary income	104.2	100.2	4.0%	110.0
Net income	<u>52.8</u>	51.8	<u>1.9%</u>	52.4
Net income per share (Yen)	<u>101.12</u>	99.16	<u>2.0%</u>	100.46

\* “(For reference) Restated FY2011” and “Adjusted growth” present figures for the nine-month period from April 1 to December 31, 2011 for Kao Corporation and its subsidiaries whose fiscal year end was previously March 31.

The following rates of increase or decrease are comparisons with restated FY2011.

**1.1.1. Business Results for the Fiscal Year****1.1.1.1. Overall Business Trends during the Fiscal Year**

During the fiscal year ended December 31, 2012 (April 1, 2012 to December 31, 2012), recovery of the global economy remained weak, with the problem of the sovereign debt crisis in Europe. In the Japanese economy, although there were some signs of bottoming out amid weak activity, conditions remained severe. The household and personal care products market in Japan, a key market for the Kao Group, grew by about 1% on a value basis compared with restated FY2011, although consumer purchase prices fell, partly due to the effects of deflation. The cosmetics market in Japan was flat compared with restated FY2011.

Under these circumstances, the Kao Group worked to launch and nurture products with high added value in response to changes in consumer needs based on its concept of “Yoki-Monozukuri,”\* and promoted cost reduction activities.

\* The Kao Group defines “Yoki-Monozukuri” as a strong commitment by all members to provide products and brands of excellent value for consumer satisfaction. In Japanese, “Yoki” literally means “good/excellent,” and “Monozukuri” means “development/manufacturing of products.”

Net sales increased 0.4% compared with restated FY2011 to 1,012.6 billion yen. Excluding the effect of currency translation, net sales would have increased 1.1%. In the Consumer Products Business, sales rose compared with restated FY2011, reflecting the contribution from the Human Health Care Business, which includes sanitary and other products, and the Fabric and Home Care Business. In the Chemical Business, sales decreased compared with restated FY2011 due to the impact of decreased demand in customer industries and adjustment of selling prices in connection with lower raw material prices.

In addition to the impact of increased sales on profits, raw material prices decreased, mainly for natural oils and fats and petrochemicals, and the Kao Group worked to promote cost reduction activities and make more efficient use of expenses. As a result, operating income increased 3.1 billion yen compared with restated FY2011 to 101.6 billion yen. Ordinary income increased 4.0 billion yen compared with restated FY2011 to 104.2 billion yen, and net income increased 1.0 billion yen compared with restated FY2011 to 52.8 billion yen.

Operating income before amortization of goodwill and other items related to acquisitions (EBITA) increased 1.6 billion yen compared with restated FY2011 to 125.7 billion yen, which is equivalent to 12.4% of net sales.

Net income per share was 101.12 yen, an increase of 1.96 yen, or adjusted growth of 2.0%, from 99.16 yen in restated FY2011.

Economic value added (EVA\*), which the Kao Group uses as a management indicator, was higher for the twelve-month period from January to December than the previous year, reflecting an increase in net operating profit after tax (NOPAT).

*\*EVA is a registered trademark of Stern Stewart & Co.*

The main exchange rates used for translating the financial statement items (income and expenses) of foreign subsidiaries and affiliates were as shown below.

	January-March	April-June	July-September	October-December
Yen/U.S. dollar	79.75 (82.33)	79.81 (81.23)	78.12 (77.08)	82.79 (77.87)
Yen/Euro	106.31 (113.77)	101.20 (118.29)	98.15 (108.74)	108.18 (104.86)

*Note: Figures in parentheses represent the exchange rates for the same period of the previous fiscal year.*

**1.1.1.2. Trends by Segment for the Fiscal Year**

*Summary of Results by Business Segment*

**Consumer Products Business**

Sales increased 1.7% compared with restated FY2011 to 833.2 billion yen. Excluding the effect of currency translation, sales would have increased 2.1%.

In Japan, sales increased 1.7% to 653.1 billion yen. The Kao Group dealt with intensified market competition by taking measures including launching new products in response to changing consumer lifestyles and enhancing proposal-based sales and in-store merchandising activities.

In Asia, sales increased 7.0% to 87.2 billion yen. Excluding the effect of currency translation, sales would have increased 7.8%. In the *Bioré* skin care, *Attack* laundry detergent, *Laurier* sanitary napkins and *Merries* baby diapers lines, the Kao Group carried out aggressive measures including introduction of new products and collaboration with retailers.

In the Americas, sales increased 2.7% to 56.6 billion yen. Excluding the effect of currency translation, sales would have increased 2.1%. Sales grew as the market remained firm.

In Europe, sales decreased 6.9% to 57.3 billion yen. Excluding the effect of currency translation, sales would have decreased 1.8%. Sales were firm within Europe amid severe economic conditions, but performance was impacted by lower export sales and the effect of currency translation due to the appreciation of the yen.

Operating income increased 7.9 billion yen compared with restated FY2011 to 84.7 billion yen as the Kao Group worked proactively to nurture new and improved products, made more efficient use of expenses and conducted cost reduction activities.

Note: The Kao Group's Consumer Products Business consists of the Beauty Care Business, the Human Health Care Business, and the Fabric and Home Care Business.

*Beauty Care Business*

Sales were on par with restated FY2011 at 444.4 billion yen. Excluding the effect of currency translation, sales would have increased 0.5%.

Sales of prestige cosmetics, which consist of self-selection and counseling cosmetics, increased 0.1% compared with restated FY2011 to 205.4 billion yen (an increase of 0.2%

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excluding the effect of currency translation). In Japan, amid a continuing shift toward lower-priced products in the cosmetics market, the Kao Group worked to reinforce focal brands, and increased sales of counseling brands *SOFINA Primavista* base makeup, *AUBE couture* makeup and *COFFRET D'OR* makeup, as well as self-selection brand *KATE* makeup. Sales outside Japan decreased compared with restated FY2011 with the impact of concerns about an economic slowdown.

In premium skin care products, sales in Japan increased, reflecting the steady performance of *Bioré* facial cleanser, *Bioré U* body cleanser and *Curél* derma care products. In Asia, *Bioré* performed strongly with the effect of product improvements. In the Americas, sales of *Jergens* hand and body lotions increased.

Sales of premium hair care products in Japan decreased compared with restated FY2011 due to intensified competition for shampoos and conditioners and contraction of the market for styling and hair coloring products. In Asia, there were increased sales of *Liese* foam hair color in Taiwan, Hong Kong and Malaysia, and *Essential* hair care products in Taiwan and Hong Kong. In the Americas and Europe, sales of *John Frieda* foam hair color increased.

Operating income increased 4.8 billion yen compared with restated FY2011 to 21.8 billion yen due to ongoing efforts to rebuild the prestige cosmetics business in Japan and other factors. Operating income before amortization of goodwill and other items related to acquisitions (EBITA) increased 3.2 billion yen compared with restated FY2011 to 45.9 billion yen, which is equivalent to 10.3% of sales.

*Human Health Care Business*

Sales increased 5.5% compared with restated FY2011 to 152.0 billion yen. Even excluding the effect of currency translation, sales would have increased by the same percentage.

In food and beverage products, the Kao Group added new products to the *Healthya* brand of functional drinks that promote body fat utilization, but sales decreased compared with restated FY2011 due to intensifying market competition.

Sales of sanitary products increased compared with restated FY2011. Sales of *Laurier F* sanitary napkins, which protect skin from dampness and chafing, increased in Japan, and sales of the *Laurier* brand increased in Indonesia. *Merries* baby diapers performed strongly in Japan, increasing market share, and sales grew in China and Russia.

Sales of personal health products were on par with restated FY2011. Although sales of toothpaste decreased compared with restated FY2011 due in part to intensifying competition,



sales of *Success* men's products and *Megurhythm* steam thermo power pads increased.

Operating income decreased 1.0 billion yen compared with restated FY2011 to 11.5 billion yen with the increase in expenses for new product launches and the impact of market competition, despite the Kao Group's cost reduction activities in addition to the impact of increased sales.

*Fabric and Home Care Business*

Sales increased 2.8% compared with restated FY2011 to 236.7 billion yen. Excluding the effect of currency translation, sales would have increased 2.9%.

Sales of fabric care products increased. In Japan, the Kao Group worked to highlight the reduced laundry time and environmental appeal of conserving water, electricity and resources with the *Neo* series, which includes *Attack Neo* ultra-concentrated liquid laundry detergent, and also expanded the number of users of *Attack Neo Antibacterial EX Power*, which has strong deodorizing and antibacterial properties. *Flair Fragrance* fabric softener, which releases fragrance upon exposure to perspiration or other moisture, was well received by consumers and increased sales. *Wide Haite* EX Power fabric bleach for color garments performed well. Sales grew in Asia with the strong performance of *Attack Easy* laundry detergent in Indonesia and Thailand, and the launch of new concentrated laundry detergent *Attack 3D Clean Action* in Thailand.

Sales of home care products increased in Japan due to the strong performance of *CuCute* dishwashing detergent and *Kitchen Haite* kitchen bleach, as well as new products such as *Quickle Wiper 3D Wet Sheets Rose Fragrance* cleaning sheets.

Operating income increased 4.1 billion yen compared with restated FY2011 to 51.4 billion yen as the Kao Group conducted cost reduction activities and other measures, in addition to the effect of the increase in sales.

**Chemical Business**

Sales decreased 5.1% compared with restated FY2011 to 208.1 billion yen, partly because of decreased demand in customer industries and selling price adjustments made in connection with lower raw material prices. Excluding the effect of currency translation, sales would have decreased 3.1%.

In oleo chemicals, the Kao Group adjusted selling prices in connection with lower raw material prices. In performance chemicals, sales were firm as the Kao Group worked to develop and expand sales of high-value-added products with reduced environmental impact.

Specialty chemicals were impacted by the economic downturn and structural changes in the personal computer market.

Operating income decreased 4.9 billion yen compared with restated FY2011 to 16.8 billion yen due to the impact of lower demand from customer industries, despite cost reduction activities.

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**1.1.2 Forecast for the Fiscal Year Ending December 31, 2013****Forecast of Consolidated Results for the Fiscal Year Ending December 31, 2013**

(Billions of yen, except per share data)

	FY2013	(For reference) FY2012(adjusted)*	Adjusted growth*	FY2012
Net sales	1,270.0	1,220.4	4.1%	1,012.6
Operating income	116.0	111.8	3.8%	101.6
Ordinary income	117.0	114.1	2.5%	104.2
Net income	73.0	<u>53.1</u>	<u>37.5%</u>	<u>52.8</u>
Net income per share (Yen)	142.60	<u>101.77</u>	<u>40.1%</u>	<u>101.12</u>

\* “(For reference) FY2012 (adjusted)” and “Adjusted growth” present 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.

The following rates of increase or decrease are comparisons with the fiscal year ended December 31, 2012 (adjusted).

**1.1.2.1. Forecast of Overall Business Results for the Fiscal Year Ending December 31, 2013**

Continued recovery, albeit weak, is forecast for the global economy, although there are concerns about the risk of a downturn due to factors including the public debt problem in Europe and financial issues in the United States. In Japan, although there are expectations of an economic recovery against the backdrop of factors including improved export conditions and the effect of economic measures, the outlook for the operating environment remains unclear, with severe employment conditions and the impact of deflation.

Amid these circumstances, the Kao Group will accurately respond to various changes in the operating environment of the Consumer Products Business as it aims to achieve sustained profitable growth globally with consumer-driven, high-value-added products. In the Chemical Business, the Kao Group will work to strengthen global operations and carry out measures such as developing products with a reduced environmental impact. The Kao Group forecasts net sales of 1,270.0 billion yen (adjusted growth of 4.1%). The Kao Group will work to stimulate the market with new product launches and other measures in Japan and overseas, and expects an increase in sales volume.

As for raw material prices, natural oils and fats are forecast to stabilize, although petrochemical prices are rising. In addition, the Kao Group will work to continue price adjustments and cost reduction activities, while at the same time it will accelerate activities to strengthen global business development. Based on these assumptions, the Kao Group forecasts operating income of 116.0 billion yen (adjusted growth of 3.8%), ordinary income of 117.0 billion yen (adjusted growth of 2.5%), and net income of 73.0 billion yen (adjusted

growth of 37.5%).

EVA is forecast to increase due to an increase in net operating profit after tax (NOPAT).

#### **1.1.2.2. Forecast by Business Segment for the Fiscal Year Ending December 31, 2013**

In the Consumer Products Business in Japan, the market for household and personal care products is projected to grow slightly on a value basis. The cosmetics market is expected to remain flat. In overseas markets, growth is expected to continue in Asia, and a moderate recovery is projected in North America and Europe. In this situation, the Kao Group will take the following actions.

In the Beauty Care Business, the Kao Group will work to revitalize the market by adding greater value to products and proposing the Group's own originality and appeal, while assessing changes in consumer attitudes toward beauty and lifestyle habits. In Japan, the Kao Group will promote the creation of strong brands through initiatives including launches and cultivation of distinctive new products tailored to changes in consumer needs and reform of marketing activities and sales methods to meet changes in consumer purchasing behavior. Overseas, the Kao Group will work to develop high-value-added products that incorporate its original technologies and cultivate and strengthen core brands.

The Kao Group forecasts sales in this business of 560.0 billion yen (adjusted growth of 4.1%).

The Human Health Care Business will promote product development focused on health care for both body and spirit. In sales of food and beverage products, the Kao Group will use products approved as Foods for Specified Health Uses that are differentiated by their high level of functional health value in order to further expand its base of loyal users, including the development of coffee drinks. At the same time, it will offer a health support solutions program in response to rising health consciousness as a result of mandatory special health examinations and specified health guidance. The Kao Group aims to create sanitary products that are gentle on skin and that offer greater comfort and a sense of reassurance. In China, the Kao Group will expand its rollout of baby diapers produced locally targeting the middle-class consumer segment. The Kao Group will work to further raise the brand value of its personal health products by continuing to make original new proposals with products that can become healthy daily lifestyle habits.

The Kao Group forecasts sales in this business of 197.0 billion yen (adjusted growth of 3.9%).

In the Fabric and Home Care Business, the Kao Group will strengthen its brands and offer

proposals for improvements in daily life based on insights into changing consumer lifestyles, developing high-value-added products that offer cleanliness, comfort and enjoyment in various everyday situations. In collaboration with retailers, the Kao Group will further promote its “eco together” environmental statement with instructional activities that aim to reduce environmental impact throughout the entire lifecycle of products such as the *Neo* series, which includes *Attack Neo* ultra-concentrated liquid laundry detergent. In China and other countries in Asia, the Kao Group will work to develop and nurture products that incorporate its technologies to meet local consumer needs.

The Kao Group forecasts sales in this business of 305.0 billion yen (adjusted growth of 4.5%).

In the Chemical Business, the Kao Group will promote global supply of distinctive chemical products that meet the diverse needs of a wide range of industries.

In oleo chemicals, the Kao Group will stably supply high-quality products by promoting timely capacity expansion to meet increasing demand for fatty alcohols and their derivatives made from natural oils and fats, mainly in Asia.

In performance chemicals, growth is forecast in Asia, while the forecast for Japan includes an improved export environment for customer industries and recovery in demand.

In specialty chemicals, where growth is forecast in the market for products related to information materials, the Kao Group will work to offer products that anticipate customer trends.

In addition, the Kao Group will work to expand sales by opening up growth markets such as the BRICs countries while developing new materials using unique, environmentally conscious technologies, mainly at the Eco-Technology Research Center, in response to rising concern about the environment worldwide.

As a result of the above, including adjustments in selling prices in response to fluctuations in raw material prices, the Kao Group forecasts sales in this business of 242.0 billion yen (adjusted growth of 2.3%).

#### **1.1.2.3. Underlying Assumptions of the Forecast for the Fiscal Year Ending December 31, 2013**

The above forecast was made assuming translation rates of one U.S. dollar to 90 yen and one euro to 115 yen.

Please note that although petrochemical prices are highly likely to rise, assumptions for raw material prices, including for natural oils and fats, are based on information currently available to the Kao Group.

**1.2. Analysis of Financial Condition****Analysis of Assets, Liabilities, Net Assets and Cash Flow****1.2.1. Status of Assets, Liabilities, Net Assets and Cash Flow for the Fiscal Year Ended December 31, 2012****Summary of Consolidated Financial Condition**

	Billions of yen			Millions of U.S. dollars
	As of December 31, 2012	As of March 31, 2012	Incr./(Dcr.)	As of December 31, 2012
Total assets	<u>1,030.3</u>	991.3	39.1	<u>11,900.5</u>
Total net assets	<u>596.1</u>	549.7	46.4	<u>6,884.8</u>
Net worth ratio	<u>56.6%</u>	54.3%	-	<u>56.6%</u>
Net worth per share (Yen/US\$)	<u>1,116.61</u>	1,031.08	85.53	<u>12.90</u>
Total debt	<u>103.2</u>	102.1	1.1	<u>1,191.8</u>

**Summary of Consolidated Cash Flows**

	Billions of yen		Millions of U.S. dollars
	FY2012	FY2011	FY2012
Net cash provided by operating activities	<u>97.4</u>	125.0	<u>1,124.5</u>
Net cash used in investing activities	<u>(44.6)</u>	(49.0)	<u>(515.6)</u>
Free cash flow	<u>52.7</u>	76.1	<u>608.9</u>
Net cash used in financing activities	<u>(32.0)</u>	(86.2)	<u>(369.9)</u>

*Note: Due to a change in the fiscal year end, FY2012 is April to December 2012 for Kao Corporation and its subsidiaries whose fiscal year end was previously March 31 and January to December 2012 for subsidiaries whose fiscal year end was December 31.*

Total assets increased 39.1 billion yen from the previous fiscal year-end to 1,030.3 billion yen. The principal increases in assets were a 13.9 billion yen increase in cash and time deposits, a 21.4 billion yen increase in notes and accounts receivable – trade, a 10.6 billion yen increase in short-term investments and a 2.3 billion yen increase in merchandise and finished goods. The principal decrease in assets was a 21.5 billion yen decrease in intangible assets due to the progress of amortization of trademarks and other intellectual property rights and goodwill.

Total liabilities decreased 7.3 billion yen from the previous fiscal year-end to 434.3 billion yen. The principal decreases in liabilities were a 5.2 billion yen decrease in notes and accounts payable – trade and a 6.6 billion yen decrease in income taxes payable.

Total net assets increased 46.4 billion yen from the previous fiscal year-end to 596.1 billion yen. The principal increases in net assets were net income totaling 52.8 billion yen and foreign currency translation adjustments of 24.2 billion yen. The principal decrease in net assets was payments of dividends from retained earnings totaling 32.4 billion yen.

As a result, the net worth ratio (defined as net worth divided by total assets) was 56.6% compared with 54.3% at the end of the previous fiscal year.

Net cash provided by operating activities totaled 97.4 billion yen. The principal increases in net cash were income before income taxes and minority interests of 102.3 billion yen, depreciation and amortization of 59.8 billion yen and change in inventories of 5.1 billion yen. The principal decreases in net cash were income taxes paid of 40.1 billion yen, change in trade receivables of 12.4 billion yen and change in trade payables of 9.6 billion yen.

Net cash used in investing activities totaled 44.6 billion yen. This primarily consisted of purchase of property, plant and equipment of 34.6 billion yen and purchase of short-term investments of 10.0 billion yen.

Free cash flow, the sum of net cash provided by operating activities and net cash used in investing activities, was 52.7 billion yen.

Net cash used in financing activities totaled 32.0 billion yen. The principal decrease in net cash was 33.5 billion yen for payments of cash dividends, including to minority shareholders.

The balance of cash and cash equivalents at December 31, 2012 increased 30.7 billion yen compared with the end of the previous fiscal year to 160.4 billion yen.

#### **1.2.2. Forecast of Assets, Liabilities, Net Assets and Cash Flow for the Fiscal Year Ending December 31, 2013**

Net cash provided by operating activities is forecast to be approximately 150.0 billion yen, due in part to an increase in income before income taxes and minority interests.

In net cash used in investing activities, the Kao Group plans capital expenditures of approximately 60.0 billion yen, including aggressive investment for global expansion and capital investment for purposes including increasing production capacity, promoting streamlining and improving distribution efficiency.

In net cash used in financing activities, the Kao Group plans a share repurchase announced as

of this date, payment of cash dividends and other expenditures.

As a result of the above, the balance of cash and cash equivalents as of December 31, 2013 is forecast to decrease approximately 30.0 billion yen from the previous fiscal year end to approximately 130.0 billion yen.

### Cash Flow Indices

	<b>FY2012</b>	FY2011	FY2010	FY2009	FY2008
Net worth / Total assets (%)	<b><u>56.6</u></b>	54.3	51.7	53.0	48.7
Market capitalization / Total assets (%)	<b><u>113.9</u></b>	114.3	105.9	119.2	91.9
Interest-bearing debt / Operating cash flow (years)	<b>1.2</b>	0.9	1.1	1.1	2.4
Operating cash flow / Interest paid (times)	<b>73.1</b>	51.1	45.4	40.3	20.8

Notes:.

1. Due to a change in the fiscal year end, FY2012 is April to December 2012 for Kao Corporation and its subsidiaries whose fiscal year end was previously March 31 and January to December 2012 for subsidiaries whose fiscal year end was December 31.
2. All indices are computed based on consolidated data.
3. Net worth is net assets, excluding minority interests and stock acquisition rights.
4. Market capitalization equals the stock price at the end of the period multiplied by the number of shares outstanding at the end of the period (excluding treasury stock).
5. Operating cash flow is stated in the consolidated statements of cash flows. Interest-bearing debt is all debt included in the consolidated balance sheets on which interest is paid.

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### **1.3. Basic Policies Regarding Distribution of Profits and Dividends for the Period**

In order to achieve profitable growth, Kao Corporation secures an internal reserve for capital investment and acquisitions from a medium-to-long-term management perspective and places priority on providing shareholders with steady and continuous dividends. In addition, the Company flexibly considers the repurchase and retirement of shares from the standpoint of improving capital efficiency.

In accordance with these policies, the Company plans to pay its scheduled year-end dividend for the fiscal year ended December 31, 2012 of 31.00 yen per share, the same as the previous fiscal year. Consequently, cash dividends for the fiscal year will increase 2.00 yen per share compared with the previous fiscal year, resulting in a total of 62.00 yen per share. The consolidated payout ratio will be 61.3%.

For the fiscal year ending December 31, 2013, the Company plans to pay total cash dividends of 64.00 yen per share, an increase of 2.00 yen per share compared with the fiscal year ended December 31, 2012. Although the operating environment is challenging, this plan is in accordance with the Company's basic policies regarding distribution of profits, and free cash flow and other factors have also been taken into consideration. As a result, the projected consolidated payout ratio will be 44.9%.

### ***Significant Subsequent Event***

At a meeting held on February 5, 2013, the Board of Directors resolved to purchase the Company's stock, up to a maximum of 12.5 million shares or 30.0 billion yen, from February 6 to April 26, 2013, in accordance with Article 156 of the Corporation Law applicable pursuant to Article 165, paragraph 3 of the said Law.

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**1.4. Other**

**(1) Changes in material subsidiaries during this fiscal year: None**

**(2) Changes in accounting principles, changes in accounting estimates, and retrospective restatements: None**

**(3) Consolidated taxation:**

The Company and certain subsidiaries in Japan have received authorization from the Director General of the National Tax Administration Agency to apply the consolidated taxation system from the fiscal year ending December 31, 2013. Consequently, from the fiscal year ended December 31, 2012, accounting treatment assumes the application of the consolidated taxation system based on “Revised Practical Solution on Tentative Treatment of Tax Effect Accounting Under Consolidated Taxation System (Part 1)” (Practical Issues Task Force No. 5, March 18, 2011) and “Revised Practical Solution on Tentative Treatment of Tax Effect Accounting Under Consolidated Taxation System (Part 2)” (Practical Issues Task Force No. 7, June 30, 2010).

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## **2. Management Policies**

### **2.1. Management Policies of the Kao Group**

The Kao Group's mission is to strive for the wholehearted satisfaction and enrichment of the lives of people globally and to contribute to the sustainability of the world, with products and brands of excellent value that are created from the consumer's and customer's perspective. This commitment is embraced by all members of the Kao Group as we work together with passion to share joy with consumers and customers in our core domains of cleanliness, beauty, health and chemicals.

The Kao Group aims to be the global group of companies that is closest to the consumers and customers in each market, earning the respect and trust of its shareholders and all other stakeholders, as it continually raises its corporate value on the basis of "profitable growth."

The corporate philosophy that forms the basis of these activities is "The Kao Way," which clearly expresses the Kao Group's unique corporate culture and the essence of its corporate spirit, and is shared and practiced by all employees.

### **2.2. Management Metric Used as a Target**

EVA, which is used to measure true profit by factoring in the cost of invested capital, is the Kao Group's principal management metric. Continuous growth in EVA is linked to increased corporate value, which means long-term profits not only for shareholders, but for all Kao Group stakeholders as well. While working to expand its business scale, the Kao Group views EVA growth as a primary focus of operating activity. The Kao Group also uses this metric to determine the direction of long-term management strategies, to assess specific businesses, to evaluate acquisitions and capital investment, and to develop performance targets for each fiscal year.

### **2.3. Medium-to-long-term Management Strategies**

Structural changes are occurring worldwide in the Kao Group's operating environment over the medium to long term, including 1) a shift in the center of the economy as emerging nations create enormous markets, 2) the emergence of new consumers including people who are increasingly dependent on digital media, as well as segments such as the growing elderly population, and 3) rising interest in environmental issues. The Kao Group sees opportunities for significant progress from these changes, and will work to achieve global growth by promoting ecology-centered management and establishing its corporate identity in line with

its corporate message of “Enriching lives, in harmony with nature.”

Regarding business activities, in the Consumer Products Business area, which consists of the three businesses of Beauty Care, Human Health Care, and Fabric and Home Care, and the Chemical Business area, the Kao Group will emphasize research and development to make high-quality, innovative products geared to consumers and customers, a concept referred to within the Group as “*Yoki-Monozukuri*,” and aim to become a company with a global presence as it works for both sustained “profitable growth” by increasing the added value of its products and “contributions to society” by resolving social issues and conducting social contribution activities through its business activities.

To realize this vision and increase corporate value, the Kao Group is now implementing Kao Group Mid-term Plan 2015 (K15), with 2013 as the first year.

**Kao Group Mid-term Plan 2015 (K15)**

Target 1: Break previous records for consolidated net sales and profits

Target 2: Achieve numerical management targets for FY2015

Consolidated net sales	¥1,400.0 billion
Consolidated operating income	¥150.0 billion
Overseas sales ratio	30% or more

The growth strategies for achieving the plan’s goals are as follows.

1) Expand the Consumer Products Business globally

Continued substantial expansion is forecast for the growth markets of Asia and other emerging nations. The Kao Group will work to expand its business with product development that incorporates its original technologies, centered on products in the domain of “cleanliness” including laundry detergents, baby diapers and sanitary napkins targeting the growing middle-class consumer segment.

In North America, Europe and other mature markets, the Kao Group will work on high-value-added products that incorporate its original technologies in the fields of prestige cosmetics, premium mass skin care and hair care, and professional hair care.

2) Further Reinforce the Fabric and Home Care Business, and accelerate profitable growth in the Beauty Care and Human Health Care Businesses

In the Fabric and Home Care Business, its core profit base, the Kao Group will work to maintain or capture the top share in each product category.

In addition to strengthening the prestige cosmetics business in the Beauty Care Business, the Kao Group will aim for greater growth and expansion with high-value-added products and services focused on health and the aging society in the Human Health Care Business.

3) Reinforce the Chemical Business

In the Chemical Business, the Kao Group will aim for rapid progress toward an eco-chemical business through innovations led by the Eco-Technology Research Center.

In addition, the Kao Group will strengthen synergy with the Consumer Products Business.

With regard to operating structure, through the global management integration of the Consumer Products Business, the Kao Group will strengthen its matrix management of business units and functional divisions, and promote reformation of its profit structure from a perspective of what is best for the Group as a whole.

## **2.4. Issues for Management**

With intensifying market competition, changing market structure and volatility in raw material market conditions and exchange rates, the operating environment remains severe and uncertain.

In addition, changes in consumer attitudes in everyday life and associated changes in their purchasing attitudes are occurring and social issues are on the rise, such as increasing environmental awareness and health consciousness, and the aging society.

By steadily carrying out the growth strategies of Kao Group Mid-term Plan 2015 (K15), which was formulated with this operating environment in mind, the Kao Group will deal with these various issues, and work for both sustained “profitable growth” through the development of high-value-added products and “contributions to society” as it aims to become a company with a global presence.

**Consolidated Balance Sheets**

Millions of yen

	<b>FY2012</b> <b>Dec 31, 2012</b>	<b>FY2011</b> <b>Mar 31, 2012</b>
<b>Assets</b>		
<b>Current assets</b>		
Cash and time deposits	99,334	85,483
Notes and accounts receivable - trade	164,250	142,882
Short-term investments	57,443	46,798
Merchandise and finished goods	84,712	82,393
Work in process	10,789	11,670
Raw materials and supplies	26,706	26,643
Prepaid expenses	6,123	5,678
Deferred tax assets	17,002	17,736
Other	28,397	14,781
Allowance for doubtful receivables	(1,349)	(1,115)
<b>Total current assets</b>	<b>493,407</b>	<b>432,949</b>
<b>Fixed assets</b>		
Property, plant and equipment		
Buildings and structures	332,690	323,138
Accumulated depreciation	(254,505)	(246,074)
Buildings and structures, net	78,185	77,064
Machinery, equipment and vehicles	631,347	612,446
Accumulated depreciation	(558,596)	(544,171)
Machinery, equipment and vehicles, net	72,751	68,275
Tools, furniture and fixtures	83,747	81,311
Accumulated depreciation	(71,377)	(68,992)
Tools, furniture and fixtures, net	12,370	12,319
Land	64,807	64,796
Lease assets	11,889	11,934
Accumulated depreciation	(4,435)	(3,919)
Lease assets, net	7,454	8,015
Construction in progress	16,777	10,109
<b>Total property, plant and equipment</b>	<b>252,344</b>	<b>240,578</b>
Intangible assets		
Goodwill	159,165	165,614
Trademarks	41,851	53,583
Other	14,907	18,266
<b>Total intangible assets</b>	<b>215,923</b>	<b>237,463</b>
Investments and other assets		
Investment securities	14,822	13,344
Long-term loans	1,567	1,742
Long-term prepaid expenses	14,254	12,441
Deferred tax assets	28,282	42,554
Other	10,176	10,420
Allowance for doubtful receivables	(428)	(219)
<b>Total investments and other assets</b>	<b>68,673</b>	<b>80,282</b>
<b>Total fixed assets</b>	<b>536,940</b>	<b>558,323</b>
<b>Total assets</b>	<b>1,030,347</b>	<b>991,272</b>

**Consolidated Balance Sheets**

*Millions of yen*

	<b>FY2012</b> <b>Dec 31, 2012</b>	<b>FY2011</b> <b>Mar 31, 2012</b>
<b>Liabilities</b>		
<b>Current liabilities</b>		
Notes and accounts payable - trade	105,472	110,659
Short-term loans	3,115	2,060
Current portion of bonds	50,000	-
Current portion of long-term loans	7	5
Accounts payable - other	52,485	48,499
Accrued expenses	74,449	73,538
Income taxes payable	11,658	18,306
Liabilities for loss related to the Great East Japan Earthquake	-	33
Other	18,688	21,810
<b>Total current liabilities</b>	<b>315,874</b>	<b>274,910</b>
<b>Long-term liabilities</b>		
Bonds	-	49,999
Long-term loans	50,066	50,049
Liability for employee retirement benefits	45,717	45,026
Other	22,607	21,584
<b>Total long-term liabilities</b>	<b>118,390</b>	<b>166,658</b>
<b>Total liabilities</b>	<b>434,264</b>	<b>441,568</b>
<b>Net assets</b>		
<b>Shareholders' equity</b>		
Common stock	85,424	85,424
Capital surplus	109,561	109,561
Retained earnings	468,019	447,619
Treasury stock, at cost	(8,985)	(9,064)
<b>Total shareholders' equity</b>	<b>654,019</b>	<b>633,540</b>
<b>Accumulated other comprehensive income</b>		
Unrealized gain on available-for-sale securities	2,447	2,283
Deferred gain (loss) on derivatives under hedge accounting	6	(3)
Foreign currency translation adjustments	(71,872)	(96,094)
Post retirement liability adjustments for foreign consolidated subsidiaries	(1,901)	(1,697)
<b>Total accumulated other comprehensive income</b>	<b>(71,320)</b>	<b>(95,511)</b>
<b>Stock acquisition rights</b>	<b>1,294</b>	<b>1,238</b>
<b>Minority interests</b>	<b>12,090</b>	<b>10,437</b>
<b>Total net assets</b>	<b>596,083</b>	<b>549,704</b>
<b>Total liabilities and net assets</b>	<b>1,030,347</b>	<b>991,272</b>

**Consolidated Statements of Income**

*Millions of yen*

	<b>FY2012</b> <b>Apr '12 - Dec '12</b>	<b>FY2011</b> <b>Apr '11 - Mar '12</b>
<b>Net sales</b>	<b>1,012,595</b>	<b>1,216,096</b>
Cost of sales	442,522	525,012
<b>Gross profit</b>	<b>570,073</b>	<b>691,084</b>
Selling, general and administrative expenses	468,506	582,494
<b>Operating income</b>	<b>101,567</b>	<b>108,590</b>
Non-operating income		
Interest income	838	908
Dividend income	173	160
Equity in earnings of nonconsolidated subsidiaries and affiliates	1,710	1,658
Other	2,256	2,589
Total non-operating income	4,977	5,315
Non-operating expenses		
Interest expense	1,181	2,204
Foreign currency exchange loss	280	621
Other	869	1,053
Total non-operating expenses	2,330	3,878
<b>Ordinary income</b>	<b>104,214</b>	<b>110,027</b>
Extraordinary gain		
Gain on sales of fixed assets	133	178
Gain on sales of stock of subsidiary	270	-
Other	245	96
Total extraordinary gain	648	274
Extraordinary loss		
Loss on sales/disposals of fixed assets	2,215	2,381
Loss related to the Great East Japan Earthquake	-	2,028
Other	343	634
Total extraordinary loss	2,558	5,043
<b>Income before income taxes and minority interests</b>	<b>102,304</b>	<b>105,258</b>
Income taxes		
Income taxes - current	32,550	38,653
Income taxes - deferred	15,619	12,120
Total income taxes	48,169	50,773
<b>Income before minority interests</b>	<b>54,135</b>	<b>54,485</b>
Minority interests	1,370	2,050
<b>Net income</b>	<b>52,765</b>	<b>52,435</b>



## **Consolidated Statements of Comprehensive Income**

*Millions of yen*

	<b>FY2012</b> <b>Apr '12 - Dec '12</b>	<b>FY2011</b> <b>Apr '11 - Mar '12</b>
Income before minority interests	<u>54,135</u>	54,485
Other comprehensive income		
Adjustments for unrealized gains or losses on available-for-sale securities	141	487
Foreign currency translation adjustments	25,315	(12,169)
Share in other comprehensive income of associates applied for equity method	137	(172)
Post retirement liability adjustments for foreign consolidated subsidiaries	(204)	(1,236)
Other comprehensive income	<u>25,389</u>	<u>(13,090)</u>
Comprehensive income	<u>79,524</u>	41,395
Attributable to:		
Shareholders of Kao Corporation	<u>76,956</u>	39,956
Minority interests	<u>2,568</u>	<u>1,439</u>

## **Major Items of Consolidated Selling, General and Administrative Expenses**

*Millions of yen*

	<b>FY2012</b> <b>Apr '12 - Dec '12</b>	<b>FY2011</b> <b>Apr '11 - Mar '12</b>
Freight/warehouse	56,792	68,388
Advertising	67,045	82,209
Sales promotion	52,101	62,980
Salaries and bonuses	97,738	121,787
Research and development	37,493	48,171

**Consolidated Statements of Changes in Equity**

Millions of yen

	FY2012 <u>Apr '12 - Dec '12</u>	FY2011 <u>Apr '11 - Mar '12</u>
<b>Shareholders' equity</b>		
Common stock		
Balance at beginning of current period	85,424	85,424
Changes of items during the period		
Total changes of items during the period	-	-
Balance at end of period	85,424	85,424
Capital surplus		
Balance at beginning of current period	109,561	109,561
Changes of items during the period		
Total changes of items during the period	-	-
Balance at end of period	109,561	109,561
Retained earnings		
Balance at beginning of current period	447,619	457,918
Changes of items during the period		
Cash dividends	(32,353)	(30,273)
Net income	<u>52,765</u>	52,435
Disposal of treasury stock	(12)	(1)
Retirement of treasury stock	-	(32,460)
Total changes of items during the period	<u>20,400</u>	(10,299)
Balance at end of period	<u>468,019</u>	447,619
Treasury stock		
Balance at beginning of current period	(9,064)	(40,977)
Changes of items during the period		
Purchase of treasury stock	(6)	(628)
Disposal of treasury stock	85	81
Retirement of treasury stock	-	32,460
Total changes of items during the period	79	31,913
Balance at end of period	(8,985)	(9,064)
Total shareholders' equity		
Balance at beginning of current period	633,540	611,926
Changes of items during the period		
Cash dividends	(32,353)	(30,273)
Net income	<u>52,765</u>	52,435
Purchase of treasury stock	(6)	(628)
Disposal of treasury stock	73	80
Retirement of treasury stock	-	-
Total changes of items during the period	<u>20,479</u>	21,614
Balance at end of period	<u>654,019</u>	633,540

# Consolidated Statements of Changes in Equity

Millions of yen

	<b>FY2012</b> <b>Apr '12 - Dec '12</b>	<b>FY2011</b> <b>Apr '11 - Mar '12</b>
<b>Accumulated other comprehensive income</b>		
Unrealized gain on available-for-sale securities		
Balance at beginning of current period	2,283	1,861
Changes of items during the period		
Net changes of items other than shareholders' equity during the period	164	422
Total changes of items during the period	164	422
Balance at end of period	2,447	2,283
Deferred gain (loss) on derivatives under hedge accounting		
Balance at beginning of current period	(3)	(2)
Changes of items during the period		
Net changes of items other than shareholders' equity during the period	9	(1)
Total changes of items during the period	9	(1)
Balance at end of period	6	(3)
Foreign currency translation adjustments		
Balance at beginning of current period	(96,094)	(84,430)
Changes of items during the period		
Net changes of items other than shareholders' equity during the period	24,222	(11,664)
Total changes of items during the period	24,222	(11,664)
Balance at end of period	(71,872)	(96,094)
Post retirement liability adjustments for foreign consolidated subsidiaries		
Balance at beginning of current period	(1,697)	(461)
Changes of items during the period		
Net changes of items other than shareholders' equity during the period	(204)	(1,236)
Total changes of items during the period	(204)	(1,236)
Balance at end of period	(1,901)	(1,697)
Total accumulated other comprehensive income		
Balance at beginning of current period	(95,511)	(83,032)
Changes of items during the period		
Net changes of items other than shareholders' equity during the period	24,191	(12,479)
Total changes of items during the period	24,191	(12,479)
Balance at end of period	(71,320)	(95,511)
<b>Stock acquisition rights</b>		
Balance at beginning of current period	1,238	1,143
Changes of items during the period		
Net changes of items other than shareholders' equity during the period	56	95
Total changes of items during the period	56	95
Balance at end of period	1,294	1,238
<b>Minority interests</b>		
Balance at beginning of current period	10,437	9,527
Changes of items during the period		
Net changes of items other than shareholders' equity during the period	1,653	910
Total changes of items during the period	1,653	910
Balance at end of period	12,090	10,437
<b>Total net assets</b>		
Balance at beginning of current period	549,704	539,564
Changes of items during the period		
Cash dividends	(32,353)	(30,273)
Net income	52,765	52,435
Purchase of treasury stock	(6)	(628)
Disposal of treasury stock	73	80
Retirement of treasury stock	-	-
Net changes of items other than shareholders' equity during the period	25,900	(11,474)
Total changes of items during the period	46,379	10,140
Balance at end of period	596,083	549,704

# **Consolidated Statements of Cash Flows**

Millions of yen

	<b>FY2012</b> <b>Apr '12 - Dec '12</b>	<b>FY2011</b> <b>Apr '11 - Mar '12</b>
<b>Operating activities:</b>		
Income before income taxes and minority interests	102,304	105,258
Adjustments for:		
Depreciation and amortization	59,788	79,798
(Gain) loss on sales and retirement of fixed assets	2,082	2,202
Interest and dividend income	(1,011)	(1,068)
Interest expense	1,181	2,204
Unrealized foreign currency exchange (gain) loss	(1,389)	159
Equity in (earnings) losses of nonconsolidated subsidiaries and affiliates	(1,710)	(1,658)
Change in trade receivables	(12,395)	(26,513)
Change in inventories	5,083	(14,936)
Change in prepaid pension cost	75	906
Change in trade payables	(9,637)	8,997
Change in liability for retirement benefits	(56)	3,056
Other, net	(8,021)	4,935
Subtotal	136,294	163,340
Interest and cash dividends received	2,499	2,479
Interest paid	(1,331)	(2,448)
Income taxes paid	(40,105)	(38,339)
<b>Net cash provided by operating activities</b>	<b>97,357</b>	<b>125,032</b>
<b>Investing activities:</b>		
Proceeds from withdrawal of time deposits	4,400	3,583
Purchase of short-term investments	(10,000)	(381)
Proceeds from the redemption and sales of short-term investments	5,078	1,441
Purchase of property, plant and equipment	(34,555)	(41,684)
Purchase of intangible assets	(2,595)	(3,375)
Payments for long-term prepaid expenses	(5,091)	(5,030)
Change in short-term loans, net	(293)	537
Payments for long-term loans	(470)	(1,498)
Other, net	(1,115)	(2,545)
<b>Net cash used in investing activities</b>	<b>(44,641)</b>	<b>(48,952)</b>
<b>Financing activities:</b>		
Change in short-term loans, net	717	(4,610)
Proceeds from long-term loans	217	50,013
Repayments of long-term loans	(205)	(50,012)
Redemption of bonds	-	(50,000)
Purchase of treasury stock	(7)	(10)
Payments of cash dividends	(31,163)	(30,307)
Payments of cash dividends to minority shareholders	(2,350)	(469)
Other, net	763	(768)
<b>Net cash used in financing activities</b>	<b>(32,028)</b>	<b>(86,163)</b>
<b>Translation adjustments on cash and cash equivalents</b>	<b>9,702</b>	<b>(3,323)</b>
<b>Net increase (decrease) in cash and cash equivalents</b>	<b>30,390</b>	<b>(13,406)</b>
<b>Cash and cash equivalents, beginning of period</b>	<b>129,737</b>	<b>143,143</b>
<b>Cash and cash equivalents from newly consolidated subsidiaries, increase</b>	<b>308</b>	<b>-</b>
<b>Cash and cash equivalents, end of period</b>	<b>160,435</b>	<b>129,737</b>

**Consolidated Segment Information**

Millions of yen

FY2012 Apr '12 - Dec '12	Consumer Products Business				Chemical Business	Total	Reconciliations	Consolidated
	Beauty Care Business	Human Health Care Business	Fabric and Home Care Business	Total				
<b>Net sales</b>								
Sales to customers	444,425	151,977	236,748	833,150	179,445	1,012,595	-	1,012,595
Intersegment sales	-	-	-	-	28,626	28,626	(28,626)	-
<b>Total</b>	<b>444,425</b>	<b>151,977</b>	<b>236,748</b>	<b>833,150</b>	<b>208,071</b>	<b>1,041,221</b>	<b>(28,626)</b>	<b>1,012,595</b>
<b>Operating income</b>	<b>21,821</b>	<b>11,548</b>	<b>51,368</b>	<b>84,737</b>	<b>16,813</b>	<b>101,550</b>	<b>17</b> <sup>1</sup>	<b>101,567</b>
% of net sales	4.9	7.6	21.7	10.2	8.1	9.8	-	10.0
<b>Total assets</b>	<b>466,279</b>	<b>112,751</b>	<b>143,177</b>	<b>722,207</b>	<b>217,046</b>	<b>939,253</b>	<b>91,094</b> <sup>2</sup>	<b>1,030,347</b>
<b>Depreciation and amortization</b> <sup>3</sup>	<b>26,365</b>	<b>6,410</b>	<b>6,669</b>	<b>39,444</b>	<b>10,626</b>	<b>50,070</b>	-	<b>50,070</b>
<b>Amortization of goodwill</b>	<b>9,718</b>	-	-	<b>9,718</b>	-	<b>9,718</b>	-	<b>9,718</b>
<b>Investment for affiliates applied for equity methods</b>	<b>2,660</b>	<b>1,010</b>	<b>1,194</b>	<b>4,864</b>	<b>1,736</b>	<b>6,600</b>	-	<b>6,600</b>
<b>Capital expenditure</b> <sup>5</sup>	<b>11,693</b>	<b>8,830</b>	<b>8,701</b>	<b>29,224</b>	<b>12,705</b>	<b>41,929</b>	-	<b>41,929</b>

FY2011 Apr '11 - Mar '12	Consumer Products Business				Chemical Business	Total	Reconciliations	Consolidated
	Beauty Care Business	Human Health Care Business	Fabric and Home Care Business	Total				
<b>Net sales</b>								
Sales to customers	537,938	181,758	285,645	1,005,341	210,755	1,216,096	-	1,216,096
Intersegment sales	-	-	-	-	36,880	36,880	(36,880)	-
<b>Total</b>	<b>537,938</b>	<b>181,758</b>	<b>285,645</b>	<b>1,005,341</b>	<b>247,635</b>	<b>1,252,976</b>	<b>(36,880)</b>	<b>1,216,096</b>
<b>Operating income</b>	<b>15,412</b>	<b>14,630</b>	<b>55,544</b>	<b>85,586</b>	<b>23,001</b>	<b>108,587</b>	<b>3</b> <sup>1</sup>	<b>108,590</b>
% of net sales	2.9	8.0	19.4	8.5	9.3	8.7	-	8.9
<b>Total assets</b>	<b>496,177</b>	<b>99,535</b>	<b>128,858</b>	<b>724,570</b>	<b>194,583</b>	<b>919,153</b>	<b>72,119</b> <sup>4</sup>	<b>991,272</b>
<b>Depreciation and amortization</b> <sup>3</sup>	<b>37,766</b>	<b>7,926</b>	<b>9,794</b>	<b>55,486</b>	<b>11,648</b>	<b>67,134</b>	-	<b>67,134</b>
<b>Amortization of goodwill</b>	<b>12,664</b>	-	-	<b>12,664</b>	-	<b>12,664</b>	-	<b>12,664</b>
<b>Investment for affiliates applied for equity methods</b>	<b>1,780</b>	<b>1,083</b>	<b>1,239</b>	<b>4,102</b>	<b>1,661</b>	<b>5,763</b>	-	<b>5,763</b>
<b>Capital expenditure</b> <sup>5</sup>	<b>13,106</b>	<b>11,520</b>	<b>12,219</b>	<b>36,845</b>	<b>10,333</b>	<b>47,178</b>	-	<b>47,178</b>

Notes:

- 1 Reconciliation of operating income includes elimination of intersegment inventory transactions.
- 2 Includes 111,393 million yen of Kao's financial assets and negative 20,299 million yen elimination of receivables among reportable segments
- 3 Excludes amortization of goodwill
- 4 Includes 78,742 million yen of Kao's financial assets and negative 6,623 million yen elimination of receivables among reportable segments
- 5 Includes long-term prepaid expenses

# **Consolidated Net Sales Composition**

Millions of yen

	FY2012 Apr '12 - Dec '12	FY2011 Apr '11 - Mar '12	Adjusted growth ' %
<b>Consumer Products Business</b>			
Beauty Care Business	312,590	407,659	0.2
Human Health Care Business	131,577	164,575	4.6
Fabric and Home Care Business	208,922	260,041	2.1
Total Japan	653,089	832,275	1.7
Asia <sup>2</sup>	87,184	81,610	7.0
Americas <sup>2</sup>	56,644	55,130	2.7
Europe	57,252	61,512	(6.9)
Eliminations	(21,019)	(25,186)	-
<b>Total</b>	<b>833,150</b>	<b>1,005,341</b>	<b>1.7</b>
<b>Chemical Business</b>			
Japan	91,994	125,477	(3.8)
Asia	75,556	89,154	(15.3)
Americas	33,558	35,908	(6.5)
Europe	53,465	55,691	(4.0)
Eliminations	(46,502)	(58,595)	-
<b>Total</b>	<b>208,071</b>	<b>247,635</b>	<b>(5.1)</b>
<b>Total before Eliminations</b>	<b>1,041,221</b>	<b>1,252,976</b>	<b>0.3</b>
Eliminations	(28,626)	(36,880)	-
<b>Consolidated</b>	<b>1,012,595</b>	<b>1,216,096</b>	<b>0.4</b>

Notes:

- Adjusted growth is a comparison with a FY2011 business results adjusted to nine-month period from April 1 to December 31, 2011 for Kao Corporation and its consolidated subsidiaries with a fiscal year end in March.
- Australia and New Zealand, which had been included in Asia until the fiscal year ended March 31, 2012, have been reclassified under Americas from the fiscal year ended December 31, 2012. Amounts and percentage of growth for the previous fiscal year have been restated for the purpose of comparison.

## Appendix

### Major Products by Reportable Segment

Reportable Segments		Major Products	
Consumer Products Business	Beauty Care Business	Prestige cosmetics	Counseling cosmetics, self-selection cosmetics
		Premium skin care products	Soaps, facial cleansers, body cleansers
		Premium hair care products	Shampoos, conditioners, hair styling agents, hair coloring agents
	Human Health Care Business	Food and beverage products	Beverages
		Sanitary products	Sanitary napkins, baby diapers
		Personal health products	Bath additives, oral care products, men’s products
	Fabric and Home Care Business	Fabric care products	Laundry detergents, fabric treatments
		Home care products	Kitchen cleaning products, house cleaning products, paper cleaning products, commercial-use products
Chemical Business		Oleo chemicals	Fatty alcohols, fatty amines, fatty acids, glycerin, commercial-use edible fats and oils
		Performance chemicals	Surfactants, plastics additives, superplasticizers for concrete admixtures
		Specialty chemicals	Toner and toner binder for copiers and printers, ink and colorants for inkjet printers, fragrances and aroma chemicals

## Kao Corporation Reports Business Results

Tokyo, February 5, 2013 — Kao Corporation today announced its consolidated business results for the fiscal year ended December 31, 2012. The following summary of the business results is unaudited and for reference only.

Due to a change in the fiscal year end, the term of consolidation for the fiscal year ended December 31, 2012 is the nine-month period from April to December for Kao Corporation and its subsidiaries whose fiscal year end was previously March 31 and the twelve-month period from January to December for subsidiaries whose year end was December 31.

Ticker code: 4452

### Consolidated Financial Highlights

(Millions of yen, millions of U.S. dollars, except per share data)

Fiscal year	2012	2011	Adjusted growth	2012
	Yen	Yen	%	U.S. dollars
Net sales	<b>1,012,595</b>	1,216,096	0.4	<b>11,695.5</b>
Operating income	<b>101,567</b>	108,590	3.2	<b>1,173.1</b>
Ordinary income	<b>104,214</b>	110,027	4.0	<b>1,203.7</b>
Net income	<b>62,386</b>	52,435	<u>20.5</u>	<b>720.6</b>
Comprehensive income	<b>89,145</b>	41,395	<u>121.8</u>	<b>1,029.6</b>
ROE (Net income / Net worth)	<b>11.0%</b>	9.8%	-	<b>11.0%</b>
ROA (Ordinary income / Total assets)	<b>10.3%</b>	10.9%	-	<b>10.3%</b>
Operating income / Net sales	<b>10.0%</b>	8.9%	-	<b>10.0%</b>
			Growth	
			%	
Total assets	<b>1,039,968</b>	991,272	<u>4.9</u>	<b>12,011.6</b>
Total net assets	<b>605,704</b>	549,704	<u>10.2</u>	<b>6,995.9</b>
Net worth	<b>592,320</b>	538,030	<u>10.1</u>	<b>6,841.3</b>
Net worth ratio	<b>57.0%</b>	54.3%	-	<b>57.0%</b>
Fiscal year	2012	2011	Adjusted growth	2012
	Yen	Yen	%	U.S. dollars
Net worth per share (Yen/US\$)	<b>1,135.05</b>	1,031.08	<u>10.3</u>	<b>13.11</b>
Net income per share (Yen/US\$)	<b>119.55</b>	100.46	<u>20.6</u>	<b>1.38</b>
Net income per share, fully diluted (Yen/US\$)	<b>119.50</b>	100.43	<u>20.6</u>	<b>1.38</b>
	Yen	Yen		U.S. dollars
Net cash provided by operating activities	<b>97,357</b>	125,032	-	<b>1,124.5</b>
Net cash used in investing activities	<b>(44,641)</b>	(48,952)	-	<b>(515.6)</b>
Net cash used in financing activities	<b>(32,028)</b>	(86,163)	-	<b>(369.9)</b>
Cash and cash equivalents, end of period	<b>160,435</b>	129,737	-	<b>1,853.0</b>

#### Notes:

- Adjusted growth is a comparison with a FY2011 business results adjusted to nine-month period from April 1 to December 31, 2011 for Kao Corporation and its consolidated subsidiaries with a fiscal year end in March.
- Net worth is net assets, excluding minority interests and stock acquisition rights.
- The net worth ratio is defined as net worth divided by total assets.
- Net worth per share is computed based on the number of shares outstanding at the end of the periods excluding treasury stock.
- Net income per share is computed based on the weighted average number of shares outstanding during each respective period.
- Number of shares outstanding at the end of the periods (common stock):
  - Number of shares including treasury stock:  
526,212,501 shares as of December 31, 2012; 526,212,501 shares as of March 31, 2012.
  - Number of shares of treasury stock:  
4,368,145 shares as of December 31, 2012; 4,402,474 shares as of March 31, 2012.
- Weighted average number of shares outstanding during the fiscal year:  
521,824,203 shares ended December 31, 2012; 521,936,275 shares ended March 31, 2012.



**Consolidated Results by Segment**

Fiscal year	Net sales				Operating income		
	Billions of yen		Growth %		Billions of yen		
	2012	Restated 2011 <sup>1</sup>	Adjusted <sup>1</sup>	Like-for-like <sup>2</sup>	2012	Restated 2011 <sup>1</sup>	Change
Beauty Care	444.4	444.5	(0.0)	0.5	21.8	17.0	4.8
Human Health Care	152.0	144.1	5.5	5.5	11.5	12.6	(1.0)
Fabric and Home Care	236.7	230.4	2.8	2.9	51.4	47.2	4.1
Consumer Products Total	833.2	819.0	1.7	2.1	84.7	76.9	7.9
Chemical	208.1	219.2	(5.1)	(3.1)	16.8	21.7	(4.9)
Total	1,041.2	1,038.3	0.3	1.0	101.6	98.6	3.0
Reconciliations	(28.6)	(30.0)	-	-	0.0	(0.1)	0.1
Consolidated	1,012.6	1,008.3	0.4	1.1	101.6	98.5	3.1

Fiscal year	Net sales				Operating income		
	Millions of U.S. dollars		Growth %		Millions of U.S. dollars		
	2012	Restated 2011 <sup>1</sup>	Adjusted <sup>1</sup>	Like-for-like <sup>2</sup>	2012	Restated 2011 <sup>1</sup>	Change
Beauty Care	5,133.1	5,134.1	(0.0)	0.5	252.0	196.9	55.1
Human Health Care	1,755.3	1,664.6	5.5	5.5	133.4	145.5	(12.1)
Fabric and Home Care	2,734.4	2,661.2	2.8	2.9	593.3	545.6	47.7
Consumer Products Total	9,622.9	9,459.9	1.7	2.1	978.7	888.0	90.7
Chemical	2,403.2	2,532.2	(5.1)	(3.1)	194.2	250.8	(56.6)
Total	12,026.1	11,992.1	0.3	1.0	1,172.9	1,138.7	34.2
Reconciliations	(330.6)	(346.2)	-	-	0.2	(1.5)	1.7
Consolidated	11,695.5	11,645.8	0.4	1.1	1,173.1	1,137.2	35.9

**Reference: Consolidated Results by Geographic Area**

Fiscal year	Net sales				Operating income		
	Billions of yen		Growth %		Billions of yen		
	2012	Restated 2011 <sup>1</sup>	Adjusted <sup>1</sup>	Like-for-like <sup>2</sup>	2012	Restated 2011 <sup>1</sup>	Change
Japan	720.8	712.3	1.2	1.2	86.5	77.6	9.0
Asia <sup>3</sup>	159.9	167.6	(4.6)	(4.2)	6.3	9.4	(3.2)
Americas <sup>3</sup>	90.0	90.9	(1.0)	(0.8)	2.7	3.7	(0.9)
Europe	110.5	117.0	(5.5)	0.7	6.1	8.0	(1.9)
Total	1,081.2	1,087.9	(0.6)	0.1	101.7	98.7	2.9
Reconciliations	(68.6)	(79.6)	-	-	(0.1)	(0.3)	0.2
Consolidated	1,012.6	1,008.3	0.4	1.1	101.6	98.5	3.1

Fiscal year	Net sales				Operating income		
	Millions of U.S. dollars		Growth %		Millions of U.S. dollars		
	2012	Restated 2011 <sup>1</sup>	Adjusted <sup>1</sup>	Like-for-like <sup>2</sup>	2012	Restated 2011 <sup>1</sup>	Change
Japan	8,325.1	8,227.6	1.2	1.2	999.5	896.0	103.5
Asia <sup>3</sup>	1,846.4	1,935.9	(4.6)	(4.2)	72.3	109.0	(36.7)
Americas <sup>3</sup>	1,039.5	1,049.8	(1.0)	(0.8)	31.6	42.3	(10.7)
Europe	1,276.5	1,351.4	(5.5)	0.7	70.8	92.9	(22.0)
Total	12,487.4	12,564.7	(0.6)	0.1	1,174.2	1,140.1	34.1
Reconciliations	(792.0)	(918.9)	-	-	(1.1)	(2.9)	1.8
Consolidated	11,695.5	11,645.8	0.4	1.1	1,173.1	1,137.2	35.9

*Notes:*

1. Restated FY2011 and adjusted growth present figures for the nine-month period from April 1 to December 31, 2011 for Kao Corporation and its consolidated subsidiaries with a fiscal year end in March.
2. Like-for-like growth rates exclude the currency translation effect related to translation of local currencies into Japanese yen and a comparison with FY2011 business results adjusted to a nine-month period from April 1 to December 31, 2011 for Kao Corporation and its consolidated subsidiaries with a fiscal year end in March.
3. Australia and New Zealand, which had been included in Asia until the fiscal year ended March 31, 2012, have been reclassified under Americas from the fiscal year ended December 31, 2012. Amounts and percentage of growth for the previous fiscal year have been restated for the purpose of comparison.
4. Information on consolidated results by geographic area is for reference.
5. Consolidated net sales of fiscal year were 1,012.6 billion yen and net sales to foreign customers were as follows; Asia 130.2 billion yen, Americas 93.4 billion yen and Europe 98.5 billion yen.

**Dividend**

(Millions of yen, millions of U.S. dollars, except per share data)

	Dec. 31, 2012	Mar. 31, 2012	Dec. 31, 2012
	Yen		U.S. dollars
Annual cash dividends per share (Yen/US\$)	<b>62.00</b>	60.00	<b>0.72</b>
Total dividend payment amount	<b>32,388</b>	31,342	<b>374.08</b>
Payout ratio (consolidated)	<u><b>51.9%</b></u>	59.7%	<u><b>51.9%</b></u>
Cash dividends / Total net assets (consolidated)	<u><b>5.7%</b></u>	5.9%	<u><b>5.7%</b></u>

**Forecast of Consolidated Results for the Year Ending December 31, 2013**

(Billions of yen, millions of U.S. dollars, except per share data)

	Six months ending June 30, 2013			Year ending December 31, 2013		
	Yen	Adjusted growth (%)	U.S. dollars	Yen	Adjusted growth (%)	U.S. dollars
Net sales	600.0	3.7	6,930.0	1,270.0	4.1	14,668.5
Operating income	32.0	(8.2)	369.6	116.0	3.8	1,339.8
Ordinary income	33.0	(8.5)	381.2	117.0	2.5	1,351.4
Net income	19.0	(1.2)	219.5	73.0	<u>16.4</u>	843.2
Net income per share (Yen/US\$)	37.11	-	0.43	142.60	-	1.65
Cash dividends per share (Yen/US\$)	32.00	-	0.37	64.00	-	0.74

*Notes:*

1. Adjusted growth is a comparison with FY2012 business results adjusted to a twelve-month period from January 1 to December 31, 2012.
2. Net income per share is computed based on the estimated weighted average number of shares outstanding during the fiscal year.

**Notes for This News Release:**

1. Figures in the Company's consolidated financial statements and other items, which were previously truncated to their respective units for presentation, are rounded to the nearest unit from the fiscal year ended December 31, 2012. Figures for the previous fiscal year have been restated for ease of comparison.
2. U.S. dollar amounts represent translations using the approximate exchange rate on December 31, 2012 of 86.58 yen=US\$1, and are presented solely for the convenience of readers.

**Forward-Looking Statements**

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.

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## 1. Consolidated Business Results

### 1.1. Analysis of Business Results and Financial Condition

Due to a change in the fiscal year end, the term of consolidation for the fiscal year ended December 31, 2012 is the nine-month period from April to December for Kao Corporation and its subsidiaries whose fiscal year end was previously March 31 and the twelve-month period from January to December for subsidiaries whose fiscal year end was December 31.

	(Billions of yen, except per share data)			
	FY2012	(For reference) Restated FY2011*	Adjusted growth*	FY2011
Net sales	1,012.6	1,008.3	0.4%	1,216.1
Operating income	101.6	98.5	3.2%	108.6
Ordinary income	104.2	100.2	4.0%	110.0
Net income	<u>62.4</u>	51.8	<u>20.5%</u>	52.4
Net income per share (Yen)	<u>119.55</u>	99.16	<u>20.6%</u>	100.46

\* “(For reference) Restated FY2011” and “Adjusted growth” present figures for the nine-month period from April 1 to December 31, 2011 for Kao Corporation and its subsidiaries whose fiscal year end was previously March 31.

The following rates of increase or decrease are comparisons with restated FY2011.

#### 1.1.1. Business Results for the Fiscal Year

##### 1.1.1.1. Overall Business Trends during the Fiscal Year

During the fiscal year ended December 31, 2012 (April 1, 2012 to December 31, 2012), recovery of the global economy remained weak, with the problem of the sovereign debt crisis in Europe. In the Japanese economy, although there were some signs of bottoming out amid weak activity, conditions remained severe. The household and personal care products market in Japan, a key market for the Kao Group, grew by about 1% on a value basis compared with restated FY2011, although consumer purchase prices fell, partly due to the effects of deflation. The cosmetics market in Japan was flat compared with restated FY2011.

Under these circumstances, the Kao Group worked to launch and nurture products with high added value in response to changes in consumer needs based on its concept of “Yoki-Monozukuri,”\* and promoted cost reduction activities.

\* The Kao Group defines “Yoki-Monozukuri” as a strong commitment by all members to provide products and brands of excellent value for consumer satisfaction. In Japanese, “Yoki” literally means “good/excellent,” and “Monozukuri” means “development/manufacturing of products.”

Net sales increased 0.4% compared with restated FY2011 to 1,012.6 billion yen. Excluding the effect of currency translation, net sales would have increased 1.1%. In the Consumer Products Business, sales rose compared with restated FY2011, reflecting the contribution from the Human Health Care Business, which includes sanitary and other products, and the Fabric and Home Care Business. In the Chemical Business, sales decreased compared with restated FY2011 due to the impact of decreased demand in customer industries and adjustment of selling prices in connection with lower raw material prices.

In addition to the impact of increased sales on profits, raw material prices decreased, mainly for natural oils and fats and petrochemicals, and the Kao Group worked to promote cost reduction activities and make more efficient use of expenses. As a result, operating income increased 3.1 billion yen compared with restated FY2011 to 101.6 billion yen. Ordinary income increased 4.0 billion yen compared with restated FY2011 to 104.2 billion yen, and net income increased 10.6 billion yen compared with restated FY2011 to 62.4 billion yen, partly due to recognition of deferred tax assets at a consolidated subsidiary in connection with the resolution in June 2012 to change the fiscal year end.

Operating income before amortization of goodwill and other items related to acquisitions (EBITA) increased 1.6 billion yen compared with restated FY2011 to 125.7 billion yen, which is equivalent to 12.4% of net sales.

Net income per share was 119.55 yen, an increase of 20.39 yen, or adjusted growth of 20.6%, from 99.16 yen in restated FY2011.

Economic value added (EVA\*), which the Kao Group uses as a management indicator, was higher for the twelve-month period from January to December than the previous year, reflecting an increase in net operating profit after tax (NOPAT).

*\*EVA is a registered trademark of Stern Stewart & Co.*

The main exchange rates used for translating the financial statement items (income and expenses) of foreign subsidiaries and affiliates were as shown below.

	January-March	April-June	July-September	October-December
Yen/U.S. dollar	79.75 (82.33)	79.81 (81.23)	78.12 (77.08)	82.79 (77.87)
Yen/Euro	106.31 (113.77)	101.20 (118.29)	98.15 (108.74)	108.18 (104.86)

*Note: Figures in parentheses represent the exchange rates for the same period of the previous fiscal year.*

### **1.1.1.2. Trends by Segment for the Fiscal Year**

#### ***Summary of Results by Business Segment***

##### **Consumer Products Business**

Sales increased 1.7% compared with restated FY2011 to 833.2 billion yen. Excluding the effect of currency translation, sales would have increased 2.1%.

In Japan, sales increased 1.7% to 653.1 billion yen. The Kao Group dealt with intensified market competition by taking measures including launching new products in response to changing consumer lifestyles and enhancing proposal-based sales and in-store merchandising activities.

In Asia, sales increased 7.0% to 87.2 billion yen. Excluding the effect of currency translation, sales would have increased 7.8%. In the *Bioré* skin care, *Attack* laundry detergent, *Laurier* sanitary napkins and *Merries* baby diapers lines, the Kao Group carried out aggressive measures including introduction of new products and collaboration with retailers.

In the Americas, sales increased 2.7% to 56.6 billion yen. Excluding the effect of currency translation, sales would have increased 2.1%. Sales grew as the market remained firm.

In Europe, sales decreased 6.9% to 57.3 billion yen. Excluding the effect of currency translation, sales would have decreased 1.8%. Sales were firm within Europe amid severe economic conditions, but performance was impacted by lower export sales and the effect of currency translation due to the appreciation of the yen.

Operating income increased 7.9 billion yen compared with restated FY2011 to 84.7 billion yen as the Kao Group worked proactively to nurture new and improved products, made more efficient use of expenses and conducted cost reduction activities.

Note: The Kao Group's Consumer Products Business consists of the Beauty Care Business, the Human Health Care Business, and the Fabric and Home Care Business.

##### ***Beauty Care Business***

Sales were on par with restated FY2011 at 444.4 billion yen. Excluding the effect of currency translation, sales would have increased 0.5%.

Sales of prestige cosmetics, which consist of self-selection and counseling cosmetics, increased 0.1% compared with restated FY2011 to 205.4 billion yen (an increase of 0.2%

excluding the effect of currency translation). In Japan, amid a continuing shift toward lower-priced products in the cosmetics market, the Kao Group worked to reinforce focal brands, and increased sales of counseling brands *SOFINA Primavista* base makeup, *AUBE couture* makeup and *COFFRET D'OR* makeup, as well as self-selection brand *KATE* makeup. Sales outside Japan decreased compared with restated FY2011 with the impact of concerns about an economic slowdown.

In premium skin care products, sales in Japan increased, reflecting the steady performance of *Bioré* facial cleanser, *Bioré U* body cleanser and *Curél* derma care products. In Asia, *Bioré* performed strongly with the effect of product improvements. In the Americas, sales of *Jergens* hand and body lotions increased.

Sales of premium hair care products in Japan decreased compared with restated FY2011 due to intensified competition for shampoos and conditioners and contraction of the market for styling and hair coloring products. In Asia, there were increased sales of *Liese* foam hair color in Taiwan, Hong Kong and Malaysia, and *Essential* hair care products in Taiwan and Hong Kong. In the Americas and Europe, sales of *John Frieda* foam hair color increased.

Operating income increased 4.8 billion yen compared with restated FY2011 to 21.8 billion yen due to ongoing efforts to rebuild the prestige cosmetics business in Japan and other factors. Operating income before amortization of goodwill and other items related to acquisitions (EBITA) increased 3.2 billion yen compared with restated FY2011 to 45.9 billion yen, which is equivalent to 10.3% of sales.

#### *Human Health Care Business*

Sales increased 5.5% compared with restated FY2011 to 152.0 billion yen. Even excluding the effect of currency translation, sales would have increased by the same percentage.

In food and beverage products, the Kao Group added new products to the *Healthya* brand of functional drinks that promote body fat utilization, but sales decreased compared with restated FY2011 due to intensifying market competition.

Sales of sanitary products increased compared with restated FY2011. Sales of *Laurier F* sanitary napkins, which protect skin from dampness and chafing, increased in Japan, and sales of the *Laurier* brand increased in Indonesia. *Merries* baby diapers performed strongly in Japan, increasing market share, and sales grew in China and Russia.

Sales of personal health products were on par with restated FY2011. Although sales of toothpaste decreased compared with restated FY2011 due in part to intensifying competition,

sales of *Success* men's products and *Megurhythm* steam thermo power pads increased.

Operating income decreased 1.0 billion yen compared with restated FY2011 to 11.5 billion yen with the increase in expenses for new product launches and the impact of market competition, despite the Kao Group's cost reduction activities in addition to the impact of increased sales.

#### *Fabric and Home Care Business*

Sales increased 2.8% compared with restated FY2011 to 236.7 billion yen. Excluding the effect of currency translation, sales would have increased 2.9%.

Sales of fabric care products increased. In Japan, the Kao Group worked to highlight the reduced laundry time and environmental appeal of conserving water, electricity and resources with the *Neo* series, which includes *Attack Neo* ultra-concentrated liquid laundry detergent, and also expanded the number of users of *Attack Neo Antibacterial EX Power*, which has strong deodorizing and antibacterial properties. *Flair Fragrance* fabric softener, which releases fragrance upon exposure to perspiration or other moisture, was well received by consumers and increased sales. *Wide Haiter EX Power* fabric bleach for color garments performed well. Sales grew in Asia with the strong performance of *Attack Easy* laundry detergent in Indonesia and Thailand, and the launch of new concentrated laundry detergent *Attack 3D Clean Action* in Thailand.

Sales of home care products increased in Japan due to the strong performance of *CuCute* dishwashing detergent and *Kitchen Haiter* kitchen bleach, as well as new products such as *Quickle Wiper 3D Wet Sheets Rose Fragrance* cleaning sheets.

Operating income increased 4.1 billion yen compared with restated FY2011 to 51.4 billion yen as the Kao Group conducted cost reduction activities and other measures, in addition to the effect of the increase in sales.

#### **Chemical Business**

Sales decreased 5.1% compared with restated FY2011 to 208.1 billion yen, partly because of decreased demand in customer industries and selling price adjustments made in connection with lower raw material prices. Excluding the effect of currency translation, sales would have decreased 3.1%.

In oleo chemicals, the Kao Group adjusted selling prices in connection with lower raw material prices. In performance chemicals, sales were firm as the Kao Group worked to develop and expand sales of high-value-added products with reduced environmental impact.

Specialty chemicals were impacted by the economic downturn and structural changes in the personal computer market.

Operating income decreased 4.9 billion yen compared with restated FY2011 to 16.8 billion yen due to the impact of lower demand from customer industries, despite cost reduction activities.

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**1.1.2 Forecast for the Fiscal Year Ending December 31, 2013****Forecast of Consolidated Results for the Fiscal Year Ending December 31, 2013**

(Billions of yen, except per share data)

	FY2013	(For reference) FY2012(adjusted)*	Adjusted growth*	FY2012
Net sales	1,270.0	1,220.4	4.1%	1,012.6
Operating income	116.0	111.8	3.8%	101.6
Ordinary income	117.0	114.1	2.5%	104.2
Net income	73.0	<u>62.7</u>	<u>16.4%</u>	<u>62.4</u>
Net income per share (Yen)	142.60	<u>120.21</u>	<u>18.6%</u>	<u>119.55</u>

\* “(For reference) FY2012 (adjusted)” and “Adjusted growth” present 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.

The following rates of increase or decrease are comparisons with the fiscal year ended December 31, 2012 (adjusted).

**1.1.2.1. Forecast of Overall Business Results for the Fiscal Year Ending December 31, 2013**

Continued recovery, albeit weak, is forecast for the global economy, although there are concerns about the risk of a downturn due to factors including the public debt problem in Europe and financial issues in the United States. In Japan, although there are expectations of an economic recovery against the backdrop of factors including improved export conditions and the effect of economic measures, the outlook for the operating environment remains unclear, with severe employment conditions and the impact of deflation.

Amid these circumstances, the Kao Group will accurately respond to various changes in the operating environment of the Consumer Products Business as it aims to achieve sustained profitable growth globally with consumer-driven, high-value-added products. In the Chemical Business, the Kao Group will work to strengthen global operations and carry out measures such as developing products with a reduced environmental impact. The Kao Group forecasts net sales of 1,270.0 billion yen (adjusted growth of 4.1%). The Kao Group will work to stimulate the market with new product launches and other measures in Japan and overseas, and expects an increase in sales volume.

As for raw material prices, natural oils and fats are forecast to stabilize, although petrochemical prices are rising. In addition, the Kao Group will work to continue price adjustments and cost reduction activities, while at the same time it will accelerate activities to strengthen global business development. Based on these assumptions, the Kao Group forecasts operating income of 116.0 billion yen (adjusted growth of 3.8%), ordinary income of 117.0 billion yen (adjusted growth of 2.5%), and net income of 73.0 billion yen (adjusted

growth of 16.4%).

EVA is forecast to increase due to an increase in net operating profit after tax (NOPAT).

#### **1.1.2.2. Forecast by Business Segment for the Fiscal Year Ending December 31, 2013**

In the Consumer Products Business in Japan, the market for household and personal care products is projected to grow slightly on a value basis. The cosmetics market is expected to remain flat. In overseas markets, growth is expected to continue in Asia, and a moderate recovery is projected in North America and Europe. In this situation, the Kao Group will take the following actions.

In the Beauty Care Business, the Kao Group will work to revitalize the market by adding greater value to products and proposing the Group's own originality and appeal, while assessing changes in consumer attitudes toward beauty and lifestyle habits. In Japan, the Kao Group will promote the creation of strong brands through initiatives including launches and cultivation of distinctive new products tailored to changes in consumer needs and reform of marketing activities and sales methods to meet changes in consumer purchasing behavior. Overseas, the Kao Group will work to develop high-value-added products that incorporate its original technologies and cultivate and strengthen core brands.

The Kao Group forecasts sales in this business of 560.0 billion yen (adjusted growth of 4.1%).

The Human Health Care Business will promote product development focused on health care for both body and spirit. In sales of food and beverage products, the Kao Group will use products approved as Foods for Specified Health Uses that are differentiated by their high level of functional health value in order to further expand its base of loyal users, including the development of coffee drinks. At the same time, it will offer a health support solutions program in response to rising health consciousness as a result of mandatory special health examinations and specified health guidance. The Kao Group aims to create sanitary products that are gentle on skin and that offer greater comfort and a sense of reassurance. In China, the Kao Group will expand its rollout of baby diapers produced locally targeting the middle-class consumer segment. The Kao Group will work to further raise the brand value of its personal health products by continuing to make original new proposals with products that can become healthy daily lifestyle habits.

The Kao Group forecasts sales in this business of 197.0 billion yen (adjusted growth of 3.9%).

In the Fabric and Home Care Business, the Kao Group will strengthen its brands and offer

proposals for improvements in daily life based on insights into changing consumer lifestyles, developing high-value-added products that offer cleanliness, comfort and enjoyment in various everyday situations. In collaboration with retailers, the Kao Group will further promote its “eco together” environmental statement with instructional activities that aim to reduce environmental impact throughout the entire lifecycle of products such as the *Neo* series, which includes *Attack Neo* ultra-concentrated liquid laundry detergent. In China and other countries in Asia, the Kao Group will work to develop and nurture products that incorporate its technologies to meet local consumer needs.

The Kao Group forecasts sales in this business of 305.0 billion yen (adjusted growth of 4.5%).

In the Chemical Business, the Kao Group will promote global supply of distinctive chemical products that meet the diverse needs of a wide range of industries.

In oleo chemicals, the Kao Group will stably supply high-quality products by promoting timely capacity expansion to meet increasing demand for fatty alcohols and their derivatives made from natural oils and fats, mainly in Asia.

In performance chemicals, growth is forecast in Asia, while the forecast for Japan includes an improved export environment for customer industries and recovery in demand.

In specialty chemicals, where growth is forecast in the market for products related to information materials, the Kao Group will work to offer products that anticipate customer trends.

In addition, the Kao Group will work to expand sales by opening up growth markets such as the BRICs countries while developing new materials using unique, environmentally conscious technologies, mainly at the Eco-Technology Research Center, in response to rising concern about the environment worldwide.

As a result of the above, including adjustments in selling prices in response to fluctuations in raw material prices, the Kao Group forecasts sales in this business of 242.0 billion yen (adjusted growth of 2.3%).

#### **1.1.2.3. Underlying Assumptions of the Forecast for the Fiscal Year Ending December 31, 2013**

The above forecast was made assuming translation rates of one U.S. dollar to 90 yen and one euro to 115 yen.

Please note that although petrochemical prices are highly likely to rise, assumptions for raw material prices, including for natural oils and fats, are based on information currently available to the Kao Group.

## 1.2. Analysis of Financial Condition

### Analysis of Assets, Liabilities, Net Assets and Cash Flow

#### 1.2.1. Status of Assets, Liabilities, Net Assets and Cash Flow for the Fiscal Year Ended December 31, 2012

##### Summary of Consolidated Financial Condition

	Billions of yen			Millions of U.S. dollars
	As of December 31, 2012	As of March 31, 2012	Incr./(Dcr.)	As of December 31, 2012
Total assets	<u>1,040.0</u>	991.3	<u>48.7</u>	<u>12,011.6</u>
Total net assets	<u>605.7</u>	549.7	<u>56.0</u>	<u>6,995.9</u>
Net worth ratio	<u>57.0%</u>	54.3%	-	<u>57.0%</u>
Net worth per share (Yen/US\$)	<u>1,135.05</u>	1,031.08	<u>103.97</u>	<u>13.11</u>
Total debt	<u>103.2</u>	102.1	1.1	<u>1,191.8</u>

##### Summary of Consolidated Cash Flows

	Billions of yen		Millions of U.S. dollars
	FY2012	FY2011	FY2012
Net cash provided by operating activities	<u>97.4</u>	125.0	<u>1,124.5</u>
Net cash used in investing activities	<u>(44.6)</u>	(49.0)	<u>(515.6)</u>
Free cash flow	<u>52.7</u>	76.1	<u>608.9</u>
Net cash used in financing activities	<u>(32.0)</u>	(86.2)	<u>(369.9)</u>

*Note: Due to a change in the fiscal year end, FY2012 is April to December 2012 for Kao Corporation and its subsidiaries whose fiscal year end was previously March 31 and January to December 2012 for subsidiaries whose fiscal year end was December 31.*

Total assets increased 48.7 billion yen from the previous fiscal year-end to 1,040.0 billion yen. The principal increases in assets were a 13.9 billion yen increase in cash and time deposits, a 21.4 billion yen increase in notes and accounts receivable – trade, a 10.6 billion yen increase in short-term investments and a 2.3 billion yen increase in merchandise and finished goods. The principal decrease in assets was a 21.5 billion yen decrease in intangible assets due to the progress of amortization of trademarks and other intellectual property rights and goodwill.

Total liabilities decreased 7.3 billion yen from the previous fiscal year-end to 434.3 billion yen. The principal decreases in liabilities were a 5.2 billion yen decrease in notes and accounts payable – trade and a 6.6 billion yen decrease in income taxes payable.

Total net assets increased 56.0 billion yen from the previous fiscal year-end to 605.7 billion yen. The principal increases in net assets were net income totaling 62.4 billion yen and foreign currency translation adjustments of 24.2 billion yen. The principal decrease in net assets was payments of dividends from retained earnings totaling 32.4 billion yen.

As a result, the net worth ratio (defined as net worth divided by total assets) was 57.0% compared with 54.3% at the end of the previous fiscal year.

Net cash provided by operating activities totaled 97.4 billion yen. The principal increases in net cash were income before income taxes and minority interests of 102.3 billion yen, depreciation and amortization of 59.8 billion yen and change in inventories of 5.1 billion yen. The principal decreases in net cash were income taxes paid of 40.1 billion yen, change in trade receivables of 12.4 billion yen and change in trade payables of 9.6 billion yen.

Net cash used in investing activities totaled 44.6 billion yen. This primarily consisted of purchase of property, plant and equipment of 34.6 billion yen and purchase of short-term investments of 10.0 billion yen.

Free cash flow, the sum of net cash provided by operating activities and net cash used in investing activities, was 52.7 billion yen.

Net cash used in financing activities totaled 32.0 billion yen. The principal decrease in net cash was 33.5 billion yen for payments of cash dividends, including to minority shareholders.

The balance of cash and cash equivalents at December 31, 2012 increased 30.7 billion yen compared with the end of the previous fiscal year to 160.4 billion yen.

#### **1.2.2. Forecast of Assets, Liabilities, Net Assets and Cash Flow for the Fiscal Year Ending December 31, 2013**

Net cash provided by operating activities is forecast to be approximately 150.0 billion yen, due in part to an increase in income before income taxes and minority interests.

In net cash used in investing activities, the Kao Group plans capital expenditures of approximately 60.0 billion yen, including aggressive investment for global expansion and capital investment for purposes including increasing production capacity, promoting streamlining and improving distribution efficiency.

In net cash used in financing activities, the Kao Group plans a share repurchase announced as

of this date, payment of cash dividends and other expenditures.

As a result of the above, the balance of cash and cash equivalents as of December 31, 2013 is forecast to decrease approximately 30.0 billion yen from the previous fiscal year end to approximately 130.0 billion yen.

### Cash Flow Indices

	<b>FY2012</b>	FY2011	FY2010	FY2009	FY2008
Net worth / Total assets (%)	<b><u>57.0</u></b>	54.3	51.7	53.0	48.7
Market capitalization / Total assets (%)	<b><u>112.9</u></b>	114.3	105.9	119.2	91.9
Interest-bearing debt / Operating cash flow (years)	<b>1.2</b>	0.9	1.1	1.1	2.4
Operating cash flow / Interest paid (times)	<b>73.1</b>	51.1	45.4	40.3	20.8

Notes:.

1. Due to a change in the fiscal year end, FY2012 is April to December 2012 for Kao Corporation and its subsidiaries whose fiscal year end was previously March 31 and January to December 2012 for subsidiaries whose fiscal year end was December 31.
2. All indices are computed based on consolidated data.
3. Net worth is net assets, excluding minority interests and stock acquisition rights.
4. Market capitalization equals the stock price at the end of the period multiplied by the number of shares outstanding at the end of the period (excluding treasury stock).
5. Operating cash flow is stated in the consolidated statements of cash flows. Interest-bearing debt is all debt included in the consolidated balance sheets on which interest is paid.

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**1.3. Basic Policies Regarding Distribution of Profits and Dividends for the Period**

In order to achieve profitable growth, Kao Corporation secures an internal reserve for capital investment and acquisitions from a medium-to-long-term management perspective and places priority on providing shareholders with steady and continuous dividends. In addition, the Company flexibly considers the repurchase and retirement of shares from the standpoint of improving capital efficiency.

In accordance with these policies, the Company plans to pay its scheduled year-end dividend for the fiscal year ended December 31, 2012 of 31.00 yen per share, the same as the previous fiscal year. Consequently, cash dividends for the fiscal year will increase 2.00 yen per share compared with the previous fiscal year, resulting in a total of 62.00 yen per share. The consolidated payout ratio will be 51.9%.

For the fiscal year ending December 31, 2013, the Company plans to pay total cash dividends of 64.00 yen per share, an increase of 2.00 yen per share compared with the fiscal year ended December 31, 2012. Although the operating environment is challenging, this plan is in accordance with the Company's basic policies regarding distribution of profits, and free cash flow and other factors have also been taken into consideration. As a result, the projected consolidated payout ratio will be 44.9%.

***Significant Subsequent Event***

At a meeting held on February 5, 2013, the Board of Directors resolved to purchase the Company's stock, up to a maximum of 12.5 million shares or 30.0 billion yen, from February 6 to April 26, 2013, in accordance with Article 156 of the Corporation Law applicable pursuant to Article 165, paragraph 3 of the said Law.

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**1.4. Other**

**(1) Changes in material subsidiaries during this fiscal year: None**

**(2) Changes in accounting principles, changes in accounting estimates, and retrospective restatements: None**

**(3) Consolidated taxation:**

The Company and certain subsidiaries in Japan have received authorization from the Director General of the National Tax Administration Agency to apply the consolidated taxation system from the fiscal year ending December 31, 2013. Consequently, from the fiscal year ended December 31, 2012, accounting treatment assumes the application of the consolidated taxation system based on “Revised Practical Solution on Tentative Treatment of Tax Effect Accounting Under Consolidated Taxation System (Part 1)” (Practical Issues Task Force No. 5, March 18, 2011) and “Revised Practical Solution on Tentative Treatment of Tax Effect Accounting Under Consolidated Taxation System (Part 2)” (Practical Issues Task Force No. 7, June 30, 2010).

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**2. Management Policies****2.1. Management Policies of the Kao Group**

The Kao Group's mission is to strive for the wholehearted satisfaction and enrichment of the lives of people globally and to contribute to the sustainability of the world, with products and brands of excellent value that are created from the consumer's and customer's perspective. This commitment is embraced by all members of the Kao Group as we work together with passion to share joy with consumers and customers in our core domains of cleanliness, beauty, health and chemicals.

The Kao Group aims to be the global group of companies that is closest to the consumers and customers in each market, earning the respect and trust of its shareholders and all other stakeholders, as it continually raises its corporate value on the basis of "profitable growth."

The corporate philosophy that forms the basis of these activities is "The Kao Way," which clearly expresses the Kao Group's unique corporate culture and the essence of its corporate spirit, and is shared and practiced by all employees.

**2.2. Management Metric Used as a Target**

EVA, which is used to measure true profit by factoring in the cost of invested capital, is the Kao Group's principal management metric. Continuous growth in EVA is linked to increased corporate value, which means long-term profits not only for shareholders, but for all Kao Group stakeholders as well. While working to expand its business scale, the Kao Group views EVA growth as a primary focus of operating activity. The Kao Group also uses this metric to determine the direction of long-term management strategies, to assess specific businesses, to evaluate acquisitions and capital investment, and to develop performance targets for each fiscal year.

**2.3. Medium-to-long-term Management Strategies**

Structural changes are occurring worldwide in the Kao Group's operating environment over the medium to long term, including 1) a shift in the center of the economy as emerging nations create enormous markets, 2) the emergence of new consumers including people who are increasingly dependent on digital media, as well as segments such as the growing elderly population, and 3) rising interest in environmental issues. The Kao Group sees opportunities for significant progress from these changes, and will work to achieve global growth by promoting ecology-centered management and establishing its corporate identity in line with

its corporate message of “Enriching lives, in harmony with nature.”

Regarding business activities, in the Consumer Products Business area, which consists of the three businesses of Beauty Care, Human Health Care, and Fabric and Home Care, and the Chemical Business area, the Kao Group will emphasize research and development to make high-quality, innovative products geared to consumers and customers, a concept referred to within the Group as “*Yoki-Monozukuri*,” and aim to become a company with a global presence as it works for both sustained “profitable growth” by increasing the added value of its products and “contributions to society” by resolving social issues and conducting social contribution activities through its business activities.

To realize this vision and increase corporate value, the Kao Group is now implementing Kao Group Mid-term Plan 2015 (K15), with 2013 as the first year.

### **Kao Group Mid-term Plan 2015 (K15)**

Target 1: Break previous records for consolidated net sales and profits

Target 2: Achieve numerical management targets for FY2015

Consolidated net sales	¥1,400.0 billion
Consolidated operating income	¥150.0 billion
Overseas sales ratio	30% or more

The growth strategies for achieving the plan’s goals are as follows.

#### **1) Expand the Consumer Products Business globally**

Continued substantial expansion is forecast for the growth markets of Asia and other emerging nations. The Kao Group will work to expand its business with product development that incorporates its original technologies, centered on products in the domain of “cleanliness” including laundry detergents, baby diapers and sanitary napkins targeting the growing middle-class consumer segment.

In North America, Europe and other mature markets, the Kao Group will work on high-value-added products that incorporate its original technologies in the fields of prestige cosmetics, premium mass skin care and hair care, and professional hair care.

#### **2) Further Reinforce the Fabric and Home Care Business, and accelerate profitable growth in the Beauty Care and Human Health Care Businesses**

In the Fabric and Home Care Business, its core profit base, the Kao Group will work to maintain or capture the top share in each product category.

In addition to strengthening the prestige cosmetics business in the Beauty Care Business, the Kao Group will aim for greater growth and expansion with high-value-added products and services focused on health and the aging society in the Human Health Care Business.

**3) Reinforce the Chemical Business**

In the Chemical Business, the Kao Group will aim for rapid progress toward an eco-chemical business through innovations led by the Eco-Technology Research Center.

In addition, the Kao Group will strengthen synergy with the Consumer Products Business.

With regard to operating structure, through the global management integration of the Consumer Products Business, the Kao Group will strengthen its matrix management of business units and functional divisions, and promote reformation of its profit structure from a perspective of what is best for the Group as a whole.

**2.4. Issues for Management**

With intensifying market competition, changing market structure and volatility in raw material market conditions and exchange rates, the operating environment remains severe and uncertain.

In addition, changes in consumer attitudes in everyday life and associated changes in their purchasing attitudes are occurring and social issues are on the rise, such as increasing environmental awareness and health consciousness, and the aging society.

By steadily carrying out the growth strategies of Kao Group Mid-term Plan 2015 (K15), which was formulated with this operating environment in mind, the Kao Group will deal with these various issues, and work for both sustained “profitable growth” through the development of high-value-added products and “contributions to society” as it aims to become a company with a global presence.

**Consolidated Balance Sheets**

*Millions of yen*

	<b>FY2012</b> <b>Dec 31, 2012</b>	<b>FY2011</b> <b>Mar 31, 2012</b>
<b>Assets</b>		
<b>Current assets</b>		
Cash and time deposits	99,334	85,483
Notes and accounts receivable - trade	164,250	142,882
Short-term investments	57,443	46,798
Merchandise and finished goods	84,712	82,393
Work in process	10,789	11,670
Raw materials and supplies	26,706	26,643
Prepaid expenses	6,123	5,678
Deferred tax assets	17,002	17,736
Other	28,397	14,781
Allowance for doubtful receivables	(1,349)	(1,115)
<b>Total current assets</b>	<b>493,407</b>	<b>432,949</b>
<b>Fixed assets</b>		
Property, plant and equipment		
Buildings and structures	332,690	323,138
Accumulated depreciation	(254,505)	(246,074)
Buildings and structures, net	78,185	77,064
Machinery, equipment and vehicles	631,347	612,446
Accumulated depreciation	(558,596)	(544,171)
Machinery, equipment and vehicles, net	72,751	68,275
Tools, furniture and fixtures	83,747	81,311
Accumulated depreciation	(71,377)	(68,992)
Tools, furniture and fixtures, net	12,370	12,319
Land	64,807	64,796
Lease assets	11,889	11,934
Accumulated depreciation	(4,435)	(3,919)
Lease assets, net	7,454	8,015
Construction in progress	16,777	10,109
<b>Total property, plant and equipment</b>	<b>252,344</b>	<b>240,578</b>
Intangible assets		
Goodwill	159,165	165,614
Trademarks	41,851	53,583
Other	14,907	18,266
<b>Total intangible assets</b>	<b>215,923</b>	<b>237,463</b>
Investments and other assets		
Investment securities	14,822	13,344
Long-term loans	1,567	1,742
Long-term prepaid expenses	14,254	12,441
Deferred tax assets	37,903	42,554
Other	10,176	10,420
Allowance for doubtful receivables	(428)	(219)
<b>Total investments and other assets</b>	<b>78,294</b>	<b>80,282</b>
<b>Total fixed assets</b>	<b>546,561</b>	<b>558,323</b>
<b>Total assets</b>	<b>1,039,968</b>	<b>991,272</b>

**Consolidated Balance Sheets**

*Millions of yen*

	<b>FY2012</b> <b>Dec 31, 2012</b>	<b>FY2011</b> <b>Mar 31, 2012</b>
<b>Liabilities</b>		
<b>Current liabilities</b>		
Notes and accounts payable - trade	105,472	110,659
Short-term loans	3,115	2,060
Current portion of bonds	50,000	-
Current portion of long-term loans	7	5
Accounts payable - other	52,485	48,499
Accrued expenses	74,449	73,538
Income taxes payable	11,658	18,306
Liabilities for loss related to the Great East Japan Earthquake	-	33
Other	18,688	21,810
<b>Total current liabilities</b>	<b>315,874</b>	<b>274,910</b>
<b>Long-term liabilities</b>		
Bonds	-	49,999
Long-term loans	50,066	50,049
Liability for employee retirement benefits	45,717	45,026
Other	22,607	21,584
<b>Total long-term liabilities</b>	<b>118,390</b>	<b>166,658</b>
<b>Total liabilities</b>	<b>434,264</b>	<b>441,568</b>
<b>Net assets</b>		
<b>Shareholders' equity</b>		
Common stock	85,424	85,424
Capital surplus	109,561	109,561
Retained earnings	477,640	447,619
Treasury stock, at cost	(8,985)	(9,064)
<b>Total shareholders' equity</b>	<b>663,640</b>	<b>633,540</b>
<b>Accumulated other comprehensive income</b>		
Unrealized gain on available-for-sale securities	2,447	2,283
Deferred gain (loss) on derivatives under hedge accounting	6	(3)
Foreign currency translation adjustments	(71,872)	(96,094)
Post retirement liability adjustments for foreign consolidated subsidiaries	(1,901)	(1,697)
<b>Total accumulated other comprehensive income</b>	<b>(71,320)</b>	<b>(95,511)</b>
<b>Stock acquisition rights</b>	<b>1,294</b>	<b>1,238</b>
<b>Minority interests</b>	<b>12,090</b>	<b>10,437</b>
<b>Total net assets</b>	<b>605,704</b>	<b>549,704</b>
<b>Total liabilities and net assets</b>	<b>1,039,968</b>	<b>991,272</b>

**Consolidated Statements of Income**

*Millions of yen*

	<b>FY2012</b> <b>Apr '12 - Dec '12</b>	<b>FY2011</b> <b>Apr '11 - Mar '12</b>
<b>Net sales</b>	<b>1,012,595</b>	<b>1,216,096</b>
Cost of sales	442,522	525,012
<b>Gross profit</b>	<b>570,073</b>	<b>691,084</b>
Selling, general and administrative expenses	468,506	582,494
<b>Operating income</b>	<b>101,567</b>	<b>108,590</b>
Non-operating income		
Interest income	838	908
Dividend income	173	160
Equity in earnings of nonconsolidated subsidiaries and affiliates	1,710	1,658
Other	2,256	2,589
Total non-operating income	4,977	5,315
Non-operating expenses		
Interest expense	1,181	2,204
Foreign currency exchange loss	280	621
Other	869	1,053
Total non-operating expenses	2,330	3,878
<b>Ordinary income</b>	<b>104,214</b>	<b>110,027</b>
Extraordinary gain		
Gain on sales of fixed assets	133	178
Gain on sales of stock of subsidiary	270	-
Other	245	96
Total extraordinary gain	648	274
Extraordinary loss		
Loss on sales/disposals of fixed assets	2,215	2,381
Loss related to the Great East Japan Earthquake	-	2,028
Other	343	634
Total extraordinary loss	2,558	5,043
<b>Income before income taxes and minority interests</b>	<b>102,304</b>	<b>105,258</b>
Income taxes		
Income taxes - current	32,550	38,653
Income taxes - deferred	5,998	12,120
Total income taxes	38,548	50,773
<b>Income before minority interests</b>	<b>63,756</b>	<b>54,485</b>
Minority interests	1,370	2,050
<b>Net income</b>	<b>62,386</b>	<b>52,435</b>

**Consolidated Statements of Comprehensive Income**

*Millions of yen*

	<b>FY2012</b> <b>Apr '12 - Dec '12</b>	<b>FY2011</b> <b>Apr '11 - Mar '12</b>
Income before minority interests	<u>63,756</u>	54,485
Other comprehensive income		
Adjustments for unrealized gains or losses on available-for-sale securities	141	487
Foreign currency translation adjustments	25,315	(12,169)
Share in other comprehensive income of associates applied for equity method	137	(172)
Post retirement liability adjustments for foreign consolidated subsidiaries	(204)	(1,236)
Other comprehensive income	<u>25,389</u>	<u>(13,090)</u>
Comprehensive income	<u>89,145</u>	41,395
Attributable to:		
Shareholders of Kao Corporation	<u>86,577</u>	39,956
Minority interests	<u>2,568</u>	1,439

**Major Items of Consolidated Selling, General and Administrative Expenses**

*Millions of yen*

	<b>FY2012</b> <b>Apr '12 - Dec '12</b>	<b>FY2011</b> <b>Apr '11 - Mar '12</b>
Freight/warehouse	56,792	68,388
Advertising	67,045	82,209
Sales promotion	52,101	62,980
Salaries and bonuses	97,738	121,787
Research and development	37,493	48,171

# **Consolidated Statements of Changes in Equity**

Millions of yen

	<b>FY2012</b> <b>Apr '12 - Dec '12</b>	<b>FY2011</b> <b>Apr '11 - Mar '12</b>
<b>Shareholders' equity</b>		
Common stock		
Balance at beginning of current period	85,424	85,424
Changes of items during the period		
Total changes of items during the period	-	-
Balance at end of period	85,424	85,424
Capital surplus		
Balance at beginning of current period	109,561	109,561
Changes of items during the period		
Total changes of items during the period	-	-
Balance at end of period	109,561	109,561
Retained earnings		
Balance at beginning of current period	447,619	457,918
Changes of items during the period		
Cash dividends	(32,353)	(30,273)
Net income	<u>62,386</u>	52,435
Disposal of treasury stock	(12)	(1)
Retirement of treasury stock	-	(32,460)
Total changes of items during the period	<u>30,021</u>	(10,299)
Balance at end of period	<u>477,640</u>	447,619
Treasury stock		
Balance at beginning of current period	(9,064)	(40,977)
Changes of items during the period		
Purchase of treasury stock	(6)	(628)
Disposal of treasury stock	85	81
Retirement of treasury stock	-	32,460
Total changes of items during the period	79	31,913
Balance at end of period	(8,985)	(9,064)
Total shareholders' equity		
Balance at beginning of current period	633,540	611,926
Changes of items during the period		
Cash dividends	(32,353)	(30,273)
Net income	<u>62,386</u>	52,435
Purchase of treasury stock	(6)	(628)
Disposal of treasury stock	73	80
Retirement of treasury stock	-	-
Total changes of items during the period	<u>30,100</u>	21,614
Balance at end of period	<u>663,640</u>	633,540



# **Consolidated Statements of Changes in Equity**

Millions of yen

	FY2012 <u>Apr '12 - Dec '12</u>	FY2011 <u>Apr '11 - Mar '12</u>
<b>Accumulated other comprehensive income</b>		
Unrealized gain on available-for-sale securities		
Balance at beginning of current period	2,283	1,861
Changes of items during the period		
Net changes of items other than shareholders' equity during the period	164	422
Total changes of items during the period	164	422
Balance at end of period	2,447	2,283
Deferred gain (loss) on derivatives under hedge accounting		
Balance at beginning of current period	(3)	(2)
Changes of items during the period		
Net changes of items other than shareholders' equity during the period	9	(1)
Total changes of items during the period	9	(1)
Balance at end of period	6	(3)
Foreign currency translation adjustments		
Balance at beginning of current period	(96,094)	(84,430)
Changes of items during the period		
Net changes of items other than shareholders' equity during the period	24,222	(11,664)
Total changes of items during the period	24,222	(11,664)
Balance at end of period	(71,872)	(96,094)
Post retirement liability adjustments for foreign consolidated subsidiaries		
Balance at beginning of current period	(1,697)	(461)
Changes of items during the period		
Net changes of items other than shareholders' equity during the period	(204)	(1,236)
Total changes of items during the period	(204)	(1,236)
Balance at end of period	(1,901)	(1,697)
Total accumulated other comprehensive income		
Balance at beginning of current period	(95,511)	(83,032)
Changes of items during the period		
Net changes of items other than shareholders' equity during the period	24,191	(12,479)
Total changes of items during the period	24,191	(12,479)
Balance at end of period	(71,320)	(95,511)
<b>Stock acquisition rights</b>		
Balance at beginning of current period	1,238	1,143
Changes of items during the period		
Net changes of items other than shareholders' equity during the period	56	95
Total changes of items during the period	56	95
Balance at end of period	1,294	1,238
<b>Minority interests</b>		
Balance at beginning of current period	10,437	9,527
Changes of items during the period		
Net changes of items other than shareholders' equity during the period	1,653	910
Total changes of items during the period	1,653	910
Balance at end of period	12,090	10,437
<b>Total net assets</b>		
Balance at beginning of current period	549,704	539,564
Changes of items during the period		
Cash dividends	(32,353)	(30,273)
Net income	62,386	52,435
Purchase of treasury stock	(6)	(628)
Disposal of treasury stock	73	80
Retirement of treasury stock	-	-
Net changes of items other than shareholders' equity during the period	25,900	(11,474)
Total changes of items during the period	56,000	10,140
Balance at end of period	605,704	549,704

# **Consolidated Statements of Cash Flows**

Millions of yen

	<b>FY2012</b> <b>Apr '12 - Dec '12</b>	<b>FY2011</b> <b>Apr '11 - Mar '12</b>
<b>Operating activities:</b>		
Income before income taxes and minority interests	102,304	105,258
Adjustments for:		
Depreciation and amortization	59,788	79,798
(Gain) loss on sales and retirement of fixed assets	2,082	2,202
Interest and dividend income	(1,011)	(1,068)
Interest expense	1,181	2,204
Unrealized foreign currency exchange (gain) loss	(1,389)	159
Equity in (earnings) losses of nonconsolidated subsidiaries and affiliates	(1,710)	(1,658)
Change in trade receivables	(12,395)	(26,513)
Change in inventories	5,083	(14,936)
Change in prepaid pension cost	75	906
Change in trade payables	(9,637)	8,997
Change in liability for retirement benefits	(56)	3,056
Other, net	(8,021)	4,935
Subtotal	136,294	163,340
Interest and cash dividends received	2,499	2,479
Interest paid	(1,331)	(2,448)
Income taxes paid	(40,105)	(38,339)
<b>Net cash provided by operating activities</b>	<b>97,357</b>	<b>125,032</b>
<b>Investing activities:</b>		
Proceeds from withdrawal of time deposits	4,400	3,583
Purchase of short-term investments	(10,000)	(381)
Proceeds from the redemption and sales of short-term investments	5,078	1,441
Purchase of property, plant and equipment	(34,555)	(41,684)
Purchase of intangible assets	(2,595)	(3,375)
Payments for long-term prepaid expenses	(5,091)	(5,030)
Change in short-term loans, net	(293)	537
Payments for long-term loans	(470)	(1,498)
Other, net	(1,115)	(2,545)
<b>Net cash used in investing activities</b>	<b>(44,641)</b>	<b>(48,952)</b>
<b>Financing activities:</b>		
Change in short-term loans, net	717	(4,610)
Proceeds from long-term loans	217	50,013
Repayments of long-term loans	(205)	(50,012)
Redemption of bonds	-	(50,000)
Purchase of treasury stock	(7)	(10)
Payments of cash dividends	(31,163)	(30,307)
Payments of cash dividends to minority shareholders	(2,350)	(469)
Other, net	763	(768)
<b>Net cash used in financing activities</b>	<b>(32,028)</b>	<b>(86,163)</b>
<b>Translation adjustments on cash and cash equivalents</b>	<b>9,702</b>	<b>(3,323)</b>
<b>Net increase (decrease) in cash and cash equivalents</b>	<b>30,390</b>	<b>(13,406)</b>
<b>Cash and cash equivalents, beginning of period</b>	<b>129,737</b>	<b>143,143</b>
<b>Cash and cash equivalents from newly consolidated subsidiaries, increase</b>	<b>308</b>	<b>-</b>
<b>Cash and cash equivalents, end of period</b>	<b>160,435</b>	<b>129,737</b>

**Consolidated Segment Information**

Millions of yen

FY2012 Apr '12 - Dec '12	Consumer Products Business				Chemical Business	Total	Reconciliations	Consolidated
	Beauty Care Business	Human Health Care Business	Fabric and Home Care Business	Total				
<b>Net sales</b>								
Sales to customers	444,425	151,977	236,748	833,150	179,445	1,012,595	-	1,012,595
Intersegment sales	-	-	-	-	28,626	28,626	(28,626)	-
<b>Total</b>	<b>444,425</b>	<b>151,977</b>	<b>236,748</b>	<b>833,150</b>	<b>208,071</b>	<b>1,041,221</b>	<b>(28,626)</b>	<b>1,012,595</b>
<b>Operating income</b>	<b>21,821</b>	<b>11,548</b>	<b>51,368</b>	<b>84,737</b>	<b>16,813</b>	<b>101,550</b>	<b>17</b> <sup>1</sup>	<b>101,567</b>
% of net sales	4.9	7.6	21.7	10.2	8.1	9.8	-	10.0
<b>Total assets</b>	<b>475,900</b>	<b>112,751</b>	<b>143,177</b>	<b>731,828</b>	<b>217,046</b>	<b>948,874</b>	<b>91,094</b> <sup>2</sup>	<b>1,039,968</b>
<b>Depreciation and amortization</b> <sup>3</sup>	<b>26,365</b>	<b>6,410</b>	<b>6,669</b>	<b>39,444</b>	<b>10,626</b>	<b>50,070</b>	-	<b>50,070</b>
<b>Amortization of goodwill</b>	<b>9,718</b>	-	-	<b>9,718</b>	-	<b>9,718</b>	-	<b>9,718</b>
<b>Investment for affiliates applied for equity methods</b>	<b>2,660</b>	<b>1,010</b>	<b>1,194</b>	<b>4,864</b>	<b>1,736</b>	<b>6,600</b>	-	<b>6,600</b>
<b>Capital expenditure</b> <sup>5</sup>	<b>11,693</b>	<b>8,830</b>	<b>8,701</b>	<b>29,224</b>	<b>12,705</b>	<b>41,929</b>	-	<b>41,929</b>

FY2011 Apr '11 - Mar '12	Consumer Products Business				Chemical Business	Total	Reconciliations	Consolidated
	Beauty Care Business	Human Health Care Business	Fabric and Home Care Business	Total				
<b>Net sales</b>								
Sales to customers	537,938	181,758	285,645	1,005,341	210,755	1,216,096	-	1,216,096
Intersegment sales	-	-	-	-	36,880	36,880	(36,880)	-
<b>Total</b>	<b>537,938</b>	<b>181,758</b>	<b>285,645</b>	<b>1,005,341</b>	<b>247,635</b>	<b>1,252,976</b>	<b>(36,880)</b>	<b>1,216,096</b>
<b>Operating income</b>	<b>15,412</b>	<b>14,630</b>	<b>55,544</b>	<b>85,586</b>	<b>23,001</b>	<b>108,587</b>	<b>3</b> <sup>1</sup>	<b>108,590</b>
% of net sales	2.9	8.0	19.4	8.5	9.3	8.7	-	8.9
<b>Total assets</b>	<b>496,177</b>	<b>99,535</b>	<b>128,858</b>	<b>724,570</b>	<b>194,583</b>	<b>919,153</b>	<b>72,119</b> <sup>4</sup>	<b>991,272</b>
<b>Depreciation and amortization</b> <sup>3</sup>	<b>37,766</b>	<b>7,926</b>	<b>9,794</b>	<b>55,486</b>	<b>11,648</b>	<b>67,134</b>	-	<b>67,134</b>
<b>Amortization of goodwill</b>	<b>12,664</b>	-	-	<b>12,664</b>	-	<b>12,664</b>	-	<b>12,664</b>
<b>Investment for affiliates applied for equity methods</b>	<b>1,780</b>	<b>1,083</b>	<b>1,239</b>	<b>4,102</b>	<b>1,661</b>	<b>5,763</b>	-	<b>5,763</b>
<b>Capital expenditure</b> <sup>5</sup>	<b>13,106</b>	<b>11,520</b>	<b>12,219</b>	<b>36,845</b>	<b>10,333</b>	<b>47,178</b>	-	<b>47,178</b>

NOTES:

- 1 Reconciliation of operating income includes elimination of intersegment inventory transactions.
- 2 Includes 111,393 million yen of Kao's financial assets and negative 20,299 million yen elimination of receivables among reportable segments
- 3 Excludes amortization of goodwill
- 4 Includes 78,742 million yen of Kao's financial assets and negative 6,623 million yen elimination of receivables among reportable segments
- 5 Includes long-term prepaid expenses

# **Consolidated Net Sales Composition**

*Millions of yen*

	<b>FY2012</b>	<b>FY2011</b>	<b>Adjusted growth<sup>1</sup></b>
	<b>Apr '12 - Dec '12</b>	<b>Apr '11 - Mar '12</b>	<b>%</b>
<b>Consumer Products Business</b>			
Beauty Care Business	312,590	407,659	0.2
Human Health Care Business	131,577	164,575	4.6
Fabric and Home Care Business	208,922	260,041	2.1
Total Japan	653,089	832,275	1.7
Asia <sup>2</sup>	87,184	81,610	7.0
Americas <sup>2</sup>	56,644	55,130	2.7
Europe	57,252	61,512	(6.9)
Eliminations	(21,019)	(25,186)	-
<b>Total</b>	<b>833,150</b>	<b>1,005,341</b>	<b>1.7</b>
<b>Chemical Business</b>			
Japan	91,994	125,477	(3.8)
Asia	75,556	89,154	(15.3)
Americas	33,558	35,908	(6.5)
Europe	53,465	55,691	(4.0)
Eliminations	(46,502)	(58,595)	-
<b>Total</b>	<b>208,071</b>	<b>247,635</b>	<b>(5.1)</b>
<b>Total before Eliminations</b>	<b>1,041,221</b>	<b>1,252,976</b>	<b>0.3</b>
Eliminations	(28,626)	(36,880)	-
<b>Consolidated</b>	<b>1,012,595</b>	<b>1,216,096</b>	<b>0.4</b>

Notes:

<sup>1</sup> Adjusted growth is a comparison with a FY2011 business results adjusted to nine-month period from April 1 to December 31, 2011 for Kao Corporation and its consolidated subsidiaries with a fiscal year end in March.

<sup>2</sup> Australia and New Zealand, which had been included in Asia until the fiscal year ended March 31, 2012, have been reclassified under Americas from the fiscal year ended December 31, 2012. Amounts and percentage of growth for the previous fiscal year have been restated for the purpose of comparison.

## Appendix

### Major Products by Reportable Segment

Reportable Segments		Major Products	
Consumer Products Business	Beauty Care Business	Prestige cosmetics	Counseling cosmetics, self-selection cosmetics
		Premium skin care products	Soaps, facial cleansers, body cleansers
		Premium hair care products	Shampoos, conditioners, hair styling agents, hair coloring agents
	Human Health Care Business	Food and beverage products	Beverages
		Sanitary products	Sanitary napkins, baby diapers
		Personal health products	Bath additives, oral care products, men’s products
	Fabric and Home Care Business	Fabric care products	Laundry detergents, fabric treatments
		Home care products	Kitchen cleaning products, house cleaning products, paper cleaning products, commercial-use products
Chemical Business		Oleo chemicals	Fatty alcohols, fatty amines, fatty acids, glycerin, commercial-use edible fats and oils
		Performance chemicals	Surfactants, plastics additives, superplasticizers for concrete admixtures
		Specialty chemicals	Toner and toner binder for copiers and printers, ink and colorants for inkjet printers, fragrances and aroma chemicals

# **Highlights for FY2012**

## **(Ended December 31, 2012)**

The full pre-revision and post revision texts are both attached with the corrections underlined

### **Corrections**

#### **Page**

- 5 Financial Overview – FY2012**
- 22 Summary of FY2013 Forecast**

**Post-revision**

# **Highlights for FY2012**

## **(Ended December 31, 2012)**

**February 5, 2013**

# **Kao Corporation**

## **Michitaka Sawada**

### **President and CEO**



The Kao logo, consisting of the word "Kao" in a bold, green, sans-serif font.

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](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**

# 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

# 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.

		<u>Adjusted growth</u> <sup>2</sup>	<u>Forecast</u> <sup>3</sup>
<b>Net sales</b>	<b>¥1,012.6 billion</b>	+0.4%	¥1,020.0 billion
<b>EBITA</b> <sup>1</sup> [% of sales]	<b>¥125.7 billion</b> [12.4%]	+1.2%	¥123.8 billion
<b>Operating income</b> [% of sales]	<b>¥101.6 billion</b> [10.0%]	+3.2%	¥100.0 billion
<b>Net income</b> [% of sales]	<b>¥52.8 billion</b> [5.2%]	+1.9%	¥60.0 billion
<b>Net income per share</b>	<b>¥101.12</b>	+2.0%	¥114.98
<b>ROE</b> <sup>4</sup>	<b>9.4%</b>	-	10.9%
<b>Shareholder returns</b>			
<b>Cash dividends per share</b>	<b>¥62</b>	+¥2	¥62
<b>Consolidated payout ratio</b>	<b>61.3%</b>		

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.

# Executive Summary

## ■ **Three consecutive years of increased net sales and operating income.<sup>1</sup> Operating income exceeded the forecast.<sup>2</sup>**

- 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

# 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.  
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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)

# Mid-term Growth Strategies



# 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**

# 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

# 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

# Drivers to Achieve K15

- 1. Aggressive investment**
- 2. Innovation**
- 3. Structural reform**  
**(Transformation into a structure capable  
of generating greater profit while growing)**

## 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)

# 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

# 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**

# 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<sub>2</sub> 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



# 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**

# 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.

# 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

# Summary of FY2013 Forecast

		<u>Adjusted growth <sup>2</sup></u>
<b>Net sales</b>	<b>¥1,270.0 billion</b>	<b>+4.1%</b>
<b>EBITA <sup>1</sup></b> [% of sales]	<b>¥144.4 billion</b> [11.4%]	<b>+0.4%</b>
<b>Operating income</b> [% of sales]	<b>¥116.0 billion</b> [9.1%]	<b>+3.8%</b>
<b>Net income</b> [% of sales]	<b>¥73.0 billion</b> [5.7%]	<b><u>+37.5%</u></b>
<b>Net income per share</b>	<b>¥142.60</b>	<b><u>+40.1%</u></b>
<b>ROE <sup>3</sup></b>	<b><u>12.4%</u></b>	<b>-</b>
<b>Shareholder returns</b>		
<b>Cash dividends per share</b>	<b>¥64</b>	<b>+¥2</b>
<b>Consolidated payout ratio</b>	<b>44.9%</b>	
<b>Share repurchases</b>	<b>¥30.0 billion</b>	

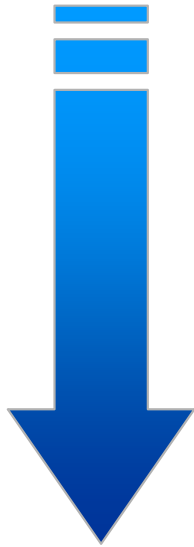
1. Operating income before amortization of goodwill and intellectual property rights related to M&A

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.

# 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**

# Appendices

# 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  
driven

## 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 Products  
Business

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.)

# FY2012 Breakdown of Beauty Care Business

		Billion yen	Adjusted increase (decrease) <sup>2</sup>
<b>Beauty Care</b>	Net sales	444.4	-0.0%
	Operating income <sup>3</sup>	21.8	+4.8 billion yen
	Operating margin	4.9%	+110bps
<b>Prestige cosmetics</b>	Net sales	205.4	0.1%
	Operating income <sup>3</sup>	-8.9	+2.7 billion yen
	Operating margin	-4.3%	+130bps
<b>Premium mass products and professional hair care products</b>	Net sales	239.0	-0.1%
	Operating income <sup>3</sup>	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:<sup>4</sup>  
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



# 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**

# 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.)

# 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
<b>Total market</b>	<b>-0.2%</b>	<b>-3.5%</b>
<b>High-priced segment (over ¥5,000):</b>	<b>-0.1%</b>	<b>-4.4%</b>
<b>Mid-priced segment (¥2,000-5,000):</b>	<b>-1.6%</b>	<b>-4.2%</b>
<b>Low-priced segment (below ¥2,000):</b>	<b>+1.6%</b>	<b>-1.2%</b>
<b>Kao Group total (Kanebo Cosmetics + Kao Sofina)</b>	<b>+1.9%</b>	<b>+1.6%</b>

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

# 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

# SRI Indexes and External CSR Evaluation

## SRI indexes for which Kao has been selected



## CSR-related evaluation from external organization



CSR: Corporate Social Responsibility  
SRI: Socially Responsible Investment

(As of February 5, 2013)

**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.

Enriching lives, in harmony with nature.

Pre-revision

# Highlights for FY2012

## (Ended December 31, 2012)

February 5, 2013

# Kao Corporation

## Michitaka Sawada

### President and CEO

This is a translation of materials used for the analyst meeting held in Japan on February 5, 2013.



# 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](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**

# Summary of FY2012

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# Mid-term Growth Strategies



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## Consumer Products Business

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## Chemical Business

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- 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

# 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**

# 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<sub>2</sub> 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



# 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**

# 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.

# 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

# Summary of FY2013 Forecast

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

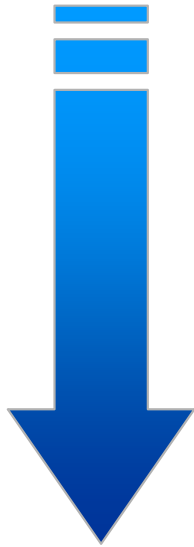
1. Operating income before amortization of goodwill and intellectual property rights related to M&A

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.

# 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**

# Appendices

# 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  
driven

## 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 Products  
Business

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.)

# FY2012 Breakdown of Beauty Care Business

		Billion yen	Adjusted increase (decrease) <sup>2</sup>
<b>Beauty Care</b>	Net sales	444.4	-0.0%
	Operating income <sup>3</sup>	21.8	+4.8 billion yen
	Operating margin	4.9%	+110bps
<b>Prestige cosmetics</b>	Net sales	205.4	0.1%
	Operating income <sup>3</sup>	-8.9	+2.7 billion yen
	Operating margin	-4.3%	+130bps
<b>Premium mass products and professional hair care products</b>	Net sales	239.0	-0.1%
	Operating income <sup>3</sup>	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:<sup>4</sup>  
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



# 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**

# 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.)

# 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
<b>Total market</b>	<b>-0.2%</b>	<b>-3.5%</b>
<b>High-priced segment (over ¥5,000):</b>	<b>-0.1%</b>	<b>-4.4%</b>
<b>Mid-priced segment (¥2,000-5,000):</b>	<b>-1.6%</b>	<b>-4.2%</b>
<b>Low-priced segment (below ¥2,000):</b>	<b>+1.6%</b>	<b>-1.2%</b>
<b>Kao Group total (Kanebo Cosmetics + Kao Sofina)</b>	<b>+1.9%</b>	<b>+1.6%</b>

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

# 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

# SRI Indexes and External CSR Evaluation

## SRI indexes for which Kao has been selected



## CSR-related evaluation from external organization



CSR: Corporate Social Responsibility  
SRI: Socially Responsible Investment

(As of February 5, 2013)

**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 circle.

Enriching lives, in harmony with nature.

# **Annual Financial Review**

From April 1, 2012 to December 31, 2012

The full pre-revision and post revision texts are both attached with the corrections underlined

## **Corrections**

### **Page**

8	FY2012 Consolidated Results
11	Consolidated Income Statements
20	Consolidated Balance Sheets
25	Consolidated Sales and Profit Forecast
31	ROE & ROA
32	Net Income per Share

# **Annual Financial Review**

From April 1, 2012 to December 31, 2012

Kao Corporation

February 5, 2013

This is a translation of materials used for the analyst meeting held in Japan on February 5, 2013.





These presentation materials are available on our website in PDF format:  
[http://www.kao.com/jp/en/corp\\_ir/presentations.html](http://www.kao.com/jp/en/corp_ir/presentations.html)

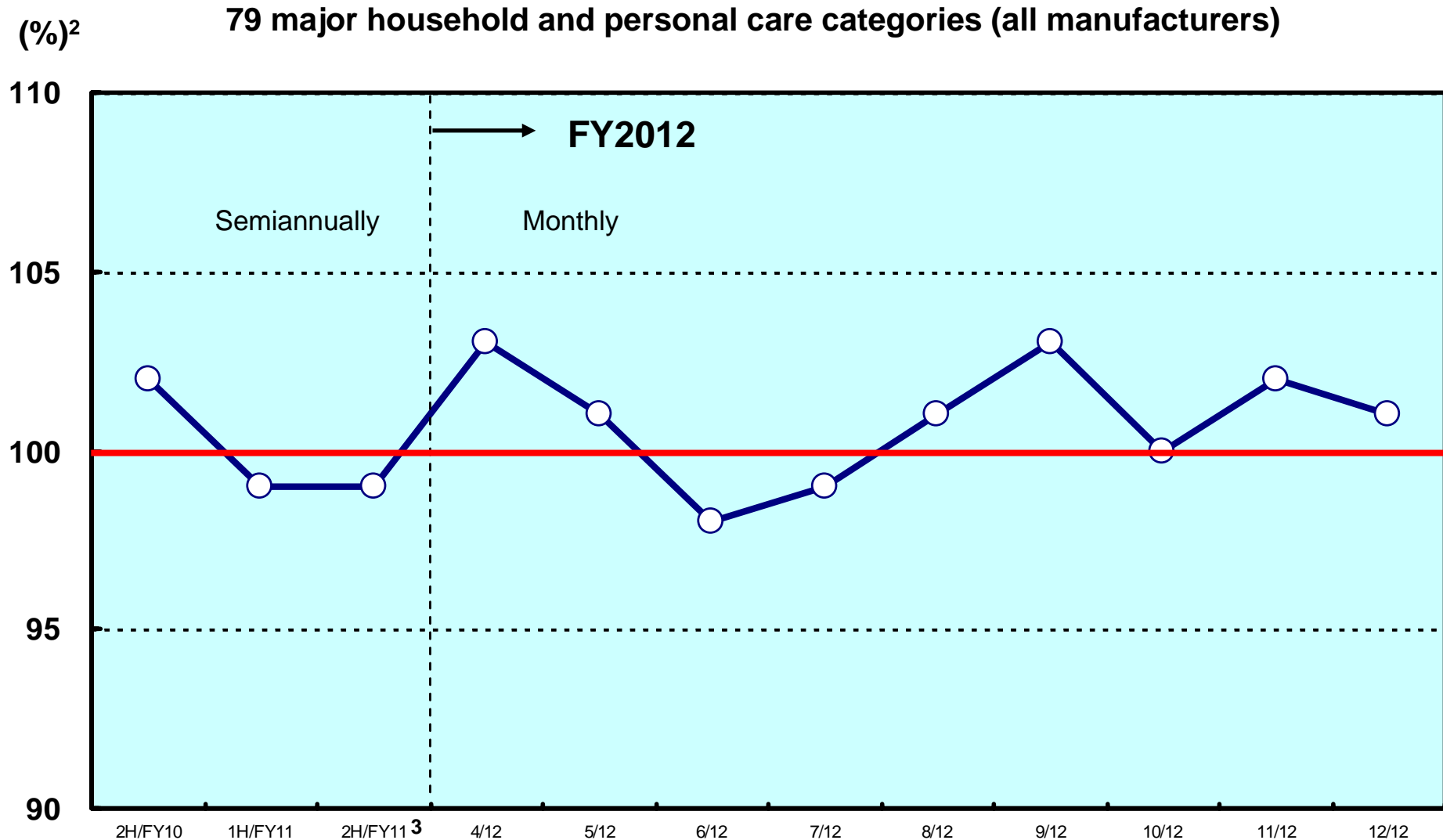
Forward-looking statements such as earnings forecasts and other projections contained in this release are based on information available at this time and assumptions that management believes to be reasonable, and do not constitute guarantees of future performance. Actual results may differ materially 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. Figures for FY2011, ended March 31, 2012, and prior fiscal years have also been restated for ease of comparison.

# **1. Business Environment**

**April 1, 2012 – December 31, 2012**

# Consumer Products<sup>1</sup> Market in Japan



1 Consumer products do not include prestige cosmetics.

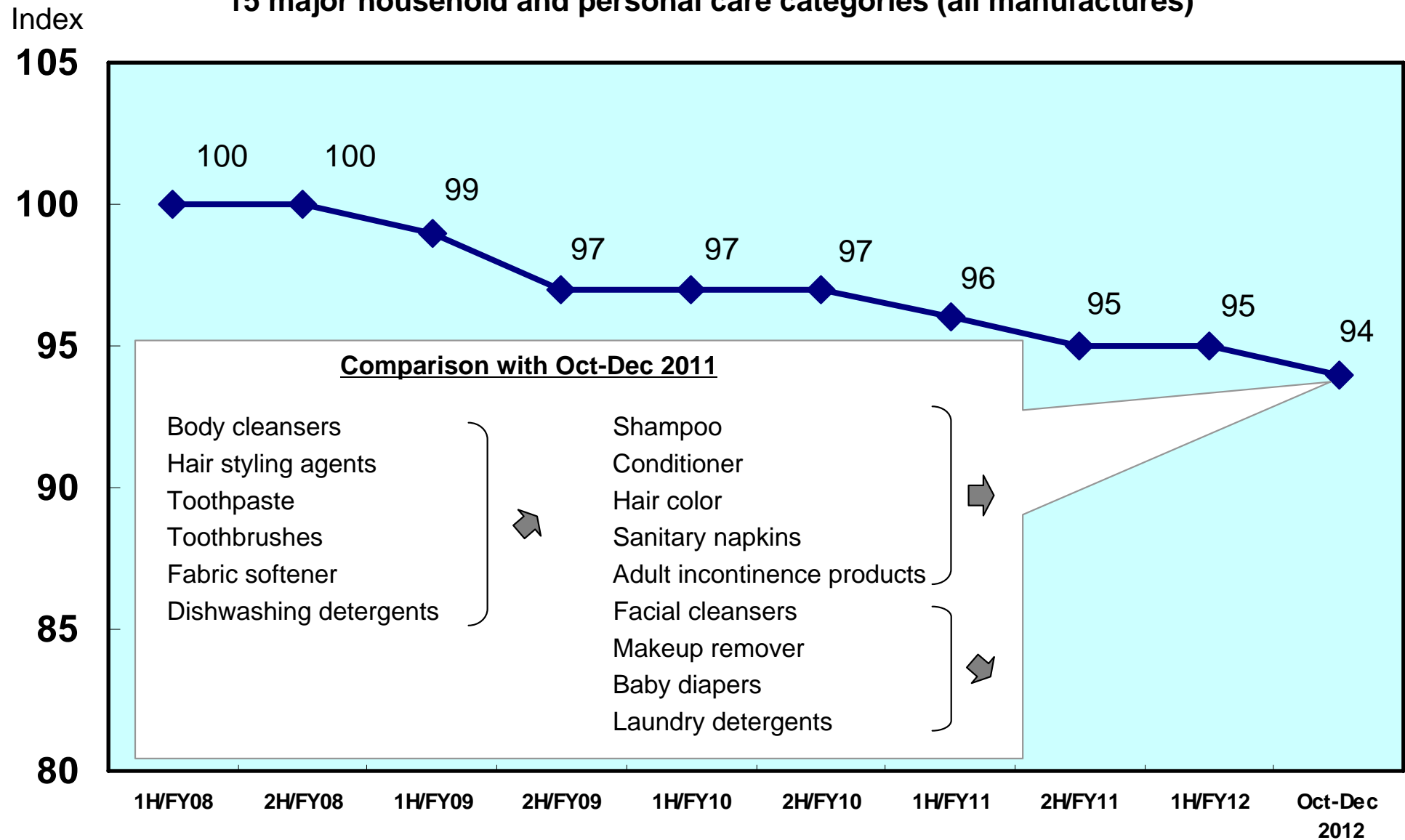
2 Year-on-year growth rate of market size in value (yen)

3. The data of 2H/FY10 includes hoarding due to the earthquake in March 2011.

(Source: SRI POS data by INTAGE Inc.)

# Consumer Purchase Prices in Japan

15 major household and personal care categories (all manufactures)



(Source: SRI POS data by INTAGE Inc.)

# **2. Consolidated Business Results**

**April 1, 2012 – December 31, 2012**

**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**

**Restated FY2011**

**Figures for the nine-month period from April 1 to December 31, 2011 for group companies whose fiscal year end was previously March 31.**

**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

# Key Points in FY2012

## Japan sales related

1. Consumer purchase price of 15 major household and personal care categories market in Japan<sup>1</sup>:
  - 1<sup>st</sup> half: -1 point year-on-year
  - Oct.-Dec.: Flat
2. Growth of household and personal care market in Japan<sup>2</sup> (Apr.-Dec.): +1%
3. Growth of the cosmetics market in Japan<sup>3</sup> (Apr.-Dec.): -0.2%

## Income statements related

		<u>Adjusted growth<sup>4</sup></u>
1. Net sales:	¥1,012.6 billion	+0.4%
• Effect of currency translation:	-¥7.3 billion	-0.7%
• Sales growth excluding effect of currency translation:	+¥11.6 billion	+1.1%
2. Increase/decrease in operating income <sup>5</sup> :	+¥3.1 billion	

## Cash flow related

1. Free cash flow <sup>6</sup>	¥52.7 billion
2. Payments of cash dividends <sup>7</sup> :	¥33.5 billion

1 Index with the 1<sup>st</sup> 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 Excludes the impact of the change in financial term. (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.

# FY2012 Consolidated Results

Billion yen	<u>FY11</u>	Restated <u>FY11</u> <sup>1</sup>	<u>FY12</u>	Adjusted growth <sup>1</sup>
<b>Net Sales</b>	1,216.1	1,008.3	1,012.6	+0.4%
<b>EBITA</b> <sup>2</sup>	142.2	124.2	125.7	+1.2%
<i>EBITA* Margin</i>	11.7%	12.3%	12.4%	
<b>Operating Income</b>	108.6	98.5	101.6	+3.2%
<i>Operating Margin</i>	8.9%	9.8%	10.0%	
<b>Ordinary Income</b>	110.0	100.2	104.2	+4.0%
<b>Net Income</b>	52.4	51.8	<u>52.8</u>	<u>+1.9%</u>
<b>EBITDA</b>	188.4	160.6	161.4	+0.4%
<b>ROE</b> <sup>3</sup>	9.8%	-	<u>9.4%</u>	
<b>EPS (yen)</b>	100.46	99.16	<u>101.12</u>	<u>+2.0%</u>

<sup>1</sup> Excludes the impact of the change in financial term. (Please refer to slide 6 for details.)

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

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

# Consolidated Net Sales [1]

	Restated FY2011 <sup>1</sup>	FY2012		
	Billion yen	Billion yen	% Growth	
			Adjusted <sup>1</sup>	Like-for-like <sup>2</sup>
Beauty Care Business	311.9	<b>312.6</b>	<b>+0.2</b>	<b>+0.2</b>
Human Health Care Business	125.8	<b>131.6</b>	<b>+4.6</b>	<b>+4.6</b>
Fabric and Home Care Business	204.5	<b>208.9</b>	<b>+2.1</b>	<b>+2.1</b>
<b>Japan total</b>	<b>642.3</b>	<b>653.1</b>	<b>+1.7</b>	<b>+1.7</b>
<b>Asia <sup>3</sup></b>	81.5	<b>87.2</b>	<b>+7.0</b>	<b>+7.8</b>
<b>Americas <sup>3</sup></b>	55.1	<b>56.6</b>	<b>+2.7</b>	<b>+2.1</b>
<b>Europe</b>	61.5	<b>57.3</b>	<b>-6.9</b>	<b>-1.8</b>
Eliminations	-21.4	<b>-21.0</b>	-	-
<b>Consumer Products Business</b>	<b>819.0</b>	<b>833.2</b>	<b>+1.7</b>	<b>+2.1</b>

1: Excludes the impact of the change in financial term. (Please refer to slide 6 for details.)

2: Excludes the effect of currency translation and the impact of the change in financial term.  
(Please refer to slide 6 for details.)

3: Australia and New Zealand, which had been included in Asia until FY2011, have been reclassified to Americas from FY2012. The results of FY2011 have been restated for the purpose of comparison.



# Consolidated Net Sales [2]

	Restated FY2011 <sup>1</sup>	FY2012		
	Billion yen	Billion yen	% Growth	
			Adjusted <sup>1</sup>	Like-for-like <sup>2</sup>
Japan	95.6	<b>92.0</b>	<b>-3.8</b>	<b>-3.8</b>
Asia	89.2	<b>75.6</b>	<b>-15.3</b>	<b>-15.0</b>
Americas	35.9	<b>33.6</b>	<b>-6.5</b>	<b>-5.2</b>
Europe	55.7	<b>53.5</b>	<b>-4.0</b>	<b>+3.6</b>
Eliminations	-57.2	<b>-46.5</b>	-	-
<b>Chemical Business</b>	<b>219.2</b>	<b>208.1</b>	<b>-5.1</b>	<b>-3.1</b>

Eliminations	-30.0	<b>-28.6</b>	-	-
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<b>Consolidated net sales</b>	<b>1,008.3</b>	<b>1,012.6</b>	<b>+0.4</b>	<b>+1.1</b>
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1: Excludes the impact of the change in financial term. (Please refer to slide 6 for details.)

2: Excludes the effect of currency translation and the impact of the change in financial term.  
(Please refer to slide 6 for details.)

# Consolidated Income Statements

	FY2011		FY2012		Adjusted % growth <sup>1</sup>
	Billion yen	%	Billion yen	%	
Net Sales	1,216.1	100.0	1,012.6	100.0	+0.4
Cost of Sales	525.0	43.2	442.5	43.7	
Gross Profit	691.1	56.8	570.1	56.3	
SG&A Expenses <sup>2</sup>	582.5	47.9	468.5	46.3	
Operating Income	108.6	8.9	101.6	10.0	+3.2
Non-operating Income/Expenses	1.4	0.1	2.6	0.3	
Ordinary Income	110.0	9.0	104.2	10.3	+4.0
Extraordinary Gain/Loss	-4.8	-0.4	-1.9	-0.2	
Income Before Income Taxes and Minority Interests	105.3	8.7	102.3	10.1	
Income Taxes	50.8	4.2	<u>48.2</u>	<u>4.8</u>	
Income Before Minority Interests	54.5	4.5	<u>54.1</u>	<u>5.3</u>	
Minority Interests	2.1	0.2	1.4	0.1	
Net Income	52.4	4.3	<u>52.8</u>	<u>5.2</u>	+1.9

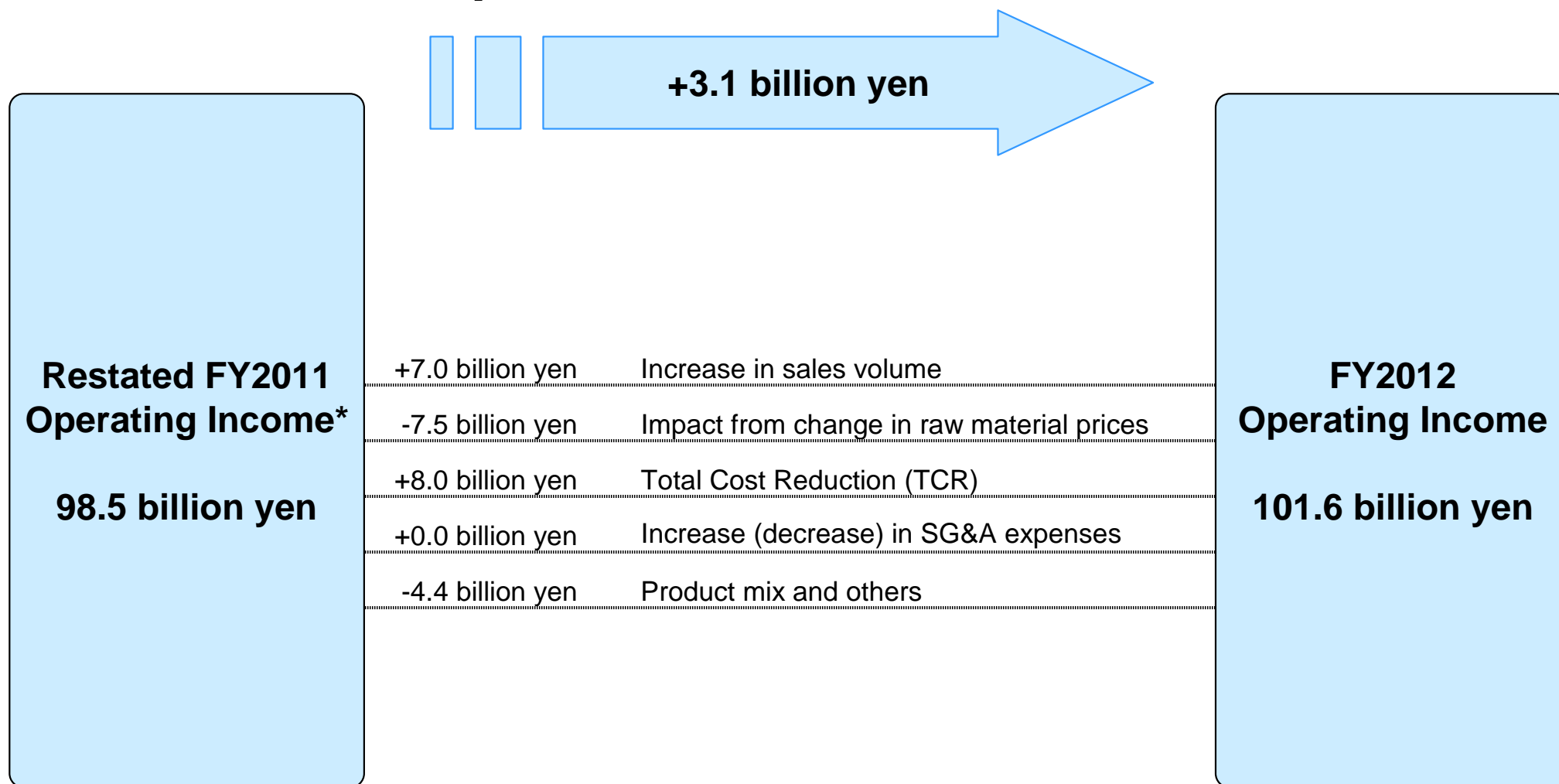
1 Excludes the impact of the change in financial term. (Please refer to slide 6 for details.)

2 Amortization related to Kanebo Cosmetics

FY2011: 27.4 billion yen, FY2012: 20.5 billion yen

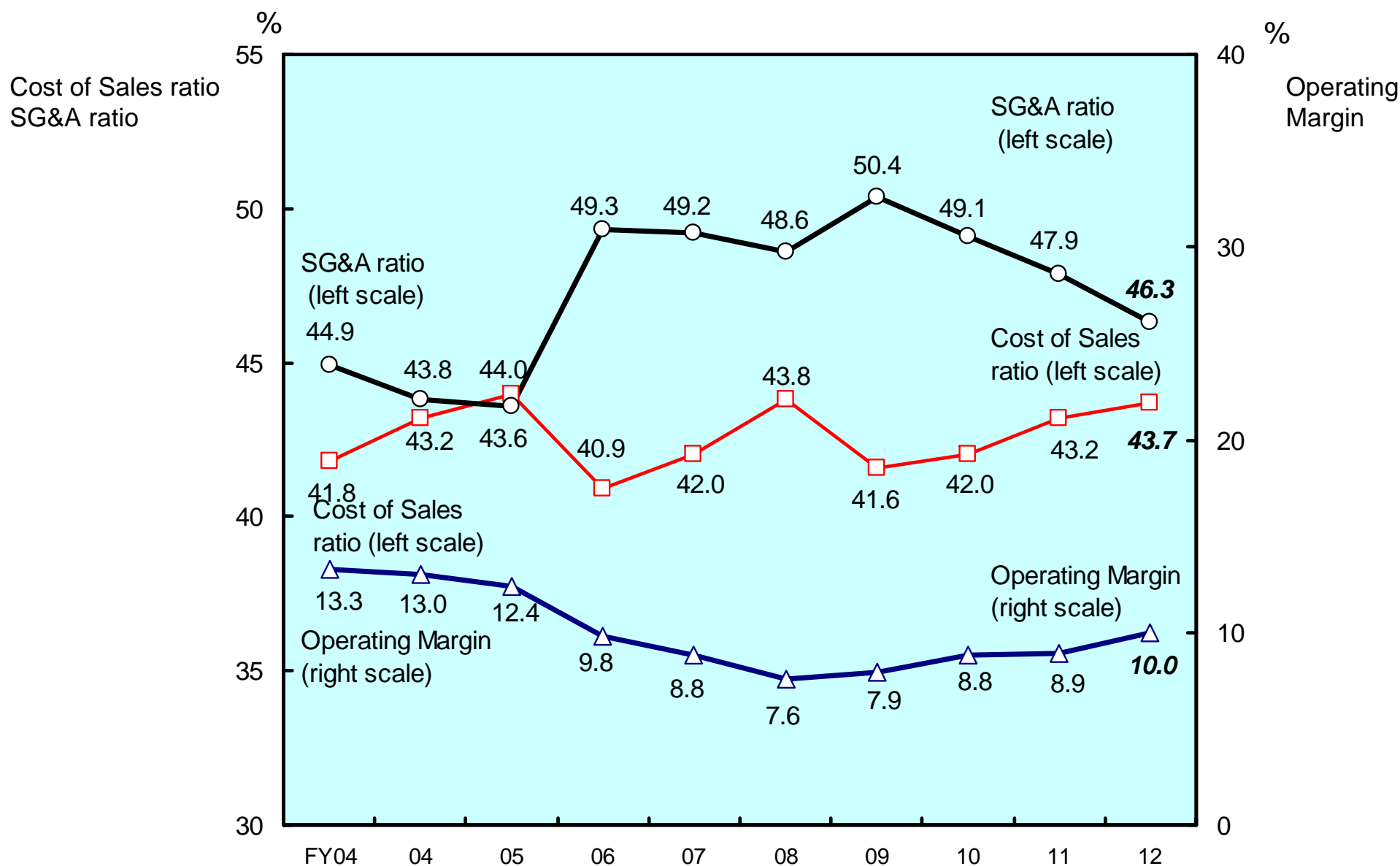
# FY2012 Consolidated Operating Income Analysis

## Comparison with restated FY2011



\* Excludes the impact of the change in financial term. (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)

	FY2011	FY2012*
<b>Total SG&amp;A Expenses</b>	582.5	<b>468.5</b>

Freight/Warehouse	68.4	<b>56.8</b>
Advertising	82.2	<b>67.0</b>
Sales Promotion	63.0	<b>52.1</b>
Salaries and Bonuses	121.8	<b>97.7</b>
R&D	48.2	<b>37.5</b>

\*Includes the impact of the change in financial term. (Please refer to slide 6 for details)

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

(Billion yen)

<b>Non-operating Income/Expenses</b>	<b>FY2011</b>	<b>FY2012*</b>
<b>Non-operating Income</b>	<b>5.3</b>	<b>5.0</b>
Interest Income	0.9	0.8
Dividend Income	0.2	0.2
Equity in Earnings of Nonconsolidated Subsidiaries and Affiliates	1.7	1.7
Other	2.6	2.3
<b>Non-operating Expenses</b>	<b>3.9</b>	<b>2.3</b>
Interest Expense	2.2	1.2
Foreign Currency Exchange Loss	0.6	0.3
Other	1.1	0.9

<b>Extraordinary Gain/Loss</b>	<b>FY2011</b>	<b>FY2012*</b>
<b>Extraordinary Gain</b>	<b>0.3</b>	<b>0.6</b>
Gain on Sales of Fixed Assets	0.2	0.1
Gain on Sales of Stock of Subsidiary	-	0.3
Other	0.1	0.2
<b>Extraordinary Loss</b>	<b>5.0</b>	<b>2.6</b>
Loss on Sales/Disposals of Fixed Assets	2.4	2.2
Loss related to the Great East Japan Earthquake	2.0	-
Other	0.6	0.3

\*Includes the impact of the change in financial term. (Please refer to slide 6 for details)

# Consolidated Results by Segment

		Restated FY2011 <sup>3</sup>		FY2012		Adjusted changes <sup>3</sup>	Adjusted growth <sup>3</sup>
		Billion yen	% of net sales	Billion yen	% of net sales	Billion yen	%
Beauty Care Business	Net Sales <sup>1</sup>	444.5	-	<b>444.4</b>	-	-0.1	-0.0%
	EBITA <sup>2</sup>	42.6	9.6%	<b>45.9</b>	<b>10.3%</b>	+3.2	+7.6%
	Operating Income	17.0	3.8%	<b>21.8</b>	<b>4.9%</b>	+4.8	+28.0%
Human Health Care Business	Net Sales <sup>1</sup>	144.1	-	<b>152.0</b>	-	+7.9	+5.5%
	Operating Income	12.6	8.7%	<b>11.5</b>	<b>7.6%</b>	-1.0	-8.3%
Fabric and Home Care Business	Net Sales <sup>1</sup>	230.4	-	<b>236.7</b>	-	+6.3	+2.8%
	Operating Income	47.2	20.5%	<b>51.4</b>	<b>21.7%</b>	+4.1	+8.7%
Chemical Business	Net Sales <sup>1</sup>	219.2	-	<b>208.1</b>	-	-11.2	-5.1%
	EBITA <sup>2</sup>	21.8	9.9%	<b>16.9</b>	<b>8.1%</b>	-4.9	-22.5%
	Operating Income	21.7	9.9%	<b>16.8</b>	<b>8.1%</b>	-4.9	-22.6%
Consolidated	Net Sales	1,008.3	-	<b>1,012.6</b>	-	+4.3	+0.4%
	EBITA <sup>2</sup>	124.2	12.3%	<b>125.7</b>	<b>12.4%</b>	+1.6	+1.2%
	Operating Income	98.5	9.8%	<b>101.6</b>	<b>10.0%</b>	+3.1	+3.2%

1 Before elimination of intersegment transfers

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

3 Excludes the impact of the change in financial term. (Please refer to slide 6 for details.)

# [Reference] Consolidated Results by Geographic Area

		Restated FY2011 <sup>4</sup>		FY2012		Adjusted changes <sup>4</sup>	Adjusted growth <sup>4</sup>
		Billion yen	% of net sales	Billion yen	% of net sales	Billion yen	%
Japan	Net Sales <sup>1</sup>	712.3	-	<b>720.8</b>	-	+8.4	+1.2%
	EBITA <sup>2</sup>	101.3	14.2%	<b>108.8</b>	<b>15.1%</b>	+7.5	+7.4%
	Operating Income	77.6	10.9%	<b>86.5</b>	<b>12.0%</b>	+9.0	+11.5%
Asia <sup>3</sup>	Net Sales <sup>1</sup>	167.6	-	<b>159.9</b>	-	-7.8	-4.6%
	Operating Income	9.4	5.6%	<b>6.3</b>	<b>3.9%</b>	-3.2	-33.7%
Americas <sup>3</sup>	Net Sales <sup>1</sup>	90.9	-	<b>90.0</b>	-	-0.9	-1.0%
	EBITA <sup>2</sup>	4.4	4.8%	<b>3.4</b>	<b>3.7%</b>	-1.0	-23.4%
	Operating Income	3.7	4.0%	<b>2.7</b>	<b>3.0%</b>	-0.9	-25.3%
Europe	Net Sales <sup>1</sup>	117.0	-	<b>110.5</b>	-	-6.5	-5.5%
	EBITA <sup>2</sup>	9.3	7.9%	<b>7.4</b>	<b>6.7%</b>	-1.9	-20.7%
	Operating Income	8.0	6.9%	<b>6.1</b>	<b>5.5%</b>	-1.9	-23.7%
Consolidated	Net Sales	1,008.3	-	<b>1,012.6</b>	-	+4.3	+0.4%
	EBITA <sup>2</sup>	124.2	12.3%	<b>125.7</b>	<b>12.4%</b>	+1.6	+1.2%
	Operating Income	98.5	9.8%	<b>101.6</b>	<b>10.0%</b>	+3.1	+3.2%

1 Before elimination of intersegment transfers

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

3 Australia and New Zealand, which had been included in Asia until FY2011, have been reclassified to Americas from FY2012. The results of FY2011 have been restated for the purpose of comparison.

4 Excludes the impact of the change in financial term. (Please refer to slide 6 for details.)

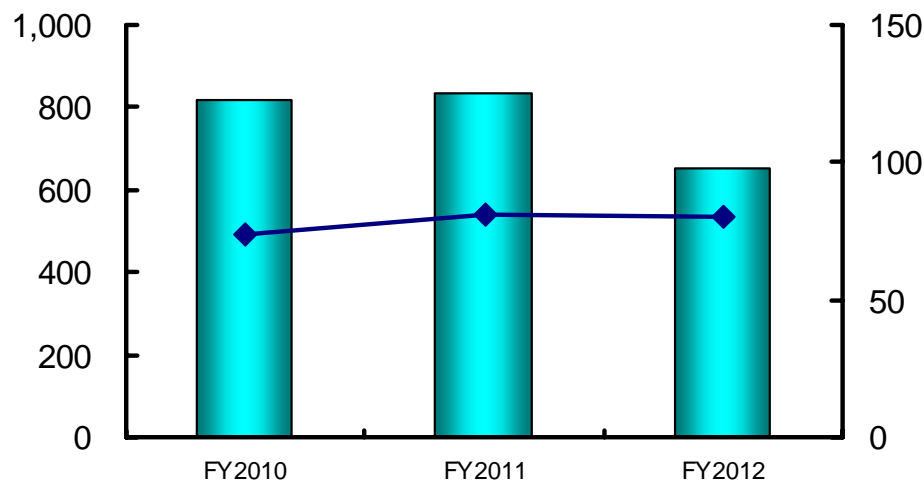


# Consumer Products Business by Geographic Area

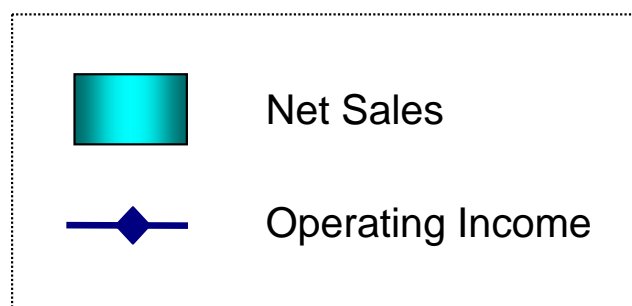
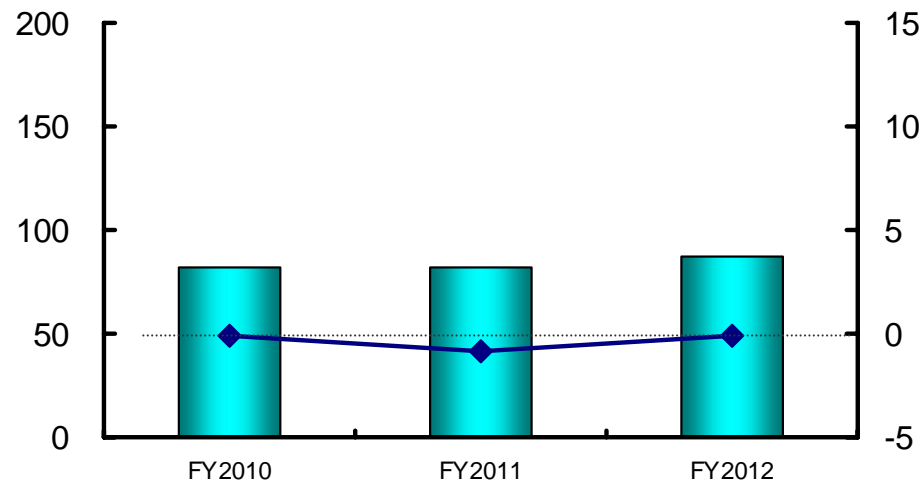
## Japan

Sales (Billion yen)

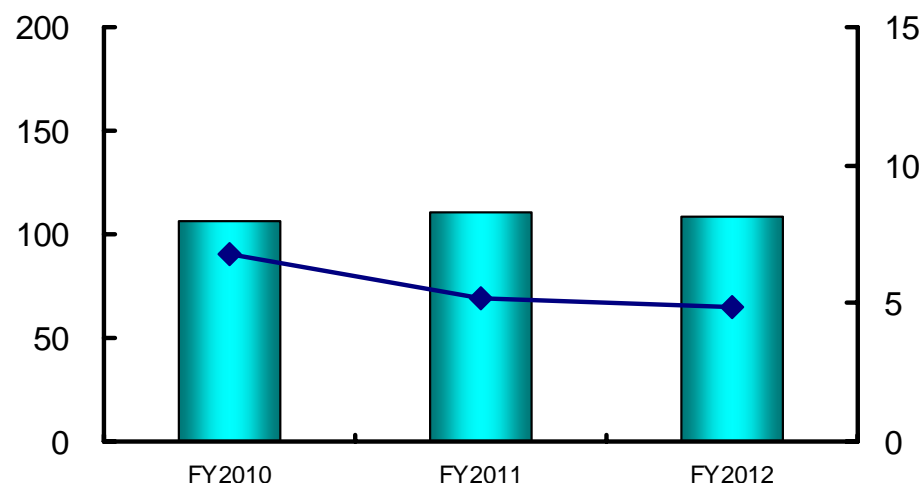
Operating Income  
(Billion yen)



## Asia



## Americas & Europe

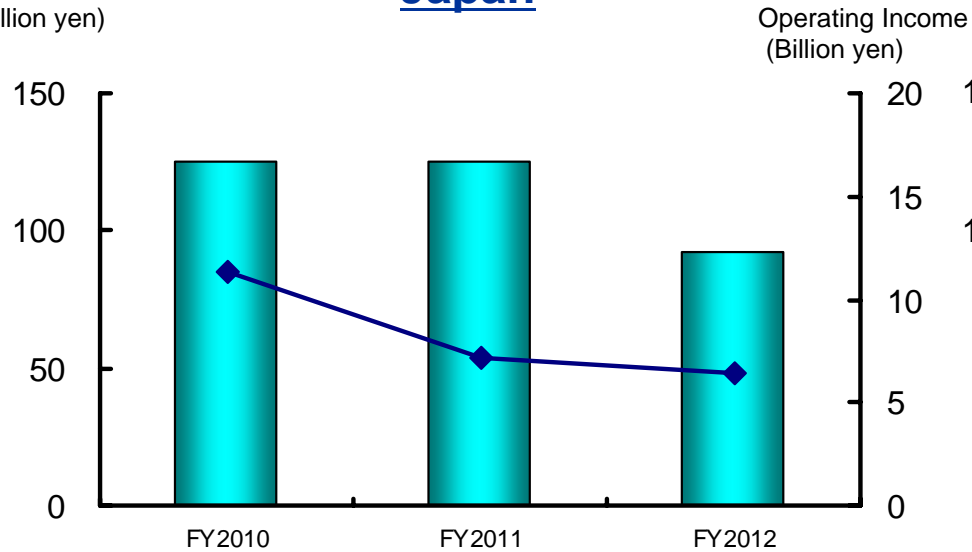


\* Australia and New Zealand, which had been included in Asia until FY2011, have been reclassified to Americas from FY2012. The results of FY2011 have been restated for the purpose of comparison. The results of Japan in FY2012 include the impact of the change in financial term. (Please refer to slide 6 for details.)

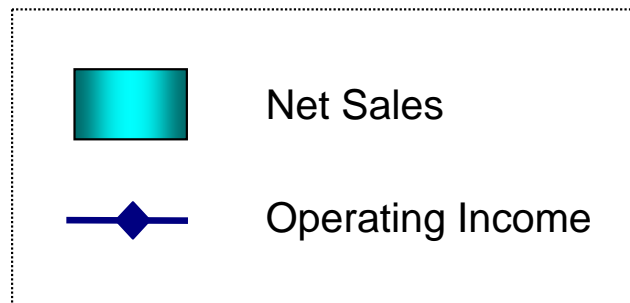
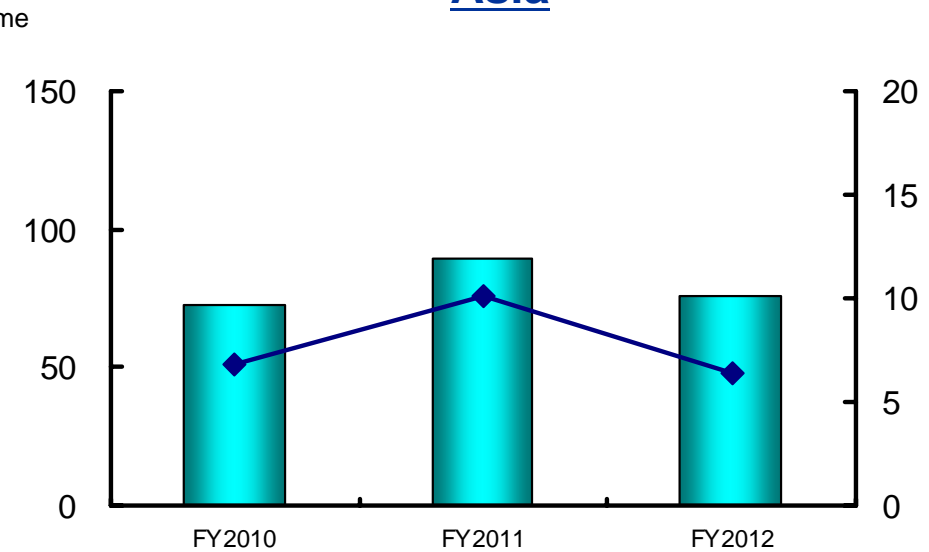
# Chemical Business by Geographic Area

## Japan

Sales (Billion yen)

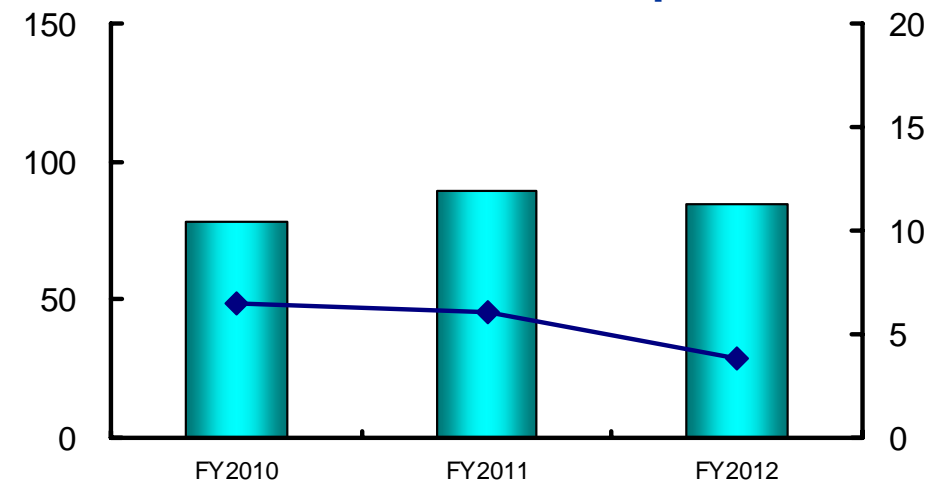


## Asia



\* The results of Japan in FY2012 include the impact of the change in financial term. (Please refer to slide 6 for details.)

## Americas & Europe



# Consolidated Balance Sheets

(Billion yen)

	Mar/12	Dec/12	Changes		Mar/12	Dec/12	Changes
<b>Current Assets</b>	<b>432.9</b>	<b>493.4</b>	<b>+60.5</b>	<b>Current Liabilities</b>	<b>274.9</b>	<b>315.9</b>	<b>+41.0</b>
Cash and Time Deposits	85.5	99.3	+13.9	Notes and Accounts Payable - Trade	110.7	105.5	-5.2
Notes and Accounts Receivable - Trade	142.9	164.3	+21.4	Bonds/Short-term Loans (incl. Current Portion of Bonds/Long-term Loans)	2.1	53.1	+51.1
Short-term Investments	46.8	57.4	+10.6	Accounts Payable - Other	48.5	52.5	+4.0
Inventories	120.7	122.2	+1.5	Accrued Expenses	73.5	74.4	+0.9
Other	37.1	50.2	+13.1	Accrued Income Taxes	18.3	11.7	-6.6
				Liability for loss related to the Great East Japan Earthquake	0.0	-	-0.0
				Other	21.8	18.7	-3.1
<b>Fixed Assets</b>	<b>558.3</b>	<b>536.9</b>	<b>-21.4</b>	<b>Long-term Liabilities</b>	<b>166.7</b>	<b>118.4</b>	<b>-48.3</b>
Property, Plant and Equipment	240.6	252.3	+11.8	Bonds/Long-term Loans	100.0	50.1	-50.0
Intangible Assets	237.5	215.9	-21.5	Other	66.6	68.3	+1.7
Investments and Other Assets	80.3	68.7	-11.6	<b>Total Liabilities</b>	<b>441.6</b>	<b>434.3</b>	<b>-7.3</b>
				Shareholders' equity	633.5	654.0	+20.5
				-Common Stock	85.4	85.4	-
				-Capital Surplus	109.6	109.6	-
				-Retained Earnings	447.6	468.0	+20.4
				-Treasury Stock, at Cost	-9.1	-9.0	+0.1
				Accumulated other comprehensive income	-95.5	-71.3	+24.2
				- Unrealized Gain on Available-for-sale Securities	2.3	2.4	+0.2
				- Deferred Gain (Loss) on Derivatives under Hedges Accounting	-0.0	0.0	+0.0
				- Foreign Currency Translation Adjustments	-96.1	-71.9	+24.2
				- Post retirement adjustments for foreign consolidated subsidiaries	-1.7	-1.9	-0.2
				Stock Acquisition Rights	1.2	1.3	+0.1
				Minority Interests	10.4	12.1	+1.7
				<b>Total Net Assets</b>	<b>549.7</b>	<b>596.1</b>	<b>+46.4</b>
<b>Total Assets</b>	<b>991.3</b>	<b>1,030.3</b>	<b>+39.1</b>	<b>Total Liabilities and Total Net Assets</b>	<b>991.3</b>	<b>1,030.3</b>	<b>+39.1</b>

# Consolidated Statements of Cash Flows

	(Billion yen)	
	FY2011	FY2012 <sup>1</sup>
Net Cash Provided by Operating Activities	125.0	97.4
Net Cash Used in Investing Activities	-49.0	-44.6
Net Cash Used in Financing Activities	-86.2	-32.0
Translation Adjustments on Cash and Cash Equivalents	-3.3	9.7
Net Increase (Decrease) in Cash and Cash Equivalents	-13.4	30.4
Cash and Cash Equivalents, Beginning of Period	143.1	129.7
Cash and Cash Equivalents from Newly Consolidated Subsidiary, Increase	-	0.3
Cash and Cash Equivalents, End of Period	129.7	160.4
Total Debt at End of Period	102.1	103.2
Free Cash Flow <sup>2</sup>	76.1	52.7

## <Net cash used in investing activities>

### Capital expenditures:

- Construction of new plants in China and 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.

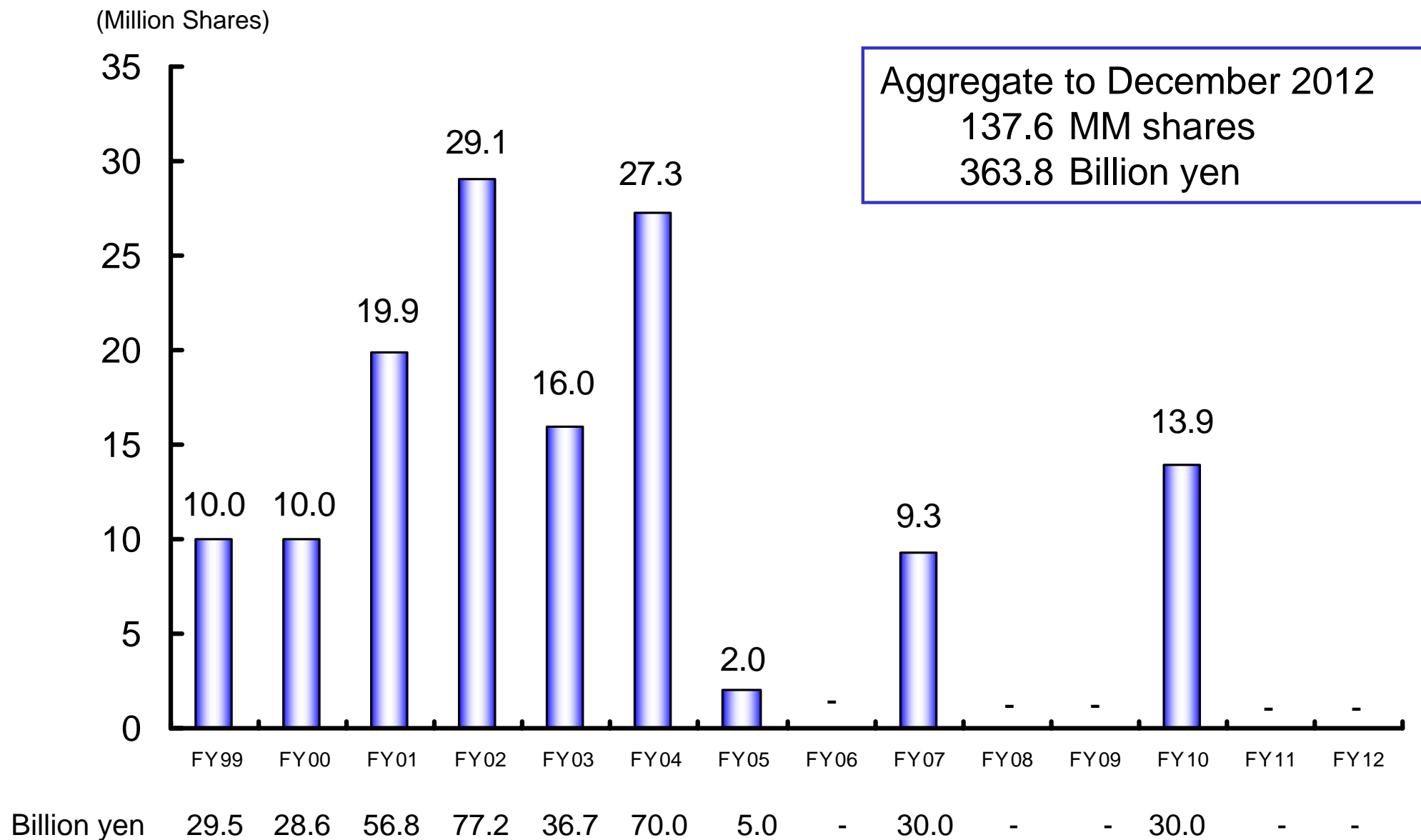
## <Net cash used in financing activities>

Payments of cash dividends (Includes payments of cash dividends to minority shareholders) : 33.5 billion yen

1 Includes impact of change in financial term. (Please refer to slide 6 for details.)

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

# 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 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**

**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 that previously had a fiscal year end in March**

**FY2013 forecast**

**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

# Major Assumptions for FY2013 Forecast

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

		<u>Adjusted growth<sup>2</sup></u>
◆ Net sales:	¥1,270.0 billion	+4.1%
• Effect of currency translation:	+¥30.0 billion	+2.5%
• Sales growth excluding effect of currency translation:	+¥19.6 billion	+1.6%

## Estimated impact on income

- ◆ Impact from change in raw material prices:
  - Gross impact: +¥4 billion
  - Net impact: -¥3 billion
- ◆ Total Cost Reduction (TCR) activities: +¥5 billion
- ◆ Capital expenditures/depreciation and amortization
  - Capital expenditures: ¥60 billion
  - Depreciation and amortization: ¥76 billion
- ◆ Share repurchases: Up to ¥30 billion or up to 12.5 million shares planned

## Exchange rate assumptions

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

1 Excludes prestige cosmetics.

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

# Consolidated Sales and Profit Forecast

	FY2012 <sup>4</sup>		[Reference] Restated FY2012 <sup>2</sup>	FY2013(F) <sup>1 5</sup>	
	Billion yen	Adjusted % growth <sup>2</sup>	Billion yen	Billion yen	Adjusted % growth <sup>2</sup>
Net Sales	1,012.6	+0.4	1,220.4	<b>1,270.0</b>	+4.1
Operating Income	101.6	+3.2	111.8	<b>116.0</b>	+3.8
[% of Sales]	10.0%		9.2%	9.1%	
Ordinary Income	104.2	+4.0	114.1	<b>117.0</b>	+2.5
[% of Sales]	10.3%		9.4%	9.2%	
Net Income	<u>52.8</u>	<u>+1.9</u>	<u>53.1</u>	<b>73.0</b>	<u>+37.5</u>
[% of Sales]	<u>5.2%</u>		<u>4.4%</u>	5.7%	
Net Income per Share (yen)	<u>101.12</u>	<u>+2.0</u>	<u>101.77</u>	<b>142.60</b>	<u>+40.1</u>
ROE <sup>3</sup>	<u>9.4%</u>	-	<u>9.5%</u>	<b>12.4%</b>	-
EBITDA (Operating Income + Depr. & Amort.)	161.4	+0.4	189.2	<b>192.0</b>	+1.5
Cash Dividends per Share (yen)	62.0	+3.3	62.0	<b>64.0</b>	+3.2

1 Exchange rate assumptions: 90 yen/USD, 115 yen/Euro

2 Excludes the impact of the change in financial term. (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 ¥190 billion / operating margin before deduction of royalties = approximately 8%; amortization related to Kanebo Cosmetics: ¥26.5 billion



# Sales Outlook by Segment – FY2013

<Billion yen>

Consolidated Net Sales

By Segment<sup>1</sup>

1,270 <sup>Adjusted growth<sup>2</sup></sup> +4.1%

Reference:  
By Geographic Area<sup>1</sup>

		Adjusted growth <sup>2</sup>			Adjusted growth <sup>2</sup>
Beauty Care	560	+4.1%	Japan	956	+2.4%
Human Health Care	197	+3.9%	Asia	181	+13.1%
Fabric and Home Care	305	+4.5%	Americas	99	+10.0%
Chemical	242	+2.3%	Europe	117	+5.9%

<sup>1</sup> Sales are before elimination of transactions between segments or geographic areas.

<sup>2</sup> Excludes the impact of the change in financial term. (Please refer to slide 23 for details.)

# Sales Outlook – FY2013

## - Consumer Products Business in Japan -

<Billion yen>

	1st Half			Full Year		
	FY2012 Actual	<b>FY2013 Forecast</b>	Adjusted growth*	FY2012 Actual (9 months)	<b>FY2013 Forecast (12 months)</b>	Adjusted growth*
Beauty Care	203.6	<b>197.0</b>	+1.8%	312.6	<b>413.0</b>	+1.2%
Human Health Care	84.9	<b>81.0</b>	+0.5%	131.6	<b>173.0</b>	+1.6%
Fabric and Home Care	132.6	<b>120.0</b>	+3.6%	208.9	<b>273.0</b>	+3.2%
Consumer Products Business	421.1	<b>398.0</b>	+2.1%	653.1	<b>859.0</b>	+1.9%

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

# FY2013 Outlook by Segment/Geographic Area

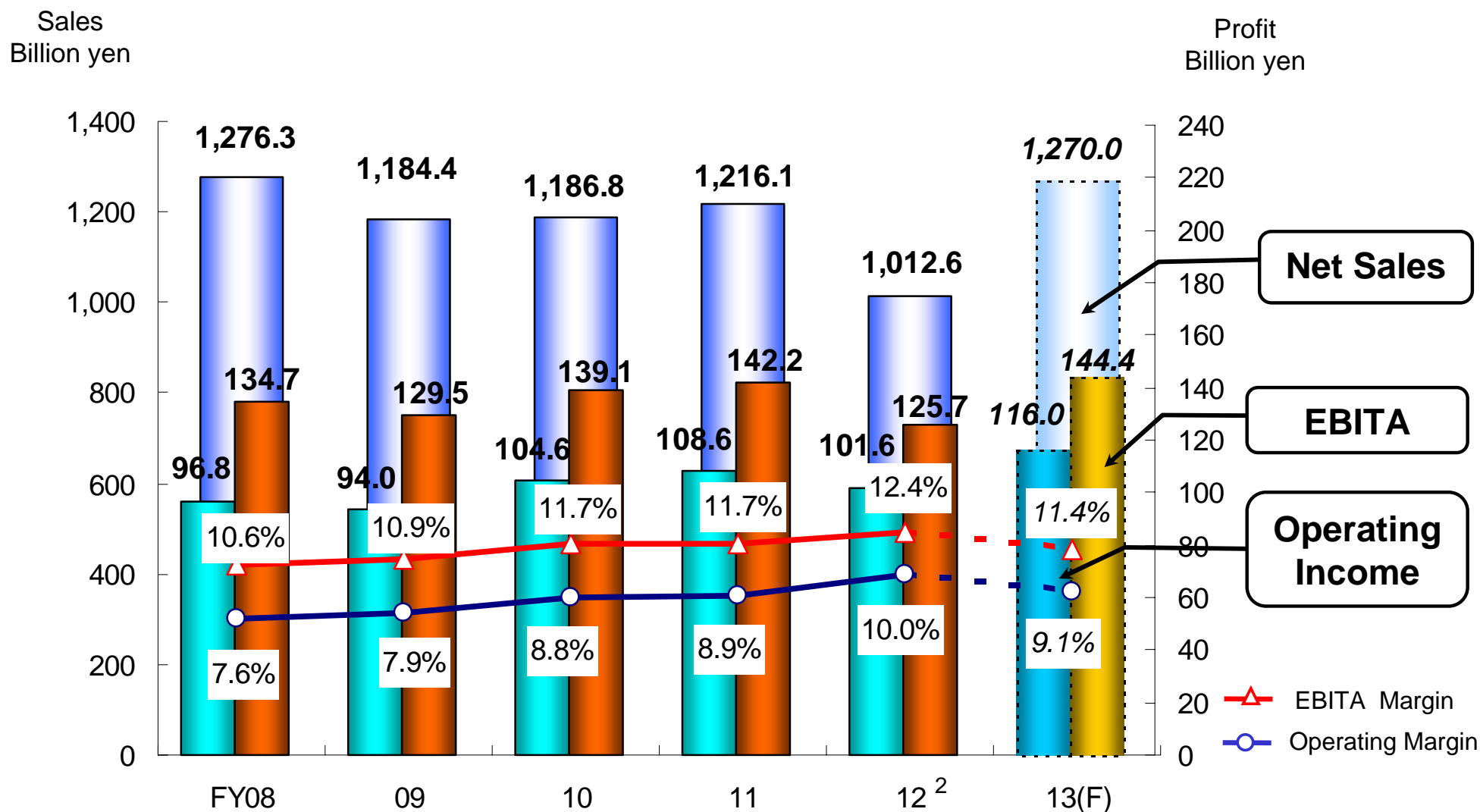
	Decrease in operating income	Increase in operating income
Increase in net sales	<div>CP<sup>1</sup> – Japan</div> <div>Chemical – Japan</div>	<div>CP<sup>1</sup> – Asia</div> <div>CP<sup>1</sup> – Americas</div> <div>CP<sup>1</sup> – Europe</div> <div>Chemical – Asia</div> <div>Chemical – Americas</div> <div>Chemical – Europe</div>
Decrease in net sales		

1: CP = Consumer Products

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

# Consolidated Net Sales/EBITA<sup>1</sup>/Operating Income

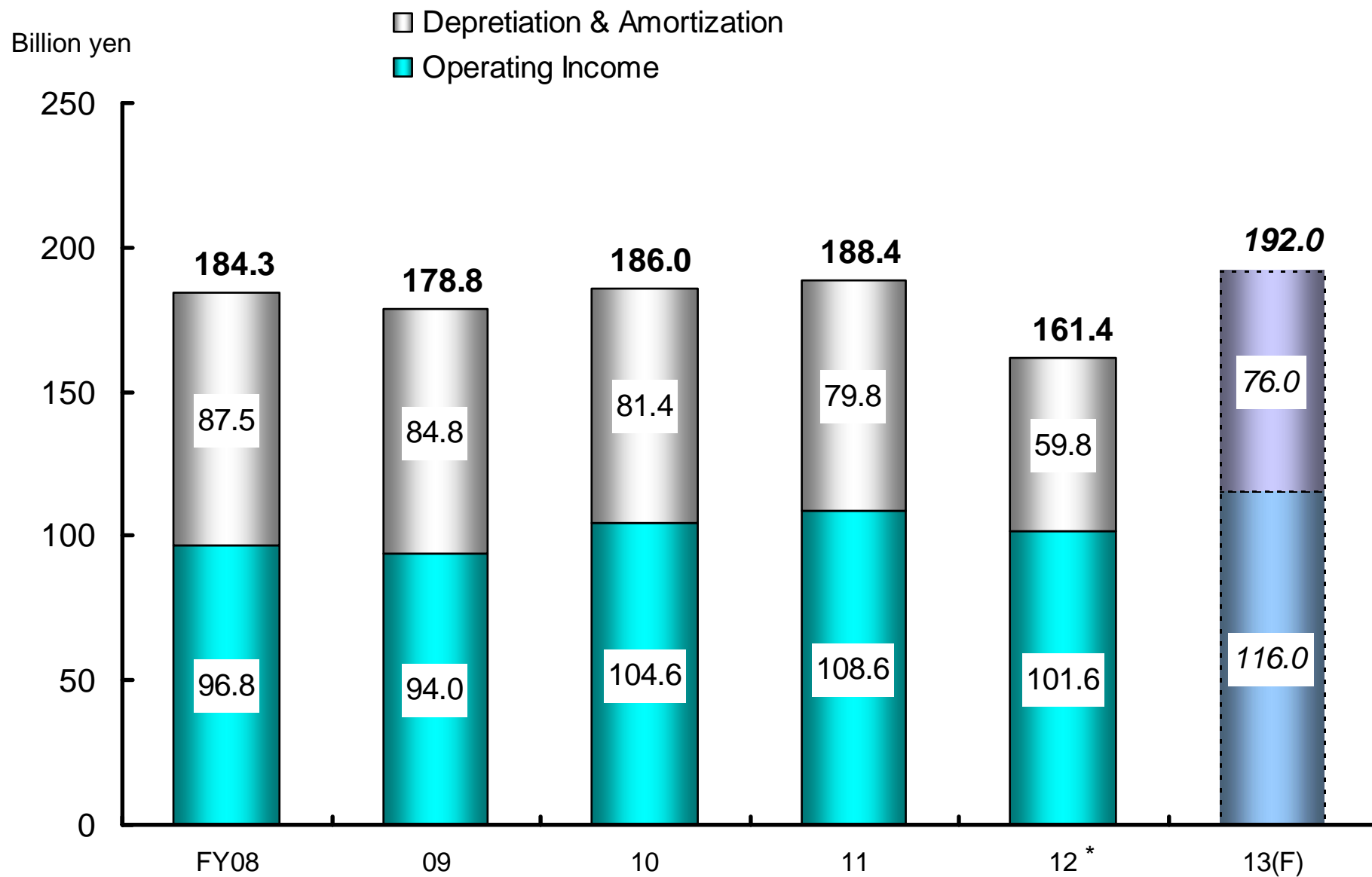
[Full Year]



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

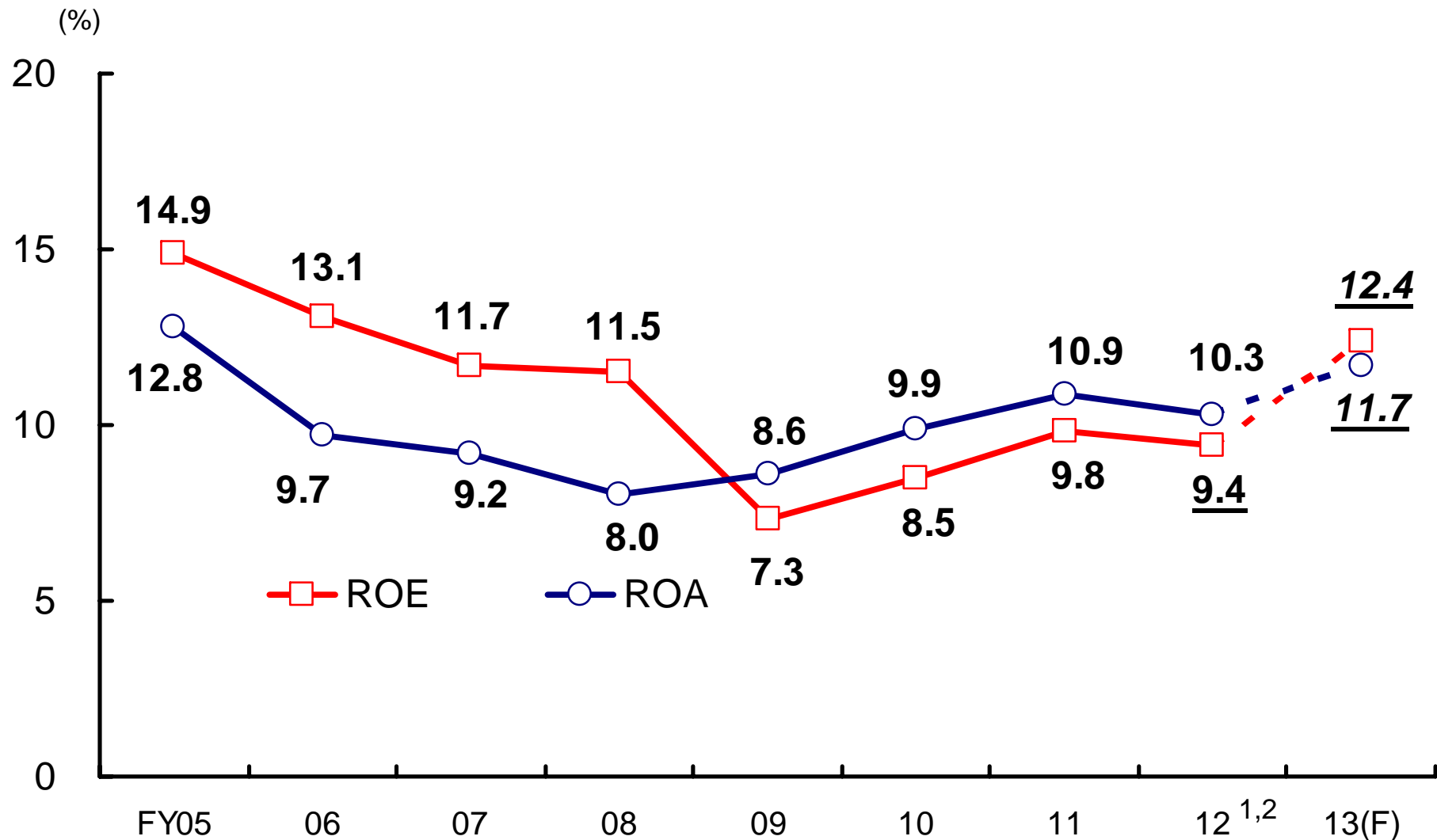
2 Fiscal year end is December 31 from FY2012. (Please refer to slide 23 for details.)

# EBITDA



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

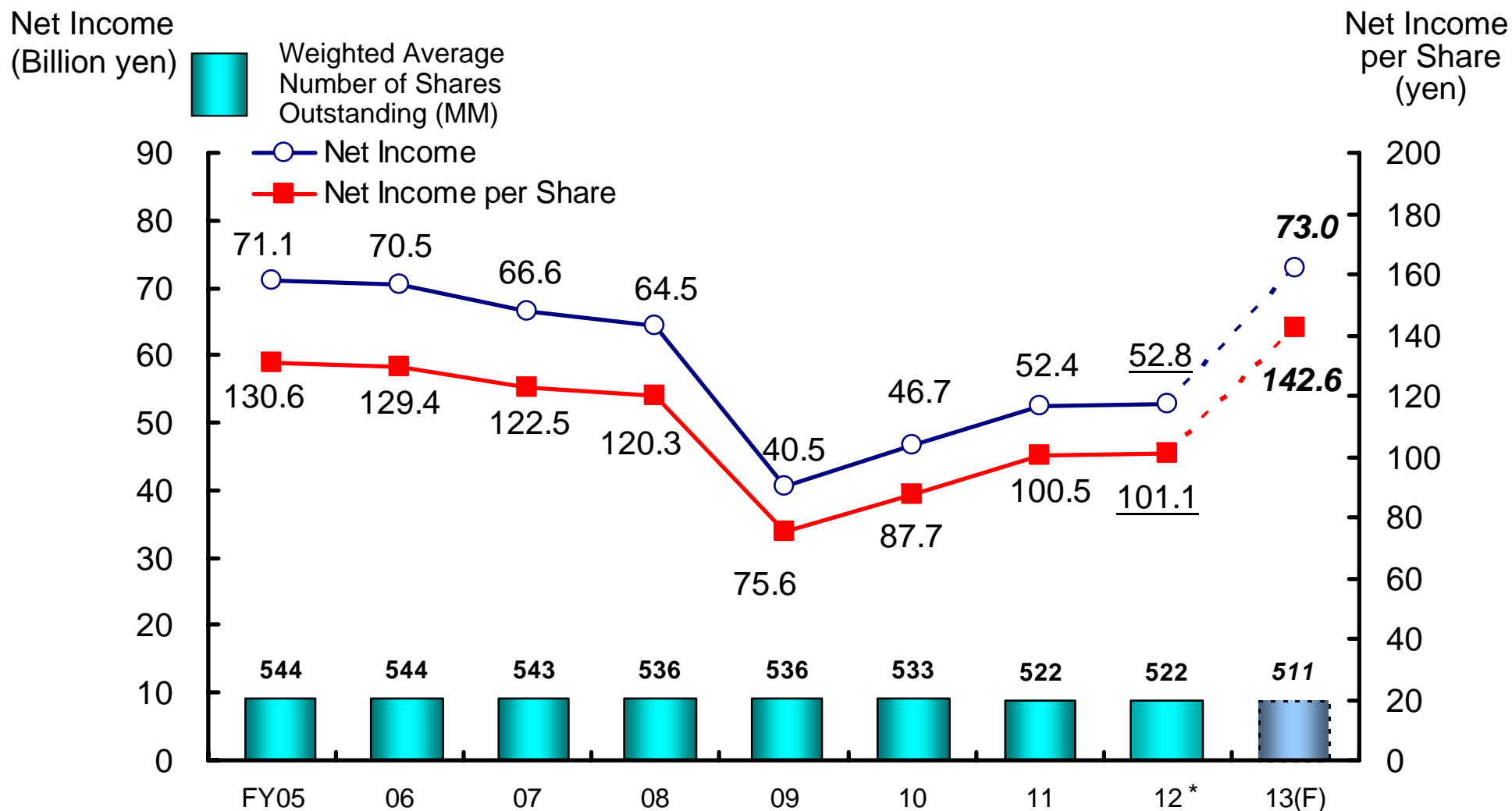
# ROE & ROA



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.

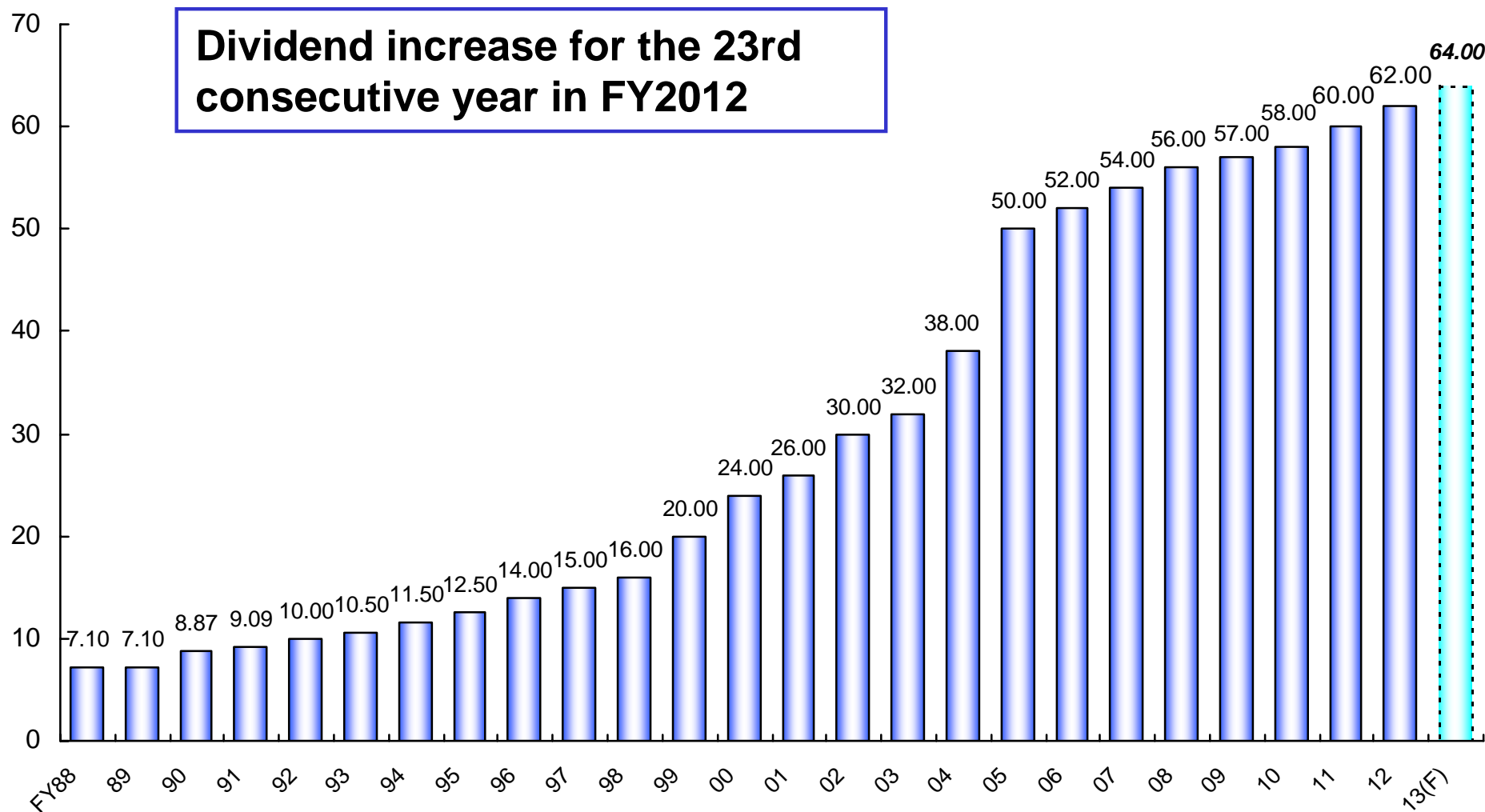
# Net Income per Share



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

# Cash Dividends per Share

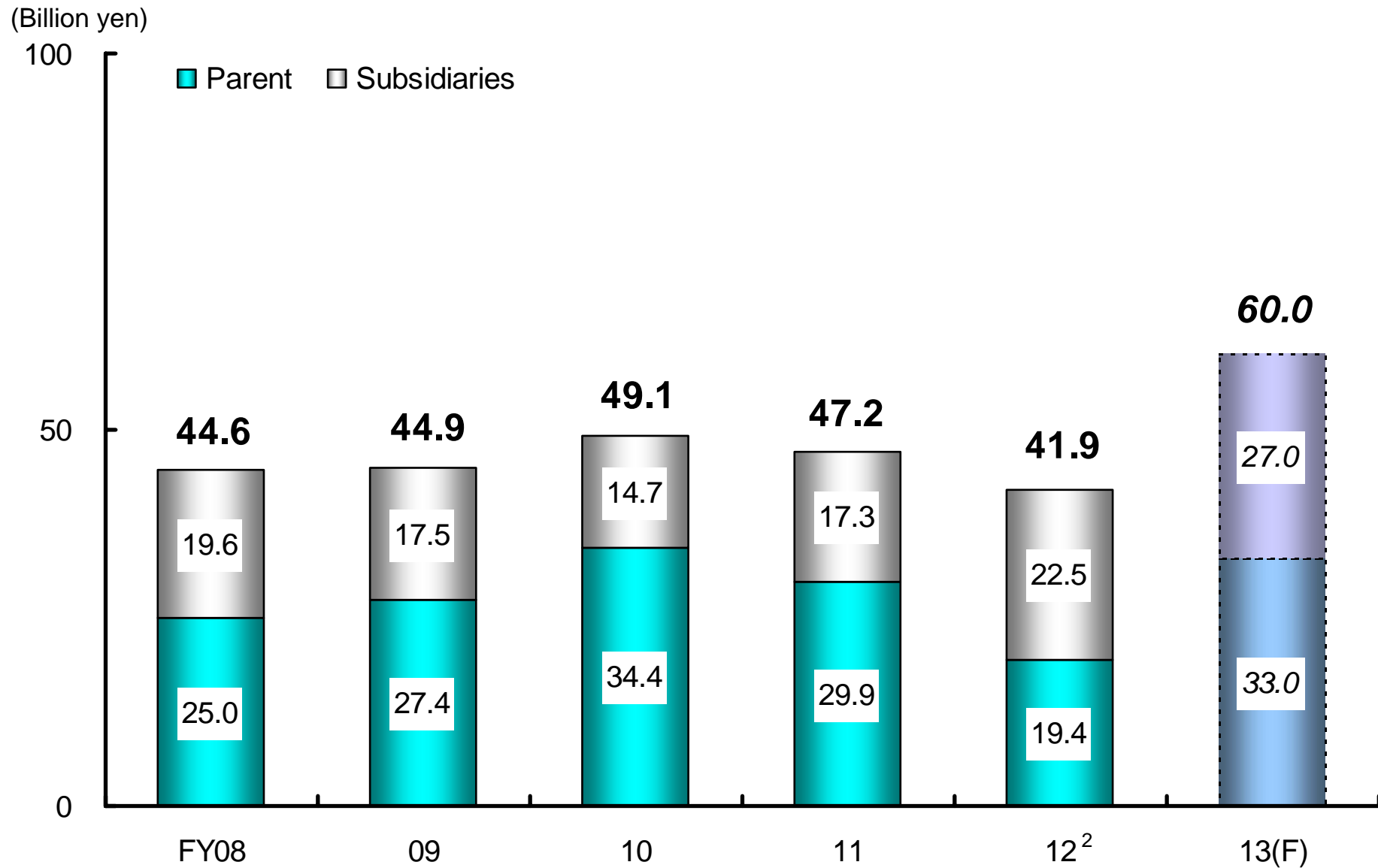
(Yen)



\*Impacts of share splits are retroactively reflected.



# Capital Expenditures



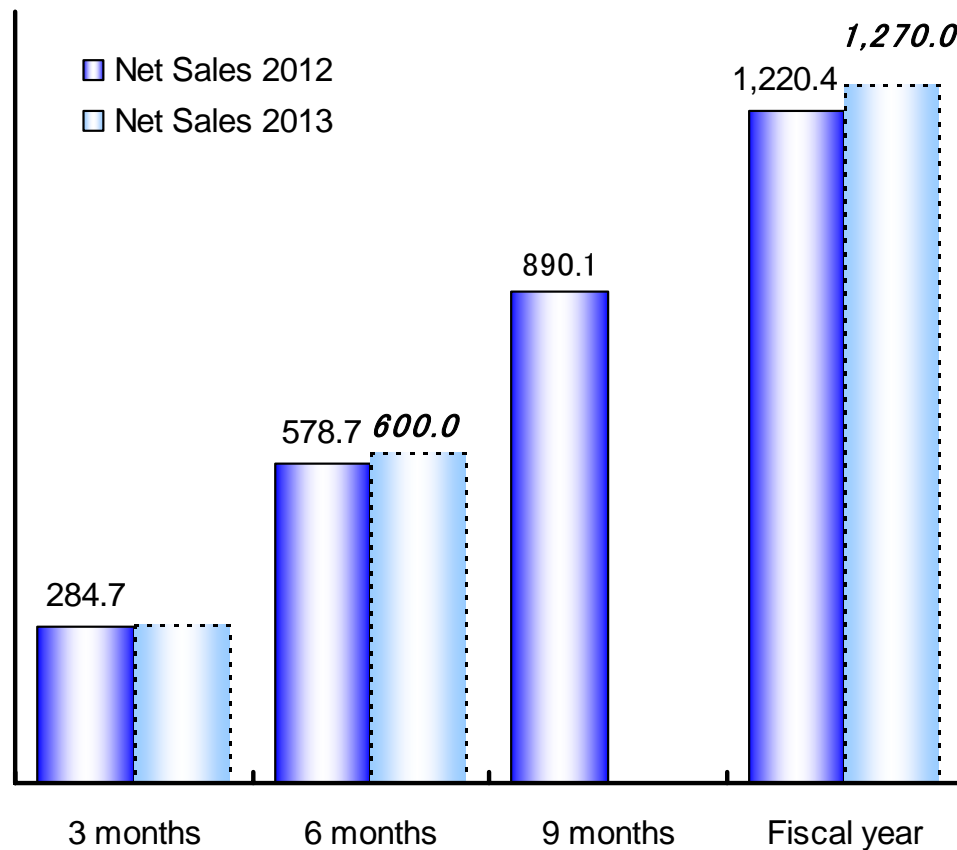
1 Includes long-term prepaid expenses.

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

# FY2013 Quarterly Consolidated Sales and Profit Forecast

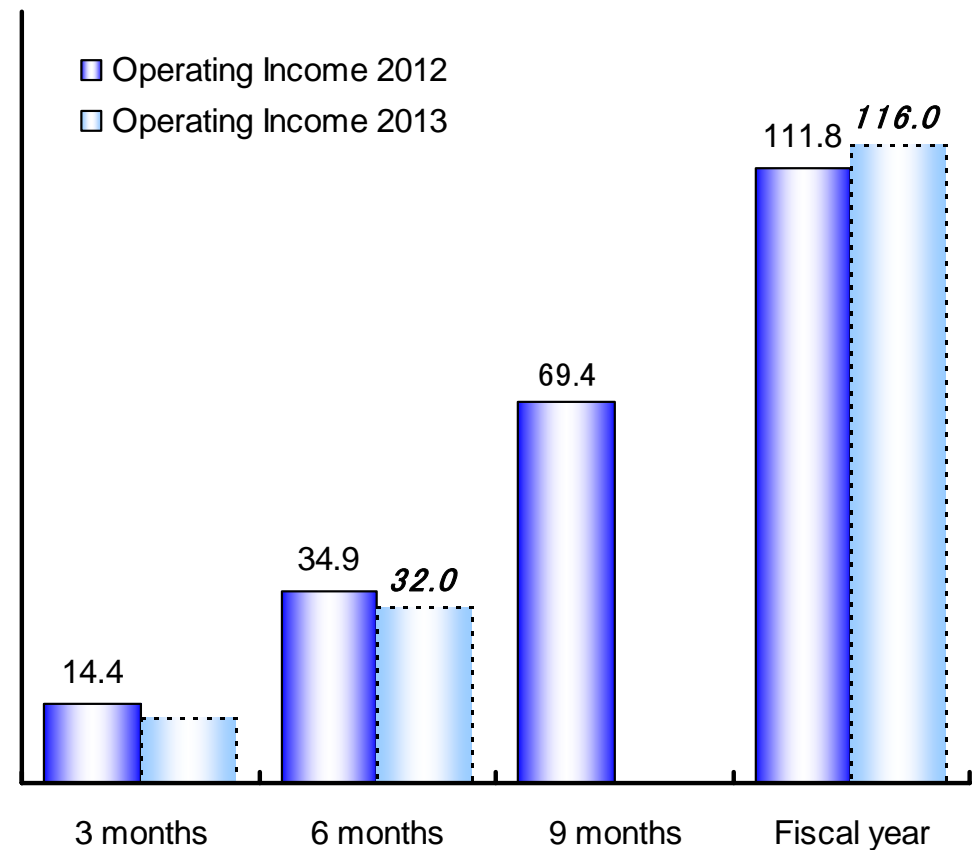
## Net Sales

(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.)

The Kao logo consists of the word "Kao" in a bold, sans-serif typeface. The letter "K" is a dark blue color, while the letters "a" and "o" are a lighter, teal-blue color.

Enriching lives, in harmony with nature.

# **Annual Financial Review**

From April 1, 2012 to December 31, 2012

Kao Corporation

February 5, 2013

This is a translation of materials used for the analyst meeting held in Japan on February 5, 2013.



These presentation materials are available on our website in PDF format:  
[http://www.kao.com/jp/en/corp\\_ir/presentations.html](http://www.kao.com/jp/en/corp_ir/presentations.html)

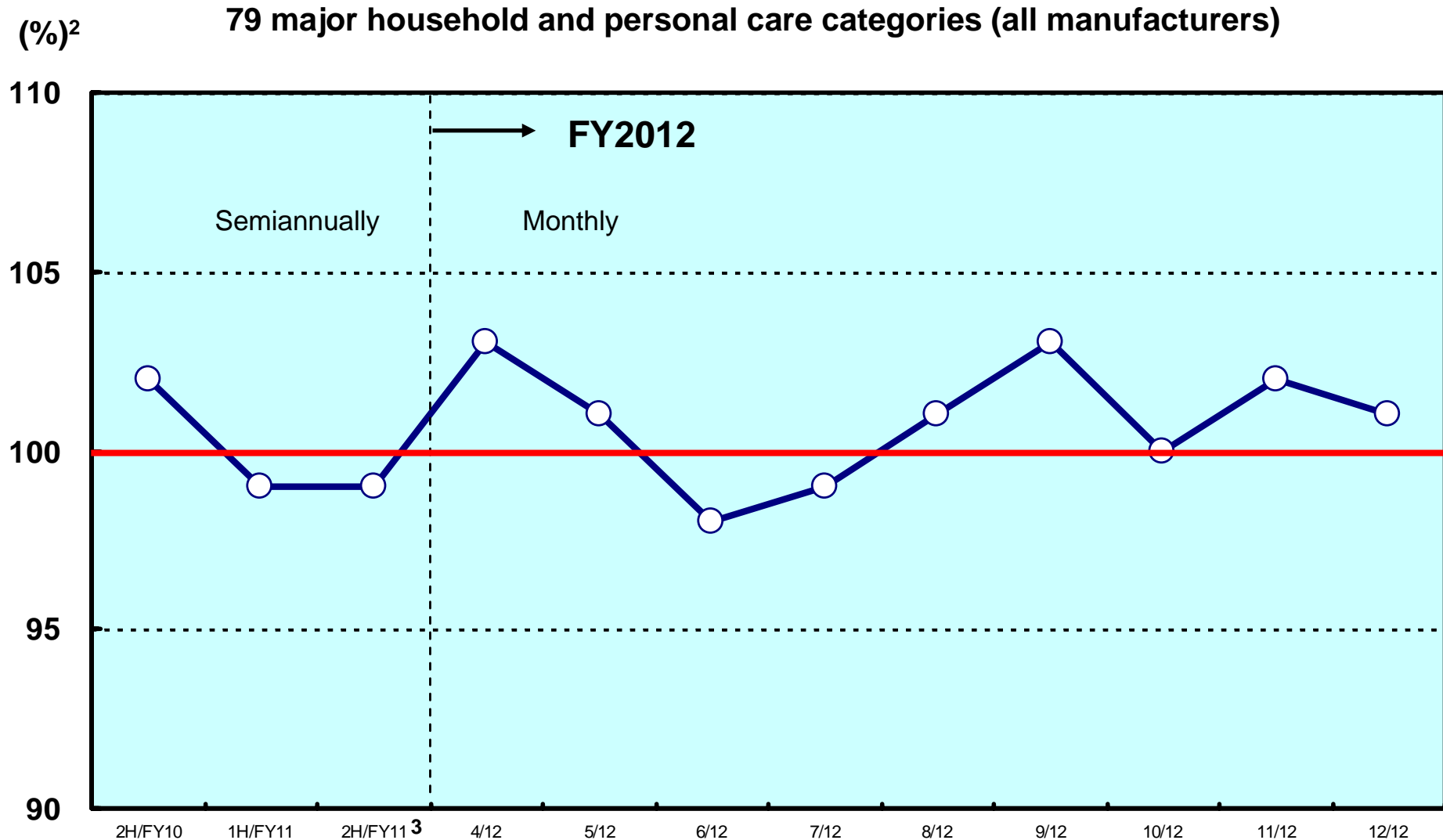
Forward-looking statements such as earnings forecasts and other projections contained in this release are based on information available at this time and assumptions that management believes to be reasonable, and do not constitute guarantees of future performance. Actual results may differ materially 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. Figures for FY2011, ended March 31, 2012, and prior fiscal years have also been restated for ease of comparison.

# **1. Business Environment**

**April 1, 2012 – December 31, 2012**

# Consumer Products<sup>1</sup> Market in Japan



1 Consumer products do not include prestige cosmetics.

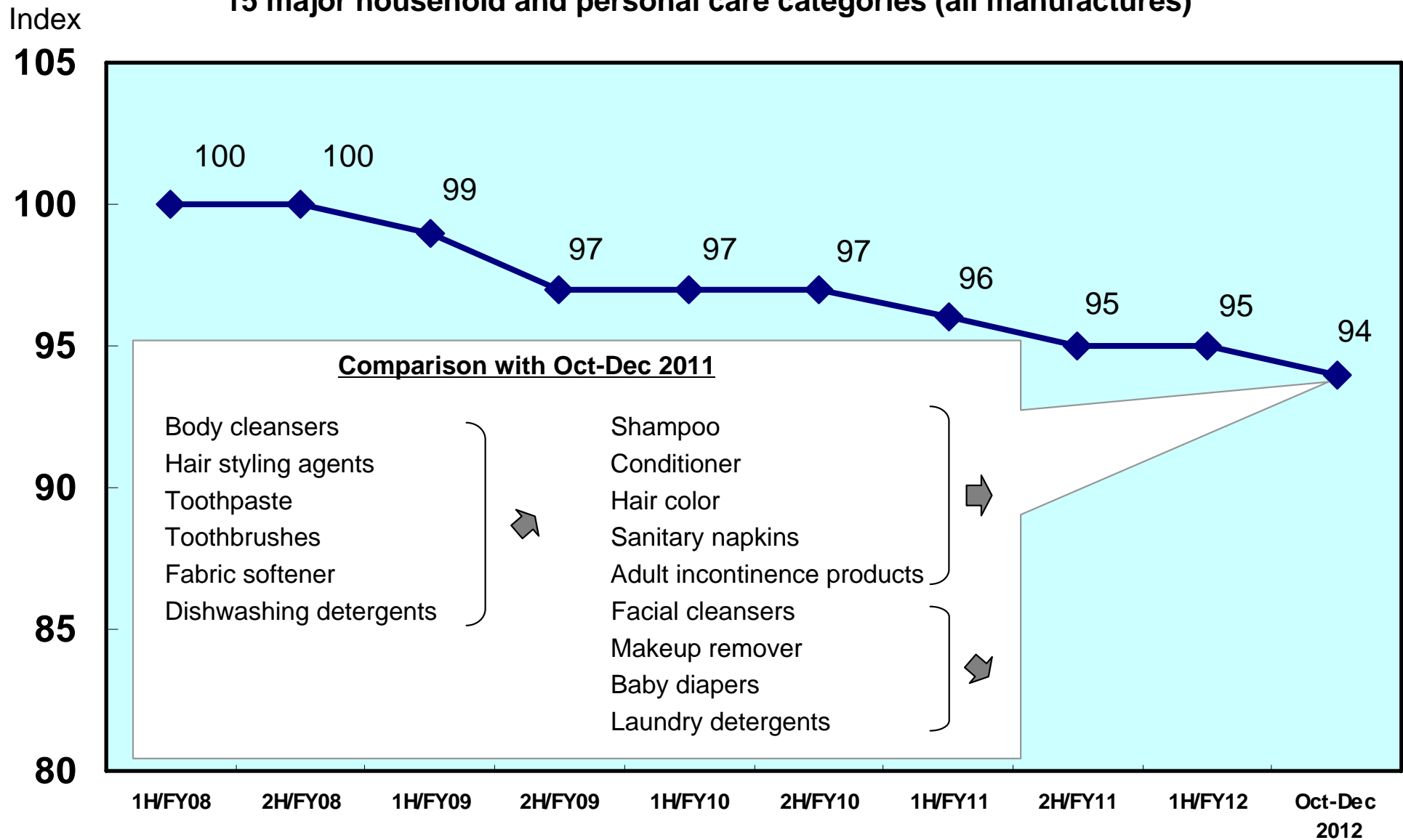
2 Year-on-year growth rate of market size in value (yen)

3. The data of 2H/FY10 includes hoarding due to the earthquake in March 2011.

(Source: SRI POS data by INTAGE Inc.)

# Consumer Purchase Prices in Japan

15 major household and personal care categories (all manufactures)



(Source: SRI POS data by INTAGE Inc.)



# **2. Consolidated Business Results**

**April 1, 2012 – December 31, 2012**

**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**

**Restated FY2011**

**Figures for the nine-month period from April 1 to December 31, 2011 for group companies whose fiscal year end was previously March 31.**

**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

# Key Points in FY2012

## Japan sales related

1. Consumer purchase price of 15 major household and personal care categories market in Japan<sup>1</sup>:
  - 1<sup>st</sup> half: -1 point year-on-year
  - Oct.-Dec.: Flat
2. Growth of household and personal care market in Japan<sup>2</sup> (Apr.-Dec.): +1%
3. Growth of the cosmetics market in Japan<sup>3</sup> (Apr.-Dec.): -0.2%

## Income statements related

		<u>Adjusted growth<sup>4</sup></u>
1. Net sales:	¥1,012.6 billion	+0.4%
• Effect of currency translation:	-¥7.3 billion	-0.7%
• Sales growth excluding effect of currency translation:	+¥11.6 billion	+1.1%
2. Increase/decrease in operating income <sup>5</sup> :	+¥3.1 billion	

## Cash flow related

1. Free cash flow <sup>6</sup>	¥52.7 billion
2. Payments of cash dividends <sup>7</sup> :	¥33.5 billion

1 Index with the 1<sup>st</sup> 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 Excludes the impact of the change in financial term. (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.

# FY2012 Consolidated Results

Billion yen	<u>FY11</u>	Restated <u>FY11</u> <sup>1</sup>	<u>FY12</u>	Adjusted growth <sup>1</sup>
<b>Net Sales</b>	1,216.1	1,008.3	1,012.6	+0.4%
<b>EBITA</b> <sup>2</sup>	142.2	124.2	125.7	+1.2%
<i>EBITA* Margin</i>	11.7%	12.3%	12.4%	
<b>Operating Income</b>	108.6	98.5	101.6	+3.2%
<i>Operating Margin</i>	8.9%	9.8%	10.0%	
<b>Ordinary Income</b>	110.0	100.2	104.2	+4.0%
<b>Net Income</b>	52.4	51.8	<u>62.4</u>	<u>+20.5%</u>
<b>EBITDA</b>	188.4	160.6	161.4	+0.4%
<b>ROE</b> <sup>3</sup>	9.8%	-	<u>11.0%</u>	
<b>EPS (yen)</b>	100.46	99.16	<u>119.55</u>	<u>+20.6%</u>

<sup>1</sup> Excludes the impact of the change in financial term. (Please refer to slide 6 for details.)

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

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

# Consolidated Net Sales [1]

	Restated FY2011 <sup>1</sup>	FY2012		
	Billion yen	Billion yen	% Growth	
			Adjusted <sup>1</sup>	Like-for-like <sup>2</sup>
Beauty Care Business	311.9	<b>312.6</b>	<b>+0.2</b>	<b>+0.2</b>
Human Health Care Business	125.8	<b>131.6</b>	<b>+4.6</b>	<b>+4.6</b>
Fabric and Home Care Business	204.5	<b>208.9</b>	<b>+2.1</b>	<b>+2.1</b>
<b>Japan total</b>	<b>642.3</b>	<b>653.1</b>	<b>+1.7</b>	<b>+1.7</b>
<b>Asia <sup>3</sup></b>	81.5	<b>87.2</b>	<b>+7.0</b>	<b>+7.8</b>
<b>Americas <sup>3</sup></b>	55.1	<b>56.6</b>	<b>+2.7</b>	<b>+2.1</b>
<b>Europe</b>	61.5	<b>57.3</b>	<b>-6.9</b>	<b>-1.8</b>
Eliminations	-21.4	<b>-21.0</b>	-	-
<b>Consumer Products Business</b>	<b>819.0</b>	<b>833.2</b>	<b>+1.7</b>	<b>+2.1</b>

1: Excludes the impact of the change in financial term. (Please refer to slide 6 for details.)

2: Excludes the effect of currency translation and the impact of the change in financial term.  
(Please refer to slide 6 for details.)

3: Australia and New Zealand, which had been included in Asia until FY2011, have been reclassified to Americas from FY2012. The results of FY2011 have been restated for the purpose of comparison.

# Consolidated Net Sales [2]

	Restated FY2011 <sup>1</sup>	FY2012		
	Billion yen	Billion yen	% Growth	
			Adjusted <sup>1</sup>	Like-for-like <sup>2</sup>
Japan	95.6	<b>92.0</b>	<b>-3.8</b>	<b>-3.8</b>
Asia	89.2	<b>75.6</b>	<b>-15.3</b>	<b>-15.0</b>
Americas	35.9	<b>33.6</b>	<b>-6.5</b>	<b>-5.2</b>
Europe	55.7	<b>53.5</b>	<b>-4.0</b>	<b>+3.6</b>
Eliminations	-57.2	<b>-46.5</b>	-	-
<b>Chemical Business</b>	<b>219.2</b>	<b>208.1</b>	<b>-5.1</b>	<b>-3.1</b>

Eliminations	-30.0	<b>-28.6</b>	-	-
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<b>Consolidated net sales</b>	<b>1,008.3</b>	<b>1,012.6</b>	<b>+0.4</b>	<b>+1.1</b>
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1: Excludes the impact of the change in financial term. (Please refer to slide 6 for details.)

2: Excludes the effect of currency translation and the impact of the change in financial term.  
(Please refer to slide 6 for details.)

# Consolidated Income Statements

	FY2011		FY2012		Adjusted % growth <sup>1</sup>
	Billion yen	%	Billion yen	%	
Net Sales	1,216.1	100.0	1,012.6	100.0	+0.4
Cost of Sales	525.0	43.2	442.5	43.7	
Gross Profit	691.1	56.8	570.1	56.3	
SG&A Expenses <sup>2</sup>	582.5	47.9	468.5	46.3	
Operating Income	108.6	8.9	101.6	10.0	+3.2
Non-operating Income/Expenses	1.4	0.1	2.6	0.3	
Ordinary Income	110.0	9.0	104.2	10.3	+4.0
Extraordinary Gain/Loss	-4.8	-0.4	-1.9	-0.2	
Income Before Income Taxes and Minority Interests	105.3	8.7	102.3	10.1	
Income Taxes	50.8	4.2	<u>38.5</u>	<u>3.8</u>	
Income Before Minority Interests	54.5	4.5	<u>63.8</u>	<u>6.3</u>	
Minority Interests	2.1	0.2	1.4	0.1	
Net Income	52.4	4.3	<u>62.4</u>	<u>6.2</u>	+20.5

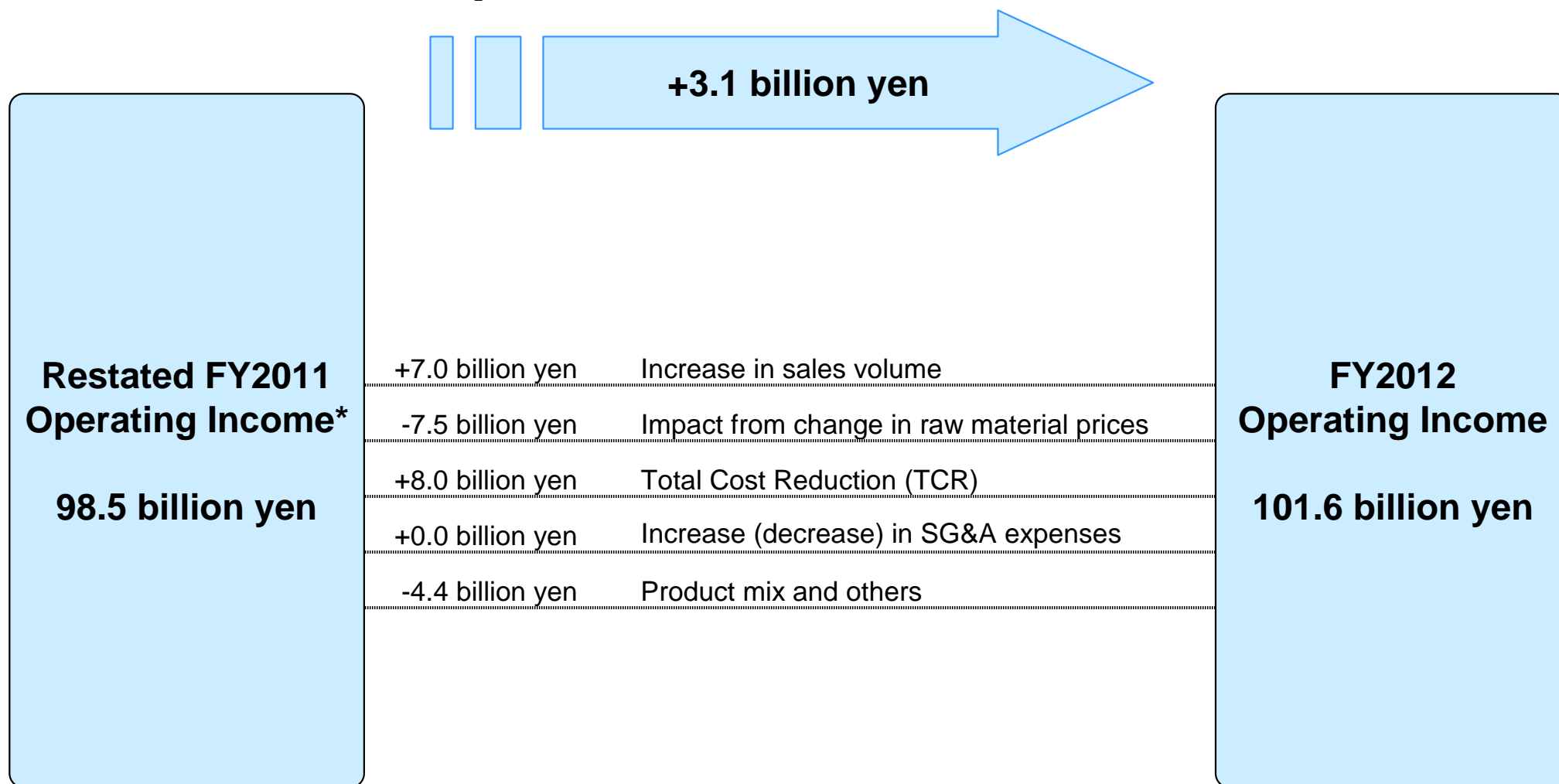
1 Excludes the impact of the change in financial term. (Please refer to slide 6 for details.)

2 Amortization related to Kanebo Cosmetics

FY2011: 27.4 billion yen, FY2012: 20.5 billion yen

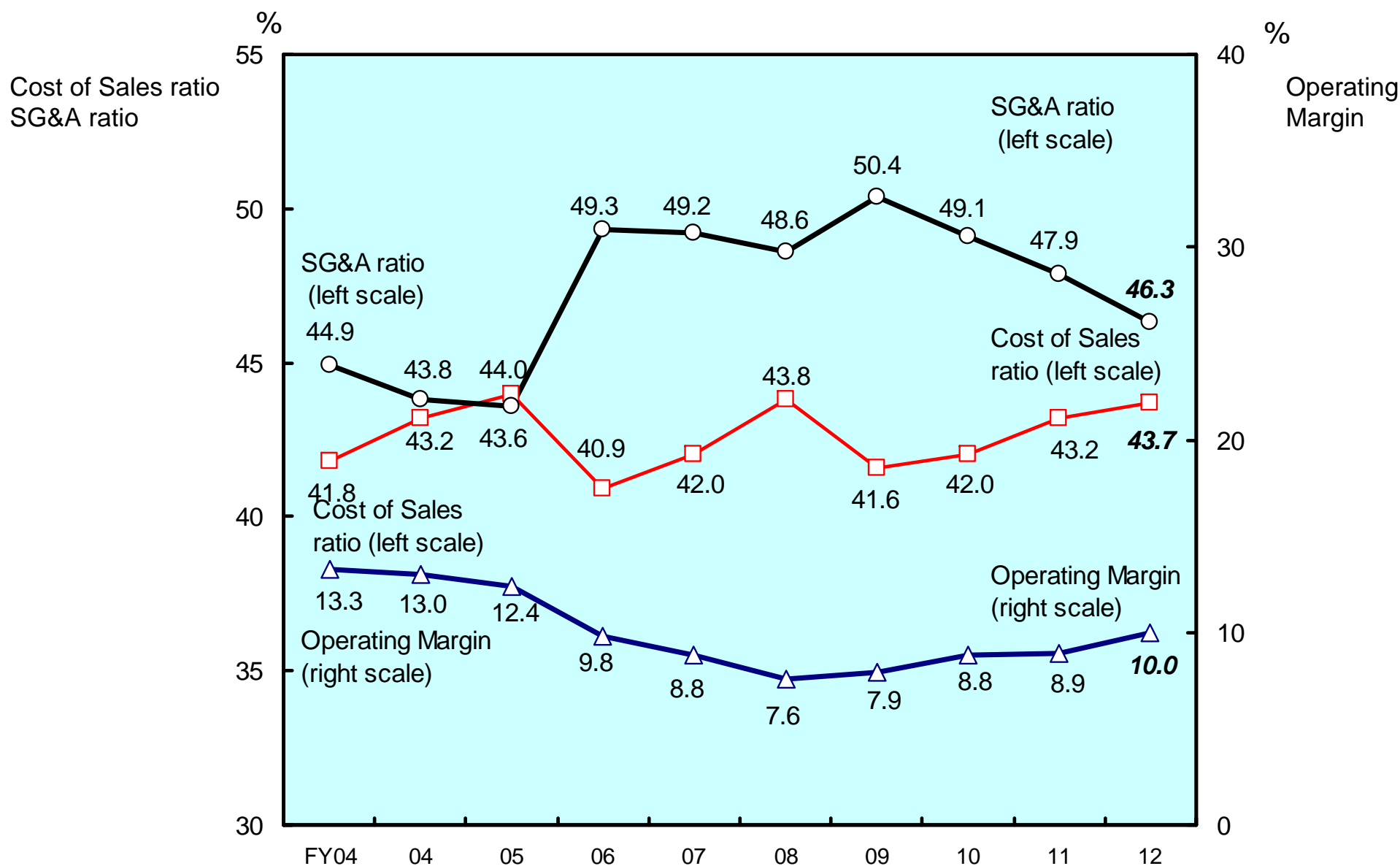
# FY2012 Consolidated Operating Income Analysis

## Comparison with restated FY2011



\* Excludes the impact of the change in financial term. (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)

	FY2011	FY2012*
<b>Total SG&amp;A Expenses</b>	582.5	<b>468.5</b>

Freight/Warehouse	68.4	<b>56.8</b>
Advertising	82.2	<b>67.0</b>
Sales Promotion	63.0	<b>52.1</b>
Salaries and Bonuses	121.8	<b>97.7</b>
R&D	48.2	<b>37.5</b>

\*Includes the impact of the change in financial term. (Please refer to slide 6 for details)

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

(Billion yen)

<b>Non-operating Income/Expenses</b>	<b>FY2011</b>	<b>FY2012*</b>
<b>Non-operating Income</b>	<b>5.3</b>	<b>5.0</b>
Interest Income	0.9	0.8
Dividend Income	0.2	0.2
Equity in Earnings of Nonconsolidated Subsidiaries and Affiliates	1.7	1.7
Other	2.6	2.3
<b>Non-operating Expenses</b>	<b>3.9</b>	<b>2.3</b>
Interest Expense	2.2	1.2
Foreign Currency Exchange Loss	0.6	0.3
Other	1.1	0.9

<b>Extraordinary Gain/Loss</b>	<b>FY2011</b>	<b>FY2012*</b>
<b>Extraordinary Gain</b>	<b>0.3</b>	<b>0.6</b>
Gain on Sales of Fixed Assets	0.2	0.1
Gain on Sales of Stock of Subsidiary	-	0.3
Other	0.1	0.2
<b>Extraordinary Loss</b>	<b>5.0</b>	<b>2.6</b>
Loss on Sales/Disposals of Fixed Assets	2.4	2.2
Loss related to the Great East Japan Earthquake	2.0	-
Other	0.6	0.3

\*Includes the impact of the change in financial term. (Please refer to slide 6 for details)

# Consolidated Results by Segment

		Restated FY2011 <sup>3</sup>		FY2012		Adjusted changes <sup>3</sup>	Adjusted growth <sup>3</sup>
		Billion yen	% of net sales	Billion yen	% of net sales	Billion yen	%
Beauty Care Business	Net Sales <sup>1</sup>	444.5	-	<b>444.4</b>	-	-0.1	-0.0%
	EBITA <sup>2</sup>	42.6	9.6%	<b>45.9</b>	<b>10.3%</b>	+3.2	+7.6%
	Operating Income	17.0	3.8%	<b>21.8</b>	<b>4.9%</b>	+4.8	+28.0%
Human Health Care Business	Net Sales <sup>1</sup>	144.1	-	<b>152.0</b>	-	+7.9	+5.5%
	Operating Income	12.6	8.7%	<b>11.5</b>	<b>7.6%</b>	-1.0	-8.3%
Fabric and Home Care Business	Net Sales <sup>1</sup>	230.4	-	<b>236.7</b>	-	+6.3	+2.8%
	Operating Income	47.2	20.5%	<b>51.4</b>	<b>21.7%</b>	+4.1	+8.7%
Chemical Business	Net Sales <sup>1</sup>	219.2	-	<b>208.1</b>	-	-11.2	-5.1%
	EBITA <sup>2</sup>	21.8	9.9%	<b>16.9</b>	<b>8.1%</b>	-4.9	-22.5%
	Operating Income	21.7	9.9%	<b>16.8</b>	<b>8.1%</b>	-4.9	-22.6%
Consolidated	Net Sales	1,008.3	-	<b>1,012.6</b>	-	+4.3	+0.4%
	EBITA <sup>2</sup>	124.2	12.3%	<b>125.7</b>	<b>12.4%</b>	+1.6	+1.2%
	Operating Income	98.5	9.8%	<b>101.6</b>	<b>10.0%</b>	+3.1	+3.2%

1 Before elimination of intersegment transfers

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

3 Excludes the impact of the change in financial term. (Please refer to slide 6 for details.)

# [Reference] Consolidated Results by Geographic Area

		Restated FY2011 <sup>4</sup>		FY2012		Adjusted changes <sup>4</sup>	Adjusted growth <sup>4</sup>
		Billion yen	% of net sales	Billion yen	% of net sales	Billion yen	%
Japan	Net Sales <sup>1</sup>	712.3	-	<b>720.8</b>	-	+8.4	+1.2%
	EBITA <sup>2</sup>	101.3	14.2%	<b>108.8</b>	<b>15.1%</b>	+7.5	+7.4%
	Operating Income	77.6	10.9%	<b>86.5</b>	<b>12.0%</b>	+9.0	+11.5%
Asia <sup>3</sup>	Net Sales <sup>1</sup>	167.6	-	<b>159.9</b>	-	-7.8	-4.6%
	Operating Income	9.4	5.6%	<b>6.3</b>	<b>3.9%</b>	-3.2	-33.7%
Americas <sup>3</sup>	Net Sales <sup>1</sup>	90.9	-	<b>90.0</b>	-	-0.9	-1.0%
	EBITA <sup>2</sup>	4.4	4.8%	<b>3.4</b>	<b>3.7%</b>	-1.0	-23.4%
	Operating Income	3.7	4.0%	<b>2.7</b>	<b>3.0%</b>	-0.9	-25.3%
Europe	Net Sales <sup>1</sup>	117.0	-	<b>110.5</b>	-	-6.5	-5.5%
	EBITA <sup>2</sup>	9.3	7.9%	<b>7.4</b>	<b>6.7%</b>	-1.9	-20.7%
	Operating Income	8.0	6.9%	<b>6.1</b>	<b>5.5%</b>	-1.9	-23.7%
Consolidated	Net Sales	1,008.3	-	<b>1,012.6</b>	-	+4.3	+0.4%
	EBITA <sup>2</sup>	124.2	12.3%	<b>125.7</b>	<b>12.4%</b>	+1.6	+1.2%
	Operating Income	98.5	9.8%	<b>101.6</b>	<b>10.0%</b>	+3.1	+3.2%

1 Before elimination of intersegment transfers

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

3 Australia and New Zealand, which had been included in Asia until FY2011, have been reclassified to Americas from FY2012. The results of FY2011 have been restated for the purpose of comparison.

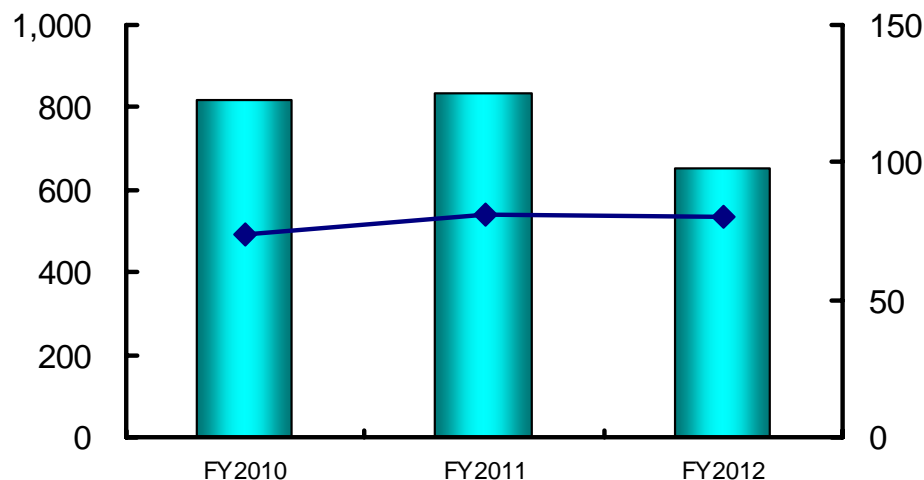
4 Excludes the impact of the change in financial term. (Please refer to slide 6 for details.)

# Consumer Products Business by Geographic Area

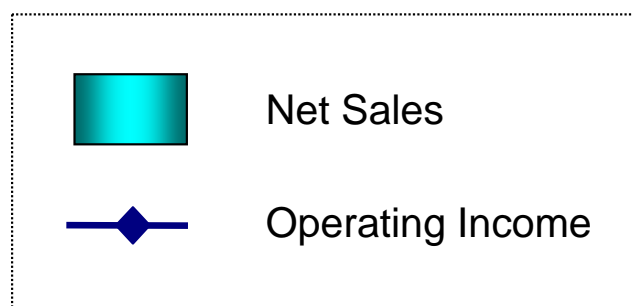
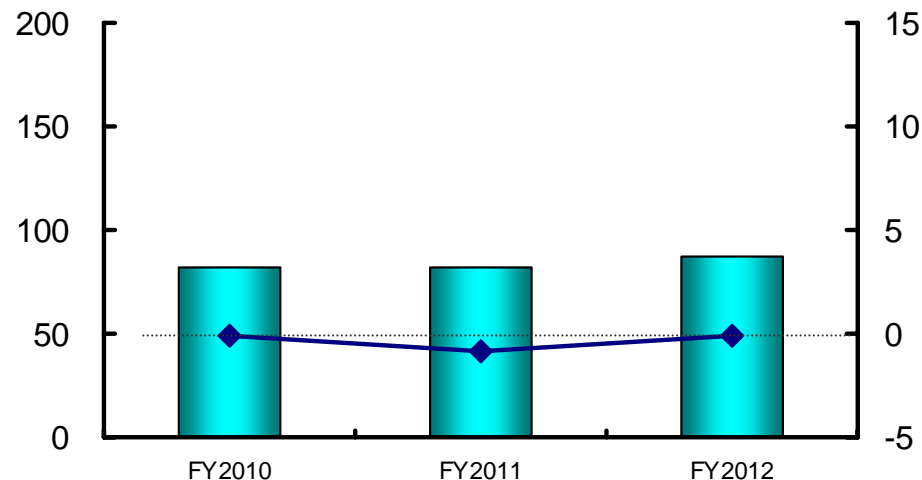
## Japan

Sales (Billion yen)

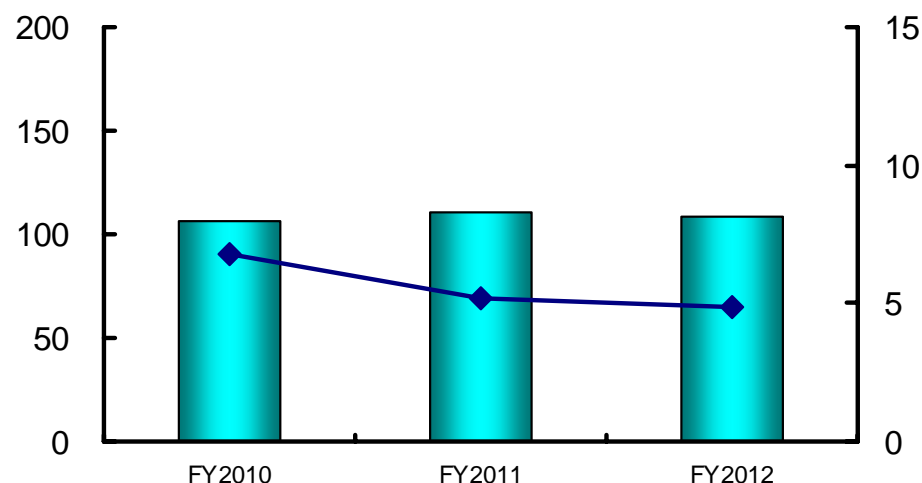
Operating Income  
(Billion yen)



## Asia



## Americas & Europe

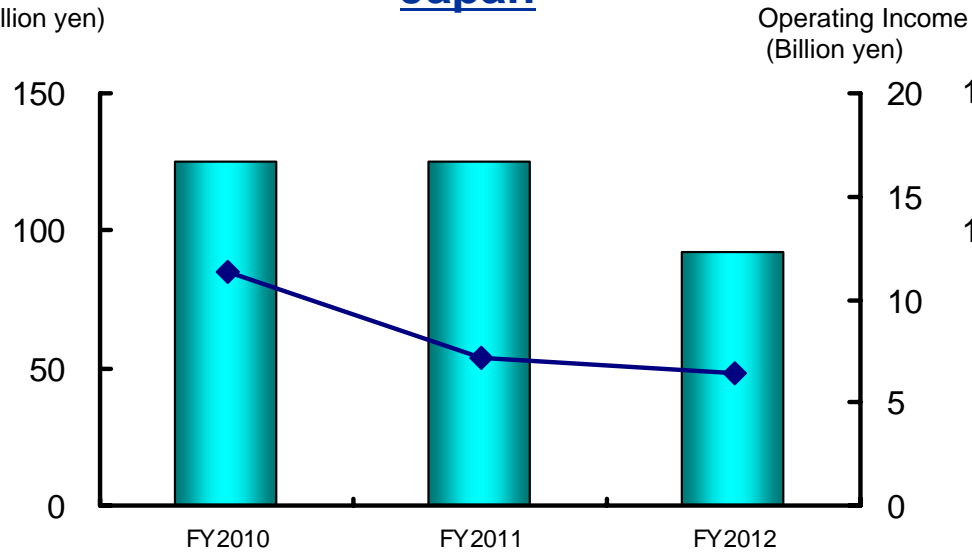


\* Australia and New Zealand, which had been included in Asia until FY2011, have been reclassified to Americas from FY2012. The results of FY2011 have been restated for the purpose of comparison. The results of Japan in FY2012 include the impact of the change in financial term. (Please refer to slide 6 for details.)

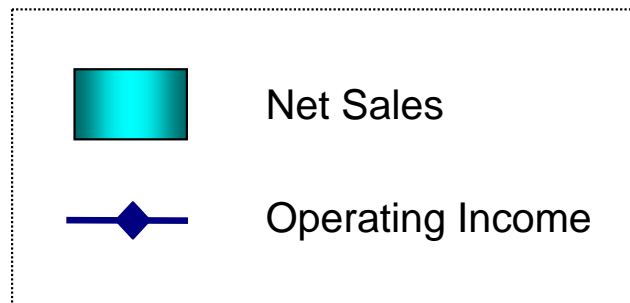
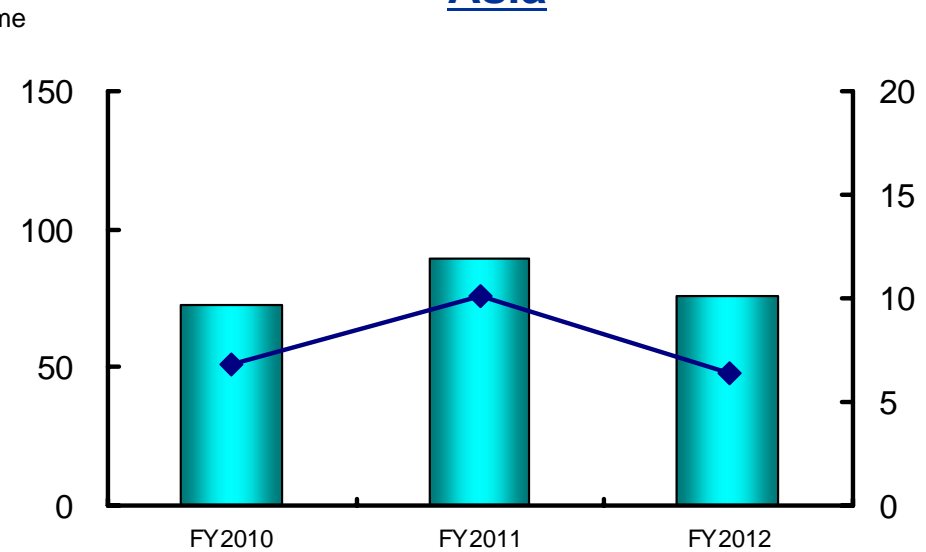
# Chemical Business by Geographic Area

## Japan

Sales (Billion yen)

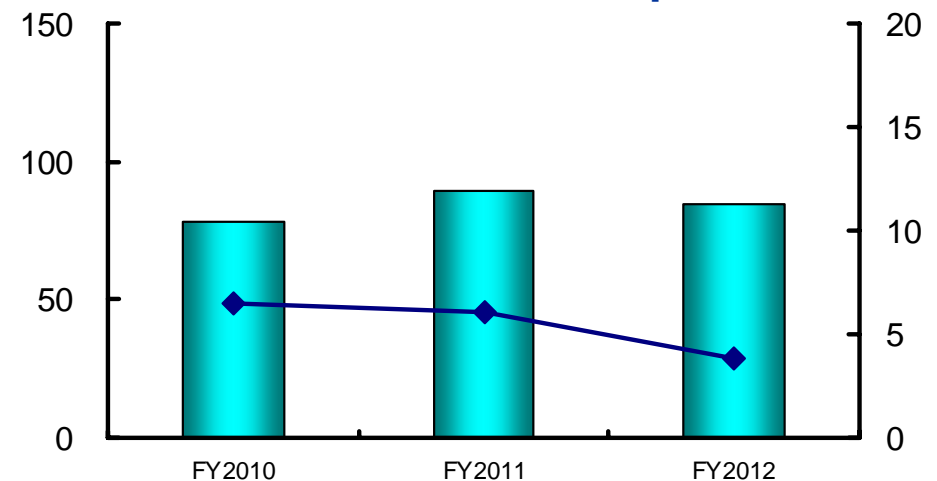


## Asia



\* The results of Japan in FY2012 include the impact of the change in financial term. (Please refer to slide 6 for details.)

## Americas & Europe



# Consolidated Balance Sheets

(Billion yen)

	Mar/12	Dec/12	Changes		Mar/12	Dec/12	Changes
<b>Current Assets</b>	<b>432.9</b>	<b>493.4</b>	<b>+60.5</b>	<b>Current Liabilities</b>	<b>274.9</b>	<b>315.9</b>	<b>+41.0</b>
Cash and Time Deposits	85.5	<b>99.3</b>	+13.9	Notes and Accounts Payable - Trade	110.7	<b>105.5</b>	-5.2
Notes and Accounts Receivable - Trade	142.9	<b>164.3</b>	+21.4	Bonds/Short-term Loans (incl. Current Portion of Bonds/Long-term Loans)	2.1	<b>53.1</b>	+51.1
Short-term Investments	46.8	<b>57.4</b>	+10.6	Accounts Payable - Other	48.5	<b>52.5</b>	+4.0
Inventories	120.7	<b>122.2</b>	+1.5	Accrued Expenses	73.5	<b>74.4</b>	+0.9
Other	37.1	<b>50.2</b>	+13.1	Accrued Income Taxes	18.3	<b>11.7</b>	-6.6
				Liability for loss related to the Great East Japan Earthquake	0.0	-	-0.0
				Other	21.8	<b>18.7</b>	-3.1
<b>Fixed Assets</b>	<b>558.3</b>	<b>546.6</b>	<b>-11.8</b>	<b>Long-term Liabilities</b>	<b>166.7</b>	<b>118.4</b>	<b>-48.3</b>
Property, Plant and Equipment	240.6	<b>252.3</b>	+11.8	Bonds/Long-term Loans	100.0	<b>50.1</b>	-50.0
Intangible Assets	237.5	<b>215.9</b>	-21.5	Other	66.6	<b>68.3</b>	+1.7
Investments and Other Assets	80.3	<b>78.3</b>	<b>-2.0</b>	<b>Total Liabilities</b>	<b>441.6</b>	<b>434.3</b>	<b>-7.3</b>
				Shareholders' equity	633.5	<b>663.6</b>	<b>+30.1</b>
				-Common Stock	85.4	<b>85.4</b>	-
				-Capital Surplus	109.6	<b>109.6</b>	-
				-Retained Earnings	447.6	<b>477.6</b>	<b>+30.0</b>
				-Treasury Stock, at Cost	-9.1	<b>-9.0</b>	+0.1
				Accumulated other comprehensive income	-95.5	<b>-71.3</b>	<b>+24.2</b>
				- Unrealized Gain on Available-for-sale Securities	2.3	<b>2.4</b>	+0.2
				- Deferred Gain (Loss) on Derivatives under Hedges Accounting	-0.0	<b>0.0</b>	+0.0
				- Foreign Currency Translation Adjustments	-96.1	<b>-71.9</b>	<b>+24.2</b>
				- Post retirement adjustments for foreign consolidated subsidiaries	-1.7	<b>-1.9</b>	-0.2
				Stock Acquisition Rights	1.2	<b>1.3</b>	+0.1
				Minority Interests	10.4	<b>12.1</b>	+1.7
				<b>Total Net Assets</b>	<b>549.7</b>	<b>605.7</b>	<b>+56.0</b>
<b>Total Assets</b>	<b>991.3</b>	<b>1,040.0</b>	<b>+48.7</b>	<b>Total Liabilities and Total Net Assets</b>	<b>991.3</b>	<b>1,040.0</b>	<b>+48.7</b>

# Consolidated Statements of Cash Flows

	(Billion yen)	
	FY2011	FY2012 <sup>1</sup>
Net Cash Provided by Operating Activities	125.0	97.4
Net Cash Used in Investing Activities	-49.0	-44.6
Net Cash Used in Financing Activities	-86.2	-32.0
Translation Adjustments on Cash and Cash Equivalents	-3.3	9.7
Net Increase (Decrease) in Cash and Cash Equivalents	-13.4	30.4
Cash and Cash Equivalents, Beginning of Period	143.1	129.7
Cash and Cash Equivalents from Newly Consolidated Subsidiary, Increase	-	0.3
Cash and Cash Equivalents, End of Period	129.7	160.4
Total Debt at End of Period	102.1	103.2
Free Cash Flow <sup>2</sup>	76.1	52.7

## <Net cash used in investing activities>

### Capital expenditures:

- Construction of new plants in China and 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>

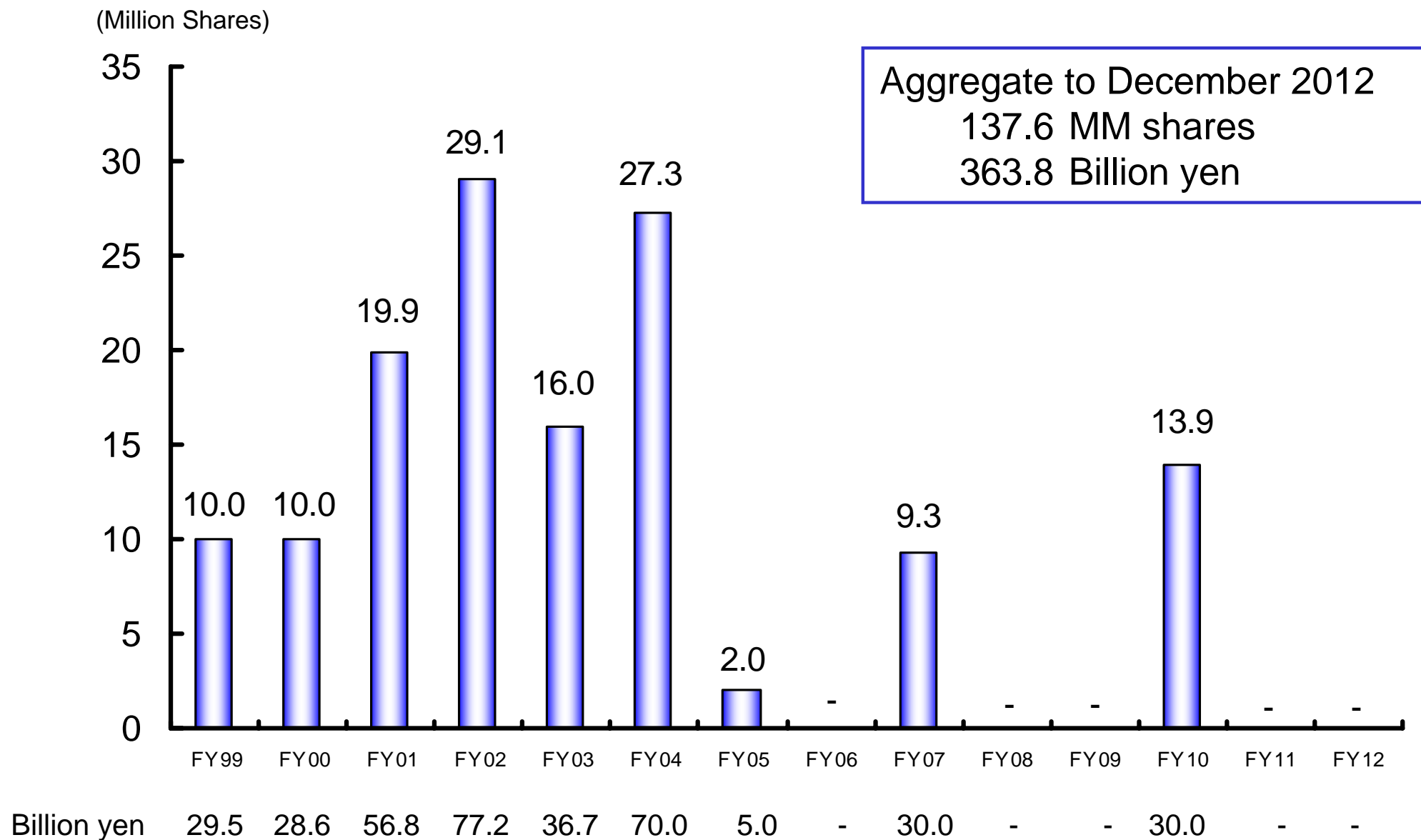
Payments of cash dividends (Includes payments of cash dividends to minority shareholders) : 33.5 billion yen

1 Includes impact of change in financial term. (Please refer to slide 6 for details.)

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



# 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 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**

**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 that previously had a fiscal year end in March**

**FY2013 forecast**

**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

# Major Assumptions for FY2013 Forecast

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

		<u>Adjusted growth<sup>2</sup></u>
◆ Net sales:	¥1,270.0 billion	+4.1%
• Effect of currency translation:	+¥30.0 billion	+2.5%
• Sales growth excluding effect of currency translation:	+¥19.6 billion	+1.6%

## Estimated impact on income

- ◆ Impact from change in raw material prices:
  - Gross impact: +¥4 billion
  - Net impact: -¥3 billion
- ◆ Total Cost Reduction (TCR) activities: +¥5 billion
- ◆ Capital expenditures/depreciation and amortization
  - Capital expenditures: ¥60 billion
  - Depreciation and amortization: ¥76 billion
- ◆ Share repurchases: Up to ¥30 billion or up to 12.5 million shares planned

## Exchange rate assumptions

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

1 Excludes prestige cosmetics.

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

# Consolidated Sales and Profit Forecast

	FY2012 <sup>4</sup>		[Reference] Restated FY2012 <sup>2</sup>	FY2013(F) <sup>1 5</sup>	
	Billion yen	Adjusted % growth <sup>2</sup>	Billion yen	Billion yen	Adjusted % growth <sup>2</sup>
Net Sales	1,012.6	+0.4	1,220.4	<b>1,270.0</b>	+4.1
Operating Income	101.6	+3.2	111.8	<b>116.0</b>	+3.8
[% of Sales]	10.0%		9.2%	9.1%	
Ordinary Income	104.2	+4.0	114.1	<b>117.0</b>	+2.5
[% of Sales]	10.3%		9.4%	9.2%	
Net Income	<u>62.4</u>	<u>+20.5</u>	<u>62.7</u>	<b>73.0</b>	<u>+16.4</u>
[% of Sales]	<u>6.2%</u>		<u>5.1%</u>	5.7%	
Net Income per Share (yen)	<u>119.55</u>	<u>+20.6</u>	<u>120.21</u>	<b>142.60</b>	<u>+18.6</u>
ROE <sup>3</sup>	<u>11.0%</u>	-	<u>11.1%</u>	<b>12.2%</b>	-
EBITDA (Operating Income + Depr. & Amort.)	161.4	+0.4	189.2	<b>192.0</b>	+1.5
Cash Dividends per Share (yen)	62.0	+3.3	62.0	<b>64.0</b>	+3.2

1 Exchange rate assumptions: 90 yen/USD, 115 yen/Euro

2 Excludes the impact of the change in financial term. (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 ¥190 billion / operating margin before deduction of royalties = approximately 8%; amortization related to Kanebo Cosmetics: ¥26.5 billion

# Sales Outlook by Segment – FY2013

<Billion yen>

Consolidated Net Sales

By Segment<sup>1</sup>

1,270 <sup>Adjusted growth<sup>2</sup></sup> +4.1%

Reference:  
By Geographic Area<sup>1</sup>

		Adjusted growth <sup>2</sup>			Adjusted growth <sup>2</sup>
Beauty Care	560	+4.1%	Japan	956	+2.4%
Human Health Care	197	+3.9%	Asia	181	+13.1%
Fabric and Home Care	305	+4.5%	Americas	99	+10.0%
Chemical	242	+2.3%	Europe	117	+5.9%

<sup>1</sup> Sales are before elimination of transactions between segments or geographic areas.

<sup>2</sup> Excludes the impact of the change in financial term. (Please refer to slide 23 for details.)

# Sales Outlook – FY2013

## - Consumer Products Business in Japan -

<Billion yen>

	1st Half			Full Year		
	FY2012 Actual	<b>FY2013 Forecast</b>	Adjusted growth*	FY2012 Actual (9 months)	<b>FY2013 Forecast (12 months)</b>	Adjusted growth*
Beauty Care	203.6	<b>197.0</b>	+1.8%	312.6	<b>413.0</b>	+1.2%
Human Health Care	84.9	<b>81.0</b>	+0.5%	131.6	<b>173.0</b>	+1.6%
Fabric and Home Care	132.6	<b>120.0</b>	+3.6%	208.9	<b>273.0</b>	+3.2%
Consumer Products Business	421.1	<b>398.0</b>	+2.1%	653.1	<b>859.0</b>	+1.9%

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

# FY2013 Outlook by Segment/Geographic Area

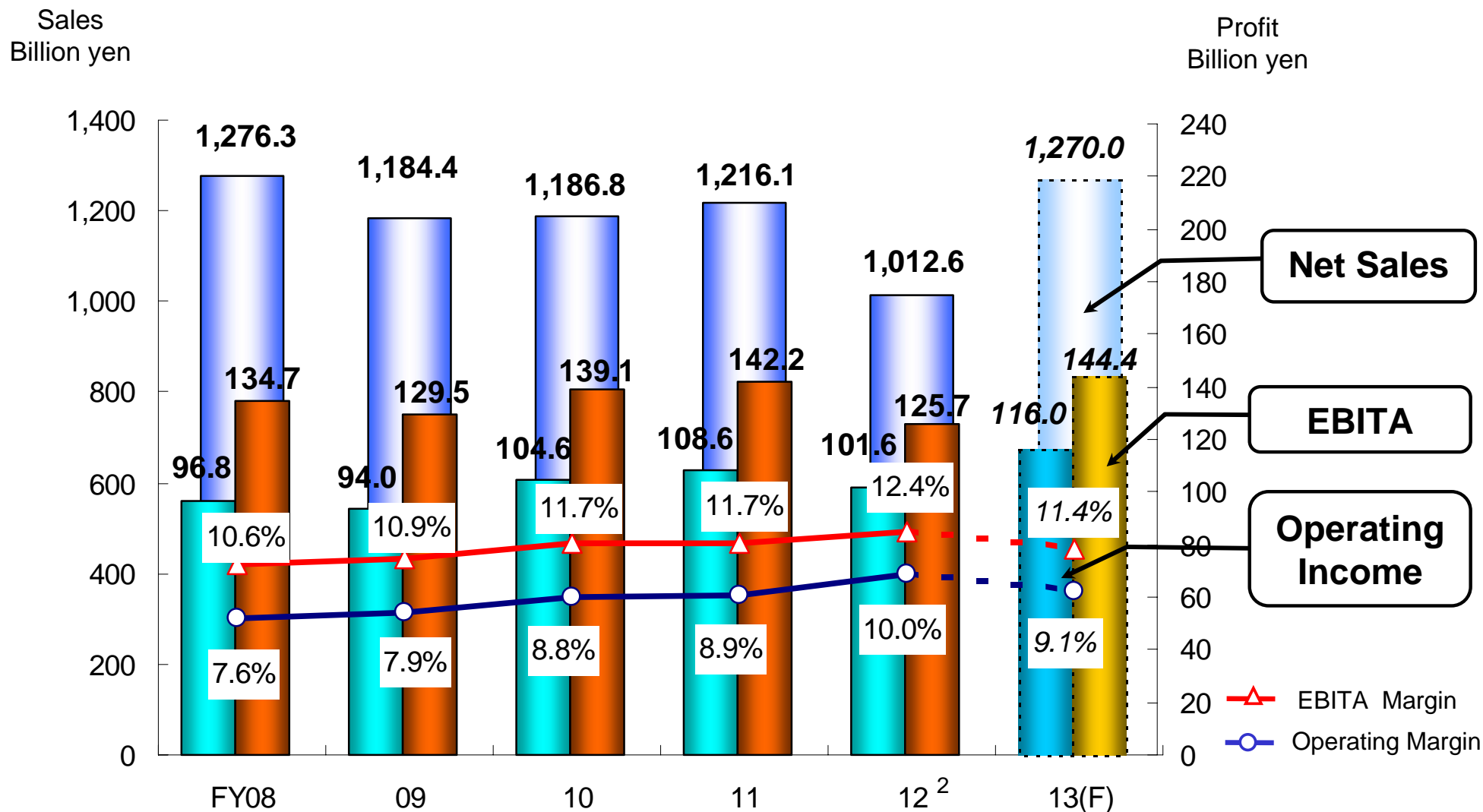
	Decrease in operating income	Increase in operating income
Increase in net sales	<div>CP<sup>1</sup> – Japan</div> <div>Chemical – Japan</div>	<div>CP<sup>1</sup> – Asia</div> <div>CP<sup>1</sup> – Americas</div> <div>CP<sup>1</sup> – Europe</div> <div>Chemical – Asia</div> <div>Chemical – Americas</div> <div>Chemical – Europe</div>
Decrease in net sales		

1: CP = Consumer Products

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

# Consolidated Net Sales/EBITA<sup>1</sup>/Operating Income

[Full Year]

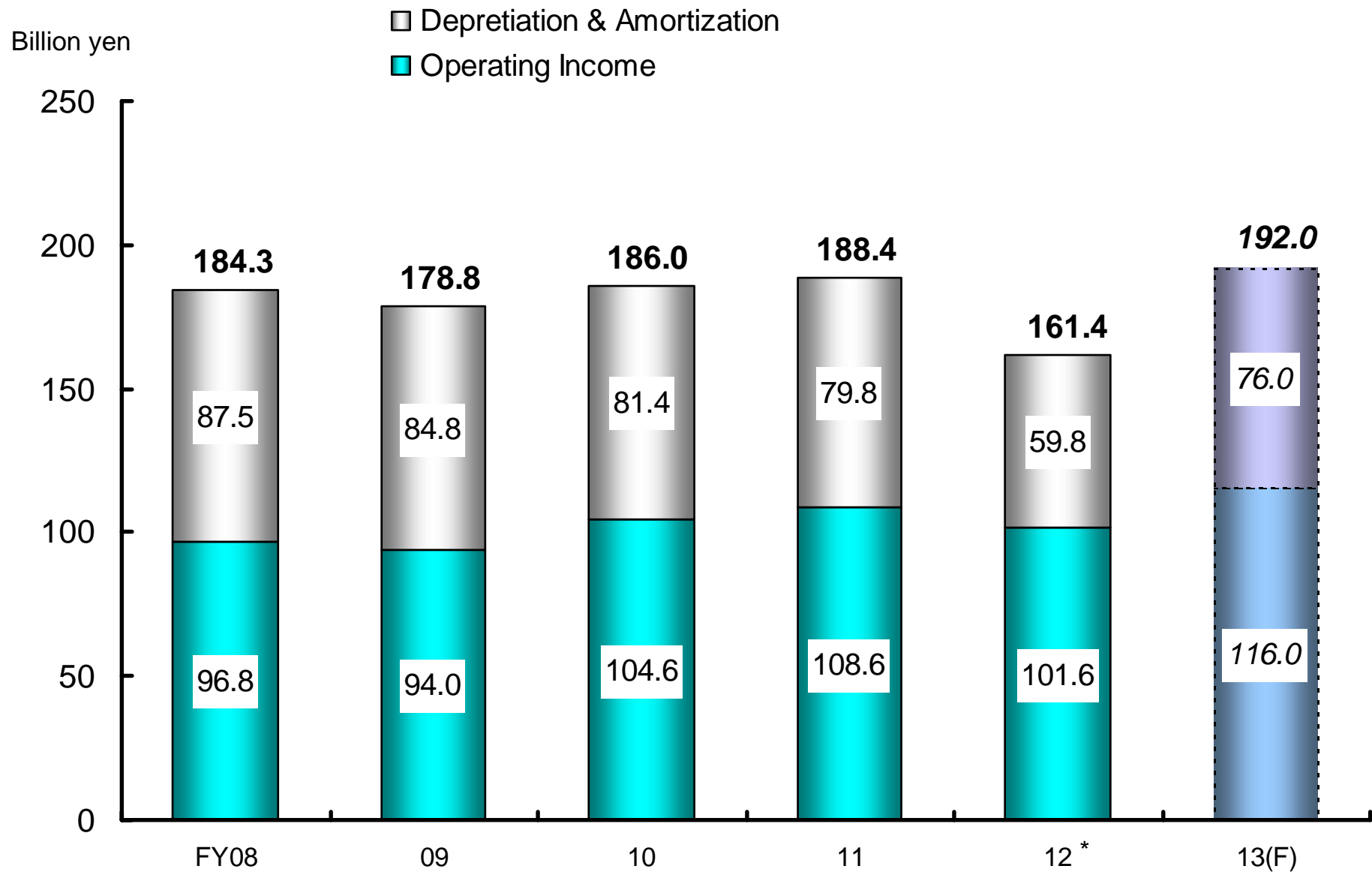


1 Operating income before amortization of goodwill and intellectual property rights related to M&A

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

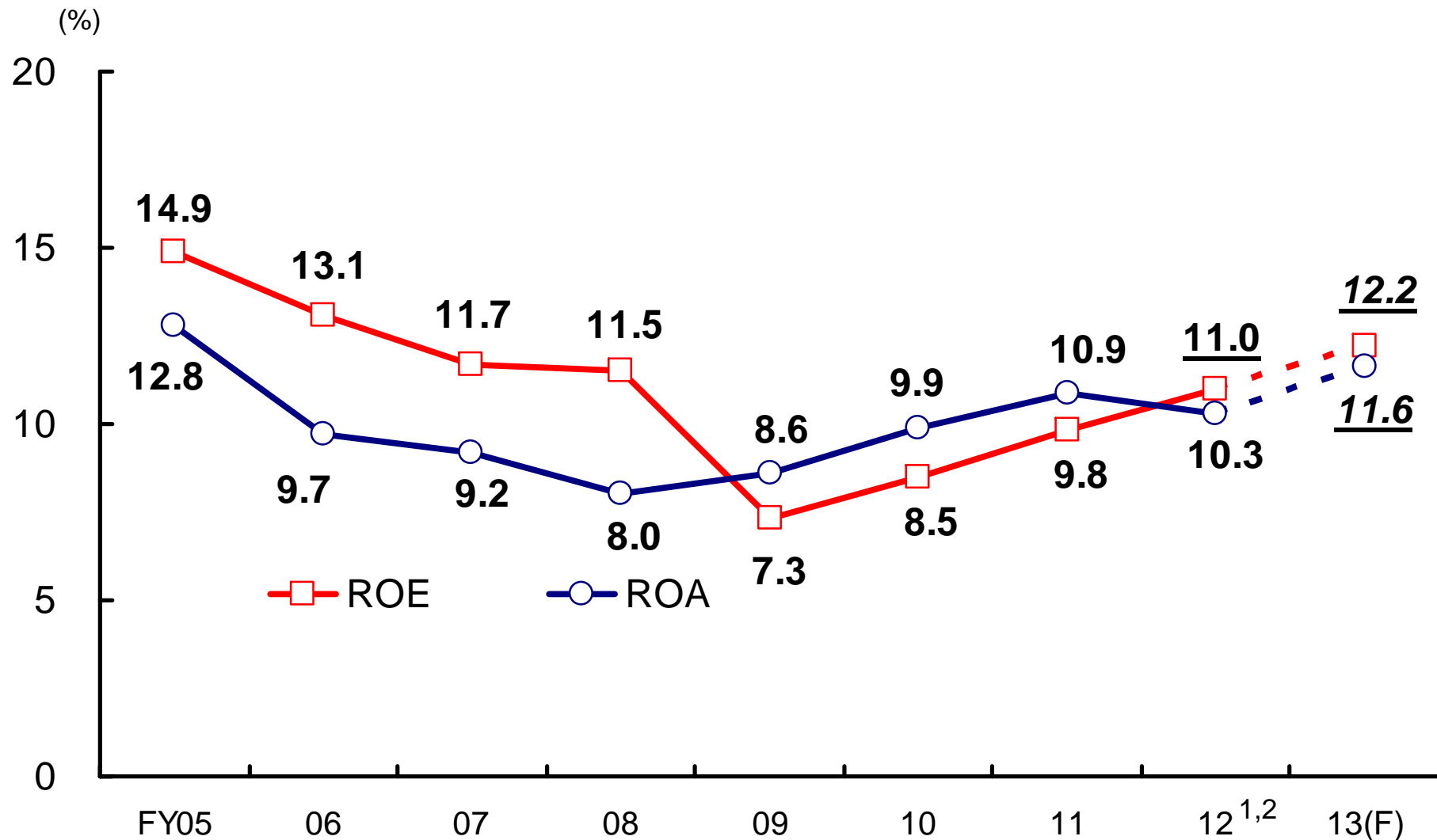


# EBITDA



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

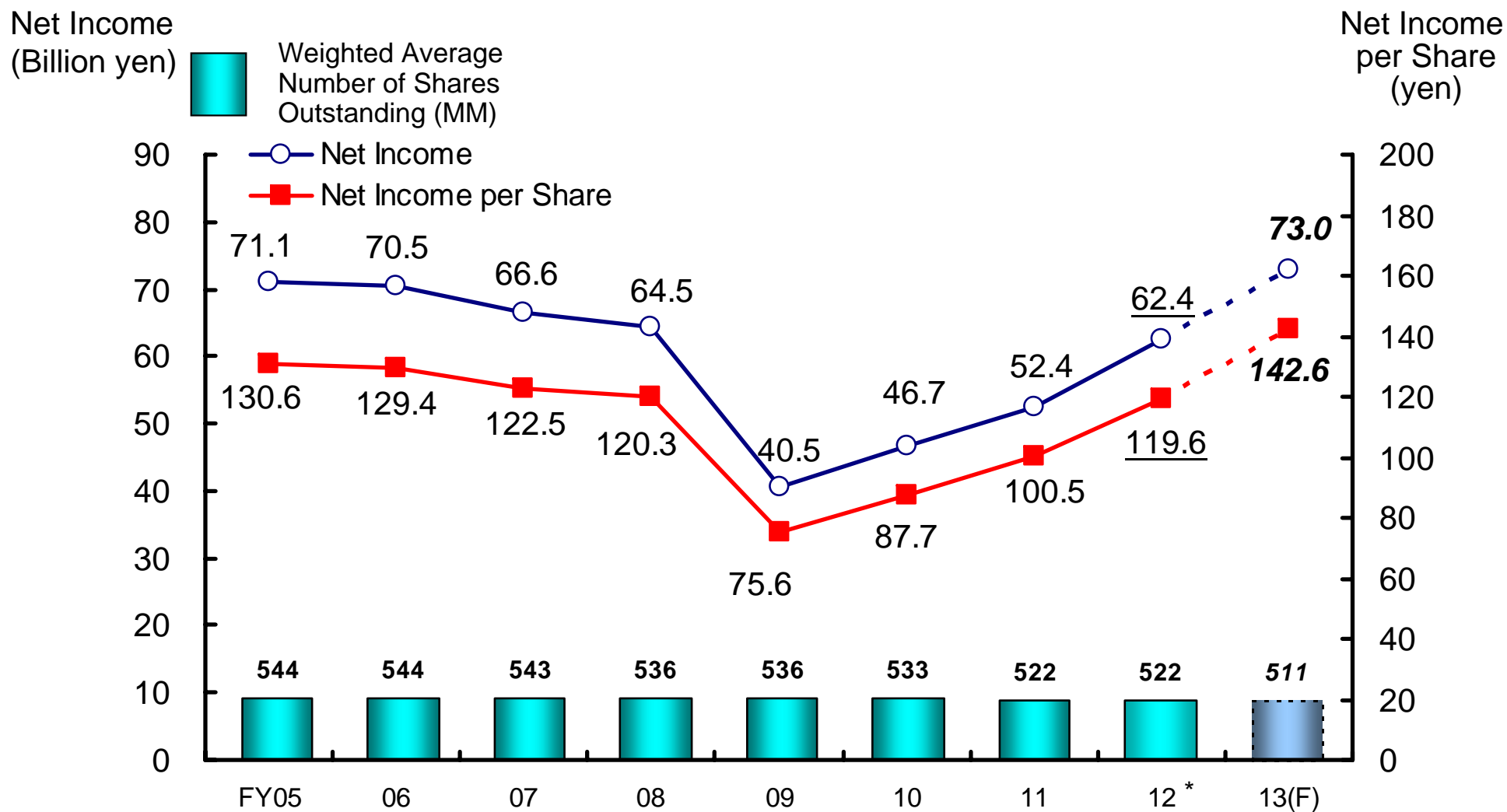
# ROE & ROA



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.

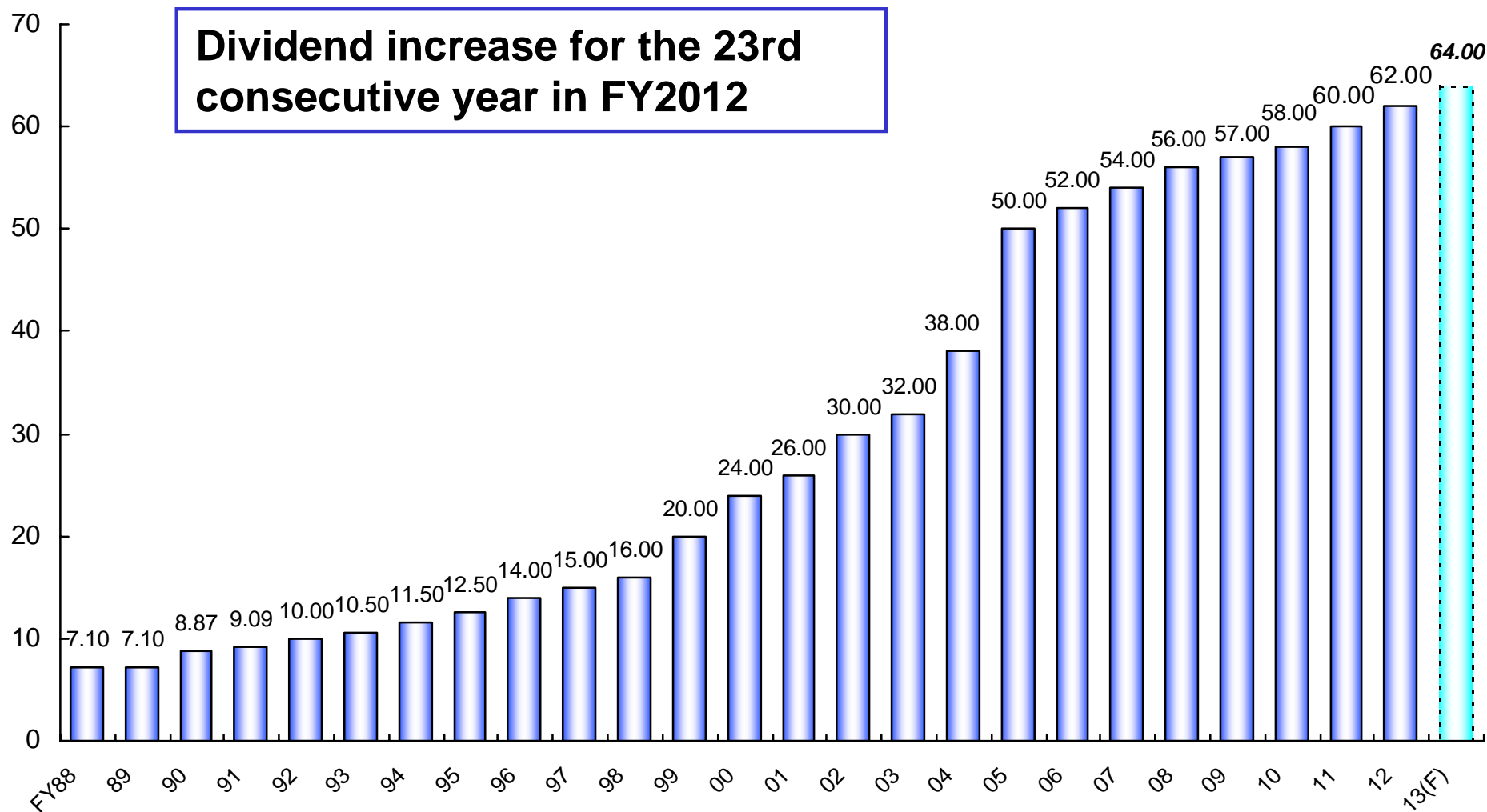
# Net Income per Share



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

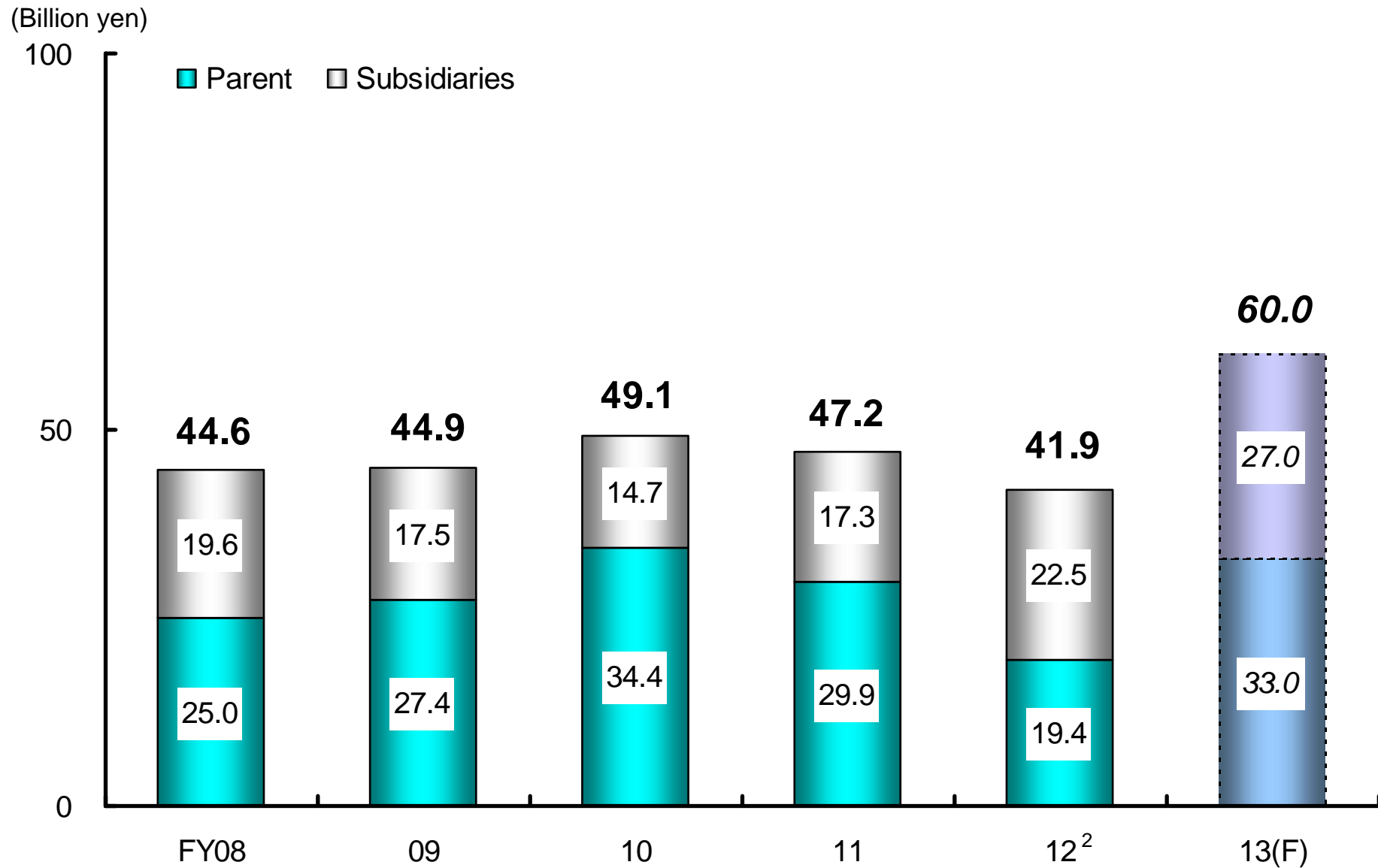
# Cash Dividends per Share

(Yen)



\*Impacts of share splits are retroactively reflected.

# Capital Expenditures



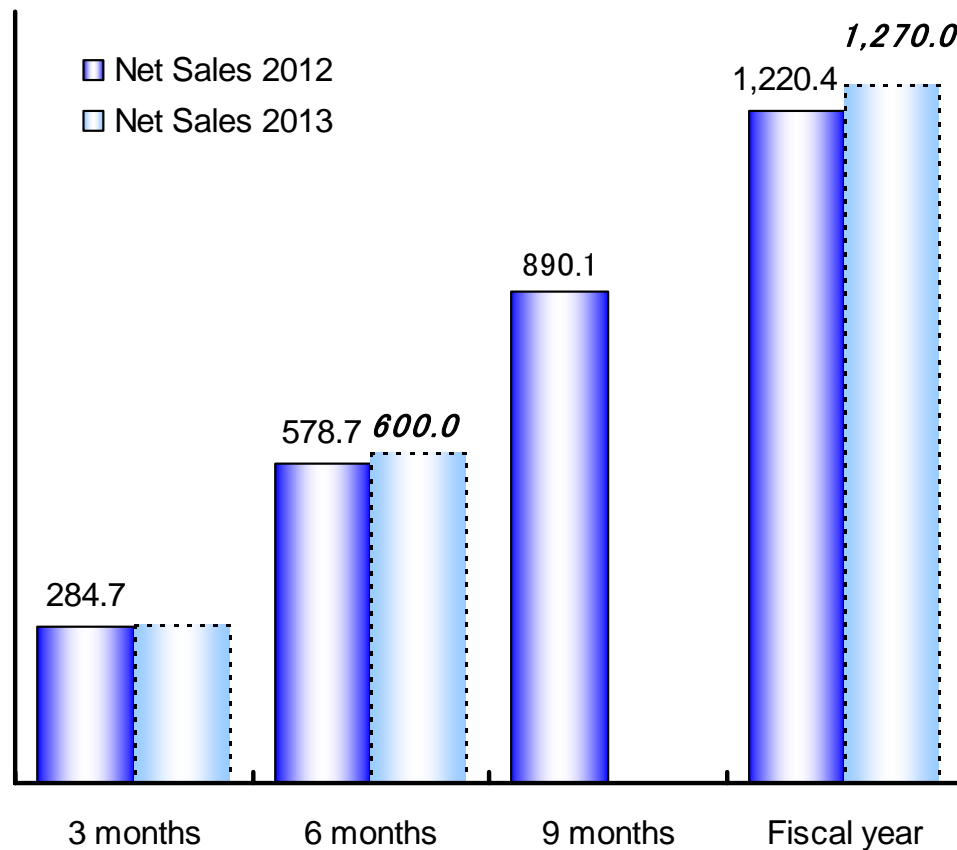
1 Includes long-term prepaid expenses.

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

# FY2013 Quarterly Consolidated Sales and Profit Forecast

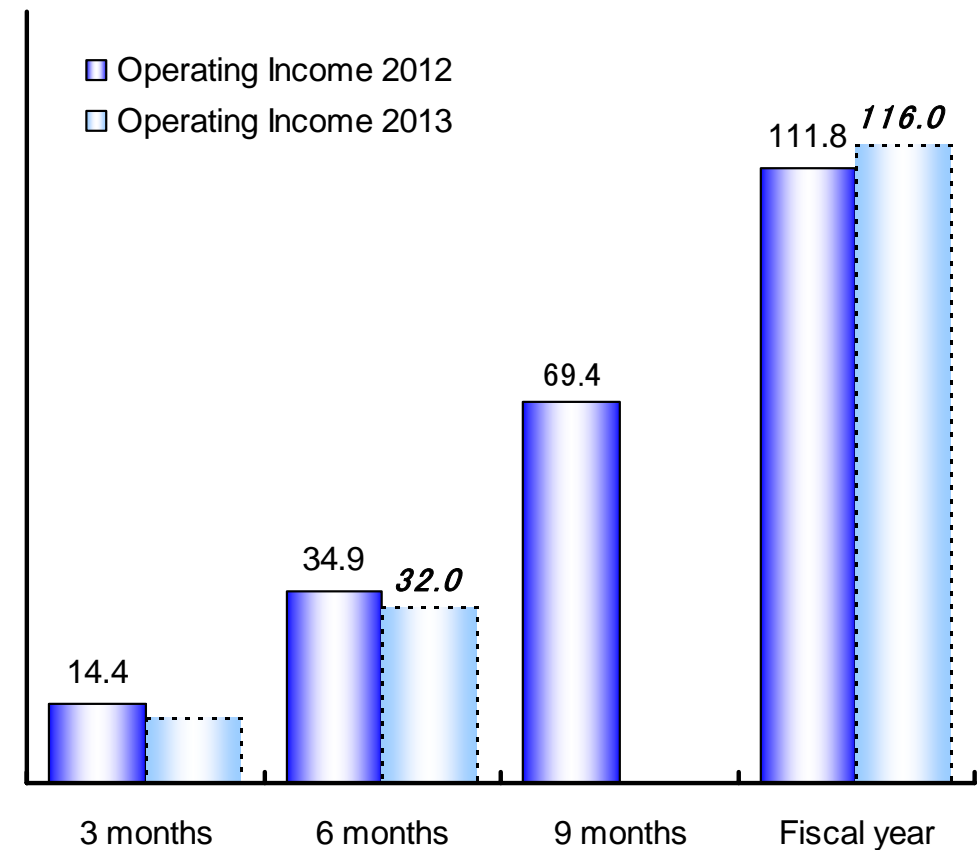
## Net Sales

(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.)

The Kao logo is centered on the page. It features the word "Kao" in a bold, sans-serif typeface. The letter "K" is a dark blue, while the letters "a" and "o" are a lighter, teal blue. The "a" has a distinctive shape with a small loop at the top.

Enriching lives, in harmony with nature.