

## Summary of Consolidated Business Results for the Six Months Ended June 30, 2014

Tokyo, July 29, 2014 - Kao Corporation today announced its consolidated business results for the six months ended June 30, 2014, the interim period of the fiscal year ending December 31, 2014. The following summary of the business results is unaudited and for reference only.

Ticker code: 4452

### Consolidated Financial Highlights

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

Jan. - Jun.	Six-month period				Fiscal year ended
	2014	2013	Growth	2014	Dec. 31, 2013
	Yen	Yen	%	U.S. dollars	Yen
Net sales	<b>665,940</b>	624,953	6.6	<b>6,569.4</b>	1,315,217
Operating income	<b>49,349</b>	42,944	14.9	<b>486.8</b>	124,656
Ordinary income	<b>51,463</b>	44,894	14.6	<b>507.7</b>	128,053
Net income	<b>31,646</b>	18,262	73.3	<b>312.2</b>	64,764
Comprehensive income	<b>22,988</b>	44,503	(48.3)	<b>226.8</b>	109,627
Total assets	<b>1,119,918</b>	1,060,283	5.6	<b>11,047.8</b>	1,133,276
Total net assets	<b>648,922</b>	593,723	9.3	<b>6,401.5</b>	642,640
Net worth <sup>1</sup>	<b>635,836</b>	579,808	9.7	<b>6,272.4</b>	628,709
Net worth ratio <sup>2</sup>	<b>56.8%</b>	54.7%	-	<b>56.8%</b>	55.5%
Net worth per share (Yen/US\$) <sup>3</sup>	<b>1,240.75</b>	1,132.28	9.6	<b>12.24</b>	1,227.54
Net income per share (Yen/US\$) <sup>4</sup>	<b>61.77</b>	35.41	74.4	<b>0.61</b>	126.03
Net income per share, fully diluted (Yen/US\$)	<b>61.69</b>	35.38	74.4	<b>0.61</b>	125.89
Net cash provided by operating activities	<b>57,026</b>	78,866	-	<b>562.6</b>	178,745
Net cash used in investing activities	<b>(27,734)</b>	(41,946)	-	<b>(273.6)</b>	(57,778)
Net cash used in financing activities	<b>(17,224)</b>	(50,703)	-	<b>(169.9)</b>	(67,459)
Cash and cash equivalents, end of period	<b>236,729</b>	158,523	-	<b>2,335.3</b>	227,598

Notes:

1. Net worth is net assets, excluding minority interests and stock acquisition rights.
2. The net worth ratio is defined as net worth divided by total assets.
3. Net worth per share is computed based on the number of shares outstanding at the end of the periods excluding treasury stock.
4. Net income per share is computed based on the weighted average number of shares outstanding during each respective period.
5. Number of issued shares outstanding at the end of the periods (common stock)

	June 30, 2014	December 31, 2013
Number of issued shares including treasury stock	516,000,000 shares	516,000,000 shares
Number of shares of treasury stock	3,539,606 shares	3,829,950 shares
6. Weighted average number of shares outstanding during the six months

	Ended June 30, 2014	Ended June 30, 2013
	512,324,245 shares	515,662,577 shares

**Consolidated Results by Segment**

Jan. - Jun.	Net sales				Operating income		
	Billions of yen		Growth %		Billions of yen		
	2014	2013	Like-for-like *		2014	2013	Change
Beauty Care	283.5	278.6	1.8	(0.2)	6.4	3.1	3.4
Human Health Care	109.6	99.6	10.0	9.5	7.2	6.7	0.6
Fabric and Home Care	148.2	138.5	7.0	7.3	23.1	23.7	(0.6)
Consumer Products Total	541.3	516.7	4.8	3.7	36.7	33.4	3.3
Chemical	145.2	125.9	15.4	11.4	12.6	9.4	3.2
Total	686.6	642.6	6.8	5.2	49.3	42.8	6.5
Reconciliations	(20.6)	(17.6)	-	-	0.0	0.1	(0.1)
Consolidated	665.9	625.0	6.6	4.8	49.3	42.9	6.4

Jan. - Jun.	Net sales				Operating income		
	Millions of U.S. dollars		Growth %		Millions of U.S. dollars		
	2014	2013	Like-for-like *		2014	2013	Change
Beauty Care	2,797.1	2,748.2	1.8	(0.2)	63.5	30.4	33.1
Human Health Care	1,081.2	982.7	10.0	9.5	71.2	65.7	5.5
Fabric and Home Care	1,461.7	1,366.2	7.0	7.3	227.7	233.5	(5.8)
Consumer Products Total	5,340.0	5,097.1	4.8	3.7	362.4	329.6	32.8
Chemical	1,432.8	1,242.0	15.4	11.4	124.3	92.9	31.4
Total	6,772.8	6,339.1	6.8	5.2	486.8	422.5	64.3
Reconciliations	(203.4)	(174.0)	-	-	0.1	1.2	(1.1)
Consolidated	6,569.4	6,165.1	6.6	4.8	486.8	423.6	63.2

\* Like-for-like growth rates exclude the currency translation effect related to translation of local currencies into Japanese yen.

**Consolidated Net Sales Composition**

	Billions of yen		Growth	Millions of U.S. dollars	
Jan. - Jun.	2014	2013	%	2014	2013
Consumer Products					
Beauty Care	200.5	200.3	0.1	1,977.7	1,975.7
Human Health Care	91.6	86.0	6.5	903.1	848.3
Fabric and Home Care	130.3	121.0	7.7	1,285.1	1,193.3
Total Japan	422.3	407.2	3.7	4,166.0	4,017.2
Asia	64.5	56.7	13.8	636.6	559.3
Americas *	38.2	34.3	11.4	377.2	338.7
Europe *	39.7	34.0	16.7	391.8	335.7
Eliminations	(23.5)	(15.6)	-	(231.6)	(153.8)
Total	541.3	516.7	4.8	5,340.0	5,097.1
Chemical					
Japan	65.7	59.8	10.0	648.6	589.5
Asia	54.5	40.8	33.8	537.8	402.0
Americas	23.1	19.8	16.5	227.7	195.5
Europe	35.8	30.5	17.5	353.6	300.9
Eliminations	(34.0)	(24.9)	-	(335.0)	(246.0)
Total	145.2	125.9	15.4	1,432.8	1,242.0
Total before Reconciliations	686.6	642.6	6.8	6,772.8	6,339.1
Reconciliations	(20.6)	(17.6)	-	(203.4)	(174.0)
Consolidated	665.9	625.0	6.6	6,569.4	6,165.1

\* As of January 2014, certain changes have been made in inter-company transactions among subsidiaries in the Consumer Products Business in the Americas and Europe. The rates of change based on the same transaction method that was used in the same period a year earlier would have increased 3.9% for the Americas and 9.3% for Europe.

**Reference: Consolidated Results by Geographic Area<sup>1</sup>**

Jan. - Jun.	Net sales				Operating income		
	Billions of yen		Growth %		Billions of yen		
	2014	2013	Like-for-like <sup>2</sup>		2014	2013	Change
Japan	<b>470.5</b>	452.0	4.1	4.1	<b>37.8</b>	34.2	3.5
Asia	<b>116.9</b>	95.6	22.2	19.9	<b>6.2</b>	5.8	0.4
Americas <sup>3</sup>	<b>61.3</b>	54.0	13.3	7.1	<b>1.5</b>	1.8	(0.3)
Europe <sup>3</sup>	<b>75.4</b>	64.4	17.1	5.2	<b>2.9</b>	1.9	1.0
Total	<b>724.0</b>	666.1	8.7	6.7	<b>48.3</b>	43.7	4.6
Reconciliations	<b>(58.1)</b>	(41.2)	-	-	<b>1.0</b>	(0.8)	1.8
Consolidated	<b>665.9</b>	625.0	6.6	4.8	<b>49.3</b>	42.9	6.4

Jan. - Jun.	Net sales				Operating income		
	Millions of U.S. dollars		Growth %		Millions of U.S. dollars		
	2014	2013	Like-for-like <sup>2</sup>		2014	2013	Change
Japan	<b>4,641.1</b>	4,459.3	4.1	4.1	<b>372.5</b>	337.5	35.0
Asia	<b>1,153.1</b>	943.4	22.2	19.9	<b>61.2</b>	57.4	3.8
Americas <sup>3</sup>	<b>604.3</b>	533.1	13.3	7.1	<b>14.3</b>	17.6	(3.3)
Europe <sup>3</sup>	<b>744.0</b>	635.4	17.1	5.2	<b>28.7</b>	18.7	10.1
Total	<b>7,142.5</b>	6,571.2	8.7	6.7	<b>476.7</b>	431.2	45.5
Reconciliations	<b>(573.1)</b>	(406.1)	-	-	<b>10.1</b>	(7.5)	17.7
Consolidated	<b>6,569.4</b>	6,165.1	6.6	4.8	<b>486.8</b>	423.6	63.2

*Notes:*

1. Information on consolidated results by geographic area is for reference.

2. Like-for-like growth rates exclude the currency translation effect related to translation of local currencies into Japanese yen.

3. As of January 2014, certain changes have been made in inter-company transactions among subsidiaries in the Consumer Products Business in the Americas and Europe. The rates of change based on the same transaction method that was used in the same period a year earlier would have increased 8.6% for the Americas (an increase of 2.6% excluding the effect of currency translation) and 13.2% for Europe (1.7% excluding the effect of currency translation.)

4. Net sales to foreign customers were 33.6% of net sales compared with 31.7% for the same period a year earlier.

**Forecast of Consolidated Results for the Fiscal Year Ending December 31, 2014**

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

	Fiscal Year ending December 31, 2014		
	Yen	Growth %	U.S. dollars
Net sales	1,390.0	5.7	13,712.1
Operating income	130.0	4.3	1,282.4
Ordinary income	133.0	3.9	1,312.0
Net income	75.0	15.8	739.9
Net income per share (Yen/US\$)*	147.54	17.1	1.46
Cash dividends per share (Yen/US\$)	68.00	-	0.67

\* Net income per share is computed based on the estimated weighted average number of shares outstanding during the fiscal year.

***Note for This News Release:***

*U.S. dollar amounts represent translations using the approximate exchange rate on June 30, 2014 of 101.37 yen = 1 U.S. dollar, 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. Qualitative Information on Business Results for the Six Months Ended June 30, 2014****(1) Description of Results of Operations**

Jan. – Jun.	(Billions of yen, except per share data)		
	Six-month period		
	2014	2013	Growth
Net sales	<b>665.9</b>	625.0	6.6%
Operating income	<b>49.3</b>	42.9	14.9%
Ordinary income	<b>51.5</b>	44.9	14.6%
Net income	<b>31.6</b>	18.3	73.3%
Net income per share (Yen)	<b>61.77</b>	35.41	74.4%
Net income per share, fully diluted (Yen)	<b>61.69</b>	35.38	74.4%

During the six months ended June 30, 2014, the global economy recovered moderately, although weakness was apparent in some sectors. In the Japanese economy, a moderate recovery trend continued as the pullback from the last-minute surge in demand associated with the consumption tax rate increase in April subsided. Personal consumption showed some improvement. The household and personal care products market in Japan, a key market for the Kao Group, grew by 4% on a value basis compared with the same period a year earlier, and a sense has emerged that the decline in consumer purchase prices had bottomed out. In addition, the cosmetics market in Japan grew by 2%.

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*,\* which emphasizes research and development geared to customers and consumers. The Kao Group also worked to the utmost to supply products responding to the last-minute surge in demand associated with the consumption tax rate increase, and strove to stimulate the market by launching numerous new and improved products after the consumption tax rate increase.

*\* 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."*

Regarding Kanebo Cosmetics brightening products containing the ingredient Rhododenol, for which a voluntary recall was announced on July 4, 2013, Kanebo Cosmetics has been conducting a thorough recall of the relevant products and the entire Kao Group is working to prevent a recurrence. In addition, the Kao Group has been wholeheartedly supporting the recovery and compensation of people who have experienced vitiligo-like symptoms.

Net sales increased 6.6% compared with the same period a year earlier to 665.9 billion yen.

Excluding the effect of currency translation, net sales would have increased 4.8%. Sales in the Consumer Products Business grew in Japan and Asia, and sales in the Chemical Business increased as the Kao Group worked to adjust selling prices in connection with higher prices for natural fats and oils used as raw materials and to increase sales volume.

Although profits were impacted by rising prices for raw materials, operating income increased 6.4 billion yen compared with the same period a year earlier to 49.3 billion yen and ordinary income increased 6.6 billion yen compared with the same period a year earlier to 51.5 billion yen, mainly due to the effect of increased sales of the Consumer Products Business in Japan and increased income from the Chemical Business. Due in part to expenses related to the voluntary recall totaling 5.6 billion yen that were recorded as an extraordinary loss in the same period a year earlier, net income increased 13.4 billion yen compared with the same period a year earlier to 31.6 billion yen.

Operating income before amortization of goodwill and other items related to acquisitions (EBITA) increased 5.3 billion yen compared with the same period a year earlier to 62.8 billion yen, which is equivalent to 9.4% of net sales.

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

	First quarter (Jan. – Mar.)	Second quarter (Apr. – Jun.)
Yen/U.S. dollar	102.87 (92.57)	102.16 (99.23)
Yen/Euro	140.94 (122.02)	140.13 (129.56)

*Note: Figures in parentheses represent the exchange rates for the same period a year earlier.*

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## Summary of Segment Information

### *Consolidated Results by Segment*

#### **Consumer Products Business**

Sales increased 4.8% compared with the same period a year earlier to 541.3 billion yen. Excluding the effect of currency translation, sales would have increased 3.7%.

In Japan, sales increased 3.7% to 422.3 billion yen. Sales grew as the Kao Group responded to changing consumer lifestyles and social issues such as the environment, health consciousness and the aging society, and enhanced proposal-based sales, among other measures, while working to supply products responding to the last-minute surge in demand associated with the consumption tax rate increase and striving to stimulate the market by launching numerous new and improved products after the consumption tax rate increase. On the other hand, sales of Kanebo Cosmetics decreased compared with the same period a year earlier, mainly due to the voluntary recall in 2013 and its associated impact.

In Asia, sales increased 13.8% to 64.5 billion yen. Excluding the effect of currency translation, sales would have increased 12.7%. Sales continued to grow as the Kao Group worked to collaborate with retailers, utilize wholesale channels, nurture products targeting the middle-class consumer segment and expand sales regions.

In the Americas, sales increased 11.4% to 38.2 billion yen. Excluding the effect of currency translation, sales would have increased 5.2%. Sales based on the same inter-company transaction method used in the same period a year earlier would have increased 3.9% (a decrease of 1.8% excluding the effect of currency translation). Excluding the effect of currency translation, sales of skin care products were flat, and sales of hair care products decreased compared with the same period a year earlier.

In Europe, sales increased 16.7% to 39.7 billion yen. Excluding the effect of currency translation, sales would have increased 5.3%. Sales based on the same inter-company transaction method used in the same period a year earlier would have increased 9.3% (a decrease of 1.3% excluding the effect of currency translation). Excluding the effect of currency translation, sales of hair care products decreased compared with the same period a year earlier.

Operating income increased 3.3 billion yen compared with the same period a year earlier to 36.7 billion yen, mainly due to the effect of increased sales in Japan.

*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.*

**News Release**

*Beauty Care Business*

Sales increased 1.8% compared with the same period a year earlier to 283.5 billion yen. Excluding the effect of currency translation, sales would have decreased 0.2%.

Sales of cosmetics decreased 2.7% compared with the same period a year earlier to 122.9 billion yen. Excluding the effect of currency translation, sales would have decreased 3.8%. In Japan, the Kao Group continued to work to reinforce focal brands in the market, which grew during the period. Despite growth in sales of *SOFINA Primavista* base makeup and *AUBE couture* makeup in counseling cosmetics, as well as renewed *KATE* makeup in self-selection cosmetics, sales decreased compared with the same period a year earlier, mainly due to the voluntary recall by Kanebo Cosmetics and its associated impact. Outside Japan, sales increased compared with the same period a year earlier, excluding the effect of currency translation.

Sales of skin care products increased compared with the same period a year earlier. In Japan, sales increased with strong performance by *Bioré* UV care products and facial cleanser, *Bioré U* body cleanser and *Curél* derma care products, including new and improved products. In Asia, *Bioré* performed steadily and sales grew. In the Americas, sales excluding the effect of currency translation were flat, given a tough year-on-year comparison due in part to the launch of improved *Jergens* hand and body lotion products in the previous year.

Sales of hair care products were flat compared with the same period a year earlier. In Japan, although hair coloring products were impacted by market contraction, sales increased with strong performance by shampoos, conditioners and hair styling products, including the contribution from new products. In Asia, sales decreased compared with the same period a year earlier amid severe competitive conditions. In the Americas and Europe, the Kao Group launched an improved styling product line from *John Frieda*, but sales excluding the effect of currency translation decreased compared with the same period a year earlier in the severe competitive environment.

Operating income increased 3.4 billion yen compared with the same period a year earlier to 6.4 billion yen, mainly due to the effect of increased sales and a decrease in depreciation and amortization expenses. Operating income before amortization of goodwill and other items related to acquisitions (EBITA) increased 2.2 billion yen compared with the same period a year earlier to 19.8 billion yen, which is equivalent to 7.0% of sales.

*Human Health Care Business*

Sales increased 10.0% compared with the same period a year earlier to 109.6 billion yen. Excluding the effect of currency translation, sales would have increased 9.5%.

Sales of food and beverage products decreased compared with the same period a year earlier



in a severe market environment, although for the *Healthya* brand of functional drinks that promote body fat utilization, the Kao Group strengthened its promotion of the function of tea catechins in increasing the fat-burning ability of its green tea and launched an improved coffee drink with enhanced flavor.

Sales of sanitary products increased substantially compared with the same period a year earlier. The *Laurier* brand of sanitary napkins increased its market share in Japan due to growth in sales of high-value-added products such as *Laurier F*, which protects skin from dampness and chafing, and *Laurier Slim Guard*, which offers both high absorbency and comfort. *Laurier* sales also increased steadily in Asia.

*Merries* baby diapers continued to sell strongly in Japan, and sales also grew in China and Russia. In China, the Kao Group worked to expand sales of locally produced products launched last year targeting middle-class consumers.

Sales of personal health products increased compared with the same period a year earlier. Sales of oral care products increased compared with the same period a year earlier, due in part to the launch of improved products and nurturing of high-value-added products. Sales of bath additives were flat, due in part to stiff competition, but sales of *MegRhythm* steam thermo power pads increased substantially.

Operating income increased 0.6 billion yen compared with the same period a year earlier to 7.2 billion yen due to more efficient management of expenses in addition to the impact of increased sales.

#### *Fabric and Home Care Business*

Sales increased 7.0% compared with the same period a year earlier to 148.2 billion yen. Excluding the effect of currency translation, sales would have increased 7.3%.

Sales of fabric care products increased compared with the same period a year earlier. 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 *Ultra Attack Neo* ultra-concentrated liquid laundry detergent, and in May launched an improved version of *Attack Neo Antibacterial EX W Power* ultra-concentrated liquid laundry detergent, containing more of an anti-mold agent. For *Attack Reset* powder laundry detergent, the Kao Group stimulated the powder laundry detergent market with the launch of a refill product that reduces environmental impact. Due in part to these activities, sales of both liquid and powder laundry detergent increased. In fabric softeners, the Kao Group launched *Humming Fine* with a deodorant effect that lasts for 24 hours, and both it and *Flair Fragrance* performed well. *Wide Haiter EX Power*, a fabric bleach for color garments with a powerful deodorizing function, performed strongly. In Asia, sales increased compared with the same period a year

earlier. For *Attack* laundry detergent, sales increased in Indonesia due in part to the launch of a powder detergent for hand washing, and sales of liquid laundry detergent with a strengthened antibacterial function that was launched last year increased in Taiwan and Hong Kong.

Sales of home care products increased compared with the same period a year earlier. In Japan, *CuCute* dishwashing detergent and *Kitchen Haiter* bleach performed well. Sales of household cleaners increased due to the contribution from *Bath Magiclean Antibacterial Deodorizer Plus* and *Toilet Magiclean Aroma Deodorizer*. In addition, sales of *Quickle Wiper* household mop kits and sheets grew.

Operating income decreased 0.6 billion yen compared with the same period a year earlier to 23.1 billion yen due in part to rising prices of raw materials and aggressively increased marketing and other expenses, despite the Kao Group's cost reduction activities in addition to the effect of increased sales.

### **Chemical Business**

Sales increased 15.4% compared with the same period a year earlier to 145.2 billion yen. Excluding the effect of currency translation, sales would have increased 11.4%.

In Japan, demand increased in certain customer industries, including export-related industries due to the depreciation of the yen and those related to reconstruction following the Great East Japan Earthquake. Conditions remained firm for customer industries in the Americas, and signs of an economic recovery emerged in Europe.

In oleo chemicals, the Kao Group worked to increase sales volume of fatty alcohols, for which it expanded its facilities in 2013, and to adjust selling prices in connection with higher prices for natural fats and oils used as raw materials. 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. Sales of specialty chemicals, which were impacted by structural changes in the personal computer market, were basically unchanged compared with the same period a year earlier.

Operating income increased 3.2 billion yen compared with the same period a year earlier to 12.6 billion yen, despite the impact of higher prices for natural fats and oils used as raw materials, due to the effect of increased sales from growth in sales volume and cost reduction activities.

**(2) Description of Financial Condition****Summary of Consolidated Financial Condition**

	Billions of yen			Millions of U.S. dollars
	<b>1H/FY2014</b> <b>Jun. 30, 2014</b>	<b>FY2013</b> <b>Dec. 31, 2013</b>	<b>Incr./(Dcr.)</b>	<b>1H/FY2014</b> <b>Jun. 30, 2014</b>
Total assets	<b>1,119.9</b>	1,133.3	(13.4)	<b>11,047.8</b>
Total net assets	<b>648.9</b>	642.6	6.3	<b>6,401.5</b>
Net worth ratio	<b>56.8%</b>	55.5%	-	<b>56.8%</b>
Net worth per share (Yen/US\$)	<b>1,240.75</b>	1,227.54	13.21	<b>12.24</b>
Total debt	<b>101.3</b>	101.4	(0.1)	<b>998.8</b>

**Summary of Consolidated Cash Flows**

	Billions of yen			Millions of U.S. dollars
	<b>1H/FY2014</b>	<b>1H/FY2013</b>	<b>Incr./(Dcr.)</b>	<b>1H/FY2014</b>
Net cash provided by operating activities	<b>57.0</b>	78.9	(21.8)	<b>562.6</b>
Net cash used in investing activities	<b>(27.7)</b>	(41.9)	14.2	<b>(273.6)</b>
Free cash flow*	<b>29.3</b>	36.9	(7.6)	<b>289.0</b>
Net cash used in financing activities	<b>(17.2)</b>	(50.7)	33.5	<b>(169.9)</b>

\* Free cash flow is the sum of net cash provided by operating activities and net cash used in investing activities.

Total assets decreased 13.4 billion yen from the end of fiscal 2013 to 1,119.9 billion yen. The principal increases in assets were a 34.5 billion yen increase in short-term investments, a 10.0 billion yen increase in merchandise and finished goods, a 6.1 billion yen increase in raw materials and supplies and a 9.1 billion yen increase in property, plant and equipment. The principal decreases in assets were a 26.9 billion yen decrease in cash and time deposits, a 28.8 billion yen decrease in notes and accounts receivable – trade and a 14.3 billion yen decrease in intangible assets due to the progress of amortization of trademarks and other intellectual property rights and goodwill.

Total liabilities decreased 19.6 billion yen from the end of fiscal 2013 to 471.0 billion yen. The principal increase in liabilities was a 7.2 billion yen increase in notes and accounts payable – trade. The principal decreases in liabilities were a 16.7 billion yen decrease in income taxes payable and a 6.4 billion yen decrease in other current liabilities, which includes accrued expenses and others.

Total net assets increased 6.3 billion yen from the end of fiscal 2013 to 648.9 billion yen. The principal increase in net assets was net income totaling 31.6 billion yen. The principal

decreases in net assets were foreign currency translation adjustments of 8.8 billion yen and payments of dividends from retained earnings totaling 16.4 billion yen.

As a result, the net worth ratio (defined as net worth divided by total assets) was 56.8% compared with 55.5% at the end of fiscal 2013.

Net cash provided by operating activities totaled 57.0 billion yen. The principal increases in net cash were income before income taxes and minority interests of 50.4 billion yen, depreciation and amortization of 38.5 billion yen, change in trade receivables of 27.3 billion yen and change in trade payables of 7.0 billion yen. The principal decreases in net cash were change in inventories of 20.1 billion yen, change in accounts payable – other and accrued expenses of 12.7 billion yen and income taxes paid of 29.6 billion yen.

Net cash used in investing activities totaled 27.7 billion yen. This primarily consisted of purchase of property, plant and equipment of 23.1 billion yen.

Free cash flow, the sum of net cash provided by operating activities and net cash used in investing activities, was 29.3 billion yen.

Net cash used in financing activities totaled 17.2 billion yen. The principal decrease in net cash was 17.5 billion yen for payments of cash dividends, including to minority shareholders.

The balance of cash and cash equivalents at June 30, 2014 increased 9.1 billion yen compared with the end of fiscal 2013 to 236.7 billion yen.

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**(3) Description of Information on Outlook, Including Forecasts of Consolidated Results****Revised Forecast of Consolidated Results for the Fiscal Year Ending December 31, 2014**

	(Billions of yen, except where noted)				
	Net Sales	Operating Income	Ordinary Income	Net Income	Net Income per Share (Yen)
Previous forecast (A)	1,370.0	130.0	133.0	75.0	146.40
Revised forecast (B)	1,390.0	130.0	133.0	75.0	147.54
Change (B-A)	20.0	0.0	0.0	0.0	-
Percentage change	1.5%	0.0%	0.0%	0.0%	-
Reference: Actual results for the fiscal year ended December 31, 2013	1,315.2	124.7	128.1	64.8	126.03

A continuing moderate recovery is forecast for the global economy, although there are concerns about the risk of a downturn due to factors including the impact of the tapering of quantitative easing in the United States, the public debt problem in Europe and the economic outlook in emerging nations. Moreover, instability persists in price trends for natural fats and oils and other raw materials. In Japan, although economic recovery is expected to continue, underpinned by the effects of economic measures, the outlook for the operating environment remains unclear.

Amid these circumstances, the Kao Group will promote “Yoki-Monozukuri,” which emphasizes research and development geared to customers and consumers, and work for both sustained “profitable growth” through the development of high-value-added products and “contribution to the sustainability of the world” by helping to resolve social issues through its business activities and conducting social responsibility activities as it aims to become a company with a global presence.

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.

In addition, during the fiscal year the Kao Group will proactively invest for global business development to achieve the Kao Group Mid-term Plan 2015 (K15).

In the forecast of consolidated results for the fiscal year, after reflecting factors including business results for the six months ended June 30, 2014 and changes in raw material prices, net sales have been revised but figures for income are unchanged.

The main exchange rates used in the forecast of consolidated results are 101 yen per U.S. dollar and 138 yen per euro.

At a meeting of its Board of Directors held on July 29, 2014, Kao Corporation resolved to repurchase shares of the Company's stock, up to a maximum of 13 million shares or 50 billion yen, from July 30 to October 24, 2014, to improve capital efficiency and increase returns to shareholders.

## **2. Items Related to Summary Information (Notes)**

**(1) Changes in material subsidiaries during this quarterly period:** None

**(2) Accounting procedures specific to the preparation of quarterly consolidated financial statements:** None

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

**Consolidated Balance Sheet***Millions of yen*

	1H/FY2014 Jun. 30, 2014	FY2013 Dec. 31, 2013
<b>Assets</b>		
<b>Current assets</b>		
Cash and time deposits	99,374	126,314
Notes and accounts receivable - trade	153,044	181,882
Short-term investments	124,630	90,145
Merchandise and finished goods	109,455	99,453
Work in process	12,748	11,340
Raw materials and supplies	34,420	28,315
Other	53,884	58,185
Allowance for doubtful receivables	(1,573)	(1,669)
Total current assets	<b>585,982</b>	<b>593,965</b>
<b>Fixed assets</b>		
Property, plant and equipment		
Property, plant and equipment	1,217,912	1,201,853
Accumulated depreciation	(931,575)	(924,569)
Total property, plant and equipment	286,337	277,284
Intangible assets		
Goodwill	145,185	152,286
Trademarks	21,821	28,498
Other	11,280	11,834
Total intangible assets	178,286	192,618
Investments and other assets		
Investments and other assets	69,972	70,143
Allowance for doubtful receivables	(659)	(734)
Total investments and other assets	69,313	69,409
Total fixed assets	<b>533,936</b>	<b>539,311</b>
<b>Total assets</b>	<b>1,119,918</b>	<b>1,133,276</b>

**Consolidated Balance Sheet***Millions of yen*

	1H/FY2014 Jun. 30, 2014	FY2013 Dec. 31, 2013
<b>Liabilities</b>		
<b>Current liabilities</b>		
Notes and accounts payable - trade	123,235	115,997
Short-term loans	1,154	1,278
Current portion of long-term loans	40,009	20,009
Income taxes payable	15,594	32,322
Other	162,296	168,708
Total current liabilities	<b>342,288</b>	<b>338,314</b>
<b>Long-term liabilities</b>		
Bonds	50,000	50,000
Long-term loans	10,088	30,094
Liability for employee retirement benefits	46,674	48,847
Other	21,946	23,381
Total long-term liabilities	<b>128,708</b>	<b>152,322</b>
<b>Total liabilities</b>	<b>470,996</b>	<b>490,636</b>
<b>Net assets</b>		
<b>Shareholders' equity</b>		
Common stock	85,424	85,424
Capital surplus	109,569	109,561
Retained earnings	486,639	471,383
Treasury stock, at cost	(8,583)	(9,397)
Total shareholders' equity	<b>673,049</b>	<b>656,971</b>
<b>Accumulated other comprehensive income</b>		
Unrealized gain on available-for-sale securities	4,786	4,733
Deferred gain (loss) on derivatives under hedge accounting	3	12
Foreign currency translation adjustments	(37,212)	(28,416)
Post retirement liability adjustments for foreign consolidated subsidiaries	(4,789)	(4,590)
Total accumulated other comprehensive income	<b>(37,212)</b>	<b>(28,261)</b>
<b>Stock acquisition rights</b>	<b>1,123</b>	<b>1,120</b>
<b>Minority interests</b>	<b>11,962</b>	<b>12,810</b>
<b>Total net assets</b>	<b>648,922</b>	<b>642,640</b>
<b>Total liabilities and net assets</b>	<b>1,119,918</b>	<b>1,133,276</b>



**Consolidated Statement of Income***Millions of yen*

	1H/FY2014 Jan. - Jun.	1H/FY2013 Jan. - Jun.
<b>Net sales</b>	<b>665,940</b>	<b>624,953</b>
Cost of sales	299,677	275,988
<b>Gross profit</b>	<b>366,263</b>	<b>348,965</b>
Selling, general and administrative expenses	316,914	306,021
<b>Operating income</b>	<b>49,349</b>	<b>42,944</b>
Non-operating income		
Interest income	402	456
Dividend income	109	96
Equity in earnings of nonconsolidated subsidiaries and affiliates	987	1,135
Foreign currency exchange gain	-	339
Other	1,917	1,511
Total non-operating income	3,415	3,537
Non-operating expenses		
Interest expense	563	735
Foreign currency exchange loss	546	-
Other	192	852
Total non-operating expenses	1,301	1,587
<b>Ordinary income</b>	<b>51,463</b>	<b>44,894</b>
Extraordinary gain		
Gain on sales of fixed assets	60	33
Gain on transfer of business	-	350
Other	16	412
Total extraordinary gain	76	795
Extraordinary loss		
Loss on sales/disposals of fixed assets	1,074	1,376
Loss related to cosmetics	-	5,600
Other	85	358
Total extraordinary loss	1,159	7,334
<b>Income before income taxes and minority interests</b>	<b>50,380</b>	<b>38,355</b>
Income taxes		
Income taxes - current	12,969	18,879
Income taxes - deferred	5,205	423
Total income taxes	18,174	19,302
<b>Income before minority interests</b>	<b>32,206</b>	<b>19,053</b>
Minority interests	560	791
<b>Net income</b>	<b>31,646</b>	<b>18,262</b>

**Consolidated Statement of Comprehensive Income***Millions of yen*

	1H/FY2014	1H/FY2013
	Jan. - Jun.	Jan. - Jun.
<b>Income before minority interests</b>	<b>32,206</b>	<b>19,053</b>
Other comprehensive income		
Unrealized gain (loss) on available-for-sale securities	(4)	1,372
Foreign currency translation adjustments	(9,049)	26,924
Share in other comprehensive income of associates applied for equity method	42	201
Post retirement liability adjustments for foreign consolidated subsidiaries	(207)	(3,047)
Other comprehensive income	(9,218)	25,450
<b>Comprehensive income</b>	<b>22,988</b>	<b>44,503</b>
Attributable to:		
Shareholders of Kao Corporation	22,694	42,759
Minority interests	294	1,744

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

	1H/FY2014	1H/FY2013
	Jan. - Jun.	Jan. - Jun.
Freight/warehouse	38,969	36,009
Advertising	49,137	44,814
Sales promotion	34,740	34,089
Salaries and bonuses	66,301	66,087
Research and development	26,217	24,542

**Consolidated Statement of Cash Flows***Millions of yen*

	1H/FY2014 Jan. - Jun.	1H/FY2013 Jan. - Jun.
<b>Operating activities:</b>		
Income before income taxes and minority interests	50,380	38,355
Adjustments for:		
Depreciation and amortization	38,483	37,177
Interest and dividend income	(512)	(552)
Interest expense	563	735
Unrealized foreign currency exchange (gain) loss	745	(3,083)
Equity in (earnings) losses of nonconsolidated subsidiaries and affiliates	(987)	(1,135)
(Gain) loss on sales and retirement of fixed assets	1,014	1,343
(Gain) loss on transfer of business	-	(350)
Change in trade receivables	27,281	10,467
Change in inventories	(20,138)	(2,493)
Change in trade payables	6,967	1,493
Change in accounts payable - other and accrued expenses	(12,666)	3,918
Other, net	(6,364)	5,337
Subtotal	84,766	91,212
Interest and cash dividends received	2,397	2,506
Interest paid	(570)	(775)
Income taxes paid	(29,567)	(14,077)
<b>Net cash provided by operating activities</b>	<b>57,026</b>	<b>78,866</b>
<b>Investing activities:</b>		
Payments into time deposits	(19)	(4,802)
Purchase of short-term investments	-	(7,998)
Purchase of property, plant and equipment	(23,091)	(23,964)
Purchase of intangible assets	(1,237)	(3,050)
Payments for long-term prepaid expenses	(1,821)	(2,558)
Change in short-term loans, net	89	674
Payments for long-term loans	(178)	(204)
Purchase of investments in subsidiaries resulting in change in scope of consolidation	-	(891)
Other, net	(1,477)	847
<b>Net cash used in investing activities</b>	<b>(27,734)</b>	<b>(41,946)</b>
<b>Financing activities:</b>		
Change in short-term loans, net	(59)	(2,222)
Proceeds from issuance of bonds	-	50,000
Redemption of bonds	-	(50,000)
Purchase of treasury stock	(15)	(30,017)
Payments of cash dividends	(16,395)	(17,391)
Payments of cash dividends to minority shareholders	(1,071)	(1,161)
Other, net	316	88
<b>Net cash used in financing activities</b>	<b>(17,224)</b>	<b>(50,703)</b>
<b>Translation adjustments on cash and cash equivalents</b>	<b>(2,937)</b>	<b>11,248</b>
<b>Net increase (decrease) in cash and cash equivalents</b>	<b>9,131</b>	<b>(2,535)</b>
<b>Cash and cash equivalents, beginning of period</b>	<b>227,598</b>	<b>160,435</b>
<b>Cash and cash equivalents from newly consolidated subsidiaries, increase</b>	<b>-</b>	<b>623</b>
<b>Cash and cash equivalents, end of period</b>	<b>236,729</b>	<b>158,523</b>

**Consolidated Segment Information**

## Major Products by Reportable Segment

Reportable Segments		Major Products	
Consumer Products Business	Beauty Care Business	Cosmetics	Counseling cosmetics, self-selection cosmetics
		Skin care products	Soaps, facial cleansers, body cleansers
		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

**Consolidated Segment Information***Millions of yen*

1H/FY2014 Jan. - Jun.	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	283,538	109,603	148,175	541,316	124,624	665,940	-	665,940
Intersegment sales	-	-	-	-	20,615	20,615	(20,615)	-
<b>Total</b>	283,538	109,603	148,175	541,316	145,239	686,555	(20,615)	665,940
<b>Operating income</b>	6,436	7,219	23,082	36,737	12,605	49,342	7 *	49,349
% of net sales	2.3	6.6	15.6	6.8	8.7	7.2	-	7.4

1H/FY2013 Jan. - Jun.	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	278,584	99,616	138,494	516,694	108,259	624,953	-	624,953
Intersegment sales	-	-	-	-	17,638	17,638	(17,638)	-
<b>Total</b>	278,584	99,616	138,494	516,694	125,897	642,591	(17,638)	624,953
<b>Operating income</b>	3,081	6,658	23,668	33,407	9,418	42,825	119 *	42,944
% of net sales	1.1	6.7	17.1	6.5	7.5	6.7	-	6.9

\* Reconciliation of operating income includes elimination of intersegment inventory transactions.

**Significant Subsequent Event**

At a meeting held on July 29, 2014, the Board of Directors resolved to purchase the Company's stock, up to a maximum of 13.0 million shares or 50.0 billion yen, from July 30 to October 24, 2014, in accordance with Article 156 of the Corporation Law applicable pursuant to Article 165, paragraph 3 of the said Law.