

# FY2004 Highlights

**April 21, 2005**

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This is a translation of materials used for the analysts meeting in Japan of April 21, 2005.

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

<http://www.kao.co.jp/en/ir/analystmtg/index.html>

These presentation materials contain forward-looking statements that are based on management's estimates, assumptions and projections as of April 21, 2005. Certain factors, which include, but are not limited to, the risks and uncertainty associated with the worldwide economy, competitive activity and currency fluctuation, could cause actual results to differ materially from expectations.

# Agenda

✧ **Summary of FY2004 Results**

✧ **Growth Strategies**

✧ **FY2005 Forecast**

# Summary of FY2004 Results

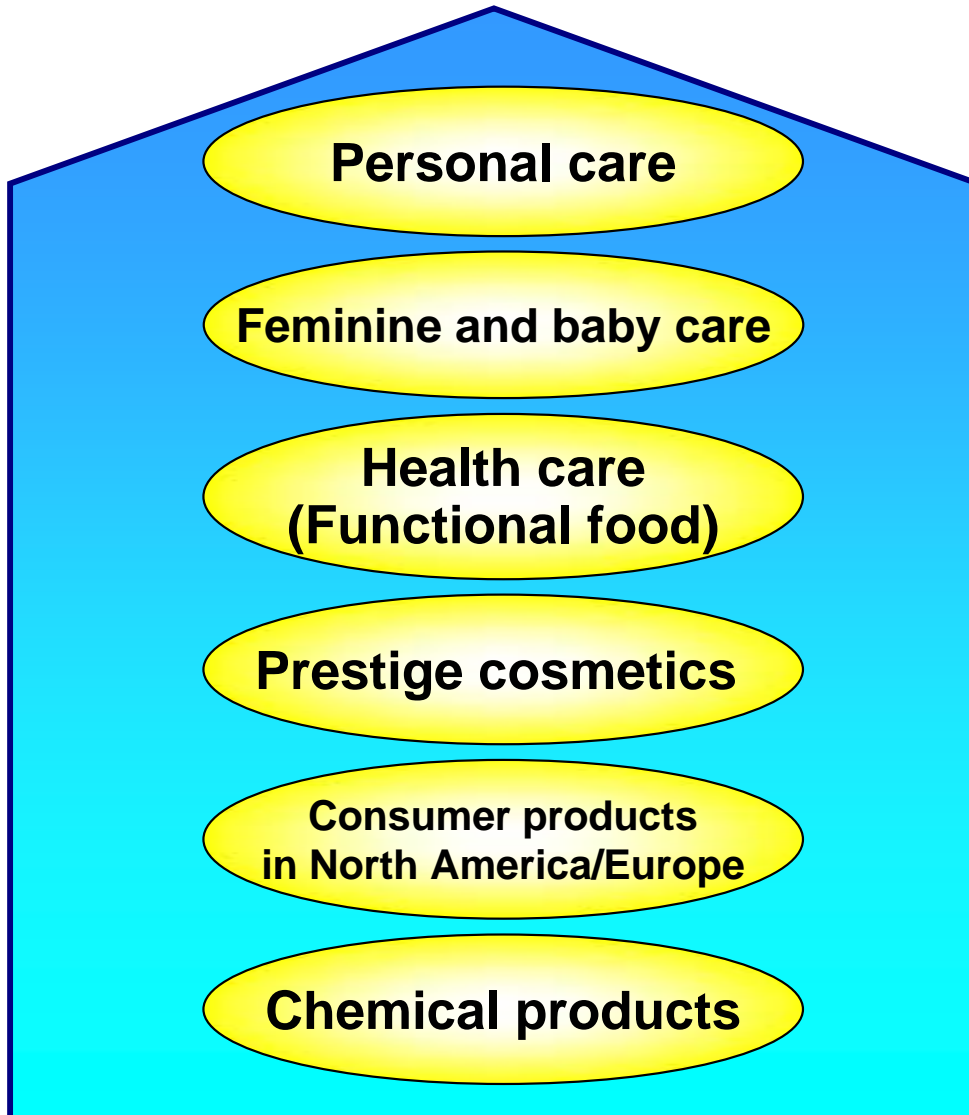
# FY2004 Financial Overview

## *Record results for net sales and profits*

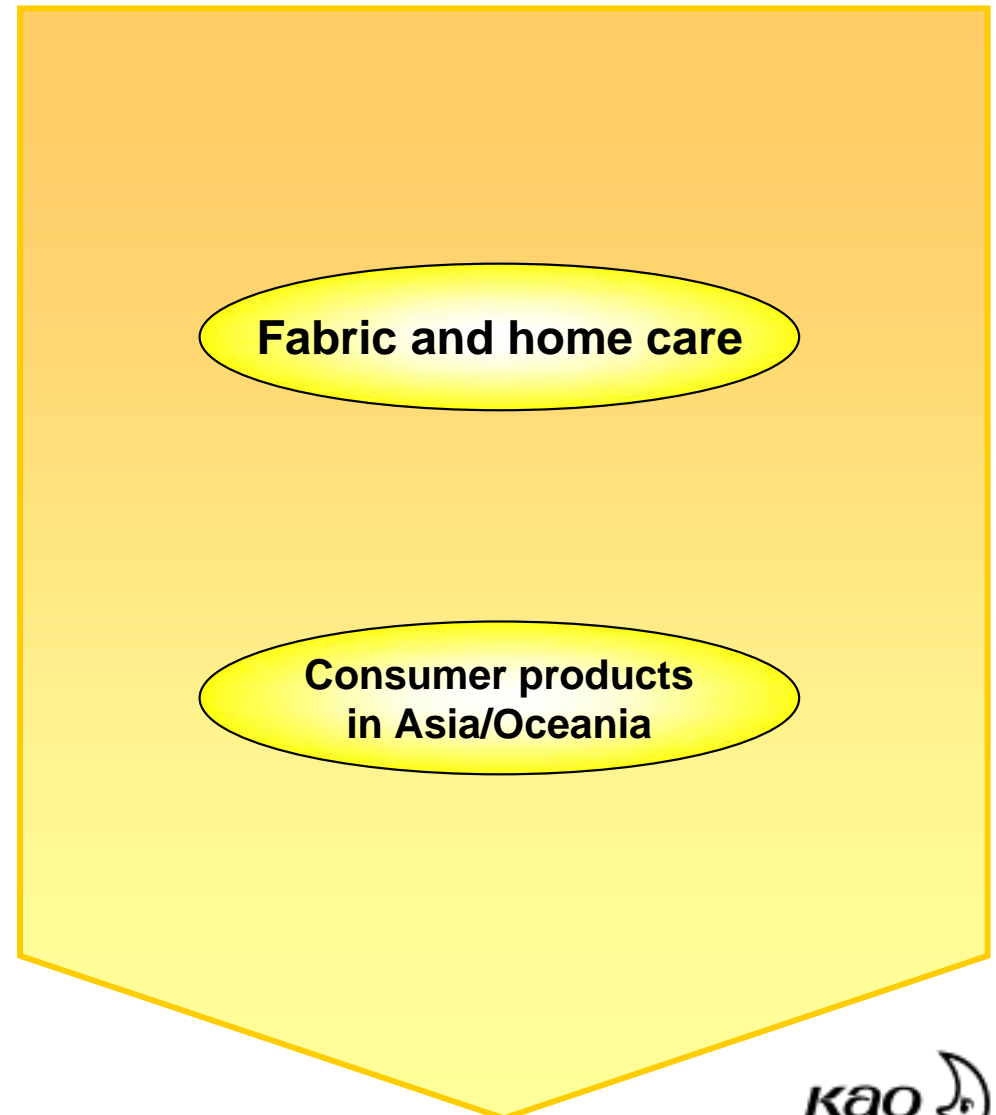
|                                 | <u>Billion yen</u>                | <u>Year-on-year change</u> | <u>Consecutive year of increase</u> |
|---------------------------------|-----------------------------------|----------------------------|-------------------------------------|
| ✧ Net sales:                    | ¥936.8                            | +3.8%                      | 4 <sup>th</sup>                     |
| ✧ Operating income:             | ¥121.3                            | +1.4%                      | 15 <sup>th</sup>                    |
| ✧ Ordinary income:              | ¥125.3                            | +2.2%                      | 24 <sup>th</sup>                    |
| ✧ Net income:                   | ¥72.1                             | +10.4%                     | 7 <sup>th</sup>                     |
| ✧ Net income per share:         | ¥131.16                           | +10.2%                     | 7 <sup>th</sup>                     |
| ✧ Shareholder returns:          |                                   |                            |                                     |
| ➤ Cash dividends per share:     | ¥38                               | +18.8%                     | 15 <sup>th</sup>                    |
| ➤ Share repurchases:            | ¥69.9 billion/27.3 million shares |                            |                                     |
| ➤ Retirement of treasury stock: | 50 million shares                 |                            |                                     |

# FY2004 Results by Business Area

**Businesses contributing to sales increase**



**Weak performers**



# FY2004 Highlights

## Positive factors

### ✧ Major growth drivers

- *Asience* shampoo/conditioner/hair treatment
- *Bioré U* body cleanser/hand soap
- *Healthya Green Tea/Oolong Tea*
- *John Frieda* premium hair care brand



### ✧ Continuing healthy growth in Chemical Products

Due to:

- Newly developed products
- Trend of recovery in demand



# FY2004 Highlights

## *Negative factors*

- ✧ **Price decline in consumer products market in Japan**
  - 3 percentage-point decline during FY2004 compared to FY2003 (\*)
  
- ✧ **Higher raw material prices**
  
- ✧ **Tougher competition in Asian consumer products market**

(\*) Source: SRI, average consumer purchase price of 15 major toiletry categories (all manufactures)





# Growth Strategies

# Profitable Growth Driven by High-Value-Added Premium Products

- ✧ Reinforce existing businesses in Japan
- ✧ Accelerate growth of Health Care (Functional Food) business
- ✧ Expand Premium Beauty Care business in North America and Europe
- ✧ Reform Consumer Products business in Asia
- ✧ Further develop Chemical Products business

# Reinforce existing businesses in Japan

- ✧ Add emotional appeal to functional value in product development → Competitive advantage
- ✧ Strengthen comprehensive and integrated communication strategies

- ✧ Offer new value in response to changing lifestyle → Stimulate markets

- ✧ Reinforce product portfolio suited to each distribution channel
  - Prestige cosmetics
    - Strengthen cosmetics lines for department stores
    - Launch of *Alblanc* in GMS/drug stores with higher beauty counseling quality



Asience premium hair care products



Laurier f sanitary napkins



Keeping Style Care fabric finisher



Wide Haiter fabric spot cleaner



est



# Accelerate growth of Health Care (Functional Food) business

- ✧ Focus on health consciousness
  - ➔ Differentiate functions based on innovations from R&D
- ✧ Achieve solid top-line growth by increasing the number of loyal users
- ✧ Increase buying opportunities for consumers
  - *Healthya Oolong Tea*
  - Utilization of diverse distribution channels
  - Products for the gift market
- ✧ Launch of *Enova Oil* packaged products nationwide in the United States
  - Good progress in shipments



*Healthya Green Tea and Oolong Tea*

*Econa Healthy Cooking Oil*



*Enova Oil*



# Expand Premium Beauty Care business in North America and Europe

## ✧ Kao Brands Company

- Expand the presence of John Frieda premium hair care products by offering solutions for different colors of hair
- Reinforce skin care business through ongoing product innovations



*John Frieda Radiant Red*



*Bioré*

## ✧ KPSS - Kao Professional Salon Services

- Provide value-added products to meet professional needs
- Reinforce existing product lines



*Color Glow*



*Topchic effect*



# Reform Consumer Products business in Asia

## ○ **Rapidly changing business environment**

- ↪ Consumer needs are changing
- ↪ Global retailers are expanding their presence

## ✧ **Enhance integration of business operations in Asia, including Japan**

- Gain an in-depth understanding of regional consumers' needs, then fuse them with R&D innovations
- Strengthen the sales system by establishing a specialized organization
- Reinforce initiatives to meet global retailers' requirements

## ✧ **Standardize business processes and share information for maximum effect**

- Implementation of ECR solution software

## ✧ **Reform of Consumer Products business in China**

# Further develop Chemical Products business

## ✧ Provide high-quality and value-added products that meet the needs of customers around the world

- Oleo chemical
- Performance chemicals
- Specialty chemicals

## ✧ Make timely capital expenditures for further growth

- Expansion of manufacturing facilities for fatty alcohol in the Philippines
- Completion of additional toner binder facility in the United States



Fatty alcohol plant



Pigment auxiliary for color inkjet printer ink

# Foundation to achieve profitable growth

## The Kao Way

- ✧ Mission: Satisfaction and enrichment of the lives of people
- ✧ Vision: To be closest to the consumer/customer
- ✧ Values:
  - *Yoki-Monozukuri* \*1
  - Innovation
  - Integrity
- ✧ Principles:
  - Consumer driven
  - *Genba-ism* \*2
  - Respect & teamwork
  - Global perspective

Fundamentals of  
Kao's CSR

\*1 We define *Yoki-Monozukuri* as a strong commitment by all members to provide products and brands of excellent value for consumer satisfaction. This core concept distinguishes us from all our competitors. In Japanese, *Yoki* literally means good/excellent, and *Monozukuri* means development/manufacturing of products.

\*2 In Japanese, *genba* means actual spot. At Kao, *genba-ism* is used to refer to the importance of observing things on-site, in the actual location and environment, both internal and external, in order to maximize our understanding of the business and optimize performance.





# FY2005 Forecast

# FY2005 Forecast

## Year-on-year change

|                          |                |       |
|--------------------------|----------------|-------|
| ✧ Net sales:             | ¥960.0 billion | +2.5% |
| ✧ Operating income:      | ¥125.0 billion | +3.0% |
| ✧ Ordinary income:       | ¥126.0 billion | +0.5% |
| ✧ Net income:            | ¥74.0 billion  | +2.5% |
| ✧ Net income per share*: | ¥135.91        | +3.6% |

## Shareholder returns:

### ➤ Cash dividends per share:

↳ 50 yen      +12 yen      Payout ratio 36.8%

### ➤ Share repurchases:

↳ April-June 2005: Up to 5.0 billion yen or 2.4 million shares

↳ Proposal for the General Shareholders' Meeting in June 2005:  
Up to 50 billion yen or 20 million shares for the July 2005 to June 2006 period

\* The calculation is made based on the estimated number of average shares outstanding during the fiscal year, which does not include the share repurchases to be proposed at the General Shareholders' Meeting in June 2005.



