

# Semi-Annual Financial Review

From April 1, 2004 to September 30, 2004

Kao Corporation

October 21, 2004



These are the translation of materials used for the analysts meeting of October 21, 2004 in Japan.

The presentation material in PDF format is available on our website:

[http://www.kao.co.jp/e/ir\\_e/analystmtg/index.html](http://www.kao.co.jp/e/ir_e/analystmtg/index.html)

These presentation materials contain forward-looking statements that are based on management's estimates, assumptions and projections as of October 21, 2004.

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.

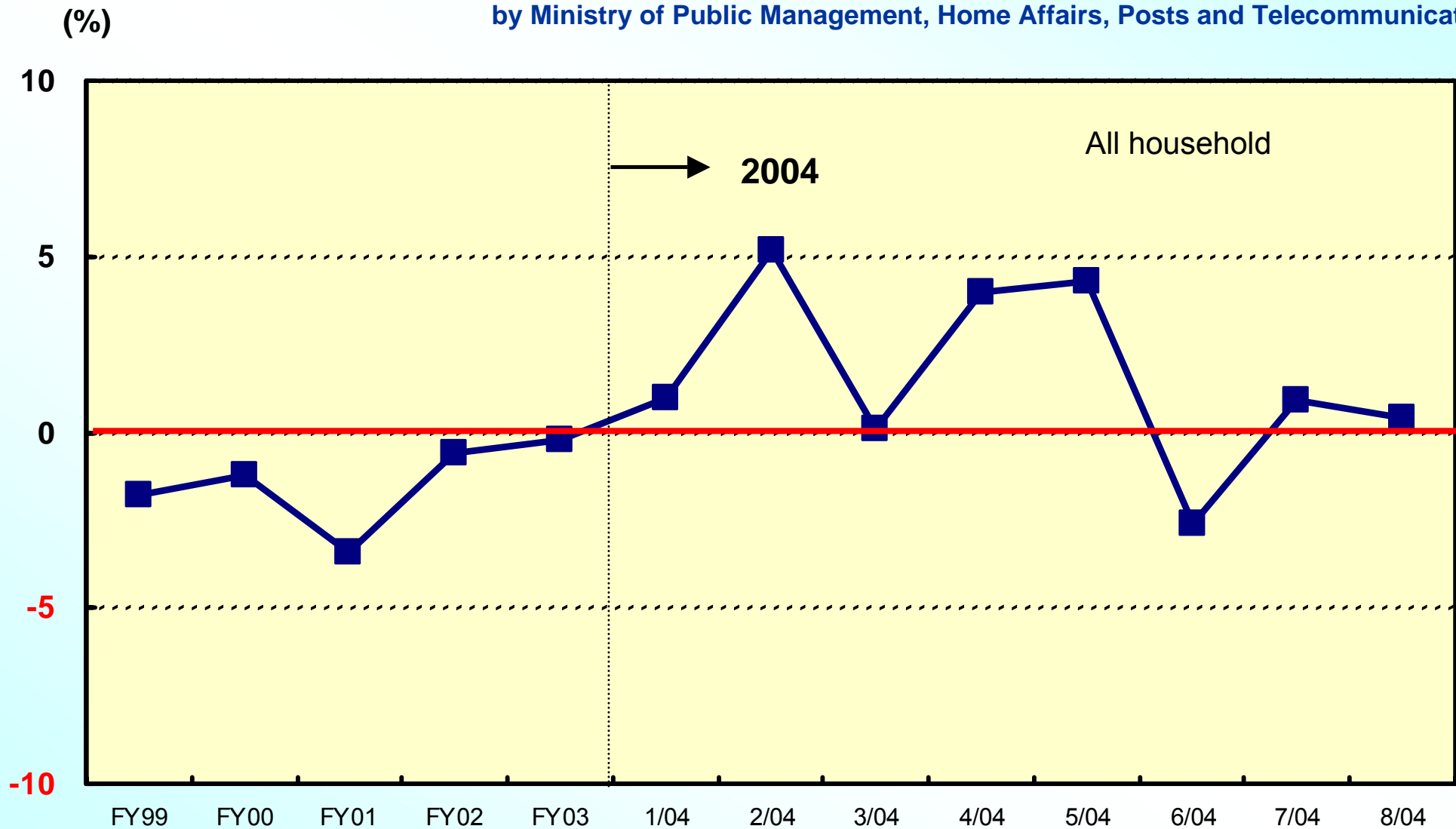
(The yen amounts in this presentation material are rounded down.)

# 1. Business Environment

April 1, 2004 – September 30, 2004

# Household Expenditure Survey

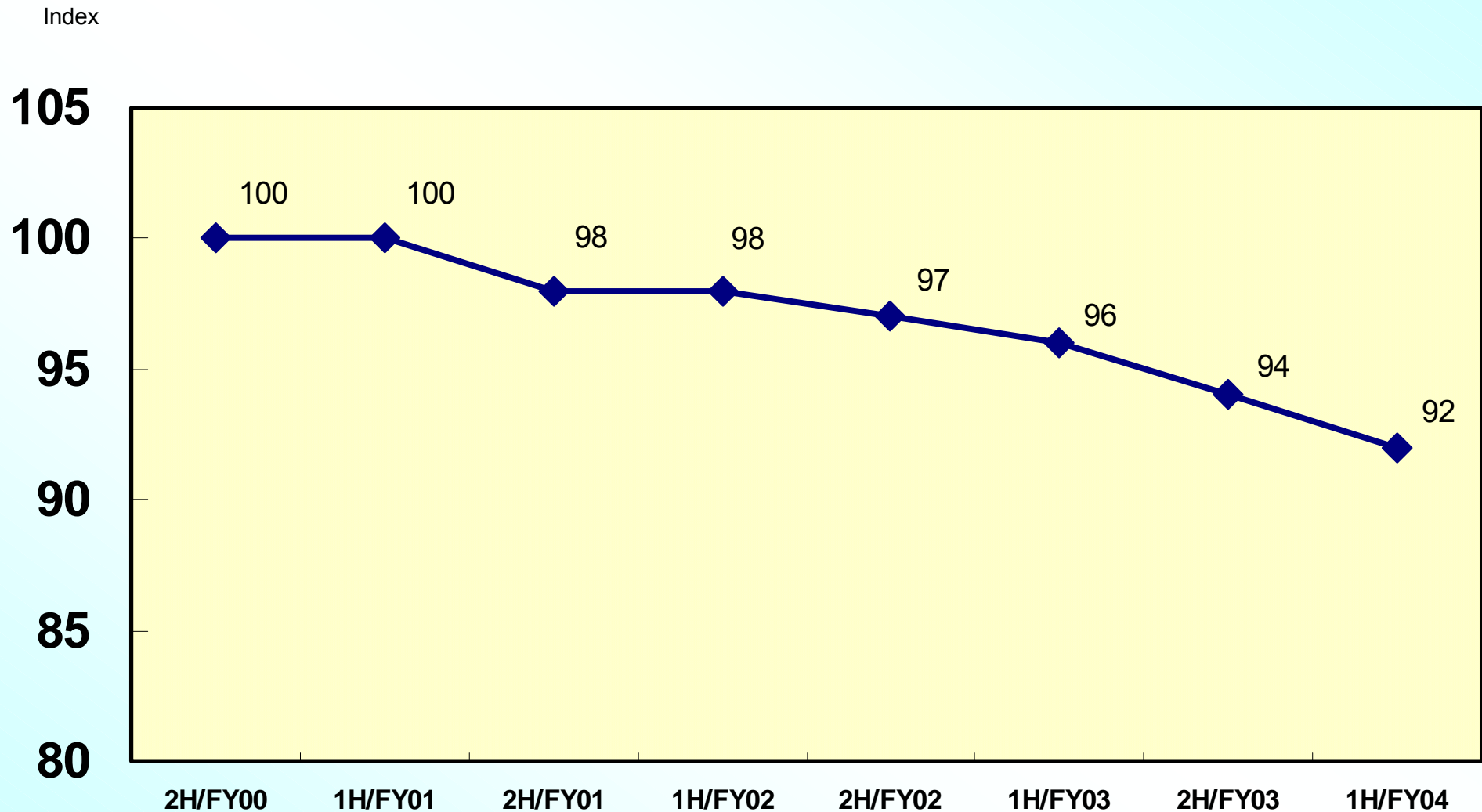
by Ministry of Public Management, Home Affairs, Posts and Telecommunications



(Percent change from a year earlier)

# Average Consumer Purchase Price

Major Toiletry 15 Categories (All manufactures)



(Data Source: Kao)

## **2. Consolidated Business Results**

**April 1, 2004 – September 30, 2004**

# 1<sup>st</sup> Half/FY2004 Results (Consolidated)

Billion yen	<u>1H/FY02</u>	<u>1H/FY03</u>	<u>1H/FY04</u>		
<b>Net Sales</b>	434.9	446.9	469.0	Growth 4.9%	Changes +22.0
<b>Operating Income</b>	61.5	60.5	62.4	3.1%	+1.8
<i>Operating Margin</i>	14.2%	13.6%	13.3%		
<b>Ordinary Income</b>	62.6	61.9	64.6	4.2%	+2.6
<b>Net Income</b>	33.2	31.9	37.7	18.2%	+5.8
<b>EBITDA</b>	89.3	87.9	89.7	2.0%	+1.7
<b>EPS (yen)</b>	56.99	57.87	68.51	18.4%	+10.64

# Consolidated Net Sales [1]

	1st Half/FY2003		1st Half/FY2004		
	Billion yen	% Growth	Billion yen	%	
				Growth	Like-for-like
Personal Care	84.7	0.3	91.6	8.0	8.0
Fabric and Home Care	122.4	-3.5	118.4	-3.2	-3.2
Baby Care, Feminine Care and Others	46.8	11.8	60.6	29.5	29.5
<b>Japan Total</b>	<b>254.0</b>	0.3	<b>270.7</b>	6.6	6.6
<b>Asia &amp; Oceania</b>	30.6	-5.0	26.8	-12.4	-6.9
<b>North America &amp; Europe</b>	50.3	18.3	52.3	4.0	10.0
Elimination	-2.7		-3.3		
<b>Consumer Products</b>	<b>332.2</b>	2.3	<b>346.5</b>	4.3	5.7

<b>Prestige Cosmetics</b>	<b>38.3</b>	0.6	<b>39.3</b>	2.6	2.7
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\*Like-for-like: excludes currency translation impact





# Consolidated Net Sales [2]

	1st Half/FY2003		1st Half/FY2004		
	Billion yen	% Growth	Billion yen	%	
				Growth	Like-for-like
Japan	50.7	1.0	54.6	7.7	7.7
Asia	21.6	12.5	23.6	8.9	19.4
North America & Europe	28.8	9.5	31.8	10.5	14.6
Elimination	-11.2		-13.4		
<b>Chemical Products</b>	89.9	4.5	<b>96.5</b>	7.4	10.1

Elimination	-13.5		-13.4		
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<b>Consolidated Sales</b>	<b>446.9</b>	<b>2.8</b>	<b>469.0</b>	<b>4.9</b>	<b>6.5</b>
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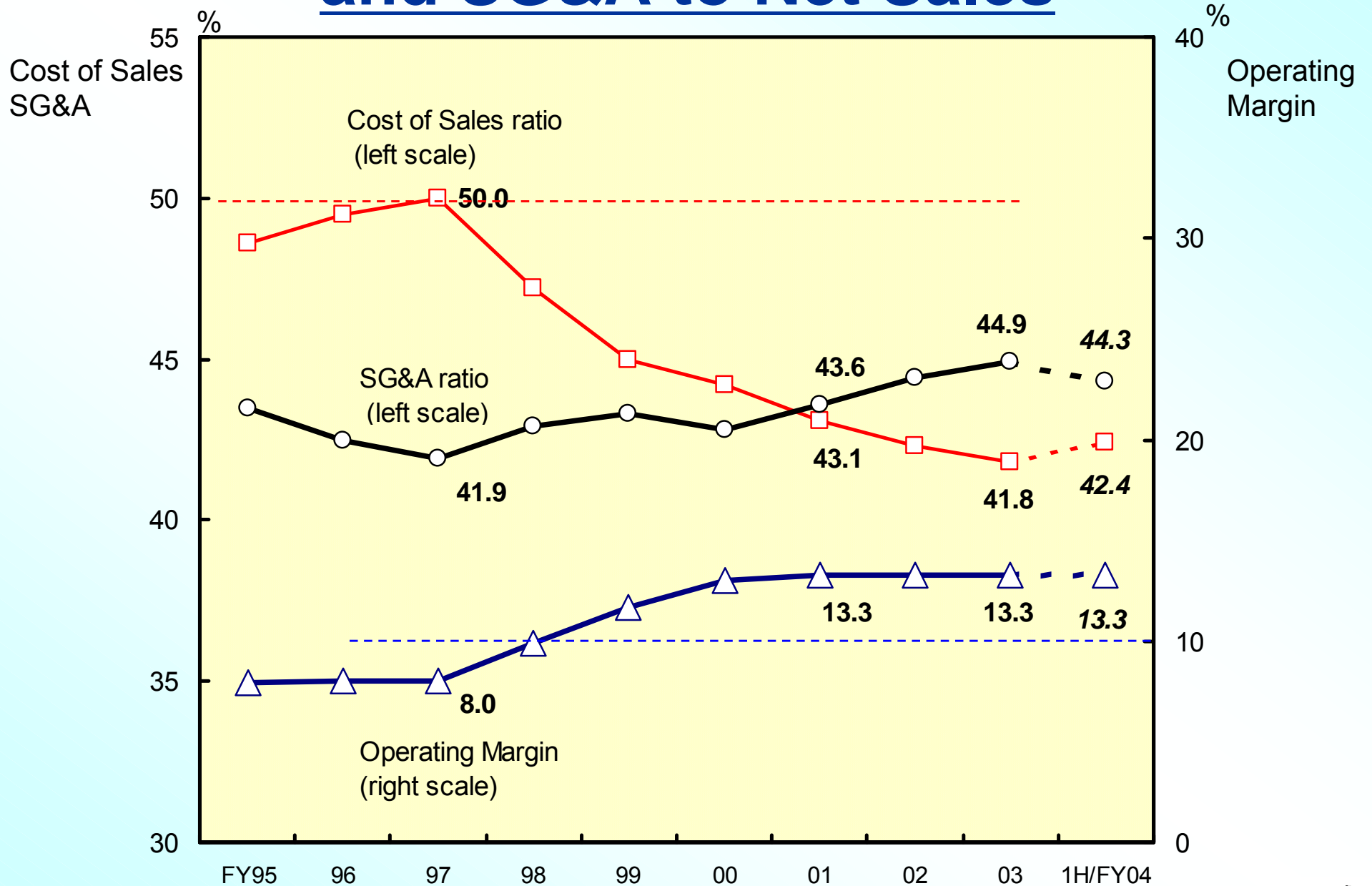
\*Like-for-like: excludes currency translation impact

## Consolidated Income Statements

	1H/FY2003		1H/FY2004		Changes*
	Billion yen	%	Billion yen	%	Billion yen
<b>Net Sales</b>	446.9	100.0	469.0	100.0	22.0
Cost of Sales	187.3	41.9	198.8	42.4	11.4
Gross Profit	259.6	58.1	270.1	57.6	10.5
SG&A Expenses	199.0	44.5	207.7	44.3	8.6
<b>Operating Income</b>	60.5	13.6	62.4	13.3	1.8
Non-operating Income/Expenses	1.4	0.3	2.1	0.5	0.7
<b>Ordinary Income</b>	61.9	13.9	64.6	13.8	2.6
Extraordinary Income & Loss	-2.4	-0.6	-1.0	-0.2	1.3
Income Before Taxes	59.5	13.3	63.6	13.6	4.0
Income Taxes	26.5	5.9	25.4	5.4	-1.1
Equity Items & Others (Minus)	1.0	0.2	0.4	0.1	-0.6
<b>Net Income</b>	31.9	7.2	37.7	8.1	5.8

\* Changes = 1H/FY2004 – 1H/FY2003

# Consolidated Cost of Sales and SG&A to Net Sales



\*Business tax has been adjusted prior to FY97



# Breakdown of Consolidated Expenses




(Billion yen)

	1H/FY03	1H/FY04	Changes*
<b>Total SG&amp;A Expenses</b>	199.0	207.7	8.6

Freights/Warehouse	22.7	25.1	2.3
Advertising	42.0	44.7	2.6
Sales Promotion	16.5	17.6	1.0
Salaries and Wages	35.0	34.4	-0.6
R&D	19.2	19.8	0.5

\* Changes = 1H/FY04 – 1H/FY03

# Sales and Operating Income by Business





Billion yen	Net Sales			Operating Income		
	1H/FY03	1H/FY04	Changes	1H/FY03	1H/FY04	Changes
Consumer Products	332.2	346.5	14.3 4.3%	46.9 % to Sales 14.1%	47.7 13.8%	0.7 
Prestige Cosmetics	38.3	39.3	0.9 2.6%	4.0 % to Sales 10.6%	4.3 11.1%	0.2 
Chemical Products	89.9	96.5	6.6 7.4%	9.4 % to Sales 10.5%	10.2 10.6%	0.8 

\*Before elimination of intersegment transfers

# Sales and Operating Income by Geography

## Net Sales

## Operating Income

Billion yen	Net Sales			Operating Income		
	1H/FY03	1H/FY04	Changes	1H/FY03	1H/FY04	Changes
Japan	331.7	352.9	21.2 6.4%	54.3 % to Sales 16.4%	55.9 15.8%	1.5 
Asia & Oceania	52.0	50.3	-1.7 -3.4%	2.2 % to Sales 4.3%	1.5 3.0%	-0.7 
North America	40.3	40.9	0.6 1.6%	4.0 % to Sales 9.9%	3.5 8.6%	-0.4 
			After amortization of goodwill	3.1 % to Sales 7.7%	2.7 6.6%	-0.4
Europe	41.4	46.2	4.7 11.4%	2.2 % to Sales 5.4%	3.5 7.7%	1.3 
			After amortization of goodwill	1.0 % to Sales 2.4%	2.3 5.0%	1.3

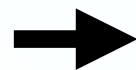
\*Before elimination of intersegment transfers



# Consolidated Operating Income

1H/FY03

60.5



1H/FY04

62.4

Billion yen

Change

+1.8 Billion yen +3.1%

Japan	1.5
Asia & Oceania	-0.7
North America	-0.4
Europe	1.3
<hr/>	
Total	1.8

Consumer Products	0.7
Prestige Cosmetics	0.2
Chemical Products	0.8
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Total	1.8

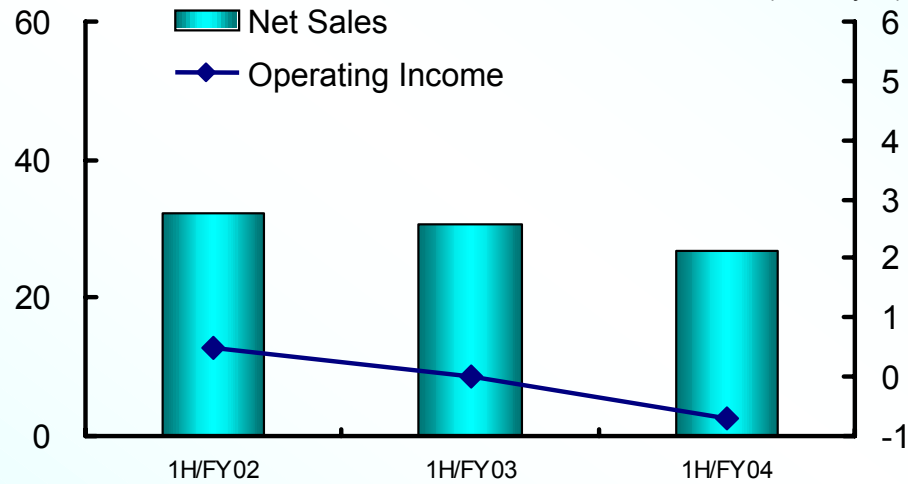
\*The figures of each segment are before elimination.



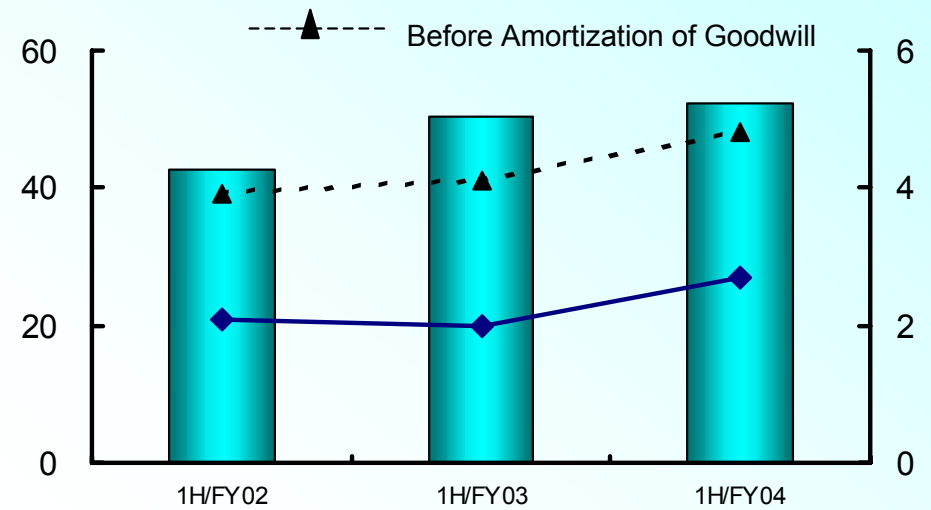
## Consumer Products

### Asia and Oceania

Sales (Billion yen)

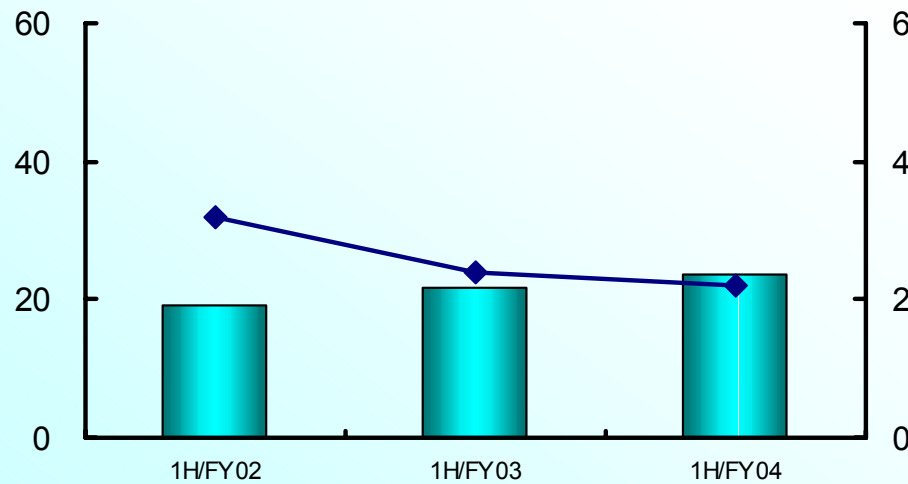


### North America & Europe

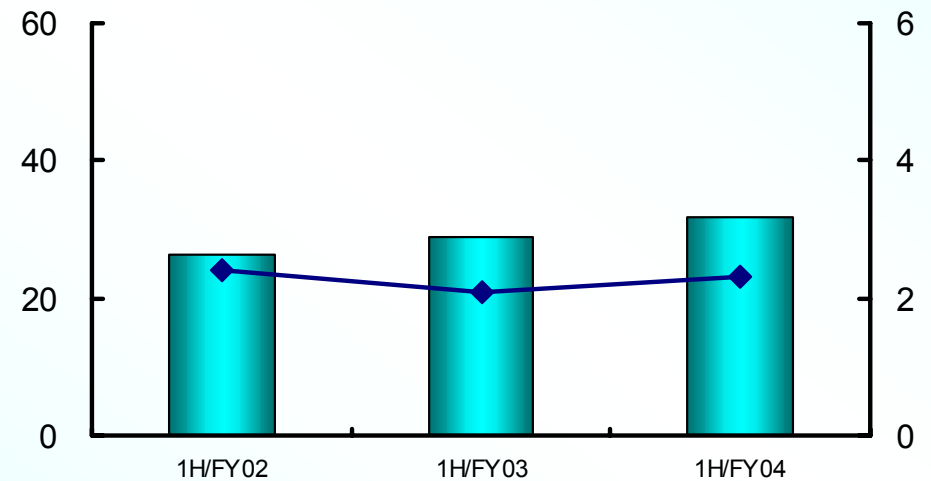


## Chemical Products

### Asia



### North America & Europe



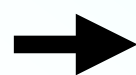


# Consolidated Ordinary Income

1H/FY03

1H/ FY04

61.9



64.6 Billion yen

Change +2.6 Billion yen +4.2%

1. Operating income	1.8
2. Equity earnings	0.9
3. Forex gains/losses	-0.2
4. Net interest expense	0.0
5. Other non-operating items	0.0
<hr/> Total	<hr/> 2.6

# Consolidated Balance Sheets

(Billion yen)

	Sep/04	Mar/04	Changes		Sep/04	Mar/04	Changes
<b>Current Asset</b>	<b>299.1</b>	<b>307.2</b>	<b>-8.1</b>	<b>Current Liabilities</b>	<b>219.2</b>	<b>209.8</b>	<b>9.3</b>
Cash and Bank Deposits	53.4	72.4	-18.9	Notes and Accounts Payable	74.4	68.4	6.0
Notes and Accounts Receivable	101.8	97.3	4.4	Short-term Debt (incl. Current Portion of Long-term Debt)	19.8	17.8	1.9
Short-term Investments	38.5	36.8	1.7	Other Accounts Payable	21.7	21.8	0.0
Inventories	79.0	71.8	7.1	Accrued Expenses	65.3	64.5	0.8
Others	26.2	28.7	-2.5	Others	37.8	37.2	0.6
<b>Fixed Assets</b>	<b>413.7</b>	<b>416.5</b>	<b>-2.7</b>	<b>Long-term Liabilities</b>	<b>35.9</b>	<b>64.0</b>	<b>-28.1</b>
Tangible Assets	264.6	259.9	4.7	Long-term Debt	9.2	31.8	-22.5
Intangible Assets	93.8	98.3	-4.5	Others	26.6	32.2	-5.6
Investments	55.2	58.2	-3.0	<b>Total Liabilities</b>	<b>255.2</b>	<b>273.9</b>	<b>-18.7</b>
<b>Deferred Assets</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>Minority Interests</b>	<b>7.6</b>	<b>22.1</b>	<b>-14.4</b>
				<b>Shareholders' Equity</b>	<b>450.0</b>	<b>427.7</b>	<b>22.2</b>
				Common Stock	85.4	85.4	-
				Capital Surplus	109.5	108.8	0.6
				Retained earnings	344.3	399.8	-55.5
				Unrealized Gain on Available-for-sale Securities	3.4	4.3	-0.8
				Foreign Currency Translation Adjustments	-39.0	-37.9	-1.1
				Treasury Stock	-53.6	-132.8	79.1
<b>Total Assets</b>	<b>712.9</b>	<b>723.8</b>	<b>-10.9</b>	<b>Total Liabilities, Minority Interests &amp; Shareholders' Equity</b>	<b>712.9</b>	<b>723.8</b>	<b>-10.9</b>

# Statements of Cash Flows

(Billion yen)

	1H/FY02	1H/FY03	1H/FY04	Changes
Operating Activities	66.7	52.0	59.1	7.1
Investing Activities	-74.8	-13.5	-31.0	-17.5
Financing Activities	-46.7	-41.9	-48.4	-6.5
Translation Adjustment	-1.8	0.5	-0.8	-1.3
Net Increase/(Decrease)	-56.5	-2.8	-21.2	-18.3
Beginning balance of newly consolidated companies	0.9	2.6	-	-2.6
Cash and Cash Equivalents	69.3	75.4	85.9	10.4
<b>Total Debt</b>	<b>52.4</b>	<b>53.8</b>	<b>29.1</b>	<b>-24.7</b>

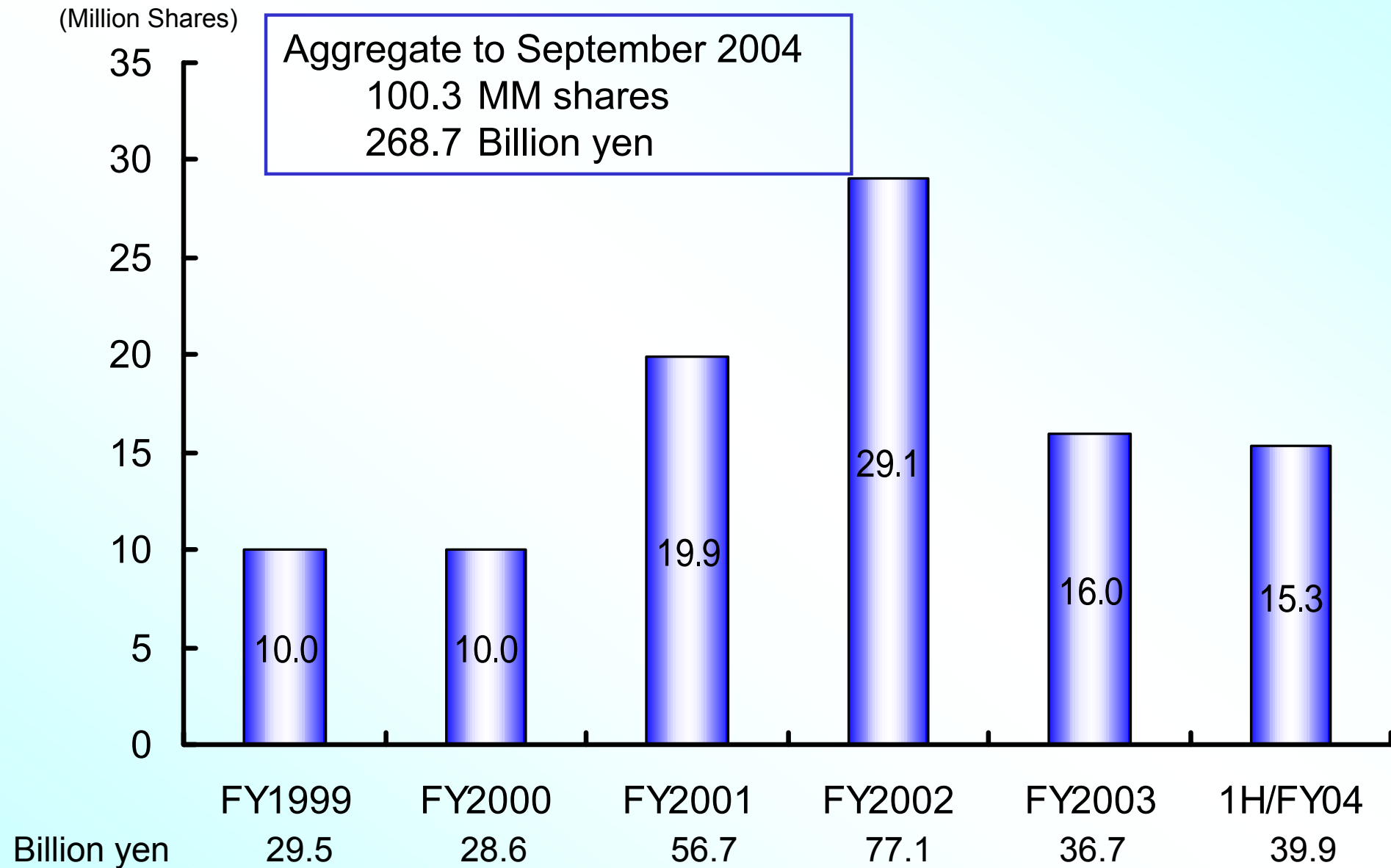
## <Investing Activities>

Capital expenditure: New products, R&D facilities and development of information system

## <Financing Activities>

Share repurchase: 41.0 billion yen

# Share Repurchase



\* Share repurchase from the market



## 3. Forecast for FY 2004

# Consolidated Sales and Profit Forecast

	FY2002		FY2003		* FY2004(F)	
	Billion yen	% Growth	Billion yen	% Growth	Billion yen	% Growth
Net Sales	865.2	3.1	902.6	4.3	<b>935.0</b>	3.6
Operating Income	114.9	2.9	119.7	4.2	<b>123.0</b>	2.8
[% to Sales]	[13.3]		[13.3]		[13.2]	
Ordinary Income	117.4	3.4	122.6	4.4	<b>125.0</b>	1.9
[% to Sales]	[13.6]		[13.6]		[13.4]	
Net Income	62.4	3.6	65.3	4.6	<b>72.0</b>	10.2
[% to Sales]	[7.2]		[7.2]		[7.7]	

Net Income per Share (yen)	108.05	7.6	119.06	10.2	<b>**130.64</b>	9.7
ROE	14.2%		15.5%		<b>16.2%</b>	
EBITDA (Operating Income + Depr. & Amort.)	173.2	1.8	177.8	2.7	179.0	0.6
Dividend per Share (yen)	30.0		32.0		38.0	

\* Exchange rate assumptions: 110 yen/USD, 133 yen/Euro, 3.2 yen/ New Taiwan dollar

\*\* The calculation is made based on the estimated number of average shares outstanding during the fiscal year.



# Sales Outlook by Segment – FY2004

<Billion yen>

Consolidated Net Sales      935.0      +3.6%

## By Geography

## By Business

Japan	693.0	+2.9%
Asia & Oceania	103.0	+1.5%
North America	86.0	+7.6%
Europe	95.0	+11.9%

Consumer Products	690.0	+2.9%
Prestige Cosmetics	79.0	+1.7%
Chemical Products	193.0	+6.3%

# Sales Outlook – FY2004

## - Consumer Products in Japan -

<Billion yen>

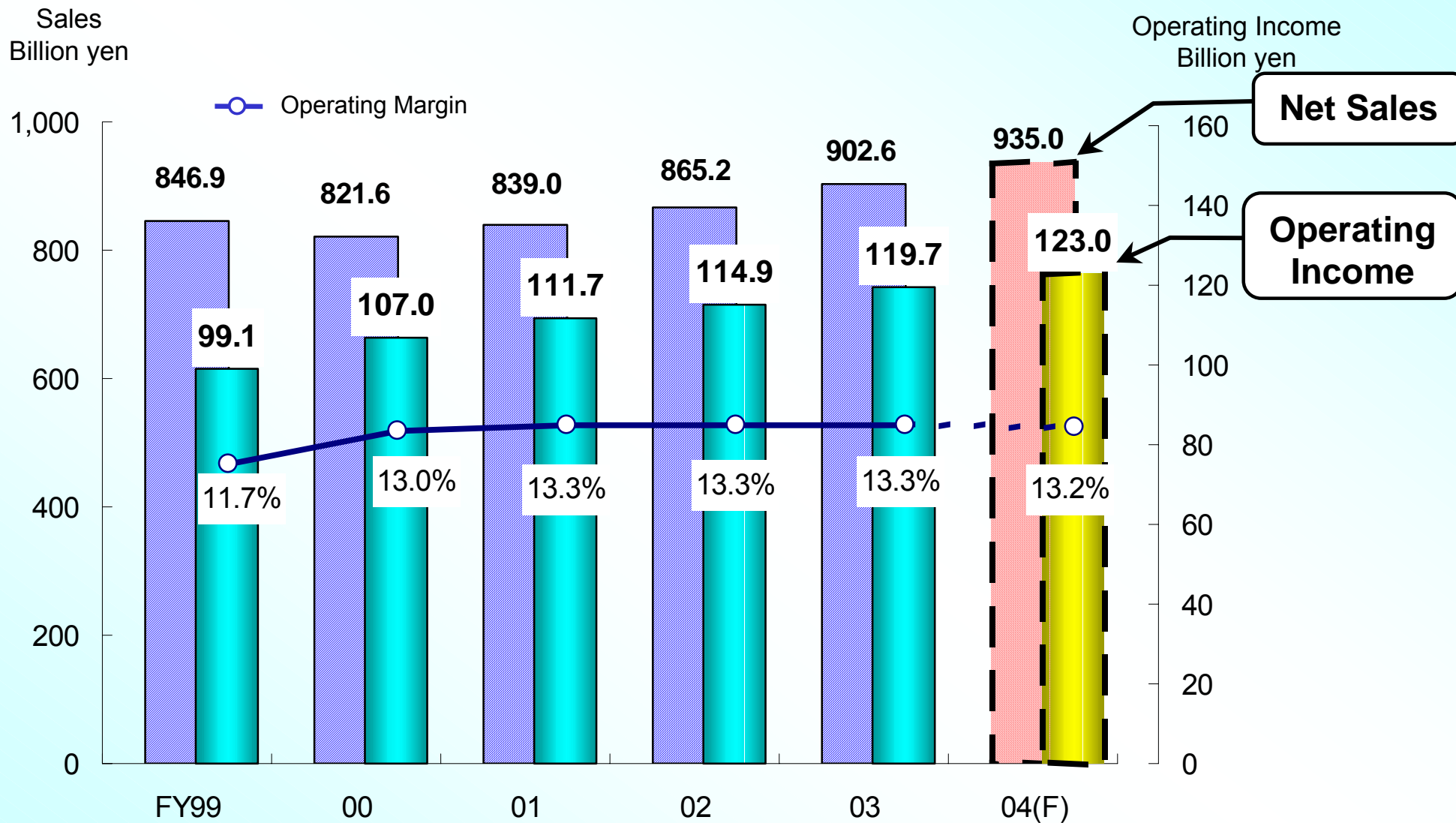
	1st Half			Full Year		
	FY2003 Actual	FY2004 Actual	% Growth	FY2003 Actual	FY2004 Forecast	% Growth
Personal Care	84.7	91.6	+8.0%	171.5	177.0	+3.2%
Fabric and Home Care	122.4	118.4	Δ3.2%	241.0	234.0	Δ2.9%
Baby Care, Feminine Care and Others	46.8	60.6	+29.5%	101.5	119.0	+17.2%
Total	254.0	270.7	+6.6%	514.1	530.0	+3.1%





# Consolidated Net Sales/Operating Margin

[Full Year]

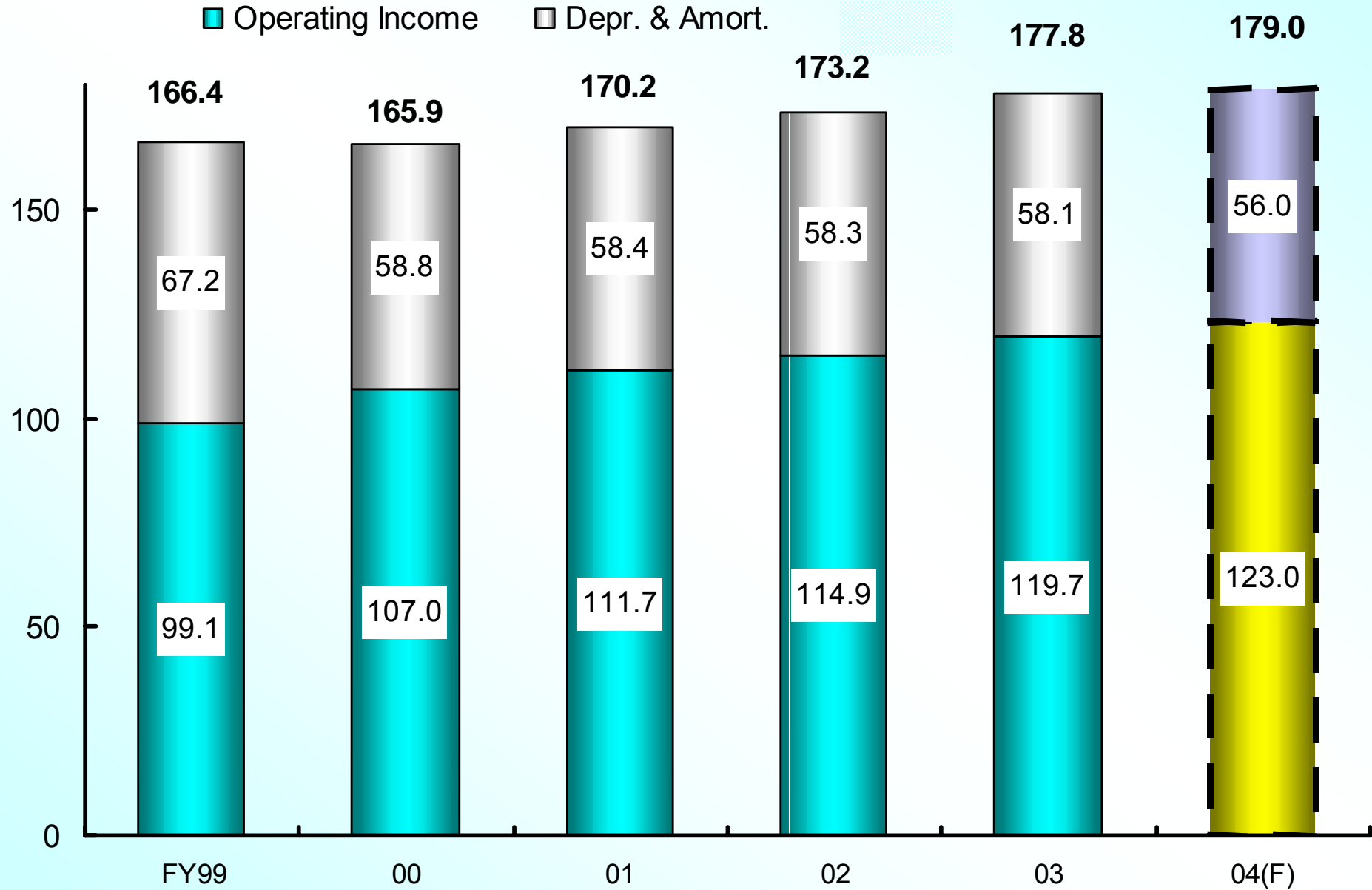


# EBITDA

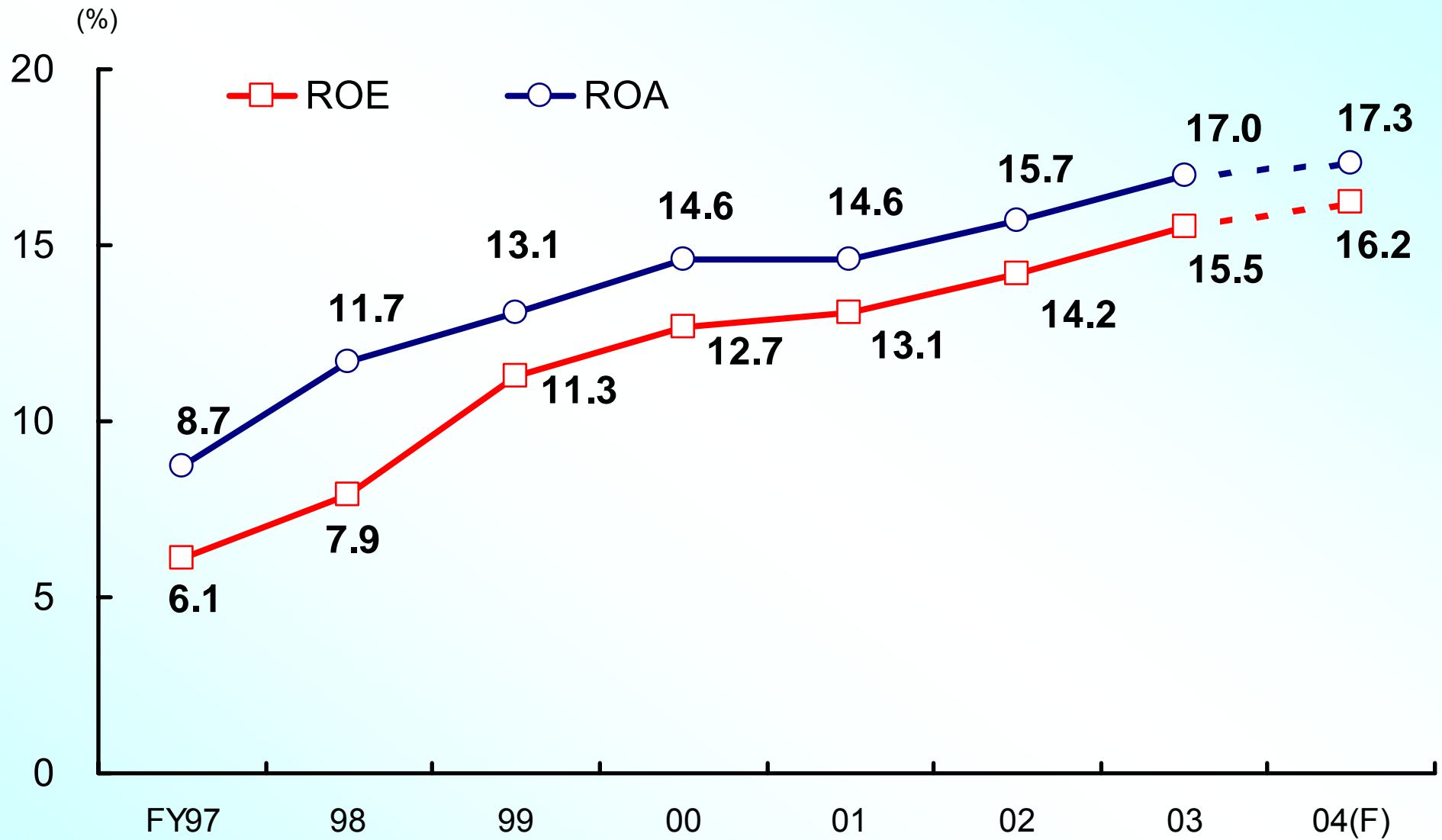
Billion yen

■ Operating Income

■ Depr. & Amort.



# ROE & ROA



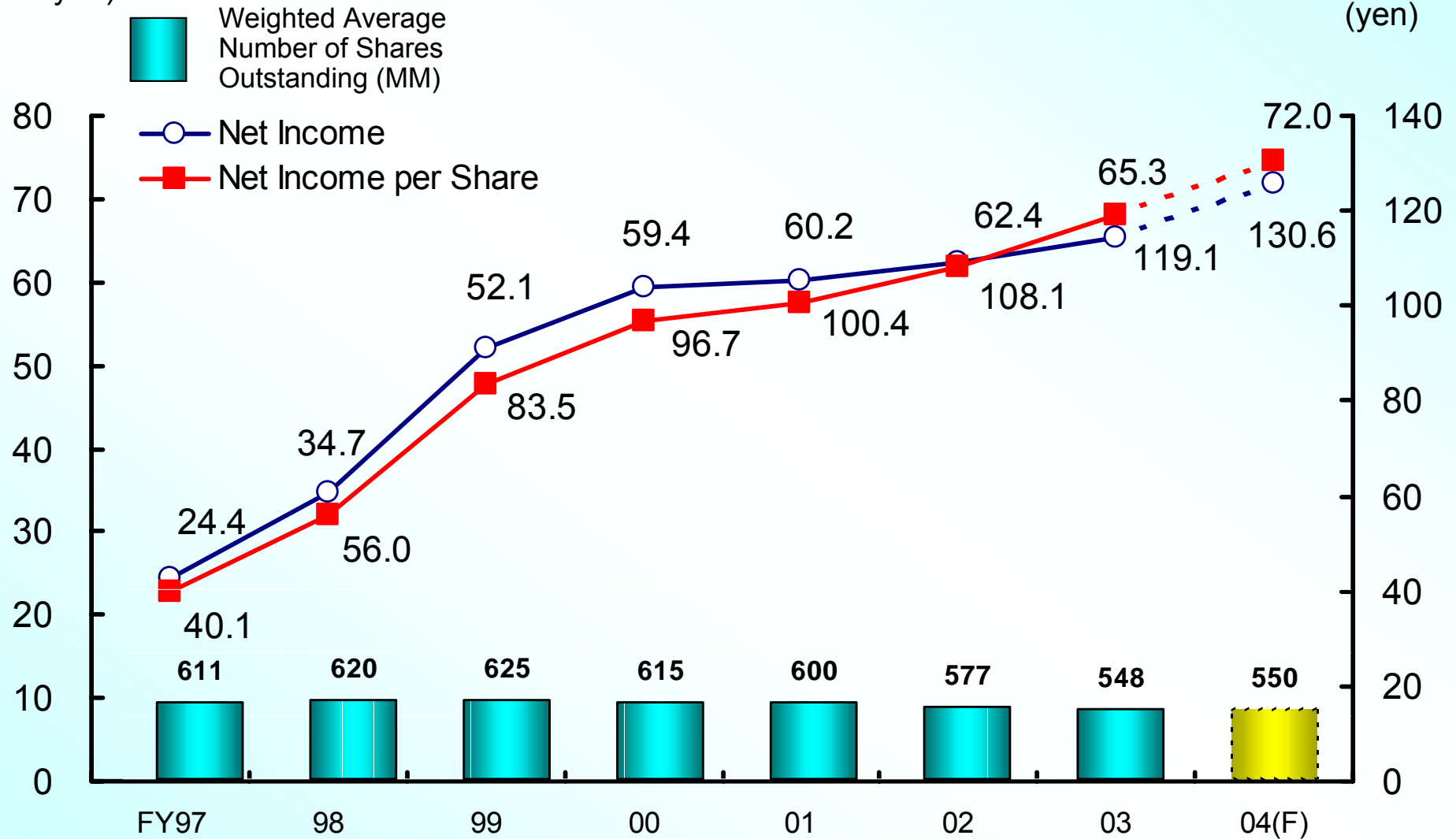
ROA: Ordinary Income / Total assets  
Ordinary Income: Enterprise tax has been adjusted in FY97



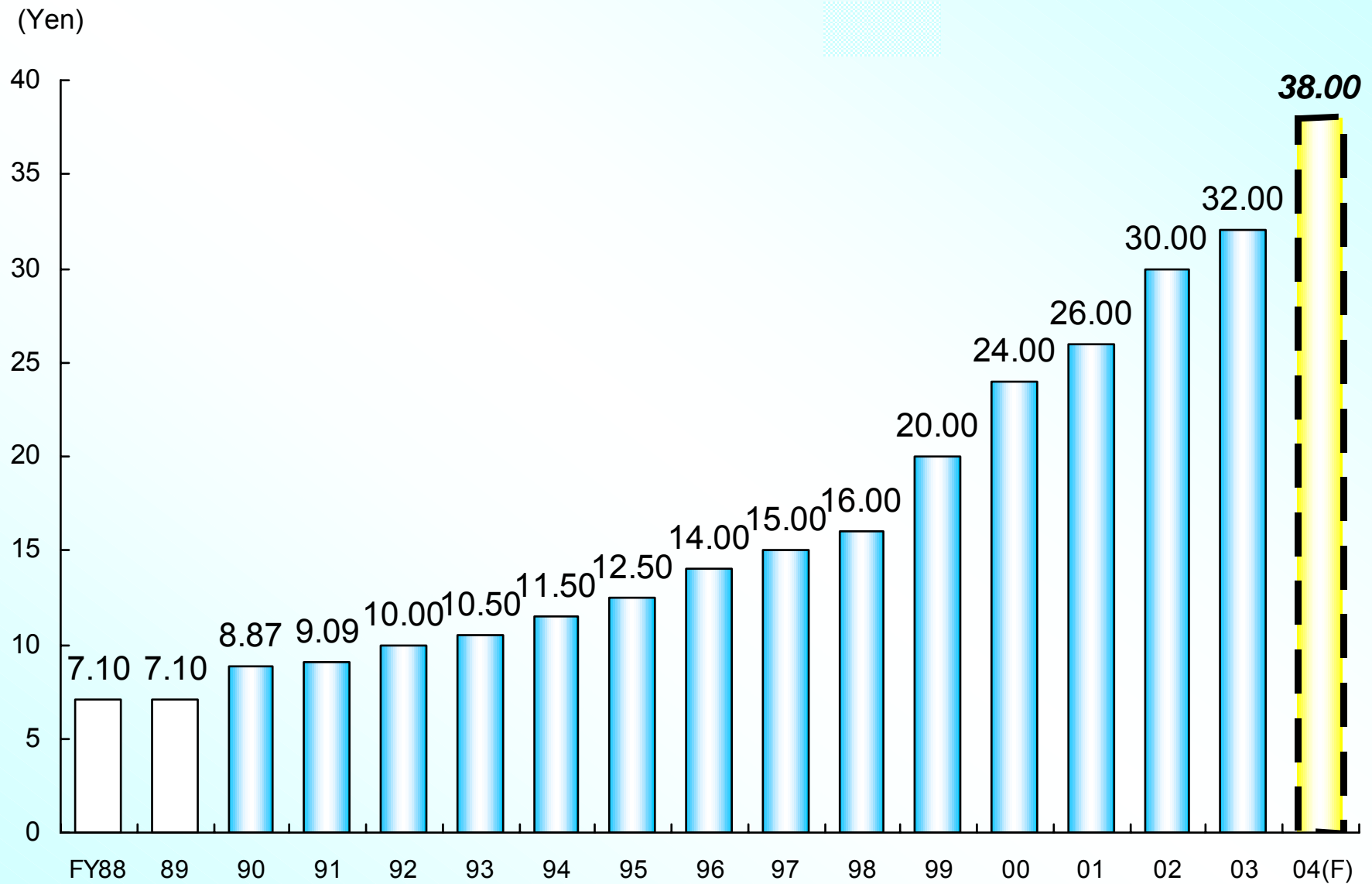
# Net Income per Share (Consolidated)

Net Income  
(Billion yen)

Net Income  
per Share  
(yen)

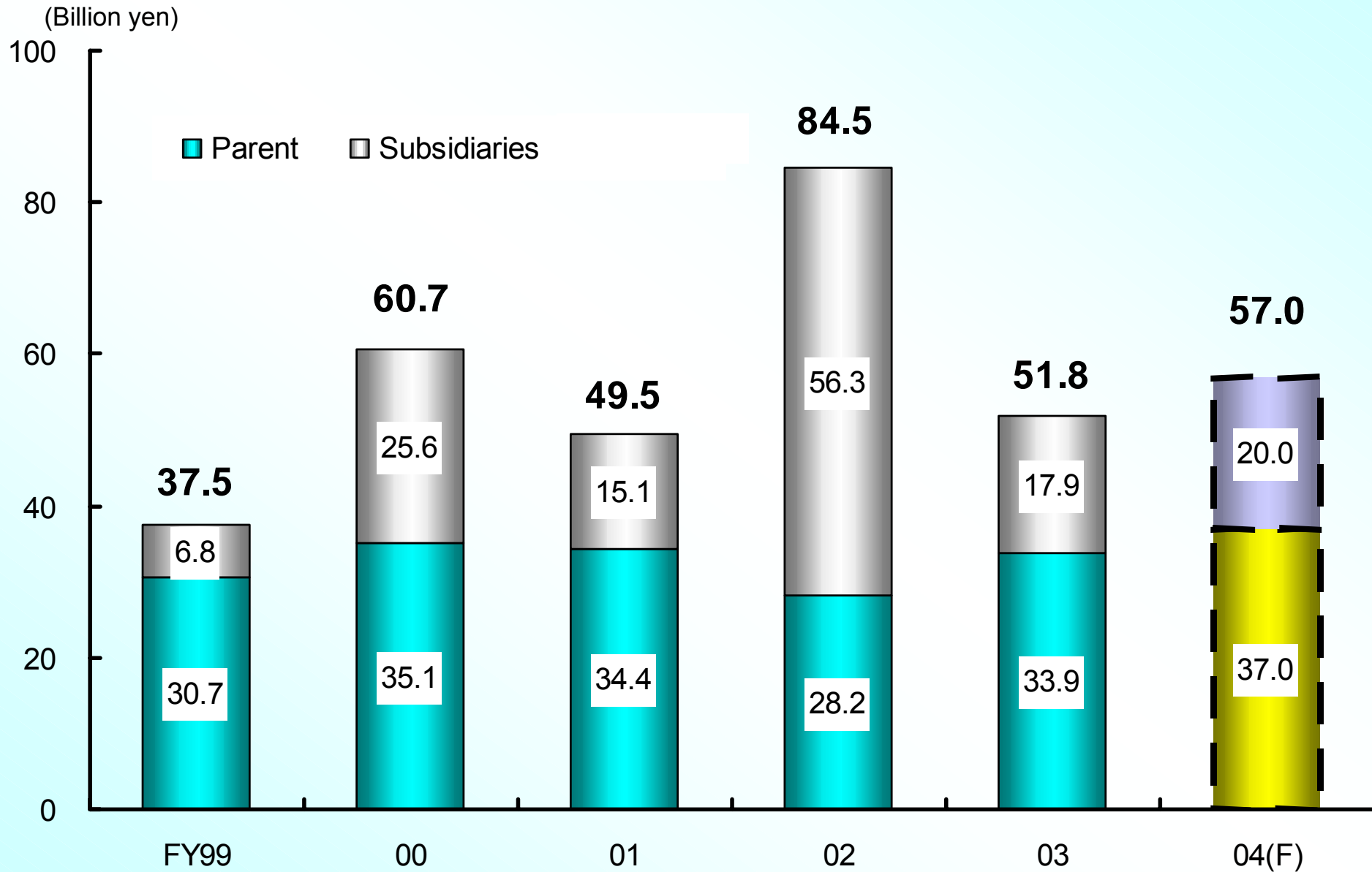


# Cash Dividends per Share



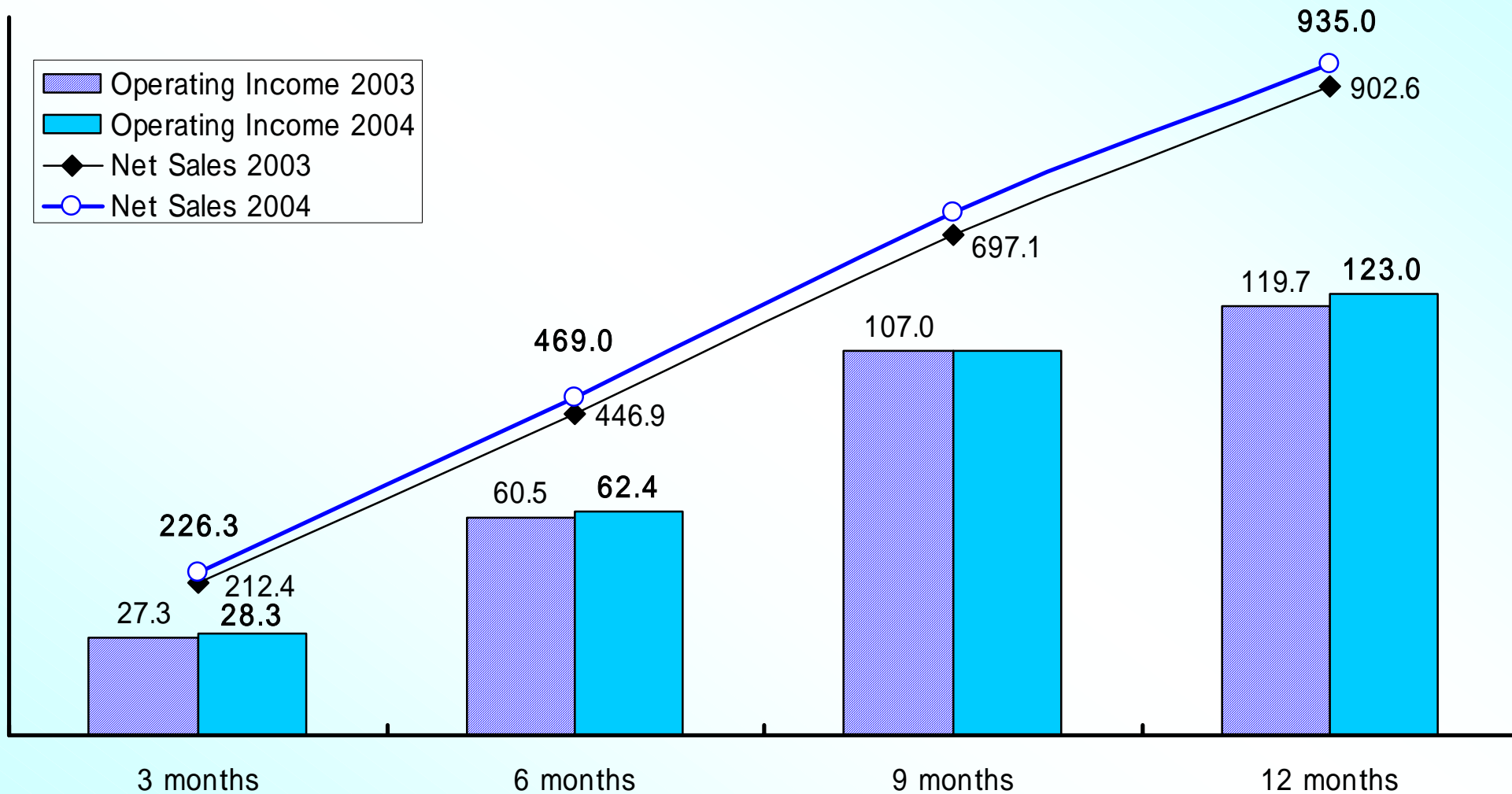
\*Impacts of share splits are retroactively reflected.

# Consolidated Capital Expenditures



# Quarterly Consolidated Sales and Profit Forecast

(Billion yen)



# Non-consolidated Sales and Profit Forecast

	FY2002		FY2003		FY2004(F)	
	Billion yen	% Growth	Billion yen	% Growth	Billion yen	% Growth
Sales	661.7	1.2	665.9	*1 0.6	<b>685.0</b>	2.9
Operating Income [% to Sales]	94.4 [14.3]	2.2	98.3 [14.8]	4.2	<b>101.0</b> [14.7]	2.7
Ordinary Income [% to Sales]	98.3 [14.9]	-0.2	105.4 [15.8]	7.2	<b>105.0</b> [15.3]	-0.4
Net Income [% to Sales]	49.4 [7.5]	-10.9	61.0 [9.2]	23.5	<b>64.0</b> [9.3]	4.8

Net Income per Share (yen)	85.42	-7.4	111.19	30.2	*2 <b>116.12</b>	4.4
ROE	11.3%		14.6%		<b>14.7%</b>	
EBITDA (Operating Income + Depr. & Amort.)	136.4	0.0	139.0	1.9	<b>140.5</b>	1.0

\*1 Excluding the effect of changes in the accounting system between Kao Corporation and Kao Hanbai Company, Ltd. starting from April 2003, net sales of fiscal 2003 would have increased by 3.2%.

\*2 The calculation is made based on the estimated number of average shares outstanding during the fiscal year.

