

# Highlights for the 1<sup>st</sup> Half of FY2005

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This is a translation of materials used for the analyst meeting held in Japan on October 24, 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 October 24, 2005. Some 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 the 1<sup>st</sup> Half of FY2005**

✧ **Growth Strategies**

✧ **FY2005 Forecast**

# Summary of the 1<sup>st</sup> Half of FY2005

# The 1<sup>st</sup> Half of FY2005 Financial Overview

## *Net sales and profits exceeded our forecast*

		<u>Year-on-year change</u>
✧ Net sales:	¥483.0 billion	+3.0%
✧ Operating income:	¥63.0 billion	+1.0%
✧ Ordinary income:	¥63.6 billion	-1.5%
✧ Net income:	¥38.4 billion	+1.9%
✧ Net income per share:	¥70.75	+3.3%
✧ Shareholder returns:		
➤ Interim cash dividends per share:	¥25	
➤ Share repurchases*:		
↳ Actual amount in the 1 <sup>st</sup> half of FY2005:	¥5.0 billion or 2.0 million shares	

\* The share repurchase approved at the General Meeting of Shareholders held in June 2004.

# Results for the 1<sup>st</sup> Half of FY2005 by Business Area - Consumer Products

## Japan

- ✧ New products contributed to continuous healthy growth in Personal Care, Feminine Care and Baby Care.
- ✧ Fabric & Home Care recovered from its weak performance.
- ✧ In Health Care (Functional Food), *Healthya* tea sales decreased year-on-year, but secured a solid loyal user base after initial popularity boom cooled.



Resesh  
fabric freshener



Asience hair  
care products



Laurier F  
sanitary napkins

## Outside Japan

- ✧ Integration of business operations in Asia, including Japan, is in progress.
- ✧ Premium Beauty Care business in North America and Europe grew due to successful new products.



Jergens Natural Glow



John Frieda  
Radiant Red



# Results for the 1<sup>st</sup> Half of FY2005 by Business Area – Prestige Cosmetics & Chemical Products

## *Prestige Cosmetics*

- ✧ Enhanced in-store displays suited to each distribution channel.



In-store displays of *est*

## *Chemical Products*

- ✧ Healthy growth in specialty chemicals contributed to steady results in Japan.
- ✧ Timely capital expenditures supported strong growth in international operations.



Pigment auxiliary for color inkjet printer ink



# 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

# Accelerate Growth of Health Care (Functional Food) Business

## Functional Food

✧ **Build a foundation for steady growth by increasing the number of loyal users**

- *Healthya* tea: Marketing initiatives to promote trials
- *Econa Healthy Cooking Oil*: Reinforce brand by making functions clearer

✧ **Develop new products that can be differentiated by their functions**

## New proposals derived from health care research

✧ **Expansion of diacylglycerol to the pet care business\***

✧ **Launch of *Megurism Steam Thermo Power Pad*\*\***



*Econa Healthy Cooking Oil*



*Healthya tea*



*Healthlab pet food*



*Megurism Steam Thermo Power Pad*

\* For further details on diacylglycerol, please see <http://www.kao.co.jp/rd/eng/products/health/details.html>

\*\* News release <http://www.kao.co.jp/en/news/2005/n20050906-01pc.html>

# Reform Consumer Products Business in Asia

## ○ Rapidly changing business environment

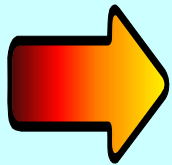
- ↳ Consumer values are changing
- ↳ Global retailers are expanding their presence

## ✧ Cooperation to optimize the entire Asian region

## ✧ Standardization of business processes

- ↳ Implementation of SAP

## ✧ Sharing *The Kao Way*



**Integration of business operations in Asia, including Japan, will be completed in January 2006**

- ↳ R&D, production, marketing and sales

# Recent Topics

## ✧ Nationwide rollout of *Enova Oil* in the United States (since January 2005)

- Steadily nurture the business
- Marketing initiatives to increase trials



*Enova Oil*

## ✧ Acquisition of *Molton Brown*, a modern luxury goods company (July 2005)

- Accelerate development of Prestige Cosmetics business globally
- Create synergies through cooperation with Prestige Cosmetics business in Japan



*Molton Brown Emporia*



*Molton Brown products*

## ✧ Establishment of Internal Control Committee (September 2005)

- Further enhance management quality

# FY2005 Forecast

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		<u>Year-on-year change</u>
✧ Net sales:	¥965.0 billion	+3.0%
✧ 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*:	¥135.81	+3.5%
✧ Cash dividends per share:	¥50	+¥12
↳ Payout ratio	36.8%	