

Highlights for FY2006

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Kao Corporation

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

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

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Agenda

■ ■ **Summary of FY2006**

■ ■ **Growth Strategies and Structural
Reorganization of Business Operations**

■ ■ **FY2007 Forecast**

Summary of FY2006

FY2006 Financial Overview

Net sales and profits exceeded our forecast

	<u>Year-on-year</u>	Excluding Kanebo Cosmetics-related impact	
Net sales: ¥1,231.8 billion	+26.8%	¥1,030.7 billion	+6.1%
Operating income: ¥120.8 billion	+0.6%	¥125.0 billion	+1.7%
Ordinary income: ¥120.1 billion	-1.5%	¥126.6 billion	+1.3%
Net income: ¥70.5 billion	-0.9%	¥70.6 billion	-3.1%
EBITDA: ¥213.0 billion	+17.8%	¥185.4 billion	+2.4%
ROE:	13.1% -180 bps		
Net income per share:	¥129.41 -0.9%		
Shareholder returns			
Cash dividends per share:	¥52 +¥2		
Payout ratio:	40.2%		



Growth Strategies and Structural Reorganization of Business Operations

Growth Strategies

Profitable growth driven by high-value-added products

- Accelerate growth in the business areas of Beauty Care and Human Health Care***
- Further strengthen and develop Fabric and Home Care, a core business**
- Further enhance the Chemical Products business globally and locally with distinctive products that meet customer needs**

*The scope of “Human Health Care” does not include pharmaceuticals.



A Changing Operating Environment

Society

- Structural changes including the declining birth rate, aging population, later marriage and increase in single households

Consumer

- Higher demand for emotional satisfaction in addition to functional value
- Changing sense of values
- Changing purchase attitudes

Trade/ Distribution

- Shift to competition based on added-value
- Changing retail channel structure
- Changing how stores sell products and provide information

Competition

- Different and fierce competition across business fields

Respond intelligently to the essential factors driving change by accurately understanding consumer perspectives

➡ *Structural reorganization of business operations*

New Business Units and Main Product Categories

Consumer Products
Business

Beauty Care

FY2007 Sales Forecast: ¥625 billion

Beauty salon products
Prestige cosmetics
Premium skin care
Premium hair care



Human Health Care

FY2007 Sales Forecast: ¥187billion

Functional food/beverage
Oral care
Blood circulation related
(incl. bath additives, thermo pads)
Sanitary products



Consumer Products
Business

Consumer
driven

Fabric and Home Care

FY2007 Sales Forecast: ¥270 billion

Laundry detergent, fabric softener
Products for kitchen/bath/toilet and
living care



Consumer Products
Business

Chemical

FY2007 Sales Forecast: ¥240 billion

Oleo chemicals
Performance chemicals
Specialty chemicals

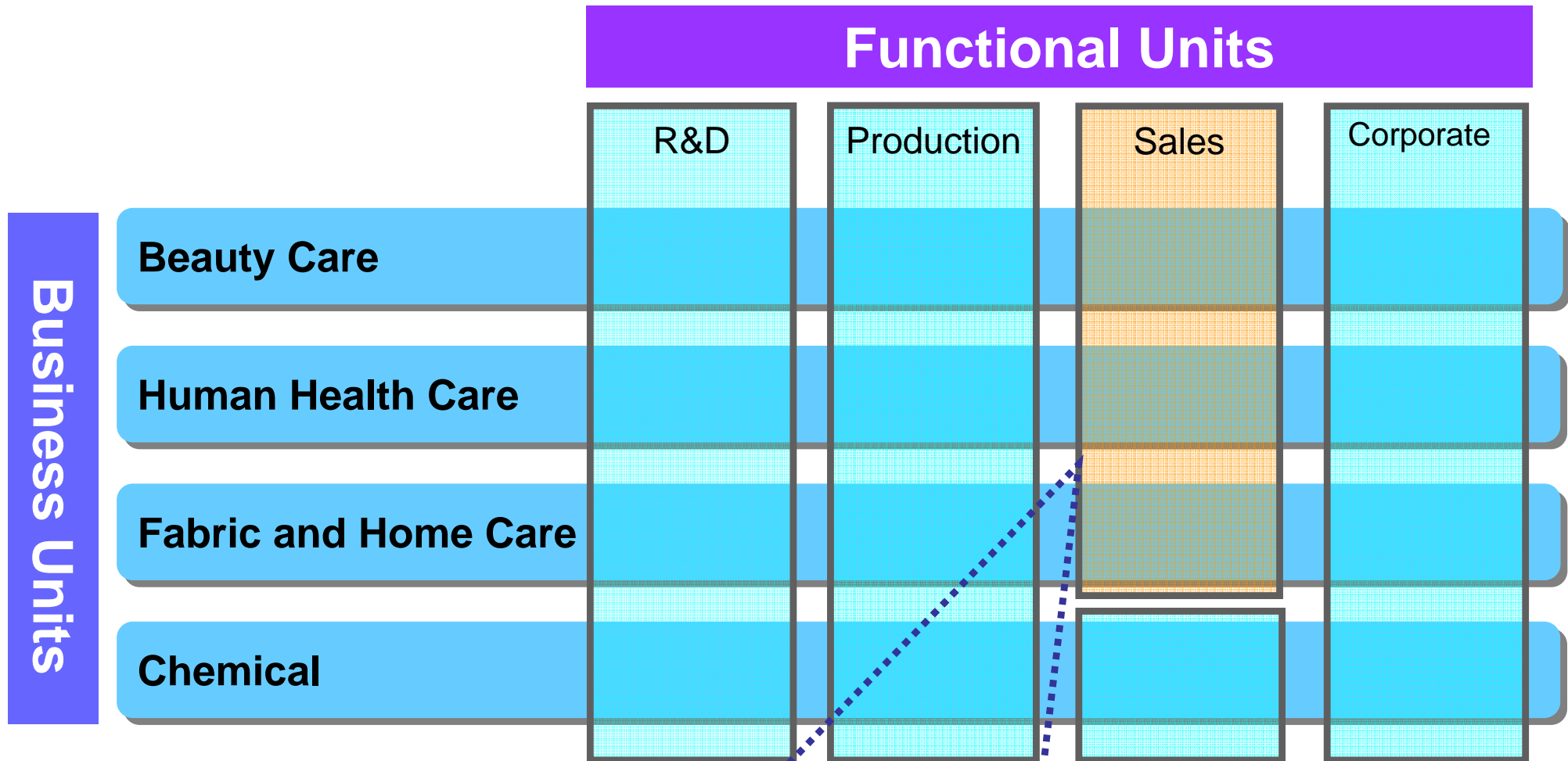


Chemical Business

*FY2007 sales forecasts include inter-segment sales.

Matrix Management among Business and Functional Units

Speedy and steady execution of growth strategies
driven by consumer perspectives



Establishment of Kao Customer Marketing Co., Ltd. on April 1, 2007



Beauty Care Business Unit

FY2006 Topics

- Kao maintained its number one position (*1) in the shampoo/conditioner market in Japan despite fierce competition.
- *Kanebo Cosmetics* performed in line with our expectations, while *Kao Sofina* sales were down slightly from the previous fiscal year due to a soft mid-priced cosmetics market.
- Rollout of *Asience* premium hair care in Singapore following this brand's success in Taiwan and Hong Kong.
- Premium beauty care in North America and Europe grew mainly due to new products.



Essential Damage Care
hair care products



Jergens natural glow

FY2007 Topics

- Kao will strengthen its number one position (*1) in the shampoo/conditioner market with the launch of a new hair care brand, *Segreta*.
- *Molton Brown* modern luxury brand will expand the areas in which it operates.
- Proactive investment to accelerate growth of *Kanebo Cosmetics*.



Segreta hair care products



Molton Brown



*1: Source: SRI POS data

Kanebo Cosmetics

FY2006 Topics

Net sales (Feb-Dec): ¥200+ billion (+2.3% year-on-year)

-Reference/ (Jan-Dec): ¥210+ billion (+2.1% year-on-year)

Operating margin* (Feb-Dec): approximately 11%

-Reference/ (Jan-Dec): approximately 10%

* Operating margin before amortization of intellectual property rights and others

- The launches of *Impress*, a new premium prestige skin care brand, and *Lavshuka* makeup and the success of *Blanchir Whitening Conclusion* whitening serum contributed to sales expansion.
- Proactive investment in China started.

FY2007 Topics

-Forecast-

Net sales (Jan-Dec): ¥220+ billion (+3-4% year-on-year)

Operating margin* (Jan-Dec): approximately 8%

* Operating margin before amortization of intellectual property rights and others

- Continuous initiatives in Japan to reinforce selected brands.
- Full-scale proactive investment in China.
- Initiatives to realize cost synergy toward FY2010 in progress.

(Beauty Care Business Unit)



Impress



Lavshuka



Blanchir Whitening Conclusion



Kanebo Cosmetics Operations in China

(Beauty Care Business Unit)

	Department stores	High-end drugstores	Net sales
FY2010 Plan	500 outlets	1,000 outlets	¥20 billion
FY2007 Plan	300 outlets	300 outlets	
FY2006 Actual	Approximately 240 outlets	Approximately 100 outlets	Approximately ¥2 billion
	[Brands] AQUA Impress/Lunasol Kanebo International	[Brand] freeplus	



Human Health Care Business Unit

FY2006 Topics

- The launches of *Healthya Water* sports drink and *Medicated Pyuora* toothpaste and mouthwash were successful.
- Performance of *Econa Healthy Cooking Oil* was flat because of continued price competition.
- Sales of *Merries* baby diapers continued to expand as consumers recognize the brand's value.
- *Laurier F* sanitary napkins were introduced in Hong Kong and Singapore.



Medicated Pyuora



Healthya Water



Laurier F



Econa Healthy Cooking Oil Plus

FY2007 Topics

- Strengthen the *Healthya* brand based on the appeal of the health benefits of tea catechin.
- Emphasize how the ability of *Econa Healthy Cooking Oil Plus* to prevent fat deposits and lower cholesterol differentiates the *Econa* brand from competitors.
- Further enhance brand loyalty for *Merries* and *Laurier* through research into skin comfort.



Fabric and Home Care Business Unit

FY2006 Topics

- High-value-added new products contributed to sales expansion in Japan.
 - ↳ In fabric care: *Attack ALL in* laundry detergent, *Humming Flair Relaxing Herbal Scented*, etc.
 - ↳ In home care: *Resesh Refreshing Scent* fabric freshener, *Quickle Wiper Handy* household duster kit, etc.
- In Thailand, new *Attack Easy* laundry detergent was successful because it meets consumer needs.



Attack ALL in



Humming Flair Relaxing Herbal Scented



Quickle Wiper Handy

FY2007 Topics

- Kao will further strengthen the *Attack* brand.
 - ↳ In Japan, Kao will reinforce *Attack*'s number one position ^(*) in the laundry detergent market in celebrating its 20th anniversary.
 - ↳ In Thailand, we will follow up on the success of *Attack Easy* by launching *Attack Soft Plus*.
- Kao will make proposals that offer young housewives pleasure and comfort in their household chores.



Attack Soft Plus

*1: Source: SRI POS data

Chemical Products Business Unit

FY2006 Topics

- Capital expenditures for production facilities for fatty alcohols and toner and toner binder will support mid- and long-term growth.
- In Japan, the weak performance of IT-related materials was offset by higher sales of performance chemicals such as superplasticizers for concrete admixtures.
- Momentum continued in North America and Europe due to timely capital investment for production facilities such as fatty amines and toner and toner binder for copiers and printers.
- High raw material costs spurred by the rise in crude oil prices impacted profitability.

FY2007 Topics

- Production capacity expansion for fatty alcohols in the Philippines will enable us to increase sales.
- High-value-added specialty chemicals are an area of focus. Kao will respond to customers' needs and expand sales by collaborating with rapidly growing industries.
- Kao will further strengthen performance chemicals through increased functionality and low-cost operations.
- Prices for natural oils and fats are rising, mainly due to increasing demand for bio diesel fuel.



Consumer Products Business in Asia

FY2006 Topics

Achievements in integrating business operations in Asia, including Japan

- Accelerated roll-out of successful value-added products in Japan to Asian countries.
ex. *Asience* hair care products, *Laurier F* sanitary napkins
- Collaboration with retailers
- Standardization of work processes helped improve quality and increase speed
- Optimization of management information by using SAP



Asience



Laurier F

FY2007 Topics

- Kao has positioned FY2007 as a year to expand sales and strengthen its presence in growing Asian markets by aggressively introducing value-added products.
- Kao will reduce losses in China by expanding sales.

Free Cash Flow Expansion and Use

Annual free cash flow has increased to about ¥100 billion with the addition of Kanebo Cosmetics

Capital expenditures and M&A for future growth

Steady cash dividends, aiming for consolidated payout ratio in the range of 40%

Repayment of interest-bearing debt



Share repurchases as a part of shareholder returns

*Free cash flow = Net cash provided by operating activities – Net cash used in investing activities



FY2007 Forecast

Aiming for Mid- and Long-term Growth

FY2006 operating income: ¥120.8 billion



1. Major proactive investments

- Prestige cosmetics: Proactive investments in China and other areas
- Consumer products business: Aggressive marketing expenditures for sales expansion

Estimated impact on profit

2. Impact of higher raw material prices in Japan

approximately -¥8.0 billion

3. Total Cost Reduction (TCR) activities

approximately +¥5.0 billion

FY2007 operating income forecast: ¥114.0 billion



- Increased sales
- Cost reductions
- Completion of a portion of amortization

**Exceed record operating income of ¥121.3 billion
as early as possible after FY2008**

FY2007 Forecast

Profitable growth through 2010 by investing proactively in sales expansion

		<u>Year-on-year</u>
Net sales:	¥1,290.0 billion	+4.7%
Operating income:	¥114.0 billion	-5.7%
Ordinary income:	¥111.0 billion	-7.6%
Net income:	¥66.0 billion	-6.4%
EBITDA:	¥209.0 billion	-1.9%
ROE:	11.3%	-180 bps
Net income per share:	¥121.08	-6.4%
Shareholder returns		
Cash dividends per share:	¥54	+¥2
Payout ratio:	44.6%	

