

Highlights for the 1st Half of FY2006

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This is a translation of materials used for the analyst meeting held in Japan on October 23, 2006.

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 23, 2006. Some factors, which include, but are not limited to, the risks and uncertainty associated with the worldwide economy, competitive activity, fluctuations in currency exchange and interest rates, could cause actual results to differ materially from expectations.

Agenda

- ✧ **Summary of the 1st Half of FY2006**
- ✧ **Growth Strategies: Progress and Future Initiatives**
- ✧ **FY2006 Forecast**

Summary of the 1st Half of FY2006

1st Half of FY2006 Financial Overview

Net sales and profits in line with our forecast, excluding the deferred tax asset valuation allowance

		<u>Year-on-year</u>
✧ Net sales:	¥602.5 billion	+24.7%
✧ Operating income:	¥58.4 billion	-7.4%
✧ Ordinary income:	¥58.4 billion	-8.1%
✧ Net income:	¥29.5 billion	-23.2%
✧ EBITDA:	¥102.1 billion	+12.7%
✧ Net income per share:	¥54.26	-23.3%
✧ Shareholder returns:		
➤ Cash dividends per share:	¥26 (+1 yen year-on-year)	

<u>Excluding Kanebo Cosmetics related impact</u>	
	<u>Year-on-year</u>
¥511.6 billion	+5.9%
¥61.0 billion	-3.3%
¥61.9 billion	-2.6%
¥30.4 billion	-20.8%
¥90.0 billion	-0.7%

Kanebo Cosmetics
February-June 2006

- Net sales: Around ¥90.0 billion
- Operating margin: 9%+

Growth Strategies: Progress and Future Initiatives

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.

Beauty Care Business Area

Business segment/category

Topics

Prestige Cosmetics

○ **Strengthen prestige cosmetics business globally**

- Activities to generate synergy
- *Kanebo Cosmetics* business development in China
- Good performance of *Molton Brown*

Personal Care in Japan

○ **Reinforce hair care category**

- Line extensions of the *Asience brand*
- Renewal of *Essential* hair care products

Personal Care in North America/Europe

○ **Expand premium personal care**

- Kao Brands Company: Successful *Jergens natural glow* moisturizer
- KPSS: Thorough renewal of KMS professional hair care products

◇ **Future Initiatives**

- Expand prestige cosmetics business globally with *Kanebo Cosmetics* and *Molton Brown*
- Reinforce premium personal care in North America and Europe

The Kao Group's "Over 10 Billion Yen" Cosmetics Brands

(Beauty Care Business Area)

8 brands → 16 brands by FY2010



FINE-FIT



T'ESTIMO



REVUE



BLANCHIR



MOLTON BROWN



TWANY



SALA



KATE

Synergy with Kanebo Cosmetics

(Beauty Care Business Area)

Top priority:

Enhance value of selected brands by meeting consumers' needs

*Intensive investment
for top-line growth*



Impress



Lunasol

◆ Focus on 28 selected brands

- New skin analyzers for enhanced counseling at counters

◆ Reinforce business in China by establishing presence in the prestige cosmetics market

- Department stores

- ↪ Introduction of *Impress* and *Lunasol*

- ↪ Number of stores handling Kanebo Cosmetics:
Approximately 500 stores in 2009 (currently 200)

- High-end pharmacies

- ↪ Number of stores handling Kanebo Cosmetics:
Approximately 1,000 stores in 2009 (currently 30)

*Activities to generate
cost synergy*

Expected short-term synergy

- ◆ Cost savings in raw/packaging material procurement, media buying, etc.
- ◆ Mutual use of production facilities
- ◆ Joint delivery

Hair Care Category in Japan

(Beauty Care Business Area)

No.1 share in Japan's shampoo/conditioner market

<p>Asience</p> <p>アジエンス</p> 	<p>Line extension launches</p> <p>April <i>Asience Rich and Condensed Hair Mask</i></p> <p>October <i>Asience Hair Beautifying Make Whip/ Hair Beautifying Make Veil</i></p> 
<p>Essential</p> <p>Essential DAMAGE-CARE</p>	<p>August Relaunch</p> <p>For the finished look that contemporary women seek</p> 
<p>Merit</p> <p>メリット</p>	<p>April Relaunch</p> <p>Appropriate care for today's scalp conditions</p> 
<p>Sala</p> <p>SALA</p>	<p>August Relaunch</p> <p>Hair care with the sensibility of cosmetics</p> 

Human Health Care Business Area

Business segment/category

Feminine Care, Baby Care and Others in Japan



Healthy Water



Medicated Pyuora oral care products



Laurier F sanitary napkin

Personal Care in Japan

❖ Further Initiative

- Expand and strengthen human health care business by adding oral care, feminine and baby care, etc., to existing healthy functional foods

Topics

○ *Healthya* drink

- *Healthya Water* sports drink helped fuel the *Healthya* brand value enhancement beyond our original expectations

○ *Econa Healthy Cooking Oil*

- Enhance brand power with a focus on health benefits, based on Food for Specified Health Use approval

○ Feminine care/baby care

- Continued good performance of *Laurier F*, which pursues comfort and emotional satisfaction
- Sales growth of *Merries* pants-type baby diapers with breathability and improved toddler comfort

○ Reinforce oral care

- Offer oral health care with the launch of a new brand, *Medicated Pyuora*

Fabric and Home Care Business Area

Business segment/category

Fabric and Home Care



Attack ALL in



Family Kyukyutto with Citric Acid - For Dishwasher Use



New Beads with Fabric Softener



Humming Flair Relaxing Herbal Scented

Topics

○ Top-line growth with new high-value-added products that activate the market

- Laundry detergent
 - ↳ Attack ALL in
 - ↳ New Beads with Fabric Softener
- Fabric softener
 - ↳ Humming Flair Relaxing Herbal Scented
- Kitchen care
 - ↳ Family Kyukyutto with Citric Acid - For Dishwasher Use

◇ Future Initiative

- Generate stable profit with new/improved, high-value-added products that absorb high raw and packaging material costs

Chemical Products Business Area

Business segment/category

Chemical Products



Fatty alcohols



Polishing agents
for hard disks



Color toner products
for copiers

Topics

- **Further sustainable growth by focusing on the three core business fields**
 - Oleo chemicals
 - Specialty chemicals
 - Performance chemicals
- **Continuous top-line growth supported by intensive capital investment**
 - Tertiary amines (Germany)
 - High-performance concrete admixtures (Germany)
 - Toner and toner binder (United States and Spain)
 - Fatty alcohols (Philippines)

◇ Future Initiatives

- Further global expansion of oleo chemicals and specialty chemicals
- Smooth start-up of new production facilities and higher capacity utilization rates

Establishment of Global Management System

Integration of business operations in Asia, including Japan

○ Harmonization between Japan and local subsidiaries in sales and marketing

- ↪ Expansion of *Asience* hair care products into Singapore after successful rollout in Taiwan and Hong Kong
- ↪ Contribution of *Attack Easy* to top-line growth in Thailand
- ↪ Introduction of *Laurier F* in Hong Kong and Singapore

○ Promotion of global supply chain management

- ↪ New plant in Thailand as a hub production facility for ASEAN region
- ↪ Optimization of SAP



Asience



Attack Easy

Aiming at top-line growth that generates mid- and long-term profit



Laurier F



FY2006 Forecast

FY2006 Forecast

Double-digit growth in EBITDA and cash flow expansion toward further growth

		<u>Year-on-year</u>
✧ Net sales:	¥1,220.0 billion	+25.6%
✧ Operating income:	¥117.0 billion	-2.6%
✧ Ordinary income:	¥115.0 billion	-5.7%
✧ Net income:	¥68.0 billion	-4.4%
✧ EBITDA:	¥206.0 billion	+13.9%
✧ ROE:	12.8%	-210 bps
✧ Net income per share:	¥124.78	-4.4%
✧ Shareholder returns:		
➤ Cash dividends per share:	¥52	
	(+2 yen year-on-year, payout ratio 41.7%)	

<u>Excluding Kanebo Cosmetics related impact</u>	
	<u>Year-on-year</u>
¥1,020.0 billion	+5.0%
¥122.0 billion	-0.8%
¥123.0 billion	-1.6%
¥69.5 billion	-4.8%
¥180.0 billion	-0.5%

<u>Kanebo Cosmetics</u>	
February-December 2006	
● Net sales:	¥200.0 billion
● Operating margin:	Around 10%

