

# Annual Financial Review

From April 1, 2007 to March 31, 2008

Kao Corporation

April 23, 2008

This is a translation of materials used for the analyst meeting held in Japan on April 23, 2008.



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

<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 23, 2008.

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

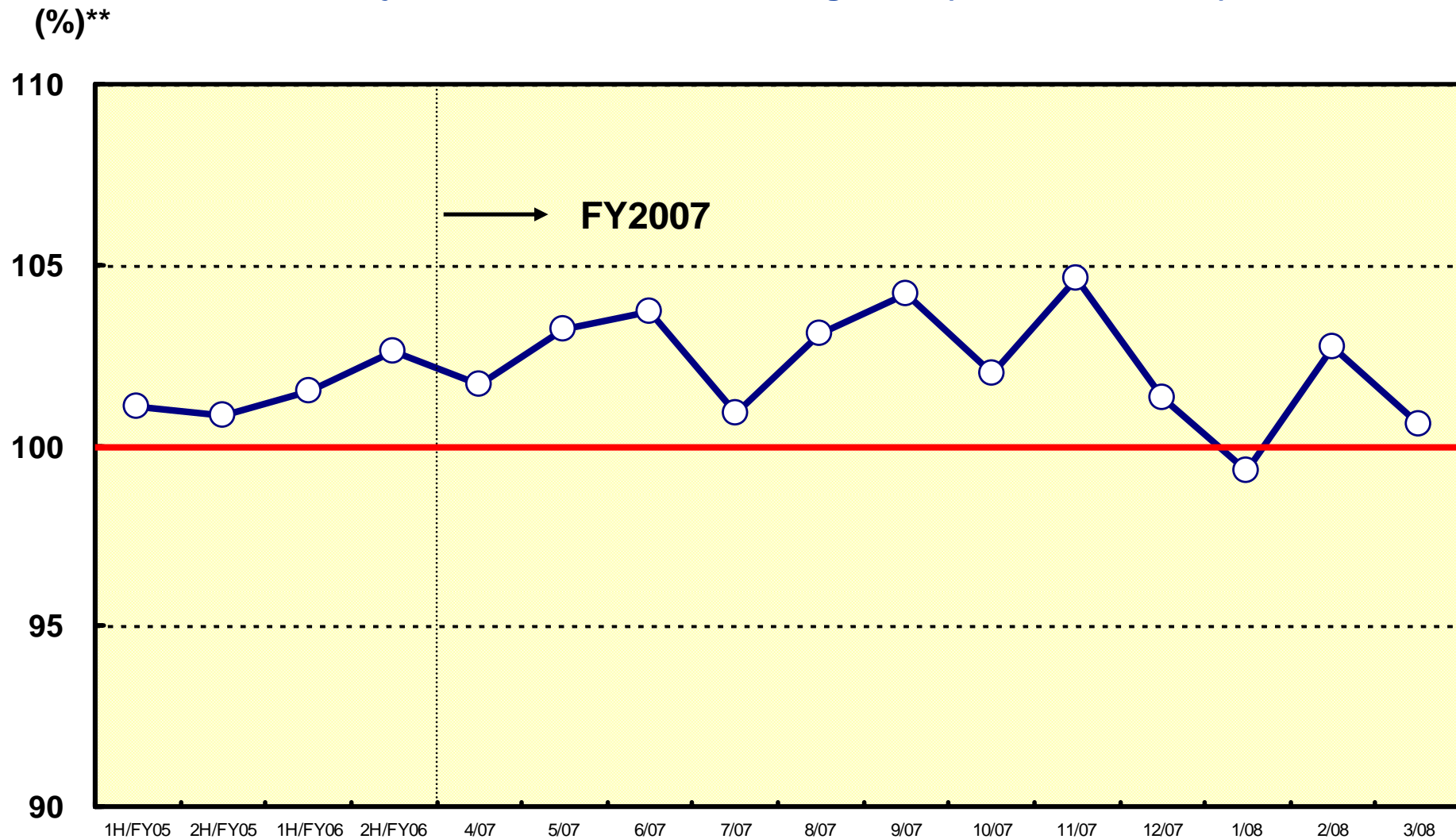
(The yen amounts in this presentation material are rounded down.)

# 1. Business Environment

April 1, 2007 – March 31, 2008

# Consumer Products Market

75 Major Consumer Products Categories\* (All manufactures)



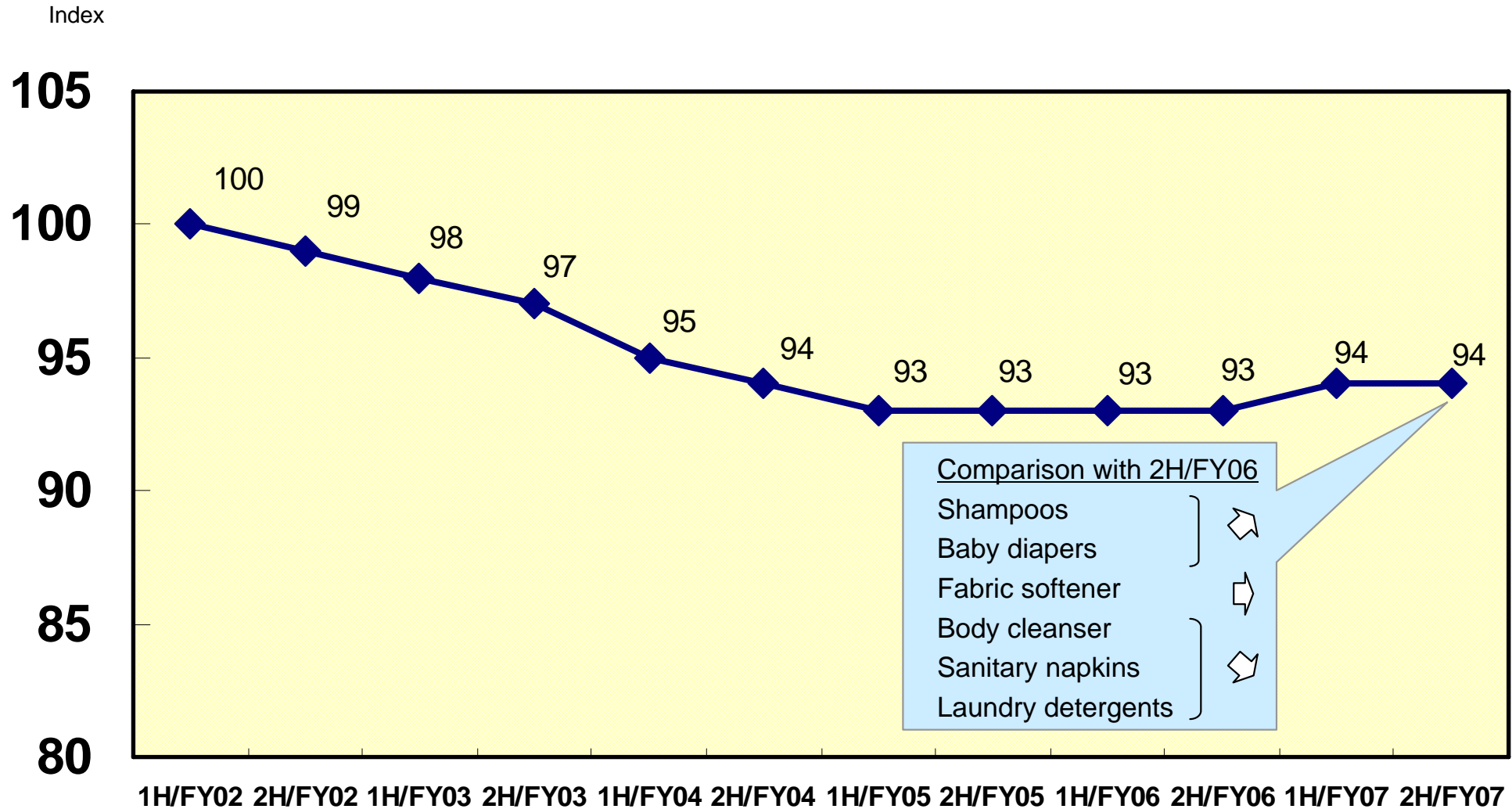
\*Consumer products categories do not include prestige cosmetics.

\*\*Year-on-year growth rate of market size in value (yen)

(Source: SRI POS data)

# Average Consumer Purchase Price

15 Major Consumer Products Categories\* (All manufactures)



\*Consumer products categories do not include prestige cosmetics.

(Source: SRI POS data)

# 2. Consolidated Business Results

April 1, 2007 – March 31, 2008

# Key Points in FY2007

## Japan sales related

1. Contribution of new products in Consumer Products business\*<sup>1</sup> in Japan: 9%
2. Sales prices of existing products in Consumer Products business\*<sup>1</sup> in Japan: Flat
3. Price adjustments in Chemical business

## Net sales and income related

1. Net sales:
  - Growth rate: 1,318.5 billion yen (+7.0% year-on-year)
  - Currency translation impact: +20.2 billion yen (+1.6% year-on-year)
  - Like-for-like sales growth: +66.5 billion yen (+5.4% year-on-year)
2. Impact of higher raw material prices: -21.0 billion yen
3. Total Cost Reduction (TCR) activities: +8.0 billion yen
4. Impact from Kanebo Cosmetics consolidation: -3.4 billion yen

## Balance sheets and cash flow related\*<sup>2</sup>

1. Share repurchases: 30.0 billion yen
2. Payments of cash dividends: 29.6 billion yen
3. Repayment of long-term debt: 42.0 billion yen

\*1 Excludes prestige cosmetics.

\*2 Yen amounts are rounded.

# FY2007 Consolidated Results

Billion yen	<u>FY05</u>	<u>FY06</u>	<u>FY07</u>		
				Growth	Changes
<b>Net Sales</b>	971.2	1,231.8	1,318.5	<b>7.0%</b>	<b>+86.7</b>
<b>Operating Income</b>	120.1	120.8	116.2	<b>-3.8%</b>	<b>-4.6</b>
<i>Operating Margin</i>	<i>12.4%</i>	<i>9.8%</i>	<i>8.8%</i>		
<b>Ordinary Income</b>	121.9	120.1	114.2	<b>-5.0%</b>	<b>-5.9</b>
<b>Net Income</b>	71.1	70.5	66.5	<b>-5.6%</b>	<b>-3.9</b>
<b>EBITDA</b>	180.8	213.0	209.6	<b>-1.6%</b>	<b>-3.3</b>
<b>ROE</b>	14.9%	13.1%	11.7%		
<b>EPS (yen)</b>	130.58	129.41	122.53	<b>-5.3%</b>	<b>-6.88</b>



# Consolidated Net Sales [1]

	FY2006	FY2007		
	Billion yen	Billion yen	%	
			Growth	Like-for-like
Beauty Care Business	416.0	448.6	7.8	7.8
Human Health Care Business	170.0	174.4	2.6	2.6
Fabric and Home Care Business	245.2	245.2	0.0	0.0
<b>Japan Total</b>	<b>831.3</b>	<b>868.4</b>	4.5	4.5
<b>Asia &amp; Oceania</b>	72.0	85.3	18.5	11.3
<b>North America &amp; Europe</b>	148.7	156.2	5.0	0.2
Elimination	-14.6	-16.1	-	-
<b>Consumer Products Business</b>	<b>1,037.4</b>	<b>1,093.8</b>	5.4	4.3

\*Like-for-like: excludes currency translation impact

# Consolidated Net Sales [2]

	FY2006	FY2007		
	Billion yen	Billion yen	%	
			Growth	Like-for-like
Japan	116.9	129.3	10.6	10.6
Asia	55.8	75.1	34.7	27.1
North America & Europe	82.9	98.8	19.2	11.5
Elimination	-32.0	-44.7	-	-
<b>Chemical Business</b>	223.6	<b>258.6</b>	15.7	11.9

Elimination	-29.2	-34.0	-	-
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<b>Consolidated Sales</b>	<b>1,231.8</b>	<b>1,318.5</b>	<b>7.0</b>	<b>5.4</b>
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\*Like-for-like: excludes currency translation impact

# Consolidated Income Statements

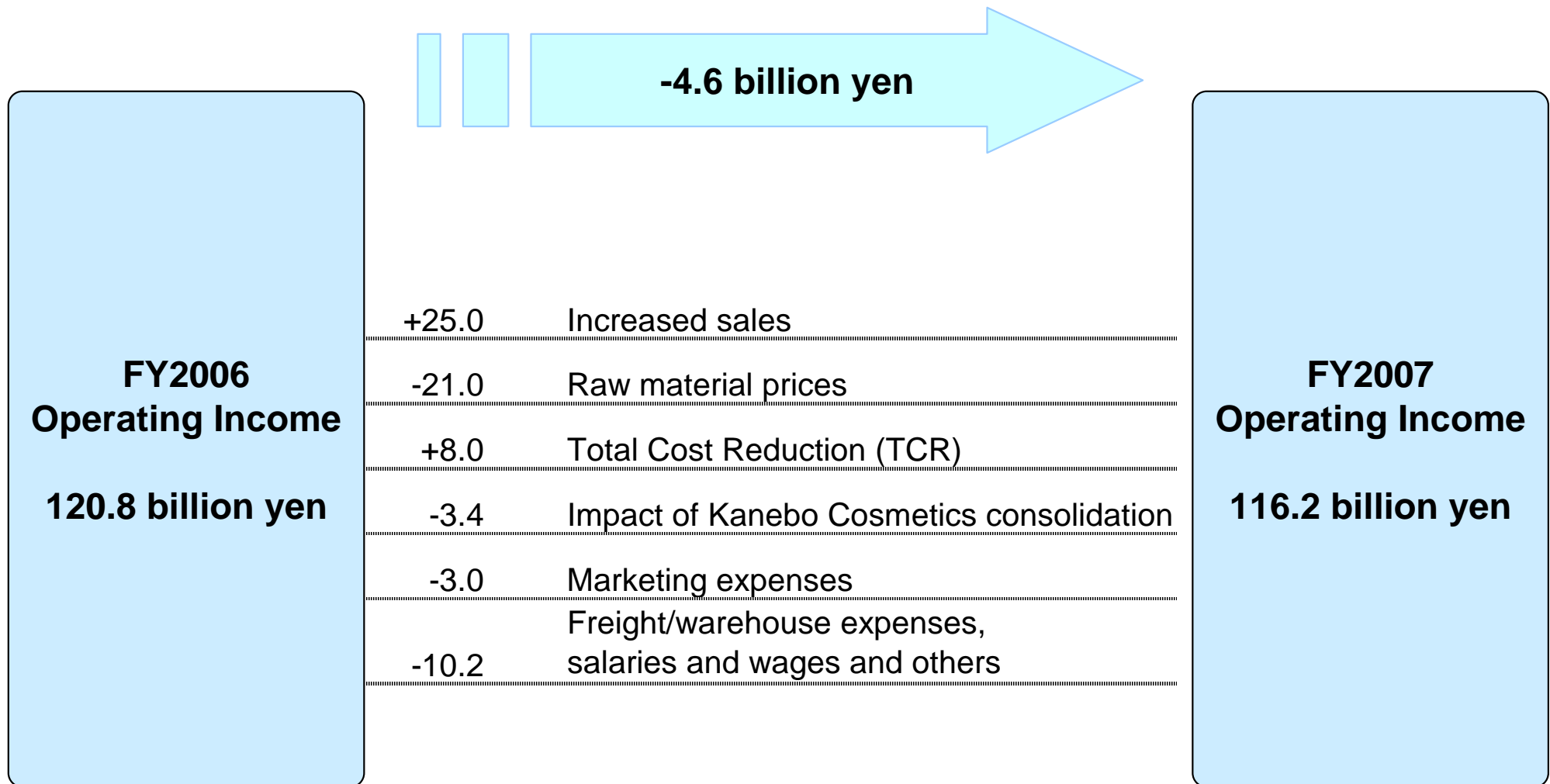
	FY2006		FY2007		Changes*
	Billion yen	%	Billion yen	%	Billion yen
Net Sales	1,231.8	100.0	1,318.5	100.0	86.7
Cost of Sales	503.2	40.9	554.1	42.0	50.8
Gross Profit	728.5	59.1	764.3	58.0	35.8
SG&A Expenses	607.6	49.3	648.1	49.2	40.4
Operating Income	120.8	9.8	116.2	8.8	-4.6
Non-operating Income/Expenses	-0.6	-0.0	-2.0	-0.1	-1.3
Ordinary Income	120.1	9.8	114.2	8.7	-5.9
Extraordinary Gain & Loss	-3.0	-0.3	-3.8	-0.3	-0.7
Income Before Taxes	117.1	9.5	110.3	8.4	-6.7
Income Taxes	45.1	3.7	42.7	3.3	-2.3
Minority Interests & Others (Minus)	1.4	0.1	1.0	0.1	-0.4
Net Income	70.5	5.7	66.5	5.0	-3.9

\* Changes = FY2007 – FY2006

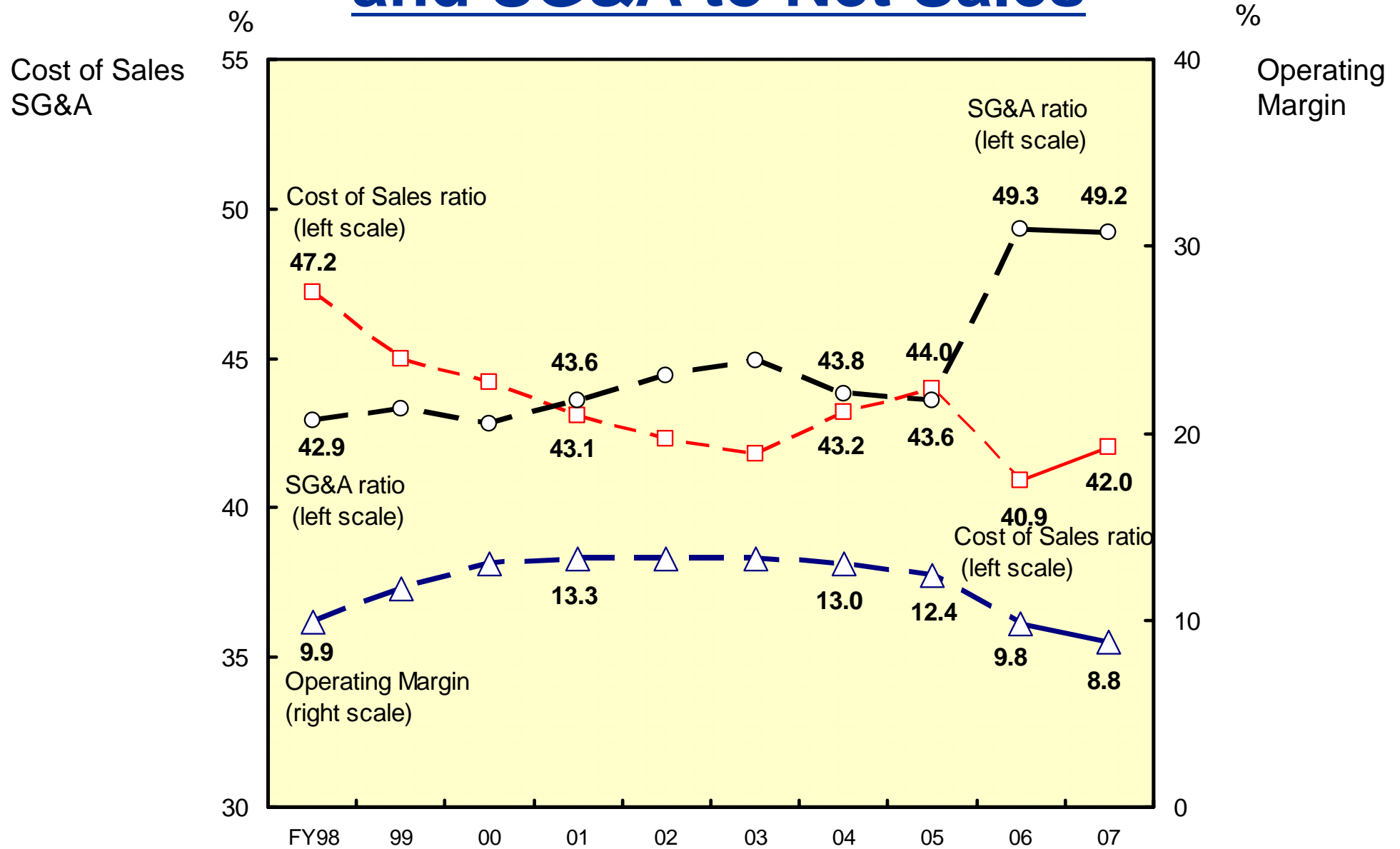
\*\* Amortization related to Kanebo Cosmetics  
FY2007: 27.4 billion yen, FY2006: 26.7 billion yen



# FY2007 Operating Income Analysis (Comparison with FY2006)



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



\*Structure has changed significantly since FY2006 due to the consolidation of Kanebo Cosmetics.



# Breakdown of Consolidated SG&A Expenses

(Billion yen)

	FY2006	FY2007	Changes*
<b>Total SG&amp;A Expenses</b>	607.6	648.1	40.4

Freight/Warehouse	68.6	74.1	5.5
Advertising	96.8	99.1	2.2
Sales Promotion	69.0	77.1	8.0
Salaries and Wages	118.8	129.0	10.2
R&D	44.3	45.0	0.6

\* Changes = FY2007 – FY2006

# Non-operating Income/Expenses and Extraordinary Gain/Loss

(Billion yen)

<b>Non-operating Income/Expenses</b>	<b>FY2006</b>	<b>FY2007</b>	<b>Changes*</b>
<b>Non-operating Income</b>	6.2	6.7	+0.4
Interest Income	2.1	2.9	
Dividend Income	0.1	0.1	
Foreign Currency Exchange Gain	0.5	-	
Other	3.4	3.5	
<b>Non-operating Expenses</b>	6.9	8.7	+1.7
Interest Expense	5.0	6.6	
Equity in Losses of Nonconsolidated Subsidiaries and Affiliates	0.7	0.6	
Foreign Currency Exchange Loss	-	0.4	
Other	1.2	0.9	

<b>Extraordinary Gain/Loss</b>	<b>FY2006</b>	<b>FY2007</b>	<b>Changes*</b>
<b>Extraordinary Gain</b>	1.8	0.5	-1.3
Gain on Sales of Fixed Assets	0.6	0.1	
Gain on Sales of Investment Securities	0.0	0.0	
Reversal of Prior-year Depreciation at Overseas Subsidiaries	0.2	-	
Insurance Received	0.4	-	
Other	0.4	0.3	
<b>Extraordinary Loss</b>	4.9	4.3	-0.5
Loss on Sales/Disposals of Fixed Assets	2.7	1.8	
Loss on Impairment of Long-lived Assets	1.2	1.3	
Loss on Business Restructuring	-	0.5	
Other	0.8	0.6	

\* Changes = FY2007 – FY2006

# Sales and Operating Income by Business

		FY2006		FY2007		Changes Billion yen	Growth %
		Billion yen	% to net sales	Billion yen	% to net sales		
Beauty Care Business	Net sales*	584.2	-	<b>627.9</b>	-	+43.6	+7.5%
	EBITA**	69.8	12.0%	<b>68.0</b>	10.8%	-1.8	-2.7%
	Operating Income	29.8	5.1%	<b>27.2</b>	4.3%	-2.5	-8.6%
Human Health Care Business	Net sales*	183.6	-	<b>191.2</b>	-	+7.6	+4.2%
	Operating Income	11.8	6.4%	<b>13.1</b>	6.9%	+1.3	+11.4%
Fabric & Home Care Business	Net sales*	269.5	-	<b>274.6</b>	-	+5.1	+1.9%
	Operating Income	57.8	21.5%	<b>56.0</b>	20.4%	-1.7	-3.0%
Chemical Business	Net sales*	223.6	-	<b>258.6</b>	-	+35.0	+15.7%
	EBITA**	21.8	9.8%	<b>20.3</b>	7.8%	-1.4	-6.8%
	Operating Income	21.1	9.5%	<b>19.6</b>	7.6%	-1.4	-7.1%
Consolidated	Net sales	1,231.8	-	<b>1,318.5</b>	-	+86.7	+7.0%
	EBITA**	161.5	13.1%	<b>157.6</b>	12.0%	-3.9	-2.4%
	Operating Income	120.8	9.8%	<b>116.2</b>	8.8%	-4.6	-3.8%

\* Before elimination of intersegment transfers

\*\* Operating income before amortization of goodwill and intellectual property rights related to M&A



# Sales and Operating Income by Geography

		FY2006		FY2007		Changes Billion yen	Growth %
		Billion yen	% to net sales	Billion yen	% to net sales		
Japan	Net sales*	924.1	-	<b>968.5</b>	-	+44.3	+4.8%
	EBITA**	136.7	14.8%	<b>133.4</b>	13.8%	-3.3	-2.4%
	Operating Income	102.2	11.1%	<b>98.3</b>	10.2%	-3.8	-3.8%
Asia and Oceania	Net sales*	125.9	-	<b>158.2</b>	-	+32.3	+25.6%
	Operating Income	2.5	2.0%	<b>1.0</b>	0.7%	-1.4	-57.9%
North America	Net sales*	106.7	-	<b>111.0</b>	-	+4.2	+4.0%
	EBITA**	10.1	9.5%	<b>9.1</b>	8.2%	-0.9	-9.4%
	Operating Income	7.7	7.3%	<b>6.8</b>	6.2%	-0.9	-11.7%
Europe	Net sales*	135.9	-	<b>154.6</b>	-	+18.7	+13.8%
	EBITA**	12.4	9.2%	<b>12.9</b>	8.4%	+0.5	+4.2%
	Operating Income	8.6	6.4%	<b>9.0</b>	5.8%	+0.3	+3.8%
Consolidated	Net sales	1,231.8	-	<b>1,318.5</b>	-	+86.7	+7.0%
	EBITA**	161.5	13.1%	<b>157.6</b>	12.0%	-3.9	-2.4%
	Operating Income	120.8	9.8%	<b>116.2</b>	8.8%	-4.6	-3.8%

\* Before elimination of intersegment transfers

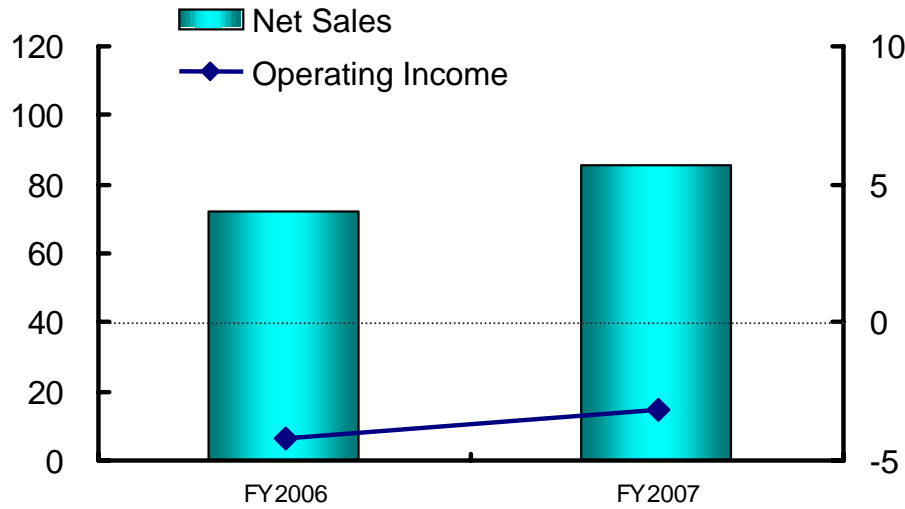
\*\* Operating income before amortization of goodwill and intellectual property rights related to M&A



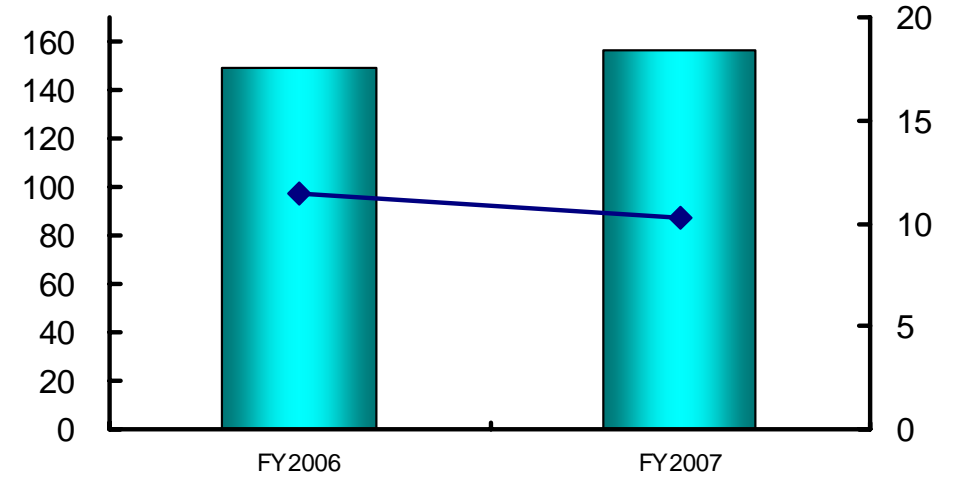
# Consumer Products Business

## Asia and Oceania

Sales (Billion yen)

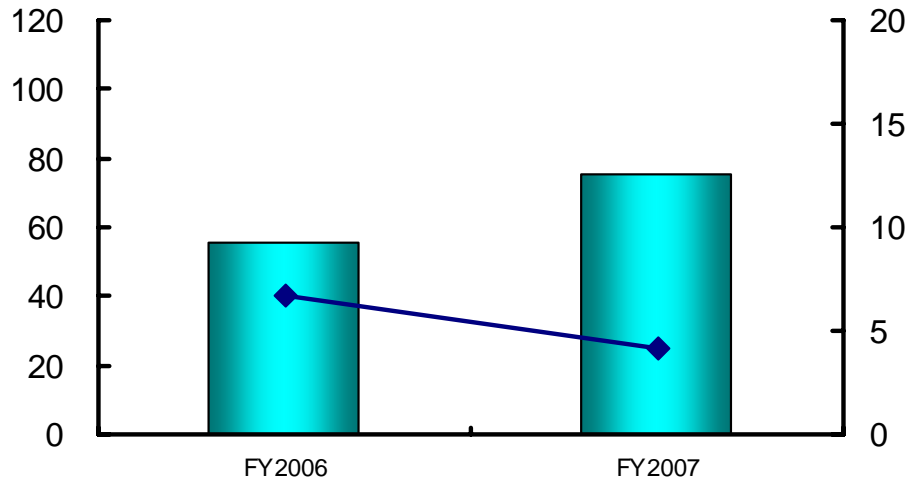


## North America & Europe

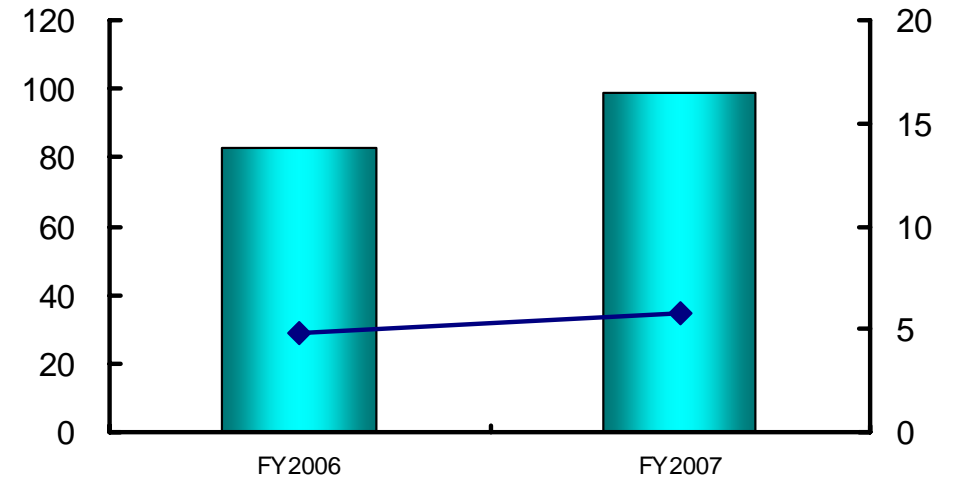


# Chemical Business

## Asia



## North America & Europe



# Consolidated Balance Sheets

(Billion yen)

	Mar/07	Mar/08	Changes		Mar/07	Mar/08	Changes
<b>Current Assets</b>	402.2	435.5	33.3	<b>Current Liabilities</b>	308.6	323.9	15.3
Cash and Bank Deposits	49.9	53.7	3.8	Notes and Accounts Payable	110.1	109.5	-0.5
Notes and Accounts Receivable	158.4	154.2	-4.2	Short-term Debt (incl. Current Portion of Long-term Debt)	43.9	43.8	-0.0
Short-term Investments	36.2	54.9	18.7	Other Accounts Payable	28.9	32.7	3.7
Inventories	112.1	125.5	13.4	Accrued Expenses	85.7	85.5	-0.2
Others	45.4	47.0	1.5	Others	39.8	52.2	12.3
<b>Fixed Assets</b>	845.5	796.9	-48.5	<b>Long-term Liabilities</b>	364.3	323.9	-40.4
Tangible Assets	289.0	281.7	-7.2	Straight Bond/Long-term Debt	311.7	269.7	-42.0
Intangible Assets	442.4	401.0	-41.3	Others	52.6	54.1	1.5
Investments	114.0	114.1	0.1	<b>Total Liabilities</b>	673.0	647.8	-25.1
Deferred Assets	0.0	0.0	-0.0				
				Shareholders' equity	573.5	582.0	8.4
				-Common Stock	85.4	85.4	-
				-Capital Surplus	109.5	109.5	-0.0
				-Retained Earnings	388.5	426.2	37.6
				-Treasury Stock, at Cost	-10.0	-39.1	-29.1
				Adjustment for Valuation, Foreign Currency Translation and Other	-9.0	-7.9	1.0
				- Unrealized Gain on Available-for-Sale Securities	4.6	3.3	-1.2
				- Foreign Currency Translation Adjustments	-13.6	-11.3	2.2
				Stock Acquisition Rights	0.3	0.5	0.2
				Minority Interests	9.9	10.0	0.1
				<b>Total Net Assets</b>	574.7	584.7	9.9
<b>Total Assets</b>	1,247.7	1,232.6	-15.1	<b>Total Liabilities and Total Net Assets</b>	1,247.7	1,232.6	-15.1

# Statements of Cash Flows

(Billion yen)

	FY06	FY07	Changes
Net cash provided by operating activities	164.9	180.3	15.3
Net cash used in investing activities	-63.2	-52.3	10.8
Net cash provided by (used in) financing activities	-83.6	-101.8	-18.1
Translation adjustments on cash and cash equivalents	2.5	-1.6	-4.1
Net Increase/(decrease) in cash and cash equivalents	20.6	24.4	3.8
Cash and cash equivalents, beginning of year	67.5	88.1	20.6
Cash and cash equivalents, end of period	88.1	112.6	24.4
Total Debt, end of period	355.7	313.6	-42.0

<Net cash used in investing activities>

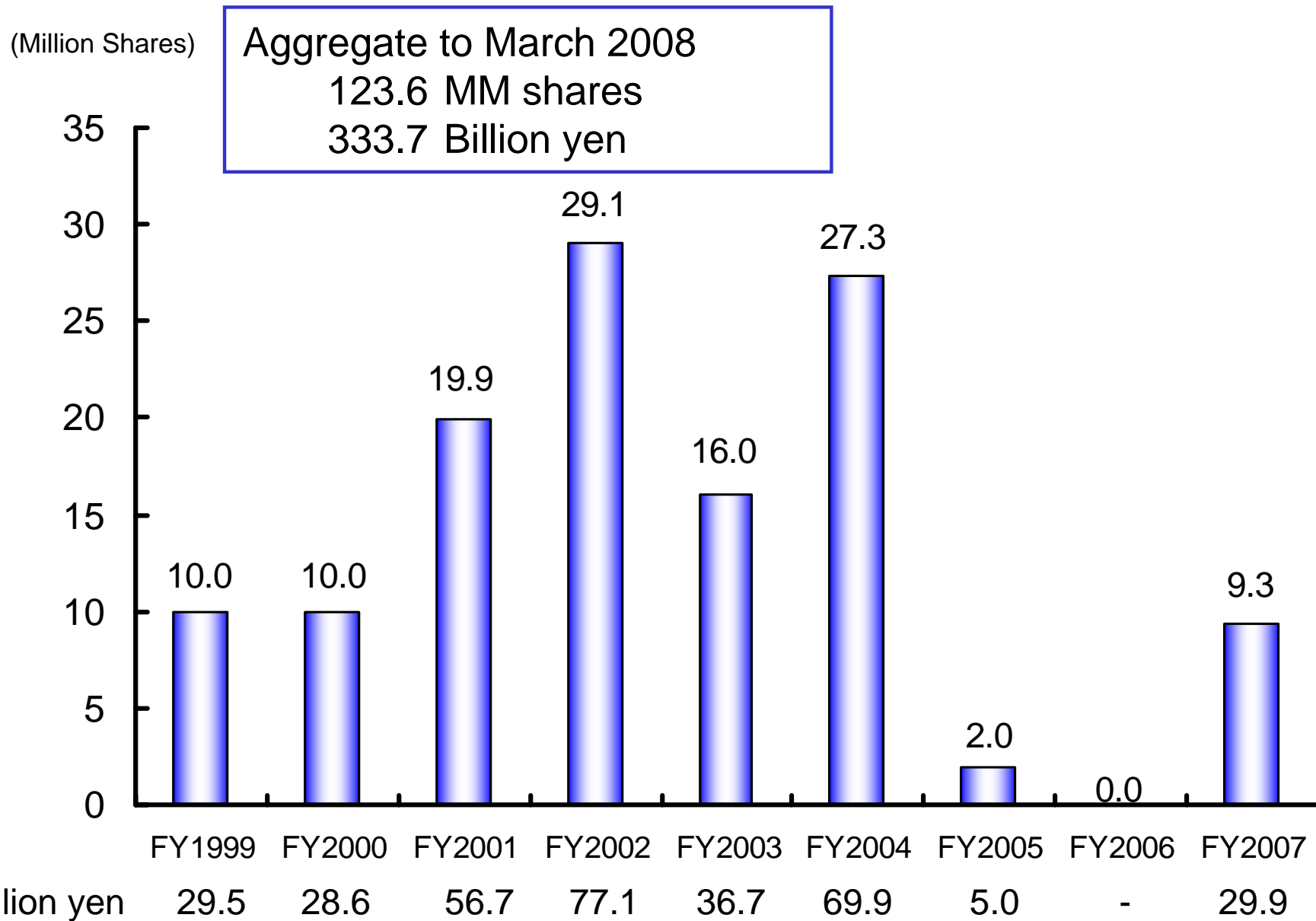
- Capital expenditures:       - Production facilities for new products  
                                       - Production capacity expansion etc.

<Net cash used in financing activities>

Share repurchases\* from the market: 30.9 billion yen

\*Includes repurchase of shares less than one unit

# Share Repurchase



\* Share repurchase from the market



## 3. Forecast for FY 2008

# Major Assumptions for FY2008 Forecast

- ◆ Sales prices of existing products in Consumer Products business\* in Japan will remain essentially flat
- ◆ Price adjustments in Chemical business in response to rising raw material prices
- ◆ Currency translation impact on net sales: approximately -¥14.0 billion
- ◆ Major proactive investments:
  - Consumer Products business in Japan: Strategic marketing investment in Japan for sales expansion by nurturing high-value-added products
  - Prestige cosmetics: Proactive investments in China and other areas

Estimated impact on income

- ◆ Impact of higher raw material prices approximately -¥24.0 billion
- ◆ Total Cost Reduction (TCR) activities approximately +¥8.0 billion
- ◆ Capital expenditures/depreciation and amortization
  - Capital expenditures: ¥65.0 billion
  - Depreciation and amortization: ¥89.0 billion

## Exchange rate assumptions

- ◆ 110 yen/USD (FY2007 actual exchange rate: 117.7 yen/USD)
- ◆ 160 yen/Euro (FY2007 actual exchange rate: 162.0 yen/Euro)

\* Excludes prestige cosmetics.

# Consolidated Sales and Profit Forecast

	FY2006 <sup>*2</sup>		FY2007 <sup>*3</sup>		FY2008(F) <sup>*1</sup> <sup>*4</sup>	
	Billion yen	% Growth	Billion yen	% Growth	Billion yen	% Growth
Net Sales	1,231.8	26.8	1,318.5	7.0	<b>1,330.0</b>	0.9
Operating Income	120.8	0.6	116.2	-3.8	<b>117.0</b>	0.6
[% to Sales]	9.8%		8.8%		8.8%	
Ordinary Income	120.1	-1.5	114.2	-5.0	<b>115.0</b>	0.7
[% to Sales]	9.8%		8.7%		8.6%	
Net Income	70.5	-0.9	66.5	-5.6	<b>69.0</b>	3.7
[% to Sales]	5.7%		5.0%		5.2%	

Net Income per Share (yen)	129.41	-0.9	122.53	-5.3	<b>128.70</b>	5.0
ROE	13.1%		11.7%		<b>11.6%</b>	
EBITDA (Operating Income + Depr. & Amort.)	213.0	17.8	209.6	-1.6	206.0	-1.8
Cash dividends per Share (yen)	52.0	4.0	54.0	3.8	56.0	3.7

\*1 Exchange rate assumptions: 110 yen/USD, 160 yen/Euro

\*2 Kanebo Cosmetics (Feb.-Dec. 2006): Net sales = ¥200+ billion / operating margin = approximately 11%; amortization related to Kanebo Cosmetics: ¥26.7 billion

\*3 Kanebo Cosmetics (Jan.-Dec. 2007) : Net sales = ¥220+ billion / operating margin = 8%+; amortization related to Kanebo Cosmetics: ¥27.4billion

\*4 Kanebo Cosmetics (Apr. 2008-Mar. 2009) : Net sales = approximately ¥230 billion / operating margin = approximately 9%; amortization related to Kanebo Cosmetics: ¥27.4billion



# Sales Outlook by Segment – FY2008

<Billion yen>

Consolidated Net Sales      **1,330**      **+0.9%**

## By Business\*

## By Geography\*

Beauty Care	<b>628</b>	<b>+0.0%</b>
Human Health Care	<b>190</b>	<b>-0.7%</b>
Fabric and Home Care	<b>282</b>	<b>+2.7%</b>
Chemical	<b>265</b>	<b>+2.4%</b>

Japan	<b>983</b>	<b>+1.5%</b>
Asia & Oceania	<b>159</b>	<b>+0.4%</b>
North America	<b>103</b>	<b>-7.2%</b>
Europe	<b>164</b>	<b>+6.0%</b>

\*Before elimination of intersegment transfers



# Sales Outlook by Business

**Beauty Care: +0.0%**

- Steady growth in Japan
- Steady sales overseas, but flat growth due to impact of currency translation

**Human Health Care: -0.7%**

- Sales decline in beverages due to intensifying competition

**Fabric and Home Care: +2.7%**

- Steady growth in Japan and elsewhere in Asia

**Chemical: +2.4%**

- Growth in Japan and elsewhere in Asia due to price adjustments in response to rising raw material prices and sales volume increase
- Flat growth in North America and Europe, with impact of weak U.S. dollar against yen

# Sales Outlook – FY2008

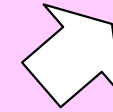
## - Consumer Products Business in Japan -

<Billion yen>

	1st Half			Full Year		
	FY2007 Actual	FY2008 Forecast	% Growth	FY2007 Actual	FY2008 Forecast	% Growth
Beauty Care	224.3	226.0	0.7%	448.6	455.0	1.4%
Human Health Care	86.6	86.0	-0.7%	174.4	172.0	-1.4%
Fabric and Home Care	123.0	126.0	2.4%	245.2	253.0	3.2%
Consumer Products Business	434.0	438.0	0.9%	868.4	880.0	1.3%

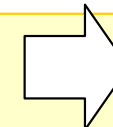
# Operating Income Outlook by Business

## **Beauty Care: Increase**



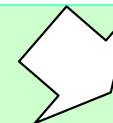
- Synergies among the Kao Group companies including Kanebo Cosmetics
  - Increase distribution efficiency in Japan
  - Enhance supply chain management overseas
- Decrease of 3 billion yen in amortization of goodwill and trademarks

## **Human Health Care: Flat**



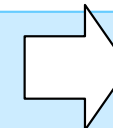
- Cost reductions and other initiatives to offset impact of sales decline

## **Fabric and Home Care: Decrease**



- Impact of rising raw material prices will exceed sales increase

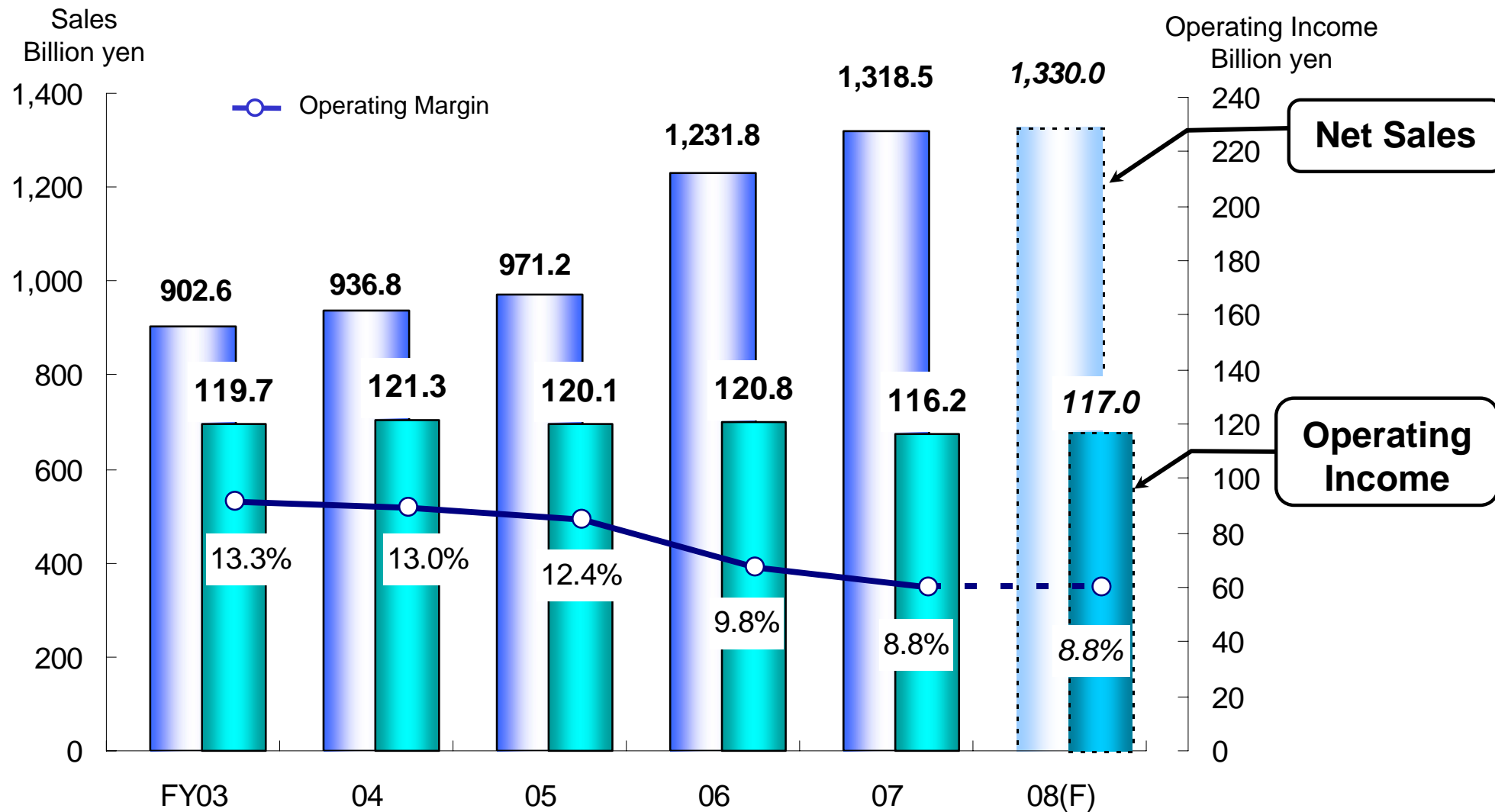
## **Chemical: Flat**



- Price adjustments in response to rising raw material prices
- High-value-added specialty chemicals are an area of focus

# Consolidated Net Sales/Operating Margin

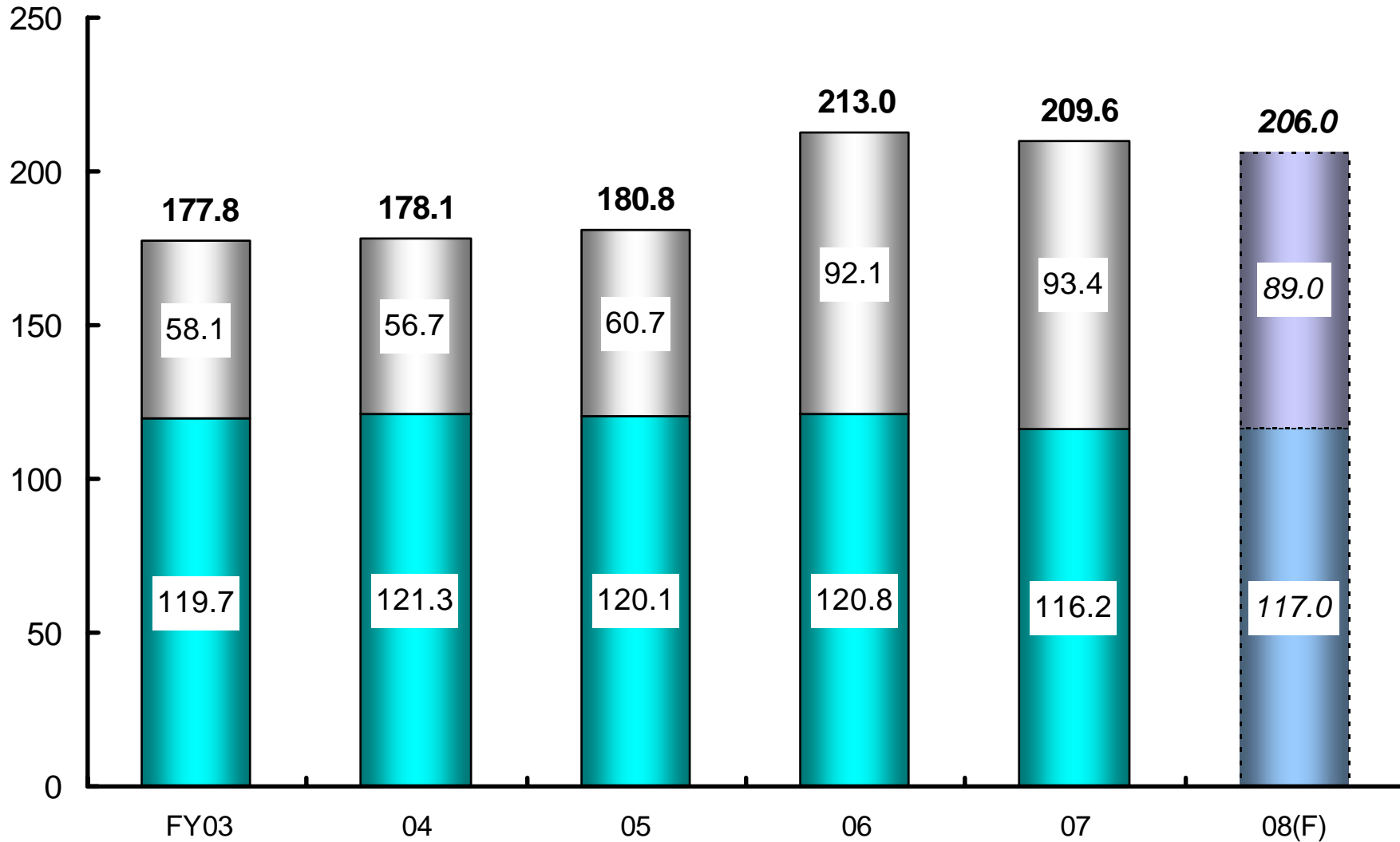
[Full Year]



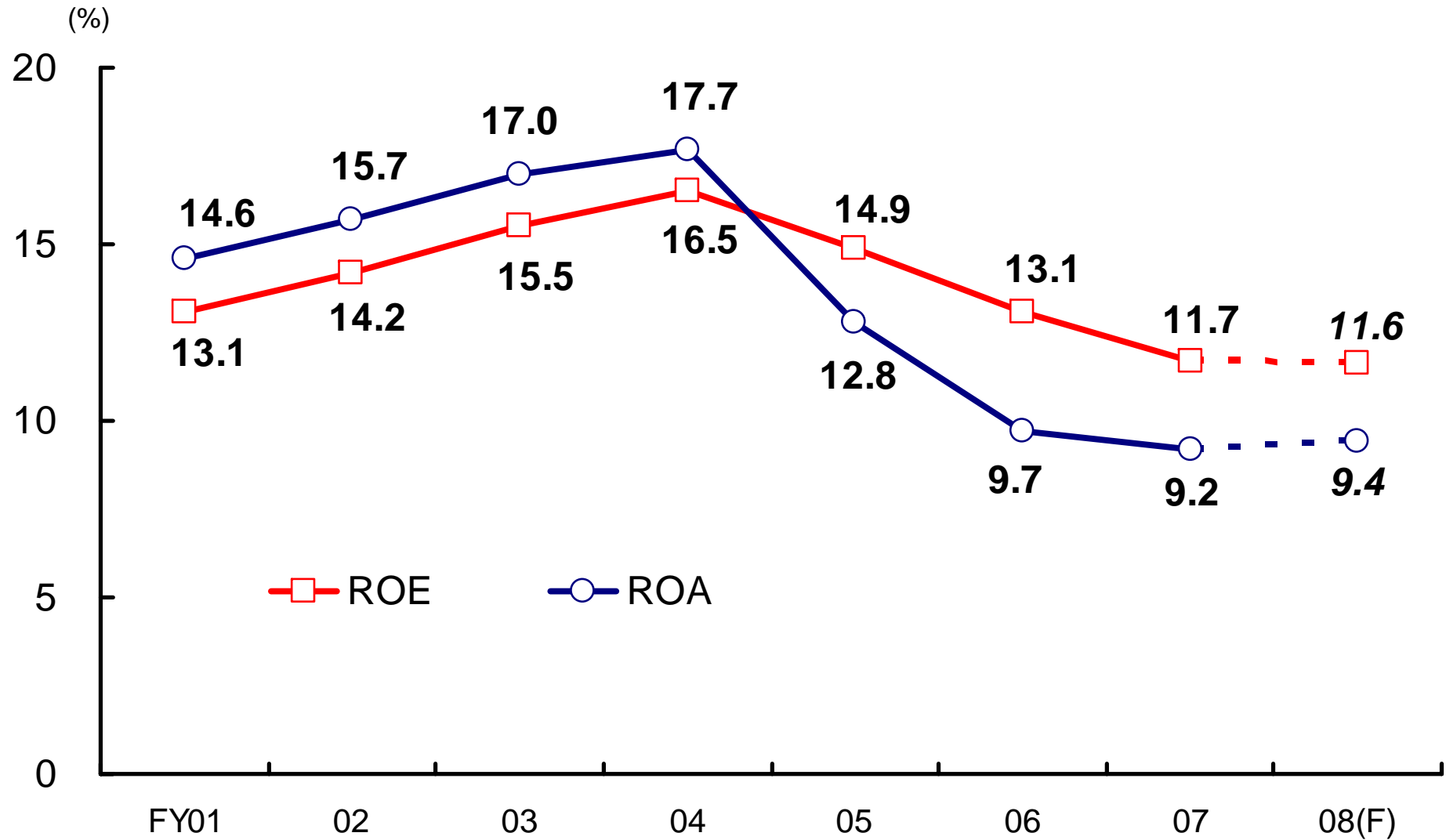
# EBITDA

Billion yen

- Depretiation & Amortization
- Operating Income

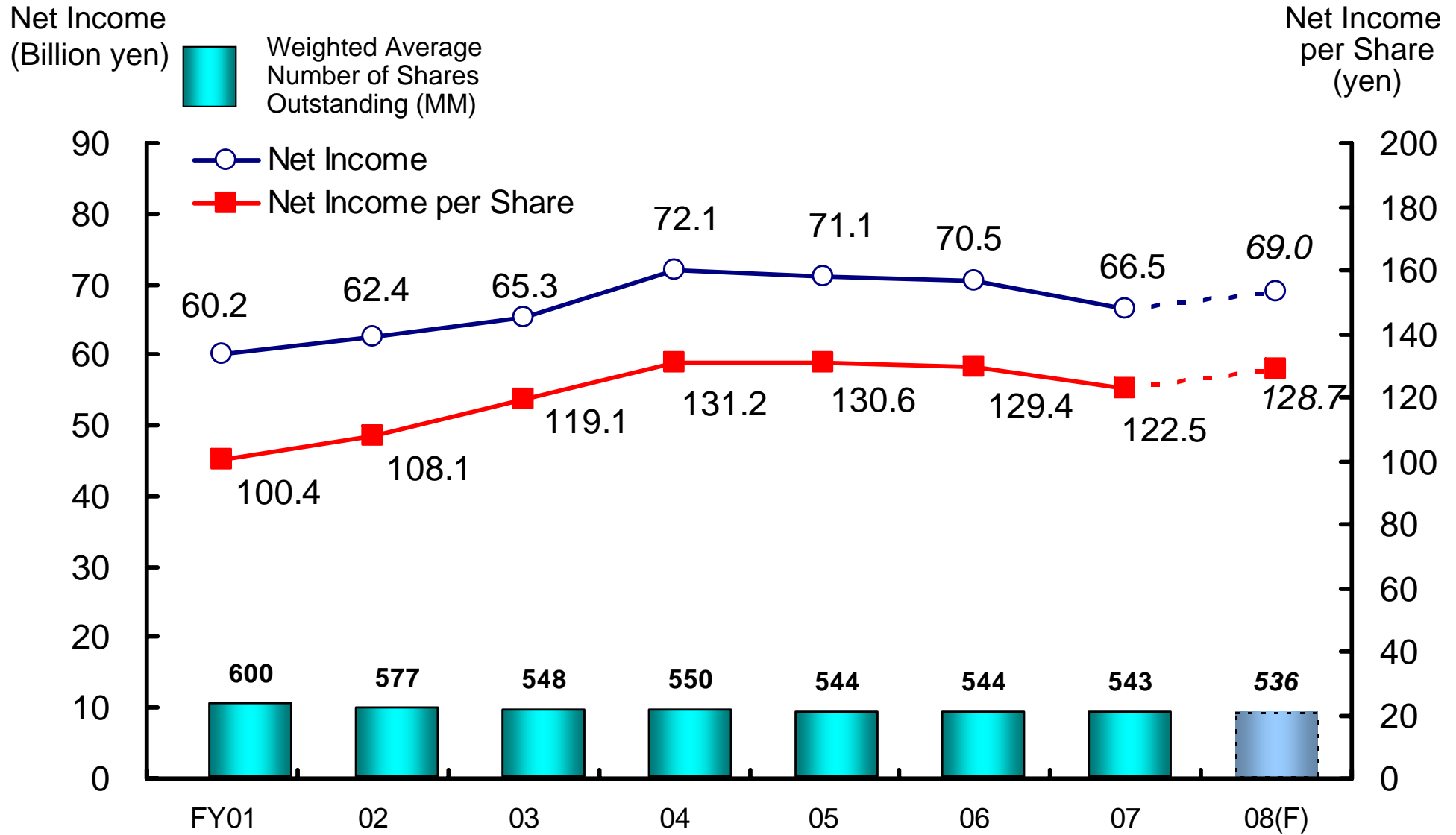


# ROE & ROA



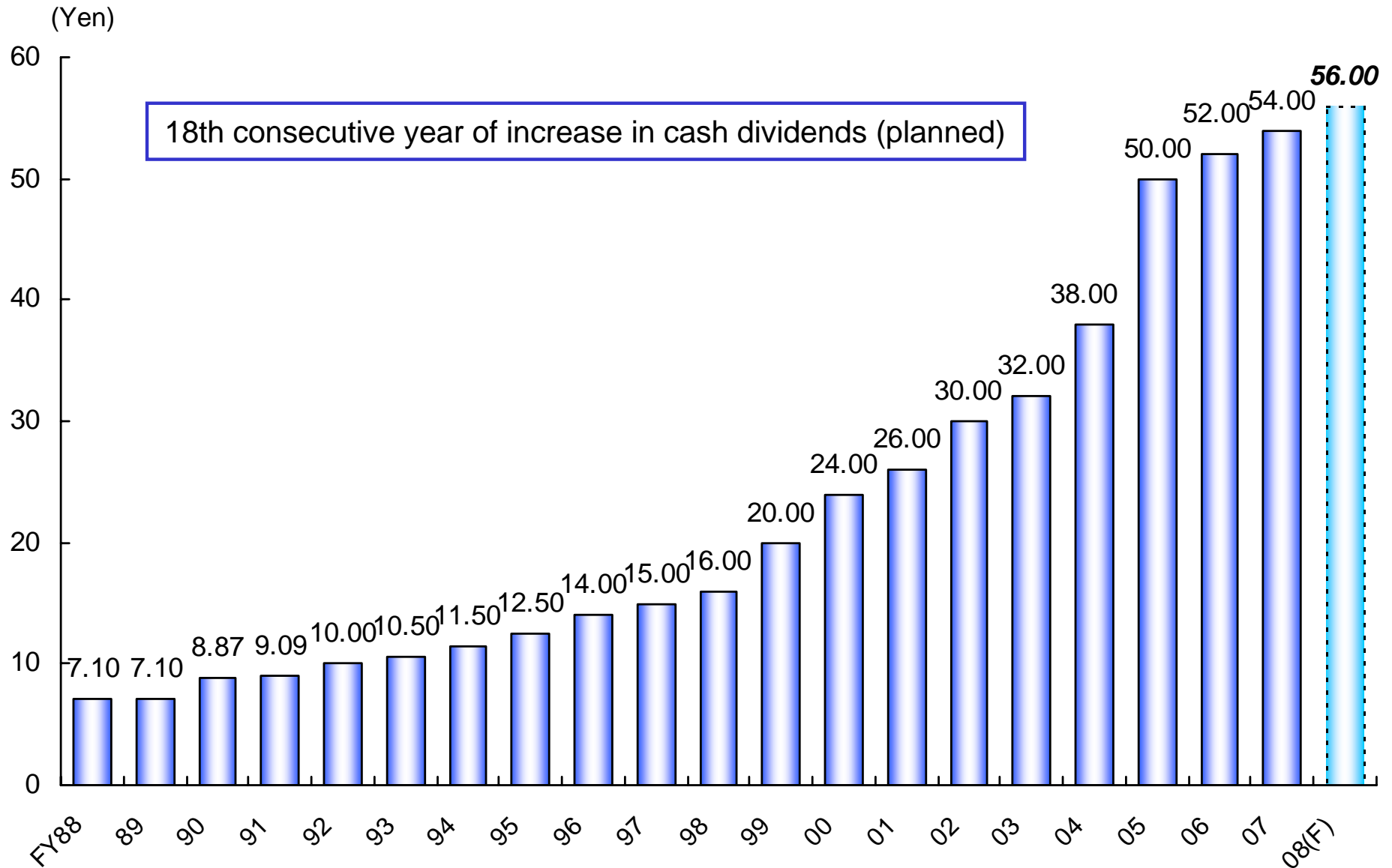
ROA: Ordinary Income / Total assets

# Net Income per Share





# Cash Dividends per Share



\*Impacts of share splits are retroactively reflected.

# Capital Expenditures



\*Payment for purchase of newly consolidated subsidiaries (net of cash acquired) is not included.



# Quarterly Consolidated Sales and Profit Forecast

- Accumulated -

(Billion yen)

