

Highlights for the 1st Half of FY2007

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Kao Corporation

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<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, 2007. 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 FY2007**

- **Growth Strategies:
Progress Made and Projections**

- **FY2007 Forecast**

Summary of the 1st Half of FY2007

1st Half of FY2007 Financial Overview

- *The Consumer Products business in Japan continued to perform strongly.*
- *The impact of higher raw material prices was greater than initial estimates for FY2007*.*

		<u>Year-on-year</u>
Net sales:	¥654.4 billion	+8.6%
Operating income:	¥55.5 billion	-4.9%
Ordinary income:	¥55.0 billion	-5.9%
Net income:	¥29.3 billion	-0.9%
EBITDA:	¥100.9 billion	-1.2%
Net income per share:	¥53.77	-0.9%
Cash dividends per share:	¥27	+¥1

*Forecast announced in the earnings release of April 23, 2007



Growth Strategies: Progress Made and Projections

Mid-term Growth Strategies

Profitable growth driven by high-value-added products

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

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

Business Segments and Main Product Categories

Consumer Products
Business

Beauty Care

1H / FY2007 Sales: ¥311.6 billion
[+10.3% year-on-year / Share of net sales: 47.6%]

Beauty salon products
Prestige cosmetics
Premium skin care
Premium hair care



Consumer
driven

Human Health Care

1H / FY2007 Sales: ¥94.7 billion
[+4.1% year-on-year / Share of net sales: 14.5%]

Functional food and beverages
Oral care
Blood circulation enhancement products
(incl. bath additives and thermal pads)
Sanitary products



Consumer Products
Business

Consumer Products
Business

Fabric and Home Care

1H / FY2007 Sales: ¥137.7 billion
[+2.5% year-on-year / Share of net sales: 21.1%]

Laundry detergents and fabric treatments
Products for kitchen, bath, toilet and
living room care



Chemical

1H / FY2007 Sales : ¥126.5 billion
[+16.1% year-on-year / Share of net sales: 16.8%]

Oleo chemicals
Performance chemicals
Specialty chemicals



Chemical Business

*FY2007 sales forecasts include inter-segment sales. Share of net sales is calculated based on sales to customers.



Beauty Care Business

Proposals for total beauty

1H/FY2007 Topics

- A new hair care brand, *Segreta*, strengthened Kao's number-one position* in the shampoo/conditioner market in Japan.
- *Bioré Melting Liquid Makeup Remover* and *Bioré U* body cleansers contributed to a good performance in premium skin care.
- 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.
- In Asia, *Bioré* performed well in Taiwan, Indonesia and other countries. Kao introduced a new *Asience* variant in Taiwan and Hong Kong in May.

2H/FY2007 Topics

- In premium hair care, Kao will strengthen its number-one position* in the shampoo/conditioner market by enhancing its unique hair care brands, including a re-launch of an improved *Asience* hair care brand in response to intensifying competition.
- *Bioré* brand products will continue to contribute to sales growth in premium skin care.
- Kao will strengthen *est* prestige cosmetics, while Kanebo Cosmetics will promote the creation of mega brands.



Segreta hair care products



Bioré Melting Liquid Makeup Remover and *Bioré U* body cleansers



Improved *Asience* hair care brand



est makeup series



* Source: SRI POS data

1H/FY2007 Topics

Net sales (Jan-Jun): approximately ¥110 billion (+5% year-on-year)

-Reference/ (Feb-Jun FY2006: ¥90+ billion)

Operating margin (Jan-Jun): approximately 5%

-Reference/ (Feb-Jun FY2006: 9%+)

- High-end prestige brands such as *Impress* and *LUNASOL* and self-selection brands such as the *KATE* makeup series performed well in Japan.
- Increase in number of outlets in China in line with projections.
- Various collaborative activities to realize synergies within the Kao Group, including optimized media buying.



Impress

KATE



DEW SUPERIOR



COFFRET D'OR



SENSAI
Cellular Performance



2H/FY2007 Topics

-Forecast-

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

Operating margin (Jan-Dec): approximately 8%

- Kanebo Cosmetics will promote the creation of mega brands in Japan: Launch of skin care brand *DEW SUPERIOR* in October and new integrated makeup brand *COFFRET D'OR* in December.
- Proactive investment in China will continue in line with projections.
- Complete renewal of a core skin care line of the super-prestige brand *SENSAI* in Europe and North America.

Human Health Care Business

Develop and launch daily health care products.

1H/FY2007 Topics

- *Healthya Water* sports drink product line expanded with the launch of *Muscat Flavor*, which strengthened *Healthya* brand equity.
- Sales of *Econa Healthy Cooking Oil* were flat.
- Sales of *Merries* baby diapers continued to expand as consumers recognize the brand's value.
- *Laurier* sanitary napkins performed well in Thailand and China.
- Continued strong sales of *Medicated Pyuora* oral care products contributed to good performance in personal health.



*Healthya Water
Muscat Flavor*



Medicated Pyuora



*Healthya Green Tea
Mellow Flavor*



*Megurism Steam
Eye Mask*

2H/FY2007 Topics

- Strengthen overall *Healthya* brand with the addition of *Healthya Green Tea Mellow Flavor*.
- Further enhance brand loyalty for *Merries* and *Laurier* through research into gentleness on the skin.
- Enhance the strongly performing oral care brands *Clear Clean* and *Medicated Pyuora* through product line expansion.
- Launch of *Megurism Steam Eye Mask* that provides comforting warmth for eyes.



Fabric and Home Care Business

Proposals to offer pleasure and comfort for household chores

1H/FY2007 Topics

- New laundry detergent/fabric softener *Style Fit* was launched to respond to the lifestyles of young housewives.
- In Thailand, *Attack* laundry detergent expanded its product lineup with the launch of *Attack Soft Plus*.
- Launch of *Resesh Antiseptic EX* fabric freshener, which meets emerging consumer needs in such areas as hygiene, safety, environment and aroma.

2H/FY2007 Topics

- Kao will further strengthen laundry detergents by expanding its product lineup to meet diverse consumer needs.
- Kao will create mega brands and refresh existing brands in the home care category.
- Kao will take countermeasures to rising raw material prices including further promotion of Total Cost Reduction activities.



Style Fit laundry detergent/fabric softener



Attack Soft Plus in Thailand



Resesh Antiseptic EX fabric freshener



Chemical Business

Further enhance the Chemical business globally and locally with distinctive products that meet customer needs.

1H/FY2007 Topics

- Expanded production capacity in the Philippines contributed to sales volume growth for fatty alcohols.
- Momentum continued in North America and Europe due to timely capital investment in production facilities for fatty amines, toner and toner binder for copiers and printers, and other products.
- Due to rising raw material prices, Kao carried out price increases for chemical products such as fatty alcohols globally.



Fatty alcohol production facilities in the Philippines

2H/FY2007 Topics

- 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.
- Oleo chemicals will continue responding to higher raw material prices through various means such as sales expansion, cost reduction and efforts to increase sales prices.

Consumer Products Business in Asia*

Expand sales substantially and improve profitability.

1H/FY2007 Topics

- Integration of business operations in Asia, including Japan, enabled solid sales expansion in countries such as Thailand, Indonesia and China.
- Kao launched *Asience Moisture Balance* shampoo/conditioner in Taiwan and Hong Kong and conducted aggressive marketing to strengthen the *Asience* brand.
- *Attack Softener-in* laundry detergent was launched in China.



The new *Asience* hair care series on a store shelf in Hong Kong



Attack Softener-in laundry detergent

2H/FY2007 Topics

- Kao will launch a new laundry detergent variant under the *Attack* brand in Indonesia.
- Kao will aggressively introduce value-added products for *Laurier* sanitary napkins and *Bioré* skin care.



Laurier Safety Fit pantyliners



*Excludes prestige cosmetics.

Use of Increased Free Cash Flow*

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

1. Capital expenditures and M&A for future growth
2. Steady and continuous cash dividends, aiming for a consolidated payout ratio at the 40% level
3. Repayment of interest-bearing debt including borrowings and share repurchases

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



FY2007 Forecast

Aiming for Mid- and Long-term Profitable Growth

FY2007 strategy and factors impacting profits

1. Major proactive investments

- Consumer products business in Japan: Aggressive marketing expenditures for sales expansion by nurturing high-value-added products
- Prestige cosmetics: Proactive investments in China and other areas

Estimated impact on profit

- | | |
|--|------------------------------|
| 2. Impact of higher raw material prices in Japan | approximately -¥14.0 billion |
| 3. Total Cost Reduction (TCR) activities | approximately +¥6.0 billion |

FY2007 operating income forecast: ¥114.0 billion



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

FY2007 Forecast

Aim to achieve the initial profit forecast of FY2007* and further increase profit by absorbing higher raw material costs through sales expansion and cost reduction.

		<u>Year-on-year</u>
Net sales:	¥1,310.0 billion	+6.3%
Operating income:	¥114.0 billion	-5.7%
Ordinary income:	¥111.0 billion	-7.6%
Net income:	¥66.0 billion	-6.4%
EBITDA:	¥206.0 billion	-3.3%
ROE**:	11.4%	-170 bps
Net income per share**:	¥121.43	-6.2%
Cash dividends per share:	¥54	+¥2
Payout ratio:	44.5%	

* Forecast announced in the earnings release of April 23, 2007

** ROE and net income per share are calculated reflecting the purchase of the Company's stock from the market that will be up to 4.6 million shares or 15 billion yen during the period from October 24 to December 19, 2007.

