

# Semi-Annual Financial Review

From April 1, 2007 to September 30, 2007

Kao Corporation

October 23, 2007

This is a translation of materials used for the analyst meeting held in Japan on October 23, 2007.



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 October 23, 2007.

Certain 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.

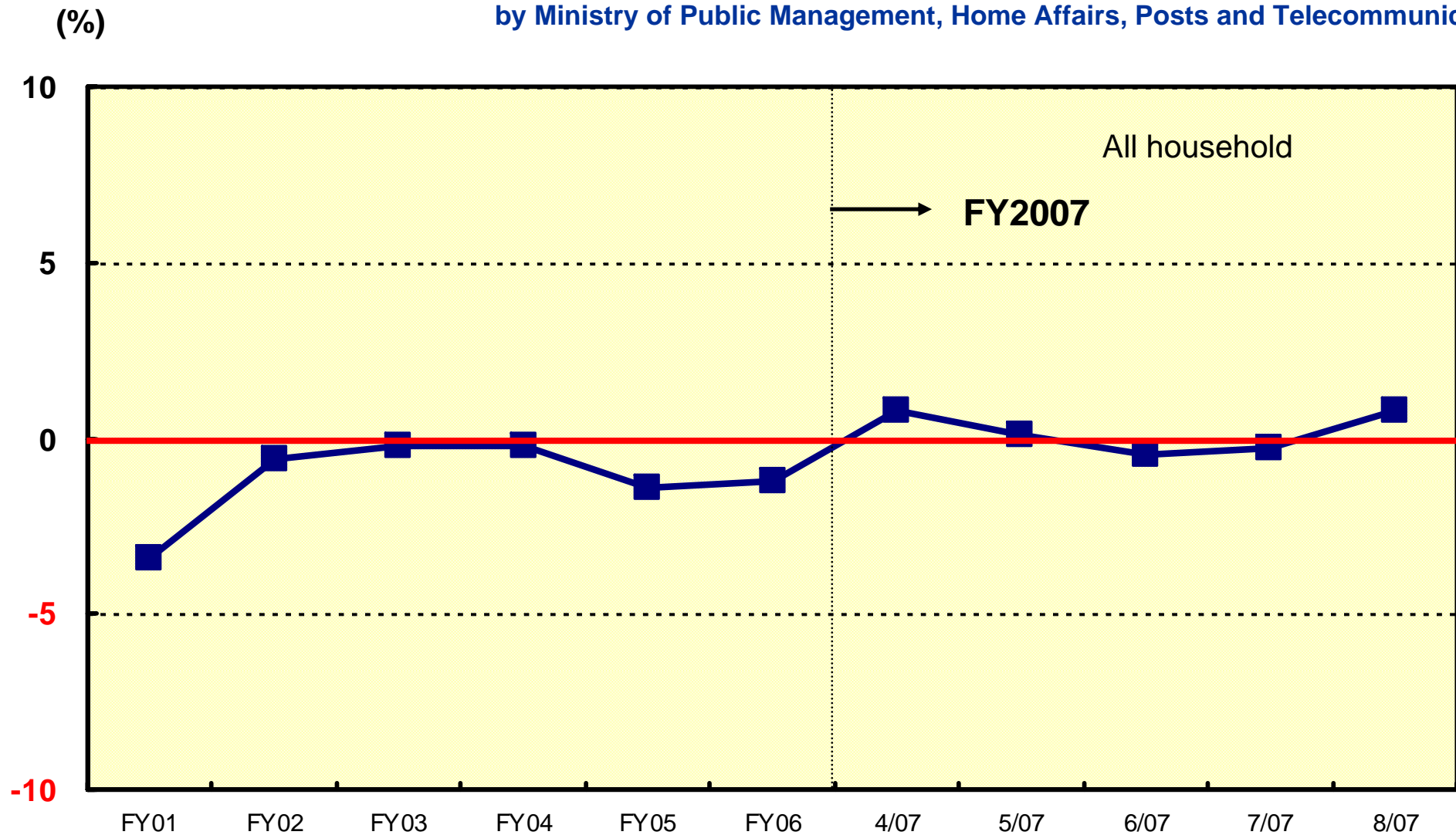
(The yen amounts in this presentation material are rounded down.)

# 1. Business Environment

April 1, 2007 – September 30, 2007

# Household Expenditure Survey

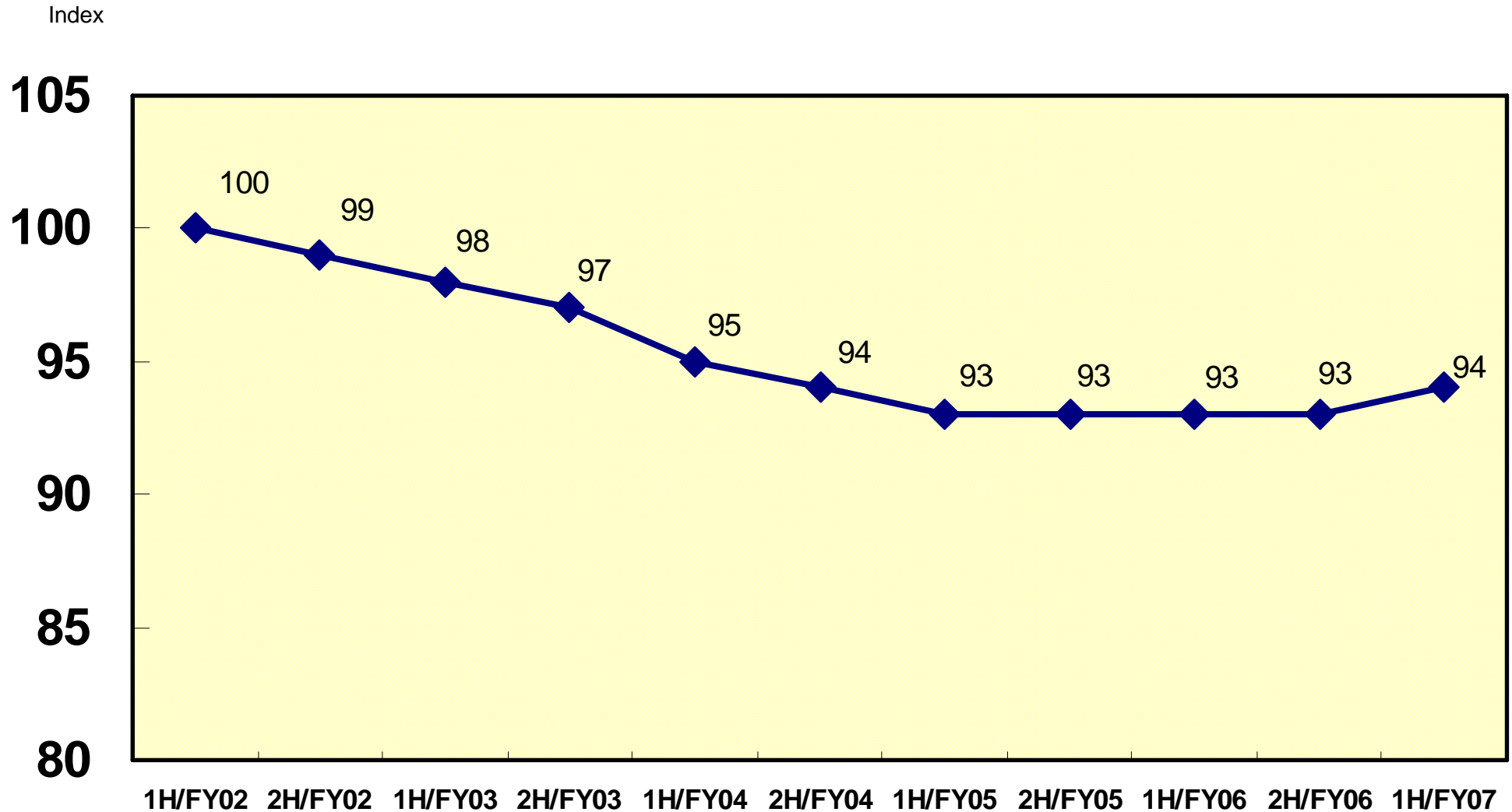
by Ministry of Public Management, Home Affairs, Posts and Telecommunications



(Percent change from a year earlier)

# 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 – September 30, 2007**

# 1<sup>st</sup> Half/FY2007 Consolidated Results

Billion yen	<u>1H/FY05</u>	<u>1H/FY06</u>	<u>1H/FY07</u>		
				Growth	Changes
<b>Net Sales</b>	483.0	602.5	654.4	8.6%	+51.9
<b>Operating Income</b>	63.0	58.4	55.5	-4.9%	-2.8
<i>Operating Margin</i>	13.1%	9.7%	8.5%		
<b>Ordinary Income</b>	63.6	58.4	55.0	-5.9%	-3.4
<b>Net Income</b>	38.4	29.5	29.3	-0.9%	-0.2
<b>EBITDA</b>	90.7	102.1	100.9	-1.2%	-1.1
<b>EPS (yen)</b>	70.75	54.26	53.77	-0.9%	-0.49

# Consolidated Net Sales [1]

	1st Half/FY2006	1st Half/FY2007		
	Billion yen	Billion yen	%	
			Growth	Like-for-like
Beauty Care Business	201.4	224.3	11.4	11.4
Human Health Care Business	84.5	86.6	2.5	2.5
Fabric and Home Care Business	122.9	123.0	0.1	0.1
<b>Japan Total</b>	<b>408.8</b>	<b>434.0</b>	6.2	6.2
<b>Asia &amp; Oceania</b>	34.1	42.1	23.4	12.9
<b>North America &amp; Europe</b>	71.0	76.2	7.4	-0.1
Elimination	-5.9	-8.2	-	-
<b>Consumer Products Business</b>	<b>508.1</b>	<b>544.2</b>	7.1	5.4

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



# Consolidated Net Sales [2]

	1st Half/FY2006	1st Half/FY2007		
	Billion yen	Billion yen	%	
			Growth	Like-for-like
Japan	57.8	61.7	6.8	6.8
Asia	26.4	33.9	28.1	17.7
North America & Europe	40.5	49.5	22.2	11.7
Elimination	-15.9	-18.7	-	-
<b>Chemical Business</b>	108.9	<b>126.5</b>	16.1	10.8
Elimination	-14.5	-16.2	-	-
<b>Consolidated Sales</b>	<b>602.5</b>	<b>654.4</b>	<b>8.6</b>	<b>6.2</b>

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

# Consolidated Income Statements

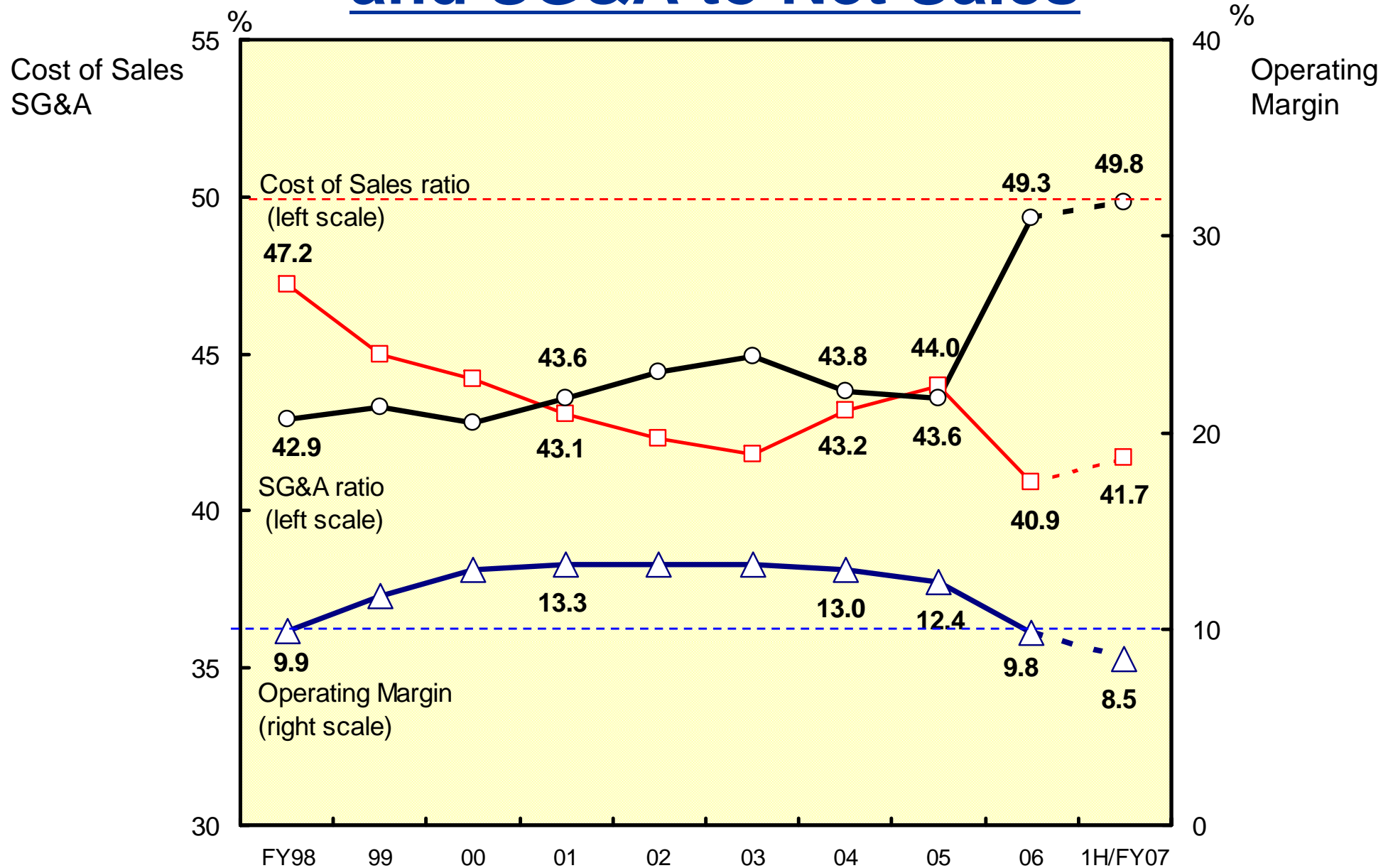
	1H/FY2006		1H/FY2007		Changes*
	Billion yen	%	Billion yen	%	Billion yen
Net Sales	602.5	100.0	654.4	100.0	51.9
Cost of Sales	244.9	40.7	272.8	41.7	27.8
Gross Profit	357.5	59.3	381.6	58.3	24.0
SG&A Expenses**	299.1	49.6	326.0	49.8	26.9
Operating Income	58.4	9.7	55.5	8.5	-2.8
Non-operating Income/Expenses	0.0	0.0	-0.5	-0.1	-0.5
Ordinary Income	58.4	9.7	55.0	8.4	-3.4
Extraordinary Income & Loss	-1.2	-0.2	-1.1	-0.2	0.1
Income Before Taxes	57.2	9.5	53.9	8.2	-3.3
Income Taxes	27.2	4.5	24.0	3.7	-3.1
Equity Items & Others (Minus)	0.4	0.1	0.5	0.0	0.1
Net Income	29.5	4.9	29.3	4.5	-0.2

\* Changes = 1H/FY2007 – 1H/FY2006

\*\* Amortization related to Kanebo Cosmetics

1H/FY2007: 13.6 billion yen, 1H/FY2006: 13.0 billion yen

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



# Breakdown of Consolidated SG&A Expenses

(Billion yen)

	1H/FY2006	1H/FY2007	Changes*
<b>Total SG&amp;A Expenses</b>	299.1	326.0	26.9

Freight/Warehouse	33.5	36.8	3.3
Advertising	51.1	52.7	1.5
Sales Promotion	33.1	39.4	6.2
Salaries and Wages	57.0	64.2	7.2
R&D	21.2	22.6	1.3

\* Changes = 1H/FY2007 – 1H/FY2006

# Sales and Operating Income by Business

		Net Sales*				Operating Income		
		1H/FY2006 Billion yen	1H/FY2007 Billion yen	Changes Billion yen	% Growth	1H/FY2006 Billion yen	1H/FY2007 Billion yen	Changes Billion yen
<b>Beauty Care Business</b>		282.6	<b>311.6</b>	29.0	10.3	11.9	<b>10.0</b>	-1.9
	<i>% to Net Sales</i>					4.2%	3.2%	
<b>Human Health Care Business</b>		91.0	<b>94.7</b>	3.7	4.1	4.8	<b>6.5</b>	1.6
	<i>% to Net Sales</i>					5.4%	6.9%	
<b>Fabric and Home Care Business</b>		134.4	<b>137.7</b>	3.3	2.5	29.7	<b>29.9</b>	0.1
	<i>% to Net Sales</i>					22.1%	21.7%	
<b>Chemical Business</b>		108.9	<b>126.5</b>	17.5	16.1	11.7	<b>8.9</b>	-2.8
	<i>% to Net Sales</i>					10.8%	7.1%	

\*Before elimination of intersegment transfers

# Sales and Operating Income by Geography

		Net Sales*				Operating Income		
		1H/FY2006 Billion yen	1H/FY2007 Billion yen	Changes Billion yen	% Growth	1H/FY2006 Billion yen	1H/FY2007 Billion yen	Changes Billion yen
Japan		454.5	<b>482.0</b>	27.4	6.0	51.6	<b>50.2</b>	-1.3
	<i>% to Net Sales</i>					11.4%	10.4%	
Asia & Oceania		59.7	<b>75.0</b>	15.2	25.5	1.0	<b>-1.0</b>	-2.1
	<i>% to Net Sales</i>					1.8%	-1.4%	
North America		53.8	<b>56.6</b>	2.7	5.2	3.4	<b>3.2</b>	-0.1
	<i>% to Net Sales</i>					6.4%	5.7%	
Europe		63.3	<b>74.2</b>	10.8	17.2	1.9	<b>2.2</b>	0.3
	<i>% to Net Sales</i>					3.1%	3.0%	

\*Before elimination of intersegment transfers

# Consolidated Operating Income

1H/FY06		1H/FY07	
58.4	→	55.5	Billion yen
Change	-2.8	-4.9%	Billion yen

Beauty Care	-1.9	Japan	-1.3
Human Health Care	+1.6	Asia & Oceania	-2.1
Fabric and Home Care	+0.1	North America	-0.1
Chemical	-2.8	Europe	+0.3
<b>Total</b>	<b>-2.8</b>	<b>Total</b>	<b>-2.8</b>

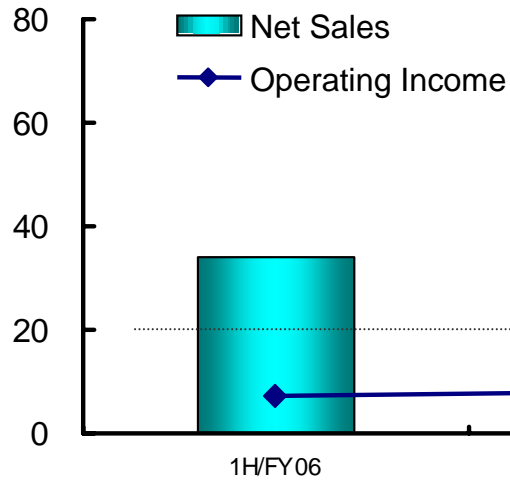
\*The figures of each segment are before elimination and "Total" includes elimination.



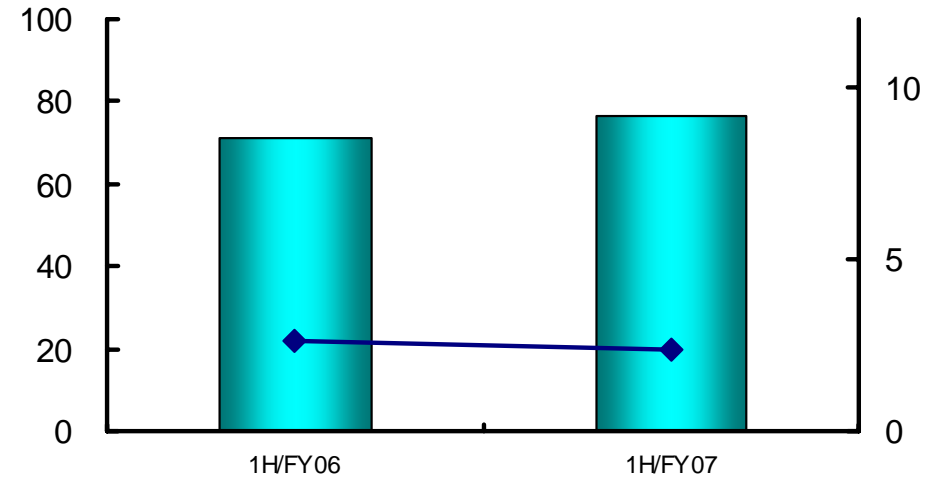
# Consumer Products Business

## Asia and Oceania

Sales (Billion yen)

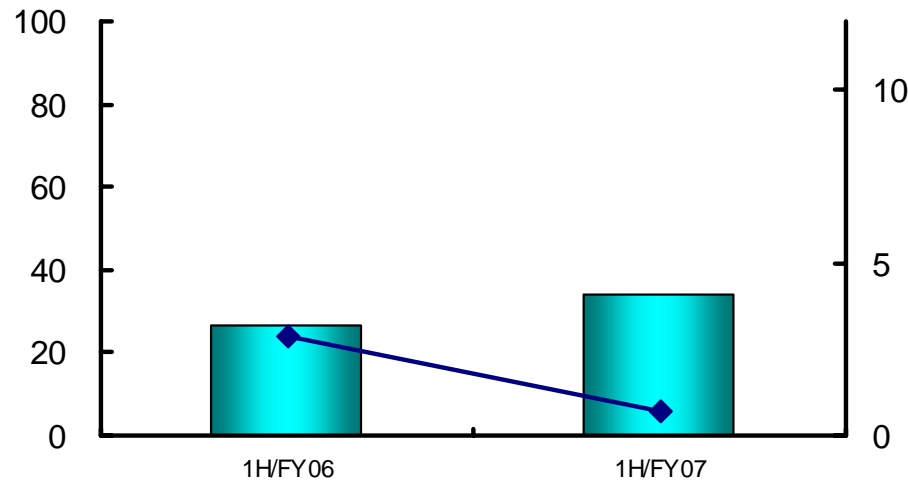


## North America & Europe

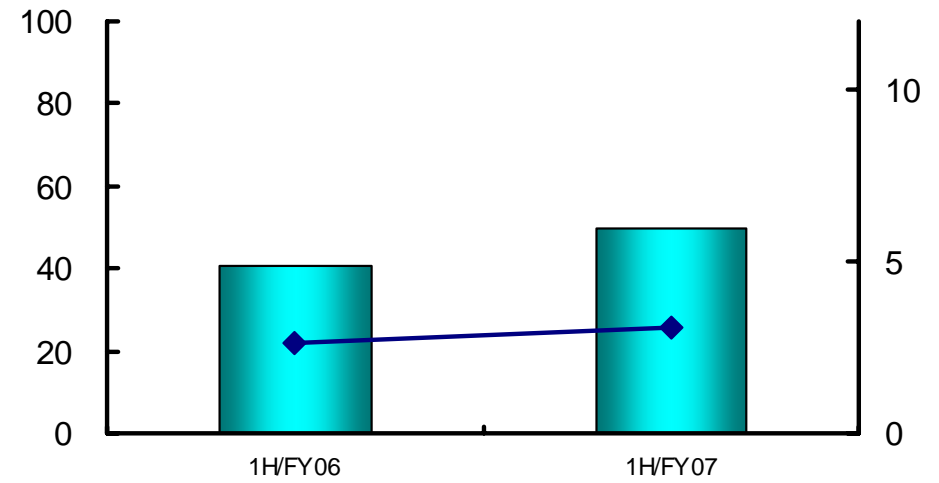


# Chemical Business

## Asia



## North America & Europe





# Consolidated Ordinary Income

1H/FY06

1H/FY07

58.4



55.0

Billion yen

Change

-3.4

Billion yen

-5.9%

1. Operating income	-2.8
2. Equity earnings/losses	+0.0
3. Forex gains/losses	+0.1
4. Net interest expense	-0.8
5. Other non-operating items	+0.1
<hr/> Total	<hr/> -3.4

# Consolidated Income Before Taxes

1H/FY06		1H/FY07
57.2	→	53.9 Billion yen
Change	-3.3 Billion yen	-5.8%

1. Ordinary income	-3.4
2. Gain on sale or disposal of fixed assets	-0.1
3. Gain on sale of investment securities	-0.0
4. Loss on sale or disposal of fixed assets	+0.4
5. Impairment loss	-0.2
6. Other	-0.0
<hr/>	
Total	-3.3

# Consolidated Balance Sheets

(Billion yen)

	Mar/07	Sep/07	Changes		Mar/07	Sep/07	Changes
<b>Current Assets</b>	402.2	444.0	41.8	<b>Current Liabilities</b>	308.6	334.7	26.0
Cash and Bank Deposits	49.9	47.4	-2.4	Notes and Accounts Payable	110.1	119.0	8.9
Notes and Accounts Receivable	158.4	162.4	3.9	Short-term Debt (incl. Current Portion of Long-term Debt)	43.9	49.3	5.3
Short-term Investments	36.2	60.3	24.0	Other Accounts Payable	28.9	29.2	0.3
Inventories	112.1	126.2	14.0	Accrued Expenses	85.7	94.3	8.5
Others	45.4	47.6	2.1	Others	39.8	42.7	2.9
<b>Fixed Assets</b>	845.5	827.9	-17.5	<b>Long-term Liabilities</b>	364.3	335.3	-29.0
Tangible Assets	289.0	289.2	0.2	Long-term Debt/Straight Bond	311.7	280.9	-30.8
Intangible Assets	442.4	424.5	-17.9	Others	52.6	54.4	1.7
Investments	114.0	114.1	0.1	<b>Total Liabilities</b>	673.0	670.0	-2.9
Deferred Assets	0.0	0.0	0.0				
				Shareholders' equity	573.5	588.8	15.3
				-Common Stock	85.4	85.4	-
				-Capital Surplus	109.5	109.6	0.0
				-Retained Earnings	388.5	403.7	15.1
				-Treasury Stock, at Cost	-10.0	-9.8	0.1
				Adjustment for Valuation, Foreign Currency Translation and Other	-9.0	2.2	11.2
				- Unrealized Gain on Available-for-Sale Securities	4.6	4.0	-0.6
				- Foreign Currency Translation Adjustments	-13.6	-1.7	11.8
				Stock Acquisition Rights	0.3	0.5	0.2
				Minority Interests	9.9	10.2	0.3
				<b>Total Net Assets</b>	574.7	601.9	27.2
<b>Total Assets</b>	1,247.7	1,272.0	24.2	<b>Total Liabilities and Total Net Assets</b>	1,247.7	1,272.0	24.2

# Statements of Cash Flows

(Billion yen)

	1H/FY06	1H/FY07	Changes
Operating activities	85.7	88.6	2.8
Investing activities	-30.0	-25.7	4.2
Financing activities	-46.8	-41.8	5.0
Translation adjustments on cash and cash equivalents	-1.3	2.1	3.4
Net Increase/(decrease) in cash and cash equivalents	7.4	23.1	15.7
Cash and cash equivalents, beginning of year	67.5	88.1	20.6
Cash and cash equivalents, end of period	74.9	111.3	36.3
Total Debt, end of period	376.9	330.2	-46.6

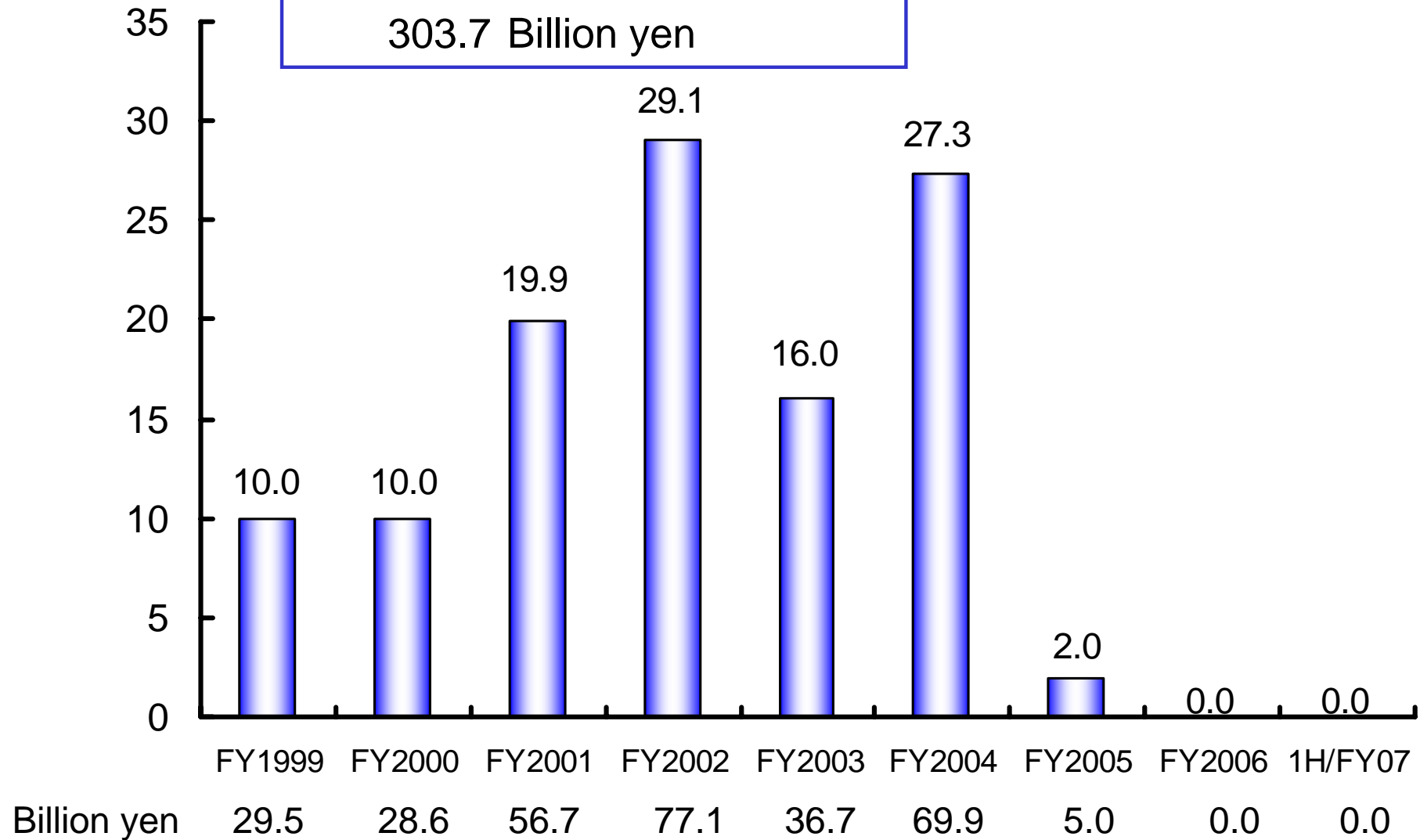
## <Investing Activities>

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

# Share Repurchase

(Million Shares)

Aggregate to September 2007  
114.3 MM shares  
303.7 Billion yen



\* Share repurchase from the market



## 3. Forecast for FY 2007

# Consolidated Sales and Profit Forecast

	FY2005		FY2006 <sup>*2</sup>		FY2007(F) <sup>*1</sup> <sup>*3</sup>	
	Billion yen	% Growth	Billion yen	% Growth	Billion yen	% Growth
Net Sales	971.2	3.7	1,231.8	26.8	<b>1,310.0</b>	6.3
Operating Income	120.1	-1.0	120.8	0.6	<b>114.0</b>	-5.7
[% to Sales]	12.4%		9.8%		8.7%	
Ordinary Income	121.9	-2.7	120.1	-1.5	<b>111.0</b>	-7.6
[% to Sales]	12.6%		9.8%		8.5%	
Net Income	71.1	-1.4	70.5	-0.9	<b>66.0</b>	-6.4
[% to Sales]	7.3%		5.7%		5.0%	

Net Income per Share (yen) <sup>*4</sup>	130.58	-0.4	129.41	-0.9	<b>121.43</b>	-6.2
ROE <sup>*4</sup>	14.9%		13.1%		<b>11.4%</b>	
EBITDA (Operating Income + Depr. & Amort.)	180.8	1.5	213.0	17.8	206.0	-3.3
Cash dividends per Share (yen)	50.0	31.6	52.0	4.0	54.0	3.8

\*1 Exchange rate assumptions: 120 yen/USD, 160 yen/Euro

\*2 Kanebo Cosmetics: Net sales = ¥200+ billion / operating margin = approximately 10%; amortization related to Kanebo Cosmetics: ¥26.7 billion

\*3 Kanebo Cosmetics: Net sales = ¥220+ billion / operating margin = approximately 8%; amortization related to Kanebo Cosmetics: ¥27.4billion

\*4 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.



# Sales Outlook by Segment – FY2007

<Billion yen>

Consolidated Net Sales      **1,310**      **+6.3%**

## By Business

## By Geography

Beauty Care	<b>625</b>	<b>+7.0%</b>
Human Health Care	<b>190</b>	<b>+3.5%</b>
Fabric and Home Care	<b>275</b>	<b>+2.0%</b>
Chemical	<b>255</b>	<b>+14.0%</b>

Japan	<b>958</b>	<b>+3.7%</b>
Asia & Oceania	<b>150</b>	<b>+19.1%</b>
North America	<b>110</b>	<b>+3.1%</b>
Europe	<b>155</b>	<b>+14.0%</b>



# Sales Outlook – FY2007

## - Consumer Products Business in Japan -

<Billion yen>

	1st Half			Full Year		
	FY2006 Actual	FY2007 Actual	% Growth	FY2006 Actual	FY2007 Forecast	% Growth
Beauty Care	201.4	224.3	11.4%	416.0	440.0	5.7%
Human Health Care	84.5	86.6	2.5%	170.0	174.0	2.3%
Fabric and Home Care	122.9	123.0	0.1%	245.2	247.0	0.7%
Consumer Products Business	408.8	434.0	6.2%	831.3	861.0	3.6%

# Major Assumptions for FY2007 Forecast

◆ **Sales price in Consumer Products Business in Japan remains almost flat**

◆ **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

◆ **Impact of higher raw material prices in Japan**

approximately -¥14.0 billion

◆ **Total Cost Reduction (TCR) activities**

approximately +¥6.0 billion

## Exchange rate assumptions

◆ 120 yen/USD

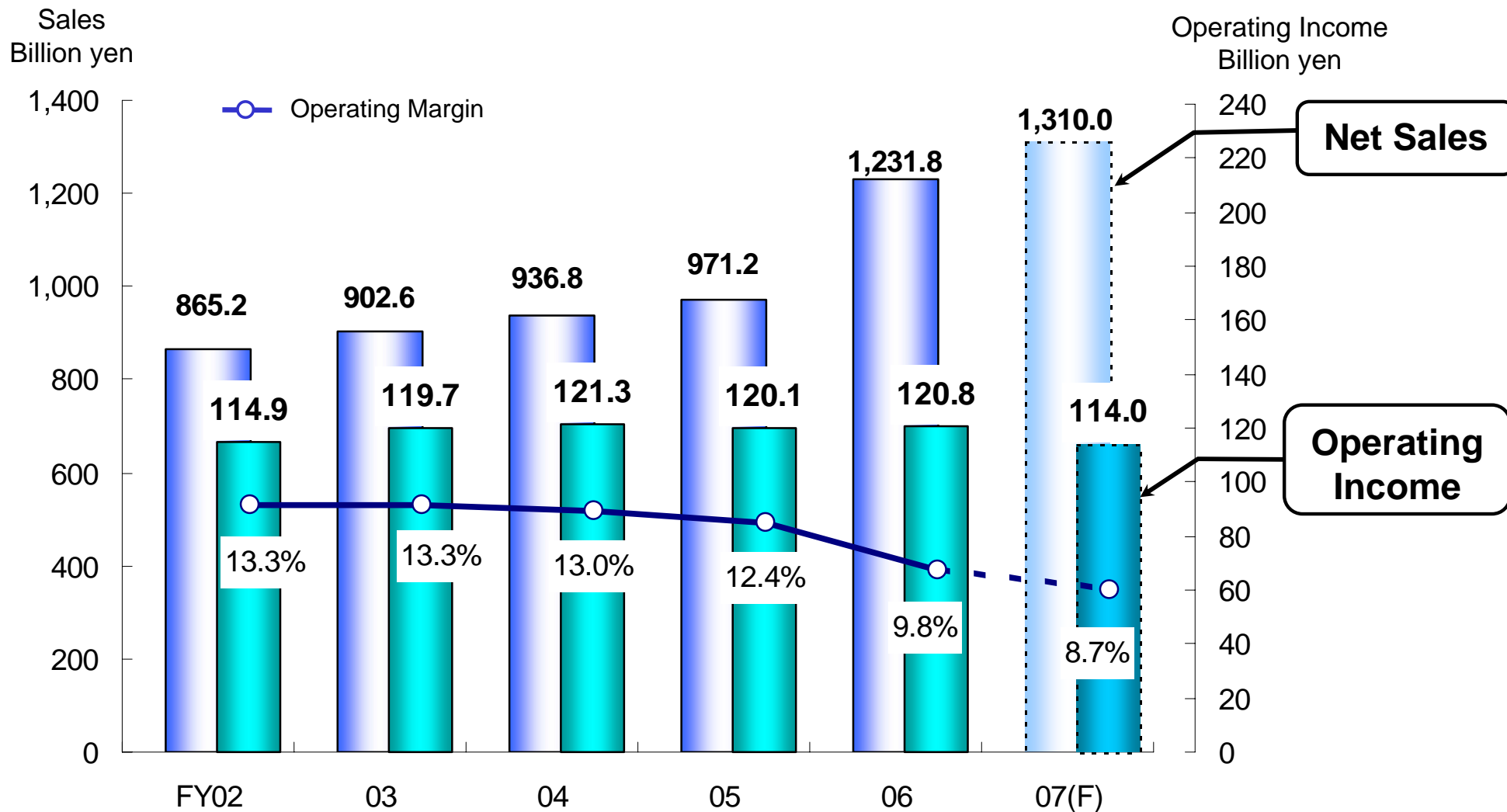
◆ 160 yen/Euro

# Net Sales and Operating Income Outlook by Business

	<u>Net sales</u>	<u>Operating Income</u>
<b>Beauty Care</b>	+7.0%	Decrease
<b>Human Health Care</b>	+3.5%	Flat
<b>Fabric and Home Care</b>	+2.0%	Flat
<b>Chemical</b>	+14.0%	Decrease

# Consolidated Net Sales/Operating Margin

[Full Year]

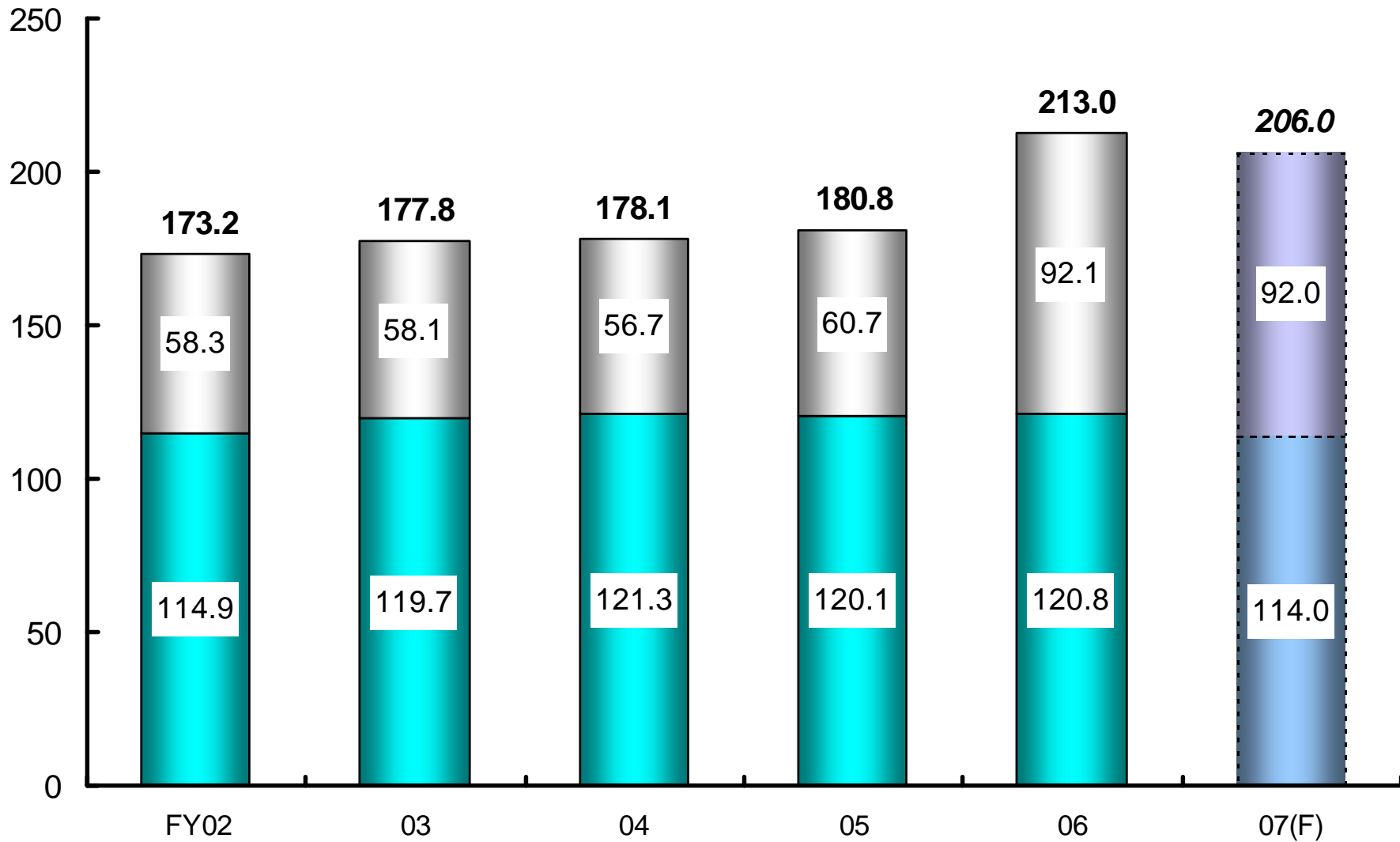


# EBITDA

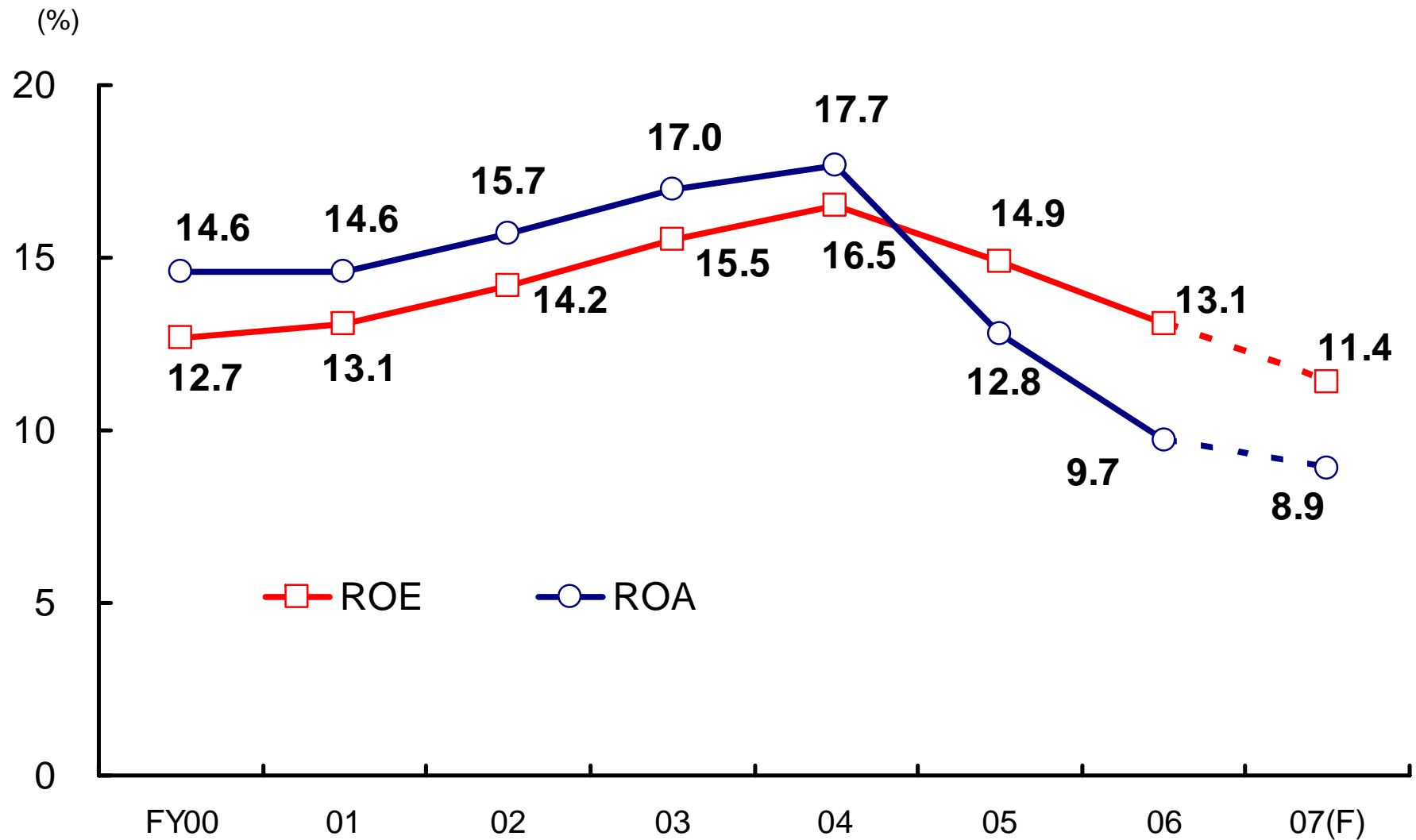
Billion yen

■ Operating Income

■ Depr. & Amort.



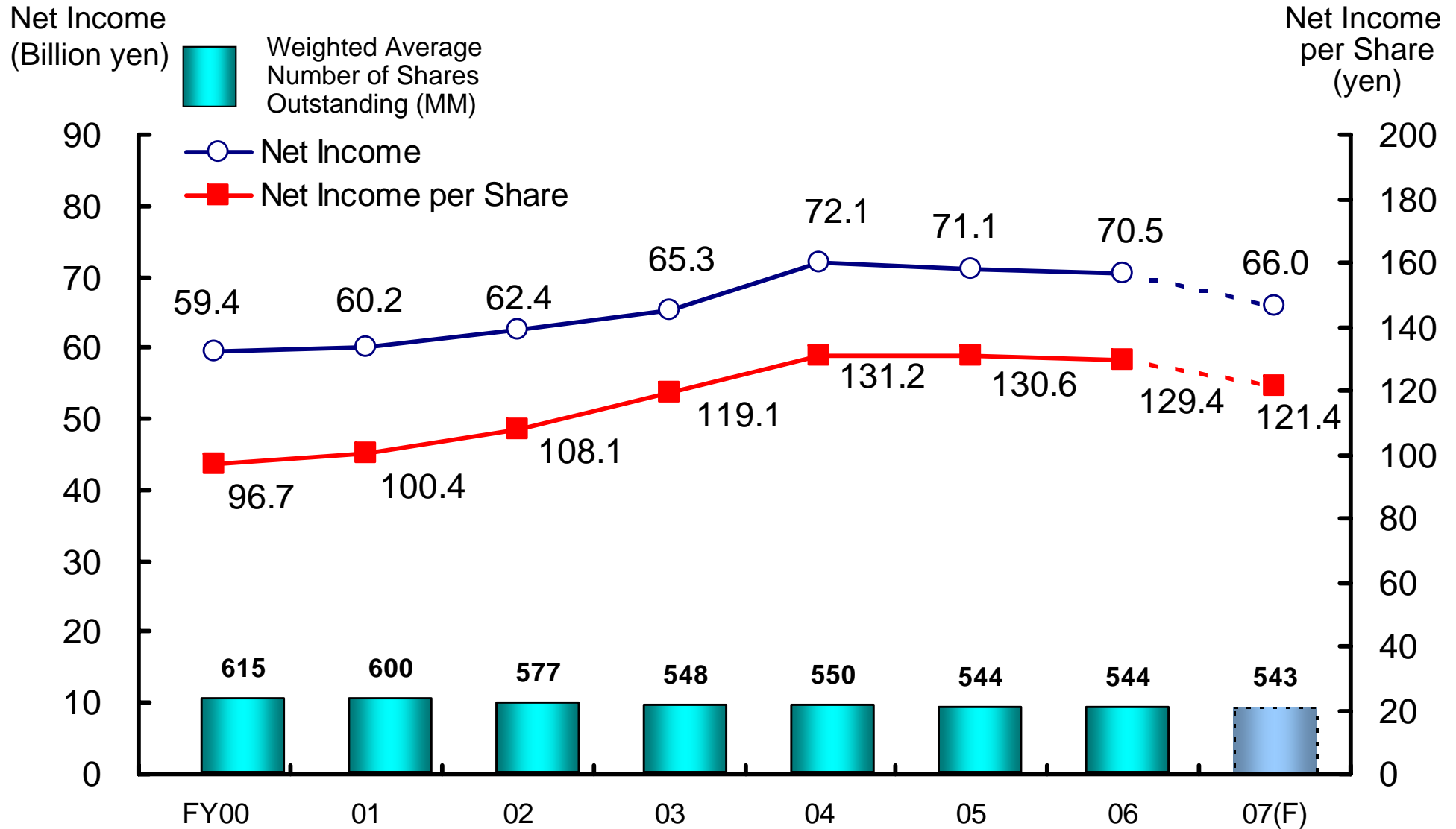
# ROE & ROA



ROA: Ordinary Income / Total assets



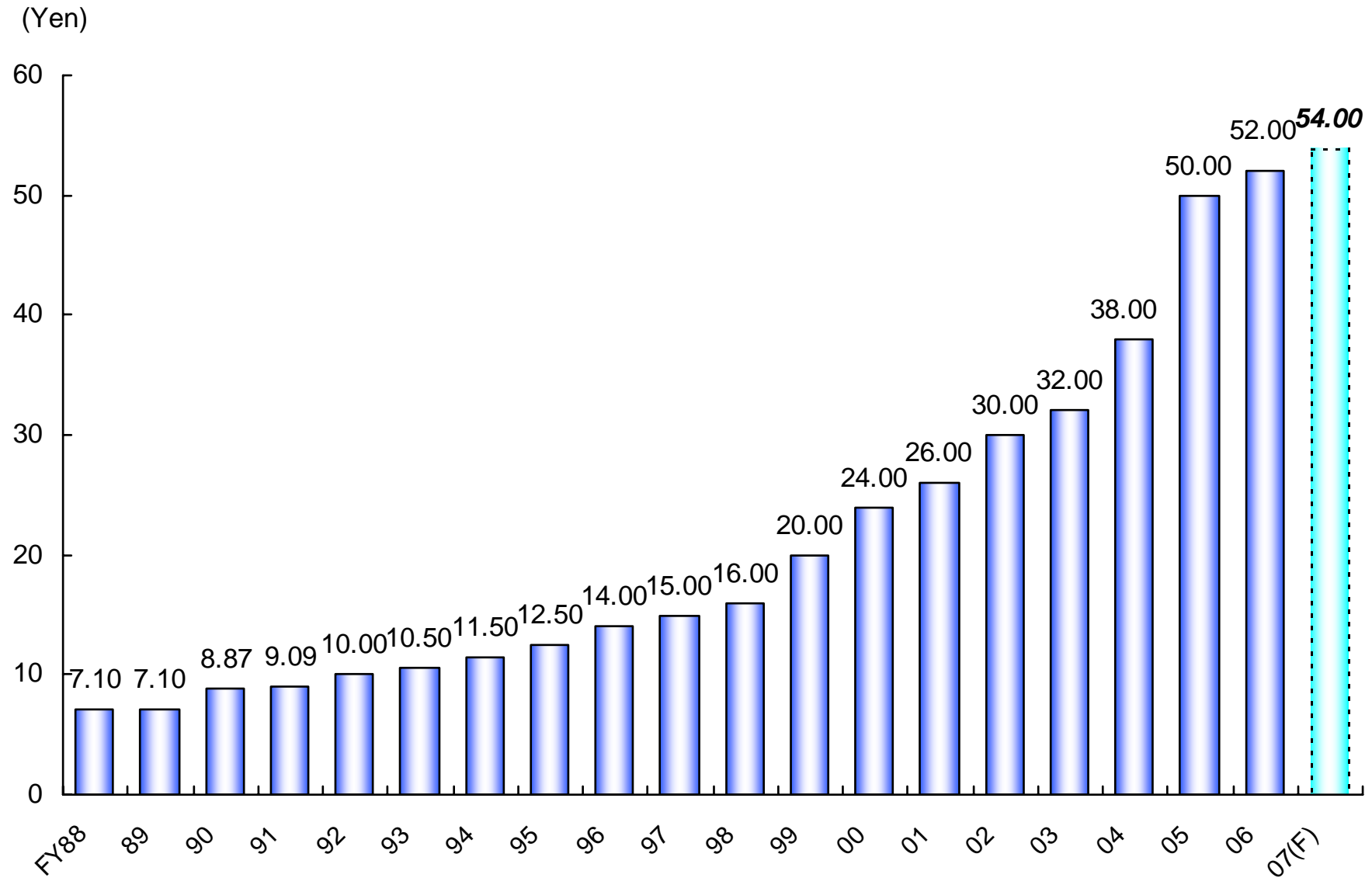
# Net Income per Share



\* Net income per share and weighted average number of share outstanding 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.



# Cash Dividends per Share

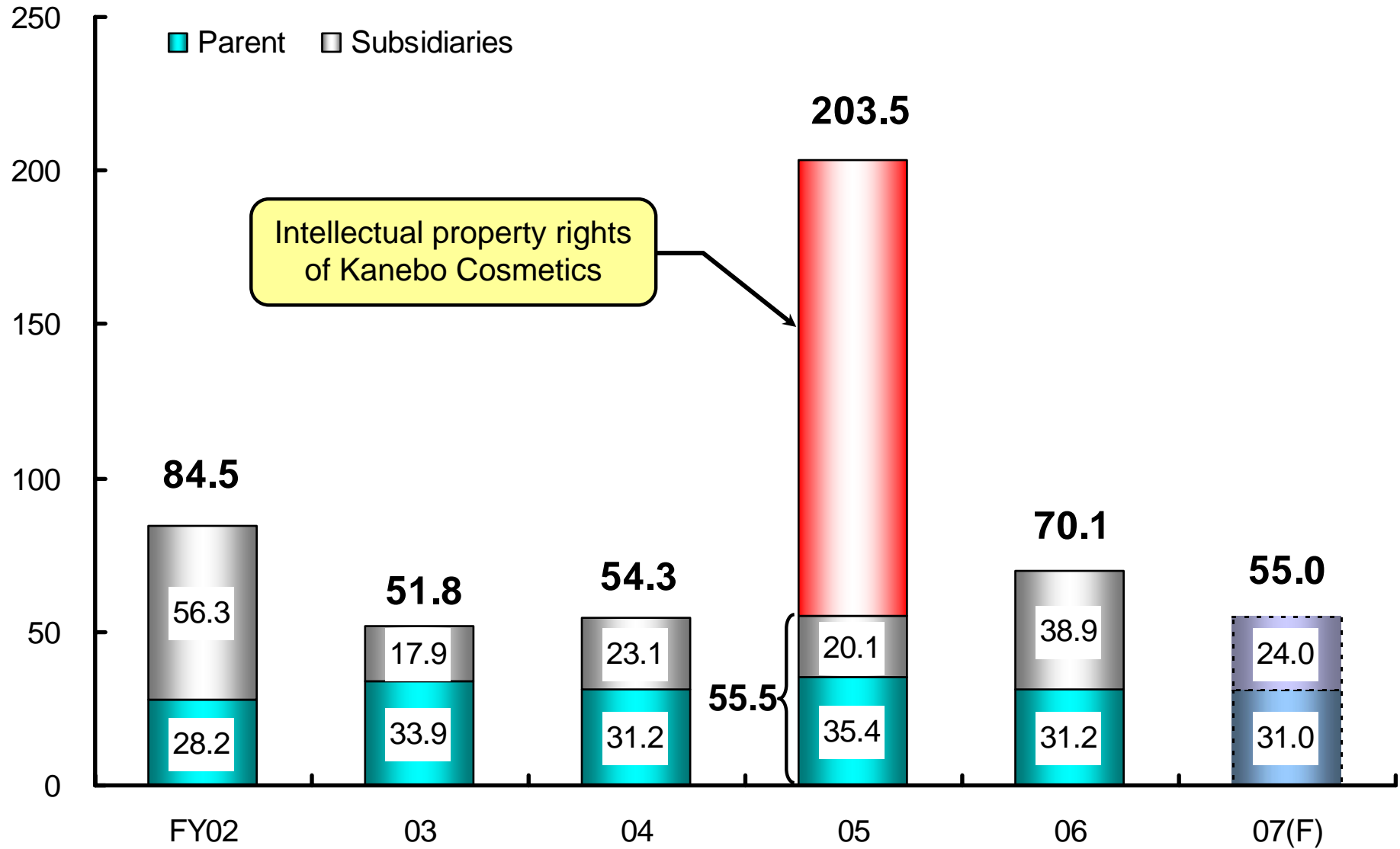


\*Impacts of share splits are retroactively reflected.



# Capital Expenditures

(Billion yen)

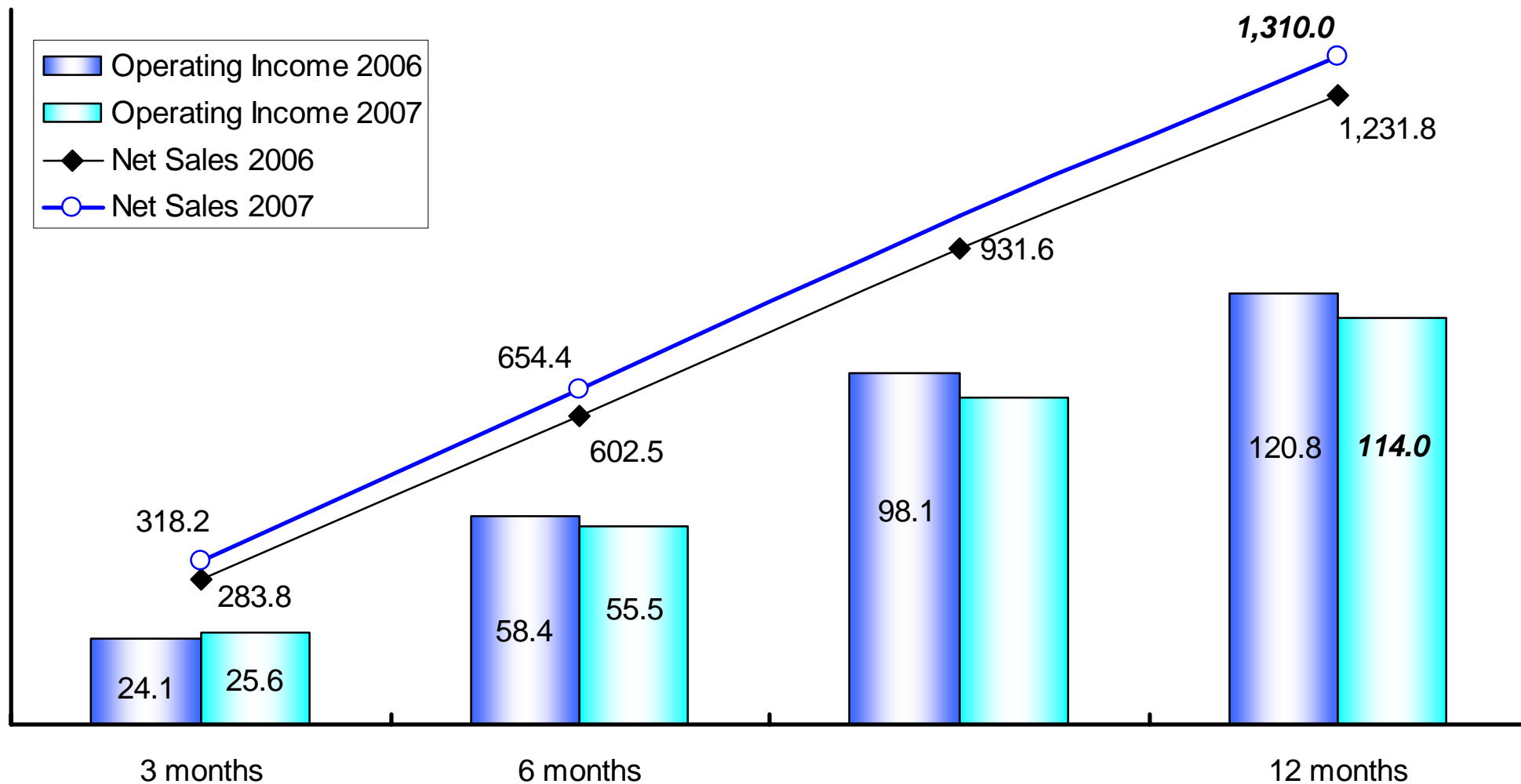


\*Payment for purchase of newly consolidated subsidiaries (net of cash acquired) is not included.



# Quarterly Consolidated Sales and Profit Forecast

(Billion yen)



# Non-consolidated Sales and Profit Forecast

	FY2005		FY2006*		FY2007(F)*	
	Billion yen	% Growth	Billion yen	% Growth	Billion yen	% Growth
Net Sales	688.5	-0.9	709.5	3.0	<b>725.0</b>	2.2
Operating Income	90.5	-7.6	78.6	-13.2	<b>78.0</b>	-0.8
[% to Sales]	13.2%		11.1%		10.8%	
Ordinary Income	100.1	-4.2	84.9	-15.2	<b>85.0</b>	0.1
[% to Sales]	14.5%		12.0%		11.7%	
Net Income	64.1	2.6	57.6	-10.1	<b>48.0</b>	-16.7
[% to Sales]	9.3%		8.1%		6.6%	
Net Income per Share (yen)	117.61	3.5	105.68	-10.1	<b>88.22</b>	-16.5
ROE	14.1%		11.8%		<b>9.5%</b>	
EBITDA (Operating Income + Depr. & Amort.)	131.7	-4.9	133.4	1.3	<b>131.0</b>	-1.8

\* The figures include amortization of intellectual property rights, financing costs and others related to Kanebo Cosmetics.

