

Highlights for FY2008

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Kao Corporation

Motoki Ozaki

President and CEO



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http://www.kao.com/jp/en/corp_ir/presentations.html

These presentation materials contain forward-looking statements that are based on management's estimates, assumptions and projections as of April 24, 2009. 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.

Note: The yen amounts in these presentation materials are rounded down.

Agenda

■ ■ **Summary of FY2008**

■ ■ **Summary of FY2009 Forecast**

■ ■ **Focal Points for FY2009 and Beyond**

Summary of FY2008

Financial Overview of FY2008

- *Performance in prestige cosmetics and the Chemical Business was poor during FY2008 amid higher raw material prices up to the third quarter and a drastic economic slowdown in the second half. Both net sales and profits fell short of our revised forecast announced in January 2009, despite price adjustments, the introduction of high-value-added products, improved efficiency of marketing expenditures and reinforced integration of business operations in Asia, including Japan.*

		<u>% of sales</u>	<u>Year-on-year</u>
Net sales:	¥1,276.3 billion		-3.2%
EBITA*:	¥134.6 billion	10.6%	-14.6%
Operating income:	¥96.8 billion	7.6%	-16.7%
Net income:	¥64.4 billion	5.1%	-3.2%
Net income per share:	¥120.25		-1.9%
ROE:	11.5%		-20bps
<u>Shareholder returns</u>			
Cash dividends per share:	¥56		+¥2
Consolidated payout ratio:	46.6%		

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



Overview of FY2008 Business Environment

Drastic change in business environment beyond forecast

Negative impact on profits due to higher raw material prices

Rapid deterioration of global economy

- **Cooling prestige cosmetics market due to change in consumer purchasing attitudes**
- **Decrease in demand and inventory adjustments in customer industries of the Chemical Business**

Focal Points and Results of FY2008

1. Launch of consumer-driven, high-value-added products

- *Blauné* hair color foam
- *Medicated Pyuora Nano-bright Toothpaste*

2. Continuous market share expansion of household and personal care products in Japan due to the reinforcement of brand power as well as sales force

3. Sales of the Consumer Products Business in Asia and Oceania grew 10% as a result of successful integration of business operations in the region, including Japan

Issues to Be Addressed

1. Year-on-year decrease in prestige cosmetics sales due to impact of sluggish mid-priced products market and slowdown in high-priced products market

- Nurture strong brands in each appropriately defined segment, reflecting consumer changes
- Maximize brand equity of Kanebo Cosmetics to make retail channel-based proposals that involve the entire Kao Group

2. Year-on-year decline in Beauty Care sales in North America and Europe due to economic slowdown and increased competition

- Premium mass products: Reinforce brand power by strengthening collaboration with Japan and differentiate ourselves with high-value-added products
- Prestige products: Enhance brand value of *Molton Brown* by further emphasizing its prestigious nature

3. Recent significant sales decline of Chemical Business amid global economic slowdown

- Promote development of distinctive, high-value-added products by introducing new approaches such as environmental protection

Summary of FY2009 Forecast

FY2009 Forecast

In FY2009, we will focus on reinforcing our foundation for profitable growth including a review of our fixed expenses structure, while placing importance on shareholder returns, amid an uncertain business environment due to the global recession.

		<u>% of sales</u>	<u>Year-on-year</u>
Net sales:	¥1,210.0 billion		-5.2%
EBITA*:	¥132.0 billion	10.9%	-2.0%
Operating income:	¥97.0 billion	8.0%	+0.2%
Net income:	¥56.0 billion	4.6%	-13.1%
Net income per share:	¥104.47		-13.1%
ROE:	10.0%		-150bps
<u>Shareholder returns</u>			
Cash dividends per share:	¥56		±¥0
Consolidated payout ratio:	53.6%		

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



Focal Points for FY2009 and Beyond

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.



Review of the Period from FY2006 to FY2008

Achievements

1. Implementation of four business unit operating structure and reinforcement of matrix management by business and function
2. Strengthening of sales functions with the establishment of Kao Customer Marketing Co., Ltd.
3. Establishment of global management structure
 - Integration of business operations in Asia, including Japan
 - Promotion of global supply chain management
4. Innovation of marketing
 - Thorough analysis of values and lifestyles rooted in the cultures of Japan and each country in Asia
 - Strong brand-building with unique RPDC (Research-Plan-Do-Check) brand diagnosis
 - Effective and efficient communication with IBC (Integrated Brand Communications)
5. Generation of cost synergy with Kanebo Cosmetics

Unexpected factors

1. Cumulative impact of higher raw material prices on profits since FY2007: Approx. ¥60 billion
 - ➔ Product price adjustments and cost reduction activities
2. Cooling of consumption and slump in markets where Kao operates due to sudden economic slowdown in FY2008
 - ➔ Focus on investment in core brands and new product development/launches to stimulate markets

Focal Points for FY2009 and Beyond

Expand sales of Beauty Care Business with high-value-added products

Prestige cosmetics

- Establish leading presence in Japan**
 - Conduct marketing that covers products from counseling to self-selection cosmetics in response to polarization of consumer needs
 - Strengthen the organization by promoting exchange of human resources, including from Kanebo Cosmetics Inc.
 - Use overall capabilities of the entire Kao Group, such as sales force and supply chain management
- ¥8 billion projected sales of Kanebo Cosmetics in China in FY2010 by increasing sales per shop**
- Estimated cumulative cost reduction synergy with Kanebo Cosmetics by FY2010: ¥10-15 billion**

Premium mass products*

- Thoroughly reinforce operations in Japan using Kao's product development capabilities and organized sales force**
- Expand business in Asia by nurturing pan-Asian brands**
- Ensure premium status of brands by strengthening product development system in North America and Europe**

* Premium mass products consist of premium skin care and premium hair care products.

Focal Points for FY2009 and Beyond

Expand areas in health care

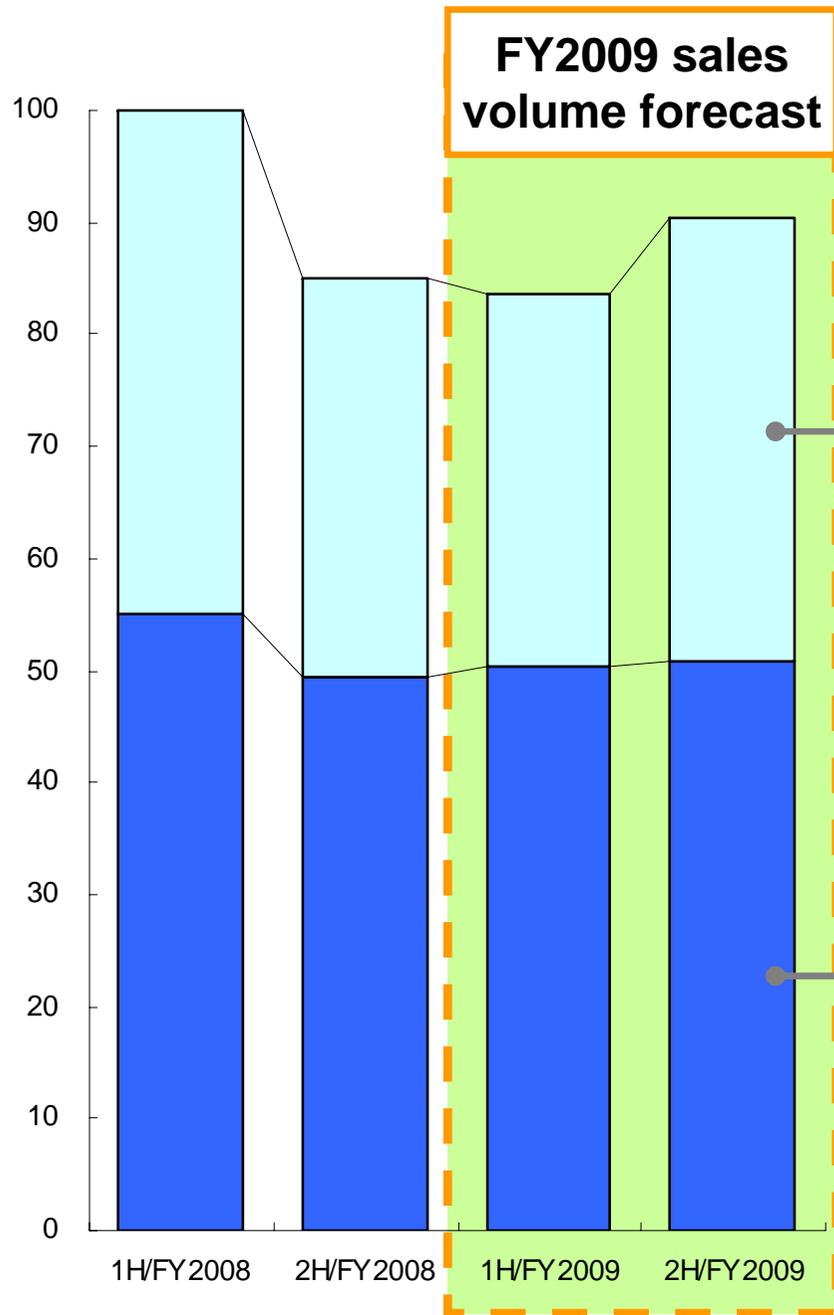
- Reinforce functional foods and beverages business amid rising consumer awareness of metabolic syndrome countermeasures
- Establish solution service business linked with mandatory special health examinations and specified health guidance

Focal Points for FY2009 and Beyond

Further reinforce Fabric and Home Care Business with proposals to offer a comfortable, pleasurable and fulfilling life

- Revitalize market with high-value-added products
- Offer market-creating products in response to growing consumer consciousness of sanitation, safety and the environment
- Further strengthen Kao's leading position in the Japanese market and establish brands with a strong presence in Asia and Oceania

Impact of Deteriorating Economy on Chemical Business



FY2009 sales volume forecast

Product categories with major impact

<u>Products</u>	<u>Principal industries</u>
Plastic additives	} Automotive industry Consumer electronics Electronic materials
Low temperature metal cleaner	
Foundry chemicals	
Polishing agents for hard disks	

Product categories with comparatively less impact

<u>Products</u>	<u>Principal industries</u>
Toner and toner binder for copiers and printers	Office supply
Raw materials for household and personal care products	} Consumer products
Aroma chemicals, edible oils	

* Sales volume of 1H/FY2008 = comparative base (100)



Focal Points for FY2009 and Beyond

Initiatives for the recovery of the Chemical Business

- ❑ **Accelerate product development and sales expansion focusing on environmental protection**
 - Strengthen eco-materials: Sales expansion of oleo chemicals derived from natural oils and fats such as palm kernel oil
 - Increase sales of products with environmental functions: Introduction and nurturing of improved plant-based polylactide resin, low temperature metal cleaner
- ❑ **Focus on development of high-value-added products expected to be future growth drivers, such as in the IT-related category**

Synergy with Consumer Products Business

- ❑ **Source of fundamental technology**
- ❑ **Supply of raw materials to Consumer Products Business**

Further Enhance Cost Reduction Activities

FY2009 forecast

- Total Cost Reduction (TCR) activities: ¥5 billion

Generate more profit with additional cost reduction activities

- Improve cost of sales ratio (proportion of variable expenses)
 - Review cost of product formulas
 - Reduce yield loss
- Review fixed expenses structure
 - Enhance efficiency by streamlining overlap among organizations
 - Streamline product development cost

Use of Increased Free Cash Flow*

Use steadily generated free cash flow effectively from an EVA standpoint toward further growth.

1. Capital expenditures and M&A for future growth

2. Steady and continuous cash dividends

*FY2009
forecast*

- *Cash dividends per share: ¥56*
- *Consolidated payout ratio: 53.6%*

3. Share repurchases and repayment of interest-bearing debt including borrowings

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

Keywords for Kao's Further Profitable Growth

**Accelerate growth of business globally
(Stronger focus on BRICs, etc.)**

**Expand business through development of
high-value-added products from
a new viewpoint using the environment
as a keyword**

Appendices

Business Segments and Main Product Categories

Consumer Products
Business

Beauty Care

FY2008 sales: ¥588.3 billion

[-6.3% year-on-year / Share of net sales: 46.1%]

Beauty salon products
Prestige cosmetics
Premium skin care
Premium hair care



Consumer Products
Business

Fabric and Home Care

FY2008 sales: ¥274.2 billion

[-0.2% year-on-year / Share of net sales: 21.5%]

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



Consumer driven

Human Health Care

FY2008 sales: ¥191.3 billion

[+0.0% year-on-year / Share of net sales: 15.0%]

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



Consumer Products
Business

Chemical

FY2008 sales: ¥262.0 billion

[+1.3% year-on-year / Share of net sales: 17.4%]

Oleo chemicals
Performance chemicals
Specialty chemicals



Chemical Business

* Sales include intersegment sales. Share of net sales is calculated based on sales to customers.

FY2008 Breakdown of Beauty Care Business

Billion yen Increase
(Decrease)*

		Billion yen	Increase (Decrease)*
Beauty Care	Net sales	588.3	(6.3%)
	Operating income	17.5	(9.7)
	Operating margin	3.0%	(130bps)
Prestige Cosmetics	Net sales	290.8	(8.0%)
	Operating income**	(18.5)	(9.5)
	Operating margin	(6.4%)	(360bps)
Premium mass products and professional hair care products	Net sales	297.4	(4.6%)
	Operating income	36.0	(0.2)
	Operating margin	12.1%	+50bps

Kanebo Cosmetics

- Net sales:
Approx. ¥210 billion
- EBITA as a % of sales*** :
6%+

* Increase (decrease) in percent for net sales and billion yen for operating income

** Includes ¥28.8 billion of amortization of goodwill and intellectual property rights related to M&A

*** Operating income ratio before deduction of royalties



Kao's Skin Care and Makeup Brand Portfolio in Japan

		Department Stores	Drugstores/ GMS	Specialty Stores
Counseling	High prestige	Impress LUNASOL e s t R M K		TWANY LISSAGE
	Prestige		<p>SOFINA beauté ALBLANC GRACE SOFINA MEDICATED</p> <p>DOLTIER Primavista FINE-FIT AUBE couture</p> <hr/> <p>Kanebo BLANCHIR SUPERIOR DEW SUPERIOR freepus suisai COFFRET D'OR</p>	
Self-selection			<p>EVITA Frēshel WHITE C KATE Lavshuca media</p>	
Premium mass Personal care			<p>Bioré Curel</p>	

Kao's Cosmetics Mega Brands (Beauty Care Business)

Cosmetics Mega Brands
(annual sales in excess of
¥10 billion)
in FY2008



COFFRET D'OR



BLANCHIR SUPERIOR



FINE-FIT



KATE



EVITA



TWANY



MOLTON BROWN
LONDON



LISSAGE



R M K



SENSAI



SRI Indexes and External CSR Evaluation

SRI indexes for which Kao has been selected



CSR-related evaluation from external organization



(As of April 24, 2009)

CSR: Corporate Social Responsibility
SRI: Socially Responsible Investment

