

Annual Financial Review

From April 1, 2008 to March 31, 2009

Kao Corporation

April 24, 2009

This is a translation of materials used for the analyst meeting held in Japan on April 24, 2009.



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

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

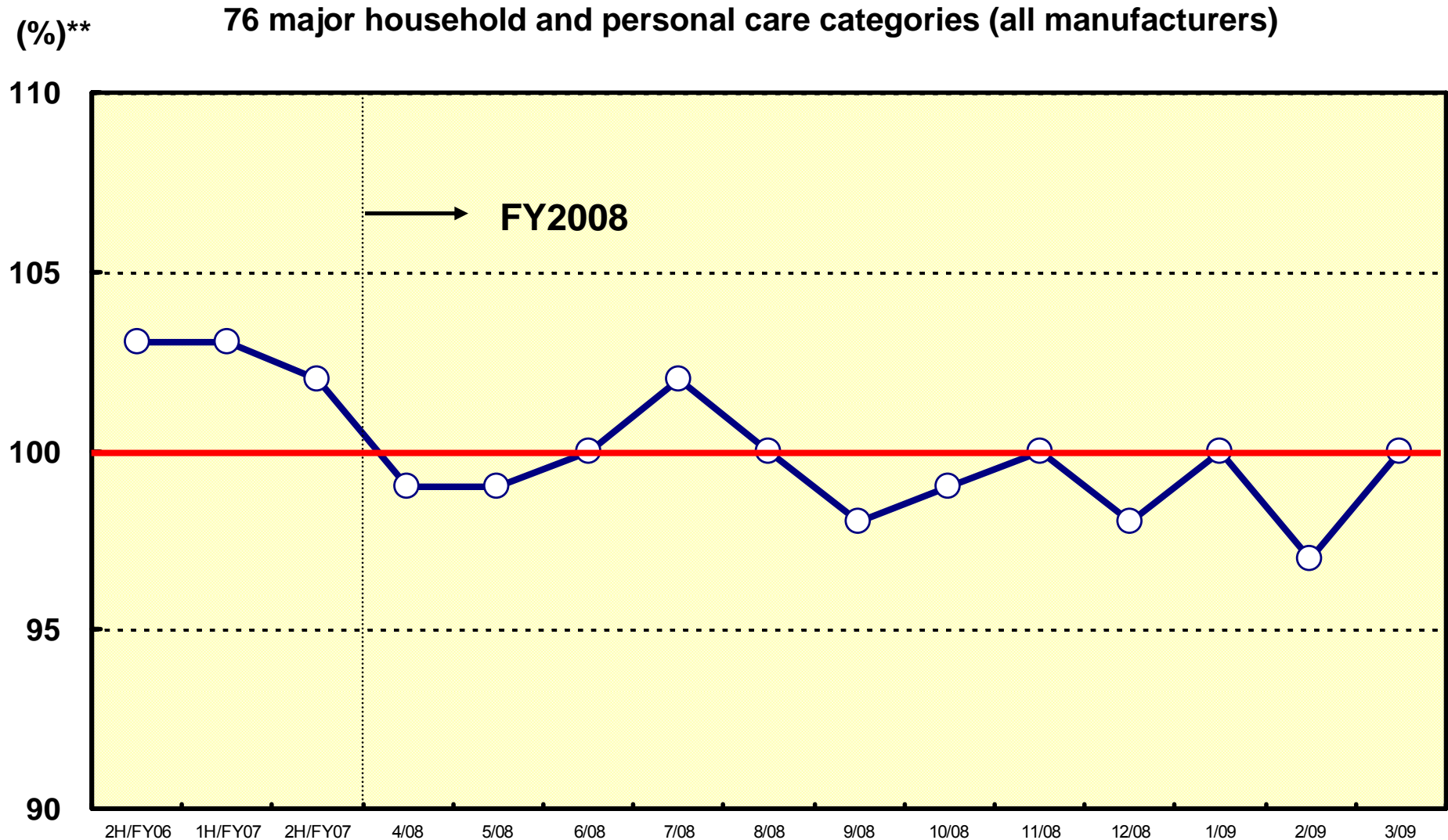
These presentation materials contain forward-looking statements that are based on management's estimates, assumptions and projections as of April 24, 2009. Certain factors, which include, but are not limited to, the risks and uncertainty associated with the worldwide economy, competitive activity, and 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.

1. Business Environment

April 1, 2008 – March 31, 2009

Consumer Products* Market in Japan



* Consumer products do not include prestige cosmetics.

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

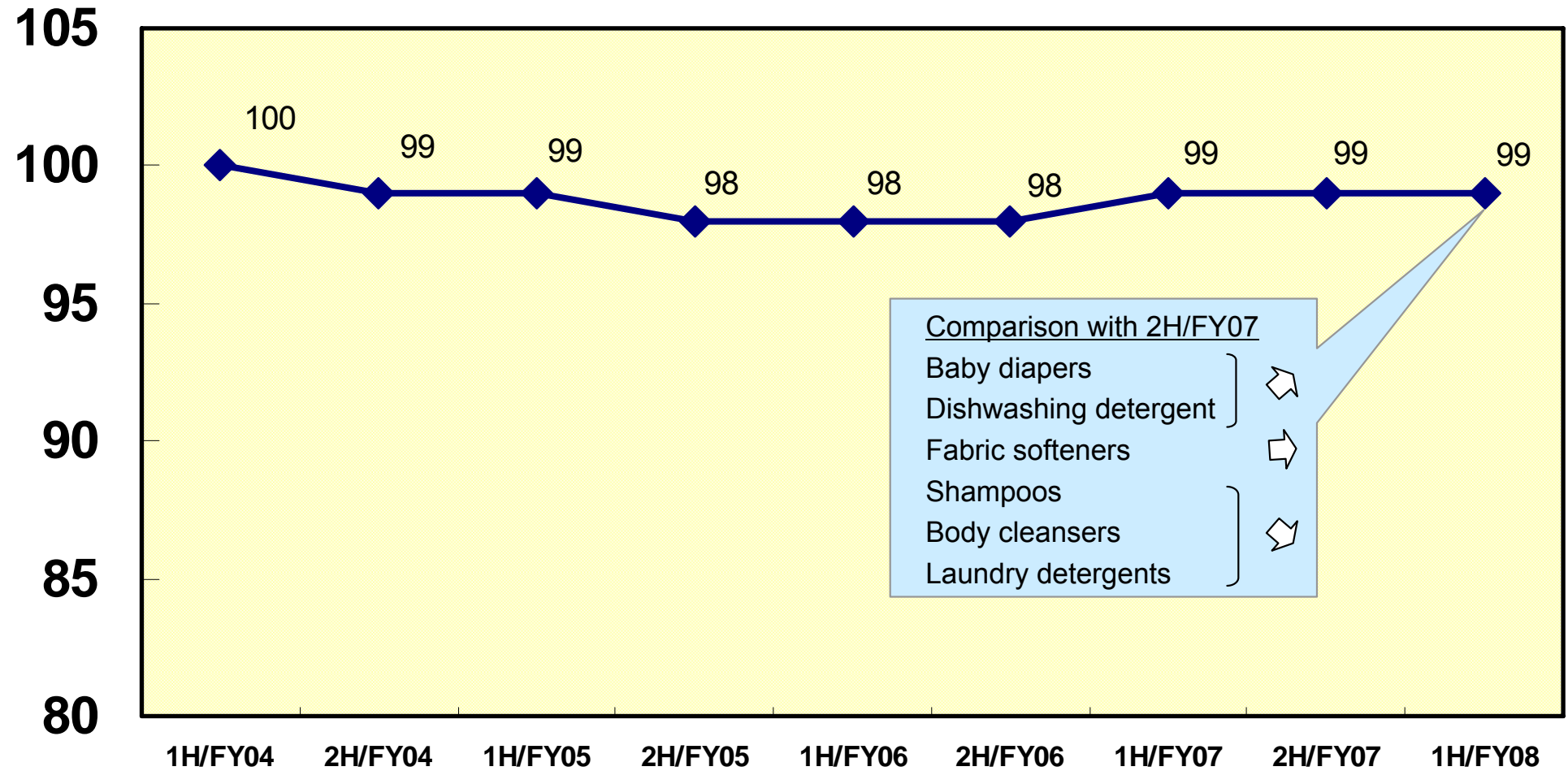
(Source: SRI POS data)



Consumer Purchase Prices in Japan

15 major household and personal care categories (all manufactures)

Index



(Source: SRI POS data)



2. Consolidated Business Results

April 1, 2008 – March 31, 2009

Key Points in FY2008

Japan sales related

1. Contribution of new products in Consumer Products Business* in Japan: 9%
2. Sales prices of existing products in Consumer Products Business* in Japan: Flat
3. Price adjustments

Net sales and income related

1. Net sales:	1,276.3 billion yen	(-3.2% year-on-year)
- Currency translation impact:	-39.4 billion yen	(-3.0% year-on-year)
- Like-for-like sales growth:	-2.7 billion yen	(-0.2% year-on-year)
2. Decrease in operating income**:	-19.4 billion yen	
3. Net income:		
- Decline in deferred income taxes related to undistributed foreign earnings due to tax reform in Japan	+8.0 billion yen	

Balance sheets and cash flow related

1. Payments of cash dividends***:	29.7 billion yen	
2. Repayment of long-term debt:	33.2 billion yen	
3. Retirement of treasury stock:	28.4 billion yen	9.3 million shares

* Excludes prestige cosmetics

** Please refer to slide 12 for details

*** Includes payments of cash dividends to minority shareholders

FY2008 Consolidated Results

Billion yen	<u>FY06</u>	<u>FY07</u>	<u>FY08</u>	Growth	Changes
Net Sales	1,231.8	1,318.5	1,276.3	-3.2%	-42.1
EBITA*	161.5	157.6	134.6	-14.6%	-22.9
<i>EBITA* Margin</i>	13.1%	12.0%	10.6%		
Operating Income	120.8	116.2	96.8	-16.7%	-19.4
<i>Operating Margin</i>	9.8%	8.8%	7.6%		
Ordinary Income	120.1	114.2	94.6	-17.2%	-19.6
Net Income	70.5	66.5	64.4	-3.2%	-2.0
EBITDA	213.0	209.6	184.2	-12.1%	-25.4
ROE	13.1%	11.7%	11.5%		
EPS (yen)	129.41	122.53	120.25	-1.9%	-2.28

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



Consolidated Net Sales [1]

	FY2007		FY2008		
	Billion yen	% Growth	Billion yen	%	
				Growth	Like-for-like
Beauty Care Business	448.6	7.8	436.3	-2.7	-2.7
Human Health Care Business	174.4	2.6	174.7	0.2	0.2
Fabric and Home Care Business	245.2	0.0	245.9	0.3	0.3
Japan Total	868.4	4.5	857.0	-1.3	-1.3
Asia & Oceania	85.3	18.5	83.1	-2.6	9.6
North America & Europe	156.2	5.0	130.3	-16.6	-6.3
Elimination	-16.1	-	-16.6	-	-
Consumer Products Business	1,093.8	5.4	1,053.8	-3.7	-1.3

*Like-for-like: excludes currency translation impact

Consolidated Net Sales [2]

	FY2007		FY2008		
	Billion yen	% Growth	Billion yen	%	
				Growth	Like-for-like
Japan	129.3	10.6	130.0	0.5	0.5
Asia	75.1	34.7	80.9	7.7	20.7
North America & Europe	98.8	19.2	100.5	1.8	11.2
Elimination	-44.7	-	-49.5	-	-
Chemical Business	258.6	15.7	262.0	1.3	6.7
Elimination	-34.0	-	-39.5	-	-
Consolidated Sales	1,318.5	7.0	1,276.3	-3.2	-0.2

*Like-for-like: excludes currency translation impact

Consolidated Income Statements

	FY2007		FY2008		Changes*
	Billion yen	%	Billion yen	%	Billion yen
Net Sales	1,318.5	100.0	1,276.3	100.0	-42.1
Cost of Sales	554.1	42.0	558.9	43.8	4.8
Gross Profit	764.3	58.0	717.3	56.2	-47.0
SG&A Expenses	648.1	49.2	620.5	48.6	-27.5
Operating Income	116.2	8.8	96.8	7.6	-19.4
Non-operating Income/Expenses	-2.0	-0.1	-2.1	-0.2	-0.1
Ordinary Income	114.2	8.7	94.6	7.4	-19.6
Extraordinary Gain & Loss	-3.8	-0.3	-2.5	-0.2	1.2
Income Before Taxes	110.3	8.4	92.0	7.2	-18.3
Income Taxes	42.7	3.3	26.5	2.1	-16.1
Minority Interests & Others (Minus)	1.0	0.1	0.9	0.1	-0.0
Net Income	66.5	5.0	64.4	5.1	-2.0

* Changes = FY2008 – FY2007

** Amortization related to Kanebo Cosmetics
FY2007: 27.4 billion yen, FY2008: 27.4 billion yen



FY2008 Operating Income Analysis

Comparison with FY2007

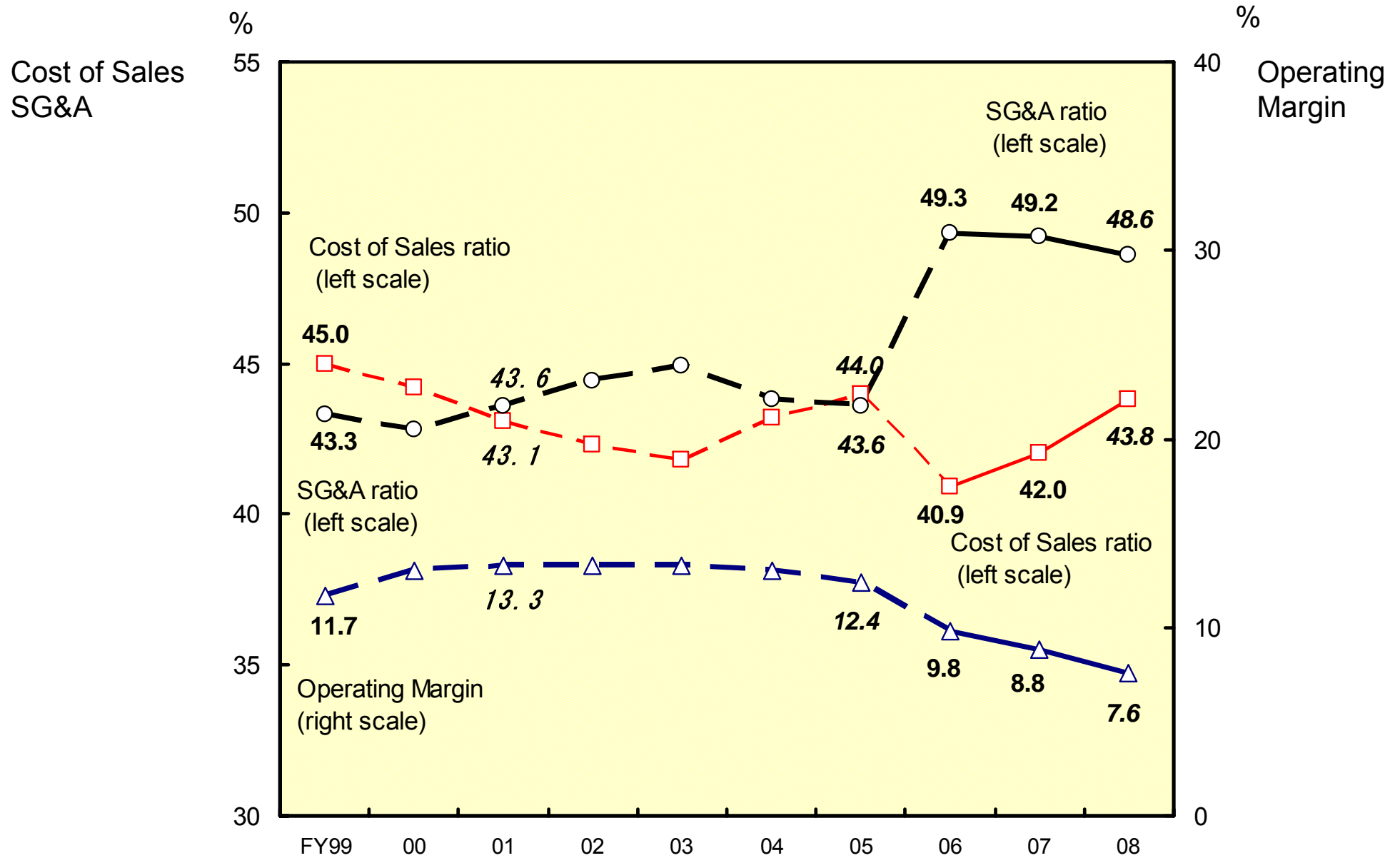


**FY2007
Operating Income
116.2 billion yen**

-19.0 billion	Decrease in sales volume
-36.0 billion	Raw material prices
+25.0 billion	Price adjustments and other measures
+9.0 billion	Total Cost Reduction (TCR)
+27.5 billion	Decrease in SG&A expenses
-15.5 billion	Effect of currency translation on SG&A expenses
-10.4 billion	Product mix and others

**FY2008
Operating Income
96.8 billion yen**

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)

	FY2007	FY2008	Changes*
Total SG&A Expenses	648.1	620.5	-27.5

Freight/Warehouse	74.1	74.2	0.0
Advertising	99.1	90.2	-8.9
Sales Promotion	77.1	69.7	-7.3
Salaries and Wages	129.0	125.6	-3.3
R&D	45.0	46.1	1.0

* Changes = FY2008 – FY2007

Effect of currency translation on SG&A expenses: -15.5 billion yen

Non-operating Income/Expenses and Extraordinary Gain/Loss

(Billion yen)

Non-operating Income/Expenses	FY2007	FY2008	Changes*
Non-operating Income	6.7	6.7	0.0
Interest Income	2.9	2.4	
Dividend Income	0.1	0.1	
Equity in Earnings of Nonconsolidated Subsidiaries and Affiliates	-	0.5	
Other	3.5	3.5	
Non-operating Expenses	8.7	8.9	+0.2
Interest Expense	6.6	6.0	
Equity in Losses of Nonconsolidated Subsidiaries and Affiliates	0.6	-	
Foreign Currency Exchange Loss	0.4	1.8	
Other	0.9	1.0	

Extraordinary Gain/Loss	FY2007	FY2008	Changes*
Extraordinary Gain	0.5	1.9	+1.3
Gain on Sales of Fixed Assets	0.1	1.0	
Gain on Sales of Investment Securities	0.0	0.0	
Gain on Sales of Business	-	0.4	
Other	0.3	0.3	
Extraordinary Loss	4.3	4.5	+0.1
Loss on Sales/Disposals of Fixed Assets	1.8	2.2	
Loss on Impairment of Long-lived Assets	1.3	0.7	
Loss on Business Restructuring	0.5	-	
Other	0.6	1.5	

* Changes = FY2008 - FY2007

Sales and Operating Income by Business

		FY2007		FY2008		Changes Billion yen	Growth %
		Billion yen	% to net sales	Billion yen	% to net sales		
Beauty Care Business	Net sales*	627.9	-	588.3	-	-39.5	-6.3%
	EBITA**	68.0	10.8%	55.1	9.4%	-12.8	-18.9%
	Operating Income	27.2	4.3%	17.5	3.0%	-9.7	-35.6%
Human Health Care Business	Net sales*	191.2	-	191.3	-	0.0	0.0%
	Operating Income	13.1	6.9%	12.9	6.8%	-0.1	-1.4%
Fabric & Home Care Business	Net sales*	274.6	-	274.2	-	-0.4	-0.2%
	Operating Income	56.0	20.4%	49.1	17.9%	-6.9	-12.4%
Chemical Business	Net sales*	258.6	-	262.0	-	+3.3	+1.3%
	EBITA**	20.3	7.8%	17.4	6.6%	-2.9	-14.4%
	Operating Income	19.6	7.6%	17.1	6.6%	-2.5	-12.8%
Consolidated	Net sales	1,318.5	-	1,276.3	-	-42.1	-3.2%
	EBITA**	157.6	12.0%	134.6	10.6%	-22.9	-14.6%
	Operating Income	116.2	8.8%	96.8	7.6%	-19.4	-16.7%

* 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

		FY2007		FY2008		Changes Billion yen	Growth %
		Billion yen	% to net sales	Billion yen	% to net sales		
Japan	Net sales*	968.5	-	953.3	-	-15.2	-1.6%
	EBITA**	133.4	13.8%	117.5	12.3%	-15.9	-12.0%
	Operating Income	98.3	10.2%	84.1	8.8%	-14.1	-14.4%
Asia and Oceania	Net sales*	158.2	-	161.9	-	+3.6	+2.3%
	Operating Income	1.0	0.7%	2.7	1.7%	+1.6	+154.5%
North America	Net sales*	111.0	-	98.9	-	-12.0	-10.8%
	EBITA**	9.1	8.2%	5.2	5.3%	-3.8	-42.4%
	Operating Income	6.8	6.2%	4.3	4.4%	-2.5	-36.8%
Europe	Net sales*	154.6	-	140.6	-	-14.0	-9.1%
	EBITA**	12.9	8.4%	8.7	6.3%	-4.1	-32.2%
	Operating Income	9.0	5.8%	5.2	3.7%	-3.7	-42.1%
Consolidated	Net sales	1,318.5	-	1,276.3	-	-42.1	-3.2%
	EBITA**	157.6	12.0%	134.6	10.6%	-22.9	-14.6%
	Operating Income	116.2	8.8%	96.8	7.6%	-19.4	-16.7%

* Before elimination of intersegment transfers

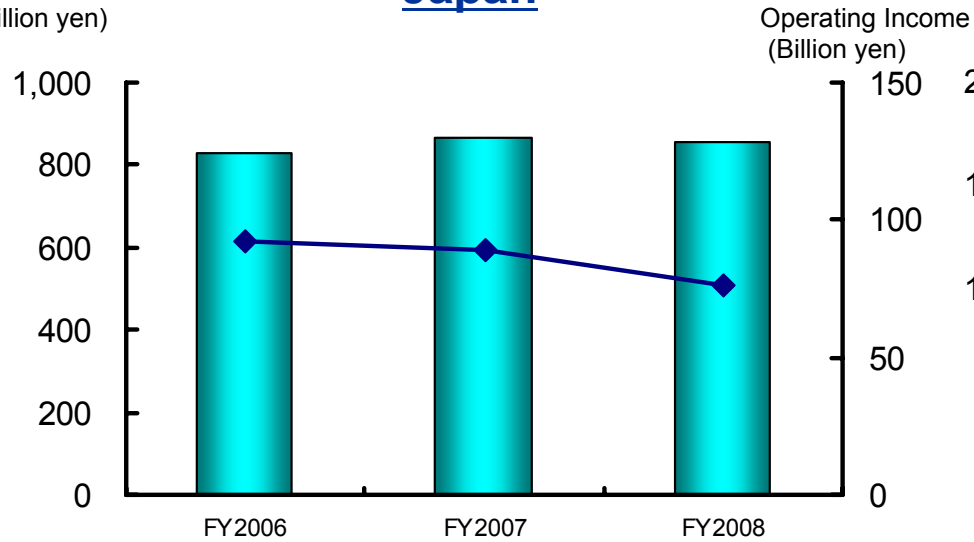
** Operating income before amortization of goodwill and intellectual property rights related to M&A



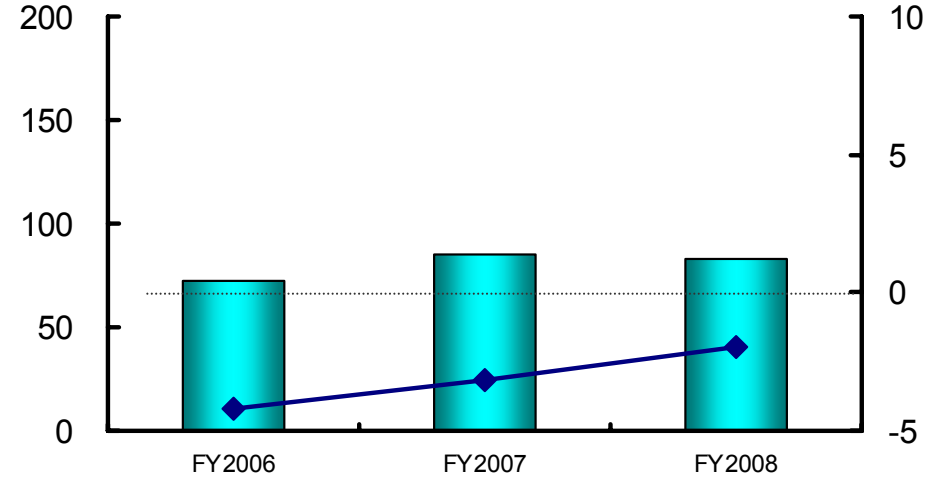
Consumer Products Business by Geography

Japan

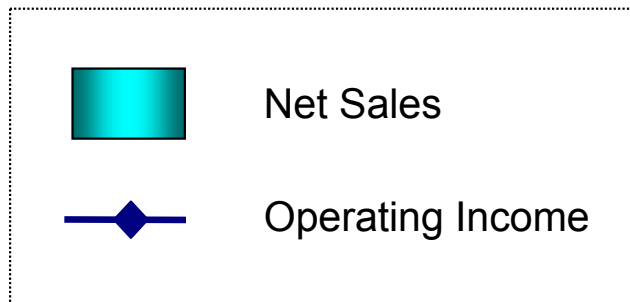
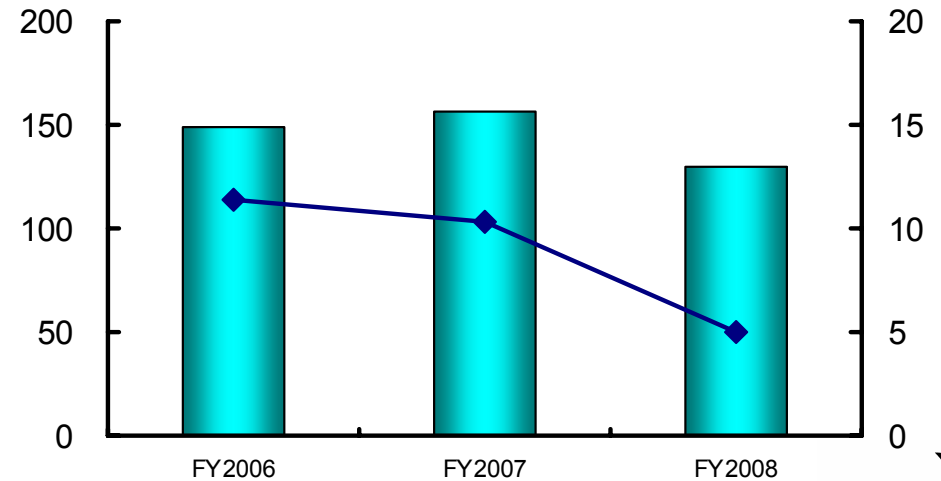
Sales (Billion yen)



Asia and Oceania



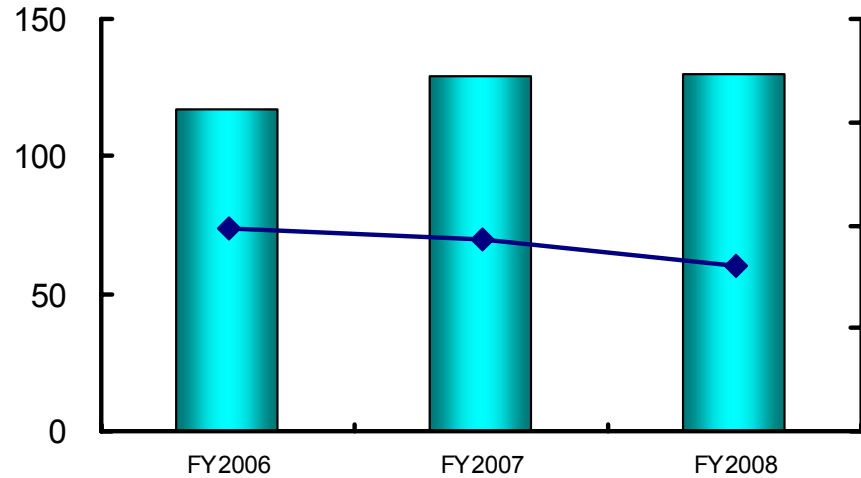
North America & Europe



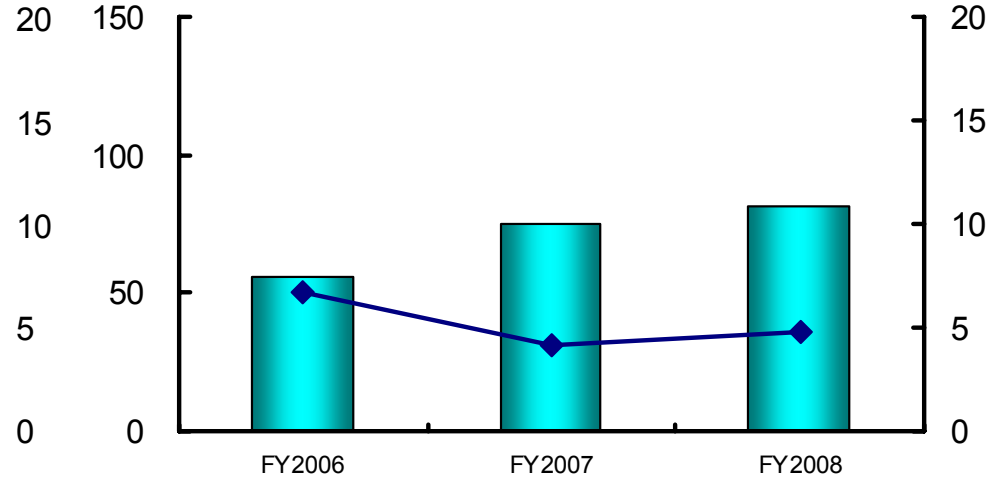
Chemical Business by Geography

Japan

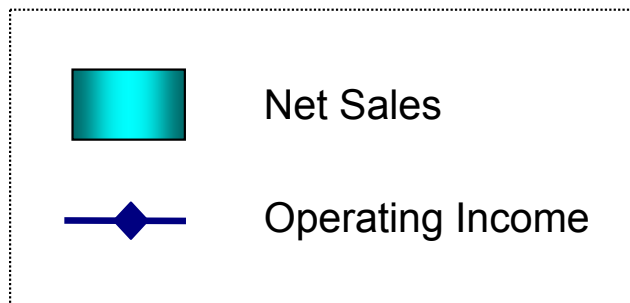
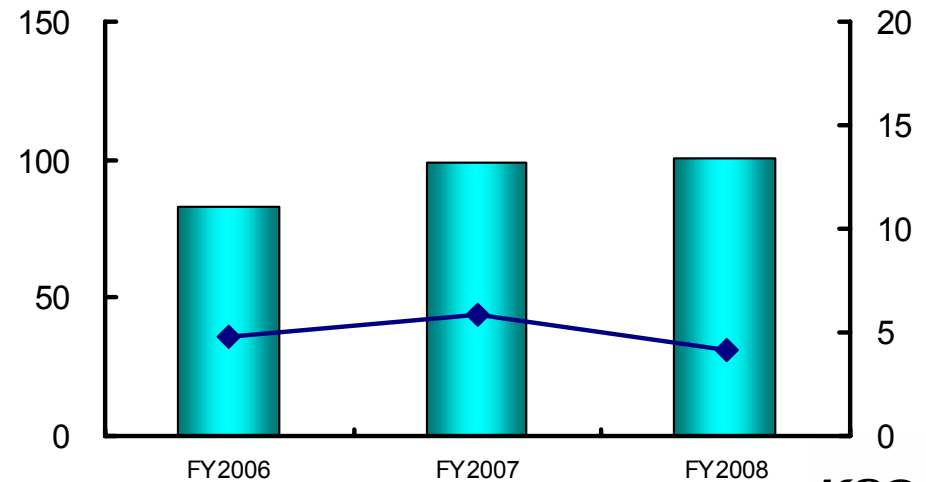
Sales (Billion yen)



Asia



North America & Europe



Consolidated Balance Sheets

(Billion yen)

	Mar/08	Mar/09	Changes		Mar/08	Mar/09	Changes
Current Assets	435.5	403.8	-31.7	Current Liabilities	323.9	270.7	-53.2
Cash and Bank Deposits	53.7	53.8	0.0	Notes and Accounts Payable - Trade	109.5	95.0	-14.5
Notes and Accounts Receivable - Trade	154.2	126.5	-27.6	Short-term Debt (incl. Current Portion of Long-term Debt)	43.8	38.5	-5.2
Short-term Investments	54.9	54.7	-0.2	Accounts Payable - Other	32.7	29.3	-3.3
Inventories	125.5	118.0	-7.5	Accrued Expenses	85.5	72.6	-12.9
Others	47.0	50.6	3.6	Accrued Income Taxes	29.3	13.2	-16.1
				Others	22.8	21.8	-1.0
Fixed Assets	796.9	715.8	-81.1	Long-term Liabilities	323.9	294.7	-29.1
Tangible Assets	281.7	257.4	-24.2	Straight Bond/Long-term Debt	269.7	236.8	-32.8
Intangible Assets	401.0	348.4	-52.6	Others	54.1	57.8	3.6
Investments	114.1	109.9	-4.2	Total Liabilities	647.8	565.4	-82.4
Deferred Assets	0.0	-	-0.0				
				Shareholders' equity	582.0	615.7	33.7
				-Common Stock	85.4	85.4	-
				-Capital Surplus	109.5	109.5	-
				-Retained Earnings	426.2	431.7	5.5
				-Treasury Stock, at Cost	-39.1	-11.0	28.1
				Adjustment for Valuation, Foreign Currency Translation and Other	-7.9	-70.5	-62.5
				- Unrealized Gain on Available-for-Sale Securities	3.3	2.0	-1.3
				- Deferred Gains or Losses on hedges	-	0.0	0.0
				- Foreign Currency Translation Adjustments	-11.3	-70.1	-58.7
				- Other	-	-2.4	-2.4
				Stock Acquisition Rights	0.5	0.8	0.2
				Minority Interests	10.0	8.1	-1.9
				Total Net Assets	584.7	554.1	-30.5
Total Assets	1,232.6	1,119.6	-112.9	Total Liabilities and Total Net Assets	1,232.6	1,119.6	-112.9

Statements of Cash Flows

	(Billion yen)		
	FY2007	FY2008	Changes*
Net cash provided by operating activities	180.3	121.5	-58.7
Net cash used in investing activities	-52.3	-43.1	9.2
Net cash provided by (used in) financing activities	-101.8	-64.7	37.1
Translation adjustments on cash and cash equivalents	-1.6	-15.7	-14.1
Net Increase/(decrease) in cash and cash equivalents	24.4	-2.0	-26.5
Cash and cash equivalents, beginning of year	88.1	112.6	24.4
Cash and cash equivalents from newly consolidated subsidiary, increase	-	0.3	0.3
Decrease in cash and cash equivalents resulting from change of fiscal term of subsidiaries	-	-0.3	-0.3
Cash and cash equivalents, end of period	112.6	110.5	-2.0
Total Debt, end of period	313.6	275.4	-38.1

* Changes = FY2008 –FY2007

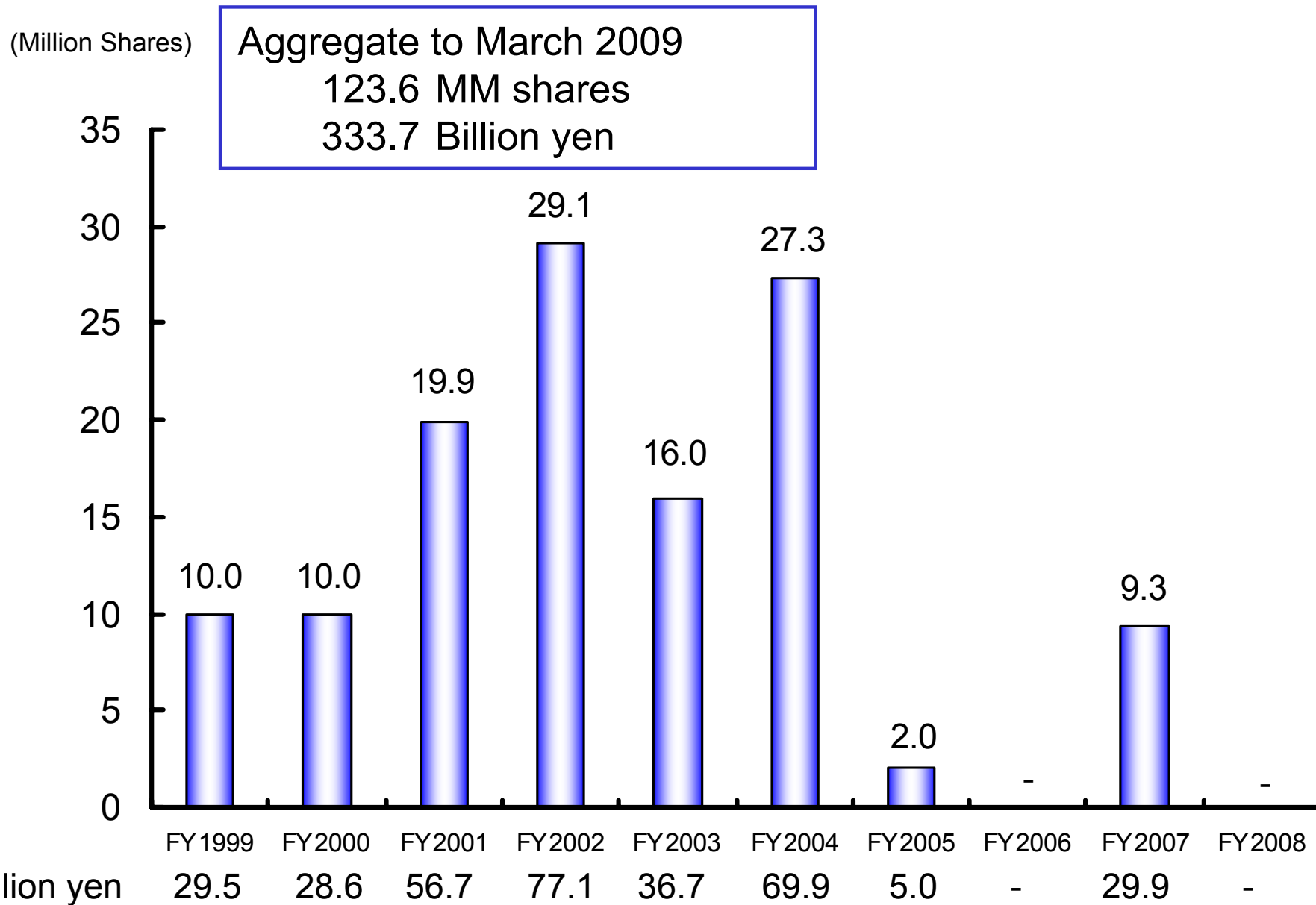
<Net cash used in investing activities>

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

<Net cash used in financing activities>

Payments of cash dividends 29.7 billion yen
 Repayment of long-term debt: 33.2 billion yen

Share Repurchase



* Share repurchase from the market



3. Forecast for FY 2009

Major Assumptions for FY2009 Forecast

◆ Consumer Products Business* market in Japan

- Sales price of existing products: Essentially flat
- Year-on year growth rate of market size in value (yen): -1%

◆ Cosmetics market in Japan: -2% year-on-year

◆ Market of global customer industries for Chemical Products Business

- 1st half: 85% versus the level of the 1st half of FY2008 in terms of volume
- 2nd half: 90% versus the level of the 1st half of FY2008 in terms of volume

◆ Currency translation impact on net sales: approximately -¥33 billion

◆ Strategic and efficient marketing investments

Estimated impact on income

◆ Net impact of lower raw material prices:

approximately +¥15 billion

◆ Total Cost Reduction (TCR) activities:

approximately +¥5 billion

◆ Impact of decrease in sales volume and product mix: approximately -¥18 billion

◆ Capital expenditures/depreciation and amortization

- Capital expenditures: ¥55 billion
- Depreciation and amortization: ¥85 billion

Exchange rate assumptions

◆ 100 yen/USD (FY2008 actual exchange rate [quarterly average]: 102.81 yen/USD)

◆ 130 yen/Euro (FY2008 actual exchange rate [quarterly average]: 152.07 yen/Euro)

* Excludes prestige cosmetics.

Consolidated Sales and Profit Forecast

	FY2007 ^{*2}		FY2008 ^{*3}		FY2009(F) ^{*1} ^{*4}	
	Billion yen	% Growth	Billion yen	% Growth	Billion yen	% Growth
Net Sales	1,318.5	7.0	1,276.3	-3.2	1,210.0	-5.2
Operating Income	116.2	-3.8	96.8	-16.7	97.0	0.2
[% of Sales]	8.8%		7.6%		8.0%	
Ordinary Income	114.2	-5.0	94.6	-17.2	95.0	0.4
[% of Sales]	8.7%		7.4%		7.9%	
Net Income	66.5	-5.6	64.4	-3.2	56.0	-13.1
[% of Sales]	5.0%		5.1%		4.6%	

Net Income per Share (yen)	122.53	-5.3	120.25	-1.9	104.47	-13.1
ROE	11.7%	-	11.5%	-	10.0%	-
EBITDA (Operating Income + Depr. & Amort.)	209.6	Δ1.6	184.2	-12.1	182.0	-1.2
Cash Dividends per Share (yen)	54.0	3.8	56.0	3.7	56.0	0.0

*1 Exchange rate assumptions: 100 yen/USD, 130 yen/Euro

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

*3 Kanebo Cosmetics (Apr. 2008-Mar. 2009) : Net sales = approximately ¥210 billion / operating margin before deduction of royalties = 6%+; amortization related to Kanebo Cosmetics: ¥27.4billion

*4 Kanebo Cosmetics (Apr. 2009-Mar. 2010) : Net sales = approximately ¥210 billion / operating margin before deduction of royalties = 6%+; amortization related to Kanebo Cosmetics: ¥27.4billion



Sales Outlook by Segment – FY2009

<Billion yen>

Consolidated Net Sales **1,210** **-5.2%**

By Business*

By Geography*

Beauty Care	572	-2.8%
Human Health Care	193	+0.9%
Fabric and Home Care	275	+0.3%
Chemical	202	-22.9%

Japan	945	-0.9%
Asia & Oceania	132	-18.5%
North America	84	-15.2%
Europe	110	-21.8%

*Before elimination of intersegment transfers



Sales Outlook – FY2009

- Consumer Products Business in Japan -

<Billion yen>

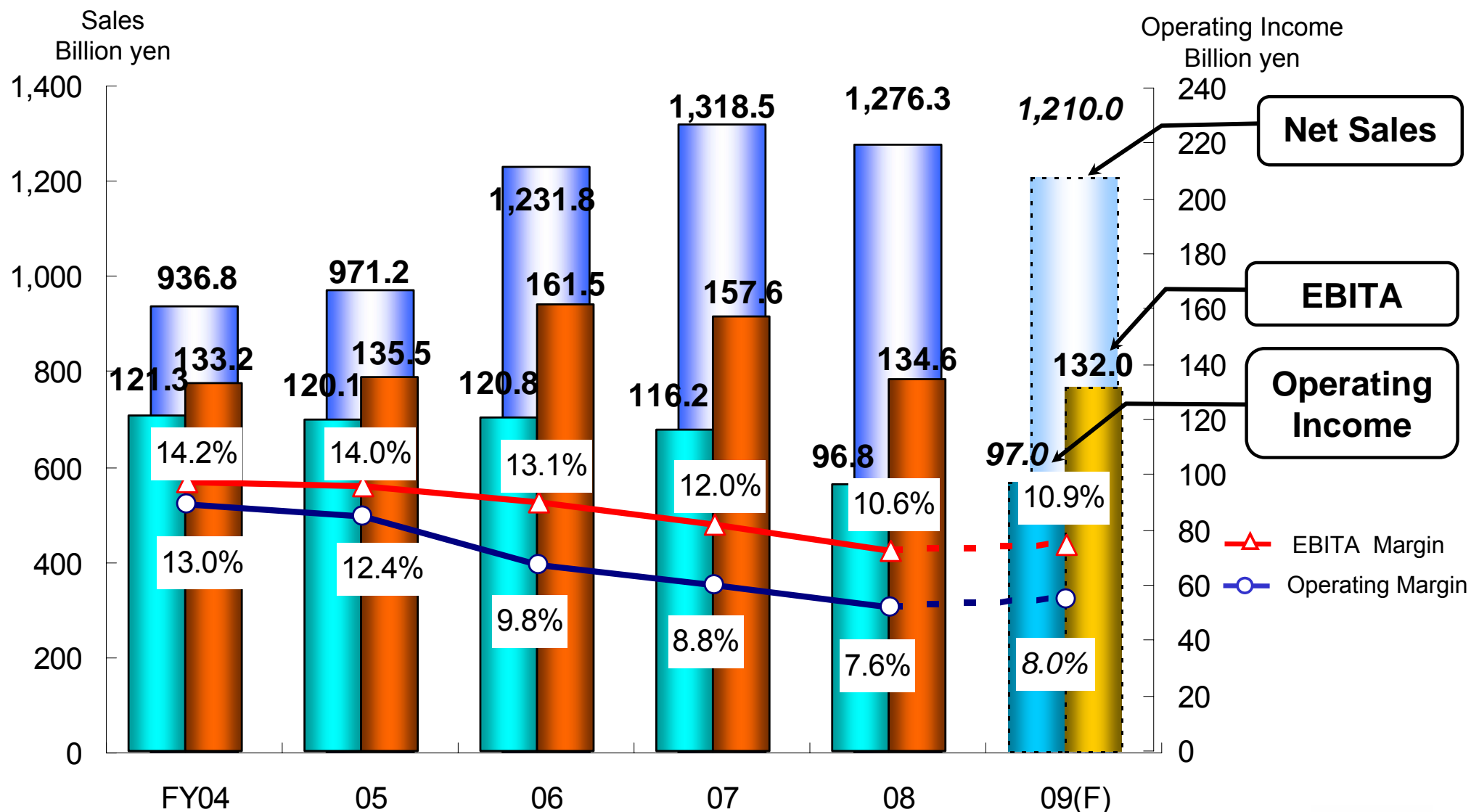
	1st Half			Full Year		
	FY2008 Actual	FY2009 Forecast	% Growth	FY2008 Actual	FY2009 Forecast	% Growth
Beauty Care	221.6	219.0	-1.2%	436.3	436.0	-0.1%
Human Health Care	89.0	90.0	1.1%	174.7	177.0	1.3%
Fabric and Home Care	124.0	125.0	0.8%	245.9	248.0	0.8%
Consumer Products Business	434.7	434.0	-0.2%	857.0	861.0	0.5%

FY2009 Outlook by Segment

	Decrease in operating income	Increase in operating income
Increase in net sales		<p>Consumer Products – Japan</p>
Decrease in net sales	<p>Consumer Products – North America</p> <p>Chemical – Japan</p> <p>Chemical – Asia</p> <p>Chemical – North America</p> <p>Chemical – Europe</p>	<p>Consumer Products – Asia/Oceania</p> <p>Consumer Products – Europe</p>

Consolidated Net Sales/EBITA*/Operating Income

[Full Year]



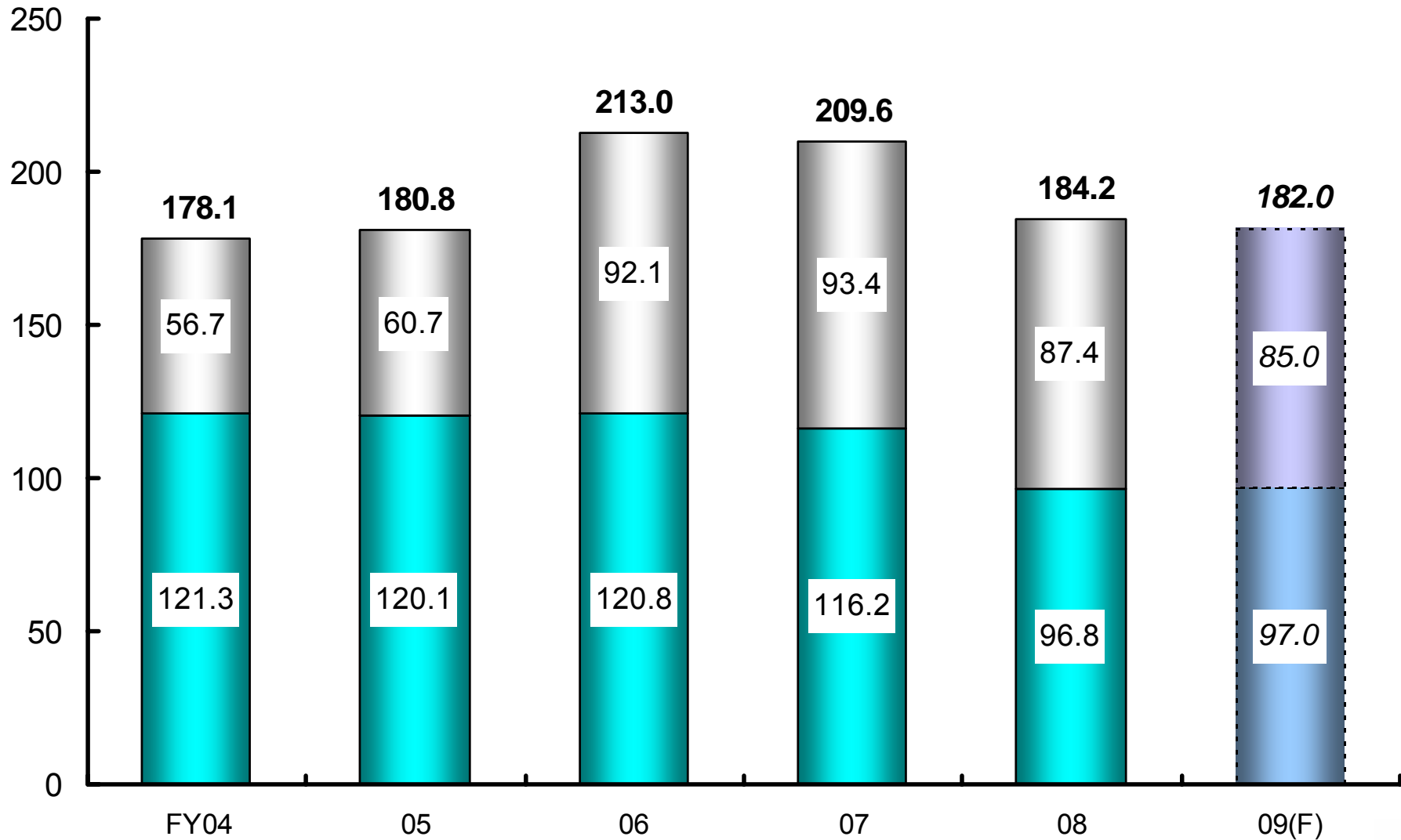
*Operating income before amortization of goodwill and intellectual property rights related to M&A



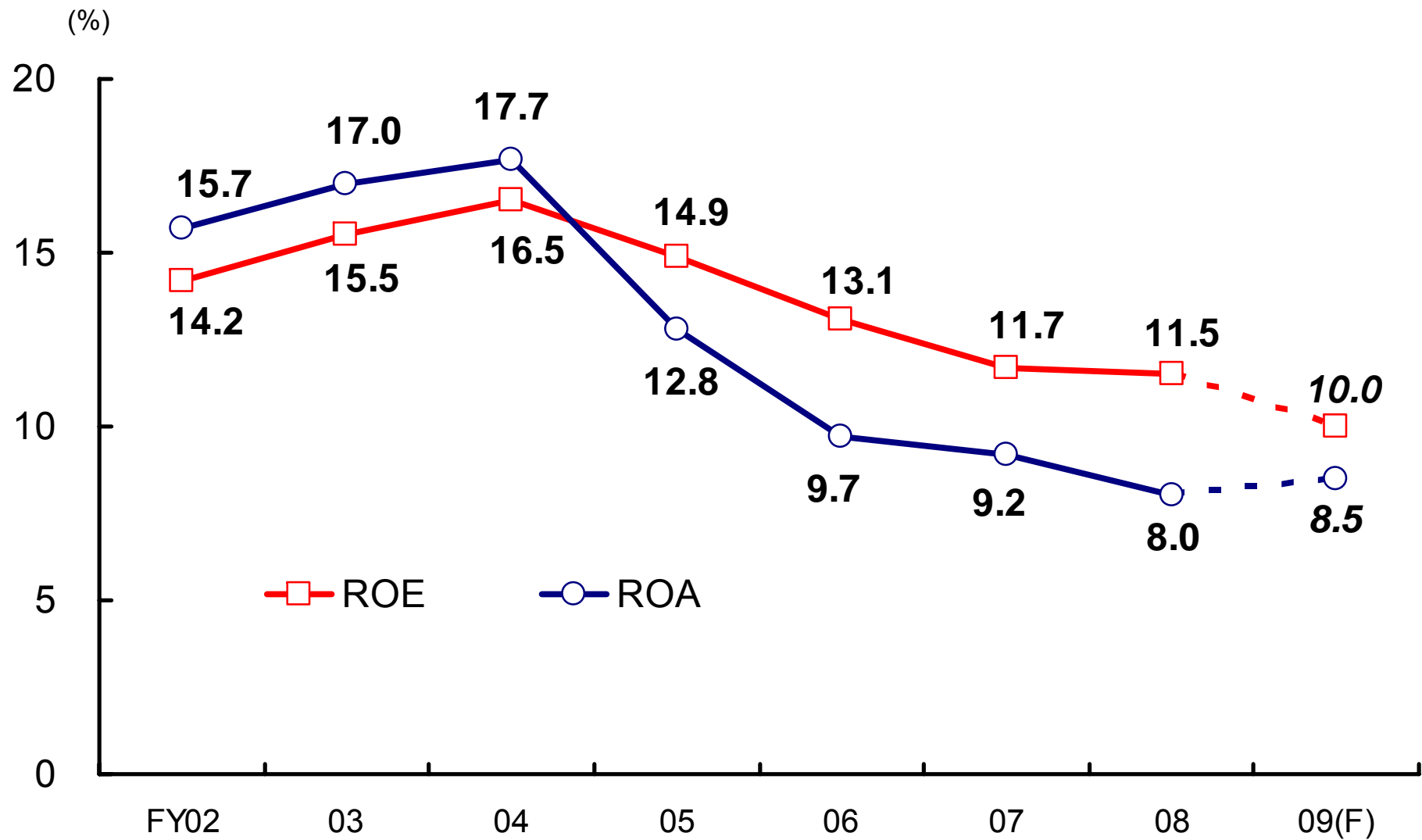
EBITDA

Billion yen

□ Depretiation & Amortization
■ Operating Income



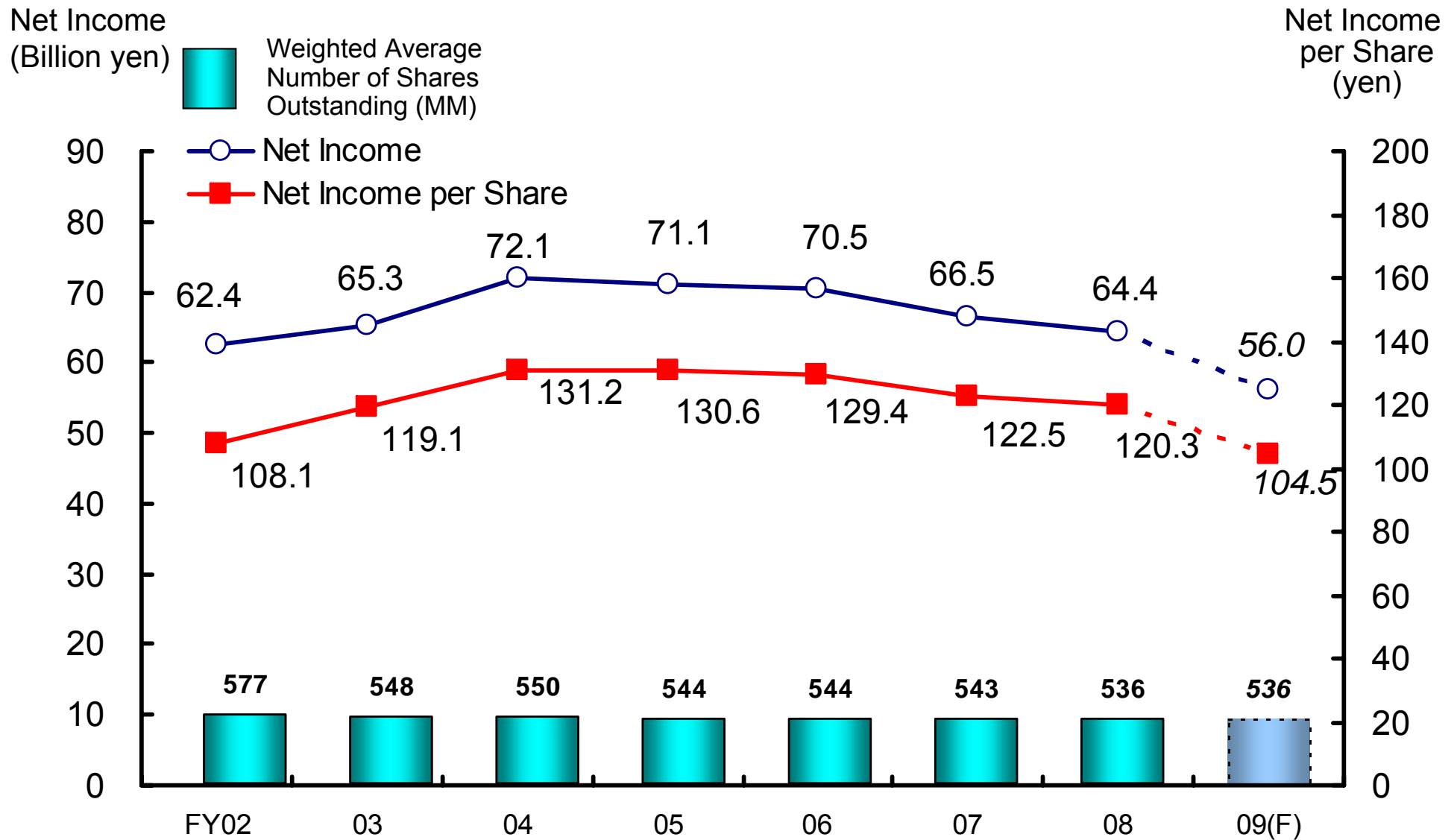
ROE & ROA



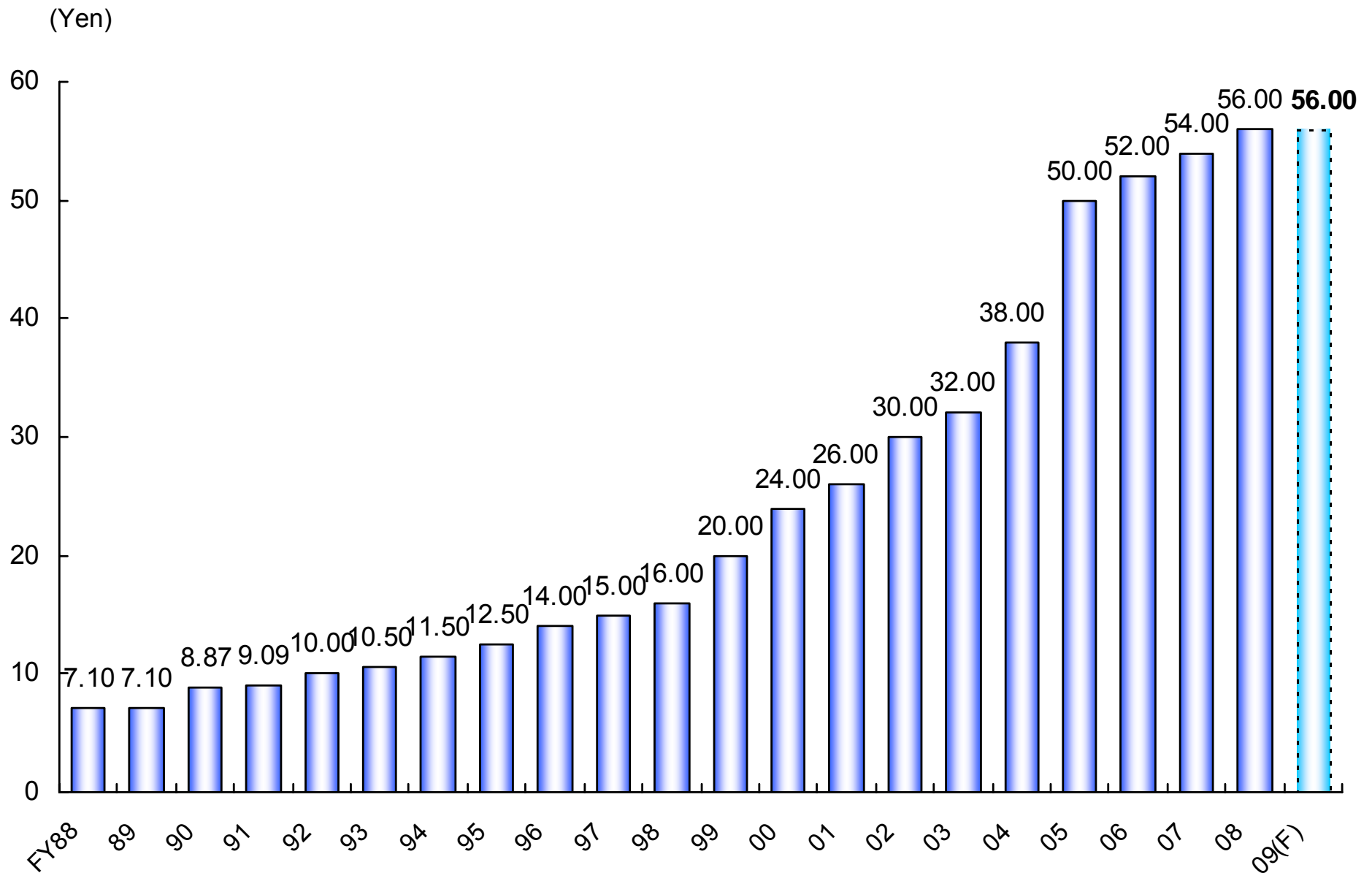
ROA: Ordinary Income / Total assets



Net Income per Share

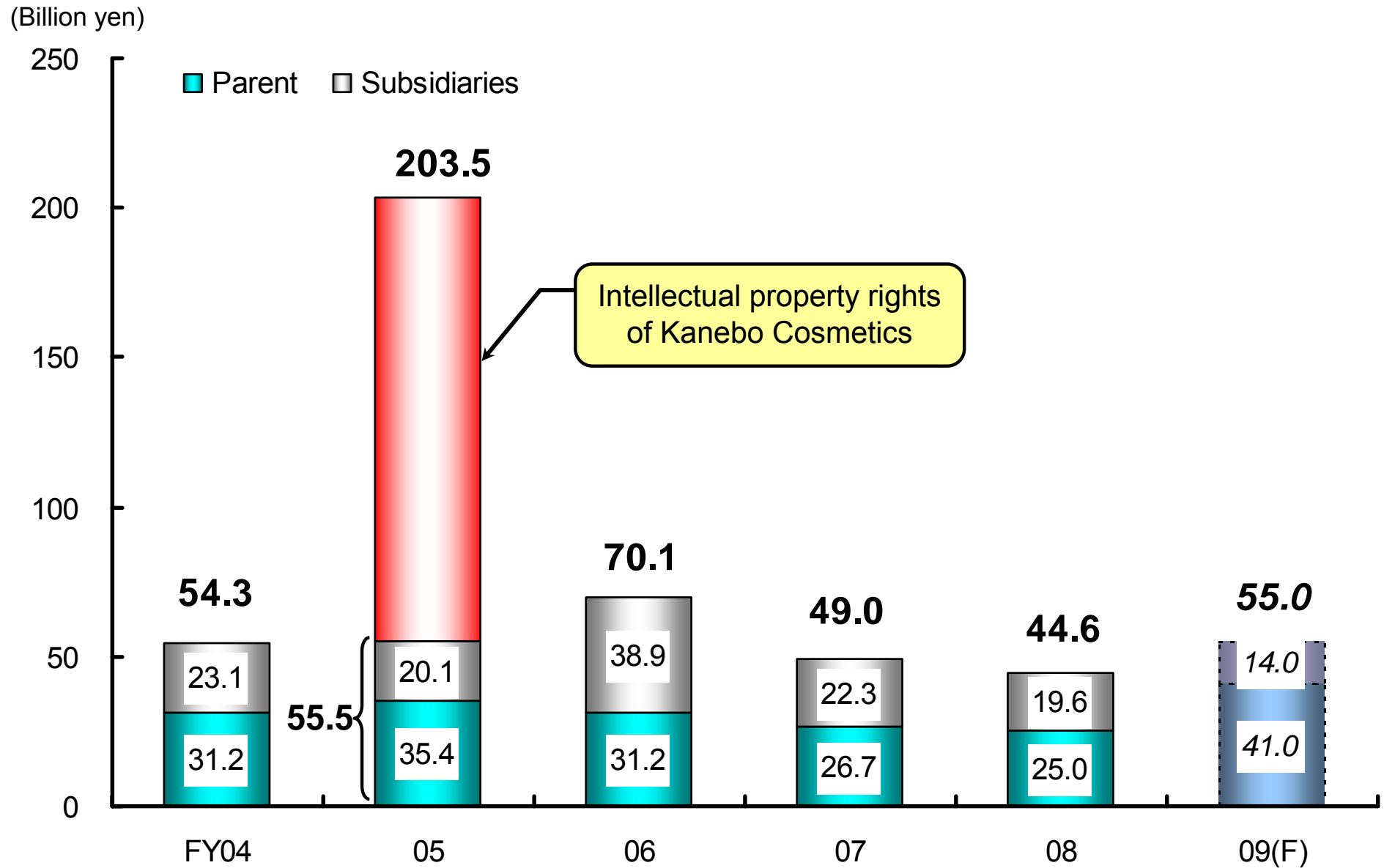


Cash Dividends per Share



*Impacts of share splits are retroactively reflected.

Capital Expenditures



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

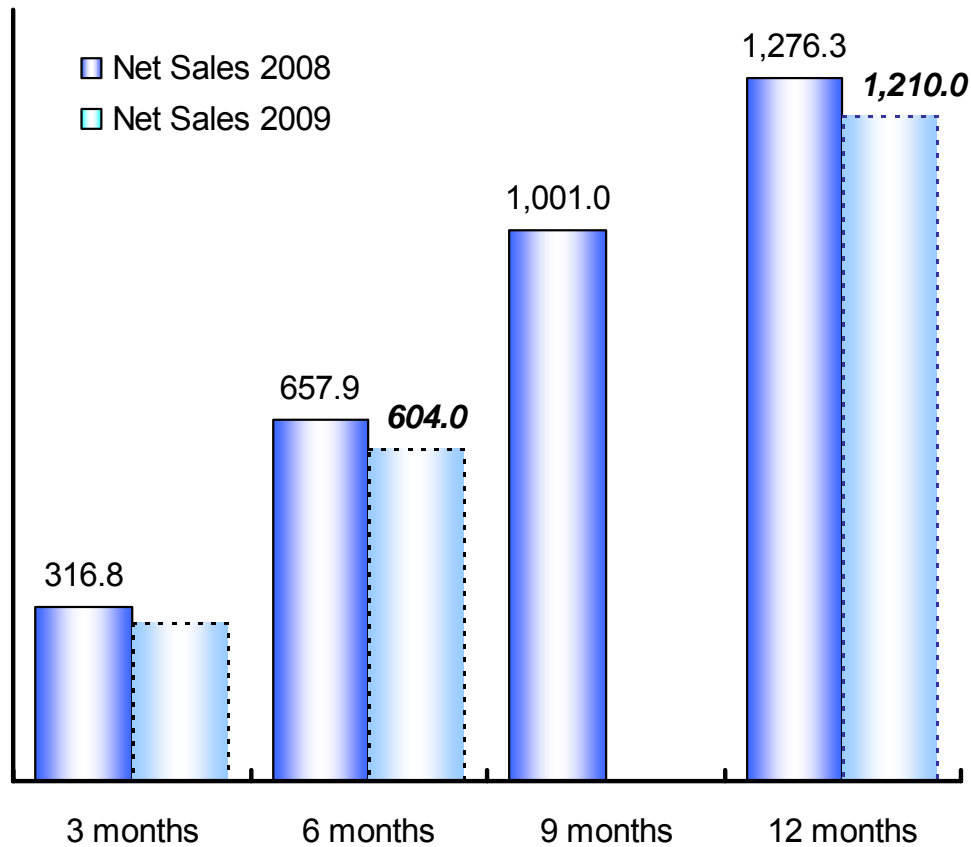


FY2009 Quarterly Consolidated Sales and Profit Forecast

- Accumulated -

Net Sales

(Billion yen)



Operating Income

(Billion yen)

