

Semi-Annual Financial Review

From April 1, 2008 to September 30, 2008

Kao Corporation

October 27, 2008

This is a translation of materials used for the analyst meeting held in Japan on October 27, 2008.



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

<http://www.kao.co.jp/en/ir/analystmtg/index.html>

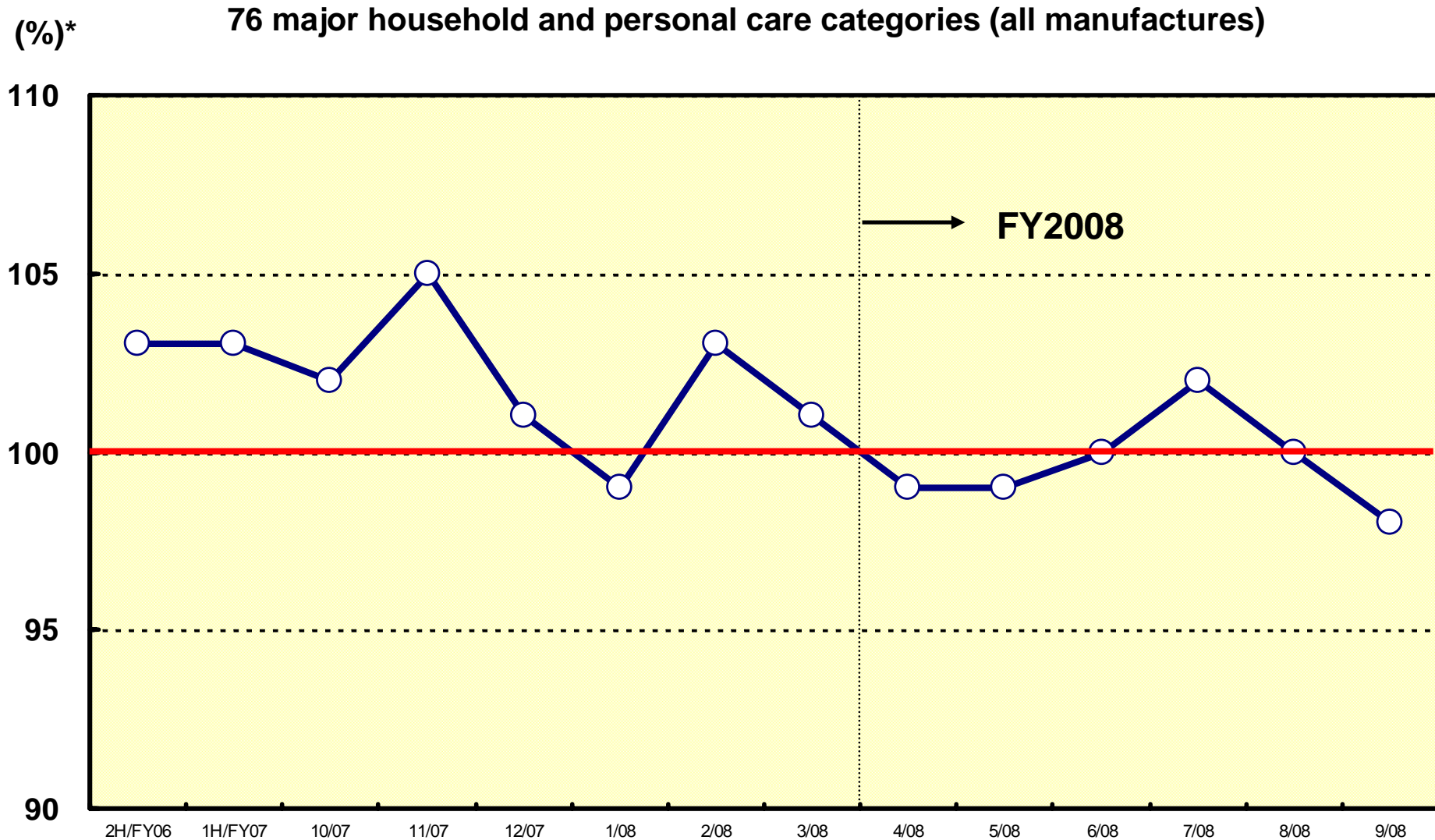
These presentation materials contain forward-looking statements that are based on management's estimates, assumptions and projections as of October 27, 2008. Certain factors, which include, but are not limited to, the risks and uncertainty associated with the worldwide economy, competitive activity, and fluctuations in currency exchange and interest rates, could cause actual results to differ materially from expectations.

Note: The yen amounts in these presentation materials are rounded down. Increase/decrease in yen amounts and percentage change are for reference only because quarterly accounting standards, as defined and published by the Accounting Standards Board of Japan, have been applied for the first time from the current fiscal year.

1. Business Environment

April 1, 2008 – September 30, 2008

Consumer Products* Market



* Consumer products do not include prestige cosmetics.

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

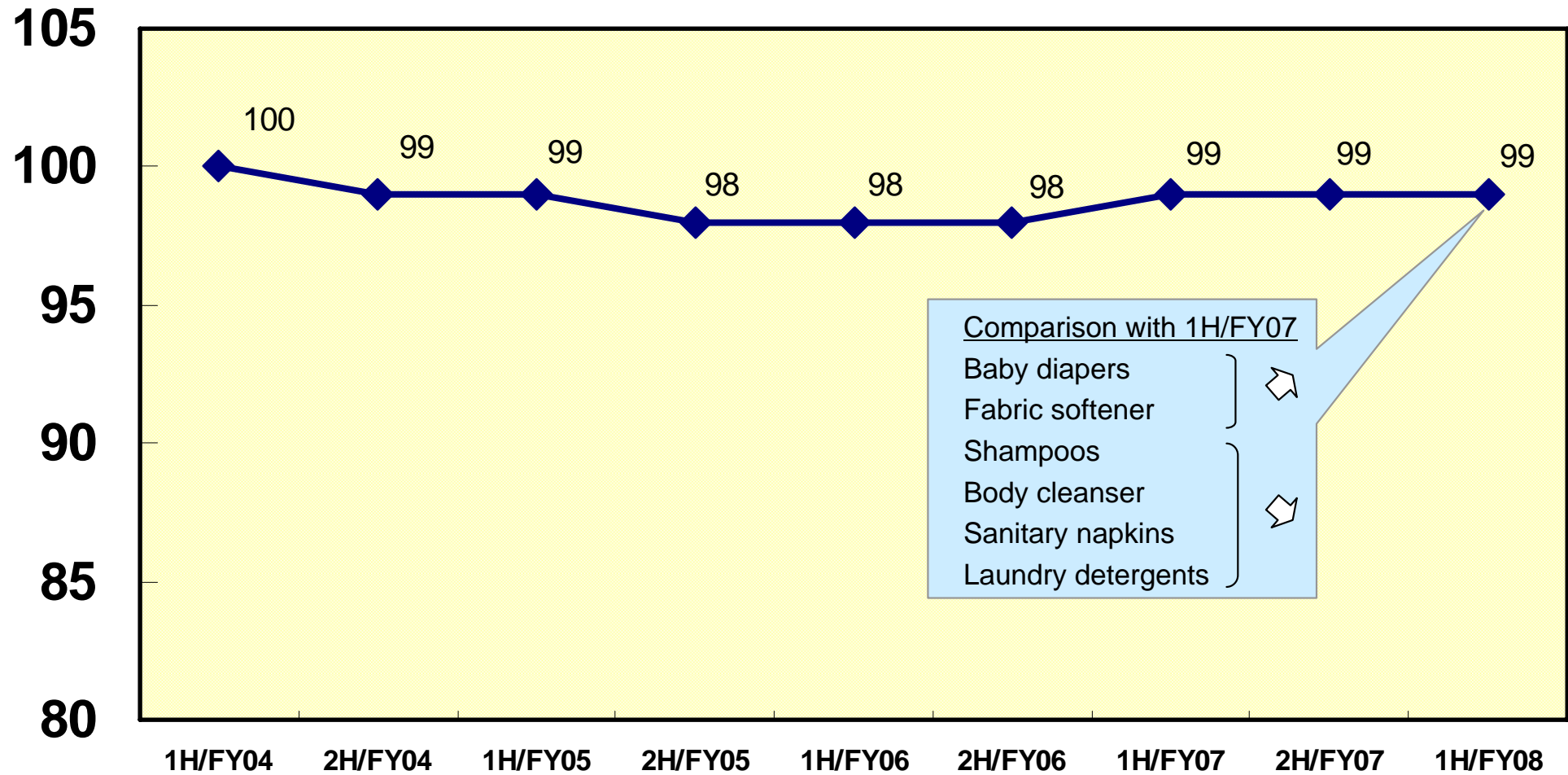
(Source: SRI POS data)



Consumer Purchase Price

15 major household and personal care categories (all manufactures)

Index



(Source: SRI POS data)



2. Consolidated Business Results

April 1, 2008 – September 30, 2008

Key Points in 1H/FY2008

Japan sales related

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

Net sales and income related

1.	Net sales:	657.9 billion yen	(+0.5% year-on-year)
	- Currency translation impact:	-14.0 billion yen	(-2.2% year-on-year)
	- Like-for-like sales growth:	+17.5 billion yen	(+2.7% year-on-year)
2.	Impact of higher raw material prices* ² :	-21.0 billion yen	
3.	Price adjustments:	15.0 billion yen	
4.	Total Cost Reduction (TCR) activities:	+4.0 billion yen	
5.	Decrease in SG&A expenses:	+9.2 billion yen	
6.	Effect of currency translation on SG&A expenses:	-5.7 billion yen	
7.	Product mix and other	-2.3 billion yen	

Balance sheets and cash flow related*²

1.	Repayment of long-term debt:	22.0 billion yen
2.	Retirement of treasury stock:	9.3 million shares

*1 Excludes prestige cosmetics.

*2 Includes currency translation impact.

1st Half of FY2008 Consolidated Results

Billion yen	<u>1H/FY06</u>	<u>1H/FY07</u>	<u>1H/FY08</u>	Growth	Changes
Net Sales	602.5	654.4	657.9	0.5%	+3.4
EBITA*	78.7	76.2	73.7	-3.3%	-2.4
<i>EBITA* Margin</i>	13.1%	11.6%	11.2%		
Operating Income	58.4	55.5	54.7	-1.5%	-0.8
<i>Operating Margin</i>	9.7%	8.5%	8.3%		
Ordinary Income	58.4	55.5	54.9	-0.1%	-0.0
Net Income	29.5	29.3	32.3	10.5%	+3.0
EBITDA	102.1	100.9	98.0	-2.9%	-2.8
EPS (yen)	54.26	53.77	60.42	12.4%	+6.65

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

Consolidated Net Sales [1]

	1st Half/FY2007		1st Half/FY2008		
	Billion yen	% Growth	Billion yen	%	
				Growth	Like-for-like
Beauty Care Business	224.3	11.4	221.6	-1.2	-1.2
Human Health Care Business	86.6	2.5	89.0	2.8	2.8
Fabric and Home Care Business	123.0	0.1	124.0	0.8	0.8
Japan Total	434.0	6.2	434.7	0.2	0.2
Asia & Oceania	42.1	23.4	42.7	1.5	10.9
North America & Europe	76.2	7.4	68.2	-10.6	-3.2
Elimination	-8.2	-	-8.9	-	-
Consumer Products Business	544.2	7.1	536.7	-1.4	0.4

*Like-for-like: excludes currency translation impact

Consolidated Net Sales [2]

	1st Half/FY2007		1st Half/FY2008		
	Billion yen	% Growth	Billion yen	%	
				Growth	Like-for-like
Japan	61.7	6.8	69.9	13.2	13.2
Asia	33.9	28.1	42.8	26.1	38.8
North America & Europe	49.5	22.2	53.7	8.4	13.4
Elimination	-18.7	-	-25.5	-	-
Chemical Business	126.5	16.1	140.9	11.4	15.3

Elimination	-16.2	-	-19.8	-	-
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Consolidated Sales	654.4	8.6	657.9	0.5	2.7
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*Like-for-like: excludes currency translation impact

Consolidated Income Statements

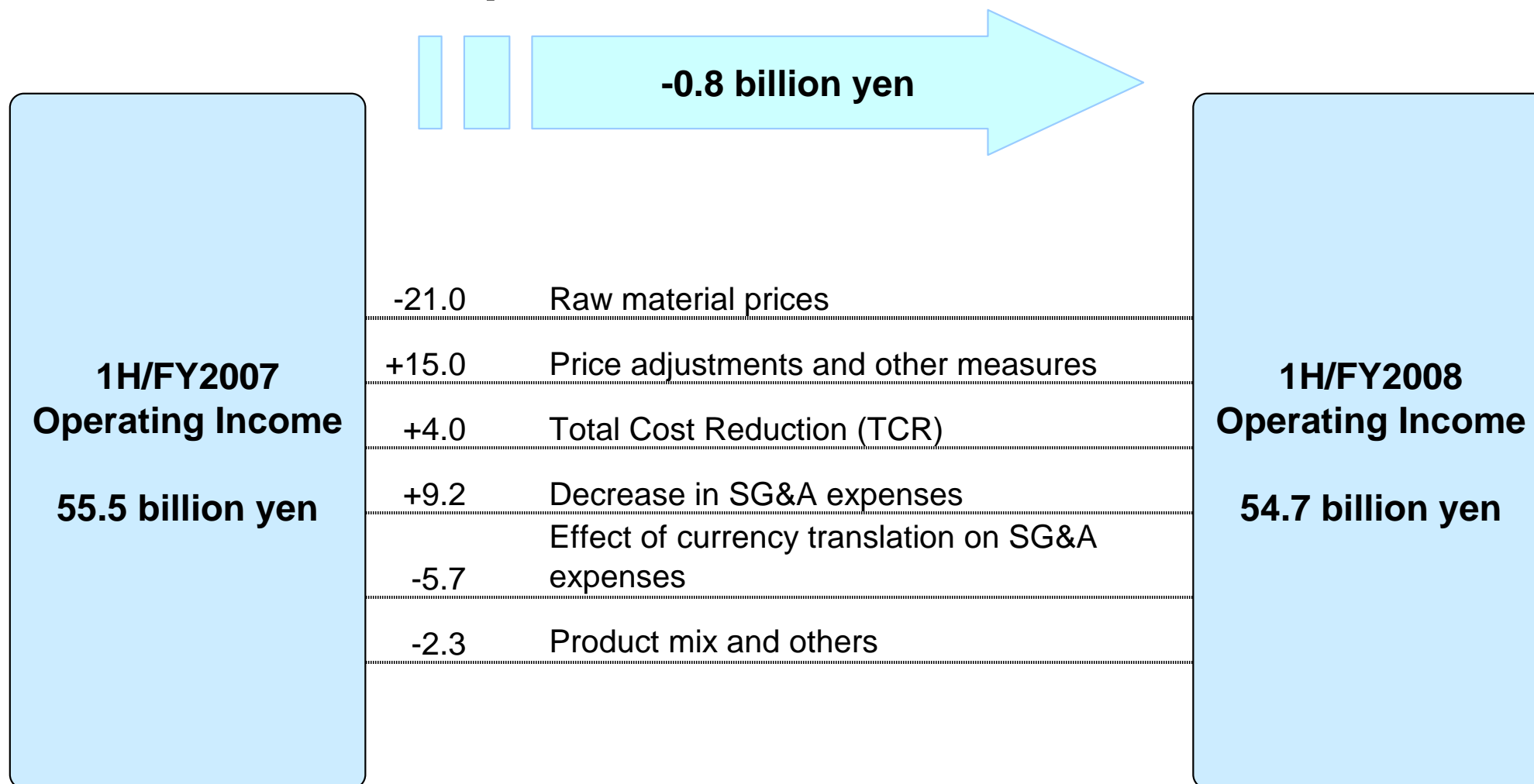
	1H/FY2007		1H/FY2008		Changes*
	Billion yen	%	Billion yen	%	Billion yen
Net Sales	654.4	100.0	657.9	100.0	3.4
Cost of Sales	272.8	41.7	286.3	43.5	13.4
Gross Profit	381.6	58.3	371.5	56.5	-10.0
SG&A Expenses	326.0	49.8	316.8	48.2	-9.2
Operating Income	55.5	8.5	54.7	8.3	-0.8
Non-operating Income/Expenses	-0.5	-0.1	0.2	0.1	0.7
Ordinary Income	55.0	8.4	54.9	8.4	-0.0
Extraordinary Gain & Loss	-1.1	-0.2	-1.2	-0.2	-0.1
Income Before Taxes	53.9	8.2	53.7	8.2	-0.1
Income Taxes	24.0	3.7	20.7	3.2	-3.3
Minority Interests & Others (Minus)	0.5	0.0	0.6	0.1	0.0
Net Income	29.3	4.5	32.3	4.9	3.0

* Changes = 1H/FY2008 – 1H/FY2007

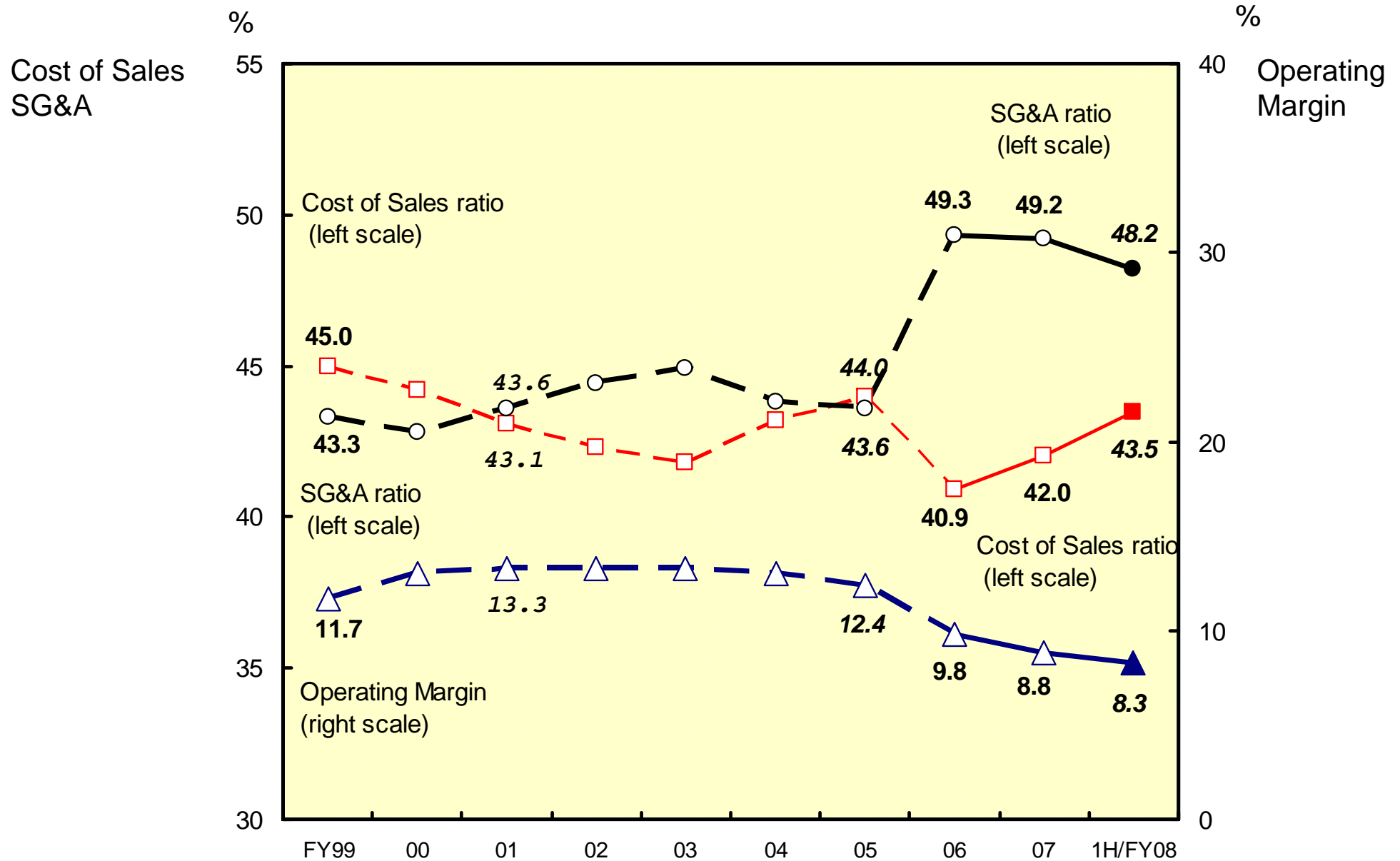
** Amortization related to Kanebo Cosmetics
1H/FY2008: 13.6 billion yen, 1H/FY2007: 13.6 billion yen

1H/FY2008 Operating Income Analysis

Comparison with 1H/FY2007



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)

	1H/FY2007	1H/FY2008	Changes*
Total SG&A Expenses	326.0	316.8	-9.2

Freight/Warehouse	36.8	37.9	1.1
Advertising	52.7	47.3	-5.3
Sales Promotion	39.4	35.7	-3.7
Salaries and Wages	64.2	64.9	0.6
R&D	22.6	23.0	0.4

* Changes = 1H/FY2008 – 1H/FY2007

Effect of currency translation on SG&A expenses: -5.7 billion yen

Non-operating Income/Expenses and Extraordinary Gain/Loss

(Billion yen)

Non-operating Income/Expenses	1H/FY2007	1H/FY2008	Changes*
Non-operating Income	3.6	4.0	+0.4
Interest Income	1.4	1.2	
Dividend Income	0.1	0.1	
Equity in Earnings of Nonconsolidated Subsidiaries and Affiliates	-	0.7	
Foreign Currency Exchange Gain	0.4	-	
Other	1.6	1.9	
Non-operating Expenses	4.1	3.8	-0.3
Interest Expense	3.2	3.0	
Equity in Losses of Nonconsolidated Subsidiaries and Affiliates	0.3	-	
Foreign Currency Exchange Loss	-	0.2	
Other	0.5	0.4	

Extraordinary Gain/Loss	1H/FY2007	1H/FY2008	Changes*
Extraordinary Gain	0.2	0.3	0.0
Gain on Sales of Fixed Assets	0.0	0.0	
Gain on Sales of Investment Securities	0.0	0.0	
Reversal of allowance for doubtful receivables	-	0.2	
Other	0.1	0.0	
Extraordinary Loss	1.4	1.6	+0.2
Loss on Sales/Disposals of Fixed Assets	0.6	0.7	
Loss on Impairment of Long-lived Assets	0.3	0.5	
Other	0.3	0.3	

* Changes = 1H/FY2008 – 1H/FY2007

Sales and Operating Income by Business

		1H/FY2007		1H/FY2008		Changes Billion yen	Growth %
		Billion yen	% to net sales	Billion yen	% to net sales		
Beauty Care Business	Net sales*	311.6	-	300.1	-	-11.5	-3.7%
	EBITA**	30.4	9.8%	28.3	9.5%	-2.0	-6.7%
	Operating Income	10.0	3.2%	9.4	3.2%	-0.5	-5.8%
Human Health Care Business	Net sales*	94.7	-	97.6	-	+2.9	+3.1%
	Operating Income	6.5	6.9%	7.0	7.2%	+0.4	+7.1%
Fabric & Home Care Business	Net sales*	137.7	-	138.9	-	+1.1	+0.9%
	Operating Income	29.9	21.7%	26.2	18.9%	-3.6	-12.2%
Chemical Business	Net sales*	126.5	-	140.9	-	+14.3	+11.4%
	EBITA**	9.2	7.3%	12.1	8.6%	+2.8	+30.9%
	Operating Income	8.9	7.1%	11.9	8.5%	+3.0	+34.3%
Consolidated	Net sales	654.4	-	657.9	-	+3.4	+0.5%
	EBITA**	76.2	11.6%	73.7	11.2%	-2.4	-3.3%
	Operating Income	55.5	8.5%	54.7	8.3%	-0.8	-1.5%

* 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

		1H/FY2007		1H/FY2008		Changes Billion yen	Growth %
		Billion yen	% to net sales	Billion yen	% to net sales		
Japan	Net sales*	482.0	-	487.8	-	+5.7	+1.2%
	EBITA**	67.7	14.1%	63.1	12.9%	-4.6	-6.8%
	Operating Income	50.2	10.4%	46.4	9.5%	-3.7	-7.5%
Asia and Oceania	Net sales*	75.0	-	84.4	-	+9.4	+12.5%
	Operating Income	(1.0)	-1.4%	2.6	3.1%	+3.6	-
North America	Net sales*	56.6	-	51.8	-	-4.7	-8.4%
	EBITA**	4.4	7.8%	3.0	6.0%	-1.3	-29.8%
	Operating Income	3.2	5.7%	2.6	5.0%	-0.6	-19.7%
Europe	Net sales*	74.2	-	75.6	-	+1.4	+1.9%
	EBITA**	4.2	5.7%	4.8	6.4%	+0.6	+14.5%
	Operating Income	2.2	3.0%	2.9	4.0%	+0.7	+32.3%
Consolidated	Net sales	654.4	-	657.9	-	+3.4	+0.5%
	EBITA**	76.2	11.6%	73.7	11.2%	-2.4	-3.3%
	Operating Income	55.5	8.5%	54.7	8.3%	-0.8	-1.5%

* Before elimination of intersegment transfers

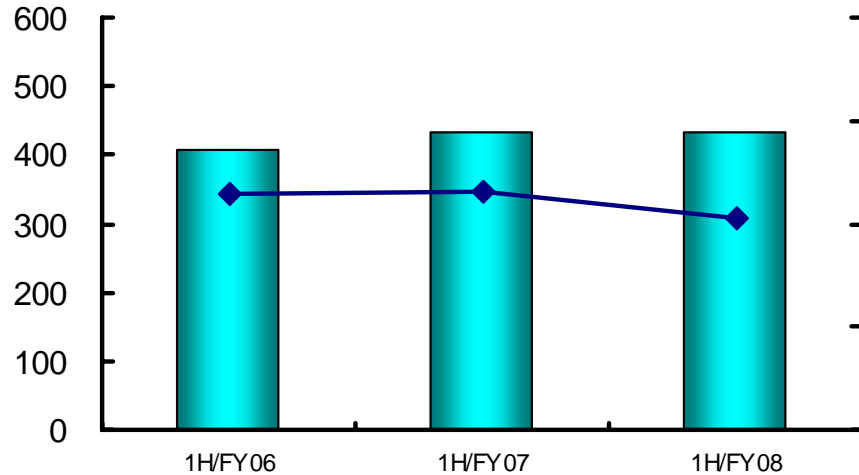
** Operating income before amortization of goodwill and intellectual property rights related to M&A



Consumer Product Business by Geography

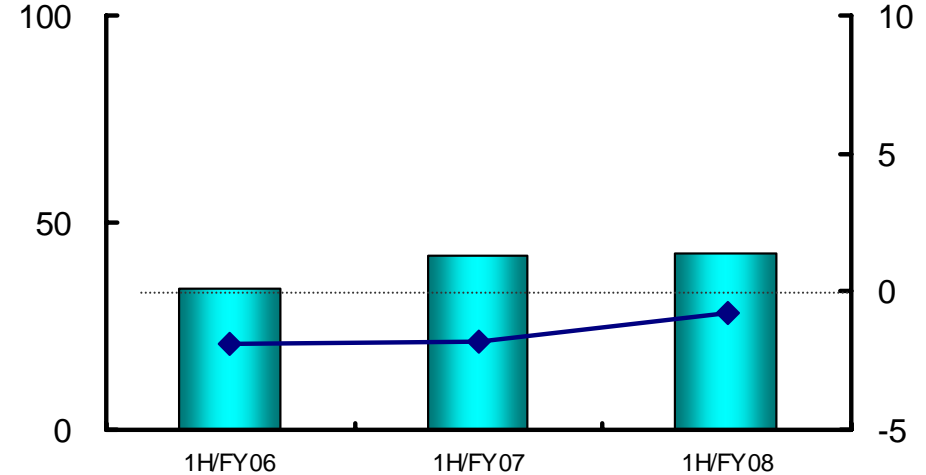
Japan

Sales (Billion yen)

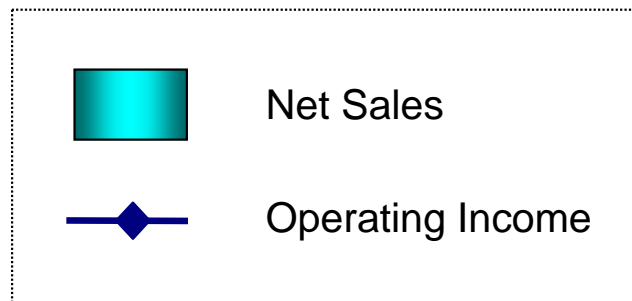
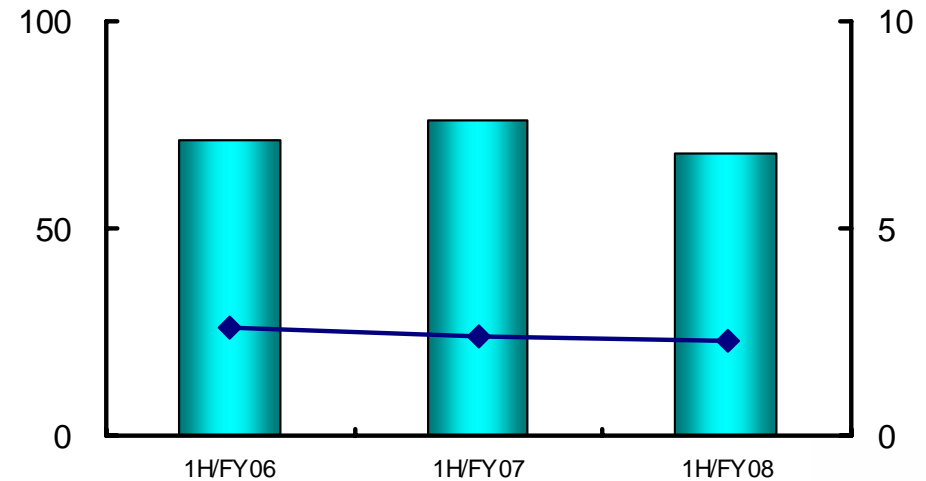


Operating Income (Billion yen)

Asia and Oceania



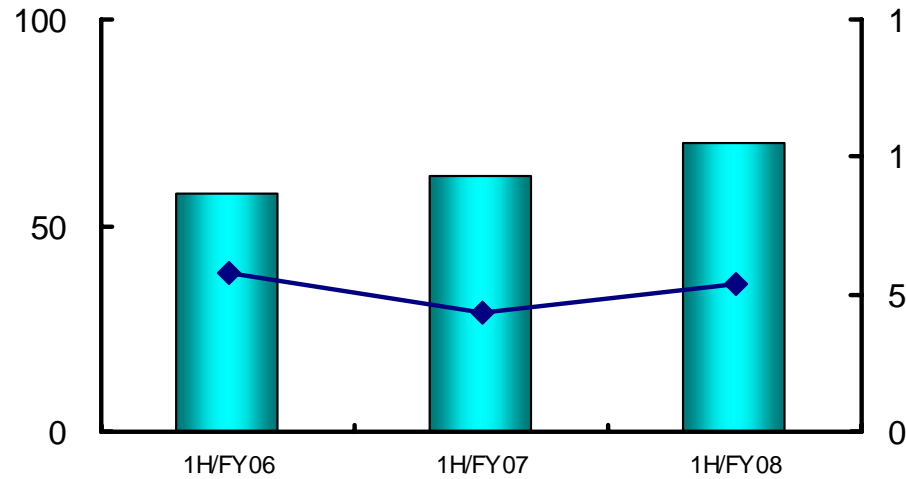
North America & Europe



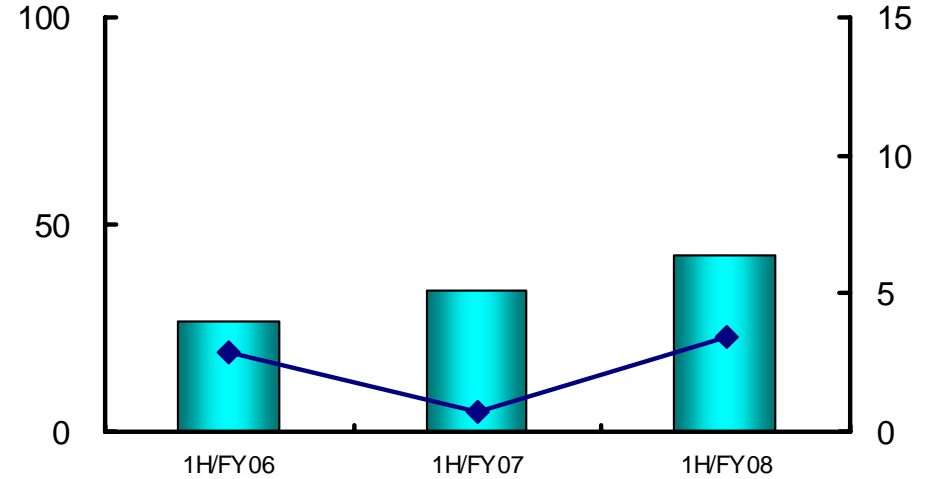
Chemical Products Business by Geography

Japan

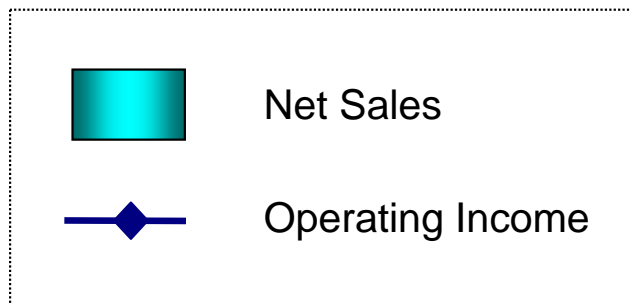
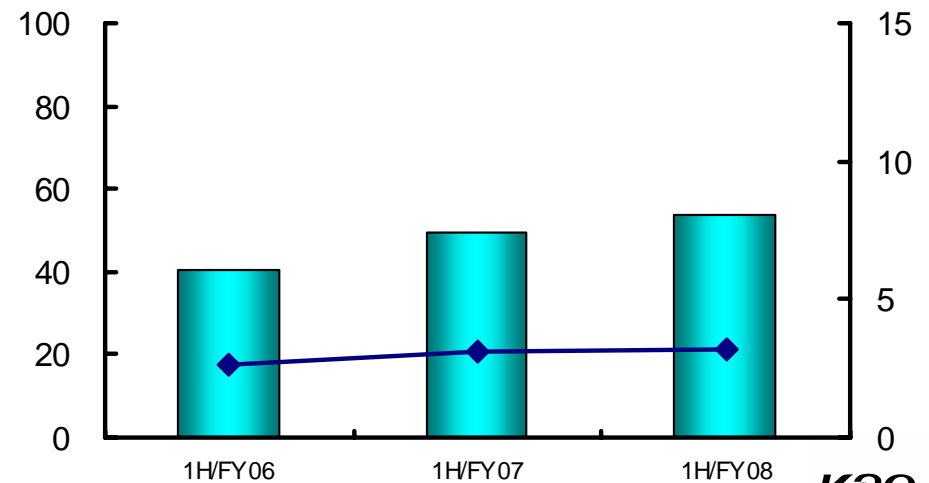
Sales (Billion yen)



Asia



North America & Europe



Consolidated Balance Sheets

(Billion yen)

	Mar/08	Sep/08	Changes		Mar/08	Sep/08	Changes
Current Assets	435.5	443.3	7.7	Current Liabilities	323.9	312.8	-11.1
Cash and Bank Deposits	53.7	51.5	-2.2	Notes and Accounts Payable - Trade	109.5	112.7	3.2
Notes and Accounts Receivable - Trade	154.2	147.3	-6.8	Short-term Debt (incl. Current Portion of Long-term Debt)	43.8	44.8	0.9
Short-term Investments	54.9	59.3	4.4	Accrued Income Taxes	29.3	19.1	-10.1
Inventories	125.5	132.2	6.6	Others	141.1	136.0	-5.1
Others	47.0	52.8	5.8				
Fixed Assets	796.9	768.5	-28.4	Long-term Liabilities	323.9	309.6	-14.3
Tangible Assets	281.7	279.8	-1.9	Straight Bond/Long-term Debt	269.7	248.3	-21.3
Intangible Assets	401.0	380.7	-20.2	Others	54.1	61.2	7.0
Investments	114.1	107.9	-6.2	Total Liabilities	647.8	622.4	-25.4
Deferred Assets	0.0	-	-0.0				
				Shareholders' equity	582.0	598.6	16.6
				-Common Stock	85.4	85.4	-
				-Capital Surplus	109.5	109.5	-
				-Retained Earnings	426.2	414.7	-11.4
				-Treasury Stock, at Cost	-39.1	-11.1	28.0
				Adjustment for Valuation, Foreign Currency Translation and Other	-7.9	-20.1	-12.1
				- Unrealized Gain on Available-for-Sale Securities	3.3	3.5	0.1
				- Deferred Gains or Losses on hedges	-	0.1	0.1
				- Foreign Currency Translation Adjustments	-11.3	-23.2	-11.8
				- Other	-	-0.6	-0.6
				Stock Acquisition Rights	0.5	0.8	0.2
				Minority Interests	10.0	10.0	-0.0
				Total Net Assets	584.7	589.4	4.7
Total Assets	1,232.6	1,211.9	-20.6	Total Liabilities and Total Net Assets	1,232.6	1,211.9	-20.6

Statements of Cash Flows

(Billion yen)

	1H/FY2007	1H/FY2008	Changes*
Net cash provided by operating activities	88.6	63.9	-24.6
Net cash used in investing activities	-25.7	-22.7	3.0
Net cash provided by (used in) financing activities	-41.8	-34.3	7.4
Translation adjustments on cash and cash equivalents	2.1	-4.6	-6.8
Net Increase/(decrease) in cash and cash equivalents	23.1	2.1	-20.9
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	111.3	114.7	3.4
Total Debt, end of period	330.2	293.2	-37.0

* Changes = 1H/FY2008 – 1H/FY2007

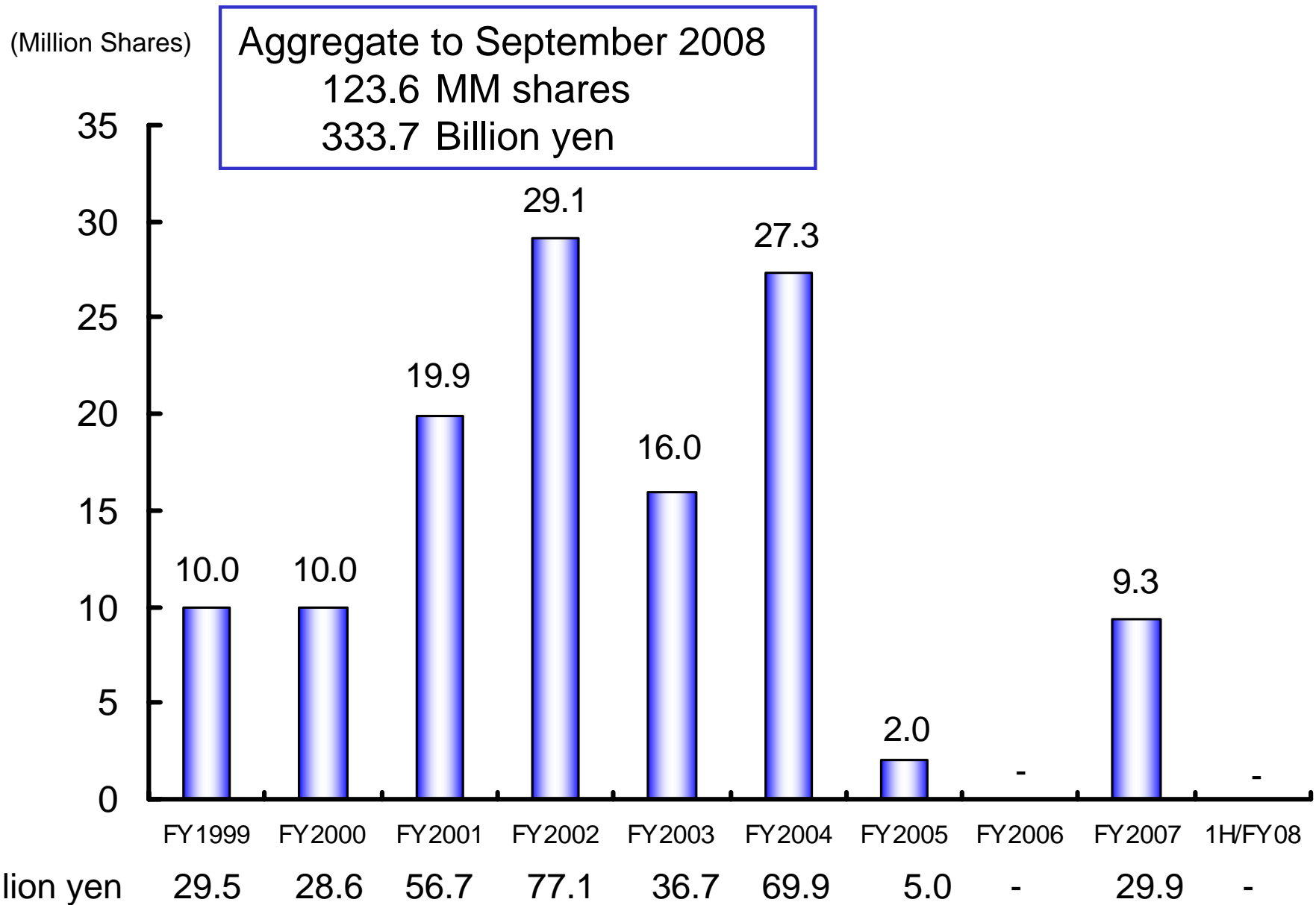
<Net cash used in investing activities>

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

<Net cash used in financing activities>

Repayment of long-term debt: 22.0 billion yen

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
- ◆ Currency translation impact on net sales: approximately -¥26.0 billion
- ◆ Marketing investments:
 - Efficient marketing initiatives
 - Consumer Products business: Strategic marketing investment in Japan to nurture high-value-added products for sales expansion.
 - Prestige Cosmetics: Proactive investments in China and other areas

Estimated impact on income

- ◆ Impact of higher raw material prices approximately -¥36.0 billion
- ◆ Price adjustments in response to rising raw material prices approximately +¥22.0 billion
- ◆ Total Cost Reduction (TCR) activities approximately +¥8.0 billion
- ◆ Capital expenditures/depreciation and amortization
 - Capital expenditures: ¥60.0 billion
 - Depreciation and amortization: ¥88.0 billion

Exchange rate assumptions

- ◆ 105 yen/USD (FY2007 actual exchange rate: 117.7 yen/USD)
- ◆ 155 yen/Euro (FY2007 actual exchange rate: 162.0 yen/Euro)

* Excludes prestige cosmetics.

Consolidated Sales and Profit Forecast

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

Net Income per Share (yen)	129.41	-0.9	122.53	-5.3	128.73	5.1
ROE	13.1%	-	11.7%	-	11.8%	-
EBITDA (Operating Income + Depr. & Amort.)	213.0	17.8	209.6	-1.6	205.0	-2.2
Cash dividends per Share (yen)	52.0	4.0	54.0	3.8	56.0	3.7

*1 Exchange rate assumptions: 105 yen/USD, 155 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	615	-2.1%
Human Health Care	195	+1.9%
Fabric and Home Care	278	+1.2%
Chemical	284	+9.8%

Japan	976	+0.8%
Asia & Oceania	176	+11.2%
North America	109	-1.8%
Europe	156	+0.9%

*Before elimination of intersegment transfers



Sales Outlook – FY2008

- Consumer Products Business in Japan -

<Billion yen>

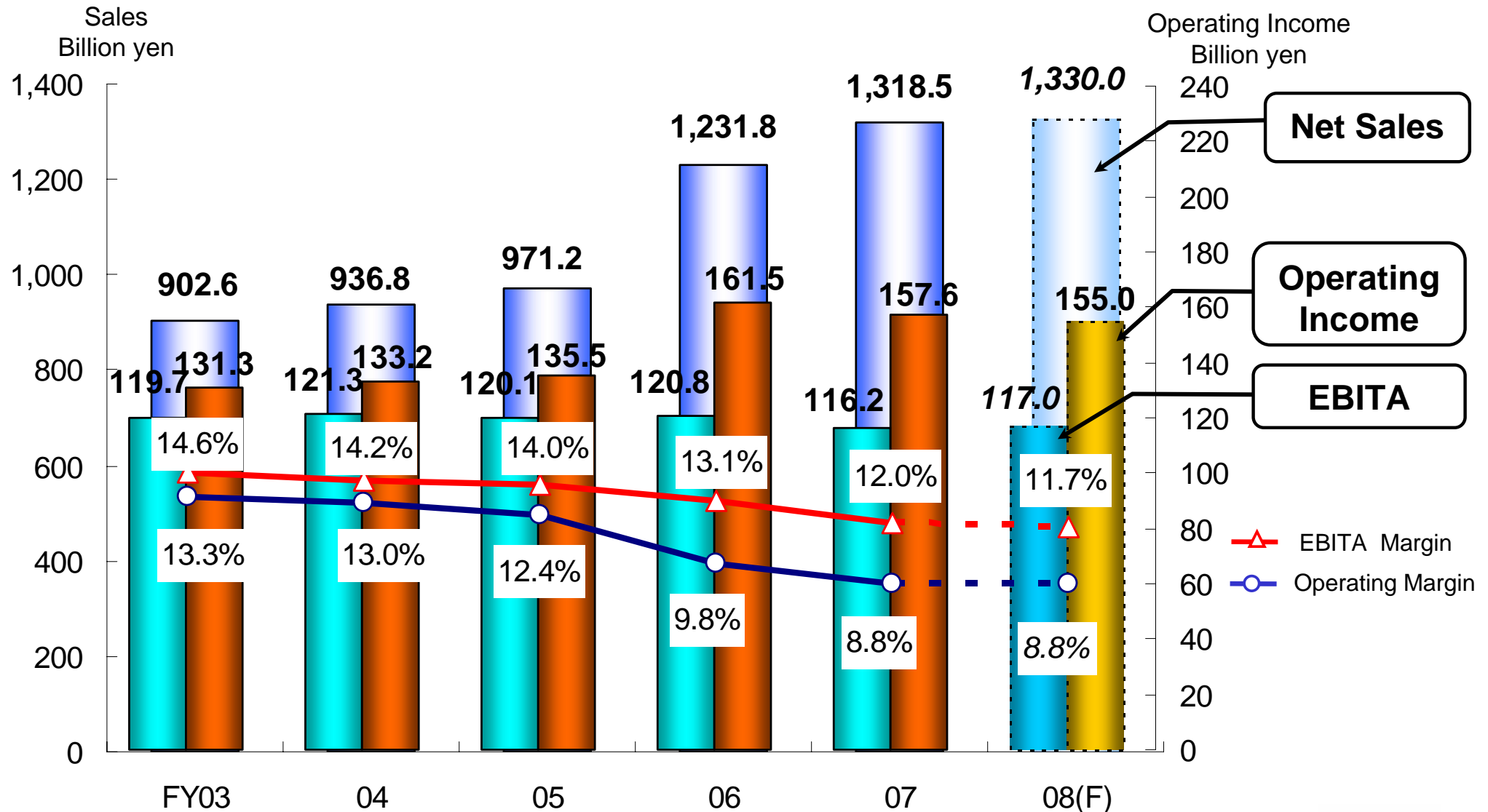
	1st Half			Full Year		
	FY2007 Actual	FY2008 Actual	% Growth	FY2007 Actual	FY2008 Forecast	% Growth
Beauty Care	224.3	221.6	-1.2%	448.6	447.0	-0.4%
Human Health Care	86.6	89.0	2.8%	174.4	177.0	1.5%
Fabric and Home Care	123.0	124.0	0.8%	245.2	249.0	1.5%
Consumer Products Business	434.0	434.7	0.2%	868.4	873.0	0.5%

FY2008 Outlook by Segment

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

Consolidated Net Sales/EBITA*/Operating Income

[Full Year]



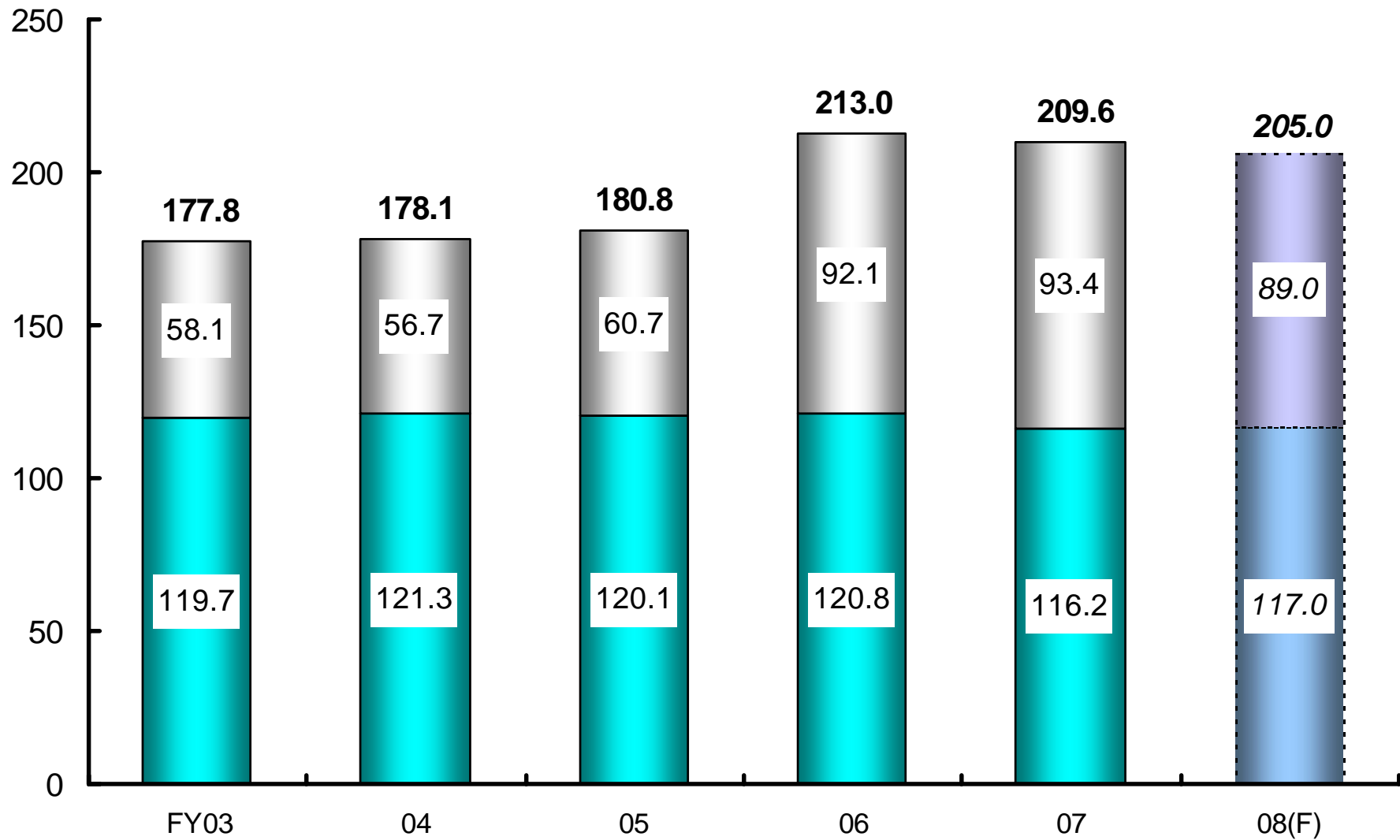
*Operating income before amortization of goodwill and intellectual property rights related to M&A



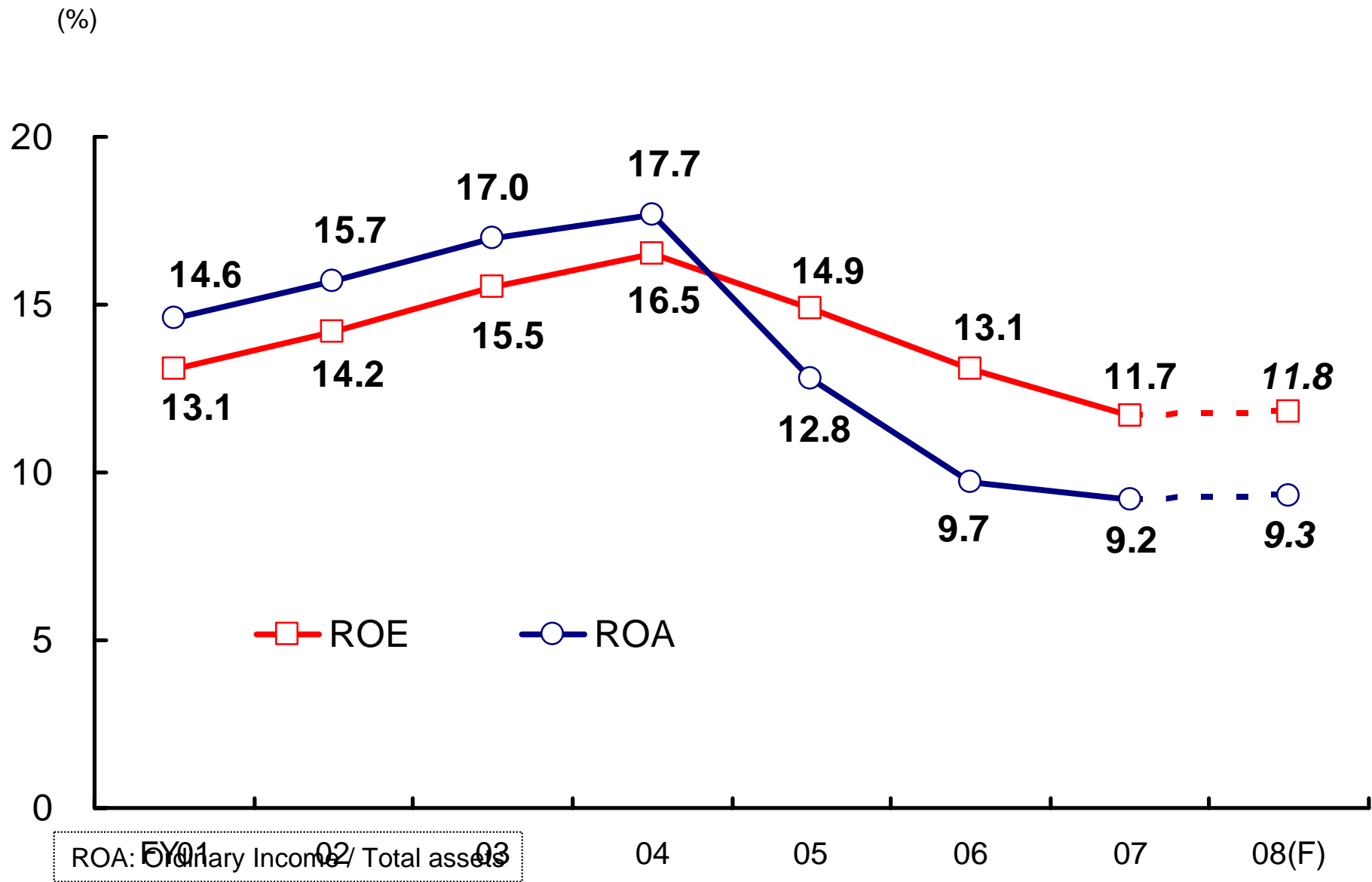
EBITDA

Billion yen

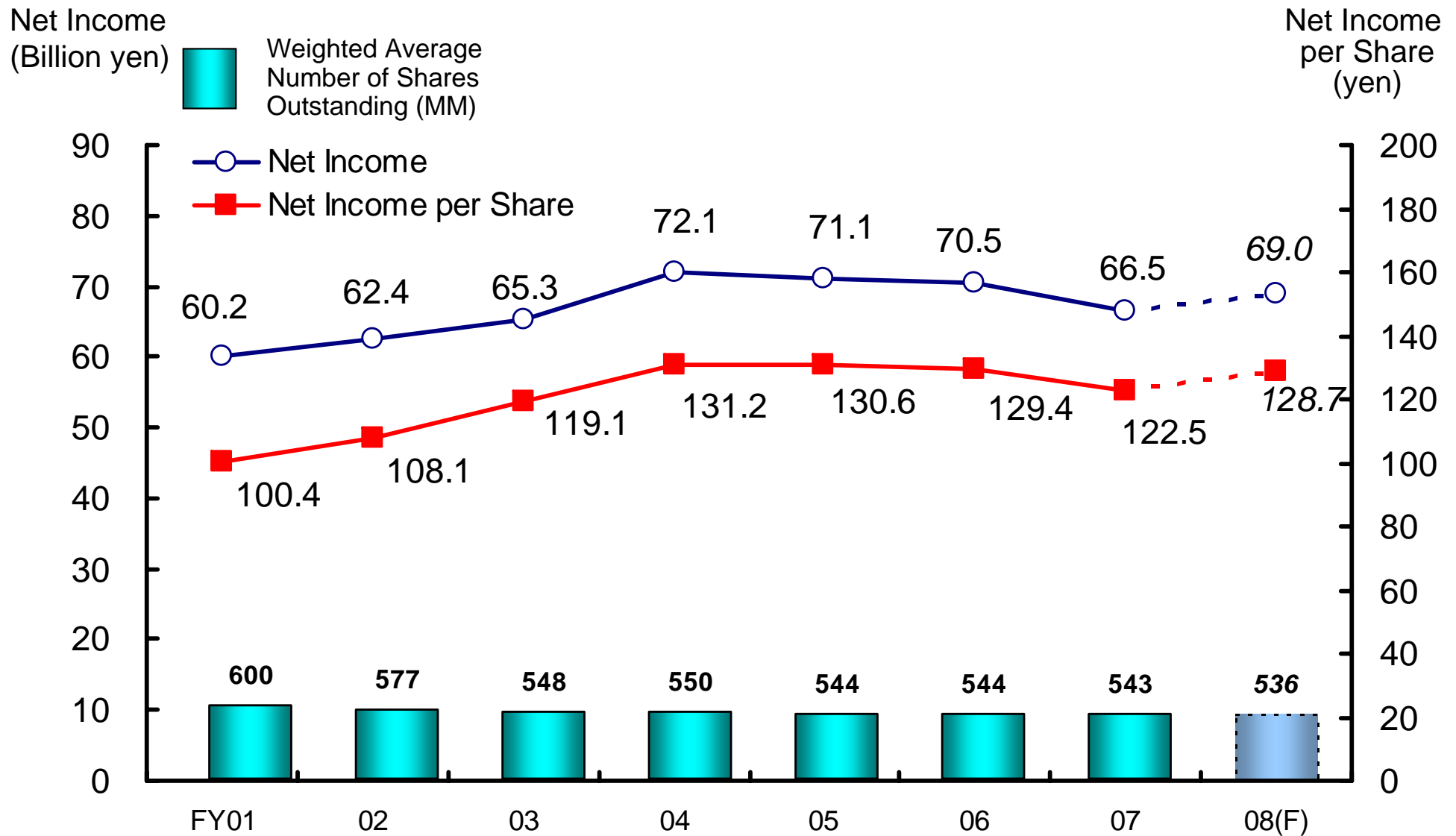
□ Depreciation & Amortization
■ Operating Income



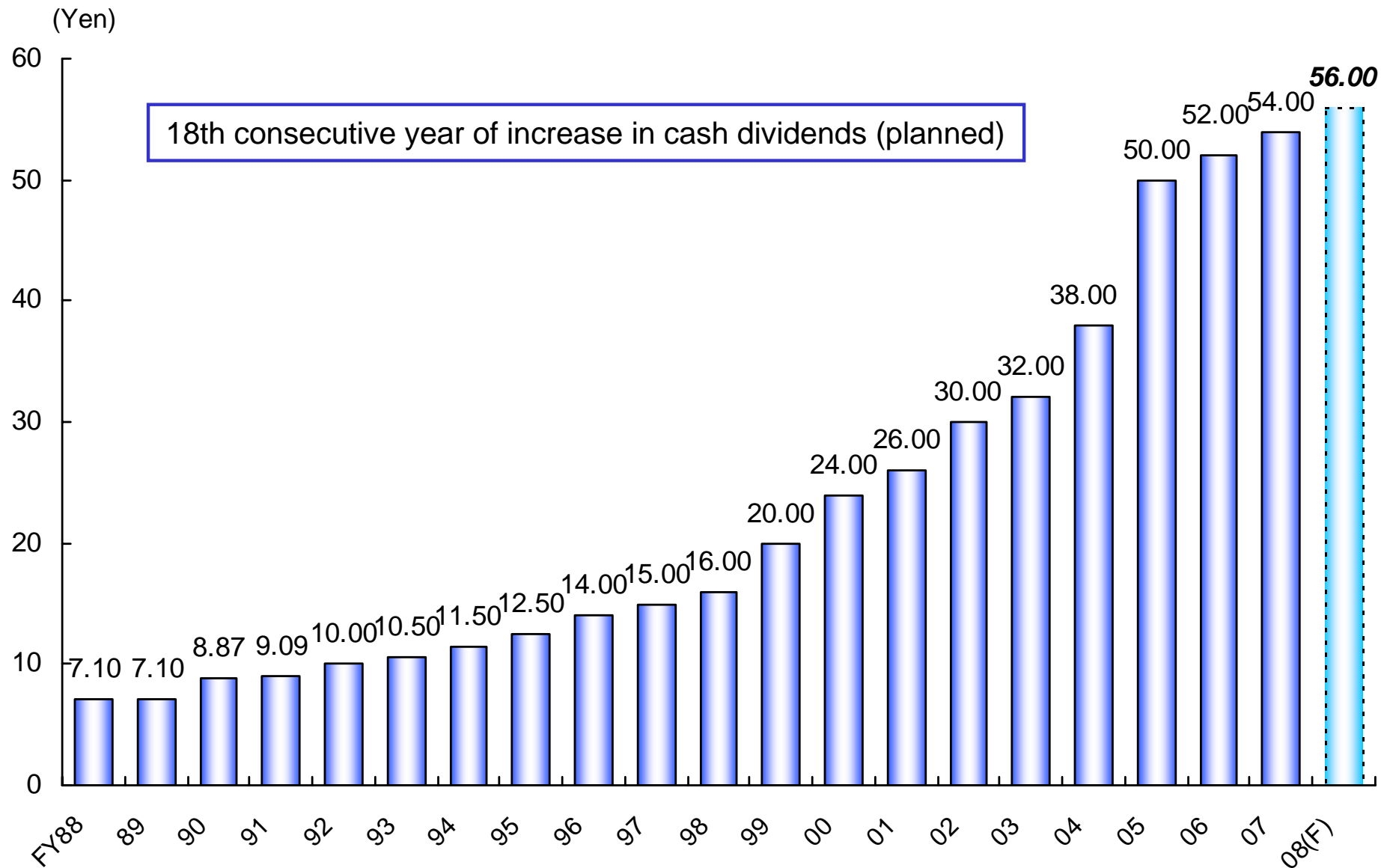
ROE & ROA



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.

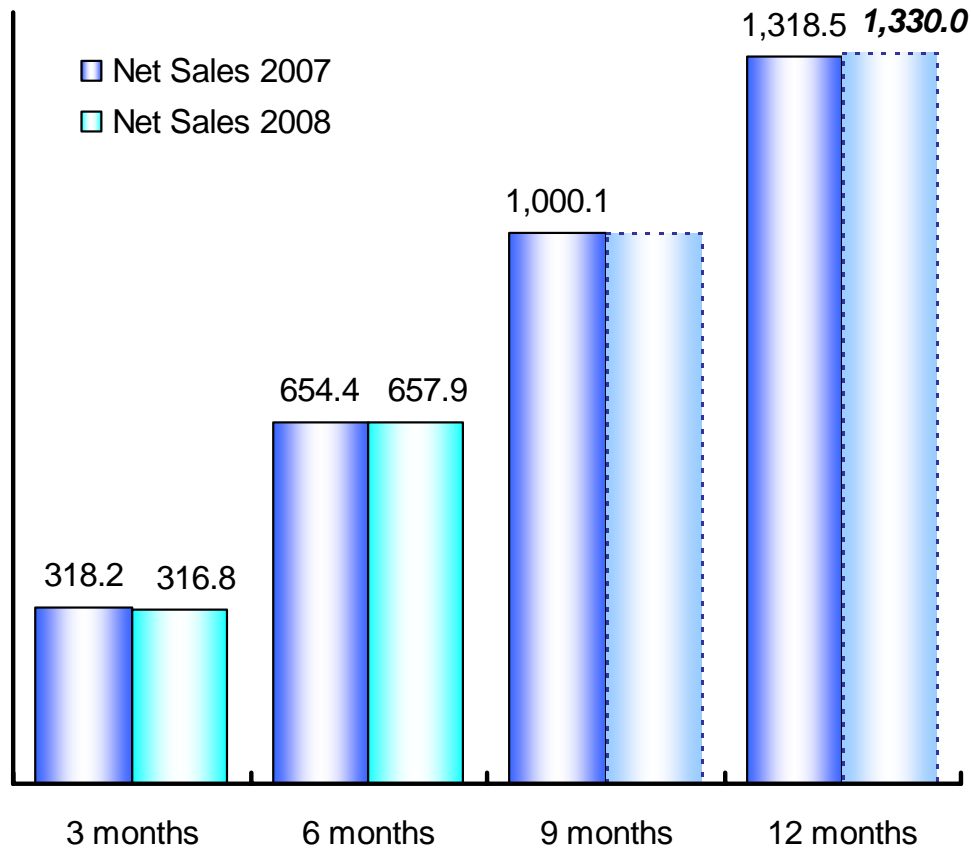


Quarterly Consolidated Sales and Profit Forecast

- Accumulated -

Net Sales

(Billion yen)



Operating Income

(Billion yen)

