

Highlights for FY2009

April 26, 2010

Kao Corporation

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President and CEO



Kao

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

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

Agenda

■ ■ **Summary of FY2009**

■ ■ **Three Issues and Countermeasures**

■ ■ **Toward Further Future Growth**

■ ■ **Summary of FY2010 Forecast**

Summary of FY2009

Financial Overview of FY2009

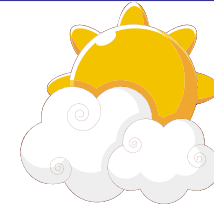
- *Amid recovery from the weak economy following the Lehman Bros. bankruptcy, Kao surpassed its operating income forecast of ¥89 billion announced in October 2009 with consumer-driven product development, efficient marketing and cost reduction activities.*
- *Performance of Consumer Products excluding prestige cosmetics in Japan was steady. Sales of Consumer Products in Asia and Oceania outpaced market growth. The Chemical Business has been improving.*
- *Weak performance of prestige cosmetics in Japan and suspension of production and sale of Econa products impacted results.*

		<u>% of sales</u>	<u>Year-on-year</u>
Net sales:	¥1,184.3 billion		-7.2%
EBITA*:	¥129.5 billion	10.9%	-3.8%
Operating income:	¥94.0 billion	7.9%	-2.9%
Net income:	¥40.5 billion	3.4%	-37.2%
Net income per share:	¥75.57		-37.2%
ROE:	7.3%		-420bps
Shareholder returns			
Cash dividends per share:	¥57		¥1 increase
Consolidated payout ratio:	75.4%		

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

FY2009 Summary by Business

**Consumer Products excluding
prestige cosmetics in Japan**



Prestige cosmetics in Japan



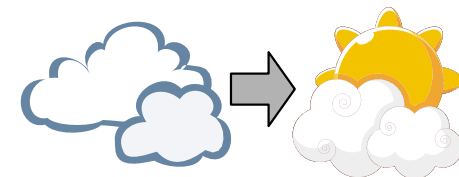
**Consumer Products in Asia
and Oceania**



**Consumer Products in
North America and Europe**



Chemical



Three Issues and Countermeasures

Three Issues and Countermeasures

Measures against deflation in the Japanese household and personal care market

- ➔ High-value-added products
 - ◆ Response to aging population
 - ◆ Response to increasing health consciousness
 - ◆ Response to rising environmental consciousness

Rebuilding prestige cosmetics business

- ➔ Reform of brands and marketing
- ➔ Reform of sales methods
- ➔ Synergy within the Kao Group

Revitalization of functional health food business and expansion of health solutions business

- ➔ Efforts for launch of functional healthy cooking oil
- ➔ Expansion of unique health solutions business combining a support program for healthy lifestyles and functional foods that help prevent lifestyle-related diseases

Market Conditions of Prestige Cosmetics in Japan

The cosmetics market in Japan continues to shrink year-on-year.

[Year-on-year growth in value terms]

Apr.-Sept. 09

Apr. 09-Mar. 10

Prestige cosmetics market in Japan

-3.9%

-4.1%

○ **High-priced segment (over 5,000 yen):**

-6.7%

-5.3%

○ **Mid-priced segment (2,000-5,000 yen):**

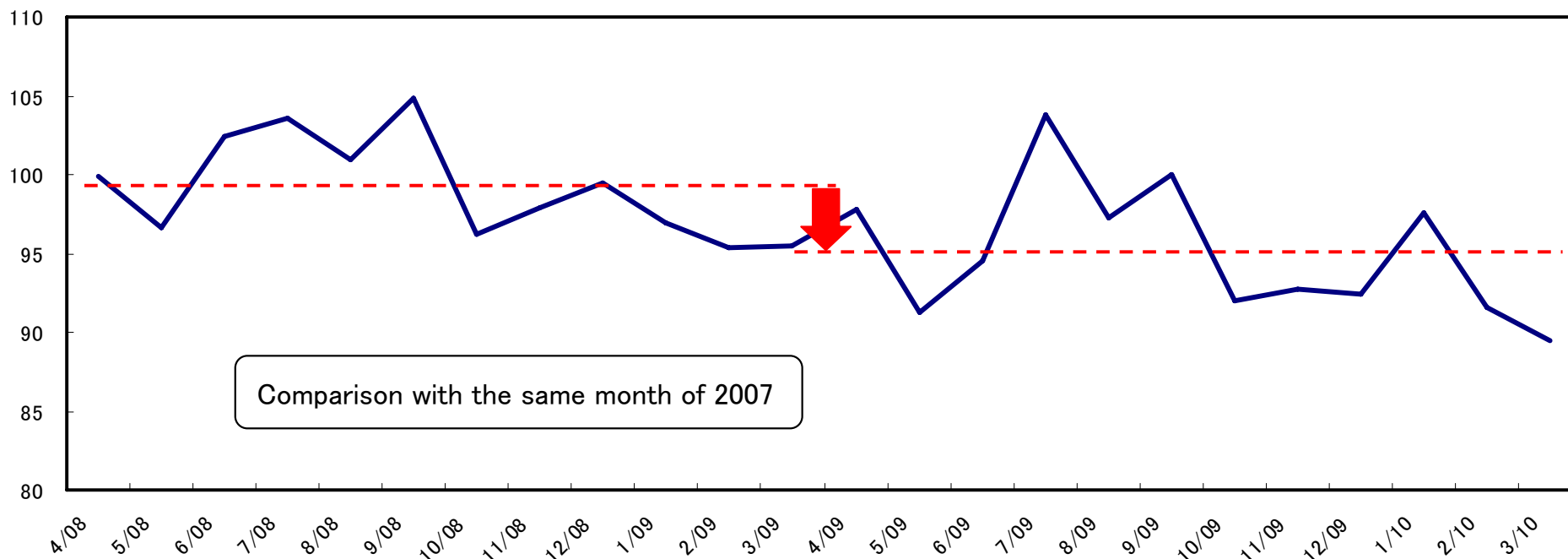
-5.4%

-5.6%

○ **Low-priced segment (below 2,000 yen):**

+3.4%

+1.1%



*Source: SLI survey (Data based on tracking service of 10,175 female consumers nationwide in Japan)

Rebuilding Prestige Cosmetics Business

Reform of brands and marketing

- **Define role/positioning of each brand in the Kanebo and Kao Sofina businesses**
 - ◆ Kanebo Cosmetics: Comprehensive cosmetics with rich emotional value and high quality
 - ◆ Kao Sofina: Cosmetics of beauty and health based on skin science
- **Introduce and focus marketing investment on strong brands in market segments that are growing while consumer behavior continues to change**
 - ◆ Growing market segments: Aging care, whitening, sensitive skin, etc.
 - ◆ Optimize marketing mix (mass advertising, Web, in-store counseling, etc.) for each product

Reform of sales methods by distribution channel

- **Offer counseling on demand tailored to the needs of consumers able to choose cosmetics by themselves**
 - ◆ Full counseling
 - ◆ Simple counseling (light counseling)
 - ◆ Transmission of information at the store shelves of self-selection cosmetics
- **Collaboration in sales function of Kao and Kanebo Cosmetics**

Reinforcement of international business: Emphasizing the acceleration of growth of Kanebo Cosmetics in China

- **Expansion of brands in China**
 - ◆ Launch of *COFFRET D'OR* and *AQUA SPRINA* in September 2009
- **Achieve sales that outpace cosmetics market growth in China**
 - ◆ Kanebo Cosmetics FY2010 sales growth forecast : Over 30%

Cost Competitiveness to Support Kao's Stable Profitability

Cost reduction activities (TCR)

- FY2009 actual: ¥8 billion
- FY2010 forecast: ¥6 billion

Synergy within the Kao Group

- Estimated cumulative cost-cutting synergy with Kanebo Cosmetics from FY2006 to FY2010: ¥12-13 billion

Further enhance cost competitiveness

- Strengthen supply chain management globally
 - ◆ Reduce total supply chain costs
 - ◆ Improve efficiency of working capital

Toward Further Future Growth

Kao's 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.

Three Medium-to-long-term Megatrends

Three megatrends represent a major turning point for the Kao Group, while at the same time presenting opportunities for significant progress.

❑ Emergence of new consumers

- ➔ Consumers increasingly dependent on digital media such as the Internet and growing elderly population in advanced countries

❑ The shift in the center of the economy

- ➔ Creation of enormous markets centered on Brazil, Russia, India and China, the so-called BRICs, and other emerging nations

❑ Rising interest in environmental issues

- ➔ Concern about the depletion of natural resources and global warming

Toward Significant Medium-to-long-term Progress

Fuel for growth

Respond to changes in the Japanese market, the foundation of the Kao Group's profit

- ◆ **Create new value for consumers by adding "environmental value (eco value)" in addition to the current "functional value" and "emotional value"**
- ◆ **Utilize digital media (communication, new sales channel)**

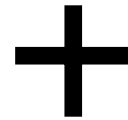
Growth engine

- 1. Accelerate growth of business globally**
 - ➔ **Reinforce regions where Kao currently operates and strengthen focus on emerging nations such as BRICs**
- 2. Shift to ecology-centered management**

Achieve Growth of Business Globally

New corporate identity

**Reinforce development of
environmental technologies under
ecology-centered management**



Global “matrix management”

		Functional Units			
		R&D	Production	Sales	Corporate
Business Units	Beauty Care				
	Human Health Care				
	Fabric and Home Care				
	Chemical				

Achieve Growth of Business Globally

Integration of business operations in Asia, including Japan

- ◆ Standardize business processes
- ◆ Cooperate
- ◆ Share The Kao Way

Pan-Asian brands that drive growth in the region

Beauty Care



Bioré



Asience



Essential Damage Care

Human Health Care



Laurier

Fabric and Home Care

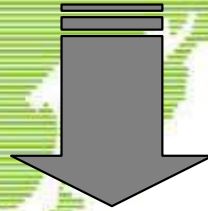


Attack

Achieve Growth of Business Globally

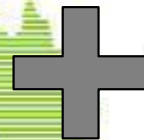
**Integration of business operations in Asia,
including Japan**

(Standardize business processes, cooperate, share The Kao Way)



**Establishment of
integrated global business operations**

(including Kanebo Cosmetics Inc. and Beauty Care Business in North America and Europe)



Full-scale business development in BRICs

Progress under Ecology-Centered Management

Enriching lives, in harmony with nature.

Environmental statement

- eco together*
- 2020 medium-term objectives*
- Build new Eco-Technology Research Center*



Major products

- *Attack Neo*, first product to embody “eco together”
- Chemical products focusing on environmental protection
 - *ECOLA* series, an improved plant-based polylactide resin
 - *Fomesaline 700* series, low temperature steel cleaning agent
 - *Coolrinse* series, low temperature steel rinsing agent



* Please visit the following webpages for further details:
URL http://www.kao.com/jp/en/corp_news/2009/20090617_002.html and http://www.kao.com/jp/en/corp_news/2009/20090617_003.html

Summary of FY2010 Forecast

Summary of FY2010 Forecast

- *Kao will reinforce its foundation for profitable growth with continuous development of high-value-added products in Consumer Products excluding prestige cosmetics in Japan and the Chemical Business.*
- *Prestige cosmetics in Japan will aim to improve its profitability by structural reform.*
- *Kao will expand businesses in Asia, driven by China.*

		<u>% of sales</u>	<u>Year-on-year</u>
Net sales:	¥1,195.0 billion		+0.9%
EBITA*:	¥131.5 billion	11.0%	+1.6%
Operating income:	¥97.0 billion	8.1%	+3.2%
Net income:	¥50.0 billion	4.2%	+23.4%
Net income per share:	¥93.28		+23.4%
ROE:	8.7%		+140bps
Shareholder returns			
Cash dividends per share:	¥58		¥1 increase
Consolidated payout ratio:	62.2%		

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

Use of 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

*FY2010
forecast*



- *Cash dividends per share: ¥58*
- *Consolidated payout ratio: 62.2%*

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

Appendices

Business Segments and Main Product Categories

Consumer Products
Business

Beauty Care

FY2009 sales: ¥547.9 billion

[-6.9% year-on-year / Share of net sales: 46.2%]

Beauty salon products
Prestige cosmetics
Premium skin care
Premium hair care



Consumer
driven

Human Health Care

FY2009 sales: ¥183.1 billion

[-4.3% year-on-year / Share of net sales: 15.5%]

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

FY2009 sales: ¥276.9 billion

[+1.0% year-on-year / Share of net sales: 23.4%]

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



Chemical

FY2009 sales: ¥207.8 billion

[-20.7% year-on-year / Share of net sales: 14.9%]

Oleo chemicals
Performance chemicals
Specialty chemicals



Chemical Business

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

FY2009 Breakdown of Beauty Care Business

		Billion yen	Increase (Decrease)*
Beauty Care	Net sales	547.9	(6.9%)
	Operating income**	4.7	(12.8)
	Operating margin	0.9%	(210bps)
Prestige cosmetics	Net sales	265.1	(8.8%)
	Operating income**	(30.2)	(11.7)
	Operating margin	(11.4%)	(500bps)
Premium mass products and professional hair care products	Net sales	282.8	(4.9%)
	Operating income**	34.9	(1.0)
	Operating margin	12.4%	+30bps

Kanebo Cosmetics

- Net sales:
Slightly less than ¥200 billion
- EBITA as a % of sales*** :
Approx. 4%

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

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

- Beauty Care: ¥35.2 billion

- Prestige cosmetics: ¥28.5 billion

- Premium mass products and professional hair care products: ¥6.7 billion

*** Operating income ratio before deduction of royalties

SRI Indexes and External CSR Evaluation

SRI indexes for which Kao has been selected



CSR-related evaluation from external organization



(As of April 26, 2010)

CSR: Corporate Social Responsibility
SRI: Socially Responsible Investment

Kao