

Annual Financial Review

From April 1, 2009 to March 31, 2010

Kao Corporation

April 26, 2010

This is a translation of materials used for the analyst meeting held in Japan on April 26, 2010.



The Kao Corporation logo, consisting of the word "Kao" in a bold, green, sans-serif font.

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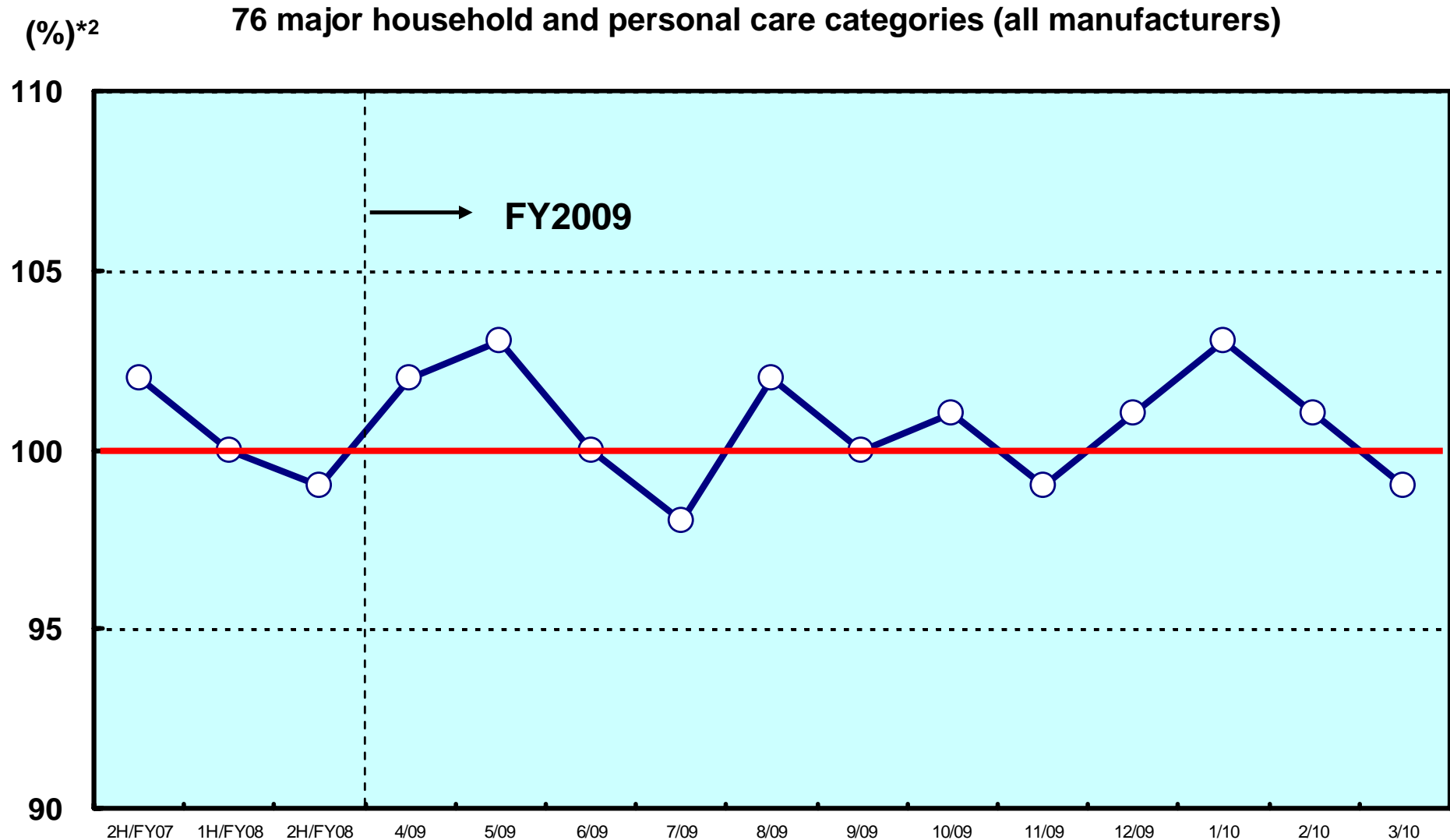
These presentation materials contain forward-looking statements that are based on management's estimates, assumptions and projections as of April 26, 2010. Certain factors, which include, but are not limited to, the risks and uncertainty associated with the worldwide economy, competitive activity, and 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, 2009 – March 31, 2010

Consumer Products*1 Market in Japan



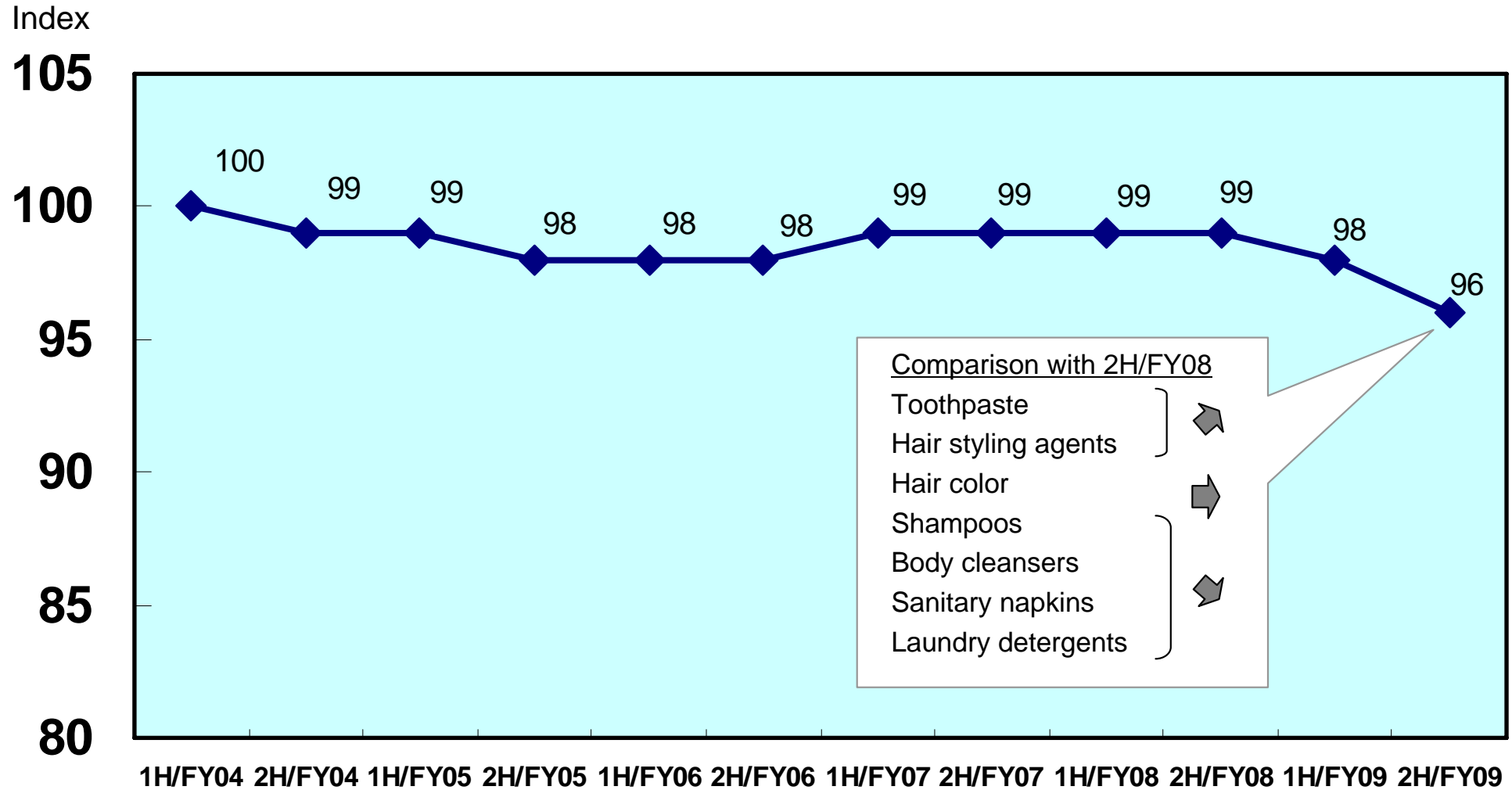
*1 Consumer products do not include prestige cosmetics.

*2 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)



(Source: SRI POS data)

2. Consolidated Business Results

April 1, 2009 – March 31, 2010

Key Points in FY2009

Japan sales related

1. Consumer purchase price of 15 major household and personal care categories market in Japan*1 :
 - 1st half: -1point year-on-year
 - 2nd half: -3 points year-on-year
2. Growth of the cosmetics market in Japan*2: -4.1%

Income statements related

- | | | |
|--|------------------|----------------------|
| 1. Net sales: | ¥1,184.3 billion | (-7.2% year-on-year) |
| • Effect of currency translation: | -¥38.7 billion | (-3.0% year-on-year) |
| • Like-for-like sales growth: | -¥53.1 billion | (-4.2% year-on-year) |
| 2. Decrease in operating income*3: | -¥2.7 billion | |
| 3. Expenses related to <i>Econa</i> cooking oil and related products (<i>Econa</i> products): | | |
| • Cost of sales*4 | -¥2.8 billion | |
| • Extraordinary loss | -¥5.2 billion | |

Cash flow related

- | | |
|--|----------------|
| 1. Free cash flow*5 | ¥128.0 billion |
| 2. Payments of cash dividends*6: | ¥30.0 billion |
| 3. Repayment of a portion of long-term debt: | ¥84.0 billion |

*1 Index with the 1st half of FY2004 as 100 (Source: SRI POS data)

*2 Source: SLI data

*3 Please refer to slide 12 for details

*4 This amount is included in the above mentioned "Decrease in operating income (-¥2.7 billion)"

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

*6 Includes payments of cash dividends to minority shareholders

FY2009 Consolidated Results

Billion yen	<u>FY07</u>	<u>FY08</u>	<u>FY09</u>	Growth	Changes
Net Sales	1,318.5	1,276.3	1,184.3	-7.2%	-91.9
EBITA*	157.6	134.6	129.5	-3.8%	-5.1
<i>EBITA* Margin</i>	12.0%	10.6%	10.9%		
Operating Income	116.2	96.8	94.0	-2.9%	-2.7
<i>Operating Margin</i>	8.8%	7.6%	7.9%		
Ordinary Income	114.2	94.6	93.5	-1.1%	-1.0
Net Income	66.5	64.4	40.5	-37.2%	-23.9
EBITDA	209.6	184.2	178.8	-3.0%	-5.4
ROE	11.7%	11.5%	7.3%		
EPS (yen)	122.53	120.25	75.57	-37.2%	-44.68

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

Consolidated Net Sales [1]

	FY2008		FY2009		
	Billion yen	% Growth	Billion yen	%	
				Growth	Like-for-like*
Beauty Care Business	436.3	-2.7	413.1	-5.3	-5.3
Human Health Care Business	174.7	0.2	167.6	-4.1	-4.1
Fabric and Home Care Business	245.9	0.3	250.6	1.9	1.9
Japan Total	857.0	-1.3	831.4	-3.0	-3.0
Asia & Oceania	83.1	-2.6	79.6	-4.2	7.7
North America & Europe	130.3	-16.6	112.9	-13.3	-2.2
Elimination	-16.6	-	-16.1	-	-
Consumer Products Business	1,053.8	-3.7	1,008.0	-4.3	-2.1

*Like-for-like: excludes currency translation impact

Consolidated Net Sales [2]

	FY2008		FY2009		
	Billion yen	% Growth	Billion yen	%	
				Growth	Like-for-like*
Japan	130.0	0.5	114.9	-11.6	-11.6
Asia	80.9	7.7	53.3	-34.1	-25.9
North America & Europe	100.5	1.8	72.0	-28.3	-16.0
Elimination	-49.5	-	-32.5	-	-
Chemical Business	262.0	1.3	207.8	-20.7	-14.8
Elimination	-39.5	-	-31.4	-	-
Consolidated Sales	1,276.3	-3.2	1,184.3	-7.2	-4.2

*Like-for-like: excludes currency translation impact

Consolidated Income Statements

	FY2008		FY2009		Changes ^{*1}
	Billion yen	%	Billion yen	%	Billion yen
Net Sales	1,276.3	100.0	1,184.3	100.0	-91.9
Cost of Sales	558.9	43.8	493.0	41.6	-65.9
Gross Profit	717.3	56.2	691.3	58.4	-25.9
SG&A Expenses ^{*2}	620.5	48.6	597.3	50.4	-23.1
Operating Income	96.8	7.6	94.0	7.9	-2.7
Non-operating Income/Expenses	-2.1	-0.2	-0.4	-0.0	1.7
Ordinary Income	94.6	7.4	93.5	7.9	-1.0
Extraordinary Gain & Loss	-2.5	-0.2	-10.6	-0.9	-8.0
Income Before Income Taxes And Minority Interests	92.0	7.2	82.9	7.0	-9.0
Income Taxes	26.5	2.1	41.6	3.5	15.0
Minority Interests	0.9	0.1	0.8	0.1	-0.1
Net Income	64.4	5.1	40.5	3.4	-23.9

*1 Changes = FY2009 – FY2008

*2 Amortization related to Kanebo Cosmetics
FY2008: 27.3 billion yen, FY2009: 27.3 billion yen

FY2009 Consolidated Operating Income Analysis

Comparison with FY2008

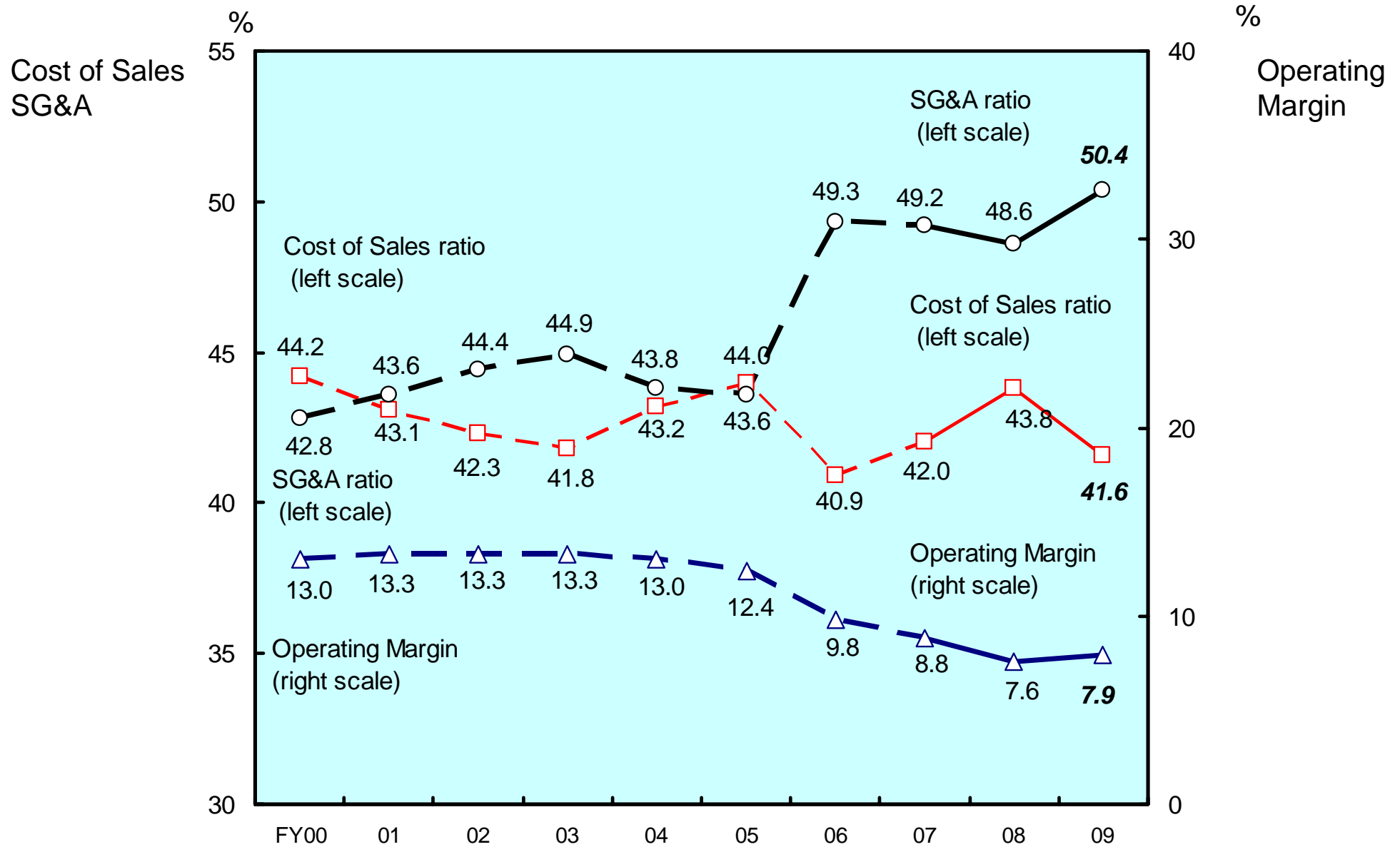


**FY2008
Operating Income
96.8 billion yen**

-45.0 billion yen	Decrease in sales volume
+18.0 billion yen	Net impact of lower raw material prices
-2.8 billion yen	Expenses related to Econa products (cost of sales)
+8.0 billion yen	Total Cost Reduction (TCR)
+23.1 billion yen	Decrease in SG&A expenses
-4.0 billion yen	Product mix and others

**FY2009
Operating Income
94.0 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)

	FY2008	FY2009	Changes*
Total SG&A Expenses	620.5	597.3	-23.1

Freight/Warehouse	74.2	70.0	-4.2
Advertising	90.2	86.3	-3.9
Sales Promotion	69.7	65.4	-4.3
Salaries and Bonuses	125.6	124.5	-1.1
R&D	46.1	44.9	-1.2

* Changes = FY2009 – FY2008

Effect of currency translation on SG&A expenses: -14.6 billion yen

Consolidated Non-operating Income/Expenses and Extraordinary Gain/Loss

(Billion yen)

Non-operating Income/Expenses	FY2008	FY2009	Changes*
Non-operating Income	6.7	4.9	-1.7
Interest Income	2.4	0.9	
Dividend Income	0.1	0.1	
Equity in Earnings of Nonconsolidated Subsidiaries and Affiliates	0.5	1.1	
Other	3.5	2.6	
Non-operating Expenses	8.9	5.4	-3.5
Interest Expense	6.0	4.2	
Foreign Currency Exchange Loss	1.8	0.3	
Other	1.0	0.8	

Extraordinary Gain/Loss	FY2008	FY2009	Changes*
Extraordinary Gain	1.9	0.6	-1.2
Gain on Sales of Fixed Assets	1.0	0.1	
Gain on Sales of Investment Securities	0.0	0.0	
Gain on Transfer of Business	0.4	-	
Other	0.3	0.4	
Extraordinary Loss	4.5	11.2	+6.7
Loss on Sales/Disposals of Fixed Assets	2.2	2.8	
Loss on Impairment of Long-lived Assets	0.7	0.5	
Loss Related to Cooking Oils	-	5.2	
Restructuring Charges for Prestige Cosmetics Subsidiary	-	1.2	
Other	1.5	1.2	

* Changes = FY2009 – FY2008

Sales and Operating Income by Business

		FY2008		FY2009		Changes Billion yen	Growth %
		Billion yen	% to net sales	Billion yen	% to net sales		
Beauty Care Business	Net sales ^{*1}	588.3	-	547.9	-	-40.3	-6.9%
	EBITA ^{*2}	55.1	9.4%	40.0	7.3%	-15.1	-27.4%
	Operating Income	17.5	3.0%	4.7	0.9%	-12.8	-73.0%
Human Health Care Business	Net sales ^{*1}	191.3	-	183.1	-	-8.1	-4.3%
	Operating Income	12.9	6.8%	8.9	4.9%	-4.0	-31.0%
Fabric & Home Care Business	Net sales ^{*1}	274.2	-	276.9	-	+2.7	+1.0%
	Operating Income	49.1	17.9%	60.6	21.9%	+11.5	+23.5%
Chemical Business	Net sales ^{*1}	262.0	-	207.8	-	-54.2	-20.7%
	EBITA ^{*2}	17.4	6.6%	19.8	9.6%	+2.4	+14.0%
	Operating Income	17.1	6.6%	19.6	9.5%	+2.4	+14.5%
Consolidated	Net sales	1,276.3	-	1,184.3	-	-91.9	-7.2%
	EBITA ^{*2}	134.6	10.6%	129.5	10.9%	-5.1	-3.8%
	Operating Income	96.8	7.6%	94.0	7.9%	-2.7	-2.9%

*1 Before elimination of intersegment transfers

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

Quarterly Operating Income by Business

(Billion yen)

		Beauty Care Business	Human Health Care Business	Fabric & Home Care Business	Chemical Business	Consolidated
FY2008	1st quarter	6.0	2.1	10.3	7.2	25.7
	2nd quarter	3.4	4.8	15.9	4.7	29.0
	1st half	9.4	7.0	26.2	11.9	54.7
	3rd quarter	9.6	5.4	15.8	5.6	36.5
	4th quarter	-1.7	0.5	7.0	-0.6	5.1
	Full year	17.5	12.9	49.1	17.1	96.8
FY2009	1st quarter	0.3	2.8	12.5	3.7	19.4
	2nd quarter	0.8	1.7	19.2	4.3	26.1
	1st half	1.1	4.5	31.7	8.0	45.5
	3rd quarter	8.5	3.5	20.8	6.3	39.2
	4th quarter	-4.8	0.7	8.0	5.2	9.2
	Full year	4.7	8.9	60.6	19.6	94.0

* Eliminations/Corporate column is omitted.

Sales and Operating Income by Geography

		FY2008		FY2009		Changes Billion yen	Growth %
		Billion yen	% to net sales	Billion yen	% to net sales		
Japan	Net sales ^{*1}	953.3	-	918.4	-	-34.8	-3.7%
	EBITA ^{*2}	117.5	12.3%	113.0	12.3%	-4.4	-3.8%
	Operating Income	84.1	8.8%	79.9	8.7%	-4.2	-5.1%
Asia and Oceania	Net sales ^{*1}	161.9	-	131.6	-	-30.2	-18.7%
	Operating Income	2.7	1.7%	2.6	2.0%	-0.0	-2.1%
North America	Net sales ^{*1}	98.9	-	79.1	-	-19.7	-20.0%
	EBITA ^{*2}	5.2	5.3%	5.8	7.4%	+0.5	+10.5%
	Operating Income	4.3	4.4%	4.9	6.3%	+0.6	+14.7%
Europe	Net sales ^{*1}	140.6	-	111.1	-	-29.4	-21.0%
	EBITA ^{*2}	8.7	6.3%	6.6	5.9%	-2.1	-25.0%
	Operating Income	5.2	3.7%	5.1	4.6%	-0.0	-1.2%
Consolidated	Net sales	1,276.3	-	1,184.3	-	-91.9	-7.2%
	EBITA ^{*2}	134.6	10.6%	129.5	10.9%	-5.1	-3.8%
	Operating Income	96.8	7.6%	94.0	7.9%	-2.7	-2.9%

*1 Before elimination of intersegment transfers

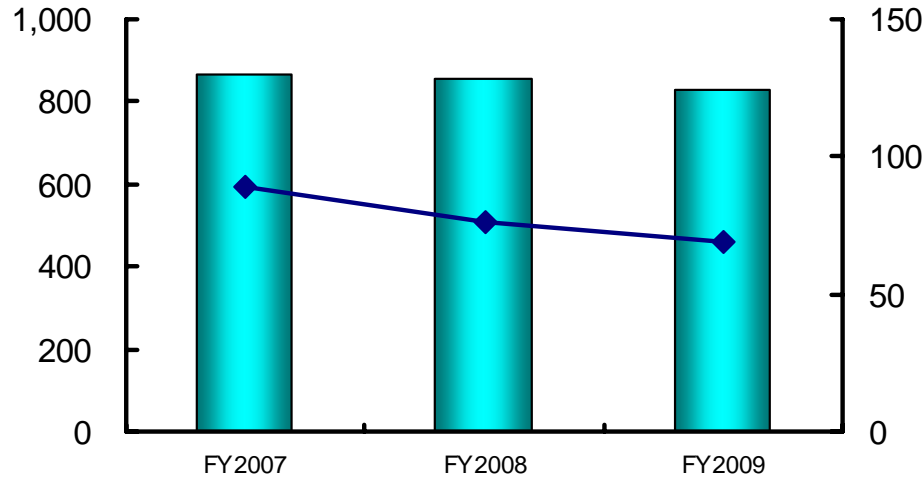
*2 Operating income before amortization of goodwill and intellectual property rights related to M&A

Consumer Products Business by Geography

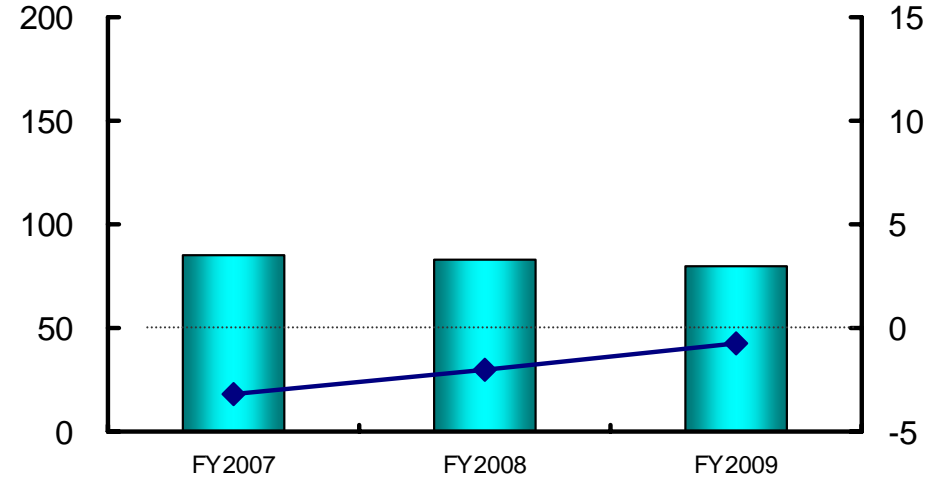
Japan

Sales (Billion yen)

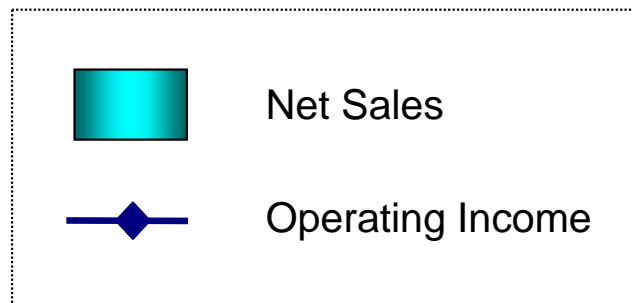
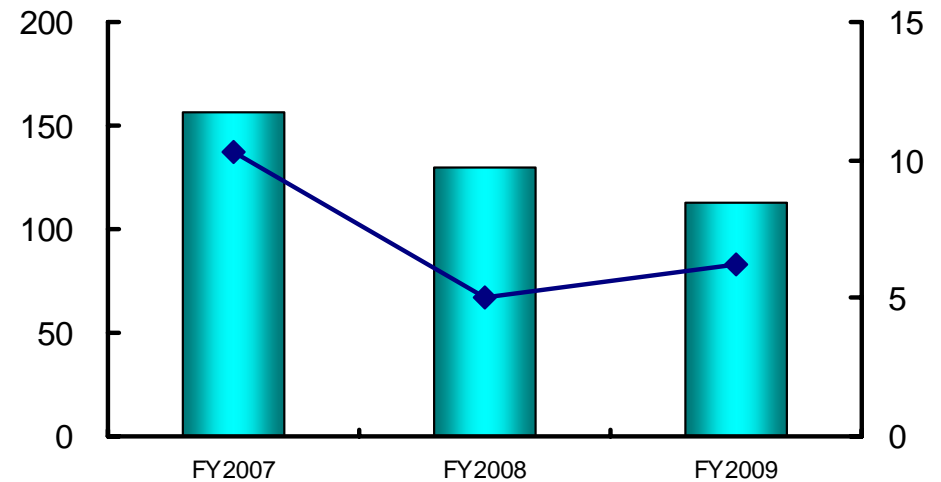
Operating Income
(Billion yen)



Asia and Oceania



North America & Europe

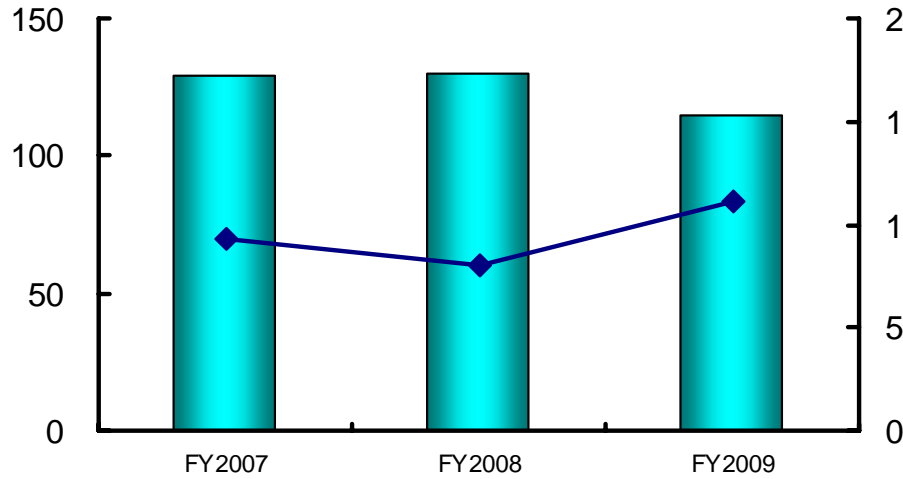


Chemical Business by Geography

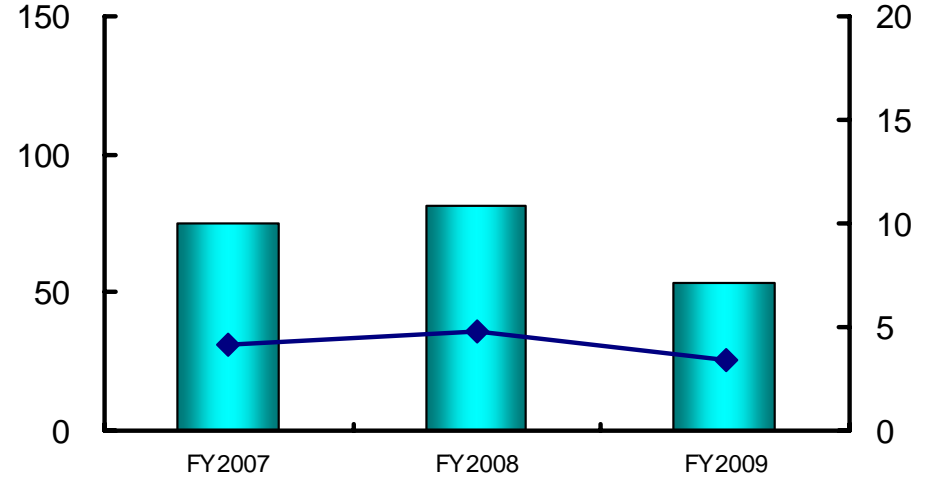
Japan

Sales (Billion yen)

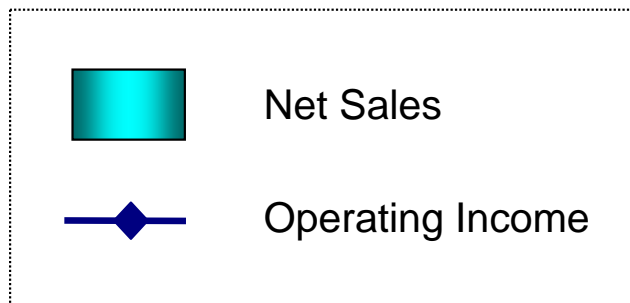
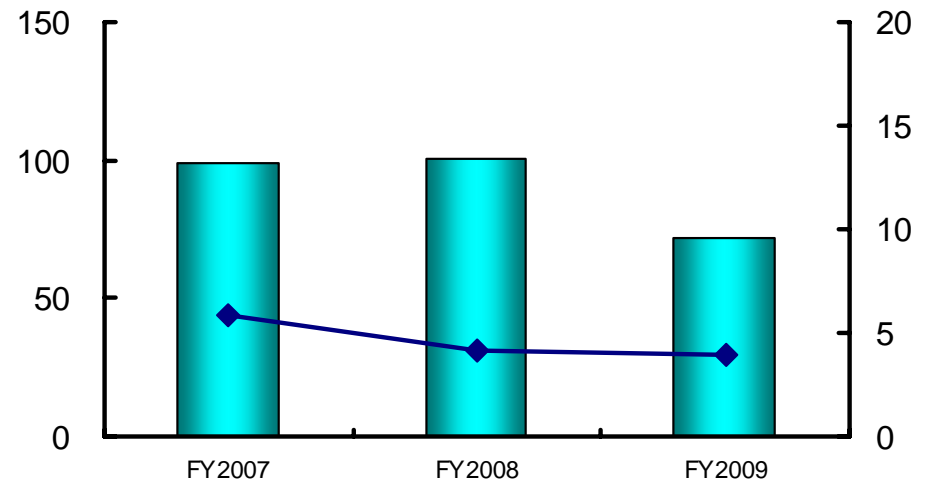
Operating Income
(Billion yen)



Asia



North America & Europe



Consolidated Balance Sheets

(Billion yen)

	Mar/09	Mar/10	Changes		Mar/09	Mar/10	Changes
Current Assets	403.8	393.9	-9.8	Current Liabilities	270.7	279.5	8.8
Cash and Time Deposits	53.8	70.1	16.3	Notes and Accounts Payable - Trade	95.0	99.9	4.9
Notes and Accounts Receivable - Trade	126.5	127.5	1.0	Short-term Debt (incl. Current Portion of Long-term Debt)	38.5	31.9	-6.6
Short-term Investments	54.7	46.0	-8.6	Accounts Payable - Other	29.3	27.6	-1.7
Inventories	118.0	106.5	-11.4	Accrued Expenses	72.6	76.6	4.0
Other	50.6	43.5	-7.1	Accrued Income Taxes	13.2	20.3	7.1
				Other	21.8	23.0	1.1
Fixed Assets	715.8	671.7	-44.0	Long-term Liabilities	294.7	210.8	-83.8
Property, Plant and Equipment	257.4	251.8	-5.6	Bonds/Long-term Debt	236.8	150.6	-86.2
Intangible Assets	348.4	313.9	-34.5	Other	57.8	60.1	2.3
Investments and Other Assets	109.9	105.9	-3.9	Total Liabilities	565.4	490.4	-75.0
				Shareholders' equity	615.7	626.2	10.5
				-Common Stock	85.4	85.4	-
				-Capital Surplus	109.5	109.5	-
				-Retained Earnings	431.7	442.2	10.4
				-Treasury Stock, at Cost	-11.0	-10.9	0.0
				Adjustment for Valuation, Foreign Currency Translation and Other	-70.5	-61.1	9.3
				- Unrealized Gain on Available-for-Sale Securities	2.0	2.2	0.2
				- Deferred Gains or Losses on hedges	-0.0	-0.0	0.0
				- Foreign Currency Translation Adjustments	-70.1	-62.9	7.1
				- Other	-2.4	-0.4	2.0
				Stock Acquisition Rights	0.8	1.0	0.1
				Minority Interests	8.1	9.1	1.0
				Total Net Assets	554.1	575.2	21.1
Total Assets	1,119.6	1,065.7	-53.9	Total Liabilities and Total Net Assets	1,119.6	1,065.7	-53.9

Consolidated Statements of Cash Flows

	(Billion yen)		
	FY2008	FY2009	Changes* ¹
Net cash provided by operating activities	121.5	172.2	50.6
Net cash used in investing activities	-43.1	-44.2	-1.0
Net cash provided by (used in) financing activities	-64.7	-124.5	-59.8
Translation adjustments on cash and cash equivalents	-15.7	3.1	18.9
Net Increase (decrease) in cash and cash equivalents	-2.0	6.6	8.6
Cash and cash equivalents at beginning of period	112.6	110.5	-2.0
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 at end of period	110.5	117.1	6.6
Total debt at end of period	275.4	182.6	-92.8
Free cash flow* ²	78.4	128.0	49.6

*1: Changes = FY2009 –FY2008

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

<Net cash used in investing activities>

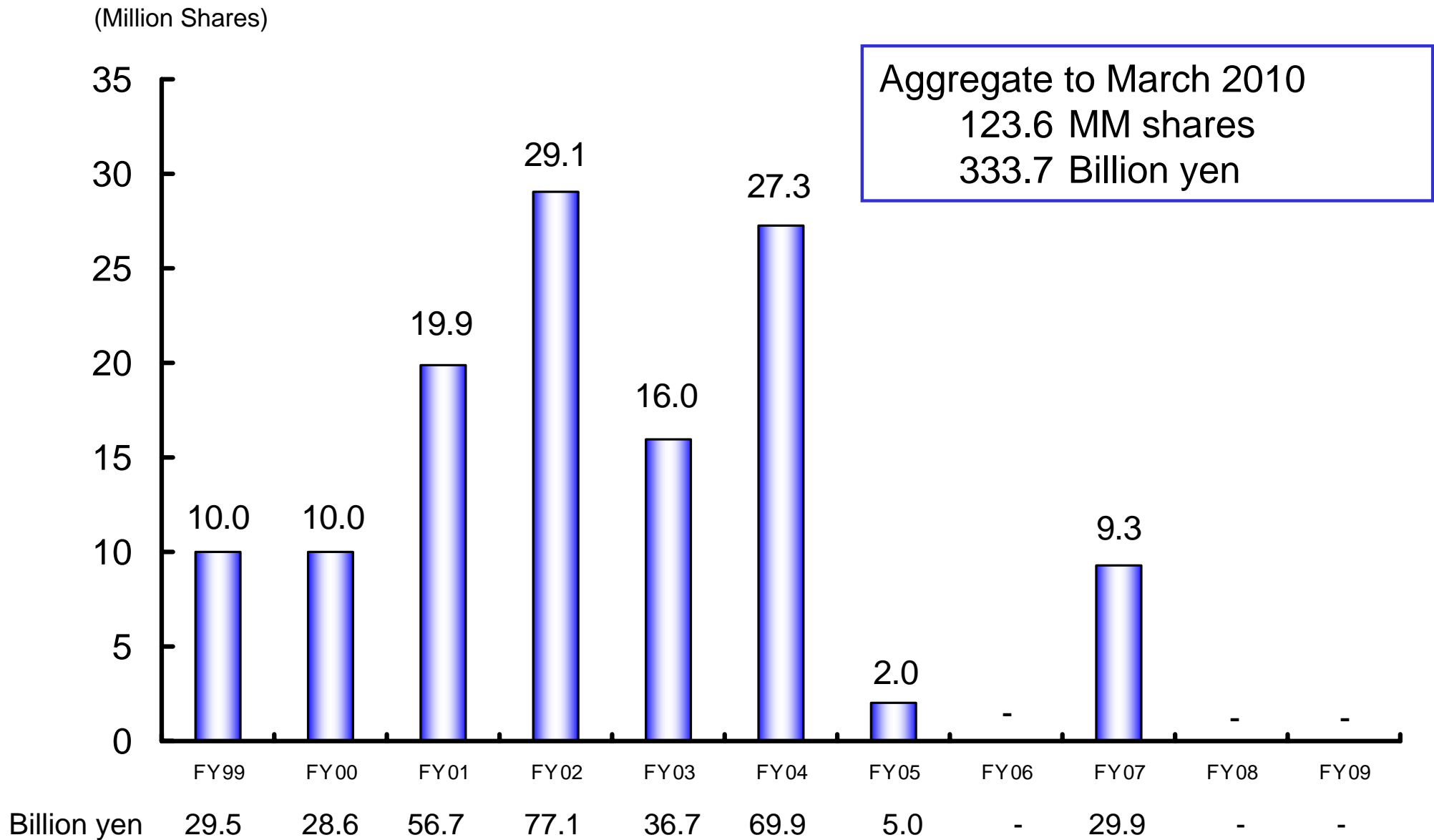
Capital expenditures:

- Production facilities for new products
- Production capacity expansion
- Optimization of distribution bases
- Reform of information system, etc.

<Net cash used in financing activities>

Payments of cash dividends: 30.0 billion yen
 Repayment of a portion of long-term debt: 84.0 billion yen

Share Repurchase



* Share repurchase from the market

3. Forecast for FY 2010

Major Assumptions for FY2010 Forecast

- ◆ Year-on-year growth rate of market size in value (yen) for Consumer Products Business* in Japan: Flat
- ◆ Year-on-year growth rate of cosmetics market size in value (yen) in Japan: -2% year-on-year
- ◆ Impact by *Econa* products on net sales in the first half: approximately -¥10 billion

Estimated impact on income

- ◆ Impact by higher raw material prices:
 - Gross impact of approximately -¥14 billion
 - Net impact of approximately -¥9 billion
- ◆ Total Cost Reduction (TCR) activities: +¥6 billion
- ◆ Capital expenditures/depreciation and amortization
 - Capital expenditures: ¥55 billion
 - Depreciation and amortization: ¥83 billion

Exchange rate assumptions

- ◆ 95 yen/USD (FY2009 actual exchange rate [quarterly average]: 93.72 yen/USD)
- ◆ 125 yen/Euro (FY2009 actual exchange rate [quarterly average]: 130.56 yen/Euro)

* Excludes prestige cosmetics.

Consolidated Sales and Profit Forecast

	FY2008 ^{*2}		FY2009 ^{*3}		FY2010(F) ^{*1} ^{*4}	
	Billion yen	% Growth	Billion yen	% Growth	Billion yen	% Growth
Net Sales	1,276.3	-3.2	1,184.3	-7.2	1,195.0	0.9
Operating Income	96.8	-16.7	94.0	-2.9	97.0	3.2
[% of Sales]	7.6%		7.9%		8.1%	
Ordinary Income	94.6	-17.2	93.5	-1.1	96.0	2.6
[% of Sales]	7.4%		7.9%		8.0%	
Net Income	64.4	-3.2	40.5	-37.2	50.0	23.4
[% of Sales]	5.1%		3.4%		4.2%	

Net Income per Share (yen)	120.25	-1.9	75.57	-37.2	93.28	23.4
ROE	11.5%	-	7.3%	-	8.7%	-
EBITDA (Operating Income + Depr. & Amort.)	184.2	-12.1	178.8	-3.0	180.0	0.7
Cash Dividends per Share (yen)	56.0	3.7	57.0	1.8	58.0	1.8

*1 Exchange rate assumptions: 95 yen/USD, 125 yen/Euro

*2 Kanebo Cosmetics (Apr. 2008-Mar. 2009) : Net sales = approximately ¥210 billion / operating margin before deduction of royalties = 6%+; amortization related to Kanebo Cosmetics: ¥27.3billion

*3 Kanebo Cosmetics (Apr. 2009-Mar. 2010) : Net sales = slightly less than ¥200 billion / operating margin before deduction of royalties = approximately 4%; amortization related to Kanebo Cosmetics: ¥27.3billion

*4 Kanebo Cosmetics (Apr. 2010-Mar. 2011) : Net sales = slightly less than ¥200 billion / operating margin before deduction of royalties = approximately 5%; amortization related to Kanebo Cosmetics: ¥27.3billion

Sales Outlook by Segment – FY2010

<Billion yen>

Consolidated Net Sales **1,195** **+0.9%**

By Business*

Beauty Care	553	+0.9%
Human Health Care	175	-4.5%
Fabric and Home Care	280	+1.1%
Chemical	218	+4.9%

By Geography*

Japan	916	-0.3%
Asia & Oceania	153	+16.2%
North America	82	+3.5%
Europe	108	-2.8%

*Before elimination of intersegment transfers

Sales Outlook – FY2010

- Consumer Products Business in Japan -

<Billion yen>

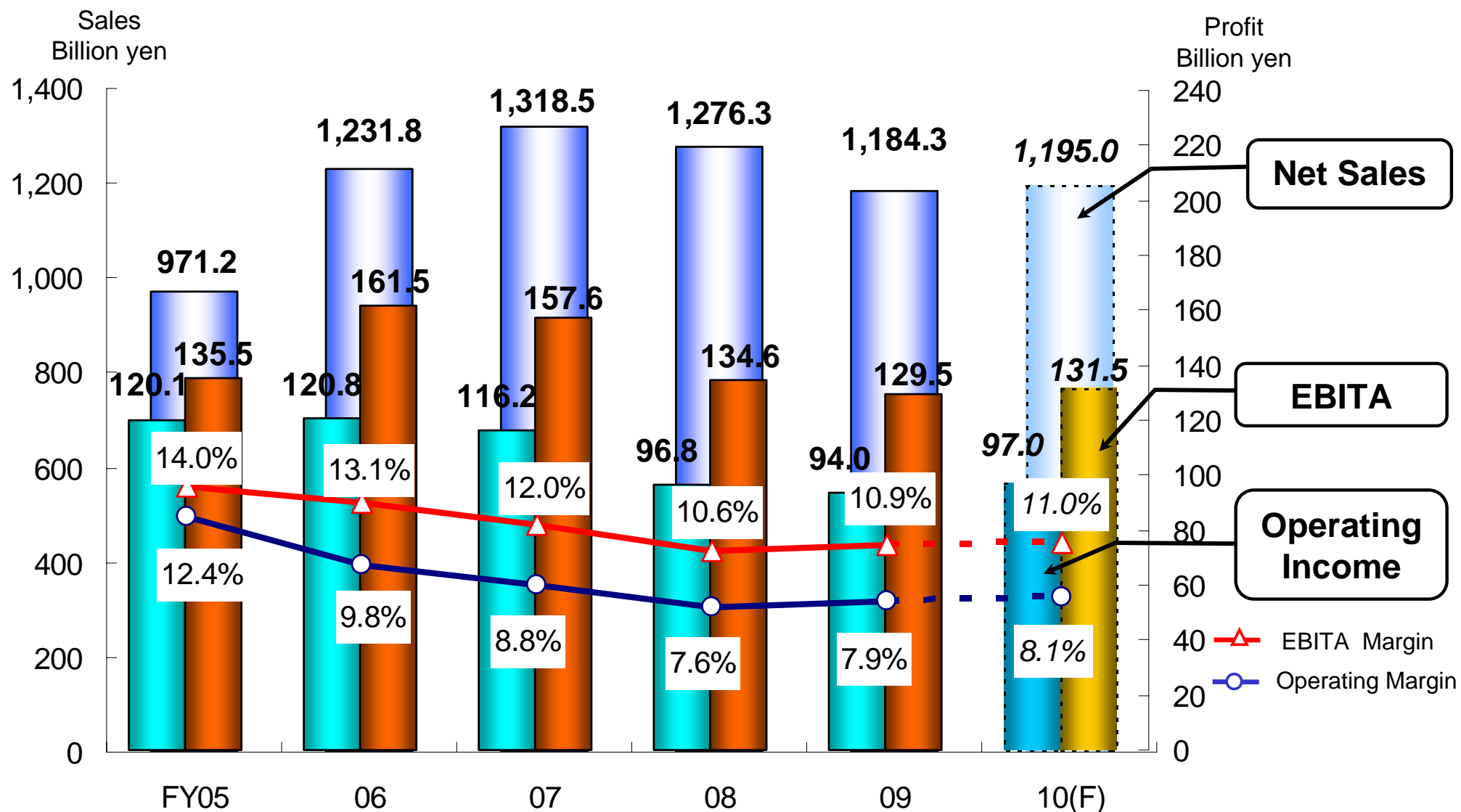
	1st Half			Full Year		
	FY2009 Actual	FY2010 Forecast	% Growth	FY2009 Actual	FY2010 Forecast	% Growth
Beauty Care	210.5	210.0	-0.3%	413.1	414.0	0.2%
Human Health Care	90.2	80.0	-11.3%	167.6	158.0	-5.7%
Fabric and Home Care	128.4	129.0	0.4%	250.6	252.0	0.5%
Consumer Products Business	429.2	419.0	-2.4%	831.4	824.0	-0.9%

FY2010 Outlook by Segment

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

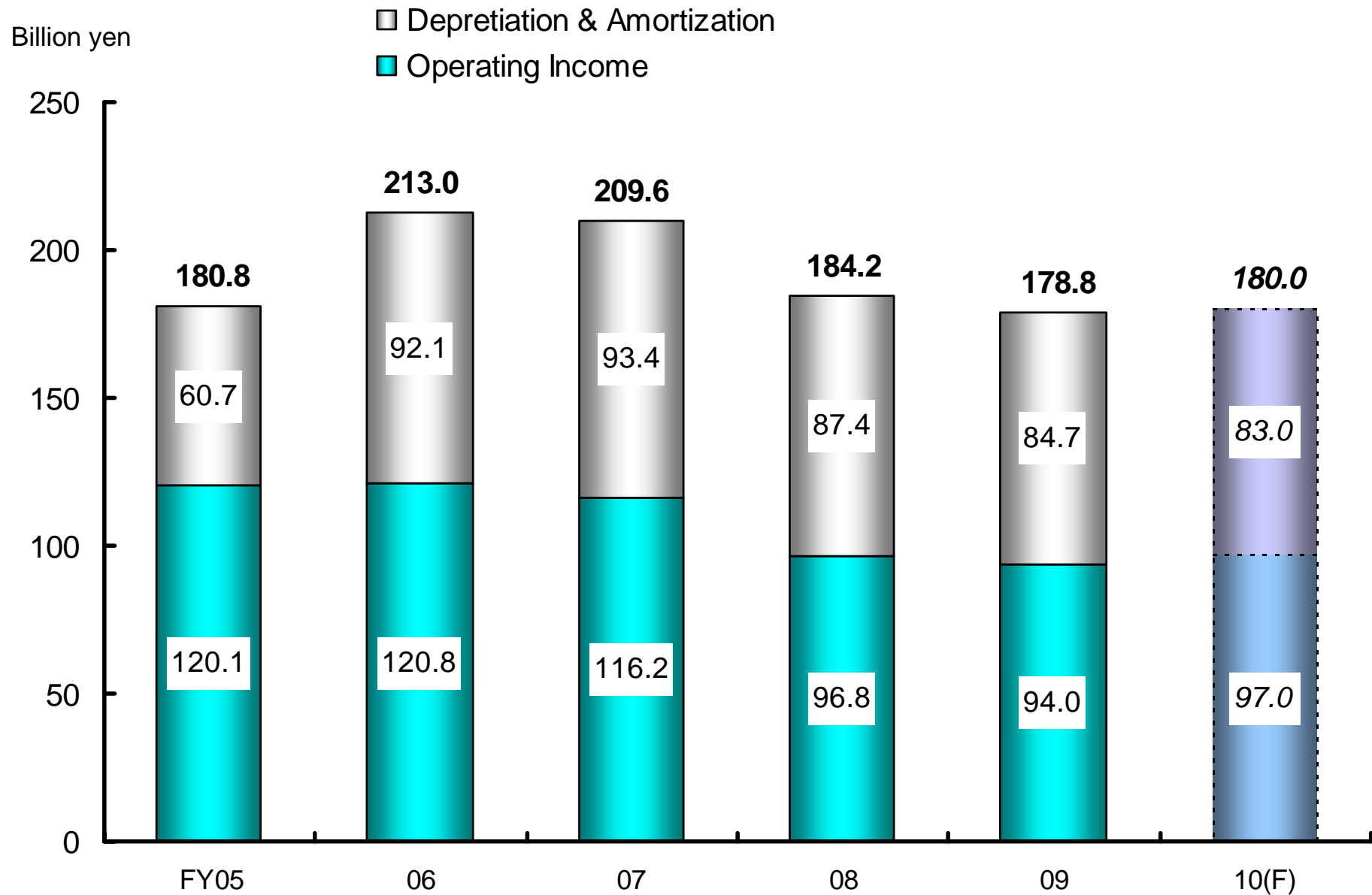
Consolidated Net Sales/EBITA*/Operating Income

[Full Year]

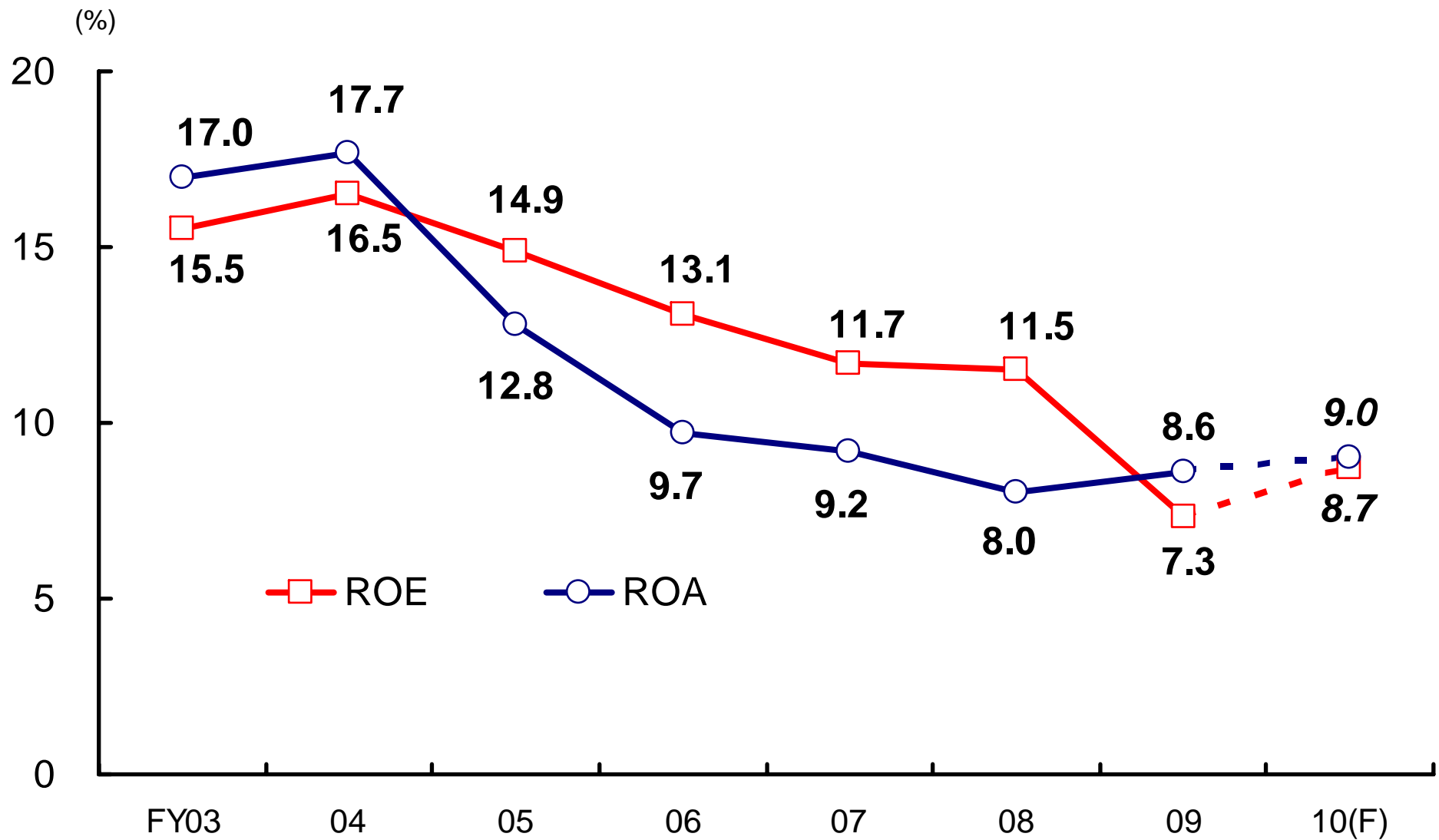


*Operating income before amortization of goodwill and intellectual property rights related to M&A

EBITDA

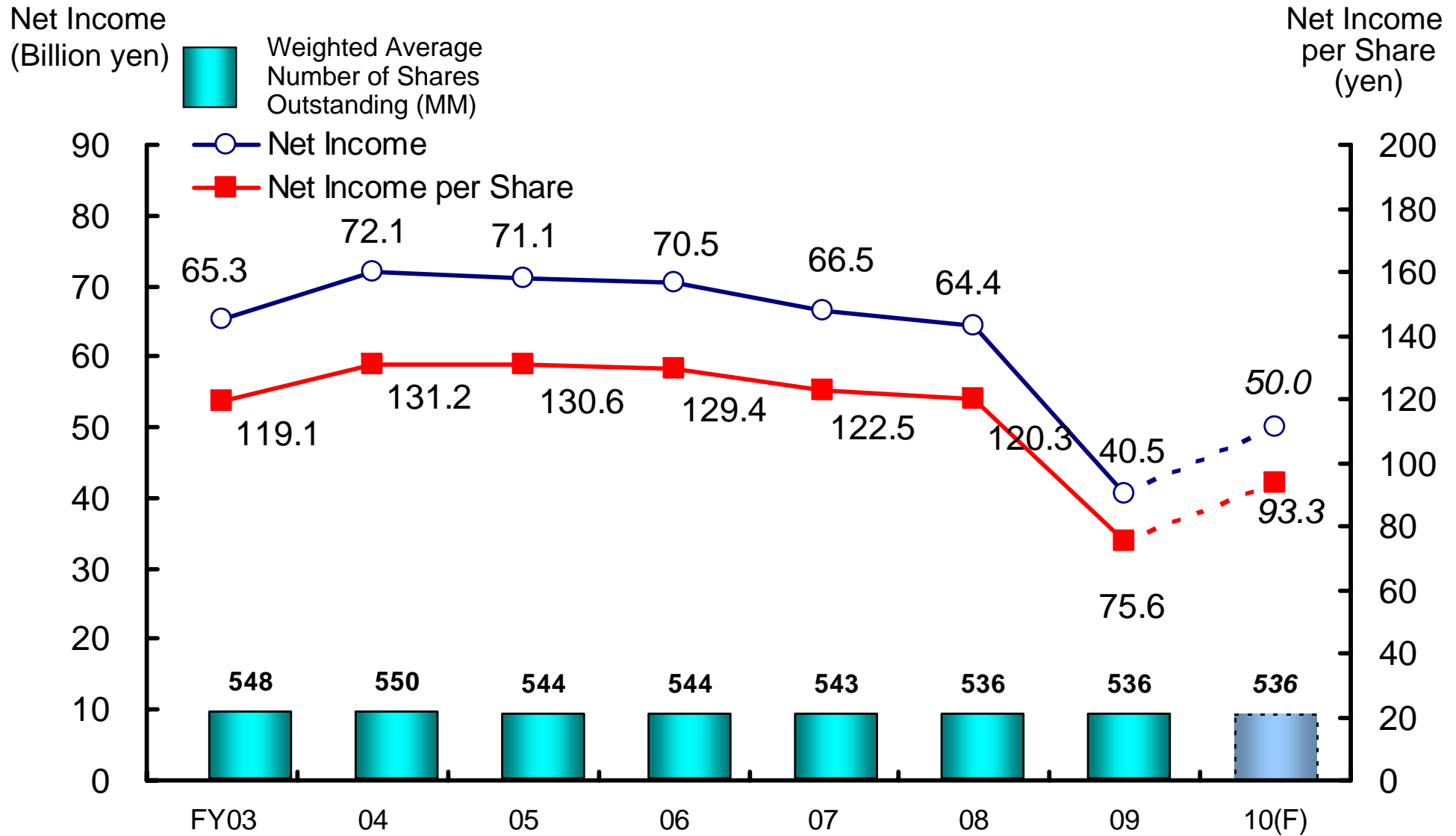


ROE & ROA

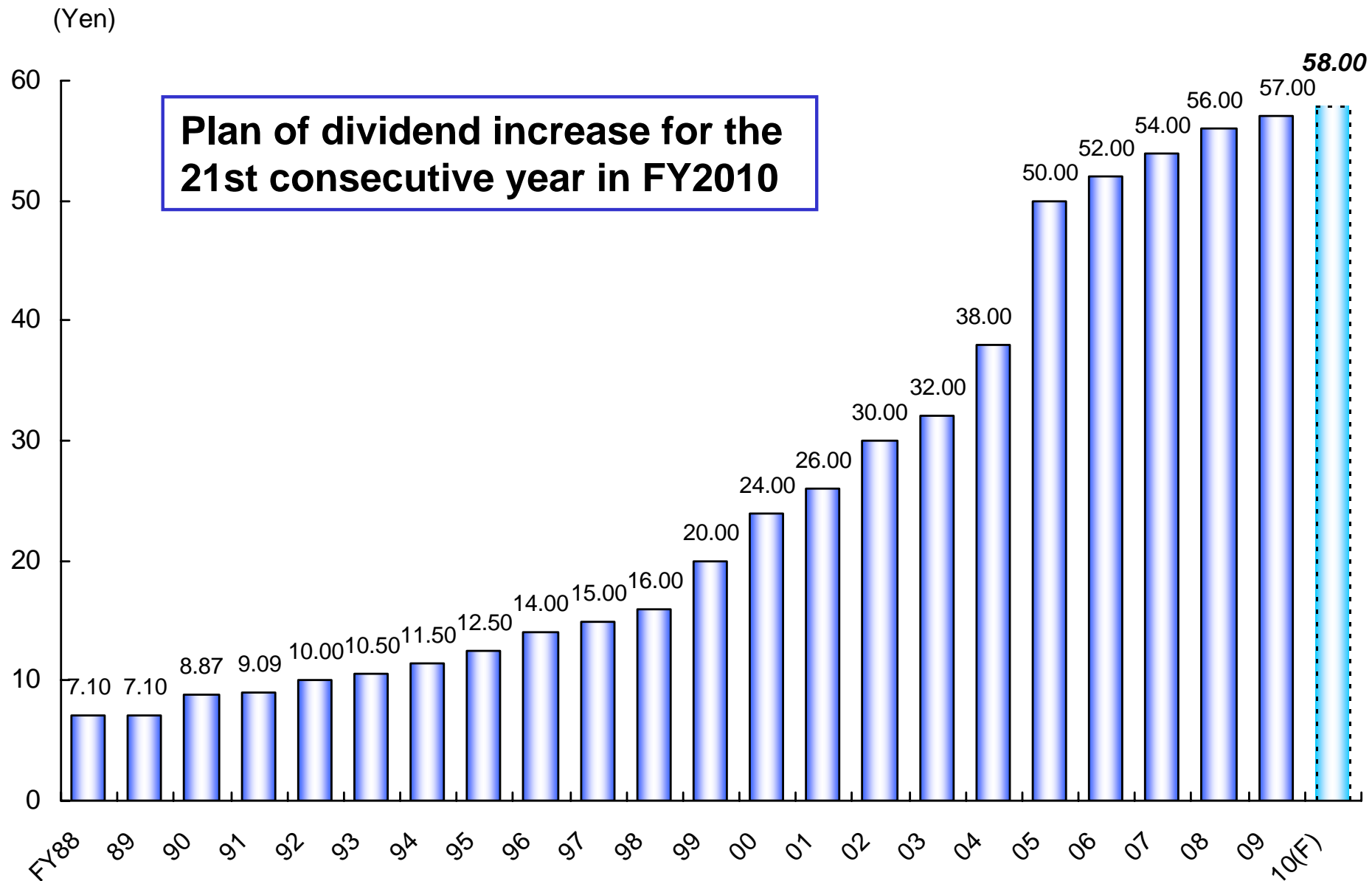


ROA: Ordinary Income / Total assets

Net Income per Share

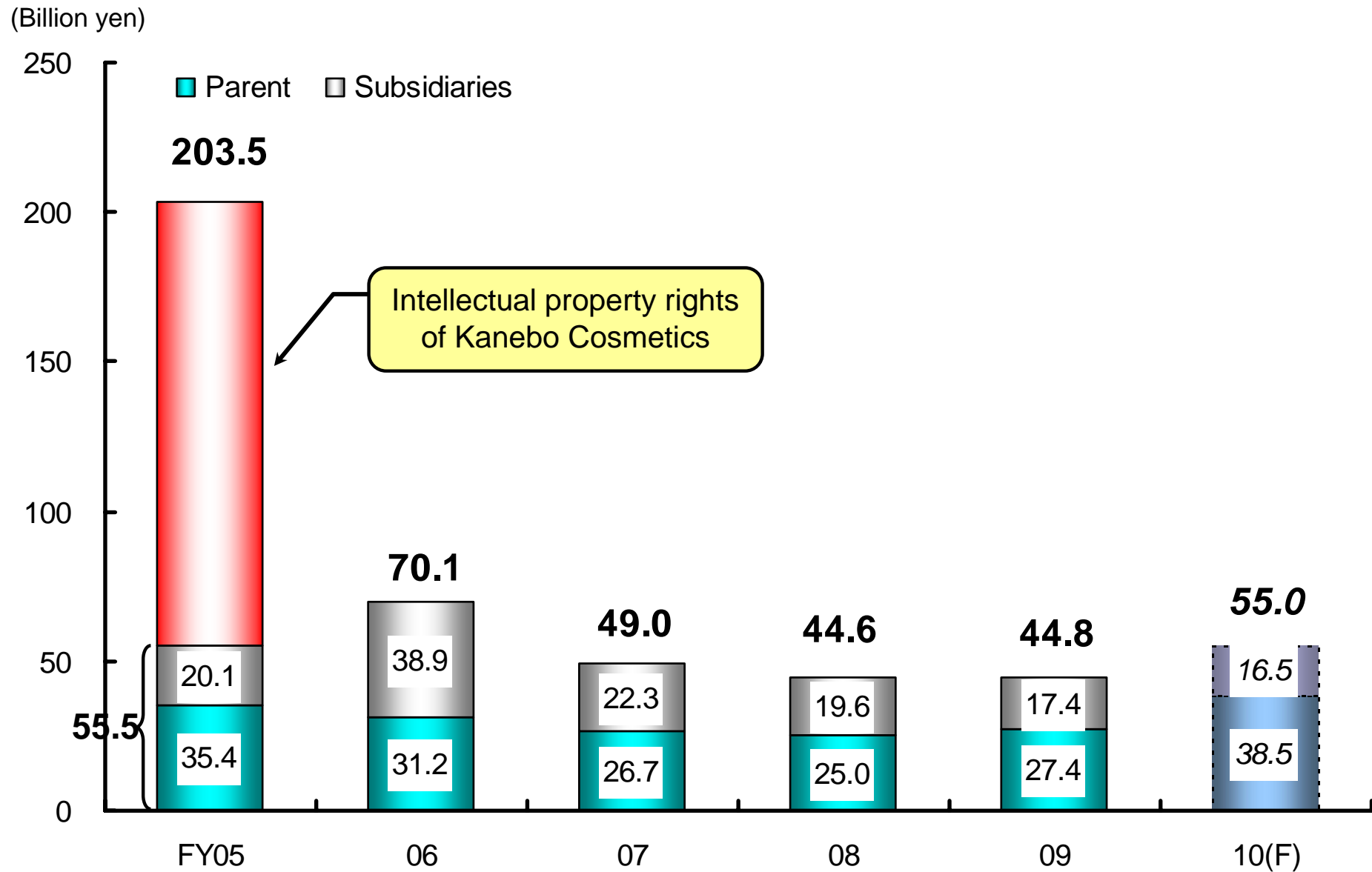


Cash Dividends per Share



*Impacts of share splits are retroactively reflected.

Capital Expenditures

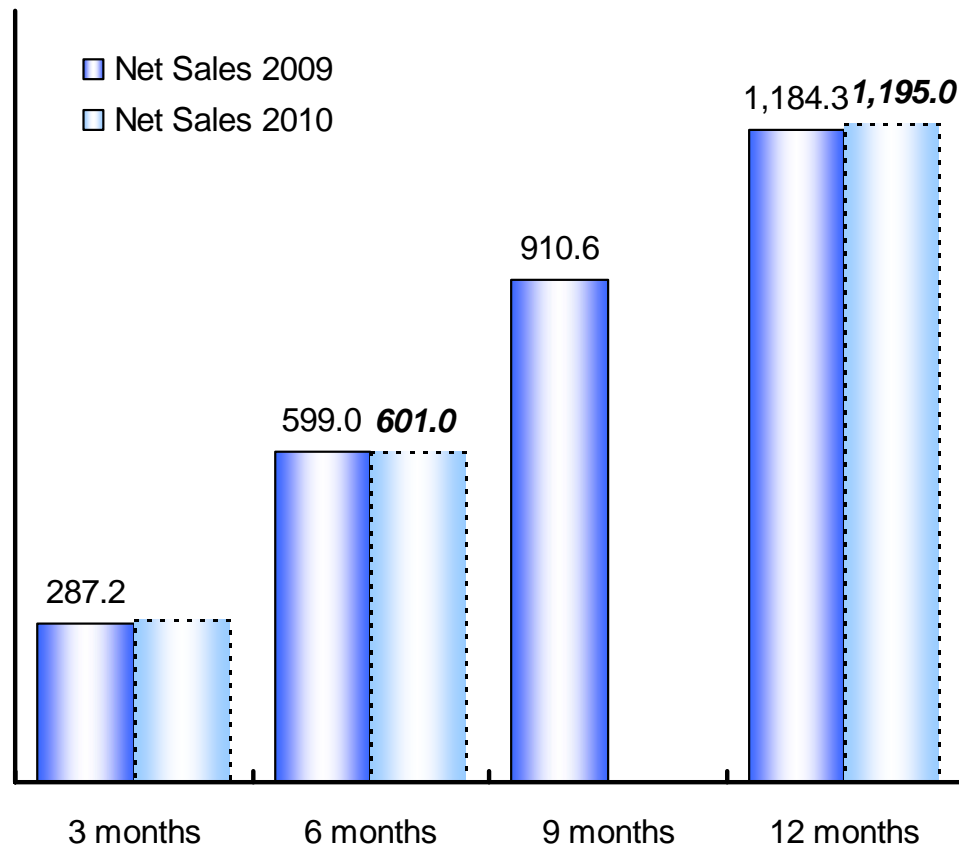


*Payment for purchase of newly consolidated subsidiaries (net of cash acquired) is not included.

FY2010 Quarterly Consolidated Sales and Profit Forecast

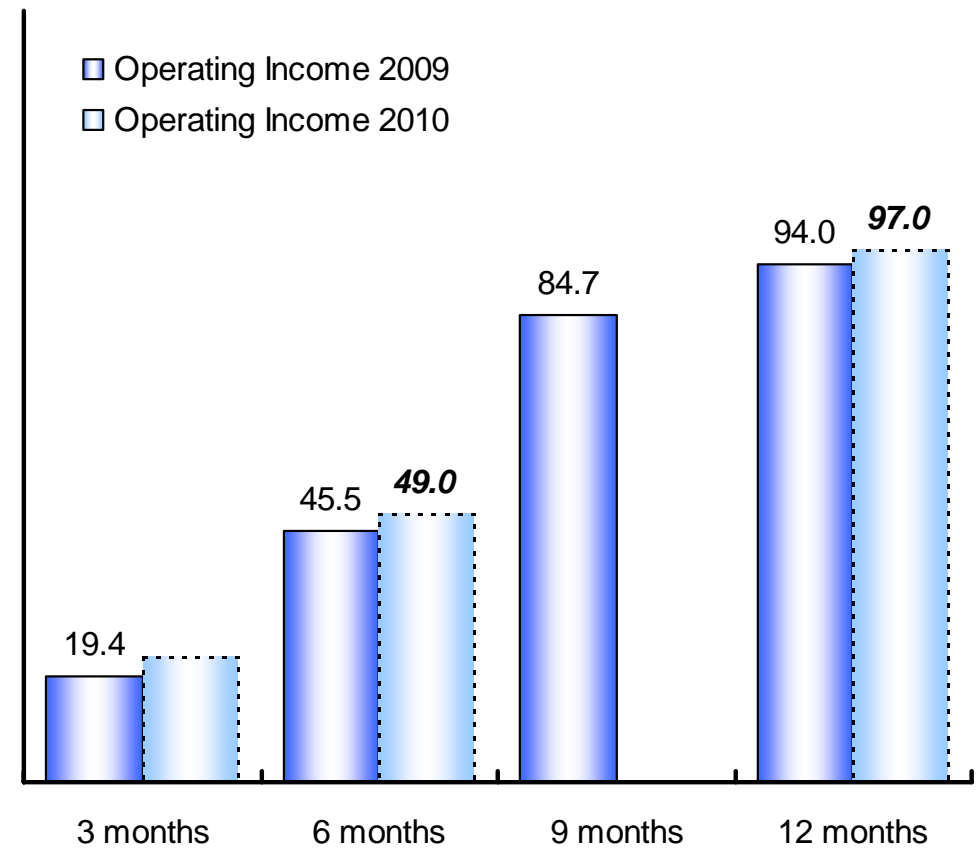
Net Sales

(Billion yen)



Operating Income

(Billion yen)



Kao