

Highlights for the 1st Half of FY2009

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Kao Corporation

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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 October 27, 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 the 1st Half of FY2009**
- ■ **Summary of FY2009 Forecast**
- ■ **Toward Further Future Growth**

Summary of the 1st Half of FY2009

Financial Overview of the 1st Half of FY2009

- *In Japan, household and personal care products performed steadily, while the performance of prestige cosmetics was poor as consumer purchasing behavior has been changing.*
- *Sales of Consumer Products in Asia and Oceania excluding the currency translation effect grew beyond our expectation.*
- *The Chemical Business was basically in line with our expectation, including a significant sales volume decline.*
- *Profits slightly exceeded the forecast.*

		<u>% of sales</u>	<u>Year-on-year</u>	<u>Versus forecast¹</u>
Net sales:	¥599.0 billion		-8.9%	-¥4.9 billion
EBITA²:	¥63.3 billion	10.6%	-14.2%	
Operating income:	¥45.5 billion	7.6%	-16.7%	+¥2.5 billion
Net income:	¥25.2 billion	4.2%	-22.1%	+¥2.2 billion
Net income per share:	¥47.08		-22.1%	+¥4.17

*1 Forecast announced on April 24, 2009

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

Consumer Products Business – 1st Half of FY2009

Household and personal care products in Japan

Steady performance as new value-added products contributed



Blauné Hair Color Foam



*Healthya Sparkling
carbonated functional
health drink*



*Attack Neo ultra-concentrated
liquid laundry detergent*



Prestige cosmetics in Japan

Poor performance, impacted by cooling consumer sentiment in Japan, inventory reductions by retailers and severe market competition

Prestige cosmetics market in Japan* -3.9%

[Apr.-Sept. 2009; year-on-year growth in value terms]

○ High-priced segment (over 5,000 yen): -6.7%

○ Mid-priced segment (2,000-5,000 yen): -5.4%

○ Low-priced segment (below 2,000 yen): +3.4%

○ Growth rate of Kao's prestige cosmetics sales in Japan: approximately -10%

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

Aiming to Build a New Business Model for Prestige Cosmetics

In the prestige cosmetics market, where consumer purchasing attitudes are changing, Kao will pursue growth globally by generating synergy throughout the entire Kao Group.

Reform of brands and product development

- Define role and positioning of brands
 - ◆ Redefine focus fields for each brand of *Kanebo* and *Kao Sofina*
 - ◆ Rebuild brand portfolio in Japan in line with market segments and nurture pan-Asian brands
- Respond to market changes
 - ◆ Reinforce the presence of *Kanebo* self-selection brands in the low-priced market, which has diversified and continues to expand
 - ◆ Offer Print Price (PP) and No Print Price (NPP)* counseling cosmetics according to consumer needs
- Enhance efficiency
 - ◆ Optimize inventory by revising SKUs and focus on further investment in selected brands

Reform of sales methods

- Make changes at drugstores
 - ◆ Enhance education on counseling for drugstore employees
 - ◆ Propose and support a range of cosmetics tailored to the characteristics of customers of each shop
- Develop new points of contact with customers
 - ◆ Establish a new communication framework using the internet and other methods
- Take measures in new sales channels
 - ◆ Develop business in new sales channels such as shops located within train stations and strengthen the mail order channel, which continues to evolve

* PP: Goods with the retail price printed on the products and package, NPP: Goods without the retail price printed on the products and package

Impact Related to *Econa* Products

As regards the safety of *Econa* and related products (*Econa* products) and diacylglycerol (DAG), a main ingredient of these products, Kao has conducted many safety tests that meet global standards. Based on such scientific assessment and objective evaluation, Kao will ensure that *Econa* products are safe as food and aims to file a new Food for Specified Health Uses (FOSHU) application for new *Econa*.

Ensure both consumer safety and security

- ➔ September 16, 2009¹
Kao temporarily refrains from selling *Econa* products to respond to consumers' concern or uneasiness due to certain information regarding the safety of glycidol fatty acid esters (GE) contained in fats and oils.
- ➔ October 8, 2009²
 - Kao will establish the measures to our DAG oil processing that will reduce the level of GE to similar levels found in most common cooking and salad oils.
 - Kao has submitted a revocation notice pertaining to FOSHU approval for current *Econa* products.
 - Kao will conduct, in earnest, research to clarify the effects of GE.
 - Immediately after all related data on products have been prepared with new processing steps, Kao will file a new FOSHU application to the Consumer Affairs Agency for new *Econa*, aiming at a new start of the brand.

Impact on FY2009 business results

1 st half	○ Total full-year impact in cost of sales and extraordinary loss:	-¥5.9 billion
2 nd half	○ Estimated sales decline related to <i>Econa</i> products:	approximately -¥10.0 billion
	➔ Efforts to reduce the expected sales decline with an increase in sales by making maximum use of <i>Econa</i> -related management resources	

1. Please refer to the news release of September 16, 2009 titled “Kao to Temporarily Refrain from Selling *Econa* Products” for details.
(URL: http://www.kao.com/jp/en/corp_news/2009/20090916_002.html)
2. Please refer to the news release of October 8, 2009 titled “Regarding Kao's Response Related to *Econa* Products” for details.
(URL: http://www.kao.com/jp/en/corp_news/2009/20091008_001.html)

Direction of Growth for Food & Beverage

For healthy lives today, in pursuit of an enriching tomorrow

Help people adopt lifelong healthy lifestyle habits enjoyably and naturally

Unique health solution business combining a support program for healthy lifestyles and functional foods to help lifestyle-related disease prevention

Health solution program in Japan

Implementation of mandatory special health examinations and specified health guidance



Healthcare Committee Inc., which has proven programs for health insurance societies

- ◆ Specified health guidance service
- ◆ Information service including food safety
- ◆ Service to help people continue to enhance quality of life by themselves



Maintenance of health



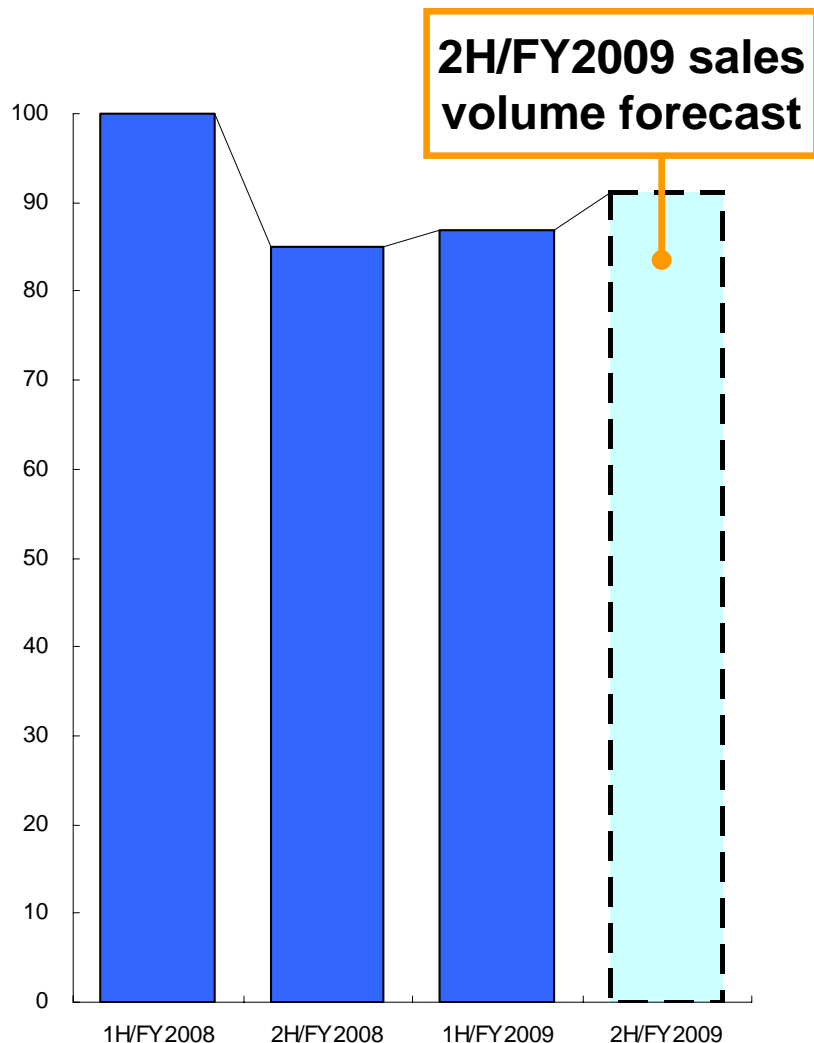
Functional foods to help lifestyle-related disease prevention

- ☐ *Healthya*: Beverage that promotes body fat utilization
- ☐ New *Econa*: Meals that prevent fat buildup
- ☐ Functional food under development

Provision of information on food safety as a manufacturer

Chemical Business – 1st Half of FY2009

Performance in the 1st half of FY2009 was in line with our expectation. The 2nd half is expected to tend towards recovery even though uncertainty persists.



Greater-than-expected recovery

Products

Polishing agents for hard disks
Plastic additives

Principal industries

Electronic materials
Consumer electronics

Recovery in line with expectation

Products

Plastic additives
Raw materials for household
and personal care products
Aroma chemicals, edible oils

Principal industries

Automobile industry
} Consumer products

Less-than-expected recovery

Products

Toner and toner binder for
copiers and printers
De-inking agents
Low temperature metal cleaner
Superplasticizers for concrete
admixtures

Principal industries

Office supply
} Paper and pulp, steel
Construction

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

Summary of FY2009 Forecast

Business Environment Impact on 2nd Half Forecast

Special factor in the 1st half of FY2009

- ☐ The household and personal care markets in Japan grew more than expected
 - Fixed cash handout
 - Favorable weather, especially in April through June

Uncertain factors in the 2nd half of FY2009

- ☐ Economic outlook
 - Although the global economy appears to have bottomed out in the January-March 2009 period, concerns about sinking into double-dip recession still remain.
- ☐ Markets where uncertainty persists
 - Prestige cosmetics market in Japan
 - Markets of global customer industries for Chemical Business
 - Beauty care market in North America and Europe
- ☐ Impact of rising trend of raw material prices

Further Enhance Cost Reduction Activities

FY2009 forecast

- ❑ **Total Cost Reduction (TCR) activities: ¥6 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

Summary of FY2009 Forecast

- *We will focus on reinforcing our foundation for profitable growth with new product launches and a review of our fixed expenses structure amid a continuing uncertain business environment.*
- *We will make efforts to absorb the impact of the sales decline in the second half due to refraining from selling Econa products by making maximum use of Econa-related management resources.*
- *We have revised our net sales and profits forecast due to the impact related to Econa products, the weak performance of prestige cosmetics and the effect of currency translation.*

		<u>% of sales</u>	<u>Year-on-year</u>
Net sales:	¥1,185.0 billion		-7.2%
EBITA*:	¥124.5 billion	10.5%	-7.5%
Operating income:	¥89.0 billion	7.5%	-8.1%
Net income:	¥41.0 billion	3.5%	-36.4%
Net income per share:	¥76.49		-36.4%
ROE:	7.3%		-420bps
<u>Shareholder returns</u>			
Cash dividends per share:	¥56		±¥0
Consolidated payout ratio:	73.2%		

* 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

*FY2009
forecast*



- *Cash dividends per share: ¥56*
- *Consolidated payout ratio: 73.2%*

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

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.

□ The shift in the center of the economy

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

□ Emergence of new consumers

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

□ Growing interest in environmental issues

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

Toward Significant Medium-to-long-term Progress

In addition to “The wholehearted satisfaction and enrichment of the lives of people,”

1. Shift to ecology-centered management

2. Accelerate growth of business globally

➔ Reinforce regions where Kao operates and strengthen focus on developing countries such as BRICs



Positioning ecology at the core of management, Kao aims to contribute to “the wholehearted satisfaction and enrichment of the lives of people globally” in the fields of cleanliness, beauty and health.

Toward Significant Medium-to-long-term Progress

Enriching lives, in harmony with nature.

New corporate message

☐ **New Corporate Identity**

- Obtain understanding of Kao's attitudes and vision as a company to acquire the broad support and deep trust of consumers and customers worldwide

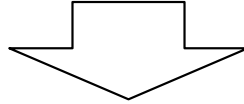
☐ **Environmental Statement**

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

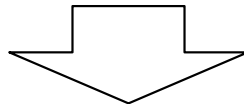


Kao Environmental Statement: eco together

- ❑ Kao products are designed for everyday use in homes



- ❑ Proposals that make it easy for customers to live environmentally responsible lifestyles when they use Kao products



- ❑ Proposals that engage in “eco together” with stakeholders from the viewpoint of life cycle assessment (LCA), from materials procurement and manufacturing, to distribution, sales, use, and final disposal



‘eco together’ in Action

Kao Environmental Statement

‘eco together’ in Action

☐ With consumers/customers

Developing eco-friendly, resource-conserving products that make it easy for customers to live environmentally responsible lifestyles.

- Development of water- and energy-conserving products
- Development of refillable and reusable resource-conserving packaging and products
- Development of compact and concentrated resource-conserving packaging and products

☐ With business partners

Engaging in environmentally responsible materials procurement, manufacturing, distribution, and sales with our business partners.

- Use of recyclable PET resins in bottles and packaging
- Improved distribution efficiency (reductions in delivery frequency and packaging material)
- Accelerated conversion to plant-based and other renewable raw material sources

☐ With society

Becoming proactively involved in society-wide environmental activities.

- Support for environmental conservation activities (greening activities)
- Participation in environmental activities conducted by government, industry, and other groups

Kao Environmental Statement

2020 Medium-term Objectives

CO₂:

Consumer products: **35%** reduction

(across product lifecycle, per unit sales in Japan, relative to FY2005)

Water:

Water consumption during product use: **30%** reduction

(per unit sales in Japan, relative to FY2005)

Chemical substances:

Active implementation of the Strategic Approach to International Chemicals Management (SAICM) to promote sound chemical management

Biodiversity:

Implementation of measures to protect biodiversity through responsible raw materials procurement and other measures

- With regard to commercial/industrial products, CO₂ reduction and resource conservation measures will be undertaken jointly with customers.
- Medium-term objectives represent a first step in ongoing environmental activities that will continue to be expanded in the future.

Environmental
communication logo



First Product to Embody “eco together”



Launch of ultra-concentrated liquid laundry detergent Attack Neo, developed with world-first¹ proprietary technology

Formulated with Aqua W (Double) Riser

- The world's first¹ 2.5 times² ultra-concentrate
- A small amount provides superb cleaning performance
- After a single rinse, negligible detergent residue remains

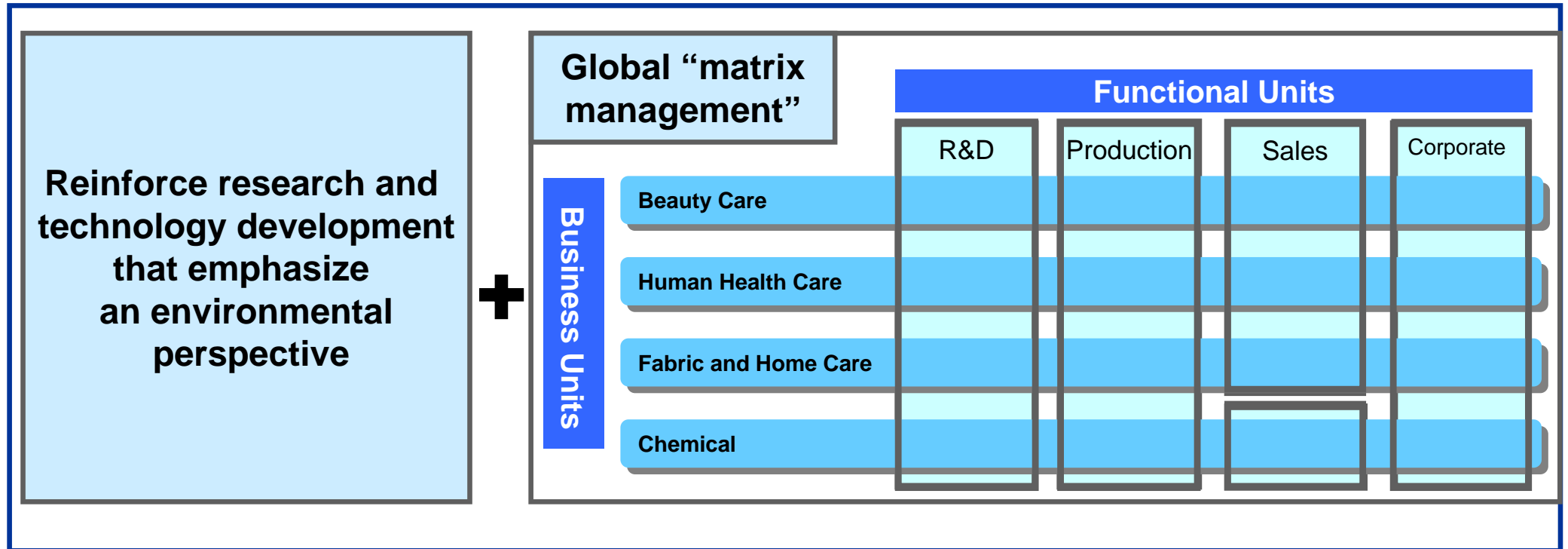


- ❑ **Save water and electricity and shorten laundering time**
 - Ecology
 - Economy
 - Reduce household chores

- ❑ **Light and compact**
 - Easy to carry
 - Small storage space

1. Result of investigating the MINTeL database on a liquid laundry detergent under conditions where surfactant concentration is above 65 percent, and transparency is maintained without solidification at the low temperature of minus 5 degrees Celsius. (Kao survey, conducted in June 2009)
2. Ratio comparing to Kao's conventional liquid detergent

Accelerate Growth of Business Globally



- Realize global “matrix management” between businesses and functions
 - ◆ Commence integrated operation of global beauty care business in 2010
- Strengthen focus on developing countries such as BRICs

Appendices

Business Segments and Main Product Categories

Consumer Products
Business

Beauty Care

1H/FY2009 sales: ¥275.6 billion

[-8.1% year-on-year / Share of net sales: 46.0%]

Beauty salon products
Prestige cosmetics
Premium skin care
Premium hair care



Consumer
driven

Human Health Care

1H/FY2009 sales: ¥97.9 billion

[+0.3% year-on-year / Share of net sales: 16.4%]

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

1H/FY2009 sales: ¥141.0 billion

[+1.5% year-on-year / Share of net sales: 23.5%]

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



Chemical

1H/FY2009 sales: ¥100.6 billion

[-28.6% year-on-year / Share of net sales: 14.1%]

Oleo chemicals
Performance chemicals
Specialty chemicals



Chemical Business

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

1st Half of FY2009 Breakdown of Beauty Care Business

		Billion yen	Increase (Decrease)*
Beauty Care	Net sales	275.6	(8.1%)
	Operating income**	1.1	(8.3)
	Operating margin	0.4%	(280bps)
Prestige Cosmetics	Net sales	130.7	(11.0%)
	Operating income**	(17.0)	(8.2)
	Operating margin	(13.0%)	(700bps)
Premium mass products and professional hair care products	Net sales	144.9	(5.4%)
	Operating income**	18.1	(0.1)
	Operating margin	12.5%	+60bps

Kanebo Cosmetics

- Net sales:
Approx. ¥100 billion
- EBITA as a % of sales*** :
Approx. 2%

* 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
(Total amount of ¥17.6 billion in Beauty Care)

*** Operating income ratio before deduction of royalties

Kao's Current Skin Care and Makeup Brand Portfolio in Japan

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

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 October 27, 2009)

CSR: Corporate Social Responsibility
SRI: Socially Responsible Investment

