

Semi-Annual Financial Review

From April 1, 2009 to September 30, 2009

Kao Corporation

October 27, 2009

This is a translation of materials used for the analyst meeting held in Japan on October 27, 2009.



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

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

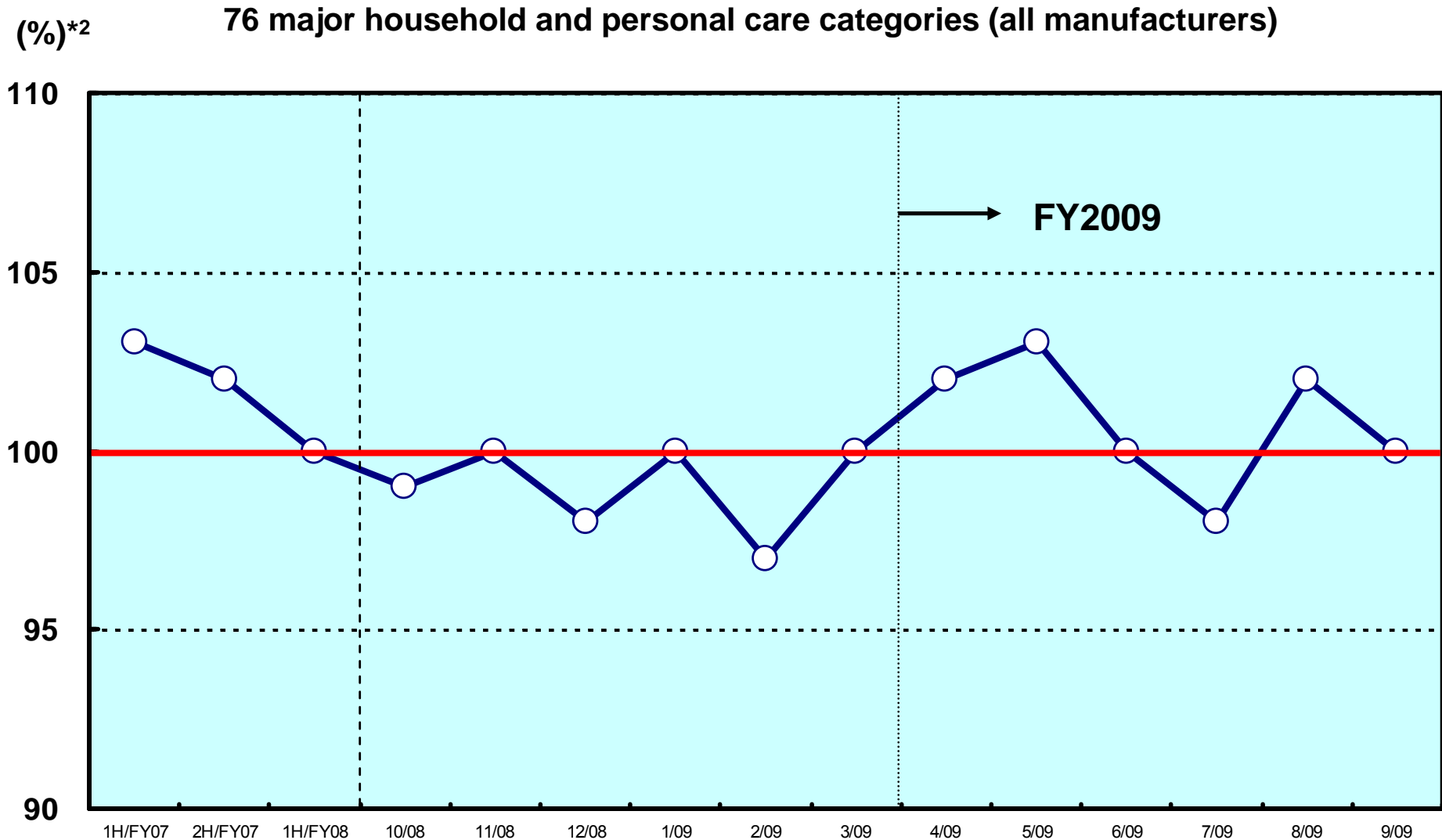
These presentation materials contain forward-looking statements that are based on management's estimates, assumptions and projections as of October 27, 2009. Certain factors, which include, but are not limited to, the risks and uncertainty associated with the worldwide economy, competitive activity, 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.

1. Business Environment

April 1, 2009 – September 30, 2009

Consumer Products*1 Market in Japan



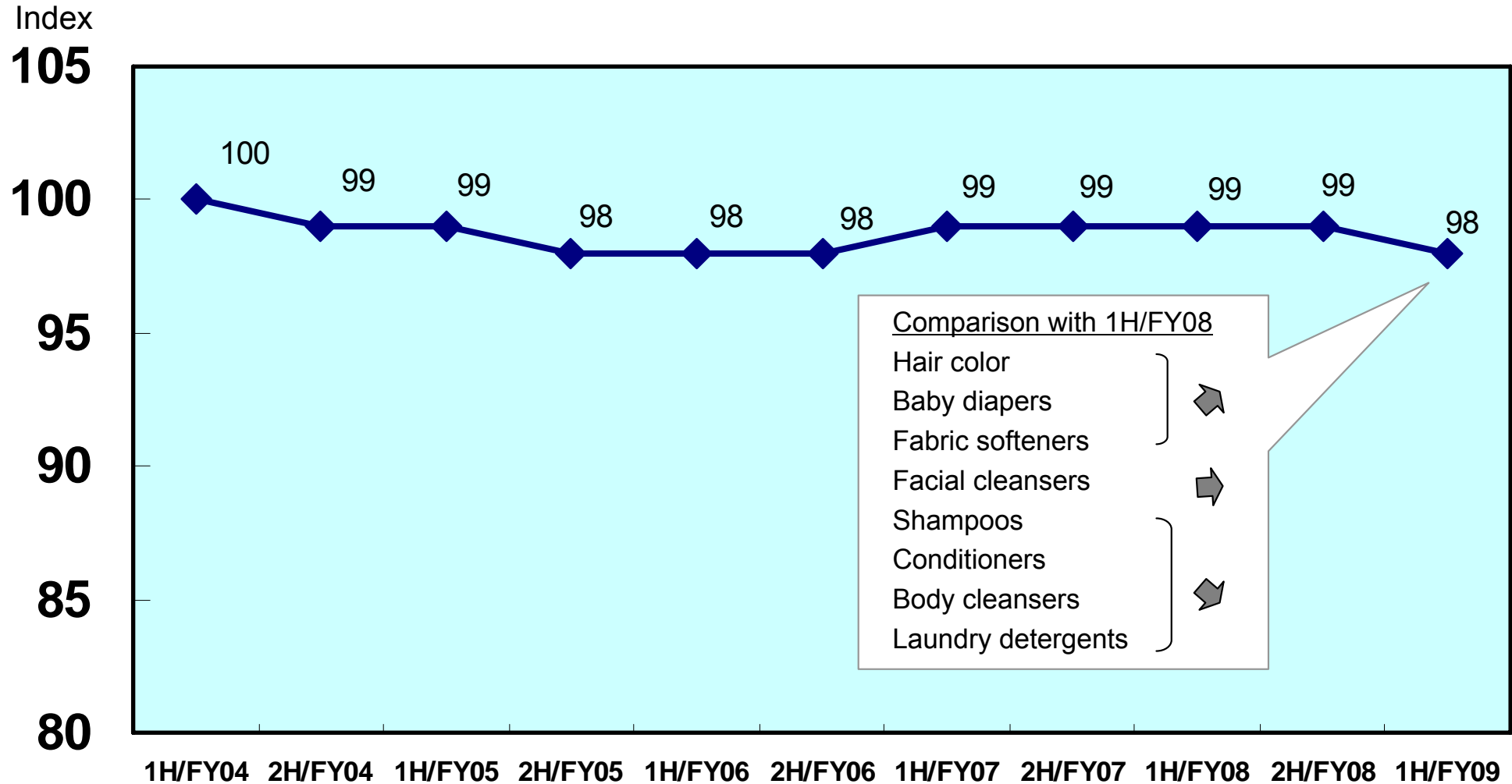
*1 Consumer products do not include prestige cosmetics.

*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 – September 30, 2009

Key Points in 1H/FY2009

Japan sales related

1. Consumer purchase price of Kao's 15 major household and personal care categories in Japan*1 : +2% year-on-year (consumer purchase price of the market: -1% year-on-year)
2. Contribution of new products in Consumer Products Business*2 in Japan: 10%

Income statements related

1. Net sales:	¥599.0 billion	(-8.9% year-on-year)
- Effect of currency translation:	-¥25.6 billion	(-3.9% year-on-year)
- Like-for-like sales growth:	-¥33.2 billion	(-5.0% year-on-year)
2. Decrease in operating income*3:	-¥9.1 billion	
3. Expenses related to <i>Econa</i> products*4:		
- Cost of sales*5	-¥2.5 billion	
- Extraordinary loss	-¥3.4 billion	

Cash flow related

1. Free cash flow*6	¥91.3 billion
2. Payments of cash dividends*7:	¥15.0 billion
3. Repayment a portion of long-term debt:	¥39.6 billion

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

*2 Excludes prestige cosmetics

*3 Please refer to slide 12 for details

*4 Please refer to slide 9 of "Highlights for the 1st Half of FY2009" for details

*5 This amount is included in the above mentioned "Decrease in operating income (-¥9.1 billion)"

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

*7 Includes payments of cash dividends to minority shareholders

1H/FY2009 Consolidated Results

Billion yen	<u>1H/FY07</u>	<u>1H/FY08</u>	<u>1H/FY09</u>	Growth	Changes
Net Sales	654.4	657.9	599.0	-8.9%	-58.8
EBITA*	76.2	73.7	63.3	-14.2%	-10.4
<i>EBITA* Margin</i>	11.6%	11.2%	10.6%		
Operating Income	55.5	54.7	45.5	-16.7%	-9.1
<i>Operating Margin</i>	8.5%	8.3%	7.6%		
Ordinary Income	55.0	54.9	45.8	-16.6%	-9.1
Net Income	29.3	32.3	25.2	-22.1%	-7.1
EBITDA	100.9	98.0	87.0	-11.3%	-11.0
EPS (yen)	53.77	60.42	47.08	-22.1%	-13.34

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

Consolidated Net Sales [1]

	1H/FY2008		1H/FY2009		
	Billion yen	% Growth	Billion yen	%	
				Growth	Like-for-like*
Beauty Care Business	221.6	-1.2	210.5	-5.0	-5.0
Human Health Care Business	89.0	2.8	90.2	1.3	1.3
Fabric and Home Care Business	124.0	0.8	128.4	3.6	3.6
Japan Total	434.7	0.2	429.2	-1.3	-1.3
Asia & Oceania	42.7	1.5	38.1	-10.7	4.8
North America & Europe	68.2	-10.6	55.2	-19.0	-5.2
Elimination	-8.9	-	-7.8	-	-
Consumer Products Business	536.7	-1.4	514.7	-4.1	-1.2

*Like-for-like: excludes currency translation impact

Consolidated Net Sales [2]

	1H/FY2008		1H/FY2009		
	Billion yen	% Growth	Billion yen	%	
				Growth	Like-for-like*
Japan	69.9	13.2	55.9	-20.0	-20.0
Asia	42.8	26.1	24.4	-43.0	-34.0
North America & Europe	53.7	8.4	34.8	-35.2	-19.2
Elimination	-25.5	-	-14.5	-	-
Chemical Business	140.9	11.4	100.6	-28.6	-21.2
Elimination	-19.8	-	-16.3	-	-
Consolidated Sales	657.9	0.5	599.0	-8.9	-5.0

*Like-for-like: excludes currency translation impact

Consolidated Income Statements

	1H/FY2008		1H/FY2009		Changes ^{*1}
	Billion yen	%	Billion yen	%	Billion yen
Net Sales	657.9	100.0	599.0	100.0	-58.8
Cost of Sales	286.3	43.5	251.1	41.9	-35.1
Gross Profit	371.5	56.5	347.8	58.1	-23.6
SG&A Expenses ^{*2}	316.8	48.2	302.3	50.5	-14.5
Operating Income	54.7	8.3	45.5	7.6	-9.1
Non-operating Income/Expenses	0.2	0.1	0.2	0.0	0.0
Ordinary Income	54.9	8.4	45.8	7.7	-9.1
Extraordinary Gain & Loss	-1.2	-0.2	-5.2	-0.9	-4.0
Income Before Taxes	53.7	8.2	40.5	6.8	-13.1
Income Taxes	20.7	3.2	15.0	2.5	-5.6
Minority Interests & Others (Minus)	0.6	0.1	0.2	0.0	-0.3
Net Income	32.3	4.9	25.2	4.2	-7.1

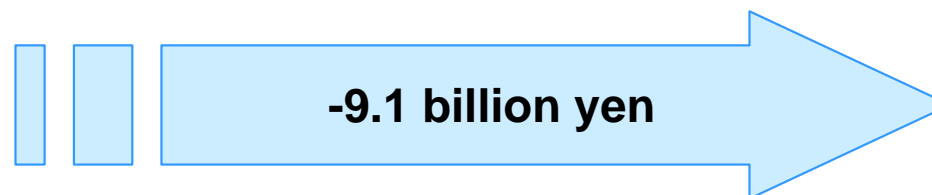
*1 Changes = 1H/FY2009 – 1H/FY2008

*2 Amortization related to Kanebo Cosmetics

1H/FY2008: 13.6 billion yen, 1H/FY2009: 13.6 billion yen

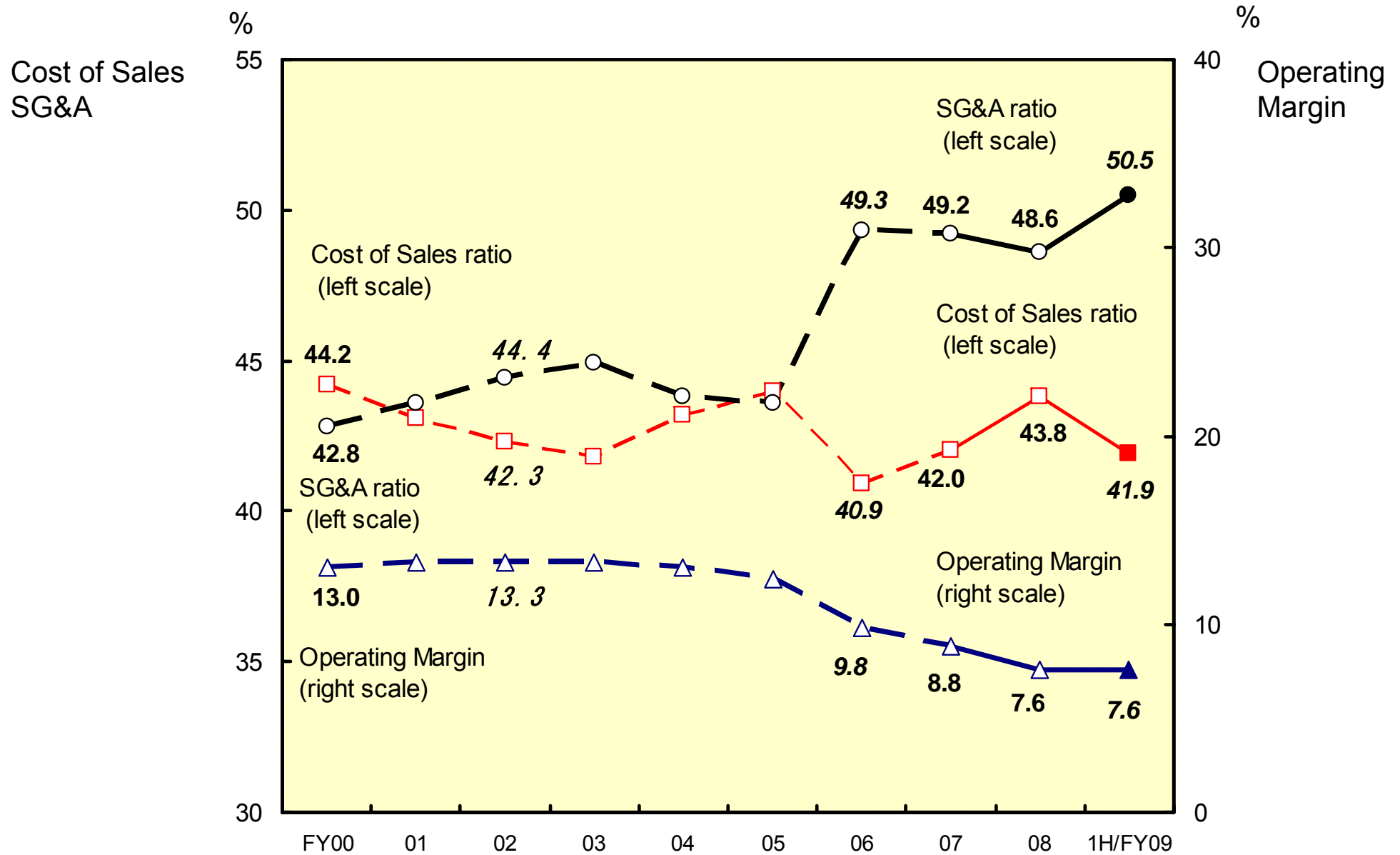
1H/FY2009 Operating Income Analysis

Comparison with 1H/FY2008



1H/FY2008 Operating Income 54.7 billion yen			1H/FY2009 Operating Income 45.5 billion yen
	-29.5 billion yen	Decrease in sales volume	
	+10.0 billion yen	Net impact of lower raw material prices	
	+3.0 billion yen	Total Cost Reduction (TCR)	
	-2.5 billion yen	Expenses related to Econa products (cost of sales)	
	+14.5 billion yen	Decrease in SG&A expenses	
	-4.6 billion yen	Product mix and others	

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/FY2008	1H/FY2009	Changes*
Total SG&A Expenses	316.8	302.3	-14.5

Freight/Warehouse	37.9	36.2	-1.7
Advertising	47.3	46.2	-1.1
Sales Promotion	35.7	33.1	-2.5
Salaries and Bonuses	64.9	61.4	-3.4
R&D	23.0	22.5	-0.4

* Changes = 1H/FY2009 – 1H/FY2008

Effect of currency translation on SG&A expenses: -9.9 billion yen

Non-operating Income/Expenses and Extraordinary Gain/Loss

(Billion yen)

Non-operating Income/Expenses	1H/FY2008	1H/FY2009	Changes*
Non-operating Income	4.0	3.0	-0.9
Interest Income	1.2	0.5	
Dividend Income	0.1	0.0	
Equity in Earnings of Nonconsolidated Subsidiaries and Affiliates	0.7	1.1	
Other	1.9	1.3	
Non-operating Expenses	3.8	2.8	-1.0
Interest Expense	3.0	2.2	
Foreign Currency Exchange Loss	0.2	0.1	
Other	0.4	0.3	

Extraordinary Gain/Loss	1H/FY2008	1H/FY2009	Changes*
Extraordinary Gain	0.3	0.1	-0.2
Gain on Sales of Fixed Assets	0.0	0.0	
Reversal of allowance for doubtful receivables	0.2	-	
Other	0.0	0.0	
Extraordinary Loss	1.6	5.3	+3.7
Loss on Sales/Disposals of Fixed Assets	0.7	1.4	
Loss on Impairment of Long-lived Assets	0.5	0.4	
Loss Related to Cooking Oils	-	3.4	
Other	0.3	0.0	

* Changes = 1H/FY2009 – 1H/FY2008

Sales and Operating Income by Business

		1H/FY2008		1H/FY2009		Changes Billion yen	Growth %
		Billion yen	% to net sales	Billion yen	% to net sales		
Beauty Care Business	Net sales ^{*1}	300.1	-	275.6	-	-24.4	-8.1%
	EBITA ^{*2}	28.3	9.5%	18.7	6.8%	-9.5	-33.8%
	Operating Income	9.4	3.2%	1.1	0.4%	-8.3	-88.0%
Human Health Care Business	Net sales ^{*1}	97.6	-	97.9	-	+0.3	+0.3%
	Operating Income	7.0	7.2%	4.5	4.7%	-2.4	-34.6%
Fabric & Home Care Business	Net sales ^{*1}	138.9	-	141.0	-	+2.0	+1.5%
	Operating Income	26.2	18.9%	31.7	22.5%	+5.5	+21.0%
Chemical Business	Net sales ^{*1}	140.9	-	100.6	-	-40.2	-28.6%
	EBITA ^{*2}	12.1	8.6%	8.1	8.1%	-3.9	-32.6%
	Operating Income	11.9	8.5%	8.0	8.0%	-3.9	-32.7%
Consolidated	Net sales	657.9	-	599.0	-	-58.8	-8.9%
	EBITA ^{*2}	73.7	11.2%	63.3	10.6%	-10.4	-14.2%
	Operating Income	54.7	8.3%	45.5	7.6%	-9.1	-16.7%

*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

* Eliminations/Corporate column is omitted.

Sales and Operating Income by Geography

		1H/FY2008		1H/FY2009		Changes Billion yen	Growth %
		Billion yen	% to net sales	Billion yen	% to net sales		
Japan	Net sales ^{*1}	487.8	-	470.5	-	-17.2	-3.5%
	EBITA ^{*2}	63.1	12.9%	58.0	12.3%	-5.1	-8.1%
	Operating Income	46.4	9.5%	41.4	8.8%	-5.0	-10.8%
Asia and Oceania	Net sales ^{*1}	84.4	-	61.9	-	-22.4	-26.6%
	Operating Income	2.6	3.1%	0.7	1.2%	-1.8	-70.6%
North America	Net sales ^{*1}	51.8	-	40.2	-	-11.6	-22.5%
	EBITA ^{*2}	3.0	6.0%	1.0	2.6%	-2.0	-65.8%
	Operating Income	2.6	5.0%	0.6	1.5%	-1.9	-76.4%
Europe	Net sales ^{*1}	75.6	-	52.8	-	-22.7	-30.1%
	EBITA ^{*2}	4.8	6.4%	2.5	4.8%	-2.3	-47.8%
	Operating Income	2.9	4.0%	1.8	3.5%	-1.1	-38.8%
Consolidated	Net sales	657.9	-	599.0	-	-58.8	-8.9%
	EBITA ^{*2}	73.7	11.2%	63.3	10.6%	-10.4	-14.2%
	Operating Income	54.7	8.3%	45.5	7.6%	-9.1	-16.7%

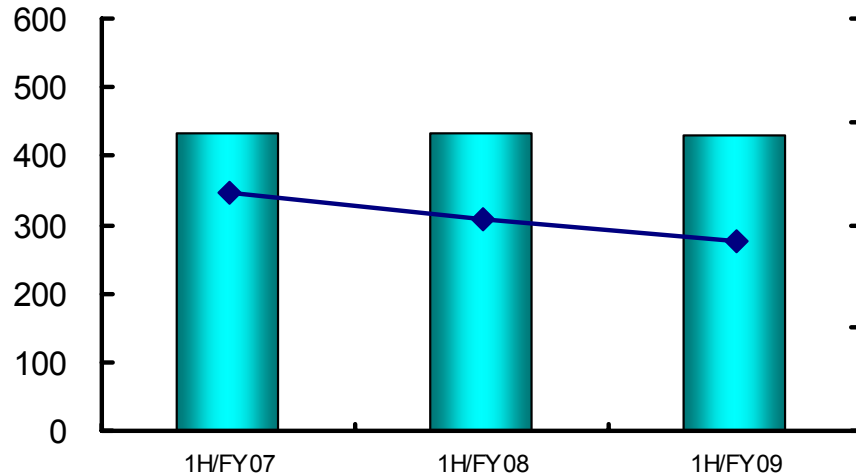
*1 Before elimination of intersegment transfers

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

Consumer Products Business by Geography

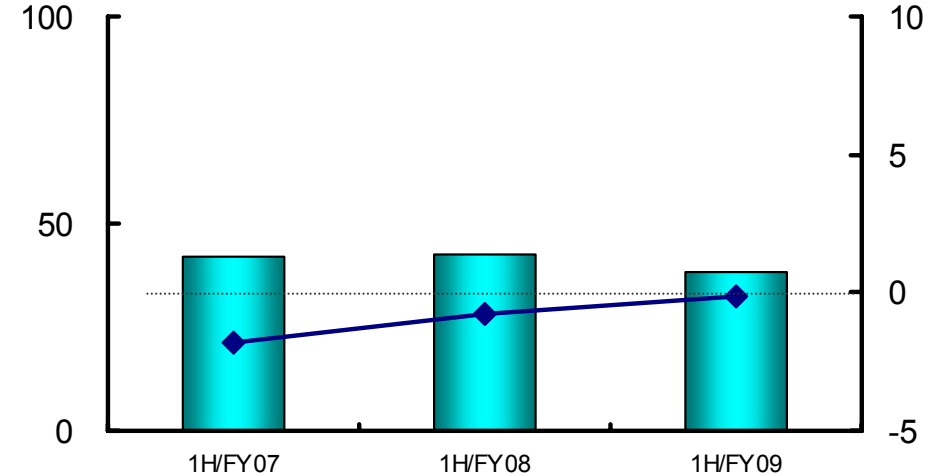
Japan

Sales (Billion yen)

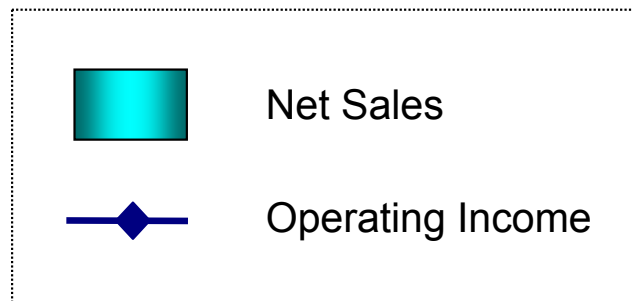
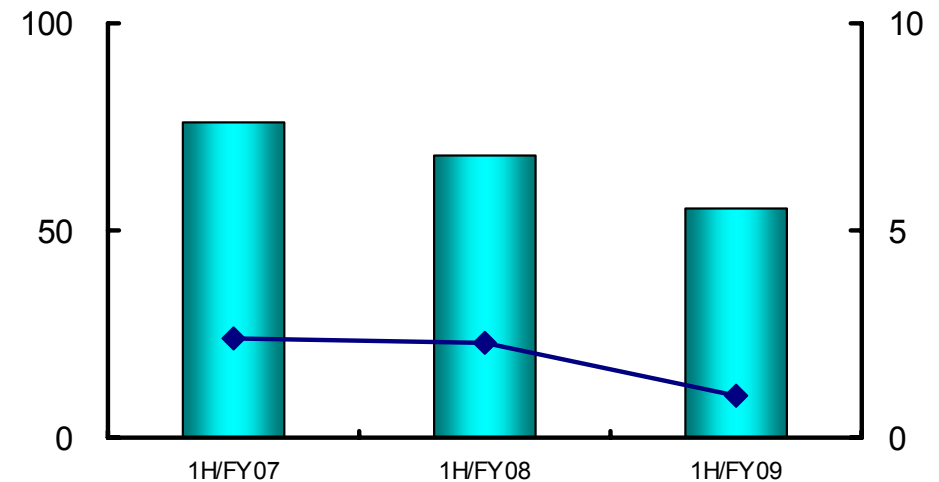


Operating Income (Billion yen)

Asia and Oceania



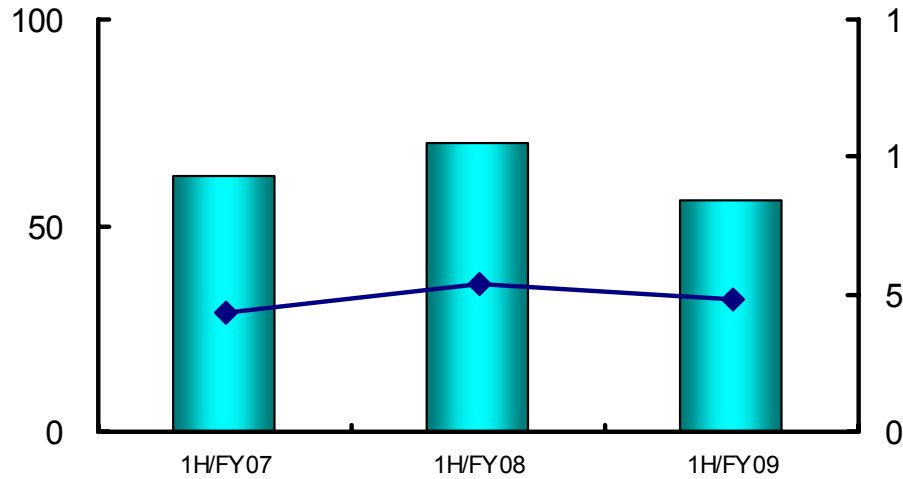
North America & Europe



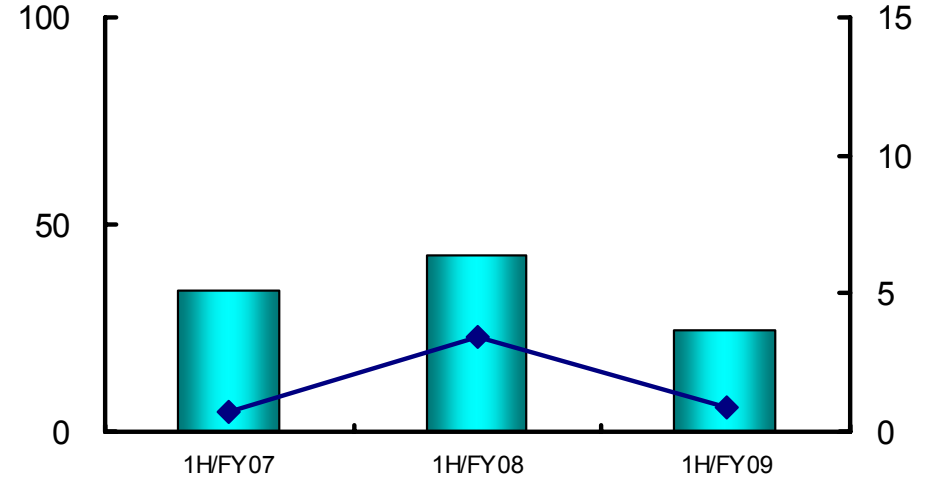
Chemical Business by Geography

Japan

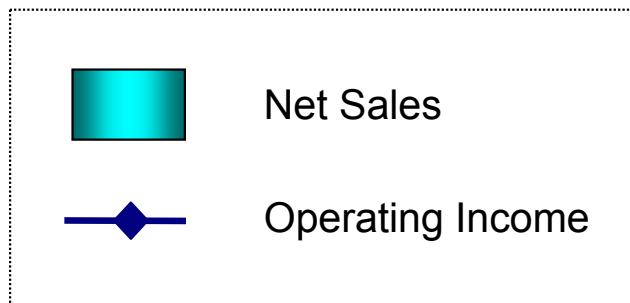
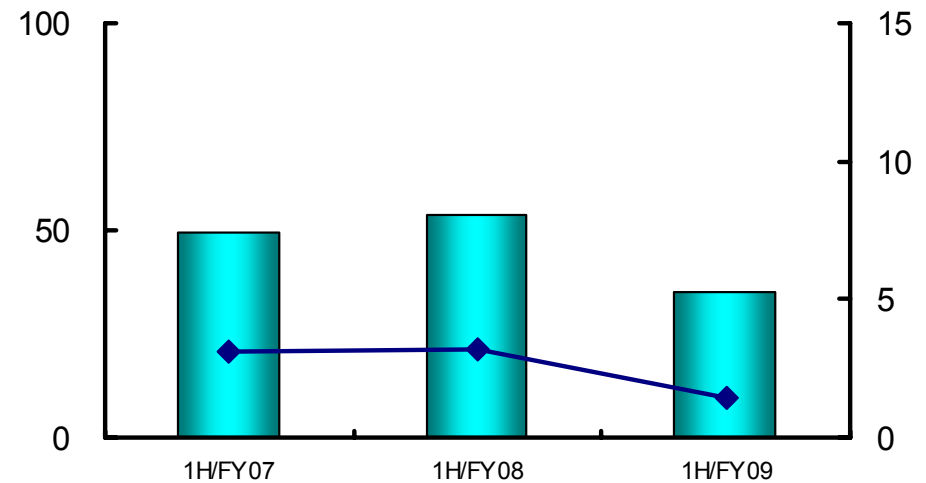
Sales (Billion yen)



Asia



North America & Europe



Consolidated Balance Sheets

(Billion yen)

	Mar/09	Sep/09	Changes*		Mar/09	Sep/09	Changes*
Current Assets	403.8	429.2	25.4	Current Liabilities	270.7	296.2	25.4
Cash and Bank Deposits	53.8	85.0	31.2	Notes and Accounts Payable - Trade	95.0	108.0	13.0
Notes and Accounts Receivable - Trade	126.5	124.8	-1.7	Short-term Debt (incl. Current Portion of Long-term Debt)	38.5	33.0	-5.5
Short-term Investments	54.7	56.4	1.7	Accrued Income Taxes	13.2	20.9	7.7
Inventories	118.0	110.1	-7.9	Others	123.8	134.1	10.2
Others	50.6	52.7	2.0				
Fixed Assets	715.8	700.2	-15.5	Long-term Liabilities	294.7	252.0	-42.6
Tangible Assets	257.4	256.2	-1.2	Straight Bond/Long-term Debt	236.8	197.3	-39.5
Intangible Assets	348.4	333.2	-15.1	Others	57.8	54.7	-3.1
Investments	109.9	110.7	0.8	Total Liabilities	565.4	548.3	-17.1
				Shareholders' equity	615.7	625.9	10.2
				-Common Stock	85.4	85.4	-
				-Capital Surplus	109.5	109.5	-
				-Retained Earnings	431.7	442.0	10.2
				-Treasury Stock, at Cost	-11.0	-11.0	-0.0
				Adjustment for Valuation, Foreign Currency Translation and Other	-70.5	-54.5	15.9
				- Unrealized Gain on Available-for-Sale Securities	2.0	2.3	0.2
				- Deferred Gains or Losses on hedges	-0.0	-0.0	0.0
				- Foreign Currency Translation Adjustments	-70.1	-55.9	14.1
				- Other	2.4	-0.8	1.5
				Stock Acquisition Rights	0.8	1.1	0.2
				Minority Interests	8.1	8.7	0.5
				Total Net Assets	554.1	581.2	27.0
Total Assets	1,119.6	1,129.5	9.9	Total Liabilities and Total Net Assets	1,119.6	1,129.5	9.9

Consolidated Statements of Cash Flows

(Billion yen)

	1H/FY2008	1H/FY2009	Changes* ¹
Net cash provided by operating activities	63.9	110.6	46.7
Net cash used in investing activities	-22.7	-19.3	3.4
Net cash provided by (used in) financing activities	-34.3	-61.6	-27.3
Translation adjustments on cash and cash equivalents	-4.6	4.8	9.5
Net Increase/(decrease) in cash and cash equivalents	2.1	34.5	32.3
Cash and cash equivalents, at beginning of year	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	114.7	145.1	30.3
Total Debt, at end of period	293.2	230.4	-62.7
Free Cash Flow* ²	41.1	91.3	50.1

*1: Changes = 1H/FY2009 – 1H/FY2008

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

<Net cash used in investing activities>

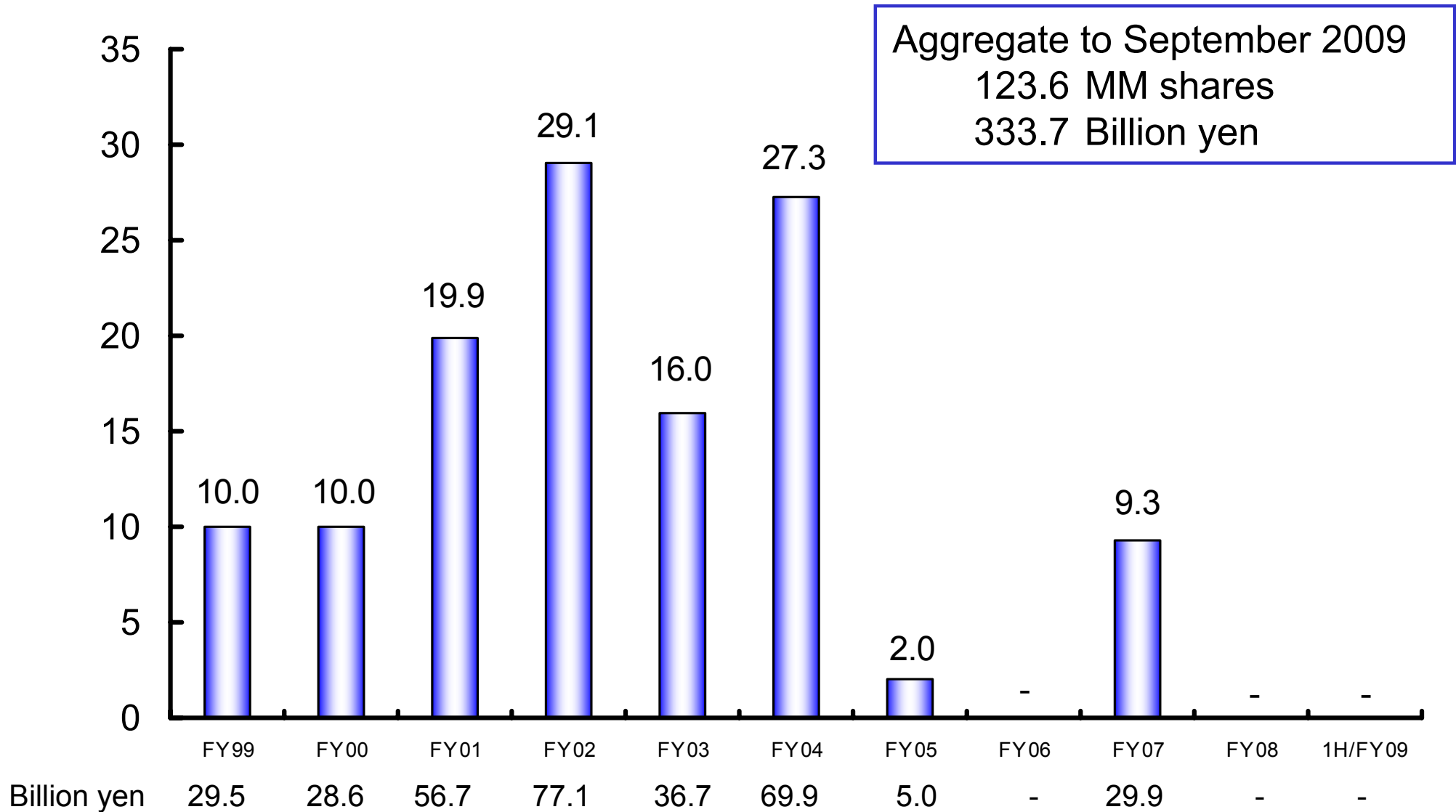
- Capital expenditures:
- Production facilities for new products
 - Production capacity expansion
 - Optimized distribution bases etc.

<Net cash used in financing activities>

- Payments of cash dividends: 15.0 billion yen
 Repayment of long-term debt: 39.6 billion yen

Share Repurchase

(Million Shares)



* 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: -1%
- Year-on-year growth rate of market size in value (yen): Flat

◆ Cosmetics market in Japan: -3% year-on-year

◆ Market of global customer industries for Chemical Products Business

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

◆ Currency translation impact on net sales: approximately -¥39 billion

◆ *Econa* related impact on net sales in the second half: approximately -¥10 billion

◆ Strategic and efficient marketing investments

Estimated impact on income

◆ Net impact of lower raw material prices:

approximately +¥17 billion

◆ Total Cost Reduction (TCR) activities:

approximately +¥6 billion

◆ Capital expenditures/depreciation and amortization

- Capital expenditures: ¥50 billion
- Depreciation and amortization: ¥84 billion

Exchange rate assumptions

- ◆ 95 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	1,185.0	-7.2
Operating Income	116.2	-3.8	96.8	-16.7	89.0	-8.1
[% of Sales]	8.8%		7.6%		7.5%	
Ordinary Income	114.2	-5.0	94.6	-17.2	88.0	-7.0
[% of Sales]	8.7%		7.4%		7.4%	
Net Income	66.5	-5.6	64.4	-3.2	41.0	-36.4
[% of Sales]	5.0%		5.1%		3.5%	

Net Income per Share (yen)	122.53	-5.3	120.25	-1.9	76.49	-36.4
ROE	11.7%	-	11.5%	-	7.3%	-
EBITDA (Operating Income + Depr. & Amort.)	209.6	Δ1.6	184.2	-12.1	173.0	-6.1
Cash Dividends per Share (yen)	54.0	3.8	56.0	3.7	56.0	0.0

*1 Exchange rate assumptions: 95 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 ¥200 billion / operating margin before deduction of royalties = approximately 5%; amortization related to Kanebo Cosmetics: ¥27.4billion

Sales Outlook by Segment – FY2009

<Billion yen>

Consolidated Net Sales **1,185** **-7.2%**

By Business*

By Geography*

Beauty Care	554	-5.8%
Human Health Care	182	-4.9%
Fabric and Home Care	278	+1.4%
Chemical	202	-22.9%

Japan	924	-3.1%
Asia & Oceania	129	-20.4%
North America	81	-18.2%
Europe	109	-22.5%

*Before elimination of intersegment transfers

Sales Outlook – FY2009

- Consumer Products Business in Japan -

<Billion yen>

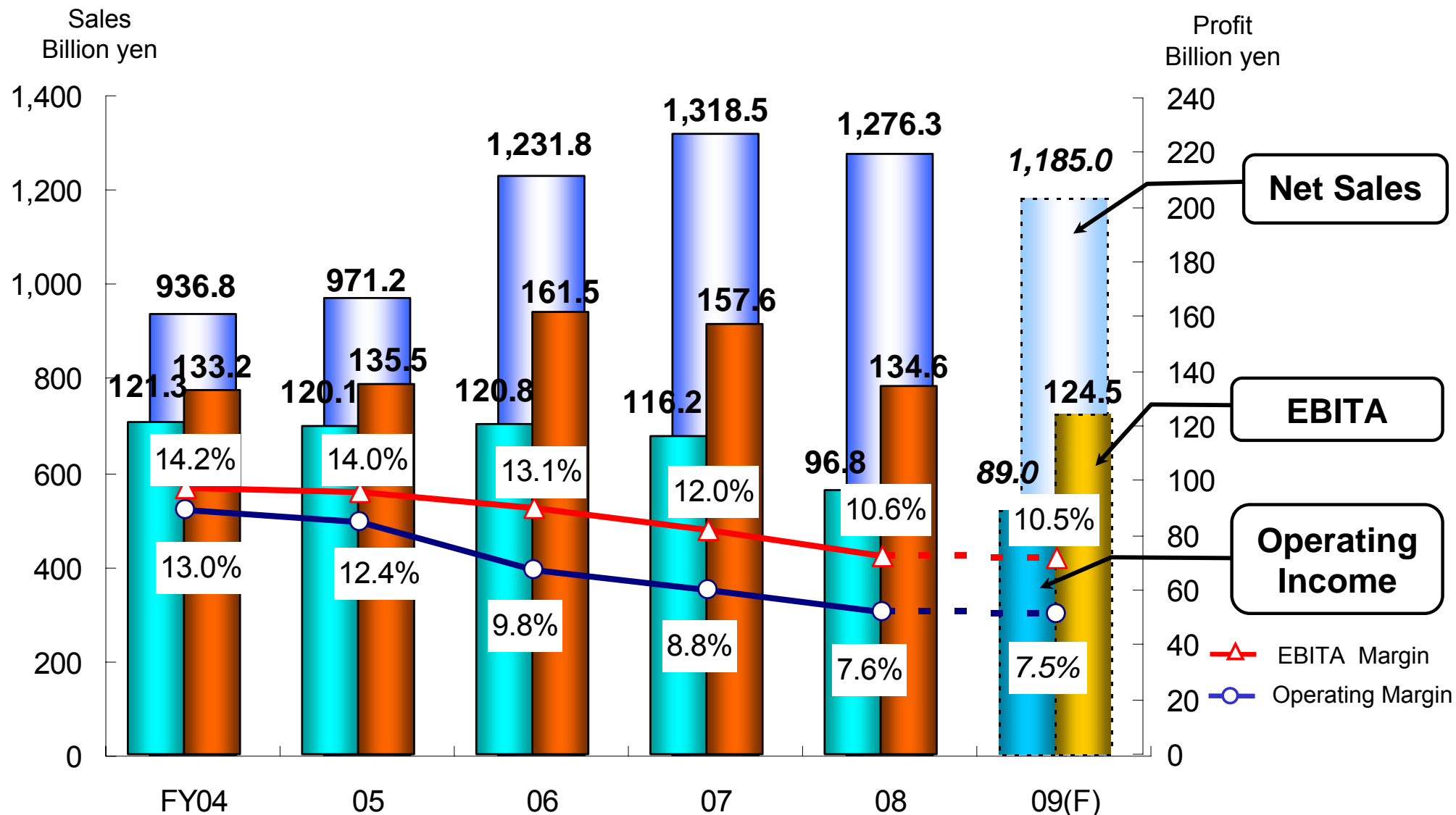
	1st Half			Full Year		
	FY2008 Actual	FY2009 Actual	% Growth	FY2008 Actual	FY2009 Forecast	% Growth
Beauty Care	221.6	210.5	-5.0%	436.3	419.0	-4.0%
Human Health Care	89.0	90.2	1.3%	174.7	166.5	-4.7%
Fabric and Home Care	124.0	128.4	3.6%	245.9	253.5	3.1%
Consumer Products Business	434.7	429.2	-1.3%	857.0	839.0	-2.1%

FY2009 Outlook by Segment

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

Consolidated Net Sales/EBITA*/Operating Income

[Full Year]

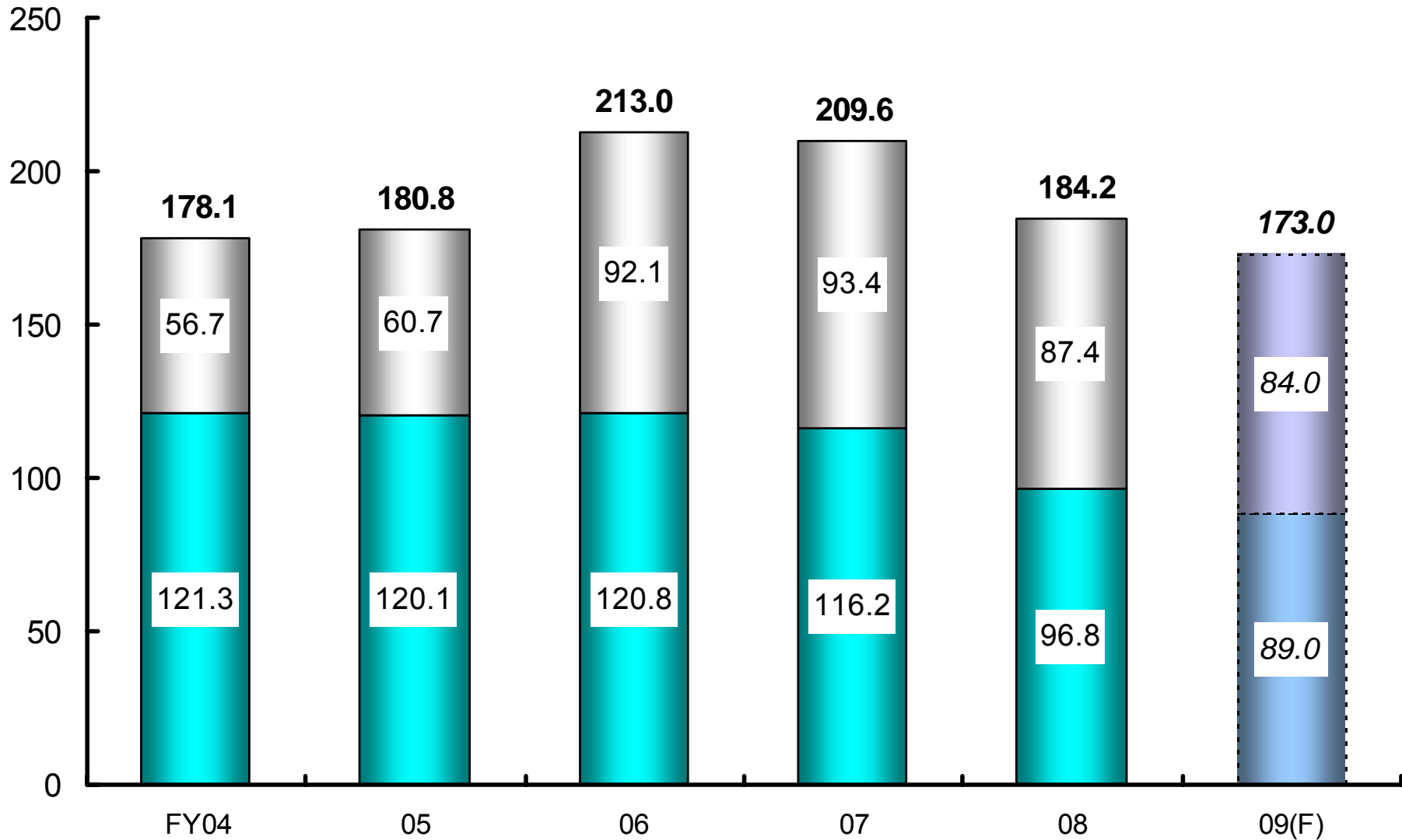


*Operating income before amortization of goodwill and intellectual property rights related to M&A

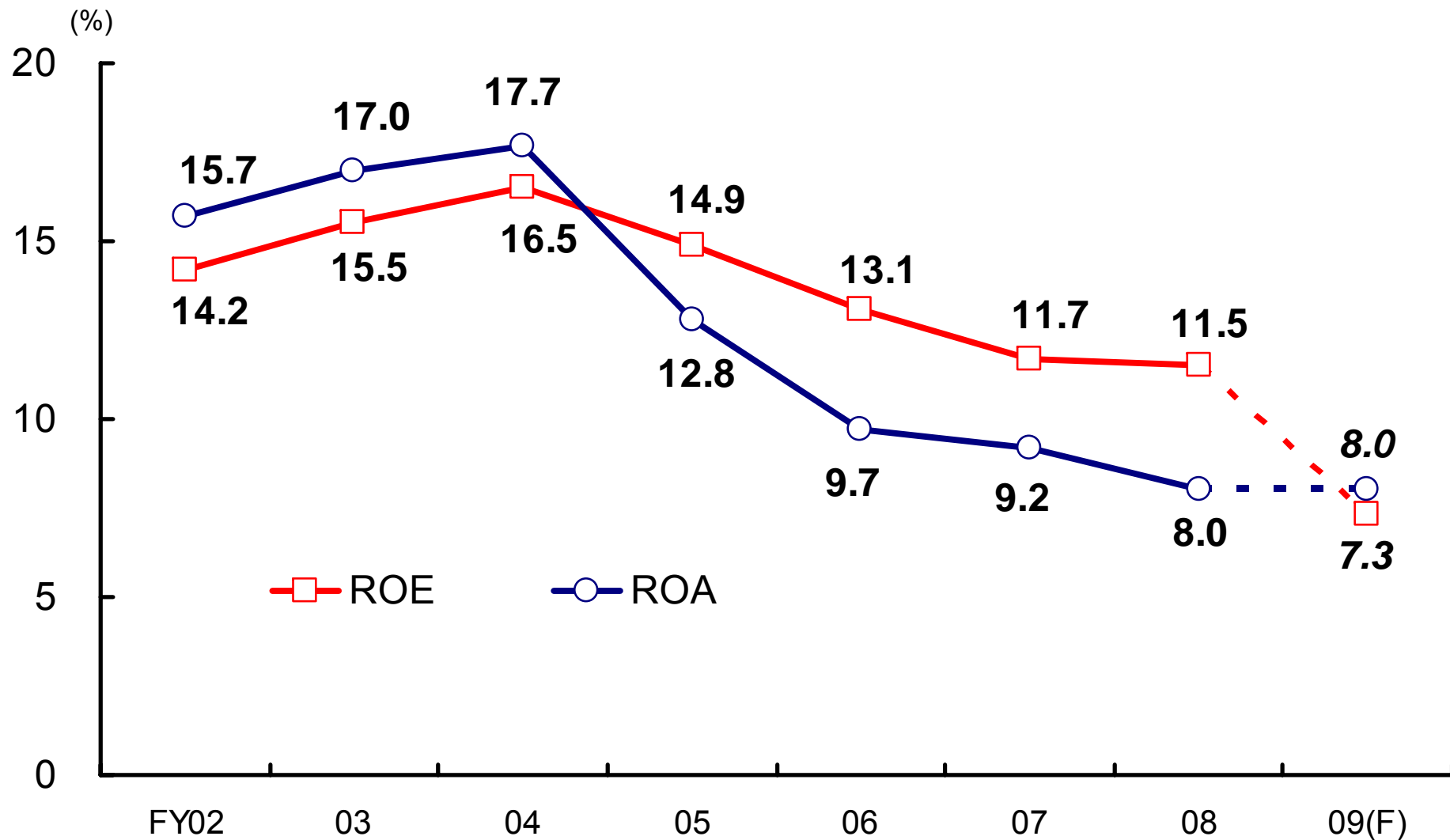
EBITDA

Billion yen

□ Depreciation & Amortization
■ Operating Income

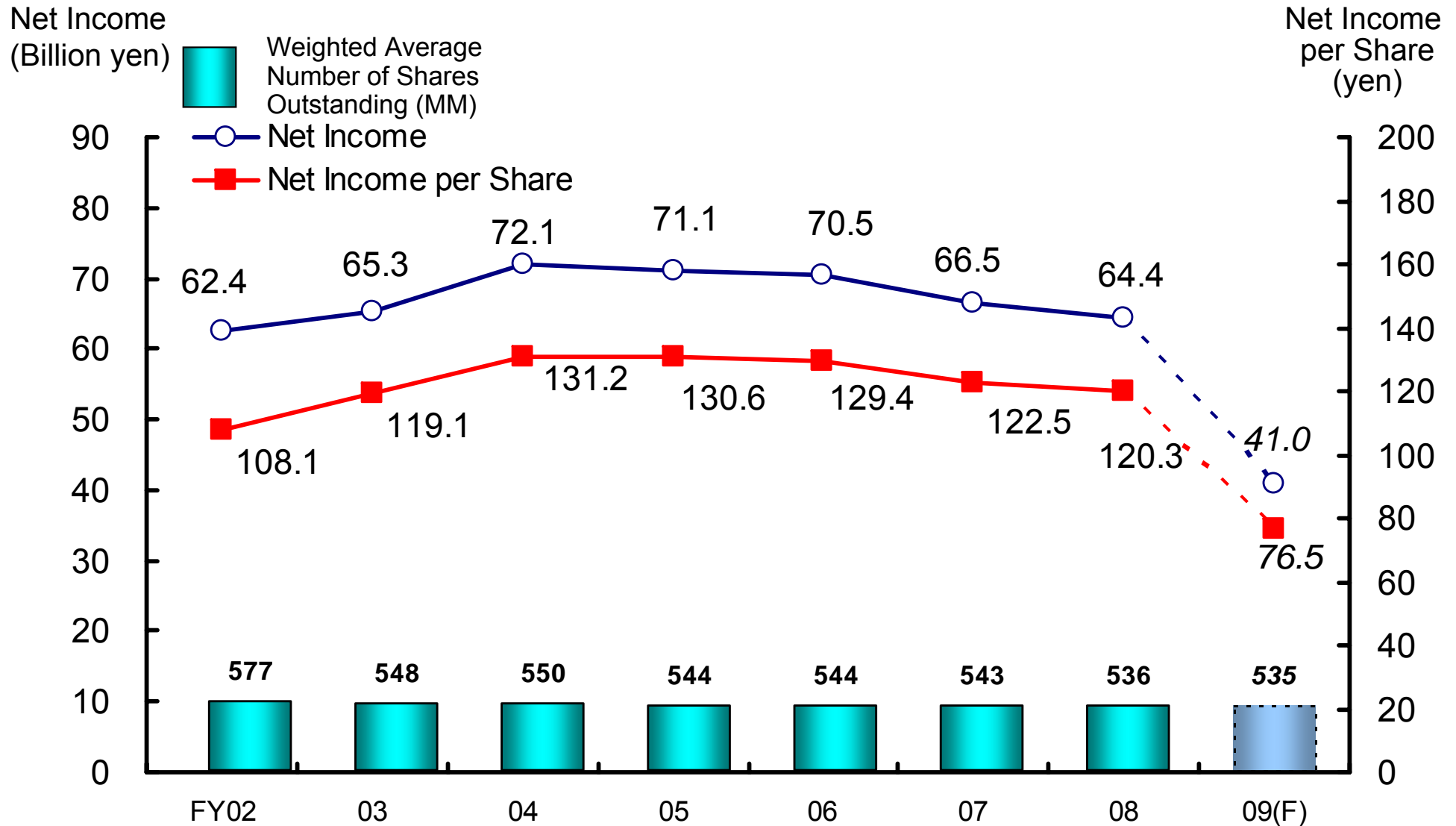


ROE & ROA

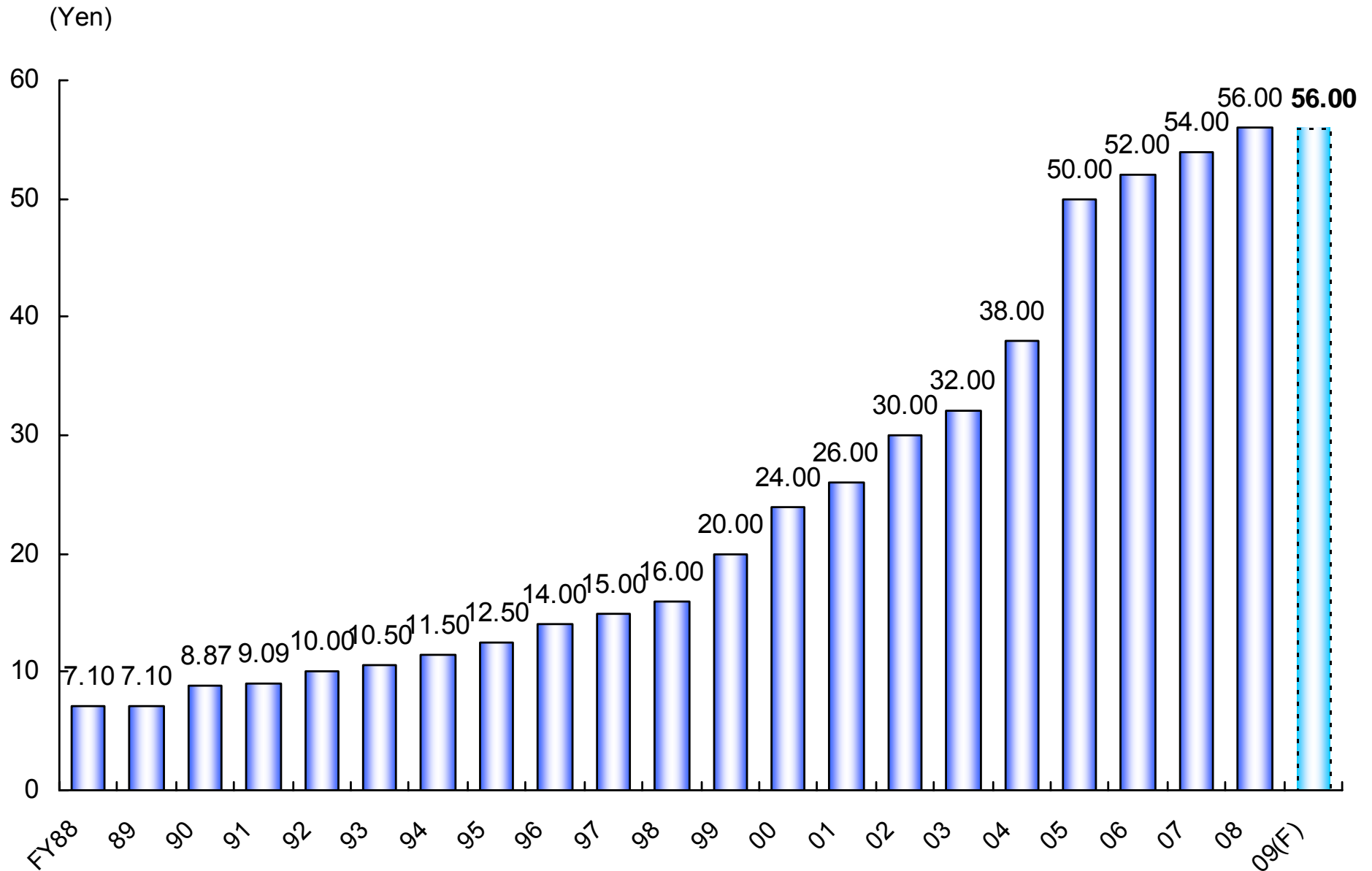


ROA: Ordinary Income / Total assets

Net Income per Share

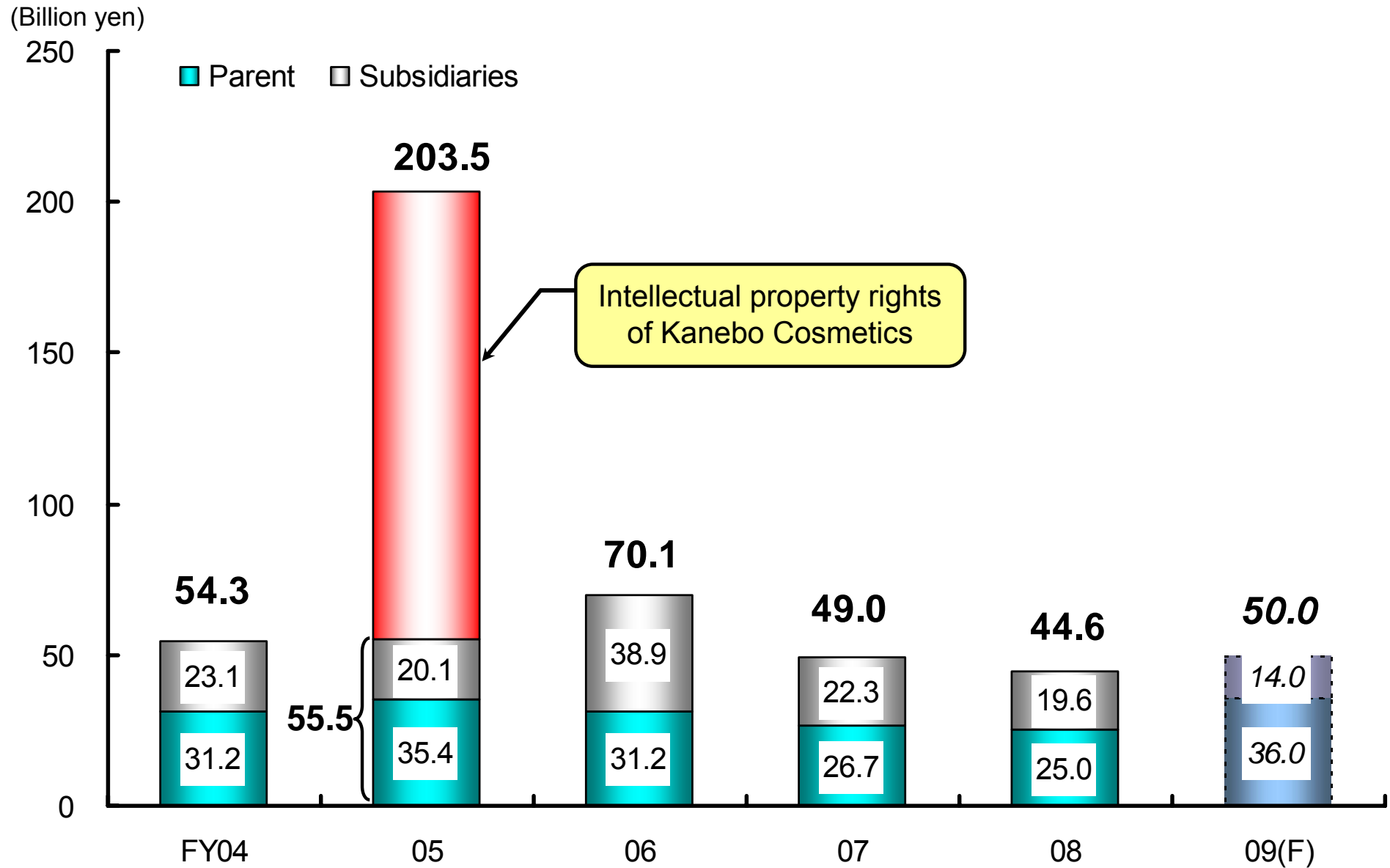


Cash Dividends per Share



*Impacts of share splits are retroactively reflected.

Capital Expenditures



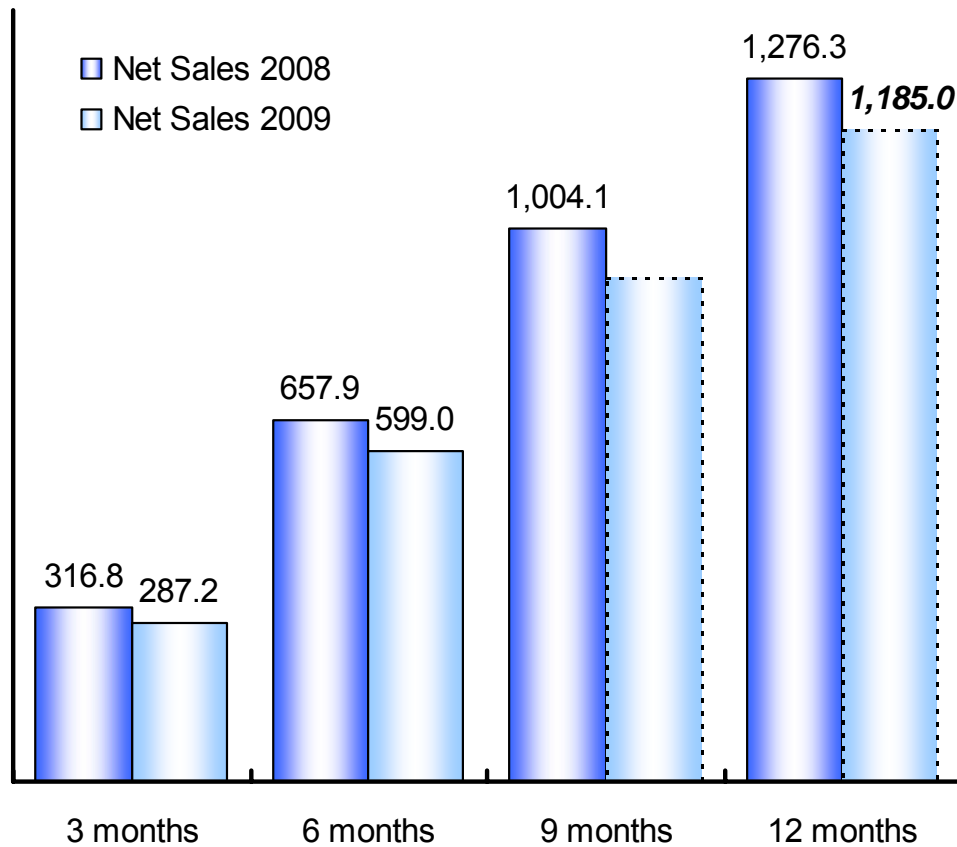
*Payment for purchase of newly consolidated subsidiaries (net of cash acquired) is not included.

FY2009 Quarterly Consolidated Sales and Profit Forecast

- Accumulated -

Net Sales

(Billion yen)



Operating Income

(Billion yen)

