

Annual Financial Review

From April 1, 2010 to March 31, 2011

Kao Corporation

April 26, 2011

This is a translation of materials used for the analyst meeting held in Japan on April 26, 2011.



KaO

These presentation materials are available on our website in PDF format:
http://www.kao.com/jp/en/corp_ir/presentations.html

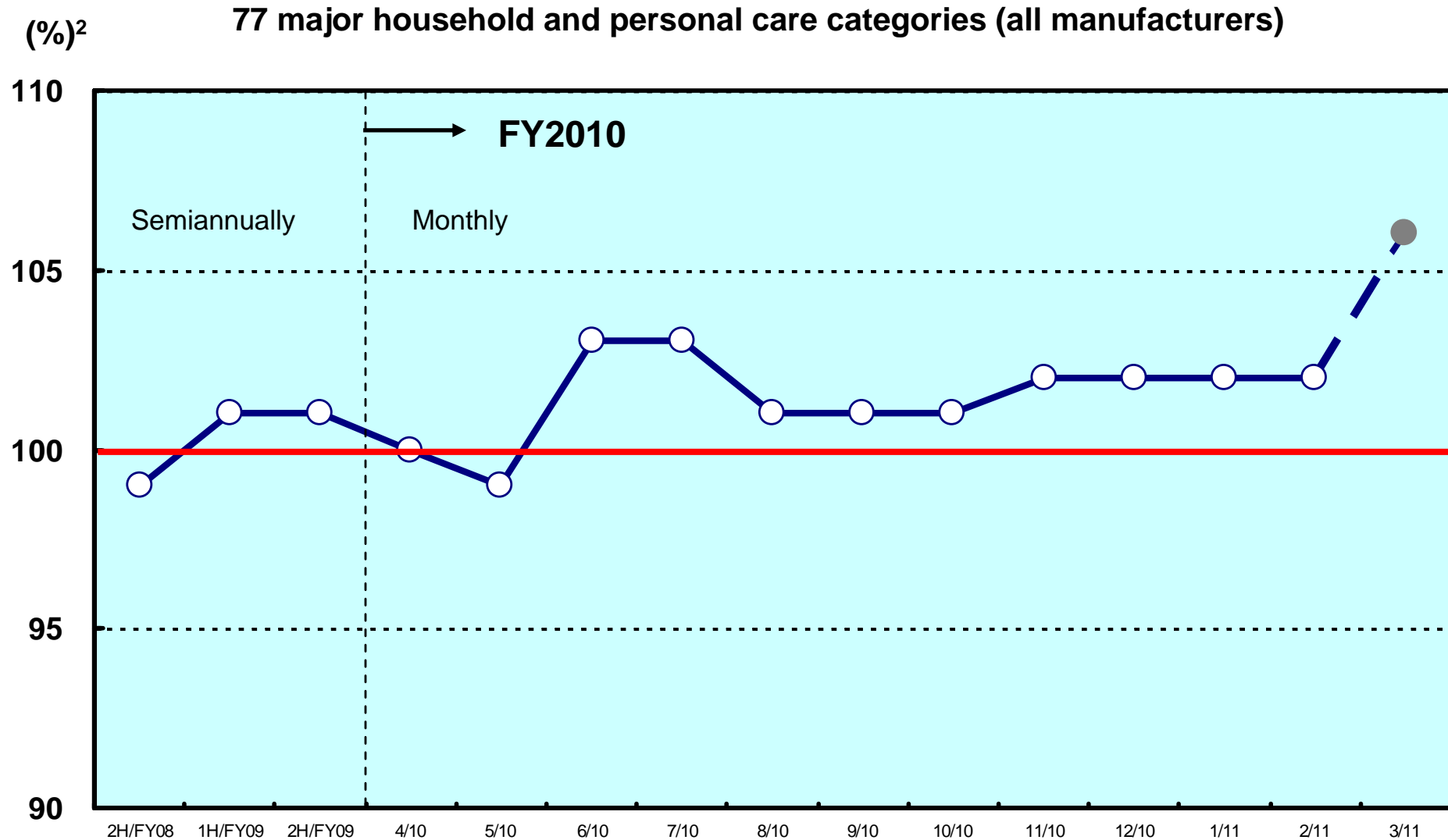
Forward-looking statements such as earnings forecasts and other projections contained in these materials are based on information available at this time and assumptions that management believes to be reasonable. Actual results may differ materially from those expectations due to various factors.

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

1. Business Environment

April 1, 2010 – March 31, 2011

Consumer Products¹ Market in Japan

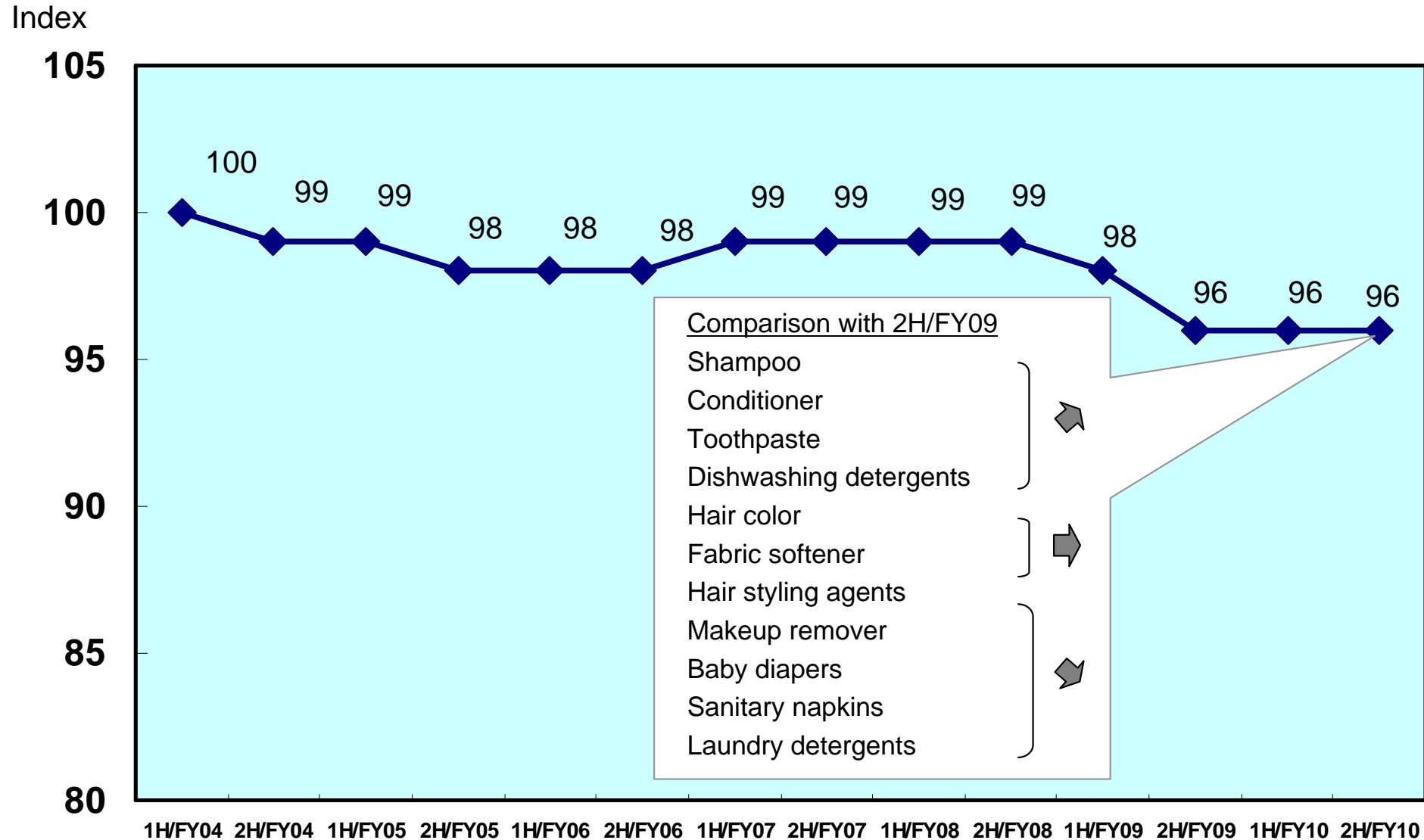


- 1 Consumer products do not include prestige cosmetics.
- 2 Year-on-year growth rate of market size in value (yen)
3. The data of March 2011 includes hoarding due to the earthquake

(Source: SRI POS data by INTAGE Inc.)

Consumer Purchase Prices in Japan

15 major household and personal care categories (all manufactures)



(Source: SRI POS data by INTAGE Inc.)

2. Consolidated Business Results

April 1, 2010 – March 31, 2011

Key Points in FY2010

Japan sales related

1. Consumer purchase price of 15 major household and personal care categories market in Japan¹ :
 - 1st half: -2 points year-on-year
 - 2nd half: Flat
2. Growth of the cosmetics market in Japan²: -3.2%

Income statements related

1. Net sales:	¥1,186.8 billion	(+0.2% year-on-year)
• Effect of currency translation:	-¥20.8 billion	(-1.8% year-on-year)
• Like-for-like sales growth:	+¥23.3 billion	(+2.0% year-on-year)
2. Increase in operating income ³ :	+¥10.5 billion	
3. Extraordinary loss:		
• Loss related to the Great East Japan Earthquake:	-¥4.1 billion	
• Loss on application of accounting standard for asset retirement obligations:	-¥1.6 billion	

Cash flow related

1. Free cash flow ⁴	¥119.5 billion
2. Payments of cash dividends ⁵ :	¥31.4 billion
3. Share repurchase ⁶ :	¥29.9 billion
4. Repayment of long-term debt:	¥24.9 billion

1 Index with the 1st half of FY2004 as 100 (Source: SRI POS data by INTAGE Inc.)

2 Source: SLI data by INTAGE Inc.

3 Please refer to slide 12 for details

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

5 Includes payments of cash dividends to minority shareholders

6 Excludes repurchase of shares less than one unit

FY2010 Consolidated Results

Billion yen	<u>FY08</u>	<u>FY09</u>	<u>FY10</u>	Growth	Changes
Net Sales	1,276.3	1,184.3	1,186.8	+0.2%	+2.4
EBITA*	134.6	129.5	139.1	+7.4%	+9.6
<i>EBITA* Margin</i>	10.6%	10.9%	11.7%		
Operating Income	96.8	94.0	104.5	+11.2%	+10.5
<i>Operating Margin</i>	7.6%	7.9%	8.8%		
Ordinary Income	94.6	93.5	103.3	+10.4%	+9.7
Net Income	64.4	40.5	46.7	+15.4%	+6.2
EBITDA	184.2	178.8	185.9	+4.0%	+7.1
ROE	11.5%	7.3%	8.5%		
EPS (yen)	120.25	75.57	87.69	+16.0%	+12.12

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

Consolidated Net Sales [1]

	FY2009		FY2010		
	Billion yen	% Growth	Billion yen	%	
				Growth	Like-for-like*
Beauty Care Business	413.1	-5.3	404.1	-2.2	-2.2
Human Health Care Business	167.6	-4.1	159.5	-4.8	-4.8
Fabric and Home Care Business	250.6	+1.9	253.5	+1.1	+1.1
Japan Total	831.4	-3.0	817.2	-1.7	-1.7
Asia & Oceania	79.6	-4.2	82.0	+3.0	+4.7
North America	54.1	-12.0	51.0	-5.7	+1.2
Europe	62.7	-15.1	60.7	-3.2	+9.2
Elimination	-20.0	-	-22.7	-	-
Consumer Products Business	1,008.0	-4.3	988.2	-2.0	-0.8

*Like-for-like: excludes currency translation impact

Consolidated Net Sales [2]

	FY2009		FY2010		
	Billion yen	% Growth	Billion yen	%	
				Growth	Like-for-like*
Japan	114.9	-11.6	124.9	+8.7	+8.7
Asia	53.3	-34.1	72.5	+36.0	+38.9
North America	25.2	-33.0	29.4	+16.9	+22.8
Europe	48.4	-27.3	51.5	+6.3	+20.8
Elimination	-34.1	-	-46.5	-	-
Chemical Business	207.8	-20.7	231.9	+11.6	+16.0
Eliminations	-31.4	-	-33.4	-	-
Consolidated Net Sales	1,184.3	-7.2	1,186.8	+0.2	+2.0

*Like-for-like: excludes currency translation impact

Consolidated Income Statements

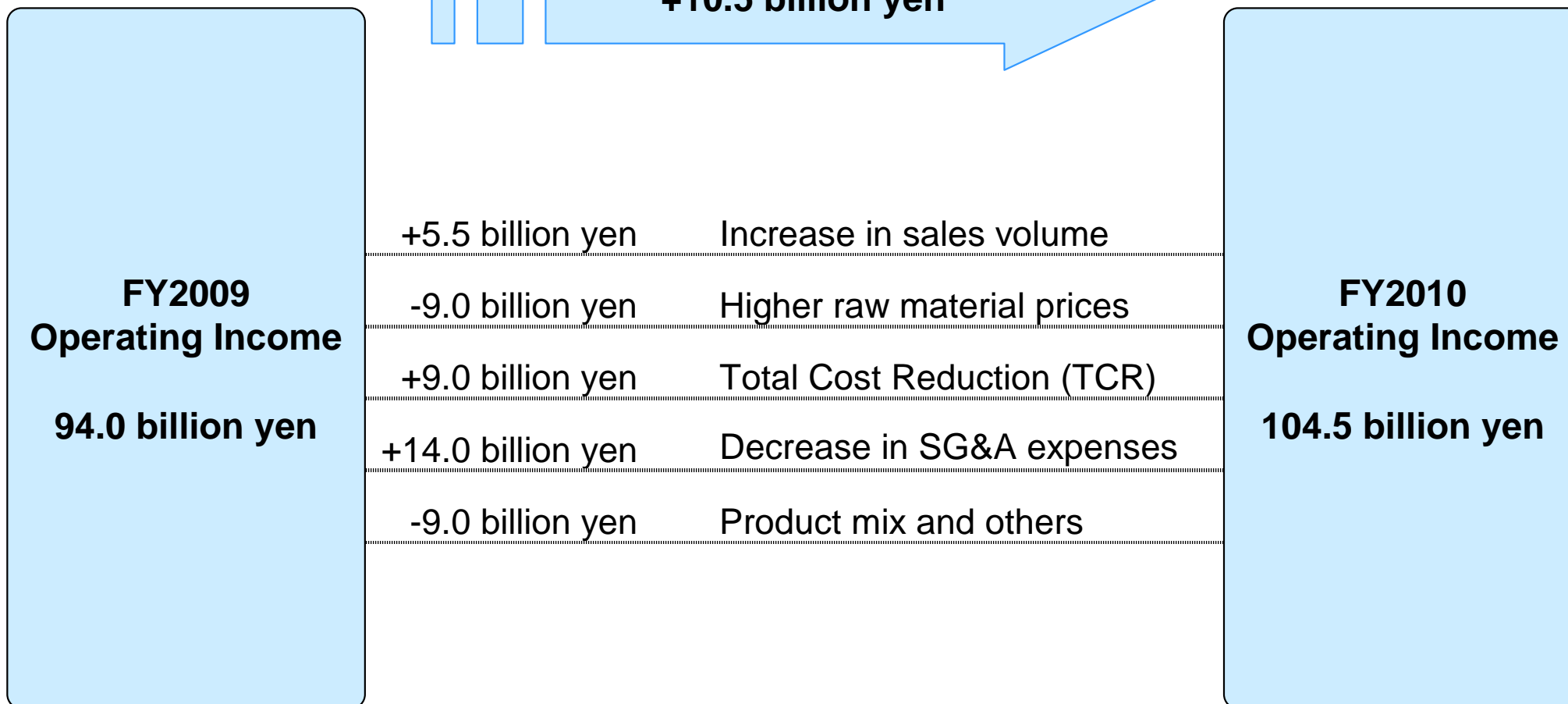
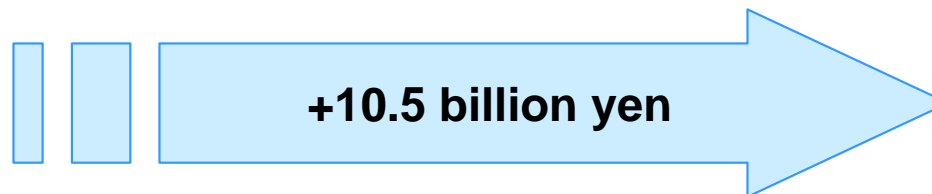
	FY2009		FY2010		Changes ¹
	Billion yen	%	Billion yen	%	Billion yen
Net Sales	1,184.3	100.0	1,186.8	100.0	+2.4
Cost of Sales	493.0	41.6	498.9	42.0	+5.9
Gross Profit	691.3	58.4	687.8	58.0	-3.5
SG&A Expenses ²	597.3	50.4	583.2	49.1	-14.0
Operating Income	94.0	7.9	104.5	8.8	+10.5
Non-operating Income/Expenses	-0.4	-0.0	-1.2	-0.1	-0.7
Ordinary Income	93.5	7.9	103.3	8.7	+9.7
Extraordinary Gain/Loss	-10.6	-0.9	-7.3	-0.6	+3.2
Income Before Income Taxes and Minority Interests	82.9	7.0	96.0	8.1	+13.0
Income Taxes	41.6	3.5	48.1	4.1	+6.5
Income Before Minority Interests	-	-	47.8	4.0	-
Minority Interests	0.8	0.1	1.1	0.1	+0.2
Net Income	40.5	3.4	46.7	3.9	+6.2

1 Changes = FY2010 – FY2009

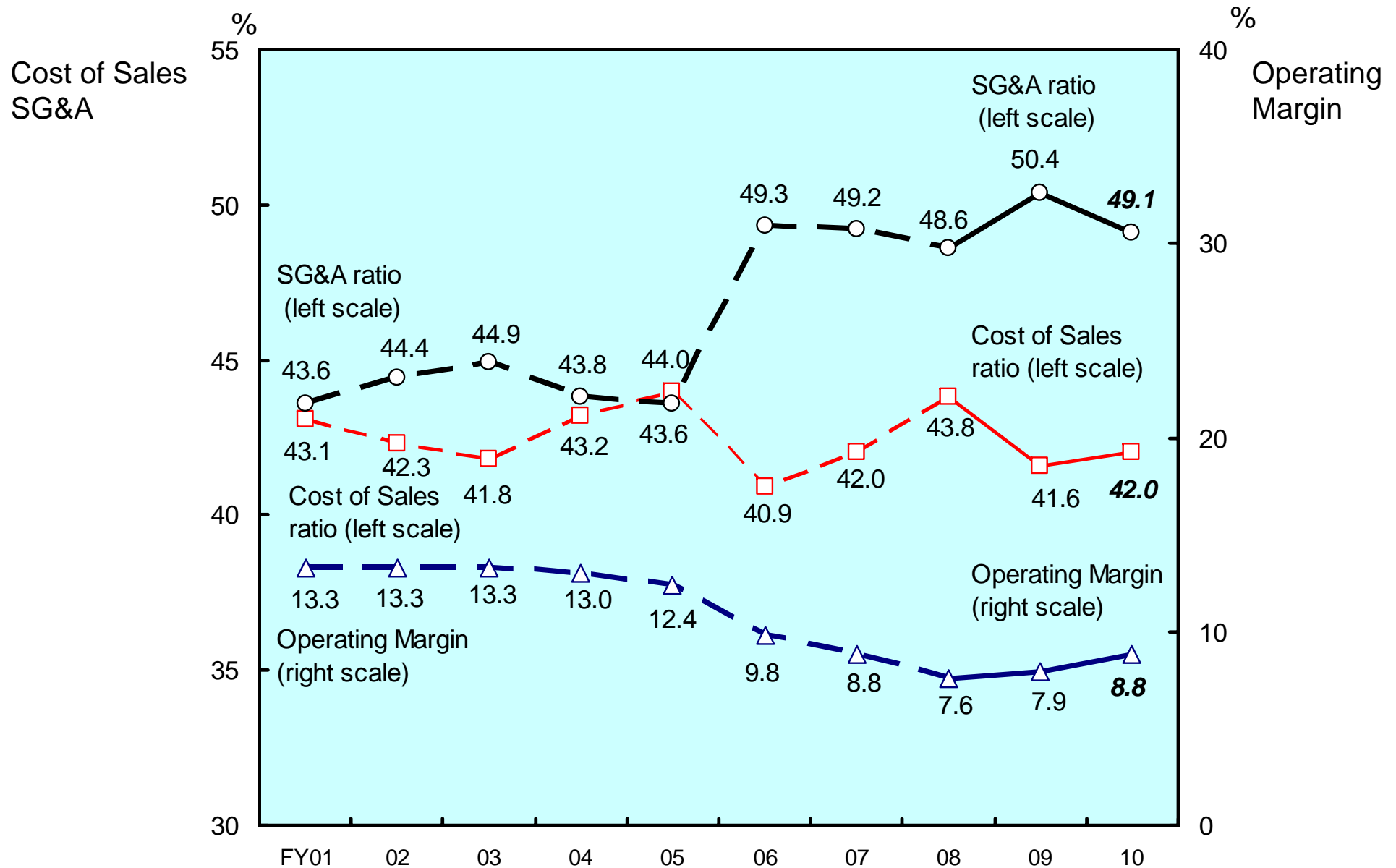
2 Amortization related to Kanebo Cosmetics
FY2009: 27.3 billion yen, FY2010: 27.4 billion yen

FY2010 Consolidated Operating Income Analysis

Comparison with FY2009



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 Major Consolidated SG&A Expenses

(Billion yen)

	FY2009	FY2010	Changes*
Total SG&A Expenses	597.3	583.2	-14.0

Freight/Warehouse	70.0	66.9	-3.1
Advertising	86.3	81.0	-5.2
Sales Promotion	65.4	64.6	-0.7
Salaries and Bonuses	124.5	124.3	-0.1
R&D	44.9	45.5	+0.6

* Changes = FY2010 – FY2009

Effect of currency translation on SG&A expenses: -7.8 billion yen

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

(Billion yen)

Non-operating Income/Expenses	FY2009	FY2010	Changes*
Non-operating Income	4.9	5.1	+0.1
Interest Income	0.9	0.8	
Dividend Income	0.1	0.1	
Equity in Earnings of Nonconsolidated Subsidiaries and Affiliates	1.1	0.9	
Other	2.6	3.1	
Non-operating Expenses	5.4	6.4	+0.9
Interest Expense	4.2	3.3	
Foreign Currency Exchange Loss	0.3	2.2	
Other	0.8	0.8	

Extraordinary Gain/Loss	FY2009	FY2010	Changes*
Extraordinary Gain	0.6	1.3	+0.7
Gain on Sales of Fixed Assets	0.1	1.0	
Gain on Sales of Investment Securities	0.0	0.1	
Other	0.4	0.1	
Extraordinary Loss	11.2	8.6	-2.5
Loss on Sales/Disposals of Fixed Assets	2.8	2.3	
Loss related to the Great East Japan Earthquake	-	4.1	
Loss on Application of Accounting Standard for Asset Retirement	-	1.6	
Loss related to cooking oils	5.2	-	
Restructuring Charges for Prestige Cosmetics Subsidiary	1.2	-	
Other	1.8	0.5	

* Changes = FY2010 – FY2009

Consolidated Results by Segment

		FY2009		FY2010		Changes Billion yen	Growth %
		Billion yen	% of net sales	Billion yen	% of net sales		
Beauty Care Business	Net Sales ¹	547.9	-	533.5	-	-14.4	-2.6%
	EBITA ²	40.0	7.3%	39.8	7.5%	-0.1	-0.4%
	Operating Income	4.7	0.9%	5.5	1.0%	+0.7	+16.6%
Human Health Care Business	Net Sales ¹	183.1	-	175.7	-	-7.3	-4.0%
	Operating Income	8.9	4.9%	15.2	8.7%	+6.3	+70.7%
Fabric and Home Care Business	Net Sales ¹	276.9	-	279.0	-	+2.0	+0.8%
	Operating Income	60.6	21.9%	59.6	21.4%	-0.9	-1.6%
Chemical Business	Net Sales ¹	207.8	-	231.9	-	+24.1	+11.6%
	EBITA ²	19.8	9.6%	24.2	10.5%	+4.4	+22.4%
	Operating Income	19.6	9.5%	24.1	10.4%	+4.4	+22.6%
Consolidated	Net Sales	1,184.3	-	1,186.8	-	+2.4	+0.2%
	EBITA ²	129.5	10.9%	139.1	11.7%	+9.6	+7.4%
	Operating Income	94.0	7.9%	104.5	8.8%	+10.5	+11.2%

1 Before elimination of intersegment transfers

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

[Reference] Consolidated Results by Geographic Area

		FY2009		FY2010		Changes Billion yen	Growth %
		Billion yen	% of net sales	Billion yen	% of net sales		
Japan	Net Sales ¹	918.4	-	912.4	-	-6.0	-0.7%
	EBITA ²	113.0	12.3%	117.6	12.9%	+4.5	+4.0%
	Operating Income	79.9	8.7%	85.2	9.3%	+5.3	+6.7%
Asia and Oceania	Net Sales ¹	131.6	-	152.3	-	+20.6	+15.7%
	Operating Income	2.6	2.0%	6.6	4.4%	+3.9	+147.9%
North America	Net Sales ¹	79.1	-	80.3	-	+1.1	+1.4%
	EBITA ²	5.8	7.4%	6.4	8.0%	+0.5	+10.2%
	Operating Income	4.9	6.3%	5.6	7.0%	+0.6	+13.1%
Europe	Net Sales ¹	111.1	-	112.1	-	+0.9	+0.9%
	EBITA ²	6.6	5.9%	9.4	8.5%	+2.8	+43.8%
	Operating Income	5.1	4.6%	8.1	7.3%	+3.0	+58.3%
Consolidated	Net Sales	1,184.3	-	1,186.8	-	+2.4	+0.2%
	EBITA ²	129.5	10.9%	139.1	11.7%	+9.6	+7.4%
	Operating Income	94.0	7.9%	104.5	8.8%	+10.5	+11.2%

1 Before elimination of intersegment transfers

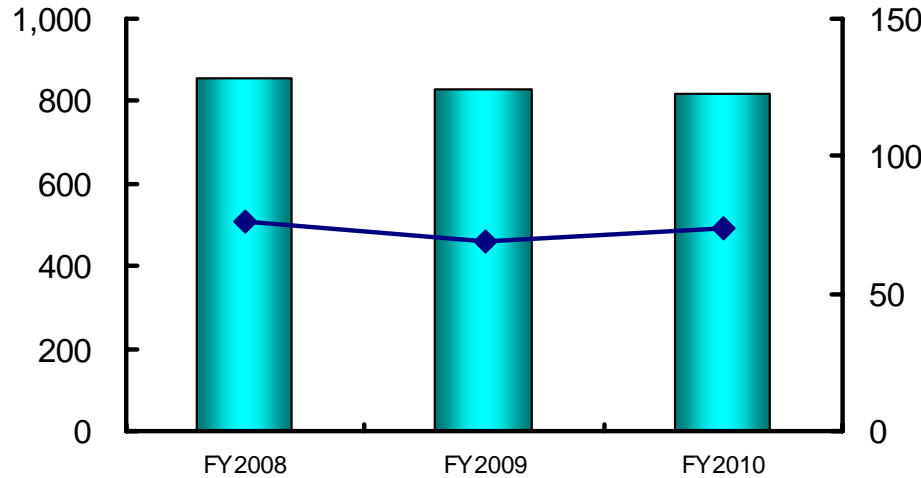
2 Operating income before amortization of goodwill and intellectual property rights related to M&A

Consumer Products Business by Geographic Area

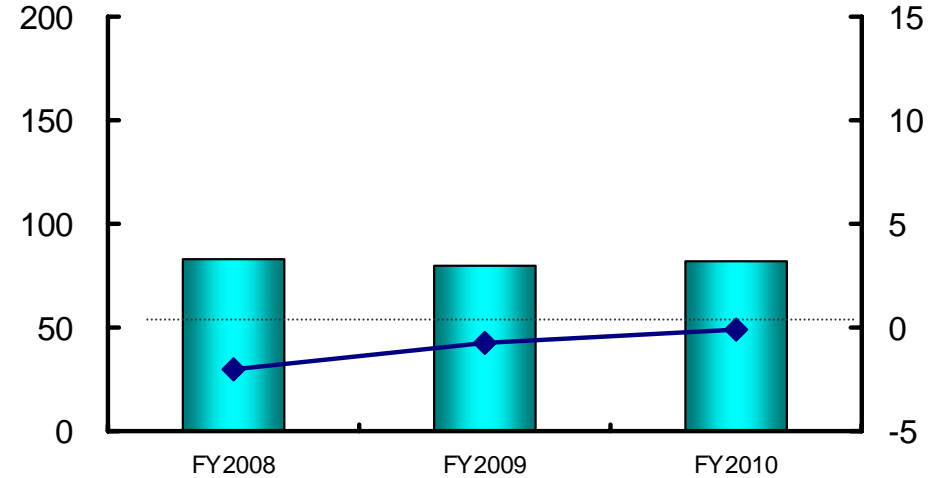
Japan

Sales (Billion yen)

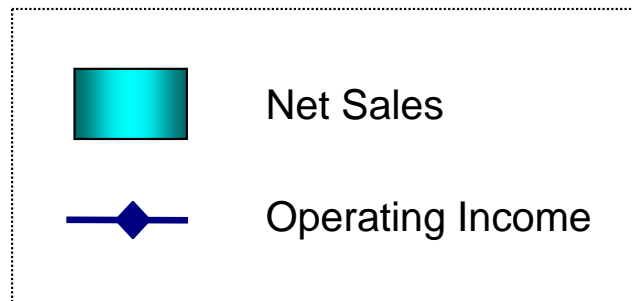
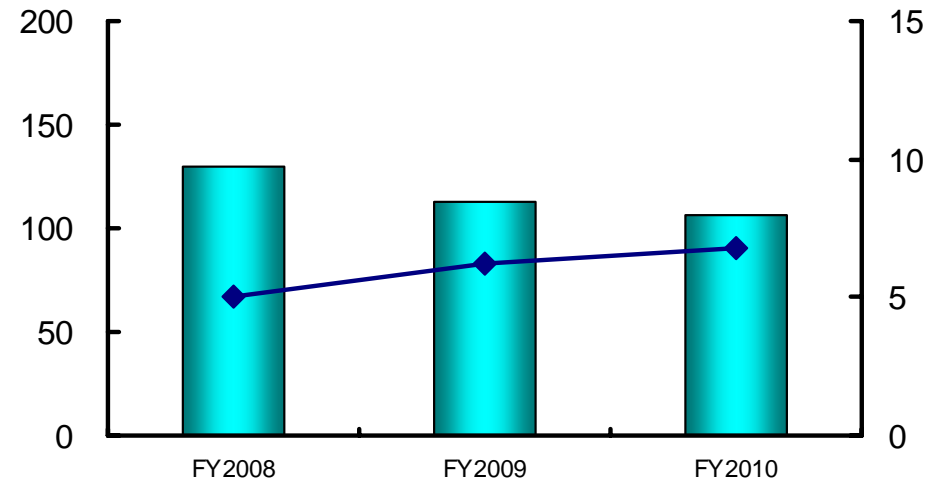
Operating Income
(Billion yen)



Asia and Oceania



North America & Europe

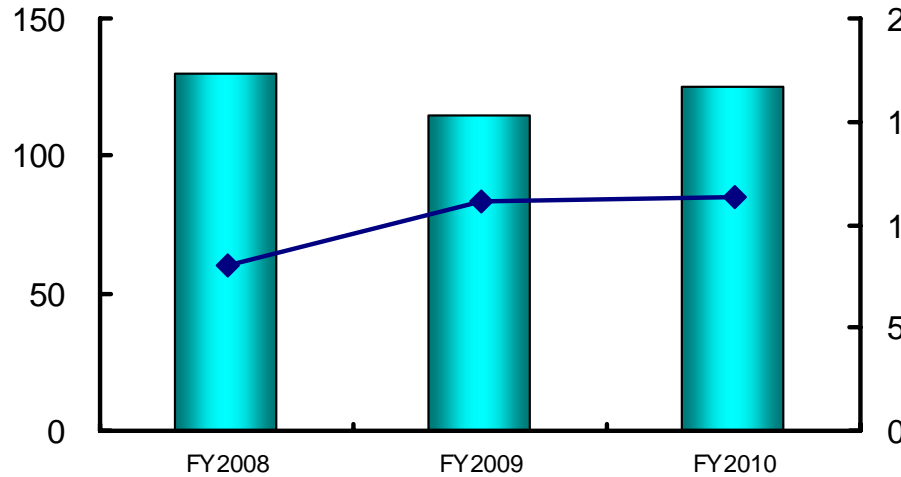


Chemical Business by Geographic Area

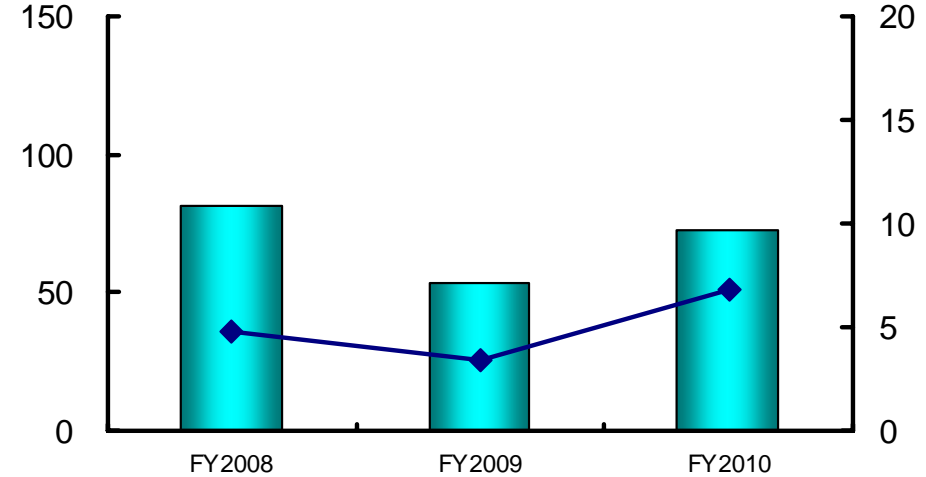
Japan

Sales (Billion yen)

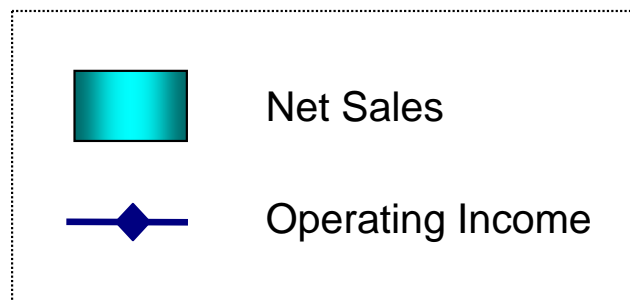
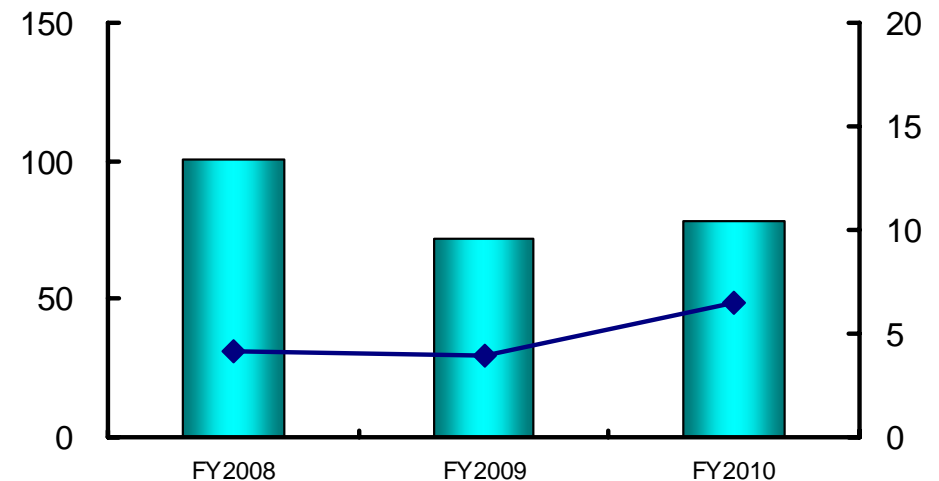
Operating Income
(Billion yen)



Asia



North America & Europe



Consolidated Balance Sheets

(Billion yen)

	Mar/10	Mar/11	Changes		Mar/10	Mar/11	Changes
Current Assets	393.9	416.8	+22.8	Current Liabilities	279.5	348.1	+68.6
Cash and Time Deposits	70.1	110.7	+40.5	Notes and Accounts Payable - Trade	99.9	104.0	+4.1
Notes and Accounts Receivable - Trade	127.5	121.0	-6.4	Bonds/Short-term Debt (incl. Current Portion of Bonds/Long-term Debt)	31.9	86.7	+54.8
Short-term Investments	46.0	35.0	-11.0	Accounts Payable - Other	27.6	47.7	+20.1
Inventories	106.5	109.3	+2.7	Accrued Expenses	76.6	68.4	-8.2
Other	43.5	40.6	-2.9	Accrued Income Taxes	20.3	18.7	-1.5
				Liability for loss related to the Great East Japan Earthquake	-	2.6	+2.6
				Other	23.0	19.7	-3.2
Fixed Assets	671.7	605.9	-65.8	Long-term Liabilities	210.8	135.0	-75.8
Property, Plant and Equipment	251.8	244.7	-7.1	Bonds/Long-term Debt	150.6	70.0	-80.6
Intangible Assets	313.9	272.9	-40.9	Other	60.1	64.9	+4.8
Investments and Other Assets	105.9	88.2	-17.7	Total Liabilities	490.4	483.2	-7.2
				Shareholders' equity	626.2	611.9	-14.3
				-Common Stock	85.4	85.4	-
				-Capital Surplus	109.5	109.5	-
				-Retained Earnings	442.2	457.9	+15.6
				-Treasury Stock, at Cost	-10.9	-40.9	-29.9
				Accumulated other comprehensive income	-61.1	-83.0	-21.8
				- Unrealized Gain on Available-for-sale Securities	2.2	1.8	-0.4
				- Deferred Gain (Loss) on Derivatives under Hedges Accounting	-0.0	-0.0	-0.0
				- Foreign Currency Translation Adjustments	-62.9	-84.4	-21.4
				- Post retirement adjustments for foreign consolidated subsidiaries	-0.4	-0.4	-0.0
				Stock Acquisition Rights	1.0	1.1	+0.1
				Minority Interests	9.1	9.5	+0.3
				Total Net Assets	575.2	539.5	-35.7
Total Assets	1,065.7	1,022.7	-42.9	Total Liabilities and Total Net Assets	1,065.7	1,022.7	-42.9

Consolidated Statements of Cash Flows

(Billion yen)

	FY2009	FY2010	Changes ¹
Net Cash Provided by Operating Activities	172.2	151.2	-20.9
Net Cash Used in Investing Activities	-44.2	-31.7	+12.4
Net Cash Provided by (Used in) Financing Activities	-124.5	-87.3	+37.2
Translation Adjustments on Cash and Cash Equivalents	3.1	-6.4	-9.5
Net Increase (Decrease) in Cash and Cash Equivalents	6.6	25.7	+19.1
Cash and Cash Equivalents, Beginning of Period	110.5	117.1	+6.6
Cash and Cash Equivalents from Newly Consolidated Subsidiary, Increase	-	0.1	+0.1
Cash and Cash Equivalents, End of Period	117.1	143.1	+25.9
Total Debt at End of Period	182.6	156.8	-25.7
Free Cash Flow ²	128.0	119.5	-8.5

1: Changes = FY2010 –FY2009

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

<Net cash used in investing activities>

- Capital expenditures:
- Construction of Eco-Technology Research Center
 - Production facilities for new products
 - Production capacity expansion
 - Optimization of distribution bases
 - Consolidation of headquarters functions, etc.

<Net cash used in financing activities>

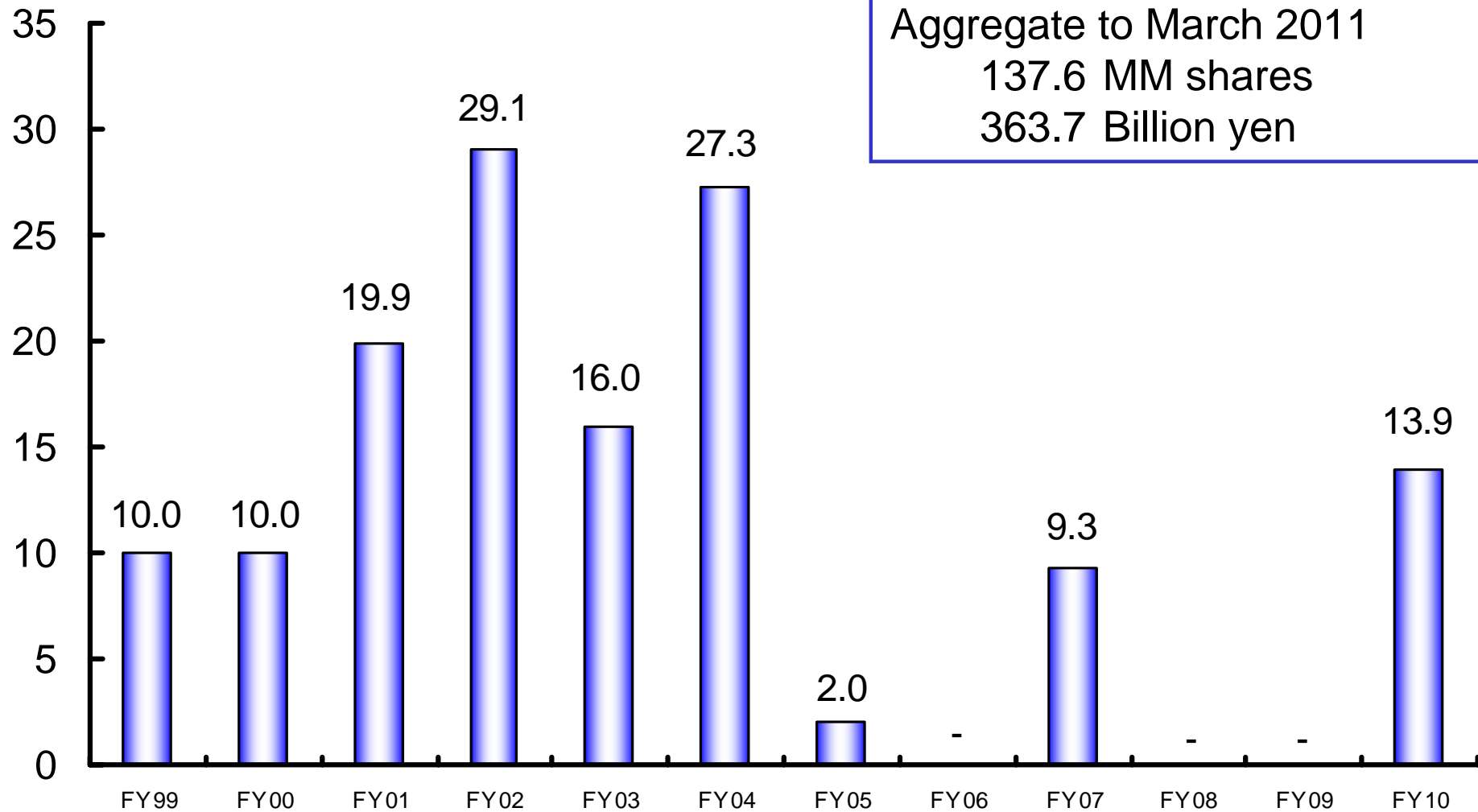
Payments of cash dividends (Includes payments of cash dividends to minority shareholders) : 31.4 billion yen

Share repurchase (Excludes repurchase of shares less than one unit): 29.9 billion yen

Repayment of long-term debt: 24.9 billion yen

Share Repurchase

(Million Shares)



Aggregate to March 2011
 137.6 MM shares
 363.7 Billion yen

Billion yen	FY99	FY00	FY01	FY02	FY03	FY04	FY05	FY06	FY07	FY08	FY09	FY10
	29.5	28.6	56.7	77.1	36.7	69.9	5.0	-	29.9	-	-	29.9

* Share repurchase from the market

3. Forecast for FY 2011

Major Assumptions for FY2011 Forecast

- ◆ Year-on-year growth rate of market size in value (yen) for the Consumer Products Business* in Japan: 0% to -1% year-on-year
- ◆ Year-on-year growth rate of cosmetics market size in value (yen) in Japan: -1 to -2% year-on-year
- ◆ Net sales: ¥1,228.0 billion (+3.5% year-on-year)
 - Effect of currency translation: -¥7.0 billion (-0.6% year-on-year)
 - Like-for-like sales growth: +¥48.1 billion (+4.1% year-on-year)
- Estimated impact on income
- ◆ Impact by higher raw material prices:
 - Gross impact of approximately -¥36 billion
 - Net impact of approximately -¥7 billion
- ◆ Total Cost Reduction (TCR) activities: +¥5 billion
- ◆ Capital expenditures/depreciation and amortization
 - Capital expenditures: ¥48 billion
 - Depreciation and amortization: ¥81 billion

Exchange rate assumptions

- ◆ 85 yen/USD (FY2010 actual exchange rate [quarterly average]: 87.32 yen/USD)
- ◆ 115 yen/Euro (FY2010 actual exchange rate [quarterly average]: 115.10 yen/Euro)

* Excludes prestige cosmetics.

Consolidated Sales and Profit Forecast

	FY2009 ²		FY2010 ³		FY2011(F) ^{1 4}	
	Billion yen	% Growth	Billion yen	% Growth	Billion yen	% Growth
Net Sales	1,184.3	-7.2	1,186.8	+0.2	1,228.0	+3.5
Operating Income	94.0	-2.9	104.5	+11.2	105.0	+0.4
[% of Sales]	7.9%		8.8%		8.6%	
Ordinary Income	93.5	-1.1	103.3	+10.4	104.0	+0.6
[% of Sales]	7.9%		8.7%		8.5%	
Net Income	40.5	-37.2	46.7	+15.4	53.0	+13.4
[% of Sales]	3.4%		3.9%		4.3%	

Net Income per Share (yen)	75.57	-37.2	87.69	+16.0	101.52	+15.8
ROE	7.3%	-	8.5%	-	9.8%	-
EBITDA (Operating Income + Depr. & Amort.)	178.8	-3.0	185.9	+4.0	186.0	+0.0
Cash Dividends per Share (yen)	57.0	+1.8	58.0	+1.8	58.0	0.0

1 Exchange rate assumptions: 85 yen/USD, 115 yen/Euro

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

3 Kanebo Cosmetics (Apr. 2010-Mar. 2011) : Net sales = slightly less than ¥190 billion / operating margin before deduction of royalties = approximately 3%; amortization related to Kanebo Cosmetics: ¥27.4 billion

4 Kanebo Cosmetics (Apr. 2011-Mar. 2012) : Net sales = slightly over ¥190 billion / operating margin before deduction of royalties = approximately 6%; amortization related to Kanebo Cosmetics: ¥27.2 billion

Sales Outlook by Segment – FY2011

<Billion yen>

Consolidated Net Sales **1,228** +3.5%

By Segment*

Reference:
By Geographic Area*

Beauty Care	544	+2.0%
Human Health Care	183	+4.1%
Fabric and Home Care	286	+2.5%
Chemical	270	+16.4%

Japan	921	+0.9%
Asia & Oceania	184	+20.8%
North America	86	+7.1%
Europe	117	+4.3%

*Sales are before elimination of transactions between segments or geographic areas.

Sales Outlook – FY2011

- Consumer Products Business in Japan -

<Billion yen>

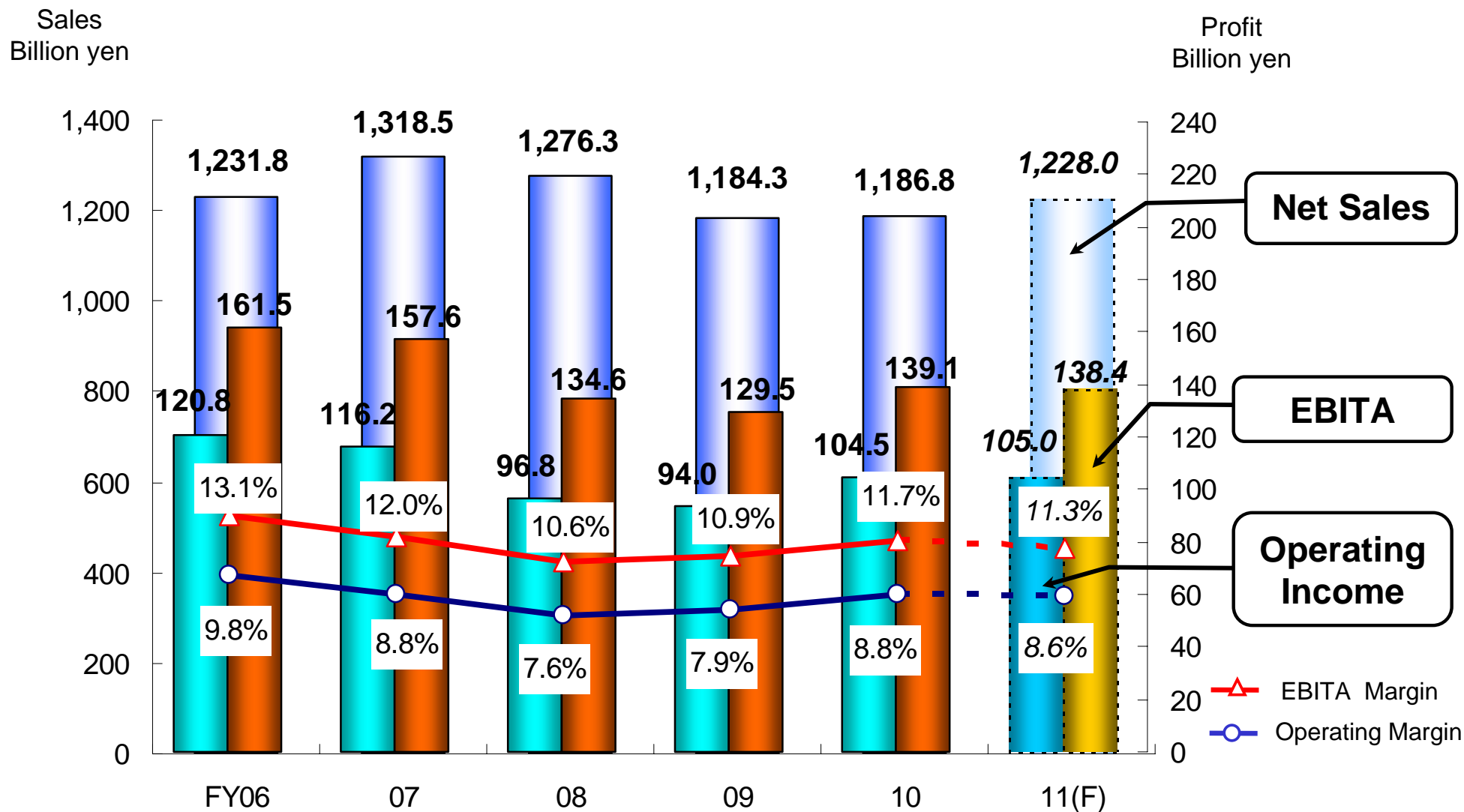
	1st Half			Full Year		
	FY2010 Actual	FY2011 Forecast	% Growth	FY2010 Actual	FY2011 Forecast	% Growth
Beauty Care	206.5	199.0	-3.7%	404.1	404.0	0.0%
Human Health Care	80.9	81.0	+0.1%	159.5	162.0	+1.5%
Fabric and Home Care	127.9	127.0	-0.7%	253.5	255.0	+0.6%
Consumer Products Business	415.4	407.0	-2.0%	817.2	821.0	+0.5%

FY2011 Outlook by Segment

	Decrease in operating income	Increase in operating income
Increase in net sales	<ul style="list-style-type: none"> Consumer Products – North America Chemical – Japan 	<ul style="list-style-type: none"> Consumer Products – Japan Consumer Products – Asia/Oceania Consumer Products – Europe Chemical – Asia Chemical – North America Chemical – Europe
Decrease in net sales		

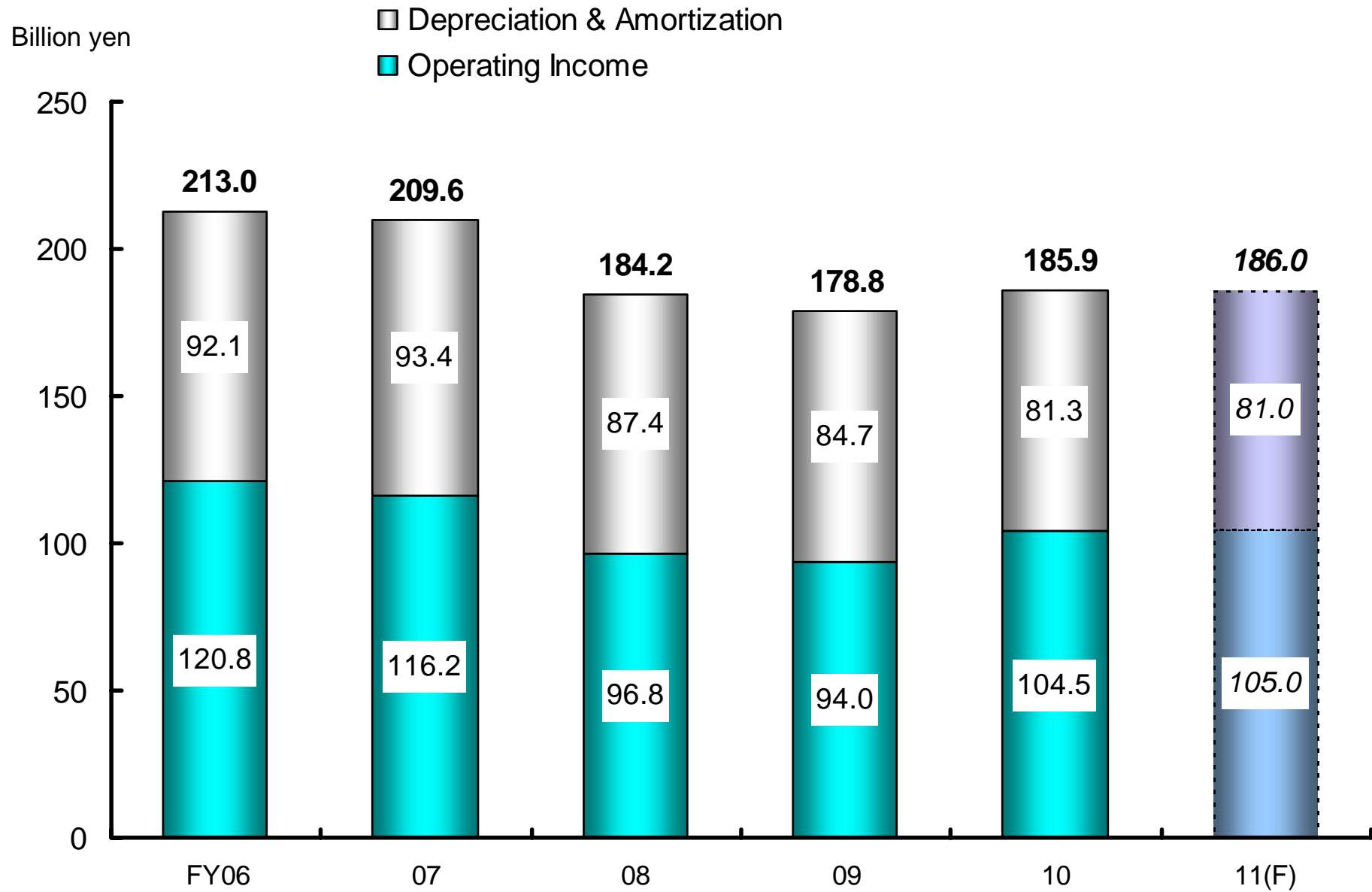
Consolidated Net Sales/EBITA*/Operating Income

[Full Year]

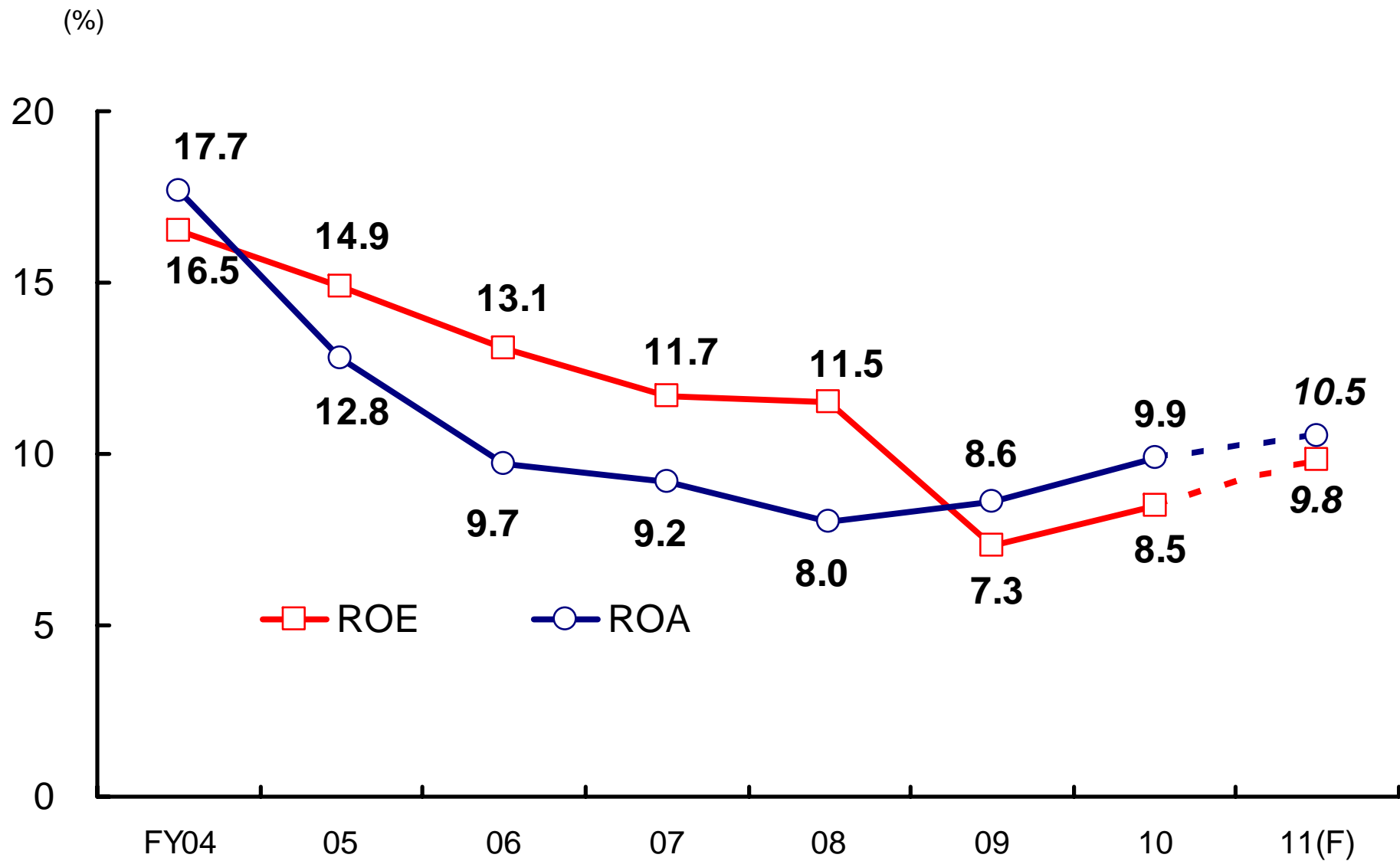


*Operating income before amortization of goodwill and intellectual property rights related to M&A

EBITDA

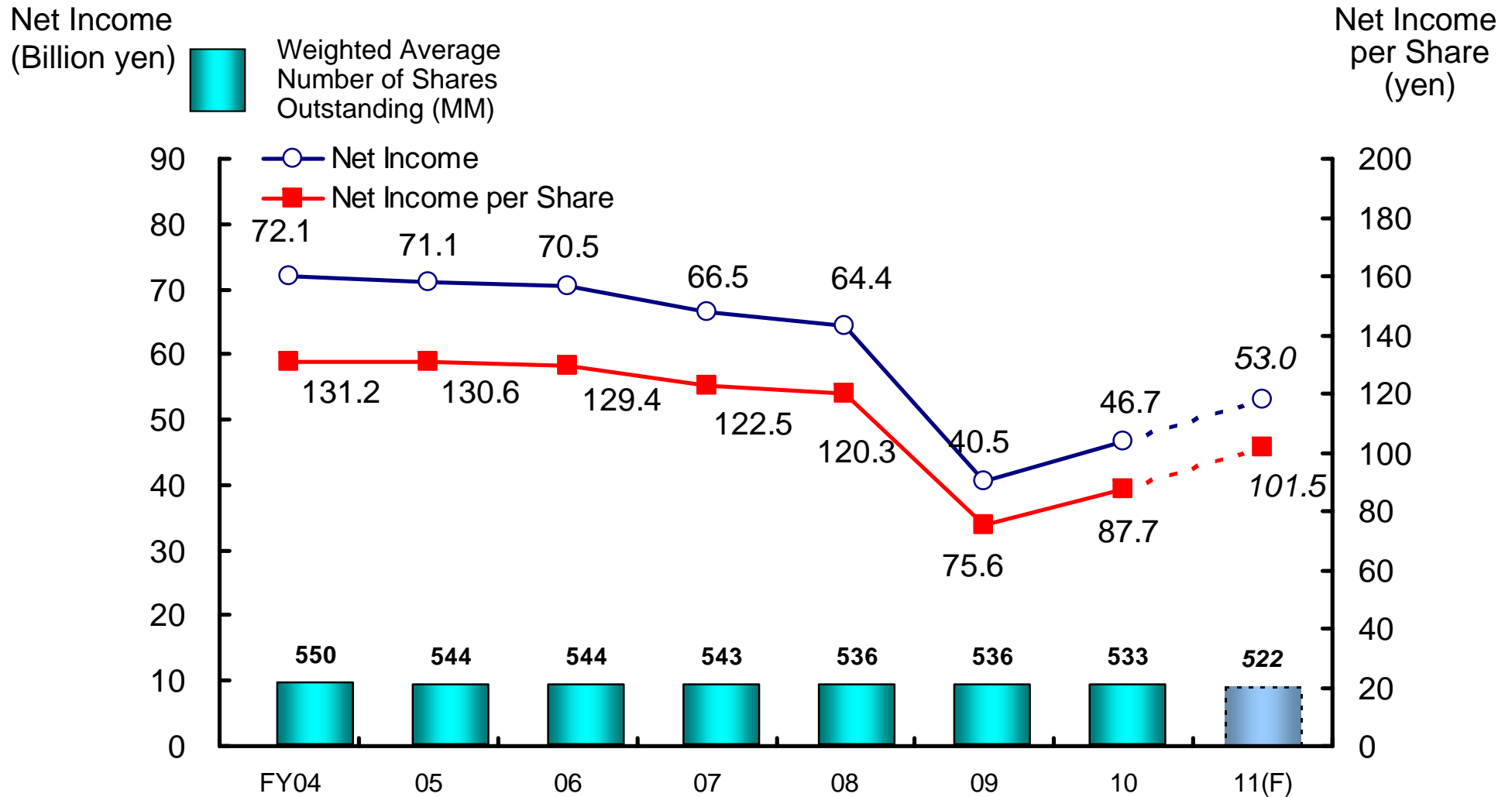


ROE & ROA

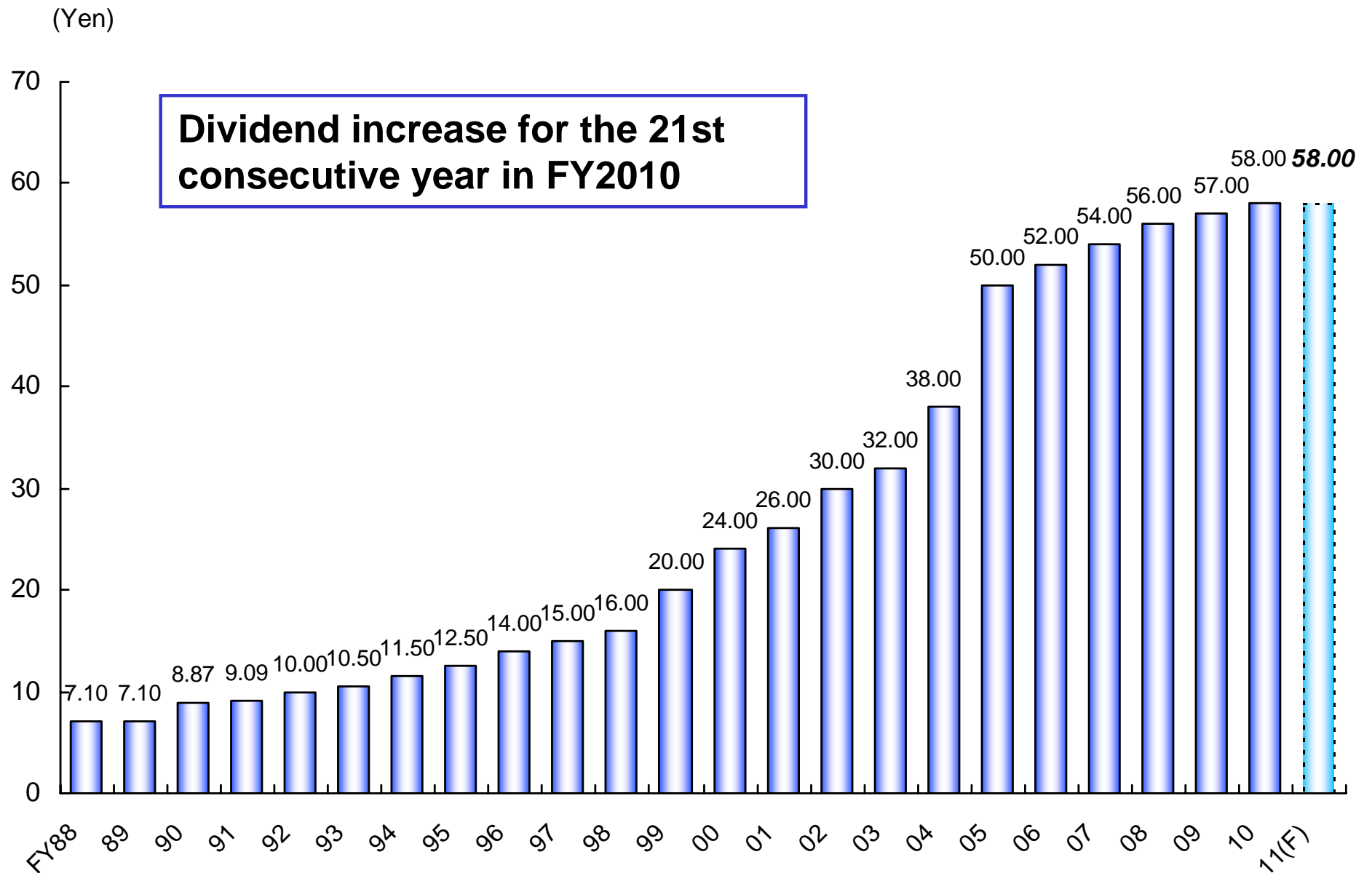


ROA: Ordinary Income / Total assets

Net Income per Share

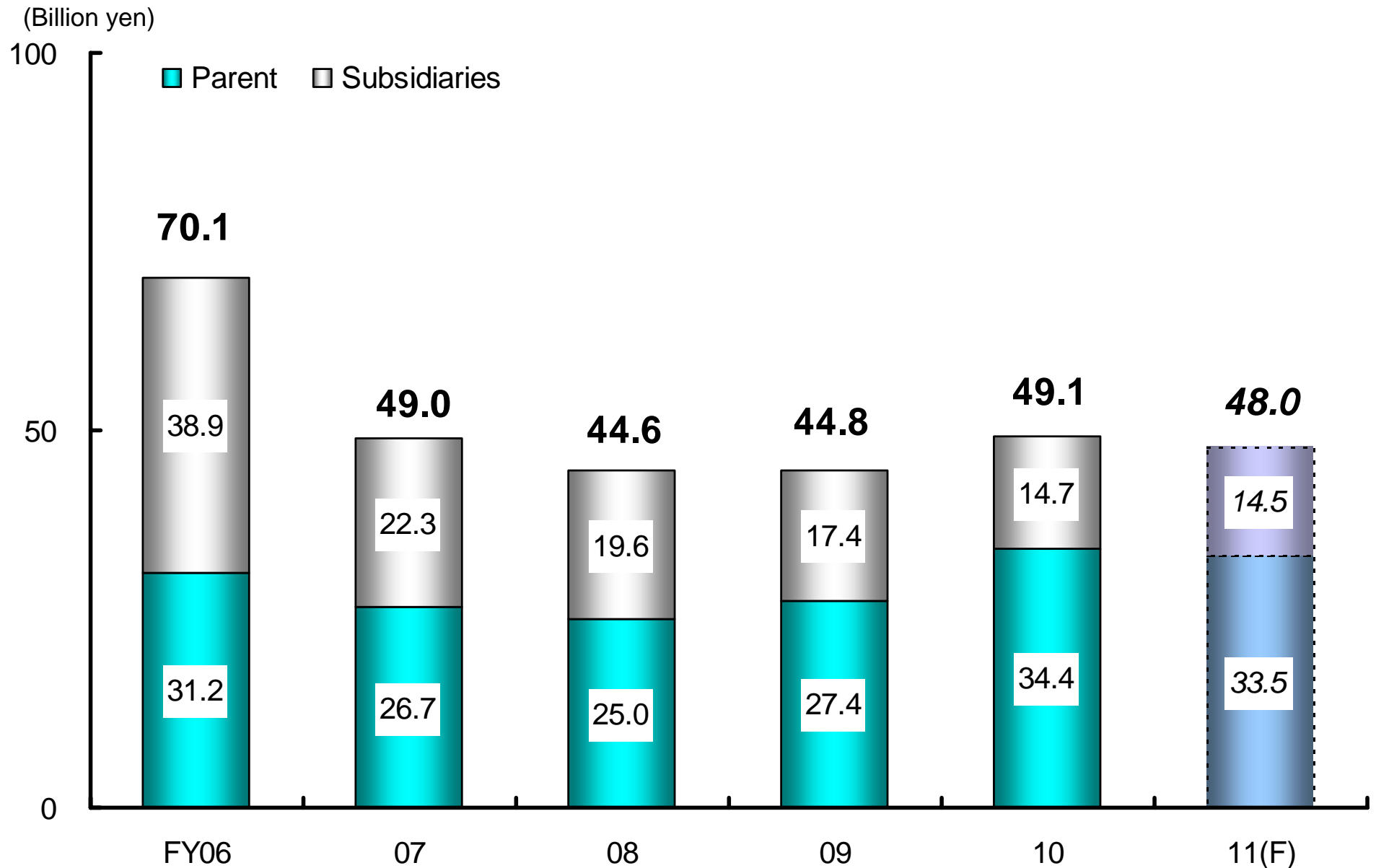


Cash Dividends per Share



*Impacts of share splits are retroactively reflected.

Capital Expenditures

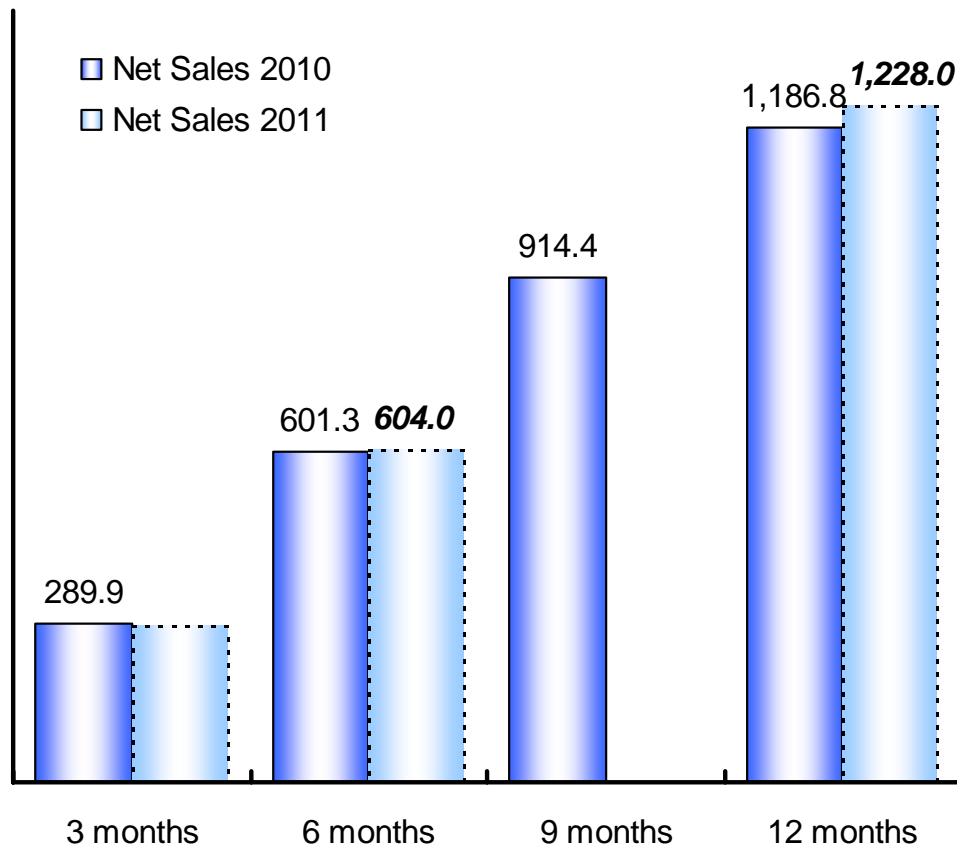


*Payment for purchase of newly consolidated subsidiaries (net of cash acquired) is not included.

FY2011 Quarterly Consolidated Sales and Profit Forecast

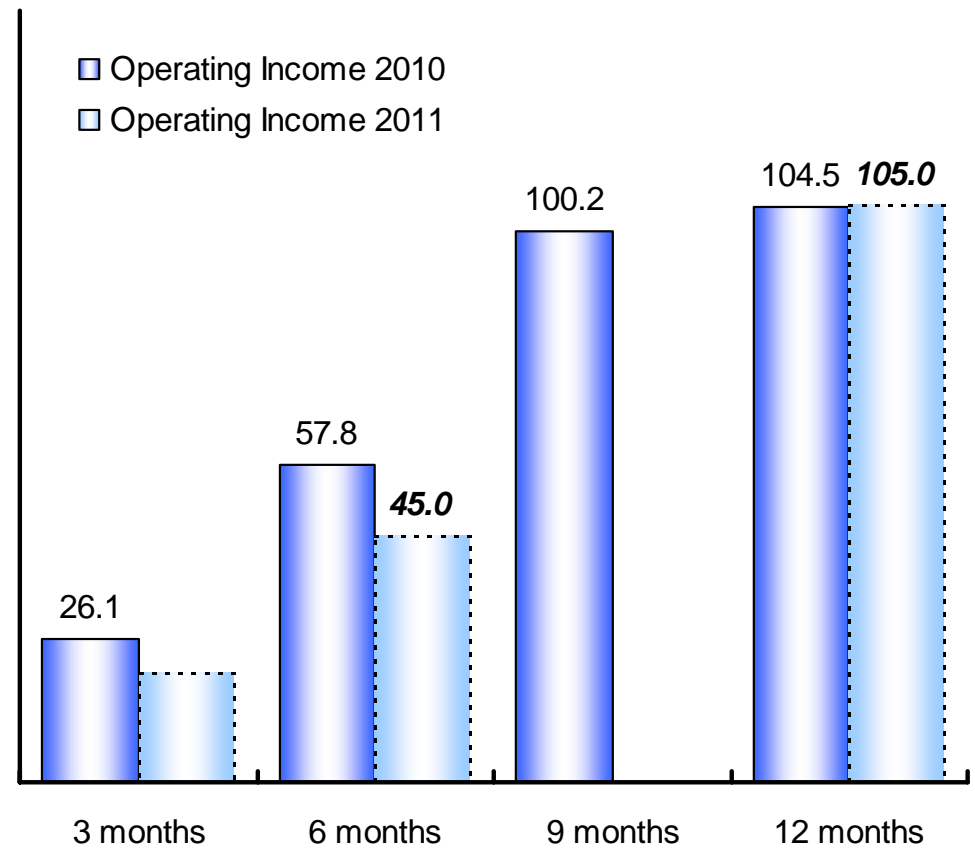
Net Sales

(Billion yen)



Operating Income

(Billion yen)



Kao