

Semi-Annual Financial Review

From April 1, 2010 to September 30, 2010

Kao Corporation

October 26, 2010

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



KaO

These presentation materials are available on our website in PDF format:

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

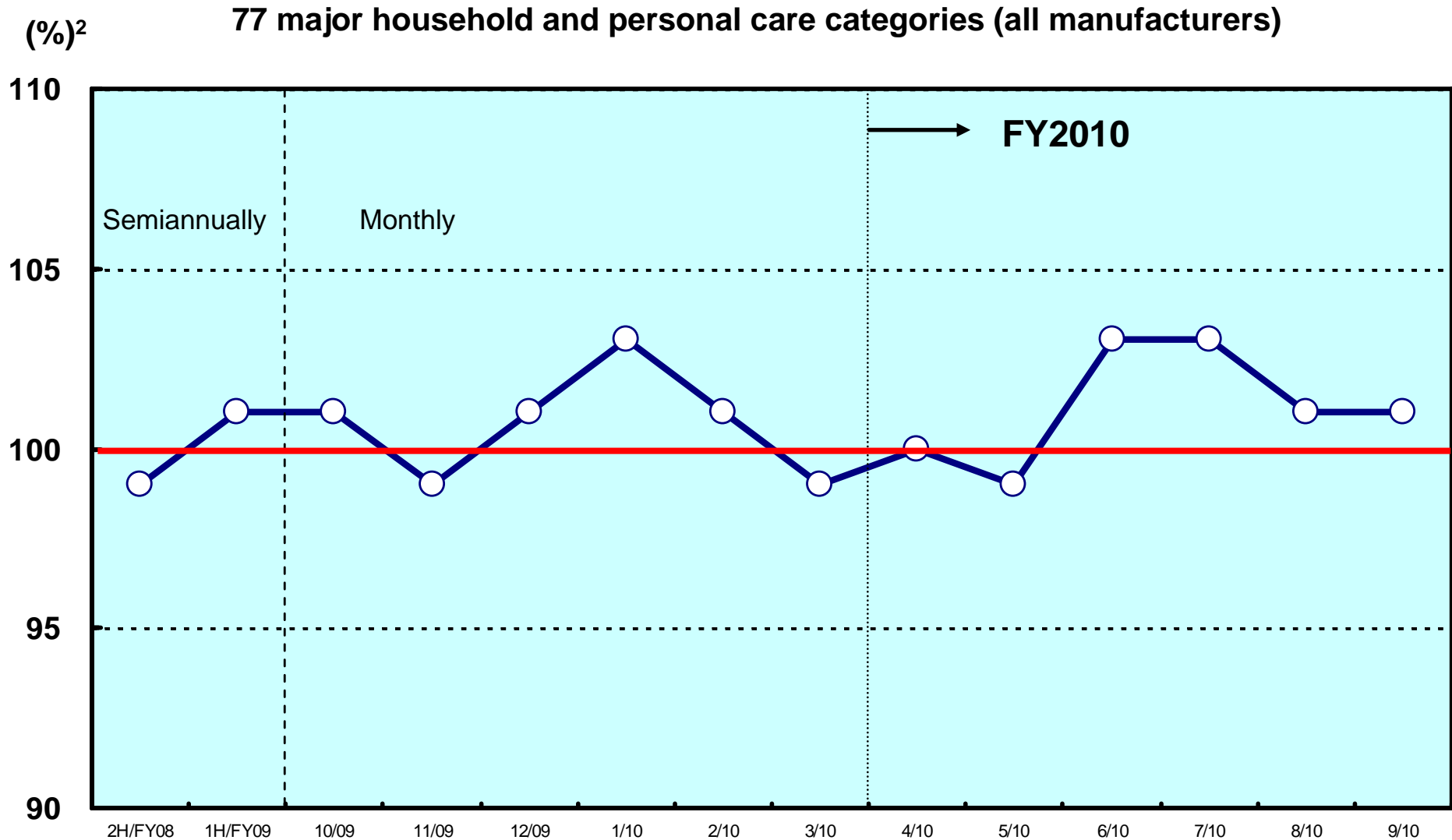
These presentation materials contain forward-looking statements that are based on management's estimates, assumptions and projections as of October 26, 2010. Certain factors, which include, but are not limited to, the risks and uncertainty associated with the worldwide economy, competitive activity, 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, 2010 – September 30, 2010

Consumer Products¹ Market in Japan



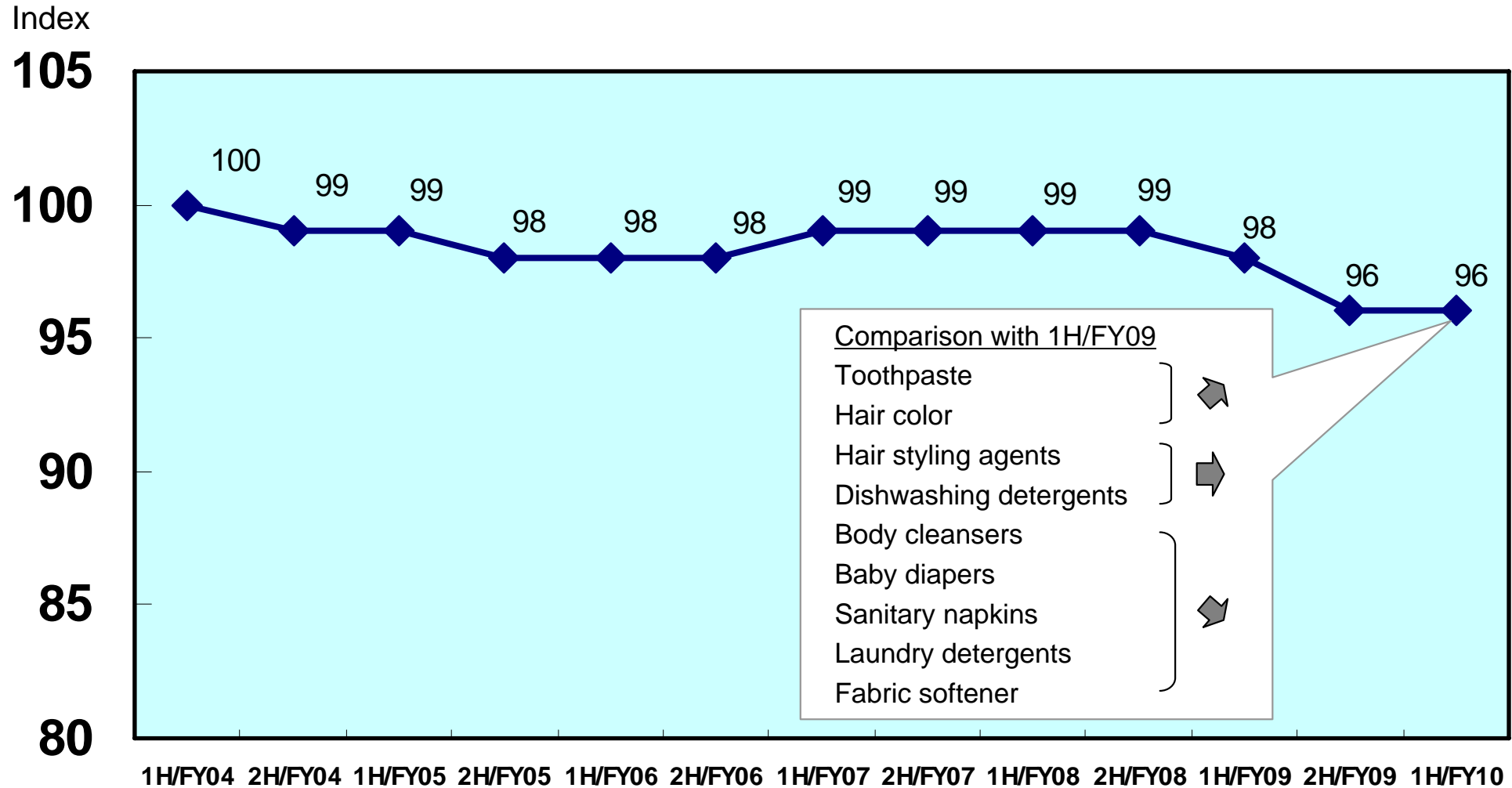
1 Consumer products do not include prestige cosmetics.

2 Year-on-year growth rate of market size in value (yen)

(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 – September 30, 2010

Key Points in 1H/FY2010

Japan sales related

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

Income statements related

- | | | |
|--|----------------|----------------------|
| 1. Net sales: | ¥601.3 billion | (+0.4% year-on-year) |
| • Effect of currency translation: | -¥5.1 billion | (-0.8% year-on-year) |
| • Like-for-like sales growth: | +¥7.4 billion | (+1.2% year-on-year) |
| 2. Increase in operating income ³ : | +¥12.2 billion | |
| 3. Loss on application of accounting standard for asset retirement obligations (Extraordinary loss): | -¥1.6 billion | |

Cash flow related

- | | |
|--|---------------|
| 1. Free cash flow ⁴ | ¥71.3 billion |
| 2. Payments of cash dividends ⁵ : | ¥15.7 billion |
| 3. Repayment of long-term debt: | ¥24.2 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

1H/FY2010 Consolidated Results

Billion yen	<u>1H/FY08</u>	<u>1H/FY09</u>	<u>1H/FY10</u>	Growth	Changes
Net Sales	657.9	599.0	601.3	+0.4%	+2.3
EBITA*	73.7	63.3	75.1	+18.7%	+11.8
<i>EBITA* Margin</i>	11.2%	10.6%	12.5%		
Operating Income	54.7	45.5	57.8	+27.0%	+12.2
<i>Operating Margin</i>	8.3%	7.6%	9.6%		
Ordinary Income	54.9	45.8	56.4	+23.1%	+10.5
Net Income	32.3	25.2	27.8	+10.3%	+2.6
EBITDA	98.0	87.0	98.3	+13.0%	+11.3
EPS (yen)	60.42	47.08	51.93	+10.3%	+4.85

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

Consolidated Net Sales [1]

	1H/FY2009		1H/FY2010		
	Billion yen	% Growth	Billion yen	%	
				Growth	Like-for-like*
Beauty Care Business	210.5	-5.0	206.5	-1.9	-1.9
Human Health Care Business	90.2	+1.3	80.9	-10.3	-10.3
Fabric and Home Care Business	128.4	+3.6	127.9	-0.4	-0.4
Japan Total	429.2	-1.3	415.4	-3.2	-3.2
Asia & Oceania	38.1	-10.7	41.5	+8.8	+7.7
North America	27.8	-14.1	26.8	-3.7	+1.4
Europe	29.5	-24.6	29.5	-0.1	+6.9
Elimination	-10.0	-	-10.5	-	-
Consumer Products Business	514.7	-4.1	502.8	-2.3	-1.8

*Like-for-like: excludes currency translation impact

Consolidated Net Sales [2]

	1H/FY2009		1H/FY2010		
	Billion yen	% Growth	Billion yen	%	
				Growth	Like-for-like*
Japan	55.9	-20.0	61.7	+10.4	+10.4
Asia	24.4	-43.0	33.3	+36.5	+37.1
North America	12.4	-36.3	15.0	+20.9	+23.8
Europe	23.3	-36.0	25.9	+11.2	+19.8
Elimination	-15.4	-	-20.9	-	-
Chemical Business	100.6	-28.6	115.0	+14.3	+16.6
Eliminations	-16.3	-	-16.5	-	-
Consolidated Net Sales	599.0	-8.9	601.3	+0.4	+1.2

*Like-for-like: excludes currency translation impact

Consolidated Income Statements

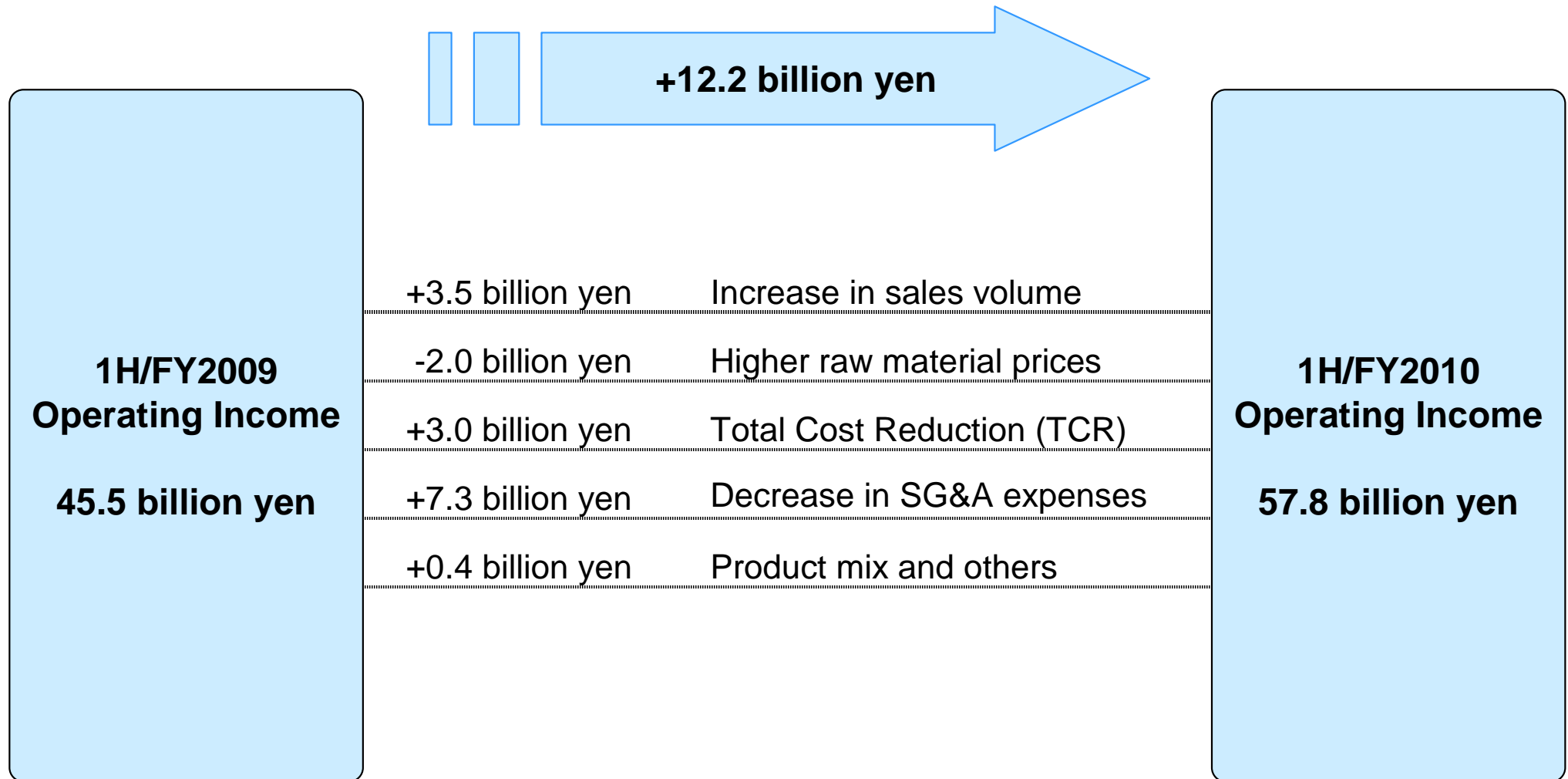
	1H/FY2009		1H/FY2010		Changes ¹
	Billion yen	%	Billion yen	%	Billion yen
Net Sales	599.0	100.0	601.3	100.0	+2.3
Cost of Sales	251.1	41.9	248.5	41.3	-2.6
Gross Profit	347.8	58.1	352.8	58.7	+4.9
SG&A Expenses ²	302.3	50.5	294.9	49.1	-7.3
Operating Income	45.5	7.6	57.8	9.6	+12.2
Non-operating Income/Expenses	0.2	0.0	-1.4	-0.2	-1.7
Ordinary Income	45.8	7.7	56.4	9.4	+10.5
Extraordinary Gain/Loss	-5.2	-0.9	-2.8	-0.5	+2.4
Income Before Income Taxes and Minority Interests	40.5	6.8	53.6	8.9	+13.0
Income Taxes	15.0	2.5	25.2	4.2	+10.2
Income Before Minority Interests	-	-	28.3	4.7	-
Minority Interests	0.2	0.0	0.4	0.1	+0.1
Net Income	25.2	4.2	27.8	4.6	+2.6

1 Changes = 1H/FY2010 – 1H/FY2009

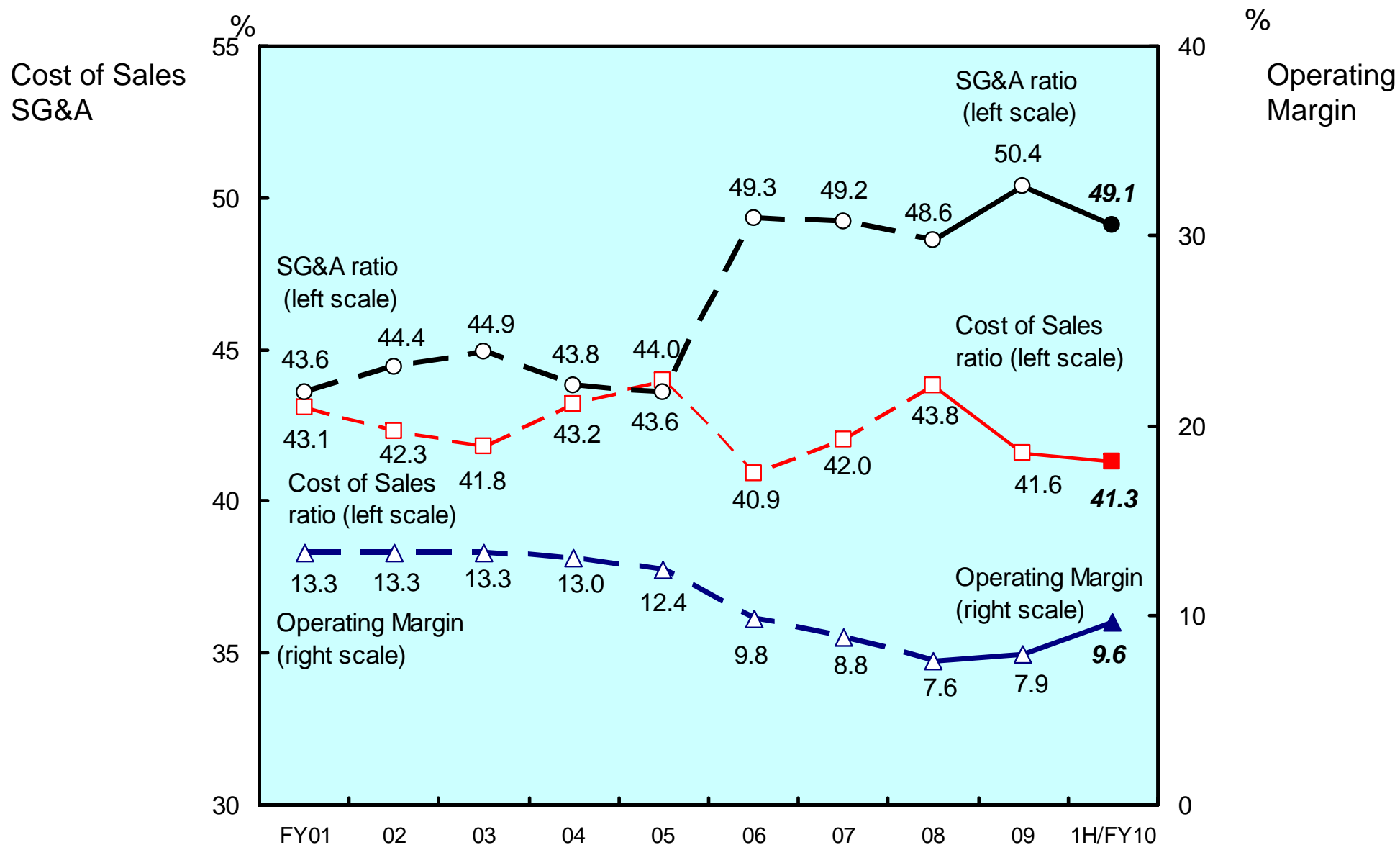
2 Amortization related to Kanebo Cosmetics
1H/FY2009: 13.6 billion yen, 1H/FY2010: 13.7 billion yen

1H/FY2010 Consolidated Operating Income Analysis

Comparison with 1H/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)

	1H/FY2009	1H/FY2010	Changes*
Total SG&A Expenses	302.3	294.9	-7.3

Freight/Warehouse	36.2	34.0	-2.2
Advertising	46.2	42.4	-3.8
Sales Promotion	33.1	33.5	+0.3
Salaries and Bonuses	61.4	62.3	+0.8
R&D	22.5	22.3	-0.2

* Changes = 1H/FY2010 – 1H/FY2009

Effect of currency translation on SG&A expenses: -2.1 billion yen

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

(Billion yen)

Non-operating Income/Expenses	1H/FY2009	1H/FY2010	Changes*
Non-operating Income	3.0	2.6	-0.4
Interest Income	0.5	0.3	
Dividend Income	0.0	0.0	
Equity in Earnings of Nonconsolidated Subsidiaries and Affiliates	1.1	0.5	
Other	1.3	1.6	
Non-operating Expenses	2.8	4.0	+1.2
Interest Expense	2.2	1.7	
Foreign Currency Exchange Loss	0.1	1.9	
Other	0.3	0.3	

Extraordinary Gain/Loss	1H/FY2009	1H/FY2010	Changes*
Extraordinary Gain	0.1	0.2	+0.1
Gain on Sales of Fixed Assets	0.0	0.1	
Gain on Sales of Investment Securities	0.0	0.1	
Other	0.0	0.0	
Extraordinary Loss	5.3	3.1	-2.2
Loss on Sales/Disposals of Fixed Assets	1.4	1.2	
Loss on Application of Accounting Standard for Asset Retirement	-	1.6	
Loss related to cooking oils	3.4	-	
Other	0.5	0.1	

* Changes = 1H/FY2010 – 1H/FY2009

Consolidated Results by Segment

		1H/FY2009		1H/FY2010		Changes Billion yen	Growth %
		Billion yen	% of net sales	Billion yen	% of net sales		
Beauty Care Business	Net Sales ¹	275.6	-	272.5	-	-3.1	-1.1%
	EBITA ²	18.7	6.8%	22.4	8.2%	+3.6	+19.6%
	Operating Income	1.1	0.4%	5.2	1.9%	+4.1	+362.9%
Human Health Care Business	Net Sales ¹	97.9	-	89.2	-	-8.7	-8.9%
	Operating Income	4.5	4.7%	8.6	9.7%	+4.0	+87.9%
Fabric and Home Care Business	Net Sales ¹	141.0	-	141.0	-	-0.0	-0.0%
	Operating Income	31.7	22.5%	31.4	22.3%	-0.3	-1.0%
Chemical Business	Net Sales ¹	100.6	-	115.0	-	+14.4	+14.3%
	EBITA ²	8.1	8.1%	12.6	11.0%	+4.5	+55.3%
	Operating Income	8.0	8.0%	12.5	10.9%	+4.5	+56.0%
Consolidated	Net Sales	599.0	-	601.3	-	+2.3	+0.4%
	EBITA ²	63.3	10.6%	75.1	12.5%	+11.8	+18.7%
	Operating Income	45.5	7.6%	57.8	9.6%	+12.2	+27.0%

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

		1H/FY2009		1H/FY2010		Changes Billion yen	Growth %
		Billion yen	% of net sales	Billion yen	% of net sales		
Japan	Net Sales ¹	470.5	-	462.3	-	-8.2	-1.7%
	EBITA ²	58.0	12.3%	62.8	13.6%	+4.8	+8.3%
	Operating Income	41.4	8.8%	46.6	10.1%	+5.2	+12.5%
Asia and Oceania	Net Sales ¹	61.9	-	73.9	-	+11.9	+19.2%
	Operating Income	0.7	1.2%	3.4	4.6%	+2.6	+346.2%
North America	Net Sales ¹	40.2	-	41.7	-	+1.5	+3.8%
	EBITA ²	1.0	2.6%	4.4	10.6%	+3.3	+319.2%
	Operating Income	0.6	1.5%	4.0	9.6%	+3.3	+549.9%
Europe	Net Sales ¹	52.8	-	55.3	-	+2.5	+4.8%
	EBITA ²	2.5	4.8%	4.6	8.4%	+2.1	+83.5%
	Operating Income	1.8	3.5%	3.9	7.2%	+2.1	+117.0%
Consolidated	Net Sales	599.0	-	601.3	-	+2.3	+0.4%
	EBITA ²	63.3	10.6%	75.1	12.5%	+11.8	+18.7%
	Operating Income	45.5	7.6%	57.8	9.6%	+12.2	+27.0%

1 Before elimination of intersegment transfers

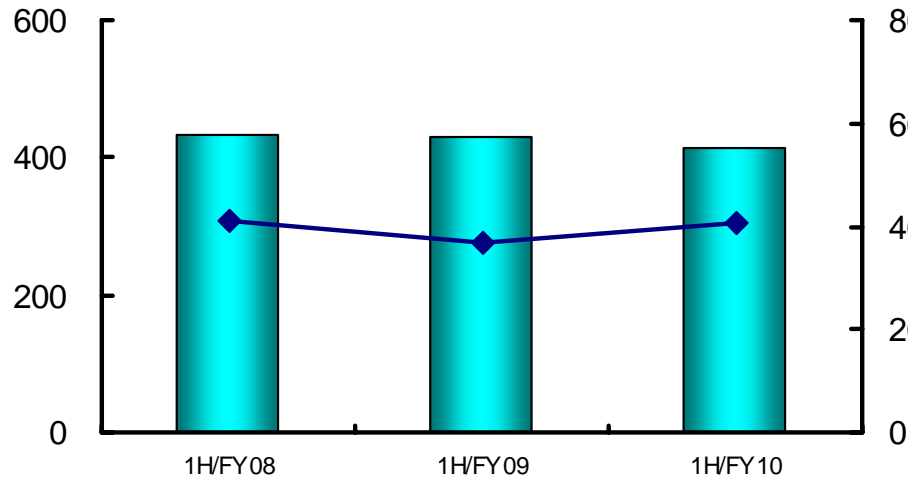
2 Operating income before amortization of goodwill and intellectual property rights related to M&A

Consumer Products Business by Geographic Area

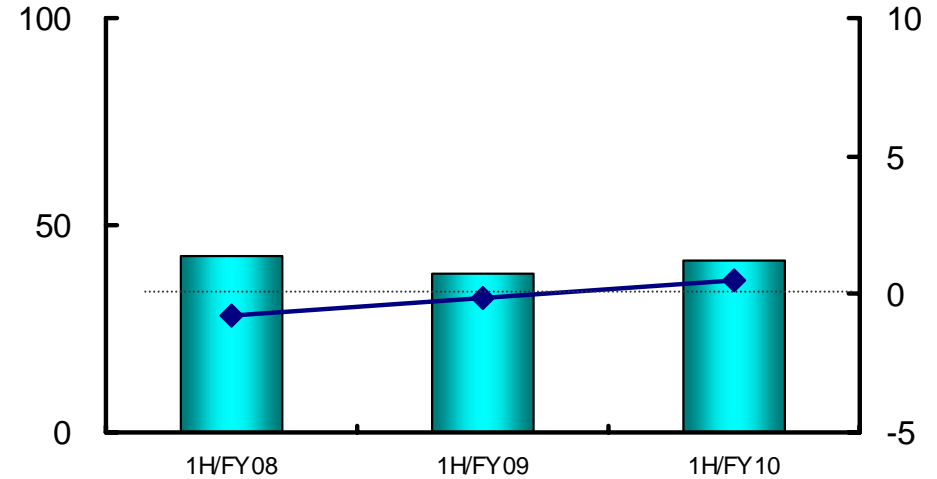
Japan

Sales (Billion yen)

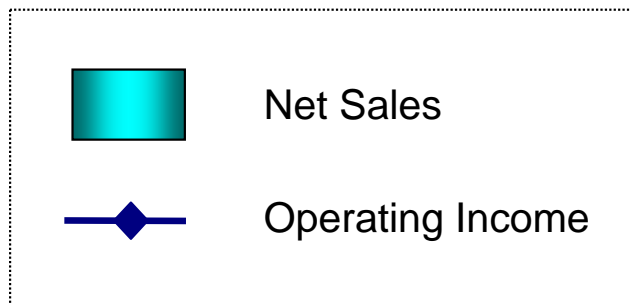
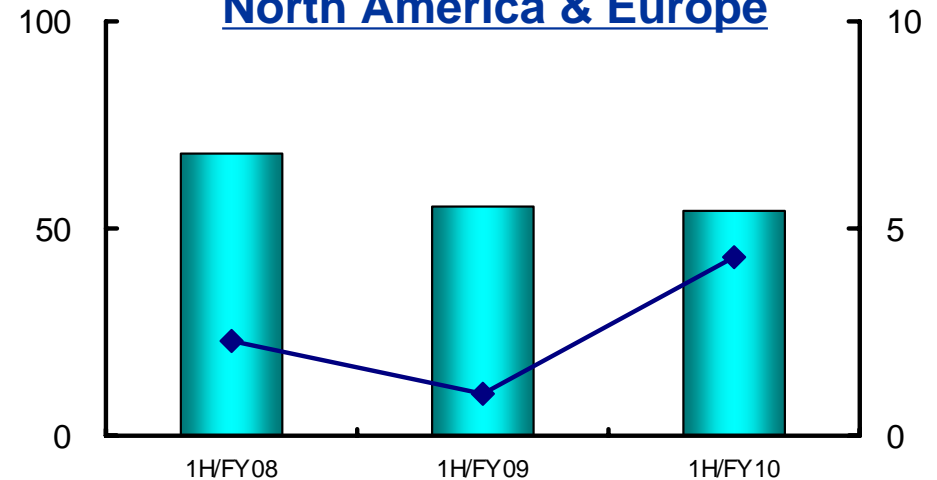
Operating Income
(Billion yen)



Asia and Oceania



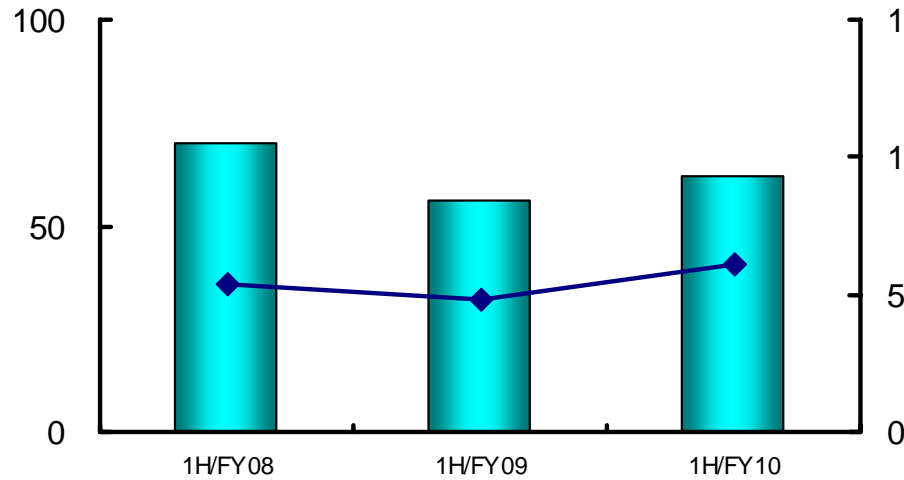
North America & Europe



Chemical Business by Geographic Area

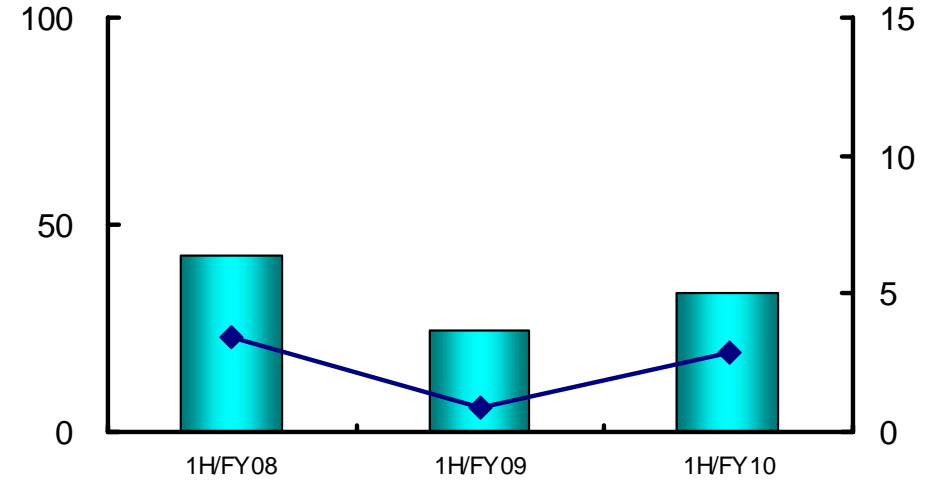
Japan

Sales (Billion yen)

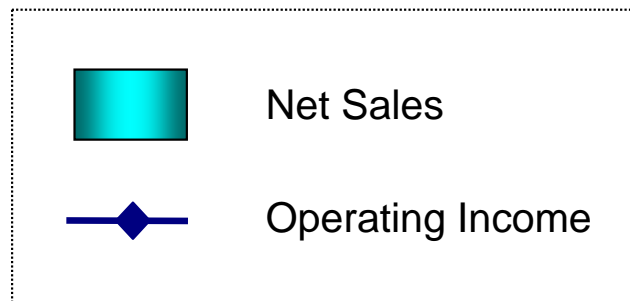
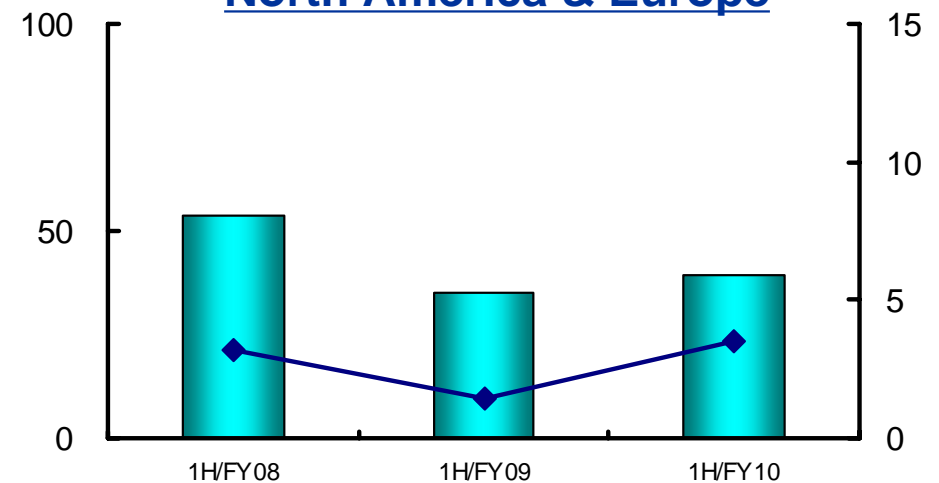


Asia

Operating Income (Billion yen)



North America & Europe



Consolidated Balance Sheets

(Billion yen)

	Mar/10	Sep/10	Changes		Mar/10	Sep/10	Changes
Current Assets	393.9	418.1	+24.1	Current Liabilities	279.5	315.3	+35.7
Cash and Time Deposits	70.1	73.7	+3.5	Notes and Accounts Payable - Trade	99.9	107.1	+7.2
Notes and Accounts Receivable - Trade	127.5	127.1	-0.4	Bonds/Short-term Debt (incl. Current Portion of Bonds/Long-term Debt)	31.9	58.5	+26.6
Short-term Investments	46.0	69.8	+23.7	Other	147.7	149.5	+1.8
Inventories	106.5	107.6	+1.0				
Other	43.5	39.7	-3.8				
Fixed Assets	671.7	633.4	-38.3	Long-term Liabilities	210.8	162.9	-47.9
Property, Plant and Equipment	251.8	245.8	-5.9	Bonds/Long-term Debt	150.6	100.0	-50.6
Intangible Assets	313.9	292.3	-21.6	Other	60.1	62.9	+2.7
Investments and Other Assets	105.9	95.3	-10.6	Total Liabilities	490.4	478.2	-12.1
				Shareholders' equity	626.2	638.6	+12.3
				-Common Stock	85.4	85.4	-
				-Capital Surplus	109.5	109.5	-
				-Retained Earnings	442.2	454.5	+12.2
				-Treasury Stock, at Cost	-10.9	-10.9	0.0
				Adjustments for Valuation, Foreign Currency Translation and Others	-61.1	-75.9	-14.7
				- Unrealized Gain on Available-for-sale Securities	2.2	1.6	-0.6
				- Deferred Gain (Loss) on Derivatives under Hedges Accounting	-0.0	-0.0	-0.0
				- Foreign Currency Translation Adjustments	-62.9	-76.9	-13.9
				- Other	-0.4	-0.6	-0.1
				Stock Acquisition Rights	1.0	1.1	+0.1
				Minority Interests	9.1	9.4	+0.3
				Total Net Assets	575.2	573.3	-1.9
Total Assets	1,065.7	1,051.5	-14.1	Total Liabilities and Total Net Assets	1,065.7	1,051.5	-14.1

Consolidated Statements of Cash Flows

	(Billion yen)		
	1H/FY2009	1H/FY2010	Changes ¹
Net Cash Provided by Operating Activities	110.6	80.7	-29.9
Net Cash Used in Investing Activities	-19.3	-9.3	+9.9
Net Cash Provided by (Used in) Financing Activities	-61.6	-39.5	+22.1
Translation Adjustments on Cash and Cash Equivalents	4.8	-3.3	-8.2
Net Increase (Decrease) in Cash and Cash Equivalents	34.5	28.4	-6.1
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	145.1	145.8	+0.6
Total Debt at End of Period	230.4	158.6	-71.7
Free Cash Flow ²	91.3	71.3	-19.9

1: Changes = 1H/FY2010 – 1H/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>

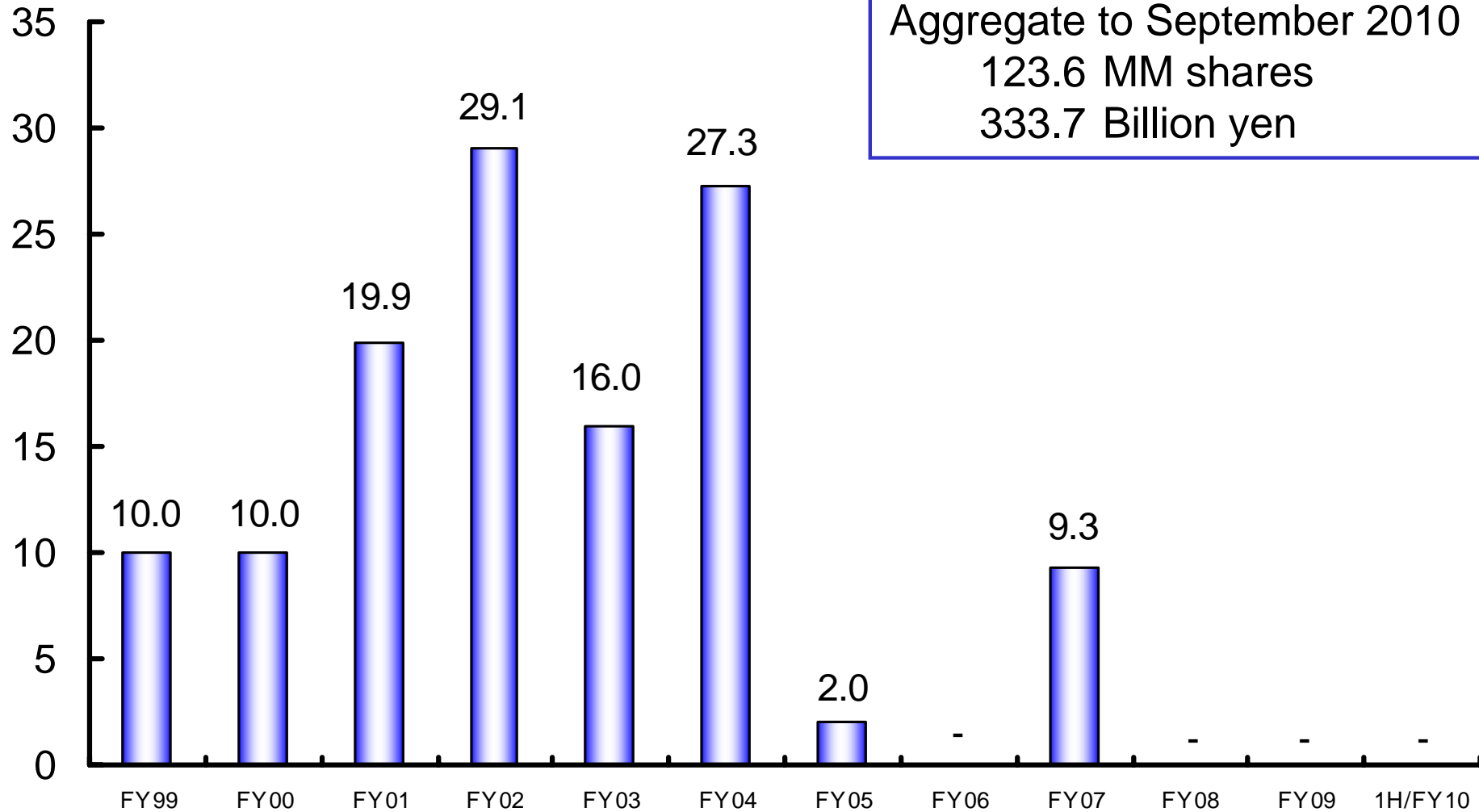
Payments of cash dividends: 15.7 billion yen

(Includes payments of cash dividends to minority shareholders)

Repayment of long-term debt: 24.2 billion yen

Share Repurchase

(Million Shares)



Aggregate to September 2010
 123.6 MM shares
 333.7 Billion yen

Year	Billion yen
FY99	29.5
FY00	28.6
FY01	56.7
FY02	77.1
FY03	36.7
FY04	69.9
FY05	5.0
FY06	-
FY07	29.9
FY08	-
FY09	-
1H/FY10	-

* 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 the Consumer Products Business* in Japan: +1% year-on-year
- ◆ Year-on-year growth rate of cosmetics market size in value (yen) in Japan: -2% year-on-year
- ◆ Net sales: ¥1,185.0 billion (+0.1% year-on-year)
 - Effect of currency translation: -¥15.0 billion (-1.2% year-on-year)
 - Like-for-like sales growth: +¥15.6 billion (+1.3% year-on-year)
- Estimated impact on income
- ◆ Impact by higher raw material prices:
 - Gross impact of approximately -¥13 billion
 - Net impact of approximately -¥8 billion
- ◆ Total Cost Reduction (TCR) activities: +¥7 billion
- ◆ Capital expenditures/depreciation and amortization
 - Capital expenditures: ¥55 billion
 - Depreciation and amortization: ¥83 billion

Exchange rate assumptions

- ◆ 88 yen/USD (FY2009 actual exchange rate [quarterly average]: 93.72 yen/USD)
- ◆ 116 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	1,185.0	+0.1
Operating Income	96.8	-16.7	94.0	-2.9	105.0	+11.7
[% of Sales]	7.6%		7.9%		8.9%	
Ordinary Income	94.6	-17.2	93.5	-1.1	103.0	+10.1
[% of Sales]	7.4%		7.9%		8.7%	
Net Income	64.4	-3.2	40.5	-37.2	53.0	+30.8
[% of Sales]	5.1%		3.4%		4.5%	

Net Income per Share (yen)	120.25	-1.9	75.57	-37.2	99.37	+31.5
ROE	11.5%	-	7.3%	-	9.4%	-
EBITDA (Operating Income + Depr. & Amort.)	184.2	-12.1	178.8	-3.0	188.0	+5.1
Cash Dividends per Share (yen)	56.0	+3.7	57.0	+1.8	58.0	+1.8

1 Exchange rate assumptions: 88 yen/USD, 116 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: ¥27.4billion

Sales Outlook by Segment – FY2010

<Billion yen>

Consolidated Net Sales

1,185 +0.1%

By Segment*

Reference:
By Geographic Area*

Beauty Care	538	-1.8%
Human Health Care	176	-3.9%
Fabric and Home Care	279	+0.8%
Chemical	227	+9.2%

Japan	912	-0.7%
Asia & Oceania	146	+10.9%
North America	81	+2.3%
Europe	110	-1.0%

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

Sales Outlook – FY2010

- Consumer Products Business in Japan -

<Billion yen>

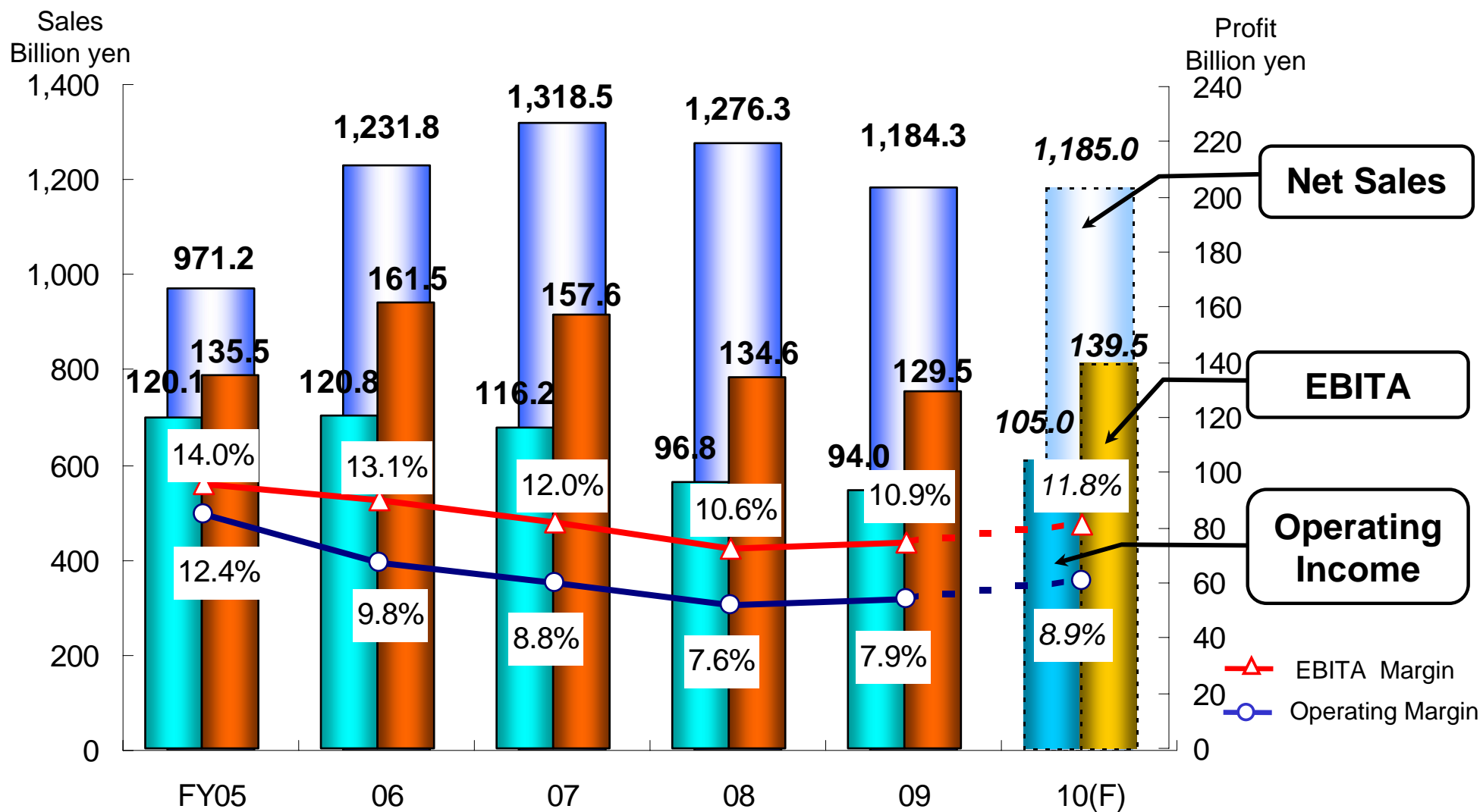
	1st Half			Full Year		
	FY2009 Actual	FY2010 Actual	% Growth	FY2009 Actual	FY2010 Forecast	% Growth
Beauty Care	210.5	206.5	-1.9%	413.1	404.0	-2.2%
Human Health Care	90.2	80.9	-10.3%	167.6	160.0	-4.6%
Fabric and Home Care	128.4	127.9	-0.4%	250.6	253.0	+0.9%
Consumer Products Business	429.2	415.4	-3.2%	831.4	817.0	-1.7%

FY2010 Outlook by Segment

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

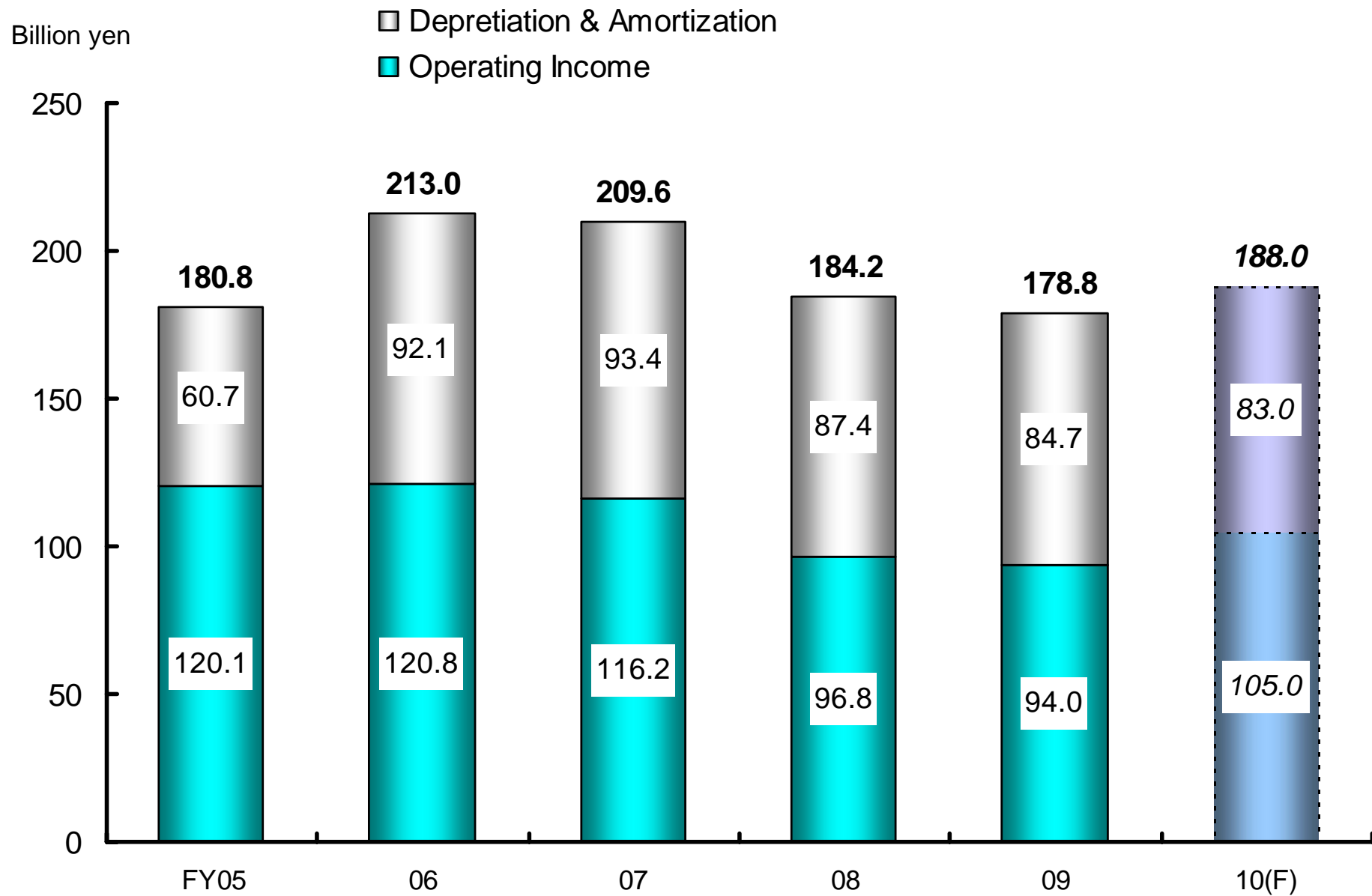
Consolidated Net Sales/EBITA*/Operating Income

[Full Year]

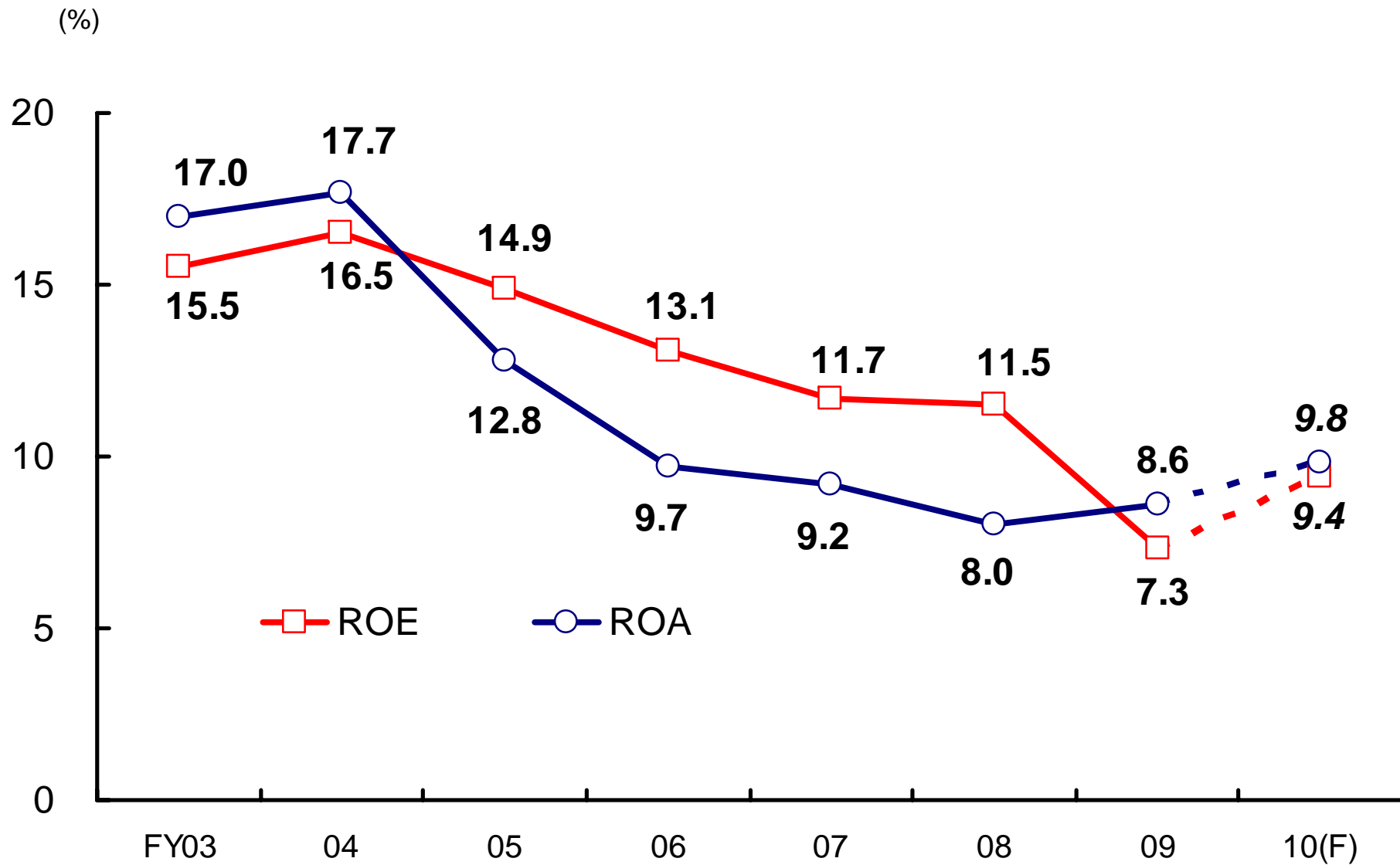


*Operating income before amortization of goodwill and intellectual property rights related to M&A

EBITDA

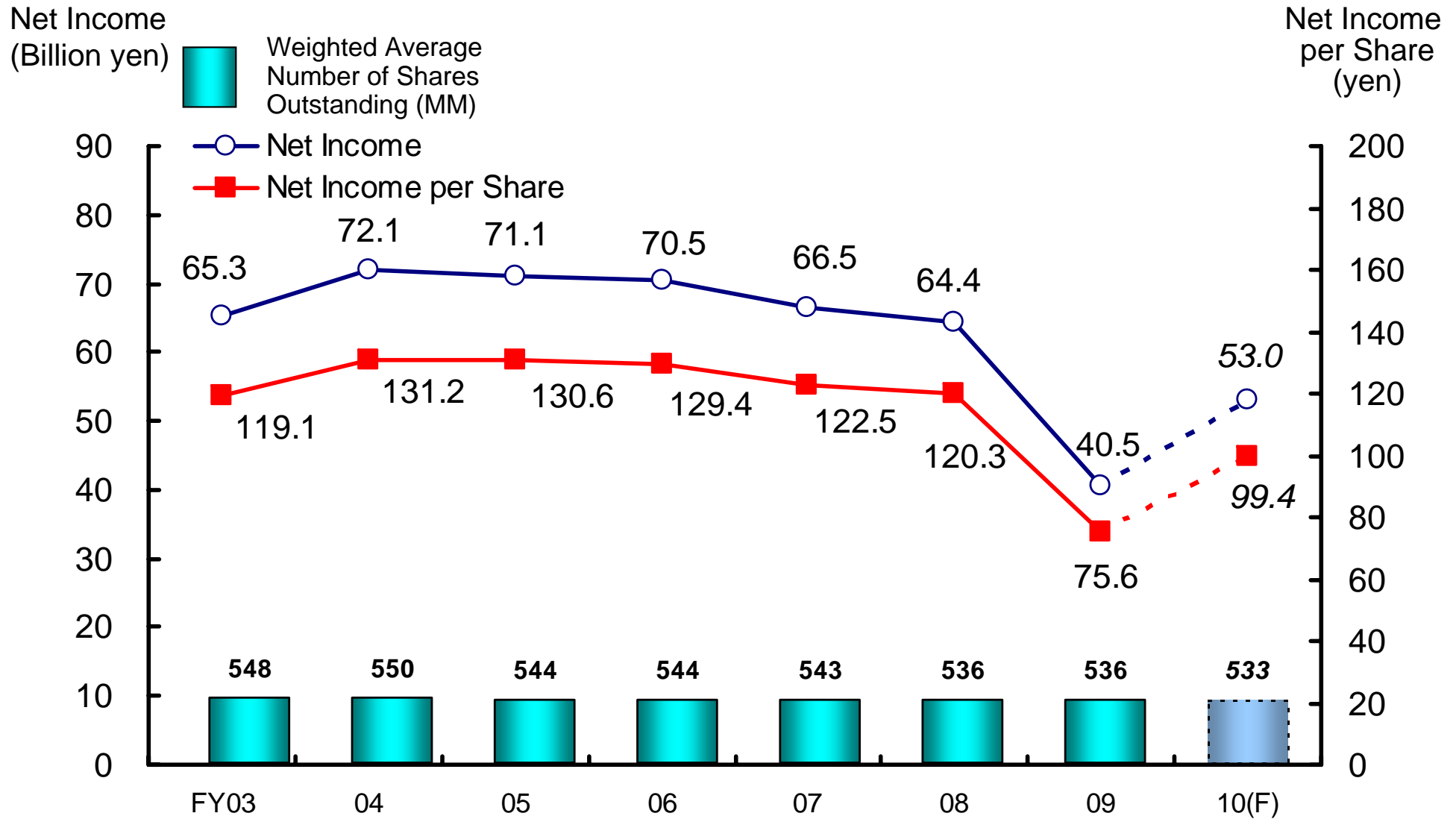


ROE & ROA

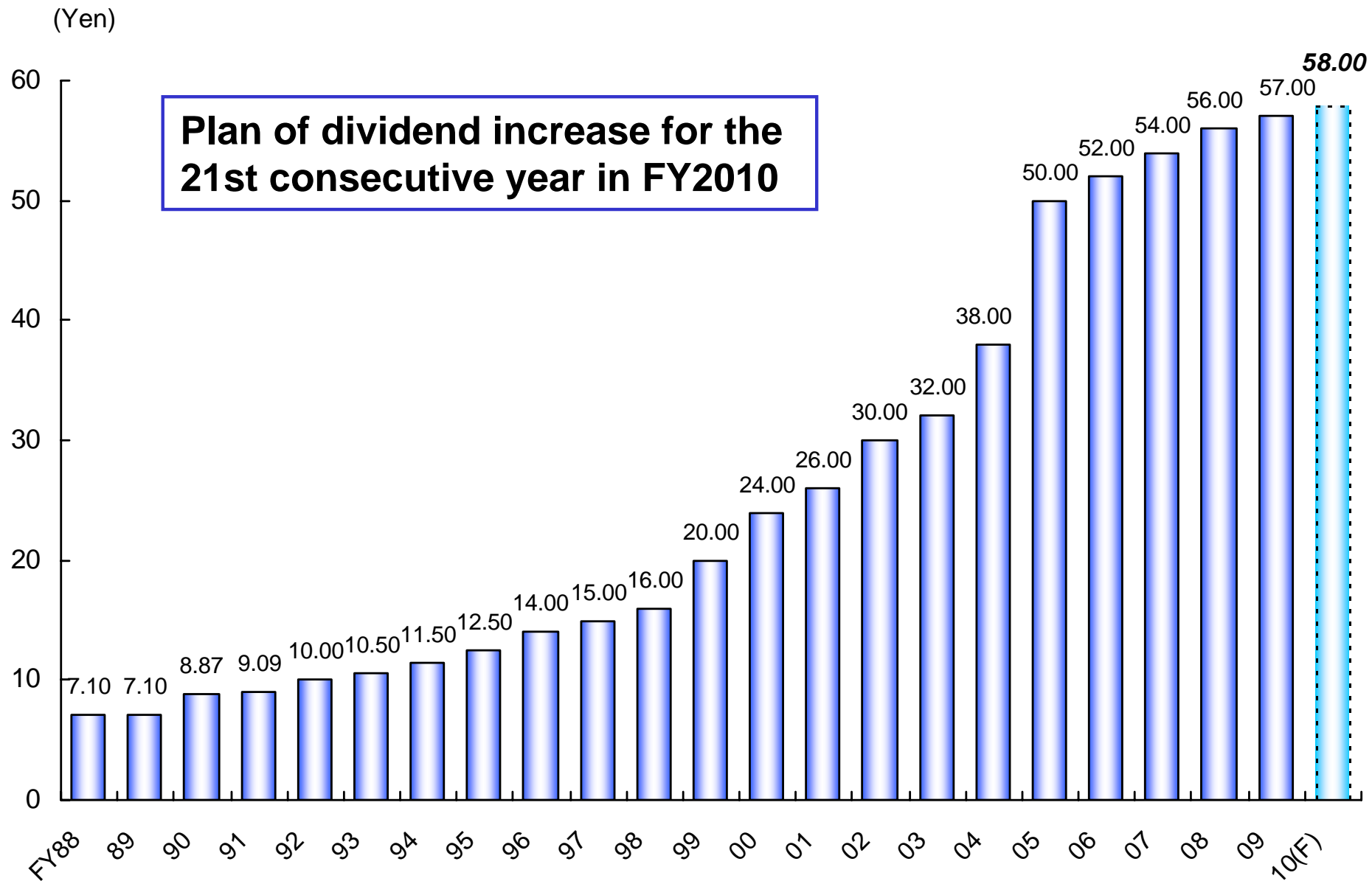


ROA: Ordinary Income / Total assets

Net Income per Share

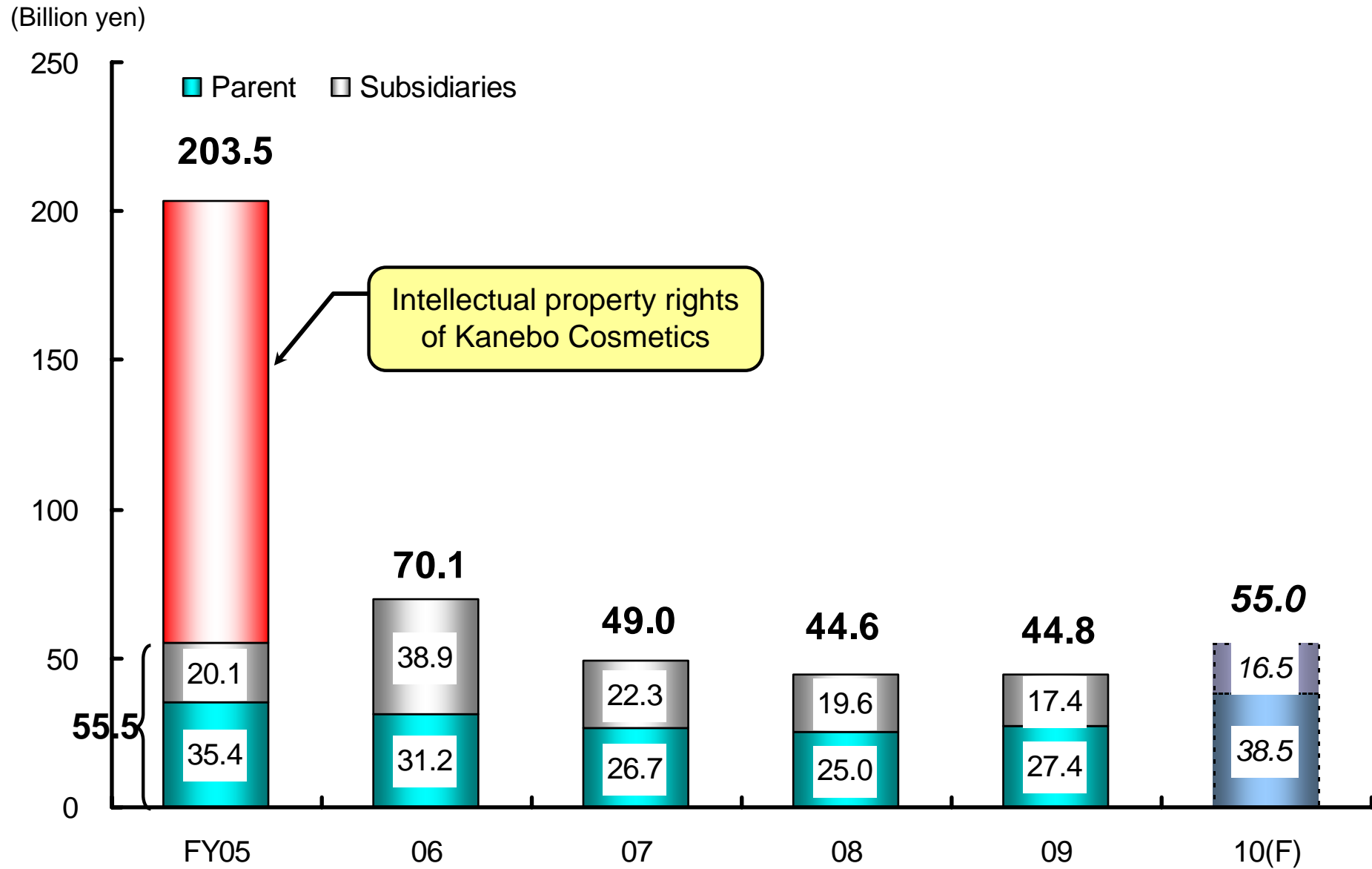


Cash Dividends per Share



*Impacts of share splits are retroactively reflected.

Capital Expenditures

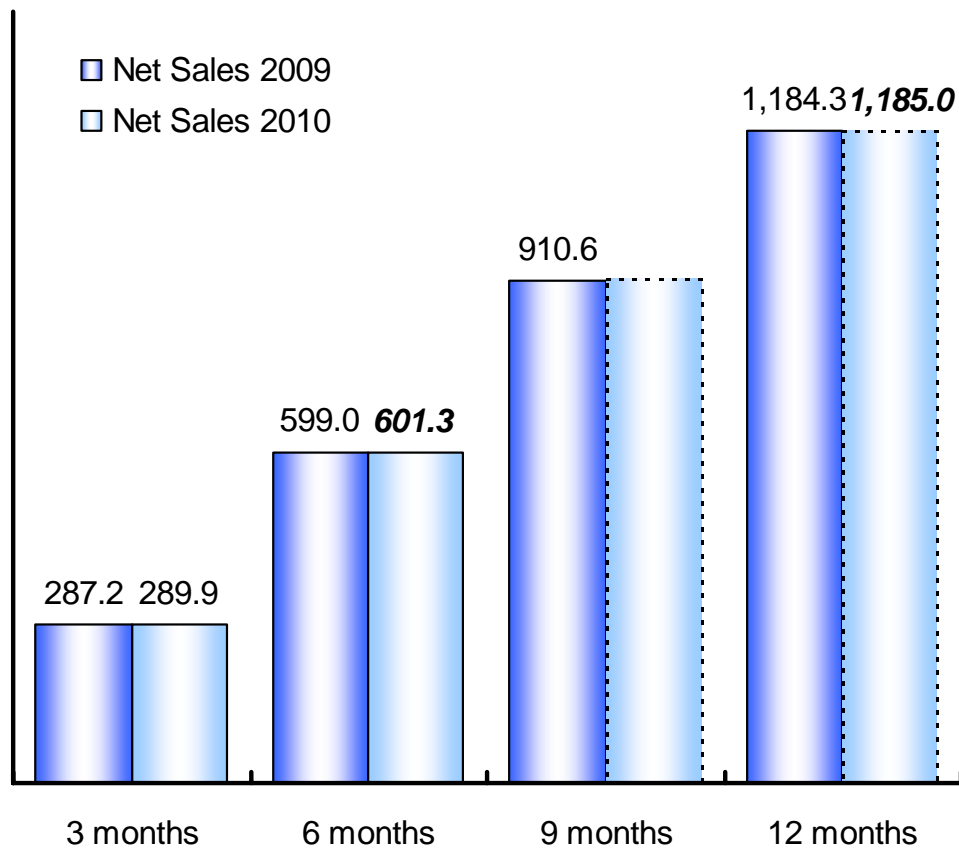


*Payment for purchase of newly consolidated subsidiaries (net of cash acquired) is not included.

FY2010 Quarterly Consolidated Sales and Profit Forecast

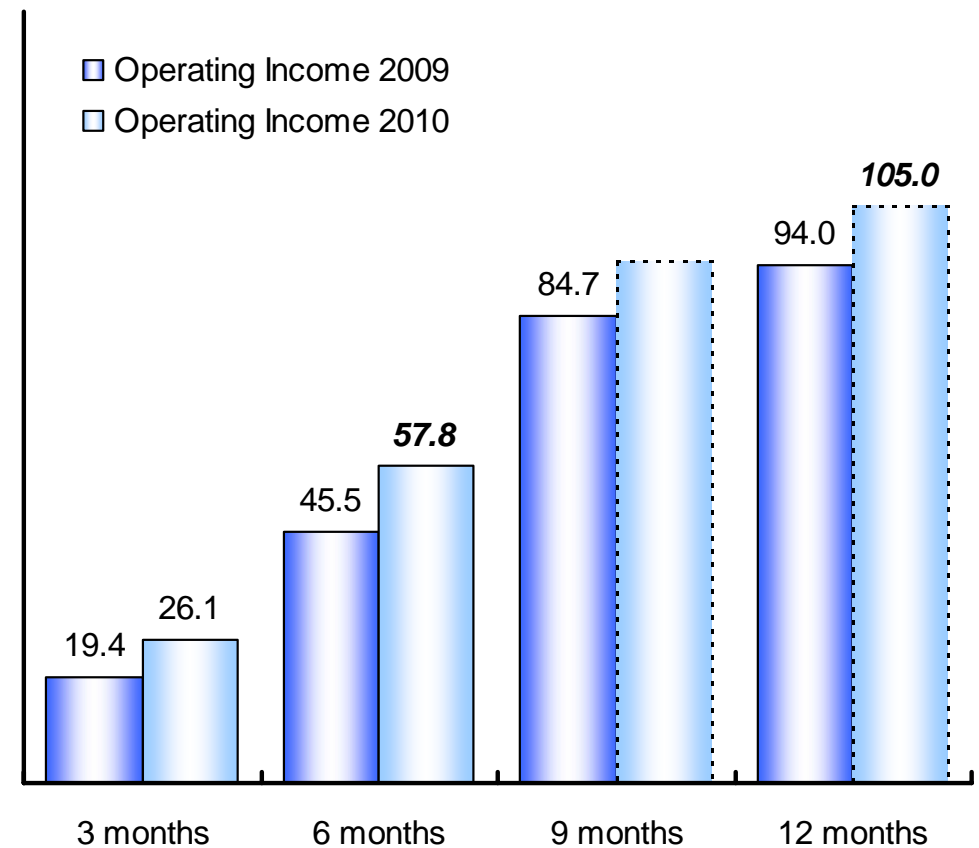
Net Sales

(Billion yen)



Operating Income

(Billion yen)



Kao