

Semi-Annual Financial Review

From April 1, 2011 to September 30, 2011

Kao Corporation

October 25, 2011

This is a translation of materials used for the analyst meeting held in Japan on October 25, 2011.



KaO

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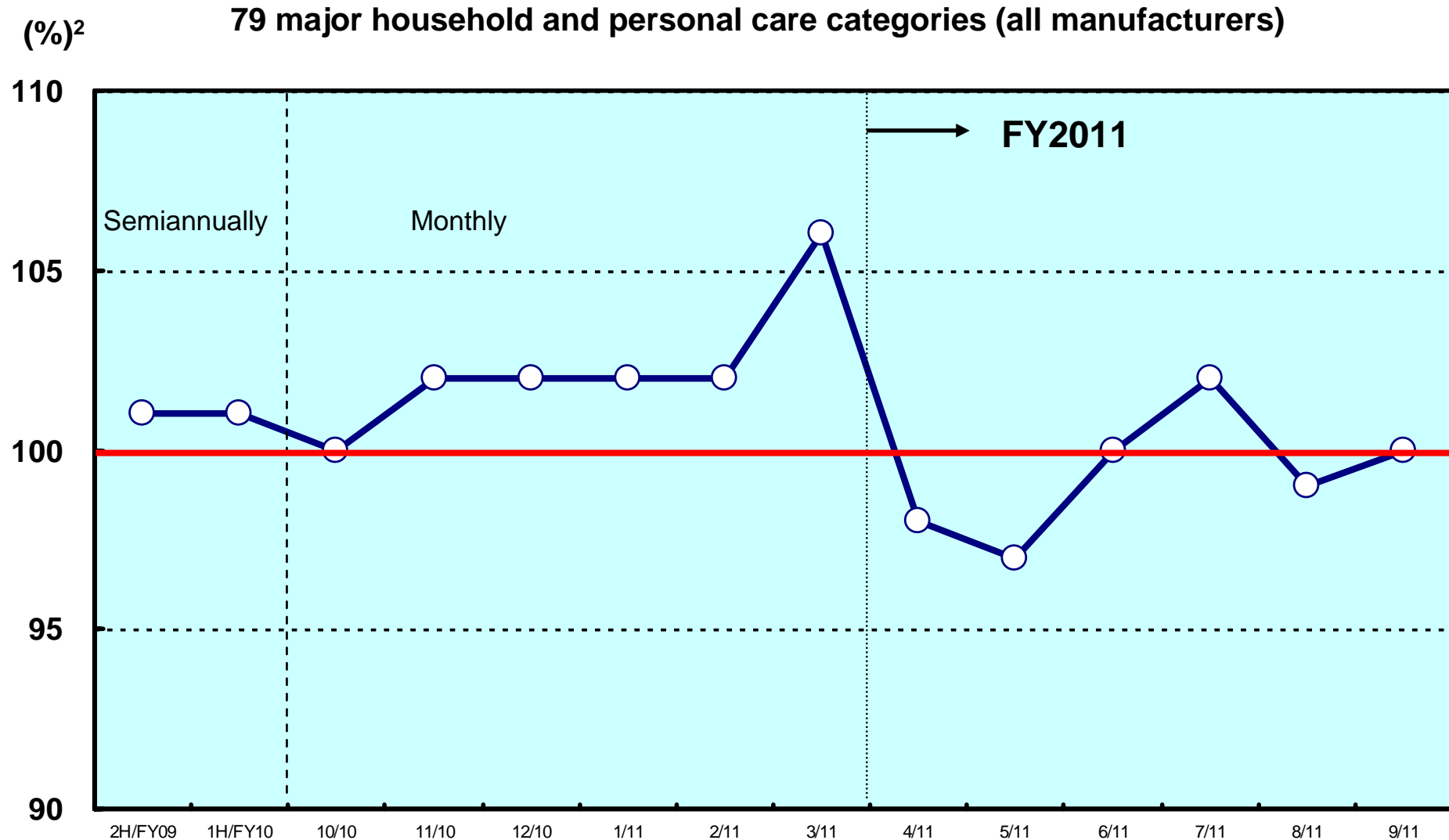
Forward-looking statements such as earnings forecasts and other projections contained in these materials are based on information available at this time and assumptions that management believes to be reasonable. Actual results may differ materially from those expectations due to various factors.

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

1. Business Environment

April 1, 2011 – September 30, 2011

Consumer Products¹ Market in Japan

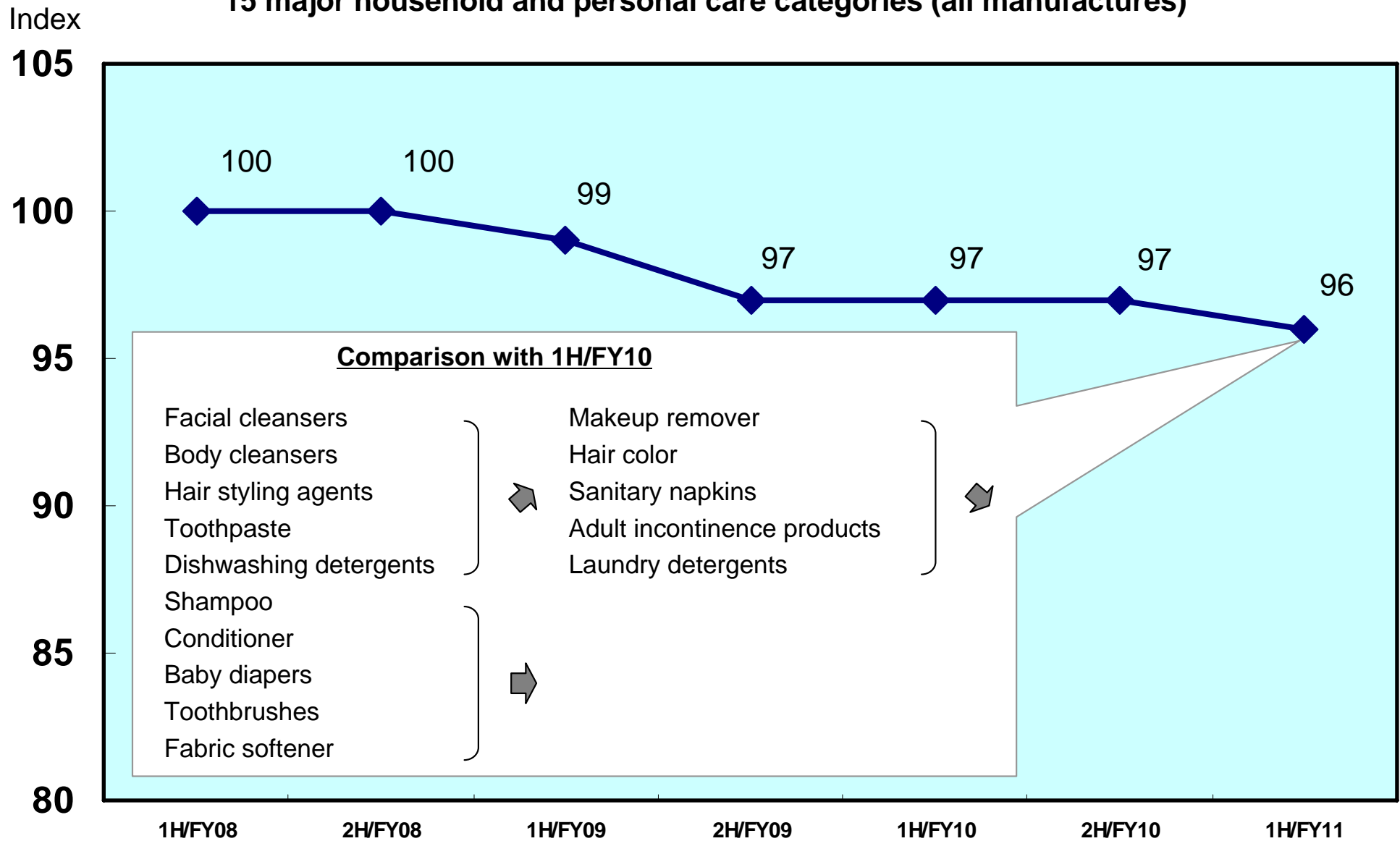


- 1 Consumer products do not include prestige cosmetics.
- 2 Year-on-year growth rate of market size in value (yen)
3. The data of March 2011 includes hoarding due to the earthquake.

(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, 2011 – September 30, 2011

Key Points in 1H/FY2011

Japan sales related

1. Consumer purchase price of 15 major household and personal care categories market in Japan¹ :
-1 point year-on-year
2. Growth of the cosmetics market in Japan²: -4.5%

Income statements related

1. Net sales:	¥614.8 billion	(+2.3% year-on-year)
• Effect of currency translation:	-¥9.5 billion	(-1.6% year-on-year)
• Like-for-like sales growth:	+¥23.0 billion	(+3.8% year-on-year)
2. Increase/decrease in operating income ³ :	-¥0.3 billion	
3. Extraordinary loss:		
• Loss related to the Great East Japan Earthquake:	-¥1.7 billion	

Cash flow related

1. Free cash flow ⁴	¥32.7 billion
2. Payments of cash dividends ⁵ :	¥15.6 billion
3. Redemption of bonds:	¥50.0 billion

1 Index with the 1st half of FY2008 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/FY2011 Consolidated Results

Billion yen	<u>1H/FY09</u>	<u>1H/FY10</u>	<u>1H/FY11</u>	Growth	Changes
Net Sales	599.0	601.3	614.8	+2.3%	+13.5
EBITA*	63.3	75.1	74.3	-1.1%	-0.8
<i>EBITA* Margin</i>	10.6%	12.5%	12.1%		
Operating Income	45.5	57.8	57.5	-0.6%	-0.3
<i>Operating Margin</i>	7.6%	9.6%	9.4%		
Ordinary Income	45.8	56.4	58.8	+4.3%	+2.4
Net Income	25.2	27.8	30.7	+10.4%	+2.9
EBITDA	87.0	98.3	96.8	-1.6%	-1.5
EPS (yen)	47.08	51.93	58.89	+13.4%	+6.96

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

Consolidated Net Sales [1]

	1H/FY2010		1H/FY2011		
	Billion yen	% Growth	Billion yen	%	
				Growth	Like-for-like*
Beauty Care Business	206.5	-1.9	204.3	-1.1	-1.1
Human Health Care Business	80.9	-10.3	82.0	+1.4	+1.4
Fabric and Home Care Business	127.9	-0.4	130.4	+2.0	+2.0
Japan Total	415.4	-3.2	416.9	+0.4	+0.4
Asia & Oceania	41.5	+8.8	43.7	+5.2	+10.0
North America	26.8	-3.7	26.5	-1.1	+9.9
Europe	29.5	-0.1	31.3	+6.1	+9.5
Elimination	-10.5	-	-12.7	-	-
Consumer Products Business	502.8	-2.3	505.7	+0.6	+1.7

*Like-for-like: excludes effect of currency translation

Consolidated Net Sales [2]

	1H/FY2010		1H/FY2011		
	Billion yen	% Growth	Billion yen	%	
				Growth	Like-for-like*
Japan	61.7	+10.4	63.0	+2.0	+2.0
Asia	33.3	+36.5	49.5	+48.6	+57.6
North America	15.0	+20.9	19.0	+27.0	+39.0
Europe	25.9	+11.2	29.8	+15.2	+18.8
Elimination	-20.9	-	-33.3	-	-
Chemical Business	115.0	+14.3	128.1	+11.3	+14.8
Eliminations	-16.5	-	-19.0	-	-
Consolidated Net Sales	601.3	+0.4	614.8	+2.3	+3.8

*Like-for-like: excludes effect of currency translation

Consolidated Income Statements

	1H/FY2010		1H/FY2011		Changes ¹
	Billion yen	%	Billion yen	%	Billion yen
Net Sales	601.3	100.0	614.8	100.0	+13.5
Cost of Sales	248.5	41.3	263.5	42.9	+14.9
Gross Profit	352.8	58.7	351.3	57.1	-1.4
SG&A Expenses ²	294.9	49.1	293.8	47.8	-1.0
Operating Income	57.8	9.6	57.5	9.4	-0.3
Non-operating Income/Expenses	-1.4	-0.2	1.3	0.2	+2.8
Ordinary Income	56.4	9.4	58.8	9.6	+2.4
Extraordinary Gain/Loss	-2.8	-0.5	-3.0	-0.5	-0.2
Income Before Income Taxes and Minority Interests	53.6	8.9	55.8	9.1	+2.2
Income Taxes	25.2	4.2	24.1	3.9	-1.0
Income Before Minority Interests	28.3	4.7	31.6	5.1	+3.3
Minority Interests	0.4	0.1	0.9	0.1	+0.4
Net Income	27.8	4.6	30.7	5.0	+2.9

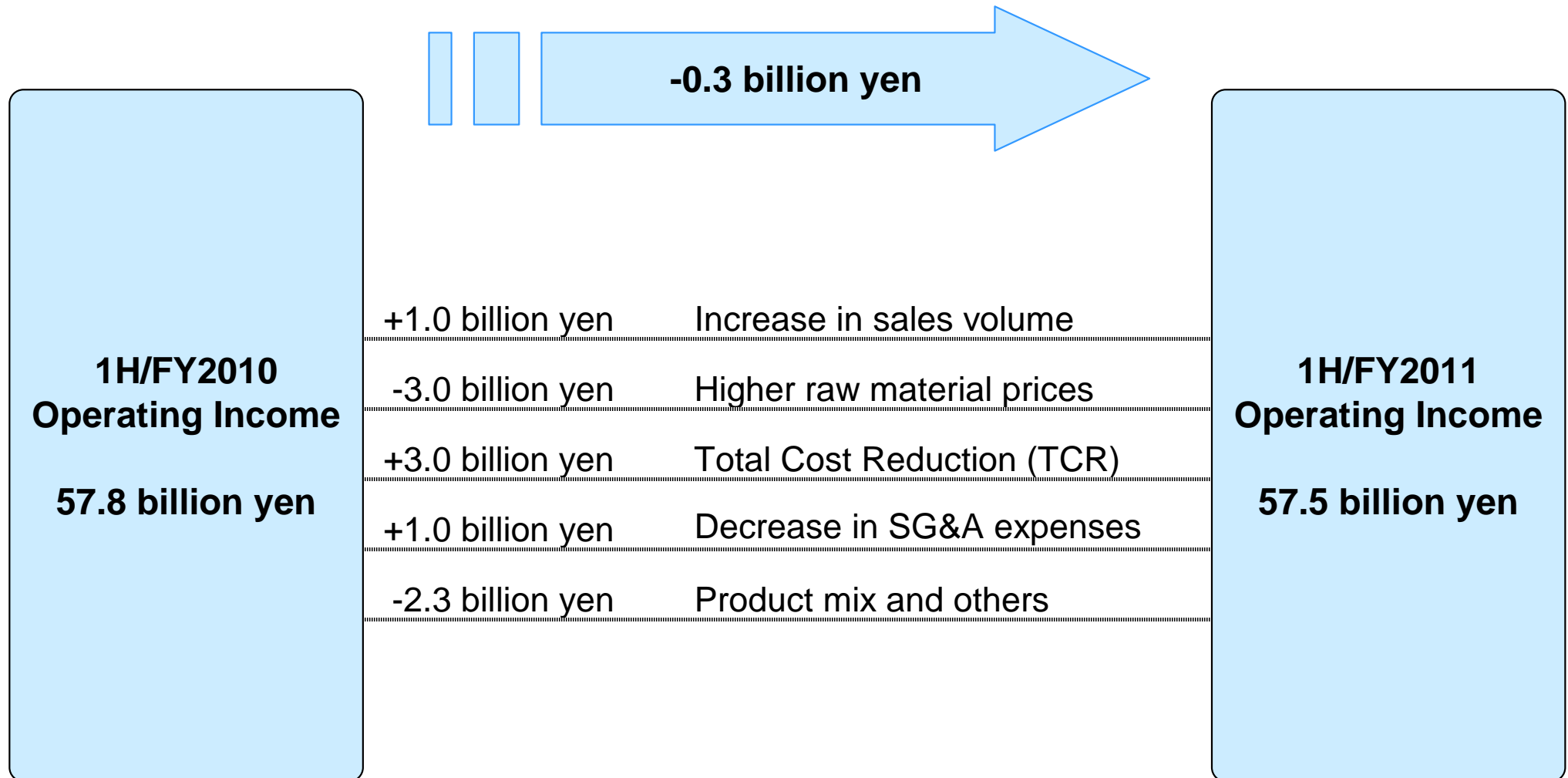
1 Changes = 1H/FY2011 – 1H/FY2010

2 Amortization related to Kanebo Cosmetics

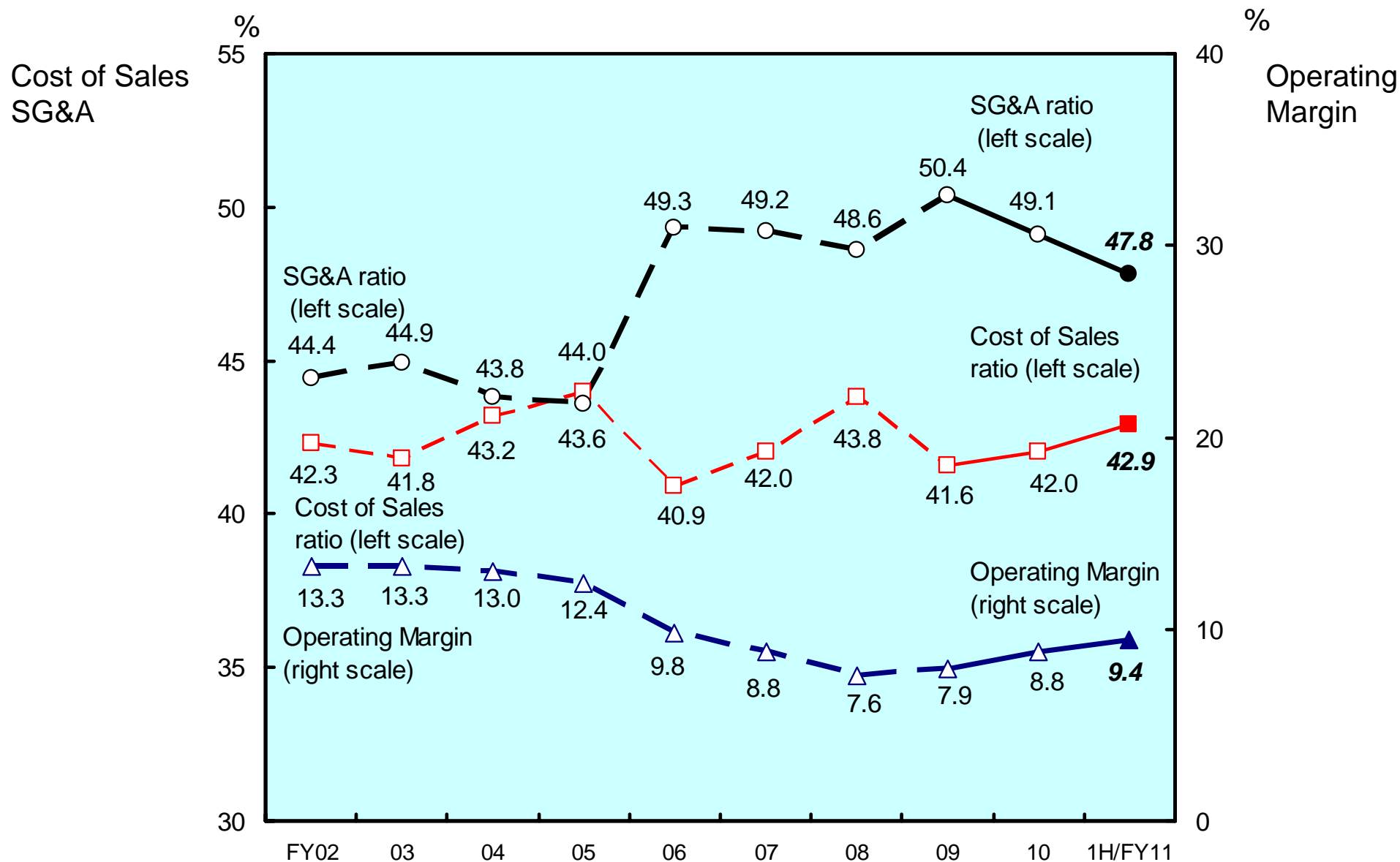
1H/FY2010: 13.7 billion yen, 1H/FY2011: 13.6 billion yen

1H/FY2011 Consolidated Operating Income Analysis

Comparison with 1H/FY2010



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/FY2010	1H/FY2011	Changes*
Total SG&A Expenses	294.9	293.8	-1.0

Freight/Warehouse	34.0	34.8	+0.7
Advertising	42.4	43.7	+1.2
Sales Promotion	33.5	31.7	-1.7
Salaries and Bonuses	62.3	61.0	-1.2
R&D	22.3	23.5	+1.2

* Changes = 1H/FY2011 – 1H/FY2010

Effect of currency translation on SG&A expenses: -3.3 billion yen

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

(Billion yen)

Non-operating Income/Expenses	1H/FY2010	1H/FY2011	Changes*
Non-operating Income	2.6	3.3	+0.6
Interest Income	0.3	0.4	
Dividend Income	0.0	0.0	
Equity in Earnings of Nonconsolidated Subsidiaries and Affiliates	0.5	1.3	
Other	1.6	1.3	
Non-operating Expenses	4.0	1.9	-2.1
Interest Expense	1.7	1.2	
Foreign Currency Exchange Loss	1.9	0.2	
Other	0.3	0.4	

Extraordinary Gain/Loss	1H/FY2010	1H/FY2011	Changes*
Extraordinary Gain	0.2	0.1	-0.1
Gain on Sales of Fixed Assets	0.1	0.0	
Gain on Sales of Investment Securities	0.1	-	
Other	0.0	0.0	
Extraordinary Loss	3.1	3.2	+0.1
Loss on Sales/Disposals of Fixed Assets	1.2	1.1	
Loss related to the Great East Japan Earthquake	-	1.7	
Loss on Application of Accounting Standard for Asset Retirement	1.6	-	
Other	0.1	0.3	

* Changes = 1H/FY2011 – 1H/FY2010

Consolidated Results by Segment

		1H/FY2010		1H/FY2011		Changes Billion yen	Growth %
		Billion yen	% of net sales	Billion yen	% of net sales		
Beauty Care Business	Net Sales ¹	272.5	-	271.7	-	-0.8	-0.3%
	EBITA ²	22.4	8.2%	23.7	8.8%	+1.3	+5.9%
	Operating Income	5.2	1.9%	7.0	2.6%	+1.7	+33.6%
Human Health Care Business	Net Sales ¹	89.2	-	90.6	-	+1.4	+1.6%
	Operating Income	8.6	9.7%	8.2	9.1%	-0.4	-4.8%
Fabric and Home Care Business	Net Sales ¹	141.0	-	143.3	-	+2.2	+1.6%
	Operating Income	31.4	22.3%	28.8	20.1%	-2.5	-8.2%
Chemical Business	Net Sales ¹	115.0	-	128.1	-	+13.0	+11.3%
	EBITA ²	12.6	11.0%	13.5	10.6%	+0.8	+6.7%
	Operating Income	12.5	10.9%	13.4	10.5%	+0.8	+7.1%
Consolidated	Net Sales	601.3	-	614.8	-	+13.5	+2.3%
	EBITA ²	75.1	12.5%	74.3	12.1%	-0.8	-1.1%
	Operating Income	57.8	9.6%	57.5	9.4%	-0.3	-0.6%

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/FY2010		1H/FY2011		Changes Billion yen	Growth %
		Billion yen	% of net sales	Billion yen	% of net sales		
Japan	Net Sales ¹	462.3	-	463.2	-	+0.9	+0.2%
	EBITA ²	62.8	13.6%	60.9	13.2%	-1.8	-3.0%
	Operating Income	46.6	10.1%	45.1	9.7%	-1.4	-3.2%
Asia and Oceania	Net Sales ¹	73.9	-	91.6	-	+17.7	+24.1%
	Operating Income	3.4	4.6%	6.3	6.9%	+2.9	+86.6%
North America	Net Sales ¹	41.7	-	45.5	-	+3.7	+9.0%
	EBITA ²	4.4	10.6%	3.1	6.9%	-1.2	-28.6%
	Operating Income	4.0	9.6%	2.7	6.1%	-1.2	-30.6%
Europe	Net Sales ¹	55.3	-	61.0	-	+5.6	+10.3%
	EBITA ²	4.6	8.4%	4.8	8.0%	+0.2	+5.2%
	Operating Income	3.9	7.2%	4.2	6.9%	+0.2	+6.8%
Consolidated	Net Sales	601.3	-	614.8	-	+13.5	+2.3%
	EBITA ²	75.1	12.5%	74.3	12.1%	-0.8	-1.1%
	Operating Income	57.8	9.6%	57.5	9.4%	-0.3	-0.6%

1 Before elimination of intersegment transfers

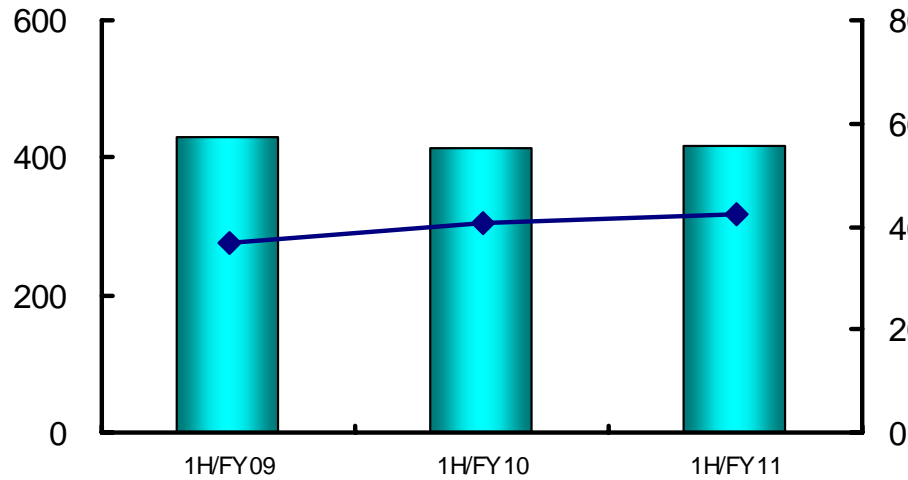
2 Operating income before amortization of goodwill and intellectual property rights related to M&A

Consumer Products Business by Geographic Area

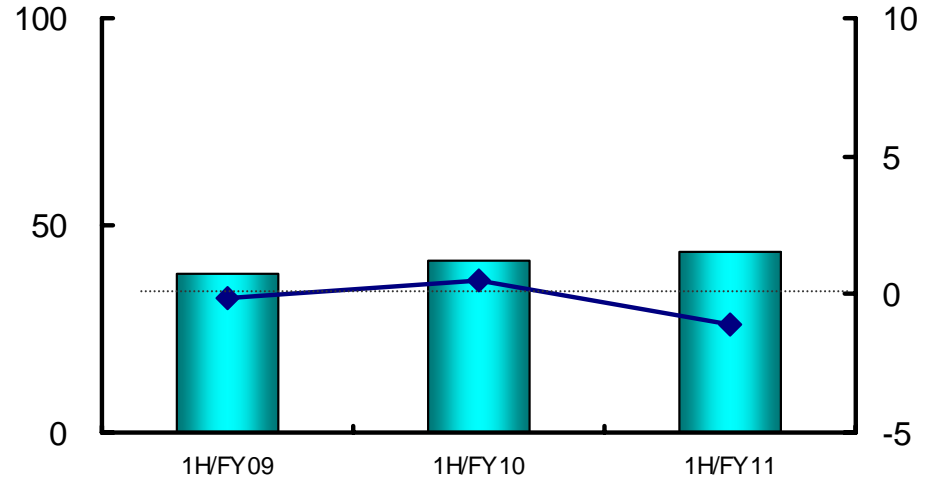
Japan

Sales (Billion yen)

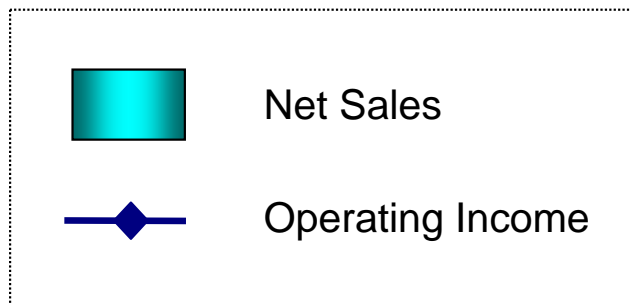
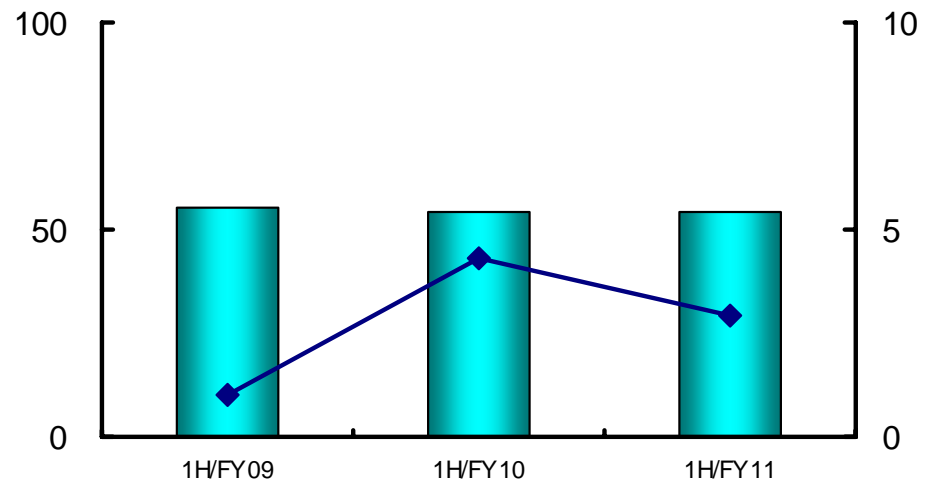
Operating Income
(Billion yen)



Asia and Oceania



North America & Europe

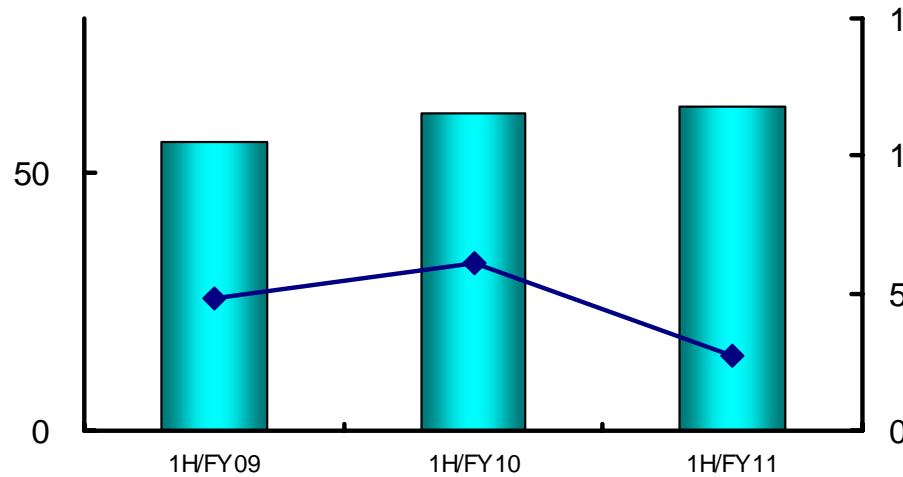


Chemical Business by Geographic Area

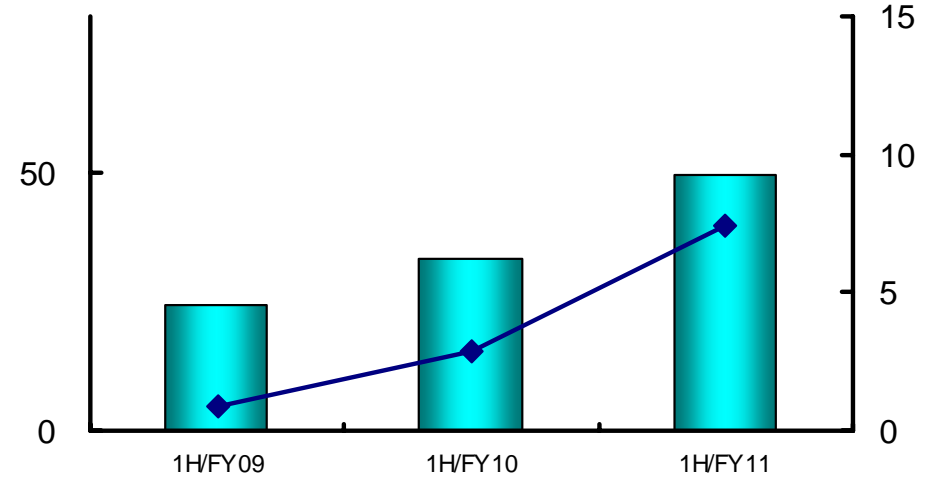
Japan

Sales (Billion yen)

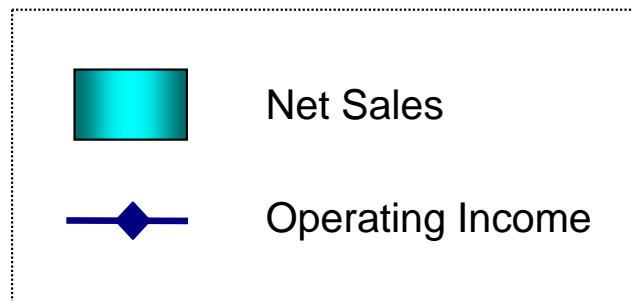
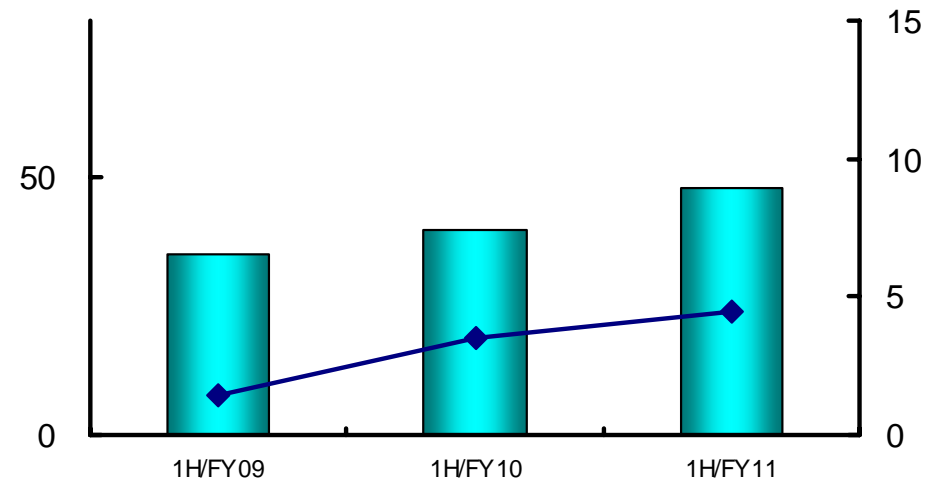
Operating Income
(Billion yen)



Asia



North America & Europe



Consolidated Balance Sheets

(Billion yen)

	Mar/11	Sep/11	Changes		Mar/11	Sep/11	Changes
Current Assets	416.8	419.2	+2.4	Current Liabilities	348.1	312.0	-36.1
Cash and Time Deposits	110.7	85.5	-25.2	Notes and Accounts Payable - Trade	104.0	119.0	+15.0
Notes and Accounts Receivable - Trade	121.0	131.8	+10.7	Bonds/Short-term Debt (incl. Current Portion of Bonds/Long-term Debt)	86.7	33.7	-53.0
Short-term Investments	35.0	28.4	-6.5	Accrued Income Taxes	18.7	19.8	+1.0
Inventories	109.3	133.1	+23.7	Liability for loss related to the Great East Japan Earthquake	2.6	0.9	-1.7
Other	40.6	40.2	-0.3	Other	135.9	138.3	+2.4
Fixed Assets	605.9	589.7	-16.1	Long-term Liabilities	135.0	136.8	+1.8
Property, Plant and Equipment	244.7	243.1	-1.5	Bonds/Long-term Debt	70.0	70.0	0.0
Intangible Assets	272.9	255.9	-16.9	Other	64.9	66.8	+1.8
Investments and Other Assets	88.2	90.6	+2.3	Total Liabilities	483.2	448.8	-34.3
				Shareholders' equity	611.9	626.9	+15.0
				-Common Stock	85.4	85.4	-
				-Capital Surplus	109.5	109.5	-
				-Retained Earnings	457.9	441.0	-16.8
				-Treasury Stock, at Cost	-40.9	-9.0	+31.8
				Accumulated other comprehensive income	-83.0	-78.2	+4.7
				- Unrealized Gain on Available-for-sale Securities	1.8	1.8	-0.0
				- Deferred Gain (Loss) on Derivatives under Hedges Accounting	-0.0	0.0	0.0
				- Foreign Currency Translation Adjustments	-84.4	-79.7	+4.7
				- Post retirement adjustments for foreign consolidated subsidiaries	-0.4	-0.3	0.0
				Stock Acquisition Rights	1.1	1.2	+0.1
				Minority Interests	9.5	10.1	+0.6
				Total Net Assets	539.5	560.1	+20.5
Total Assets	1,022.7	1,009.0	-13.7	Total Liabilities and Total Net Assets	1,022.7	1,009.0	-13.7

Consolidated Statements of Cash Flows

(Billion yen)

	1H/FY2010	1H/FY2011	Changes ¹
Net Cash Provided by Operating Activities	80.7	62.5	-18.1
Net Cash Used in Investing Activities	-9.3	-29.8	-20.4
Net Cash Provided by (Used in) Financing Activities	-39.5	-69.1	-29.5
Translation Adjustments on Cash and Cash Equivalents	-3.3	2.0	+5.4
Net Increase (Decrease) in Cash and Cash Equivalents	28.4	-34.2	-62.7
Cash and Cash Equivalents, Beginning of Period	117.1	143.1	+25.9
Cash and Cash Equivalents from Newly Consolidated Subsidiary, Increase	0.1	-	-0.1
Cash and Cash Equivalents, End of Period	145.8	108.8	-36.9
Total Debt at End of Period	158.6	103.7	-54.8
Free Cash Flow ²	71.3	32.7	-38.6

1: Changes = 1H/FY2011 – 1H/FY2010

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

<Net cash used in investing activities>

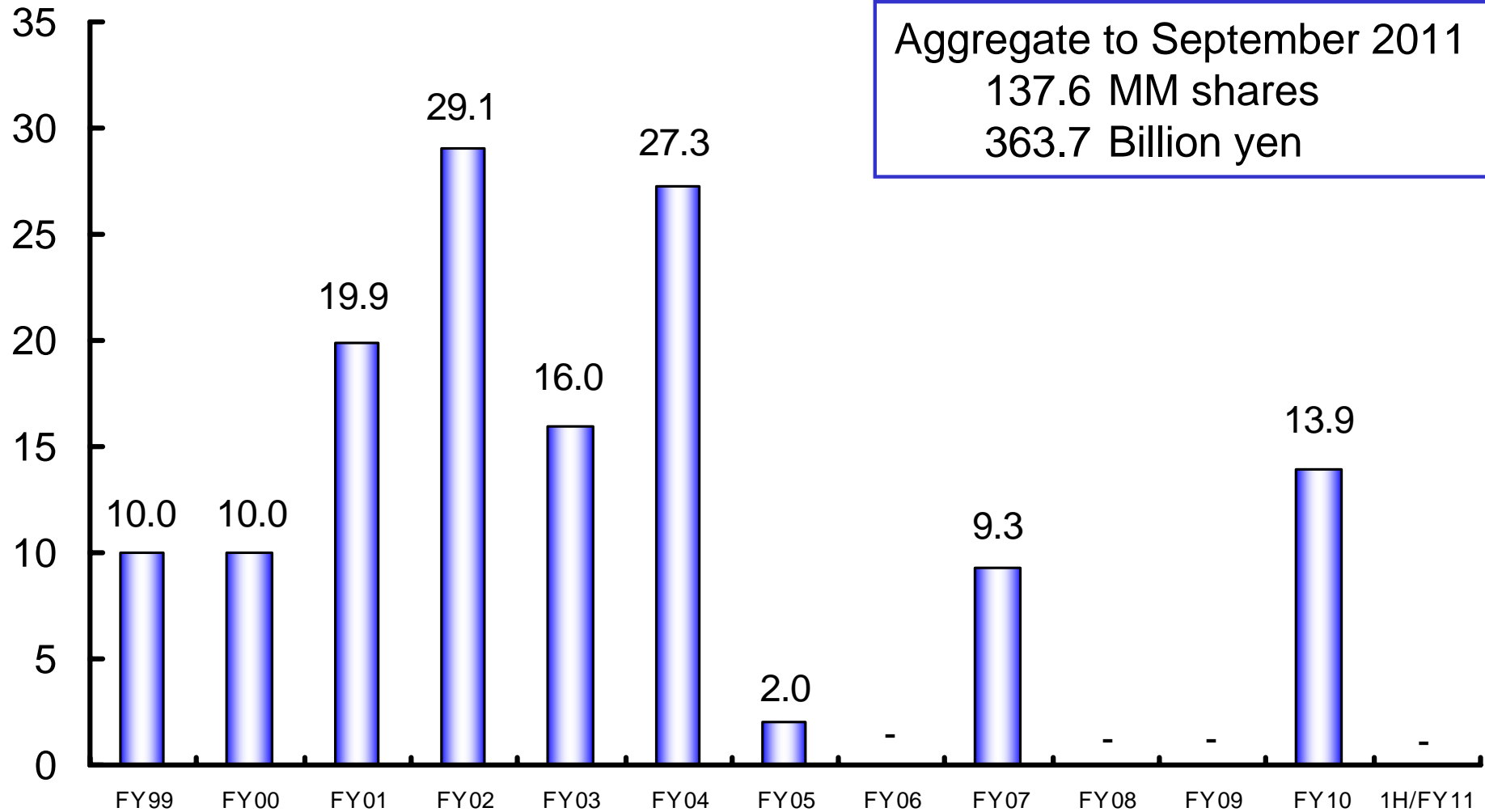
- Capital expenditures:
- Construction of Eco-Technology Research Center
 - Production facilities for new products
 - Production capacity expansion
 - Optimization of distribution bases
 - IT related, etc.

<Net cash used in financing activities>

- Payments of cash dividends (Includes payments of cash dividends to minority shareholders) : 15.6 billion yen
 Redemption of bonds: 50.0 billion yen

Share Repurchase

(Million Shares)



Aggregate to September 2011
 137.6 MM shares
 363.7 Billion yen

Period	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	-
FY10	29.9
1H/FY11	-

* 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: -2 to -3% year-on-year
- ◆ Net sales: ¥1,235.0 billion (+4.1% year-on-year)
 - Effect of currency translation: -¥15.0 billion (-1.2% year-on-year)
 - Like-for-like sales growth: +¥63.1 billion (+5.3% year-on-year)
- Estimated impact on income
- ◆ Impact by higher raw material prices:
 - Gross impact of approximately -¥33 billion
 - Net impact of approximately -¥6 billion
- ◆ Total Cost Reduction (TCR) activities: +¥6 billion
- ◆ Capital expenditures/depreciation and amortization
 - Capital expenditures: ¥52 billion
 - Depreciation and amortization: ¥80 billion

Exchange rate assumptions

- ◆ 79 yen/USD (FY2010 actual exchange rate [quarterly average]: 87.32 yen/USD)
- ◆ 111 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	1,235.0	+4.1
Operating Income	94.0	-2.9	104.5	+11.2	108.0	+3.3
[% of Sales]	7.9%		8.8%		8.7%	
Ordinary Income	93.5	-1.1	103.3	+10.4	108.0	+4.5
[% of Sales]	7.9%		8.7%		8.7%	
Net Income	40.5	-37.2	46.7	+15.4	57.0	+22.0
[% of Sales]	3.4%		3.9%		4.6%	

Net Income per Share (yen)	75.57	-37.2	87.69	+16.0	109.24	+24.6
ROE	7.3%	-	8.5%	-	10.5%	-
EBITDA (Operating Income + Depr. & Amort.)	178.8	-3.0	185.9	+4.0	188.0	+1.1
Cash Dividends per Share (yen)	57.0	+1.8	58.0	+1.8	58.0	0.0

1 Exchange rate assumptions: 79 yen/USD, 111 yen/Euro

2 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

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 more than ¥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

1,235 **+4.1%**

By Segment*

Reference:
By Geographic Area*

Beauty Care	542	+1.6%
Human Health Care	180	+2.4%
Fabric and Home Care	286	+2.5%
Chemical	254	+9.5%

Japan	935	+2.5%
Asia & Oceania	177	+16.1%
North America	89	+10.8%
Europe	120	+7.0%

*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 Actual	% Growth	FY2010 Actual	FY2011 Forecast	% Growth
Beauty Care	206.5	204.3	-1.1%	404.1	409.5	+1.3%
Human Health Care	80.9	82.0	+1.4%	159.5	164.0	+2.8%
Fabric and Home Care	127.9	130.4	+2.0%	253.5	259.5	+2.4%
Consumer Products Business	415.4	416.9	+0.4%	817.2	833.0	+1.9%

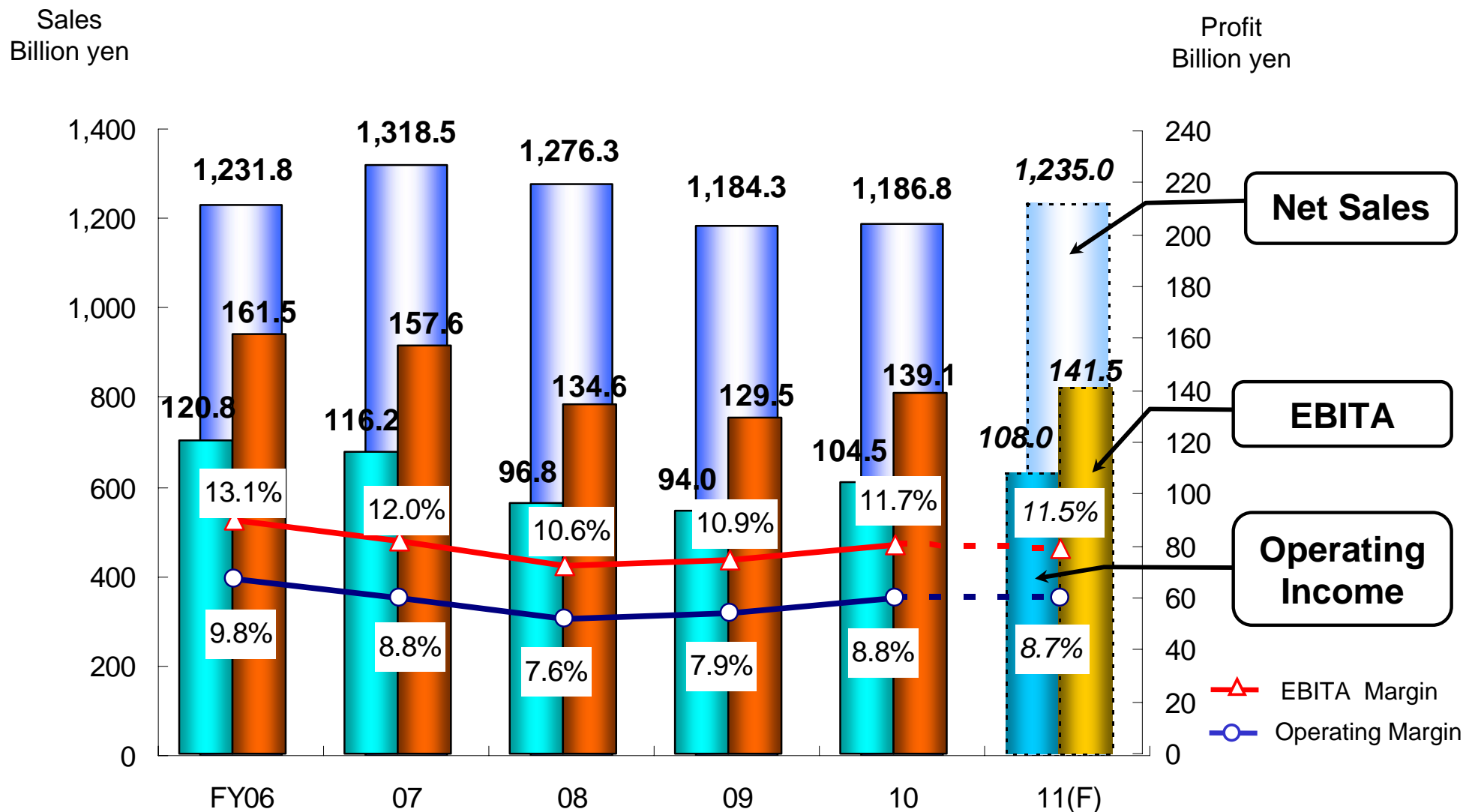
FY2011 Outlook by Segment

	Decrease in operating income	Increase in operating income
Increase in net sales	CP* – North America	CP* – Asia/Oceania
	Chemical – Japan	Chemical – North America
	Chemical – Europe	Chemical – Asia
Decrease in net sales		CP* – Japan
		CP* – Europe

*CP: Consumer Products

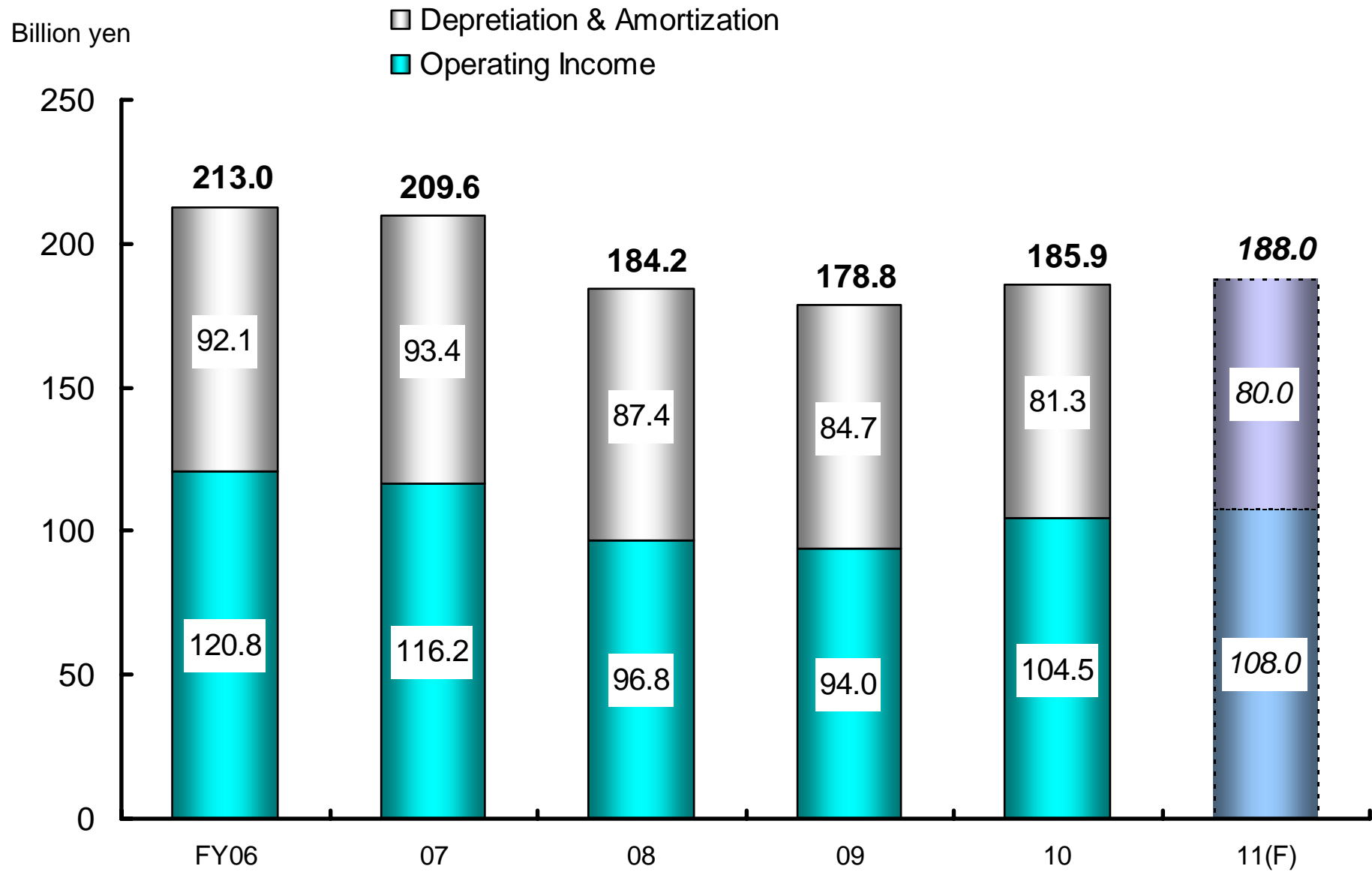
Consolidated Net Sales/EBITA*/Operating Income

[Full Year]

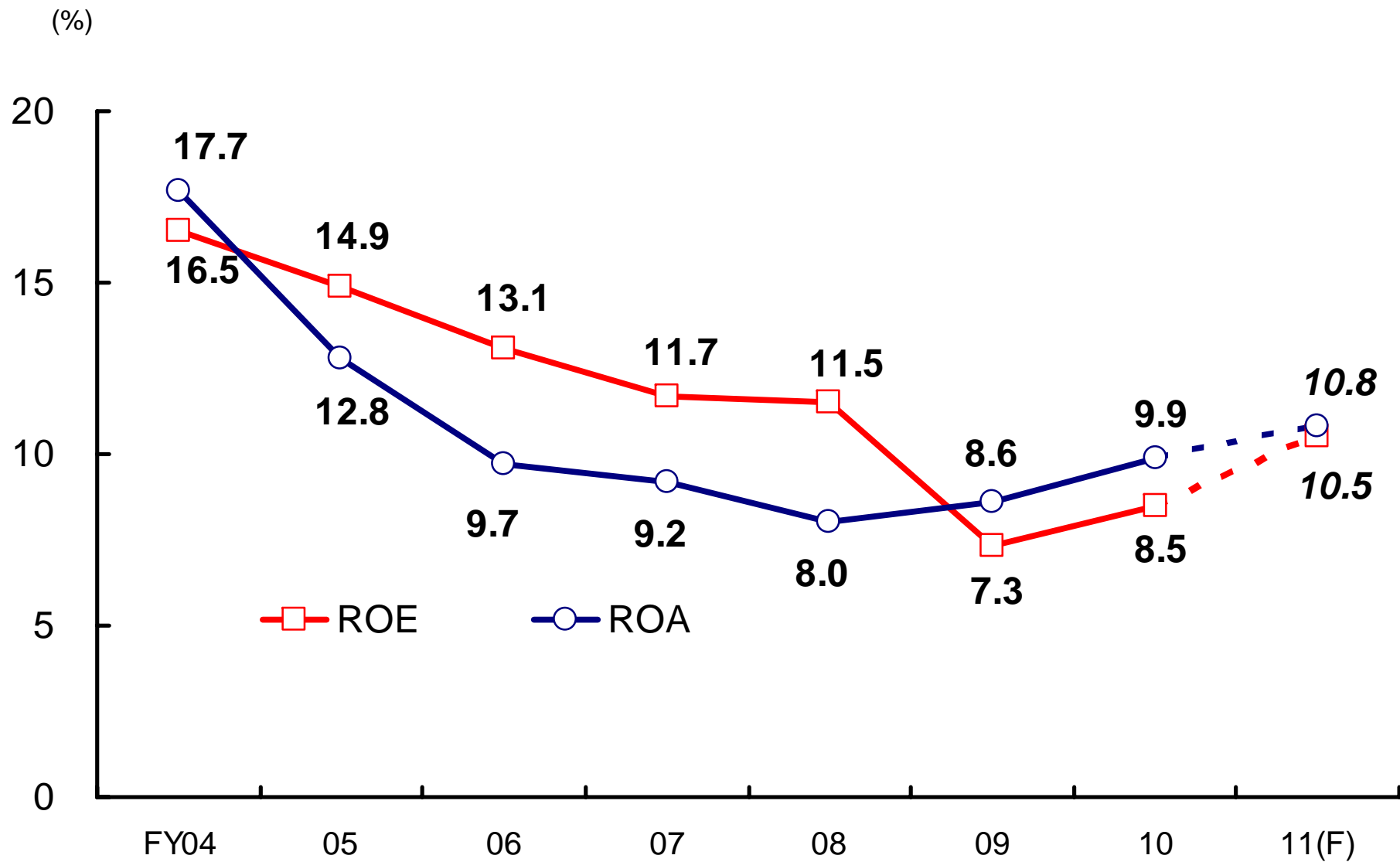


*Operating income before amortization of goodwill and intellectual property rights related to M&A

EBITDA

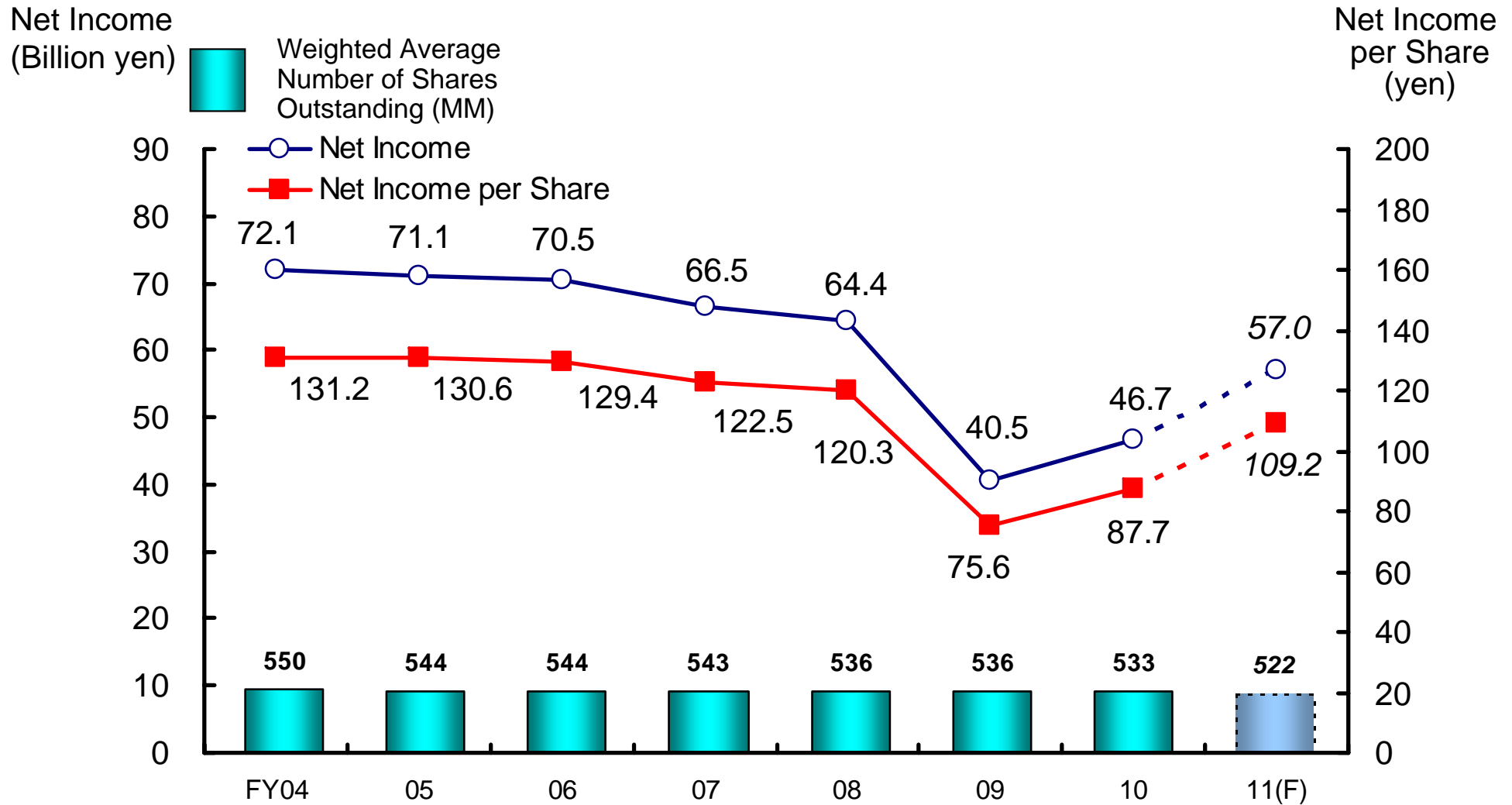


ROE & ROA

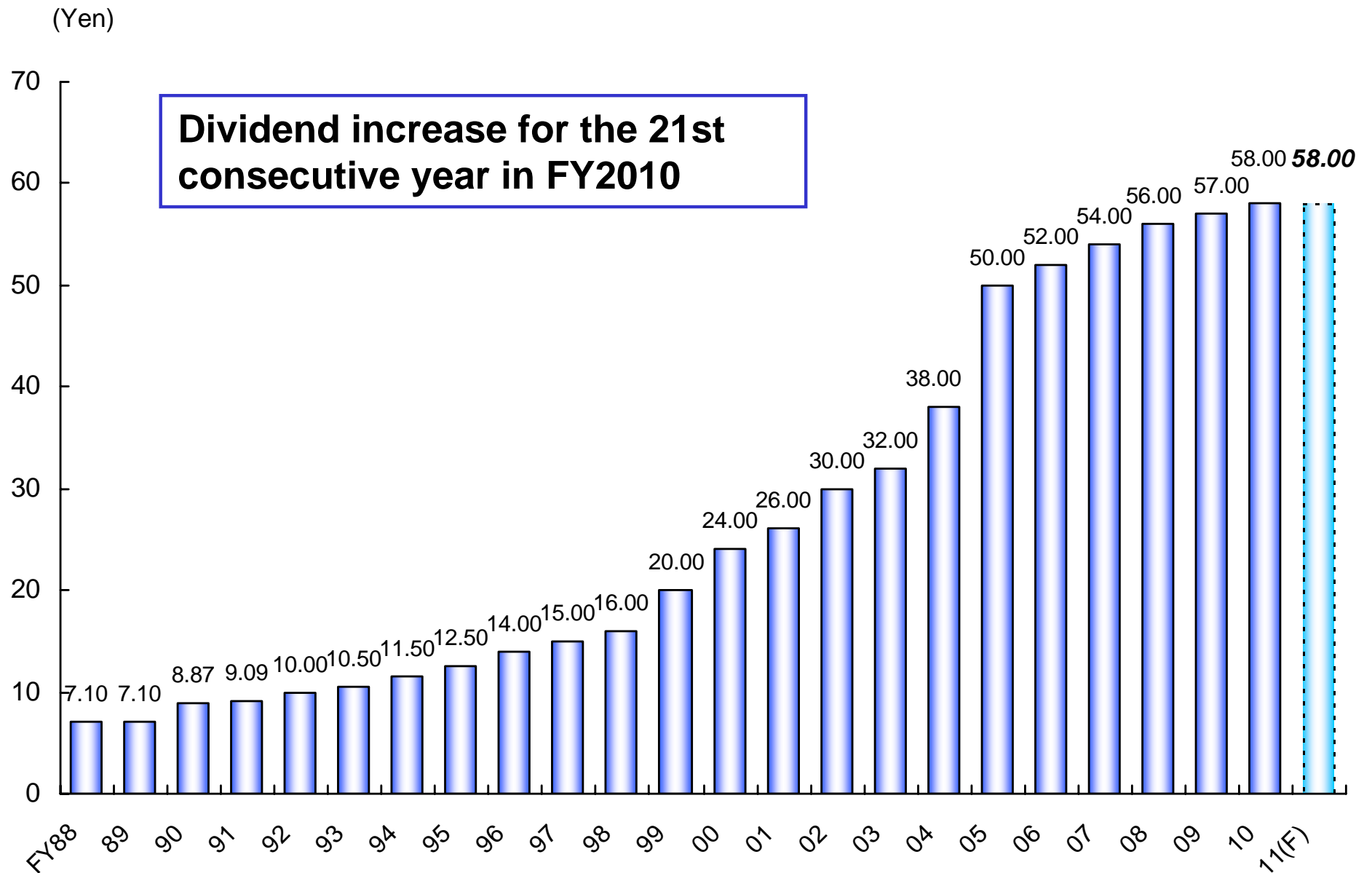


ROA: Ordinary Income / Total assets

Net Income per Share

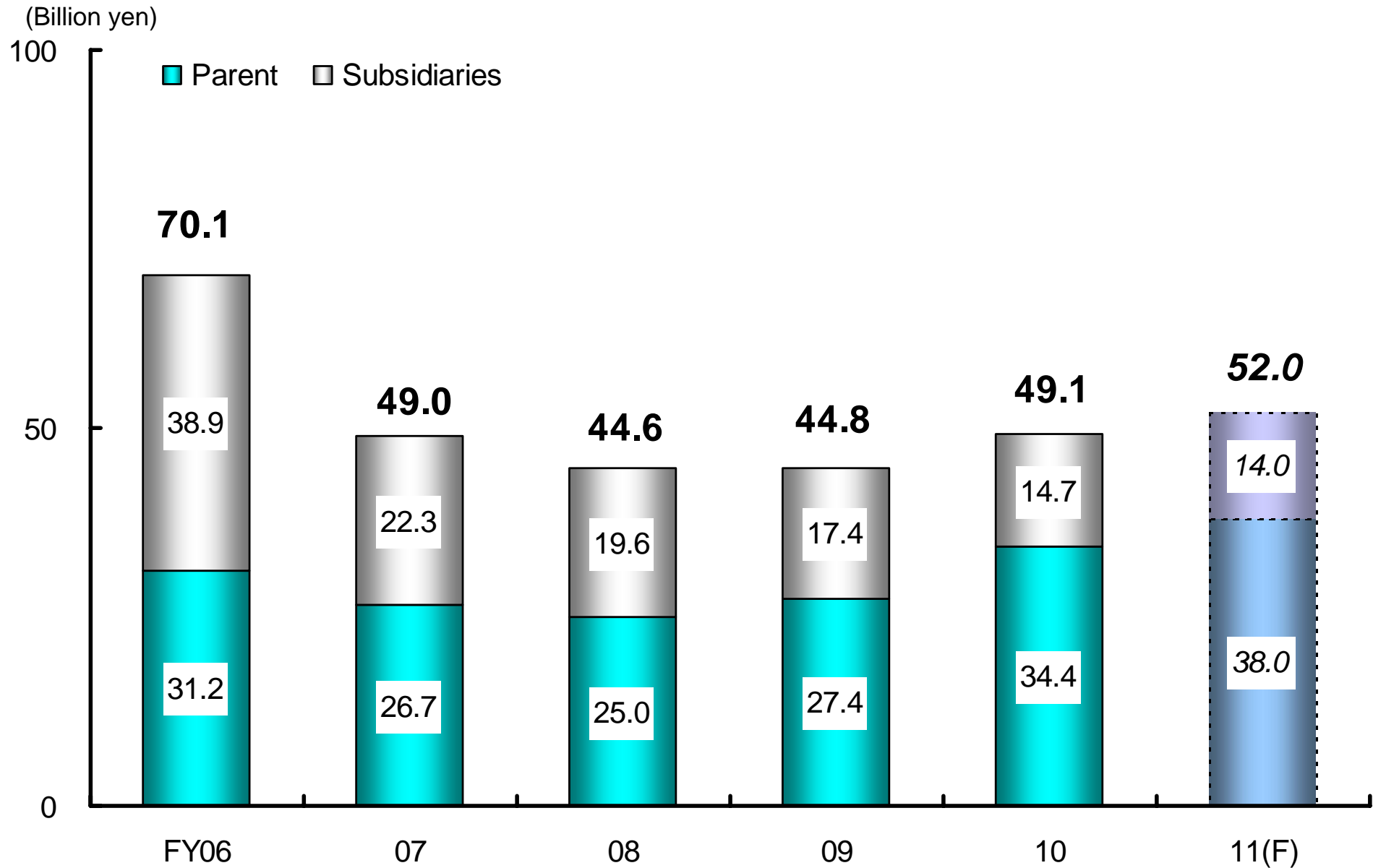


Cash Dividends per Share



*Impacts of share splits are retroactively reflected.

Capital Expenditures

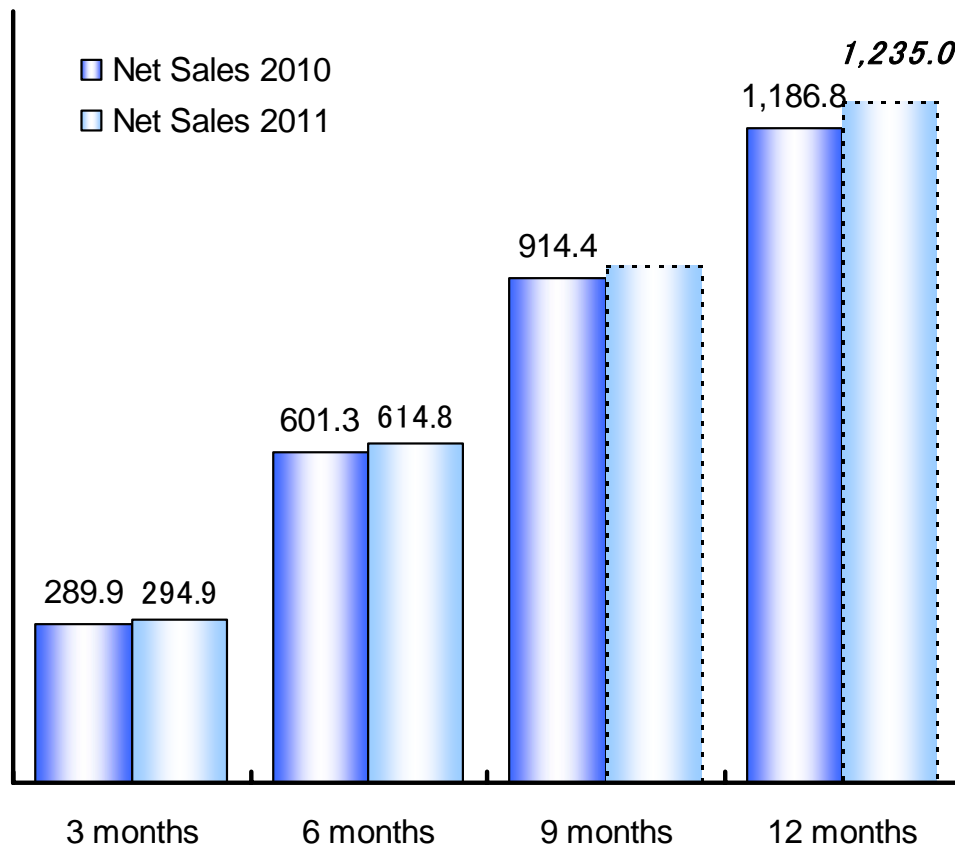


*Payment for purchase of newly consolidated subsidiaries (net of cash acquired) is not included.

FY2011 Quarterly Consolidated Sales and Profit Forecast

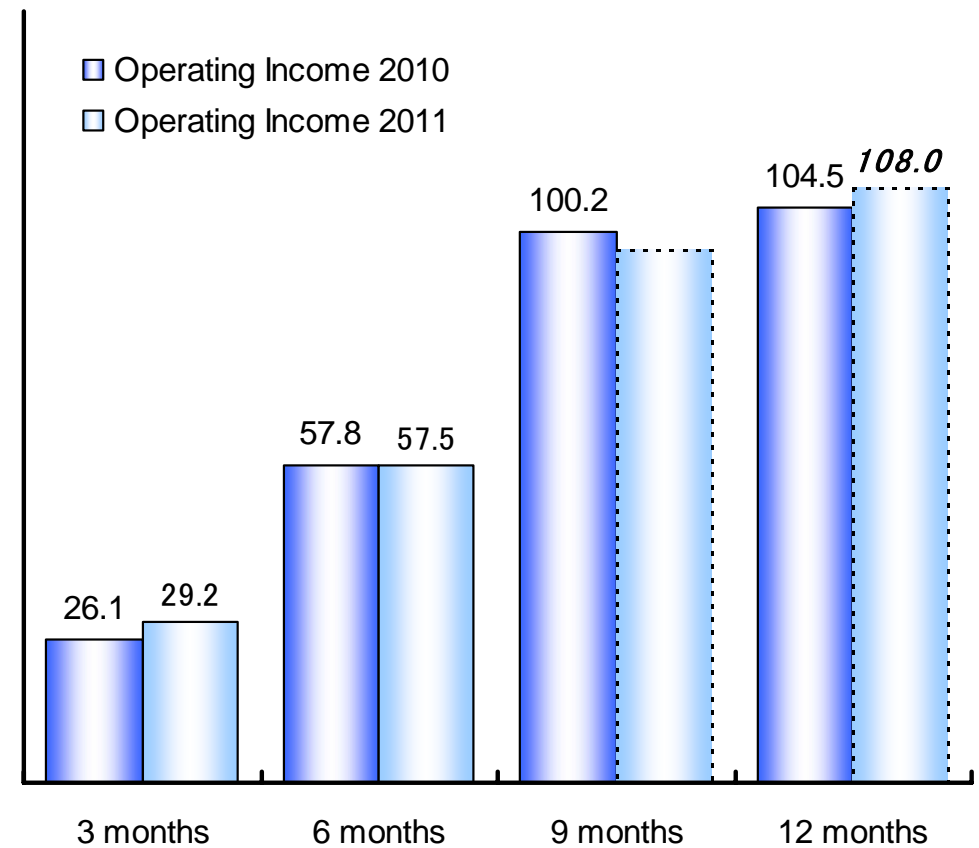
Net Sales

(Billion yen)



Operating Income

(Billion yen)



KaO