

Annual Financial Review

From April 1, 2003 to March 31, 2004

Kao Corporation

April 22, 2004



These are the translation of materials used for the analysts meeting of April 22, 2004 in Japan.

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

http://www.kao.co.jp/e/ir_e/analystmtg/index.html

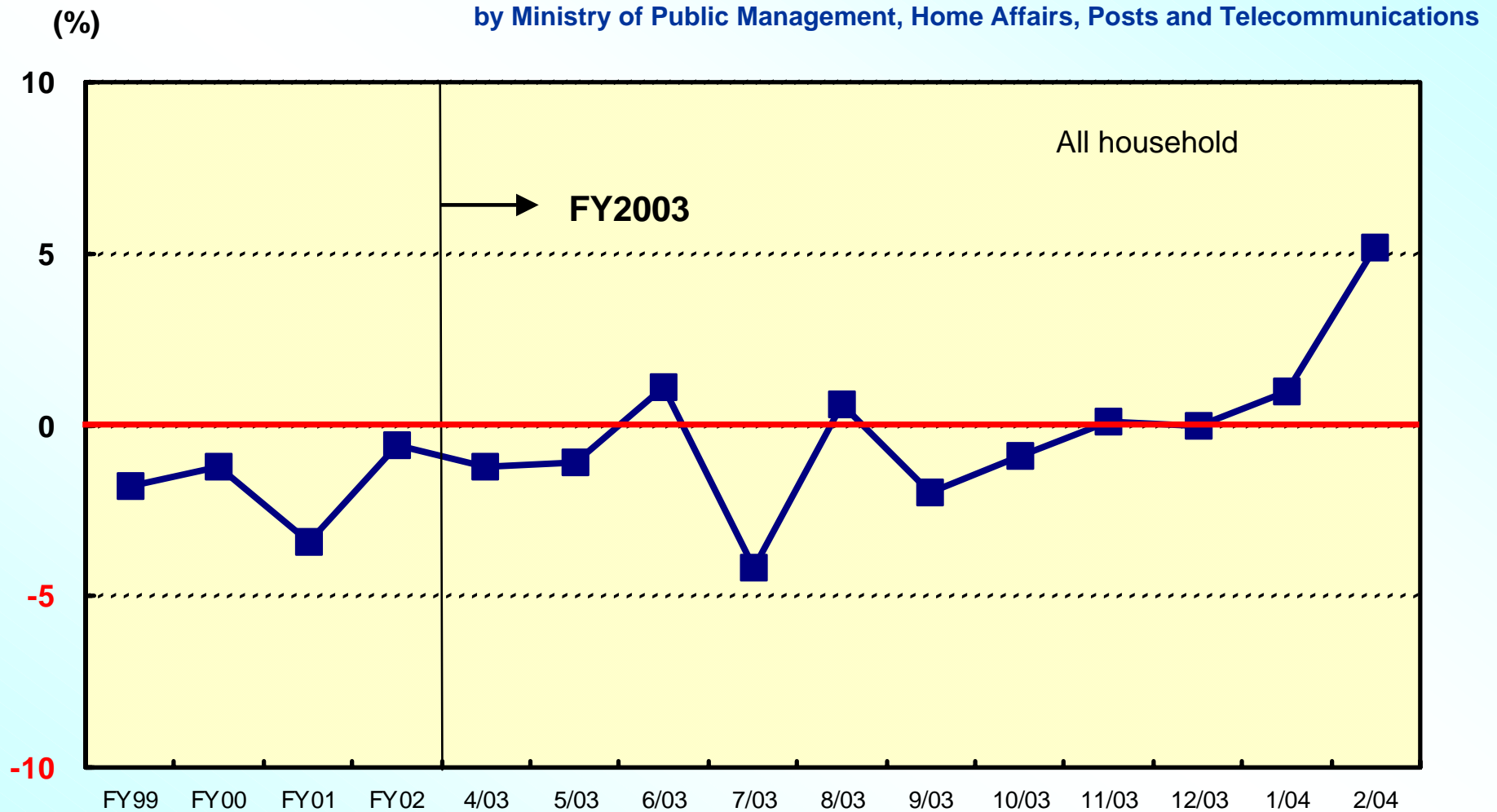
These presentation materials contain forward-looking statements that are based on management's estimates, assumptions and projections as of April 22, 2004. Certain factors, which include, but are not limited to, the risks and uncertainty associated with the worldwide economy, competitive activity and currency fluctuation, could cause actual results to differ materially from expectations.

(The yen amounts in this presentation material are rounded down.)

1. Business Environment

April 1, 2003 – March 31, 2004

Household Expenditure Survey

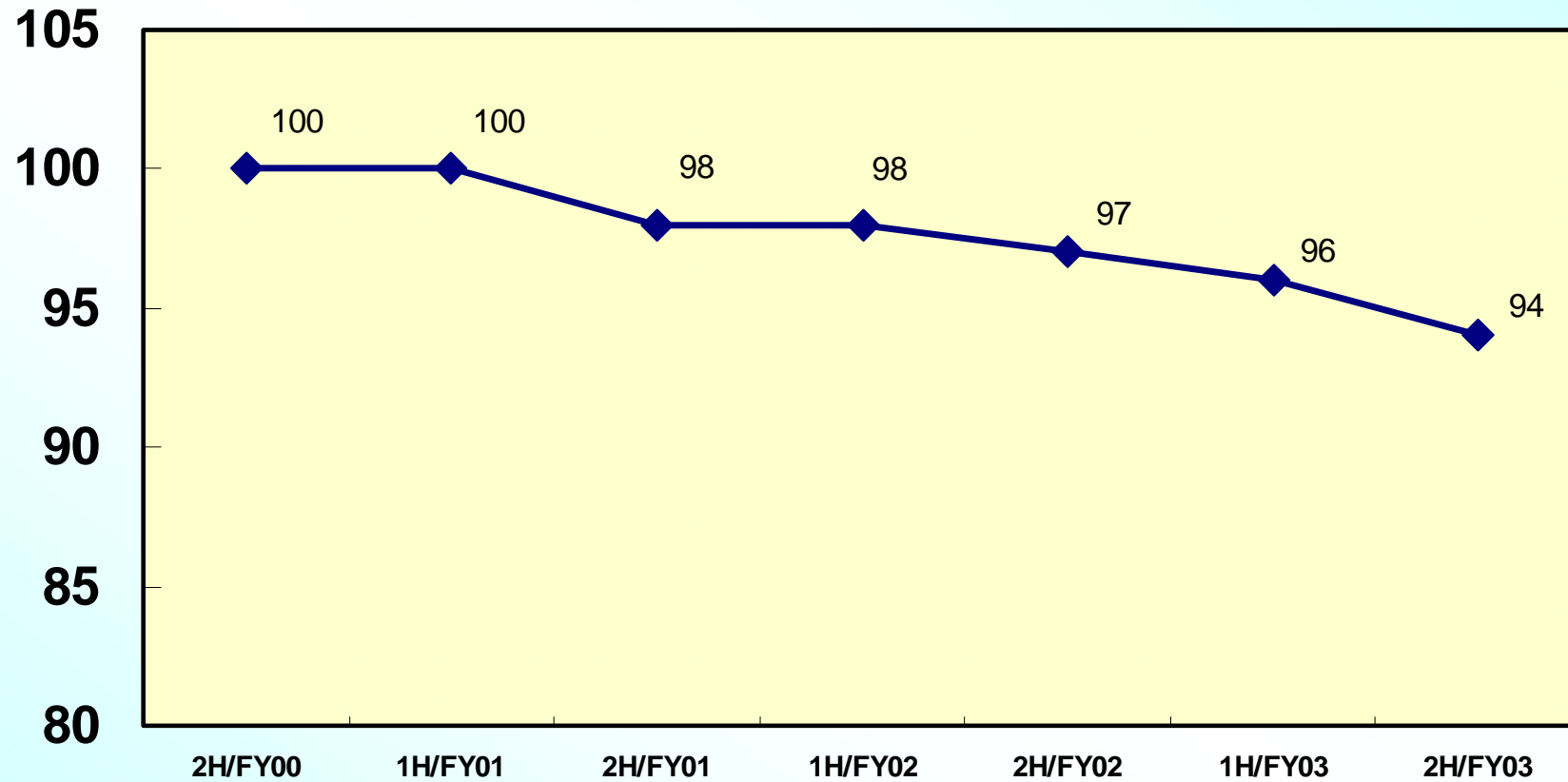


(Percent change from a year earlier)

Average Consumer Purchase Price

Major Toiletry 15 Categories (All manufactures)

Index



(Data Source: Kao)

2. Consolidated Business Results

April 1, 2003 – March 31, 2004

FY2003 Results (Consolidated)

Billion yen	<u>FY2001</u>	<u>FY2002</u>	<u>FY2003</u>		
Sales	839.0	865.2	902.6	Growth 4.3%	Changes +37.3
Operating Income	111.7	114.9	119.7	4.2%	+4.7
<i>Operating Margin</i>	13.3%	13.3%	13.3%		
Ordinary Income	113.5	117.4	122.6	4.4%	+5.1
Net Income	60.2	62.4	65.3	4.6%	+2.8
EBITDA	170.2	173.2	177.8	2.7%	+4.6
ROE	13.1%	14.2%	15.5%		
EPS (yen)	100.43	108.05	119.06	10.2%	+11.01

Consolidated Sales [1]

	FY2002		FY2003		
	Billion yen	% Growth	Billion yen	%	
				Growth	Like-for-like
Personal Care	165.5	-0.8	171.5	3.6	3.6
Fabric and Home Care	248.9	0.9	241.0	-3.2	-3.2
Baby Care, Feminine Care and Others	86.2	4.9	101.5	17.6	17.6
Japan Total	500.8	1.0	514.1	2.6	2.6
Asia & Oceania	64.1	8.0	59.9	-6.6	-2.7
North America & Europe	87.5	14.9	102.0	16.6	19.2
Elimination	-6.1		-5.6		
Consumer Products	646.4	3.3	670.4	3.7	4.4

Prestige Cosmetics	75.8	2.2	77.6	2.4	2.5
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*Like-for-like: excludes currency translation impact

Consolidated Sales [2]

	FY2002		FY2003		
	Billion yen	% Growth	Billion yen	%	
				Growth	Like-for-like
Japan	101.9	3.5	104.8	2.9	2.9
Asia	38.3	9.2	41.8	9.0	17.0
North America & Europe	51.2	9.5	56.8	10.7	6.8
Elimination	-20.6		-21.9		
Chemical Products	170.9	5.0	181.6	6.3	6.1

Elimination	-27.9		-27.0		
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Consolidated Sales	865.2	3.1	902.6	4.3	4.9
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*Like-for-like: excludes currency translation impact

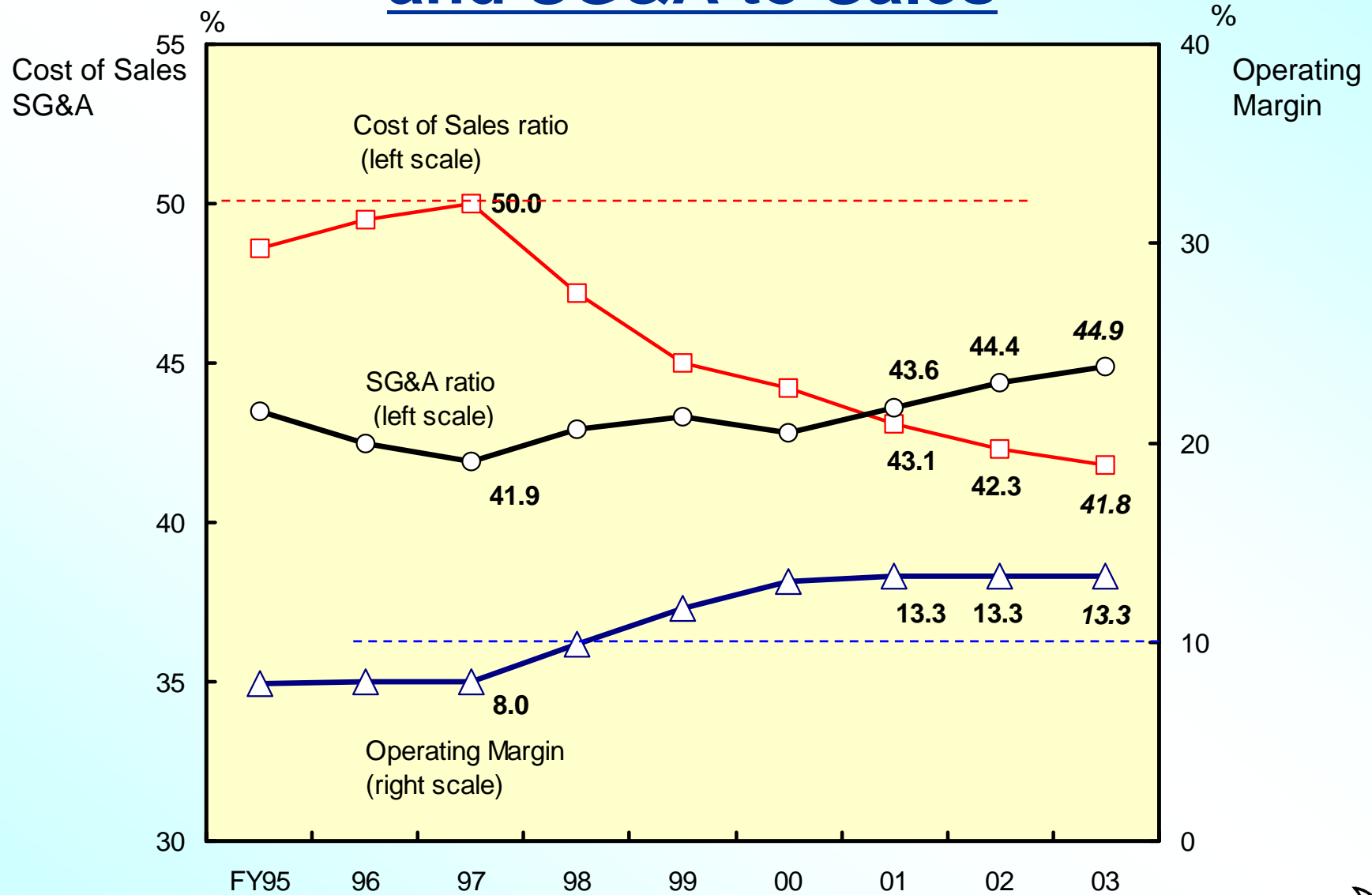
Consolidated Income Statements

	FY2002		FY2003		Changes*
	Billion yen	%	Billion yen	%	Billion yen
Sales	865.2	100.0	902.6	100.0	37.3
Cost of Sales	365.5	42.3	377.7	41.8	12.1
Gross Profit	499.6	57.7	524.8	58.2	25.1
SG&A Expenses	384.7	44.4	405.1	44.9	20.4
Operating Income	114.9	13.3	119.7	13.3	4.7
Non-operating Income/Expenses	2.5	0.3	2.9	0.3	0.3
Ordinary Income	117.4	13.6	122.6	13.6	5.1
Extraordinary Income & Loss	-4.9	-0.6	-5.5	-0.6	-0.5
Income Before Taxes	112.5	13.0	117.1	13.0	4.5
Income Taxes	47.6	5.5	50.4	5.6	2.7
Equity Items & Others (Minus)	2.4	0.3	1.3	0.2	-1.0
Net Income	62.4	7.2	65.3	7.2	2.8

* Changes = FY2003 – FY2002



Consolidated Cost of Sales and SG&A to Sales



*Business tax has been adjusted prior to FY97



Breakdown of Consolidated Expenses

(Billion yen)

	FY02	FY03	Changes*
Total SG&A Expenses	384.7	405.1	20.4

Freights/Warehouse	45.3	46.9	1.5
Advertising	74.2	82.7	8.4
Sales Promotion	37.7	34.0	-3.7
Salaries and Wages	71.2	71.1	-0.1
R&D	37.7	38.5	0.7

* Changes = FY2003 – FY2002

Major factors of an increase in SG&A expenses (20.4 billion yen)


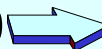
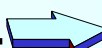
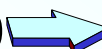
- ◆ Impact of acquisition/consolidation of John Frieda Approximately 10 billion yen
- ◆ Increase in advertising and sales promotion in Japan Approximately 6 billion yen

Sales and Operating Income by Business

Billion yen	Net Sales			Operating Income		
	FY2002	FY2003	Changes	FY2002	FY2003	Changes
Consumer Products	646.4	670.4	24.0 3.7%	90.3 % to Sales 14.0%	92.1 13.8%	1.8 ↗
Prestige Cosmetics	75.8	77.6	1.8 2.4%	5.2 % to Sales 7.0%	7.4 9.6%	2.1 ↗
Chemical Products	170.9	181.6	10.6 6.3%	18.2 % to Sales 10.6%	19.9 11.0%	1.7 ↗

*Before elimination of intersegment transfers

Sales and Operating Income by Geography

Billion yen	Net Sales			Operating Income		
	FY2002	FY2003	Changes	FY2002	FY2003	Changes
Japan	654.5	673.6	19.0 2.9%	98.5 % to Sales 15.0%	104.8 15.6%	6.3 
Asia & Oceania	101.5	101.4	-0.1 -0.1%	5.3 % to Sales 5.3%	5.3 5.3%	0.0 
North America	75.7	79.9	4.1 5.4%	8.8 % to Sales 11.7%	8.4 10.6%	-0.4 
			After amortization of goodwill	7.2 % to Sales 9.6%	6.7 8.4%	-0.5
Europe	67.8	84.8	17.0 25.1%	5.1 % to Sales 7.6%	5.2 6.1%	0.0 
			After amortization of goodwill	2.9 % to Sales 4.3%	2.7 3.2%	-0.1

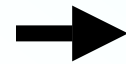
*Before elimination of intersegment transfers



Consolidated Operating Income

FY2002

114.9



FY2003

119.7 Billion yen

Change

+4.7 Billion yen +4.2%

Japan	6.3
Asia & Oceania	0.0
North America	-0.5
Europe	-0.1
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Total	4.7

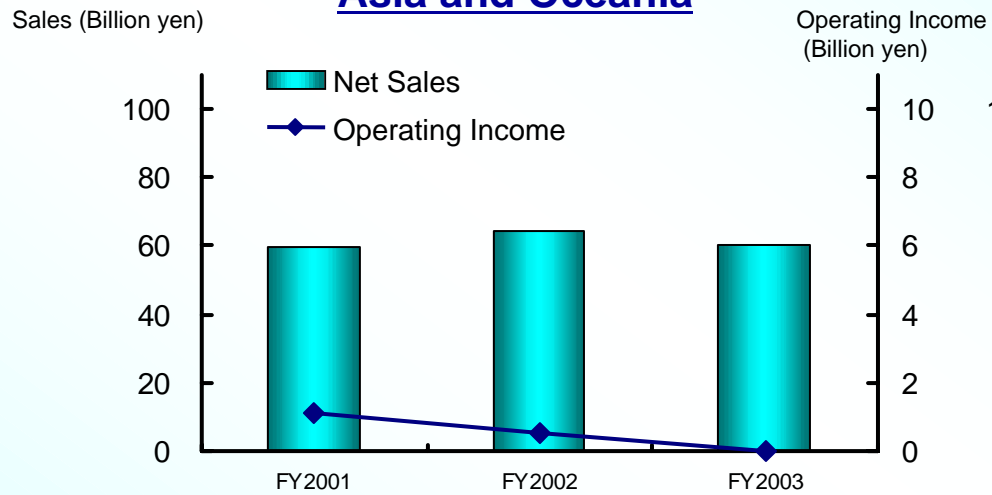
Consumer Products	1.8
Prestige Cosmetics	2.1
Chemical Products	1.7
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Total	4.7

*The figures of each segment are before elimination.

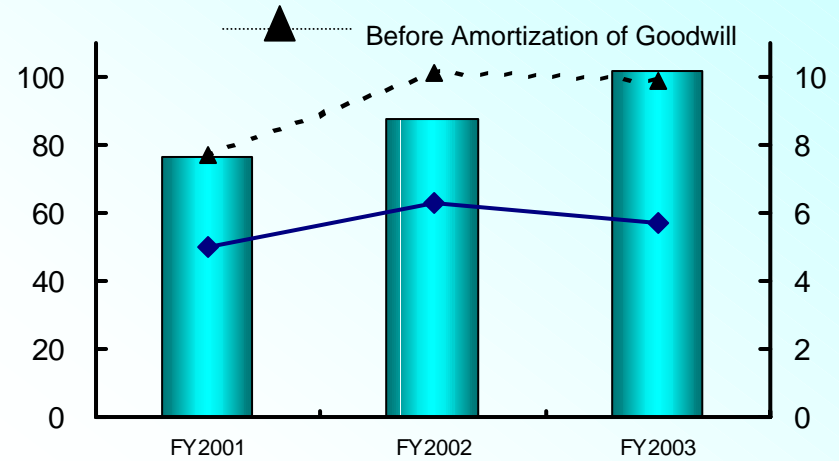


Consumer Products

Asia and Oceania

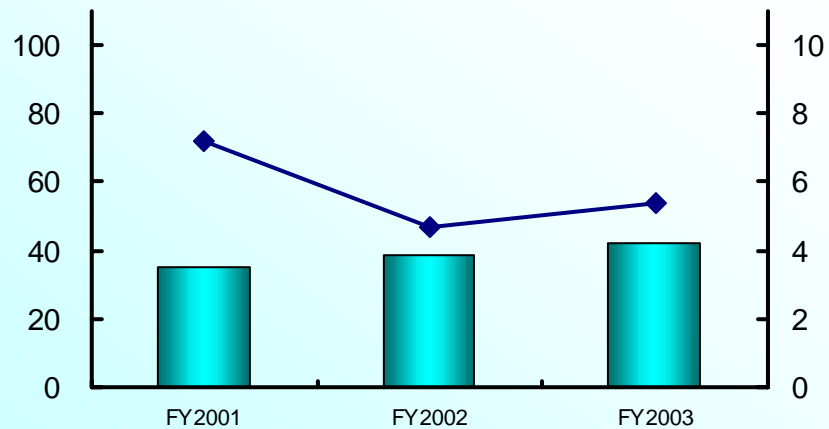


North America & Europe

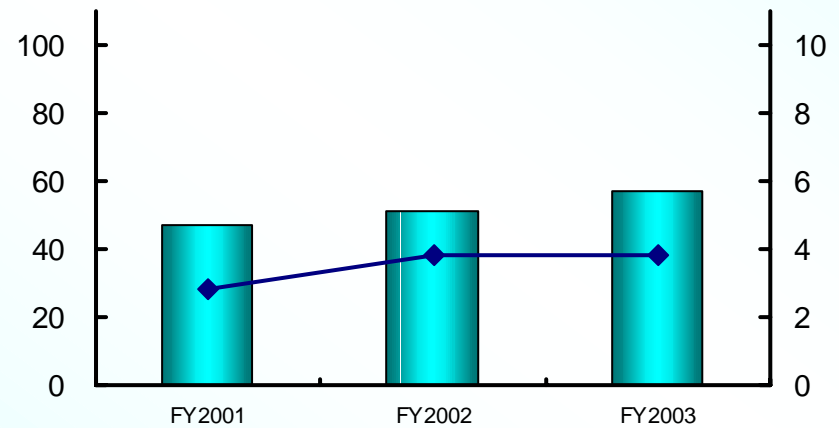


Chemical Products

Asia



North America & Europe



Consolidated Ordinary Income

FY2002

117.4



FY2003

122.6 Billion yen

Change +5.1 Billion yen +4.4%

1. Operating income	4.7
2. Equity earnings	-0.7
3. Forex gains/losses	1.1
4. Other non-operating items	0.0
<hr/> Total	<hr/> 5.1

Consolidated Balance Sheets

(Billion yen)

	Mar/04	Mar/03	Changes		Mar/04	Mar/03	Changes
Current Asset	307.2	276.0	31.2	Current Liabilities	209.8	201.8	7.9
Cash and Bank Deposits	72.4	36.2	36.1	Notes and Accounts Payable	68.4	60.5	7.8
Notes and Accounts Receivable	97.3	94.9	2.4	Short-term Debt (incl. Current Portion of Long-term Debt)	17.8	13.4	4.4
Short-term Investments	36.8	46.2	-9.4	Other Accounts Payable	21.8	18.0	3.7
Inventories	71.8	70.9	0.9	Accrued Expenses	64.5	61.0	3.5
Others	28.7	27.6	1.1	Others	37.2	48.7	-11.5
Fixed Assets	416.5	444.7	-28.1	Long-term Liabilities	64.0	79.3	-15.2
Tangible Assets	259.9	275.4	-15.5	Long-term Debt	31.8	35.6	-3.7
Intangible Assets	98.3	104.1	-5.7	Others	32.2	43.7	-11.4
Investments	58.2	65.1	-6.9	Total Liabilities	273.9	281.2	-7.3
Deferred Assets	0.0	0.1	0.0	Minority Interests	22.1	22.5	-0.3
				Shareholders' Equity	427.7	417.0	10.7
				Common Stock	85.4	85.4	-
				Capital Surplus	108.8	108.8	-
				Retained earnings	399.8	355.8	44.0
				Unrealized Gain on Available-for-sale Securities	4.3	1.7	2.6
				Foreign Currency Translation Adjustments	-37.9	-30.4	-7.4
				Treasury Stock	-132.8	-104.3	-28.4
Total Assets	723.8	720.8	3.0	Total Liabilities, Minority Interests & Shareholders' Equity	723.8	720.8	3.0

Statements of Cash Flows

(Billion yen)

	FY2001	FY2002	FY2003	Changes
Operating Activities	130.9	134.1	117.9	-16.2
Investing Activities	-77.6	-77.5	-37.3	40.2
Financing Activities	-86.2	-104.1	-49.3	54.8
Translation Adjustment	3.4	-2.6	-2.4	0.1
Net Increase	-29.5	-50.2	28.7	79.0
Beginning balance of newly consolidated companies	0.9	0.9	2.6	1.7
Cash and Cash Equivalents	124.9	75.6	107.1	31.4
Total Debt	55.9	49.0	49.6	0.6

<Investing Activities>

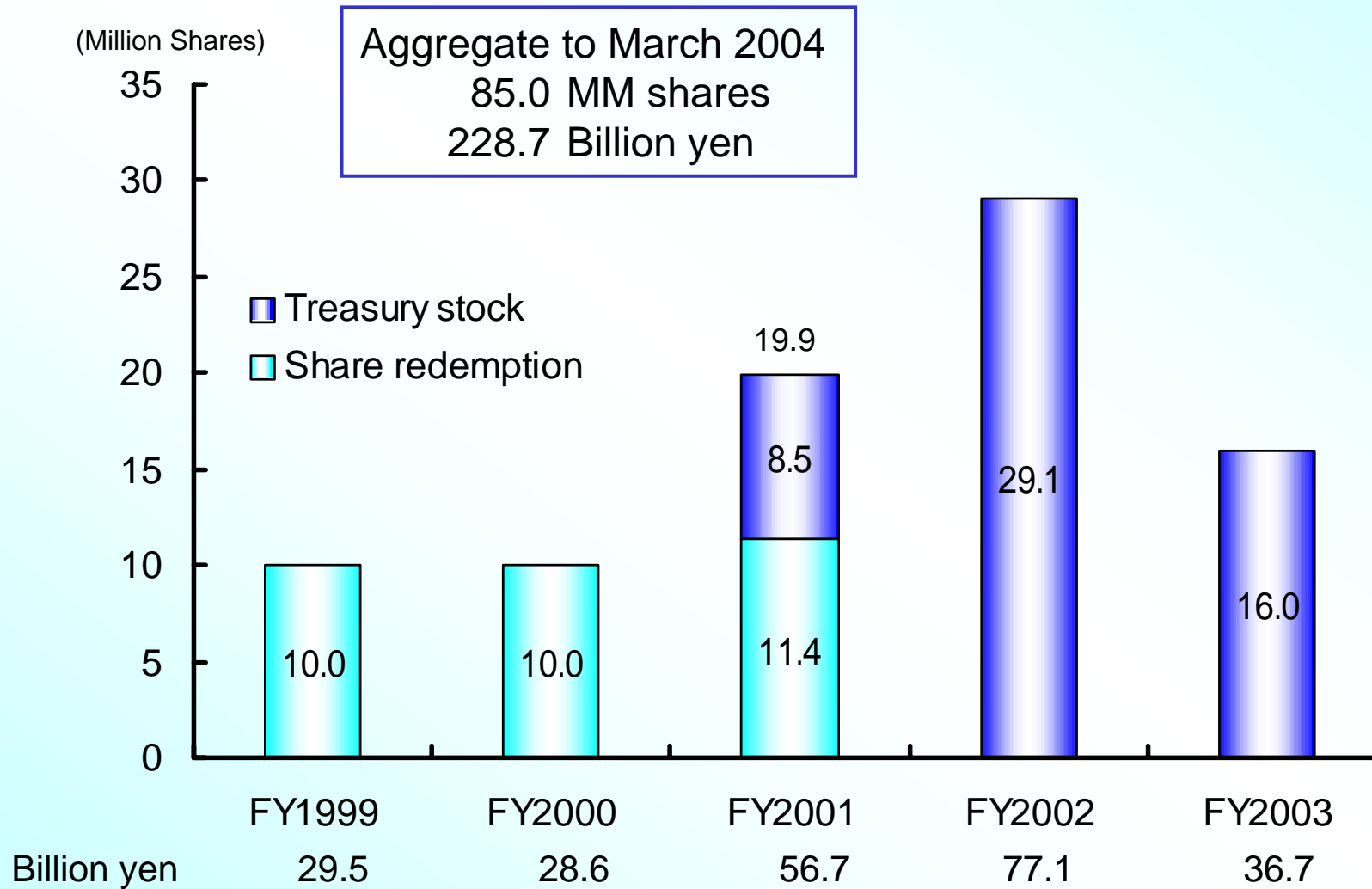
Acquisition of fragrance and specialties business

Capital expenditure: New products, capacity increases, a new R&D building, expansion of distribution facilities and development of information system

<Financing Activities>

Share repurchase: 37.1 billion yen

Share Repurchase



* Share repurchase from the market

3. Forecast for FY 2004

Consolidated Sales and Profit Forecast

	FY2002		FY2003		* FY2004(F)	
	Billion yen	% Growth	Billion yen	% Growth	Billion yen	% Growth
Sales	865.2	3.1	902.6	4.3	935.0	3.6
Operating Income	114.9	2.9	119.7	4.2	123.0	2.8
[% to Sales]	[13.3]		[13.3]		[13.2]	
Ordinary Income	117.4	3.4	122.6	4.4	125.0	1.9
[% to Sales]	[13.6]		[13.6]		[13.4]	
Net Income	62.4	3.6	65.3	4.6	72.0	10.2
[% to Sales]	[7.2]		[7.2]		[7.7]	

Net Income per Share (yen)	108.05	7.6	119.06	10.2	**132.63	11.4
ROE	14.2%		15.5%		16.1%	
EBITDA (Operating Income + Depr. & Amort.)	173.2	1.8	177.8	2.7	180.0	1.2
Dividend per Share (yen)	30.0		32.0		38.0	

* Exchange rate assumptions: 110 yen/USD, 130 yen/Euro, 3.3 yen/ New Taiwan dollar

** The calculation is made based on the estimated number of average shares outstanding during the fiscal year.

Sales Outlook by Segment – FY2004

<Billion yen>

Consolidated Net Sales **935.0** **+3.6%**

By Geography

Japan	693.0	+2.9%
Asia & Oceania	103.0	+1.5%
North America	84.0	+5.1%
Europe	90.0	+6.0%

By Business

Consumer Products	697.0	+4.0%
Prestige Cosmetics	79.0	+1.7%
Chemical Products	187.0	+3.0%

Sales Outlook – FY2004

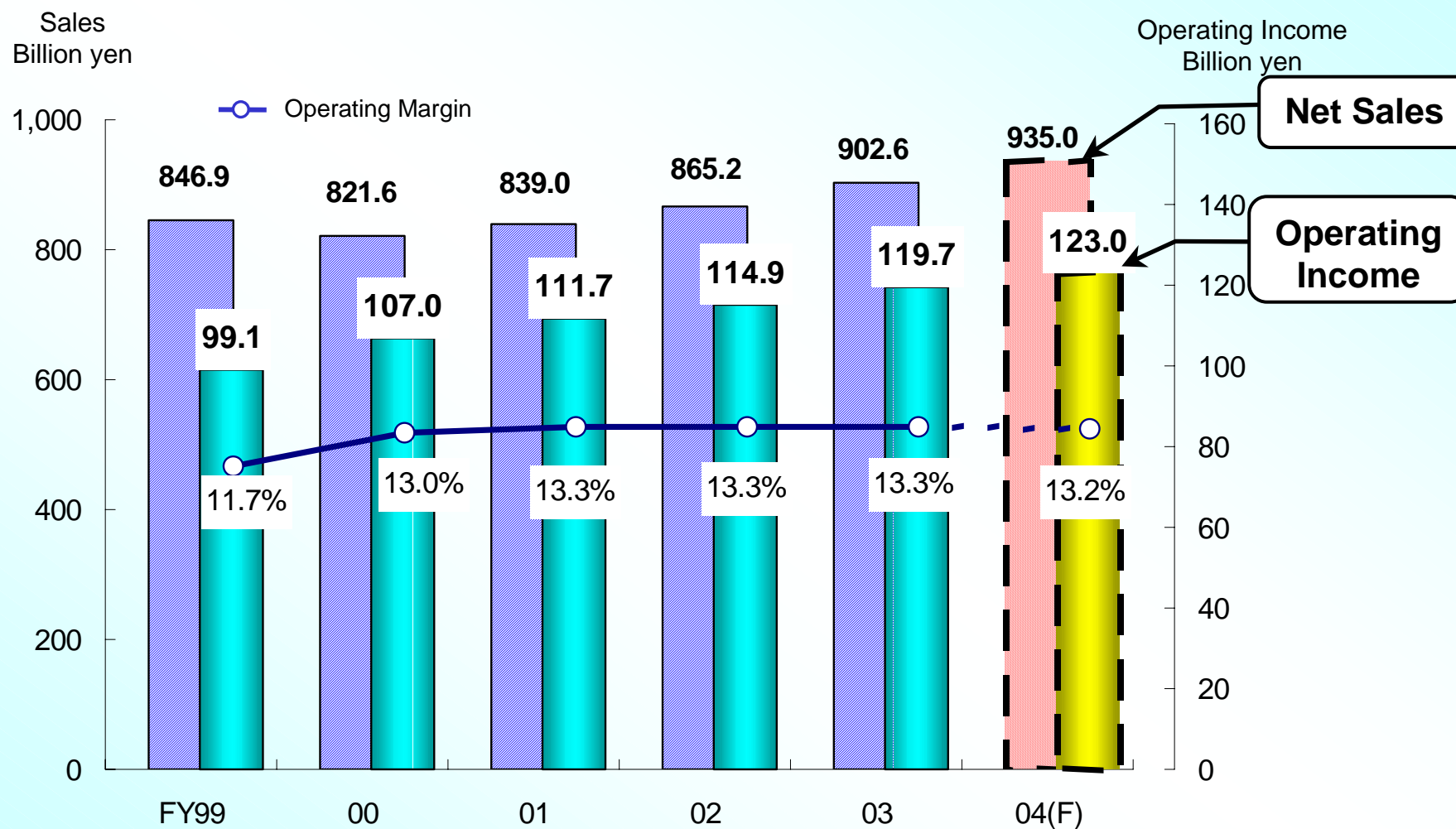
- Consumer Products in Japan -

<Billion yen>

	1st Half			Full Year		
	FY2003 Actual	FY2004 Forecast	% Growth	FY2003 Actual	FY2004 Forecast	% Growth
Personal Care	84.7	85.0	+0.3%	171.5	173.0	+0.8%
Fabric and Home Care	122.4	123.0	+0.5%	241.0	242.0	+0.4%
Baby Care, Feminine Care and Others	46.8	58.0	+23.9%	101.5	118.0	+16.2%
Total	254.0	266.0	+4.7%	514.1	533.0	+3.7%

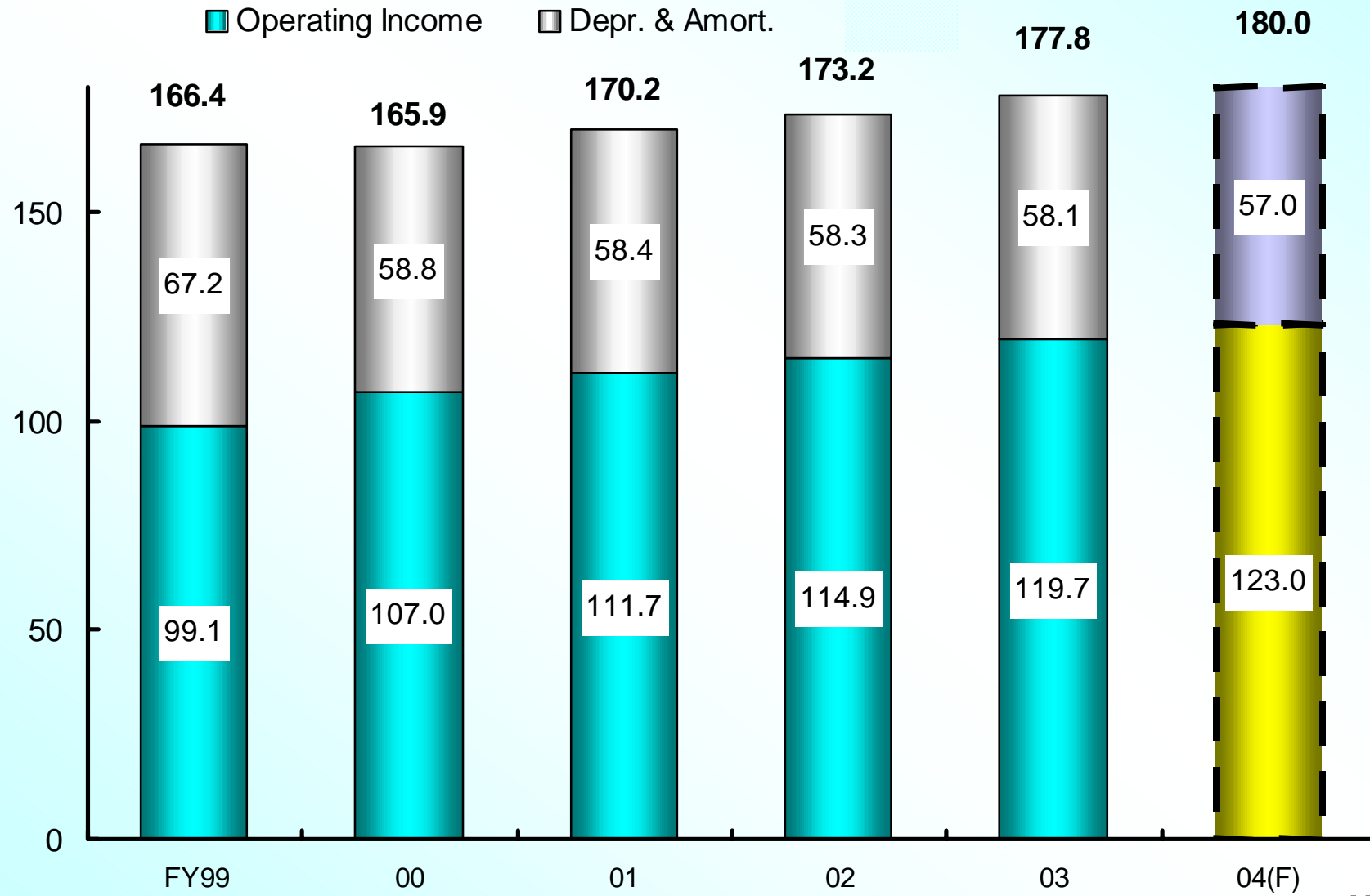
Consolidated Sales/Operating Margin

[Full Year]

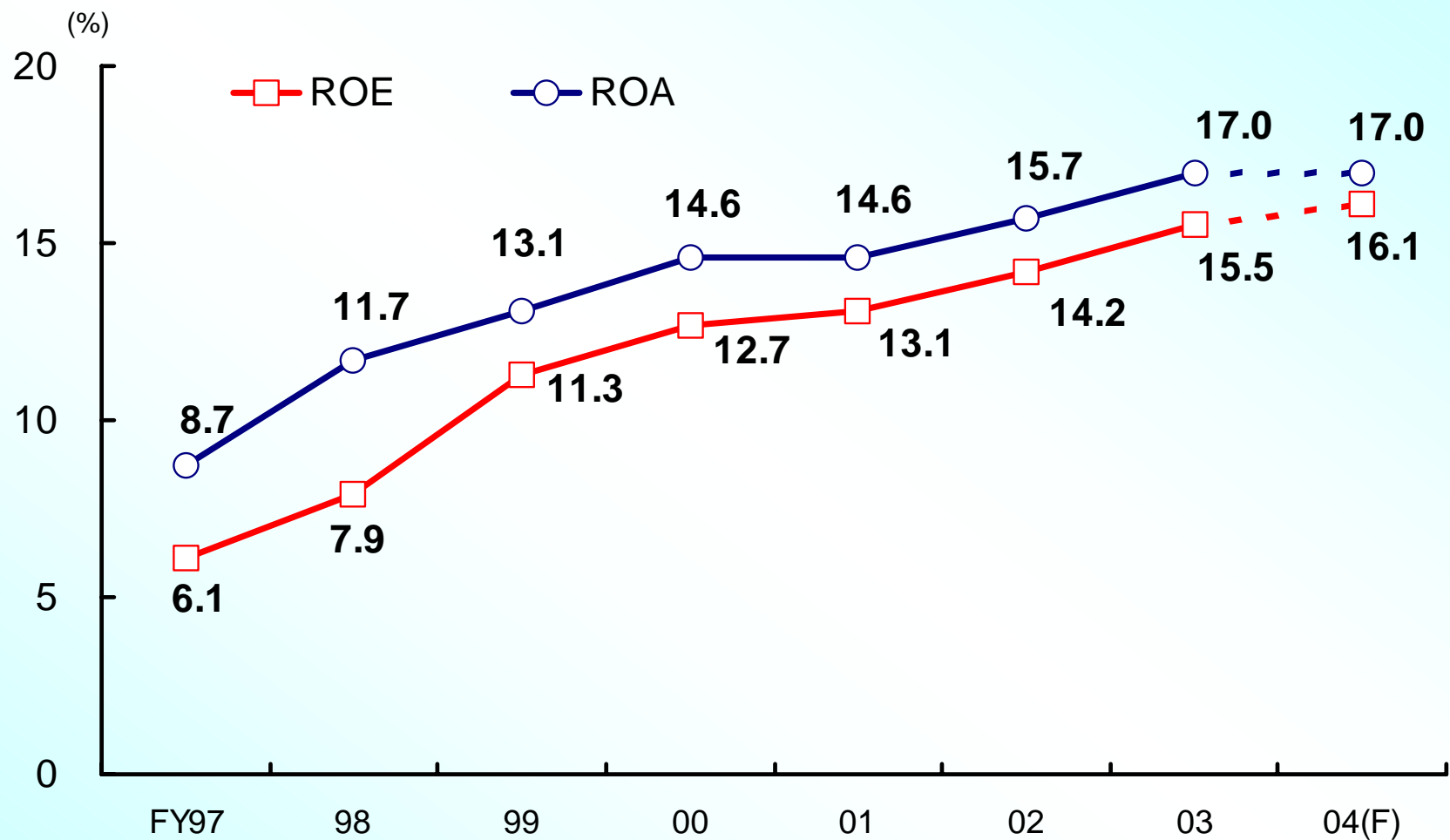


EBITDA

Billion yen



ROE & ROA



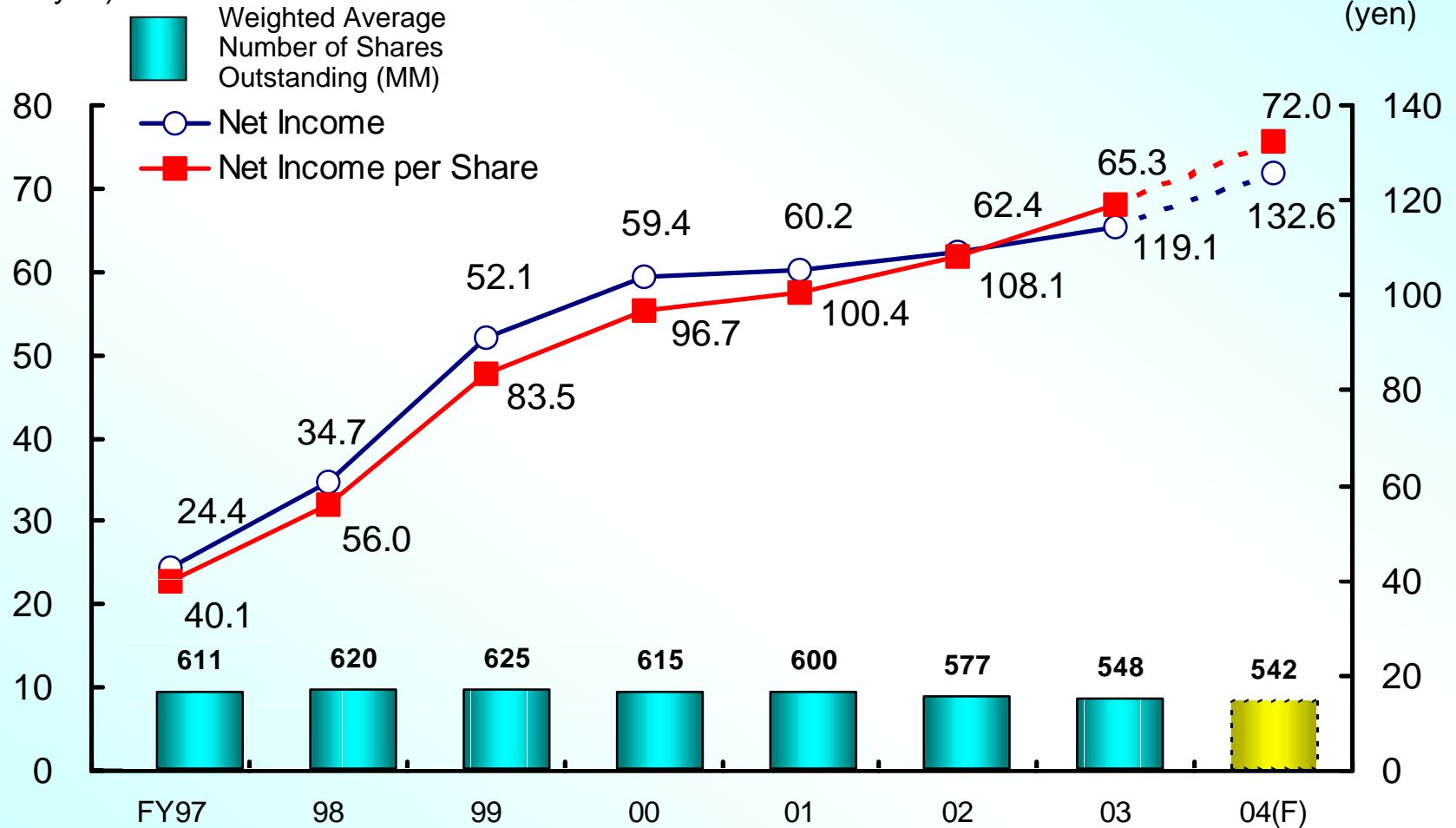
ROA: Ordinary Income / Total assets
Ordinary Income: Enterprise tax has been adjusted in FY97



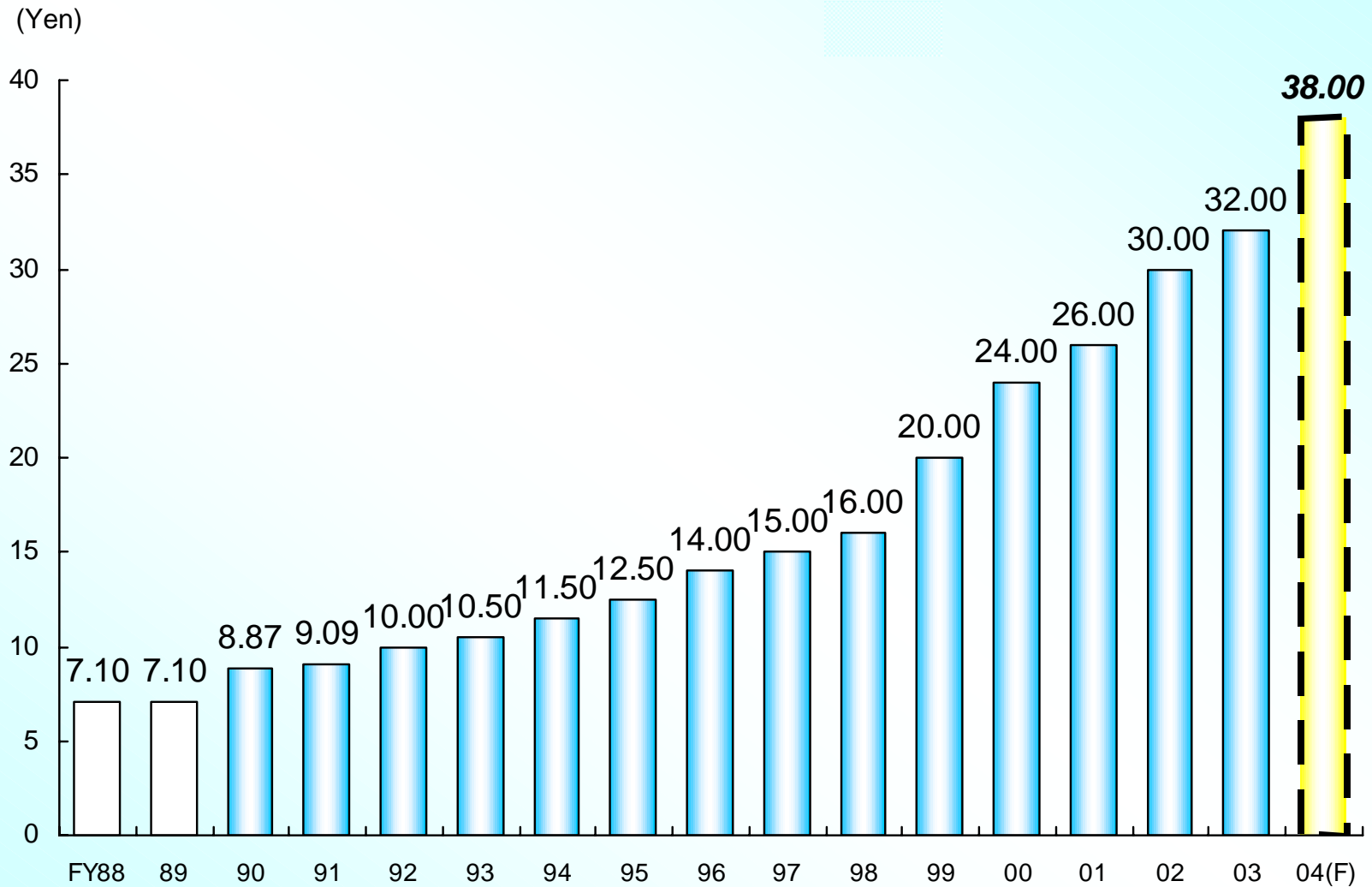
Net Income per Share (Consolidated)

Net Income
(Billion yen)

Net Income
per Share
(yen)

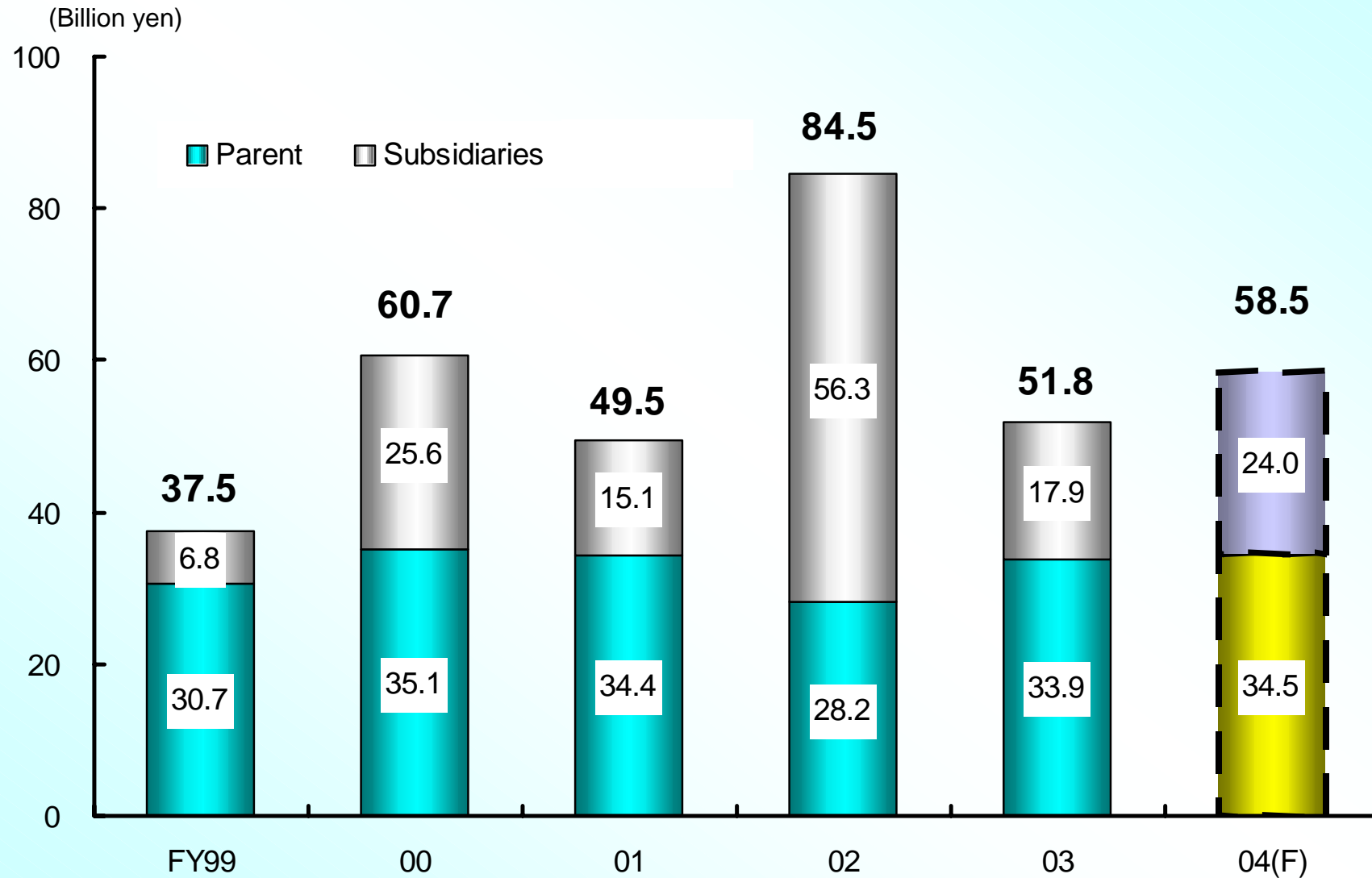


Cash Dividends per Share

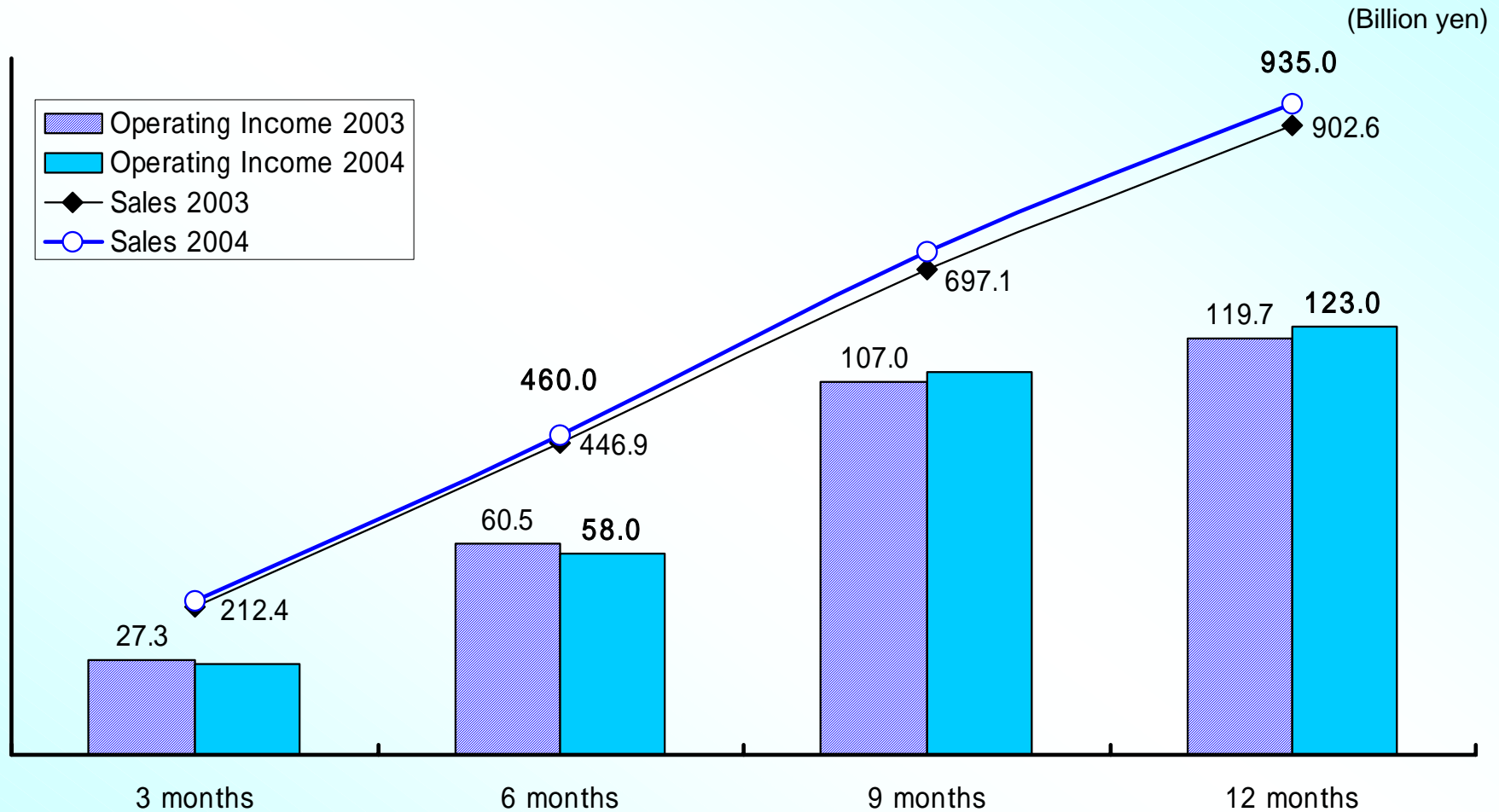


*Impacts of share splits are retroactively reflected.

Consolidated Capital Expenditures



Quarterly Consolidated Sales and Profit Forecast



Non-consolidated Sales and Profit Forecast

	FY2002		FY2003		FY2004(F)	
	Billion yen	% Growth	Billion yen	% Growth	Billion yen	% Growth
Sales	661.7	1.2	665.9	*1 0.6	685.0	2.9
Operating Income	94.4	2.2	98.3	4.2	101.0	2.7
[% to Sales]	[14.3]		[14.8]		[14.7]	
Ordinary Income	98.3	-0.2	105.4	7.2	105.0	-0.4
[% to Sales]	[14.9]		[15.8]		[15.3]	
Net Income	49.4	-10.9	61.0	23.5	64.0	4.8
[% to Sales]	[7.5]		[9.2]		[9.3]	

Net Income per Share (yen)	85.42	-7.4	111.19	30.2	*2 117.88	6.0
ROE	11.3%		14.6%		14.5%	
EBITDA (Operating Income + Depr. & Amort.)	136.4	0.0	139.0	1.9	141.0	1.4

*1 Excluding the effect of changes in the accounting system between Kao Corporation and Kao Hanbai Company, Ltd. starting from April 2003, net sales of fiscal 2003 would have increased by 3.2%.

*2 The calculation is made based on the estimated number of average shares outstanding during the fiscal year.



