

Annual Financial Review

From April 1, 2004 to March 31, 2005

Kao Corporation

April 21, 2005



This is a translation of materials used for the analysts meeting of April 21, 2005 in Japan.

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

<http://www.kao.co.jp/en/ir/analystmtg/index.html>

These presentation materials contain forward-looking statements that are based on management's estimates, assumptions and projections as of April 21, 2005.

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.)

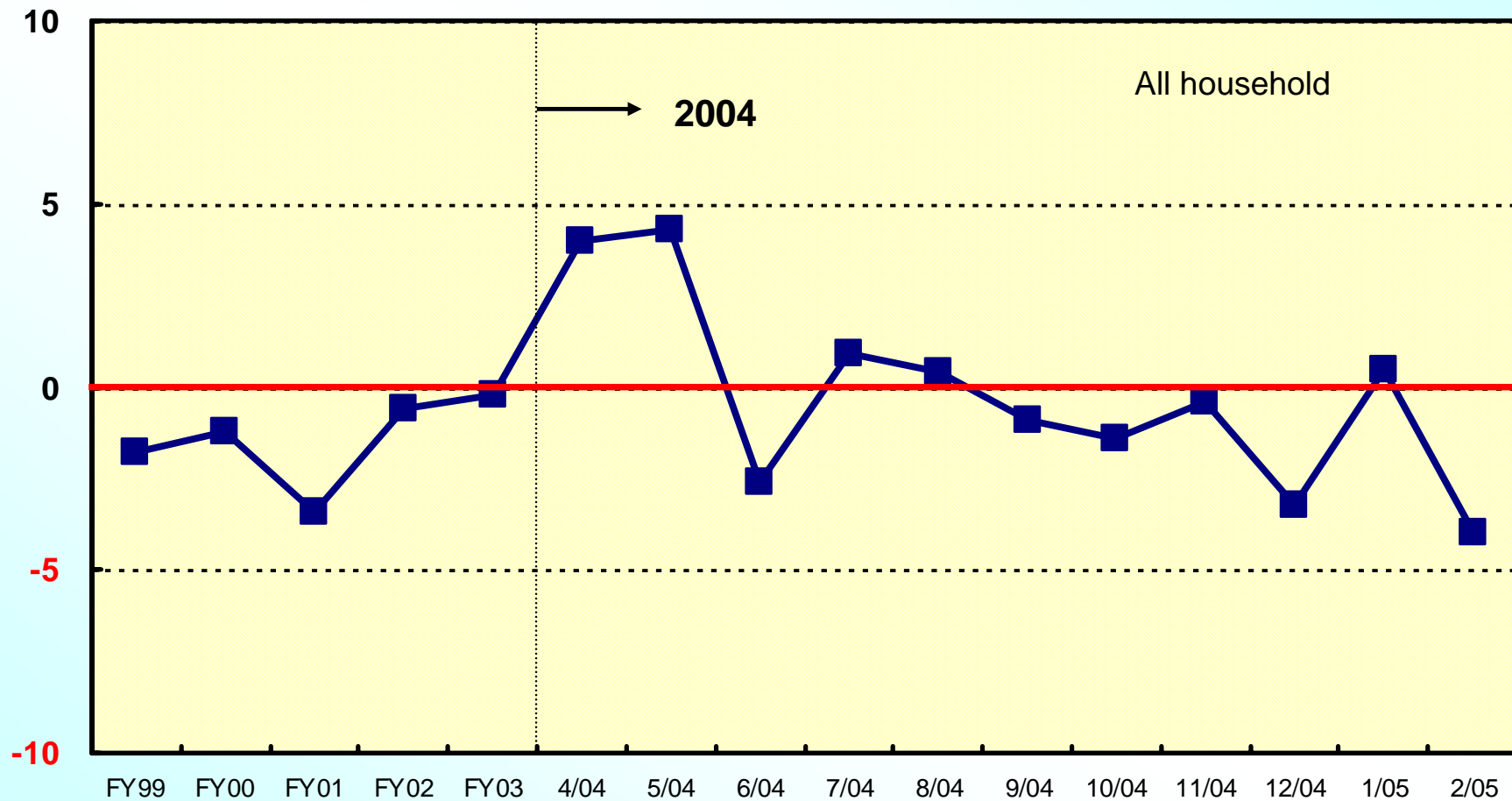
1. Business Environment

April 1, 2004 – March 31, 2005

Household Expenditure Survey

(%)

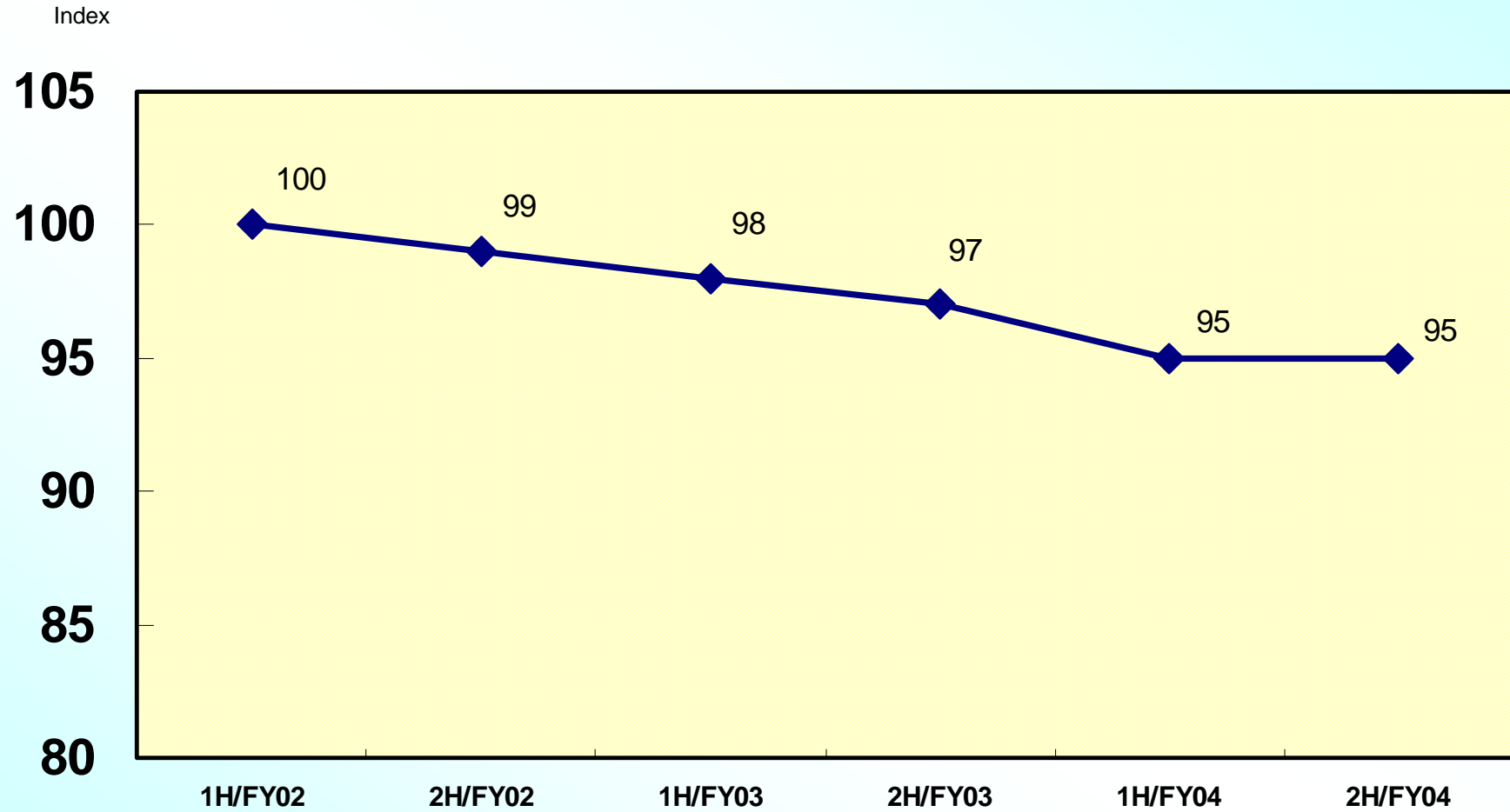
by Ministry of Public Management, Home Affairs, Posts and Telecommunications



(Percent change from a year earlier)

Average Consumer Purchase Price

15 Major Toiletry Categories (All manufactures)



(Source: SRI)

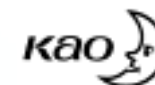


2. Consolidated Business Results

April 1, 2004 – March 31, 2005

FY2004 Results (Consolidated)

Billion yen	<u>FY2002</u>	<u>FY2003</u>	<u>FY2004</u>		
Net Sales	865.2	902.6	936.8	Growth 3.8%	Changes +34.2
Operating Income	114.9	119.7	121.3	1.4%	+1.6
<i>Operating Margin</i>	13.3%	13.3%	13.0%		
Ordinary Income	117.4	122.6	125.3	2.2%	+2.6
Net Income	62.4	65.3	72.1	10.4%	+6.8
EBITDA	173.2	177.8	178.1	0.2%	+0.3
ROE	14.2%	15.5%	16.5%		
EPS (yen)	108.05	119.06	131.16	10.2%	+12.10



Consolidated Net Sales [1]

	FY2003		FY2004		
	Billion yen	% Growth	Billion yen	%	
				Growth	Like-for-like
Personal Care	171.5	3.6	180.6	5.3	5.3
Fabric and Home Care	241.0	-3.2	234.2	-2.8	-2.8
Baby Care, Feminine Care and Others	101.5	17.6	122.0	20.3	20.3
Japan Total	514.1	2.6	536.9	4.4	4.4
Asia & Oceania	59.9	-6.6	53.5	-10.8	-5.8
North America & Europe	102.0	16.6	106.7	4.6	8.0
Elimination	-5.6		-7.1		
Consumer Products	670.4	3.7	690.0	2.9	3.9
Prestige Cosmetics	77.6	2.4	78.2	0.8	0.9

*Like-for-like: excludes currency translation impact



Consolidated Net Sales [2]

	FY2003		FY2004		
	Billion yen	% Growth	Billion yen	%	
				Growth	Like-for-like
Japan	104.8	2.9	111.4	6.3	6.3
Asia	41.8	9.0	47.2	12.9	21.2
North America & Europe	56.8	10.7	64.0	12.7	14.2
Elimination	-21.9		-25.7		
Chemical Products	181.6	6.3	196.9	8.5	10.0

Elimination	-27.0		-28.4		
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Consolidated Sales	902.6	4.3	936.8	3.8	4.8
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*Like-for-like: excludes currency translation impact

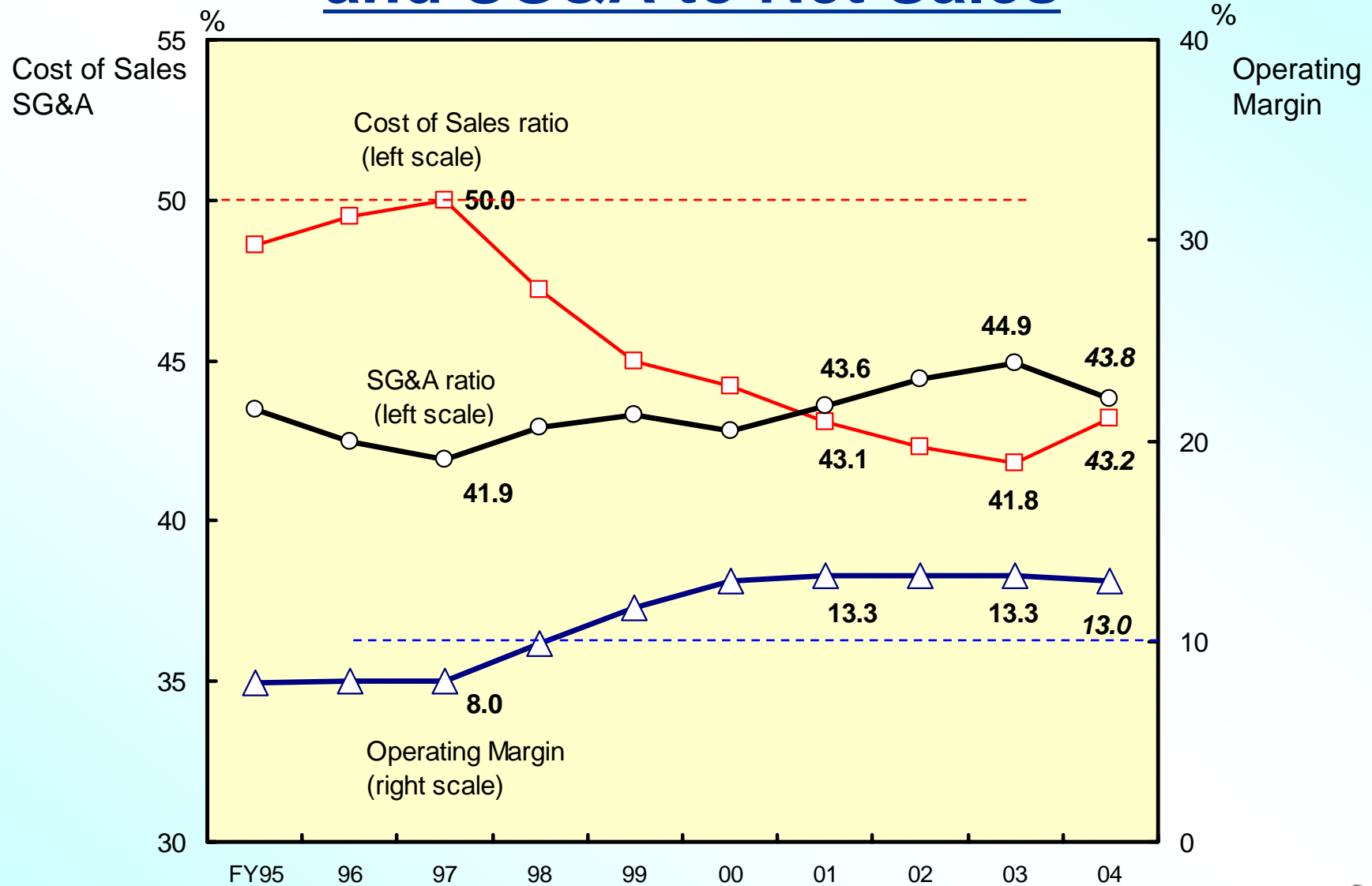
Consolidated Income Statements

	FY2003		FY2004		Changes*
	Billion yen	%	Billion yen	%	Billion yen
Net Sales	902.6	100.0	936.8	100.0	34.2
Cost of Sales	377.7	41.8	404.8	43.2	27.0
Gross Profit	524.8	58.2	532.0	56.8	7.1
SG&A Expenses	405.1	44.9	410.6	43.8	5.5
Operating Income	119.7	13.3	121.3	13.0	1.6
Non-operating Income/Expenses	2.9	0.3	3.9	0.4	1.0
Ordinary Income	122.6	13.6	125.3	13.4	2.6
Extraordinary Income & Loss	-5.5	-0.6	-5.6	-0.6	-0.1
Income Before Taxes	117.1	13.0	119.6	12.8	2.5
Income Taxes	50.4	5.6	47.1	5.1	-3.2
Equity Items & Others (Minus)	1.3	0.2	0.3	0.0	-1.0
Net Income	65.3	7.2	72.1	7.7	6.8

* Changes = FY2004 - FY2003



Consolidated Cost of Sales and SG&A to Net Sales



*Business tax has been adjusted prior to FY97



Breakdown of Consolidated Expenses

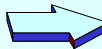


(Billion yen)

	FY03	FY04	Changes*
Total SG&A Expenses	405.1	410.6	5.5

Freight/Warehouse	46.9	50.2	3.3
Advertising	82.7	84.1	1.3
Sales Promotion	34.0	36.7	2.6
Salaries and Wages	71.1	68.5	-2.6
R&D	38.5	39.7	1.2





* Changes = FY2004 – FY2003

Sales and Operating Income by Business

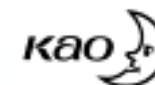
Billion yen	Net Sales			Operating Income		
	FY2003	FY2004	Changes	FY2003	FY2004	Changes
Consumer Products	670.4	690.0	19.5 2.9%	92.1 <i>% to Sales</i> 13.8%	92.5 13.4%	0.4 
Prestige Cosmetics	77.6	78.2	0.6 0.8%	7.4 <i>% to Sales</i> 9.6%	7.6 9.8%	0.2 
Chemical Products	181.6	196.9	15.3 8.5%	19.9 <i>% to Sales</i> 11.0%	20.6 10.5%	0.7 

*Before elimination of intersegment transfers

Sales and Operating Income by Geography

Billion yen	Net Sales			Operating Income		
	FY2003	FY2004	Changes	FY2003	FY2004	Changes
Japan	673.6	703.0	29.4 4.4%	104.8 % to Sales 15.6%	107.4 15.3%	2.6 
Asia & Oceania	101.4	100.2	-1.1 -1.2%	5.3 % to Sales 5.3%	2.7 2.7%	-2.6 
North America	79.9	83.6	3.7 4.7%	8.4 % to Sales 10.6%	8.1 9.7%	-0.3 
			After amortization of goodwill	6.7 % to Sales 8.4%	6.4 7.7%	-0.2
Europe	84.8	93.8	8.9 10.5%	5.2 % to Sales 6.1%	6.9 7.4%	1.7 
			After amortization of goodwill	2.7 % to Sales 3.2%	4.5 4.9%	1.8

*Before elimination of intersegment transfers



Consolidated Operating Income

FY2003

119.7



FY2004

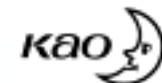
121.3 Billion yen

Change +1.6 Billion yen +1.4%

Japan	2.6
Asia & Oceania	-2.6
North America	-0.2
Europe	1.8
<hr/>	
Total	1.6

Consumer Products	0.4
Prestige Cosmetics	0.2
Chemical Products	0.7
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Total	1.6

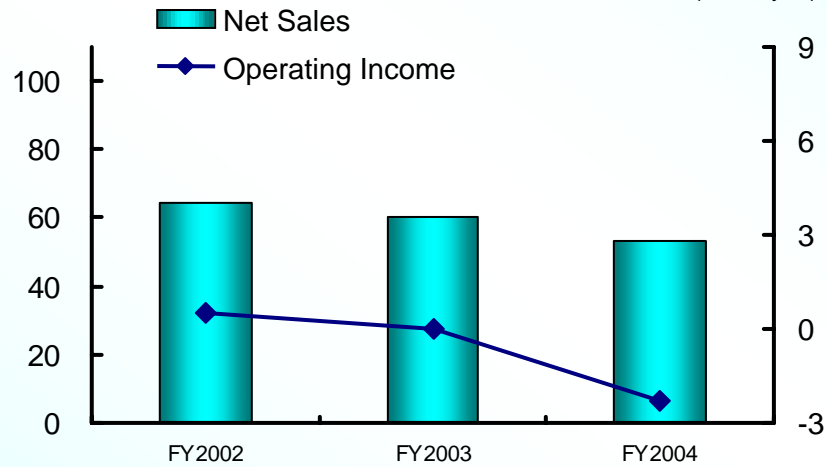
*The figures of each segment are before elimination.



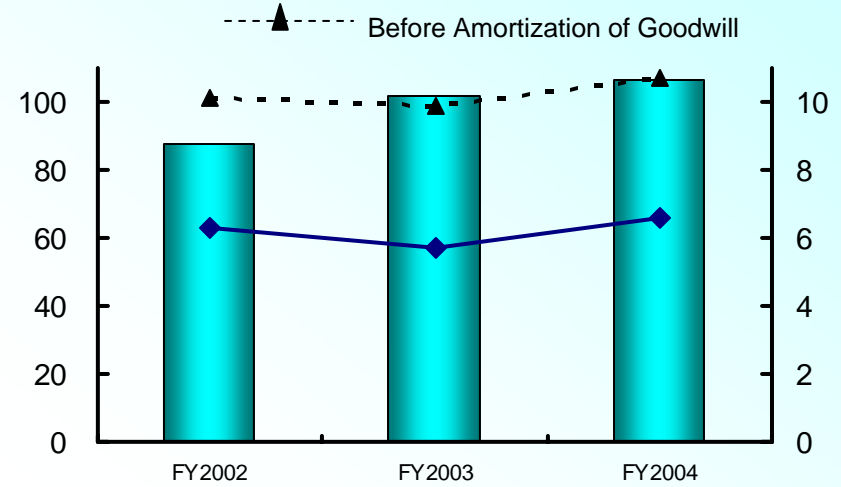
Consumer Products

Asia and Oceania

Sales (Billion yen)

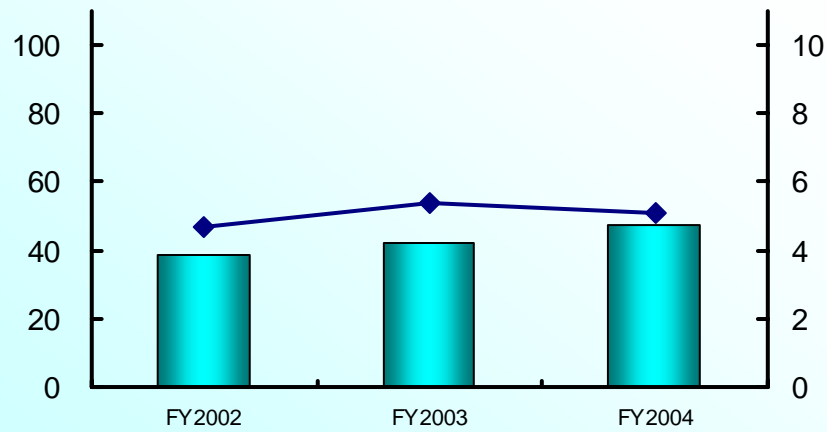


North America & Europe

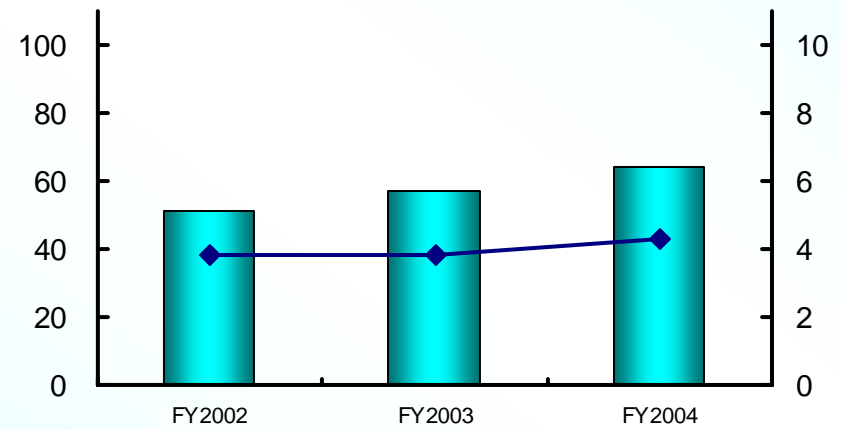


Chemical Products

Asia



North America & Europe



Consolidated Ordinary Income

FY2003

FY2004

122.6



125.3 Billion yen

Change +2.6 Billion yen +2.2%

1. Operating income	1.6
2. Equity earnings	0.7
3. Forex gains/losses	0.2
4. Net interest expense	0.0
5. Other non-operating items	0.0
<hr/> Total	<hr/> 2.6



Consolidated Income Before Taxes

FY2003

117.1

Change

FY2004

119.6 Billion yen

+2.5 Billion yen +2.1%

1. Ordinary income	2.6
2. Gain on sale or disposal of fixed assets	-1.1
3. Gain on sale of investment securities	0.3
4. Loss on sale or disposal of fixed assets	-1.0
5. Impairment loss	-2.5
6. Nonrecurring depreciation related to relocation of overseas plant	1.0
7. Loss on impairments of land	2.7
8. Other	0.3
Total	2.5

Consolidated Balance Sheets

(Billion yen)

	Mar/05	Mar/04	Changes		Mar/05	Mar/04	Changes
Current Asset	289.1	307.2	-18.0	Current Liabilities	211.5	209.8	1.6
Cash and Bank Deposits	32.0	72.4	-40.3	Notes and Accounts Payable	70.9	68.4	2.5
Notes and Accounts Receivable	103.5	97.3	6.2	Short-term Debt (incl. Current Portion of Long-term Debt)	21.2	17.8	3.4
Short-term Investments	40.3	36.8	3.5	Other Accounts Payable	19.1	21.8	-2.6
Inventories	81.7	71.8	9.8	Accrued Expenses	63.2	64.5	-1.3
Others	31.4	28.7	2.6	Others	36.8	37.2	-0.3
Fixed Assets	399.6	416.5	-16.8	Long-term Liabilities	21.7	64.0	-42.3
Tangible Assets	260.2	259.9	0.3	Long-term Debt	1.4	31.8	-30.3
Intangible Assets	86.2	98.3	-12.1	Others	20.3	32.2	-11.9
Investments	53.2	58.2	-5.0	Total Liabilities	233.3	273.9	-40.6
Deferred Assets	0.1	0.0	0.0	Minority Interests	7.4	22.1	-14.7
				Shareholders' Equity	448.2	427.7	20.4
				Common Stock	85.4	85.4	-
				Capital Surplus	109.5	108.8	0.6
				Retained earnings	299.3	399.8	-100.5
				Unrealized Gain on Available-for-sale Securities	3.5	4.3	-0.7
				Foreign Currency Translation Adjustments	-39.7	-37.9	-1.8
				Treasury Stock	-9.8	-132.8	122.9
Total Assets	688.9	723.8	-34.9	Total Liabilities, Minority Interests & Shareholders' Equity	688.9	723.8	-34.9



Statements of Cash Flows

(Billion yen)

	FY2002	FY2003	FY2004	Changes
Operating Activities	134.1	117.9	109.5	-8.3
Investing Activities	-77.5	-37.3	-54.4	-17.0
Financing Activities	-104.1	-49.3	-90.6	-41.3
Translation Adjustment	-2.6	-2.4	-1.2	1.2
Net Increase/(Decrease)	-50.2	28.7	-36.7	-65.5
Beginning balance of newly consolidated companies	0.9	2.6	0.0	-2.6
Cash and Cash Equivalents	75.6	107.1	70.4	-36.7
Total Debt	49.0	49.6	22.7	-26.9

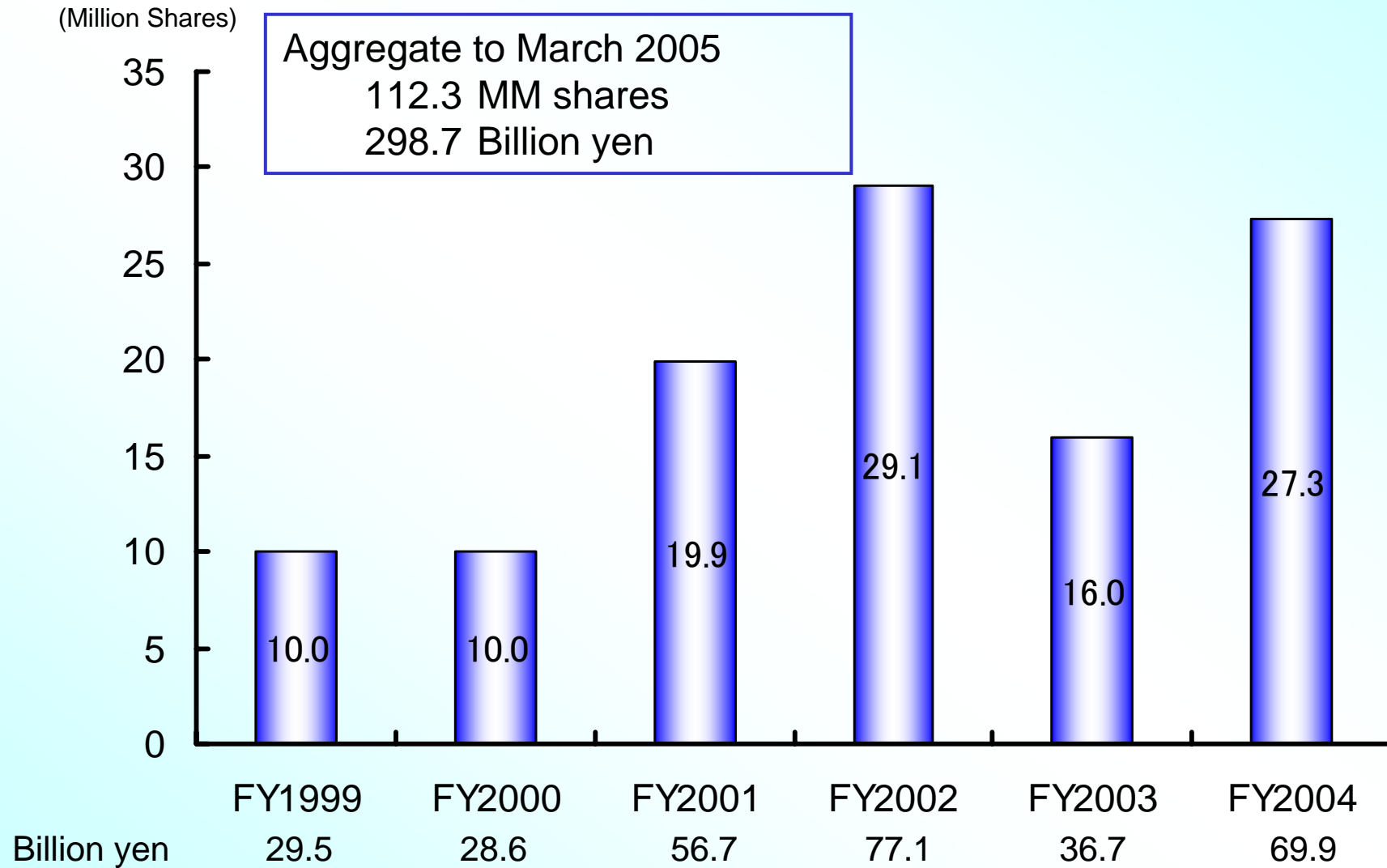
<Investing Activities>

Capital expenditure: New plant construction in Thailand
 Production capacity increase in Chemical Products business
 New products, R&D facilities and development of information system

<Financing Activities>

Share repurchase: 71.6 billion yen

Share Repurchase



* Share repurchase from the market



3. Forecast for FY 2005

Consolidated Sales and Profit Forecast

	FY2003		FY2004		* ¹ FY2005(F)	
	Billion yen	% Growth	Billion yen	% Growth	Billion yen	% Growth
Net Sales	902.6	4.3	936.8	3.8	960.0	2.5
Operating Income	119.7	4.2	121.3	1.4	125.0	3.0
[% to Sales]	[13.3]		[13.0]		[13.0]	
Ordinary Income	122.6	4.4	125.3	2.2	126.0	0.5
[% to Sales]	[13.6]		[13.4]		[13.1]	
Net Income	65.3	4.6	72.1	10.4	74.0	2.5
[% to Sales]	[7.2]		[7.7]		[7.7]	

Net Income per Share (yen)	119.06	10.2	131.16	10.2	*²135.91	3.6
ROE	15.5%		16.5%		*³15.7%	
EBITDA (Operating Income + Depr. & Amort.)	177.8	2.7	178.1	0.2	184.0	3.3
Cash dividends per Share (yen)	32.0	6.7	38.0	18.8	50.0	31.6

*1 Exchange rate assumptions: 110 yen/USD, 135 yen/Euro, 3.3 yen/ New Taiwan dollar

*2 The calculation is made based on the estimated number of average shares outstanding during the fiscal year, which does not include the share repurchases to be proposed at the General Shareholders' Meeting in June 2005.

*3 The calculation of ROE forecast for FY2005 does not include the share repurchases to be proposed at the General Shareholders' Meeting in June 2005.



Sales Outlook by Segment – FY2005

<Billion yen>

Consolidated Net Sales 960.0 +2.5%

By Geography

Japan	707.0	+0.6%
Asia & Oceania	109.0	+8.7%
North America	89.0	+6.4%
Europe	100.0	+6.6%

By Business

Consumer Products	702.0	+1.7%
Prestige Cosmetics	79.0	+0.9%
Chemical Products	207.0	+5.1%

Sales Outlook – FY2005

- Consumer Products in Japan -

<Billion yen>

	1st Half			Full Year		
	FY2004 Actual	FY2005 Forecast	% Growth	FY2004 Actual	FY2005 Forecast	% Growth
Personal Care	91.6	92.0	0.4%	180.6	182.0	0.8%
Fabric and Home Care	118.4	119.0	0.4%	234.2	235.0	0.3%
Baby Care, Feminine Care and Others	60.6	61.0	0.7%	122.0	122.0	0.0%
Total	270.7	272.0	0.5%	536.9	539.0	0.4%

Major Assumptions for FY2005 Forecast

Assumptions related to sales

Consumer Products Business in Japan

▶Sales price decline	0 to -1%
▶Sales volume	+1 to +2%

Operating income: +3.7 billion yen

	<u>Estimated impact on profit</u>
Gross profit expansion due to sales increase	+7.0 Billion yen
Total Cost Reduction (TCR)	+5.0
Higher raw material cost	-5.0
Increase in freight/warehouse expenses	-1.0
Decrease in marketing expenses	+1.0
Increase in R&D expenses	-1.0
Increase in depreciation	-2.0

Major items in non-operating income/expenses and extraordinary income & loss

Decrease in equity earnings	-1.0
Decrease in impairment loss	+2.5

Exchange rate assumptions:

110 yen/USD, 135 yen/Euro, 3.3 yen/ New Taiwan dollar



Operating Income Outlook by Business

(Billion yen)

Increase: +4.0

Japan: Consumer Products
Asia: Chemical Products
Europe: Consumer Products

Flat

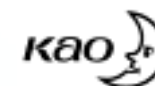
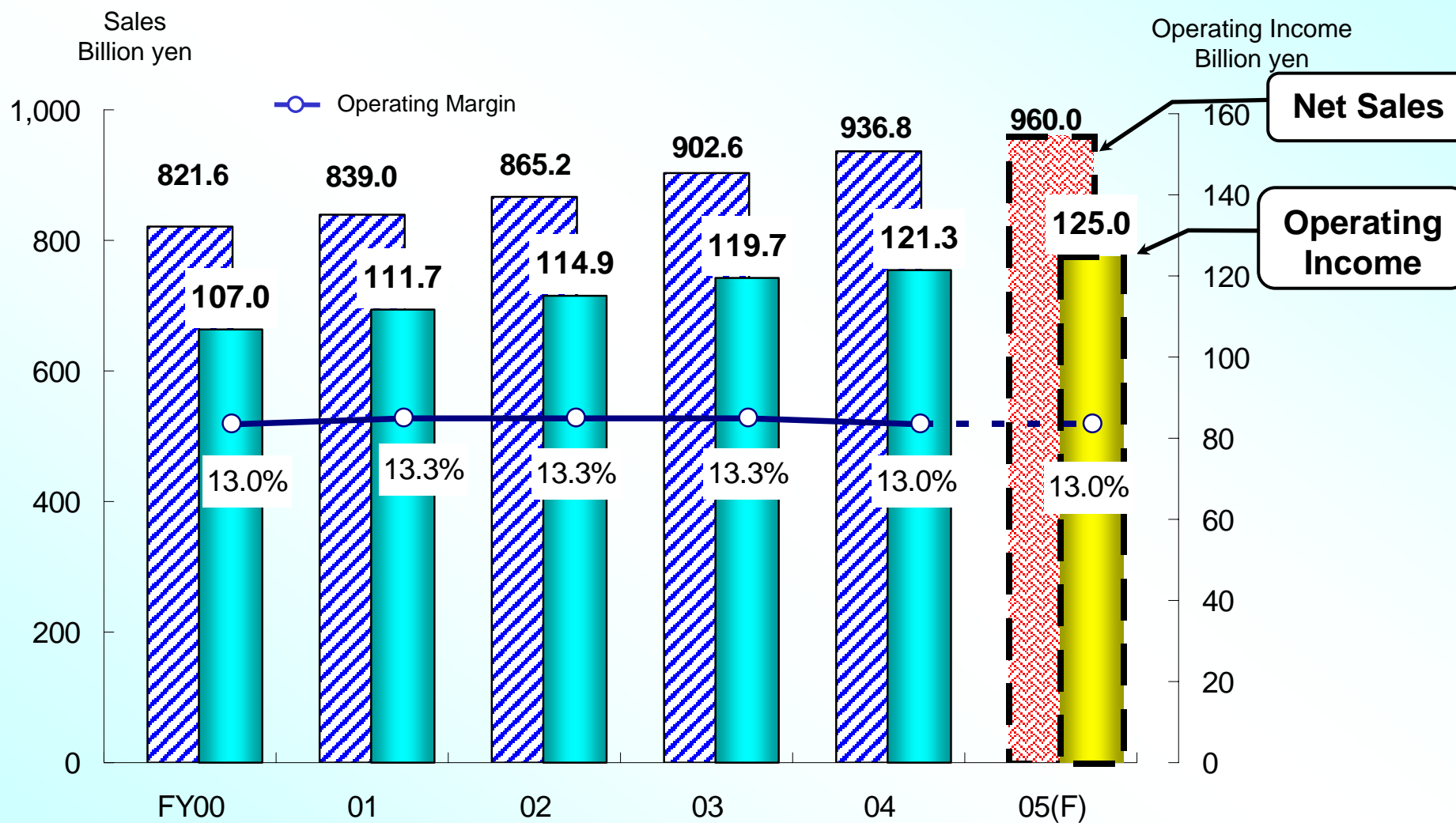
Japan/Asia: Prestige Cosmetics
Asia & Oceania: Consumer Products
North America: Consumer Products
Chemical Products
Europe: Chemical Products

Decrease: -0.5

Japan: Chemical Products

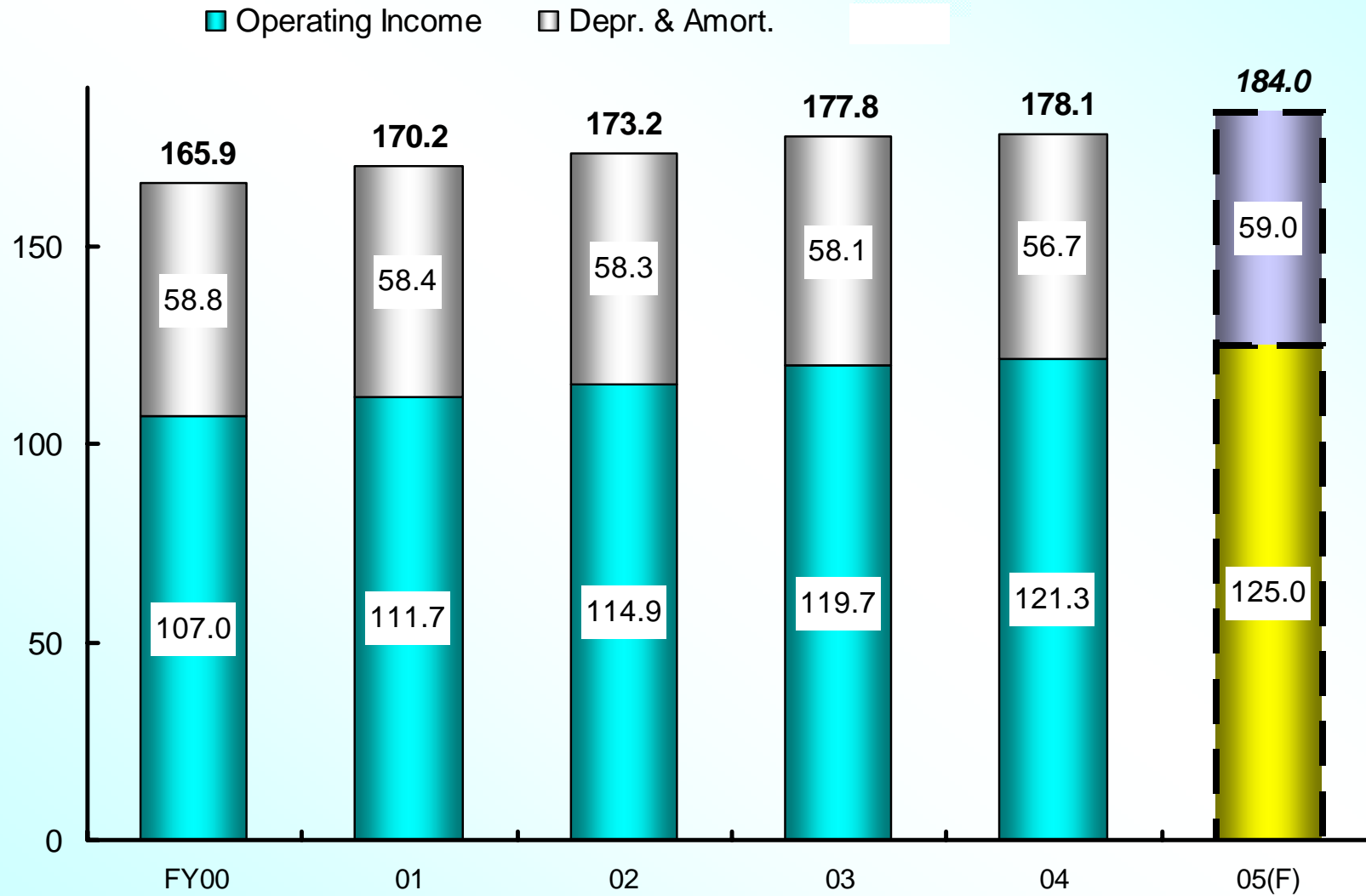
Consolidated Net Sales/Operating Margin

[Full Year]

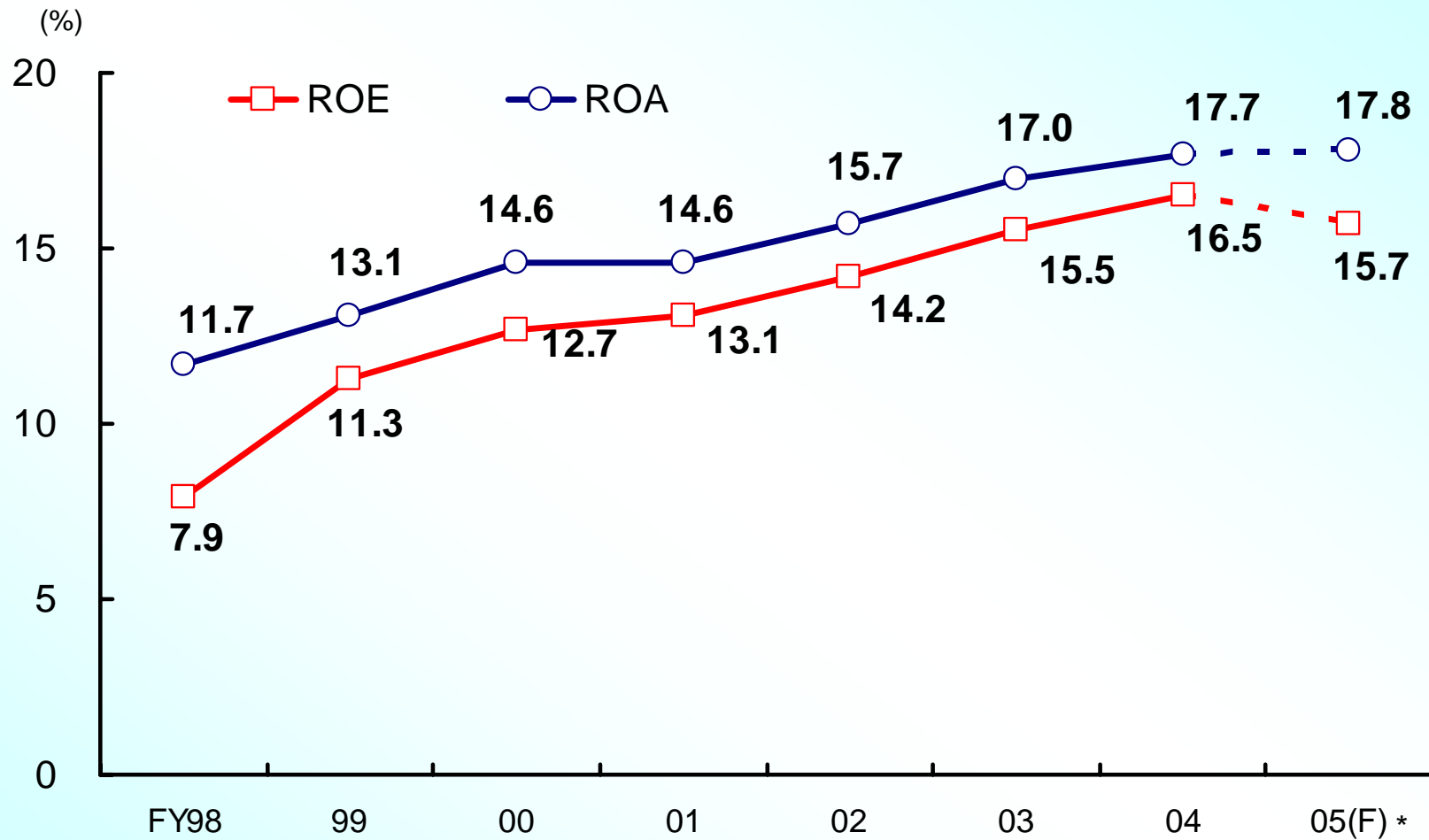


EBITDA

Billion yen



ROE & ROA

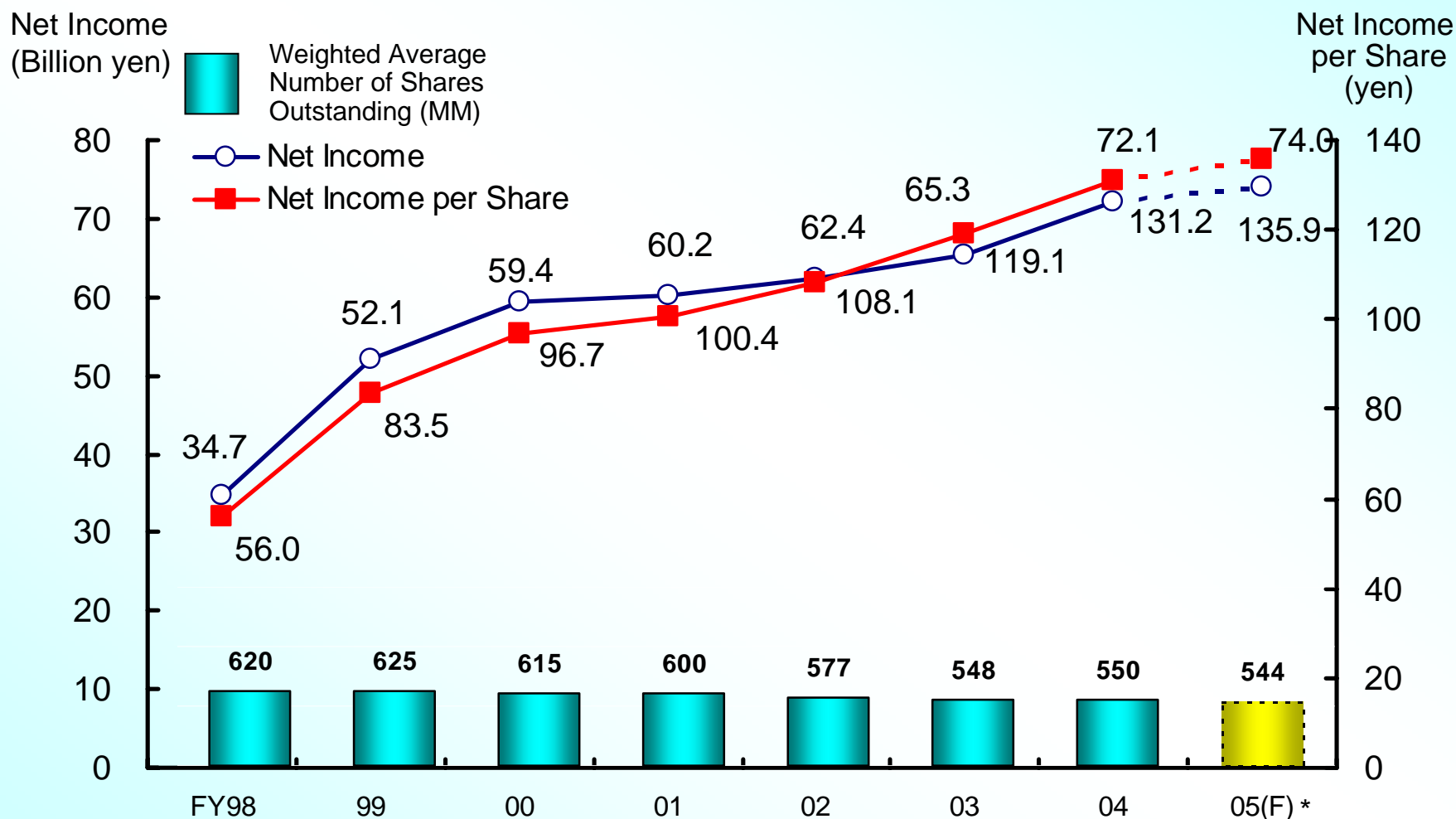


ROA: Ordinary Income / Total assets

* The calculation of forecast for ROE and ROA does not include the share repurchases to be proposed at the General Shareholders' Meeting in June 2005.

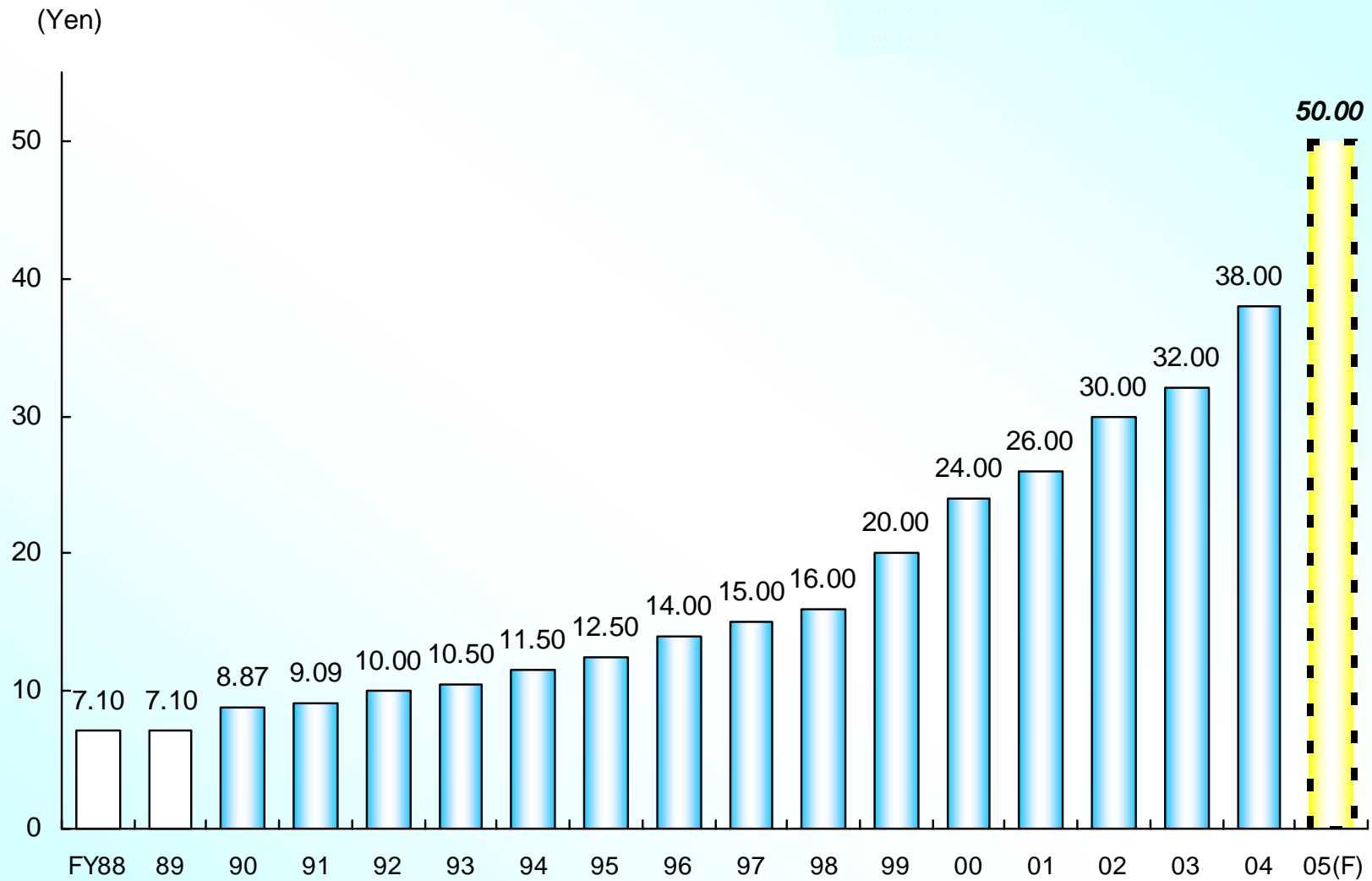


Net Income per Share (Consolidated)



* The calculation is made based on the estimated number of average shares outstanding during the fiscal year, which does not include the share repurchases to be proposed at the General Shareholders' Meeting in June 2005.

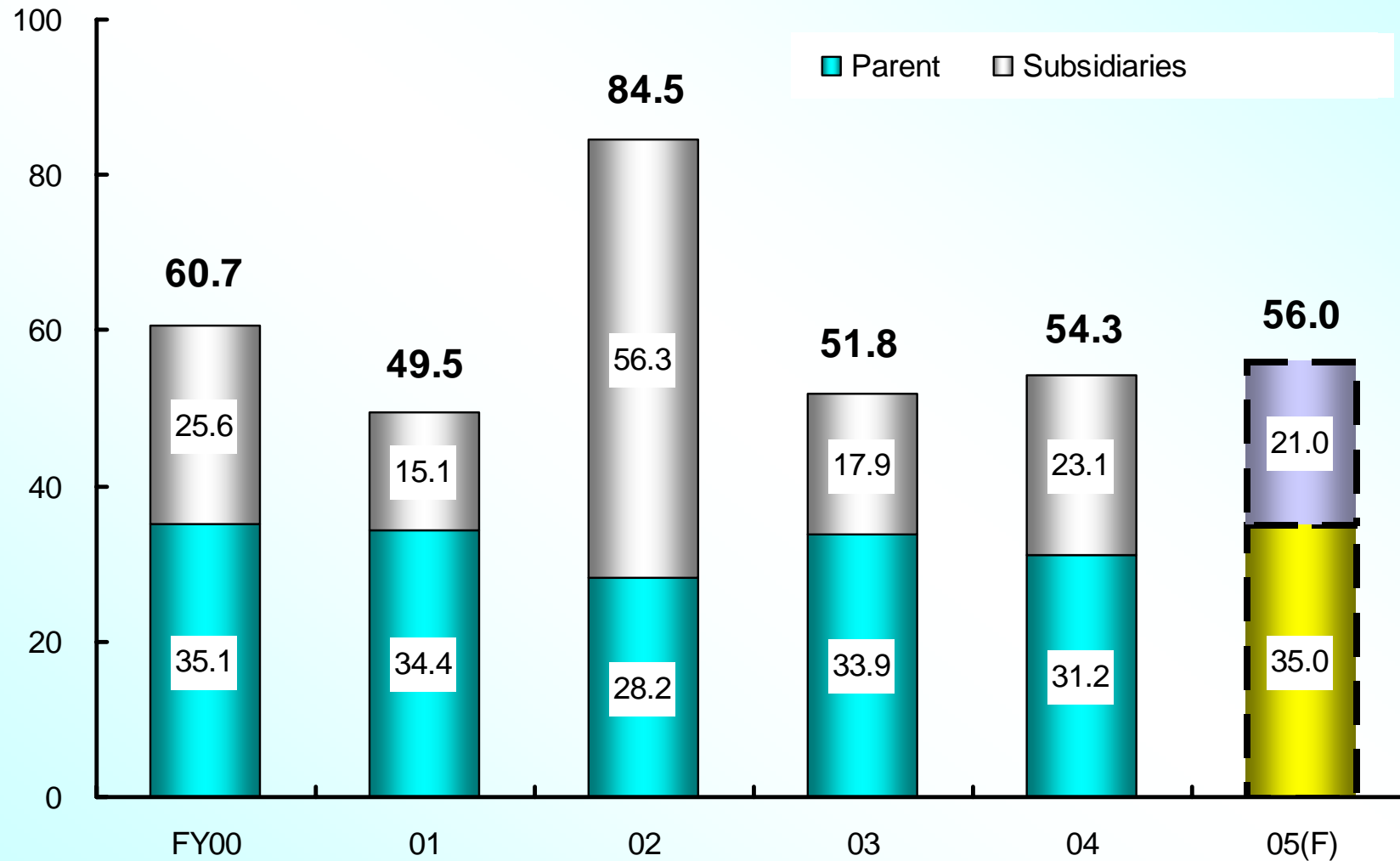
Cash Dividends per Share



*Impacts of share splits are retroactively reflected.

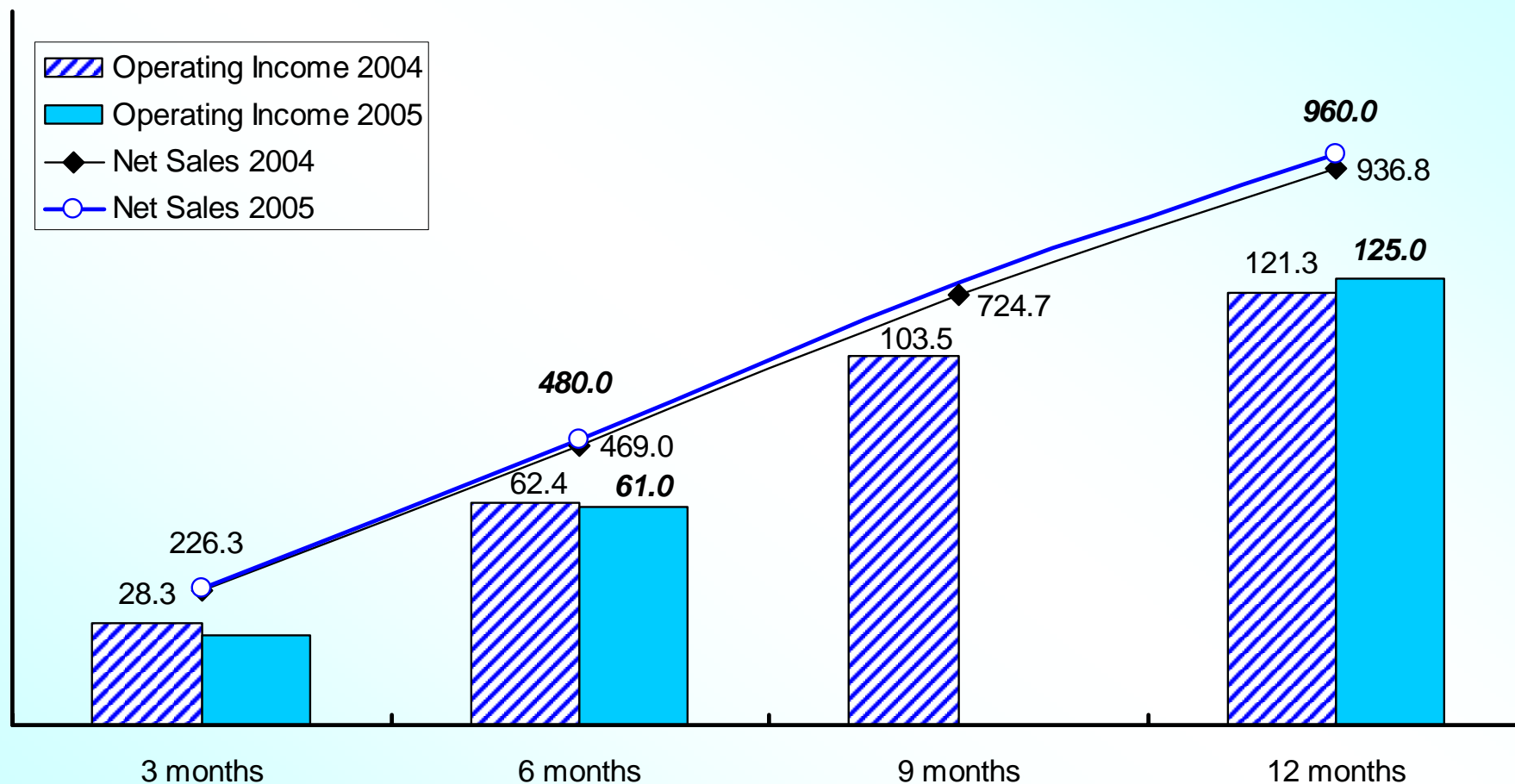
Consolidated Capital Expenditures

(Billion yen)



Quarterly Consolidated Sales and Profit Forecast

(Billion yen)



Non-consolidated Sales and Profit Forecast

	FY2003		FY2004		FY2005(F) ^{*2}	
	Billion yen	% Growth	Billion yen	% Growth	Billion yen	% Growth
Sales	665.9	0.6 ^{*1}	694.6	4.3	685.0	-1.4
Operating Income	98.3	4.2	98.0	-0.4	99.0	1.0
[% to Sales]	[14.8]		[14.1]		[14.5]	
Ordinary Income	105.4	7.2	104.5	-0.8	104.0	-0.5
[% to Sales]	[15.8]		[15.1]		[15.2]	
Net Income	61.0	23.5	62.5	2.4	64.0	2.4
[% to Sales]	[9.2]		[9.0]		[9.3]	

Net Income per Share (yen)	111.19	30.2	113.62	2.2	117.56 ^{*3}	3.5
ROE	14.6%		14.6%		14.1% ^{*3}	
EBITDA (Operating Income + Depr. & Amort.)	139.0	1.9	138.4	-0.5	139.0	0.4

*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 On October 1, 2004, the professional-use products segment of Kao's consumer products business was split off as Kao Professional Services Co., Ltd. This subsidiary's system of transactions with Kao is being revised as of April 2005. Because of this, net sales, operating income, ordinary income and net income in the forecast of non-consolidated results for fiscal 2005 are each approximately 2% less than in the prior fiscal year. However, because Kao Professional Services Co., Ltd. is a consolidated subsidiary, there is no effect on the forecast of consolidated results.

*3 The calculation is made based on the estimated number of average shares outstanding during the fiscal year, which does not include the share repurchases to be proposed at the General Shareholders' Meeting in June 2005.

