

Annual Financial Review

From April 1, 2005 to March 31, 2006

Kao Corporation

April 24, 2006



This is a translation of materials used for the analyst meeting held in Japan on April 24, 2006.

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 24, 2006.

Certain factors, which include, but are not limited to, the risks and uncertainty associated with the worldwide economy, competitive activity, fluctuations in currency exchange and interest rates, could cause actual results to differ materially from expectations.

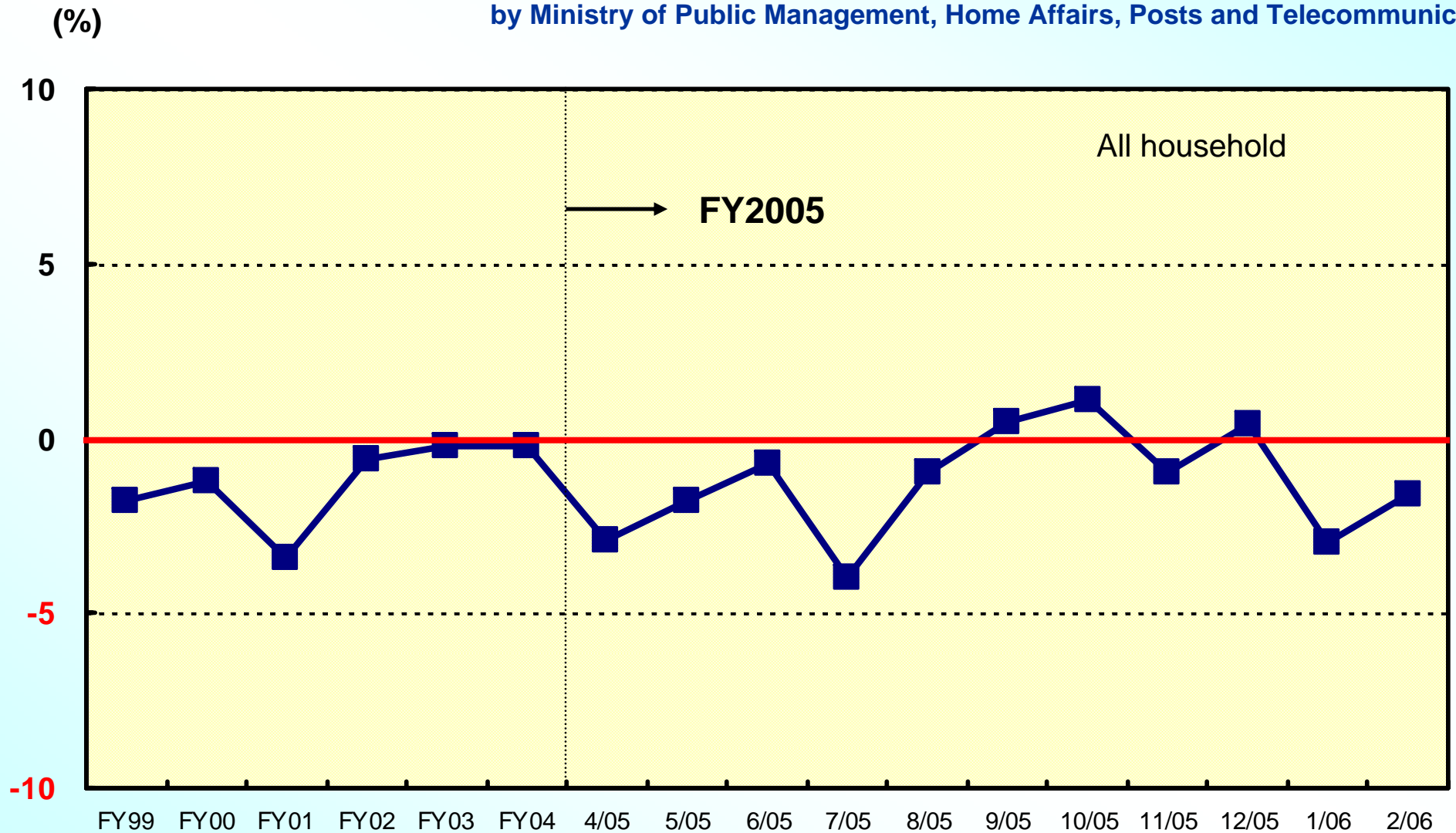
(The yen amounts in this presentation material are rounded down.)

1. Business Environment

April 1, 2005 – March 31, 2006

Household Expenditure Survey

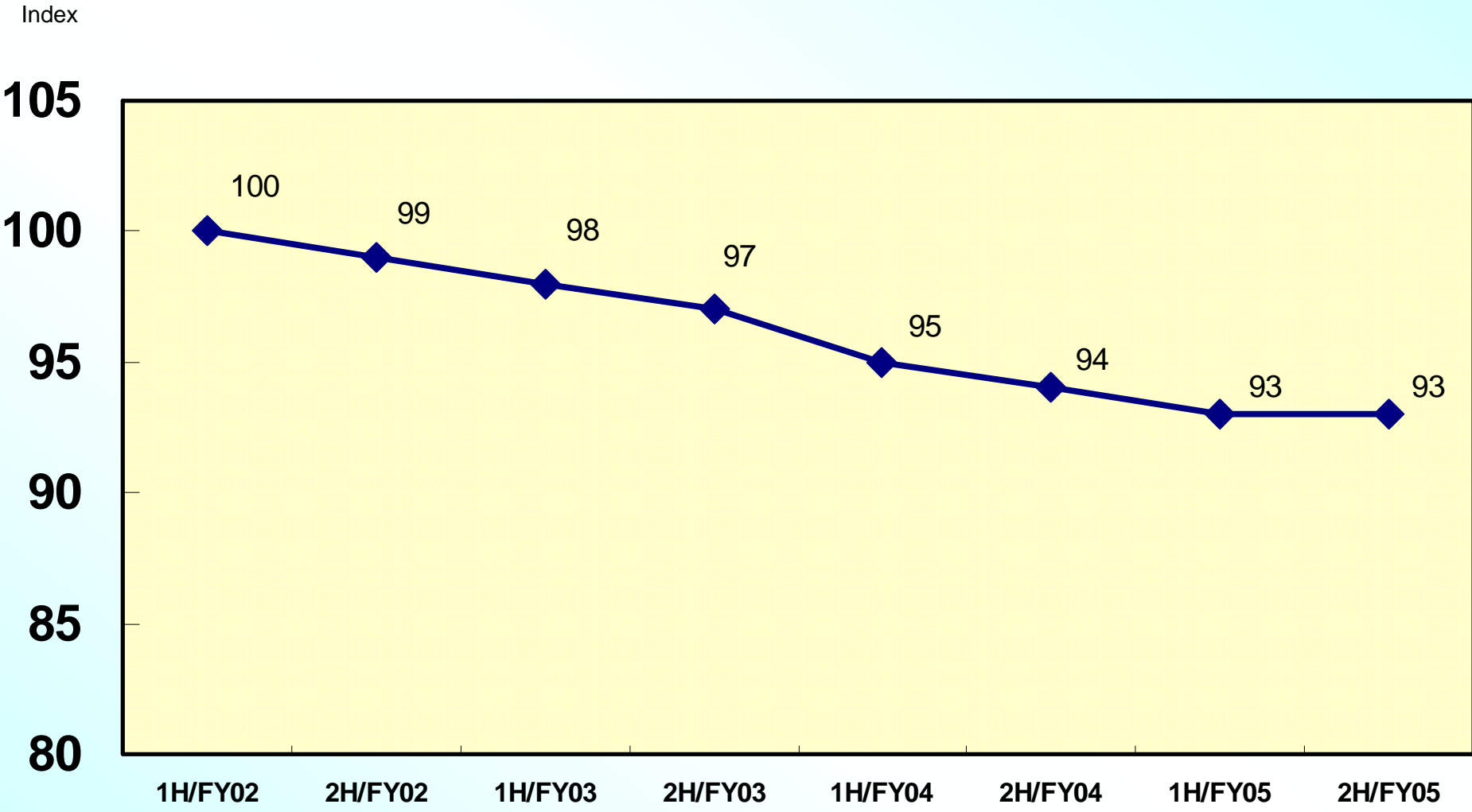
by Ministry of Public Management, Home Affairs, Posts and Telecommunications



(Percent change from a year earlier)

Average Consumer Purchase Price

15 Major Toiletry Categories (All manufactures)



(Source: SRI)



2. Consolidated Business Results

April 1, 2005 – March 31, 2006

FY2005 Results (Consolidated)

Billion yen	<u>FY04</u>	<u>FY05*</u>		<u>FY05</u>		
Net Sales	936.8	971.2	Growth 3.7%	971.2	Growth 3.7%	Changes +34.3
Operating Income	121.3	122.9	1.3%	120.1	-1.0%	-1.2
<i>Operating Margin</i>	13.0%	12.7%		12.4%		
Ordinary Income	125.3	125.0	-0.2%	121.9	-2.7%	-3.3
Net Income	72.1	72.9	1.1%	71.1	-1.4%	-1.0
EBITDA	178.1	181.0	1.6%	180.8	1.5%	+2.7
ROE	16.5%			14.9%		
EPS (yen)	131.16			130.58	-0.4%	-0.58

*Before impact of Kanebo Cosmetics consolidation



Consolidated Net Sales [1]

	FY2004		FY2005		
	Billion yen	% Growth	Billion yen	%	
				Growth	Like-for-like
Personal Care	180.6	5.3	187.8	4.0	4.0
Fabric and Home Care	234.2	-2.8	237.5	1.4	1.4
Feminine Care, Baby Care and Others	122.0	20.3	113.6	-6.9	-6.9
Japan Total	536.9	4.4	539.0	0.4	0.4
Asia & Oceania	53.5	-10.8	57.1	6.9	4.7
North America & Europe	106.7	4.6	115.3	8.1	5.5
Elimination	-7.1		-7.5		
Consumer Products	690.0	2.9	704.0	2.0	1.5

Prestige Cosmetics	78.2	0.8	85.2	8.9	8.7
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*Like-for-like: excludes currency translation impact

Consolidated Net Sales [2]

	FY2004		FY2005		
	Billion yen	% Growth	Billion yen	%	
				Growth	Like-for-like
Japan	111.4	6.3	114.5	2.7	2.7
Asia	47.2	12.9	53.5	13.5	10.5
North America & Europe	64.0	12.7	72.1	12.7	9.8
Elimination	-25.7		-31.4		
Chemical Products	196.9	8.5	208.8	6.0	4.7

Elimination	-28.4		-26.9		
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Consolidated Sales	936.8	3.8	971.2	3.7	3.0
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*Like-for-like: excludes currency translation impact

Consolidated Income Statements

	FY2004		FY2005		Changes*
	Billion yen	%	Billion yen	%	Billion yen
Net Sales	936.8	100.0	971.2	100.0	34.3
Cost of Sales	404.8	43.2	427.7	44.0	22.9
Gross Profit	532.0	56.8	543.4	56.0	11.4
SG&A Expenses	410.6	43.8	423.3	43.6	12.6
Operating Income	121.3	13.0	120.1	12.4	-1.2
Non-operating Income/Expenses	3.9	0.4	1.8	0.2	-2.1
Ordinary Income	125.3	13.4	121.9	12.6	-3.3
Extraordinary Income & Loss	-5.6	-0.6	-5.0	-0.6	0.6
Income Before Taxes	119.6	12.8	116.9	12.0	-2.7
Income Taxes	47.1	5.1	44.6	4.6	-2.4
Equity Items & Others (Minus)	0.3	0.0	1.1	0.1	0.7
Net Income	72.1	7.7	71.1	7.3	-1.0

- Before impact of Kanebo Cosmetics consolidation:

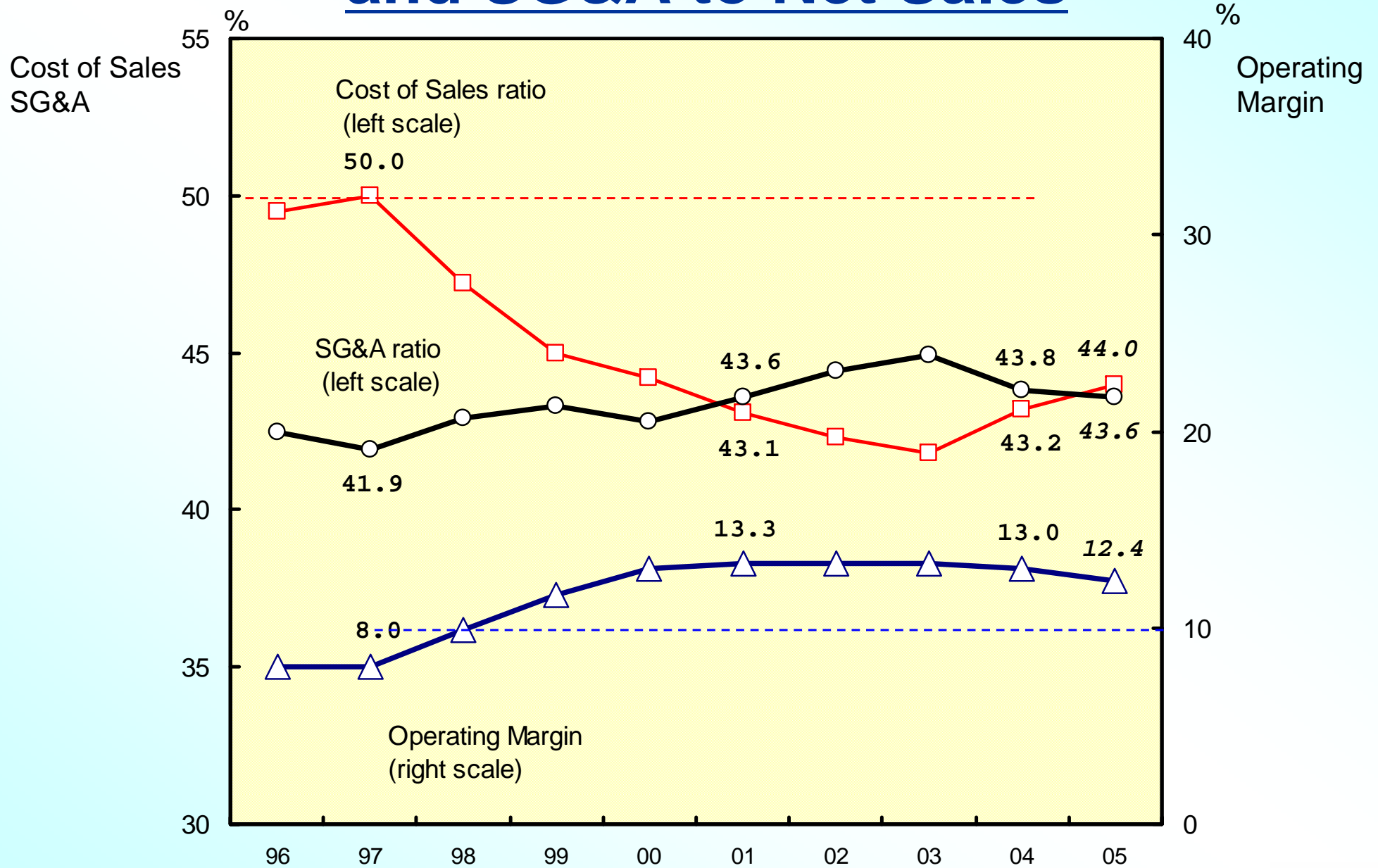
Operating Income: 122.9 billion yen

Ordinary Income: 125.0 billion yen

Net Income: 72.9 billion yen

* Changes = FY2005 – FY2004

Consolidated Cost of Sales and SG&A to Net Sales



*Business tax has been adjusted for FY 96 and FY97.



Breakdown of Consolidated Expenses

(Billion yen)

	FY04	FY05	Changes*
Total SG&A Expenses	410.6	423.3	12.6

Freight/Warehouse	50.2	51.9	1.6
Advertising	84.1	83.7	-0.3
Sales Promotion	36.7	38.7	2.0
Salaries and Wages	68.5	73.1	4.6
R&D	39.7	40.2	0.4

* Changes = FY05 – FY04

Sales and Operating Income by Business

		Net Sales*				Operating Income		
		FY2004 Billion yen	FY2005 Billion yen	Changes Billion yen	% Growth	FY2004 Billion yen	FY2005 Billion yen	Changes Billion yen
Consumer Products		690.0	704.0	14.0	2.0	92.5	92.6	0.1
	<i>% to Net Sales</i>					13.4%	13.2%	
Prestige Cosmetics		78.2	85.2	6.9	8.9	7.6	5.1	-2.5
	<i>% to Net Sales</i>					9.8%	6.1%	
	Before amortization**					7.6	7.7	0.0
	<i>% to Net Sales</i>					9.8%	9.1%	
Chemical Products		196.9	208.8	11.9	6.0	20.6	22.0	1.3
	<i>% to Net Sales</i>					10.5%	10.5%	

*Before elimination of intersegment transfers

**Before amortization of trademarks and others related to Kanebo Cosmetics

Sales and Operating Income by Geography

		Net Sales*				Operating Income		
		FY2004 Billion yen	FY2005 Billion yen	Changes Billion yen	% Growth	FY2004 Billion yen	FY2005 Billion yen	Changes Billion yen
Japan		703.0	708.0	4.9	0.7	107.4	101.6	-5.8
	% to Net Sales					15.3%	14.4%	
	Adjusted**					107.4	104.2	-3.2
	% to Net Sales					15.3%	14.7%	
Asia & Oceania		100.2	110.8	10.6	10.6	2.7	5.8	3.0
	% to Net Sales					2.7%	5.3%	
North America		83.6	95.1	11.5	13.8	6.4	6.7	0.3
	% to Net Sales					7.7%	7.1%	
	Adjusted***					8.1	8.4	0.3
	% to Net Sales					9.7%	8.9%	
Europe		93.8	109.4	15.6	16.7	4.5	7.5	2.9
	% to Net Sales					4.9%	6.9%	
	Adjusted***					6.9	10.6	3.7
	% to Net Sales					7.4%	9.8%	

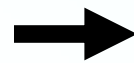
*Before elimination of intersegment transfers, **Before amortization of trademarks and others related to Kanebo Cosmetics, ***Before amortization of goodwill



Consolidated Operating Income

FY2004

121.3



FY2005

120.1 Billion yen

Change

-1.2 Billion yen -1.0%

Japan	-5.8
Asia & Oceania	+3.0
North America	+0.3
Europe	+2.9
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Total	-1.2

Consumer Products	+0.1
Prestige Cosmetics	-2.5
Chemical Products	+1.3
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Total	-1.2

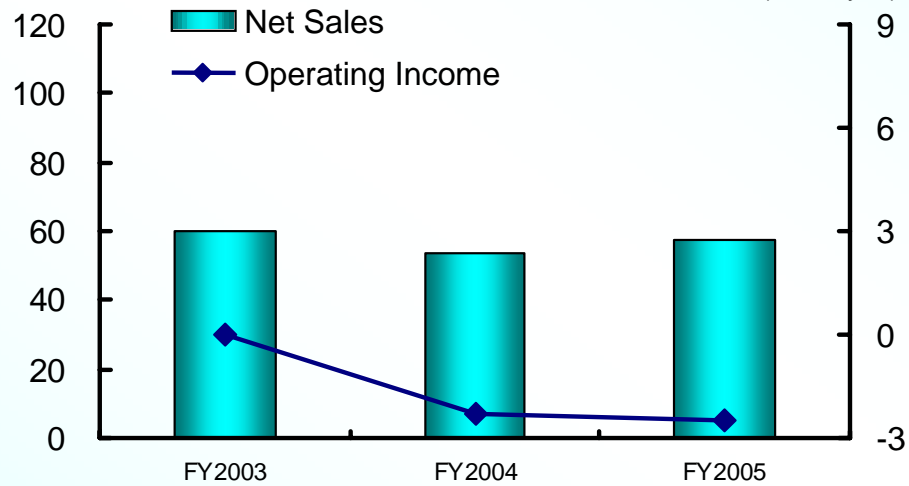
*The figures of each segment are before elimination and "Total" includes elimination.



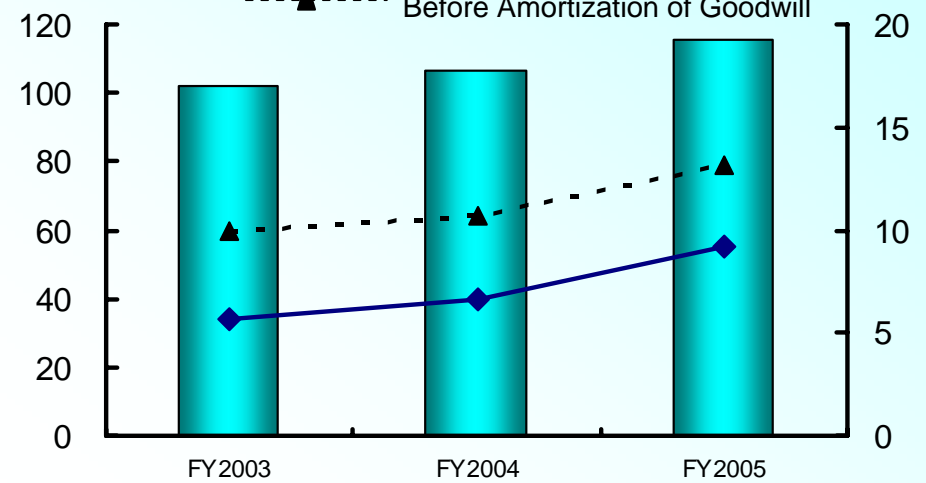
Consumer Products

Asia and Oceania

Sales (Billion yen)

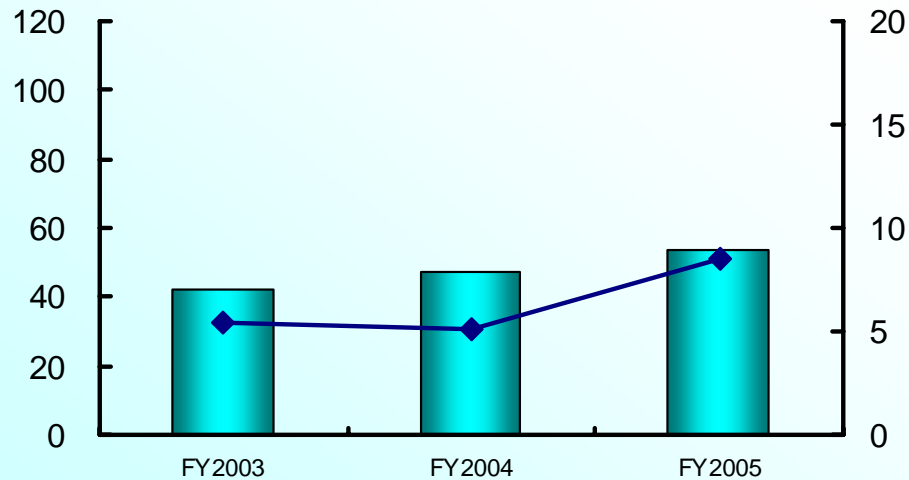


North America & Europe

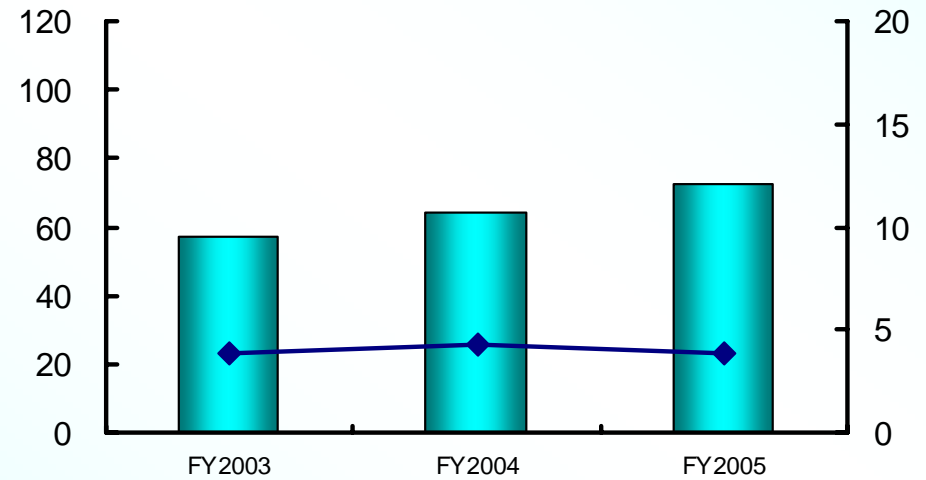


Chemical Products

Asia



North America & Europe



Consolidated Ordinary Income

FY2004

FY2005

125.3



121.9

Billion yen

Change

-3.3

Billion yen

-2.7%

1. Operating income	-1.2
2. Equity earnings	-1.8
3. Forex gains/losses	-0.5
4. Net interest expense	-0.0
5. Other non-operating items	+0.2
<hr/> Total	<hr/> -3.3

Consolidated Income Before Taxes

FY2004

119.6

Change

FY2005

116.9 Billion yen

→
-2.7 Billion yen -2.3%

1. Ordinary income	-3.3
2. Gain on sale or disposal of fixed assets	-0.1
3. Gain on sale of investment securities	+0.0
4. Loss on sale or disposal of fixed assets	+1.4
5. Prior-year post-retirement healthcare benefit expenses at U.S. subsidiaries	-2.3
6. Loss on investment in affiliate	-0.8
7. Impairment loss	+2.2
8. Other	+0.1
Total	-2.7

Consolidated Balance Sheets

(Billion yen)

	Mar/05	Mar/06	Changes		Mar/05	Mar/06	Changes
Current Asset	289.1	364.6	75.4	Current Liabilities	211.5	436.1	224.6
Cash and Bank Deposits	32.0	47.3	15.3	Notes and Accounts Payable	70.9	96.5	25.5
Notes and Accounts Receivable	103.5	129.1	25.5	Short-term Debt (incl. Current Portion of Long-term Debt)	21.2	189.4	168.1
Short-term Investments	40.3	20.1	-20.1	Other Accounts Payable	19.1	27.4	8.3
Inventories	81.7	105.8	24.0	Accrued Expenses	63.2	75.9	12.7
Others	31.4	62.0	30.6	Others	36.8	46.7	9.9
Fixed Assets	399.6	855.8	456.2	Long-term Liabilities	21.7	265.7	244.0
Tangible Assets	260.2	282.7	22.5	Long-term Debt	1.4	218.5	217.1
Intangible Assets	86.2	466.2	379.9	Others	20.3	47.2	26.9
Investments	53.2	106.8	53.6	Total Liabilities	233.3	701.9	468.6
Deferred Assets	0.1	0.0	-0.0	Minority Interests	7.4	8.9	1.4
				Shareholders' Equity	448.2	509.6	61.4
				Common Stock	85.4	85.4	-
				Capital Surplus	109.5	109.5	-
				Retained earnings	299.3	345.9	46.5
				Unrealized Gain on Available-for-sale Securities	3.5	5.8	2.3
				Foreign Currency Translation Adjustments	-39.7	-26.9	12.8
				Treasury Stock	-9.8	-10.1	-0.3
Total Assets	688.9	1,220.5	531.5	Total Liabilities, Minority Interests & Shareholders' Equity	688.9	1,220.5	531.5

Statements of Cash Flows

(Billion yen)

	FY2004	FY2005	Changes
Operating activities	109.5	117.2	7.7
Investing activities	-54.4	-479.5	-425.1
Financing activities	-90.6	356.7	447.3
Translation adjustments on cash and cash equivalents	-1.2	2.7	3.9
Net Increase/(decrease) in cash and cash equivalents	-36.7	-2.7	33.9
Cash and cash equivalents, beginning of year	107.1	70.4	-36.7
Increase in cash and cash equivalents due to newly consolidated subsidiaries	0.0	0.7	0.7
Decrease in cash and cash equivalents due to exclusion of previously consolidated subsidiaries	-	-0.8	-0.8
Cash and cash equivalents, end of year	70.4	67.5	-2.8
Total Debt	22.7	408.0	385.2

<Investing Activities>

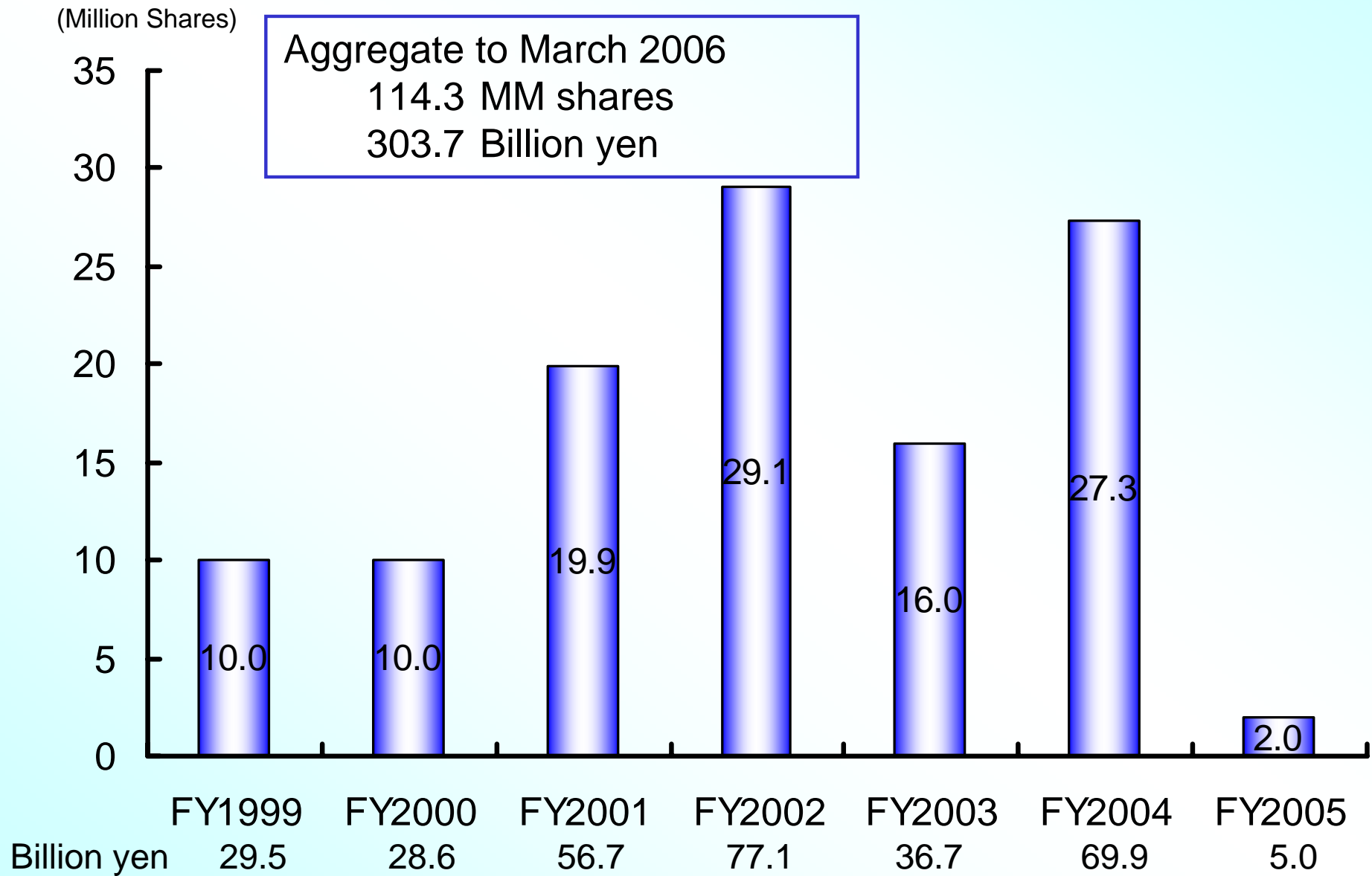
- Capital expenditures:
- Production facilities for new products
 - Production capacity expansion for fatty alcohols in the Philippines, etc.

Acquisition of Molton Brown, Kanebo Cosmetics stock and its intellectual property rights

<Financing Activities>

Share repurchase: 6.0 billion yen

Share Repurchase



* Share repurchase from the market

3. Forecast for FY 2006

Consolidated Sales and Profit Forecast

	FY2004		FY2005		*1 *2 FY2006(F)	
	Billion yen	% Growth	Billion yen	% Growth	Billion yen	% Growth
Net Sales	936.8	3.8	971.2	3.7	1,210.0	24.6
Operating Income	121.3	1.4	120.1	-1.0	120.0	-0.1
[% to Sales]	[13.0]		[12.4]		[9.9]	
Ordinary Income	125.3	2.2	121.9	-2.7	118.0	-3.2
[% to Sales]	[13.4]		[12.6]		[9.8]	
Net Income	72.1	10.4	71.1	-1.4	72.0	1.2
[% to Sales]	[7.7]		[7.3]		[6.0]	

Net Income per Share (yen)	131.16	10.2	130.58	-0.4	132.12	1.2
ROE	16.5%		14.9%		13.5%	
EBITDA (Operating Income + Depr. & Amort.)	178.1	0.2	180.8	1.5	207.0	14.4
Cash dividends per Share (yen)	38.0	18.8	50.0	31.6	52.0	4.0

*1 Exchange rate assumptions: 117 yen/USD, 140 yen/Euro

*2 Approximate estimated impact related to Kanebo Cosmetics consolidation:

Net sales: ¥200.0 billion, operating margin:10%, amortization of Intellectual property rights: ¥17.0 billion, amortization of goodwill: ¥10.0 billion, financing costs: ¥3.0 billion

Sales Outlook by Segment – FY2006

<Billion yen>

Consolidated Net Sales 1,210.0 +24.6%

By Geography

Japan	915.0	+29.2%
Asia & Oceania	120.0	+8.2%
North America	102.0	+7.2%
Europe	128.0	+16.9%

By Business

Consumer Products	725.0	+3.0%
Prestige Cosmetics	290.0	+240.2%
Chemical Products	220.0	+5.3%

Sales Outlook – FY2006

- Consumer Products in Japan -

<Billion yen>

	1st Half			Full Year		
	FY2005 Actual	FY2006 Forecast	% Growth	FY2005 Actual	FY2006 Forecast	% Growth
Personal Care	95.8	98.0	2.2%	187.8	192.0	2.2%
Fabric and Home Care	120.6	123.0	2.0%	237.5	243.0	2.3%
Feminine Care, Baby Care and Others	57.8	58.0	0.2%	113.6	115.0	1.2%
Total	274.4	279.0	1.7%	539.0	550.0	2.0%

Major Assumptions for FY2006 Forecast

◆ Sales price decline in Consumer Products Business in Japan: approximately -1-0%

Estimated impact on profit

◆ Total Cost Reduction (TCR): +5.0 billion yen

◆ Higher raw material cost: -4.0 to -5.0 billion yen

Exchange rate assumptions

◆ 117 yen/USD

◆ 140 yen/Euro

Operating Income Outlook by Business

Increase

Consumer Products: Asia & Oceania
Consumer Products: Europe
Chemical Products: North America
Chemical Products: Europe

Flat

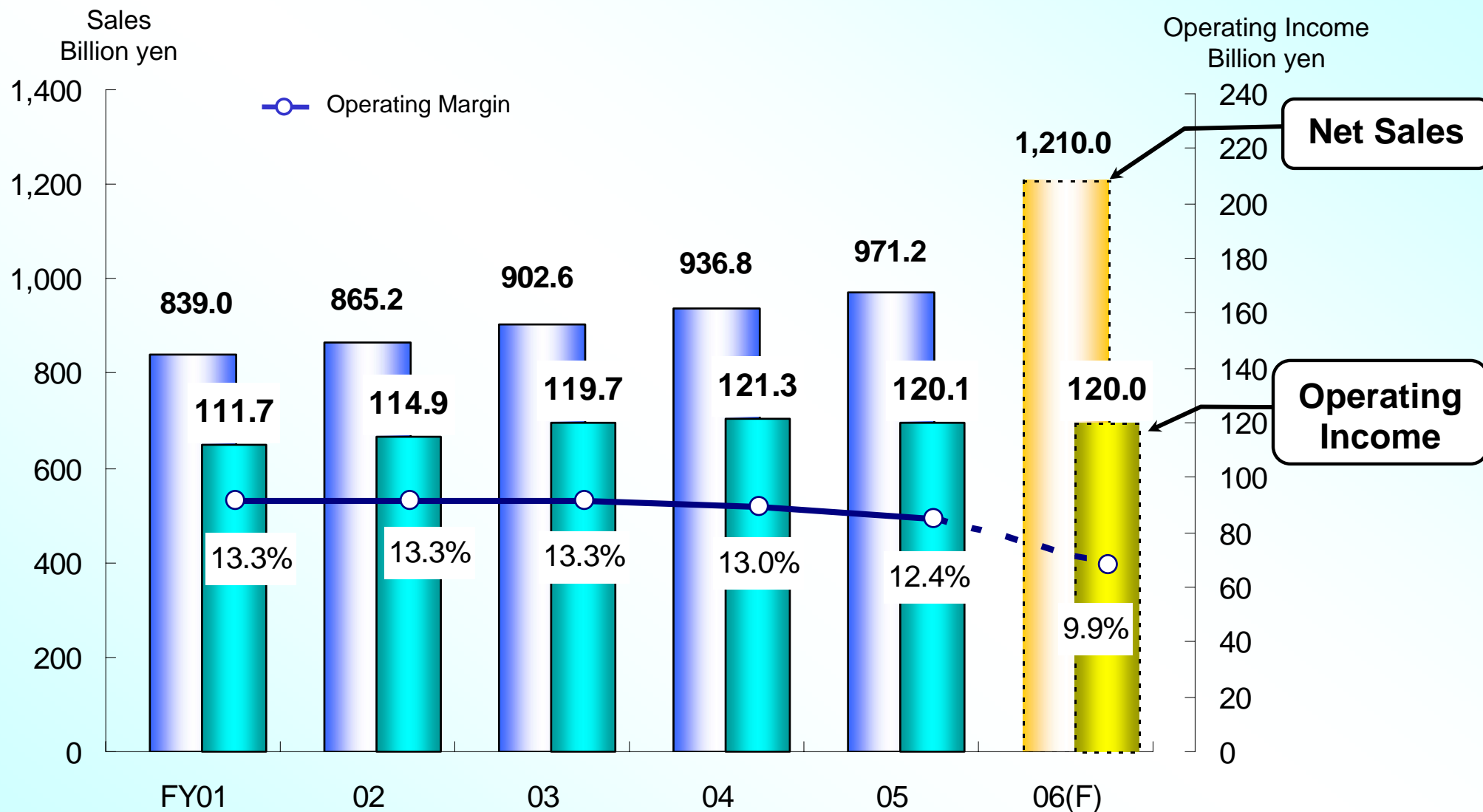
Consumer Products: Japan
Consumer Products: North America
Chemical Products: Japan

Decrease

Prestige Cosmetics
Chemical Products: Asia

Consolidated Net Sales/Operating Margin

[Full Year]

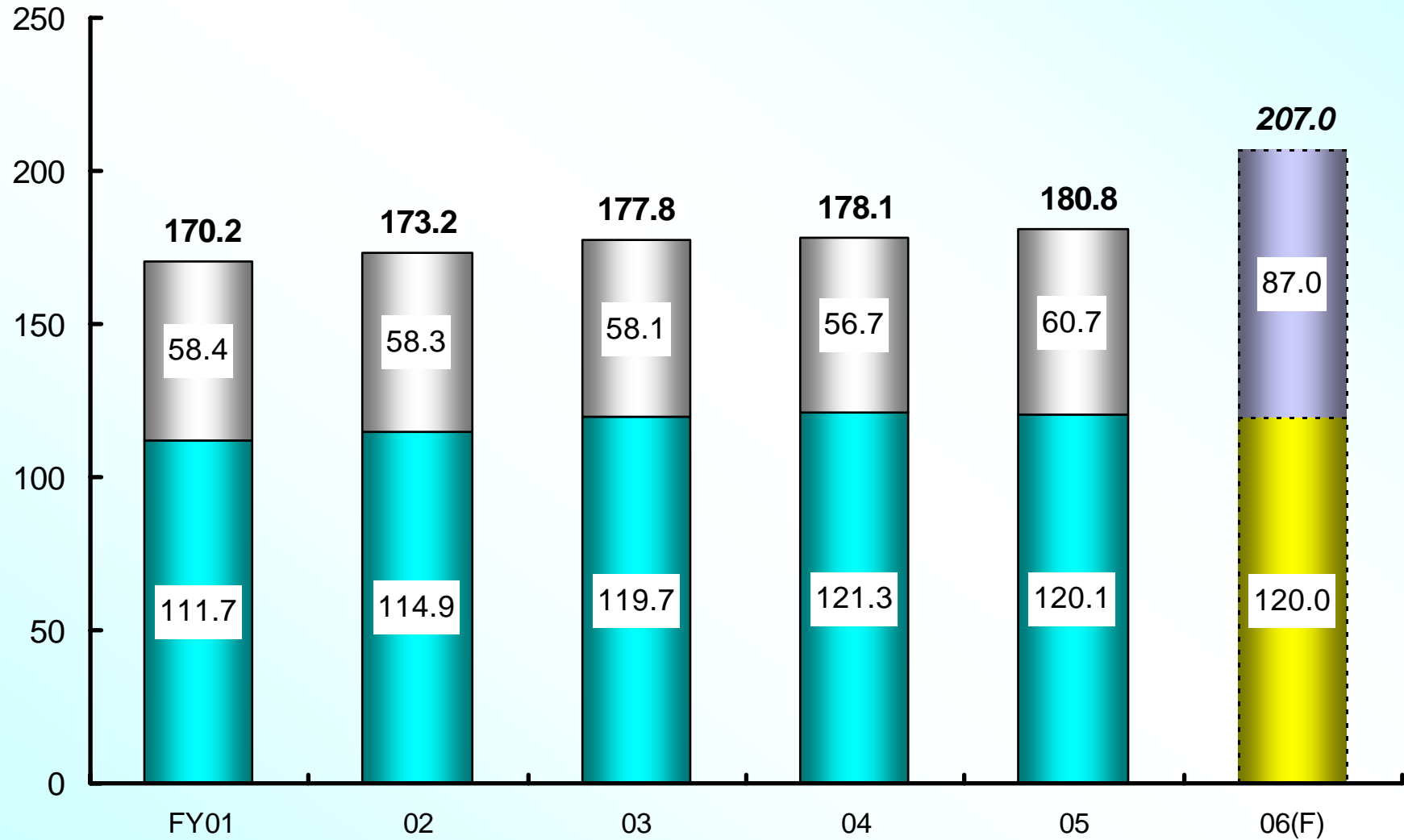


EBITDA

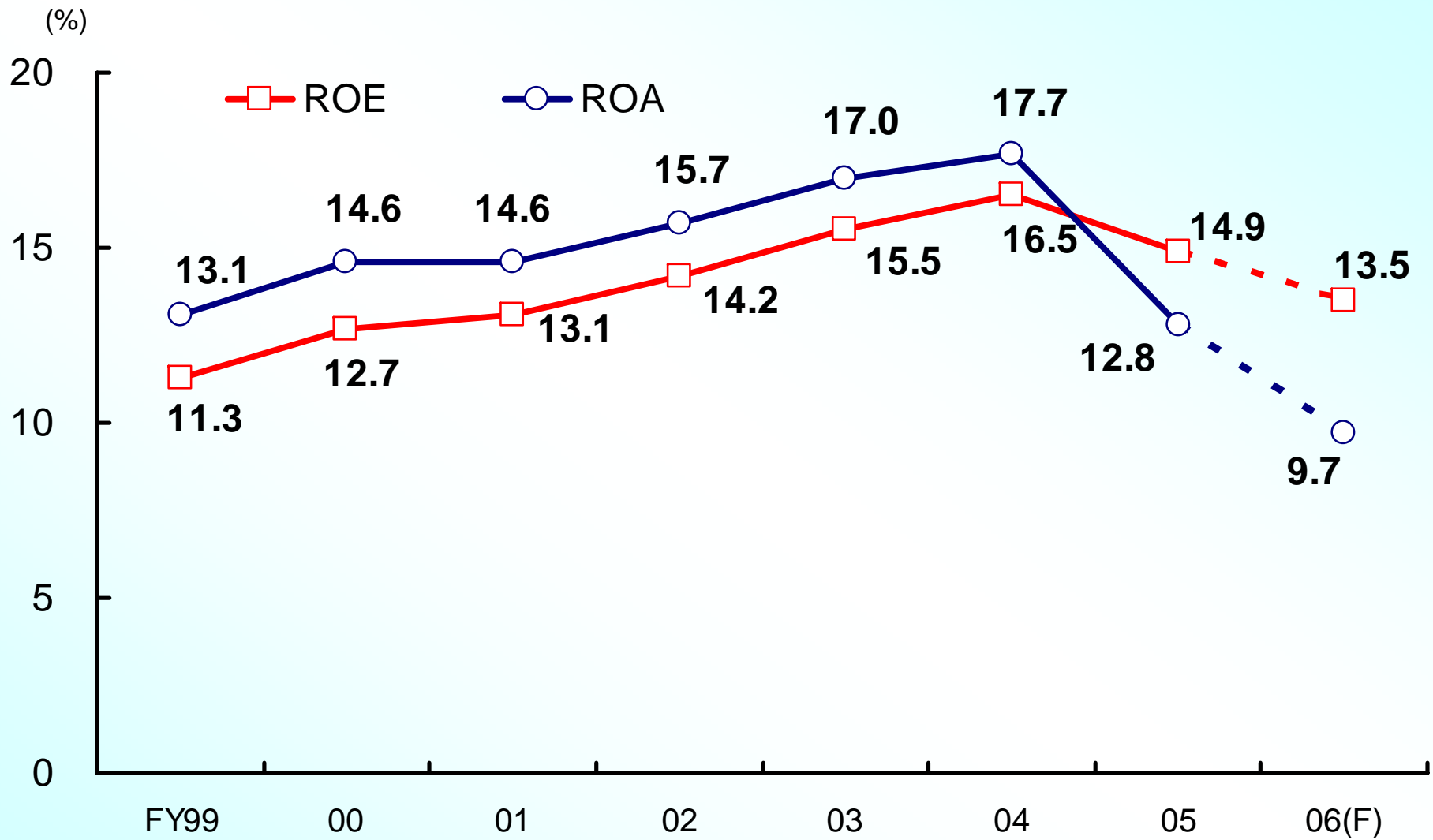
Billion yen

■ Operating Income

■ Depr. & Amort.



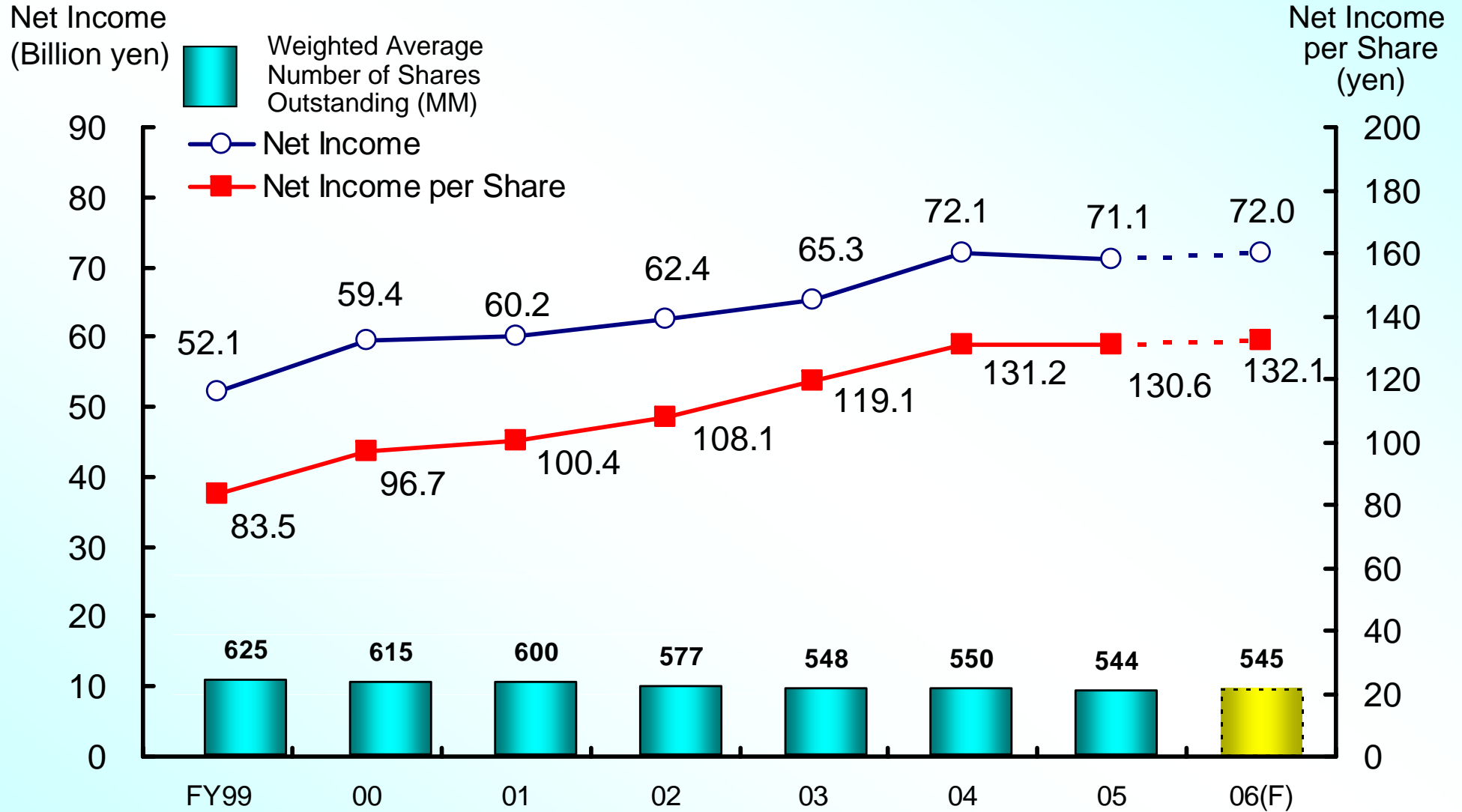
ROE & ROA



ROA: Ordinary Income / Total assets

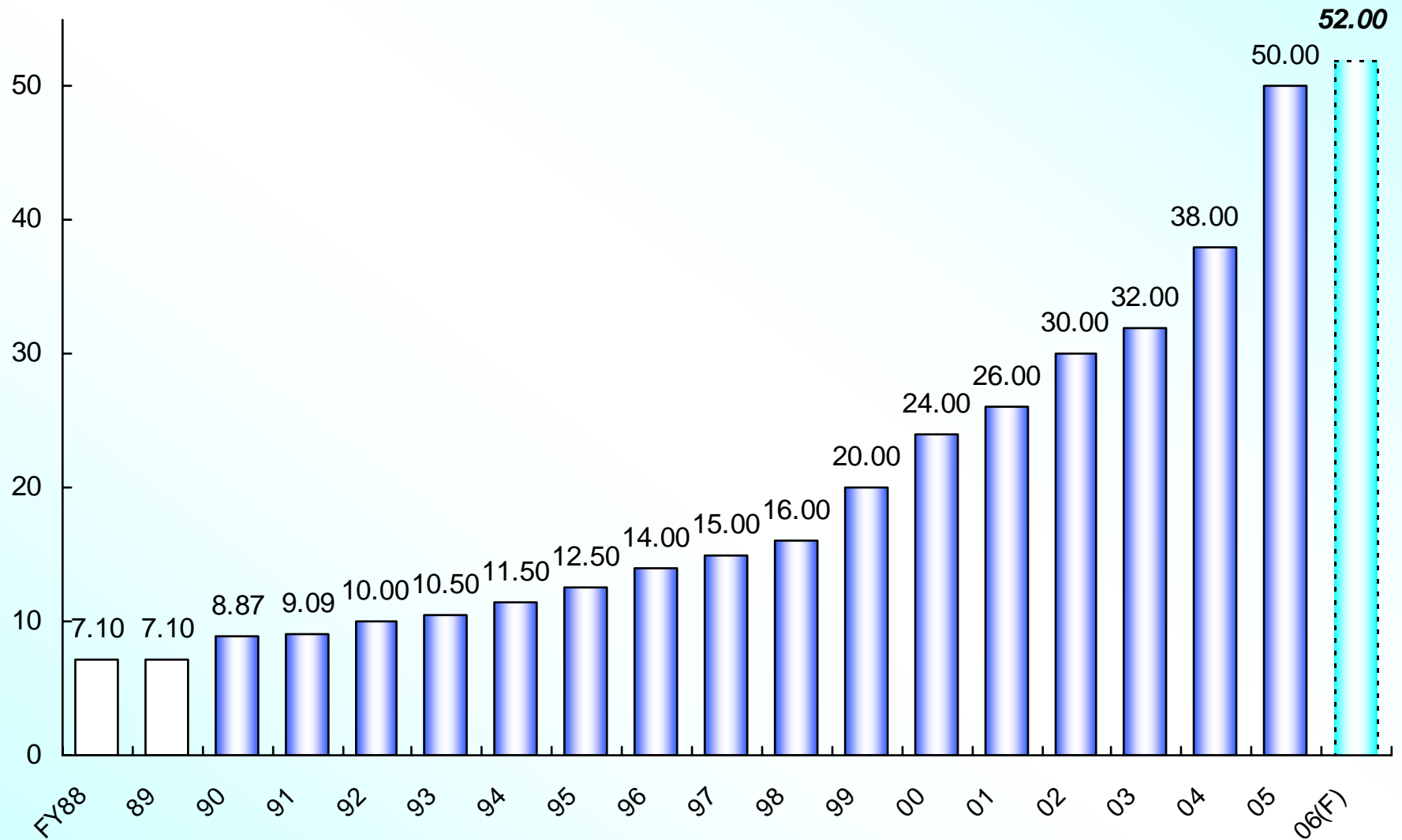


Net Income per Share (Consolidated)



Cash Dividends per Share

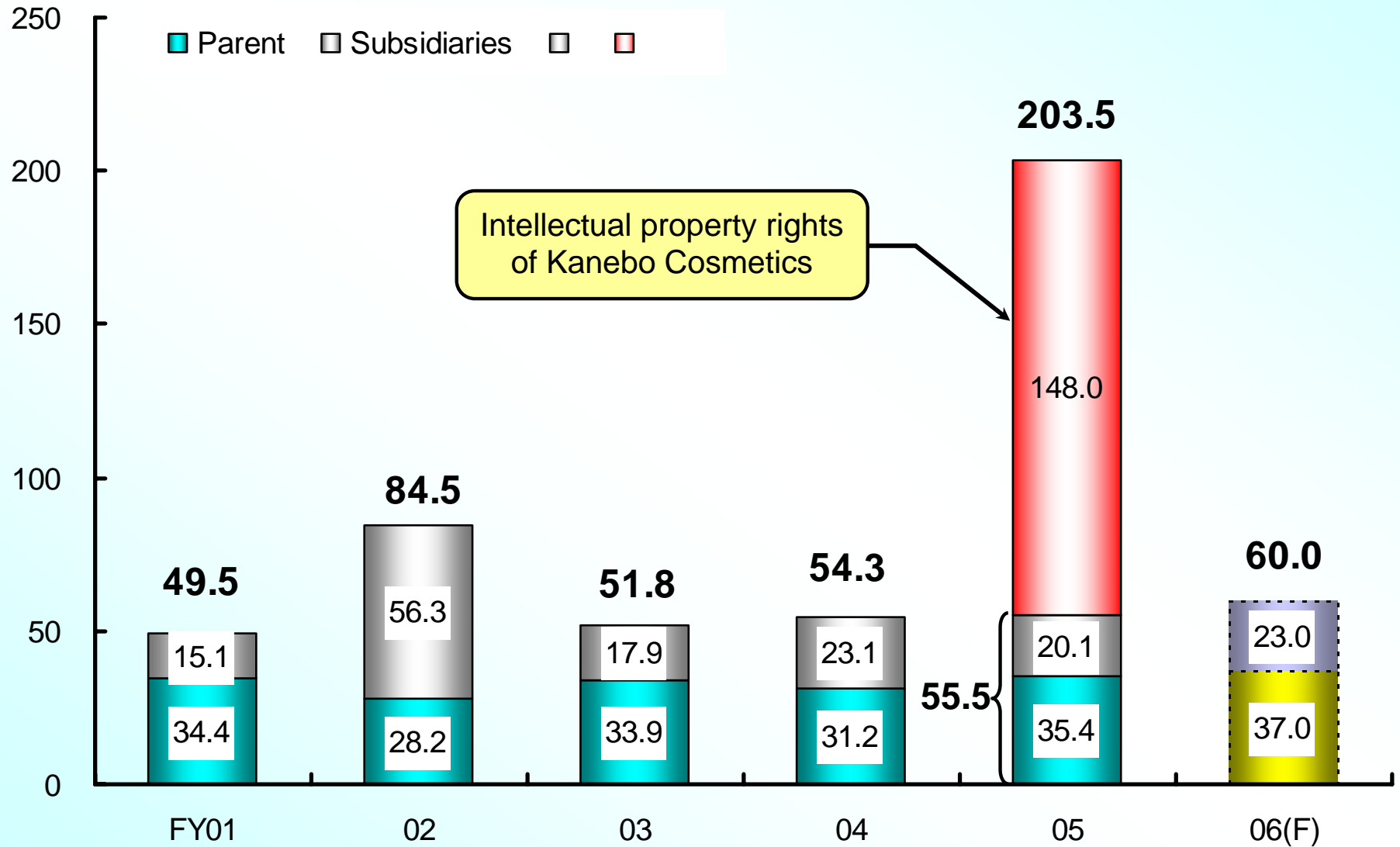
(Yen)



*Impacts of share splits are retroactively reflected.

Consolidated Capital Expenditures

(Billion yen)

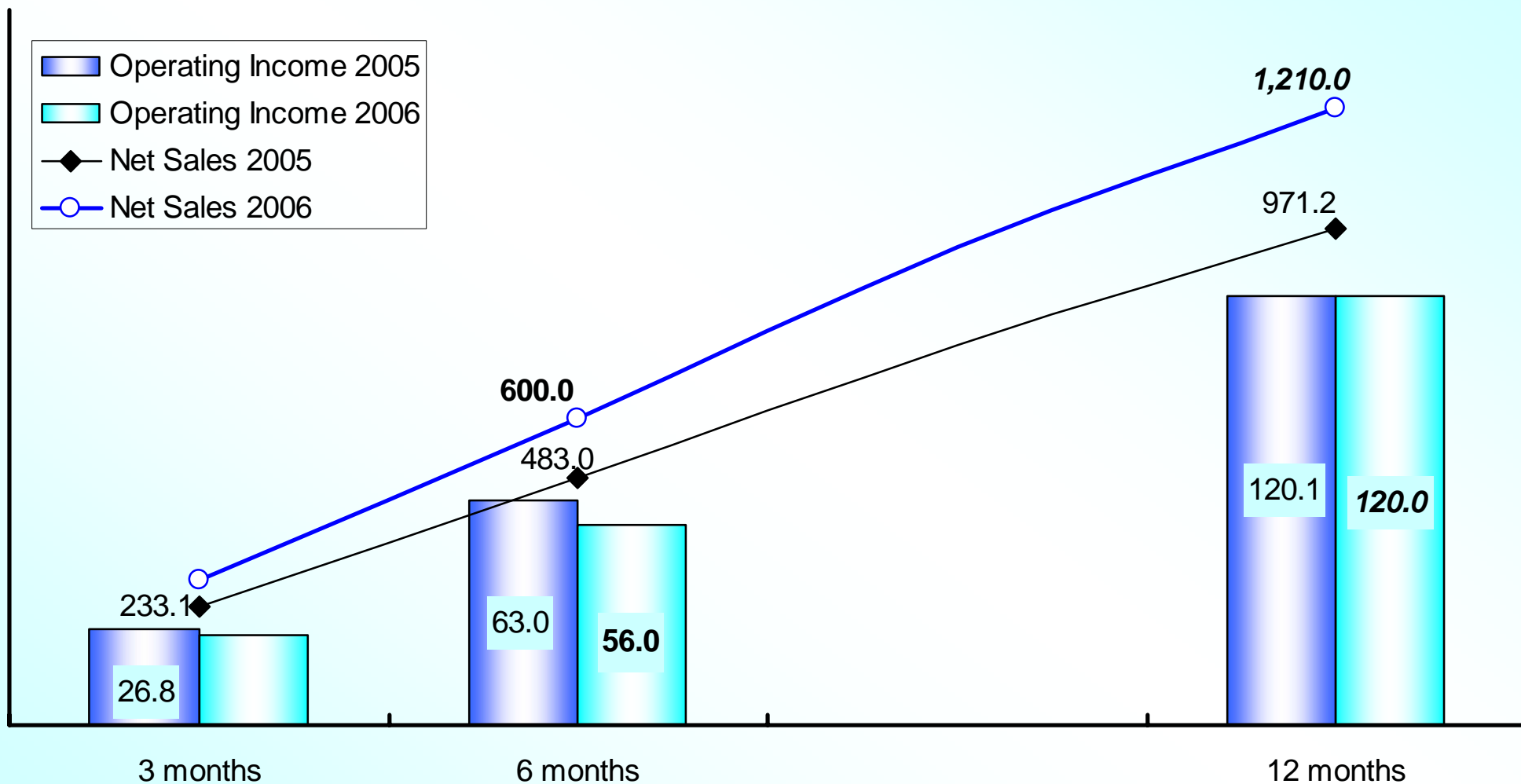


*Payment for purchase of newly consolidated subsidiaries (net of cash acquired) is not included.



Quarterly Consolidated Sales and Profit Forecast

(Billion yen)



Non-consolidated Sales and Profit Forecast

	FY2004		FY2005 *1		FY2006(F) *1	
	Billion yen	% Growth	Billion yen	% Growth	Billion yen	% Growth
Net Sales	694.6	4.3	688.5	-0.9	690.0	0.2
Operating Income	98.0	-0.4	90.5	-7.6	78.0	-13.9
[% to Sales]	[14.1]		[13.2]		[11.3]	
Ordinary Income	104.5	-0.8	100.1	-4.2	84.0	-16.1
[% to Sales]	[15.1]		[14.5]		[12.2]	
Net Income	62.5	2.4	64.1	2.6	56.0	-12.7
[% to Sales]	[9.0]		[9.3]		[8.1]	
Net Income per Share (yen)	113.62	2.2	117.61	3.5	102.65	-12.7
ROE	14.6%		14.1%		11.5%	
EBITDA (Operating Income + Depr. & Amort.)	138.4	-0.5	131.7	-4.9	132.0	0.2

*1 The figures include amortization of intellectual property rights and financing costs related to Kanebo Cosmetics.