

Annual Financial Review

From April 1, 2006 to March 31, 2007

Kao Corporation

April 23, 2007

This is a translation of materials used for the analyst meeting held in Japan on April 23, 2007.



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 23, 2007.

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.

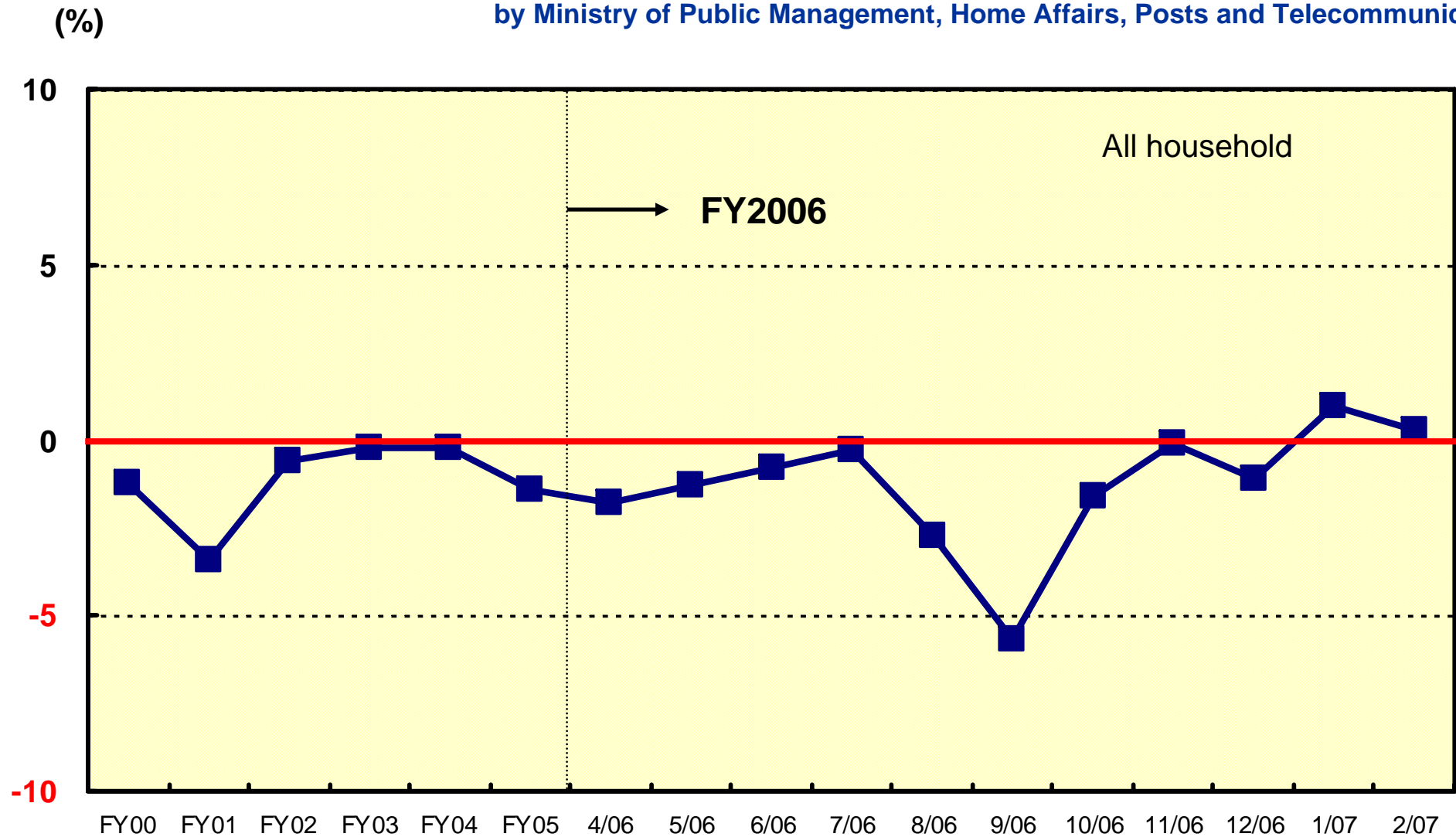
(The yen amounts in this presentation material are rounded down.)

1. Business Environment

April 1, 2006 – March 31, 2007

Household Expenditure Survey

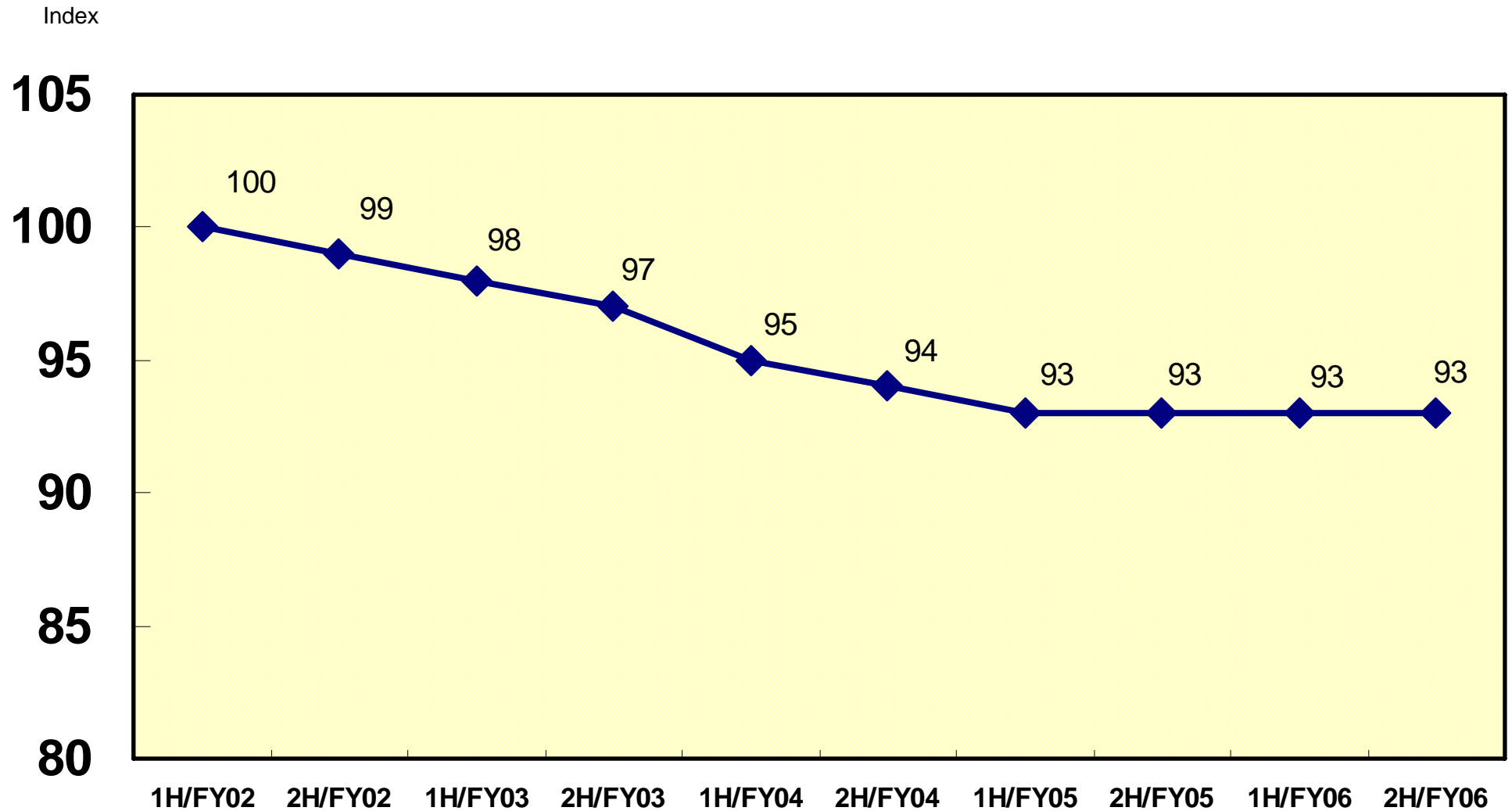
by Ministry of Public Management, Home Affairs, Posts and Telecommunications



(Percent change from a year earlier)

Average Consumer Purchase Price

15 Major Toiletry Categories (All manufactures)



(Source: SRI POS data)

2. Consolidated Business Results

April 1, 2006 – March 31, 2007

FY2006 Results (Consolidated)

| Billion yen | <u>FY05</u> | <u>FY06*</u> *Before impact of Kanebo Cosmetics consolidation | | <u>FY06</u> | | |
|-------------------------|-------------|---|--------|-------------|--------|---------|
| | | | Growth | | Growth | Changes |
| Net Sales | 971.2 | 1,030.7 | 6.1% | 1,231.8 | 26.8% | +260.5 |
| Operating Income | 120.1 | 125.0 | 1.7% | 120.8 | 0.6% | +0.7 |
| <i>Operating Margin</i> | 12.4% | 12.1% | | 9.8% | | |
| Ordinary Income | 121.9 | 126.6 | 1.3% | 120.1 | -1.5% | -1.7 |
| Net Income | 71.1 | 70.6 | -3.1% | 70.5 | -0.9% | -0.6 |
| EBITDA | 180.8 | 185.4 | 2.4% | 213.0 | 17.8% | +32.1 |
| ROE | 14.9% | | | 13.1% | | |
| EPS (yen) | 130.58 | | | 129.41 | -0.9% | -1.17 |

Consolidated Net Sales [1]

| | FY2005 | | FY2006 | | |
|-------------------------------------|--------------|----------|--------------|--------|---------------|
| | Billion yen | % Growth | Billion yen | % | |
| | | | | Growth | Like-for-like |
| Personal Care | 187.8 | 4.0 | 194.6 | 3.6 | 3.6 |
| Fabric and Home Care | 237.5 | 1.4 | 243.8 | 2.6 | 2.6 |
| Feminine Care, Baby Care and Others | 113.6 | -6.9 | 123.9 | 9.0 | 9.0 |
| Japan Total | 539.0 | 0.4 | 562.3 | 4.3 | 4.3 |
| Asia & Oceania | 57.1 | 6.9 | 66.1 | 15.7 | 6.8 |
| North America & Europe | 115.3 | 8.1 | 124.8 | 8.2 | 2.4 |
| Elimination | -7.5 | | -8.5 | | |
| Consumer Products | 704.0 | 2.0 | 744.7 | 5.8 | 4.1 |

| | | | | | |
|---------------------------|-------------|-----|--------------|-------|-------|
| Prestige Cosmetics | 85.2 | 8.9 | 292.6 | 243.3 | 242.2 |
|---------------------------|-------------|-----|--------------|-------|-------|

*Like-for-like: excludes currency translation impact



Consolidated Net Sales [2]

| | FY2005 | | FY2006 | | |
|--------------------------|-------------|----------|--------------|--------|---------------|
| | Billion yen | % Growth | Billion yen | % | |
| | | | | Growth | Like-for-like |
| Japan | 114.5 | 2.7 | 116.9 | 2.1 | 2.1 |
| Asia | 53.5 | 13.5 | 55.8 | 4.2 | -3.6 |
| North America & Europe | 72.1 | 12.7 | 82.9 | 14.9 | 8.2 |
| Elimination | -31.4 | | -32.0 | | |
| Chemical Products | 208.8 | 6.0 | 223.6 | 7.0 | 3.6 |

| | | | | | |
|-------------|-------|--|-------|--|--|
| Elimination | -26.9 | | -29.2 | | |
|-------------|-------|--|-------|--|--|

| | | | | | |
|---------------------------|--------------|------------|----------------|-------------|-------------|
| Consolidated Sales | 971.2 | 3.7 | 1,231.8 | 26.8 | 24.8 |
|---------------------------|--------------|------------|----------------|-------------|-------------|

*Like-for-like: excludes currency translation impact

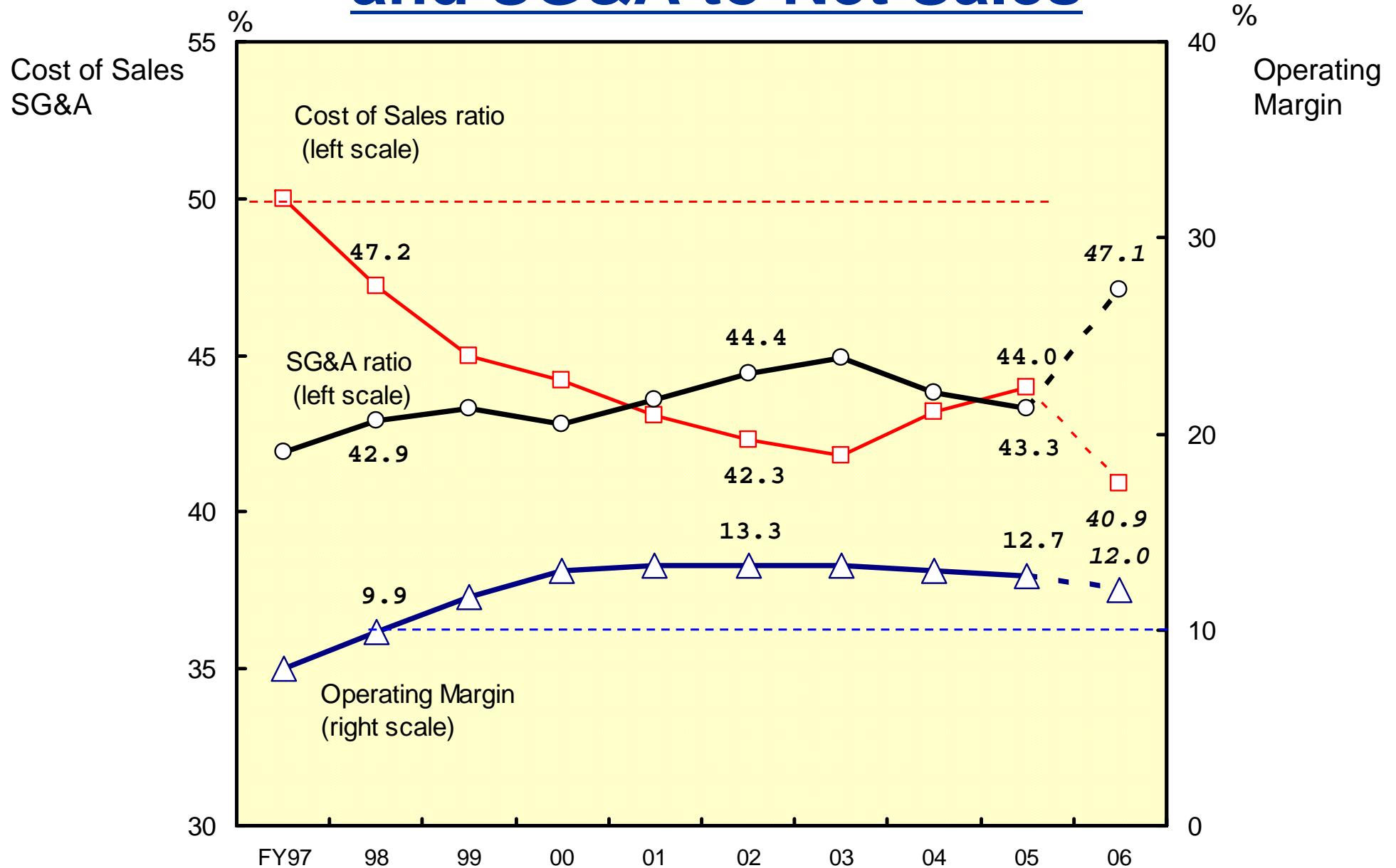
Consolidated Income Statements

| | FY2005 | | FY2006 | | Changes* |
|---|-------------|-------|-------------|-------|-------------|
| | Billion yen | % | Billion yen | % | Billion yen |
| Net Sales | 971.2 | 100.0 | 1,231.8 | 100.0 | 260.5 |
| Cost of Sales | 427.7 | 44.0 | 503.2 | 40.9 | 75.5 |
| Gross Profit | 543.4 | 56.0 | 728.5 | 59.1 | 185.0 |
| SG&A Expenses | 420.7 | 43.3 | 580.8 | 47.1 | 160.1 |
| Operating Income Before Amortization Related to Kanebo Cosmetics | 122.7 | 12.7 | 147.6 | 12.0 | 24.9 |
| Amortization Related to Kanebo Cosmetics | 2.6 | 0.3 | 26.7 | 2.2 | 24.1 |
| Operating Income | 120.1 | 12.4 | 120.8 | 9.8 | 0.7 |
| Non-operating Income/Expenses | 1.8 | 0.2 | -0.6 | -0.0 | -2.5 |
| Ordinary Income | 121.9 | 12.6 | 120.1 | 9.8 | -1.7 |
| Extraordinary Income & Loss | -5.0 | -0.6 | -3.0 | -0.3 | 1.9 |
| Income Before Taxes | 116.9 | 12.0 | 117.1 | 9.5 | 0.2 |
| Income Taxes | 44.6 | 4.6 | 45.1 | 3.7 | 0.4 |
| Equity Items & Others (Minus) | 1.1 | 0.1 | 1.4 | 0.1 | 0.3 |
| Net Income | 71.1 | 7.3 | 70.5 | 5.7 | -0.6 |

* Changes = FY2006 – FY2005

*Before impact of Kanebo Cosmetics consolidation: Net Sales 1,030.7 billion yen, operating income = 125.0 billion yen, ordinary income = 126.6 billion yen, net income = 70.6 billion yen

Consolidated Cost of Sales and SG&A to Net Sales



* Business tax has been adjusted for FY97. SG&A % to sales.

** SG&A ratio and operating margin exclude impact of amortization related to Kanebo Cosmetics .



Breakdown of Consolidated SG&A Expenses

(Billion yen)

| | FY2005 | FY2006 | Changes** |
|---------------------------------|--------|--------|-----------|
| Total SG&A Expenses* | 420.7 | 580.8 | 160.1 |

| | | | |
|--------------------|------|-------|------|
| Freight/Warehouse | 51.9 | 68.6 | 16.7 |
| Advertising | 83.7 | 96.8 | 13.1 |
| Sales Promotion | 38.7 | 69.0 | 30.3 |
| Salaries and Wages | 73.1 | 118.8 | 45.6 |
| R&D | 40.2 | 44.3 | 4.1 |

* Before amortization related to Kanebo Cosmetics

** Changes = FY2006 – FY2005

Sales and Operating Income by Business

| | | Net Sales* | | | | Operating Income | | |
|---------------------------|-----------------------|-----------------------|-----------------------|------------------------|----------|-----------------------|-----------------------|------------------------|
| | | FY2005 Billion yen | FY2006 Billion yen | Changes Billion yen | % Growth | FY2005 Billion yen | FY2006 Billion yen | Changes Billion yen |
| Consumer Products | | 704.0 | 744.7 | 40.7 | 5.8 | 92.6 | 98.9 | 6.2 |
| | <i>% to Net Sales</i> | | | | | 13.2% | 13.3% | |
| Prestige Cosmetics | | 85.2 | 292.6 | 207.4 | 243.3 | 5.1 | 0.5 | -4.6 |
| | <i>% to Net Sales</i> | | | | | 6.1% | 0.2% | |
| | Before amortization** | | | | | 7.7 | 27.3 | 19.5 |
| | <i>% to Net Sales</i> | | | | | 9.1% | 9.3% | |
| Chemical Products | | 208.8 | 223.6 | 14.7 | 7.0 | 22.0 | 21.1 | -0.8 |
| | <i>% to Net Sales</i> | | | | | 10.5% | 9.5% | |

*Before elimination of intersegment transfers

**Before amortization related to Kanebo Cosmetics

Sales and Operating Income by Geography

| | | Net Sales* | | | | Operating Income | | |
|-------------------|-------------------|-----------------------|-----------------------|------------------------|----------|-----------------------|-----------------------|------------------------|
| | | FY2005 Billion yen | FY2006 Billion yen | Changes Billion yen | % Growth | FY2005 Billion yen | FY2006 Billion yen | Changes Billion yen |
| Japan | | 708.0 | 924.1 | 216.1 | 30.5 | 101.6 | 102.2 | 0.5 |
| | % to Net Sales | | | | | 14.4% | 11.1% | |
| | Adjusted** | | | | | 104.2 | 129.0 | 24.7 |
| | % to Net Sales | | | | | 14.7% | 14.0% | |
| Asia & Oceania | | 110.8 | 125.9 | 15.0 | 13.6 | 5.8 | 2.5 | -3.2 |
| | % to Net Sales | | | | | 5.3% | 2.0% | |
| North America | | 95.1 | 106.7 | 11.5 | 12.2 | 6.7 | 7.7 | 0.9 |
| | % to Net Sales | | | | | 7.1% | 7.3% | |
| | Adjusted*** | | | | | 8.4 | 9.5 | 1.0 |
| | % to Net Sales | | | | | 8.9% | 8.9% | |
| Europe | | 109.4 | 135.9 | 26.4 | 24.1 | 7.5 | 8.6 | 1.1 |
| | % to Net Sales | | | | | 6.9% | 6.4% | |
| | Adjusted*** | | | | | 10.6 | 12.8 | 2.1 |
| | % to Net Sales | | | | | 9.8% | 9.4% | |



*Before elimination of intersegment transfers, **Before amortization related to Kanebo Cosmetics,

***Before amortization of goodwill



Consolidated Operating Income

FY05
 120.1

→

FY06
 120.8 Billion yen

Change +0.7 Billion yen +0.6%

| | |
|----------------|-------------|
| Japan | +0.5 |
| Asia & Oceania | -3.2 |
| North America | +0.9 |
| Europe | +1.1 |
| Total | +0.7 |

| | |
|--------------------|-------------|
| Consumer Products | +6.2 |
| Prestige Cosmetics | -4.6 |
| Chemical Products | -0.8 |
| Total | +0.7 |

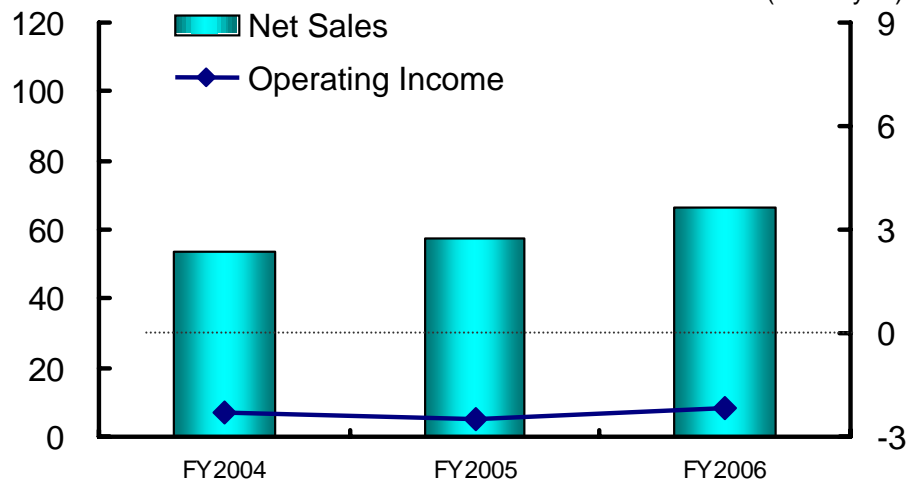
*The figures of each segment are before elimination and "Total" includes elimination.



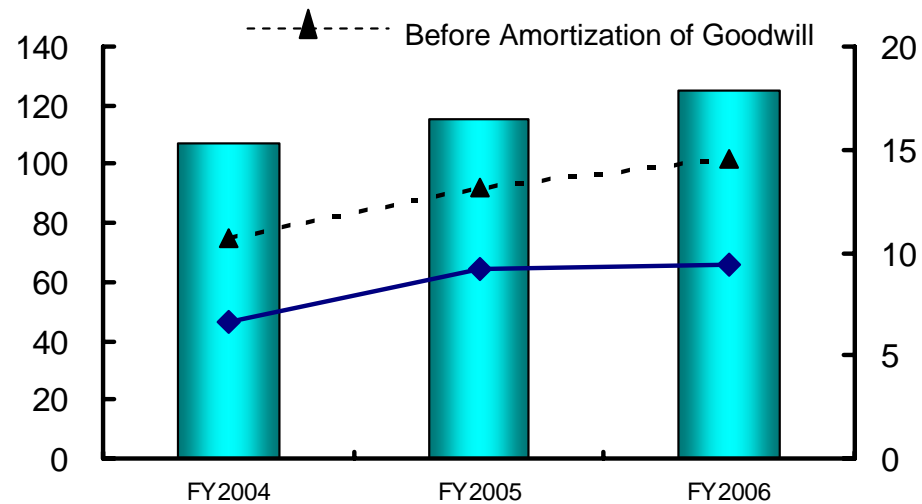
Consumer Products

Asia and Oceania

Sales (Billion yen)

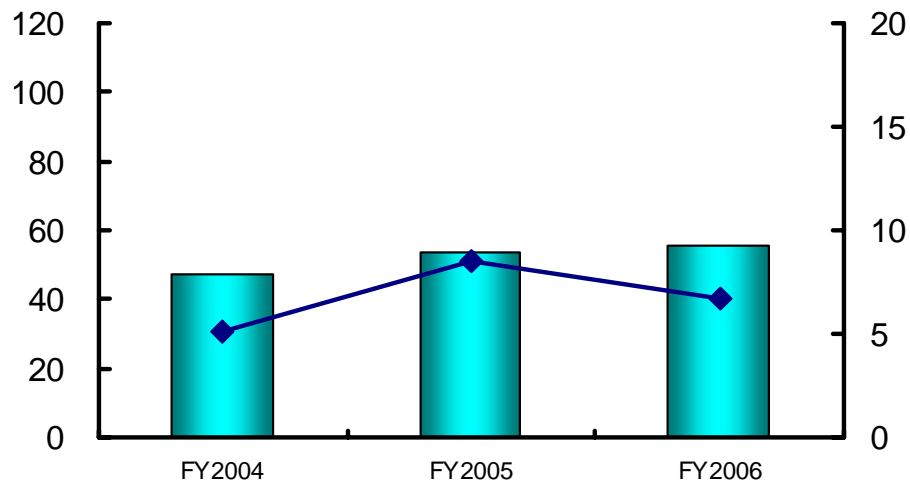


North America & Europe

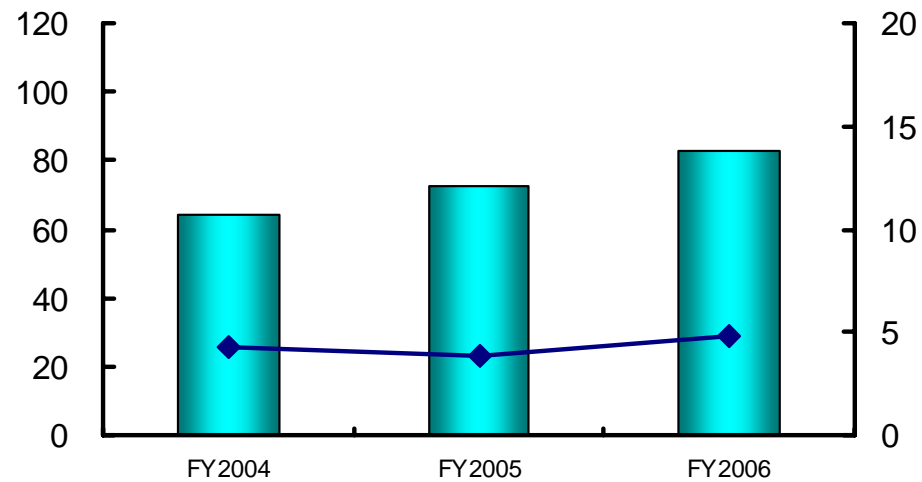


Chemical Products

Asia



North America & Europe



Consolidated Ordinary Income

| | | | |
|--------|------|-------|-------------|
| FY05 | | FY06 | |
| 121.9 | → | 120.1 | Billion yen |
| Change | -1.7 | -1.5% | Billion yen |

| | |
|------------------------------|------|
| 1. Operating income | +0.7 |
| 2. Equity earnings/losses | -0.1 |
| 3. Forex gains/losses | +0.4 |
| 4. Net interest expense | -2.6 |
| 5. Other non-operating items | -0.2 |
| <hr/> Total | -1.7 |

Consolidated Income Before Taxes

| | | |
|--------|------------------|-------------------|
| FY05 | | FY06 |
| 116.9 | → | 117.1 Billion yen |
| Change | +0.2 Billion yen | +0.2% |

| | |
|--|-------------|
| 1. Ordinary income | -1.7 |
| 2. Gain on sale or disposal of fixed assets | +0.4 |
| 3. Gain on sale of investment securities | -1.1 |
| 4. Reversal of prior-year depreciation in overseas subsidiaries | +0.2 |
| 5. Insurance received | +0.4 |
| 6. Loss on sale or disposal of fixed assets | -0.2 |
| 7. Prior-year post-retirement healthcare benefit expenses at U.S. subsidiaries | +2.3 |
| 8. Loss on investment in affiliate | +0.8 |
| 9. Impairment loss | -1.0 |
| 10. Other | +0.0 |
| Total | +0.2 |

Consolidated Balance Sheets

(Billion yen)

| | Mar/06 | Mar/07 | Changes | | Mar/06 | Mar/07 | Changes |
|-------------------------------|---------|---------|---------|--|---------|---------|---------|
| Current Asset | 364.6 | 402.2 | 37.6 | Current Liabilities | 436.1 | 308.6 | -127.5 |
| Cash and Bank Deposits | 47.3 | 49.9 | 2.5 | Notes and Accounts Payable | 96.5 | 110.1 | 13.6 |
| Notes and Accounts Receivable | 129.1 | 158.4 | 29.3 | Short-term Debt (incl. Current Portion of Long-term Debt) | 189.4 | 43.9 | -145.5 |
| Short-term Investments | 20.1 | 36.2 | 16.0 | Other Accounts Payable | 27.4 | 28.9 | 1.4 |
| Inventories | 105.8 | 112.1 | 6.2 | Accrued Expenses | 75.9 | 85.7 | 9.8 |
| Others | 62.0 | 45.4 | -16.6 | Others | 46.7 | 39.8 | -6.9 |
| Fixed Assets | 855.8 | 845.5 | -10.3 | Long-term Liabilities | 265.7 | 364.3 | 98.6 |
| Tangible Assets | 282.7 | 289.0 | 6.2 | Long-term Debt/Straight Bond | 218.5 | 311.7 | 93.2 |
| Intangible Assets | 466.2 | 442.4 | -23.7 | Others | 47.2 | 52.6 | 5.3 |
| Investments | 106.8 | 114.0 | 7.1 | Total Liabilities | 701.9 | 673.0 | -28.9 |
| Deferred Assets | 0.0 | 0.0 | -0.0 | Minority Interests | 8.9 | - | - |
| | | | | Common Stock | 85.4 | - | - |
| | | | | Capital Surplus | 109.5 | - | - |
| | | | | Retained Earnings | 345.9 | - | - |
| | | | | Unrealized Gain on Available-for-sale Securities | 5.8 | - | - |
| | | | | Foreign Currency Translation Adjustments | -26.9 | - | - |
| | | | | Treasury Stock | -10.1 | - | - |
| | | | | Shareholder's Equity | 509.6 | - | - |
| | | | | Shareholders' equity | - | 573.5 | - |
| | | | | -Common Stock | - | 85.4 | - |
| | | | | -Capital Surplus | - | 109.5 | - |
| | | | | -Retained Earnings | - | 388.5 | - |
| | | | | -Treasury Stock, at Cost | - | -10.0 | - |
| | | | | Adjustment for Valuation, Foreign Currency Translation and Other | - | -9.0 | - |
| | | | | - Unrealized Gain on Available-for-Sale Securities | - | 4.6 | - |
| | | | | - Foreign Currency Translation Adjustments | - | -13.6 | - |
| | | | | Stock Acquisition Rights | - | 0.3 | - |
| | | | | Minority Interest | - | 9.9 | - |
| | | | | Total Net Asset | - | 574.7 | - |
| Total Assets | 1,220.5 | 1,247.7 | 27.2 | Total Liabilities and Total Net Asset | 1,220.5 | 1,247.7 | 27.2 |

Statements of Cash Flows

(Billion yen)

| | FY05 | FY06 | Changes |
|--|--------|-------|---------|
| Operating activities | 117.2 | 164.9 | 47.6 |
| Investing activities | -479.5 | -63.2 | 416.3 |
| Financing activities | 356.7 | -83.6 | -440.3 |
| Translation adjustments on cash and cash equivalents | 2.7 | 2.5 | -0.1 |
| Net Increase/(decrease) in cash and cash equivalents | -2.7 | 20.6 | 23.4 |
| Cash and cash equivalents, beginning of year | 70.4 | 67.5 | -2.8 |
| Increase in cash and cash equivalents due to newly consolidated subsidiaries | 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 period | 67.5 | 88.1 | 20.6 |
| Total Debt, end of period | 408.0 | 355.7 | -52.2 |

<Investing Activities>

Capital expenditures:

- Production facilities for new products
- Production capacity expansion for fatty alcohols in the Philippines, toner and toner binder etc.

3. Forecast for FY 2007

Consolidated Sales and Profit Forecast

| | FY2005 | | FY2006 ^{*2} | | FY2007(F) ^{*1} _{*3} | |
|------------------|-------------|----------|----------------------|----------|---------------------------------------|----------|
| | Billion yen | % Growth | Billion yen | % Growth | Billion yen | % Growth |
| Net Sales | 971.2 | 3.7 | 1,231.8 | 26.8 | 1,290.0 | 4.7 |
| Operating Income | 120.1 | -1.0 | 120.8 | 0.6 | 114.0 | -5.7 |
| [% to Sales] | 12.4% | | 9.8% | | 8.8% | |
| Ordinary Income | 121.9 | -2.7 | 120.1 | -1.5 | 111.0 | -7.6 |
| [% to Sales] | 12.6% | | 9.8% | | 8.6% | |
| Net Income | 71.1 | -1.4 | 70.5 | -0.9 | 66.0 | -6.4 |
| [% to Sales] | 7.3% | | 5.7% | | 5.1% | |

| | | | | | | |
|---|--------|------|--------|------|---------------|------|
| Net Income per Share (yen) | 130.58 | -0.4 | 129.41 | -0.9 | 121.08 | -6.4 |
| ROE | 14.9% | | 13.1% | | 11.3% | |
| EBITDA (Operating Income + Depr. & Amort.) | 180.8 | 1.5 | 213.0 | 17.8 | 209.0 | -1.9 |
| Cash dividends per Share (yen) | 50.0 | 31.6 | 52.0 | 4.0 | 54.0 | 3.8 |

*1 Exchange rate assumptions: 118 yen/USD, 155 yen/Euro

*2 Kanebo Cosmetics: Net sales = ¥200+ billion / operating margin before amortization of intellectual property rights and others = approximately 11%; amortization related to Kanebo Cosmetics: ¥26.7 billion

*3 Kanebo Cosmetics: Net sales = ¥220+ billion / operating margin before amortization of intellectual property rights and others = approximately 8%; amortization related to Kanebo Cosmetics: ¥27.4billion



Sales Outlook by Segment – FY2007

<Billion yen>

Consolidated Net Sales **1,290** **+4.7%**

By Geography

By Business

Japan **950** **+2.8%**

Asia &
Oceania **140** **+11.1%**

North America **113** **+5.9%**

Europe **150** **+10.4%**

Beauty Care **625** **+7.0%**

Human
Health Care **187** **+1.6%**

Fabric and
Home Care **270** **+1.0%**

Chemical **240** **+7.3%**

* Growth rate by business segment is calculated based on reclassified FY2006 estimates.



Major Assumptions for FY2007 Forecast

◆ **Sales price in Consumer Products Business in Japan remains almost flat**

◆ **Major proactive investments:**

- Prestige cosmetics: Proactive investments in China and other areas
- Consumer business: Aggressive marketing spending for sales expansion

Estimated impact on profit

◆ **Impact of higher raw material prices in Japan**

approximately -¥8.0 billion

◆ **Total Cost Reduction (TCR) activities**

approximately +¥5.0 billion

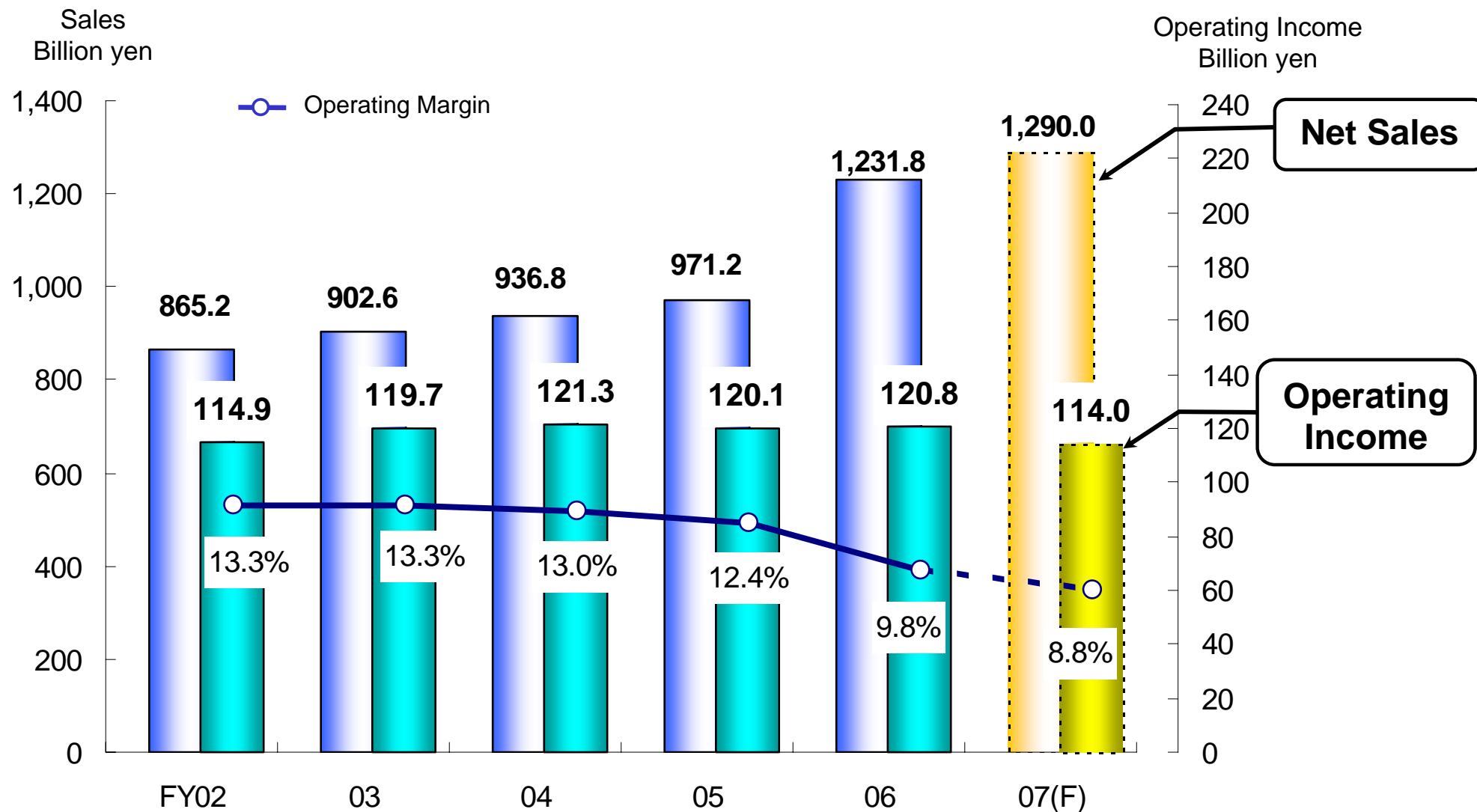
Exchange rate assumptions

◆ 118 yen/USD

◆ 155 yen/Euro

Consolidated Net Sales/Operating Margin

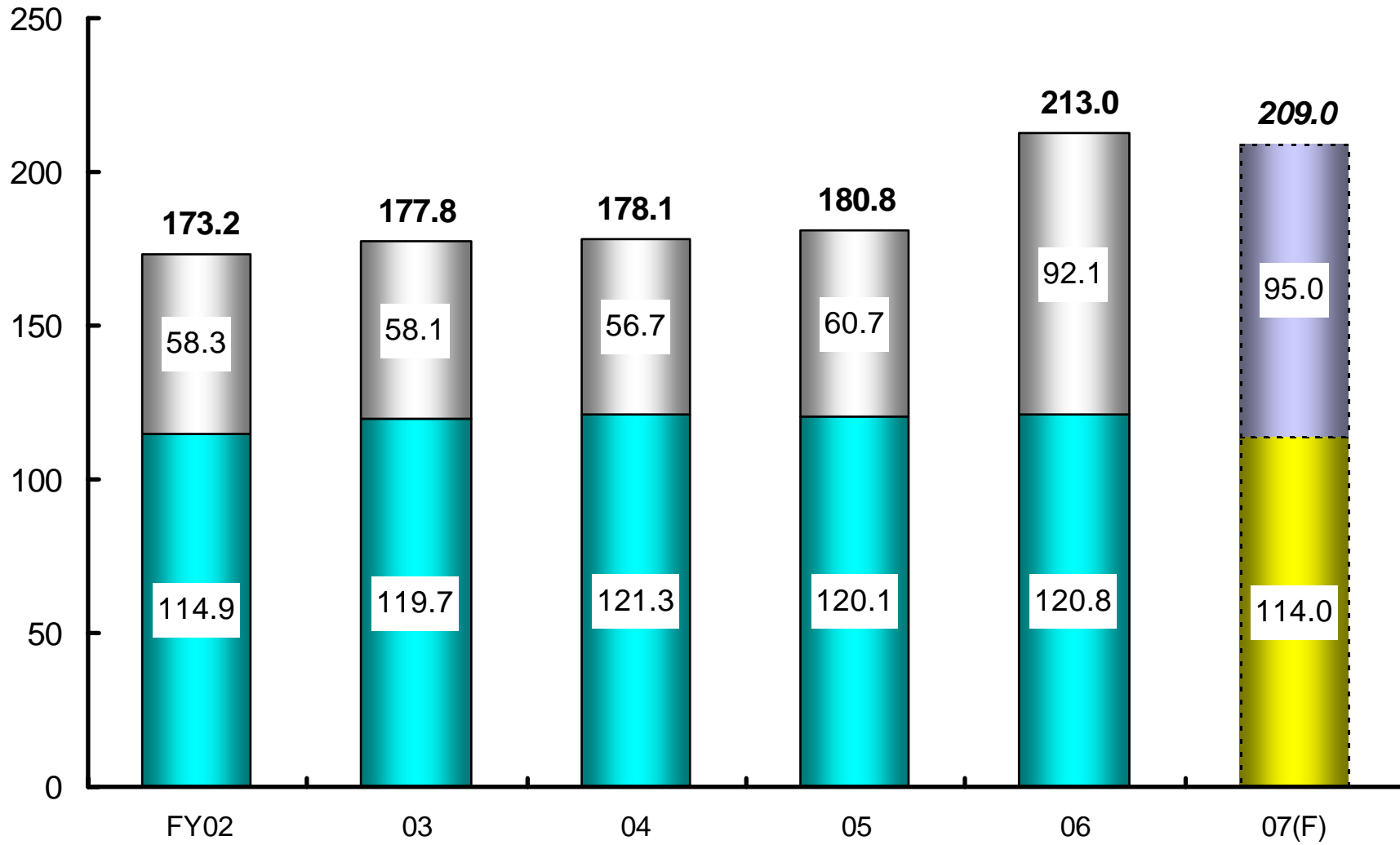
[Full Year]



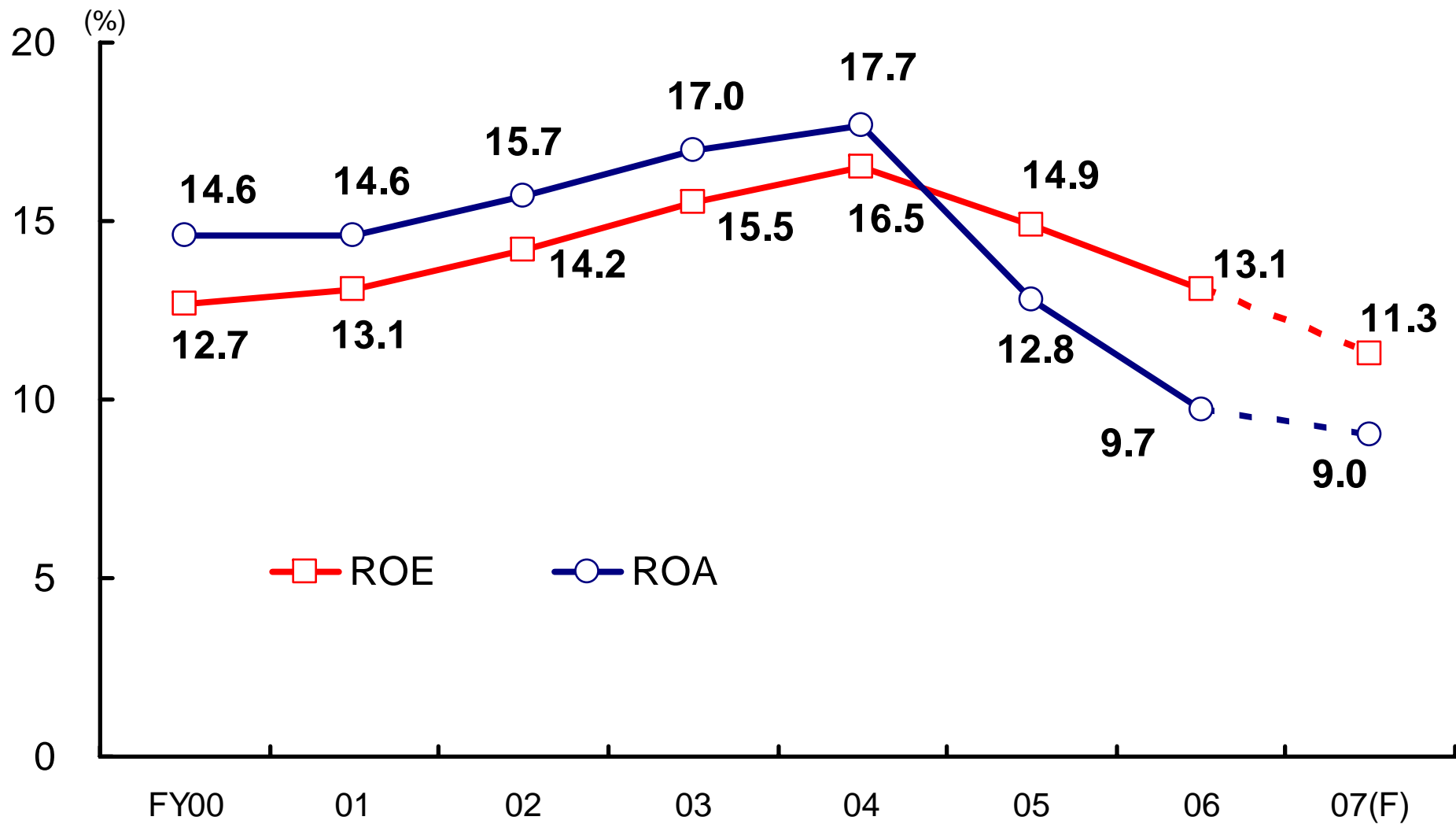
EBITDA

Billion yen

■ Operating Income ■ Depr. & Amort.

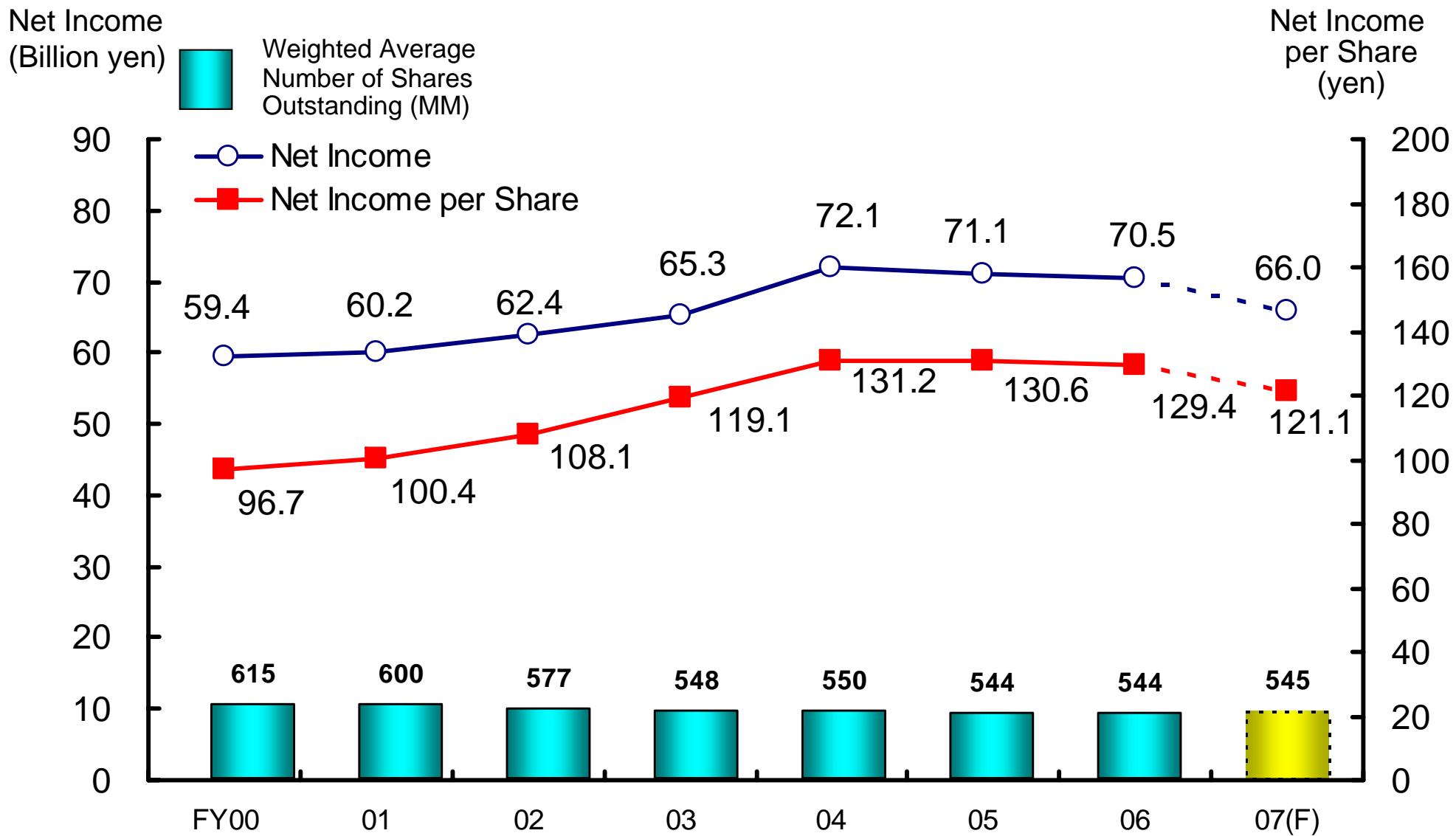


ROE & ROA

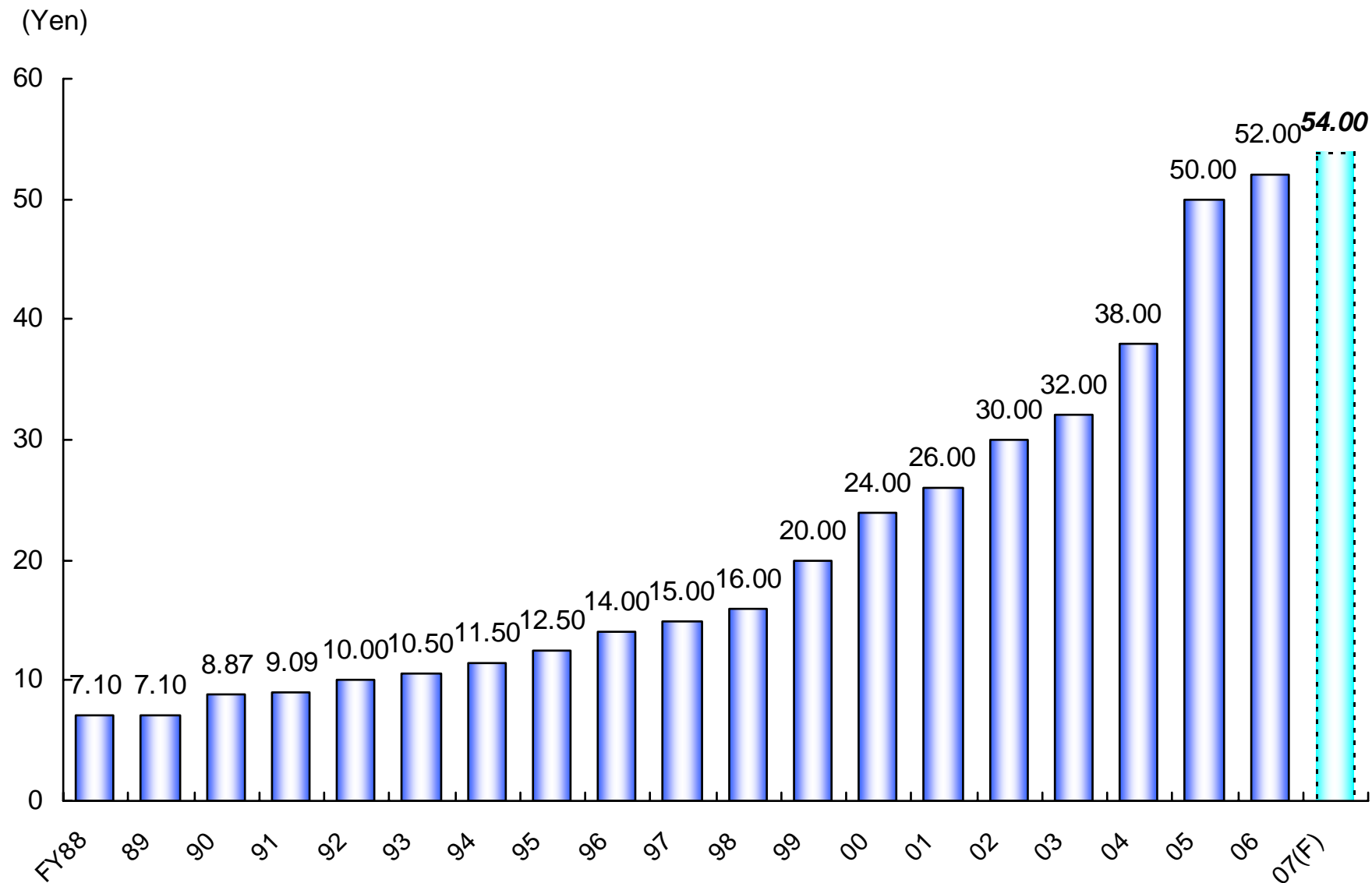


ROA: Ordinary Income / Total assets

Net Income per Share

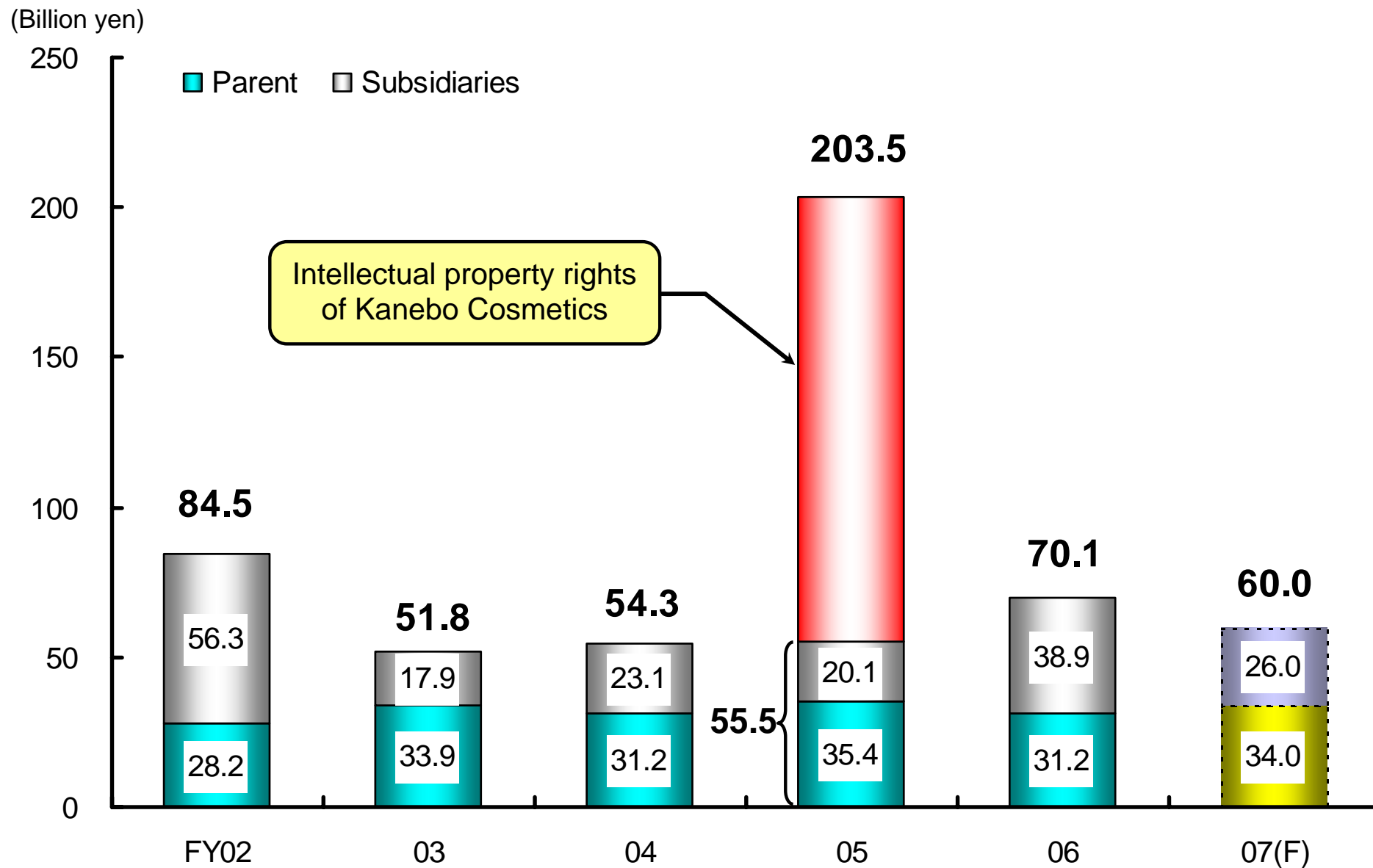


Cash Dividends per Share



*Impacts of share splits are retroactively reflected.

Capital Expenditures

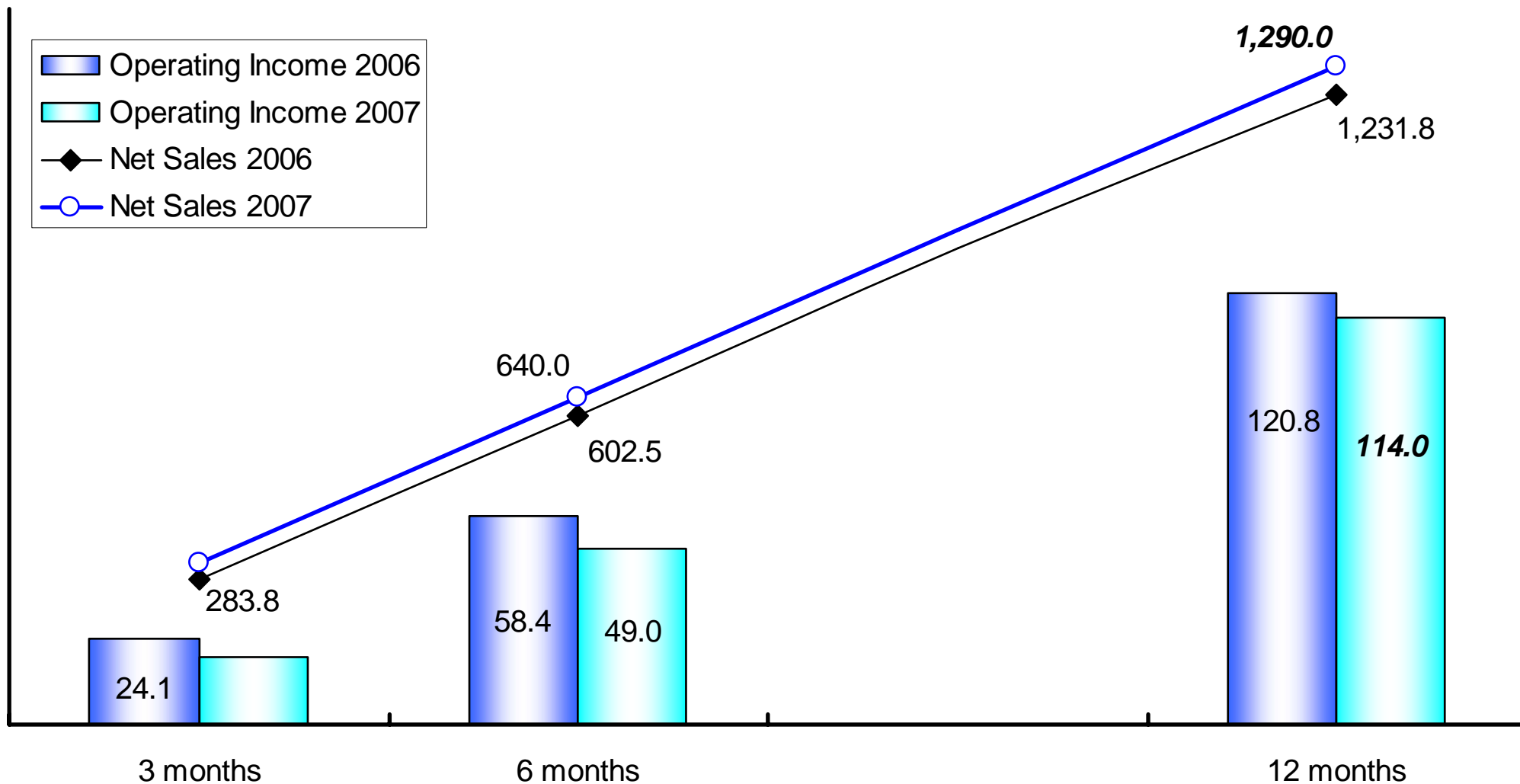


*Payment for purchase of newly consolidated subsidiaries (net of cash acquired) is not included.



Quarterly Consolidated Sales and Profit Forecast

(Billion yen)



Non-consolidated Sales and Profit Forecast

| | FY2005 | | FY2006* | | FY2007(F)* | |
|---|-------------|----------|-------------|----------|--------------|----------|
| | Billion yen | % Growth | Billion yen | % Growth | Billion yen | % Growth |
| Net Sales | 688.5 | -0.9 | 709.5 | 3.0 | 720.0 | 1.5 |
| Operating Income | 90.5 | -7.6 | 78.6 | -13.2 | 78.0 | -0.8 |
| [% to Sales] | 13.2% | | 11.1% | | 10.8% | |
| Ordinary Income | 100.1 | -4.2 | 84.9 | -15.2 | 85.0 | 0.1 |
| [% to Sales] | 14.5% | | 12.0% | | 11.8% | |
| Net Income | 64.1 | 2.6 | 57.6 | -10.1 | 48.0 | -16.7 |
| [% to Sales] | 9.3% | | 8.1% | | 6.7% | |
| Net Income per Share (yen) | 117.61 | 3.5 | 105.68 | -10.1 | 87.97 | -16.8 |
| ROE | 14.1% | | 11.8% | | 9.4% | |
| EBITDA (Operating Income + Depr. & Amort.) | 131.7 | -4.9 | 133.4 | 1.3 | 133.0 | -0.3 |

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