Kao Corporation

News Release April 23, 2001

Kao Corporation Reports Business Results

Tokyo, April 23, 2001 – Kao Corporation today announced its consolidated and nonconsolidated business results for the fiscal year ended March 31, 2001. The data contained below is taken from the financial summary submitted by the Company to the Tokyo Stock Exchange.

１. CONSOLIDATED BASIS

Consolidated Financial Highlights (Unaudited)

	Billions of Yen			Millions of U.S. Dollars
YEAR ENDED MARCH 31	**2001**	2000	% change	**2001**
Net sales	**821.6**	846.9	(3.0)	**6,631.4**
Operating income	**107.0**	99.1	8.0	**864.4**
Ordinary income	**111.8**	98.0	14.1	**902.9**
Net income	**59.4**	52.1	14.0	**479.6**
Total assets	**783.7**	750.0	4.5	**6,325.7**
Total shareholders' equity	**462.9**	474.9	(2.5)	**3,736.8**
	Yen			U.S. Dollars
Per share:				
Net income	**96.69**	83.45	15.9	**0.78**
Cash dividends	**24.00**	20.00	20.0	**0.19**

	%	
YEAR ENDED MARCH 31	**2001**	2000
Operating margin	**13.0**	11.7
Net income to total shareholders' equity (ROE)	**12.7**	11.3

Consolidated Financial Highlights on a Like-for-like Basis (Unaudited)

	Billions of Yen			Millions of U.S. Dollars
YEAR ENDED MARCH 31	**2001**	2000	% change	**2001**
Net sales	**851.8**	846.9	0.6	**6,874.6**
Operating income	**107.9**	99.1	8.9	**871.5**

Notes: Like-for-like basis excludes both the effect of the new consolidation of the domestic consumer products sales company and the currency effect on overseas sales related to translation of local currencies to the Japanese yen.

Consolidated Forecast for the Fiscal Year Ending March 31, 2002

The forecast for the full fiscal year ending March 31, 2002, is 860.0 billion yen (US$6,941.1 million) in net sales, 108.0 billion yen (US$871.7 million) in ordinary income and 62.0 billion yen (US$500.4 million) in net income. Net income per share is expected to be 101.78 yen (US$0.82).

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Consolidated Segment Information by Industry (Unaudited)

YEAR ENDED MARCH 31	Billions of Yen SALES 2001	2000	% change	Like-for-like	OPERATING INCOME 2001	2000	Incr./(Dcr.)
Consumer Products	**607.8**	632.4	(3.9)	(0.3)	**86.1**	82.1	4.0
Cosmetics (*Sofina*)	**72.5**	70.8	2.4	2.4	**2.8**	2.1	0.7
Chemical Products	**167.8**	172.4	(2.6)	1.8	**17.7**	14.7	3.0
Corporate/Eliminations	**(26.6)**	(28.7)	-	-	**0.4**	0.1	0.3

YEAR ENDED MARCH 31	Millions of U.S. Dollars SALES 2001	2000	% change	Like-for-like	OPERATING INCOME 2001	2000	Incr./(Dcr.)
Consumer Products	**4,905.8**	5,104.3	(3.9)	(0.3)	**695.0**	662.7	32.3
Cosmetics (*Sofina*)	**585.8**	572.1	2.4	2.4	**22.8**	17.7	5.1
Chemical Products	**1,355.1**	1,391.5	(2.6)	1.8	**143.0**	118.9	24.1
Corporate/Eliminations	**(215.2)**	(232.4)	-	-	**3.6**	1.2	2.4

Notes: Like-for-like growth rates exclude both the effect of the new consolidation of the domestic consumer products sales company and the currency effect on overseas sales related to translation of local currencies to the Japanese yen.

Consolidated Geographic Segment Information (Unaudited)

YEAR ENDED MARCH 31	Billions of Yen SALES 2001	2000	% change	Like-for-like	OPERATING INCOME 2001	2000	Incr./(Dcr.)
Japan	**655.4**	673.4	(2.7)	(0.9)	**94.3**	91.7	2.6
Asia	**84.1**	86.1	(2.4)	3.8	**6.8**	3.9	2.9
Europe and Americas	**105.2**	111.0	(5.2)	7.4	**5.9**	3.4	2.5
Corporate/Eliminations	**(23.2)**	(23.7)	-	-	**0.0**	0.1	(0.1)

YEAR ENDED MARCH 31	Millions of U.S. Dollars SALES 2001	2000	% change	Like-for-like	OPERATING INCOME 2001	2000	Incr./(Dcr.)
Japan	**5,290.3**	5,435.5	(2.7)	(0.9)	**761.3**	740.2	21.1
Asia	**679.1**	695.5	(2.4)	3.8	**54.9**	31.6	23.3
Europe and Americas	**849.8**	896.2	(5.2)	7.4	**47.7**	27.9	19.8
Corporate/Eliminations	**(187.8)**	(191.7)	-	-	**0.5**	0.8	(0.3)

Notes:
1. *The U.S. dollar amounts included herein represent translations using the approximate exchange rate on March 31, 2001, of yen 123.90=US$1, solely for convenience.*
2. *Like-for-like growth rates exclude both the effect of the new consolidation of the domestic consumer products sales company and the currency effect on overseas related to translation of local currencies to the Japanese yen.*

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2. NONCONSOLIDATED BASIS

Nonconsolidated Financial Highlights (Unaudited)

	Billions of Yen			Millions of U.S. Dollars
YEAR ENDED MARCH 31	**2001**	2000	% change	**2001**
Net sales	**660.4**	667.1	(1.0)	**5,330.2**
Operating income	**92.3**	91.0	1.4	**745.1**
Ordinary income	**98.3**	91.7	7.2	**794.1**
Net income	**52.2**	42.5	22.9	**421.6**
Total assets	**707.3**	676.1	4.6	**5,709.0**
Total shareholders' equity	**480.7**	464.4	3.5	**3,880.3**

	Yen			U.S. Dollars
Per share:				
Net income	**84.72**	68.02	24.6	**0.68**
Cash dividends	**24.00**	20.00	20.0	**0.19**

Notes: The U.S. dollar amounts included herein represent translations using the approximate exchange rate on March 31, 2001, of yen 123.90=US$1, solely for convenience.

Nonconsolidated Forecast for the Fiscal Year Ending March 31, 2002

The forecast for the full fiscal year ending March 31, 2002, is 665.0 billion yen (US$5,367.2 million) in net sales, 97.0 billion yen (US$782.9 million) in ordinary income and 55.0 billion yen (US$443.9 million) in net income.

Please note that consolidated and nonconsolidated forecast data is estimated at the time of release and is subject to future review.

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1. MANAGEMENT POLICIES

1. Basic Management Policies

The mission of Kao Corporation is to contribute to the wholehearted satisfaction and enrichment of the lives of customers throughout the world by providing products of excellent value and outstanding performance. Our aim is to achieve profitable growth in spite of the intensifying global competition, and to increase corporate value that will place Kao among the ranks of the world's leading companies.

In the previous fiscal year the Company adopted EVA® (Economic Value Added)* as its primary management measure. We are convinced that long-term, sustainable growth of EVA is not only closely connected to growth in corporate value, it also serves to increase the value of the company for shareholders and all other stakeholders as well.

2. Basic Policies Regarding Distribution of Profits

In its dividends to shareholders, Kao seeks to achieve continuous increase in per-share dividends of approximately 30% of nonconsolidated net income. In its use of free cash flow, the Company seeks to increase future corporate value primarily through investment in business development and M&A activity, and by undertaking measures, including share redemption, with a long-range point of view and investment efficiency uppermost in mind.

3. Medium- and Long-Term Management Strategies

With consumer products, cosmetics and chemical products as our core businesses, we strive for business growth on the basis of developing and marketing products of excellent value and outstanding performance supported by our unique technologies. And as we work to expand these platforms, we also make efforts to develop lines of businesses in new fields such as health care.

** EVA is a registered trademark of Stern Stewart & Co.*

Overseas, Kao is expanding operations in the Asian region, which is a growth market, while increasing business activity in the North American market. To achieve these goals we are positively considering further M&A activity and entering into strategic business alliances.

This approach has been adopted to compensate for slowing growth in maturing Japanese markets. At the same time, the Company is continuing its cost savings measures and efforts to raise management efficiency, thus achieving sustained EVA growth.

4. Reform of Management Structure to Enhance Corporate Governance

To strengthen corporate governance and realize high levels of fairness and transparency in management, the Company established an Advisory Committee made up of two external advisors, two senior advisors, the president and a senior managing director. In addition, to promote speedy decision-making and execution, we have taken measures to promote delegation of authority and to enhance the effectiveness of the Board of Directors. We plan to take further steps for reform of the Board.

Furthermore, Kao plans to review its compensation system for directors of the Board to further align the interest of directors with that of shareholders and facilitate an increase in corporate value. Specifically, this will include the introduction of a stock option plan for directors, expansion of the performance-linked portion of compensation, and cessation of future provision of allowance for directors' retirement. In addition, we will also revise the statutory auditors' compensation system, which will discontinue bonuses, while increasing the number of external statutory auditors in order to improve the auditing function.

5. Issues for Management

In the fiscal year under review, the operating environment in Japan remained severe, particularly in the consumer products market as prices continued to fall and competition intensified further. Despite this, the Company achieved earnings growth as a result of efforts to reduce costs and raise management efficiency. The consolidated operating margin rose to 13.0%, and we are gradually narrowing the gap in profitability between Kao and our global peer companies.

While assuming that the operating environment will continue to be difficult and that competition will remain fierce, Kao will strive to raise corporate value over the long term by prioritizing and effectively investing management resources according to our strategies for mid- and long-term growth.

2. CONSOLIDATED BUSINESS RESULTS

1. Summary of Business Results

Affected by the slowdown in the U.S. economy, the Japanese economy was characterized by signs of a worsening slump in the manufacturing sector. At the same time, sluggish consumer spending and price deflation continued. In the household products and personal care markets, sales volume remained flat while prices continued to drop.

Overseas, Asian economies became more challenging due to the slowdown in the U.S. economy and the recent weak yen. The U.S. economy faced a period of adjustment after a long period of growth, while the European economy experienced solid expansion.

Consolidated net sales for the fiscal year ended March 31, 2001 decreased by 25.2 billion yen to 821.6 billion yen, 3.0% down from the previous fiscal year. The negative currency impact due to the strong yen on overall overseas sales was 18.2 billion yen. In addition, there was a difference in accounting for sales in connection with the new consolidation of a domestic consumer products sales company, resulting in an 11.9 billion yen drop in consolidated net sales. Excluding these two factors, consolidated net sales increased 0.6% from the previous fiscal year.

Although domestic sales of consumer products declined due to falling prices, Kao achieved earnings growth. Operating income for the period grew 8.0% to 107.0 billion yen. At the parent company, cost reduction measures and decreased depreciation expenses contributed to an increase in operating income, partially offset by a negative impact from price decline and increased pension expenses. As a result, growth in operating income slowed down. Including 0.5 billion yen of operating income from the consolidation of the sales company, domestic operating income increased 2.9% to 94.3 billion yen.

Operating income from overseas operations rose 72.5% to 12.7 billion yen, as profits grew in personal care products in North America and Europe and in chemical products in Asia as well as in North America and Europe.

In addition to the increased operating income noted above, the favorable move in non-operating income/expenses due to foreign exchange gains and the decrease in extraordinary loss related to restructuring compensated for an extraordinary loss related to retirement benefit. As a result, ordinary income rose 14.1% to 111.8 billion yen and net income also climbed 14.0% to 59.4 billion yen.

Moreover, Kao's continuing focus on more effective utilization of assets and the effort to hold down increases in capital charges, including share redemption, led to solid growth in EVA.

Summary of Results by Business Segment

(1) Consumer Products Business

Consumer products sales decreased 3.9% to 607.8 billion yen. In Japan, domestic sales decreased 3.5% year-on-year in nominal terms, while decreased 1.2% from the previous fiscal year in real terms, excluding the effect of the consolidation of the consumer products sales company. Overseas, net sales in a local currency basis grew 3.5% over the previous fiscal year, although the effect of the strong yen led to a decrease in overall net sales. In terms of operating income, domestic and overseas operations achieved a total earnings growth of 4.0 billion yen, amounting to 86.1 billion yen, an increase of 4.9%.

1) Japan

In the consumer products market in Japan, prices continued to move downward, particularly in the second half of the term, and demand in real terms slumped below the level of the previous fiscal year. In this operating environment, sales of consumer products, excluding the effect from the consolidation of the sales company, declined 1.2%. The following table shows the breakdown by category.

Summary of effect of consolidation of the sales company

	Billions of yen			
YEAR ENDED MARCH 31	2001		2000	% change
		Excl. effect		Like-for-like
Personal care products	170.5	174.7	175.2	(0.3%)
Laundry and cleaning products	249.0	254.9	262.1	(2.7%)
Hygiene and others	79.0	80.7	79.4	1.6%
Total	498.6	510.5	516.8	(1.2%)

In terms of operating income, a decrease in selling prices and an increase in marketing expenses contributed negatively. Significant increase in pension expenses also dampened profitability. Nevertheless, favorable natural oil raw material prices and the Company’s cost reduction measures and raised operating efficiency, in addition to the decrease in depreciation expenses, led to growth in operating income.

In personal care products in Japan, Kao activated the facial and body cleansers markets by products with a mildly acidic formulation. The launch of new products such as *Bioré Facial Foam Moisture Cream-in* and *Bioré Body Care Foam Moisture Cream-in* also contributed to increased sales. In hair care products, the Company improved and marketed *Essential Damage Care* shampoo/conditioner, which generated solid consumer response. Despite this, an overall drop in market prices caused sales to drop below the level of the previous fiscal year. At the same time, we expanded our share of the hair color market by the addition of *Blauné Aroma Hair Color* launched during the previous fiscal year, and sales increased as a result.

Principal new products:

Bioré Facial Foam Moisture Cream-in (facial cleanser)
Bioré Body Care Foam Moisture Cream-in (body cleanser)
Liese Quick Hair Foam for Straight Hair (hairstyling product)
Lavenus Color Appeal (hair color / hair lightening product)

The laundry and cleaning products category in Japan faced intense competition. In this environment, such new products as *Humming 1/3 Anti-bacterial Plus* fabric softener, *Quickle Wet-type Floor Care Sheets* household cleaning sheets, and *Family Pure Mild-type* dishwashing detergent, were brought to market during the term. Although steady sales growth was posted for *New Beads*, a contraction of the gift market adversely affected sales and contributed to the year-on-year sales decline in laundry detergent. At the same time, exports of household cleaning mop kits and sheets, which are marketed in North America and Europe by S.C. Johnson & Son Inc., decreased significantly due to the transfer to license-based production overseas.

Principal new products:

Attack Sheet-type (laundry detergent)
Quickle Wet-type Floor Care Sheets (household cleaning sheets)
Humming 1/3 Anti-bacterial Plus (fabric softener)
Family Power Gel (dishwashing detergent)
Family Pure Mild-type (dishwashing detergent)

The hygiene and other products category had mixed results. The overall sanitary napkin market shrank due to a decline in the relevant consumer population in Japan, upgrading of product performance that led to less sheets being used, and falling prices. As a result, sales declined from the previous fiscal year. Sales of the Company's disposable baby diapers, *Merries* tape-type and pants-type, declined despite improvements made in product performance, as stiffening price competition and a sharp fall in prices made the environment extremely difficult. On the other hand, there was a slight increase in sales of adult incontinence products, which were spurred by the launch of *Relief Odor-Free Guard*, which uses an original technology to eliminate odors.

In addition, *Healthy Econa Cooking Oil – For Prevention of Fat Deposits*, a unique product that helps prevent fat from accumulating in the body, continued to win widespread support from consumers and contribute greatly to sales. With an eye toward expanding the market for healthy cooking oils, Kao brought out the second product in our *Healthy Econa* series, *Healthy Econa Cooking Oil – For Lower Cholesterol,* which lowers the level of cholesterol in the blood and inhibits the accumulation of fat in the body. The company also launched a series of *Healthy Econa Dressings*.

Principal new products:

Laurier Super Slim Guard (sanitary napkins)
Laurier Dry Cotton Sheet (panty liner)
Healthy Econa Cooking Oil – For Lower Cholesterol
Healthy Econa Dressings

2) Asia and Oceania

Influenced by the economic slowdown in the U.S., the outlook for the Asian economy has become unclear. In the consumer products market, while growth in demand was virtually stagnant, intense competition among global peer companies continued. In addition, new entries into the market by global retailers led to fierce price competition.

In the consumer products business in Asia and Oceania, inventory adjustment at distributors was completed in China. While sales before the currency translation effect achieved a modest growth, sales in yen terms declined slightly.

The Company focused on core brands to strengthen brand power, and consequently, operating income for Asia increased year-on-year in yen terms.

With an eye on trends in the ASEAN Free Trading Area (AFTA), we have established a subsidiary in Thailand as a regional headquarters that will enable us to integrate and upgrade product development, marketing, and utilize optimal production locations in the ASEAN region.

3) North America and Europe

In North America, sales of The Andrew Jergens Company grew slightly. Favorable performance in *Curél* premium skin care and new products in the *Jergens* lotions lineup contributed as growth drivers, which were offset by a continuing decrease in sales of pore cleansing strip products. To build a stronger base in the skin care products business, we acquired *ban**, antiperspirant/deodorant brand in the United States. Andrew Jergens achieved healthy growth in operating income as a result of a strong performance by premium-priced products and more effective control of fixed expenses.

In Europe, Goldwell GmbH, which markets hair care products for beauty salons internationally, and Guhl Ikebana, which markets premium hair care products, both posted healthy sales growth. The effect of restructuring at Goldwell bolstered steady growth in operating income.

(2) Cosmetics Business (*Sofina*)

Sales of cosmetics (*Sofina*) were 72.5 billion yen, an increase of 2.4%. The prestige cosmetics market is recovering slowly from a major contraction, remaining flat throughout the year.

In these general market conditions, we brought out *est*, a new brand for exclusive marketing through department store channels in the basic skin care category. This product embodies unique superior technology based on dermatological research promoted by *Sofina*. New items were also added to the *Raycious* foundation series. Along with *Finefit*, this new introduction bolstered foundation sales, which increased over the level of the previous term. Although sales in the first half of the term decreased year-on-year due to our effort to streamline inventories at retailers, we achieved significant growth in the second half of the fiscal year under review.

Operating income improved to 2.8 billion yen despite the expenses related to the retail destocking measures and due to an increase in pension expenses.

**Japan is not included in the agreement for the acquisition of the* ban *brand.*

Principal new products:

Sofina Very Very Powdery Pore Care (sebum care product)
est special care and daily care products (basic skin care)
Raycious Liquid Make-up (liquid foundation)
AUBE Rouge Livelish (lipstick)

(3) Chemical Products Business

Chemical products sales decreased 2.6% to 167.8 billion yen. Operating income rose 2.9 billion yen, or 20.2%, to 17.7 billion yen. Although negative currency translations impacted both sales and operating income for overseas operations, on a local currency basis, sales grew 9.1%, and operating income rose 59.6% as well. Key growth drivers included fatty chemicals in Asia and such specialty chemicals as copier and printer toner and related products, and aroma chemicals in the United States, Europe and Japan.

1) Japan

The effects of sluggish economic conditions in Japan since last summer, and a drop in exports due to a slowdown of the Asian economies, led to a drop in the parent company's sales.

Operating income grew, benefited from continuous favorable prices of raw materials for fatty chemicals and streamlined production, in spite of price increases in certain raw materials due to higher petroleum costs.

2) Asia

In Taiwan, sales decreased due to the transfer of part of production abroad. However, healthy growth in sales was recorded in the other Asian countries, particularly in Malaysia and the Philippines, where sales of fatty alcohols were brisk.

Led by the strong performance in fatty alcohols in Malaysia and the Philippines, and boosted by lower costs of raw materials, operating income increased significantly.

3) North America and Europe

Robust sales growth continued on the back of strong performances in copier and printer toner and related products in the United States, fatty amines in Germany, and aroma chemicals and copier and printer toner and related products in Spain.

Healthy growth in Germany and Spain was a primary factor in a surge in operating income.

Financial Condition

Summarized Consolidated Cash Flows (Unaudited)

	Billions of Yen			Millions of U.S. Dollars
YEAR ENDED MARCH 31	**2001**	2000	Incr./(Dcr.)	**2001**
Operating activities	**122.9**	157.6	(34.7)	**992.3**
Investing activities	**(67.3)**	(41.4)	(25.9)	**(543.8)**
Financing activities	**(52.1)**	(61.5)	9.4	**(420.7)**
Translation adjustments	**1.9**	(4.0)	5.9	**15.8**
Net increase	**5.4**	50.5	(45.1)	**43.7**
Cash and cash equivalents	**153.4**	147.9	5.5	**1,238.4**
Total debt	**69.4**	78.0	(8.6)	**560.2**

Net cash provided by operating activities during the fiscal year ended March 31, 2001 decreased from the previous fiscal year. Although income before income taxes and minority interests increased, higher tax payments and a decrease in depreciation expenses led to a decline in net cash provided by operating activities.

Net cash used in investment activities increased primarily as a result of the acquisition of the *ban* antiperspirant/deodorant brand, which is sold mainly in North America, and increased purchases of short-term securities as part of investment of excess cash. Principal capital spending in plant and equipment included production facilities for laundry detergent and new products such as cooking oil, and the plant relocation in Japan.

Due to the redemption of corporate bonds, as of the fiscal year-end, Kao's total interest-bearing debt decreased by 8.6 billion yen from the end of the previous fiscal year to 69.4 billion yen. In addition, as part of its policy to enhance shareholders' returns, the Company executed share redemption totaling 10 million shares of common stock valued at 28.6 billion yen.

As a result of the above, cash and cash equivalents at the end of the period increased by 5.4 billion yen year-on-year to 153.4 billion yen.

2. Forecast for the Fiscal Year Ending March 31, 2002

In the consumer products market in Japan, Kao anticipates that consumer spending will remain sluggish, which means no growth in sales volume can be expected, and we project that prices will fall below the level of the fiscal year just ended. In view of this, we are forecasting that the challenging operating environment will continue. In the shrinking market, the Company will strive to further develop and reinforce new businesses, including cooking oil, in the health care field. In a parallel move, the Company will undertake measures to increase the value of its brands by improving existing products and developing and launching new products that meet new consumer needs. These efforts will help lead to a slight sales increase from the level of the fiscal year under review. To continue to achieve earnings growth, the Company also intends to continue its efforts to reduce costs, effectively control expenses, and enhance profitability as a management priority.

In the overseas consumer products business, with favorable foreign exchange rates, we expect sales to exceed the level of the fiscal year under review, and we project growth in operating income.

Although the Company expects competition to become even more intense in markets throughout Asia, it intends to focus on core brands and foster greater brand power that will lead to growth in sales.

In North America and Europe, Kao will target growth in the skin care business in North America and the hair care business in Europe. By concentrating on core brands, reducing costs, and raising management efficiency, the Company expects to achieve earnings growth in Asia as well as North America and Europe.

In the chemical products business, we project the operating environment in Japan to continue to be challenging, and that sales will decline slightly. Overseas, the Company projects that favorable foreign exchange rates will lead to a sales increase from the level of the fiscal year under review. Overall, while we are projecting increased sales in the chemical products business, we anticipate that operating income, which rose significantly in the fiscal year just ended, will remain flat.

Absent foreign exchange gains, which contributed to improved non-operating income/expenses in the fiscal year just ended, the Company projects ordinary profit for the current fiscal year to decrease slightly. However, we project continued growth in net income for the current fiscal year due to the elimination of major extraordinary losses.

In view of the above, we forecast that consolidated net sales for the fiscal year ending March 31, 2002 will rise to 860.0 billion yen, while ordinary profit will decrease to 108.0 billion yen and net income will grow to 62.0 billion yen.

We achieved significant annual EVA improvement in the fiscal year just ended. We will endeavor to achieve earnings growth, which will lead to further annual improvement in EVA.

In line with the anticipated improvement in financial performance for the fiscal year ending March 31, 2002, we plan to increase both interim and year-end cash dividends by 1.00 yen per share to 13.00 yen per share and the total annual cash dividend applicable to the year by 2.00 yen per share to 26.00 yen per share.

Please note that this forecast was estimated at the time of release and is subject to future review.