Kao Corporation

News Release April 22, 2002

Kao Corporation Reports Business Results

Tokyo, April 22, 2002 - Kao Corporation today announced its consolidated and nonconsolidated business results for the fiscal year ended March 31, 2002. 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	**2002**	2001	% change	**2002**
Net sales	**839.0**	821.6	2.1	**6296.6**
Operating income	**111.7**	107.0	4.3	**838.5**
Ordinary income	**113.5**	111.8	1.5	**852.4**
Net income	**60.2**	59.4	1.4	**452.3**
Total assets	**772.1**	783.7	(1.5)	**5,794.7**
Total shareholders' equity	**459.7**	462.9	(0.7)	**3450.1**
	Yen			U.S. Dollars
Per share:				
Net income	**100.43**	96.69	3.9	**0.75**
Cash dividends	**26.00**	24.00	8.3	**0.20**

	%	
YEAR ENDED MARCH 31	**2002**	2001
Operating margin	**13.3**	13.0
Net income to total shareholders' equity (ROE)	**13.1**	12.7

Consolidated Forecast for the Fiscal Year Ending March 31, 2003

The forecast for the full fiscal year ending March 31, 2003, is 870.0 billion yen (US$6,529.0 million) in net sales, 114.0 billion yen (US$855.5 million) in operating income, 114.0 billion yen (US$855.5 million) in ordinary income and 62.0 billion yen (US$465.3 million) in net income. Net income per share is expected to be 105.12 yen (US$0.79).

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Consolidated Segment Information by Industry (Unaudited)

Billions of Yen

YEAR ENDED MARCH 31	SALES 2002	SALES 2001	% change	% change Like-for-like	OPERATING INCOME 2002	OPERATING INCOME 2001	Incr./(Dcr.)
Consumer Products	**626.0**	607.8	3.0	1.3	**88.7**	86.1	2.6
Cosmetics (*Sofina*)	**74.1**	72.5	2.2	2.1	**4.7**	2.8	1.9
Chemical Products	**162.8**	167.8	(3.0)	(6.3)	**17.7**	17.7	0.0
Corporate/Eliminations	**(23.9)**	(26.6)	-	-	**0.4**	0.4	0.0

Millions of U.S. Dollars

YEAR ENDED MARCH 31	SALES 2002	SALES 2001	% change	% change Like-for-like	OPERATING INCOME 2002	OPERATING INCOME 2001	Incr./(Dcr.)
Consumer Products	**4,698.3**	4561.5	3.0	1.3	**666.1**	646.2	19.9
Cosmetics (*Sofina*)	**556.7**	544.7	2.2	2.1	**36.0**	21.2	14.7
Chemical Products	**1,221.8**	1,260.0	(3.0)	(6.3)	**132.9**	132.9	0.0
Corporate/Eliminations	**(180.1)**	(200.1)	-	-	**3.5**	3.4	0.0

Consolidated Geographic Segment Information (Unaudited)

Billions of Yen

YEAR ENDED MARCH 31	SALES 2002	SALES 2001	% change	% change Like-for-like	OPERATING INCOME 2002	OPERATING INCOME 2001	Incr./(Dcr.)
Japan	**648.1**	655.4	(1.1)	(1.1)	**95.1**	94.3	0.8
Asia	**93.4**	84.1	11.1	5.5	**8.3**	6.8	1.5
Europe and Americas	**122.8**	105.2	16.7	5.0	**7.8**	5.9	1.9
Corporate/Eliminations	**(25.5)**	(23.2)	-	-	**0.3**	0.0	0.2

Millions of U.S. Dollars

YEAR ENDED MARCH 31	SALES 2002	SALES 2001	% change	% change Like-for-like	OPERATING INCOME 2002	OPERATING INCOME 2001	Incr./(Dcr.)
Japan	**4864.4**	4919.1	(1.1)	(1.1)	**714.4**	707.8	6.6
Asia	**701.7**	631.4	11.1	5.5	**62.8**	51.1	11.7
Europe and Americas	**922.3**	790.1	16.7	5.0	**59.0**	44.4	14.7
Corporate/Eliminations	**(191.8)**	(174.6)	-	-	**2.3**	0.5	1.8

Notes

1. *The U.S. dollar amounts included herein represent translations using the approximate exchange rate on March 29, 2002, of yen 133.25=US$1, solely for convenience.*
2. *Like-for-like growth rates exclude the effect of 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	**2002**	2001	% change	**2002**
Net sales	**654.1**	660.4	(0.9)	**4,909.4**
Operating income	**92.4**	92.3	0.1	**693.5**
Ordinary income	**98.5**	98.3	0.1	**739.3**
Net income	**55.5**	52.2	6.3	**416.6**
Total assets	**671.0**	707.3	(5.1)	**5,035.7**
Total shareholders' equity	**459.8**	480.7	(4.3)	**3,451.2**

	Yen			U.S. Dollars
Per share:				
Net income	**92.25**	84.72	8.9	**0.69**
Cash dividends	**26.00**	24.00	8.3	**0.20**

Notes:
1. The U.S. dollar amounts included herein represent translations using the approximate exchange rate on March 29, 2002, of yen 133.25=US$1, solely for convenience.

Nonconsolidated Forecast for the Fiscal Year Ending March 31, 2003

The forecast for the full fiscal year ending March 31, 2003, is 655.0 billion yen (US$4,915.6 million) in net sales, 98.0 billion yen (US$735.5 million) in ordinary income and 56.0 billion yen (US$ US$420.3 million) in net income.

Forward-Looking Statement
This release contains forward-looking statements that are based on management’s estimates, assumptions and projections at the time of release. Some 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.

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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 by winning the support and trust of customers not only in Japan, but also in markets all over the world, and to carry out a sustained effort to augment corporate value. We view the expansion of corporate value as closely linked to securing profits for shareholders. We recognize that the following items are significant in the achievement of consistent increase in corporate value over the long term: cultivation of a corporate culture that is oriented toward continuous reform and adaptation according to changes in the operational environment, that allows full demonstration of individual abilities resulting in a high level of employee satisfaction based on fair performance evaluation, and, that makes a commitment to maintaining openness as an enterprise conscious of issues regarding environmental preservation and of the need for compliance with corporate ethics.

2. Management Measure Used as a Target

The Company has adopted EVA (Economic Value Added)* as its primary management measure of true profit by including the cost of invested capital as a factor. We are convinced that long-term, sustainable growth of EVA is closely connected to growth in corporate value, which benefits not only shareholders but also all other stakeholders in the long view.

Kao makes every effort to focus on management activities to achieve growth of EVA. EVA is also widely utilized in determining the direction of long-term management strategies, for evaluation of M&A activities and capital investments, for assessments of specific businesses, and in developing performance targets for each fiscal year. To build motivation, levels of achievement of targeted year-on-year improvement in EVA are used to determine a portion of bonuses for executives and employees.

EVA is a registered trademark of Stern Stewart & Co.

3. Basic Policies Regarding Distribution of Profits

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

4. Medium- and Long-Term Management Strategies

Positioning the businesses of consumer products, cosmetics and chemical products as our core businesses, we strive for business growth with a focus on research and development of products of excellent value and outstanding performance to meet consumers' real needs.

Faced with slow growth due to the maturation of domestic markets in our existing businesses, the Company intends to invest management resources to reinforce current powerful brands while developing new products that will create new market segments. And as we work to expand our core business platforms, we also make efforts to develop lines of businesses in new fields such as health care.

Overseas, Kao will assign the highest priority to business expansion in the Asia region, which is a growth market, while increasing business activity in North America and Europe. To achieve these goals, we are positively considering further M&A activity and entering into strategic business alliances.

In addition to the above policies, Kao will continue management reform efforts in response to changes in the operating environment. The Company will make consistent efforts to reduce costs and raise operational efficiency, thus achieving sustained EVA growth.

5. Reform of Management Structure to Enhance Corporate Governance

To strengthen corporate governance and realize high levels of fairness and transparency in management, the Company will carry out further reform of our management structure. Kao is adding two external directors to strengthen the Board of Directors' supervision of management while concurrently reducing total membership from 18 to 13 to invigorate the activity of the Board. In addition, an executive officer system will be adopted to separate management and execution functions. In connection with these moves, we will discontinue the Management Advisory Committee. Further, to promote speedier decision-making and execution, we will take measures to promote delegation of authority and responsibility and revise rules guiding decision-making.

Furthermore, Kao revised its compensation system for Board members in the previous fiscal year to further align their interests with those of shareholders and directors and facilitate an increase in corporate value. Specifically, this includes the introduction of a stock option plan for directors, expansion of the performance-linked portion of compensation for directors, and cessation of future provision of allowance for directors' retirement.

In this fiscal year, the company will broaden its stock option system to include executive officers, senior employees and executives at affiliated companies and other relevant employees.

6. Issues for Management

With the operating environment becoming increasingly difficult and subject to anticipated drastic changes, the company must redouble its aggressive reform efforts. Along with this, based on our principles as a manufacturer that concentrates on the true satisfaction of customers as well as the development of products of excellent value and outstanding performance, we will focus our management resources strategically and aggressively on developing and nurturing strong brands.

We will aim for continuous profitable growth by taking the following operating initiatives: increasing market share of core brands; development of products that create new market segments; development and nurture of new businesses; and reinforcement of overseas business.

Profoundly aware that unethical actions risk the very existence of an enterprise, we will consistently conduct management activities in thorough compliance with corporate ethics and reinforce risk management activities.

7. Policy Concerning Number of Shares Constituting One Unit of Stock

Kao is aware of the need for a larger number of investors to participate in the trading of its shares to enhance their liquidity and have them traded at appropriate price levels in the stock market. Among shares listed on the Tokyo Stock Exchange, Kao shares have a high level of liquidity. It is thought that reducing the number of shares in each lot would be a useful means of having more investors purchase company shares. Doing this, however, would entail not only such initial costs as printing stock certificates, it would also mean increased annual expenses such as agency commissions and mailing expenses. At this point, from the cost-benefit point of view, we have not verified that reducing the size of the share lots would be accompanied by increased profit for all shareholders. The company will continue to observe market trends and carefully consider whether or not such a move would be in the best interests of shareholders.

2. CONSOLIDATED BUSINESS RESULTS

1. Summary of Business Results for the Period under Review

In the fiscal year ended March 31, 2002, the slow-down of the U.S. economy led to global economic stagnation. Although there were signs of recovery in the U.S. and some other countries in the second half of the period, the Japanese economy continued to struggle throughout the year despite some recovery in such indices as exports and production. Corporate revenues sharply declined, which led to reduced investment in plant and equipment, the employment situation worsened, and consumer spending continued to drop.

Consolidated net sales rose by 17.3 billion yen to 839.0 billion yen, a 2.1% increase from the same period of the previous fiscal year. Excluding a positive currency translation effect of 15.6 billion yen on overseas sales due to the weakening yen, actual sales growth would be 0.2%. Sales in domestic businesses fell year-on-year, as consumer product sales were adversely affected by declining prices and a sluggish market, and sales in the chemical products business sagged due to an economic slump. Overseas, healthy sales growth was posted in both consumer products and chemical products, especially in North America and Europe, despite a challenging operating environment.

Consolidated operating income increased 4.3% year-on-year to 111.7 billion yen, and the ratio of operating income to sales further improved to 13.3%. Operating income in Japan increased by 0.8 billion yen to 95.1 billion yen year-on-year. This was largely due to cost-reductions, efficient spending, and reduced depreciation expenses, which offset the effects of declining prices in consumer products and decrease in sales, reflecting a large drop in demand in the chemical products business in Japan. Operating income from overseas businesses rose by 3.5 billion yen to 16.2 billion yen on the back of profit contributions from the personal care products business in North America and Europe and from the chemical products business in Asia.

Consolidated ordinary income was 113.5 billion yen, a rise of 1.7 billion yen from the previous year. Net income increased by 0.8 billion yen to 60.2 billion yen. Nonoperating income from equity in the earnings of affiliates and foreign exchange gain declined from the previous year. Despite extraordinary losses recorded as a result of restructuring of Kao (Taiwan) Corporation and the dissolution of Novartis Kao Co., Ltd. , net income was higher than the forecasts of October 22, 2001.

Solid growth was achieved in net income per share at 100.43 yen due to increase in net income and repurchase of approximately 20 million shares from the market.

Summary of Results by Business Segment

Sales of consumer products and chemical products in Japan edged downward from the level of the previous fiscal year, but healthy growth was achieved in cosmetics. Solid sales growth was posted in each business segment overseas partly due to the positive currency translation effect.

Although the chemical products business in Japan was adversely affected by a serious economic slump, operating income remained at the same level as the previous year. However, operating income from other business segments achieved an increase.

(1) Consumer Products Business

Net sales of consumer products rose 3.0% from the previous fiscal year to 626.0 billion yen. Although sales in Japan declined 0.6% year-on-year, sales overseas rose due to such factors as addition of PT. Kao Indonesia as a new consolidated subsidiary, the influence of the weaker yen, and the contribution of new products in North America and Europe. Actual like-for-like growth in sales on a local currency basis was 1.3%.

Operating income in Japan favorably increased. Overseas, solid growth in operating income was posted in North America and Europe; however, there was a decline in Asia. As a result, operating income rose by 3.1% to 88.7 billion yen.

1) Japan

In the overall market in Japan, expansion of floor space at retail stores has stopped and depreciation is slowing down, but sales declined year-on-year in value. In this environment, Kao stepped up marketing and sales efforts at each chain store and in each region. The marketing of new and improved products helped activate markets, and a strong effort was made to reduce the number of product items. Earnings growth was restrained by such factors as declining sales prices and high raw materials costs due to the weaker yen. Nevertheless, stabilization of raw materials prices in the market, reduced depreciation expenses, and the Company's aggressive cost-cutting and cost-efficiency efforts resulted in a rise in earnings.

Sales Composition of Consumer Products

	Billions of yen		
YEAR ENDED MARCH 31	2002	2001	% change
Personal care products	166.8	170.5	(2.2%)
Laundry and cleaning products	246.7	249.0	(0.9%)
Hygiene and others	82.2	79.0	4.1%
Total	495.8	498.6	(0.6%)

In the market for personal care products, actual sales in volume did not increase and prices continued to drop.

The Company launched a new product, *Bioré Moisture Care Lotion* in spring 2002, formulated to be the same mild acidity as healthy skin, to further strengthen *Bioré as* a skin care brand. In the hair care category, dramatically improved *Merit* was favorably accepted by consumers. New and additional items brought into the market, including *Bub* bath additives and *Blauné* hair color contributed to strengthen brands and market position. The Company significantly reduced the number of brands and product items for focused investment of management resources. Despite these efforts and the contribution of new and improved products, the effect of declining prices and product item reduction resulted in sales dropping by 2.2% below the level of the previous year.

Principal new products:

Bioré Moisture Care Lotion
Bioré Eye Makeup Remover
Blauné Aroma hair color with Easy Comb
Bub Cherry Blossom Scented

The household products market was characterized by a slight decrease in sales volume due to a shrinkage of the gift market. In an environment with a deflationary trend, sales prices dropped further and competition continued to intensify. Under these severe market conditions, the Company implemented key measures, further strengthening top brand products and increasing market share of products that are number two in their categories. Kao made a dramatic improvement in *Attack* laundry detergent to strengthen the brand. Home cleaning detergent *Emal* and mildew remover categories gained the top share in each category. The Company also launched a slime remover for the kitchen sink to create a new market segment. Although some of the new or improved products achieved higher sales than expected, the sales of laundry detergent was affected by the shrinkage of the gift market. Also, the sales of fabric softener and bleach dropped below the level of the previous year. The total sales in the household products category fell by 0.9%year-on-year.

Principal new products:

Family Power Gel
Kitchen Wonder Drain Slime Remover
Haiter Mildew Remover Strong
Quickle for the Range

In hygiene and others, the Japanese market for sanitary napkins has shrunk due to a smaller population of users and the fact that products with superior functions have resulted in less product being used. Similarly, the scale of the market for baby diapers has diminished due to fewer babies. At the same time, prices are on a downward trend, which, combined with the other factors, has resulted in a smaller market in this product category. Kao introduced value-added products to activate the market, and further cost-cutting and efficient use of expenses were conducted to raise profitability. Despite these efforts, intensified price competition led to a sales decrease in comparison with the previous fiscal year. In the nursing care category, newly launched incontinence pads with disinfectant and deodorant functions were highly evaluated in addition to the Company’s steady support activities at hospitals and nursing care centers. As a result, sales of this category have expanded.

In cooking oils, although the overall market contracted, particularly in the gift sector, the market for functional healthy cooking oils expanded. Along with this trend, Kao strengthened its line of *Healthy Econa Cooking Oil* products by launching *Healthy Econa Cooking Oil — For Lower Cholesterol* and *Healthy Econa dressings* (Japanese, Sesame and Italian flavors) in the spring of 2001. Additional Chinese and French dressings were added to the lineup in the spring of 2002. Robust sales growth in the *Healthy Econa Cooking Oil* series was achieved in a shrinking overall market for cooking oils. This was an example of new products creating a new market segment. As a result of this success, year-on-year sales growth by 4.1% was posted in the hygiene and other products category.

Principal new products:

Laurier Super Overnight
Laurier Dry Cushion with wings
Laurier Active Guard
Healthy Econa Cooking Oil – For Lower Cholesterol
Healthy Econa dressings (Chinese Roasted Sesame, Herb French)

2) Asia and Oceania

Although a few bright spots were noted in some sectors of the Asian economy, overall the region was adversely affected by the economic downturn in the United States last year. In the consumer products market, competition intensified among Japanese, U.S.

and European manufacturers, and in many countries, retailing, including retailing by multinationals, was focused on large chain stores. Due to the fierce competition in the market and a deflationary trend, sales prices dropped sharply. However, PT. Kao Indonesia, which became a fully consolidated subsidiary from this fiscal year, raised prices of some products to absorb higher raw materials costs due to the weakening of the local currency.

In personal care products, the Company continued items reduction efforts and focused on building sales of the following eight brands: hair care sold under the *Sifoné* and *Feather* brands; *Bioré* skin care products; *Attack*, *Magiclean* and *Haiter* among household products; and *Laurier* and *Merries* among hygiene products. We took initiatives to promote improved *Feather* shampoo and conditioner with a new package design through the regional headquarters company in Thailand, which was established to unify regional operations. As a result, sales of the *Feather* brand grew to a large extent. Kao also intends to optimize its production framework in Asia to adjust to new conditions such as the formation of AFTA (the ASEAN Free Trade Area) and the admission of China and Taiwan into the WTO.

Although healthy sales growth was achieved in China and ASEAN countries, the adverse impact of severe market conditions in Taiwan led to sales on a local currency basis in the region remaining virtually the same as the previous fiscal year, excluding those of PT. Kao Indonesia, which became a fully consolidated subsidiary.

3) North America and Europe

Market conditions in North America and Europe were difficult due to such factors as the bankruptcy of a giant retailer in the U.S. and the impact of the American economic slowdown on Europe. In the U.S. personal care products market, in which products are becoming polarized between high-end and economical low-priced items, the Andrew Jergens Company launched *Naturally Smooth*, a new lotion developed through application of Kao's unique technology that helps make the hair finer and less noticeable. This high-value-added product contributed to expanded sales. In the growing hair color market in Europe, Kao and Goldwell GmbH cooperated in the development and launch of new hair color *ELUMEN* which contributed to an increase in sales.

Overall, solid sales growth was achieved in North America and Europe due to *Bioré Pore Pack* and the antiperspirant/deodorant brand *Ban*, which was acquired in the previous fiscal year by the Andrew Jergens Company, and a strong performance by the U.S. subsidiary of Goldwell, a Kao Group company in Germany that markets hair products for beauty salons internationally. Guhl Ikebana GmbH, which is in the premium hair care business in Germany, also posted solid sales growth, largely the result of new items added to its product lineup and a complete renewal of the designs of its shampoos and conditioners.

To reinforce the base for its hair care business in the U.S. and Europe, Goldwell and its subsidiary acquired KMS Research, Inc., an American manufacturer of hair care products, in February 2002, including its manufacturing and distribution partner in Europe, KMS Research Laboratories (UK). A powerful synergetic effect is expected from integration of superior hair care technology developed by Kao and brand value and know-how of the beauty salon business accumulated in Europe and North America. Goldwell also established Goldwell Japan Co., Ltd. to begin business activity aimed at beauty salons in Japan.

(2) Cosmetics Business (*Sofina*)

In the cosmetics market, prestige cosmetics sales continued to decline both in volume and value. In this stagnant market, sales of Kao cosmetics sold under the *Sofina* brand rose by 2.2% to 74.1 billion yen. Sales of *est*, which is marketed exclusively through department store channels, were particularly robust. Supporting this growth were the Company's expansion of the customer base for *est* products in the basic care category, and in the fall of 2001, a launch of a new *est* foundation product that has been very well received. The Company also achieved healthy growth in sales of *Sofina* products through such efforts as stepped-up basic care and UV care counseling at stores. In addition, *Wrinkle Seraty*, a new *Sofina* product, has won solid customer support. As a result of such activity as maintaining appropriate inventory levels at stores to reduce product returns, cost reductions and raising efficiency, operating income from cosmetics (*Sofina*) increased by 1.9 billion yen to 4.7 billion yen.

Principal new products:

est the powder makeup foundation
est base nuance base foundation
Wrinkle Seraty Essence Gel

(3) Chemical Products Business

The downturn in the U.S. economy adversely affected chemical products markets worldwide. Under these conditions, Kao focused emphasis in its core businesses in this segment: oleochemicals, surfactants and specialty chemicals. During this fiscal year, sales have been driven by the oleochemicals business in Asia and the specialty chemicals business, such as toner and related products for copiers and aroma chemicals, in Japan, the U.S. and Europe. Despite these efforts, sales in the chemical products business fell 3.0% from the previous year to 162.8 billion yen. This drop was largely due to production and inventory adjustments made by industrial customers in Japan. Operating income was about the same as the previous year at 17.7 billion yen. The decline in operating income from domestic business was offset by an increase in overseas business.

1) Japan

Reflecting the sluggish demand from industries, sales dropped from the previous fiscal year. Even though overall business was adversely affected by the sluggish economy, robust growth was achieved in industrial materials such as concrete additives that dramatically raise the strength of raw concrete, and de-inking agents for recycling paper in the paper and pulp field. Despite the Company’s cost reduction efforts, the fall in sales resulted in operating income falling well below the level of the previous fiscal year.

2) Asia

The collapse of the IT bubble and resulting economic slowdown in the U.S. had a strong negative impact on the Asian economy.

Reflecting the sluggish economy, the fatty alcohol business fell in price. However, operating income rose greatly from the previous fiscal year due to continuously low prices of raw materials and improved profitability gained from the rationalization of production facilities in the Philippines. In response to Taiwanese industrial customers moving operations to China or elsewhere, Kao shifted production activity from Taiwan to China and other places where it had established production and sales organizations.

3) North America and Europe

Solid sales growth was posted in Kao's chemical products businesses in North America and Europe, including continued strong performances in specialty chemicals such as toner and related products for copiers in North America and Spain, aroma chemicals in Spain, and fatty amines in Germany, together with favorable translation rates to Japanese yen. In toner and related businesses, the Company upgraded toner binder production facilities at its Kashima Plant and completed new production facilities in Spain to further strengthen its global operational framework that includes operations in the U.S. Kao also expanded operations in the aroma chemicals field by improving facilities with new technology for the production of synthetic products. Operating income improved greatly due to strong performances in the U.S., Germany and Spain.

1. Overall Business Prospects for the Fiscal Year Ending March 31, 2003

Although positive signs have begun to appear in Japan, the employment situation and trends in individual consumption are still stagnant. Overall, the Company expects continued severe market conditions in terms of both volume and value.

In Japan, the Company will strengthen development of products based on a back-to-basics policy. We will focus our management resources on developing and nurturing strong brands and conduct aggressive marketing activity. Through these initiatives, the Company aims to expand market share in the sluggish market and increase sales. In the cosmetics (*Sofina*) business, the Company will launch distinguishing products to further strengthen the brand, and with global expansion in mind, make further efforts to reinforce the foundation and improve the profitability in this business.

An economic recovery is expected to take a considerable amount of time, so the sales of chemical products are forecasted to remain flat.

Overseas, in consumer products in Asia, the Company will make aggressive efforts in the rapidly growing market in China as well as Taiwan and ASEAN countries, where signs of an economic recovery have begun to appear. As for the personal care business in North America, Kao expects sales expansion by the Andrew Jergens Company with skin care lotion *Naturally Smooth* and newly added product lines of anti-perspirant/deodorant brand *Ban*. Also, a U.S. subsidiary of Goldwell GmbH, a German hair care products company targeting beauty salons, is forecasted to expand sales of hair color *ELUMEN*, which was launched in spring 2002. The Company also expects a synergetic effect from KMS companies in the U.S. and U.K. In chemical products, as the Company upgraded the production facilities for such specialty chemicals as aroma chemicals in Spain and toner and related products, growth in sales is forecast.

As a result of the above, although net sales in Japan are expected to remain stagnant, the Company is forecasting growth from overseas operations. Kao projects that net sales for the next fiscal year will increase by 3.7% to 870.0 billion yen, and that operating income will rise by 2% to 114.0 billion yen. Ordinary income is expected to rise 0.4% to 114.0 billion yen, and net income is projected to rise by 2.9% to 62.0 billion yen. We anticipate an increase in the cost of raw materials for fatty alcohol, however the Company will make aggressive efforts to secure stable income by implementing cost-reduction measures not only in Japan but also overseas.

Based on the forecasted growth in profits, Kao plans to increase its annual dividend per share by 4 yen from the previous year to 30 yen, and to increase its interim dividend per share by 2 yen to 15 yen.

Kao will continue its efforts to increase profits and improve capital efficiency and will move ahead with the introduction of EVA at additional Group companies overseas. As a result, the Company endeavors to meet midterm EVA improvement targets.

2. Underlying Assumptions for the Forecasts for the Fiscal Year Ending March 31, 2003

The above forecasts were made assuming exchange rates of one U.S. dollar to 130 yen, and one euro to 115 yen and one New Taiwan dollar to 3.7 yen.

II. Financial Condition

Summarized Consolidated Cash Flows (Unaudited)

	Billions of Yen			Millions of U.S. Dollars
YEAR ENDED MARCH 31	**2002**	2001	Incr./(Dcr.)	**2002**
Operating activities	**130.9**	122.9	7.9	**982.6**
Investing activities	**(77.6)**	(67.3)	(10.2)	**(582.7)**
Financing activities	**(86.2)**	(52.1)	(34.1)	**(647.3)**
Translation adjustments	**3.4**	1.9	1.5	**26.1**
Net increase	**(29.5)**	5.4	(34.9)	**(221.4)**
Beginning balance of newly consolidated companies	**0.9**	0.0	0.9	**7.4**
Cash and cash equivalents	**124.9**	153.4	(28.5)	**937.5**
Total debt	**55.9**	69.4	(13.4)	**420.0**

Net cash provided by operating activities was 130.9 billion yen. Income before income taxes rose 6 billion yen and depreciation and amortization expenses slightly decreased to 58.4 billion yen. Further reduction in accounts receivables and inventories by 3.7 billion yen and 6.4 billion yen respectively contributed to a decrease in working capital.
Net cash used in investment activities rose by 10.2 billion yen to 77.6 billion yen.

Investment in marketable securities for the purpose of short-term investment of funds and capital investment overseas increased. In Japan, investments in plant and equipment during the year included spending on new detergent, cooking oil and other products and upgrading their performance. Overseas investment included streamlining fatty alcohol production facilities in the Philippines and establishing new copier toner production facilities in Spain for global business development. In addition, a loan to a subsidiary of Goldwell was provided for the acquisition of KMS Research, Inc.

Net cash used in financing activities rose 34.1 billion year-on-year as the company continued share purchase at 57.5 billion yen. In addition, the Company continued long-term debt repayments at 11.2 billion yen and redemption of corporate bonds at 6.3 billion yen, a total reduction by 13.4 billion yen to 55.9 billion yen year-on-year.

As a result of these activities, the balance of cash and cash equivalents at the end of the fiscal year was 124.9 billion yen, 28.5 billion yen less than the balance at the end of the previous year.

<u>Forecast for the Fiscal Year Ending March 31, 2003</u>

Although the operating environment is expected to be as severe as that of year just ended, Kao projects that the portion of cash flows from operating activities accounted for by net income before taxes and other adjustments will be approximately the same as it was in the previous fiscal year. In addition, depreciation and amortization expenses are expected to decrease.

The portion of cash flows from investment activities accounted for by capital investment is expected to decrease slightly in Japan where the Company still invests to improve in capacity and efficiency. Overseas, the Company expects the same level of investment as that of this year.

Regarding cash flows from financing activities, Kao will propose further stock purchase pursuant to Article 210 of the Commercial Code at the general shareholders meeting to be held on June 27, 2002. This will continue to improve capital efficiency, increase returns to shareholders and allow adoption of timely and flexible capital policy measures in response to changes in the business environment. Kao will continue to carry out stock purchase in a flexible manner, possibly up to 30 million shares or 80 billion yen in value, taking into account business investment projects. Kao anticipates increasing its annual dividend paid. Total debt at the end of the coming year is expected to be approximately 50 billion yen. Consequently, cash and cash equivalents at the end of the coming year will be about 120 billion yen, less than the balance at the end of the this year.

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Proposed appointment of Board Directors, Corporate Auditor, and Executive Officers

In order to reinforce the corporate governance and bring greater efficiency to decision making at the Board of Directors, the changes of Board Directors are proposed and the introduction of Executive Officers is undertaken as follows. The proposed appointment for Board Directors and Corporate Auditor will become effective after approval at the General Meeting of Shareholders to be held on June 27, 2002, and the proposed appointment of the Executive Officers will become effective after approval at the Board Meeting to be held immediately after the General Meeting of Shareholders.

Note: Titles as of April 22, 2002

Candidates for new Directors of the Board

Motoki Ozaki	General Manager, Household Products Division
Shunichi Nakagawa	Director of Legal Department
Akishige Okada	Chairman of the Board - Sumitomo Mitsui Banking Corporation
Sakie T. Fukushima	Representative Director & Regional Managing Director, Korn/Ferry International - Japan

Candidate for new Corporate Auditor

Iwao Inoue	Board Director, Director of Accounting & Finance

Retiring Directors of the Board

Masanori Sakata	
Kunihiko Hachiya	
Moriyasu Murata	
Shigeo Yamada	
Toshio Hirasaka	To be named Executive Officer
Masatoshi Kitahara	To be named Executive Officer
Tadao Matsumoto	To be named Executive Officer
Iwao Inoue	To be named Full-time Corporate Auditor
Tetsuya Imamura	To be named Executive Officer

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Retiring Corporate Auditor

Kikuhiko Okamoto	Full-time Corporate Auditor

Candidates for Executive Officers

Takuya Goto	President& Chief Executive Officer
Toshio Hoshino	Senior Executive Vice President, President - International Consumer Products
Takahiko Kagawa	Executive Vice President , President - Kao Hanbai Company
Yasuo Idemitsu	Executive Vice President, Global Production & Engineering
Akio Tsuruoka	Global Purchasing
Shozo Tanaka	President - Global Personal Care
Kuniaki Watanabe	President - Global Chemicals
Nobuatsu Higuchi	President - Greater China
Naotake Takaishi	Senior Vice President - Global R&D
Motoki Ozaki	President - Global Fabric & Home Care
Shunichi Nakagawa	Legal - Global
Toshio Hirasaka	President - Cleanliness & Sanitation
Masatoshi Kitahara	Global Communications
Tadao Matsumoto	Global Logistics
Tetsuya Imamura	President - Global Health care
Masateru Kanazawa	Global Marketing Service
Toshio Takayama	President - Global Cosmetics
Akio Kimura	Vice President - Global R&D
Norihiko Takagi	Global Human Capital Development
Takuo Goto	Vice President - Global Production & Engineering
Hiroshi Kanda	President - Global Feminine & Baby Care

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New Management Team

Note: Titles effective as of June 27, 2002

Board of Directors

Takuya Goto*	President &Chief Executive Officer, Representative Director
Toshio Hoshino*	Senior Executive Vice President, President - International Consumer Products, Representative Director
Takahiko Kagawa*	Executive Vice President, President - Kao Hanbai Company, Representative Director
Yasuo Idemitsu*	Executive Vice President, Global Production & Engineering
Akio Tsuruoka*	Executive Vice President, Global Purchasing
Shozo Tanaka*	Executive Officer, President - Global Personal Care
Kuniaki Watanabe*	Executive Officer, President - Global Chemicals
Nobuatsu Higuchi*	Executive Officer, President - Greater China
Naotake Takaishi*	Executive Officer, Senior Vice President - Global R&D
Motoki Ozaki*	Executive Officer, President - Global Fabric & Home Care
Shunichi Nakagawa*	Executive Officer, Legal - Global
Akishige Okada**	Chairman of the Board - Sumitomo Mitsui Banking Corporation
Sakie T. Fukushima**	Representative Director & Regional Managing Director - Japan, Korn/Ferry International

*Holds the post as Executive Officer concurrently

**Outside Director

Corporate Auditors

Katsuhiko Hiraoka	Full-time Corporate Auditor
Iwao Inoue	Full-time Corporate Auditor
Takashi Tajima***	Attorney at Law
Hidejiro Matsuda***	Certified Public Accountant

***Outside Corporate Auditor

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Executive Officers

Toshio Hirasaka	Executive Officer, President - Cleanliness & Sanitation
Masatoshi Kitahara	Executive Officer, Global Communications
Tadao Matsumoto	Executive Officer, Global Logistics
Tetsuya Imamura	Executive Officer, President - Global Health Care
Masateru Kanazawa	Executive Officer, Global Marketing Service
Toshio Takayama	Executive Officer, President - Global Cosmetics
Akio Kimura	Executive Officer, Vice President - Global R&D
Norihiko Takagi	Executive Officer, Global Human Capital Development
Takuo Goto	Executive Officer, Vice President - Global Production & Engineering
Hiroshi Kanda	Executive Officer, President - Global Feminine & Baby Care