Kao Corporation

News Release April 22, 2003

1. CONSOLIDATED BASIS

Kao Corporation Reports Business Results

Tokyo, April 22, 2003 - Kao Corporation today announced its consolidated and non-consolidated business results for the fiscal year ended March 31, 2003. The data contained below is taken from the financial summary submitted by the Company to the Tokyo Stock Exchange.

Consolidated Financial Highlights (Unaudited)

	Billions of Yen			Millions of U.S. Dollars
YEAR ENDED MARCH 31	**2003**	2002	% change	**2003**
Net sales	**865.2**	839.0	3.1	**7,198.4**
Operating income	**114.9**	111.7	2.9	**956.0**
Ordinary income	**117.4**	113.5	3.4	**977.4**
Net income	**62.4**	60.2	3.6	**519.7**
Total assets	**720.8**	772.1	(6.6)	**5,997.1**
Total shareholders' equity	**417.0**	459.7	(9.3)	**3,469.5**
	Yen			U.S. Dollars
Per share:				
Net income	**108.05**	100.43	7.6	**0.90**
Cash dividends	**30.00**	26.00	15.4	**0.25**

	%	
YEAR ENDED MARCH 31	**2003**	2002
Operating margin	**13.3**	13.3
Net income to total shareholders' equity (ROE)	**14.2**	13.1

Notes:
1. The U.S. dollar amounts included herein represent translations using the approximate exchange rate on March 31, 2003, of yen 120.20=US$1, solely for convenience.
2. From 2003, directors' bonuses, which are included in the appropriation of retained earnings, are deducted from net income for the calculation of EPS. EPS for 2003 on the same basis as the previous year would increase by 7.8% to 108.30 yen.

Consolidated Forecasts for the Interim and the end of Fiscal Year Ending March 31, 2004

The forecast for business results for the six month period ending September 30, 2003, is 445.0 billion yen (US$3,702.2 million) in net sales, 58.0 billion yen (US$482.5 million) in operating income, 59.0 billion yen (US$490.8 million) in ordinary income and 31.0 billion yen (US$257.9 million) in net income.

The forecast for the full fiscal year ending March 31, 2004, is 895.0 billion yen (US$7,445.9 million) in net sales, 117.0 billion yen (US$973.4 million) in operating income, 118.0 billion yen (US$981.7 million) in ordinary income and 64.0 billion yen (US$532.4 million) in net income. Net income per share is expected to be 115.20 yen (US$0.96).

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Consolidated Segment Information by Industry (Unaudited)

Billions of Yen

YEAR ENDED MARCH 31	SALES				OPERATING INCOME		
	2003	2002	% change	Like-for-like	**2003**	2002	Incr./(Dcr.)
Consumer Products	**646.4**	626.0	3.3	2.1	**90.3**	88.7	1.5
Prestige Cosmetics *Sofina*	**75.8**	74.1	2.2	2.2	**5.2**	4.7	0.4
Chemical Products	**170.9**	162.8	5.0	2.8	**18.2**	17.7	0.4
Corporate/Eliminations	**(27.9)**	(23.9)	-	-	**1.0**	0.4	0.6

Millions of U.S. Dollars

YEAR ENDED MARCH 31	SALES				OPERATING INCOME		
	2003	2002	% change	Like-for-like	**2003**	2002	Incr./(Dcr.)
Consumer Products	**5,377.8**	5,208.4	3.3	2.1	**751.7**	738.4	13.3
Prestige Cosmetics *Sofina*	**630.9**	617.1	2.2	2.2	**43.9**	39.9	4.0
Chemical Products	**1,422.1**	1,354.4	5.0	2.8	**151.4**	147.3	4.1
Corporate/Eliminations	**(232.4)**	(199.7)	-	-	**9.0**	3.9	5.1

Notes:

*1. In the consolidated segment information by business, Cosmetics (*Sofina*) has been renamed to Prestige Cosmetics* Sofina.

Consolidated Geographic Segment Information (Unaudited)

Billions of Yen

YEAR ENDED MARCH 31	SALES				OPERATING INCOME		
	2003	2002	% change	Like-for-like	**2003**	2002	Incr./(Dcr.)
Japan	**654.5**	648.1	1.0	1.0	**98.5**	95.1	3.3
Asia/Oceania	**101.5**	93.4	8.6	4.2	**5.3**	8.3	(2.9)
North America	**75.7**	70.2	7.9	4.9	**7.2**	6.0	1.1
Europe	**67.8**	57.6	17.7	8.8	**2.9**	1.8	1.0
Corporate/Eliminations	**(34.5)**	(30.5)	-	-	**0.8**	0.1	0.6

Millions of U.S. Dollars

YEAR ENDED MARCH 31	SALES				OPERATING INCOME		
	2002	2001	% change	Like-for-like	**2002**	2001	Incr./(Dcr.)
Japan	**5,445.9**	5,392.6	1.0	1.0	**819.5**	792.0	27.5
Asia/Oceania	**844.9**	777.9	8.6	4.2	**44.8**	69.6	(24.8)
North America	**630.6**	584.6	7.9	4.9	**60.3**	50.6	9.7
Europe	**564.4**	479.4	17.7	8.8	**24.2**	15.7	8.5
Corporate/Eliminations	**(287.4)**	(254.2)	-	-	**7.2**	1.7	5.5

Notes:

1. *The U.S. dollar amounts included herein represent translations using the approximate exchange rate on March 31, 2003, of yen 120.20=US$1, solely for convenience.*
2. *Like-for-like growth rates exclude the currency translation effect related to translation of local currencies into the Japanese yen.*

2. NON-CONSOLIDATED BASIS

Non-Consolidated Financial Highlights (Unaudited)

	Billions of Yen			Millions of U.S. Dollars
YEAR ENDED MARCH 31	**2003**	2002	% change	**2003**
Net sales	**661.7**	654.1	1.2	**5,505.4**
Operating income	**94.4**	92.4	2.2	**785.8**
Ordinary income	**98.3**	98.5	(0.2)	**817.8**
Net income	**49.4**	55.5	(10.9)	**411.3**
Total assets	**623.7**	671.0	(7.0)	**5,189.1**
Total shareholders' equity	**411.7**	459.8	(10.5)	**3425.9**

	Yen			U.S. Dollars
Per share:				
Net income	**85.42**	92.25	(7.4)	**0.71**
Cash dividends	**30.00**	26.00	15.4	**0.25**

Notes:
1. The U.S. dollar amounts included herein represent translations using the approximate exchange rate on March 31, 2003, of yen 120.20=US$1, solely for convenience.
2. From 2003, directors' bonuses, which are included in the appropriation of retained earnings, are deducted from net income for the calculation of EPS. EPS for 2003 on the same basis as the previous year would be 85.64 yen.

Non-Consolidated Forecasts for the Interim and the end of Fiscal Year Ending March 31, 2004

The forecast for business results for the six month period ending September 30, 2003, is 330.0 billion yen (US$2,745.4million) in net sales, 50.0 billion yen (US$416.0 million) in operating income, 54.0 billion yen (US$449.3 million) in ordinary income and 30.5 billion yen (US$253.7 million) in net income.

The forecast for the full fiscal year ending March 31, 2004, is 650.0 billion yen (US$5,407.7 million) in net sales, 98.0 billion yen (US$815.3 million) in operating income, 103.0 billion yen (US$856.9 million) in ordinary income, and 59.0 billion yen (US$ US$490.8 million) in net income. Net income per share is expected to be 106.10 yen (US$0.88).

Note:
1. Due to changes in the accounting system between Kao and Kao Hanbai starting from April 2003, the forecast for non-consolidated sales has been decreased by 2%.

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.

For further information, please contact:
Katsuya Fujii, Vice President, Investor Relations
Tel: 81-3-3660-7101 / Fax: 81-3-3660-8978
E-mail:ir@kao.co.jp

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 win the highest levels of trust and support from customers with consumer products for cleanliness, beauty and health to help people enrich their lives, and in the chemical products field, by contributing to industrial development. The Company also aims to pursue sustained profitable growth and to consistently augment corporate value which Kao Corporation views as being closely linked to securing profits for shareholders.

2. Basic Policies Regarding Distribution of Profits

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

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

Kao is aware of the need for a large number of investors to participate in the trading of its shares and for the sufficient liquidity of its shares, for them to be purchased at appropriate price levels. In terms of liquidity, Kao shares rank highly among shares traded on the First Section of the Tokyo Stock Exchange. The Company will observe market trends and demands, and carefully consider whether or not reducing the number of shares in each lot would be in the best interests of shareholders.

4. Management Measure Used as a Target

EVA (Economic Value Added),* which is used to measure true profit by including the cost of invested capital as a factor, is Kao’s principal management measure. The Company links continuing growth of EVA to expansion of corporate value, which means long-term profits not only for shareholders, but for all Kao stakeholders as well.

Kao views EVA growth as a primary focus of management activity. This measurement is also 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 a factor in determining bonuses for executives and employees.

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

5. Medium- and Long-Term Management Strategies

By positioning consumer products, prestige cosmetics *Sofina* and chemical products as its core business areas, Kao pursues profitable growth by emphasizing research and development and by making high-quality, innovative products that meet the true needs of consumers and customers.

Faced with slow growth in the Japanese market, the Company intends to strengthen its powerful brands to improve its performance in existing businesses, and it will invest management resources into the development of new products designed to create new markets. By expanding its core business platforms, Kao will strive for further development in new business fields such as health care.

Overseas, Kao will assign the highest priority to business expansion in the Asian region, a growth market, whilst at the same time pursue business expansion in North America and Europe. To do this, the Company will consider further M&A activity and strategic business alliances to achieve synergies between new partners' and its own strengths in the area of research and product development.

In addition to the above strategies, Kao will continue management reform efforts and rebuilding its business models in response to changes in the operating environment. The Company will also continue to aggressively reduce operating costs, take steps to raise work efficiency, and strive to achieve sustained EVA growth.

6. Issues for Management

The operating environment is becoming increasingly difficult, and dramatic changes are expected. It is in times particularly as these that the Company is required to energetically carry out reforms. In addition, Kao must reemphasize its traditional commitment to customer satisfaction and making superior products, the starting points for any manufacturer. With this in mind, the Company must strategically focus on investing management resources into building powerful brands.

We will aim for continuous profitable growth by taking the following operating initiatives:

(1) maintaining and increasing market share of core brands;
(2) development of products that create new market segments;
(3) development and fostering the growth of new businesses; and
(4) expansion and strengthening of overseas business

Kao is also fully aware of the need for the internal control and enforcement of compliance.

7. Basic Position on Corporate Governance and its Implementation

Kao's basic position on corporate governance is to develop a suitable managerial organization or system, and to take the necessary measures to realize the Company's basic management policies to continually increase corporate value through profitable growth. The Company considers corporate governance to be one of its most important managerial tasks.

In the managerial organizational reforms based on the resolutions of our 96th Annual General Meeting of Shareholders held last June, the Company appointed two outside directors, reduced the membership of the board of directors from 18 to 13, introduced the executive officer system and transferred considerable responsibility and authority to the executive officers to expedite decision-making and business execution. The Company currently has 13 directors (including 2 outside directors), 21 executive officers (including 11 directors), and 4 corporate auditors (including 2 outside corporate auditors).

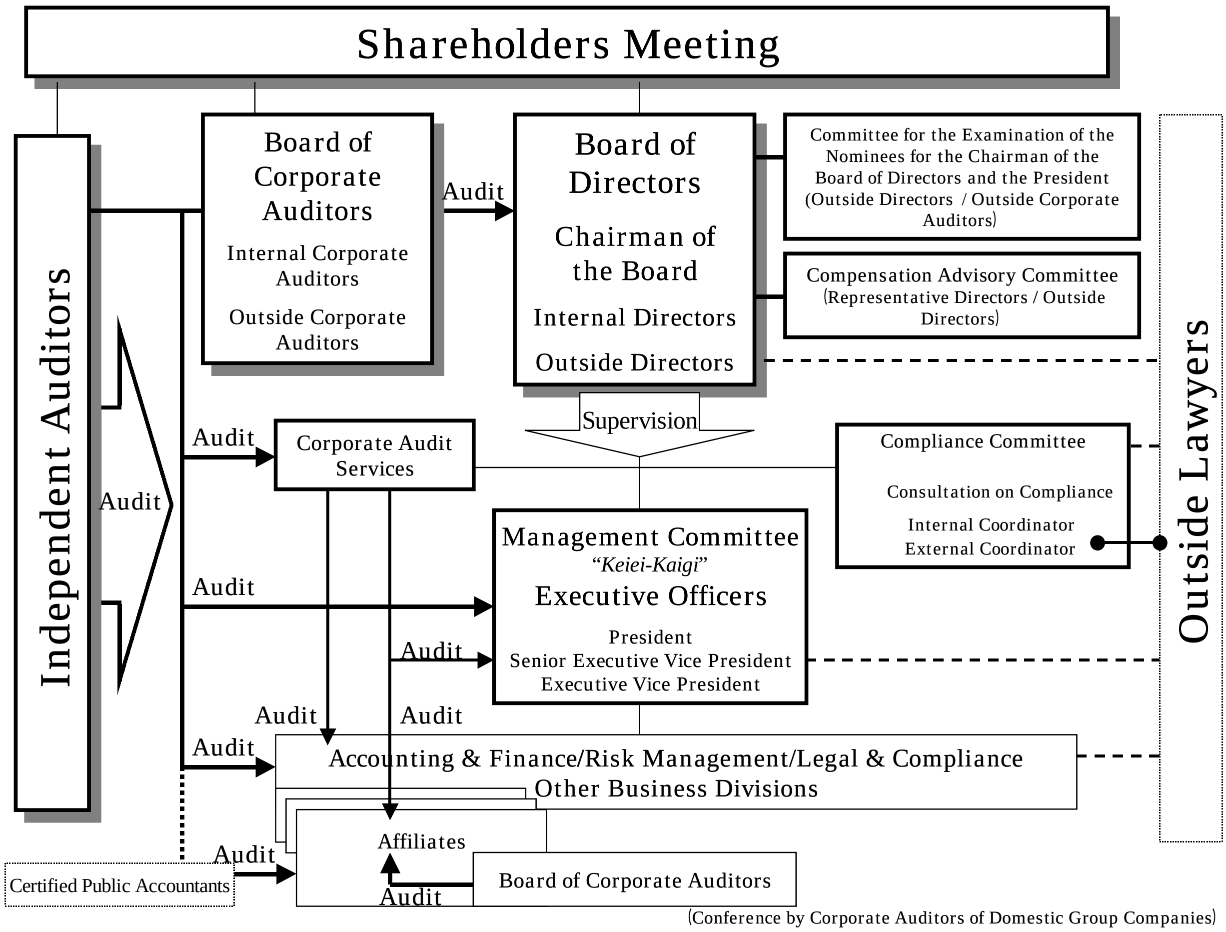
The Company has also reformed its compensation system for directors and corporate auditors by introducing a stock option plan for directors, implementing the performance-linked bonus system based on EVA for directors and by abolishing retirement allowances for directors and corporate auditors in the future by ceasing further provision of such allowances.

The Company will give ongoing consideration as to whether it should become a "Company with three committees" as defined by the amended Commercial Code, as it believes it is a subject of great importance. In the meantime, the Company will advance its reform of the system and the managerial organization within the current framework of the directors and corporate auditors.

The Company has established a “Compensation Advisory Committee” and a “Committee for the Examination of the Nominees for the Chairman of the Board of Directors and the President”. In the “Compensation Advisory Committee”, the Company’s representative directors have a compensation system for the directors and executive officers and its level examined by outside directors. The current compensation system and its level have already been examined by outside directors and were evaluated as appropriate. The “Committee for the Examination of the Nominees for the Chairman of the Board of Directors and the President” consists exclusively of all outside directors and all outside corporate auditors. This committee will examine the nominees prior to the election or re-election of the chairman of the board and or the president and will submit its evaluation of the nominees’ qualifications to the board of directors.

In addition, the Company has established a “Compliance Committee” for the promotion of ethical corporate conduct and compliance with laws and regulations, and has routinely implemented activities for securing compliance with laws and regulations, fairness, and ethics. The Company has also recently revised the former “Corporate Ethics of Kao Corporation” to “Kao Business Conduct Guidelines” to further promote business conduct based on compliance with the laws and regulations, and ethics, as of April 2003.

The corporate governance and internal control structure is shown in the following diagram.



One of our two outside directors, Mr. Akishige Okada, is Chairman of the Board of Sumitomo Mitsui Financial Group, Inc. Transactions such as regular banking transactions, loans and guarantees take place between the Company, its affiliates and Sumitomo Mitsui Financial Group affiliates. Our other outside director, Ms. Sakie Tachibana Fukushima, is Representative Director of Japan Korn/Ferry International. Japan Korn/Ferry International and its affiliates provide recruiting services to the Company. All of the aforementioned are typical transactions among such companies, and the outside directors have no direct personal interest in the Company.

There are no transactions between outside corporate auditors and the Company. Moreover the independent auditors that audit the Company's accounts and their employees involved in the auditing process have no direct personal interest in the Company. The independent auditors voluntarily ensure that any of its employees who become involved in our company's audit, will not be involved in the audit for more than a certain period of time. The Company and the independent auditors enter into a contract for the audit in accordance with the Commercial Code and Securities Exchange

Law, and the Company pays a fee to the auditing firm based on the contract.

In addition to the aforementioned "Compliance Committee", the Company has also established the "Corporate Audit Services Department" that is responsible for the Company's internal audit on the appropriateness of daily business operations, and validity and efficiency of the management, including the Company's affiliates in Japan and abroad. Besides this, a number of important group companies have assigned their accounting audits to outside accounting firms. Furthermore, corporate auditors of the Company and its domestic affiliates have periodic meetings to exchange information concerning audit practices and procedures. From time to time, the Company also seeks counsel and advice from outside experts such as lawyers with regard to management and business operations for managerial decision-making.

2. CONSOLIDATED BUSINESS RESULTS

1. Summary of Business Results for the Period under Review

In the fiscal year ended March 31, 2003, although there were signs of recovery in export and production indicators at the beginning of the period, the economic slump continued with sluggish investment in plants and equipment by private sectors and a drop in stock prices, in addition to no improvement being seen in consumer spending, the employment situation or wage levels.

Consolidated net sales rose by 26.2 billion yen to 865.2 billion yen, a 3.1% increase from the previous fiscal year. Excluding a positive currency translation effect of 10.3 billion yen due to the weakening yen, actual sales growth would be 1.9%. Sales in Japan were adversely affected by the sluggish consumer product market and declining sales prices, but increased due to the introduction of new products and aggressive sales and marketing activities to enliven the market. Sales in the chemical products business were varied, with newly developed products and export products doing relatively well, while sales in the existing businesses of oleochemical and specialty chemical products suffered the effects of the stagnant Japanese economy. Outside Japan, partly due to the effect of M&A activity on the North American and European consumer products business, both the consumer products business and chemical products business indicated steady sales growth, with the exception of certain affiliated companies.

Consolidated operating income rose by 3.1 billion to 114.9 billion yen from the previous fiscal year. The effect of falling sales prices and increased marketing expenses in Japan was largely absorbed by increased sales and cost reductions, resulting in an increase of 3.3 billion yen to 98.5 billion yen. Meanwhile, operating income from overseas business increased in consumer products for North America and Europe, while decreasing for consumer products and chemical products in Asia, which resulted in a decline of 0.7 billion yen to 15.5 billion yen.

Consolidated ordinary income was 117.4 billion yen, a rise of 3.9 billion yen from the previous fiscal year. Consolidated net income increased by 2.1 billion yen to 62.4 billion yen. Of this, non-operating income from equity in the earnings of affiliates went from a loss in the previous fiscal year to a gain, while the previous fiscal year’s foreign exchange gain became a loss. An extraordinary gain was recorded as a result of returning the proxy portion of pension funds to the government in Japan, but a valuation loss occurred due to decreased valuation of investment securities and real estate owned by the Company.

Solid growth was achieved in net income per share at 108.05 yen due to an increase in net income and the repurchase of 29.129 million of the Company's shares from the market.

As expected, the Company's interim dividend per share increased by 2 yen to 15 yen, thus increasing the annual dividend by 4 yen to 30 yen. EVA steadily improved due to an increase of net operating profit after tax (NOPAT) and decreased capital charges through repurchase of the Company's shares from the market.

2. Summary of Results by Business Segment

Sales in the Japanese businesses of consumer products and prestige cosmetics *Sofina* were strong. Some chemical products were subject to the effects of the sluggish economy however grew steadily. Solid sales growth was also posted in each business segment overseas due to M&A activity in the consumer products businesse in North America and Europe, and a positive currency translation effect.

Although the consumer products business experienced difficulties in Asia, operating income increased in Japan, North America and Europe. Similarly, operating income from prestige cosmetics *Sofina* rose. In the chemical products business, rising material costs in Asia caused a decrease in operating income, whilst the situation in Japanese, North American and European markets led to the increase in operating income for chemical products being moderate.

(1) Consumer Products Business

Net sales of consumer products rose 3.3% from the previous fiscal year to 646.4 billion yen. Excluding a positive currency translation effect, sales growth in real terms was 2.1%. The increase in sales in Japan was only 1.0% year-on-year, but sales outside Japan rose significantly due to such factors as the effect of M&A activity, and the weaker yen. Although operating income fell for Asia, increased operating income was achieved in the Japanese market, in addition to North American and European markets, resulting in growth of 1.8%, a 1.5 billion yen increase to 90.3 billion yen.

1) Japan

Amidst sluggish consumer spending, the market as a whole seems to have reached a point where the decrease in sales prices has begun to settle, but retail sales of consumer products have dropped from the level of the previous fiscal year. By channel, drug store chains have shown significant growth, while giant supermarket chains have been in decline and growth in convenience stores and home improvement stores has been limited. In this environment, Kao stepped up marketing and sales efforts at each chain store and in each region, while also diverting energy to activities designed to develop the drug store business and attempting to stimulate the market with the introduction of new and improved products with higher value. Earnings growth was restrained by such factors as declining sales prices, increased marketing costs, and material prices caused by the weaker yen. Nevertheless, 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	**2003**	2002	% change
Personal Care	**165.5**	166.8	(0.8%)
Fabric and Home Care	**248.9**	246.7	0.9%
Feminine Care, Baby Care and Others	**86.2**	82.2	4.9%
Total	**500.8**	495.8	1.0%

Notes:
1. With regard to consolidated segment titles by business, Laundry and Cleaning Products has been renamed to Fabric and Home Care, whilst Hygiene and Others has been renamed to Feminine Care, Baby Care and Others.

In the market for personal care products, sales volume did not increase, while growing competition led to a continued decrease in sales prices. There was, however, sales growth through the drug store channel due to consumers' heightened awareness of health and beauty.

While continuing to strengthen brand loyalty for the total skin care brand *Bioré* using the concept of mild acidity, Kao also released *Bioré Perfect Oil* makeup remover in spring 2003, a cleansing oil based on innovative technology that can be applied on wet skin. In the category for shampoo, conditioner, and treatment products, the *Essential* brand underwent improvement, with the brand image of *Merit* also being improved. Another factor contributing to sales was the release of *Clear Clean Plus Whitening* toothpaste, which uses the power of malic acid and granules to lift and remove the yellowish stains of teeth. Sales fell by 0.8% year-on-year partly due to the reduction of the number of brands and product items, a strategic move designed to re-focus investment of management resources.

Principal new products:
Bioré Perfect Oil makeup remover
Clear Clean Plus Whitening toothpaste
Success Flavacyte medicated hair restoration tonic
Bub Chinese Quince Scent bath additives

In the market of fabric and home care products, prices continued to fall, albeit gradually, with intense competition also continuing. Although the trend of a decrease in gift products continued in the market for the Company's laundry detergent, sales of ordinary laundry detergent products increased.

Strategic marketing investments were made in Kao's core brands, *Attack* laundry detergent, *Humming* fabric softener and *Quickle* cleaning products, resulting in increased sales. The Company released products last autumn such as *Attack Spray Foam* pre-care laundry detergent, which dissolves tough and greasy stains on collars and sleeves, the transparent fabric softener *Humming Flare*, which provides a new fragrance and an exceptionally soft and smooth finish, and the *Family Pure Kitchen Cleaner*, a daily-use handy kitchen cleaner. The Company also began the nationwide sale of *Quickle Wiper* cleaning kit for carpet, for easy and thorough removal of hair, dust, and pet hair tangled in carpet.

As a result, sales of fabric and home care products increased by 0.9% from the previous fiscal year.

Principal new products:
Attack Spray Foam Pre-care laundry detergent
Humming Flare fabric softener
Family Pure Kitchen Cleaner
Quickle Wiper cleaning kit for carpet

In the area of feminine care, baby care and other products, the target population for sanitary napkins and disposable diapers decreased in number resulting in reduced sales, but the trend of falling prices appears to have come to an end.

While improving the basic functions of the *Laurier* sanitary napkins, the package was also redesigned with an eye to the global market and improving the brand image by obtaining recognition particularly from younger consumers. The *Merries* brand of baby disposable diapers underwent improvements to its texture, and sales volume increased, but this product line was severely affected by a fall in prices. As the target population of adult incontinence products is increasing due to the ageing of society, energy was also put into sampling activities to promote the *Relief* brand, and growth greater than the growth of the market was achieved thanks largely to increased sales of *Relief*'s pants-type line.

Sales of the *Econa* line of products, which maintain a large share of the growing market for healthy functional cooking oils, continued a high level of growth both for own use and gift use. *Healthy Econa Mayonnaise*, released in September 2002, has been progressing steadily, making a large contribution to the increase in sales.

As a result, sales of feminine care, baby care and other products rose 4.9% year-on-year.

Principal new products:
Laurier Super Guard MAX400 sanitary napkins
Relief Leak-Free Diapers incontinence products
Healthy Econa Mayonnaise

2) Asia and Oceania

Intense competition continued in retail prices due to competition with Japanese, North American, European and local manufacturers, in addition to changes in distribution structure caused by consolidation of major chain stores including global retailers.

As a result, this year Kao continued to reduce the number of brands and product items, focusing management resources on eight key brands designated as core brands: *Sifoné* and *Feather* hair care products; the *Bioré* skin care product line; *Attack*, *Magiclean* and *Haiter* fabric and home care products; and *Laurier* and *Merries* feminine and baby care products respectively.

Furthermore, in order to respond to changes in the business environment, the Company has implemented measures to optimize production in China, Taiwan and the ASEAN region, strengthen the management system and confer greater autonomy on managers.

As a result of the above, sales fell in some regions such as Taiwan due to the effect of difficult market conditions and reductions in the number of products sold, but sales increased for the region as a whole because of strong performance in the ASEAN region.

Furthermore, a new fully owned holding company was established in Shanghai in July 2002 to expand business in China, and in October, Kao Transfar (Hangzhou) Co., Ltd. was established for the purpose of conducting business for consumer products, which began production and sales in December 2002.

3) North America and Europe

Amidst difficult market conditions in both North America and Europe, strong sales were displayed by the *Naturally Smooth* lotion product of the *Jergens* brand held by The Andrew Jergens Company, which has attained the position of holding a leading share in the hand and body lotion market. New products were released and more aggressive marketing was also conducted for skin care products such as *Curél* and *Bioré Pore Strips*. The number of existing products was reduced for the antiperspirant deodorant brand *ban*, while new and improved products were also released in an attempt to revitalize the brand. KPSS-Kao Professional Salon Services GmbH (formerly Goldwell GmbH) also posted solid sales, and *Elumen* hair color released in 2001 is now being sold in the United States, Canada, and other countries. In Europe, the premium hair care product business of Guhl Ikebana GmbH posted results at the same level as last year, but the entire Group companies in North America and Europe posted solid sales growth as a whole.

Moreover, sales were in line with projected figures for KMS Research, Inc., a manufacturer of professional-use hair care products mainly for North American and European hair salons which was acquired in March 2002, its affiliates in the United Kingdom and the premium hair care product marketer, John Frieda Professional Hair Care, Inc. in the U.S., which was acquired in September 2002.

(2) Prestige Cosmetics *Sofina* Business

In the cosmetics market, prestige cosmetics sales continued to decline both in volume and value while sales of low-priced products continued to grow. In this stagnant market, sales of prestige cosmetics *Sofina*, which saw its 20th anniversary in September 2002, reached a record high of 75.8 billion yen, a 2.2% increase on the same period of the previous year. The release of the *Rise* line, which is the culmination of years of research on ceramide which retains moisture in the stratum corneum, and the renewal of the *Vital*

Rich line, in addition to the expansion of the basic skin care series, contributed to increased sales in the *Sofina* brand, while the performance of *Medicated Whitening Deep Science* boosted sales of special care products. Also, the *est* line, targeted only at department store channels, continued to grow steadily due to an ongoing marketing and sales focus on the acquisition of new customers. Operating income increased by 0.4 billion yen to 5.2 billion yen. Cost reduction activities additionally contributed to the increase in operating income.

Principal new products:
Rise – Lotion, Milk, Cr*eam*
est – Liquid Makeup
Raycious Ray Gradation Powder
AUBE Rouge Clear Glassé

(3) Chemical Products Business

Sales for chemical products rose by a 5.0% increase to 170.9 billion yen. Excluding a currency translation effect, sales grew by 2.8%. Business in the Japanese, Asian, North American and European markets showed steady growth. Operating income rose slightly to 18.2 billion yen largely owing to the Japanese, North American and European markets, despite rising oleochemical raw material prices causing a fall in Asia.

1) Japan

Due to their outstanding product features, newly developed products such as pigment auxiliary for color inkjet printer ink were well received. Slurries for use in polishing hard disks met customer demand and contributed to the increase in sales. The specialty chemicals business showed strong growth in response to customer export needs for plastic-related additives, toner and toner binder products. The industrial material business, which produces high performance concrete additives that dramatically strengthen raw concrete, was affected by sluggish demand in the construction sector. Operating income increased as a result of concerted efforts to absorb a decline in sales prices through cost-cutting measures and by increasing sales volume.

2) Asia

Sales of concrete additives rose in China, Taiwan and other Asian countries where demand is strong. Thailand and Indonesia also saw a rise in sales for various fields.

Sales in Malaysia increased due to the augmentation of production capacity at the Company's fatty alcohol facilities. These increases led to steady sales growth in Asia. Despite an increase in sales and the promotion of streamlining and cost-cutting measures, operating income dropped as a result of an increase in oleochemical raw material prices. Taiwan saw a continuation of the shift of plants to China resulting in the halting of the Company's production of chemical products in Taiwan.

3) North America and Europe

The toners and toner binders for copiers and printers business which saw an augmentation in manufacturing infrastructure showed robust growth after a further strengthening of the global management system centering on Japan, the U.S. and Spain. The aroma chemical business, whose products include a number of synthetic aroma products which enjoy a top share of the world market, increased on the back of expansion of sales of new products. In March 2003, the Company agreed to acquire the aroma chemicals and fragrance compound business of Cognis Deutschland GmbH & Co. KG, a global manufacturer of specialty chemicals and nutritional ingredients based in Germany, and expects a synergy effect with Kao's existing business. As a reorganization of operations in the U.S. and Mexico, the textile auxiliary business was sold off. Operating income increased as a result of strong growth in North America and Europe, allowing for the absorption of increased depreciation expenses from capital investment in plants and equipment.

3. FORECAST

1. Forecast for the Fiscal Year Ending March 31, 2004

	Billions of Yen			Millions of U.S. Dollars
YEAR ENDED MARCH 31	**2004**	2003	% change	**2003**
Net sales	**895.0**	865.2	3.4	**7,445.9**
Operating income	**117.0**	114.9	1.8	**973.4**
Ordinary income	**118.0**	117.4	0.4	**981.7**
Net income	**64.0**	62.4	2.5	**532.4**
	Yen			U.S. Dollars
Per share:				
Net income	**115.20**	108.05	6.6	**0.96**
Cash dividends	**32.00**	30.00	6.7	**0.26**

There is great uncertainty in Japan’s economy, ranging from weak stock prices and the problem of bad debt, to a lack of investment in plants and equipment and difficulties in the employment situation and wage levels. As a company Kao believes that it will be some time before there is real recovery in consumer spending. There is also the structural issue of deflation, and it is foreseen that there will be little growth in either sales volume or value in the industry as a whole.

Under these conditions, in the Japanese consumer products market, Kao will be focused on strategic marketing to further strengthen existing core brands and nurture new brands, in addition to conducting aggressive sales activities to stimulate the sluggish market to increase sales volume. The cosmetics market is still seeing growth in low-priced products while luxury and prestige products remain sluggish, but the Company will focus on the promotion of distinctive new cosmetic products and work to strengthen the brands of *Sofina, AUBE* and *est*. In the chemical products market, the Company feels that even more time will be required for target industries to undergo economic recovery, and sales will remain flat, however it is the Company’s intention to continue focusing energies on specific businesses in existing and new areas.

Overseas, in the consumer products business in Asia and Oceania, the Company will continue to conduct aggressive marketing in the rapidly growing Chinese market, while strengthening ties with the newly established Kao Transfar (Hangzhou) Co., Ltd. to further develop this market. Furthermore, non-core brands will be reduced in this region, focusing management resources on core brands in an attempt to increase sales and profitability. In the consumer products markets in North America and Europe, the Company expects to fully cultivate the brands of the recently acquired KMS Research and John Frieda hair care products companies and increase sales through the synergy created between these and existing businesses. The Company also expects to post increased sales in its chemicals business in these regions due to growth in specialty chemicals such as aroma products, toners and toner binders for copiers and printers, and contributions from acquired aroma businesses.

As a result of the above, Kao projects that sales for the next fiscal year will increase by 3.4%, a figure of 29.7 billion yen to 895.0 billion yen, and that operating income will rise by 1.8% to 117.0 billion yen. Ordinary income is expected to rise 0.4% to 118.0 billion yen, and net income is projected to rise by 2.5% to 64.0 billion yen. The Company is planning for an increase in marketing and other expenses, and the occurrence of amortization expenses of goodwill and the trademarks of John Frieda, KMS Research and aroma businesses. An increase in the cost of raw materials for fatty alcohol and other chemical products is also anticipated, however the Company will make aggressive efforts to secure stable income by implementing further cost reduction measures not only in Japan, but also overseas.

Based on the forecasted growth in profits, Kao plans to increase its annual dividend by 2 yen per share to 32 yen, and to increase its interim dividend by 1 yen per share to 16 yen.

Kao will continue its efforts to increase profits and improve capital efficiency, and endeavors to meet midterm EVA improvement targets.

2. Underlying Assumptions of the Forecasts for the Fiscal Year Ending March 31, 2004

The above forecasts were made assuming exchange rates of one U.S dollar to 120.0 yen, one euro to 129.0 yen, and one New Taiwan dollar to 3.5 yen.

4. FINANCIAL CONDITION

1. Consolidated Financial Condition (Unaudited)

	Billions of Yen			Millions of U.S. Dollars
YEAR ENDED MARCH 31	**2003**	2002	Incr/(Decr)	**2003**
Total assets	**720.8**	772.1	(51.2)	**5,997.1**
Total shareholders' equity	**417.0**	459.7	(42.7)	**3,469.5**
	Yen			U.S. Dollars
Per share:				
Shareholders’ equity	**744.56**	779.44	(34.89)	**6.2**

	%	
YEAR ENDED MARCH 31	**2003**	2002
Equity ratio	**57.9**	59.5

Notes:

1. *The U.S. dollar amounts included herein represent translations using the approximate exchange rate on March 31 2003, of yen 120.20=US$1, solely for convenience.*
2. *From 2003, total shareholders’ equity per share is computed using the number of shares outstanding which includes all latent shares for the outstanding. This would be 744.81 yen based on using the same calculation method as the previous year.*

Total assets fell 51.2 billion yen to 720.8 billion yen. The main factor in this change was the 83.1 billion yen decrease caused by the sale of marketable securities that had been purchased as an investment from surplus funds. This was done to respond to the demand for capital investment in plants and equipment, M&A activities and the repurchase of Company’s stocks.

While net income steadily increased this year, shareholder equity decreased 42.7 billion yen to 417.0 billion yen due to an 80.3 billion yen increase in treasury stock, as a result of the repurchase of the Company’s stocks. Shareholder equity per share dropped by 34.89 yen to 744.56 yen. The shareholders’ equity ratio decreased from 59.5% to 57.9%.

2. Summarized Consolidated Cash Flow (Unaudited)

	Billions of Yen			Millions of U.S. Dollars
YEAR ENDED MARCH 31	**2003**	2002	Incr./(Dcr.)	**2002**
Operating activities	**134.1**	130.9	(3.2)	**1,116.3**
Investing activities	**(77.5)**	(77.6)	0.0	**(654.3)**
Financing activities	**(104.1)**	(86.2)	(17.9)	**(866.8)**
Translation adjustments	**(2.6)**	3.4	(6.1)	**(22.1)**
Net increase	**(50.2)**	(29.5)	(20.7)	**(417.9)**
Beginning balance of newly consolidated companies	**0.9**	0.9	0.0	**8.3**
Cash and cash equivalents	**75.6**	124.9	(49.2)	**629.7**
Total debt	**49.0**	55.9	(6.9)	**408.0**

Net cash provided by operating activities increased 3.2 billion yen year-on-year to 134.1 billion yen. Pre-tax income rose 4.6 billion yen to 112.5 billion yen, and depreciation and amortization expenses remained at the same level as the previous fiscal year at 58.3 billion yen. Corporate tax payments were 53.1 billion yen.

Net cash used in investment activities was 77.5 billion yen which is in the same proximity as the level of last fiscal year. The main investment activities were the acquisition of the trademarks and stocks of John Frieda Inc. of the U.S. last September, and investment in plants and equipment, the main purpose of which is to invest in production facilities for new products and to increase production capacity both in Japan and overseas. In Japan investment was made into expanding physical distribution facilities and installing a new information system.

Net cash used in financing activities increased 17.9 billion yen year-on-year to 104.1 billion yen. The Company also continued to repurchase the Company's shares valued at 80.3 billion yen. Moreover, as a result of returning long-term loans to financial institutions and redeeming corporate bonds, the total balance of loans and corporate bonds fell 6.9 billion yen year-on-year to 49.0 billion yen.

As a result of these activities, the balance of cash and cash equivalents at the end of the fiscal year was 75.6 billion yen, 49.2 billion yen less than the balance at the end of the previous fiscal year.

3. Forecast for the Fiscal Year ending March 31, 2004

Although the operating environment is expected to be as severe as that of the year just ended, Kao projects that the portion of cash flow from operating activities accounted for by net income before taxes and other adjustments will be slightly higher than in the previous fiscal year.

The portion of cash flow from investment activities accounted for by investment in plants and equipment is expected to increase slightly within Japan although investment is planned to increase production capacity and promote streamlining. Overseas, investment in plants and equipment is planned at the same level as the previous year. With regard to acquisition activities, Kao has agreed to the purchase of the fragrance and specialties chemicals business, Cognis Deutschland GmbH & Co. KG.

In terms of cash flow from financing activities, Kao will propose further stock purchase of up to 20 million shares or up to 50 billion yen in value, pursuant to Article 210 of the Commercial Code at the general shareholders meeting to be held on June 27, 2003. This will improve capital efficiency, increase returns to shareholders and allow the adoption of timely and flexible capital policy measures. Kao will continue to carry out stock purchase in a flexible manner, taking into account business investment projects. Kao plans to increase its annual dividend by 2 yen per share. Total debt at the end of the coming year is expected to be approximately 47.0 billion yen.

Consequently, cash and cash equivalents at the end of the coming year will be about 70.0 billion yen, less than the balance at the end of this fiscal year.

4. CASHFLOW INDICES

YEAR ENDED MARCH 31		**2002**	2001	2000	1999
Shareholders' equity/Total assets	(%)	**57.9**	59.5	59.1	63.3
Market capitalization/Total assets	(%)	**186.0**	186.0	245.6	259.7
Interest bearing debt/Operating cash flow	(years)	**0.4**	0.5	0.6	0.5
Operating cash flow/Interest paid	(X)	**85.8**	72.2	54.7	72.4

Notes:
1. All indices are computed based on consolidated data.
2. Market capitalization equals the stock price at the end of the fiscal year multiplied by the number of shares outstanding at the end of fiscal year.
3. Operating cash flow is shown in consolidated statements of cash flow. Interest bearing debt is all debt included in consolidated balance sheets.

Kao Corporation

News Release April 22, 2003

Changes of Corporate Auditors and Executive Officers

(Titles effective as of June 27, 2003)

Candidates for new Corporate Auditors

Tsuneo Ejiri	Full-time Corporate Auditor (Currently Vice President - Administration, Chemical Company)
Kohei Nasu	Outside Corporate Auditor (Attorney at Law)

Retiring Corporate Auditors

Katsuhiko Hiraoka

Takashi Tajima

New Assignment to Senior Executive Officers

Nobuatsu Higuchi	Executive Vice President, President - Greater China (Currently Executive Officer, President - Greater China)
Naotake Takaishi	Executive Vice President, Global R&D (Currently Executive Officer, Senior Vice President - Global R&D)