Kao Corporation

News Release April 24, 2006

Kao Corporation Reports Business Results

Tokyo, April 24, 2006 — Kao Corporation today announced its consolidated and non-consolidated business results for the fiscal year ended March 31, 2006. The following summary of the business results that Kao submitted to the Tokyo Stock Exchange is unaudited and for reference only.

Consolidated Financial Highlights (Unaudited)

(Millions of yen, millions of U.S. dollars, except per share data)

YEAR ENDED MARCH 31	**2006**	2005	Change	**2006**
	Yen		%	U.S. Dollars
Net sales	**971,230**	936,851	3.7	**8,267.9**
Operating income	**120,134**	121,379	(1.0)	**1,022.7**
Ordinary income	**121,956**	125,345	(2.7)	**1,038.2**
Net income	**71,140**	72,180	(1.4)	**605.6**
Total assets	**1,220,564**	688,973	77.2	**10,390.4**
Total shareholders' equity	**509,676**	448,249	13.7	**4,338.8**
Shareholders' equity/total assets	**41.8%**	65.1%	-	**41.8%**
Shareholders' equity per share (Yen/US$)	**935.11**	821.47	13.8	**7.96**
Net income per share (Yen/US$)	**130.58**	131.16	(0.4)	**1.11**
Net income per share, fully diluted (Yen/US$)	**130.28**	129.09	0.9	**1.11**
Net cash provided by operating activities	**117,292**	109,567	-	**998.5**
Net cash used in investing activities	**(479,535)**	(54,407)	-	**(4,082.2)**
Net cash used in financing activities	**356,721**	(90,657)	-	**3,036.7**
Cash and cash equivalents, end of term	**67,527**	70,409	-	**574.8**

Notes:

1. *Net income per share is computed based on the weighted average number of shares outstanding during the corresponding periods:544,126,518 shares for 2006 and 549,625,892 shares for 2005*
2. *Number of shares outstanding at the end of the periods: 544,945,975 shares for 2006 and 545,555,347 shares for 2005*
3. *Changes in scope of consolidation: Consolidated subsidiaries (32 addition, 6 exclusions); Affiliates accounted for by the equity method (13 addition, 1 exclusion)*
4. *U.S. dollar amounts represent translations using the approximate exchange rate on March 31, 2006, of 117.47 yen=US$1, and are included solely for the convenience of readers.*
5. *Yen amounts are rounded down to the nearest million.*

Forecast of Consolidated Results for the Six Months Ending September 30, 2006 and the Year Ending March 31, 2007

(Millions of yen, millions of U.S. dollars, except per share data)

	Six months ending September 30, 2006		Year ending March 31, 2007	
	Yen	U.S. Dollars	Yen	U.S. Dollars
Net sales	600,000	5,107.7	1,210,000	10,300.5
Operating income	-	-	120,000	1,021.5
Ordinary income	55,000	468.2	118,000	1,004.5
Net income	34,000	289.4	72,000	612.9
Net income per share (Yen/US$)	-	-	132.12	1.12

Consolidated Segment Information by Business (Unaudited)

Billions of Yen

YEAR ENDED MARCH 31	SALES 2006	SALES 2005	% Change	% Change Like-for-like	OPERATING INCOME 2006	OPERATING INCOME 2005	Incr./(Dcr.)
Consumer Products	**704.0**	690.0	2.0	1.5	**92.6**	92.5	0.1
Prestige Cosmetics	**85.2**	78.2	8.9	8.7	**5.1**	7.6	(2.5)
Chemical Products	**208.8**	196.9	6.0	4.7	**22.0**	20.6	1.3
Corporate/Eliminations	**(26.9)**	(28.4)	-	-	**0.2**	0.4	(0.2)
Consolidated	**971.2**	936.8	3.7	3.0	**120.1**	121.3	(1.2)

Millions of U.S. Dollars

YEAR ENDED MARCH 31	SALES 2006	SALES 2005	% Change	% Change Like-for-like	OPERATING INCOME 2006	OPERATING INCOME 2005	Incr./(Dcr.)
Consumer Products	**5,993.3**	5,873.9	2.0	1.5	**789.1**	788.3	0.8
Prestige Cosmetics	**725.7**	666.5	8.9	8.7	**44.0**	65.5	(21.5)
Chemical Products	**1,778.2**	1,676.9	6.0	4.7	**187.5**	175.9	11.6
Corporate/Eliminations	**(229.3)**	(242.1)	-	-	**2.0**	3.6	(1.6)
Consolidated	**8,267.9**	7,975.2	3.7	3.0	**1,022.7**	1,033.3	(10.6)

Consolidated Segment Information by Geography (Unaudited)

Billions of Yen

YEAR ENDED MARCH 31	SALES 2006	SALES 2005	% Change	% Change Like-for-like	OPERATING INCOME 2006	OPERATING INCOME 2005	Incr./(Dcr.)
Japan	**708.0**	703.0	0.7	0.7	**101.6**	107.4	(5.8)
Asia/Oceania	**110.8**	100.2	10.6	7.9	**5.8**	2.7	3.0
North America	**95.1**	83.6	13.8	10.5	**6.7**	6.4	0.3
Europe	**109.4**	93.8	16.7	14.4	**7.5**	4.5	2.9
Corporate/Eliminations	**(52.3)**	(43.9)	-	-	**(1.6)**	0.0	(1.7)
Consolidated	**971.2**	936.8	3.7	3.0	**120.1**	121.3	(1.2)

Millions of U.S. Dollars

YEAR ENDED MARCH 31	SALES 2006	SALES 2005	% Change	% Change Like-for-like	OPERATING INCOME 2006	OPERATING INCOME 2005	Incr./(Dcr.)
Japan	**6,027.5**	5,985.2	0.7	0.7	**865.4**	915.0	(49.6)
Asia/Oceania	**944.1**	853.7	10.6	7.9	**49.7**	23.5	26.2
North America	**810.1**	712.0	13.8	10.5	**57.7**	55.0	2.7
Europe	**932.0**	798.5	16.7	14.4	**64.0**	39.1	24.9
Corporate/Eliminations	**(445.9)**	(374.2)	-	-	**(14.2)**	0.7	(14.9)
Consolidated	**8,267.9**	7,975.2	3.7	3.0	**1,022.7**	1,033.3	(10.6)

Notes:

1. *The U.S. dollar amounts included herein represent translations using the approximate exchange rate on March 31, 2006, of 117.47 yen=US$1, solely for convenience.*
2. *Like-for-like growth rates exclude the currency translation effect related to translation of local currencies into Japanese yen.*

Non-Consolidated Financial Highlights (Unaudited)

(Millions of yen, millions of U.S. dollars, except per share data)

YEAR ENDED MARCH 31	**2006**	2005	Change	**2006**
	Yen		%	U.S. Dollars
Net sales	**688,589**	694,655	(0.9)	**5,861.8**
Operating income	**90,551**	98,013	(7.6)	**770.8**
Ordinary income	**100,134**	104,558	(4.2)	**852.4**
Net income	**64,133**	62,518	2.6	**546.0**
Total assets	**1,024,155**	605, 005	69.3	**8,718.4**
Total shareholders' equity	**474,444**	435,329	9.0	**4,038.9**
Shareholders' equity/total assets	**46.3%**	72.0%	-	**46.3%**
Shareholders' equity per share (Yen/US$)	**869.58**	797.83	9.0	**7.40**
Net income per share (Yen/US$)	**117.61**	113.62	3.5	**1.00**
Net income per share, fully diluted (Yen/US$)	**117.34**	111.84	4.9	**1.00**

Notes:

1. *Net income per share is computed based on the weighted average number of shares outstanding during the corresponding periods: 544,699,390 shares for 2006 and 549,625,892 shares for 2005*
2. *Number of shares outstanding at the end of the periods: 545,518,847 shares for 2006 and 545,555,347 shares for 2005*
3. *U.S. dollar amounts represent translations using the approximate exchange rate on March 31, 2006, of 117.47 yen=US$1, and are included solely for the convenience of readers.*
4. *Yen amounts are rounded down to the nearest million.*

Forecast of Non-Consolidated Results for the Six Months Ending September 30, 2006 and the Year Ending March 31, 2007

(Millions of yen, millions of U.S. dollars, except per share data)

	Six months ending September 30, 2006		Year ending March 31, 2007	
	Yen	U.S. Dollars	Yen	U.S. Dollars
Net sales	350,000	2,979.5	690,000	5,873.8
Operating income	-	-	78,000	664.0
Ordinary income	44,000	374.6	84,000	715.1
Net income	28,000	238.4	56,000	476.7
Dividend per share (Yen/US$)	26.00	0.22	26.00	0.22
Net income per share (Yen/US$)	-	-	102.65	0.87

Note: The parent company has changed its transaction system for consumer products with Kao Professional Services Co., Ltd .

Forward-Looking Statements

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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Management Policies

1. Basic Management Policies of the Company

Kao's mission is to strive for the wholehearted satisfaction and enrichment of the lives of people globally through the Company's core domains of cleanliness, beauty, health and chemicals. Fully committed to this mission, all members of the Kao Group work together with passion to provide products and brands of excellent value created from the perspective of consumers and customers and to share joy with them.

Kao aims to be a global group of companies that is closest to consumers and customers in each of its markets. In addition to earning the trust and support of its shareholders and all other stakeholders, Kao seeks to contribute to the continual development of society by consistently augmenting its corporate value based on profitable growth.

The corporate philosophy that forms the basis of these activities is "The Kao Way," which clearly expresses Kao's unique corporate culture and the essence of its corporate spirit, and is shared and practiced by all Kao Group employees. Furthermore, from the standpoint of corporate social responsibility (CSR), Kao strives to act in good faith based on high ethical standards, and will contribute to the sustainable development of society by conducting its activities with consideration for environmental impact and conservation of resources.

2. The Company's Basic Policies Regarding Distribution of Profits

In distributing profits in the future, Kao will place top priority on using internal capital resources to make investments that will increase corporate value, including corporate acquisitions and capital investments necessary to expand existing core businesses and build new businesses, and to repay bank loans and other interest-bearing debt. For surplus funds after meeting the above capital requirements, the Company emphasizes returns to shareholders through dividends as one of its primary management tasks. Considering it important to provide shareholders with stable, continuous returns on profits, the Company has set a new target payout ratio of approximately 40% of consolidated net income. Moreover, Kao has made it a basic policy to work toward sustainable increases in dividends per share by increasing profits per share each year. In accordance with this policy, the Company plans to increase the year-end dividend for the fiscal year ended March 31, 2006 by 6.00 yen compared to the previous fiscal year to 25.00 yen per share, the same as the interim dividend. As a result, total dividends for the fiscal year will be 50.00 yen per share, an increase of 12.00 per share over the previous fiscal year, representing a consolidated payout ratio of 38.3%.

In addition, the Company may flexibly implement share repurchases as a means of improving capital efficiency and shareholder returns from a long-term perspective, taking into account the capital demands of activities such as capital investment for growth and acquisition initiatives. Kao has announced that its Board of Directors resolved at a meeting held on January 23, 2006 not to carry out the stock repurchase plan approved at the General Meeting of Shareholders in June 2005 (up to a maximum of 20 million shares at a total cost of 50.0 billion yen) because of the funding requirements associated with the acquisition in July 2005 of Molton Brown Limited, a prestige cosmetics company based in the United Kingdom, and the acquisition of the shares of Kanebo Cosmetics Inc. by mid-February 2006, as well as that company's trademarks and other intellectual property rights.

3. Policy Concerning Number of Shares Constituting One Unit Share

Kao believes that the participation of a large number of investors in the market and sufficient liquidity of shares are necessary for appropriate stock prices to be set in the stock market. In terms of liquidity, Kao's shares ranked relatively highly among shares traded on the First Section of the Tokyo Stock Exchange during the year ended March 31, 2006. As of March 31, 2006, Kao had approximately 44,000 shareholders, of which a large number – approximately 42,000 – are individual shareholders. Under these circumstances, the Company will continue to consider reducing the number of shares constituting one unit share from a variety of perspectives, including market trends and requirements, trends among individual shareholders, the timing of implementation of a system for issuing stock without certificates and the best interests of shareholders.

4. Management Metric Used as a Target

EVA (Economic Value Added),* which is used to measure true profit by factoring in the cost of invested capital, is Kao's principal management metric. Continuous growth in EVA is linked to increased 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 operating activity. Kao also uses this metric to determine the direction of long-term management strategies, for evaluating acquisitions and capital investment, for assessing 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 directors and employees.

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

5. Medium- and Long-Term Management Strategies

With Consumer Products, Prestige Cosmetics and Chemical Products positioned as its core business areas, Kao will emphasize research and development to make high-quality, innovative products geared to consumers and customers, a concept referred to at Kao as "*yoki-monozukuri*," and to share joy with them. Based on this policy, Kao will conduct activities oriented toward the following three key business objectives in order to achieve profitable growth by increasing the added value of its products.

(1) Accelerate Growth in the Business Areas of Beauty Care and Health Care*

Kao will position Beauty Care and Health Care, which are business areas with high growth potential and in which the Kao Group can take advantage of its strengths, as growth drivers and concentrate investment of management resources in these areas. Moreover, in addition to its existing Beauty Care business, Kao will develop and strengthen its Beauty Care business globally with Molton Brown Limited and Kanebo Cosmetics Inc., which were newly added to the Kao Group during the year ended March 31, 2006.

**The scope of "Health Care" does not include pharmaceuticals.*

(2) Further Strengthen and Develop Fabric and Home Care, a Core Business

In the Fabric and Home Care business, Kao will work to develop products that promote greater cleanliness, comfort and enjoyment. The Company will also seek to develop products that build new markets and match the increasing emphasis of consumers on sanitation, peace of mind and the environment.

(3) Further Enhance the Chemical Products Business Globally and Locally with Distinctive Products That Meet Customer Needs

The Chemical Products business will work to expand and strengthen its operations while simultaneously conducting global business closely linked to each company in the three regions of Asia including Japan, Europe and North America and optimizing regional operations under local leadership tailored to conditions in each country and region.

Moreover, in order to achieve these three business objectives, Kao will focus on the following “Work Process Innovations.”

(1) Build a System to Create High-Value-Added Products
With the diversifying values and changing needs of consumers, Kao will develop new marketing and product development methods to create products that offer new value. By introducing these innovative methods into the work processes of business divisions, we will conduct speedy business development.

(2) Establish a Global Management System
As market competition intensifies globally, we will establish an innovative management system that clearly defines the roles of operations in Japan and in other countries. This will enable overall optimization of the Kao Group, effective deployment of management resources, and faster decision-making by management.

6. Issues for Management

As the severity of the business environment increases, with maturing markets, rising raw material prices and falling sales prices at retail stores, Kao’s profit structure is changing significantly, and achieving “profitable growth” is becoming more difficult every year.

In these circumstances, in order to achieve profitable growth by increasing the added value of its products, Kao will develop products with higher added value and quickly build new businesses through further enhancement of research and development, such as reinforcement of basic technologies and establishment of the Health Care Research Center, and through measures to respond to changes in the marketing environment, including establishment of the Marketing Development Center and the Products and Lifestyle Research Center. Moreover, in order to accelerate the growth of the overseas Consumer Products business, Kao will work to reorganize operations in rapidly growing Asian countries by mobilizing the total capabilities of the Kao Group and gaining thorough knowledge of local consumers and markets, based on the principles of “Consumer-driven” and “*Genba*-ism*.” With regard to enhancing the global development of the Chemical Products business, Kao will work to achieve an accurate grasp of globalizing customer needs while anticipating future changes as it focuses on making the Chemical Products business stronger and more distinctive.

** "Genba-ism" defines the importance of observing things "on-site", in the actual location and environment, both internally and externally, in order to maximize our understanding of the business and optimize our performance.*

7. Parent Company Issues

Not applicable.

Consolidated Business Results and Financial Condition

I. Business Results

1. Summary of Business Results

(1) Summary of Business Results for the Fiscal Year Ended March 31, 2006

In the fiscal year ended March 31, 2006, the Japanese economy recovered, supported by private sector demand, including a gradual increase in consumer spending, improvement in corporate earnings and growth in capital investment. The global economy also recovered steadily, led by the United States and Asia. However, increases in domestic consumer prices mainly reflected higher spending on petroleum products, as deflationary conditions generally persisted overall. In this environment, the Kao Group promoted adding value to products in order to stimulate the market.

Net sales rose 34.3 billion yen to 971.2 billion yen, a 3.7% increase over the previous fiscal year. Excluding the positive currency translation effect of 6.5 billion yen on overseas sales due to the weaker yen, net sales increased 3.0%.

Sales in Japan rose by 0.7%. In the consumer products business, retail prices continued to decline, albeit gradually, as a result of competition, but Kao expanded sales by launching new high-value-added products and nurturing them with aggressive marketing. In the chemical products business, sales grew steadily due to expanding sales of core products.

Overseas, sales trended toward recovery for the consumer products business in Asia, which is currently undergoing structural reforms and integration with operations in Japan, while the consumer products business in North America and Europe and the chemical products business grew briskly, resulting in a 13.6% increase in overseas sales.

Cost of sales increased 5.7% to 427.7 billion yen from 404.8 billion yen in the previous fiscal year. Although Kao launched new high-value-added products and focused on cost-cutting activities in response to lower retail prices and higher prices of raw materials such as petrochemicals, cost of sales as a percentage of net sales increased 0.8 percentage points to 44.0%.

Selling, general and administrative (SG&A) expenses increased 3.1%, or 12.6 billion yen, from the previous fiscal year to 423.3 billion yen. Packing and shipping costs associated with higher sales volume, expenses for new product launches, sales promotion activities in stores, and amortization expenses from the acquisition of trademarks and other intellectual property rights of Kanebo Cosmetics Inc. all increased.

As a result of the above factors, operating income decreased 1.0%, or 1.2 billion yen, from the previous fiscal year to 120.1 billion yen. Excluding the abovementioned amortization expenses for the trademarks and other rights acquired from Kanebo Cosmetics Inc., operating income increased.

In non-operating income and expenses, net non-operating income decreased to 1.8 billion yen from 3.9 billion yen, principally due to a decrease in foreign currency exchange gain and a loss in equity in earnings of nonconsolidated subsidiaries and affiliates compared with a gain in the previous fiscal year.

As a result, ordinary income decreased 3.3 billion yen from the previous fiscal year to 121.9 billion yen.

Extraordinary gain and loss totaled a net loss of 5.0 billion yen. In addition to a loss on sales and disposals of fixed assets, the Company recorded expenses for prior-year post-retirement healthcare benefits at U.S. subsidiaries. Consequently, income before income taxes and minority interests decreased 2.7 billion yen from the previous fiscal year to 116.9 billion yen.

The effective tax rate after application of tax effect accounting decreased from 39.4% in the previous fiscal year to 38.2% due to factors including differences in tax rates at overseas subsidiaries, and net income was 71.1 billion yen, a decrease of 1.0 billion yen from the previous fiscal year. Net income per share was 130.58 yen, a 0.58 yen decrease from 131.16 yen in the previous fiscal year.

Because the Company achieved its expected profit, it will pay its planned year-end cash dividend of 25 yen per share, an increase of 6 yen per share.

EVA increased steadily as a result of investments for growth and greater efficiency in capital outlays. EVA was 163 in the year ended March 31, 2006, compared with the EVA value of 100 in the year ended March 31, 2000, when the Company began using this indicator.

The translation rates used to calculate income and expenses for consolidated subsidiaries and other companies outside Japan for the fiscal year were one U.S. dollar to 110.95 yen and one euro to 137.31 yen.

The date for settlement of accounts of Kanebo Cosmetics Inc., which the Company acquired in January 2006, differs from that of the Company by three months. As a result, Kanebo Cosmetics will be reflected on the Company’s consolidated statements of income from the year ending March 31, 2007; only its balance sheets at the time of the acquisition are included in consolidated results.

(2) Summary of Results by Business Segment

Net sales in the Consumer Products business were essentially unchanged from the previous fiscal year in Japan, but trended toward recovery in Asia and increased steadily in North America and Europe. Sales in the Prestige Cosmetics business were essentially unchanged in Japan, but the addition of Molton Brown Limited, which is a prestige brand in the United Kingdom, resulted in higher sales. The Chemical Products business benefited from the effects of the recovery trend in the overall economy, while growth in core business fields led to steady expansion of sales globally.

Operating income for the Consumer Products business was flat because of rising raw material costs and a continuing decline in domestic prices. For the Prestige Cosmetics business, operating income decreased, due in part to amortization expenses arising in connection with the Company’s acquisition of trademarks and other rights from Kanebo Cosmetics Inc. Excluding this factor, operating income increased. For the Chemical Products business, the effect of rising prices for raw materials was offset by higher sales volume and steady growth in sales of core products, and operating income increased, particularly overseas.

Consumer Products Business

Net sales of consumer products were 704.0 billion yen, a 2.0% increase over the previous fiscal year. Sales in Japan increased 0.4% over the previous fiscal year. Overseas sales also increased, primarily in North America. Operating income was affected by lower retail prices in Japan and higher raw material prices worldwide, resulting in an increase of 0.1 billion yen from the previous fiscal year to 92.6 billion yen.

- Japan

The downward trend in prices in the market moderated but continued, and average consumer purchase prices of major products fell by around one percentage point compared with the previous fiscal year. By sales channel, sales at drugstores continued to expand. In these circumstances, the Kao Group worked to further strengthen core brands and to launch and nurture new products toward its objective of profitable growth with high-value-added products. It also worked to stimulate the market by aggressively carrying out integrated marketing and sales activities for each chain and area. As declining retail prices and rising raw material prices pressured operating income, the Kao Group worked to increase sales volume, reduce costs and deploy expenditures more efficiently. However, operating income declined.

Sales Composition of Consumer Products

	Billions of yen		
Year ended March 31	**2006**	2005	% change
Personal Care	**187.8**	180.6	4.0
Fabric and Home Care	**237.5**	234.2	1.4
Feminine Care, Baby Care and Others	**113.6**	122.0	(6.9)
Total	**539.0**	536.9	0.4

In the market for personal care products, competition further increased, but price declines showed signs of bottoming out in some categories, including hair styling products.

In the shampoo and conditioner category, the Kao Group increased sales by improving the premium brand *Asience,* as well as adding new treatment products, in response to diversifying consumer needs. In the facial care category, Kao launched *Bioré Marshmallow Whip* facial foam, which produces bouncy lather. Sales of *Bioré U* rose as sales of hand soap grew substantially in the second year since its launch, and renewals of body cleansers *Bioré U for Smooth & Healthy Skin* and *Bioré U for Smooth & Moisturized Skin* earned strong consumer support.

As a result, sales of personal care products increased 4.0% compared with the previous fiscal year.

Principal new products:
Bioré Marshmallow Whip
Bioré U Angel Rose fragrance
Blauné Shining Hair Color

In the fabric and home care products market, intense price competition continued in the persistent deflationary environment.

Under these conditions, the Kao Group worked to raise the value of core brands. Sales grew in the laundry detergent category with the introduction of an improved version of *Attack* liquid laundry detergent with strong deodorizing power and the launch of *New Beads with Fabric Softener* laundry detergent. Sales in the dishwashing detergent category expanded substantially as a result of the addition of a new variety of *Family Kyukyutto* formulated with a high concentration of natural citric acid, and the launch of a new product for automatic dishwashers. The launches of *Resesh* fabric freshener with a deodorizing ingredient extracted from green tea leaves and *Quickle Wiper Wax Coat Sheet* for easy floor waxing gained consumer support, achieving strong sales while expanding the market.

As a result of the above, sales of fabric and home care products increased 1.4% compared with the previous fiscal year.

Principal new products:
Bath Magiclean with Deodorizer bath cleaner
Humming Flair Refresh Herbal Scent fabric softener

In the area of feminine care, sales increased as *Laurier F* sanitary napkins, which alleviate skin stress, gained steady consumer support and sales of panty liners grew. Kao continued to renew products in the disposable baby diaper category to enhance basic product performance and raise brand value. As a result, sales were higher than in the previous fiscal year. Sales of *Relief* adult incontinence products continued to increase as the market expanded.

In the health care (functional food) category, Kao responded to increasing health consciousness among consumers with efforts to expand the number of regular users. In the *Econa Healthy* line, which created the market for healthy cooking oil, competition in the market increased. In addition, sales of *Healthya* tea products declined with the consolidation into a group of loyal drinkers following the cooling off of the boom in popularity of catechins. In addition, response was positive to the launch of *Megurism Steam Thermo Power Pad* (general medical device). A result of Kao's health care research, this product is a sheet that generates heat and steam to improve blood circulation for relief of muscle pain and fatigue in the shoulder and lower back and abdomen.

As a result, sales of feminine care, baby care and other products decreased 6.9% compared with the previous fiscal year.

Principal new products:
Laurier F panty liners
Megurism Steam Thermo Power Pad

- Asia

Asian markets are undergoing major structural changes, with changing consumer needs and the continuing entry of global retail chains. In addition, competition among companies continues to intensify. In these conditions, the Kao Group is working toward building a unified management structure that encompasses all of Asia, including Japan. In China, where Kao has been restructuring for the past few years, these efforts began to show results and sales rose. The fall 2005 launch of the *Asience* hair care brand in Taiwan and Hong Kong, with coordinated marketing and sales activities in Japan and local markets, increased sales. A new factory in Thailand was completed and commenced operations during the fiscal year.

As a result, sales in Asia increased 6.9% to 57.1 billion yen compared with the previous fiscal year.

- North America and Europe

In the markets of North America and Europe, the Kao Group specializes in personal care products and has worked to establish products with high added value. Kao Brands Company in the U.S. launched *natural glow* under the *Jergens* skin care brand. Sales of this product, which gradually gives skin a healthy tan color while moisturizing, grew strongly. In the hair care products category, *John Frieda Radiant Red*, a new product for maintaining the beauty of red hair, performed well. Kao Professional Salon Services GmbH expanded sales by offering new hair coloring products that incorporate the latest trends and a new styling line. As a result, sales in North America and Europe increased by 8.1% from the previous fiscal year to 115.3 billion yen.

Prestige Cosmetics Business

As consumer values, attitudes toward beauty, and retail channels change, the Kao Group worked to strengthen its product and sales capabilities in response to these changes. In the Japanese market, Kao conducted activities to further enhance and strengthen products and counseling for the *est* brand in department stores and the *ALBLANC* brand in the supermarket and drugstore channels. Under the *Sofina* brand, Kao made improvements to products such as *Rise* and *Vital Rich* skin care products and *Fine-Fit* foundation. Moreover, Molton Brown Limited, which was added to the Kao Group in July 2005, contributed to expansion of the business.

As a result, sales of prestige cosmetics increased 8.9% from the previous fiscal year to 85.2 billion yen. Operating income decreased 2.5 billion yen to 5.1 billion yen because Kao, the parent company, acquired and began amortization of the trademarks and other intellectual property rights of Kanebo Cosmetics Inc.

Principal new products:
est Whitening Esthetic facial pack
ALBLANC Medicated Bright Create Massage special care essence
Memory White medicated whitening

Chemical Products Business

Although the Japanese economy remains on a recovery track, with improved corporate earnings and increased capital investment, rising costs due to high crude oil prices are exerting a substantial impact on the global economy. In this environment, Kao worked to expand its business in the core fields of oleo chemicals, performance chemicals and specialty chemicals. As a result, sales totaled 208.8 billion yen, an increase of 6.0% compared to the previous fiscal year (excluding the effect of currency translation, the increase was 4.7%). Operating income increased 1.3 billion yen from the previous fiscal year to 22.0 billion yen due to growth in sales volume of high-value-added products and cost reductions, which offset the effects of the rise in the cost of petrochemical raw materials.

- Japan

In the oleo chemical and performance chemicals businesses, sales of existing products were weak, while the specialty chemicals business, which is closely linked to customers and offers high added value, continued to grow steadily. In particular, sales of polishing agents for hard disks increased significantly on the growth of the personal computer market, while sales of products such as toner, toner binder and pigment auxiliary for color inkjet printer ink grew due to positive customer evaluation of their features. As a result, overall sales increased 2.7% over the previous fiscal year to 114.5 billion yen.

- Asia

Sales of fatty alcohols produced in Malaysia and the Philippines grew as a result of a reputation for stable supply and high-quality products based on Kao's original technologies, as well as global sales expansion efforts. In Thailand, production facilities are being restructured in connection with relocation to a new plant, and sales of surfactants also grew strongly in the ASEAN region as Kao met growing demand. As a result, sales in Asia increased 13.5% over the previous fiscal year to 53.5 billion yen.

- North America and Europe

The U.S. toner and toner binder business, which undertook investments to enhance production capacity, increased sales and further strengthened Kao's global business infrastructure in Japan, North America and Europe. In Germany, sales of high-performance concrete additives increased due to favorable customer evaluation of product features. As a result, overall sales increased 12.7% compared with the previous fiscal year to 72.1 billion yen.

2. Forecast for the Fiscal Year Ending March 31, 2007

(1) Forecast of Results for the Fiscal Year

The Japanese economy is expected to continue its private sector-led recovery, with improving corporate earnings and increasing capital investment. However, in employment and consumer spending, although the recovery trend continues, the situation remains challenging, and consumer prices, centered on petrochemical-related products, are expected to rise. Moreover, although the global economy is expected to be solid, centered on the United States and Asia, persistent uncertain conditions are expected to remain

In Kao's industry, severe competition is forecast to continue in Japan, as demand shows no overall growth in terms of volume and gradual retail price declines continue. Overseas, the competitive environment is expected to continue intensifying despite market growth.

Under these conditions, the Kao Group aims to achieve profitable growth by adding a high level of value to its products. It will focus on the business areas of beauty care, which incorporates part of the Consumer Products business and the Prestige Cosmetics business, and health care, both of which have particularly high growth potential. In the Consumer Products business, it will strengthen its product development capabilities, the starting point of manufacturing, and will focus its management resources on aggressive marketing and sales promotion activities to strengthen core brands. Through these measures, Kao will work to strengthen its competitiveness in the domestic market and expand sales. In the growing Asian market, Kao will deploy the comprehensive strength of the Kao Group by integrating all divisions from product development to sales, based on a unified management structure that encompasses all of Asia, including Japan. In addition, Kao will work to establish supply chain management in each region of Asia to further raise the level of efficiency. In the Consumer Products business in North America and Europe, Kao Brands Company will nurture the *John Frieda* brand and its many other premium brands. In the Prestige Cosmetics business, while responding to changes in retail channels, Kao will work to generate synergy with Kanebo Cosmetics Inc. and Molton Brown Limited, which have been newly added to the Kao Group, and further raise brand value through measures such as introducing distinctive new products. In the Chemical Products business, Kao will strive to fully leverage the characteristics of the oleo chemical, performance chemicals and specialty chemicals businesses. In addition, for unique Kao Group products, Kao plans to make aggressive capital investments based on accurate forecasts of market trends in order to expand the business globally.

As a result, Kao forecasts net sales to increase 24.6%, or 238.7 billion yen, from the previous fiscal year to 1,210.0 billion yen. Operating income is expected to decline 0.1% to 120.0 billion yen despite the addition of Kanebo Cosmetics Inc. as a result of factors including a continued decline in retail prices, high prices for raw materials and goodwill amortization expenses arising from the acquisition of Kanebo Cosmetics. Ordinary income is expected to decline 3.2% to 118.0 billion yen because financial expenses will increase due to the effect of loans from financial institutions and other capital procurement. Net income is forecast to increase 1.2% to 72.0 billion yen on an expected improvement in extraordinary losses. The Company anticipates an increase in prices of raw materials. Therefore, it will make efforts to secure stable profits by increasing sales volume and implementing further cost-cutting measures not only in Japan, but also overseas.

Assuming achievement of the projected profit figures, the Company expects to pay dividends of 52 yen per share, an increase of 2 yen per share over the previous fiscal year.

Despite an increase in net operating profit after tax (NOPAT) resulting from the expansion of its business, Kao expects EVA to decrease during the fiscal year with the significantly increased burden of the cost of capital invested in the acquisition of Kanebo Cosmetics Inc. and other factors, but will work to continuously increase profits and improve capital efficiency.

(2) Underlying Assumptions of the Forecast for the Fiscal Year Ending March 31, 2007

The above forecast was made assuming translation rates of one U.S. dollar to 117.0 yen and one euro to 140.0 yen.

II. Financial Condition

1. Summarized Financial Condition for the Fiscal Year Ended March 31, 2006

Summarized Financial Condition (Unaudited)

	Billions of Yen			Millions of U.S. Dollars
AS OF MARCH 31	**2006**	2005	Incr./(Dcr.)	**2006**
Total assets	**1,220.5**	688.9	531.5	**10,390.4**
Total shareholders' equity	**509.6**	448.2	61.4	**4,338.8**
Shareholders' equity/total assets	**41. 8%**	65.1%		
Shareholders' equity per share (yen)	**935.11**	821.47	113.64	**7.96**

Summarized Consolidated Cash Flows (Unaudited)

	Billions of Yen			Millions of U.S. Dollars
YEAR ENDED MARCH 31	**2006**	2005	Incr./(Dcr.)	**2006**
Net cash provided by operating activities	**117.2**	109.5	7.7	**998.5**
Net cash used in investing activities	**(479.5)**	(54.4)	(425.1)	**(4,082.2)**
Net cash used in financing activities	**356.7**	(90.6)	447.3	**3,036.7**
Translation adjustments	**2.7**	(1.2)	3.9	**23.2**
Net increase (decrease)	**(2.7)**	(36.7)	33.9	**(23.2)**
Cash and cash equivalents, beginning of year	**70.4**	107.1	(36.7)	**599.4**
Cash and cash equivalents of newly consolidated subsidiaries, beginning of year	**0.7**	0.0	0.7	**6.5**
Cash and cash equivalents of exclusion of consolidated subsidiaries (decrease)	**(0.8)**	-	(0.8)	**(7.2)**
Cash and cash equivalents, end of term	**67.5**	70.4	(2.8)	**574.8**
Total debt	**408.0**	22.7	385.2	**3,473.3**

Total assets increased 531.5 billion yen compared with the previous fiscal year-end to 1,220.5 billion yen. In connection with the acquisition of the stock of Kanebo Cosmetics Inc., consolidation adjustment was 210.7 billion yen and intangible fixed assets increased with the inclusion of the trademarks and other intellectual property rights acquired, while the assets of Kanebo Cosmetics at the time of the acquisition have been included on the consolidated balance sheets. The total amount was 509.6 billion yen. In addition, inventories increased due to factors including the new addition of Molton Brown Limited and higher prices for raw materials. Moreover, tangible fixed assets increased as capital investment for new products in Japan and overseas exceeded depreciation.

Total liabilities increased 468.6 billion yen compared with the previous fiscal year-end to 701.9 billion yen. Liabilities of Kanebo Cosmetics Inc. totaling 80.1 billion yen were included on the consolidated balance sheets. Moreover, because the abovementioned acquisition of the stock and intellectual property rights of Kanebo Cosmetics Inc. was covered by cash on hand and loans from banks and other sources, the fiscal year-end balance of short- and long-term debt increased 385.2 billion yen to 408.0 billion yen.

Minority interests increased 1.4 billion yen compared with the previous fiscal year-end to 8.9 billion yen.

Shareholders' equity increased 61.4 billion yen compared with the previous fiscal year-end to 509.6 billion yen. Main factors increasing shareholders' equity were net income of 71.1 billion yen and conversion of convertible bonds in the amount of 2.5 billion yen. Main factors decreasing shareholders' equity were payment of cash dividends totaling 23.9 billion yen and 6.0 billion yen used for repurchase of treasury shares. As a result, the ratio of shareholders' equity to total assets decreased from 65.1% to 41.8%.

Net cash provided by operating activities increased 7.7 billion yen compared with the previous fiscal year to 117.2 billion yen. Income before income taxes and minority interests for the fiscal year was 116.9 billion yen, and depreciation and amortization totaled 60.7 billion yen. Income taxes paid totaled 42.6 billion yen. In addition, due to an increase in contributions to the corporate pension fund, liability for employee retirement benefits decreased by 6.6 billion yen and prepaid pension cost increased by 8.4 billion yen.

Net cash used in investing activities increased 425.1 billion yen compared with the previous fiscal year to 479.5 billion yen. This primarily consisted of 408.9 billion yen for the acquisition of the stock and intellectual property rights of Kanebo Cosmetics Inc. and 32.0 billion yen for the acquisition of the stock of Molton Brown Limited, as well as 49.5 billion yen for capital expenditures and other purchases of property, plant and equipment. Proceeds from the redemption and sale of marketable securities and investment securities totaled 18.3 billion yen.

Net cash provided by financing activities was 356.7 billion yen compared with net cash used in financing activities totaling 90.6 billion yen in the previous fiscal year. The main factors in the change were a net increase in short-term debt and a 386.9 billion yen increase in proceeds from long-term loans from borrowings of funds for the acquisition of the stock of Kanebo Cosmetics Inc. and other purposes, and payments of cash dividends, including to minority shareholders, totaling 24.5 billion yen.

As a result of these activities, the balance of cash and cash equivalents at the end of the fiscal year was 67.5 billion yen, a decrease of 2.8 billion yen from the end of the previous fiscal year.

2. Forecast for the Fiscal Year ending March 31, 2007

Net cash provided by operating activities is expected to increase compared with the previous fiscal year. Income before income taxes and minority interests is expected to decrease slightly from the previous fiscal year as the consolidation of Kanebo Cosmetics Inc. generates expenses for amortization of goodwill. However, at the same time, depreciation and amortization, including amortization of trademark and other rights, is projected to increase substantially, totaling approximately 87.0 billion yen.

Net cash used in investing activities is projected to decrease significantly compared with the previous fiscal year, when the acquisition of Kanebo Cosmetics Inc. occurred. Capital expenditures are forecast to total approximately 60.0 billion yen, including capital investment in Japan and overseas to expand production capacity and promote streamlining.

In net cash used in financing activities, the Company will make systematic repayments of its borrowings for the acquisition of the stock of Kanebo Cosmetics Inc. and other purposes. In addition, payments of cash dividends are expected to increase approximately 4.0 billion yen compared with the previous fiscal year. The balance of short- and long-term debt is projected to be approximately 360.0 billion yen at the end of the fiscal year.

As a result of the above, the balance of cash and cash equivalents as of March 31, 2007 is forecast to remain essentially unchanged from the previous fiscal year-end at approximately 70.0 billion yen.

3. **Cash Flow Indices**

	YEAR ENDED MARCH 31				
	2006	2005	2004	2003	2002
Shareholders' equity/Total assets (%)	**41.8**	65.1	59.1	57.9	59.5
Market capitalization/Total assets (%)	**138.4**	195.2	179.8	186.0	186.0
Interest-bearing debt/Operating cash flow (years)	**3.6**	0.3	0.5	0.4	0.5
Operating cash flow/Interest paid (times)	**82.1**	120.1	91.3	85.8	72.2

Notes:
1. All indices are computed based on consolidated data.
2. Market capitalization equals the stock price at the end of the period multiplied by the number of shares outstanding at the end of the period (excluding treasury stock).
3. Operating cash flow is stated in the consolidated statements of cash flows. Interest-bearing debt is all debt included in the consolidated balance sheets on which interest is paid.

III. Business and Other Risks

Corporations assume various risks in executing business. The Kao Group takes reasonable measures to reduce risk by eliminating exposure to, dispersing and hedging risks. However, unanticipated situations may occur that exert a significant impact on the Kao Group's business results and financial condition. It should be noted that any statements made in this text concerning the future are judgments made by the Company as of the date of this announcement (April 24, 2006).

For example, (1) in quality management, the Kao Group designs and manufactures products from the viewpoint of customers, in compliance with related laws and regulations and in accordance with internationally recognized quality management standards. In the development stage prior to market launch, the Kao Group conducts thorough safety testing and survey research to ensure excellent product quality. After market launch, the Kao Group works to further improve quality by incorporating opinions and demands regarding products through its customer consultation offices. However, the unforeseen occurrence of a serious quality problem would not only cause difficulties for the relevant brand, but would also have a major impact on the reputation of all the Kao Group's products, and might cause sales to decline. This could have a major effect on the Kao Group's business results and financial condition.

In addition, (2) there is believed to be a high probability that a major earthquake will occur in any region of Japan. The Kao Group has implemented various countermeasures, including earthquake resistance diagnosis and seismic retrofitting, at all of its production facilities. In spite of these measures, however, in the event of a major earthquake, the Kao Group's ability to secure raw materials, maintain continuity of production or supply products to the market may be disrupted, which could have a significant impact on the Kao Group's business results and financial condition.

Furthermore, (3) foreign currency-denominated transactions, including export and import trade transactions and non-trade transactions such as dividends, are affected by changes in currency exchange rates. The Kao Group hedges foreign exchange risk through various measures such as settlement of transactions through foreign currency accounts, foreign exchange contracts and currency swaps to mitigate the effect on business results. The Kao Group does not engage in derivative transactions for the purpose of speculation. However, items denominated in local currencies, including the sales, expenses and assets of overseas subsidiaries, are translated into Japanese yen for preparation of the consolidated financial statements. If the exchange rate at the time of conversion differs substantially from the expected rate, the value after translation into yen will change significantly, which will affect the Kao Group's business results and financial condition.

This release contains forward-looking statements that are based on management's estimates, assumptions and projections as of April 24, 2006.
Certain factors, which include, but are not limited to, the risks and uncertainty associated with the worldwide economy, competitive activity, and fluctuations in currency exchange and interest rates, could cause actual results to differ materially from expectations.

Executive Appointments

(Scheduled effective date; June 29, 2006)

1. Newly nominated Members of the Board (* Outside Director)

Candidate	Current Position
Shinichi Mita	Executive Officer, Vice President – Global Accounting and Finance
Tatsuo Takahashi	Executive Officer, President and Chief Executive Officer – Kao Hanbai Company, Ltd.
Masato Hirota	Executive Officer, President – Global Prestige Cosmetics
Toshiharu Numata	Executive Officer, Vice President – Global Research & Development
Atsushi Takahashi*	Representative Director, Chairman of the Board, The Sumitomo Trust & Banking Co., Ltd.
Osamu Shoda*	Representative Director, Chairman of the Board, Nisshin Seifun Group Inc.

2. Members of the Board scheduled to retire

Members of the Board	Current Position
Takahiko Kagawa	Representative Director, Executive Vice President, President – Global Consumer Products, In charge of Consumer Communications and Kao Professional Services Co., Ltd.
Akio Tsuruoka	Member of the Board, Executive Vice President, In charge of Global Procurement, Global Information Systems and Global Risk Management
Nobuatsu Higuchi	Member of the Board, Executive Vice President, President – Greater China, Chairman of Board of Directors and CEO – Kao (China) Holding Co., Ltd., Chairman of Board of Directors – Kao (China) Research and Development Center Co., Ltd.
Naotake Takaishi	Member of the Board, Executive Vice President, Senior Vice President – Global Research & Development
Akishige Okada	Outside Director, Advisor – Sumitomo Mitsui Banking Corporation
Sakie T. Fukushima	Outside Director, Representative Director and Regional Managing Director – Japan, Korn/Ferry International (in Japan), Director–Korn/Ferry International (in the U.S.)

3. Newly nominated Executive Vice President

Candidate	Current Position
Takuo Goto	Member of the Board, Executive Officer, Senior Vice President – Global Production & Engineering, Vice President – Environment & Safety, In charge of Product Quality Management, TCR Promotion and Global Logistics
Hiroshi Kanda	Member of the Board, Executive Officer, President – Global Feminine & Baby Care, Vice President – Marketing Development
Norihiko Takagi	Member of the Board, Executive Officer, President – International Business – Consumer Products
Shunichi Nakagawa	Member of the Board, Executive Officer, Vice President – Legal and Compliance – Global, Vice President – Global Corporate Communications

4. Newly nominated Executive Officer

Candidate	Current Position
Ken Hashimoto	Corporate Associate Officer, Vice President – Global Procurement
Hisao Mitsui	Vice President – Global Production & Engineering – Fabric & Home Care and Kao Professional Services, Plant Manager – Wakayama Plant
Shigeru Koshiba	President–Global Fabric & Home Care
Shoji Kobayashi	Vice President – Oleo Chemical Business – Chemical Company
Takuji Yasukawa	Corporate Associate Officer, President – Global Health Care
Yasushi Aoki	Corporate Associate Officer, Vice President – Global Human Capital Development
Michitaka Sawada	Vice President – Global Research and Development–Feminine & Baby Care
Masumi Natsusaka	President – Global Personal Care (Skin Care & Hair Care)
Bill Gentner	President and Chief Executive Officer – Kao Brands Company

5. Executive Officer scheduled to retire

Executive Officer	New position	Current Position
Akio Kimura	Corporate Associate Officer, Vice President – Products and Lifestyle Research	Executive Officer, Vice President – Products and Lifestyle Research

New Members of the Board, Corporate Auditors and Executive Officers

(Scheduled effective date; June 29, 2006)

After the approval of Annual General Meeting of Shareholders and the Meeting of the Board of Directors scheduled on June 29, 2006, new Members of the Board, Statutory Auditors and Executive Officers of Kao Corporation will be as follows;

Members of the Board (*Outside Director)

Takuya Goto	Chairman of the Board
Motoki Ozaki	Representative Director, President and Chief Executive Officer
Toshio Hoshino	Representative Director, Senior Executive Vice President
Takuo Goto	Member of the Board, Executive Vice President
Hiroshi Kanda	Member of the Board, Executive Vice President
Norihiko Takagi	Member of the Board, Executive Vice President
Shunichi Nakagawa	Member of the Board, Executive Vice President
Toshihide Saito	Member of the Board, Executive Officer
Shinichi Mita	Member of the Board, Executive Officer
Tatsuo Takahashi	Member of the Board, Executive Officer
Masato Hirota	Member of the Board, Executive Officer
Toshiharu Numata	Member of the Board, Executive Officer
Toshio Takayama	Member of the Board
Atsushi Takahashi*	Member of the Board
Osamu Shoda*	Member of the Board

Corporate Auditors (*Outside Corporate Auditor)

Tsuneo Ejiri	Full-time Corporate Auditor
Shoichi Otake	Full-time Corporate Auditor
Kohei Nasu*	Corporate Auditor, Attorney at Law
Satoshi Ito*	Corporate Auditor, Certified Public Accountant

Executive Officer

Yoshitaka Nakatani
Yoshiiku Hirai
Shinichiro Hiramine
Ken Hashimoto
Hisao Mitsui
Shigeru Koshiba
Shoji Kobayashi
Takuji Yasukawa
Yasushi Aoki
Michitaka Sawada
Masumi Natsusaka
Bill Gentner

Consolidated Balance Sheets

Millions of yen

	FY2005 March 31, 2006	Composition %	FY2004 March 31, 2005	Composition %	Changes Yen
Assets					
Current assets	364,613	29.9	289,180	42.0	75,433
Cash and time deposits	47,384		32,026		15,357
Notes and accounts receivable - trade	129,120		103,586		25,534
Short-term investments	20,189		40,383		(20,193)
Inventories	105,853		81,781		24,072
Deferred income taxes	19,479		14,559		4,920
Other	44,781		18,985		25,796
Allowance for doubtful receivables	(2,196)		(2,141)		(54)
Fixed assets	855,872	70.1	399,662	58.0	456,210
Tangible assets	282,796	23.1	260,223	37.8	22,573
Buildings and structures	95,097		89,916		5,181
Machinery, equipment and vehicles	90,520		80,144		10,376
Tools, furniture and fixtures	12,487		9,239		3,248
Land	67,111		62,523		4,588
Construction in progress	17,578		18,400		(822)
Intangible assets	466,221	38.2	86,222	12.5	379,998
Goodwill	56,446		26,010		30,436
Trademarks	156,241		44,348		111,892
Consolidation adjustment	210,706		-		210,706
Other	42,827		15,863		26,964
Investments and other assets	106,854	8.8	53,217	7.7	53,637
Investment securities	18,298		22,437		(4,139)
Long-term loans	293		275		18
Deferred income taxes	56,212		16,924		39,287
Other	32,333		13,788		18,544
Allowance for doubtful receivables	(283)		(209)		(73)
Deferred assets	77	0.0	130	0.0	(52)
Total assets	1,220,564	100.0	688,973	100.0	531,590
Liabilities					
Current liabilities	436,193	35.7	211,541	30.7	224,651
Notes and accounts payable - trade	96,507		70,993		25,513
Short-term debt	166,759		18,604		148,155
Current portion of convertible bonds	-		2,596		(2,596)
Current portion of long-term debt	22,699		91		22,607
Accounts payable - other	27,478		19,139		8,339
Accrued expenses	75,951		63,233		12,717
Accrued income taxes	17,510		19,665		(2,154)
Other	29,286		17,217		12,069
Long-term liabilities	265,790	21.8	21,768	3.1	244,021
Long-term debt	218,545		1,426		217,118
Liability for employee retirement benefits	29,439		10,211		19,227
Liability for director and corporate auditor retirement benefits	180		180		-
Other	17,625		9,950		7,675
Total liabilities	701,983	57.5	233,310	33.8	468,673
Minority interests	8,903	0.7	7,413	1.1	1,489
Common stock	85,424	7.0	85,424	12.4	-
Capital surplus	109,561	9.0	109,561	15.9	-
Retained earnings	345,941	28.3	299,345	43.5	46,595
Unrealized gain on available-for-sale securities	5,860	0.5	3,533	0.5	2,326
Foreign currency translation adjustments	(26,944)	(2.2)	(39,765)	(5.8)	12,820
Treasury stock, at cost	(10,165)	(0.8)	(9,850)	(1.4)	(315)
Shareholders' equity	509,676	41.8	448,249	65.1	61,427
Total liabilities, minority interests	1,220,564	100.0	688,973	100.0	531,590

Consolidated Statements of Income

Millions of yen

	FY2005 Apr '05 - Mar '06	% to net sales	FY2004 Apr '04 - Mar '05	% to net sales	Changes Yen	Changes %
Net sales	**971,230**	**100.0**	**936,851**	**100.0**	**34,378**	3.7
Cost of sales	427,734	44.0	404,803	43.2	22,930	5.7
Gross profit	**543,496**	**56.0**	**532,047**	**56.8**	**11,448**	**2.2**
Selling, general and administrative expenses	423,361	43.6	410,668	43.8	12,692	3.1
Operating income	**120,134**	**12.4**	**121,379**	**13.0**	**(1,244)**	**(1.0)**
Non-operating income	4,528	0.5	5,709	0.6	(1,180)	(20.7)
Interest income	1,161		701		459	
Dividend income	93		201		(107)	
Equity in earnings of non-consolidated subsidiaries and affiliates	-		1,216		(1,216)	
Foreign currency exchange gain	13		591		(577)	
Other	3,260		2,997		262	
Non-operating expenses	2,706	0.3	1,743	0.2	963	55.3
Interest expense	1,396		933		463	
Equity in loss of non-consolidated subsidiaries and affiliates	593		-		593	
Other	716		809		(93)	
Ordinary income	**121,956**	**12.6**	**125,345**	**13.4**	**(3,388)**	**(2.7)**
Extraordinary profit	**1,663**	**0.1**	**1,613**	**0.2**	**49**	**3.1**
Gain on sales of fixed assets	241		353		(112)	
Gain on sales of investment securities	1,202		1,183		18	
Other	219		76		143	
Extraordinary loss	**6,711**	**0.7**	**7,305**	**0.8**	**(593)**	**(8.1)**
Loss on sales/disposals of fixed assets	2,561		4,043		(1,481)	
Prior-year post-retirement healthcare benefit expenses at U.S. subsidiaries	2,326		-		2,326	
Loss on investment in affiliate	880		-		880	
Loss on impairment of long-lived assets	233		2,508		(2,275)	
Other	709		753		(43)	
Income before income taxes and minority interests	**116,908**	**12.0**	**119,653**	**12.8**	**(2,744)**	**(2.3)**
Income taxes - current	38,695	4.0	42,845	4.6	(4,150)	(9.7)
Income taxes - deferred	5,971	0.6	4,272	0.5	1,699	39.8
Minority interests in earnings of consolidated subsidiaries	1,101	0.1	355	0.0	746	210.2
Net income	**71,140**	**7.3**	**72,180**	**7.7**	**(1,039)**	(1.4)

Consolidated Statements of Retained Earnings

Millions of yen

	FY2005 Apr '05 - Mar '06	FY2004 Apr '04 - Mar '05
Capital surplus		
Balance at the beginning of period	109,561	108,888
Increase in capital surplus	-	672
Share-for-share exchange	-	672
Balance at the end of period	109,561	109,561
Retained earnings	**299,345**	**399,889**
Retained earnings at the beginning of period	72,987	72,222
Net Income	71,140	72,180
Increase by newly consolidated companies and affiliates accounted for the equity method	1,847	42
Decrease in retained earnings	26,392	172,766
Cash dividends paid	23,955	19,269
Bonuses paid to directors and corporate auditors	91	122
Retirement of treasury stock	-	127,775
Loss on transfer of treasury stock related to conversion of convertible bonds and other	2,345	25,598
Balance at the end of period	345,941	299,345

Consolidated Statements of Cash Flows

Millions of yen

	FY2005 Apr '05 - Mar '06	FY2004 Apr '04 - Mar '05
Operating activities:		
Income before income taxes and minority interests	116,908	119,653
Adjustments for:		
Depreciation and amortization	60,758	56,793
Loss on impairment of long-lived assets	233	2,508
Loss on sales or disposals of property, plant and equipment, net	2,320	3,689
Interest and dividend income	(1,254)	(903)
Interest expense	1,396	933
Unrealized foreign currency exchange (gain) loss	494	(239)
Equity in (earnings) losses of non-consolidated subsidiaries and affiliates	593	(1,216)
Change in trade receivables	618	(5,922)
Change in inventories	(4,592)	(9,781)
Change in prepaid pension cost	(8,467)	(658)
Change in trade payables	(1,759)	2,636
Change in liability for retirement benefits	(6,614)	(13,009)
Other, net	(2,658)	(3,337)
Sub-total	157,976	151,146
Interest and cash dividends received	3,379	1,956
Interest paid	(1,428)	(912)
Income taxes paid	(42,634)	(42,623)
Net cash provided by operating activities	**117,292**	**109,567**
Investing activities:		
Purchase of marketable securities	(2,999)	(11,999)
Proceeds from the redemption of marketable securities	8,999	9,171
Purchase of property, plant and equipment	(49,528)	(50,771)
Proceeds from sales of property, plant and equipment	1,482	2,434
Increase in intangible assets	(151,660)	(3,979)
Purchase of investment securities	(36)	(26)
Proceeds form the redemption and sales of investment securities	9,300	1,691
Payments for acquisition of stocks of newly consolidated subsidiaries	(293,034)	-
Payments for long-term loans	(897)	(1,131)
Other, net	(1,160)	201
Net cash used in investing activities	**(479,535)**	**(54,407)**
Financing activities:		
Change in short-term debt	146,683	402
Proceeds form long-term loans	240,245	78
Repayments of long-term loans	(547)	(172)
Proceeds from capital contribution from minority shareholders	-	837
Purchase of treasury stock	(6,056)	(71,632)
Payments of cash dividends	(23,980)	(19,259)
Payments of cash dividends to minority shareholders	(592)	(1,332)
Other, net	970	420
Net cash used in financing activities	**356,721**	**(90,657)**
Translation adjustments on cash and cash equivalents	**2,727**	**(1,246)**
Net decrease in cash and cash equivalents	**(2,794)**	**(36,742)**
Cash and cash equivalents, beginning of year	**70,409**	**107,151**
Cash and cash equivalents of newly consolidated subsidiaries, increase	**760**	**0**
Cash and cash equivalents due to exclusion of previously consolidated subsidiaries, decrease	**(848)**	**-**
Cash and cash equivalents, end of year	**67,527**	**70,409**

Supplemental Cash Flows Information
Millions of yen

The breakdown of assets and liabilities of Moton Brown Limited and Kanebo Cosmetics Inc. were as follows.

Molton Brown Limited and other 8 companies:

	FY2005
Current assets	3,264
Goodwill	32,793
Other fixed assets	1,447
Current liabilities	(2,548)
Minority interests	(11)
Acquisition of stock	34,945
Cash and cash equivalents	(362)
Account payable	(2,496)
Payment for purchase of newly consolidated subsidiaries, net of cash acquired	32,086

Kanebo Cosmetics Inc. and other 17 companies:

	FY2005
Current assets	82,038
Consolidation adjustment	210,706
Other fixed assets	68,863
Current liabilities	(54,469)
Long-term liabilities	(25,721)
Minority interests	(366)
Acquisition of stock	281,050
Cash and cash equivalents	(20,043)
Account payable	(60)
Payment for purchase of newly consolidated subsidiaries, net of cash acquired	260,947

Segment Information by Business

Millions of yen

FY2005
Apr '05 - Mar '06

	Consumer Products	Prestige Cosmetics	Chemical Products	Total	Corporate/ Eliminations	Consolidated
Net sales						
Sales to customers	704,033	85,246	181,949	971,230	-	971,230
Intersegment sales	-	-	26,941	26,941	(26,941)	-
Total	**704,033**	**85,246**	**208,890**	**998,171**	**(26,941)**	**971,230**
Operating expenses	**611,334**	**80,074**	**186,861**	**878,270**	**(27,174)**	**851,095**
Operating income	**92,699**	**5,171**	**22,029**	**119,901**	**233**	**120,134**
% to sales	13.2	6.1	10.5	12.0	-	12.4
Total Assets	**436,320**	**573,398**	**191,629**	**1,201,348**	**19,215**	**1,220,564**
Depreciation and amortization	**42,552**	**6,449**	**11,755**	**60,758**	**-**	**60,758**
Capital expenditure	**24,939**	**154,127**	**24,528**	**203,595**	**-**	**203,595**

FY2004
Apr '04 - Mar '05

	Consumer Products	Prestige Cosmetics	Chemical Products	Total	Corporate/ Eliminations	Consolidated
Net sales						
Sales to customers	690,006	78,294	168,550	936,851	-	936,851
Intersegment sales	-	-	28,439	28,439	(28,439)	-
Total	**690,006**	**78,294**	**196,989**	**965,290**	**(28,439)**	**936,851**
Operating expenses	**597,408**	**70,601**	**176,326**	**844,336**	**(28,864)**	**815,471**
	92,597	**7,693**	**20,663**	**120,954**	**425**	**121,379**
% to sales	13.4	9.8	10.5	12.5	-	13.0
Total Assets	**434,007**	**31,653**	**164,838**	**630,500**	**58,473**	**688,973**
Depreciation and amortization	**43,610**	**2,646**	**10,848**	**57,105**	**(311)**	**56,793**
Loss on impairment of long-lived assets	**2,508**	**-**	**-**	**2,508**	**-**	**2,508**
Capital expenditure	**34,745**	**3,572**	**16,000**	**54,317**	**-**	**54,317**

Segment Information by Geography

Millions of yen

FY2005
Apr '05 - Mar '06

	Japan	Asia/Oceania	North America	Europe	Total	Corporate/ Eliminations	Consolidated
Net sales							
Sales to customers	697,484	84,468	93,738	95,537	971,230	-	971,230
Intersegment sales	10,571	26,429	1,428	13,947	52,377	(52,377)	-
Total	**708,056**	**110,898**	**95,167**	**109,485**	**1,023,607**	**(52,377)**	**971,230**
Operating expenses	**606,402**	**105,054**	**88,388**	**101,962**	**901,807**	**(50,712)**	**851,095**
Operating income	**101,653**	**5,844**	**6,778**	**7,522**	**121,799**	**(1,664)**	**120,134**
% to sales	14.4	5.3	7.1	6.9	11.9	-	12.4
Total assets	**934,184**	**107,509**	**75,471**	**127,499**	**1,244,665**	**(24,101)**	**1,220,564**

FY2004
Apr '04 - Mar '05

	Japan	Asia/Oceania	North America	Europe	Total	Corporate/ Eliminations	Consolidated
Net sales							
Sales to customers	693,017	77,458	82,408	83,967	936,851	-	936,851
Intersegment sales	10,067	22,823	1,230	9,836	43,958	(43,958)	-
Total	**703,084**	**100,282**	**83,638**	**93,803**	**980,809**	**(43,958)**	**936,851**
Operating expenses	**595,600**	**97,525**	**77,183**	**89,207**	**859,517**	**(44,045)**	**815,471**
Operating income	**107,484**	**2,756**	**6,455**	**4,595**	**121,292**	**86**	**121,379**
% to sales	15.3	2.7	7.7	4.9	12.4	-	13.0
Total assets	**421,746**	**84,342**	**63,191**	**81,929**	**651,209**	**37,764**	**688,973**

Sales to Foreign Customers

Millions of yen

FY2005
Apr '05 - Mar '06

	Asia/Oceania	North America	Europe	Total
Total overseas sales	92,711	94,356	93,139	280,207
Consolidated net sales				971,230
Percentage of overseas	9.5%	9.7%	9.6%	28.9%

FY2004
Apr '04 - Mar '05

	Asia/Oceania	North America	Europe	Total
Total overseas sales	81,791	81,962	85,539	249,293
Consolidated net sales				936,851
Percentage of overseas	8.7%	8.7%	9.1%	26.6%

Sales Composition

Millions of yen

	FY2005 Apr '05 - Mar '06	FY2004 Apr '04 - Mar '05	Growth %
Consumer Products			
Personal Care	187,896	180,616	4.0
Fabric and Home Care	237,551	234,250	1.4
Feminine Care, Baby Care and Others	113,630	122,079	(6.9)
Total Japan	539,078	536,947	0.4
Asia and Oceania	57,188	53,508	6.9
North America and Europe	115,329	106,735	8.1
Eliminations	(7,563)	(7,183)	5.3
Total	**704,033**	690,006	**2.0**
Prestige Cosmetics	**85,246**	78,294	**8.9**
Chemical Products			
Japan	114,522	111,475	2.7
Asia	53,596	47,231	13.5
North America and Europe	72,196	64,035	12.7
Eliminations	(31,424)	(25,753)	22.0
Total	**208,890**	196,989	**6.0**
Total before eliminations	**998,171**	965,290	**3.4**
Eliminations	(26,941)	(28,439)	(5.3)
Consolidated net sales	**971,230**	936,851	**3.7**