

## Summary of Consolidated Business Results for the Nine Months Ended December 31, 2005

Tokyo, January 23, 2006 — Kao Corporation today announced its consolidated business results for the nine months ended December 31, 2005, the third quarter of the fiscal year ending March 31, 2006. The following summary of the business results that Kao submitted to the Tokyo Stock Exchange is unaudited and for reference only.

Ticker code: 4452

### Consolidated Financial Highlights (Unaudited)

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

	Nine months ended December 31			2005 U.S. dollars	Fiscal 2004, ended March 31, 2005 Yen
	2005 Yen	2004	Change %		
Net sales	<b>746,033</b>	724,743	2.9	<b>6,318.6</b>	936,851
Operating income	<b>105,205</b>	103,586	1.6	<b>891.0</b>	121,379
Ordinary income	<b>107,075</b>	106,792	0.3	<b>906.9</b>	125,345
Net income	<b>64,212</b>	62,352	3.0	<b>543.8</b>	72,180
Total assets	<b>747,223</b>	720,109	3.8	<b>6,328.6</b>	688,973
Total shareholders' equity	<b>495,000</b>	451,783	9.6	<b>4,192.4</b>	448,249
Shareholders' equity/total assets	<b>66.2%</b>	62.7%	-	<b>66.2%</b>	65.1%
Shareholders' equity per share (Yen/US\$)	<b>909.76</b>	825.73	10.2	<b>7.70</b>	821.47
Net income per share (Yen/US\$)	<b>118.04</b>	113.17	4.3	<b>1.00</b>	131.16
Net income per share, diluted (Yen/US\$)	<b>117.76</b>	111.13	6.0	<b>1.00</b>	129.09
Net cash provided by operating activities	<b>88,716</b>	76,888	-	<b>751.4</b>	109,567
Net cash used in investing activities	<b>(54,057)</b>	(44,210)	-	<b>(457.8)</b>	(54,407)
Net cash used in financing activities	<b>(27,772)</b>	(75,448)	-	<b>(235.2)</b>	(90,657)
Cash and cash equivalents, end of term	<b>78,510</b>	64,455	-	<b>664.9</b>	70,409

*Notes:*

- Change in scope of consolidation: Consolidated subsidiaries (14 additions, 5 exclusions); Non-consolidated subsidiaries and affiliates accounted for by the equity method (11 additions)*
- Net income per share is computed based on the weighted average number of shares outstanding during the corresponding periods.*
- U.S. dollar amounts represent translations using the approximate exchange rate on December 31, 2005, of yen 118.07=US\$1, and are included solely for the convenience of readers.*
- Yen amounts are rounded down to the nearest million.*

**Forecast of Consolidated Results for the Year Ending March 31, 2006**

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

	Year ending March 31, 2006		Original forecast*
	Yen	U.S. dollars	Yen
Net sales	970,000	8,215.5	965,000
Operating income	123,000	1,041.8	125,000
Ordinary income	124,000	1,050.2	126,000
Net income	72,000	609.8	74,000
Net income per share (Yen/US\$)	132.15	1.12	135.81

Notes:

\* Announced on October 24, 2005.

1. Net income per share is computed based on the weighted average number of shares outstanding during the fiscal year.
2. U.S. dollar amounts represent translations using the approximate exchange rate on December 31, 2005, of yen 118.07=US\$1, and are included solely for the convenience of readers.

**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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*Consolidated Business Results and Financial Condition*

**Summary of Third Quarter Business Results and Financial Condition  
(Nine-Month Cumulative Totals)**

**Business Results**

During the nine-month period ended December 31, 2005, the Japanese economy showed a general recovery trend, supported by solid consumer spending and other factors, while economic expansion also prevailed overseas. Against this backdrop, the Kao Group worked to add higher value to its products in response to market changes. Net sales increased 21.2 billion yen to 746.0 billion yen, a 2.9% increase over the same period in the previous fiscal year. The increase included a currency translation effect of 0.8 billion yen. Although raw material prices remained high, the Kao Group focused on the launch of new products, expansion of chemical products sales and cost-cutting activities, and operating income increased 1.6 billion yen from the same period in the previous fiscal year to 105.2 billion yen, while ordinary income increased 0.2 billion yen to 107.0 billion yen. Net income increased 1.8 billion yen from the same period in the previous fiscal year to 64.2 billion yen, due to factors including a decline in the effective tax rate after application of tax effect accounting.

Kanebo Cosmetics Inc., for which Kao signed a stock purchase agreement in December 2005 with an acquisition scheduled for closing at the end of January 2006, will have no effect on results for the third-quarter period under review.

**Summary of Results by Business Segment**

**Consumer Products Business**

Net sales of consumer products were 547.4 billion yen, a 1.8% increase over the same period in the previous fiscal year (the real rate of increase excluding the effect of exchange rate changes was also 1.8%) as Kao aggressively launched new and improved products with high added value. Although new products increased sales volume, operating income was affected by higher raw material prices worldwide and lower market prices in Japan, remaining basically unchanged from the same period in the previous fiscal year at 80.2 billion yen.

● Japan

The trend of declining prices in the market moderated but continued, and average consumer purchase prices of major products fell by around one percentage point compared with the same period of the previous fiscal year. In these circumstances, the Kao Group's business and sales divisions aggressively carried out integrated marketing activities for each category and chain. As a result, sales increased 0.6% over the same period in the previous fiscal year to 425.9 billion yen.

Sales of personal care products increased 4.3% compared with the same period in the previous fiscal year to 144.9 billion yen. Overall sales of the *Bioré U* family body care brand expanded, supported by favorable sales of *Bioré U Foam Hand Soap*. In the shampoo and conditioner category, sales increased in the midst of increasing market competition due to a favorable response to the addition of a series of hair beautifying products to the *Asience* brand.

Sales of fabric and home care products increased 1.4% compared with the same period in the previous fiscal year to 191.0 billion yen. Despite a continued decline in retail prices and a shrinking gift market, sales increased in the laundry detergent category as new and improved products such as *New Beads* laundry detergent with fabric softener stimulated the market. In the deodorizing fabric freshener

category, Kao launched *Resesh*, which sold well.

In the area of feminine care, baby care and other products, sales decreased 6.2% compared with the same period in the previous fiscal year to 89.9 billion yen. Kao made product improvements to *Merries* disposable baby diapers and sales increased steadily. Sales of feminine care products also increased as *Laurier F* sanitary napkins gained steady consumer support. In the health care (functional food) category, increased competition had an impact on products in the *Econa Healthy* line of healthy cooking oils, while sales of *Healthya* healthy tea drinks declined with the consolidation into a group of loyal drinkers following the cooling off of the boom in popularity of catechins. Kao launched *Megurism Steam Thermo Power Pad*, a steam-generating sheet that improves blood circulation to affected areas of shoulder stiffness and lower back pain.

- Overseas

In Asian markets, fierce market competition continued, but in China, where Kao has undertaken structural reforms, these efforts began to show results and sales rose. Sales in the ASEAN region are also on a recovery track and overall sales in Asia increased 3.0% compared with the same period in the previous fiscal year to 41.6 billion yen. In North America and Europe, sales increased by 7.7% from the same period in the previous fiscal year to 85.3 billion yen. *Jergens natural glow*, a new skin care product of Kao Brands Company, contributed strongly to sales. In addition, new and improved products introduced by KPSS — Kao Professional Salon Services GmbH received a favorable response from the market.

### **Prestige Cosmetics Business**

Amid changing values and awareness toward beauty, as well as continued diversification in sales channels, the Kao Group worked in the Japanese cosmetics market to strengthen its brands, including *est* in department stores and *Alblanc* in the supermarket and drugstore channels. For the *Sofina* brand, Kao made improvements to skin care products *Rise* and *Vital Rich*, foundation product *Finefit* and others to enhance their market appeal. In overseas markets, *Molton Brown* was added to this segment. As a result of the above, sales increased 2.4% compared with the same period in the previous fiscal year to 62.9 billion yen, and operating income declined 8.2% to 6.6 billion yen as Kao invested aggressively in new market development and in the Japanese market.

### **Chemical Products Business**

Kao worked to expand its business in the core fields of oleo chemicals, performance chemicals and specialty chemicals. As a result, sales totaled 156.6 billion yen, an increase of 6.1% compared to the same period in the previous fiscal year (excluding the effect of currency translation, the increase was 5.6%). Operating income increased 14.6% from the same period in the previous fiscal year to 18.1 billion yen due to growth in sales volume and cost reductions, which offset the effects of a sharp price increase for petrochemical raw materials.

- Japan

Amid an economic upswing, lubricants and other industrial-use materials faced difficult sales conditions, but products such as high-performance concrete admixtures and pigment auxiliary and color toner for inkjet printer ink performed well. As a result, overall sales increased 3.5% compared with the same period in the previous fiscal year to 86.4 billion.

- Overseas

Sales in Asia increased by 8.6% over the same period in the previous fiscal year to 38.6 billion yen as sales of fatty alcohols expanded globally and surfactants performed well in the ASEAN region. Sales in North America and Europe increased by 12.4% compared with the same period in the previous fiscal year to 53.8 billion yen, with continued favorable performance by toner and toner binder

**Consolidated Balance Sheets**

Millions of yen

	Dec 31, 2005 (A)	Composition %	Mar 31, 2005 (B)	Composition %	Inc/(Dec) (A-B)	Dec 31, 2004	Composition %
<b>Current assets</b>	<b>322,569</b>	<b>43.2</b>	<b>289,180</b>	<b>42.0</b>	<b>33,388</b>	<b>311,460</b>	<b>43.3</b>
Cash and time deposits	58,539		32,026		26,513	37,724	
Notes and accounts receivable - trade	128,255		103,586		24,669	129,923	
Short-term investments	19,971		40,383		(20,411)	35,731	
Inventories	88,078		81,781		6,296	81,028	
Other	27,724		31,403		(3,678)	27,053	
<b>Fixed assets</b>	<b>424,535</b>	<b>56.8</b>	<b>399,662</b>	<b>58.0</b>	<b>24,872</b>	<b>408,564</b>	<b>56.7</b>
Tangible assets	264,339		260,223		4,116	261,600	
Intangible assets	109,419		86,222		23,197	91,879	
Other	50,776		53,217		(2,440)	55,084	
<b>Deferred assets</b>	<b>118</b>	<b>0.0</b>	<b>130</b>	<b>0.0</b>	<b>(11)</b>	<b>83</b>	<b>0.0</b>
<b>Total assets</b>	<b>747,223</b>	<b>100.0</b>	<b>688,973</b>	<b>100.0</b>	<b>58,250</b>	<b>720,109</b>	<b>100.0</b>
<b>Current liabilities</b>	<b>225,953</b>	<b>30.2</b>	<b>211,541</b>	<b>30.7</b>	<b>14,411</b>	<b>226,366</b>	<b>31.4</b>
Notes and accounts payable - trade	78,477		70,993		7,483	79,716	
Short-term debt	20,130		18,604		1,525	19,201	
Accrued expenses	72,581		63,233		9,347	73,015	
Other	54,764		58,709		(3,945)	54,433	
<b>Long-term liabilities</b>	<b>18,494</b>	<b>2.5</b>	<b>21,768</b>	<b>3.1</b>	<b>(3,274)</b>	<b>33,717</b>	<b>4.7</b>
Long-term debt	579		1,426		(847)	9,346	
Liability for employee retirement benefits	3,616		10,211		(6,595)	13,875	
Other	14,299		10,130		4,168	10,495	
<b>Total liabilities</b>	<b>244,448</b>	<b>32.7</b>	<b>233,310</b>	<b>33.8</b>	<b>11,137</b>	<b>260,084</b>	<b>36.1</b>
<b>Minority interests</b>	<b>7,775</b>	<b>1.1</b>	<b>7,413</b>	<b>1.1</b>	<b>361</b>	<b>8,241</b>	<b>1.2</b>
Common stock	85,424	11.4	85,424	12.4	-	85,424	11.9
Capital surplus	109,561	14.6	109,561	15.9	-	109,561	15.2
Retained earnings	339,883	45.5	299,345	43.5	40,537	358,410	49.7
Unrealized gain on available-for-sale securities	6,228	0.8	3,533	0.5	2,694	3,598	0.5
Foreign currency translation adjustments	(33,839)	(4.5)	(39,765)	(5.8)	5,925	(35,040)	(4.9)
Treasury stock, at cost	(12,257)	(1.6)	(9,850)	(1.4)	(2,406)	(70,170)	(9.7)
<b>Shareholders' equity</b>	<b>495,000</b>	<b>66.2</b>	<b>448,249</b>	<b>65.1</b>	<b>46,751</b>	<b>451,783</b>	<b>62.7</b>
<b>Total liabilities, minority interests &amp; shareholders' equity</b>	<b>747,223</b>	<b>100.0</b>	<b>688,973</b>	<b>100.0</b>	<b>58,250</b>	<b>720,109</b>	<b>100.0</b>

\*Yen amounts are rounded down to the nearest million.

**Consolidated Statements of Income**

Millions of yen

	(A) 9 months/FY2005 Apr - Dec 2005	% to net sales	(B) 9 months/FY2004 Apr - Dec 2004	% to net sales	Inc/(Dec) (A-B)	FY2004 Apr '04 - Mar '05	% to net sales
<b>Net sales</b>	<b>746,033</b>	<b>100.0</b>	<b>724,743</b>	<b>100.0</b>	<b>21,290</b>	<b>936,851</b>	<b>100.0</b>
Cost of sales	321,990	43.2	306,140	42.2	15,849	404,803	43.2
<b>Gross profit</b>	<b>424,043</b>	<b>56.8</b>	<b>418,602</b>	<b>57.8</b>	<b>5,440</b>	<b>532,047</b>	<b>56.8</b>
Selling, general and administrative expenses	318,837	42.7	315,015	43.5	3,822	410,668	43.8
<b>Operating income</b>	<b>105,205</b>	<b>14.1</b>	<b>103,586</b>	<b>14.3</b>	<b>1,618</b>	<b>121,379</b>	<b>13.0</b>
Non-operating income	3,336	0.5	4,409	0.6	(1,073)	5,709	0.6
Interest and dividend income	1,011		593		418	903	
Equity in earnings of nonconsolidated subsidiaries and affiliates	208		1,416		(1,208)	1,216	
Foreign currency exchange gain	-		277		(277)	591	
Other	2,116		2,121		(5)	2,997	
Non-operating expenses	1,466	0.2	1,204	0.2	262	1,743	0.2
Interest expense	856		699		156	933	
Foreign currency exchange loss	256		-		256	-	
Other	353		504		(151)	809	
<b>Ordinary income</b>	<b>107,075</b>	<b>14.4</b>	<b>106,792</b>	<b>14.7</b>	<b>282</b>	<b>125,345</b>	<b>13.4</b>
Extraordinary profit	349	0.0	1,068	0.2	(719)	1,613	0.2
Extraordinary loss	1,744	0.2	2,794	0.4	(1,050)	7,305	0.8
<b>Income before income taxes and minority interests</b>	<b>105,679</b>	<b>14.2</b>	<b>105,065</b>	<b>14.5</b>	<b>614</b>	<b>119,653</b>	<b>12.8</b>
Income taxes	40,689	5.5	42,234	5.8	(1,544)	47,118	5.1
Minority interests in earnings of consolidated subsidiaries	777	0.1	478	0.1	298	355	0.0
<b>Net income</b>	<b>64,212</b>	<b>8.6</b>	<b>62,352</b>	<b>8.6</b>	<b>1,860</b>	<b>72,180</b>	<b>7.7</b>

\*Yen amounts are rounded down to the nearest million.

**Consolidated Statements of Cash Flows**

Millions of yen

	9 months/FY2005 Apr - Dec 2005	9 months/FY2004 Apr - Dec 2004	FY2004 Apr '04 - Mar '05
<b>Operating activities:</b>			
Income before income taxes and minority interests	105,679	105,065	119,653
Adjustments for:			
Depreciation and amortization	42,419	41,643	56,793
Interest and dividend income	(1,011)	(593)	(903)
Interest expense	856	699	933
Change in trade receivables	(21,947)	(31,136)	(5,922)
Change in inventories	(3,560)	(8,336)	(9,781)
Change in trade payables	5,893	10,686	2,636
Change in liability for retirement benefits	(6,746)	(9,383)	(13,009)
Other, net	5,293	8,408	745
Sub-total	126,876	117,053	151,146
Interest and cash dividends received	2,350	1,072	1,956
Interest paid	(893)	(464)	(912)
Income taxes paid	(39,616)	(40,772)	(42,623)
<b>Net cash provided by operating activities</b>	<b>88,716</b>	<b>76,888</b>	<b>109,567</b>
<b>Investing activities:</b>			
Purchase of marketable securities and investment securities	(3,028)	(9,019)	(12,025)
Proceeds from the redemption and sales of marketable securities and investment securities	17,031	4,085	10,863
Purchase of property, plant and equipment	(34,325)	(36,666)	(50,771)
Proceeds from sales of property, plant and equipment	1,306	1,065	2,434
Increase in intangible assets	(1,997)	(4,259)	(3,979)
Payment for purchase of newly consolidated subsidiaries, net of cash acquired	(31,656)	-	-
Increase in long-term loans	(598)	(926)	(1,131)
Other, net	(789)	1,508	201
<b>Net cash used in investing activities</b>	<b>(54,057)</b>	<b>(44,210)</b>	<b>(54,407)</b>
<b>Financing activities:</b>			
Change in short-term debt	642	921	308
Purchase of treasury stock	(5,806)	(57,765)	(71,632)
Payments of cash dividends	(22,458)	(18,073)	(19,259)
Payments of cash dividends to minority interests	(601)	(1,340)	(1,332)
Other, net	451	809	1,258
<b>Net cash used in financing activities</b>	<b>(27,772)</b>	<b>(75,448)</b>	<b>(90,657)</b>
<b>Transition adjustments on cash and cash equivalents</b>	<b>1,301</b>	<b>73</b>	<b>(1,246)</b>
<b>Net increase (decrease) in cash and cash equivalents</b>	<b>8,189</b>	<b>(42,695)</b>	<b>(36,742)</b>
<b>Cash and cash equivalents, beginning of year</b>	<b>70,409</b>	<b>107,151</b>	<b>107,151</b>
<b>Cash and cash equivalents of newly consolidated subsidiaries, beginning of year</b>	<b>760</b>	<b>0</b>	<b>0</b>
<b>Cash and cash equivalents of excluding consolidated subsidiaries, beginning of year</b>	<b>(848)</b>	<b>-</b>	<b>-</b>
<b>Cash and cash equivalents, end of term</b>	<b>78,510</b>	<b>64,455</b>	<b>70,409</b>
*Yen amounts are rounded down to the nearest million.			
<b>Noncash financing activities:</b>			
Transfers of treasury stock related to conversion of convertible bonds			
Decrease in treasury stock	3,112	43,339	53,476
Decrease in retained earnings	(1,464)	(20,738)	(25,604)
Convertible bonds converted into common stock	1,647	22,600	27,871

**Sales Composition**

Millions of yen

	9 months/FY2005 Apr - Dec 2005	9 months/FY2004 Apr - Dec 2004	Growth %	FY2004 Apr '04 - Mar '05
<b>Consumer Products</b>				
Personal Care	144,940	138,906	4.3	180,616
Fabric and Home Care	191,056	188,464	1.4	234,250
Feminine Care, Baby Care and Others	89,992	95,912	(6.2)	122,079
Total Japan	425,990	423,283	0.6	536,947
Asia and Oceania	41,612	40,413	3.0	53,508
North America and Europe	85,343	79,244	7.7	106,735
Eliminations	(5,542)	(5,273)	-	(7,183)
<b>Total</b>	<b>547,403</b>	<b>537,669</b>	<b>1.8</b>	<b>690,006</b>
<b>Prestige Cosmetics</b>	<b>62,900</b>	<b>61,433</b>	<b>2.4</b>	<b>78,294</b>
<b>Chemical Products</b>				
Japan	86,413	83,527	3.5	111,475
Asia	38,692	35,643	8.6	47,231
North America and Europe	53,818	47,882	12.4	64,035
Eliminations	(22,273)	(19,367)	-	(25,753)
<b>Total</b>	<b>156,651</b>	<b>147,686</b>	<b>6.1</b>	<b>196,989</b>
<b>Total Before Eliminations</b>	<b>766,955</b>	<b>746,789</b>	<b>2.7</b>	<b>965,290</b>
Eliminations	(20,921)	(22,046)	-	(28,439)
<b>Consolidated Net Sales</b>	<b>746,033</b>	<b>724,743</b>	<b>2.9</b>	<b>936,851</b>

\*Yen amounts are rounded down to the nearest million.



**Segment Information by Business**

*Millions of yen*

**9 months/FY2005**

**Apr - Dec 2005**

	<b>Consumer Products</b>	<b>Prestige Cosmetics</b>	<b>Chemical Products</b>	<b>Total</b>	<b>Corporate/ Eliminations</b>	<b>Consolidated</b>
<b>Net sales</b>						
Sales to customers	547,403	62,900	135,729	746,033	-	746,033
Intersegment sales	-	-	20,921	20,921	(20,921)	-
<b>Total</b>	<b>547,403</b>	<b>62,900</b>	<b>156,651</b>	<b>766,955</b>	<b>(20,921)</b>	<b>746,033</b>
<b>Operating income</b>	<b>80,203</b>	<b>6,666</b>	<b>18,133</b>	<b>105,003</b>	<b>202</b>	<b>105,205</b>
% to sales	14.7	10.6	11.6	13.7	-	14.1

**9 months/FY2004**

**Apr - Dec 2004**

	<b>Consumer Products</b>	<b>Prestige Cosmetics</b>	<b>Chemical Products</b>	<b>Total</b>	<b>Corporate/ Eliminations</b>	<b>Consolidated</b>
<b>Net sales</b>						
Sales to customers	537,669	61,433	125,640	724,743	-	724,743
Intersegment sales	-	-	22,046	22,046	(22,046)	-
<b>Total</b>	<b>537,669</b>	<b>61,433</b>	<b>147,686</b>	<b>746,789</b>	<b>(22,046)</b>	<b>724,743</b>
<b>Operating income</b>	<b>80,198</b>	<b>7,262</b>	<b>15,830</b>	<b>103,290</b>	<b>295</b>	<b>103,586</b>
% to sales	14.9	11.8	10.7	13.8	-	14.3

**FY2004**

**Apr '04 - Mar '05**

	<b>Consumer Products</b>	<b>Prestige Cosmetics</b>	<b>Chemical Products</b>	<b>Total</b>	<b>Corporate/ Eliminations</b>	<b>Consolidated</b>
<b>Net sales</b>						
Sales to customers	690,006	78,294	168,550	936,851	-	936,851
Intersegment sales	-	-	28,439	28,439	(28,439)	-
<b>Total</b>	<b>690,006</b>	<b>78,294</b>	<b>196,989</b>	<b>965,290</b>	<b>(28,439)</b>	<b>936,851</b>
<b>Operating income</b>	<b>92,597</b>	<b>7,693</b>	<b>20,663</b>	<b>120,954</b>	<b>425</b>	<b>121,379</b>
% to sales	13.4	9.8	10.5	12.5	-	13.0

\*Yen amounts are rounded down to the nearest million.

products and growth in sales of high-performance concrete admixtures.

## **Financial Condition**

Total assets were 747.2 billion yen, an increase of 58.2 billion yen compared with the previous fiscal year-end. In addition to the increase in cash and cash equivalents, higher trade accounts receivable, partly due to the seasonal factor of relatively strong sales from October through December, contributed to the increase in total assets. Total liabilities increased 11.1 billion yen compared with the previous fiscal year-end to 244.4 billion yen due to factors including increases in trade accounts payable and accrued expenses. Total shareholders' equity increased 46.7 billion yen compared with the previous fiscal year-end to 495.0 billion yen, mainly due to net income for the period, and the shareholders' equity ratio was 66.2%, compared with 65.1% at the previous fiscal year-end.

Net cash provided by operating activities was 88.7 billion yen. The main factors were income before income taxes and minority interests of 105.6 billion yen and depreciation and amortization totaling 42.4 billion yen, set against 39.6 billion yen for payment of income taxes and a 21.9 billion yen increase in notes and accounts receivable. Net cash used in investing activities was 54.0 billion yen, primarily due to investments for expansion of production capacity and rationalization in Japan and overseas and the acquisition of Molton Brown Limited. Net cash used in financing activities was 27.7 billion yen due to an increase in payments of cash dividends and other factors. As a result of these activities, the balance of cash and cash equivalents at the end of the third quarter was 78.5 billion yen, an increase of 8.1 billion yen from the end of the previous fiscal year.

## **Forecast for the Fiscal Year Ending March 31, 2006**

In its activities in existing businesses (excluding Kanebo Cosmetics, Inc.), Kao expects to exceed the performance forecast announced with its interim financial results due to efforts such as the stimulation of the domestic consumer products market with new and improved products, and efficient use of expenses. At the same time, Kao will be impacted by amortization of intellectual property rights scheduled to be acquired from Kanebo Cosmetics Inc., in addition to generating financing expenses for external borrowing in connection with the acquisition of Kanebo Cosmetics stock. Consequently, for the fiscal year ending March 31, 2006, Kao forecasts consolidated net sales of 970.0 billion yen, operating income of 123.0 billion yen, ordinary income of 124.0 billion yen and net income of 72.0 billion yen.