Management Policies

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(The figures in this presentation material are rounded down.)

FY2001 Results (Consolidated)

Billion yen	FY1999	FY2000	FY2001	Growth	Changes
Sales	846.9	821.6	839.0	**2.1%**	+17.3
Operating Income	99.1	107.0	111.7	**4.3%**	+4.6
Operating Margin	*11.7%*	*13.0%*	*13.3%*		
Ordinary Income	98.0	111.8	113.5	**1.5%**	+1.7
Net Income	52.1	59.4	60.2	**1.4%**	+0.8
EBITDA	166.4	165.9	170.2	2.6%	+4.2
ROE	11.3%	12.7%	13.1%		
EPS (yen)	83.45	96.69	100.43	3.9%	+3.74

Business environment

◇ **Domestic operations**

  ➢ *Consumer products*
   - Flat volume, decreased value due to price decline
   - Consolidation of retailers and smaller floor space at retailers

  ➢ *Chemical products*
   - Contracted market due to recession
   - Weak exports

◇ **Overseas operations**

  ➢ *Consumer products*
   - Asia: -Consolidation to major retailers
          -Participation of China to WTO
          -AFTA
   - North America & Europe:
          -Steady consumption after the terrorist attacks in U.S.
          -Commencement of EURO circulation (JAN 2002)

  ➢ *Chemical products*
   - Signs of economic recovery toward year-end from recession
   - Low raw material prices for fatty alcohol

FY2001 Review

✧ **Achieved expected profits despite harsh business environment**

  ➢ Total Cost Reduction (TCR) activities

  ➢ Contribution from overseas operations

✧ **Domestic consumer products business: slight decline in market shares/price falls**

✧ **Consumer products business in Asia: Lower-than-expected growth**

✧ **Chemical products business: global expansion of value-added products**

❖ **Structural measures to the changing retailer environment**

❖ **Reallocation of production sites of the consumer products business in Asia**

Domestic businesses

♦ **Enhance brand power**

  ➢ Concentrate resources on core brands
    ex. marketing spending, R&D expenses

♦ **Reinforce sales system**

  ➢ Countermeasures to the retailer consolidation and the changing retailer environment
    ex. category management, RJS

  ➢ Reorganization of sales forces to improve operating efficiency between parent company and the sales company

Maintain/expand market share of core brands

Overseas businesses (1)

❋*For reinforcement and expansion*

Consumer Products

◇ **Asia**

- ➢ Concentrate resources on selected brands
- ➢ Strategic investment in China
- ➢ Reinforce the unified management in the region
- ➢ Reallocation of production sites

    ex. Taiwan, Malaysia

◇ **North America and Europe**

- ➢ Enhance global R&D collaboration among the group companies

    ex. Naturally Smooth moisture body lotion,
    Elumen hair colorant, Feather shampoo etc.

Overseas businesses (2)

✳ *For reinforcement and expansion*

Chemical Products

◇ Global expansion of the focused products:
  ➢ fatty alcohol
  ➢ copier and printer toner and related products
  ➢ aroma chemicals

Across the businesses

◇ M&A and strategic alliance

Management Policies

For Profitable Growth

1. Maintain/expand market share of core brands

2. Develop new products creating new markets

3. Develop and nurture new businesses

4. Reinforce and expand overseas businesses

5. Improve further management efficiency

Creation of innovative and unique products for consumer satisfaction

✧Kao's Five Principles of Product Development

1. Creativity and Originality

2. Usefulness and Value to the Society

3. Thorough Consumer Research

4. Comprehensible Feature at Retailers

5. Superior Cost/Benefit to Consumers

Improvement of management systems

 ✧ Strengthen corporate governance

> *ex. Reform of the Board, external directors,
> implementation of corporate officers system,
> stock option plan*

 ✧ Continuous TCR activities

 ✧ Flexible execution of share repurchase

 ✧ Reform of pension plan

 ✧ Human resource value