

Semi-Annual Financial Review

From April 1, 2003 to September 30, 2003

Kao Corporation

October 22, 2003

These are the translation of materials used for the analysts meeting of October 22, 2003 in Japan.

The presentation material in PDF format is available on our website:

http://www.kao.co.jp/e/ir_e/analystmtg/index.html

This presentation material contains forward-looking statements that are based on management's estimates, assumptions and projections as of October 22, 2003.

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.

(The yen amounts in this presentation material are rounded down.)

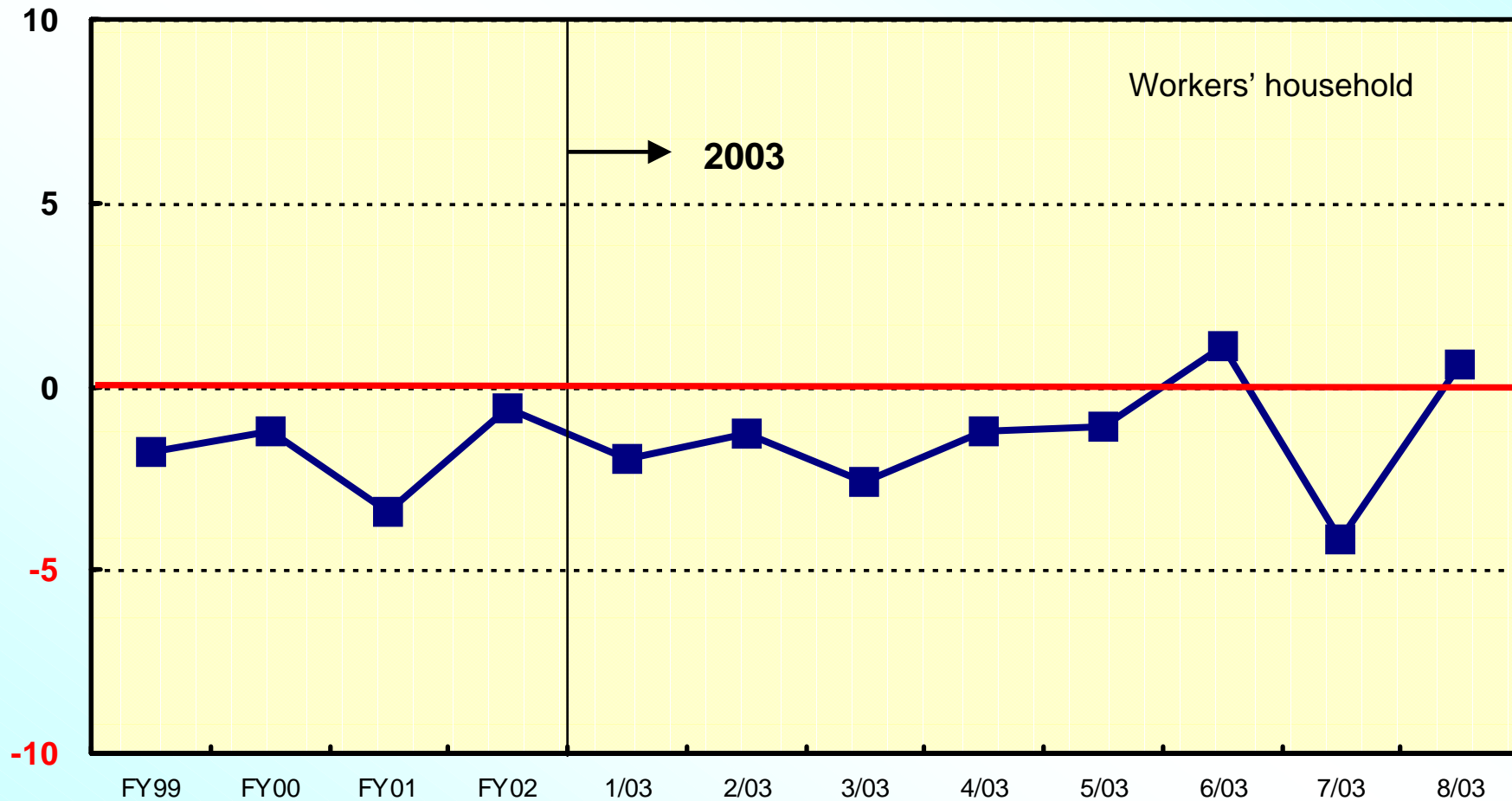
1. Business Environment

April 1, 2003 – September 30, 2003

Household Expenditure Survey

(%)

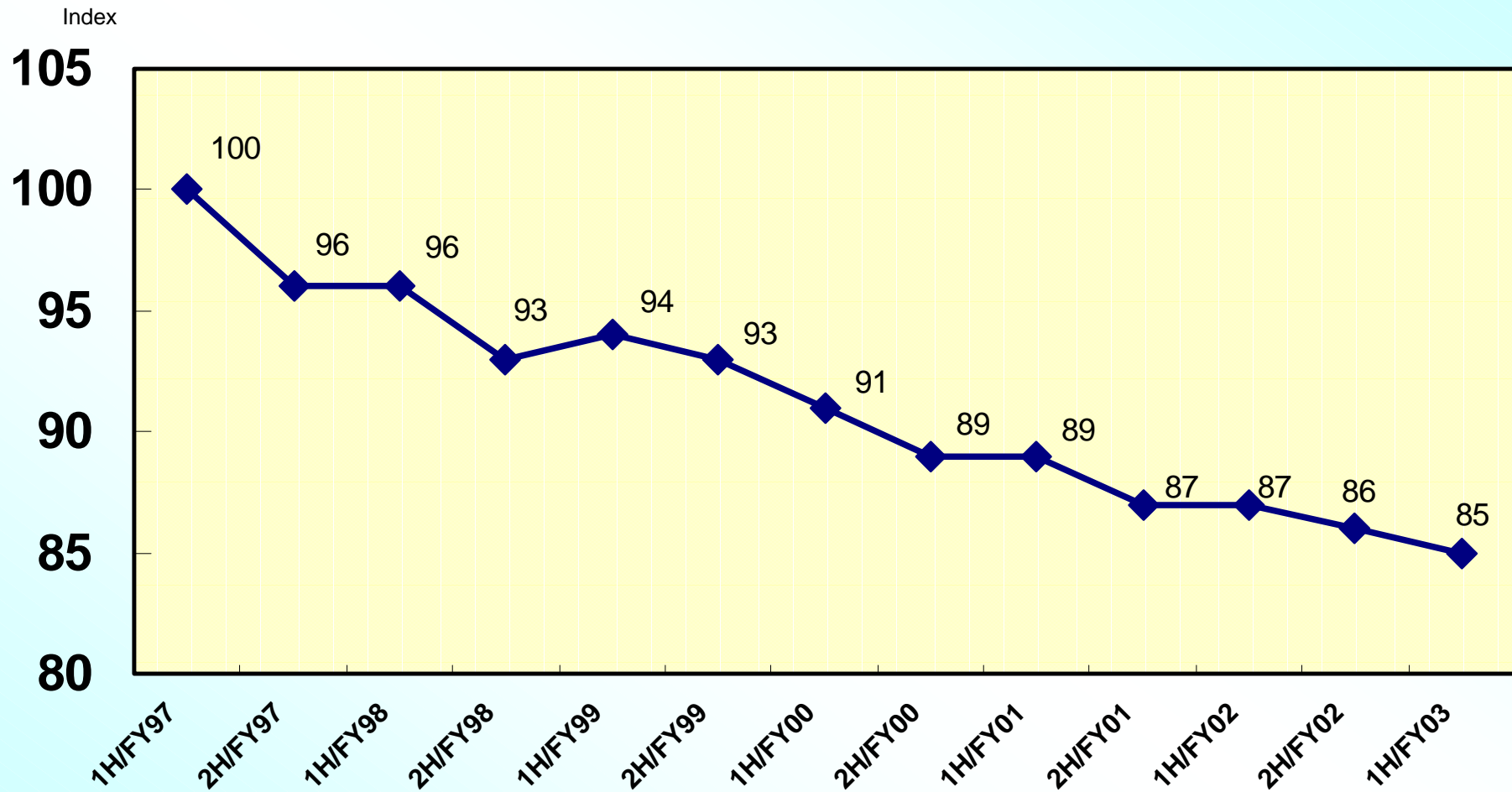
by Ministry of Public Management, Home Affairs, Posts and Telecommunications



(Percent change from a year earlier)

Average Consumer Purchase Price

Major Toiletry 14 Categories (All manufactures)



(Data Source: Kao)



2. Consolidated Business Results

April 1, 2003 – September 30, 2003

1st Half/FY2003 Results (Consolidated)

Billion yen	<u>1H/FY01</u>	<u>1H/FY02</u>	<u>1H/FY03</u>		
Sales	421.5	434.9	446.9	Growth 2.8%	Changes +12.0
Operating Income	57.3	61.5	60.5	-1.6%	-0.9
<i>Operating Margin</i>	13.6%	14.2%	13.6%		
Ordinary Income	57.6	62.6	61.9	-1.1%	-0.6
Net Income	31.4	33.2	31.9	-4.0%	-1.3
EBITDA	85.1	89.3	87.9	-1.5%	-1.3
EPS (yen)	51.78	56.99	57.87	1.5%	+0.88

Consolidated Sales [1]

	1st Half - FY2002		1st Half - FY2003		
	Billion yen	% Growth	Billion yen	%	
				Growth	Like-for-like
Personal Care	84.5	-3.1	84.7	0.3	0.3
Fabric and Home Care	126.8	3.1	122.4	-3.5	-3.5
Baby Care, Feminine Care and Others	41.8	1.8	46.8	11.8	11.8
Japan Total	253.2	0.7	254.0	0.3	0.3
Asia & Oceania	32.2	13.3	30.6	-5.0	-0.5
North America & Europe	42.5	14.8	50.3	18.3	19.2
Elimination	-3.2		-2.7		
Consumer Products	324.8	3.3	332.2	2.3	2.9

Prestige Cosmetics	38.1	2.0	38.3	0.6	0.8
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*Like-for-like: excludes currency translation impact



Consolidated Sales [2]

	1st Half - FY2002		1st Half - FY2003		
	Billion yen	% Growth	Billion yen	%	
				Growth	Like-for-like
Japan	50.2	1.3	50.7	1.0	1.0
Asia	19.2	11.1	21.6	12.5	21.1
North America & Europe	26.3	13.2	28.8	9.5	4.3
Elimination	-9.7		-11.2		
Chemical Products	86.0	5.3	89.9	4.5	4.1

Elimination	-14.0		-13.5		
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Consolidated Sales	434.9	3.2	446.9	2.8	3.1
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*Like-for-like: excludes currency translation impact

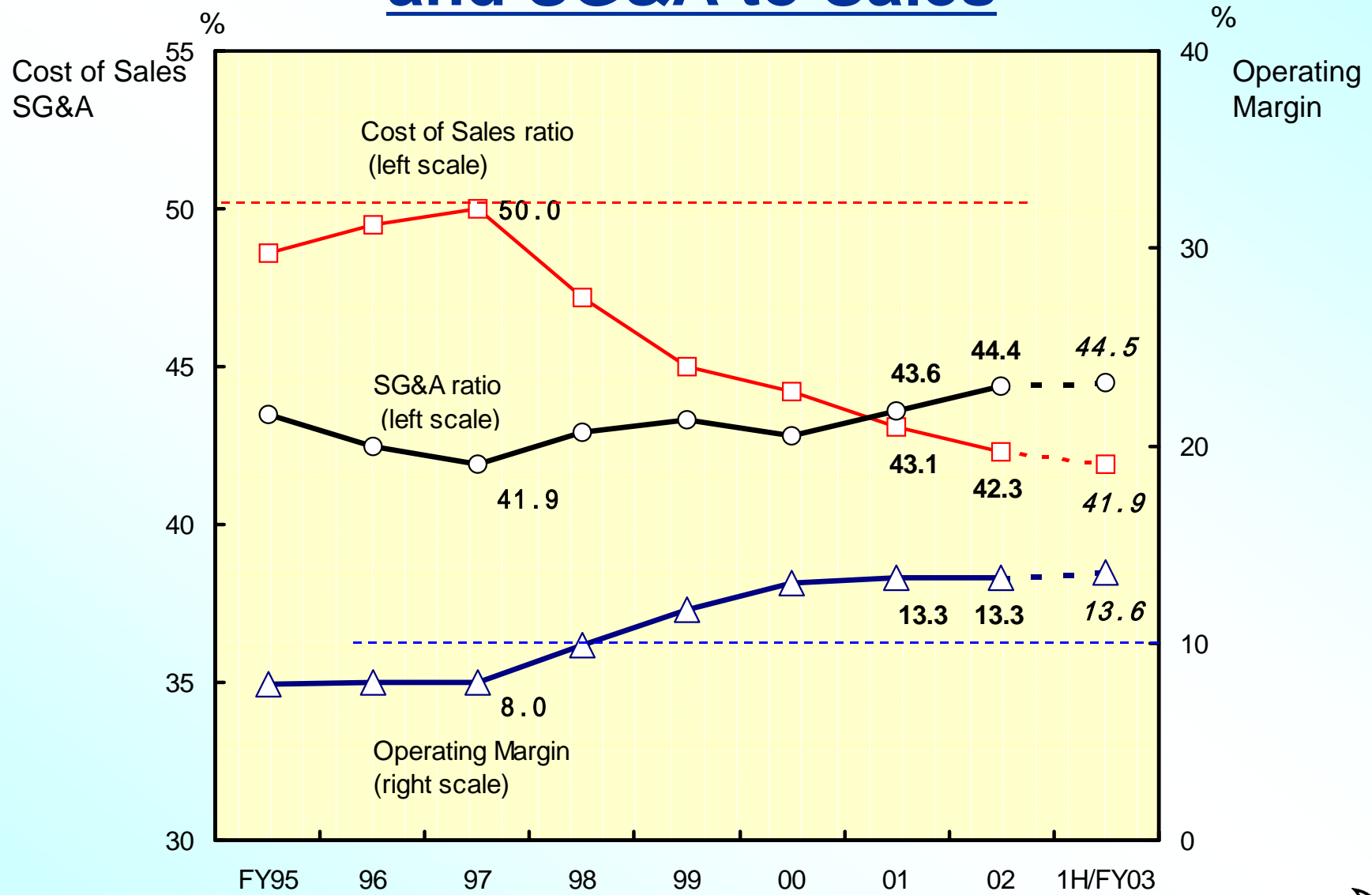
Consolidated Income Statements

	1H/FY2002		1H/FY2003		Changes*
	Billion yen	%	Billion yen	%	Billion yen
Sales	434.9	100.0	446.9	100.0	12.0
Cost of Sales	182.3	41.9	187.3	41.9	-5.0
Gross Profit	252.5	58.1	259.6	58.1	7.0
SG&A Expenses	190.9	43.9	199.0	44.5	-8.0
Operating Income	61.5	14.2	60.5	13.6	-0.9
Non-operating Income/Expenses	1.0	0.2	1.4	0.3	0.3
Ordinary Income	62.6	14.4	61.9	13.9	-0.6
Extraordinary Income & Loss	-2.0	-0.5	-2.4	-0.6	-0.3
Income Before Taxes	60.5	13.9	59.5	13.3	-0.9
Income Taxes	25.9	5.9	26.5	5.9	-0.5
Equity Items & Others (Minus)	1.3	0.3	1.0	0.2	0.2
Net Income	33.2	7.7	31.9	7.2	-1.3

* Negative figures in the "Changes" column mean a decrease in profits.



Consolidated Cost of Sales and SG&A to Sales



*Business tax has been adjusted prior to FY97



Breakdown of Consolidated Expenses

(Billion yen)

	1H/FY02	1H/FY03	Changes*
Total SG&A Expenses	190.9	199.0	-8.0

Freights/Warehouse	22.5	22.7	-0.1
Advertising	36.5	42.0	-5.4
Sales Promotion	21.4	16.5	4.8
Salaries and Wages	34.8	35.0	-0.1
R&D	19.1	19.2	-0.1




Major attributes to an increase in SG&A expenses (8.0 billion yen)

- ◆ Impact of consolidation of John Frieda Approximately 7.0 billion yen

* Negative figures in the "Changes" column mean a decrease in profits.



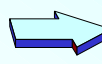
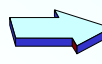


Sales and Operating Income by Business

Billion yen	Net Sales			Operating Income			
	1H/FY02	1H/FY03	Changes	1H/FY02	1H/FY03	Changes	
Consumer Products	324.8	332.2	7.4 2.3%	48.1 % to Sales 14.8%	46.9 14.1%	-1.2	
Prestige Cosmetics	38.1	38.3	0.2 0.6%	2.6 % to Sales 6.9%	4.0 10.6%	1.4	
Chemical Products	86.0	89.9	3.9 4.5%	10.3 % to Sales 12.0%	9.4 10.5%	-0.9	

*Before elimination of intersegment transfers

Sales and Operating Income by Geography

Billion yen	Net Sales			Operating Income		
	1H/FY02	1H/FY03	Changes	1H/FY02	1H/FY03	Changes
Japan	329.5	331.7	2.1 0.7%	53.0 % to Sales 16.1%	54.3 16.4%	1.3 
Asia & Oceania	51.1	52.0	0.9 1.9%	3.7 % to Sales 7.4%	2.2 4.3%	-1.5 
North America	39.0	40.3	1.2 3.1%	3.9 % to Sales 10.0%	4.0 9.9%	0.0 
			After amortization of goodwill	3.1 % to Sales 8.0%	3.1 7.7%	0.0
Europe	32.3	41.4	9.1 28.4%	2.3 % to Sales 7.3%	2.2 5.4%	-0.1 
			After amortization of goodwill	1.3 % to Sales 4.2%	1.0 2.4%	-0.3

*Before elimination of intersegment transfers

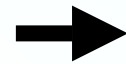


Consolidated Operating Income

1H/FY2002

1H/FY2003

61.5



60.5

Billion yen

Change

-0.9 Billion yen -1.6%

Japan	1.3
Asia & Oceania	-1.5
North America	0.0
Europe	-0.3
<hr/>	
Total	-0.9

Consumer Products	-1.2
Prestige Cosmetics	1.4
Chemical Products	-0.9
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Total	-0.9

*The figures of each segment are before elimination.

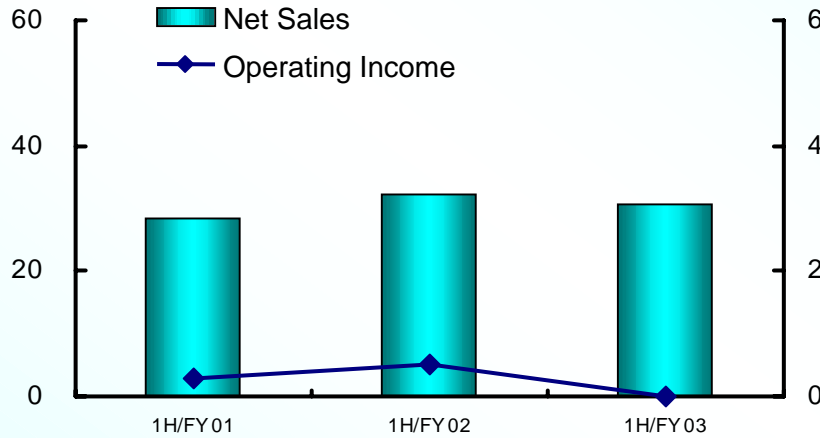


Consumer Products

Asia and Oceania

Sales (Billion yen)

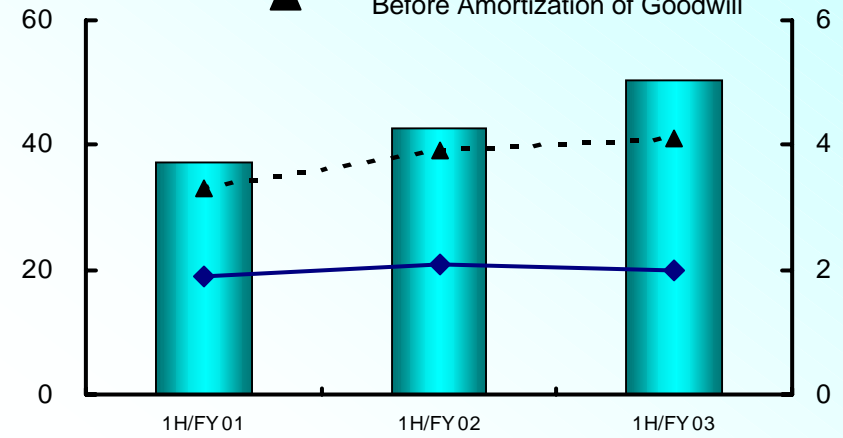
Net Sales
Operating Income



Operating Income
(Billion yen)

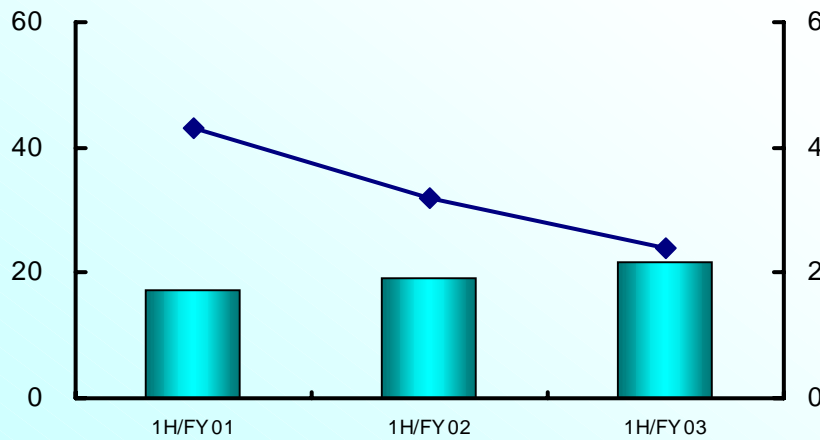
North America & Europe

Before Amortization of Goodwill

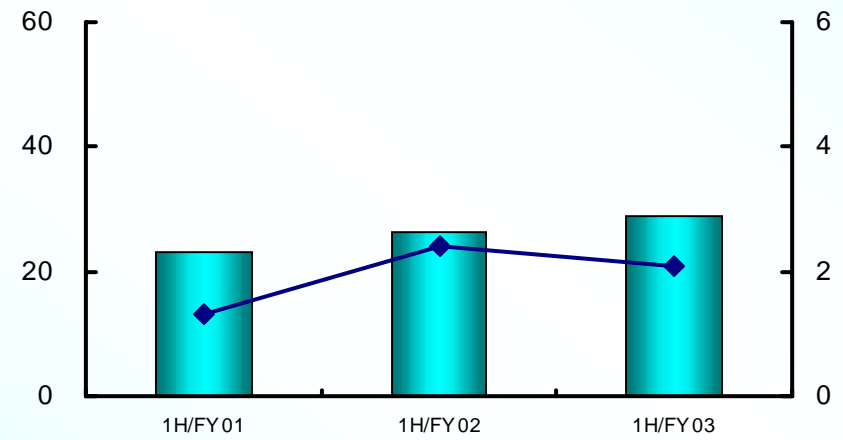


Chemical Products

Asia



North America & Europe



Consolidated Ordinary Income

1H/FY2002

1H/FY2003

62.6



61.9

Billion yen

Change

-0.6 Billion yen -1.1%

1. Operating income	-0.9
2. Equity earnings	-0.5
3. Forex gains/losses	0.8
4. Other non-operating items	0.1
<hr/> Total	-0.6

Consolidated Balance Sheets

(Billion yen)

	Sep/03	Mar/03	Changes		Sep/03	Mar/03	Changes
Current Asset	274.3	276.0	-1.6	Current Liabilities	204.8	201.8	3.0
Cash and Bank Deposits	58.5	36.2	22.3	Notes and Accounts Payable	65.7	60.5	5.1
Notes and Accounts Receivable	98.7	94.9	3.7	Short-term Debt (incl. Current Portion of Long-term Debt)	18.2	13.4	4.7
Short-term Investments	17.0	46.2	-29.2	Other Accounts Payable	19.0	18.0	1.0
Inventories	72.9	70.9	2.0	Accrued Expenses	59.7	61.0	-1.2
Other	27.0	27.6	-0.5	Others	42.1	48.7	-6.6
Fixed Assets	434.0	444.7	-10.6	Long-term Liabilities	72.1	79.3	-7.1
Tangible Assets	271.3	275.4	-4.0	Long-term Debt	35.5	35.6	0.0
Intangible Assets	103.0	104.1	-1.0	Others	36.5	43.7	-7.1
Investments	59.6	65.1	-5.4	Total Liabilities	277.0	281.2	-4.1
Deferred Assets	0.1	0.1	0.0	Minority Interests	22.7	22.5	0.1
				Shareholders' Equity	408.7	417.0	-8.2
				Common Stock	85.4	85.4	0.0
				Additional Paid in Capital	108.8	108.8	0.0
				Retained earnings	379.1	355.8	23.3
				Unrealized Gain on Available-for-sale Securities	3.0	1.7	1.3
				Foreign Currency Translation Adjustments	-26.7	-30.4	3.7
				Treasury Stock	-141.0	-104.3	-36.6
Total Assets	708.5	720.8	-12.2	Total Liabilities, Minority Interests & Shareholders' Equity	708.5	720.8	-12.2

Statements of Cash Flows

(Billion yen)

	1H/FY01	1H/FY02	1H/FY03	Changes
Operating Activities	68.7	66.7	52.0	-14.7
Investing Activities	-17.5	-74.8	-13.5	61.2
Financing Activities	-52.3	-46.7	-41.9	4.8
Translation Adjustment	0.9	-1.8	0.5	2.3
Net Increase	-0.2	-56.5	-2.8	53.6
Beginning balance of newly consolidated companies	0.9	0.9	2.6	1.7
Cash and Cash Equivalents	154.1	69.3	75.4	6.1
Total Debt	59.4	52.4	53.8	1.3

<Investing Activities>

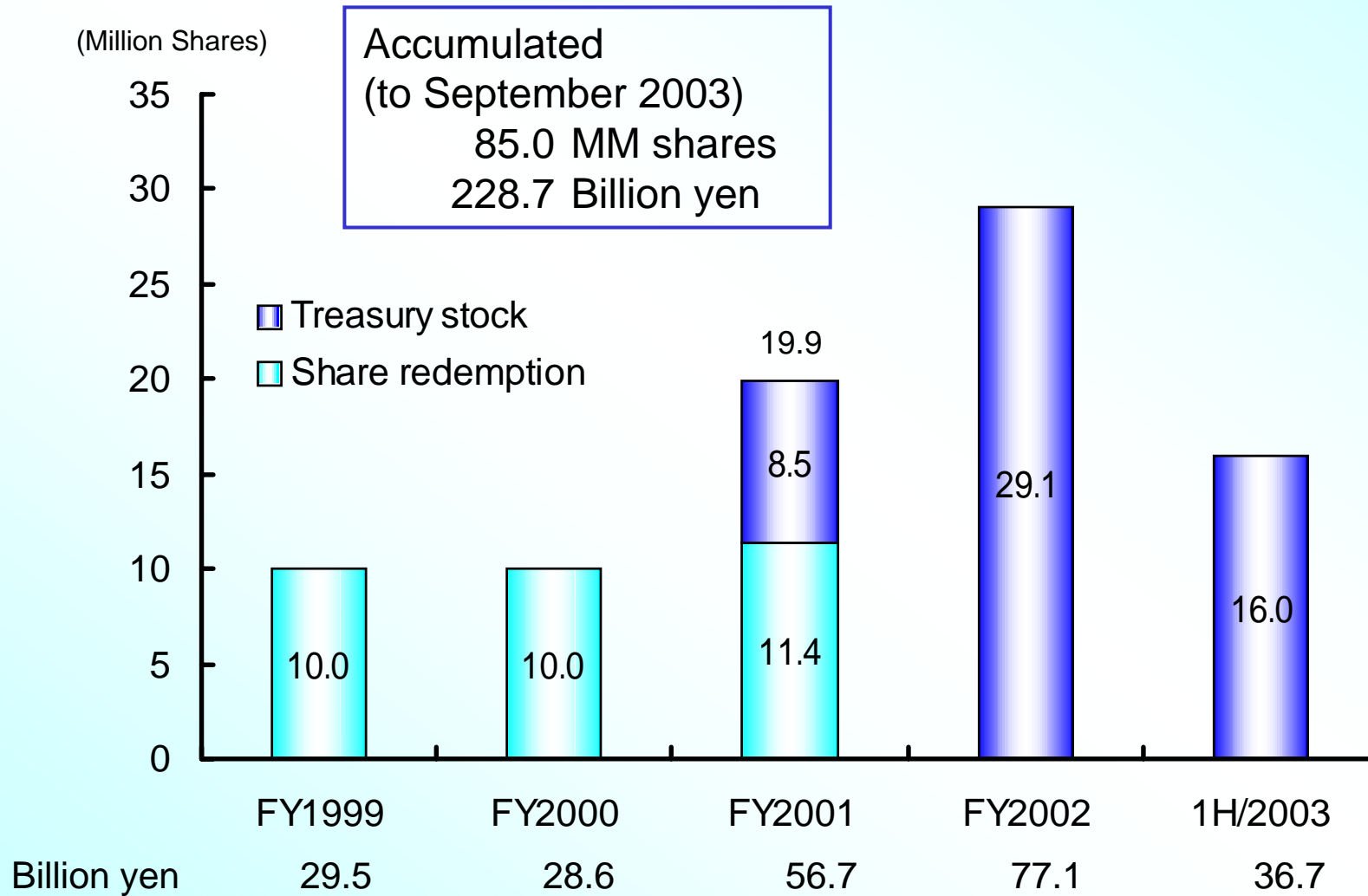
Acquisition of fragrance and specialties business

Capital expenditure: New products, capacity increases, a new R&D building, expansion of distribution facilities and development of information system

<Financing Activities>

Share repurchase: 36.9 billion yen

Share Repurchase



* Share repurchase from the market

3. Forecast for FY 2003

Consolidated Sales and Profit Forecast

	FY2001		FY2002		* FY2003(F)	
	Billion yen	% Growth	Billion yen	% Growth	Billion yen	% Growth
Sales	839.0	2.1	865.2	3.1	900.0	4.0
Operating Income	111.7	4.3	114.9	2.9	119.0	3.6
<% to Sales>	<13.3>		<13.3>		<13.2>	
Ordinary Income	113.5	1.5	117.4	3.4	120.0	2.1
<% to Sales>	<13.5>		<13.6>		<13.3>	
Net Income	60.2	1.4	62.4	3.6	64.0	2.5
<% to Sales>	<7.2>		<7.2>		<7.1>	

Net Income per Share (yen)	100.43	3.9	108.05	7.6	**116.62	7.9
ROE	13.1%		14.2%		**15.1%	
EBITDA (Operating Income + Depr. & Amort.)	170.2	2.6	173.2	1.8	174.0	0.4
Dividend per Share (yen)	26.0		30.0		32.0	

* Exchange rate assumptions: 116 yen/USD, 131 yen/Euro, 3.4 yen/ New Taiwan dollar

** The calculation is made based on the number of average outstanding shares that does not reflect further share repurchase after September 23, 2003.

Sales Outlook by Segment – FY2003

<Billion yen>

Consolidated Net Sales 900.0 +4.0%

By Geography

Japan	668.0	+2.0%
Asia & Oceania	104.0	+2.4%
North America	78.0	+2.9%
Europe	85.0	+25.3%

By Business

Consumer Products	670.0	+3.6%
Prestige Cosmetics	77.0	+1.5%
Chemical Products	179.0	+4.7%

Sales Outlook – FY2003

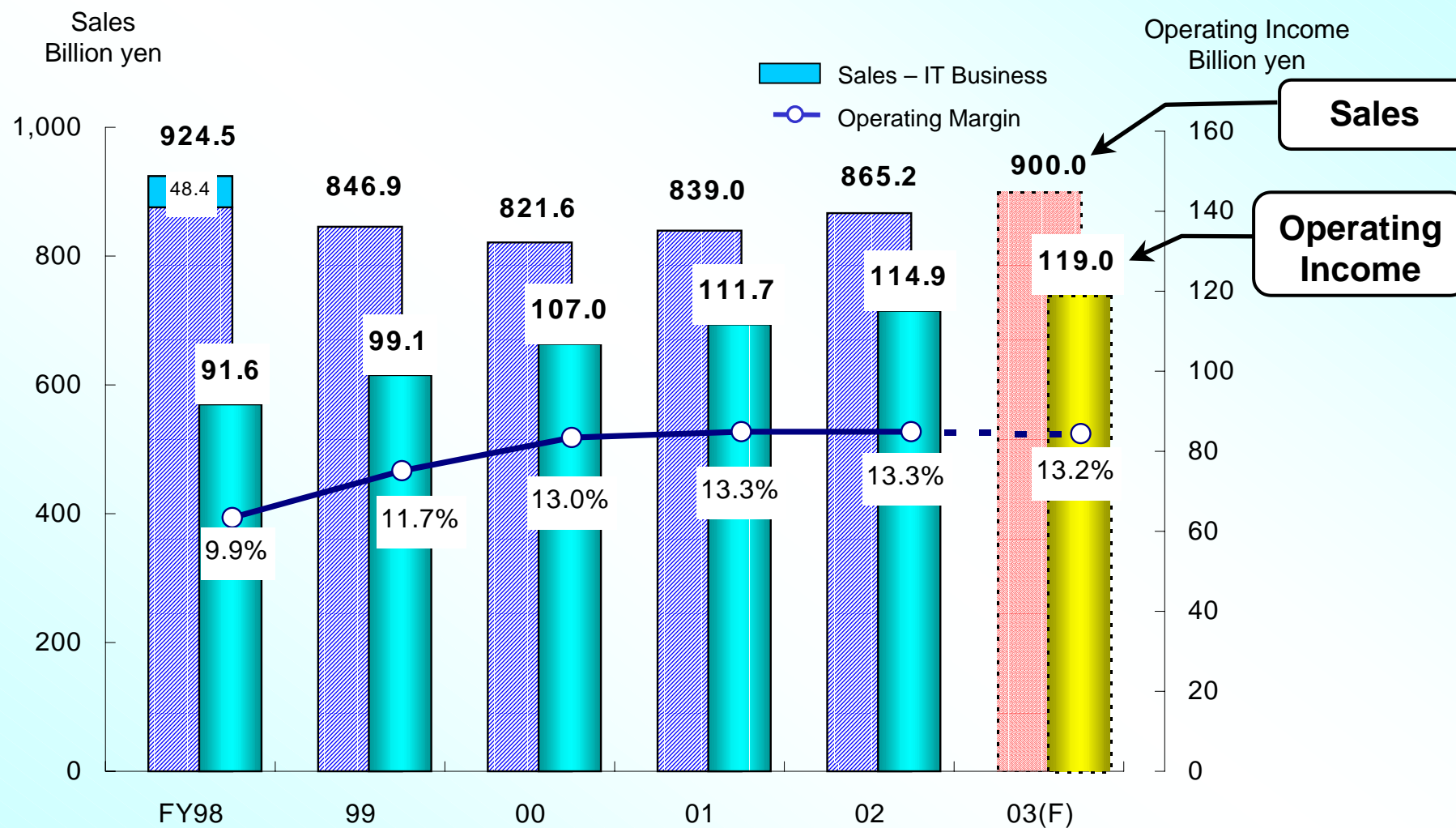
- Consumer Products in Japan -

<Billion yen>

	1st Half			Full Year		
	FY2002 Actual	FY2003 Actual	% Growth	FY2002 Actual	FY2003 Forecast	% Growth
Personal Care	84.5	84.7	+0.3%	165.5	168.0	+1.5%
Fabric and Home Care	126.8	122.4	-3.5%	248.9	243.0	-2.4%
Baby Care, Feminine Care and Others	41.8	46.8	+11.8%	86.2	100.0	+15.9%
Total	253.2	254.0	+0.3%	500.8	511.0	+2.0%

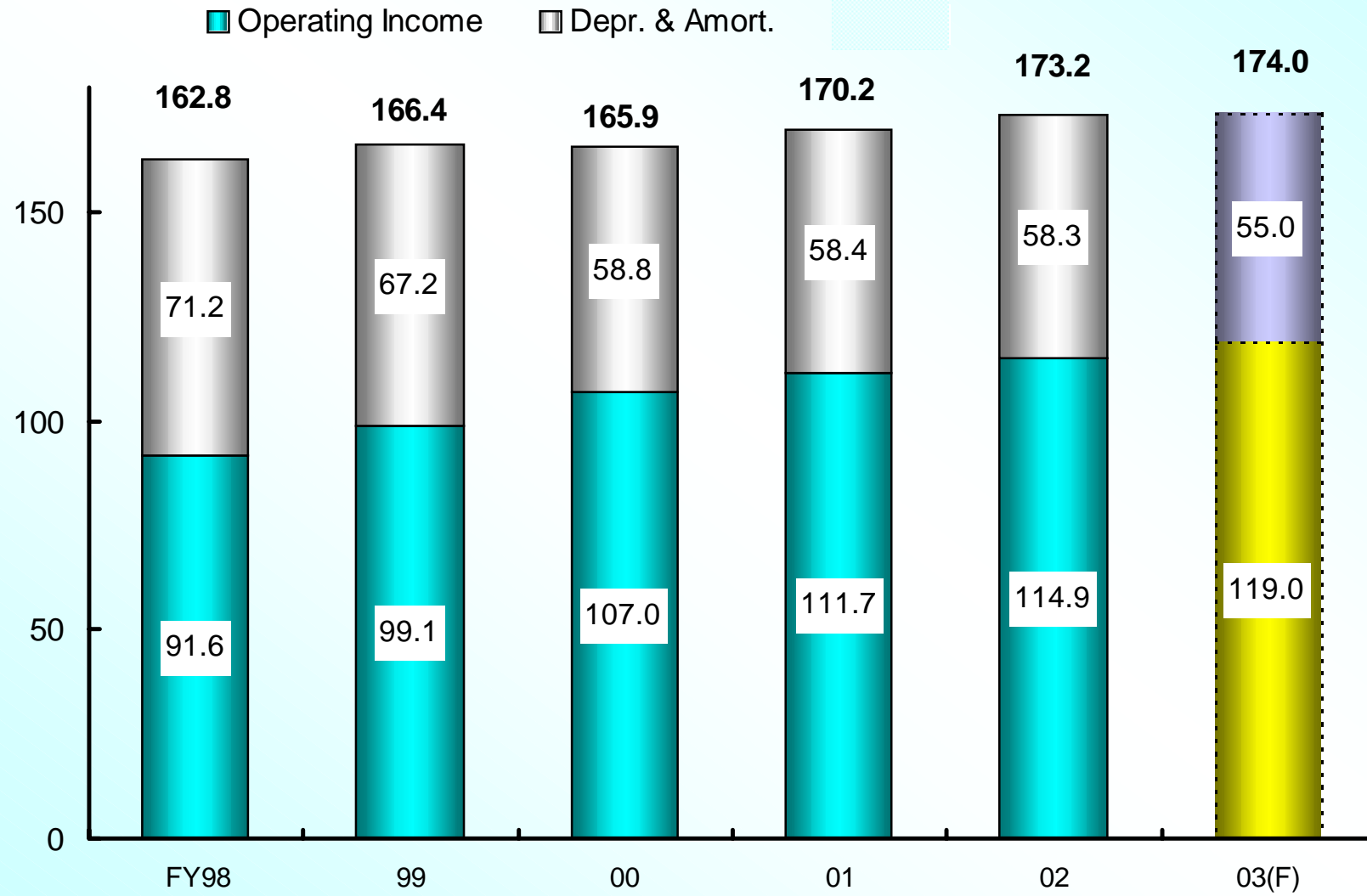
Consolidated Sales/Operating Margin

[Full Year]

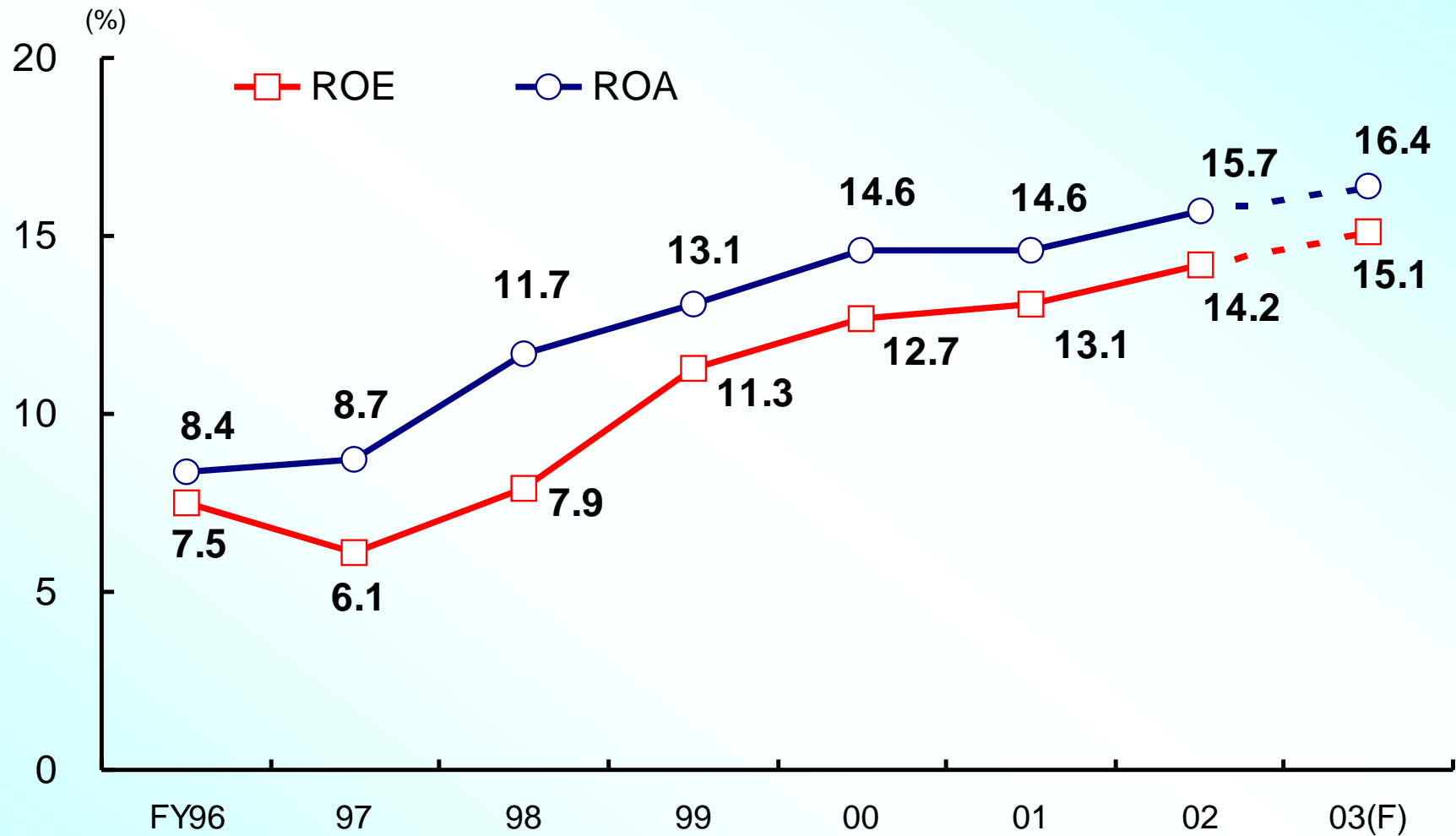


EBITDA

Billion yen



ROE & ROA



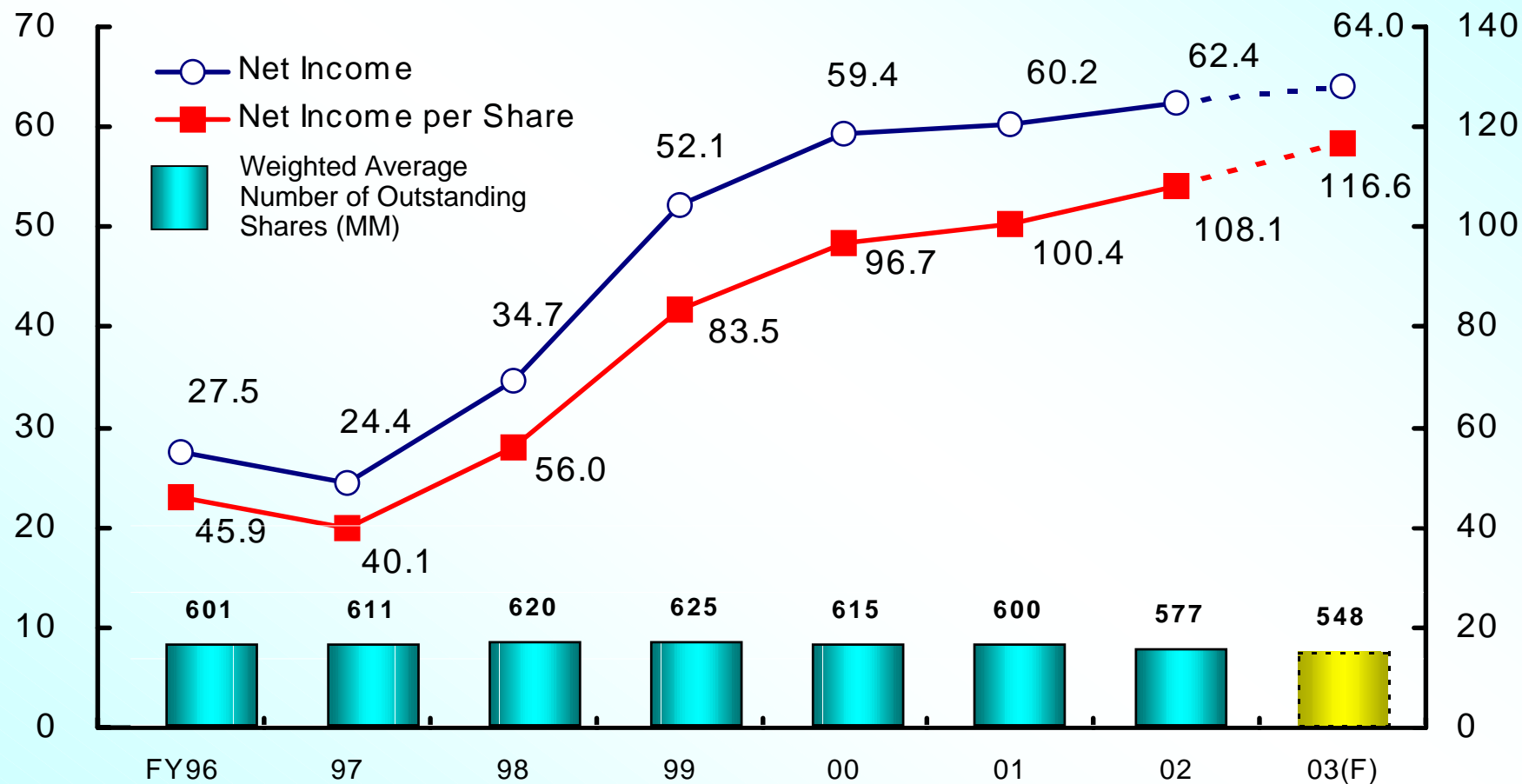
ROA: Ordinary Income / Total assets
Ordinary Income: Business tax has been adjusted prior to FY97



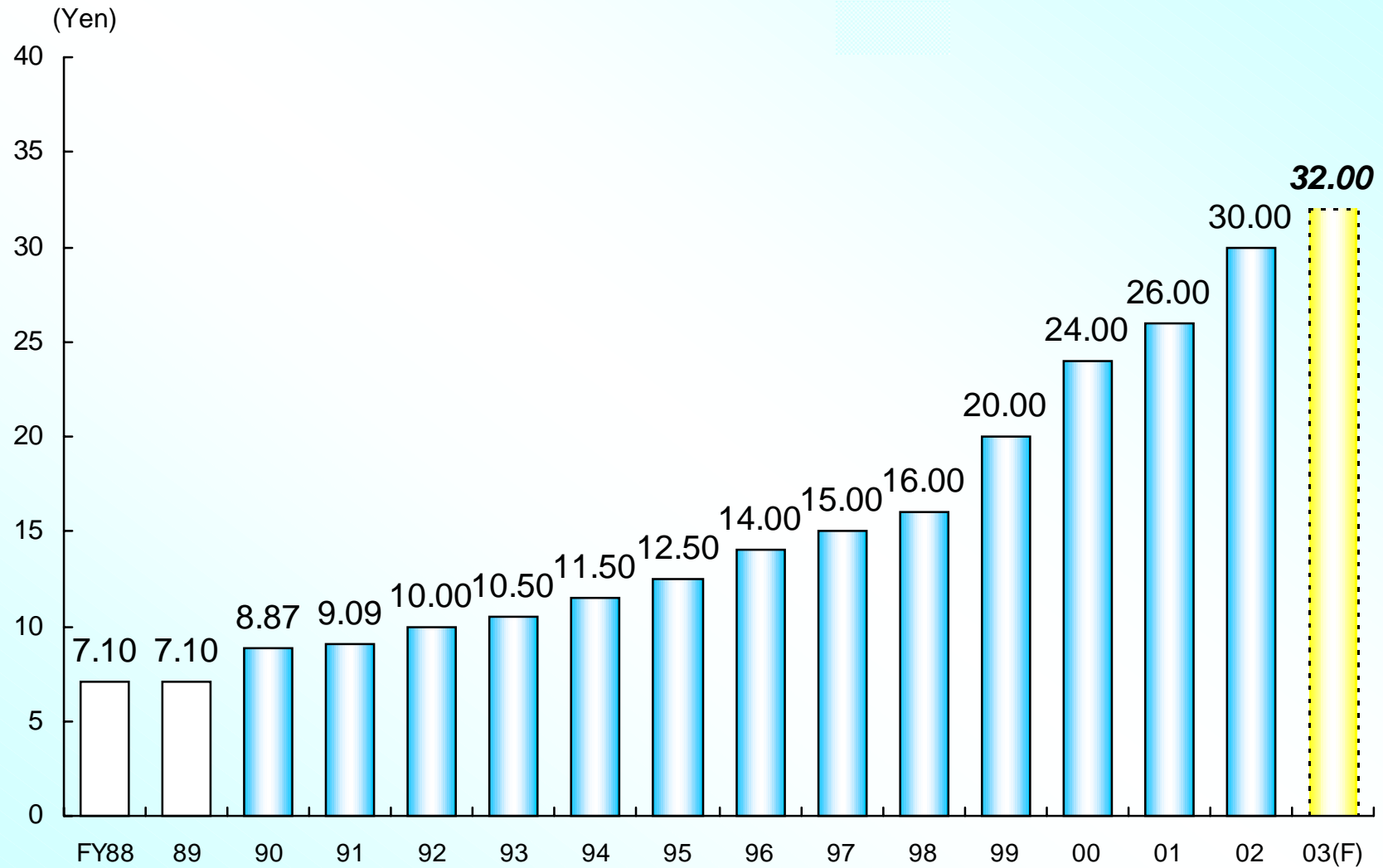
Net Income per Share (Consolidated)

Net Income
(Billion yen)

Net Income
per Share
(yen)

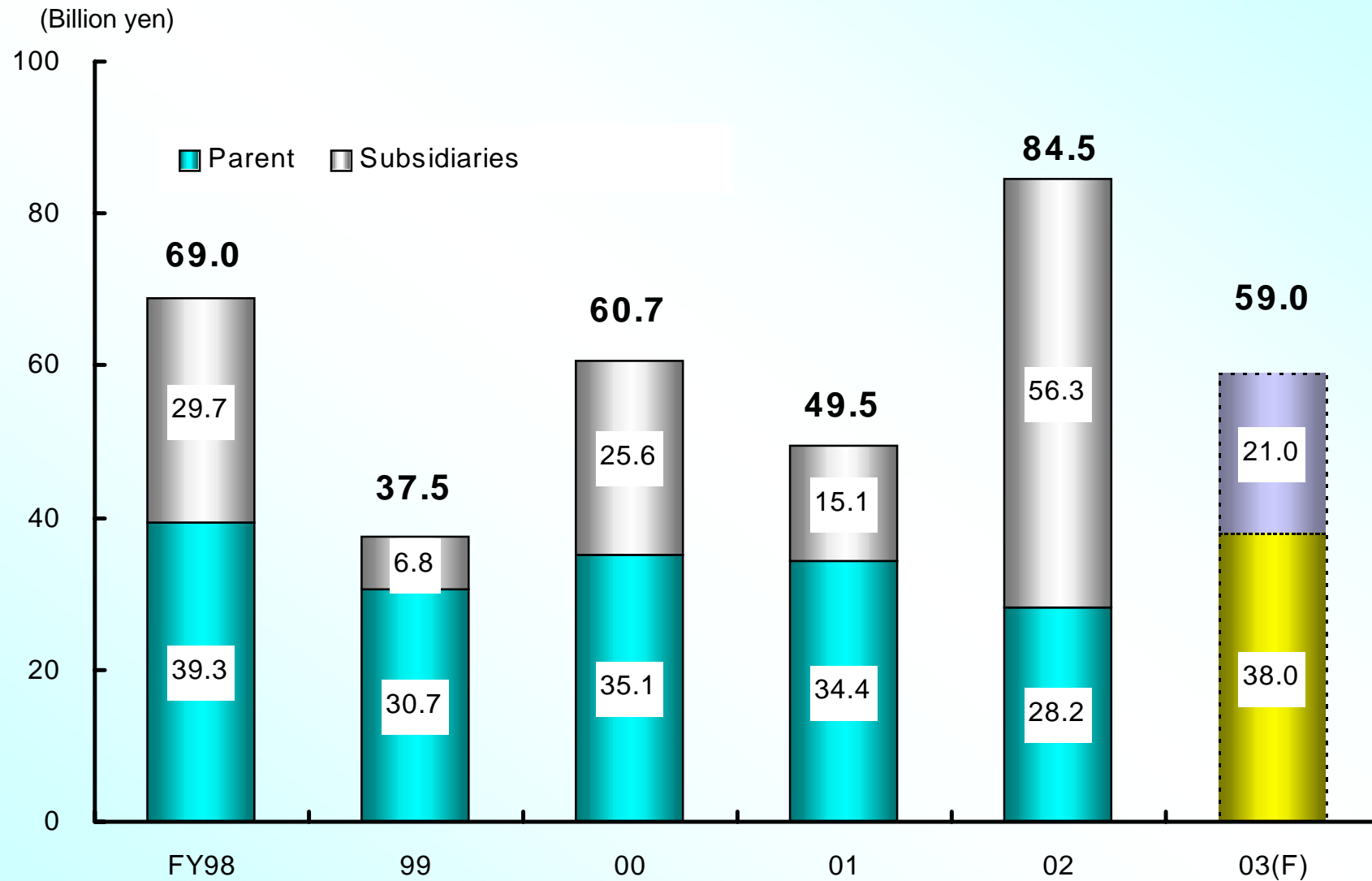


Cash Dividends per Share



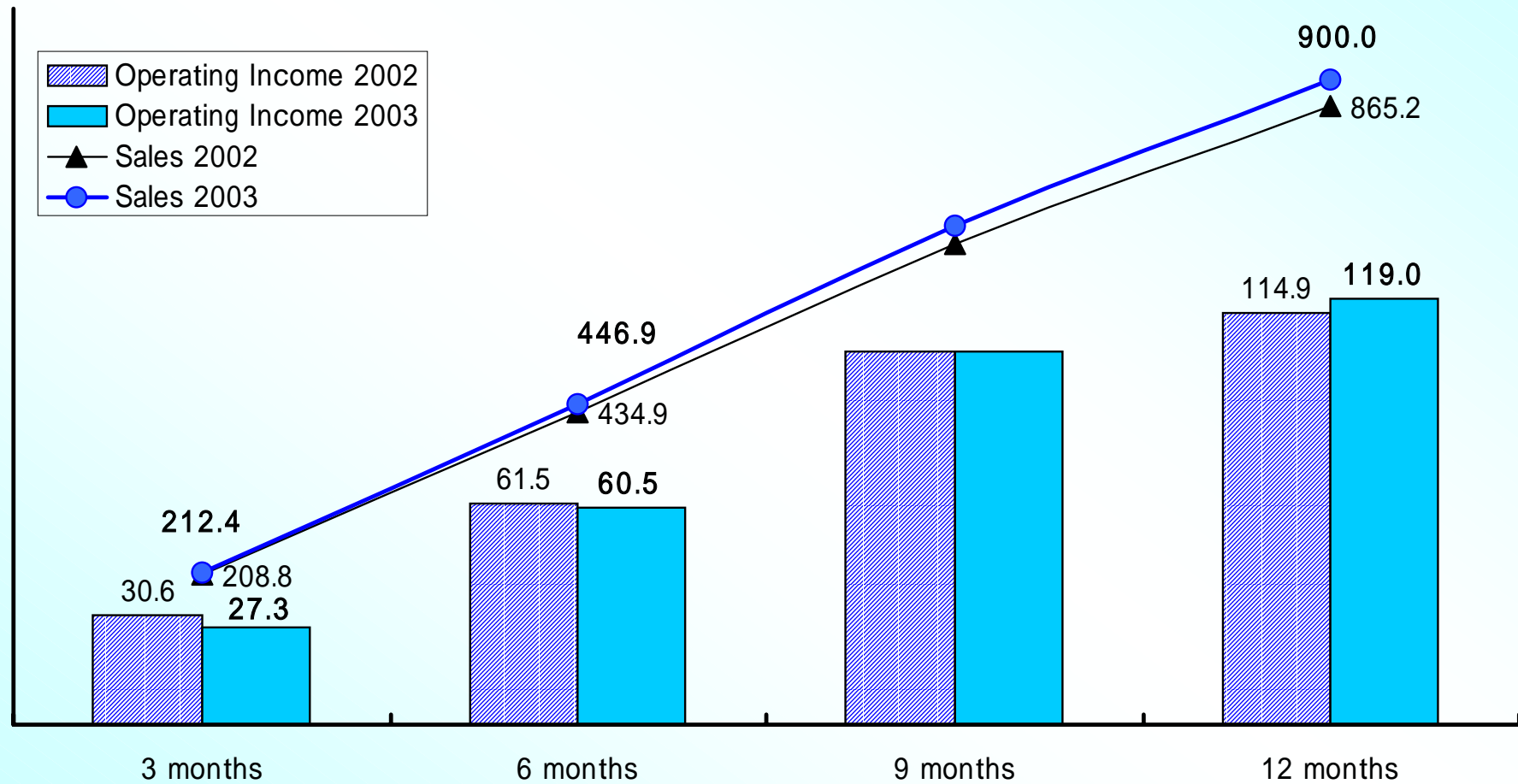
*Impacts of share splits are retroactively reflected.

Consolidated Capital Expenditures



Quarterly Consolidated Sales and Profit Forecast

(Billion yen)



Non-consolidated Sales and Profit Forecast

	FY2001		FY2002		FY2003(F)	
	Billion yen	% Growth	Billion yen	% Growth	Billion yen	% Growth
Sales	654.1	-0.9	661.7	1.2	^{*1} 660.0	-0.3
Operating Income	92.4	0.1	94.4	2.2	99.0	4.8
<% to Sales>	<14.1>		<14.3>		<15.0>	
Ordinary Income	98.5	0.1	98.3	-0.2	104.0	5.8
<% to Sales>	<15.1>		<14.9>		<15.8>	
Net Income	55.5	6.3	49.4	-10.9	60.0	21.4
<% to Sales>	<8.5>		<7.5>		<9.1>	

Net Income per Share (yen)	92.25	8.9	85.42	-7.4	^{*2} 109.32	28.0
ROE	11.8%		11.3%		^{*2} 14.5%	
EBITDA (Operating Income + Depr. & Amort.)	136.4	-1.3	136.4	0.0	139.0	1.9

*1 Due to changes in the accounting system between Kao and Kao Hanbai starting from April 2003, the forecast for non-consolidated net sales has been decreased by 2.5%.

*2 The calculation is made based on the number of average outstanding shares that does not reflect further share repurchase after September 23, 2003.



