

Highlights for the 1st Half of FY2004

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These are the translation of materials used for the analysts meeting of October 21, 2004 in Japan.

These presentation materials are available on our website in PDF format:

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

These presentation materials contain forward-looking statements that are based on management's estimates, assumptions and projections as of October 21, 2004.

Certain 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.

Agenda

✧ **Topics in the 1st Half of FY2004**

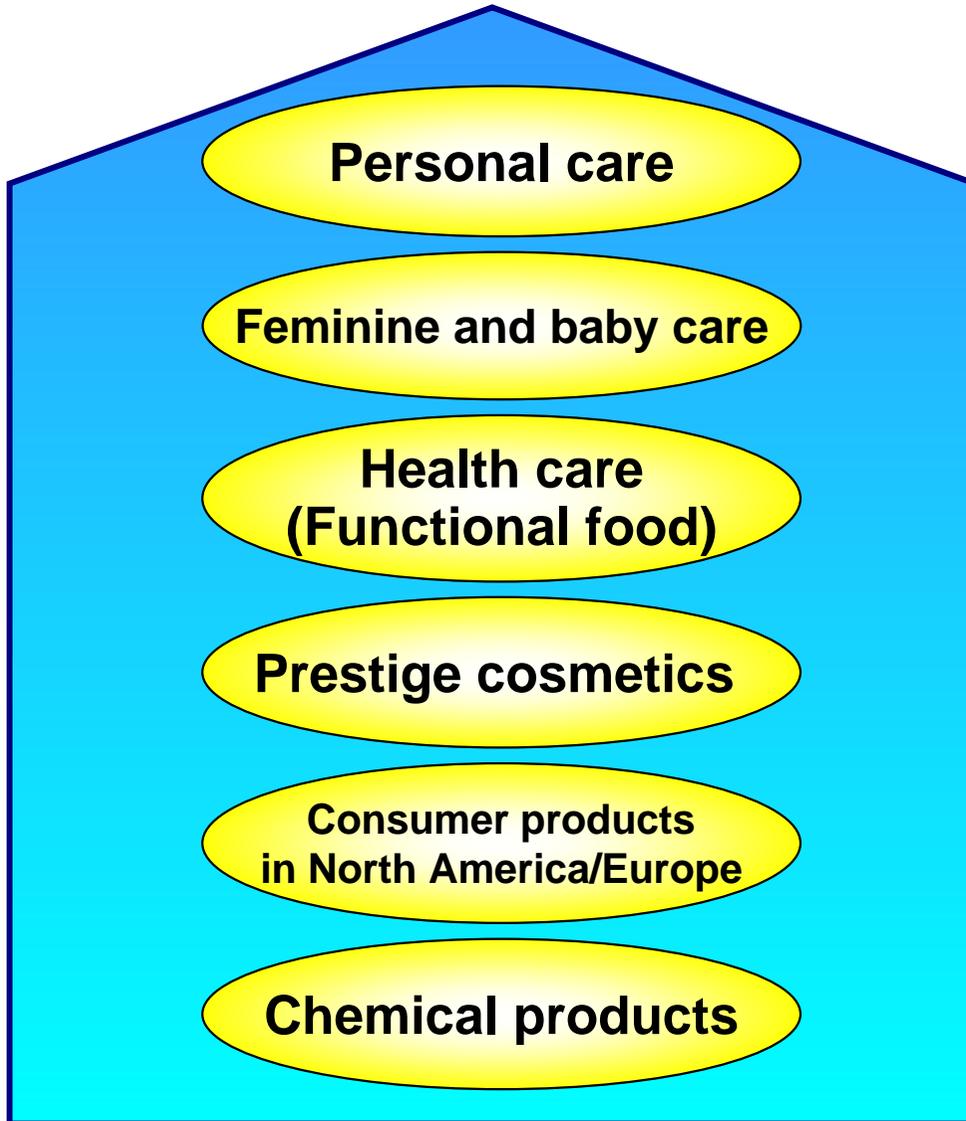
✧ **Focal Points in FY2004**

✧ **Basic Management Strategies**

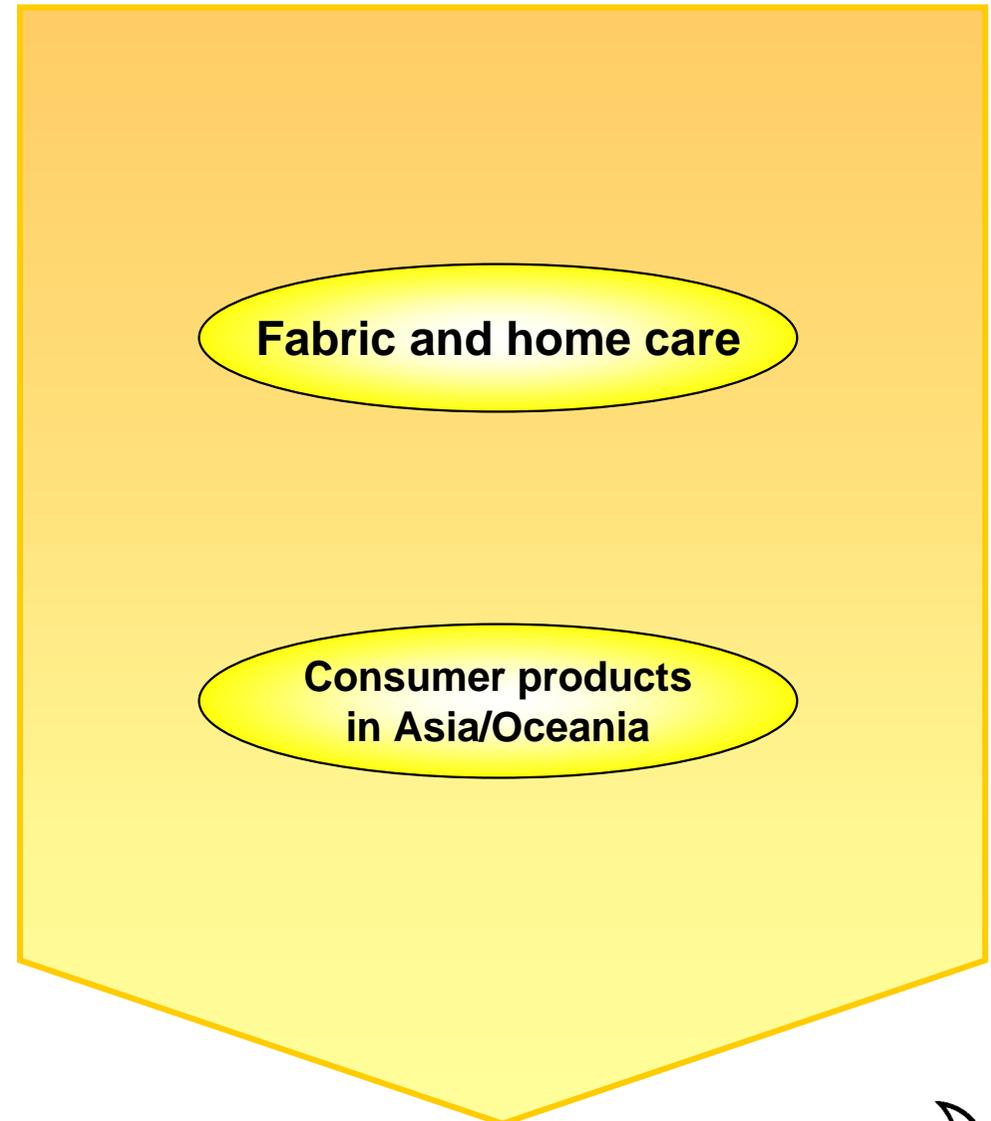
Topics in the 1st Half of FY2004

1st Half of FY2004 Overview by Business Area

Contributing businesses



Weak performers



1st Half of FY2004 Highlights

Positive factors

✧ Major growth drivers

- *Asience* shampoo/conditioner/hair treatment
- *Bioré U* body cleanser/hand soap
- *Family Kyukyutto* dishwashing detergent
- *Healthya Green Tea*
- *John Frieda* premium hair care brand



Asience



John Frieda
Brilliant Brunette



Bioré U

Family
Kyukyutto

Healthya

✧ Continuous healthy growth in Prestige Cosmetics

✧ Steady growth in Chemical Products

- Supported by economic recovery
- Newly developed products

✧ Total Cost Reduction (TCR)

- Forecast for FY2004: 8 billion yen



1st Half of FY2004 Highlights

Negative factors

✧ **Price decline in Consumer Products in Japan**

- 4-point decline in the 1st half of FY2004, compared to the same period of FY2003 (Data source: Kao)
- More competitive environment

✧ **Higher raw material prices**

✧ **Tougher competitive environment in Consumer Products in Asia/Oceania**

Focal Points in FY2004

FY2004 Focal Points – Existing Businesses

◆ **Uncertain operating environment**

- Competitive environment in the consumer products market in Japan
- Raw material price trend

✧ **Consumer Products**

- Increase sales volume through market share gains

✧ **Prestige Cosmetics**

- Reinforcement of product lines of existing brands and new challenges

✧ **Chemical Products**

- Nurture newly developed products

FY2004 Focal Points

– Existing Business: Prestige Cosmetics

➤ Reinforce product lines of existing brands

➤ **New challenges**

○ **Brands with higher counseling quality**

↪ *est* ➔ Department stores

↪ *Alblanc* ➔ GMS, Drug stores

○ **Business in China**

↪ Establish foundation in
Shanghai metropolitan area

○ **Learn know-how of B-to-C
business through website
and mail order**

↪ *Oriena*



est



Alblanc



Oriena

FY2004 Focal Points

– New Business: Health Care (Functional Food)

Aiming to achieve annual sales of 70.0 billion yen

✧ ***Econa products***

- Solid top-line growth of regular products supported by an increase in loyal users
- Healthy sales expansion in the gift market

✧ ***Healthya Green Tea***

- Nationwide rollout of 1-liter PET bottle and 340g-can 6-pack in Japan: October 19, 2004
- Hot-type:
 - Launch on October 28, 2004
 - 345ml PET bottle
 - Distribution channel: Convenience stores



FY2004 Focal Points – Global Business: Consumer Products Business in Asia/Oceania

✧ ASEAN countries

- Revitalize selected brands
 - New products and expansion of product lineup
- Construction of a new plant in Thailand
 - Partial commencement of production activities in spring 2005



✧ China

- Target: Achieve break-even point in two to three years
 - Restructure business foundation
 - Strengthen relationship with retailers and wholesalers through:
 - Initiatives related to global retailers
 - Supply chain management

FY2004 Focal Points – Global Business: Consumer Products Business in North America/Europe

Strengthen premium beauty care

✧ **Kao Brands Company**

- Reinforce *John Frieda* premium hair care brand
 - ➔ Nurture new *Brilliant Brunette* hair care products
- Expand skin care category
 - ➔ Restage *Bioré* line (From July 2004)



✧ **Kao Professional Salon Services (KPSS)**

- Nurture new *Color Glow* individual color care system



Global Business: *Enova Oil* in the United States

✧ **Packaged products business**

- Marketing programs
 - Educational advertising program aimed at health-conscious consumers
 - Recommendations from health care professionals/institutions
- Commence shipments toward nationwide rollout



✧ **Business of sales to food processing companies as ingredient**

- Under negotiation with several companies

Basic Management Strategies

Basic Management Strategies

✧ **Sharing Joy with the Consumer**

✧ **Growth strategy: Business Portfolio for Further Growth**

- Further reinforce existing businesses
- Develop and nurture new businesses
- Expand global businesses

✧ **Use of Free Cash Flow**

Sharing Joy with the Consumer

✧ **Yoki-Monozukuri***

- Unite expertise of each member/department

✧ **Innovation**

- Continuous efforts to create innovative products and operating system

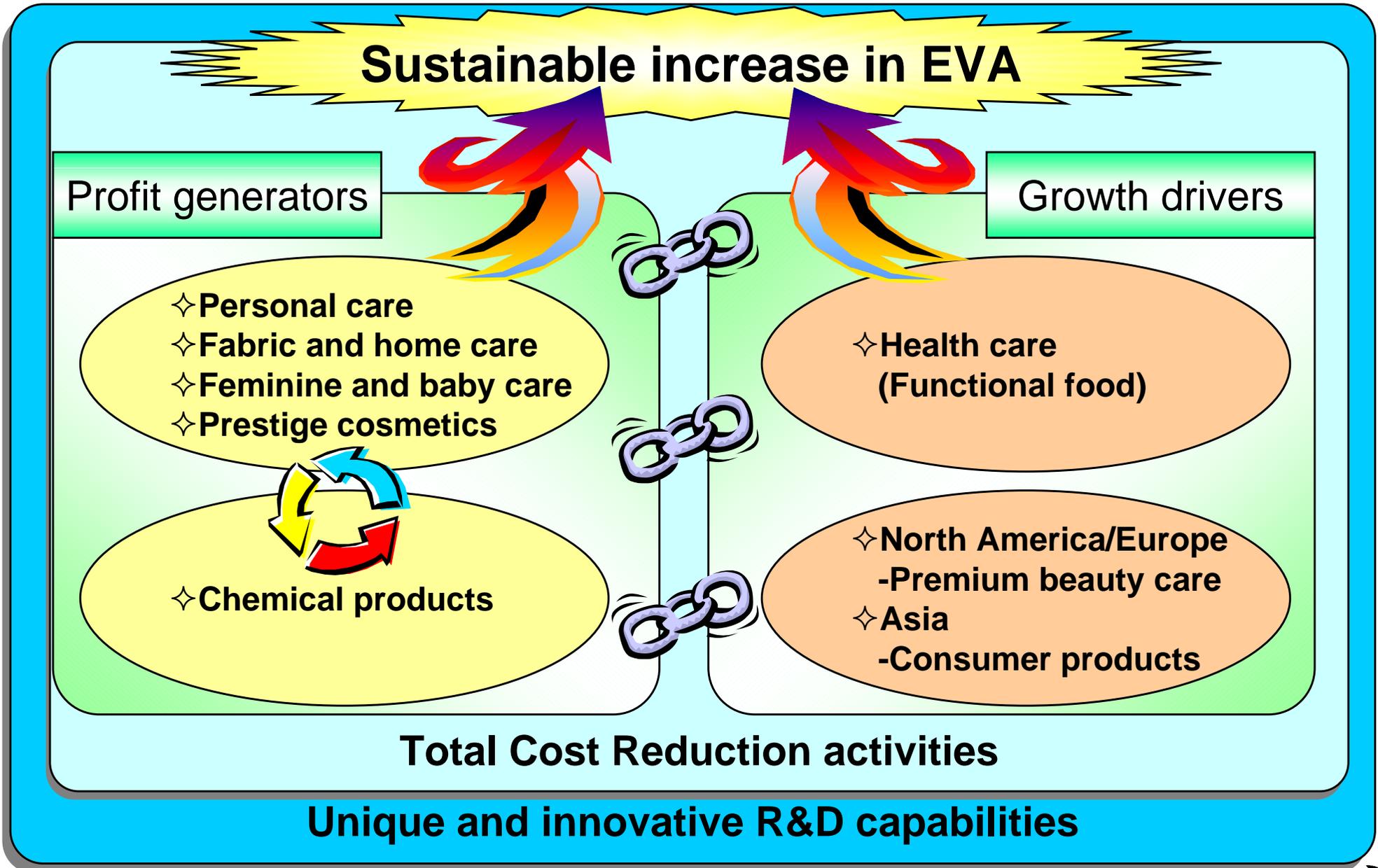
✧ **Integrity**

- In accord with unchanged spirit of the Company's founder

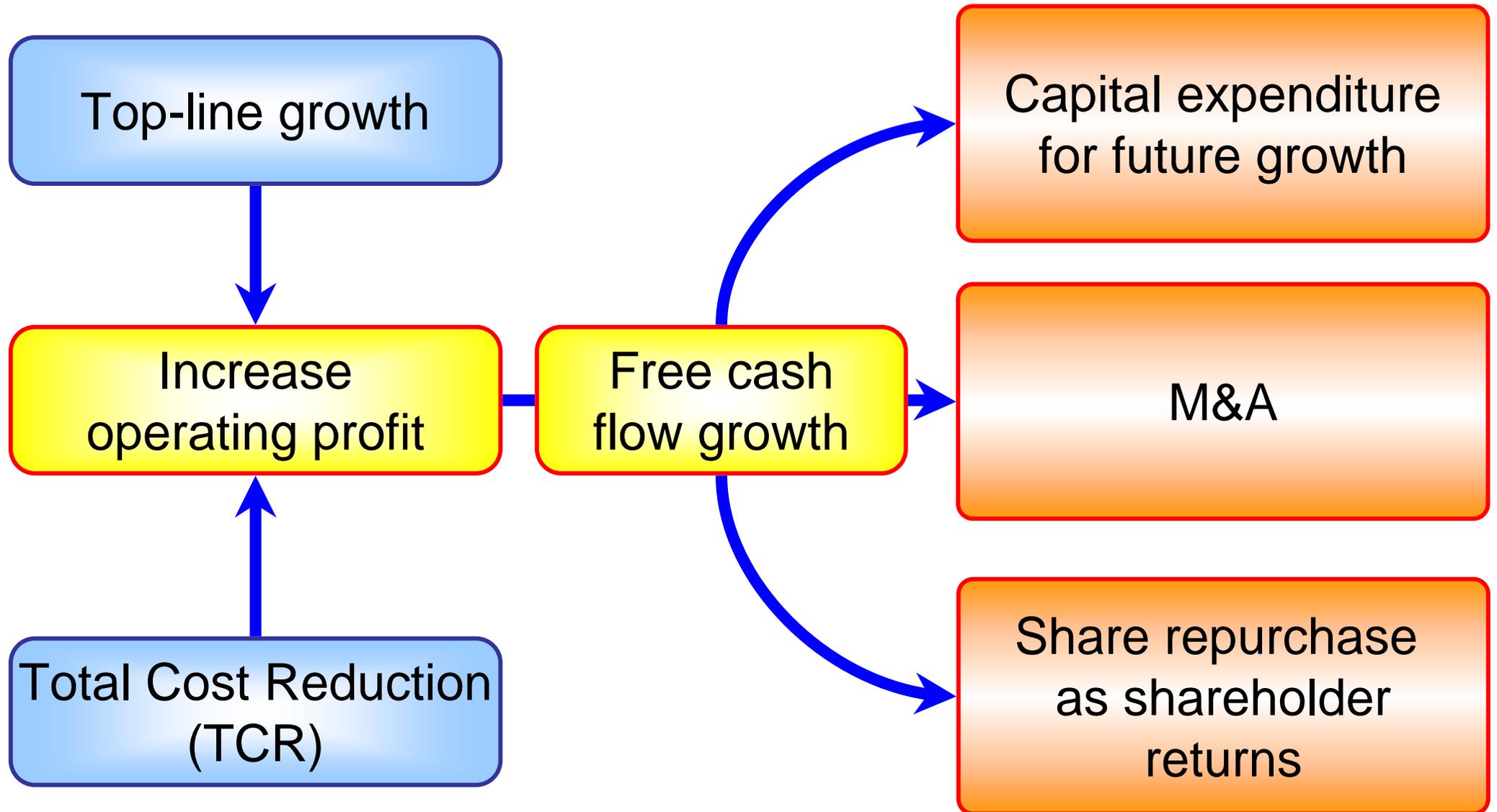
Establishment of a CSR Committee and a CSR Department
- Reinforce the Company's Corporate Social Responsibility (CSR)

* We define "Yoki-Monozukuri" as "a strong commitment by all members to provide products and brands of excellent value for consumer satisfaction." This core concept distinguishes us from all our competitors. In Japanese, "Yoki" literally means "good/excellent," and "Monozukuri" means "development/manufacturing of products."

Business Portfolio for Further Growth



Use of Free Cash Flow



Three Key Concepts for Kao's Business Operations

✧ Responding to change

- Bring emotional value to consumers in addition to functional value
- Clearly distinguish between “commodity products” and “personalized products”

✧ **Genba-ism***

- Consumers
- Countries/regions

✧ **Speed**

- Create value-added products
- Purchase by consumers
- Usage by consumers



Accelerate the three-stage cycle

* “Genba” literally means “actual spot” in Japanese. At Kao, “Genba-ism” denotes 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.