

Semi-Annual Financial Review

From April 1, 2005 to September 30, 2005

Kao Corporation

October 24, 2005



This is a translation of materials used for the analyst meeting held in Japan on October 24, 2005.

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

<http://www.kao.co.jp/en/ir/analystmtg/index.html>

These presentation materials contain forward-looking statements that are based on management's estimates, assumptions and projections as of October 24, 2005.

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.

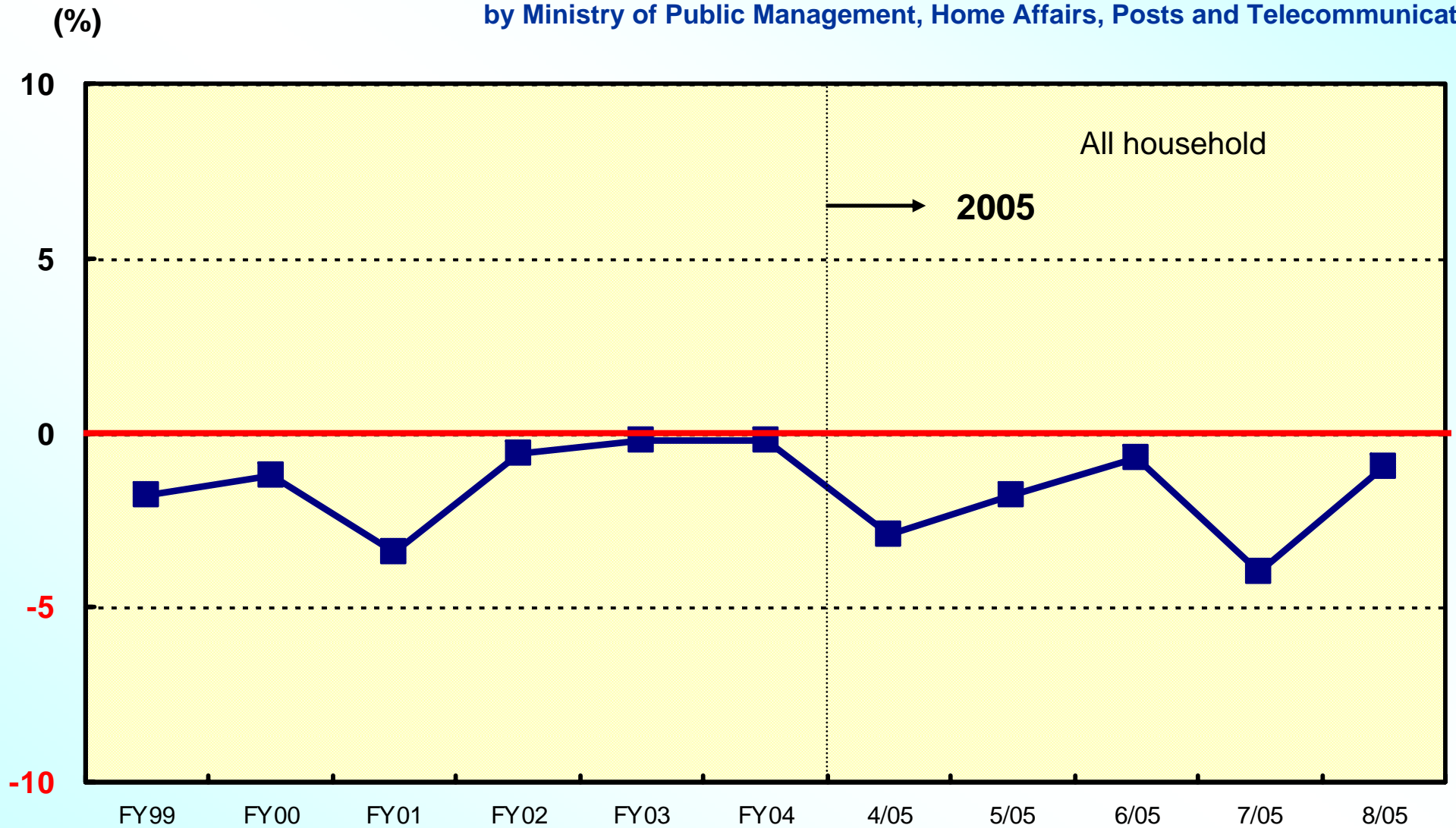
(The yen amounts in this presentation material are rounded down.)

1. Business Environment

April 1, 2005 – September 30, 2005

Household Expenditure Survey

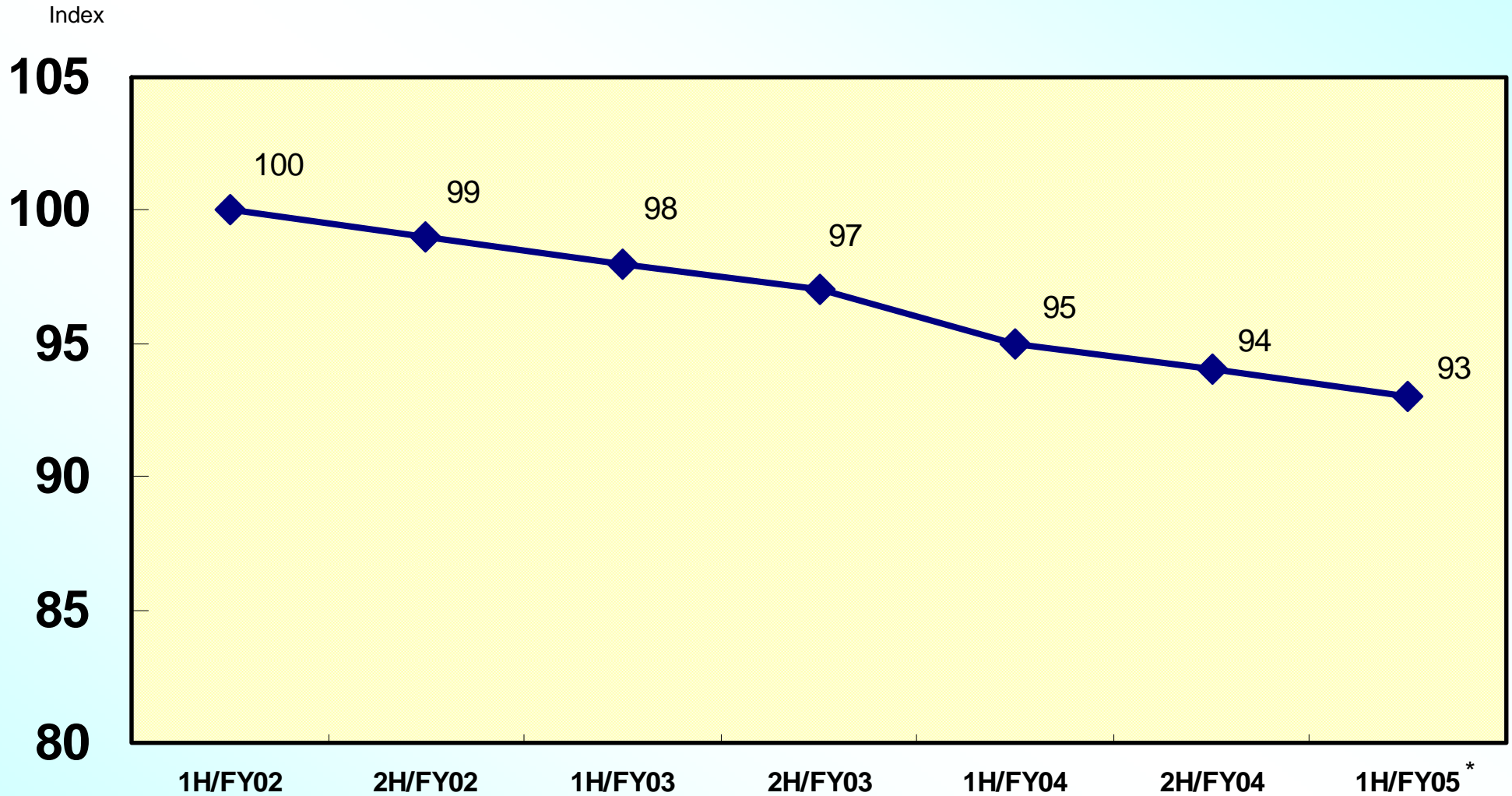
by Ministry of Public Management, Home Affairs, Posts and Telecommunications



(Percent change from a year earlier)

Average Consumer Purchase Price

15 Major Toiletry Categories (All manufactures)



* 1H/FY05: -1.4% from the same period in the previous year

(Source: SRI)



2. Consolidated Business Results

April 1, 2005 – September 30, 2005

1st Half/FY2005 Results (Consolidated)

Billion yen	<u>1H/FY03</u>	<u>1H/FY04</u>	<u>1H/FY05</u>		
Net Sales	446.9	469.0	483.0	Growth 3.0%	Changes +14.0
Operating Income	60.5	62.4	63.0	1.0%	+0.6
<i>Operating Margin</i>	13.6%	13.3%	13.1%		
Ordinary Income	61.9	64.6	63.6	-1.5%	-0.9
Net Income	31.9	37.7	38.4	1.9%	+0.7
EBITDA	87.9	89.7	90.7	1.1%	+1.0
EPS (yen)	57.87	68.51	70.75	3.3%	+2.24

Consolidated Net Sales [1]

	1st Half/FY2004		1st Half/FY2005		
	Billion yen	% Growth	Billion yen	%	
				Growth	Like-for-like
Personal Care	91.6	8.0	95.8	4.7	4.7
Fabric and Home Care	118.4	-3.2	120.6	1.8	1.8
Feminine Care, Baby Care and Others	60.6	29.5	57.8	-4.6	-4.6
Japan Total	270.7	6.6	274.4	1.4	1.4
Asia & Oceania	26.8	-12.4	26.9	0.2	0.9
North America & Europe	52.3	4.0	55.2	5.6	5.5
Elimination	-3.3		-3.4		
Consumer Products	346.5	4.3	353.1	1.9	1.9

Prestige Cosmetics	39.3	2.6	39.3	-0.1	-0.1
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*Like-for-like: excludes currency translation impact



Consolidated Net Sales [2]

	1st Half/FY2004		1st Half/FY2005		
	Billion yen	% Growth	Billion yen	%	
				Growth	Like-for-like
Japan	54.6	7.7	56.6	3.7	3.7
Asia	23.6	8.9	25.7	9.1	10.5
North America & Europe	31.8	10.5	36.2	13.9	12.0
Elimination	-13.4		-14.8		
Chemical Products	96.5	7.4	103.8	7.5	7.1
Elimination	-13.4		-13.1		
Consolidated Sales	469.0	4.9	483.0	3.0	2.9

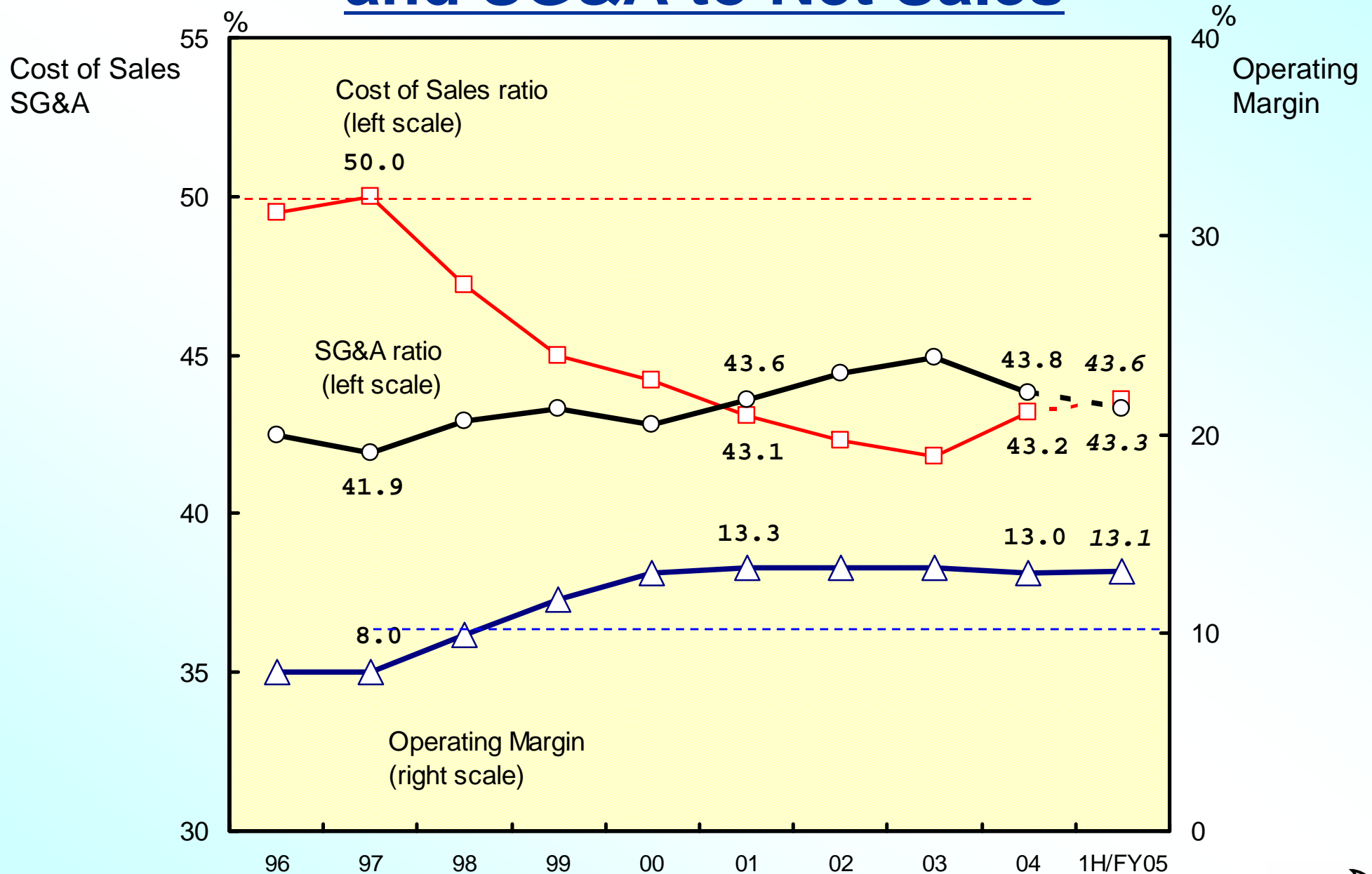
*Like-for-like: excludes currency translation impact

Consolidated Income Statements

	1H/FY2004		1H/FY2005		Changes*	Forecast
	Billion yen	%	Billion yen	%	Billion yen	Billion yen
Net Sales	469.0	100.0	483.0	100.0	14.0	480.0
Cost of Sales	198.8	42.4	210.7	43.6	11.8	
Gross Profit	270.1	57.6	272.3	56.4	2.1	
SG&A Expenses	207.7	44.3	209.3	43.3	1.5	
Operating Income	62.4	13.3	63.0	13.1	0.6	
Non-operating Income/Expenses	2.1	0.5	0.5	0.1	-1.5	
Ordinary Income	64.6	13.8	63.6	13.2	-0.9	61.0
Extraordinary Income & Loss	-1.0	-0.2	-1.1	-0.3	-0.1	
Income Before Taxes	63.6	13.6	62.4	12.9	-1.1	
Income Taxes	25.4	5.4	23.3	4.8	-2.0	
Equity Items & Others (Minus)	0.4	0.1	0.6	0.1	0.1	
Net Income	37.7	8.1	38.4	8.0	0.7	36.0

* Changes = 1H/FY2005 – 1H/FY2004

Consolidated Cost of Sales and SG&A to Net Sales



*Business tax has been adjusted for FY 96 and FY97.



Breakdown of Consolidated Expenses

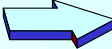


(Billion yen)

	1H/FY04	1H/FY05	Changes*
Total SG&A Expenses	207.7	209.3	1.5

Freight/Warehouse	25.1	25.8	0.6
Advertising	44.7	42.9	-1.7
Sales Promotion	17.6	19.2	1.6
Salaries and Wages	34.4	35.8	1.4
R&D	19.8	19.9	0.1

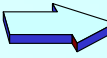

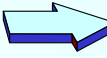

* Changes = 1H/FY05 – 1H/FY04

Sales and Operating Income by Business

Billion yen	Net Sales			Operating Income		
	1H/FY04	1H/FY05	Changes	1H/FY04	1H/FY05	Changes
Consumer Products	346.5	353.1	+6.5 +1.9%	47.7 13.8%	47.3 13.4%	-0.4 
Prestige Cosmetics	39.3	39.3	-0.0 -0.1%	4.3 11.1%	3.8 9.9%	-0.4 
Chemical Products	96.5	103.8	+7.2 +7.5%	10.2 10.6%	11.7 11.3%	+1.4 

*Before elimination of intersegment transfers

Sales and Operating Income by Geography

Billion yen	Net Sales			Operating Income		
	1H/FY04	1H/FY05	Changes	1H/FY04	1H/FY05	Changes
Japan	352.9	358.6	5.7 1.6%	55.9 % to Sales 15.8%	54.9 15.3%	-1.0 
Asia & Oceania	50.3	52.7	2.3 4.8%	1.5 % to Sales 3.0%	3.6 6.8%	+2.0 
North America	40.9	46.1	5.1 12.6%	3.5 % to Sales 8.6%	3.5 7.7%	+0.0 
			After amortization of goodwill	2.7 % to Sales 6.6%	2.7 5.9%	+0.0
Europe	46.2	49.6	3.4 7.4%	3.5 % to Sales 7.7%	3.7 7.6%	+0.2 
			After amortization of goodwill	2.3 % to Sales 5.0%	2.5 5.1%	+0.2

*Before elimination of intersegment transfers



Consolidated Operating Income

1H/FY04

1H/FY05

62.4



63.0 Billion yen

Change

+0.6 Billion yen +1.0%

Japan	-1.0
Asia & Oceania	+2.0
North America	+0.0
Europe	+0.2
<hr/>	
Total	+0.6

Consumer Products	-0.4
Prestige Cosmetics	-0.4
Chemical Products	+1.4
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Total	+0.6

*The figures of each segment are before elimination and "Total" includes elimination.



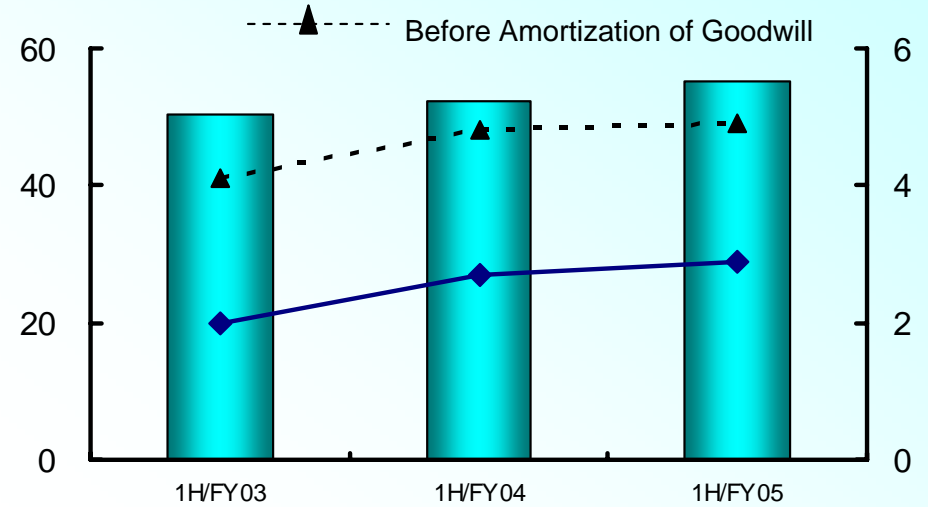
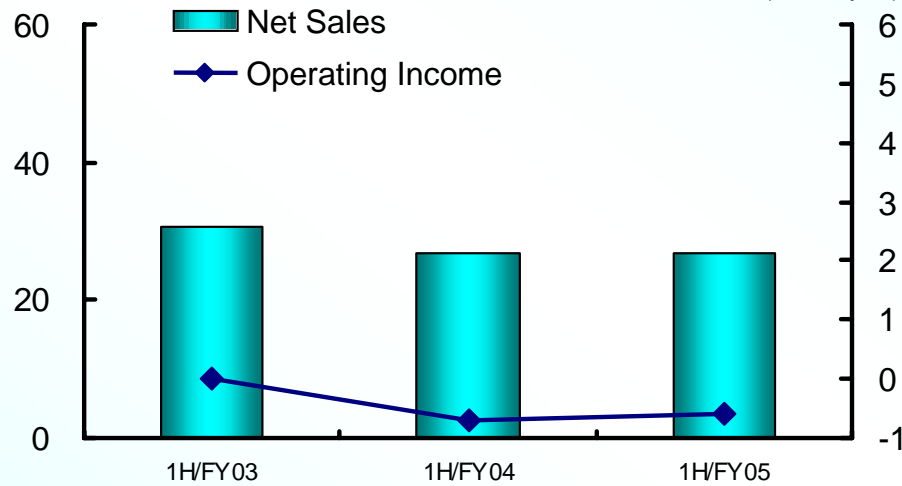
Consumer Products

Asia and Oceania

North America & Europe

Sales (Billion yen)

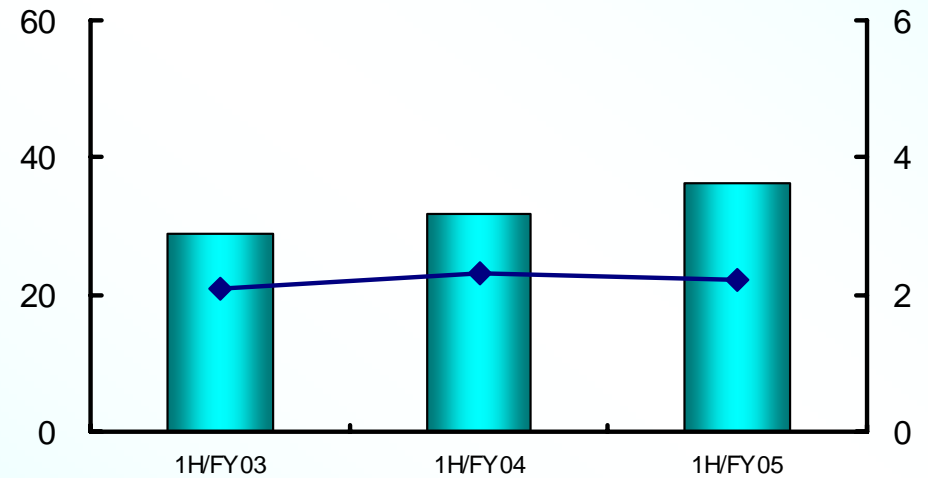
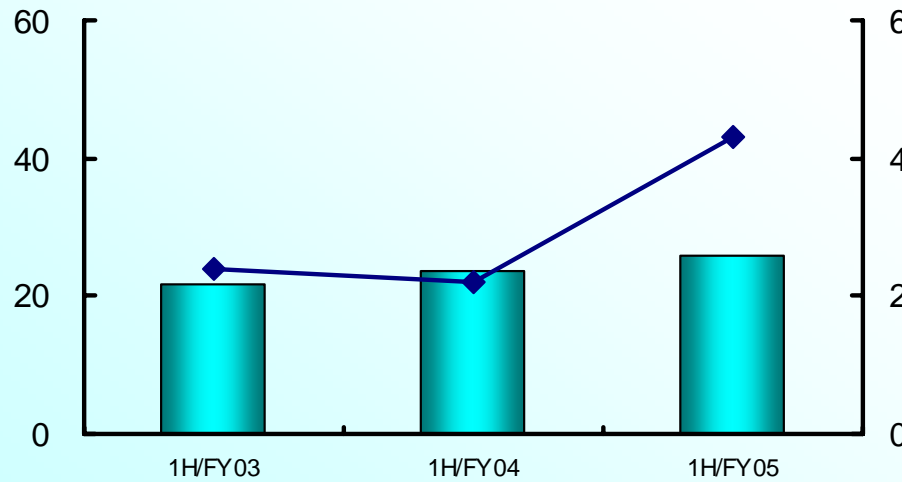
Operating Income
(Billion yen)



Chemical Products

Asia

North America & Europe



Consolidated Ordinary Income

1H/FY04

1H/FY05

64.6



63.6 Billion yen

Change

-0.9 Billion yen -1.5%

1. Operating income	+0.6
2. Equity earnings	-1.1
3. Forex gains/losses	-0.5
4. Net interest expense	+0.1
5. Other non-operating items	+0.0
<hr/> Total	<hr/> -0.9

Consolidated Income Before Taxes

1H/FY04		1H/FY05
63.6	→	62.4 Billion yen
Change		-1.1 Billion yen -1.8%

1. Ordinary income	-0.9
2. Gain on sale or disposal of fixed assets	-0.0
3. Gain on sale of investment securities	-0.2
4. Loss on sale or disposal of fixed assets	+0.3
5. Other	-0.1
<hr/>	
Total	-1.1

Consolidated Balance Sheets

(Billion yen)

	Sep/05	Mar/05	Changes		Sep/05	Mar/05	Changes
Current Asset	304.7	289.1	15.6	Current Liabilities	221.6	211.5	10.1
Cash and Bank Deposits	54.1	32.0	22.1	Notes and Accounts Payable	76.1	70.9	5.1
Notes and Accounts Receivable	105.9	103.5	2.3	Short-term Debt (incl. Current Portion of Long-term Debt)	21.5	21.2	0.2
Short-term Investments	24.3	40.3	-16.0	Other Accounts Payable	20.0	19.1	0.8
Inventories	89.1	81.7	7.3	Accrued Expenses	67.3	63.2	4.0
Others	31.1	31.4	-0.2	Others	36.5	36.8	-0.2
Fixed Assets	421.4	399.6	21.7	Long-term Liabilities	17.8	21.7	-3.9
Tangible Assets	261.8	260.2	1.6	Long-term Debt	0.7	1.4	-0.6
Intangible Assets	112.5	86.2	26.3	Others	17.1	20.3	-3.2
Investments	47.0	53.2	-6.1	Total Liabilities	239.5	233.3	6.2
Deferred Assets	0.1	0.1	-0.0	Minority Interests	7.5	7.4	0.1
				Shareholders' Equity	479.2	448.2	31.0
				Common Stock	85.4	85.4	-
				Capital Surplus	109.5	109.5	-
				Retained earnings	327.8	299.3	28.5
				Unrealized Gain on Available-for-sale Securities	4.8	3.5	1.3
				Foreign Currency Translation Adjustments	-36.0	-39.7	3.7
				Treasury Stock	-12.3	-9.8	-2.5
Total Assets	726.3	688.9	37.3	Total Liabilities, Minority Interests & Shareholders' Equity	726.3	688.9	37.3

Statements of Cash Flows

(Billion yen)

	1H/FY03	1H/FY04	1H/FY05	Changes
Operating activities	52.0	59.1	64.6	5.5
Investing activities	-13.5	-31.0	-45.1	-14.1
Financing activities	-41.9	-48.4	-15.4	33.0
Translation adjustments on cash and cash equivalents	0.5	-0.8	1.0	1.9
Net Increase/(decrease) in cash and cash equivalents	-2.8	-21.2	5.1	26.4
Cash and cash equivalents, beginning of year	75.6	107.1	70.4	-36.7
Increase in cash and cash equivalents due to newly consolidated subsidiaries	2.6	-	0.7	0.7
Decrease in cash and cash equivalents due to exclusion of previously consolidated subsidiaries	-	-	-0.8	-0.8
Cash and cash equivalents, end of year	75.4	85.9	75.5	-10.3
Total Debt	53.8	29.1	22.2	-6.8

<Investing Activities>

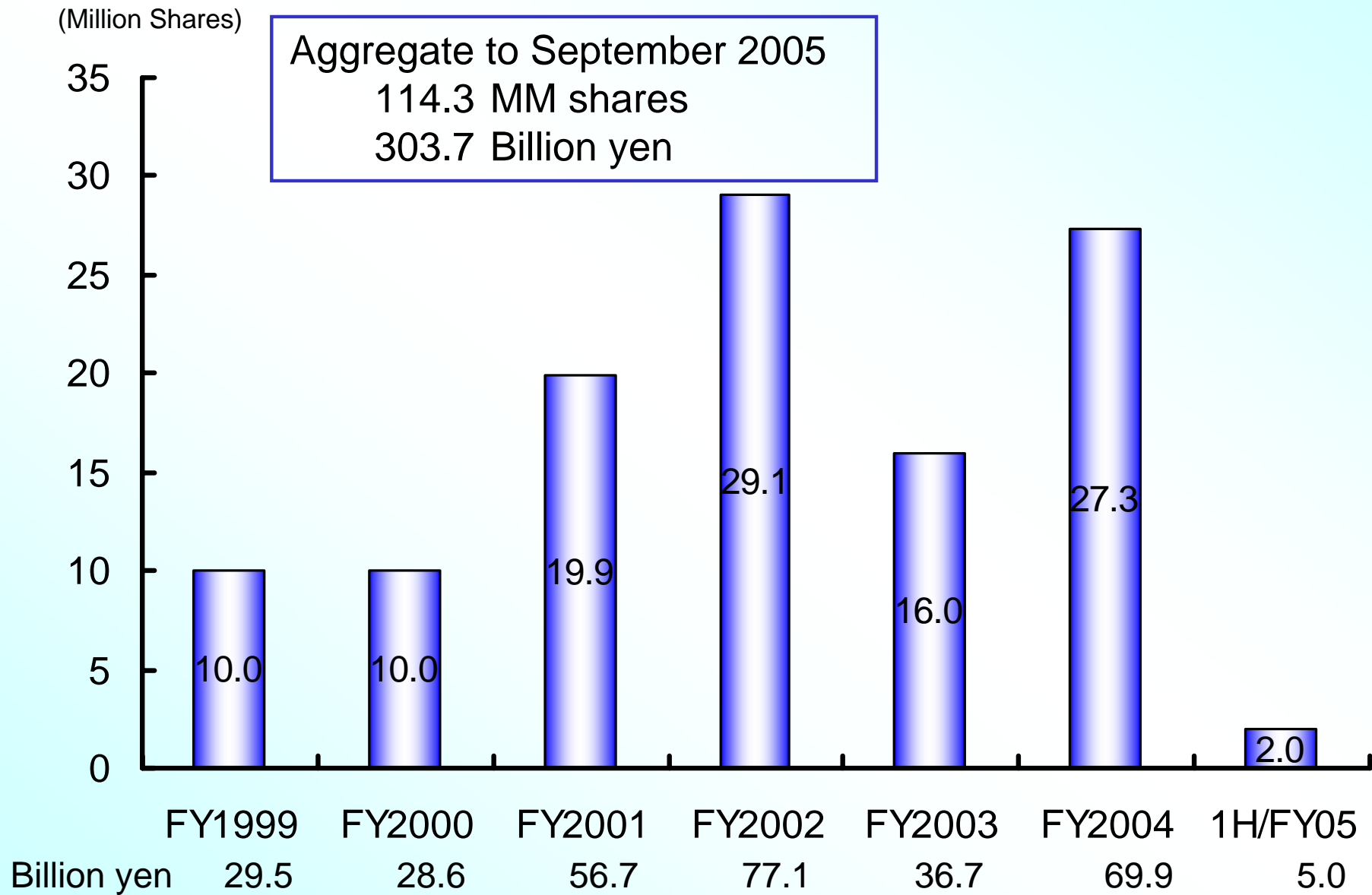
Capital expenditures: Production facilities for new products
Production capacity increase and efficiency improvement

Acquisition of Molton Brown

<Financing Activities>

Share repurchase: 5.5 billion yen

Share Repurchase



* Share repurchase from the market



3. Forecast for FY 2005

Consolidated Sales and Profit Forecast

	FY2003		FY2004		*1 FY2005(F)	
	Billion yen	% Growth	Billion yen	% Growth	Billion yen	% Growth
Net Sales	902.6	4.3	936.8	3.8	965.0	3.0
Operating Income	119.7	4.2	121.3	1.4	125.0	3.0
[% to Sales]	[13.3]		[13.0]		[13.0]	
Ordinary Income	122.6	4.4	125.3	2.2	126.0	0.5
[% to Sales]	[13.6]		[13.4]		[13.1]	
Net Income	65.3	4.6	72.1	10.4	74.0	2.5
[% to Sales]	[7.2]		[7.7]		[7.7]	

Net Income per Share (yen)	119.06	10.2	131.16	10.2	*2 135.81	3.5
ROE	15.5%		16.5%		15.6%	
EBITDA (Operating Income + Depr. & Amort.)	177.8	2.7	178.1	0.2	182.0	2.1
Cash dividends per Share (yen)	32.0	6.7	38.0	18.8	50.0	31.6

*1 Exchange rate assumptions: 110 yen/USD, 136 yen/Euro, 3.4 yen/ New Taiwan dollar

*2 The calculation is made based on the estimated number of average shares outstanding during the fiscal year.

Sales Outlook by Segment – FY2005

<Billion yen>

Consolidated Net Sales 965.0 +3.0%

By Geography

By Business

Japan	711.0	+1.1%
Asia & Oceania	107.0	+6.7%
North America	91.0	+8.8%
Europe	105.0	+11.9%

Consumer Products	702.0	+1.7%
Prestige Cosmetics	84.0	+7.3%
Chemical Products	207.0	+5.1%

Sales Outlook – FY2005

- Consumer Products in Japan -

<Billion yen>

	1st Half			Full Year		
	FY2004 Actual	FY2005 Actual	% Growth	FY2004 Actual	FY2005 Forecast	% Growth
Personal Care	91.6	95.8	4.7%	180.6	187.0	3.5%
Fabric and Home Care	118.4	120.6	1.8%	234.2	238.0	1.6%
Feminine Care, Baby Care and Others	60.6	57.8	-4.6%	122.0	116.0	-5.0%
Total	270.7	274.4	1.4%	536.9	541.0	0.8%

Major Assumptions for FY2005 Forecast

◆ Sales price decline in Consumer Products Business in Japan: approximately -1%

Estimated impact on profit

◆ Total Cost Reduction (TCR): +6.0 billion yen

◆ Higher raw material cost: -6.0 to -7.0 billion yen

Exchange rate assumptions

◆ 110 yen/USD

◆ 136 yen/Euro

◆ 3.4 yen/New Taiwan dollar

Operating Income Outlook by Business

Increase

Consumer Products: Europe
Chemical Products: Asia

Flat

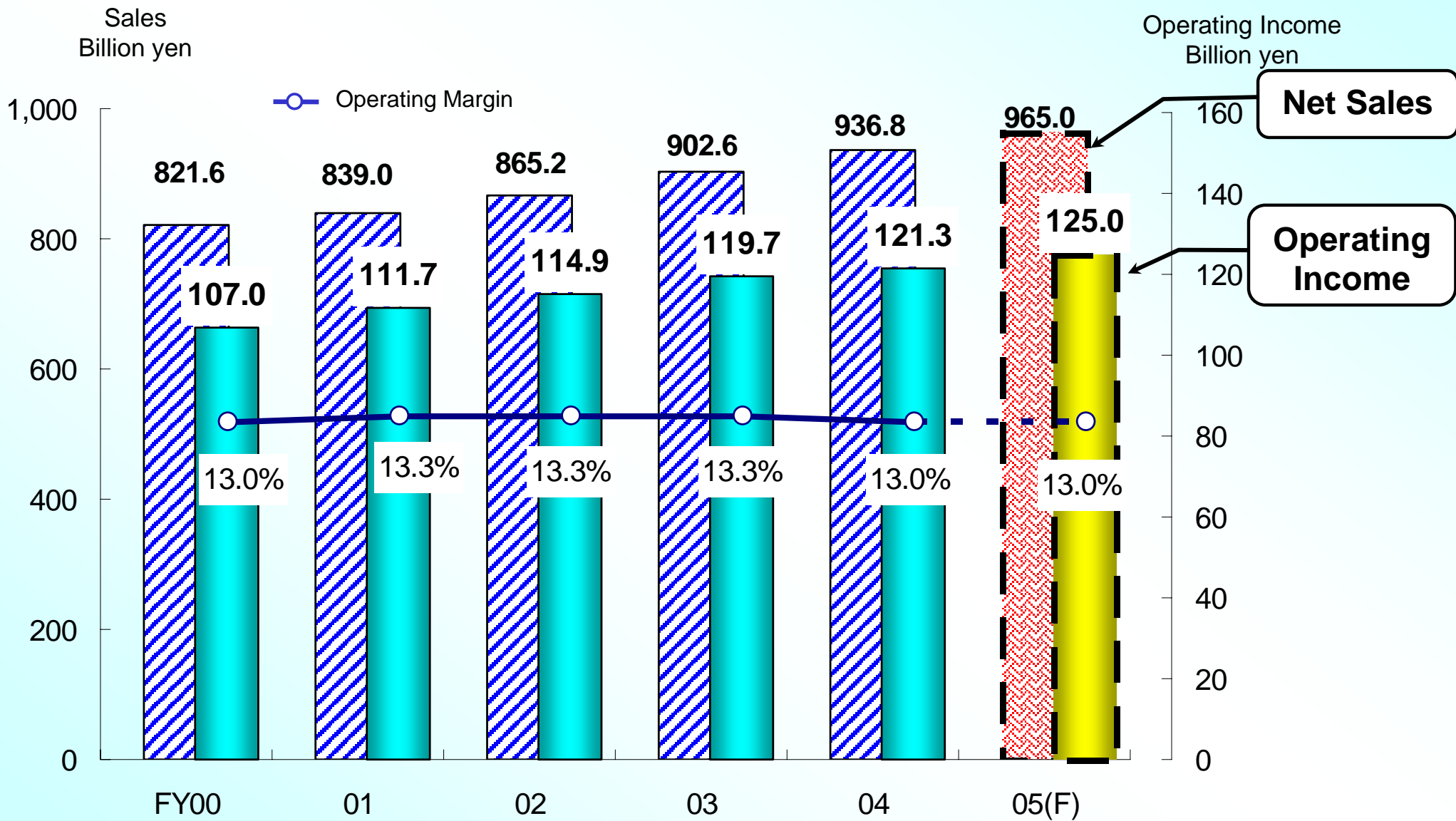
Consumer Products: Japan
Consumer Products: Asia & Oceania
Consumer Products: North America
Prestige Cosmetics
Chemical Products: Europe

Decrease

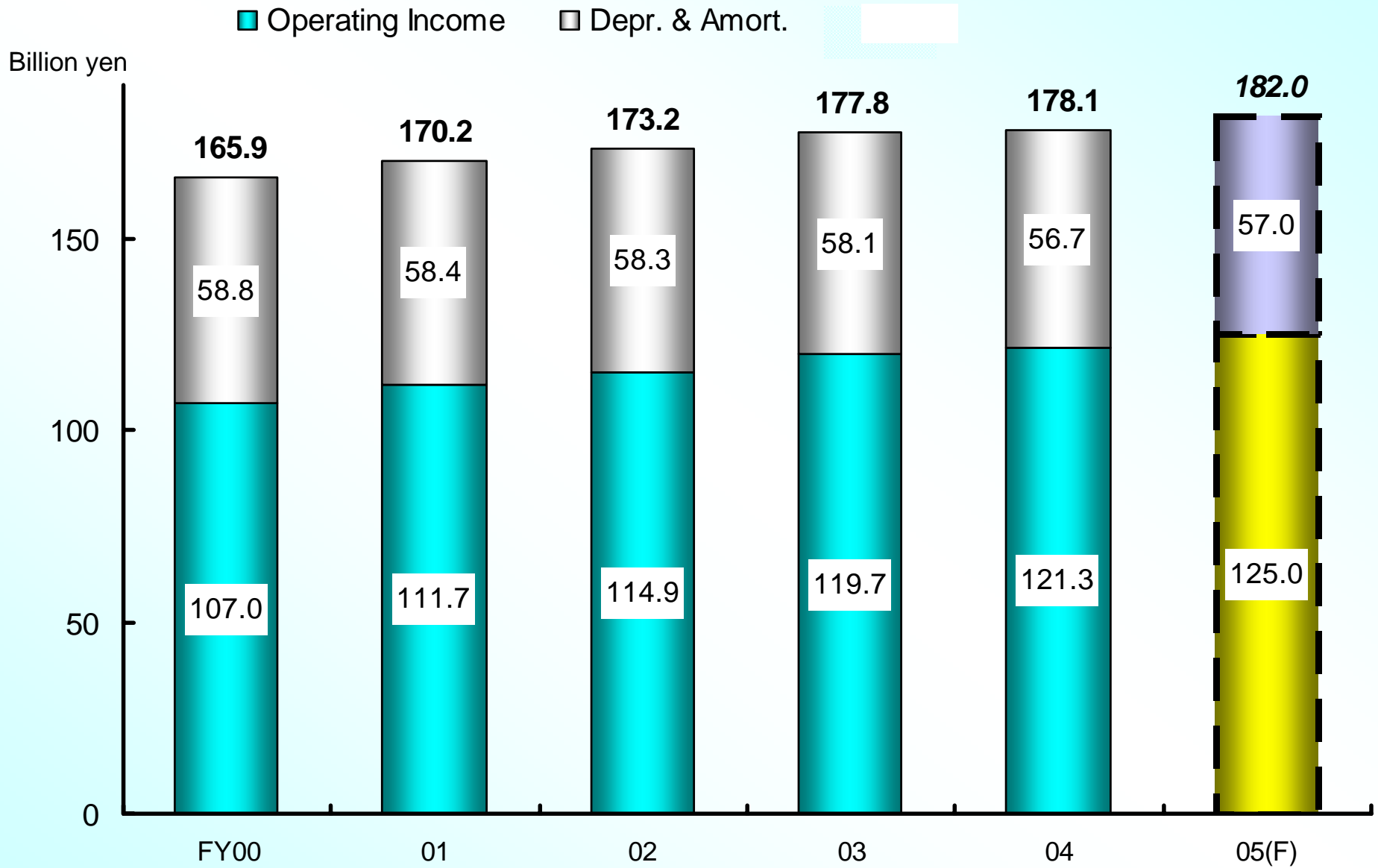
Chemical Products: Japan
Chemical Products: North America

Consolidated Net Sales/Operating Margin

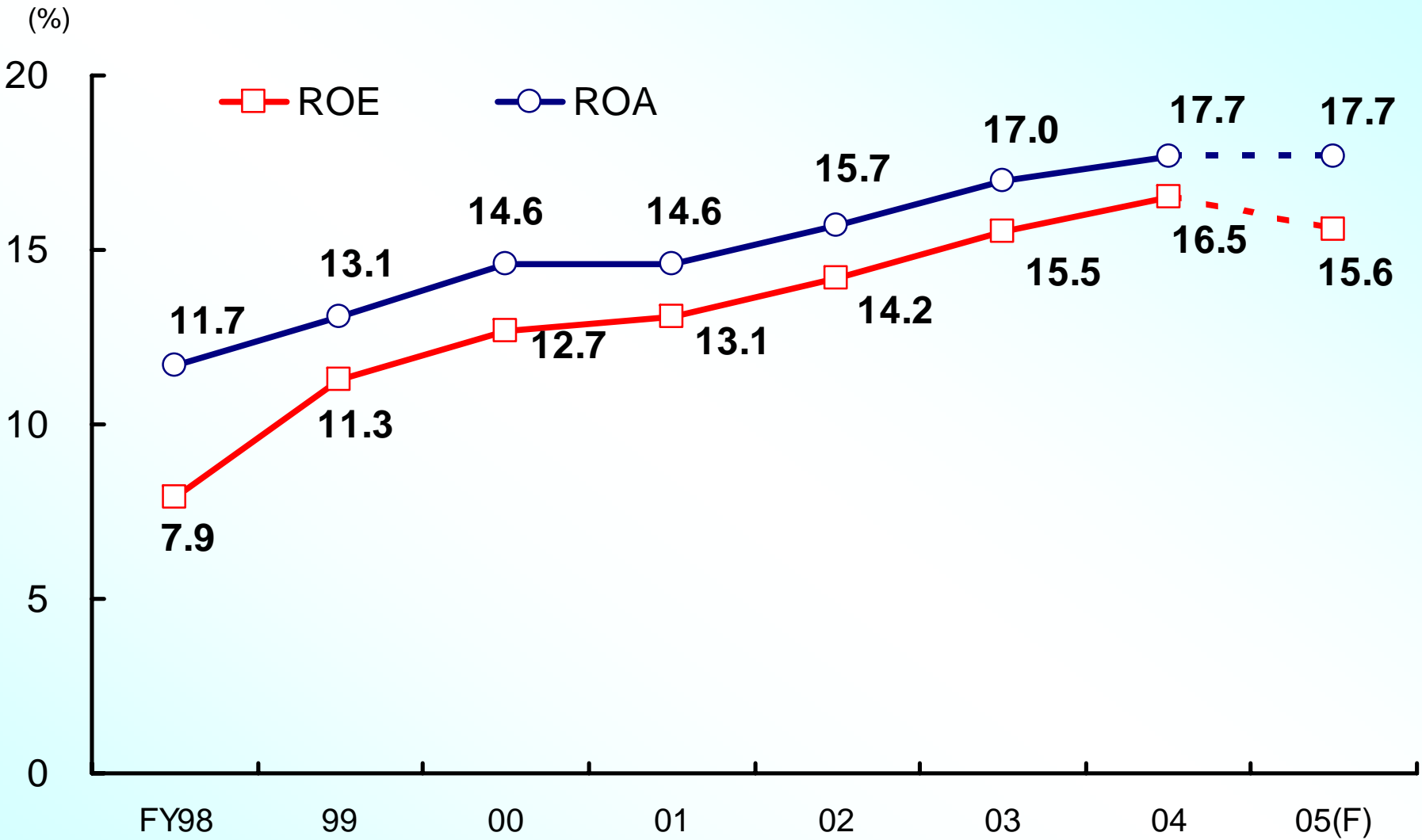
[Full Year]



EBITDA



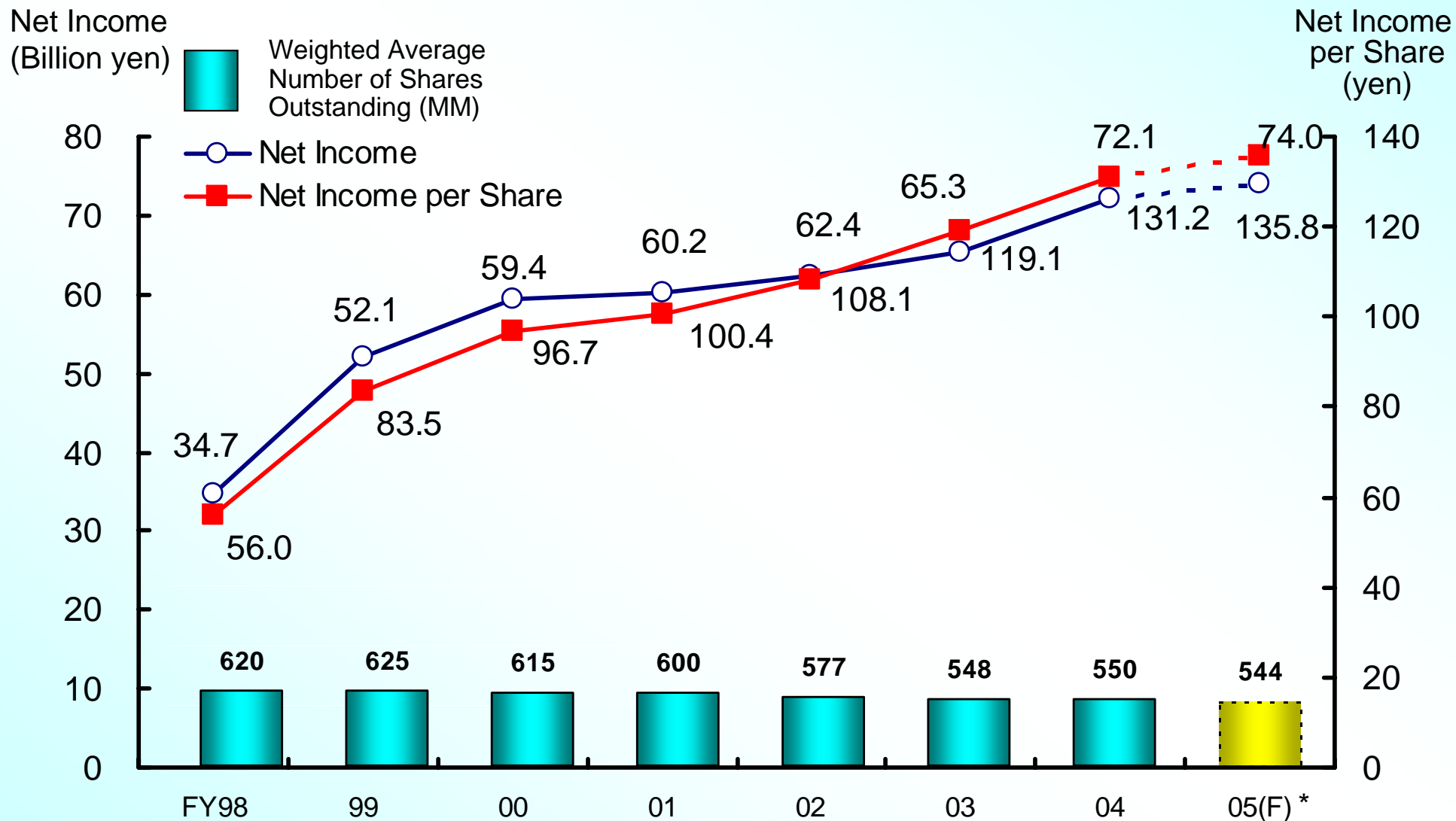
ROE & ROA



ROA: Ordinary Income / Total assets

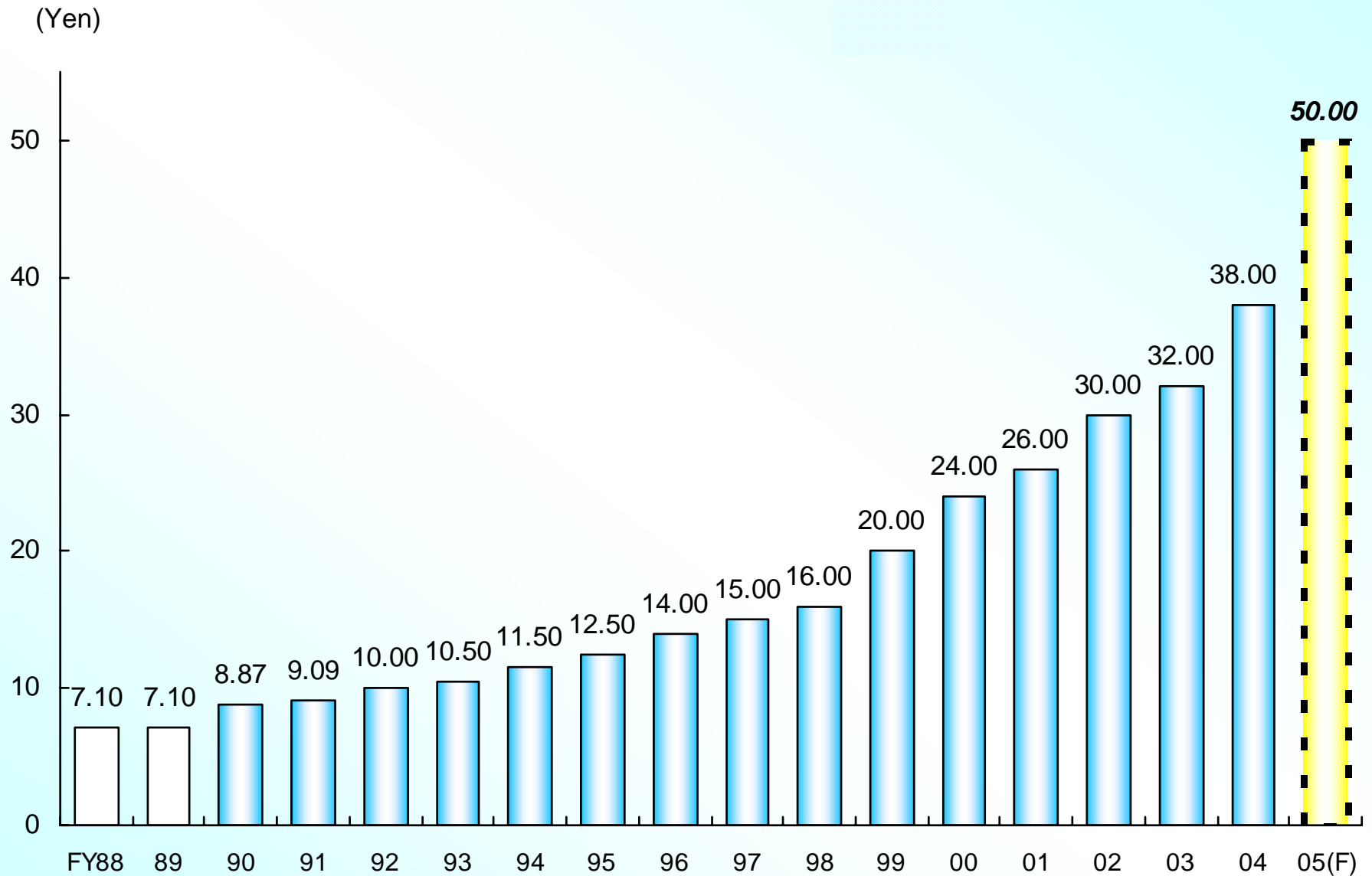


Net Income per Share (Consolidated)



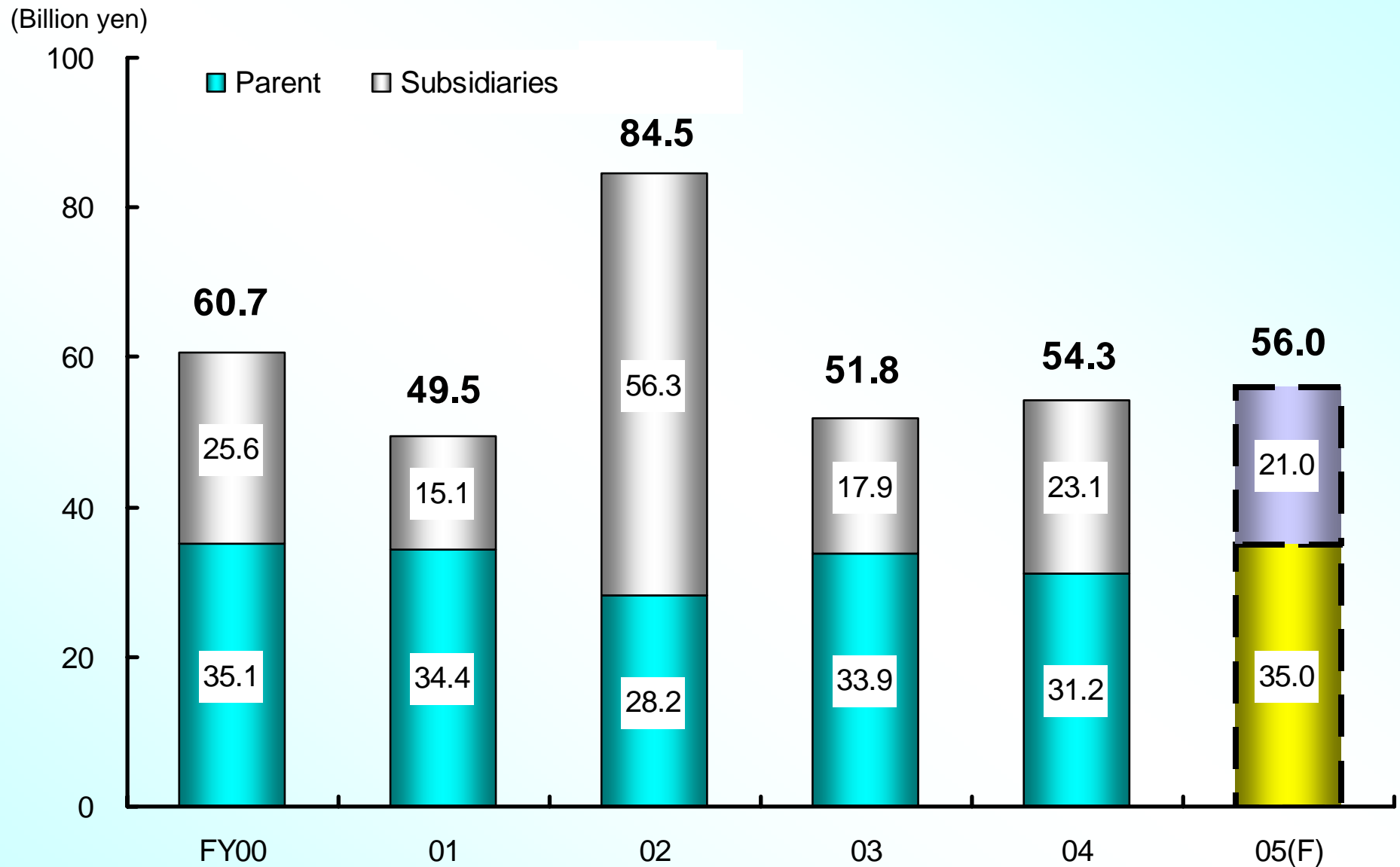
* The calculation is made based on the estimated number of average shares outstanding during the fiscal year.

Cash Dividends per Share



*Impacts of share splits are retroactively reflected.

Consolidated Capital Expenditures

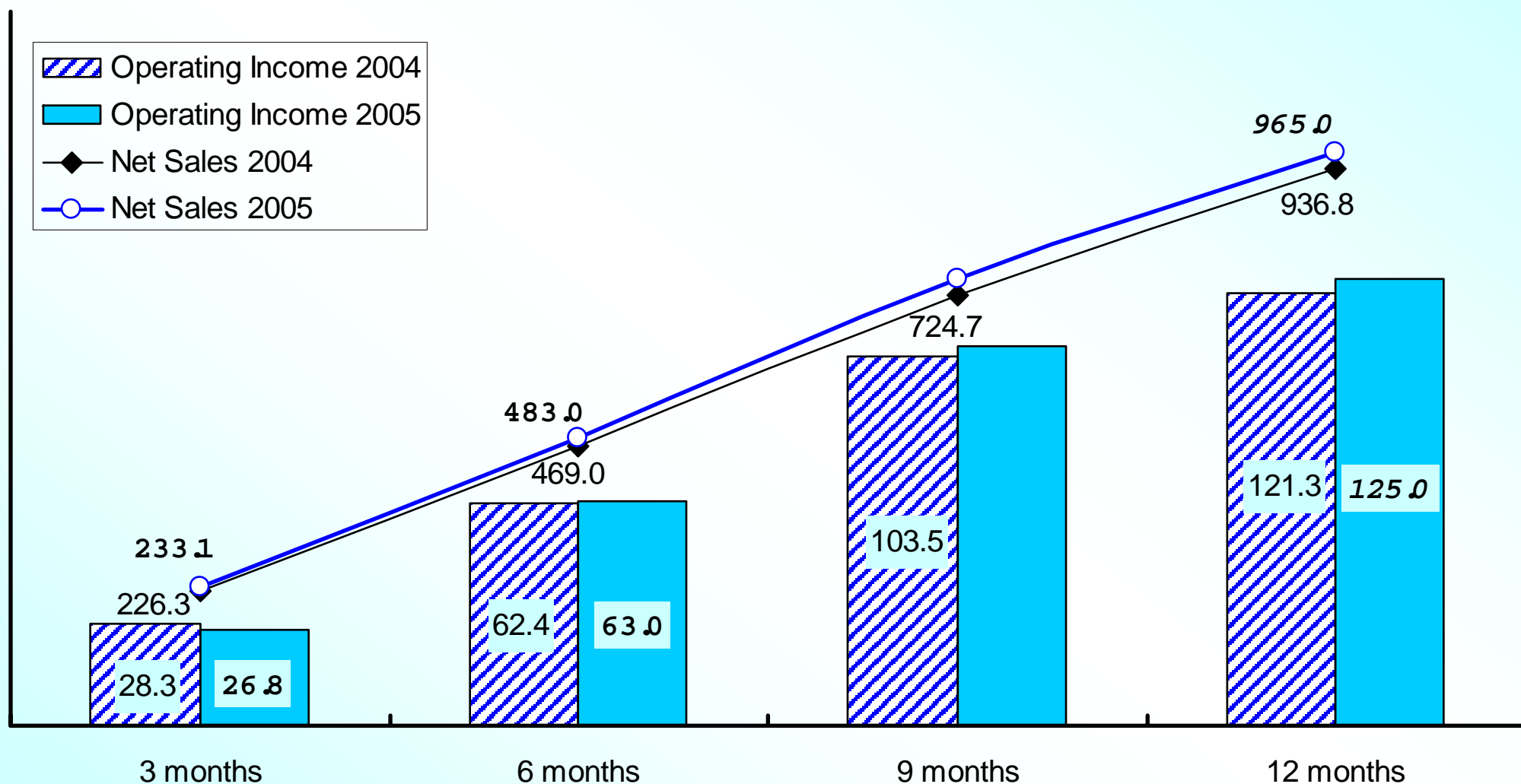


*Payment for purchase of newly consolidated subsidiaries (net of cash acquired) is not included.



Quarterly Consolidated Sales and Profit Forecast

(Billion yen)



Non-consolidated Sales and Profit Forecast

	FY2003		FY2004		FY2005(F)	
	Billion yen	% Growth	Billion yen	% Growth	Billion yen	% Growth
Net Sales	665.9	*1 0.6	694.6	4.3	685.0	-1.4
Operating Income	98.3	4.2	98.0	-0.4	99.0	1.0
[% to Sales]	[14.8]		[14.1]		[14.5]	
Ordinary Income	105.4	7.2	104.5	-0.8	104.0	-0.5
[% to Sales]	[15.8]		[15.1]		[15.2]	
Net Income	61.0	23.5	62.5	2.4	64.0	2.4
[% to Sales]	[9.2]		[9.0]		[9.3]	
Net Income per Share (yen)	111.19	30.2	113.62	2.2	117.35	3.3
ROE	14.6%		14.6%		14.1%	
EBITDA (Operating Income + Depr. & Amort.)	139.0	1.9	138.4	-0.5	137.5	-0.7

*1 Excluding the effect of changes in the accounting system between Kao Corporation and Kao Hanbai Company, Ltd. starting from April 2003, net sales of fiscal 2003 would have increased by 3.2%.

*2 The calculation is made based on the estimated number of average shares outstanding during the fiscal year.