Kao Corporation

News Release October 22, 1999

Kao Corporation Reports Interim Business Results

Tokyo, October 22, 1999 -- Kao Corporation today announced its consolidated and nonconsolidated business results for the six-month interim period ended September 30, 1999. The data contained below is taken from the financial summary submitted by the Company to the Tokyo Stock Exchange.

1. CONSOLIDATED BASIS

Consolidated Financial Highlights (Unaudited)

	Billions of Yen			Millions of U.S. Dollars
SIX MONTHS ENDED SEPTEMBER 30	**1999**	1998	% change	**1999**
Net sales	**425.5**	469.6	(9.4)	**3,979.1**
Operating income	**48.0**	49.8	(3.5)	**449.6**
Ordinary income	**46.3**	48.1	(3.6)	**433.5**
Net income	**25.9**	17.5	47.8	**242.3**
Total assets	**768.3**	788.3	(2.5)	**7,184.0**
Total shareholders' equity	**482.4**	437.4	10.3	**4,511.2**
	Yen			U.S. Dollars
Per share:				
Net income	**41.45**	28.29	46.5	**0.38**
Cash dividends	**10.00**	8.00	25.0	**0.09**

Note: Due to the change in the presentation requirements in Japan, certain reclassifications have been made to operating income and ordinary income for the six-month interim period ended September 30, 1998 to conform to the presentation of the current year results.

Kao Corporation

News Release

October 22, 1999

Consolidated Forecast for the Fiscal Year Ending March 31, 2000

The forecast for the fiscal year ending March 31, 2000, is 840.0 billion yen (US$7,854.1 million) in net sales, 93.0 billion yen (US$869.6 million) in ordinary income and 50.0 billion yen (US$467.5 million) in net income.

Consolidated Segment Information by Industry (Unaudited)

	Billions of Yen					
	SALES			OPERATING INCOME		
SIX MONTHS ENDED SEPTEMBER 30	**1999**	1998	% change	**1999**	1998	% change
Household Products	**317.1**	-	-	**41.2**	-	-
Cosmetics (*Sofina*)	**36.4**	-	-	**1.7**	-	-
Subtotal	**353.6**	369.0	(4.2)	**43.0**	47.2	(8.9)
Chemical Products	**71.9**	100.5	(28.5)	**5.0**	2.5	94.8
Total	**425.5**	469.6	(9.4)	**48.0**	49.8	(3.5)

	Millions of U.S. Dollars					
	SALES			OPERATING INCOME		
SIX MONTHS ENDED SEPTEMBER 30	**1999**	1998	% change	**1999**	1998	% change
Household Products	**2,965.6**	-	-	**386.0**	-	-
Cosmetics (*Sofina*)	**340.7**	-	-	**16.6**	-	-
Subtotal	**3,306.2**	3,450.9	(4.2)	**402.6**	442.0	(8.9)
Chemical Products	**672.8**	940.5	(28.5)	**46.9**	24.1	94.8
Total	**3,979.1**	4,391.4	(9.4)	**461.9**	466.1	(3.5)

Consolidated Geographic Segment Information (Unaudited)

	Billions of Yen					
	SALES			OPERATING INCOME		
SIX MONTHS ENDED SEPTEMBER 30	**1999**	1998	% change	**1999**	1998	% change
Japan	**334.5**	336.4	(0.5)	**44.1**	40.6	8.6
Asia	**44.3**	53.5	(17.1)	**2.0**	3.4	(40.8)
Europe and Americas	**58.4**	97.1	(39.8)	**1.7**	5.8	(70.5)

	Millions of U.S. Dollars					
	SALES			OPERATING INCOME		
SIX MONTHS ENDED SEPTEMBER 30	**1999**	1998	% change	**1999**	1998	% change
Japan	**3,128.3**	3,145.5	(0.5)	**412.4**	379.9	8.6
Asia	**414.6**	500.2	(17.1)	**18.8**	31.8	(40.8)
Europe and Americas	**546.7**	908.6	(39.8)	**16.2**	55.0	(70.5)

Notes:
1. The U.S. dollar amounts included herein represent translations using the approximate exchange rate on September 30, 1999, of yen 106.95=US$1, solely for convenience.
2. The forecast data is estimated at the time of release and is subject to future review.
3.In the consolidated segment information by industry, Cosmetics (Sofina) *is shown separately as a new segment from this term.*

Kao Corporation

News Release October 22, 1999

2. NONCONSOLIDATED BASIS

Nonconsolidated Financial Highlights (Unaudited)

	Billions of Yen			Millions of U.S. Dollars
SIX MONTHS ENDED SEPTEMBER 30	**1999**	1998	% change	**1999**
Net sales	**331.6**	331.8	(0.1)	**3,100.7**
Operating income	**43.9**	38.3	14.7	**411.1**
Ordinary income	**42.8**	41.7	2.8	**401.0**
Net income	**17.7**	13.0	35.5	**165.7**
Total assets	**678.0**	653.7	3.7	**6,340.1**
Total shareholders' equity	**473.3**	425.9	11.1	**4,425.8**
	Yen			U.S. Dollars
Per share:				
Net income	**28.36**	21.11	34.3	**0.26**
Cash dividends	**10.00**	8.00	25.0	**0.09**

Nonconsolidated Forecast for the Fiscal Year Ending March 31, 2000

The forecast for the full fiscal year ending March 31, 2000, is 664.0 billion yen (US$6,208.5 million) in net sales, 85.0 billion yen (US$794.8 million) in ordinary income and 40.0 billion yen (US$374.0 million) in net income.

Kao Corporation

News Release October 22, 1999

Nonconsolidated Sales Composition (Unaudited)

	Millions of Yen			Millions of U.S. Dollars
SIX MONTHS ENDED SEPTEMBER 30	**1999**	1998	% change	**1999**
Household Products:				
Personal Care	**89,348**	90,748	(1.5)	**835.4**
Laundry and cleaning	**127,975**	125,559	1.9	**1,196.6**
Hygiene and others	**38,361**	36,610	4.8	**358.7**
Total	**255,685**	252,918	1.1	**2,390.7**
Cosmetics (*Sofina*)	**36,193**	37,150	(2.6)	**338.4**
Chemical Products	**39,750**	41,784	(4.9)	**371.7**
Grand Total	**333,629**	**331,853**	**(0.1)**	**3,100.7**

Notes:
1. The U.S. dollar amounts included herein represent translations using the approximate exchange rate on September 30, 1999, of yen 106.95=US$1, solely for convenience.
2. The forecast data is estimated at the time of release and is subject to future review.
3.In the consolidated segment information by industry, Cosmetics (Sofina) *is shown separately as a new segment from this term.*

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Kao Corporation

News Release October 22, 1999

Kao Corporation's Management Policies and Summary of Business Results for the Interim Period Ended September 30, 1999

1. MANAGEMENT POLICIES

1. Basic Management Policies

The mission of Kao Corporation is to contribute to the wholehearted satisfaction and the enrichment of the lives of its customers throughout the world by providing products of excellent value and outstanding performance from the customer's point of view. Our aim is to continue to achieve profitable growth in spite of the intensifying global competition, and to be a stronger and superior company.

Kao's goal is to ensure that its business activities result in a long-term increase of corporate value.

Kao introduced EVA® as its main management measurement in April of this year. EVA is used for management goal setting as well as for the evaluation of investments and performance of operations. In order to motivate employees to improve EVA, new incentive systems based on EVA were implemented at the parent company. The adoption of this new management system is intended to clarify goals and guide activities toward long-term and continuous EVA improvement, which will lead to increase in real corporate value for shareholders. Therefore, EVA is expected to strengthen corporate governance from shareholders' viewpoint.

2. Basic Policies for Distribution of Profits

Kao realizes that a long-term and continuous improvement of EVA will increase not only shareholder value, but other stakeholders' value on a long-term basis as well. Based upon a 30% payout ratio to nonconsolidated net income, we will endeavor to continuously increase dividends per share.

In its use of free cash flow, the company will give priority to investment in business development and strategic M&A activity to increase future corporate value. This long-term strategy also includes share buybacks.

3. Mid to long term Management Strategies

Kao will energetically seek growth in its core businesses – household products, cosmetics and chemical products – by producing products of the highest quality based on its unique technologies. Along with this Kao will reinforce its overseas operations, mainly by increasing activity in the growing Asian market as well as by expanding business operations in North America. Accordingly, we will positively consider M&A and alliances. Through these operations, we intend to compensate for slower growth in maturing Japanese markets. We will also seek continuous EVA improvement by expanding our existing businesses and making an ongoing effort to reduce costs and enhance operating efficiency.

4. Issues for Management

After completing withdrawal from the information technology business in the previous fiscal year, we have energetically pursued cost reductions and raised management efficiency during the first six months ended September 30, 1999. As a result, Kao improved profitability over the same period for the previous fiscal year, achieving an 11.6% operating income margin. ROE for the full year is projected to be 10.5%. In fact, while global competition is intensifying, Kao is narrowing the distance between itself and its global peer companies in terms of profitability. However, we still recognize that a gap exists in terms of corporate scale and growth rates. Accordingly, urgent tasks we must pursue are to review our growth strategies, and then carefully allocate management resources, effectively and according to our priorities, in a way that best serves these strategies.

** EVA® is a registered trademark of Stern Stewart.*

2. CONSOLIDATED BUSINESS RESULTS

1. Summary of the Interim Period Business Results

Although the Japanese economy is showing signs of slight improvement, as a result of various government policy measures, personal consumption in most fields remains sluggish. Accordingly, the business environment surrounding Kao is still severe. Overseas, Asian economies have ridden out the currency crisis and are now beginning to recover, although this recovery is still at an early stage. The U.S. economy continues to be strong, and the European economy is improving.

In the field of household products, an area in which competition in global markets continues to stiffen, retail prices in the Japanese market again showed year-on-year decreases.

Consolidated sales for the first six months ended September 30, 1999, fell by 44.0 billion or 9.4% from the same term of the previous year to 425.5 billion yen. Major factors that caused this decline were a drop in sales of 28.2 billion yen due to the withdrawal from the information technology business, a negative currency translation effect of approximately 10.0 billion yen due to the appreciation of yen, as well as a decrease in sales in the household products business in the United States, where sales of *Biore Pore Pack* peaked dramatically last year.

Sales of the parent company rose by 1.3%, excluding the sales of the information technology business in the same period of last fiscal year. Overseas sales, on a local currency basis, in the United States as well as in Asia, fell below the same term of the previous year.

Both operating income and ordinary income fell by 3.5% and 3.6% respectively from the same term of the previous year.

In Japan, operating income increased solidly as a result of rationalization and cost reduction activities. Meanwhile, operating income overseas fell significantly from the previous term mainly as a result of decreased profits in the household products business in the United States.

Net income for the interim period increased by 47.8% to 25.9 billion yen. An extraordinary loss was recorded in connection with restructuring, continuing from last year, at Goldwell GmbH in Germany. However, the elimination of restructuring losses for the information technology business, which were 19.8 billion yen in the same period last year, contributed to significant growth in interim net income.

In respect of EVA, we are ahead of our targeted level of EVA improvement for this term.

As we initially planned, the interim cash dividend will be 10.00 yen per share, an increase of 2.00 yen per share from the interim cash dividend of the last fiscal year.

Financial Condition

Cash flow from operations during the interim period was 71.3 billion yen, which remained at the same level as the same period of the previous year. The decrease in extraordinary losses in noncash items was offset by the increase in net income and the decline in net working capital, including inventory.

Capital expenditure for the interim period decreased greatly from the same period of the previous fiscal year to 20.3 billion yen. This expenditure was primarily for plant relocation in Japan, production equipment for new products including food products, strengthening of distribution facilities, and a detergent plant in China. Surplus cash flow was used for repayment of borrowings and to redeem corporate bonds.

As a result, during the interim period, interest bearing debts decreased by 17.0 billion yen to 98.6 billion yen. Cash and cash equivalents increased by 47.2 billion yen to 144.6 billion yen during the interim period.

Summary of Results by Business Segment

(1) Household products business

Due to a drop in net sales in the United States and the strength of the yen, net sales and operating income decreased significantly in the household products business overseas. However, growth in the parent company’s sales and operating income offset this. As a result, consolidated net sales totaled 317.1 billion yen, and consolidated operating income amounted to 41.2 billion yen.

1) Japan

The household products market in Japan remains sluggish, with prices continuing a downward trend. Nonetheless, the company worked to increase its brand power by adding new products and improving the quality and performance of existing ones. As a result, sales of household products increased by 1.1% to 255.6 billion yen. In addition, cost reduction and more efficient use of expenses contributed to increased operating income.

Sales of personal care products in Japan reached 89.3 billion yen, a 1.5% decrease over the same period of the previous year. In the skin care products category, *Biore Powdery Sheet for the Body* and *Biore Warming Deep Pore Cleanser* contributed to a rise in sales, as sales of soap and hair care products decreased from the same period of the previous year. Exports of *Biore Pore Pack* to overseas subsidiaries also dropped significantly.

Sofina cosmetic products, classified as personal care products until last fiscal year, will be classified as cosmetic products from this term.

The following main new products were introduced:

Biore Warming Deep Pore Cleanser (facial cleanser)
Biore Powdery Sheet for the Body
Lavenus Silky Feel Shampoo/Conditioner

Sales of laundry and cleaning products rose by 1.9% from the same period of the previous year to 127.9 billion yen. As competition in the market intensified, sales of our new fabric softener *Floral Humming 1/3*, together with exports of our household cleaning mop kit which went on sale in the United States and Europe through the U.S. company S.C. Johnson & Son, Inc., helped offset a decrease in sales of dishwashing detergents and other products.

The following main new products were introduced:

New Beads (laundry detergent)
Family Pure (dishwashing detergent)

Floral Humming 1/3 (fabric softener)
Wide Haiter 1/2 Easy Bleach

Sales of hygiene and other products increased by 4.8% to 38.3 billion yen. *Super Merries* disposable baby diapers continued last fiscal year's sales growth, as sales of incontinence products also grew. Due to the shrinking market, sales of sanitary napkins recorded lower sales than in the same period of the previous year.

The company's new *Healthy Econa Cooking Oil*, which prevents body fat from increasing, enjoyed strong support from consumers and achieved favorable sales growth.

Bath additives, previously classified in the hygiene and other products category, are now classified as personal care products.

The following main new product was introduced:

Healthy Econa Cooking Oil

2) Asia

Although the Asian economy has weathered the currency crisis and is now headed for recovery, competition in the market for consumer goods remains fierce as demand growth continues to be sluggish. In response to these difficult conditions, Kao established operations in the laundry detergent business in China in April. In Thailand, the company launched new *Biore* brand products in June to strengthen its lineup of facial cleansers.

During the period, sales of household products in Asia were influenced by several factors, including changes in transaction systems (changes in price quotations), a fall in sales of *Biore Pore Pack*, weak sales due to a reduction of inventory carried by distributors in China, and the strengthening of the yen. As a result, both net sales and operating income fell from the same period of the previous year.

3) North America and Europe

In the United States, sales of *Biore Pore Pack*, sold through The Andrew Jergens Company, declined significantly from the same period of the previous year. However, Andrew Jergens is striving to build the brand’s power by launching new products including a facial cleanser. *Curél*, a premium skin care brand acquired last year, continues to show strong sales results. Despite this, in addition to a decline in overall sales, the currency translation impacted negatively due to the strong yen, resulting in both net sales and operating income falling greatly from the same period of the previous year.

In Europe, sales and operating income at Goldwell GmbH, which markets hair care products for beauty salons, remained at approximately the same levels as the same period of the previous year. Due to the strong yen and the shortening of the period of amortization of goodwill, both net sales and operating income fell, in yen terms, below the level of the same period of the previous year.

(2) Cosmetics Business (*Sofina*)

Net sales of *Sofina* cosmetics were 36.4 billion yen. While the overall cosmetics market is contracting, the new products *Grace Sofina* for mature skin and the *Sofina Very Very* series for young skin contributed to sales growth. Skin whitening products also saw an increase in sales.

The following main new products were introduced:

Sofina Very Very Skin Care series/Foundation
Sofina Very Very Whitening (skin whitening)
Grace Sofina Skin Care series/Foundation

(3) Chemical Products Business

Net sales in the chemical products business decreased by 28.5% from the same period of the previous year to 71.9 billion yen. Operating income increased significantly by 2.4 billion yen to 5.0 billion yen, a rise of 94.8%.

Excluding the information technology business, net sales and operating income in the chemical products business remained at approximately the same levels in the same period of the previous year.

1) Japan

With the exception of certain market sectors, rising demand has spurred solid growth in sales of chemicals. Exports also increased over the same period of the previous year due to increased demand in North America and Europe as well as the economic recovery in Southeast Asia.

Operating income rose as a result of an increase in sales and the effect of the rationalization of production and the sales force.

2) Asia

With economic recovery beginning in other Asian countries, the company’s business moved to solid sales growth. In Malaysia, however, both net sales and operating income from the fatty alcohols business fell from the same period of the previous year on a local currency basis, mainly due to the introduction of a fixed exchange rate system. This factor combined with the influence of the strong yen, led to an overall decline in net sales and operating income in the chemical products business in Asia.

3) North America and Europe

Growth continued in sales of copier and printer toner and related products in the United States and Spain, in sales of fatty amines in Germany, and in sales of aroma chemicals in Spain. However, overall net sales fell from the same period of the previous year due to our withdrawal from the information technology business, and the strengthening of the yen, while operating income increased from the same period of the previous year.

Kao established a regional headquarters, Kao Chemicals Europe, S.L. in Barcelona, Spain, for its chemical products operations in Europe in

September 1999 in order to adapt to European integration, unify its European chemical products businesses, raise management efficiency and accelerate decision making.

2. Forecast for the Fiscal year ending March 31, 2000

In Japan, the household products business and cosmetics (*Sofina*) business are expected to see a continued market slump. Taking up this challenge, the company will strive to strengthen brand equity by launching new and improved products that respond to consumers' new needs, thus plan to increase net sales slightly over the previous fiscal year. We will also endeavor to further reduce costs and enhance effective profit management in order to achieve profit growth.

In the household products business overseas, net sales are expected to be lower than the previous fiscal year. This is mainly due to intensifying competition in Asia, especially China and Taiwan, and the decline of sales in the U.S. skin care business from the previous fiscal year, as well as the effect of the strong yen. We will endeavor to achieve further cost reductions and enhance effective profit management, and also continue restructuring. On a local currency basis, operating income in Asia is expected to be slightly higher than the previous fiscal year, while we expect to reduce the decrease in operating income in North America and Europe.

In the chemical products business, we project that our operations in Japan will continue to recover. Overseas, however, net sales and operating income are expected to be lower than the previous fiscal year due to the appreciation of the yen. As a result, overall net sales are likely to be down from the previous fiscal year, while we expect to see a slight increase in operating income.

Net income is forecast to grow significantly on a year-on-year basis due to the elimination of losses in the information technology business.

As a result of the above, net sales are expected to total 840.0 billion yen in this fiscal year. Ordinary income is projected to increase to 93.0 billion yen, and net income for the period is expected to reach 50.0 billion yen.

In respect of EVA, we anticipate that we will achieve, or even better, our targeted level of EVA improvement for the year.

In consideration of the financial performance for the fiscal year ending March 31, 2000, Kao plans to increase the total cash dividend applicable to the year by 4.00 yen per share to 20.00 yen per share. However, this is subject to the level of net income for the fiscal year.

Please note this forecast was estimated at the time of release and is subject to future review.

3. YEAR 2000 UPDATE

Kao recognizes the importance of properly handling the year 2000 (Y2K) computer problem through corporate management activities in order to continue to offer quality service to our customers and maintain stable business operations. In reorganization of our information systems, begun in 1993, we have implemented four-digit representation of years. At the same time, a company-wide project team headed by an executive director was established in 1998 to ensure full resolution of Y2K issues.

As a result, we have confirmed that our internal information systems and those of our sales companies have no Y2K problems. We are conducting communications tests at the request of customers and vendors to confirm that no problems exist between our information systems and theirs. We also completed basic countermeasures at production and distribution facilities in September 1999, excepting a system for one of our facilities which will be updated in October 1999. We are now in the process of conducting final tests at these facilities. As of September 1999, all information systems and production facilities at Kao’s foreign affiliates had been confirmed to be Y2K compliant.

Nonetheless, we can not absolutely rule out the possibility of unexpected events, including impacts on our systems from connected outside systems and problems at customers and vendors. Establishment of a risk management plan to prepare for such unexpected events had almost been completed by September 1999.

The risk management plan will address classification of expected problems and obstacles, countermeasures and compliant sections, establishment of a countermeasures office headed by our executive director, an emergency response system, and supervisors and engineers who will be available at work sites or on standby. We will continue to implement countermeasures, reinspect facilities, and conduct rehearsal activities through December 1999 in order to realize full risk management.