Kao Corporation

News Release October 23, 2000

Kao Corporation Reports Business Results

Tokyo, October 23, 2000 -- Kao Corporation today announced its consolidated and nonconsolidated business results for the six months ended September 30, 2000. 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	**2000**	1999	% change	**2000**
Net sales	**411.6**	425.5	(3.3)	**3,811.9**
Operating income	**54.8**	48.0	14.2	**508.3**
Ordinary income	**57.4**	46.3	23.9	**532.0**
Net income	**31.6**	25.9	22.2	**293.2**
Total assets	**756.3**	768.3	(1.6)	**7,003.6**
Total shareholders' equity	**450.0**	482.4	(6.7)	**4,166.7**
	Yen			U.S. Dollars
Per share:				
Net income	**51.25**	41.45	23.6	**0.47**
Cash dividends	**12.00**	10.00	20.0	**0.11**

	%	
SIX MONTHS ENDED SEPTEMBER 30	**2000**	1999
Operating margin	**13.3**	11.3

Consolidated Forecast for the Fiscal Year Ending March 31, 2001

The forecast for the full fiscal year ending March 31, 2001, is 830.0 billion yen (US$7,685.2 million) in net sales, 110.0 billion yen (US$1,018.5 million) in ordinary income and 60.0 billion yen (US$555.6 million) in net income.

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Consolidated Segment Information by Industry (Unaudited)

	Billions of Yen						
	SALES				OPERATING INCOME		
SIX MONTHS ENDED SEPTEMBER 30	**2000**	1999	% change	Like-for-like	**2000**	1999	Incr./(Dcr.)
Consumer Products	**305.4**	317.1	(3.7)	0.9	**44.8**	39.5	5.3
Cosmetics (*Sofina*)	**36.0**	36.4	(1.1)	(1.1)	**1.1**	1.7	(0.6)
Chemical Products	**84.2**	85.4	(1.4)	4.8	**8.9**	6.7	2.2
Corporate/Eliminations	**(14.0)**	(13.4)	-	-	**(0.0)**	0.0	-

	Millions of U.S. Dollars						
	SALES				OPERATING INCOME		
SIX MONTHS ENDED SEPTEMBER 30	**2000**	1999	% change	Like-for-like	**2000**	1999	Incr./(Dcr.)
Consumer Products	**2,828.6**	2,936.7	(3.7)	0.9	**415.6**	366.5	49.1
Cosmetics (*Sofina*)	**333.7**	337.4	(1.1)	(1.1)	**10.3**	15.9	(5.6)
Chemical Products	**780.1**	791.1	(1.4)	4.8	**82.7**	62.2	20.5
Corporate/Eliminations	**(130.5)**	(124.8)	-	-	**(0.3)**	0.7	-

Notes: Like-for-like growth rates exclude both the effect of the new consolidation of the domestic consumer products sales company and the currency effect on overseas sales related to translation of local currencies to the Japanese yen.

Consolidated Geographic Segment Information (Unaudited)

	Billions of Yen						
	SALES				OPERATING INCOME		
SIX MONTHS ENDED SEPTEMBER 30	**2000**	1999	% change	Like-for-like	**2000**	1999	Incr./(Dcr.)
Japan	**330.4**	334.5	(1.2)	0.5	**49.1**	44.1	5.0
Asia	**41.6**	44.3	(6.0)	2.7	**3.4**	2.0	1.4
Europe and Americas	**51.2**	58.4	(12.3)	5.1	**2.5**	1.7	0.7
Corporate/Eliminations	**(11.7)**	(11.8)	-	-	**(0.2)**	0.2	-

	Millions of U.S. Dollars						
	SALES				OPERATING INCOME		
SIX MONTHS ENDED SEPTEMBER 30	**2000**	1999	% change	Like-for-like	**2000**	1999	Incr./(Dcr.)
Japan	**3,059.9**	3,097.9	(1.2)	0.5	**455.3**	408.4	46.8
Asia	**386.1**	410.6	(6.0)	2.7	**32.2**	18.6	13.5
Europe and Americas	**474.8**	541.4	(12.3)	5.1	**23.3**	16.0	7.3
Corporate/Eliminations	**(108.9)**	(109.5)	-	-	**(2.5)**	2.1	-

Notes:
1. *The U.S. dollar amounts included herein represent translations using the approximate exchange rate on September 29, 2000, of yen 108.00=US$1, solely for convenience.*
2. *The forecast data is estimated at the time of release and is subject to future review.*
3. *Like-for-like growth rates exclude both the effect of the new consolidation of the domestic consumer products sales company and the currency effect on overseas related to translation of local currencies to the Japanese yen.*

2. NONCONSOLIDATED BASIS

Nonconsolidated Financial Highlights (Unaudited)

	Billions of Yen			Millions of U.S. Dollars
SIX MONTHS ENDED SEPTEMBER 30	**2000**	1999	% change	**2000**
Net sales	**332.9**	331.6	0.4	**3,083.3**
Operating income	**46.8**	43.9	6.6	**434.0**
Ordinary income	**48.6**	42.8	13.3	**450.0**
Net income	**27.4**	17.7	54.6	**253.7**
Total assets	**690.8**	678.0	1.9	**6,396.8**
Total shareholders' equity	**476.5**	473.3	0.7	**4,412.1**
	Yen			U.S. Dollars
Per share:				
Net income	**44.21**	28.36	55.9	**0.41**
Cash dividends	**12.00**	10.00	20.0	**0.11**

Nonconsolidated Forecast for the Fiscal Year Ending March 31, 2001

The forecast for the full fiscal year ending March 31, 2001, is 670.0 billion yen (US$6,203.7 million) in net sales, 96.0 billion yen (US$888.9 million) in ordinary income and 54.0 billion yen (US$500.0 million) in net income.

Nonconsolidated Sales Composition of Consumer Products (Unaudited)

	Billions of Yen			Millions of U.S. Dollars
SIX MONTHS ENDED SEPTEMBER 30	**2000**	1999	% change	**2000**
Consumer Products:				
Personal Care	**90.7**	89.3	1.6	**840.5**
Laundry and cleaning	**128.7**	127.9	0.6	**1,192.1**
Hygiene and others	**38.5**	38.3	0.6	**357.3**
Total	**258.1**	255.6	0.9	**2,389.9**

Notes:
1. *The U.S. dollar amounts included herein represent translations using the approximate exchange rate on September 29, 2000, of yen 108.00=US$1, solely for convenience.*
2. *The forecast data is estimated at the time of release and is subject to future review.*

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1. MANAGEMENT POLICIES

1. Basic Management Policies

The mission of Kao Corporation is to contribute to the wholehearted satisfaction and enrichment of the lives of its customers throughout the world by providing products of excellent value and outstanding performance. Our aim is to achieve profitable growth in spite of the intensifying global competition, and to increase corporate value that will place Kao among the ranks of the world’s leading companies.

In the previous fiscal year we adopted EVA® (Economic Value Added) as our primary management measure. We are convinced that achieving sustained growth of EVA is the way to maximize corporate value, and that the EVA management system greatly contributes to strengthening corporate governance from the point of view of the shareholders. Along with using EVA as a measure in setting management targets and evaluating investments, the Company intends to focus company activities on generating continuous improvements in EVA over the long term as it utilizes an EVA-based incentive compensation system to motivate employees.

2. Basic Policies Regarding Distribution of Profits

By seeking to increase EVA continuously over the long term, Kao aims to maximize shareholder value. At the same time, we realize that this will also serve to increase the value of the company for other stakeholders.

Kao seeks to achieve continuous increase in per-share dividends, with payouts equivalent to approximately 30% of nonconsolidated net income. In our use of free cash flow, with the aim of raising corporate value, we assign priority to investment in business development and strategic M&A activity and undertake measures, including share redemption, with a long-range point of view and investment efficiency uppermost in mind.

®EVA is a registered trademark of Stern Stewart.

3. Medium- and Long-Term Management Strategies

At Kao, we concentrate resources on our core businesses of consumer products, cosmetics, and chemical products, and energetically seek growth by developing and marketing products of the highest quality based on our unique technologies. By expanding these platforms we are also developing new lines of business in health care and other fields.

Overseas, the Company is expanding operations in growth markets in the Asian region and is increasing business activity in North America. To do this we are positively considering further M&A activity and are entering into strategic business alliances.

This approach has been adopted to compensate for a flattening out of growth in maturing Japanese markets. Alongside this, we aim to take ongoing cost saving measures and increase management efficiency, thus realizing sustained EVA growth.

4. Reform of Governance Structure

To strengthen corporate governance and realize high levels of fairness and transparency in management, Kao has established an Advisory Committee made up of two external advisors, two special advisors, the president, and another member of the Board of Directors. The Company has also taken steps to cope with the rapid pace of change in its operating environment. To activate the Board of Directors and promote speedy decision-making and execution of business decisions, we have reorganized the Board and delegated authority to its directors.

5. Issues for Management

In the interim period ended September 30, 2000, the Company made efforts to reduce costs and raise management efficiency that contributed to an increase in the operating margin to 13%. Through these efforts we are gradually closing the gap in profitability between Kao and our global peer companies. Nevertheless, we will endeavor to narrow the gap further, both in terms of the relative scale of operations and in terms of growth rates. Accordingly, urgent tasks that we must pursue are to review our medium- and long-term growth strategy, and then allocate management resources and invest effectively according to priorities in a way that best serves this strategy.

2. CONSOLIDATED BUSINESS RESULTS

1. Summary of the Interim Period Business Results

The Japanese economy is now in a period of moderate recovery as indicators such as investment in plant and equipment continue to rise. Nevertheless, the recovery is not characterized by a return to healthy growth in personal consumption, and the consumer products and cosmetics markets are not growing in volume as prices continue to drop.

Overseas, although the export-driven economies of Asian countries are performing well, high crude oil prices and weak currencies are factors that give rise to concern about future stability. At the same time, economic expansion has continued in North America and the European economy continues to grow steadily.

Consolidated net sales for the first six months ended September 30, 2000 fell 13.8 billion yen or 3.3% from the same period of the previous fiscal year to 411.6 billion yen. The negative currency impact due to the strong yen on overall overseas sales was 13.9 billion yen. Also, there was a difference in sales recognition in connection with the new consolidation of the domestic consumer products sales company. When these two factors are excluded, consolidated net sales increased 1.4% in real terms.

Despite the decreased sales, overall profitability improved from the same period of the previous fiscal year, exceeding the projections of April 21, 2000.

Operating income for the period rose 14.2% to 54.8 billion yen. The effect of cost savings and other measures led to continuing healthy growth in operating profit, a 6.6% increase from the same period of the previous fiscal year, for the parent company. In addition, the consolidation of the sales company contributed to an increase of 1.2 billion yen in operating income. As a result, domestic operating income improved by 11.5%. With operations in both consumer products and chemical products in Asia and chemical products in North America and Europe making contributions, operating income overseas rose 59.8% to 5.9 billion yen.

In addition to the increased operating income, decreased foreign exchange loss and restructuring charges led to net income for the interim period surging significantly to 31.6 billion yen, a 22.2% increase from the same period of the previous fiscal year.

EVA also increased steadily due to an increase in net operating profit after tax (NOPAT) and measures to control capital charges.

As initially planned, the interim cash dividend will be 12.00 yen per share, an increase of 2.00 yen per share from the same interim cash dividend of the previous fiscal year.

Summary of Results by Business Segment

(1) Consumer Products Business

Sales in the consumer products business decreased by 3.7% from the same period of the previous fiscal year to 305.4 billion yen. Sales in Japan in nominal terms declined by 1.4%, however, they achieved a slight increase in real terms excluding the effects of the new consolidation of the consumer products sales company. Overseas sales also fell below levels of the same period of the previous fiscal year due to the strong yen, while they increased slightly on a local currency basis. In terms of operating income, healthy growth in Japan, along with the increase achieved in Asia, North America and Europe, led to an overall profit growth.

1) Japan

In the consumer products market in Japan, prices continued to move downward as demand slumped below the level of the previous period. Despite this operating environment, sales of consumer products increased by 0.9% in real terms excluding the effect from the consolidation of the sales company. The following table shows the breakdown by category.

Summary of effect of consolidation of the sales company

SIX MONTHS ENDED SEPTEMBER 30	Billions of yen 2000		1999	% change Like-for-like
		Excl. effect		
Personal care products	88.7	90.7	89.3	1.6%
Laundry and cleaning products	126.0	128.7	127.9	0.6%
Hygiene and others	37.4	38.5	38.3	0.6%
Total	252.2	258.1	255.6	0.9%

Healthy growth was achieved in operating income as continued cost reduction efforts and greater efficiency in operating expenses, along with the lower material costs due to the strong yen, contributed to a lower total cost that more than offset higher marketing expenses.

In personal care products in Japan, among skin care products, body cleansers performed well. In hair care products, healthy growth of sales of *Pur* shampoo and conditioner continued and new products contributed to increased sales. As a result, sales of hair care products overall increased. However, sales of men's cosmetics and oral care products fell below the level of the same period of the previous fiscal year.

Principal new products included:

Biore Medicated Deodorant Gel
Biore Oil Control and Refreshing Sheets
Blaune Scented Hair Color

Sales of laundry and cleaning products grew steadily. Despite strong competition, sales of new products such as fabric softener and paper cleaning products, and dishwashing detergents exceeded the level of the same period of the previous year. On the other hand, exports of household cleaning mop kits and sheets, which are marketed in North

America and Europe by S.C. Johnson & Son Inc., decreased due to the transfer of production overseas.

Principal new products included:

Quickle Floor Wipes Wet-type
Humming 1/3 Anti-bacterial Plus
WiLL Air Refreshing Mist

In hygiene and other products, *Healthy Econa Cooking Oil*, which helps prevent fat deposits, continued to enjoy strong support from consumers as an innovative product and achieved favorable sales growth continuously. Affected by severe price competition and contracted market due to the continuing decrease in the population of relevant consumers, sales of disposable baby diapers fell below the same period of the previous fiscal year. On the other hand, we managed to develop favorable sales of adult incontinence products. However, sluggishness in the market for sanitary napkins led to lower sales.

Principal new products included:

Laurier Dry Cotton Sheet (panty liner)

2) Asia

The Asian economy is now headed for recovery, however, fierce competition among global peer companies continued in the slower growth toiletry market.

Although sales in China are on the way to recovery, sales of consumer products in Asia as a whole grew slightly. Overall sales in yen terms decreased due to the negative currency impact.

On the other hand, operating income rose from the same period of the previous fiscal year, both in terms of local currencies and in yen terms, due to the Company's focus on core brands, improved efficiency, and profit improvement in China.

3) North America and Europe

In the United States, The Andrew Jergens Company posted favorable sales of *Curél* premium skin care lotion, but sales of *Biore Pore Pack* continued to decline. Sales of body cleansers and exports decreased, as overall sales on a local currency basis fell below level of the previous year.

Favorable sales of premium products and effective use of fixed costs contributed to operating income, thereby exceeding the level of the same period of the previous fiscal year.

In Europe, Goldwell GmbH, which markets hair care products for beauty salons, posted healthy sales growth, on a local currency basis, particularly in hair color products. Operating income also improved as a result of restructuring undertaken. However, sales of *Biore Pore Pack*, marketed under the tie-up with Beiersdorf AG fell sharply and operating income decreased.

(2) Cosmetics Business (*Sofina*)

Sales of cosmetics (*Sofina*) were 36.0 billion yen, a decrease of 1.1%. Overall, the prestige cosmetics market in Japan was hard hit by the increasing prevalence of price-sensitive consumers, the preference for lower-priced cosmetics and the price deflation at retailers. Under the contracted market conditions, the basic cosmetics lines, namely *Sofina Very Very* series designed for young skin, as well as *UV Care* product lineup, performed well. In the foundation category, the newly launched *Raycious* received strong support from consumers. Overall sales decreased from the same period of the previous fiscal year due to the retail destocking measures which the Company has undertaken but were partially offset by the strong retail take away.

Operating income in this business also fell due to increased loss on returned inventory associated with the destocking measures and higher pension-related expenses.

Principal new products included:

Sofina Very Very Sebum Care Product
Raycious Powdery Make Up
Raycious Liquid Make Up
Raycious Moist Up Base (makeup base)

(3) Chemical Products Business

Sales in the chemical products business dropped 1.4% to 84.2 billion yen, affected by the negative currency translation of the strong yen. However, operating income rose 33.0% to 8.9 billion yen.

1) Japan

In sales of chemical products in Japan, healthy growth was posted in fatty chemicals and industrial materials, however, export sales dropped due mainly to shifts of production overseas. As a result, overall sales of chemical products fell slightly from the level posted for the same period of the previous fiscal year.

Prices of raw materials derived from natural fats and oils remained soft, which compensated a rise in petrochemical raw material prices. Along with this effect, the strong yen and the effects of rationalizing production and sales contributed to the increased operating income over the same period of the previous fiscal year.

2) Asia

On a local currency basis, sales rose in each of the Asian countries. In particular, Fatty Chemical (Malaysia) Sdn. Bhd. achieved significant growth in sales of fatty alcohols. However, overall sales in this region in yen terms fell slightly from the same period of the previous term due to the effect of the strong yen.

The strong performance of the fatty alcohols businesses in Malaysia and the Philippines, which benefited from lower raw material costs, led to the Company achieving significant operating income growth even in yen terms.

3) North America and Europe

Strong performances continued in such businesses as copier and printer toners and related products in North America, fatty amines in Germany, and aroma chemicals and toner-related products in Spain, which led to steady increases in sales on a local currency basis. Sales in yen terms, however, declined as a result of the weakening of European currencies. Nevertheless, operating income improved.

Financial Condition

Summarized Consolidated Cash Flows (Unaudited)

	Billions of Yen			Millions of U.S. Dollars
SIX MONTHS ENDED SEPTEMBER 30	**2000**	1999	Incr./(Dcr.)	**2000**
Operating activities	**55.0**	71.0	(16.0)	**509.3**
Investing activities	**(52.7)**	(10.2)	(42.5)	**(488.5)**
Financing activities	**(30.7)**	(12.5)	(18.1)	**(284.3)**
Translation adjustments	**2.0**	(1.0)	3.1	**19.0**
Net increase	**(26.4)**	47.2	(73.6)	**(244.5)**
Cash and cash equivalents	**121.6**	144.6	-	**1,126.0**
Total debt	**72.0**	98.6	-	**667.3**

Net cash provided by operating activities during the interim period decreased compared with the same period of the previous fiscal year. The major factor to this decline was an increased tax payment, partially offset by the significant increase in profits.

Net cash used in investment activities increased. Principal items include the acquisition of *ban*, a line of antiperspirant/deodorant products sold mainly in the United States, and the increase in purchase of short-term securities for the investment of excess cash. The principal capital spending during the period was in the production facilities for the new products such as laundry detergents and cooking oil and the plant relocation in Japan.

As a result of debt repayments and the redemption of corporate bonds, as of the interim fiscal year-end, Kao's total interest-bearing debt had been reduced by 6.0 billion yen from the balance as of March 31, 2000, to 72.0 billion yen. In addition, to enhance shareholders' returns, the Company decided to repurchase its own stock up to 10 million shares or 32.0 billion yen. By the interim fiscal year-end, the Company conducted a share redemption of 6 million, for a total sum of approximately 17.0 billion yen.

Consequently, cash and cash equivalents at the end of the period decreased by 26.4 billion yen from the balance as of March 31, 2000, to 121.6 billion yen.

2. Forecast for the Fiscal Year Ending March 31, 2001

It is anticipated that conditions in the consumer products market in Japan will remain challenging as sluggish consumer spending continues. To cope with this difficult operating environment, Kao will endeavor to increase the value of its brands by improving existing products and developing and launching new products that meet consumer needs. The Company projects that this effort will result in a slight increase in the parent company's sales of consumer products, and that continuing management efforts to reduce costs and effective profit management will compensate the increased marketing spending to cope with the intensifying competition and the effect of further price decline. Consequently, the Company projects an increase in profit in the domestic consumer products business for the fiscal year ending March 31, 2001.

In the overseas consumer products business, we project that, although the strong yen can be expected to result in lower sales, operating income will rise from the previous fiscal year. In Asia, the Company foresees intensified competition in each of the countries in which it operates, and will aim for sales growth through further enhancement of brand power of focused categories. In North America and Europe, we expect the effect of the strong yen to result in sales in the region to fall below the level of the previous fiscal year, although we aim to reinforce our skin care business in North

America and hair care business in Europe. On the other hand, we expect operating income to exceed the previous fiscal year in Asia as well as in North America and Europe due to ongoing cost reductions and increased management efficiency.

In the cosmetics business, we expect the Japanese market to remain sluggish, but by developing new products and strengthening sales activity at stores we expect to achieve a moderate increase in domestic sales. The Company also projects that operating income in this business will fall below the level of the previous fiscal year due to increased loss on returned inventory and pension-related expenses.

In the chemical products business, we project that steady growth will continue in domestic sales in the second half of the fiscal year. Export sales are expected to decrease, however, due to shifting to overseas production. As a result, we anticipate that overall domestic sales will remain at approximately the same level as the previous term. In the chemical products business overseas, the Company expects the effect of the strong yen to dampen sales in yen terms in the second half of the fiscal year, resulting in lower sales in yen terms for the fiscal year. Kao expects overall operating income in the chemical products business to grow steadily from the previous term, despite the decrease in overall sales in this business.

Net income is projected to rise by approximately 15.0% in the fiscal year ending March 31, 2001, due to increased operating income in the consumer products business and chemical products business and to the absence of extraordinary losses related to restructuring charges. We therefore anticipate being able to achieve continued net income growth.

As a result of the above, Kao projects 830.0 billion yen in sales for the current fiscal year. In addition, the Company anticipates 110.0 billion yen in ordinary income and 60.0 billion yen in net income. Based on the above assumptions, net income per share will be 97.92 yen and ROE will reach to or exceed 13.0%, including approximately 1.0% improvement from the change in the disclosure of the foreign currency translation adjustments in balance sheets.

Kao also expects to achieve annual EVA improvement above the level of the initial projection.

In consideration of the financial performance for the fiscal year ending March 31, 2001, Kao plans to increase the total cash dividend applicable to the year by 4.00 yen per share to 24.00 yen per share as previously announced, including the interim cash dividend of 12.00 yen per share. However, this is subject to the level of net income for the fiscal year.

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