Kao Corporation

News Release October 22, 2001

Kao Corporation Reports Business Results

Tokyo, October 22, 2001 – Kao Corporation today announced its consolidated and nonconsolidated business results for the six months ended September 30, 2001. 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	**2001**	2000	% change	**2001**
Net sales	**421.5**	411.6	2.4	**3,530.5**
Operating income	**57.3**	54.8	4.5	**480.3**
Ordinary income	**57.6**	57.4	0.3	**482.5**
Net income	**31.4**	31.6	(0.8)	**263.0**
Total assets	**769.4**	756.3	1.7	**6,444.0**
Total shareholders' equity	**456.0**	450.0	1.3	**3,819.4**
	Yen			U.S. Dollars
Per share:				
Net income	**51.78**	51.25	1.0	**0.43**
Cash dividends	**13.00**	12.00	8.3	**0.11**

	%	
SIX MONTHS ENDED SEPTEMBER 30	**2001**	2000
Operating margin	**13.6**	13.3

Consolidated Forecast for the Fiscal Year Ending March 31, 2002

The forecast for the full fiscal year ending March 31, 2002, is 840.0 billion yen (US$7,035.2 million) in net sales, 109.0 billion yen (US$912.9 million) in ordinary income and 60.0 billion yen (US$502.5 million) in net income. Net income per share is expected to be 99.91 yen (US$0.84).

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Consolidated Segment Information by Industry (Unaudited)

	Billions of Yen						
	SALES				OPERATING INCOME		
SIX MONTHS ENDED SEPTEMBER 30	**2001**	2000	% change	Like-for-like	**2001**	2000	Incr./(Dcr.)
Consumer Products	**314.4**	305.4	3.0	1.8	**44.5**	44.8	(0.3)
Cosmetics (*Sofina*)	**37.3**	36.0	3.7	3.6	**2.8**	1.1	1.7
Chemical Products	**81.7**	84.2	(3.0)	(5.2)	**9.8**	8.9	0.9
Corporate/Eliminations	**(12.0)**	(14.0)	-	-	**0.1**	0.0	0.1

	Millions of U.S. Dollars						
	SALES				OPERATING INCOME		
SIX MONTHS ENDED SEPTEMBER 30	**2001**	2000	% change	Like-for-like	**2001**	2000	Incr./(Dcr.)
Consumer Products	**2,634.0**	2,558.5	3.0	1.8	**372.7**	376.0	(3.2)
Cosmetics (*Sofina*)	**312.9**	301.9	3.7	3.6	**23.7**	9.3	14.5
Chemical Products	**684.3**	705.6	(3.0)	(5.2)	**82.6**	74.8	7.8
Corporate/Eliminations	**(100.7)**	(118.0)	-	-	**1.1**	(0.3)	1.4

Notes: Like-for-like growth rates exclude 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	**2001**	2000	% change	Like-for-like	**2001**	2000	Incr./(Dcr.)
Japan	**327.9**	330.4	(0.8)	(0.8)	**49.5**	49.1	0.3
Asia and Oceania	**46.0**	41.6	10.4	7.9	**4.6**	3.4	1.1
Europe and Americas	**60.3**	51.2	17.6	7.7	**3.3**	2.5	0.8
Corporate/Eliminations	**(12.7)**	(11.7)	-	-	**(0.2)**	(0.2)	0.0

	Millions of U.S. Dollars						
	SALES				OPERATING INCOME		
SIX MONTHS ENDED SEPTEMBER 30	**2001**	2000	% change	Like-for-like	**2001**	2000	Incr./(Dcr.)
Japan	**2,746.2**	2,767.7	(0.8)	(0.8)	**414.9**	411.8	3.1
Asia and Oceania	**385.7**	349.2	10.4	7.9	**38.7**	29.1	9.6
Europe and Americas	**505.1**	429.5	17.6	7.7	**28.4**	21.1	7.3
Corporate/Eliminations	**(106.4)**	(98.5)	-	-	**(1.7)**	(2.2)	0.5

Notes:

1. *The U.S. dollar amounts included herein represent translations using the approximate exchange rate on September 28, 2001, of yen 119.40=US$1, solely for convenience.*
2. *Like-for-like growth rates exclude the currency effect on overseas sales related to translation of local currencies to the Japanese yen.*

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2. NONCONSOLIDATED BASIS

Nonconsolidated Financial Highlights (Unaudited)

	Billions of Yen			Millions of U.S. Dollars
SIX MONTHS ENDED SEPTEMBER 30	**2001**	2000	% change	**2001**
Net sales	**330.4**	332.9	(0.8)	**2,767.6**
Operating income	**47.6**	46.8	1.6	**398.9**
Ordinary income	**50.3**	48.6	3.5	**421.3**
Net income	**28.8**	27.4	5.2	**241.4**
Total assets	**684.3**	690.8	(0.9)	**5,731.9**
Total shareholders' equity	**466.3**	476.5	(2.1)	**3,905.6**

	Yen			U.S. Dollars
Per share:				
Net income	**47.40**	44.21	7.2	**0.40**
Cash dividends	**13.00**	12.00	8.3	**0.11**

Notes: The U.S. dollar amounts included herein represent translations using the approximate exchange rate on September 28, 2001, of yen 119.40=US$1, solely for convenience.

Nonconsolidated Forecast for the Fiscal Year Ending March 31, 2002

The forecast for the full fiscal year ending March 31, 2002, is 655.0 billion yen (US$5,485.8 million) in net sales, 96.0 billion yen (US$804.0 million) in ordinary income and 55.0 billion yen (US$460.6 million) in net income.

Please note that consolidated and nonconsolidated 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 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 domestic and global competition, and to continuously increase corporate value that will place Kao among the ranks of the world's leading companies.

The Company has adopted EVA® (Economic Value Added)* as its primary management measure. We are convinced that long-term, sustainable growth of EVA is closely connected to growth in corporate value, which benefits not only shareholders but also all other stakeholders in the long view.

2. Basic Policies Regarding Distribution of Profits

In its dividends to shareholders, Kao seeks to increase per-share profit to achieve continuous increase in per-share dividends of approximately 30% of nonconsolidated net income. In its use of free cash flow, the Company strives to increase future corporate value primarily through investment in existing core businesses for further expansion and new business development, and M&A activity, and by undertaking measures, including a share repurchase, with a long-range point of view and investment efficiency uppermost in mind.

3. Medium- and Long-Term Management Strategies

Positioning the businesses of consumer products, cosmetics and chemical products as our core businesses, we strive for business growth with a focus on the research and development of products of excellent value and outstanding performance to meet consumers' real needs. And as we work to expand these core business platforms, we also make efforts to develop lines of businesses in new fields such as health care.

** EVA is a registered trademark of Stern Stewart & Co.*

Overseas, Kao is expanding operations in the Asian region, which is a growth market, while increasing business activity in the North American market. To achieve these goals, we are positively considering further M&A activity and entering into strategic business alliances.

This approach has been adopted to compensate for slowing growth in maturing Japanese markets. At the same time, the Company will make consistent efforts to save costs and raise management efficiency, thus achieving sustained EVA growth.

4. Reform of Management Structure to Enhance Corporate Governance

To strengthen corporate governance and realize high levels of fairness and transparency in management, the Company has established an Advisory Committee made up of two external advisors, two senior advisors, the president and a senior managing director. In addition, to promote speedy decision-making and execution, we have taken measures to promote delegation of authority and to enhance the effectiveness of the Board of Directors. We plan to take further steps for reform of the Board.

Furthermore, Kao revised its compensation system for Board members to further align their interests with those of shareholders and facilitate an increase in corporate value. Specifically, this includes the introduction of a stock option plan for directors, expansion of the performance-linked portion of compensation, and cessation of future provision of allowance for directors' retirement. In addition, we also revised the statutory auditors' compensation system, which discontinues bonuses, while increasing the number of external statutory auditors in order to enhance auditing.

5. Issues for Management

The operating environment has become more severe with drastic changes. In this environment, based on our principles as a manufacturer that concentrates on the true satisfaction of consumers as well as the development of products of excellent value and outstanding performance, we will focus our management resources on developing and nurturing strong brands through the understanding of consumers' real needs and wants.

By doing so, we will aim for continuous profitable growth. The following operating initiatives are undertaken: increasing market share of core brands; development of products that create new market segments; development and nurture of new businesses; and reinforcement of overseas businesses.

2. CONSOLIDATED BUSINESS RESULTS

1. Summary of the Interim Period Business Results

The operating environment was adversely affected by an economic slowdown on a global scale, which included an extended period of sluggishness in the U.S. economy and economic deceleration in Europe and Asia. Also in Japan, the economic outlook has become unclear, as the economy faced a period of adjustment in a deep recession. Weak consumer spending continued, and the consumer products and cosmetics markets contracted continually in yen terms.

In this environment, Kao Corporation's consolidated net sales for the six-month interim period ended September 30, 2001 rose by over 9.8 billion yen to 421.5 billion yen, a 2.4% increase from the same period of the previous fiscal year. Excluding a positive currency translation effect of 5.4 billion yen on overseas sales due to the weakening yen, the growth rate would have risen 1.1% year-on-year. A sharp drop in demand for chemical products contributed to a 0.8% dip in domestic sales. The personal care products business in North America and Europe led to overseas sales rising 14.1% from the same period of the previous year.

Operating income increased 4.5% year-on-year to 57.3 billion yen, as profit from domestic operations increased slightly, and a large gain was posted in profits in chemical products overseas. In addition, the personal care products business in North America and Europe contributed to an increase in consolidated operating income. Equity in earnings of affiliates changed into losses for the interim period under review. This, coupled with a drop in other non-operating income, led ordinary income to a slight 0.3% increase from the same period in the previous fiscal year. Net income for the interim period dropped 0.8% to 31.4 billion yen.

The Company continued its efforts to raise capital efficiency by such measures as a share repurchase, and at the end of the interim period under review, its total assets decreased by 14.3 billion yen from the end of the previous fiscal year. A large increase in EVA was made in the previous fiscal year, and we saw a further but slight increase in EVA in the interim period.

As initially planned, the interim cash dividend will be 13.00 yen per share, increased from 12.00 yen per share for the interim cash dividend of the previous fiscal year.

Summary of Results by Business Segment

(1) Consumer Products Business

Net sales of consumer products increased 3.0% from the previous interim period to 314.4 billion yen. The sluggish market in Japan led to a 0.3% fall in sales there, but a 18.4% sales growth was posted overseas. Excluding the positive currency translation effect, overseas sales growth in real terms was 11.9%. Operating income in Japan and overseas remained almost flat from the same period of the previous fiscal year, totaling a slight decrease of 0.9% to 44.5 billion yen.

1) Japan

Demand continued to fall in the consumer products market in Japan. And although the downward pressure in prices is somewhat weaker compared to last year, the average level of prices was approximately 3.0% lower than the same period of the previous fiscal year. We saw that the market shrunk approximately 1.0% in yen terms, including a slight growth in volume. In this environment, sales of consumer products fell 0.3% from the same period of the previous fiscal year, even with a contribution from *Healthy Econa Cooking Oil*, which posted a solid sales growth.

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Sales composition of consumer products

SIX MONTHS ENDED SEPTEMBER 30	Billions of yen 2001	2000	% change
Personal care products	**87.2**	88.7	(1.8%)
Laundry and cleaning products	**123.0**	126.0	(2.4%)
Hygiene and others	**41.1**	37.4	9.9%
Total	**251.3**	252.2	(0.3%)

In personal care products, although sluggish demand and price competition adversely affected sales, which declined 1.8% year-on-year, the Company endeavored to improve the operating margin through such activity as efficient marketing spending on selected brands and SKU rationalization. In hair color products, healthy sales growth for *Blauné Aroma Hair Color* for gray hair and *Lavenus Color Appeal* for fashionable hair coloring contributed to an increase in market share in the category. The formula of *Merit*, the leading shampoo and conditioner brand, has been dramatically renewed. Sales of gift products such as soaps were adversely affected by a contraction of the market. Also, the market share of body cleansers and men's cosmetics declined slightly.

Principal new products:

Bioré Pore Cleansing Powder-in Lotion (facial cleanser)
Improved *Merit* shampoo and conditioner
Liese Hairstyling Foam for Permed Hair
Liese Hairstyling Foam for Dry Hair
Blauné Aroma Hair Color with Easy Comb

Net sales in laundry and cleaning products fell 2.4% year-on-year. In spring 2001, the Company made a thorough improvement of the laundry detergent *Attack*, originally launched in 1987. The improvement includes a faster dissolution and better stain removal. As a result, *Attack* posted a steady sales growth. The Company's market share of dishwashing detergents and bathroom cleaner improved. In addition, the launch of a new mold remover significantly contributed to sales growth. On the other hand, sales of fabric softeners and laundry detergent for gifts declined year-on-year. A drop was recorded in exports of household cleaning mop kits and sheets, while royalty income related to these products increased.

Principal new products:

Improved *Attack* – micro particles (laundry detergent)
Family Power Gel (dishwashing detergent)
Kitchen Wonder Drain Slime Remover
Haiter Mold Remover Strong
Refre Plug-in type (air freshener)

The sales of hygiene and other products category decreased year-on-year. Although sales volume increased, prices continued to fall for such hygiene products as sanitary napkins and disposable baby diapers. Solid sales growth was posted in adult incontinence products despite a slowdown in growth in this market.

The *Healthy Econa Cooking Oil* series continued to perform well. *Healthy Econa Dressings and Healthy Econa Cooking Oil – For Lower Cholesterol,* launched in the second half of the previous fiscal year, made their first full contribution to sales in the interim period under review. Solid sales were also recorded for the *Healthy Econa* series for gifts. Combined with cooking oils and frying oils already marketed, net sales of food products grew 68.0% from the same period of the previous fiscal year, which was in line with our initial target for the current fiscal year.

Principal new products:

Laurier Super Guard in underwear style (sanitary napkin)
Relief Nursing Care products
Healthy Econa Dressings
Healthy Econa Cooking Oil – For Lower Cholesterol

2) Asia and Oceania

Net sales of consumer products in Asia and Oceania rose 16.7%, while the growth rate in real terms without the positive currency translation effect was 15.1%. Excluding the effect of the consolidation of P.T. Kao Indonesia, whose results were accounted for using the equity method in the previous fiscal year, the consumer products business in Asia and Oceania posted a slight 0.9% decrease.

A recession of the economy and a fall in prices in Taiwan led to a year-on-year decline there. In China, growth of skin care products contributed to an increase in overall sales there. Sales in Thailand increased slightly under the severe price competition. At the same time, healthy sales growth was achieved in Indonesia. The drop in operating income in Taiwan and China led to a decline in operating income in the region.

3) North America and Europe

Net sales of personal care products in North America and Europe grew 19.7 %, while the growth rate in real terms without the positive currency translation effect was 9.4%. In the United States, sales of *ban*, which was acquired in the previous fiscal year, contributed to the growth. In addition, sales of existing category products also grew at The Andrew Jergens Company. After the introduction in May, a very strong sales trend was recorded for *Jergens Naturally Smooth Shave Minimizing Moisturizer* – the first daily moisturizer designed to help women shave less often while it moisturizes. In Europe, Goldwell GmbH, which markets hair care products for beauty salons internationally, increased its sales in line with the initial plan. However, sales at Guhl Ikebana GmbH, which markets premium hair care products, were slightly below the level for the same period of the previous fiscal year. Andrew Jergens recorded healthy growth in operating income, and Goldwell also improved its operating margin.

(2) Cosmetics Business (*Sofina*)

Net sales of cosmetics (*Sofina*) grew at a healthy rate of 3.7%, amounting to 37.3 billion yen. This growth was led by solid performance of *est*, which was launched in October

2000 and is sold exclusively through beauty counseling at department stores, *AUBE* color makeup products such as lipsticks and mascara, and new additions to the *Raycious* foundation series, which have been very well received. Measures to improve profitability in this business, including further cost reduction and efficiency enhancement activities, were implemented. As a result, operating income increased by 1.7 billion yen, and the operating margin was improved as well.

Principal new products:

Raycious Stick Make-Up (foundation)
Grace Sofina foundation
est The Whitening (skin whitening product)

(3) Chemical Products Business

Net sales of chemical products decreased 3.0% to 81.7 billion yen, while declining 5.2% in real terms without the positive currency translation effect. In Japan, Kao sells chemical products to a wide range of industrial customers. During the interim period under review, demand from the majority of industries declined. As a result, net sales to external customers dropped by over 7.0%. Overseas, led by healthy performance of copier and printer toner and related products in Spain and fatty amines in Germany, sales of chemical products to external customers grew by 8.7% from the same period of the previous fiscal year.

Operating income increased 10.5% year-on-year to 9.8 billion yen. The fatty alcohol business in Asia contributed to an increase in operating income, partially offset by the poor performance in the domestic operations.

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Financial Condition

Summarized Consolidated Cash Flows (Unaudited)

SIX MONTHS ENDED SEPTEMBER 30	Billions of Yen			Millions of U.S. Dollars
	2001	2000	Incr./(Dcr.)	**2001**
Operating activities	**68.7**	55.0	13.7	**575.8**
Investing activities	**(17.5)**	(52.7)	35.1	**(147.1)**
Financing activities	**(52.3)**	(30.7)	(21.6)	**(438.3)**
Translation adjustments	**0.9**	2.0	(1.1)	**7.7**
Net increase	**(0.2)**	(26.4)	26.1	**(1.9)**
Cash and cash equivalents	**154.1**	121.6	32.5	**1,291.4**
Total debt	**59.4**	72.0	(12.6)	**497.7**

Net cash provided by operating activities during the interim period ended September 30 increased 13.7 billion yen from the same period of the previous fiscal year, to 68.7 billion yen. Income before income taxes and depreciation and amortization expenses remained at the same level of the previous term. A reduction in accounts receivables and inventories contributed to a decrease in working capital.

Net cash used in investment activities amounted to 17.5 billion yen, as the capital spending in plant and equipment increased from the previous term to 27.2 billion yen, offset by a decrease in short-term investments in the net amount of 11.5 billion yen. Principal capital spending during the period included the production facilities for laundry detergent, cooking oil and copier and printer toner and related products in Japan. The Company also invested in the production facilities for chemical products in Asia and Europe.

Net cash used in financing activities amounted to 52.3 billion yen. The Company continued debt repayments and redemption of corporate bonds. Kao also executed a share redemption totaling approximately 11 million shares of common stock valued at 33.6 billion yen.

As a result of these activities, together with the effect of the newly consolidated subsidiaries amounting to 0.9 billion yen, cash and cash equivalents at the end of the interim period increased by 0.7 billion yen from the balance of March 31, 2001, to

154.1 billion yen. The balance of total debt decreased by 9.9 billion yen from the balance at the end of the previous fiscal year, to 59.4 billion yen.

2. Forecast for the Fiscal Year Ending March 31, 2002

The terrorist attacks in the United States were an added blow to a world economy that already was decelerating. At the same time, concern is growing that the Japanese economy will decline further, and more observers project that recovery in the U.S. will be delayed. Under these economic conditions, we have to expect that the market situation will be even more severe in the second half of the current fiscal year. The Company anticipates a further dampening of demand in Japan, greater than initially projected, particularly in the chemical products business.

Kao projects that consolidated net sales for the current fiscal year will rise 2.2% to 840.0 billion yen. We foresee that the domestic market for consumer products will remain sluggish, and therefore, we expect that domestic sales in this business will drop slightly. On the other hand, we expect 16.0% sales growth, including a positive currency translation effect, in the consumer products business overseas, particularly in North America and Europe. As a result, the Company is projecting 2.7% growth overall in the consumer products segment. In its cosmetics (*Sofina*) segment, Kao is expecting sales to remain flat year-on-year in the second half of the term, which would lead overall annual sales to increase slightly. In the chemical products business, the Company expects a decline in domestic sales to be partially offset by growth overseas, resulting in a slight decline in overall sales.

Kao anticipates falling prices to adversely affect domestic sales of consumer products, a decline in sales of chemical products, and an increase in amortization of asset losses for the current fiscal year of the domestic pension plan to be negative factors for operating income. However, the Company will endeavor to overcome these adverse conditions by continuation of its Total Cost Reduction (TCR) activities to reduce operating costs and such efforts as raising efficiency in the use of marketing spending. We therefore project that these efforts combined with earnings growth overseas will result in operating income increasing 2.7% from the previous fiscal year to 110.0 billion yen. Nevertheless, the Company anticipates that negative factors in non-operating items such as an absence of foreign exchange gains like those recorded in the previous fiscal year and worsening equity in earnings of affiliates will result in a 2.6% year-on-year drop in ordinary income to 109.0 billion yen. At the same time, Kao anticipates a reduction in extraordinary losses will result in net income growing 1.0% to 60.0 billion yen.

The Company plans to continue a share repurchase, up to an annual total of 15 million shares. We project this will result in an increase in net income per share from 96.69 yen to 99.91 yen, a growth rate of 3.3%. Following significant EVA improvement in the previous fiscal year, we will endeavor not only to increase earnings but also to reduce capital charges for further improvement in EVA.

In line with the anticipated improvement in financial performance for the fiscal year ending March 31, 2002, Kao plans to increase the total cash dividends applicable to the year by 2.00 yen per share to 26.00 yen per share as previously announced, including the interim cash dividend of 13.00 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.