Kao Corporation

News Release October 22, 2002

1. CONSOLIDATED BASIS

Kao Corporation Reports Business Results

Tokyo, October 22, 2002 - Kao Corporation today announced its consolidated and nonconsolidated business results for the six months ended September 30, 2002. The data contained below is taken from the financial summary submitted by the Company to the Tokyo Stock Exchange.

Consolidated Financial Highlights (Unaudited)

	Billions of Yen			Millions of U.S. Dollars
SIX MONTHS ENDED SEPTEMBER 30	**2002**	2001	% change	**2002**
Net sales	**434.9**	421.5	3.2	**3,547.5**
Operating income	**61.5**	57.3	7.4	**502.3**
Ordinary income	**62.6**	57.6	8.8	**511.0**
Net income	**33.2**	31.4	6.0	**271.5**
Total assets	**748.4**	769.4	(2.7)	**6,104.9**
Total shareholders' equity	**442.5**	456.0	(3.0)	**3,609.8**
	Yen			U.S. Dollars
Per share:				
Net income	**56.99**	51.78	10.1	**0.46**
Cash dividends	**15.00**	13.00	15.4	**0.12**

	%	
SIX MONTHS ENDED SEPTEMBER 30	**2002**	2001
Operating margin	**14.2**	13.6

Notes:
1. *The U.S. dollar amounts included herein represent translations using the approximate exchange rate on September 30, 2002, of yen 122.60=US$1, solely for convenience.*

Consolidated Forecast for the Fiscal Year Ending March 31, 2003

The forecast for the full fiscal year ending March 31, 2003, is 870.0 billion yen (US$7,096.2 million) in net sales, 114.0 billion yen (US$929.9 million) in operating income, 114.0 billion yen (US$929.9 million) in ordinary income and 63.0 billion yen (US$513.9 million) in net income. Net income per share is expected to be 108.70 yen (US$0.89).

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Consolidated Segment Information by Industry (Unaudited)

Billions of Yen

SIX MONTHS ENDED SEPTEMBER 30	SALES				OPERATING INCOME		
	2002	2001	% change	Like-for-like	**2002**	2001	Incr./(Dcr.)
Consumer Products	**324.8**	314.4	3.3	1.6	**48.1**	44.5	3.6
Cosmetics (*Sofina*)	**38.1**	37.3	2.0	1.9	**2.6**	2.8	(0.1)
Chemical Products	**86.0**	81.7	5.3	1.9	**10.3**	9.8	0.4
Corporate/Eliminations	**(14.0)**	(12.0)	-	-	**0.4**	0.1	0.3

Millions of U.S. Dollars

SIX MONTHS ENDED SEPTEMBER 30	SALES				OPERATING INCOME		
	2002	2001	% change	Like-for-like	**2002**	2001	Incr./(Dcr.)
Consumer Products	**2,649.6**	2565.2	3.3	1.6	**392.9**	363.0	29.9
Cosmetics (*Sofina*)	**310.8**	304.8	2.0	1.9	**21.5**	23.1	(1.6)
Chemical Products	**701.8**	666.5	5.3	1.9	**84.3**	80.5	3.8
Corporate/Eliminations	**(114.7)**	(98.1)	-	-	**3.6**	1.1	2.5

Consolidated Geographic Segment Information (Unaudited)

Billions of Yen

SIX MONTHS ENDED SEPTEMBER 30	SALES				OPERATING INCOME		
	2002	2001	% change	Like-for-like	**2002**	2001	Incr./(Dcr.)
Japan	**329.5**	327.9	0.5	0.5	**53.0**	49.5	3.4
Asia/Oceania	**51.1**	46.0	11.0	2.6	**3.7**	4.6	(0.8)
North America	**39.0**	34.4	13.5	6.3	**3.1**	2.2	0.8
Europe	**32.3**	27.9	15.7	6.9	**1.3**	1.1	0.2
Corporate/Eliminations	**(17.1)**	(14.7)	-	-	**0.2**	(0.1)	0.4

Millions of U.S. Dollars

SIX MONTHS ENDED SEPTEMBER 30	SALES				OPERATING INCOME		
	2002	2001	% change	Like-for-like	**2002**	2001	Incr./(Dcr.)
Japan	**2,688.1**	2,674.6	0.5	0.5	**432.5**	404.1	28.4
Asia/Oceania	**417.0**	375.6	11.0	2.6	**30.9**	37.6	(6.7)
North America	**318.9**	280.9	13.5	6.3	**25.6**	18.4	7.2
Europe	**263.5**	227.6	15.7	6.9	**11.1**	9.1	2.0
Corporate/Eliminations	**(140.0)**	(120.4)	-	-	**2.2**	(1.5)	3.7

Notes:
1. *The U.S. dollar amounts included herein represent translations using the approximate exchange rate on September 30, 2002, of yen 122.60=US$1, solely for convenience.*
2. *Like-for-like growth rates exclude the currency translation effect related to translation of local currencies into the Japanese yen.*

2. NONCONSOLIDATED BASIS

Nonconsolidated Financial Highlights (Unaudited)

	Billions of Yen			Millions of U.S. Dollars
SIX MONTHS ENDED SEPTEMBER 30	**2002**	2001	% change	**2002**
Net sales	**333.9**	330.4	1.0	**2,723.6**
Operating income	**50.5**	47.6	6.2	**412.4**
Ordinary income	**52.4**	50.3	4.2	**427.6**
Net income	**29.0**	28.8	0.9	**237.1**
Total assets	**656.6**	684.3	(4.0)	**5,356.3**
Total shareholders' equity	**446.8**	466.3	(4.2)	**3,645.1**
	Yen			U.S. Dollars
Per share:				
Net income	**49.73**	47.40	4.9	**0.41**
Cash dividends	**15.00**	13.00	15.4	**0.12**

Notes:
1. The U.S. dollar amounts included herein represent translations using the approximate exchange rate on September 30, 2002, of yen 122.60=US$1, solely for convenience.

Nonconsolidated Forecast for the Fiscal Year Ending March 31, 2003

The forecast for the full fiscal year ending March 31, 2003, is 655.0 billion yen (US$5,342.6 million) in net sales, 94.0 billion yen (US$766.7 million) in operating income, 98.0 billion yen (US$799.3 million) in ordinary income, and 56.0 billion yen (US$ US$456.8 million) in net income. Net income per share is expected to be 96.50 yen (US$0.79).

Forward-Looking Statement
This release contains forward-looking statements that are based on management’s estimates, assumptions and projections at the time of release. Some 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.

For further information, please contact:
Kazuyoshi Aoki
Director, Investor Relations
Tel: 81-3-3660-7101
Fax: 81-3-3660-8978
E-mail:ir@kao.co.jp

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 win the highest levels of trust and support from customers with consumer products for cleanliness, beauty and health to help people enrich their lives, and in the chemical products field, by contributing to industrial development. The Company also aims to pursue sustained profitable growth and to consistently augment corporate value which Kao Corporation views as closely linked to securing profits for shareholders.

2. Management Measure Used as a Target

EVA (Economic Value Added),* which is used to measure true profit by including the cost of invested capital as a factor, is Kao's principal management measure. The Company links continuing growth of EVA to expansion of corporate value, which means long-term profits not only for shareholders, but for all Kao stakeholders as well. Kao views EVA growth as a primary focus of management activity. This measurement is also utilized in determining the direction of long-term management strategies, for evaluation of M&A activities and capital investments, for assessments of specific businesses, and in developing performance targets for each fiscal year. To build motivation, levels of achievement of targeted year-on-year improvement in EVA are a factor in determining bonuses for executives and employees.

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

3. 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 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 in a flexible manner, including share repurchase to increase returns to shareholders, with a long-range point of view and investment efficiency uppermost in mind.

4. Medium- and Long-Term Management Strategies

Positioning the businesses of consumer products, cosmetics and chemical products as our core businesses, Kao pursues profitable growth by emphasizing research and development and by making high-quality, innovative products consumers truly need.

Faced with slow growth due to maturing domestic markets, the Company intends to strengthen its powerful brands to improve its performance in existing businesses, and it will invest management resources in the development of new products designed to create new markets. By expanding its core business platforms, Kao will strive for further development in new business fields such as health care.

Overseas, we will assign the highest priority to business expansion in the Asian region, which is a growth market; and at the same time, we will pursue business expansion in North America and Europe. To do this, the Company will positively consider further M&A activity and entering into strategic business alliances to achieve synergies between new partners' strengths and its own strengths in the areas of research and product development.

In addition to the above strategies, Kao will continue management reform efforts and rebuilding its business models in response to changes in the operating environment. We will also continue to aggressively reduce operating costs, take steps to raise work efficiency, and strive to achieve sustained EVA growth.

5. Reform of Management Structure to Enhance Corporate Governance

To strengthen corporate governance and ensure equitable, transparent management, the Company carried out reform of our management structure based on the decision made in the Annual Shareholders Meeting in June 2002. Kao added two external directors to strengthen the Board of Directors' supervision of management while concurrently reducing total membership from 18 to 13 to invigorate the activity of the Board. In addition, an executive officer system has been adopted to further separate policy-making and policy execution and to benefit from speedier management decision-making and more dynamic front-line management. As part of this reform, the responsibilities and decision-making authority of the executive officers were significantly expanded. Furthermore, Kao revised its compensation system for Board members in the previous fiscal year to further align their interests with those of shareholders and directors and facilitate an increase in corporate value. Specifically, this includes the introduction of a stock option plan for directors, clarification of the performance-linked portion of compensation for directors, and cessation of future provision of allowance for directors' retirement.

In the current fiscal year, the Company broadened its stock option system to include executive officers, senior employees and executives at affiliated companies.

6. Issues for Management

The operating environment is becoming increasingly difficult, and dramatic changes are expected. It is in times such as this that the Company is particularly required to energetically carry out reforms. In addition, Kao must reemphasize its traditional commitment to customer satisfaction and making superior products, the starting points for any manufacturer. With this in mind, the Company must strategically and aggressively invest management resources in building powerful brands.

We will aim for continuous profitable growth by taking the following operating initiatives:
(1) maintaining and increasing market share of core brands;
(2) development of products that create new market segments;
(3) development and foster the growth of new businesses; and
(4) expansion and strengthening of overseas business.

The frequent occurrence of business scandals and violations of business ethics that harm the companies involved and the public alike serves as an object lesson. We make every effort to instill in executives and employees a firm consciousness of the absolute necessity to comply with all regulations and ethical standards. The Company also recognizes the need to reinforce its risk management activities.

7. Policy Concerning Number of Shares Constituting One Unit of Stock

Kao is aware of the need for a large number of investors participating in the trading of its shares and the sufficient liquidity of the shares for them to be purchased at appropriate price levels. In terms of liquidity, Kao shares rank highly among shares traded on the First Section of the Tokyo Stock Exchange. It is thought that reducing the number of shares in each lot would be a useful means of having more investors purchase Company shares. Doing this, however, would not only entail such initial costs as printing stock certificates, it would also mean increased annual expenses such as agency commissions and mailing expenses. At this point, from the cost-benefit point of view, we are not sure that reducing the size of the share lots would be accompanied by benefits to all shareholders. The Company will observe market trends and requirements, and carefully consider whether or not such a move would be in the best interests of shareholders.

2. CONSOLIDATED BUSINESS RESULTS

1. Summary of Interim Period Business Results

In the interim period ended September 30, 2002, the effects of the slowdown of the U.S. economy led to global economic stagnation. In Japan, even though such indices as those for exports and production in the early part of the period could be taken as signs of recovery, difficulties such as non-performing loans and falling stock prices persisted. The economy remained in the doldrums, as capital investment and employment failed to recover and consumer spending remained sluggish.

Despite the above, consolidated net sales rose by 13.3 billion yen to 434.9 billion yen, a 3.2% increase from the same period of the previous fiscal year. Excluding a positive currency translation effect of 8.0 billion yen due to the weaker yen, the growth rate would have been 1.3%. In Japan, despite the adverse effects of a sluggish market and declining prices, aggressive marketing measures led to a rise in consumer product sales. In our chemical products business, although demand rose for export products, a slump in the domestic market affected the business. Overseas, with the exception of certain affiliates, healthy sales growth was posted overall in both consumer products and chemical products.

Operating income rose to 61.5 billion yen, an increase of 7.4% from the previous interim period. Domestically, despite declining sales prices and sluggish demand, operating income rose by 3.4 billion yen to 53.0 billion yen due to increased sales of consumer products, cost-reductions, cost-effective operation and reduced depreciation expenses. In the Company’s overseas business operations, increased profits from consumer products and chemical products in North America and Europe contributed to operating income, rising by 3.7% to 8.2 million yen.

Ordinary income was 62.6 billion yen, a rise of 5.0 billion yen from the previous interim period. Net income also increased by 1.8 billion yen to 33.2 billion yen. In terms of non-operating profit and loss, equity in earnings of affiliates improved, while loss due to a currency translation effect was posted for the current interim period in contrast to the exchange profit for the previous interim period. Even including extraordinary loss from revaluation of investment securities and land owned by the Company recorded, net income was higher than the initial forecast.

Growth was achieved in net income per share, which rose to 56.99 yen per share, as net income for the interim period improved and the Company repurchased 12.539 million of its shares. As planned early this fiscal year, the interim cash dividend will increase from the same period of the previous fiscal year to 2.00 yen per share to 15.00 yen per share.

Summary of Results by Business Segment

Although domestic sales of consumer products and cosmetics (*Sofina*) rose, chemical products were affected due to the economic stagnation. Overseas, the Company benefited from changes in foreign currency translation rates, which contributed to an increase in each segment.

Operating income in consumer products achieved an increase but cosmetics (*Sofina*) declined slightly due to strategic investment to expand the market. Chemical products increased slightly.

(1) Consumer Products Business

Net sales of consumer products rose 3.3% from the previous interim period to 324.8 billion yen. Excluding a positive currency translation effect, sales growth in real terms was 1.6%. Sales in Japan increased 0.7% and sales overseas also rose mainly due to a positive currency translation. Growth in operating income was recorded in all areas: Japan, Asia, and North America and Europe. As a result, operating income rose 8.2% by 3.6 billion yen to 48.1 billion yen from the interim period of the previous fiscal year.

1) Japan

In the overall Japanese market, although the rate of decrease in sales prices slowed down, sales of consumer products dropped from the level of the previous interim period. By channel, sales in drugstore chains showed substantial growth, sales at giant supermarket chains were stagnant, and almost no increase was recorded at convenience stores and home improvement stores. At the same time, global retailers from the U.S. and Europe are planning new development or expansion of their operations in Japan. In this environment, Kao stepped up marketing and sales efforts at each chain store and in each region. The marketing of new and improved products helped to activate markets.

Earnings growth was restrained by such factors as declining sales prices, increased marketing expenses, and increased material purchase costs resulting from the weaker yen. In addition to a stable market for raw and packaging materials and reduced depreciation expenses, the Company's aggressive cost-cutting and cost-efficiency efforts resulted in a rise in earnings.

Sales composition of consumer products

	Billions of yen		
SIX MONTHS ENDED SEPTEMBER 30	2002	2001	% change
Personal care products	84.5	87.2	(3.1%)
Laundry and cleaning products	126.8	123.0	3.1%
Hygiene and others	41.8	41.1	1.8%
Total	253.2	251.3	0.7%

In the personal care products market, almost no growth was recorded in sales volume, and intensified competition resulted in a continuing drop in sales prices.

In this environment, the Company marketed *Bioré Moisture Care Lotion* and succeeded in expanding the *Bioré* brand, known for cleansing, into the skin care field. Among hair care items, including shampoos, conditioners and hair treatments, dramatic improvement of *Essential* resulted in a stronger brand image and an expansion of the number of users. Consumers also responded positively to our toothpaste *Clear Clean Plus* containing a xylitol compound providing an added preventive effect against the development of cavities in early decay. The Company also marketed new and improved products, including the bath additive *Bub*, and *Success*, a men's cosmetic product. This resulted in a strengthening of those brands and an expansion of their market share.

Despite the contribution of new and improved products, partially due to the Company's efforts to reduce the number of its brands and stock keeping units (SKU) to improve the utilization of management resources, sales fell by 3.1%.

Principal new products:

Bioré Moisture Care Lotion
Bioré Eye Makeup Remover
Clear Clean Plus toothpaste
Bub Green Tea Scent bath additives

The laundry and cleaning products market is gradually contracting due to deflation and intensified competition continued.

Even within such conditions, the Company's aggressive marketing investment in laundry detergent products enhanced the brand power of *Attack* and *New Beads*. Also, a product launched in the fall, *Attack Spray Foam*, which dissolves tough and greasy stains on collars and sleeves, has started to create a new market in the laundry segment. In addition, significant sales growth was achieved by the Company's *Quickle Wiper* cleaning product primarily due to a launch of a new item developed especially for carpets. This was combined with healthy growth in exports to North America and Europe. Also, newly introduced in spring 2002, *Family* detergent for the dishwasher was well received by consumers for its powerful cleaning ability and deodorant effect. It helped to expand the dishwasher detergent market. As a result of these efforts, sales in the laundry and cleaning products category increased by 3.1% from the same period of the previous fiscal year.

Principal new products:

Attack Spray Foam pre-care laundry detergent
Quickle Wiper cleaning kit for carpet
Family dishwasher detergent

In hygiene and other products, the Japanese markets for sanitary napkins and disposable diapers continued to contract due to a decline in the population of users and a drop in sales prices. In this environment, Kao improved products and conducted an aggressive investment in marketing in order to enhance the main functions of the products and bolster the brand images. Despite these measures, intensified competition led to sales in this category falling below the level of the same period of the previous fiscal year.

In contrast, the market for adult incontinence products continued to grow due to the aging of the population in Japan. The sales increase was attributed to the success of new products such as a taped-on diaper *Relief Leak-free Diapers* which prevents leakage around the legs.

In the growing premium cooking oils market, which includes *Healthy Econa Cooking Oil – For Prevention of Fat Deposits* and related products, high sales growth was recorded both for own use and gift use. *Healthy Econa Mayonnaise*, a new product released in September, received immediate enthusiastic support from consumers and contributed to the growth of sales in this product category.

As a result, sales in hygiene and other products exceeded that of the same period of the previous fiscal year by 1.8%.

Principal new products:

Laurier Active Guard sanitary napkins
Relief Leak-free Diapers incontinence products
Healthy Econa dressings (Chinese Roasted Sesame and Herb French flavors)
Healthy Econa Mayonnaise

2) Asia and Oceania

Similar to the situation in North America and Europe, concentration of major retailers, including global retailers, continued in most Asian countries. In some countries, sales in drug store chains continued to grow as was the case in Japan. In this environment, in which sales are concentrated on large chain stores, acquiring a leading position in each category has become critical. For this reason, Kao reduced the number of its brands and SKU to focus its investment of management resources on eight principal brands. Positioned as core brands are hair care products *Sifoné* and *Feather*, *Bioré* skin care products, the laundry and cleaning products *Attack*, *Magiclean* and *Haiter*, and the hygiene products *Laurier* and *Merries*. As a result, both on a brand basis and a country basis, sales grew above the level posted in the previous interim period, and in fact, sales growth slightly surpassed market growth. Also, to adapt to changes in the business environment, Kao took measures to optimize its regional manufacturing systems, strengthen management systems, and foster local management autonomy in Taiwan and the ASEAN region. In addition, in the summer, the Company established a wholly-owned holding company with US$30 million in capital in Shanghai to support the expansion of operations in China.

Sales fell below the level of the previous interim period in certain regions such as Taiwan because of difficult market conditions. However, healthy sales in China and the ASEAN region led to overall growth.

3) North America and Europe

In these severe market conditions, steady sales growth was recorded for products sold under The Andrew Jergens Company (AJC) *Jergens* brand. This trend was led by *Naturally Smooth*, a lotion launched in the previous fiscal year. It attained the top share in its hand and body lotion market segment. Sales of the antiperspirant/deodorant *ban* brand increased due to the marketing of new and improved products and reduction of the number of SKU. In skin care products, sales of *Curél* and *Bioré* Pore Strips by AJC increased steadily.

In the professional hair care products category, sales by Goldwell GmbH showed healthy growth. In hair color, sales of *ELUMEN*, which was launched the previous fiscal year by Goldwell, began in the U.S. and Canada. These favorable results offset sluggish sales by Guhl Ikebana GmbH, which markets premium hair care products in the European mass market.

Kao acquired KMS Research, Inc., an American manufacturer of professional-use hair care products and its affiliate in Britain, KMS Research Laboratories (UK) Limited in March. For the most part, this acquisition spurred sales as expected. In addition, the Company acquired John Frieda Professional Hair Care, Inc. which markets premium hare care products to the mass market in the United States in September. A powerful synergic effect is anticipated from the combination of Kao's hair care technology and the brand value of *John Frieda*.

(2) Cosmetics Business (*Sofina*)

In the cosmetics market, low-priced products showed sales growth, while prestige cosmetics sales sagged both in volume and value.

In this stagnant market, Kao's cosmetics sales sold under the *Sofina* brand rose 2.0% by 0.7 billion yen to 38.1 billion yen, up from the sales posted in the interim period of the previous fiscal year. Also, the Company succeeded in achieving initial sales targets for products marketed under the *est* brand exclusively through department store channels. This came as a result of energetic marketing and sales promotion efforts to attract new customers.

Rise, a new brand of basic skin care products, was launched during the interim period. The products were developed based on the Company's long years of research and accumulated knowledge about the natural moisturizing ingredient ceramide, which is intrinsic to the keratin layer of human skin. This new brand and an overall renewal of the *Vital Rich* series resulted in an expansion of the variety of its basic skin care items. Operating income dropped slightly due to strategic investment to expand the market compared to the level of the previous interim period to 2.6 billion yen.

Principal new products:

Rise - Lotion, Milk, Cream
est - Liquid Eye Makeup
est - Lucent Powder

(3) Chemical Products Business

Although production and inventory indices in Japan showed some signs of recovery early in the period, a slowdown in the U.S. economy and other factors resulted in difficult worldwide market conditions. In this environment, Kao continued aggressive efforts in its core business fields in this segment: oleochemicals, surfactants and specialty chemicals. Positive results were recorded in specialty chemicals such as toners and toner binders for copiers and printers, and aroma chemicals in Japan, North America and Europe. Total sales in the chemical products business rose by 5.3% to 86.0 billion yen, despite continuation of the stagnant economy in the industry in Japan. Excluding a currency translation effect, sales grew by 1.9%. Operating income rose by 0.4 billion yen to 10.3 billion yen largely owing to a strong performance in Japan and North America and Europe, despite a profit decline in Asia.

1) Japan

From the beginning of this fiscal year, healthy growth has been achieved in exports but sales to domestic customer industries continue to remain sluggish. Kao has not seen full recovery in this segment.

Despite severe economic conditions, the Company has endeavored to develop and launch new products. In specialty chemicals, plastics additives that responded to customers' exports needs increased from the same period of the previous fiscal year.

Sales of toners and toner binders for copiers and printers, including exports, grew steadily. Healthy growth was achieved in such businesses related to industrial materials such as concrete additives that dramatically raise the performance of raw concrete, and de-inking agents for recycling paper in the paper and pulp field. For use as a pigment auxiliary in ink for color ink jet printers, chemicals that enhance clarity and are long-lasting were introduced as a new product. The Company's cost reduction efforts contributed to an increase in operating income over the same period of the previous fiscal year.

2) Asia and Oceania

Although sales of oleochemicals fell due to the sluggish economy, sales of concrete additives increased due to brisk demand in China and Taiwan and other Asian countries. In Thailand and Indonesia, sales of various chemical products increased.

Despite an increase in sales and aggressive cost-cutting and rationalization efforts, operating income in the region fell as a result of a higher raw material prices. The Company discontinued its manufacturing of chemical products in Taiwan to meet the needs of an increasing number of industrial customers shifting operations to China where it now has sufficient production and sales facilities available. In Malaysia, full-fledged production for fatty alcohols began at newly constructed production facilities. Combined with facilities already in place, this put the Company in the top ranks of production capacity in the world.

3) North America and Europe

In specialty chemicals such as toners and toner binders for copiers and printers, expansion of production capacity was completed in Japan, North America and Europe to further strengthen the global business system and continue sales growth. In the aroma chemicals business, new products were introduced in categories in which the Company holds the top share, resulting in a continued increase in sales.

Strong performances in this region resulted in an improvement in operating income, which absorbed an increase in depreciation costs from investment.

3. FORECAST

(1) Forecast for the Fiscal Year Ending March 31, 2003

	Billions of Yen			Millions of U.S. Dollars
YEAR ENDED MARCH 31	**2003**	2002	% change	**2002**
Net sales	**870.0**	839.0	3.7	**7096.2**
Operating income	**114.0**	111.7	2.0	**929.9**
Ordinary income	**114.0**	113.5	0.4	**929.9**
Net income	**63.0**	60.2	4.5	**513.9**
	Yen			U.S. Dollars
Per share:				
Net income	**108.70**	100.43	8.2	**0.89**
Cash dividends	**30.00**	26.00	15.4	**0.24**

	%	
YEAR ENDED MARCH 31	**2003**	2002
Operating margin	**13.1**	13.3

Economic recovery cannot be expected due to uncertainty about the U.S. economy and rising concern about unresolved problems in Japan such as non-performing loans, falling stock prices, unemployment, and sluggish consumer spending. Kao anticipates that demand in the industries it is in will continue to be dull both in terms of volume and value. In this operating environment, in its domestic consumer products business, the Company will reemphasize its original business principles which are to make superior products and to strengthen its lineup of goods and to focus its resources on aggressive marketing and sales activities to strengthen core brands. Through such efforts, the Company will strive to activate slumping markets while aiming at higher sales growth.

In cosmetics (*Sofina)*, the Company will make further efforts to bolster its brand advantage and build a stronger business foundation by marketing new and unique products using the technology it has accumulated through long years of research in dermatology.

In our chemical products business, sales growth is projected to remain at approximately the same level because economic recovery is expected to take more time.

Overseas, in consumer products in Asia, the Company will make aggressive efforts in the rapidly growing market in China in order to cultivate the market and increase sales. In the ASEAN region, marketing will be directed at applying lessons learned from successes in other countries, particularly cases in which our products performed well under the product application guidance of our regional management company in Thailand.

In the consumer products segment in North America and Europe, the Company anticipates steady sales growth from sound management of two new brands, *KMS* and *John Frieda*, which were acquired in March and September, respectively, and expects further sales growth.

In chemical products, we are forecasting growth in sales above the level of the previous fiscal year, on the back of growth in such specialty chemicals as toners and toner binders for copiers and printers, and aroma chemicals produced in Spain.

As a result of the above, Kao projects that annual sales for the current fiscal year will increase 3.7% by 31.0 billion yen to 870.0 billion yen, and that operating income will rise by 2.0% to 114.0 billion yen. Ordinary income is expected to increase by 0.4% to 114.0 billion yen, and net income is forecast to grow 4.5% to 63.0 billion yen.

The acquisition of KMS and John Frieda will result in the Company incurring additional expenses such as amortization of goodwill and trademarks, expenses for consolidation, and marketing expenses. A rise in raw materials prices for fatty alcohol is also anticipated. To offset these increases in costs and to secure profit in the current fiscal year, the Company will make further cost-cutting efforts both in Japan and overseas.

Based on the forecasted profit growth, the Company plans to pay its interim cash dividend at 15.00 yen per share and give an overall increase of 4.00 yen annually totaling 30.00 yen per share.

Kao will continue its efforts to increase profits and improve capital efficiency in the current fiscal year and will move ahead to meet the medium-term target of EVA improvement.

(2) Underlying assumptions for the forecasts for the fiscal year ending March 31, 2003

Kao is reviewing the pension and retirement benefits system in order to respond to employees' diversity and needs for independence. As part of this review, the Company submitted application to the Ministry of Health, Labour and Welfare of Japan to return the substituted portion of the Employee Pension to the government. The application was approved by the Ministry on October 18, 2002. Extraordinary profit of 8.0 billion yen on a consolidated basis or 5.0 billion on a non-consolidated basis resulting from the approval is included as assumptions in the forecasts.

The forecasts were made based on the following exchange rate assumptions: one US dollar to 125.0 yen, one euro to 118.0 yen and one New Taiwan dollar to 3.6 yen.

4. FINANCIAL CONDITION

Summarized Consolidated Cash Flows (Unaudited)

	Billions of Yen			Millions of U.S. Dollars
SIX MONTHS ENDED SEPTEMBER 30	**2002**	2001	Incr./(Dcr.)	**2002**
Operating activities	**66.7**	68.7	(1.9)	**544.5**
Investing activities	**(74.8)**	(17.5)	(57.2)	**(610.3)**
Financing activities	**(46.7)**	(52.3)	5.6	**(381.1)**
Translation adjustments	**(1.8)**	0.9	(2.7)	**(14.7)**
Net increase	**(56.5)**	(0.2)	(56.3)	**(461.6)**
Cash and cash equivalents	**69.3**	154.1	(84.8)	**565.5**
Total debt	**52.4**	59.4	(6.9)	**428.1**

Net cash provided by operating activities was 66.7 billion yen. Income before income taxes steadily increased 4.5 billion yen to 60.5 billion yen, and depreciation and amortization expenses were 27.7 billion yen, almost same level as the same period last year. Working capital efficiency was improved by a decrease from last year in accounts receivable at 9.1 billion yen. 27.7 billion yen was paid as income taxes.

Net cash used in investment activities increased 57.2 billion yen to 74.8 billion yen. Main activities included acquisition of hair care company John Frieda in September 2002, and capital investments. Capital investments overseas and in Japan were made for new products and capacity increases. In Japan, investments were also made for expanding and strengthening distribution facilities and for development of the information system.

Cash used in financing activities decreased 5.6 billion yen to 46.7 billion yen. Kao continued share repurchase at 35.2 billion yen. The balance of loans and corporate bonds for the interim period ended September 30, 2002 was 52.4 billion yen, 3.4 billion yen less than at the end of the previous fiscal year. As a result, the balance of cash and cash equivalents for the interim period ended September 30, 2002 was 69.3 billion yen, 55.5 billion yen less than at the end of the previous fiscal year.

Forecast for the Fiscal Year Ending March 31, 2003

Although the operating environment is forecasted to remain severe, of the net cash flow from operating activities, net income before taxes adjustments is anticipated to increase slightly compared to the previous fiscal year.

Of the cash flow from investment activities, the amount of capital investment in Japan is anticipated to be less than that of the previous fiscal year, even though investment in performance upgrades and business rationalization are planned. Investment overseas is expected to remain at the same level as the previous fiscal year.

Regarding cash flow from financing activities, at the Annual Shareholders Meeting held on June 27, 2002, approval was gained for the stock repurchase from the market of up to 30 million shares or a maximum acquisition value of 80 billion yen. The share repurchase is to improve capital efficiency, increase returns to shareholders and enable the Company to adopt timely and flexible capital policy measures. As of the end of the current interim period, approximately 7.409 million shares at a total value of 20.4 billion yen have been retired. While taking further business investment into consideration, the Company will adopt a flexible approach toward stock repurchase. Interim dividends are up 2.00 yen on the previous term and an increase in the total dividend payment is planned. Total debt is anticipated to reach 50.0 billion yen. The above factors lead the Company to anticipate a slight decrease in the balance of cash and cash equivalents at the end of the current fiscal year to 70.0 billion yen.

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