Kao Corporation

News Release October 22, 2003

Kao Corporation Reports Business Results

Tokyo, October 22, 2003 — Kao Corporation today announced its consolidated and non-consolidated business results for the six months ended September 30, 2003. The following summary of the business results that Kao submitted to the Tokyo Stock Exchange is unaudited and for reference only.
Ticker code: 4452

Consolidated Financial Highlights (Unaudited)

(Millions of yen, millions of U.S. dollars, except per share data)

	Six months ended September 30				Fiscal 2002, ended March 31, 2003
	2003	2002	Change	**2003**	
	Yen		%	U.S. dollars	Yen
Net sales	**¥446,989**	¥434,926	2.8	**$4,017.9**	¥865,247
Operating income	**60,579**	61,578	(1.6)	**544.5**	114,914
Ordinary income	**61,993**	62,654	(1.1)	**557.2**	117,487
Net income	**31,944**	33,290	(4.0)	**287.1**	62,462
Total assets	**708,574**	748,463	(5.3)	**6,369.2**	720,849
Total shareholders' equity	**408,783**	442,567	(7.6)	**3,674.5**	417,030
Shareholders' equity/total assets	**57.7%**	59.1%	-	-	57.9%
Per share (yen/US$):					
Net income	**57.87**	56.99	1.5	**0.52**	108.05
Net income, diluted	**55.42**	54.71	1.3	**0.50**	103.69
Shareholders' equity	**752.02**	766.36	(1.9)	**6.76**	744.56
Weighted average number of shares outstanding (in thousands)	**551,994**	584,169	-	-	576,770
Net cash provided by operating activities	**52,011**	66,757	-	**467.5**	134,179
Net cash used in investing activities	**(13,527)**	(74,821)	-	**(121.6)**	(77,568)
Net cash used in financing activities	**(41,910)**	(46,717)	-	**(376.7)**	(104,186)
Cash and cash equivalents	**75,491**	69,328	-	**678.6**	75,684

Notes:
1. *Net income per share is computed based on the weighted average number of shares outstanding during the corresponding periods.*
2. *U.S. dollar amounts represent translations using the approximate exchange rate on September 30, 2003, of yen 111.25=US$1, and are included solely for the convenience of readers.*
3. *Yen amounts are rounded down to the nearest million.*

Forecast of Consolidated Results for the Fiscal Year Ending March 31, 2004

(Millions of yen, millions of U.S. dollars, except per share data)

	Year ending March 31, 2004	
	Yen	U.S. dollars
Net sales	¥900,000	$8,089.9
Operating income	119,000	1,069.7
Ordinary income	120,000	1,078.7
Net income	64,000	575.3
Net income per share (yen/US$)	116.62	1.05

Consolidated Segment Information by Industry (Unaudited)

Billions of Yen

Six months ended September 30	SALES				OPERATING INCOME		
	2003	2002	% change	Like-for-like	**2003**	2002	Incr./(Dcr.)
Consumer Products	**332.2**	324.8	2.3	2.9	**46.9**	48.1	(1.2)
Prestige Cosmetics	**38.3**	38.1	0.6	0.8	**4.0**	2.6	1.4
Chemical Products	**89.9**	86.0	4.5	4.1	**9.4**	10.3	(0.9)
Corporate/Eliminations	**(13.5)**	(14.0)	-	-	**0.1**	0.4	(0.3)

Millions of U.S. Dollars

Six months ended September 30	SALES				OPERATING INCOME		
	2003	2002	% change	Like-for-like	**2003**	2002	Incr./(Dcr.)
Consumer Products	**2,986.6**	2,920.0	2.3	2.9	**422.1**	433.0	(10.9)
Prestige Cosmetics	**344.7**	342.5	0.6	0.8	**36.6**	23.7	12.9
Chemical Products	**808.4**	773.4	4.5	4.1	**84.8**	92.9	(8.1)
Corporate/Eliminations	**(121.8)**	(126.5)	-	-	**1.0**	3.9	(2.9)

Consolidated Geographic Segment Information (Unaudited)

Billions of Yen

Six months ended September 30	SALES				OPERATING INCOME		
	2003	2002	% change	Like-for-like	**2003**	2002	Incr./(Dcr.)
Japan	**331.7**	329.5	0.7	0.7	**54.3**	53.0	1.3
Asia/Oceania	**52.0**	51.1	1.9	8.0	**2.2**	3.7	(1.5)
North America	**40.3**	39.0	3.1	12.2	**3.1**	3.1	(0.0)
Europe	**41.4**	32.3	28.4	13.5	**1.0**	1.3	(0.3)
Corporate/Eliminations	**(18.6)**	(17.1)	-	-	**(0.1)**	0.2	(0.4)

Millions of U.S. Dollars

Six months ended September 30	SALES				OPERATING INCOME		
	2003	2002	% change	Like-for-like	**2003**	2002	Incr./(Dcr.)
Japan	**2,981.8**	2,962.4	0.7	0.7	**488.7**	476.5	12.0
Asia/Oceania	**468.2**	459.6	1.9	8.0	**20.3**	34.1	(13.8)
North America	**362.3**	351.4	3.1	12.2	**27.9**	28.2	(0.3)
Europe	**372.9**	290.3	28.4	13.5	**9.0**	12.3	(3.3)
Corporate/Eliminations	**(167.3)**	(154.3)	-	-	**(1.4)**	2.4	(3.8)

Notes:
1. *U.S. dollar amounts represent translations using the approximate exchange rate on September 30, 2003, of yen 111.25=US$1, and are included solely for the convenience of readers.*
2. *Like-for-like growth rates exclude the currency translation effect related to translation of local currencies into Japanese yen.*

Kao Corporation

News Release October 22, 2003

Non-consolidated Financial Highlights (Unaudited)

(Millions of yen, millions of U.S. dollars, except per share data)

	Six months ended September 30				Fiscal 2002, ended March 31, 2003
	2003	2002	Change	**2003**	
	Yen		%	U.S. dollars	Yen
Net sales	**¥328,016**	¥333,915	(1.8)	**$2,948.5**	¥661,747
Operating income	**50,303**	50,561	(0.5)	**452.2**	94,454
Ordinary income	**54,025**	52,424	3.1	**485.6**	98,300
Net income	**31,351**	29,069	7.8	**281.8**	49,434
Total assets	**602,433**	656,688	(8.3)	**5,415.1**	623,731
Total shareholders' equity	**397,336**	446,884	(11.1)	**3,571.6**	411,791
Shareholders' equity/total assets	**66.0%**	68.1%	-	-	66.0%
Per share (yen/US$):					
Net income	**56.78**	49.73	(14.2)	**0.51**	85.42
Cash dividends	**16.00**	15.00	6.7	**0.14**	30.00
Shareholders' equity	**731.01**	773.27	(5.5)	**6.57**	734.64
Weighted average number of shares outstanding (in thousands)	**552,137**	584,588	-	-	577,209

Notes:
1. *Excluding the effect of changes in the accounting system between Kao and Kao Hanbai starting from April 2003, net sales would have increased by 0.8 %.*
2. *Net income per share is computed based on the weighted average number of shares outstanding during the corresponding periods.*
3. *U.S. dollar amounts represent translations using the approximate exchange rate on September 30, 2003, of yen 111.25=US$1, and are included solely for the convenience of readers.*
4. *Yen amounts are rounded down to the nearest million.*

Forecast of Non-consolidated Results for the Fiscal Year Ending March 31, 2004

(Millions of yen, millions of U.S. dollars, except per share data)

	Year ending March 31, 2004	
	Yen	U.S. dollars
Net sales	¥660,000	$5,932.6
Operating income	99,000	889.9
Ordinary income	104,000	934.8
Net income	60,000	539.3
Net income per share (yen/US$)	109.32	0.98
Cash dividends per share (yen/US$)	32.00	0.29

Note:
1. *Due to changes in the accounting system between Kao and Kao Hanbai starting from April 2003, the forecast for non-consolidated net sales has been decreased by 2.5 %.*

Forward-Looking Statements

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.

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 by contributing to industrial development in the chemical products field. Kao also aims to pursue sustained profitable growth and to consistently augment corporate value, which the Company views as being closely linked to securing profits for shareholders.

2. Basic Policies Regarding Distribution of Profits

In its dividends to shareholders, Kao seeks to pay per-share dividends of approximately 30% of consolidated net income. The Company's basic policy is to increase per-share profit each year to achieve continuous increase in per-share dividends. Taking into account the achievement of projected profit for the fiscal year ending March 31, 2004, the Company plans to increase dividends for the fiscal year by 2 yen to 32 yen per share.

In its use of free cash flow, the Company strives to increase future corporate value, primarily through investment for further expansion of existing core business and development of new businesses, and through acquisitions. The Company also uses free cash flow to undertake share repurchases in a flexible manner to increase returns to shareholders, keeping investment efficiency from a long-term perspective uppermost in mind.

During the interim period ended September 30, 2003, the Company repurchased the 6 million shares remaining within the limit approved at the General Meeting of Shareholders held on June 27, 2002, at a cost of 13.9 billion yen, and 10 million shares toward the limit approved at the General Meeting of Shareholders held on June 27, 2003 (20 million shares, 50 billion yen), at a cost of 22.7 billion yen.

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

Kao is aware of the need for a large number of investors to participate in the trading of its shares and for the sufficient liquidity of its shares, for them to be traded at appropriate price levels. In terms of liquidity, Kao shares rank highly among shares traded on the First Section of the Tokyo Stock Exchange. The Company will observe market trends and demands, and carefully consider whether or not reducing the number of shares in each lot would be in the best interests of shareholders and cost effective.

4. 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 acquisitions and capital investments, for assessment 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 directors and employees.

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

5. Medium- and Long-Term Management Strategies

By positioning consumer products, prestige cosmetics and chemical products as its core business areas, Kao pursues profitable growth by emphasizing research and development and by making high-quality, innovative products that meet the true needs of consumers and customers.

Faced with slow growth in the Japanese market, the Company intends to strengthen its powerful brands to improve its performance in existing businesses, and it will continue to invest management resources into 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, Kao assigns the highest priority to business expansion in the Asian region, a growth market, while at the same time pursuing business expansion in North America and Europe. To do this, the Company will consider further acquisitions and strategic business alliances to achieve synergies between new partners' and its own strengths in the area 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. The Company will also continue to aggressively reduce operating costs, take steps to raise work efficiency, and strive to achieve sustained EVA growth.

6. Issues for Management

The operating environment is becoming increasingly difficult, and dramatic changes are expected. It is particularly in times such as these that the Company is 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 focus on investing management resources into building powerful brands.

We will aim for continuous profitable growth by taking the following operating initiatives in an aggressive and timely manner:

(1) maintaining and increasing market share of core brands;
(2) development of products that create new market segments;
(3) development and fostering the growth of new businesses; and
(4) expansion and strengthening of overseas business

Kao is also fully aware of the need for the internal control and enforcement of compliance.

7. Basic Position on Corporate Governance and its Implementation

Kao's basic corporate governance policy is to develop a suitable managerial organization and system, and to take the necessary measures to realize the Company's basic management policies in order to achieve continuous increases in corporate value through profitable growth. The Company considers corporate governance to be one of its most important managerial tasks.

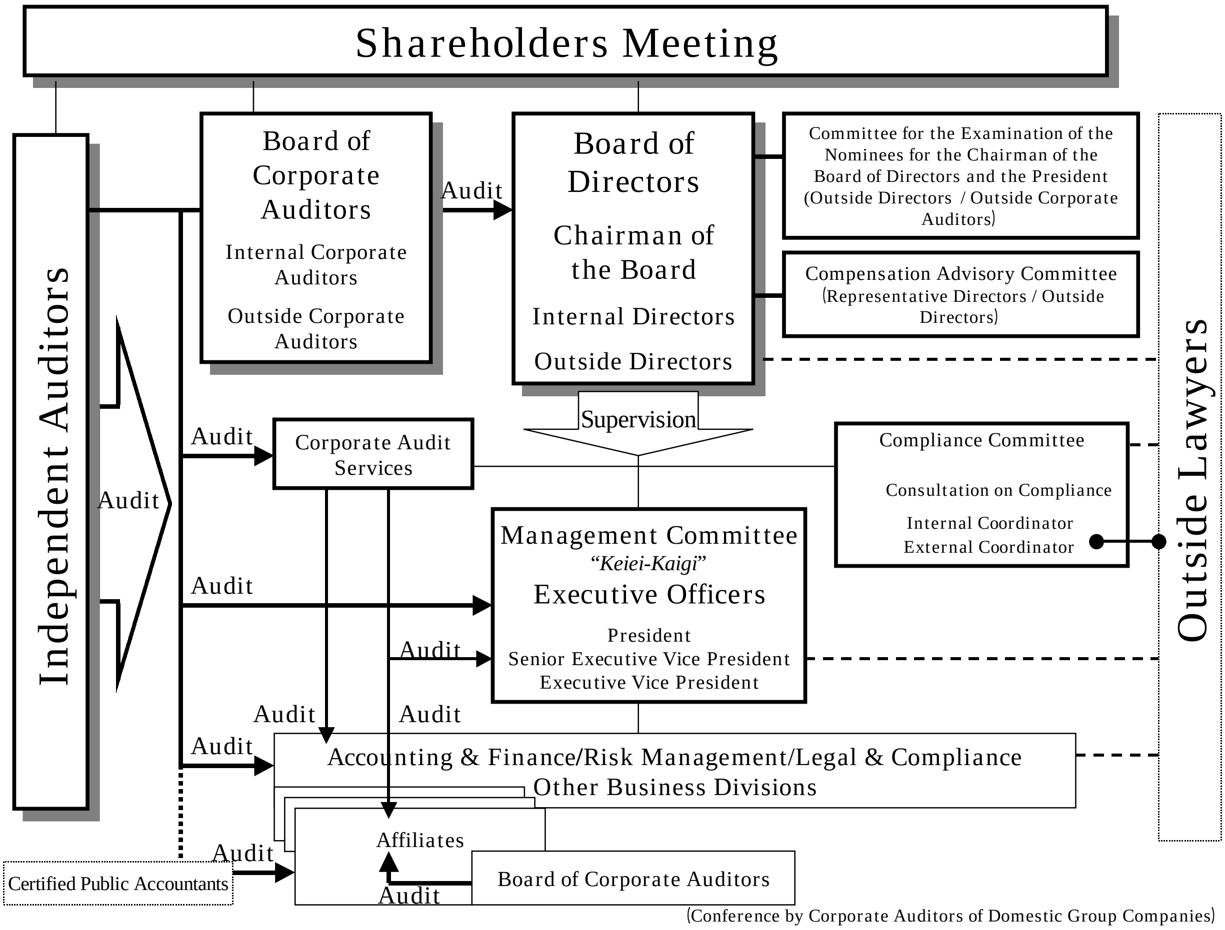
In its previous framework of directors and corporate auditors, the Company introduced the executive officer system in 2001. In its current management system, the Company has 13 directors (including 2 outside directors), 20 executive officers (including 11 who serve concurrently as directors), and 4 corporate auditors (including 2 outside corporate auditors). At the General Meeting of Shareholders held in June 2003, the Company established a system to promote the separation of supervision and execution by attaching the title of executive officer rather than director to the titles of the president, senior executive vice presidents, and executive vice presidents, and by making the chairman the "Chairman of the Board of Directors" rather than an executive officer.

The Company will give ongoing consideration as to whether it should become a "Company with three committees" as defined by the amended Commercial Code, as it believes it is a management issue of great importance. However, the Company has established a "Compensation Advisory Committee" and a "Committee for the Examination of the Nominees for the Chairman of the Board of Directors and the President," which perform functions similar to those of the committees in a "Company with three committees." In the "Compensation Advisory Committee," the Company's representative directors obtain the opinions of outside directors with respect to the compensation system for the directors and executive officers and its level. The current compensation system and its level have already been examined by outside directors and were evaluated as appropriate. The "Committee for the Examination of the Nominees for the Chairman of the Board of Directors and the President" consists exclusively of all outside directors and all outside corporate auditors. This committee will examine the nominees prior to the election or re-election of the chairman of the board and or the president and will submit its evaluation of the nominees' qualifications to the board of directors.

Issues regarding the Company's compensation system for directors have included introducing a stock option plan, clarifying the performance-linked bonus system based on EVA, and abolishing the provision for retirement allowances for directors and corporate auditors.

In addition, the Company has established a "Compliance Committee" for the promotion of ethical corporate conduct and compliance with laws and regulations, and has routinely implemented activities for securing compliance with laws and regulations, fairness, and ethics. The Company has also recently revised the former "Corporate Ethics of Kao Corporation" to "Kao Business Conduct Guidelines" to further promote business conduct based on compliance with the laws and regulations, and ethics, as of April 2003.

The Company's corporate governance structure is shown in the following diagram.



One of Kao's two outside directors, Mr. Akishige Okada, is Chairman of the Board of Sumitomo Mitsui Financial Group, Inc. Transactions such as regular banking transactions, loans and guarantees take place between the Company, its affiliates and Sumitomo Mitsui Financial Group affiliates. Our other outside director, Ms. Sakie Tachibana Fukushima, is Representative Director of Japan Korn/Ferry International. Japan Korn/Ferry International and its affiliates provide recruiting services to the Company. All of the aforementioned are typical transactions among such companies, and the outside directors have no direct personal interest in the Company.

There are no transactions between outside corporate auditors and the Company. Moreover the independent auditors that audit the Company's accounts and their employees involved in the auditing process have no direct personal interest in the Company. The independent auditors voluntarily ensure that any of its employees who become involved in our company's audit, will not be involved in the audit for more than a certain period of time. The Company and the independent auditors enter into a contract for the audit and the Company pays a fee to them based on the contract.

In addition to the aforementioned “Compliance Committee,” the Company has also established the “Corporate Audit Services Department,” which is responsible for the Company’s internal audit on the appropriateness of daily business operations, and validity and efficiency of the management, including the Company’s affiliates in Japan and abroad. Besides this, a number of important companies have assigned audits of their accounting to outside accounting firms. Furthermore, corporate auditors of the Company and its related domestic companies have periodic meetings to exchange information concerning audit practices and procedures. The Company also seeks counsel and advice as necessary from outside experts such as lawyers with regard to management and business operations for managerial decision-making.

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Consolidated Business Results and Financial Condition

1. Interim Period Business Results

(1) Summary of Interim Period Business Results

In the interim period ended September 30, 2003, the slowdown of the U.S. economy, among other factors, caused general sluggishness in the global economy. In Japan, although stock prices rebounded and corporate capital investment showed a trend toward a gradual recovery, exports were flat and the employment and income situation created a difficult environment for consumer spending. Consequently, the Japanese economy did not fully recover.

Net sales increased 12.0 billion yen to 446.9 billion yen, a 2.8 % increase over the same period in the previous fiscal year. Excluding the currency translation effect of negative 1.5 billion yen due to the stronger yen, actual overseas sales grew by 3.1%. Sales in Japan rose by 0.7%. In the consumer products business, the Company worked to expand sales through the launch of new high-value-added products and aggressive marketing measures. However, factors including a decline in sales prices and the effects of a long rainy season and cool summer limited consumer product sales. In the chemical products business, exports were favorable, as were sales of newly developed products. However, the effects of the sluggish economy resulted in overall restrained growth in sales of chemical products. Overseas sales increased 9.3%, supported by the benefit from acquisitions. Consumer products and chemical products businesses acquired last year in the U.S. and Europe performed well, but sales of existing consumer products in the U.S. and Europe affected by the economic slowdown, and sales of consumer products in Asia, were sluggish amid increasing market competition.

Operating income was 60.5 billion yen, a 1.6% decrease from the same period of the previous fiscal year, but higher than the original projection of 58.0 billion yen. In Japan, the Company carried out aggressive marketing activities for new products and rigorously cut costs and controlled expenses more efficiently, which led to a large improvement in the prestige cosmetics business. As a result, operating income in Japan increased by 1.3 billion yen to 54.3 billion yen. In overseas business, higher raw material costs in the chemical products business in Asia and decreased profit from the consumer products business in Asia resulted in a 1.9 billion yen decrease in operating income to 6.3 billion yen.

Ordinary income was 61.9 billion yen, a decrease of 0.6 billion yen from the same period in the previous fiscal year, and net income decreased 1.3 billion yen to 31.9 billion yen. In non-operating income and expenses, equity in earnings of affiliates decreased compared with the same period in the previous fiscal year, but the currency translation effect resulted in a profit, in contrast to a loss in the previous interim period., The Company booked a loss from revaluation of land in extraordinary gain and loss; however, net income exceeded the initial forecast.

Net income per share increased to 57.87 yen, despite the decrease in net income, due to the Company’s repurchase of 16 million of its shares from the market.

Because the Company achieved its expected profit, it will pay an interim cash dividend of 16 yen per share, an increase of 1 yen, as planned. The cash dividend for the interim period of the previous fiscal year was 15 yen per share.

(2) Summary of Results by Business Segment

Consumer Products Business

Net sales of consumer products were 332.2 billion yen, an increase of 2.3% over the previous interim period. Excluding the effect of currency translation, sales growth in real terms was 2.9%. Sales in Japan increased 0.3% over the previous interim period. Overseas sales also increased despite the effects of currency translation. Operating income in the consumer products business increased only in North America, resulting in a total decrease of 1.2 billion yen to 46.9 billion yen.

1) Japan

Retail sales in the market as a whole remained lower than in the previous interim period, due to lower selling prices and the effects of the long rainy season and cool summer. By channel, sales at drugstore chains increased, while sales at large supermarket chains trended downward and sales at convenience stores and home improvement centers were essentially unchanged. Kao conducted integrated marketing and sales activities for each chain and area, and worked to invigorate the market by introducing new and improved products. The decline in market prices and the increase in marketing expenses exerted a negative effect on profits, which decreased slightly despite the Company's efforts to reduce costs and raise efficiency.

Sales Composition of Consumer Products

	Billions of yen		
Six months ended September 30	**2003**	2002	% change
Personal Care	**84.7**	84.5	0.3
Fabric and Home Care	**122.4**	126.8	(3.5)
Feminine Care, Baby Care and Others	**46.8**	41.8	11.8
Total	**254.0**	253.2	0.3

In the personal care products market, sales volume showed little growth, leading to a further increase in competition and decline in sales prices.

In spring 2003, Kao added to its line of *Bioré* facial cleansers with *Bioré Perfect Oil* makeup remover, which can be used even with wet hands or face, and introduced an improved version of *Bioré u* body cleanser. These products were well received by consumers, and contributed to growth in sales. In the shampoo, conditioner and treatment category, the Company launched an improved version of *Essential*, and added new items to the *Blaune Aroma Hair Color* line in the highly popular hair coloring category, but declining market prices and sluggish growth in sales volume resulted in a decrease in sales. In men's cosmetic products, the launch of *Success Flavacyte* and *Success Stylish Color* supported sales expansion.

As a result, sales of personal care products increased 0.3% compared with the previous interim period.

Principal new products:
Bioré Perfect Oil makeup remover
Success Flavacyte medicated hair restoration tonic
Clear Clean Plus Whitening toothpaste

The fabric and home care products market is gradually contracting in the deflationary environment, and market competition continued to intensify.
Under these conditions, in the laundry detergent category, Kao introduced *Attack with Bleach*, an antibacterial product that can remove food stains and other tough dirt. However, a decline in selling prices due to competition and the effects of an unusually cool summer and long rainy season resulted in a decrease in sales. Sales of fabric softeners also declined due to the effects of the unfavorable weather and falling prices. However, the Company began marketing *Allerclean* home hygiene spray for easy removal of minute dust particles and waste generated by mites, which are hard to eliminate in daily cleaning. This product was well received by consumers, and is creating a new market. Paper cleaning products for North America and Europe, which sold strongly in the previous year, were switched to local production and contributed to royalty income.

As a result, sales of fabric and home care products in Japan decreased 3.5% from the previous interim period.

Principal new products:
Attach with Bleach laundry detergent
Allerclean home hygiene spray
Toilet Magiclean Power Liquid toilet bowl cleaner

In the area of feminine care and baby care products, the Company worked to raise brand value and improve products in the disposable baby diaper category by improving basic product performance. However, sales prices in the market dropped further, and competition intensified. Consequently, sales declined substantially compared with the previous interim period. Sales of *Laurier* sanitary napkins and *Relief* adult incontinence products increased.

Sales of the *Econa Healthy* cooking oil series, which maintains a high share of the market for healthy cooking oil, continued to grow strongly, both for personal use and for gifts. *Healthya Green Tea*, a tea beverage launched at the end of May, received support from consumers concerned about body fat, and sold well after its market debut, contributing significantly to the increase in sales.

As a result, sales of feminine care, baby care and other products increased 11.8% compared with the previous interim period.

Principal new products:
Laurier Active Guard Light Style sanitary napkins
Relief Overnight Pads incontinence products
Healthya Green Tea

Asia and Oceania

In Asian markets, because of the increasing consolidation of sales at large chain stores, acquiring a leading position in each category is critical. For this reason, Kao has continued to focus its management resources on core brands. *Feather* hair care products, *Magiclean* home care products, and *Merries* baby care products struggled in a highly competitive market, but *Bioré* skin care products, *Sifoné* hair care products, *Attack* and *Haiter* fabric and home care products, and *Laurier* feminine care products performed well.

In addition, Kao decided to establish a new plant in the suburbs of Bangkok, Thailand to optimize its production network in Thailand and the ASEAN region. This new plant will begin operations starting in 2005. In China, the marketing division of Kao Corporation Shanghai was separated and established as a marketing company in spring 2003. This company will enhance Kao's marketing capabilities as well as strengthen cooperation with Kao Transfar (Hangzhou) Co., Ltd., which was established last year to support expansion of sales in China.

Although sales in ASEAN countries grew steadily, sales in Taiwan and some other countries were lower than in the previous year due to the impact from the SARS outbreak and a highly competitive market environment. As a result, total sales in Asia declined.

2) North America and Europe

Conditions remained severe in the markets of North America and Europe. Sales of existing brands declined at both The Andrew Jergens Company of the U.S. and KPSS-Kao Professional Salon Services GmbH (formerly Goldwell GmbH). On the other hand, the *John Frieda* premium hair care business acquired by The Andrew Jergens Company in September 2002 has achieved growth significantly higher than initial projections. The KMS business of hair care products for salons, which was acquired by KPSS, also expanded steadily. Guhl Ikebana GmbH, which handles premium hair care products in Germany, increased sales of the *Brilliant* brand, which was improved last year. As a result, sales in North America and Europe during the interim period grew substantially. The Company will promote management consolidation, including organizational consolidation, to generate synergy between the *John Frieda* and *Guhl* brands.

Prestige Cosmetics Business

The cosmetics market continued to be essentially flat in terms of both volume and sales. In these conditions, Kao's prestige cosmetics sales increased 0.6%, to 38.3 billion yen. Kao continued to conduct energetic marketing and sales promotion efforts for *est*, a brand sold exclusively at department stores, and maintained healthy sales growth. Sales of basic skin care products, in particular *Rise,* which went on the market in 2002, grew strongly. In addition, Kao expanded its *Raycious* series of oil- and perspiration-resistant foundation cosmetics. Operating income in the prestige cosmetics business increased by 1.4 billion yen to 4.0 billion yen over the previous interim period due to factors such as more efficient application of expenses.

Principal new products:
Rise UV Cut **-** Milk, Cream
Raycious Ray Crush face powder
Raycious Flat Polish foundation

Chemical Products Business

In Japan, production showed signs of a rebound due to a decrease in inventories, as expansion in exports fueled a recovery in market conditions. However, the manufacturing sector in general showed little strength, and there were uncertainties in the prospects for the U.S. economy, which has been the growth engine of the global economy. In this environment, Kao worked to expand its business in the core fields of fatty alcohols, surfactants and specialty chemicals. In Japan, an industry slowdown continued to affect existing products, but sales of newly developed products grew steadily. Main areas of growth during the period included the fatty alcohol business, for which the Company expanded production capacity in 2002. In Japan, North America and Europe, specialty chemicals performed well, including toner and toner binder products for copiers and printers as well as fragrances and aroma chemicals. As a result, sales totaled 89.9 billion yen, a growth rate of 4.5%, or 4.1% excluding the effect of translation rate changes. Operating income increased due to cost reductions and more efficient use of expenses in Japan, but was reduced by factors such as higher raw material costs overseas, resulting in an overall decrease of 0.9 billion yen from the previous interim period to 9.4 billion yen.

1) Japan

Positive signs were seen in the automobile and related industries and some material industries such as steel, but production continued to be weak in industries that rely on domestic demand. As a result, there was no indication of a recovery.

Under these conditions, Kao made further efforts to expand sales of products with unique features and newly developed products. In businesses related to chemical products, sales of plastics additives that meet customers' export needs expanded steadily, while sales and exports of toner and toner binder products showed solid growth. In the industrial materials business, sales of cleaners for semiconductors and other electronic components expanded strongly. Sales of a pigment auxiliary for color inkjet printer ink, which went on the market in 2002, were favorable, reflecting high regard for the product's features. In addition, sales and exports of slurries for use in polishing hard disks increased substantially as Kao worked to swiftly meet customer needs. As a result, sales increased compared with the same period in the previous year.

2) Asia

After expanding fatty alcohol production capacity in Malaysia in 2002, Kao worked on a global basis to promote sales, which increased sharply. Sales of high-performance concrete additives rose steadily in China, where massive construction projects are generating brisk demand, as well as in Taiwan and countries elsewhere in Asia. As a result, sales exceeded the level of the same period in the previous year.

3) North America and Europe

Sales increased in the business of toners and toner binder products for copiers and printers, as Kao fortified its global business infrastructure in Japan, North America and Europe. In the aroma chemicals business, in which several Kao products hold the top global market share, the Company worked to promote sales of new products, and sales expanded steadily. The aroma chemicals and fragrance compound business acquired from a German chemical manufacturer in spring 2003 also contributed to the sales increase in this segment. As a result, overall sales increased over the same period in the previous year.

The translation rates used to calculate income and expenses for consolidated subsidiaries and other companies outside Japan for the interim period were one U.S. dollar to 119.13 yen, one euro to 132.69 yen, and one New Taiwan dollar to 3.43 yen.

2. Forecast for the Fiscal Year Ending March 31, 2004

(1) Forecast of Results for the Fiscal Year

In the domestic economy, corporate profits are expected to maintain a firm footing for growth, and capital investment is trending toward an upturn. However, a full-scale recovery in the employment situation and consumer spending is likely to remain elusive. Consumer prices are also expected to continue falling slightly, and overall demand in Kao’s industry is expected to show no growth in terms of volume, and continue declining slightly in terms of value. In addition, great uncertainty will continue to persist in the U.S. economy, despite a trend toward a rebound in consumer spending.

Under these conditions, in the consumer products business, Kao will strengthen its product development capabilities, the starting point of manufacturing, and will focus its resources on aggressive marketing and sales promotion activities to further strengthen core brands. Through these measures, Kao will work to stimulate the sluggish domestic market and expand sales. In Asia, Kao Corporation Shanghai and Kao Transfar (Hangzhou) Co., Ltd., which was established last year, will conduct energetic marketing in cooperation with a marketing company established in spring 2003 in Shanghai to support further development and sales growth in the huge, high-potential Chinese market. In the ASEAN region, Kao will expand the successful model of products developed under the supervision of Kao Consumer Products (Southeast Asia) Co., Ltd. in Thailand to other countries. In the consumer products market in North America and Europe, Kao will focus on steady development of the *John Frieda* brand. In the prestige cosmetics business, Kao will work to further raise brand value and reinforce its business foundation by introducing distinctive new products. In the chemical products market, although positive signs are appearing in export-related industries and some other customer industries, an overall recovery in market conditions is not expected, and sales in existing fields are forecasted to remain flat. However, the Company will focus on expanding sales of products with unique features and newly developed products. Overseas, the Company forecasts an increase in sales over the previous fiscal year, owing to higher sales of fatty alcohols and specialty chemicals including toners and toner binder products for copiers and printers, as well as contributions from the aroma chemical business in Spain.

As a result of the above, Kao projects that net sales for the fiscal year will increase 4.0%, or 34.7 billion yen, to 900.0 billion yen, and that operating income will rise 3.6% to 119.0 billion yen. Ordinary income is expected to rise 2.1% to 120.0 billion yen, and net income is forecasted to increase 2.5% to 64.0 billion yen. The Company anticipates an increase in marketing and other expenses, as well as amortization expense of goodwill and trademarks associated with the acquisition of John Frieda Professional Hair Care, Inc. and aroma chemical businesses. The cost of raw materials for fatty alcohols and other products is also projected to rise. Therefore, the Company will make efforts to secure profits by implementing further cost cutting measures not only in Japan, but also overseas.

Assuming achievement of the projected profit figures, the Company expects to pay a year-end dividend of 16 yen per share, as planned. Combined with the interim dividend, this will bring total dividends for the year to 32 yen per share, an increase of 2 yen over the previous fiscal year.

Kao will continue working to meet its medium-term EVA improvement targets through efforts to increase profits and improve capital efficiency.

(2) Underlying Assumptions of the Forecasts for the Fiscal Year Ending March 31, 2004

The above forecasts were made assuming translation rates of one U.S. dollar to 116.0 yen, one euro to 131.0 yen, and one New Taiwan dollar to 3.4 yen.

3. Financial Condition

(1) Summarized Consolidated Cash Flows (Unaudited)

	Billions of Yen			Millions of U.S. Dollars
Six months ended September 30	**2003**	2002	Incr./(Dcr.)	**2003**
Net cash provided by operating activities	**52.0**	66.7	(14.7)	**467.5**
Net cash used in investing activities	**(13.5)**	(74.8)	61.2	**(121.6)**
Net cash used in financing activities	**(41.9)**	(46.7)	4.8	**(367.7)**
Translation adjustments	**0.5**	(1.8)	2.3	**4.8**
Net increase (decrease)	**(2.8)**	(56.5)	53.6	**(26.0)**
Cash and cash equivalents	**75.4**	69.3	6.1	**680.3**
Total debt	**53.8**	52.4	1.3	**483.8**

Net cash provided by operating activities decreased 14.7 billion yen compared with the same period of the previous fiscal year to 52.0 billion yen. The change was mainly due to a negative effect on cash flow of a decrease in liability for retirement benefits as a result of an increase in cash contributions to the employees' pension fund, which had a positive effect in the same period of the previous year. Income before income taxes and minority interests declined by 0.9 billion yen from the same period in the previous year to 59.5 billion yen. Depreciation and amortization was 27.3 billion yen, almost the same level as the same period last year. Income taxes paid increased 1.4 billion yen to 29.1 billion yen.

Net cash used in investing activities decreased 61.2 billion yen compared with the same period of the previous fiscal year to 13.5 billion yen. This decrease was mainly the result of the previous year's acquisition of John Frieda Professional Hair Care, Inc. including its trademarks. The Company also invested in production facilities for new products in Japan and overseas, as well as expansion of distribution facilities and the installation of a new information system. Proceeds from sales of property, plant and equipment due to consolidation of distribution sites and other facilities totaled 2.2 billion yen. In May 2003, the Company acquired a fragrance and specialty chemicals business in Europe.

Net cash used in financing activities decreased 4.8 billion yen compared with the same period of the previous fiscal year to 41.9 billion yen. Free cash flow, which equals net cash provided by operating activities minus net cash used in investing activities, was 38.4 billion yen. The Company purchased treasury stock in the amount of 36.9 billion yen, following the purchases of the previous fiscal year, and paid cash dividends totaling 9.5 billion yen.

As a result of these activities, the balance of cash and cash equivalents at the end of the interim period was 75.4 billion yen, a decrease of 0.1 billion yen from the end of the previous fiscal year.

(2) Forecast for the Fiscal Year ending March 31, 2004

In net cash provided by operating activities, income before income taxes and minority interests is expected to increase slightly despite a severe operating environment. Depreciation and amortization is projected to be 55.0 billion yen.

Net cash used in investing activities is expected to decrease substantially due to the absence of the expenses related to the acquisition of John Frieda Professional Hair Care, Inc. in the previous fiscal year. Purchases of property, plant and equipment are expected to increase both in Japan and overseas as a result of investments in capacity expansion and streamlining, as well as additions to research facilities.

In net cash used in financing activities, a proposal to purchase the Company's stock, up to a maximum of 20 million shares and 50.0 billion yen in value, was approved at the General Meeting of Shareholders held on June 27, 2003. The purpose of the repurchase is to improve capital efficiency, increase returns to shareholders and allow the execution of timely and flexible capital policy measures. At the end of the interim period, the Company had repurchased 10 million shares at a cost of 22.7 billion yen. The Company plans to continue repurchasing its own shares in a flexible manner, taking into account business investment projects and other factors. Kao plans to increase the interim cash dividend by 1 yen per share compared with the previous year-end dividend. Interest-bearing debt is projected to be approximately 54.0 billion yen at the end of the fiscal year.

As a result of the above, the balance of cash and cash equivalents at the end of the fiscal year is forecast to increase from the previous fiscal year end to approximately 100.0 billion yen.

4. Cash Flow Indices

	Six months ended September 30, 2003	Year ended March 31 2003	2002	2001	2000
Shareholders' equity/Total assets (%)	**57.7**	57.9	59.5	59.1	63.3
Market capitalization/Total assets (%)	**181.0**	186.0	186.0	245.6	259.7
Interest-bearing debt/Operating cash flow (years)	-	0.4	0.5	0.6	0.5
Operating cash flow/Interest paid (times)	**75.4**	85.8	72.2	54.7	72.4

Notes:
1. All indices are computed based on consolidated data.
2. Market capitalization equals the stock price at the end of the period multiplied by the number of shares outstanding at the end of the period (excluding treasury stock).
3. Operating cash flow is stated in the consolidated statements of cash flows. Interest-bearing debt is all debt included in the consolidated balance sheets on which interest is paid.
4. Interest bearing debt/Operating cash flow is not calculated for the interim period.

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