

News Release

October 24, 2005

Kao Corporation Reports Business Results

Tokyo, October 24, 2005 — Kao Corporation today announced its consolidated and non-consolidated business results for the six months ended September 30, 2005. 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 2004, ended March 31, 2005	
	2005	2004	Change	2005	
	Yen		%	U.S. dollars	Yen
Net sales	¥483,098	¥469,039	3.0	\$4,268.0	¥936,851
Operating income	63,070	62,464	1.0	557.2	121,379
Ordinary income	63,638	64,620	(1.5)	562.2	125,345
Net income	38,486	37,761	1.9	340.0	72,180
Total assets	726,341	712,918	1.9	6,417.0	688,973
Total shareholders' equity	479,285	450,018	6.5	4,234.3	448,249
Shareholders' equity/total assets	66.0%	63.1%	-	-	65.1%
Per share (yen/US\$):					
Net income	70.75	68.51	3.3	0.63	131.16
Net income, diluted	70.56	67.01	5.3	0.62	129.09
Shareholders' equity	880.98	812.63	8.4	7.78	821.47
Weighted average number of shares outstanding (in thousands)	543,968	551,170	-	-	549,625
Net cash provided by operating activities	64,695	59,130	-	571.6	109,567
Net cash used in investing activities	(45,146)	(31,030)	-	(398.9)	(54,407)
Net cash used in financing activities	(15,413)	(48,496)	-	(136.2)	(90,657)
Cash and cash equivalents, end of term	75,511	85,907	-	667.1	70,409

Notes:

- Changes in scope of consolidation: Consolidated subsidiaries (13 additions, 3 exclusions); Affiliates accounted for by the equity method (11 additions)
- Net income per share is computed based on the weighted average number of shares outstanding during the corresponding periods.
- U.S. dollar amounts represent translations using the approximate exchange rate on September 30, 2005, of yen 113.19=US\$1, and are included solely for the convenience of readers.
- Yen amounts are rounded down to the nearest million.

Forecast of Consolidated Results for the Fiscal Year Ending March 31, 2006

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

	Year ending March 31, 2006	
	Yen	U.S. dollars
Net sales	¥965,000	\$8,525.5
Operating income	125,000	1,104.3
Ordinary income	126,000	1,113.2
Net income	74,000	653.8
Net income per share (yen/US\$)	135.81	1.20

Note: Net income per share is computed based on the estimated weighted average number of shares outstanding during the fiscal year.

Consolidated Segment Information by Business (Unaudited)

Billions of Yen							
Six months ended September 30	SALES			OPERATING INCOME			Incr./ (Decr.)
	2005	2004	% change	2005	2004		
Like-for-like							
Consumer Products	353.1	346.5	1.9	1.9	47.3	47.7	(0.4)
Prestige Cosmetics	39.3	39.3	(0.1)	(0.1)	3.8	4.3	(0.4)
Chemical Products	103.8	96.5	7.5	7.1	11.7	10.2	1.4
Corporate/Eliminations	(13.1)	(13.4)	-	-	0.1	0.0	0.0
Consolidated	483.0	469.0	3.0	2.9	63.0	62.4	0.6

Millions of U.S. Dollars							
Six months ended September 30	SALES			OPERATING INCOME			Incr./ (Decr.)
	2005	2004	% change	2005	2004		
Like-for-like							
Consumer Products	3,119.6	3,062.0	1.9	1.9	418.1	421.9	(3.8)
Prestige Cosmetics	347.3	347.5	(0.1)	(0.1)	34.3	38.4	(4.1)
Chemical Products	917.4	853.4	7.5	7.1	103.4	90.6	12.8
Corporate/Eliminations	(116.2)	(119.1)	-	-	1.4	0.9	0.5
Consolidated	4,268.0	4,143.8	3.0	2.9	557.2	551.9	5.3

Consolidated Segment Information by Geography (Unaudited)

Billions of Yen							
Six months ended September 30	SALES			OPERATING INCOME			Incr./ (Decr.)
	2005	2004	% change	2005	2004		
Like-for-like							
Japan	358.6	352.9	1.6	1.6	54.9	55.9	(1.0)
Asia/Oceania	52.7	50.3	4.8	5.7	3.6	1.5	2.0
North America	46.1	40.9	12.6	13.3	2.7	2.7	0.0
Europe	49.6	46.2	7.4	5.0	2.5	2.3	0.2
Corporate/Eliminations	(24.0)	(21.4)	-	-	(0.7)	(0.0)	(0.7)
Consolidated	483.0	469.0	3.0	2.9	63.0	62.4	0.6

Millions of U.S. Dollars							
Six months ended September 30	SALES			OPERATING INCOME			Incr./ (Decr.)
	2005	2004	% change	2005	2004		
Like-for-like							
Japan	3,169.0	3,118.4	1.6	1.6	485.1	494.1	(9.0)
Asia/Oceania	465.7	444.5	4.8	5.7	31.8	13.5	18.3
North America	407.3	361.8	12.6	13.3	24.1	23.9	0.2
Europe	438.6	408.4	7.4	5.0	22.4	20.4	2.0
Corporate/Eliminations	(212.5)	(189.4)	-	-	(6.3)	(0.0)	(6.3)
Consolidated	4,268.0	4,143.8	3.0	2.9	557.2	551.9	5.3

Notes:

1. U.S. dollar amounts represent translations using the approximate exchange rate on September 30, 2005, of yen 113.19=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.

Non-consolidated Financial Highlights (Unaudited)

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

	Six months ended September 30			Fiscal 2004, ended	
	2005	2004	Change	2005	March 31, 2005
	Yen		%	U.S. dollars	Yen
Net sales	¥349,450	¥348,807	0.2	\$3,087.3	¥694,655
Operating income	48,740	51,282	(5.0)	430.6	98,013
Ordinary income	53,875	54,745	(1.6)	476.0	104,558
Net income	35,414	34,006	4.1	312.9	62,518
Total assets	623,146	629,319	(1.0)	5,505.3	605,005
Total shareholders' equity	457,594	442,646	3.4	4,042.7	435,329
Shareholders' equity/total assets	73.4%	70.3%	-	-	72.0%
Per share (yen/US\$):					
Net income	65.04	61.70	5.4	0.57	113.62
Cash dividends	25.00	19.00	31.6	0.22	38.00
Shareholders' equity	840.23	799.32	5.1	7.42	797.83
Weighted average number of shares outstanding (in thousands)	544,541	551,170	-	-	549,625

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, 2005, of yen 113.19=US\$1, and are included solely for the convenience of readers.
3. Yen amounts are rounded down to the nearest million.

Forecast of Non-consolidated Results for the Fiscal Year Ending March 31, 2006

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

	Year ending March 31, 2006	
	Yen	U.S. dollars
Net sales	¥685,000	\$6,051.8
Operating income	99,000	874.6
Ordinary income	104,000	918.8
Net income	64,000	565.4
Net income per share (yen/US\$)	117.35	1.04
Cash dividends per share (yen/US\$)	50.00	0.44

Note: Net income per share is computed based on the estimated weighted average number of shares outstanding during the fiscal year.

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 of the Company

Kao's mission is to strive for the wholehearted satisfaction and enrichment of the lives of people globally through the Company's core domains of cleanliness, beauty, health and chemicals. Fully committed to this mission, all members of the Kao Group work together with passion to provide products and brands of excellent value created from the perspective of consumers and customers and to share joy with them.

In each of its markets, Kao aims to be a global group of companies that is closest to consumers and customers in each market. In addition to earning the trust and support of its shareholders and all other stakeholders, Kao seeks to contribute to the continual development of society by consistently augmenting its corporate value based on profitable growth.

2. The Company's Basic Policies Regarding Distribution of Profits

The policy for distributing dividends to shareholders is one of management's highest priorities. In distributing profits in the future, Kao will place top priority on using internal capital resources to make investments that will increase corporate value, including corporate acquisitions and capital investment to expand existing core businesses and build new businesses. Kao believes that stable and consistent shareholder returns are also important, and will place greater emphasis on increasing shareholder returns in allocating free cash flow after meeting the above capital requirements. The Company will therefore take internal funding levels under due consideration in working to meet a new target, starting from the current fiscal year, of a payout ratio of approximately 40% of consolidated net income. Moreover, Kao has made it a basic policy to work toward sustainable increases in dividends per share by increasing profits per share each year. In accordance with this policy, the Company will increase dividends for this interim period by 6 yen compared with the same interim period in the previous year to 25 yen per share. Assuming the achievement of profit forecasts for the full fiscal year, Kao plans to increase total dividends for the year by 12 yen compared with the previous year to 50 yen per share.

Kao may also use free cash flow to flexibly implement share repurchases as a means of improving capital efficiency and shareholder returns from a long-term perspective. Between April 1, 2005 and June 21, 2005, the Company repurchased 2 million shares at a cost of 5.0 billion yen, thus completing all the repurchases approved at the General Meeting of Shareholders held in June 2004 up to a maximum of 20 million shares at a total cost of 50.0 billion yen. As of September 30, 2005, the Company had not made any share repurchases approved at the General Meeting of Shareholders held in June 2005 up to a maximum of 20 million shares at a total cost of 50.0 billion yen due to increased capital demands, including the acquisition in July 2005 of a modern luxury goods company based in the United Kingdom.

3. Policy Concerning Number of Shares Constituting One Unit Share

Kao believes that the participation of a large number of investors in the market and sufficient liquidity of shares are necessary for appropriate stock prices to be set in the stock market. In terms of liquidity, Kao's shares ranked relatively highly among shares traded on the First Section of the Tokyo Stock Exchange during the interim period ended September 30, 2005. Kao has a total of approximately 44,000 shareholders, of which a large number – approximately 42,000 – are individual shareholders as of September 30, 2005. Under these circumstances, the Company will continue to consider reducing the number of shares constituting one unit share from a variety of

perspectives, including market trends, the timing of implementation of a system for issuing stock without certificates and the best interests of shareholders.

4. Management Metric Used as a Target

EVA (Economic Value Added),* which is used to measure true profit by factoring in the cost of invested capital, is Kao's principal management metric. Continuous growth in EVA is linked to increased 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 operating activity. Kao also uses this metric to determine the direction of long-term management strategies, for evaluating acquisitions and capital investment, for assessing 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

With consumer products, prestige cosmetics and chemical products positioned as its core business areas, Kao will emphasize research and development to make high-quality, innovative products geared to consumers and customers and to share joy with them. In addition, while further strengthening brand power with strategic, focused deployment of management resources in core businesses, the Company will also work to make further significant advances in new fields such as the health care (functional food) business, which Kao has built into a core business. Overseas, in the consumer products business in Asia, Kao has determined target brands in each country, and in the growing market of China has narrowed down the number of cities where it conducts business, while also making focused investments of management resources. In North America and Europe, Kao is pursuing business expansion by launching products that reflect new technology, primarily in the premium beauty care business. In the chemical products business, Kao is working to strengthen business in global markets with products including oleo chemicals and performance chemicals, and is focusing on further business expansion in the field of specialty chemicals, such as high-value-added aroma chemicals and information-related materials. The Company will carry out aggressive capital expenditures to achieve these ends.

Kao will broaden deployment of its research results and product development strengths and take measures to achieve synergies between existing businesses and new businesses through acquisitions and strategic business alliances. The Company expects operating efficiency gains and further cost reductions from the introduction of standardized business processes at its subsidiaries in Asia. With the implementation of similar measures in North America and Europe under way, Kao will build a global management system in the future. In addition, to be a competitive company that can achieve profitable growth, Kao expects to continue activities that maintain a good balance among its three major guidelines: The Kao Way, established in October 2004, which sets forth and expresses anew the essence of Kao's unique corporate culture and spirit; its basic business strategy, which describes the form the company plans to take over the medium- to long-term; and its policies regarding corporate social responsibility (CSR) activities.

6. Issues for Management

The operating environment is becoming increasingly challenging, and dramatic changes are expected. Under these conditions, Kao will take measures based on the primary theme of achieving profitable growth by increasing the added value of products. First, the Company will strengthen and expand market share in the domestic consumer products business through the launch of new

products with higher added value. Also, Kao will make strategic, focused investments of management resources to further strengthen brand power. In addition, Kao will develop and quickly build new businesses for further growth. Next, in order to accelerate the growth of the overseas consumer products business, Kao will work to reorganize operations in rapidly growing Asian countries by mobilizing the total capabilities of the Kao Group and learning from local markets and consumers. Another focus will be enhancing the global development of the chemical products business. Kao will make aggressive investments, including the construction of new plants, to expand and strengthen this business in Japan, Asia, North America and Europe.

7. Basic Position on Corporate Governance and its Implementation

Basic Position on Corporate Governance

The Company's basic position on corporate governance is to develop a managerial framework and internal control system that can take the necessary measures to realize highly efficient, sound and transparent management with the aim of continuously increasing corporate value. The Company considers corporate governance to be one of its most important managerial tasks.

Implementation of Corporate Governance

(1) The Company's Corporate Governance System and Measures for Its Enhancement

Directors, Board of Directors, Executive Officers and Committees

In its previous framework of Directors and Corporate Auditors, the Company introduced the Executive Officer system in June 2002. In its current management system, the Company has 15 Directors, including two Outside Directors and the Chairman of the Board of Directors without representative rights, and 20 Executive Officers, including 12 who serve concurrently as Directors. To enhance discussion at the meetings of the Board of Directors, its Secretariat provides efficient explanations to the Outside Directors in advance on matters including the background, purpose and content of proposals on the agenda of the meetings.

The Company is giving ongoing consideration as to whether it should become a "Company with three committees" as defined by the Commercial Code, as it believes this 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." The Compensation Advisory Committee consists of the Representative Directors, the Chairman of the Board and all Outside Directors. In this Committee, the Company's Representative Directors obtain opinions with respect to the compensation system and level of compensation for the Directors and Executive Officers. During the interim period ended September 30, 2005, a meeting of the Compensation Advisory Committee was held with the attendance of all committee members, who judged that the compensation system and level of compensation for Directors and Executive Officers are 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 examines the nominees prior to the election or re-election of the Chairman of the Board and/or the President and submits its evaluation of the nominees' qualifications to the Board of Directors. The current Chairman of the Board of Directors and President took office following the examination of this committee.

Corporate Auditors and Board of Corporate Auditors

Two of the Company's four Corporate Auditors are Outside Auditors, and two are full-time Corporate Auditors from the Company. No full-time staff is assigned to the Corporate Auditors or the Board of Corporate Auditors, but the members of administrative divisions such as legal and

compliance divisions provide support as needed. The auditing activities of Corporate Auditors include attendance at important meetings, visiting audits of factories, research laboratories and other facilities, interviews of business and administrative divisions, and investigations of domestic and overseas affiliates. In addition, Corporate Auditors regularize and conduct meetings such as quarterly opinion exchange meetings with Representative Directors; briefing sessions on audit plans and audit results with accounting auditors at the beginning of each fiscal year, the end of each interim period and end of each fiscal year; and biannual liaison conferences by Corporate Auditors of domestic subsidiaries and affiliates. Corporate Auditors also maintain close contact with the internal audit department and accounting auditors to exchange information and opinions as needed, with the aim of improving the effectiveness and efficiency of audits.

Accounting Auditors

The Company employs the accounting firm Tohmatsu & Co. to provide the services of accounting auditors in accordance with the Japanese Commercial Code and perform accounting audits in accordance with the Securities and Exchange Law. Neither the accounting firm nor any of its employees who perform said services have any special interests in the Company. The accounting firm voluntarily ensures that any of its employees who become involved in auditing the Company will not be involved in the audit for more than seven years. The Company and the accounting firm have entered into a contract for audits based on the Japanese Commercial Code and the Securities and Exchange Law.

Compensation to Executives

Regarding executive compensation for Directors, the Company has introduced a stock option plan for the purpose of tying executives' interests more closely to those of shareholders, clarified the performance-linked bonus system based on EVA, and ceased making new provisions to the reserve fund for retirement benefits for Directors and Corporate Auditors. For Corporate Auditors, the Company has ceased paying bonuses and the retirement fund, and instead pays a fixed sum within the limits approved at the General Meeting of Shareholders.

The compensation limits for executives and accounting auditors are 450 million yen per year for Directors and 85 million yen per year for Corporate Auditors.

Internal Audits

The Company has established the Corporate Audit Services Department, which is responsible for conducting internal audits on the appropriateness of business processes and the propriety and efficiency of management in the Company and its domestic and overseas affiliates. Currently there is a staff of 22 people, including those at Group companies, who work in close cooperation with audit staff specializing in matters such as environment and safety, quality assurance and export management, and with international audit task force staff at overseas subsidiaries and affiliates. In addition, major affiliates have voluntarily assigned accounting firms for their accounting audits.

Internal Control and Risk Management System

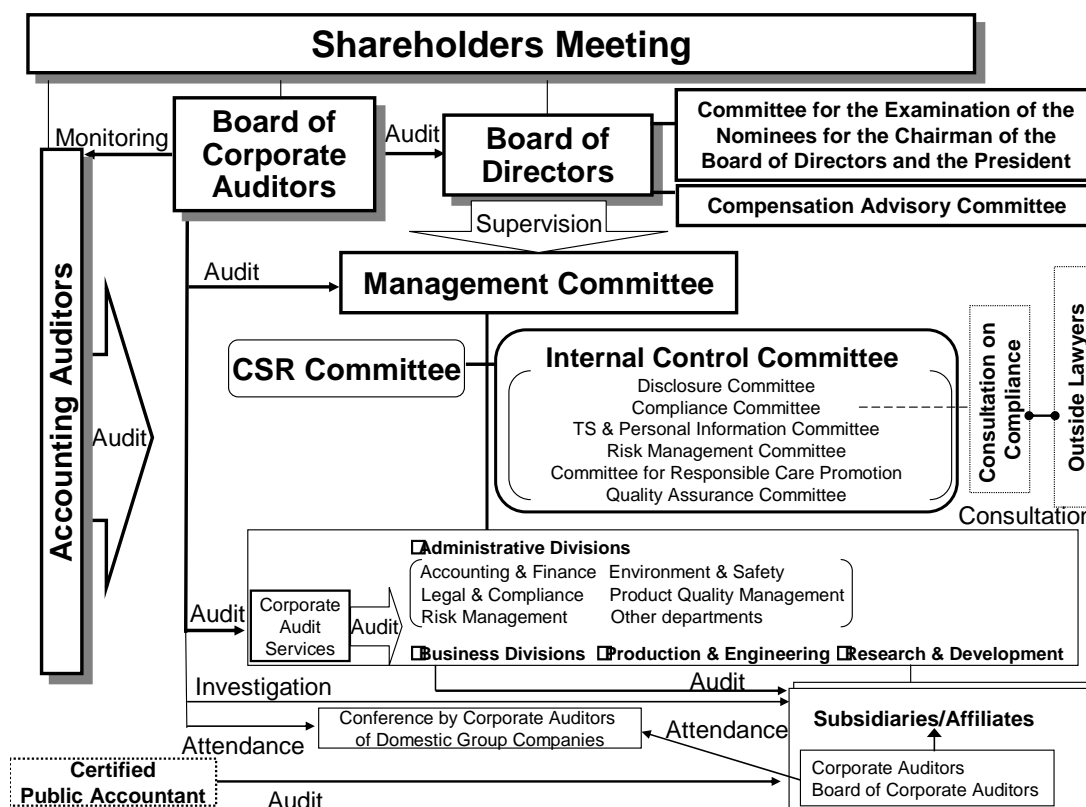
On September 1, 2005, Kao established an Internal Control Committee (Committee Chairman: President and CEO) as one of the administrative functions of the Management Committee, to hold discussions and make decisions on fundamental policy or operational planning of internal control, monitor the activities of relevant committees and confirm the effectiveness of internal control activities. The following committees have been placed under the Internal Control Committee.

- Disclosure Committee
- Compliance Committee
- Trade Secret (TS) & Personal Information Committee
- Risk Management Committee

- Committee for Responsible Care Promotion (works to safeguard the environment, disaster prevention and safety, and to improve communication with society)
- Quality Assurance Committee

With regard to the risk management system, among the various risks that occur throughout Kao's business activities in general, the related divisions analyze risks related to business strategies and consider countermeasures for them proactively. These risks are discussed at the Management Committee or the Board of Directors meeting as needed. Management of operational risks, centered on the Risk Management Office, is conducted cross-divisionally throughout the Kao Group. In addition, the Risk Management Committee, which is made up of related executives and employees, plans, implements and reports on risk management activities and promotes risk management through information exchange among related divisions.

The organization of the Company's operational and management supervision system, internal control system and risk management structure are shown in the diagram below.



Note: The Company also seeks advice as necessary from lawyers and other outside experts in regard to management and business operations for managerial decision-making.

(2) Summary of Interests between the Company and its Outside Directors and Outside Corporate Auditors

One of the Company's two Outside Directors, Mr. Akishige Okada, is an Advisor of Sumitomo Mitsui Banking Corporation. Regular banking transactions take place between the Company and Sumitomo Mitsui Banking Corporation. Ms. Sakie T. Fukushima is a Representative Director and Regional Managing Director – Japan of Korn/Ferry International. This company and its affiliates provide recruiting services to the Company. All of the aforementioned are routine transactions among such companies, and the outside Directors have no direct personal interest in the Company. It should be noted that Sumitomo Mitsui Banking Corporation, of which Outside Director Akishige Okada is an Advisor, holds a small number of shares of the Company's stock, and the Company holds a small number of shares of the stock of Sumitomo Mitsui Financial Group, which is the sole parent company of Sumitomo Mitsui Banking Corporation. However, each company holds less than 1% of the other's total outstanding shares, and has no influence on management.

There are no transactions between outside Corporate Auditors and the Company.

8. Parent-Company Issues

N/A

*Consolidated Business Results and Financial Condition***I. Interim Period Business Results****1. Summary of Interim Period Business Results****(1) Summary of Overall Interim Period Business Results**

In the interim period ended September 30, 2005, the Japanese economy recovered moderately, supported by private sector demand, including a gradual increase in consumer spending, improvement in corporate earnings and growth in capital investment. The global economy also recovered steadily, led by the United States and Asia. However, uncertainty remains about personal consumption in the future due to such factors as the effect of persistently high crude oil prices on the domestic and foreign economies and debate over fixed-rate tax reductions in Japan. In this environment, the Kao Group promoted adding value to products in order to stimulate the market.

Net sales rose 14.0 billion yen to 483.0 billion yen, a 3.0% increase over the same period in the previous fiscal year. Excluding the currency translation effect of negative 0.3 billion yen on overseas sales due to the weaker yen, net sales increased 2.9%.

Sales in Japan rose by 1.6%. In the consumer products business, sales prices continued to decline, albeit gradually, as a result of competition, but Kao expanded sales by launching new high-value-added products and nurturing them with aggressive marketing. In the chemical products business, sales grew steadily due to expanding sales of newly developed products.

Overseas, sales were flat for the consumer products business in Asia, which is currently undergoing structural reforms and integration with Japan, while the consumer products business in North America and Europe and the chemical products business grew briskly, resulting in an 8.0% increase in overseas sales.

Cost of sales increased 6.0% to 210.7 billion yen from 198.8 billion yen in the same period of the previous fiscal year. As a percentage of net sales, cost of sales increased 1.2 percentage points to 43.6%. Market launches of new high-value-added products and a continuing focus on cost-cutting activities could not cover lower market prices and higher prices of raw materials such as petrochemicals.

Selling, general and administrative (SG&A) expenses increased 0.8%, or 1.5 billion yen, from the same period in the previous fiscal year to 209.3 billion yen. The increased expenses were used to launch new products, nurture existing ones and strengthen in-store marketing.

As a result of the above factors, operating income rose 1.0%, or 0.6 billion yen, from the same period in the previous fiscal year to 63.0 billion yen.

In non-operating income and expenses, net non-operating income decreased to 0.5 billion yen from 2.1 billion yen, principally due to a loss in equity in earnings of nonconsolidated subsidiaries and affiliates compared with a gain in the same period of the previous fiscal year.

As a result, ordinary income decreased 0.9 billion yen from the same period in the previous fiscal year to 63.6 billion yen,

Extraordinary gain and loss totaled a net loss of 1.1 billion yen, virtually unchanged from the same

period of the previous fiscal year. Consequently, income before income taxes and minority interests decreased 1.1 billion yen from the same period in the previous fiscal year to 62.4 billion yen.

The effective tax rate after application of tax effect accounting decreased from 40.0% in the same period of the previous fiscal year to 37.4% due to factors including a decrease in losses of subsidiaries and differences in tax rates at overseas subsidiaries, and net income was 38.4 billion yen, an increase of 0.7 billion yen over the same period in the previous fiscal year. Net income per share was 70.75 yen, an increase of 3.3% from 68.51 yen in the same period of the previous fiscal year.

Because the Company achieved its expected profit targets, it will pay its planned interim cash dividend of 25 yen per share, an increase of 6 yen per share.

EVA increased steadily with the rise in profit.

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 106.80 yen, one euro to 136.43 yen and one New Taiwan dollar to 3.39 yen.

(2) Summary of Results by Business Segment

Consumer Products Business

Net sales of consumer products were 353.1 billion yen, a 1.9% increase over the same period in the previous fiscal year. Sales in Japan increased 1.4% over the previous interim period. Overseas sales also increased, primarily in North America. Operating income was affected by lower market prices in Japan and higher raw material prices worldwide, resulting in a decrease of 0.4 billion yen from the previous interim period to 47.3 billion yen.

● Japan

The trend of declining prices in the market moderated but continued, and average consumer purchase prices of major products fell by around one percentage point compared with the same period of the previous fiscal year. By sales channel, sales at drugstores continued to expand. In these circumstances, the Kao Group worked to expand market share by further strengthening core brands and by launching and nurturing new products. It also worked to stimulate the market by aggressively carrying out integrated marketing and sales activities for each chain and area. As declining market prices and rising raw material prices pressured profits, the Kao Group worked to increase sales volume, reduce costs and deploy expenditures more efficiently.

Sales Composition of Consumer Products

Six months ended September 30	Billions of yen		
	2005	2004	% change
Personal Care	95.8	91.6	4.7
Fabric and Home Care	120.6	118.4	1.8
Feminine Care, Baby Care and Others	57.8	60.6	(4.6)
Total	274.4	270.7	1.4

In the market for personal care products, competition further increased amid a lack of growth in sales volume.

In the shampoo and conditioner category, sales increased due to the addition of new treatment products to the premium brand *Asience* in response to diversifying consumer needs. For body cleansers, although competitors accelerated new product launches, consumer support for continuing *Bioré U* offerings with a mildly acidic formula that matches skin pH, as well as a favorable response

to a new hand soap, led to sales growth.

As a result, sales of personal care products increased 4.7% compared with the same period in the previous fiscal year.

Principal new products:

Asience Hair Beautifying Mist and *Hair Beautifying Lotion* leave-in treatments

Liese Supply hairstyling products

The fabric and home care products market contracted in the persistent deflationary environment, while market competition continued to intensify.

Under these conditions, the Kao Group worked to raise the value of core brands. Sales grew in the laundry detergent category with the introduction of an improved version of *Attack* liquid laundry detergent and the launch of *New Beads with Fabric Softener* laundry detergent. Sales in the laundry finishing category were flat due to the effect of lower prices, despite the launch of new and improved bleaches, starches and fabric softeners. However, the launches of *Resesh* fabric freshener with a deodorizing ingredient extracted from green tea leaves and *Quickle Wiper Wax Coat Sheet* for easy floor waxing gained consumer support, achieving strong sales while expanding the market.

As a result of the above, sales of fabric and home care products increased 1.8% compared with the same period of the previous fiscal year.

Principal new products:

Resesh fabric freshener

Family Kyukyutto with Citric Acid dishwashing detergent

In the area of feminine care, baby care and other products, Kao continued to make product improvements in the disposable baby diaper category to enhance basic product performance and raise brand value. As a result, amid the continuing trend toward lower market prices, sales were higher than in the interim period of the previous fiscal year. Sales of feminine care products increased as *Laurier F* sanitary napkins gained steady consumer support and *Laurier Kirei Style* panty liners stimulated the market. Sales of *Relief* adult incontinence products continued to increase as the market expanded.

In the health care (functional food) category, Kao responded to increasing health consciousness among consumers with efforts to increase the number of regular users. Sales of products in the *Econa Healthy* line, which maintains a high share of the market for healthy cooking oil, were flat as market penetration progressed. However, although an oolong tea version was added to the lineup of *Healthya* tea products, overall sales declined with the consolidation into a group of loyal drinkers following the cooling off of the boom in popularity of catechins.

As a result, sales of feminine care, baby care and other products decreased 4.6% compared with the same period of the previous fiscal year.

Principal new products:

Laurier Kirei Style panty liners

Healthya Oolong Tea

● Asia

In Asian markets, consumer values are changing, competition continues to intensify and sales are

becoming increasingly concentrated at large chain stores. In these conditions, the Kao Group is focusing its management resources on core brands. In addition, the Kao Group is working toward building a unified management structure that encompasses all of Asia, including Japan. In China, where Kao has been restructuring for the past few years, these efforts began to show results and sales rose. Sales of hair care products were flat throughout Asia, but sales of skin care, fabric and home care and feminine care products were solid. In Thailand, a newly constructed factory commenced operations.

As a result, sales in Asia increased 0.2%, virtually flat compared with the same period of the previous fiscal year.

- North America and Europe

Amid intensifying competition in the markets of North America and Europe, the Kao Group specialized in personal care products and worked to establish products with high added value. Kao Brands Company in the U.S. launched *natural glow* under the *Jergens* skin care brand. Sales of this product, which gradually gives skin a healthy tan color while moisturizing, grew strongly. Although competition in the area of hair care products for different hair colors increased, *John Frieda Radiant Red*, a new product for maintaining the beauty of red hair, performed well. KPSS — Kao Professional Salon Services GmbH aggressively launched new products, but sales were flat.

As a result, sales in North America and Europe during the interim period increased by 5.6% from the same period in the previous fiscal year.

Prestige Cosmetics Business

The Japanese cosmetics market continues its overall contraction. Under these conditions, the Kao Group worked to strengthen products that respond to changes in consumer purchasing attitudes and behavior and sales channels. In department stores, Kao conducted activities to further reinforce the *est* brand, and in the supermarket and drugstore channels the Company enhanced counseling for *Alblanc*, which was launched in fall 2004. Under the *Sofina* brand, Kao launched *Sofina Pore Zone Care Essence* and *Very Very Pore Clean Perfect Mousse* skin beautifying essence. Overseas, in July 2005 Kao acquired Molton Brown Limited of the United Kingdom, a prestige cosmetics company. The acquisition is expected to generate synergies by making the most of both companies' strengths and to accelerate the global development of the cosmetics business. Molton Brown Limited will be reflected in consolidated results starting from the second half of the fiscal year.

As a result, sales of prestige cosmetics were essentially flat, declining 0.1% from the same period of the previous fiscal year to 39.3 billion yen, and operating income decreased 0.4 billion yen to 3.8 billion yen.

Principal new products:

est Whitening Esthetic facial pack

Alblanc Medicated Bright Create Massage special care essence

Sofina Pore Zone Care Essence skin beautifying essence

Chemical Products Business

In Japan, although the market continued on a recovery path, with improved corporate earnings and increased capital investment, the impact of high crude oil prices on the global economy, including that of the U.S., is a cause for concern. In this environment, Kao worked to expand its business in the core fields of oleo chemicals, performance chemicals and specialty chemicals. As a result, sales totaled 103.8 billion yen, an increase of 7.5% compared to the same period of the previous fiscal year (excluding the effect of currency translation, the increase was 7.1%). Operating income increased 1.4

billion yen from the same period in the previous fiscal year to 11.7 billion yen due to growth in sales volume of high-value-added products and cost reductions, which offset the effects of a sharp increase in the cost of petrochemical raw materials.

- Japan

In the oleo chemical and performance chemicals businesses, sales of existing products were weak, while sales of newly developed products that meet diverse needs in various fields of customers industries grew. In the specialty chemicals business, which handles products such as toner, toner binder and pigment auxiliary for color inkjet printer ink, sales continued to grow smoothly due to customer support for product features and development of production facilities in response to demand.

As a result, overall sales increased by 3.7% compared with the same period in the previous fiscal year.

- Asia

Sales of fatty alcohols produced in Malaysia and the Philippines grew as a result of a reputation for stable supply and high-quality products, as well as global sales expansion efforts. Sales of surfactants also grew strongly in the ASEAN region, particularly in Thailand.

As a result, sales in Asia increased by 9.1% over the same period in the previous fiscal year.

- North America and Europe

The U.S. toner and toner binder business, which undertook investments to enhance production capacity, increased sales and further strengthened Kao's global business infrastructure in Japan, North America and Europe. In Germany, sales of high-performance concrete additives increased.

As a result, overall sales increased by 13.9% compared with the same period in the previous fiscal year.

2. Forecast for the Fiscal Year Ending March 31, 2006

(1) Forecast of Results for the Fiscal Year

In the Japanese economy, corporate earnings are improving, capital investment is expanding and private sector demand is expected to fuel growth. However, in employment and consumer spending, although the recovery trend continues, the situation remains challenging, and any rise in consumer prices is expected to be limited to petrochemical-related products. In Kao's industry, severe competition is continuing, as demand shows no overall growth in terms of volume and trends downward in terms of value. In addition, great uncertainty will likely persist despite firm growth in the global economy centered on the United States and Asia.

Under these conditions, the Kao Group aims to achieve profitable growth by raising the value of its products. In the consumer products business, it will strengthen its product development capabilities, the starting point of manufacturing, and will focus its management resources on aggressive marketing and sales promotion activities to strengthen core brands. Through these measures, Kao will work to stimulate the domestic market and expand sales. In the growing Asian market, Kao will take a long-term point of view, building a unified management structure that encompasses all of Asia, including Japan, and introducing new brands in certain countries to stimulate the market. In the consumer products business in North America and Europe, Kao Brands Company will nurture the *John Frieda* brand and its many other premium brands. In the prestige cosmetics business, to respond to changes in sales channels, Kao will work to reinforce its business foundation and further raise

brand value through measures such as introducing distinctive new products. Molton Brown Limited, which Kao acquired in July, will be added to consolidated results from the second half of the fiscal year. In the chemical products business, Kao will focus on expanding sales of products with unique features and newly developed products in Japan. Overseas, Kao will increase sales of fatty alcohols, toner and toner binder products for copiers and printers, aroma chemicals and other specialty chemicals while continuing to make aggressive capital investments.

As a result, Kao has revised upward by 5 billion yen its initial forecast for net sales, which are forecast to increase 3.0%, or 28.1 billion yen, to 965.0 billion yen. Operating income is expected to rise 3.0% to 125.0 billion yen, ordinary income is expected to rise 0.5% to 126.0 billion yen, and net income is forecast to increase 2.5% to 74.0 billion yen, each of which is unchanged from the previous forecast. The Company anticipates an increase in prices of raw materials. Therefore, it will make efforts to secure stable profits by increasing sales volume and 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 25 yen per share. Combined with the interim dividend, this will bring total dividends for the year to 50 yen per share, an increase of 12 yen over the previous fiscal year.

Kao will continue working to improve EVA, a key indicator for maximizing corporate value, by increasing profits and improving capital efficiency.

(2) Underlying Assumptions of the Forecast for the Fiscal Year Ending March 31, 2006

The above forecast was made assuming translation rates of one U.S. dollar to 110.0 yen, one euro to 136.0 yen, and one New Taiwan dollar to 3.4 yen.

II. Financial Condition

1. Summarized Financial Condition (Unaudited)

	Billions of Yen			Millions of U.S. Dollars
	September 2005	March 2005	Incr./ (Dcr.)	September 2005
Total assets	726.3	688.9	37.3	6,417.0
Total shareholders' equity	479.2	448.2	31.0	4,234.3
Shareholders' equity/total assets	66.0%	65.1%	-	66.0%
Shareholders' equity per share (yen)	880.98	821.47	59.51	7.78

2. Summarized Consolidated Cash Flows (Unaudited)

	Billions of Yen			Millions of U.S. Dollars
	2005	2004	Incr./ (Dcr.)	2005
Six months ended September 30				
Net cash provided by operating activities	64.6	59.1	5.5	571.6
Net cash used in investing activities	45.1	(31.0)	(14.1)	(398.9)
Net cash used in financing activities	15.4	(48.4)	33.0	(136.2)
Translation adjustments	1.0	(0.8)	1.9	9.3
Net increase (decrease)	5.1	(21.2)	26.4	45.9
Cash and cash equivalents, end of term	75.5	85.9	(10.3)	667.1
Total debt	22.2	29.1	(6.8)	196.6

Total assets increased 37.3 billion yen compared with the previous fiscal year-end to 726.3 billion yen, primarily due to a 22.1 billion yen increase in cash and cash equivalents. Total inventory increased by 7.3 billion yen, mainly due to higher raw material prices and a provisional inventory increase for new

and improved products. Total property, plant and equipment and other tangible fixed assets increased by 1.6 billion yen. Factors included capital expenditures for expansion of production capacity and streamlining in Japan and overseas. Intangible fixed assets increased 26.3 billion yen, primarily due to the acquisition of Molton Brown Limited. Marketable securities and investment securities decreased by a total of 21.6 billion yen, as they were used to cover the capital expenditures and acquisition discussed above.

Total liabilities increased 6.2 billion yen compared with the previous fiscal year-end to 239.5 billion yen. Liability for employee retirement benefits decreased by 6.5 billion yen as a result of a cash contribution to the corporate pension fund. However, due to the expansion of operations and higher costs, notes and accounts payable increased 5.1 billion yen, while accrued expenses increased 4.0 billion yen.

Minority interests increased by 0.1 billion yen compared with the previous fiscal year-end to 7.5 billion yen.

Shareholders' equity increased 31.0 billion yen compared with the previous fiscal year-end to 479.2 billion yen. Main factors increasing shareholders' equity were net income of 38.4 billion yen and conversion of convertible bonds in the amount of 1.5 billion yen. Main factors decreasing shareholders' equity included payment of cash dividends totaling 10.3 billion yen and 5.5 billion yen used for repurchase of shares. As a result, the shareholders' equity ratio increased from 65.1% at the previous fiscal year-end to 66.0%

Net cash provided by operating activities increased 5.5 billion yen compared with the same period of the previous fiscal year to 64.6 billion yen. Income before income taxes and minority interests for the interim period was 62.4 billion yen and depreciation and amortization was 27.6 billion yen. Income taxes paid totaled 20.6 billion yen, and other factors decreasing cash flow included a 6.5 billion yen decrease in liability for employee retirement benefits due to a cash contribution to the corporate pension fund.

Net cash used in investing activities increased 14.1 billion yen compared with the same period of the previous fiscal year to 45.1 billion yen. This includes expenditures of 23.5 billion yen for purchase of property, plant and equipment and intangible assets and 31.6 billion yen for the acquisition of Molton Brown Limited, while proceeds from the redemption and sale of marketable securities and investment securities totaled 14.0 billion yen.

Net cash used in financing activities decreased 33.0 billion yen compared with the same period of the previous fiscal year to 15.4 billion yen. This includes payments of cash dividends totaling 10.9 billion yen and purchase of treasury stock.

As a result of these activities, the balance of cash and cash equivalents at the end of the interim period was 75.5 billion yen, an increase of 5.1 billion yen from the end of the previous fiscal year.

3. Forecast for the Fiscal Year Ending March 31, 2006

In net cash provided by operating activities, income before income taxes and minority interests is expected to increase slightly from the previous fiscal year despite a severe operating environment. Depreciation and amortization is projected to be 57.0 billion yen.

Net cash used in investing activities, is projected to increase compared with the previous fiscal year due to planned capital expenditures to increase production capacity and promote streamlining in Japan and overseas, and the acquisition of Molton Brown Limited.

In net cash used in financing activities, a proposal to purchase the Company's stock, up to a maximum of 20 million shares and an acquisition cost of 50.0 billion yen, was approved at the General Meeting of Shareholders held on June 29, 2005. 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. The Company acquired Molton Brown Limited in July 2005 and is considering the repurchase of its own shares, taking into account capital demands and other factors. In addition, Kao plans to increase the interim cash dividend by 6 yen per share compared with the previous fiscal year-end dividend. Interest-bearing debt is projected to be approximately 20.0 billion yen at the end of the fiscal year.

As a result of the above, the balance of cash and cash equivalents as of March 31, 2006, excluding the repurchase of the Company's stock, is forecast to increase from the previous fiscal year-end to approximately 90.0 billion yen.

4. Cash Flow Indices

	Six months ended	Year ended March 31			
	September 30, 2005	2005	2004	2003	2002
Shareholders' equity/Total assets (%)	66.0	65.1	59.1	57.9	59.5
Market capitalization/Total assets (%)	209.3	195.2	179.8	186.0	186.0
Interest-bearing debt/Operating cash flow (years)	-	0.3	0.5	0.4	0.5
Operating cash flow/Interest paid (times)	139.1		120.1	91.3	85.8
	72.2				

Notes:

- All indices are computed based on consolidated data.
- 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).
- 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. Interest paid is stated in the consolidated statements of cash flows.
- Interest-bearing debt/Operating cash flow is not calculated for the interim period.

III. Business and Other Risks

Corporations assume various risks in executing business. The Kao Group takes reasonable measures to reduce risk by eliminating exposure to, dispersing and hedging risks. Management of operational risks, centered on the Risk Management Office, is conducted cross-divisionally throughout the Kao Group. However, unanticipated situations may occur that exert a significant impact on the Kao Group's business results and financial condition.

For example, (1) in quality management, the Kao Group designs and manufactures products from the viewpoint of customers, in compliance with related laws and regulations and in accordance with internationally recognized quality management standards. In the development stage prior to market launch, the Kao Group conducts thorough safety testing and survey research to ensure excellent product quality. After market launch, the Kao Group works to further improve quality by incorporating opinions and demands regarding products through its customer consultation offices. However, the unforeseen occurrence of a serious quality problem would not only cause difficulties for the relevant brand, but would also have a major impact on the reputation of all the Kao Group's products, and might cause sales to decline. This could have a major effect on the Kao Group's business results and financial condition.

In addition, (2) there is believed to be a high probability that a major earthquake will occur in Japan in

the Tokai region, in the ocean southeast of Tokyo, or directly under the Kanto region. The Kao Group has implemented various countermeasures, including earthquake resistance diagnosis and seismic retrofitting at all of its production facilities, particularly the Toyohashi Plant, Wakayama Plant, Kawasaki Plant and Tokyo Plant, which are in these regions. In spite of these measures, however, in the event of a major earthquake, the Kao Group's ability to secure raw materials, maintain continuity of production and supply of products to the market may be disrupted, which could have a significant impact on the Kao Group's business results and financial condition.

Furthermore, (3) foreign currency-denominated transactions, including export and import trade transactions and non-trade transactions such as dividends, are affected by changes in currency exchange rates. The Kao Group hedges foreign exchange risk through various measures such as settlement of transactions through foreign currency accounts, foreign exchange contracts and currency swaps to mitigate the effect on business results. The Kao Group does not engage in derivative transactions for the purpose of speculation. However, items denominated in local currencies, including the sales, expenses and assets of overseas subsidiaries, are translated into Japanese yen for preparation of the consolidated financial statements. If the exchange rate at the time of conversion differs substantially from the expected rate, the value after translation into yen will change significantly, which will affect the Kao Group's business results and financial condition.

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Consolidated Balance Sheets

Millions of yen

	1H/FY2005 Sep 30, 2005	Composition %	FY2004 Mar 31, 2005	Composition %	1H/FY2004 Sep 30, 2004	Composition %
Assets						
Current assets	304,782	42.0	289,180	42.0	299,100	42.0
Cash and time deposits	54,141		32,026		53,457	
Notes and accounts receivable - trade	105,947		103,586		101,833	
Short-term investments	24,370		40,383		38,563	
Inventories	89,151		81,781		79,022	
Deferred income taxes	14,045		14,559		13,281	
Other	19,098		18,985		14,753	
Allowance for doubtful receivables	(1,972)		(2,141)		(1,811)	
Fixed assets	421,437	58.0	399,662	58.0	413,739	58.0
Tangible assets	261,833	36.0	260,223	37.8	264,676	37.1
Buildings and structures	89,996		89,916		91,731	
Machinery, equipment and vehicles	80,869		80,144		82,369	
Tools, furniture and fixtures	10,819		9,239		8,670	
Land	62,063		62,523		63,564	
Construction in progress	18,083		18,400		18,340	
Intangible assets	112,580	15.5	86,222	12.5	93,827	13.2
Goodwill	57,246		26,010		29,045	
Trademarks	40,723		44,348		47,900	
Other	14,610		15,863		16,881	
Investments and other assets	47,023	6.5	53,217	7.7	55,235	7.7
Investment securities	16,811		22,437		22,880	
Long-term loans	285		275		627	
Deferred income taxes	14,680		16,924		18,212	
Other	15,420		13,788		13,724	
Allowance for doubtful receivables	(173)		(209)		(210)	
Deferred assets	121	0.0	130	0.0	79	0.0
Total assets	726,341	100.0	688,973	100.0	712,918	100.0
Liabilities						
Current liabilities	221,660	30.5	211,541	30.7	219,244	30.8
Notes and accounts payable - trade	76,192		70,993		74,460	
Short-term debt	19,739		18,604		19,720	
Current portion of convertible bonds	1,068		2,596		-	
Current portion of long-term debt	711		91		85	
Accounts payable - other	20,017		19,139		21,725	
Accrued expenses	67,330		63,233		65,382	
Accrued income taxes	20,087		19,665		21,262	
Other	16,512		17,217		16,607	
Long-term liabilities	17,862	2.5	21,768	3.1	35,962	5.0
Convertible bonds	-		-		7,874	
Long-term debt	735		1,426		1,423	
Liability for employee retirement benefits	3,677		10,211		16,857	
Liability for director and corporate auditor retirement benefits	180		180		180	
Other	13,269		9,950		9,627	
Total liabilities	239,522	33.0	233,310	33.8	255,207	35.8
Minority interests	7,533	1.0	7,413	1.1	7,692	1.1
Common stock	85,424	11.8	85,424	12.4	85,424	12.0
Capital surplus	109,561	15.1	109,561	15.9	109,561	15.3
Retained earnings	327,872	45.1	299,345	43.5	344,310	48.3
Unrealized gain on available-for-sale securities	4,850	0.7	3,533	0.5	3,438	0.5
Foreign currency translation adjustments	(36,041)	(5.0)	(39,765)	(5.8)	(39,091)	(5.5)
Treasury stock, at cost	(12,381)	(1.7)	(9,850)	(1.4)	(53,624)	(7.5)
Shareholders' equity	479,285	66.0	448,249	65.1	450,018	63.1
Total liabilities, minority interests & shareholders' equity	726,341	100.0	688,973	100.0	712,918	100.0

Consolidated Statements of Income

Millions of yen

	1H/FY2005 Apr - Sep 2005	% to net sales	1H/FY2004 Apr - Sep 2004	% to net sales	FY2004 Apr '04 - Mar '05	% to net sales
Net sales	483,098	100.0	469,039	100.0	936,851	100.0
Cost of sales	210,722	43.6	198,854	42.4	404,803	43.2
Gross profit	272,376	56.4	270,185	57.6	532,047	56.8
Selling, general and administrative expenses	209,305	43.3	207,721	44.3	410,668	43.8
Operating income	63,070	13.1	62,464	13.3	121,379	13.0
Non-operating income	1,970	0.4	2,960	0.7	5,709	0.6
Interest income	453		335		701	
Dividend income	63		102		201	
Equity in earnings of nonconsolidated subsidiaries and affiliates	-		1,018		1,216	
Foreign currency exchange gain	-		47		591	
Other	1,453		1,456		2,997	
Non-operating expenses	1,402	0.3	803	0.2	1,743	0.2
Interest expense	469		475		933	
Equity in loss of nonconsolidated subsidiaries and affiliates	173		-		-	
Foreign currency exchange loss	504		-		-	
Other	254		328		809	
Ordinary income	63,638	13.2	64,620	13.8	125,345	13.4
Extraordinary profit	290	0.0	664	0.1	1,613	0.2
Gain on sales of fixed assets	161		205		353	
Gain on sales of investment securities	74		308		1,183	
Other	55		150		76	
Extraordinary loss	1,442	0.3	1,677	0.3	7,305	0.8
Loss on sales or disposal of fixed assets	1,009		1,339		4,043	
Other	432		337		3,261	
Income before income taxes and minority interests	62,486	12.9	63,607	13.6	119,653	12.8
Income taxes - current	20,539	4.2	21,705	4.6	42,845	4.6
Income taxes - deferred	2,831	0.6	3,708	0.8	4,272	0.5
Minority interests in earnings of consolidated subsidiaries	628	0.1	433	0.1	355	0.0
Net income	38,486	8.0	37,761	8.1	72,180	7.7

Consolidated Statements of Retained Earnings

Millions of yen

	1H/FY2005 <u>Apr - Sep 2005</u>	1H/FY2004 <u>Apr - Sep 2004</u>	FY2004 <u>Apr '04 - Mar '05</u>
Capital surplus			
Balance at the beginning of period	109,561	108,888	108,888
Increase in capital surplus	-	672	672
Share-for-share exchange	-	672	672
Balance at the end of period	109,561	109,561	109,561
Retained earnings			
Retained earnings at the beginning of period	299,345	399,889	399,889
Increase in retained earnings	40,334	37,761	72,222
Net Income	38,486	37,761	72,180
Increase by newly consolidated companies and affiliates accounted for the equity method	1,847	-	42
Decrease in retained earnings	11,808	93,340	172,766
Cash dividends paid	10,354	8,747	19,269
Bonuses paid to directors and corporate auditors	91	122	122
Retirement of treasury stock	-	63,750	127,775
Loss on disposal of treasury stock	1,361	20,719	25,598
Balance at the end of period	327,872	344,310	299,345

Consolidated Statements of Cash Flows

Millions of yen

	1H/FY2005 Apr - Sep 2005	1H/FY2004 Apr - Sep 2004	FY2004 Apr '04 - Mar '05
Operating activities:			
Income before income taxes and minority interests	62,486	63,607	119,653
Adjustments for:			
Depreciation and amortization	27,640	27,239	56,793
Loss on sales or disposals of property, plant and equipment, net	848	1,133	3,689
Interest and dividend income	(516)	(437)	(903)
Interest expense	469	475	933
Unrealized foreign currency exchange loss	861	236	(239)
Equity in (earnings) losses of nonconsolidated subsidiaries and affiliates	173	(1,018)	(1,216)
Change in trade receivables	(602)	(4,310)	(5,922)
Change in inventories	(5,277)	(7,468)	(9,781)
Change in trade payables	4,019	5,742	2,636
Change in liability for retirement benefits	(6,585)	(6,265)	(13,009)
Other, net	396	(7)	(1,487)
Sub-total	83,916	78,928	151,146
Interest and cash dividends received	1,856	630	1,956
Interest paid	(465)	(460)	(912)
Income taxes paid	(20,611)	(19,967)	(42,623)
Net cash provided by operating activities	64,695	59,130	109,567
Investing activities:			
Purchase of marketable securities	(2,999)	(5,999)	(11,999)
Proceeds from the redemption of marketable securities	6,000	3,057	9,171
Purchase of property, plant and equipment	(22,216)	(26,669)	(50,771)
Proceeds from sales of property, plant and equipment	664	546	2,434
Increase in intangible assets	(1,380)	(2,812)	(3,979)
Purchase of investment securities	(17)	(13)	(26)
Redemption and sales of investment securities	8,031	496	1,691
Payments for purchase of newly consolidated subsidiaries, net of cash acquired	(31,656)	-	-
# Payments for long-term loans	(428)	(600)	(1,131)
# Other, net	(1,144)	964	201
Net cash used in investing activities	(45,146)	(31,030)	(54,407)
Financing activities:			
Change in short-term debt	813	2,249	402
Proceeds from long-term loans	85	-	78
Repayments of long-term loans	(122)	(32)	(172)
Proceeds from capital contribution from minority shareholders	-	162	837
Purchase of treasury stock	(5,517)	(41,089)	(71,632)
Payments of cash dividends	(10,354)	(8,739)	(19,259)
Payments of cash dividends to minority shareholders	(590)	(1,332)	(1,332)
Other, net	273	285	420
Net cash used in financing activities	(15,413)	(48,496)	(90,657)
Transition adjustments on cash and cash equivalents	1,055	(848)	(1,246)
Net increase (decrease) in cash and cash equivalents	5,190	(21,243)	(36,742)
Cash and cash equivalents, beginning of year	70,409	107,151	107,151
Increase in cash and cash equivalents due to newly consolidated subsidiaries	760	-	0
Decrease in cash and cash equivalents due to exclusion of previously consolidated subsidiaries	(848)	-	-
Cash and cash equivalents, end of year	75,511	85,907	70,409

Consolidated Segment Information by Business

Millions of yen

1H/FY2005

Apr - Sep 2005

	Consumer Products	Prestige Cosmetics	Chemical Products	Total	Corporate/ Eliminations	Consolidated
Net sales						
Sales to customers	353,102	39,307	90,688	483,098	-	483,098
Intersegment sales	-	-	13,153	13,153	(13,153)	-
Total	353,102	39,307	103,842	496,251	(13,153)	483,098
Operating expense	305,771	35,429	92,134	433,336	(13,309)	420,027
Operating income	47,330	3,877	11,707	62,915	155	63,070
% to sales	13.4	9.9	11.3	12.7	-	13.1
Assets	432,228	69,482	172,514	674,225	52,115	726,341
Depreciation and amortization	20,712	1,322	5,606	27,640	-	27,640
Capital expenditure	11,640	3,335	8,637	23,614	-	23,614

1H/FY2004

Apr - Sep 2004

	Consumer Products	Prestige Cosmetics	Chemical Products	Total	Corporate/ Eliminations	Consolidated
Net sales						
Sales to customers	346,586	39,339	83,113	469,039	-	469,039
Intersegment sales	-	-	13,478	13,478	(13,478)	-
Total	346,586	39,339	96,591	482,518	(13,478)	469,039
Operating expenses	298,828	34,991	86,332	420,152	(13,577)	406,575
Operating income	47,758	4,348	10,259	62,365	98	62,464
% to sales	13.8	11.1	10.6	12.9	-	13.3
Assets	449,966	28,397	157,197	635,561	77,357	712,918
Depreciation and amortization	20,958	1,239	5,199	27,397	(158)	27,239
Capital expenditure	20,389	1,682	7,531	29,603	-	29,603

FY2004

Apr '04 - Mar '05

	Consumer Products	Prestige Cosmetics	Chemical Products	Total	Corporate/ Eliminations	Consolidated
Net sales						
Sales to customers	690,006	78,294	168,550	936,851	-	936,851
Intersegment sales	-	-	28,439	28,439	(28,439)	-
Total	690,006	78,294	196,989	965,290	(28,439)	936,851
Operating expenses	597,408	70,601	176,326	844,336	(28,864)	815,471
Operating income	92,597	7,693	20,663	120,954	425	121,379
% to sales	13.4	9.8	10.5	12.5	-	13.0
Assets	434,007	31,653	164,838	630,500	58,473	688,973
Depreciation and amortization	43,610	2,646	10,848	57,105	(311)	56,793
Loss on impairment of long-lived assets	2,508	-	-	2,508	-	2,508
Capital expenditure	34,745	3,572	16,000	54,317	-	54,317

Consolidated Segment Information by Geography

Millions of yen

1H/FY2005

Apr - Sep 2005

	Japan	Asia/Oceania	North America	Europe	Total	Corporate/ Eliminations	Consolidated
Net sales							
Sales to customers	353,687	40,169	45,047	44,193	483,098	-	483,098
Intersegment sales	5,008	12,541	1,054	5,453	24,057	(24,057)	-
Total	358,695	52,710	46,102	49,646	507,155	(24,057)	483,098
Operating expenses	303,782	49,106	43,370	47,112	443,371	(23,344)	420,027
Operating income	54,913	3,604	2,731	2,534	63,784	(713)	63,070
% to sales	15.3	6.8	5.9	5.1	12.6	-	13.1
Assets	428,281	93,990	69,043	121,067	712,382	13,958	726,341

1H/FY2004

Apr - Sep 2004

	Japan	Asia/Oceania	North America	Europe	Total	Corporate/ Eliminations	Consolidated
Net sales							
Sales to customers	347,879	39,156	40,161	41,842	469,039	-	469,039
Intersegment sales	5,096	11,159	796	4,382	21,433	(21,433)	-
Total	352,975	50,315	40,957	46,225	490,473	(21,433)	469,039
Operating expenses	297,046	48,787	38,253	43,915	428,003	(21,428)	406,575
Operating income	55,929	1,527	2,703	2,309	62,469	(5)	62,464
% to sales	15.8	3.0	6.6	5.0	12.7	-	13.3
Assets	428,139	87,798	61,670	80,305	657,914	55,004	712,918

FY2004

Apr '04 - Mar '05

	Japan	Asia/Oceania	North America	Europe	Total	Corporate/ Eliminations	Consolidated
Net sales							
Sales to customers	693,017	77,458	82,408	83,967	936,851	-	936,851
Intersegment sales	10,067	22,823	1,230	9,836	43,958	(43,958)	-
Total	703,084	100,282	83,638	93,803	980,809	(43,958)	936,851
Operating expenses	595,600	97,525	77,183	89,207	859,517	(44,045)	815,471
Operating income	107,484	2,756	6,455	4,595	121,292	86	121,379
% to sales	15.3	2.7	7.7	4.9	12.4	-	13.0
Assets	421,746	84,342	63,191	81,929	651,209	37,764	688,973

Sales to Foreign Customers

Millions of yen

1H/FY2005

Apr - Sep 2005

	Asia/Oceania	North America	Europe	Total
Total overseas sales	44,211	45,082	43,481	132,775
Consolidated net sales				483,098
Percentage of overseas sales to consolidated net sales	9.2%	9.3%	9.0%	27.5%

1H/FY2004

Apr - Sep 2004

	Asia/Oceania	North America	Europe	Total
Total overseas sales	42,796	39,869	41,175	123,840
Consolidated net sales				469,039
Percentage of overseas sales to consolidated net sales	9.1%	8.5%	8.8%	26.4%

FY2004

Apr '04 - Mar '05

	Asia/Oceania	North America	Europe	Total
Total overseas sales	81,791	81,962	85,539	249,293
Consolidated net sales				936,851
Percentage of overseas sales to consolidated net sales	8.7%	8.7%	9.1%	26.6%

Sales Composition

Millions of yen

	1H/FY2005 Apr - Sep 2005	1H/FY2004 Apr - Sep 2004	Growth %	FY2004 Apr '04 - Mar '05
Consumer Products				
Personal Care	95,899	91,602	4.7	180,616
Fabric and Home Care	120,644	118,488	1.8	234,250
Feminine Care, Baby Care and Others	57,880	60,641	(4.6)	122,079
Total Japan	274,424	270,731	1.4	536,947
Asia and Oceania	26,911	26,851	0.2	53,508
North America and Europe	55,265	52,318	5.6	106,735
Eliminations	(3,499)	(3,314)	5.6	(7,183)
Total	353,102	346,586	1.9	690,006
Prestige Cosmetics	39,307	39,339	(0.1)	78,294
Chemical Products				
Japan	56,660	54,613	3.7	111,475
Asia	25,754	23,601	9.1	47,231
North America and Europe	36,237	31,827	13.9	64,035
Eliminations	(14,810)	(13,449)	10.1	(25,753)
Total	103,842	96,591	7.5	196,989
Total Before Eliminations	496,251	482,518	2.8	965,290
Eliminations	(13,153)	(13,478)	(2.4)	(28,439)
Consolidated Net Sales	483,098	469,039	3.0	936,851