

Highlights for the 1st Half of FY2003

October 22, 2003

Kao Corporation
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These are the translation of materials used for the analysts meeting of October 22, 2003 in Japan.



The presentation material in PDF format is available
on our website:

http://www.kao.co.jp/e/ir_e/analystmtg/index.html

This presentation material contains forward-looking statements that are based on management's estimates, assumptions and projections as of October 22, 2003.

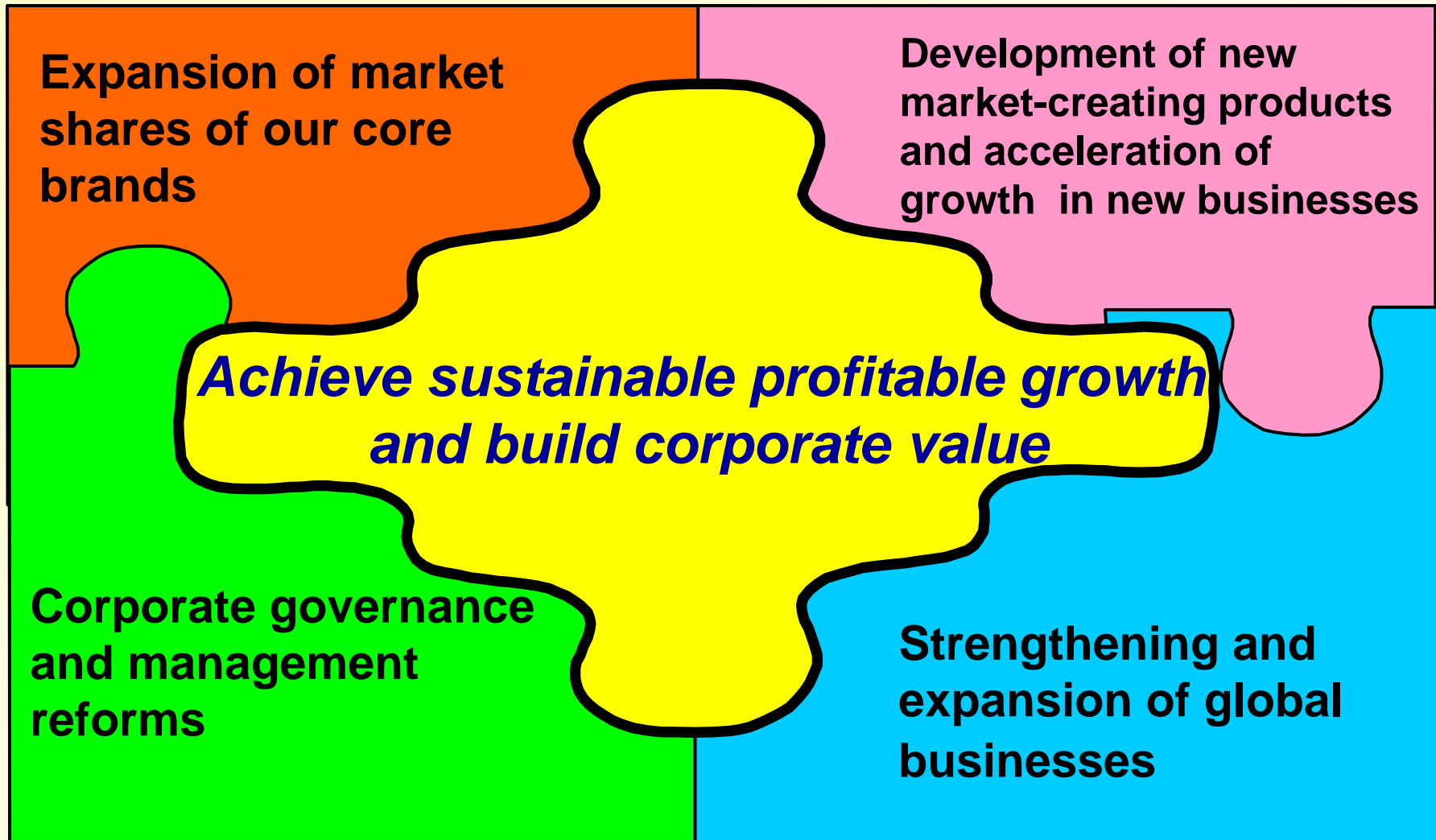
Some factors, which include, but are not limited to, the risks and uncertainty associated with the worldwide economy, competitive activity and currency fluctuation, could cause actual results to differ materially from expectations.

Agenda



- 1. Kao's Basic Management Strategy*
- 2. Highlights of the 1st Half of FY2003*
- 3. Focal points*
- 4. Other topics*

Basic Management Strategy



Highlights of the 1st Half

- ✧ Both sales and profits achieved our forecast of April 22, 2003

- ✧ Good news
 - Successful *Healtya Green Tea* launch
 - Healthy growth of John Frieda

- ✧ Issues to address
 - Further price erosion in Japanese market
 - Slower business development in China

Highlights of the 1st Half - Japan

✧ Contribution from new/improved products

- *Bioré Perfect Oil and Bioré Mild-Acid UV Cut*
- *Success Flavacyte*
- *Allerclean*



✧ Progress in health care (functional food)

- Solid growth of *Econa*
- Successful *Healtya Green Tea* launch



✧ Healthy growth in new chemical products

- Pigment auxiliary for color inkjet printer ink
- Slurries for use in polishing hard disks



Highlights of the 1st Half - Overseas

✧ Smooth *John Frieda* integration

- Growth driver for personal care business in North America and Europe



✧ Steady growth in core chemical products categories

- Oleo chemicals/surfactants
- Toner and toner binder
- Aroma chemicals



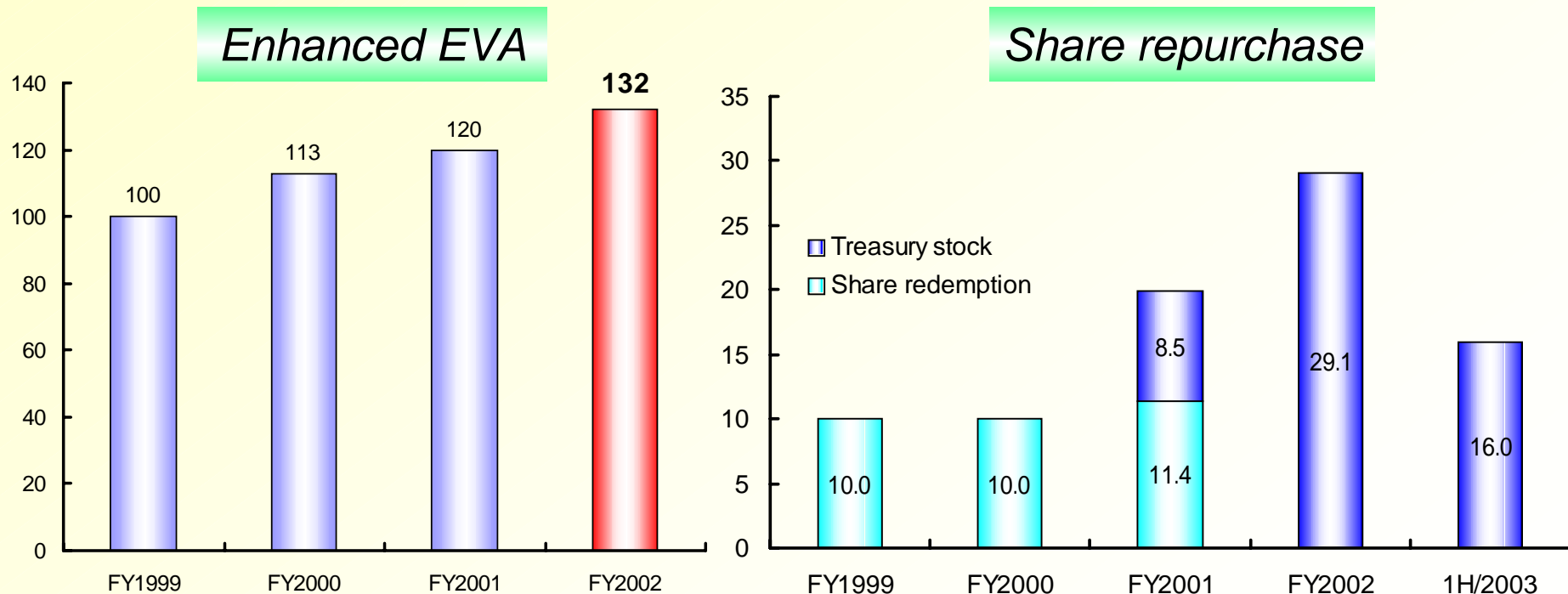
✧ Weak performance of both consumer products and chemical products in Germany due to sluggish economic conditions

Capital Efficiency Improvement

✧ FY2002 EVA: 1.3 times vs. FY1999


✧ Share repurchase: 85 million shares

(Accumulated to September 2003)



*EVA for FY1999 = 100

Fiscal 2003 Focal Points



- ✧ Introduction of new hair care brand *Asience*
 - Reinforce shampoo/conditioner category

- ✧ Expansion of *Healthya Tea*

- ✧ Strengthen the consumer products business in Asia

Launch of Hair Care Brand Asience



ASIENCE

アジエンス

Target share of *Asience* for the 1st year: 5%

➔ Restore No.1 market share in the shampoo and conditioner category with addition of *Asience*

✧ Hair care brand targeted at the Asian women wanting to enhance natural beauty of hair

✧ Typifying an image of “Asian beauty”

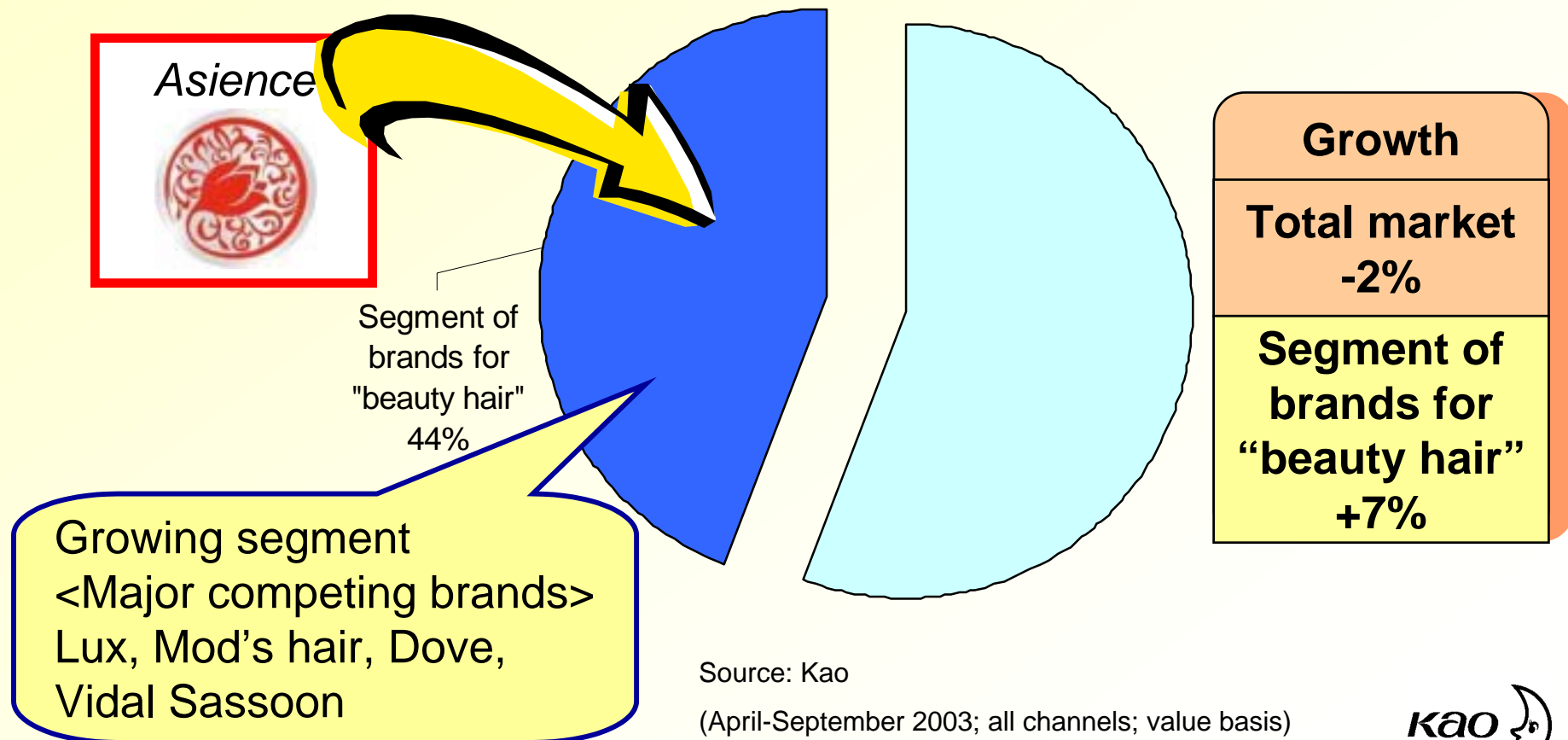
⇒ A traditional oriental idea of beauty, illuminating inner beauty and energetic spirits



Shampoo/conditioner market in Japan

The product segment for “beauty hair” is growing, against a backdrop of contractions in the market as a whole

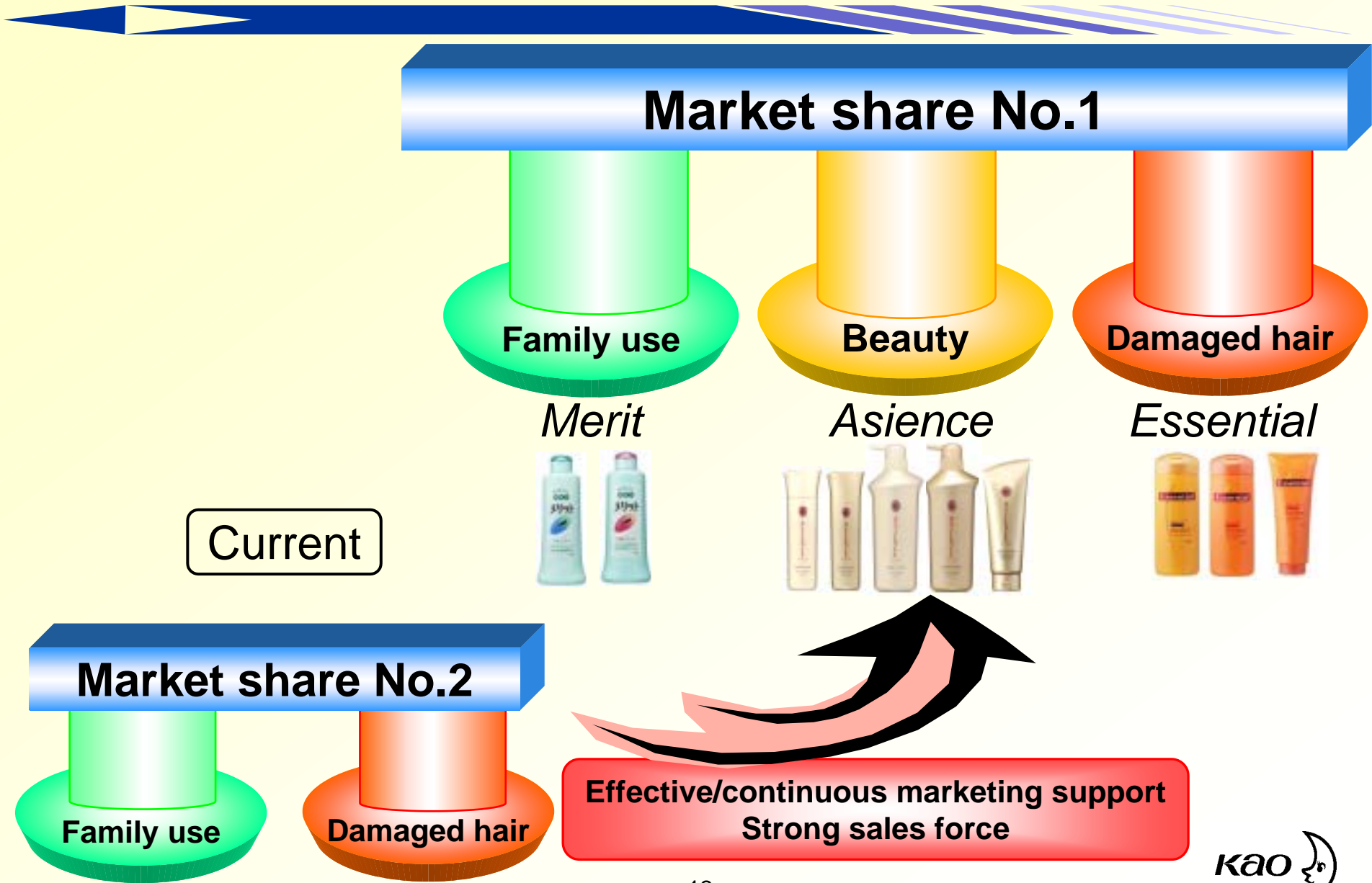
→ Price range mainly between 500 and 700 yen



Source: Kao

(April-September 2003; all channels; value basis)

Reinforce shampoo/conditioner category



Kao's Health Care Business - Functional Food

Econa cooking oil

- ❖ Prevention of fat deposits
- ❖ Suppress the increase of serum triglycerides after meals
- ❖ Lowering cholesterol
- Key ingredient: Diacylglycerol, vegetable sterol



Healthya Green Tea

- ❖ Suitable for people who are concerned about body fat
- Key ingredient: High level of tea catechin



Help dietary improvement
for the prevention
of lifestyle-related diseases



Background of Healthya Green Tea

✧ Kao discovered

Catechin has positive effects on body fat

- ◆ Studies on the fat and nutrition metabolism
- ◆ Research of raw materials

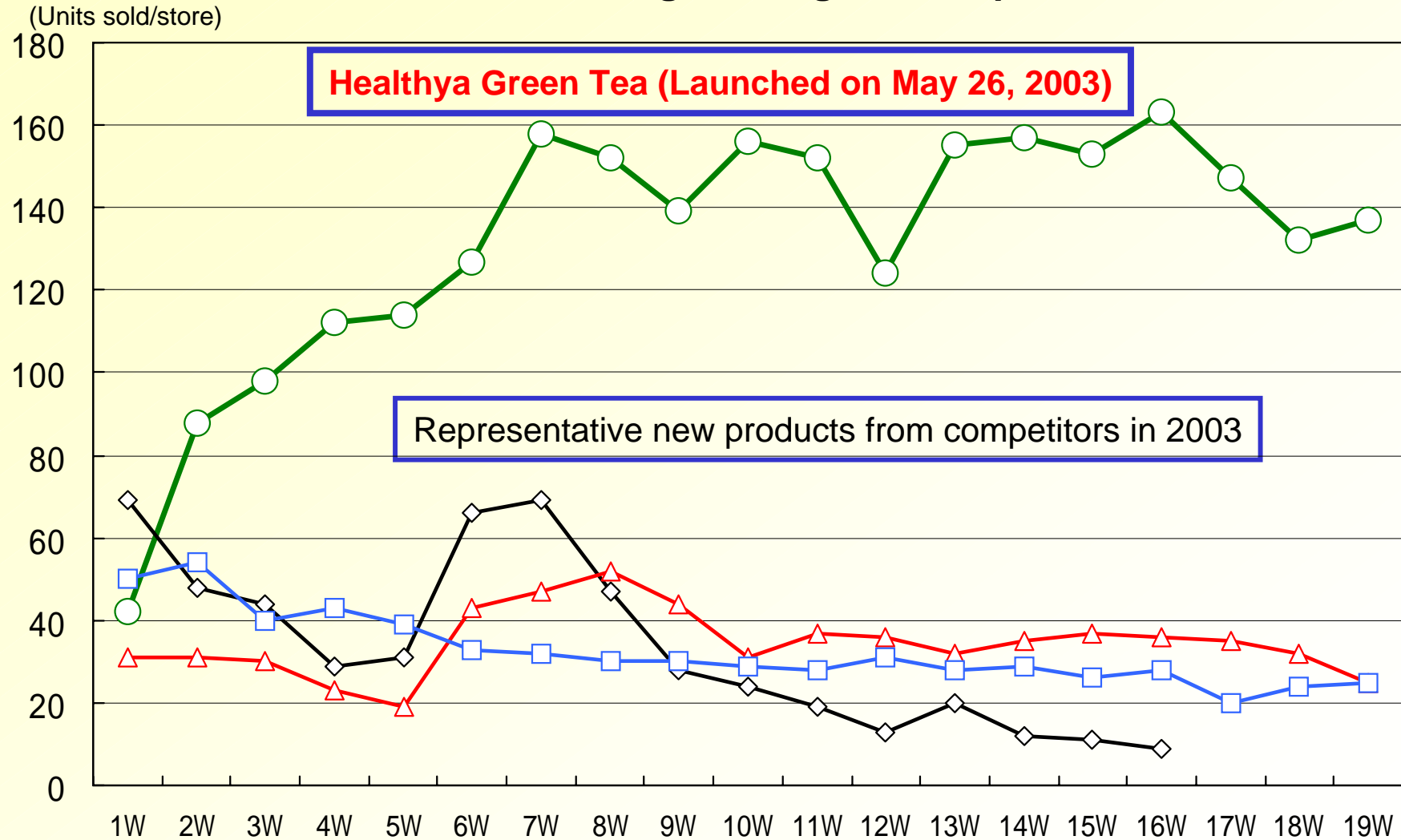
✧ Kao has overcome a difficult issue

Conventional tea drinks with high levels of tea catechin are very bitter and not easy to consume

- ◆ Superior extraction and refinement technologies
- ◆ Careful selection of tea leaves

Healthya Green Tea *Sales*

<Sales trend of new sugar-free green tea products>



CVS in Tokyo and surrounding areas
Source: Kao (INTAGE Inc. MBI)



Expansion of Healthya Green Tea

Expected to exceed 15 billion yen sales in FY2003

➔ Domestic market size^(*): 30-40 billion yen

(*) Market of sugar-free tea drink suitable for people who are concerned about body fat <Kao estimates>

✧ Expansion :

- (1) National rollout in early 2004
- (2) Channel diversification and product line extension

✧ Issues to address:

- Secure procurement of catechin (raw materials)
- Increase in capacity of refinement of catechin




❖ Detailed sales expansion schedule will be announced in late November 2003.

Strengthen the consumer products business in Asia

- ✧ Accelerate growth in ASEAN countries
 - *More focus on the strong brands*
 - *Introduction of Bioré Bright White skin care*
- ✧ Strengthen the market presence in China
 - *Synergistic effects between Kao Shanghai and Kao Transfar*
 - +20% vs. 1st Half of FY2002
 - Expansion to popular market
 - Strengthening sales force
- ✧ Taiwan
 - *New product introduction*
 - ➔ *Improved Merries baby disposable diapers*

Other topics



- ✧ Kao has received permission from the Japanese Ministry of Health, Labour and Wealth to label Econa Healthy Mayonnaise^(*) as a Food for Specified Health Use.
- ✧ Progress in ENOVA oil test marketing
- ✧ One of Kao's environmental activities - Reusable Product Development

Progress in ENOVA oil test marketing

✧ Purpose:

- Evaluate the acceptance of ENOVA to consumer
- Build the brand value of Enova in order to support the business to food processing companies as ingredient

✧ Test marketing in Atlanta (GA) and Chicago (IL), U.S.A., conducted by ADMKao

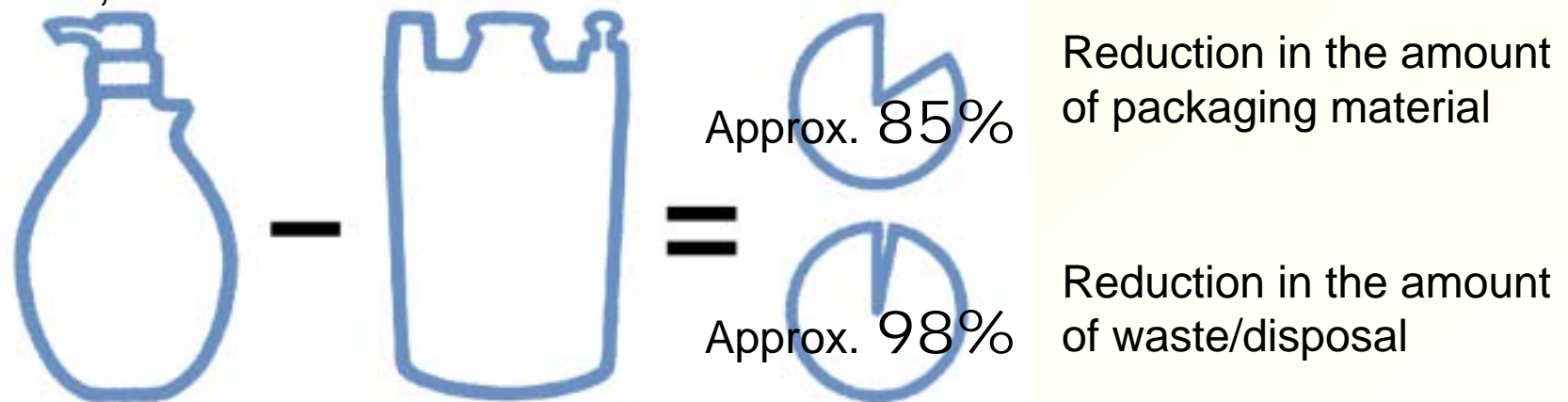
✧ Very promising feedback from the market in the early stage



***Aiming to develop the business
with food processing companies***

Reusable Product Development

- ◇ Kao proactively launches refill/replacement products to promote reuse of product containers
- ◇ 73 refill products and 21 replacement products as of March 2003
 - ➔ Average conversion rate to refill/replacement products for FY2002 reached 74%
- ◇ Reduction in the amount of packaging materials: approximately 15,000 ton



*Effect of introducing refill products of Bioré U body cleanser



