

Semi-Annual Financial Review

From April 1, 2006 to September 30, 2006

Kao Corporation

October 23, 2006

This is a translation of materials used for the analyst meeting held in Japan on October 23, 2006.



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

<http://www.kao.co.jp/en/ir/analystmtg/index.html>

These presentation materials contain forward-looking statements that are based on management's estimates, assumptions and projections as of October 23, 2006.

Certain factors, which include, but are not limited to, the risks and uncertainty associated with the worldwide economy, competitive activity, fluctuations in currency exchange and interest rates, could cause actual results to differ materially from expectations.

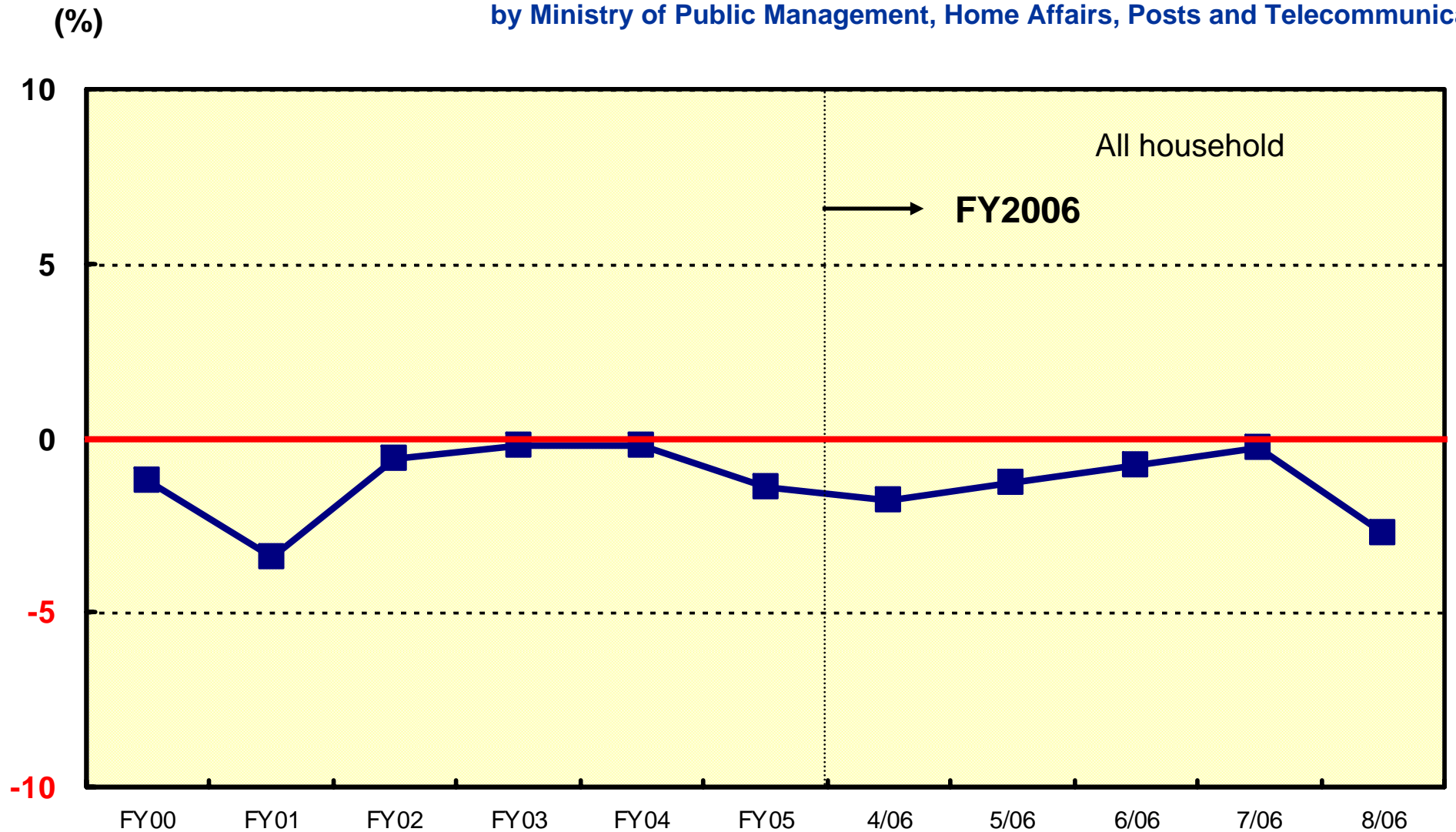
(The yen amounts in this presentation material are rounded down.)

1. Business Environment

April 1, 2006 – September 30, 2006

Household Expenditure Survey

by Ministry of Public Management, Home Affairs, Posts and Telecommunications

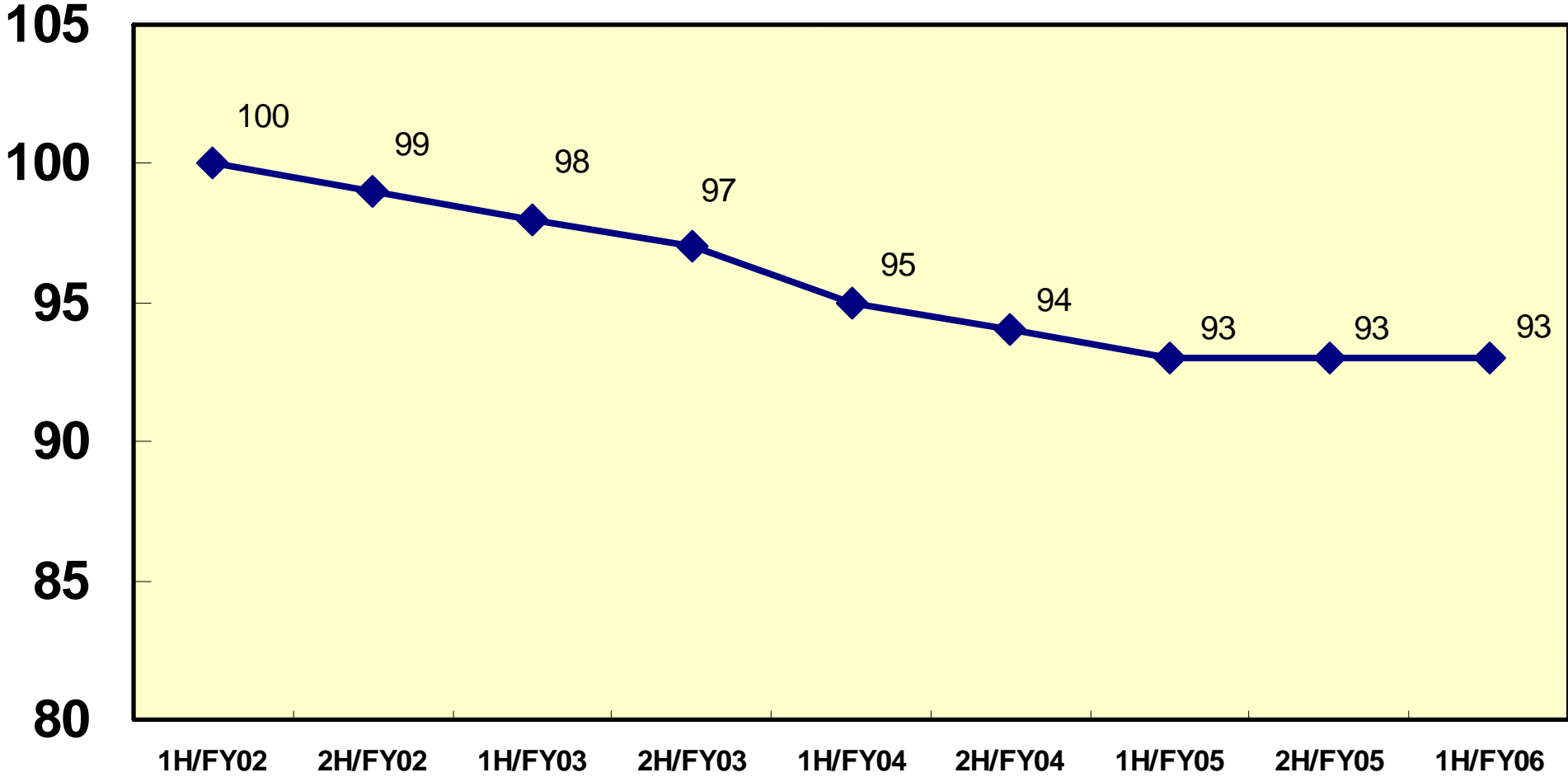


(Percent change from a year earlier)

Average Consumer Purchase Price

15 Major Toiletry Categories (All manufactures)

Index



(Source: SRI)



2. Consolidated Business Results

April 1, 2006 – September 30, 2006

1st Half/FY2006 Results (Consolidated)

| Billion yen | <u>1H/FY05</u> | <u>1H/FY06*</u> | | <u>1H/FY06</u> | | |
|-------------------------|----------------|-----------------|--------|----------------|--------|---------|
| | | | Growth | | Growth | Changes |
| Net Sales | 483.0 | 511.6 | 5.9% | 602.5 | 24.7% | +119.4 |
| Operating Income | 63.0 | 61.0 | -3.3% | 58.4 | -7.4% | -4.6 |
| <i>Operating Margin</i> | 13.1% | 11.9% | | 9.7% | | |
| Ordinary Income | 63.6 | 61.9 | -2.6% | 58.4 | -8.1% | -5.1 |
| Net Income | 38.4 | 30.4 | -20.8% | 29.5 | -23.2% | -8.9 |
| EBITDA | 90.7 | 90.0 | -0.7% | 102.1 | 12.7% | +11.4 |
| EPS (yen) | 70.75 | | | 54.26 | -23.3% | -16.49 |

*Before impact of Kanebo Cosmetics consolidation



Consolidated Net Sales [1]

| | 1st Half/FY2005 | | 1st Half/FY2006 | | |
|--|-----------------|----------|-----------------|--------|---------------|
| | Billion yen | % Growth | Billion yen | % | |
| | | | | Growth | Like-for-like |
| Personal Care | 95.8 | 4.7 | 98.4 | 2.7 | 2.7 |
| Fabric and Home Care | 120.6 | 1.8 | 122.3 | 1.4 | 1.4 |
| Feminine Care, Baby Care and Others | 57.8 | -4.6 | 62.1 | 7.5 | 7.5 |
| Japan Total | 274.4 | 1.4 | 283.0 | 3.1 | 3.1 |
| Asia & Oceania | 26.9 | 0.2 | 31.5 | 17.1 | 7.3 |
| North America & Europe | 55.2 | 5.6 | 62.2 | 12.6 | 5.6 |
| Elimination | -3.4 | | -3.7 | | |
| Consumer Products | 353.1 | 1.9 | 373.0 | 5.6 | 3.8 |

| | | | | | |
|---------------------------|-------------|------|--------------|-------|-------|
| Prestige Cosmetics | 39.3 | -0.1 | 135.1 | 243.7 | 243.1 |
|---------------------------|-------------|------|--------------|-------|-------|

*Like-for-like: excludes currency translation impact



Consolidated Net Sales [2]

| | 1st Half/FY2005 | | 1st Half/FY2006 | | |
|--------------------------|-----------------|----------|-----------------|--------|---------------|
| | Billion yen | % Growth | Billion yen | % | |
| | | | | Growth | Like-for-like |
| Japan | 56.6 | 3.7 | 57.8 | 2.1 | 2.1 |
| Asia | 25.7 | 9.1 | 26.4 | 2.9 | -6.8 |
| North America & Europe | 36.2 | 13.9 | 40.5 | 12.0 | 5.7 |
| Elimination | -14.8 | | -15.9 | | |
| Chemical Products | 103.8 | 7.5 | 108.9 | 4.9 | 1.4 |

| | | | | | |
|-------------|-------|--|-------|--|--|
| Elimination | -13.1 | | -14.5 | | |
|-------------|-------|--|-------|--|--|

| | | | | | |
|---------------------------|--------------|------------|--------------|-------------|-------------|
| Consolidated Sales | 483.0 | 3.0 | 602.5 | 24.7 | 22.6 |
|---------------------------|--------------|------------|--------------|-------------|-------------|

*Like-for-like: excludes currency translation impact

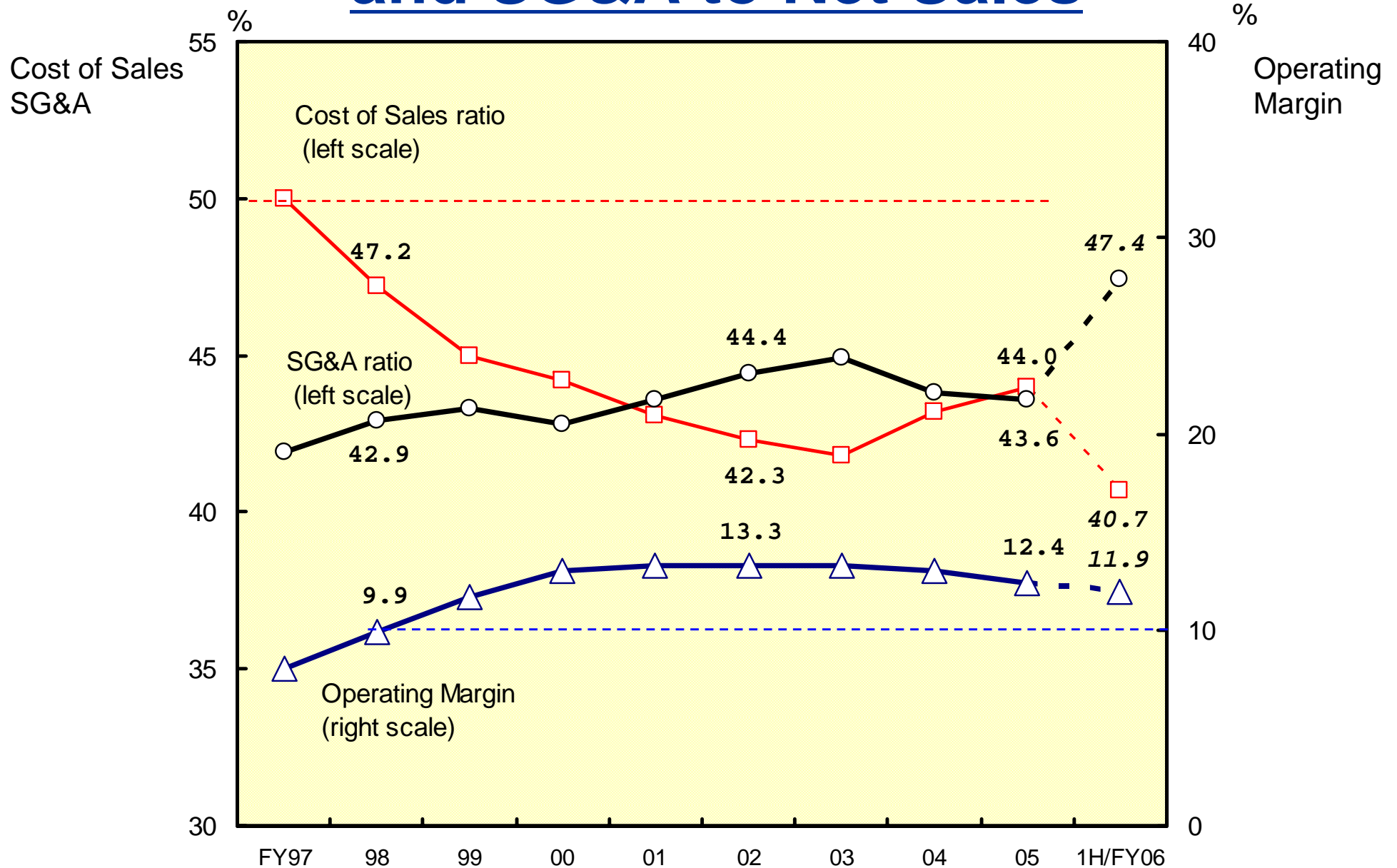
Consolidated Income Statements

| | 1H/FY2005 | | 1H/FY2006 | | Changes* |
|---|-------------|-------|-------------|-------|-------------|
| | Billion yen | % | Billion yen | % | Billion yen |
| Net Sales | 483.0 | 100.0 | 602.5 | 100.0 | 119.4 |
| Cost of Sales | 210.7 | 43.6 | 244.9 | 40.7 | 34.2 |
| Gross Profit | 272.3 | 56.4 | 357.5 | 59.3 | 85.1 |
| SG&A Expenses | 209.3 | 43.3 | 286.1 | 47.4 | 76.8 |
| Operating Income Before Amortization Related to Kanebo Cosmetics | 63.0 | 13.1 | 71.4 | 11.9 | 8.3 |
| Amortization Related to Kanebo Cosmetics | - | - | 13.0 | 2.2 | 13.0 |
| Operating Income | 63.0 | 13.1 | 58.4 | 9.7 | -4.6 |
| Non-operating Income/Expenses | 0.5 | 0.1 | 0.0 | 0.0 | -0.5 |
| Ordinary Income | 63.6 | 13.2 | 58.4 | 9.7 | -5.1 |
| Extraordinary Income & Loss | -1.1 | -0.3 | -1.2 | -0.2 | -0.0 |
| Income Before Taxes | 62.4 | 12.9 | 57.2 | 9.5 | -5.2 |
| Income Taxes | 23.3 | 4.8 | 27.2 | 4.5 | 3.8 |
| Equity Items & Others (Minus) | 0.6 | 0.1 | 0.4 | 0.1 | -0.1 |
| Net Income | 38.4 | 8.0 | 29.5 | 4.9 | -8.9 |

* Changes = 1H/FY2006 - 1H/FY2005

* Before impact of Kanebo Cosmetics consolidation: Net Sales 511.6 billion yen, operating income = 61.0 billion yen, ordinary income = 61.9 billion yen, net income = 30.4 billion yen

Consolidated Cost of Sales and SG&A to Net Sales



*Business tax has been adjusted for FY97. SG&A % to sales and operating margin for 1H/FY06 are before impact of amortization related to Kanebo Cosmetics.



Breakdown of Consolidated SG&A Expenses

(Billion yen)

| | 1H/FY05 | 1H/FY06 | Changes** |
|---------------------------------|---------|---------|-----------|
| Total SG&A Expenses* | 209.3 | 286.1 | 76.8 |

| | | | |
|--------------------|------|------|------|
| Freight/Warehouse | 25.8 | 33.5 | 7.7 |
| Advertising | 42.9 | 51.1 | 8.1 |
| Sales Promotion | 19.2 | 33.1 | 13.9 |
| Salaries and Wages | 35.8 | 57.0 | 21.1 |
| R&D | 19.9 | 21.2 | 1.2 |

* Before amortization related to Kanebo Cosmetics that amounted to 13.0 billion yen

** Changes = 1H/FY06 – 1H/FY05

Sales and Operating Income by Business

| | | Net Sales* | | | | Operating Income | | |
|---------------------------|-----------------------|--------------------------|--------------------------|------------------------|----------|--------------------------|--------------------------|------------------------|
| | | 1H/FY2005 Billion yen | 1H/FY2006 Billion yen | Changes Billion yen | % Growth | 1H/FY2005 Billion yen | 1H/FY2006 Billion yen | Changes Billion yen |
| Consumer Products | | 353.1 | 373.0 | 19.9 | 5.6 | 47.3 | 47.2 | 0.0 |
| | <i>% to Net Sales</i> | | | | | 13.4% | 12.7% | |
| Prestige Cosmetics | | 39.3 | 135.1 | 95.8 | 243.7 | 3.8 | -0.6 | -4.5 |
| | <i>% to Net Sales</i> | | | | | 9.9% | -0.5% | |
| | Before amortization** | | | | | 3.8 | 12.3 | 8.4 |
| | <i>% to Net Sales</i> | | | | | 9.9% | 9.1% | |
| Chemical Products | | 103.8 | 108.9 | 5.1 | 4.9 | 11.7 | 11.7 | 0.0 |
| | <i>% to Net Sales</i> | | | | | 11.3% | 10.8% | |

*Before elimination of intersegment transfers

**Before amortization of related to Kanebo Cosmetics

Sales and Operating Income by Geography

| | | Net Sales* | | | | Operating Income | | |
|-------------------|-------------------|--------------------------|--------------------------|------------------------|----------|--------------------------|--------------------------|------------------------|
| | | 1H/FY2005 Billion yen | 1H/FY2006 Billion yen | Changes Billion yen | % Growth | 1H/FY2005 Billion yen | 1H/FY2006 Billion yen | Changes Billion yen |
| Japan | | 358.6 | 454.5 | 95.8 | 26.7 | 54.9 | 51.6 | -3.2 |
| | % to Net Sales | | | | | 15.3% | 11.4% | |
| | Adjusted** | | | | | 54.9 | 64.6 | 9.7 |
| | % to Net Sales | | | | | 15.3% | 14.2% | |
| Asia & Oceania | | 52.7 | 59.7 | 7.0 | 13.4 | 3.6 | 1.0 | -2.5 |
| | % to Net Sales | | | | | 6.8% | 1.8% | |
| North America | | 46.1 | 53.8 | 7.7 | 16.9 | 2.7 | 3.4 | 0.6 |
| | % to Net Sales | | | | | 5.9% | 6.4% | |
| | Adjusted*** | | | | | 3.5 | 4.3 | 0.7 |
| | % to Net Sales | | | | | 7.7% | 8.0% | |
| Europe | | 49.6 | 63.3 | 13.6 | 27.6 | 2.5 | 1.9 | -0.5 |
| | % to Net Sales | | | | | 5.1% | 3.1% | |
| | Adjusted*** | | | | | 3.7 | 4.0 | 0.2 |
| | % to Net Sales | | | | | 7.6% | 6.3% | |

*Before elimination of intersegment transfers, **Before amortization related to Kanebo Cosmetics,
***Before amortization of goodwill



Consolidated Operating Income

1H/FY05

63.0



1H/FY06

58.4 Billion yen

Change

-4.6 Billion yen -7.4%

| | |
|----------------|------|
| Japan | -3.2 |
| Asia & Oceania | -2.5 |
| North America | +0.6 |
| Europe | -0.5 |
| <hr/> | |
| Total | -4.6 |

| | |
|--------------------|------|
| Consumer Products | -0.0 |
| Prestige Cosmetics | -4.5 |
| Chemical Products | 0.0 |
| <hr/> | |
| Total | -4.6 |

*The figures of each segment are before elimination and "Total" includes elimination.

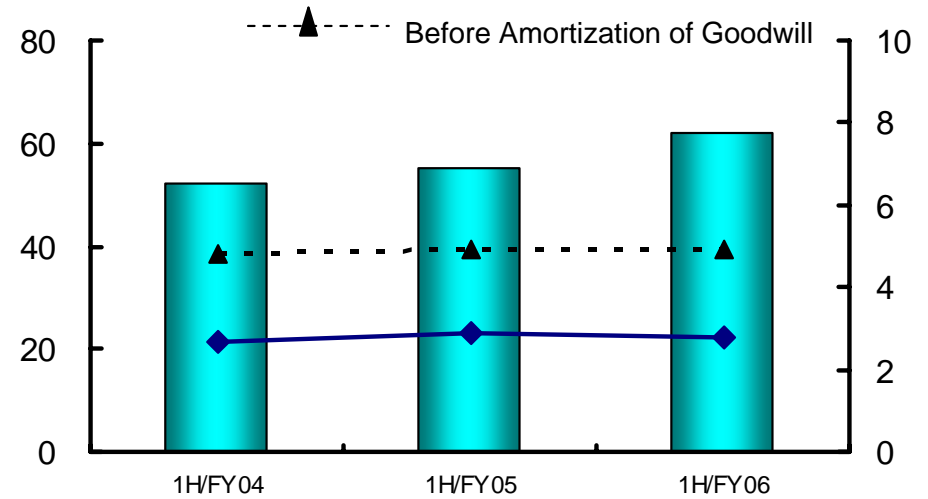
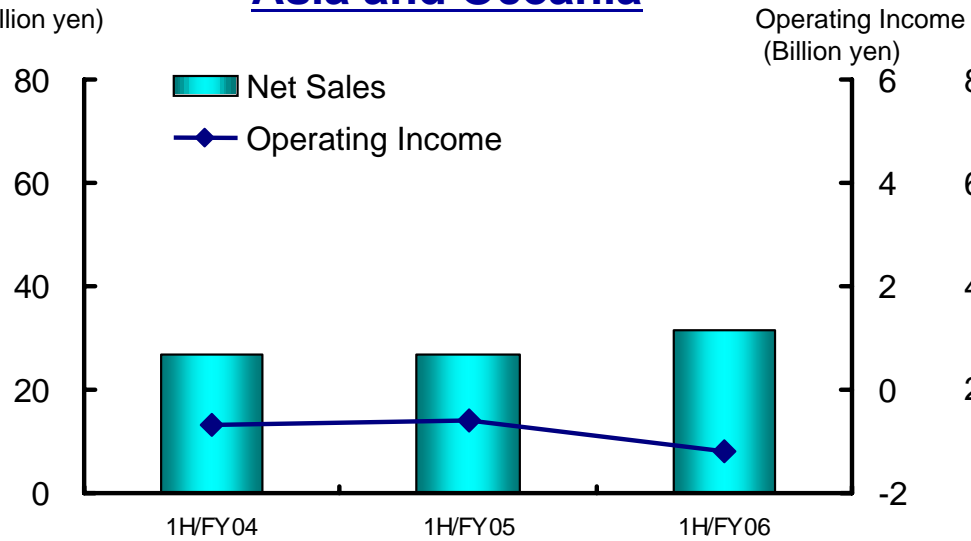


Consumer Products

Asia and Oceania

North America & Europe

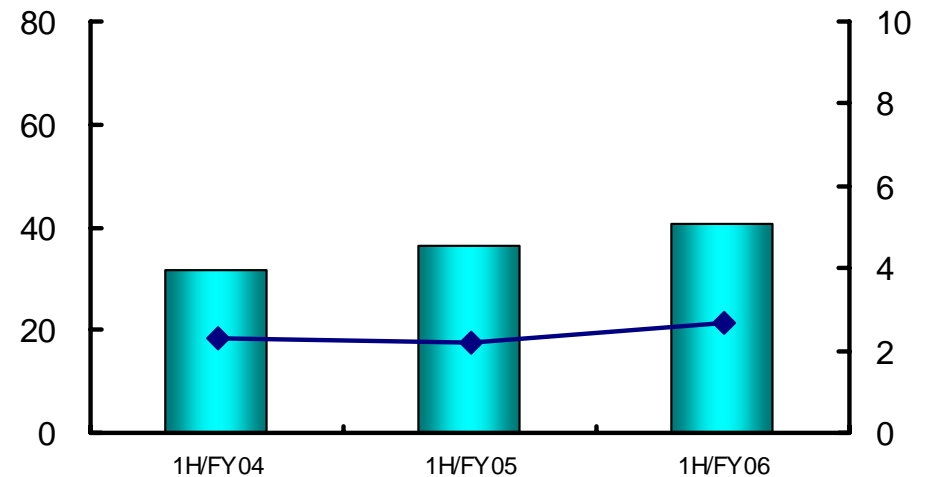
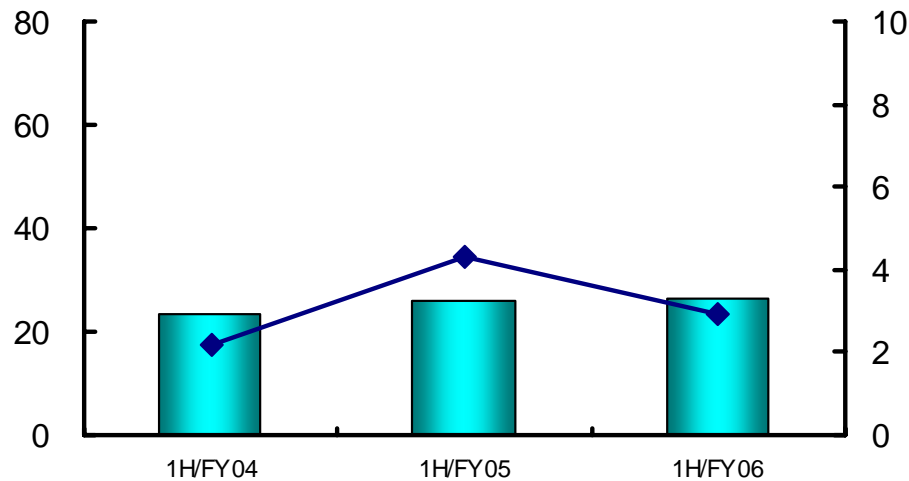
Sales (Billion yen)



Chemical Products

Asia

North America & Europe



Consolidated Ordinary Income

1H/FY05

1H/FY06

63.6



58.4 Billion yen

Change

-5.1 Billion yen -8.1%

| | |
|------------------------------|-------------|
| 1. Operating income | -4.6 |
| 2. Equity earnings/losses | -0.2 |
| 3. Forex gains/losses | +0.8 |
| 4. Net interest expense | -0.9 |
| 5. Other non-operating items | -0.1 |
| Total | -5.1 |

Consolidated Income Before Taxes

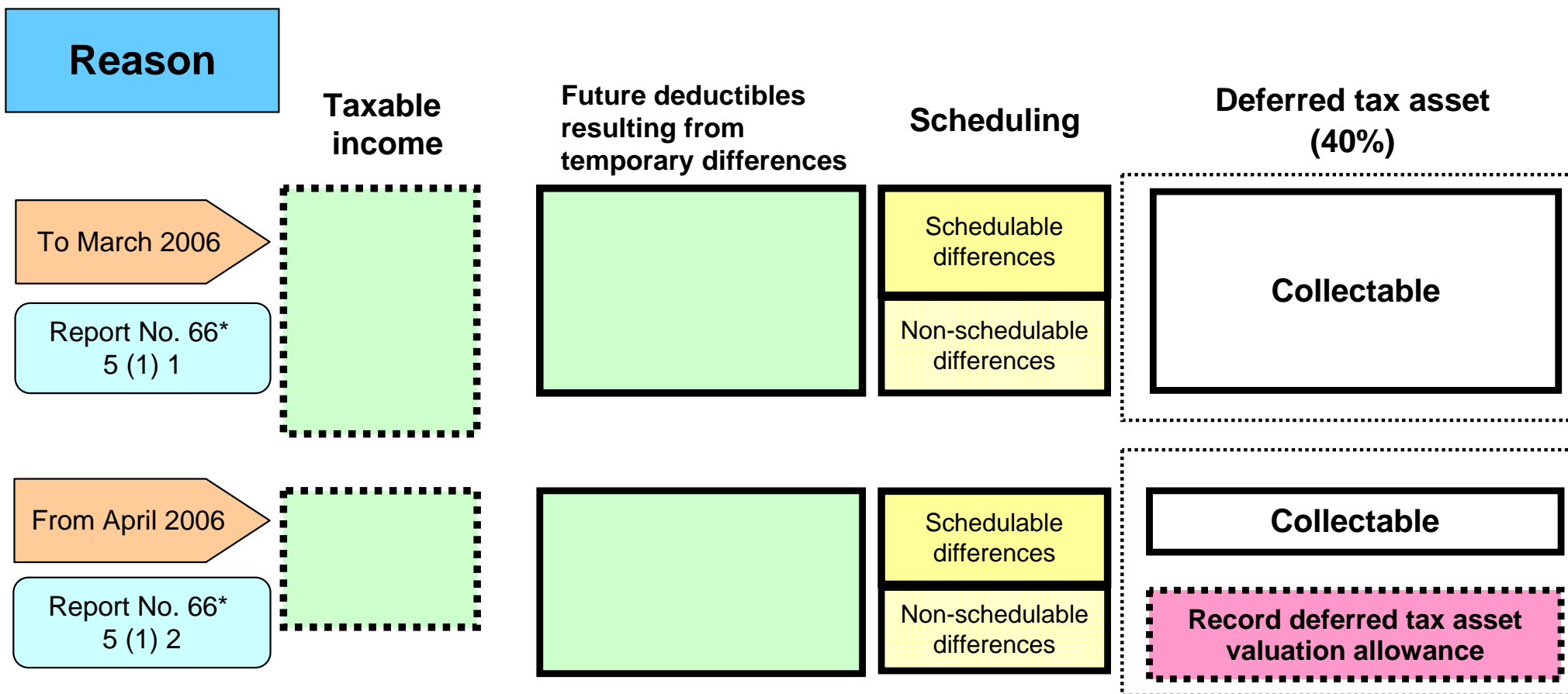
1H/FY05
62.4
Change

→

1H/FY06
57.2 Billion yen
-5.2 Billion yen -8.4%

| | |
|---|------------|
| 1. Ordinary income | -5.1 |
| 2. Gain on sale or disposal of fixed assets | +0.0 |
| 3. Gain on sale of investment securities | -0.0 |
| 4. Loss on sale or disposal of fixed assets | -0.1 |
| 5. Impairment loss | -0.0 |
| 6. Other | +0.1 |
| <hr/> Total | <hr/> -5.2 |

Recording of a Deferred Tax Asset Valuation Allowance



Impact

- Income taxes – deferred in the consolidation basis recorded: 4 billion yen
- The recording of a deferred tax asset valuation allowance in this fiscal year is a one-time item.

* Report No. 66: Auditing Treatment to Determine the Collectability of Deferred Tax Assets (Auditing Committee Report No. 66, Japanese Institute of Certified Public Accountants)

For further information, please refer to Supplementary Materials to the Business Results for the Interim Period ended September 30, 2006 Regarding the Recording of a Deferred Tax Asset Valuation Allowance.

Consolidated Balance Sheets

(Billion yen)

| | Mar/06 | Sep/06 | Changes | | Mar/06 | Sep/06 | Changes |
|-------------------------------|---------|---------|---------|--|---------|---------|---------|
| Current Asset | 364.6 | 374.1 | 9.5 | Current Liabilities | 436.1 | 313.5 | -122.6 |
| Cash and Bank Deposits | 47.3 | 44.4 | -2.9 | Notes and Accounts Payable | 96.5 | 106.8 | 10.3 |
| Notes and Accounts Receivable | 129.1 | 147.6 | 18.5 | Short-term Debt (incl. Current Portion of Long-term Debt) | 189.4 | 44.2 | -145.1 |
| Short-term Investments | 20.1 | 27.5 | 7.4 | Other Accounts Payable | 27.4 | 26.0 | -1.4 |
| Inventories | 105.8 | 108.1 | 2.2 | Accrued Expenses | 75.9 | 98.4 | 22.5 |
| Others | 62.0 | 46.4 | -15.6 | Others | 46.7 | 37.8 | -8.9 |
| Fixed Assets | 855.8 | 852.8 | -3.0 | Long-term Liabilities | 265.7 | 380.3 | 114.5 |
| Tangible Assets | 282.7 | 285.3 | 2.5 | Long-term Debt/Straight Bond | 218.5 | 332.6 | 114.1 |
| Intangible Assets | 466.2 | 459.2 | -6.9 | Others | 47.2 | 47.7 | 0.4 |
| Investments | 106.8 | 108.1 | 1.3 | Total Liabilities | 701.9 | 693.8 | -8.1 |
| Deferred Assets | 0.0 | 0.0 | -0.0 | Minority Interests | 8.9 | - | - |
| | | | | Common Stock | 85.4 | - | - |
| | | | | Capital Surplus | 109.5 | - | - |
| | | | | Retained Earnings | 345.9 | - | - |
| | | | | Unrealized Gain on Available-for-sale Securities | 5.8 | - | - |
| | | | | Foreign Currency Translation Adjustments | -26.9 | - | - |
| | | | | Treasury Stock | -10.1 | - | - |
| | | | | Shareholder's Equity | 509.6 | - | - |
| | | | | Shareholders' equity | - | 546.5 | - |
| | | | | -Common Stock | - | 85.4 | - |
| | | | | -Capital Surplus | - | 109.5 | - |
| | | | | -Retained Earnings | - | 361.7 | - |
| | | | | -Treasury Stock, at Cost | - | -10.2 | - |
| | | | | Adjustment for Valuation, Foreign Currency Translation and Other | - | -21.9 | - |
| | | | | - Unrealized Gain on Available-for-Sale Securities | - | 4.9 | - |
| | | | | - Foreign Currency Translation Adjustments | - | -26.9 | - |
| | | | | Stock Acquisition Rights | - | 0.3 | - |
| | | | | Minority Interest | - | 8.2 | - |
| | | | | Total Net Asset | - | 533.1 | - |
| Total Assets | 1,220.5 | 1,227.0 | 6.4 | Total Liabilities and Total Net Asset | 1,220.5 | 1,227.0 | 6.4 |

Statements of Cash Flows

(Billion yen)

| | 1H/FY05 | 1H/FY06 | Changes |
|--|---------|---------|---------|
| Operating activities | 64.6 | 85.7 | 21.0 |
| Investing activities | -45.1 | -30.0 | 15.0 |
| Financing activities | -15.4 | -46.8 | -31.4 |
| Translation adjustments on cash and cash equivalents | 1.0 | -1.3 | -2.3 |
| Net Increase/(decrease) in cash and cash equivalents | 5.1 | 7.4 | 2.2 |
| Cash and cash equivalents, beginning of year | 70.4 | 67.5 | -2.8 |
| Increase in cash and cash equivalents due to newly consolidated subsidiaries | 0.7 | - | -0.7 |
| Decrease in cash and cash equivalents due to exclusion of previously consolidated subsidiaries | -0.8 | - | 0.8 |
| Cash and cash equivalents, end of period | 75.5 | 74.9 | -0.5 |
| Total Debt, end of period | 22.2 | 376.9 | 354.6 |

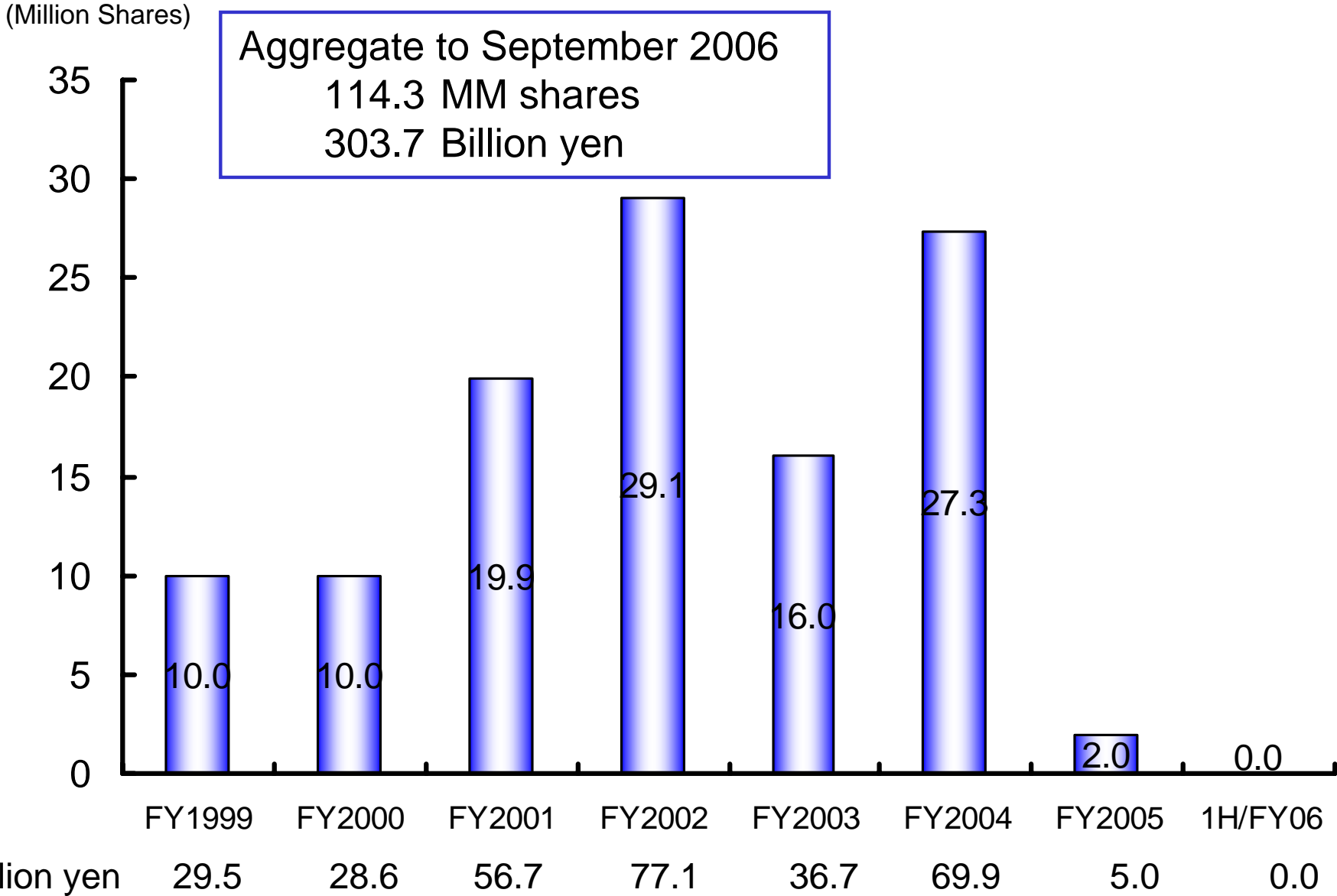
<Investing Activities>

- Capital expenditures:
- Production facilities for new products
 - Production capacity expansion for fatty alcohols in the Philippines, toner and toner binder etc.

<Financing Activities>

Share repurchase: 0.4 billion yen

Share Repurchase



* Share repurchase from the market



3. Forecast for FY 2006

Consolidated Sales and Profit Forecast

| | FY2004 | | FY2005 | | *1 *2 FY2006(F) | |
|------------------|-------------|----------|-------------|----------|--------------------|-------------|
| | Billion yen | % Growth | Billion yen | % Growth | Billion yen | % Growth |
| Net Sales | 936.8 | 3.8 | 971.2 | 3.7 | 1,220.0 | 25.6 |
| Operating Income | 121.3 | 1.4 | 120.1 | -1.0 | 117.0 | -2.6 |
| [% to Sales] | [13.0] | | [12.4] | | [9.6] | |
| Ordinary Income | 125.3 | 2.2 | 121.9 | -2.7 | 115.0 | -5.7 |
| [% to Sales] | [13.4] | | [12.6] | | [9.4] | |
| Net Income | 72.1 | 10.4 | 71.1 | -1.4 | 68.0 | -4.4 |
| [% to Sales] | [7.7] | | [7.3] | | [5.6] | |

| | | | | | | |
|---|--------|------|--------|------|---------------|-------------|
| Net Income per Share (yen) | 131.16 | 10.2 | 130.58 | -0.4 | 124.78 | -4.4 |
| ROE | 16.5% | | 14.9% | | 12.8% | |
| EBITDA (Operating Income + Depr. & Amort.) | 178.1 | 0.2 | 180.8 | 1.5 | 206.0 | 13.9 |
| Cash dividends per Share (yen) | 38.0 | 18.8 | 50.0 | 31.6 | 52.0 | 4.0 |

*1 Exchange rate assumptions: 117 yen/USD, 145 yen/Euro

*2 Approximate estimated impact related to Kanebo Cosmetics consolidation:

Net sales: ¥200.0 billion, operating margin:10%, amortization of Intellectual property rights: ¥17.0 billion, amortization of goodwill: ¥10.0 billion, financing costs: ¥3.0 billion

Sales Outlook by Segment – FY2006

<Billion yen>

Consolidated Net Sales 1,220.0 +25.6%

By Geography

| | | |
|----------------|-------|--------|
| Japan | 919.0 | +29.8% |
| Asia & Oceania | 122.0 | +10.0% |
| North America | 106.0 | +11.4% |
| Europe | 131.0 | +19.7% |

By Business

| | | |
|--------------------|-------|---------|
| Consumer Products | 734.0 | +4.3% |
| Prestige Cosmetics | 294.0 | +244.9% |
| Chemical Products | 220.0 | +5.3% |

Sales Outlook – FY2006

- Consumer Products in Japan -

<Billion yen>

| | 1st Half | | | Full Year | | |
|--|------------------|--------------------------|-------------|------------------|----------------------------|-------------|
| | FY2005 Actual | FY2006 Actual | % Growth | FY2005 Actual | FY2006 Forecast | % Growth |
| Personal Care | 95.8 | 98.4 | 2.7% | 187.8 | 192.0 | 2.2% |
| Fabric and Home Care | 120.6 | 122.3 | 1.4% | 237.5 | 242.0 | 1.9% |
| Feminine Care, Baby Care and Others | 57.8 | 62.1 | 7.5% | 113.6 | 119.0 | 4.7% |
| Total | 274.4 | 283.0 | 3.1% | 539.0 | 553.0 | 2.6% |

Major Assumptions for FY2006 Forecast

◆ Sales price decline in Consumer Products Business in Japan: approximately -1-0%

Estimated impact on profit

◆ Total Cost Reduction (TCR): +5.0 billion yen

◆ Higher raw material cost: -6.0 to -7.0 billion yen

Exchange rate assumptions

◆ 117 yen/USD

◆ 145 yen/Euro

Operating Income Outlook by Business

Increase

Consumer Products: North America

Flat

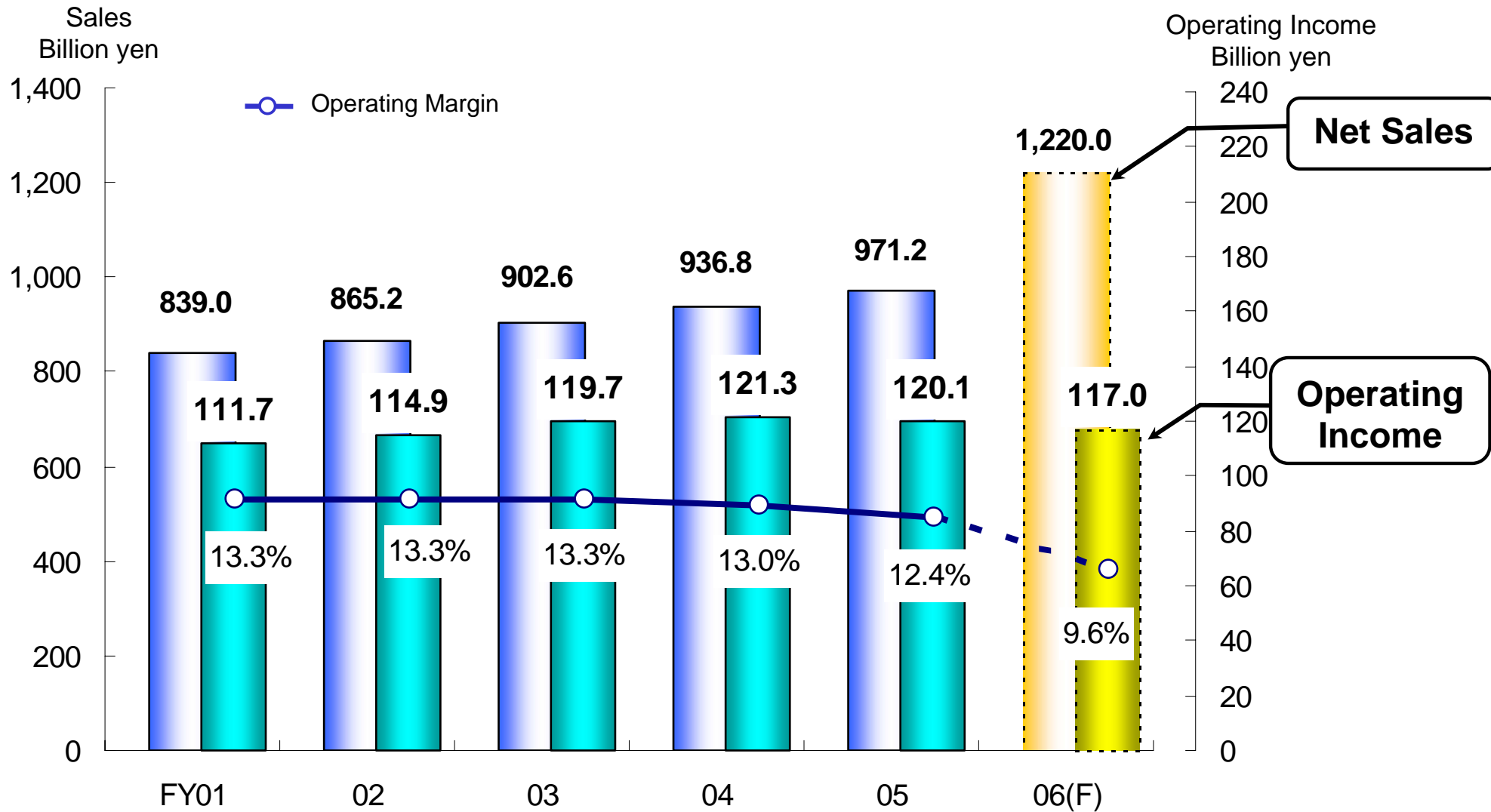
Consumer Products: Asia & Oceania
Chemical Products: Japan
Chemical Products: North America
Chemical Products: Europe

Decrease

Consumer Products: Japan
Consumer Products: Europe
Prestige Cosmetics
Chemical Products: Asia

Consolidated Net Sales/Operating Margin

[Full Year]

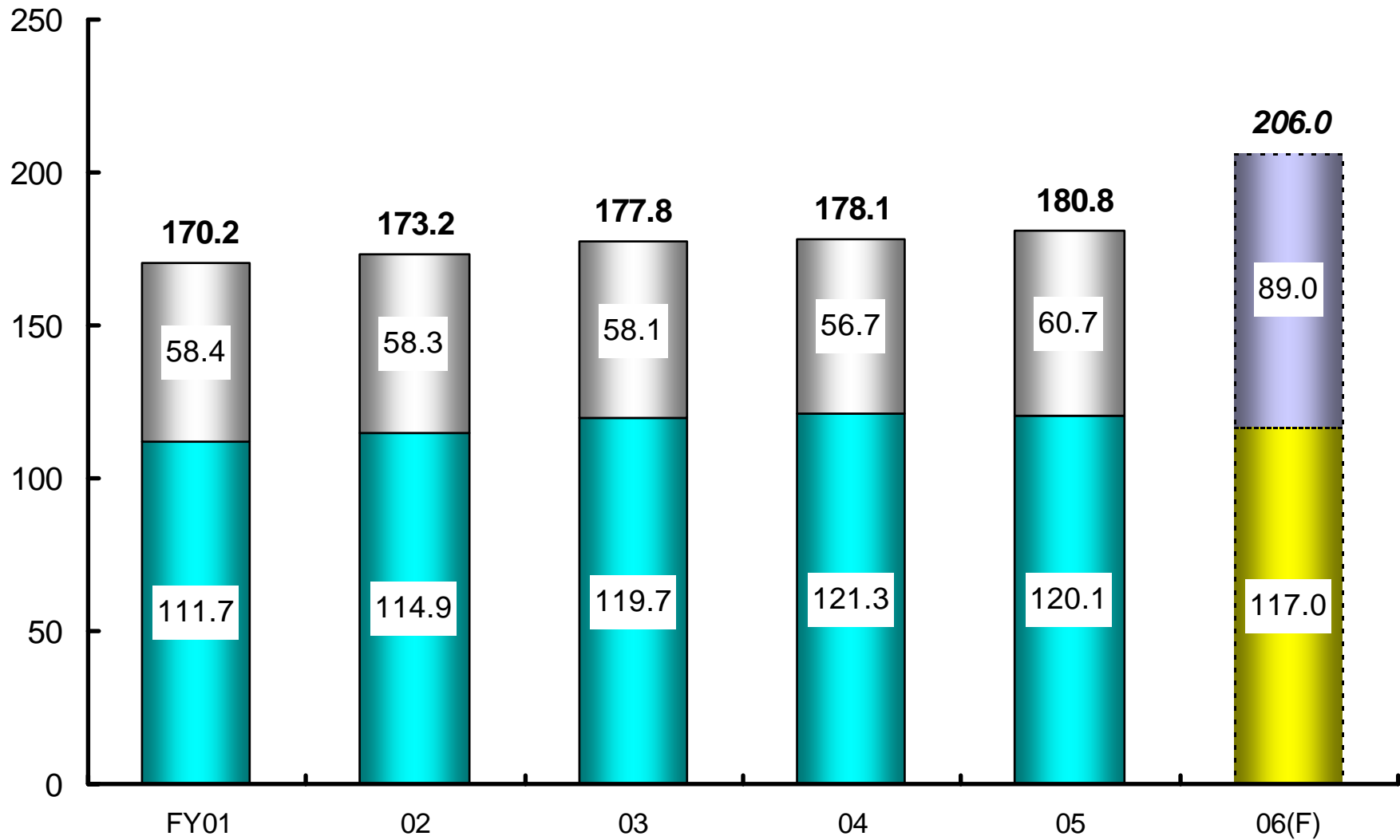


EBITDA

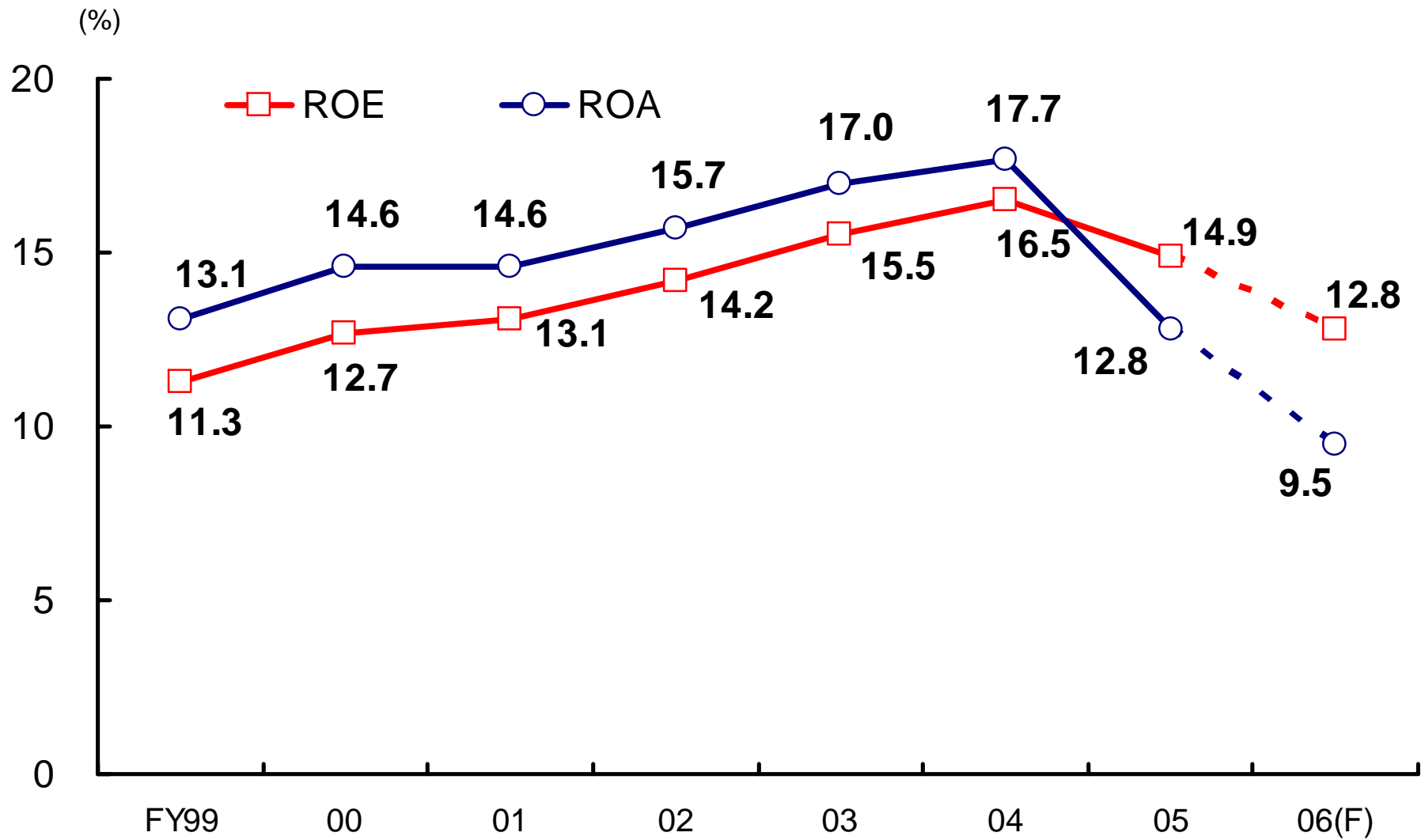
Billion yen

■ Operating Income

■ Depr. & Amort.



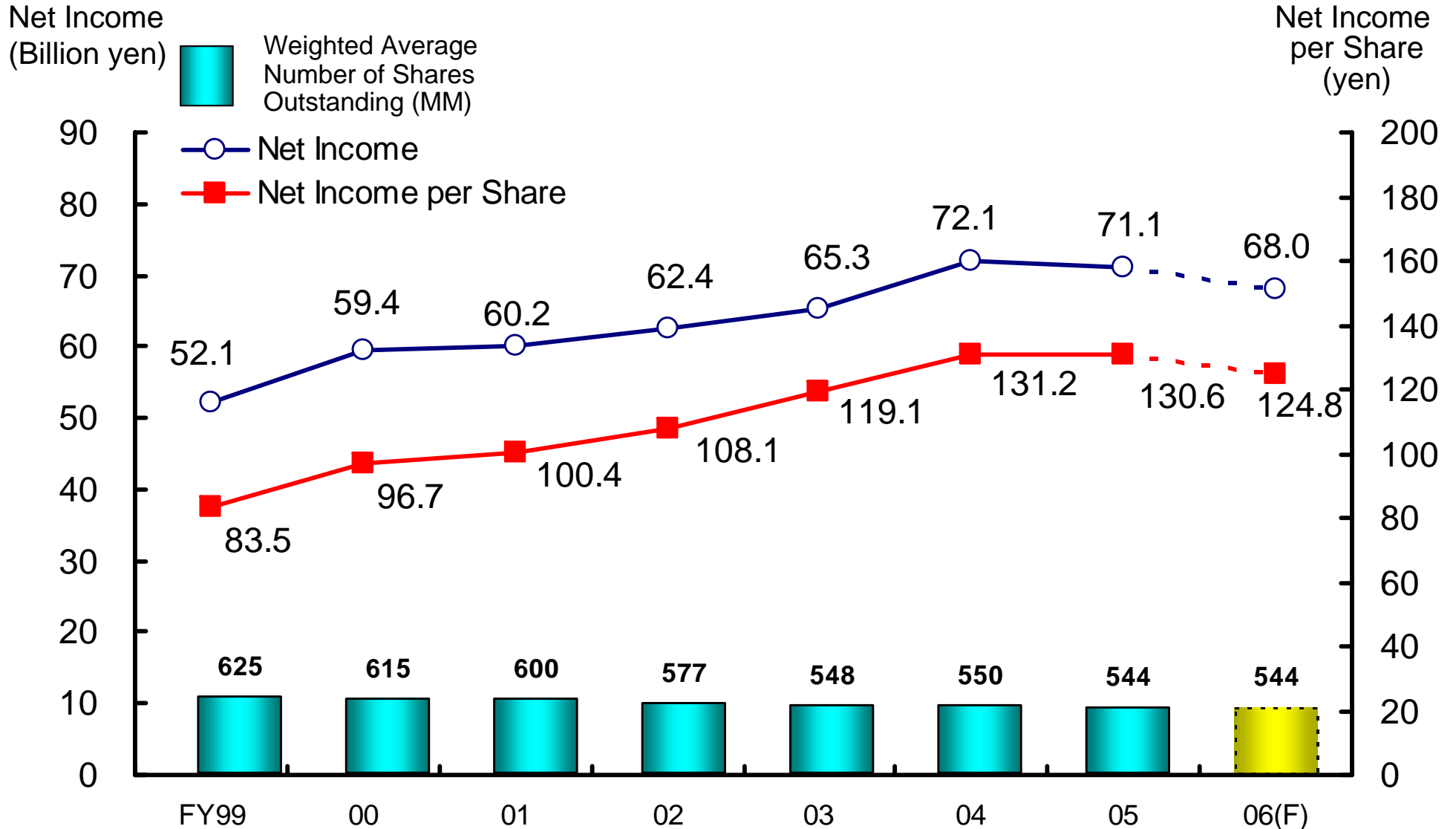
ROE & ROA



ROA: Ordinary Income / Total assets

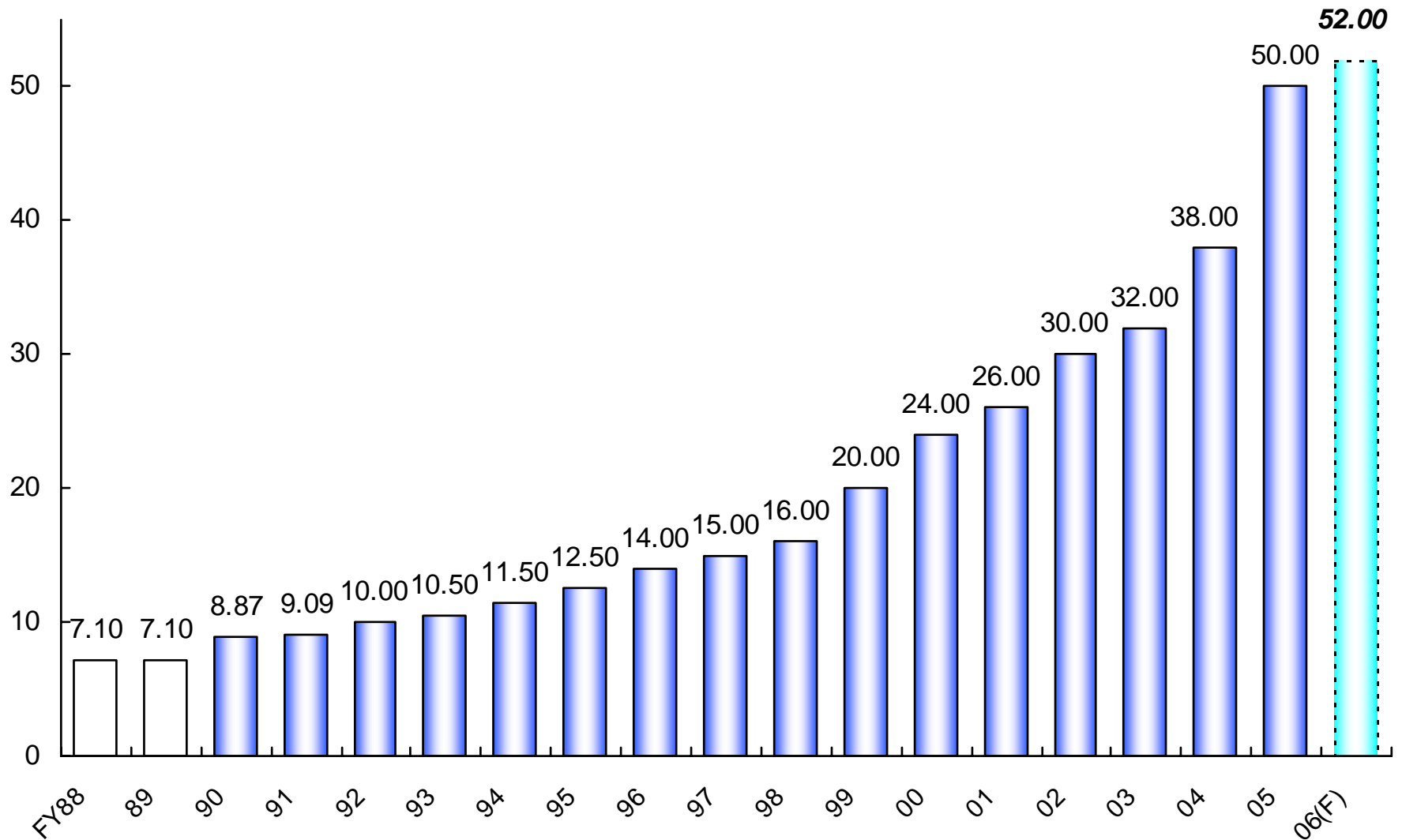


Net Income per Share



Cash Dividends per Share

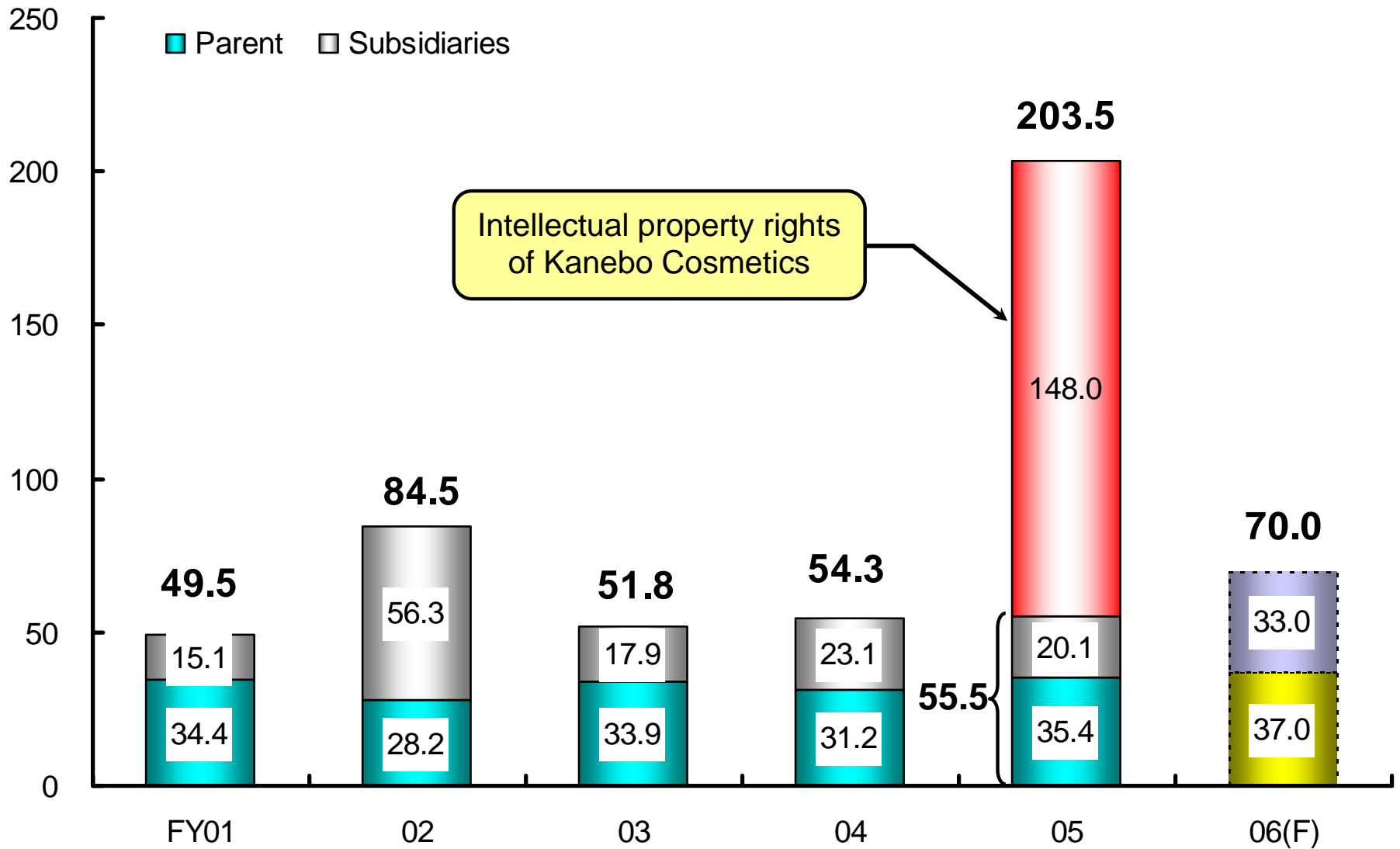
(Yen)



*Impacts of share splits are retroactively reflected.

Capital Expenditures

(Billion yen)

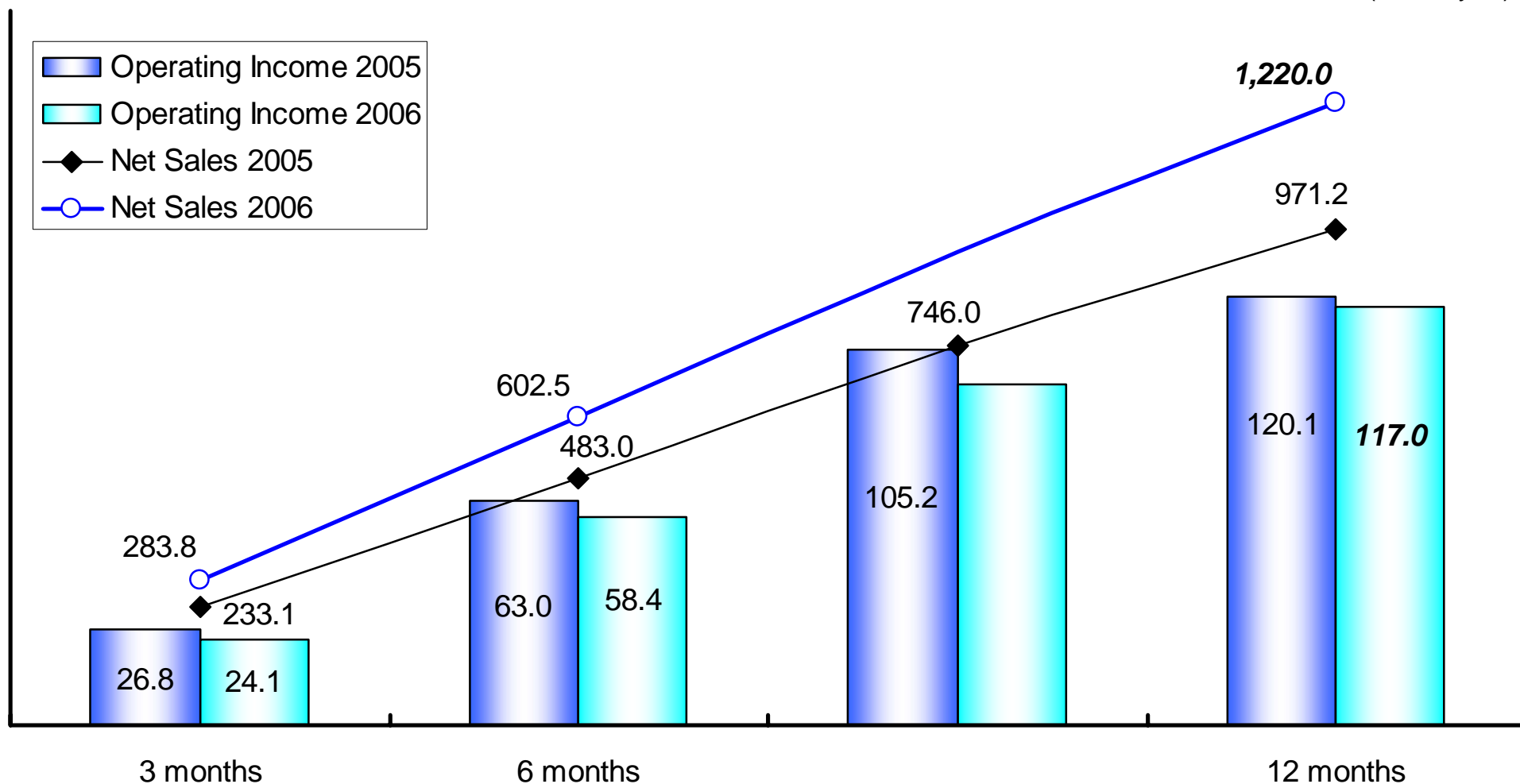


*Payment for purchase of newly consolidated subsidiaries (net of cash acquired) is not included.



Quarterly Consolidated Sales and Profit Forecast

(Billion yen)



Non-consolidated Sales and Profit Forecast

| | FY2004 | | FY2005 *1 | | FY2006(F)*1 | |
|---|-------------|----------|-------------|----------|---------------|--------------|
| | Billion yen | % Growth | Billion yen | % Growth | Billion yen | % Growth |
| Net Sales | 694.6 | 4.3 | 688.5 | -0.9 | 700.0 | 1.7 |
| Operating Income | 98.0 | -0.4 | 90.5 | -7.6 | 76.0 | -16.1 |
| [% to Sales] | [14.1] | | [13.2] | | [10.9] | |
| Ordinary Income | 104.5 | -0.8 | 100.1 | -4.2 | 83.0 | -17.1 |
| [% to Sales] | [15.1] | | [14.5] | | [11.9] | |
| Net Income | 62.5 | 2.4 | 64.1 | 2.6 | 56.0 | -12.7 |
| [% to Sales] | [9.0] | | [9.3] | | [8.0] | |
| Net Income per Share (yen) | 113.62 | 2.2 | 117.61 | 3.5 | 102.65 | -12.7 |
| ROE | 14.6% | | 14.1% | | 11.5% | |
| EBITDA (Operating Income + Depr. & Amort.) | 138.4 | -0.5 | 131.7 | -4.9 | 130.0 | -1.3 |

*1 The figures include amortization of intellectual property rights and financing costs related to Kanebo Cosmetics.

