News Release **October 23, 2006**

Kao Corporation Reports Business Results

Tokyo, October 23, 2006 - Kao Corporation today announced its consolidated and non-consolidated business results for the six months ended September 30, 2006. 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 2005, ended
	2006	2005	Change	**2006**	March 31, 2006
	Yen		%	U.S. dollars	Yen
Net sales	**¥602,538**	¥483,098	24.7	**$5,110.6**	¥971,230
Operating income	**58,426**	63,070	(7.4)	**495.6**	120,134
Ordinary income	**58,480**	63,638	(8.1)	**496.0**	121,956
Net income	**29,571**	38,486	(23.2)	**250.8**	71,140
Total assets	**1,227,062**	726,341	68.9	**10,407.7**	1,220,564
Total shareholders’ equity	**533,187**	479,285	11.2	**4,522.4**	509,676
Shareholders’ equity/total assets	**42.8%**	66.0%	-	**42.8%**	41.8%
Shareholders’ equity per share (Yen/US$)	**962.65**	880.98	9.3	**8.16**	935.11
Net income per share (Yen/US$)	**54.26**	70.75	(23.3)	**0.46**	130.58
Net income per share, fully diluted (Yen/US$)	**54.22**	70.56	(23.2)	**0.46**	130.28
Net cash provided by operating activities	**85,729**	64,695	-	**727.1**	117,292
Net cash used in investing activities	**(30,079)**	(45,146)	-	**(255.1)**	(479,535)
Net cash used in financing activities	**(46,848)**	(15,413)	-	**(397.4)**	356,721
Cash and cash equivalents, end of term	**74,987**	75,511	-	**636.0**	67,527

Notes:

1. *Net income per share is computed based on the weighted average number of shares outstanding during the corresponding periods: 544,973,118 shares for fiscal 2006 1st half, 543,968,592 shares for fiscal 2005 1st half and 544,126,518 shares for fiscal 2005.*
2. *Number of shares outstanding at the end of the periods: 544,959,170 shares for September 2006, 544,034,665 shares for September 2005 and 544,945,975 for March 2006.*
3. *Changes in scope of consolidation: Consolidated subsidiaries (1 addition)*
4. *U.S. dollar amounts represent translations using the approximate exchange rate on September 29, 2006, of 117.90 yen=US$1, and are included solely for the convenience of readers.*
5. *Yen amounts are rounded down to the nearest million.*

Forecast of Consolidated Results for the Fiscal Year Ending March 31, 2007

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

	Year ending March 31, 2007	
	Yen	U.S. dollars
Net sales	¥1,220,000	$10,347.8
Operating income	117,000	992.4
Ordinary income	115,000	975.4
Net income	68,000	576.8
Net income per share (Yen/US$)	124.78	1.06

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 2006	SALES 2005	% change	Like-for-like	OPERATING INCOME 2006	OPERATING INCOME 2005	Incr./(Dcr.)
Consumer Products	**373.0**	353.1	5.6	3.8	**47.2**	47.3	(0.0)
Prestige Cosmetics	**135.1**	39.3	243.7	243.1	**(0.6)**	3.8	(4.5)
Chemical Products	**108.9**	103.8	4.9	1.4	**11.7**	11.7	0.0
Corporate/Eliminations	**(14.5)**	(13.1)	-	-	**0.0**	0.1	(0.0)
Consolidated	**602.5**	483.0	24.7	22.6	**58.4**	63.0	(4.6)

Millions of U.S. Dollars

Six months ended September 30	SALES 2006	SALES 2005	% change	Like-for-like	OPERATING INCOME 2006	OPERATING INCOME 2005	Incr./(Dcr.)
Consumer Products	**3,163.8**	2,994.9	5.6	3.8	**401.0**	401.4	(0.4)
Prestige Cosmetics	**1,146.0**	333.4	243.7	243.1	**(5.8)**	32.9	(38.6)
Chemical Products	**924.1**	880.8	4.9	1.4	**99.6**	99.3	0.3
Corporate/Eliminations	**(123.3)**	(111.6)	-	-	0.8	1.3	(0.6)
Consolidated	**5,110.6**	4,097.5	24.7	22.6	**495.6**	534.9	(39.4)

Consolidated Segment Information by Geography (Unaudited)

Billions of Yen

Six months ended September 30	SALES 2006	SALES 2005	% change	Like-for-like	OPERATING INCOME 2006	OPERATING INCOME 2005	Incr./(Dcr.)
Japan	**454.5**	358.6	26.7	26.7	**51.6**	54.9	(3.2)
Asia/Oceania	**59.7**	52.7	13.4	3.7	**1.0**	3.6	(2.5)
North America	**53.8**	46.1	16.9	8.0	**3.4**	2.7	0.6
Europe	**63.3**	49.6	27.6	22.5	**1.9**	2.5	(0.5)
Corporate/Eliminations	**(29.0)**	(24.0)	-	-	**0.3**	(0.7)	1.0
Consolidated	**602.5**	483.0	24.7	22.6	**58.4**	63.0	(4.6)

Millions of U.S. Dollars

Six months ended September 30	SALES 2006	SALES 2005	% change	Like-for-like	OPERATING INCOME 2006	OPERATING INCOME 2005	Incr./(Dcr.)
Japan	**3,855.6**	3,042.4	26.7	26.7	**438.0**	465.8	(27.8)
Asia/Oceania	**507.0**	447.1	13.4	3.7	**9.0**	30.6	(21.5)
North America	**457.0**	391.0	16.9	8.0	**29.1**	23.2	5.9
Europe	**537.1**	421.1	27.6	22.5	**16.6**	21.5	(4.9)
Corporate/Eliminations	**(246.1)**	(204.0)	-	-	**2.9**	(6.0)	9.0
Consolidated	**5,110.6**	4,097.5	24.7	22.6	**495.6**	534.9	(39.4)

Notes:

1. *U.S. dollar amounts represent translations using the approximate exchange rate on September 29, 2006, of 117.90 yen=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 2005, ended
	2006	2005	Change	**2006**	March 31, 2006
	Yen		%	U.S. dollars	Yen
Net sales	**¥356,676**	¥349,450	2.1	**$3,025.2**	¥688,589
Operating income	**40,211**	48,740	(17.5)	**341.1**	90,551
Ordinary income	**44,985**	53,875	(16.5)	**381.6**	100,134
Net income	**20,515**	35,414	(42.1)	**174.0**	64,133
Total assets	**1,035,436**	623,146	66.2	**8,782.3**	1,024,155
Total shareholders' equity	**480,809**	457,594	5.1	**4,078.1**	474,444
Shareholders' equity/total assets	**46.4%**	73.4%	-	-	46.3%
Shareholders' equity per share (Yen/US$)	**880.81**	840.23	4.8	**7.47**	869.58
Net income per share (Yen/US$)	**37.61**	65.04	(42.2)	**0.32**	117.61
Cash dividends per share (Yen/US$)	**26.00**	25.00	4.0	**0.22**	50.00

Notes:
1. *Net income per share is computed based on the weighted average number of shares outstanding during the corresponding periods: 545,545,990 shares for fiscal 2006 1st half, 544,541,009 shares for fiscal 2005 1st half and 544,699,390 shares for fiscal 2005.*
2. *Number of shares outstanding at the end of the periods: 545,532,042 shares for September 2006, 544,607,082 shares for September 2005 and 545,518,847 for March 2006*
3. *U.S. dollar amounts represent translations using the approximate exchange rate on September 29, 2006, of 117.90 yen=US$1, and are included solely for the convenience of readers.*
4. *Yen amounts are rounded down to the nearest million.*

Forecast of Non-consolidated Results for the Fiscal Year Ending March 31, 2007

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

	Year ending March 31, 2007	
	Yen	U.S. dollars
Net sales	¥700,000	$5,937.2
Operating income	76,000	644.6
Ordinary income	83,000	704.0
Net income	56,000	475.0
Net income per share (yen/US$)	102.65	0.87
Cash dividends per share (yen/US$)	52.00	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.

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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.

Kao aims to be a global group of companies that is closest to consumers and customers in each of its markets. 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.

The corporate philosophy that forms the basis of these activities is "The Kao Way," which clearly expresses Kao's unique corporate culture and the essence of its corporate spirit, and is shared and practiced by all Kao Group employees. Furthermore, from the standpoint of corporate social responsibility (CSR), Kao strives to act in good faith based on high ethical standards, and will contribute to the sustainable development of society by conducting its activities with consideration for environmental impact and conservation of resources.

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

In order to achieve profitable growth, Kao sets policies regarding allocation of profits to internal capital resources for growth and as dividends from a medium-to-long-term management perspective. Considering it important to provide shareholders with stable, continuous dividends, the Company currently has a target payout ratio of approximately 40% of consolidated net income. In order to increase earnings per share and dividends over the long term, the Company will consider flexibly implementing share repurchases as a measure for shareholder returns from a long-term perspective, taking into account the capital demands of activities such as capital investment for growth and acquisition initiatives, as well as increasing capital efficiency. In accordance with these policies, the Company plans to increase the dividend for the interim period ended September 30, 2006 by 1.00 yen compared with the same period in the previous year to 26.00 yen per share, in accordance with its initial forecast. For the fiscal year, the Company plans to increase total dividends by 2.00 yen per share compared with the previous fiscal year, for a total of 52.00 yen per share.

3. Policy Concerning Number of Shares Constituting One Unit Share

Kao believes that sufficient liquidity of shares and the participation of a large number of investors in the market are necessary for appropriate stock prices to be set in the stock market. While the Company believes that reducing the number of shares constituting one unit share can contribute to these factors, the Company recognizes that its stock has a comparatively high liquidity ranking on the Tokyo Stock Exchange during the current fiscal year. As of September 30, 2006, Kao had approximately 44,000 shareholders, of which a large number – approximately 42,000 – are individual shareholders. Kao will continue to consider reducing the number of shares constituting one unit share from a variety of perspectives, including market trends and requirements, trends among individual shareholders, the 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. While working to expand its business scale, 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 assessing specific businesses, for evaluating acquisitions and capital investment, and in developing performance targets for each fiscal year.

**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, a concept referred to at Kao as "Y*oki-Monozukuri**," and to share joy with them. Based on this policy, Kao will conduct activities oriented toward the following three key business objectives in order to **achieve profitable growth by increasing the added value of its products**.

** Kao defines "Yoki-Monozukuri" as a strong commitment by all members to provide products and brands of excellent value for consumer satisfaction. This core concept distinguishes us from all our competitors. In Japanese, "Yoki" literally means good/excellent, and "Monozukuri" means development/manufacturing of products.*

(1) Accelerate Growth in the Business Areas of Beauty Care and Human Health Care*

Kao will position Beauty Care and Human Health Care, which are business areas with high growth potential and in which the Kao Group can take advantage of its strengths, as growth drivers and concentrate investment of management resources in these areas. Particularly, in addition to its existing Beauty Care business, Kao will develop and strengthen its Beauty Care business globally with Molton Brown Limited and Kanebo Cosmetics Inc., which became members of the Kao Group during the fiscal year ended March 31, 2006.

**The scope of "Human Health Care" does not include pharmaceuticals.*

(2) Further Strengthen and Develop Fabric and Home Care, a Core Business

In the Fabric and Home Care business, Kao will work to develop products that promote greater cleanliness, comfort and enjoyment. The Company will also seek to develop products that build new markets and match the increasing emphasis of consumers on sanitation, peace of mind and the environment.

(3) Further Enhance the Chemical Products Business Globally and Locally with Distinctive Products That Meet Customer Needs

The Chemical Products business will work to expand and strengthen its operations while simultaneously conducting global business closely linked to each company in the three regions of Asia including Japan, Europe and North America and optimizing regional operations under local leadership tailored to conditions in each country and region.

Moreover, in order to achieve these three business objectives, Kao will focus on the following Work Process Innovations.

(1) Build a System to Create High-Value-Added Products

With the diversifying values and changing needs of consumers, Kao will develop new marketing and product development methods to create products that offer new value. By introducing these innovative methods into the work processes of business divisions, we will conduct speedy business development.

(2) Establish a Global Management System

As market competition intensifies globally, we will establish an innovative management system that clearly defines the roles of operations in Japan and in other countries. This will enable overall optimization of the Kao Group, effective deployment of management resources, and faster decision-making by management.

6. Issues for Management

As the severity of the business environment increases, with rising raw material prices in addition to maturing markets and changes among consumers, distribution and competitors, Kao's profit structure is changing significantly, and achieving profitable growth is becoming more difficult every year.

In these circumstances, in order to achieve profitable growth by increasing the added value of its products, Kao will develop products with higher added value and quickly build new businesses through further enhancement of research, technologies and development, such as reinforcement of basic technologies and completion of the Kao (China) Research and Development Center, and through measures to respond to changes in the environment in which Kao conducts marketing activities, including the activities of the Marketing Development Center and the Products and Lifestyle Research Center. In particular, in order to accelerate the growth of the overseas Consumer Products business, Kao will work to reorganize operations in Asian countries with rapidly growing markets by mobilizing the total capabilities of the Kao Group and gaining thorough knowledge of local consumers and markets, based on the principles of "Consumer-driven" and "*Genba*-ism*." In the Prestige Cosmetics business, Kao will raise brand value with product creation that takes full advantage of the technologies it shares with Kanebo Cosmetics, its strengthened ability to make proposals regarding store sales using its collective power, and its overseas strategies focused on key regions. With regard to enhancing the global development of the Chemical Products business, Kao will work to achieve an accurate grasp of globalizing customer needs while anticipating future changes as it focuses on making the Chemical Products business stronger and more distinctive.

** "Genba-ism" defines the importance of observing things "on-site," in the actual location and environment, both internally and externally, in order to maximize our understanding of the business and optimize our performance.*

7. Parent Company Issues

Not applicable.

Consolidated Business Results and Financial Condition

I. Interim Period Business Results

1. Summary of Business Results

(1) Summary of Overall Interim Period Business Results

In the interim period ended September 30, 2006, the Japanese economy recovered, with private-sector demand supporting improvement in corporate earnings and growth in capital investment. However, the previous moderate growth trend in consumer spending weakened due to the weather and other factors, and domestic consumer prices were flat. The global economy also recovered steadily, led by the United States and Asia, but the impact of trends in crude oil prices on the domestic and global economies is becoming substantial. In this environment, the Kao Group promoted adding value to products in order to stimulate the market.

Net sales rose 119.4 billion yen to 602.5 billion yen, a 24.7% increase over the same period of the previous fiscal year, due to the addition of Molton Brown Limited and Kanebo Cosmetics Inc. to the Kao Group and the growth of existing businesses. Excluding the positive effect of 10.0 billion yen on overseas sales from exchange rate fluctuation due to the weaker yen, net sales increased 22.6%.

Sales in Japan rose by 26.7%. In the Consumer Products business, in addition to changes in consumers, retailing and companies, the market continued to be intensely competitive, but sales expanded with the launch of new high-value-added products and aggressive marketing. The Prestige Cosmetics business, including Kanebo Cosmetics Inc., performed basically as forecast. In the Chemical Products business, sales grew due to expanding sales of core products.

Overseas sales increased 19.2%, with steady recovery in the Consumer Products business in Asia, where Kao is working to integrate operations with Japan, and brisk growth in the Consumer Products business in North America and Europe and the Chemical Products business.

Cost of sales increased to 244.9 billion yen from 210.7 billion yen in the same period of the previous fiscal year. Although Kao promoted further cost reduction activities, cost of sales increased in tandem with the growth in sales volume, as well as due to higher prices for raw materials centered on petrochemicals, and the increase in imported raw materials in Japan as a result of the weaker yen. As a result, gross profit was 357.5 billion yen, an increase of 31.3%, or 85.1 billion yen, from the same period of the previous fiscal year.

Selling, general and administrative (SG&A) expenses increased 42.9%, or 89.8 billion yen, from the same period of the previous fiscal year to 299.1 billion yen. Besides the addition of the expenses of Molton Brown Limited and Kanebo Cosmetics Inc., other factors included freight and warehouse costs associated with higher sales volume, expenses for new product launches and sales promotion activities in stores.

As a result of the above factors, operating income decreased 7.4%, or 4.6 billion yen, from the same period of the previous fiscal year to 58.4 billion yen. Before deducting 13.0 billion yen in expenses for amortization of goodwill and intellectual property rights related to Kanebo Cosmetics Inc., operating income was 71.4 billion yen, an increase of 8.3 billion yen from the same period of the previous year.

Non-operating income and non-operating were basically the same amount. In the same period of the previous fiscal year, net non-operating income totaled 0.5 billion yen. This was principally due to higher interest expense in connection with an increase in borrowings, bonds and other interest-bearing debt.

As a result, ordinary income decreased 5.1 billion yen from the same period of the previous fiscal year to 58.4 billion yen.

Extraordinary gain and loss totaled a net loss of 1.2 billion yen, essentially unchanged from the same period of the previous fiscal year. Consequently, income before income taxes and minority interests decreased 5.2 billion yen from the same period of the previous fiscal year to 57.2 billion yen.

As a result of factors including an increase in amortization of intellectual property and other rights, Kao forecasts that taxable income for the current fiscal year will decrease from the previous fiscal year, and will not be sufficiently in excess of future deductibles resulting from temporary differences at the end of the current fiscal year. Consequently, based on the application of tax-effect accounting rules, in the interim period Kao has recorded a deferred tax asset valuation allowance for future deductibles resulting from temporary differences, including valuation loss on land not yet scheduled for sale, which was recorded in previous years, for which scheduling (specification or estimate of timing for tax deductions in the allowable period) is not possible, and recorded tax expenses as deferred income taxes. As a result, the effective tax rate after application of tax effect accounting increased from 37.4% in the same period of the previous fiscal year to 47.6%, and net income was 29.5 billion yen, a decrease of 8.9 billion yen from the same period of the previous fiscal year. Net income per share was 54.26 yen, a 16.49 yen decrease from 70.75 yen in the same period of the previous fiscal year.

Although the Company recorded a deferred tax asset valuation allowance and incurred tax expenses, it achieved its initial forecasts for operating income and ordinary income, and therefore will pay its planned interim cash dividend of 26 yen per share, an increase of 1 yen per share.

EVA decreased from the same period of the previous fiscal year, but the primary reason was the increase in the capital cost of investing in Molton Brown Limited and Kanebo Cosmetics Inc., which the Company acquired as long-term growth drivers.

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 115.57 yen and one euro to 142.74 yen.

(2) Summary of Results by Business Segment

Net sales in the Consumer Products business increased steadily in Japan, Asia, North America and Europe. In the Prestige Cosmetics business, the contributions of Molton Brown, which is a prestige brand in the United Kingdom, and Kanebo Cosmetics resulted in significantly higher sales. In the Chemical Products business, competition has generally intensified, but sales expanded steadily as core business fields in North America and Europe have become growth engines.

Despite the effects of increased sales and cost reductions, operating income for the Consumer Products business was flat because of a continued global rise in raw material costs. In the Prestige Cosmetics business, operating income decreased due to factors including an increase in amortization expenses for goodwill and trademarks and other intellectual property rights related to Kanebo Cosmetics Inc.

Excluding the effect of the amortization expenses, operating income increased. The Chemical Products business was impacted by the rise in raw material prices, despite efforts to expand sales and growth in sales of core products.

Consumer Products Business

Net sales of consumer products were 373.0 billion yen, a 5.6% increase over the same period of the previous fiscal year. Excluding the effect of currency fluctuation, sales increased 3.8%. Sales in Japan increased 3.1% over the same period of the previous fiscal year. Overseas sales also increased strongly in each region. Affected by higher raw material process worldwide, operating income was 47.2 billion yen, basically unchanged from the same period of the previous fiscal year.

- Japan

Although consumer purchase prices of major products stabilized near the level of the same period of the previous fiscal year, the market has not bottomed out. By sales channel, sales at drugstores continued to expand. In these circumstances, the Kao Group worked to further strengthen core brands and to launch and nurture new products toward its objective of profitable growth with high-value-added products. It also worked to stimulate the market by aggressively carrying out integrated marketing and sales activities for each chain and area. Despite the effects of increased sales and Kao's efforts to reduce costs and make more effective expenditures, operating income was substantially affected by rising raw material prices.

Sales Composition of Consumer Products

	Billions of yen		
Six months ended September 30	**2006**	2005	% change
Personal Care	**98.4**	95.8	2.7
Fabric and Home Care	**122.3**	120.6	1.4
Feminine Care, Baby Care and Others	**62.1**	57.8	7.5
Total	**283.0**	274.4	3.1

In the market for personal care products, Kao continued to compete on the basis of higher added value, and consumer purchase prices trended upward from the same period of the previous fiscal year in some categories, including the shampoo/conditioner and hair styling product categories.

In the skin care category, Kao increased sales of *Bioré U* body cleanser by promoting the product's new fragrances and cleansing quality, in order to meet the needs of consumers with changing values and lifestyles. In the shampoo and conditioner category, Kao launched *Asience Rich and Condensed Hair Mask* and conducted a complete renewal of *Essential*, achieving strong sales, but overall category sales decreased slightly due to intense competition. In the oral care category, Kao launched *Medicated Pyuora* toothpaste and dental rinse, which base their appeal of "freshening up a pasty mouth" under the concept of total oral cleaning.

As a result, sales of personal care products increased 2.7% compared with the same period of the previous fiscal year.

Principal new products:
Essential Damage Care Nuance Airy shampoo/conditioner
Liese Supply Yogurt Wax hair styling agent
Medicated Pyuora toothpaste/dental rinse

In fabric and home care products, intense price competition in the market continued and the deflationary environment persisted, though it is moderating.

Under these conditions, the Kao Group worked to raise the value of core brands. In the laundry detergent category, Kao launched *Attack ALL in*, which contains bleach and fabric softener, and *New Beads with Fabric Softener* liquid laundry detergent, which leaves clothes feeling soft with a lasting fresh scent. However, sales of gift items were flat, and overall sales were essentially unchanged from the same period of the previous fiscal year. The launch of *Humming Flair Relaxing Herbal Scented* fabric softener expanded sales. Sales in the dishwashing detergent category expanded with the launch of *Family Kyukyutto Pink Grapefruit*, which provides results users can feel, and strong sales of a new detergent for automatic dishwashers formulated with citric acid. The addition of *Resesh Refreshing Scent* to *Resesh* fabric freshener with a deodorizing ingredient extracted from green tea leaves gained consumer support, achieving strong sales while expanding the market.

As a result of the above, sales of fabric and home care products increased 1.4% compared with the same period of the previous fiscal year.

Principal new products:
Attack ALL in laundry detergent
Kitchen Magiclean with Deodorant kitchen cleaner
Resesh Refreshing Scent fabric freshener

In the area of feminine care, sales increased as *Laurier F* sanitary napkins, which alleviate skin stress, gained steady consumer support and Kao enhanced the product line. Kao continued to renew products in the disposable baby diaper category to improve basic product performance and raise brand value. As a result, sales were higher than in the same period of the previous fiscal year. Sales of *Relief* adult incontinence products increased with the expansion of the market.

In the health care category, sales of *Econa* healthy cooking oils were impacted by increasing competition in the market. Sales of *Healthya* healthy drinks increased with the launch of *Healthya Water* with a refreshing grapefruit flavor.

As a result, sales of feminine care, baby care and other products increased 7.5% compared with the same period of the previous fiscal year.

Principal new products:
Laurier F Non-Heavy Daytime to Light Day Use sanitary napkins
Relief Rehabilitation Starter Pants adult incontinence product
Healthya Water sports drink

- Asia

Asian markets are undergoing major structural changes as they grow, with changing consumer needs and the continuing entry of global retail chains. In addition, competition among companies continues to intensify. In these conditions, the Kao Group is working toward building a unified management structure that encompasses all of Asia, including Japan. Kao strengthened coordination of marketing and sales activities among Japan and local markets, and expanded the *Asience* hair care brand from Taiwan and Hong Kong to Singapore, resulting in sales growth. In the sanitary napkin category, Kao launched *Laurier F* in Hong Kong and Singapore. In addition, *Attack Easy* laundry detergent was launched in

Thailand, and sales were strong.
As a result, sales in Asia increased 17.1% to 31.5 billion yen compared with the same period of the previous fiscal year.

- North America and Europe

In the markets of North America and Europe, the Kao Group specializes in personal care products and has worked to establish products with high added value. Kao Brands Company in the U.S. launched *natural glow* under the *Jergens* skin care brand. The launch of a product for the face, in addition to the existing product for the body, increased sales of this product, which gradually gives skin a healthy tan color while moisturizing. Kao Professional Salon Services GmbH expanded sales by conducting a major renewal of the KMS brand for high-end beauty salons. As a result, sales in North America and Europe increased 12.6% from the same period of the previous fiscal year to 62.2 billion yen.

Prestige Cosmetics Business

As consumer values, attitudes toward beauty, and retail channels change, the Kao Group worked to strengthen its product and sales capabilities in response to these changes, with the aim of raising brand value. Sales of Kanebo Cosmetics increased solidly with the launches of the premium prestige skin care brand *Impress* and the makeup brand *Lavshuca*. Sales were solid, with new products including *Blanchir Whitening Conclusion* whitening serum. *Kao Sofina* launched a new skin care brand, *HADA KA*, and introduced new products, including for the makeup brands *Raycious AuraChange Foundation* and *AUBE Rouge Moisture*. Molton Brown made a substantial contribution, as its sales increased with the addition of new products and expansion of sales regions.

As a result, sales of prestige cosmetics increased 243.7% from the same period of the previous fiscal year to 135.1 billion yen. Operating loss was 0.6 billion yen, compared with operating income of 3.8 billion yen in the same period of the previous fiscal year, but the result was in line with the Company’s forecast . Before deduction of amortization related to Kanebo Cosmetics Inc., operating income was 12.3 billion yen, an increase of 8.4 billion yen from the same period of the previous year.

Principal new products:
Blanchir Whitening Conclusion whitening serum
est pore solution skin care
Molton Brown Skincolour skin care

Chemical Products Business

Although the Japanese economy remains on a recovery track, with improved corporate earnings and increased capital investment, rising costs due to fluctuating crude oil prices are exerting a substantial impact on the global economy. 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 108.9 billion yen, an increase of 4.9% compared to the same period of the previous fiscal year (excluding the effect of currency translation, the increase was 1.4%). Operating income was impacted by rising raw material prices, but remained basically unchanged from the same period of the previous fiscal year at 11.7 billion yen due to the increase in sales.

- Japan

In the performance chemicals business, plastic-related additives and high-performance concrete admixtures performed well, but the oleo chemicals business was weak, with a downturn in its target markets. In the specialty chemicals business, which is closely linked to customers and offers high added value, sales of polishing agents for hard disks increased significantly, while sales of products such as cleaners for electronic parts grew due to positive customer evaluation of their features. However, sales of toner and toner binder for copiers and printers and pigment auxiliary for inkjet printer ink decreased from the same period in the previous fiscal year. As a result, overall sales increased 2.1% over the same period of the previous fiscal year to 57.8 billion yen.

- Asia

Sales in Greater China increased as a result of the expansion of sales from continuing rapid economic growth in China, as well as factors including the growth of the LCD industry in Taiwan. However, sales of fatty alcohols produced in Malaysia and the Philippines decreased as a result of weakening market conditions, despite Kao's reputation for high-quality products based on its original technologies, as well as global sales expansion efforts. As a result, sales in Asia increased 2.9% over the same period of the previous fiscal year to 26.4 billion yen.

- North America and Europe

Sales were strong in the toner and toner binder business, where Kao made aggressive capital investments in response to the growth of its three markets of Japan, the United States and Europe. In Germany, sales of high-performance concrete admixtures and tertiary amines increased due to the reputation of product features. As a result, overall sales increased 12.0% compared with the same period of the previous fiscal year to 40.5 billion yen.

2. Forecast for the Fiscal Year Ending March 31, 2007

(1) Forecast of Results for the Fiscal Year

The Japanese economy is expected to continue its private sector-led recovery as the strength of corporate earnings spreads to household budgets. Although improved employment conditions are linked to improved household earnings, growth in personal consumption is expected to be weak, and the trend in prices of petrochemical-related products is expected to affect consumer prices as well. Moreover, although the global economy is expected to be solid, centered on the United States and Asia, persistent uncertain conditions are expected to remain.

In the domestic consumer products market, changes are appearing in the downward trajectory of retail prices and a recovery trend in sales volume is also evident, but severe competition is forecast to continue. Overseas, the competitive environment is expected to continue intensifying despite market growth.

Under these conditions, the Kao Group aims to achieve profitable growth by adding a high level of value to its products. It will focus on beauty care, which incorporates prestige cosmetics as well as hair care, skin care and other consumer products, and human health care, both of which areas have particularly high growth potential. It will also work to further strengthen and develop the core Fabric and Home Care business. 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 new product launches, marketing and sales promotion activities to strengthen core brands. Through these measures, Kao will work to strengthen its competitiveness in the domestic market and expand sales. In the growing Asian market, Kao will deploy the comprehensive strength of the Kao Group by clarifying the roles of local and Japan-based operations and integrating all divisions from product development to sales, based on a unified management structure that encompasses all of Asia, including Japan. In addition, Kao will work to establish supply chain management in each region of Asia to further raise the level of efficiency. 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, while responding to changes in retail channels, Kao will work to generate synergy with Kanebo Cosmetics Inc. and Molton Brown Limited, and further raise brand value through measures such as introducing distinctive new products. In the Chemical Products business, Kao will strive to fully leverage the characteristics of the oleo chemical, performance chemicals and specialty chemicals businesses. In addition, for unique Kao Group products, Kao plans to make aggressive capital investments based on accurate forecasts of market trends in order to expand the business globally.

As a result, Kao forecasts net sales to increase 25.6%, or 248.7 billion yen, from the previous fiscal year to 1,220.0 billion yen. Operating income is expected to decline 2.6% to 117.0 billion yen, despite the contribution of Kanebo Cosmetics Inc., as a result of factors including the rise in raw material prices and expenses for amortization of goodwill and trademark and other intellectual property rights. Ordinary income is expected to decline 5.7% to 115.0 billion yen because financial expenses will increase due to the effect of an increase in interest-bearing debt, including bank loans. Taking into account the tax expenses that Kao will incur as a result of recording a deferred tax asset valuation allowance, net income is forecast to decrease 4.4% to 68.0 billion yen.

Despite the decrease in income from the initial forecast as a result of recording a deferred tax asset valuation allowance and other factors, Kao emphasizes stable, continuous dividends. The Company expects to pay a year-end dividend of 26 yen per share, as initially forecast. Together with the interim dividend, total dividends for the fiscal year will total 52 yen per share, an increase of 2 yen per share over the previous fiscal year.

Despite an increase in net operating profit after tax (NOPAT) resulting from the acquisitions of Molton Brown Limited and Kanebo Cosmetics Inc. as long-term growth drivers and the growth of existing businesses, because that increase will be exceeded by the increase in cost of additional investment capital, Kao expects EVA to decrease compared with the previous fiscal year.

(2) Underlying Assumptions of the Forecast for the Fiscal Year Ending March 31, 2007

The above forecast was made assuming translation rates of one U.S. dollar to 117 yen and one euro to 145yen.

II. **Financial Condition**

1. Summarized Financial Condition for the Six Months Ended September 30, 2006

Summarized Financial Condition (Unaudited)

	Billions of Yen		
	Sept. 30, 2006	March 31, 2006	Increase (Decrease)
Total assets	**1,227.0**	1,220.5	6.4
Net assets	**533.1**	509.6	23.5
Net assets/total assets	**42. 8%**	41. 8%	
Net assets per share (yen)	**962.65**	935.11	27.54

Summarized Consolidated Cash Flows (Unaudited)

	Billions of Yen		
SIX MONTHS ENDED SEPTEMBER 30	**2006**	2005	Increase (Decrease)
Net cash provided by operating activities	**85.7**	64.6	21.0
Net cash used in investing activities	**(30.0)**	(45.1)	15.0
Net cash used in financing activities	**(46.8)**	(15.4)	(31.4)
Translation adjustments	**(1.3)**	1.0	(2.3)
Net increase (decrease)	**7.4**	5.1	2.2
Cash and cash equivalents, beginning of year	**67.5**	70.4	(2.8)
Cash and cash equivalents of newly consolidated subsidiaries, increase	**--**	0.7	(0.7)
Cash and cash equivalents due to exclusion of previously consolidated subsidiaries, decrease	**--**	(0.8)	0.8
Cash and cash equivalents, end of period	**74.9**	75.5	(0.5)
Total debt at end of period	**376.9**	22.2	354.6

Total assets increased 6.4 billion yen compared with the previous fiscal year-end to 1,227.0 billion yen. Principal factors in the increase were business expansion and an 18.5 billion yen increase in notes and accounts receivable because the last day of the interim period was a business holiday. The principal factor decreasing assets was a 5.2 billion yen decrease in deferred tax assets.

Total liabilities decreased 8.1 billion yen compared with the previous fiscal year-end to 693.8 billion yen. Principal factors increasing liabilities were business expansion, as well as a 10.3 billion yen increase in notes and accounts payable and a 22.5 billion increase in accrued expenses because the last day of the interim period was a business holiday. The principal factor decreasing liabilities was a 31.0 billion yen decrease in bank borrowings and other interest-bearing debt. The balance of bank borrowings and bonds as of September 30, 2006 was 376.9 billion yen.

Net assets including minority interests increased 14.6 billion yen compared with the previous fiscal year-end to 533.1 billion yen. The main factor increasing net assets was net income of 29.5 billion yen, and the main factor decreasing net assets was payment of cash dividends totaling 13.6 billion yen. As a result, the net worth ratio increased from 41.8% at March 31, 2006 to 42.8%.

Net cash provided by operating activities increased 21.0 billion yen compared with the same period of the previous fiscal year to 85.7 billion yen. Income before income taxes and minority interests for the interim period was 57.2 billion yen, and depreciation and amortization totaled 43.7 billion yen. Income taxes paid totaled 20.3 billion yen.

Net cash used in investing activities decreased 15.0 billion yen compared with the same period of the previous fiscal year to 30.0 billion yen. This primarily consisted of 36.7 billion yen for capital expenditures and other purchases of property, plant and equipment, and for intangible fixed assets.

Net cash used in financing activities increased 31.4 billion yen compared with the same period of the previous fiscal year to 46.8 billion yen. During the interim period, the Company replaced short-term debt used as capital for acquisition of the stock and other assets of Kanebo Cosmetics Inc. with bond issues and long-term loans, in addition to repaying a portion of the short-term debt. Payments of cash dividends, including to minority shareholders, totaled 14.9 billion yen.

As a result, the balance of cash and cash equivalents at the end of the interim period was 74.9 billion yen, an increase of 7.4 billion yen from the end of the previous fiscal year.

2. Forecast for the Fiscal Year Ending March 31, 2007

Net cash provided by operating activities is expected to increase compared with the previous fiscal year. Income before income taxes and minority interests is expected to decrease compared with the previous fiscal year as Kao incurs expenses for amortization of goodwill in connection with the consolidation of Kanebo Cosmetics Inc. However, at the same time, depreciation and amortization, including amortization of trademark and other intellectual property rights, is projected to increase substantially, totaling approximately 89.0 billion yen.

Net cash used in investing activities is projected to decrease significantly compared with the previous fiscal year. Capital expenditures are forecast to total approximately 70.0 billion yen, including capital investment in Japan and overseas to expand production capacity and promote streamlining.

In net cash used in financing activities, the Company will allocate funds for repayment of its borrowings for the acquisition of the stock and other assets of Kanebo Cosmetics Inc. In addition, payments of cash dividends are expected to increase approximately 4.5 billion yen compared with the previous fiscal year. The balance of short- and long-term debt is projected to be approximately 360.0 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, 2007 is forecast to remain essentially unchanged from the previous fiscal year-end at approximately 70.0 billion yen.

3. Cash Flow Indices

	SIX MONTHS ENDED SEPT. 30	YEARS ENDED MARCH 31			
	2006	2006	2005	2004	2003
Net worth ratio (%)	**42.8**	41.8	65.1	59.1	57.9
Market capitalization/Total assets (%)	**139.9**	138.4	195.2	179.8	186.0
Interest-bearing debt/Operating cash flow (years)	-	3.6	0.3	0.5	0.4
Operating cash flow/Interest paid (times)	**48.7**	82.1	120.1	91.3	85.8

Notes:
1. All indices are computed based on consolidated data.
2. Net worth ratio: Net assets - share subscription rights - minority interests) / total assets
3. 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).
4. 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 the amount shown in the consolidated statements of cash flows.
5. 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. However, in the event that unanticipated situations such as those listed below should occur, they could exert a significant impact on the Kao Group's business results and financial condition. It should be noted that any statements made in this text concerning the future are judgments made by the Company as of the date of this announcement of interim results (October 23, 2006).

(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.

(2) There is believed to be a high probability that a major earthquake will occur in any region of Japan. The Kao Group has implemented various countermeasures, including earthquake resistance diagnosis and seismic retrofitting, at all of its production facilities. In spite of these measures, however, in the event of an unexpectedly major earthquake, the Kao Group's ability to secure raw materials, maintain continuity of production or supply products to the market may be disrupted, which could have a significant impact on the Kao Group's business results and financial condition.

(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.

This release contains 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, and fluctuations in currency exchange and interest rates, could cause actual results to differ materially from expectations.

Consolidated Balance Sheets

Millions of yen

	(A) 1H/FY2006 Sep 30, 2006	Composition %	(B) FY2005 March 31, 2006	Composition %	Inc/(Dec) (A-B)	1H/FY2005 Sep 30, 2005	Composition %
Assets							
Current assets	**374,195**	**30.5**	**364,613**	**29.9**	**9,581**	**304,782**	**42.0**
Cash and time deposits	44,400		47,384		(2,983)	54,141	
Notes and accounts receivable - trade	147,635		129,120		18,515	105,947	
Short-term investments	27,592		20,189		7,402	24,370	
Inventories	108,106		105,853		2,252	89,151	
Deferred income taxes	20,277		19,479		797	14,045	
Other	28,358		44,781		(16,423)	19,098	
Allowance for doubtful receivables	(2,174)		(2,196)		21	(1,972)	
Fixed assets	**852,829**	**69.5**	**855,872**	**70.1**	**(3,042)**	**421,437**	**58.0**
Tangible assets	285,387	23.3	282,796	23.1	2,591	261,833	36.0
Buildings and structures	95,613		95,097		515	89,996	
Machinery, equipment and vehicles	90,359		90,520		(161)	80,869	
Tools, furniture and fixtures	13,219		12,487		731	10,819	
Land	67,094		67,111		(17)	62,063	
Construction in progress	19,100		17,578		1,522	18,083	
Intangible assets	459,261	37.4	466,221	38.2	(6,959)	112,580	15.5
Goodwill	260,473		267,152		(6,679)	57,246	
Trademarks	158,259		156,241		2,018	40,723	
Other	40,528		42,827		(2,298)	14,610	
Investments and other assets	108,180	8.8	106,854	8.8	1,325	47,023	6.5
Investment securities	17,018		18,298		(1,279)	16,811	
Long-term loans	171		293		(121)	285	
Deferred income taxes	50,201		56,212		(6,011)	14,680	
Other	40,972		32,333		8,639	15,420	
Allowance for doubtful receivables	(184)		(283)		98	(173)	
Deferred assets	**36**	**0.0**	**77**	**0.0**	**(40)**	**121**	**0.0**
Total assets	**1,227,062**	**100.0**	**1,220,564**	**100.0**	**6,498**	**726,341**	**100.0**
Liabilities							
Current liabilities	**313,508**	**25.5**	**436,193**	**35.7**	**(122,684)**	**221,660**	**30.5**
Notes and accounts payable - trade	106,851		96,507		10,343	76,192	
Short-term debt	21,491		166,759		(145,268)	19,739	
Current portion of convertible bonds	-		-		-	1,068	
Current portion of long-term debt	22,806		22,699		107	711	
Accounts payable - other	26,004		27,478		(1,473)	20,017	
Accrued expenses	98,460		75,951		22,509	67,330	
Accrued income taxes	17,993		17,510		482	20,087	
Other	19,901		29,286		(9,385)	16,512	
Long-term liabilities	**380,365**	**31.0**	**265,790**	**21.8**	**114,575**	**17,862**	**2.5**
Bonds	99,995		-		99,995	-	
Long-term debt	232,654		218,545		14,109	735	
Liability for employee retirement benefits	30,053		29,439		614	3,677	
Liability for director and corporate auditor retirement benefits	163		180		(17)	180	
Other	17,498		17,625		(126)	13,269	
Total liabilities	**693,874**	**56.5**	**701,983**	**57.5**	**(8,109)**	**239,522**	**33.0**
Minority interests	**-**	**-**	**8,903**	**0.7**	**-**	**7,533**	**1.0**
Common stock	-	-	85,424	7.0	-	85,424	11.8
Capital surplus	-	-	109,561	9.0	-	109,561	15.1
Retained earnings	-	-	345,941	28.3	-	327,872	45.1
Unrealized gain on available-for-sale securities	-	-	5,860	0.5	-	4,850	0.7
Foreign currency translation adjustments	-	-	(26,944)	(2.2)	-	(36,041)	(5.0)
Treasury stock, at cost	-	-	(10,165)	(0.8)	-	(12,381)	(1.7)
Shareholders' equity	**-**	**-**	**509,676**	**41.8**	**-**	**479,285**	**66.0**
Total liabilities, minority interests & shareholders' equity	**-**	**-**	**1,220,564**	**100.0**	**-**	**726,341**	**100.0**
Shareholders' equity	**546,589**	**44.6**	**-**	**-**	**-**	**-**	**-**
Common stock	85,424	7.0	-	-	-	-	-
Capital surplus	109,571	8.9	-	-	-	-	-
Retained earnings	361,798	29.5	-	-	-	-	-
Treasury stock, at cost	(10,204)	(0.8)	-	-	-	-	-
Adjustments for valuation, foreign currency translation and others	**(21,982)**	**(1.8)**	**-**	**-**	**-**	**-**	**-**
Unrealized gain on available-for-sale securities	4,951	0.4	-	-	-	-	-
Foreign currency translation adjustments	(26,933)	(2.2)	-	-	-	-	-
Stock acquisition right	**301**	**0.0**					
Minority interests	**8,278**	**0.7**	**-**	**-**	**-**	**-**	**-**
Total net assets	**533,187**	**43.5**	**-**	**-**	**-**	**-**	**-**
Total liabilities and total net assets	**1,227,062**	**100.0**	**-**	**-**	**-**	**-**	**-**

Consolidated Statements of Income

Kao Corporation
October 23, 2006

Millions of yen

	(A) 1H/FY2006 Apr - Sep 2006	% to net sales	(B) 1H/FY2005 Apr - Sep 2005	% to net sales	Inc/(Dec) (A-B)	FY2005 Apr '05 - Mar '06	% to net sales
Net sales	**602,538**	**100.0**	**483,098**	**100.0**	**119,439**	**971,230**	**100.0**
Cost of sales	244,981	40.7	210,722	43.6	34,259	427,734	44.0
Gross profit	**357,556**	**59.3**	**272,376**	**56.4**	**85,180**	**543,496**	**56.0**
Selling, general and administrative expenses (*2)	286,113	47.4	209,305	43.3	76,808	420,759	43.3
Operating income before amortization related to Kanebo Cosmetics	**71,442**	**11.9**	**63,070**	**13.1**	**8,371**	**122,736**	**12.7**
Amortization related to Kanebo Cosmetics (*1)	13,015	2.2	-	-	13,015	2,601	0.3
Operating income	**58,426**	**9.7**	**63,070**	**13.1**	**(4,643)**	**120,134**	**12.4**
Non-operating income	3,226	0.5	1,970	0.4	1,256	4,528	0.5
Interest income	1,002		453		549	1,161	
Dividend income	78		63		15	93	
Foreign currency exchange gain	330		-		330	13	
Other	1,815		1,453		361	3,260	
Non-operating expenses	3,172	0.5	1,402	0.3	1,769	2,706	0.3
Interest expense	1,990		469		1,520	1,396	
Equity in losses of nonconsolidated subsidiaries and affiliates	438		173		264	593	
Foreign currency exchange loss	-		504		(504)	-	
Other	743		254		489	716	
Ordinary income	**58,480**	**9.7**	**63,638**	**13.2**	**(5,157)**	**121,956**	**12.6**
Extraordinary income	267	0.0	290	0.0	(22)	1,663	0.1
Gain on sales of fixed assets	195		161		34	241	
Gain on sales of investment securities	7		74		(67)	1,202	
Other	65		55		9	219	
Extraordinary loss	1,491	0.2	1,442	0.3	49	6,711	0.7
Loss on sales/disposals of fixed assets	1,197		1,009		187	2,561	
Loss on impairment of long-lived assets	158		109		48	233	
Other	135		322		(187)	3,916	
Income before income taxes and minority interests	**57,256**	**9.5**	**62,486**	**12.9**	**(5,229)**	**116,908**	**12.0**
Income taxes - current	20,552	3.4	20,539	4.2	12	38,695	4.0
Income taxes - deferred	6,674	1.1	2,831	0.6	3,843	5,971	0.6
Minority interests in earnings of consolidated subsidiaries	458	0.1	628	0.1	(170)	1,101	0.1
Net income	**29,571**	**4.9**	**38,486**	**8.0**	**(8,915)**	**71,140**	**7.3**

(*1) Amortization expenses related to Kanebo Cosmetics consisted of amortization of trademark and other intellectual property rights and goodwill in the first half ended September 30, 2006, and amortization of trademark and other intellectual property rights in the year ended March 31, 2006.

(*2) Amortization expenses related to Kanebo Cosmetics are not included in selling, general and administrative expenses. Selling, general and administrative expenses including amortization expenses related to Kanebo Cosmetics are 299,129 million yen for the first half ended September 30, 2006 and 423,361 million yen for the year ended March 31, 2006.

Consolidated Statements of Retained Earnings

Millions of yen

	1H/FY2005 Apr - Sep 2005	FY2005 Apr '05 - Mar '06
Capital surplus		
Balance at the beginning of period	109,561	109,561
Balance at the end of period	109,561	109,561
Retained earnings		
Retained earnings at the beginning of period	299,345	299,345
Increase in retained earnings	40,334	72,987
Net Income	38,486	71,140
Increase by newly consolidated companies and affiliates accounted for the equity method	1,847	1,847
Decrease in retained earnings	11,808	26,392
Cash dividends paid	10,354	23,955
Bonuses paid to directors and corporate auditors	91	91
Loss on transfer of treasury stock related to conversion of convertible bonds and other	1,361	2,345
Balance at the end of period	327,872	345,941

Consolidated Statements of Changes in Net Asset

Millions of yen

1H/FY2006
Apr - Sep 2006

	Shareholders' equity					Adjustments for valuation, foreign currency translation and others			Stock acquisition right	Minority interests	Total net assets
	Common stock	Capital surplus	Retained earnings	Treasury stock	Total Shareholders' equity	Unrealized gain on available-for-sale securities	Foreign currency translation adjustments	Total Adjustments for valuation, foreign currency translation and others			
Balance at the end of previous period	85,424	109,561	345,941	(10,165)	530,760	5,860	(26,944)	(21,084)	-	8,903	518,580
Changes of items during the period											
Dividends from retained earnings			(13,623)		(13,623)						(13,623)
Bonuses paid to directors and corporate auditors from retained earnings			(90)		(90)						(90)
Net income			29,571		29,571						29,571
Purchase of treasury stock				(448)	(448)						(448)
Disposal of treasury stock		10		409	420						420
Net changes of items other than shareholders' equity during the period						(909)	11	(897)	301	(625)	(1,221)
Total changes of items during the period	-	10	15,857	(38)	15,828	(909)	11	(897)	301	(625)	14,607
Balance at the end of previous period	85,424	109,571	361,798	(10,204)	546,589	4,951	(26,933)	(21,982)	301	8,278	533,187

Consolidated Statements of Cash Flows

Millions of yen

	1H/FY2006 Apr - Sep 2006	1H/FY2005 Apr - Sep 2005	FY2005 Apr '05 - Mar '06
Operating activities:			
Income before income taxes and minority interests	57,256	62,486	116,908
Adjustments for:			
Depreciation and amortization	43,762	27,640	60,758
Loss on sales or disposals of property, plant and equipment, net	1,001	848	2,320
Interest and dividend income	(1,080)	(516)	(1,254)
Interest expense	1,990	469	1,396
Unrealized foreign currency exchange (gain) loss	(212)	861	494
Equity in (earnings) losses of non-consolidated subsidiaries and affiliates	438	173	593
Change in trade receivables	(17,803)	(602)	618
Change in inventories	(1,893)	(5,277)	(4,592)
Change in prepaid pension cost	(7,885)	680	(8,467)
Change in trade payables	10,291	4,019	(1,759)
Change in other payables and accrued expense	20,300	5,156	969
Change in liability for retirement benefits	567	(6,585)	(6,614)
Other, net	(156)	(5,440)	(3,395)
Sub-total	106,577	83,916	157,976
Interest and cash dividends received	1,225	1,856	3,379
Interest paid	(1,762)	(465)	(1,428)
Income taxes paid	(20,311)	(20,611)	(42,634)
Net cash provided by operating activities	**85,729**	**64,695**	**117,292**
Investing activities:			
Purchase of marketable securities	-	(2,999)	(2,999)
Proceeds from the redemption of marketable securities	-	6,000	8,999
Purchase of property, plant and equipment	(22,548)	(22,216)	(49,528)
Proceeds from sales of property, plant and equipment	363	664	1,482
Increase in intangible assets	(14,176)	(1,380)	(151,660)
Purchase of investment securities	(625)	(17)	(36)
Proceeds form the redemption and sales of investment securities	17	8,031	9,300
Payments for acquisition of stocks of newly consolidated subsidiaries	-	(31,656)	(293,034)
Change in short-term loans, net	12,282	(110)	(84)
Payments for long-term loans	(515)	(428)	(897)
Other, net	(4,876)	(1,033)	(1,076)
Net cash used in investing activities	**(30,079)**	**(45,146)**	**(479,535)**
Financing activities:			
Change in short-term debt, net	(145,641)	813	146,683
Proceeds from long-term loans	30,628	85	240,245
Repayments of long-term loans	(16,535)	(122)	(547)
Proceeds from bond	99,681	-	-
Purchase of treasury stock	(448)	(5,517)	(6,056)
Payments of cash dividends	(13,629)	(10,354)	(23,980)
Payments of cash dividends to minority shareholders	(1,320)	(590)	(592)
Other, net	417	273	970
Net cash provided by (used in) financing activities	**(46,848)**	**(15,413)**	**356,721**
Translation adjustments on cash and cash equivalents	**(1,341)**	**1,055**	**2,727**
Net increase (decrease) in cash and cash equivalents	**7,460**	**5,190**	**(2,794)**
Cash and cash equivalents, beginning of year	**67,527**	**70,409**	**70,409**
Cash and cash equivalents of newly consolidated subsidiaries, increase	**-**	**760**	**760**
Cash and cash equivalents due to exclusion of previously consolidated subsidiaries, decrease	**-**	**(848)**	**(848)**
Cash and cash equivalents, end of period	**74,987**	**75,511**	**67,527**

Segment Information by Business

Millions of yen

1H/FY2006

Apr - Sep 2006	**Consumer Products**	**Prestige Cosmetics**	**Chemical Products**	**Total**	**Corporate/ Eliminations**	**Consolidated**
Net sales						
Sales to customers	373,014	135,113	94,410	602,538	-	602,538
Intersegment sales	-	-	14,540	14,540	(14,540)	-
Total	**373,014**	**135,113**	**108,951**	**617,078**	**(14,540)**	**602,538**
Operating expenses	**325,736**	**122,776**	**97,212**	**545,726**	**(14,630)**	**531,095**
Operating income before amortization related to Kanebo Cosmetics	**47,277**	**12,336**	**11,738**	**71,352**	**90**	**71,442**
Amortization related to Kanebo Cosmetics	-	13,015	-	13,015	-	13,015
Operating income	**47,277**	**(679)**	**11,738**	**58,336**	**90**	**58,426**
% to sales	12.7	(0.5)	10.8	9.5	-	9.7

(*) Amortization expenses related to Kanebo Cosmetics consisted of amortization of trademark and other intellectual property rights and goodwill in the first half ended September 30, 2006.

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 expenses	**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

FY2005

Apr '05 - Mar '06	**Consumer Products**	**Prestige Cosmetics**	**Chemical Products**	**Total**	**Corporate/ Eliminations**	**Consolidated**
Net sales						
Sales to customers	704,033	85,246	181,949	971,230	-	971,230
Intersegment sales	-	-	26,941	26,941	(26,941)	-
Total	**704,033**	**85,246**	**208,890**	**998,171**	**(26,941)**	**971,230**
Operating expenses	**611,334**	**77,473**	**186,861**	**875,668**	**(27,174)**	**848,493**
Operating income before amortization related to Kanebo Cosmetics	**92,699**	**7,773**	**22,029**	**122,502**	**233**	**122,736**
Amortization related to Kanebo Cosmetics	-	2,601	-	2,601	-	2,601
Operating income	**92,699**	**5,171**	**22,029**	**119,901**	**233**	**120,134**
% to sales	13.2	6.1	10.5	12.0	-	12.4

(*) Amortization expenses related to Kanebo Cosmetics consisted of amortization of trademark and other intellectual property rights in the year ended March 31, 2006.

Consolidated Segment Information by Geography

Millions of yen

1H/FY2006
Apr - Sep 2006

	Japan	Asia/Oceania	North America	Europe	Total	Corporate/ Eliminations	Consolidated
Net sales							
Sales to customers	446,603	47,177	53,632	55,124	602,538	-	602,538
Intersegment sales	7,977	12,595	244	8,204	29,021	(29,021)	-
Total	**454,580**	**59,772**	**53,877**	**63,329**	**631,559**	**(29,021)**	**602,538**
Operating expenses	**402,945**	**58,706**	**50,451**	**61,376**	**573,480**	**(29,369)**	**544,111**
Operating income	**51,635**	**1,065**	**3,425**	**1,953**	**58,079**	**347**	**58,426**
% to sales	11.4	1.8	6.4	3.1	9.2	-	9.7
Assets	**920,473**	**111,080**	**77,134**	**138,688**	**1,247,376**	**(20,314)**	**1,227,062**

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**

FY2005
Apr '05 - Mar '06

	Japan	Asia/Oceania	North America	Europe	Total	Corporate/ Eliminations	Consolidated
Net sales							
Sales to customers	697,484	84,468	93,738	95,537	971,230	-	971,230
Intersegment sales	10,571	26,429	1,428	13,947	52,377	(52,377)	-
Total	**708,056**	**110,898**	**95,167**	**109,485**	**1,023,607**	**(52,377)**	**971,230**
Operating expenses	**606,402**	**105,054**	**88,388**	**101,962**	**901,807**	**(50,712)**	**851,095**
Operating income	**101,653**	**5,844**	**6,778**	**7,522**	**121,799**	(1,664)	**120,134**
% to sales	14.4	5.3	7.1	6.9	11.9	-	12.4
Assets	**934,184**	**107,509**	**75,471**	**127,499**	**1,244,665**	**(24,101)**	**1,220,564**

Sales to Foreign Customers

Millions of yen

1H/FY2006 **Apr - Sep 2006**	**Asia/Oceania**	**North America**	**Europe**	**Total**
Total overseas sales	52,884	54,999	53,156	161,040
Consolidated net sales				602,538
Percentage of overseas sales to consolidated net sales	8.8%	9.1%	8.8%	26.7%

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%

FY2005 **Apr '05 - Mar '06**	**Asia/Oceania**	**North America**	**Europe**	**Total**
Total overseas sales	92,711	94,356	93,139	280,207
Consolidated net sales				971,230
Percentage of overseas sales to consolidated net sales	9.5%	9.7%	9.6%	28.9%

Sales Composition

Millions of yen

	1H/FY2006 Apr - Sep 2006	1H/FY2005 Apr - Sep 2005	Growth %	FY2005 Apr '05 - Mar '06
Consumer Products				
Personal Care	98,494	95,899	2.7	187,896
Fabric and Home Care	122,315	120,644	1.4	237,551
Feminine Care, Baby Care and Others	62,195	57,880	7.5	113,630
Total Japan	283,005	274,424	3.1	539,078
Asia and Oceania	31,505	26,911	17.1	57,188
North America and Europe	62,233	55,265	12.6	115,329
Eliminations	(3,729)	(3,499)	6.6	(7,563)
Total	**373,014**	**353,102**	**5.6**	**704,033**
Prestige Cosmetics	**135,113**	**39,307**	**243.7**	**85,246**
Chemical Products				
Japan	57,832	56,660	2.1	114,522
Asia	26,499	25,754	2.9	53,596
North America and Europe	40,569	36,237	12.0	72,196
Eliminations	(15,950)	(14,810)	7.7	(31,424)
Total	**108,951**	**103,842**	**4.9**	**208,890**
Total before Eliminations	**617,078**	**496,251**	**24.3**	**998,171**
Eliminations	(14,540)	(13,153)	10.5	(26,941)
Consolidated Net Sales	**602,538**	**483,098**	**24.7**	**971,230**

Kao Corporation
October 23, 2006

Supplementary Materials to the Business Results for the Interim Period Ended September 30, 2006 Regarding the Recording of a Deferred Tax Asset Valuation Allowance

Tokyo, October 23, 2006 – To increase the efficiency and soundness of its assets, Kao Corporation has been working to conservatively reevaluate its assets through accelerated depreciation of tangible fixed assets, recording valuation losses and other methods. In doing so, temporary differences arise, where expenses are recognized for accounting purposes sooner than the period for recognizing charges against revenues for tax purposes. To date, Kao has recorded the taxable amount of such temporary differences as deferred tax assets in accordance with accounting standards for tax-effect accounting.

Due to factors including an increase in amortization expenses resulting from the acquisition of trademark and other rights of Kanebo Cosmetics Inc., taxable income will decrease in the current fiscal year. As a result, Kao decided to record a valuation allowance for the portion of its deferred tax assets for which it is not possible to specify the period for recognition of charges against revenues, as described below.

Kao forecasts that the increase in tax expenses resulting from recording the valuation allowance for both the interim period and the full fiscal year will be approximately ¥4 billion on a consolidated basis and approximately ¥8 billion on a non-consolidated basis. This valuation allowance will be recorded one time only in the current fiscal year.

Reason for Recording Deferred Tax Asset Valuation Allowance

As a result of careful consideration of the collectability of its deferred tax assets based on “Auditing Treatment to Determine the Collectability of Deferred Tax Assets (Auditing Committee Report No. 66, Japanese Institute of Certified Public Accountants; hereafter “Report No. 66”)”, in the interim period ended September 30, 2006, Kao recorded a deferred tax asset valuation allowance for future deductibles resulting from temporary differences between accounting and taxable income for which scheduling, or specification of timing for tax deductions in the allowable period, is not possible.

Kao has been increasing the efficiency and soundness of its assets by conservatively reevaluating its assets, including the handling of their taxability. In doing so, each fiscal year Kao has substantially recorded taxable income sufficiently in excess of future deductibles resulting from temporary differences at the end of each period, as a company that meets the conditions of Report No. 66, 5 (1) 1, and has also recorded non-schedulable future deductibles resulting from temporary differences as deferred tax assets.

However, with an increase in amortization expenses for the trademarks and other intellectual properties acquired from Kanebo Cosmetics Inc., Kao forecasts that it will not achieve taxable income sufficiently in excess of future deductibles resulting from temporary differences at the end of the current fiscal year, as a company that meets the conditions of Report No. 66, 5 (1) 2. As a result of a review of the scheduling of future deductibles resulting from temporary differences, Kao has decided to record the valuation allowance for non-schedulable future deductibles resulting from temporary differences.

The main items in which the non-schedulable future deductibles resulting from temporary differences appear are valuation loss on land in previous years in the consolidated financial statements and loss on investments in affiliates, which is eliminated in consolidation, in addition to the aforementioned valuation loss on land in the non-consolidated financial statements.

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

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

Report No. 66, 5 (1) 1

Under Report No. 66, although non-schedulable future deductibles resulting from temporary differences, for which the allowable period for tax deductions is not specified, as a general rule may not be recorded as deferred tax assets (Report No. 66, 4), if a company records taxable income sufficiently in excess of future deductibles resulting from temporary differences at the end of its fiscal year for each period (the current period and the previous three or more periods), and there is no major change in the operating environment, then the company may determine that non-schedulable future deductibles resulting from temporary differences are collectable deferred tax assets.

Report No. 66, 5 (1) 2

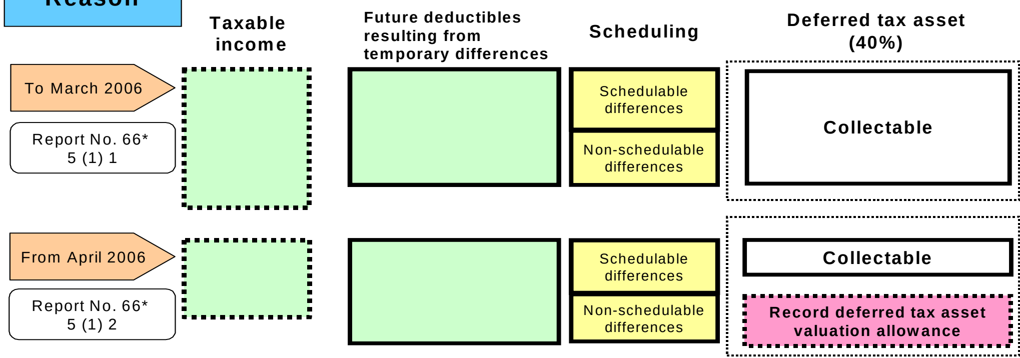
However, if business results are stable, but there is no taxable income sufficiently in excess of future deductibles resulting from temporary differences at the end of the fiscal year, then schedulable future deductibles resulting from temporary differences are determined to be collectable deferred tax assets and non-schedulable future deductibles resulting from temporary differences are determined to be uncollectable deferred tax assets.

Recording of a Deferred Tax Asset Valuation Allowance

Accordingly, in the event of a company's change in applicability from Report No. 66, 5 (1) 1 to Report No. 66, 5 (1) 2 based on the above treatment, even if taxable income after deducting schedulable future deductibles resulting from temporary differences from expected future taxable income is expected to sufficiently exceed non-schedulable future deductibles resulting from temporary differences, the non-schedulable future deductibles resulting from temporary differences are determined to be uncollectable and a deferred tax asset valuation allowance (tax expense) is recorded.

Recording of a Deferred Tax Asset Valuation Allowance

Reason



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)