

Kao Corporation

News Release

July 24, 2006

Summary of Consolidated Business Results for the First Quarter Ended June 30, 2006

Tokyo, July 24, 2006 — Kao Corporation today announced its consolidated business results for the three months ended June 30, 2006, the first quarter of the year ending March 31, 2007. 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)

	First quarter ended June 30			Fiscal 2005, ended	
	2006	2005	Change	2006 (US\$)	March 31, 2006
	Yen		%	U.S. dollars	Yen
Net sales	¥283,854	¥233,165	21.7	\$2,463.2	¥971,230
Operating income	24,197	26,887	(10.0)	210.0	120,134
Ordinary income	24,531	27,652	(11.3)	212.9	121,956
Net income	12,806	15,056	(14.9)	111.1	71,140
Total assets	1,220,052	679,146		10,587.1	1,220,564
Total net assets	519,320	452,582		4,506.4	509,676
Net worth/total assets	41.8%	66.6%		-	41.8%
Total net worth per share (yen/US\$)	934.88	832.61	12.3	8.11	935.11
Net income per share (yen/US\$)	23.50	27.67	(15.1)	0.20	130.58
Net income per share, diluted (yen/US\$)	23.48	27.58	(14.9)	0.20	130.28
	Yen			U.S. dollars	Yen
Net cash provided by operating activities	18,623	13,133		161.6	117,292
Net cash used in investing activities	(13,812)	(911)		(119.9)	(479,535)
Net cash provided by (used in) financing activities	(9,085)	(13,230)		(78.8)	356,721
Cash and cash equivalents at end of period	63,397	69,871		550.1	67,527

Notes:

1. Net income per share is computed based on the weighted average number of shares outstanding during the corresponding periods.
2. U.S. dollar amounts represent translations using the approximate exchange rate on June 30, 2006, of yen 115.24=US\$1, and are presented solely for the convenience of readers.
3. Yen amounts are rounded down to the nearest million.
4. Simplified accounting treatment is adopted partially with respect to the standards for the accounting of liability for employee retirement benefits.
5. Change in scope of consolidation: Consolidated subsidiaries (addition) 1
6. Net assets for the first quarter ended June 30, 2005 and the year ended March 31, 2006 do not include minority interests. In addition, net worth is the same as shareholders' equity for the first quarter ended June 30, 2005 and the year ended March 31, 2006, while net worth for the first quarter ended June 30, 2006 consists of shareholders' equity and adjustments for valuation, foreign currency translation and others.

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Forecast of Consolidated Results for the Six Months Ending September 30, 2006 and the Year Ending March 31, 2007

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

	Six months ending September 30, 2006		Year ending March 31, 2007	
	Yen	U.S. dollars	Yen	U.S. dollars
Net sales	¥600,000	\$5,206.5	¥1,210,000	\$10,499.8
Ordinary income	55,000	477.3	118,000	1,024.0
Net income	34,000	295.0	72,000	624.8
Net income per share (yen/US\$)	-	-	132.12	1.15

Notes:

- 1. The forecasts for the six months ending September 30, 2006 and the year ending March 31, 2007 are unchanged from April 24, 2006.*
- 2. U.S. dollar amounts represent translations using the approximate exchange rate on June 30, 2006, of yen 115.24=US\$1, and are presented solely for the convenience of readers.*

Forward-Looking Statements

This release contains forward-looking statements that are based on management's estimates, assumptions and projections at the time of release. 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.

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Business Results

Summary of Business Results and Financial Condition for the First Quarter Ended June 30, 2006 (Consolidated)

Consolidated net sales for the three months ended June 30, 2006, the first quarter of the year ending March 31, 2007, increased 21.7 percent, or 50.6 billion yen, from the same quarter a year earlier to 283.8 billion yen (a 19.3 percent increase excluding the effect of currency translation). Although the Japanese economy continued to recover at a steady pace, the domestic market for consumer products, the Kao Group's core business area, was weak. Under these conditions, aiming to achieve profitable growth driven by high-value-added products, the Kao Group worked to accelerate growth in the business areas of beauty care and health care*, to further strengthen and develop its core fabric and home care business, and to further enhance the chemical products business globally and locally with distinctive products that meet customer needs. In addition, sales of Kanebo Cosmetics were also consolidated. With regard to income, the Kao Group focused on launches of new products with high added value, sales expansion of existing products and greater efficiency in expenditures, but retail prices declined and raw material prices rose. Moreover, the expenses for the amortization of intellectual property rights and goodwill related to Kanebo Cosmetics were added. As a result, operating income decreased 2.6 billion yen compared with the same quarter a year earlier to 24.1 billion yen, and ordinary income decreased 3.1 billion yen to 24.5 billion yen. Net income for the first quarter decreased 2.2 billion yen to 12.8 billion yen. Operating income before amortization of intellectual property rights and goodwill related to Kanebo Cosmetics was 30.0 billion yen.

*The scope of "health care" does not include pharmaceuticals.

Summary of Results by Business Segment

Consumer Products Business

Net sales of consumer products increased 5.6 percent from the same quarter a year earlier to 176.7 billion yen. Sales in Japan increased 2.0 billion yen mainly due to new product launches. Overseas sales increased due to aggressive business development. However, income decreased compared with the same quarter a year earlier due to the effects of declining retail prices and rising raw material prices.

1. Japan

Sales in Japan increased 1.6 percent from the same quarter a year earlier to 131.2 billion yen. The economy showed upward momentum, with a moderate increase in personal consumption and a shift toward an upward trend in consumer prices. On the other hand, prices continued to decline in the consumer products market, although a change began to become evident as retail prices shifted to an increase in some product categories. Under these conditions, the Kao Group worked to establish products with high added value, as business and sales divisions continued to work in close cooperation to promote

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aggressive marketing activities at each chain store and in each region.

Personal Care: *Bioré U* body cleansers sold well, basing their appeal on a new scent and quality after washing, and sales of *Bioré* facial cleansers and makeup removers increased, as *Bioré Marshmallow Whip* facial foam and *Bioré Cleansing Cotton Smooth Oil In* makeup remover gained consumer support. In addition, *Bub Cool* bath additives performed strongly with the launch of a product containing an assortment of four scents. However, shampoos and conditioners were impacted by intensifying competition. In addition, sales of antiperspirants and other seasonal products were weak due to the unseasonable weather. As a result, sales decreased 0.6 percent from the same quarter a year earlier to 45.7 billion yen.

Fabric and Home Care: Sales increased 2.7 percent from the same quarter a year earlier to 56.2 billion yen. Retail prices of existing products continued to trend downward, albeit gradually, but the Kao Group energized its brands with the launch of laundry detergents *New Beads with Fabric Softener* and *Attack ALL in*. In the fabric softener category, Kao launched *Humming Flair Relaxing Herbal Scented*, which adds deodorizing and odor-preventing functions.

Feminine Care, Baby Care and Others: Sales increased 2.9 percent from the same quarter a year earlier to 29.2 billion yen. In the feminine and baby care category, disposable baby diapers performed well, earning consumer support following a renewal in the previous year. In addition, sales of feminine care products grew as the Kao Group enhanced the product lineup of *Laurier F*, which takes alleviating skin stress as its key concept. In the health care category, healthy cooking oils were impacted by intensifying competition. Although sales of *Healthya Green Tea* decreased, total sales of the *Healthya* brand exceeded those of the previous year with the launch of *Healthya Water* sports drink.

2. Overseas

In Asia, sales increased 15.2 percent from the same quarter a year earlier to 15.1 billion yen (a 4.5 percent increase excluding the effect of currency translation). Intense competition continues as the market grows, but the Kao Group worked to raise its competitiveness by unifying its management in Asia. The Kao Group further strengthened the linkage between marketing and sales activities in Japan and locally to sell the *Asience* premium hair care brand in Taiwan and Hong Kong and to launch *Laurier F* in Hong Kong and Singapore. These products gained consumer support and expanded their sales territories.

In North America and Europe, sales increased 20.7 percent from the same quarter a year earlier to 32.1 billion yen (an 11.7 percent increase excluding the effect of currency translation). The skin care product *Jergens natural glow* performed well, as the line extension of a product for the face in addition to the existing product for the body increased sales. The *KMS* premium professional salon brand sold well following a major renewal.

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Prestige Cosmetics Business

With the addition of Kanebo Cosmetics, the Kao Group worked to create strong, distinctive brands. Kanebo Cosmetics performed strongly, with the launches of the premium prestige brands *Impress* and *Blanchir Whitening Conclusion* whitening serum and the *Lavshuca* makeup series. Kao Sofina launched the new skin care brand *HADA KA*, but the UV care products were impacted by the unseasonable weather. U.K.-based Molton Brown increased sales by adding new products and expanding its sales territory. As a result of the above and the consolidation of Molton Brown and Kanebo Cosmetics, neither of which were in the Kao Group in the same quarter of the previous year, prestige cosmetics business sales approximately tripled compared with the same quarter a year earlier to 59.5 billion yen. The first quarter of Kanebo Cosmetics, which has a fiscal year ending December 31, is from January through March. Therefore, the consolidated financial statements include the results of Kanebo Cosmetics for the two months starting in February, when the company was added to the Kao Group. Income was basically in line with the Kao Group's forecast.

Chemical Products Business

The chemical products business worked to enhance global development, and sales increased 5.4 percent from the same quarter a year earlier to 54.7 billion yen. Income was firm.

1. Japan

Although a moderate economic recovery is continuing, the direction of prices of petroleum-based products and other raw materials is difficult to predict. In this environment, sales of the oleo chemicals business were firm. In the performance chemicals business, sales were weak, due in part to inventory adjustments by some customers. In the specialty chemicals business, sales of toner and toner binder products and pigment auxiliary for color inkjet printer ink decreased compared with the same quarter a year earlier due to intensifying competition in their target markets. On the other hand, intersegment sales to the consumer products business increased. As a result, sales increased 2.3 percent from the same quarter a year earlier to 28.8 billion yen.

2. Overseas

In Asia, sales of surfactants were solid, but sales of fatty alcohols were weak due to softening market conditions. As a result, sales in Asia rose 7.8 percent from the same quarter a year earlier to 13.6 billion yen, but decreased by 4.2 percent excluding the effect of currency translation. In North America and Europe, tertiary amines and high-performance concrete additives performed steadily, and sales increased 12.6 percent from the same quarter a year earlier to 20.3 billion yen (a 6.3 percent increase excluding the effect of currency translation).

Financial Condition

As of June 30, 2006, total assets were 1,220.0 billion yen, almost the same level as the end of the previous fiscal year. Accounts receivable increased due to business expansion, while loans decreased.

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Total liabilities decreased 1.2 billion yen compared with the end of the previous fiscal year, to 700.7 billion yen. Factors in the change were an increase in accrued expenses due to business expansion and a decrease in accrued income taxes as a result of their payment. Total net assets including minority interests were 519.3 billion yen, an increase of 0.7 billion yen from March 31, 2006. Net income for the first quarter totaling 12.8 billion yen was the main factor contributing to the increase in total net assets, while the main factor reducing total net assets was payments of cash dividends. As a result of the above factors, the net worth ratio was 41.8 percent, unchanged from the end of the previous fiscal year.

Net cash provided by operating activities was 18.6 billion yen. Although income before income taxes and minority interests was 24.2 billion yen and depreciation and amortization totaled 20.6 billion yen, income taxes paid totaled 16.6 billion yen and increases in trade receivables and inventories totaled 13.5 billion yen. Net cash used in investing activities was 13.8 billion yen as the acquisition of tangible and intangible assets totaled 24.8 billion yen while the Kao Group obtained proceeds from short-term loans. Payments of cash dividends were the major component of net cash used in financing activities, which totaled 9.0 billion yen. As a result, the balance of cash and cash equivalents at the end of the first quarter was 63.3 billion yen, a decrease of 4.1 billion yen from the balance at the end of the previous fiscal year.

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

Consolidated results for the first quarter were basically in line with the Kao Group's initial plan. The forecast of consolidated results for the full fiscal year (April 1, 2006 to March 31, 2007) remains unchanged from the initial forecast at the time of the announcement of business results for the year ended March 31, 2006.

Price trends in the Japanese consumer products market are unclear, and raw material prices are forecast to rise in Japan and overseas. However, the Kao Group will continue to aggressively promote high added value in its products and to make investments for growth.

Consolidated Balance Sheets

Millions of yen

	(A) Q1/FY2006 June 30, 2006	Composition %	(B) FY2005 March 31, 2006	Composition %	Inc/(Dec) (A-B)	Q1/FY2005 June 30, 2005	Composition %
Assets							
Current assets	359,575	29.5	364,613	29.9	(5,038)	292,155	43.0
Cash and time deposits	41,095		47,384		(6,288)	46,409	
Notes and accounts receivable - trade	140,557		129,120		11,436	105,930	
Short-term investments	22,309		20,189		2,119	26,462	
Inventories	109,430		105,853		3,576	86,720	
Other	46,182		62,065		(15,882)	26,633	
Fixed assets	860,347	70.5	855,872	70.1	4,475	386,865	57.0
Tangible assets	282,295		282,796		(500)	259,719	
Intangible assets	469,476		466,221		3,255	82,708	
- Goodwill	264,051		267,152		(3,101)	25,402	
- Other	205,425		199,068		6,356	57,306	
Investments and other assets	108,575		106,854		1,720	44,437	
Deferred assets	129	0.0	77	0.0	52	125	0.0
Total assets	1,220,052	100.0	1,220,564	100.0	(511)	679,146	100.0
Liabilities							
Current liabilities	405,808	33.2	436,193	35.7	(30,384)	200,044	29.5
Notes and accounts payable - trade	97,923		96,507		1,416	74,055	
Short-term debt	139,428		166,759		(27,331)	19,660	
Accrued expenses	83,291		75,951		7,340	63,450	
Other	85,165		96,975		(11,809)	42,877	
Long-term liabilities	294,923	24.2	265,790	21.8	29,133	18,877	2.8
Long-term debt	249,186		218,545		30,640	1,437	
Liability for employee retirement benefits	29,625		29,439		186	6,876	
Other	16,112		17,805		(1,693)	10,563	
Total liabilities	700,732	57.4	701,983	57.5	(1,251)	218,921	32.3
Minority interests	-	-	8,903	0.7	-	7,641	1.1
Common stock	-		85,424	7.0	-	85,424	12.6
Capital surplus	-		109,561	9.0	-	109,561	16.1
Retained earnings	-		345,941	28.3	-	305,026	44.9
Unrealized gain on available-for-sale securities	-		5,860	0.5	-	3,367	0.5
Foreign currency translation adjustments	-		(26,944)	(2.2)	-	(37,262)	(5.5)
Treasury stock, at cost	-		(10,165)	(0.8)	-	(13,535)	(2.0)
Shareholders' equity	-	-	509,676	41.8	-	452,582	66.6
Total liabilities, minority interests & shareholders' equity	-	-	1,220,564	100.0	-	679,146	100.0
Shareholders' equity	529,902	43.4	-	-	-	-	-
Common stock	85,424	7.0	-	-	-	-	-
Capital surplus	109,561	9.0	-	-	-	-	-
Retained earnings	345,031	28.2	-	-	-	-	-
Treasury stock, at cost	(10,115)	(0.8)	-	-	-	-	-
Adjustments for valuation, foreign currency translation and others	(20,416)	(1.6)	-	-	-	-	-
Unrealized gain on available-for-sale securities	5,140	0.4	-	-	-	-	-
Foreign currency translation adjustments	(25,557)	(2.0)	-	-	-	-	-
Minority interests	9,834	0.8	-	-	-	-	-
Total net assets	519,320	42.6	-	-	-	-	-
Total liabilities and total net assets	1,220,052	100.0	-	-	-	-	-

Consolidated Statements of Income

Millions of yen

	(A) Q1/FY2006 Apr - Jun 2006	% to net sales	(B) Q1/FY2005 Apr - Jun 2005	% to net sales	Inc/(Dec) (A-B)	FY2005 Apr '05 - Mar '06	% to net sales
Net sales	283,854	100.0	233,165	100.0	50,688	971,230	100.0
Cost of sales	116,167	40.9	101,387	43.5	14,780	427,734	44.0
Gross profit	167,686	59.1	131,778	56.5	35,908	543,496	56.0
Selling, general and administrative expenses ^{(*)2}	137,621	48.5	104,890	45.0	32,731	420,759	43.3
Operating income before amortization related to Kanebo Cosmetics	30,065	10.6	26,887	11.5	3,177	122,736	12.7
Amortization related to Kanebo Cosmetics ^{(*)1}	5,867	2.1	-	-	5,867	2,601	0.3
Operating income	24,197	8.5	26,887	11.5	(2,689)	120,134	12.4
Non-operating income	1,215	0.4	1,206	0.5	8	4,528	0.5
Interest and dividend income	451		245		206	1,254	
Equity in earnings of nonconsolidated subsidiaries and affiliates	-		127		(127)	-	
Foreign currency exchange gain	-		156		(156)	13	
Other	763		677		85	3,260	
Non-operating expenses	881	0.3	441	0.1	440	2,706	0.3
Interest expense	654		231		423	1,396	
Equity in losses of nonconsolidated subsidiaries and affiliates	113		-		113	593	
Other	113		210		(96)	716	
Ordinary income	24,531	8.6	27,652	11.9	(3,121)	121,956	12.6
Extraordinary income	194	0.1	210	0.1	(15)	1,663	0.1
Extraordinary loss	526	0.2	588	0.3	(62)	6,711	0.7
Income before income taxes and minority interests	24,200	8.5	27,274	11.7	(3,073)	116,908	12.0
Income taxes	10,914	3.8	11,878	5.1	(964)	44,666	4.6
Minority interests in earnings of consolidated subsidiaries	478	0.2	338	0.1	139	1,101	0.1
Net income	12,806	4.5	15,056	6.5	(2,249)	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 quarter ended June 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 143,489 million yen for the first quarter ended June 30, 2006 and 423,361 million yen for the year ended March 31, 2006.

Consolidated Statements of Cash Flows

Millions of yen

	Q1/FY2006 Apr - Jun 2006	Q1/FY2005 Apr - Jun 2005	FY2005 Apr '05 - Mar '06
Operating activities:			
Income before income taxes and minority interests	24,200	27,274	116,908
Adjustments for:			
Depreciation and amortization	20,640	13,613	60,758
Interest and dividend income	(451)	(245)	(1,254)
Interest expense	654	231	1,396
Change in trade receivables	(10,529)	(1,728)	618
Change in inventories	(3,015)	(4,644)	(4,592)
Change in prepaid pension cost	(3,977)	(155)	(8,467)
Change in trade payables	1,577	3,124	(1,759)
Change in liability for retirement benefits	122	(3,384)	(6,614)
Other, net	5,779	(2,208)	983
Sub-total	35,001	31,876	157,976
Interest and cash dividends received	619	1,588	3,379
Interest paid	(347)	(248)	(1,428)
Income taxes paid	(16,649)	(20,082)	(42,634)
Net cash provided by operating activities	18,623	13,133	117,292
Investing activities:			
Purchase of marketable securities and investment securities	(6)	(6)	(3,036)
Proceeds from the redemption and sales of marketable securities and investment securities	12	10,967	18,300
Purchase of property, plant and equipment, and intangible assets	(24,832)	(11,861)	(201,188)
Proceeds from sales of property, plant and equipment	237	719	1,482
Payments for acquisition of stocks of newly consolidated subsidiaries	-	-	(293,034)
Change in short-term loans	12,006	(93)	(84)
Payments for long-term loans	(223)	(228)	(897)
Other, net	(1,006)	(406)	(1,076)
Net cash used in investing activities	(13,812)	(911)	(479,535)
Financing activities:			
Change in debt	2,962	1,013	386,381
Purchase of treasury stock	(112)	(5,141)	(6,056)
Payments of cash dividends	(12,096)	(9,117)	(24,573)
Other, net	159	15	970
Net cash provided by (used in) financing activities	(9,085)	(13,230)	356,721
Translation adjustments on cash and cash equivalents	145	558	2,727
Net increase (decrease) in cash and cash equivalents	(4,129)	(450)	(2,794)
Cash and cash equivalents, beginning of year	67,527	70,409	70,409
Cash and cash equivalents of newly consolidated subsidiaries	-	760	760
Cash and cash equivalents of excluded consolidated subsidiaries	-	(848)	(848)
Cash and cash equivalents, end of period	63,397	69,871	67,527

Sales Composition

Millions of yen

	Q1/FY2006 Apr - Jun 2006	Q1/FY2005 Apr - Jun 2005	Growth %	FY2005 Apr '05 - Mar '06
Consumer Products				
Personal Care	45,777	46,060	(0.6)	187,896
Fabric and Home Care	56,244	54,764	2.7	237,551
Feminine Care, Baby Care and Others	29,231	28,407	2.9	113,630
Total Japan	131,253	129,231	1.6	539,078
Asia and Oceania	15,195	13,186	15.2	57,188
North America and Europe	32,145	26,632	20.7	115,329
Eliminations	(1,808)	(1,615)	-	(7,563)
Total	176,786	167,435	5.6	704,033
Prestige Cosmetics	59,599	20,468	191.2	85,246
Chemical Products				
Japan	28,890	28,234	2.3	114,522
Asia	13,673	12,687	7.8	53,596
North America and Europe	20,308	18,043	12.6	72,196
Eliminations	(8,117)	(6,992)	-	(31,424)
Total	54,755	51,972	5.4	208,890
Total before Eliminations	291,141	239,877	21.4	998,171
Eliminations	(7,286)	(6,711)	-	(26,941)
Consolidated Net Sales	283,854	233,165	21.7	971,230

Segment Information by Business

Millions of yen

Q1/FY2006

Apr - Jun 2006

	Consumer Products	Prestige Cosmetics	Chemical Products	Total	Corporate/ Eliminations	Consolidated
Net sales						
Sales to customers	176,786	59,599	47,468	283,854	-	283,854
Intersegment sales	-	-	7,286	7,286	(7,286)	-
Total	176,786	59,599	54,755	291,141	(7,286)	283,854
Operating income before amortization related to Kanebo Cosmetics	17,537	5,603	6,890	30,031	33	30,065
Amortization related to Kanebo Cosmetics	-	5,867	-	5,867	-	5,867
Operating income	17,537	(263)	6,890	24,164	33	24,197
% to sales	9.9	(0.4)	12.6	8.3	-	8.5

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

Q1/FY2005

Apr - Jun 2005

	Consumer Products	Prestige Cosmetics	Chemical Products	Total	Corporate/ Eliminations	Consolidated
Net sales						
Sales to customers	167,435	20,468	45,261	233,165	-	233,165
Intersegment sales	-	-	6,711	6,711	(6,711)	-
Total	167,435	20,468	51,972	239,877	(6,711)	233,165
Operating income	18,716	1,698	6,394	26,809	78	26,887
% to sales	11.2	8.3	12.3	11.2	-	11.5

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 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.