

# Kao Corporation

News Release

January 22, 2007

## Summary of Consolidated Business Results for the Third Quarter Ended December 31, 2006

Tokyo, January 22, 2007 — Kao Corporation today announced its consolidated business results for the nine months ended December 31, 2006, the third 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)

	Nine months ended December 31			Fiscal 2005, ended	
	2006	2005	Change	2006 (US\$)	March 31, 2006
	Yen		%	U.S. dollars	Yen
Net sales	<b>¥931,672</b>	¥746,033	24.9	<b>\$7,821.9</b>	¥971,230
Operating income	<b>98,152</b>	105,205	(6.7)	<b>824.0</b>	120,134
Ordinary income	<b>98,559</b>	107,075	(8.0)	<b>827.5</b>	121,956
Net income	<b>57,724</b>	64,212	(10.1)	<b>484.6</b>	71,140
Total assets	<b>1,244,621</b>	747,223		<b>10,449.3</b>	1,220,564
Total net assets	<b>553,153</b>	495,000		<b>4,644.1</b>	509,676
Net worth/total assets	<b>43.7%</b>	66.2%		-	41.8%
Total net worth per share (yen/US\$)	<b>997.86</b>	909.76	9.7	<b>8.38</b>	935.11
Net income per share (yen/US\$)	<b>105.92</b>	118.04	(10.3)	<b>0.89</b>	130.58
Net income per share, diluted (yen/US\$)	<b>105.83</b>	117.76	(10.1)	<b>0.89</b>	130.28
	Yen			U.S. dollars	Yen
Net cash provided by operating activities	<b>116,368</b>	88,716		<b>977.0</b>	117,292
Net cash used in investing activities	<b>(47,979)</b>	(54,057)		<b>(402.8)</b>	(479,535)
Net cash provided by (used in) financing activities	<b>(58,917)</b>	(27,772)		<b>(494.6)</b>	356,721
Cash and cash equivalents at end of period	<b>78,146</b>	78,510		<b>656.1</b>	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 December 29, 2006, of yen 119.11=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 third quarter ended December 31, 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 third quarter ended December 31, 2005 and the year ended March 31, 2006, while net worth for the third quarter ended December 31, 2006 consists of shareholders' equity and adjustments for valuation, foreign currency translation and others.

# Kao Corporation

News Release

January 22, 2007

## Forecast of Consolidated Results for the 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	\$10,242.6
Ordinary income	115,000	965.5
Net income	68,000	570.9
Net income per share (yen/US\$)	124.78	1.05

*Notes:*

1. *The forecast for the year ending March 31, 2007 remains the same since October 23, 2006.*
2. *U.S. dollar amounts represent translations using the approximate exchange rate on December 29, 2006, of yen 119.11=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.

For further information, please contact:

Katsuya Fujii

Vice President

Investor Relations

Tel: 81-3-3660-7101 / Fax: 81-3-3660-8978

E-mail: [ir@kao.co.jp](mailto:ir@kao.co.jp)

# Kao Corporation

News Release

January 22, 2007

## Summary of Consolidated Business Results and Financial Condition for the Nine Months Ended December 31, 2006

### Business Results

Consolidated net sales for the nine months ended December 31, 2006 increased 24.9%, or 185.6 billion yen, from the same period a year earlier to 931.6 billion yen due to factors including the addition of Kanebo Cosmetics Inc. and Kao's efforts to promote high added value in its products. Excluding the effect of currency translation, net sales increased 22.8%. With regard to income, although the Kao Group focused on greater efficiency in expenditures and cost-reduction activities, the effect of rising raw material prices and the addition of amortization expenses for the intellectual property rights and goodwill related to Kanebo Cosmetics resulted in operating income of 98.1 billion yen, a decrease of 7.0 billion yen compared with the same period a year earlier, ordinary income of 98.5 billion yen, a decrease of 8.5 billion yen, and net income of 57.7 billion yen, a decrease of 6.4 billion yen. However, operating income before deduction of amortization expenses related to Kanebo Cosmetics was 118.1 billion yen, an increase of 12.9 billion yen compared with the same period a year earlier. The tax rate after application of tax-effect accounting, calculated by dividing income taxes by income before income taxes and minority interests, was 39.5%. Tax expenses, which increased in the interim period because Kao recorded a deferred tax asset valuation allowance, decreased in December 2006 as domestic consolidated subsidiaries repurchased their treasury stock from the parent company in order to enhance their asset efficiency.

### Summary of Results by Business Segment

#### Consumer Products Business

Net sales of consumer products increased 5.3% from the same period a year earlier to 576.4 billion yen. Sales in Japan increased 14.4 billion yen, mainly due to new product launches. Aggressive business development resulted in an increase in overseas sales. The increase in sales more than offset negative factors such as increased competition and rising raw material prices. As a result, operating income increased 1.9 billion yen from the same period a year earlier to 82.1 billion yen.

#### 1. Japan

While the economy continued to display upward momentum, consumer spending and consumer prices were flat. In the consumer products market, however, the continuing decline in prices finally began to show a turnaround, with an upward shift in retail prices in some product categories. Under these conditions, the Kao Group promoted high added value in its products by offering consumers emotional satisfaction in addition to functional value. As a result, sales in Japan increased 3.4% from the same period a year earlier to 440.3 billion yen.

**Personal Care:** *Bioré U* body cleansers sold well, basing their appeal on a variety of new scents and

# Kao Corporation

News Release

January 22, 2007

gentleness after washing. Sales of *Bioré* facial cleansers and makeup removers also increased, as *Bioré Marshmallow Whip* facial foam and *Bioré Cleansing Cotton Smooth Oil In* makeup remover gained consumer support, the former for its pleasurable cleansing with a whipped and bouncy marshmallow-like lather, and the latter for its new technology that easily cleans off hard-to-remove mascara. In addition, offering new value in oral hygiene, Kao launched *Medicated Pyuora* toothpaste and mouthwash, which base their appeal on “freshening up a pasty mouth” under the concept of total oral cleaning, and both performed well. As a result, sales increased 2.7% compared with the same period a year earlier to 148.7 billion yen.

**Fabric and Home Care:** In laundry detergents, Kao relaunched *Attack* with superior cleaning power even when washing a large load of laundry. In fabric treatments, Kao launched *Style Care Mist for Clothing*, which removes wrinkles and odors from clothing. In addition, household cleaning kits performed well, with the introduction of *Quickle Wiper Handy*, which picks up dust instantly with a single wipe. As a result, sales increased 1.8% from the same period a year earlier to 194.4 billion yen.

**Feminine Care, Baby Care and Others:** Sales increased 8.0% from the same period a year earlier to 97.1 billion yen. In the feminine care category, Kao enhanced the product line of *Laurier F* sanitary napkins, which takes alleviation of skin stress as its key concept, by adding a product for heavy nighttime flow. In the baby care category, disposable baby diapers continued to win consumer support and posted strong sales with a product renewal for a gentler feel on the skin. In the health care category, sales increased, as sales of healthy drinks grew with the strong performance of *Healthya Water* sports drink with a refreshing grapefruit flavor.

## 2. Overseas

In Asia and Oceania, sales increased 17.3% from the same period a year earlier to 48.8 billion yen. Excluding the effect of currency translation, sales increased 7.4%. Intense competition continues as the market grows, but the Kao Group worked to raise its competitiveness by integrating its business operations in Asia including Japan and by offering added value tailored to regional conditions. The Kao Group further enhanced the harmonization between Japan and local subsidiaries in sales and marketing activities, expanded the sales territory for the *Asience* premium hair care brand from Taiwan and Hong Kong to Singapore, and launched *Laurier F* sanitary napkins in Hong Kong and Singapore. In Thailand, new product *Attack Easy* laundry detergent performed extremely well.

In North America and Europe, where it is engaged in the personal care business, the Kao Group has been shifting to products with higher added value. Sales increased 9.1% from the same period a year earlier to 93.1 billion yen. Excluding the effect of currency translation, sales increased 2.5%. Sales of the skin care product *Jergens natural glow* grew steadily with the addition of a new color and the launch of facial product line. However, overall sales growth slowed because of fierce competition, mainly in the hair care category. A major renewal was made in the *KMS* professional hair care brand.

# Kao Corporation

News Release

January 22, 2007

## Prestige Cosmetics Business

As consumers' sense of values, attitudes toward beauty, and structures of retail channels change, the Kao Group worked to create strong, distinctive brands in the prestige cosmetics business. Kanebo Cosmetics continued to perform well with the launches of *Impress*, a new premium prestige skin care brand sold exclusively at department stores, *Blanchir Whitening Conclusion* whitening serum and *Kate* makeup. In Kao Sofina products, *est*, a skin care brand sold exclusively at department stores, increased sales. Kao also launched the new skin care brand *Phytomax*, which is sold exclusively at drugstores. However, sales of existing brands were impacted by a shrinking market in Japan for products in the targeted price range. Molton Brown increased sales by launching new products and expanding its sales territory. As a result of the above and the consolidation of Kanebo Cosmetics, which was not in the Kao Group in the same period of the previous year, prestige cosmetics business sales were 210.9 billion yen, approximately 3.4 times the amount in the same period a year earlier and almost in line with the Kao Group's forecast announced on October 23, 2006 together with its interim business results. The consolidated financial statements include the results of Kanebo Cosmetics, which has a fiscal year ending December 31, for the eight months from February 2006, when the company was added to the Kao Group, to September 2006. With the addition of amortization expenses related to Kanebo Cosmetics, operating loss totaled 2.3 billion yen, but this amount was basically in line with the Kao Group's forecast. Operating income before deduction of amortization expenses related to Kanebo Cosmetics was 17.5 billion yen.

## Chemical Products Business

The Kao Group worked to further enhance the chemical business globally and locally with distinctive products that meet industry needs, and sales increased 6.6% from the same period a year earlier to 166.9 billion yen. Despite the impact of rising raw material prices, efforts to expand sales maintained operating income at 18.2 billion yen, basically unchanged from the same period of the previous fiscal year.

### 1. Japan

Sales of the oleo chemicals business were firm. In the performance chemicals business, sales of superplasticizers for concrete admixtures increased, and sales of plastics additives were also strong. In the specialty chemicals business, sales of polishing agents for hard disks increased, but sales of toner and toner binder for copiers and ink colorants for inkjet printer decreased compared with the same period a year earlier due to intensifying competition in their target markets. As a result, sales increased 2.3% from the same period a year earlier to 88.3 billion yen.

### 2. Overseas

In Asia, although demand for fatty alcohol products is increasing, declining prices weakened sales. Overall sales in Asia rose 4.6% from the same period a year earlier to 40.4 billion yen, but decreased by 4.4% excluding the effect of currency translation. In North America and Europe, fatty amines, superplasticizers for concrete admixtures and toner and toner binder for copiers performed strongly, and

# Kao Corporation

*News Release*

January 22, 2007

sales increased 14.5% from the same period a year earlier to 61.6 billion yen. Excluding the effect of currency translation, sales increased 7.6%.

## **Financial Condition**

As of December 31, 2006, total assets were 1,244.6 billion yen, a 24.0 billion yen increase compared with the end of the previous fiscal year. Accounts receivable increased mainly due to seasonally higher sales from October through December, but short-term loans included in other current assets decreased. Total liabilities decreased 10.5 billion yen compared with the end of the previous fiscal year to 691.4 billion yen. Accounts payable and accrued expenses increased, while Kao reduced interest-bearing debt, which consists of bank borrowings and bonds, and accrued income taxes decreased as a result of tax payments. Net assets including minority interests increased 34.5 billion yen from the previous fiscal year-end to 553.1 billion yen. The main factor contributing to the increase was net income for the period of 57.7 billion yen, and the main factor reducing net assets was payment of cash dividends. As a result of the above factors, the net worth ratio increased to 43.7% from 41.8% from the end of the previous fiscal year.

Net cash provided by operating activities was 116.3 billion yen, a 27.6 billion yen increase from the same period a year earlier due to factors including the addition of Kanebo Cosmetics. The main components of cash flow from operating activities were income before income taxes and minority interests of 97.1 billion yen, depreciation and amortization of 67.2 billion yen, and an increase in trade payables of 12.9 billion yen, while income taxes paid totaled 34.1 billion yen and an increase in trade receivables totaled 31.8 billion yen. Net cash used in investing activities was 47.9 billion yen as purchases of property, plant and equipment and intangible assets totaled 52.3 billion yen, while the Kao Group repaid short-term loans. Net cash used in financing activities totaled 58.9 billion yen. Major components were refinancing of short-term debt with issuance of bonds and long-term loans, in addition to partial repayment and payments of cash dividends. As a result, the balance of cash and cash equivalents at the end of the nine-month period was 78.1 billion yen, an increase of 10.6 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 nine-month period were basically in line with the Kao Group's forecast for the full fiscal year ending March 31, 2007, which remains unchanged from the time of the announcement of interim business results.

Signs of a turnaround in the downward trend in prices are appearing in the Japanese consumer products market, but severe market competition is expected to continue. In addition, there is uncertainty regarding global market competition and raw material price trends in Japan and overseas. In these conditions, the Kao Group will work to accelerate the promotion of high added value in its products, and will respond to external changes in a timely fashion for dynamic implementation of its growth strategies.

**Consolidated Balance Sheets**  
**Millions of yen**

	(A) Q3/FY2006 December 31, 2006	Composition %	(B) FY2005 March 31, 2006	Composition %	Inc/(Dec) (A-B)	Q3/FY2005 December 31, 2005	Composition %
<b>Assets</b>							
<b>Current assets</b>	<b>395,526</b>	<b>31.8</b>	<b>364,613</b>	<b>29.9</b>	<b>30,912</b>	<b>322,569</b>	<b>43.2</b>
Cash and time deposits	53,971		47,384		6,587	58,539	
Notes and accounts receivable - trade	163,482		129,120		34,361	128,255	
Short-term investments	22,180		20,189		1,990	19,971	
Inventories	108,815		105,853		2,961	88,078	
Other	47,076		62,065		(14,988)	27,724	
<b>Fixed assets</b>	<b>849,061</b>	<b>68.2</b>	<b>855,872</b>	<b>70.1</b>	<b>(6,810)</b>	<b>424,535</b>	<b>56.8</b>
Tangible assets	287,045		282,796		4,248	264,339	
Intangible assets	450,628		466,221		(15,592)	109,419	
- Goodwill	258,303		267,152		(8,849)	56,033	
- Other	192,324		199,068		(6,743)	53,386	
Investments and other assets	111,387		106,854		4,532	50,776	
<b>Deferred assets</b>	<b>33</b>	<b>0.0</b>	<b>77</b>	<b>0.0</b>	<b>(44)</b>	<b>118</b>	<b>0.0</b>
<b>Total assets</b>	<b>1,244,621</b>	<b>100.0</b>	<b>1,220,564</b>	<b>100.0</b>	<b>24,057</b>	<b>747,223</b>	<b>100.0</b>
<b>Liabilities</b>							
<b>Current liabilities</b>	<b>306,741</b>	<b>24.7</b>	<b>436,193</b>	<b>35.7</b>	<b>(129,451)</b>	<b>225,953</b>	<b>30.2</b>
Notes and accounts payable - trade	110,439		96,507		13,932	78,477	
Short-term debt	22,624		166,759		(144,135)	20,130	
Accrued expenses	85,170		75,951		9,219	72,581	
Other	88,507		96,975		(8,467)	54,764	
<b>Long-term liabilities</b>	<b>384,726</b>	<b>30.9</b>	<b>265,790</b>	<b>21.8</b>	<b>118,936</b>	<b>18,494</b>	<b>2.5</b>
Bonds	99,995		-		99,995	-	
Long-term debt	232,690		218,545		14,144	579	
Liability for employee retirement benefits	30,573		29,439		1,134	3,616	
Other	21,467		17,805		3,661	14,299	
<b>Total liabilities</b>	<b>691,468</b>	<b>55.6</b>	<b>701,983</b>	<b>57.5</b>	<b>(10,515)</b>	<b>244,448</b>	<b>32.7</b>
<b>Minority interests</b>	<b>-</b>	<b>-</b>	<b>8,903</b>	<b>0.7</b>	<b>7,775</b>	<b>7,775</b>	<b>1.1</b>
Common stock	-		85,424	7.0	-	85,424	11.4
Capital surplus	-		109,561	9.0	-	109,561	14.6
Retained earnings	-		345,941	28.3	-	339,883	45.5
Unrealized gain on available-for-sale securities	-		5,860	0.5	-	6,228	0.8
Foreign currency translation adjustments	-		(26,944)	(2.2)	-	(33,839)	(4.5)
Treasury stock, at cost	-		(10,165)	(0.8)	-	(12,257)	(1.6)
<b>Shareholders' equity</b>	<b>-</b>	<b>-</b>	<b>509,676</b>	<b>41.8</b>	<b>-</b>	<b>495,000</b>	<b>66.2</b>
<b>Total liabilities, minority interests &amp; shareholders' equity</b>	<b>-</b>	<b>-</b>	<b>1,220,564</b>	<b>100.0</b>	<b>-</b>	<b>747,223</b>	<b>100.0</b>
<b>Shareholders' equity</b>	<b>560,485</b>	<b>45.0</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
Common stock	85,424	6.8	-	-	-	-	-
Capital surplus	109,572	8.8	-	-	-	-	-
Retained earnings	375,781	30.2	-	-	-	-	-
Treasury stock, at cost	(10,293)	(0.8)	-	-	-	-	-
<b>Adjustments for valuation, foreign currency translation and others</b>	<b>(16,704)</b>	<b>(1.3)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
Unrealized gain on available-for-sale securities	4,801	0.4	-	-	-	-	-
Foreign currency translation adjustments	(21,505)	(1.7)	-	-	-	-	-
<b>Stock acquisition right</b>	<b>301</b>	<b>0.0</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Minority interests</b>	<b>9,070</b>	<b>0.7</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Total net assets</b>	<b>553,153</b>	<b>44.4</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Total liabilities and total net assets</b>	<b>1,244,621</b>	<b>100.0</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>

**Consolidated Statements of Income**

<i>Millions of yen</i>	<b>(A) Q3/FY2006</b>	% to	<b>(B) Q3/FY2005</b>	% to	<b>Inc/(Dec)<sup>(*)</sup></b>	<b>FY2005</b>	% to
	<b>Apr - Dec 2006</b>	net sales	<b>Apr - Dec 2005</b>	net sales	<b>(A-B)</b>	<b>Apr '05 - Mar '06</b>	net sales
<b>Net sales</b>	<b>931,672</b>	<b>100.0</b>	<b>746,033</b>	<b>100.0</b>	<b>185,638</b>	<b>971,230</b>	<b>100.0</b>
Cost of sales	377,522	40.5	321,990	43.2	55,531	427,734	44.0
<b>Gross profit</b>	<b>554,150</b>	<b>59.5</b>	<b>424,043</b>	<b>56.8</b>	<b>130,107</b>	<b>543,496</b>	<b>56.0</b>
Selling, general and administrative expenses	436,040	46.8	318,837	42.7	117,202	420,759	43.3
<b>Operating income before amortization related to Kanebo Cosmetics</b>	<b>118,109</b>	<b>12.7</b>	<b>105,205</b>	<b>14.1</b>	<b>12,904</b>	<b>122,736</b>	<b>12.7</b>
Amortization related to Kanebo Cosmetics <sup>(*)</sup>	19,956	2.2	-	-	19,956	2,601	0.3
<b>Operating income</b>	<b>98,152</b>	<b>10.5</b>	<b>105,205</b>	<b>14.1</b>	<b>(7,052)</b>	<b>120,134</b>	<b>12.4</b>
Non-operating income	4,664	0.5	3,336	0.5	1,328	4,528	0.5
Interest and dividend income	1,640		1,011		629	1,254	
Equity in earnings of nonconsolidated subsidiaries and affiliates	-		208		(208)	-	
Foreign currency exchange gain	391		-		391	13	
Other	2,632		2,116		515	3,260	
Non-operating expenses	4,258	0.4	1,466	0.2	2,791	2,706	0.3
Interest expense	3,265		856		2,408	1,396	
Equity in losses of nonconsolidated subsidiaries and affiliates	108		-		108	593	
Foreign currency exchange loss	-		256		(256)	-	
Other	884		353		530	716	
<b>Ordinary income</b>	<b>98,559</b>	<b>10.6</b>	<b>107,075</b>	<b>14.4</b>	<b>(8,516)</b>	<b>121,956</b>	<b>12.6</b>
Extraordinary income	796	0.1	349	0.0	447	1,663	0.1
Extraordinary loss	2,221	0.3	1,744	0.2	476	6,711	0.7
<b>Income before income taxes and minority interests</b>	<b>97,134</b>	<b>10.4</b>	<b>105,679</b>	<b>14.2</b>	<b>(8,545)</b>	<b>116,908</b>	<b>12.0</b>
Income taxes	38,396	4.1	40,689	5.5	(2,292)	44,666	4.6
Minority interests in earnings of consolidated subsidiaries	1,013	0.1	777	0.1	235	1,101	0.1
<b>Net income</b>	<b>57,724</b>	<b>6.2</b>	<b>64,212</b>	<b>8.6</b>	<b>(6,488)</b>	<b>71,140</b>	<b>7.3</b>

(\*) Inc/(Dec) column shows the third quarter ended December 31, 2006 in comparison with the same period ended December 31, 2005.

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



**Consolidated Statements of Cash Flows**

Kao Corporation  
January 22, 2007

Millions of yen

	Q3/FY2006 Apr - Dec 2006	Q3/FY2005 Apr - Dec 2005	FY2005 Apr '05 - Mar '06
<b>Operating activities:</b>			
Income before income taxes and minority interests	97,134	105,679	116,908
Adjustments for:			
Depreciation and amortization	67,295	42,419	60,758
Interest and dividend income	(1,640)	(1,011)	(1,254)
Interest expense	3,265	856	1,396
Change in trade receivables	(31,836)	(21,947)	618
Change in inventories	(1,439)	(3,560)	(4,592)
Change in prepaid pension cost	(11,801)	(4,127)	(8,467)
Change in trade payables	12,920	5,893	(1,759)
Change in liability for retirement benefits	966	(6,746)	(6,614)
Other, net	16,409	9,420	983
Sub-total	151,271	126,876	157,976
Interest and cash dividends received	1,916	2,350	3,379
Interest paid	(2,706)	(893)	(1,428)
Income taxes paid	(34,113)	(39,616)	(42,634)
<b>Net cash provided by operating activities</b>	<b>116,368</b>	<b>88,716</b>	<b>117,292</b>
<b>Investing activities:</b>			
Purchase of marketable securities and investment securities	(631)	(3,028)	(3,036)
Proceeds from the redemption and sales of marketable securities and investment securities	14	17,031	18,300
Purchase of property, plant and equipment, and intangible assets	(52,332)	(36,322)	(201,188)
Proceeds from sales of property, plant and equipment	320	1,306	1,482
Payments for acquisition of stocks of newly consolidated subsidiaries	-	(31,656)	(293,034)
Change in short-term loans	12,161	(2)	(84)
Payments for long-term loans	(762)	(598)	(897)
Other, net	(6,749)	(787)	(1,076)
<b>Net cash used in investing activities</b>	<b>(47,979)</b>	<b>(54,057)</b>	<b>(479,535)</b>
<b>Financing activities:</b>			
Change in debt	(131,049)	642	386,381
Proceeds from bonds	99,676	-	-
Purchase of treasury stock	(773)	(5,806)	(6,056)
Payments of cash dividends	(27,423)	(23,059)	(24,573)
Other, net	652	451	970
<b>Net cash provided by (used in) financing activities</b>	<b>(58,917)</b>	<b>(27,772)</b>	<b>356,721</b>
<b>Translation adjustments on cash and cash equivalents</b>	<b>1,148</b>	<b>1,301</b>	<b>2,727</b>
<b>Net increase (decrease) in cash and cash equivalents</b>	<b>10,619</b>	<b>8,189</b>	<b>(2,794)</b>
<b>Cash and cash equivalents, beginning of year</b>	<b>67,527</b>	<b>70,409</b>	<b>70,409</b>
<b>Cash and cash equivalents of newly consolidated subsidiaries</b>	<b>-</b>	<b>760</b>	<b>760</b>
<b>Cash and cash equivalents of excluded consolidated subsidiaries</b>	<b>-</b>	<b>(848)</b>	<b>(848)</b>
<b>Cash and cash equivalents, end of period</b>	<b>78,146</b>	<b>78,510</b>	<b>67,527</b>

### Sales Composition

Millions of yen	Q3/FY2006	Q3/FY2005	Growth	FY2005
	Apr - Dec 2006	Apr - Dec 2005	%	Apr '05 - Mar '06
<b>Consumer Products</b>				
Personal Care	148,790	144,940	2.7	187,896
Fabric and Home Care	194,409	191,056	1.8	237,551
Feminine Care, Baby Car	97,192	89,992	8.0	113,630
Total Japan	440,393	425,990	3.4	539,078
Asia and Oceania	48,803	41,612	17.3	57,188
North America and Europe	93,114	85,343	9.1	115,329
Eliminations	(5,870)	(5,542)	-	(7,563)
<b>Total</b>	<b>576,440</b>	<b>547,403</b>	<b>5.3</b>	<b>704,033</b>
<b>Prestige Cosmetics</b>	<b>210,949</b>	<b>62,900</b>	<b>235.4</b>	<b>85,246</b>
<b>Chemical Products</b>				
Japan	88,373	86,413	2.3	114,522
Asia	40,460	38,692	4.6	53,596
North America and Europe	61,619	53,818	14.5	72,196
Eliminations	(23,465)	(22,273)	-	(31,424)
<b>Total</b>	<b>166,988</b>	<b>156,651</b>	<b>6.6</b>	<b>208,890</b>
<b>Total before Eliminations</b>	<b>954,377</b>	<b>766,955</b>	<b>24.4</b>	<b>998,171</b>
Eliminations	(22,705)	(20,921)	-	(26,941)
<b>Consolidated Net Sales</b>	<b>931,672</b>	<b>746,033</b>	<b>24.9</b>	<b>971,230</b>

**Segment Information by Business**

Millions of yen

**Q3/FY2006**

Apr - Dec 2006

	Consumer Products	Prestige Cosmetics	Chemical Products	Total	Corporate/ Eliminations	Consolidated
<b>Net sales</b>						
Sales to customers	576,440	210,949	144,282	931,672	-	931,672
Intersegment sales	-	-	22,705	22,705	(22,705)	-
<b>Total</b>	<b>576,440</b>	<b>210,949</b>	<b>166,988</b>	<b>954,377</b>	<b>(22,705)</b>	<b>931,672</b>
<b>Operating income before amortization related to Kanebo Cosmetics</b>	<b>82,127</b>	<b>17,584</b>	<b>18,243</b>	<b>117,955</b>	<b>154</b>	<b>118,109</b>
Amortization related to Kanebo Cosmetics	-	19,956	-	19,956	-	19,956
<b>Operating income</b>	<b>82,127</b>	<b>(2,372)</b>	<b>18,243</b>	<b>97,998</b>	<b>154</b>	<b>98,152</b>
% to sales	14.2	(1.1)	10.9	10.3	-	10.5

(\*) Amortization expenses related to Kanebo Cosmetics consisted of amortization of trademark and other intellectual property rights and goodwill.

**Q3/FY2005**

Apr - Dec 2005

	Consumer Products	Prestige Cosmetics	Chemical Products	Total	Corporate/ Eliminations	Consolidated
<b>Net sales</b>						
Sales to customers	547,403	62,900	135,729	746,033	-	746,033
Intersegment sales	-	-	20,921	20,921	(20,921)	-
<b>Total</b>	<b>547,403</b>	<b>62,900</b>	<b>156,651</b>	<b>766,955</b>	<b>(20,921)</b>	<b>746,033</b>
<b>Operating income</b>	<b>80,203</b>	<b>6,666</b>	<b>18,133</b>	<b>105,003</b>	<b>202</b>	<b>105,205</b>
% to sales	14.7	10.6	11.6	13.7	-	14.1

**FY2005**

Apr '05 - Mar '06

	Consumer Products	Prestige Cosmetics	Chemical Products	Total	Corporate/ Eliminations	Consolidated
<b>Net sales</b>						
Sales to customers	704,033	85,246	181,949	971,230	-	971,230
Intersegment sales	-	-	26,941	26,941	(26,941)	-
<b>Total</b>	<b>704,033</b>	<b>85,246</b>	<b>208,890</b>	<b>998,171</b>	<b>(26,941)</b>	<b>971,230</b>
<b>Operating income before amortization related to Kanebo Cosmetics</b>	<b>92,699</b>	<b>7,773</b>	<b>22,029</b>	<b>122,502</b>	<b>233</b>	<b>122,736</b>
Amortization related to Kanebo Cosmetics	-	2,601	-	2,601	-	2,601
<b>Operating income</b>	<b>92,699</b>	<b>5,171</b>	<b>22,029</b>	<b>119,901</b>	<b>233</b>	<b>120,134</b>
% 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.