

**Summary of Consolidated Financial Statements
for the Third Quarter Ended September 30, 2006**

October 31, 2006

Company name: Lion Corporation

Code: 4912

URL: <http://www.lion.co.jp/>

Listed stock exchanges: Tokyo Stock Exchange and Osaka Securities Exchange

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1. Matters Concerning the Preparation of the Consolidated Financial Statements for the Third Quarter Ended September 30, 2006

- (a) Adoption of simplified accounting method: Yes.
Simplified accounting is used partially with respect to the standards for the accounting of reserves.
- (b) Changes in accounting method from the most recent fiscal year: Yes.
A change in the method for allocating operating expenses to business segments has been adopted.
- (c) Changes in the scope of consolidation or of the application of the equity method: Yes.
Consolidated subsidiaries: 2 excluded

**2. Consolidated Results for the Third Quarter Ended September 30, 2006
(January 1, 2006 – September 30, 2006)**

a) Consolidated Results

	Net sales		Operating income		Ordinary income	
	Millions of yen	%	Millions of yen	%	Millions of yen	%
Nine months ended September 2006	234,548	(0.4)	(4,222)	–	(2,542)	–
Nine months ended September 2005	235,451	7.1	740	(79.3)	2,407	(53.0)
(Reference) FY 2005	331,798		6,066		8,514	

	Net income		EPS	Diluted EPS
	Millions of yen	%	yen	yen
Nine months ended September 2006	(960)	–	(3.38)	–
Nine months ended September 2005	1,314	(40.4)	4.66	4.65
(Reference) FY 2005	5,473	–	19.10	19.05

Notes:

- Figures in this and subsequent tables are rounded down to the nearest million.
- The percent figures under net sales, operating income, ordinary income and net income represent the percentage change from the same quarter of the previous year.

Overview of Consolidated Results of Operations

Management Performance

Japan's economy continued its upward momentum in the third quarter of the current fiscal year, with stronger corporate earnings supporting increased capital expenditures in the private sector and mitigating signs of a slowdown in consumer spending growth during the second half of the nine-month period ended September 30, 2006. However, Japan's household consumer products industry, the core business for Lion and its Group companies, faced a severe business environment characterized by continued declines in retail prices and increases in raw materials costs caused by high crude oil prices.

Under such circumstances, the Lion Group implemented a number of initiatives aimed at further expanding business growth and improving profitability. Lion worked to nurture its major brands by actively introducing new products and conducting sales promotions, strengthened overseas businesses, and pioneered new categories with strong future growth potential. Amidst changes in distribution structures, Lion also endeavored to decrease the level of its wholesale inventory with the aim of ensuring cost efficiency.

As a result of these initiatives, Lion recorded consolidated net sales of ¥234,548 million, a year-on-year decrease of 0.4%. In addition to total cost-reduction measures centered on reducing manufacturing costs, Lion also strove to hold down other expenses. However, earnings were impacted by the decline in net sales, aggressive investment to nurture brands and rising materials costs. As a result, Lion recorded an operating loss of ¥4,222 million, compared with operating income of ¥740 million a year earlier, an ordinary loss of ¥2,542 million compared with ordinary income of ¥2,407 million a year earlier, and a net loss of ¥960 million compared with net income of ¥1,314 million a year earlier.

Segment Information

From this period under review, expenses in administrative departments, which were previously recorded as unallocated operating expenses, are allocated to each segment. Please refer to page 13 for detail.

<Home Products>

In the Oral Care Products Division, Lion positioned Clinica as a comprehensive oral care brand and focused on nurturing the brand by expanding the Clinica lineup of products. Lion introduced Dentor Systema EX, toothpaste for periodontal disease prevention that also provides total care against bad breath and cavities. Year-on-year toothpaste sales remained flat, however, owing primarily to intense market competition. In toothbrushes, Lion unveiled the Clinica Power Front, a new brush to

thoroughly scrub back teeth that can easily develop cavities. Vigorous competition impacted results, and toothbrush sales declined slightly. Clinica Dental Rinse - Quick Care was released in February 2006 to high market acceptance, and year-on-year mouthwash sales rose significantly.

Lion is aiming to shift to high profit businesses in the Beauty Care Products Division. In addition to efforts to nurture focus brands Kireikirei and Ban, Lion also introduced new high-value-added products to the Free & Free Damage Aid line of hair-styling products. Liquid hand soap sales remained steady following the release of a new and improved version of Kireikirei Medicated Liquid Hand Soap in March, while sales of shampoo, body soap and other products were down year on year as a result of stiff competition.

In the Household Products Division, Lion concentrated efforts on introducing and cultivating new high-value-added products, including a new Top laundry detergent made from botanical materials with exceptional detergency, as well as the Look Kirei no Mist series of new concept household cleaners for preventing grime and unpleasant odors and preserving cleanliness. Year-on-year sales of household cleaners increased significantly, but sales of laundry detergents, fabric softeners, dishwashing detergents and other products decreased in comparison with the previous year owing to fierce competition.

Overseas, sales of Pao laundry detergent and Essence fabric softener remained strong in Thailand, while Lion worked to nurture the new Dentralla line of toothpastes and toothbrushes in South Korea.

As a result of the factors above, net sales in the Home Products Segment amounted to ¥164,292 million, a decrease of 1.4% compared with the same period of the previous fiscal year. A combination of aggressive investment in major brands and increased material costs led to an operating loss of ¥4,509 million, compared to operating income of ¥2,866 million a year earlier.

<Pharmaceutical Products>

In Pharmaceutical Products, Lion sought to spur further growth of core brands including Bufferin, Smile and Varsan by investing boldly in advertising campaigns and by introducing and nurturing new products. In addition, Lion ventured into the functional food products business. Year-on-year sales of eye drops increased considerably, supported by strong sales of core product Smile 40EX. Lion made steady progress in its efforts to cultivate its Gussumin and Kyupurun brands in its new push into the health and beauty drinks business. Sales of insecticides were sluggish due to the impact of irregular weather patterns, which led to a reduction in the overall insecticide market, while sales of analgesics and health tonic drinks declined slightly owing to the impact of market constriction.

As a result, net sales in the Pharmaceutical Products Segment declined 2.0% year on year to ¥35,298 million. Lion's efforts to reduce manufacturing costs were offset by aggressive investment

to nurture business in new categories, and operating income decreased 70.7% year on year to ¥567 million.

<Chemical Products>

In the Chemical Products Division, sales of surfactants grew steadily, while sales of fatty-acid methyl ester slowed due to lower overseas demand, and carotene sales declined slightly owing to inventory adjustments by customers.

As a result, sales in the Chemical Products Division declined 5.5% year on year to ¥23,811 million. Lion's Chemical Products Division recorded an operating loss of ¥276 million, compared with operating income of ¥876 million a year earlier, owing primarily to increases in materials costs.

<Others>

The construction contracting business recorded a strong increase in sales as a result of a rise in the amount of completed construction. However, sales in the food products business decreased in spite of investment to introduce and nurture new products.

As a result, net sales in the Others Segment increased 47.8% year on year to ¥11,145 million, and the segment recorded an operating loss of ¥58 million, compared to operating income of ¥197 million a year earlier.

b) Consolidated Financial Position

	Total assets	Net assets	Shareholders' equity to total assets	Net assets per share
	Millions of yen	Millions of yen	%	yen
September 30, 2006	252,519	110,786	42.7	379.24
September 30, 2005	229,888	102,018	44.4	360.71
(Reference) December 31, 2005	249,303	109,103	43.8	384.60

c) Consolidated Cash Flows

	Cash flows from operating activities	Cash flows from investing activities	Cash flows from financing activities	Cash and cash equivalents at end of period
	Millions of yen	Millions of yen	Millions of yen	Millions of yen
Nine months ended September 2006	67	(1,086)	5,215	20,038
Nine months ended September 2005	(6,950)	(4,617)	6,382	19,455
(Reference) FY 2005	1,865	(9,262)	(1,514)	15,788

Financial Status

Total assets at the end of the fiscal period stood at ¥252,519 million, an increase of ¥3,216 million compared with the previous fiscal year-end owing to a rise in investments and other assets. Net assets totaled ¥110,786 million, an increase of ¥1,682 million compared with the previous fiscal year-end due to an increase in unrealized holding gains on other securities. As a result, the ratio of shareholders' equity to total assets was 42.7%.

<Consolidated Cash Flows>

Cash flows from operating activities amounted to ¥67 million, owing primarily to net income before income taxes of ¥663 million. In addition, the decrease in trade notes and accounts receivable was offset by a reduction in trade notes and accounts payable, and an increase in inventories.

Cash flows from investing activities decreased by ¥1,086 million. While Lion recorded revenues from the sale of property, plant and equipment, these were offset by purchases of property, plant and equipment, and investment securities.

Cash flows from financing activities resulted in an overall increase of ¥5,215 million. The principal outflow was for cash dividends, while the major inflow was generated by proceeds from the issuance of commercial paper.

As a result, cash and cash equivalents as of September 30, 2006 totaled ¥20,038 million, up ¥4,249 million compared with the previous fiscal year-end.

3. Forecast of Consolidated Financial Results for the Fiscal Year Ending December 31, 2006 (January 1, 2006 – December 31, 2006)

	Net sales	Ordinary income	Net income
	Millions of yen	Millions of yen	Millions of yen
Full term	330,000	2,500	500

(Reference) Full year EPS forecast (full term): ¥1.76

Qualitative Information Concerning the Forecast of Consolidated Financial Results

Forecasts announced on August 1, 2006 for the fiscal year ending December 31, 2006 have been changed as indicated above, in line with the announcement in today's press release.

Note: The forecasts and projected operating results contained in this report are based on information available at the time of preparation, and thus involve inherent risks and uncertainties. Accordingly, readers are cautioned that actual results may differ materially from those projected as a result of a variety of factors.

Condensed Consolidated 3rd Quarter Balance Sheets

	Q3 Fiscal 2006 (Ended September 30, 2006)	Q3 Fiscal 2005 (Ended September 30, 2005)	Increase / decrease		Fiscal 2005 (Ended December 31, 2005)
	Millions of yen	Millions of yen	Millions of yen	%	Millions of yen
Assets					
Current assets	114,461	103,721	10,739	10.4	117,699
Cash and time deposits	20,051	19,749	301		15,943
Trade notes and accounts receivable	56,064	50,591	5,473		68,282
Short-term investments	-	-	-		500
Inventories	31,947	28,063	3,883		27,399
Other	6,398	5,317	1,080		5,575
Fixed assets	138,058	126,166	11,892	9.4	131,604
Property, plant and equipment	67,481	68,846	(1,364)		68,570
Intangible assets	9,628	9,836	(208)		10,481
Investments and other assets	60,948	47,482	13,465		52,552
Total assets	252,519	229,888	22,631	9.8	249,303

	Q3 Fiscal 2006 (Ended September 30, 2006)	Q3 Fiscal 2005 (Ended September 30, 2005)	Increase / decrease		Fiscal 2005 (Ended December 31, 2005)
	Millions of yen	Millions of yen	Millions of yen	%	Millions of yen
Liabilities					
Current liabilities	106,489	89,113	17,376	19.5	101,402
Trade notes and accounts payable	50,171	38,531	11,639		53,995
Commercial paper	7,696	7,688	8		-
Short-term loans payable due within one year	8,502	8,438	64		8,088
Other payables and accrued expenses	31,283	25,963	5,319		31,322
Other	8,834	8,491	343		7,996
Long-term liabilities	35,244	35,916	(671)	(1.9)	36,008
Long-term debt	6,098	6,273	(174)		6,284
Accrued employee retirement benefits	23,658	24,378	(720)		24,868
Other	5,488	5,264	223		4,855
Total liabilities	141,733	125,029	16,704	13.4	137,411
Minority interest					
Minority interest in consolidated subsidiaries	-	2,840	(2,840)	-	2,789
Shareholders' equity					
Common stock	-	34,433	(34,433)	-	34,433
Capital surplus	-	31,570	(31,570)	-	31,584
Retained earnings	-	47,676	(47,676)	-	51,834
Unrealized holding gain on other securities	-	5,876	(5,876)	-	7,654
Foreign currency translation adjustments	-	(806)	806	-	38
Treasury stock	-	(16,732)	16,732	-	(16,443)
Total shareholders' equity	-	102,018	(102,018)	-	109,103
Total liabilities, minority interest and shareholders' equity	-	229,888	(229,888)	-	249,303

Net assets					
Shareholders' equity	97,802	-	97,802	-	-
Common stock	34,433	-	34,433	-	-
Capital surplus	31,595	-	31,595	-	-
Retained earnings	47,973	-	47,973	-	-
Treasury stock	(16,200)	-	(16,200)	-	-
Valuation and translation adjustments	9,913	-	9,913	-	-
Unrealized holding gain on other securities	9,810	-	9,810	-	-
Deferred gains on hedges	0	-	0	-	-
Foreign currency translation adjustments	101	-	101	-	-
Minority interest in consolidated subsidiaries	3,070	-	3,070	-	-
Total net assets	110,786	-	110,786	-	-
Total liabilities and net assets	252,519	-	252,519	-	-

Consolidated 3rd Quarter Statements of Income

	Q3 Fiscal 2006 (January to September 2006)	Q3 Fiscal 2005 (January to September 2005)	Increase / decrease		Fiscal 2005 (January to December 2005)
	Millions of yen	Millions of yen	Millions of yen	%	Millions of yen
Net sales	234,548	235,451	(903)	(0.4)	331,798
Cost of sales	117,825	115,238	2,586	2.2	163,153
Gross profit	116,723	120,212	(3,489)	(2.9)	168,644
Selling, general and administrative expenses	120,945	119,472	1,472	1.2	162,577
Operating income	(4,222)	740	(4,962)	-	6,066
Other income	2,262	2,084	178	8.5	3,088
Interest and dividend income	395	385	9		445
Equity in earnings of non-consolidated subsidiaries and affiliates	1,246	1,125	121		1,768
Other	619	572	47		873
Other expenses	581	416	165	39.9	640
Interest expenses	242	189	52		255
Other	339	226	113		384
Ordinary income	(2,542)	2,407	(4,950)	-	8,514
Extraordinary income	6,721	429	6,292	1,465.3	1,009
Gain on disposal of property, plant and equipment	5,881	349	5,532		880
Reversal of allowance for director retirement benefits	126	-	126		-
Other	712	80	632		128
Extraordinary loss	3,516	452	3,064	677.9	786
Loss on disposal of property, plant and equipment	532	418	113		697
Loss on shutdown of a plant	1,530	-	1,530		-
Early retirement payments	947	-	947		-
Impairment loss	197	-	197		-
Other	309	33	276		88
Net income before income taxes	663	2,385	(1,722)	(72.2)	8,737
Income taxes, etc.	1,410	961	448	46.6	3,316
Minority interest in earnings of consolidated subsidiaries	213	108	104	96.1	(51)
Net income	(960)	1,314	(2,275)	-	5,473

Condensed Consolidated 3rd Quarter Statements of Cash Flows

	Q3 Fiscal 2006 (January to September 2006)	Q3 Fiscal 2005 (January to September 2005)	Fiscal 2005 (January to December 2005)
	Millions of yen	Millions of yen	Millions of yen
I. Cash flows from operating activities			
Income before income taxes	663	2,385	8,737
Depreciation and amortization	7,260	7,015	9,754
Impairment loss	197	-	-
Decrease in accrued retirement benefits	(6,001)	(3,001)	(3,760)
Interest and dividend income	(395)	(385)	(445)
Interest expense	242	189	255
Loss on disposal of property, plant and equipment	(5,349)	69	(183)
Equity in earnings of non-consolidated subsidiaries and affiliates	(1,246)	(1,125)	(1,768)
Decrease in trade notes and accounts receivable	12,496	5,665	(11,717)
Increase in inventories	(4,269)	(2,405)	(1,483)
Decrease in trade notes and accounts payable	(6,124)	(9,382)	6,345
Increase (decrease) in accrued expenses and other payables	352	(8,979)	(4,198)
Other, net	2,475	2,958	190
Subtotal	299	(6,996)	1,725
Interest and dividends received	1,670	1,787	1,970
Interest paid	(241)	(193)	(262)
Income taxes paid	(1,661)	(1,547)	(1,568)
Net cash provided by operating activities	67	(6,950)	1,865
II. Cash flows from investing activities			
Decrease in time deposits	142	2,489	2,627
Redemption of short-term investments	500	-	-
Purchases of property, plant and equipment	(7,493)	(7,014)	(8,943)
Proceeds from sale of property, plant and equipment	6,877	974	1,899
Purchases of intangible assets	(497)	(146)	(805)
Purchases of investment securities	(1,752)	(1,485)	(4,562)
Proceeds from sale of investment securities	3	506	506
Additions to loans receivable	(145)	(92)	(153)
Proceeds from loans receivable	122	118	188
Other, net	1,156	33	(18)
Net cash used in investing activities	(1,086)	(4,617)	(9,262)
III. Cash flows from financing activities			
Increase in short-term loans payable	6,876	6,218	6,473
Repayment of short-term loans payable	(6,537)	(4,974)	(5,688)
Repayment of long-term loans payable	(195)	(76)	(78)
Proceeds from commercial paper	25,786	7,842	15,448
Redemption of commercial paper	(18,286)	(341)	(15,448)
Purchases of odd-lot shares	(66)	(114)	(177)
Net proceeds from sale/purchases of treasury stock	321	(51)	314
Cash dividends	(2,575)	(2,021)	(2,260)
Cash dividends to minority shareholders	(107)	(98)	(98)
Other, net	-	-	0
Net cash used in financing activities	5,215	6,382	(1,514)

IV.	Effect of exchange rate changes on cash and cash equivalents	53	70	130
V.	Net change in cash and cash equivalents	4,249	(5,114)	(8,781)
VI.	Cash and cash equivalents at beginning of period	15,788	24,480	24,480
VII.	Cash and cash equivalents of newly consolidated subsidiaries	-	89	89
VIII.	Cash and cash equivalents at end of period	20,038	19,455	15,788

Segment Information

1. Industry Segments

(Millions of yen)

	Q3 Fiscal 2006 (January 1 to September 30, 2006)						
	Home products	Pharmaceutical products	Chemical products	Other businesses	Total	Corporate and eliminations	Consolidated total
1. Net sales							
a) Sales to outside customers	164,292	35,298	23,811	11,145	234,548	-	234,548
b) Intersegment sales	8	-	5,929	4,610	10,548	[10,548]	-
Total	164,300	35,298	29,740	15,756	245,097	[10,548]	234,548
Operating expenses	168,810	34,731	30,017	15,815	249,375	[10,604]	238,770
Operating income	(4,509)	567	(276)	(58)	(4,277)	55	(4,222)
Reference:							
Other income (net)	121	702	141	-	965		
Segment management income	(4,388)	1,269	(134)	(58)	(3,312)		

	Q3 Fiscal 2005 (January 1 to September 30, 2005)						
	Home products	Pharmaceutical products	Chemical products	Other businesses	Total	Corporate and eliminations	Consolidated total
1. Net sales							
a) Sales to outside customers	166,699	36,005	25,207	7,539	235,451	-	235,451
b) Intersegment sales	-	-	-	-	-	[-]	-
Total	166,699	36,005	25,207	7,539	235,451	[-]	235,451
Operating expenses	163,832	34,066	24,330	7,342	229,572	5,139	234,711
Operating income	2,866	1,938	876	197	5,879	[5,139]	740
Reference:							
Other income (net)	107	770	135	-	1,013		
Segment management income	2,974	2,709	1,012	197	6,893		

	Fiscal 2005 (January 1 to December 31, 2005)						
	Home products	Pharmaceutical products	Chemical products	Other businesses	Total	Corporate and eliminations	Consolidated total
1. Net sales							
a) Sales to outside customers	237,241	50,315	33,898	10,343	331,798	-	331,798
b) Intersegment sales	-	-	-	-	-	[-]	-
Total	237,241	50,315	33,898	10,343	331,798	[-]	331,798
Operating expenses	228,806	46,695	32,877	10,441	318,821	6,910	325,731
Operating income	8,434	3,619	1,020	(97)	12,977	[6,910]	6,066
Reference:							
Other income (net)	147	1,150	169	-	1,467		
Segment management income	8,581	4,770	1,190	(97)	14,444		

Notes:

1. Categorization of industry segments and principal products

Industry segments are categorized in accordance with the similarity of products and markets.

- Home products: Toothpastes, toothbrushes, laundry detergents, dishwashing detergents, and fabric softeners
- Pharmaceutical products: Analgesics, eyedrops, inflammation and pain-relieving first-aid products, and semi-adhesive products, health tonic drinks, and insecticides
- Chemical products: Surfactants and fatty acid nitrogen compounds
- Other businesses: Spices, seasonings, salad dressings, sauces, plant construction, building maintenance, and transportation and storage

2. Unallocated operating expenses in FY2005 and Q3 Fiscal 2005 are expenses of the general affairs, accounting, and other management units of Lion Corporation.

< Change of operating expenses allocation method >

In order to more accurately disclose segment operating income and loss, from this fiscal year, the Company has changed its historic method of disclosing expenses relating to general affairs, accounting and other management units as unallocated operating expenses to an allocation against each business segment.

Segment information disclosed under the historic method is as follows.

(Millions of yen)

	Q3 Fiscal 2006 (Historic method) (January 1 to September 30, 2006)						
	Home products	Pharmaceutical products	Chemical products	Other businesses	Total	Corporate and eliminations	Consolidated total
1. Net sales							
a) Sales to outside customers	164,292	35,298	23,811	11,145	234,548	-	234,548
b) Intersegment sales or transfers	-	-	-	-	-	[-]	-
Total	164,292	35,298	23,811	11,145	234,548	[-]	234,548
Operating expenses	164,492	33,637	23,580	11,169	232,880	5,890	238,770
Operating income	(199)	1,660	230	(23)	1,668	[5,890]	(4,222)

2. Geographical Segments

(Millions of yen)

	Q3 Fiscal 2006 (January 1 to September 30, 2006)				
	Japan	Asia	Total	Corporate and elimina- tions	Consoli- dated total
1. Net sales					
a) Sales to outside customers	200,283	34,264	234,548	-	234,548
b) Intersegment sales	1,280	1,556	2,836	[2,836]	-
Total	201,563	35,820	237,384	[2,836]	234,548
Operating expenses	206,739	35,084	241,823	[3,053]	238,770
Operating income	(5,175)	736	(4,438)	216	(4,222)

	Q3 Fiscal 2005 (January 1 to September 30, 2005)				
	Japan	Asia	Total	Corporate and elimina- tions	Consoli- dated total
1. Net sales					
a) Sales to outside customers	207,313	28,137	235,451	-	235,451
b) Intersegment sales	1,191	1,092	2,283	[2,283]	-
Total	208,504	29,230	237,734	[2,283]	235,451
Operating expenses	208,227	28,903	237,130	[2,419]	234,711
Operating income	277	326	604	135	740

	FY 2005 (January 1 to December 31, 2005)				
	Japan	Asia	Total	Corporate and eliminations	Consoli- dated total
1. Net sales					
a) Sales to outside customers	293,660	38,137	331,798	-	331,798
b) Intersegment sales or transfers	1,559	1,498	3,058	[3,058]	-
Total	295,220	39,636	334,856	[3,058]	331,798
Operating expenses	289,500	39,363	328,863	[3,132]	325,731
Operating income	5,720	272	5,992	73	6,066

Notes:

- Countries and regions have been grouped according to geographic proximity.
- The key countries and regions grouped as countries other than Japan are as listed below.
Asia: China, South Korea, and Thailand

3. Foreign Sales

	Q3 Fiscal 2006 (January 1 to September 30, 2006)		
	Asia	Other regions	Total
Foreign sales (millions of yen)	36,742	2,843	39,585
Consolidated net sales (millions of yen)	-	-	234,548
Percent of foreign sales in consolidated net sales (%)	15.7	1.2	16.9

	Q3 Fiscal 2005 (January 1 to September 30, 2005)		
	Asia	Other regions	Total
Foreign sales (millions of yen)	30,088	2,902	32,991
Consolidated net sales (millions of yen)	-	-	235,451
Percent of foreign sales in consolidated net sales (%)	12.8	1.2	14.0

	Fiscal 2005 (January 1 to December 31, 2005)		
	Asia	Other regions	Total
Foreign sales (millions of yen)	41,194	3,849	45,044
Consolidated net sales (millions of yen)	-	-	331,798
Percent of foreign sales in consolidated net sales (%)	12.4	1.2	13.6

Notes:

- Countries and regions have been grouped according to geographic proximity.
- The key countries and regions grouped as each segments are as listed below.
 Asia: China, South Korea, and Thailand
 Other regions: Europe, North America and others
- Foreign sales include exports by Lion and its domestic consolidated subsidiaries as well as sales (other than exports to Japan) by overseas consolidated subsidiaries but exclude intercompany sales.