Kao Annual Report 2010

Financial and Operating Review

For the year ended March 31, 2010

Enriching lives,
in harmony with nature.

Profile

Enriching lives, in harmony with nature

Kao is dedicated to filling consumers' daily lives with smiles. The philosophy behind our product development and manufacturing has remained unchanged over 120 years since *Kao Sekken (Kao Soap)* was introduced in 1890.

With the business environment continuing to change on a global scale, what can Kao do as a leading manufacturer? We believe we can provide new value to people around the world through *Yoki-Monozukuri,* pursued from an ecological perspective.

Positioning ecology at the core of management, Kao is striving for the wholehearted satisfaction and enrichment of the lives of people globally in the fields of cleanliness, beauty and health.

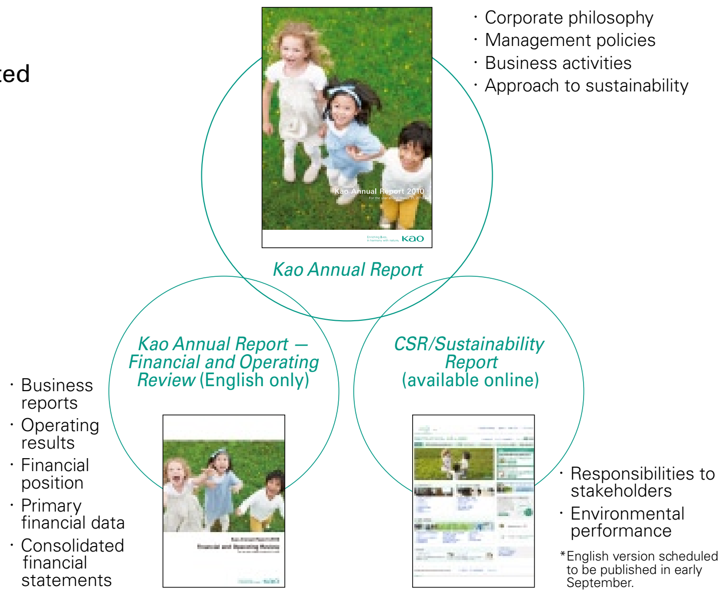
Going forward, the Kao Group will continue to enhance *Yoki-Monozukuri* and pursue true, sustainable enrichment made possible through the harmony of people and nature.

We define "*Yoki-Monozukuri*" as "a strong commitment by all members to provide products and brands of excellent value for consumer satisfaction." In Japanese, "*Yoki*" literally means "good/excellent," "*Monozukuri*" means "development/manufacturing of products."

Editorial Policy

The Kao Group's corporate activities are presented primarily through three reports.

The Kao Group reports its corporate activities to stakeholders by means of three communication tools: the *Kao Annual Report, Kao Annual Report — Financial and Operating Review*, and *CSR/Sustainability Report* (available online). The *Kao Annual Report* combines environmental, social, and economic content to provide a comprehensive look at the Kao Group, while the *Kao Annual Report — Financial and Operating Review* and *CSR/Sustainability Report* address the past fiscal year's activities, results, and associated quantitative data from economic as well as environmental and social perspectives, respectively.



*The *Kao Annual Report* and *Kao Annual Report — Financial and Operating Review* are also available on Kao's website.
http://www.kao.com

Contents

Forward-Looking Statements

This report contains forward-looking statements that are based on management estimates, assumptions and projections at the time of publication. Some 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.

Financial Highlights

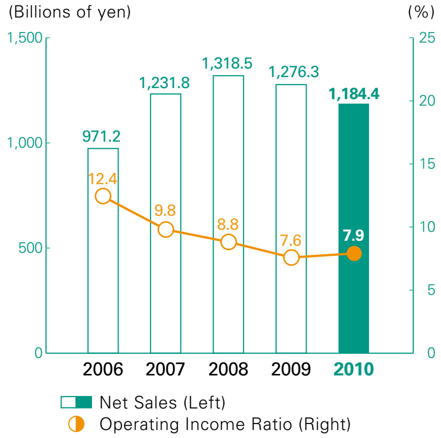
Kao Corporation and Consolidated Subsidiaries — Years ended March 31, 2010, 2009 and 2008

	Billions of yen 2010	Billions of yen 2009	Billions of yen 2008	Millions of U.S. dollars 2010	Change 2010/2009
For the year:					
Net sales	¥1,184.4	¥1,276.3	¥1,318.5	$12,729.8	(7.2)%
Beauty Care Business	547.9	588.3	627.9	5,889.3	(6.9)
Human Health Care Business	183.2	191.3	191.3	1,968.5	(4.3)
Fabric and Home Care Business	276.9	274.2	274.7	2,976.3	1.0
Consumer Products Business	1,008.0	1,053.9	1,093.9	10,834.2	(4.3)
Chemical Business	207.8	262.1	258.7	2,233.8	(20.7)
Eliminations	(31.5)	(39.6)	(34.0)	(338.2)	—
Japan	918.5	953.4	968.6	9,872.1	(3.7)
Asia & Oceania	131.7	161.9	158.3	1,415.5	(18.7)
North America	79.2	99.0	111.0	851.2	(20.0)
Europe	111.2	140.6	154.6	1,194.7	(21.0)
Eliminations	(56.2)	(78.6)	(74.0)	(603.7)	—
EBITA	129.5	134.7	157.6	1,391.8	(3.8)
Operating income	94.0	96.8	116.3	1,010.7	(2.9)
Net income	40.5	64.5	66.6	435.4	(37.2)
EBITDA	178.8	184.3	209.7	1,921.8	(3.0)
At year-end:					
Total assets	1,065.8	1,119.7	1,232.6	11,454.8	(4.8)
Net worth	565.1	545.2	574.0	6,074.1	3.7
	Yen			U.S. dollars	Change
Per share:					
Net income	¥ 75.57	¥ 120.25	¥ 122.53	$ 0.81	(37.2)%
Cash dividends	57.00	56.00	54.00	0.61	1.8
Net worth	1,054.31	1,017.19	1,070.67	11.33	3.6

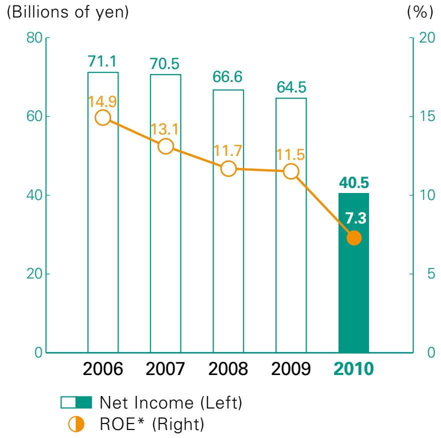
Notes:
1. The U.S. dollar amounts are translated, for convenience only, at the rate of ¥93.04=US$1, the approximate exchange rate at March 31, 2010.
2. Net sales by business segment and geographic segment include intersegment sales. Net sales of the Chemical Business include intersegment sales to the Beauty Care Business, the Human Health Care Business and the Fabric and Home Care Business.
3. Cash dividends per share are the amounts applicable to the respective years, including dividends to be paid after the end of the year.
4. Yen and U.S. dollar amounts are rounded to the nearest whole number or decimal.
5. EBITA (Earnings before interest, taxes and amortization) is operating income before amortization of goodwill and other items related to acquisitions.
6. EBITDA (Earnings before interest, taxes, depreciation and amortization) = Operating income + Depreciation and amortization
7. Net worth is equity, excluding minority interests and stock acquisition rights.

(Years ended March 31)

Net Sales and Operating Income Ratio

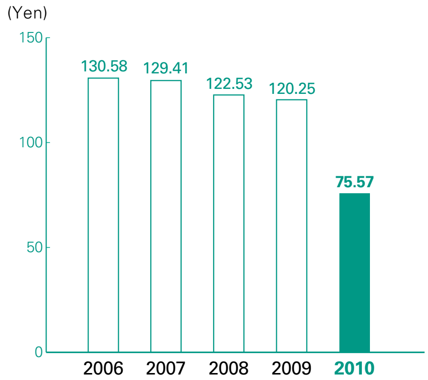


Net Income and ROE*

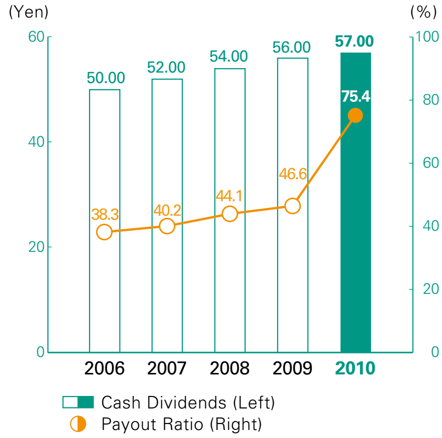


*In calculating ROE, equity excludes minority interests and stock acquisition rights.

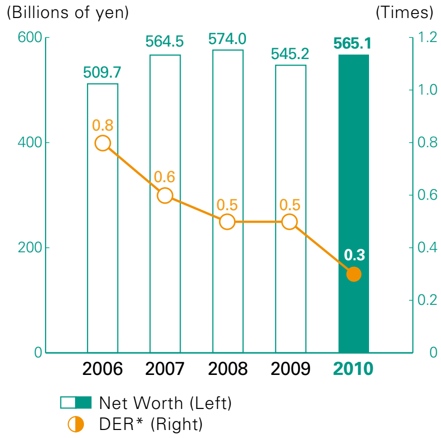
Net Income per Share



Cash Dividends and Payout Ratio

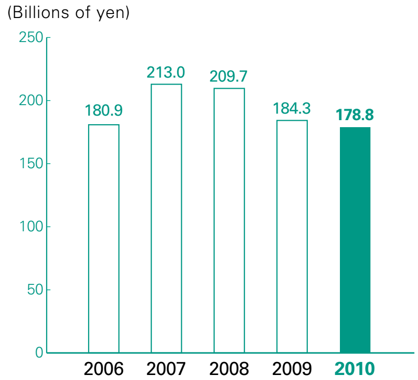


Net Worth and DER*

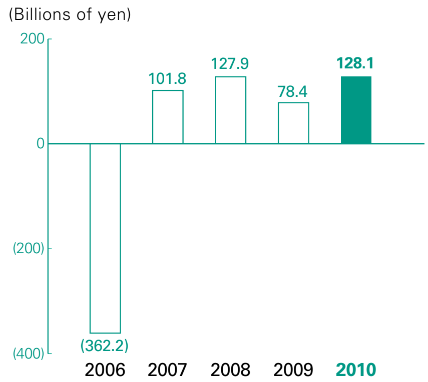


*DER (Debt to Equity Ratio)=Interest-bearing debt ÷ Equity, excluding minority interests and stock acquisition rights

EBITDA

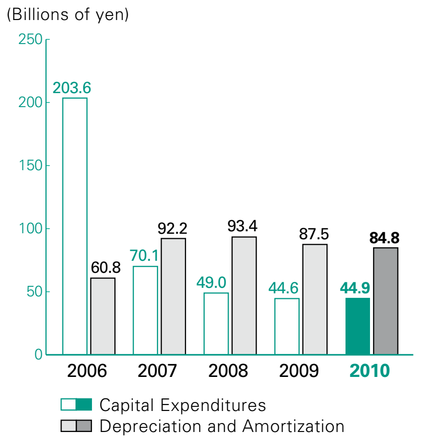


Free Cash Flow*

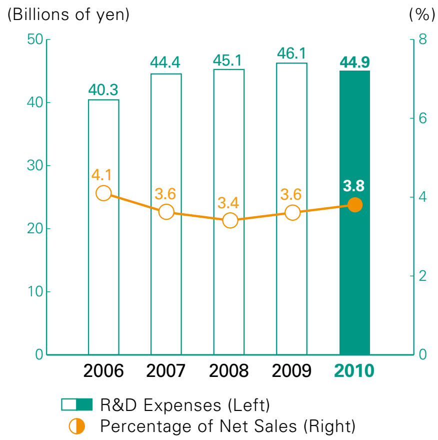


*Free cash flow = Net cash provided by operating activities + Net cash used in investing activities

Capital Expenditures and Depreciation and Amortization



R&D Expenses and Percentage of Net Sales

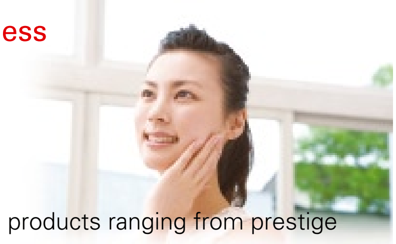


Review of Operations

The Kao Group supplies high-value-added products to consumers through its Beauty Care, Human Health Care, and Fabric and Home Care businesses and to customers in a variety of industries through its Chemical business.

Consumer Products Business

Beauty Care Business



The Kao Group supplies products ranging from prestige cosmetics products to skin care and body care products such as facial and body washes and hair care products such as shampoos and conditioners in order to help each and every consumer achieve the beauty he or she desires with state-of-the-art technologies.

Prestige cosmetics

Counseling cosmetics, self-selection cosmetics, etc.

Human Health Care Business

The Kao Group supplies products to help consumers lead comfortable, healthy lives, including sanitary products created by using proprietary technologies, functional health foods and beverages that propose new value, and oral care products and bath additives.

Food and beverage products

Beverages, etc.

Fabric and Home Care Business

The Kao Group supplies products designed for maximum quality, functionality, and ease of use in order to help consumers realize a clean, comfortable lifestyle, including fabric care products such as laundry detergents and fabric treatments as well as home care products such as dishwashing detergents and kitchen cleaning products.

Fabric care products

Laundry detergents, fabric treatments, etc.

Chemical Business

Chemical Business

In its Chemical business, the Kao Group supplies customers worldwide with a range of chemical products designed to meet the diverse needs of global industry, including oleo chemicals manufactured from natural oil and fat raw materials, surfactants, toners and toner binders, and fragrances and aroma chemicals.

Oleo chemicals

Fatty alcohols, fatty amines, fatty acids, glycerine, commercial-use edible fats and oils, etc.

Principal Products

Premium skin care products

Soaps, facial cleansers, body cleansers, etc.

Premium hair care products

Shampoos, conditioners, hair styling agents, hair coloring agents, etc.

Sanitary products

Sanitary napkins, baby diapers, etc.

Personal health products

Bath additives, oral care products, men's products, etc.

Home care products

Kitchen cleaning products, house cleaning products, paper cleaning products, commercial-use products, etc.

Performance chemicals

Surfactants, plastics additives, superplasticizers for concrete admixtures, etc.

Specialty chemicals

Toner and toner binder for copiers and printers, ink and colorants for inkjet printers, fragrances and aroma chemicals, etc.

(Year ended March 31, 2010)

Business Segment Sales

Chemical Business Regional Breakdown

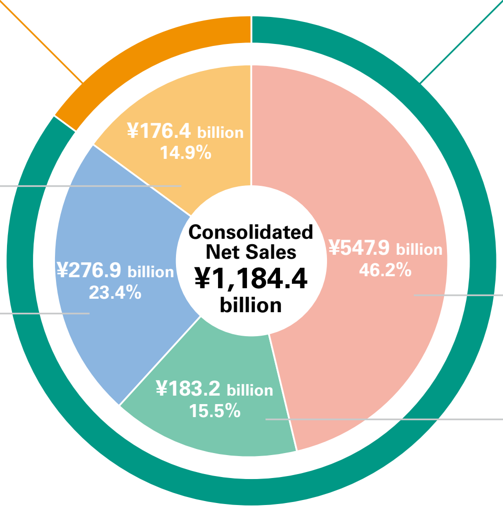
(Billions of yen)	176.4
Japan	115.0
Asia	53.4
North America & Europe	72.1
Eliminations	(64.0)

Consumer Products Business Regional Breakdown

(Billions of yen)	1,008.0
Japan	831.5
Asia & Oceania	79.7
North America & Europe	113.0
Eliminations	(16.1)

Chemical Business
Oleo chemicals
Performance chemicals
Specialty chemicals

Fabric and Home Care Business
Fabric care products
Home care products



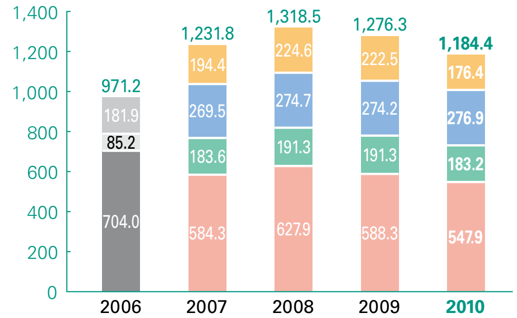
Beauty Care Business
Prestige cosmetics
Premium skin care products
Premium hair care products

Human Health Care Business
Food and beverage products
Sanitary products
Personal health products

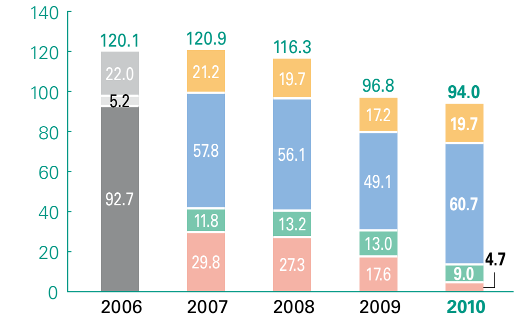
* Figures are rounded to the nearest whole number or decimal.
* Figures in the graph represent net sales to outside customers only.
* Eliminations represent intersegment sales.

(Years ended March 31)

Net Sales by Business Segment



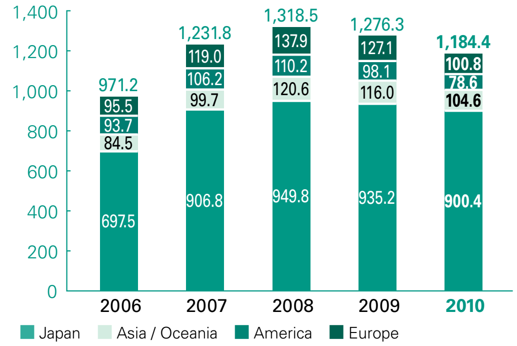
Operating Income by Business Segment



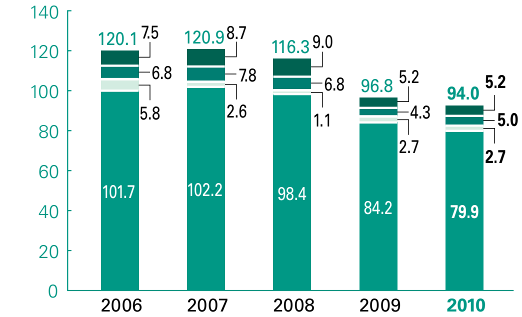
Beauty Care · Human Health Care · Fabric and Home Care · Chemical
Former business segments: Consumer Products · Prestige Cosmetics · Chemical Products

* Figures are rounded to the nearest whole number or decimal.
* Figures in the graph represent net sales to outside customers only.
* Operating income does not include eliminations for intersegment transactions.
* Business segments were changed during the year ended March 2008. Figures for the year ended March 2007 have been reclassified to reflect the changes.

Net Sales by Geographic Segment



Operating Income by Geographic Segment



* Figures are rounded to the nearest whole number or decimal.
* Figures in the graph represent net sales to outside customers only.
* Operating income does not include eliminations for intersegment transactions.
* Countries and regions are classified according to geographic proximity.
* Principal countries or regions other than Japan: Asia / Oceania (countries of East and Southeast Asia and Oceania); America (U.S., Canada, Mexico); Europe (countries of Europe, South Africa)

Consumer Products Business

Kao actively works to develop high-value-added products that meet consumers' needs, such as ultra-concentrated liquid laundry detergent *Attack Neo* in Japan.

Net sales of the Consumer Products Business decreased 4.3 percent compared with the previous fiscal year to ¥1,008.0 billion. Excluding the effect of currency translation, sales would have decreased 2.1 percent.

In Japan, although the weak economy had begun to recover, conditions remained challenging as consumer sentiment continued to favor economizing. The household and personal care products market remained flat on a value basis. However, average consumer purchase prices in major product categories decreased from a year earlier. The prestige cosmetics market shrank as clear changes in consumer purchasing attitudes accelerated a trend toward lower-priced products.

As a result, sales in Japan decreased 3.0 percent to ¥831.5 billion. The Kao Group worked to launch new and improved products that respond to changes in consumer purchasing attitudes and lifestyles, and to strengthen its proposal-based sales and in-store merchandising activities. Consequently, sales were firm for premium skin care products and premium hair care products in the Beauty Care Business, the Fabric and Home Care Business, and the Human Health Care Business excluding *Econa* cooking oil and related products (*Econa* products). However, sales of prestige cosmetics in the Beauty Care Business were weak, mainly due to structural changes in the market, and sales of *Econa* products decreased due to suspension of their production and sale.

In Asia and Oceania, although competition remained intense, consumer spending increased steadily as economic conditions rapidly improved. Sales decreased 4.2 percent to ¥79.7 billion due to the effect of currency translation. However, on a local currency basis, sales increased 7.7 percent as Kao generated positive results from collaborations with retailers, integrated management of Asia including Japan, and progress in promoting awareness of Kao Group brands.

In North America and Europe, the premium-priced market remained cool with a more intense competitive environment despite the incipient economic recovery trends. With the added impact of currency translation, sales decreased 13.3 percent to ¥113.0 billion. Excluding the effect of currency translation, sales would have decreased 2.2 percent.

Although prices for raw materials, mainly natural oils and fats and petrochemicals, were lower than the previous fiscal year, operating income decreased 6.6 percent to ¥74.4 billion with the impact of decreased sales.

Foam hair color, developed with Kao's unique technology, is sold under the *Liese* brand in Asia.

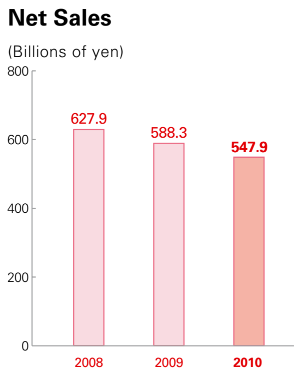
The *Laurier* sanitary napkin brand conducts product rollouts tailored to the needs of consumers in each country and region.

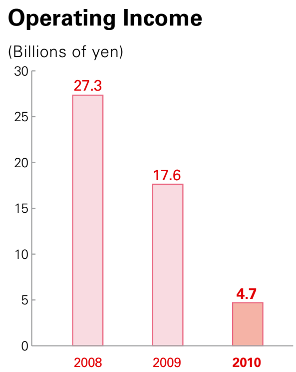
Beauty Care Business

Focal Points

- In response to structural changes in purchasing, the prestige cosmetics business is rebuilding and focusing management resources on key brands.
- Kao will utilize its accumulated fundamental technologies and leverage its comprehensive abilities to develop products with higher added value.
- Kao is placing resources into markets in China and other countries in Asia, North America and Europe and focusing on nurturing global strategic brands with a view toward integrated global management.

(Years ended March 31)





Business Environment and Fiscal 2009 Results

The global economic downturn from the second half of 2008 led to rapid structural changes in purchasing. In the Japanese market, a distinct consumer shift toward lower-priced products became evident. Moreover, individual lifestyles and preferences, in addition to sales price, were factors in consumer product choices. While mail-order and online shopping channels generated brisk activity due to the wealth of information consumers gain through the Internet, sales at department stores, supermarkets and drug stores continued to decline from the previous fiscal year.

For prestige cosmetics, these consumer changes had a substantial impact on sales in Japan, which decreased from the previous fiscal year. In Asia, particularly in China, brand recognition of *Kao Sofina* and *Kanebo* increased, and the consumer base steadily expanded. Nevertheless, total sales of prestige cosmetics decreased 8.8 percent compared with the previous fiscal year to ¥265.1 billion.

For premium skin care and premium hair care in Japan, the weak economy clearly depressed consumer sentiment. This led to a year-on-year decline in consumer purchase prices in major product categories. In the premium skin care category, although unit prices for body cleansers continued to fall, overall sales increased, with double-digit growth in hand soap sales due to heightened awareness of H1N1 influenza prevention. In the premium hair care category, overall sales were flat due to growth in the markets for hair coloring agents and treatments, despite a year-on-year decline in unit prices of shampoos, conditioners, and hair sprays.

In Asia, competition was intense, but overall sales were strong, supported by vigorous demand centered on pan-Asian brands such as *Bioré, Essential,* and *Asience.* Excluding the effect of currency translation, sales would have increased.

On the other hand, in North America and Europe, the weak global economy from the second half of fiscal 2008 persisted through 2009, significantly impacting the markets to chilling effect and intensifying competition. Together with the impact of the strong yen, these factors caused sales to decrease.

As a result, net sales of the Beauty Care Business decreased 6.9 percent compared with the previous fiscal year to ¥547.9 billion. Excluding the effect of currency translation, net sales would have decreased 3.9 percent. Operating income decreased ¥12.8 billion to ¥4.7 billion. Operating income before amortization of goodwill and other items related to acquisitions (EBITA) was ¥40.0 billion, which is equivalent to 7.3 percent of sales.

Key Fiscal 2009 Initiatives and Issues for Fiscal 2010 Onward

Prestige Cosmetics

Younger customers enthusiastically support *Kate*, the top self-selection makeup brand by market share.

The super prestige *Sensai Wrinkle Repair* skin care series performed well in Europe even as existing *Sensai* products struggled.

Kanebo Cosmetics continued to concentrate on creating strong brands in fiscal 2009, advancing its mega brand strategy with aggressive investment in key brands. In counseling brands, *Coffret d'Or* makeup and *Dew Superior* skin care struggled, but *Blanchir* and *Blanchir Superior* whitening skin care performed strongly. In light of the market changes caused by the economic downturn, Kanebo Cosmetics is strengthening the mid-priced *Suisai* skin care brand by incorporating novel product development and renewing its sales approach to fit changes in consumer purchasing.

Self-selection cosmetics showed firm growth, as younger customers continued to enthusiastically support the *Kate* makeup brand, and the *Evita* skin care brand performed strongly following overall improvements to its lineup of regular products to mark the tenth year since its launch. Sales continued to grow steadily for *Fréshel*, which targets middle-aged women in their thirties and forties. Kanebo cosmetics will strengthen *Kate* and other makeup brands in order to maintain its top market share in self-selection cosmetics.

In China, the core strategy of increasing sales per store was successful from the second half of fiscal 2008, and growth continued in line with the medium-term plan revised in April 2009. In September 2009, Kanebo Cosmetics revitalized the original Chinese brand *Aqua*, which is sold at influential department stores, and launched two new *Aqua Sprina* lines for aging care and skin whitening. The Kao Group will invest aggressively for growth in the Chinese cosmetics market, which is expected to expand at the astounding rate of 30 percent or more in fiscal 2010.

In Europe, Kanebo Cosmetics strengthened its Russian business strategy, and local company Kanebo Cosmetics Rus LLC began operating in September 2009. Kanebo Cosmetics will bring to the Russian market the strengths of the super prestige strategy used for its *Sensai* brand, which it has developed over many years in Europe.

In fiscal 2010, Kanebo Cosmetics will focus on maintaining and increasing competitiveness in Japan, expanding overseas business, and strengthening profitability through business reorganization.

Kao Sofina earned strong support from users by adding a foaming massage facial cleanser and a deep-penetrating cream to the *Sofina Beauté* brand of aging skin care products, which target consumers in their thirties and forties. In addition, brand development proceeded steadily for newly launched products. These included base makeup *Sofina*

Aqua Sprina sales were strong in the Chinese cosmetics market, which continues to grow.

Sales were strong for *Sofina Beauté* foaming massage facial cleanser, which invigorates blood flow beneath the skin.

Primavista, which gained loyal users with its appeal of making skin look "five years younger," and makeup brand *Aube Couture*, which grew steadily under the "easy beauty" concept. However, overall sales were weak due to the substantial impact of inventory reductions by retailers.

The key issue for sales of *Kao Sofina* in Japan in fiscal 2010 is rebuilding its business operations in light of the potential for growth in the cosmetics market and changes in consumer purchasing trends. Kao is carrying out such rebuilding with speed and assurance.

The *Aube Couture* makeup series offers innovative products under the "easy beauty" concept.

In Asia, sales of *Sofina Beauté* were strong in Hong Kong, Taiwan and Shanghai. Sales grew steadily for *Sofina Primavista*, which was launched in Hong Kong and Taiwan in 2009. In fiscal 2010, the Kao Group will launch *Sofina Primavista* in Shanghai and strengthen sales through the drug store channel, which is growing remarkably quickly.

The downturn in the global economy impacted U.K. luxury cosmetics brand *Molton Brown*, but performance at sales outlets in city centers picked up from the second half of fiscal 2009. Christmas sales were particularly strong. In fiscal 2010, *Molton Brown* will work to increase sales by leveraging Kao's comprehensive R&D capabilities to enhance its product development and attract loyal users.

The *Molton Brown* luxury cosmetics brand is strongly supported by loyal users.

Premium Skin Care Products

In fiscal 2009, the addition of a fruit-scented product to the *Bioré U Foam Hand Soap* lineup in October 2009, together with market expansion against a backdrop of heightened awareness of H1N1 influenza prevention, contributed to sales growth for *Bioré U*, which has widespread support as a trusted brand.

Sales of *Curél* grew steadily due to ongoing activities to gain market penetration, including distributing samples and providing recommendations from dermatologists. Kao launched *Curél* in Japan in 1999 for the expanding sensitive skin care market, incorporating the results of its extensive research into ceramides to create Japan's first skin care brand for dry and sensitive skin. In fiscal 2009, Kao worked to increase loyal users by adding whitening skin care and moisturizing base makeup to the brand. Moreover, sales of newly launched products in Hong Kong exceeded initial projections, and Kao will continue to expand its operations in Asia.

The Kao Group expanded the skin care market by strengthening the pan-

The H1N1 influenza pandemic heightened awareness of prevention, increasing sales of *Bioré U Foam Hand Soap*.

The *Curél* skin care brand for dry and sensitive skin performed well in Hong Kong following its launch.

Asian brand *Bioré*, reinforcing it with measures including the launch of *Bioré Body Foam* body cleanser in Taiwan.

In North America and Europe, Kao Brands Company focused on gaining market share for *Jergens Naturals* body moisturizers in the U.S., and launched the product in the U.K. In fiscal 2010, it will leverage the comprehensive know-how of the Kao Group to develop stronger brands in the intensely competitive markets for hand and body lotion.

Premium Hair Care Products

The hair coloring market, with *Prettia* foam hair color for black hair and *Blauné* foam hair color for gray hair, continued driving growth in the Japanese hair care market from the previous fiscal year. *Liese Bubble Hair Color* for black hair rapidly gained share in the hair color markets in Hong Kong and Singapore following its launches there. In fiscal 2010, the Kao Group will continue to focus on developing pan-Asian brands and strengthening foam hair color as a strategic product category in Japan and other Asian countries.

Under the clear-cut concept of "providing angelic luster for the 15 centimeters of the hair end," pan-Asian brand *Essential* has earned strong support, particularly from women in their twenties, and its styling treatment line has grown steadily in Japan. In addition, *Essential Damage Care* has rapidly gained brand recognition and has posted steady growth since its 2009 launches in Hong Kong, Taiwan, Singapore and Thailand.

In 2009, the Kao Group launched the *Asience* hair care brand in its seventh country, Malaysia. *Asience*, which unlocks the inner beauty of Asian hair, has gained support from highly beauty-conscious women. Successive joint campaigns in the seven Asian countries from January 2010 aim to accelerate the integration of management in Asia, including Japan.

Meanwhile, for the premium hair care brand *John Frieda* in North America and Europe, *Go Blonder* and *Root Awakening* products performed creditably following their launches in 2009. KPSS - Kao Professional Salon Services GmbH, which serves the hair salon market, continued to work on reforming its sales structure. This resulted in progress in business performance in Germany, but overall flat sales excluding the effect of currency translation in the challenging operating environment. In fiscal 2010, KPSS will continue to reform its sales structure in North America.

Liese Bubble Hair Color, which applies Kao's unique hair color foam technology, was launched in Hong Kong and Singapore.

The *Essential Damage Care* hair care brand gained a high level of customer support throughout Asia, where Japanese fashion is popular.

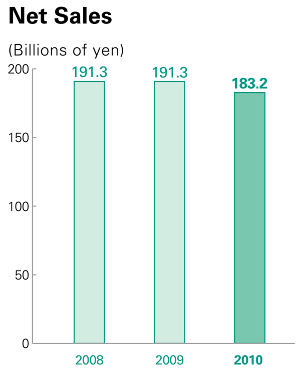
Go Blonder is a new product from the *John Frieda* premium hair care brand in North America and Europe.

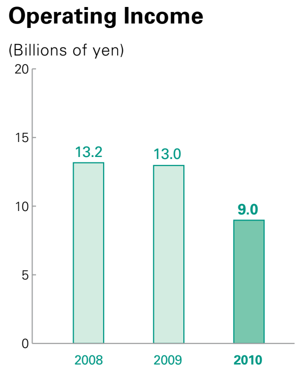
Human Health Care Business

Focal Points

- Further development of health care products that focus on both mind and body
- Concentration on the growth areas of oral care and men's products in Japan and sanitary products in Asia
- *Megurhythm Steam-Thermo Pad*, launched in 2005 and now widely adopted, continues to expand the size of its market.

(Years ended March 31)





Business Environment and Fiscal 2009 Results

Total sales decreased from the previous fiscal year as sales of sanitary products and personal health products were unable to compensate for the decrease caused by the suspension of production and sale of *Econa* products.

Overall food and beverage product sales decreased substantially with the suspension of production and sale of *Econa* products. However, in beverage products, sales of *Healthya Green Tea* increased, as did sales of *Healthya Sparkling*, the first carbonated drink designated as a Food for Specified Health Uses, which promotes body fat utilization. In sanitary products, *Merries* baby diapers in Japan and *Laurier Super Slim Guard* thin sanitary napkins in Asia drove growth in sales and operating income. In personal health products, sales of toothpaste, men's products and the *Megurhythm Steam-Thermo Pad* series continued to steadily expand.

As a result, net sales of the Human Health Care Business decreased 4.3 percent from the previous fiscal year to ¥183.2 billion, and operating income decreased ¥4.0 billion to ¥9.0 billion due to the suspension of production and sale of *Econa* products.

Key Fiscal 2009 Initiatives and Issues for Fiscal 2010 Onward

Food and Beverage Products

Healthya Sparkling is the first carbonated beverage designated as a Food for Specified Health Uses that promotes body fat utilization, thus appealing to health consciousness.

Kao has suspended production and sale of *Econa* products. Kao plans to relaunch a functional health food after applying for designation as a Food for Specified Health Uses.

For *Healthya*, a line of beverages with the Food for Specified Health Uses designation that promote body fat utilization due to their high concentration of tea catechins, brand loyalty increased steadily as consumer awareness of health management grew, particularly among middle-aged men. Initiatives to increase loyalty among frequent customers in fiscal 2010 will include introducing one-liter bottles of *Healthya Water*.

Further, Healthcare Committee Inc., which became a Kao subsidiary in 2008, is creating a specified health guidance program business as a pillar of the next stage of growth for the food and beverage business.

Sanitary Products

Sales of *Merries* baby diapers remain strong in Taiwan. The Kao Group will expand its lineup to meet the needs of local consumers.

Kao improved *Merries* baby diapers, a top brand in Japan with many loyal customers, in October 2009 in line with infant growth stages. Strengthening the functions of the gentle-on-skin airy mesh of tape-type diapers and enhancing pants-type diapers with a new comfortable design that does not constrict the baby's body led to sales growth. Sales of *Merries* also remained strong in Taiwan. In fiscal 2010, Kao will use its website to enlighten consumers about *Merries* and raise its brand value.

A notable decline in feminine hygiene product prices in Japan created serious challenges for all companies in the market. Kao further increased the absorbency of *Laurier Super Slim Guard* thin sanitary napkins and launched *Laurier Kirei Style* panty liners that allow users to choose a fragrance to correspond with their mood, but intensified competition cut into sales. In fiscal 2010, Kao will improve *Laurier F* for nighttime use and work to further expand sales in the category of feminine hygiene products that are gentle on skin.

In feminine hygiene products in Asia, the Kao Group continued to achieve double-digit year-on-year sales growth on a local-currency basis by expanding the *Laurier Super Slim Guard* lineup and introducing a new standard-type product for nighttime use. In fiscal 2010, the Kao Group will further accelerate growth by strengthening the product lineup in Asian countries and regions.

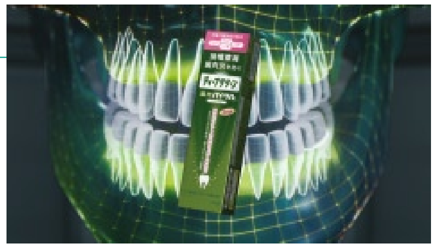
Kao improved all aspects of the *Relief* brand of adult incontinence products in October 2009, and attracted new users with the launch of adult pants-type product *Relief Ultra-Thin Walking Pants*, which look and fit exactly like underwear.

Personal Health Products

Medicated Pyuora Nano-bright Toothpaste, which removes stain deposits from teeth to a nano level, created a new market and posted strong sales following its launch in February 2009. In addition, Kao increased sales and market share of oral care products by introducing *Clear Clean Change* under the concept of working women's lunchtime teeth brushing. In March 2010, Kao launched *Deep Clean* toothpaste and toothbrushes to develop a new market, and will work to further increase the number of loyal users.

Sales of the *Success* brand of men's products under the concept "health care for the scalp" remained strong from the previous fiscal year, and market share expanded with effective marketing of the brand's shampoo and hair tonic. Sales of *Success Step Color* grooming for gray hair for men, which has gained loyal customers among middle-aged men for the way it naturally and gradually covers the gray, grew firmly following its October 2009 launch. In fiscal 2010, enhancements to the lineup of popular shampoos will aim to further increase the number of loyal users.

Challenging conditions for *Bub* bath additives continued due to consumers' saving-consciousness and the growing trend among young people to switch from baths to showers. However, sales were strong for an assortment of four fragrances that offer a healthy, refreshing bath. Kao added three more bath additive assortments in March 2010 to invigorate the slumping bath additives market.



New brand *Deep Clean* toothpaste and toothbrushes are aimed at preventing pyorrhea and gingivitis.

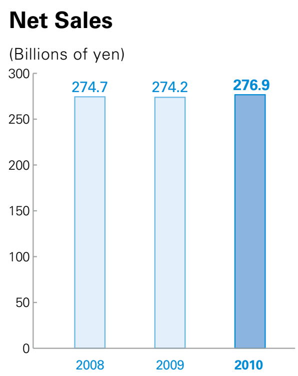
The *Megurhythm* series has gained popularity since its launch. The series, particularly *Megurhythm Steam Eye Mask*, received strong consumer support in fiscal 2009 and expanded a new market. Kao will continue to solidify its base as a year-round product and vigorously provide information about its unique value.

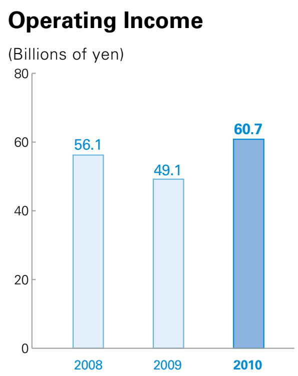
Fabric and Home Care Business

Focal Points

- New product development is based on Kao's unique technologies to reduce environmental burden from raw material procurement to use and disposal.
- To rejuvenate the market, the Kao Group continues to launch new and improved products with high value and to offer new applications in response to changes in consumer lifestyles.
- Instructional programs for consumers as a top manufacturer in Japan include enhancing consumers' abilities to live wisely and comfortably through housework.

(Years ended March 31)





Business Environment and Fiscal 2009 Results

In the Fabric and Home Care market in Japan, growth in sales value was rather flat because consumers became more saving-conscious from the second half of fiscal 2009, and unit prices declined, whereas sales volume slightly increased in the whole market. Sales were steady for the whole year. On the other hand, the Japanese gift market had continued to contract due to changes in consumers' attitude to gift-giving since the previous fiscal year. In Asia and Oceania, the Kao Group increased sales robustly with the steady increase in consumer spending as the economy recovered.

In fabric care products, sales of liquid laundry detergents were robust, including ultra-concentrated *Attack Neo*, which can conserve water and shorten washing time, requiring only a single rinse cycle per laundry run with higher detergency, based on Kao's unique and distinctive cleaning technology. Solid sales of fabric softeners and bleaches also contributed to the sales growth of fabric care products. In Asia and Oceania, sales increased on a local currency basis with strong sales of *Attack Easy* in Thailand and Indonesia.

Sales of home care products increased as *Cucute* dishwashing detergent performed well and Kao strengthened the brand by launching new items.

As a result, net sales of Fabric and Home Care Business increased by 1.0 percent to ¥276.9 billion, compared to the previous fiscal year. Operating income increased by ¥11.5 billion to ¥60.7 billion as well due to aggressive launches of new and improved products and an improvement in cost of goods (COGs) resulting from lower raw material prices.

Key Fiscal 2009 Initiatives and Issues for Fiscal 2010 Onward

Fabric Care Products

In the laundry detergent market in Japan, where the liquid laundry detergent category has continued its brisk growth since the second half of the previous fiscal year, the Kao Group's sales growth surpassed the market growth with the launch of *Attack Neo*, which is the world's first* 2.5x ultra-concentrated liquid laundry detergent. This product was developed with Kao's unique proprietary cleaning technology, which achieves higher detergency with smaller dosage and requires only a single rinse cycle.

Launched in August 2009, *Attack Neo* is Kao's first product to embody the slogan of the Kao Environmental Statement "eco together." It proposes eco-friendly activities such as conserving water and energy, which can be achieved together with consumers even in the process of product use.

Kao succeeded in raising recognition of *Attack Neo* with its exposure to various media, and instructional programs such as tie-up promotions with retailers and joint events with local governments. The response to *Attack Neo* was substantial, as the product achieved the highest repeat purchase rate among Kao's liquid laundry detergents. Sales grew steadily in terms of both volume and value, and further growth is expected.

In Asia and Oceania, sales of *Attack Easy* laundry detergent for hand washing remained robust in Thailand and Indonesia as it received consumers' appreciation for its high detergency and its unique selling point of making hand washing much less laborious. This success was attributed to getting into consumers' lifestyles to observe actual washing conditions thoroughly, and the Kao Group will continue to develop products rooted in lifestyle in each country.

In the fabric bleach category, *Wide Haiter Ex Power*, launched in Japan in fiscal 2008 based on growing consumer awareness of sterilization and deodorization, achieved double-digit sales growth as it received consumer appreciation for higher deodorizing and bleaching efficacy.

In the fabric softener category, *Humming Flair Fragrance Collection* was launched in March 2009 to meet a wider range of consumer needs, targeting customers who are particular about fragrances. It performed well to meet the needs of targeted consumers in terms of both fragrance and package design.

The Kao Group will increase the market penetration of *Attack Neo* and continue to aggressively launch high-value-added products that can create new markets in fiscal 2010.

* Based on the result of investigating the MINTeL database on liquid laundry detergents under the condition that the degree of surfactant concentration is above 65 percent and the transparency of liquid is maintained without solidification even under minus 5 degrees Celsius. (Survey conducted by Kao in June 2009)

Attack Neo proposes ecological activities that can be achieved together with consumers, such as conserving water and energy with each use.

Home Care Products

In Japan, Kao kept the top share in the dishwashing detergent market as *Cucute* dishwashing detergent steadily gained market share. In addition, *Cucute Hand Beauty*, launched in January 2010, received consumer appreciation as a dishwashing detergent that offers both superior detergency and gentleness on hands at the same time. Kao aims to increase its market presence by relaunching the *Cucute* brand with higher detergency in March 2010.

Kao strengthened the *Cucute* brand by launching a new item, *Cucute Hand Beauty*.

In the cleaning product category, Kao increased sales by strengthening the *Haiter* bleach brand and launching new products such as *Haiter* drain cleaner for unclogging drains in bathrooms, sinks, and kitchens, and *Haiter* washing machine cleaner for removing mold and water stains from the inside of washing machine tubs.

On the other hand, Kao will rejuvenate the bath cleaner market, which has suffered from declining prices, with initiatives including the launch of a new product with mold preventive function under the *Bath Magiclean* brand in March 2010.

Kao launched campaigns under the theme of "Enhancing family members' abilities to live wisely and comfortably" to rejuvenate the market by nurturing such abilities even with the participation of husbands and children in housework. Kao launched four campaigns in 2009. The "illustrated diary – summer vacation cleaning" contest as a part of the "summer cleaning campaign" drew a huge response, represented by many applications for the contest by elementary school students.

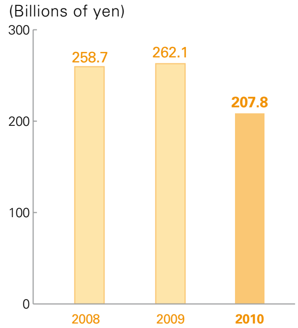
Kao launched a campaign to enhance the ability to live wisely and comfortably through housework such as cleaning.

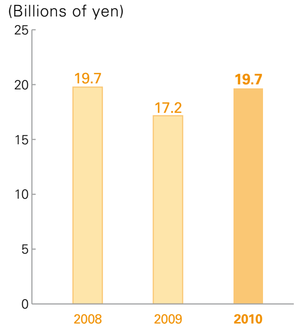
Chemical Business

Focal Points

- Development of new materials using the Kao Group's unique environmentally-conscious technologies contributes to industry worldwide.
- The Kao Group concentrates on information technology fields, which have high growth potential, to offer high-value-added products tailored to customers' needs.
- The Kao Group provides strong support for its customers' business development in China and other BRICs countries.

(Years ended March 31)





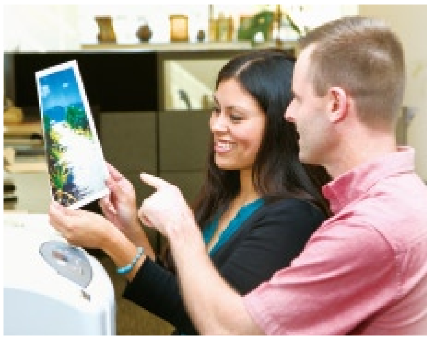
Note: Net sales include intersegment sales.

Business Environment and Fiscal 2009 Results

With the lingering impact of the global economic downturn in the second half of fiscal 2008, worldwide recovery in sales volume was delayed in the first half of fiscal 2009, but generally solid in the second half. Meanwhile, clear differences emerged by region and industry in the rebound of demand. Recovery was significant in Asia, centered in China, and in the automotive, household electronics and information technology industries, which had suddenly cooled in the second half of fiscal 2008.

By business, sales of specialty chemicals grew steadily, particularly for polishing agents for hard disks, where the Kao Group holds the top global market share, and cleaners for electronic parts. However, sales of oleo chemicals and performance chemicals were weak due to the economic downturn.

As a result of these factors and the impact of sales price adjustments reflecting a decline in raw material prices, sales of the Chemical Business decreased 20.7 percent compared with the previous fiscal year to ¥207.8 billion. Excluding the effect of currency translation, sales would have decreased 14.8 percent. Operating income increased ¥2.5 billion to ¥19.7 billion due to increased sales of high-value-added products and the decline in raw material prices.



The Kao Group's toner and toner binder offer superior printing speed, image quality, color reproduction and stability, and reduce the energy consumption of laser printers and copiers by lowering the fixing temperature on paper. About 30 percent of total global demand is supplied by the Kao Group.

Key Fiscal 2009 Initiatives and Issues for Fiscal 2010 Onward

Modified polylactide resin *ECOLA* is gaining attention as a bioplastic, and sales grew steadily in the first fiscal year since its introduction. Major photocopier manufacturers use *ECOLA* in holders for photocopier manuals, and the Kao Group's technologies are also applied in other environmentally-conscious products for a number of manufacturers.

The Kao Group supplies about 30 percent of the global total of toner and toner binders, which play a key role in printer functionality. Sales of the polyester resin toner and toner binder that the Kao Group developed in-house grew significantly as they significantly reduce environmental burden by substantially lowering fixing temperatures on paper while still creating high-quality copies. The Kao Group also successfully developed toner and toner binder using biomaterials and began deliveries to major information equipment manufacturers.

The Kao Group will continue to contribute to the manufacturing industry by working together with customers on their challenges and by supplying unique environmentally-conscious products.

The Kao Group works to develop environmentally-conscious bioplastics. This holder for a photocopier manual uses *ECOLA*, a modified polylactide resin. (Left photo courtesy of Ricoh Company, Ltd.)

Financial Section

Contents

Management Discussion and Analysis

11-Year Summary

Kao Corporation and Consolidated Subsidiaries

Years ended March 31	Millions of yen 2010	2009	2008	2007
For the year:				
Net sales	¥1,184,385	¥1,276,316	¥1,318,514	¥1,231,808
Business Segments				
Beauty Care Business	547,944	588,330	627,914	584,284
Human Health Care Business	183,151	191,319	191,300	183,608
Fabric and Home Care Business	276,918	274,202	274,657	269,519
Consumer Products Business	1,008,013	1,053,851	1,093,871	1,037,411
Chemical Business	207,834	262,058	258,674	223,609
Eliminations/Corporate	(31,462)	(39,593)	(34,031)	(29,212)
Former Business Segments				
Consumer Products	—	—	—	744,748
Prestige Cosmetics	—	—	—	292,663
Chemical Products	—	—	—	223,609
Eliminations/Corporate	—	—	—	(29,212)
Geographic Segments				
Japan	918,499	953,369	968,594	924,196
Asia and Oceania	131,699	161,927	158,295	125,989
North America and Europe	—	—	—	—
North America	79,200	98,999	111,017	106,731
Europe	111,158	140,623	154,648	135,918
Eliminations	(56,171)	(78,602)	(74,040)	(61,026)
Operating income	94,034	96,800	116,253	120,858
Net income	40,507	64,463	66,562	70,528
Capital expenditures	44,868	44,624	49,045	70,143
Depreciation and amortization	84,778	87,463	93,444	92,171
Cash flows	95,269	122,441	131,114	134,906
Research and development expenditures	44,911	46,126	45,070	44,389
(% of Sales)	3.8%	3.6%	3.4%	3.6%
Advertising expenditures	86,359	90,258	99,176	96,892
(% of Sales)	7.3%	7.1%	7.5%	7.9%
At year-end:				
Total assets	1,065,751	1,119,676	1,232,601	1,247,797
Net worth	565,133	545,230	574,038	564,532
Number of employees	34,913	33,745	32,900	32,175
	Yen			
Per share:				
Net income	¥ 75.57	¥ 120.25	¥ 122.53	¥ 129.41
Cash dividends	57.00	56.00	54.00	52.00
Net worth	1,054.31	1,017.19	1,070.67	1,035.66
Weighted average number of shares outstanding during the period (in thousands)	536,009	536,085	543,228	544,996
	%			
Key financial ratios:				
Return on sales	3.4%	5.1%	5.0%	5.7%
Return on equity	7.3	11.5	11.7	13.1
Net worth ratio	53.0	48.7	46.6	45.2

Notes: 1. Kao reorganized its operations effective April 2007 by integrating the former consumer products business and prestige cosmetics business into the Consumer Products Business, which is divided into three businesses (the Beauty Care Business, the Human Health Care Business and the Fabric and Home Care Business). Together with the Chemical Business, Kao's business operations now consist of four business segments. Figures for 2007 have been restated to reflect the change.

2. Net sales by business segment include intersegment sales. Under the former business segments, net sales of Chemical Products include intersegment sales to Consumer Products and Prestige Cosmetics. Under the current business segments, net sales of the Chemical Business include intersegment sales to the Beauty Care Business, the Human Health Care Business and the Fabric and Home Care Business.

3. Kanebo Cosmetics Inc. and its consolidated subsidiaries are included in the consolidated statements of income from the year ended March 31, 2007, and in the consolidated balance sheets as of March 31, 2006. The results of Kanebo Cosmetics Inc., which had a fiscal year ending December 31, are included for the eleven months starting in February 2006, after the company was added to the Kao Group.

2006	2005	2004	2003	2002	2001	2000
¥ 971,230	¥936,851	¥902,628	¥865,247	¥839,026	¥821,629	¥846,922
—	—	—	—	—	—	—
—	—	—	—	—	—	—
—	—	—	—	—	—	—
—	—	—	—	—	—	—
—	—	—	—	—	—	—
—	—	—	—	—	—	—
704,034	690,007	670,438	646,413	626,047	607,826	632,423
85,247	78,294	77,648	75,833	74,176	72,579	70,890
208,890	196,989	181,621	170,935	162,802	167,893	172,401
(26,941)	(28,439)	(27,079)	(27,934)	(23,999)	(26,669)	(28,792)
708,056	703,085	673,657	654,595	648,188	655,470	673,456
110,898	100,282	101,452	101,555	93,499	84,137	86,176
—	—	—	—	—	105,287	111,043
95,168	83,638	79,907	75,796	70,274	—	—
109,486	93,804	84,899	67,845	57,625	—	—
(52,378)	(43,958)	(37,287)	(34,544)	(30,560)	(23,265)	(23,753)
120,135	121,379	119,706	114,915	111,728	107,099	99,182
71,140	72,180	65,359	62,462	60,275	59,427	52,147
203,595	54,318	51,823	84,544	49,537	60,741	37,564
60,758	56,794	58,166	58,310	58,484	58,856	67,270
107,943	109,704	106,430	104,436	103,657	104,702	108,158
40,262	39,764	38,506	37,713	37,543	37,049	38,062
4.1%	4.2%	4.3%	4.4%	4.5%	4.5%	4.5%
83,770	84,157	82,773	74,277	66,069	65,758	64,354
8.6%	9.0%	9.2%	8.6%	7.9%	8.0%	7.6%
1,220,564	688,974	723,891	720,849	772,145	783,760	750,016
509,676	448,249	427,757	417,031	459,731	462,988	474,979
29,908	19,143	19,330	19,807	19,923	19,068	16,088
¥ 130.58	¥ 131.16	¥ 119.06	¥ 108.05	¥ 100.43	¥ 96.69	¥ 83.45
50.00	38.00	32.00	30.00	26.00	24.00	20.00
935.11	821.47	782.14	744.56	779.44	760.05	765.59
544,127	549,626	547,865	576,770	600,150	614,608	624,917
7.3%	7.7%	7.2%	7.2%	7.2%	7.2%	6.2%
14.9	16.5	15.5	14.2	13.1	12.7	11.3
41.8	65.1	59.1	57.9	59.5	59.1	63.3

4. Net sales by geographic segment include intersegment sales. Net sales in North America and Europe are presented separately from 2002.
5. Cash flows are defined as net income plus depreciation and amortization minus cash dividends.
6. Net income per share is computed based on the weighted average number of shares outstanding during the respective years. From the year ended March 31, 2003, the portion of net income unavailable to common shareholders, such as preferred dividends, which should be included in the appropriation of retained earnings, is deducted from net income for the calculation of net income per share. The same method is applied to the calculation of net worth per share.
7. Cash dividends per share are the amounts applicable to the respective years, including dividends to be paid after the end of the year.
8. Net worth is equity, excluding minority interests and stock acquisition rights.
9. In calculating return on equity, equity excludes minority interests and stock acquisition rights.

Overview of Consolidated Results

During the fiscal year ended March 31, 2010, with the effects of aggressive government policy measures in major countries, the global economy showed a trend toward a moderate recovery from the downturn brought on by the financial crisis in the autumn of 2008. However, in Japan, consumer prices continued to fall gradually with the purchasing behavior of budget-strapped consumers due to factors including severe employment and household income conditions, as well as price competition at stores.

In the household and personal care products market in Japan, a key market for the Kao Group, deflation stemming from cooling consumer sentiment continued, while the prestige cosmetics market contracted due to a shift to lower-priced products.

Under these circumstances, the Kao Group worked to create products and brands of excellent value from the standpoint of consumers and customers, and to launch and nurture products with added value in balancing the areas of ecology and economy, in addition to its focus on cost reduction activities and cutbacks in expenses. The Kao Group also decided to suspend production and sale of *Econa* cooking oil and related products (*Econa* products)* and to submit a new application for approval as a Food for Specified Health Uses in order to give these products a new start, so that consumers can use them with peace of mind.

As a result, net sales decreased 7.2 percent compared with the previous fiscal year to ¥1,184.4 billion (US$12,729.8 million). Excluding the effect of currency translation, net sales would have decreased 4.2 percent. Fabric and Home Care Business sales grew with the effect of new products and other factors. However, in the Beauty Care Business, prestige cosmetics sales were weak due to the impact of changes in the market structure in Japan, and Human Health Care Business sales decreased due to the suspension of production and sale of *Econa* products. Sales also decreased in the Chemical Business due to lower sales volume and adjustments to selling prices reflecting a decline in raw material prices. In addition, overseas sales decreased with the effect of the strong yen on currency translation.

Operating income decreased 2.9 percent compared with the previous fiscal year to ¥94.0 billion (US$1,010.7 million), and net income decreased 37.2 percent to ¥40.5 billion (US$435.4 million).

*See page 14 of the *Kao Annual Report* for matters related to *Econa* products.

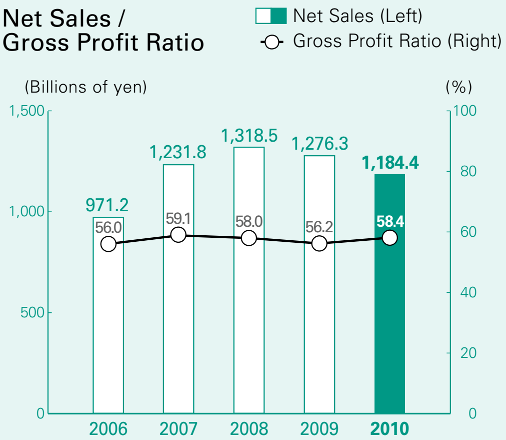
Analysis of Income Statements

Net Sales and Operating Income

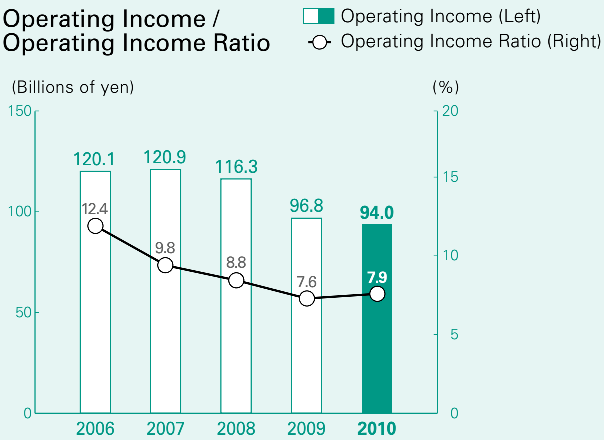
Net sales decreased 7.2 percent compared with the previous fiscal year to ¥1,184.4 billion (US$12,729.8 million). Excluding the effect of currency translation, net sales would have decreased 4.2 percent. Fabric and Home Care Business sales grew with the effect of new products and other factors. However, in the Beauty Care Business, prestige cosmetics sales were weak due to the impact of changes in the market structure in Japan, and Human Health Care Business sales decreased due to the suspension of production and sale of *Econa* products. Sales also decreased in the Chemical Business due to lower sales volume and adjustments to selling prices reflecting a decline in raw material prices. In addition, overseas sales decreased with the effect of the strong yen on currency translation.

The decrease in sales had a substantial impact on profits. However, a decline in raw material prices, mainly for natural oils and fats and petrochemicals, contributed significantly to improving cost of sales. In addition, the Kao Group worked on measures including promotion of cost reduction activities and

Net Sales / Gross Profit Ratio



Operating Income / Operating Income Ratio



greater efficiency of marketing expenses. The Kao Group also recorded a ¥2.8 billion (US$30.5 million) loss on write-off of inventory included in cost of sales related to other expenses associated with the suspension of production and sale of *Econa* products.

As a result of the above factors, operating income decreased ¥2.8 billion from ¥96.8 billion in the previous fiscal year to ¥94.0 billion (US$1,010.7 million).

Other Expenses and Net Income

Net other expenses were ¥11.1 billion (US$119.0 million) compared with net other expenses of ¥4.8 billion in the previous fiscal year. This was due to ¥5.3 billion (US$56.9 million) in loss related to cooking oils associated with the suspension of production and sale of *Econa* products, ¥1.3 billion (US$13.9 million) in restructuring charges for prestige cosmetics subsidiary, ¥1.5 billion (US$15.8 million) lower foreign currency exchange loss, a ¥1.8 billion (US$19.1 million) decrease in interest expense that resulted from partial repayment of long-term debt, and other factors.

As a result, income before income taxes and minority interests decreased ¥9.1 billion from ¥92.0 billion in the previous fiscal year to ¥83.0 billion (US$891.7 million).

Total income taxes were ¥41.6 billion (US$447.5 million), compared with ¥26.6 billion in the previous fiscal year. Main factors included the effect of tax reform in Japan related to undistributed foreign earnings in the previous fiscal year and reversal of deferred tax assets at some consolidated subsidiaries.

Net income decreased ¥24.0 billion, or 37.2 percent, compared with the previous fiscal year to ¥40.5 billion (US$435.4 million). Net income per share was ¥75.57 (US$0.81), a decrease of ¥44.68 from the previous fiscal year.

Information by Business Segment

Consumer Products Business

Sales decreased 4.3 percent compared with the previous fiscal year to ¥1,008.0 billion (US$10,834.2 million). Excluding the effect of currency translation, sales would have decreased 2.1 percent.

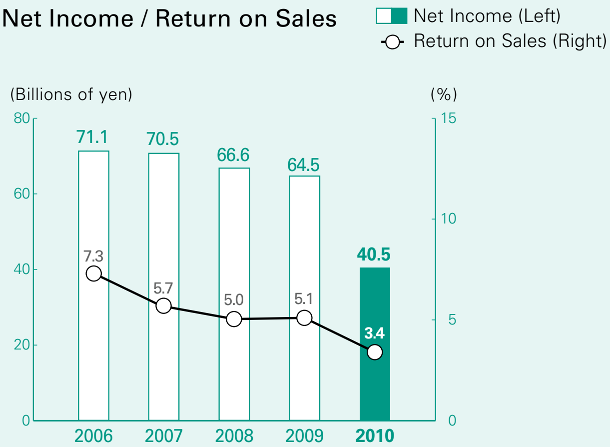
In Japan, although the economy was on a recovery track,

Costs, Expenses and Income as Percentages of Net Sales

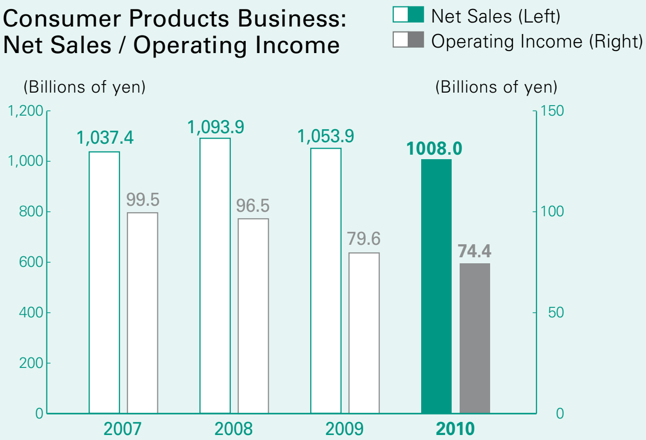
	2010		2009		2008
Cost of sales	41.6%		43.8%		42.0%
Gross profit	58.4	(+2.2)	56.2	(–1.8)	58.0
Selling, general and administrative expenses	50.5	(+1.9)	48.6	(–0.6)	49.2
Operating income	7.9	(+0.3)	7.6	(–1.2)	8.8
Income before income taxes and minority interests	7.0	(–0.2)	7.2	(–1.2)	8.4
Net income	3.4	(–1.7)	5.1	(+0.1)	5.0

Note: Figures in parentheses represent changes in percentage points from the previous year.

Net Income / Return on Sales



Consumer Products Business: Net Sales / Operating Income



consumers remained highly saving-conscious. The household and personal care products market expanded one percent on a value basis, but average consumer purchase prices in major product categories declined three points from October 2009 onward compared with the same period a year earlier. The prestige cosmetics market contracted compared with the previous fiscal year due to a change in consumer purchasing sentiment with the effects of the weak economy and other factors, together with continued down-trading to lower priced products.

Under these conditions, sales in Japan decreased 3.0 percent to ¥831.5 billion (US$8,936.9 million). The Kao Group worked to launch new products that respond to changes in consumer lifestyles and to strengthen its proposal-based sales activities and in-store merchandising activities. As a result, sales of the Fabric and Home Care Business were firm. However, in the Beauty Care Business, sales of prestige cosmetics were weak, mainly due to changes in the market structure, and sales of the Human Health Care Business decreased due to the suspension of production and sale of *Econa* products.

In Asia and Oceania, although consumer spending has increased as economic conditions improve, competition remained intense. Sales decreased 4.2 percent to ¥79.7 billion (US$856.4 million) due to the effect of currency translation. However, on a local-currency basis, sales increased 7.7 percent as the Kao Group generated positive results from collaborations with retailers and integration of business operations in Asia, including Japan.

In North America and Europe, despite recent signs of upward economic momentum, intense market competition continued due to the effects of the recession. Reflecting the cooling market and the impact of currency translation, sales decreased 13.3 percent to ¥113.0 billion (US$1,214.3 million). Excluding the effect of currency translation, sales would have decreased 2.2 percent.

Although prices for raw materials, mainly natural oils and fats and petrochemicals, declined compared with the previous fiscal year, operating income decreased ¥5.3 billion to ¥74.4 billion (US$799.2 million) due to the decrease in sales.

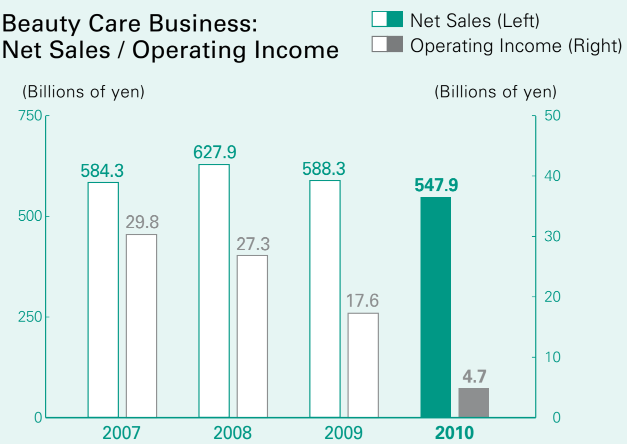
Beauty Care Business

Sales decreased 6.9 percent compared with the previous fiscal year to ¥547.9 billion (US$5,889.3 million). Excluding the effect of currency translation, sales would have decreased 3.9 percent.

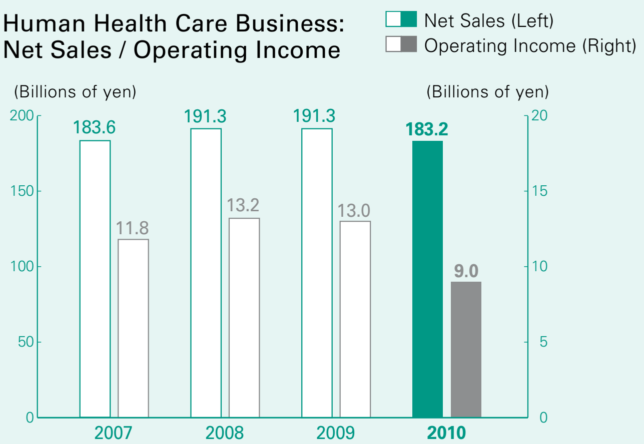
Operating income decreased ¥12.8 billion to ¥4.7 billion (US$51.0 million) as a result of the decrease in sales. Operating income before amortization of goodwill and other items related to acquisitions (EBITA) was ¥40.0 billion (US$430.3 million), which is equivalent to 7.3 percent of sales.

In prestige cosmetics, the Kao Group conducted aggressive initiatives to strengthen and increase its cosmetics megabrands with annual sales of more than ¥10 billion, including the launch of a new line from the *Suisai* counseling skin care brand and the addition of items to counseling cosmetics such as the *Coffret d'Or* makeup and *Sofina Beauté* aging skin care brands in Japan. However, sales in Japan decreased due to a consumer preference for lower priced products and inventory reductions by retailers. In China, sales increased with aggressive initiatives that included the introduction of new brands. In Russia, the Kao Group strengthened its business operations with the establishment of a subsidiary of Kanebo Cosmetics Inc.

Beauty Care Business: Net Sales / Operating Income



Human Health Care Business: Net Sales / Operating Income



Sales of premium skin care products grew in Japan due to strong sales of the *Curél* and *Bioré U* brands. In Asia, *Bioré* performed well and sales grew on a local-currency basis. In North America and Europe, despite a recovery trend in the economy, sales decreased due to the weak markets and the effect of currency translation.

In premium hair care products, the market in Japan contracted on a value basis, with structural changes such as an increase in the proportion of shampoo and conditioner refill products. However, the Kao Group maintained sales at the previous year's level and increased its market share, primarily due to the improved *Segreta* premium hair care brand and growth in sales of foam-type hair color. Sales in Asia increased substantially on a local-currency basis, with expanded roll-outs of the *Asience* and *Essential Damage Care* premium hair care brands in the region and the contribution of *Liese* hair styling and hair coloring agents. Sales in North America and Europe decreased due to the weak markets and the effect of currency translation, despite the recovery trend.

Human Health Care Business

Sales decreased 4.3 percent compared with the previous fiscal year to ¥183.2 billion (US$1,968.5 million). Excluding the effect of currency translation, sales would have decreased 3.0 percent.

Operating income decreased ¥4.0 billion to ¥9.0 billion (US$96.2 million) due to the suspension of production and sale of *Econa* products.

Sales of food and beverage products decreased substantially as the Kao Group suspended production and sale of *Econa* products. However, sales of functional health beverages increased with the launch of *Healthya Sparkling*, the first carbonated drink approved as a Food for Specified Health Uses to promote body fat utilization, and growth in the number of loyal consumers. Sales of sanitary products were virtually unchanged. In Japan, sales of *Laurier* sanitary napkins decreased due to a contracting market and intense price competition, but sales of *Merries* baby diapers increased steadily as a result of improvements to make their texture gentler on skin. In Asia, sales of *Laurier* increased on a local-currency basis, reflecting strong performance in China, Indonesia and other countries with the introduction of new products. Sales of personal health products increased as the launch of the *Deep Clean* brand of toothpaste and the strong performance of *Pyuora* oral care products offset a decrease in sales of bath additives.

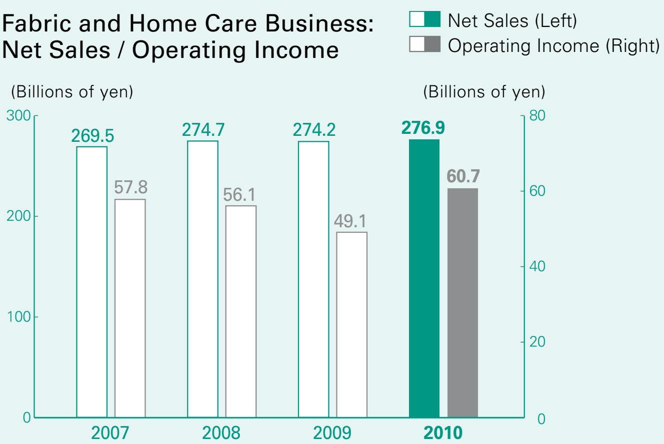
Fabric and Home Care Business

Sales increased 1.0 percent compared with the previous fiscal year to ¥276.9 billion (US$2,976.3 million). Excluding the effect of currency translation, sales would have increased 2.4 percent.

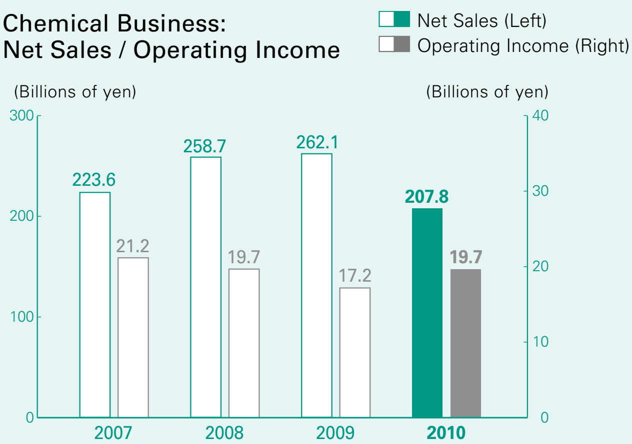
Operating income increased ¥11.5 billion to ¥60.7 billion (US$651.9 million) due to sales growth from active launches of new and improved products, as well as more efficient use of marketing expenditures and improvement in cost of sales as a result of a decline in raw material prices.

Sales of fabric care products increased with the launch of *Attack Neo* ultra-concentrated liquid laundry detergent in Japan. Based on Kao's proprietary technology, the product can reduce environmental impact by conserving water and electricity and also shorten washing time. Solid sales of *Humming Flair* fabric softener and *Wide Haiter* fabric bleach also contributed to the sales increase. In Asia and Oceania, sales grew on a local-

Fabric and Home Care Business: Net Sales / Operating Income



Chemical Business: Net Sales / Operating Income



currency basis as *Attack Easy* laundry detergent continued to perform well in Thailand and Indonesia. While consumers in Japan continued to be saving-conscious, sales of home care products increased due to the addition of new products to the *Cucute* dishwashing detergent line and efforts to strengthen the *Haiter* house cleaning brand with the launch of new products including drain cleaner and washing machine cleaner.

Chemical Business

Although the Chemical Business is recovering from decreased demand from customer industries due to the rapid downturn in economic conditions from autumn 2008, sales decreased 20.7 percent from the previous fiscal year to ¥207.8 billion (US$2,233.8 million), due in part to adjustments to selling prices reflecting a decline in raw material prices. Excluding the effect of currency translation, sales would have decreased 14.8 percent.

Despite the substantial decrease in sales, operating income increased ¥2.5 billion to ¥19.7 billion (US$211.2 million) due to increased sales of high-value-added products and the decline in raw material prices.

Oleo chemicals were impacted by a decrease in sales volume due to a fall in demand from customer industries and adjustments to selling prices reflecting a decline in raw material prices. Performance chemicals, which the Kao Group supplies to a wide range of industries, were affected by selling price adjustments and the slowdown in the economy, although it has begun to recover. Specialty chemicals were impacted by the economic slowdown, but demand from customer industries for polishing agents for hard disks and cleaners for electronic parts has recovered strongly after bottoming out during the January to March period of 2009.

Information by Geographic Segment

Japan

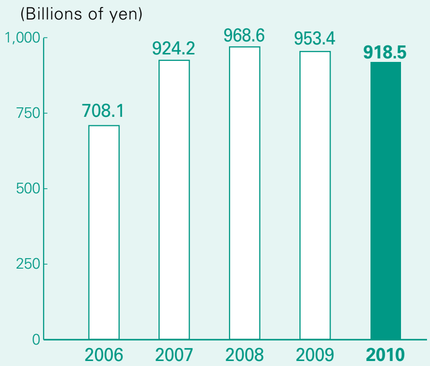
Sales of Kao Group companies in Japan decreased 3.7 percent compared with the previous fiscal year to ¥918.5 billion (US$9,872.1 million). In the Consumer Products Business, sales decreased although the Kao Group introduced high-value-added products and strengthened proposal-based sales capabilities and in-store merchandising activities. The Fabric and Home Care Business performed well, but weak sales of prestige cosmetics, where the market structure and other factors have changed, and the suspension of production and sale of *Econa* products had an impact on overall results. Chemical Business sales are recovering, but were affected by a decrease in demand from customer industries due to the rapid downturn in economic conditions from autumn 2008 and adjustments to selling prices reflecting a decline in raw material prices.

Despite cost reduction activities as well as measures to introduce high-value-added products and to strengthen sales activities, operating income decreased ¥4.2 billion to ¥79.9 billion (US$858.9 million), mainly due to the decrease in sales.

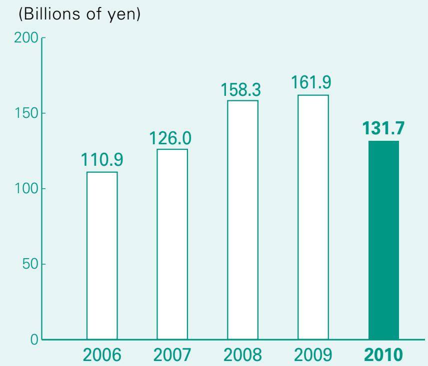
Asia and Oceania

Sales of Kao Group companies in Asia and Oceania decreased 18.7 percent compared with the previous fiscal year to ¥131.7 billion (US$1,415.5 million). Excluding the effect of currency translation, sales would have decreased 8.6 percent. Sales of the Consumer Products Business increased on a local-currency basis as the Kao Group generated positive results from collaborations with retailers and integration of business

Net Sales by Geographic Segment: Japan

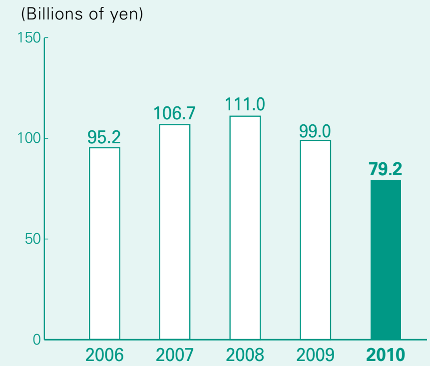


Net Sales by Geographic Segment: Asia and Oceania*



* Asia and Oceania: Asia and Australia

Net Sales by Geographic Segment: America*



* America: North America

operations in Asia, including Japan. Sales of the Chemical Business decreased due to adjustments to selling prices reflecting a decline in raw material prices and the effect of currency translation, despite the progress of inventory adjustments at customers because of economic recovery.

Operating income was virtually unchanged at ¥2.7 billion (US$28.9 million) with the impact of the decrease in sales of the Chemical Business, despite the improvement in the Consumer Products Business.

America

Sales of Kao Group companies in North America decreased 20.0 percent compared with the previous fiscal year to ¥79.2 billion (US$851.2 million). Excluding the effect of currency translation, sales would have decreased 9.8 percent. The Consumer Products Business took aggressive actions including new product launches amid continuing intense market competition. However, the weak market impacted both the Consumer Products Business and the Chemical Business.

Operating income increased ¥0.6 billion to ¥5.0 billion (US$53.3 million), despite the decrease in sales, due to cost reductions and other structural reform initiatives.

Europe

Sales of Kao Group companies in Europe decreased 21.0 percent compared with the previous fiscal year to ¥111.2 billion (US$1,194.7 million). Excluding the effect of currency translation, sales would have decreased 8.2 percent. Both the Consumer Products Business and the Chemical Business were impacted by the weak market.

Operating income was virtually unchanged at ¥5.2 billion (US$55.5 million), despite the decrease in sales, mainly due to the completion of amortization of goodwill.

Financial Structure

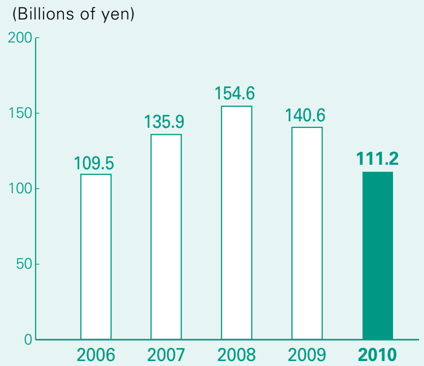
Total assets decreased ¥53.9 billion from the previous fiscal year-end to ¥1,065.8 billion (US$11,454.8 million). The principal increase in assets was a ¥16.4 billion increase in cash and cash equivalents. The principal decreases in assets were an ¥8.6 billion yen decrease in marketable securities, a ¥7.1 billion decrease in merchandise and finished goods, and a ¥34.5 billion decrease in intangible assets due to the progress of amortization of trademarks and other items.

Total liabilities decreased ¥75.0 billion from the previous fiscal year-end to ¥490.5 billion (US$5,271.5 million). The principal increases in liabilities were a ¥4.9 billion increase in notes and accounts payable – trade and a ¥7.1 billion increase in income taxes payable. The principal decrease in liabilities was an ¥86.2 billion decrease in long-term debt due to partial repayment and other factors.

Total net assets increased ¥21.1 billion from the previous fiscal year-end to ¥575.3 billion (US$6,183.3 million). The principal increase in net assets was net income of ¥40.5 billion and a change in foreign currency translation adjustments, associated with the translation of the total net assets of overseas subsidiaries into yen, totaling ¥7.1 billion. The principal decrease in total net assets was payments of dividends from retained earnings totaling ¥30.0 billion.

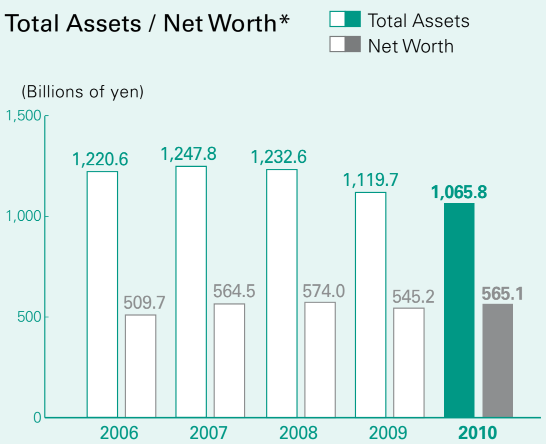
As a result, the net worth ratio (defined as net worth divided by total assets) was 53.0 percent, compared with 48.7 percent at the end of the previous fiscal year.

Net Sales by Geographic Segment: Europe*



* Europe: Europe and South Africa

Total Assets / Net Worth*



* Net worth is equity, excluding minority interests and stock acquisition rights.

Cash Flow

The balance of cash and cash equivalents (hereinafter, "cash") at March 31, 2010 increased ¥6.6 billion compared with the end of the previous fiscal year to ¥117.2 billion (US$1,259.5 million).

Cash Flows from Operating Activities

Net cash provided by operating activities totaled ¥172.3 billion (US$1,851.7 million), compared with ¥121.6 billion in the previous fiscal year. The principal increases in net cash were income before income taxes and minority interests of ¥83.0 billion, depreciation and amortization of ¥84.8 billion, a ¥13.1 billion decrease in inventories and a ¥3.8 billion increase in trade payables. The principal decrease in net cash was income taxes paid of ¥28.8 billion.

Cash Flows from Investing Activities

Net cash used in investing activities totaled ¥44.2 billion (US$475.3 million), compared with ¥43.2 billion in the previous fiscal year. This primarily consisted of purchase of property, plant and equipment of ¥35.2 billion and a ¥5.1 billion increase in intangible assets.

Cash Flows from Financing Activities

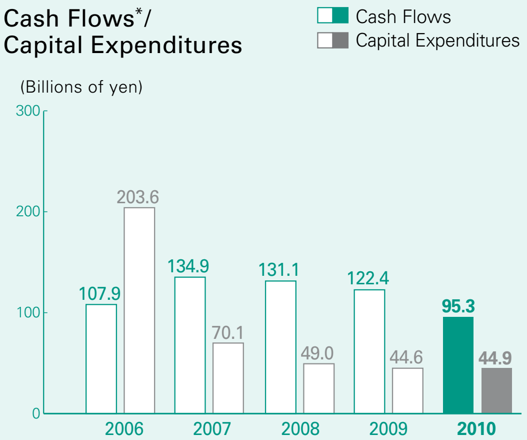
Net cash used in financing activities totaled ¥124.6 billion (US$1,338.8 million), compared with ¥64.7 billion in the previous fiscal year. This primarily consisted of ¥84.1 billion for repayment of a portion of long-term debt and ¥30.1 billion for payments of cash dividends, including to minority shareholders.

Basic Policies Regarding Distribution of Profits and Dividends for the Period

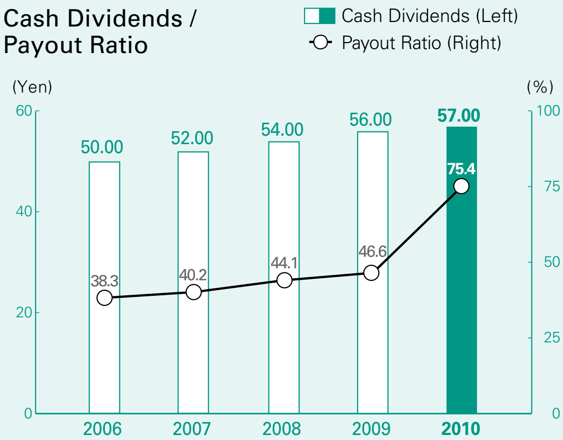
In order to achieve profitable growth, Kao Corporation secures an internal reserve for capital investment and acquisitions from a medium-to-long-term management perspective and places priority on providing shareholders with steady, continuous dividends. In addition, Kao Corporation flexibly considers the repurchase and retirement of shares from the standpoint of improving capital efficiency.

In accordance with these policies, Kao Corporation increased the year-end dividend for the fiscal year ended March 31, 2010 by ¥1.00 compared with the previous fiscal year to ¥29.00 (US$0.31) per share to reflect the recovery in results and improvement in cash flow from the third quarter onward. As a result, cash dividends for the fiscal year increased by ¥1.00 per share compared with the previous fiscal year, for a total of ¥57.00 (US$0.61) per share, and a consolidated payout ratio of 75.4 percent.

For the fiscal year ending March 31, 2011, although the operating environment is expected to be challenging, the Company plans to increase total cash dividends ¥1.00 per share to ¥58.00 per share, taking into consideration the forecast of achieving profits, in accordance with its basic policies regarding distribution of profits and the forecast effects of business improvements centered on the Chemical Business and ongoing cost reduction activities. As a result, the projected consolidated payout ratio will be 62.2 percent.



* Cash flows are defined as net income plus depreciation and amortization minus cash dividends.



EVA

Economic Value Added (EVA) is the Kao Group's main management metric. Defined as net operating profit after tax (NOPAT) less a charge for the cost of capital employed in the business, EVA indicates "true" profit. Continuously increasing EVA raises corporate value, which is consistent with the long-term interest of not only shareholders but all stakeholders. The Kao Group aims to conduct business activities that expand the scale of its business while also increasing EVA, and uses EVA for strategic decision-making, business performance evaluation and performance-based compensation. During the fiscal year ended March 31, 2010, due to a decrease in NOPAT, EVA decreased to 67 from 91 for the previous fiscal year, expressed as an index with the year ended March 31, 2000 as 100. The Kao Group conducted the following EVA-related activities during the fiscal year.

Investing for Growth: During the fiscal year ended March 31, 2010, the Kao Group invested aggressively for growth. In Germany, the Kao Group acquired factory-related assets for efficient and stable production of the Beauty Care Business, which it had strengthened in the past. Moreover, the Kao Group invested ¥44.9 billion globally in research and development (R&D), raising R&D expenditures to 3.8 percent of net sales from 3.6 percent for the previous fiscal year. In addition, the Kao Group decided to establish the Eco-Technology Research Center in Japan for a total cost of ¥16.0 billion in order to bolster its R&D capabilities in next-generation environmental fields.

Increasing Profit: During the fiscal year ended March 31, 2010, NOPAT decreased due to a decline in sales volume that mainly resulted from the economic slowdown, despite Kao Group initiatives that included developing high-value-added products such as a laundry detergent that reduces environmental impact and reducing selling, general and administrative expenses by ¥23.1 billion. Moreover, ongoing total cost reduction activities cut costs by ¥8.0 billion year on year. In addition, the Kao Group has been promoting cost reductions as a cost synergy in connection with Kanebo Cosmetics, and has been making progress toward targeted cumulative total reductions of between ¥12.0 billion and ¥13.0 billion from the acquisition of Kanebo Cosmetics Inc. to fiscal 2010.

Financial Improvement: Free cash flow totaled ¥128.1 billion (US$1,376.5 million) for the year ended March 31, 2010, an increase of ¥49.6 billion compared with the previous fiscal year. The Kao Group has set priorities for how it will deploy this free cash flow. Investments for mergers and acquisitions and additional capital expenditures for future growth are the top priorities in deploying free cash flow, followed by steady and continuous cash dividends. The Kao Group increased cash dividends per share for the fiscal year by ¥1.00 to ¥57.00 (US$0.61) for the 20th consecutive year of growth in cash dividends. Moreover, the Kao Group plans to use the remaining free cash flow for share repurchases as shareholder returns and for repayment of interest-bearing debt, considering its capital plans and financial market conditions. During the fiscal year, the Kao Group repaid long-term loans totaling ¥84.1 billion.

* Free cash flow: Net cash provided by operating activities + Net cash used in investing activities

Business Conduct Guidelines

Kao has a Compliance Committee for the promotion of ethical corporate conduct and compliance with laws and regulations, and has routinely implemented activities for securing compliance with laws and regulations, fairness and ethics. In addition, Kao has formulated and adheres to its code of conduct, "Kao's Business Conduct Guidelines."

Kao has also announced its support for and undertaking of the ten principles of the Global Compact advocated by the United Nations and its continued intention to behave responsibly in international society. The Global Compact is a voluntary corporate citizenship initiative encouraging each company to embrace, support and enact a set of core values in the areas of human rights, labor standards, the environment and anti-corruption, aiming for the sustainable growth of society.

Business Risks and Other Risks

Various risks arise in the course of a company's business. The Kao Group takes reasonable measures to mitigate risk by preventing the occurrence of, diversifying and hedging risks. However, unanticipated situations may occur that exert a significant impact on the Kao Group's business results and financial condition. The risks described below are not a comprehensive list of risks the Kao Group faces. Other risks exist and may have an impact on investment decisions.

Any statements below concerning the future are judgments made by Kao as of the submission of its securities report to the Ministry of Finance on June 29, 2010.

(1) Market and Consumer Demand

Growth of the Japanese consumer products market, the foundation of the Kao Group's operations, has been sluggish in recent years, due to economic stagnation as well as changes in the Kao Group's customer base as a consequence of the declining birth rate and aging society. Utilizing the changes in the values of its customer base, the Kao Group aims to respond to consumers' needs by applying its comprehensive *Monozukuri* capabilities and working to develop value-added products to maintain and improve its brand values. However, a number of factors could cause uncertainties in the Kao Group's business activities, delaying an adequate response to these changes. This could have a gradual impact on the Kao Group's business results and financial condition.

(2) Prestige Cosmetics Business

The Kao Group operates in the prestige cosmetics business, where it is difficult to attain significant results using the business model it has developed to date, due to intensifying competition in Japan and overseas from competitors in the same industries and the entrance of new companies from other industries, as well as changes in consumer purchasing attitudes accompanied by substantial changes in retail channels. The Kao Group plans to rebuild the prestige cosmetics business through initiatives including brand and marketing reform. However, a delay in appropriate response could have an impact on the Kao Group's business results and financial condition.

(3) Distributors and Retailers

The Kao Group is highly dependent on the Japanese market. Particularly in the consumer products business in Japan, the progress of new groups of retailers due to merger and integration, changes in sales channels and the appearance of new distributors in response to changes in consumer activity could affect the Kao Group's sales activities. However, the Kao Group will continue to offer proposals and conduct activities that correspond to these changes in the retail environment. Nevertheless, a delay in appropriate response could have an impact on the Kao Group's business results and financial condition.

(4) Overseas Operations

As one of its growth strategies, the Kao Group is conducting operations in markets in Asia, Europe and North America, with a particular emphasis on strengthening its operations in emerging countries with high economic growth rates. However, in the course of business, factors such as competition, pricing, cost management, distribution, and smooth relationships with vendors may not go as planned. This could have an impact on the Kao Group's business results and financial condition.

(5) Environmental Activities

The Kao Group works for both business growth and "eco-innovation" by developing products with high environmental value that conserve water and resources, as well as focusing on using raw materials that are low in greenhouse gas emission volumes or recyclable, conserving energy in production and distribution, and employing renewable energy, in addition to their original product quality and performance. However, results may not meet the initial intentions due to reasons including a lack of consumer acceptance of new products' environmental technologies or a lack of distinct advantage over other companies' products. This could have an impact on the Kao Group's business results and financial condition.

(6) Raw Material Prices

Market prices for fats and oils used as raw materials for products of the Kao Group and petroleum-related raw materials may change for various reasons including geopolitical risks, the balance between supply and demand, climate change and exchange rate fluctuations. The Kao Group has moved to reduce the effect of increases in raw material prices through measures including cost reductions and passing on increases in raw material costs into product prices. However, unexpectedly radical changes in market conditions and pricing could have an impact on the Kao Group's business results and financial condition.

(7) Product Quality

For product quality, the Kao Group designs and manufactures products from the viewpoint of consumers, in compliance with related laws and regulations and voluntary standards. In the development stage prior to market launch, the Kao Group conducts thorough safety testing and survey research to confirm the safety of products. After market launch, the Kao Group works to further improve quality by incorporating the opinions and desires of consumers through its consumer communication centers. However, the unanticipated occurrence of a serious quality problem or concerns about product safety or reliability resulting from new scientific knowledge would not only cause difficulties for the relevant brand, but would also have a major impact on the reputation of all of the Kao Group's products. This could cause a decrease in sales, which could impact the Kao Group's business results and financial condition.

(8) Earthquakes and Other Incidents

It is widely believed that there is a high probability that a major earthquake will occur in Japan. The Kao Group has implemented earthquake resistance diagnoses, seismic retrofitting, emergency drills simulating crisis situations, and systems to confirm employee safety at all of its domestic production facilities and primary offices, and has promoted the formulation of a business continuity plan (BCP). In spite of these measures, however, in the event of a major earthquake surpassing expectation, the Kao Group's ability to secure raw materials, maintain production, or supply products to the market may be disrupted, which could have a serious impact on the Kao Group's business results and financial condition. Furthermore, inability to continue production, secure raw materials, or supply products to markets due to factors including an explosion or fire at production facilities, information system malfunction, problems at a supplier of raw materials, terrorism overseas, political change, riots and other incidents could have a serious impact on the Kao Group's business results and financial condition.

(9) Currency Exchange Rate Fluctuations

Foreign currency-denominated transactions 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 consolidated 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 have an impact on the Kao Group's business results and financial condition.

(10) Impairment

The Kao Group records various tangible and intangible fixed assets and deferred tax assets including assets used in the course of business and goodwill incurred in corporate acquisitions. Impairment of or increase in valuation allowance for these assets may be required if cash flow does not meet expectations due to trends in future business results, decline in market value or other factors. This accounting treatment could have an impact on the Kao Group's business results and financial condition.

(11) People and Talent

Securing capable human resources is indispensable to achieve the Kao Group's business goals. Hiring, developing and retaining human resources with advanced expertise to implement R&D, production of technologies, market planning and sales activities are necessary to the *Yoki-Monozukuri* that consumers consistently support. However, an inability to secure superior human resources due to changes in employment conditions or other factors could have an impact on the Kao Group's business results and financial condition.

(12) Legal and Regulatory Issues

In the course of its business activities, the Kao Group complies with a variety of laws and regulations concerning areas such as standards for product quality and safety, the environment and chemical substances, as well as accounting standards, tax law and regulations related to labor and transactions. The Kao Group has constructed a compliance system and strives to comply with all related laws and regulations. However, a serious legal violation, change in current regulations, or new regulations could restrict the Kao Group's business activities, require investment for compliance, or otherwise affect the Kao Group. This could have an impact on the Kao Group's business results and financial condition.

Consolidated Balance Sheets

Kao Corporation and Consolidated Subsidiaries
March 31, 2010 and 2009

	Millions of yen		Thousands of U.S. dollars (Note 2)
Assets	2010	2009	2010
Current assets:			
Cash and time deposits (Notes 3 and 18)	¥ 70,186	¥ 53,830	$ 754,364
Short-term investments (Notes 3, 5 and 18)	48,072	58,714	516,681
Notes and accounts receivable (Note 18):			
Trade (Note 7)	125,754	123,923	1,351,612
Nonconsolidated subsidiaries and affiliates	3,481	4,453	37,414
Other	5,238	6,002	56,298
Inventories:			
Finished goods	73,168	80,311	786,415
Work in process and raw materials	33,424	37,737	359,243
Deferred tax assets (Note 8)	20,236	24,874	217,498
Other current assets	15,621	15,511	167,896
Allowance for doubtful receivables (Note 18)	(1,208)	(1,529)	(12,984)
Total current assets	393,972	403,826	4,234,437
Property, plant and equipment (Notes 6 and 7):			
Land	63,863	65,469	686,404
Buildings and structures	314,808	310,449	3,383,577
Machinery, equipment and other	700,895	688,973	7,533,265
Lease assets	11,610	9,756	124,785
Construction in progress	9,076	9,713	97,549
Total	1,100,252	1,084,360	11,825,580
Accumulated depreciation	(848,408)	(826,886)	(9,118,744)
Net property, plant and equipment	251,844	257,474	2,706,836
Intangible assets:			
Goodwill	195,754	206,265	2,103,977
Trademarks	89,358	108,137	960,426
Other intangible assets	28,823	34,044	309,791
Total intangible assets	313,935	348,446	3,374,194
Investments and other assets:			
Investment securities (Notes 5 and 18)	8,212	8,016	88,263
Investments in and advances to nonconsolidated subsidiaries and affiliates	5,873	4,645	63,123
Deferred tax assets (Note 8)	61,360	63,263	659,501
Other assets (Note 10)	30,555	34,006	328,407
Total investments and other assets	106,000	109,930	1,139,294
	¥1,065,751	¥1,119,676	$ 11,454,761

See Notes to Consolidated Financial Statements.

Liabilities and Equity	Millions of yen 2010	2009	Thousands of U.S. dollars (Note 2) 2010
Current liabilities:			
Short-term debt (Notes 7 and 18)	¥ 7,528	¥ 16,403	$ 80,911
Current portion of long-term debt (Notes 7, 18 and 20)	25,275	23,129	271,657
Notes and accounts payable (Note 18):			
Trade	98,077	93,777	1,054,138
Nonconsolidated subsidiaries and affiliates	2,085	1,791	22,410
Other	26,533	27,922	285,178
Income taxes payable (Note 18)	20,346	13,229	218,680
Accrued expenses	76,696	72,626	824,334
Other current liabilities (Notes 7 and 8)	23,035	21,864	247,582
Total current liabilities	279,575	270,741	3,004,890
Long-term liabilities:			
Long-term debt (Notes 7, 18 and 20)	159,090	244,819	1,709,910
Liability for retirement benefits (Note 10)	38,417	36,001	412,908
Other (Notes 7 and 8)	13,375	13,921	143,756
Total long-term liabilities	210,882	294,741	2,266,574
Commitments and contingent liabilities (Notes 9, 11 and 19)			
Equity (Notes 12, 13 and 14):			
Common stock:			
Authorized — 1,000,000,000 shares in 2010 and 2009			
Issued — 540,143,701 shares in 2010 and 2009	85,424	85,424	918,143
Capital surplus	109,561	109,561	1,177,569
Stock acquisition rights	1,022	839	10,984
Retained earnings	442,273	431,799	4,753,579
Unrealized gain on available-for-sale securities	2,292	2,091	24,635
Deferred gain (loss) on derivatives under hedge accounting	(0)	(12)	(0)
Foreign currency translation adjustments	(62,993)	(70,134)	(677,053)
Other	(446)	(2,460)	(4,794)
Treasury stock, at cost			
(4,122,298 shares in 2010 and 4,128,568 shares in 2009)	(10,978)	(11,039)	(117,992)
Total	566,155	546,069	6,085,071
Minority interests	9,139	8,125	98,226
Total equity	575,294	554,194	6,183,297
	¥1,065,751	¥1,119,676	$11,454,761

Consolidated Statements of Income

Kao Corporation and Consolidated Subsidiaries
Years ended March 31, 2010 and 2009

	Millions of yen		Thousands of U.S. dollars (Note 2)
	2010	2009	2010
Net sales (Note 15)	¥1,184,385	¥1,276,316	$12,729,847
Cost of sales (Note 17)	493,004	558,988	5,298,839
Gross profit	691,381	717,328	7,431,008
Selling, general and administrative expenses (Note 16)	597,347	620,528	6,420,324
Operating income (Note 15)	94,034	96,800	1,010,684
Other income (expenses):			
Interest and dividend income	1,124	2,638	12,081
Interest expense (Note 20)	(4,232)	(6,005)	(45,486)
Foreign currency exchange gain (loss)	(370)	(1,836)	(3,978)
Equity in earnings (losses) of nonconsolidated subsidiaries and affiliates	1,168	588	12,554
Other, net (Notes 6 and 17)	(8,763)	(172)	(94,185)
Other income (expenses), net	(11,073)	(4,787)	(119,014)
Income before income taxes and minority interests	82,961	92,013	891,670
Income taxes (Note 8):			
Current	36,906	36,827	396,668
Deferred	4,734	(10,257)	50,881
Total income taxes	41,640	26,570	447,549
Income before minority interests	41,321	65,443	444,121
Minority interests in earnings of consolidated subsidiaries	814	980	8,749
Net income	¥ 40,507	¥ 64,463	$ 435,372
Per share of common stock (Notes 1.r and 21):	Yen		U.S. dollars (Note 2)
Basic net income	¥75.57	¥120.25	$0.81
Diluted net income	75.55	120.22	0.81
Cash dividends applicable to the year	57.00	56.00	0.61

See Notes to Consolidated Financial Statements.

Consolidated Statements of Changes in Equity

Kao Corporation and Consolidated Subsidiaries
Years ended March 31, 2010 and 2009

	Millions of yen		Thousands of U.S. dollars (Note 2)
	2010	2009	2010
Common stock			
Balance at beginning of year	¥ 85,424	¥ 85,424	$ 918,143
Balance at end of year	85,424	85,424	918,143
Capital surplus			
Balance at beginning of year	109,561	109,561	1,177,569
Balance at end of year	109,561	109,561	1,177,569
Stock acquisition rights			
Balance at beginning of year	839	599	9,018
Net change in the year	183	240	1,966
Balance at end of year	1,022	839	10,984
Retained earnings			
Balance at beginning of year	431,799	426,206	4,641,004
Effect of application for ASBJ Practical Issues Task Force No. 18 (Note 1.c)	—	(1,977)	—
Increase from change of fiscal term of subsidiaries	—	1,136	—
Net income	40,507	64,463	435,372
Cash dividends	(30,016)	(29,485)	(322,614)
Disposal of treasury stock	(17)	(142)	(183)
Retirement of treasury stock	—	(28,402)	—
Balance at end of year	442,273	431,799	4,753,579
Unrealized gain on available-for-sale securities			
Balance at beginning of year	2,091	3,395	22,474
Net change in the year	201	(1,304)	2,161
Balance at end of year	2,292	2,091	24,635
Deferred gain (loss) on derivatives under hedge accounting			
Balance at beginning of year	(12)	—	(129)
Net change in the year	12	(12)	129
Balance at end of year	(0)	(12)	(0)
Foreign currency translation adjustments			
Balance at beginning of year	(70,134)	(11,387)	(753,805)
Net change in the year	7,141	(58,747)	76,752
Balance at end of year	(62,993)	(70,134)	(677,053)
Other			
Balance at beginning of year	(2,460)	—	(26,440)
Net change in the year	2,014	(2,460)	21,646
Balance at end of year	(446)	(2,460)	(4,794)
Treasury stock, at cost			
Balance at beginning of year	(11,039)	(39,161)	(118,648)
Purchase of treasury stock	(89)	(1,232)	(956)
Disposal of treasury stock	150	952	1,612
Retirement of treasury stock	—	28,402	—
Balance at end of year	¥ (10,978)	¥ (11,039)	$ (117,992)

	Millions of yen		Thousands of U.S. dollars (Note 2)
	2010	2009	2010
Total			
Balance at beginning of year	¥546,069	¥574,637	$5,869,186
Effect of application for ASBJ Practical Issues Task Force No. 18 (Note 1.c)	—	(1,977)	—
Increase from change of fiscal term of subsidiaries	—	1,136	—
Net income	40,507	64,463	435,372
Cash dividends	(30,016)	(29,485)	(322,614)
Purchase of treasury stock	(89)	(1,232)	(956)
Disposal of treasury stock	133	810	1,429
Retirement of treasury stock	—	—	—
Net change in the year	9,551	(62,283)	102,654
Balance at end of year	566,155	546,069	6,085,071
Minority Interests			
Balance at beginning of year	8,125	10,073	87,328
Net change in the year	1,014	(1,948)	10,898
Balance at end of year	9,139	8,125	98,226
Total Equity			
Balance at beginning of year	554,194	584,710	5,956,514
Effect of application for ASBJ Practical Issues Task Force No. 18 (Note 1.c)	—	(1,977)	—
Increase from change of fiscal term of subsidiaries	—	1,136	—
Net income	40,507	64,463	435,372
Cash dividends	(30,016)	(29,485)	(322,614)
Purchase of treasury stock	(89)	(1,232)	(956)
Disposal of treasury stock	133	810	1,429
Retirement of treasury stock	—	—	—
Net change in the year	10,565	(64,231)	113,552
Balance at end of year	¥575,294	¥554,194	$6,183,297

	Yen		U.S. dollars (Note 2)
	2010	2009	2010
Cash dividends per share	¥56.00	¥55.00	$0.60

	Thousands	
	2010	2009
Outstanding number of shares of common stock		
Balance at beginning of year	536,015	536,147
Purchase of treasury stock	(43)	(444)
Disposal of treasury stock	49	312
Balance at end of year	536,021	536,015

See Notes to Consolidated Financial Statements.

Consolidated Statements of Cash Flows

Kao Corporation and Consolidated Subsidiaries
Years ended March 31, 2010 and 2009

	Millions of yen		Thousands of U.S. dollars (Note 2)
	2010	2009	2010
Operating activities:			
Income before income taxes and minority interests	¥ 82,961	¥ 92,013	$ 891,670
Adjustments for:			
Income taxes paid	(28,825)	(52,341)	(309,813)
Depreciation and amortization	84,778	87,463	911,199
Loss on impairment of long-lived assets (Note 6)	588	733	6,320
Loss on sales or disposals of property, plant and equipment, net	2,602	1,228	27,966
Equity in earnings (losses) of nonconsolidated subsidiaries and affiliates	(1,168)	(588)	(12,554)
Unrealized foreign currency exchange (gain) loss	(417)	207	(4,482)
Change in trade receivables	887	(2,609)	9,534
Change in inventories	13,072	(5,599)	140,499
Change in prepaid pension cost	3,848	11,233	41,359
Change in trade payables	3,776	(1,155)	40,585
Change in liability for retirement benefits	2,030	4,859	21,818
Other, net	8,153	(13,847)	87,629
Net cash provided by operating activities	172,285	121,597	1,851,730
Investing activities:			
Purchase of property, plant and equipment	(35,164)	(33,421)	(377,945)
Proceeds from sales of property, plant and equipment	1,971	3,001	21,185
Increase in intangible assets	(5,101)	(6,714)	(54,826)
Proceeds from the redemption and sales of investment securities	35	2,084	376
Increase in investments in and advances to nonconsolidated subsidiaries and affiliates	(1,353)	(1,163)	(14,542)
Other, net	(4,608)	(6,943)	(49,527)
Net cash used in investing activities	(44,220)	(43,156)	(475,279)
Financing activities:			
Decrease in short-term debt	(9,485)	(1,041)	(101,946)
Proceeds from long-term loans	35	770	376
Repayments of long-term loans (Note 20)	(84,064)	(33,207)	(903,525)
Purchase of treasury stock	(89)	(1,232)	(956)
Payments of cash dividends	(30,092)	(29,741)	(323,431)
Other, net	(871)	(254)	(9,362)
Net cash used in financing activities	(124,566)	(64,705)	(1,338,844)
Translation adjustments on cash and cash equivalents	3,116	(15,796)	33,491
Net increase (decrease) in cash and cash equivalents	6,615	(2,060)	71,098
Cash and cash equivalents, beginning of year (Note 3)	110,565	112,636	1,188,360
Cash and cash equivalents of newly consolidated subsidiaries, increase	—	338	—
Decrease in cash and cash equivalents resulting from change of fiscal term of subsidiaries	—	(349)	—
Cash and cash equivalents, end of year (Note 3)	¥ 117,180	¥110,565	$ 1,259,458

See Notes to Consolidated Financial Statements.

Notes to Consolidated Financial Statements

Kao Corporation and Consolidated Subsidiaries
Years ended March 31, 2010 and 2009

1 Summary of Significant Accounting Policies

a) Basis of presenting consolidated financial statements

The accompanying consolidated financial statements have been prepared in accordance with the provisions set forth in the Japanese Financial Instruments and Exchange Law and its related accounting regulations, and in conformity with accounting principles generally accepted in Japan ("Japanese GAAP"), which are different in certain respects as to application and disclosure requirements of International Financial Reporting Standards.

In preparing the consolidated financial statements, certain reclassifications and rearrangements have been made to the consolidated financial statements issued in Japan in order to present them in a form that is more familiar to readers outside Japan. Certain 2009 financial statement items were reclassified to conform to the presentation for 2010.

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from estimates.

b) Consolidation and accounting for investments in nonconsolidated subsidiaries and affiliates

The accompanying consolidated financial statements include the accounts of Kao Corporation (the "Company") and its significant subsidiaries (collectively, the "Companies"). Investments in most of the nonconsolidated subsidiaries and affiliates over which the Companies have the ability to exercise significant influence (mainly 20-50 percent owned companies) are accounted for using the equity method.

Under the control or influence concept, companies in which the parent company and/or its consolidated subsidiaries, directly or indirectly, are able to exercise control over operations are fully consolidated, and other companies over which the Company and/or its consolidated subsidiaries have the ability to exercise significant influence are accounted for using the equity method.

Investments in the remaining subsidiaries and affiliates are stated at cost except for write-downs recorded for the value of investments that have been permanently impaired. If the equity method of accounting had been applied to these investments, the effect on the accompanying consolidated financial statements would not be material.

All significant intercompany balances and transactions have been eliminated in consolidation. All material unrealized profit included in assets resulting from transactions within the Companies is eliminated. The excess of cost of investments in the subsidiaries and affiliates over the fair value of the net assets of the acquired subsidiary and affiliate at the dates of acquisition, consolidation goodwill, is being amortized over an estimated period not exceeding 20 years, or 5 years in situations in which the useful lives cannot be estimated.

c) Unification of accounting policies applied to foreign subsidiaries for the consolidated financial statements

The accounting standard for unification of accounting policies applied to foreign subsidiaries for the consolidated financial statements requires: (1) the accounting policies and procedures applied to a parent company and its subsidiaries for similar transactions and events under similar circumstances should in principle be unified for the preparation of the consolidated financial statements, (2) financial statements prepared by foreign subsidiaries in accordance with either International Financial Reporting Standards or the generally accepted accounting principles in the United States of America tentatively may be used for the consolidation process, (3) however, the following items should be adjusted in the consolidation process so that net income is accounted for in accordance with Japanese GAAP unless they are not material:

1) Amortization of goodwill
2) Scheduled amortization of actuarial gain or loss of pensions that has been directly recorded in equity
3) Expensing capitalized development costs of R&D
4) Cancellation of the fair value model accounting for property, plant, and equipment and investment properties and incorporation of the cost model accounting
5) Recording the prior years' effects of changes in accounting policies in the income statement where retrospective adjustments to financial statements have been incorporated
6) Exclusion of minority interests from net income, if contained

d) Business combination

The accounting standard for business combinations allows companies to apply the pooling of interests method of accounting only when certain specific criteria are met such that the business combination is essentially regarded as a uniting-of-interests.

For business combinations that do not meet the uniting-of-interests criteria, the business combination is considered to be an acquisition and the purchase method of accounting is required. This standard also prescribes the accounting for combinations of entities under common control and for joint ventures. Goodwill, including negative goodwill, is to be systematically amortized over 20 years or less, but is also subject to an impairment test.

Under the accounting standard for business separations, in a business separation where the interests of the investor no longer continue and the investment is settled, the difference between the fair value of the consideration received for the transferred business and the book value of net assets transferred to the separated business is recognized as a gain or loss on business separation in the statement of income. In a business separation where the interests of the investor continue and the investment is not settled, no such gain or loss on business separation is recognized.

e) Cash equivalents

For purposes of the statements of cash flows, cash equivalents are short-term investments that are readily convertible into cash and that are exposed to insignificant risk of changes in value.

Cash equivalents include time deposits, commercial paper, investment trusts in bonds and receivables that are represented as short-term investments, all of which mature or become due within three months of the date of acquisition.

f) Inventories

The accounting standard for measurement of inventories requires that inventories held for sale in the ordinary course of business be measured at the lower of cost or net selling value, which is defined as the selling price less additional estimated manufacturing costs and estimated direct selling expenses. The replacement cost may be used in place of the net selling value, if appropriate.

Cost of inventories is determined principally by the average method. The cost of inventories held by certain foreign consolidated subsidiaries is determined by the first-in, first-out method.

g) Short-term investments and investment securities

Short-term investments and investment securities are classified and accounted for, depending on management's intent, as follows:

i) held-to-maturity debt securities, which are expected to be held to maturity with the positive intent and ability to hold to maturity, are reported at amortized cost and ii) available-for-sale securities, which are not classified as the aforementioned securities, are reported at fair value, with unrealized gains and losses, net of applicable taxes, reported in a separate component of equity.

Non-marketable available-for-sale securities are stated at cost determined by the moving-average method.

For other than temporary declines in fair value, investment securities are reduced to net realizable value by a charge to income.

h) Property, plant and equipment

Property, plant and equipment are stated at cost. Depreciation of property, plant and equipment is computed under the declining-balance method for the assets located in Japan and principally under the straight-line method for the assets located outside Japan, using rates based upon the estimated useful lives, principally ranging from 21 to 35 years for buildings and structures and 7 or 9 years for machinery and equipment.

i) Intangible assets

Goodwill and trademarks are amortized on a straight-line basis over 15 or 20 years, and 10 years, respectively.

j) Long-lived assets

The Companies review their long-lived assets for impairment whenever events or changes in circumstances indicate the carrying amount of an asset or asset group may not be recoverable. An impairment loss would be recognized if the carrying amount of an asset or asset group exceeds the sum of the undiscounted future cash flows expected to result from the continued use and eventual disposition of the asset or asset group. The impairment loss would be measured as the amount by which the carrying amount of the asset exceeds its recoverable amount, which is the higher of the discounted cash flows from the continued use and eventual disposition of the asset or the net selling price at disposition.

k) Retirement and pension plans

The Company and most domestic consolidated subsidiaries have a cash balance plan and a defined contribution pension plan covering substantially all of their employees. The cash balance plan is linked to market interest rates and treated as a defined benefit plan. The pension plan also covers employees of certain nonconsolidated subsidiaries and affiliates in Japan. In addition, these companies may pay an early retirement allowance to early retired employees.

Certain domestic consolidated subsidiaries have a defined benefit plan that provides for a lump-sum payment to terminated employees. The subsidiaries may pay an additional lump-sum payment that is not subject to actuarial calculations under the accounting standard for retirement benefits.

Certain foreign subsidiaries have a defined contribution plan and/or a defined benefit plan. Some of these foreign subsidiaries apply the "corridor approach" in calculating actuarial gain or loss.

Certain foreign subsidiaries also have local employees' retirement benefit plans and provide for the amount to recognize the liability for these employees' retirement benefits, primarily determined on an actuarial basis.

The unrecognized transitional obligation, the unrecognized net actuarial gain or loss and the unrecognized prior service cost are being amortized over 15, 10 and 15 years, respectively. These amortizations are recognized in cost of sales and selling, general and administrative expenses in the consolidated statements of income.

l) Stock options

The accounting standard for stock options requires companies to recognize compensation expense for employee stock options based on the fair value at the date of grant and over the vesting period as consideration for receiving goods or services. The standard also requires companies to account for stock options granted to non-employees based on the fair value of either the stock option or the goods or services received. In the balance sheet, the stock option is presented as a stock acquisition right as a separate component of equity until exercised. The standard covers equity-settled, share-based payment transactions, but does not cover cash-settled, share-based payment transactions. In addition, the standard allows unlisted companies to measure options at their intrinsic value if they cannot reliably estimate fair value.

m) Leases

The accounting standard for lease transactions requires that all finance lease transactions should be capitalized to recognize lease assets and lease obligations in the balance sheet. In addition, the accounting standard permits leases which do not transfer ownership of the leased property to the lessee to be measured at the obligations under finance leases less interest expense and recorded as acquisition cost of lease assets.

All other leases are accounted for as operating leases.

n) Income taxes

The Companies provide for income taxes applicable to all items included in the consolidated statements of income regardless of when such taxes are payable. Income taxes based on temporary differences between tax and financial reporting purposes are reflected as deferred income taxes in the consolidated financial statements using the asset and liability method.

o) Foreign currency transactions

All short-term and long-term monetary receivables and payables denominated in foreign currencies are translated into Japanese yen at the exchange rates at the balance sheet date. The foreign exchange gains and losses from translation are recognized in the consolidated statements of income to the extent that they are not hedged by foreign exchange derivatives.

p) Foreign currency financial statements

The balance sheet accounts of the consolidated foreign subsidiaries are translated into Japanese yen at the current exchange rate as of the balance sheet date except for equity, which is translated at the historical rate. Differences arising from such translation are shown as "Foreign currency translation adjustments" in a separate component of equity. Revenue and expense accounts of the consolidated foreign subsidiaries are translated into Japanese yen at the annual average exchange rate.

q) Derivatives and hedging activities

The Companies use derivative financial instruments to manage their exposures to fluctuations in foreign exchange and interest rates. Foreign exchange forward contracts, foreign currency swaps and interest rate swaps are utilized by the Companies to reduce foreign currency exchange and interest rate risks. The Companies do not enter into derivatives for trading purposes or speculative purposes.

Derivative financial instruments and foreign currency transactions are classified and accounted for as follows: a) all derivatives are recognized as either assets or liabilities and measured at fair value, and gains or losses on derivative transactions are recognized in the consolidated statements of income, and b) for derivatives used for hedging purposes, if derivatives qualify for hedge accounting because of high correlation and effectiveness between the hedging instruments and the hedged items, gains or losses on derivatives are deferred until maturity of the hedged transactions.

Short-term and long-term loan receivables denominated in foreign currencies, for which foreign exchange forward contracts or foreign currency swaps are used to hedge the foreign currency fluctuations, are translated at the contracted rate if the forward contracts or the swap contracts qualify for specific hedge accounting.

The interest rate swaps which qualify for hedge accounting and meet specific matching criteria are not remeasured at market value but the differential paid or received under the swap agreements are recognized and included in interest expense or income as incurred.

r) Per share information

Basic net income per share is computed by dividing net income available to common shareholders by the weighted-average number of common shares outstanding for the period, retroactively adjusted for stock splits.

Diluted net income per share of common stock reflects the potential dilution that could occur if securities or other contracts to issue common stock were converted or exercised into common stock or resulted in the issuance of common stock.

Cash dividends per share presented in the accompanying consolidated statements of income are dividends applicable to the respective years including dividends to be paid after the end of the year.

s) New accounting pronouncements

Business combinations

On December 26, 2008, the Accounting Standards Board of Japan (the "ASBJ") issued a revised accounting standard for business combinations, ASBJ Statement No. 21, *Accounting Standard for Business Combinations*. Major accounting changes under the revised accounting standard are as follows:

(1) The current accounting standard for business combinations allows companies to apply the pooling of interests method of accounting when certain specific criteria are met such that the business combination is essentially regarded as a uniting-of-interests. The revised standard requires to account for such business combination by the purchase method and the pooling of interests method of accounting is no longer allowed.

(2) The current accounting standard accounts for research and development costs to be charged to income as incurred. Under the revised standard, in-process research and development (IPR&D) acquired by the business combination is capitalized as an intangible asset.

(3) The current accounting standard accounts for a bargain purchase gain (negative goodwill) to be systematically amortized within 20 years. Under the revised standard, the acquirer recognizes a bargain purchase gain in profit or loss on the acquisition date after reassessing whether it has correctly identified all of the assets acquired and all of the liabilities assumed with a review of such procedures used.

This standard is applicable to business combinations undertaken on or after April 1, 2010 with early adoption permitted for fiscal years beginning on or after April 1, 2009.

Unification of accounting policies applied to foreign associated companies for the equity method

The current accounting standard requires to unify accounting policies within the consolidation group. However, the current guidance allows to apply the equity method for the financial statements of its foreign associated companies which have been prepared in accordance with generally accepted accounting principles in their respective jurisdictions without unification of accounting policies.

On December 26, 2008, the ASBJ issued ASBJ Statement No. 16 (Revised 2008), *Revised Accounting Standard for Equity Method of Accounting for Investments*. The new accounting standard requires adjustments to be made to conform the associate's accounting policies for similar transactions and events under similar circumstances to those of the parent company when the associate's financial statements are used in applying the equity method unless it is impractible to determine adjustments. In addition, financial statements prepared by foreign associated companies in accordance with either International Financial Reporting Standards or the generally accepted accounting principles in the United States tentatively may be used in applying the equity method if the following items are adjusted so that net income is accounted for in accordance with Japanese GAAP unless they are not material: 1) amortization of goodwill; 2) scheduled amortization of actuarial gain or loss on pensions that has been directly recorded in equity; 3) expensing capitalized development costs of R&D; 4) cancellation of the fair value model accounting for property, plant, and equipment and investment properties and incorporation of cost model accounting; 5) recording the prior years' effects of changes in accounting policies in the income statement where retrospective adjustments to the financial statements have been incorporated; and 6) exclusion of minority interests from net income, if contained.

This standard is applicable to equity method of accounting for investments effective on or after April 1, 2010 with early adoption permitted for fiscal years beginning on or after April 1, 2009.

Asset retirement obligations

On March 31, 2008, the ASBJ issued a new accounting standard for asset retirement obligations, ASBJ Statement No. 18 *Accounting Standard for Asset Retirement Obligations* and ASBJ Guidance No. 21 *Guidance on Accounting Standard for Asset Retirement Obligations*. Under the new accounting standard and guidance, an asset retirement obligation is defined as a legal obligation imposed either by law or contract that results from the acquisition, construction, development and the normal operation of a tangible fixed asset and is associated with the retirement of such tangible fixed asset.

The asset retirement obligation is recognized as the sum of the discounted cash flows required for the future asset retirement and is recorded in the period in which the obligation is incurred if a reasonable estimate can be made. If a reasonable estimate of the asset retirement obligation cannot be made in the period the asset retirement obligation is incurred, the liability should be recognized when a reasonable estimate of asset retirement obligation can be made. Upon initial recognition of a liability for an asset retirement obligation, an asset retirement cost is capitalized by increasing the carrying amount of the related fixed asset by the amount of the liability. The asset retirement cost is subsequently allocated to expense through depreciation over the remaining useful life of the asset. Over time, the liability is accreted to its present value each period. Any subsequent revisions to the timing or the amount of the original estimate of undiscounted cash flows are reflected as an increase or a decrease in the carrying amount of the liability and the capitalized amount of the related asset retirement cost.

This standard is effective for fiscal years beginning on or after April 1, 2010 with early adoption permitted for fiscal years beginning on or before March 31, 2010.

Segment information disclosures

On March 21, 2008, the ASBJ revised ASBJ Statement No. 17 *Accounting Standard for Segment Information Disclosures* and issued ASBJ Guidance No. 20 *Guidance on Accounting Standard for Segment Information Disclosures*. Under the revised accounting standard and new guidance, an entity is required to report financial and descriptive information about its reportable segments. Reportable segments are operating segments or aggregations of operating segments that meet specified criteria. Operating segments are components of an entity about which separate financial information is available and such information is evaluated regularly by the chief operating decision maker in deciding how to allocate resources and in assessing performance. Generally, segment information is required to be reported on the same basis as is used internally for evaluating operating segment performance and deciding how to allocate resources to operating segments. This accounting standard and the guidance are applied to segment information disclosures after the fiscal year beginning on or after April 1, 2010.

Accounting changes and error corrections

On December 4, 2009, ASBJ issued ASBJ Statement No. 24 *Accounting Standard for Accounting Changes and Error Corrections* and ASBJ Guidance No. 24 *Guidance on Accounting Standard for Accounting Changes and Error Corrections*. Accounting treatments under the new accounting standard and guidance are as follows;

1) Changes in accounting policies:
   When a new accounting policy is applied with revision of accounting standards, a new policy is applied retrospectively unless revised accounting standards include specific transitional provisions. When revised accounting standards include specific transitional provisions, an entity shall comply with the specific transitional provisions.
2) Changes in presentations
   When the presentation of financial statements is changed, prior period financial statements are reclassified in accordance with the new presentation.
3) Changes in accounting estimates
   A change in an accounting estimate is accounted for in the period of the change if the change affects that period only, and is accounted for prospectively if the change affects both the period of the change and future periods.
4) Corrections of prior period errors
   When an error in prior period financial statements is discovered, those statements are restated.

This accounting standard and the guidance are applied to accounting changes and corrections of prior period errors which are made from the beginning of the fiscal year that begins on or after April 1, 2011.

2 Translation into United States Dollars

The Companies' accounts are maintained in or translated into Japanese yen. The United States dollar (US$) amounts included herein represent translations using the approximate exchange rate at March 31, 2010 of ¥93.04=US$1, solely for convenience. The translations should not be construed as representations that Japanese yen have been, could have been, or could in the future be, converted into United States dollars at that or any other rate.

3 Cash and Cash Equivalents

Cash and cash equivalents at March 31, 2010 and 2009 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2010	2009	2010
Cash and time deposits	¥ 70,186	¥ 53,830	$ 754,364
Short-term investments	48,072	58,714	516,681
Less: time deposits and short-term investments which mature or become due over three months after the date of acquisition	(1,078)	(1,979)	(11,587)
Cash and cash equivalents	¥117,180	¥110,565	$1,259,458

4 Supplemental Cash Flow Information

The Companies newly recognized lease assets and lease obligations related to finance lease transactions. The lease assets and obligations were ¥8,862 million and ¥8,867 million as of March 31, 2009, respectively.

5 Short-Term Investments and Investment Securities

Short-term investments and investment securities as of March 31, 2010 and 2009 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2010	2009	2010
Short-term investments:			
Government and corporate bonds	¥ —	¥ 5,999	$ —
Investment trust funds and other	48,072	52,715	516,681
Total	¥48,072	¥58,714	$516,681
Investment securities:			
Marketable equity securities	¥ 7,010	¥ 6,808	$ 75,344
Investment trust funds and other	1,202	1,208	12,919
Total	¥ 8,212	¥ 8,016	$ 88,263

The carrying amount and aggregate fair value of the securities classified as available-for-sale and held-to-maturity at March 31, 2010 and 2009 were as follows:

	Millions of yen			
	2010			
	Cost	Unrealized gains	Unrealized losses	Fair value
Securities classified as:				
Available-for-sale:				
Equity securities	¥ 3,153	¥3,966	¥109	¥ 7,010
Debt securities and other	46,073	—	—	46,073
Held-to-maturity:				
Debt securities and other	1,999	—	—	1,999

	Millions of yen			
	2009			
	Cost	Unrealized gains	Unrealized losses	Fair value
Securities classified as:				
Available-for-sale:				
Equity securities	¥ 3,161	¥3,855	¥208	¥ 6,808
Debt securities and other	43,720	—	—	43,720
Held-to-maturity:				
Debt securities and other	14,994	—	—	14,994

	Thousands of U.S. dollars			
	2010			
	Cost	Unrealized gains	Unrealized losses	Fair value
Securities classified as:				
Available-for-sale:				
Equity securities	$ 33,889	$42,627	$1,172	$ 75,344
Debt securities and other	495,196	—	—	495,196
Held-to-maturity:				
Debt securities and other	21,485	—	—	21,485

Available-for-sale securities whose fair values are not readily determinable as of March 31, 2010 and 2009 were as follows:

	Carrying amount		
	Millions of yen		Thousands of U.S. dollars
	2010	2009	2010
Available-for-sale:			
Equity securities	¥1,202	¥1,208	$12,919
Total	¥1,202	¥1,208	$12,919

Proceeds from sales of available-for-sale securities for the years ended March 31, 2010 and 2009 were ¥35 million (US$376 thousand) and ¥2,084 million, respectively. Gross realized gains and losses on these sales, computed on the moving-average cost basis, for the year ended March 31, 2010 were ¥3 million (US$32 thousand) and ¥5 million (US$54 thousand), and for the year ended March 31, 2009 were ¥11 million and ¥9 million, respectively.

The carrying values of debt securities by contractual maturities for securities classified as held-to-maturity at March 31, 2009 are included in Note 18.

6 Long-Lived Assets

The Companies reviewed their long-lived assets for impairment as of the years ended March 31, 2010 and 2009. As a result, the Companies recognized impairment loss of ¥588 million (US$6,320 thousand) and ¥733 million as other expense for the years ended March 31, 2010 and 2009, respectively.

7 Short-Term and Long-Term Debt

Short-term debt at March 31, 2010 and 2009 was comprised of the following:

	Millions of yen		Thousands of U.S. dollars
	2010	2009	2010
Secured loans principally from financial institutions	¥ 66	¥ 533	$ 709
Unsecured loans principally from financial institutions	7,462	15,870	80,202
Total	¥7,528	¥16,403	$80,911

The weighted average interest rates applicable to the above loans were 3.61% and 4.26% at March 31, 2010 and 2009, respectively.

In addition to the above short-term debt, deposits payable to affiliates, included in other current liabilities, were ¥6,077 million (US$65,316 thousand) and ¥7,083 million at March 31, 2010 and 2009, respectively, and the applicable interest rates were 0.56% and 0.72% at March 31, 2010 and 2009, respectively.

The secured loans are collateralized by property, plant and equipment having a book value of ¥440 million (US$4,729 thousand) and by trade accounts receivable of ¥191 million (US$2,053 thousand) at March 31, 2010.

Long-term debt at March 31, 2010 and 2009 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2010	2009	2010
Unsecured bonds due 2011, 1.60% and due 2013, 1.91%	¥ 99,998	¥ 99,997	$1,074,785
Unsecured loans principally from financial institutions, weighted average rate 1.41% in 2010, 1.13% in 2009	75,076	159,084	806,922
Lease obligations	9,291	8,867	99,860
	¥184,365	¥267,948	$1,981,567
Less current portion	(25,275)	(23,129)	(271,657)
Total	¥159,090	¥244,819	$1,709,910

In addition to the above long-term debt, deposits payable to customers, included in other long-term liabilities, were ¥6,000 million (US$64,488 thousand) and ¥5,845 million at March 31, 2010 and 2009, respectively, and the applicable interest rates were 0.30% and 0.33% at March 31, 2010 and 2009, respectively.

The aggregate annual maturities of long-term debt as of March 31, 2010 were as follows:

Years ending March 31	Millions of yen	Thousands of U.S. dollars
2011	¥ 25,275	$ 271,657
2012	81,543	876,430
2013	845	9,082
2014	70,816	761,135
2015	800	8,598
2016 and thereafter	5,086	54,665
Total	¥184,365	$1,981,567

8 Income Taxes

The Company and its domestic subsidiaries are subject to Japanese national and local taxes based on income, which in the aggregate resulted in a normal statutory tax rate of approximately 41% for both 2010 and 2009.

Foreign subsidiaries are subject to income taxes of the countries in which they operate.

Tax effects of significant temporary differences and tax loss carryforwards that resulted in deferred tax assets or liabilities at March 31, 2010 and 2009 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2010	2009	2010
Deferred tax assets:			
Depreciation and amortization	¥ 22,952	¥ 24,063	$ 246,690
Pension and severance costs	14,694	14,564	157,932
Accrued expenses	13,374	10,918	143,745
Enterprise taxes	1,479	1,153	15,896
Tax loss carryforwards	63,955	66,063	687,393
Other	15,260	16,484	164,015
Less valuation allowance	(32,777)	(27,844)	(352,289)
Deferred tax assets	¥ 98,937	¥105,401	$1,063,382
Deferred tax liabilities:			
Unrealized gain on available-for-sale securities	¥ (1,612)	¥ (1,515)	$ (17,326)
Undistributed foreign earnings	(5,517)	(5,198)	(59,297)
Deferred gains on sales of property	(4,354)	(4,496)	(46,797)
Prepaid pension cost	(1,218)	(3,298)	(13,091)
Other	(7,301)	(5,956)	(78,472)
Deferred tax liabilities	¥(20,002)	¥ (20,463)	$ (214,983)
Net deferred tax assets	¥ 78,935	¥ 84,938	$ 848,399

A reconciliation between the normal effective statutory tax rates and the actual effective tax rates reflected in the accompanying consolidated statements of income for the years ended March 31, 2010 and 2009 were as follows:

	2010	2009
Normal effective statutory tax rate	40.5%	40.5%
Tax credit for research and development costs and other	(2.8)	(2.6)
Valuation allowance	6.9	(3.8)
Amortization expenses not deductible for income tax purposes	5.7	5.9
Other – net*	(0.1)	(11.1)
Actual effective tax rate	50.2%	28.9%

*Other – net for the year ended March 31, 2009 included reconciliation of undistributed foreign earnings (11.9)%.

9 Leases

a) Finance leases:

The Companies lease certain buildings, machinery, computer equipment and other assets.

b) Operating leases:

The minimum rental commitments under noncancellable operating leases as of March 31, 2010 and 2009 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2010	2009	2010
Due within one year	¥ 7,898	¥ 5,299	$ 84,888
Due after one year	30,850	24,354	331,578
Total	¥38,748	¥29,653	$416,466

10 Retirement Benefits

The Company and most domestic consolidated subsidiaries have a cash balance plan and a defined contribution pension plan. The cash balance plan is linked to market interest rates and treated as a defined benefit pension plan. These companies may pay an early retirement allowance to early retired employees.

Certain domestic consolidated subsidiaries have a defined benefit plan that provides for a lump-sum payment to terminated employees. The subsidiaries may make an additional lump-sum payment that is not subject to actuarial calculations under the accounting standard for retirement benefits.

Certain foreign consolidated subsidiaries have a contribution plan and/or a defined benefit plan.

The liability for retirement benefits at March 31, 2010 and 2009 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2010	2009	2010
Projected benefit obligation	¥229,589	¥227,928	$ 2,467,637
Fair value of plan assets	(192,442)	(181,456)	(2,068,379)
Unrecognized prior service cost	17,700	16,700	190,241
Unrecognized actuarial loss	(8,758)	(21,489)	(94,132)
Unrecognized transitional obligation	(8,978)	(10,747)	(96,496)
Prepaid pension cost	1,306	5,065	14,037
Net liability for retirement benefits	¥ 38,417	¥ 36,001	$ 412,908

The components of net periodic benefit costs for the years ended March 31, 2010 and 2009 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2010	2009	2010
Service cost	¥ 8,584	¥ 8,373	$ 92,261
Interest cost	5,193	5,099	55,815
Expected return on plan assets	(4,168)	(4,440)	(44,798)
Amortization of prior service cost (credit)	(2,826)	(2,409)	(30,374)
Recognized actuarial loss	7,036	7,568	75,623
Amortization of transitional obligation	1,803	1,810	19,379
Net periodic benefit costs	¥15,622	¥16,001	$167,906

Assumptions used for the years ended March 31, 2010 and 2009 were set forth as follows:

	2010	2009
Discount rate	Primarily 2.0%	Primarily 2.0%
Expected rate of return on plan assets	Primarily 2.0%	Primarily 2.0%
Amortization period of prior service cost	Primarily 15 years	Primarily 15 years
Recognition period of actuarial gain/loss	Primarily 10 years	Primarily 10 years
Amortization period of transitional obligation	15 years	15 years

In addition to the above net periodic benefit costs, the costs for other retirement and pension plans such as a defined contribution plan and for other supplemental retirement benefits were ¥3,593 million (US$38,618 thousand) and ¥2,384 million for the years ended March 31, 2010 and 2009, respectively.

Certain foreign subsidiaries apply the "corridor approach" in calculating actuarial gain or loss.

11 Contingent Liabilities

At March 31, 2010, the Companies had the following contingent liabilities:

	Millions of yen	Thousands of U.S. dollars
Trade notes discounted	¥ 92	$ 989
Guarantees of borrowings, principally of affiliates and employees	1,597	17,165

The Companies are parties to pending litigation arising in the normal course of business. While it is not possible to predict the outcome of pending litigation, the Company believes, after consultation with counsel, that the results of such proceedings will not have a material adverse effect upon the Company's consolidated financial position and the results of its operations and its cash flows.

12 Equity

Significant provisions in the Corporation Law of Japan (the "Corporation Law") that affect financial and accounting matters are summarized below:

(a) Dividends

Under the Corporation Law, companies can pay dividends at any time during the fiscal year in addition to the year-end dividend upon resolution at the shareholders' meeting.

For companies that meet certain criteria such as having: (1) a board of directors, (2) independent auditors, (3) a board of corporate auditors, and (4) terms of service of directors prescribed as one year under the articles of incorporation rather than the normal term of two years, the boards of directors of such companies may declare dividends (except for dividends in kind) at any time during the fiscal year if the companies have prescribed so in their articles of incorporation. The Company's present governance system meets the first three criteria but the two-year service period of the members of the Board of Directors does not meet the fourth criterion. The Company pays the dividends semi-annually as a year-end dividend and an interim dividend.

Semiannual interim dividends may also be paid once a year upon resolution by the board of directors if the articles of incorporation of the company so stipulate. The Company pays semiannual interim dividends upon the resolution by the Board of Directors because the articles of incorporation of the Company so stipulate.

The Corporation Law permits companies to distribute dividends-in-kind (non-cash assets) to shareholders subject to a certain limitation and additional requirements. The Corporation Law provides certain limitations on the amounts available for dividends or the purchase of treasury stock. The limitation is defined as the amount available for distribution to the shareholders, but the amount of net assets after dividends must be maintained at no less than ¥3 million.

(b) Increases / decreases and transfer of common stock, reserve and surplus

The Corporation Law requires that an amount equal to 10% of dividends must be appropriated as a legal reserve (a component of retained earnings) or as additional paid-in capital (a component of capital surplus) depending on the equity account charged upon the payment of such dividends until the total of aggregate amount of legal reserve and additional paid-in capital equals 25% of the common stock. Under the Corporation Law, the total amount of additional paid-in capital and legal reserve may be reversed without limitation. The Corporation Law also provides that common stock, legal reserve, additional paid-in capital, other capital surplus and retained earnings can be transferred among the accounts under certain conditions upon resolution at the shareholders' meeting.

The Company's legal reserve amount, which is included in retained earnings, totals ¥14,117 million (US$151,730 thousand) at both March 31, 2010 and 2009. The Company's additional paid-in capital amount, which is included in capital surplus, totals ¥108,889 million (US$1,170,346 thousand) at both March 31, 2010 and 2009.

The accompanying consolidated financial statements do not include any provision for the year-end dividend of ¥29.0 (US$0.31) per share, aggregating ¥15,561 million (US$162,751 thousand) which the Company will subsequently propose at the 104th Annual General Meeting of Shareholders to be held on June 29, 2010 as an appropriation of retained earnings in respect of the year ended March 31, 2010.

(c) Treasury stock and treasury stock acquisition rights

The Corporation Law also provides for companies to purchase own stock and retire treasury stock by resolution of the board of directors. The amount of own stock purchased cannot exceed the amount available for distribution to the shareholders which is determined by a specific formula.

Under the Corporation Law, stock acquisition rights are presented as a separate component of equity.

The Corporation Law also provides that companies can purchase both stock acquisition rights in their own companies and own stock. Such stock acquisition rights are presented as a separate component of equity or deducted directly from stock acquisition rights.

13 Stock-Based Compensation Plans

The stock options for the year ended March 31, 2010 were as follows:

Name	Persons originally granted	Number of options originally granted	Date of grant	Exercise price (Yen)	Exercise price (U.S. dollars)	Exercise period
Stock option 2002	11 Directors of the Company 31 Employees of the Company 4 Directors of subsidiaries of the Company	540,000 shares*	July 8, 2002	¥2,955	$31.76	July 1, 2004 through June 30, 2009
Stock option 2003	11 Directors of the Company 81 Employees of the Company 3 Directors of subsidiaries of the Company	1,052,000 shares*	July 8, 2003	¥2,372	$25.49	July 1, 2005 through June 30, 2010
Stock option 2004	13 Directors of the Company 89 Employees of the Company 5 Directors of subsidiaries of the Company	1,163,000 shares*	July 8, 2004	¥2,695	$28.97	July 1, 2006 through June 30, 2011
Stock option 2005	13 Directors of the Company 90 Employees of the Company 5 Directors of subsidiaries of the Company	1,167,000 shares*	July 8, 2005	¥2,685	$28.86	July 1, 2007 through June 29, 2012
Stock option 2006 I	12 Executive Officers of the Company**	12,000 shares*	September 29, 2006	¥1	$0.01	July 1, 2008 through June 28, 2013
Stock option 2006 II	14 Directors of the Company	26,000 shares*	September 29, 2006	¥1	$0.01	July 1, 2008 through June 28, 2013
Stock option 2006 III	79 Employees of the Company 4 Directors of subsidiaries of the Company	437,000 shares*	September 29, 2006	¥3,211	$34.51	July 1, 2008 through June 28, 2013
Stock option 2007 I	13 Directors of the Company	25,000 shares*	August 31, 2007	¥1	$0.01	July 1, 2009 through June 30, 2014
Stock option 2007 II	14 Executive Officers of the Company***	14,000 shares*	August 31, 2007	¥1	$0.01	July 1, 2009 through June 30, 2014
Stock option 2007 III	78 Employees of the Company 4 Directors of subsidiaries of the Company	430,000 shares*	August 31, 2007	¥3,446	$37.04	September 1, 2009 through August 29, 2014
Stock option 2008 I	14 Directors of the Company	24,000 shares*	August 29, 2008	¥1	$0.01	July 1, 2010 through June 30, 2015
Stock option 2008 II	12 Executive Officers of the Company****	12,000 shares*	August 29, 2008	¥1	$0.01	July 1, 2010 through June 30, 2015
Stock option 2008 III	81 Employees of the Company 4 Directors of subsidiaries of the Company	447,000 shares*	August 29, 2008	¥3,100	$33.32	September 1, 2010 through August 31, 2015
Stock option 2009 I	13 Directors of the Company	36,000 shares*	August 28, 2009	¥1	$0.01	July 1, 2011 through June 30, 2016
Stock option 2009 II	12 Executive Officers of the Company*****	24,000 shares*	August 28, 2009	¥1	$0.01	July 1, 2011 through June 30, 2016
Stock option 2009 III	74 Employees of the Company 8 Directors of subsidiaries of the Company	430,000 shares*	August 28, 2009	¥2,355	$25.31	September 1, 2011 through August 30, 2016

* The number of options originally granted converts into number of shares of common stock.
** The 12 Executive Officers were not members of the Board of Directors of the Company at the date of grant.
*** The 14 Executive Officers were not members of the Board of Directors of the Company at the date of grant.
**** The 12 Executive Officers were not members of the Board of Directors of the Company at the date of grant.
***** The 12 Executive Officers were not members of the Board of Directors of the Company at the date of grant.

The activity of stock options was as follows:

(Number of shares)

	Stock option 2002	Stock option 2003	Stock option 2004	Stock option 2005	Stock option 2006 I	Stock option 2006 II	Stock option 2006 III	Stock option 2007 I	Stock option 2007 II	Stock option 2007 III
For the year ended March 31, 2009										
Non-vested										
Outstanding at										
March 31, 2008	—	—	—	—	—	—	—	—	—	—
Granted	—	—	—	—	—	—	—	—	—	—
Expired	—	—	—	—	—	—	—	—	—	—
Vested	—	—	—	—	—	—	—	—	—	—
Outstanding at										
March 31, 2009	—	—	—	—	—	—	—	—	—	—
Vested										
Outstanding at										
March 31, 2008	198,000	270,000	758,000	995,000	12,000	26,000	430,000	25,000	14,000	430,000
Vested	—	—	—	—	—	—	—	—	—	—
Exercised	1,000	50,000	34,000	61,000	4,000	11,000	—	—	—	—
Expired	21,000	—	2,000	8,000	—	—	12,000	—	—	5,000
Outstanding at										
March 31, 2009	176,000	220,000	722,000	926,000	8,000	15,000	418,000	25,000	14,000	425,000
For the year ended March 31, 2010										
Non-vested										
Outstanding at										
March 31, 2009	—	—	—	—	—	—	—	—	—	—
Granted	—	—	—	—	—	—	—	—	—	—
Expired	—	—	—	—	—	—	—	—	—	—
Vested	—	—	—	—	—	—	—	—	—	—
Outstanding at										
March 31, 2010	—	—	—	—	—	—	—	—	—	—
Vested										
Outstanding at										
March 31, 2009	176,000	220,000	722,000	926,000	8,000	15,000	418,000	25,000	14,000	425,000
Vested	—	—	—	—	—	—	—	—	—	—
Exercised	—	—	—	—	2,000	9,000	—	16,000	6,000	—
Expired	176,000	12,000	27,000	35,000	—	—	19,000	—	—	12,000
Outstanding at										
March 31, 2010	—	208,000	695,000	891,000	6,000	6,000	399,000	9,000	8,000	413,000
Exercise price										
Yen	¥2,955	¥2,372	¥2,695	¥2,685	¥1	¥1	¥3,211	¥1	¥1	¥3,446
U.S. dollars	$31.76	$25.49	$28.97	$28.86	$0.01	$0.01	$34.51	$0.01	$0.01	$37.04
Average stock price at exercise										
Yen	—	—	—	—	¥2,177	¥2,122	—	¥2,136	¥2,208	—
U.S. dollars	—	—	—	—	$23.40	$22.81	—	$22.96	$23.73	—
Fair value price at grant date										
Yen	—	—	—	—	¥2,932	¥2,932	¥435	¥3,063	¥3,063	¥420
U.S. dollars	—	—	—	—	$31.51	$31.51	$4.68	$32.92	$32.92	$4.51

(Number of shares)

	Stock option 2008 I	Stock option 2008 II	Stock option 2008 III	Stock option 2009 I	Stock option 2009 II	Stock option 2009 III
For the year ended March 31, 2009						
Non-vested						
Outstanding at March 31, 2008	—	—	—	—	—	—
Granted	24,000	12,000	447,000	—	—	—
Expired	—	—	—	—	—	—
Vested	24,000	12,000	447,000	—	—	—
Outstanding at March 31, 2009	—	—	—	—	—	—
Vested						
Outstanding at March 31, 2008	—	—	—	—	—	—
Vested	24,000	12,000	447,000	—	—	—
Exercised	—	—	—	—	—	—
Expired	—	—	5,000	—	—	—
Outstanding at March 31, 2009	24,000	12,000	442,000	—	—	—
For the year ended March 31, 2010						
Non-vested						
Outstanding at March 31, 2009	—	—	—	—	—	—
Granted	—	—	—	36,000	24,000	430,000
Expired	—	—	—	—	—	—
Vested	—	—	—	36,000	24,000	430,000
Outstanding at March 31, 2010	—	—	—	—	—	—
Vested						
Outstanding at March 31, 2009	24,000	12,000	442,000	—	—	—
Vested	—	—	—	36,000	24,000	430,000
Exercised	—	—	—	—	—	—
Expired	—	—	—	—	—	—
Outstanding at March 31, 2010	24,000	12,000	442,000	36,000	24,000	430,000
Exercise price						
Yen	¥1	¥1	¥3,100	¥1	¥1	¥2,355
U.S. dollars	$0.01	$0.01	$33.32	$0.01	$0.01	$25.31
Average stock price at exercise						
Yen	—	—	—	—	—	—
U.S. dollars	—	—	—	—	—	—
Fair value price at grant date						
Yen	¥2,865	¥2,865	¥426	¥2,115	¥2,115	¥394
U.S. dollars	$30.79	$30.79	$4.58	$22.73	$22.73	$4.23

The fair value prices for 2009 stock options were estimated using the Black-Scholes Option Pricing Model with the following assumptions:

	Stock option 2009 I	Stock option 2009 II	Stock option 2009 III
Volatility of stock price	25.936%	25.936%	25.936%
Estimated remaining outstanding period	4.5 years	4.5 years	4.5 years
Estimated dividend per share			
Yen	¥56	¥56	¥56
U.S. dollars	$0.60	$0.60	$0.60
Risk-free interest rate	0.570%	0.570%	0.570%

Subsequently, at the 104th Annual General Meeting of Shareholders to be held on June 29, 2010, the Company will propose a resolution to delegate to the Board of Directors of the Company the determination of matters for offering stock acquisition rights to be issued as stock options to the employees of the Company and the members of the board of directors and employees of the Company's affiliated companies. Under this proposal, the maximum number of shares to be newly issued or transferred from treasury stock on the exercise of stock options is 600,000 shares of common stock of the Company, and the exercise period is from September 1, 2012 to August 31, 2017.

14 Other in Equity

Other in equity was unrealized actuarial loss and others on retirement benefit plans of U.S. subsidiaries.

15 Segment Information

The Companies' operations consist of Consumer Products Business and Chemical Business. The Consumer Products Business has three segments: Beauty Care Business, Human Health Care Business and Fabric and Home Care Business. The Beauty Care Business segment manufactures and sells prestige cosmetics, premium skin care and premium hair care products. The Human Health Care Business segment manufactures and sells food and beverage, sanitary and personal health products. The Fabric and Home Care Business segment manufactures and sells fabric care and home care products. The Chemical Business segment manufactures and sells oleo chemicals, performance chemicals and specialty chemicals.

Segment information by business of the Companies for the years ended March 31, 2010 and 2009 was as follows:

	Millions of yen						
	2010						
	Consumer Products Business						
	Beauty Care Business	Human Health Care Business	Fabric and Home Care Business	Total	Chemical Business	Eliminations/ Corporate	Consolidated
Sales to customers	¥547,944	¥183,151	¥276,918	¥1,008,013	¥176,372	¥ —	¥1,184,385
Intersegment sales	—	—	—	—	31,462	(31,462)	—
Total sales	547,944	183,151	276,918	1,008,013	207,834	(31,462)	1,184,385
Operating expenses	543,194	174,199	216,266	933,659	188,180	(31,488)	1,090,351
Operating income	¥ 4,750	¥ 8,952	¥ 60,652	¥ 74,354	¥ 19,654	¥ 26	¥ 94,034
Assets	¥603,129	¥ 93,620	¥127,859	¥ 824,608	¥190,530	¥ 50,613	¥1,065,751
Depreciation and amortization	52,458	8,612	10,041	71,111	13,667	—	84,778
Loss on impairment of long-lived assets	204	148	150	502	86	—	588
Capital expenditures	19,519	6,527	8,475	34,521	10,347	—	44,868

	Millions of yen						
	2009						
	Consumer Products Business						
	Beauty Care Business	Human Health Care Business	Fabric and Home Care Business	Total	Chemical Business	Eliminations/ Corporate	Consolidated
Sales to customers	¥588,330	¥191,319	¥274,202	¥1,053,851	¥222,465	¥ —	¥1,276,316
Intersegment sales	—	—	—	—	39,593	(39,593)	—
Total sales	588,330	191,319	274,202	1,053,851	262,058	(39,593)	1,276,316
Operating expenses	570,770	178,345	225,098	974,213	244,887	(39,584)	1,179,516
Operating income	¥ 17,560	¥ 12,974	¥ 49,104	¥ 79,638	¥ 17,171	¥ (9)	¥ 96,800
Assets	¥656,996	¥ 95,391	¥123,067	¥ 875,454	¥187,203	¥ 57,019	¥1,119,676
Depreciation and amortization	54,773	8,211	10,244	73,228	14,235	—	87,463
Loss on impairment of long-lived assets	266	161	204	631	102	—	733
Capital expenditures	18,598	7,107	8,253	33,958	10,666	—	44,624

	Thousands of U.S. dollars						
	2010						
	Consumer Products Business						
	Beauty Care Business	Human Health Care Business	Fabric and Home Care Business	Total	Chemical Business	Eliminations/ Corporate	Consolidated
Sales to customers	$5,889,338	$1,968,519	$2,976,333	$10,834,190	$1,895,657	$ —	$12,729,847
Intersegment sales	—	—	—	—	338,156	(338,156)	—
Total sales	5,889,338	1,968,519	2,976,333	10,834,190	2,233,813	(338,156)	12,729,847
Operating expenses	5,838,285	1,872,302	2,324,441	10,035,028	2,022,571	(338,436)	11,719,163
Operating income	$ 51,053	$ 96,217	$ 651,892	$ 799,162	$ 211,242	$ 280	$ 1,010,684
Assets	$6,482,470	$1,006,234	$1,374,237	$ 8,862,941	$2,047,829	$ 543,991	$11,454,761
Depreciation and amortization	563,822	92,562	107,922	764,306	146,893	—	911,199
Loss on impairment of long-lived assets	2,193	1,591	1,612	5,396	924	—	6,320
Capital expenditures	209,791	70,153	91,090	371,034	111,210	—	482,244

Geographic segment information of the Companies for the years ended March 31, 2010 and 2009 was as follows:

	Millions of yen					
	2010					
	Japan	Asia/ Oceania*	America**	Europe***	Eliminations/ Corporate	Consolidated
Sales to customers	¥900,402	¥104,641	¥78,579	¥100,763	¥ —	¥1,184,385
Intersegment sales	18,097	27,058	621	10,395	(56,171)	—
Total sales	918,499	131,699	79,200	111,158	(56,171)	1,184,385
Operating expenses	838,589	129,010	74,237	105,993	(57,478)	1,090,351
Operating income	¥ 79,910	¥ 2,689	¥ 4,963	¥ 5,165	¥ 1,307	¥ 94,034
Assets	¥765,796	¥108,900	¥58,874	¥107,245	¥ 24,936	¥1,065,751

	Millions of yen					
	2009					
	Japan	Asia/ Oceania*	America**	Europe***	Eliminations/ Corporate	Consolidated
Sales to customers	¥935,153	¥116,032	¥98,077	¥127,054	¥ —	¥1,276,316
Intersegment sales	18,216	45,895	922	13,569	(78,602)	—
Total sales	953,369	161,927	98,999	140,623	(78,602)	1,276,316
Operating expenses	869,204	159,180	94,674	135,397	(78,939)	1,179,516
Operating income	¥ 84,165	¥ 2,747	¥ 4,325	¥ 5,226	¥ 337	¥ 96,800
Assets	¥834,104	¥104,900	¥62,842	¥ 98,222	¥ 19,608	¥1,119,676

	Thousands of U.S. dollars					
	2010					
	Japan	Asia/ Oceania*	America**	Europe***	Eliminations/ Corporate	Consolidated
Sales to customers	$9,677,580	$1,124,688	$844,572	$1,083,007	$ —	$12,729,847
Intersegment sales	194,507	290,821	6,675	111,726	(603,729)	—
Total sales	9,872,087	1,415,509	851,247	1,194,733	(603,729)	12,729,847
Operating expenses	9,013,209	1,386,608	797,904	1,139,220	(617,778)	11,719,163
Operating income	$ 858,878	$ 28,901	$ 53,343	$ 55,513	$ 14,049	$ 1,010,684
Assets	$8,230,825	$1,170,464	$632,782	$1,152,676	$ 268,014	$11,454,761

*Asia/Oceania: Asia and Australia **America: North America ***Europe: Europe and South Africa

Sales to foreign customers were as follows:

	Millions of yen		Thousands of U.S. dollars
	2010	2009	2010
Asia/Oceania	¥120,080	¥129,583	$1,290,627
America	81,160	101,903	872,313
Europe	96,927	120,829	1,041,778
Sales to foreign customers	¥298,167	¥352,315	$3,204,718

16 Selling, General and Administrative Expenses

Selling, general and administrative expenses principally consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2010	2009	2010
Advertising	¥ 86,359	¥ 90,258	$ 928,192
Promotion	65,452	69,783	703,482
Research and development	44,911	46,126	482,706
Salaries and bonuses	124,528	125,696	1,338,435
Packing and delivery expenses	70,030	74,240	752,687

17 Other Income (Expenses)

"Other, net" consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2010	2009	2010
Gain on sales of investment securities	¥ 3	¥ 11	$ 32
Loss on sales or disposals of property, plant and equipment, net	(2,602)	(1,228)	(27,966)
Loss on impairment of long-lived assets	(588)	(733)	(6,320)
Loss related to cooking oils*	(5,290)	—	(56,857)
Restructuring charges for prestige cosmetics subsidiary	(1,291)	—	(13,876)
Other, net	1,005	1,778	10,802
Total	¥(8,763)	¥ (172)	$(94,185)

* Total expenses associated with suspension of production and sale of *Econa* cooking oil and related products in the amount of ¥8,129 million (US$87,371 thousand) for the year ended March 31, 2010 consisted of ¥2,839 million (US$30,514 thousand) of inventory revaluation expenses included in cost of sales and ¥5,290 million (US$56,857 thousand) of loss related to cooking oils in other expenses. The inventory revaluation expenses were included in the operating expenses of Human Health Care Business in the segment information by business. In the geographic segment information, the inventory revaluation expenses were mainly included in the operating expenses of Japan.

18 Financial Instruments

On March 10, 2008, the ASBJ issued revised ASBJ Statement No. 10 *Accounting Standard for Financial Instruments* and ASBJ Guidance No. 19 *Guidance on Disclosures about Fair Value of Financial Instruments*. The revised accounting standard and new guidance shall be applied to financial instruments and related disclosures after the end of fiscal years ending on or after March 31, 2010 with early adoption permitted from the beginning of the fiscal years ending before March 31, 2010. The Company applied the revised accounting standard and new guidance from the year ended March 31, 2010.

(1) Group policy for financial instruments

The Companies position excess cash as standby funds until investing them in business activities, and manage them by investment in short-term, low-risk financial instruments only. The Companies have a policy to finance by debt from financial institutions and issuance of corporate bonds and other instruments in capital markets. The Companies use derivatives mainly to hedge foreign exchange risk and do not use derivatives for the purposes of speculation.

(2) Nature and extent of risks arising from financial instruments and risk management

Receivables such as trade notes and trade accounts are exposed to customer credit risk. The Companies take measures with regard to this risk by ensuring internal deliberation and approval process of reviewing customers' credit standing before entering into new transactions with new customers. In addition, the Companies secure guarantee deposits or collaterals as necessary. Furthermore, the Companies monitor due dates and manage balances of receivables by customer and periodically check credit risk of key customers.

Marketable securities, which consist of commercial papers of highly-rated companies and bond investment trusts including MMF and others, are highly safe and liquid financial instruments.

Investment securities, which consist mainly of stock of business partners, are exposed to stock price volatility risk. The Companies periodically check the validity of their stockholdings.

Payment terms of payables, such as trade notes and trade accounts, are mostly less than one year.

Loans, principally from financial institutions, in short-term debt are mainly for financing related to operating activities. Bonds and loans principally from financial institutions in long-term debt are for financing related to M&A and investment in property, plant and equipment. Loans with floating interest rates are exposed to interest rate volatility risk, but all of them are short-term debt or the current portion of long term debt.

Derivative transactions entered into and managed by the Companies are made in accordance with internal policies that regulate objectives, credit limit amount, scope, organization and others. The Companies do not use derivatives for the purpose of speculation. All derivative transactions are entered into to meet requirements for hedging foreign currency exposures incorporated in the Companies' business. The Companies limit the counterparties to these derivative transactions to major international financial institutions to reduce their credit risk.

With regard to payables, such as trade notes, trade accounts and loans, the Companies monitor and manage liquidity risk by preparing monthly forecast statements of cash flows of each company.

(3) Fair values of financial instruments

Fair values of financial instruments are based on the quoted price in active markets. If a quoted price is not available, other rational valuation techniques are used. Also please see Note 19 for details of the fair values of derivatives. The contract amounts of derivatives which are shown in Note 19 do not represent the amounts exchanged by the parties and do not measure the Companies' exposure to credit or market risk.

The carrying amount, fair value and unrealized gain or loss of financial instruments as of March 31, 2010 consisted of the following:

	Millions of yen		
	2010		
	Carrying amount	Fair value	Unrealized gain/(loss)
Cash and time deposits	¥ 70,186	¥ 70,186	¥ —
Short-term investments	48,072	48,072	—
Notes and accounts receivable	134,473		
Allowance for doubtful receivables	(1,153)		
Notes and accounts receivable, net	133,320	133,320	—
Investment securities	7,010	7,010	—
Total	¥258,588	¥258,588	¥ —
Short-term debt	¥ 7,528	¥ 7,528	¥ —
Current portion of long-term debt	25,275	25,187	88
Notes and accounts payable	126,695	126,695	—
Income taxes payable	20,346	20,346	—
Long-term debt	159,090	162,920	(3,830)
Total	¥338,934	¥342,676	¥(3,742)
Derivatives	¥ 3,888	¥ 3,888	¥ —

	Thousands of U.S. dollars		
	2010		
	Carrying amount	Fair value	Unrealized gain/(loss)
Cash and time deposits	$ 754,364	$ 754,364	$ —
Short-term investments	516,681	516,681	—
Notes and accounts receivable	1,445,324		
Allowance for doubtful receivables	(12,392)		
Notes and accounts receivable, net	1,432,932	1,432,932	—
Investment securities	75,344	75,344	—
Total	$2,779,321	$2,779,321	$ —
Short-term debt	$ 80,911	$ 80,911	$ —
Current portion of long-term debt	271,657	270,712	945
Notes and accounts payable	1,361,726	1,361,726	—
Income taxes payable	218,680	218,680	—
Long-term debt	1,709,910	1,751,075	(41,165)
Total	$3,642,884	$3,683,104	$(40,220)
Derivatives	$ 41,788	$ 41,788	$ —

Cash and time deposits
The carrying value of cash and time deposits approximate fair value because of their short maturities.

Short-term investments and investment securities
The fair value of marketable equity securities is measured at the quoted market price of the stock exchange. The fair value of marketable debt securities is measured at the quoted market price of the stock exchange or at the quoted price obtained from the financial institution if there is no quoted market price. The carrying value of other marketable securities, such as commercial papers, investment trust funds and other which consist of MMF and others, approximate fair value because of their short maturities. See Note 5 for information of the fair value of short-term investments and investment securities by classification.

Short-term debt
The carrying values of short-term debt approximate fair value because of their short maturities.

Notes and accounts receivables
The carrying values of notes and accounts receivable approximate fair value because of their short maturities.

Current portion of long-term debt
The fair value of the current portion of long-term debt is equal to carrying value because the fair value is thought to be an approximation of carrying value due to the fact that a contractual interest rate is revised based on market interest rates in the short term and there have been no significant changes in credit risks of the Companies incurring the debt since the beginning of the loan periods.

Notes and accounts payable
The carrying values of notes and accounts payable approximate fair value because of their short maturities.

Long-term debt
The fair value of bonds issued by the Company is measured at the quoted market price.

The fair value of floating interest rate loans is equal to carrying value because the fair value is thought to be an approximation of carrying value due to the fact that a contractual interest rate is revised based on market interest rates in the short term and there have been no significant changes in credit risks of the Companies incurring the debt since the beginning of the loan periods.

The fair value of fixed interest loans is measured at the present value by discounting expected repayments of principal and interest in the remaining period using an assumed interest rate on an equivalent new loan.

The fair value of lease obligations is measured at the present value by discounting expected repayments of lease obligations including interest in the remaining period using an assumed interest rate on equivalent new lease obligations.

Derivatives
Information on fair value of derivatives is included in Note 19.

The carrying amount of financial instruments whose fair value cannot be reliably determined as of March 31, 2010 consisted of the following:

	Millions of yen	Thousands of U.S. dollars
Investment securities that do not have a quoted market price in an active market	¥1,202	$12,919

(4) Maturity analysis for financial assets and securities with contractual maturities

The maturity analysis for financial assets and securities with contractual maturities as of March 31, 2010 was as follows:

	Millions of yen			
	Due within one year	Due after one year through five years	Due after five years through ten years	Due after ten years
Cash and time deposits	¥ 70,186	¥—	¥—	¥—
Short-term investments and investment securities				
Held-to-maturity debt securities	2,000	—	—	—
Available-for-sale other securities with contractual maturities	746	—	—	—
Notes and accounts receivable	134,473	—	—	—
Total	¥207,405	¥—	¥—	¥—

	Thousands of U.S. dollars			
	Due within one year	Due after one year through five years	Due after five years through ten years	Due after ten years
Cash and time deposits	$ 754,364	$—	$—	$—
Short-term investments and investment securities				
Held-to-maturity debt securities	21,496	—	—	—
Available-for-sale other securities with contractual maturities	8,018	—	—	—
Notes and accounts receivable	1,445,324	—	—	—
Total	$2,229,202	$—	$—	$—

Please see Note 7 for annual maturities of long-term debt.

19 Derivatives

The Companies enter into foreign exchange forward contracts and foreign currency swaps to hedge foreign exchange risk associated with certain assets and liabilities denominated in foreign currencies.

All derivative transactions are entered into to hedge foreign currency exposures incorporated within the Companies' business. Accordingly, market risk in these derivatives is basically offset by opposite movements in the value of hedged assets or liabilities. The Companies do not hold or issue derivatives for trading or speculative purposes. Because the counterparties to these derivatives are limited to major international financial institutions, the Companies do not anticipate any losses arising from credit risk.

Derivative transactions entered into by the Companies have been made in accordance with internal policies which regulate the authorization and credit limit amounts.

The Companies had the following derivatives contracts outstanding to which hedge accounting was not applied at March 31, 2010 and 2009:

	Millions of yen							
	2010				2009			
	Contract amount	Contract amount due after one year	Fair value	Unrealized gain/(loss)	Contract amount	Contract amount due after one year	Fair value	Unrealized gain/(loss)
Foreign exchange forward contracts:								
Buying U.S. Dollar	¥ 1,779	¥ —	¥ (113)	¥ (113)	¥ 259	¥ —	¥ (9)	¥ (9)
Buying Japanese Yen	30	—	(0)	(0)	16	—	(0)	(0)
Buying British Pound	1,118	—	5	5	765	—	(160)	(160)
Buying other currencies	44	—	1	1	15	—	(0)	(0)
Selling U.S. Dollar	6,029	1,920	18	18	2,134	—	71	71
Selling other currencies	1,084	—	(14)	(14)	2,201	—	58	58
Foreign currency swaps:								
Receiving Japanese Yen, paying British Pound	11,882	9,155	3,991	3,991	13,372	11,882	4,505	4,505
Receiving U.S. Dollar, paying Euro	—	—	—	—	2,258	—	(116)	(116)

	Thousands of U.S. dollars			
	2010			
	Contract amount	Contract amount due after one year	Fair value	Unrealized gain/(loss)
Foreign exchange forward contracts:				
Buying U.S. Dollar	$ 19,121	$ —	$ (1,215)	$ (1,215)
Buying Japanese Yen	322	—	(0)	(0)
Buying British Pound	12,016	—	54	54
Buying other currencies	473	—	11	11
Selling U.S. Dollar	64,800	20,636	193	193
Selling other currencies	11,651	—	(151)	(151)
Foreign currency swaps:				
Receiving Japanese Yen, paying British Pound	127,709	98,399	42,896	42,896

20 Related Party Transactions

Transactions of the Company with related parties for the years ended March 31, 2010 and 2009 were as follows:

Mr. Atsushi Takahashi is an outside director of the Company and these transactions were conducted with The Sumitomo Trust & Banking Co., Ltd, of which he is Representative Director and Chairman of the Board, on general terms and conditions generally offered by other financial institutions. Mr. Takahashi directly owns 0.0% of the shares (3,000 shares) of the Company.

	Millions of yen		Thousands of U.S. dollars
	2010	2009	2010
Partial repayment of long-term debt	¥7,600	¥3,000	$81,685
Payment of interest	61	113	656

The balances of the Company due to related parties for the years ended March 31, 2010 and 2009 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2010	2009	2010
Current portion of long-term debt	¥2,200	¥2,000	$23,646
Long-term debt	—	7,800	—

21 Net Income per Share

A reconciliation of the differences between basic and diluted net income per share ("EPS") for the years ended March 31, 2010 and 2009 was as follows:

	Millions of yen	Thousands of shares	Yen	U.S. dollars
For the year ended March 31, 2010:	Net income	Weighted average shares	EPS	
Basic EPS				
Net income available to common shareholders	¥40,507	536,009	¥75.57	$0.81
Effect of dilutive securities				
Warrants	—	121		
Diluted EPS				
Net income for computation	¥40,507	536,130	¥75.55	$0.81

	Millions of yen	Thousands of shares	Yen
For the year ended March 31, 2009:	Net income	Weighted average shares	EPS
Basic EPS			
Net income available to common shareholders	¥64,463	536,085	¥120.25
Effect of dilutive securities			
Warrants	—	120	
Diluted EPS			
Net income for computation	¥64,463	536,205	¥120.22

Independent Auditors' Report

Deloitte.

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors of
Kao Corporation:

We have audited the accompanying consolidated balance sheets of Kao Corporation (the "Company") and consolidated subsidiaries as of March 31, 2010 and 2009, and the related consolidated statements of income, changes in equity, and cash flows for the years then ended, all expressed in Japanese yen. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in Japan. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Kao Corporation and consolidated subsidiaries as of March 31, 2010 and 2009, and the consolidated results of their operations and their cash flows for the years then ended in conformity with accounting principles generally accepted in Japan.

Our audits also comprehended the translation of Japanese yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made in conformity with the basis stated in Note 2. Such U.S. dollar amounts are presented solely for the convenience of readers outside Japan.

Deloitte Touche Tohmatsu LLC

June 22, 2010

Member of
Deloitte Touche Tohmatsu

Principal Subsidiaries and Affiliates (As of July 1, 2010)

Country/Area	Business				Company
Japan	●	●	●		Kao Customer Marketing Co., Ltd.
	●				Kanebo Cosmetics Inc.
	●				Kanebo Cosmetics Sales Inc.
	●				E'quipe, Ltd.
	●				Lissage Ltd.
	●				Kanebo Cosmillion, Ltd.
	●				Nivea-Kao Co., Ltd.
		●	●		Ehime Sanitary Products Co., Ltd.
			●		Kao Professional Services Co., Ltd.
				●	Kao-Quaker Co., Ltd.
China	●	●	●	●	Kao (China) Holding Co., Ltd.
	●	●	●		Kao Corporation Shanghai
	●	●	●		Kao Commercial (Shanghai) Co., Ltd.
	●				Shanghai Kanebo Cosmetics Co., Ltd.
				●	Kao Chemical Corporation Shanghai
				●	Kao Trading Corporation Shanghai
	●	●	●		Kao (Hong Kong) Ltd.
Taiwan	●	●	●	●	Kao (Taiwan) Corporation
Vietnam	●	●			Kao Vietnam Co., Ltd.
Philippines				●	Pilipinas Kao, Incorporated
Thailand	●	●	●	●	Kao Industrial (Thailand) Co., Ltd.
	●	●	●		Kao Commercial (Thailand) Co., Ltd.
	●	●	●		Kao Consumer Products (Southeast Asia) Co., Ltd.
Malaysia	●				Kao Soap (Malaysia) Sdn. Bhd.
	●	●	●		Kao (Malaysia) Sdn. Bhd.
				●	Fatty Chemical (Malaysia) Sdn. Bhd.
				●	Kao Plasticizer (Malaysia) Sdn. Bhd.
				●	Kao Oleochemical (Malaysia) Sdn. Bhd.
Singapore	●	●	●	●	Kao (Singapore) Private Ltd.
Indonesia	●	●	●		P.T. Kao Indonesia
				●	P.T. Kao Indonesia Chemicals
Australia	●				KPSS Australia Pty. Ltd.
			●		Kao (Australia) Marketing Pty. Ltd.

Country/Area	Business				Company
Canada	●				Kao Brands Canada Inc.
	●				KPSS Canada Inc.
United States	●				Kao Brands Company
	●				KPSS, Inc.
				●	Kao Specialties Americas LLC
Mexico				●	Quimi-Kao, S.A. de C.V.
Germany	●				KPSS - Kao Professional Salon Services GmbH
	●				Guhl Ikebana GmbH
	●				Kao Corporation GmbH
				●	Kao Chemicals GmbH
Netherlands	●				KPSS Nederland B.V.
United Kingdom	●				Kao Brands Europe Ltd.
	●				KPSS (UK) Ltd.
	●				Molton Brown Ltd.
Switzerland	●				KPSS AG
	●				Kanebo Cosmetics (Europe) Ltd.
Spain				●	Kao Chemicals Europe, S.L.
				●	Kao Corporation S.A.

Consumer Products Business
- ● Beauty Care Business
- ● Human Health Care Business
- ● Fabric and Home Care Business

Chemical Business
- ● Chemical Business

Investor Information (As of March 31, 2010)

Kao Corporation

Head Office
14-10, Nihonbashi Kayabacho 1-chome
Chuo-ku, Tokyo 103-8210, Japan
Telephone: 81-3-3660-7111

Founded
June 19, 1887

Common Stock
Authorized: 1,000,000,000 shares
Issued: 540,143,701 shares
Outstanding (excluding treasury stock):
536,577,627 shares
Number of Shareholders: 49,180

Reference
As of August 3, 2009, the number of shares in each unit share was reduced to 100 shares from 1,000 shares.

Stock Listing
Tokyo Stock Exchange

Ticker Symbol Number
4452

Administrator of Shareholder Register
The Chuo Mitsui Trust and Banking Co., Ltd.
8-4, Izumi 2-chome, Suginami-ku, Tokyo 168-0063, Japan

Depositary and Registration for American Depositary Receipts (ADR Ticker Symbol: KCRPY)
JPMorgan Chase Bank, N.A.
1 Chase Manhattan Plaza, Floor 58, New York, NY 10005, U.S.A.

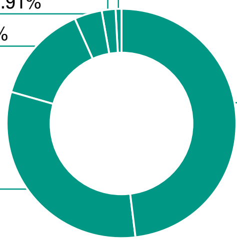
Reference
As of December 16, 2009, the ratio of ADRs to common stock was changed to 1:1 from 1:10.

Top Five Shareholders

Name of Shareholders	Investment in Kao by the Shareholders	
	Number of Shares (thousand shares)	Ratio of Shareholding* (percentage)
Japan Trustee Services Bank, Ltd. (Trust Account)	32,902	6.09
Moxley and Company	23,975	4.43
The Master Trust Bank of Japan, Ltd. (Trust Account)	21,638	4.00
Northern Trust Co. (AVFC) Sub A/C American Clients	16,379	3.03
State Street Bank and Trust Company 505225	14,913	2.76

* Ratio of shareholding is calculated based on the issued shares.

Composition of Shareholders



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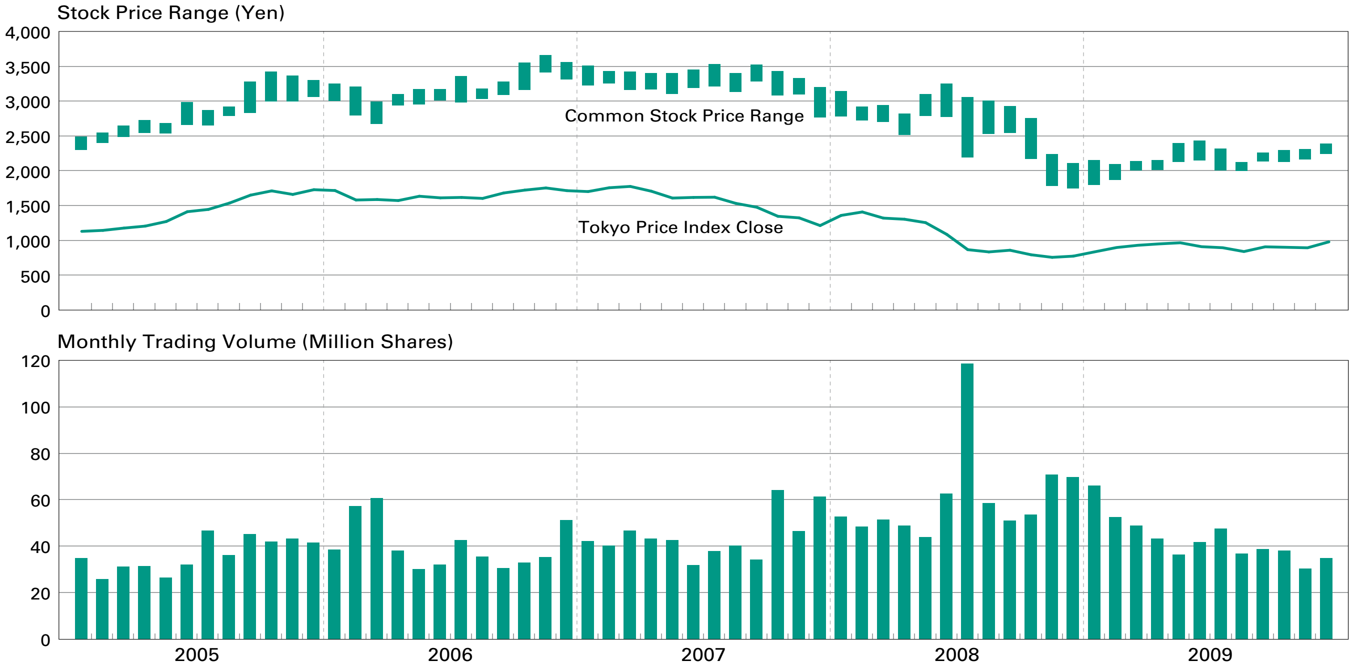
Web site: http://www.kao.com/jp/en/corp_ir/investors.html

Stock Price Range & Trading Volume (Tokyo Stock Exchange)



Note: Fiscal years beginning April and ending March the following calendar year

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