Enriching lives,
in harmony with nature.

Kao

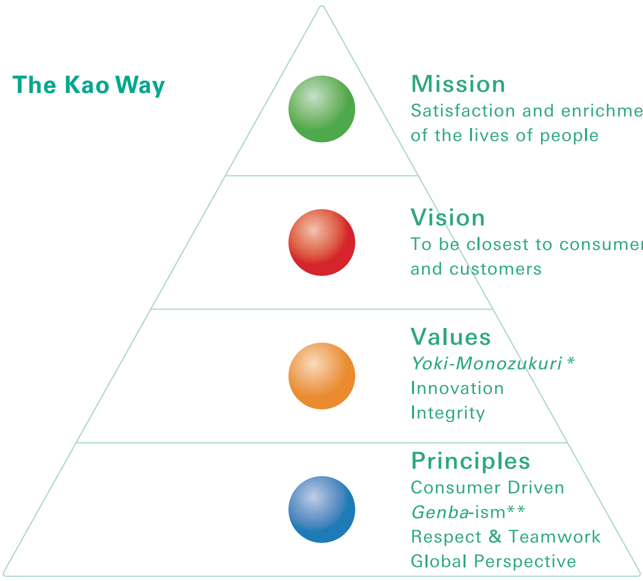
Global Presence through Innovation

Annual Report 2013

For the year ended December 31, 2013

Global Presence through Innovation

The Kao Group aims to become a company with a global presence. In markets worldwide, we are integrating our unique insights to achieve meaningful innovation. This enables the value offerings that truly transform our core philosophies into realities.



The Kao Way explains the essence of Kao's unique corporate culture and spirit, which have been developed through our business activities since the founding of the company.

Our mission is to strive for the wholehearted satisfaction and enrichment of the lives of people globally and to contribute to the sustainability of the world, with products and brands of excellent value that are created from the consumer's and customer's perspective. This commitment is embraced by all members of the Kao Group as we work together with passion to share joy with consumers and customers in our core domains of cleanliness, beauty, health and chemicals.

* We define *Yoki-Monozukuri* as "a strong commitment by all members to provide products and brands of excellent value for consumer satisfaction." This core concept distinguishes Kao from all others.

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

Further information is available at:
http://www.kao.com/jp/en/corp_about/kaoway.html

Forward-Looking Statements

Forward-looking statements such as earnings forecasts and other projections contained in this report are based on information available at the time of publication and assumptions that management believes to be reasonable. Actual results may differ materially from those expectations due to various factors.

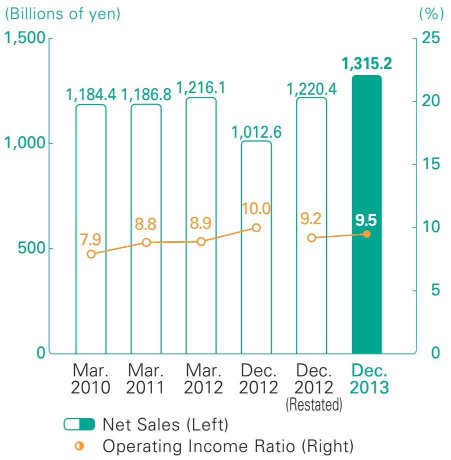
CONTENTS

FINANCIAL HIGHLIGHTS

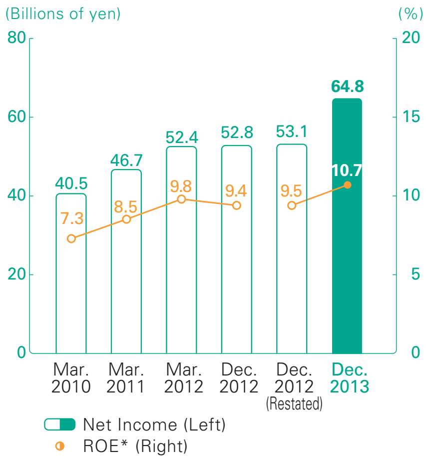
Due to a change in the fiscal year end, the term of consolidation for the fiscal period ended December 31, 2012 consisted of the nine months from April to December for Kao Corporation and its subsidiaries whose fiscal year end was previously March 31 and the twelve months from January to December for subsidiaries whose fiscal year end was December 31.

(Years ended March 31, 2010 to 2012, period ended December 31, 2012 and years ended December 31, 2012 and 2013)

Net Sales and Operating Income Ratio

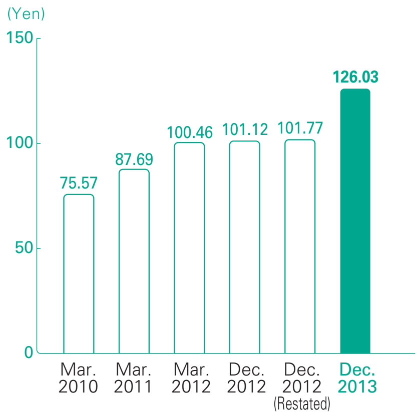


Net Income and ROE*



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

Net Income per Share



Kao Corporation and Consolidated Subsidiaries
Years ended December 31, 2013 and 2012, period ended December 31, 2012, and year ended March 31, 2012

	Billions of yen				Millions of U.S. dollars	Change
	Dec. 2013	Dec. 2012 (Restated)	Dec. 2012	Mar. 2012	Dec. 2013	Dec. 2013 / Dec. 2012 (Restated)
For the year:						
Net sales	¥1,315.2	¥1,220.4	¥1,012.6	¥1,216.1	$12,479.5	7.8%
EBITA	154.8	143.8	125.7	142.2	1,468.8	7.6
Operating income	124.7	111.8	101.6	108.6	1,182.8	11.5
Net income	64.8	53.1	52.8	52.4	614.5	21.9
EBITDA	202.0	189.2	161.4	188.4	1,916.2	6.8
At year end:						
Total assets	1,133.3	—	1,030.3	991.3	10,753.2	—
Net worth	628.7	—	582.7	538.0	5,965.5	—
	Yen				U.S. dollars	Change
Per share:						
Net income	¥ 126.03	¥101.77	¥ 101.12	¥ 100.46	$ 1.20	23.8%
Cash dividends	64.00	—	62.00	60.00	0.61	—
Net worth	1,227.54	—	1,116.61	1,031.08	11.65	—

Notes:
1. The U.S. dollar amounts are translated, for convenience only, at the rate of ¥105.39=US$1, the approximate exchange rate at December 31, 2013.
2. Yen and U.S. dollar amounts are rounded to the nearest whole number or decimal.
3. Earnings before interest, taxes, depreciation and amortization (EBITDA) is operating income before depreciation and amortization.
4. Net worth is equity, excluding minority interests and stock acquisition rights.
5. December 2012 (restated) represents figures for the year from January 1 to December 31, 2012 for Kao Group companies whose fiscal year end was previously March 31.

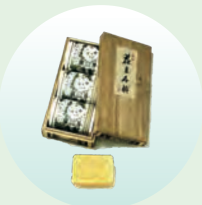
Our Vision for the

For over 120 years, the Kao Group has provided both consumer products that bring cleanliness, beauty and health to daily living, and chemical products that contribute to the growth of industry. We aim to build a global presence by continuous innovation to drive the creation of distinctive value offerings that bring positive change to daily living.

Kao Group Mid-term Plan 2015 (K15)

Target 1:	**Break previous records for consolidated net sales and profits**	
Target 2: Fiscal 2015	**Net sales**	**¥1.4 trillion**
	Operating income	**¥150 billion**
	Overseas sales ratio	**30% or more**

Representative Products



1890
Kao Sekken
Kao Sekken, a domestically produced quality facial soap, is launched in Japan.

1932
Kao Shampoo
This product makes "shampoo" an everyday word, changing Japanese hair washing habits.

1951
Kao Kona Sentaku
Japan's first synthetic powder laundry detergent for household use becomes a hit, spurred on by the growing use of electric washing machines.

1960
Mypet
Mypet, Japan's first liquid household detergent, is launched.

1964
MIGHTY
MIGHTY, a superplasticizer for concrete, is launched as a chemical product, supporting Japan's rapid economic growth through uses including construction of the Shinkansen bullet train system.

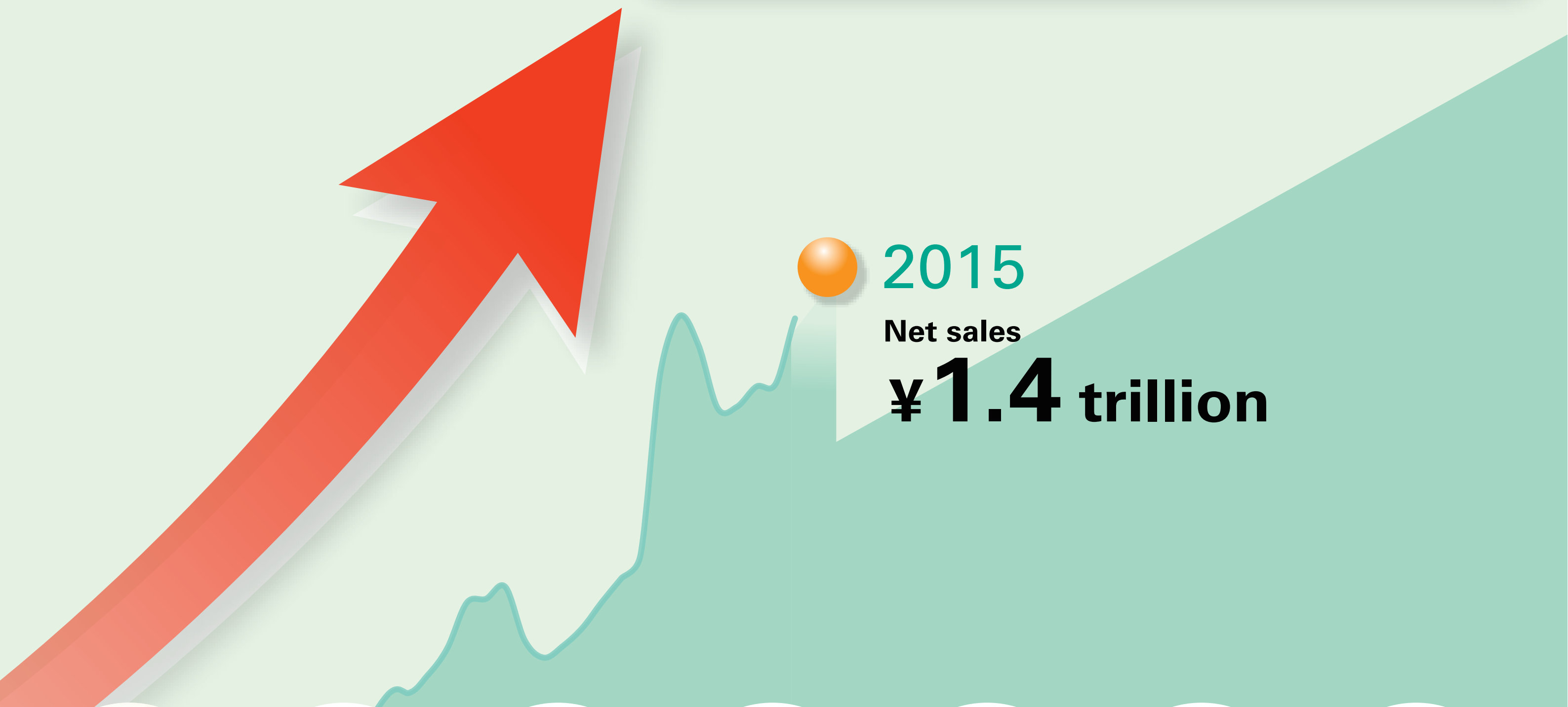
1979
Laurier
Laurier sanitary napkins gain broad acceptance among women as a new type of sanitary napkin developed using super-absorbent polymers.

1980
Bioré
Bioré Facial Foam offers an alternative to soap in the form of a new, neutral type of facial cleanser that is gentle on the skin.

Future

A Company with a Global Presence

We enrich the lives of people all over the world by driving change through the making of distinctive value offerings with our twin objectives of profitable growth and contribution to the sustainability of society.



1982
Kao Sofina
Kao Sofina is launched as a new line of basic skin care cosmetic products offering dermatology-based basic skin care.

1984
Merries
Merries baby diapers are a new type of disposable diaper derived from the development of various new processing technologies and functional materials such as super-absorbent polymers, non-woven sheets, and breathable sheets.

1987
Attack
Breakout hit *Attack* compact laundry detergent makes detergent history using innovative biotechnologies for powerful cleansing at one-fourth the volume of conventional powder detergents.

2003
Healthya Green Tea
Healthya Green Tea, which contains high levels of tea catechin, is the first tea product in Japan to be approved by the Ministry of Health, Labor and Welfare as a Food for Specified Health Uses (FOSHU) due to its suitability for people concerned about body fat.

2005
Jergens Natural Glow
Jergens Natural Glow, a sunless self-tanning hand and body lotion, is launched in the U.S.

2009
Attack Neo
Attack Neo, the world's most concentrated liquid laundry detergent, is launched, delivering a new level of environmentally friendly performance with just one rinse cycle.

2013
Healthya Coffee
Launch of *Healthya Coffee* containing a high level of polyphenol "coffee chlorogenic acid" found in coffee beans. It is the first coffee drink to be approved as a FOSHU that promotes body fat utilization.

A Message from President and CEO Michitaka Sawada

The Kao Group Mid-Term Plan 2015 (K15) got off to an excellent start in 2013, with record operating income. We will continue to focus on innovation to achieve the targets of K15 and become a company with a global presence.

Michitaka Sawada
President and Chief Executive Officer

Net sales
¥1,315.2 billion +7.8%[1]

EVA[2]
138 (Year ended December 31, 2011 = 100)

Operating income
¥124.7 billion +11.5%[1]

Net income
¥64.8 billion +21.9%[1]

EBITA[3]
¥154.8 billion +7.6%[1]

Cash dividends
¥64.00 per share +2.00 per share
24th consecutive period of increase

1. Due to a change in the fiscal year end, growth for the year ended December. 31, 2013 is a comparison with the restated business results for the twelve-month period from January 1 to December 31, 2012.
2. EVA (Economic Value Added) is a registered trademark of Stern Stewart & Co.
3. Earnings before interest, taxes and amortization (EBITA) is operating income before amortization of goodwill and other items related to acquisitions.

1

Please begin by briefly discussing the voluntary recall at Kanebo Cosmetics and subsequent Kao Group initiatives.

Kao's subsidiary Kanebo Cosmetics decided to implement a voluntary recall of certain brightening products in Japan and some Asian countries* because of cases of vitiligo-like symptoms on the skin of some customers who used the products. We are wholeheartedly supporting the recovery of all those who experienced symptoms. This has included visiting individuals to confirm their conditions and establishing a follow-up system.

In January 2014, I also assumed direct control of our new quality assurance organization so I can be closely involved. The entire Kao Group is working to ensure even higher levels of safety and reliability in its products.

* On July 4, 2013, Kanebo Cosmetics Inc., Lissage Ltd. and e'quipe, Ltd. of the Kao Group announced a voluntary recall of brightening products containing the quasi-drug-ingredient Rhododenol, which was approved by the Japanese Ministry of Health, Labour and Welfare in accordance with the Pharmaceutical Affairs Act after passing extensive safety tests.

Kanebo Cosmetics' Voluntary Recall Timeline

July 2013	■ Initiated a voluntary product recall ■ Established a task force ■ Began visiting all customers who had come forward ■ Began an independent study by outside experts (attorneys) ■ The Japanese Dermatological Association established a special committee to investigate the conditions and develop a treatment ■ Established a long-term follow-up system
August 2013	■ Merger of the quality control division and consumer center of Kanebo Cosmetics into Kao Corporation
September 2013	■ Reported the results of the independent study by outside experts and announced how Kanebo Cosmetics would address them
October 2013	■ Kao announced the integration of the research and production divisions of Kanebo Cosmetics into Kao Corporation starting from January 2014
January 2014	■ Kao established a fund for research into vitiligo-like symptoms experienced by users of products containing Rhododenol

2

Please discuss your goals for a Kao Group that evolves through innovation.

The primary goal of the Kao Group is to become a company with a global presence. I want the Kao Group to achieve recognition as a company and a manufacturer that makes distinctive value offerings. That is how we can realize the Kao Way, our corporate philosophy, which is to strive for the wholehearted satisfaction and enrichment of the lives of people globally and to contribute to the sustainability of the world. Innovation enables the value offerings that truly bring the Kao Group's core philosophies to life.

Over the years, the Kao Group has expanded its Consumer Products Business to include cleanliness, beauty and health. We used to directly transform cleanliness technology into products and value, but today, technology alone does not satisfy consumer expectations. As we expand in beauty and health, we also see that technology no longer directly equates to value. Rather, we need to develop comprehensive offerings that showcase the value offered by technology. We must also achieve meaningful innovation by integrating incremental insights. These approaches will enable the Kao Group to create innovative products and services that enrich people’s lives and society.

Leading-edge research is vital for the development of excellent products. However, product development alone does not define our ability to deliver distinctive value offerings. Offerings that are a step ahead of their time are not readily accepted in the consumer products business. We need to make value offerings that are a “half-step ahead” to innovate successfully.

The rising standard of living around the world is adding to the challenge of making value offerings. We therefore need to appeal to consumers through a wide range of innovations that will enrich society, including product and marketing innovations.

Ultra Attack Neo **ultra-concentrated liquid laundry detergent, Japan**

Emerging cleanliness needs include products that conserve electricity and water, and that give busy people more time in their lives by reducing the time spent doing laundry. The distinctive offerings of *Ultra Attack Neo* address these needs.

- Deeper cleaning ability provided by Kao’s original next-generation cleaning ingredient “ultra anions,” which quickly penetrates and breaks down stains
- Effective removal of stains and odors, even in washing machines with a reduced-time washing function, as a new proposal to meet the strong needs of busy people for shorter laundering time

3

The Kao Group launched its K15 mid-term plan in 2013. What were the first-year results, including progress of K15’s three growth strategies?

In 2013, for the first time ever the Kao Group announced its mid-term plan to stakeholders.

The global economy continued its anemic recovery. The pace of growth slowed in emerging countries, while the U.S. economy expanded and Europe showed signs of an upturn despite continuing weakness.

In Japan, the economy recovered gradually as personal consumption picked up due to positive expectations for economic measures. In addition, the decline in consumer purchase prices appeared to have bottomed out. Market conditions improved progressively through the year, as consumer became more accepting of higher prices for value offered by household and personal care products.

We concentrated on maximizing the use of Kao Group assets during 2013. Examples from our R&D operations included expanding the application of technology developed for a particular product to additional products. We also revitalized existing products by transforming our approach to communicating product value. We began seeing results during 2013 from our drive to maximize asset use, and expect to see more in the future.

We generated growth in sales and earnings for the fourth consecutive year, excluding the impact of the change in fiscal year during fiscal 2012, and also exceeded our target for record operating income. The overseas sales ratio, which is the proportion of net sales to foreign customers, rose to 30.9 percent, in part because of the depreciation of the yen.

We also launched three strategies for generating profitable growth and internal projects to support them. I will briefly outline the progress of these strategies.

Kao Group Mid-term Plan 2015 (K15)

Target 1 **Break previous records for net sales and profits**

Target 2 **Achieve numerical management targets for FY2015**

- Net sales: ¥1.4 trillion
- Operating income: ¥150 billion
- Overseas sales ratio: 30% or more

Growth Strategies to Achieve K15

1. Expand the Consumer Products Business globally

- Growth markets: Expand the business significantly by proposing products in the domain of "cleanliness" including laundry detergents, baby diapers and sanitary napkins that target the growing middle-class consumer segments
- Mature markets: Accelerate growth with high-value-added products

2. Further reinforce the Fabric and Home Care Business, and accelerate profitable growth in the Beauty Care and Human Health Care Businesses

Fabric and Home Care Business

- Maintain or capture the top share in each product category

Beauty Care Business and Human Health Care Business

- Move the cosmetics business to a phase of profitable growth
- Propose products and services through new approaches focused on health and the aging society

3. Reinforce the Chemical Business

- Promote to generate higher value by leveraging eco-technology research
- Strengthen synergy with the Consumer Products Business

Three Growth Strategies

Strategy 1

Expand the Consumer Products Business globally

We categorized our markets as mature or growth, then steadily began expanding sales.

The Consumer Products Business in Asia performed well and drove global expansion. I would like to see the Kao Group maintain the overseas sales ratio at 30 percent or higher, regardless of exchange rate movements. In growth markets, we are focusing on launching laundry detergents, baby diapers and sanitary products for the middle-class

consumer segment. During 2013, we launched *Merries* baby diapers manufactured in China and *Attack Power Soaking* powder laundry detergent for washing by hand.

Strategy 2

Further reinforce the Fabric and Home Care Business, and accelerate profitable growth in the Beauty Care and Human Health Care Businesses

The Fabric and Home Care Business generated solid growth and increased earnings. With an operating margin of approximately 20 percent, it made the steadiest progress among our business segments. As exemplified by *Ultra Attack Neo* laundry detergent, the Kao Group demonstrated leadership in changing lifestyles in Japan with new value offerings. Laundry detergent performance was also solid in Thailand and Indonesia, demonstrating that progress in reinforcing this business was not limited to Japan.

Conditions were challenging in cosmetics due to the voluntary recall at Kanebo Cosmetics. Excluding Kanebo Cosmetics, however, the Beauty Care Business made progress. Baby diapers led growth in the Human Health Care Business, and sales of *Laurier* sanitary napkins continued to drive growth in Thailand and Indonesia. Moreover, *Megurhythm* steam eye mask was a hit in Japan and Hong Kong. This product created a new market with its concept of improving blood circulation.

Our marketing activities also supported sales growth by anticipating consumer and lifestyle changes with "half-step ahead" proposals driven by fresh analyses of the data we have collected.

Strategy 3

Reinforce the Chemical Business

The Chemical Business serves a wide array of industries globally. It also enhances the competitiveness of the Kao Group's Consumer Products Business through synergies such as supplying raw materials that add value to consumer products while reducing costs and ensuring stable raw material procurement. Enhancing the Chemical Business and the Consumer Products Business is vital for the Kao Group to grow profitably.

During 2013, market conditions challenged the Chemical Business. The Kao Group strengthened this business by concentrating on increased production and products that use eco-technologies, such as low-temperature fusing toner binder and cleaning agents for steel sheets.

In oleo chemicals, the Kao Group expanded fatty alcohol production facilities and increased sales volume. The Chemical Business has been focusing on acquiring new customers for performance and specialty chemicals. Sales of performance chemicals were firm due to the development and sale of high-value-added products. The specialty chemicals business is responding effectively to structural changes in our customers' industries.

4

What is your long-term objective?

Our most important long-term objective is to become a company with a global presence, and that means a company that makes distinctive value offerings. Achieving the targets of K15 is just one milestone on the way to that goal. I want the Kao Group to move beyond its accomplishments in 2013 to reach the next level in 2014 so that we can achieve the targets of K15, and we are going to implement a number of measures during 2014 to do so.

We will continue to invest to put our three growth strategies into action. We want to maintain the strong momentum of our businesses in 2013 while investing to enable more aggressive initiatives that will further reinforce the Fabric and Home Care Business and improve performance in the Beauty Care and Human Health Care Businesses. For cosmetics, we will accelerate the turnaround at Kanebo Cosmetics with products that allow people to fully experience beauty with their senses.

The Chemical Business will enhance oleo chemical products by adding value to mitigate fluctuations in the prices of raw materials, and support stable sales. It also aims to expand sales by using creative technologies that address environmental concerns to develop new materials and other products.

5

Please close with some insights for investors.

In 2013, we formulated the Kao Sustainability Statement to delineate a clear vision for implementing the Kao Way. Moreover, we improved our corporate governance system in March 2014. We have a new team of Board Members and Executive Officers to speed up decision making and strengthen our response to change, and we have an equal number of inside directors and outside directors to heighten transparency and bring external perspectives to the Kao Group.

The Kao Group aims to become a company with a global presence. We will therefore generate sustained profitable growth with distinctive value offerings, and contribute to the sustainability of society by helping to resolve social issues and making social contributions through our business activities. We are confident that we will increase shareholder value by increasing Economic Value Added (EVA), a key Kao Group management indicator. Summarized below, our priorities for deploying free cash flow remain unchanged.

We are excited about the Kao Group's future, and we invite investors to share our enthusiasm.

Use of Free Cash Flow*

1. Capital expenditures and M&A for future growth

2. Steady and continuous cash dividends

- **Year ended December 31, 2013**
  Cash dividends per share: ¥64.00
  Payout ratio: 50.8%

24th consecutive period of increase in dividends

3. Share repurchases and repayment of interest-bearing debt including borrowings

- **February to April 2013**
  Share repurchases: ¥30.0 billion

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

Directors, Audit & Supervisory Board Members and Executive Officers

(As of March 28, 2014)

Directors

* Holds the post of Executive Officer concurrently ** Outside Director

Michitaka Sawada*

Representative Director

Apr. 1981 Joined the Company
Jun. 2006 Executive Officer
Jun. 2008 Member of the Board, Executive Officer
Jun. 2012 Representative Director, President and Chief Executive Officer (current)
Jan. 2014 Responsible for Product Quality Management (current)

Katsuhiko Yoshida*

Representative Director

Apr. 1979 Joined the Company
Apr. 2007 President, Human Health Care Business Unit
Jun. 2007 Executive Officer
Apr. 2010 President, Fabric and Home Care Business Unit
Jun. 2012 Managing Executive Officer (current)
Mar. 2014 Member of the Board, Representative Director, President, Consumer Products; Responsible for Kao Professional Services Co., Ltd. (current)

Toshiaki Takeuchi*

Representative Director

Apr. 1981 Joined the Company
Mar. 2009 Vice President, Corporate Planning, Kao Customer Marketing Co., Ltd.
Mar. 2010 Member of the Board, Executive Officer, Kao Customer Marketing Co., Ltd.
May 2011 Member of the Board, Senior Managing Executive Officer, Kao Customer Marketing Co., Ltd.
May 2012 Representative Director, Senior Managing Executive Officer, Kao Customer Marketing Co., Ltd.
Jun. 2012 Executive Officer
Apr. 2013 Representative Director, Executive Vice President, Kao Customer Marketing Co., Ltd.
Mar. 2014 Member of the Board, Representative Director, Managing Executive Officer, President and Chief Executive Officer, Kao Customer Marketing Co., Ltd. (current)

Sonosuke Kadonaga**

President, Intrinsics

Apr. 1976 Joined Chiyoda Corporation
Aug. 1986 Joined McKinsey & Company, Inc., Japan
Jul. 2009 President, Intrinsics (current)
Jun. 2012 Member of the Board, Kao Corporation (current)
Mar. 2014 Chairman of the Board of Directors

Toru Nagashima**

Senior Advisor, Teijin Limited

Apr. 1965 Joined Teijin Limited
Jun. 2000 Member of the Board, and CESHO (Chief Environment, Safety & Health Officer), Teijin Limited
Apr. 2001 Member of the Board, CMO (Chief Marketing Officer) and General Manager of Corporate Strategy & Planning Office, Teijin Limited
Jun. 2001 Managing Director, CMO (Chief Marketing Officer) and General Manager of Corporate Strategy & Planning Office, Teijin Limited
Nov. 2001 President & Representative Director, COO, Teijin Limited
Jun. 2002 President & Representative Director, CEO, Teijin Limited
Jun. 2008 Chairman of the Board, Teijin Limited
Mar. 2013 Member of the Board, Kao Corporation (current)
Apr. 2013 Senior Advisor, Member of the Board, Teijin Limited
Jun. 2013 Senior Advisor, Teijin Limited (current)

Masayuki Oku**

Chairman of the Board, Sumitomo Mitsui Financial Group, Inc.

Apr. 1968 Joined Sumitomo Bank
Jun. 1994 Director, Sumitomo Bank
Nov. 1998 Managing Director, Sumitomo Bank
Jun. 1999 Managing Director and Managing Executive Officer, Sumitomo Bank
Jan. 2001 Senior Managing Director and Senior Managing Executive Officer, Sumitomo Bank
Apr. 2001 Senior Managing Director and Senior Managing Executive Officer, Sumitomo Mitsui Banking Corporation
Dec. 2002 Senior Managing Director, Sumitomo Mitsui Financial Group, Inc.
Jun. 2003 Deputy President and Executive Officer, Sumitomo Mitsui Banking Corporation
Jun. 2005 Chairman of the Board, Sumitomo Mitsui Financial Group, Inc. (current), and President and Chief Executive Officer, Sumitomo Mitsui Banking Corporation
Mar. 2014 Member of the Board, Kao Corporation (current)

Executive Officers

Michitaka Sawada
President and Chief Executive Officer

Responsible for Product Quality Management

Toshiharu Numata
Senior Managing Executive Officer

President, Consumer Products and Chemical Business, China
Chairman of the Board and Chief Executive Officer, Kao (China) Holding Co., Ltd.
Chairman of the Board, Kao Commercial (Shanghai) Co., Ltd.
Chairman of the Board, Kanebo Cosmetics (China) Co., Ltd.

Katsuhiko Yoshida
Managing Executive Officer

President, Consumer Products, Global
Responsible for Kao Professional Services Co., Ltd.

Toshiaki Takeuchi
Managing Executive Officer

Representative Director, President and Chief Executive Officer, Kao Customer Marketing Co., Ltd.

Masumi Natsusaka
Managing Executive Officer

Responsible for Beauty Care Business
President, Beauty Care Cosmetics Business Unit, Global
President, Kanebo Cosmetics Inc.

Yoshinori Takema
Managing Executive Officer

Senior Vice President, Research and Development, Global
Responsible for TCR Promotion

Motohiro Morimura
Managing Executive Officer

Senior Vice President, Production and Engineering, Global
Vice President, Plant Management, Wakayama Plant
Vice President, Engineering, Global
Senior Vice President, Environment and Safety Management, Global
Responsible for Logistics

Shinichiro Hiramine
Senior Vice President, Corporate Communications, Global

Shigeru Koshiba
Senior Vice President, Corporate Strategy, Global

Takuji Yasukawa
President, Human Health Care Business Unit - Food and Beverage Business Group, Global

Yasushi Aoki
Senior Vice President, Human Capital Development, Global
Representative Director, Chairman of the Board, Senior Executive Officer, Senior Vice President, Human Resources and Administration, Kanebo Cosmetics Inc.
President, Kao Group Corporate Pension Fund
President, Kao Health Insurance

Naohisa Kure
Vice President, Strategy Research, Global

Hideko Aoki
Senior Vice President, Product Quality Management, Global

Audit & Supervisory Board Members

*** Outside Audit & Supervisory Board Member

Takayuki Ishige

Full-time Audit & Supervisory Board Member

Apr. 1978 Joined the Company
Jan. 2003 Senior Manager - International, Global Internal Audit
Sep. 2006 Vice President, Global Internal Audit
Jun. 2011 Full-time Audit & Supervisory Board Member (current)

Shoji Kobayashi

Full-time Audit & Supervisory Board Member

Apr. 1979 Joined the Company
Jun. 2006 Executive Officer
Apr. 2007 Vice President, Chemical Business Unit, Global
Jun. 2010 President, Chemical Business Unit, Global
Mar. 2013 Full-time Audit & Supervisory Board Member (current)

Teruo Suzuki***

Audit & Supervisory Board Member,
Certified Public Accountant

Aug. 1978 Registered as Certified Public Accountant
Jan. 2004 Partner, KPMG AZSA LLC
Jun. 2012 Audit & Supervisory Board Member, Kao Corporation (current)

Norio Igarashi***

Audit & Supervisory Board Member,
Certified Public Accountant,
Professor, Yokohama National University

Apr. 1977 Registered as Certified Public Accountant
Jul. 1988 Partner, Aoyama Audit Corporation and Price Waterhouse
Apr. 2007 Professor, Graduate School of International Social Sciences, Yokohama National University (current)
Mar. 2013 Audit & Supervisory Board Member, Kao Corporation (current)

Yumiko Waseda***

Audit & Supervisory Board Member
Attorney-at-Law

Apr. 1985 Registered as an attorney-at-law
Joined Masayuki Matsuda Law & Patent Offices (now Mori Hamada & Matsumoto, a law firm)
Apr. 2013 Joined Tokyo Roppongi Law & Patent Offices
Jan. 2014 Partner, Tokyo Roppongi Law & Patent Offices (current)
Mar. 2014 Audit & Supervisory Board Member, Kao Corporation (current)

Minoru Utsumi
Vice President, Production and Engineering - Beauty Care Supply Chain Management, Global
Vice President, Supply Chain Management Strategy and Planning, Global
Vice President, Plant Management, Tokyo Plant

Yoshimichi Saita
Senior Vice President, Media Planning and Management, Global

Kenji Miyawaki
Senior Vice President, Marketing Research and Development, Global

Kazuyoshi Aoki
Senior Vice President, Accounting and Finance, Global
Responsible for EVA Promotion

Tadaaki Sugiyama
Senior Vice President, Legal and Compliance, Global
Responsible for Information Systems

Masakazu Negoro
President, Chemical Business Unit, Global
Chairman of the Board, Fatty Chemical (Malaysia) Sdn. Bhd.
Chairman of the Board, Pilipinas Kao, Inc.
Presidente, Kao Chemicals Europe, S.L.

Kozo Saito
President, Consumer Products, Asia, Americas and EMEA
Chairman of the Board, Kao USA Inc.

Hideki Tanaka
Senior Vice President, Procurement, Global

Takehiko Shinto
Representative Director, Executive Vice President, Kao Customer Marketing Co., Ltd.

Jun Shida
Vice President, Development Research – Health Care/Household/Chemicals, Global

Yasushi Wada
Vice President, Plant Management, Kawasaki Plant
Vice President, Beauty Care Supply Chain Management – Skin Care/Hair Care, Global

Tomoharu Matsuda
President, Beauty Care Skin Care/Hair Care Business Unit, Global

Yoshihiro Hasebe
Vice President, Research and Development, Global
Vice President, Core Technology, Global

Kao at a Glance

Business Segment Sales

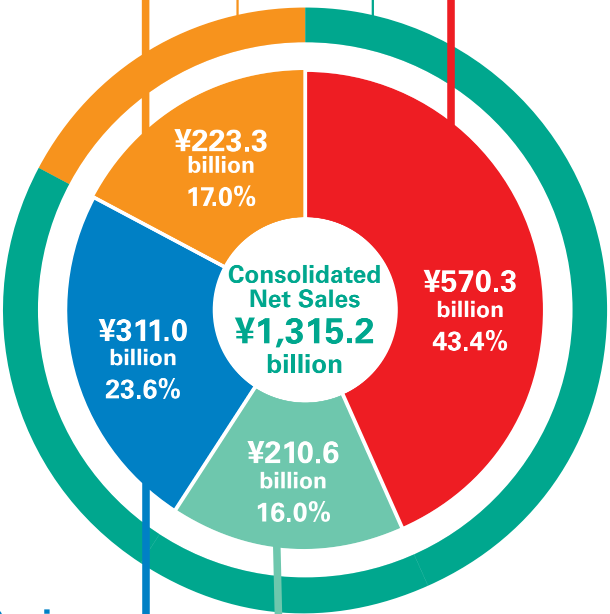
(Year ended December 31, 2013)

Chemical Business Breakdown by Region

	(Billions of yen)
	223.3
Japan	125.6
Asia	86.8
Americas	39.9
Europe	62.3
Eliminations	(91.2)

Consumer Products Business Breakdown by Region

	(Billions of yen)
	1,091.9
Japan	866.4
Asia	116.4
Americas	68.9
Europe	72.1
Eliminations	(32.0)



Chemical Business

Meeting diverse needs of global customers

Kao Chemicals offers a broad variety of chemical products globally, including oleo chemicals manufactured from natural fats and oils, surfactants, toners and toner binders, and fragrances and aroma chemicals.

Beauty Care Business

Responding to people's desire to be beautiful

In order to allow all consumers to achieve their own unique beauty with leading technologies, Kao Beauty Care offers products including cosmetics, skin care such as facial and body cleansers, and hair care such as shampoos and conditioners.

Fabric and Home Care Business

Enabling cleaner and more comfortable lives every day

Kao Fabric and Home Care offers fabric care products such as laundry detergents and fabric softener, as well as home care products such as dishwashing detergents and kitchen cleaners, that are designed for quality, functionality and ease of use in order to help consumers enjoy a clean and comfortable lifestyle.

Human Health Care Business

Making every day of people's lives more comfortable and healthier

Kao Human Health Care offers products that help consumers to live healthy and comfortable lives, including sanitary products with unique proprietary technologies, functional health beverages with new performance values, and other products such as toothpaste and bath additives.

- Figures in the graph represent net sales to outside customers only.
- Net sales by region are classified based on the location of Kao Group companies.
- Eliminations represent interregion sales.

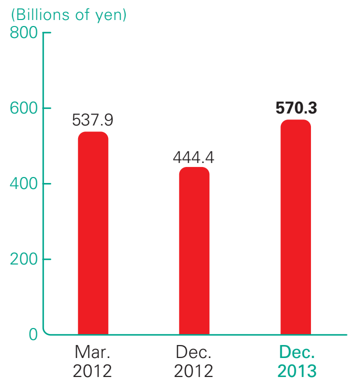
(Year ended March 31, 2012, period ended December 31, 2012 and year ended December 31, 2013)

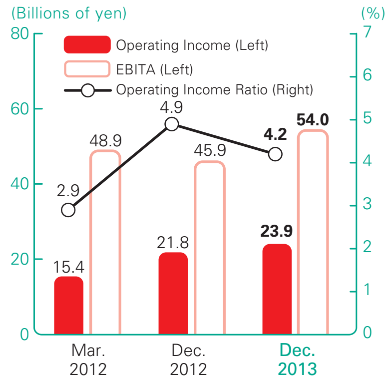
Net Sales

Operating Income / EBITA* Operating Income Ratio

Consumer Products Business

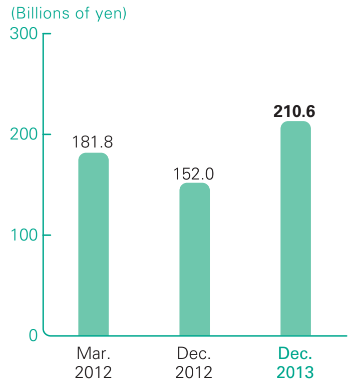
Beauty Care Business

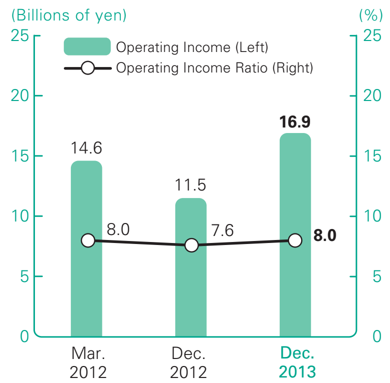




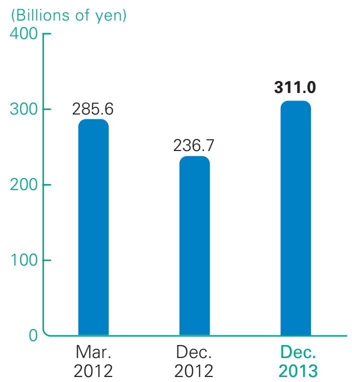
* EBITA (Earnings before interest, taxes and amortization) is operating income before amortization of goodwill and other items related to acquisitions.

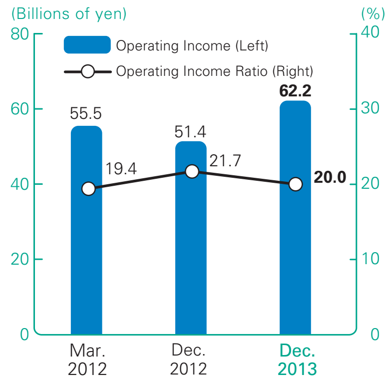
Human Health Care Business





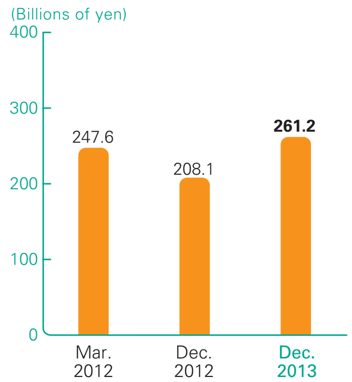
Fabric and Home Care Business



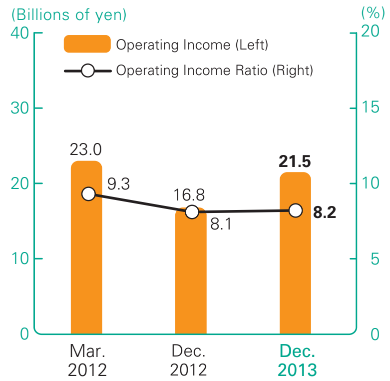


Chemical Business

Chemical Business



Note: Net sales include intersegment sales.



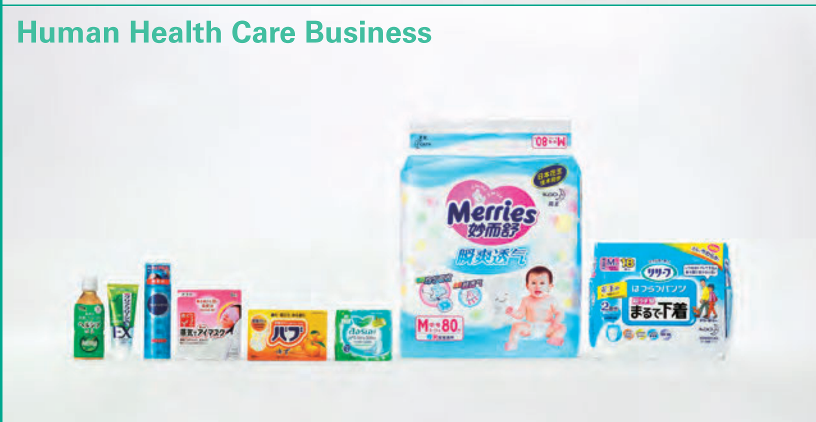
Consumer Products Business

Representative Products	Mid-Term Strategies

Beauty Care Business

- Accelerate growth through integrated global business operations.
- Attain profitable growth utilizing value-added technologies in targeted market segments.
- Aim for top-line growth in the mass market through differentiation in quality and cost.

Human Health Care Business



- Promote expansion of sanitary products in Asia based on recognition of Japanese quality.
- In Japan, work to add value to existing products in response to market changes and create new product categories.

Fabric and Home Care Business

- In Japan, propose a new way to do laundry for busy people with an ultra-concentrated liquid detergent that achieves amazing whiteness even with a reduced-time washing function.
- In China and other Asian countries where the liquid laundry detergent market is expanding, launch, nurture and strengthen new products with Kao's unique technology to meet local needs and surpass market growth.

Chemical Business

Chemical Business

- Develop and strengthen eco-friendly materials and products that will contribute to sustainability.
- Enhance information-related products to complement the evolving IT industry.

Management Foundation

The Kao Group is working to enhance the management foundation that supports its business activities to become a company with a global presence that achieves both profitable growth and sustained contributions to society.

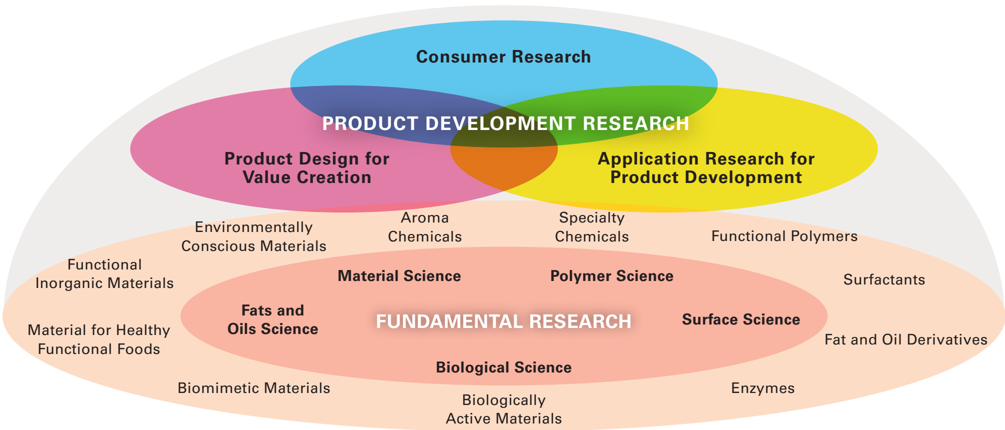
Research and Development

Research and Development Strategy

Kao's mission is to strive for the wholehearted satisfaction and enrichment of the lives of people globally and to contribute to the sustainability of the world, with products and brands of excellent value that are created from the consumer's and customer's perspective. Based on this mission, Kao's research and development division combines original ideas with an understanding of the various cultures and needs of consumers in diverse countries and regions to develop innovative products and technologies that create new value and new markets.

Approximately 2,800 Kao Group personnel conduct research and development, and R&D expenditures for the entire Kao Group in the fiscal year ended December 31, 2013 were ¥49.7 billion, equivalent to 3.8% of net sales.

Creating Innovative Products through the Integration of Science and Technology

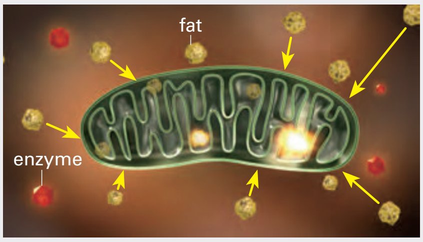


Topics The Function of Coffee Chlorogenic Acid in Body Fat Utilization

In recent years, numerous epidemiological studies covering tens of thousands of subjects have reported the efficacy of coffee against diseases such as diabetes and arteriosclerotic disease. This led Kao to focus on the polyphenol "chlorogenic acids" in coffee beans and to start work on verifying their health benefits.

Mitochondria are energy-producing structures in liver and muscle cells and are closely related to fat utilization in the body. Enzymes in mitochondria burn fats and convert them to energy.

Kao found that coffee chlorogenic acid stimulates uptake of fats into mitochondria and enhances their ability to burn fats, thus reducing body fat. The fat-burning effects were observed not only in dietary fat from meals, but also in accumulated body fat.



Coffee chlorogenic acid enhances fat utilization in mitochondria

Japan's Consumer Affairs Agency confirmed the positive effects on body fat from the underlying mechanism of fat utilization by chlorogenic acids, and approved their labeling as a Food for Specified Health Uses suitable for people who are concerned about body fat. After intensive research, Kao launched *Healthya Coffee* in 2013 as a method of promoting body fat utilization that offers both health benefits and great taste.

Main R&D Results by Business Segment

Consumer Products Business

● Beauty Care Business

Kao conducts research for a deep understanding of the true nature of the skin and hair of people around the world and develops materials and formulations that give rise to new functions. By doing so, we aim to help consumers achieve healthy, beautiful skin and hair and to offer beauty proposals tailored to diverse lifestyles.

To strengthen the cosmetics business and fully guarantee safety and reliability, we integrated the safety and analytical research functions of Kao and Kanebo Cosmetics in September 2013 to thoroughly inculcate *Yoki-Monozukuri*.

In hair care, we launched *Segreta* volumizing shampoo, which expertly combines ingredients with a styling effect in a product that volumizes thin hair without requiring a conditioner in Japan.

R&D expenditures in this business totaled ¥20.0 billion.

● Human Health Care Business

Kao researches the body, both physically and mentally, to improve the quality of life by making the most of people's natural vitality.

In food and beverages, as the result of years of research into polyphenols, we launched *Healthya Coffee*. This coffee drink, which contains a high level of polyphenol "chlorogenic acids," is the first to be approved as a Food for Specified Health Uses due to its effect of promoting body fat utilization. The product proposes a new style of health care to control body fat through everyday coffee consumption.

R&D expenditures in this business totaled ¥11.6 billion.

● Fabric and Home Care Business

Kao's research and development spans a wide range of fields from household products that meet diverse needs to products for professional use where a high level of cleanliness and hygiene is required. In fabric care, we launched *Ultra Attack Neo* ultra-concentrated liquid laundry detergent. The product uses "ultra anions," a next-generation cleaning ingredient developed over years of surfactant research, to offer full cleaning power even when used in machines with a reduced-time washing function.

R&D expenditures in this business totaled ¥7.4 billion.

Chemical Business

In this business, Kao's research and development strives for more substantive R&D results in areas including oils and fats, surfactants and polymers to produce chemical products distinguished by their ability to meet diverse needs in a wide range of industries.

In oleo chemicals, we are developing catalysts and process technology for fatty alcohols and tertiary amines.

In performance chemicals, we are developing value-added products with a reduced environmental burden. We are also working in areas such as the development of a molding agent that helps to reduce waste and energy consumption.

In specialty chemicals, development efforts include raising the ratio of bio-ingredients in our toner binder.

R&D expenditures in this business totaled ¥10.7 billion.

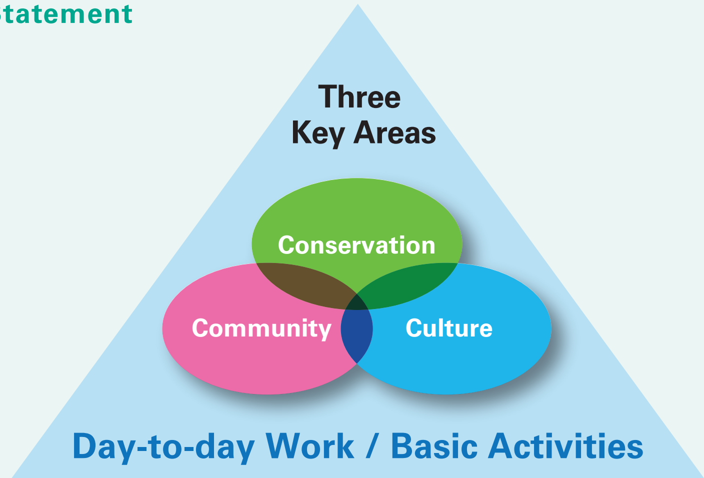
Kao Sustainability Statement

Formulation and Background

Based on its corporate philosophy, the Kao Way, the Kao Group contributes to realizing a sustainable society by working to find solutions to social issues through *Yoki-Monozukuri* tailored to the needs of the times and the community.

On July 1, 2013, we announced the Kao Sustainability Statement to share with stakeholders inside and outside the Kao Group our policy for achieving both corporate growth and a sustainable society as our business expands globally. With this statement as our point of reference, the Kao Group proactively seeks the trust and support of its stakeholders, aiming to enhance its contributions to a sustainable society.

Kao Sustainability Statement



Three Key Areas and Target Fields

To grow its business responsibly and sustainably, the Kao Group will focus its efforts on the three key areas of Conservation, Community and Culture. These were chosen for their compatibility with the mid-term plan and the Kao Group's corporate resources as well as their importance for resolving social issues.

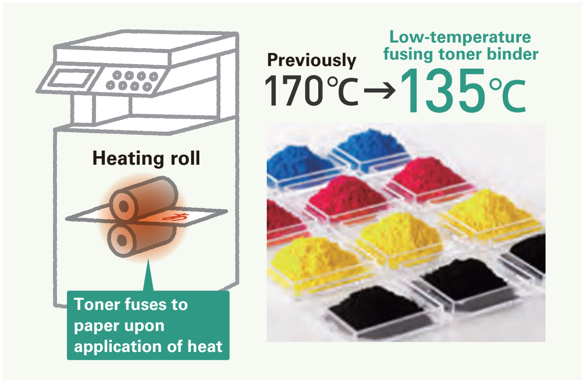
	Conservation	Community	Culture
Fields	Reducing environmental impacts of our business activities	Engaging with communities through business	Integrity
	Environmental activities in partnership with stakeholders	Engaging with local communities through partnerships	Diversity and Inclusion

Main Activities in the Three Key Areas

Conservation

Saving Energy with Low-Temperature Fusing Toner Binder

Kao is improving the environmental efficiency of its chemical products, helping customers conserve energy and reduce CO_2 emissions simply by using these products. One example is the low-temperature fusing toner binder used in photocopiers and printers. Approximately 70 percent of the energy expended by photocopiers and printers occurs during heat treatment fusing toner to paper. Kao developed a toner binder accomplishing the same task at a lower temperature, greatly cutting power consumption for customers during product use.



Community

Better Lives with the Habit of Hand Washing

Kao Commercial (Thailand) Co., Ltd. is working to reduce the risk of infectious diseases in tropical areas.

After the major floods in Bangkok in 2011, the company distributed *Bioré Foaming Hand Wash* to children in kindergartens and elementary schools to help them understand the importance of washing their hands. These and similar activities helped to raise awareness that using cleansers leads to a better life.

In 2013, the company used "edutainment"* to teach an effective hand-washing method at a total of ten schools. Children passed on what they learned to their families, spreading the habit of hand washing. In this way the company contributes to improving hygiene.

* Education through entertainment

Teaching children in Thailand how to wash hands effectively

Culture

Celebrating Women's Radiance

Harvesting and processing of the shea nut, which is the main ingredient in *Jergens Shea Butter* from Kao USA Inc., is done completely by women in West Africa. The income they earn empowers them to make financial decisions to support their families. By procuring the shea nut from various locations, Kao helps to uplift these women's lives as it strives for sustainable sourcing practices.

In addition, Kao donates to the Global Shea Alliance, an organization committed to the education and empowerment of the more than 16 million women who collect and process the shea nut across Africa.

African women harvesting shea (above) and *Jergens* products in limited edition packaging (left)

Corporate Governance

Basic Position on Corporate Governance and Current Structure

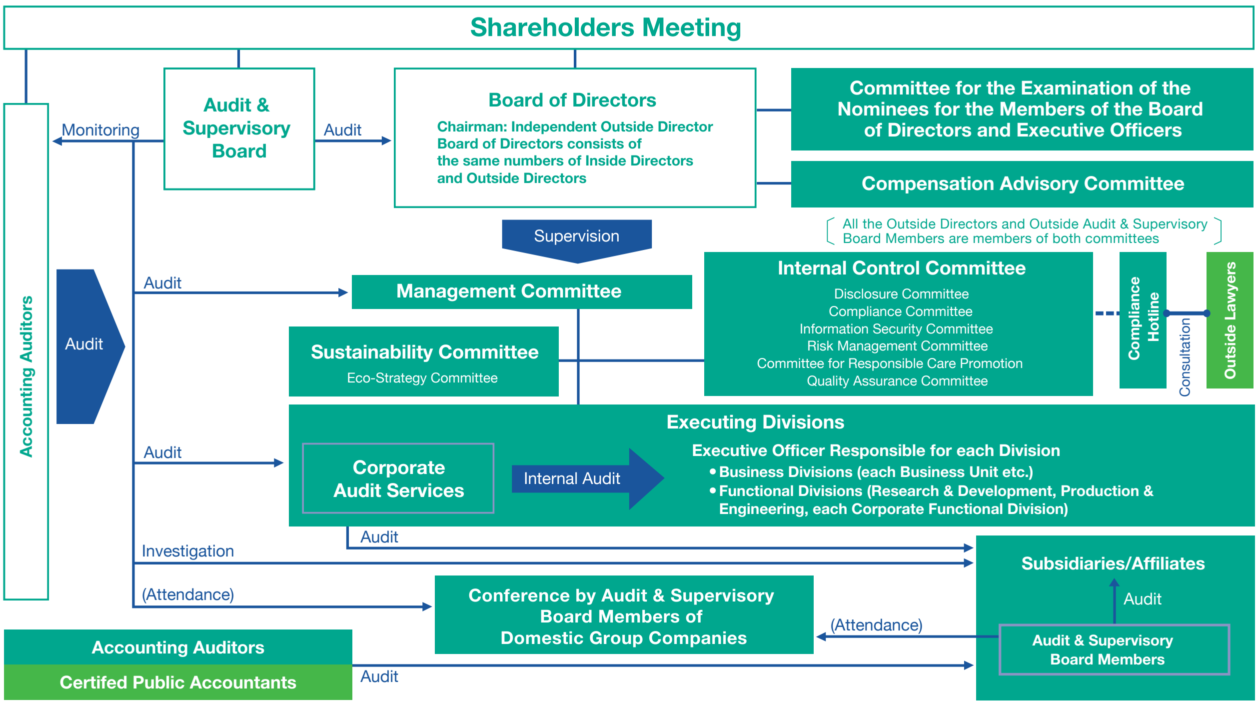
The Company's basic position on corporate governance is to establish and operate a management system and an internal control system that can realize speedy, highly efficient, sound and transparent management with the aim of continuously enhancing corporate value. The Company considers corporate governance to be one of its most important management issues. The Company conducts annual reviews of these management issues and implements appropriate measures while integrating social trends and responding to the requests of shareholders and all other stakeholders. In line with this basic position, the Company has introduced an Executive Officer system as a structure to promote the separation of supervision and execution within the governance framework of a Board of Directors, half of which is composed of Outside Directors, and an Audit & Supervisory Board, more than half of which is composed of Outside Audit & Supervisory Board Members.

As of March 28, 2014

		Inside	Outside**	Term
Members Attending Board of Directors Meetings***	Directors	3	3	1 year
	Audit & Supervisory Board Members	2	3	4 years
Executive Officers		26*	—	1 year

* Includes the three Directors from inside the Company listed above.
** The Company has submitted five of the six Outside Directors/Audit & Supervisory Board Members to the Tokyo Stock Exchange, Inc. as Independent Directors/Audit & Supervisory Board Members who maintain their neutrality independent from management.
*** The position of chairman of the Board of Directors is held by an Independent Outside Director.

Corporate Governance Structure



Note: Our policy is to ask lawyers and other experts, as necessary, when making business decisions concerning business management and daily operations.

Message from the New Chairman of the Board of Directors, Independent Outside Director Sonosuke Kadonaga

Sonosuke Kadonaga
Chairman of the Board of Directors
Independent Outside Director

At Kao, I believe Board meetings have been managed well, maintaining transparency and making good corporate governance possible. The Board has been composed of seven Inside Directors, three Outside Directors, including myself, and five Audit and Supervisory Board Members, including three from outside. The chairman has been the former President and CEO, serving as a Director but not concurrently as an Executive Officer.

As a result of the most recent change in the composition of the Board, the number of Inside and Outside Directors has become equal. I think this change will lead to even better corporate governance because it helps to provide more objective views in making decisions. I, as an Outside Director, will chair the discussions.

As I am not involved in day-to-day execution, I plan to attend key internal meetings as an observer to deepen my understanding of the issues before chairing discussions at the Board meetings. I will effectively lead the discussions at Board meetings, maintaining objectivity and keeping in mind the Kao Way, which I value above all.

Organizations Supporting the Corporate Governance Structure

As organizations supporting its corporate governance structure, the Company has established the Advisory Committee for Member of the Board of Directors and Executive Officer Compensation, the Committee for the Examination of the Nominees for the Members of the Board of Directors and Executive Officers, and the Audit & Supervisory Board, which fulfill functions similar to the compensation committee, nominating committee and audit committee of a "company with committees."

The Advisory Committee for Member of the Board of Directors and Executive Officer Compensation consists of the chairman of the Board of Directors, all Representative Directors, all Outside Directors and all Outside Audit & Supervisory Board Members. This committee meets at least once a year during the remuneration revision period to examine and evaluate the appropriateness of the remuneration system and the level of remuneration for the members of the Board of Directors and Executive Officers. The results of the examination and evaluation are reported at a meeting of the Board of Directors.

The Committee for the Examination of the Nominees for the Members of the Board of Directors and Executive Officers consists exclusively of all Outside Directors and all Outside Audit & Supervisory Board Members. This committee examines potential candidates for Members of the Board of Directors and Executive Officers and the management and execution structure, including the presidency and other positions, and proposes candidates at a meeting of the Board of Directors.

The Audit & Supervisory Board is an organization recognized by the Corporation Law of Japan. It audits the execution by Directors and the structure for supervision of this execution, and consists of five members, three of whom are Outside Audit & Supervisory Board Members who ensure independence from management. The Audit & Supervisory Board Members attend meetings of the Board of Directors and other important meetings with the authority to enjoin illegal practices by Directors.

Compliance and Risk Management

Compliance

Policy

Kao upholds the principle of "Integrity," passed down from the Company's founder, as one of the "Values" of its corporate philosophy, the "Kao Way." "Integrity" means to behave lawfully and ethically, and to conduct fair and honest business activities.

To implement "Integrity" in daily operations, Kao has set three targets for spreading and establishing compliance on a global level: (1) enactment and review of the Kao Business Conduct Guidelines (BCG) and compliance-related policies; (2) maintenance and operation of compliance hotlines for early detection and resolution of possible legal or ethical violations and other issues; and (3) implementation of educational activities to promote each employee's understanding of the BCG.

Revision of the BCG

Society's expectations of a company's role evolve in line with society's changing views on sustainability. In response to these changes, Kao's Compliance Committee annually re-examines the contents of the BCG, which sets forth the Company's stance regarding interactions with government officials, corporate entertaining and gift-giving, political donations, and other compliance-related policies. The most recent revision of the BCG was made in July 2013.

The revision made clear Kao's strong stance on preventing bribery. In addition to specifying that employees shall not offer or accept bribes, regardless of whether the person accepting the bribe is a government official, a private company or an individual, the revision also prohibits "facilitation payments," which are small payments to government officials to speed up routine non-discretionary government actions.

Based on the above revision, the Compliance Committee created a global template for preparing Anti-Bribery Guidelines at each Kao Group company. The template features a strong anti-bribery stance, which will be common to all Anti-Bribery Guidelines, and entertainment rules and operating procedures, which can be modified to fit the circumstances of each Kao Group company.

Risk Management

In order to practice *Yoki-Monozukuri* as stated in the Kao Way, we should visualize the various risks pertaining to business activities and implement measures to minimize their frequency and influence. Meanwhile, we must be prepared at all times to minimize damage and loss in the event that such risk becomes a reality. Kao conducts risk management activities with this in mind, administering measures according to its understanding and prioritization of each risk.

During the fiscal year ended December 31, 2013, we examined risks that could have a serious negative impact on *Yoki-Monozukuri* and the business continuity of the Kao Group. In addition, we evaluated our measures to date and worked to reduce the negative impact from risks by addressing issues that became apparent.

Moreover, as our business becomes more global, events that necessitate an immediate response are complex and wide-ranging, and precise handling is required. Consequently, we upgraded and enhanced our system to deal with emergencies globally.

Financial Section

11-Year Summary

Kao Corporation and Consolidated Subsidiaries

Years ended December 31, 2013 and 2012, period ended December 31, 2012, and years ended March 31, 2012 to 2004.	Millions of yen			
	Dec. 2013	Dec. 2012 (Restated)	Dec. 2012	Mar. 2012
For the year:				
Net sales	¥1,315,217	¥1,220,359	¥1,012,595	¥1,216,096
Business Segments				
Beauty Care Business	570,268	537,814	444,425	537,938
Human Health Care Business	210,628	189,614	151,977	181,758
Fabric and Home Care Business	311,023	291,988	236,748	285,645
Consumer Products Business	1,091,919	1,019,416	833,150	1,005,341
Chemical Business	261,192	236,473	208,071	247,635
Eliminations	(37,894)	(35,530)	(28,626)	(36,880)
Former Segments				
Consumer Products	—	—	—	—
Prestige Cosmetics	—	—	—	—
Chemical Products	—	—	—	—
Eliminations	—	—	—	—
Geographic Area				
Japan	959,405	933,767	720,789	925,339
Asia	199,655	160,005	159,857	—
Asia and Oceania	—	—	—	173,588
Americas	108,599	89,998	89,998	—
North America	—	—	—	85,397
Europe	134,168	110,519	110,519	117,005
Eliminations	(86,610)	(73,930)	(68,568)	(85,233)
Operating income	124,656	111,791	101,567	108,590
Net income	64,764	53,107	52,765	52,435
Capital expenditures	63,687	—	41,929	47,178
Depreciation and amortization	77,297	—	59,788	79,798
Cash flows	109,497	—	80,200	101,960
Research and development expenditures	49,650	—	37,493	48,171
(% of sales)	3.8%	—	3.7%	4.0%
Advertising expenditures	86,406	—	67,045	82,209
(% of sales)	6.6%	—	6.6%	6.8%
At year end:				
Total assets	1,133,276	—	1,030,347	991,272
Net worth	628,709	—	582,699	538,030
Number of employees	33,054	—	33,350	34,069
	Yen			
Per share:				
Net income	¥ 126.03	¥101.77	¥ 101.12	¥ 100.46
Cash dividends	64.00	—	62.00	60.00
Net worth	1,227.54	—	1,116.61	1,031.08
Weighted average number of shares outstanding during the period (in thousands)	513,880	—	521,824	521,936
	%			
Key financial ratios:				
Return on sales	4.9%	4.4%	5.2%	4.3%
Return on equity	10.7	9.5	9.4	9.8
Net worth ratio	55.5	—	56.6	54.3

Notes:
1. Due to a change in the fiscal year end, the term of consolidation for the fiscal period ended December 31, 2012 consists of the nine months from April to December for Kao Corporation and its subsidiaries whose fiscal year end was previously March 31 and the twelve months from January to December for subsidiaries whose fiscal year end was December 31.
2. December 2012 (restated) represents figures for the year from January 1 to December 31, 2012, for Kao Group companies whose fiscal year end was previously March 31.
3. Australia and New Zealand, which had been included in Asia and Oceania until the fiscal year ended March 31, 2012, have been reclassified under Americas from the fiscal period ended December 31, 2012.
4. 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 segments. Figures for March 2007 have been restated to reflect the change.
5. Net sales by segment include intersegment sales. Under the former segments, net sales of Chemical Products include intersegment sales to Consumer Products and Prestige Cosmetics. Under the current 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.

Millions of yen							
Mar. 2011	Mar. 2010	Mar. 2009	Mar. 2008	Mar. 2007	Mar. 2006	Mar. 2005	Mar. 2004
¥1,186,831	¥1,184,385	¥1,276,316	¥1,318,514	¥1,231,808	¥ 971,230	¥936,851	¥902,628
533,514	547,944	588,330	627,914	584,284	—	—	—
175,761	183,151	191,319	191,300	183,608	—	—	—
279,008	276,918	274,202	274,657	269,519	—	—	—
988,283	1,008,013	1,053,851	1,093,871	1,037,411	—	—	—
231,997	207,834	262,058	258,674	223,609	—	—	—
(33,449)	(31,462)	(39,593)	(34,031)	(29,212)	—	—	—
—	—	—	—	744,748	704,034	690,007	670,438
—	—	—	—	292,663	85,247	78,294	77,648
—	—	—	—	223,609	208,890	196,989	181,621
—	—	—	—	(29,212)	(26,941)	(28,439)	(27,079)
912,443	918,499	953,369	968,594	924,196	708,056	703,085	673,657
—	—	—	—	—	—	—	—
152,361	131,699	161,927	158,295	125,989	110,898	100,282	101,452
—	—	—	—	—	—	—	—
80,328	79,200	98,999	111,017	106,731	95,168	83,638	79,907
112,123	111,158	140,623	154,648	135,918	109,486	93,804	84,899
(70,424)	(56,171)	(78,602)	(74,040)	(61,026)	(52,378)	(43,958)	(37,287)
104,591	94,034	96,800	116,253	120,858	120,135	121,379	119,706
46,738	40,507	64,463	66,562	70,528	71,140	72,180	65,359
49,101	44,868	44,624	49,045	70,143	203,595	54,318	51,823
81,380	84,778	87,463	93,444	92,171	60,758	56,794	58,166
97,028	95,269	122,441	131,114	134,906	107,943	109,704	106,430
45,516	44,911	46,126	45,070	44,389	40,262	39,764	38,506
3.8%	3.8%	3.6%	3.4%	3.6%	4.1%	4.2%	4.3%
81,082	86,359	90,258	99,176	96,892	83,770	84,157	82,773
6.8%	7.3%	7.1%	7.5%	7.9%	8.6%	9.0%	9.2%
1,022,799	1,065,751	1,119,676	1,232,601	1,247,797	1,220,564	688,974	723,891
528,895	565,133	545,230	574,038	564,532	509,676	448,249	427,757
34,743	34,913	33,745	32,900	32,175	29,908	19,143	19,330
Yen							
¥ 87.69	¥ 75.57	¥ 120.25	¥ 122.53	¥ 129.41	¥130.58	¥131.16	¥119.06
58.00	57.00	56.00	54.00	52.00	50.00	38.00	32.00
1,013.05	1,054.31	1,017.19	1,070.67	1,035.66	935.11	821.47	782.14
532,980	536,009	536,085	543,228	544,996	544,127	549,626	547,865
%							
3.9%	3.4%	5.1%	5.0%	5.7%	7.3%	7.7%	7.2%
8.5	7.3	11.5	11.7	13.1	14.9	16.5	15.5
51.7	53.0	48.7	46.6	45.2	41.8	65.1	59.1

6. 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 ended December 31, are included for the eleven months starting in February 2006, after the company was added to the Kao Group.
7. Net sales by geographic area including interregion sales are classified based on the location of Kao Group companies.
8. Cash flows are defined as net income plus depreciation and amortization minus cash dividends.
9. Net income per share is computed based on the weighted average number of shares outstanding during the respective years. 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.
10. Cash dividends per share are the amounts applicable to the respective years, including dividends to be paid after the end of the year.
11. Net worth is equity, excluding minority interests and stock acquisition rights.
12. In calculating return on equity, equity excludes minority interests and stock acquisition rights.

Management Discussion and Analysis

Change in Fiscal Year

Due to a change in the fiscal year end, the term of consolidation for the fiscal period ended December 31, 2012 consisted of the nine months from April to December for Kao Corporation (the "Company") and its subsidiaries whose fiscal year end was previously March 31 and the twelve months from January to December for subsidiaries whose fiscal year end was December 31. Accordingly, for ease of comparison with the fiscal year ended December 31, 2013 (January 1 to December 31, 2013), figures for the previous fiscal period are presented for the equivalent period (January 1 to December 31, 2012) as "restated fiscal 2012."

Overview of Consolidated Results

During the fiscal year ended December 31, 2013, a weak recovery of the overall global economy continued. As the tempo of economic expansion moderated in emerging nations, the United States showed a recovery trend and signs of an upturn became evident in Europe, although weakness persisted. The Japanese economy gradually recovered as personal consumption picked up due to a sense of expectation regarding government economic measures. The household and personal care products market in Japan, a key market for the Kao Group, grew by 2 percent on a value basis compared with the period from January to December 2012, and a sense emerged that the decline in consumer purchase prices had bottomed out. The cosmetics market in Japan declined.

Under these circumstances, the Kao Group worked to launch and nurture products with high added value in response to changes in consumer needs based on its concept of *Yoki-Monozukuri*,* which emphasizes research and development geared to customers and consumers. The Kao Group also promoted cost reduction activities.

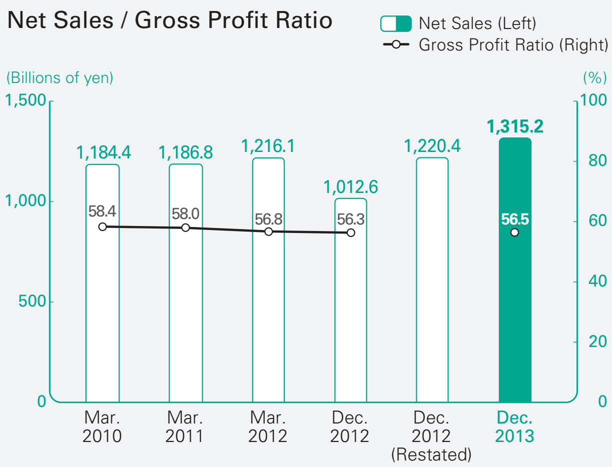
Kanebo Cosmetics Inc., Lissage Ltd. and e'quipe, Ltd. of the Kao Group announced a voluntary recall on July 4, 2013 due to the confirmation of cases of white blotches appearing on the skin of consumers who have used brightening products containing the ingredient Rhododenol that are manufactured and sold by the three companies because of the possibility of a connection between the symptoms and the products. In addition to conducting a thorough recall of the relevant products, the companies are working to gain an understanding of the conditions of people who are experiencing symptoms and to support their recovery. Moreover, the Kao Group is working to prevent a recurrence. A total of ¥12.1 billion (US$114.4 million) related to the voluntary recall consisted of a decrease of ¥2.4 billion (US$22.8 million) in gross profit due to factors including the deduction from net sales of goods returned from retailers and ¥9.7 billion (US$91.6 million) in expenditures, including an estimated portion recorded as loss related to cosmetics, under other expenses.

Net sales increased 7.8 percent compared with restated fiscal 2012 to ¥1,315.2 billion (US$12,479.5 million).

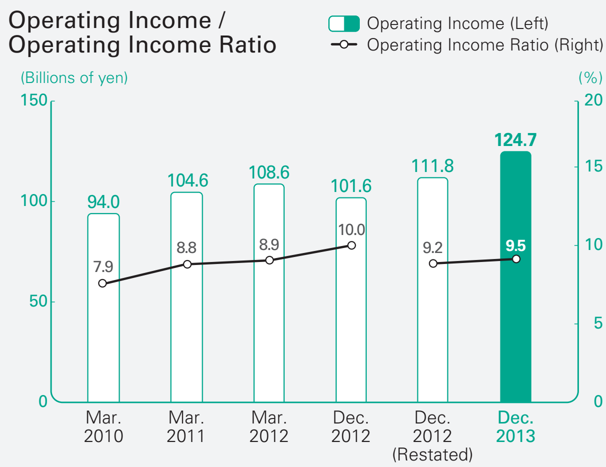
Operating income increased ¥12.9 billion compared with restated fiscal 2012 to ¥124.7 billion (US$1,182.8 million) and net income increased ¥11.7 billion compared with restated fiscal 2012 to ¥64.8 billion (US$614.5 million).

* The Kao Group defines *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," and *Monozukuri* means "development/manufacturing of products."

(Years ended March 31, 2010 to 2012, period ended December 31, 2012 and years ended December 31, 2012 and 2013)



Note: The gross profit ratio has not been disclosed for the year ended December 31, 2012.



Costs, Expenses and Income as Percentages of Net Sales

Year ended December 31, 2013, period ended December 31, 2012 and year ended March 31, 2012	Dec. 2013	Dec. 2012	Mar. 2012
Cost of sales	43.5%	43.7%	43.2%
Gross profit	56.5	56.3	56.8
Selling, general and administrative expenses	47.0	46.3	47.9
Operating income	9.5	10.0	8.9
Income before income taxes and minority interests	8.7	10.1	8.7
Net income	4.9	5.2	4.3

Analysis of Income Statement

Net sales increased 7.8 percent compared with restated fiscal 2012 to ¥1,315.2 billion (US$12,479.5 million). Excluding the effect of currency translation, net sales would have increased 2.1 percent. In the Consumer Products Business in Japan, sales of each business were steady excluding the impact of the voluntary recall, due in part to market growth, new product launches and further strengthening of sales promotion activities. In Asia, sales were strong in the Human Health Care Business, which includes sanitary products, and the Fabric and Home Care Business, which includes laundry detergents. In the Chemical Business, excluding the effect of currency translation, sales decreased compared with restated fiscal 2012 due to the impact of decreased demand from customer industries and fluctuations in selling prices in connection with lower prices for natural fats and oils used as raw materials.

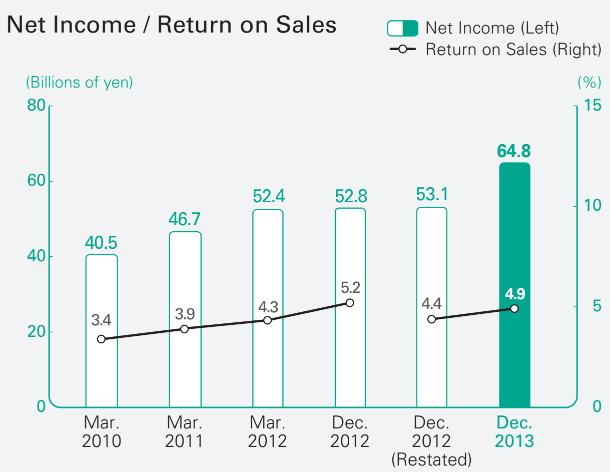
Operating income increased ¥12.9 billion compared with restated fiscal 2012 to ¥124.7 billion (US$1,182.8 million), despite recording expenses related to the voluntary recall, due to the effect of increased sales of the Consumer Products Business in Japan and Asia in addition to factors including cost reduction activities and a decrease in depreciation and amortization expenses.

Net income increased ¥11.7 billion compared with restated fiscal 2012 to ¥64.8 billion (US$614.5 million) despite recording other expenses.

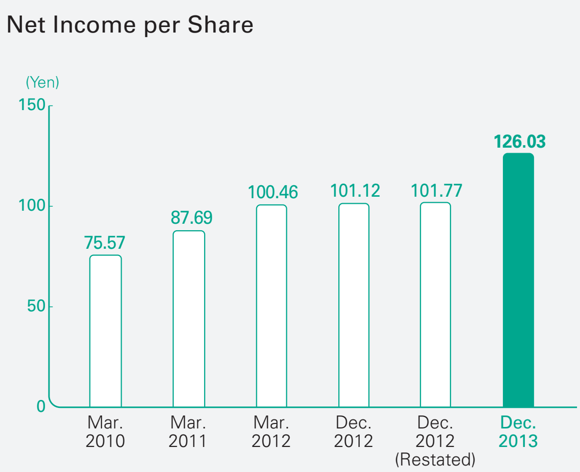
Net income per share was ¥126.03 (US$1.20), an increase of ¥24.26, or 23.8 percent, from ¥101.77 in restated fiscal 2012.

(Years ended March 31, 2010 to 2012, period ended December 31, 2012 and years ended December 31, 2012 and 2013)

Net Income / Return on Sales



Net Income per Share



Information by Segment

Consumer Products Business

Sales increased 7.1 percent compared with restated fiscal 2012 to ¥1,091.9 billion (US$10,360.7 million). Excluding the effect of currency translation, sales would have increased 2.9 percent.

In Japan, sales increased 2.8 percent compared with restated fiscal 2012 to ¥866.4 billion (US$8,220.7 million). Sales grew in a relatively stable market environment as the Kao Group launched new and improved products in response to changing consumer lifestyles and social issues such as the environment, health consciousness and the aging society, and enhanced proposal-based sales, among other measures. On the other hand, sales of Kanebo Cosmetics were impacted by returns from retailers and self-imposed cutbacks in marketing activities in connection with the voluntary recall of brightening products containing the ingredient Rhododenol.

In Asia, sales increased 33.3 percent to ¥116.4 billion (US$1,104.8 million). Excluding the effect of currency translation, sales would have increased 11.0 percent. Steady growth continued as a result of integrated management in Asia, including Japan, and the Kao Group carried out aggressive measures including collaboration with retailers, utilization of wholesale channels, and expansion of sales of laundry detergents. In China, the Kao Group launched baby diapers and laundry detergent targeting middle-class consumers.

In the Americas, sales increased 21.7 percent to ¥68.9 billion (US$653.9 million). Excluding the effect of currency translation, sales would have increased 0.5 percent. Sales of improved skin care products grew.

In Europe, sales increased 26.0 percent to ¥72.1 billion (US$684.6 million). Excluding the effect of currency translation, sales would have increased 1.0 percent. Sales of professional hair care products were steady.

Operating income increased ¥9.6 billion compared with restated fiscal 2012 to ¥103.0 billion (US$977.0 million) due to the effect of increased sales as a result of strong performance in Japan and Asia in addition to factors including a decrease in depreciation and amortization expenses and more efficient management of expenses.

Note: The Kao Group's Consumer Products Business consists of the Beauty Care Business, the Human Health Care Business, and the Fabric and Home Care Business.

Beauty Care Business

Sales increased 6.0 percent compared with restated fiscal 2012 to ¥570.3 billion (US$5,411.0 million). Excluding the effect of currency translation, sales would have increased 0.2 percent.

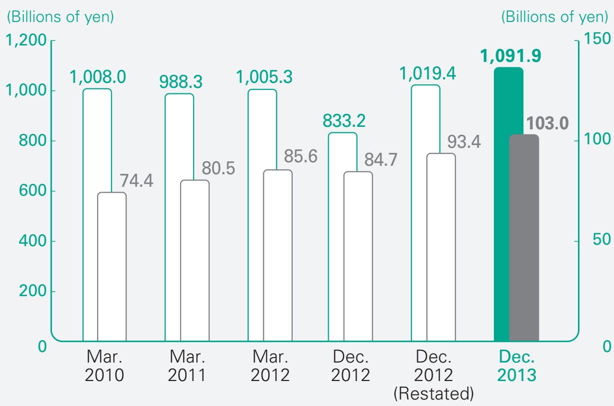
Sales of cosmetics decreased 1.1 percent compared with restated fiscal 2012 to ¥257.1 billion (US$2,439.6 million). Excluding the effect of currency translation, sales would have decreased 3.4 percent.

In Japan, sales decreased compared with restated fiscal 2012, due in part to the impact of returns from retailers and self-imposed cutbacks in marketing activities in connection with the voluntary recall of Kanebo Cosmetics brightening products containing the ingredient Rhododenol. In a contracting market, the Kao Group continued to work to reinforce focal brands, with growth in sales of counseling brands *SOFINA Primavista* base makeup and the renewed

(Years ended March 31, 2010 to 2012, period ended December 31, 2012 and years ended December 31, 2012 and 2013)

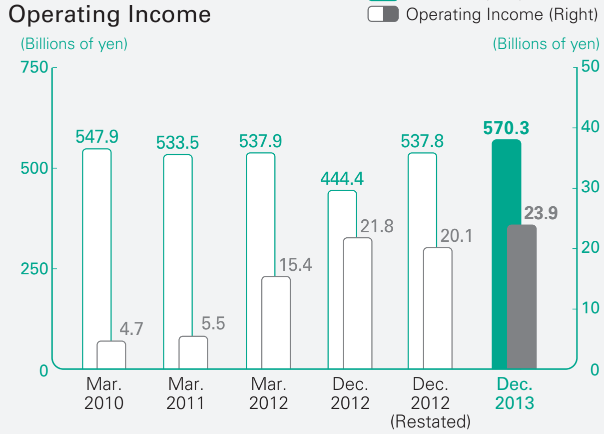
Consumer Products Business

Net Sales / Operating Income



Beauty Care Business

Net Sales / Operating Income



GRACE SOFINA skin care line, as well as self-selection brands *KATE* makeup and *Allie* UV care. Outside Japan, sales increased excluding the effect of currency translation.

Sales of skin care products increased compared with restated fiscal 2012. In Japan, sales increased with growth in sales of *Bioré* facial cleansers and UV care products and strong performance by *Bioré U* body cleanser, which added new scented offerings, and *Curél* derma care products. In Asia, *Bioré* facial and body cleansers performed strongly and sales grew. In the Americas, an improved version of *Jergens Natural Glow* sunless self-tanning hand and body lotion performed steadily.

Sales of hair care products were on par with restated fiscal 2012. In Japan, shampoos and conditioners were on a recovery track as new products performed steadily and new hair styling products performed well, but hair coloring products were impacted by market contraction. In Asia, sales decreased excluding the effect of currency translation amid severe competitive conditions. In the Americas and Europe, sales of the *Goldwell* professional hair care brand increased.

Operating income was impacted by the voluntary recall but increased ¥3.8 billion compared with restated fiscal 2012 to ¥23.9 billion (US$227.1 million), due in part to the effect of increased sales and a decrease in depreciation and amortization expenses. Operating income before amortization of goodwill and other items related to acquisitions (EBITA) increased ¥2.0 billion compared with restated fiscal 2012 to ¥54.0 billion (US$512.8 million), which is equivalent to 9.5 percent of sales.

Human Health Care Business

Sales increased 11.1 percent compared with restated fiscal 2012 to ¥210.6 billion (US$1,998.6 million). Excluding the effect of currency translation, sales would have increased 7.8 percent.

Sales of food and beverage products increased compared with restated fiscal 2012, due in part to strong sales of *Healthya Coffee*, launched in Japan in April 2013 from the *Healthya* series of functional drinks that promote body fat utilization.

Sales of sanitary products increased compared with restated fiscal 2012. In the *Laurier* brand of sanitary napkins, sales of high-value-added products such as *Laurier F*, which protects skin from dampness and chafing, increased in Japan with the effect of the launch of improved products, and sales of the *Laurier* brand increased in Asia, mainly in Indonesia and Thailand.

Sales of *Merries* baby diapers were strong in Japan and also grew in China and Russia. In China, at the beginning of the fiscal year the Kao Group began sales of locally manufactured products targeting middle-class consumers and worked to expand sales.

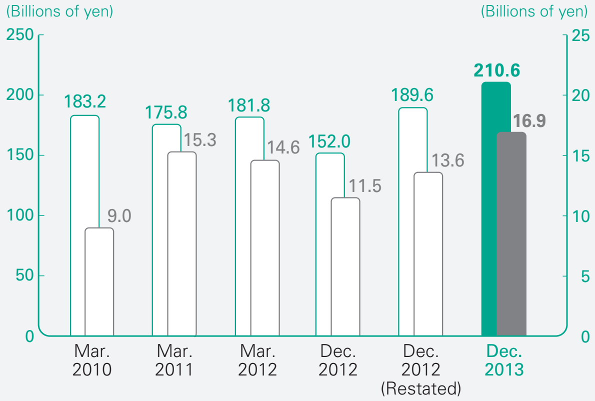
Sales of personal health products increased compared with restated fiscal 2012. Sales of oral care products increased compared with restated fiscal 2012 due in part to sales of new high-value-added products. Bath additives sold strongly and sales of *Megurhythm* steam thermo power pads also increased substantially.

Operating income increased ¥3.2 billion compared with restated fiscal 2012 to ¥16.9 billion (US$159.9 million) due to more efficient management of expenses in addition to the effect of increased sales.

(Years ended March 31, 2010 to 2012, period ended December 31, 2012 and years ended December 31, 2012 and 2013)

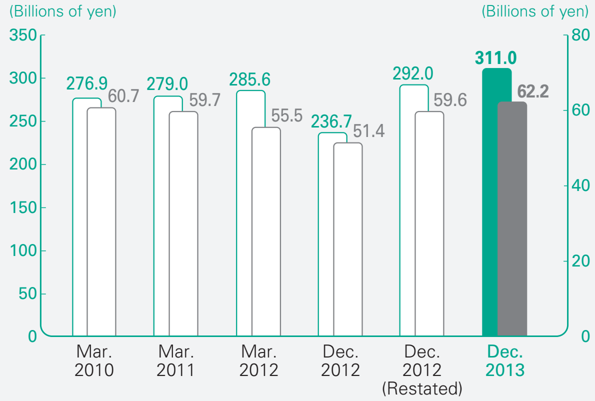
Human Health Care Business

Net Sales / Operating Income



Fabric and Home Care Business

Net Sales / Operating Income



Fabric and Home Care Business

Sales increased 6.5 percent compared with restated fiscal 2012 to ¥311.0 billion (US$2,951.2 million). Excluding the effect of currency translation, sales would have increased 4.5 percent.

Sales of fabric care products increased compared with restated fiscal 2012. In Japan, the Kao Group worked to highlight the reduced laundry time and environmental appeal of conserving water, electricity and resources with the *Neo* series, which includes *Ultra Attack Neo* ultra-concentrated liquid laundry detergent. In August 2013, the Kao Group launched *Ultra Attack Neo*, which effectively removes stains and odors in just five minutes of washing time as a proposal for use with a reduced-time washing function in response to the social trend toward an increase in two-income households, and expanded the number of users, including users of *Attack Neo Antibacterial EX Power* liquid laundry detergent, which has strong deodorizing and antibacterial properties. In addition, the Kao Group stimulated the powder laundry detergent market with the April 2013 launch of a refill product for *Attack* powder laundry detergent that reduces environmental impact. *Flair Fragrance* fabric softener and *Wide Haiter EX Power*, a fabric bleach for color garments with a powerful deodorizing function, performed well. Sales grew in Asia as *Attack* laundry detergent performed strongly in Indonesia and Thailand and the Kao Group stimulated the markets in Taiwan and Hong Kong with the launch of a liquid laundry detergent with a strengthened antibacterial function.

Sales of home care products increased compared with restated fiscal 2012. In Japan, *Kitchen Haiter* bleach performed strongly. Sales of household cleaners increased with new products such as *Bath Magiclean Aroma Deodorizer Plus* and *Toilet Magiclean Aroma Deodorizer Plus*. In addition, the Kao Group launched a 3D adsorbent dry sheet with more fibers for *Quickle Wiper* household cleaning sheets, and sales were strong.

Operating income increased ¥2.6 billion compared with restated fiscal 2012 to ¥62.2 billion (US$590.0 million) due to the effect of increased sales and cost reduction activities.

Chemical Business

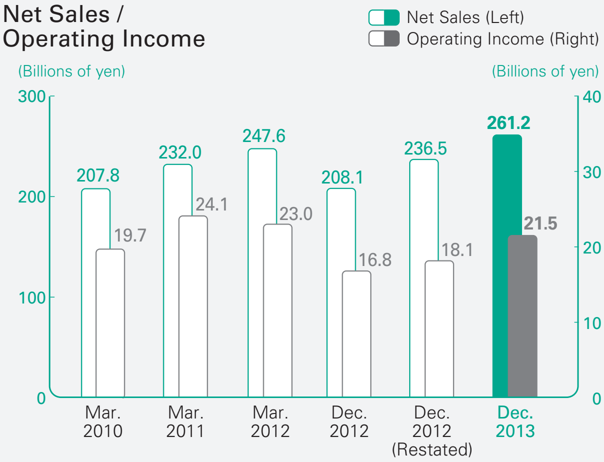
Demand increased in certain customer industries in Japan, including in export-related industries due to the depreciation of the yen and in construction-related industries due to reconstruction demand following the Great East Japan Earthquake and demand in advance of the April 2014 increase in the consumption tax rate. However, sales were impacted by selling price adjustments in connection with lower prices for natural fats and oils used as raw materials and the economic slump in Europe. As a result of these factors, sales were ¥261.2 billion (US$2,478.3 million), an increase of 10.5 percent compared with restated fiscal 2012, including the impact of the depreciation of the yen on currency translation. However, excluding the effect of currency translation, sales would have decreased 1.0 percent.

In oleo chemicals, the Kao Group expanded its facilities for fatty alcohols and increased sales volume. However, sales were impacted by a drop in demand from customer industries and fluctuations in selling prices due to lower prices for natural fats and oils used as raw materials. In performance chemicals, sales were firm as the Kao Group worked to develop and expand sales of high-value-added products with

(Years ended March 31, 2010 to 2012, period ended December 31, 2012 and years ended December 31, 2012 and 2013)

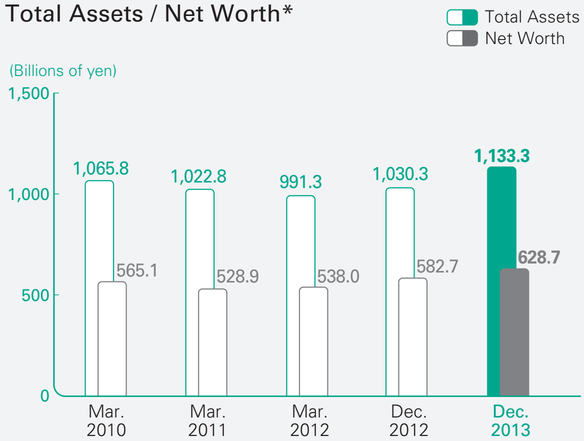
Chemical Business

Net Sales / Operating Income



Note: Net sales include intersegment sales.

Total Assets / Net Worth*



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

reduced environmental impact. Specialty chemicals were impacted by the economic downturn and structural changes in the personal computer market.

Operating income increased ¥3.4 billion yen compared with restated fiscal 2012 to ¥21.5 billion (US$204.1 million), despite the impact of lower demand from customer industries, as the Kao Group worked to increase sales volume and reduce costs.

Financial Structure

Total assets increased ¥102.9 billion from the end of fiscal 2012 to ¥1,133.3 billion (US$10,753.2 million). The principal increases in assets were a ¥27.0 billion increase in cash and time deposits, a ¥17.7 billion increase in notes and accounts receivable – trade, a ¥33.2 billion increase in short-term investments, a ¥14.7 billion increase in finished goods and a ¥24.9 billion increase in property, plant and equipment. The principal decrease in assets was a ¥23.3 billion decrease in intangible assets due to the progress of amortization of trademarks and other intellectual property rights and goodwill.

Total liabilities increased ¥56.4 billion from the end of fiscal 2012 to ¥490.6 billion (US$4,655.4 million). The principal changes in current liabilities were a ¥9.5 billion increase in notes and accounts payable – trade, a ¥29.5 billion decrease in current portion of long-term debt, a ¥3.4 billion increase in notes and accounts payable – other, a ¥16.8 billion increase in accrued expenses and a ¥20.7 billion increase in income taxes payable. The principal changes in long-term liabilities were a ¥28.8 billion increase in long-term debt and a ¥3.1 billion increase in liability for retirement benefits.

Total equity increased ¥46.6 billion from the end of fiscal 2012 to ¥642.6 billion (US$6,097.7 million). The principal increases in equity were net income totaling ¥64.8 billion (US$614.5 million) and foreign currency translation adjustments of ¥43.5 billion. The principal decreases in equity were a ¥30.0 billion decrease due to purchase of treasury stock and payments of dividends from retained earnings totaling ¥32.6 billion. In June 2013, the Company retired treasury stock.

As a result, the net worth ratio (defined as net worth divided by total assets) was 55.5 percent compared with 56.6 percent at the end of fiscal 2012.

Cash Flows

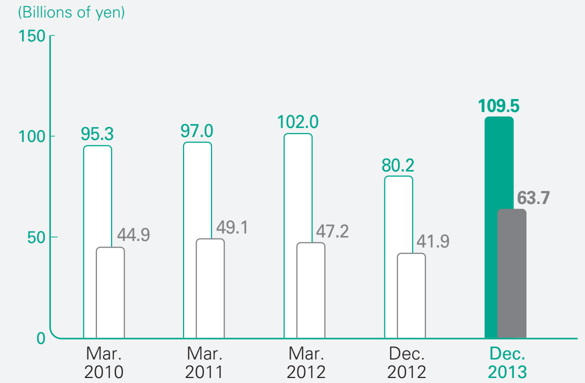
The balance of cash and cash equivalents at December 31, 2013 increased ¥67.2 billion compared with the end of fiscal 2012 to ¥227.6 billion (US$2,159.6 million).

Cash Flows from Operating Activities

Net cash provided by operating activities totaled ¥178.7 billion (US$1,696.0 million). The principal increases in net cash were income before income taxes and minority interests of ¥114.9 billion, depreciation and amortization of ¥77.3 billion, change in trade payables of ¥3.5 billion and change in notes and accounts payable – other and accrued expenses of ¥16.8 billion. The principal decreases in net cash were income taxes paid of ¥29.8 billion and change in inventories of ¥5.4 billion.

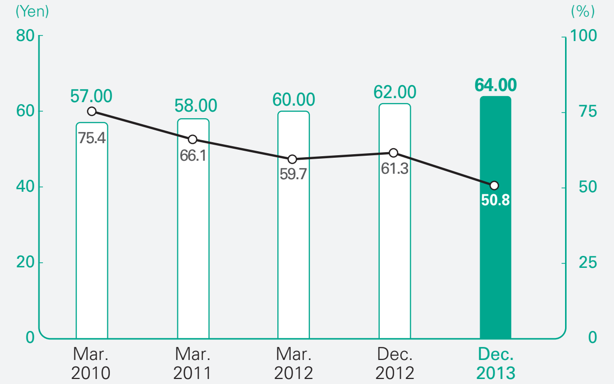
(Years ended March 31, 2010 to 2012, period ended December 31, 2012 and years ended December 31, 2012 and 2013)

Cash Flows* / Capital Expenditures



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

Cash Dividends per Share / Payout Ratio



Cash Flows from Investing Activities

Net cash used in investing activities totaled ¥57.8 billion (US$548.2 million). This primarily consisted of ¥55.7 billion for purchase of property, plant and equipment and ¥4.9 billion for purchase of intangible assets.

Cash Flows from Financing Activities

Net cash used in financing activities totaled ¥67.5 billion (US$640.1 million). The principal decreases in net cash were ¥30.0 billion for purchase of treasury stock and ¥35.0 billion for payments of cash dividends, including to minority shareholders. In June 2013, the Company redeemed ¥50.0 billion in bonds and issued bonds in the same amount in the same month to maintain an appropriate capital cost ratio and to enhance its financial base for investment in growth.

Basic Policies Regarding Distribution of Profits and Dividends for the Period

In order to achieve profitable growth, the Company 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 and continuous dividends. In addition, the Company flexibly considers the repurchase of its shares and retirement of treasury stock from the standpoint of improving capital efficiency.

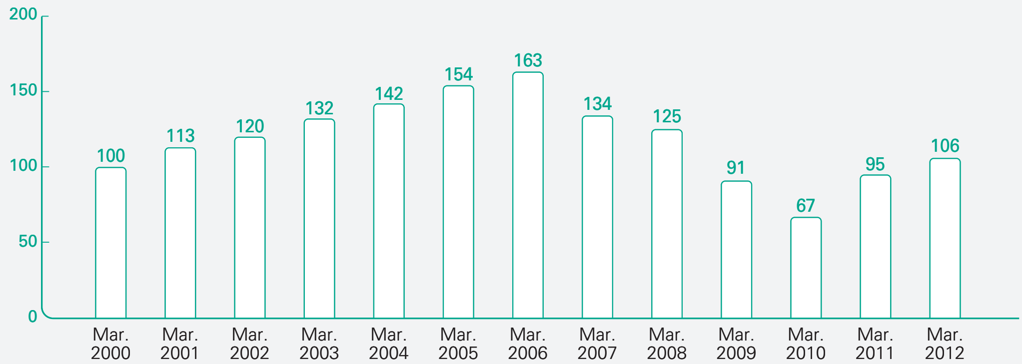
In accordance with these policies, the Company announced a year-end dividend for the fiscal year ended December 31, 2013 of ¥32.00 (US$0.30) per share, an increase of ¥1.00 per share compared with the previous fiscal year. Consequently, cash dividends for the fiscal year increased ¥2.00 per share compared with the previous fiscal period, resulting in a total of ¥64.00 (US$0.61) per share and a consolidated payout ratio of 50.8 percent.

For the fiscal year ending December 31, 2014, the Company plans to pay total cash dividends of ¥68.00 (US$0.65) per share, an increase of ¥4.00 per share compared with the fiscal year ended December 31, 2013. Although the operating environment is challenging, this plan is in accordance with the Company's basic policies regarding distribution of profits, and free cash flow and other factors have also been taken into consideration. As a result, the projected consolidated payout ratio is 46.4 percent.

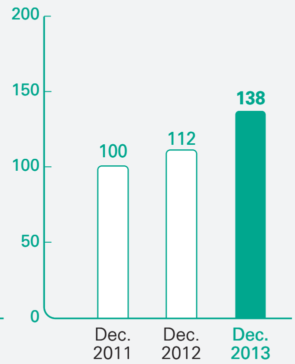
EVA

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. We believe EVA indicates "true" profit. Continuously increasing EVA raises corporate value, which is consistent with the long-term interest of not only shareholders but other stakeholders as well. The Kao Group aims to conduct business activities that expand the scale of its business while also increasing EVA, and uses EVA for business performance evaluation, performance-based compensation and strategic decision-making. During the fiscal year ended December 31,

EVA*
(Year ended March 31, 2000 = 100)



EVA**
(Year ended December 31, 2011 = 100)



*EVA (Economic Value Added) is a registered trademark of Stern Stewart & Co.
**Due to the change in the fiscal year end, EVA has been restated on a calendar year basis for periods ended December 31,2011 and 2012.

2013, EVA increased to 138 from 112 in the previous year due to an increase in NOPAT and measures to reduce capital charges, including stock repurchases. EVA is expressed as an index with the year ended December 31, 2011 as 100. The Kao Group conducted the following EVA-related activities during the fiscal year.

Investing for Growth: During the fiscal year ended December 31, 2013, the Kao Group invested aggressively for future growth. In Japan, the construction of a new plant for sanitary products within the Sakata Plant complex in Sakata, Yamagata Prefecture is under way. The new plant is intended to reinforce the Kao Group's stable supply structure to address the rapid increase in demand for *Merries* baby diapers in Japan and overseas. Investment in the building and new facilities at the plant totaled approximately ¥5.0 billion. In China, a plant for diapers started operations and the Kao Group began sales targeting the middle-class consumer segment. Research and development expenditures were ¥49.7 billion (US$471.1 million), the equivalent of 3.8 percent of net sales.

Increasing Profit: During the fiscal year ended December 31, 2013, sales volume grew from strong performance by *Merries* baby diapers and *Attack* laundry detergents. Sales increased with the launch in Japan of an ultra-concentrated liquid laundry detergent that can significantly reduce washing time, while in Asia, *Attack* laundry detergents sold strongly in Indonesia and Thailand and the Kao Group launched a laundry detergent with strengthened antibacterial properties in Taiwan and Hong Kong. Sales in Japan of a fabric softener that releases additional fresh fragrance upon sensing perspiration, other moisture or motion, were also favorable. Sales of baby diapers grew in Japan, China and Russia, contributing to improvement in NOPAT. In the Chemical Business, sales volume increased following capacity expansion of facilities for fatty alcohols. Moreover, ongoing total cost reduction activities cut costs by ¥9.0 billion (US$85.4 million). On the other hand, NOPAT was negatively affected by losses related to the Kanebo Cosmetics voluntary recall.

Financial Improvement: Free cash flow* totaled ¥121.0 billion (US$1,147.8 million) for the fiscal year ended December 31, 2013. 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, followed by stable and continuous dividends. During the fiscal year, Kao Corporation worked to reduce invested capital with the repurchase of ¥30.0 billion of its stock from the market. The repurchased shares have been retired. Kao Corporation increased cash dividends per share for the fiscal year by ¥2.00 to ¥64.00 (US$0.61), the 24th consecutive year of growth in cash dividends.

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

Business Risks and Other Risks

Various risks arise in the course of a company's business. The Kao Group takes reasonable measures to mitigate risks by preventing the occurrence of, diversifying and hedging them. 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 Corporation as of the submission of its securities report to the Ministry of Finance on March 28, 2014.

(1) Market and Consumer Demand

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 *Yoki-Monozukuri* (see note on page 26) 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) Cosmetics Business

The Kao Group operates the 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 is rebuilding its cosmetics business in Japan 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. The Kao Group is offering proposals and conducting activities that correspond to these changes in the retail environment. Nevertheless, a delay in appropriate response could have a gradual 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, the Americas and Europe, with a particular emphasis on strengthening its operations in countries where higher economic growth rates and market expansion are forecast. However, the possible occurrence of factors such as a slowdown in economic growth and uncertain political or social conditions in the course of business could have an impact on the Kao Group's business results and financial condition. In addition, factors such as competition, cost management, distribution, and 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 other 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, abnormal weather 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

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 have an impact on the Kao Group's business results and financial condition.

(8) Earthquakes and Other Incidents

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 production facilities and primary offices in Japan, and has promoted the formulation of a business continuity plan (BCP). The Kao Group is currently planning to strengthen its disaster countermeasures, including reviewing its measures to respond to risks and reinforcing its BCP. In spite of these measures, however, in the event of an earthquake on a scale beyond our assumptions and the consequent damage, the Kao Group's ability to secure raw materials, maintain production, or supply products to the market may be disrupted, or demand trends could change significantly due to a worsening economic environment, which could have a serious impact on the Kao Group's business results and financial condition. Furthermore, impediments to continuing production, securing raw materials, or supplying products to markets due to factors including a fire or explosion at production facilities, information system malfunction, problems at a supplier of raw materials, dysfunction of social infrastructures such as electric power and water, environmental pollution from radioactive materials or other harmful substances, terrorism, 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) Human Resources

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 must comply 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 laws and regulations, or new laws and 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 Sheet

Kao Corporation and Consolidated Subsidiaries
December 31, 2013 and 2012

	Millions of yen		Thousands of U.S. dollars (Note 2)
Assets	Dec. 2013	Dec. 2012	Dec. 2013
Current assets:			
Cash and time deposits (Notes 3 and 16)	¥ 126,314	¥ 99,334	$ 1,198,539
Short-term investments (Notes 3, 4 and 16)	101,645	68,443	964,465
Notes and accounts receivable (Note 16):			
Trade (Note 5)	180,603	162,866	1,713,664
Nonconsolidated subsidiaries and affiliates	2,372	2,693	22,507
Other	4,011	4,370	38,059
Inventories:			
Finished goods	99,453	84,712	943,666
Work in process and raw materials	39,655	37,495	376,269
Deferred tax assets (Note 6)	22,736	17,002	215,732
Other current assets	18,845	17,841	178,810
Allowance for doubtful receivables (Note 16)	(1,669)	(1,349)	(15,836)
Total current assets	593,965	493,407	5,635,875
Property, plant and equipment:			
Land	64,900	64,807	615,808
Buildings and structures	354,012	332,690	3,359,066
Machinery, equipment and other	747,947	715,094	7,096,945
Lease assets (Note 7)	12,049	11,889	114,328
Construction in progress	22,945	16,777	217,715
Total	1,201,853	1,141,257	11,403,862
Accumulated depreciation	(924,569)	(888,913)	(8,772,834)
Net property, plant and equipment	277,284	252,344	2,631,028
Intangible assets:			
Goodwill	152,286	159,165	1,444,976
Trademarks	28,498	41,851	270,405
Other intangible assets	11,834	14,907	112,288
Total intangible assets	192,618	215,923	1,827,669
Investments and other assets:			
Investment securities (Notes 4 and 16)	10,776	7,670	102,249
Investments in and advances to nonconsolidated subsidiaries and affiliates	7,275	7,452	69,029
Deferred tax assets (Note 6)	23,985	28,282	227,583
Other assets (Note 8)	27,373	25,269	259,731
Total investments and other assets	69,409	68,673	658,592
	¥1,133,276	¥1,030,347	$10,753,164

See Notes to Consolidated Financial Statements.

Liabilities and Equity	Millions of yen Dec. 2013	Millions of yen Dec. 2012	Thousands of U.S. dollars (Note 2) Dec. 2013
Current liabilities:			
Short-term debt (Notes 5 and 16)	¥ 1,278	¥ 3,115	$ 12,126
Current portion of long-term debt (Notes 5 and 16)	21,256	50,803	201,689
Notes and accounts payable (Note 16):			
Trade	112,972	103,430	1,071,943
Nonconsolidated subsidiaries and affiliates	6,596	5,824	62,587
Other	51,322	47,907	486,972
Income taxes payable (Note 16)	32,322	11,658	306,689
Accrued expenses	91,006	74,209	863,516
Other current liabilities (Notes 5 and 6)	21,562	18,928	204,593
Total current liabilities	338,314	315,874	3,210,115
Long-term liabilities:			
Long-term debt (Notes 5 and 16)	84,916	56,072	805,731
Liability for retirement benefits (Note 8)	48,847	45,717	463,488
Other (Notes 5 and 6)	18,559	16,601	176,098
Total long-term liabilities	152,322	118,390	1,445,317
Commitments and contingent liabilities (Notes 7, 9 and 17)			
Equity (Notes 10 and 11):			
Common stock:			
Authorized — 1,000,000,000 shares in Dec. 2013 and Dec. 2012			
Issued — 516,000,000 shares in Dec. 2013 and 526,212,501 shares in Dec. 2012	85,424	85,424	810,551
Capital surplus	109,561	109,561	1,039,577
Stock acquisition rights	1,120	1,294	10,627
Retained earnings	471,383	468,019	4,472,749
Treasury stock, at cost			
(3,829,950 shares in Dec. 2013 and 4,368,145 shares in Dec. 2012)	(9,397)	(8,985)	(89,164)
Accumulated other comprehensive income			
Unrealized gain on available-for-sale securities	4,733	2,447	44,909
Deferred gain (loss) on derivatives under hedge accounting	12	6	114
Foreign currency translation adjustments	(28,416)	(71,872)	(269,627)
Post retirement liability adjustments for foreign consolidated subsidiaries	(4,590)	(1,901)	(43,553)
Total	629,830	583,993	5,976,183
Minority interests	12,810	12,090	121,549
Total equity	642,640	596,083	6,097,732
	¥1,133,276	¥1,030,347	$10,753,164

Consolidated Statement of Income

Kao Corporation and Consolidated Subsidiaries
Year ended December 31, 2013 and period ended December 31, 2012

	Millions of yen		Thousands of U.S. dollars (Note 2)
	Dec. 2013	Dec. 2012	Dec. 2013
Net sales (Note 13)	¥1,315,217	¥1,012,595	$12,479,524
Cost of sales	572,769	442,522	5,434,757
Gross profit	742,448	570,073	7,044,767
Selling, general and administrative expenses (Note 14)	617,792	468,506	5,861,960
Operating income (Note 13)	124,656	101,567	1,182,807
Other income (expenses):			
Interest and dividend income	1,133	1,011	10,751
Interest expense	(1,213)	(1,181)	(11,510)
Foreign currency exchange gain (loss)	(320)	(280)	(3,037)
Equity in earnings (losses) of nonconsolidated subsidiaries and affiliates	2,272	1,710	21,558
Other, net (Note 15)	(11,589)	(523)	(109,963)
Other income (expenses), net	(9,717)	737	(92,201)
Income before income taxes and minority interests	114,939	102,304	1,090,606
Income taxes (Note 6):			
Current	50,752	32,550	481,564
Deferred	(1,619)	15,619	(15,363)
Total income taxes	49,133	48,169	466,201
Income before minority interests	65,806	54,135	624,405
Minority interests in earnings of consolidated subsidiaries	1,042	1,370	9,887
Net income	¥ 64,764	¥ 52,765	$ 614,518
Per share of common stock (Notes 1.u and 18):	Yen		U.S. dollars (Note 2)
Basic net income	¥126.03	¥101.12	$1.20
Diluted net income	125.89	101.08	1.19
Cash dividends applicable to the year	64.00	62.00	0.61

See Notes to Consolidated Financial Statements.

Consolidated Statement of Comprehensive Income

Kao Corporation and Consolidated Subsidiaries
Year ended December 31, 2013 and period ended December 31, 2012

	Millions of yen		Thousands of U.S. dollars (Note 2)
	Dec. 2013	Dec. 2012	Dec. 2013
Income before minority interests	¥ 65,806	¥54,135	$ 624,405
Other comprehensive income (Note 12)			
Unrealized gain (loss) on available-for-sale securities	2,044	141	19,395
Foreign currency translation adjustments	44,201	25,315	419,403
Share of other comprehensive income in affiliates	335	137	3,179
Post retirement liability adjustments for foreign consolidated subsidiaries	(2,759)	(204)	(26,179)
Total other comprehensive income	43,821	25,389	415,798
Comprehensive income	¥109,627	¥79,524	$1,040,203
Comprehensive income attributable to:			
Shareholders of Kao Corporation	¥107,823	¥76,956	$1,023,086
Minority interests	1,804	2,568	17,117

See Notes to Consolidated Financial Statements.

Consolidated Statement of Changes in Equity

Kao Corporation and Consolidated Subsidiaries
Year ended December 31, 2013 and period ended December 31, 2012

	Thousands	Millions of yen											
	Outstanding number of shares of common stock	Common stock	Capital surplus	Stock acquisition rights	Retained earnings	Unrealized gain on available-for-sale securities	Deferred gain (loss) on derivatives under hedge accounting	Foreign currency translation adjustments	Post retirement liability adjustments for foreign consolidated subsidiaries	Treasury stock, at cost	Total	Minority interests	Total equity
Balance at April 1, 2012	521,810	¥85,424	¥109,561	¥1,238	¥447,619	¥2,283	¥ (3)	¥(96,094)	¥(1,697)	¥ (9,064)	¥539,267	¥10,437	¥549,704
Net income					52,765						52,765		52,765
Cash dividends, ¥62.00 per share					(32,353)						(32,353)		(32,353)
Purchase of treasury stock	(3)									(6)	(6)		(6)
Disposal of treasury stock	37				(12)					85	73		73
Net change in the year				56		164	9	24,222	(204)		24,247	1,653	25,900
Balance at December 31, 2012	521,844	85,424	109,561	1,294	468,019	2,447	6	(71,872)	(1,901)	(8,985)	583,993	12,090	596,083
Adjustment of retained earnings for newly consolidated subsidiaries					(19)						(19)		(19)
Net income					64,764						64,764		64,764
Cash dividends, ¥63.00 per share					(32,564)						(32,564)		(32,564)
Purchase of treasury stock	(9,999)									(30,038)	(30,038)		(30,038)
Disposal of treasury stock	325				(79)					888	809		809
Retirement of treasury stock					(28,738)					28,738	—		—
Net change in the year				(174)		2,286	6	43,456	(2,689)		42,885	720	43,605
Balance at December 31, 2013	512,170	¥85,424	¥109,561	¥1,120	¥471,383	¥4,733	¥12	¥(28,416)	¥(4,590)	¥ (9,397)	¥629,830	¥12,810	¥642,640

	Thousands	Thousands of U.S. dollars (Note 2)											
	Outstanding number of shares of common stock	Common stock	Capital surplus	Stock acquisition rights	Retained earnings	Unrealized gain on available-for-sale securities	Deferred gain (loss) on derivatives under hedge accounting	Foreign currency translation adjustments	Post retirement liability adjustments for foreign consolidated subsidiaries	Treasury stock, at cost	Total	Minority interests	Total equity
Balance at December 31, 2012	521,844	$810,551	$1,039,577	$12,278	$4,440,829	$23,218	$ 57	$(681,962)	$(18,038)	$ (85,254)	$5,541,256	$114,717	$5,655,973
Adjustment of retained earnings for newly consolidated subsidiaries					(180)						(180)		(180)
Net income					614,518						614,518		614,518
Cash dividends, US$0.60 per share					(308,986)						(308,986)		(308,986)
Purchase of treasury stock	(9,999)									(285,018)	(285,018)		(285,018)
Disposal of treasury stock	325				(750)					8,426	7,676		7,676
Retirement of treasury stock					(272,682)					272,682	—		—
Net change in the year				(1,651)		21,691	57	412,335	(25,515)		406,917	6,832	413,749
Balance at December 31, 2013	512,170	$810,551	$1,039,577	$10,627	$4,472,749	$44,909	$114	$(269,627)	$(43,553)	$ (89,164)	$5,976,183	$121,549	$6,097,732

See Notes to Consolidated Financial Statements.

Consolidated Statement of Cash Flows

Kao Corporation and Consolidated Subsidiaries
Year ended December 31, 2013 and period ended December 31, 2012

	Millions of yen		Thousands of U.S. dollars (Note 2)
	Dec. 2013	Dec. 2012	Dec. 2013
Operating activities:			
Income before income taxes and minority interests	¥114,939	¥102,304	$1,090,606
Adjustments for:			
Income taxes paid	(29,829)	(40,105)	(283,034)
Depreciation and amortization	77,297	59,788	733,438
(Gain) loss on sales or disposals of property, plant and equipment, net	2,644	2,082	25,088
(Gain) loss on transfer of business	(350)	—	(3,321)
Equity in (earnings) losses of nonconsolidated subsidiaries and affiliates	(2,272)	(1,710)	(21,558)
Unrealized foreign currency exchange (gain) loss	381	(1,389)	3,615
Change in trade receivables	(2,415)	(12,395)	(22,915)
Change in inventories	(5,405)	5,083	(51,286)
Change in trade payables	3,505	(9,637)	33,257
Change in notes and accounts payable - other and accrued expenses	16,819	(117)	159,588
Other, net	3,431	(6,547)	32,556
Net cash provided by operating activities	178,745	97,357	1,696,034
Investing activities:			
Payments into time deposits	(4,802)	(1,939)	(45,564)
Proceeds from withdrawal of time deposits	7,190	4,400	68,223
Purchase of short-term investments	(7,998)	(10,000)	(75,890)
Proceeds from the redemption and sales of short-term investments	13,000	5,078	123,351
Purchase of property, plant and equipment	(55,672)	(34,555)	(528,247)
Purchase of intangible assets	(4,882)	(2,595)	(46,323)
Increase in investments in and advances to nonconsolidated subsidiaries and affiliates	(1)	(949)	(9)
Payment for purchase of newly consolidated subsidiaries, net of cash acquired	(891)	—	(8,454)
Other, net	(3,722)	(4,081)	(35,317)
Net cash used in investing activities	(57,778)	(44,641)	(548,230)
Financing activities:			
Increase (decrease) in short-term debt	(2,311)	717	(21,928)
Proceeds from long-term loans	19	217	180
Repayments of long-term loans	(9)	(205)	(85)
Proceeds from issuance of bonds	50,000	—	474,428
Redemption of bonds	(50,000)	—	(474,428)
Purchase of treasury stock	(30,039)	(7)	(285,027)
Payments of cash dividends	(34,985)	(33,513)	(331,957)
Other, net	(134)	763	(1,272)
Net cash used in financing activities	(67,459)	(32,028)	(640,089)
Translation adjustments on cash and cash equivalents	13,032	9,702	123,655
Net increase (decrease) in cash and cash equivalents	66,540	30,390	631,370
Cash and cash equivalents, beginning of year (Note 3)	160,435	129,737	1,522,298
Cash and cash equivalents of newly consolidated subsidiaries, increase	623	308	5,911
Cash and cash equivalents, end of year (Note 3)	¥227,598	¥160,435	$2,159,579

See Notes to Consolidated Financial Statements.

Notes to Consolidated Financial Statements

Kao Corporation and Consolidated Subsidiaries
Year ended December 31, 2013 and period ended December 31, 2012

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 accordance 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 financial statement items of prior fiscal period were reclassified to conform to the presentation for current fiscal year.

The preparation of financial statements in accordance 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 these estimates.

b) Change in fiscal year

Kao Corporation (the "Company") changed its fiscal year end from March 31 to December 31 by the resolution of the 106th Annual General Meeting of Shareholders held on June 28, 2012 to promote integrated management of its global business and to further enhance management transparency through timely and accurate disclosure of management information. The prior fiscal period, which is a transitional period for the change in the fiscal year, is the nine-month period from April 1, 2012 to December 31, 2012 due to this change.

Accordingly, the closing date of the consolidated subsidiaries is the same as the consolidated closing date. Consolidated financial statements for the period ended December 31, 2012 are prepared based on the nine-month fiscal period from April 1, 2012 to December 31, 2012, of 10 consolidated subsidiaries, whose closing date was March 31, and the twelve-month fiscal period, from January 1, 2012 to December 31, 2012, of the other 83 consolidated subsidiaries.

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

The accompanying consolidated financial statements include the accounts of 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.

d) 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) Exclusion of minority interests from net income, if contained

e) Unification of accounting policies applied to foreign affiliated companies for the equity method

The accounting standard requires adjustments to be made to conform the affiliate's accounting policies for similar transactions and events under similar circumstances to those of the parent company when the affiliate's financial statements are used in applying the equity method unless it is impracticable to determine such adjustments. In addition, financial statements prepared by foreign affiliated 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 the cost model accounting
5) Exclusion of minority interests from net income, if contained

f) Business combinations

The accounting standard for business combinations requires companies to account for business combinations in accordance with the following policies:

1) Business combinations should be accounted for by the purchase method except combinations of entities under common control and joint ventures.
2) In-process research and development (IPR&D) acquired in the business combination should be capitalized as an intangible asset.
3) The acquirer should recognize the bargain purchase gain in profit or loss immediately on the acquisition date after reassessing and confirming that all of the assets acquired and all of the liabilities assumed have been identified after a review of the procedures used in the purchase allocation.

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.

g) Cash equivalents

For purposes of the statement 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.

h) 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.

i) 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.

j) Property, plant and equipment

Property, plant and equipment are stated at cost. Depreciation of property, plant and equipment is computed under the straight-line method over the estimated useful lives, principally ranging from 21 to 35 years for buildings and structures and 7 or 9 years for machinery and equipment.

k) Intangible assets

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

l) 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.

m) 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 statement of income.

n) Asset retirement obligations

The accounting standard for asset retirement obligations defines an asset retirement obligation 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.

o) 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.

p) 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.

q) 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.

The Company and certain subsidiaries file tax returns under the consolidated taxation system, which allows tax payments to be based on the combined profits or losses.

r) 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 statement of income to the extent that they are not hedged by foreign exchange derivatives.

s) 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 average exchange rate.

t) 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.

u) 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 statement of income are dividends applicable to the respective years including dividends to be paid after the end of the year.

v) Accounting changes and error corrections

The accounting standard for accounting changes and error corrections requires the following:

1) Changes in Accounting Policies
When a new accounting policy is applied following revision of an accounting standard, the new policy is applied retrospectively unless the revised accounting standard includes specific transitional provisions in which case the 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.

w) Changes in accounting principles that are difficult to distinguish from changes in accounting estimates

The method for depreciation of property, plant and equipment (excluding lease assets), which was previously mainly the declining balance method for the Company and its consolidated subsidiaries in Japan, has been changed to the straight-line method from the fiscal year ended December 31, 2013. The change is due to a reconsideration of factors including the actual conditions of use of the property, plant and equipment of the Kao Group on the occasion of a shift to global integrated management that began in the Beauty Care Business in the Americas and Europe in 2012 and in the Consumer Products Business in Asia from 2013.

As a result, the Company has decided that the use of the straight-line method of depreciation more appropriately reflects the corporate activities of the Kao Group because stable operation is expected throughout the period of use due to the extension of product life cycles to establish a global brand.

The impact of this change on operating income, and income before income taxes and minority interests for the fiscal year ended December 31, 2013 is immaterial.

x) Changes in presentation

In the consolidated statement of cash flows, "Change in prepaid pension cost" and "Change in liability for retirement benefits", which were separately disclosed as items within "Operating activities" in the prior fiscal period, are included in "Other, net" in the current fiscal year due to the decrease in materiality. On the other hand, "Change in notes and accounts payables – other and accrued expenses", which was included in "Other, net" in prior fiscal period is separately disclosed due to the increase in materiality. In addition, "Payments into time deposits", which was included in "Other, net" of "Investing activities" in prior fiscal period, is separately disclosed due to the increase in materiality.

Consequently, "Change in prepaid pension cost" and "Change in liability for retirement benefits", which were reported as a cash inflow of ¥75 million, and as a cash outflow of ¥56 million, respectively within "Operating activities" of the statement of cash flows of prior fiscal period, are reclassified to "Other, net", which is reported as a cash outflow of ¥6,547 million. On the other hand, "Change in notes and accounts payables – other and accrued expenses", which was included in "Other, net" of "Operating activities", is separately disclosed as a cash outflow of ¥117 million. In addition, "Payments into time deposits", which was included in "Other, net" of "Investing activities" in prior fiscal period, is separately disclosed as a cash outflow of ¥1,939 million.

y) New accounting pronouncements

Accounting Standard for Retirement Benefits

On May 17, 2012, the Accounting Standards Board of Japan (the "ASBJ") issued ASBJ Statement No. 26, "Accounting Standard for Retirement Benefits" and ASBJ Guidance No. 25, "Guidance on Accounting Standard for Retirement Benefits," which replaced the Accounting Standard for Retirement Benefits that had been issued by the Business Accounting Council in 1998 with effective date of April 1, 2000 and the other related practical guidances. Major changes are as follows:

1) Treatment in the consolidated balance sheet
Under the current requirements, actuarial gains and losses and past service costs that are yet to be recognized in profit or loss are not recognized in the balance sheet, and the difference between retirement benefit obligations and plan assets (hereinafter, "deficit or surplus"), adjusted by such unrecognized amounts, are recognized as a liability or asset.
Under the revised accounting standard, actuarial gains and losses and past service costs that are yet to be recognized in profit or loss shall be recognized within equity (accumulated other comprehensive income), after adjusting for tax effects, and the deficit or surplus shall be recognized as a liability or asset.

2) Treatment in the consolidated statement of income and the statement of comprehensive income
The revised accounting standard does not change how to recognize actuarial gains and losses and past service costs in profit or loss. Those amounts would be recognized in profit or loss over a certain period no longer than the expected average remaining working lives of the employees. However, actuarial gains and losses and past service costs that arose in the current period and are yet to be recognized in profit or loss shall be included in other comprehensive income and actuarial gains and losses and past service costs that were recognized in other comprehensive income in prior periods and then recognized in profit or loss in the current period shall be treated as reclassification adjustments.

This accounting standard and the guidance are effective from the end of fiscal years beginning on or after April 1, 2013 with earlier adoption permitted from the beginning of fiscal years beginning on or after April 1, 2013. However, no retrospective application of this accounting standard to consolidated financial statements in prior periods is required.

The Company will apply the revised accounting standard from the end of fiscal year beginning on January 1, 2014 and is in the process of measuring the effects of applying the revised accounting standard.

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 December 31, 2013 of ¥105.39=US$1, solely for convenience. The translations should not be construed as representations that Japanese yen amounts 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 December 31, 2013 and 2012 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	Dec. 2013	Dec. 2012	Dec. 2013
Cash and time deposits	¥126,314	¥ 99,334	$1,198,539
Short-term investments	101,645	68,443	964,465
Less: time deposits and short-term investments which mature or become due over three months after the date of acquisition	(361)	(7,342)	(3,425)
Cash and cash equivalents	¥227,598	¥160,435	$2,159,579

4 Short-Term Investments and Investment Securities

Short-term investments and investment securities as of December 31, 2013 and 2012 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	Dec. 2013	Dec. 2012	Dec. 2013
Short-term investments:			
Investment trust funds and other	¥101,645	¥68,443	$964,465
Total	¥101,645	¥68,443	$964,465
Investment securities:			
Marketable equity securities	¥ 9,595	¥ 6,489	$ 91,043
Investment trust funds and other	1,181	1,181	11,206
Total	¥ 10,776	¥ 7,670	$102,249

The carrying amount and aggregate fair value of the securities classified as available-for-sale and held-to-maturity at December 31, 2013 and 2012 were as follows:

	Millions of yen			
	Dec. 2013			
	Cost	Unrealized gains	Unrealized losses	Fair value
Securities classified as:				
Available-for-sale:				
Equity securities	¥ 2,666	¥6,966	¥37	¥ 9,595
Debt securities and other	41,651	—	—	41,651
Held-to-maturity:				
Debt securities and other	59,994	—	—	59,994

	Millions of yen			
	Dec. 2012			
	Cost	Unrealized gains	Unrealized losses	Fair value
Securities classified as:				
Available-for-sale:				
Equity securities	¥ 2,707	¥3,888	¥106	¥ 6,489
Debt securities and other	41,280	—	—	41,280
Held-to-maturity:				
Debt securities and other	27,163	—	—	27,163

	Thousands of U.S. dollars			
	Dec. 2013			
	Cost	Unrealized gains	Unrealized losses	Fair value
Securities classified as:				
Available-for-sale:				
Equity securities	$ 25,297	$66,097	$351	$ 91,043
Debt securities and other	395,208	—	—	395,208
Held-to-maturity:				
Debt securities and other	569,257	—	—	569,257

Available-for-sale securities whose fair values are not readily determinable as of December 31, 2013 and 2012 were as follows:

	Carrying amount		
	Millions of yen		Thousands of U.S. dollars
	Dec. 2013	Dec. 2012	Dec. 2013
Available-for-sale:			
Equity securities	¥1,181	¥1,181	$11,206
Total	¥1,181	¥1,181	$11,206

Proceeds from sales of available-for-sale securities for the year ended December 31, 2013 and the period ended December 31, 2012 were ¥9 million (US$85 thousand) and ¥123 million, respectively. Gross realized gains on these sales, computed on the moving-average cost basis, for the year ended December 31, 2013 and the period ended December 31, 2012 were ¥3 million (US$28 thousand) and ¥28 million respectively.

The carrying values of debt securities by contractual maturities for securities classified as held-to-maturity at December 31, 2013 are included in Note 16.

5 Short-Term and Long-Term Debt

Short-term debt at December 31, 2013 and 2012 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	Dec. 2013	Dec. 2012	Dec. 2013
Secured loans principally from financial institutions	¥ —	¥ 154	$ —
Unsecured loans principally from financial institutions	1,278	2,961	12,126
Total	¥1,278	¥3,115	$12,126

The weighted average interest rates applicable to the above loans were 1.37% and 3.41% at December 31, 2013 and 2012, respectively. In addition to the above short-term debt, deposits payable to affiliates, included in other current liabilities, were ¥4,273 million (US$40,545 thousand) and ¥3,332 million at December 31, 2013 and 2012, respectively, and the applicable interest rates were 0.56% and 0.40% at December 31, 2013 and 2012, respectively.

The secured loans are collateralized by trade accounts receivable of ¥108 million (US$1,025 thousand) and ¥250 million at December 31, 2013 and 2012, respectively.

Long-term debt at December 31, 2013 and 2012 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	Dec. 2013	Dec. 2012	Dec. 2013
Unsecured bonds due 2013, 1.91%	¥ —	¥ 50,000	$ —
Unsecured bonds due 2018, 0.39%, and 2020, 0.62%	50,000	—	474,428
Unsecured loans principally from financial institutions, weighted average rate 0.56% in Dec. 2013, 0.57% in Dec. 2012	50,103	50,073	475,406
Lease obligations	6,069	6,802	57,586
	¥106,172	¥106,875	$1,007,420
Less current portion	(21,256)	(50,803)	(201,689)
Total	¥ 84,916	¥ 56,072	$ 805,731

In addition to the above long-term debt, deposits payable to customers, included in other long-term liabilities, were ¥6,008 million (US$56,998 thousand) and ¥6,002 million at December 31, 2013 and 2012, respectively, and the applicable interest rates were 0.11% and 0.10% at December 31, 2013 and 2012, respectively.

The aggregate annual maturities of long-term debt as of December 31, 2013 were as follows:

Years ending December 31	Millions of yen	Thousands of U.S. dollars
2014	¥ 21,256	$ 201,689
2015	20,792	197,286
2016	741	7,031
2017	10,676	101,300
2018	25,583	242,746
2019 and thereafter	27,124	257,368
Total	¥106,172	$1,007,420

6 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 38% for the year ended December 31, 2013 and the period ended December 31, 2012.

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 December 31, 2013 and 2012 were as follows:

	Millions of yen		Thousands of U.S. dollars
	Dec. 2013	Dec. 2012	Dec. 2013
Deferred tax assets:			
Depreciation and amortization	¥ 20,634	¥ 18,000	$ 195,787
Pension and severance costs	16,272	16,311	154,398
Accrued expenses	10,649	7,216	101,044
Enterprise taxes	1,928	962	18,294
Tax loss carryforwards	33,021	39,988	313,322
Other	17,650	14,611	167,473
Less valuation allowance	(28,127)	(30,542)	(266,885)
Deferred tax assets	¥ 72,027	¥ 66,546	$ 683,433
Deferred tax liabilities:			
Unrealized gain on available-for-sale securities	¥ (2,482)	¥ (1,359)	$ (23,551)
Undistributed foreign earnings	(11,524)	(9,898)	(109,346)
Deferred gains on sales of property	(3,800)	(3,840)	(36,057)
Prepaid pension cost	(1,461)	(1,335)	(13,863)
Other	(8,707)	(7,148)	(82,616)
Deferred tax liabilities	¥(27,974)	¥(23,580)	$(265,433)
Net deferred tax assets	¥ 44,053	¥ 42,966	$ 418,000

A reconciliation between the normal effective statutory tax rates and the actual effective tax rates reflected in the accompanying consolidated statements of income was as follows:

	Dec. 2013	Dec. 2012
Normal effective statutory tax rate	38.0%	38.0%
Tax credit for research and development costs and other	(2.2)	(2.1)
Valuation allowance	(3.7)	(0.1)
Expiration of tax loss carryforwards	8.9	5.6
Amortization expenses not deductible for income tax purposes	3.7	3.4
Other – net	(1.9)	2.3
Actual effective tax rate	42.8%	47.1%

7 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 December 31, 2013 and 2012 were as follows:

	Millions of yen		Thousands of U.S. dollars
	Dec. 2013	Dec. 2012	Dec. 2013
Due within one year	¥ 9,090	¥ 8,593	$ 86,251
Due after one year	22,128	23,049	209,963
Total	¥31,218	¥31,642	$296,214

8 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 December 31, 2013 and 2012 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	Dec. 2013	Dec. 2012	Dec. 2013
Projected benefit obligation	¥ 272,497	¥ 267,987	$ 2,585,606
Fair value of plan assets	(230,352)	(207,111)	(2,185,710)
Unrecognized prior service cost	5,004	7,210	47,481
Unrecognized actuarial gain (loss)	3,892	(18,392)	36,929
Unrecognized transitional obligation	(2,240)	(4,124)	(21,254)
Prepaid pension cost	46	147	436
Net liability for retirement benefits	¥ 48,847	¥ 45,717	$ 463,488

The components of net periodic benefit costs for the year ended December 31, 2013 and the period ended December 31, 2012 were as follows:

	Millions of yen		Thousands of U.S. dollars
	Dec. 2013	Dec. 2012	Dec. 2013
Service cost	¥ 9,699	¥ 6,808	$ 92,030
Interest cost	4,916	4,176	46,646
Expected return on plan assets	(4,734)	(3,579)	(44,919)
Amortization of prior service cost (credit)	(1,967)	(2,456)	(18,664)
Recognized actuarial (gain) loss	(19)	869	(180)
Amortization of transitional obligation	1,802	1,257	17,098
Net periodic benefit costs	¥ 9,697	¥ 7,075	$ 92,011

Assumptions used for the year ended December 31, 2013 and the period ended December 31, 2012 were set forth as follows:

	Dec. 2013	Dec. 2012
Discount rate	Primarily 1.6%	Primarily 1.6%
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 ¥3,343 million (US$31,720 thousand) and ¥2,597 million for the year ended December 31, 2013 and the period ended December 31, 2012, respectively.

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

9 Contingent Liabilities

At December 31, 2013, the Companies had the following contingent liabilities:

	Millions of yen	Thousands of U.S. dollars
Trade notes discounted	¥ 46	$ 436
Guarantees of borrowings, principally of affiliates and employees	484	4,592

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.

10 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) an audit & supervisory board, 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 meets all four criteria, but has not made the said prescription in its articles of incorporation. 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 own 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, totaled ¥14,117 million (US$133,950 thousand) at both December 31, 2013 and 2012. The Company's additional paid-in capital amount, which is included in capital surplus, totaled ¥108,889 million (US$1,033,200 thousand) at both December 31, 2013 and 2012.

The accompanying consolidated financial statements do not include any provision for the year-end dividend of ¥32.0 (US$0.30) per share, aggregating ¥16,407 million (US$155,679 thousand) which the Company will subsequently propose at the 108th Annual General Meeting of Shareholders to be held on March 28, 2014 as an appropriation of retained earnings in respect of the year ended December 31, 2013.

(c) Treasury stock and treasury stock acquisition rights

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

The Company purchased 10.0 million shares of its common stock from the market during the fiscal year ended December 31, 2013, at an aggregate cost of ¥30,000 million (US$284,657 thousand). On June 19, 2013, the Company retired 10.2 million shares of treasury stock by the resolution of the Board of Directors at the meeting held on May 30, 2013.

11 Stock-Based Compensation Plans

The stock options for the year ended December 31, 2013 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 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	$30.47	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	$32.70	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	$29.41	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	$22.35	September 1, 2011 through August 31, 2016
Stock option 2010 I	14 Directors of the Company	38,000 shares*	August 25, 2010	¥1	$0.01	July 1, 2012 through June 30, 2017
Stock option 2010 II	12 Executive Officers of the Company******	24,000 shares*	August 25, 2010	¥1	$0.01	July 1, 2012 through June 30, 2017
Stock option 2010 III	81 Employees of the Company 2 Directors of subsidiaries of the Company	435,000 shares*	August 25, 2010	¥2,190	$20.78	September 1, 2012 through August 31, 2017
Stock option 2011 I	13 Directors of the Company	36,000 shares*	August 25, 2011	¥1	$0.01	July 1, 2013 through June 29, 2018
Stock option 2011 II	13 Executive Officers of the Company*******	26,000 shares*	August 25, 2011	¥1	$0.01	July 1, 2013 through June 29, 2018
Stock option 2011 III	81 Employees of the Company 1 Director of subsidiary of the Company 1 Employee of subsidiary of the Company	435,000 shares*	August 25, 2011	¥2,254	$21.39	September 1, 2013 through August 31, 2018
Stock option 2012 I	9 Directors of the Company	30,000 shares*	August 23, 2012	¥1	$0.01	July 1, 2014 through June 28, 2019
Stock option 2012 II	22 Executive Officers of the Company********	49,000 shares*	August 23, 2012	¥1	$0.01	July 1, 2014 through June 28, 2019
Stock option 2013 I	10 Directors of the Company	22,000 shares*	May 23, 2013	¥1	$0.01	July 1, 2015 through June 30, 2020
Stock option 2013 II	22 Executive Officers of the Company*********	27,000 shares*	May 23, 2013	¥1	$0.01	July 1, 2015 through June 30, 2020

* 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 12 Executive Officers were not members of the Board of Directors of the Company at the date of grant.
******* The 13 Executive Officers were not members of the Board of Directors of the Company at the date of grant.
******** The 22 Executive Officers were not members of the Board of Directors of the Company at the date of grant.
********* The 22 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 2006 I	Stock option 2006 II	Stock option 2006 III	Stock option 2007 I	Stock option 2007 II	Stock option 2007 III	Stock option 2008 I	Stock option 2008 II	Stock option 2008 III	Stock option 2009 I	Stock option 2009 II
For the year ended December 31, 2013											
Non-vested											
Outstanding at December 31, 2012	—	—	—	—	—	—	—	—	—	—	—
Granted	—	—	—	—	—	—	—	—	—	—	—
Expired	—	—	—	—	—	—	—	—	—	—	—
Vested	—	—	—	—	—	—	—	—	—	—	—
Outstanding at December 31, 2013	—	—	—	—	—	—	—	—	—	—	—
Vested											
Outstanding at December 31, 2012	3,000	4,000	296,000	4,000	5,000	322,000	8,000	5,000	442,000	14,000	12,000
Vested	—	—	—	—	—	—	—	—	—	—	—
Exercised	3,000	4,000	3,000	—	1,000	—	3,000	1,000	12,000	3,000	3,000
Expired	—	—	293,000	—	—	34,000	—	—	—	—	—
Outstanding at December 31, 2013	—	—	—	4,000	4,000	288,000	5,000	4,000	430,000	11,000	9,000
Exercise price											
Yen	¥1	¥1	¥3,211	¥1	¥1	¥3,446	¥1	¥1	¥3,100	¥1	¥1
U.S. dollars	$0.01	$0.01	$30.47	$0.01	$0.01	$32.70	$0.01	$0.01	$29.41	$0.01	$0.01
Average stock price at exercise											
Yen	¥3,195	¥3,240	¥3,435	—	¥3,290	—	¥3,065	¥3,290	¥3,319	¥3,140	¥3,217
U.S. dollars	$30.32	$30.74	$32.59	—	$31.22	—	$29.08	$31.22	$31.49	$29.79	$30.52
Fair value price at grant date											
Yen	¥2,932	¥2,932	¥435	¥3,063	¥3,063	¥420	¥2,865	¥2,865	¥426	¥2,115	¥2,115
U.S. dollars	$27.82	$27.82	$4.13	$29.06	$29.06	$3.99	$27.18	$27.18	$4.04	$20.07	$20.07

(Number of shares)

	Stock option 2009 III	Stock option 2010 I	Stock option 2010 II	Stock option 2010 III	Stock option 2011 I	Stock option 2011 II	Stock option 2011 III	Stock option 2012 I	Stock option 2012 II	Stock option 2013 I	Stock option 2013 II
For the year ended December 31, 2013											
Non-vested											
Outstanding at December 31, 2012	—	—	—	—	—	—	—	—	—	—	—
Granted	—	—	—	—	—	—	—	—	—	22,000	27,000
Expired	—	—	—	—	—	—	—	—	—	—	—
Vested	—	—	—	—	—	—	—	—	—	22,000	27,000
Outstanding at December 31, 2013	—	—	—	—	—	—	—	—	—	—	—
Vested											
Outstanding at December 31, 2012	430,000	23,000	14,000	431,000	36,000	26,000	435,000	28,000	49,000	—	—
Vested	—	—	—	—	—	—	—	—	—	22,000	27,000
Exercised	63,000	7,000	4,000	187,000	13,000	8,000	9,000	—	—	—	—
Expired	—	—	—	—	—	—	5,000	—	—	—	—
Outstanding at December 31, 2013	367,000	16,000	10,000	244,000	23,000	18,000	421,000	28,000	49,000	22,000	27,000
Exercise price											
Yen	¥2,355	¥1	¥1	¥2,190	¥1	¥1	¥2,254	¥1	¥1	¥1	¥1
U.S. dollars	$22.35	$0.01	$0.01	$20.78	$0.01	$0.01	$21.39	$0.01	$0.01	$0.01	$0.01
Average stock price at exercise											
Yen	¥3,234	¥3,098	¥3,032	¥3,200	¥3,167	¥3,275	¥3,158	—	—	—	—
U.S. dollars	$30.69	$29.40	$28.77	$30.36	$30.05	$31.08	$29.96	—	—	—	—
Fair value price at grant date											
Yen	¥394	¥1,749	¥1,749	¥245	¥1,718	¥1,718	¥211	¥2,119	¥2,119	¥3,027	¥3,027
U.S. dollars	$3.74	$16.60	$16.60	$2.32	$16.30	$16.30	$2.00	$20.11	$20.11	$28.72	$28.72

The fair value prices for 2013 stock options were estimated using the Black-Scholes Option Pricing Model with the following assumptions:

	Stock option 2013 I	Stock option 2013 II
Volatility of stock price	19.967%	19.967%
Estimated remaining outstanding period	4.5 years	4.5 years
Estimated dividend per share		
Yen	¥62	¥62
U.S. dollars	$0.59	$0.59
Risk-free interest rate	0.328%	0.328%

12 Comprehensive Income

Each component of other comprehensive income for the year ended December 31, 2013 and the period ended December 31, 2012 were as follows:

	Millions of yen		Thousands of U.S. dollars
	Dec. 2013	Dec. 2012	Dec. 2013
Unrealized gain (loss) on available-for-sale securities			
Gains (losses) arising during the year	¥ 3,122	¥ 248	$ 29,623
Reclassification adjustments to profit or loss	55	(28)	522
Amount before income tax effect	3,177	220	30,145
Income tax effect	(1,133)	(79)	(10,750)
Total	¥ 2,044	¥ 141	$ 19,395
Foreign currency translation adjustments			
Adjustments arising during the year	¥44,201	¥25,315	$419,403
Reclassification adjustments to profit or loss	—	—	—
Amount before income tax effect	44,201	25,315	419,403
Income tax effect	—	—	—
Total	¥44,201	¥25,315	$419,403
Share of other comprehensive income in affiliates			
Gains (losses) arising during the year	¥ 335	¥ 137	$ 3,179
Total	¥ 335	¥ 137	$ 3,179
Post retirement liability adjustments for foreign consolidated subsidiaries			
Adjustments arising during the year	¥ (4,401)	¥ (681)	$ (41,759)
Reclassification adjustments to profit or loss	748	352	7,097
Amount before income tax effect	(3,653)	(329)	(34,662)
Income tax effect	894	125	8,483
Total	¥ (2,759)	¥ (204)	$ (26,179)
Total other comprehensive income	¥43,821	¥25,389	$415,798

13 Segment Information

(1) Description of reportable segments

The Companies' reportable segments are components for which separate financial information is available, and whose operating results are reviewed regularly by the chief operating decision maker in order to determine allocation of resources and assess segment performance.

The Companies are organized into four business operating units, the Beauty Care Business, the Human Health Care Business and the Fabric and Home Care Business (collectively, the Consumer Products Business) and the Chemical Business. Each business operating unit plans comprehensive strategies for business in Japan and other countries, and conducts its own business activities.

Therefore, the Companies have four reportable segments: the Beauty Care Business, the Human Health Care Business, the Fabric and Home Care Business and the Chemical Business. The Beauty Care Business segment manufactures and sells cosmetics, skin care and 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.

(2) Methods of measurement for sales, profit (loss), assets, and other items for reportable segments

The amount of segment profit corresponds to that of operating income. Intersegment sales and transfer prices are calculated mainly based on market value or manufacturing cost.

(a) Information related to sales, profit (loss), assets, and other items

Information by reportable segment of the Companies for the year ended December 31, 2013 and the period ended December 31, 2012 was as follows:

	Millions of yen						
	Dec. 2013						
	Reportable segment						
	Consumer Products Business						
	Beauty Care Business	Human Health Care Business	Fabric and Home Care Business	Total	Chemical Business	Reconciliations*	Consolidated
Sales to customers	¥570,268	¥210,628	¥311,023	¥1,091,919	¥223,298	¥ —	¥1,315,217
Intersegment sales	—	—	—	—	37,894	(37,894)	—
Total sales	570,268	210,628	311,023	1,091,919	261,192	(37,894)	1,315,217
Segment profit (Operating income)	¥ 23,933	¥ 16,850	¥ 62,183	¥ 102,966	¥ 21,509	¥ 181	¥ 124,656
Segment assets**	¥482,704	¥130,610	¥148,936	¥ 762,250	¥245,720	¥125,306	¥1,133,276
Other							
Depreciation and amortization***	¥ 32,094	¥ 8,993	¥ 9,008	¥ 50,095	¥ 13,373	¥ —	¥ 63,468
Investments in equity method affiliates**	3,074	994	1,116	5,184	2,026	—	7,210
Increase in property, plant and equipment and intangible assets	19,219	13,628	14,699	47,546	16,141	—	63,687

* Reconciliation of segment profit includes elimination of intersegment transactions of inventory.
Reconciliation of assets includes ¥152,828 million of the Company's financial assets and negative ¥27,522 million elimination of receivables among reportable segments.
** Balances as of December 31, 2013
*** Depreciation and amortization excludes amortization of goodwill.

	Millions of yen						
	Dec. 2012						
	Reportable segment						
	Consumer Products Business						
	Beauty Care Business	Human Health Care Business	Fabric and Home Care Business	Total	Chemical Business	Reconciliations*	Consolidated
Sales to customers	¥444,425	¥151,977	¥236,748	¥833,150	¥179,445	¥ —	¥1,012,595
Intersegment sales	—	—	—	—	28,626	(28,626)	—
Total sales	444,425	151,977	236,748	833,150	208,071	(28,626)	1,012,595
Segment profit (Operating income)	¥ 21,821	¥ 11,548	¥ 51,368	¥ 84,737	¥ 16,813	¥ 17	¥ 101,567
Segment assets**	¥466,279	¥112,751	¥143,177	¥722,207	¥217,046	¥ 91,094	¥1,030,347
Other							
Depreciation and amortization***	¥ 26,365	¥ 6,410	¥ 6,669	¥ 39,444	¥ 10,626	¥ —	¥ 50,070
Investments in equity method affiliates**	2,660	1,010	1,194	4,864	1,736	—	6,600
Increase in property, plant and equipment and intangible assets	11,693	8,830	8,701	29,224	12,705	—	41,929

* Reconciliation of segment profit includes elimination of intersegment transactions of inventory.
Reconciliation of assets includes ¥111,393 million of the Company's financial assets and negative ¥20,299 million elimination of receivables among reportable segments.
** Balances as of December 31, 2012
*** Depreciation and amortization excludes amortization of goodwill.

	Thousands of U.S. dollars						
	Dec. 2013						
	Reportable segment						
	Consumer Products Business						
	Beauty Care Business	Human Health Care Business	Fabric and Home Care Business	Total	Chemical Business	Reconciliations*	Consolidated
Sales to customers	$5,411,026	$1,998,558	$2,951,162	$10,360,746	$2,118,778	$ —	$12,479,524
Intersegment sales	—	—	—	—	359,560	(359,560)	—
Total sales	5,411,026	1,988,558	2,951,162	10,360,746	2,478,338	(359,560)	12,479,524
Segment profit (Operating income)	$ 227,090	$ 159,882	$ 590,028	$ 977,000	$ 204,090	$ 1,717	$ 1,182,807
Segment assets**	$4,580,169	$1,239,302	$1,413,189	$ 7,232,660	$2,331,531	$1,188,973	$10,753,164
Other							
Depreciation and amortization***	$ 304,526	$ 85,331	$ 85,473	$ 475,330	$ 126,890	$ —	$ 602,220
Investments in equity method affiliates**	29,168	9,432	10,589	49,189	19,224	—	68,413
Increase in property, plant and equipment and intangible assets	182,361	129,310	139,472	451,143	153,155	—	604,298

* Reconciliation of segment profit includes elimination of intersegment transactions of inventory.
Reconciliation of assets includes $1,450,118 thousand of the Company's financial assets and negative $261,145 thousand elimination of receivables among reportable segments.
** Balances as of December 31, 2013
*** Depreciation and amortization excludes amortization of goodwill.

(b) Information related to reportable segments

Sales by geographic area for the year ended December 31, 2013 and the period ended December 31, 2012 were as follows:

	Millions of yen				
	Dec. 2013				
	Japan	Asia	Americas*	Europe**	Consolidated
Sales to customers	¥908,801	¥171,202	¥112,569	¥122,645	¥1,315,217

	Millions of yen				
	Dec. 2012				
	Japan	Asia	Americas*	Europe**	Consolidated
Sales to customers	¥690,518	¥130,213	¥93,358	¥98,506	¥1,012,595

	Thousands of U.S. dollars				
	Dec. 2013				
	Japan	Asia	Americas*	Europe**	Consolidated
Sales to customers	$8,623,219	$1,624,462	$1,068,118	$1,163,725	$12,479,524

Note: Sales are classified in countries or regions based on location of customers.

Property, plant and equipment by geographic area for the year ended December 31, 2013 and the period ended December 31, 2012 were as follows:

	Millions of yen				
	Dec. 2013				
	Japan	Asia	Americas*	Europe**	Consolidated
Property, plant and equipment	¥188,533	¥56,636	¥12,642	¥19,473	¥277,284

	Millions of yen				
	Dec. 2012				
	Japan	Asia	Americas*	Europe**	Consolidated
Property, plant and equipment	¥187,524	¥40,654	¥9,350	¥14,816	¥252,344

	Thousands of U.S. dollars				
	Dec. 2013				
	Japan	Asia	Americas*	Europe**	Consolidated
Property, plant and equipment	$1,788,909	$537,394	$119,954	$184,771	$2,631,028

* Americas: North America, South America, and Oceania ** Europe: Europe and South Africa

(c) Impairment losses by reportable segment

Impairment losses by reportable segment for the year ended December 31, 2013 and the period ended December 31, 2012 were as follows:

	Millions of yen						
	Dec. 2013						
	Reportable segment						
	Consumer Products Business						
	Beauty Care Business	Human Health Care Business	Fabric and Home Care Business	Total	Chemical Business	Reconciliations	Consolidated
Impairment losses of assets	¥96	¥35	¥54	¥185	¥785	¥—	¥970

	Millions of yen						
	Dec. 2012						
	Reportable segment						
	Consumer Products Business						
	Beauty Care Business	Human Health Care Business	Fabric and Home Care Business	Total	Chemical Business	Reconciliations	Consolidated
Impairment losses of assets	¥77	¥—	¥—	¥77	¥5	¥—	¥82

	Thousands of U.S. dollars						
	Dec. 2013						
	Reportable segment						
	Consumer Products Business						
	Beauty Care Business	Human Health Care Business	Fabric and Home Care Business	Total	Chemical Business	Reconciliations	Consolidated
Impairment losses of assets	$911	$332	$512	$1,755	$7,449	$—	$9,204

(d) Amortization and balance of goodwill by reportable segment

Amortization and balance of goodwill by reportable segment for the year ended December 31, 2013 and the period ended December 31, 2012 were as follows:

	Millions of yen						
	Dec. 2013						
	Reportable segment						
	Consumer Products Business						
	Beauty Care Business	Human Health Care Business	Fabric and Home Care Business	Total	Chemical Business	Reconciliations	Consolidated
Amortization of goodwill	¥ 13,829	¥—	¥—	¥ 13,829	¥—	¥—	¥ 13,829
Goodwill at December 31, 2013	152,286	—	—	152,286	—	—	152,286

	Millions of yen						
	Dec. 2012						
	Reportable segment						
	Consumer Products Business						
	Beauty Care Business	Human Health Care Business	Fabric and Home Care Business	Total	Chemical Business	Reconciliations	Consolidated
Amortization of goodwill	¥ 9,718	¥—	¥—	¥ 9,718	¥—	¥—	¥ 9,718
Goodwill at December 31, 2012	159,165	—	—	159,165	—	—	159,165

	Thousands of U.S. dollars						
	Dec. 2013						
	Reportable segment						
	Consumer Products Business						
	Beauty Care Business	Human Health Care Business	Fabric and Home Care Business	Total	Chemical Business	Reconciliations	Consolidated
Amortization of goodwill	$ 131,217	$—	$—	$ 131,217	$—	$—	$ 131,217
Goodwill at December 31, 2013	1,444,976	—	—	1,444,976	—	—	1,444,976

14 Selling, General and Administrative Expenses

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

	Millions of yen		Thousands of U.S. dollars
	Dec. 2013	Dec. 2012	Dec. 2013
Advertising	¥ 86,406	¥67,045	$ 819,869
Promotion	69,554	52,101	659,968
Research and development	49,650	37,493	471,107
Salaries and bonuses	130,265	97,738	1,236,028
Packing and delivery expenses	77,253	56,792	733,020

15 Other Income (Expenses)

"Other, net" consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	Dec. 2013	Dec. 2012	Dec. 2013
Gain on sales of stock of subsidiary	¥ —	¥ 270	$ —
Loss related to cosmetics*	(9,652)	—	(91,584)
Loss on sales or disposals of property, plant and equipment, net	(2,645)	(2,082)	(25,097)
Other, net	708	1,289	6,718
Total	¥(11,589)	¥ (523)	$(109,963)

* In connection with the voluntary recall by Kanebo Cosmetics Inc., Lissage Ltd. and e'quipe, Ltd., gross profit decreased by ¥2,400 million (US$22,773 thousand) due to various factors including the deduction from net sales of goods returned from retailers, and ¥9,652 million (US$91,584 thousand) in expenditures, including an estimated portion recorded as other expenses, was recorded as "Loss related to cosmetics" under other expenses in the consolidated statement of income. The relevant amount of impact was included in the operating income of the "Beauty Care Business" segment in segment information (Note 13). Please note that items in compensation expenses for which actual losses cannot be estimated have not been recorded in "Loss related to cosmetics".

16 Financial Instruments

(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 only in short-term, low-risk financial instruments. 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 to hedge 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 manage this risk by ensuring their internal deliberations and approval processes of reviewing customers' credit standing before entering into transactions with new customers. In addition, the Companies secure guarantee deposits or collateral as necessary. Furthermore, the Companies monitor due dates and manage balances of receivables by customer and periodically check the credit risk of key customers.

Marketable securities, which consist of commercial papers of highly-rated companies, bond investment trusts 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 maintenance of appropriate capital cost ratio and investment in property, plant and equipment. Certain loans with floating interest rates are exposed to interest rate volatility risk. The Companies use interest rate swaps for the purpose of hedging the interest rate volatility risk by converting the floating rates into fixed rates.

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 risk 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 see Note 17 for details of the fair values of derivatives. The contract amounts of derivatives which are shown in Note 17 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 December 31, 2013 and 2012 consisted of the following:

	Millions of yen		
		Dec. 2013	
	Carrying amount	Fair value	Unrealized gain/(loss)
Cash and time deposits	¥126,314	¥126,314	¥ —
Short-term investments	101,645	101,645	—
Notes and accounts receivable	186,986		
Allowance for doubtful receivables	(1,503)		
Notes and accounts receivable, net	185,483	184,483	—
Investment securities	9,595	9,595	—
Total	¥423,037	¥423,037	¥ —
Short-term debt	¥ 1,278	¥ 1,278	¥ —
Current portion of long-term debt	21,256	21,299	(43)
Notes and accounts payable	170,890	170,890	—
Income taxes payable	32,322	32,322	—
Long-term debt	84,916	85,313	(397)
Total	¥310,662	¥311,102	¥(440)
Derivatives	¥ (189)	¥ (189)	¥ —

	Millions of yen		
	Dec. 2012		
	Carrying amount	Fair value	Unrealized gain/(loss)
Cash and time deposits	¥ 99,334	¥ 99,334	¥ —
Short-term investments	68,443	68,443	—
Notes and accounts receivable	169,929		
Allowance for doubtful receivables	(1,246)		
Notes and accounts receivable, net	168,683	168,683	—
Investment securities	6,489	6,489	—
Total	¥342,949	¥342,949	¥ —
Short-term debt	¥ 3,115	¥ 3,115	¥ —
Current portion of long-term debt	50,803	51,202	(399)
Notes and accounts payable	157,161	157,161	—
Income taxes payable	11,658	11,658	—
Long-term debt	56,072	56,151	(79)
Total	¥278,809	¥279,287	¥(478)
Derivatives	¥ (20)	¥ (20)	¥ —

	Thousands of U.S. dollars		
	Dec. 2013		
	Carrying amount	Fair value	Unrealized gain/(loss)
Cash and time deposits	$1,198,539	$1,198,539	$ —
Short-term investments	964,465	964,465	—
Notes and accounts receivable	1,774,230		
Allowance for doubtful receivables	(14,262)		
Notes and accounts receivable, net	1,759,968	1,759,968	—
Investment securities	91,043	91,043	—
Total	$4,014,015	$4,014,015	$ —
Short-term debt	$ 12,126	$ 12,126	$ —
Current portion of long-term debt	201,689	202,097	(408)
Notes and accounts payable	1,621,502	1,621,502	—
Income taxes payable	306,689	306,689	—
Long-term debt	805,731	809,498	(3,767)
Total	$2,947,737	$2,951,912	$(4,175)
Derivatives	$ (1,793)	$ (1,793)	$ —

Cash and time deposits
The carrying values 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 institutions if there is no quoted market price. The carrying values of other marketable securities, such as commercial papers, investment trust funds and others, approximate fair value because of their short maturities. See Note 4 for information of the fair value of short-term investments and investment securities by classification.

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

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

Current portion of long-term debt
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.

Notes and accounts payable, and income taxes payable

The carrying values of notes and accounts payable, and income taxes 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 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 long-term loans subject to a special accounting method for interest rate swaps which qualify for hedge accounting and meet specific matching criteria is measured at the present value by discounting expected repayments of principal and interest together with the interest rate swaps 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 17.

The carrying amount of financial instruments whose fair value cannot be reliably determined as of December 31, 2013 and 2012 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	Dec. 2013	Dec. 2012	Dec. 2013
Investment securities that do not have a quoted market price in an active market	¥1,181	¥1,181	$11,206

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

The maturity analysis for financial assets and securities with contractual maturities as of December 31, 2013 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	¥126,314	¥—	¥—	¥—
Short-term investments and investment securities:				
Held-to-maturity debt securities	60,000	—	—	—
Available-for-sale other securities with contractual maturities	224	—	—	—
Notes and accounts receivable	186,986	—	—	—
Total	¥373,524	¥—	¥—	¥—

	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	$1,198,539	$—	$—	$—
Short-term investments and investment securities:				
Held-to-maturity debt securities	569,314	—	—	—
Available-for-sale other securities with contractual maturities	2,124	—	—	—
Notes and accounts receivable	1,774,230	—	—	—
Total	$3,544,207	$—	$—	$—

Please see Note 5 for annual maturities of long-term debt.

17 Derivatives

(a) Derivative transactions to which hedge accounting is not applied

The Company had the following derivative contracts outstanding to which hedge accounting was not applied at December 31, 2013 and 2012.

	Millions of yen			
	Dec. 2013			
	Contract amount	Contract amount due after one year	Fair value	Unrealized gain / (loss)
Foreign exchange forward contracts:				
Buying U.S. Dollar	¥3,974	¥2,739	¥ (12)	¥ (12)
Buying Japanese Yen	33	—	(3)	(3)
Buying other currencies	8	—	0	0
Selling U.S. Dollar	6,996	—	(36)	(36)
Selling other currencies	1,120	—	2	2
Foreign currency swaps:				
Receiving Japanese Yen, paying Chinese Yuan	2,279	2,279	(380)	(380)
Receiving U.S. Dollar, paying Indonesian Rupiah	2,832	2,832	295	295
Interest rate swaps:				
Receiving floating rate, paying fixed rate	281	281	(55)	(55)

	Millions of yen			
	Dec. 2012			
	Contract amount	Contract amount due after one year	Fair value	Unrealized gain / (loss)
Foreign exchange forward contracts:				
Buying U.S. Dollar	¥ 960	¥830	¥(16)	¥(16)
Buying Japanese Yen	11	—	(1)	(1)
Buying other currencies	14	—	0	0
Selling U.S. Dollar	6,390	813	18	18
Selling other currencies	1,652	—	(21)	(21)

	Thousands of U.S. dollars			
	Dec. 2013			
	Contract amount	Contract amount due after one year	Fair value	Unrealized gain / (loss)
Foreign exchange forward contracts:				
Buying U.S. Dollar	$37,708	$25,989	$ (114)	$ (114)
Buying Japanese Yen	313	—	(28)	(28)
Buying other currencies	76	—	0	0
Selling U.S. Dollar	66,382	—	(342)	(342)
Selling other currencies	10,627	—	19	19
Foreign currency swaps:				
Receiving Japanese Yen, paying Chinese Yuan	21,624	21,624	(3,606)	(3,606)
Receiving U.S. Dollar, paying Indonesian Rupiah	26,872	26,872	2,799	2,799
Interest rate swaps:				
Receiving floating rate, paying fixed rate	2,666	2,666	(522)	(522)

(b) Derivative transactions to which hedge accounting is applied

The Companies had the following derivative contracts outstanding to which hedge accounting was applied at December 31, 2013 and 2012.

		Millions of yen						Thousands of U.S. dollars		
		Dec. 2013			Dec. 2012			Dec. 2013		
	Hedged item	Contract amount	Contract amount due after one year	Fair value	Contract amount	Contract amount due after one year	Fair value	Contract amount	Contract amount due after one year	Fair value
Interest rate swaps:										
(Fixed rate payment, Floating rate receipt)	Long-term debt	¥40,000	¥20,000	—	¥40,000	¥40,000	—	$379,543	$189,771	—

The interest rate swaps which qualify for hedge accounting and meet specific matching criteria are not remeasured at market value but the differentials paid or received under the swap agreements are recognized and included in interest expense or income. In addition, the fair value of the interest rate swaps is included in that of the hedged item, long-term debt, in Note 16.

18 Net Income per Share

A reconciliation of the differences between basic and diluted net income per share ("EPS") for the year ended December 31, 2013 and the period ended December 31, 2012 was as follows:

	Millions of yen	Thousands of shares	Yen	U.S. dollars
	Net income	Weighted average shares	EPS	
For the year ended December 31, 2013:				
Basic EPS				
Net income available to common shareholders...................	¥64,764	513,880	¥126.03	$1.20
Effect of dilutive securities				
Warrants	—	550		
Diluted EPS				
Net income for computation..	¥64,764	514,430	¥125.89	$1.19

	Millions of yen	Thousands of shares	Yen
	Net income	Weighted average shares	EPS
For the period ended December 31, 2012:			
Basic EPS			
Net income available to common shareholders...................	¥52,765	521,824	¥101.12
Effect of dilutive securities			
Warrants	—	212	
Diluted EPS			
Net income for computation..	¥52,765	522,036	¥101.08

Deloitte.

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of Kao Corporation:

We have audited the accompanying consolidated balance sheet of Kao Corporation and its consolidated subsidiaries as of December 31, 2013, and the related consolidated statements of income, comprehensive income, changes in equity, and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information, all expressed in Japanese yen.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in Japan, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit 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 consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

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 its consolidated subsidiaries as of December 31, 2013, and the consolidated results of their operations and their cash flows for the year then ended in accordance with accounting principles generally accepted in Japan.

Convenience Translation

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

Deloitte Touche Tohmatsu LLC

March 25, 2014

Member of
Deloitte Touche Tohmatsu Limited

Principal Subsidiaries and Affiliates (As of March 28, 2014)

Country/Area	Business				Company
Japan	●	●	●		Kao Customer Marketing Co., Ltd.
	●				Kanebo Cosmetics Inc.
	●				Kanebo Cosmetics Sales Inc.
	●				E'quipe, 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.
	●				Kanebo Cosmetics (China) 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, Inc.
Thailand	●	●	●	●	Kao Industrial (Thailand) Co., Ltd.
	●	●	●		Kao Commercial (Thailand) 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 Limited
Indonesia	●	●	●		P.T. Kao Indonesia
				●	P.T. Kao Indonesia Chemicals
Australia	●		●		Kao Australia Pty. Ltd.

Country/Area	Business				Company
Canada	●				Kao Canada Inc.
United States	●				Kao USA Inc.
				●	Kao America Inc.
				●	Kao Specialties Americas LLC
Mexico				●	Quimi-Kao, S.A. de C.V.
Germany	●				Kao Germany GmbH
	●				Guhl Ikebana GmbH
	●				Kao Manufacturing Germany GmbH
				●	Kao Chemicals GmbH
Netherlands	●				Kao Netherlands B.V.
United Kingdom	●				Kao (UK) Limited
	●				KPSS (UK) Limited
	●				Kao Prestige Limited
	●				Molton Brown Limited
Switzerland	●				Kao Switzerland 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 December 31, 2013)

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: 516,000,000 shares
Outstanding (excluding treasury stock):
512,726,542 shares
Number of Shareholders: 50,403

Stock Listing
Tokyo Stock Exchange

Ticker Symbol Number
4452

Administrator of Shareholder Register
Sumitomo Mitsui Trust Bank, Limited
8-4, Izumi 2-chome, Suginami-ku, Tokyo 168-0063, Japan

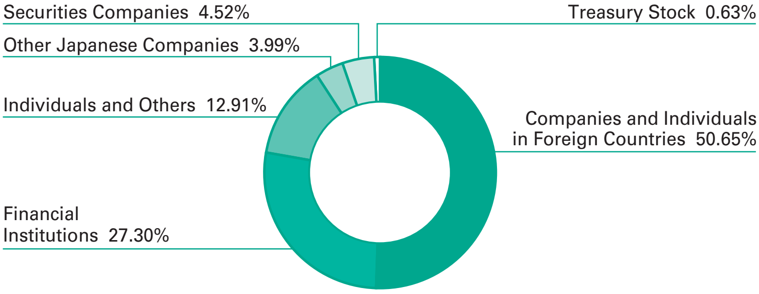
Depositary and Registration for American Depositary Receipts (ADR Ticker Symbol: KCRPY)
JPMorgan Chase Bank, N.A.
1 Chase Manhattan Plaza, Floor 58,
New York, NY 10005, U.S.A.

Top Ten Shareholders

Name of Shareholder	Number of Shares (thousand shares)	Ratio of Shareholding* (percentage)
The Master Trust Bank of Japan, Ltd. (Trust Account)	24,822	4.84
Japan Trustee Services Bank, Ltd. (Trust Account)	24,337	4.75
Northern Trust Co. (AVFC) Sub A/C American Clients	23,332	4.55
State Street Bank and Trust Company 505223	15,857	3.09
State Street Bank and Trust Company	12,905	2.52
Tokio Marine & Nichido Fire Insurance Co., Ltd.	9,553	1.86
State Street Bank and Trust Company 505225	8,778	1.71
Mellon Bank, N.A. as Agent for its Client Mellon Omnibus US Pension	8,581	1.67
The Bank of New York Mellon SA/NV 10	8,121	1.58
Kao Group Employee Shareholding Association	7,593	1.48

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

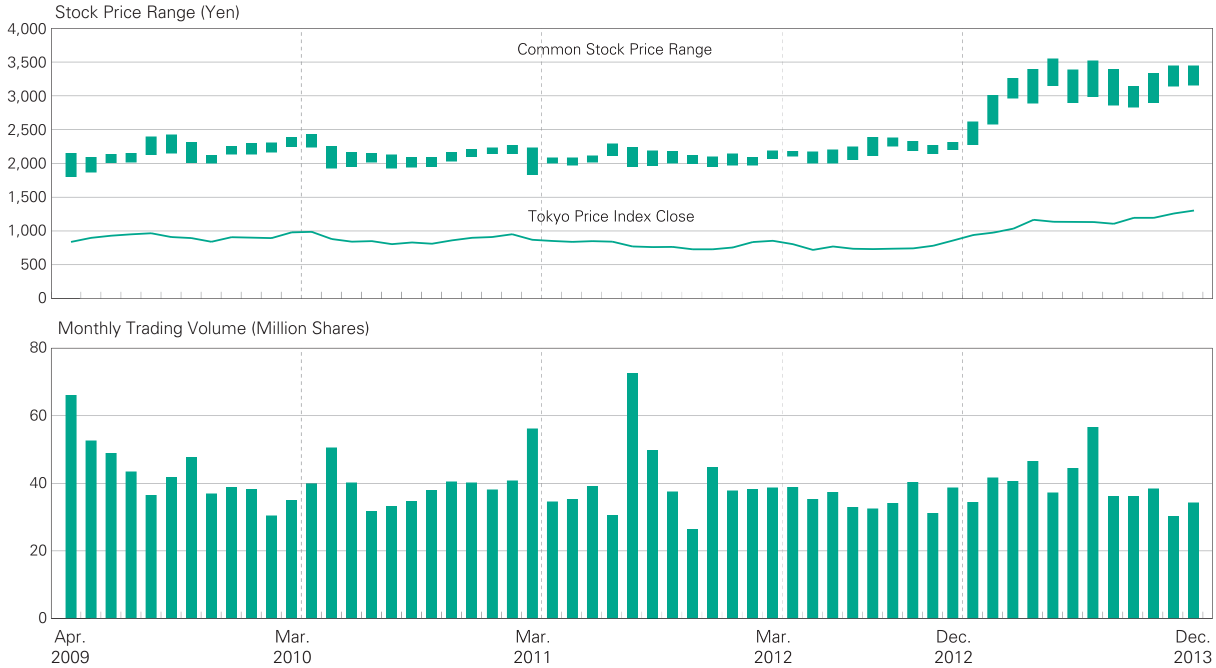
Composition of Shareholders



For the Kao Sustainability Report and Kao Group Profile, please refer to the Kao Group website at
http://www.kao.com/group/en/group/reports.html

Investor Relations
Telephone: 81-3-3660-7101 Facsimile: 81-3-3660-8978
E-mail: ir@kao.co.jp
Website: http://www.kao.com/jp/en/corp_ir/investors.html

Stock Price Range and Trading Volume (Tokyo Stock Exchange)



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