

**Kao Corporation Reports Business Results**

Tokyo, April 24, 2012 — Kao Corporation today announced its consolidated business results for the fiscal year ended March 31, 2012. The following summary of the business results is unaudited and for reference only.

Ticker code: 4452

**Consolidated Financial Highlights**

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

|  | Year ended March 31 |           |        |                  |
|--|---------------------|-----------|--------|------------------|
|  | 2012                | 2011      | Growth | 2012             |
|  | Yen                 |           | %      | U.S. dollars     |
| Net sales                                      | <b>1,216,095</b>    | 1,186,831 | 2.5    | <b>14,796.1</b>  |
| Operating income                               | <b>108,590</b>      | 104,591   | 3.8    | <b>1,321.2</b>   |
| Ordinary income                                | <b>110,026</b>      | 103,336   | 6.5    | <b>1,338.7</b>   |
| Net income                                     | <b>52,434</b>       | 46,737    | 12.2   | <b>638.0</b>     |
| Comprehensive income                           | <b>41,395</b>       | 25,558    | 62.0   | <b>503.7</b>     |
| ROE (Net income / Net worth)                   | <b>9.8%</b>         | 8.5%      | -      | <b>9.8%</b>      |
| ROA (Ordinary income / Total assets)           | <b>10.9%</b>        | 9.9%      | -      | <b>10.9%</b>     |
| Operating income / Net sales                   | <b>8.9%</b>         | 8.8%      | -      | <b>8.9%</b>      |
| Total assets                                   | <b>991,272</b>      | 1,022,799 | (3.1)  | <b>12,060.7</b>  |
| Total net assets                               | <b>549,704</b>      | 539,564   | 1.9    | <b>6,688.2</b>   |
| Net worth                                      | <b>538,029</b>      | 528,894   | 1.7    | <b>6,546.2</b>   |
| Net worth ratio                                | <b>54.3%</b>        | 51.7%     | -      | <b>54.3%</b>     |
| Net worth per share (Yen/US\$)                 | <b>1,031.08</b>     | 1,013.05  | 1.8    | <b>12.55</b>     |
| Net income per share (Yen/US\$)                | <b>100.46</b>       | 87.69     | 14.6   | <b>1.22</b>      |
| Net income per share, fully diluted (Yen/US\$) | <b>100.43</b>       | 87.67     | 14.6   | <b>1.22</b>      |
|  | Yen                 | Yen       | %      | U.S. dollars     |
| Net cash provided by operating activities      | <b>125,032</b>      | 151,298   | -      | <b>1,521.3</b>   |
| Net cash used in investing activities          | <b>(48,951)</b>     | (31,777)  | -      | <b>(595.6)</b>   |
| Net cash used in financing activities          | <b>(86,163)</b>     | (87,323)  | -      | <b>(1,048.3)</b> |
| Cash and cash equivalents, end of period       | <b>129,736</b>      | 143,143   | -      | <b>1,578.5</b>   |

*Notes:*

1. Net worth is net assets, excluding minority interests and stock acquisition rights.
2. The net worth ratio is defined as net worth divided by total assets.
3. Net worth per share is computed based on the number of shares outstanding at the end of the periods excluding treasury stock.
4. Net income per share is computed based on the weighted average number of shares outstanding during each respective period.
5. Number of shares outstanding at the end of the periods (common stock):
  - Number of shares including treasury stock:  
526,212,501 shares as of March 31, 2012; 540,143,701 shares as of March 31, 2011.
  - Number of shares of treasury stock:  
4,402,474 shares as of March 31, 2012; 18,063,790 shares as of March 31, 2011.
6. Weighted average number of shares outstanding during the fiscal year ended March 31 of each year:  
521,936,275 shares for 2012; 532,979,835 shares for 2011.

**Dividend**

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

|  | Year ended March 31 |        |               |
|--|---------------------|--------|---------------|
|  | 2012                | 2011   | 2012          |
|  | Yen                 |        | U.S. dollars  |
| Annual cash dividends per share (Yen/US\$)       | <b>60.00</b>        | 58.00  | <b>0.73</b>   |
| Total dividend payment amount                    | <b>31,341</b>       | 30,717 | <b>381.32</b> |
| Payout ratio (consolidated)                      | <b>59.7%</b>        | 66.1%  | <b>59.7%</b>  |
| Cash dividends / Total net assets (consolidated) | <b>5.9%</b>         | 5.6%   | <b>5.9%</b>   |

*Notes:**Interim dividend per share: 29.00 yen for 2012 and 29.00 yen for 2011**Year-end dividend per share: 31.00 yen for 2012 and 29.00 yen for 2011***Forecast of Consolidated Results for the Six Months Ending September 30, 2012 and the Year Ending December 31, 2012**

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

|                                     | Six months ending September 30, 2012 |          |              | Year ending December 31, 2012 |                   |              |
|-------------------------------------|--------------------------------------|----------|--------------|-------------------------------|-------------------|--------------|
|                                     | Yen                                  | % Growth | U.S. dollars | Yen                           | Adjusted % Growth | U.S. dollars |
| Net sales                           | 615.0                                | 0.0      | 7,482.7      | 1,020.0                       | 1.2               | 12,410.3     |
| Operating income                    | 53.0                                 | (7.8)    | 644.8        | 100.0                         | 1.6               | 1,216.7      |
| Ordinary income                     | 53.0                                 | (10.0)   | 644.8        | 101.0                         | 0.9               | 1,228.9      |
| Net income                          | 33.0                                 | 7.3      | 401.5        | 60.0                          | 16.1              | 730.0        |
| Net income per share (Yen/US\$)     | 63.24                                | -        | 0.77         | 114.98                        | -                 | 1.40         |
| Cash dividends per share (Yen/US\$) | 31.00                                | -        | 0.38         | 62.00                         | -                 | 0.75         |

*Notes:*

1. Provided that partial amendments to the Articles of Incorporation are approved at the Annual General Meeting of Shareholders of Kao Corporation scheduled to be held on June 28, 2012, the fiscal year end of Kao Corporation is expected to be changed from March 31 to December 31 from FY2012.

Provided that the change in fiscal year end is approved, the term of consolidation for FY 2012 as a transitional period for consolidated subsidiaries currently with a fiscal year end of March 31 will be a 9 month-period from April 1, 2012 to December 31, 2012. For consolidated subsidiaries currently with a fiscal year end of December 31, as in the past the term of consolidation for FY2012 will be a 12 month-period from January 1, 2012 to December 31, 2012.

2. Adjusted % growth is a comparison with FY2011 business results adjusted to a nine-month period from April 1 to December 31, 2011 for Kao Corporation and its consolidated subsidiaries with a fiscal year end in March.

3. Net income per share is computed based on the estimated weighted average number of shares outstanding during the fiscal year.

## Consolidated Results by Segment

| Year ended March 31     | Net sales       |         |               |      | Operating income |       |        |
|-------------------------|-----------------|---------|---------------|------|------------------|-------|--------|
|                         | Billions of yen |         | % Growth      |      | Billions of yen  |       |        |
|                         | 2012            | 2011    | Like-for-like |      | 2012             | 2011  | Change |
| Beauty Care             | <b>537.9</b>    | 533.5   | 0.8           | 2.4  | <b>15.4</b>      | 5.5   | 9.8    |
| Human Health Care       | <b>181.7</b>    | 175.7   | 3.4           | 4.0  | <b>14.6</b>      | 15.2  | (0.6)  |
| Fabric and Home Care    | <b>285.6</b>    | 279.0   | 2.4           | 2.9  | <b>55.5</b>      | 59.6  | (4.1)  |
| Consumer Products Total | <b>1,005.3</b>  | 988.2   | 1.7           | 2.8  | <b>85.5</b>      | 80.4  | 5.1    |
| Chemical                | <b>247.6</b>    | 231.9   | 6.7           | 10.0 | <b>23.0</b>      | 24.1  | (1.0)  |
| Total                   | <b>1,252.9</b>  | 1,220.2 | 2.7           | 4.2  | <b>108.5</b>     | 104.5 | 4.0    |
| Eliminations            | <b>(36.8)</b>   | (33.4)  | -             | -    | <b>0.0</b>       | 0.0   | (0.0)  |
| Consolidated            | <b>1,216.0</b>  | 1,186.8 | 2.5           | 4.0  | <b>108.5</b>     | 104.5 | 3.9    |

| Year ended March 31     | Net sales                |          |               |      | Operating income         |         |        |
|-------------------------|--------------------------|----------|---------------|------|--------------------------|---------|--------|
|                         | Millions of U.S. dollars |          | % Growth      |      | Millions of U.S. dollars |         |        |
|                         | 2012                     | 2011     | Like-for-like |      | 2012                     | 2011    | Change |
| Beauty Care             | <b>6,545.0</b>           | 6,491.2  | 0.8           | 2.4  | <b>187.5</b>             | 67.4    | 120.1  |
| Human Health Care       | <b>2,211.4</b>           | 2,138.5  | 3.4           | 4.0  | <b>178.0</b>             | 185.9   | (7.9)  |
| Fabric and Home Care    | <b>3,475.4</b>           | 3,394.7  | 2.4           | 2.9  | <b>675.8</b>             | 725.9   | (50.1) |
| Consumer Products Total | <b>12,231.9</b>          | 12,024.4 | 1.7           | 2.8  | <b>1,041.3</b>           | 979.2   | 62.1   |
| Chemical                | <b>3,013.0</b>           | 2,822.7  | 6.7           | 10.0 | <b>279.9</b>             | 293.2   | (13.4) |
| Total                   | <b>15,244.9</b>          | 14,847.1 | 2.7           | 4.2  | <b>1,321.2</b>           | 1,272.4 | 48.8   |
| Eliminations            | <b>(448.7)</b>           | (407.0)  | -             | -    | <b>0.0</b>               | 0.1     | (0.1)  |
| Consolidated            | <b>14,796.1</b>          | 14,440.1 | 2.5           | 4.0  | <b>1,321.2</b>           | 1,272.6 | 48.6   |

## Reference: Consolidated Results by Geographic Area

| Year ended March 31 | Net sales       |         |               |      | Operating income |       |        |
|---------------------|-----------------|---------|---------------|------|------------------|-------|--------|
|                     | Billions of yen |         | % Growth      |      | Billions of yen  |       |        |
|                     | 2012            | 2011    | Like-for-like |      | 2012             | 2011  | Change |
| Japan               | <b>925.3</b>    | 912.4   | 1.4           | 1.4  | <b>88.5</b>      | 85.2  | 3.2    |
| Asia/Oceania        | <b>173.5</b>    | 152.3   | 13.9          | 20.2 | <b>9.1</b>       | 6.6   | 2.4    |
| North America       | <b>85.3</b>     | 80.3    | 6.3           | 16.4 | <b>3.3</b>       | 5.6   | (2.2)  |
| Europe              | <b>117.0</b>    | 112.1   | 4.4           | 8.1  | <b>7.7</b>       | 8.1   | (0.4)  |
| Total               | <b>1,301.3</b>  | 1,257.2 | 3.5           | 5.2  | <b>108.7</b>     | 105.6 | 3.1    |
| Eliminations        | <b>(85.2)</b>   | (70.4)  | -             | -    | <b>(0.1)</b>     | (1.0) | 0.8    |
| Consolidated        | <b>1,216.0</b>  | 1,186.8 | 2.5           | 4.0  | <b>108.5</b>     | 104.5 | 3.9    |

| Year ended March 31 | Net sales                |          |               |      | Operating income         |         |        |
|---------------------|--------------------------|----------|---------------|------|--------------------------|---------|--------|
|                     | Millions of U.S. dollars |          | % Growth      |      | Millions of U.S. dollars |         |        |
|                     | 2012                     | 2011     | Like-for-like |      | 2012                     | 2011    | Change |
| Japan               | <b>11,258.5</b>          | 11,101.6 | 1.4           | 1.4  | <b>1,076.8</b>           | 1,037.0 | 39.9   |
| Asia/Oceania        | <b>2,112.0</b>           | 1,853.8  | 13.9          | 20.2 | <b>111.4</b>             | 81.1    | 30.3   |
| North America       | <b>1,039.0</b>           | 977.3    | 6.3           | 16.4 | <b>41.0</b>              | 68.3    | (27.3) |
| Europe              | <b>1,423.6</b>           | 1,364.2  | 4.4           | 8.1  | <b>94.4</b>              | 99.5    | (5.1)  |
| Total               | <b>15,833.2</b>          | 15,296.9 | 3.5           | 5.2  | <b>1,323.6</b>           | 1,285.8 | 37.8   |
| Eliminations        | <b>(1,037.0)</b>         | (856.8)  | -             | -    | <b>(2.4)</b>             | (13.2)  | 10.8   |
| Consolidated        | <b>14,796.1</b>          | 14,440.1 | 2.5           | 4.0  | <b>1,321.2</b>           | 1,272.6 | 48.6   |

## Notes:

1. Like-for-like growth rates exclude the currency translation effect related to translation of local currencies into Japanese yen.
2. Information on consolidated results by geographic area is for reference.
3. Net sales to foreign customers were 27.1% of consolidated net sales compared with 26.3% for the same period a year earlier.

*News Release*

**Notes for this News Release:**

1. Significant changes in subsidiaries during the period (changes in specified subsidiaries with changes in the scope of consolidation): None
2. U.S. dollar amounts represent translations using the approximate exchange rate on March 31, 2012, of 82.19 yen=US\$1, and are presented solely for the convenience of readers.
3. Yen amounts are rounded down to the nearest million.

**Forward-Looking Statements**

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

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**1. Consolidated Business Results**

**1.1. Analysis of Business Results**

**1.1.1. Business Results for the Fiscal Year**

**1.1.1.1. Overall Business Trends during the Fiscal Year**

During the fiscal year ended March 31, 2012, the global economy recovered overall, albeit weakly, despite the impact of the European financial crisis. In Asia, economic expansion continued, but at a slower pace. In Japan, there were signs of a gradual recovery, although conditions remained severe due to the effects of the Great East Japan Earthquake (the “Earthquake”) in March 2011 as well as deflation and the appreciation of the yen. The household and personal care products market in Japan, a key market for the Kao Group, contracted 1% on a value basis as consumer purchase prices fell compared with the previous fiscal year. The cosmetics market in Japan continued to contract due to a shift in consumer preference to lower-priced products.

Under these circumstances, the Kao Group made all-out efforts to carry out stable supply of products after the Earthquake as the mission of a manufacturer of daily necessities, and worked to launch and nurture products with high added value based on its concept of “*Yoki-Monozukuri*.”\* In addition, while aggressively investing for growth, including the completion of the Eco-Technology Research Center, which centralizes environmental research functions to accelerate eco-innovation research, the Kao Group also worked to rebuild its prestige cosmetics business in Japan and promote cost reduction activities.

*\*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.”*

Net sales increased 2.5% compared with the previous fiscal year to 1,216.0 billion yen. Excluding the effect of currency translation, net sales would have increased 4.0%. In the Beauty Care Business, sales of prestige cosmetics grew in Japan, and premium hair care products performed well outside Japan. Sales increased in the Human Health Care Business and the Fabric and Home Care Business. In the Chemical Business, sales outside Japan increased as the Kao Group adjusted its selling prices in response to fluctuations in raw material prices.

Raw material prices increased due to fluctuations in international market prices, mainly for

*News Release*

natural oils and fats and petrochemicals. However, in addition to the impact of increased sales on profits, the Kao Group worked to promote cost reduction activities and curtail expenses. As a result, operating income increased 3.9 billion yen compared with the previous fiscal year to 108.5 billion yen. Ordinary income increased 6.6 billion yen to 110.0 billion yen, and net income increased 5.6 billion yen to 52.4 billion yen, even though the Kao Group recorded an extraordinary loss of 2.0 billion yen for loss related to the Great East Japan Earthquake and a reversal of deferred tax assets and liabilities in connection with a revision of the Japanese tax code.

Operating income before amortization of goodwill and other items related to acquisitions (EBITA) increased 3.0 billion yen compared with the previous fiscal year to 142.1 billion yen, which is equivalent to 11.7% of net sales.

Net income per share was 100.46 yen, an increase of 12.77 yen, or 14.6%, from 87.69 yen in the previous fiscal year.

Economic value added (EVA\*), which the Kao Group uses as a management indicator, was higher than the previous fiscal year, reflecting an increase in net operating profit after tax (NOPAT).

*\*EVA is a registered trademark of Stern Stewart & Co.*

The main exchange rates used for translating the financial statement items (income and expenses) of foreign subsidiaries and affiliates were as shown below. The periods of consolidation are from January to March for the first quarter, April to June for the second quarter, July to September for the third quarter, and October to December for the fourth quarter.

|                 | First quarter  | Second quarter | Third quarter   | Fourth quarter  |
|-----------------|----------------|----------------|-----------------|-----------------|
| Yen/U.S. dollar | 82.33 (90.75)  | 81.23 (91.29)  | 77.08 (85.03)   | 77.87 (82.22)   |
| Yen/Euro        | 113.77(123.71) | 118.29(114.83) | 108.74 (111.45) | 104.86 (110.39) |

Note: Figures in parentheses represent the exchange rate for the previous fiscal year.

*News Release*

1.1.1.2. Trends by Segment for the Fiscal Year

*Summary of Results by Business Segment*

**Consumer Products Business**

Sales increased 1.7% compared with the previous fiscal year to 1,005.3 billion yen. Excluding the effect of currency translation, sales would have increased 2.8%.

In Japan, sales increased 1.8% to 832.2 billion yen. Although sales were impacted by the Earthquake, intensified market competition and deflation, the Kao Group took measures including proposing environmentally conscious products, launching new products in response to changing consumer lifestyles and enhancing proposal-based sales and in-store merchandising activities.

In Asia and Oceania, sales increased 6.6% to 87.4 billion yen. Excluding the effect of currency translation, sales would have increased 11.8%. Although market competition intensified, the Kao Group carried out aggressive measures including collaborations with retailers and introduction of new products amid continued market growth.

In North America, sales decreased 2.7% to 49.6 billion yen. Excluding the effect of currency translation, sales would have increased 6.6%. The market was firm, and new products contributed to sales, but the appreciation of the yen exerted an impact on results.

In Europe, sales increased 1.3% to 61.5 billion yen. Excluding the effect of currency translation, sales would have increased 5.1%. The market recovered, albeit gradually, and new products launched in 2010 performed well.

Operating income increased 5.1 billion yen to 85.5 billion yen. Although there was an impact from higher raw material prices, the Kao Group curtailed expenses and conducted cost reduction activities.

*Beauty Care Business*

Sales increased 0.8% compared with the previous fiscal year to 537.9 billion yen. Excluding the effect of currency translation, sales would have increased 2.4%.

Sales of prestige cosmetics, which consist of self-selection and counseling cosmetics, increased 2.2% to 259.9 billion yen with the launch of new products, although the downtrend

**News Release**

continued in Japan's cosmetics market with the impact of the Earthquake in addition to the shift in consumer preference toward lower-priced products. In Japan, the Kao Group launched new products and enhanced in-store merchandising for self-selection brands such as *KATE* makeup and *EVITA* total cosmetics. In counseling cosmetics, the Kao Group nurtured and strengthened its megabrands with annual sales of more than 10 billion yen, including making improvements to the *BLANCHIR SUPERIOR* whitening skin care and *SOFINA beauté* skin care brands, and adding a new product line for *SOFINA Primavista* base makeup. In addition, the Kao Group carried out reform of sales methods including optimization of marketing activities and counseling in response to changes in consumer needs and increased its share in a contracting market. Sales outside Japan expanded steadily.

Sales of premium skin care products grew in Japan as the Kao Group launched products from the *Bioré* facial cleanser and *Bioré U* body cleanser brands that use new cleansing technology (Skin Purifying Technology) to wash away dirt with the least possible damage to the skin, and continued to make proposals for dry and sensitive skin with the *Curél* brand. Sales in Asia increased, with product improvements contributing to strong performance by *Bioré* in Hong Kong, Taiwan and Indonesia. In North America, *Jergens* performed well in the hand and body lotion category.

Sales of premium hair care products decreased in Japan. Sales of *Merit* shampoo and conditioner were steady, but sales of hair coloring products were weak due to market contraction and intensifying competition. Sales in Asia increased, with strong performance by *Liese* foam hair color in Hong Kong, Taiwan and Thailand. In North America and Europe, strong sales of foam hair color, hair styling products and other new *John Frieda* products drove substantial sales growth.

Operating income increased 9.8 billion yen to 15.4 billion yen due to ongoing efforts to rebuild the prestige cosmetics business in Japan and other factors, even though the Kao Group invested aggressively in advertising expenses for new products in North America and Europe. Operating income before amortization of goodwill and other items related to acquisitions (EBITA) increased 9.0 billion yen to 48.8 billion yen, which is equivalent to 9.1% of sales.

**Human Health Care Business**

Sales increased 3.4% compared with the previous fiscal year to 181.7 billion yen. Excluding the effect of currency translation, sales would have increased 4.0%.

In food and beverage products, the *Healthya* brand of functional drinks that promote body



*News Release*

fat utilization gained support from consumers and sales were firm.

Sales of sanitary products were essentially flat compared with the previous fiscal year. Sales of sanitary napkins grew steadily in Japan, aided by the launch of improved *Laurier F*, and also increased in Asian countries. Sales of baby diapers were impacted by market contraction and competition in Japan, although market share grew. In Taiwan, China and Russia, baby diapers performed strongly.

Sales of personal health products increased, as toothpastes and *Bub* bath additives performed well.

Operating income decreased 0.6 billion yen to 14.6 billion yen with the impact of increased raw material prices and market competition, despite the Kao Group's cost reduction activities in addition to the impact of increased sales.

*Fabric and Home Care Business*

Sales increased 2.4% compared with the previous fiscal year to 285.6 billion yen. Excluding the effect of currency translation, sales would have increased 2.9%.

Sales of fabric care products increased. 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, and strengthened the product line by additionally launching *Attack Neo Antibacterial EX Power* ultra-concentrated liquid laundry detergent, which suppresses odor-causing bacteria in laundry. *Wide Hailer EX Power* fabric bleach for color garments and new *Flair Fragrance* fabric softener performed strongly. In Asia, consumer support led to increased sales of *Attack Instant Clean Liquid* laundry detergent in China and *Attack Easy* laundry detergent in Indonesia and other countries.

In home care products in Japan, there was a steady increase in sales of *CuCute* dishwashing detergent, *Toilet Quickle* cleaning wipes, *Quickle Wiper* dust mop kits following a product renewal, and *Resesh Aroma Charge* fabric and air freshener.

Operating income decreased 4.1 billion yen to 55.5 billion yen with the impact of increased raw material prices, although the Kao Group conducted cost reduction activities and other measures.

*News Release*

**Chemical Business**

In the Chemical Business, while sales in Japan were affected by decreased demand in customer industries due to the Earthquake, the strong yen, flooding in Thailand and other factors, sales grew substantially outside Japan. As a result, sales increased 6.7% compared with the previous fiscal year to 247.6 billion yen. Excluding the effect of currency translation, sales would have increased 10.0%.

In oleo chemicals, the Kao Group made efforts to adjust selling prices in response to fluctuations in prices of natural oils and fats and petrochemicals. In performance chemicals, the Kao Group worked to develop and expand sales of high-value-added products with reduced environmental impact. Sales of specialty chemicals, primarily toner and toner binder for copiers and printers, were firm.

Operating income decreased 1.0 billion yen to 23.0 billion yen due to the impact of the appreciation of the yen and decreased demand from customer industries, despite efforts to adjust selling prices and cost reduction activities.

Note: The Company is organized into four reportable segments: 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.

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**1.1.2 Forecast for the Fiscal Year Ending December 31, 2012**

Due to a planned change in the fiscal year end, figures in the forecast of consolidated results below are for the nine-month period from April through December for Kao Corporation and its subsidiaries with a fiscal year end in March, and the twelve-month period from January through December for subsidiaries with a fiscal year end in December.

**Forecast of Consolidated Results for the Fiscal Year Ending December 31, 2012**

(Billions of yen, except where noted)

|   | Net sales | Operating income | Ordinary income | Net income | Net income per share (Yen) |
|---|-----------|------------------|-----------------|------------|----------------------------|
| Forecast for the fiscal year ending December 31, 2012   | 1,020.0   | 100.0            | 101.0           | 60.0       | 114.98                     |
| Actual results for the fiscal year ended March 31, 2012 | 1,216.0   | 108.5            | 110.0           | 52.4       | 100.46                     |
| Adjusted % growth*                                      | 1.2%      | 1.6%             | 0.9%            | 16.1%      | 16.0%                      |

\* Comparison with the nine-month period from April 1 to December 31, 2011 for Kao Corporation and its subsidiaries with a fiscal year end in March

**1.1.2.1. Forecast of Overall Business Results for the Fiscal Year Ending December 31, 2012**

Continued recovery, albeit weak, is forecast for the global economy, although there are concerns about the risk of a downturn, with uncertainty about the outlook due to the public debt problem in Europe and high crude oil prices. In Japan, where deflation is continuing, the outlook for the operating environment remains unclear, with worsening employment conditions and restrictions on electric power supply.

Amid these circumstances, the Kao Group will accurately respond to various changes in the operating environment of the Consumer Products Business as it aims to achieve profitable growth globally with consumer-driven, high-value-added products. In Japan, the Kao Group will accelerate rebuilding the prestige cosmetics business. In Asia, the Kao Group aims to raise the level of sales with aggressive launches of new products. In North America and Europe, the Kao Group will promote integrated management of the Beauty Care Business through the unification of management structures of a range of beauty care products in each country. In the Chemical Business, the Kao Group will work to strengthen global operations and carry out measures such as developing products with a reduced environmental impact. The Kao Group forecasts net sales of 1,020.0 billion yen (adjusted growth of 1.2%). The Kao Group will work to stimulate the market with new product launches and other measures in

*News Release*

Japan and overseas, and expects an increase in sales volume.

As for raw material prices, natural oils and fats are forecast to stabilize, although petrochemical prices are rising. In addition, the Kao Group will work to continue price adjustments and cost reduction activities, while at the same time it will accelerate activities to strengthen global business development. Based on these assumptions, the Kao Group forecasts operating income of 100.0 billion yen (adjusted growth of 1.6%), ordinary income of 101.0 billion yen (adjusted growth of 0.9%), and net income of 60.0 billion yen (adjusted growth of 16.1%), partly due to lower corporate tax rates in connection with a revision of the Japanese tax code.

EVA is forecast to increase as the Kao Group works to increase profit and raise the efficiency of invested capital.

**1.1.2.2. Forecast by Business Segment for the Fiscal Year Ending December 31, 2012**

In the Consumer Products Business, although the Japanese market for household and personal care products is projected to be virtually flat on a value basis, deflation is forecast to continue. The cosmetics market in Japan is expected to continue to contract. In overseas markets, growth is expected to continue in Asia, and a moderate recovery is projected in North America and Europe. In this situation, the Kao Group will take the following actions.

In the Beauty Care Business, the Kao Group will work to revitalize the market by adding greater value to products and proposing the Group's own originality and appeal, while assessing changes in consumer attitudes toward beauty and lifestyle habits. In Japan, the contraction of the cosmetics market is forecast to continue, but the Kao Group will continue rebuilding its business and will promote the creation of strong brands through initiatives including launches and cultivation of distinctive new products tailored to changes in consumer needs and reform of marketing activities and sales methods to meet changes in consumer purchasing behavior. Overseas, the Kao Group will continue to cultivate facial cleansers and body cleansers that incorporate a new cleansing agent and hair color foam that uses its original technology, in addition to focusing management resources on cultivating and strengthening core brands through innovation of its global operating structure.

The Kao Group forecasts sales in this business of 452.0 billion yen (adjusted growth of 1.7%).

The Human Health Care Business will promote product development focused on health care for both body and spirit. In sales of food and beverage products, the Kao Group will use

*News Release*

products approved as Foods for Specified Health Uses that are differentiated by their high level of functional health value in order to further expand its base of loyal users. At the same time, it will offer a health support solutions program in response to rising health consciousness following the start of mandatory special health examinations and specified health guidance. The Kao Group aims to create sanitary products that are gentle on skin and that offer greater comfort and a sense of reassurance. Also, full-scale operation of a factory for baby diapers in China is scheduled for the end of 2012. The Kao Group will work to further raise the brand value of its personal health products by continuing to make original new proposals with products that can become healthy daily lifestyle habits.

The Kao Group forecasts sales in this business of 153.0 billion yen (adjusted growth of 6.2%).

In the Fabric and Home Care Business, the Kao Group will strengthen its brands and offer proposals for improvements in daily life based on insights into changing consumer lifestyles, developing high-value-added products that offer cleanliness, comfort and enjoyment in various everyday situations. In collaboration with retailers, the Kao Group will further promote its “eco together” environmental statement with instructional activities that aim to reduce environmental impact throughout the entire product lifecycle. In China and other countries in Asia, where the market for liquid laundry detergents is expanding, the Kao Group will work to develop and nurture products that incorporate its technologies to meet local consumer needs.

The Kao Group forecasts sales in this business of 235.0 billion yen (adjusted growth of 2.0%).

In the Chemical Business, the Kao Group will promote global supply of distinctive chemical products that meet the diverse needs of a wide range of industries.

In oleo chemicals, the Kao Group will work to expand the scale of its business, centering on fatty alcohols and their derivatives made from natural oils and fats, and stably supply high-quality products. In performance chemicals and specialty chemicals, the Kao Group will work to strengthen products with reduced environmental impact and will promote the development of products related to information materials in particular.

In addition, the Kao Group will work to expand sales by opening up growth markets such as the BRICs countries while developing new materials using unique, environmentally conscious technologies, mainly at the Eco-Technology Research Center, in response to rising concern about the environment worldwide.

*News Release*

However, due to adjustments in selling prices in response to fluctuations in raw material prices, the Kao Group forecasts sales in this business of 210.0 billion yen (adjusted growth of negative 4.2%).

**1.1.2.3. Underlying Assumptions of the Forecast for the Fiscal Year Ending December 31, 2012**

The above forecast was made assuming translation rates of one U.S. dollar to 80 yen and one euro to 105 yen.

Please note that although petrochemical prices are highly likely to rise, assumptions for raw material prices, including for natural oils and fats, are based on information currently available to the Kao Group.

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## 1.2. Analysis of Financial Condition

## Analysis of Assets, Liabilities, Net Assets and Cash Flow

## 1.2.1. Status of Assets, Liabilities, Net Assets and Cash Flow for the Fiscal Year Ended March 31, 2012

## Summary of Consolidated Financial Condition

| As of March 31                 | Billions of yen |          |              | Millions of U.S. dollars |
|--------------------------------|-----------------|----------|--------------|--------------------------|
|                                | 2012            | 2011     | Incr./(Dcr.) | 2012                     |
| Total assets                   | 991.2           | 1,022.7  | (31.5)       | 12,060.7                 |
| Total net assets               | 549.7           | 539.5    | 10.1         | 6,688.2                  |
| Net worth ratio                | 54.3%           | 51.7%    | -            | 54.3%                    |
| Net worth per share (Yen/US\$) | 1,031.08        | 1,013.05 | 18.03        | 12.55                    |
| Total debt                     | 102.1           | 156.8    | (54.7)       | 1,242.4                  |

## Summary of Consolidated Cash Flows

| Year ended March 31                       | Billions of yen |        |              | Millions of U.S. dollars |
|---|-----------------|--------|--------------|--------------------------|
|   | 2012            | 2011   | Incr./(Dcr.) | 2012                     |
| Net cash provided by operating activities | 125.0           | 151.2  | (26.2)       | 1,521.3                  |
| Net cash used in investing activities     | (48.9)          | (31.7) | (17.1)       | (595.6)                  |
| Free cash flow                            | 76.0            | 119.5  | (43.4)       | 925.7                    |
| Net cash used in financing activities     | (86.1)          | (87.3) | 1.1          | (1,048.3)                |

Total assets decreased 31.5 billion yen from the previous fiscal year end to 991.2 billion yen. The principal increases in assets were a 21.7 billion yen increase in notes and accounts receivable – trade, an 11.7 billion yen increase in short-term investments and a 9.2 billion yen increase in merchandise and finished goods. The principal decreases in assets were a 25.2 billion yen decrease in cash and time deposits, an 11.5 billion yen decrease in short-term and long-term deferred tax assets and a 35.4 billion yen decrease in intangible assets due to the progress of amortization of trademarks and other intellectual property rights and goodwill.

Total liabilities decreased 41.6 billion yen from the previous fiscal year end to 441.5 billion yen. The principal increase in liabilities was a 6.6 billion yen increase in notes and accounts payable – trade. The principal decrease in liabilities was a 50.0 billion yen decrease in current portion of bonds.

*News Release*

Total net assets increased 10.1 billion yen from the previous fiscal year end to 549.7 billion yen. The principal increase in net assets was net income totaling 52.4 billion yen. The principal decreases in net assets were payments of dividends from retained earnings totaling 30.2 billion yen and foreign currency translation adjustments of 11.6 billion yen. In May 2011, the Company retired 13,931 thousand shares of treasury stock at a cost of 32.4 billion yen through a reversal of retained earnings.

As a result, the net worth ratio (defined as net worth divided by total assets) was 54.3% compared with 51.7% at the end of the previous fiscal year.

Net cash provided by operating activities totaled 125.0 billion yen. The principal increases in net cash were income before income taxes and minority interests of 105.2 billion yen, depreciation and amortization of 79.7 billion yen and change in trade payables of 8.9 billion yen. The principal decreases in net cash were income taxes paid of 38.3 billion yen, change in trade receivables of 26.5 billion yen and change in inventories of 14.9 billion yen.

Net cash used in investing activities totaled 48.9 billion yen. This primarily consisted of purchase of property, plant and equipment of 41.6 billion yen and payments for long-term prepaid expenses of 5.0 billion yen.

Free cash flow, the sum of net cash provided by operating activities and net cash used in investing activities, was 76.0 billion yen. Despite an increase in income before income taxes and minority interests, this was a decrease of 43.4 billion yen compared with the previous fiscal year, mainly due to increases in inventories, trade receivables and payments for purchase of property, plant and equipment.

Net cash used in financing activities totaled 86.1 billion yen. This primarily consisted of 50.0 billion yen for redemption of bonds and 30.7 billion yen for payments of cash dividends, including to minority shareholders. While market interest rates were low, the Kao Group also refinanced 20.0 billion yen in long-term debt in September 2011 and used refinancing to shift 30.0 billion yen in current portion of long-term debt into long-term debt in March 2012.

The balance of cash and cash equivalents at March 31, 2012 decreased 13.4 billion yen compared with the end of the previous fiscal year to 129.7 billion yen.



**1.2.2. Forecast of Assets, Liabilities, Net Assets and Cash Flow for the Fiscal Year Ending December 31, 2012**

Due to a planned change in the fiscal year end, the forecast for the fiscal year ending December 31, 2012 is for the nine-month period from April through December for Kao Corporation and its subsidiaries with a fiscal year end in March, and the twelve-month period from January through December for subsidiaries with a fiscal year end in December.

Net cash provided by operating activities is forecast to be the same as in the fiscal year ended March 31, 2012 despite the abbreviated fiscal year period, partly due to a reduction in taxes in connection with a revision of the Japanese tax code.

In net cash used in investing activities, the Kao Group plans capital expenditures of approximately 44.0 billion yen, including capital investment to enhance R&D, increase production capacity, promote streamlining and improve distribution efficiency.

In net cash used in financing activities, the Kao Group will allocate funds for repayment of interest-bearing debt at group companies outside Japan, payment of cash dividends and other purposes.

As a result of the above, the balance of cash and cash equivalents as of December 31, 2012 is forecast to increase 20.2 billion yen from the previous fiscal year end to 150.0 billion yen.

**Cash Flow Indices**

|   | Year ended March 31 |       |       |      |       |
|---|---------------------|-------|-------|------|-------|
|   | 2012                | 2011  | 2010  | 2009 | 2008  |
| Net worth / Total assets (%)                        | <b>54.3</b>         | 51.7  | 53.0  | 48.7 | 46.6  |
| Market capitalization / Total assets (%)            | <b>114.3</b>        | 105.9 | 119.2 | 91.9 | 122.9 |
| Interest-bearing debt / Operating cash flow (years) | <b>0.9</b>          | 1.1   | 1.1   | 2.4  | 1.8   |
| Operating cash flow / Interest paid (times)         | <b>51.1</b>         | 45.4  | 40.3  | 20.8 | 27.2  |

*Notes:*

- 1. All indices are computed based on consolidated data.*
- 2. Net worth is net assets, excluding minority interests and stock acquisition rights.*
- 3. Market capitalization equals the stock price at the end of the period multiplied by the number of shares outstanding at the end of the period (excluding treasury stock).*
- 4. Operating cash flow is stated in the consolidated statements of cash flows. Interest-bearing debt is all debt included in the consolidated balance sheets on which interest is paid.*

### **1.3. Basic Policies Regarding Distribution of Profits and Dividends for the Period**

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

In accordance with these policies, and in light of the increase in net income compared with the previous fiscal year, the Company plans to pay a year-end dividend for the fiscal year ended March 31, 2012 of 31.00 yen per share, an increase of 2.00 yen per share from the previous fiscal year. Consequently, cash dividends for the fiscal year will increase 2.00 yen per share compared with the previous fiscal year, resulting in a total of 60.00 yen per share. The consolidated payout ratio will be 59.7%.

For the fiscal year ending December 31, 2012, the Company plans to pay total cash dividends of 62.00 yen per share, an increase of 2.00 yen per share compared with the previous fiscal year. Although consolidated group companies with a fiscal year end in March will only report a nine-month period due to the change in the fiscal year end, 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 will be 53.9%.

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**1.4. Other**

- (1) Changes in material subsidiaries during this quarterly period: None**
- (2) Accounting procedures specific to the preparation of quarterly consolidated financial statements: None**
- (3) Changes in accounting principles, changes in accounting estimates, and retrospective restatements: None**

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## **2. Management Policies**

### **2.1. Management Policies of the Kao Group**

The Kao Group'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. 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.

The Kao Group aims to be the global group of companies that is closest to the consumers and customers in each market, earning the respect and trust of its shareholders and all other stakeholders, as it continually raises its corporate value on the basis of profitable growth.

The corporate philosophy that forms the basis of these activities is "The Kao Way," which clearly expresses the Kao Group's unique corporate culture and the essence of its corporate spirit, and is shared and practiced by all employees.

### **2.2. Management Metric Used as a Target**

EVA, which is used to measure true profit by factoring in the cost of invested capital, is the Kao Group's principal management metric. Continuous growth in EVA is linked to increased corporate value, which means long-term profits not only for shareholders, but for all Kao Group stakeholders as well. While working to expand its business scale, the Kao Group views EVA growth as a primary focus of operating activity. The Kao Group also uses this metric to determine the direction of long-term management strategies, to assess specific businesses, to evaluate acquisitions and capital investment, and to develop performance targets for each fiscal year.

### **2.3. Medium-to-long-term Management Strategies**

Structural changes are occurring worldwide in the Kao Group's operating environment over the medium to long term, including 1) a shift in the center of the economy as emerging nations create enormous markets, 2) the emergence of new consumers including people who are increasingly dependent on digital media, as well as segments such as the growing elderly population, and 3) rising interest in environmental issues. The Kao Group sees opportunities for significant progress from these changes, and will aim to achieve global growth by shifting

*News Release*

to ecology-centered management in line with its corporate message of “Enriching lives, in harmony with nature,” and by establishing its corporate identity.

Regarding business activities, in the Consumer Products Business area, which consists of the three businesses of Beauty Care, Human Health Care, and Fabric and Home Care, and the Chemical Business area, the Kao Group will emphasize research and development to make high-quality, innovative products geared to consumers and customers, a concept referred to within the Group as “*Yoki-Monozukuri\**,” as it works to achieve profitable growth by increasing the added value of its products. To realize these objectives, the Group will clearly prioritize areas and product categories and focus on the following points.

1) Further Growth in Japan, the Kao Group’s Profit Base

The Japanese consumer products market is said to be a mature market. However, consumer values and purchasing attitudes are changing greatly, and further growth and development can be expected from the creation of products incorporating new values that match consumer needs. The Kao Group intends to achieve further profitable growth in the Japanese market, its core profit base, by providing high-value-added products in response to changes in consumer needs. The profits earned in the Japanese market will then serve as a resource for global growth and development.

2) Accelerated Globalization

To accelerate the globalization of the Consumer Products Business, in mature markets mainly in North America and Europe, the Kao Group will work to create high-value-added products that incorporate its original technologies in the fields of prestige cosmetics, premium mass skin care and hair care, and professional hair care. In addition, to enhance linkage among its diverse brands, the Kao Group will carry out innovation of its operating structure with a focus on creating strong brands.

In the growth markets of Asia and other emerging nations, the Kao Group will conduct product development using its original technologies to cultivate focal strategic brands in sizable product categories and expand business development by establishing its corporate identity.

3) Rapid Progress toward an Eco-Chemical Business

In the Chemical Business, the Kao Group will aim for rapid progress toward an eco-chemical business through innovations led by the Eco-Technology Research Center. Furthermore, through close cooperation among companies in the three regions of Asia, North America and Europe, the Chemical Business will leverage its experience and

knowledge in conducting the Kao Group's most global business to aggressively expand operations in the BRICs countries and other rapidly growing emerging markets.

#### **2.4. Issues for Management**

With intensifying market competition, changing market structure and volatile raw material prices, the operating environment remains severe and uncertain. Under these circumstances, the Kao Group will focus on the following points.

- 1) Deflation continues to advance in the household and personal care products market in Japan. In response, we are working to further improve product value in light of changes in consumer attitudes in everyday life and the associated changes in purchasing attitudes. More specifically, we will work to develop and nurture products by considering social value that addresses social issues such as environmental awareness, rising health consciousness and the aging society, in addition to functional value and emotional value. Furthermore, we will utilize the comprehensive abilities of the Kao Group, including in marketing and sales activities.
- 2) In the cosmetics market in Japan, changes in consumer purchasing attitudes and associated changes in distribution channels are occurring, and the market continues to shrink. In response to these changes in its operating environment, the Kao Group will promote innovation of its brands, marketing and sales methods, and leverage synergies within the Group.
- 3) Substantial expansion is expected in overseas markets, mainly in growth markets. In response, particularly in China, the Kao Group will focus on categories with sizable markets such as laundry detergents, baby diapers and sanitary napkins, while strengthening its prestige cosmetics business, where high profits can be expected. The Kao Group will also work to expand sales by building a powerful sales network throughout China. In addition, the Kao Group will advance its operating structure to the next level through global integrated management of the Consumer Products Business.

By resolving these issues, the Kao Group will achieve profitable growth through the development of high-value-added products.

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

|  | <b>FY2011</b><br><b>Mar 31, 2012</b> | <b>FY2010</b><br><b>Mar 31, 2011</b> |
|--|--------------------------------------|--------------------------------------|
| <b>Assets</b>                              |                                      |                                      |
| <b>Current assets</b>                      |                                      |                                      |
| Cash and time deposits                     | 85,482                               | 110,761                              |
| Notes and accounts receivable - trade      | 142,881                              | 121,093                              |
| Short-term investments                     | 46,797                               | 35,028                               |
| Merchandise and finished goods             | 82,393                               | 73,189                               |
| Work in process                            | 11,670                               | 9,994                                |
| Raw materials and supplies                 | 26,643                               | 26,153                               |
| Prepaid expenses                           | 5,678                                | 5,289                                |
| Deferred tax assets                        | 17,736                               | 21,854                               |
| Other                                      | 14,781                               | 14,549                               |
| Allowance for doubtful receivables         | (1,115)                              | (1,080)                              |
| <b>Total current assets</b>                | <b>432,949</b>                       | <b>416,833</b>                       |
| <b>Fixed assets</b>                        |                                      |                                      |
| Property, plant and equipment              |                                      |                                      |
| Buildings and structures                   | 323,137                              | 321,040                              |
| Accumulated depreciation                   | (246,073)                            | (239,490)                            |
| Buildings and structures, net              | 77,063                               | 81,550                               |
| Machinery, equipment and vehicles          | 612,446                              | 617,071                              |
| Accumulated depreciation                   | (544,171)                            | (545,585)                            |
| Machinery, equipment and vehicles, net     | 68,275                               | 71,486                               |
| Tools, furniture and fixtures              | 81,311                               | 77,189                               |
| Accumulated depreciation                   | (68,992)                             | (65,660)                             |
| Tools, furniture and fixtures, net         | 12,319                               | 11,528                               |
| Land                                       | 64,796                               | 62,872                               |
| Lease assets                               | 11,933                               | 12,146                               |
| Accumulated depreciation                   | (3,918)                              | (3,181)                              |
| Lease assets, net                          | 8,015                                | 8,965                                |
| Construction in progress                   | 10,109                               | 8,321                                |
| <b>Total property, plant and equipment</b> | <b>240,578</b>                       | <b>244,724</b>                       |
| Intangible assets                          |                                      |                                      |
| Goodwill                                   | 165,613                              | 179,225                              |
| Trademarks                                 | 53,583                               | 71,176                               |
| Other                                      | 18,265                               | 22,556                               |
| <b>Total intangible assets</b>             | <b>237,462</b>                       | <b>272,958</b>                       |
| Investments and other assets               |                                      |                                      |
| Investment securities                      | 13,343                               | 12,128                               |
| Long-term loans                            | 1,742                                | 1,757                                |
| Long-term prepaid expenses                 | 12,441                               | 12,224                               |
| Deferred tax assets                        | 42,554                               | 49,965                               |
| Other                                      | 10,418                               | 12,427                               |
| Allowance for doubtful receivables         | (218)                                | (220)                                |
| <b>Total investments and other assets</b>  | <b>80,282</b>                        | <b>88,283</b>                        |
| <b>Total fixed assets</b>                  | <b>558,323</b>                       | <b>605,966</b>                       |
| <b>Total assets</b>                        | <b>991,272</b>                       | <b>1,022,799</b>                     |

**Consolidated Balance Sheets**

*Millions of yen*

|   | <b>FY2011</b><br><b>Mar 31, 2012</b> | <b>FY2010</b><br><b>Mar 31, 2011</b> |
|---|--------------------------------------|--------------------------------------|
| <b>Liabilities</b>  |                                      |                                      |
| <b>Current liabilities</b>  |                                      |                                      |
| Notes and accounts payable - trade  | 110,659                              | 104,044                              |
| Short-term debt   | 2,060                                | 6,776                                |
| Current portion of bonds  | -                                    | 50,000                               |
| Current portion of long-term debt   | 5                                    | 30,008                               |
| Accounts payable - other  | 48,498                               | 47,769                               |
| Accrued expenses  | 73,538                               | 68,413                               |
| Income taxes payable  | 18,305                               | 18,784                               |
| Liabilities for loss related to the Great East Japan Earthquake                 | 33                                   | 2,657                                |
| Other   | 21,809                               | 19,740                               |
| <b>Total current liabilities</b>  | <b>274,909</b>                       | <b>348,195</b>                       |
| <b>Long-term liabilities</b>  |                                      |                                      |
| Bonds   | 49,999                               | 49,998                               |
| Long-term debt  | 50,049                               | 20,047                               |
| Liability for employee retirement benefits                                      | 45,025                               | 42,316                               |
| Other   | 21,583                               | 22,677                               |
| <b>Total long-term liabilities</b>  | <b>166,658</b>                       | <b>135,039</b>                       |
| <b>Total liabilities</b>  | <b>441,567</b>                       | <b>483,234</b>                       |
| <b>Net assets</b>   |                                      |                                      |
| <b>Shareholders' equity</b>   |                                      |                                      |
| Common stock  | 85,424                               | 85,424                               |
| Capital surplus   | 109,561                              | 109,561                              |
| Retained earnings   | 447,619                              | 457,917                              |
| Treasury stock, at cost   | (9,064)                              | (40,976)                             |
| <b>Total shareholders' equity</b>   | <b>633,540</b>                       | <b>611,926</b>                       |
| <b>Adjustments for valuation, foreign currency translation and others</b>       |                                      |                                      |
| Unrealized gain on available-for-sale securities                                | 2,282                                | 1,860                                |
| Deferred gain (loss) on derivatives under hedge accounting                      | (2)                                  | (2)                                  |
| Foreign currency translation adjustments  | (96,093)                             | (84,429)                             |
| Other   | (1,696)                              | (460)                                |
| <b>Total adjustments for valuation, foreign currency translation and others</b> | <b>(95,510)</b>                      | <b>(83,032)</b>                      |
| <b>Stock acquisition rights</b>   | <b>1,237</b>                         | <b>1,143</b>                         |
| <b>Minority interests</b>   | <b>10,437</b>                        | <b>9,526</b>                         |
| <b>Total net assets</b>   | <b>549,704</b>                       | <b>539,564</b>                       |
| <b>Total liabilities and net assets</b>   | <b>991,272</b>                       | <b>1,022,799</b>                     |



**Consolidated Statements of Income**

Millions of yen

|   | FY2011<br>Apr '11 - Mar '12 | FY2010<br>Apr '10 - Mar '11 |
|---|-----------------------------|-----------------------------|
| <b>Net sales</b>  | <b>1,216,095</b>            | <b>1,186,831</b>            |
| Cost of sales   | 525,011                     | 498,969                     |
| <b>Gross profit</b>   | <b>691,084</b>              | <b>687,861</b>              |
| Selling, general and administrative expenses                                  | 582,494                     | 583,269                     |
| <b>Operating income</b>   | <b>108,590</b>              | <b>104,591</b>              |
| Non-operating income  |                             |                             |
| Interest income   | 908                         | 829                         |
| Dividend income   | 159                         | 160                         |
| Equity in earnings of nonconsolidated subsidiaries and affiliates             | 1,657                       | 973                         |
| Other   | 2,588                       | 3,194                       |
| Total non-operating income  | 5,314                       | 5,157                       |
| Non-operating expenses  |                             |                             |
| Interest expense  | 2,203                       | 3,342                       |
| Foreign currency exchange loss  | 621                         | 2,233                       |
| Other   | 1,053                       | 836                         |
| Total non-operating expenses  | 3,878                       | 6,412                       |
| <b>Ordinary income</b>  | <b>110,026</b>              | <b>103,336</b>              |
| Extraordinary gain  |                             |                             |
| Gain on sales of fixed assets   | 178                         | 1,043                       |
| Insurance   | 38                          | -                           |
| Gain on sales of investment securities  | -                           | 186                         |
| Other   | 56                          | 118                         |
| Total extraordinary gain  | 273                         | 1,348                       |
| Extraordinary loss  |                             |                             |
| Loss on sales/disposals of fixed assets                                       | 2,380                       | 2,377                       |
| Loss related to the Great East Japan Earthquake                               | 2,027                       | 4,129                       |
| Effect of application of Accounting Standard for Asset Retirement Obligations | -                           | 1,633                       |
| Other   | 633                         | 525                         |
| Total extraordinary loss  | 5,042                       | 8,665                       |
| <b>Income before income taxes and minority interests</b>                      | <b>105,258</b>              | <b>96,018</b>               |
| Income taxes  |                             |                             |
| Income taxes - current  | 38,652                      | 38,995                      |
| Income taxes - deferred   | 12,120                      | 9,182                       |
| Total income taxes  | 50,772                      | 48,177                      |
| <b>Income before minority interests</b>                                       | <b>54,485</b>               | <b>47,841</b>               |
| Minority interests  | 2,050                       | 1,103                       |
| <b>Net income</b>   | <b>52,434</b>               | <b>46,737</b>               |

**Consolidated Statement of Comprehensive Income**

*Millions of yen*

|   | <b>FY2011</b><br><b>Apr '11 - Mar '12</b> | <b>FY2010</b><br><b>Apr '10 - Mar '11</b> |
|---|---|---|
| Income before minority interests  | 54,485                                    | 47,841                                    |
| Other comprehensive income  |   |   |
| Adjustments for unrealized gains or losses on available-for-sale securities | 486                                       | (480)                                     |
| Foreign currency translation adjustments                                    | (12,169)                                  | (21,865)                                  |
| Share in other comprehensive income of associates applied for equity method | (171)                                     | 77  |
| Post retirement liability adjustments for foreign consolidated subsidiaries | (1,236)                                   | (14)                                      |
| Other comprehensive income  | (13,090)                                  | (22,282)                                  |
| Comprehensive income  | 41,395                                    | 25,558                                    |
| Attributable to:  |   |   |
| Shareholders of Kao Corporation   | 39,956                                    | 24,852                                    |
| Minority interests  | 1,439                                     | 705                                       |

**Major Items of Consolidated Selling, General and Administrative Expenses**

*Millions of yen*

|                          | <b>FY2011</b><br><b>Apr '11 - Mar '12</b> | <b>FY2010</b><br><b>Apr '10 - Mar '11</b> |
|--------------------------|---|---|
| Freight/warehouse        | 68,388                                    | 66,923                                    |
| Advertising              | 82,209                                    | 81,081                                    |
| Sales promotion          | 62,979                                    | 64,655                                    |
| Salaries and bonuses     | 121,786                                   | 124,347                                   |
| Research and development | 48,171                                    | 45,516                                    |

**Consolidated Statements of Changes in Equity**

Millions of yen

|  | FY2011<br><u>Apr '11 - Mar '12</u> | FY2010<br><u>Apr '10 - Mar '11</u> |
|--|------------------------------------|------------------------------------|
| <b>Shareholders' equity</b>              |                                    |                                    |
| Common stock                             |                                    |                                    |
| Balance at beginning of current period   | 85,424                             | 85,424                             |
| Changes of items during the period       |                                    |                                    |
| Total changes of items during the period | -                                  | -                                  |
| Balance at end of period                 | 85,424                             | 85,424                             |
| Capital surplus                          |                                    |                                    |
| Balance at beginning of current period   | 109,561                            | 109,561                            |
| Changes of items during the period       |                                    |                                    |
| Total changes of items during the period | -                                  | -                                  |
| Balance at end of period                 | 109,561                            | 109,561                            |
| Retained earnings                        |                                    |                                    |
| Balance at beginning of current period   | 457,917                            | 442,272                            |
| Changes of items during the period       |                                    |                                    |
| Cash dividends                           | (30,272)                           | (31,089)                           |
| Net income                               | 52,434                             | 46,737                             |
| Disposal of treasury stock               | (0)                                | (2)                                |
| Retirement of treasury stock             | (32,459)                           | -                                  |
| Total changes of items during the period | (10,298)                           | 15,645                             |
| Balance at end of period                 | 447,619                            | 457,917                            |
| Treasury stock                           |                                    |                                    |
| Balance at beginning of current period   | (40,976)                           | (10,977)                           |
| Changes of items during the period       |                                    |                                    |
| Purchase of treasury stock               | (627)                              | (30,093)                           |
| Disposal of treasury stock               | 80                                 | 94                                 |
| Retirement of treasury stock             | 32,459                             | -                                  |
| Total changes of items during the period | 31,912                             | (29,998)                           |
| Balance at end of period                 | (9,064)                            | (40,976)                           |
| Total shareholders' equity               |                                    |                                    |
| Balance at beginning of current period   | 611,926                            | 626,280                            |
| Changes of items during the period       |                                    |                                    |
| Cash dividends                           | (30,272)                           | (31,089)                           |
| Net income                               | 52,434                             | 46,737                             |
| Purchase of treasury stock               | (627)                              | (30,093)                           |
| Disposal of treasury stock               | 79                                 | 91                                 |
| Retirement of treasury stock             | -                                  | -                                  |
| Total changes of items during the period | 21,614                             | (14,353)                           |
| Balance at end of period                 | 633,540                            | 611,926                            |

Updated

**Consolidated Statements of Changes in Equity**

Millions of yen

|   | FY2011<br>Apr '11 - Mar '12 | FY2010<br>Apr '10 - Mar '11 |
|---|-----------------------------|-----------------------------|
| <b>Other accumulative comprehensive income</b>                              |                             |                             |
| Unrealized gain on available-for-sale securities                            |                             |                             |
| Balance at beginning of current period                                      | 1,860                       | 2,291                       |
| Changes of items during the period  |                             |                             |
| Net changes of items other than shareholders' equity during the period      | 421                         | (431)                       |
| Total changes of items during the period                                    | 421                         | (431)                       |
| Balance at end of period  | 2,282                       | 1,860                       |
| Deferred gain (loss) on derivatives under hedge accounting                  |                             |                             |
| Balance at beginning of current period                                      | (2)                         | (0)                         |
| Changes of items during the period  |                             |                             |
| Net changes of items other than shareholders' equity during the period      | (0)                         | (2)                         |
| Total changes of items during the period                                    | (0)                         | (2)                         |
| Balance at end of period  | (2)                         | (2)                         |
| Foreign currency translation adjustments                                    |                             |                             |
| Balance at beginning of current period                                      | (84,429)                    | (62,992)                    |
| Changes of items during the period  |                             |                             |
| Net changes of items other than shareholders' equity during the period      | (11,663)                    | (21,436)                    |
| Total changes of items during the period                                    | (11,663)                    | (21,436)                    |
| Balance at end of period  | (96,093)                    | (84,429)                    |
| Post retirement liability adjustments for foreign consolidated subsidiaries |                             |                             |
| Balance at beginning of current period                                      | (460)                       | (445)                       |
| Changes of items during the period  |                             |                             |
| Net changes of items other than shareholders' equity during the period      | (1,236)                     | (14)                        |
| Total changes of items during the period                                    | (1,236)                     | (14)                        |
| Balance at end of period  | (1,696)                     | (460)                       |
| Total Adjustments for valuation, foreign currency translation and others    |                             |                             |
| Balance at beginning of current period                                      | (83,032)                    | (61,146)                    |
| Changes of items during the period  |                             |                             |
| Net changes of items other than shareholders' equity during the period      | (12,478)                    | (21,885)                    |
| Total changes of items during the period                                    | (12,478)                    | (21,885)                    |
| Balance at end of period  | (95,510)                    | (83,032)                    |
| <b>Stock acquisition rights</b>   |                             |                             |
| Balance at beginning of current period                                      | 1,143                       | 1,022                       |
| Changes of items during the period  |                             |                             |
| Net changes of items other than shareholders' equity during the period      | 94                          | 121                         |
| Total changes of items during the period                                    | 94                          | 121                         |
| Balance at end of period  | 1,237                       | 1,143                       |
| <b>Minority interests</b>   |                             |                             |
| Balance at beginning of current period                                      | 9,526                       | 9,139                       |
| Changes of items during the period  |                             |                             |
| Net changes of items other than shareholders' equity during the period      | 910                         | 387                         |
| Total changes of items during the period                                    | 910                         | 387                         |
| Balance at end of period  | 10,437                      | 9,526                       |
| <b>Total net assets</b>   |                             |                             |
| Balance at beginning of current period                                      | 539,564                     | 575,294                     |
| Changes of items during the period  |                             |                             |
| Cash dividends  | (30,272)                    | (31,089)                    |
| Net income  | 52,434                      | 46,737                      |
| Purchase of treasury stock  | (627)                       | (30,093)                    |
| Disposal of treasury stock  | 79                          | 91                          |
| Retirement of treasury stock  | -                           | -                           |
| Net changes of items other than shareholders' equity during the period      | (11,473)                    | (21,376)                    |
| Total changes of items during the period                                    | 10,140                      | (35,729)                    |
| Balance at end of period  | 549,704                     | 539,564                     |

**Consolidated Statements of Cash Flows**

Millions of yen

|   | FY2011<br>Apr '11 - Mar '12 | FY2010<br>Apr '10 - Mar '11 |
|---|-----------------------------|-----------------------------|
| <b>Operating activities:</b>  |                             |                             |
| Income before income taxes and minority interests   | 105,258                     | 96,018                      |
| Adjustments for:  |                             |                             |
| Depreciation and amortization   | 79,797                      | 81,380                      |
| (Gain) loss on sales and retirement of fixed assets                                       | 2,202                       | 1,334                       |
| Interest and dividend income  | (1,068)                     | (989)                       |
| Interest expense  | 2,203                       | 3,342                       |
| Unrealized foreign currency exchange (gain) loss  | 158                         | 455                         |
| Equity in (earnings) losses of nonconsolidated subsidiaries and affiliates                | (1,657)                     | (973)                       |
| Change in trade receivables   | (26,513)                    | (642)                       |
| Change in inventories   | (14,936)                    | (7,565)                     |
| Change in prepaid pension cost  | 905                         | (72)                        |
| Change in trade payables  | 8,997                       | 7,793                       |
| Change in liability for retirement benefits   | 3,055                       | 4,595                       |
| Other, net  | 4,936                       | 8,246                       |
| Subtotal  | 163,339                     | 192,923                     |
| Interest and cash dividends received  | 2,479                       | 2,595                       |
| Interest paid   | (2,447)                     | (3,332)                     |
| Income taxes paid   | (38,338)                    | (40,888)                    |
| <b>Net cash provided by operating activities</b>  | <b>125,032</b>              | <b>151,298</b>              |
| <b>Investing activities:</b>  |                             |                             |
| Purchase of property, plant and equipment   | (41,683)                    | (27,725)                    |
| Proceeds from sales of property, plant and equipment                                      | 745                         | 2,409                       |
| Increase in intangible assets   | (3,374)                     | (4,001)                     |
| Payments for long-term prepaid expenses   | (5,030)                     | (4,252)                     |
| Purchase of marketable securities and investment securities                               | (20)                        | (22)                        |
| Proceeds from the redemption and sales of marketable securities and investment securities | 1                           | 593                         |
| Change in short-term loans, net   | 537                         | 90                          |
| Payments for long-term loans  | (1,497)                     | (1,642)                     |
| Proceeds from cancellation of derivatives   | -                           | 4,297                       |
| Other, net  | 1,370                       | (1,525)                     |
| <b>Net cash used in investing activities</b>  | <b>(48,951)</b>             | <b>(31,777)</b>             |
| <b>Financing activities:</b>  |                             |                             |
| Change in short-term debt, net  | (4,610)                     | 11                          |
| Proceeds from long-term loans   | 50,013                      | 17                          |
| Repayments of long-term loans   | (50,011)                    | (24,959)                    |
| Redemption of bonds   | (50,000)                    | -                           |
| Purchase of treasury stock  | (9)                         | (30,093)                    |
| Payments of cash dividends  | (30,306)                    | (31,115)                    |
| Payments of cash dividends to minority shareholders                                       | (469)                       | (311)                       |
| Other, net  | (768)                       | (872)                       |
| <b>Net cash used in financing activities</b>  | <b>(86,163)</b>             | <b>(87,323)</b>             |
| <b>Translation adjustments on cash and cash equivalents</b>                               | <b>(3,323)</b>              | <b>(6,400)</b>              |
| <b>Net increase (decrease) in cash and cash equivalents</b>                               | <b>(13,406)</b>             | <b>25,797</b>               |
| <b>Cash and cash equivalents, beginning of period</b>                                     | <b>143,143</b>              | <b>117,180</b>              |
| <b>Cash and cash equivalents from newly consolidated subsidiary, increase</b>             | <b>-</b>                    | <b>166</b>                  |
| <b>Cash and cash equivalents, end of period</b>   | <b>129,736</b>              | <b>143,143</b>              |

**Consolidated Segment Information**

Millions of yen

| FY2011<br>Apr '11 - Mar '12                                 | Consumer Products Business |                               |                                  |                  | Chemical<br>Business | Total            | Eliminations               | Consolidated     |
|---|----------------------------|-------------------------------|----------------------------------|------------------|----------------------|------------------|----------------------------|------------------|
|   | Beauty Care<br>Business    | Human Health<br>Care Business | Fabric and Home<br>Care Business | Total            |                      |                  |                            |                  |
| <b>Net sales</b>  |                            |                               |                                  |                  |                      |                  |                            |                  |
| Sales to customers  | 537,937                    | 181,758                       | 285,644                          | 1,005,340        | 210,754              | 1,216,095        | -                          | 1,216,095        |
| Intersegment sales  | -                          | -                             | -                                | -                | 36,880               | 36,880           | (36,880)                   | -                |
| <b>Total</b>  | <b>537,937</b>             | <b>181,758</b>                | <b>285,644</b>                   | <b>1,005,340</b> | <b>247,635</b>       | <b>1,252,975</b> | <b>(36,880)</b>            | <b>1,216,095</b> |
| <b>Operating income</b>                                     | <b>15,411</b>              | <b>14,630</b>                 | <b>55,543</b>                    | <b>85,585</b>    | <b>23,001</b>        | <b>108,587</b>   | <b>3</b> <sup>1</sup>      | <b>108,590</b>   |
| % of net sales  | 2.9                        | 8.0                           | 19.4                             | 8.5              | 9.3                  | 8.7              | -                          | 8.9              |
| <b>Total assets</b>   | <b>496,176</b>             | <b>99,535</b>                 | <b>128,857</b>                   | <b>724,569</b>   | <b>194,582</b>       | <b>919,152</b>   | <b>72,119</b> <sup>2</sup> | <b>991,272</b>   |
| <b>Depreciation and amortization</b> <sup>3</sup>           | <b>37,765</b>              | <b>7,926</b>                  | <b>9,794</b>                     | <b>55,485</b>    | <b>11,648</b>        | <b>67,134</b>    | -                          | <b>67,134</b>    |
| <b>Amortization of goodwill</b>                             | <b>12,663</b>              | -                             | -                                | <b>12,663</b>    | -                    | <b>12,663</b>    | -                          | <b>12,663</b>    |
| <b>Investment for affiliates applied for equity methods</b> | <b>1,780</b>               | <b>1,082</b>                  | <b>1,238</b>                     | <b>4,101</b>     | <b>2,180</b>         | <b>6,282</b>     | -                          | <b>6,282</b>     |
| <b>Capital expenditure</b>                                  | <b>13,105</b>              | <b>11,520</b>                 | <b>12,218</b>                    | <b>36,844</b>    | <b>10,333</b>        | <b>47,178</b>    | -                          | <b>47,178</b>    |

| FY2010<br>Apr '10 - Mar '11                                 | Consumer Products Business |                               |                                  |                | Chemical<br>Business | Total            | Eliminations               | Consolidated     |
|---|----------------------------|-------------------------------|----------------------------------|----------------|----------------------|------------------|----------------------------|------------------|
|   | Beauty Care<br>Business    | Human Health<br>Care Business | Fabric and Home<br>Care Business | Total          |                      |                  |                            |                  |
| <b>Net sales</b>  |                            |                               |                                  |                |                      |                  |                            |                  |
| Sales to customers  | 533,514                    | 175,761                       | 279,007                          | 988,283        | 198,547              | 1,186,831        | -                          | 1,186,831        |
| Intersegment sales  | -                          | -                             | -                                | -              | 33,449               | 33,449           | (33,449)                   | -                |
| <b>Total</b>  | <b>533,514</b>             | <b>175,761</b>                | <b>279,007</b>                   | <b>988,283</b> | <b>231,996</b>       | <b>1,220,280</b> | <b>(33,449)</b>            | <b>1,186,831</b> |
| <b>Operating income</b>                                     | <b>5,536</b>               | <b>15,283</b>                 | <b>59,659</b>                    | <b>80,479</b>  | <b>24,100</b>        | <b>104,579</b>   | <b>11</b> <sup>1</sup>     | <b>104,591</b>   |
| % of net sales  | 1.0                        | 8.7                           | 21.4                             | 8.1            | 10.4                 | 8.6              | -                          | 8.8              |
| <b>Total assets</b>   | <b>547,092</b>             | <b>87,126</b>                 | <b>124,560</b>                   | <b>758,780</b> | <b>186,704</b>       | <b>945,484</b>   | <b>77,315</b> <sup>4</sup> | <b>1,022,799</b> |
| <b>Depreciation and amortization</b> <sup>3</sup>           | <b>39,185</b>              | <b>7,902</b>                  | <b>9,438</b>                     | <b>56,526</b>  | <b>12,347</b>        | <b>68,873</b>    | -                          | <b>68,873</b>    |
| <b>Amortization of goodwill</b>                             | <b>12,506</b>              | -                             | -                                | <b>12,506</b>  | -                    | <b>12,506</b>    | -                          | <b>12,506</b>    |
| <b>Investment for affiliates applied for equity methods</b> | <b>1,602</b>               | <b>935</b>                    | <b>1,019</b>                     | <b>3,557</b>   | <b>1,483</b>         | <b>5,041</b>     | -                          | <b>5,041</b>     |
| <b>Capital expenditure</b>                                  | <b>16,275</b>              | <b>8,870</b>                  | <b>12,223</b>                    | <b>37,370</b>  | <b>11,730</b>        | <b>49,100</b>    | -                          | <b>49,100</b>    |

Notes:

1. Includes elimination of intersegment transactions of inventory
2. Includes 78,741 million yen of Kao's financial assets and negative 6,622 million yen elimination of receivables among reportable segments
3. Excludes amortization of goodwill
4. Includes 81,192 million yen of Kao's financial assets and negative 3,877 million yen elimination of receivables among reportable segments

**Consolidated Net Sales Composition**

*Millions of yen*

|                                   | FY2011<br><u>Apr '11 - Mar '12</u> | FY2010<br><u>Apr '10 - Mar '11</u> | Growth<br><u>%</u> |
|-----------------------------------|------------------------------------|------------------------------------|--------------------|
| <b>Consumer Products Business</b> |                                    |                                    |                    |
| Beauty Care Business              | 407,659                            | 404,124                            | 0.9                |
| Human Health Care Business        | 164,574                            | 159,588                            | 3.1                |
| Fabric and Home Care Business     | 260,040                            | 253,550                            | 2.6                |
| <b>Total Japan</b>                | <b>832,275</b>                     | <b>817,263</b>                     | <b>1.8</b>         |
| Asia and Oceania                  | 87,435                             | 82,040                             | 6.6                |
| North America                     | 49,637                             | 51,033                             | (2.7)              |
| Europe                            | 61,512                             | 60,722                             | 1.3                |
| Eliminations                      | (25,520)                           | (22,776)                           | -                  |
| <b>Total</b>                      | <b>1,005,340</b>                   | <b>988,283</b>                     | <b>1.7</b>         |
| <b>Chemical Business</b>          |                                    |                                    |                    |
| Japan                             | 125,477                            | 124,975                            | 0.4                |
| Asia                              | 89,153                             | 72,570                             | 22.9               |
| North America                     | 35,907                             | 29,462                             | 21.9               |
| Europe                            | 55,690                             | 51,524                             | 8.1                |
| Eliminations                      | (58,594)                           | (46,535)                           | -                  |
| <b>Total</b>                      | <b>247,635</b>                     | <b>231,996</b>                     | <b>6.7</b>         |
| <b>Total before Eliminations</b>  | <b>1,252,975</b>                   | <b>1,220,280</b>                   | <b>2.7</b>         |
| Eliminations                      | (36,880)                           | (33,449)                           | 10.3               |
| <b>Consolidated Net Sales</b>     | <b>1,216,095</b>                   | <b>1,186,831</b>                   | <b>2.5</b>         |

**Appendix**

**Major Products by Reportable Segment**

| Reportable Segments        |                               | Major Products   |  |
|----------------------------|-------------------------------|--|--|
| Consumer Products Business | Beauty Care Business          | Prestige cosmetics   | Counseling cosmetics, self-selection cosmetics   |
|                            |                               | Premium skin care products   | Soaps, facial cleansers, body cleansers  |
|                            |                               | Premium hair care products   | Shampoos, conditioners, hair styling agents, hair coloring agents                                    |
|                            | Human Health Care Business    | Food and beverage products   | Beverages  |
|                            |                               | Sanitary products  | Sanitary napkins, baby diapers   |
|                            |                               | Personal health products   | Bath additives, oral care products, men's products   |
|                            | Fabric and Home Care Business | Fabric care products   | Laundry detergents, fabric treatments  |
|                            |                               | Home care products   | Kitchen cleaning products, house cleaning products, paper cleaning products, commercial-use products |
| Chemical Business          | Oleo chemicals                | Fatty alcohols, fatty amines, fatty acids, glycerin, commercial-use edible fats and oils                               |  |
|                            | Performance chemicals         | Surfactants, plastics additives, superplasticizers for concrete admixtures   |  |
|                            | Specialty chemicals           | Toner and toner binder for copiers and printers, ink and colorants for inkjet printers, fragrances and aroma chemicals |  |