News Release

Kao Corporation
February 4, 2015

Kao Corporation Reports Business Results

Tokyo, February 4, 2015 - Kao Corporation today announced its consolidated business results for the fiscal year ended December 31, 2014. 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)

	Fiscal Year			
Jan. - Dec.	**2014**	2013	Growth	**2014**
	Yen	Yen	%	U.S. dollars
Net sales	**1,401,707**	1,315,217	6.6	**11,725.8**
Operating income	**133,270**	124,656	6.9	**1,114.9**
Ordinary income	**138,784**	128,053	8.4	**1,161.0**
Net income	**79,590**	64,764	22.9	**665.8**
Comprehensive income	**102,267**	109,627	(6.7)	**855.5**
ROE (Net income / Net worth)	**12.4%**	10.7%	-	**12.4%**
ROA (Ordinary income / Total assets)	**11.9%**	11.8%	-	**11.9%**
Operating income / Net sales	**9.5%**	9.5%	-	**9.5%**
Total assets	**1,198,233**	1,133,276	5.7	**10,023.7**
Total net assets	**672,393**	642,640	4.6	**5,624.8**
Net worth[1]	**658,232**	628,709	4.7	**5,506.4**
Net worth ratio[2]	**54.9%**	55.5%	-	**54.9%**
Net worth per share (Yen/US$)[3]	**1,313.63**	1,227.54	7.0	**10.99**
Net income per share (Yen/US$)[4]	**156.46**	126.03	24.1	**1.31**
Net income per share, fully diluted (Yen/US$)	**156.24**	125.89	24.1	**1.31**
Net cash provided by operating activities	**145,118**	178,745	-	**1,214.0**
Net cash used in investing activities	**(63,808)**	(57,778)	-	**(533.8)**
Net cash used in financing activities	**(85,022)**	(67,459)	-	**(711.2)**
Cash and cash equivalents, end of period	**228,662**	227,598	-	**1,912.8**

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 issued shares outstanding at the end of the periods (common stock)*

	December 31, 2014	*December 31, 2013*
Number of issued shares including treasury stock	*504,000,000 shares*	*516,000,000 shares*
Number of shares of treasury stock	*2,921,992 shares*	*3,829,950 shares*

6. *Weighted average number of shares outstanding during the fiscal year*

Ended December 31, 2014	*Ended December 31, 2013*
508,686,870 shares	*513,879,952 shares*

Consolidated Results by Segment

Jan. - Dec.	Net sales: Billions of yen 2014	2013	Growth %	Like-for-like *	Operating income: Billions of yen 2014	2013	Change
Beauty Care	**589.9**	570.3	3.4	1.3	**28.4**	23.9	4.5
Human Health Care	**240.1**	210.6	14.0	12.8	**21.9**	16.9	5.0
Fabric and Home Care	**324.5**	311.0	4.3	4.1	**61.0**	62.2	(1.2)
Consumer Products Total	**1,154.5**	1,091.9	5.7	4.3	**111.3**	103.0	8.3
Chemical	**288.0**	261.2	10.3	6.7	**22.1**	21.5	0.6
Total	**1,442.5**	1,353.1	6.6	4.8	**133.3**	124.5	8.9
Reconciliations	**(40.8)**	(37.9)	-	-	**(0.1)**	0.2	(0.2)
Consolidated	**1,401.7**	1,315.2	6.6	4.7	**133.3**	124.7	8.6

Jan. - Dec.	Net sales: Millions of U.S. dollars 2014	2013	Growth %	Like-for-like *	Operating income: Millions of U.S. dollars 2014	2013	Change
Beauty Care	**4,934.8**	4,770.5	3.4	1.3	**237.9**	200.2	37.7
Human Health Care	**2,008.3**	1,762.0	14.0	12.8	**183.0**	141.0	42.1
Fabric and Home Care	**2,714.6**	2,601.8	4.3	4.1	**509.9**	520.2	(10.3)
Consumer Products Total	**9,657.8**	9,134.3	5.7	4.3	**930.8**	861.3	69.5
Chemical	**2,409.4**	2,185.0	10.3	6.7	**184.5**	179.9	4.6
Total	**12,067.2**	11,319.3	6.6	4.8	**1,115.4**	1,041.3	74.1
Reconciliations	**(341.3)**	(317.0)	-	-	**(0.5)**	1.5	(2.0)
Consolidated	**11,725.8**	11,002.3	6.6	4.7	**1,114.9**	1,042.8	72.1

* *Like-for-like growth rates exclude the currency translation effect related to translation of local currencies into Japanese yen.*

Consolidated Net Sales Composition

Jan. - Dec.	Billions of yen 2014	2013	Growth %	Millions of U.S. dollars 2014	2013
Consumer Products					
Beauty Care	**415.5**	408.6	1.7	**3,476.2**	3,418.1
Human Health Care	**198.7**	181.9	9.2	**1,661.8**	1,521.8
Fabric and Home Care	**285.8**	275.9	3.6	**2,391.1**	2,307.8
Total Japan	**900.0**	866.4	3.9	**7,529.1**	7,247.6
Asia	**140.5**	116.4	20.7	**1,175.3**	974.0
Americas*	**79.9**	68.9	15.9	**668.0**	576.5
Europe*	**84.2**	72.1	16.7	**704.6**	603.6
Eliminations	**(50.1)**	(32.0)	-	**(419.2)**	(267.3)
Total	**1,154.5**	1,091.9	5.7	**9,657.8**	9,134.3
Chemical					
Japan	**131.9**	125.6	5.0	**1,103.4**	1,050.8
Asia	**108.8**	86.8	25.4	**910.0**	725.8
Americas	**44.5**	39.9	11.5	**372.2**	333.8
Europe	**68.1**	62.3	9.4	**569.8**	520.8
Eliminations	**(65.3)**	(53.3)	-	**(546.1)**	(446.3)
Total	**288.0**	261.2	10.3	**2,409.4**	2,185.0
Total before Reconciliations	**1,442.5**	1,353.1	6.6	**12,067.2**	11,319.3
Reconciliations	**(40.8)**	(37.9)	-	**(341.3)**	(317.0)
Consolidated	**1,401.7**	1,315.2	6.6	**11,725.8**	11,002.3

* *As of January 2014, certain changes have been made in inter-company transactions among subsidiaries in the Consumer Products Business in the Americas and Europe. The rates of change based on the same transaction method that was used in the same period a year earlier would have increased 7.5% for the Americas and 9.1% for Europe.*

Reference: Consolidated Results by Geographic Area[1]

	Net sales				Operating income		
	Billions of yen		Growth %		Billions of yen		
Jan. - Dec.	**2014**	2013		Like-for-like [2]	**2014**	2013	Change
Japan	**997.3**	959.4	4.0	4.0	**111.4**	101.3	10.1
Asia	**244.9**	199.7	22.7	17.3	**11.3**	12.8	(1.5)
Americas[3]	**124.2**	108.6	14.4	6.7	**6.1**	5.2	0.9
Europe[3]	**152.1**	134.2	13.3	4.9	**3.9**	7.3	(3.4)
Total	**1,518.5**	1,401.8	8.3	6.2	**132.8**	126.7	6.1
Reconciliations	**(116.8)**	(86.6)	-	-	**0.5**	(2.0)	2.5
Consolidated	**1,401.7**	1,315.2	6.6	4.7	**133.3**	124.7	8.6

	Net sales				Operating income		
	Millions of U.S. dollars		Growth %		Millions of U.S. dollars		
Jan. - Dec.	**2014**	2013		Like-for-like [2]	**2014**	2013	Change
Japan	**8,342.9**	8,025.8	4.0	4.0	**932.2**	847.7	84.5
Asia	**2,048.7**	1,670.2	22.7	17.3	**94.9**	107.3	(12.4)
Americas[3]	**1,039.1**	908.5	14.4	6.7	**50.9**	43.4	7.5
Europe[3]	**1,272.0**	1,122.4	13.3	4.9	**32.9**	61.0	(28.1)
Total	**12,702.7**	11,726.9	8.3	6.2	**1,110.9**	1,059.5	51.4
Reconciliations	**(976.9)**	(724.5)	-	-	**4.0**	(16.7)	20.6
Consolidated	**11,725.8**	11,002.3	6.6	4.7	**1,114.9**	1,042.8	72.1

Notes:

1. *Information on consolidated results by geographic area is for reference.*
2. *Like-for-like growth rates exclude the currency translation effect related to translation of local currencies into Japanese yen.*
3. *As of January 2014, certain changes have been made in inter-company transactions among subsidiaries in the Consumer Products Business in the Americas and Europe. The rates of change based on the same transaction method that was used in the same period a year earlier would have increased 9.1% for the Americas (an increase of 1.8% excluding the effect of currency translation) and 9.2% for Europe (1.1% excluding the effect of currency translation.)*
4. *Net sales to foreign customers were 33.1% of net sales compared with 30.9% for the same period a year earlier.*

Dividend

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

	Dec. 31, 2014	Dec. 31, 2013	Dec. 31, 2014
	Yen	Yen	U.S. dollars
Annual cash dividends per share (Yen/US$)	**70.00**	64.00	**0.59**
Total dividend payment amount	**35,501**	32,811	**297.0**
Payout ratio (consolidated)	**44.7%**	50.8%	**44.7%**
Cash dividends / Total net assets (consolidated)	**5.5%**	5.5%	**5.5%**

Forecast of Consolidated Results for the Six Months Ending June 30, 2015 and the Fiscal Year Ending December 31, 2015

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

	Six months ending June 30, 2015			Fiscal Year ending December 31, 2015		
	Yen	Growth %	U.S. dollars	Yen	Growth %	U.S. dollars
Net sales	700.0	5.1	5,855.8	1,470.0	4.9	12,297.1
Operating income	50.0	1.3	418.3	150.0	12.6	1,254.8
Ordinary income	52.0	1.0	435.0	153.0	10.2	1,279.9
Net income	26.0	(17.8)	217.5	87.0	9.3	727.8
Net income per share (Yen/US$)*	51.89	(16.0)	0.43	173.63	11.0	1.45
Cash dividends per share (Yen/US$)	38.00	-	0.32	76.00	-	0.64

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

Note for This News Release:
U.S. dollar amounts represent translations using the approximate exchange rate on December 31, 2014 of 119.54 yen = 1 U.S. dollar, and are presented solely for the convenience of readers.

Forward-Looking Statements
Forward-looking statements such as earnings forecasts and other projections contained in this release are based on information available at this time and assumptions that management believes to be reasonable, and do not constitute guarantees of future performance. Actual results may differ materially from those expectations due to various factors.

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1. Analysis of Business Results and Financial Condition

1.1. Analysis of Business Results

1.1.1. Business Results for the Fiscal Year

(Billions of yen)

	2014	2013	Growth %
Net sales	**1,401.7**	1,315.2	6.6
Operating income	**133.3**	124.7	6.9
Ordinary income	**138.8**	128.1	8.4
Net income	**79.6**	64.8	22.9
Net income per share (Yen)	**156.46**	126.03	24.1
Net income per share, fully diluted (Yen)	**156.24**	125.89	24.1

1.1.1.1. Overall Business Trends during the Fiscal Year

During the fiscal year ended December 31, 2014, the global economy showed weakness in some sectors but recovered moderately. In the Japanese economy, although weakness was apparent in personal consumption and elsewhere, a moderate recovery trend continued. The household and personal care products market in Japan, a key market for the Kao Group, grew by 2% on a value basis and consumer purchase prices increased, both compared with the previous fiscal year. In addition, the cosmetics market in Japan was flat compared with the previous fiscal year.

Under these circumstances, the Kao Group worked to launch and nurture products with high added value in response to changes in consumer needs based on its concept of *Yoki-Monozukuri*,* which emphasizes research and development geared to customers and consumers. The Kao Group also worked to the utmost to supply products responding to the last-minute surge in demand associated with the consumption tax rate increase in Japan, and strove to stimulate the market by launching numerous new and improved products after the consumption tax rate increase.

* *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."*

Regarding Kanebo Cosmetics brightening products containing the ingredient Rhododenol, for which a voluntary recall was announced on July 4, 2013, the Kao Group has been wholeheartedly supporting the recovery and compensation of people who have experienced vitiligo-like symptoms and is working to prevent a recurrence.

Net sales increased 6.6% compared with the previous fiscal year to 1,401.7 billion yen. Excluding the effect of currency translation, net sales would have increased 4.7%. In the

Consumer Products Business, sales and market share both grew in Japan due to the launch of numerous high-value-added products and proactive sales activities, although there was an impact from adverse weather conditions during the summer. Sales in Asia also continued to grow steadily. Sales in the Chemical Business increased as the Kao Group worked to adjust selling prices in connection with higher prices for natural fats and oils used as raw materials and to increase sales volume.

As for profits, despite aggressively increased marketing and other expenses for new and improved products and the impact of higher prices for raw materials, operating income increased 8.6 billion yen compared with the previous fiscal year to 133.3 billion yen and ordinary income increased 10.7 billion yen compared with the previous fiscal year to 138.8 billion yen due to the effect of increased sales of the Consumer Products Business in Japan and Asia and the Chemical Business. The Kao Group recorded 8.9 billion yen in compensation-related and other expenses in connection with brightening products containing Rhododenol as an extraordinary loss, and net income increased 14.8 billion yen compared with the previous fiscal year to 79.6 billion yen.

Operating income before amortization of goodwill and other items related to acquisitions (EBITA) increased 7.3 billion yen compared with the previous fiscal year to 162.1 billion yen, which is equivalent to 11.6% of net sales.

Net income per share was 156.46 yen, an increase of 30.43 yen, or 24.1%, from 126.03 yen in the previous fiscal year.

Economic value added (EVA*), which the Kao Group uses as a management indicator, increased compared with the previous fiscal year, reflecting an increase in net operating profit after tax (NOPAT) and efforts to reduce invested capital, including shareholder returns through stock repurchases.

**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.

	First quarter (Jan. – Mar.)	Second quarter (Apr. – Jun.)	Third quarter (Jul. – Sep.)	Fourth quarter (Oct. – Dec.)
Yen/U.S. dollar	102.87 (92.57)	102.16 (99.23)	103.92 (98.06)	114.43 (102.11)
Yen/Euro	140.94 (122.02)	140.13 (129.56)	137.78 (130.72)	142.88 (139.93)

Note: Figures in parentheses represent the exchange rates for the same quarter of the previous fiscal year.

1.1.1.2. Trends by Segment for the Fiscal Year

Summary of Results by Business Segment

Consumer Products Business

Sales increased 5.7% compared with the previous fiscal year to 1,154.5 billion yen. Excluding the effect of currency translation, sales would have increased 4.3%.

In Japan, sales increased 3.9% to 900.0 billion yen. Sales and market share both grew as the Kao Group responded to changing consumer lifestyles and social issues such as the environment, health, the aging society and hygiene, and enhanced proposal-based sales, among other measures, while working to supply products responding to the last-minute surge in demand associated with the consumption tax rate increase and striving to stimulate the market by launching numerous new and improved products after the consumption tax rate increase.

In Asia, sales increased 20.7% to 140.5 billion yen. Excluding the effect of currency translation, sales would have increased 16.1%. Sales continued to grow as the Kao Group worked in areas such as launching and nurturing products targeting the middle-class consumer segment, collaborating with retailers, utilizing wholesale channels and expanding sales regions.

In the Americas, sales increased 15.9% to 79.9 billion yen. Excluding the effect of currency translation, sales would have increased 7.8%. Sales based on the same inter-company transaction method used in the previous fiscal year would have increased 7.5% (an increase of 0.1% excluding the effect of currency translation). Excluding the effect of currency translation, sales of skin care products increased and sales of hair care products decreased compared with the previous fiscal year.

In Europe, sales increased 16.7% to 84.2 billion yen. Excluding the effect of currency translation, sales would have increased 7.9%. Sales based on the same inter-company transaction method used in the previous fiscal year would have increased 9.1% (an increase of 0.8% excluding the effect of currency translation). Excluding the effect of currency translation, sales of cosmetics increased and sales of hair care products decreased compared with the previous fiscal year.

Operating income increased 8.3 billion yen compared with the previous fiscal year to 111.3 billion yen due to the effect of increased sales in Japan and Asia associated with aggressively increased marketing and other expenses for new and improved products, despite the impact of higher prices for raw materials.

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

Beauty Care Business

Sales increased 3.4% compared with the previous fiscal year to 589.9 billion yen. Excluding the effect of currency translation, sales would have increased 1.3%.

Sales of cosmetics increased 1.4% compared with the previous fiscal year to 260.6 billion yen. Excluding the effect of currency translation, sales would have increased 0.3%. In Japan, sales were flat compared with the previous fiscal year, due in part to adverse weather conditions during the summer and a delayed recovery from the pullback following the consumption tax rate increase. The Kao Group continued to work to reinforce focal brands and expanded sales of *SOFINA Primavista* base makeup, *ALBLANC* skin care products and the new *DEW beauté* aging care line in counseling cosmetics, as well as renewed *KATE TOKYO* makeup in self-selection cosmetics. Outside Japan, sales increased compared with the previous fiscal year, excluding the effect of currency translation, due in part to growth in sales from the renewal of *Molton Brown*, a prestige brand from the United Kingdom.

Sales of skin care products increased compared with the previous fiscal year. In Japan, sales increased with strong performance by *Bioré* facial cleanser, *Bioré U* body cleanser and *Curél* derma care products, including new and improved products. In Asia, *Bioré* performed steadily and sales grew. In the Americas, sales excluding the effect of currency translation increased compared with the previous fiscal year, due in part to the launch of improved *Jergens* hand and body lotion products.

Sales of hair care products were flat compared with the previous fiscal year. In Japan, although hair coloring products were impacted by market contraction, sales increased with strong performance by shampoos, conditioners and hair styling products, including the contribution from *Essential* and other new and improved products. In Asia, sales decreased compared with the previous fiscal year due to narrowing down the brands. In the Americas and Europe, the Kao Group launched an improved styling product line from *John Frieda*, but sales excluding the effect of currency translation decreased compared with the previous fiscal year in the severe competitive environment.

Operating income increased 4.5 billion yen compared with the previous fiscal year to 28.4 billion yen due to the effect of increased sales and other factors. Operating income before amortization of goodwill and other items related to acquisitions (EBITA) increased 3.2 billion yen compared with the previous fiscal year to 57.3 billion yen, which is equivalent to 9.7% of sales.

Human Health Care Business

Sales increased 14.0% compared with the previous fiscal year to 240.1 billion yen. Excluding the effect of currency translation, sales would have increased 12.8%.

Sales of food and beverage products decreased compared with the previous fiscal year in a severe market environment, despite efforts in green tea to strengthen promotion of the function of tea catechins in increasing the body's fat-burning ability and the launch of an improved coffee drink with enhanced flavor, both under the *Healthya* brand of functional drinks that promote body fat utilization.

Sales of sanitary products increased substantially compared with the previous fiscal year. The *Laurier* brand of sanitary napkins increased its market share in Japan due to growth in sales of high-value-added products such as *Laurier F*, which protects skin from dampness and chafing, and *Laurier Slim Guard*, which offers both high absorbency and comfort. *Laurier* sales also increased steadily in Asia.

Merries baby diapers continued to sell strongly in Japan, where the Kao Group increased production capacity, and sales also grew in China and Russia. Regarding locally produced products targeting the middle-class consumer segment, the Kao Group worked to expand sales of products launched in China in 2013 and began sales in Indonesia in September 2014.

Sales of personal health products increased compared with the previous fiscal year. Sales of oral care products were flat, although the Kao Group launched improved products and nurtured high-value-added products. Sales of bath additives were flat, due in part to stiff competition, but sales of *MegRhythm* steam thermo power pads increased substantially.

Operating income increased 5.0 billion yen compared with the previous fiscal year to 21.9 billion yen due to the effect of increased sales and cost reduction activities, although higher raw material prices had an impact.

Fabric and Home Care Business

Sales increased 4.3% compared with the previous fiscal year to 324.5 billion yen. Excluding the effect of currency translation, sales would have increased 4.1%.

Sales of fabric care products increased compared with the previous fiscal year. In Japan, the Kao Group's efforts to highlight the environmental appeal of conserving water, electricity and resources with the *Neo* series included promotion of the reduced laundry time resulting from the strong cleaning power of *Ultra Attack Neo* ultra-concentrated liquid laundry detergent and an improved version of *Attack Neo Antibacterial EX W Power* ultra-concentrated liquid laundry detergent containing more of an anti-mold agent, which was launched in May 2014. For *Attack Reset* powder laundry detergent, the Kao Group stimulated the powder laundry detergent market with the launch of a refill product that reduces environmental impact. Due in part to these activities, sales of laundry detergent increased despite the impact of adverse weather conditions during the summer. In fabric softeners, the Kao Group launched *Humming Fine* with a deodorant effect that lasts for 24 hours, and both it and *Flair Fragrance* performed firmly. *Wide Haiter EX Power*, a fabric bleach for color garments with strengthened deodorizing and antibacterial functions, performed well. In Asia, sales increased compared with the previous fiscal year. For *Attack* laundry detergent, sales increased in Indonesia due in part to the launch of *Attack Jaz1*, a powder detergent for hand washing targeting the middle-class consumer segment, and in Taiwan and Hong Kong, where liquid laundry detergent with a strengthened antibacterial function that was launched in 2013 performed well.

Sales of home care products increased compared with the previous fiscal year. In Japan, the Kao Group launched an improved version of *CuCute* dishwashing detergent with an innovative washing formulation for significantly higher cleaning power as well as both long-lasting suds and easy rinsing, and it performed well. Sales of household cleaners increased due in part to contributions from *Bath Magiclean Antibacterial Deodorizer Plus* bathroom cleaner and new *Magiclean Brightening Sheets* home cleaner. In addition, sales of *Quickle Wiper* household mop kits and sheets also grew.

Operating income decreased 1.2 billion yen compared with the previous fiscal year to 61.0 billion yen due in part to aggressively increased marketing and other expenses for new and improved products and the impact of higher raw material prices, despite the effect of increased sales and other factors.

Chemical Business

Sales increased 10.3% compared with the previous fiscal year to 288.0 billion yen. Excluding the effect of currency translation, sales would have increased 6.7%.

Amid overall weakness in customer industries in Japan, demand increased in certain customer industries, including export-related industries due to the depreciation of the yen and those related to reconstruction following the Great East Japan Earthquake. Conditions remained firm in the Americas, and a moderate recovery became apparent in Europe.

In oleo chemicals, the Kao Group worked to increase sales volume of fatty alcohols, for which it expanded its facilities in 2013, and to adjust selling prices in connection with higher prices for natural fats and oils used as raw materials. In performance chemicals, sales were firm as the Kao Group worked to develop and expand sales of high-value-added products with reduced environmental impact. Sales of specialty chemicals were flat compared with the previous fiscal year despite structural changes in the personal computer market, as the Kao Group worked to offer products adapted to customer needs.

Operating income increased 0.6 billion yen compared with the previous fiscal year to 22.1 billion yen, despite the impact of higher prices for natural fats and oils used as raw materials, due to the effect of increased sales resulting from selling price adjustments and growth in sales volume, as well as cost reduction activities.

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1.1.2. Forecast for the Fiscal Year Ending December 31, 2015

(Billions of yen)

	2015 (Forecast)	2014 (Actual)	Growth
Net sales	1,470.0	1,401.7	4.9%
Operating income	150.0	133.3	12.6%
Ordinary income	153.0	138.8	10.2%
Net income	87.0	79.6	9.3%
Net income per share (Yen)	173.63	156.46	11.0%

1.1.2.1. Forecast of Overall Business Results for the Fiscal Year Ending December 31, 2015

A continuing moderate recovery is expected for the global economy, although there are concerns about the risk of a downturn due to factors including the impact of the trend toward normalization of monetary policy in the United States, the public debt problem in Europe and the economic outlook in emerging nations. In Japan, despite lingering weakness at present, the economy is expected to recover moderately, underpinned by the effects of economic measures, but there is also a possibility of impact from an economic downturn overseas due to sharp fluctuations in exchange rates and crude oil prices, and the outlook for the operating environment remains unclear.

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 sustained profitable growth globally with consumer-driven, high-value-added products. In the Chemical Business, the Kao Group will work to strengthen global operations and carry out measures such as developing eco-chemical products with a reduced environmental impact. The Kao Group forecasts that net sales will increase 4.9% year on year to 1,470.0 billion yen. The Kao Group will work to stimulate the market with new product launches and other measures in Japan and overseas, and expects an increase in sales volume.

Despite higher prices for natural oils and fats, petrochemical prices are forecast to fall, and the Kao Group overall expects lower raw material prices compared with the previous fiscal year. In addition, the Kao Group will work to continue cost reduction activities and other measures, while at the same time it will proactively invest for global business development to achieve the Kao Group Mid-term Plan 2015 (K15). Based on these assumptions, the Kao Group forecasts a 12.6% increase in operating income to 150.0 billion yen, a 10.2% increase in ordinary income to 153.0 billion yen, and a 9.3% increase in net income to 87.0 billion yen.

EVA is forecast to increase due to an increase in net operating profit after tax (NOPAT).

1.1.2.2. Forecast by Business Segment for the Fiscal Year Ending December 31, 2015

In the Consumer Products Business in Japan, the market for household and personal care products is projected to grow slightly on a value basis. The cosmetics market is expected to remain flat. In overseas markets, growth is expected to continue in Asia, and a moderate recovery is projected in the Americas and Europe. In this situation, the Kao Group will take the following actions to create strong brands based on a high level of safety and reliability.

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 Kao Group will promote 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. For cosmetics, the Kao Group will work to make the most of the respective individual characteristics of Kao Sofina and Kanebo Cosmetics to further raise their brand value. Overseas, the Kao Group will work to develop high-value-added products that incorporate its original technologies and nurture and strengthen core brands.

The Kao Group forecasts that sales in this business will increase 1.7% year on year to 600.0 billion yen.

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 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 as a result 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, and will expand production capacity to deal with increases in demand. In China and Indonesia, the Kao Group will expand its rollout of baby diapers produced locally targeting the middle-class consumer segment. 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 that sales in this business will increase 11.2% year on year to 267.0 billion yen.

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 lifecycle of products such as the *Neo* series, which includes *Ultra Attack Neo* ultra-concentrated liquid laundry detergent, and refill products for liquid and powder laundry detergents. The Kao Group will work to develop and nurture products that incorporate its technologies to meet local consumer needs in Asia and will expand its rollout of the laundry detergent it launched in 2014 targeting the middle-class consumer segment in Indonesia.

The Kao Group forecasts that sales in this business will increase 3.5% year on year to 336.0 billion yen.

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 stably supply high-quality products to meet increasing demand for fatty alcohols, fatty amines and higher-value-added derivatives made from natural oils and fats, mainly in Asia. In performance chemicals, growth is forecast in Asia, while the forecast for Japan includes an improved export environment for customer industries and recovery in demand. In specialty chemicals, the Kao Group will work to expand sales of products related to information materials and strive to offer products that anticipate customer trends.

In addition, the Kao Group will work to expand sales by opening up the markets of emerging countries, where growth is expected, while developing new materials using unique, environmentally conscious technologies in response to rising concern about the environment worldwide.

As a result of the above, including adjustments in selling prices in response to fluctuations in raw material prices, the Kao Group forecasts that sales in this business will increase 6.6% year on year to 307.0 billion yen.

1.1.2.3. Underlying Assumptions of the Forecast for the Fiscal Year Ending December 31, 2015

The above forecast was made assuming translation rates of one U.S. dollar to 115 yen and one euro to 135 yen.

Please note that although there is potential for supply-and-demand-related volatility in prices of natural oils and fats and petrochemicals due to growth in demand from emerging nations, abnormal weather conditions and other factors, 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 December 31, 2014

Summary of Consolidated Financial Condition

	Billions of yen			Millions of U.S. dollars
	As of Dec. 31, 2014	As of Dec. 31, 2013	Incr./ (Dcr.)	**As of Dec. 31, 2014**
Total assets	**1,198.2**	1,133.3	65.0	**10,023.7**
Total net assets	**672.4**	642.6	29.8	**5,624.8**
Net worth ratio	**54.9%**	55.5%	-	**54.9%**
Net worth per share (Yen/US$)	**1,313.63**	1,227.54	86.09	**10.99**
Total debt	**101.2**	101.4	(0.1)	**846.9**

Summary of Consolidated Cash Flows

	Billions of yen		Millions of U.S. dollars
	2014	2013	**2014**
Net cash provided by operating activities	**145.1**	178.7	**1,214.0**
Net cash used in investing activities	**(63.8)**	(57.8)	**(533.8)**
Free cash flow*	**81.3**	121.0	**680.2**
Net cash used in financing activities	**(85.0)**	(67.5)	**(711.2)**

* *Free cash flow is the sum of net cash provided by operating activities and net cash used in investing activities.*

Total assets increased 65.0 billion yen from the end of the previous fiscal year to 1,198.2 billion yen. The principal increases in assets were a 22.2 billion yen increase in notes and accounts receivable – trade, a 20.5 billion yen increase in short-term investments, a 12.4 billion yen increase in merchandise and finished goods, a 4.8 billion yen increase in raw materials and supplies, a 30.3 billion yen increase in property, plant and equipment, and a 9.7 billion yen increase in net defined benefit asset. The principal decreases in assets were an 18.9 billion yen decrease in cash and time deposits and a 24.7 billion yen decrease in intangible assets due to the progress of amortization of trademarks and other intellectual property rights and goodwill.

Total liabilities increased 35.2 billion yen from the end of the previous fiscal year to 525.8 billion yen. The principal increases in liabilities were a 13.7 billion yen increase in notes and accounts payable – trade, a 10.1 billion yen increase in accounts payable – other, a 3.5 billion yen increase in accrued expenses and a 6.9 billion yen increase in liability for loss related to cosmetics. The principal decreases in liabilities were a 4.2 billion yen decrease in income taxes payable and a 6.4 billion yen decrease in net defined benefit liability ("liability for employee retirement benefits" at the end of the previous fiscal year).

Total net assets increased 29.8 billion yen from the end of the previous fiscal year to 672.4 billion yen. The principal increases in net assets were net income totaling 79.6 billion yen, foreign currency translation adjustments of 23.6 billion yen and remeasurements of defined benefit plans totaling 8.2 billion yen ("post retirement liability adjustments for foreign consolidated subsidiaries" at the end of the previous fiscal year). The principal decreases in net assets were a 50.0 billion yen decrease due to purchase of treasury stock and payments of dividends from retained earnings totaling 33.8 billion yen. In December 2014, Kao Corporation retired treasury stock.

As a result, the net worth ratio (defined as net worth divided by total assets) was 54.9% compared with 55.5% at the end of the previous fiscal year.

Net cash provided by operating activities totaled 145.1 billion yen. The principal increases in net cash were income before income taxes and minority interests of 126.8 billion yen, depreciation and amortization of 79.7 billion yen and change in trade payables of 6.7 billion yen. The principal decreases in net cash were change in trade receivables of 11.0 billion yen, change in inventories of 12.4 billion yen and income taxes paid of 49.3 billion yen.

Net cash used in investing activities totaled 63.8 billion yen. This primarily consisted of 51.2 billion yen for purchase of property, plant and equipment and 4.5 billion yen for purchase of intangible assets.

Free cash flow, the sum of net cash provided by operating activities and net cash used in investing activities, was 81.3 billion yen.

Net cash used in financing activities totaled 85.0 billion yen. This primarily consisted of 50.0 billion yen for purchase of treasury stock and 35.0 billion yen for payments of cash dividends, including to minority shareholders. In September 2014, Kao Corporation repaid 20.0 billion yen in borrowings and borrowed the same amount in the same month to maintain an appropriate capital cost ratio and to enhance its financial base for investment in growth.

The balance of cash and cash equivalents at December 31, 2014 increased 1.1 billion yen compared with the end of the previous fiscal year to 228.7 billion yen.

1.2.2. Forecast of Assets, Liabilities, Net Assets and Cash Flow for the Fiscal Year Ending December 31, 2015

Net cash provided by operating activities is forecast to be approximately 160.0 billion yen, due in part to an increase in income before income taxes and minority interests.

In net cash used in investing activities, the Kao Group plans capital expenditures of approximately 85.0 billion yen, an increase from the fiscal year ended December 31, 2014, which will include aggresive investment for global expansion and capital investment for purposes such as increasing production capacity, promoting streamlining and improving distribution efficiency.

In net cash used in financing activities, the Kao Group expects to pay cash dividends and to make other expenditures.

As a result of the above, the balance of cash and cash equivalents as of December 31, 2015 is forecast to increase approximately 40.0 billion yen from the previous fiscal year end to approximately 270.0 billion yen.

Cash Flow Indices

	2014	2013	2012[1]	2011	2010
Net worth / Total assets (%)	**54.9**	55.5	56.6	54.3	51.7
Market capitalization / Total assets (%)	**198.9**	149.6	113.9	114.3	105.9
Interest-bearing debt / Operating cash flow (years)	**0.8**	0.6	1.2	0.9	1.1
Operating cash flow / Interest paid (times)	**116.1**	148.9	73.1	51.1	45.4

Notes:

1. *Due to a change in the fiscal year end, 2012 is April to December 2012 for Kao Corporation and its subsidiaries whose fiscal year end was previously March 31 and January to December 2012 for subsidiaries whose fiscal year end was December 31.*
2. *All indices are computed based on consolidated data.*
3. *Net worth is net assets, excluding minority interests and stock acquisition rights.*
4. *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).*
5. *Operating cash flow is stated in the consolidated statement of cash flows. Interest-bearing debt is all debt included in the consolidated balance sheet on which interest is paid.*

1.3. Basic Policies Regarding Distribution of Profits and Dividends for the Fiscal Years Ended December 31, 2014 and Ending December 31, 2015

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

In accordance with these policies, the Company plans to pay a year-end dividend for the fiscal year ended December 31, 2014 of 36.00 yen per share, an increase of 4.00 yen per share compared with the previous fiscal year. Consequently, cash dividends for the fiscal year will increase 6.00 yen per share compared with the previous fiscal year, resulting in a total of 70.00 yen per share. The consolidated payout ratio will be 44.7%.

For the fiscal year ending December 31, 2015, the Company plans to pay total cash dividends of 76.00 yen per share, an increase of 6.00 yen per share compared with the previous fiscal year. Although the operating environment is challenging, this plan is in accordance with the Company’s basic policies regarding distribution of profits, and free cash flow and other factors have also been taken into consideration. As a result, the projected consolidated payout ratio is 43.8%.

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1.4. Items Related to Summary Information (Other)

(1) Changes in material subsidiaries during the fiscal year: None

(2) Changes in accounting principles, changes in accounting estimates, and retrospective restatements:

(Adoption of Accounting Standard for Retirement Benefits)

The Company has adopted the “Accounting Standard for Retirement Benefits” (ASBJ Statement No. 26 issued on May 17, 2012, hereinafter “Retirement Benefits Accounting Standard”) and “Guidance on Accounting Standard for Retirement Benefits” (ASBJ Guidance No. 25 issued on May 17, 2012, hereinafter “Retirement Benefits Guidance”) from the end of the fiscal year ended December 31, 2014 (with the exception of the main clause of Article 35 of the Retirement Benefits Accounting Standard and the main clause of Article 67 of the Retirement Benefits Guidance), thus changing to a method of recording the difference between retirement benefit obligations and plan assets as net defined benefit asset or net defined benefit liability, and has recorded actuarial gains and losses and past service costs that are yet to be recognized and the difference at the time of the change in accounting standard as net defined benefit asset or net defined benefit liability. The Retirement Benefits Accounting Standard and Retirement Benefits Guidance have been applied in accordance with the transitional handling set forth in Article 37 of the Retirement Benefits Accounting Standard, and the impact of the change was an adjustment to remeasurements of defined benefit plans under accumulated other comprehensive income as of December 31, 2014.

As a result, as of December 31, 2014, the Company recorded net defined benefit asset of 9,692 million yen and net defined benefit liability of 42,414 million yen. In addition, accumulated other comprehensive income increased by 11,882 million yen. Net worth per share increased by 23.71 yen.

As a result of the adoption of the Retirement Benefits Accounting Standard and Retirement Benefits Guidance, “Post retirement liability adjustments for foreign consolidated subsidiaries,” which was previously stated separately in the consolidated balance sheet, consolidated statement of comprehensive income and consolidated statement of changes in equity, is stated as “Remeasurements of defined benefit plans” from the fiscal year ended December 31, 2014.

(3) Other changes in accounting principles: None

(4) Changes in accounting estimates: None

(5) Restatements: None

(6) Change in Method of Presentation

(Consolidated Balance Sheet)

“Liability for loss related to cosmetics,” which was included in “Other” under “Current liabilities” in the previous fiscal year, is presented separately from the fiscal year ended December 31, 2014 due to its increased materiality. The consolidated financial statements for the previous fiscal year have been reclassified to reflect the change in method of presentation.

As a result, 1,350 million yen included in “Other” under “Current liabilities” on the consolidated balance sheet for the previous fiscal year has been reclassified as “Liability for loss related to cosmetics.”

(7) Additional Information

Compensation-related and other expenses of 8,896 million yen have been recorded as “Loss related to cosmetics” in extraordinary loss as the substantive amount of loss recorded on the consolidated statement of income for cosmetics-related loss on Kanebo Cosmetics brightening products containing Rhododenol, for which a voluntary recall was announced on July 4, 2013. Of this amount, 8,220 million yen for estimated future expenditures has been recorded in “Liability for loss related to cosmetics” under current liabilities on the consolidated balance sheet.

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

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*,” and aim to become a company with a global presence as it works for both sustained “profitable growth” by increasing the added value of its products and “contributions to the sustainability of society” by resolving social issues and conducting social contribution activities through its business activities.

To realize this vision and increase corporate value, the Kao Group is now implementing Kao Group Mid-term Plan 2015 (K15), with 2013 as the first year.

Kao Group Mid-term Plan 2015 (K15)
Target 1: Break previous records for consolidated net sales and profits
Target 2: Achieve numerical management targets for FY2015

Consolidated net sales	¥1,400.0 billion
Consolidated operating income	¥150.0 billion
Overseas sales ratio	30% or more

The growth strategies for achieving the plan’s goals are as follows.

1) Expand the Consumer Products Business globally
   Continued substantial expansion is forecast for the growth markets of Asia and other emerging nations. The Kao Group will work to expand its business with product development that incorporates its original technologies, centered on products in the domain of “cleanliness” including laundry detergents, baby diapers and sanitary napkins targeting the growing middle-class consumer segment.

   In North America, Europe and other mature markets, the Kao Group will work on high-value-added products that incorporate its original technologies in the fields of cosmetics, skin care and hair care, and professional hair care.

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

In the Fabric and Home Care Business, its core profit base, the Kao Group will work to maintain or capture the top share in each product category.

In addition to strengthening the cosmetics business in the Beauty Care Business, the Kao Group will aim for greater growth and expansion with high-value-added products and services focused on health and the aging society in the Human Health Care Business.

3) Reinforce the Chemical Business
   In the Chemical Business, the Kao Group will aim for rapid progress toward an eco-chemical business through eco-innovation.

   In addition, the Kao Group will strengthen synergy with the Consumer Products Business.

With regard to operating structure, through the global management integration of the Consumer Products Business, the Kao Group is strengthening its matrix management of business units and functional divisions, and promoting reformation of its profit structure from a perspective of what is best for the Group as a whole.

2.4. Issues for Management

Regarding Kanebo Cosmetics brightening products containing the ingredient Rhododenol, for which a voluntary recall was announced on July 4, 2013, the Kao Group has been making individual visits to people who have experienced vitiligo-like symptoms and responding seriously with support for their recovery and compensation. The entire Kao Group is making efforts with a view of the tasks before it as working to prevent recurrence while striving to ensure greater safety and reliability.

With intensifying market competition, changing market structure and volatility in raw material market conditions and exchange rates, the operating environment remains severe and uncertain.

In addition, changes in consumer attitudes in everyday life and associated changes in their purchasing attitudes are occurring and concerns are rising regarding social issues such as awareness of the environment, increasing health consciousness, the aging society and hygiene.

By steadily carrying out the growth strategies of Kao Group Mid-term Plan 2015 (K15), which was formulated with this operating environment in mind, the Kao Group will deal with these various issues, and work for both sustained “profitable growth” through the development of high-value-added products and “contributions to the sustainability of society” as it aims to become a company with a global presence.

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Consolidated Balance Sheet

Millions of yen

	FY2014 Dec. 31, 2014	FY2013 Dec. 31, 2013
Assets		
Current assets		
Cash and time deposits	107,412	126,314
Notes and accounts receivable - trade	204,060	181,882
Short-term investments	110,639	90,145
Merchandise and finished goods	111,831	99,453
Work in process	12,833	11,340
Raw materials and supplies	33,123	28,315
Prepaid expenses	6,832	6,300
Deferred tax assets	20,232	22,736
Other	36,420	29,149
Allowance for doubtful receivables	(1,648)	(1,669)
Total current assets	**641,734**	**593,965**
Fixed assets		
Property, plant and equipment		
Buildings and structures	361,223	354,012
Accumulated depreciation	(267,219)	(266,783)
Buildings and structures, net	94,004	87,229
Machinery, equipment and vehicles	696,451	661,155
Accumulated depreciation	(597,907)	(578,682)
Machinery, equipment and vehicles, net	98,544	82,473
Tools, furniture and fixtures	86,343	86,792
Accumulated depreciation	(73,563)	(73,810)
Tools, furniture and fixtures, net	12,780	12,982
Land	69,445	64,900
Lease assets	11,261	12,049
Accumulated depreciation	(5,800)	(5,294)
Lease assets, net	5,461	6,755
Construction in progress	27,381	22,945
Total property, plant and equipment	307,615	277,284
Intangible assets		
Goodwill	139,941	152,286
Trademarks	15,145	28,498
Other	12,844	11,834
Total intangible assets	167,930	192,618
Investments and other assets		
Investment securities	20,984	18,050
Long-term loans	1,432	1,389
Long-term prepaid expenses	17,281	15,542
Deferred tax assets	20,630	23,985
Net defined benefit asset	9,692	-
Other	11,612	11,177
Allowance for doubtful receivables	(677)	(734)
Total investments and other assets	80,954	69,409
Total fixed assets	**556,499**	**539,311**
Total assets	**1,198,233**	**1,133,276**

Consolidated Balance Sheet

Millions of yen	FY2014 Dec. 31, 2014	FY2013 Dec. 31, 2013
Liabilities		
Current liabilities		
Notes and accounts payable - trade	129,711	115,997
Short-term loans	1,137	1,278
Current portion of long-term loans	20,013	20,009
Accounts payable - other	66,230	56,139
Accrued expenses	94,666	91,117
Income taxes payable	28,108	32,322
Liability for loss related to cosmetics	8,220	1,350
Other	32,451	20,102
Total current liabilities	**380,536**	**338,314**
Long-term liabilities		
Bonds	50,000	50,000
Long-term loans	30,083	30,094
Liability for employee retirement benefits	-	48,847
Net defined benefit liability	42,414	-
Other	22,807	23,381
Total long-term liabilities	**145,304**	**152,322**
Total liabilities	**525,840**	**490,636**
Net assets		
Shareholders' equity		
Common stock	85,424	85,424
Capital surplus	109,561	109,561
Retained earnings	468,684	471,383
Treasury stock, at cost	(9,719)	(9,397)
Total shareholders' equity	**653,950**	**656,971**
Accumulated other comprehensive income		
Unrealized gain on available-for-sale securities	5,507	4,733
Deferred gain (loss) on derivatives under hedge accounting	8	12
Foreign currency translation adjustments	(4,853)	(28,416)
Post retirement liability adjustments for foreign consolidated subsidiaries	-	(4,590)
Remeasurements of defined benefit plans	3,619	-
Total accumulated other comprehensive income	**4,281**	**(28,261)**
Stock acquisition rights	**944**	**1,120**
Minority interests	**13,218**	**12,810**
Total net assets	**672,393**	**642,640**
Total liabilities and net assets	**1,198,233**	**1,133,276**

Consolidated Statement of Income

Millions of yen

	FY2014 **Jan. - Dec.**	**FY2013** **Jan. - Dec.**
Net sales	**1,401,707**	**1,315,217**
Cost of sales	632,205	572,769
Gross profit	**769,502**	**742,448**
Selling, general and administrative expenses	636,232	617,792
Operating income	**133,270**	**124,656**
Non-operating income		
Interest income	817	955
Dividend income	197	178
Equity in earnings of nonconsolidated subsidiaries and affiliates	2,225	2,272
Foreign currency exchange gain	1,171	-
Other	3,355	2,846
Total non-operating income	7,765	6,251
Non-operating expenses		
Interest expense	1,295	1,213
Foreign currency exchange loss	-	320
Other	956	1,321
Total non-operating expenses	2,251	2,854
Ordinary income	**138,784**	**128,053**
Extraordinary gain		
Gain on sales of fixed assets	200	68
Gain on transfer of business	-	350
Other	132	475
Total extraordinary gain	332	893
Extraordinary loss		
Loss on sales/disposals of fixed assets	2,906	2,713
Loss related to cosmetics	8,896	9,652
Other	553	1,642
Total extraordinary loss	12,355	14,007
Income before income taxes and minority interests	**126,761**	**114,939**
Income taxes		
Income taxes - current	44,316	50,752
Income taxes - deferred	2,023	(1,619)
Total income taxes	46,339	49,133
Income before minority interests	**80,422**	**65,806**
Minority interests	832	1,042
Net income	**79,590**	**64,764**

Consolidated Statement of Comprehensive Income

Millions of yen

	FY2014 Jan. - Dec.	FY2013 Jan. - Dec.
Income before minority interests	**80,422**	**65,806**
Other comprehensive income		
Unrealized gain (loss) on available-for-sale securities	639	2,044
Foreign currency translation adjustments	24,709	44,201
Share in other comprehensive income of associates applied for equity method	222	335
Post retirement liability adjustments for foreign consolidated subsidiaries	-	(2,759)
Remeasurements of defined benefit plans	(3,725)	-
Other comprehensive income	21,845	43,821
Comprehensive income	**102,267**	**109,627**
Attributable to:		
Shareholders of Kao Corporation	100,250	107,823
Minority interests	2,017	1,804

Major Items of Consolidated Selling, General and Administrative Expenses

Millions of yen

	FY2014 Jan. - Dec.	FY2013 Jan. - Dec.
Freight/warehouse	81,391	77,253
Advertising	92,410	86,406
Sales promotion	73,072	69,554
Salaries and bonuses	130,974	130,265
Research and development	51,739	49,650

Consolidated Statement of Changes in Equity

Millions of yen

FY2014 Jan. - Dec.	Shareholders' equity					Accumulated other comprehensive income						Stock acquisition rights	Minority interests	Total net assets
	Common stock	Capital surplus	Retained earnings	Treasury stock, at cost	Total shareholders' equity	Unrealized gain on available-for-sale securities	Deferred gain (loss) on derivatives under hedge accounting	Foreign currency translation adjustments	Post retirement liability adjustments for foreign consolidated subsidiaries	Remeasurements of defined benefit plans	Total accumulated other comprehensive income			
Balance at beginning of current period	85,424	109,561	471,383	(9,397)	**656,971**	4,733	12	(28,416)	(4,590)	-	**(28,261)**	1,120	12,810	**642,640**
Changes of items during the period														
Cash dividends			(33,814)		**(33,814)**									**(33,814)**
Net income			79,590		**79,590**									**79,590**
Purchase of treasury stock				(50,041)	**(50,041)**									**(50,041)**
Disposal of treasury stock			(79)	1,323	**1,244**									**1,244**
Retirement of treasury stock			(48,396)	48,396	**-**									**-**
Net changes of items other than shareholders' equity during the period						774	(4)	23,563	4,590	3,619	**32,542**	(176)	408	**32,774**
Total changes of items during the period	-	-	(2,699)	(322)	**(3,021)**	774	(4)	23,563	4,590	3,619	**32,542**	(176)	408	**29,753**
Balance at end of period	85,424	109,561	468,684	(9,719)	**653,950**	5,507	8	(4,853)	-	3,619	**4,281**	944	13,218	**672,393**

FY2013 Jan. - Dec.	Shareholders' equity					Accumulated other comprehensive income					Stock acquisition rights	Minority interests	Total net assets
	Common stock	Capital surplus	Retained earnings	Treasury stock, at cost	Total shareholders' equity	Unrealized gain on available-for-sale securities	Deferred gain (loss) on derivatives under hedge accounting	Foreign currency translation adjustments	Post retirement liability adjustments for foreign consolidated subsidiaries	Total accumulated other comprehensive income			
Balance at beginning of current period	85,424	109,561	468,019	(8,985)	**654,019**	2,447	6	(71,872)	(1,901)	**(71,320)**	1,294	12,090	**596,083**
Changes of items during the period													
Cash dividends			(32,564)		**(32,564)**								**(32,564)**
Net income			64,764		**64,764**								**64,764**
Purchase of treasury stock				(30,038)	**(30,038)**								**(30,038)**
Disposal of treasury stock			(79)	888	**809**								**809**
Retirement of treasury stock			(28,738)	28,738	**-**								**-**
Change of scope of consolidation			(19)		**(19)**								**(19)**
Net changes of items other than shareholders' equity during the period						2,286	6	43,456	(2,689)	**43,059**	(174)	720	**43,605**
Total changes of items during the period	-	-	3,364	(412)	**2,952**	2,286	6	43,456	(2,689)	**43,059**	(174)	720	**46,557**
Balance at end of period	85,424	109,561	471,383	(9,397)	**656,971**	4,733	12	(28,416)	(4,590)	**(28,261)**	1,120	12,810	**642,640**

Consolidated Statement of Cash Flows

Millions of yen

	FY2014 Jan. - Dec.	FY2013 Jan. - Dec.
Operating activities:		
Income before income taxes and minority interests	126,761	114,939
Adjustments for:		
Depreciation and amortization	79,660	77,297
(Gain) loss on sales and retirement of fixed assets	2,706	2,644
(Gain) loss on transfer of business	-	(350)
Interest and dividend income	(1,014)	(1,133)
Interest expense	1,295	1,213
Unrealized foreign currency exchange (gain) loss	(1,220)	381
Equity in (earnings) losses of nonconsolidated subsidiaries and affiliates	(2,225)	(2,272)
Change in trade receivables	(10,953)	(2,415)
Change in inventories	(12,397)	(5,405)
Change in trade payables	6,715	3,505
Change in accounts payable - other and accrued expenses	2,048	16,819
Other, net	1,404	1,481
Subtotal	192,780	206,704
Interest and cash dividends received	2,882	3,070
Interest paid	(1,250)	(1,200)
Income taxes paid	(49,294)	(29,829)
Net cash provided by operating activities	**145,118**	**178,745**
Investing activities:		
Payments into time deposits	(2,125)	(4,802)
Proceeds from withdrawal of time deposits	88	7,190
Purchase of short-term investments	-	(7,998)
Proceeds from the redemption and sales of short-term investments	-	13,000
Purchase of property, plant and equipment	(51,151)	(55,672)
Purchase of intangible assets	(4,507)	(4,882)
Payments for long-term prepaid expenses	(4,472)	(5,316)
Change in short-term loans, net	(19)	823
Payments for long-term loans	(546)	(419)
Purchase of investments in subsidiaries resulting in change in scope of consolidation	-	(891)
Other, net	(1,076)	1,189
Net cash used in investing activities	**(63,808)**	**(57,778)**
Financing activities:		
Change in short-term loans, net	(273)	(2,311)
Proceeds from long-term loans	20,001	19
Repayments of long-term loans	(20,009)	(9)
Proceeds from issuance of bonds	-	50,000
Redemption of bonds	-	(50,000)
Purchase of treasury stock	(50,044)	(30,039)
Payments of cash dividends	(33,856)	(33,824)
Payments of cash dividends to minority shareholders	(1,107)	(1,161)
Other, net	266	(134)
Net cash used in financing activities	**(85,022)**	**(67,459)**
Translation adjustments on cash and cash equivalents	**4,776**	**13,032**
Net increase (decrease) in cash and cash equivalents	**1,064**	**66,540**
Cash and cash equivalents, beginning of period	**227,598**	**160,435**
Cash and cash equivalents from newly consolidated subsidiaries, increase	**-**	**623**
Cash and cash equivalents, end of period	**228,662**	**227,598**

Consolidated Segment Information

Major Products by Reportable Segment

<table>
<tr><th colspan="2">Reportable Segments</th><th colspan="2">Major Products</th></tr>
<tr><td rowspan="8">Consumer Products Business</td><td rowspan="3">Beauty Care Business</td><td>Cosmetics</td><td>Counseling cosmetics
Self-selection cosmetics</td></tr>
<tr><td>Skin care products</td><td>Soaps
Facial cleansers
Body cleansers</td></tr>
<tr><td>Hair care products</td><td>Shampoos
Conditioners
Hair styling agents
Hair coloring agents</td></tr>
<tr><td rowspan="3">Human Health Care Business</td><td>Food and beverage products</td><td>Beverages</td></tr>
<tr><td>Sanitary products</td><td>Sanitary napkins
Baby diapers</td></tr>
<tr><td>Personal health products</td><td>Bath additives
Oral care products
Men's products</td></tr>
<tr><td rowspan="2">Fabric and Home Care Business</td><td>Fabric care products</td><td>Laundry detergents
Fabric treatments</td></tr>
<tr><td>Home care products</td><td>Kitchen cleaning products
House cleaning products
Paper cleaning products
Commercial-use products</td></tr>
<tr><td colspan="2" rowspan="3">Chemical Business</td><td>Oleo chemicals</td><td>Fatty alcohols
Fatty amines
Fatty acids
Glycerin
Commercial-use edible fats and oils</td></tr>
<tr><td>Performance chemicals</td><td>Surfactants
Plastics additives
Superplasticizers for concrete admixtures</td></tr>
<tr><td>Specialty chemicals</td><td>Toner and toner binder for copiers and printers
Ink and colorants for inkjet printers
Fragrances and aroma chemicals</td></tr>
</table>

Consolidated Segment Information

Millions of yen

FY2014 Jan. - Dec.	Consumer Products Business: Beauty Care Business	Consumer Products Business: Human Health Care Business	Consumer Products Business: Fabric and Home Care Business	Consumer Products Business: Total	Chemical Business	Total	Reconciliations	Consolidated
Net sales								
Sales to customers	589,907	240,077	324,505	**1,154,489**	**247,218**	**1,401,707**	-	**1,401,707**
Intersegment sales	-	-	-	-	**40,804**	**40,804**	(40,804)	-
Total	589,907	240,077	324,505	**1,154,489**	**288,022**	**1,442,511**	(40,804)	**1,401,707**
Operating income	28,437	21,880	60,952	**111,269**	**22,060**	**133,329**	(59) [1]	**133,270**
% of net sales	4.8	9.1	18.8	9.6	7.7	9.2	-	9.5
Total assets	466,128	161,280	158,552	**785,960**	**273,397**	**1,059,357**	138,876 [2]	**1,198,233**
Depreciation and amortization[3]	30,302	10,618	9,541	**50,461**	**14,101**	**64,562**	-	**64,562**
Amortization of goodwill	15,098	-	-	**15,098**	-	**15,098**	-	**15,098**
Investment for affiliates applied for equity method	3,782	1,122	1,328	**6,232**	3,032	**9,264**	-	**9,264**
Capital expenditure[5]	17,042	22,956	13,781	**53,779**	**14,705**	**68,484**	-	**68,484**

FY2013 Jan. - Dec.	Consumer Products Business: Beauty Care Business	Consumer Products Business: Human Health Care Business	Consumer Products Business: Fabric and Home Care Business	Consumer Products Business: Total	Chemical Business	Total	Reconciliations	Consolidated
Net sales								
Sales to customers	570,268	210,628	311,023	**1,091,919**	**223,298**	**1,315,217**	-	**1,315,217**
Intersegment sales	-	-	-	-	**37,894**	**37,894**	(37,894)	-
Total	570,268	210,628	311,023	**1,091,919**	**261,192**	**1,353,111**	(37,894)	**1,315,217**
Operating income	23,933	16,850	62,183	**102,966**	**21,509**	**124,475**	181 [1]	**124,656**
% of net sales	4.2	8.0	20.0	9.4	8.2	9.2	-	9.5
Total assets	482,704	130,610	148,936	**762,250**	**245,720**	**1,007,970**	125,306 [4]	**1,133,276**
Depreciation and amortization[3]	32,094	8,993	9,008	**50,095**	**13,373**	**63,468**	-	**63,468**
Amortization of goodwill	13,829	-	-	**13,829**	-	**13,829**	-	**13,829**
Investment for affiliates applied for equity method	3,074	994	1,116	**5,184**	**2,026**	**7,210**	-	**7,210**
Capital expenditure[5]	19,219	13,628	14,699	**47,546**	**16,141**	**63,687**	-	**63,687**

Notes:

1 Reconciliation of operating income includes elimination of intersegment inventory transactions.

2 Includes 163,750 million yen of Kao's financial assets and -24,874 million yen elimination of receivables among reportable segments

3 Excludes amortization of goodwill

4 Includes 152,828 million yen of Kao's financial assets and -27,522 million yen elimination of receivables among reportable segments

5 Includes long-term prepaid expenses