Annual Report 2009

For the year ended March 31, 2009

Kao Corporation

Profile

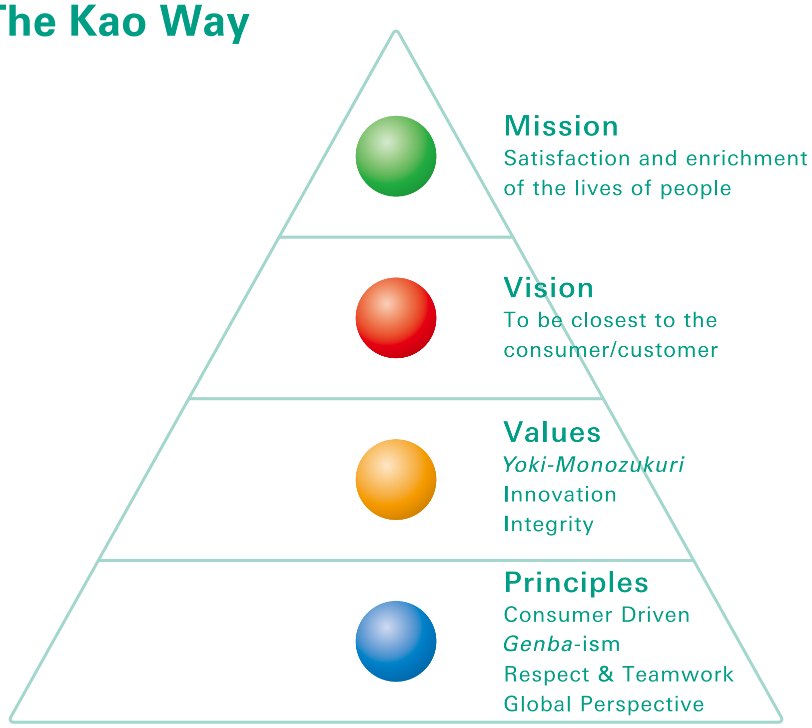
For more than 120 years since its founding, through paying close attention to people's lives, Kao Corporation has strived to contribute to the wholehearted satisfaction and enrichment of the lives of people through *Yoki-Monozukuri* in the fields of cleanliness, beauty and health.

However, the twenty-first century has seen rapid changes in conditions surrounding us, including in society, the economy and the environment. With the substantial changes in people's lifestyles and values, businesses will more than ever be expected to take on the role and responsibilities of corporate citizens.

In this new era, Kao too is striving for rebirth. Based on its new corporate message, "Enriching lives, in harmony with nature," Kao will further develop its spirit of *Yoki-Monozukuri* to offer not simply satisfaction and enrichment for humans, but a truly rich life where people live in harmony with the global environment and nature.

The Foundation of Our Corporate Activities:

The Kao Way



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

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

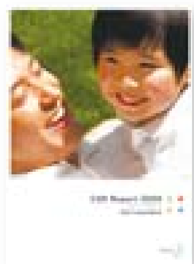
Genba literally means "actual spot." At Kao, *Genba*-ism defines the importance of observing things "on-site," in the actual location and environment, both internally and externally, in order to maximize our understanding of the business and optimize our performance.

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

Editorial Policy

This Annual Report aims to provide investors and other stakeholders with an easily comprehensible overview of Kao's financial condition, business results, management policies and main business activities for the year ended March 31, 2009. Additional information on Kao's CSR policies and activities is available in the company's CSR Report, which is published in September.

http://www.kao.com/jp/en/corp_csr/csr.html



An Interview with
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Special Feature: The Beauty of Innovation

Beauty Care Business

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Chemical Business

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Financial Highlights

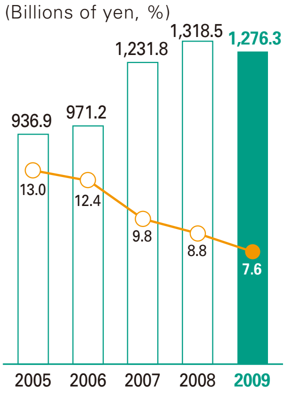
Kao Corporation and Consolidated Subsidiaries — Years ended March 31, 2009, 2008 and 2007

	Billions of yen			Millions of U.S. dollars	Change
	2009	2008	2007	2009	2009/2008
For the year:					
Net sales	¥1,276.3	¥1,318.5	¥1,231.8	$12,993.1	(3.2)%
Beauty Care Business	588.3	627.9	584.3	5,989.3	(6.3)
Human Health Care Business	191.3	191.3	183.6	1,947.7	0.0
Fabric and Home Care Business	274.2	274.7	269.5	2,791.4	(0.2)
Consumer Products Business	1,053.9	1,093.9	1,037.4	10,728.4	(3.7)
Chemical Business	262.1	258.7	223.6	2,667.8	1.3
Eliminations	(39.6)	(34.0)	(29.2)	(403.1)	–
Japan	953.4	968.6	924.2	9,705.5	(1.6)
Asia & Oceania	161.9	158.3	126.0	1,648.4	2.3
North America	99.0	111.0	106.7	1,007.8	(10.8)
Europe	140.6	154.6	135.9	1,431.6	(9.1)
Eliminations	(78.6)	(74.0)	(61.0)	(800.2)	–
EBITA	134.7	157.6	161.5	1,370.3	(14.6)
Operating income	96.8	116.3	120.9	985.4	(16.7)
Net income	64.5	66.6	70.5	656.2	(3.2)
EBITDA	184.3	209.7	213.0	1,875.2	(12.1)
At year-end:					
Total assets	1,119.7	1,232.6	1,247.8	11,398.5	(9.2)
Net worth	545.2	574.0	564.5	5,550.5	(5.0)
	Yen			U.S. dollars	Change
Per share:					
Net income	¥ 120.25	¥ 122.53	¥ 129.41	$ 1.22	(1.9)%
Cash dividends	56.00	54.00	52.00	0.57	3.7
Net worth	1,017.19	1,070.67	1,035.66	10.36	(5.0)

Notes:
1. The U.S. dollar amounts are translated, for convenience only, at the rate of ¥98.23=US$1, the approximate exchange rate at March 31, 2009.
2. Kao reorganized its operations effective April 2007 by integrating the former consumer products business and prestige cosmetics business into the Consumer Products Business, which is divided into three businesses (the Beauty Care Business, the Human Health Care Business and the Fabric and Home Care Business). Together with the Chemical Business, Kao's business operations now consist of four business segments. Figures for 2007 have been restated to reflect the change.
3. Net sales by business segment and geographic segment include intersegment sales. Net sales of the Chemical Business include intersegment sales to the Beauty Care Business, the Human Health Care Business and the Fabric and Home Care Business.
4. Cash dividends per share are the amounts applicable to the respective years, including dividends to be paid after the end of the year.
5. Yen and U.S. dollar amounts are rounded to the nearest whole number or decimal.
6. EBITA (Earnings before interest, taxes and amortization) is operating income before amortization of goodwill and other items related to acquisitions.
7. EBITDA (Earnings before interest, taxes, depreciation and amortization) = Operating income + Depreciation and amortization
8. Net worth is computed by subtracting minority interests and stock acquisition rights from equity.

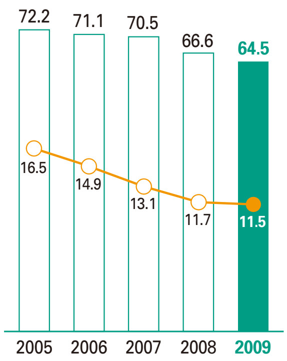
(Years ended March 31)

Net Sales and Operating Income Ratio
(Billions of yen, %)



Net Sales
Operating Income Ratio

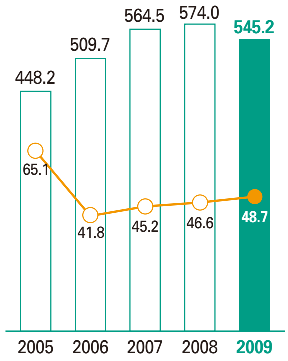
Net Income and ROE*
(Billions of yen, %)



Net Income
ROE

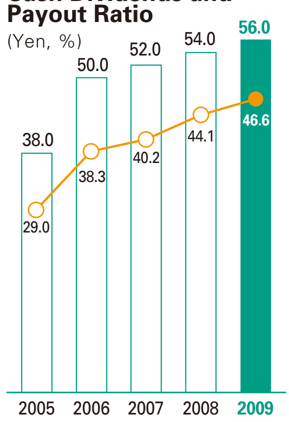
*In calculating ROE, equity does not include minority interests and stock acquisition rights.

Net Worth and Net Worth Ratio
(Billions of yen, %)



Net Worth
Net Worth Ratio

Cash Dividends and Payout Ratio
(Yen, %)



Cash Dividends
Payout Ratio

Business Segment Sales

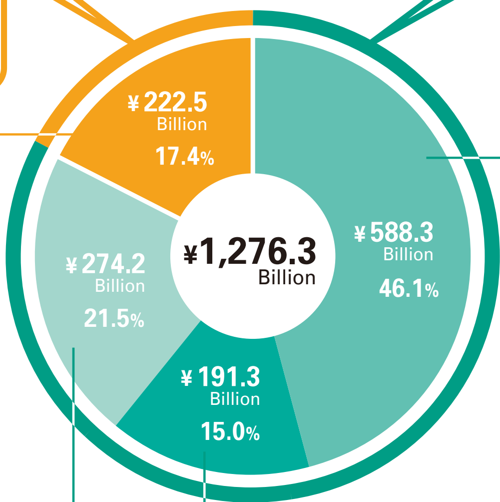
(Year ended March 31, 2009)

Chemical Business (Billions of yen)

	222.5
Japan	130.1
Asia	81.0
North America & Europe	100.6
Eliminations	(89.2)

Consumer Products Business (Billions of yen)

	1,053.9
Japan	857.1
Asia & Oceania	83.1
North America & Europe	130.3
Eliminations	(16.6)



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 colorants for inkjet printers, fragrances and aroma chemicals

Fabric and Home Care Business

Fabric care products
Laundry detergents, fabric treatments

Home care products
Kitchen cleaning products, house cleaning products, paper products for cleaning, professional-use products

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 products, hair coloring agents

Human Health Care Business

Food and beverage products
Cooking oils, beverages

Sanitary products
Sanitary napkins, diapers

Personal health products
Bath additives, oral care products, men's skin care and hair care products

Note: Figures in the graph represent net sales to outside customers only. Eliminations represent intersegment sales.

An Interview with President and CEO Motoki Ozaki

Working to *Achieve Global Growth*

The economic environment was challenging during fiscal 2008, the year ended March 31, 2009. In the first half of the fiscal year, rising prices for crude oil and commodities drove product prices higher. In the second half, the global economic downturn stemming from the U.S. financial crisis had an impact. Given these circumstances, Kao continued to concentrate on launching high-value-added products based on the perspective of consumers. However, business conditions began worsening from the second half of 2008, and conditions were challenging in the prestige cosmetics business in Japan and the Consumer Products Business in North America and Europe. These and other factors caused net sales to decrease 3.2 percent year on year to ¥1,276.3 billion.

Operating income decreased 16.7 percent year on year to ¥96.8 billion, as efforts to raise chemical product prices, reduce costs and improve efficiency did not fully compensate for higher raw material prices, mainly for natural oils and fats and petrochemical raw materials, and a decline in sales volume. Operating income before amortization of goodwill and other items related to acquisitions (EBITA) totaled ¥134.7 billion, which is equivalent to 10.6 percent of net sales. The effective tax rate after application of tax-effect accounting was 28.9 percent, compared with 38.7 percent in the previous fiscal year. The main factor in the change was a decline in deferred income taxes related to undistributed foreign earnings due to tax reform in Japan during the fiscal year. Consequently, net income decreased 3.2 percent year on year to ¥64.5 billion. Net income per share was ¥120.25, a decrease of ¥2.28 from ¥122.53 for the previous fiscal year.

Overview of Fiscal 2008 Results and the Operating Environment

Fiscal 2008 was a volatile year in which raw material prices rose sharply during the first half and worsening business conditions began impacting results from the second half of 2008. What is your view of fiscal 2008 results given this challenging environment?

Fiscal 2008 was a tumultuous year for the Kao Group. Fluctuations in prices for natural oils and fats and crude oil caused volatility in raw material prices. This reduced Kao Group operating income by ¥36.0 billion year on year.

Moreover, the financial turmoil that originated in the United States rapidly began to impact the real economies of countries worldwide from the second half of 2008, resulting in a global recession. In Japan, results deteriorated rapidly, especially among companies dependent on exports in industries including automobiles, information technology and home appliances.

Our businesses, primarily the Chemical Business, felt the impact of the rapid drop in orders from customer industries and inventory adjustments that began in the second half of 2008. In fact, we have never seen results plunge like that. Even in the household and personal care products market, which has long been considered resilient to economic downturns, sales decreased in some categories. As a result, the Kao Group was not able to achieve the performance targets it set at the beginning of the fiscal year.

Given these challenging conditions, the Kao Group maintained the objective of achieving profitable growth through high-value-added products in working to create and provide products with value that deliver new benefits to consumers.

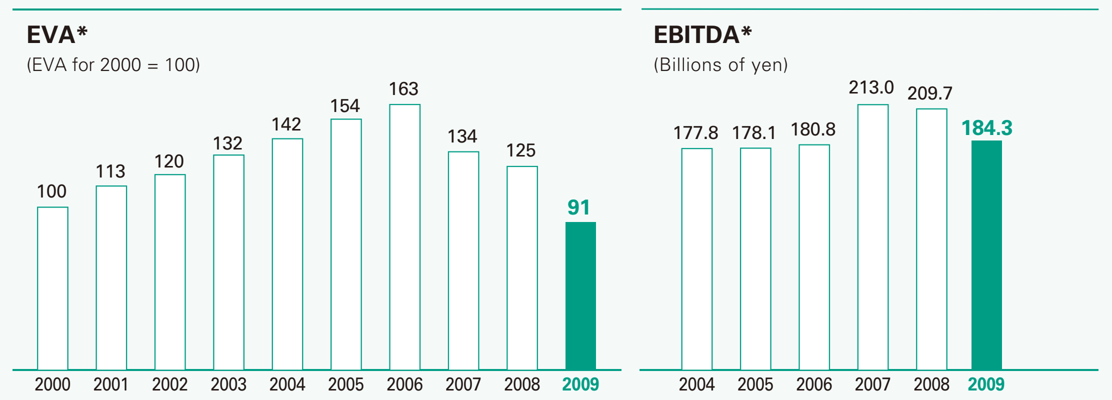
Blauné Hair Color Foam, which we launched in October 2008, is representative of such product development. Consumers have given it strong support for its convenience and excellent coloring, and it has greatly energized the hair color market in Japan.

In addition, in February 2009 we launched an oral care product, *Medicated Pyuora Nano-bright Toothpaste*. It removes to a nano level persistent stain deposits attributable to reduced secretion of saliva as a result of aging and stress. Consumers are supporting this product because it provides the new benefit of lustrous white teeth, and sales have exceeded projections.

Moreover, sales have benefited from close cooperation between Kao Customer Marketing Co., Ltd. and Kao Merchandising Services Co., Ltd. Their extremely effective and efficient sales and merchandising activities have made a major contribution to the Kao Group's ability to increase its share in the household and personal care products market for three consecutive years to capture the top market share.

Fiscal 2008 was also a year in which we made significant progress in Asia. We devoted our comprehensive strengths to promoting integrated management of the Consumer Products Business in Asia, including Japan. The results are steadily becoming apparent, and we achieved growth that surpassed the targets we set at the beginning of the fiscal year. Our long-sought goal of achieving profitability in Asia is now in sight, making fiscal 2008 a year that contributed to Kao's growth and development over the medium and long term.

(Years ended March 31)



* EVA (Economic Value Added) is a registered trademark of Stern Stewart & Co.

* EBITDA (Earnings before interest, taxes, depreciation and amortization) = Operating income + Depreciation and amortization

Note: EVA is expressed as an index with the year ended March 31, 2000, when it was originally introduced, as 100. EVA for the year ended March 31, 2009 decreased to 91 due to a decrease in NOPAT (Net Operating Profit After Tax) resulting from the impact of increases in raw material prices. EBITDA for the year ended March 31, 2009 decreased by ¥25.4 billion to ¥184.3 billion, compared with ¥209.7 billion for the previous fiscal year.

Integrated Management of Asia Including Japan: Successes and Future Initiatives

Economic growth has been supporting business in Asia, and the results for Kao are becoming apparent. What initiatives did Kao carry out in Asia during fiscal 2008, and what will Kao do to expand its Asian business in the future?

About four years ago we began integrating our management of Asia as a single region that includes Japan by standardizing business processes, cooperating and sharing The Kao Way. We have made steady progress, and at this point we are seeing successes.

I think that the shortest way to define our approach to integrated management in Asia is that we are tailoring the approaches that have made us successful in Japan over the years to local conditions as we employ them in each country in Asia. These activities have progressed faster than we expected in areas such as marketing, sales and supply chain management, which contributed to our success in generating growth each year. Moreover, the discussion of our initiatives in the Beauty Care Business from the perspective of research and development in the feature section of this Annual Report (see pages 11-17) provides additional relevant examples. For instance, Japanese researchers have cooperated with Chinese and Thai staff to conduct detailed surveys of consumer lifestyles and habits, which support our efforts to develop products that meet the needs of Asian consumers.

Pan-Asian brands are essential to the success of our integrated management in Asia. Our pan-Asian brands have the same brand images with the same concepts and benefits they intend to provide consumers. Based on these brand images, pan-Asian brands entail local optimization in each country in areas including methods of use, fragrance and sensuousness. We cultivated pan-Asian brands such as *Attack, Bioré* and *Laurier* in the past, and following launches in Taiwan, Hong Kong and Singapore, we launched the *Asience* premium hair care brand in Shanghai and Thailand in March 2008. In March 2009, we also launched the *Essential* hair care brand in Taiwan and Hong Kong. We will continue working to strengthen and cultivate more pan-Asian brands.

President and CEO Ozaki (right) visits a store in Shanghai selling *Asience*, one of Kao's pan-Asian brands.

Key Policies for Fiscal 2009

The operating environment is likely to remain challenging. What are Kao's key policies for fiscal 2009?

I think that the challenging operating environment will continue through fiscal 2009. These challenging conditions are a complete reversal of the situation of just a year ago, and in times such as these, creating and providing products that offer new value to consumers is the most appropriate course for us as a manufacturer. These days, consumers have become extremely selective. They absolutely will not buy products they feel are unnecessary or lacking in value, no matter how inexpensive. We must work toward the goal of offering products with value that respond to this attitude among consumers.

The Kao Group's most important task at the moment is working to rebuild the prestige cosmetics business and the Chemical Business.

In the prestige cosmetics business, Kao Sofina and Kanebo Cosmetics need to get back to the fundamentals of the cosmetics business. They need to work to provide products and services that satisfy the desire of consumers to be beautiful. They also need to enhance sales and merchandising by strengthening their organization in each sales channel. By doing so, they will establish a more resilient business structure.

The Chemical Business is currently working to strengthen the three areas of oleo chemicals, performance chemicals and specialty chemicals while making changes to its overall business from new perspectives such as responding to environmental issues. These measures will strengthen its system for delivering high-value-added products to customers worldwide.

Medium-to-Long-Term Policies and Strategies

What are the Kao Group's policies and strategies for the medium and long term?

I believe that an extremely important issue for the Kao Group to further grow and develop is steadfastly embracing its vision for 10 to 15 years from now.

Social and economic conditions worldwide are changing at an accelerating pace and at a structural level. The following three megatrends will strongly impact the Kao Group.

First is the shift in the center of the economy. That is, a shift from an economy centered on the developed nations to a world where Brazil, Russia, India and China, the so-called BRICs, and other developing nations achieve high economic growth, creating enormous markets. Second, consumers will become increasingly dependent on digital media such as the Internet. Moreover, in advanced countries new consumer segments such as the senior segment are emerging. These and other trends are creating the conditions for the emergence of new consumers. Third, factors such as concern about the depletion of natural resources and global warming will cause growing interest in environmental issues. Our business activities are already at the stage where we must contend with these issues as a central theme.

These three megatrends represent a major turning point for the Kao Group. However, at the same time they also present opportunities for significant progress. Now is the time that the Kao Group needs to become a truly global corporation that can compete and succeed in large global markets. This is a critical responsibility and mission for me as the President and CEO of Kao.

Based on this outlook for the medium to long term, we set up the Kao Group's new mission, the target image for its business: "Positioning ecology at the core of management, Kao aims to contribute to the wholehearted satisfaction and enrichment of the lives of people globally in the fields of cleanliness, beauty and health."

To fulfill this new mission, Kao Corporation announced its Environmental Statement in June 2009. We presented anew our thinking on ecology and the environment, and more important, reaffirmed that Kao products are designed for everyday use in homes around the world. For this reason, Kao utilizes original Kao-developed technologies to minimize the impact its products have on the environment, not just in the manufacturing process, but in the daily lives of customers who use them. From materials procurement and manufacturing, to distribution, sales, use and final disposal in the lifecycle of products, Kao wants to engage in "eco together," our environmental slogan, with consumers and customers worldwide.

The Environmental Statement is also relevant to the industrial customers of the Chemical Business. Our aim is to conduct ecological activities in close cooperation with customer companies.

Moreover, in order to make our thinking tangible in the actual development and manufacturing of products, we plan to build a new research facility, named the Eco-Technology Research Center, within the compound of the Wakayama Complex. The establishment of a centralized environmental research facility will enable us to develop new technological synergies, and accelerate the pace of our eco-innovation.

Along with the Environmental Statement, Kao Corporation announced a new corporate identity and message. Our intention is to help people around the world understand what kind of company Kao is.

Kao is well known in Japan, where it receives the trust and support of a large number of consumers and customers. However, people around the world do not understand Kao as well as we would like. Creating and providing distinctive products is important to our future global growth and development, but equally essential, Kao must also obtain understanding of its attitudes and vision as a company to acquire the broad support and deep trust of consumers and customers worldwide.

Our new corporate message is "Enriching lives, in harmony with nature." It expresses our intention to manage for the good of the environment that I discussed earlier and the Kao Group's fundamental mission of contributing to the wholehearted satisfaction and enrichment of the lives of people as advocated by our corporate philosophy, The Kao Way. We also have the goal of creating a consistent corporate image around the world, and consequently we are renewing our corporate logo.

Through our new corporate identity and the Environmental Statement, we aim to help consumers and customers worldwide understand our attitudes and the major progress we are making toward the future.

Achieving Global Growth

What are some of the key points of Kao's strategies for businesses and regions to achieve global growth in the future?

As I mentioned earlier, one is our strategy for the BRICs and other developing countries that will play a central role in driving economic growth in the future. Among the BRICs, the Kao Group must focus first and foremost on China, where we have been doing business since the early 1990s. In China, we are moving away from our conventional strategy centered on individual brands as we establish an identity and build a new business model for strategic activities based on the comprehensive strengths of the Kao Group. Once we do this, I believe that successively applying this business model in Russia, India, Brazil and other countries will be extremely important.

President and CEO Ozaki conveys his enthusiasm about global operations at an overseas office.

We are also emphasizing initiatives in the Beauty Care Business in North America and Europe. To date, the Kao Group has operated in the professional hair care business for salons, the prestige cosmetics business and the premium beauty care products business there. Fundamental research in the dermatology and hair science that support these three businesses is shared within the Kao Group. In addition to product development, we globally share knowledge we have accumulated over many years in Japan in areas such as marketing and sales to cultivate our brands in North America and Europe. We are already accelerating joint projects among Japan, North America and Europe, with the aim of integrating management in the Beauty Care Business using the same approach we have implemented in our Asian businesses.

Fiscal Policy and Shareholder Returns

In a challenging business environment, Kao increased cash dividends per share by ¥2.00 compared with the previous fiscal year. What are your thoughts on meeting the expectations of shareholders in the future?

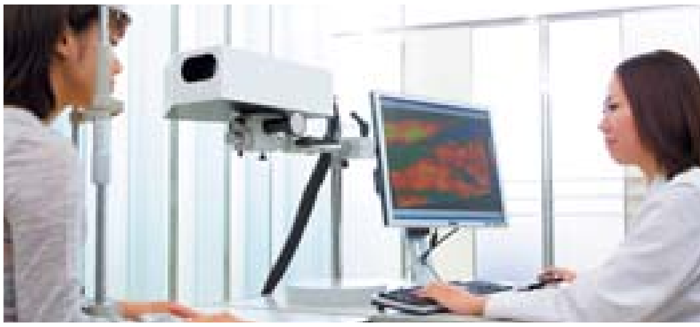
Shareholder value should illuminate our fundamental approach to serving shareholder interests. The bottom line, however, is how we should increase Kao's corporate value. Naturally, increasing the quantitative indicator of share price is an important element.

As I mentioned earlier, we are aiming for growth over the medium and long term by focusing on the environment in our management, developing new markets such as the BRICs and executing initiatives to establish a corporate brand. I hope our shareholders understand our policies and the required investment, and I also think that relentless efforts to improve results in this challenging environment are important. Kao uses EVA as its primary management indicator, and we are going to focus even more intently on how we can raise EVA.

Kao generates strong free cash flow, and using it effectively is closely related to increasing corporate value. First, as I have said before we must invest in future growth. Second, we must pay down the debt we took on to acquire Kanebo Cosmetics Inc. to further enhance the soundness of our finances. Next comes stable dividends. For fiscal 2008, we increased both interim and year-end cash dividends per share by ¥1.00 compared with the previous fiscal year to ¥28.00, respectively. Thus cash dividends per share for fiscal 2008 increased by ¥2.00 compared with the previous fiscal year to ¥56.00, and the consolidated payout ratio was 46.6 percent. In addition, based on our fundamental dividend policy we forecast that cash dividends per share for fiscal 2009 will remain unchanged at ¥56.00, and that the consolidated payout ratio will be 53.6 percent.

Furthermore, the flexible purchase of Kao stock is another policy for long-term shareholder returns. In September 2008, we retired 9.3 million shares of treasury stock that Kao had purchased in the second half of fiscal 2007. The resulting increase in ROE demonstrates the success of this initiative to shareholders.

We will certainly be counting on our shareholders to understand our strategies and give us their support as we work to generate growth over the medium and long term and take on the challenge of global expansion.

Special Feature

The Beauty of Innovation

How Kao's Integrated R&D Capabilities Add Value to Beauty Care

For many years, Kao has based its business on the principles of cleanliness, beauty and health. Building upon this base, we conduct R&D from a variety of perspectives, including basic research in life and material sciences, to respond to consumers' desire to be more beautiful. The following section introduces Kao's beauty care research. These initiatives look deeply into the true nature of biological phenomena to offer new value in beauty by becoming more familiar with the skin and hair of people from around the world.

Dr. Naohisa Kure, Executive Officer, Vice President, Global R&D (Beauty)

Beauty Care Research That Aims to Offer Each Customer Total Beauty Value

Innovative Products That Touch Women's Lives

Women's wish for health and beauty has remained unchanged through the ages. Further, their desire to be more beautiful and to age beautifully is increasing against the backdrop of an aging society.

Kao reorganized both its Research and Development Division and Business Units as part of the April 2007 reform of its business structure. Beauty care research continues to take on the challenge of confronting changes in consumer attitudes and behavior in order to offer total proposals for beauty value that fit each and every customer. Our former approach was to treat skin care and hair care as separate categories. However, we now conduct research that generates organic synergies between "elemental beauty" and "ornamental beauty" to offer "total solutions" by recognizing the importance of approaching a consumer's sequence of beauty-related behavior from waking up in the morning to going to sleep at night.

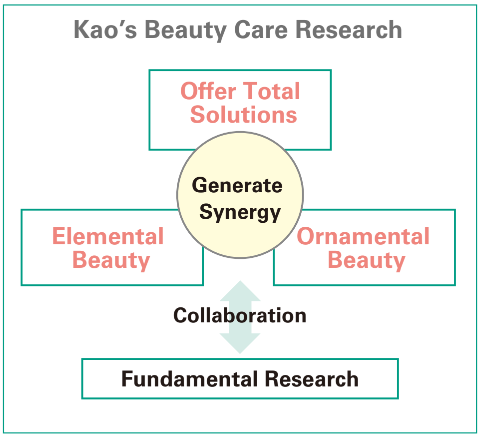
In addition, the backbone of Kao's R&D is matrix management, which emphasizes linkage between product development and fundamental research. This provides new value to consumers and supports the creation of innovative product functions. Under this structure, Kao encourages development of products that more deeply touch consumers' hearts by promoting assiduous work on essential research in areas including skin moisture based on ceramides, UV care, and hair beautifying and coloring technologies.

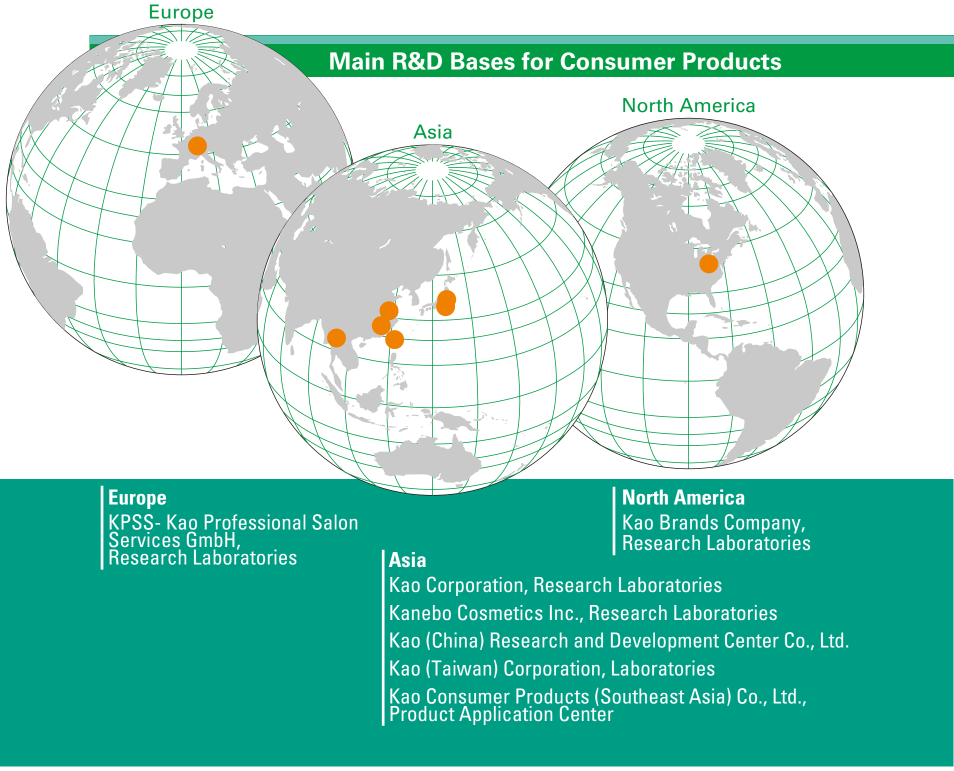
Beauty care research covers three areas: research into the "elemental beauty" of a woman's skin and hair; research into "ornamental beauty" that makes the most of each woman's elemental beauty to let her individuality shine forth; and research into offering "total solutions" that link these two types of beauty through surveys of consumer behavior to develop and accumulate beauty techniques that are useful for each customer.

Integrated Management of the Beauty Care Business

Kao's Beauty Care Business will work toward more integrated global management of Kanebo Cosmetics Inc. (Kanebo Cosmetics), Kao Brands Company (KBC), KPSS - Kao Professional Salon Services GmbH (KPSS) and Molton Brown Limited. In doing so, R&D will form teams across company lines to meet consumer needs in each country.

Kao is creating a framework for sharing survey data on the actual situations of consumers with Kanebo Cosmetics, in addition to making active use of both companies' proprietary technologies. In particular, both companies are engaged in joint development of new materials and new





production technologies for product applications.

Within its integrated management of Asia including Japan, Kao is conducting comprehensive surveys to understand local consumers' lifestyles, customs, product usage and differences in attitudes toward beauty care. The results are incorporated into the development of products that meet local needs.

Kao, KBC and KPSS have been collaborating closely in the fields of consumer research and applied technologies for some time. Hit products including John Frieda's *Brilliant Brunette* and *Jergens Natural Glow*, launched by KBC in 2004 and 2005, respectively, are prime examples of the success of this approach. Currently, the companies are expanding their joint technological and product development, and researchers from each country meet several times a year for discussions. We will work toward truly integrated management that goes beyond company frameworks, considers our competitiveness with peer companies in global markets, shares Kao's philosophy of consumer-driven *Yoki-Monozukuri*, understands consumers and respects the creativity of individual researchers.

Seeking New Value Creation

In the future, Kao's R&D will take a more ecological perspective. Kao has long promoted the development of products with a high degree of environmental compatibility and safety in its fundamental technology research, including aggressively developing highly biodegradable materials.

In the beauty care field, Kao is developing manufacturing processes for its original functional materials that reduce environmental loading. For example, functional compound powders, which are mainly used in foundations, are manufactured using a technology that employs carbon dioxide in the supercritical state, and the emulsifier glyceryl ether is manufactured using a technology that employs water in the subcritical state. These technologies received awards from the Society of Chemical Engineers, Japan in 2005 and 2008 in recognition of their role in promoting green and sustainable chemistry* by realizing manufacturing processes that do not use organic solvents and offering safer products that leave no residual organic solvents.

Through these steady activities, Kao will continue to expand its unique R&D globally with greater emphasis on an ecological perspective in order to create new value.

* Green and sustainable chemistry is defined as chemical technologies that maintain human and environmental health and safety, and resource and energy saving, through technological innovations that foresee total product lifecycles, including product design, material selection, manufacturing processes, usage methods and disposal.

Kao solicited more than 1,000 people as monitors of product satisfaction.

Blauné Hair Color Foam:
Developed through Comprehensive Consumer Research

The market for coloring products for gray hair is promising, with 105 percent annual growth in Japan. Kao has followed its 2007 introduction of *Prettia* foaming color for black hair with the October 2008 launch of *Blauné Hair Color Foam* for gray hair, which uses a totally new foam dyeing method. The product has earned strong consumer support.

Kao seeks formulations for hair coloring agents that consumers can use in comfort. Repeated product usage testing at each stage led to the development of an innovative product that is easy to use and dyes hair thoroughly and comfortably. The result demonstrates Kao's comprehensive consumer research and its integrated capabilities.

A Totally New Concept in Hair Color Foam

Kao's research revealed that for many women who dye their gray hair at home, the bother and staining are causes of dissatisfaction. For example, women using existing products on long hair need to "block" their hair beforehand, dyeing one section at a time by applying the coloring agent with a comb to prevent a patchwork appearance. Kao's researchers thought there must be some innovative method that would save consumers from this tiresome task. One researcher had the novel idea that dyeing hair could be easier using one's hands rather than tools. Other researchers became interested, and a project spanning multiple laboratories began.

The result brought together research from a variety of perspectives to successfully develop a foam that spreads easily on hair and does not drip. Although all related considerations from container development to methods of use represented completely new challenges, Kao's integrated capabilities made the most of the expertise of specialists in a wide range of fields to bring the product to market in a short time.

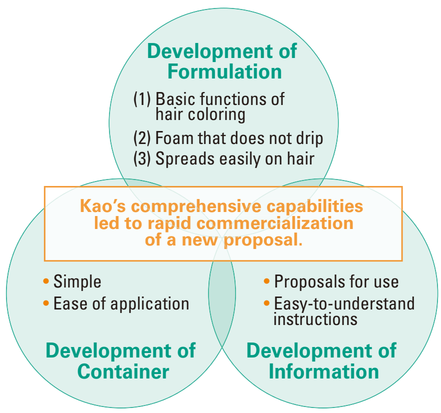
Actual Use Testing with More Than 1,000 People as Monitors

Researchers worked closely with the Consumer Communication Center to incorporate consumers' complaints and requests about coloring for gray hair into the development process. Kao solicited more than 1,000 people of various ages, hair types and hair lengths to act as monitors who used the product under actual conditions in order to optimize the formulations and check satisfaction with the results. The monitors' evaluations improved as the product neared its finished form. Many said it was easy to use and made dyeing fun, reactions that boosted the researchers' confidence. Users have also reacted positively following the launch, and market share is growing steadily.

Kao will continue working to develop the ultimate hair coloring product by improving the performance of its new foam and making it suitable for a wider range of uses.

The TV commercial bases its appeal on the fun and convenience of coloring with foam.

Main Points in the Development of Hair Color Foam



A researcher in the field of dermatology conducts a detailed analysis of skin

Ongoing Research in Aging Care Yields a New Approach to Skin

Kao's research covers consumers' attitudes toward skin and its actual conditions. At the same time, Kao carries out in-depth research into users' beauty regimens and their psychological desires regarding beauty care. All these activities are aimed at creating high-value-added products that meet consumer needs.

In response to the growing number of beauty-conscious people who want to look young and beautiful throughout their lives, Kao is conducting studies of the negative effects of ultraviolet rays on the skin and other initiatives to speed up the introduction of full-fledged aging care.* Recently, we have discovered effective technologies and treatments that not only restore the elasticity of skin, but also decrease the thickness of the subcutaneous tissue underneath.

* Procedures to make aging skin moist and supple

Kao's Aging Care Initiatives

For many years, Kao has based its approach to skin care on dermatology, including research into ceramides, which are effective in moisturizing skin. Particularly in recent years, we have worked on research to understand the factors that give the impression of aged skin such as age spots, wrinkles and sagging. Our most recent discovery in this area is that markedly sagging skin has reduced elasticity and thickened subcutaneous tissue.

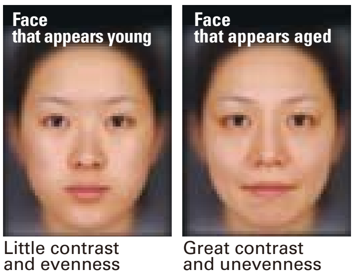
At the same time, we have begun research to scientifically analyze the visual impression of skin from the consumer's viewpoint. Through this process, we have uncovered the deep connection between the sight of sagging skin and the sense of a person's aging.

Evidence-Based Consumer Research

Kao's consumer research includes periodic interviews and tests with women ranging from their teens to their seventies. Over the past decade, we have accumulated a wealth of test data with a focus on the senior group, and in the case of one woman, more than 16 years' continuous observation of changes in the skin. Together with these steady activities, we repeatedly verify product efficacy through actual use; in other words, all testing is thoroughly evidence-based. Placing importance on scientific verification of results as well as consumer opinions, we have worked to quantify observations by adopting three-dimensional image analysis of sagging, and developing a new method to measure skin elasticity using high-pressure wind.

In the future, Kao aims to conduct consumer research from a more holistic point of view in order to create total beauty care proposals.

Young face, aged face



Kao used a wealth of data to scientifically analyze the visual impression of skin. The photographs show the characteristics of a face that appears young and a face that appears aged.

Analysis of skin condition before and after a massage using a 3D measuring device

Aiming to find the formulations best suited to people's skin in each country

***Bioré Facial Foam*:**

Designed to Meet the Realities and Needs of Asian Skin

Bioré debuted in Japan in 1980 as a facial cleanser that is gentle on the skin, and has gained strong consumer support through a series of improvements. In Asia, Kao conducts sales in Greater China and the ASEAN countries centered on its integrated management of Asia, including Japan. The rollout of *Bioré* in Asia has entailed product development tailored to the true needs of local consumers, through joint efforts at research centers in each Asian country, including Japan, to research consumers' skin and their face-washing habits and conditions.

Research into Face-Washing Habits and Actual Conditions in Each Country

Bioré Facial Foam has received strong and widespread consumer support since its launch in Japan. The same product lineup was sold in Asia as in Japan, but Kao established the *Bioré* Project in 2005 in order to further investigate the particular needs in each country. Since 2006, researchers from China and Thailand participated in the project, and repeatedly conducted comprehensive consumer research and investigated regional product formulations to create the products best suited to consumers in each Asian country.

Local consumer surveys included observation of consumers' skin and home visits by researchers to gather information on face-washing methods and conditions, as well as opinions about facial cleansers. This process brought to light various differences with Japanese consumers, including the living environment and skin care product usage behavior. In Shanghai, for example, while some people create lather in their hands as in Japan, many apply cleansers directly to their face like a cream and wash with massaging motions. In Bangkok, we came to understand that expectations differed among Thai consumers due to climatic factors and skin types. As a result of surveys of over 1,000 people, we developed formulations that meet local consumers' actual conditions and needs, and introduced *Bioré Facial Wash Rich Cream* in Greater China in December 2006. In 2008, we developed *Bioré Facial-Fit Expert* in various functional types in response to skin types in Thailand and other ASEAN countries.

Bioré Brand Facial Cleansers Based on the Actual Conditions of Consumers in Each Country

Meeting Asian Consumers' Needs by Being "Gentle on the Skin"

These comprehensive local consumer surveys and the cooperative efforts of research staff at each Asian country, including Japan, have led to product development based on actual consumer conditions in each country. Kao will continue to gain a more detailed grasp of consumers' needs and respond to them using its original technologies while keeping the brand concept of being "gentle on the skin."

Monitor survey of consumer needs in China

Putting Kao's original technology to work to make the hair of North American and European consumers healthier and more beautiful

John Frieda Root Awakening: Created through Collaboration among Japan, North America and Europe

Through its many years of research into the hair of consumers around the world, Kao discovered that hair beautification mechanisms differ for each hair color, and has established technologies to repair damage to each type of hair. These original Kao technologies are applied to its hair care products in Japan, Asia, North America and Europe.

In North America and Europe, KPSS, which handles hair care products for salons, and KBC, which offers premium hair care brand *John Frieda*, have been sharing technologies with Kao in Japan. This has led to the January 2009 launch of *John Frieda Root Awakening*, a new product based on a formulation that strengthens hair and is also used in Kao's *Success* hair tonic and *Segreta*, which were introduced in Japan.

Research Results That Integrate Global Expertise in Hair Care

Kao acquired John Frieda Professional Hair Care Inc. (presently a business division of KBC) in 2002. As a company created by a top beauty artist, it had built on his insights to develop unique products that anticipated consumer needs, including hit products *Frizz-Ease* and *Sheer Blonde*.

About the time of the acquisition, Kao's research laboratories in Japan began full-scale efforts to investigate what new value could be created using Kao's original technologies to deal with the hair types and concerns of North Americans and Europeans. Research was conducted jointly with teams at KPSS and KBC. For example, the research laboratories in Japan discovered that eucalyptus extract improves the elasticity and shine of hair. Researchers at KPSS and KBC, who studied hair aging and other conditions, became interested in this discovery. Systematic scrutiny of the effect conducted in Germany together with Japanese researchers proved that eucalyptus extract was effective for Caucasian hair as well. Based on this finding, KBC researchers developed a formulation that led to the January 2009 launch of *John Frieda Root Awakening* shampoo, conditioner and spray for people who want to strengthen their hair to make it healthy and beautiful.

Sharing technologies among Japan, North America and Europe at a global R&D conference

Aiming for Product Development with Global Value

This product development process is a good example of providing value globally by coordinating the knowledge of research facilities in each country, based on Kao's original technologies. In the future, we will continue to support unified management of the global Beauty Care Business from an R&D perspective.

Development of Kao's Hair Care Business in North America and Europe

The development of Kao's hair care business outside Japan started in earnest with the 1986 establishment of Guhl Ikebana GmbH, which manufactured and sold high-end hair care products in Germany. In 1989, we acquired Goldwell GmbH (now KPSS - Kao Professional Salon Services GmbH), which manufactured and sold hair care products for beauty salons. In 2002, we further strengthened the hair care business for hair salons in the United States by acquiring KMS Research, Inc., which marketed hair care products for U.S. hair salons, through Goldwell, and premium hair care product manufacturer John Frieda Professional Hair Care Inc.

Fiscal 2008 Highlights

May 2008

Kao Receives First and Second Prizes at Chinese Cosmetics Seminar

At the 7th Seminar on Cosmetic China held by the China Association of Fragrance Flavor and Cosmetic Industries, Kao received first and second prizes, and Kanebo Cosmetics also won second prize. The first-prize-winning paper dealt with the technologies used in UV care cosmetics from *Sofina* and *Bioré*.

June 2008

21st Century Encouragement of Invention Prize for *Visco Top*

Visco Top, a rheological modifier for concrete, was awarded the 21st Century Encouragement of Invention Prize as part of the 2008 National Commendation for Invention. *Visco Top* was praised for its excellent potential as a contributor to the civil engineering and building industries as the world's first high-performance specialty viscosity agent.

June 2008

Participation in Environmental Exhibition for G8 Summit

Kao had a booth at the 2008 Integrated Exhibition of the Environment in Celebration of the Hokkaido Toyako Summit of the G8. With initiatives to prevent global warming as the main theme, topics included reduction of CO_2 emission volumes through the evolution of *Attack*, presented using panels and a product display.

July 2008

Support for Plant for the Planet: Billion Tree Campaign in Thailand

Kao supported the Plant for the Planet: Billion Tree Campaign in Thailand, with employees of Kao companies in Thailand and families planting trees. This project is a part of the tree planting activities that the United Nations Environment Programme (UNEP) is promoting on a global scale to contribute to the prevention of global warming.

July 2008

First Kao Collaboration Fair Held

The Collaboration Fair aims to strengthen collaboration between retailers and the Kao Group through shared targets and issues. The first such event featured proposals for creating new points of purchase, various seminars and information exchanges.

October 2008

Exhibition of World Antique Compact Collection

Kanebo Cosmetics exhibited its collection of antique compacts from around the world in a Shanghai department store following a 2007 exhibition in Beijing. The exhibit consisted of 220 items from the collection, owned by Kanebo Cosmetics' Beauty Research Institute, and provided easy-to-understand commentary on cosmetics culture and history.

November 2008

Parent-Child Cleaning Seminars Held at Elementary Schools

Kao held Parent-Child Cleaning Seminars at elementary schools to support opportunities for children to help with housework. Following a speech by consumer behavior researcher Nagisa Tatsumi, children practiced actual cleaning skills. Participants evaluated the seminar highly. Kao also created a pamphlet to raise children's interest in cleaning.

December 2008

Kao (Taiwan) Corporation's Hsinchu Plant Receives Occupational Safety and Health Award

At the annual Commendation for Excellence in Occupational Safety and Health held by Taiwan's Council of Labor Affairs, Kao (Taiwan) Corporation's Hsinchu Plant was awarded Five Stars for Excellence in Occupational Safety and Health, the highest rating, based on an evaluation of factors including its safety initiatives and activities to strengthen the occupational safety framework.

January 2009

Kanebo Cosmetics Introduces ECHO System

Kanebo Cosmetics introduced Kao's ECHO System, a tool to share consumer opinions within the company in order to increase responsiveness to consumers. This move was aimed at further increasing customer satisfaction throughout the entire Kao Group.

(Photo: Kao Consumer Communication Center)

February 2009

Megurism Wins Top Nikkei Excellent Products and Services Award

Megurism Steam Eye Mask won the Nikkei's Award for Excellence for its originality in creating a new market by proposing an unprecedented daily health care custom and for having developed the new technology of a steam-producing eye mask that uses a heat-generating thermo pad.

February 2009

PR Event Held in Russia to Mark *John Frieda* Launch

Kao Brands Company held a PR event in Moscow for the launch of *John Frieda* premium hair care brand in the Russian market. About 60 members of the press gathered for an introduction of the brand concept and Kao's leading-edge hair care technologies.

March 2009

Launch of *Essential Damage Care* in Taiwan and Hong Kong

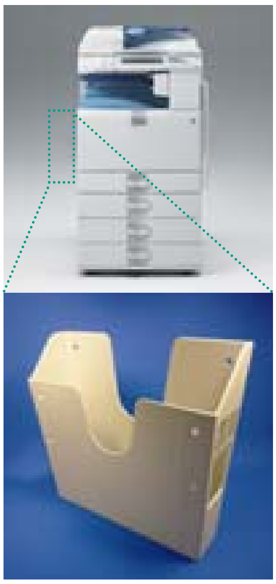
The launch of *Essential Damage Care* provides Taiwan and Hong Kong with a new offering that repairs damaged hair so users can enjoy trendier, more fashionable styles. Promotional and commercial activities are being conducted in conjunction with the concept developed in the Japanese market, focusing on women in their twenties who are sensitive to trends in fashion.

Research & Development and Intellectual Property

Environmentally-conscious Modified Polylactide Resin *ECOLA* Resolves Bioplastics Issues

Kao aims to develop environmentally-conscious products that meet the needs of customer industries. This photograph shows experiments on *ECOLA* at the Techno Chemical Research Center.

Clear folders
Examples of products that take advantage of *ECOLA*'s characteristics, including transparency, impact resistance and heat resistance



Mounted container for photocopier manual
Kao is implementing joint initiatives with a variety of customers to broaden the range of applications for *ECOLA*. The photo shows a holder for a photocopier manual. (Top photo source: Ricoh Company, Ltd.)

Kao offers chemical products that meet the diverse needs of a broad spectrum of industries. These products range widely from oleo chemicals including natural oil and fat products and their derivatives, to performance chemicals including surfactants made from oleo chemicals, and specialty chemicals such as functional polymers and fragrances. Products are created through cooperation between the Research & Development Division and the Chemical Business Unit with the goal of working more closely with customers to meet social changes and the needs of customer industries.

One such product developed through these initiatives is *ECOLA*, a modified polylactide resin that decreases the burden on the environment. Various industries have been working to develop bioplastics, which use vegetable resources as raw materials, as a way of resolving environmental issues with polyolefins and other existing petroleum-based plastics that use finite fossil resources as raw materials and have a carbon footprint. The most widely used bioplastic is polylactide resin.

Polylactide resin came into use some 20 years ago as a biodegradable resin. Its current market size is around 6,000 tons in Japan, but this is expected to grow by more than four times in Japan alone. However, although polylactide resin offers ecological benefits, it also has numerous issues such as lower impact and heat resistance and requires a longer molding time than petroleum-based plastics.

Kao began research to resolve these polylactide resin issues in 2002. In 2006, we succeeded in developing basic technology and began research toward commercialization. Consequently, we achieved high-speed molding using Kao's proprietary high-speed nano-crystallization technology to rapidly create nano-size crystals (one nano = one billionth of a meter). We also added Kao’s proprietary plasticizer to make the amorphous portion flexible.

The result was the creation of *ECOLA*, an environmentally-conscious modified polylactide with the same transparency, impact resistance, heat resistance and high-speed moldability as petroleum-based plastics. These characteristics allow the use of polylactide resin in a wide range of applications, including extrusion molding of sheet products for stationery goods and injection molding of computer housing and automotive interior components.

In 2008, Kao’s proprietary technologies received a favorable evaluation from electronics manufacturers, who began to use *ECOLA* in their components. Currently, we are beginning joint initiatives with consumer electronics manufacturers and other customers to further broaden its applications.

The aim of Kao’s Chemical Business is not simply to offer products that reduce the burden on the environment. Rather, it is working for environmentally-conscious *Yoki-Monozukuri* to create “eco-chemicals” that also meet the fundamental conditions for industrial use: basic material functionality, cost effectiveness and productivity in our customers’ manufacturing processes.

Intellectual Property

The Intellectual Property Center in the Research & Development Division promotes the filing and use of intellectual property rights to implement an intellectual property strategy consistent with Kao’s business and research strategies. Close communication between researchers and intellectual property specialists from the initial stage of research and development enables the smooth unearthing of new inventions and the development of feasibility studies for filing patent applications. This close communication helps create comprehensive patent applications to protect technologies.

Kao holds basic patents for the core technologies used in *ECOLA* such as high-speed nano-crystallization and plasticization of polylactide resin. We currently have filed patent applications for related technologies. Researchers and people responsible for intellectual property shared information from the research stage and discussed the best ways to acquire intellectual property rights as well as to protect the related technologies.

These activities expand awareness within the Company that intellectual property rights such as patents are an important corporate management asset, and help to improve the level of Kao’s activities and the management of its technology strategy.

Corporate Governance System and Activities

For Highly Efficient, Sound and Transparent Management That Continuously Increases Corporate Value

Basic Position on Corporate Governance

Kao's basic position on corporate governance is to develop a managerial framework and internal control system that can take the necessary measures to realize highly efficient, sound and transparent management with the aim of continuously increasing corporate value. Kao considers corporate governance to be one of its most important managerial tasks.

Directors, Board of Directors, Executive Officers and Committees

Currently, Kao Corporation has 15 Directors including two Outside Directors, and 25 Executive Officers including 13 who serve concurrently as Directors. Each Outside Director and Outside Corporate Auditor frequently attends Board of Directors meetings, where they actively provide useful opinions and pose questions. In order to ensure the effectiveness of their activities, Outside Directors may receive appropriate background information before Board of Directors meetings. The Company has two Committees that advise on the compensation for directors and the examination of the nominees for the positions of Chairman of the Board of Directors and President, respectively.

Audit System

Four Corporate Auditors, including two Outside Corporate Auditors, constitute the Board of Corporate Auditors. Furthermore, Kao's Global Internal Audit is responsible for conducting internal audits on the appropriateness of business processes and the propriety and efficiency of the management of Kao and its affiliates. Kao employs the accounting firm Deloitte Touche Tohmatsu to perform audits in accordance with the Corporation Law and the Financial Instruments and Exchange Law ("the Laws").

Internal Control

Kao has an Internal Control Committee, chaired by the President and CEO, as an administrative organization with the functions of holding discussions and making decisions on fundamental policy or operational planning of internal control, monitoring the activities of relevant committees and confirming the effectiveness of internal control activities. Six committees have been placed under the Internal Control Committee.

Status of Measures to Respect the Standpoint of Stakeholders

- *Rules for Respecting the Standpoint of Stakeholders through Internal Regulations, etc.*

  The Kao Way, the essence of the Company's corporate philosophy symbolized by the pyramid on the inside front cover, states that "Our mission is 'to strive for the wholehearted satisfaction and enrichment of the lives of people globally' through the Company's core domains of cleanliness, beauty, health and chemicals." The "Vision" section of The Kao Way stipulates that "We aim to be 'a global group of companies that is closest to the consumer/customer in each market,' earning the respect and trust of all stakeholders and contributing to the sustainable development of society." As stated in Kao's Corporate Ethics, contained in Kao's Business Conduct Guidelines, "Kao Corporation seeks to be an honest and exemplary company, guided by sensible and fair actions and driven by a fundamental adherence to ethical principles that go beyond mere compliance with laws to earn the true respect of all stakeholders."

- *CSR* Committee*

  Kao has established a CSR Committee, which is composed of divisional representatives, to discuss and determine the objectives the Company must fulfill in society, as well as their direction. In order to attain the objectives, each division continuously makes efforts such as creating mechanisms to allow employees to make the most of their various capabilities, encouraging suppliers to carry out CSR activities and launching initiatives aimed at preserving the global environment (see page 24).

  * Corporate Social Responsibility

- *Policy for Information Disclosure to Stakeholders*

  Kao's Disclosure Guidelines set forth the Company's commitment to disclosing information to shareholders, investors and all other stakeholders in a timely, accurate and impartial manner by continuing prompt disclosure of information that falls under the Securities Listing Regulations provided by the Tokyo Stock Exchange, in compliance with the Laws as defined herein.

Further information on Kao's approach to corporate governance is available at
http://www.kao.com/jp/en/corp_info/governance.html

Integrity

Aiming for an Autonomous Compliance Framework with Full Employee Participation, Starting from "Integrity"

Yoki-Monozukuri Is Based on Honest Corporate Activities That Go Beyond Mere Compliance with Laws

The basis of Kao's business activities consists of the phrase "behave with integrity." This means carrying out honest and fair business activities that comply with laws and business ethics, derived from Kao founder Tomiro Nagase's testament that "Good fortune is given only to those who work diligently and behave with integrity."

Based on this spirit, Kao established its Corporate Ethics in 1997. In 2003, we enacted *Kao's Business Conduct Guidelines* (BCG) for employees, which stated that "We shall not pursue profits at the expense of the ethical principles set out in *Kao's Business Conduct Guidelines.*" In addition, in 2004 we established The Kao Way, our corporate philosophy, based on the former Kao Management Principles. "Integrity" is incorporated in the Values of The Kao Way along with "*Yoki-Monozukuri*" and "Innovation," which shows Kao's commitment to offering greater satisfaction by dealing honestly with consumers and customers, going beyond mere compliance with laws.

Practical Training Programs Adapted to Business Locations

For all employees to better understand and practice The Kao Way and BCG, Kao commenced compliance training beginning with sessions in Japan in 2003. In 2008, we expanded compliance training to Kao Group companies in Asia, under the name of "Integrity Workshops," to leverage the know-how gained through the training sessions in Japan.

In order for each and every local employee to understand, consent to and absorb these principles, Kao encourages the trainers selected from among the staff of each company to take key roles as training leaders and spread "Integrity" as their own personal value. In addition, the actual training aims to raise participants' awareness through case studies and discussions that employ examples based on national and regional culture and customs and the unique characteristics of each company's business activities.

In fiscal 2008, we held pilot Integrity Workshops at a total of three companies in Indonesia and Malaysia, and improved materials in preparation for a general rollout to other Group companies in Asia in fiscal 2009 and thereafter. We also produced communication tools and prepared for training in China.

Participants in a study group at Fatty Chemical (Malaysia) Sdn. Bhd. enthusiastically exchange opinions regarding the "best choice" for a case study based on the spirit of the BCG.

Establishment of External Compliance Hotline for Employees

At the same time, we began implementation of our Integrity Line, an external hotline, which is in addition to the existing internal compliance hotline, to inquire about or report any conduct that is thought to violate laws or ethics. This hotline helps employees and the company detect and settle matters early on before they become major issues. In fiscal 2008, following rollouts at some affiliates in the U.S. and Europe, we established the Integrity Line for the Kao Group in China, Indonesia and Malaysia and a chemical company in Europe. With these hotlines, Kao is working to strengthen a framework in which all its employees can take the initiative on compliance.

CSR Activities

Promoting CSR Activities More Strategically to Increase Corporate Value

Kao's CSR Activities

Keeping our relationships with our diverse stakeholders in mind, the Kao Group's CSR activities aim to contribute to the wholehearted satisfaction and enrichment of the lives of people in harmony with nature through *Yoki-Monozukuri* in the fields of cleanliness, beauty, health and chemicals.

In fiscal 2008, we established the following three key themes in order to promote CSR activities more strategically for increasing corporate value.

Three Key Themes

1. Attain Environmental Excellence

2. Undertake Corporate Activities That Benefit Society

3. Nurture Employees with a CSR Mindset

Activities under Our Three Key Themes

Attain Environmental Excellence

Kao has made progress in reducing environmental impact in the four priority areas of global warming, chemical substance management, waste, and containers and packaging materials, largely achieving its fiscal 2008 targets. To further strengthen environmental initiatives from 2009, Kao Corporation announced its Environmental Statement and introduced new environmental targets to develop *Yoki-Monozukuri* that is rooted in an ecological point of view for all product lifecycle stages from material procurement, production, sales and use to disposal.

Refill products

Compact products

Main Activities in Fiscal 2008

- Further promotion of 3R (Reduce, Reuse, Recycle) activities for containers and packaging in the Consumer Products Business
- Development of *ECOLA* bioplastic in the Chemical Business

Undertake Corporate Activities That Benefit Society

Around the world, issues that can be resolved through Kao's businesses remain. Kao's mission is to contribute to the wholehearted satisfaction and enrichment of the lives of people globally in the fields of cleanliness, beauty and health. We will continue to promote business activities in order to offer products and services created with an awareness of resolving social problems.

Main Activities in Fiscal 2008

- Rollout in Indonesia of *Attack Easy* laundry detergent, which reduces the labor of washing by hand
- Expansion of the Pink Ribbon Campaign, which promotes education and awareness for early breast cancer detection

Nurture Employees with a CSR Mindset

Individual employees play a central role in putting CSR activities into practice. Employees advance CSR activities by using their understanding of social issues to drive business activities toward solving such problems as health and hygiene. Kao provides employees with an atmosphere that makes it easy to conduct CSR activities as it works to build a structure for understanding and spreading awareness of social issues.

Main Activities in Fiscal 2008

- Strengthening of Equal Partnership activities based on respect for the dignity and value of each individual employee and on promoting employee diversity
- Eco Family activities to raise environmental awareness among employees and their families

Recognition from Socially Responsible Investment Indexes

Kao's CSR efforts have been recognized by global Socially Responsible Investment ("SRI") Indexes. We were selected for the FTSE4Good Global Index in March 2008 and March 2009, and for the Dow Jones Sustainability World Index ("DJSI World") in September 2008.

Directors, Corporate Auditors and Executive Officers (As of July 1, 2009)

Board of Directors

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

Motoki Ozaki*
Representative Director, President and Chief Executive Officer

Takuo Goto*
Representative Director, Senior Executive Vice President, Global Production & Engineering, Strategic Environment & Safety Management, Logistics

Hiroshi Kanda*
Representative Director, Executive Vice President, Global Consumer Products Business, Global Beauty Care Business Unit

Norihiko Takagi*
Executive Vice President, Global Business Development

Shunichi Nakagawa*
Executive Vice President, Global Legal & Compliance, Global Corporate Communications, Global Information Systems

Tatsuo Takahashi*
Executive Vice President, Representative Director, President and Chief Executive Officer, Kao Customer Marketing Co., Ltd.

Toshiharu Numata*
Executive Vice President, Global R&D, Product Quality Management

Toshihide Saito*
President, Global Chemical Business

Shinichi Mita*
Vice President, Global Accounting & Finance

Masato Hirota*
Vice President, Global Business Development

Shinichiro Hiramine*
Chairman of the Board of Directors and Chief Executive Officer, Kao (China) Holding Co., Ltd.

Ken Hashimoto*
Vice President, Global Procurement

Michitaka Sawada*
Vice President, Global R&D (Human Health Care)

Atsushi Takahashi**
Representative Director, Chairman of the Board, The Sumitomo Trust & Banking Co., Ltd.

Osamu Shoda**
Honorary Chairman & Executive Adviser, Nisshin Seifun Group Inc.

Corporate Auditors

*** Outside Corporate Auditor

Takashi Matsuzaka
Full-time Corporate Auditor

Masanori Sunaga
Full-time Corporate Auditor

Tadashi Oe***
Corporate Auditor, Attorney at Law

Yutaka Yogo***
Corporate Auditor, Certified Public Accountant

Executive Officers

Yoshitaka Nakatani
Vice President, Global Production & Engineering (Beauty Care and Human Health Care SCM)

Hisao Mitsui
Vice President, Global Production & Engineering (Fabric & Home Care and Chemical SCM)

Shigeru Koshiba
Vice President, Global Marketing Development, Global Research

Shoji Kobayashi
Vice President, Global Chemical Business

Takuji Yasukawa
President, Global Food & Beverage

Yasushi Aoki
Vice President, Global Human Capital Development

Masumi Natsusaka
Vice President, Global Beauty Care Business, President, Global Prestige Cosmetics & Global Premium Skin Care

William J. Gentner
President and Chief Executive Officer, Kao Brands Company

Katsuhiko Yoshida
President, Global Human Health Care Business

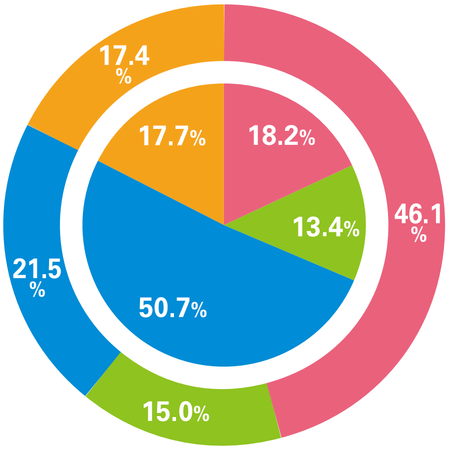
Naohisa Kure
Vice President, Global R&D (Beauty)

Mikio Nakano
Representative Director, Senior Executive Vice President, Kao Customer Marketing Co., Ltd. (Prestige Cosmetics)

Akira Yoshimatsu
Vice President, Global R&D (Fabric & Home Care and Chemical)

Review of Operations
Kao at a Glance (As of March 31, 2009)

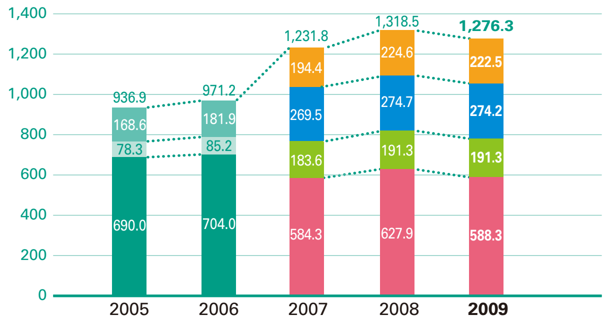
Fiscal 2008 Net Sales and Operating Income by Business



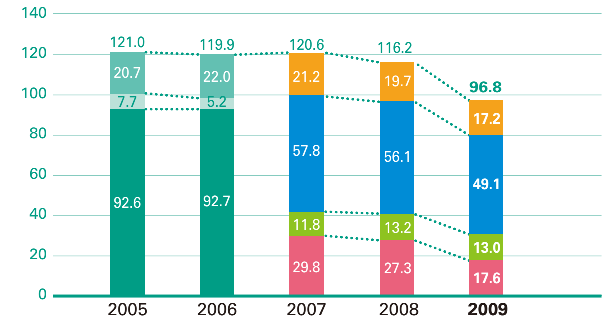
Outer circle: Net Sales* **Inner circle:** Operating Income**

Consumer Products Business	Beauty Care Business Human Health Care Business Fabric and Home Care Business
Chemical Business	Chemical Business
Former Business Segments	Consumer Products Prestige Cosmetics Chemical Products

Net Sales* (Years ended March 31)
(Billions of yen)



Operating Income** (Years ended March 31)
(Billions of yen)



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

* Net sales to outside customers only.
** Operating income excludes eliminations.

Consumer Products Business

Beauty Care Business

Kao's goal in Beauty Care is to generate significant value for those who wish to bring out their own beauty by providing distinctive products that deliver differentiated functions developed using Kao's technology.

Human Health Care Business

In Human Health Care, we provide comprehensive solutions and services for daily health care to help consumers live healthier and more comfortable lives. We are also extending our knowledge of health care acquired in Japan to foreign markets.

Fabric and Home Care Business

The goal of the Fabric and Home Care Business is to make household chores such as cleaning and laundry easier and to provide pleasure and joy through products that suit the lifestyles of consumers in Asia and other countries.

Chemical Business

Chemical Business

We strive to develop and market unique and remarkable products that earn the trust of customers and meet their expectations by deepening and extending our core technologies in developing materials. Synergy between the Chemical and Consumer Products businesses is critical to uncovering customer needs and developing new product ideas.

Major Products

Prestige cosmetics

Premium skin care products

Premium hair care products

Food and beverage products

Sanitary products

Personal health products

Fabric care products

Home care products

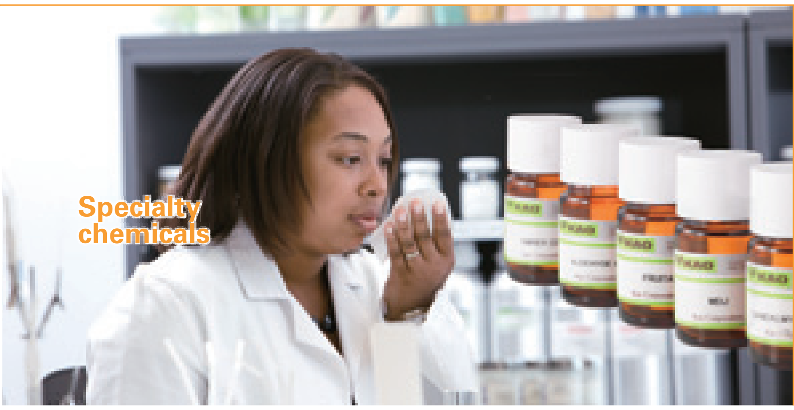
Oleo chemicals

Performance chemicals

Specialty chemicals

Premium hair care products

Personal health products



Specialty chemicals

Fiscal 2008 Results and Overview

Counseling cosmetics, self-selection cosmetics

Soaps, facial cleansers, body cleansers

Shampoos, conditioners, hair styling products, hair coloring agents

- Net sales decreased 6.3 percent to ¥588.3 billion. In Japan, sales decreased 2.7 percent to ¥436.4 billion.
- In prestige cosmetics, Kanebo Cosmetics launched *BLANCHIR SUPERIOR* and added items to the *COFFRET D'OR* brand under the mega brand strategy. Kao Sofina launched *SOFINA Primavista* and *AUBE couture*.
- Premium skin care product sales increased. New *Bioré* and *Curél* products were solid.
- Sales of premium hair care products increased, with robust performance of new *Blauné Hair Color Foam*.
- In Asia, sales were strongly supported by product line enhancements and other factors. Kao also raised brand equity in China.
- In North America and Europe, sales decreased due to cooling markets, intense competition and the negative effect of currency translation.
- *John Frieda* and *Guhl* premium hair care brand sales were firm in Europe.

Cooking oils, beverages

Sanitary napkins, diapers

Bath additives, oral care products, men's skin care and hair care products

- Net sales were ¥191.3 billion, basically unchanged from the previous fiscal year. In Japan, sales increased 0.2 percent to ¥174.7 billion.
- In food and beverage products, sales decreased due to intensifying market competition and gift market contraction. *Healthya* functional drink sales recovered aided by its "promoting body fat utilization" appeal.
- *Laurier* sanitary napkins were solid, while sales of *Merries* baby diapers increased, supported by improvements in breathability and other functionality.
- Sales of personal health products remained flat as sales of *Medicated Pyuora Toothpaste* and *Success* men's products increased while sales of bath additives and other products struggled.
- In Asia, sales grew on the strong performance by *Laurier* in China and Indonesia.

Laundry detergents, fabric treatments

Kitchen cleaning products, house cleaning products, paper products for cleaning, professional-use products

- Net sales decreased 0.2 percent to ¥274.2 billion. In Japan, sales increased 0.3 percent to ¥246.0 billion.
- Sales of fabric care products were flat, although Kao worked to introduce high-value-added products and made improvements to *Attack* and *Funwari New Beads*.
- In home care products, sales increased driven by the launch of new products under brands including *CuCute* dishwashing detergent and *Resesh* fabric and air freshener.
- In Asia and Oceania, sales grew on enhancements to *Attack* and the *Magiclean* home cleaner brand. Sales of *Attack Easy* in Thailand and Indonesia were particularly strong.

Fatty alcohols, fatty amines, fatty acids, glycerin, commercial-use edible fats and oils

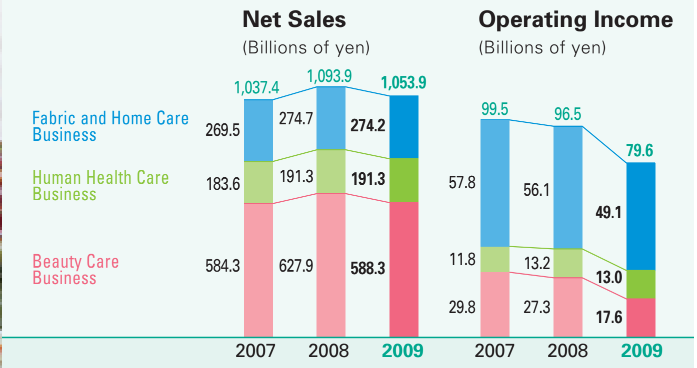
Surfactants, plastics additives, superplasticizers for concrete admixtures

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

- Net sales increased 1.3 percent to ¥262.1 billion. Sales in Japan increased 0.5 percent to ¥130.1 billion.
- In oleo chemicals and performance chemicals, Kao adjusted sales prices in response to fluctuations in raw material prices.
- In specialty chemicals, Kao added further value to products, such as ink and colorants for inkjet printers and cleaners for electronic parts, and expanded their sales volume.
- In Asia, sales increased 7.7 percent to ¥81.0 billion. For fatty alcohols, Kao adjusted sales prices in response to fluctuations in raw material prices.
- In North America and Europe, sales increased 1.8 percent to ¥100.6 billion. Sales of tertiary amines and toner binder for copiers and printers were strong.

Consumer Products Business

(Years ended March 31)



Net sales of the Consumer Products Business decreased 3.7 percent compared with the previous fiscal year to ¥1,053.9 billion. Excluding the effect of currency translation, sales would have decreased 1.3 percent.

In the Japanese market, consumer sentiment cooled due to worsening business conditions. The cosmetics market and household and personal care products market both contracted by as much as 1 percentage point from the previous fiscal year. Average consumer purchase prices in major categories of the household and personal care products market were near the level of the previous fiscal year. Nevertheless, consumer purchasing behavior is changing, with prices beginning to drop in some product categories as consumers become more saving-conscious.

As the impact of these factors became apparent in the real economy, sales in Japan decreased 1.3 percent to ¥857.1 billion. However, Kao launched new products that respond to changing consumer lifestyles and worked to strengthen its proposal-based sales activities and in-store merchandising activities. As a result, Kao's household and personal care products continued to increase market share year on year, with growth in premium mass products in the Beauty Care Business, sanitary products in the Human Health Care Business and home care products in the Fabric and Home Care Business.

In Asia and Oceania, market expansion continued despite the sense of a slowdown in business conditions, and the Kao Group's business activities also benefited from nurturing pan-Asian brands, expanding sales territories and integrating business operations in the region, including Japan. This resulted in a 9.6 percent increase in sales on a local currency basis, although with the effect of currency translation, sales decreased 2.6 percent to ¥83.1 billion.

In North America and Europe, with cooling markets and fierce competition due to worsening business conditions, sales decreased 16.6 percent to ¥130.3 billion. Excluding the effect of currency translation, sales would have decreased 6.3 percent.

Operating income decreased ¥16.9 billion to ¥79.6 billion. Although all Group companies focused on further cost reduction activities, higher prices for raw materials, mainly natural oils and fats and petrochemicals, put pressure on profits.

Beauty Care Business

Business Environment and Fiscal 2008 Results

Until fiscal 2008, economic conditions had relatively little effect on the Beauty Care Business, which consists of prestige cosmetics, premium skin care and premium hair care. Market size had remained largely unchanged for several years. However, the substantial impact of the global economic slowdown from the second half of 2008 on consumer purchasing attitudes has extended to this market. The resulting negative growth in Japan, North America and Europe was unforeseeable a year ago.

Japan's cosmetics market contracted substantially with the added factor of inventory cutbacks by retailers at department stores, supermarkets and drug stores in response to cooling consumer sentiment. Despite relatively stable growth for self-selection cosmetics and other low-priced products (¥2,000 or under), mainstay mid-to-high-priced products above ¥2,000 weakened. As a result, Kao's sales of prestige cosmetics decreased 8.0 percent compared with the previous fiscal year to ¥290.9 billion.

Despite a similar contraction of the market for facial and body cleansers, Kao's Japanese sales of premium skin care products were essentially flat year on year as the hot summer drove strong sales of UV care products and antiperspirants. Overall premium hair care sales in Japan were solid, despite a shrinking market for shampoos, conditioners and hairsprays, due to the introduction of new foaming colorant technology.

In Asia, sales were strong, mainly for pan-Asian brands such as *Asience* and *Essential*, as a result of ongoing, comparatively stable market growth and the benefits of Kao's efforts over the past few years to integrate business operations in Asia, including Japan. In North America and Europe, where the economic downturn had a substantial impact, net sales decreased due to intensifying market competition and the strong yen.

As a result, net sales of the Beauty Care Business decreased 6.3 percent compared with the previous fiscal year to ¥588.3 billion. Excluding the effect of currency translation, net sales would have decreased 3.3 percent. Operating income decreased ¥9.7 billion to ¥17.6 billion as a result of the decrease in net sales, despite the positive effect of the completion of amortization of goodwill related to the acquisition of Kao Brands Company (formerly The Andrew Jergens Company) and trademark rights for *Curél*, a premium skin care brand.

Operating income before amortization of remaining goodwill and other items related to acquisitions other than the above (EBITA) was ¥55.2 billion, which is equivalent to 9.4 percent of sales.

Key Fiscal 2008 Initiatives and Fiscal 2009 Outlook

Prestige Cosmetics

Kanebo Cosmetics continued to concentrate on creating strong brands in fiscal 2008. Although the company aggressively invested in the creation of *COFFRET D'OR, BLANCHIR* and *DEW SUPERIOR* as mega brands, adding items to the *COFFRET D'OR* lineup and launching new *BLANCHIR SUPERIOR*, it was unable to meet expectations as a result of the weak prestige cosmetics market.

However, sales of department store brands *LUNASOL* and *Impress* were solid due to a continued stable increase in loyal customers from the previous fiscal year. For self-selection cosmetics, which are sold mainly in drug stores and supermarkets, Kanebo Cosmetics renewed *Fréshel* under the concept of "instant skin care for busy people," winning strong support from its targeted generation for substantial sales growth. *EVITA* for customers over 50 also attained deep-rooted popularity. Strong customer support and brand loyalty for self-selection makeup brand *KATE* earned it the top market share.

Kanebo *SENSAI,* sold in Europe

Overseas, results were better than expected in China, where Kanebo Cosmetics worked to increase sales per store as a key strategy. Measures to nurture the *Kanebo* brand in China included an

Kanebo makeup brand *LUNASOL*

est ETERNAL FLOW is aimed at the highly beauty-conscious.

Kao and Kanebo Cosmetics have begun joint distribution.

exhibition of the World Antique Compact Collection in Shanghai (see page 18) and support for magazine event planning. Initiatives to further strengthen the overseas business framework in December 2008 were aimed at accelerating the expansion of Kanebo Cosmetics in Asia, mainly in China.

In Europe, Kanebo Cosmetics' precisely targeted *SENSAI* super prestige brand had solid sales and established strong brand loyalty. Kanebo Cosmetics products are now sold in 28 countries in Europe with the February 2009 start of sales of *SENSAI* in the Czech Republic and Hungary through a distributor in Poland.

New base makeup brand *SOFINA Primavista*

In fiscal 2009, Kanebo Cosmetics will concentrate on creating strong brands and on building a robust corporate structure that can make a profit even with low growth. It will also work toward future results by generating greater synergy as part of the Kao Group. Initiatives during the year will include integration of logistics bases, joint distribution, and the start of joint R&D that utilizes the basic technologies of both Kao and Kanebo Cosmetics.

Efforts to strengthen Kao Sofina brand equity consisted of the continued introduction of new products to follow the previous fiscal year's *SOFINA beauté*. In September 2008, Kao Sofina launched *SOFINA Primavista*, a base makeup brand that uses a new powder coating technology to offer unprecedentedly smooth, radiant skin, and in December began sales of new makeup brand *AUBE couture* with Kao's unique makeup technology that makes it easy for even beginners to use. However, overall sales weakened, particularly due to contraction of the brand's base in the mid-priced market.

Kao nurtured and expanded the customer base for department store brand *est*, which has continued to grow since its introduction. In September 2008, the *est* lineup was enhanced with the launch of aging care series *est ETERNAL FLOW*, which is aimed at the highly beauty-conscious. However, sales weakened as a result of particularly severe contraction in the department store market. Kao will work to acquire new customers for *est* and further solidify relationships with existing ones.

Earnings of modern British luxury lifestyle brand *Molton Brown* were lower than expected, as it was also impacted by the global economic downturn. Since 2008, *Molton Brown* has been reconstructing its channel strategy in order to increase its brand equity, and will continue to concentrate on medium-to-long-term brand building.

Premium Skin Care Products

In Japan, the *Bioré* brand has a full product lineup of facial cleansers, body cleansers, facial care and body care. Kao launched *Bioré Koku Rich Make-off Cream,* a cream type make-up remover, in response to increasingly diversified consumer needs. In February 2009, Kao launched the *Bioré Body Deli* body wash and care series for women in their 20s and 30s who are highly conscious of body care. These and other market-stimulating measures shored up results in this category.

Also in Japan, Kao completely renewed the *Curél* brand for sensitive skin in October 2008 and strengthened all the brand's in-store sales corners to make strides as the top brand in the market for facial care for sensitive skin.

In Asia, Kao strengthened *Bioré* as a pan-Asian brand by introducing products tailored to the conditions of consumers in each region. The growth of *Men's Bioré* was particularly notable as its brand equity improved.

The markets for premium skin care products in North America and Europe contracted from the previous fiscal year due mainly to worsening economic conditions in the United States. Nevertheless, results of Kao Brands Company were in line with the market due to the continued introduction of improved premium skin care products in the *Jergens*, *Curél* and *Bioré* brands.

Sales of *Men's Bioré* grew notably in Asia.

Jergens worked to improve brand equity with product improvements.

The *Bioré Body Deli* body wash and care series, developed for women who are highly conscious of body care

Premium Hair Care Products

In the Japanese shampoo and conditioner market, *Essential* has won strong support since its brand renewal in 2006, and achieved solid fiscal 2008 sales. In March 2009, Kao carried out wide-ranging improvements for the *Asience* brand, for which retailers have high expectations. These included adding *Asience Nature Smooth*, which leaves hair with a light and supple finish from the roots, to the *Asience Inner Rich* line of products that give hair a strong and supple touch up to the hair ends, which tend to become brittle. To stimulate the market for middle-aged and elderly customers Kao emphasized "beautiful aging" with the *Segreta* aging care series, which takes a total approach from the scalp to the hair ends. Although sales of these three brands decreased slightly from the previous fiscal year, Kao maintained top share in the shampoo and conditioner market by nurturing and strengthening them.

In the hair coloring category, Kao

Kao launched pan-Asian brand *Asience* in Malaysia following its introduction in Taiwan, Hong Kong, Singapore, China and Thailand.

launched *Blauné Hair Color Foam* for gray hair following the successful launch of *Prettia* foaming color for black hair in 2007. These two introductions, supported by Kao's new foaming colorant technology, stimulated the market and substantially increased sales.

In Asia, Kao launched pan-Asian brand *Asience* in Shanghai and Thailand in March 2008, and sales were steady. The addition of *Asience Shine Therapy* for colored and permed hair in response to Asian women's diverse needs earned further support in Taiwan, Hong Kong and Singapore, where the brand was already established. Moreover, in March 2009 Kao launched *Essential* in Taiwan and Hong Kong as part of efforts to strengthen it as a pan-Asian brand. Kao expects growth in Asian sales of *Essential* as well as *Asience* and *Liese*.

The *John Frieda* premium hair care brand sold in North America and Europe achieved positive results by continuously launching new and improved products even as business conditions cooled and competition heated up. Product development is taking a medium-term perspective based on integration of the lineup with R&D in Japan. The *Guhl* premium hair care brand, which is sold in Europe, has achieved stable growth centered on young customers following improvements to the brand in September 2007. Sales at KPSS - Kao Professional Salon Services GmbH (KPSS), which serves the hair salon market, underperformed as the market shrank due to economic conditions, but the *Goldwell* hair coloring brand added new core products and expanded its product lineup by aggressively introducing hair care products. Efforts during the year focused on carrying out operational reforms and strengthening the business base.

Kao will take a global perspective on the Beauty Care Business in fiscal 2009 as it introduces and nurtures high-value-added products as a Group.

Prettia foaming color and *Blauné Hair Color Foam* have stimulated the market with break-through foaming colorant technology.

Following brand improvements, *Guhl* premium hair care products have received support from the young customer segment in Europe.

Human Health Care Business

Business Environment and Fiscal 2008 Results

Sales were generally strong in the first half of fiscal 2008. However, beginning in the second half of 2008 and particularly in the fourth quarter, factors such as cooling consumer sentiment and inventory cutbacks by retailers had a substantial impact. Rising prices of raw materials, including natural oils and fats for food products and pulp for sanitary products, pressured operating income.

In food and beverage products, severe market competition led to a decrease in sales. However, there is a basis for recovery with the growing consumer awareness of health management resulting from the special health exams and specified health guidance that became mandatory in Japan in April 2008.

In sanitary products, Kao upgraded the brand image of *Merries* baby diapers and the resulting strong sales and market share expansion contributed to results, offsetting raw material price hikes.

In personal health products, although sales of toothpaste and men's cosmetics grew significantly, overall sales were flat, with weak performance by bath additives and other products due to changing consumer attitudes toward purchasing.

As a result, net sales of the Human Health Care Business were ¥191.3 billion, basically unchanged from the previous fiscal year, while higher raw material prices caused operating income to decrease slightly to ¥13.0 billion.

Kao added new items to the lineup of *Laurier Super Slim Guard* thin sanitary napkins in Asia.

Medicated Pyuora Nano-bright Toothpaste removes stain deposits from adults' teeth.

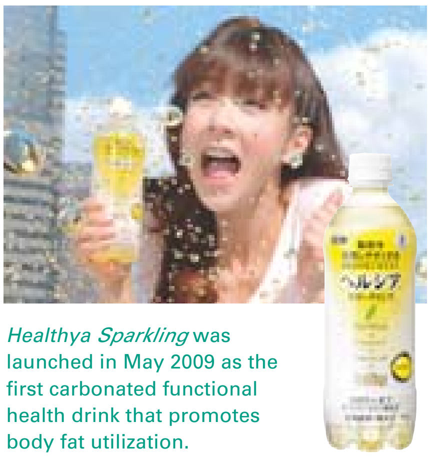
Key Fiscal 2008 Initiatives and Fiscal 2009 Outlook

Food and Beverage Products

As competition surrounding the *Healthya* brand further intensified, Kao worked to acquire new customers by launching acerola-flavored *Healthya Water*. Sales of *Healthya Green Tea* rose based on the appeal of its ability to "promote body fat utilization" as awareness of health management grew among middle-aged men.

Sales of *Econa* healthy cooking oil decreased because the economic slowdown from the second half of 2008 resulted in a cooling gift market, while making housewives more saving-conscious in general. Efforts to acquire more fans for *Econa* will emphasize the theme of "family health."

Kao also plans to focus on its specified health guidance program business by deepening its links with Healthcare Committee Inc., which it acquired in September 2008.



Healthya Sparkling was launched in May 2009 as the first carbonated functional health drink that promotes body fat utilization.

Sanitary Products

For *Merries* baby diapers, following the use of breathable gathers on the waist of pants-type diapers, the addition of an airy mesh to tape-type diapers in April 2008 made them substantially gentler on the skin and expanded market share. These measures helped *Merries* maintain its solid position as brand leader in Japan. Extremely strong sales of *Merries* in Taiwan also contributed to profits. Initiatives to further strengthen the brand in fiscal 2009 will base their appeal on *Merries*' gentle touch on the skin.

In Asia, Kao enhanced the lineup of *Laurier Super Slim Guard* thin sanitary napkins. The introduction of daytime and nighttime products for heavy flow in Greater China and thicker night-use products in the ASEAN countries led to firm sales, particularly in Thailand, China, Malaysia and Hong Kong. As a result, sales of the brand grew substantially in the region. Kao aims to further accelerate sales growth in fiscal 2009 by strengthening *Laurier Super Slim Guard* for heavy flow days, which was launched in 2008.

Personal Health Products

As the toothpaste market becomes further polarized into high-value-added and low-priced products, sales of *Medicated Pyuora Toothpaste* were steady under the "cleaning the oral environment" concept. Kao expects sales growth for *Medicated Pyuora Nano-bright Toothpaste*, which removes stain deposits from teeth to a nano level, leaving teeth white and lustrous.

In the market for men's cosmetics, which has been expanding since 2008, sales of the *Success* brand under the concept "health care for the scalp" remained firm. Initiatives in fiscal 2009 will include further developing *Success Medicated Vital Charge*, which was launched in 2008.

Fabric and Home Care Business

Business Environment and Fiscal 2008 Results

Attack 5 in 1, sold in Hong Kong, captured the top market share.

Kao worked to strengthen the *Resesh* brand with the addition of new items to the lineup.

Despite cooling consumer sentiment and inventory cutbacks by retailers reflecting the economic downturn since the second half of 2008, the Japanese market for the Fabric and Home Care Business remained stable because its products are part of people's daily lives. In Asia, Kao significantly transformed its growth by strengthening its pan-Asian brands amid continued economic expansion.

Sales of fabric care products increased slightly from the previous fiscal year, with steady laundry detergent sales in Japan and Asia offsetting the contraction of the Japanese gift market. Sales of home care products also rose, with strong performance by *Magiclean* and other house cleaning products in Asia, although sales of bath cleaner and mold remover decreased slightly as Japanese consumers became more saving-conscious. However, higher raw material prices substantially impacted profits in Japan and Asia.

As a result, net sales of the Fabric and Home Care Business decreased 0.2 percent to ¥274.2 billion. Operating income decreased ¥7.0 billion to ¥49.1 billion due to the substantial impact of raw material price hikes, although Kao launched new and improved products to sustain revenue, enhanced marketing investment efficiency, and worked to introduce high-value-added products.

Key Fiscal 2008 Initiatives and Fiscal 2009 Outlook

Fabric Care Products

In Japan, Kao steadily expanded its share of the laundry detergent market, which grew slightly. Within this category, *Attack Biogel* liquid detergent, which was launched in January 2008, won an increasing number of repeat purchasers with its cleaning power, contributing significantly to sales growth in the expanding liquid detergent market. April 2009 launches of improved powder and liquid detergent products are aimed at further strengthening the *Attack* brand.

In Asia, Kao further built loyalty to pan-Asian brand *Attack*, with particularly strong sales of *Attack Easy* laundry detergent for hand washing in Thailand and Indonesia. *Attack 5 in 1*, which was launched in Hong Kong in May 2008, won consumer support to gain the top market share.

In fabric softeners, Kao responded to continuing diversification of consumer needs with new *Humming Flair Mainichi Funwari Essence* in October 2008 and improved *Humming Flair Flower Blossom Essence* and *Humming Flair Shining Essence* in November. The March 2009 launch of the new *Humming Flair Fragrance Collection* line of fabric softeners aims to stimulate the market.

In fiscal 2009, Kao will continue its policy of creating new markets by aggressively launching high-value-added products. New marketing initiatives will include expanded trials of *Emal* fabric wash for fine washables, which was improved in January 2009, targeting women in their twenties who have no experience in laundering fine fabrics.

Home Care Products

In Japan, the steadily growing market share of *CuCute* dishwashing detergent centered on products for dishwashing machines. Sales of the *Resesh* fabric and air freshener brand were strong due to the launch of new products. However, sales of *Bath Magiclean* and *Kyouryoku Kabi Haiter* mold remover were weak as consumers became more saving-conscious.

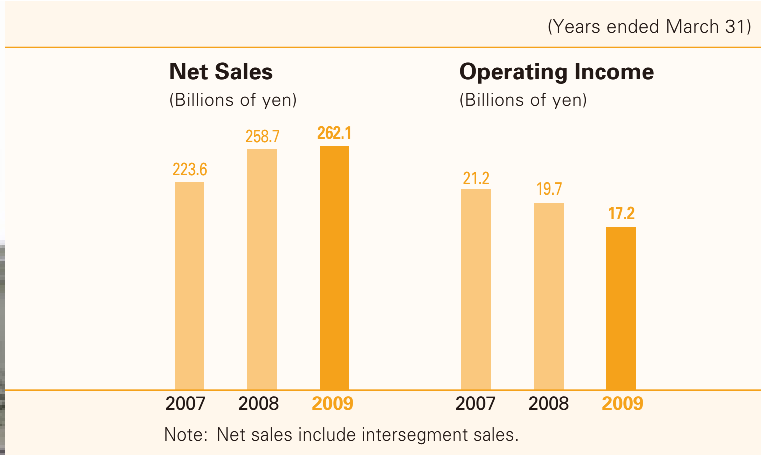
In Asia, sales of the *Magiclean* brand were robust, with launches of new products tailored to the customs of consumers in each country. Kao plans to further strengthen the brand.

Under the theme of "Nurturing children's vitality through housework," Kao has developed a campaign that includes lectures on cleaning methods for parents and children in response to consumers' changing approach to housework (see page 19). As simplified housework methods gain in popularity due to increases in nuclear families and the percentage of working wives, Kao plans to further stimulate the market by providing support for nurturing vitality in daily life through housework to husbands and children as well as housewives.

The new *Humming Flair Fragrance Collection* line of fabric softeners combines luxurious fragrances with stylish design.

Chemical Business

Development of toner and toner binder for copiers and printers with low-energy fusing to reduce environmental burden



Business Environment and Fiscal 2008 Results

The operating environment changed significantly during the fiscal year, particularly from the first to the second half. In the first half, despite the substantial impact of high prices for natural oils and fats and petrochemical raw materials from 2007, Kao was able to secure an increase in operating income by adjusting product prices and increasing sales volume. Nevertheless, the global economic downturn had a direct impact on second half results, particularly in the fourth quarter, with a sharp slowdown in the automotive, home electronics, information technology and other customer industries.

By business, in oleo chemicals and performance chemicals, Kao made efforts to adjust sales prices. In specialty chemicals, Kao worked to add further value and expand sales volume, but the sudden slowdown in customer industries including information technology negatively impacted sales of products such as cleaners for electronic parts.

As a result, net sales of the Chemical Business increased 1.3 percent compared with the previous fiscal year to ¥262.1 billion. Excluding the effect of currency translation, sales would have increased 6.7 percent. However, operating income decreased ¥2.5 billion to ¥17.2 billion due to a decrease in sales volume from the third quarter.

Key Fiscal 2008 Initiatives and Fiscal 2009 Outlook

Kao has worked to develop products to reduce environmental burden in various areas including toner and toner binder for copiers and printers with low-energy fusing and deinking agents used in recycling paper. Another initiative that is receiving attention is the development of a bioplastic with potential as a carbon-neutral product that will ease concerns about depletion of finite fossil resources. Kao developed *ECOLA*, a modified polylactide resin, through research efforts to make it more manageable in use by modification. Joint initiatives with customers to broaden *ECOLA*'s applications began producing actual sales in 2008. *ECOLA* expands the range of uses of polylactide resin to include extrusion molding of sheet products and injection molding of various plastic products (see pages 20-21).

Tertiary amines are derivatives of fatty alcohols from plant-based raw materials. Kao is expanding its tertiary amine business with increased production of these alcohols. Kao's tertiary amines are used and trusted by customers for their quality and stable supply. Applications include household goods such as shampoo and dishwashing detergent, which Kao also manufactures, as well as industrial uses such as disinfectants, wood preservatives and petroleum recovery agents. Kao expects further growth of these products as a response to demands from society for environmentally-conscious products.

Kao's Chemical Business operates in three fields. The first is the oleo chemicals business, which stably supplies products related to natural oils and fats. The performance chemicals business provides products including surfactants that leverage the strength of its original surface science for diverse industries. Third, the specialty chemicals business proposes high-value-added products that use Kao's R&D competence to respond to customer needs. Kao will continue to concentrate on developing high-value-added, environmentally-conscious products with higher growth potential.

Kao's supply chain links the global bases of the Kao Group. The photo shows a tanker carrying Kao products.

These products and pellets are made from modified polylactide resin *ECOLA*, a bioplastic raw material that reduces environmental burden.

Financial Section

Contents

Management Discussion and Analysis

11-Year Summary

Kao Corporation and Consolidated Subsidiaries

Years ended March 31	2009	2008	2007	2006
	Millions of yen			
For the year:				
Net sales	¥1,276,316	¥1,318,514	¥1,231,808	¥971,230
Business Segments				
Beauty Care Business	588,330	627,914	584,284	—
Human Health Care Business	191,319	191,300	183,608	—
Fabric and Home Care Business	274,202	274,657	269,519	—
Consumer Products Business	1,053,851	1,093,871	1,037,411	—
Chemical Business	262,058	258,674	223,609	—
Eliminations/Corporate	(39,593)	(34,031)	(29,212)	—
Former Business Segments				
Consumer Products	—	—	744,748	704,034
Prestige Cosmetics	—	—	292,663	85,247
Chemical Products	—	—	223,609	208,890
Eliminations/Corporate	—	—	(29,212)	(26,941)
Geographic Segments				
Japan	953,369	968,594	924,196	708,056
Asia and Oceania	161,927	158,295	125,989	110,898
North America and Europe	—	—	—	—
North America	98,999	111,017	106,731	95,168
Europe	140,623	154,648	135,918	109,486
Eliminations	(78,602)	(74,040)	(61,026)	(52,378)
Operating income	96,800	116,253	120,858	120,135
Net income	64,463	66,562	70,528	71,140
Capital expenditures	44,624	49,045	70,143	203,595
Depreciation and amortization	87,463	93,444	92,171	60,758
Cash flows	122,441	131,114	134,906	107,943
Research and development expenditures	46,126	45,070	44,389	40,262
(% of Sales)	3.6%	3.4%	3.6%	4.1%
Advertising expenditures	90,258	99,176	96,892	83,770
(% of Sales)	7.1%	7.5%	7.9%	8.6%
At year-end:				
Total assets	1,119,676	1,232,601	1,247,797	1,220,564
Net worth	545,230	574,038	564,532	509,676
Number of employees	33,745	32,900	32,175	29,908
	Yen			
Per share:				
Net income	¥ 120.25	¥ 122.53	¥ 129.41	¥ 130.58
Cash dividends	56.00	54.00	52.00	50.00
Net worth	1,017.19	1,070.67	1,035.66	935.11
Weighted average number of shares outstanding during the period (in thousands)	536,085	543,228	544,996	544,127
	%			
Key financial ratios:				
Return on sales	5.1%	5.0%	5.7%	7.3%
Return on equity	11.5	11.7	13.1	14.9
Net worth ratio	48.7	46.6	45.2	41.8

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

2. Net sales by business segment include intersegment sales starting from the year ended March 31, 2000. Under the former business segments, net sales of Chemical Products include intersegment sales to Consumer Products and Prestige Cosmetics. Under the current business segments, net sales of the Chemical Business include intersegment sales to the Beauty Care Business, the Human Health Care Business and the Fabric and Home Care Business.

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

2005	2004	2003	2002	2001	2000	1999
¥936,851	¥902,628	¥865,247	¥839,026	¥821,629	¥846,922	¥924,596
—	—	—	—	—	—	—
—	—	—	—	—	—	—
—	—	—	—	—	—	—
—	—	—	—	—	—	—
—	—	—	—	—	—	—
—	—	—	—	—	—	—
690,007	670,438	646,413	626,047	607,826	632,423	656,197
78,294	77,648	75,833	74,176	72,579	70,890	74,450
196,989	181,621	170,935	162,802	167,893	172,401	193,949
(28,439)	(27,079)	(27,934)	(23,999)	(26,669)	(28,792)	—
703,085	673,657	654,595	648,188	655,470	673,456	672,123
100,282	101,452	101,555	93,499	84,137	86,176	104,694
—	—	—	—	105,287	111,043	178,933
83,638	79,907	75,796	70,274	—	—	—
93,804	84,899	67,845	57,625	—	—	—
(43,958)	(37,287)	(34,544)	(30,560)	(23,265)	(23,753)	(31,154)
121,379	119,706	114,915	111,728	107,099	99,182	91,664
72,180	65,359	62,462	60,275	59,427	52,147	34,714
54,318	51,823	84,544	49,537	60,741	37,564	69,016
56,794	58,166	58,310	58,484	58,856	67,270	71,202
109,704	106,430	104,436	103,657	104,702	108,158	96,310
39,764	38,506	37,713	37,543	37,049	38,062	36,062
4.2%	4.3%	4.4%	4.5%	4.5%	4.5%	3.9%
84,157	82,773	74,277	66,069	65,758	64,354	71,752
9.0%	9.2%	8.6%	7.9%	8.0%	7.6%	7.8%
688,974	723,891	720,849	772,145	783,760	750,016	751,725
448,249	427,757	417,031	459,731	462,988	474,979	451,777
19,143	19,330	19,807	19,923	19,068	16,088	—
¥ 131.16	¥ 119.06	¥ 108.05	¥ 100.43	¥ 96.69	¥ 83.45	¥ 55.98
38.00	32.00	30.00	26.00	24.00	20.00	16.00
821.47	782.14	744.56	779.44	760.05	765.59	727.01
549,626	547,865	576,770	600,150	614,608	624,917	620,171
7.7%	7.2%	7.2%	7.2%	7.2%	6.2%	3.8%
16.5	15.5	14.2	13.1	12.7	11.3	7.9
65.1	59.1	57.9	59.5	59.1	63.3	60.1

4. Net sales by geographic segment include intersegment sales. Net sales in North America and Europe are presented separately from 2002.
5. Cash flows are defined as net income plus depreciation and amortization minus cash dividends.
6. Net income per share is computed based on the weighted average number of shares outstanding during the respective years. From the year ended March 31, 2003, the portion of net income unavailable to common shareholders, such as preferred dividends, which should be included in the appropriation of retained earnings, is deducted from net income for the calculation of net income per share. The same method is applied to the calculation of net worth per share.
7. Cash dividends per share are the amounts applicable to the respective years, including dividends to be paid after the end of the year.
8. Net worth is computed by subtracting minority interests and stock acquisition rights from equity.
9. In calculating return on equity, equity does not include minority interests and stock acquisition rights.

Overview of Consolidated Results

During the fiscal year ended March 31, 2009, Japan's economic environment became increasingly severe due to the impact of rising product prices caused by escalating prices for crude oil and commodities in the first half, and a deteriorating global economy stemming from the financial crisis in the United States in the second half. Outside Japan, a sense of a slowdown arose even in Asian economies, which had been continuing to grow, while business conditions in North America and Europe became more severe due to the financial crisis and deterioration of the real economy.

Under these conditions, the Kao Group concentrated on launches of high-value-added products, sales price adjustments, cost reduction activities and cutbacks in expenditures.

Sales in the Consumer Products Business in Asia and Oceania and the Chemical Business expanded excluding the effect of currency translation. On the other hand, worsening business conditions since autumn 2008 had an impact, the Consumer Products Business in North America and Europe faced challenging conditions, and the appreciation of the yen decreased results after currency translation. As a result of these factors, net sales decreased 3.2 percent compared with the previous fiscal year to ¥1,276.3 billion (US$12,993.1 million).

Operating income was ¥96.8 billion (US$985.4 million), a decrease of 16.7 percent, and net income was ¥64.5 billion (US$656.2 million), a decrease of 3.2 percent.

Analysis of Income Statements

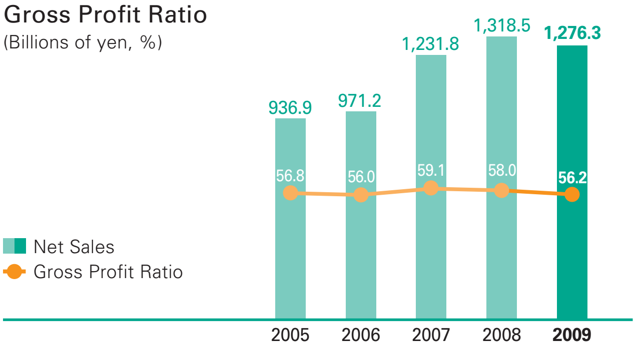
Net Sales and Operating Income

Sales in the Consumer Products Business in Asia and Oceania and the Chemical Business expanded excluding the effect of currency translation. On the other hand, worsening business conditions since autumn 2008 had an impact, the Consumer Products Business in North America and Europe faced challenging conditions, and the appreciation of the yen decreased results after currency translation. As a result, net sales decreased ¥42.2 billion, or 3.2 percent, compared with the previous fiscal year to ¥1,276.3 billion (US$12,993.1 million). Excluding the negative effect of currency translation of ¥39.4 billion on sales outside Japan, net sales would have decreased 0.2 percent.

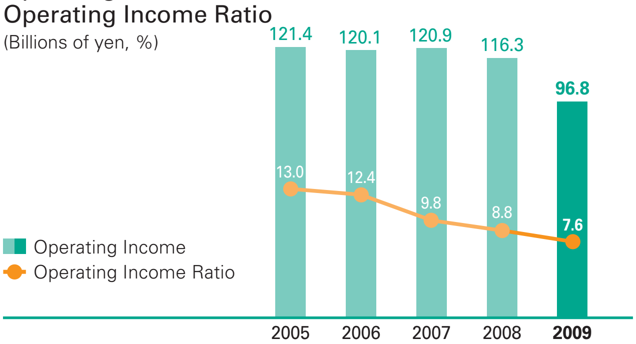
Cost of sales increased ¥4.8 billion from ¥554.2 billion in the previous fiscal year to ¥559.0 billion (US$5,690.6 million). The increase in cost of sales was due to factors including a substantial rise in prices for raw materials, mainly natural oils and fats and petrochemicals, although the Kao Group promoted further cost reduction activities. Consequently, gross profit was ¥717.3 billion (US$7,302.5 million), a decrease of ¥47.0 billion, or 6.2 percent, from the previous fiscal year.

Selling, general and administrative (SG&A) expenses were ¥620.5 billion (US$6,317.1 million), a year-on-year decrease of ¥27.6 billion, or 4.3 percent. In order to absorb the impact of higher raw material prices and worsening business conditions, the Kao Group conducted thorough management of expenses, making reductions in

Net Sales/ Gross Profit Ratio
(Billions of yen, %)



Operating Income/ Operating Income Ratio
(Billions of yen, %)



advertising and promotion expenses in addition to its ongoing cost reduction activities.

As a result of the above factors, operating income was ¥96.8 billion (US$985.4 million), a decrease of ¥19.5 billion, or 16.7 percent, from ¥116.3 billion in the previous fiscal year.

Other Expenses and Net Income

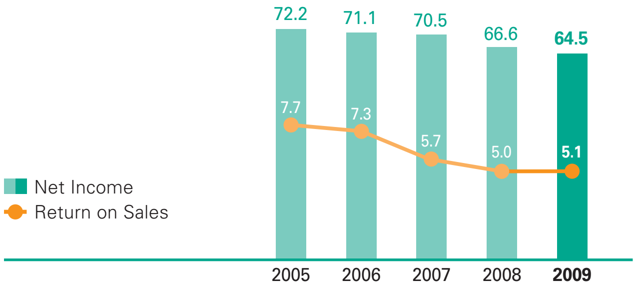
Net other expenses totaled ¥4.8 billion (US$48.7 million), compared with net other expenses of ¥5.9 billion in the previous fiscal year. As for the main factors in the change, the Kao Group recorded equity in earnings of nonconsolidated subsidiaries and affiliates rather than the equity in losses of the previous fiscal year, while foreign currency exchange loss was ¥1.8 billion (US$18.7 million).

Consequently, income before income taxes and minority interests decreased ¥18.4 billion year on year to ¥92.0 billion (US$936.7 million).

Total income taxes were ¥26.6 billion (US$270.5 million), compared with ¥42.8 billion in the previous fiscal year. The effective tax rate after application of tax effect accounting was 28.9 percent, compared with 38.7 percent in the previous fiscal year. The main factor in the change was a decline in deferred income taxes related to undistributed foreign earnings due to tax reform in Japan during the fiscal year.

Net income was ¥64.5 billion (US$656.2 million), a decrease of ¥2.1 billion, or 3.2 percent, from the previous fiscal year. Net income per share was ¥120.25 (US$1.22), a decrease of ¥2.28 from the previous fiscal year.

Net Income/
Return on Sales
(Billions of yen, %)



Costs, Expenses and Income as Percentages of Net Sales

	2009		2008		2007
Cost of sales	43.8%		42.0%		40.9%
Gross profit	56.2	(-1.8)	58.0	(-1.1)	59.1
Selling, general and administrative expenses	48.6	(-0.6)	49.2	(-0.1)	49.3
Operating income	7.6	(-1.2)	8.8	(-1.0)	9.8
Income before income taxes and minority interests	7.2	(-1.2)	8.4	(-1.1)	9.5
Net income	5.1	(+0.1)	5.0	(-0.7)	5.7

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

Information by Business Segment

Consumer Products Business

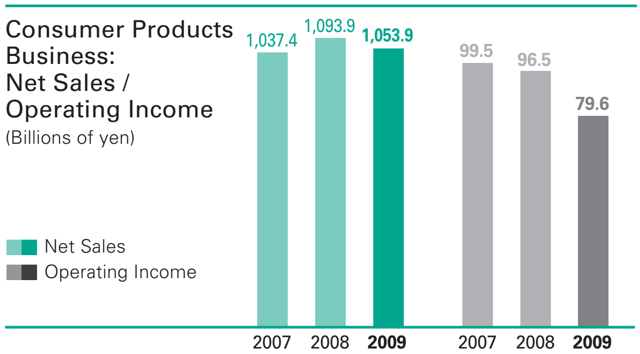
Sales decreased 3.7 percent compared with the previous fiscal year to ¥1,053.9 billion (US$10,728.4 million). Excluding the effect of currency translation, sales would have decreased 1.3 percent. In the Japanese market, consumer sentiment cooled due to worsening business conditions. The cosmetics market and household and personal care products market both shrank by as much as 1 percentage point from the previous fiscal year. Average consumer purchase prices in major categories of the household and personal care products market were near the level of the previous fiscal year.

Sales in Japan decreased 1.3 percent to ¥857.1 billion (US$8,725.2 million). Sales of prestige cosmetics decreased compared with the previous fiscal year due to the impact of a shrinking market caused by changing consumer attitudes. In household and personal care products, the Kao Group expanded sales and was able to increase its market share by launching new products that respond to changing consumer lifestyles and working to strengthen its proposal-based sales capabilities and in-store merchandising activities.

In Asia and Oceania, market expansion continued despite the sense of a slowdown in business conditions, and the Kao Group's business activities also benefited from nurturing pan-Asian brands and integrating business operations in the region, including Japan. This resulted in a 9.6 percent increase in sales on a local currency basis, although with the effect of currency translation, sales decreased 2.6 percent to ¥83.1 billion (US$846.4 million).

In North America and Europe, with cooling markets and fierce competition due to worsening business conditions as well as the impact of currency translation, sales decreased 16.6 percent to ¥130.3 billion (US$1,326.5 million). Excluding the effect of currency translation, sales would have decreased 6.3 percent.

Operating income decreased ¥16.9 billion to ¥79.6 billion (US$810.7 million) due to the decrease in sales.



Beauty Care Business

Sales decreased 6.3 percent compared with the previous fiscal year to ¥588.3 billion (US$5,989.3 million). Excluding the effect of currency translation, sales would have decreased 3.3 percent.

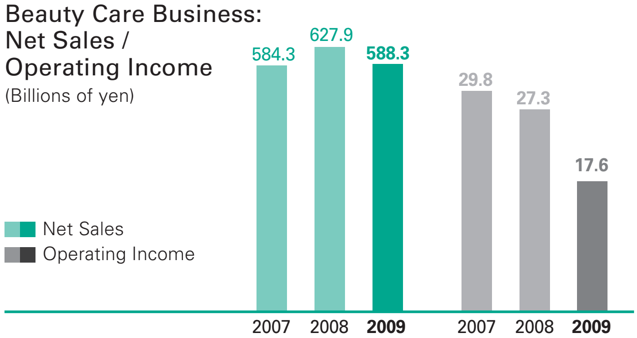
Operating income decreased ¥9.7 billion to ¥17.6 billion (US$178.8 million) reflecting the decrease in sales.

In Japan, sales decreased 2.7 percent to ¥436.4 billion (US$4,442.2 million). In prestige cosmetics, Kanebo Cosmetics has been aggressively promoting the creation of mega brands with the launch of the *BLANCHIR SUPERIOR* whitening skin care counseling brand and the addition of items to the *COFFRET D'OR* counseling makeup brand. Kao Sofina's measures to strengthen its brands included the launches of the counseling brands *SOFINA Primavista* base makeup and *AUBE couture* makeup. However, changes in consumer attitudes toward purchases due to worsening economic conditions led to a decrease in sales. Sales of premium skin care products increased steadily, with strong performances by new products from the *Bioré* brand and *Curél*. Sales of premium hair care products increased, with a robust performance by new product *Blauné Hair Color Foam*.

In Asia and Oceania, sales were strong, with a steady performance by *Bioré*, particularly in China and Indonesia, as a result of product line enhancements and other factors, and the rollout in China and Thailand of *Asience*, a line of premium hair care products that the Kao Group is newly nurturing as a pan-Asian brand. In addition, the Kao Group raised the brand equity of its prestige cosmetics in China by strengthening counseling activities and other measures, and increased sales per store.

In North America and Europe, sales decreased with the impact of cooling markets and intense competition due to worsening business conditions, in addition to the negative effect of currency translation due to exchange rate fluctuations. However, sales of the *John Frieda* and *Guhl* premium hair care brands were firm in the European market.

Beauty Care Business: Net Sales / Operating Income
(Billions of yen)



Human Health Care Business

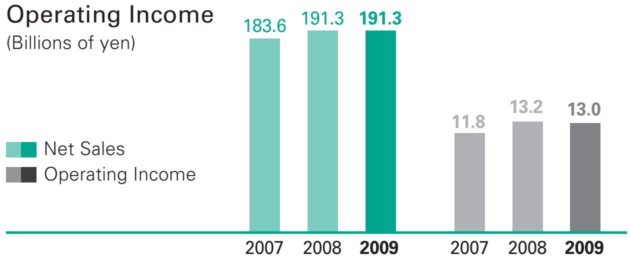
Sales were ¥191.3 billion (US$1,947.7 million), basically unchanged from the previous fiscal year. Excluding the effect of currency translation, sales would have increased 1.3 percent.

Operating income decreased ¥0.2 billion to ¥13.0 billion (US$132.1 million) due to higher raw material prices.

In Japan, sales increased 0.2 percent to ¥174.7 billion (US$1,778.9 million). In food and beverage products, intensifying market competition and shrinking of the gift market caused sales to decrease. However, *Healthya* functional drinks began to show a recovery by strengthening the appeal of the concept that they "promote body fat utilization." In sanitary products, sales of *Laurier* sanitary napkins were solid. Sales of *Merries* baby diapers increased, supported by a major improvement in breathability and other functionality. Sales of personal health products remained flat as sales of *Medicated Pyuora Toothpaste* and *Success* men's products increased while sales of bath additives and other products struggled.

In Asia, sales grew on the strong performance by *Laurier* in China and Indonesia.

Human Health Care Business: Net Sales / Operating Income
(Billions of yen)



Fabric and Home Care Business

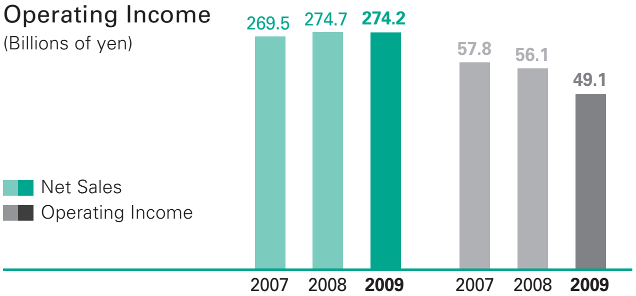
Sales decreased 0.2 percent compared with the previous fiscal year to ¥274.2 billion (US$2,791.4 million). Excluding the effect of currency translation, sales would have increased 1.5 percent.

Operating income decreased ¥7.0 billion to ¥49.1 billion (US$499.9 million). Despite efforts such as new and improved product launches, enhancements of the efficiency of marketing investments, and package volume and price adjustments in tandem with product improvements, the impact of higher raw material prices was substantial.

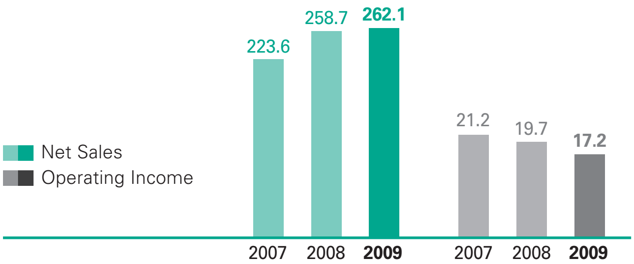
In Japan, sales increased 0.3 percent to ¥246.0 billion (US$2,504.1 million). In fabric care products, the Kao Group worked to strengthen its laundry detergent brands by improving *Attack* with greater cleaning performance and *Funwari New Beads* with an enhanced fabric softening effect. At the same time, the Kao Group implemented price increases through volume reductions. However, sales were flat, mainly due to shrinking of the gift market. In home care products, the Kao Group increased sales by strengthening its brands with the launch of new products under brands including *CuCute* dishwashing detergent and *Resesh* fabric and air freshener as consumers continued to be saving-conscious.

In Asia and Oceania, sales grew as the Kao Group enhanced *Attack* and the *Magiclean* home cleaner brand. Sales of *Attack Easy* laundry detergent in Thailand and Indonesia were particularly strong.

Fabric and Home Care Business: Net Sales / Operating Income
(Billions of yen)



Chemical Business: Net Sales / Operating Income
(Billions of yen)



Chemical Business

Sales increased 1.3 percent compared with the previous fiscal year to ¥262.1 billion (US$2,667.8 million). Excluding the effect of currency translation, sales would have increased 6.7 percent.

Operating income decreased ¥2.5 billion to ¥17.2 billion (US$174.8 million) due to a substantial decrease in sales volume resulting from rapidly worsening business conditions from the third quarter onward.

Sales in Japan increased 0.5 percent to ¥130.1 billion (US$1,324.3 million). In oleo chemicals and performance chemicals, the Kao Group made efforts to adjust sales prices in response to fluctuations in raw material prices. In specialty chemicals, the Kao Group worked to add further value to products, such as ink and colorants for inkjet printers and cleaners for electronic parts, and expand their sales volume. However, overall sales have been impacted by the sudden downturn in customer industries since the third quarter.

In Asia, sales increased 7.7 percent to ¥81.0 billion (US$824.3 million). Excluding the effect of currency translation, sales would have increased 20.7 percent. For fatty alcohols, which are a main product, the Kao Group adjusted sales prices in response to fluctuations in raw material prices.

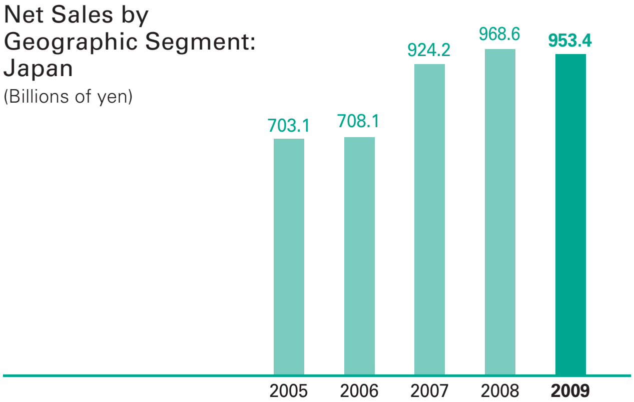
In North America and Europe, sales increased 1.8 percent to ¥100.6 billion (US$1,023.9 million). Excluding the effect of currency translation, sales would have increased 11.2 percent. Sales of tertiary amines and toner binder for copiers and printers were strong.

Information by Geographic Segment

Japan

Total sales in Japan, including intersegment sales, decreased 1.6 percent compared with the previous fiscal year to ¥953.4 billion (US$9,705.5 million). The Kao Group worked to launch high-value-added products and to strengthen its proposal-based sales capabilities and in-store merchandising activities in the Consumer Products Business, and to adjust sales prices in response to fluctuations in raw material prices in the Chemical Business. However, sales decreased with the impact of cooling consumer sentiment due to worsening business conditions and lower demand from customer industries. Operating income decreased ¥14.2 billion to ¥84.2 billion (US$856.8 million) despite these measures and cost reduction activities due to the substantial impact of higher raw material prices.

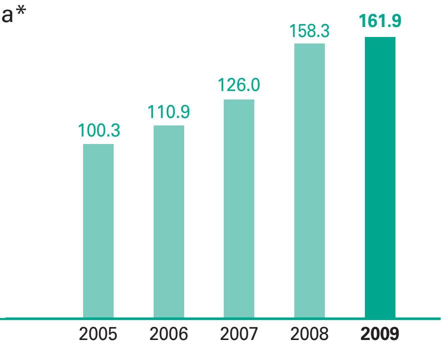
Net Sales by Geographic Segment: Japan
(Billions of yen)



Asia and Oceania

Total sales in Asia and Oceania, including intersegment sales, increased 2.3 percent compared with the previous fiscal year to ¥161.9 billion (US$1,648.4 million). Excluding the effect of currency translation, sales would have increased 14.8 percent. The Consumer Products Business benefited from collaboration with retailers and the integration of business operations in Asia, including Japan, while the Chemical Business concentrated on adjusting sales prices in response to fluctuations in raw material prices. As a result, operating income increased ¥1.7 billion to ¥2.7 billion (US$28.0 million).

Net Sales by Geographic Segment: Asia and Oceania*
(Billions of yen)



* Asia and Oceania: Asia and Australia

America

Total sales in America, including intersegment sales, decreased 10.8 percent compared with the previous fiscal year to ¥99.0 billion (US$1,007.8 million). Excluding the effect of currency translation, sales would have increased 3.0 percent. The Consumer Products Business was affected by the deterioration of the U.S. economy and intense market competition, although sales of the Chemical Business grew due to price adjustments and other factors. Operating income decreased ¥2.5 billion to ¥4.3 billion (US$44.0 million) despite new product launches and other efforts to activate the market.

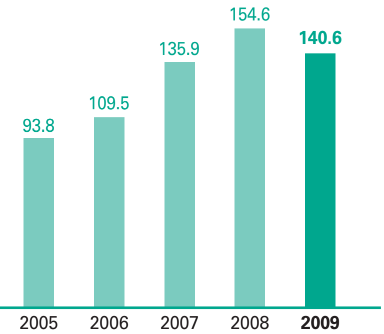
Net Sales by Geographic Segment: America*
(Billions of yen)

* America: North America

Europe

Total sales in Europe, including intersegment sales, decreased 9.1 percent compared with the previous fiscal year to ¥140.6 billion (US$1,431.6 million). Excluding the effect of currency translation, sales would have decreased 2.4 percent. Operating income decreased ¥3.8 billion to ¥5.2 billion (US$53.2 million) due to higher raw material prices.

Net Sales by Geographic Segment: Europe*
(Billions of yen)



* Europe: Europe and South Africa

Financial Structure

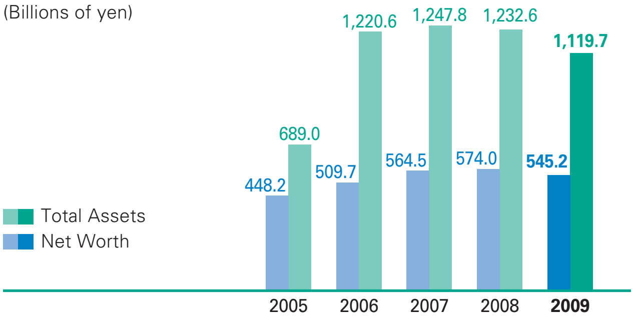
Total assets decreased ¥112.9 billion from the previous fiscal year-end to ¥1,119.7 billion (US$11,398.5 million). The principal increase in assets was an ¥8.8 billion increase in lease assets recorded in property, plant and equipment associated with a change in Japanese accounting standards for leases during the fiscal year. The principal decreases in assets were a ¥52.6 billion decrease in intangible assets due to the progress of amortization of intellectual property rights including trademarks and goodwill, a ¥27.6 billion decrease in notes and accounts receivable and a ¥7.5 billion decrease in inventories reflecting declining market conditions for raw materials.

Total liabilities decreased ¥82.4 billion from the previous fiscal year-end to ¥565.5 billion (US$5,756.7 million). The principal increase in liabilities was a ¥4.0 billion increase in liability for employee retirement benefits. The principal decreases in liabilities were a ¥24.9 billion decrease in long-term debt, a ¥16.1 billion decrease in accrued income taxes, and an ¥18.8 billion decrease in notes and accounts payable.

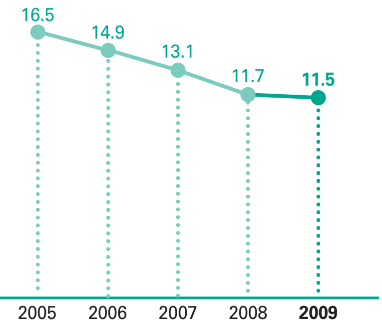
Total equity decreased ¥30.5 billion from the previous fiscal year-end to ¥554.2 billion (US$5,641.8 million). The principal increase in equity was net income of ¥64.5 billion (US$656.2 million), and the principal decreases in equity were foreign currency translation adjustments associated with the translation of the total equity of overseas subsidiaries into yen, which increased ¥58.7 billion compared with a year earlier due to the stronger yen, and payments of dividends from retained earnings totaling ¥29.5 billion. Kao Corporation retired 9.3 million shares of its own stock in September 2008, with a value of ¥28.4 billion.

As a result, the net worth ratio was 48.7 percent, compared with 46.6 percent at the end of the previous fiscal year.

Total Assets/ Net Worth
(Billions of yen)



Return on Equity*
(%)



* In calculating return on equity, equity does not include minority interests and stock acquisition rights.

Cash Flows

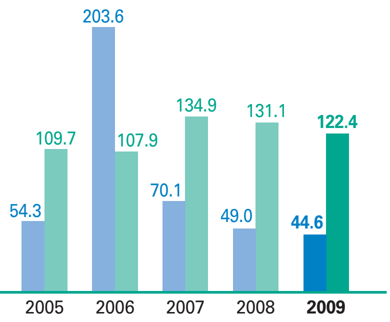
The balance of cash and cash equivalents at March 31, 2009 decreased ¥2.1 billion from the end of the previous fiscal year to ¥110.6 billion (US$1,125.6 million).

Cash Flows from Operating Activities

Net cash provided by operating activities totaled ¥121.6 billion (US$1,237.9 million), compared with ¥180.3 billion in the previous fiscal year. The principal increases in net cash were income before income taxes and minority interests of ¥92.0 billion (US$936.7 million) compared with ¥110.4 billion in the previous fiscal year, and depreciation and amortization of ¥87.5 billion (US$890.4 million) compared with ¥93.4 billion in the previous fiscal year. The principal decreases in net cash were income taxes paid of ¥52.3 billion (US$532.8 million) compared with ¥30.0 billion in the previous fiscal year, and an increase in inventories of ¥5.6 billion (US$57.0 million) compared to an increase of ¥13.2 billion in the previous fiscal year.

Cash Flows*/
Capital Expenditures
(Billions of yen)

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



Cash Flows from Investing Activities

Net cash used in investing activities totaled ¥43.2 billion (US$439.3 million), compared with ¥52.4 billion in the previous fiscal year. This primarily consisted of purchase of property, plant and equipment of ¥33.4 billion (US$340.2 million) compared with ¥38.1 billion in the previous fiscal year, and an increase in intangible assets of ¥6.7 billion (US$68.4 million) compared with ¥5.4 billion in the previous fiscal year.

Cash Flows from Financing Activities

Net cash used in financing activities totaled ¥64.7 billion (US$658.7 million), compared with ¥101.8 billion in the previous fiscal year. This primarily consisted of ¥33.2 billion (US$338.1 million) repayments of long-term loans, compared with ¥42.0 billion in the previous year, and payments of cash dividends, including to minority shareholders, totaling ¥29.7 billion (US$302.8 million), compared with ¥29.7 billion in the previous fiscal year.

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 stable, continuous dividends. In addition, Kao Corporation flexibly considers the purchase and retirement of shares from the standpoint of improving capital efficiency.

In accordance with these policies, Kao Corporation increased the year-end dividend for the fiscal year ended March 31, 2009 by ¥1.00 compared with the previous fiscal year to ¥28.00 (US$0.29) per share, the same as the interim dividend. As a result, cash dividends for the fiscal year increased by ¥2.00 per share compared with the previous fiscal year, for a total of ¥56.00 (US$0.57) per share, and a consolidated payout ratio of 46.6 percent.

For the fiscal year ending March 31, 2010, despite a challenging operating environment, Kao Corporation, in accordance with the above-mentioned basic policies, plans to keep total cash dividends at ¥56.00 per share, the same amount as in the fiscal year ended March 31, 2009. As a result, the projected consolidated payout ratio will be 53.6 percent.

EVA

Economic Value Added (EVA) is the Kao Group's main management metric. Defined as net operating profit after tax (NOPAT) less a charge for the cost of capital employed in the business, EVA indicates "true" profit. Continuously increasing EVA raises corporate value, which is consistent with the long-term interest of not only shareholders but all stakeholders. The Kao Group aims to conduct business activities that expand the scale of its business while also increasing EVA, and uses EVA for business performance evaluation, performance-based compensation and strategic decision-making. During the fiscal year ended March 31, 2009, due to a decrease in NOPAT, EVA decreased to 91 from 125 for the previous fiscal year, expressed as an index with the year ended March 31, 2000 as 100. The Kao Group conducted the following EVA-related activities during the fiscal year.

Investing for Growth: During the fiscal year ended March 31, 2009, the Kao Group invested aggressively for growth. In particular, in the continuously expanding markets of the Asian consumer products business, the Kao Group widened geographic coverage of the premium hair care product *Asience*, which the Kao Group is developing as its fourth pan-Asian brand, by launching it in China and Thailand. Moreover, the Kao Group invested ¥46.1 billion globally in research and development, raising R&D expenditures to 3.6 percent of net sales from 3.4 percent for the previous fiscal year.

Increasing Profit: During the fiscal year ended March 31, 2009, higher raw material prices increased pre-tax cost by ¥36.0 billion compared with the previous fiscal year, which was the main reason NOPAT decreased. The Kao Group moved to offset the impact of higher raw material prices in ways such as reflecting higher costs in selling prices and adjusting package volume in tandem with product improvements. Moreover, ongoing total cost reduction activities cut costs by ¥9.0 billion year on year. In addition, the Kao Group has been promoting cost reductions as a cost synergy in connection with Kanebo Cosmetics, and has been making progress toward targeted cumulative total reductions of between ¥10.0 billion and ¥15.0 billion from the acquisition of Kanebo Cosmetics to 2010.

Financial Improvement: Free cash flow* totaled ¥78.4 billion for the year ended March 31, 2009. The Kao Group has set priorities for how it will deploy this free cash flow. Investments for mergers and acquisitions and additional capital expenditures for future growth are the top priorities in deploying free cash flow, followed by stable and continuous dividends. Moreover, the Kao Group uses the remaining free cash flow for the purchase of shares as shareholder returns and for repayment of interest-bearing debt, considering its capital plans and financial market conditions. During the fiscal year, the Kao Group repaid long-term loans totaling ¥33.2 billion.

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

Business Conduct Guidelines

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

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

Business Risks and Other Risks

The Kao Group takes reasonable measures to mitigate risk by minimizing exposure to and hedging risks. However, unanticipated situations may occur that exert a significant impact on the Kao Group's business results and financial condition. Any statements below concerning the future are judgments made by Kao as of the submission of its securities report to the Ministry of Finance on June 26, 2009.

Product Quality

To reduce risk, the Kao Group designs and manufactures products from the viewpoint of consumers, in compliance with related laws and regulations. In the development stage prior to market launch, the Kao Group conducts thorough safety testing and survey research to confirm the safety of products. After market launch, the Kao Group works to further improve quality by incorporating the opinions and desires of consumers through its consumer communication centers. However, the unanticipated occurrence of a serious quality problem would not only cause difficulties for the relevant brand, but would also have a major impact on the reputation of all of the Kao Group's products, and might cause sales to decline. This could have an adverse effect on the business results and financial condition of the Kao Group.

Earthquakes and Other Incidents

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

Currency Exchange Rate Fluctuations

Foreign currency-denominated transactions are affected by changes in currency exchange rates. The Kao Group hedges foreign exchange risk through various measures such as settlement of transactions through foreign currency accounts, foreign exchange contracts and currency swaps to mitigate the effect on business results. The Kao Group does not engage in derivative transactions for the purpose of speculation. However, items denominated in local currencies, including the sales, expenses and assets of overseas subsidiaries, are translated into Japanese yen for preparation of the consolidated financial statements. If the exchange rate at the time of conversion differs substantially from the expected rate, the value after translation into yen will change significantly, which will affect the Kao Group's business results and financial condition.

Raw Material Prices

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

Environmental Issues

The Kao Group focuses on developing products that have a low environmental burden throughout the product lifecycle from raw material procurement to production, product transportation, consumption and disposal. In addition, the Kao Group carries out various measures to comply with environmental regulations in areas including chemical substances, reduction of greenhouse gases and energy consumption. Current regulations are not expected to have an adverse effect on the business results and financial condition of the Kao Group; however, changes to current regulations or additional new regulations could have an impact on the Kao Group's business results and financial condition.

Consolidated Balance Sheets

Kao Corporation and Consolidated Subsidiaries
March 31, 2009 and 2008

	Millions of yen		Thousands of U.S. dollars (Note 2)
Assets	2009	2008	2009
Current assets:			
Cash and time deposits (Note 3)	¥ 53,830	¥ 53,786	$ 548,000
Short-term investments (Notes 3 and 5)	58,714	58,960	597,720
Notes and accounts receivable:			
Trade (Note 7)	123,923	152,716	1,261,560
Nonconsolidated subsidiaries and affiliates	4,453	2,910	45,332
Other	6,002	6,381	61,101
Inventories:			
Finished goods	80,311	82,830	817,581
Work in process and raw materials	37,737	42,758	384,170
Deferred tax assets (Note 8)	24,874	22,218	253,222
Other current assets	15,511	15,402	157,905
Allowance for doubtful receivables	(1,529)	(2,395)	(15,566)
Total current assets	403,826	435,566	4,111,025
Property, plant and equipment (Notes 6 and 7):			
Land	65,469	68,576	666,487
Buildings and structures	310,449	322,456	3,160,430
Machinery, equipment and other	688,973	719,806	7,013,875
Lease assets	9,756	—	99,318
Construction in progress	9,713	9,037	98,880
Total	1,084,360	1,119,875	11,038,990
Accumulated depreciation	(826,886)	(838,128)	(8,417,856)
Net property, plant and equipment	257,474	281,747	2,621,134
Intangible assets:			
Goodwill	206,265	238,500	2,099,817
Trademarks	108,137	127,329	1,100,855
Other intangible assets	34,044	35,258	346,575
Total intangible assets	348,446	401,087	3,547,247
Investments and other assets:			
Investment securities (Note 5)	8,016	11,817	81,604
Investments in and advances to nonconsolidated subsidiaries and affiliates	4,645	4,457	47,287
Deferred tax assets (Note 8)	63,263	54,829	644,029
Other assets (Note 10)	34,006	43,098	346,188
Total investments and other assets	109,930	114,201	1,119,108
	¥1,119,676	¥1,232,601	$11,398,514

See Notes to Consolidated Financial Statements.

Liabilities and Equity	Millions of yen 2009	Millions of yen 2008	Thousands of U.S. dollars (Note 2) 2009
Current liabilities:			
Short-term debt (Note 7)	¥ 16,403	¥ 21,828	$ 166,986
Current portion of long-term debt (Notes 7 and 19)	23,129	22,049	235,458
Notes and accounts payable:			
Trade	93,777	107,514	954,668
Nonconsolidated subsidiaries and affiliates	1,791	3,205	18,233
Other	27,922	31,571	284,251
Accrued income taxes	13,229	29,344	134,674
Accrued expenses	72,626	85,583	739,346
Other current liabilities (Notes 7 and 8)	21,864	22,877	222,579
Total current liabilities	270,741	323,971	2,756,195
Long-term liabilities:			
Long-term debt (Notes 7 and 19)	244,819	269,761	2,492,304
Liability for employee retirement benefits (Note 10)	36,001	32,041	366,497
Liability for director and corporate auditor retirement benefits	—	163	—
Other (Notes 7 and 8)	13,921	21,955	141,718
Total long-term liabilities	294,741	323,920	3,000,519
Commitments and contingent liabilities (Notes 9, 11 and 18)			
Equity (Notes 12, 13 and 14):			
Common stock:			
Authorized — 1,000,000,000 shares in 2009 and 2008			
Issued — 540,143,701 shares in 2009 and 549,443,701 shares in 2008	85,424	85,424	869,632
Capital surplus	109,561	109,561	1,115,352
Stock acquisition rights	839	599	8,541
Retained earnings	431,799	426,206	4,395,795
Unrealized gain on available-for-sale securities	2,091	3,395	21,287
Deferred gain (loss) on derivatives under hedge accounting	(12)	—	(122)
Foreign currency translation adjustments	(70,134)	(11,387)	(713,977)
Other	(2,460)	—	(25,043)
Treasury stock, at cost (4,128,568 shares in 2009 and 13,296,218 shares in 2008)	(11,039)	(39,161)	(112,379)
Total	546,069	574,637	5,559,086
Minority interests	8,125	10,073	82,714
Total equity	554,194	584,710	5,641,800
	¥1,119,676	¥1,232,601	$11,398,514

Consolidated Statements of Income

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

	Millions of yen		Thousands of U.S. dollars (Note 2)
	2009	2008	2009
Net sales (Note 15)	¥1,276,316	¥1,318,514	$12,993,139
Cost of sales	558,988	554,154	5,690,604
Gross profit	717,328	764,360	7,302,535
Selling, general and administrative expenses (Note 16)	620,528	648,107	6,317,093
Operating income (Note 15)	96,800	116,253	985,442
Other income (expenses):			
Interest and dividend income	2,638	3,121	26,856
Interest expense (Note 19)	(6,005)	(6,627)	(61,132)
Foreign currency exchange loss	(1,836)	(479)	(18,691)
Equity in earnings (losses) of nonconsolidated subsidiaries and affiliates	588	(648)	5,986
Other, net (Notes 6 and 17)	(172)	(1,222)	(1,751)
Other income (expenses), net	(4,787)	(5,855)	(48,732)
Income before income taxes and minority interests	92,013	110,398	936,710
Income taxes (Note 8):			
Current	36,827	46,881	374,906
Deferred	(10,257)	(4,111)	(104,418)
Total income taxes	26,570	42,770	270,488
Income before minority interests	65,443	67,628	666,222
Minority interests in earnings of consolidated subsidiaries	980	1,066	9,976
Net income	¥ 64,463	¥ 66,562	$ 656,246
Per share of common stock (Notes 1.r and 20):	Yen		U.S. dollars (Note 2)
Basic net income	¥120.25	¥122.53	$1.22
Diluted net income	120.22	122.41	1.22
Cash dividends applicable to the year	56.00	54.00	0.57

See Notes to Consolidated Financial Statements.

Consolidated Statements of Changes in Equity

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

	Millions of yen		Thousands of U.S. dollars (Note 2)
	2009	2008	2009
Common stock			
Balance at beginning of year	¥ 85,424	¥ 85,424	$ 869,632
Balance at end of year	85,424	85,424	869,632
Capital surplus			
Balance at beginning of year	109,561	109,565	1,115,352
Disposal of treasury stock	—	(4)	—
Balance at end of year	109,561	109,561	1,115,352
Stock acquisition rights			
Balance at beginning of year	599	302	6,098
Net change in the year	240	297	2,443
Balance at end of year	839	599	8,541
Retained earnings			
Balance at beginning of year	426,206	388,585	4,338,858
Effect of application for ASBJ Practical Issues Task Force No. 18 (Note 1.c)	(1,977)	—	(20,126)
Increase from change of fiscal term of subsidiaries	1,136	—	11,564
Net income	64,463	66,562	656,246
Cash dividends	(29,485)	(28,892)	(300,163)
Disposal of treasury stock	(142)	(49)	(1,446)
Retirement of treasury stock	(28,402)	—	(289,138)
Balance at end of year	431,799	426,206	4,395,795
Unrealized gain on available-for-sale securities			
Balance at beginning of year	3,395	4,650	34,562
Net change in the year	(1,304)	(1,255)	(13,275)
Balance at end of year	2,091	3,395	21,287
Deferred gain (loss) on derivatives under hedge accounting			
Balance at beginning of year	—	—	—
Net change in the year	(12)	—	(122)
Balance at end of year	(12)	—	(122)
Foreign currency translation adjustments			
Balance at beginning of year	(11,387)	(13,660)	(115,922)
Net change in the year	(58,747)	2,273	(598,055)
Balance at end of year	(70,134)	(11,387)	(713,977)
Other			
Balance at beginning of year	—	—	—
Net change in the year	(2,460)	—	(25,043)
Balance at end of year	(2,460)	—	(25,043)
Treasury stock, at cost			
Balance at beginning of year	(39,161)	(10,033)	(398,666)
Purchase of treasury stock	(1,232)	(30,958)	(12,542)
Disposal of treasury stock	952	1,830	9,691
Retirement of treasury stock	28,402	—	289,138
Balance at end of year	¥ (11,039)	¥ (39,161)	$ (112,379)

	Millions of yen		Thousands of U.S. dollars (Note 2)
	2009	2008	2009
Total			
Balance at beginning of year	¥574,637	¥564,833	$5,849,914
Effect of application for ASBJ Practical Issues Task Force No. 18 (Note 1.c)	(1,977)	—	(20,126)
Increase from change of fiscal term of subsidiaries	1,136	—	11,564
Net income	64,463	66,562	656,246
Cash dividends	(29,485)	(28,892)	(300,163)
Purchase of treasury stock	(1,232)	(30,958)	(12,542)
Disposal of treasury stock	810	1,777	8,245
Retirement of treasury stock	—	—	—
Net change in the year	(62,283)	1,315	(634,052)
Balance at end of year	546,069	574,637	5,559,086
Minority Interests			
Balance at beginning of year	10,073	9,918	102,545
Net change in the year	(1,948)	155	(19,831)
Balance at end of year	8,125	10,073	82,714
Total Equity			
Balance at beginning of year	584,710	574,751	5,952,459
Effect of application for ASBJ Practical Issues Task Force No. 18 (Note 1.c)	(1,977)	—	(20,126)
Increase from change of fiscal term of subsidiaries	1,136	—	11,564
Net income	64,463	66,562	656,246
Cash dividends	(29,485)	(28,892)	(300,163)
Purchase of treasury stock	(1,232)	(30,958)	(12,542)
Disposal of treasury stock	810	1,777	8,245
Retirement of treasury stock	—	—	—
Net change in the year	(64,231)	1,470	(653,883)
Balance at end of year	¥554,194	¥584,710	$5,641,800

	Yen		U.S. dollars (Note 2)
	2009	2008	2009
Cash dividends per share	¥55.00	¥53.00	$0.560

	Thousands	
	2009	2008
Outstanding number of shares of common stock		
Balance at beginning of year	536,147	545,094
Purchase of treasury stock	(444)	(9,604)
Disposal of treasury stock	312	657
Balance at end of year	536,015	536,147

Consolidated Statements of Cash Flows

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

	Millions of yen		Thousands of U.S. dollars (Note 2)
	2009	2008	2009
Operating activities:			
Income before income taxes and minority interests	¥ 92,013	¥ 110,398	$ 936,710
Adjustments for:			
Income taxes paid	(52,341)	(29,969)	(532,841)
Depreciation and amortization	87,463	93,444	890,390
Loss on impairment of long-lived assets (Note 6)	733	1,314	7,462
Loss on sales or disposals of property, plant and equipment, net	1,228	1,722	12,501
Equity in earnings (losses) of nonconsolidated subsidiaries and affiliates	(588)	648	(5,986)
Unrealized foreign currency exchange (gain) loss	207	(377)	2,107
Change in trade receivables	(2,609)	5,687	(26,560)
Change in inventories	(5,599)	(13,178)	(56,999)
Change in prepaid pension cost	11,233	5,985	114,354
Change in trade payables	(1,155)	(752)	(11,758)
Change in liability for retirement benefits	4,859	1,107	49,465
Other, net	(13,847)	4,293	(140,965)
Net cash provided by operating activities	121,597	180,322	1,237,880
Investing activities:			
Purchase of property, plant and equipment	(33,421)	(38,147)	(340,232)
Proceeds from sales of property, plant and equipment	3,001	705	30,551
Increase in intangible assets	(6,714)	(5,445)	(68,350)
Proceeds from the redemption and sales of investment securities	2,084	3,101	21,216
Increase in investments in and advances to nonconsolidated subsidiaries and affiliates	(1,163)	(1,093)	(11,840)
Other, net	(6,943)	(11,511)	(70,681)
Net cash used in investing activities	(43,156)	(52,390)	(439,336)
Financing activities:			
Decrease in short-term debt	(1,041)	(893)	(10,597)
Proceeds from long-term loans	770	—	7,839
Repayments of long-term loans (Note 19)	(33,207)	(42,035)	(338,054)
Purchase of treasury stock	(1,232)	(30,958)	(12,542)
Payments of cash dividends	(29,741)	(29,696)	(302,769)
Other, net	(254)	1,760	(2,586)
Net cash used in financing activities	(64,705)	(101,822)	(658,709)
Translation adjustments on cash and cash equivalents	(15,796)	(1,628)	(160,806)
Net increase in cash and cash equivalents	(2,060)	24,482	(20,971)
Cash and cash equivalents, beginning of year (Note 3)	112,636	88,154	1,146,656
Cash and cash equivalents of newly consolidated subsidiaries, increase	338	—	3,441
Decrease in cash and cash equivalents resulting from change of fiscal term of subsidiaries	(349)	—	(3,553)
Cash and cash equivalents, end of year (Note 3)	¥ 110,565	¥ 112,636	$ 1,125,573

See Notes to Consolidated Financial Statements.

Notes to Consolidated Financial Statements

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

1 Summary of Significant Accounting Policies

a) Basis of presenting consolidated financial statements

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

In preparing the consolidated financial statements, certain reclassifications and rearrangements have been made to the consolidated financial statements issued in Japan in order to present them in a form that is more familiar to readers outside Japan. Certain 2008 financial statement items were reclassified to conform to the presentation for 2009.

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

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

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

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

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

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

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

On May 17, 2006, the Accounting Standards Board of Japan (the "ASBJ") issued ASBJ Practical Issues Task Force (PITF) No.18, *Practical Solution on Unification of Accounting Policies Applied to Foreign Subsidiaries for the Consolidated Financial Statements.* PITF No.18 prescribes: (1) the accounting policies and procedures applied to a parent company and its subsidiaries for similar transactions and events under similar circumstances should in principle be unified for the preparation of the consolidated financial statements, (2) financial statements prepared by foreign subsidiaries in accordance with either International Financial Reporting Standards or the generally accepted accounting principles in the United States of America tentatively may be used for the consolidation process, (3) however, the following items should be adjusted in the consolidation process so that net income is accounted for in accordance with Japanese GAAP unless they are not material:

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

PITF No. 18 is effective for fiscal years beginning on or after April 1, 2008 with early adoption permitted.

The Company applied this accounting standard from the year ended March 31, 2009. The adoption of this new task force had an insignificant effect on income before income taxes and minority interests for the year ended March 31, 2009. In addition, the Company adjusted the beginning balance of retained earnings at April 1, 2008 as if this accounting standard had been retrospectively applied.

d) Business combination

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

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

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

e) Cash equivalents

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

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

f) Inventories

Prior to April 1, 2008, inventories were stated at the lower of cost or market. On July 5, 2006, the ASBJ issued ASBJ Statement No. 9, *Accounting Standard for Measurement of Inventories,* which is effective for fiscal years beginning on or after April 1, 2008 with early adoption permitted.

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

The Company applied the new accounting standard for measurement of inventories from the year ended March 31, 2009. The adoption of this accounting standard had an insignificant effect on income before income taxes and minority interests for the year ended March 31, 2009.

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

g) Short-term investments and investment securities

Short-term investments and investment securities are classified and accounted for, depending on management's intent, as follows: i) held-to-maturity debt securities, which are expected to be held to maturity with the positive intent and ability to hold to maturity, are reported at amortized cost and ii) available-for-sale securities, which are not classified as the aforementioned securities, are reported at fair value, with unrealized gains and losses, net of applicable taxes, reported in a separate component of equity.

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

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

h) Property, plant and equipment

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

i) Intangible assets

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

j) Long-lived assets

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

k) Retirement and pension plans

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

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

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

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

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

Retirement benefits for directors and corporate auditors are provided at the amount which would be required if all directors and corporate auditors retired at the balance sheet date. However, no additional provisions have been recorded for retirement benefits to be paid to the Company's directors and corporate auditors since July 2001. The liability for director and corporate auditor retirement benefits, which is the retirement allowance reserve, is the amount provided in proportion to the term that directors as of March 31, 2008 had been in place before July 2001. The Company paid the retirement allowance to the above directors based on a resolution at the 102nd Annual General Meeting of Shareholders held on June 27, 2008. With the above payment, all of the payments related to the retirement allowance reserve have been completed.

l) Stock options

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

m) Leases

On March 30, 2007, the ASBJ issued ASBJ Statement No.13, *Accounting Standard for Lease Transactions*, which revised the previous accounting standard for lease transactions issued in June 1993. The revised accounting standard for lease transactions is effective for fiscal years beginning on or after April 1, 2008 with early adoption permitted for fiscal years beginning on or after April 1, 2007.

Under the previous accounting standard, finance leases that deem to transfer ownership of the leased property to the lessee were to be capitalized. However, other finance leases were permitted to be accounted for as operating lease transactions if certain "as if capitalized" (see Note 9) information is disclosed in the note to the lessee's financial statements. The revised accounting standard requires that all finance lease transactions should be capitalized to recognize lease assets and lease obligations in the balance sheet. In addition, the revised accounting standard permits leases which existed at the transition date and do not transfer ownership of the leased property to the lessee to be measured at the obligations under finance leases less interest expense at the transition date and recorded as acquisition cost of lease assets.

The Company applied the revised accounting standard from the year ended March 31, 2009. In addition, the Company accounted for leases which existed at the transition date and do not transfer ownership of the leased property to the lessee as acquisition cost of lease assets measured at the obligations under finance leases less interest expense at the transition date. The adoption of this accounting standard had an insignificant effect on income before income taxes and minority interests for the year ended March 31, 2009.

All other leases are accounted for as operating leases.

n) Income taxes

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

o) Foreign currency transactions

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

p) Foreign currency financial statements

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

q) Derivatives and hedging activities

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

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

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

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

r) Per share information

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

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

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

s) New accounting pronouncements

Business combinations

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

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

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

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

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

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

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

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

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

Asset retirement obligations

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

The asset retirement obligation is recognized as the sum of the discounted cash flows required for the future asset retirement and is recorded in the period in which the obligation is incurred if a reasonable estimate can be made. If a reasonable estimate of the asset retirement obligation cannot be made in the period the asset retirement obligation is incurred, the liability should be recognized when a reasonable estimate of asset retirement obligation can be made. Upon initial recognition of a liability for an asset retirement obligation, an asset retirement cost is capitalized by increasing the carrying amount of the related fixed asset by the amount of the liability. The asset retirement cost is subsequently allocated to expense through depreciation over the remaining useful life of the asset. Over time, the liability is accreted to its present value each period. Any subsequent revisions to the timing or the amount of the original estimate of undiscounted cash flows are reflected as an increase or a decrease in the carrying amount of the liability and the capitalized amount of the related asset retirement cost. This standard is effective for fiscal years beginning on or after April 1, 2010 with early adoption permitted for fiscal years beginning on or before March 31, 2010.

2 Translation into United States Dollars

The Companies' accounts are maintained in or translated into Japanese yen. The United States dollar (US$) amounts included herein represent translations using the approximate exchange rate at March 31, 2009 of ¥98.23=US$1, solely for convenience. The translations should not be construed as representations that Japanese yen have been, could have been or could in the future be converted into United States dollars at that or any other rate.

3 Cash and Cash Equivalents

Cash and cash equivalents at March 31, 2009 and 2008 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2009	2008	2009
Cash and time deposits	¥ 53,830	¥ 53,786	$ 548,000
Short-term investments	58,714	58,960	597,720
Less: time deposits and short-term investments which mature or become due over three months after the date of acquisition	(1,979)	(110)	(20,147)
Cash and cash equivalents	¥110,565	¥112,636	$1,125,573

4 Supplemental Cash Flow Information

The Companies newly recognized lease assets and lease obligations related to finance lease transactions were ¥8,862 million (US$90,217 thousand) and ¥8,867 million (US$90,268 thousand) as of March 31, 2009, respectively.

5 Short-Term Investments and Investment Securities

Short-term investments and investment securities as of March 31, 2009 and 2008 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2009	2008	2009
Short-term investments:			
Government and corporate bonds	¥ 5,999	¥ —	$ 61,071
Investment trust funds and other	52,715	58,960	536,649
Total	¥58,714	¥58,960	$597,720
Investment securities:			
Marketable equity securities	¥ 6,808	¥ 8,547	$ 69,307
Investment trust funds and other	1,208	3,270	12,297
Total	¥ 8,016	¥11,817	$ 81,604

The carrying amount and aggregate fair value of the securities classified as available-for-sale and held-to-maturity at March 31, 2009 and 2008 were as follows:

	Millions of yen			
	2009			
	Cost	Unrealized gains	Unrealized losses	Fair value
Securities classified as:				
Available-for-sale:				
Equity securities	¥3,161	¥3,855	¥208	¥6,808
Debt securities and other	813	—	—	813
Held-to-maturity:				
Debt securities and other	5,999	0	—	5,999

	Millions of yen			
	2008			
	Cost	Unrealized gains	Unrealized losses	Fair value
Securities classified as:				
Available-for-sale:				
Equity securities	¥3,326	¥5,398	¥177	¥8,547
Debt securities and other	2,908	1	0	2,909

	Thousands of U.S. dollars			
	2009			
	Cost	Unrealized gains	Unrealized losses	Fair value
Securities classified as:				
Available-for-sale:				
Equity securities	$32,180	$39,244	$2,117	$69,307
Debt securities and other	8,276	—	—	8,276
Held-to-maturity:				
Debt securities and other	61,071	0	—	61,071

Available-for-sale securities whose fair values are not readily determinable as of March 31, 2009 and 2008 were as follows:

	Carrying amount		
	Millions of yen		Thousands of U.S. dollars
	2009	2008	2009
Available-for-sale:			
Equity securities	¥ 1,208	¥ 1,224	$ 12,298
Other	42,907	48,407	436,801
Total	¥44,115	¥49,631	$449,099
Held-to-maturity:			
Debt securities and other	¥ 8,995	¥ 9,690	$ 91,571
Total	¥ 8,995	¥ 9,690	$ 91,571

Proceeds from sales of available-for-sale securities for the years ended March 31, 2009 and 2008 were ¥2,084 million (US$21,216 thousand) and ¥3,101 million, respectively. Gross realized gains and losses on these sales, computed on the moving average cost basis, for the year ended March 31, 2009 were ¥11 million (US$112 thousand) and ¥9 million (US$92 thousand), and for the year ended March 31, 2008 were ¥17 million and ¥15 million, respectively.

The carrying values of debt securities by contractual maturities for securities classified as held-to-maturity at March 31, 2009 were as follows:

	Millions of yen	Thousands of U.S. dollars
	2009	2009
Due within one year	¥17,641	$179,589
Total	¥17,641	$179,589

6 Long-Lived Assets

The Companies reviewed their long-lived assets for impairment as of the years ended March 31, 2009 and 2008. As a result, the Companies recognized impairment loss of ¥733 million (US$7,462 thousand) and ¥1,314 million as other expense for the years ended March 31, 2009 and 2008, respectively.

The details of the impairment loss for the years ended March 31, 2009 and 2008 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2009	2008	2009
Land to be sold and others	¥733	¥1,314	$7,462

7 Short-Term and Long-Term Debt

Short-term debt at March 31, 2009 and 2008 was comprised of the following:

	Millions of yen		Thousands of U.S. dollars
	2009	2008	2009
Secured loans principally from banks	¥ 533	¥ 78	$ 5,426
Unsecured loans principally from banks	15,870	21,750	161,560
Total	¥16,403	¥21,828	$166,986

The weighted average interest rates applicable to the above loans were 4.26% and 3.76% at March 31, 2009 and 2008, respectively. In addition to the above short-term debt, deposits payable to affiliates, included in other current liabilities, were ¥7,083 million (US$72,106 thousand) and ¥5,544 million at March 31, 2009 and 2008, respectively, and the applicable interest rates were 0.72% and 0.77% at March 31, 2009 and 2008, respectively.

The secured loans are collateralized by property, plant and equipment having a book value of ¥446 million (US$4,541 thousand) and by trade accounts receivable of ¥158 million (US$1,608 thousand) at March 31, 2009.

Long-term debt at March 31, 2009 and 2008 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2009	2008	2009
Unsecured bonds due 2011, 1.60% and due 2013, 1.91%	¥ 99,997	¥ 99,996	$1,017,988
Unsecured loans principally from banks,			
weighted average rate 1.13% in 2009, 1.18% in 2008	159,084	191,814	1,619,506
Lease obligations	8,867	—	90,268
	¥267,948	¥291,810	$2,727,762
Less current portion	(23,129)	(22,049)	(235,458)
Total	¥244,819	¥269,761	$2,492,304

In addition to the above long-term debt, deposits payable to customers, included in other long-term liabilities, were ¥5,845 million (US$59,503 thousand) and ¥5,727 million at March 31, 2009 and 2008, respectively, and the applicable interest rates were 0.33% and 0.45% at March 31, 2009 and 2008, respectively.

The aggregate annual maturities of long-term debt as of March 31, 2009 were as follows:

Years ending March 31	Millions of yen	Thousands of U.S. dollars
2010	¥ 23,129	$ 235,458
2011	86,825	883,895
2012	81,376	828,423
2013	1,002	10,201
2014	70,726	720,004
2015 and thereafter	4,890	49,781
Total	¥267,948	$2,727,762

8 Income Taxes

The Company and its domestic subsidiaries are subject to Japanese national and local taxes based on income, which in the aggregate resulted in a normal statutory tax rate of approximately 41% for both 2009 and 2008.

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

Tax effects of significant temporary differences and tax loss carryforwards that resulted in deferred tax assets or liabilities at March 31, 2009 and 2008 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2009	2008	2009
Deferred tax assets:			
Depreciation and amortization	¥ 24,063	¥ 48,058	$ 244,966
Pension and severance costs	14,564	11,956	148,264
Accrued expenses	10,918	12,065	111,147
Enterprise taxes	1,153	2,175	11,738
Tax loss carryforwards	66,063	49,226	672,534
Other	16,484	17,456	167,810
Less valuation allowance	(27,844)	(36,354)	(283,457)
Deferred tax assets	¥105,401	¥104,582	$1,073,002
Deferred tax liabilities:			
Unrealized gain on available-for-sale securities	¥ (1,515)	¥ (2,175)	$ (15,423)
Undistributed foreign earnings	(5,198)	(16,172)	(52,917)
Deferred gains on sales of property	(4,496)	(4,559)	(45,770)
Prepaid pension cost	(3,298)	(6,313)	(33,574)
Other	(5,956)	(6,129)	(60,633)
Deferred tax liabilities	¥ (20,463)	¥ (35,348)	$ (208,317)
Net deferred tax assets	¥ 84,938	¥ 69,234	$ 864,685

A reconciliation between the normal effective statutory tax rate and the actual effective tax rate reflected in the accompanying consolidated statements of income for the year ended March 31, 2009 was as follows:

	2009
Normal effective statutory tax rate	40.5%
Undistributed foreign earnings	(11.9)
Valuation allowance	(3.8)
Tax credit for research and development costs and other	(2.6)
Amortization expenses not deductible for income tax purposes	5.9
Other – net	0.8
Actual effective tax rate	28.9%

9 Leases

a) Finance leases:

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

The pro forma information of leased property under finance leases that do not transfer ownership of the leased property to the lessee on an "as if capitalized" basis for the year ended March 31, 2008 was as follows:

	Millions of yen		
	2008		
	Buildings and structures	Machinery, equipment and other assets	Total
Acquisition cost	¥9,520	¥4,341	¥13,861
Accumulated depreciation	2,429	3,425	5,854
Net leased property	¥7,091	¥ 916	¥ 8,007

Obligations under finance leases as of March 31, 2008 were as follows:

	Millions of yen
	2008
Due within one year	¥1,134
Due after one year	6,873
Total	¥8,007

Total rental expenses for the above leases were ¥1,744 million for the year ended March 31, 2008.

The pro forma depreciation expense computed by the straight-line method was ¥1,744 million for the year ended March 31, 2008.

The pro forma information above does not exclude the imputed interest portion because the remaining financial lease obligations are not material compared with the book values of property, plant and equipment.

b) Operating leases:

The minimum rental commitments under noncancellable operating leases as of March 31, 2009 and 2008 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2009	2008	2009
Due within one year	¥ 5,299	¥ 5,679	$ 53,945
Due after one year	24,354	25,304	247,928
Total	¥29,653	¥30,983	$301,873

10 Retirement Benefits

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

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

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

The liability for employees' retirement benefits at March 31, 2009 and 2008 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2009	2008	2009
Projected benefit obligation	¥ 227,928	¥ 223,669	$ 2,320,350
Fair value of plan assets	(181,456)	(194,327)	(1,847,257)
Unrecognized prior service cost	16,700	18,904	170,009
Unrecognized actuarial loss	(21,489)	(19,276)	(218,762)
Unrecognized transitional obligation	(10,747)	(13,567)	(109,406)
Prepaid pension cost	5,065	16,638	51,563
Net liability for retirement benefits	¥ 36,001	¥ 32,041	$ 366,497

The components of net periodic benefit costs for the years ended March 31, 2009 and 2008 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2009	2008	2009
Service cost	¥ 8,373	¥ 9,122	$ 85,238
Interest cost	5,099	4,573	51,909
Expected return on plan assets	(4,440)	(4,421)	(45,200)
Amortization of prior service cost (credit)	(2,409)	(2,415)	(24,524)
Recognized actuarial loss	7,568	6,258	77,044
Amortization of transitional obligation	1,810	1,878	18,426
Net periodic benefit costs	¥16,001	¥14,995	$162,893

Assumptions used for the years ended March 31, 2009 and 2008 were set forth as follows:

	2009	2008
Discount rate	Primarily 2.0%	Primarily 2.0%
Expected rate of return on plan assets	Primarily 2.0%	Primarily 2.0%
Amortization period of prior service cost	Primarily 15 years	Primarily 15 years
Recognition period of actuarial gain/loss	Primarily 10 years	Primarily 10 years
Amortization period of transitional obligation	15 years	15 years

In addition to the above net periodic benefit costs, the costs for other retirement and pension plans such as a defined contribution plan and for supplemental retirement benefits were ¥2,384 million (US$24,270 thousand) for the year ended March 31, 2009 and ¥2,385 million for the year ended March 31, 2008.

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

11 Contingent Liabilities

At March 31, 2009, the Companies had the following contingent liabilities:

	Millions of yen	Thousands of U.S. dollars
Trade notes discounted	¥ 134	$ 1,364
Guarantees of borrowings, principally of affiliates and employees	1,866	18,996

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

12 Equity

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

(a) Dividends

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

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

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

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

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

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

The Company's legal reserve amount, which is included in retained earnings, totals ¥14,117 million (US$143,714 thousand) at both March 31, 2009 and 2008. The Company's additional paid-in capital amount, which is included in capital surplus, totals ¥108,889 million (US$1,108,511 thousand) at both March 31, 2009 and 2008.

The accompanying consolidated financial statements do not include any provision for the year-end dividend of ¥28.0 (US$0.29) per share, aggregating ¥15,024 million (US$152,947 thousand) which the Company will subsequently propose at the 103rd Annual General Meeting of Shareholders to be held on June 26, 2009 as an appropriation of retained earnings in respect of the year ended March 31, 2009.

(c) Treasury stock and treasury stock acquisition rights

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

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

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

The Company retired 9.3 million shares of treasury stock by a resolution of the Board of Directors for the year ended March 31, 2009.

13 Stock-Based Compensation Plans

The stock options outstanding as of March 31, 2009 are as follows:

Name	Persons originally granted	Number of options originally granted	Date of grant	Exercise price (Yen)	Exercise price (U.S. dollars)	Exercise period
Stock option 2001	18 Directors of the Company	168,000 shares	July 27, 2001	¥3,275	$33.34	July 28, 2003 through July 25, 2008
Stock option 2002	11 Directors of the Company 31 Employees of the Company 4 Directors of subsidiaries of the Company	540,000 shares*	July 8, 2002	¥2,955	$30.08	July 1, 2004 through June 30, 2009
Stock option 2003	11 Directors of the Company 81 Employees of the Company 3 Directors of subsidiaries of the Company	1,052,000 shares*	July 8, 2003	¥2,372	$24.15	July 1, 2005 through June 30, 2010
Stock option 2004	13 Directors of the Company 89 Employees of the Company 5 Directors of subsidiaries of the Company	1,163,000 shares*	July 8, 2004	¥2,695	$27.44	July 1, 2006 through June 30, 2011
Stock option 2005	13 Directors of the Company 90 Employees of the Company 5 Directors of subsidiaries of the Company	1,167,000 shares*	July 8, 2005	¥2,685	$27.33	July 1, 2007 through June 29, 2012
Stock option 2006 I	12 Executive Officers of the Company**	12,000 shares*	September 29, 2006	¥1	$0.01	July 1, 2008 through June 28, 2013
Stock option 2006 II	14 Directors of the Company	26,000 shares*	September 29, 2006	¥1	$0.01	July 1, 2008 through June 28, 2013
Stock option 2006 III	79 Employees of the Company 4 Directors of subsidiaries of the Company	437,000 shares*	September 29, 2006	¥3,211	$32.69	July 1, 2008 through June 28, 2013
Stock option 2007 I	13 Directors of the Company	25,000 shares*	August 31, 2007	¥1	$0.01	July 1, 2009 through June 30, 2014
Stock option 2007 II	14 Executive Officers of the Company***	14,000 shares*	August 31, 2007	¥1	$0.01	July 1, 2009 through June 30, 2014
Stock option 2007 III	78 Employees of the Company 4 Directors of subsidiaries of the Company	430,000 shares*	August 31, 2007	¥3,446	$35.08	September 1, 2009 through August 29, 2014
Stock option 2008 I	14 Directors of the Company	24,000 shares*	August 29, 2008	¥1	$0.01	July 1, 2010 through June 30, 2015
Stock option 2008 II	12 Executive Officers of the Company****	12,000 shares*	August 29, 2008	¥1	$0.01	July 1, 2010 through June 30, 2015
Stock option 2008 III	81 Employees of the Company 4 Directors of subsidiaries of the Company	447,000 shares*	August 29, 2008	¥3,100	$31.56	September 1, 2010 through August 31, 2015

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

The activity of stock options is as follows:

(Number of shares)

	Stock option 2001	Stock option 2002	Stock option 2003	Stock option 2004	Stock option 2005	Stock option 2006 I	Stock option 2006 II	Stock option 2006 III	Stock option 2007 I	Stock option 2007 II	Stock option 2007 III
For the year ended March 31, 2008											
Non-vested											
Outstanding at March 31, 2007	—	—	—	—	—	—	—	—	—	—	—
Granted	—	—	—	—	—	—	—	—	25,000	14,000	430,000
Expired	—	—	—	—	—	—	—	—	—	—	—
Vested	—	—	—	—	—	—	—	—	25,000	14,000	430,000
Outstanding at March 31, 2008	—	—	—	—	—	—	—	—	—	—	—
Vested											
Outstanding at March 31, 2007	75,000	318,000	422,000	979,000	1,158,000	12,000	26,000	437,000	—	—	—
Vested	—	—	—	—	—	—	—	—	25,000	14,000	430,000
Exercised	6,000	104,000	152,000	200,000	151,000	—	—	—	—	—	—
Expired	—	16,000	—	21,000	12,000	—	—	7,000	—	—	—
Outstanding at March 31, 2008	69,000	198,000	270,000	758,000	995,000	12,000	26,000	430,000	25,000	14,000	430,000

(Number of shares)

	Stock option 2001	Stock option 2002	Stock option 2003	Stock option 2004	Stock option 2005	Stock option 2006 I	Stock option 2006 II	Stock option 2006 III	Stock option 2007 I	Stock option 2007 II	Stock option 2007 III
For the year ended March 31, 2009											
Non-vested											
Outstanding at March 31, 2008	—	—	—	—	—	—	—	—	—	—	—
Granted	—	—	—	—	—	—	—	—	—	—	—
Expired	—	—	—	—	—	—	—	—	—	—	—
Vested	—	—	—	—	—	—	—	—	—	—	—
Outstanding at March 31, 2009	—	—	—	—	—	—	—	—	—	—	—
Vested											
Outstanding at March 31, 2008	69,000	198,000	270,000	758,000	995,000	12,000	26,000	430,000	25,000	14,000	430,000
Vested	—	—	—	—	—	—	—	—	—	—	—
Exercised	—	1,000	50,000	34,000	61,000	4,000	11,000	—	—	—	—
Expired	69,000	21,000	—	2,000	8,000	—	—	12,000	—	—	5,000
Outstanding at March 31, 2009	—	176,000	220,000	722,000	926,000	8,000	15,000	418,000	25,000	14,000	425,000
Exercise price											
Yen	¥3,275	¥2,955	¥2,372	¥2,695	¥2,685	¥1	¥1	¥3,211	¥1	¥1	¥3,446
U.S. dollars	$33.34	$30.08	$24.15	$27.44	$27.33	$0.01	$0.01	$32.69	$0.01	$0.01	$35.08
Average stock price at exercise											
Yen	—	¥3,240	¥2,865	¥2,790	¥2,868	¥2,815	¥2,424	—	—	—	—
U.S. dollars	—	$32.98	$29.17	$28.40	$29.20	$28.66	$24.68	—	—	—	—
Fair value price at grant date											
Yen	—	—	—	—	—	¥2,932	¥2,932	¥435	¥3,063	¥3,063	¥420
U.S. dollars	—	—	—	—	—	$29.85	$29.85	$4.43	$31.18	$31.18	$4.28

(Number of shares)

	Stock option 2008 I	Stock option 2008 II	Stock option 2008 III
For the year ended March 31, 2009			
Non-vested			
Outstanding at March 31, 2008	—	—	—
Granted	24,000	12,000	447,000
Expired	—	—	—
Vested	24,000	12,000	447,000
Outstanding at March 31, 2009	—	—	—
Vested			
Outstanding at March 31, 2008	—	—	—
Vested	24,000	12,000	447,000
Exercised	—	—	—
Expired	—	—	5,000
Outstanding at March 31, 2009	24,000	12,000	442,000
Exercise price			
Yen	¥1	¥1	¥3,100
U.S. dollars	$0.01	$0.01	$31.56
Average stock price at exercise			
Yen	—	—	—
U.S. dollars	—	—	—
Fair value price at grant date			
Yen	¥2,865	¥2,865	¥426
U.S. dollars	$29.17	$29.17	$4.34

The fair value price for 2008 stock options is estimated using the Black-Scholes Option Pricing Model with the following assumptions:

	Stock option 2008 I	Stock option 2008 II	Stock option 2008 III
Volatility of stock price	19.351%	19.351%	19.351%
Estimated remaining outstanding period	4.5 years	4.5 years	4.5 years
Estimated dividend per share			
Yen	¥54	¥54	¥54
U.S. dollars	$0.55	$0.55	$0.55
Risk-free interest rate	0.973%	0.973%	0.973%

Subsequently, at the 103rd Annual General Meeting of Shareholders to be held on June 26, 2009, the Company will propose a resolution to delegate to the Board of Directors of the Company the determination of matters for offering stock acquisition rights to be issued as stock options to the employees of the Company and the members of the board of directors and employees of the Company's affiliated companies. Under this proposal, the maximum number of shares to be newly issued or transferred from treasury stock on the exercise of stock options is 650,000 shares of common stock of the Company, and the exercise period is from September 1, 2011 to August 31, 2016.

14 Other in Equity

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

15 Segment Information

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

Segment information by business of the Companies for the years ended March 31, 2009 and 2008 was as follows:

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

	Millions of yen						
	2008						
	Consumer Products Business						
	Beauty Care Business	Human Health Care Business	Fabric and Home Care Business	Total	Chemical Business	Eliminations/ Corporate	Consolidated
Sales to customers	¥627,914	¥191,300	¥274,657	¥1,093,871	¥224,643	¥ —	¥1,318,514
Intersegment sales	—	—	—	—	34,031	(34,031)	—
Total sales	627,914	191,300	274,657	1,093,871	258,674	(34,031)	1,318,514
Operating expenses	600,630	178,144	218,596	997,370	238,989	(34,098)	1,202,261
Operating income	¥ 27,284	¥ 13,156	¥ 56,061	¥ 96,501	¥ 19,685	¥ 67	¥ 116,253
Assets	¥742,856	¥ 93,950	¥119,859	¥ 956,665	¥223,339	¥ 52,597	¥1,232,601
Depreciation and amortization	58,224	9,598	10,606	78,428	15,016	—	93,444
Loss on impairment of long-lived assets	321	189	240	750	564	—	1,314
Capital expenditures	18,479	7,816	8,395	34,690	14,355	—	49,045

	Thousands of U.S. dollars						
	2009						
	Consumer Products Business						
	Beauty Care Business	Human Health Care Business	Fabric and Home Care Business	Total	Chemical Business	Eliminations/ Corporate	Consolidated
Sales to customers	$5,989,311	$1,947,664	$2,791,428	$10,728,403	$2,264,736	$ —	$12,993,139
Intersegment sales	—	—	—	—	403,064	(403,064)	—
Total sales	5,989,311	1,947,664	2,791,428	10,728,403	2,667,800	(403,064)	12,993,139
Operating expenses	5,810,547	1,815,586	2,291,540	9,917,673	2,492,996	(402,972)	12,007,697
Operating income	$ 178,764	$ 132,078	$ 499,888	$ 810,730	$ 174,804	$ (92)	$ 985,442
Assets	$6,688,344	$ 971,098	$1,252,845	$8,912,287	$1,905,763	$ 580,464	$11,398,514
Depreciation and amortization	557,599	83,590	104,286	745,475	144,915	—	890,390
Loss on impairment of long-lived assets	2,708	1,639	2,077	6,424	1,038	—	7,462
Capital expenditures	189,331	72,351	84,017	345,699	108,582	—	454,281

Geographic segment information of the Companies for the years ended March 31, 2009 and 2008 was as follows:

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

	Millions of yen					
	2008					
	Japan	Asia/ Oceania*	America**	Europe***	Eliminations/ Corporate	Consolidated
Sales to customers	¥949,816	¥120,600	¥110,238	¥137,860	¥ —	¥1,318,514
Intersegment sales	18,778	37,695	779	16,788	(74,040)	—
Total sales	968,594	158,295	111,017	154,648	(74,040)	1,318,514
Operating expenses	870,234	157,216	104,170	145,631	(74,990)	1,202,261
Operating income	¥ 98,360	¥ 1,079	¥ 6,847	¥ 9,017	¥ 950	¥ 116,253
Assets	¥869,201	¥136,156	¥ 83,291	¥147,752	¥ (3,799)	¥1,232,601

	Thousands of U.S. dollars					
	2009					
	Japan	Asia/ Oceania*	America**	Europe***	Eliminations/ Corporate	Consolidated
Sales to customers	$9,520,035	$1,181,228	$ 998,442	$1,293,434	$ —	$12,993,139
Intersegment sales	185,442	467,220	9,386	138,135	(800,183)	—
Total sales	9,705,477	1,648,448	1,007,828	1,431,569	(800,183)	12,993,139
Operating expenses	8,848,661	1,620,483	963,799	1,378,368	(803,614)	12,007,697
Operating income	$ 856,816	$ 27,965	$ 44,029	$ 53,201	$ 3,431	$ 985,442
Assets	$8,491,337	$1,067,902	$ 639,743	$ 999,919	$ 199,613	$11,398,514

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

Sales to foreign customers were as follows:

	Millions of yen		Thousands of U.S. dollars
	2009	2008	2009
Asia/Oceania	¥129,583	¥135,046	$1,319,179
America	101,903	113,816	1,037,392
Europe	120,829	131,859	1,230,062
Sales to foreign customers	¥352,315	¥380,721	$3,586,633

16 Selling, General and Administrative Expenses

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

	Millions of yen		Thousands of U.S. dollars
	2009	2008	2009
Advertising	¥ 90,258	¥ 99,176	$ 918,844
Promotion	69,783	77,181	710,404
Research and development	46,126	45,070	469,571
Salaries and bonuses	125,696	129,072	1,279,609
Packing and delivery expenses	74,240	74,197	755,777

17 Other Income (Expenses)

"Other, net" consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2009	2008	2009
Gain on sales of investment securities	¥ 11	¥ 17	$ 112
Loss on sales or disposals of property, plant and equipment, net	(1,228)	(1,722)	(12,501)
Loss on impairment of long-lived assets	(733)	(1,314)	(7,462)
Other, net	1,778	1,797	18,100
Total	¥ (172)	¥(1,222)	$ (1,751)

18 Derivatives

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

All derivative transactions are entered into to hedge foreign currency exposures incorporated within the Companies' business. Accordingly, market risk in these derivatives is basically offset by opposite movements in the value of hedged assets or liabilities.

The Companies do not hold or issue derivatives for trading or speculative purposes. Because the counterparties to these derivatives are limited to major international financial institutions, the Companies do not anticipate any losses arising from credit risk.

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

The Companies had the following derivatives contracts outstanding at March 31, 2009 and 2008:

	Millions of yen					
	2009			2008		
	Contract amount	Fair value	Unrealized gain/(loss)	Contract amount	Fair value	Unrealized gain/(loss)
Foreign exchange forward contracts:						
Buying U.S. Dollar	¥ 259	¥ 250	¥ (9)	¥ 416	¥ 417	¥ 1
Buying Japanese Yen	16	16	(0)	82	79	(3)
Buying British Pound	765	605	(160)	937	873	(64)
Buying other currencies	15	15	(0)	—	—	—
Selling U.S. Dollar	2,134	2,063	71	4,721	4,661	60
Selling other currencies	2,201	2,143	58	1,114	1,088	26
Foreign currency swaps:						
Receiving Japanese Yen, paying U.S. Dollar	—	—	—	739	55	55
Receiving Japanese Yen, paying British Pound	13,372	4,505	4,505	14,649	603	603
Receiving U.S. Dollar, paying Euro	2,258	(116)	(116)	5,385	(756)	(756)
Receiving U.S. Dollar, paying Thai Baht	—	—	—	1,125	(148)	(148)

	Thousands of U.S. dollars		
	2009		
	Contract amount	Fair value	Unrealized gain/(loss)
Foreign exchange forward contracts:			
Buying U.S. Dollar	$ 2,637	$ 2,545	$ (92)
Buying Japanese Yen	163	163	(0)
Buying British Pound	7,788	6,159	(1,629)
Buying other currencies	153	153	(0)
Selling U.S. Dollar	21,725	21,002	723
Selling other currencies	22,407	21,816	591
Foreign currency swaps:			
Receiving Japanese Yen, paying British Pound	136,129	45,862	45,862
Receiving U.S. Dollar, paying Euro	22,987	(1,181)	(1,181)

19 Related Party Transactions

Transactions of the Company with related parties for the years ended March 31, 2009 and 2008 were as follows:

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

	Millions of yen		Thousands of U.S. dollars
	2009	2008	2009
Partial repayment of long-term debt	¥3,000	¥3,800	$30,541
Payment of interest	113	131	1,150

The balances of the Company due to related parties for the years ended March 31, 2009 and 2008 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2009	2008	2009
Current portion of long-term debt	¥2,000	¥ 2,000	$20,360
Long-term debt	7,800	10,800	79,405

20 Net Income per Share

A reconciliation of the differences between basic and diluted net income per share ("EPS") for the years ended March 31, 2009 and 2008 was as follows:

	Millions of yen	Thousands of shares	Yen	U.S. dollars
For the year ended March 31, 2009:	Net income	Weighted average shares	EPS	
Basic EPS				
Net income available to common shareholders	¥64,463	536,085	¥120.25	$1.22
Effect of dilutive securities				
Warrants	—	120		
Diluted EPS				
Net income for computation	¥64,463	536,205	¥120.22	$1.22

	Millions of yen	Thousands of shares	Yen
For the year ended March 31, 2008:	Net income	Weighted average shares	EPS
Basic EPS			
Net income available to common shareholders	¥66,562	543,228	¥122.53
Effect of dilutive securities			
Warrants	—	539	
Diluted EPS			
Net income for computation	¥66,562	543,767	¥122.41

Independent Auditors' Report

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Japan

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To the Board of Directors of
Kao Corporation

We have audited the accompanying consolidated balance sheets of Kao Corporation and consolidated subsidiaries as of March 31, 2009 and 2008, and the related consolidated statements of income, changes in equity, and cash flows for the years then ended, all expressed in Japanese yen. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Kao Corporation and consolidated subsidiaries as of March 31, 2009 and 2008, and the consolidated results of their operations and their cash flows for the years then ended in conformity with accounting principles generally accepted in Japan.

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

Deloitte Touche Tohmatsu

June 23, 2009

Member of
Deloitte Touche Tohmatsu

Principal Subsidiaries and Affiliates (As of July 1, 2009)

Country/Area	Business				Company	Principal Officer
Japan	●	●	●		Kao Customer Marketing Co., Ltd.	Tatsuo Takahashi, President and CEO
	●				Kanebo Cosmetics Inc.	Toshio Takayama, Chairman; Tadashi Uematsu, President
	●				Kanebo Cosmetics Sales Inc.	Takamichi Kato, President
	●				Nivea-Kao Company Limited	Naoki Komoda, President
			●		Kao Professional Services Company, Limited	Seiichi Maruta, President
				●	Kao-Quaker Company, Limited	Tadashi Kusube, President
China	●	●	●	●	Kao (China) Holding Co., Ltd.	Shinichiro Hiramine, President and CEO
	●	●	●		Kao Corporation Shanghai	
	●	●	●		Kao Commercial (Shanghai) Co., Ltd.	
				●	Kao Chemical Corporation Shanghai	Mitsutoshi Nakajima, President and CEO
	●	●	●		Kao (Hong Kong) Limited	Tomoharu Matsuda, President and CEO
Indonesia	●	●	●		P.T. Kao Indonesia	Atsushi Koizumi, President and CEO
				●	P.T. Kao Indonesia Chemicals	Hideyuki Nishio, President and CEO
Malaysia	●	●	●		Kao (Malaysia) Sdn. Bhd.	Hiroaki Taki, President and CEO
				●	Fatty Chemical (Malaysia) Sdn. Bhd.	Osamu Tabata, Managing Director
	●				Kao Soap (Malaysia) Sdn. Bhd.	
				●	Kao Oleochemical (Malaysia) Sdn. Bhd.	
				●	Kao Plasticizer (Malaysia) Sdn. Bhd.	
Philippines				●	Pilipinas Kao, Incorporated	Tadashi Okubo, President and CEO
Singapore				●	Kao (Singapore) Private Limited	Mikio Mori, Chairman and CEO
	●	●	●			Hiroyuki Kumazawa, President and COO
Taiwan	●	●	●	●	Kao (Taiwan) Corporation	Kozo Saito, President and CEO
Thailand	●	●	●		Kao Consumer Products (Southeast Asia) Co., Ltd.	Norihiko Takagi, President and CEO
	●	●	●		Kao Commercial (Thailand) Co., Ltd.	Minoru Tokita, President and CEO
	●	●	●	●	Kao Industrial (Thailand) Co., Ltd.	
Vietnam	●	●			Kao Vietnam Co., Ltd.	Fumiaki Iwasaki, President and CEO
Australia			●		Kao (Australia) Marketing Pty. Ltd.	Kaoru Aoki, President and CEO
Mexico				●	Quimi-Kao, S.A. de C.V.	Raul Guitron, President and CEO
United States	●				Kao Brands Company	William J. Gentner, President and CEO
				●	Kao Specialties Americas LLC	Kazuhiro Nakamura, President and CEO
		●		●	Kao Health and Nutrition LLC	Hideyo Nakamura, President and CEO
Germany	●				Kao Corporation GmbH	Kaoru Onoda, CEO
	●				KPSS – Kao Professional Salon Services GmbH	Thomas Dieckhoff, President and CEO
				●	Kao Chemicals GmbH	Herbert Tripp, President and CEO
Spain				●	Kao Chemicals Europe, S.L.	Takatoshi Kobayashi, President and CEO
				●	Kao Corporation S.A.	Antoni Prat, President and CEO
United Kingdom	●				Molton Brown Limited	Sara Halton, CEO

Consumer Products Business

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

Chemical Business

- ● Chemical Business

Investor Information (As of March 31, 2009)

Kao Corporation

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

Founded
June 19, 1887

Common Stock
Authorized: 1,000,000,000 shares
Issued: 540,143,701 shares
Outstanding: 536,571,357 shares
Number of Shareholders: 40,895

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

Stock Listing
Tokyo Stock Exchange

Ticker Symbol Number
4452

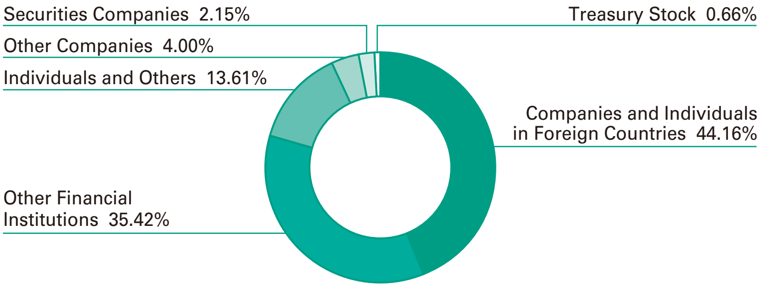
Administrator of Shareholder Register
The Chuo Mitsui Trust and Banking Company, Limited
8-4, Izumi 2-chome, Suginami-ku, Tokyo 168-0063, Japan

Depositary and Registration for American Depositary Receipts (ADR Ticker Symbol: KCRPY)
JPMorgan Chase Bank, N.A.
4 New York Plaza, New York, NY 10004, U.S.A.

Top Five Shareholders

Name of Shareholders	Investment in Kao by the Shareholders	
	Number of shares (thousand shares)	Ratio of shareholding (percentage)
Japan Trustee Services Bank, Ltd. (Trust Account)	38,196	7.07
The Master Trust Bank of Japan, Ltd. (Trust Account)	28,065	5.19
Japan Trustee Services Bank, Ltd. (Trust Account 4G)	27,422	5.07
Tokio Marine & Nichido Fire Insurance Co., Ltd.	15,662	2.89
Moxley and Company	14,954	2.76

Composition of Shareholders



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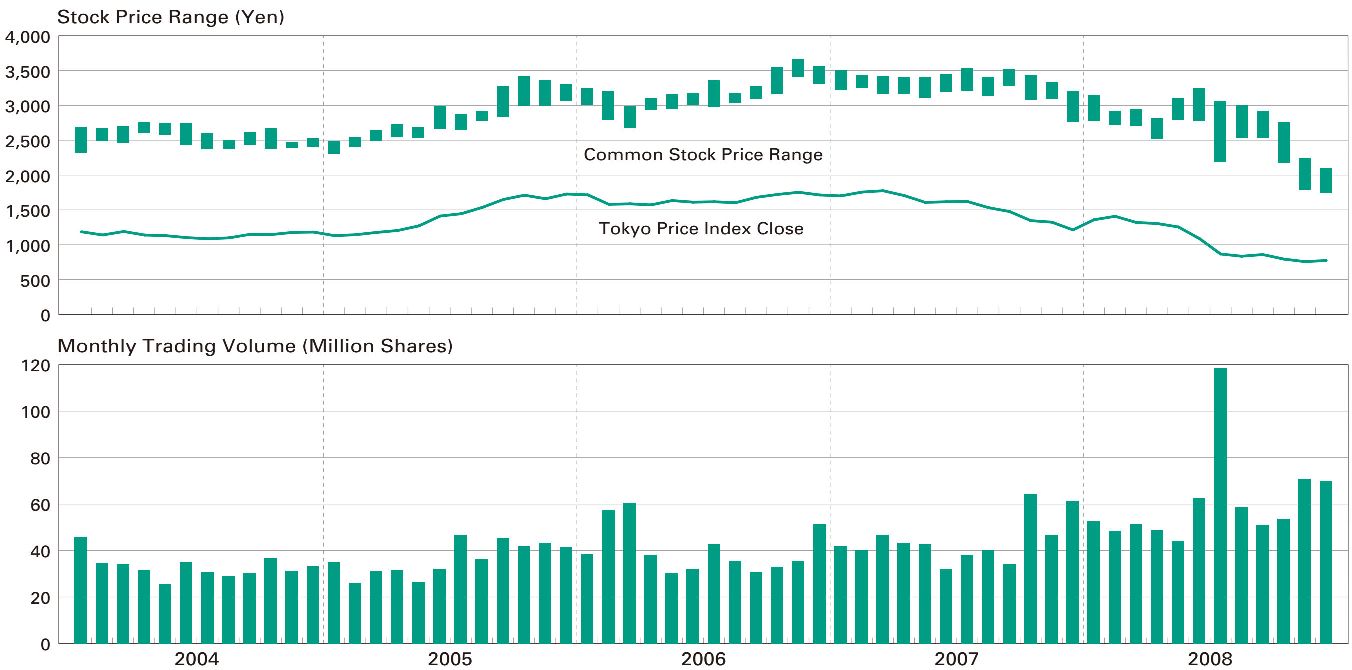
Web site: http://www.kao.com/jp/en/corp_ir/investors.html

Stock Price Range & Trading Volume (Tokyo Stock Exchange)



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

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