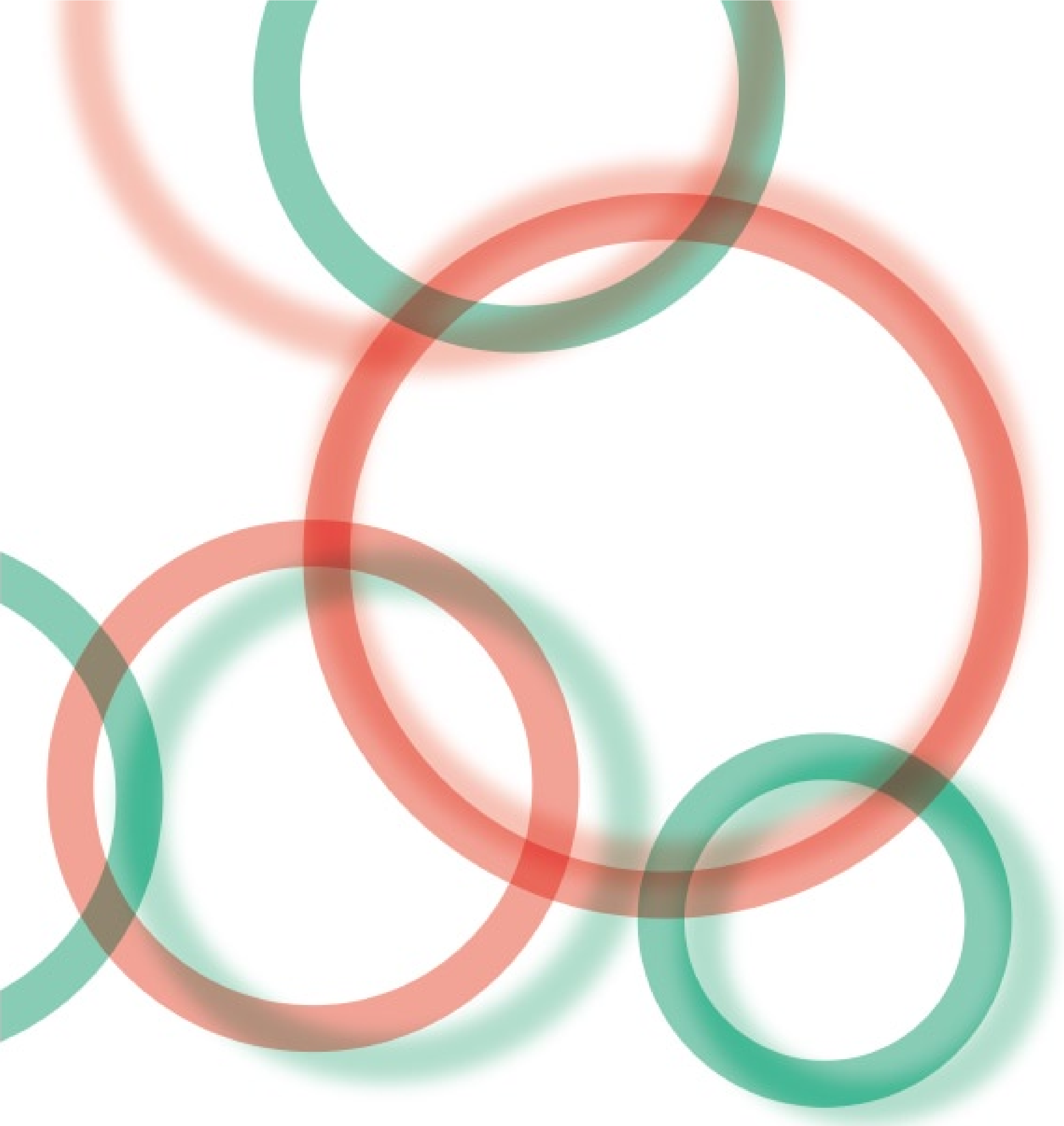


Kao Annual Report 2011

For the year ended March 31, 2011

Enriching lives,
in harmony with nature.

Kao

Enriching lives, in harmony with nature

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

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

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

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

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

Contents

Forward-Looking Statements

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

Financial Highlights

Overview of Fiscal 2010, ended March 31, 2011

- Amid moderate recovery in the global economy, the Kao Group focused on consumer-driven product development, efficient marketing and cost reduction activities to achieve growth in sales and income despite the impact of higher raw material prices and the Great East Japan Earthquake.
- In Japan, a shift in consumer preference to lower-priced products in the cosmetics market and deflation in the household and personal care products market continued. The Kao Group responded by rebuilding its prestige cosmetics business and launching high-value-added products.
- The Consumer Products Business in Asia and Oceania expanded and the Chemical Business performed steadily.

Kao Corporation and Consolidated Subsidiaries

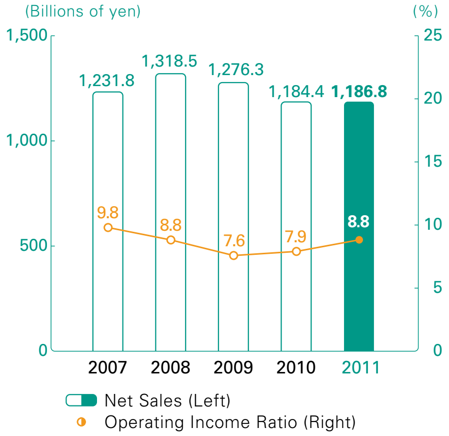
Years ended March 31, 2011, 2010 and 2009

	Billions of yen			Millions of U.S. dollars	Change
	2011	2010	2009	2011	2011/2010
For the year:					
Net sales	¥1,186.8	¥1,184.4	¥1,276.3	$14,273.4	0.2%
Beauty Care Business	533.5	547.9	588.3	6,416.3	(2.6)
Human Health Care Business	175.8	183.2	191.3	2,113.8	(4.0)
Fabric and Home Care Business	279.0	276.9	274.2	3,355.5	0.8
Consumer Products Business	988.3	1,008.0	1,053.9	11,885.5	(2.0)
Chemical Business	232.0	207.8	262.1	2,790.1	11.6
Eliminations	(33.4)	(31.5)	(39.6)	(402.3)	—
Japan	912.4	918.5	953.4	10,973.5	(0.7)
Asia & Oceania	152.4	131.7	161.9	1,832.4	15.7
North America	80.3	79.2	99.0	966.1	1.4
Europe	112.1	111.2	140.6	1,348.4	0.9
Eliminations	(70.4)	(56.2)	(78.6)	(847.0)	—
EBITA	139.1	129.5	134.7	1,673.2	7.4
Operating income	104.6	94.0	96.8	1,257.9	11.2
Net income	46.7	40.5	64.5	562.1	15.4
EBITDA	186.0	178.8	184.3	2,236.6	4.0
At year-end:					
Total assets	1,022.8	1,065.8	1,119.7	12,300.6	(4.0)
Net worth	528.9	565.1	545.2	6,360.7	(6.4)
	Yen			U.S. dollars	Change
Per share:					
Net income	¥ 87.69	¥ 75.57	¥ 120.25	$ 1.05	16.0%
Cash dividends	58.00	57.00	56.00	0.70	1.8
Net worth	1,013.05	1,054.31	1,017.19	12.18	(3.9)

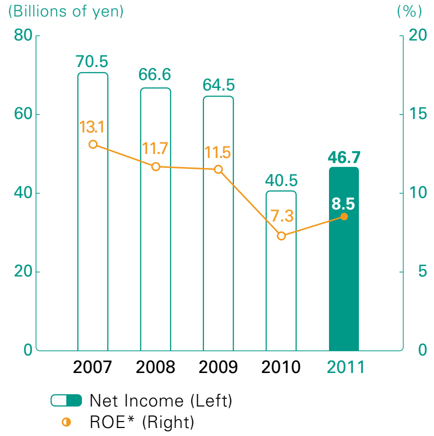
Notes: 1. The U.S. dollar amounts are translated, for convenience only, at the rate of ¥83.15=US$1, the approximate exchange rate at March 31, 2011.
2. Eliminations represent intersegment sales and interregion sales. Net sales of the Chemical Business include intersegment sales to the Beauty Care Business, the Human Health Care Business and the Fabric and Home Care Business.
3. Net sales by region are classified based on the location of Kao Group companies.
4. Yen and U.S. dollar amounts are rounded to the nearest whole number or decimal.
5. EBITA (Earnings before interest, taxes and amortization) is operating income before amortization of goodwill and other items related to acquisitions.
6. EBITDA (Earnings before interest, taxes, depreciation and amortization) is operating income before depreciation and amortization.
7. Net worth is equity, excluding minority interests and stock acquisition rights.

(Years ended March 31)

Net Sales and Operating Income Ratio

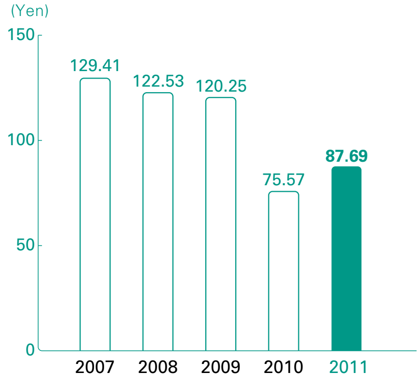


Net Income and ROE*

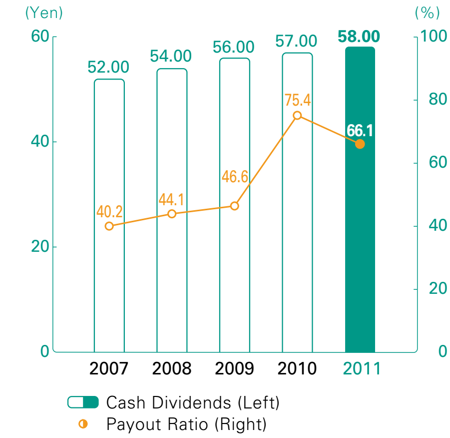


*In calculating ROE, equity excludes minority interests and stock acquisition rights.

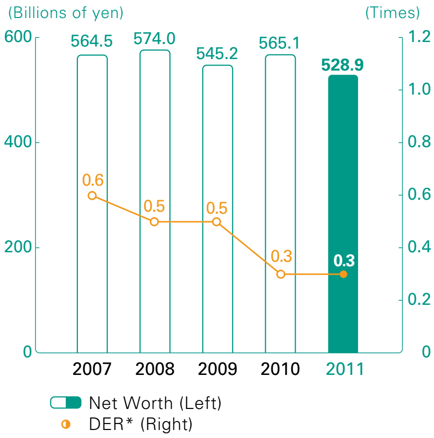
Net Income per Share



Cash Dividends and Payout Ratio

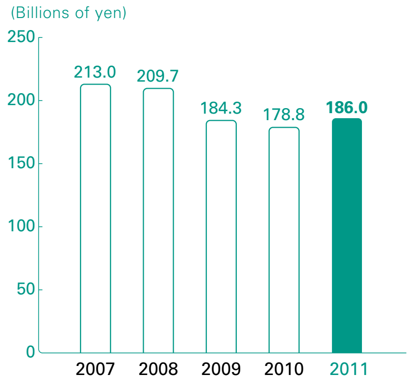


Net Worth and DER*

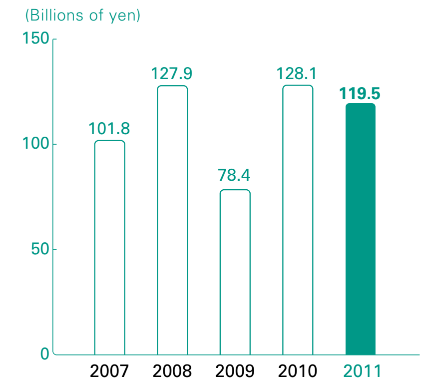


*DER (Debt to Equity Ratio)=Interest-bearing debt ÷ Equity, excluding minority interests and stock acquisition rights

EBITDA



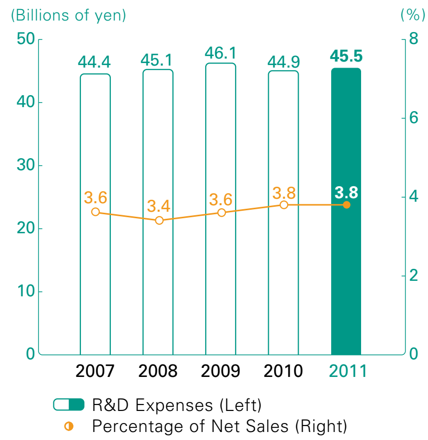
Free Cash Flow*



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

Capital Expenditures and Depreciation and Amortization

R&D Expenses and Percentage of Net Sales



Message from President and CEO Motoki Ozaki

Fiscal 2010 Performance

Business Initiatives

While we saw a continued moderate recovery in the global economy, full-fledged recovery in Japan remained elusive, with persistent deflation and employment uncertainty. In addition, the March 11 Great East Japan Earthquake inflicted immense damage on people’s everyday lives and a range of industries.

In the household and personal care products market in Japan, the core market for the Kao Group, consumer purchase prices fell in comparison with the previous fiscal year as budget-strapped consumers remained reluctant to spend. Despite this, the market grew by one percent on a value basis due to an increase in volume. In this environment, the Kao Group launched and fostered high-value-added products that respond effectively to changing consumer lifestyle values and purchasing behaviors. We also took measures to rebuild our prestige cosmetics business in Japan and to reduce costs.

Our Consumer Products Business expanded in Asia and Oceania as we rolled out new products developed with the Kao Group’s unique technologies and enhanced marketing and sales activities.

In the Chemical Business, which operates globally, we took steps to offset rising raw material prices and expand sales volume.

Business Results

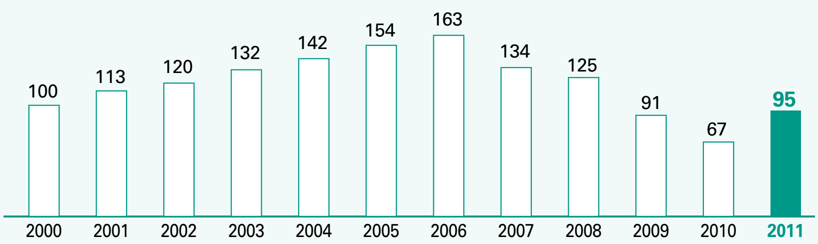
As a result of these business initiatives, net sales increased 0.2 percent compared with the previous fiscal year to ¥1,186.8 billion. Excluding the effect of currency translation, net sales would have increased 2.0 percent. Operating income was ¥104.6 billion, an increase of ¥10.6 billion.

The Kao Group recorded a loss of ¥4.1 billion related to the impact of the Great East Japan Earthquake, resulting in net income of ¥46.7 billion, an increase of ¥6.2 billion over the previous fiscal year. Operating income before amortization of goodwill and other items related to acquisitions (EBITA) was ¥139.1 billion, equivalent to 11.7 percent of net sales.

Net income per share increased ¥12.12 to ¥87.69 from ¥75.57 in the previous fiscal year. ROE improved 1.2 percentage points to 8.5 percent, reflecting the increase in net income and efforts to reduce total equity, including repurchases of stock with a total value of ¥30.0 billion.

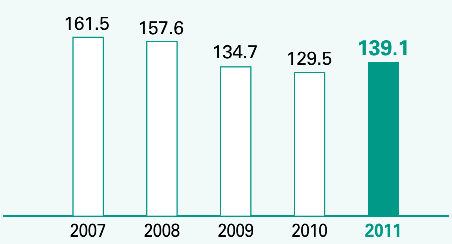
EVA*

(EVA for 2000 = 100)



EBITA

(Billions of yen) (Years ended March 31)



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

Response to Current Challenges

Impact of the Great East Japan Earthquake

The Kao Group's manufacturing and research centers in Tochigi and Kashima sustained damage from the Great East Japan Earthquake and, as a result, production lines for items including sanitary and chemical products were temporarily shut down. At our sales and logistics centers in the disaster-stricken area, damage to buildings and facilities and disruption of the transportation network also temporarily halted business activities.

The Kao Group's Corporate Social Responsibility as a Manufacturer

For me, this major earthquake was an acute reminder of the foremost mission of the Kao Group as a manufacturer of daily necessities: to ensure a timely and stable supply of products that are vital to the everyday lives of consumers, especially those affected by the disaster. I therefore urged all employees to mobilize the full resources of the Kao Group to restore our business operations.

I am pleased to report that the diligent efforts of our employees, especially those in the disaster area, and the generous support of our customers and suppliers allowed our recovery to progress faster than originally expected and we have resumed stable supply of almost all products.

Three Consumer Changes in Japan

Looking at the issues currently facing the Kao Group in Japan — our key market and largest source of profit — it is essential that we gear our business activities to respond to changing consumer lifestyle values and the related changes in product purchasing behavior.

In particular, I believe that our responses to the following three emerging themes in consumer change will be critically important.

1. Growing Environmental Consciousness

The first theme that requires our response is a growing environmental consciousness.

We will work to nurture and strengthen environmentally conscious products developed with the Kao Group's unique technologies. One example is *Attack Neo*, an ultra-concentrated liquid laundry detergent that helps to conserve energy and water because it requires only one rinse cycle.

In addition, the Eco-Technology Research Center started operation at the beginning of June 2011. Located within our Wakayama Complex, the center is to become the linchpin of the Kao Group's eco-innovation, fostering the creation of distinctive, environmentally conscious products.

2. Increasing Health Consciousness

The second theme to which we must respond is increasing health consciousness among consumers.

Our lineup of *Healthya* beverages, which are approved as Foods for Specified Health Uses, contains concentrated tea catechins to promote body fat utilization. With this series we have focused on communication that not only recommends the product but also encourages consumers to walk more in their daily lives. This approach has won enthusiastic support and we will strengthen our commitment to this type of initiative in the future.

The *Megurhythm* series of steam-generating thermo pads, derived from the Kao Group's research and insight, has created a whole new market as it has been warmly welcomed by consumers who suffer from stress in their daily lives. We will continue to work to develop and enhance similar daily health care products.*

3. Changing Attitudes in an Aging Society

The third theme is changing consumer attitudes in an aging society, an area in which we must strengthen our response.

Our most important response to these changing attitudes will be developing products for "active seniors" — people who want to lead healthy, active lifestyles regardless of age.

Products we will continue to develop and strengthen in this area include the *Grace Sofina* line of cosmetics, which launched a rich skin lotion and cream for women in their 60s and above, and the *Segreta* hair care series.

Prestige Cosmetics Business in Japan

As we have seen a shift toward lower-priced products and changes in consumer purchasing attitudes over several years in the Japanese cosmetics market, the Kao Group has responded by rebuilding its prestige cosmetics business.

* The scope of daily health care products does not include pharmaceuticals.

Concentrating resources on a select number of brands and improving efficiency in marketing, personnel and other areas are beginning to yield results in cost reductions. These initiatives will continue to be a key focus in fiscal 2011.

Mid-Term Tactics to Realize Our Global Growth Strategy

Global Growth Strategy

Achieving global growth is crucial to the future advancement of the Kao Group. By continuing to grow profitably in the Japanese market, our profit base, and investing these earnings to accelerate our overseas business development, we will create a broad global presence for the Kao Group.

Our core principle in achieving this will be to leverage the innovative research and development capabilities the Kao Group has built up over the years for application in mature markets ranging from North America and Europe to Taiwan, Hong Kong and Singapore, as well as in growth markets such as China and the ASEAN region.

Tactics in Mature Markets

In mature markets, shifting lifestyle values and product purchasing attitudes are changing consumer needs significantly, and we will work to provide high-value-added products that respond to new needs.

This will include initiatives such as the introduction of foam hair color products developed with the Kao Group's unique technologies. After enjoying strong consumer support for foam hair color in Japan and other Asian countries, we introduced the product from the end of 2010 in quick succession in the United Kingdom, the Netherlands and the United States under the *John Frieda* brand, and initial sales have significantly exceeded expectations.

Tactics in Growth Markets

In growth markets with large populations and high rates of expansion such as China and Indonesia, we will target the ballooning segment of mid-tier consumers and work to provide cost-competitive products developed with the Kao Group's unique technologies in categories with sizable markets, such as laundry detergent, baby diapers and sanitary napkins.

In September 2010, we launched *Attack Instant Clean Liquid* detergent in China, leveraging the same technology as *Attack Neo*. We have also begun construction of a local production facility for a full-scale launch of *Merries* baby diapers, which already enjoy enthusiastic consumer support as an import from Japan.

As we launch products in growth markets, it is also essential that we foster a sense of trust and reassurance among local consumers by clearly communicating how the Kao Group can contribute to society and what we can offer to make people's lives better.

In China, for example, as we launch products in categories such as laundry detergent, baby diapers and sanitary napkins — categories related to cleanliness, one of the Kao Group's fundamental business domains — we will also undertake to enhance our corporate image as part of our efforts to win the support and trust of consumers.

Tactics in the Chemical Business

The Chemical Business is the Kao Group business that has made the greatest progress in globalization. Working in close cooperation with the new Eco-Technology Research Center, the Chemical Business anticipates additional growth from environmentally conscious products developed through the application of technologies such as advanced biomass. We will closely monitor market trends in our ongoing pursuit of global business opportunities across areas including information materials such as toner and toner binder for copiers and printers and polishing agents for hard disks, as well as oleo chemicals developed with the Kao Group's unique technologies.

The Kao Group's Mid-term Growth Strategies

Use the Kao Group's innovative technology to raise its competitive advantage in the global market and achieve profitable growth

Consumer Products Business	■ **Further growth in Japan, the Kao Group's profit base** ■ **Accelerated globalization** **Mature markets:** • Achieve further growth driven by high-value-added products **Growth markets:** • Invest management resources to strengthen focal strategic brands • Establish corporate identity (CI)
Chemical Business	■ **Rapid progress toward an eco-chemical business**

Shareholder Returns

Basic Policies Regarding Distribution of Profits and Dividends for Fiscal 2010

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

In accordance with these policies, Kao Corporation announced a year-end dividend for fiscal 2010 of ¥29.00 per share, the same as the previous fiscal year. As a result, total cash dividends for fiscal 2010 increased ¥1.00 per share compared with the previous fiscal year to a total of ¥58.00 per share, a consolidated payout ratio of 66.1 percent.

To improve capital efficiency, Kao Corporation repurchased 13.9 million shares of its common stock from the market during fiscal 2010, at an aggregate cost of ¥30.0 billion. Aggregate share repurchases to March 31, 2011 totaled 137.6 million shares with a total value of ¥363.8 billion.

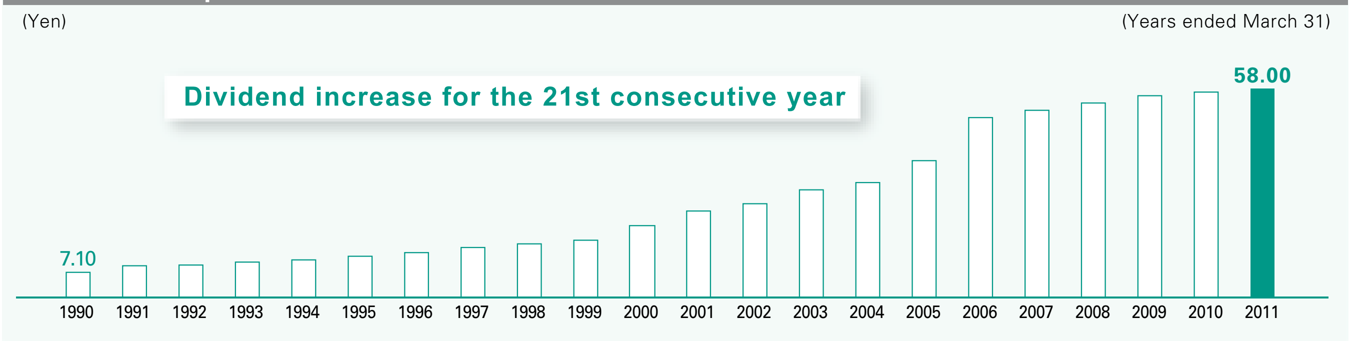
Toward future growth from an EVA standpoint, the Kao Group prioritizes the effective use of free cash flow, defined as net cash provided by operating activities plus net cash used in investing activities.

Use of Free Cash Flow*

1. **Capital expenditures and M&A for future growth**
2. **Steady and continuous cash dividends** — FY2010 Actual → **Cash dividends per share: ¥58.00**; **Payout ratio: 66.1%**
3. **Share repurchases and repayment of interest-bearing debt including borrowings**

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

Cash Dividends per Share



Conclusion

The Kao Group has embarked on a clear course toward achieving global business growth, and all Group companies will combine their strengths to accelerate business expansion around the world. Our shift to an ecology-centered management unique to the Kao Group and initiatives to establish a strong corporate identity will be integral to our corporate strategy as we redouble our efforts to enrich the lives of local consumers in various countries and markets. I hope that I have helped you understand the position of the Kao Group, and I sincerely request your ongoing support.

Motoki Ozaki
President and Chief Executive Officer

Kao at a Glance

Net Sales by Segment

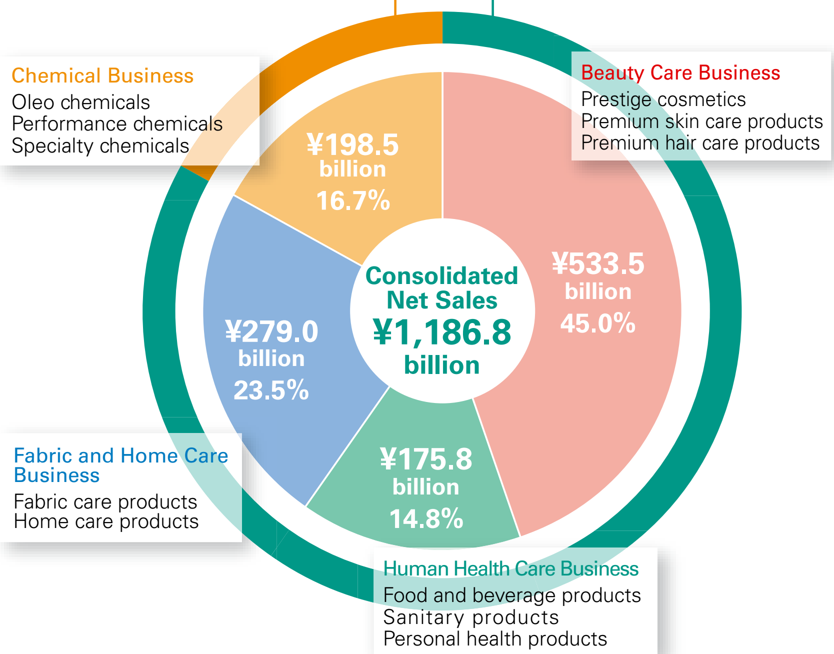
(Year ended March 31, 2011)

Chemical Business Breakdown by Region

(Billions of yen)	
	198.5
Japan	125.0
Asia	72.6
North America	29.5
Europe	51.5
Eliminations	(80.0)

Consumer Products Business Breakdown by Region

(Billions of yen)	
	988.3
Japan	817.3
Asia & Oceania	82.0
North America	51.0
Europe	60.7
Eliminations	(22.8)



Notes: 1. Figures in the graph represent net sales to outside customers only.
2. Net sales by region are classified based on the location of Kao Group companies.
3. Eliminations represent interregion sales.

Consumer Products Business

Beauty Care Business

Human Health Care Business

Fabric and Home Care Business

Chemical Business

Chemical Business

In order to allow all consumers to achieve their own unique beauty with leading technologies, the Kao Group offers a wide range of products including prestige cosmetics, premium skin care products such as facial and body cleansers, and premium hair care products such as shampoos and conditioners.

The Kao Group offers products that help consumers live healthily and comfortably, including sanitary products created using proprietary technologies, functional health beverages that offer new performance values, and other products such as bath additives and toothpaste.

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

The Kao Group's Chemical Business offers customers worldwide a range of chemical products designed to meet the diverse needs of global industry, including oleo chemicals manufactured from natural oil and fat raw materials, surfactants, toners and toner binders, and fragrances and aroma chemicals.

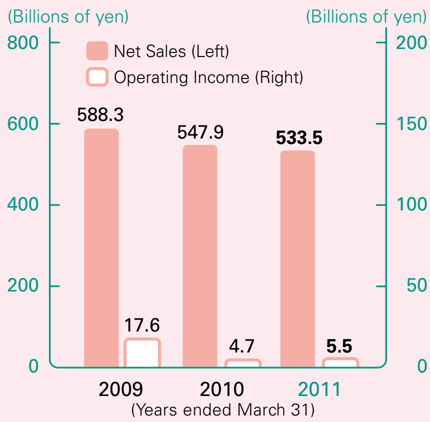
Review of Operations

Mid-Term Strategies / Fiscal 2010 Results

Beauty Care Business

Mid-Term Strategies

- **Accelerate promotion of integrated global business operations.**
- **Improve profitability based on the success of rebuilding the cosmetics business in Japan.**
- **Enter and expand markets in Asia, North America and Europe with foam hair color.**



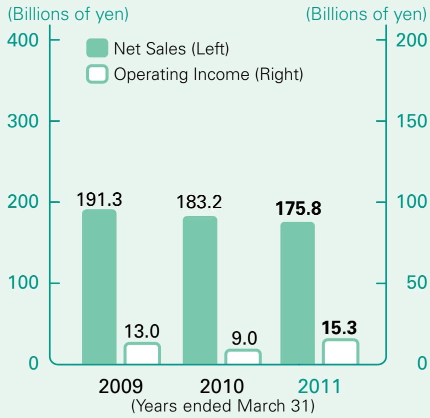
Fiscal 2010 Results

- Sales decreased 2.6 percent to ¥533.5 billion. Excluding the effect of currency translation, sales would have decreased 0.4 percent.
- Operating income increased ¥0.8 billion to ¥5.5 billion, particularly due to efforts to rebuild the prestige cosmetics business.

Human Health Care Business

Mid-Term Strategies

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



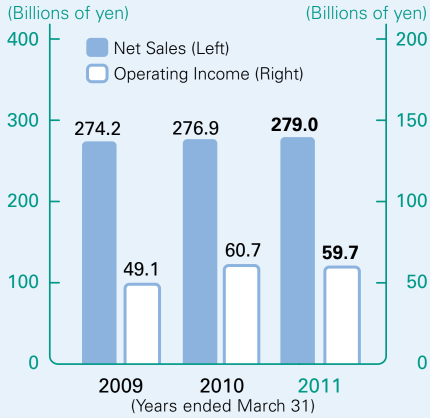
Fiscal 2010 Results

- Sales decreased 4.0 percent to ¥175.8 billion. Excluding the effect of currency translation, sales would have decreased 4.0 percent.
- Operating income increased ¥6.3 billion to ¥15.3 billion due to high-value-added products and cost reduction activities, as well as the absence of expenses recorded in the previous fiscal year associated with the suspension of production and sale of *Econa* cooking oil and related products.

Fabric and Home Care Business

Mid-Term Strategies

- **In Japan, expand the *Neo* series (*Attack Neo* and *New Beads Neo* ultra-concentrated liquid detergents and *Humming Neo* ultra-concentrated fabric softener) to further promote the "eco together" concept.**
- **In China and other Asian countries where the liquid laundry detergent market is expanding, launch, nurture and strengthen new products with Kao's unique technology to meet local needs and surpass market growth.**



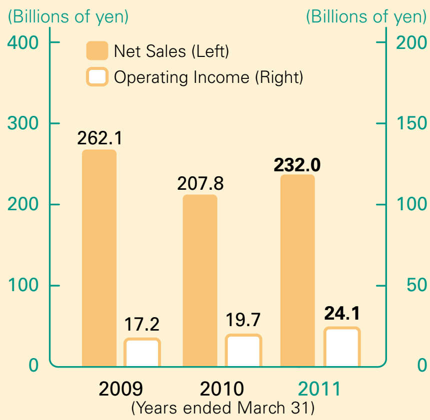
Fiscal 2010 Results

- Sales increased 0.8 percent to ¥279.0 billion. Excluding the effect of currency translation, sales would have increased 0.7 percent.
- Operating income decreased ¥1.0 billion to ¥59.7 billion despite cost reduction activities, due mainly to an increase in raw material prices.

Chemical Business

Mid-Term Strategies

- **Expand sales and develop markets in BRICs and other growing markets.**
- **For oleo chemicals and performance chemicals, deal with rising raw material prices and increase Kao's presence in the high-priced market segment. For specialty chemicals, promote greater added value in addition to a focus on ecology.**



Fiscal 2010 Results

- Sales increased 11.6 percent to ¥232.0 billion. Excluding the effect of currency translation, sales would have increased 16.0 percent.
- Operating income increased ¥4.4 billion to ¥24.1 billion due to the recovery in sales volume.

Note: Net sales include intersegment sales.

Highlights of Fiscal 2010

Main Initiatives in Fiscal 2011

John Frieda's new foam hair color was developed with the Kao Group's unique technologies.

Prestige Cosmetics
- Promote rebuilding business in Japan.
- Growth in Asia.
- Kanebo Cosmetics: Focus investment on priority brands, including *Kate* and other mega brands. Strengthen overseas business in growing markets (key areas: China and Russia).
- Kao Sofina: Further develop both the young and mature segments in Japan.

Premium Skin Care Products
- Strengthen core facial and body cleanser business. Expand into Asian markets.
- Continue to vitalize *Men's Bioré* and personal-use body care.
- Continue to nurture *Curél* in the U.S.

Premium Hair Care Products
- Strengthen Asian brands (*Essential*, *Asience*, *Liese*).
- Launch foam hair color in the U.S. and further expand Asian markets.
- Strengthen and expand product lineup with *Full Repair* from *John Frieda* and other new products.

Laurier added value by increasing absorbency speed while retaining the comfort of an ultra-thin sanitary napkin.

Food and Beverage Products
- Further expand *Healthya* functional beverages.

Sanitary Products
- *Laurier* sanitary napkins: In Asia, successively launch and expand high-value products backed by Japanese technology.
- *Merries* baby diapers: Foster greater brand loyalty as Japan's top brand. Strengthen development in China and Russia.

Personal Health Products
- *Success* men's products: Promote combination use within the brand, while providing information about the importance of hair and scalp care.
- *Deep Clean* oral care: Increase Kao's presence in the growing periodontal care market.
- *Megurhythm* steam eye mask: Popularize eye mask with new proposals such as relaxing before bed.

Attack Instant Clean Liquid detergent, developed with Kao's unique technologies, is sold in China.

The Fabric and Home Care Business in Japan follows a policy of promoting and educating consumers about its "eco together" concept. Individual initiatives are as follows.

Fabric Care Products
- Nurture and strengthen *Attack Instant Clean Liquid* detergent (China) and *BioZet Attack* (Australia), launched as part of Kao's global strategy.
- Where powder detergent is still dominant, strengthen *Attack* laundry detergent with new products that meet local needs such as *Attack Easy Ice Spa*, which gives hands a cool feeling when hand washing.

Home Care Products
- Strengthen the *Magiclean* home cleaner brand to meet changing consumer needs proactively in line with the advancement of home facilities in Asia.

Pilipinas Kao, Incorporated's mangrove rehabilitation project received an award from the Philippine Department of Environment and Natural Resources.

Oleo Chemicals
- Deal with high raw material prices and collaborate with customers in the high-priced segment. Consider new capital investment in production.

Performance Chemicals
- Strengthen environmentally conscious products and accelerate development of business in China.

Specialty Chemicals
- Enhance production facilities for toner and toner binder for copiers and printers. Strengthen development of environmentally conscious products.

Directors, Corporate Auditors and Executive Officers (As of June 29, 2011)

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 and Engineering

Responsible for Environment and Safety Management, Global Procurement, Logistics, and Global Human Capital Development

Hiroshi Kanda*

Representative Director, Senior Executive Vice President

Global Consumer Products Business

Responsible for Kao Professional Services Co., Ltd.

Chairperson of the Board, Kanebo Cosmetics Inc.

President, The Kao Foundation for Arts and Sciences

Shunichi Nakagawa*

Executive Vice President

Global Legal and Compliance

Global Corporate Communications

Responsible for Risk Management, and 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 Research and Development

Responsible for Global Chemical Business Unit, Product Quality Management, and TCR Promotion

Toshihide Saito*

Executive Officer

Vice President, Global Human Capital Development

Senior Vice President, Corporate Strategy

Chairperson of the Board, Kao Brands Company

President, Kao Group Corporate Pension Fund

President, Kao Health Insurance

Shinichi Mita*

Executive Officer

Vice President, Global Accounting and Finance

Responsible for EVA Promotion

Masato Hirota*

Executive Officer

Vice President, Global Media Planning

Corporate Auditors

*** Outside Corporate Auditor

Masanori Sunaga

Full-time Corporate Auditor

Takayuki Ishige

Full-time Corporate Auditor

Tadashi Oe***

Corporate Auditor,
Attorney-at-Law

Yutaka Yogo***

Corporate Auditor,
Certified Public Accountant

Shinichiro Hiramine*

Executive Officer

President, Asia, Consumer Products Business

Chairperson of the Board and Chief Executive Officer, Kao (China) Holding Co., Ltd.

Ken Hashimoto*

Executive Officer

Vice President, Global Procurement

Michitaka Sawada*

Executive Officer

Vice President, Global Research and Development (Human Health Care)

Hisao Mitsui*

Executive Officer

Vice President, Global Production and Engineering

Vice President, SCM Strategy and Planning

Teruhiko Ikeda**

Advisor, Mizuho Trust & Banking Co., Ltd.

Takuma Otoshi**

Chairman, IBM Japan, Ltd.

Executive Officers

Yoshitaka Nakatani

Vice President, Environment and Safety Management

Shigeru Koshiba

Vice President, Corporate Strategy

Shoji Kobayashi

President, Global Chemical Business Unit
Chairperson of the Board, Pilipinas Kao, Incorporated
Chairperson of the Board, Fatty Chemical (Malaysia) Sdn. Bhd.
President, Kao Chemicals Europe, S.L.

Takuji Yasukawa

President, Global Food and Beverage,
Global Human Health Care Business Unit

Yasushi Aoki

Senior Vice President, Human Resources and Administration, Kanebo Cosmetics Inc.

Masumi Natsusaka

President, Global Beauty Care Business Unit

William J. Gentner

Vice President, Corporate Strategy
Vice President, GBH Transition,
Global Beauty Care Business Unit
President and Chief Executive Officer, Kao Brands Company

Katsuhiko Yoshida

President, Global Fabric and Home Care Business Unit

Naohisa Kure

Vice President, Global Research and Development (Beauty Care)

Akira Yoshimatsu

Vice President, Global Research and Development (Fabric and Home Care, and Chemical)

Hideko Aoki

Vice President, Product Quality Management

Minoru Utsumi

Vice President, Global Production and Engineering (Beauty Care Supply Chain Management)
Plant Manager, Tokyo Plant

Yoshimichi Saita

President, Global Human Health Care Business Unit

11-Year Summary

Kao Corporation and Consolidated Subsidiaries

	Millions of yen			
Years ended March 31	2011	2010	2009	2008
For the year:				
Net sales	¥1,186,831	¥1,184,385	¥1,276,316	¥1,318,514
Segments				
Beauty Care Business	533,514	547,944	588,330	627,914
Human Health Care Business	175,761	183,151	191,319	191,300
Fabric and Home Care Business	279,008	276,918	274,202	274,657
Consumer Products Business	988,283	1,008,013	1,053,851	1,093,871
Chemical Business	231,997	207,834	262,058	258,674
Eliminations	(33,449)	(31,462)	(39,593)	(34,031)
Former Segments				
Consumer Products	—	—	—	—
Prestige Cosmetics	—	—	—	—
Chemical Products	—	—	—	—
Eliminations	—	—	—	—
Region				
Japan	912,443	918,499	953,369	968,594
Asia and Oceania	152,361	131,699	161,927	158,295
North America and Europe	—	—	—	—
North America	80,328	79,200	98,999	111,017
Europe	112,123	111,158	140,623	154,648
Eliminations	(70,424)	(56,171)	(78,602)	(74,040)
Operating income	104,591	94,034	96,800	116,253
Net income	46,738	40,507	64,463	66,562
Capital expenditures	49,101	44,868	44,624	49,045
Depreciation and amortization	81,380	84,778	87,463	93,444
Cash flows	97,028	95,269	122,441	131,114
Research and development expenditures	45,516	44,911	46,126	45,070
(% of Sales)	3.8%	3.8%	3.6%	3.4%
Advertising expenditures	81,082	86,359	90,258	99,176
(% of Sales)	6.8%	7.3%	7.1%	7.5%
At year-end:				
Total assets	1,022,799	1,065,751	1,119,676	1,232,601
Net worth	528,895	565,133	545,230	574,038
Number of employees	34,743	34,913	33,745	32,900
	Yen			
Per share:				
Net income	¥ 87.69	¥ 75.57	¥ 120.25	¥ 122.53
Cash dividends	58.00	57.00	56.00	54.00
Net worth	1,013.05	1,054.31	1,017.19	1,070.67
Weighted average number of shares outstanding during the period (in thousands)	532,980	536,009	536,085	543,228
	%			
Key financial ratios:				
Return on sales	3.9%	3.4%	5.1%	5.0%
Return on equity	8.5	7.3	11.5	11.7
Net worth ratio	51.7	53.0	48.7	46.6

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 segments. Figures for 2007 have been restated to reflect the change.
2. Net sales by segment include intersegment sales. Under the former segments, net sales of Chemical Products include intersegment sales to Consumer Products and Prestige Cosmetics. Under the current segments, net sales of the Chemical Business include intersegment sales to the Beauty Care Business, the Human Health Care Business and the Fabric and Home Care Business.
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 ended December 31, are included for the eleven months starting in February 2006, after the company was added to the Kao Group.

2007	2006	2005	2004	2003	2002	2001
¥1,231,808	¥ 971,230	¥936,851	¥902,628	¥865,247	¥839,026	¥821,629
584,284	—	—	—	—	—	—
183,608	—	—	—	—	—	—
269,519	—	—	—	—	—	—
1,037,411	—	—	—	—	—	—
223,609	—	—	—	—	—	—
(29,212)	—	—	—	—	—	—
744,748	704,034	690,007	670,438	646,413	626,047	607,826
292,663	85,247	78,294	77,648	75,833	74,176	72,579
223,609	208,890	196,989	181,621	170,935	162,802	167,893
(29,212)	(26,941)	(28,439)	(27,079)	(27,934)	(23,999)	(26,669)
924,196	708,056	703,085	673,657	654,595	648,188	655,470
125,989	110,898	100,282	101,452	101,555	93,499	84,137
—	—	—	—	—	—	105,287
106,731	95,168	83,638	79,907	75,796	70,274	—
135,918	109,486	93,804	84,899	67,845	57,625	—
(61,026)	(52,378)	(43,958)	(37,287)	(34,544)	(30,560)	(23,265)
120,858	120,135	121,379	119,706	114,915	111,728	107,099
70,528	71,140	72,180	65,359	62,462	60,275	59,427
70,143	203,595	54,318	51,823	84,544	49,537	60,741
92,171	60,758	56,794	58,166	58,310	58,484	58,856
134,906	107,943	109,704	106,430	104,436	103,657	104,702
44,389	40,262	39,764	38,506	37,713	37,543	37,049
3.6%	4.1%	4.2%	4.3%	4.4%	4.5%	4.5%
96,892	83,770	84,157	82,773	74,277	66,069	65,758
7.9%	8.6%	9.0%	9.2%	8.6%	7.9%	8.0%
1,247,797	1,220,564	688,974	723,891	720,849	772,145	783,760
564,532	509,676	448,249	427,757	417,031	459,731	462,988
32,175	29,908	19,143	19,330	19,807	19,923	19,068
¥ 129.41	¥130.58	¥131.16	¥119.06	¥108.05	¥100.43	¥ 96.69
52.00	50.00	38.00	32.00	30.00	26.00	24.00
1,035.66	935.11	821.47	782.14	744.56	779.44	760.05
544,996	544,127	549,626	547,865	576,770	600,150	614,608
5.7%	7.3%	7.7%	7.2%	7.2%	7.2%	7.2%
13.1	14.9	16.5	15.5	14.2	13.1	12.7
45.2	41.8	65.1	59.1	57.9	59.5	59.1

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

Management Discussion and Analysis

Overview of Consolidated Results

During the fiscal year ended March 31, 2011, although a moderate recovery trend in the global economy continued, there was no full-fledged economic recovery in Japan due to the effects of deflation, employment uncertainty and other factors. In addition, the Great East Japan Earthquake that struck on March 11, 2011 inflicted immense damage on people's lives and on various industries. In the household and personal care products market in Japan, a key market for the Kao Group, consumer purchase prices fell from the previous fiscal year as budget-strapped consumers continued their purchasing behavior, but the market grew 1.0 percent on a value basis due to an increase in volume. The cosmetics market in Japan continued to contract due to a shift in consumer preference to lower-priced products, although there was a sense that the market is bottoming out.

Under these circumstances, the Kao Group worked to launch and nurture products with high added value based on its concept of "*Yoki-Monozukuri*"* as it promoted rebuilding of its cosmetics business in Japan and cost reduction activities. The Kao Group was also impacted by the earthquake, but made all-out efforts to recover in order to carry out stable supply of products as the mission of a manufacturer of daily necessities.

As a result, net sales were ¥1,186.8 billion (US$14,273.4 million), operating income was ¥104.6 billion (US$1,257.9 million), and net income was ¥46.7 billion (US$562.1 million).

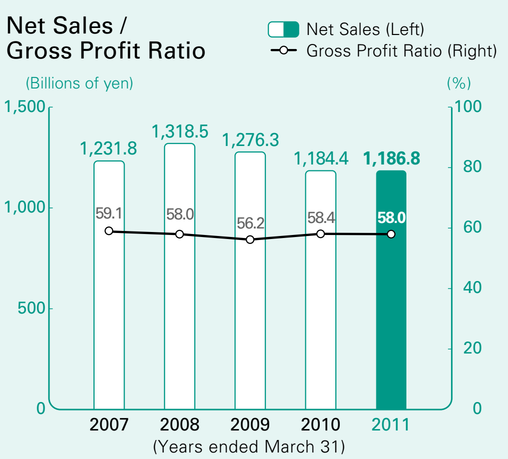
* The Kao Group defines "*Yoki-Monozukuri*" as a strong commitment by all members to provide products and brands of excellent value for consumer satisfaction. In Japanese, "*Yoki*" literally means "good/excellent," and "*Monozukuri*" means "development/manufacturing of products."

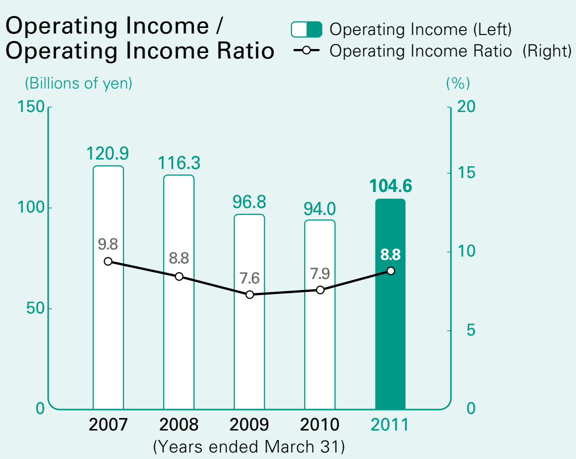
Analysis of Income Statements

Net Sales and Operating Income

Net sales increased 0.2 percent compared with the previous fiscal year to ¥1,186.8 billion (US$14,273.4 million). Excluding the effect of currency translation, net sales would have increased 2.0 percent. Sales decreased due to the contraction of the Japanese cosmetics market in the Beauty Care Business and the suspension of production and sale of *Econa* cooking oil and related products (*Econa* products) from September 2009 in the Human Health Care Business. However, the Consumer Products Business in Asia and Oceania expanded, and sales volume recovered in the Chemical Business as it worked to adjust selling prices in response to higher raw material prices.

Prices of raw materials, mainly natural oils and fats, increased due to volatility in international market prices. However, in addition to the effect on profits of increased overseas sales, the Kao Group continued to work on measures including the rebuilding of its cosmetics business in Japan, promotion of cost reduction activities and greater





efficiency in areas such as advertising expenses.

As a result, operating income increased ¥10.6 billion from ¥94.0 billion in the previous fiscal year to ¥104.6 billion (US$1,257.9 million).

Other Expenses and Net Income

Net other expenses decreased to ¥8.6 billion (US$103.1 million) from ¥11.1 billion in the previous fiscal year. Interest expense decreased due to partial repayment of long-term debt, while foreign currency exchange loss increased as a result of the appreciation of the yen. In addition, a loss of ¥4.1 billion (US$49.7 million) related to the Great East Japan Earthquake was recorded, while loss related to cooking oils associated with the suspension of production and sale of *Econa* products (¥5.3 billion) and restructuring charges for prestige cosmetics subsidiary (¥1.3 billion), which were recorded in the previous fiscal year, were absent in the fiscal year under review.

As a result, income before income taxes and minority interests increased from ¥83.0 billion in the previous fiscal year to ¥96.0 billion (US$1,154.8 million).

Total income taxes increased from ¥41.6 billion in the previous fiscal year to ¥48.2 billion (US$579.4 million). The income tax rate after application of tax effect accounting remained unchanged from the previous fiscal year at 50.2 percent.

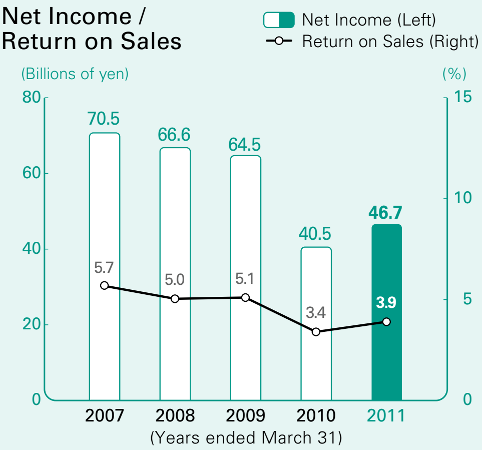
Net income increased ¥6.2 billion from ¥40.5 billion in the previous fiscal year to ¥46.7 billion (US$562.1 million). Net income per share was ¥87.69 (US$1.05), an increase of ¥12.12, or 16.0 percent, from ¥75.57 in the previous fiscal year.

Costs, Expenses and Income as Percentages of Net Sales

Years ended March 31,	2011		2010		2009
Cost of sales	42.0%		41.6%		43.8%
Gross profit	58.0	(–0.4)	58.4	(+2.2)	56.2
Selling, general and administrative expenses	49.2	(–1.3)	50.5	(+1.9)	48.6
Operating income	8.8	(+0.9)	7.9	(+0.3)	7.6
Income before income taxes and minority interests	8.1	(+1.1)	7.0	(–0.2)	7.2
Net income	3.9	(+0.5)	3.4	(–1.7)	5.1

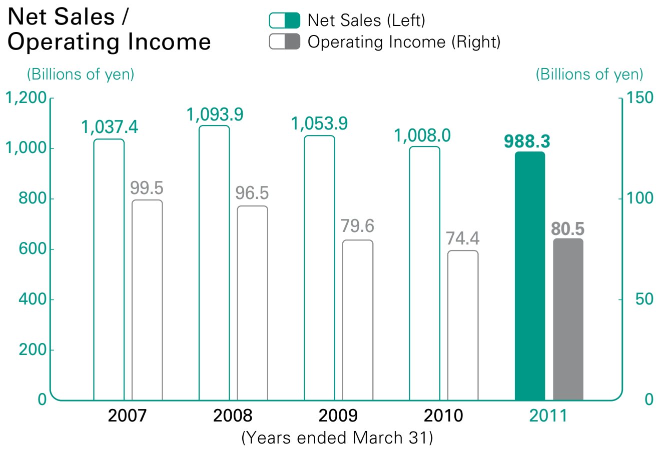
Note: Figures in parentheses represent changes in percentage points from the previous year.

Net Income / Return on Sales



Information by Segment

Consumer Products Business



Sales decreased 2.0 percent compared with the previous fiscal year to ¥988.3 billion (US$11,885.5 million). Excluding the effect of currency translation, sales would have decreased 0.8 percent.

In Japan, sales were ¥817.3 billion (US$9,828.8 million) as the Kao Group limited the decrease to 1.7 percent despite the impact of factors including the Great East Japan Earthquake and the suspension of production and sale of *Econa* products in the previous fiscal year. In an intensely competitive market and deflationary conditions, the Kao Group took various measures including proposing environmentally conscious products, launching new products and improving core brands in response to changing consumer lifestyles, and strengthening proposal-based sales and in-store merchandising activities.

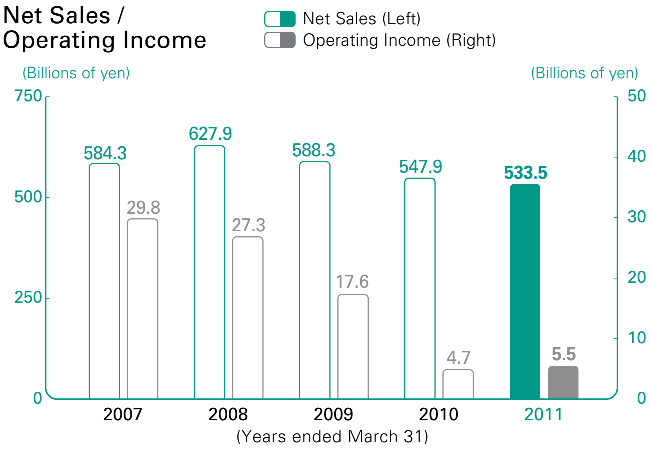
In Asia and Oceania, sales increased 3.0 percent to ¥82.0 billion (US$986.7 million). Excluding the effect of currency translation, sales would have increased 4.7 percent. Amid continued market growth in Asia, the Kao Group further promoted integration of business operations in Asia, including Japan, such as collaborations with retailers, and aggressively expanded new product launches and other measures.

In North America, sales decreased 5.7 percent to ¥51.0 billion (US$613.7 million). Excluding the effect of currency translation, sales would have increased 1.2 percent. The market recovered, albeit moderately, and professional hair care products contributed to sales growth.

In Europe, sales decreased 3.2 percent to ¥60.7 billion (US$730.3 million). Excluding the effect of currency translation, sales would have increased 9.2 percent. In the flat market, premium hair care products, mainly new products, performed well.

Operating income increased ¥6.1 billion to ¥80.5 billion (US$967.9 million) despite the decrease in sales, due to factors including more efficient deployment of expenses and cost reduction activities.

Beauty Care Business



Sales decreased 2.6 percent compared with the previous fiscal year to ¥533.5 billion (US$6,416.3 million). Excluding the effect of currency translation, sales would have decreased 0.4 percent.

In prestige cosmetics, which consist of self-selection and counseling cosmetics, sales decreased 4.0 percent to ¥254.4 billion (US$3,059.5 million) due to an ongoing consumer preference for lower-priced products in the cosmetics market together with the impact of the Great East Japan Earthquake, although the Kao Group's efforts to rebuild its prestige cosmetics business in Japan have been proving effective. In Japan, for its self-selection cosmetics, the Kao Group added a multifunctional cream and a low-priced line of products to the *Fréshel* skin care brand, and leveraged the Kao Group's comprehensive capabilities to strengthen in-store merchandising for other brands such as *Kate* makeup and *Evita* total cosmetics. For its counseling cosmetics, the Kao Group further developed and strengthened its mega brands with annual sales of more than ¥10 billion, with a focus on brands such as *Coffret d'Or* makeup, *Sofina Beauté* skin care products and *Sofina Primavista* base makeup. In addition, the Kao Group carried out reform of sales methods including optimization of counseling in response to changes in consumer needs. In Asia, despite a slowdown in growth in China, the Kao Group performed well, due in part to the rollout of new products in Taiwan and Thailand.

In premium skin care products, sales increased in Japan, with firm performance driven mainly by growth in sales of the *Bioré* skin care series, particularly makeup remover and UV care products. Sales in Asia increased primarily as a result of strong sales of the *Bioré* brand in Taiwan and Indonesia. In the United States, the Kao Group launched improved *Curél* sensitive skin care products and expanded distribution.

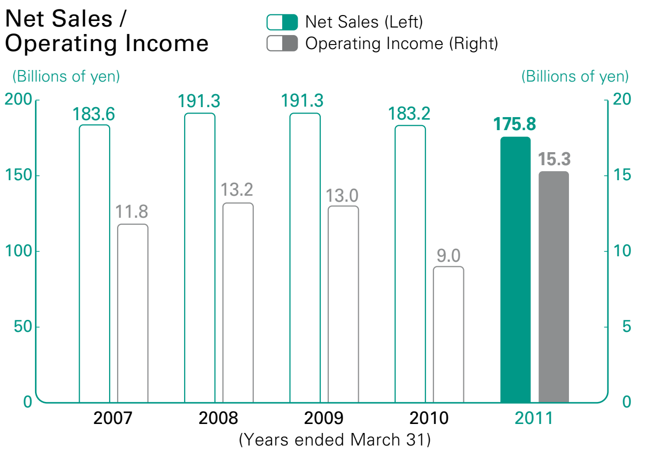
Sales of premium hair care products were flat in Japan as *Merit* and *Essential* shampoos and conditioners performed steadily, but competition intensified for hair coloring agents. In Asia, sales increased due to factors including the strong performance of *Liese* foam hair color following launches in Singapore, Hong Kong and Malaysia. In North America, sales of the *Goldwell* and *Kms* professional hair care brands increased. In Europe, the launch of foam hair color contributed to strong sales of the *John Frieda* premium hair care brand.

Operating income increased ¥0.8 billion to ¥5.5 billion (US$66.6 million), despite the decrease in sales, particularly due to efforts to rebuild the prestige cosmetics business. Operating income before amortization of goodwill and other items related to acquisitions (EBITA) was essentially unchanged at ¥39.9 billion (US$479.6 million), which is equivalent to 7.5 percent of sales.

The launch of a new product line in the growing skin whitening segment will reinforce the *Sofina Beauté* mega brand of skin care cosmetics.

The easy application and high dyeing performance of foam hair color have gained strong support in Asia (point-of-purchase in Singapore).

Human Health Care Business



Sales decreased 4.0 percent compared with the previous fiscal year to ¥175.8 billion (US$2,113.8 million). Excluding the effect of currency translation, sales would have decreased 4.0 percent.

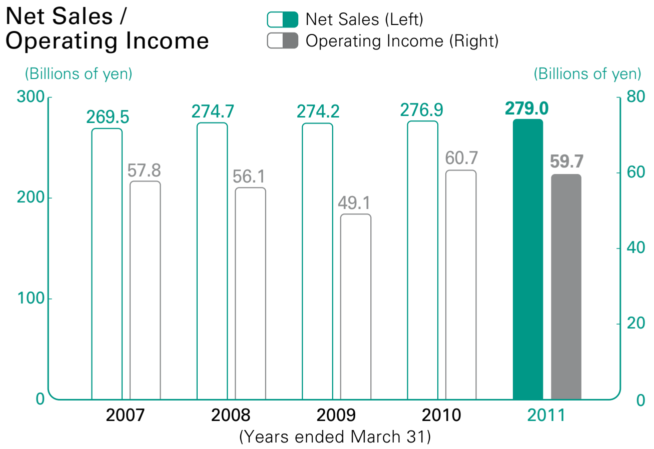
Sales of food and beverage products declined due to the suspension of production and sale of *Econa* products in the previous fiscal year and the impact of market competition on *Healthya Sparkling* functional bevarage as it entered the second year since its launch.

Sales of sanitary products increased due to higher sales in Asia, despite market contraction in Japan as a result of price competition and a shrinking base of target consumers for sanitary napkins and baby diapers. The Kao Group added higher value to *Laurier* sanitary napkins by enhancing absorbency, and its efforts to make *Merries* baby diapers gentler on skin earned consumer support and received positive responses from consumers in Russia as well.

Sales of personal health products increased on strong sales of the thermal product *Megurhythm* steam eye mask and *Bub* bath additives.

Operating income increased ¥6.3 billion to ¥15.3 billion (US$183.8 million) due to the addition of higher value to products and cost reduction activities, as well as the absence of expenses recorded in the previous fiscal year associated with the suspension of production and sale of *Econa* products.

Fabric and Home Care Business



Sales increased 0.8 percent compared with the previous fiscal year to ¥279.0 billion (US$3,355.5 million). Excluding the effect of currency translation, sales would have increased 0.7 percent.

In fabric care products, sales were firm amid intensifying price competition. In Japan, the Kao Group launched *New Beads Neo* ultra-concentrated liquid laundry detergent and *Humming Neo* ultra-concentrated fabric softener to complement *Attack Neo* ultra-concentrated liquid laundry detergent in order to focus on the environmental appeal of conserving water and electricity. In Asia and Oceania, *Attack Instant Clean Liquid* detergent, a laundry detergent that saves water by reducing the number of rinse cycles, was launched

The Kao Group is responding to increasing health consciousness in Japan with blood circulation enhancement products that incorporate its unique technologies.

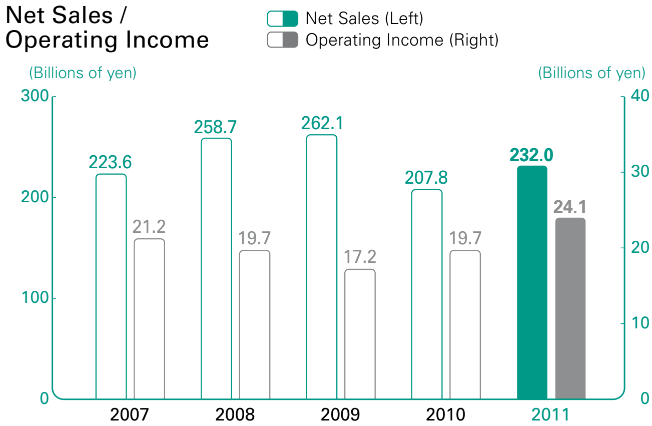
The addition of new products to the *Neo* ultra-concentrated fabric care series further strengthens its environmental appeal.

in China, and gained a positive response with its cleaning power.

In home care products, the addition of a new *Bath Magiclean* cleaner with anti-mildew properties and the launch of paper cleaning product *Quickle Wiper* fluffy sheets contributed significantly to invigorating the market in Japan. However, sales were flat as kitchen detergents faced intense price competition.

Operating income decreased ¥1.0 billion to ¥59.7 billion (US$717.5 million) despite cost reduction activities, due mainly to an increase in raw material prices.

Chemical Business



Note: Net sales include intersegment sales.
(Years ended March 31)

The Chemical Business further expanded its global business operations, growing along with the high economic growth in China and other Asian countries and performing steadily in Japan, North America and Europe. As a result, Chemical Business sales increased 11.6 percent compared with the previous fiscal year to ¥232.0 billion (US$2,790.1 million). Excluding the effect of currency translation, sales would have increased 16.0 percent.

Sales volume of oleo chemicals and performance chemicals increased due to the recovery of demand from customer industries. The Kao Group also made efforts to adjust selling prices, particularly of oleo chemicals, in response to the sharp rise in the prices of natural oils and fats used as raw materials. In performance chemicals, the Kao Group worked to develop and expand sales of environmentally conscious, high-value-added products. Sales of specialty chemicals, primarily toner and toner binder for copiers and printers, were also strong in Japan, North America and Europe.

Operating income increased ¥4.4 billion to ¥24.1 billion (US$289.8 million) due to the recovery in sales volume.

With their low-temperature fusing technology, Kao's toner and toner binder for copiers and printers are environmentally conscious products that drive specialty chemicals.

Presentation at "Eco-Products 2010" of environmentally conscious products for industrial use that contribute to CO_2 reduction and resource recycling in Japan

Financial Structure

Total assets decreased ¥43.0 billion from the previous fiscal year-end to ¥1,022.8 billion (US$12,300.6 million). The principal increases in assets were a ¥40.6 billion increase in cash and time deposits and a ¥2.7 billion increase in work in process and raw materials due to the market upturn. The principal decreases in assets were a ¥5.5 billion decrease in notes and accounts receivable – trade, an ¥11.0 billion decrease in short-term investments, a ¥41.0 billion decrease in intangible assets due to the progress of amortization of trademarks and other intellectual property rights and goodwill, and a ¥17.7 billion decrease in investments and other assets.

Total liabilities decreased ¥7.2 billion from the previous fiscal year-end to ¥483.2 billion (US$5,811.6 million). The principal increases in liabilities were a ¥4.1 billion increase in notes and accounts payable – trade and a ¥17.2 billion increase in notes and accounts payable – other. The principal decreases in liabilities were a ¥26.9 billion decrease in short-term and long-term debt mainly due to a ¥25.8 billion decrease in unsecured loans from financial institutions, and an ¥8.4 billion decrease in accrued expenses.

Total equity decreased ¥35.7 billion from the previous fiscal year-end to ¥539.6 billion (US$6,489.0 million). The principal increase in equity was net income totaling ¥46.7 billion. The principal decreases in equity were a ¥30.0 billion purchase of treasury stock from the market, a ¥21.4 billion change in foreign currency translation adjustments and a ¥31.1 billion decrease in retained earnings due to payment of cash dividends. As of May 20, 2011, Kao Corporation retired 13.9 million shares of treasury stock it had purchased from the market during the fiscal year ended March 31, 2011.

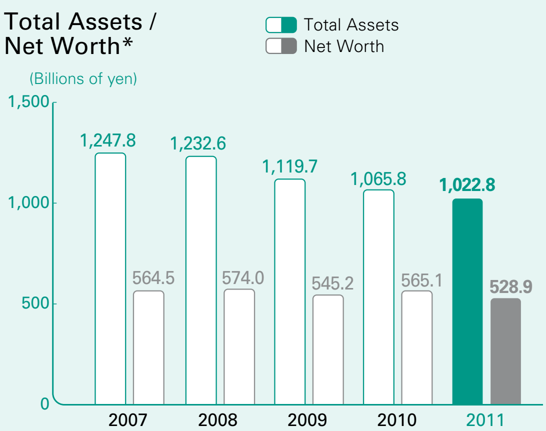
As a result, the net worth ratio, defined as net worth divided by total assets, was 51.7 percent, compared with 53.0 percent at the end of the previous fiscal year.

Cash Flows

The balance of cash and cash equivalents at March 31, 2011 increased ¥26.0 billion compared with the end of the previous fiscal year to ¥143.1 billion (US$1,721.5 million).

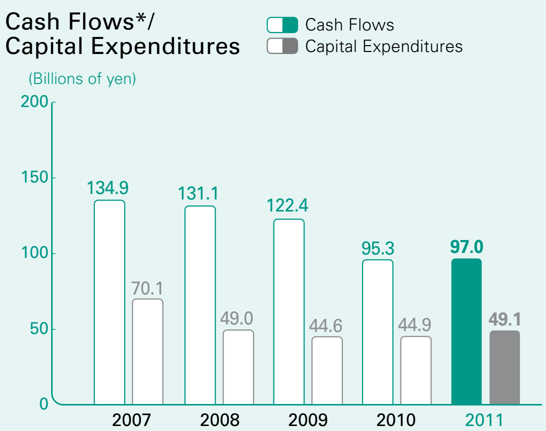
Cash Flows from Operating Activities

Net cash provided by operating activities totaled ¥151.3 billion (US$1,819.6 million), compared with ¥172.3 billion in the previous fiscal year. The principal increases were income before income taxes and minority interests of ¥96.0 billion (US$1,154.8 million), depreciation and amortization of ¥81.4 billion (US$978.7 million) and change in trade payables of ¥7.8 billion (US$93.7 million). The principal decreases were a change in inventories of ¥7.6 billion (US$91.0 million) and income taxes paid of ¥40.9 billion (US$491.7 million).



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

(As of March 31)



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

(Years ended March 31)

Cash Flows from Investing Activities

Net cash used in investing activities totaled ¥31.8 billion (US$382.2 million), compared with ¥44.2 billion in the previous fiscal year. This primarily consisted of purchase of property, plant and equipment of ¥27.7 billion (US$333.4 million). Proceeds from cancellation of derivatives (foreign currency swaps) totaled ¥4.3 billion (US$51.7 million).

Cash Flows from Financing Activities

Net cash used in financing activities totaled ¥87.3 billion (US$1,050.2 million), compared with ¥124.6 billion in the previous fiscal year. This primarily consisted of ¥25.0 billion (US$300.2 million) in repayments of long-term loans, ¥30.1 billion (US$361.9 million) for purchase of treasury stock and ¥31.4 billion (US$378.0 million) for payments of cash dividends.

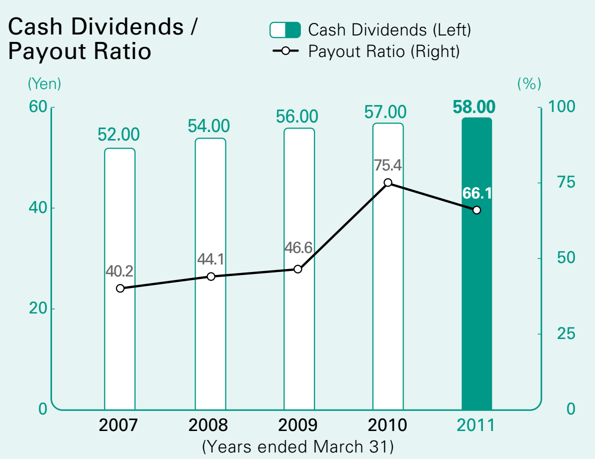
Basic Policies Regarding Distribution of Profits and Dividends for the Period

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

Pursuant to these policies, Kao Corporation announced a year-end dividend for the fiscal year ended March 31, 2011 of ¥29.00 (US$0.35) per share, the same as the previous fiscal year, in accordance with its forecast. Consequently, cash dividends for the fiscal year increased ¥1.00 per share compared with the previous fiscal year, for a total of ¥58.00 (US$0.70) per share, and a consolidated payout ratio of 66.1 percent.

Kao Corporation repurchased 13.9 million shares of its common stock from the market during the fiscal year ended March 31, 2011, at an aggregate cost of ¥30.0 billion (US$360.8 million). On May 20, 2011, Kao Corporation retired 13.9 million shares of treasury stock.

For the fiscal year ending March 31, 2012, although the operating environment is uncertain and severe due to the impact of rising raw material prices and the Great East Japan Earthquake, among other factors, the Company plans to pay total cash dividends of ¥58.00 (US$0.70) per share, the same as in the fiscal year ended March 31, 2011, in accordance with its basic policies regarding distribution of profits. As a result, the projected consolidated payout ratio will be 57.1 percent.



EVA

Economic Value Added (EVA®) is the Kao Group's main management metric, defined as net operating profit after tax (NOPAT) less a charge for the cost of capital employed in the business. We believe EVA indicates "true" profit. Continuously increasing EVA raises corporate value, which is consistent with the long-term interest of not only shareholders but other stakeholders as well. The Kao Group aims to conduct business activities that expand the scale of its business while also increasing EVA, and uses EVA for business performance evaluation, performance-based compensation and strategic decision-making. During the fiscal year ended March 31, 2011, due to an increase in NOPAT and a decrease in capital, EVA increased to 95 from 67 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, 2011, the Kao Group invested aggressively for future growth. To raise its competitiveness in global markets and achieve profitable growth, the Kao Group built the Eco-Technology Research Center in Wakayama, Japan, which started operation in June 2011. This will centralize and combine the Kao Group's environmental research functions and accelerate the development of next-generation environmental technologies, particularly eco-innovation research and technologies, in order to embody ecology-centered management in the development and manufacture of products. Research and development expenditures, which increased ¥0.6 billion compared with the previous fiscal year to ¥45.5 billion (US$547.4 million), were the equivalent of 3.8 percent of net sales, the same as in the previous fiscal year.

Increasing Profit: During the fiscal year ended March 31, 2011, NOPAT increased due to an increase in sales volume resulting from strong performance by the Consumer Products Business outside Japan and the Chemical Business. 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 achieved a cumulative reduction of ¥13.7 billion in costs from the acquisition of Kanebo Cosmetics to March 31, 2011.

Financial Improvement: Free cash flow* totaled ¥119.5 billion (US$1,437.4 million) for the year ended March 31, 2011, a decrease of ¥8.5 billion compared with the previous fiscal year. The Kao Group has set priorities for how it will deploy this free cash flow. Investments for mergers and acquisitions and additional capital expenditures for future growth are the top priorities in deploying free cash flow, followed by stable and continuous dividends. Kao Corporation increased cash dividends per share for the fiscal year by ¥1.00 to ¥58.00 (US$0.70) for the 21st consecutive year of growth in cash dividends. Moreover, the Kao Group uses the remaining free cash flow for the repurchase of shares as a payout measure and for repayment of interest-bearing debt, considering its investment plans and financial market conditions. During the fiscal year, the Kao Group repurchased its shares from the market at a cost of ¥30.0 billion and repaid long-term loans totaling ¥25.0 billion.

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

Business Conduct Guidelines

The Kao Group as a whole routinely implements activities for securing compliance with laws, regulations, fairness and ethics. The Compliance Committee is responsible for the promotion of those activities. In addition, the Kao Group has formulated and adheres to its code of conduct, "Kao's Business Conduct Guidelines (BCG)."

The Kao Group is also committed to supporting and undertaking 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.

To take account of the various changes in society, laws and regulations since its most recent prior revision in 2008, the BCG was revised in April 2011 and is available on Kao's website (http://www.kao.com/jp/en/corp_info/compliance.html). In order to remind employees in Japan of the BCG, the Kao Group has used an e-learning system and conducted workshops on regular basis. For the penetration of the BCG among employees outside Japan, the Kao Group conducted the "Integrity Workshop" to deepen employees' understanding of the BCG and reaffirm the importance of "Integrity," one of the core values of The Kao Way.

Business Risks and Other Risks

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

Any statements below concerning the future are judgments made by Kao Corporation as of the submission of its securities report to the Ministry of Finance on June 29, 2011.

(1) Market and Consumer Demand

The Japanese consumer products market, the foundation of the Kao Group's operations, has been sluggish in recent years, due to economic stagnation as well as changes in the Kao Group's customer base as a consequence of the declining birth rate and aging society. Utilizing the changes in the values of its customer base, the Kao Group aims to respond to consumers' needs by applying its comprehensive *Yoki-Monozukuri* (see note on page 18) capabilities and working to develop value-added products to maintain and improve its brand values. However, a number of factors could cause uncertainties in the Kao Group's business activities, delaying an adequate response to these changes. This could have a gradual impact on the Kao Group's business results and financial condition.

(2) Prestige Cosmetics Business

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

(3) Distributors and Retailers

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

(4) Overseas Operations

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

(5) Environmental Activities

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

(6) Raw Material Prices

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

(7) Product Quality

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

(8) Earthquakes and Other Incidents

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

(9) Currency Exchange Rate Fluctuations

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

(10) Impairment

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

(11) Human Resources

Securing capable human resources is indispensable to achieve the Kao Group's business goals. Hiring, developing and retaining human resources with advanced expertise to implement R&D, production of technologies, market planning and sales activities are necessary to the *Yoki-Monozukuri* (see note on page 18) that consumers consistently support. However, an inability to secure superior human resources due to changes in employment conditions or other factors could have an impact on the Kao Group's business results and financial condition.

(12) Legal and Regulatory Issues

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

Consolidated Balance Sheets

Kao Corporation and Consolidated Subsidiaries
March 31, 2011 and 2010

Assets	Millions of yen 2011	Millions of yen 2010	Thousands of U.S. dollars (Note 2) 2011
Current assets:			
Cash and time deposits (Notes 3 and 16)	¥ 110,762	¥ 70,186	$ 1,332,075
Short-term investments (Notes 3, 4 and 16)	37,028	48,072	445,316
Notes and accounts receivable (Note 16):			
Trade (Note 5)	120,297	125,754	1,446,747
Nonconsolidated subsidiaries and affiliates	1,610	3,481	19,363
Other	3,066	5,238	36,873
Inventories:			
Finished goods	73,190	73,168	880,216
Work in process and raw materials	36,148	33,424	434,732
Deferred tax assets (Note 6)	21,854	20,236	262,826
Other current assets	13,959	15,621	167,877
Allowance for doubtful receivables (Note 16)	(1,081)	(1,208)	(13,001)
Total current assets	416,833	393,972	5,013,024
Property, plant and equipment (Note 5):			
Land	62,873	63,863	756,140
Buildings and structures	321,040	314,808	3,860,974
Machinery, equipment and other	694,261	700,895	8,349,501
Lease assets	12,147	11,610	146,085
Construction in progress	8,321	9,076	100,072
Total	1,098,642	1,100,252	13,212,772
Accumulated depreciation	(853,918)	(848,408)	(10,269,609)
Net property, plant and equipment	244,724	251,844	2,943,163
Intangible assets:			
Goodwill	179,225	195,754	2,155,442
Trademarks	71,176	89,358	855,995
Other intangible assets	22,557	28,823	271,281
Total intangible assets	272,958	313,935	3,282,718
Investments and other assets:			
Investment securities (Notes 4 and 16)	7,023	8,212	84,462
Investments in and advances to nonconsolidated subsidiaries and affiliates	5,590	5,873	67,228
Deferred tax assets (Note 6)	49,966	61,360	600,914
Other assets (Note 8)	25,705	30,555	309,140
Total investments and other assets	88,284	106,000	1,061,744
	¥1,022,799	¥1,065,751	$ 12,300,649

See Notes to Consolidated Financial Statements.

Liabilities and Equity	Millions of yen 2011	Millions of yen 2010	Thousands of U.S. dollars (Note 2) 2011
Current liabilities:			
Short-term debt (Notes 5 and 16)	¥ 6,776	¥ 7,528	$ 81,491
Current portion of long-term debt (Notes 5, 16 and 18)	80,795	25,275	971,678
Notes and accounts payable (Note 16):			
Trade	102,206	98,077	1,229,176
Nonconsolidated subsidiaries and affiliates	5,133	2,085	61,732
Other	43,689	26,533	525,424
Income taxes payable (Note 16)	18,785	20,346	225,917
Accrued expenses	68,267	76,696	821,010
Liability for loss related to the Great East Japan Earthquake (Note 15)	2,658	–	31,966
Other current liabilities (Notes 5 and 6)	19,886	23,035	239,159
Total current liabilities	348,195	279,575	4,187,553
Long-term liabilities:			
Long-term debt (Notes 5 and 16)	77,451	159,090	931,461
Liability for retirement benefits (Note 8)	42,317	38,417	508,924
Other (Notes 5 and 6)	15,272	13,375	183,668
Total long-term liabilities	135,040	210,882	1,624,053
Commitments and contingent liabilities (Notes 7, 9 and 17)			
Equity (Notes 10 and 11):			
Common stock:			
Authorized — 1,000,000,000 shares in 2011 and 2010			
Issued — 540,143,701 shares in 2011 and 2010	85,424	85,424	1,027,348
Capital surplus	109,561	109,561	1,317,631
Stock acquisition rights	1,143	1,022	13,746
Retained earnings	457,918	442,273	5,507,132
Treasury stock, at cost			
(18,063,790 shares in 2011 and 4,122,298 shares in 2010)	(40,977)	(10,978)	(492,808)
Accumulated other comprehensive income			
Unrealized gain on available-for-sale securities	1,861	2,292	22,381
Deferred gain (loss) on derivatives under hedge accounting	(2)	(0)	(25)
Foreign currency translation adjustments	(84,430)	(62,993)	(1,015,394)
Post retirement liability adjustments for foreign consolidated subsidiaries	(461)	(446)	(5,544)
Total	530,037	566,155	6,374,467
Minority interests	9,527	9,139	114,576
Total equity	539,564	575,294	6,489,043
	¥1,022,799	¥1,065,751	$12,300,649

Consolidated Statements of Income

Kao Corporation and Consolidated Subsidiaries
Years ended March 31, 2011 and 2010

	Millions of yen		Thousands of U.S. dollars (Note 2)
	2011	2010	2011
Net sales (Note 13)	¥1,186,831	¥1,184,385	$14,273,373
Cost of sales (Note 15)	498,970	493,004	6,000,842
Gross profit	687,861	691,381	8,272,531
Selling, general and administrative expenses (Note 14)	583,270	597,347	7,014,672
Operating income (Note 13)	104,591	94,034	1,257,859
Other income (expenses):			
Interest and dividend income	990	1,124	11,906
Interest expense (Note 18)	(3,342)	(4,232)	(40,193)
Foreign currency exchange gain (loss)	(2,233)	(370)	(26,855)
Equity in earnings (losses) of nonconsolidated subsidiaries and affiliates	973	1,168	11,702
Other, net (Note 15)	(4,960)	(8,763)	(59,651)
Other income (expenses), net	(8,572)	(11,073)	(103,091)
Income before income taxes and minority interests	96,019	82,961	1,154,768
Income taxes (Note 6):			
Current	38,996	36,906	468,983
Deferred	9,182	4,734	110,427
Total income taxes	48,178	41,640	579,410
Income before minority interests	47,841	41,321	575,358
Minority interests in earnings of consolidated subsidiaries	1,103	814	13,265
Net income	¥ 46,738	¥ 40,507	$ 562,093
Per share of common stock (Notes 1.t and 19):	Yen		U.S. dollars (Note 2)
Basic net income	¥87.69	¥75.57	$1.05
Diluted net income	87.67	75.55	1.05
Cash dividends applicable to the year	58.00	57.00	0.70

See Notes to Consolidated Financial Statements.

Consolidated Statement of Comprehensive Income

Kao Corporation and Consolidated Subsidiaries
Year ended March 31, 2011

	Millions of yen	Thousands of U.S. dollars (Note 2)
	2011	2011
Income before minority interests	¥ 47,841	$ 575,358
Other comprehensive income (Note 12)		
Unrealized gain (loss) on available-for-sale securities	(480)	(5,773)
Foreign currency translation adjustments	(21,865)	(262,959)
Share of other comprehensive income in affiliates	77	926
Post retirement liability adjustments for foreign consolidated subsidiaries	(15)	(180)
Total other comprehensive income	(22,283)	(267,986)
Comprehensive income (Note 12)	¥ 25,558	$ 307,372
Comprehensive income attribute to (Note 12):		
Shareholders of Kao Corporation	¥24,853	$298,893
Minority interests	705	8,479

See Notes to Consolidated Financial Statements.

Consolidated Statements of Changes in Equity

Kao Corporation and Consolidated Subsidiaries
Years ended March 31, 2011 and 2010

	Millions of yen		Thousands of U.S. dollars (Note 2)
	2011	2010	2011
Common stock			
Balance at beginning of year	¥ 85,424	¥ 85,424	$ 1,027,348
Balance at end of year	85,424	85,424	1,027,348
Capital surplus			
Balance at beginning of year	109,561	109,561	1,317,631
Balance at end of year	109,561	109,561	1,317,631
Stock acquisition rights			
Balance at beginning of year	1,022	839	12,291
Net change in the year	121	183	1,455
Balance at end of year	1,143	1,022	13,746
Retained earnings			
Balance at beginning of year	442,273	431,799	5,318,978
Net income	46,738	40,507	562,093
Cash dividends	(31,090)	(30,016)	(373,903)
Disposal of treasury stock	(3)	(17)	(36)
Balance at end of year	457,918	442,273	5,507,132
Treasury stock, at cost			
Balance at beginning of year	(10,978)	(11,039)	(132,026)
Purchase of treasury stock	(30,093)	(89)	(361,912)
Disposal of treasury stock	94	150	1,130
Balance at end of year	(40,977)	(10,978)	(492,808)
Accumulated other comprehensive income			
Unrealized gain on available-for-sale securities			
Balance at beginning of year	2,292	2,091	27,564
Net change in the year	(431)	201	(5,183)
Balance at end of year	1,861	2,292	22,381
Deferred gain (loss) on derivatives under hedge accounting			
Balance at beginning of year	(0)	(12)	(0)
Net change in the year	(2)	12	(25)
Balance at end of year	(2)	(0)	(25)
Foreign currency translation adjustments			
Balance at beginning of year	(62,993)	(70,134)	(757,583)
Net change in the year	(21,437)	7,141	(257,811)
Balance at end of year	(84,430)	(62,993)	(1,015,394)
Post retirement liability adjustments for foreign consolidated subsidiaries			
Balance at beginning of year	(446)	(2,460)	(5,364)
Net change in the year	(15)	2,014	(180)
Balance at end of year	¥ (461)	¥ (446)	$ (5,544)

	Millions of yen		Thousands of U.S. dollars (Note 2)
	2011	2010	2011
Total			
Balance at beginning of year	¥566,155	¥546,069	$6,808,839
Net income	46,738	40,507	562,093
Cash dividends	(31,090)	(30,016)	(373,903)
Purchase of treasury stock	(30,093)	(89)	(361,912)
Disposal of treasury stock	91	133	1,094
Net change in the year	(21,764)	9,551	(261,744)
Balance at end of year	530,037	566,155	6,374,467
Minority interests			
Balance at beginning of year	9,139	8,125	109,910
Net change in the year	388	1,014	4,666
Balance at end of year	9,527	9,139	114,576
Total equity			
Balance at beginning of year	575,294	554,194	6,918,749
Net income	46,738	40,507	562,093
Cash dividends	(31,090)	(30,016)	(373,903)
Purchase of treasury stock	(30,093)	(89)	(361,912)
Disposal of treasury stock	91	133	1,094
Net change in the year	(21,376)	10,565	(257,078)
Balance at end of year	¥539,564	¥575,294	$6,489,043

	Yen		U.S. dollars (Note 2)
	2011	2010	2011
Cash dividends per share	¥58.00	¥56.00	$0.70

	Thousands	
	2011	2010
Outstanding number of shares of common stock		
Balance at beginning of year	536,021	536,015
Purchase of treasury stock	(13,974)	(43)
Disposal of treasury stock	33	49
Balance at end of year	522,080	536,021

See Notes to Consolidated Financial Statements.

Consolidated Statements of Cash Flows

Kao Corporation and Consolidated Subsidiaries
Years ended March 31, 2011 and 2010

	Millions of yen		Thousands of U.S. dollars (Note 2)
	2011	2010	2011
Operating activities:			
Income before income taxes and minority interests	¥ 96,019	¥ 82,961	$ 1,154,768
Adjustments for:			
Income taxes paid	(40,888)	(28,825)	(491,737)
Depreciation and amortization	81,380	84,778	978,713
Loss on sales or disposals of property, plant and equipment, net	1,334	2,602	16,043
Equity in (earnings) losses of nonconsolidated subsidiaries and affiliates	(973)	(1,168)	(11,702)
Unrealized foreign currency exchange (gain) loss	455	(417)	5,472
Change in trade receivables	(642)	887	(7,721)
Change in inventories	(7,566)	13,072	(90,992)
Change in prepaid pension cost	(73)	3,848	(878)
Change in trade payables	7,794	3,776	93,734
Change in liability for retirement benefits	4,596	2,030	55,274
Other, net	9,863	8,741	118,617
Net cash provided by operating activities	151,299	172,285	1,819,591
Investing activities:			
Purchase of property, plant and equipment	(27,725)	(35,164)	(333,434)
Proceeds from sales of property, plant and equipment	2,410	1,971	28,984
Increase in intangible assets	(3,068)	(5,101)	(36,897)
Proceeds from the redemption and sales of investment securities	594	35	7,143
Increase in investments in and advances to nonconsolidated subsidiaries and affiliates	(153)	(1,353)	(1,840)
Proceeds from cancellation of derivatives	4,297	—	51,678
Other, net	(8,133)	(4,608)	(97,811)
Net cash used in investing activities	(31,778)	(44,220)	(382,177)
Financing activities:			
Increase (decrease) in short-term debt	12	(9,485)	144
Proceeds from long-term loans	17	35	205
Repayments of long-term loans (Note 18)	(24,960)	(84,064)	(300,180)
Purchase of treasury stock	(30,093)	(89)	(361,912)
Payments of cash dividends	(31,427)	(30,092)	(377,956)
Other, net	(872)	(871)	(10,487)
Net cash used in financing activities	(87,323)	(124,566)	(1,050,186)
Translation adjustments on cash and cash equivalents	(6,401)	3,116	(76,981)
Net increase (decrease) in cash and cash equivalents	25,797	6,615	310,247
Cash and cash equivalents, beginning of year (Note 3)	117,180	110,565	1,409,260
Cash and cash equivalents of newly consolidated subsidiaries, increase	166	—	1,996
Cash and cash equivalents, end of year (Note 3)	¥143,143	¥ 117,180	$ 1,721,503

See Notes to Consolidated Financial Statements.

Notes to Consolidated Financial Statements

Kao Corporation and Consolidated Subsidiaries
Years ended March 31, 2011 and 2010

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.

Under Japanese GAAP a consolidated statement of comprehensive income is required from the fiscal year ended March 31, 2011 and has been presented. Accordingly, accumulated other comprehensive income is presented in the consolidated balance sheet and the consolidated statement of changes in equity. Information with respect to other comprehensive income for the year ended March 31, 2010 is disclosed in Note 12.

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 2010 financial statement items were reclassified to conform to the presentation for 2011.

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 these estimates.

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

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

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

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

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

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

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

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

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

The accounting standard requires adjustments to be made to conform the affiliate's accounting policies for similar transactions and events under similar circumstances to those of the parent company when the affiliate's financial statements are used in applying the equity method unless it is impracticable to determine adjustments. In addition, financial statements prepared by foreign affiliated companies in accordance with either International Financial Reporting Standards or the generally accepted accounting principles in the United States tentatively may be used in applying the equity method if the following items are adjusted so that net income is accounted for in accordance with Japanese GAAP unless they are not material: 1) amortization of goodwill; 2) scheduled amortization of actuarial gain or loss on pensions that has been directly recorded in equity; 3) expensing capitalized development costs of R&D; 4) cancellation of the fair value model accounting for property, plant, and equipment and investment properties and incorporation of the cost model accounting; 5) 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.

e) Business combination

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

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

confirming that all of the assets acquired and all of the liabilities assumed have been identified after a review of the procedures used in the purchase allocation.

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

f) 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.

g) Inventories

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

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

h) 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.

i) 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.

j) Intangible assets

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

k) 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.

l) Retirement and pension plans

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

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

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

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

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

m) Asset retirement obligations

The accounting standard and guidance for asset retirement obligations define an asset retirement obligation as a legal obligation imposed either by law or contract that results from the acquisition, construction, development and the normal operation of a tangible fixed asset and is associated with the retirement of such tangible fixed asset.

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

n) 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.

o) Leases

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

All other leases are accounted for as operating leases.

p) 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.

q) 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.

r) 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.

s) 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.

t) 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.

u) New accounting pronouncements

Accounting changes and error corrections

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

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

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

2 Translation into United States Dollars

The Companies' accounts are maintained in or translated into Japanese yen. The United States dollar (US$) amounts included herein represent translations using the approximate exchange rate at March 31, 2011 of ¥83.15=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, 2011 and 2010 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2011	2010	2011
Cash and time deposits	¥110,762	¥ 70,186	$1,332,075
Short-term investments	37,028	48,072	445,316
Less: time deposits and short-term investments which mature or become due over three months after the date of acquisition	(4,647)	(1,078)	(55,888)
Cash and cash equivalents	¥143,143	¥117,180	$1,721,503

4 Short-Term Investments and Investment Securities

Short-term investments and investment securities as of March 31, 2011 and 2010 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2011	2010	2011
Short-term investments:			
Government and corporate bonds	¥ 6,270	¥ —	$ 75,406
Investment trust funds and other	30,758	48,072	369,910
Total	¥37,028	¥48,072	$445,316
Investment securities:			
Marketable equity securities	¥ 5,828	¥ 7,010	$ 70,090
Investment trust funds and other	1,195	1,202	14,372
Total	¥ 7,023	¥ 8,212	$ 84,462

The carrying amount and aggregate fair value of the securities classified as available-for-sale and held-to-maturity at March 31, 2011 and 2010 were as follows:

	Millions of yen			
	2011			
	Cost	Unrealized gains	Unrealized losses	Fair value
Securities classified as:				
Available-for-sale:				
Equity securities	¥ 2,765	¥3,202	¥139	¥ 5,828
Debt securities and other	27,029	—	—	27,029
Held-to-maturity:				
Debt securities and other	9,999	—	—	9,999

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

	Thousands of U.S. dollars			
	2011			
	Cost	Unrealized gains	Unrealized losses	Fair value
Securities classified as:				
Available-for-sale:				
Equity securities	$ 33,253	$38,509	$1,672	$ 70,090
Debt securities and other	325,063	—	—	325,063
Held-to-maturity:				
Debt securities and other	120,253	—	—	120,253

Available-for-sale securities whose fair values are not readily determinable as of March 31, 2011 and 2010 were as follows:

	Carrying amount		
	Millions of yen		Thousands of U.S. dollars
	2011	2010	2011
Available-for-sale:			
Equity securities	¥1,195	¥1,202	$14,372
Total	¥1,195	¥1,202	$14,372

Proceeds from sales of available-for-sale securities for the years ended March 31, 2011 and 2010 were ¥594 million (US$7,143 thousand) and ¥35 million, respectively. Gross realized gains and losses on these sales, computed on the moving-average cost basis, for the year ended March 31, 2011 were ¥186 million (US$2,237 thousand) and ¥4 million (US$48 thousand), and for the year ended March 31, 2010 were ¥3 million and ¥5 million, respectively.

The carrying values of debt securities by contractual maturities for securities classified as held-to-maturity at March 31, 2011 are included in Note 16.

5 Short-Term and Long-Term Debt

Short-term debt at March 31, 2011 and 2010 was comprised of the following:

	Millions of yen		Thousands of U.S. dollars
	2011	2010	2011
Secured loans principally from financial institutions	¥ 69	¥ 66	$ 830
Unsecured loans principally from financial institutions	6,707	7,462	80,661
Total	¥6,776	¥7,528	$81,491

The weighted average interest rates applicable to the above loans were 3.90% and 3.61% at March 31, 2011 and 2010, respectively.

In addition to the above short-term debt, deposits payable to affiliates, included in other current liabilities, were ¥5,058 million (US$60,830 thousand) and ¥6,077 million at March 31, 2011 and 2010, respectively, and the applicable interest rates were 0.44% and 0.56% at March 31, 2011 and 2010, respectively.

The secured loans are collateralized by property, plant and equipment having a book value of ¥696 million (US$8,370 thousand) and by trade accounts receivable of ¥202 million (US$2,429 thousand) at March 31, 2011.

Long-term debt at March 31, 2011 and 2010 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2011	2010	2011
Unsecured bonds due 2011, 1.60% and due 2013, 1.91%	¥ 99,998	¥ 99,998	$1,202,622
Unsecured loans principally from financial institutions, weighted average rate 1.75% in 2011, 1.41% in 2010	50,056	75,076	601,996
Lease obligations	8,192	9,291	98,521
	¥158,246	¥184,365	$1,903,139
Less current portion	(80,795)	(25,275)	(971,678)
Total	¥ 77,451	¥159,090	$ 931,461

In addition to the above long-term debt, deposits payable to customers, included in other long-term liabilities, were ¥6,060 million (US$72,880 thousand) and ¥6,000 million at March 31, 2011 and 2010, respectively, and the applicable interest rates were 0.15% and 0.30% at March 31, 2011 and 2010, respectively.

The aggregate annual maturities of long-term debt as of March 31, 2011 were as follows:

Years ending March 31	Millions of yen	Thousands of U.S. dollars
2012	¥ 80,795	$ 971,678
2013	831	9,994
2014	70,808	851,569
2015	795	9,561
2016	1,140	13,710
2017 and thereafter	3,877	46,627
Total	¥158,246	$1,903,139

6 Income Taxes

The Company and its domestic subsidiaries are subject to Japanese national and local taxes based on income, which in the aggregate resulted in a normal statutory tax rate of approximately 41% for both 2011 and 2010.

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, 2011 and 2010 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2011	2010	2011
Deferred tax assets:			
Depreciation and amortization	¥ 21,552	¥ 22,952	$ 259,194
Pension and severance costs	16,362	14,694	196,777
Accrued expenses	11,720	13,374	140,950
Enterprise taxes	1,487	1,479	17,883
Tax loss carryforwards	63,157	63,955	759,555
Other	15,981	15,260	192,195
Less valuation allowance	(40,270)	(32,777)	(484,305)
Deferred tax assets	¥ 89,989	¥ 98,937	$1,082,249
Deferred tax liabilities:			
Unrealized gain on available-for-sale securities	¥ (1,310)	¥ (1,612)	$ (15,755)
Undistributed foreign earnings	(5,893)	(5,517)	(70,872)
Deferred gains on sales of property	(4,531)	(4,354)	(54,492)
Prepaid pension cost	(1,042)	(1,218)	(12,532)
Other	(7,161)	(7,301)	(86,121)
Deferred tax liabilities	¥(19,937)	¥(20,002)	$ (239,772)
Net deferred tax assets	¥ 70,052	¥ 78,935	$ 842,477

A reconciliation between the normal effective statutory tax rates and the actual effective tax rates reflected in the accompanying consolidated statements of income for the years ended March 31, 2011 and 2010 were as follows:

	2011	2010
Normal effective statutory tax rate	40.5%	40.5%
Tax credit for research and development costs and other	(2.7)	(2.8)
Valuation allowance	9.5	6.9
Amortization expenses not deductible for income tax purposes	4.9	5.7
Other – net	(2.0)	(0.1)
Actual effective tax rate	50.2%	50.2%

7 Leases

(a) Finance leases:
The Companies lease certain buildings, machinery, computer equipment and other assets.

(b) Operating leases:
The minimum rental commitments under noncancellable operating leases as of March 31, 2011 and 2010 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2011	2010	2011
Due within one year	¥ 8,624	¥ 7,898	$103,716
Due after one year	30,826	30,850	370,728
Total	¥39,450	¥38,748	$474,444

8 Retirement Benefits

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

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

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

The liability for retirement benefits at March 31, 2011 and 2010 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2011	2010	2011
Projected benefit obligation	¥ 231,540	¥ 229,589	$ 2,784,607
Fair value of plan assets	(189,043)	(192,442)	(2,273,518)
Unrecognized prior service cost	14,128	17,700	169,910
Unrecognized actuarial loss	(8,223)	(8,758)	(98,894)
Unrecognized transitional obligation	(7,213)	(8,978)	(86,747)
Prepaid pension cost	1,128	1,306	13,566
Net liability for retirement benefits	¥ 42,317	¥ 38,417	$ 508,924

The components of net periodic benefit costs for the years ended March 31, 2011 and 2010 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2011	2010	2011
Service cost	¥ 8,399	¥ 8,584	$101,010
Interest cost	5,147	5,193	61,900
Expected return on plan assets	(4,423)	(4,168)	(53,193)
Amortization of prior service cost (credit)	(3,603)	(2,826)	(43,331)
Recognized actuarial loss	4,903	7,036	58,966
Amortization of transitional obligation	1,679	1,803	20,192
Net periodic benefit costs	¥12,102	¥15,622	$145,544

Assumptions used for the years ended March 31, 2011 and 2010 were set forth as follows:

	2011	2010
Discount rate	Primarily 2.0%	Primarily 2.0%
Expected rate of return on plan assets	Primarily 2.0%	Primarily 2.0%
Amortization period of prior service cost	Primarily 15 years	Primarily 15 years
Recognition period of actuarial gain/loss	Primarily 10 years	Primarily 10 years
Amortization period of transitional obligation	15 years	15 years

In addition to the above net periodic benefit costs, the costs for other retirement and pension plans such as a defined contribution plan and for other supplemental retirement benefits were ¥2,358 million (US$28,358 thousand) and ¥3,593 million for the years ended March 31, 2011 and 2010, respectively.

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

9 Contingent Liabilities

At March 31, 2011, the Companies had the following contingent liabilities:

	Millions of yen	Thousands of U.S. dollars
Trade notes discounted	¥ 192	$ 2,309
Guarantees of borrowings, principally of affiliates and employees	1,105	13,289

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

10 Equity

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

(a) Dividends

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

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

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

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

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

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

The Company's legal reserve amount, which is included in retained earnings, totals ¥14,117 million (US$169,778 thousand) at both March 31, 2011 and 2010. The Company's additional paid-in capital amount, which is included in capital surplus, totals ¥108,889 million (US$1,309,549 thousand) at both March 31, 2011 and 2010.

The accompanying consolidated financial statements do not include any provision for the year-end dividend of ¥29.0 (US$0.35) per share, aggregating ¥15,156 million (US$182,273 thousand) which the Company will subsequently propose at the 105th Annual General Meeting of Shareholders to be held on June 29, 2011 as an appropriation of retained earnings in respect of the year ended March 31, 2011.

(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 purchased 13.9 million shares of its common stock from the market during the fiscal year ended March 31, 2011, at an aggregate cost of ¥30,000 million (US$360,794 thousand). On May 20, 2011, the Company retired 13.9 million shares of treasury stock by the resolution of the Board of Directors at the meeting held on April 26, 2011.

11 Stock-Based Compensation Plans

The stock options for the year ended March 31, 2011 were as follows:

Name	Persons originally granted	Number of options originally granted	Date of grant	Exercise price (Yen)	Exercise price (U.S. dollars)	Exercise period
Stock option 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	$28.53	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	$32.41	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	$32.29	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	$38.62	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	$41.44	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	$37.28	September 1, 2010 through August 31, 2015
Stock option 2009 I	13 Directors of the Company	36,000 shares*	August 28, 2009	¥1	$0.01	July 1, 2011 through June 30, 2016
Stock option 2009 II	12 Executive Officers of the Company*****	24,000 shares*	August 28, 2009	¥1	$0.01	July 1, 2011 through June 30, 2016
Stock option 2009 III	74 Employees of the Company 8 Directors of subsidiaries of the Company	430,000 shares*	August 28, 2009	¥2,355	$28.32	September 1, 2011 through August 30, 2016
Stock option 2010 I	14 Directors of the Company	38,000 shares*	August 25, 2010	¥1	$0.01	July 1, 2012 through June 30, 2017
Stock option 2010 II	12 Executive Officers of the Company******	24,000 shares*	August 25, 2010	¥1	$0.01	July 1, 2012 through June 30, 2017
Stock option 2010 III	81 Employees of the Company 2 Directors of subsidiaries of the Company	435,000 shares*	August 25, 2010	¥2,190	$26.34	September 1, 2012 through August 31, 2017

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

The activity of stock options was as follows:

(Number of shares)

	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, 2010									
Non-vested									
Outstanding at March 31, 2009	—	—	—	—	—	—	—	—	—
Granted	—	—	—	—	—	—	—	—	—
Expired	—	—	—	—	—	—	—	—	—
Vested	—	—	—	—	—	—	—	—	—
Outstanding at March 31, 2010	—	—	—	—	—	—	—	—	—
Vested									
Outstanding at March 31, 2009	220,000	722,000	926,000	8,000	15,000	418,000	25,000	14,000	425,000
Vested	—	—	—	—	—	—	—	—	—
Exercised	—	—	—	2,000	9,000	—	16,000	6,000	—
Expired	12,000	27,000	35,000	—	—	19,000	—	—	12,000
Outstanding at March 31, 2010	208,000	695,000	891,000	6,000	6,000	399,000	9,000	8,000	413,000
For the year ended March 31, 2011									
Non-vested									
Outstanding at March 31, 2010	—	—	—	—	—	—	—	—	—
Granted	—	—	—	—	—	—	—	—	—
Expired	—	—	—	—	—	—	—	—	—
Vested	—	—	—	—	—	—	—	—	—
Outstanding at March 31, 2011	—	—	—	—	—	—	—	—	—
Vested									
Outstanding at March 31, 2010	208,000	695,000	891,000	6,000	6,000	399,000	9,000	8,000	413,000
Vested	—	—	—	—	—	—	—	—	—
Exercised	5,000	—	—	2,000	2,000	—	3,000	2,000	—
Expired	203,000	71,000	84,000	—	—	27,000	—	—	22,000
Outstanding at March 31, 2011	—	624,000	807,000	4,000	4,000	372,000	6,000	6,000	391,000
Exercise price									
Yen	¥2,372	¥2,695	¥2,685	¥1	¥1	¥3,211	¥1	¥1	¥3,446
U.S. dollars	$28.53	$32.41	$32.29	$0.01	$0.01	$38.62	$0.01	$0.01	$41.44
Average stock price at exercise									
Yen	¥2,370	—	—	¥2,107	¥2,183	—	¥2,162	¥2,107	—
U.S. dollars	$28.50	—	—	$25.34	$26.25	—	$26.00	$25.34	—
Fair value price at grant date									
Yen	—	—	—	¥2,932	¥2,932	¥435	¥3,063	¥3,063	¥420
U.S. dollars	—	—	—	$35.26	$35.26	$5.23	$36.84	$36.84	$5.05

(Number of shares)

	Stock option 2008 I	Stock option 2008 II	Stock option 2008 III	Stock option 2009 I	Stock option 2009 II	Stock option 2009 III	Stock option 2010 I	Stock option 2010 II	Stock option 2010 III
For the year ended March 31, 2010									
Non-vested									
Outstanding at March 31, 2009	—	—	—	—	—	—	—	—	—
Granted	—	—	—	36,000	24,000	430,000	—	—	—
Expired	—	—	—	—	—	—	—	—	—
Vested	—	—	—	36,000	24,000	430,000	—	—	—
Outstanding at March 31, 2010	—	—	—	—	—	—	—	—	—
Vested									
Outstanding at March 31, 2009	24,000	12,000	442,000	—	—	—	—	—	—
Vested	—	—	—	36,000	24,000	430,000	—	—	—
Exercised	—	—	—	—	—	—	—	—	—
Expired	—	—	—	—	—	—	—	—	—
Outstanding at March 31, 2010	24,000	12,000	442,000	36,000	24,000	430,000	—	—	—
For the year ended March 31, 2011									
Non-vested									
Outstanding at March 31, 2010	—	—	—	—	—	—	—	—	—
Granted	—	—	—	—	—	—	38,000	24,000	435,000
Expired	—	—	—	—	—	—	—	—	—
Vested	—	—	—	—	—	—	38,000	24,000	435,000
Outstanding at March 31, 2011	—	—	—	—	—	—	—	—	—
Vested									
Outstanding at March 31, 2010	24,000	12,000	442,000	36,000	24,000	430,000	—	—	—
Vested	—	—	—	—	—	—	38,000	24,000	435,000
Exercised	11,000	5,000	—	—	—	—	—	—	—
Expired	—	—	—	—	—	—	—	—	—
Outstanding at March 31, 2011	13,000	7,000	442,000	36,000	24,000	430,000	38,000	24,000	435,000
Exercise price									
Yen	¥1	¥1	¥3,100	¥1	¥1	¥2,355	¥1	¥1	¥2,190
U.S. dollars	$0.01	$0.01	$37.28	$0.01	$0.01	$28.32	$0.01	$0.01	$26.34
Average stock price at exercise									
Yen	¥2,040	¥2,076	—	—	—	—	—	—	—
U.S. dollars	$24.53	$24.97	—	—	—	—	—	—	—
Fair value price at grant date									
Yen	¥2,865	¥2,865	¥426	¥2,115	¥2,115	¥394	¥1,749	¥1,749	¥245
U.S. dollars	$34.46	$34.46	$5.12	$25.44	$25.44	$4.74	$21.03	$21.03	$2.95

The fair value prices for 2010 stock options were estimated using the Black-Scholes Option Pricing Model with the following assumptions:

	Stock option 2010 I	Stock option 2010 II	Stock option 2010 III
Volatility of stock price	25.812%	25.812%	25.812%
Estimated remaining outstanding period	4.5 years	4.5 years	4.5 years
Estimated dividend per share			
Yen	¥57	¥57	¥57
U.S. dollars	$0.69	$0.69	$0.69
Risk-free interest rate	0.244%	0.244%	0.244%

Subsequently, at the 105th Annual General Meeting of Shareholders to be held on June 29, 2011, 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, 2013 to August 31, 2018.

12 Comprehensive Income

Other comprehensive income for the year ended March 31, 2010 consisted of the following:

	Millions of yen
	2010
Other comprehensive income:	
Unrealized gain (loss) on available-for-sale securities	¥ 123
Foreign currency translation adjustments	7,606
Share of other comprehensive income in affiliates	102
Post retirement liability adjustments for foreign consolidated subsidiaries	2,014
Total other comprehensive income	¥9,845

Comprehensive income for the year ended March 31, 2010 consisted of the following:

	Millions of yen
	2010
Comprehensive income attribute to:	
Shareholders of Kao Corporation	¥49,875
Minority interests	1,291
Comprehensive income	¥51,166

13 Segment Information

(a) For the years ended March 31, 2011 and 2010

On March 21, 2008, the ASBJ revised ASBJ Statement No. 17 *Accounting Standard for Segment Information Disclosures* and issued ASBJ Guidance No. 20 *Guidance on Accounting Standard for Segment Information Disclosures*. Under the revised accounting standard and new guidance, an entity is required to report financial and descriptive information about its reportable segments. Reportable segments are operating segments or aggregations of operating segments that meet specified criteria. Operating segments are components of an entity about which separate financial information is available and such information is evaluated regularly by the chief operating decision maker in deciding how to allocate resources and in assessing performance. Generally, segment information is required to be reported on the same basis as is used internally for evaluating operating segment performance and deciding how to allocate resources to operating segments. The Company applied the revised accounting standard and new guidance from the year ended March 31, 2011.

(1) Description of reportable segments

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

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

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

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

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

Information by reportable segment of the Companies for the years ended March 31, 2011 and 2010 was as follows:

	Millions of yen						
	2011						
	Reportable segment						
	Consumer Products Business						
	Beauty Care Business	Human Health Care Business	Fabric and Home Care Business	Total	Chemical Business	Reconciliations*	Consolidated
Sales to customers	¥533,514	¥175,761	¥279,008	¥988,283	¥198,548	¥ —	¥1,186,831
Intersegment sales	—	—	—	—	33,449	(33,449)	—
Total sales	533,514	175,761	279,008	988,283	231,997	(33,449)	1,186,831
Segment profit (Operating income)	¥ 5,536	¥ 15,284	¥ 59,659	¥ 80,479	¥ 24,100	¥ 12	¥ 104,591
Segment assets	¥547,092	¥ 87,127	¥124,561	¥758,780	¥186,704	¥ 77,315	¥1,022,799
Other							
Depreciation and amortization**	¥ 39,186	¥ 7,902	¥ 9,438	¥ 56,526	¥ 12,347	¥ —	¥ 68,873
Investment for affiliates applied for equity methods	1,603	936	1,019	3,558	1,483	—	5,041
Increase in property, plant and equipment and intangible assets	16,276	8,871	12,223	37,370	11,731	—	49,101

* Reconciliation of segment profit includes elimination of intersegment transactions of inventory.
Reconciliation of assets includes ¥81,193 million of the company's financial assets and negative ¥3,878 million elimination of receivables among reportable segments.
** Depreciation and amortization excludes amortization of goodwill.

	Millions of yen						
	2010						
	Reportable segment						
	Consumer Products Business						
	Beauty Care Business	Human Health Care Business	Fabric and Home Care Business	Total	Chemical Business	Reconciliations*	Consolidated
Sales to customers	¥547,944	¥183,151	¥276,918	¥1,008,013	¥176,372	¥ —	¥1,184,385
Intersegment sales	—	—	—	—	31,462	(31,462)	—
Total sales	547,944	183,151	276,918	1,008,013	207,834	(31,462)	1,184,385
Segment profit (Operating income)	¥ 4,750	¥ 8,952	¥ 60,652	¥ 74,354	¥ 19,654	¥ 26	¥ 94,034
Segment assets	¥603,129	¥ 93,620	¥127,859	¥ 824,608	¥190,530	¥ 50,613	¥1,065,751
Other							
Depreciation and amortization**	¥ 39,766	¥ 8,612	¥ 10,041	¥ 58,419	¥ 13,667	¥ —	¥ 72,086
Investment for affiliates applied for equity methods	1,638	917	1,059	3,614	1,349	—	4,963
Increase in property, plant and equipment and intangible assets	19,519	6,527	8,475	34,521	10,347	—	44,868

* Reconciliation of segment profit includes elimination of intersegment transactions of inventory.
Reconciliation of assets includes ¥54,820 million of the company's financial assets and negative ¥4,207 million elimination of receivables among reportable segments.
** Depreciation and amortization excludes amortization of goodwill.

	Thousands of U.S. dollars						
	2011						
	Reportable segment						
	Consumer Products Business						
	Beauty Care Business	Human Health Care Business	Fabric and Home Care Business	Total	Chemical Business	Reconciliations*	Consolidated
Sales to customers	$6,416,284	$2,113,782	$3,355,478	$11,885,544	$2,387,829	$ —	$14,273,373
Intersegment sales	—	—	—	—	402,273	(402,273)	—
Total sales	6,414,284	2,113,782	3,355,478	11,885,544	2,790,102	(402,273)	14,273,373
Segment profit (Operating income)	$ 66,578	$ 183,812	$ 717,487	$ 967,877	$ 289,838	$ 144	$ 1,257,859
Segment assets	$6,579,579	$1,047,829	$1,498,028	$ 9,125,436	$2,245,388	$ 929,825	$12,300,649
Other							
Depreciation and amortization**	$ 471,269	$ 95,033	$ 113,506	$ 679,808	$ 148,490	$ —	$ 828,298
Investment for affiliates applied for equity methods	19,278	11,257	12,255	42,790	17,835	—	60,625
Increase in property, plant and equipment and intangible assets	195,743	106,687	146,999	449,429	141,082	—	590,511

* Reconciliation of segment profit includes elimination of intersegment transactions of inventory.
Reconciliation of assets includes $976,464 thousand of the company's financial assets and negative $46,639 million elimination of receivables among reportable segments.
** Depreciation and amortization excludes amortization of goodwill.

(b) Information related to reportable segment

Sales by geographic area were as follows:

	Millions of yen				
	2011				
	Japan	Asia/Oceania*	America**	Europe***	Consolidated
Sales to customers	¥874,771	¥131,473	¥83,082	¥97,505	¥1,186,831

	Thousands of U.S. dollars				
	2011				
	Japan	Asia/Oceania*	America**	Europe***	Consolidated
Sales to customers	$10,520,397	$1,581,155	$999,182	$1,172,639	$14,273,373

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

Property, plant and equipment by geographic area were as follows:

	Millions of yen				
	2011				
	Japan	Asia/Oceania*	America**	Europe***	Consolidated
Property, plant and equipment	¥190,878	¥29,956	¥8,123	¥15,767	¥244,724

	Thousands of U.S. dollars				
	2011				
	Japan	Asia/Oceania*	America**	Europe***	Consolidated
Property, plant and equipment	$2,295,586	$360,265	$97,691	$189,621	$2,943,163

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

(c) Impairment losses by reportable segment

Impairment losses by reportable segment were as follows:

	Millions of yen						
	2011						
	Reportable segment						
	Consumer Products Business						
	Beauty Care Business	Human Health Care Business	Fabric and Home Care Business	Total	Chemical Business	Reconciliations	Consolidated
Impairment losses of assets	¥63	¥32	¥48	¥143	¥210	¥—	¥353

	Millions of yen						
	2010						
	Reportable segment						
	Consumer Products Business						
	Beauty Care Business	Human Health Care Business	Fabric and Home Care Business	Total	Chemical Business	Reconciliations	Consolidated
Impairment losses of assets	¥204	¥148	¥150	¥502	¥86	¥—	¥588

	Thousands of U.S. dollars						
	2011						
	Reportable segment						
	Consumer Products Business						
	Beauty Care Business	Human Health Care Business	Fabric and Home Care Business	Total	Chemical Business	Reconciliations	Consolidated
Impairment losses of assets	$758	$385	$577	$1,720	$2,525	$—	$4,245

(d) Amortization and balance of goodwill by reportable segment

Amortization and balance of goodwill by reportable segment were as follows:

	Millions of yen						
	2011						
	Reportable segment						
	Consumer Products Business						
	Beauty Care Business	Human Health Care Business	Fabric and Home Care Business	Total	Chemical Business	Reconciliations	Consolidated
Amortization of goodwill	¥ 12,507	¥—	¥—	¥ 12,507	¥—	¥—	¥ 12,507
Goodwill at March 31, 2011	179,225	—	—	179,225	—	—	179,225

	Millions of yen						
	2010						
	Reportable segment						
	Consumer Products Business						
	Beauty Care Business	Human Health Care Business	Fabric and Home Care Business	Total	Chemical Business	Reconciliations	Consolidated
Amortization of goodwill	¥ 12,692	¥—	¥—	¥ 12,692	¥—	¥—	¥ 12,692
Goodwill at March 31, 2010	195,755	—	—	195,755	—	—	195,755

	Thousands of U.S. dollars						
	2011						
	Reportable segment						
	Consumer Products Business						
	Beauty Care Business	Human Health Care Business	Fabric and Home Care Business	Total	Chemical Business	Reconciliations	Consolidated
Amortization of goodwill	$ 150,415	$—	$—	$ 150,415	$—	$—	$ 150,415
Goodwill at March 31, 2011	2,155,442	—	—	2,155,442	—	—	2,155,442

(e) For the year ended March 31, 2010 under former Accounting Standard for Segment Information

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

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

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

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

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

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

Sales to foreign customers were as follows:

	Millions of yen
	2010
Asia/Oceania	¥120,080
America	81,160
Europe	96,927
Sales to foreign customers	¥298,167

14 Selling, General and Administrative Expenses

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

	Millions of yen		Thousands of U.S. dollars
	2011	2010	2011
Advertising	¥ 81,082	¥ 86,359	$ 975,129
Promotion	64,655	65,452	777,571
Research and development	45,516	44,911	547,396
Salaries and bonuses	124,348	124,528	1,495,466
Packing and delivery expenses	66,924	70,030	804,859

15 Other Income (Expenses)

"Other, net" consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2011	2010	2011
Gain on sales of investment securities	¥ 186	¥ 3	$ 2,237
Loss related to the Great East Japan Earthquake*	(4,129)	—	(49,657)
Effect of application of Accounting Standard for Asset Retirement Obligations	(1,634)	—	(19,651)
Loss on sales or disposals of property, plant and equipment, net	(1,334)	(2,602)	(16,043)
Loss related to cooking oils**	—	(5,290)	—
Restructuring charges for prestige cosmetics subsidiary	—	(1,291)	—
Other, net	1,951	417	23,463
Total	¥(4,960)	¥(8,763)	$(59,651)

* Loss related to the Great East Japan Earthquake, consisting mainly of ¥2,415 million (US$29,044 thousand) in restoration expenses for factories, laboratories and distribution bases and ¥885 million (US$10,643 thousand) in evaluation loss on inventories, has been recorded in the consolidated statements of income totaling ¥4,129 million (US$49,657 thousand) under "Loss related to the Great East Japan Earthquake". This amount includes ¥2,658 million (US$31,966 thousand) reported as "Liability for loss related to the Great East Japan Earthquake" in the consolidated balance sheets.

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

16 Financial Instruments

(1) Group policy for financial instruments

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

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

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

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

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

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

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

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

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

(3) Fair values of financial instruments

Fair values of financial instruments are based on the quoted price in active markets. If a quoted price is not available, other rational valuation techniques are used. Also see Note 17 for details of the fair values of derivatives. The contract amounts of derivatives which are shown in Note 17 do not represent the amounts exchanged by the parties and do not measure the Companies' exposure to credit or market risk.

The carrying amount, fair value and unrealized gain or loss of financial instruments as of March 31, 2011 and 2010 consisted of the following:

	Millions of yen		
	2011		
	Carrying amount	Fair value	Unrealized gain/(loss)
Cash and time deposits	¥110,762	¥110,762	¥ —
Short-term investments	37,028	37,028	—
Notes and accounts receivable	124,973		
Allowance for doubtful receivables	(1,002)		
Notes and accounts receivable, net	123,971	123,971	—
Investment securities	5,828	5,828	—
Total	¥277,589	¥277,589	¥ —
Short-term debt	¥ 6,776	¥ 6,776	¥ —
Current portion of long-term debt	80,795	81,261	(466)
Notes and accounts payable	151,028	151,028	—
Income taxes payable	18,785	18,785	—
Long-term debt	77,451	79,340	(1,889)
Total	¥334,835	¥337,190	¥(2,355)
Derivatives	¥ 80	¥ 80	¥ —

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

	Thousands of U.S. dollars		
	2011		
	Carrying amount	Fair value	Unrealized gain/(loss)
Cash and time deposits	$1,332,075	$1,332,075	$ —
Short-term investments	445,316	445,316	—
Notes and accounts receivable	1,502,983		
Allowance for doubtful receivables	(12,051)		
Notes and accounts receivable, net	1,490,932	1,490,932	—
Investment securities	70,090	70,090	—
Total	$3,338,413	$3,338,413	$ —
Short-term debt	$ 81,491	$ 81,491	$ —
Current portion of long-term debt	971,678	977,282	(5,604)
Notes and accounts payable	1,816,332	1,816,332	—
Income taxes payable	225,917	225,917	—
Long-term debt	931,461	954,179	(22,718)
Total	$4,026,879	$4,055,201	$(28,322)
Derivatives	$ 962	$ 962	$ —

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

Short-term investments and investment securities
The fair value of marketable equity securities is measured at the quoted market price of the stock exchange. The fair value of marketable debt securities is measured at the quoted market price of the stock exchange or at the quoted price obtained from the financial institution if there is no quoted market price. The carrying value of other marketable securities, such as commercial papers, investment trust funds and other which consist of MMF and others, approximate fair value because of their short maturities. See Note 4 for information of the fair value of short-term investments and investment securities by classification.

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

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

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

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

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

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

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

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

Derivatives
Information on fair value of derivatives is included in Note 17.

The carrying amount of financial instruments whose fair value cannot be reliably determined as of March 31, 2011 and 2010 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2011	2010	2011
Investment securities that do not have a quoted market price in an active market	¥1,195	¥1,202	$14,372

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

The maturity analysis for financial assets and securities with contractual maturities as of March 31, 2011 was as follows:

	Millions of yen			
	Due within one year	Due after one year through five years	Due after five years through ten years	Due after ten years
Cash and time deposits	¥110,762	¥—	¥—	¥—
Short-term investments and investment securities				
Held-to-maturity debt securities	10,000	—	—	—
Available-for-sale other securities with contractual maturities	2,658	—	—	—
Notes and accounts receivable	124,973	—	—	—
Total	¥248,393	¥—	¥—	¥—

	Thousands of U.S. dollars			
	Due within one year	Due after one year through five years	Due after five years through ten years	Due after ten years
Cash and time deposits	$1,332,075	$—	$—	$—
Short-term investments and investment securities				
Held-to-maturity debt securities	120,264	—	—	—
Available-for-sale other securities with contractual maturities	31,966	—	—	—
Notes and accounts receivable	1,502,983	—	—	—
Total	$2,987,288	$—	$—	$—

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

17 Derivatives

The Companies had the following derivatives contracts outstanding to which hedge accounting was not applied at March 31, 2011 and 2010:

	Millions of yen							
	2011				2010			
	Contract amount	Contract amount due after one year	Fair value	Unrealized gain/(loss)	Contract amount	Contract amount due after one year	Fair value	Unrealized gain/(loss)
Foreign exchange forward contracts:								
Buying U.S. Dollar	¥1,010	¥ 331	¥ (42)	¥ (42)	¥ 1,779	¥ —	¥ (113)	¥ (113)
Buying Japanese Yen	49	—	1	1	30	—	(0)	(0)
Buying British Pound	806	—	36	36	1,118	—	5	5
Buying other currencies	233	—	27	27	44	—	1	1
Selling U.S. Dollar	7,301	1,569	(52)	(52)	6,029	1,920	18	18
Selling Euro	3,341	—	139	139	392	—	1	1
Selling other currencies	522	—	(29)	(29)	692	—	(15)	(15)
Foreign currency swaps:								
Receiving Japanese Yen, paying British Pound	—	—	—	—	11,882	9,155	3,991	3,991

	Thousands of U.S. dollars			
	2011			
	Contract amount	Contract amount due after one year	Fair value	Unrealized gain/(loss)
Foreign exchange forward contracts:				
Buying U.S. Dollar	$12,147	$ 3,981	$ (505)	$ (505)
Buying Japanese Yen	589	—	12	12
Buying British Pound	9,693	—	433	433
Buying other currencies	2,802	—	325	325
Selling U.S. Dollar	87,806	18,869	(625)	(625)
Selling Euro	40,180	—	1,671	1,671
Selling other currencies	6,278	—	(349)	(349)

18 Related Party Transactions

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

Mr. Atsushi Takahashi was an outside director of the Company and these transactions were conducted with The Sumitomo Trust & Banking Co., Ltd, of which he was Representative Director and Chairman of the Board, on general terms and conditions generally offered by other financial institutions. Mr. Takahashi directly owned 0.0% of the shares (3,000 shares) of the Company as of March 31, 2010.

	Millions of yen
	2010
Partial repayment of long-term debt	¥7,600
Payment of interest	61

The balance of the Company due to related parties for the year ended March 31, 2010 was as follows:

	Millions of yen
	2010
Current portion of long-term debt	¥2,200

19 Net Income per Share

A reconciliation of the differences between basic and diluted net income per share ("EPS") for the years ended March 31, 2011 and 2010 was as follows:

	Millions of yen	Thousands of shares	Yen	U.S. dollars
For the year ended March 31, 2011:	Net income	Weighted average shares	EPS	
Basic EPS				
Net income available to common shareholders	¥46,738	532,980	¥87.69	$1.05
Effect of dilutive securities				
Warrants	—	151		
Diluted EPS				
Net income for computation	¥46,738	533,131	¥87.67	$1.05

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

Independent Auditors' Report

Deloitte.

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors of
Kao Corporation:

We have audited the accompanying consolidated balance sheets of Kao Corporation (the "Company") and consolidated subsidiaries as of March 31, 2011 and 2010, and the related consolidated statements of income for the years then ended, the consolidated statement of comprehensive income for the year ended March 31, 2011, and the related consolidated statements of 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, 2011 and 2010, and the consolidated results of their operations and their cash flows for the years then ended in conformity with accounting principles generally accepted in Japan.

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

Deloitte Touche Tohmatsu LLC

June 21, 2011

Member of
Deloitte Touche Tohmatsu Limited

Principal Subsidiaries and Affiliates (As of June 29, 2011)

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

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

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

Chemical Business
- ● Chemical Business

Investor Information (As of March 31, 2011)

Kao Corporation

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

Founded
June 19, 1887

Common Stock
Authorized: 1,000,000,000 shares
Issued: 540,143,701 shares
Outstanding (excluding treasury stock):
522,636,403 shares
Number of Shareholders: 55,114

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

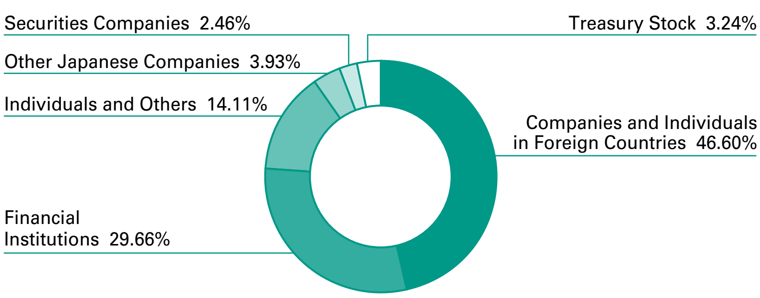
Depositary and Registration for American Depositary Receipts (ADR Ticker Symbol: KCRPY)
JPMorgan Chase Bank, N.A.
1 Chase Manhattan Plaza, Floor 58, New York, NY 10005, U.S.A.

Top Ten Shareholders

Name of Shareholders	Number of Shares (thousand shares)	Ratio of Shareholding* (percentage)
Japan Trustee Services Bank, Ltd. (Trust Account)	29,661	5.49
Northern Trust Co. (AVFC) Sub A/C American Clients	21,728	4.02
Moxley and Company	21,024	3.89
The Master Trust Bank of Japan, Ltd. (Trust Account)	20,948	3.87
Tokio Marine & Nichido Fire Insurance Co., Ltd.	12,734	2.35
Mellon Bank, N.A. as Agent for its Client Mellon Omnibus US Pension	11,013	2.03
SSBT OD05 OMNIBUS ACCOUNT – TREATY CLIENTS	10,545	1.95
State Street Bank and Trust Company	10,019	1.85
State Street Bank and Trust Company 505225	9,738	1.80
The National Mutual Insurance Federation of Agricultural Cooperatives	9,092	1.68

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

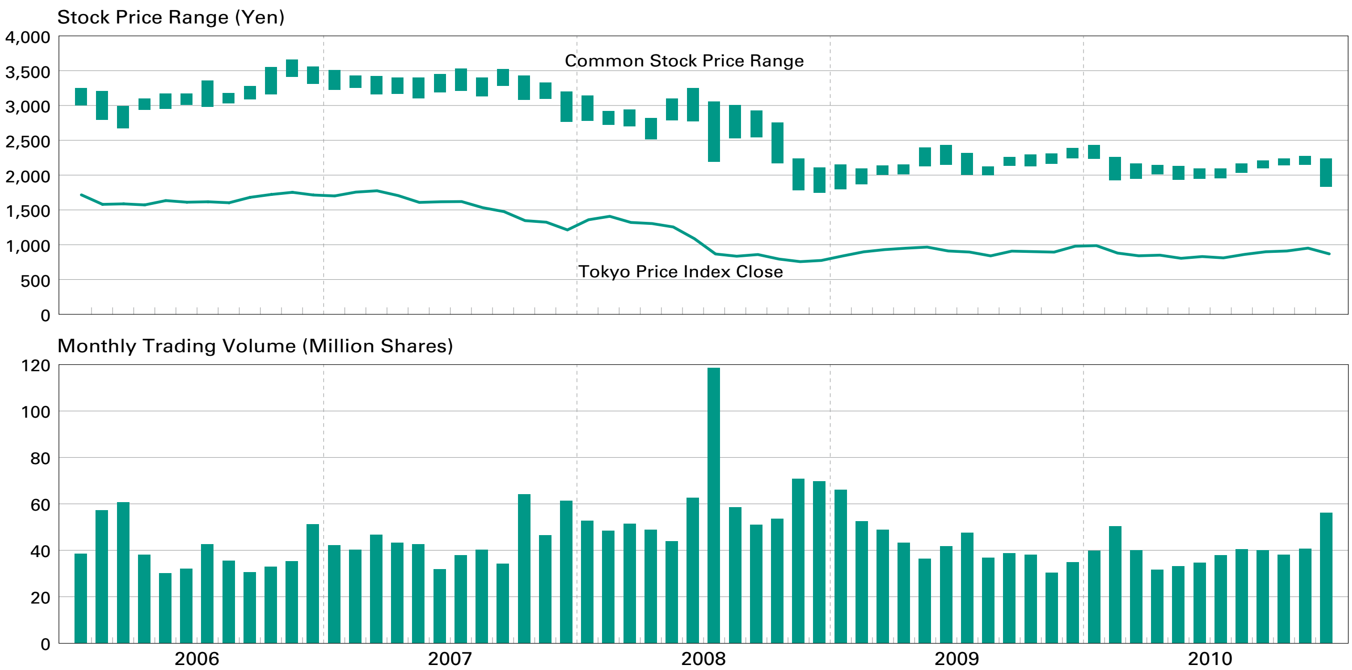
Composition of Shareholders



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

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

Stock Price Range and Trading Volume (Tokyo Stock Exchange)



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

Kao

Enriching lives, in harmony with nature.

Kao Corporation

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