Enriching lives,
in harmony with nature.

Toward a Global Presence

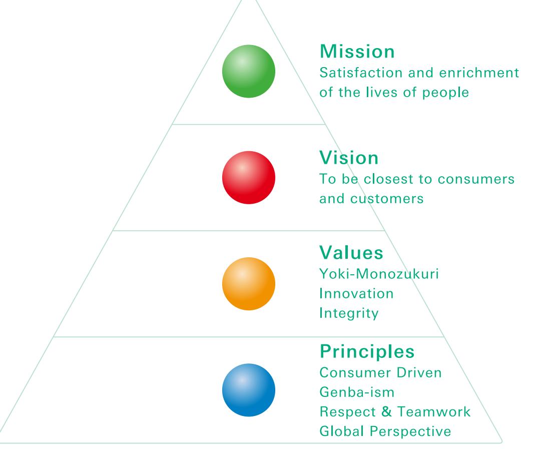
Annual Report 2012

For the fiscal period ended December 31, 2012

Toward a Global Presence

The mission of the Kao Group as stated in the Kao Way, its corporate philosophy, is to strive for the wholehearted satisfaction and enrichment of the lives of people globally and to contribute to the sustainability of the world. To achieve this mission, the Kao Group is working for both sustained profitable growth through the development of high-value-added products and contributions to society as it aims to become a company with a global presence.

The Kao Way



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

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

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

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.

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

Contents

Financial Highlights

Net Sales[1]
+0.4%
¥1,012.6 billion

Operating Income[1]
+3.2%
¥101.6 billion

EBITA[1, 3]
+1.2%
¥125.7 billion

EVA[2]
112
(Year ended December 31, 2011 = 100)

Net Income[1]
+1.9%
¥52.8 billion

Cash Dividends
+¥2.00 per share
¥62.00

1. Adjusted growth is a comparison with fiscal 2011 business results adjusted to the period from April 1 to December 31, 2011 for Kao Corporation and its consolidated subsidiaries with a fiscal year end in March.
2. EVA (Economic Value Added) is a registered trademark of Stern Stewart & Co. EVA for the years ended December 31, 2012 and 2011 has been restated on a full-year basis beginning on January 1.
3. Earnings before interest, taxes and amortization (EBITA) is operating income before amortization of goodwill and other items related to acquisitions.

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

Kao Corporation and Consolidated Subsidiaries

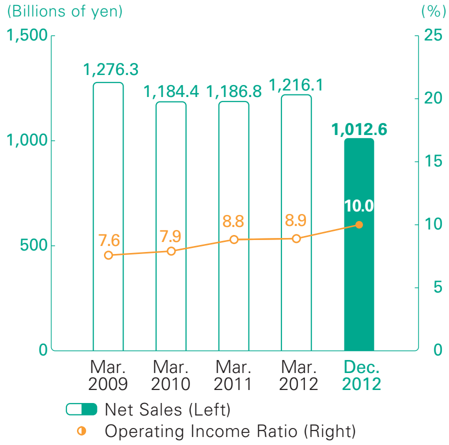
Periods ended December 31, 2012 and 2011, and years ended March 31, 2012 and 2011

	Billions of yen				Millions of U.S. dollars	Change
	Dec. 2012	Dec. 2011 (Restated)	Mar. 2012	Mar. 2011	Dec. 2012	Dec. 2012 / Dec. 2011 (Restated)
For the year:						
Net sales	¥1,012.6	¥1,008.3	¥1,216.1	¥1,186.8	$11,695.5	0.4%
Beauty Care Business	444.4	444.5	537.9	533.5	5,133.1	(0.0)
Human Health Care Business	152.0	144.1	181.8	175.8	1,755.3	5.5
Fabric and Home Care Business	236.7	230.4	285.6	279.0	2,734.4	2.8
Consumer Products Business	833.2	819.0	1,005.3	988.3	9,622.9	1.7
Chemical Business	208.1	219.2	247.6	232.0	2,403.2	(5.1)
Eliminations	(28.6)	(30.0)	(36.9)	(33.4)	(330.6)	—
Japan	720.8	712.3	925.3	912.4	8,325.1	1.2
Asia	159.9	167.6	—	—	1,846.4	(4.6)
Asia & Oceania	—	—	173.6	152.4	—	—
Americas	90.0	90.9	—	—	1,039.5	(1.0)
North America	—	—	85.4	80.3	—	—
Europe	110.5	117.0	117.0	112.1	1,276.5	(5.5)
Eliminations	(68.6)	(79.6)	(85.2)	(70.4)	(792.0)	—
EBITA	125.7	124.2	142.2	139.1	1,451.9	1.2
Operating income	101.6	98.5	108.6	104.6	1,173.1	3.2
Net income	52.8	51.8	52.4	46.7	609.4	1.9
EBITDA	161.4	160.6	188.4	186.0	1,863.7	0.4
At year end:						
Total assets	1,030.3	—	991.3	1,022.8	11,900.5	—
Net worth	582.7	—	538.0	528.9	6,730.2	—
	Yen				U.S. dollars	Change
Per share:						
Net income	¥ 101.12	¥99.16	¥ 100.46	¥ 87.69	$ 1.17	2.0%
Cash dividends	62.00	—	60.00	58.00	0.72	—
Net worth	1,116.61	—	1,031.08	1,013.05	12.90	—

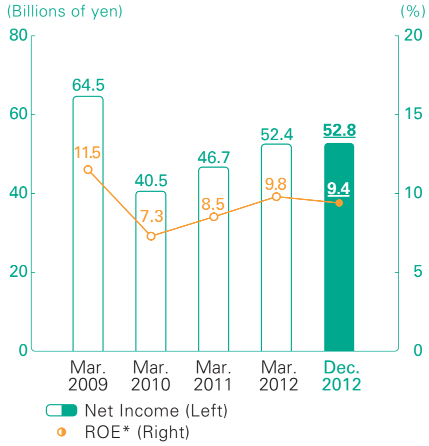
Notes:
1. The U.S. dollar amounts are translated, for convenience only, at the rate of ¥86.58=US$1, the approximate exchange rate at December 31, 2012.
2. Eliminations represent intersegment sales and interregion sales. Net sales of the Chemical Business include intersegment sales to the Beauty Care 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. Earnings before interest, taxes, depreciation and amortization (EBITDA) is operating income before depreciation and amortization.
6. Net worth is equity, excluding minority interests and stock acquisition rights.
7. Australia and New Zealand, which had been included in Asia & Oceania until the fiscal year ended March 31, 2012, have been reclassified under Americas from the fiscal period ended December 31, 2012. For the purpose of comparison, amounts for the fiscal period ended December 31, 2011 have been restated.
8. December 2011 (restated) represents figures for the period from April 1 to December 31, 2011 for Group companies whose fiscal year end was previously March 31.

(Years ended March 31, 2009 to 2012 and period ended December 31, 2012)

Net Sales and Operating Income Ratio

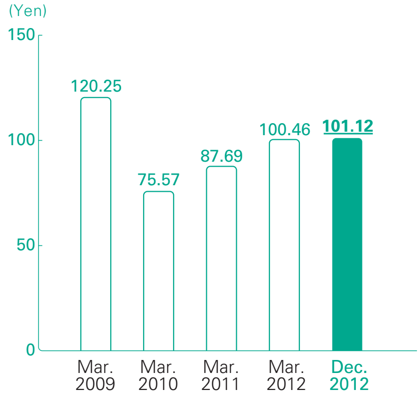


Net Income and ROE*

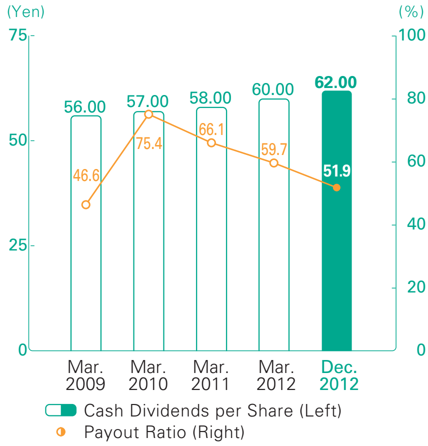


*In calculating ROE, equity excludes minority interests and stock acquisition rights.

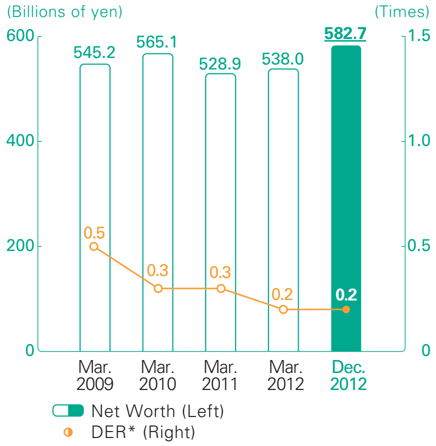
Net Income per Share



Cash Dividends per Share and Payout Ratio

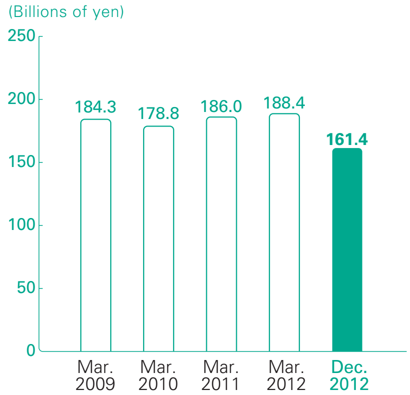


Net Worth and DER*

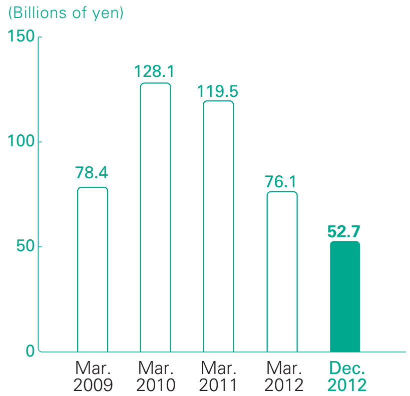


*Debt to Equity Ratio (DER) = Interest-bearing debt ÷ Equity, excluding minority interests and stock acquisition rights

EBITDA

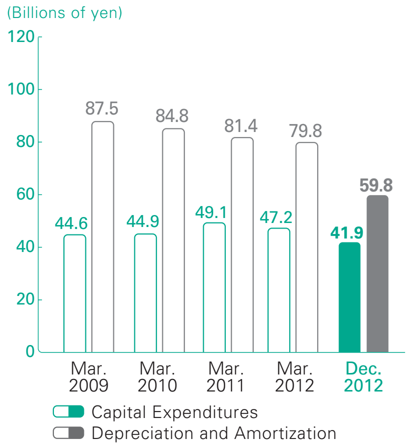


Free Cash Flow*

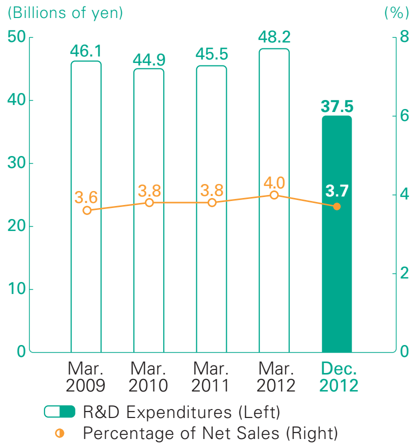


*Free cash flow = Net cash provided by operating activities + Net cash used in investing activities

Capital Expenditures and Depreciation and Amortization



R&D Expenditures and Percentage of Net Sales



A Message from President and CEO **Michitaka Sawada**

We will achieve the targets of Kao Group Mid-term Plan 2015 (K15) to build a foundation for rapid growth as we take on the challenge of becoming a company with a global presence.

Performance in the Fiscal Period Ended December 31, 2012

In a challenging operating environment both inside and outside Japan, the Kao Group achieved its third consecutive period of increases in sales and operating income in the fiscal period ended December 31, 2012.[1]

The year ended December 31, 2012 was challenging in Japan and worldwide due to factors such as the impact of the debt crisis in Europe. In particular, exports to Europe from the ASEAN region and China fell, which in turn impacted Japan and led to a slowdown in domestic production. With additional factors such as delays in recovery and reconstruction after the Great East Japan Earthquake and structural changes in the personal computer market, conditions in Japan were difficult. With a sense of uncertainty about the future, deflation continued, leading to a downturn in consumer sentiment and intensifying price competition.

Although conditions were severe, the Kao Group worked to launch and nurture products with high added value in response to changes in consumer needs based on its concept of *Yoki-Monozukuri*[2] and promoted cost reduction activities. As a result, the Kao Group was able to finish the fiscal period with reasonable results. Net sales were ¥1,012.6 billion, an increase of 0.4 percent compared with restated fiscal 2011,[3] operating income increased 3.2 percent from restated fiscal 2011 to ¥101.6 billion, and net income rose 1.9 percent from restated fiscal 2011 to ¥52.8 billion. These results represent our third consecutive fiscal period of increases in sales and operating income, and I believe they lay the groundwork for future growth. On closer inspection, it is clear that there was some unevenness in results across the Group. The Consumer Products Business, including overseas operations, offset weak sales and operating income in the Chemical Business.

By segment, sales in the Consumer Products Business were firm, increasing 2.1 percent on a like-for-like[4] basis to ¥833.2 billion.

In the Beauty Care Business, sales of prestige cosmetics were firm and premium skin care products performed well. In the premium hair care product category, however, the performance of shampoos, conditioners and styling and hair coloring products in Japan was weak, as was the performance of styling products in the Americas and Europe. As a result, total sales were on par with restated fiscal 2011. In the Human Health Care Business, overall sales increased as a decrease in sales of food and beverage products and toothpaste in personal health products was offset by growth in sales of sanitary products, particularly baby diapers. Sales in the Fabric and Home Care Business grew, with brisk sales of fabric softeners and bleaches in Japan, and solid performance by home care products in Japan and dishwashing detergent in Asia.

Products that sold strongly and contributed significantly to results for the fiscal period included *Merries* baby diapers, which performed well in Russia and China as well as in Japan; *Flair Fragrance* fabric softener; *Laurier Active Day Double Comfort* easy-to-wash sanitary napkins that have become a major hit product in Indonesia; *Jergens Natural Glow*, which has captured a substantial share of the self-tanning market; and *Goldwell Nectaya* ammonia-free hair color, which is free of unpleasant odors and has gained a favorable reputation in hair salons.

On the other hand, sales in the Chemical Business decreased 3.1 percent on a like-for-like basis due to factors including decreased demand in customer industries and selling price adjustments made in connection with lower raw material prices.

1. Due to a change in the fiscal year end, the term of consolidation for the fiscal period ended December 31, 2012 consists of the nine months from April to December for Kao Corporation and its subsidiaries whose fiscal year end was previously March 31 and the twelve months from January to December for subsidiaries whose fiscal year end was December 31.
2. 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."
3. "Restated fiscal 2011" are figures for the nine-month period from April 1 to December 31, 2011 for Kao Corporation and its subsidiaries whose fiscal year end was previously March 31.
4. Excludes the effect of currency translation and the impact of the change in financial term.

Free Cash Flow[5] Management

Becoming a company with a global presence first requires prioritizing investments for growth.

I strongly believe these are times that require us to change. Achieving the Kao Group's aim of becoming a company with a global presence is not a matter of simply continuing with our current initiatives. We have already prioritized the major investments, including M&A, that we will make in anticipation of rapid growth. Accordingly, the first step in increasing our corporate value has been our policy of using free cash flow for capital expenditures and M&A for future growth. I am certain this policy will lead to long-term profits for our shareholders and other stakeholders.

As for M&A, we currently have a variety of options to obtain the management resources that are complementary to our existing assets. In addition to brands, some examples include sales channels outside Japan and technologies that are likely to be a good match with our own.

Moreover, we plan to give full consideration to shareholder returns within this overall framework.

Uses of Free Cash Flow and Shareholder Returns

1	2	3
Capital expenditures and M&A for future growth	**Steady and continuous cash dividends**	**Share repurchases and repayment of interest-bearing debt including borrowings**

The fiscal period ended December 31, 2012 represents the twenty-third consecutive fiscal period we have raised dividends. We plan to achieve profitable growth that will allow us to continue these increases in the future. After taking into account our results, our capital expenditures for investments for growth and payment of dividends, financial conditions in our operating environment and our needs for cash on hand, we consider share repurchases and the repayment of interest-bearing debt. Following careful consideration of these matters, in February 2013 we decided to repurchase stock.

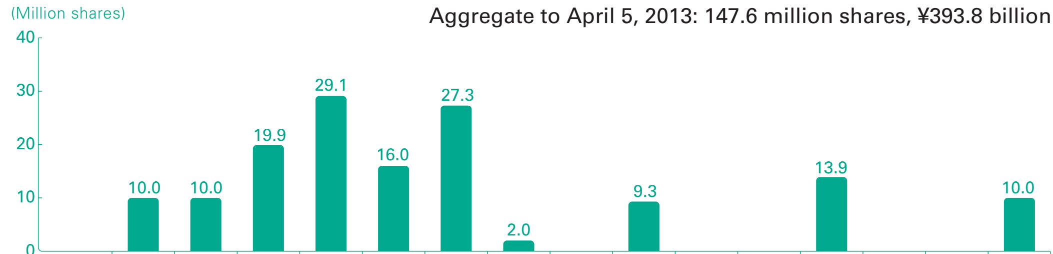
5. Free cash flow = Net cash provided by operating activities + Net cash used in investing activities

Shareholder Returns

We have raised cash dividends for 23 consecutive fiscal periods and resolved to conduct a share repurchase in the current fiscal year.

In light of our results for the fiscal period, cash dividends increased ¥2.00 per share compared with the previous fiscal year to ¥62.00 per share, for a consolidated payout ratio of 61.3 percent. In addition, to raise capital efficiency and further enhance shareholder returns, Kao Corporation resolved to repurchase its own shares, up to 12.5 million shares or ¥30.0 billion, from February 6 to April 26, 2013. Pursuant to the aforementioned resolution, Kao Corporation completed the purchase of 10.0 million shares at a cost of approximately ¥30.0 billion on April 5, 2013.

Share Repurchases[1]



	Mar. 1999	Mar. 2000	Mar. 2001	Mar. 2002	Mar. 2003	Mar. 2004	Mar. 2005	Mar. 2006	Mar. 2007	Mar. 2008	Mar. 2009	Mar. 2010	Mar. 2011	Dec. 2012	Dec. 2013[2]
Billions of yen	29.5	28.6	56.8	77.2	36.7	70.0	5.0	—	30.0	—	—	30.0	—	—	30.0

Notes: 1. Share repurchases from the market
2. As of April 5, 2013

(Years ended March 31, 1999 to 2011, period ended December 31, 2012 and year ending December 31, 2013)

Kao Group Mid-term Plan 2015 (K15)

By steadily executing the growth strategies of K15, the Kao Group aims to become a company with a global presence as it works toward both sustained profitable growth with high-value-added products and further contributions to society.

Next, I would like to talk about the Kao Group's mid-term growth strategies.

I want to make the Kao Group a company with a global presence. To do so, both sustained profitable growth and further contributions to society are essential. If we can achieve both of these, we will be able to accomplish the mission of the Kao Group, "to strive for the wholehearted satisfaction and enrichment of the lives of people globally and to contribute to the sustainability of the world" as stated in the Kao Way, our corporate philosophy. Bearing in mind this mission, what we want to achieve and the framework of our targets, we used "backcasting" to create our mid-term plan by defining our approach today in order to attain these objectives in the future. Carrying out the plan will require the cooperation and support of not only our employees but also many of our stakeholders, so we have announced Kao Group Mid-term Plan 2015 (K15) and will work to realize it.

The plan includes two concrete targets. The first is to break previous records for consolidated net sales and profits. With that in mind, the second target consists of achieving numerical targets for net sales, operating income and the overseas sales ratio. These targets are ¥1.4 trillion in net sales, ¥150.0 billion in operating income and an overseas sales ratio[6] of 30 percent or more. I do not believe these figures will be easy to reach, but we can accomplish this task through the combined efforts of the Kao Group.

6. Ratio of net sales to foreign customers to consolidated net sales

Kao Group Mid-term Plan 2015 (K15)

Target 1: Break previous records for consolidated net sales and profits

Target 2: Achieve numerical management targets for fiscal 2015

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

Growth Strategies for Achieving K15

The three growth strategies for achieving K15 are “Expand the Consumer Products Business globally,” “Further reinforce the Fabric and Home Care Business, and accelerate profitable growth in the Beauty Care and Human Health Care businesses” and “Reinforce the Chemical Business.”

The global expansion of the Consumer Products Business will require an approach that focuses on the expanding middle-class consumer segment in growth markets. Further reinforcing the Fabric and Home Care Business will involve maintaining or capturing the top share in each product category, while the main points for accelerating profitable growth are strengthening the prestige cosmetics business in the Beauty Care Business and making new proposals focused on health and the aging society in the Human Health Care Business. In the Chemical Business, we will focus on developing environmentally conscious products and leveraging synergies with the Consumer Products Business.

In each case, these initiatives will be driven by aggressive investment, innovation and structural reform for transformation into a structure capable of generating greater profit while maintaining growth.

Drivers for Achieving K15

The Kao Group has been investing in the Consumer Products Business and the Chemical Business with a focus on China and Indonesia, and we plan to step up investment further in these areas. For Consumer Products, a new manufacturing facility in Hefei City, Anhui Province, China started production at the end of 2012. Moreover, in Indonesia, a country with a population of over 200 million and a large proportion of young people, we are building a second plant for business expansion in 2014 and beyond. Total investment will be approximately ¥10 billion, and operation is scheduled to commence at the end of 2013. As we launch this second plant, we will work toward substantially developing the volume zone business in Indonesia. I would like to make Indonesia another example of our success in the volume segment along with China. To strengthen production capacity in the Chemical Business, we have started building new plants in Indonesia and China and investing in the Philippines. We will also strengthen business tie-ups and engage in M&A where we deem it necessary.

As for innovation, I will give three specific examples.

First, *Merries* baby diapers hold a solid position as the brand with the top share in Japan as a result of continuous improvements to enhance their gentleness on skin, which is the core product concept. Exports from Japan to Russia and China are also selling favorably in the premium segment. Sales of *Merries Shun Shuang Tou Qi* baby diapers, which were launched in January 2013 targeting the growing middle-class consumer segment in China, are off to a good start.

Next is *Healthya Coffee*. This coffee drink offers the finest aroma and flavor, in addition to offering consumers the special benefit of all *Healthya* products, which is promoting the utilization of body fat as well as ingested fat. This feature is different from other drinks approved as food for specified health uses, which work to inhibit fat absorption. Expectations are high for this product, and I am committed to making it a major success.

The third example is the new refill product for *Attack* powder laundry detergent. The fully functional packaging is easy for anyone to open by hand without spilling, even the elderly. Moreover, this packaging substantially reduces environmental impact. With this offering, we are not only leading the industry as a whole but also taking into consideration environmental concerns as we pursue a greater share of the powder laundry detergent market.

Innovation is essential to profitable growth of the Kao Group and to building its corporate presence. We will devote the combined efforts of the Group toward realizing this goal. Please look forward to our results in this area.

In terms of structural reform, we have had great success to date with Kao Sofina, Kanebo Cosmetics and the Consumer Products Business in China. I want to expand these reforms throughout the Kao Group to transform into a structure capable of generating greater profit while maintaining growth. This is vital to the achievement of the K15 operating income target.

Gentleness on skin is the core product concept of *Merries* baby diapers, supported by their breathability and Kao's skin care expertise.

Healthya Coffee, a coffee drink approved as a food for specified health uses, promotes body fat utilization through the action of polyphenol chlorogenic acids.

The new refill product for *Attack* powder laundry detergent achieves reductions of approximately 60% in CO_2 emissions from packaging and 90% in waste from disposal. This comparison has been made with the regular product, assuming the reuse of the box and the scoop.

Sustainability

A basic principle of the Kao Group is to contribute to society by helping to resolve social issues through business activities.

Based on the Kao Way, its corporate philosophy, the Kao Group plans to work toward two objectives: sustained profitable growth with high-value-added products created by understanding the needs of the times and the regions it serves through *Yoki-Monozukuri* that uses Kao's technologies and know-how; and contributions to society by helping to resolve social issues and conducting social contribution activities through its business activities.

In addition to helping to resolve social issues through its business activities, the Kao Group fulfills its role as a "public entity of society" by paying taxes and providing employment. In addition, we will continue and reinforce our social contribution activities as a corporate citizen.

Amid significant changes in our operating environment, we are working to enhance corporate governance in terms of both strengthening the supervision of management and accelerating execution. To enhance management transparency and take into account diverse perspectives, Kao's Annual General Meeting of Shareholders resolved at a meeting held on March 26, 2013 to raise the number of outside members in the Board of Directors and the Audit & Supervisory Board by one each. Currently, there are six outside members in total in the two boards, accounting for 40 percent of all members.

Outlook

In 2013, the Kao Group is aiming for increases in net sales and operating income for the fourth consecutive fiscal year and record-high net income.

For 2013, the Kao Group forecasts net sales of ¥1,270.0 billion (adjusted growth of 4.1 percent based on a comparison with the twelve-month period from January 1 to December 31, 2012 for Kao Corporation and its subsidiaries whose fiscal year end was previously March 31), operating income of ¥116.0 billion (adjusted growth of 3.8 percent) and net income of ¥73.0 billion (adjusted growth of 37.5 percent). We are targeting increases in sales and operating income for the fourth consecutive fiscal year and net income exceeding our current record high of ¥72.2 billion set in fiscal 2004. In addition, we plan to continue raising annual cash dividends by ¥2.00 per share to ¥64.00 per share.

With the support of our stakeholders, the Kao Group plans to enhance its corporate value as it steadily works toward achieving K15 targets and its long-term vision. I hope you look forward with us to the challenges we are committed to as a Group and continue to offer us your support.

Michitaka Sawada

Michitaka Sawada
President and Chief Executive Officer

Directors, Audit & Supervisory Board Members and Executive Officers

(As of April 1, 2013)

Board of Directors

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

Motoki Ozaki

Chairman of the Board
President, The Kao Foundation for Arts and Sciences

Michitaka Sawada*

Representative Director

Hiroshi Kanda*

Representative Director

Tatsuo Takahashi*

Representative Director

Toshihide Saito*

Ken Hashimoto*

Hisao Mitsui*

Teruhiko Ikeda**

Advisor, Mizuho Trust & Banking Co., Ltd.

Sonosuke Kadonaga**

President, Intrinsics

Toru Nagashima**

Senior Advisor, Member of the Board, Teijin Ltd.

Audit & Supervisory Board Members

*** Outside Audit & Supervisory Board Members

Takayuki Ishige

Full-time Audit & Supervisory Board Member

Shoji Kobayashi

Full-time Audit & Supervisory Board Member

Tadashi Oe***

Audit & Supervisory Board Member,
Attorney-at-Law

Teruo Suzuki***

Audit & Supervisory Board Member,
Certified Public Accountant

Norio Igarashi***

Audit & Supervisory Board Member,
Certified Public Accountant
Professor, Faculty of Business Administration, Yokohama National University

Executive Officers

Michitaka Sawada
President and Chief Executive Officer

Hiroshi Kanda
Senior Managing Executive Officer

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

Tatsuo Takahashi
Senior Managing Executive Officer

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

Toshiharu Numata
Senior Managing Executive Officer

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

Toshihide Saito
Managing Executive Officer

Senior Vice President, Human Capital Development, Global
Responsible for Corporate Strategy and Legal and Compliance
Chairman of the Board, Kao USA Inc.
President, Kao Group Corporate Pension Fund
President, Kao Health Insurance

Ken Hashimoto
Managing Executive Officer

Responsible for Accounting and Finance, Procurement, Information Systems and EVA Promotion

Hisao Mitsui
Managing Executive Officer

Senior Vice President, Production and Engineering, Global
Responsible for Chemical Business Unit, Environment and Safety Management, Logistics and TCR Promotion

Masumi Natsusaka
Managing Executive Officer

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

Katsuhiko Yoshida
Managing Executive Officer

President, Fabric and Home Care Business Unit, Global
President, Consumer Products, Asia

Yoshinori Takema
Managing Executive Officer

Senior Vice President, Research and Development, Global
Responsible for Product Quality Management (except Export Regulations Service)

Masato Hirota
Senior Vice President, Media Planning and Management, Global

Shinichiro Hiramine
Senior Vice President, Corporate Communications, Global

Shigeru Koshiba
Senior Vice President, Corporate Strategy, Global

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

Yasushi Aoki
Member of the Board and Senior Executive Officer, Senior Vice President, Human Resources and Administration, Kanebo Cosmetics Inc.

William J. Gentner
President, Consumer Products, Americas and EMEA
Vice President, Corporate Strategy, Global

Naohisa Kure
Vice President, Research and Development – Beauty Research, Global

Akira Yoshimatsu
Vice President, Research and Development, Global
Vice President, Research and Development – Fabric and Home Care, Global
Vice President, Research and Development – Chemical, Global

Hideko Aoki
Senior Vice President, Product Quality Management, Global

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

Yoshimichi Saita
President, Human Health Care Business Unit, Global

Muneki Hirao
Senior Vice President, Environment and Safety Management, Global

Motohiro Morimura
Vice President, Production and Engineering – Fabric and Home Care Supply Chain Management, Global
Vice President, Plant Management, Wakayama Plant

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

Kazuyoshi Aoki
Senior Vice President, Accounting and Finance, Global

Tadaaki Sugiyama
Senior Vice President, Legal and Compliance, Global

Toshiaki Takeuchi
Representative Director, Executive Vice President, Kao Customer Marketing Co., Ltd.

Masakazu Negoro
President, Chemical Business Unit, Global

Kao at a Glance

Business Segment Sales

(Period ended December 31, 2012)

Chemical Business Breakdown by Region

(Billions of yen)

	179.4
Japan	92.0
Asia	75.6
Americas	33.6
Europe	53.5
Eliminations	(75.1)

Consumer Products Business Breakdown by Region

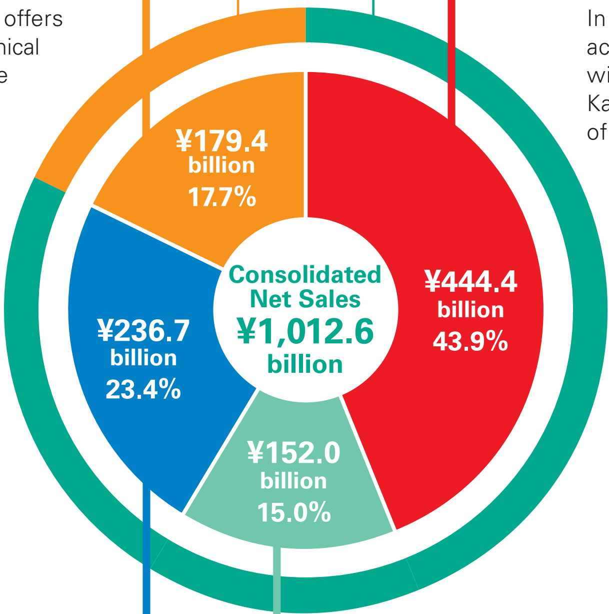
(Billions of yen)

	833.2
Japan	653.1
Asia	87.2
Americas	56.6
Europe	57.3
Eliminations	(21.0)

Chemical Business

- **Oleo chemicals**
- **Performance chemicals**
- **Specialty chemicals**

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 fats and oils, surfactants, toners and toner binders, and fragrances and aroma chemicals.



Beauty Care Business

- **Prestige cosmetics**
- **Premium skin care products**
- **Premium hair care products**

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.

Fabric and Home Care Business

- **Fabric care products**
- **Home care products**

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.

Human Health Care Business

- **Food and beverage products**
- **Sanitary products**
- **Personal health products**

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 toothpaste and bath additives.

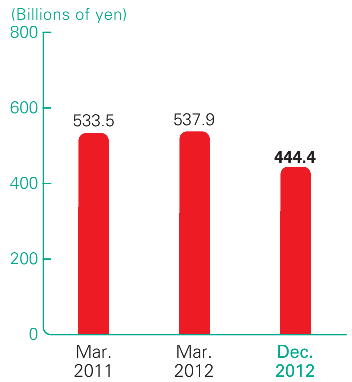
- Figures in the graph represent net sales to outside customers only.
- Net sales by region are classified based on the location of Kao Group companies.
- Eliminations represent interregion sales.

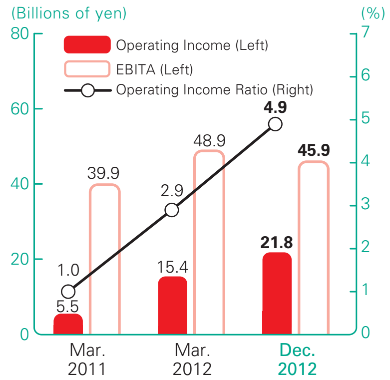
(Years ended March 31, 2011 and 2012 and period ended December 31, 2012)

Consumer Products Business

	Net Sales	Operating Income / EBITA* Operating Income Ratio

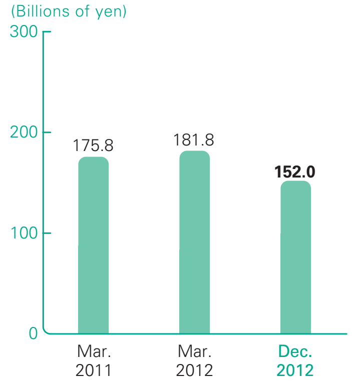
Beauty Care Business

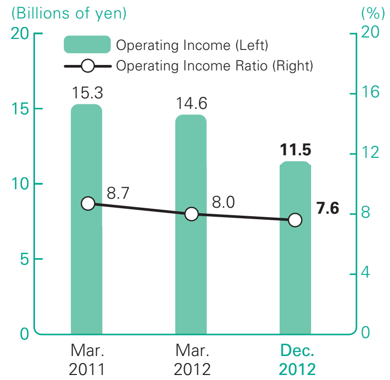




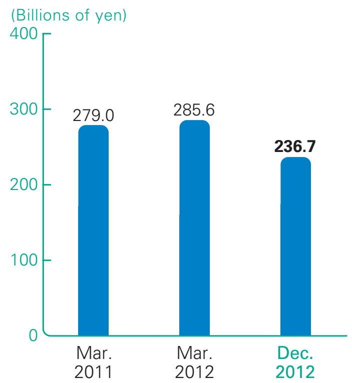
* EBITA (Earnings before interest, taxes and amortization) is operating income before amortization of goodwill and other items related to acquisitions.

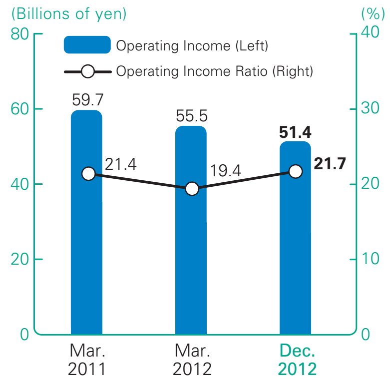
Human Health Care Business





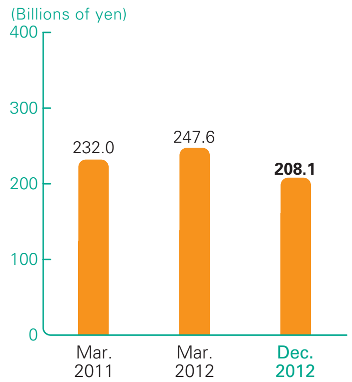
Fabric and Home Care Business



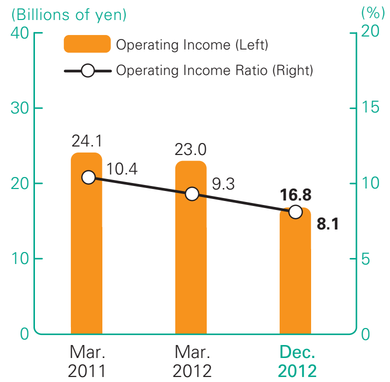


Chemical Business

Chemical Business



Note: Net sales include intersegment sales.



Consumer Products Business

Representative Products | **Mid-Term Strategies**

Beauty Care Business

- Accelerate growth through integrated global business operations.
- Attain profitable growth utilizing value-added technologies in targeted market segments.
- Achieve top-line growth in facial and body cleanser categories through differentiation in quality and cost.

Human Health Care Business

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

Fabric and Home Care Business

- In Japan, further promote "eco together" with the growth of *Attack Neo*, which is effective even in small amounts and can conserve water and electricity as a single-rinse detergent.
- In China and other Asian countries where the liquid laundry detergent market is expanding, launch, nurture and strengthen new products with Kao's unique technology to meet local needs and surpass market growth.

Chemical Business

Chemical Business

- Expand sales and develop markets in BRICs and other growing markets.
- Promote greater added value with a focus on environment issues.

A Management Foundation That Supports Business Activities

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

Interview: Research & Development
Yoshinori Takema, Ph.D.

Managing Executive Officer
Senior Vice President, Research and Development, Global

Based on the integration of science and technology, we promote innovation using the total power of our management of technology, which is a strength of our R&D, and our consumer-driven orientation. We strive for the wholehearted satisfaction and enrichment of the lives of people globally.

In its pursuit of *Yoki-Monozukuri,** what does Kao emphasize in R&D?

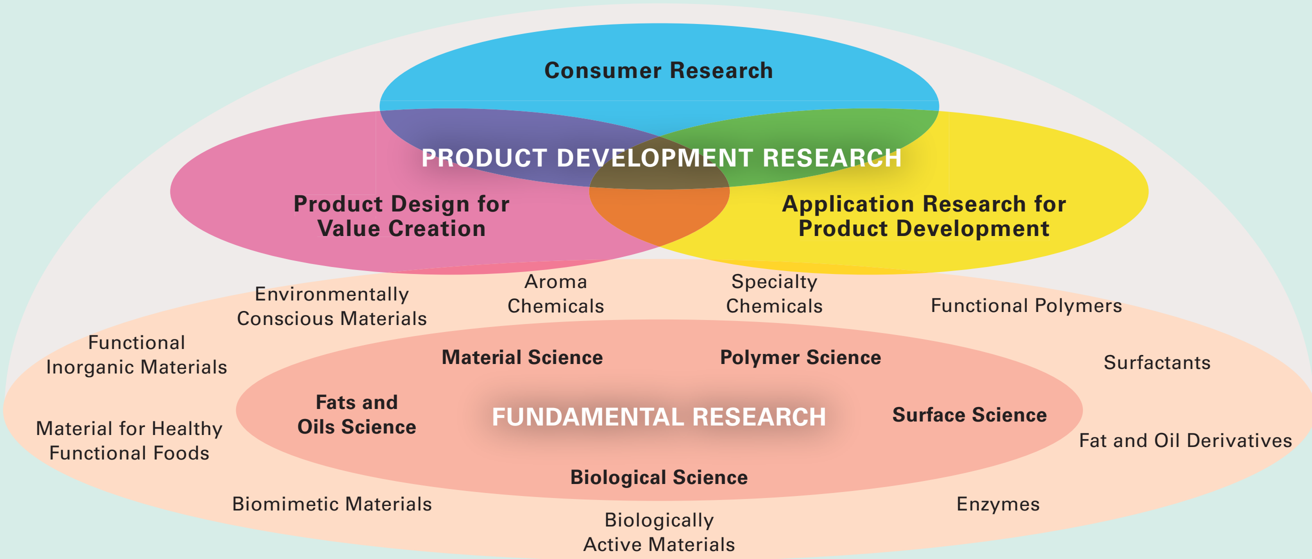
The short answer is the integration of science and technology. Science involves finding the truth. We want to find out what customers are looking for, so we try to answer the question "why?": Why do consumers buy a particular product? The answer lies in discovery, or in other words, acquiring new knowledge. Our judgment is not based on a superficial view; the main point is that we conduct thorough research into the essence of consumer behavior and psychology. On the other hand, technology involves invention. We combine various discoveries and knowledge to create value. Both entail a process of trial and error, but Kao aims to use its integration of science and technology as an advantage.

In addition, product development research is dedicated to designing and commercializing products that meet consumer needs, while fundamental research is devoted to deepening our understanding of materials, mechanisms and phenomena. Through the matrix management of these two types of research, we promote a wide-ranging, interdisciplinary exchange of knowledge. An open environment and flexible mindset are not necessarily achieved by physically tearing down the walls between rooms. However, in a figurative sense we have removed the walls and work in one big laboratory. Moreover, all researchers are on an equal footing, inspiring each other while respecting their individuality to raise creativity, which we believe is essential.

What are some future R&D topics for Kao?

The first is accelerating global development. This will involve using the know-how of and mechanisms for *Yoki-Monozukuri* that Kao has been refining over the past 120 years, or in other words, combining the

Creating Innovative Products through the Integration of Science and Technology



management of technology and the consumer-driven perspective that are Kao's strengths. Using these elements, we will promote speedy product development that is tailored to local customs, based on our core technologies.

One recent example is the start of the manufacture and sale of *Merries Shun Shuang Tou Qi* baby diapers in China. In developing the product, we repeatedly visited homes while thoroughly surveying local attitudes and conditions to understand the true needs of Chinese consumers. As a result of their dislike of the accumulation of qi (the "life force" in feng shui) and their love for their children, Chinese people clothe their babies in layers, making it easy for moisture to build up. With factors such as these in mind, we developed a product suited to local needs while retaining the highly regarded features of the *Merries* series we export from Japan. To carry out future global expansion, we will develop products based on an understanding of the culture and consumer trends of each country or region, combined with the unique attention to detail of a Japanese manufacturer.

Another challenge is finding and cultivating human resources who will promote innovation outside Japan. Our future globalization assumes an awareness and understanding of different ethnicities and upbringings. That means we cannot just dispatch employees from Japan; we must incorporate the perspectives of local people. As we do in Japan, we would like to employ highly creative, high-quality human resources with a harmonious approach and a sense of balance. Another area of focus is cultivating local human resources who can manage R&D departments.

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

Interview: Sustainability
Minako Shimada

Corporate Associate Officer
Vice President, Sustainability Department

The Kao Group fulfills its responsibilities to society and conducts its business activities in a sustainable manner. Our highest priority is to contribute through our business activities to resolving social issues.

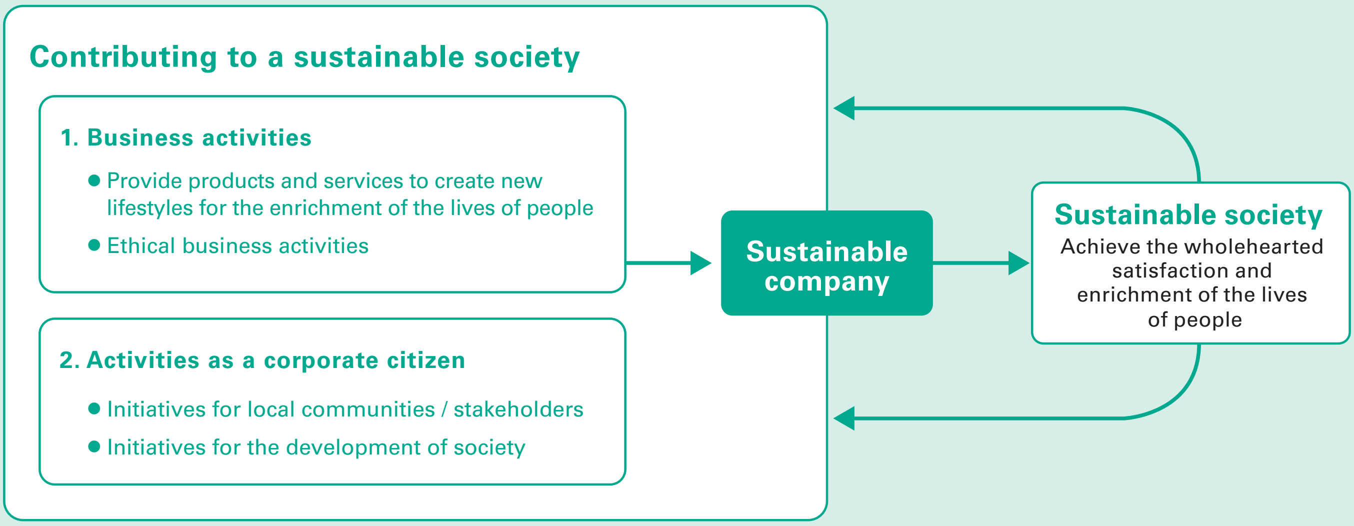
To begin with, can you explain how Kao's CSR activities have changed?

I took charge of social contributions and patronage of the arts and culture when I became head of the Community and Culture Department in 2000. CSR activities were just starting to become a topic in Japanese society, and since then I have been dealing with how to conduct those activities through discussions with managers and lectures. At that time, CSR was not a generally recognized term, either in Kao or in society at large, but I was well aware of the issue, partly due to the rise of shareholder activism centered on socially responsible investment (SRI) that had taken place in the United Kingdom and the United States. Of course, as a manufacturer that advocates *Yoki-Monozukuri,* Kao had been conducting business activities rooted in its social mission, but these were limited to the activities of each department. To integrate and develop these activities on a Group level, Kao established the CSR Committee and CSR Department in July 2004.

Moreover, the establishment in October 2004 of the Kao Way, which updated the former corporate philosophy from a global perspective, clearly expressed Kao's unique corporate culture and spirit. With the mission of "satisfaction and enrichment of the lives of people," the Kao Way made clear the orientation of our basic CSR activities. Kao established "eco," "global" and "human resource development" as core themes in 2008 and formulated its Environmental Statement in 2009. In April 2010, Kao renewed the Kao Way with an approach of pursuing innovative business activities around the axis of sustainability, further promoting CSR activities and specifying its contribution to the sustainability of society in its mission.

Over this period of more than ten years, I have had many opportunities for discussions with Kao's top

Overview of CSR / Sustainability



management, and they stress decision making through consensus on issues such as the meaning of CSR for Kao and how to proceed in a manner appropriate to the Company. It may not be readily apparent outside the Company, but Kao has been dealing seriously with CSR for more than a decade.

What direction will the Kao Group's efforts to promote sustainability take in the future?

In recent years, the Kao Group has substantially expanded the regions where it operates. As the number of its business partners that operate globally has risen, questions about how the Kao Group contributes to the sustainability of society have also increased. We at the Kao Group believe our highest priority is to contribute through our business activities to resolving the social issues the world faces, in a manner appropriate to the Kao Group and in a way that only the Kao Group can. Moreover, to become a company with a global presence, in addition to being an ethical company we must participate in international frameworks such as the UN Global Compact of ten principles related to human rights, labor, the environment and anti-corruption and the Roundtable on Sustainable Palm Oil (RSPO). In the future, we will be more proactive in clearly conveying our activities for the sustainability of society to Kao Group employees around the world and our stakeholders outside the Group.

Interview: Corporate Governance
Tadaaki Sugiyama

Executive Officer
Senior Vice President, Legal and Compliance, Global

By integrating the management of the Board of Directors and the Audit & Supervisory Board, Kao conducts its governance effectively and efficiently. We will continue to make improvements in conformance with the Kao Way, which is our corporate philosophy, to build a foundation that supports future growth.

Can you start by talking about recent initiatives to strengthen corporate governance?

To further strengthen our corporate governance, we introduced a new system following the Annual General Meeting of Shareholders in June 2012. For greater separation of supervision and execution, we increased the number of outside directors, decreased the number of directors and reinforced the organization of executive officers. To promote more in-depth discussions, we streamlined the Board of Directors from its previous size. The Board conducts lively discussions each time it meets. At the same time, because Kao is rapidly expanding its business activities globally, we transferred greater authority to executive officers to accelerate and raise the quality of execution.

What were the main areas of emphasis in creating this governance structure?

To enhance transparency of its management and incorporate diverse opinions, we raised the proportion of outside members in the Board of Directors and the Audit & Supervisory Board. As of the end of the Annual General Meeting of Shareholders in March 2013, there are six outside members in total in the two boards, accounting for 40 percent of all members (30 percent of the members of the Board of Directors, 60 percent of the members of the Audit & Supervisory Board). In managing Kao, we make use of the expertise of individuals from outside the Company with various backgrounds, such as executives of business entities, management consultants, lawyers and accountants. Specifically, we expect outside members to keep Kao's way of thinking from diverging from that of society in general. When you are closely involved in a business, discussions tend to become biased, so the outside members of the two boards provide advice from a perspective that is objective and aligned with the expectations of shareholders while also considering the long term. Moreover, for potential investments such as M&A or new factory construction, the outside members of the two boards ask questions and offer opinions that are less likely to occur to someone from inside the Company.

Another area of emphasis has been continuing efforts to improve our corporate governance structure though repeated discussions regarding the best structure for Kao. In connection with the 2003 revision of the Corporation Law of Japan, we discussed what kind of governance

Changes in Corporate Governance

Kao has regularly considered the type of corporate governance it wants and the best methods for the Company to make improvements through repeated discussions in light of contemporary conditions and management issues. Through methods including the introduction of outside Directors and outside Audit & Supervisory Board Members and new committees and systems, the Company is working to build a structure for the future.

1994	Introduced an outside member to the Audit & Supervisory Board
1999	Introduced the Economic Value Added (EVA*) management system
2000	Established the Executive Advisory Committee
2001	Introduced a stock option plan
	Increased the number of Audit & Supervisory Board Members (from 1 to 2)
2002	Introduced outside Directors
	Introduced the Executive Officer system
	Expanded coverage of the stock option plan
2003	Excluded execution from functions of Chairman, who is devoted exclusively to Chairman of the Board of Directors
	Established Compensation Advisory Committee and Committee for the Examination of the Nominees for the Chairman of the Board of Directors and the President / CEO
2005	Established the Internal Control Committee
2006	Added a compensation-based stock option plan
2010	Established standards for the independence of outside Directors / Audit & Supervisory Board Members
2012	Streamlined the Board of Directors and increased the number of outside Directors
	Strengthened the Executive Officer system
	Changed Directors' term of office from 2 years to 1 year
2013	Increased the number of outside members in both the Board of Directors and the Audit & Supervisory Board from 2 to 3

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

structure Kao ought to have, including a shift to the "company with committees" structure that is common in the United States. We continued in the form of a "company with an audit & supervisory board" because of the effectiveness of this unique Japanese structure, in which execution is supervised by directors, whose supervision is in turn audited by audit & supervisory board members. Under the Corporation Law of Japan, audit & supervisory board members do not have the right to vote at meetings of the board of directors, but they have the authority to request the suspension of activity by a director or the board that they determine to be in violation of the law. I think the most important point for Kao is to achieve sustainable management, with both its Directors and Audit & Supervisory Board Members continuing to fulfill their respective responsibilities in an integrated management board.

In addition, using the "company with committees" structure as a point of reference, we have thought outside the box to create a governance structure unique to Kao. This structure includes the Compensation Advisory Committee and the Committee for the Examination of the Nominees for the Chairman of the Board of Directors and the President / CEO, which ensure the transparency of compensation and Chairman and President and Chief Executive Officer nominations.

With the coming full-scale integration of management in North America and Europe, Kao will need a corporate governance system that includes its overseas subsidiaries. Where do you plan to focus in this area?

It will be important to establish a mechanism for directors to check whether a company's operations are lawful, fair and efficient. As they transfer authority overseas, directors are building a framework for efficient and effective communication with overseas operations to strengthen management and supervision of the execution authority that they have ceded. This is the practical application of the principle of *Genba*-ism* in the Kao Way. The *Genba* Roundtable Project that President and CEO Sawada started when he took office has involved visiting sites in Japan and overseas to share his views and exchange opinions directly with employees in each location.

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

Risk Management and Compliance

Risk Management

To practice its corporate philosophy of *Yoki-Monozukuri*, the Kao Group must manage risks appropriately by visualizing those affecting ongoing business and implementing measures to minimize their frequency and influence. At the same time, the Kao Group must prepare itself under normal conditions to act effectively to minimize damage and loss in the event of a physical manifestation of such risk. The Kao Group conducts risk management activities by prioritizing risk management and measures based on the order specified in the Kao Risk Management Policy (1. Protection of human life; 2. Environmental conservation; 3. Continuation of operations; and 4. Protection of assets).

Main Activities in the Fiscal Period Ended December 31, 2012

- **Identified risks that could affect *Yoki-Monozukuri* and the continuation of operations, and strengthened countermeasures**
- **Strengthened business continuity plan (BCP) preparations assuming disasters such as an earthquake with an epicenter in the Tokyo metropolitan area where the headquarters is located**
- **Strengthened initial response to emergency conditions**

Compliance

Revision of Business Conduct Guidelines (BCG)

The Kao Group revised the BCG to reflect a change in certain core themes of its social contribution activities by replacing "arts" with "community," in addition to clearly specifying the prohibition of retaliation against good faith reporting to the Kao Group compliance hotlines to ensure the peace of mind of callers. Moreover, in its annual review of the BCG, in 2013 the Kao Group will be revising the content of the BCG to reflect recent developments in anti-bribery regulation and enforcement based on laws of the United States, China, the United Kingdom and elsewhere.

Establishing and Operating Compliance Hotlines

To monitor compliance with ethical business practices as described in the BCG, the companies of the Kao Group have set up and maintain both internal compliance hotlines that allow callers from each company globally to consult with their president or human resources manager and external hotlines operated by outside service providers. The external hotlines, known as Integrity Lines, have been established at Kao Group companies in each country and are used to respond to inquiries in the caller's own language 24 hours a day, 365 days a year. In 2012, 13 calls were received on average each month; however, none of the issues presented serious risk to the Kao Group.

Ongoing Global Implementation of Integrity Workshops

Since the revision of the BCG in 2008, the Kao Group has conducted a global rollout of training sessions called Integrity Workshops to promote compliance. In 2012, the workshops were held mainly in Vietnam, China, Europe and Japan.

Implementation of Integrity Workshops (Cumulative as of December 31, 2012)

Region	Times Held	Number of Attendees
Japan	10	248
Asia	212	4,887
Americas and Europe	87	1,878
Total	**309**	**7,013**

An Integrity Workshop for the sales promotion team in Vietnam.

Financial Section

11-Year Summary

Kao Corporation and Consolidated Subsidiaries

Periods ended December 31, 2012 and 2011 and years ended March 31, 2012 to 2003	Dec. 2012	Dec. 2011 (Restated)	Mar. 2012	Mar. 2011
For the year:				
Net sales	¥1,012,595	¥1,008,294	¥1,216,096	¥1,186,831
Business Segments				
Beauty Care Business	444,425	444,511	537,938	533,514
Human Health Care Business	151,977	144,122	181,758	175,761
Fabric and Home Care Business	236,748	230,405	285,645	279,008
Consumer Products Business	833,150	819,038	1,005,341	988,283
Chemical Business	208,071	219,235	247,635	231,997
Eliminations	(28,626)	(29,979)	(36,880)	(33,449)
Former Segments				
Consumer Products	—	—	—	—
Prestige Cosmetics	—	—	—	—
Chemical Products	—	—	—	—
Eliminations	—	—	—	—
Geographic Segments				
Japan	720,789	712,347	925,339	912,443
Asia	159,857	167,614	—	—
Asia & Oceania	—	—	173,588	152,361
Americas	89,998	90,889	—	—
North America	—	—	85,397	80,328
Europe	110,519	117,005	117,005	112,123
Eliminations	(68,568)	(79,561)	(85,233)	(70,424)
Operating income	101,567	98,459	108,590	104,591
Net income	52,765	51,758	52,435	46,738
Capital expenditures	41,929	—	47,178	49,101
Depreciation and amortization	59,788	—	79,798	81,380
Cash flows	80,200	—	101,960	97,028
Research and development expenditures	37,493	—	48,171	45,516
(% of sales)	3.7%	—	4.0%	3.8%
Advertising expenditures	67,045	—	82,209	81,082
(% of sales)	6.6%	—	6.8%	6.8%
At year end:				
Total assets	1,030,347	—	991,272	1,022,799
Net worth	582,699	—	538,030	528,895
Number of employees	33,350	—	34,069	34,743
Per share:				
Net income	¥ 101.12	¥99.16	¥ 100.46	¥ 87.69
Cash dividends	62.00	—	60.00	58.00
Net worth	1,116.61	—	1,031.08	1,013.05
Weighted average number of shares outstanding during the period (in thousands)	521,824	—	521,936	532,980
Key financial ratios:				
Return on sales	5.2%	—	4.3%	3.9%
Return on equity	9.4	—	9.8	8.5
Net worth ratio	56.6	—	54.3	51.7

Notes:
1. Due to a change in the fiscal year end, the term of consolidation for the fiscal period ended December 31, 2012 consists of the nine months from April to December for Kao Corporation and its subsidiaries whose fiscal year end was previously March 31 and the twelve months from January to December for subsidiaries whose fiscal year end was December 31.
2. December 2011 (restated) represents figures for the period from April 1 to December 31, 2011 for Group companies whose fiscal year end was previously March 31.
3. Australia and New Zealand, which had been included in Asia & Oceania until the fiscal year ended March 31, 2012, have been reclassified under Americas from the fiscal period ended December 31, 2012. For the purpose of comparison, amounts for the fiscal period ended December 31, 2011 have been restated.
4. Kao reorganized its operations effective April 2007 by integrating the former consumer products business and prestige cosmetics business into the Consumer Products Business, which is divided into three businesses (the Beauty Care Business, the Human Health Care Business and the Fabric and Home Care Business). Together with the Chemical Business, Kao's business operations now consist of four segments. Figures for March 2007 have been restated to reflect the change.
5. Net sales by segment include intersegment sales. Under the former segments, net sales of Chemical Products include intersegment sales to Consumer Products and Prestige Cosmetics. Under the current segments, net sales of the Chemical Business include intersegment sales to the Beauty Care Business, the Human Health Care Business and the Fabric and Home Care Business.

Millions of yen							
Mar. 2010	Mar. 2009	Mar. 2008	Mar. 2007	Mar. 2006	Mar. 2005	Mar. 2004	Mar. 2003
¥1,184,385	¥1,276,316	¥1,318,514	¥1,231,808	¥ 971,230	¥936,851	¥902,628	¥865,247
547,944	588,330	627,914	584,284	—	—	—	—
183,151	191,319	191,300	183,608	—	—	—	—
276,918	274,202	274,657	269,519	—	—	—	—
1,008,013	1,053,851	1,093,871	1,037,411	—	—	—	—
207,834	262,058	258,674	223,609	—	—	—	—
(31,462)	(39,593)	(34,031)	(29,212)	—	—	—	—
—	—	—	744,748	704,034	690,007	670,438	646,413
—	—	—	292,663	85,247	78,294	77,648	75,833
—	—	—	223,609	208,890	196,989	181,621	170,935
—	—	—	(29,212)	(26,941)	(28,439)	(27,079)	(27,934)
918,499	953,369	968,594	924,196	708,056	703,085	673,657	654,595
—	—	—	—	—	—	—	—
131,699	161,927	158,295	125,989	110,898	100,282	101,452	101,555
—	—	—	—	—	—	—	—
79,200	98,999	111,017	106,731	95,168	83,638	79,907	75,796
111,158	140,623	154,648	135,918	109,486	93,804	84,899	67,845
(56,171)	(78,602)	(74,040)	(61,026)	(52,378)	(43,958)	(37,287)	(34,544)
94,034	96,800	116,253	120,858	120,135	121,379	119,706	114,915
40,507	64,463	66,562	70,528	71,140	72,180	65,359	62,462
44,868	44,624	49,045	70,143	203,595	54,318	51,823	84,544
84,778	87,463	93,444	92,171	60,758	56,794	58,166	58,310
95,269	122,441	131,114	134,906	107,943	109,704	106,430	104,436
44,911	46,126	45,070	44,389	40,262	39,764	38,506	37,713
3.8%	3.6%	3.4%	3.6%	4.1%	4.2%	4.3%	4.4%
86,359	90,258	99,176	96,892	83,770	84,157	82,773	74,277
7.3%	7.1%	7.5%	7.9%	8.6%	9.0%	9.2%	8.6%
1,065,751	1,119,676	1,232,601	1,247,797	1,220,564	688,974	723,891	720,849
565,133	545,230	574,038	564,532	509,676	448,249	427,757	417,031
34,913	33,745	32,900	32,175	29,908	19,143	19,330	19,807
Yen							
¥ 75.57	¥ 120.25	¥ 122.53	¥ 129.41	¥130.58	¥131.16	¥119.06	¥108.05
57.00	56.00	54.00	52.00	50.00	38.00	32.00	30.00
1,054.31	1,017.19	1,070.67	1,035.66	935.11	821.47	782.14	744.56
536,009	536,085	543,228	544,996	544,127	549,626	547,865	576,770
%							
3.4%	5.1%	5.0%	5.7%	7.3%	7.7%	7.2%	7.2%
7.3	11.5	11.7	13.1	14.9	16.5	15.5	14.2
53.0	48.7	46.6	45.2	41.8	65.1	59.1	57.9

6. Kanebo Cosmetics Inc. and its consolidated subsidiaries are included in the consolidated statements of income from the year ended March 31, 2007, and in the consolidated balance sheets as of March 31, 2006. The results of Kanebo Cosmetics Inc., which had a fiscal year ended December 31, are included for the eleven months starting in February 2006, after the company was added to the Kao Group.
7. Net sales by region including interregion sales are classified based on the location of Kao Group companies.
8. Cash flows are defined as net income plus depreciation and amortization minus cash dividends.
9. Net income per share is computed based on the weighted average number of shares outstanding during the respective years. 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.
10. Cash dividends per share are the amounts applicable to the respective years, including dividends to be paid after the end of the year.
11. Net worth is equity, excluding minority interests and stock acquisition rights.
12. In calculating return on equity, equity excludes minority interests and stock acquisition rights.

Management Discussion and Analysis

Change in the Fiscal Year End

Due to a change in the fiscal year end, the term of consolidation for the fiscal period ended December 31, 2012 consists of the nine months from April to December for Kao Corporation (the "Company") and its subsidiaries whose fiscal year end was previously March 31 and the twelve months from January to December for subsidiaries whose fiscal year end was December 31. Accordingly, for ease of comparison, figures for the previous fiscal year are presented using the equivalent period as "restated fiscal 2011."

Overview of Consolidated Results

During the fiscal period ended December 31, 2012 (April 1, 2012 to December 31, 2012), recovery of the global economy remained weak, with the problem of the sovereign debt crisis in Europe. In the Japanese economy, although there were some signs of bottoming out amid weak activity, conditions remained severe. The household and personal care products market in Japan, a key market for the Kao Group, grew by about 1 percent on a value basis compared with the previous fiscal period, although consumer purchase prices fell, partly due to the effects of deflation. The cosmetics market in Japan was flat compared with previous fiscal period.

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

Net sales increased 0.4 percent compared with restated fiscal 2011 to ¥1,012.6 billion (US$11,695.5 million). Excluding the effect of currency translation, net sales would have increased 1.1 percent. In the Consumer Products Business, sales rose compared with restated fiscal 2011, reflecting the contribution from the Human Health Care Business, which includes sanitary and other products, and the Fabric and Home Care Business. In the Chemical Business, sales decreased compared with restated fiscal 2011 due to the impact of decreased demand in customer industries and adjustment of selling prices in connection with lower raw material prices.

Operating income increased ¥3.1 billion compared with restated fiscal 2011 to ¥101.6 billion (US$1,173.1 million), and net income increased ¥1.0 billion compared with restated fiscal 2011 to ¥52.8 billion (US$609.4 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."

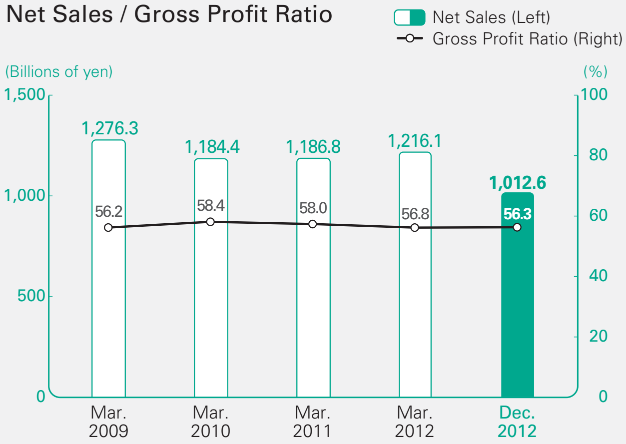
Analysis of Income Statements

Net Sales and Operating Income

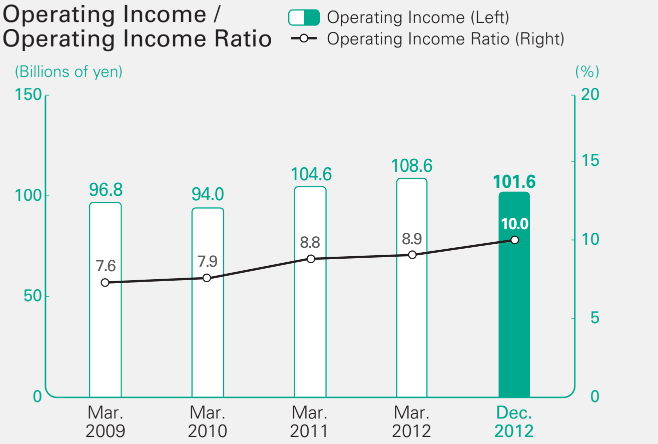
Net sales increased 0.4 percent compared with restated fiscal 2011 to ¥1,012.6 billion (US$11,695.5 million). Excluding the effect of currency translation, net sales would have increased

(Years ended March 31, 2009 to 2012, and period ended December 31, 2012)

Net Sales / Gross Profit Ratio



Operating Income / Operating Income Ratio



Costs, Expenses and Income as Percentages of Net Sales

Period ended December 31, 2012 and years ended March 31, 2012 and 2011	Dec. 2012	Mar. 2012	Mar. 2011
Cost of sales	43.7%	43.2%	42.0%
Gross profit	56.3	56.8	58.0
Selling, general and administrative expenses	46.3	47.9	49.2
Operating income	10.0	8.9	8.8
Income before income taxes and minority interests	10.1	8.7	8.1
Net income	5.2	4.3	3.9

1.1 percent. In the Consumer Products Business, sales rose compared with restated fiscal 2011, reflecting the contribution from the Human Health Care Business, which includes sanitary and other products, and the Fabric and Home Care Business. In the Chemical Business, sales decreased compared with restated fiscal 2011 due to the impact of decreased demand in customer industries and adjustment of selling prices in connection with lower raw material prices.

In addition to the impact of increased sales on profits, raw material prices decreased, mainly for natural fats and oils and petrochemicals, and the Kao Group worked to promote cost reduction activities and make more efficient use of expenses. As a result, operating income increased ¥3.1 billion compared with restated fiscal 2011 to ¥101.6 billion (US$1,173.1 million).

Other Income (Expenses) and Net Income

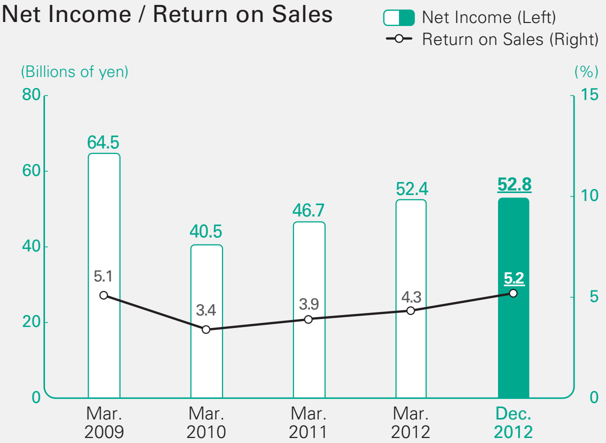
Net other income was ¥0.7 billion (US$8.5 million), compared with net other expenses of ¥3.3 billion in restated fiscal 2011. Interest expense decreased as the Kao Group refinanced debt, and foreign currency exchange loss decreased because the appreciation of the yen eased in comparison with the previous fiscal period. In addition, loss related to the Great East Japan Earthquake recorded in restated fiscal 2011 was absent in the fiscal period.

As a result, income before income taxes and minority interests was ¥102.3 billion (US$1,181.6 million), an increase of ¥5.9 billion compared with restated fiscal 2011. Total income taxes increased from ¥42.6 billion in restated fiscal 2011 to ¥48.2 billion (US$556.4 million). The income tax rate after application of tax effect accounting was 47.1 percent, compared with 44.2 percent in restated fiscal 2011.

Net income increased ¥1.0 billion yen from ¥51.8 billion in restated fiscal 2011 to ¥52.8 billion (US$609.4 million). Net income per share was ¥101.12 (US$1.17), an increase of ¥1.96, or 2.0 percent, from ¥99.16 in restated fiscal 2011.

(Years ended March 31, 2009 to 2012, and period ended December 31, 2012)

Net Income / Return on Sales



Information by Segment

Consumer Products Business

Sales increased 1.7 percent compared with restated fiscal 2011 to ¥833.2 billion (US$9,622.9 million). Excluding the effect of currency translation, sales would have increased 2.1 percent.

In Japan, sales increased 1.7 percent to ¥653.1 billion (US$7,543.2 million). The Kao Group dealt with intensified market competition by taking measures including launching new products in response to changing consumer lifestyles and enhancing proposal-based sales and in-store merchandising activities.

In Asia, sales increased 7.0 percent to ¥87.2 billion (US$1,007.0 million). Excluding the effect of currency translation, sales would have increased 7.8 percent. In the *Bioré* skin care, *Attack* laundry detergent, *Laurier* sanitary napkins and *Merries* baby diapers lines, the Kao Group carried out aggressive measures including the introduction of new products and collaboration with retailers.

In the Americas, sales increased 2.7 percent to ¥56.6 billion (US$654.2 million). Excluding the effect of currency translation, sales would have increased 2.1 percent. Sales grew as the market remained firm.

In Europe, sales decreased 6.9 percent to ¥57.3 billion (US$661.3 million). Excluding the effect of currency translation, sales would have decreased 1.8 percent. Sales were firm within Europe amid severe economic conditions, but performance was impacted by lower export sales and the effect of currency translation due to the appreciation of the yen.

Operating income increased ¥7.9 billion compared with restated fiscal 2011 to ¥84.7 billion (US$978.7 million) as the Kao Group worked proactively to nurture new and improved products, made more efficient use of expenses and conducted cost reduction activities.

Beauty Care Business

Sales were on par with restated fiscal 2011 at ¥444.4 billion (US$5,133.1 million). Excluding the effect of currency translation, sales would have increased 0.5 percent.

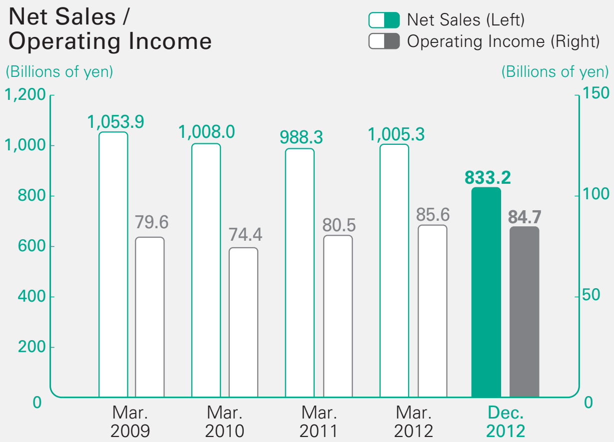
Sales of prestige cosmetics, which consist of self-selection and counseling cosmetics, increased 0.1 percent compared with restated fiscal 2011 to ¥205.4 billion (US$2,372.5 million) (an increase of 0.2 percent excluding the effect of currency translation). In Japan, amid a continuing shift toward lower-priced products in the cosmetics market, the Kao Group worked to reinforce focal brands, and increased sales of counseling brands *SOFINA Primavista* base makeup, *AUBE couture* makeup and *COFFRET D'OR* makeup, as well as self-selection brand *KATE* makeup. Sales outside Japan decreased compared with restated fiscal 2011 with the impact of concerns about an economic slowdown.

In premium skin care products, sales in Japan increased, reflecting the steady performance of *Bioré* facial cleanser, *Bioré U* body cleanser and *Curél* derma care products. In Asia,

(Years ended March 31, 2009 to 2012, and period ended December 31, 2012)

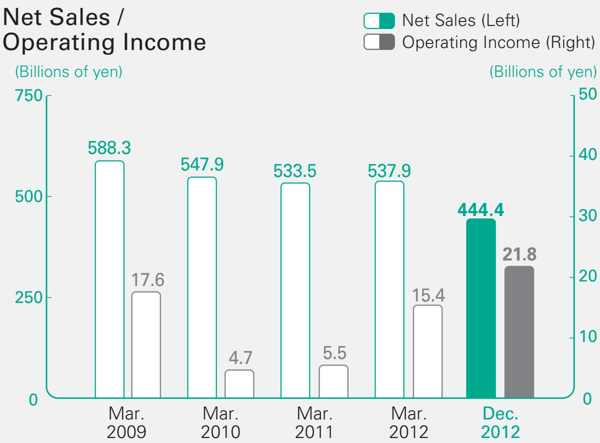
Consumer Products Business

Net Sales / Operating Income



Beauty Care Business

Net Sales / Operating Income



Bioré performed strongly with the effect of product improvements. In the Americas, sales of *Jergens* hand and body lotions increased.

Sales of premium hair care products in Japan decreased compared with restated fiscal 2011 due to intensified competition for shampoos and conditioners and contraction of the market for styling and hair coloring products. In Asia, there were increased sales of *Liese* foam hair color in Taiwan, Hong Kong and Malaysia, and *Essential* hair care products in Taiwan and Hong Kong. In the Americas and Europe, sales of *John Frieda* foam hair color increased.

Operating income increased ¥4.8 billion compared with restated fiscal 2011 to ¥21.8 billion (US$252.0 million) due to ongoing efforts to rebuild the prestige cosmetics business in Japan and other factors. Operating income before amortization of goodwill and other items related to acquisitions (EBITA) increased ¥3.2 billion compared with restated fiscal 2011 to ¥45.9 billion (US$529.8 million), which is equivalent to 10.3 percent of sales.

Human Health Care Business

Sales increased 5.5 percent compared with restated fiscal 2011 to ¥152.0 billion (US$1,755.3 million). Even excluding the effect of currency translation, sales would have increased by the same percentage.

In food and beverage products, the Kao Group added new products to the *Healthya* brand of functional drinks that promote body fat utilization, but sales decreased compared with restated fiscal 2011 due to intensifying market competition.

Sales of sanitary products increased compared with restated fiscal 2011. Sales of *Laurier F* sanitary napkins, which protect skin from dampness and chafing, increased in Japan, and sales of the *Laurier* brand increased in Indonesia. *Merries* baby diapers performed strongly in Japan, increasing market share, and sales grew in China and Russia.

Sales of personal health products were on par with restated fiscal 2011. Although sales of toothpaste decreased compared with restated fiscal 2011 due in part to intensifying competition, sales of *Success* men's products and *Megurhythm* steam thermo power pads increased.

Operating income decreased ¥1.0 billion compared with restated fiscal 2011 to ¥11.5 billion (US$133.4 million) with the increase in expenses for new product launches and the impact of market competition, despite the Kao Group's cost reduction activities in addition to the impact of increased sales.

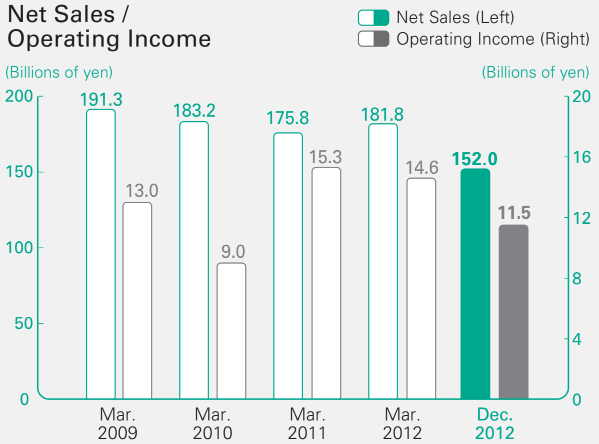
Fabric and Home Care Business

Sales increased 2.8 percent compared with restated fiscal 2011 to ¥236.7 billion (US$2,734.4 million). Excluding the effect of currency translation, sales would have increased 2.9 percent.

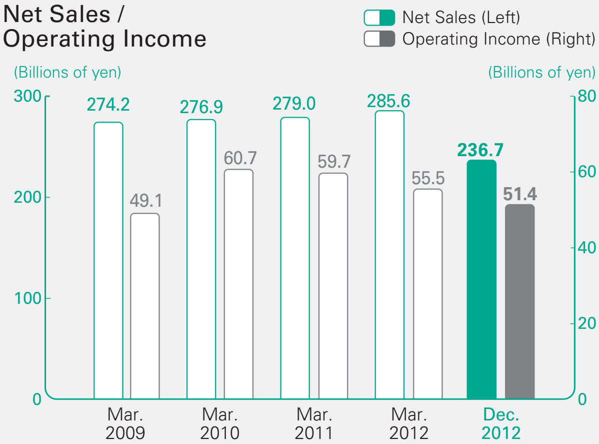
Sales of fabric care products increased. In Japan, the Kao Group worked to highlight the reduced laundry time and environmental appeal of conserving water, electricity and

(Years ended March 31, 2009 to 2012, and period ended December 31, 2012)

Human Health Care Business
Net Sales / Operating Income



Fabric and Home Care Business
Net Sales / Operating Income



resources with the *Neo* series, which includes *Attack Neo* ultra-concentrated liquid laundry detergent, and also expanded the number of users of *Attack Neo Antibacterial EX Power*, which has strong deodorizing and antibacterial properties. *Flair Fragrance* fabric softener, which releases fragrance upon exposure to perspiration or other moisture, was well received by consumers and increased sales. *Wide Haiter EX Power* fabric bleach for color garments performed well. Sales grew in Asia with the strong performance of *Attack Easy* laundry detergent in Indonesia and Thailand, and the launch of new concentrated laundry detergent *Attack 3D Clean Action* in Thailand.

Sales of home care products increased in Japan due to the strong performance of *CuCute* dishwashing detergent and *Kitchen Haiter* kitchen bleach, as well as new products such as *Quickle Wiper 3D Wet Sheets Rose Fragrance* cleaning sheets.

Operating income increased ¥4.1 billion compared with restated fiscal 2011 to ¥51.4 billion (US$593.3 million) as the Kao Group conducted cost reduction activities and other measures, in addition to the effect of the increase in sales.

Chemical Business

Sales decreased 5.1 percent compared with restated fiscal 2011 to ¥208.1 billion (US$2,403.2 million), partly because of decreased demand in customer industries and selling price adjustments made in connection with lower raw material prices. Excluding the effect of currency translation, sales would have decreased 3.1 percent.

In oleo chemicals, the Kao Group adjusted selling prices in connection with lower raw material prices. In performance chemicals, sales were firm as the Kao Group worked to develop and expand sales of high-value-added products with reduced environmental impact. Specialty chemicals were impacted by the economic downturn and structural changes in the personal computer market.

Operating income decreased ¥4.9 billion compared with restated fiscal 2011 to ¥16.8 billion (US$194.2 million) due to the impact of lower demand from customer industries, despite cost reduction activities.

Financial Structure

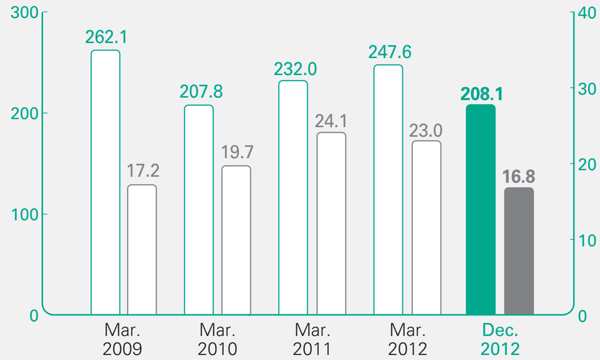
Total assets increased ¥39.1 billion from the previous fiscal year end to ¥1,030.3 billion (US$11,900.5 million). The principal increases in assets were a ¥13.9 billion increase in cash and time deposits, a ¥22.5 billion increase in notes and accounts receivable – trade, a ¥19.6 billion increase in short-term investments and a ¥2.3 billion increase in finished goods. The principal decrease in assets was a ¥21.5 billion decrease in intangible assets due to the progress of amortization of trademarks and other intellectual property rights and goodwill.

Total liabilities decreased ¥7.3 billion from the previous fiscal year end to ¥434.3 billion (US$5,015.8 million). The principal decreases in liabilities were a ¥4.7 billion decrease

(Years ended March 31, 2009 to 2012, and period ended December 31, 2012)

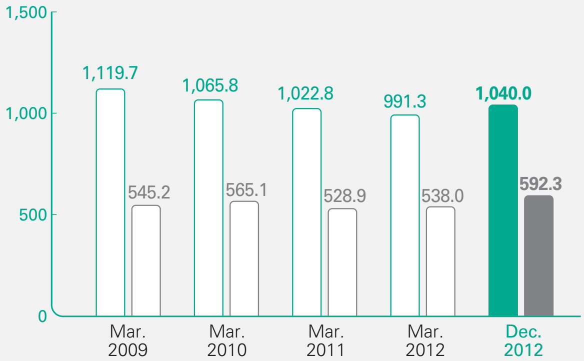
Chemical Business

Net Sales / Operating Income



Note: Net sales include intersegment sales.

Total Assets / Net Worth*



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

in notes and accounts payable – trade and a ¥6.6 billion decrease in income taxes payable.

Total equity increased ¥46.4 billion from the previous fiscal year end to ¥596.1 billion (US$6,884.8 million). The principal increases in equity were net income totaling ¥52.8 billion and foreign currency translation adjustments of ¥24.2 billion. The principal decrease in equity was payments of dividends from retained earnings totaling ¥32.4 billion.

As a result, the net worth ratio (defined as net worth divided by total assets) was 56.6 percent compared with 54.3 percent at the end of the previous fiscal year.

Cash Flows

The balance of cash and cash equivalents at December 31, 2012 increased ¥30.7 billion compared with the end of the previous fiscal year to ¥160.4 billion (US$1,853.0 million).

Cash Flows from Operating Activities

Net cash provided by operating activities totaled ¥97.4 billion (US$1,124.5 million). The principal increases in net cash were income before income taxes and minority interests of ¥102.3 billion, depreciation and amortization of ¥59.8 billion and change in inventories of ¥5.1 billion. The principal decreases in net cash were income taxes paid of ¥40.1 billion, change in trade receivables of ¥12.4 billion and change in trade payables of ¥9.6 billion.

Cash Flows from Investing Activities

Net cash used in investing activities totaled ¥44.6 billion (US$515.6 million). This primarily consisted of purchase of property, plant and equipment of ¥34.6 billion and purchase of short-term investments of ¥10.0 billion.

Cash Flows from Financing Activities

Net cash used in financing activities totaled ¥32.0 billion (US$369.9 million). The principal decrease in net cash was ¥33.5 billion for payments of cash dividends, including to minority shareholders.

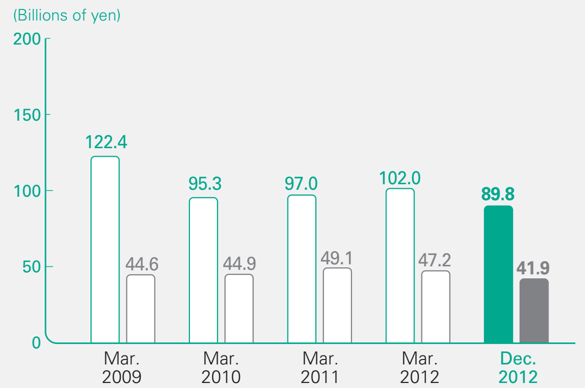
Basic Policies Regarding Distribution of Profits and Dividends for the Period

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

In accordance with these policies, Kao Corporation announced a period-end dividend for the fiscal period ended December 31, 2012 of ¥31.00 (US$0.36) per share, as planned. Consequently, cash dividends for the fiscal period increased ¥2.00 per share compared with the previous fiscal

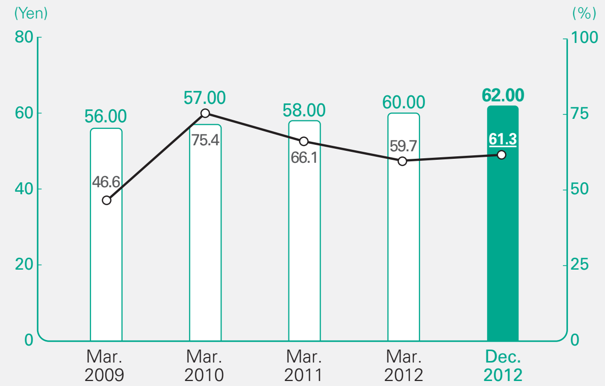
(Years ended March 31, 2009 to 2012, and period ended December 31, 2012)

Cash Flows* / Capital Expenditures



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

Cash Dividends per Share / Payout Ratio



year, resulting in a total of ¥62.00 (US$0.72) per share and a consolidated payout ratio of 61.3 percent.

For the fiscal year ending December 31, 2013, the Company plans to pay total cash dividends of ¥64.00 per share, an increase of ¥2.00 per share compared with the fiscal period ended December 31, 2012. Although the operating environment is challenging, this plan is in accordance with the Company's basic policies regarding distribution of profits, and free cash flow and other factors have also been taken into consideration. As a result, the projected consolidated payout ratio will be 44.9 percent.

EVA

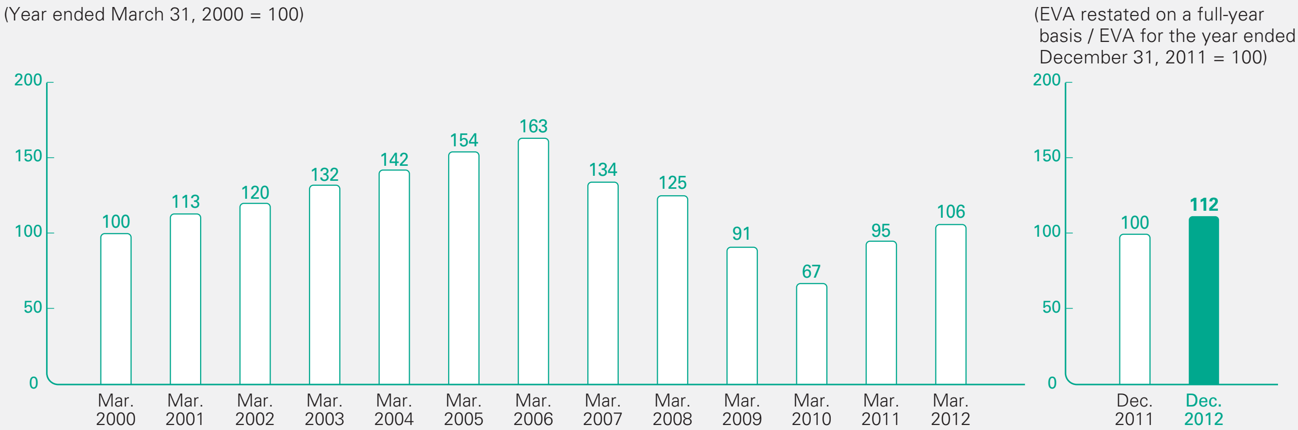
Economic Value Added (EVA) is the Kao Group's main management metric, defined as net operating profit after tax (NOPAT) less a charge for the cost of capital employed in the business. We believe EVA indicates "true" profit. Continuously increasing EVA raises corporate value, which is consistent with 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.

Due to a change in the fiscal year end, the fiscal period ended December 31, 2012 was nine months. For the convenience of readers, EVA for the periods ended December 31, 2012 and 2011 has been restated on a full-year basis beginning on January 1. EVA for the period ended December 31, 2012 on a full-year basis was 112, expressed as an index with the full year ended December 31, 2011 as 100. The Kao Group conducted the following EVA-related activities during the fiscal period.

Investing for Growth: During the fiscal period ended December 31, 2012, the Kao Group invested aggressively for future growth. In Indonesia, which is showing market growth similar to China, the Kao Group invested ¥10.0 billion (US$115.5 million) in a second factory for the Consumer Products Business, which is under construction. In the Chemical Business, to strengthen the production system to deal with increased demand, the Kao Group invested ¥6.0 billion (US$69.3 million) in a new factory in Indonesia, ¥3.0 billion (US$34.7 million) in production capacity expansion in the Philippines, and ¥5.0 billion (US$57.8 million) in a new factory in China, which is under construction. Research and development expenditures were ¥37.5 billion (US$433.1 million), the equivalent of 3.7 percent of net sales.

Increasing Profit: During the fiscal period ended December 31, 2012, NOPAT increased from the same period of the previous year due to growth in sales volume from strong performance by *Merries* baby diapers and *Attack* laundry detergents. The prestige cosmetics business also improved NOPAT as a result

EVA*



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

of rebuilding. Moreover, ongoing total cost reduction activities cut costs by ¥8.0 billion (US$92.4 million).

Financial Improvement: Free cash flow* totaled ¥52.7 billion (US$608.9 million) for the fiscal period ended December 31, 2012. The Kao Group has set priorities for how it will deploy this free cash flow. Investments for M&A 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 period by ¥2.00 to ¥62.00 (US$0.72) for the twenty-third consecutive period of growth in cash dividends.

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

Business Risks and Other Risks

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

Any statements below concerning the future are judgments made by Kao Corporation as of the submission of its securities report to the Ministry of Finance on March 26, 2013.

(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 28) 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. The Kao Group is offering proposals and conducting activities that correspond to these changes in the retail environment. Nevertheless, a delay in appropriate response could have 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, the Americas and Europe, with a particular emphasis on strengthening its operations in countries where higher economic growth rates and market expansion are forecast. However, the possible occurrence of factors such as a slowdown in economic growth and/or and uncertain political or social conditions in the course of business could have an impact on the Kao Group's business results and financial condition. In addition, factors such as competition, cost management, distribution and relationships with vendors may not go as planned. This could have an impact on the Kao Group's business results and financial condition.

(5) Environmental Activities

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

(6) Raw Material Prices

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

(7) Product Quality

The Kao Group designs and manufactures products from the viewpoint of consumers, in compliance with related laws and regulations and voluntary standards. In the development stage prior to market launch, the Kao Group conducts thorough safety testing and survey research to confirm the safety of products. After market launch, the Kao Group works to further improve quality by incorporating the opinions and desires of consumers through its consumer communication centers. However, the unanticipated occurrence of a serious quality problem or concerns about product safety or reliability resulting from new scientific knowledge would not only cause difficulties for the relevant brand, but would also have a major impact on the reputation of all of the Kao Group's products. This could 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 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 28) that consumers consistently support. However, an inability to secure superior human resources due to changes in employment conditions or other factors could have an impact on the Kao Group's business results and financial condition.

(12) Legal and Regulatory Issues

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

Consolidated Balance Sheets

Kao Corporation and Consolidated Subsidiaries
December 31, 2012 and March 31, 2012

	Millions of yen		Thousands of U.S. dollars (Note 2)
Assets	Dec. 2012 As restated (Note 1. a)	Mar. 2012	Dec. 2012 As restated (Note 1. a)
Current assets:			
Cash and time deposits (Notes 3 and 16)	¥ 99,334	¥ 85,483	$ 1,147,309
Short-term investments (Notes 3, 4 and 16)	68,443	48,798	790,517
Notes and accounts receivable (Note 16):			
Trade (Note 5)	162,866	140,352	1,881,104
Nonconsolidated subsidiaries and affiliates	2,693	3,349	31,104
Other	4,370	2,670	50,474
Inventories:			
Finished goods	84,712	82,393	978,425
Work in process and raw materials	37,495	38,313	433,068
Deferred tax assets (Note 6)	17,002	17,736	196,373
Other current assets	17,841	14,970	206,063
Allowance for doubtful receivables (Note 16)	(1,349)	(1,115)	(15,581)
Total current assets	493,407	432,949	5,698,856
Property, plant and equipment:			
Land	64,807	64,796	748,522
Buildings and structures	332,690	323,138	3,842,573
Machinery, equipment and other	715,094	693,757	8,259,344
Lease assets (Note 7)	11,889	11,934	137,318
Construction in progress	16,777	10,109	193,775
Total	1,141,257	1,103,734	13,181,532
Accumulated depreciation	(888,913)	(863,156)	(10,266,956)
Net property, plant and equipment	252,344	240,578	2,914,576
Intangible assets:			
Goodwill	159,165	165,614	1,838,358
Trademarks	41,851	53,583	483,380
Other intangible assets	14,907	18,266	172,175
Total intangible assets	215,923	237,463	2,493,913
Investments and other assets:			
Investment securities (Notes 4 and 16)	7,670	7,516	88,589
Investments in and advances to nonconsolidated subsidiaries and affiliates	7,452	6,927	86,071
Deferred tax assets (Note 6)	28,282	42,554	326,658
Other assets (Note 8)	25,269	23,285	291,857
Total investments and other assets	68,673	80,282	793,175
	¥1,030,347	¥ 991,272	$ 11,900,520

See Notes to Consolidated Financial Statements.

Liabilities and Equity	Millions of yen: Dec. 2012 As restated (Note 1. a)	Millions of yen: Mar. 2012	Thousands of U.S. dollars (Note 2): Dec. 2012 As restated (Note 1. a)
Current liabilities:			
Short-term debt (Notes 5 and 16)	¥ 3,115	¥ 2,060	$ 35,978
Current portion of long-term debt (Notes 5 and 16)	50,803	811	586,775
Notes and accounts payable (Note 16):			
Trade	103,430	108,081	1,194,618
Nonconsolidated subsidiaries and affiliates	5,824	5,493	67,267
Other	47,907	44,778	553,326
Income taxes payable (Note 16)	11,658	18,306	134,650
Accrued expenses	74,209	73,388	857,115
Liability for loss related to the Great East Japan Earthquake	—	33	—
Other current liabilities (Notes 5 and 6)	18,928	21,960	218,619
Total current liabilities	315,874	274,910	3,648,348
Long-term liabilities:			
Long-term debt (Notes 5 and 16)	56,072	106,565	647,632
Liability for retirement benefits (Note 8)	45,717	45,026	528,032
Other (Notes 5 and 6)	16,601	15,067	191,742
Total long-term liabilities	118,390	166,658	1,367,406
Commitments and contingent liabilities (Notes 7, 9 and 17)			
Equity (Notes 10 and 11):			
Common stock:			
Authorized — 1,000,000,000 shares in Dec. 2012 and Mar. 2012			
Issued — 526,212,501 shares in Dec. 2012 and Mar. 2012	85,424	85,424	986,648
Capital surplus	109,561	109,561	1,265,431
Stock acquisition rights	1,294	1,238	14,946
Retained earnings	468,019	447,619	5,405,626
Treasury stock, at cost			
(4,368,145 shares in Dec. 2012 and 4,402,474 shares in Mar. 2012)	(8,985)	(9,064)	(103,777)
Accumulated other comprehensive income			
Unrealized gain on available-for-sale securities	2,447	2,283	28,263
Deferred gain (loss) on derivatives under hedge accounting	6	(3)	69
Foreign currency translation adjustments	(71,872)	(96,094)	(830,122)
Post retirement liability adjustments for foreign consolidated subsidiaries	(1,901)	(1,697)	(21,957)
Total	583,993	539,267	6,745,127
Minority interests	12,090	10,437	139,639
Total equity	596,083	549,704	6,884,766
	¥1,030,347	¥991,272	$11,900,520

Consolidated Statements of Income

Kao Corporation and Consolidated Subsidiaries
Period ended December 31, 2012 and year ended March 31, 2012

	Millions of yen		Thousands of U.S. dollars (Note 2)
	Dec. 2012 As restated (Note 1. a)	Mar. 2012	Dec. 2012 As restated (Note 1. a)
Net sales (Note 13)	¥1,012,595	¥1,216,096	$11,695,484
Cost of sales	442,522	525,012	5,111,134
Gross profit	570,073	691,084	6,584,350
Selling, general and administrative expenses (Note 14)	468,506	582,494	5,411,250
Operating income (Note 13)	101,567	108,590	1,173,100
Other income (expenses):			
Interest and dividend income	1,011	1,068	11,677
Interest expense	(1,181)	(2,204)	(13,641)
Foreign currency exchange gain (loss)	(280)	(621)	(3,234)
Equity in earnings (losses) of nonconsolidated subsidiaries and affiliates	1,710	1,658	19,751
Other, net (Note 15)	(523)	(3,233)	(6,041)
Other income (expenses), net	737	(3,332)	8,512
Income before income taxes and minority interests	102,304	105,258	1,181,612
Income taxes (Note 6):			
Current	32,550	38,653	375,953
Deferred	15,619	12,120	180,399
Total income taxes	48,169	50,773	556,352
Income before minority interests	54,135	54,485	625,260
Minority interests in earnings of consolidated subsidiaries	1,370	2,050	15,823
Net income	¥ 52,765	¥ 52,435	$ 609,437
Per share of common stock (Notes 1.u and 18):	Yen		U.S. dollars (Note 2)
Basic net income	¥101.12	¥100.46	$1.17
Diluted net income	101.08	100.43	1.17
Cash dividends applicable to the year	62.00	60.00	0.72

See Notes to Consolidated Financial Statements.

Consolidated Statements of Comprehensive Income

Kao Corporation and Consolidated Subsidiaries
Period ended December 31, 2012 and year ended March 31, 2012

	Millions of yen		Thousands of U.S. dollars (Note 2)
	Dec. 2012 As restated (Note 1. a)	Mar. 2012	Dec. 2012 As restated (Note 1. a)
Income before minority interests	¥54,135	¥ 54,485	$625,260
Other comprehensive income (Note 12)			
Unrealized gain (loss) on available-for-sale securities	141	487	1,629
Foreign currency translation adjustments	25,315	(12,169)	292,388
Share of other comprehensive income in affiliates	137	(172)	1,582
Post retirement liability adjustments for foreign consolidated subsidiaries	(204)	(1,236)	(2,356)
Total other comprehensive income	25,389	(13,090)	293,243
Comprehensive income	¥79,524	¥ 41,395	$918,503
Comprehensive income attributable to:			
Shareholders of Kao Corporation	¥76,956	¥ 39,956	$888,843
Minority interests	2,568	1,439	29,660

See Notes to Consolidated Financial Statements.

Consolidated Statements of Changes in Equity

Kao Corporation and Consolidated Subsidiaries
Period ended December 31, 2012 and year ended March 31, 2012

	Millions of yen		Thousands of U.S. dollars (Note 2)
	Dec. 2012 As restated (Note 1. a)	Mar. 2012	Dec. 2012 As restated (Note 1. a)
Common stock			
Balance at beginning of year	¥ 85,424	¥ 85,424	$ 986,648
Balance at end of year	85,424	85,424	986,648
Capital surplus			
Balance at beginning of year	109,561	109,561	1,265,431
Balance at end of year	109,561	109,561	1,265,431
Stock acquisition rights			
Balance at beginning of year	1,238	1,143	14,299
Net change in the year	56	95	647
Balance at end of year	1,294	1,238	14,946
Retained earnings			
Balance at beginning of year	447,619	457,918	5,170,005
Net income	52,765	52,435	609,437
Cash dividends	(32,353)	(30,273)	(373,678)
Disposal of treasury stock	(12)	(1)	(138)
Retirement of treasury stock	—	(32,460)	—
Balance at end of year	468,019	447,619	5,405,626
Treasury stock, at cost			
Balance at beginning of year	(9,064)	(40,977)	(104,689)
Purchase of treasury stock	(6)	(628)	(69)
Disposal of treasury stock	85	81	981
Retirement of treasury stock	—	32,460	—
Balance at end of year	(8,985)	(9,064)	(103,777)
Accumulated other comprehensive income			
Unrealized gain on available-for-sale securities			
Balance at beginning of year	2,283	1,861	26,369
Net change in the year	164	422	1,894
Balance at end of year	2,447	2,283	28,263
Deferred gain (loss) on derivatives under hedge accounting			
Balance at beginning of year	(3)	(2)	(35)
Net change in the year	9	(1)	104
Balance at end of year	6	(3)	69
Foreign currency translation adjustments			
Balance at beginning of year	(96,094)	(84,430)	(1,109,887)
Net change in the year	24,222	(11,664)	279,765
Balance at end of year	(71,872)	(96,094)	(830,122)
Post retirement liability adjustments for foreign consolidated subsidiaries			
Balance at beginning of year	(1,697)	(461)	(19,600)
Net change in the year	(204)	(1,236)	(2,357)
Balance at end of year	¥ (1,901)	¥ (1,697)	$ (21,957)

	Millions of yen		Thousands of U.S. dollars (Note 2)
	Dec. 2012 As restated (Note 1. a)	Mar. 2012	Dec. 2012 As restated (Note 1. a)
Total			
Balance at beginning of year	¥539,267	¥530,037	$ 6,228,541
Net income	52,765	52,435	609,437
Cash dividends	(32,353)	(30,273)	(373,678)
Purchase of treasury stock	(6)	(628)	(69)
Disposal of treasury stock	73	80	843
Retirement of treasury stock	—	—	—
Net change in the year	24,247	(12,384)	280,053
Balance at end of year	583,993	539,267	6,745,127
Minority interests			
Balance at beginning of year	10,437	9,527	120,547
Net change in the year	1,653	910	19,092
Balance at end of year	12,090	10,437	139,639
Total equity			
Balance at beginning of year	549,704	539,564	6,349,088
Net income	52,765	52,435	609,437
Cash dividends	(32,353)	(30,273)	(373,678)
Purchase of treasury stock	(6)	(628)	(69)
Disposal of treasury stock	73	80	843
Retirement of treasury stock	—	—	—
Net change in the year	25,900	(11,474)	299,145
Balance at end of year	¥596,083	¥549,704	$ 6,884,766

	Yen		U.S. dollars (Note 2)
	Dec. 2012	Mar. 2012	Dec. 2012
Cash dividends per share	¥62.00	¥58.00	$0.72

	Thousands	
	Dec. 2012	Mar. 2012
Outstanding number of shares of common stock		
Balance at beginning of year	521,810	522,080
Purchase of treasury stock	(3)	(305)
Disposal of treasury stock	37	35
Balance at end of year	521,844	521,810

See Notes to Consolidated Financial Statements.

Consolidated Statements of Cash Flows

Kao Corporation and Consolidated Subsidiaries
Period ended December 31, 2012 and year ended March 31, 2012

	Millions of yen		Thousands of U.S. dollars (Note 2)
	Dec. 2012	Mar. 2012	Dec. 2012
Operating activities:			
Income before income taxes and minority interests	¥102,304	¥105,258	$1,181,612
Adjustments for:			
Income taxes paid	(40,105)	(38,339)	(463,213)
Depreciation and amortization	59,788	79,798	690,552
Loss on sales or disposals of property, plant and equipment, net	2,082	2,202	24,047
Equity in (earnings) losses of nonconsolidated subsidiaries and affiliates	(1,710)	(1,658)	(19,751)
Unrealized foreign currency exchange (gain) loss	(1,389)	159	(16,043)
Change in trade receivables	(12,395)	(26,513)	(143,162)
Change in inventories	5,083	(14,936)	58,709
Change in prepaid pension cost	75	906	866
Change in trade payables	(9,637)	8,997	(111,307)
Change in liability for retirement benefits	(56)	3,056	(647)
Other, net	(6,683)	6,102	(77,189)
Net cash provided by operating activities	97,357	125,032	1,124,474
Investing activities:			
Proceeds from withdrawal of time deposits	4,400	3,583	50,820
Purchase of short-term investments	(10,000)	(381)	(115,500)
Proceeds from the redemption and sales of short-term investments	5,078	1,441	58,651
Purchase of property, plant and equipment	(34,555)	(41,684)	(399,111)
Purchase of intangible assets	(2,595)	(3,375)	(29,972)
Increase in investments in and advances to nonconsolidated subsidiaries and affiliates	(949)	(1,221)	(10,961)
Other, net	(6,020)	(7,315)	(69,531)
Net cash used in investing activities	(44,641)	(48,952)	(515,604)
Financing activities:			
Increase (decrease) in short-term debt	717	(4,610)	8,281
Proceeds from long-term loans	217	50,013	2,506
Repayments of long-term loans	(205)	(50,012)	(2,368)
Redemption of bonds	—	(50,000)	—
Purchase of treasury stock	(7)	(10)	(81)
Payments of cash dividends	(33,513)	(30,776)	(387,076)
Other, net	763	(768)	8,814
Net cash used in financing activities	(32,028)	(86,163)	(369,924)
Translation adjustments on cash and cash equivalents	9,702	(3,323)	112,059
Net increase (decrease) in cash and cash equivalents	30,390	(13,406)	351,005
Cash and cash equivalents, beginning of year (Note 3)	129,737	143,143	1,498,464
Cash and cash equivalents of newly consolidated subsidiaries, increase	308	—	3,557
Cash and cash equivalents, end of year (Note 3)	¥160,435	¥129,737	$1,853,026

See Notes to Consolidated Financial Statements.

Notes to Consolidated Financial Statements

Kao Corporation and Consolidated Subsidiaries
Period ended December 31, 2012 and year ended March 31, 2012

1 Summary of Significant Accounting Policies

a) Basis of presenting consolidated financial statements

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

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

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.

Kao Corporation (the "Company") has discovered an error in the calculation of deferred tax assets for the fiscal period ended December 31, 2012, related to the consolidated taxation system applied from January 2013.

In the fourth quarter of the fiscal year ending December 31, 2013, while preparing the consolidated tax return from the current fiscal year onward, the Company discovered an error due to the misidentification of the relevant consolidated taxation period and has determined that it is necessary to revise the amount of deferred tax assets. After discussion with the Company's independent auditor, it was resolved at a meeting of the Board of Directors held on November 21, 2013 to correct the error by reducing the relevant deferred tax assets for the fiscal period ended December 31, 2012 by ¥9,621 million (US$111,122 thousand).

The Company has revised its previously issued consolidated balance sheet, consolidated statement of income, consolidated statement of comprehensive income, consolidated statement of changes in equity, summary of significant accounting policies (Note 1), income taxes (Note 6), segment information (Note 13), and net income per share (Note 18) for the fiscal period ended December 31, 2012 to correct these errors. Furthermore, the Company has added subsequent events (Note 19) for the fiscal period ended December 31, 2012.

The revised and added texts are underlined solely for convenience.

b) Change in fiscal year

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

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

Therefore, net sales, operating income, and income before income taxes and minority interests increased by ¥76,934 million (US$888,589 thousand), ¥4,198 million (US$48,487 thousand), and ¥5,131 million (US$59,263 thousand), respectively.

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

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

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

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

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

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

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

1) Amortization of goodwill
2) Scheduled amortization of actuarial gain or loss of pensions that has been directly recorded in equity
3) Expensing capitalized development costs of R&D
4) Cancellation of the fair value model accounting for property, plant, and equipment and investment properties and incorporation of the cost model accounting
5) Exclusion of minority interests from net income, if contained

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

The accounting standard requires adjustments to be made to conform the affiliate's accounting policies for similar transactions and events under similar circumstances to those of the parent company when the affiliate's financial statements are used in applying the equity method unless it is impracticable to determine adjustments. In addition, financial statements prepared by foreign affiliated companies in accordance with either International Financial Reporting Standards or the generally accepted accounting principles in the United States tentatively may be used in applying the equity method if the following items are adjusted so that net income is accounted for in accordance with Japanese GAAP unless they are not material:

1) Amortization of goodwill
2) Scheduled amortization of actuarial gain or loss on pensions that has been directly recorded in equity
3) Expensing capitalized development costs of R&D
4) Cancellation of the fair value model accounting for property, plant, and equipment and investment properties and incorporation of the cost model accounting
5) Exclusion of minority interests from net income, if contained

f) Business combinations

The accounting standard for business combinations requires companies to account for 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.

g) 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.

h) Inventories

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

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

i) Short-term investments and investment securities

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

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

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

j) Property, plant and equipment

Property, plant and equipment are stated at cost. Depreciation of property, plant and equipment is computed under the 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.

k) Intangible assets

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

l) Long-lived assets

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

m) Retirement and pension plans

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

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

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

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

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

n) Asset retirement obligations

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

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

o) Stock options

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

p) Leases

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

All other leases are accounted for as operating leases.

q) Income taxes

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

r) Foreign currency transactions

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

s) Foreign currency financial statements

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

t) Derivatives and hedging activities

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

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

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

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

u) Per share information

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

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

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

v) Accounting changes and error corrections

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

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.

w) Changes in presentation

In the consolidated statements of cash flows, "Proceeds from sales of property, plant and equipments" and "Proceeds from the redemption and sales of investment securities", which were separately disclosed as items within "Investing activities" in the prior fiscal year, are included in "Other, net" in the current fiscal period due to the decrease in materiality. In addition, "Proceeds from withdrawal of time deposit", "Purchase of short-term investments", and "Proceeds from the redemption and sales of short-term investments", which were included in "Other, net" of "Investing activities" in prior year, are separately disclosed due to the increase in materiality.

Consequently, "Proceeds from sales of property, plant and equipments" and "Proceeds from the redemption and sales of investment securities", and "Other, net", which were reported as cash inflows of ¥746 million, ¥1 million, and as cash outflow of ¥3,419 million respectively, in the statements of cash flows of prior fiscal year, are reclassified to "Proceeds from withdrawal of time deposit", "Proceeds from the redemption and sales of short-term investments", "Purchase of short-term investments", and "Other, net", which are reported as cash inflows of ¥3,583 million and, ¥1,441 million, and cash outflows of ¥381 million, and ¥7,315 million, respectively.

x) New Accounting Pronouncements

Accounting Standard for Retirement Benefits

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

1) Treatment in the consolidated balance sheets
   Under the current requirements, actuarial gains and losses and past service costs that are yet to be recognized in profit or loss are not recognized in the balance sheet, and the difference between retirement benefit obligations and plan assets (hereinafter, "deficit or surplus"), adjusted by such unrecognized amounts, are recognized as a liability or asset.
   Under the revised accounting standard, actuarial gains and losses and past service costs that are yet to be recognized in profit or loss shall be recognized within equity (accumulated other comprehensive income), after adjusting for tax effects, and the deficit or surplus shall be recognized as a liability or asset.
2) Treatment in the consolidated statements of income and the statements of comprehensive income
   The revised accounting standard would not change how to recognize actuarial gains and losses and past service costs in profit or loss. Those amounts would be recognized in profit or loss over a certain period no longer than the expected average remaining working lives of the employees. However, actuarial gains and losses and past service costs that arose in the current period and are yet to be recognized in profit or loss shall be included in other comprehensive income and actuarial gains and losses and past service costs that were recognized in other comprehensive income in prior periods and then recognized in profit or loss in the current period shall be treated as reclassification adjustments.

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

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

2 Translation into United States Dollars

The Companies' accounts are maintained in or translated into Japanese yen. The United States dollar (US$) amounts included herein represent translations using the approximate exchange rate at December 31, 2012 of ¥86.58=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 December 31, 2012 and March 31, 2012 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	Dec. 2012	Mar. 2012	Dec. 2012
Cash and time deposits	¥ 99,334	¥ 85,483	$1,147,309
Short-term investments	68,443	48,798	790,517
Less: time deposits and short-term investments which mature or become due over three months after the date of acquisition	(7,342)	(4,544)	(84,800)
Cash and cash equivalents	¥160,435	¥129,737	$1,853,026

4 Short-Term Investments and Investment Securities

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

	Millions of yen		Thousands of U.S. dollars
	Dec. 2012	Mar. 2012	Dec. 2012
Short-term investments:			
Investment trust funds and other	¥68,443	¥48,798	$790,517
Total	¥68,443	¥48,798	$790,517
Investment securities:			
Marketable equity securities	¥ 6,489	¥ 6,335	$ 74,948
Investment trust funds and other	1,181	1,181	13,641
Total	¥ 7,670	¥ 7,516	$ 88,589

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

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

	Millions of yen			
	Mar. 2012			
	Cost	Unrealized gains	Unrealized losses	Fair value
Securities classified as:				
Available-for-sale:				
Equity securities	¥ 2,785	¥3,630	¥80	¥ 6,335
Debt securities and other	38,799	—	—	38,799
Held-to-maturity:				
Debt securities and other	9,999	—	—	9,999

	Thousands of U.S. dollars			
	Dec. 2012			
	Cost	Unrealized gains	Unrealized losses	Fair value
Securities classified as:				
Available-for-sale:				
Equity securities	$ 31,266	$44,906	$1,224	$ 74,948
Debt securities and other	476,784	—	—	476,784
Held-to-maturity:				
Debt securities and other	313,733	—	—	313,733

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

	Carrying amount		
	Millions of yen		Thousands of U.S. dollars
	Dec. 2012	Mar. 2012	Dec. 2012
Available-for-sale:			
Equity securities	¥1,181	¥1,181	$13,641
Total	¥1,181	¥1,181	$13,641

Proceeds from sales of available-for-sale securities for the period ended December 31, 2012 and the year ended March 31, 2012 were ¥123 million (US$1,421 thousand) and ¥1 million, respectively. Gross realized gains on these sales, computed on the moving-average cost basis, for the period ended December 31, 2012 were ¥28 million (US$323 thousand) and for the year ended March 31, 2012 were not recognized.

The carrying values of debt securities by contractual maturities for securities classified as held-to-maturity at December 31, 2012 are included in Note 16.

5 Short-Term and Long-Term Debt

Short-term debt at December 31, 2012 and March 31, 2012 was comprised of the following:

	Millions of yen		Thousands of U.S. dollars
	Dec. 2012	Mar. 2012	Dec. 2012
Secured loans principally from financial institutions	¥ 154	¥ 99	$ 1,779
Unsecured loans principally from financial institutions	2,961	1,961	34,199
Total	¥3,115	¥2,060	$35,978

The weighted average interest rates applicable to the above loans were 3.41% and 2.00% at December 31, 2012 and March 31, 2012, respectively. In addition to the above short-term debt, deposits payable to affiliates, included in other current liabilities, were ¥3,332 million (US$38,485 thousand) and ¥6,528 million at December 31, 2012 and March 31, 2012, respectively, and the applicable interest rates were 0.40% and 0.44% at December 31, 2012 and March 31, 2012, respectively.

The secured loans are collateralized by trade accounts receivable of ¥250 million (US$2,888 thousand) at December 31, 2012.

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

	Millions of yen		Thousands of U.S. dollars
	Dec. 2012	Mar. 2012	Dec. 2012
Unsecured bonds due 2013, 1.91%	¥ 50,000	¥ 49,999	$ 577,501
Unsecured loans principally from financial institutions, weighted average rate 0.57% in Dec. 2012, 0.57% in Mar. 2012	50,073	50,055	578,343
Lease obligations	6,802	7,322	78,563
	¥106,875	¥107,376	$1,234,407
Less current portion	(50,803)	(811)	(586,775)
Total	¥ 56,072	¥106,565	$ 647,632

In addition to the above long-term debt, deposits payable to customers, included in other long-term liabilities, were ¥6,002 million (US$68,323 thousand) and ¥6,008 million at December 31, 2012 and March 31, 2012, respectively, and the applicable interest rates were 0.10% and 0.13% at December 31, 2012 and March 31, 2012, respectively.

The aggregate annual maturities of long-term debt as of December 31, 2012 were as follows:

Years ending December 31	Millions of yen	Thousands of U.S. dollars
2013	¥ 50,803	$ 586,775
2014	21,166	244,468
2015	20,795	240,182
2016	745	8,605
2017	10,687	123,435
2018 and thereafter	2,679	30,942
Total	¥106,875	$1,234,407

6 Income Taxes

The Company and its domestic subsidiaries are subject to Japanese national and local taxes based on income, which in the aggregate resulted in a normal statutory tax rate of approximately 38% and 41% for the period ended December 31, 2012 and the year ended March 31, 2012, respectively.

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

Tax effects of significant temporary differences and tax loss carryforwards that resulted in deferred tax assets or liabilities at December 31, 2012 and March 31, 2012 were as follows:

	Millions of yen		Thousands of U.S. dollars
	Dec. 2012	Mar. 2012	Dec. 2012
Deferred tax assets:			
Depreciation and amortization	¥ 18,000	¥ 18,221	$ 207,900
Pension and severance costs	16,311	16,323	188,392
Accrued expenses	7,216	10,791	83,345
Enterprise taxes	962	1,327	11,111
Tax loss carryforwards	39,988	46,854	461,862
Other	14,611	13,282	168,757
Less valuation allowance	(30,542)	(29,189)	(352,760)
Deferred tax assets	¥ 66,546	¥ 77,609	$ 768,607
Deferred tax liabilities:			
Unrealized gain on available-for-sale securities	¥ (1,359)	¥ (1,288)	$ (15,696)
Undistributed foreign earnings	(9,898)	(6,006)	(114,322)
Deferred gains on sales of property	(3,840)	(3,884)	(44,352)
Prepaid pension cost	(1,335)	(1,218)	(15,419)
Other	(7,148)	(6,422)	(82,560)
Deferred tax liabilities	¥(23,580)	¥(18,818)	$(272,349)
Net deferred tax assets	¥ 42,966	¥ 58,791	$ 496,258

The Company and certain subsidiaries in Japan have received authorization from the Director General of the National Tax Administration Agency to apply the consolidated taxation system from the fiscal year ending December 31, 2013. Consequently, from the period ended December 31, 2012, accounting treatments assume the application of the consolidated taxation system based on "Revised Practical Solution on Tentative Treatment of Tax Effect Accounting Under Consolidated Taxation System (Part 1)" (Practical issues Task Force No. 5, March 18, 2011) and "Revised Practical Solution on Tentative Treatment of Tax Effect Accounting Under Consolidated Taxation System (Part 2)" (Practical Issues Task Force No. 7, June 30, 2010).

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

	Dec. 2012	Mar. 2012
Normal effective statutory tax rate	38.0%	40.5%
Tax credit for research and development costs and other	(2.1)	(2.6)
Valuation allowance	(0.1)	(6.4)
Expiration of tax loss carryforwards	5.6	9.0
Amortization expenses not deductible for income tax purposes	3.4	4.6
Effect of tax rate reduction	—	5.4
Other – net	2.3	(2.3)
Actual effective tax rate	47.1%	48.2%

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 December 31, 2012 and March 31, 2012 were as follows:

	Millions of yen		Thousands of U.S. dollars
	Dec. 2012	Mar. 2012	Dec. 2012
Due within one year	¥ 8,593	¥ 8,132	$ 99,249
Due after one year	23,049	24,791	266,216
Total	¥31,642	¥32,923	$365,465

8 Retirement Benefits

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

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

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

The liability for retirement benefits at December 31, 2012 and March 31, 2012 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	Dec. 2012	Mar. 2012	Dec. 2012
Projected benefit obligation	¥ 267,987	¥ 239,031	$ 3,095,252
Fair value of plan assets	(207,111)	(196,235)	(2,392,134)
Unrecognized prior service cost	7,210	9,538	83,276
Unrecognized actuarial loss	(18,392)	(2,009)	(212,428)
Unrecognized transitional obligation	(4,124)	(5,413)	(47,632)
Prepaid pension cost	147	114	1,698
Net liability for retirement benefits	¥ 45,717	¥ 45,026	$ 528,032

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

	Millions of yen		Thousands of U.S. dollars
	Dec. 2012	Mar. 2012	Dec. 2012
Service cost	¥ 6,808	¥ 8,694	$ 78,632
Interest cost	4,176	5,177	48,233
Expected return on plan assets	(3,579)	(4,413)	(41,337)
Amortization of prior service cost (credit)	(2,456)	(3,261)	(28,367)
Recognized actuarial loss	869	3,307	10,037
Amortization of transitional obligation	1,257	1,815	14,518
Net periodic benefit costs	¥ 7,075	¥11,319	$ 81,716

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

	Dec. 2012	Mar. 2012
Discount rate	Primarily 1.6%	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 ¥2,597 million (US$29,995 thousand) and ¥2,772 million for the period ended December 31, 2012 and the year ended March 31, 2012, respectively.

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

9 Contingent Liabilities

At December 31, 2012, the Companies had the following contingent liabilities:

	Millions of yen	Thousands of U.S. dollars
Trade notes discounted	¥101	$1,167
Guarantees of borrowings, principally of affiliates and employees	659	7,611

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

10 Equity

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

(a) Dividends

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

For companies that meet certain criteria such as having: (1) a board of directors, (2) independent auditors, (3) an audit & supervisory board, and (4) terms of service of directors prescribed as one year under the articles of incorporation rather than the normal term of two years, the boards of directors of such companies may declare dividends (except for dividends in kind) at any time during the fiscal year if the companies have prescribed so in their articles of incorporation. The Company meets all four criteria, but has not made the said prescription in its articles of incorporation. The Company pays the dividends semi-annually as a year-end dividend and an interim dividend.

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

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

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

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

The Company's legal reserve amount, which is included in retained earnings, totals ¥14,117 million (US$163,052 thousand) at both December 31, 2012 and March 31, 2012. The Company's additional paid-in capital amount, which is included in capital surplus, totals ¥108,889 million (US$1,257,669 thousand) at both December 31, 2012 and March 31, 2012.

The accompanying consolidated financial statements do not include any provision for the year-end dividend of ¥31.0 (US$0.36) per share, aggregating ¥16,194 million (US$187,041 thousand) which the Company will subsequently propose at the 107th Annual General Meeting of Shareholders to be held on March 26, 2013 as an appropriation of retained earnings in respect of the period ended December 31, 2012.

(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 own stock and stock acquisition rights in their own companies. Such treasury stock is presented as a separate component of equity. Such stock acquisition rights are presented as a separate component of equity or deducted directly from stock acquisition rights.

Subsequently, at a meeting of the Board of Directors on February 5, 2013, the Board of Directors resolved to purchase the Company's stock, up to a maximum of 12.5 million shares or ¥30 billion (US$347 million) from February 6, 2013 to April 26, 2013, in accordance with Article 156 of the Corporation Law applicable pursuant to Article 165, paragraph 3 of the said law.

11 Stock-Based Compensation Plans

The stock options for the period ended December 31, 2012 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 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	$31.01	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	$37.09	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	$39.80	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	$35.81	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	$27.20	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	$25.29	September 1, 2012 through August 31, 2017
Stock option 2011 I	13 Directors of the Company	36,000 shares*	August 25, 2011	¥1	$0.01	July 1, 2013 through June 29, 2018
Stock option 2011 II	13 Executive Officers of the Company*******	26,000 shares*	August 25, 2011	¥1	$0.01	July 1, 2013 through June 29, 2018
Stock option 2011 III	81 Employees of the Company 1 Director of subsidiary of the Company 1 Employee of subsidiary of the Company	435,000 shares*	August 25, 2011	¥2,254	$26.03	September 1, 2013 through August 31, 2018
Stock option 2012 I	9 Directors of the Company	30,000 shares*	August 23, 2012	¥1	$0.01	July 1, 2014 through June 28, 2019
Stock option 2012 II	22 Executive Officers of the Company********	49,000 shares*	August 23, 2012	¥1	$0.01	July 1, 2014 through June 28, 2019

* The number of options originally granted converts into number of shares of common stock.
** The 12 Executive Officers were not members of the Board of Directors of the Company at the date of grant.
*** The 14 Executive Officers were not members of the Board of Directors of the Company at the date of grant.
**** The 12 Executive Officers were not members of the Board of Directors of the Company at the date of grant.
***** The 12 Executive Officers were not members of the Board of Directors of the Company at the date of grant.
****** The 12 Executive Officers were not members of the Board of Directors of the Company at the date of grant.
******* The 13 Executive Officers were not members of the Board of Directors of the Company at the date of grant.
******** The 22 Executive Officers were not members of the Board of Directors of the Company at the date of grant.

The activity of stock options was as follows:

(Number of shares)

	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	Stock option 2008 I	Stock option 2008 II	Stock option 2008 III	Stock option 2009 I
For the period ended December 31, 2012											
Non-vested											
Outstanding at March 31, 2012	—	—	—	—	—	—	—	—	—	—	—
Granted	—	—	—	—	—	—	—	—	—	—	—
Expired	—	—	—	—	—	—	—	—	—	—	—
Vested	—	—	—	—	—	—	—	—	—	—	—
Outstanding at December 31, 2012	—	—	—	—	—	—	—	—	—	—	—
Vested											
Outstanding at December 31, 2012	738,000	3,000	4,000	337,000	6,000	5,000	361,000	8,000	6,000	442,000	20,000
Vested	—	—	—	—	—	—	—	—	—	—	—
Exercised	—	—	—	—	—	—	—	—	1,000	—	6,000
Expired	738,000	—	—	41,000	2,000	—	39,000	—	—	—	—
Outstanding at December 31, 2012	—	3,000	4,000	296,000	4,000	5,000	322,000	8,000	5,000	442,000	14,000
Exercise price											
Yen	¥2,685	¥1	¥1	¥3,211	¥1	¥1	¥3,446	¥1	¥1	¥3,100	¥1
U.S. dollars	$31.01	$0.01	$0.01	$37.09	$0.01	$0.01	$39.80	$0.01	$0.01	$35.81	$0.01
Average stock price at exercise											
Yen	—	—	—	—	—	—	—	—	¥2,230	—	¥2,145
U.S. dollars	—	—	—	—	—	—	—	—	$25.76	—	$24.77
Fair value price at grant date											
Yen	—	¥2,932	¥2,932	¥435	¥3,063	¥3,063	¥420	¥2,865	¥2,865	¥426	¥2,115
U.S. dollars	—	$33.86	$33.86	$5.02	$35.38	$35.38	$4.85	$33.09	$33.09	$4.92	$24.43

(Number of shares)

	Stock option 2009 II	Stock option 2009 III	Stock option 2010 I	Stock option 2010 II	Stock option 2010 III	Stock option 2011 I	Stock option 2011 II	Stock option 2011 III	Stock option 2012 I	Stock option 2012 II
For the period ended December 31, 2012										
Non-vested										
Outstanding at March 31, 2012	—	—	—	—	—	—	—	—	—	—
Granted	—	—	—	—	—	—	—	—	30,000	49,000
Expired	—	—	—	—	—	—	—	—	—	—
Vested	—	—	—	—	—	—	—	—	30,000	49,000
Outstanding at December 31, 2012	—	—	—	—	—	—	—	—	—	—
Vested										
Outstanding at March 31, 2012	15,000	430,000	38,000	24,000	435,000	36,000	26,000	435,000	—	—
Vested	—	—	—	—	—	—	—	—	30,000	49,000
Exercised	3,000	—	13,000	10,000	4,000	—	—	—	—	—
Expired	—	—	2,000	—	—	—	—	—	2,000	—
Outstanding at December 31, 2012	12,000	430,000	23,000	14,000	431,000	36,000	26,000	435,000	28,000	49,000
Exercise price										
Yen	¥1	¥2,355	¥1	¥1	¥2,190	¥1	¥1	¥2,254	¥1	¥1
U.S. dollars	$0.01	$27.20	$0.01	$0.01	$25.29	$0.01	$0.01	$26.03	$0.01	$0.01
Average stock price at exercise										
Yen	¥2,235	—	¥2,261	¥2,222	¥2,229	—	—	—	—	—
U.S. dollars	$25.81	—	$26.11	$25.66	$25.74	—	—	—	—	—
Fair value price at grant date										
Yen	¥2,115	¥394	¥1,749	¥1,749	¥245	¥1,718	¥1,718	¥211	¥2,119	¥2,119
U.S. dollars	$24.43	$4.55	$20.20	$20.20	$2.83	$19.84	$19.84	$2.44	$24.47	$24.47

The fair value prices for 2012 stock options were estimated using the Black-Scholes Option Pricing Model with the following assumptions:

	Stock option 2012 I	Stock option 2012 II
Volatility of stock price	25.310%	25.310%
Estimated remaining outstanding period	4.5 years	4.5 years
Estimated dividend per share		
Yen	¥60	¥60
U.S. dollars	$0.69	$0.69
Risk-free interest rate	0.188%	0.188%

12 Comprehensive Income

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

	Millions of yen		Thousands of U.S. dollars
	Dec. 2012	Mar. 2012	Dec. 2012
Unrealized gain (loss) on available-for-sale securities:			
Gains (losses) arising during the year	¥ 248	¥ 517	$ 2,864
Reclassification adjustments to profit or loss	(28)	12	(323)
Amount before income tax effect	220	529	2,541
Income tax effect	(79)	(42)	(912)
Total	¥ 141	¥ 487	$ 1,629
Foreign currency translation adjustments			
Adjustments arising during the year	¥25,315	¥(12,169)	$292,388
Reclassification adjustments to profit or loss	—	—	—
Amount before income tax effect	25,315	(12,169)	292,388
Income tax effect	—	—	—
Total	¥25,315	¥(12,169)	$292,388
Share of other comprehensive income in affiliates			
Gains (losses) arising during the year	¥ 137	¥ (172)	$ 1,582
Total	¥ 137	¥ (172)	$ 1,582
Post retirement liability adjustments for foreign consolidated subsidiaries			
Adjustments arising during the year	¥ (681)	¥ (2,049)	$ (7,866)
Reclassification adjustments to profit or loss	352	87	4,066
Amount before income tax effect	(329)	(1,962)	(3,800)
Income tax effect	125	726	1,444
Total	¥ (204)	¥ (1,236)	$ (2,356)
Total other comprehensive income	¥25,389	¥(13,090)	$293,243

13 Segment Information

(1) Description of reportable segments

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

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

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

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

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

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

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

	Millions of yen						
	Mar. 2012						
	Reportable segment						
	Consumer Products Business						
	Beauty Care Business	Human Health Care Business	Fabric and Home Care Business	Total	Chemical Business	Reconciliations*	Consolidated
Sales to customers	¥537,938	¥181,758	¥285,645	¥1,005,341	¥210,755	¥ —	¥1,216,096
Intersegment sales	—	—	—	—	36,880	(36,880)	—
Total sales	537,938	181,758	285,645	1,005,341	247,635	(36,880)	1,216,096
Segment profit (Operating income)	¥ 15,412	¥ 14,630	¥ 55,544	¥ 85,586	¥ 23,001	¥ 3	¥ 108,590
Segment assets**	¥496,177	¥ 99,535	¥128,858	¥ 724,570	¥194,582	¥ 72,119	¥ 991,272
Other							
Depreciation and amortization***	¥ 37,766	¥ 7,926	¥ 9,794	¥ 55,486	¥ 11,648	¥ —	¥ 67,134
Investments in equity method affiliates**	1,780	1,083	1,239	4,102	2,180	—	6,282
Increase in property, plant and equipment and intangible assets	13,106	11,520	12,219	36,845	10,333	—	47,178

* Reconciliation of segment profit includes elimination of intersegment transactions of inventory.
Reconciliation of assets includes ¥78,742 million of the Company's financial assets and negative ¥6,623 million elimination of receivables among reportable segments.
** Balances as of March 31, 2012
*** Depreciation and amortization excludes amortization of goodwill.

	Thousands of U.S. dollars						
	Dec. 2012						
	Reportable segment						
	Consumer Products Business						
	Beauty Care Business	Human Health Care Business	Fabric and Home Care Business	Total	Chemical Business	Reconciliations*	Consolidated
Sales to customers	$5,133,114	$1,755,336	$2,734,442	$9,622,892	$2,072,592	$ —	$11,695,484
Intersegment sales	—	—	—	—	330,631	(330,631)	—
Total sales	5,133,114	1,755,336	2,734,442	9,622,892	2,403,223	(330,631)	11,695,484
Segment profit (Operating income)	$ 252,033	$ 133,380	$ 593,301	$ 978,714	$ 194,190	$ 196	$ 1,173,100
Segment assets**	$5,385,528	$1,302,275	$1,653,696	$8,341,499	$2,506,884	$1,052,137	$11,900,520
Other							
Depreciation and amortization***	$ 304,516	$ 74,036	$ 77,027	$ 455,579	$ 122,730	$ —	$ 578,309
Investments in equity method affiliates**	30,722	11,666	13,791	56,179	20,051	—	76,230
Increase in property, plant and equipment and intangible assets	135,054	101,987	100,497	337,538	146,742	—	484,280

* Reconciliation of segment profit includes elimination of intersegment transactions of inventory.
Reconciliation of assets includes $1,286,591 thousand of the Company's financial assets and negative $234,454 thousand elimination of receivables among reportable segments.
** Balances as of December 31, 2012
*** Depreciation and amortization excludes amortization of goodwill.

(b) Information related to reportable segments

Australia and New Zealand, which had been included in Asia & Oceania until fiscal year ended March 31, 2012, have been reclassified under Americas from the fiscal period ended December 31, 2012. Figures in prior fiscal year have also been reclassified for comparison.

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

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

	Millions of yen				
	Mar. 2012				
	Japan	Asia	Americas*	Europe**	Consolidated
Sales to customers	¥887,100	¥132,994	¥93,116	¥102,886	¥1,216,096

	Thousands of U.S. dollars				
	Dec. 2012				
	Japan	Asia	Americas*	Europe**	Consolidated
Sales to customers	$7,975,491	$1,503,962	$1,078,286	$1,137,745	$11,695,484

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

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

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

	Millions of yen				
	Mar. 2012				
	Japan	Asia	Americas*	Europe**	Consolidated
Property, plant and equipment	¥190,317	¥29,484	¥6,992	¥13,785	¥240,578

	Thousands of U.S. dollars				
	Dec. 2012				
	Japan	Asia	Americas*	Europe**	Consolidated
Property, plant and equipment	$2,165,904	$469,554	$107,993	$171,125	$2,914,576

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

(c) Impairment losses by reportable segment

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

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

	Millions of yen						
	Mar. 2012						
	Reportable segment						
	Consumer Products Business						
	Beauty Care Business	Human Health Care Business	Fabric and Home Care Business	Total	Chemical Business	Reconciliations	Consolidated
Impairment losses of assets	¥192	¥90	¥137	¥419	¥2	¥—	¥421

	Thousands of U.S. dollars						
	Dec. 2012						
	Reportable segment						
	Consumer Products Business						
	Beauty Care Business	Human Health Care Business	Fabric and Home Care Business	Total	Chemical Business	Reconciliations	Consolidated
Impairment losses of assets	$889	$—	$—	$889	$58	$—	$947

(d) Amortization and balance of goodwill by reportable segment

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

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

	Millions of yen						
	Mar. 2012						
	Reportable segment						
	Consumer Products Business						
	Beauty Care Business	Human Health Care Business	Fabric and Home Care Business	Total	Chemical Business	Reconciliations	Consolidated
Amortization of goodwill	¥ 12,664	¥—	¥—	¥ 12,664	¥—	¥—	¥ 12,664
Goodwill at March 31, 2012	165,614	—	—	165,614	—	—	165,614

	Thousands of U.S. dollars						
	Dec. 2012						
	Reportable segment						
	Consumer Products Business						
	Beauty Care Business	Human Health Care Business	Fabric and Home Care Business	Total	Chemical Business	Reconciliations	Consolidated
Amortization of goodwill	$ 112,243	$—	$—	$ 112,243	$—	$—	$ 112,243
Goodwill at December 31, 2012	1,838,358	—	—	1,838,358	—	—	1,838,358

14 Selling, General and Administrative Expenses

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

	Millions of yen		Thousands of U.S. dollars
	Dec. 2012	Mar. 2012	Dec. 2012
Advertising	¥67,045	¥ 82,209	$ 774,371
Promotion	52,101	62,980	601,767
Research and development	37,493	48,171	433,045
Salaries and bonuses	97,738	121,787	1,128,875
Packing and delivery expenses	56,792	68,388	655,948

15 Other Income (Expenses)

"Other, net" consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	Dec. 2012	Mar. 2012	Dec. 2012
Gain on sales of stock of subsidiary	¥ 270	¥ —	$ 3,118
Loss related to the Great East Japan Earthquake	—	(2,028)	—
Loss on sales or disposals of property, plant and equipment, net	(2,082)	(2,203)	(24,047)
Other, net	1,289	998	14,888
Total	¥ (523)	¥(3,233)	$ (6,041)

16 Financial Instruments

(1) Group policy for financial instruments

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

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

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

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

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

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

Loans, principally from financial institutions, in short-term debt are mainly for financing related to operating activities. Bonds and loans principally from financial institutions in long-term debt are for financing related to M&A and investment in property, plant and equipment. Certain loans with floating interest rates are exposed to interest rate volatility risk. The Companies use interest rate swaps for the purpose of hedging the interest rate volatility risk by converting the floating rates into fixed rates.

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

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

(3) Fair values of financial instruments

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

The carrying amount, fair value and unrealized gain or loss of financial instruments as of December 31, 2012 and March 31, 2012 consisted of the following:

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

	Millions of yen		
	Mar. 2012		
	Carrying amount	Fair value	Unrealized gain/(loss)
Cash and time deposits	¥ 85,483	¥ 85,483	¥ —
Short-term investments	48,798	48,798	—
Notes and accounts receivable	146,371		
Allowance for doubtful receivables	(1,020)		
Notes and accounts receivable, net	145,351	145,351	—
Investment securities	6,335	6,335	—
Total	¥285,967	¥285,967	¥ —
Short-term debt	¥ 2,060	¥ 2,060	¥ —
Current portion of long-term debt	810	773	37
Notes and accounts payable	158,352	158,352	—
Income taxes payable	18,306	18,306	—
Long-term debt	106,564	107,441	(877)
Total	¥286,092	¥286,932	¥(840)
Derivatives	¥ (340)	¥ (340)	¥ —

	Thousands of U.S. dollars		
	Dec. 2012		
	Carrying amount	Fair value	Unrealized gain/(loss)
Cash and time deposits	$1,147,309	$1,147,309	$ —
Short-term investments	790,517	790,517	—
Notes and accounts receivable	1,962,682		
Allowance for doubtful receivables	(14,391)		
Notes and accounts receivable, net	1,948,291	1,948,291	—
Investment securities	74,948	74,948	—
Total	$3,961,065	$3,961,065	$ —
Short-term debt	$ 35,978	$ 35,978	$ —
Current portion of long-term debt	586,775	591,384	(4,609)
Notes and accounts payable	1,815,212	1,815,212	—
Income taxes payable	134,650	134,650	—
Long-term debt	647,632	648,544	(912)
Total	$3,220,247	$3,225,768	$(5,521)
Derivatives	$ (231)	$ (231)	$ —

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

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

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

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

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

Notes and accounts payable, and income taxes payable

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

Long-term debt

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

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

The fair value of long-term loans subject to a special accounting method for interest rate swaps which qualify for hedge accounting and meet specific matching criteria is measured at the present value by discounting expected repayments of principal and interest together with the interest rate swaps in the remaining period using an assumed interest rate on an equivalent new loan.

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

Derivatives

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

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

	Millions of yen		Thousands of U.S. dollars
	Dec. 2012	Mar. 2012	Dec. 2012
Investment securities that do not have a quoted market price in an active market	¥1,181	¥1,181	$13,641

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

The maturity analysis for financial assets and securities with contractual maturities as of December 31, 2012 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	¥ 99,334	¥—	¥—	¥—
Short-term investments and investment securities:				
Held-to-maturity debt securities	27,197	—	—	—
Available-for-sale other securities with contractual maturities	1,287	—	—	—
Notes and accounts receivable	169,929	—	—	—
Total	¥297,747	¥—	¥—	¥—

	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	$1,147,309	$—	$—	$—
Short-term investments and investment securities:				
Held-to-maturity debt securities	314,125	—	—	—
Available-for-sale other securities with contractual maturities	14,865	—	—	—
Notes and accounts receivable	1,962,682	—	—	—
Total	$3,438,981	$—	$—	$—

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

17 Derivatives

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

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

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

	Millions of yen Mar. 2012			
	Contract amount	Contract amount due after one year	Fair value	Unrealized gain/(loss)
Foreign exchange forward contracts:				
Buying U.S. Dollar	¥ 1,087	¥ —	¥ 9	¥ 9
Buying Japanese Yen	81	—	2	2
Buying British Pound	774	—	28	28
Buying other currencies	3	—	0	0
Selling U.S. Dollar	11,081	714	(284)	(284)
Selling other currencies	2,734	—	(96)	(96)
Foreign currency swaps:				
Selling put option British Pound	¥ 464	¥ —	¥ (14)	¥ (14)
Option premium	—	—	—	—
Buying call option U.S. Dollar	334	—	12	12
Option premium	—	—	—	—
Buying call option Euro	302	—	3	3
Option premium	—	—	—	—

	Thousands of U.S. dollars Dec. 2012			
	Contract amount	Contract amount due after one year	Fair value	Unrealized gain/(loss))
Foreign exchange forward contracts:				
Buying U.S. Dollar	$11,088	$9,587	$(185)	$(185)
Buying Japanese Yen	127	—	(12)	(12)
Buying other currencies	162	—	0	0
Selling U.S. Dollar	73,805	9,390	208	208
Selling other currencies	19,081	—	(243)	(243)

(b) Derivative transactions to which hedge accounting is applied

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

		Millions of yen						Thousands of U.S. dollars		
		Dec. 2012			Mar. 2012			Dec. 2012		
	Hedged item	Contract amount	Contract amount due after one year	Fair value	Contract amount	Contract amount due after one year	Fair value	Contract amount	Contract amount due after one year	Fair value
Interest rate swaps:										
(Fixed rate payment, Floating rate receipt)	Long-term debt	¥40,000	¥40,000	—	¥40,000	¥40,000	—	$462,000	$462,000	—

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

18 Net Income per Share

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

	Millions of yen	Thousands of shares	Yen	U.S. dollars
For the period ended December 31, 2012:	Net income	Weighted average shares	EPS	
Basic EPS				
Net income available to common shareholders...................	¥52,765	521,824	¥101.12	$1.17
Effect of dilutive securities				
Warrants	—	212		
Diluted EPS				
Net income for computation..	¥52,765	522,036	¥101.08	$1.17

	Millions of yen	Thousands of shares	Yen
For the year ended March 31, 2012:	Net income	Weighted average shares	EPS
Basic EPS			
Net income available to common shareholders...................	¥52,435	521,936	¥100.46
Effect of dilutive securities			
Warrants	—	183	
Diluted EPS			
Net income for computation..	¥52,435	522,119	¥100.43

19 Subsequent Events

In connection with the voluntary recall announced on July 4, 2013 by Kanebo Cosmetics Inc., Lissage Ltd. and e'quipe, Ltd., gross profit decreased by ¥2,797 million (US$32,305 thousand) due to factors including the deduction from net sales of goods returned from retailers, and other estimated outlays of ¥8,504 million (US$98,221 thousand) have been recorded under other expenses in the consolidated statements of income for the third quarter of the fiscal year ending December 31, 2013.

Independent Auditor's Report

Deloitte.

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of Kao Corporation:

We have audited the accompanying consolidated balance sheet of Kao Corporation and consolidated subsidiaries (the "Company") as of December 31, 2012, and the related consolidated statements of income, comprehensive income, changes in equity, and cash flows for the nine-month period then ended, and a summary of significant accounting policies and other explanatory information, all expressed in Japanese yen.

Management's Responsibility for the Consolidated Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in conformity with auditing standards generally accepted in Japan. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

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

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

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Kao Corporation and consolidated subsidiaries as of December 31, 2012, and the consolidated results of their operations and their cash flows for the nine-month period then ended in conformity with accounting principles generally accepted in Japan.

Emphasis of Matter

As discussed in Note 1 to the consolidated financial statements, the Company restated its previously issued consolidated financial statements. We expressed our opinion on the original consolidated financial statements on March 19, 2013. Our opinion is not qualified in respect of this matter.

Convenience Translation

Our audit also comprehended the translation of Japanese yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made in 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

December 2, 2013

Member of
Deloitte Touche Tohmatsu Limited

Principal Subsidiaries and Affiliates (As of March 26, 2013)

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.
	●				Kanebo Cosmetics (China) Co., Ltd.
	●				Shanghai Kanebo Cosmetics Co., Ltd.
				●	Kao Chemical Corporation Shanghai
				●	Kao Trading Corporation Shanghai
	●	●	●		Kao (Hong Kong) Ltd.
Taiwan	●	●	●	●	Kao (Taiwan) Corporation
Vietnam	●	●			Kao Vietnam Co., Ltd.
Philippines				●	Pilipinas Kao, Inc.
Thailand	●	●	●	●	Kao Industrial (Thailand) Co., Ltd.
	●	●	●		Kao Commercial (Thailand) Co., Ltd.
Malaysia	●				Kao Soap (Malaysia) Sdn. Bhd.
	●	●	●		Kao (Malaysia) Sdn. Bhd.
				●	Fatty Chemical (Malaysia) Sdn. Bhd.
				●	Kao Plasticizer (Malaysia) Sdn. Bhd.
				●	Kao Oleochemical (Malaysia) Sdn. Bhd.
Singapore	●	●	●	●	Kao Singapore Private Limited
Indonesia	●	●	●		P.T. Kao Indonesia
				●	P.T. Kao Indonesia Chemicals

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

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

Chemical Business
- ● Chemical Business

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: 526,212,501 shares
Outstanding (excluding treasury stock):
522,400,848 shares
Number of Shareholders: 54,588

Stock Listing
Tokyo Stock Exchange

Ticker Symbol Number
4452

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

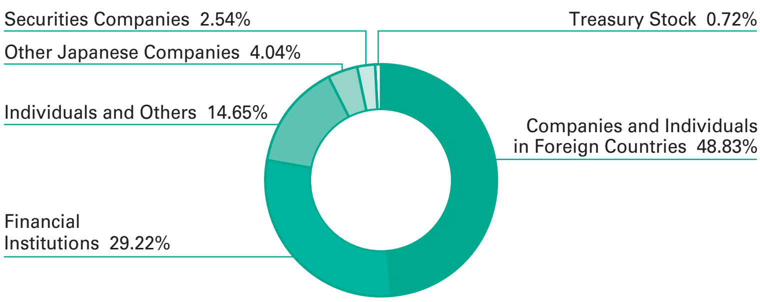
Depositary and Registration for American Depositary Receipts (ADR Ticker Symbol: KCRPY)
JPMorgan Chase Bank, N.A.
1 Chase Manhattan Plaza, Floor 58,
New York, NY 10005, U.S.A.

Top Ten Shareholders

Name of Shareholder	Number of Shares (thousand shares)	Ratio of Shareholding* (percentage)
Japan Trustee Services Bank, Ltd. (Trust Account)	28,309	5.42
The Master Trust Bank of Japan, Ltd. (Trust Account)	24,394	4.67
Northern Trust Co. (AVFC) Sub A/C American Clients	24,283	4.65
State Street Bank and Trust Company	11,741	2.25
Mellon Bank, N.A. as Agent for its Client Mellon Omnibus US Pension	11,460	2.19
SSBT OD05 Omnibus Account – Treaty Clients	11,122	2.13
Northern Trust Co. AVFC Re U.S. Tax Exempted Pension Funds	10,862	2.08
Tokio Marine & Nichido Fire Insurance Co., Ltd.	10,442	2.00
State Street Bank and Trust Company 505225	9,759	1.87
Kao Group Employee Shareholding Association	9,280	1.78

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

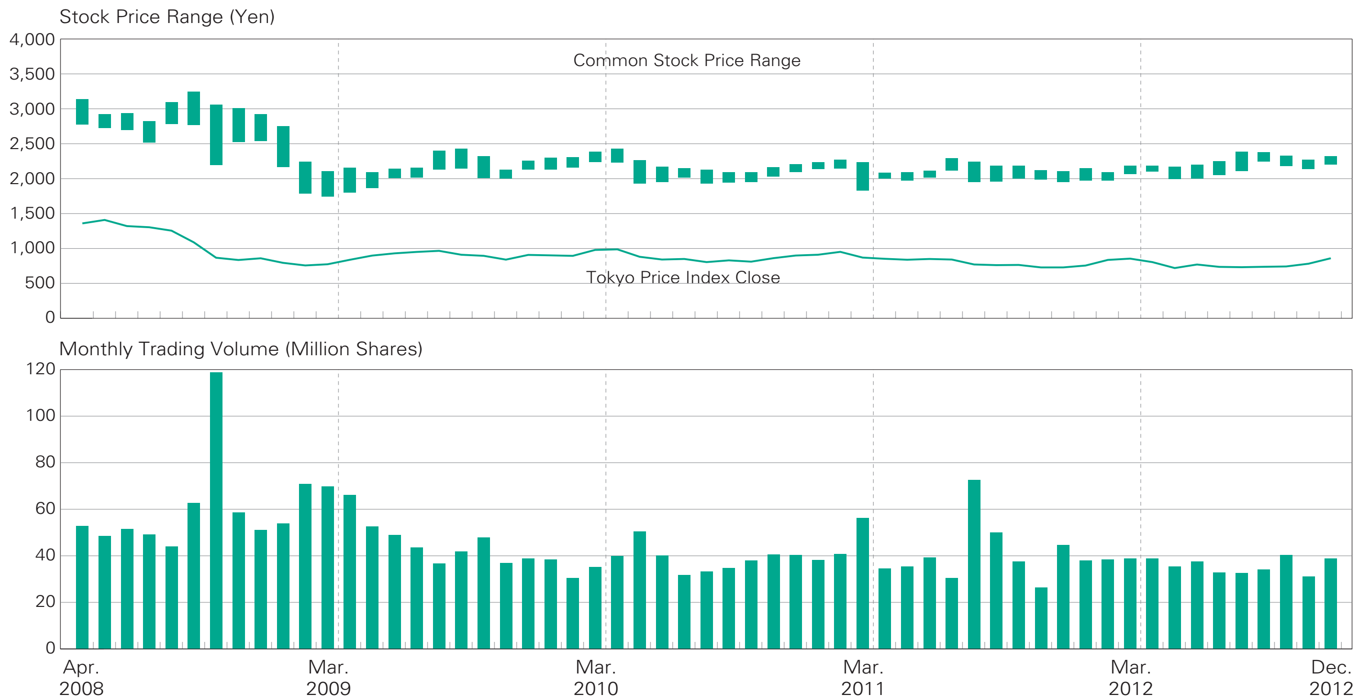
Composition of Shareholders



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

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

Stock Price Range and Trading Volume (Tokyo Stock Exchange)



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Kao Corporation

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http://www.kao.com

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