Kao Annual Report 2012

For the year ended March 31, 2012

Innovation That Satisfies

Enriching lives,
in harmony with nature.

Enriching lives, in harmony with nature

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

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

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

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

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

Contents

Financial Highlights

Outstanding Year-on-Year Performance

Net Sales
+2.5%
¥1,216.1 billion

Operating Income
+3.8%
¥108.6 billion

EBITA
+2.2%
¥142.2 billion

EVA*
106
(Year ended March 31, 2000=100)

Net Income
+12.2%
¥52.4 billion

Cash Dividends
+¥2.00 per share
¥60.00

*EVA (Economic Value Added) is a registered trademark of Stern Stewart & Co.
The figure is a comparison to the base year ended March 31, 2000.

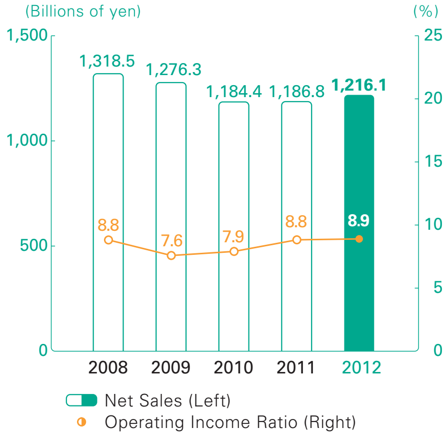
Kao Corporation and Consolidated Subsidiaries — Years ended March 31, 2012, 2011 and 2010

	Billions of yen			Millions of U.S. dollars	Change
	2012	2011	2010	2012	2012/2011
For the year:					
Net sales	¥1,216.1	¥1,186.8	¥1,184.4	$14,796.2	2.5%
Beauty Care Business	537.9	533.5	547.9	6,545.1	0.8
Human Health Care Business	181.8	175.8	183.2	2,211.4	3.4
Fabric and Home Care Business	285.6	279.0	276.9	3,475.4	2.4
Consumer Products Business	1,005.3	988.3	1,008.0	12,231.9	1.7
Chemical Business	247.6	232.0	207.8	3,013.0	6.7
Eliminations	(36.9)	(33.4)	(31.5)	(448.7)	—
Japan	925.3	912.4	918.5	11,258.5	1.4
Asia & Oceania	173.6	152.4	131.7	2,112.0	13.9
North America	85.4	80.3	79.2	1,039.0	6.3
Europe	117.0	112.1	111.2	1,423.6	4.4
Eliminations	(85.2)	(70.4)	(56.2)	(1,037.0)	—
EBITA	142.2	139.1	129.5	1,729.9	2.2
Operating income	108.6	104.6	94.0	1,321.2	3.8
Net income	52.4	46.7	40.5	638.0	12.2
EBITDA	188.4	186.0	178.8	2,292.2	1.3
At year-end:					
Total assets	991.3	1,022.8	1,065.8	12,060.7	(3.1)
Net worth	538.0	528.9	565.1	6,546.2	1.7
	Yen			U.S. dollars	Change
Per share:					
Net income	¥ 100.46	¥ 87.69	¥ 75.57	$ 1.22	14.6%
Cash dividends	60.00	58.00	57.00	0.73	3.4
Net worth	1,031.08	1,013.05	1,054.31	12.55	1.8

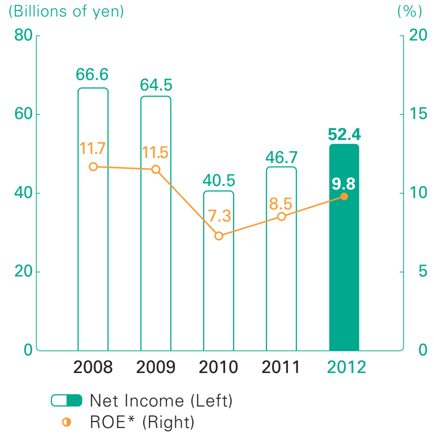
Notes:
1. The U.S. dollar amounts are translated, for convenience only, at the rate of ¥82.19=US$1, the approximate exchange rate at March 31, 2012.
2. Eliminations represent intersegment sales and interregion sales. Net sales of the Chemical Business include intersegment sales to the Beauty Care Business, 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. EBITA (Earnings before interest, taxes and amortization) is operating income before amortization of goodwill and other items related to acquisitions.
6. EBITDA (Earnings before interest, taxes, depreciation and amortization) is operating income before depreciation and amortization.
7. Net worth is equity, excluding minority interests and stock acquisition rights.

(Years ended March 31)

Net Sales and Operating Income Ratio

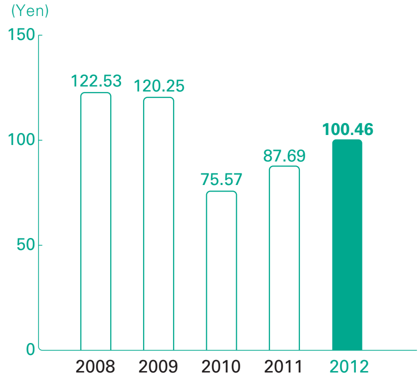


Net Income and ROE*

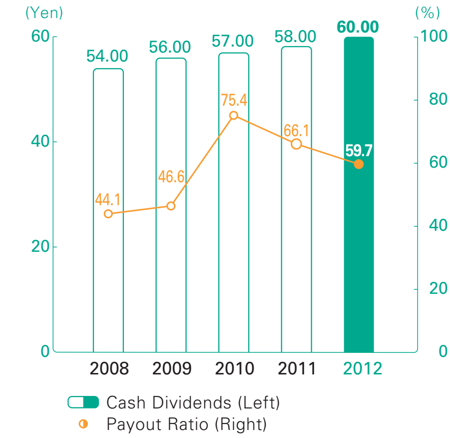


*In calculating ROE, equity excludes minority interests and stock acquisition rights.

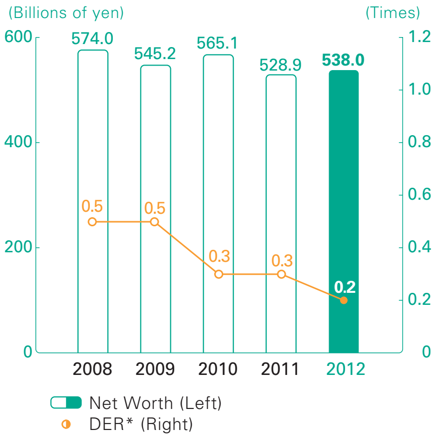
Net Income per Share



Cash Dividends and Payout Ratio

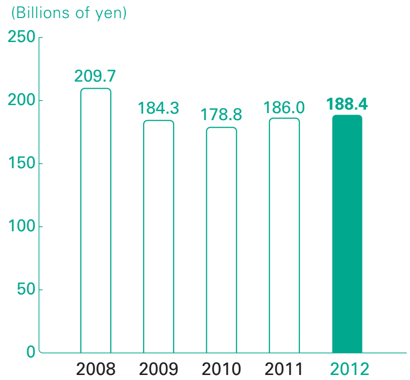


Net Worth and DER*

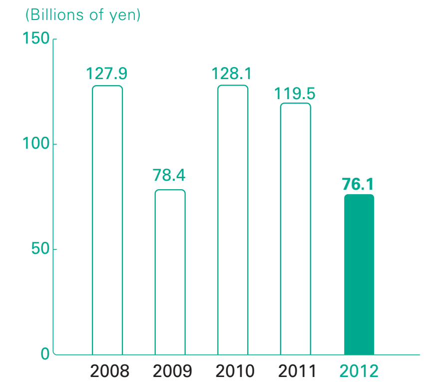


*DER (Debt to Equity Ratio)=Interest-bearing debt ÷ Equity, excluding minority interests and stock acquisition rights

EBITDA

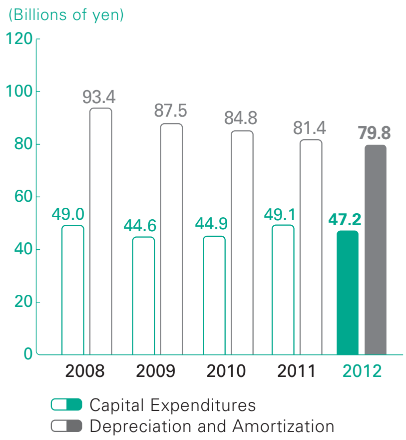


Free Cash Flow*

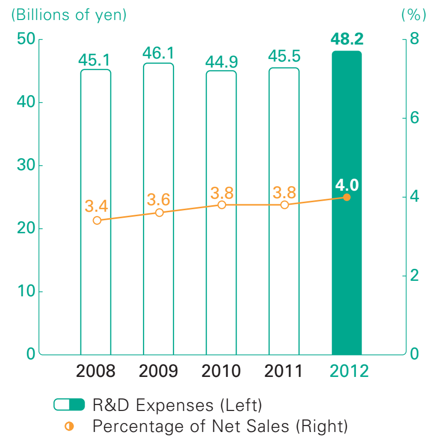


*Free cash flow = Net cash provided by operating activities + Net cash used in investing activities

Capital Expenditures and Depreciation and Amortization

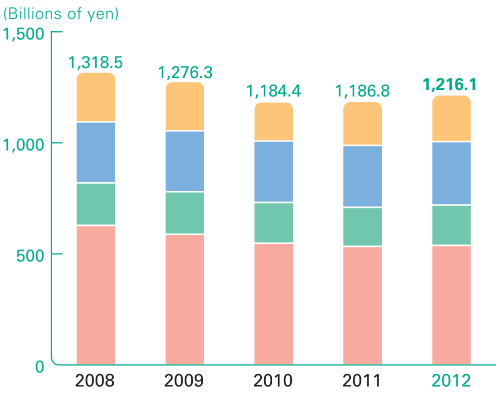


R&D Expenses and Percentage of Net Sales



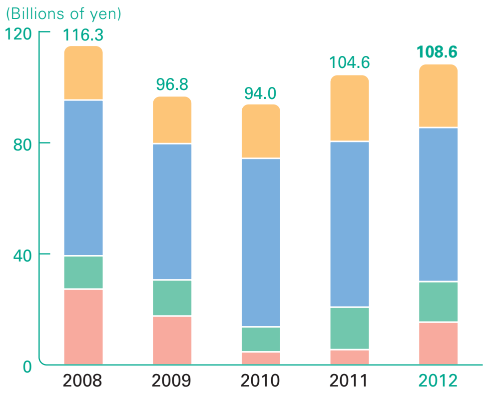
Segment Information

Net Sales



Operating Income

(Years ended March 31)



- Figures are rounded to the nearest whole number or decimal.
- Figures in the graph represent net sales to outside customers only.

Beauty Care Business
Fabric and Home Care Business
Human Health Care Business
Chemical Business

Business Segment Sales

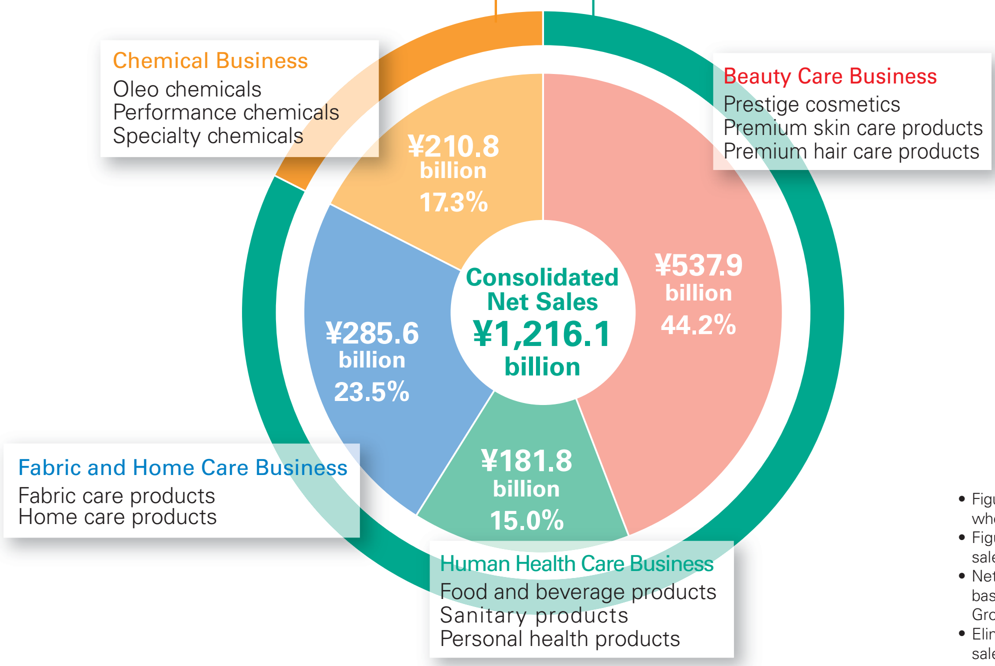
(Year ended March 31, 2012)

Chemical Business Breakdown by Region

	(Billions of yen)
	210.8
Japan	125.5
Asia	89.2
North America	35.9
Europe	55.7
Eliminations	(95.5)

Consumer Products Business Breakdown by Region

	(Billions of yen)
	1,005.3
Japan	832.3
Asia & Oceania	87.4
North America	49.6
Europe	61.5
Eliminations	(25.5)



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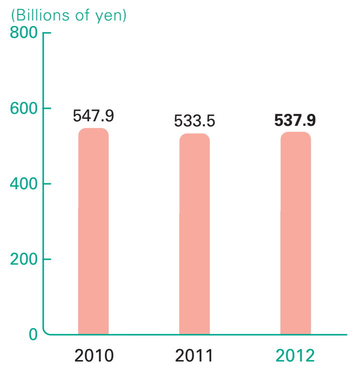
(Years ended March 31)

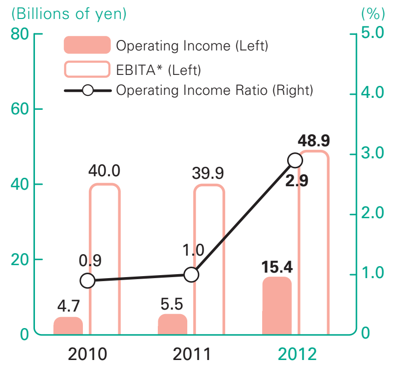
Consumer Products Business

Beauty Care Business

Net Sales

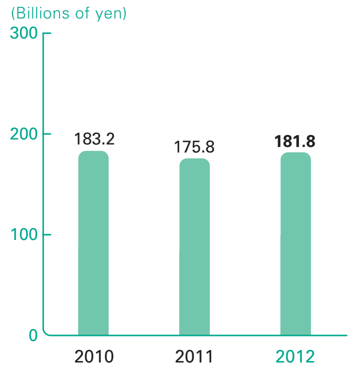


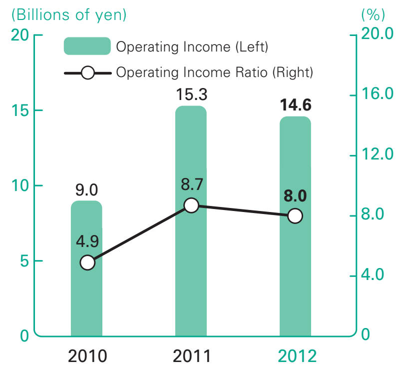
Operating Income / EBITA* Operating Income Ratio



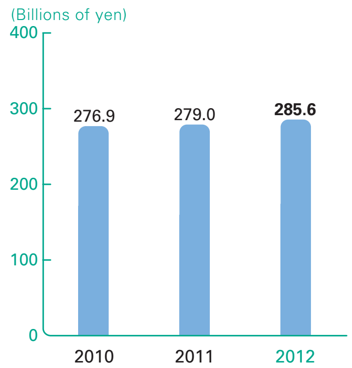
* EBITA (Earnings before interest, taxes and amortization) is operating income before amortization of goodwill and other items related to acquisitions.

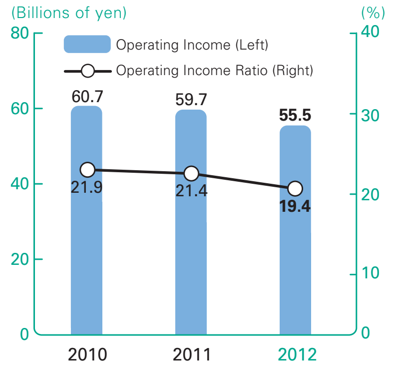
Human Health Care Business





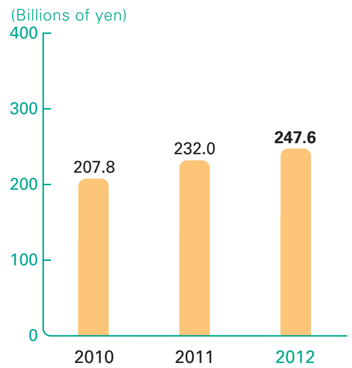
Fabric and Home Care Business

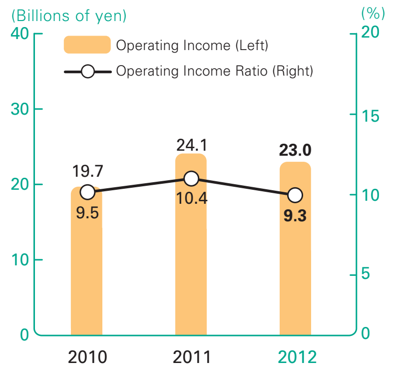




Chemical Business

Chemical Business





Note: Net sales include intersegment sales.

A Message from Chairman of the Board of Directors Motoki Ozaki

After eight years as Kao's president and chief executive officer, I am confident that the Company is in an excellent position to achieve profitable growth both in Japan and around the world as a result of structural evolution. Just as important, this growth will also be sustainable as a result of our commitment to reducing environmental impact and contributing to society. The market agrees, given Kao's inclusion in socially responsible investment indexes and its selection as one of the world's most ethical companies. Kao will continue to serve its stakeholders effectively and with integrity.

A key theme during my tenure as CEO was leveraging innovative technology to raise Kao's competitive advantage in global markets and achieve profitable growth. In each of our businesses, we are using our unique capabilities and expertise to launch high-value-added products.

We complemented product innovation with structural innovation and implemented a matrix management system that shifted the focus of our businesses from product categories to the consumer's perspective. Structural reorganization has also helped Kao strategically and efficiently allocate resources to respond to changes in market structure and consumers.

Integration of business operations across Asia has also supported profitable global growth. This initiative successfully enhanced communication among Asian countries to efficiently develop high-value-added products that meet the needs of both particular countries and the broader market. We are now taking a similar approach by implementing matrix management in our North American and European operations.

Over the past eight years we have deepened our commitment to the environment and in 2009 issued the Kao Environmental Statement. Our "eco together" concept is a key component of our approach, guiding us as we work together with stakeholders and consumers worldwide throughout the product lifecycle, from materials procurement and manufacturing, to distribution, sales, use and final disposal. We have also maintained our longstanding emphasis on corporate social responsibility issues such as effective governance and corporate ethics.

The Kao Group clarified its deployment of free cash flow (net cash provided by operating activities plus net cash used in investing activities) during my tenure. We invested in future growth, as shown by the acquisition of Kanebo Cosmetics Inc. We also used free cash flow to increase cash dividends per share at a compound annual rate of nearly 7 percent over the past eight years. In addition, we reduced interest-bearing debt related to the acquisition while repurchasing shares totaling ¥135 billion.

Our focus on efficiently putting our resources to work has created an organization that is well positioned to continue generating profitable growth and consistently strong shareholder returns. In my new role as Chairman of the Board of Directors, I plan to support the new company leadership and the sustainable growth of the Kao Group by focusing on corporate governance and risk management issues.

Motoki Ozaki
Chairman of the Board of Directors

An Interview with New President and CEO Michitaka Sawada

Michitaka Sawada
President and Chief Executive Officer

Michitaka Sawada joined Kao in 1981 after earning a Master of Engineering specialized in applied chemistry from Osaka University. Sawada's career over more than thirty years in research and development at Kao spans both fundamental research and product development research, from the development of the polymer materials used in the iconic *Bioré* pore strips through to leadership on the re-engineering of *Merries* baby diapers after his appointment as Vice President of the Sanitary Products Research Laboratories in 2003. In 2006, Sawada became an Executive Officer of Kao and assumed broader responsibility across the entire R&D Division. He was the first to lead the Human Health Care R&D Center following its establishment in 2007 and quickly progressed to appointment to the Board of Directors in 2008.

Recognition of Sawada's significant achievements in leading R&D teams in diverse fields, as well as his dynamism, energy and wide-ranging insights on global growth, all contributed to his appointment as Representative Director, President and Chief Executive Officer of Kao on June 28, 2012.

Sawada has been an active member of the Japan Chief Technology Officer Forum, Japan Management Association and the Japan Association for Chemical Innovation, where he has contributed to the development of industry policies and strategies. He was recently appointed as Vice Chairman of the Japan Soap and Detergent Association, a leading industry body.

Sawada was born on December 20, 1955 in Osaka Prefecture, Japan. He and his wife have two daughters.

LEADERSHIP

CONTINUOUS INNOVATION

What is your core theme for the Kao Group as you lead it into the future?

"*Yoki-Monozukuri*" is one of the Kao Group's core concepts. We define it as "a strong commitment by all members to provide products and brands of excellent value for consumer satisfaction." But this concept is not simply about producing high quality products – it also encompasses our commitment to enriching people's lives, reducing environmental impact and resolving social issues arising from changing lifestyles. That requires fresh ideas and the will to make them realities, which is why we need innovation. But not just innovation. We need "continuous innovation."

The Kao Group is an exciting place because of its positive, innovative corporate culture, and I am proud that I have helped keep this spirit burning brightly. My career has focused on research and development, so I have seen firsthand that continuous innovation drives profitable growth.

This concept of continuous innovation starts with breakthrough innovation; we need great new ideas for products that cause creative destruction. This kind of innovation changes the game. With its proven innovative capabilities, the Kao Group can take the lead in the markets that emerge. But we cannot stop there; we must follow up with step-by-step innovation. By this I mean a series of small but significant steps that keep

The Key to Strategic Success

Continuous innovation is the key, and has two phases:

- **Breakthrough innovation: great new ideas for products that cause creative destruction**
- **Step-by-step innovation: a series of small but significant steps that keep our brands fresh in the marketplace**

The Kao Group's Mid-Term Growth Strategies

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

Consumer Products Business

- **Further reinforcement of business in Japan, the Kao Group's profit base**
- **Accelerated globalization**

Mature markets:
- Achieve further growth driven by high-value-added products

Growth markets:
- Invest management resources to strengthen focal strategic brands
- Establish corporate identity

Chemical Business

- **Rapid progress toward an eco-chemical business** our brands fresh in the marketplace. This involves incremental additions to value over time. After all, a product is not innovative if nobody uses it, and we are not in the business of creating fads. This cycle is essential for Kao.

For example, we created the compact detergent market in Japan with breakthrough innovation, and have been the leader in this market for 25 years using step-by-step innovation. Kao is serious about nurturing its product concepts over the long term.

Continuous innovation adapts products and approaches to evolving market and consumer needs, so that our innovative products remain relevant and at the forefront of consumer consciousness. It means constant improvement of what we make and do. And it requires persistence – we cannot afford to become complacent. We must continuously come up with new ideas that maintain our product leadership as competitors will inevitably try to replicate our innovations.

I also want to make the most of our organizational strengths while making sure that we are not doing research for its own sake, but research that is creating value. That is how we will meet challenges successfully to keep sales and earnings on an upward vector over the medium and long term.

VALUE

How is Kao responding to the increasing maturity of the Japanese market?

The Kao Group adapts. We remain open to new ideas as our markets change. This is what sustains us as we turn challenges like market maturity into opportunities.

We absolutely want to create value that consumers appreciate. As markets in Japan have matured, we have expanded the spectrum of value we offer through our products. We have always focused on functional value, creating products that consumers love because they work really well and make life better. Then we complemented the focus on functional value by emphasizing emotional value, such as more appealing fragrances and enhanced look and feel. Going forward, we also intend to strengthen our offering in terms of social value. This involves effectively meeting needs and wants in a social context, such as employing universal design to enhance ease of use for seniors, or making our offerings even more environmentally responsible.

Our concept of continuous innovation is key to leveraging the maturity of the market in order to sustain profitable growth in Japan. We are innovating every day and looking for additional opportunities to evolve beyond providing products alone to include suites of products and services that offer functional, emotional and social value, such as a health solution business that focuses on prevention and improvement of health issues for an aging society. In the future, the Kao Group will consider how to apply the know-how gained through this business in markets outside Japan.

GLOBAL

Japan is a large market for the Kao Group, while some countries outside Japan are growth drivers. How will you build the Kao Group's global business?

Overseas markets present many opportunities for global expansion. This is particularly true for growth markets with large populations such as China and Indonesia, which we see as fundamental to our future. Previously, we targeted upper-tier consumers with premium products in these markets, but now we are adding a strong emphasis on volume zones – categories with sizable markets such as laundry detergents, sanitary products and diapers targeting mid-tier consumers. We intend to make use of another Kao Group strength: our ability to deliver volume zone products that consistently connect with consumers because they are easy to understand and meet clearly identified needs.

As in the premium products market, we need to be known as an innovative company through continuous innovation in volume zones. We are competing against huge global companies, and will not succeed if we use the same approaches they do. We will use consumer insights and continuous innovation to compete with truly differentiated products that are compelling, while making sure they are price competitive as well.

Through this focus, we are generating meaningful results in China and elsewhere in Asia, giving us a great base for further expansion.

Our initiative to integrate management of the Beauty Care Business in North America and Europe demonstrates another aspect of our approach to global expansion. Not simply an exercise in integration to raise efficiency, this is the next stage of our strategy for ultimately creating a strong, unified business worldwide through global integrated management of the Consumer Products Business.

PRESENCE

The Kao Group's global identity is a strategic asset. How will you build it?

I think of our global identity in terms of the word "presence." Our presence is our standing among consumers, communities and other stakeholders. It means awareness of the Kao Group, its brands and its commitment to enriching lives, in harmony with nature. Our presence is the result of everything we do and achieve. We want markets to know and respect the Kao Group, because that drives profitable growth and creates a virtuous cycle in which earnings growth funds the innovation that supports more earnings growth. We want society to know and respect the Kao Group for its contribution as a corporate citizen, because that makes our employees and the communities we serve proud of the Kao Group.

The key to building our presence will be to constantly renew ourselves as we embrace a commitment to change. Employees must have the desire to take on the challenges of innovation, and the courage to be creative. Enhancing our presence involves thinking about markets in which we have the best opportunities to sweep away the conventional and lead with the new. It also means continuous innovation that incrementally strengthens our brands and our ability to contribute to communities.

Sustainability is a core Kao Group management focus. How is sustainability related to the overall objectives of the Kao Group?

The Kao Group has embedded sustainability in its management, and we are deploying our unique ability to innovate to address environmental awareness. We have to be environmentally responsible in Japan and overseas. Companies that fail to do that will not succeed. They will simply become irrelevant. Our concept of *Yoki-Monozukuri* certainly includes ecologically conscious products, and was a core rationale for founding the Eco-Technology Research Center. It is a unique expression of what differentiates the Kao Group, a place where we are using eco-innovation research to link product creation and use to environmental responsibility.

Continuous innovation drives sustainability. It drove the development of our "eco together" environmental statement, in which we work with consumers, business partners and society to reduce environmental impact throughout the entire product lifecycle. It drives our commitment to eco-innovation, which has resulted in products such as the *Neo* fabric care series that conserves water, electricity and resources, as well as innovations that help us use less water in our operations. It also supports our drive to develop eco-chemical products for global markets.

Since 2005, we have been participating in the United Nations Global Compact, a strategic policy initiative for businesses that are committed to aligning their operations and strategies with ten universally accepted principles in the areas of environment, human rights, labor and anti-corruption. We have also demonstrated our global commitment to social and environmental issues in ways such as participating in the Round Table on Sustainable Palm Oil since September 2010.

Sustainability will certainly remain central to Kao Group management worldwide.

How will the Kao Group continue to generate solid shareholder returns?

Kao Corporation has raised dividends for 22 consecutive years and has repurchased nearly 138 million shares since 1999, and I will maintain this clear and consistent commitment to shareholder returns. How? The short answer is profitable growth. The Kao Group is focusing on effective use of free cash flow and other fundamentals that drive value and enable shareholder satisfaction, because we contribute to society and make ourselves an attractive investment when we grow profitably. We will maintain our emphasis on deploying free cash flow toward reinvesting earnings in capital expenditures, mergers and acquisitions that support profitable global growth.

Use of Free Cash Flow*

1. **Capital expenditures and M&A for future growth**
2. **Steady and continuous cash dividends**

   Year ended March 31, 2012 ▶ **Cash dividends per share: ¥60.00**
   Payout ratio: 59.7%

3. **Share repurchases and repayment of interest-bearing debt including borrowings**

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

We see that as a win-win approach that benefits the Kao Group and its stakeholders. I expect continuous innovation to ensure that Kao Corporation generates attractive returns for shareholders while upholding the ethical and community principles that are the basis for the Kao Group's strong stakeholder support.

Michitaka Sawada

Michitaka Sawada
President and Chief Exective Officer

Kao at a Glance

Business Overview

Consumer Products Business

Beauty Care Business

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

Human Health Care Business

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

Fabric and Home Care Business

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.

Chemical Business

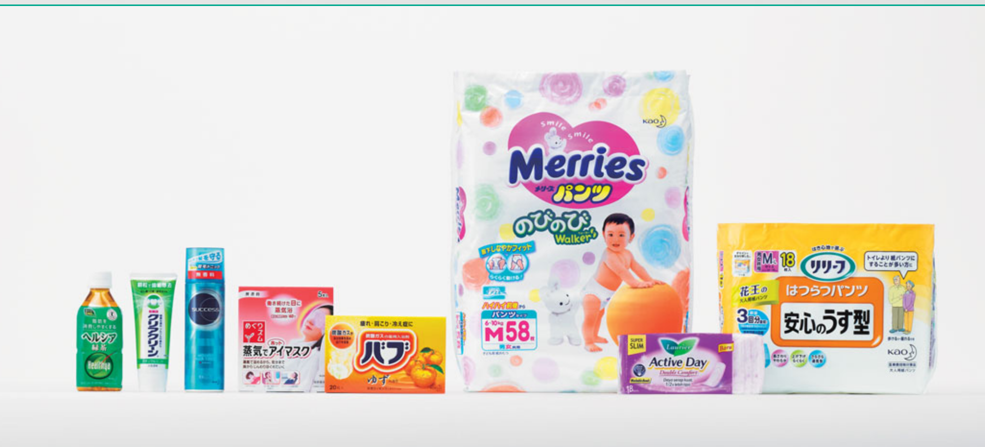
Chemical Business

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

Representative Products

Mid-Term Strategies

- 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.



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

- 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.

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

Feature:

Innovation That Satisfies

The Kao Group is constantly exploring new science and technologies to create valuable products and offer them to consumers around the world. We seek to enhance our brand value with an approach that pairs a global perspective for developing world-class technology with local insights to tailor products to each market. Here we highlight some of our initiatives.

Beauty Care Business

Global Integrated Management

Originally introduced as a facial cleanser, *Bioré* has established a solid position in the Japanese market as a leading brand in the Kao Group's premium skin care portfolio. Since the start of our global expansion in 1982, *Bioré* products have been tailored to local markets, but the brand is now undergoing worldwide renewal driven by the Kao Group's exclusive new Skin Purifying Technology.

To succeed globally, it is important to pair technologies that are applicable worldwide with local insight to understand the different needs and characteristics of each market and respond appropriately. Moreover, to ensure that we fully convey the unique value of *Bioré* in markets around the world, the Kao Group is conducting strong rollouts at the local level with a thorough understanding of the needs of the target demographics in each country, based on the brand guidelines that support global development.

Bioré Skin Care Facial Foam, which presented the concept of "cleansing skin care" to the market, uses the Kao Group's Skin Purifying Technology to gently remove dirt and excess oil that can irritate the skin, leaving it feeling smooth.

We intend to enhance the brand value of *Bioré* by returning to the basics, centered on world-class cleansing technology.

The various markets around the world differ in terms of consumer needs and competitive landscapes. In order for *Bioré* to build a strong global presence, the Kao Group must focus on its core value of "clean, healthy beautiful skin." We have returned to the basics to better define *Bioré*'s strengths around its cleansing ability, and now we plan to begin our new offerings with facial cleanser, the product that best represents these core values. Our technology is what makes this possible. Even though the facial cleanser market is maturing, I believe that by adding new value to our products, we can further increase consumer satisfaction in every market.

Satoru Tanaka
President, Premium Skin Care Business Group, Beauty Care Business Unit

Global Rollout of New *Bioré*

Taiwan

Bioré is a top-ranking brand in Taiwan. A high level of satisfaction with the facial cleanser, the core driver of the brand's image, can be expected to carry over to the makeup remover and body cleanser lines as well. That is why this is a critically important item. In restaging the facial cleanser with the introduction of Skin Purifying Technology in 2012, Kao (Taiwan) Corporation conducted extensive surveys of consumers in their homes, and used these findings to effectively spotlight *Bioré*'s advanced functional value and to enhance its established brand image.

United States

Kao USA Inc. (formerly Kao Brands Company) launched the *Bioré* Restage Project in 2010 and set out to restructure its brand strategy. To gain an advantage in the highly competitive U.S. facial cleanser market, the company identified the need to rethink its target demographic, and decided to focus on women in their twenties because of their outstanding brand loyalty.

Based on extensive surveys of this target demographic, the company is carrying out a communications strategy centered on digital marketing.

Meeting Local Consumer Needs

***Laurier* products are sold in nine countries and regions in Asia, and the Kao Group aims to make it Asia's leading sanitary napkin brand. With the development and introduction of a groundbreaking new surface material, the Kao Group repositioned the brand and, in 2010, began a series of launches in Asia, where it has gained strong support from local women. By both strengthening standard global product functions with innovative technology and introducing products developed from a consumer-driven perspective in each local market, the Kao Group aims to be the closest to Asian consumers.**

Product Development Aimed at Creating a "Next-Generation Sanitary Napkin"

Laurier has won steady support in the growing Asian market for feminine hygiene products, including the top market share in Singapore. However, with competition increasing, the Kao Group is targeting younger consumers by highlighting the functional and emotional appeal of *Laurier*, which uses a new surface material developed for superior absorbency, as a "next-generation sanitary napkin."

Taiwan

"Magnetic Absorbency" is the Brand-Building Catch Phrase

In Taiwan, aggressive promotion of the comfort and other features of *Laurier Super Slim Guard* in magazines and online has established a solid position for it as a high-value-added product. In August 2011, we launched the renewed *Laurier Super Slim Guard* with a new surface material, and created the catch phrase "magnetic absorbency" to evoke the product's originality and unrivaled absorbency. As a result, it is gaining strong support from women in the target segment.

Thailand

Dealing with Two Different Markets

In the sanitary napkin market in Thailand, it is necessary to win share in two different markets: urban areas, where the hypermarkets of global retailers and convenience stores are the dominant sales channels, and rural areas, where traditional outlets such as long-established family-run shops are prevalent. When we introduced the new product with stronger absorbency using a new surface material, we devised and aggressively implemented effective marketing strategies for each of these two markets.

Innovation is the Key to Winning the Top Share

In sales promotions for *Laurier Soft & Safe*, a brisk-selling new thin-type product, we focused on television commercials. Employing a well-known actress to increase trust, the commercials were designed based on extensive surveys of consumers' real-life experiences to gain insight into their needs and help them identify with the product. For *Laurier Super Slim Guard*, on the other hand, we highlighted the product's absorbency to appeal to active career women, and sales have been strong. We realize the importance of listening to consumers and constantly innovating.

Kanwara Chingchit
Category Manager, Marketing,
Consumer Business,
Kao Commercial Thailand Co., Ltd.

Offering Eco-Innovation

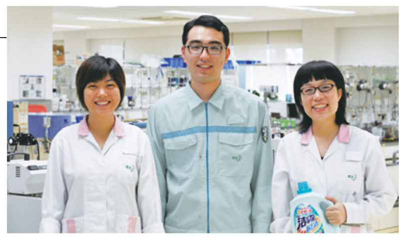
This year marks the 25th anniversary of the 1987 debut of *Attack*, the world's first compact laundry detergent. In 2009, after two years of development aimed at making single-rinse laundering possible, the Kao Group launched *Attack Neo*, which reduces washing time and saves water and electricity. The same technology used in *Attack Neo* was applied in *Attack Instant Clean Liquid* detergent, which was launched in China in 2010.

Simultaneously Reducing Environmental Impact and Benefiting Consumers

In developing *Attack Neo*, the Kao Group sought to create a product that was not just "eco-friendly" but would also use environmental technology to benefit consumers. Efforts focused on the water used in laundering. The toilet, bathing, cooking and laundry account for about 90 percent of daily water use in the average household. Researchers therefore looked to find a way to save water by making single-rinse laundering possible, and succeeded in developing a surfactant with strong cleaning performance and excellent rinsing properties. At the same time, the product was made much more concentrated, resulting in the creation of *Attack Neo*, a completely new, ultra-concentrated liquid detergent. The technology of *Attack Neo* has also been applied in China and Australia to create products tailored to laundry habits in those countries.

Creating New Value with *Attack Instant Clean Liquid*

When we were developing *Attack Instant Clean Liquid* detergent, which was launched in September 2010, we surveyed 850 average households in Chinese urban areas (Shanghai and Beijing) to see how they do their laundry. We found that most people use a combination of machine washing and hand washing, and that roughly 80 percent of the water used in laundering is consumed in rinsing. That led us to focus on the need for efficient rinsing, just as the Kao Group did in Japan. Through joint development with the Japanese team, we came up with a product that offers high cleaning performance and easy rinsing, both by machine and by hand washing, and also helps to reduce water consumption.



From left: Wen Limeng, Ji Kan and Zhu Ye
Research and development staff at Kao (China) Research & Development Center Co., Ltd.

Rapid Progress toward an Eco-Chemical Business

The Kao Group is taking steps to provide new value to customers while reducing its environmental footprint. The Eco-Technology Research Center, a base for development of next-generation environmental technologies, started operation in June 2011. With this new facility, the Kao Group will accelerate ecology-centered management by further blending technologies and exercising its creativity.

Development of Toner and Toner Binder with Low-Temperature Fusing

Eco-Innovation Research Laboratories

The Eco-Innovation Research Laboratories established in the Eco-Technology Research Center centralizes research on the environment, which was previously dispersed across the organization. It will play a leading role in realizing Kao's vision of ecology-centered management in actual development and manufacturing.

The Kao Group has been providing toner and toner binder for laser printers and copiers globally since 1980. Looking for a way to reduce energy consumption, we focused on polyester resin ahead of our competitors. This led to the development of a product that easily fuses to paper even at low temperatures, enabling sharp printing quality. Today, the Kao Group accounts for more than 30 percent of the world's total annual production volume of toner binder.

In addition, our low-temperature fusing toner binder substantially reduces the impact on the environment, and lowering the fusing temperature by 10°C is expected to reduce CO_2 emissions by approximately 10 percent. The Kao Group is further improving its toner binder to enable fusing at temperatures 30°C lower than conventional toner binders.

Promoting Innovation by Blending Technologies from Different Fields

In eco-innovation research, we have constructively integrated the various eco-research functions of the Kao Group's research and development division. Our intention is to be a professional research institute that competes on the global stage by developing next-generation technologies around the theme of sustainability. We are aiming to develop environmental management indexes that will determine how good each product is for the environment as a whole, rather than determining whether or not a product is environmentally-conscious based solely on greenhouse gas emissions or water usage. We hope that the new technologies we create will contribute to the advancement of the Kao Group's ecology-centered management and to a sustainable society.

Naoki Katada
Vice President, Eco-Innovation Research Laboratories

Kao's Management Framework

Directors, Corporate Auditors and Executive Officers (As of June 28, 2012)

Board of Directors

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

Motoki Ozaki

Chairman of the Board of Directors
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.

Takuma Otoshi**

Senior Advisor, IBM Japan, Ltd.

Sonosuke Kadonaga**

President, Intrinsics

Corporate Auditors

*** Outside Corporate Auditor

Masanori Sunaga

Full-time Corporate Auditor

Takayuki Ishige

Full-time Corporate Auditor

Tadashi Oe***

Corporate Auditor,
Attorney-at-Law

Teruo Suzuki***

Corporate Auditor,
Certified Public Accountant

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 of Directors and Chief Executive Officer, Kao (China) Holding Co., Ltd.
Chairman of the Board of Directors, Kao Commercial (Shanghai) Co., Ltd.
Chairman of the Board of Directors, Kanebo Cosmetics (China) Co., Ltd.

Toshihide Saito
Managing Executive Officer

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

Ken Hashimoto
Managing Executive Officer

Senior Vice President, Procurement, Global
Responsible for Accounting and Finance, Information Systems and EVA Promotion

Hisao Mitsui
Managing Executive Officer

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

Masumi Natsusaka
Managing Executive Officer

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

Katsuhiko Yoshida
Managing Executive Officer

President, Fabric and Home Care Business Unit, Global
President, Consumer Products, Asia (except China)

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
Vice President, Corporate Strategy, Global

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

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

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

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

Naohisa Kure
Vice President, Research and Development – Beauty Care, 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
Vice President, Production and Engineering - Chemical Supply Chain Management, Global
Vice President, Plant Management, Wakayama Plant

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, Senior Managing Executive Officer, Kao Customer Marketing Co., Ltd.

Corporate Governance

Kao considers corporate governance to be a key management task. The Company's basic approach to corporate governance is to maintain the management structure and internal control system necessary to realize highly efficient, sound and transparent management, with the aim of continuously increasing corporate value.

Corporate Governance Structure

Kao has introduced, within the framework of the Board of Directors, including Outside Directors, and the Board of Corporate Auditors including Outside Corporate Auditors, an Executive Officer system to separate supervision from execution. Following the conclusion of the Annual General Meeting of Shareholders and the subsequent meeting of the Board of Directors in June 2012, Kao has as part of continuing corporate governance improvements increased the number of Outside Directors from two to three, reduced the number of members of the Board of Directors from fifteen to ten (including the Chairman, who does not have executive authority), and reinforced the organization of Executive Officers by increasing the number from twenty-six to twenty-eight and by establishing four new Executive Officer positions, titled Senior Managing Executive Officer or Managing Executive Officer, without concurrent positions in the Board of Directors. Furthermore, Kao has four Corporate Auditors, including two Outside Corporate Auditors. All Outside Directors and Outside Corporate Auditors maintain their neutrality and independence from the Company's management.

Kao has established the Compensation Advisory Committee and the Committee for the Examination of the Nominees for the Chairman of the Board of Directors and the President, which fulfill functions similar to the compensation committee and nominating committee of a "company with committees." In June 2011, a meeting of the Compensation Advisory Committee was held with all Outside Directors in attendance. It reported to the Board of Directors meeting in the same month its evaluation that the current compensation system and level of compensation for Members of the Board and Executive Officers were appropriate. Also, prior to the appointment of the Chairman and the President following the election of Members of the Board at the Annual General Meeting of Shareholders in June 2012, a meeting of the Committee for the Examination of the Nominees for the Chairman of the Board of Directors and the President was held by all Outside Directors and Outside Corporate Auditors. The committee subsequently submitted to the Board its opinion that each candidate was qualified and appropriate.

In order to improve the effectiveness of audits and strengthen auditing functions, the four Corporate Auditors, including the two Outside Corporate Auditors, exchange opinions with Representative Directors on regularly scheduled occasions, attend meetings of the Board of Directors and Management Committee as well as other important meetings, and participate in regular conferences by corporate auditors of domestic Kao Group companies. They also share auditing information with the internal auditing division and the Company's accounting auditor, and conduct interviews of internal divisions and subsidiaries regularly or as necessary.

Functions of Committees

Compensation Advisory Committee	This committee is composed of all Representative Directors, the Chairman of the Board of Directors and all Outside Directors. The Committee meets at least once a year during the compensation review period for Members of the Board and Executive Officers. At this meeting, the committee obtains and examines opinions on the compensation system and the level of compensation for the Members of the Board and Executive Officers. The results of that examination are reported at a meeting of the Board of Directors.
Committee for the Examination of the Nominees for the Chairman of the Board of Directors and the President	Composed of all Outside Directors and all Outside Corporate Auditors, this committee examines the nominees prior to the appointment or reappointment of the Chairman of the Board of Directors and/or the President, and submits its evaluation of the nominees' qualifications to the Board of Directors.

Ensuring the Independence of Outside Directors/Corporate Auditors

In February 2010, Kao established and announced the Standards for Independence of Outside Directors/Corporate Auditors of Kao Corporation. All of the current Outside Directors and Outside Corporate Auditors meet these standards, and are registered with the Tokyo Stock Exchange as independent directors/corporate auditors.

Outside Directors are expected to utilize their considerable experience and expertise as managers or people of relevant knowledge and experience to fulfill a checking function from a neutral position, independent of the Company's management, to ensure that management decisions of the Company are not disproportionately biased by the views of Company insiders.

In addition, the Company believes that thorough discussion at Board of Directors meetings is vital to corporate governance. Therefore, the Secretariat of the Board of Directors provides Outside Directors with adequate explanations of the background, purpose and content of agenda items prior to each meeting of the Board of Directors. Furthermore, administrative divisions such as Global Accounting and Finance, Global Internal Audit and Global Legal and Compliance are available to assist Outside Corporate Auditors at the Outside Corporate Auditors' request.

The average attendance rate of Outside Directors and Outside Corporate Auditors at the 14 Board of Directors meetings held in the fiscal year ended March 31, 2012 was 92.9 percent and 92.9 percent, respectively. The average attendance rate of Outside Corporate Auditors at the 7 Corporate Auditors meetings during the same period was 92.9 percent.

Internal Control System and Risk Management System

Internal Control System

Kao formulated its Policies regarding the Development of the Internal Control System in May 2006, and revises them as necessary after confirming the level of compliance each year. In accordance with these policies, the Internal Control Committee, chaired by the Representative Director, President and Chief Executive Officer of Kao, discusses and determines plans for the maintenance and operation of the internal control system. The committee also evaluates these plans on a regular basis and makes improvements as necessary.

Six committees have been placed under the Internal Control Committee. Each of these subcommittees assesses the state of internal controls and makes improvements as needed by employing the PDCA (Plan, Do, Check and Act) cycle. The subcommittees have begun activities for global management integration in their respective business areas.

Six Committees under the Internal Control Committee: Number of Times Convened during the Year Ended March 31, 2012

Disclosure Committee	6 times
Compliance Committee	2 times
Information Security Committee	8 times
Risk Management Committee	12 times
Committee for Responsible Care Promotion	2 times
Quality Assurance Committee	4 times

Risk Management

Among the various risks related to overall business activities, risks related to management strategies that affect business opportunities are evaluated by the relevant divisions and countermeasures are developed. When necessary, the Management Committee and Board of Directors check and oversee these countermeasures. Management of operational risks is based on the order of priority specified in the Kao Risk Management Policy (1. Protection of human life; 2. Environmental conservation; 3. Continuation of operations; and 4. Protection of assets).

The Risk Management Committee, chaired by the Member of the Board in charge of risk management, promotes risk management throughout the Company. In the event of a serious crisis, a task force headed by the Representative Director, President & CEO is set up to respond to the situation.

Objectives of Activities to Properly Manage Risk

1. Identify at the global level risks that could affect *Yoki-Monozukuri* and the continuation of operations, and strengthen countermeasures
2. Strengthen the emergency response system
3. Maintain and enhance the business continuity plan (BCP)

Measures to Maintain and Enhance the Business Continuity Plan

Some of the Kao Group's manufacturing, research, distribution and sales bases were damaged to a greater or lesser extent in the Great East Japan Earthquake, but the Group pulled together to restore normal operations to fulfill its mission as a manufacturer of daily necessities. We are reflecting the issues brought to light on that occasion in our business continuity plan (BCP) and other aspects of our operations. For procurement of raw materials, the Kao Group is purchasing from multiple vendors and standardizing specifications to enable flexible purchasing according to conditions. To strengthen our manufacturing system, we have taken measures such as seismic strengthening and liquefaction countermeasures to make factories more disaster resistant. In addition, we are restructuring our manufacturing bases from a global perspective to accommodate priority products.

Another new issue we are aware of is the possibility that an earthquake with an epicenter in Tokyo or other disaster could damage the head office and interrupt its functions. Therefore, we are studying how to maintain head office functions by considering duty assignments and ways of continuing operations under emergency conditions.

In 2012, we will work to establish a stronger business continuity framework by swiftly dealing with the issues we have been studying in order to improve the effectiveness of the BCP.

Compliance

Measures to Promote and Establish Compliance

The principle of integrity, passed down from Kao's founder, is a core value of the Company's corporate philosophy, The Kao Way. Integrity means behaving lawfully and ethically and conducting fair and honest business activities. Kao regards integrity as the starting point of compliance and a guiding principle to follow so that it may continue to earn the respect and trust of all stakeholders.

To practice integrity in our daily business activities, we have defined three compliance priorities: (1) establishment and revision of Kao's Business Conduct Guidelines (BCG), (2) implementation of educational activities to promote each employee's understanding of the BCG (employees sign an acknowledgement of their understanding), and (3) establishment and operation of compliance hotlines to resolve employees' questions and give them support to take responsible action in a timely and appropriate manner. Compliance-related activities are conducted throughout the entire Kao Group, primarily through the Compliance Committee.

Main Activities in the Year Ended March 31, 2012

- Revised BCG and conducted e-learning in domestic Kao Group companies and annual review
- Conducted Integrity Workshops (total number of attendees from October 1, 2008 to March 31, 2012):

Japan	4 times / 110 people
Asia/Oceania	192 times / 4,520 people
North America and Europe	62 times / 1,262 people
Total	258 times / 5,892 people

- Established and began operation of compliance hotlines for reporting and consultation
- Conducted regular monitoring: Annual departmental self-assessment, supplier satisfaction survey, and self-check during training

Note: Besides the Integrity Workshops, Kao has conducted other BCG seminars since 2003 and has secured acknowledgements of understanding from all employees of domestic Kao Group companies.

Kao Named One of the World's Most Ethical Companies for Sixth Consecutive Year

In March 2011, Kao was named one of the World's Most Ethical Companies 2012 by Ethisphere Institute, a U.S. think tank. Since the first listing in 2007, Kao is the only Japanese company, and also the only consumer products company and chemical company in the world to be included in the list for six consecutive years. This year's record number of surveyed companies came from over 100 countries, and 145 companies from more than 36 industries made the list.

Companies are evaluated in five categories: Ethics and Compliance Program; Reputation, Leadership and Innovation; Corporate Citizenship and Responsibility; Governance; and Culture of Ethics. Among these categories, Kao received particular recognition for its measures to promote ethics and compliance. These include establishing and revising the BCG, conducting Integrity Workshops to instill a commitment to integrity in all Kao Group employees, and setting up hotlines at all Kao Group companies for employees to report or consult on possible legal or ethical violations. The hotlines resolve employees' questions and give them support to take responsible action.

In addition to these measures, Kao also received praise for enhancing environmental initiatives under its policy of ecology-centered management, including the June 2011 opening of a new research facility, the Eco-Technology Research Center.

2012 WORLD'S MOST ETHICAL COMPANIES
WWW.ETHISPHERE.COM

Further information is available on the Kao CSR webpage at
http://www.kao.com/jp/en/corp_csr/csr.html

Financial Section

11-Year Summary

Kao Corporation and Consolidated Subsidiaries

Years ended March 31	2012	2011	2010	2009
	Millions of yen			
For the year:				
Net sales	¥1,216,096	¥1,186,831	¥1,184,385	¥1,276,316
Segments				
Beauty Care Business	537,938	533,514	547,944	588,330
Human Health Care Business	181,758	175,761	183,151	191,319
Fabric and Home Care Business	285,645	279,008	276,918	274,202
Consumer Products Business	1,005,341	988,283	1,008,013	1,053,851
Chemical Business	247,635	231,997	207,834	262,058
Eliminations	(36,880)	(33,449)	(31,462)	(39,593)
Former Segments				
Consumer Products	—	—	—	—
Prestige Cosmetics	—	—	—	—
Chemical Products	—	—	—	—
Eliminations	—	—	—	—
Region				
Japan	925,339	912,443	918,499	953,369
Asia and Oceania	173,588	152,361	131,699	161,927
North America	85,397	80,328	79,200	98,999
Europe	117,005	112,123	111,158	140,623
Eliminations	(85,233)	(70,424)	(56,171)	(78,602)
Operating income	108,590	104,591	94,034	96,800
Net income	52,435	46,738	40,507	64,463
Capital expenditures	47,178	49,101	44,868	44,624
Depreciation and amortization	79,798	81,380	84,778	87,463
Cash flows	101,960	97,028	95,269	122,441
Research and development expenditures	48,171	45,516	44,911	46,126
(% of sales)	4.0%	3.8%	3.8%	3.6%
Advertising expenditures	82,209	81,082	86,359	90,258
(% of sales)	6.8%	6.8%	7.3%	7.1%
At year-end:				
Total assets	991,272	1,022,799	1,065,751	1,119,676
Net worth	538,029	528,895	565,133	545,230
Number of employees	34,069	34,743	34,913	33,745
	Yen			
Per share:				
Net income	¥ 100.46	¥ 87.69	¥ 75.57	¥ 120.25
Cash dividends	60.00	58.00	57.00	56.00
Net worth	1,031.08	1,013.05	1,054.31	1,017.19
Weighted average number of shares outstanding during the period (in thousands)	521,936	532,980	536,009	536,085
	%			
Key financial ratios:				
Return on sales	4.3%	3.9%	3.4%	5.1%
Return on equity	9.8	8.5	7.3	11.5
Net worth ratio	54.3	51.7	53.0	48.7

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

2. Net sales by segment include intersegment sales. Under the former segments, net sales of Chemical Products include intersegment sales to Consumer Products and Prestige Cosmetics. Under the current segments, net sales of the Chemical Business include intersegment sales to the Beauty Care Business, the Human Health Care Business and the Fabric and Home Care Business.

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

2008	2007	2006	2005	2004	2003	2002
¥1,318,514	¥1,231,808	¥ 971,230	¥936,851	¥902,628	¥865,247	¥839,026
627,914	584,284	—	—	—	—	—
191,300	183,608	—	—	—	—	—
274,657	269,519	—	—	—	—	—
1,093,871	1,037,411	—	—	—	—	—
258,674	223,609	—	—	—	—	—
(34,031)	(29,212)	—	—	—	—	—
—	744,748	704,034	690,007	670,438	646,413	626,047
—	292,663	85,247	78,294	77,648	75,833	74,176
—	223,609	208,890	196,989	181,621	170,935	162,802
—	(29,212)	(26,941)	(28,439)	(27,079)	(27,934)	(23,999)
968,594	924,196	708,056	703,085	673,657	654,595	648,188
158,295	125,989	110,898	100,282	101,452	101,555	93,499
111,017	106,731	95,168	83,638	79,907	75,796	70,274
154,648	135,918	109,486	93,804	84,899	67,845	57,625
(74,040)	(61,026)	(52,378)	(43,958)	(37,287)	(34,544)	(30,560)
116,253	120,858	120,135	121,379	119,706	114,915	111,728
66,562	70,528	71,140	72,180	65,359	62,462	60,275
49,045	70,143	203,595	54,318	51,823	84,544	49,537
93,444	92,171	60,758	56,794	58,166	58,310	58,484
131,114	134,906	107,943	109,704	106,430	104,436	103,657
45,070	44,389	40,262	39,764	38,506	37,713	37,543
3.4%	3.6%	4.1%	4.2%	4.3%	4.4%	4.5%
99,176	96,892	83,770	84,157	82,773	74,277	66,069
7.5%	7.9%	8.6%	9.0%	9.2%	8.6%	7.9%
1,232,601	1,247,797	1,220,564	688,974	723,891	720,849	772,145
574,038	564,532	509,676	448,249	427,757	417,031	459,731
32,900	32,175	29,908	19,143	19,330	19,807	19,923
¥ 122.53	¥ 129.41	¥130.58	¥131.16	¥119.06	¥108.05	¥100.43
54.00	52.00	50.00	38.00	32.00	30.00	26.00
1,070.67	1,035.66	935.11	821.47	782.14	744.56	779.44
543,228	544,996	544,127	549,626	547,865	576,770	600,150
5.0%	5.7%	7.3%	7.7%	7.2%	7.2%	7.2%
11.7	13.1	14.9	16.5	15.5	14.2	13.1
46.6	45.2	41.8	65.1	59.1	57.9	59.5

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

Management Discussion and Analysis

Overview of Consolidated Results

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

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

As a result, net sales increased 2.5 percent compared with the previous fiscal year to ¥1,216.1 billion (US$14,796.2 million). Excluding the effect of currency translation, net sales would have increased 4.0 percent. In the Beauty Care Business, sales of prestige cosmetics grew in Japan, and premium hair care products performed well outside Japan. Sales increased in the Human Health Care Business and the Fabric and Home Care Business. In the Chemical Business, sales outside Japan increased as the Kao Group adjusted its selling prices in response to fluctuations in raw material prices.

Operating income increased 3.8 percent compared with the previous fiscal year to ¥108.6 billion (US$1,321.2 million) and net income increased 12.2 percent to ¥52.4 billion (US$638.0 million).

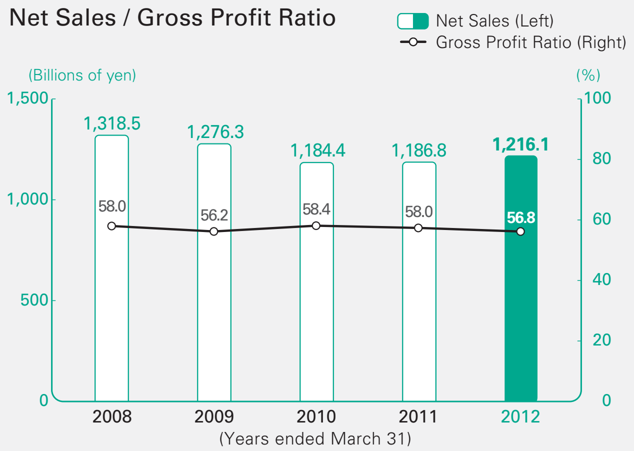
* The Kao Group defines "*Yoki-Monozukuri*" as a strong commitment by all members to provide products and brands of excellent value for consumer satisfaction. In Japanese, "*Yoki*" literally means "good/excellent," and "*Monozukuri*" means "development/manufacturing of products."

Analysis of Income Statements

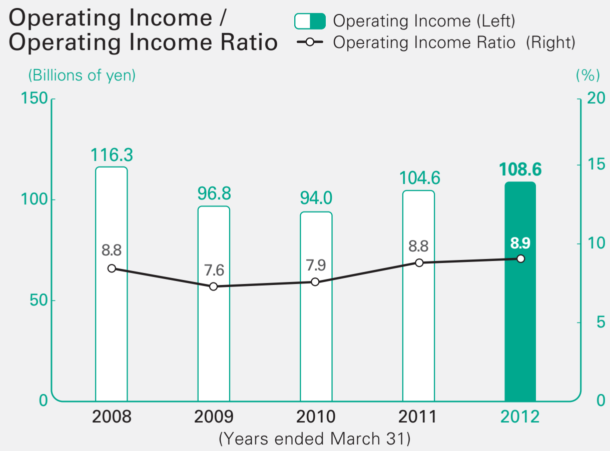
Net Sales and Operating Income

Net sales increased 2.5 percent compared with the previous fiscal year to ¥1,216.1 billion (US$14,796.2 million). Excluding the effect of currency translation, net sales would have increased 4.0 percent. In the Beauty Care Business, sales of prestige cosmetics expanded in Japan, while sales of premium hair care products were strong overseas. Sales also increased in the Human Health Care Business and the Fabric and Home Care Business. In the Chemical Business, the Kao

Net Sales / Gross Profit Ratio



Operating Income / Operating Income Ratio



Costs, Expenses and Income as Percentages of Net Sales

Years ended March 31,	2012		2011		2010
Cost of sales	43.2%		42.0%		41.6%
Gross profit	56.8	(–1.2)	58.0	(– 0.4)	58.4
Selling, general and administrative expenses	47.9	(–1.3)	49.2	(– 1.3)	50.5
Operating income	8.9	(+0.1)	8.8	(+0.9)	7.9
Income before income taxes and minority interests	8.7	(+0.6)	8.1	(+1.1)	7.0
Net income	4.3	(+0.4)	3.9	(+0.5)	3.4

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

Group adjusted selling prices in response to changes in raw material prices, resulting in sales growth overseas.

Prices of raw materials increased due to volatility in market prices, mainly of natural oils and fats and petrochemicals. However, in addition to the effect on profits of increased sales, the Kao Group continued its efforts to reduce costs and cut back expenses. As a result, operating income increased ¥4.0 billion from ¥104.6 billion in the previous fiscal year to ¥108.6 billion (US$1,321.2 million).

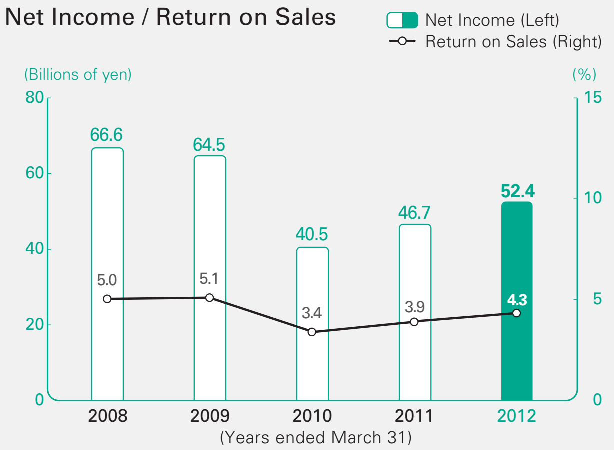
Other Expenses and Net Income

Net other expenses were ¥3.3 billion (US$40.5 million), compared with net other expenses of ¥8.6 billion in the previous fiscal year. Interest expense decreased as the Kao Group refinanced debt and redeemed bonds, and foreign currency exchange loss decreased because the appreciation of the yen eased in comparison with the previous fiscal year. In addition, loss related to the Earthquake decreased to ¥2.0 billion from ¥4.1 billion in the previous fiscal year, and the effect of application of the accounting standard for asset retirement obligations, which totaled ¥1.6 billion in the previous fiscal year, was absent in the fiscal year.

As a result, income before income taxes and minority interests increased from ¥96.0 billion in the previous fiscal year to ¥105.3 billion (US$1,280.7 million). Total income taxes increased from ¥48.2 billion in the previous fiscal year to ¥50.8 billion (US$617.8 million). The income tax rate after application of tax effect accounting was 48.2 percent, a decrease from 50.2 percent in the previous fiscal year.

Net income increased ¥5.7 billion from ¥46.7 billion in the previous fiscal year to ¥52.4 billion (US$638.0 million). Net income per share was ¥100.46 (US$1.22), an increase of ¥12.77, or 14.6 percent, from ¥87.69 in the previous fiscal year.

Net Income / Return on Sales



Information by Segment

Consumer Products Business

Sales increased 1.7 percent compared with the previous fiscal year to ¥1,005.3 billion (US$12,231.9 million). Excluding the effect of currency translation, sales would have increased 2.8 percent.

In Japan, sales increased 1.8 percent to ¥832.3 billion (US$10,126.2 million). Although sales were impacted by the Earthquake, intensified market competition and deflation, the Kao Group took measures including proposing environmentally conscious products, launching new products in response to changing consumer lifestyles and enhancing proposal-based sales and in-store merchandising activities.

In Asia and Oceania, sales increased 6.6 percent to ¥87.4 billion (US$1,063.8 million). Excluding the effect of currency translation, sales would have increased 11.8 percent. Although market competition intensified, the Kao Group carried out aggressive measures including collaborations with retailers and introduction of new products amid continued market growth.

In North America, sales decreased 2.7 percent to ¥49.6 billion (US$603.9 million). Excluding the effect of currency translation, sales would have increased 6.6 percent. The market was firm, and new products contributed to sales, but the appreciation of the yen exerted an impact on results.

In Europe, sales increased 1.3 percent to ¥61.5 billion (US$748.4 million). Excluding the effect of currency translation, sales would have increased 5.1 percent. The market recovered, albeit gradually, and new products launched in 2010 performed well.

Operating income increased ¥5.1 billion to ¥85.6 billion (US$1,041.3 million). Although there was an impact from higher raw material prices, the Kao Group curtailed expenses and took steps to reduce costs.

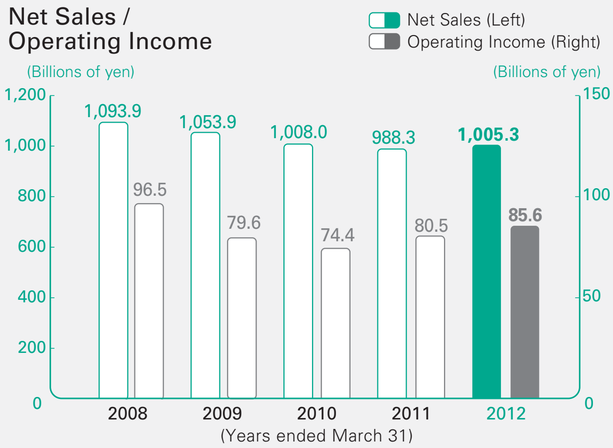
Beauty Care Business

Sales increased 0.8 percent compared with the previous fiscal year to ¥537.9 billion (US$6,545.1 million). Excluding the effect of currency translation, sales would have increased 2.4 percent.

Sales of prestige cosmetics, which consist of self-selection and counseling cosmetics, increased 2.2 percent to ¥260.0 billion (US$3,163.2 million) with the launch of new products, although the downtrend continued in Japan's cosmetics market with the impact of the Earthquake in addition to the shift in consumer preference toward lower-priced products. In Japan, the Kao Group launched new products and enhanced in-store merchandising for self-selection brands such as *KATE* makeup and *EVITA* total cosmetics. In counseling cosmetics, the Kao Group nurtured and strengthened its megabrands with annual sales of more than ¥10 billion, including making improvements to the *BLANCHIR SUPERIOR* whitening skin care and *SOFINA beauté* skin care brands, and adding a new product line for *SOFINA Primavista* base makeup. In addition, the Kao Group carried out reform of sales methods including optimization of marketing activities and counseling in response to changes in consumer needs and increased its share in a contracting market. Sales outside Japan expanded steadily.

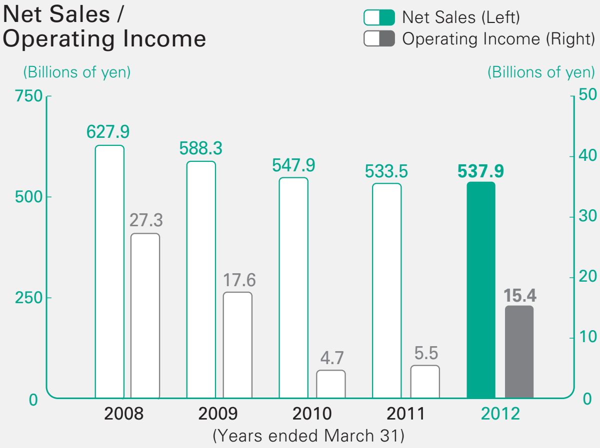
Consumer Products Business

Net Sales / Operating Income



Beauty Care Business

Net Sales / Operating Income



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

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

Operating income increased ¥9.9 billion to ¥15.4 billion (US$187.5 million) due to ongoing efforts to rebuild the prestige cosmetics business in Japan and other factors, even though the Kao Group invested aggressively in advertising expenses for new products in North America and Europe. Operating income before amortization of goodwill and other items related to acquisitions (EBITA) increased ¥9.0 billion to ¥48.9 billion (US$594.9 million), which is equivalent to 9.1 percent of sales.

Human Health Care Business

Sales increased 3.4 percent compared with the previous fiscal year to ¥181.8 billion (US$2,211.4 million). Excluding the effect of currency translation, sales would have increased 4.0 percent.

In food and beverage products, the *Healthya* brand of functional drinks that promote body fat utilization gained support from consumers and sales were firm.

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

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

Operating income decreased ¥0.7 billion to ¥14.6 billion (US$178.0 million) with the impact of increased raw material prices and market competition, despite the Kao Group's cost reduction activities in addition to the impact of increased sales.

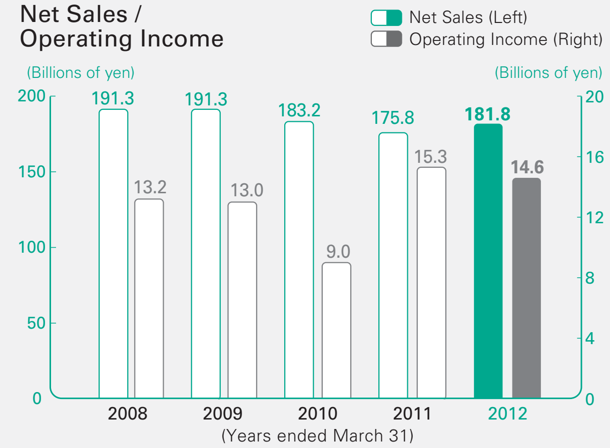
Fabric and Home Care Business

Sales increased 2.4 percent compared with the previous fiscal year to ¥285.6 billion (US$3,475.4 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

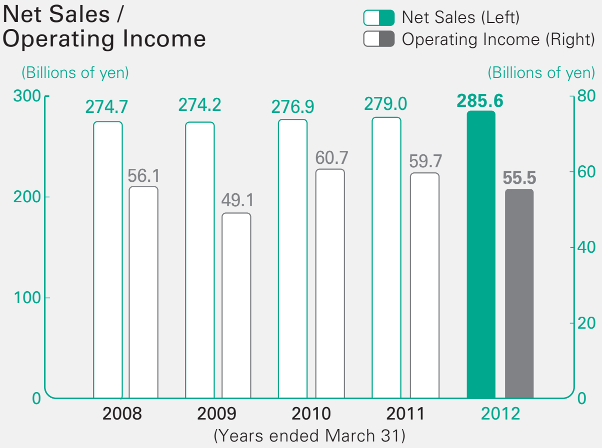
Human Health Care Business

Net Sales / Operating Income



Fabric and Home Care Business

Net Sales / Operating Income



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

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

Operating income decreased ¥4.1 billion to ¥55.5 billion (US$675.8 million) with the impact of increased raw material prices, although the Kao Group conducted cost reduction activities and other measures.

Chemical Business

In the Chemical Business, while sales in Japan were affected by decreased demand in customer industries due to the Earthquake, the appreciation of the yen, flooding in Thailand and other factors, sales grew substantially outside Japan. As a result, sales increased 6.7 percent compared with the previous fiscal year to ¥247.6 billion (US$3,013.0 million). Excluding the effect of currency translation, sales would have increased 10.0 percent.

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

Operating income decreased ¥1.1 billion to ¥23.0 billion (US$279.9 million) due to the impact of the appreciation of the yen and decreased demand from customer industries, despite efforts to adjust selling prices and cost reduction activities.

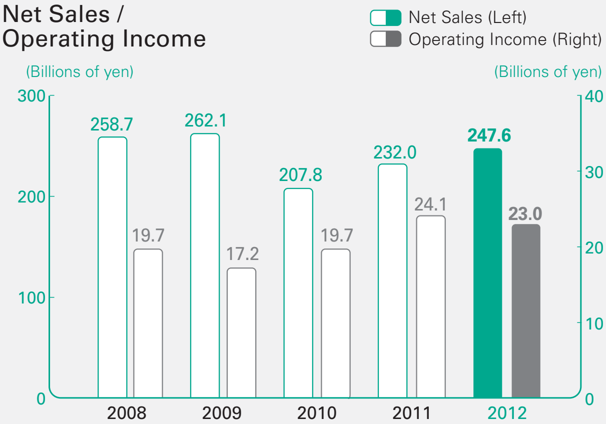
Financial Structure

Total assets decreased ¥31.5 billion from the previous fiscal year-end to ¥991.3 billion (US$12,060.7 million). The principal increases in assets were a ¥20.1 billion increase in notes and accounts receivable – trade, an ¥11.8 billion increase in short-term investments and a ¥9.2 billion increase in finished goods. The principal decreases in assets were a ¥25.3 billion decrease in cash and time deposits, an ¥11.5 billion decrease in short-term and long-term deferred tax assets, and a ¥35.5 billion decrease in intangible assets due to the progress of amortization of trademarks and other intellectual property rights and goodwill.

Total liabilities decreased ¥41.7 billion from the previous

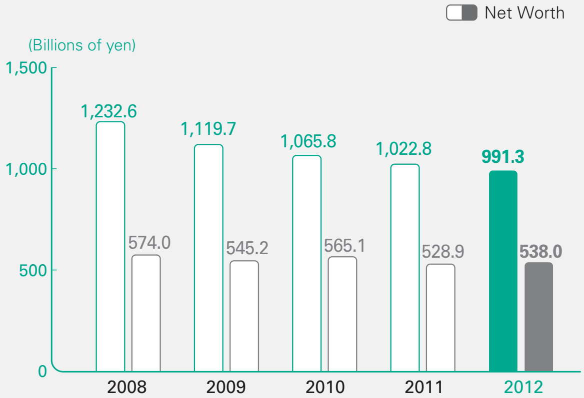
Chemical Business

Net Sales / Operating Income



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

Total Assets / Net Worth*



* Net worth is equity, excluding minority interests and stock acquisition rights.
(As of March 31)

fiscal year-end to ¥441.6 billion (US$5,372.5 million). The principal increase in liabilities was a ¥5.9 billion increase in notes and accounts payable – trade. The principal decrease in liabilities was a ¥50.0 billion decrease in the current portion of long-term debt due to redemption of bonds.

Total equity increased ¥10.1 billion from the previous fiscal year-end to ¥549.7 billion (US$6,688.2 million). The principal increase in equity was net income totaling ¥52.4 billion. The principal decreases in equity were a ¥30.3 billion decrease due to recognition of cash dividends and an ¥11.7 billion change in foreign currency translation adjustments. In May 2011, Kao Corporation retired 13.9 million shares of treasury stock worth ¥32.5 billion.

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

Cash Flows

The balance of cash and cash equivalents at March 31, 2012 decreased ¥13.4 billion compared with the end of the previous fiscal year to ¥129.7 billion (US$1,578.5 million).

Cash Flows from Operating Activities

Net cash provided by operating activities totaled ¥125.0 billion (US$1,521.3 million), compared with ¥151.3 billion in the previous fiscal year. The principal increases in net cash were income before income taxes and minority interests of ¥105.3 billion (US$1,280.7 million), depreciation and amortization of ¥79.8 billion (US$970.9 million) and change in trade payables of ¥9.0 billion (US$109.5 million). The principal decreases were income taxes paid of ¥38.3 billion (US$466.5 million), change in trade receivables of ¥26.5 billion (US$322.6 million) and change in inventories of ¥14.9 billion (US$181.7 million).

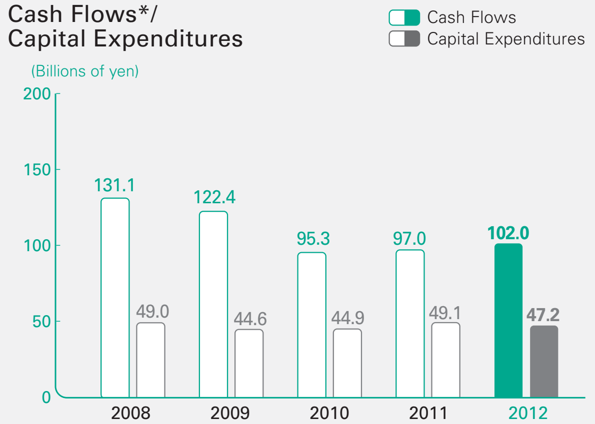
Cash Flows from Investing Activities

Net cash used in investing activities totaled ¥49.0 billion (US$595.6 million). This primarily consisted of purchase of property, plant and equipment of ¥41.7 billion.

Cash Flows from Financing Activities

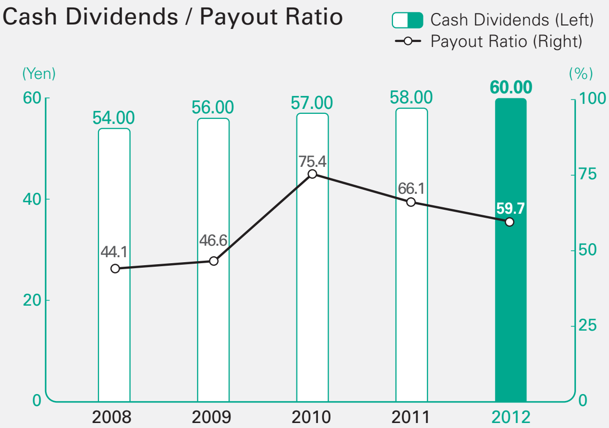
Net cash used in financing activities totaled ¥86.2 billion (US$1,048.3 million). This primarily consisted of ¥50.0 billion for redemption of bonds and ¥30.8 billion for payments of cash dividends, including to minority shareholders. Taking advantage of low market interest rates, the Kao Group also refinanced ¥20.0 billion in long-term debt in September 2011 and used refinancing to shift ¥30.0 billion in current portion of long-term debt into long-term debt in March 2012.

Cash Flows*/ Capital Expenditures



* Cash flows are defined as net income plus depreciation and amortization minus cash dividends.
(Years ended March 31)

Cash Dividends / Payout Ratio



(Years ended March 31)

Planned Change in Fiscal Year End

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

Basic Policies Regarding Distribution of Profits and Dividends for the Period

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

In accordance with these policies, and in light of the increase in net income compared with the previous fiscal year, Kao Corporation announced a year-end dividend for the fiscal year ended March 31, 2012 of ¥31.00 (US$0.38) per share, an increase of ¥2.00 per share from the previous fiscal year. Consequently, cash dividends for the fiscal year increased ¥2.00 per share compared with the previous fiscal year, resulting in a total of ¥60.00 (US$0.73) per share and a consolidated payout ratio of 59.7 percent.

For the fiscal year ending December 31, 2012, Kao Corporation plans to pay total cash dividends of ¥62.00 per share, an increase of ¥2.00 per share compared with the previous fiscal year. Although consolidated group companies with a fiscal year end in March will only report a nine-month period due to the change in the fiscal year end, this plan is in accordance with the Company's basic policies regarding distribution of profits, and free cash flow and other factors have also been taken into consideration. As a result, the projected consolidated payout ratio will be 53.9 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 invested capital in the business. We believe EVA indicates "true" profit. Continuously increasing EVA raises corporate value, which is consistent with the long-term interest of not only shareholders but other stakeholders as well. The Kao Group aims to conduct business activities that expand the scale of its business while also increasing EVA, and uses EVA for business performance evaluation, performance-based compensation and strategic decision-making. During the fiscal year ended March 31, 2012, due to an increase in NOPAT and a decrease in invested capital, EVA increased to 106 from 95 for the previous fiscal year, expressed as an index with the year ended March 31, 2000 as 100. The Kao Group conducted the following EVA-related activities during the fiscal year.

EVA*
(EVA for the the year ended March 31, 2000 = 100)

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

Investing for Growth: During the fiscal year ended March 31, 2012, the Kao Group invested aggressively for future growth. In the growth market of China, a new factory is under construction and is scheduled to begin production of baby diapers at the end of December 2012. To raise its competitiveness in global markets and achieve profitable growth, the Kao Group built the Eco-Technology Research Center in Wakayama, Japan, which started operation in June 2011. This centralizes and combines the Kao Group's environmental research functions and accelerates the development of next-generation environmental technologies, particularly eco-innovation research and technologies, in order to embody ecology-centered management in the development and manufacture of products. Research and development expenditures, which increased ¥2.7 billion compared with the previous fiscal year to ¥48.2 billion (US$586.1 million), were the equivalent of 4.0 percent of net sales, compared with 3.8 percent in the previous fiscal year.

Increasing Profit: During the fiscal year ended March 31, 2012, NOPAT increased due to an increase in sales volume from strong performance by the Chemical Business outside Japan and steady results from rebuilding the prestige cosmetics business in Japan. Moreover, ongoing total cost reduction activities cut costs by ¥9.0 billion year on year.

Financial Improvement: Free cash flow* totaled ¥76.1 billion (US$925.7 million) for the year ended March 31, 2011, a decrease of ¥43.4 billion compared with the previous fiscal year due to an increase in capital expenditures and an increase in notes and accounts receivable because the fiscal year end was on a weekend. The Kao Group has set priorities for how it will deploy this free cash flow. Investments for mergers and acquisitions and additional capital expenditures for future growth are the top priorities in deploying free cash flow, followed by stable and continuous dividends. Kao Corporation increased cash dividends per share for the fiscal year by ¥2.00 to ¥60.00 (US$0.73) for the 22nd consecutive year of growth in cash dividends. Moreover, the Kao Group uses the remaining free cash flow for the repurchase of shares as a payout measure and for repayment of interest-bearing debt, considering its investment plans and financial market conditions. During the fiscal year, the Kao Group redeemed bonds totaling ¥50.0 billion (US$608.3 million). The Kao Group also took advantage of low market interest rates to refinance ¥50.0 billion (US$608.3 million) in debt.

* 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 June 28, 2012.

(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 30) 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, North America and Europe, with a particular emphasis on strengthening its operations in countries where higher economic growth rates and market expansion are forecast. However, in the course of business, factors such as competition, pricing, cost management, distribution, and relationships with vendors may not go as planned. This could have an impact on the Kao Group's business results and financial condition.

(5) Environmental Activities

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

(6) Raw Material Prices

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

(7) Product Quality

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

(8) Earthquakes and Other Incidents

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

(9) Currency Exchange Rate Fluctuations

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

(10) Impairment

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

(11) Human Resources

Securing capable human resources is indispensable to achieve the Kao Group's business goals. Hiring, developing and retaining human resources with advanced expertise to implement R&D, production of technologies, market planning and sales activities are necessary to the *Yoki-Monozukuri* (see note on page 30) 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
March 31, 2012 and 2011

Assets	Millions of yen 2012	Millions of yen 2011	Thousands of U.S. dollars (Note 2) 2012
Current assets:			
Cash and time deposits (Notes 3 and 16)	¥ 85,483	¥ 110,762	$ 1,040,066
Short-term investments (Notes 3, 4 and 16)	48,798	37,028	593,722
Notes and accounts receivable (Note 16):			
Trade (Note 5)	140,352	120,297	1,707,653
Nonconsolidated subsidiaries and affiliates	3,349	1,610	40,747
Other	2,670	3,066	32,486
Inventories:			
Finished goods	82,393	73,190	1,002,470
Work in process and raw materials	38,313	36,148	466,151
Deferred tax assets (Note 6)	17,736	21,854	215,793
Other current assets	14,970	13,959	182,138
Allowance for doubtful receivables (Note 16)	(1,115)	(1,081)	(13,566)
Total current assets	432,949	416,833	5,267,660
Property, plant and equipment (Note 5):			
Land	64,796	62,873	788,369
Buildings and structures	323,137	321,040	3,931,585
Machinery, equipment and other	693,758	694,261	8,440,905
Lease assets	11,934	12,147	145,200
Construction in progress	10,109	8,321	122,996
Total	1,103,734	1,098,642	13,429,055
Accumulated depreciation	(863,156)	(853,918)	(10,501,959)
Net property, plant and equipment	240,578	244,724	2,927,096
Intangible assets:			
Goodwill	165,614	179,225	2,015,014
Trademarks	53,583	71,176	651,941
Other intangible assets	18,266	22,557	222,241
Total intangible assets	237,463	272,958	2,889,196
Investments and other assets:			
Investment securities (Notes 4 and 16)	7,516	7,023	91,447
Investments in and advances to nonconsolidated subsidiaries and affiliates	6,927	5,590	84,280
Deferred tax assets (Note 6)	42,554	49,966	517,752
Other assets (Note 8)	23,285	25,705	283,306
Total investments and other assets	80,282	88,284	976,785
	¥ 991,272	¥ 1,022,799	$12,060,737

See Notes to Consolidated Financial Statements.

Liabilities and Equity	Millions of yen 2012	2011	Thousands of U.S. dollars (Note 2) 2012
Current liabilities:			
Short-term debt (Notes 5 and 16)	¥ 2,060	¥ 6,776	$ 25,064
Current portion of long-term debt (Notes 5 and 16)	811	80,795	9,867
Notes and accounts payable (Note 16):			
Trade	108,081	102,206	1,315,014
Nonconsolidated subsidiaries and affiliates	5,493	5,133	66,833
Other	44,778	43,689	544,811
Income taxes payable (Note 16)	18,306	18,785	222,728
Accrued expenses	73,388	68,267	892,907
Liability for loss related to the Great East Japan Earthquake	33	2,658	401
Other current liabilities (Notes 5 and 6)	21,960	19,886	267,186
Total current liabilities	274,910	348,195	3,344,811
Long-term liabilities:			
Long-term debt (Notes 5 and 16)	106,565	77,451	1,296,569
Liability for retirement benefits (Note 8)	45,026	42,317	547,828
Other (Notes 5 and 6)	15,067	15,272	183,319
Total long-term liabilities	166,658	135,040	2,027,716
Commitments and contingent liabilities (Notes 7, 9 and 17)			
Equity (Notes 10 and 11):			
Common stock:			
Authorized — 1,000,000,000 shares in 2012 and 2011			
Issued — 526,212,501 shares in 2012 and 540,143,701 shares in 2011	85,424	85,424	1,039,348
Capital surplus	109,561	109,561	1,333,021
Stock acquisition rights	1,238	1,143	15,063
Retained earnings	447,619	457,918	5,446,149
Treasury stock, at cost			
(4,402,474 shares in 2012 and 18,063,790 shares in 2011)	(9,064)	(40,977)	(110,281)
Accumulated other comprehensive income			
Unrealized gain on available-for-sale securities	2,283	1,861	27,777
Deferred gain (loss) on derivatives under hedge accounting	(3)	(2)	(37)
Foreign currency translation adjustments	(96,094)	(84,430)	(1,169,169)
Post retirement liability adjustments for foreign consolidated subsidiaries	(1,697)	(461)	(20,647)
Total	539,267	530,037	6,561,224
Minority interests	10,437	9,527	126,986
Total equity	549,704	539,564	6,688,210
	¥991,272	¥1,022,799	$12,060,737

Consolidated Statements of Income

Kao Corporation and Consolidated Subsidiaries
Years ended March 31, 2012 and 2011

	Millions of yen		Thousands of U.S. dollars (Note 2)
	2012	2011	2012
Net sales (Note 13)	¥1,216,096	¥1,186,831	$14,796,155
Cost of sales	525,012	498,970	6,387,784
Gross profit	691,084	687,861	8,408,371
Selling, general and administrative expenses (Note 14)	582,494	583,270	7,087,164
Operating income (Note 13)	108,590	104,591	1,321,207
Other income (expenses):			
Interest and dividend income	1,068	990	12,994
Interest expense	(2,204)	(3,342)	(26,816)
Foreign currency exchange gain (loss)	(621)	(2,233)	(7,555)
Equity in earnings (losses) of nonconsolidated subsidiaries and affiliates	1,658	973	20,173
Other, net (Note 15)	(3,233)	(4,960)	(39,336)
Other income (expenses), net	(3,332)	(8,572)	(40,540)
Income before income taxes and minority interests	105,258	96,019	1,280,667
Income taxes (Note 6):			
Current	38,653	38,996	470,289
Deferred	12,120	9,182	147,463
Total income taxes	50,773	48,178	617,752
Income before minority interests	54,485	47,841	662,915
Minority interests in earnings of consolidated subsidiaries	2,050	1,103	24,942
Net income	¥ 52,435	¥ 46,738	$ 637,973
Per share of common stock (Notes 1.t and 18):	Yen		U.S. dollars (Note 2)
Basic net income	¥100.46	¥87.69	$1.22
Diluted net income	100.43	87.67	1.22
Cash dividends applicable to the year	60.00	58.00	0.73

See Notes to Consolidated Financial Statements.

Consolidated Statements of Comprehensive Income

Kao Corporation and Consolidated Subsidiaries
Years ended March 31, 2012 and 2011

	Millions of yen		Thousands of U.S. dollars (Note 2)
	2012	2011	2012
Income before minority interests	¥ 54,485	¥ 47,841	$ 662,915
Other comprehensive income (Note 12)			
Unrealized gain (loss) on available-for-sale securities	487	(480)	5,925
Foreign currency translation adjustments	(12,169)	(21,865)	(148,059)
Share of other comprehensive income in affiliates	(172)	77	(2,093)
Post retirement liability adjustments for foreign consolidated subsidiaries	(1,236)	(15)	(15,038)
Total other comprehensive income	(13,090)	(22,283)	(159,265)
Comprehensive income	¥ 41,395	¥ 25,558	$ 503,650
Comprehensive income attributable to:			
Shareholders of Kao Corporation	¥39,956	¥24,853	$486,142
Minority interests	1,439	705	17,508

See Notes to Consolidated Financial Statements.

Consolidated Statements of Changes in Equity

Kao Corporation and Consolidated Subsidiaries
Years ended March 31, 2012 and 2011

	Millions of yen		Thousands of U.S. dollars (Note 2)
	2012	2011	2012
Common stock			
Balance at beginning of year	¥ 85,424	¥ 85,424	$ 1,039,348
Balance at end of year	85,424	85,424	1,039,348
Capital surplus			
Balance at beginning of year	109,561	109,561	1,333,021
Balance at end of year	109,561	109,561	1,333,021
Stock acquisition rights			
Balance at beginning of year	1,143	1,022	13,907
Net change in the year	95	121	1,156
Balance at end of year	1,238	1,143	15,063
Retained earnings			
Balance at beginning of year	457,918	442,273	5,571,456
Net income	52,435	46,738	637,973
Cash dividends	(30,273)	(31,090)	(368,329)
Disposal of treasury stock	(1)	(3)	(12)
Retirement of treasury stock	(32,460)	—	(394,939)
Balance at end of year	447,619	457,918	5,446,149
Treasury stock, at cost			
Balance at beginning of year	(40,977)	(10,978)	(498,564)
Purchase of treasury stock	(628)	(30,093)	(7,641)
Disposal of treasury stock	81	94	985
Retirement of treasury stock	32,460	—	394,939
Balance at end of year	(9,064)	(40,977)	(110,281)
Accumulated other comprehensive income			
Unrealized gain on available-for-sale securities			
Balance at beginning of year	1,861	2,292	22,643
Net change in the year	422	(431)	5,134
Balance at end of year	2,283	1,861	27,777
Deferred gain (loss) on derivatives under hedge accounting			
Balance at beginning of year	(2)	(0)	(25)
Net change in the year	(1)	(2)	(12)
Balance at end of year	(3)	(2)	(37)
Foreign currency translation adjustments			
Balance at beginning of year	(84,430)	(62,993)	(1,027,254)
Net change in the year	(11,664)	(21,437)	(141,915)
Balance at end of year	(96,094)	(84,430)	(1,169,169)
Post retirement liability adjustments for foreign consolidated subsidiaries			
Balance at beginning of year	(461)	(446)	(5,609)
Net change in the year	(1,236)	(15)	(15,038)
Balance at end of year	¥ (1,697)	¥ (461)	$ (20,647)

	Millions of yen		Thousands of U.S. dollars (Note 2)
	2012	2011	2012
Total			
Balance at beginning of year	¥530,037	¥566,155	$6,448,923
Net income	52,435	46,738	637,973
Cash dividends	(30,273)	(31,090)	(368,329)
Purchase of treasury stock	(628)	(30,093)	(7,641)
Disposal of treasury stock	80	91	973
Retirement of treasury stock	—	—	—
Net change in the year	(12,384)	(21,764)	(150,675)
Balance at end of year	539,267	530,037	6,561,224
Minority interests			
Balance at beginning of year	9,527	9,139	115,914
Net change in the year	910	388	11,072
Balance at end of year	10,437	9,527	126,986
Total equity			
Balance at beginning of year	539,564	575,294	6,564,837
Net income	52,435	46,738	637,973
Cash dividends	(30,273)	(31,090)	(368,329)
Purchase of treasury stock	(628)	(30,093)	(7,641)
Disposal of treasury stock	80	91	973
Retirement of treasury stock	—	—	—
Net change in the year	(11,474)	(21,376)	(139,603)
Balance at end of year	¥549,704	¥539,564	$6,688,210

	Yen		U.S. dollars (Note 2)
	2012	2011	2012
Cash dividends per share	¥58.00	¥58.00	$0.71

	Thousands	
	2012	2011
Outstanding number of shares of common stock		
Balance at beginning of year	522,080	536,021
Purchase of treasury stock	(305)	(13,974)
Disposal of treasury stock	35	33
Balance at end of year	521,810	522,080

See Notes to Consolidated Financial Statements.

Consolidated Statements of Cash Flows

Kao Corporation and Consolidated Subsidiaries
Years ended March 31, 2012 and 2011

	Millions of yen		Thousands of U.S. dollars (Note 2)
	2012	2011	2012
Operating activities:			
Income before income taxes and minority interests	¥105,258	¥ 96,019	$ 1,280,667
Adjustments for:			
Income taxes paid	(38,339)	(40,888)	(466,468)
Depreciation and amortization	79,798	81,380	970,897
Loss on sales or disposals of property, plant and equipment, net	2,202	1,334	26,792
Equity in (earnings) losses of nonconsolidated subsidiaries and affiliates	(1,658)	(973)	(20,173)
Unrealized foreign currency exchange (gain) loss	159	455	1,935
Change in trade receivables	(26,513)	(642)	(322,582)
Change in inventories	(14,937)	(7,566)	(181,737)
Change in prepaid pension cost	906	(73)	11,023
Change in trade payables	8,997	7,794	109,466
Change in liability for retirement benefits	3,056	4,596	37,182
Other, net	6,103	9,863	74,254
Net cash provided by operating activities	125,032	151,299	1,521,256
Investing activities:			
Purchase of property, plant and equipment	(41,684)	(27,725)	(507,166)
Proceeds from sales of property, plant and equipment	746	2,410	9,076
Purchase of intangible assets	(3,375)	(4,001)	(41,063)
Proceeds from the redemption and sales of investment securities	1	594	12
Increase in investments in and advances to nonconsolidated subsidiaries and affiliates	(1,221)	(153)	(14,856)
Proceeds from cancellation of derivatives	—	4,297	—
Other, net	(3,419)	(7,200)	(41,599)
Net cash used in investing activities	(48,952)	(31,778)	(595,596)
Financing activities:			
Increase (decrease) in short-term debt	(4,610)	12	(56,089)
Proceeds from long-term loans	50,013	17	608,505
Repayments of long-term loans	(50,012)	(24,960)	(608,493)
Redemption of bonds	(50,000)	—	(608,347)
Purchase of treasury stock	(10)	(30,093)	(122)
Payments of cash dividends	(30,776)	(31,427)	(374,449)
Other, net	(768)	(872)	(9,344)
Net cash used in financing activities	(86,163)	(87,323)	(1,048,339)
Translation adjustments on cash and cash equivalents	(3,323)	(6,401)	(40,431)
Net increase (decrease) in cash and cash equivalents	(13,406)	25,797	(163,110)
Cash and cash equivalents, beginning of year (Note 3)	143,143	117,180	1,741,611
Cash and cash equivalents of newly consolidated subsidiaries, increase	—	166	—
Cash and cash equivalents, end of year (Note 3)	¥129,737	¥143,143	$ 1,578,501

See Notes to Consolidated Financial Statements.

Notes to Consolidated Financial Statements

Kao Corporation and Consolidated Subsidiaries
Years ended March 31, 2012 and 2011

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 2011 financial statement items were reclassified to conform to the presentation for 2012.

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

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

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

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

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

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

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

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

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

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

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

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

e) 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.

f) Cash equivalents

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

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

g) Inventories

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

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

h) Short-term investments and investment securities

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

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

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

i) Property, plant and equipment

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

j) Intangible assets

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

k) Long-lived assets

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

l) Retirement and pension plans

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

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

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

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

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

m) Asset retirement obligations

The accounting standard 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.

n) Stock options

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

o) Leases

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

All other leases are accounted for as operating leases.

p) Income taxes

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

q) Foreign currency transactions

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

r) Foreign currency financial statements

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

s) Derivatives and hedging activities

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

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

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

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

t) Per share information

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

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

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

u) Accounting changes and error corrections

The accounting standard for accounting changes and error corrections requires the following;

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

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

2 Translation into United States Dollars

The Companies' accounts are maintained in or translated into Japanese yen. The United States dollar (US$) amounts included herein represent translations using the approximate exchange rate at March 31, 2012 of ¥82.19=US$1, solely for convenience. The translations should not be construed as representations that Japanese yen have been, could have been, or could in the future be, converted into United States dollars at that or any other rate.

3 Cash and Cash Equivalents

Cash and cash equivalents at March 31, 2012 and 2011 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2012	2011	2012
Cash and time deposits	¥ 85,483	¥110,762	$1,040,066
Short-term investments	48,798	37,028	593,722
Less: time deposits and short-term investments which mature or become due over three months after the date of acquisition	(4,544)	(4,647)	(55,287)
Cash and cash equivalents	¥129,737	¥143,143	$1,578,501

4 Short-Term Investments and Investment Securities

Short-term investments and investment securities as of March 31, 2012 and 2011 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2012	2011	2012
Short-term investments:			
Government and corporate bonds	¥ —	¥ 6,270	$ —
Investment trust funds and other	48,798	30,758	593,722
Total	¥48,798	¥ 37,028	$593,722
Investment securities:			
Marketable equity securities	¥ 6,335	¥ 5,828	$ 77,078
Investment trust funds and other	1,181	1,195	14,369
Total	¥ 7,516	¥ 7,023	$ 91,447

The carrying amount and aggregate fair value of the securities classified as available-for-sale and held-to-maturity at March 31, 2012 and 2011 were as follows:

	Millions of yen			
	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

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

	Thousands of U.S. dollars			
	2012			
	Cost	Unrealized gains	Unrealized losses	Fair value
Securities classified as:				
Available-for-sale:				
Equity securities	$ 33,885	$44,166	$973	$ 77,078
Debt securities and other	472,065	—	—	472,065
Held-to-maturity:				
Debt securities and other	121,657	—	—	121,657

Available-for-sale securities whose fair values are not readily determinable as of March 31, 2012 and 2011 were as follows:

	Carrying amount		
	Millions of yen		Thousands of U.S. dollars
	2012	2011	2012
Available-for-sale:			
Equity securities	¥1,181	¥1,195	$14,369
Total	¥1,181	¥1,195	$14,369

Proceeds from sales of available-for-sale securities for the years ended March 31, 2012 and 2011 were ¥1 million (US$12 thousand) and ¥594 million, respectively. Gross realized gains and losses on these sales, computed on the moving-average cost basis, for the year ended March 31, 2012 were not recognized, and for the year ended March 31, 2011 were ¥186 million and ¥4 million, respectively.

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

5 Short-Term and Long-Term Debt

Short-term debt at March 31, 2012 and 2011 was comprised of the following:

	Millions of yen		Thousands of U.S. dollars
	2012	2011	2012
Secured loans principally from financial institutions	¥ 99	¥ 69	$ 1,205
Unsecured loans principally from financial institutions	1,961	6,707	23,859
Total	¥2,060	¥6,776	$25,064

The weighted average interest rates applicable to the above loans were 2.00% and 3.90% at March 31, 2012 and 2011, respectively. In addition to the above short-term debt, deposits payable to affiliates, included in other current liabilities, were ¥6,527 million (US$79,414 thousand) and ¥5,058 million at March 31, 2012 and 2011, respectively, and the applicable interest rates were 0.44% and 0.44% at March 31, 2012 and 2011, respectively.

The secured loans are collateralized by trade accounts receivable of ¥189 million (US$2,300 thousand) at March 31, 2012.

Long-term debt at March 31, 2012 and 2011 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2012	2011	2012
Unsecured bonds due 2011, 1.60% and due 2013, 1.91%	¥ 49,999	¥ 99,998	$ 608,334
Unsecured loans principally from financial institutions, weighted average rate 0.57% in 2012, 1.75% in 2011	50,055	50,056	609,016
Lease obligations	7,322	8,192	89,086
	¥107,376	¥158,246	$1,306,436
Less current portion	(811)	(80,795)	(9,867)
Total	¥106,565	¥ 77,451	$1,296,569

The current portion of long-term debt refinanced into long-term debt during the year ended March 31, 2012 was ¥30,000 million (US$365,008 thousand). The unsecured bonds redeemed during the year ended March 31, 2012 was ¥50,000 million (US$608,347 thousand). In addition to the above long-term debt, deposits payable to customers, included in other long-term liabilities, were ¥6,008 million (US$73,099 thousand) and ¥6,060 million at March 31, 2012 and 2011, respectively, and the applicable interest rates were 0.13% and 0.15% at March 31, 2012 and 2011, respectively.

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

Years ending March 31	Millions of yen	Thousands of U.S. dollars
2013	¥ 811	$ 9,867
2014	50,793	617,995
2015	41,118	500,280
2016	784	9,539
2017	10,724	130,478
2018 and thereafter	3,146	38,277
Total	¥107,376	$1,306,436

6 Income Taxes

The Company and its domestic subsidiaries are subject to Japanese national and local taxes based on income, which in the aggregate resulted in a normal statutory tax rate of approximately 41% for both 2012 and 2011.

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

Tax effects of significant temporary differences and tax loss carryforwards that resulted in deferred tax assets or liabilities at March 31, 2012 and 2011 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2012	2011	2012
Deferred tax assets:			
Depreciation and amortization	¥ 18,221	¥ 21,552	$ 221,694
Pension and severance costs	16,323	16,362	198,601
Accrued expenses	10,791	11,720	131,293
Enterprise taxes	1,327	1,487	16,146
Tax loss carryforwards	46,854	63,157	570,069
Other	13,283	15,981	161,613
Less valuation allowance	(29,189)	(40,270)	(355,141)
Deferred tax assets	¥ 77,610	¥ 89,989	$ 944,275
Deferred tax liabilities:			
Unrealized gain on available-for-sale securities	¥ (1,289)	¥ (1,310)	$ (15,683)
Undistributed foreign earnings	(6,007)	(5,893)	(73,087)
Deferred gains on sales of property	(3,884)	(4,531)	(47,256)
Prepaid pension cost	(1,218)	(1,042)	(14,819)
Other	(6,421)	(7,161)	(78,124)
Deferred tax liabilities	¥(18,819)	¥(19,937)	$(228,969)
Net deferred tax assets	¥ 58,791	¥ 70,052	$ 715,306

A reconciliation between the normal effective statutory tax rates and the actual effective tax rates reflected in the accompanying consolidated statements of income for the years ended March 31, 2012 and 2011 were as follows:

	2012	2011
Normal effective statutory tax rate	40.5%	40.5%
Tax credit for research and development costs and other	(2.6)	(2.7)
Valuation allowance	(6.4)	9.5
Expiration of tax loss carryforwards	9.0	0.9
Amortization expenses not deductible for income tax purposes	4.6	4.9
Effect of tax rate reduction	5.4	—
Other – net	(2.3)	(2.9)
Actual effective tax rate	48.2%	50.2%

On December 2, 2011, new tax reform laws were enacted in Japan, which will reduce the corporation tax rate and will impose special corporation tax for reconstruction of the Great East Japan Earthquake for fiscal years beginning on or after April 1, 2012. Consequently, the effective statutory tax rate used to measure deferred tax assets and liabilities changed from 40.54% to 38.01% for expected reversal of temporary differences during fiscal years beginning on or after April 1, 2012 until March 31, 2015. The rate will be changed to 35.64% for expected reversal of temporary differences during fiscal years beginning on or after April 1, 2015.

As a result of these tax rate changes, net deferred tax assets after deducting deferred tax liabilities as of March 31, 2012 decreased ¥5,500 million (US$66,918 thousand), while deferred income taxes and unrealized gain on available-for-sale securities increased ¥5,676 million (US$69,059 thousand) and ¥176 million (US$2,141 thousand), respectively.

Moreover, effective fiscal years beginning on or after April 1, 2012 the deferral period for tax loss carryforwards will be extended to nine years from seven years and the deduction will be limited to 80% of earnings prior to adjustment for tax loss carryforwards. Deferred tax assets increased ¥3,215 million (US$39,117 thousand) as a result. Deferred income taxes increased ¥2,461 million (US$29,943 thousand) because of the combined effect of the corporate tax rate changes, the deferral period extension and the limit on the deduction of tax loss carryforwards.

7 Leases

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

(b) Operating leases:
The minimum rental commitments under noncancellable operating leases as of March 31, 2012 and 2011 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2012	2011	2012
Due within one year	¥ 8,132	¥ 8,624	$ 98,941
Due after one year	24,791	30,826	301,631
Total	¥32,923	¥39,450	$400,572

8 Retirement Benefits

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

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

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

The liability for retirement benefits at March 31, 2012 and 2011 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2012	2011	2012
Projected benefit obligation	¥ 239,032	¥ 231,540	$ 2,908,286
Fair value of plan assets	(196,235)	(189,043)	(2,387,578)
Unrecognized prior service cost	9,537	14,128	116,036
Unrecognized actuarial loss	(2,009)	(8,223)	(24,443)
Unrecognized transitional obligation	(5,413)	(7,213)	(65,860)
Prepaid pension cost	114	1,128	1,387
Net liability for retirement benefits	¥ 45,026	¥ 42,317	$ 547,828

The components of net periodic benefit costs for the years ended March 31, 2012 and 2011 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2012	2011	2012
Service cost	¥ 8,694	¥ 8,399	$105,779
Interest cost	5,177	5,147	62,988
Expected return on plan assets	(4,413)	(4,423)	(53,693)
Amortization of prior service cost (credit)	(3,261)	(3,603)	(39,676)
Recognized actuarial loss	3,307	4,903	40,236
Amortization of transitional obligation	1,815	1,679	22,083
Net periodic benefit costs	¥11,319	¥12,102	$137,717

Assumptions used for the years ended March 31, 2012 and 2011 were set forth as follows:

	2012	2011
Discount rate	Primarily 2.0%	Primarily 2.0%
Expected rate of return on plan assets	Primarily 2.0%	Primarily 2.0%
Amortization period of prior service cost	Primarily 15 years	Primarily 15 years
Recognition period of actuarial gain/loss	Primarily 10 years	Primarily 10 years
Amortization period of transitional obligation	15 years	15 years

In addition to the above net periodic benefit costs, the costs for other retirement and pension plans such as a defined contribution plan and for other supplemental retirement benefits were ¥2,772 million (US$ 33,727 thousand) and ¥2,358 million for the years ended March 31, 2012 and 2011, respectively.

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

9 Contingent Liabilities

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

	Millions of yen	Thousands of U.S. dollars
Trade notes discounted	¥128	$1,557
Guarantees of borrowings, principally of affiliates and employees	819	9,965

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

10 Equity

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

(a) Dividends

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

For companies that meet certain criteria such as having: (1) a board of directors, (2) independent auditors, (3) a board of corporate auditors, and (4) terms of service of directors prescribed as one year under the articles of incorporation rather than the normal term of two years, the boards of directors of such companies may declare dividends (except for dividends in kind) at any time during the fiscal year if the companies have prescribed so in their articles of incorporation. The Company's governance system on March 31, 2012 meets the first three criteria but the two-year service period of the members of the Board of Directors does not meet the fourth criterion. The Company pays the dividends semi-annually as a year-end dividend and an interim dividend.

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

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

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

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

The Company's legal reserve amount, which is included in retained earnings, totals ¥14,117 million (US$171,761 thousand) at both March 31, 2012 and 2011. The Company's additional paid-in capital amount, which is included in capital surplus, totals ¥108,889 million (US$1,324,845 thousand) at both March 31, 2012 and 2011.

The accompanying consolidated financial statements do not include any provision for the year-end dividend of ¥31.0 (US$0.38) per share, aggregating ¥16,193 million (US$197,019 thousand) which the Company will subsequently propose at the 106th Annual General Meeting of Shareholders to be held on June 28, 2012 as an appropriation of retained earnings in respect of the year ended March 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.

On May 20, 2011, the Company retired 13.9 million shares of treasury stock by the resolution of the Board of Directors at the meeting held on April 26, 2011. The Company purchased 0.3 million shares of its common stock from untraceable shareholders on September 21, at an aggregate cost of ¥619 million (US$7,531 thousand).

11 Stock-Based Compensation Plans

The stock options for the year ended March 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 2004	13 Directors of the Company 89 Employees of the Company 5 Directors of subsidiaries of the Company	1,163,000 shares*	July 8, 2004	¥2,695	$32.79	July 1, 2006 through June 30, 2011
Stock option 2005	13 Directors of the Company 90 Employees of the Company 5 Directors of subsidiaries of the Company	1,167,000 shares*	July 8, 2005	¥2,685	$32.67	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	$39.07	July 1, 2008 through June 28, 2013
Stock option 2007 I	13 Directors of the Company	25,000 shares*	August 31, 2007	¥1	$0.01	July 1, 2009 through June 30, 2014
Stock option 2007 II	14 Executive Officers of the Company***	14,000 shares*	August 31, 2007	¥1	$0.01	July 1, 2009 through June 30, 2014
Stock option 2007 III	78 Employees of the Company 4 Directors of subsidiaries of the Company	430,000 shares*	August 31, 2007	¥3,446	$41.93	September 1, 2009 through August 29, 2014
Stock option 2008 I	14 Directors of the Company	24,000 shares*	August 29, 2008	¥1	$0.01	July 1, 2010 through June 30, 2015
Stock option 2008 II	12 Executive Officers of the Company****	12,000 shares*	August 29, 2008	¥1	$0.01	July 1, 2010 through June 30, 2015
Stock option 2008 III	81 Employees of the Company 4 Directors of subsidiaries of the Company	447,000 shares*	August 29, 2008	¥3,100	$37.72	September 1, 2010 through August 31, 2015
Stock option 2009 I	13 Directors of the Company	36,000 shares*	August 28, 2009	¥1	$0.01	July 1, 2011 through June 30, 2016
Stock option 2009 II	12 Executive Officers of the Company*****	24,000 shares*	August 28, 2009	¥1	$0.01	July 1, 2011 through June 30, 2016
Stock option 2009 III	74 Employees of the Company 8 Directors of subsidiaries of the Company	430,000 shares*	August 28, 2009	¥2,355	$28.65	September 1, 2011 through August 30, 2016
Stock option 2010 I	14 Directors of the Company	38,000 shares*	August 25, 2010	¥1	$0.01	July 1, 2012 through June 30, 2017
Stock option 2010 II	12 Executive Officers of the Company******	24,000 shares*	August 25, 2010	¥1	$0.01	July 1, 2012 through June 30, 2017
Stock option 2010 III	81 Employees of the Company 2 Directors of subsidiaries of the Company	435,000 shares*	August 25, 2010	¥2,190	$26.65	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	$27.42	September 1, 2013 through August 31, 2018

* 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.
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****** 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 activity of stock options was as follows:

(Number of shares)

	Stock option 2004	Stock option 2005	Stock option 2006 I	Stock option 2006 II	Stock option 2006 III	Stock option 2007 I	Stock option 2007 II	Stock option 2007 III	Stock option 2008 I	Stock option 2008 II	Stock option 2008 III
For the year ended March 31, 2012											
Non-vested											
Outstanding at March 31, 2011	—	—	—	—	—	—	—	—	—	—	—
Granted	—	—	—	—	—	—	—	—	—	—	—
Expired	—	—	—	—	—	—	—	—	—	—	—
Vested	—	—	—	—	—	—	—	—	—	—	—
Outstanding at March 31, 2012	—	—	—	—	—	—	—	—	—	—	—
Vested											
Outstanding at March 31, 2011	624,000	807,000	4,000	4,000	372,000	6,000	6,000	391,000	13,000	7,000	442,000
Vested	—	—	—	—	—	—	—	—	—	—	—
Exercised	—	—	1,000	—	—	—	1,000	—	5,000	1,000	—
Expired	624,000	69,000	—	—	35,000	—	—	30,000	—	—	—
Outstanding at March 31, 2012	—	738,000	3,000	4,000	337,000	6,000	5,000	361,000	8,000	6,000	442,000
Exercise price											
Yen	¥2,695	¥2,685	¥1	¥1	¥3,211	¥1	¥1	¥3,446	¥1	¥1	¥3,100
U.S. dollars	$32.79	$32.67	$0.01	$0.01	$39.07	$0.01	$0.01	$41.93	$0.01	$0.01	$37.72
Average stock price at exercise											
Yen	—	—	¥2,166	—	—	—	¥2,070	—	¥2,039	¥2,075	—
U.S. dollars	—	—	$26.35	—	—	—	$25.19	—	$24.81	$25.25	—
Fair value price at grant date											
Yen	—	—	¥2,932	¥2,932	¥435	¥3,063	¥3,063	¥420	¥2,865	¥2,865	¥426
U.S. dollars	—	—	$35.67	$35.67	$5.29	$37.27	$37.27	$5.11	$34.86	$34.86	$5.18

(Number of shares)

	Stock option 2009 I	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
For the year ended March 31, 2012									
Non-vested									
Outstanding at									
March 31, 2011	—	—	—	—	—	—	—	—	—
Granted	—	—	—	—	—	—	36,000	26,000	435,000
Expired	—	—	—	—	—	—	—	—	—
Vested	—	—	—	—	—	—	36,000	26,000	435,000
Outstanding at									
March 31, 2012	—	—	—	—	—	—	—	—	—
Vested									
Outstanding at									
March 31, 2011	36,000	24,000	430,000	38,000	24,000	435,000	—	—	—
Vested	—	—	—	—	—	—	36,000	26,000	435,000
Exercised	16,000	9,000	—	—	—	—	—	—	—
Expired	—	—	—	—	—	—	—	—	—
Outstanding at									
March 31, 2012	20,000	15,000	430,000	38,000	24,000	435,000	36,000	26,000	435,000
Exercise price									
Yen	¥1	¥1	¥2,355	¥1	¥1	¥2,190	¥1	¥1	¥2,254
U.S. dollars	$0.01	$0.01	$28.65	$0.01	$0.01	$26.65	$0.01	$0.01	$27.42
Average stock price at exercise									
Yen	¥2,059	¥2,055	—	—	—	—	—	—	—
U.S. dollars	$25.05	$25.00	—	—	—	—	—	—	—
Fair value price at grant date									
Yen	¥2,115	¥2,115	¥394	¥1,749	¥1,749	¥245	¥1,718	¥1,718	¥211
U.S. dollars	$25.73	$25.73	$4.79	$21.28	$21.28	$2.98	$20.90	$20.90	$2.57

The fair value prices for 2011 stock options were estimated using the Black-Scholes Option Pricing Model with the following assumptions:

	Stock option 2011 I	Stock option 2011 II	Stock option 2011 III
Volatility of stock price	25.396%	25.396%	25.396%
Estimated remaining outstanding period	4.5 years	4.5 years	4.5 years
Estimated dividend per share			
Yen	¥58	¥58	¥58
U.S. dollars	$0.71	$0.71	$0.71
Risk-free interest rate	0.295%	0.295%	0.295%

12 Comprehensive Income

Each component of other comprehensive income for the year ended March 31, 2012 was the following:

	Millions of yen	Thousands of U.S. dollars
	2012	2012
Unrealized gain (loss) on available-for-sale securities:		
Gains arising during the year	¥ 517	$ 6,290
Reclassification adjustments to profit or loss	12	146
Amount before income tax effect	529	6,436
Income tax effect	(42)	(511)
Total	¥ 487	$ 5,925
Foreign currency translation adjustments		
Adjustments arising during the year	¥(12,169)	$(148,059)
Reclassification adjustments to profit or loss	—	—
Amount before income tax effect	(12,169)	(148,059)
Income tax effect	—	—
Total	¥(12,169)	$(148,059)
Share of other comprehensive income in affiliates		
Gains arising during the year	¥ (172)	$ (2,093)
Total	¥ (172)	$ (2,093)
Post retirement liability adjustments for foreign consolidated subsidiaries		
Adjustments arising during the year	¥ (2,049)	$ (24,930)
Reclassification adjustments to profit or loss	87	1,059
Amount before income tax effect	(1,962)	(23,871)
Income tax effect	726	8,833
Total	¥ (1,236)	$ (15,038)
Total other comprehensive income	¥(13,090)	$(159,265)

The corresponding information for the year ended March 31, 2011 was not required under the accounting standard for presentation of comprehensive income as an exemption for the first year of adopting that standard and not disclosed herein.

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.

Information by reportable segment of the Companies for the years ended March 31, 2012 and 2011 was as follows::

	Millions of yen						
	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	¥ 72,120	¥ 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	1,661	—	5,763
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 ¥6,622 million elimination of receivables among reportable segments.
**Depreciation and amortization excludes amortization of goodwill.

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

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

	Thousands of U.S. dollars						
	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	$6,545,054	$2,211,437	$3,475,423	$12,231,914	$2,564,241	$ —	$14,796,155
Intersegment sales	—	—	—	—	448,716	(448,716)	—
Total sales	6,545,054	2,211,437	3,475,423	12,231,914	3,012,957	(448,716)	14,796,155
Segment profit (Operating income)	$ 187,517	$ 178,002	$ 675,800	$ 1,041,319	$ 279,851	$ 37	$ 1,321,207
Segment assets	$6,036,952	$1,211,035	$1,567,806	$ 8,815,793	$2,367,466	$ 877,478	$12,060,737
Other							
Depreciation and amortization**	$ 459,496	$ 96,435	$ 119,163	$ 675,094	$ 141,721	$ —	$ 816,815
Investments in equity method affiliates	21,657	13,177	15,075	49,909	20,209	—	70,118
Increase in property, plant and equipment and intangible assets	159,460	140,163	148,668	448,291	125,720	—	574,011

* Reconciliation of segment profit includes elimination of intersegment transactions of inventory.
Reconciliation of assets includes $958,048 thousand of the Company's financial assets and negative $80,570 thousand elimination of receivables among reportable segments.
**Depreciation and amortization excludes amortization of goodwill.

(b) Information related to reportable segments

Sales by geographic area for the years ended March 31, 2012 and 2011 were as follows:

	Millions of yen				
	2012				
	Japan	Asia/Oceania*	America**	Europe***	Consolidated
Sales to customers	¥887,100	¥138,821	¥87,289	¥102,886	¥1,216,096

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

	Thousands of U.S. dollars				
	2012				
	Japan	Asia/Oceania*	America**	Europe***	Consolidated
Sales to customers	$10,793,284	$1,689,025	$1,062,039	$1,251,807	$14,796,155

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

Property, plant and equipment by geographic area for the years ended March 31, 2012 and 2011 were as follows:

	Millions of yen				
	2012				
	Japan	Asia/Oceania*	America**	Europe***	Consolidated
Property, plant and equipment	¥190,318	¥29,496	¥6,980	¥13,785	¥240,579

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

	Thousands of U.S. dollars				
	2012				
	Japan	Asia/Oceania*	America**	Europe***	Consolidated
Property, plant and equipment	$2,315,586	$358,876	$84,925	$167,721	$2,927,108

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

(c) Impairment losses by reportable segment

Impairment losses by reportable segment for the years ended March 31, 2012 and 2011 were as follows:

	Millions of yen						
	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	¥193	¥90	¥137	¥420	¥1	¥—	¥421

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

	Thousands of U.S. dollars						
	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	$2,348	$1,095	$1,667	$5,110	$12	$—	$5,122

(d) Amortization and balance of goodwill by reportable segment

Amortization and balance of goodwill by reportable segment for the years ended March 31, 2012 and 2011 were as follows:

	Millions of yen						
	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

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

	Thousands of U.S. dollars						
	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	$ 154,082	$—	$—	$ 154,082	$—	$—	$ 154,082
Goodwill at March 31, 2012	2,015,014	—	—	2,015,014	—	—	2,015,014

14 Selling, General and Administrative Expenses

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

	Millions of yen		Thousands of U.S. dollars
	2012	2011	2012
Advertising	¥ 82,209	¥ 81,082	$1,000,231
Promotion	62,980	64,655	766,273
Research and development	48,171	45,516	586,093
Salaries and bonuses	121,787	124,348	1,481,774
Packing and delivery expenses	68,388	66,924	832,072

15 Other Income (Expenses)

"Other, net" consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2012	2011	2012
Gain on sales of investment securities	¥ —	¥ 186	$ —
Loss related to the Great East Japan Earthquake	(2,028)	(4,129)	(24,675)
Effect of application of Accounting Standard for Asset Retirement Obligations	—	(1,634)	—
Loss on sales or disposals of property, plant and equipment, net	(2,202)	(1,334)	(26,792)
Insurance	39	—	475
Other, net	958	1,951	11,656
Total	¥(3,233)	¥(4,960)	$(39,336)

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 collaterals as necessary. Furthermore, the Companies monitor due dates and manage balances of receivables by customer and periodically check the credit risk of key customers.

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

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

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

Loans, principally from financial institutions, in short-term debt are mainly for financing related to operating activities. Bonds and loans principally from financial institutions in long-term debt are for financing related to M&A and investment in property, plant and equipment. 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 March 31, 2012 and 2011 consisted of the following:

	Millions of yen		
	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	811	773	38
Notes and accounts payable	158,352	158,352	—
Income taxes payable	18,306	18,306	—
Long-term debt	106,565	107,441	(876)
Total	¥286,094	¥286,932	¥ (838)
Derivatives	¥ (340)	¥ (340)	¥ —

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

	Thousands of U.S. dollars		
	2012		
	Carrying amount	Fair value	Unrealized gain/(loss)
Cash and time deposits	$1,040,066	$1,040,066	$ —
Short-term investments	593,722	593,722	—
Notes and accounts receivable	1,780,886		
Allowance for doubtful receivables	(12,411)		
Notes and accounts receivable, net	1,768,475	1,768,475	—
Investment securities	77,078	77,078	—
Total	$3,479,341	$3,479,341	$ —
Short-term debt	$ 25,064	$ 25,064	$ —
Current portion of long-term debt	9,867	9,405	462
Notes and accounts payable	1,926,658	1,926,658	—
Income taxes payable	222,728	222,728	—
Long-term debt	1,296,569	1,307,227	(10,658)
Total	$3,480,886	$3,491,082	$(10,196)
Derivatives	$ (4,137)	$ (4,137)	$ —

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 other which consist of MMF and others, approximate fair value because of their short maturities. See Note 4 for information of the fair value of short-term investments and investment securities by classification.

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

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

Long-term debt

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

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

The fair value of 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 March 31, 2012 and 2011 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2012	2011	2012
Investment securities that do not have a quoted market price in an active market	¥1,181	¥1,195	$14,369

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

The maturity analysis for financial assets and securities with contractual maturities as of March 31, 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	¥ 85,483	¥—	¥—	¥—
Short-term investments and investment securities				
Held-to-maturity debt securities	10,000	—	—	—
Available-for-sale other securities with contractual maturities	147	—	—	—
Notes and accounts receivable	146,371	—	—	—
Total	¥242,001	¥—	¥—	¥—

	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	$1,040,066	$—	$—	$—
Short-term investments and investment securities				
Held-to-maturity debt securities	121,668	—	—	—
Available-for-sale other securities with contractual maturities	1,789	—	—	—
Notes and accounts receivable	1,780,886	—	—	—
Total	$2,944,409	$—	$—	$—

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

17 Derivatives

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

The Companies had the following derivative contracts outstanding to which hedge accounting was not applied at March 31, 2012 and 2011:

	Millions of yen							
	2012				2011			
	Contract amount	Contract amount due after one year	Fair value	Unrealized gain/(loss)	Contract amount	Contract amount due after one year	Fair value	Unrealized gain/(loss)
Foreign exchange forward contracts:								
Buying U.S. Dollar	¥ 1,087	¥ —	¥ 9	¥ 9	¥1,010	¥ 331	¥ (42)	¥ (42)
Buying Japanese Yen	81	—	2	2	49	—	1	1
Buying British Pound	774	—	28	28	806	—	36	36
Buying other currencies	3	—	0	0	233	—	27	27
Selling U.S. Dollar	11,082	714	(284)	(284)	7,301	1,569	(52)	(52)
Selling other currencies	2,733	—	(96)	(96)	3,863	—	110	110
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			
	2012			
	Contract amount	Contract amount due after one year	Fair value	Unrealized gain/(loss)
Foreign exchange forward contracts:				
Buying U.S. Dollar	$ 13,225	$ —	$ 110	$ 110
Buying Japanese Yen	986	—	24	24
Buying British Pound	9,417	—	341	341
Buying other currencies	37	—	0	0
Selling U.S. Dollar	134,834	8,687	(3,456)	(3,456)
Selling other currencies	33,252	—	(1,169)	(1,169)
Foreign currency swaps:				
Selling put option British Pound	$ 5,645	$ —	$ (170)	$ (170)
Option premium	—	—	—	—
Buying call option U.S. Dollar	4,064	—	146	146
Option premium	—	—	—	—
Buying call option Euro	3,674	—	37	37
Option premium	—	—	—	—

(b) Derivative transactions to which hedge accounting is applied

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

		Millions of yen			Thousands of U.S. dollars		
		2012			2012		
	Hedged item	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	—	$486,677	$486,677	—

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 years ended March 31, 2012 and 2011 was as follows:

	Millions of yen	Thousands of shares	Yen	U.S. dollars
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	$1.22
Effect of dilutive securities				
Warrants	—	183		
Diluted EPS				
Net income for computation	¥52,435	522,119	¥100.43	$1.22

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

Supplemental information

Reorganization of Beauty Care Business in North America and Europe

In order to conduct integrated management by unifying multiple managements of Beauty Care Business in each country in North America and Europe, the Company has been conducting a sequential reorganization within the Group since January 2012.

As a result, major companies subject to reorganization and changes to their corporate names as of March 31, 2012 were as follows:

Country	Before Reorganization	After Reorganization
United States of America	Kao Brands Company	Kao USA Inc.
	KPSS, Inc.	
	KMS Global Marketing LLC	
Canada	Kao Brands Canada Inc.	Kao Canada Inc.
	KPSS Canada Ltd.	
Germany	KPSS – Kao Professional Salon Services GmbH	Kao Germany GmbH
United Kingdom	Kao Brands Europe Limited	Kao (UK) Limited
Switzerland	KPSS AG	Kao Switzerland AG
Netherlands	KPSS Netherland B.V.	Kao Netherlands B.V.
Singapore	Kao (Singapore) Private Limited	Kao Singapore Private Limited
	KPSS Pte. Ltd.	

Independent Auditor's Report

Deloitte.

Deloitte Touche Tohmatsu LLC
MS Shibaura Building
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Japan

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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 as of March 31, 2012, and the related consolidated statements of income, comprehensive income, changes in equity, and cash flows for the year 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 misstatements, 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 March 31, 2012, and the consolidated results of their operations and their cash flows for the year then ended in conformity with accounting principles generally accepted in Japan.

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

June 25, 2012

Member of
Deloitte Touche Tohmatsu Limited

Principal Subsidiaries and Affiliates (As of June 28, 2012)

Country/Area	Business				Company
Japan	●	●	●		Kao Customer Marketing Co., Ltd.
	●				Kanebo Cosmetics 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, Incorporated
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
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 Corporation 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

Investor Information (As of March 31, 2012)

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):
522,366,519 shares
Number of Shareholders: 54,622

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

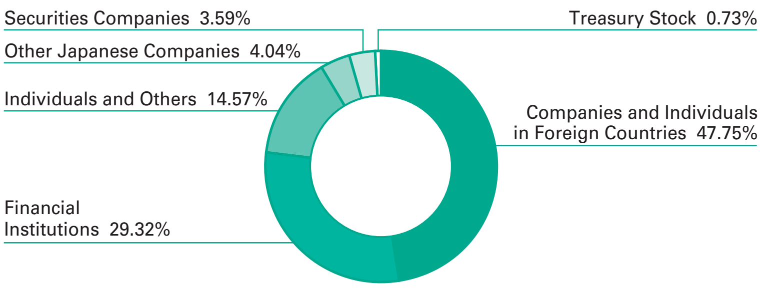
Depositary and Registration for American Depositary Receipts (ADR Ticker Symbol: KCRPY)
JPMorgan Chase Bank, N.A.
1 Chase Manhattan Plaza, Floor 58, New York, NY 10005, U.S.A.

Top Ten Shareholders

Name of Shareholders	Number of Shares (thousand shares)	Ratio of Shareholding* (percentage)
Japan Trustee Services Bank, Ltd. (Trust Account)	32,332	6.14
Northern Trust Co. (AVFC) Sub A/C American Clients	23,076	4.38
The Master Trust Bank of Japan, Ltd. (Trust Account)	21,492	4.08
State Street Bank and Trust Company	18,844	3.58
Mellon Bank, N.A. as Agent for its Client Mellon Omnibus US Pension	13,585	2.58
Northern Trust Co. AVFC Re U.S. Tax Exempted Pension Funds	12,346	2.34
SSBT OD05 Omnibus Account – Treaty Clients	12,021	2.28
Tokio Marine & Nichido Fire Insurance Co., Ltd.	10,442	1.98
Kao Group Employee Shareholding Association	8,815	1.67
State Street Bank and Trust Company 505225	8,618	1.63

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

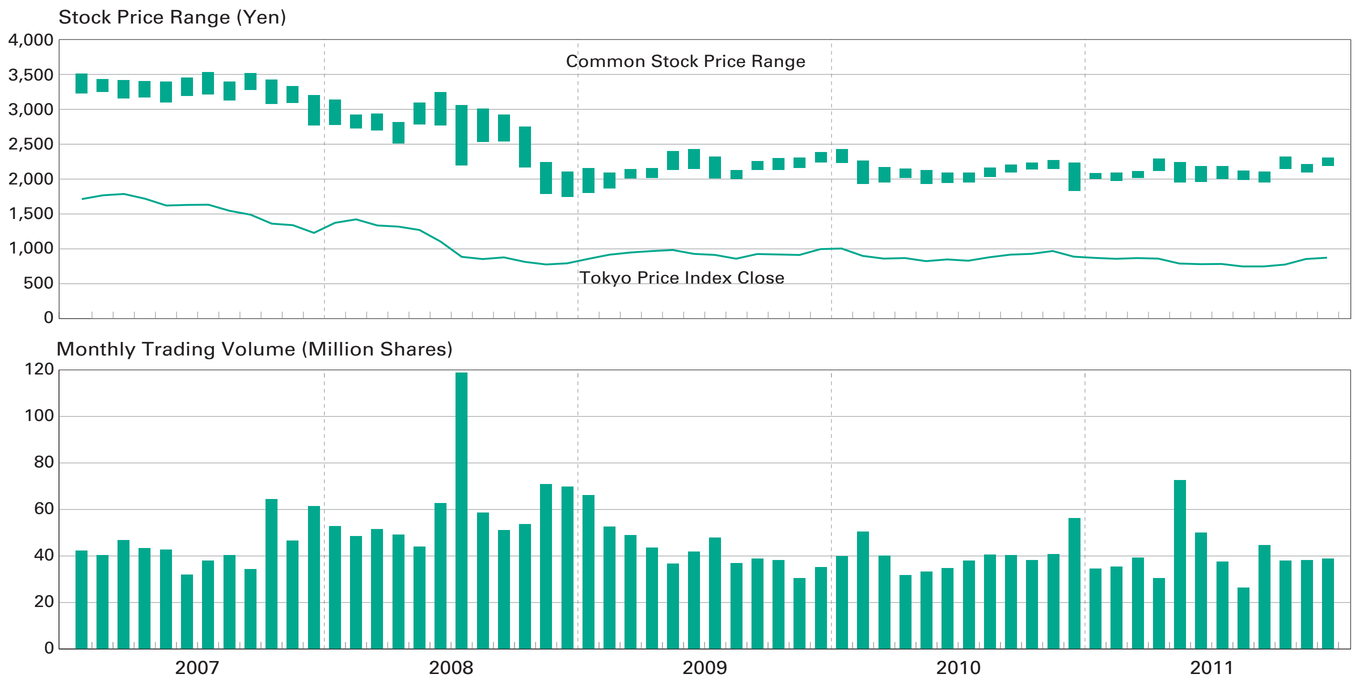
Composition of Shareholders



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

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

Stock Price Range and Trading Volume (Tokyo Stock Exchange)



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

Enriching lives, in harmony with nature.

Kao Corporation

14-10, Nihonbashi Kayabacho 1-chome
Chuo-ku, Tokyo 103-8210, Japan
http://www.kao.com

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