Charting a Path to Sustainable Growth

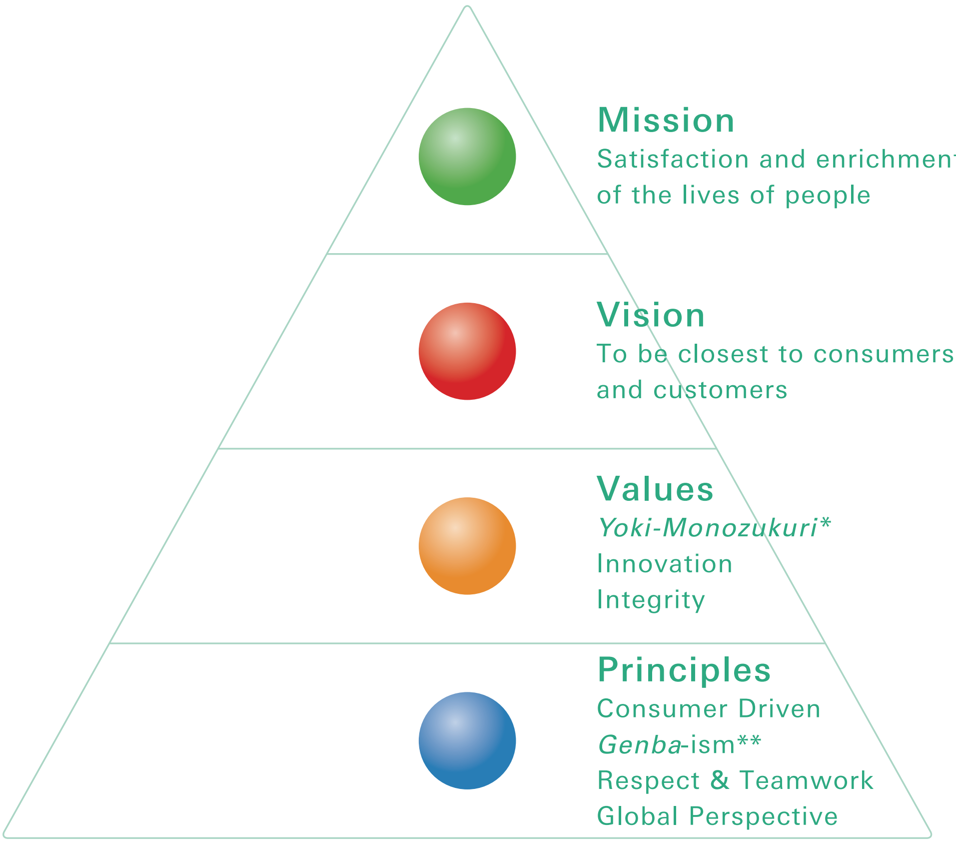
Annual Report 2015

For the year ended December 31, 2015

Enriching lives,
in harmony with nature.

Kao

The Kao Way



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

Our mission is to strive for the wholehearted satisfaction and enrichment of the lives of people globally and to contribute to the sustainability of the world, with products and brands of excellent value that are created from the consumer's and customer's perspective. This commitment is embraced by all members of the Kao Group as we work together with passion to share joy with consumers and customers in our core domains of cleanliness, beauty, health and chemicals.

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

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

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

Contents

Forward-Looking Statements

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

Profile

The Kao Group's operations consist of the Consumer Products Business and the Chemical Business. The Consumer Products Business encompasses the Beauty Care Business, in which we offer prestige cosmetics, premium skin care products and hair care products; the Human Health Care Business, with products such as functional health beverages, sanitary products and personal health products; and the Fabric and Home Care Business, which includes laundry detergents and household cleaners. In the Chemical Business, we develop chemical products that meet the various needs of industry.

Financial Highlights

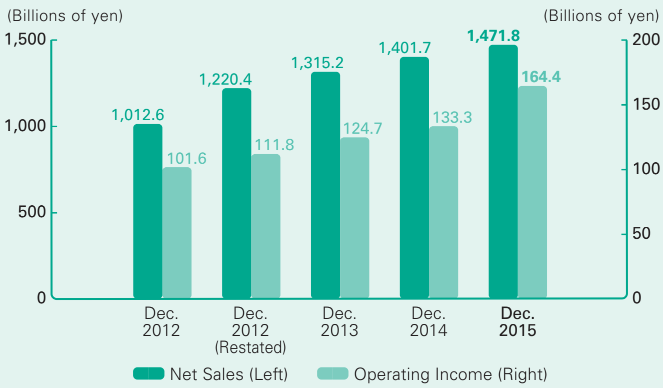
Kao achieved all targets of Kao Group Mid-term Plan 2015 (K15)

Net Sales	Operating Income	Overseas Sales Ratio*
¥1,471.8 billion	**¥164.4 billion**	**35.0%**
K15 Target: ¥1,400.0 billion	K15 Target: ¥150.0 billion	K15 Target: 30% or more

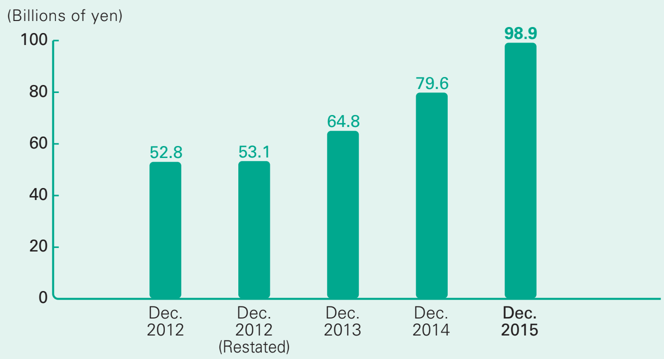
* Ratio of net sales to foreign customers to consolidated net sales

(Period ended December 31, 2012 and years ended December 31, 2012 to 2015)

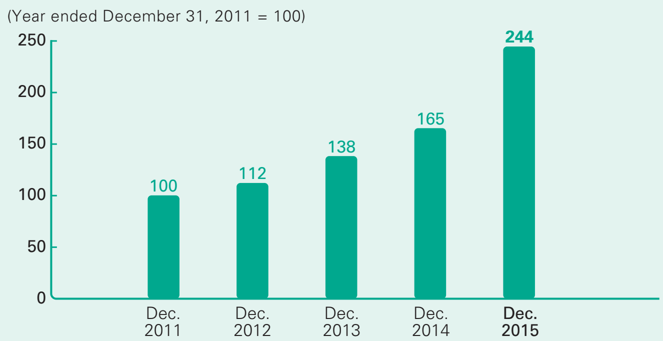
Net Sales / Operating Income[1, 2]



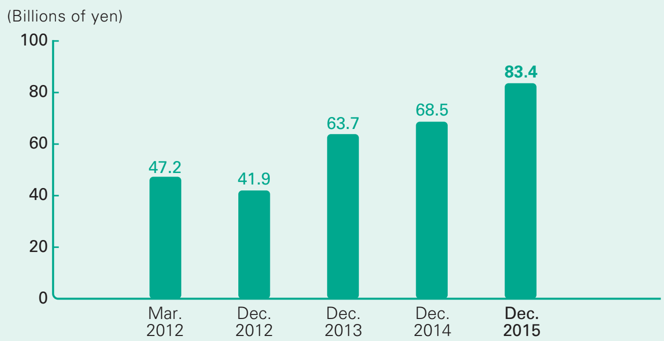
Net Income[1, 2]



Economic Value Added (EVA)[3]



Capital Expenditures[4]



Notes:
1. Due to a change in the fiscal year end, the term of consolidation for the fiscal period ended December 31, 2012 consisted of the nine months from April to December for Kao Corporation and its subsidiaries whose fiscal year end was previously March 31 and the twelve months from January to December for subsidiaries whose fiscal year end was December 31.
2. December 2012 (Restated) represents figures for the year from January 1 to December 31, 2012 for Kao Group companies whose fiscal year end was previously March 31.
3. EVA is a registered trademark of Stern Stewart & Co. Due to the change in the fiscal year end, EVA has been restated on a calendar year basis for the period ended December 31, 2011 and 2012.
4. Year ended March 31, 2012, period ended December 31, 2012 and years ended December 31, 2013 to 2015

Beauty Care Business

In order to allow every consumer to achieve their own unique beauty with leading technologies, the Beauty Care Business offers products including cosmetics, skin care products such as facial and body cleansers, and hair care products such as shampoos and conditioners.

Leading Beauty Care Business brands include *Kanebo*, *Sofina* and *Molton Brown* in cosmetics; *Bioré*, *Curél* and *Jergens* in skin care; *John Frieda*, *Essential* and *Liese* in hair care, and *Goldwell* for professional hair salons. Kao products offer distinctive features and functional values clearly evident to the user. Beauty Care Business products are available to consumers in Japan, Asia, Oceania, North America and Europe.

Main Products

Cosmetics / Skin care and hair care (mass products) / Professional hair care products

Human Health Care Business

The Human Health Care Business offers products that help consumers to live healthy and comfortable lives. These products include sanitary products with unique proprietary technologies, functional health beverages with innovative benefits, and other products such as toothpaste and bath additives.

Leading Human Health Care Business brands include *Laurier* sanitary napkins, *Merries* baby diapers, *Healthya* functional health beverages, *Clearclean* toothpaste and *Bub* bath additives. In particular, Kao's sanitary napkins and baby diapers offer high added value, including high absorbency and gentleness on the skin, making them very popular among consumers in Japan and other major Asian markets.

Main Products

Beverages / Sanitary products / Personal health products

Fabric and Home Care Business

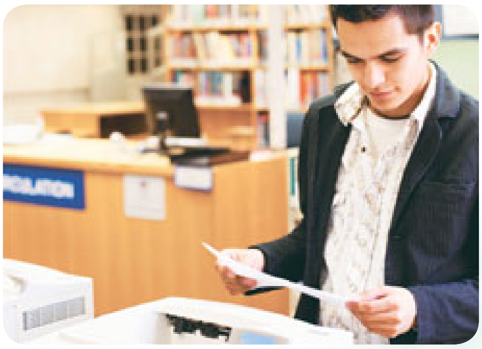
The Fabric and Home Care Business offers fabric care products such as laundry detergents and fabric softeners, as well as home care products such as dishwashing detergents and kitchen cleaners. These products are designed for quality, functionality and ease of use, allowing consumers to enjoy a clean and comfortable lifestyle.

Leading Fabric and Home Care Business brands include *Attack* laundry detergent, *Haiter* laundry bleach and *Magiclean* household cleaner, all widely used in Japan, Asia and Oceania. As environmental awareness has grown in recent years, and social changes see more women working outside the home, Kao has continued to offer new laundry choices, including liquid detergent with powerful cleaning properties, and single-rinse options that reduce the time needed to do laundry.

Main Products

Laundry detergents and fabric treatments / Products for kitchen, bath, toilet and living room care

Chemical Business



The Chemical Business offers a broad variety of chemical products to the world, including oleo chemicals manufactured from natural fats and oils, surfactants, toners and toner binders, and fragrances and aroma chemicals.

Products such as *Kalcol* fatty alcohol, *Emal* surfactant, and *Mighty* high performance superplasticizer (for concrete) enrich people's lives across a broad range of industries globally, including information technology, electronics, pulp and paper, food, pharmaceuticals, civil engineering and construction.

The Chemical Business supplies products to business customers around the world – both outside the Group, and internally to the Consumer Products Business. Kao's Chemical Business is contributing to the creation of new value.

Main Products

Oleo chemicals / Performance chemicals / Specialty chemicals

Aiming for New Heights Based on Core Beliefs and Group Dynamism to Ensure the Kao Group's Sustainable Growth

In 2015, the final year of Kao Group Mid-term Plan 2015 (K15), we achieved all of the plan's targets. Rather than simply continuing our efforts to date, we will make 2016 a year of preparation for our next mid-term plan to set a high growth trajectory.

Michitaka Sawada

Michitaka Sawada
President and Chief Executive Officer

A Company with a Global Presence

The Direction of the Kao Group

The Kao Group aims to be a company with a global presence as it works for both sustained "profitable growth" by increasing the added value of its products and "contributions to the sustainability of the world" by making proposals to resolve social issues such as the environment, health, the aging society and hygiene through its business activities and by conducting social contribution activities.

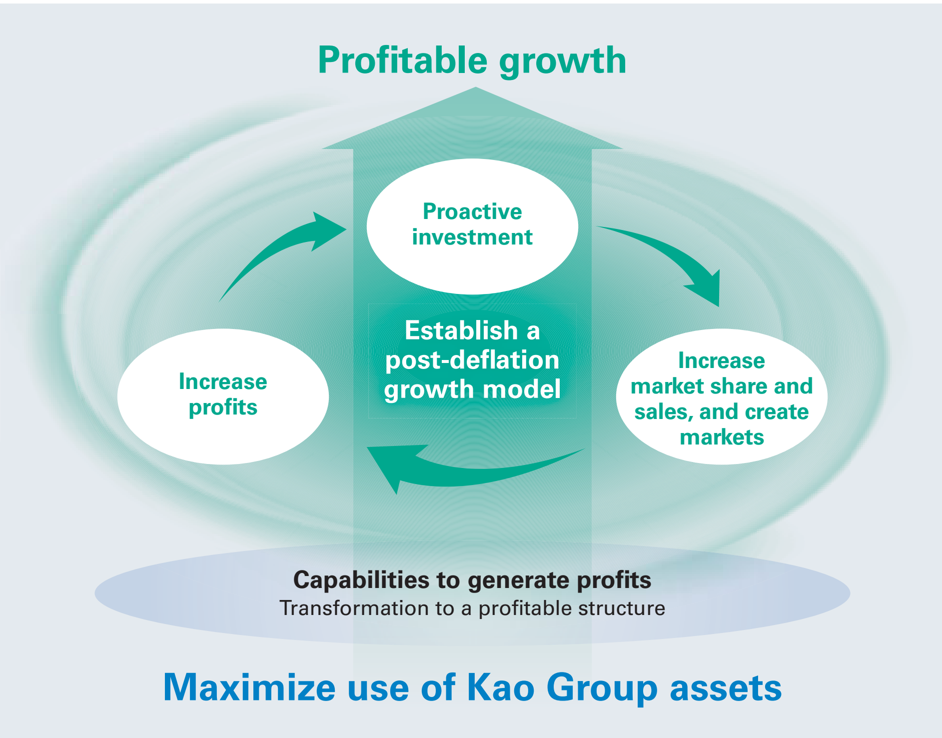
The Kao Group aims to be a company with a global presence by adhering to the Kao Way, our corporate philosophy. After four years of working in this direction, I feel we are making steady progress in increasing our global presence. There are many perspectives on how to measure global presence, but I want the Kao Group to show the greatest presence through our strengths in research and development. Global recognition as a company that continually spurs innovation has deep significance for us.

In addition to being recognized for being innovative, we want to be known for our ongoing core belief in delivering returns to our stakeholders by achieving and accomplishing the mid-term plans that we announce. No other Japanese company has increased dividends for 26 consecutive periods, and in 2015 we achieved our sixth consecutive fiscal year[1] of increases in consolidated net sales and profits.

As a result, our management indicator Economic Value Added (EVA)[2] reached record highs in terms of both the increase from the previous year and absolute value, reflecting a double-digit increase in net operating profit after tax (NOPAT) and

1. Excluding the effect of the change in the fiscal year-end in 2012
2. EVA is a registered trademark of Stern Stewart & Co.

Targeted Sustainable Growth Model



Merries baby diapers are driving growth in Asia.

MegRhythm steam thermo sheets are in demand among Japanese consumers and popular among visitors from overseas as well.

Efforts to convey the value of *Curél* for sensitive skin have led to its ongoing growth.

CuCute, which is highly differentiated in the market due to essential research, has performed strongly in Japan.

our ability to minimize the increase in capital invested by maximizing our utilization of assets. In addition, ROE increased by 2.4 points compared with the previous year to 14.8 percent. Through results like these, we aim to stand out as an exemplary global company in management direction as well.

The next mid-term plan will not take the approach of simply continuing the efforts we have made so far. Rather, we will consider what is necessary to make a leap to the next stage and to pave the way to becoming a company with a truly global presence. This will require a considerable amount of preparation. We are now conducting a Group-wide review of the achievements and issues of K15. At the same time, we are methodically preparing K20, a mid-term plan that will begin in 2017 and deal with various changes in the external business environment.

Summary of K15

The Kao Group has made further progress in maximizing the use of our assets in order to steadily improve our capabilities to generate profits. As expected, the sustainable growth model is beginning to generate a positive cycle.

Achievements of K15

We achieved all of the targets of K15. The fact that we achieved ¥164.4 billion in operating income in 2015, which not only exceeded our target of ¥150.0 billion but was also a 23.3 percent increase from the previous year, is proof of the effectiveness of the sustainable growth model we have been working on under K15. The essential point of this model is that through maximizing the use of Kao Group assets and the synergy generated by effective deployment of expenditures, we are transitioning to a profitable structure, or in other words, improving our capabilities to generate profits. One success of K15 is that all employees now feel personal responsibility for utilizing assets and put this approach into practice in their work.

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

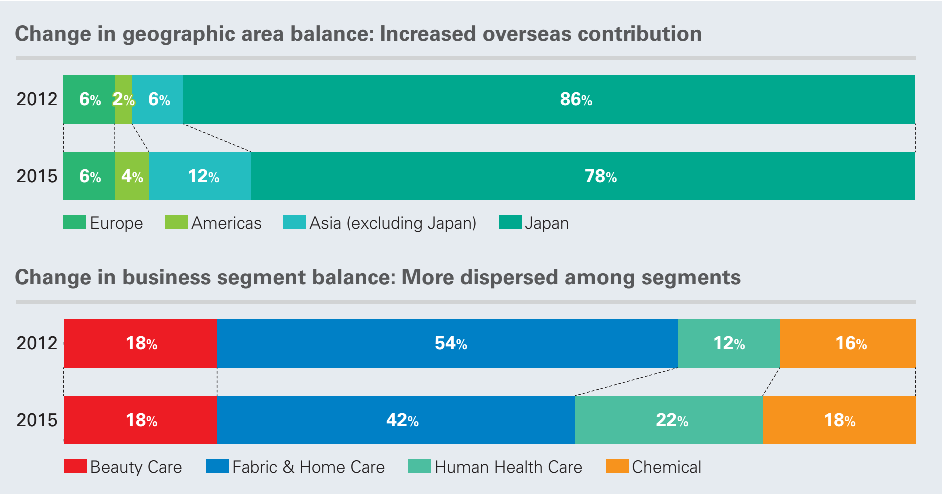
Target 2: Achieve numerical management targets for 2015

- Net Sales: **¥1,471.8** billion
  Target: ¥1,400.0 billion
- Operating Income: **¥164.4** billion
  Target: ¥150.0 billion
- Overseas Sales Ratio*: **35.0%**
  Target: 30% or more

* Ratio of net sales to foreign customers to consolidated net sales

Moreover, we have made substantial progress in improving the composition of net sales and operating income, which since 2012 have become significantly more balanced across geographic areas and business segments. As for net sales, the overseas sales ratio has increased from 27 percent to 35 percent. As for operating income, we were able to improve our balance, which was too heavily dependent on Japan and the Fabric and Home Care Business, while increasing income in every geographic area and business segment.

Improved Balance of Operating Income Composition



Promoting K15's Mid-term Growth Strategies

Three growth strategies were the driving force of K15: 1) expand the Consumer Products Business globally; 2) further reinforce the Fabric and Home Care Business, and accelerate profitable growth in the Beauty Care Business and the Human Health Care Business; and 3) reinforce the Chemical Business. We achieved strong results, although issues do remain. One result of these strategies was substantial growth of the Consumer Products Business in Asia. During the three-year period, sales doubled, or 1.5 times excluding the effect of currency translation. Sales increased significantly in China and Indonesia, markets where we have been targeting the growing middle-class consumer segment. We also achieved double-digit growth in Taiwan, Hong Kong, Thailand, Vietnam, Malaysia and Singapore. Moreover, we have been making tenacious efforts in the cosmetics business in China, where our successful structural reforms resulted in profitability in 2015. In the Chemical Business, operating income reached a record high as we gradually shifted to high-value-added products, although we need to further expand sales. On the other hand, some issues have come to the fore. One is improving the profitability of the cosmetics business in Japan. We continued working to reinforce our focal brands, but results were disappointing due to intensifying market competition. Major reforms are required for both Kao Sofina and Kanebo Cosmetics. Another issue is rebuilding functional drinks.

Looking back at the past three years, we were not necessarily helped along by external events. I believe that achieving K15 in this difficult, rapidly changing business environment was the result of the good fortune that is given to those who work hard and conduct themselves with integrity.

Future Directions and Positioning in 2016

We intend to fulfill our role as a leading company, which will increase our corporate value. The Kao Group will use 2016 to prepare for K20, a mid-term plan that will begin in 2017, and the greater progress it will entail. We will act based on our core beliefs and display group dynamism.

We will use 2016 to fully prepare to take our next step, which will be "discontinuous." In other words, our next step will not be a continuation of what we have done in the past. We must look back on what we could and could not accomplish under K15 from the perspective of maximizing the use of our assets, which has been a recurring theme.

Displaying Group Dynamism

Under K15, we have been focusing on maximizing the use of our assets. We are now able to make quite high-level use of our assets, so taking on the further challenge of maximizing our assets to display group dynamism will be a major theme from now on. Some may feel that a focus on group dynamism will dilute the strengths of the individual. However, the group dynamism we aim for in the Kao Group entails making greater use of our potential and assets and maximizing them to boldly take on challenges that lead to the creation of new business opportunities. The Kao Group has numerous research assets with the power to generate strong synergy between the Chemical Business and the Consumer Products Business. I believe that having these two businesses that can generate synergy is a unique advantage for Kao, and a feature that separates us from our global peers.

If you think only of short-term, immediate profit, one view is that it is a good idea to get rid of dormant assets and underperforming businesses. At Kao, we believe that making skillful changes in tune with the times to poorly performing products and businesses enables them to resurface. Conversely, there may be cases where products and services that are currently making good progress slow down or stall. Conducting businesses that are complementary at a high level is a strength of Japanese companies and an essential element of Kao's style.

Core Beliefs Unique to Kao

Our core beliefs encompass not only our attitude toward "*Yoki-Monozukuri,*" or providing products and brands of excellent value created from the customer's perspective, but also our objectives of continuously raising dividends, increasing sales and profits, and achieving our management plans. Furthermore, I am convinced that these core beliefs will support our efforts to achieve sustainable growth. In 2016, in addition to increasing sales and profits for the seventh consecutive year and achieving our announced forecast, we will continue to firmly maintain our core belief in sustainable growth as we further strengthen our abilities to generate profits by deepening our sustainable growth model and creating and offering profitable new businesses. Moreover, we will engage in proactive investment for growth, including M&A. We also have a core belief in making sustainable returns to our stakeholders. We intend to be thorough in making returns to our employees (continuous increases in compensation and benefits), returns to society (payment of taxes, providing employment, social contributions) and returns to our shareholders (continuous increases in dividends).

Core Initiatives and Areas of Focus in 2016

During 2016, we will work on three broad themes that will lead into K20. The first is strengthening and expanding existing businesses. We will ensure that growing businesses continue to grow even further and put poorly performing businesses on a growth trajectory. In the cosmetics business, we will put the major reforms of Kao Sofina that we started in November 2015 on track, and in 2016 we will conduct major reforms at Kanebo Cosmetics as well, among other measures for rapid rebuilding. For food and beverage products in the Human Health Care Business, we will rebuild *Healthya* (functional drinks) and consider entering food and health-related businesses. In the Consumer Products Business in the Americas and Europe, we will focus on using our original technologies to add higher value to products for "discontinuous" growth that is more than simply an extension of our growth to date.

The second theme is creating new businesses. We will display the group dynamism of the Kao Group, for example to take a new approach in the domain of hygiene, at the intersection of the business fields of cleanliness, beauty and health. We will also focus on proactive M&A to expand and create businesses.

The third theme is accelerating expansion outside Japan. We want to use our achievements in Asia as a lever for proactively expanding into new countries.

Taking a bird's eye view of the socioeconomic environment, structural changes are forecast to occur worldwide, with shifts in the center of the economy, changes in consumer preferences and other factors. By positioning 2016 as a year of preparation, we will not only acquire the ability to adapt to whatever changes may occur, but also turn the changes that do occur into opportunities for progress.

Kao's Essential Research

Kao's essential research is rooted in its knowledge of surface science. We use matrix management of R&D for innovation in each business field, which leads to innovative products.

Research and development is the source of our ability to create products and brands of excellent value, and our foremost core belief. Based on our belief that excellent products are created in a background environment of diverse scientific expertise and technologies, our research covers a truly broad range of fields. I think that having expertise in and the seeds of technologies for both humans (biological science) and materials (material science) makes Kao a distinctive company, not just in Japan but worldwide. Using matrix management for research and development is also a unique feature. Both product development research and fundamental research are closely connected to each business division. This promotes linkage of technologies through cross-divisional collaboration.

In addition, the pursuit of the essence of things from a scientific standpoint, or in other words essential research, is key to Kao's R&D. Our essential research is rooted in surface science. Surface science is at the core of Kao, and the control of surfaces opens up unlimited possibilities. For example, applying fabric softener to the surface of fibers makes them feel fluffy, while spreading an oil film over the surface of the skin creates a skin barrier. Adding a mechanism for breaking down a dirty surface creates

detergent. In the final analysis, surface science applies to everything, even enabling precise control at the nano level. The nano surfactant control technology developed for our chemical products is being used in our consumer products research.

R&D is not always immediately successful, but I regularly tell our researchers to carry on their work with confidence and peace of mind because there is no such thing as failure in developing technologies. Product development is linked to consumers, so you can fail if you do not understand their needs, but technology development may still be used for another product at some point in the future. Technologies that cannot immediately be turned into products are filed away for the time being, using methods that allow them to be shared among our researchers. Then, three years or five years later, when things have changed, they can be taken out of that file and applied to a new product. Skillfully combining research assets that have been deepened through essential research can help to create new worlds. I want to use these results to create new value from the consumer's perspective and to further stimulate markets.

Securing Stakeholder Support and Trust

We will promote further reform of corporate governance and conduct corporate activities that regularly refer to the Kao Way, the source of Kao's efforts for sustainability.

Ongoing Enhancement of Corporate Governance

Behind the successful completion of K15 were three changes we made to our organizational management. The first was delegating authority and accelerating decision-making. We have implemented management improvements and the Management Committee has decided that when we are on the fence about, for example, an investment opportunity, our default stance will be action rather than hesitation. The second is enhancement of governance. In July 2015, we released a Report Concerning Corporate Governance that explains the status of implementation of the principles of the Corporate Governance Code established by the Tokyo Stock Exchange. Currently, Kao has six independent officers – three Outside Directors and three Outside Audit & Supervisory Board Members – to provide a framework for an exchange of opinions based on an objective view of the company. We are aware of the need for greater diversity in the composition of the Board of Directors. The third is enhancement of employee mindset. Through measures such as Top Talk, a message I post on the company intranet, and Genba Roundtable sessions, where employees engage in exchange of opinions with management, I share the direction of the Kao Group, the Kao Sustainability Statement and other matters with employees.

Respecting Human Rights and Promoting Diversity in the Workplace

Under the Kao Way, our corporate philosophy, the Kao Group respects diversity of culture, nationality, belief, race and gender in the workplace. In addition to providing training and promotions based on employees' motivation and capabilities, since 1990 we have had an ongoing support system for diverse ways of working to promote active participation by women.

In light of the global community's growing interest in human rights, we held discussions with related internal divisions and outside experts that led to the adoption of the Kao Human Rights Policy in June 2015 based on the United Nations Guiding Principles on Business and Human Rights.[3] The Kao Human Rights Policy states our support and respect for international standards for human rights, and promotes measures such as human rights risk assessment and employee training. We will strive for widespread understanding of this policy as we strengthen our efforts for human rights.

3. Principles related to business and human rights proposed by UN Special Representative John Ruggie and endorsed by the UN Human Rights Council in June 2011

In Conclusion

We will resolutely take on the challenge of turning global structural shifts into opportunities for growth. Our shareholders can expect the Kao Group to reach new heights.

We will further strengthen our sustainable growth model to achieve profitable growth. Using EVA keeps us aware of the cost of capital and there is no change in the priorities we have set for using our steadily generated cash flow. After making investments for future growth, we emphasize steady and continuous cash dividends. We will also flexibly consider repurchases and cancellation of shares and early repayment of interest-bearing debt including borrowings in light of improving capital efficiency.

Moreover, from 2016 we have voluntarily adopted International Financial Reporting Standards (IFRS) based on our decision that integrating accounting standards throughout the Kao Group will help to improve the quality of Group management.

In 2016, we will establish our sustainable growth model more firmly and invest proactively. We will also use the year to prepare for the sustainable growth we anticipate under K20, our next mid-term plan, and thereafter.

Never satisfied with the status quo, we will continue to aim high and take on new challenges. I urge all our shareholders to follow the Kao Group's activities with anticipation. Expect us to reach new heights.

Use of Cash Flow* and Shareholder Returns

Use steadily generated cash flow effectively in order of priority shown below from an EVA standpoint toward further growth.

1. **Investment for future growth** (capital expenditures, M&A, etc.)
2. **Steady and continuous cash dividends**
3. **Share repurchases and early repayment of interest-bearing debt including borrowings**

* Net cash provided by operating activities

Cash Dividends per Share

Note: Impacts of share splits are retroactively reflected.

Research and Development

Basic Policy

Kao's mission is to strive for the wholehearted satisfaction and enrichment of the lives of people globally and to contribute to the sustainability of the world, with products and brands of excellent value that are created from the consumer's and customer's perspective. Based on this mission, Kao's research and development division combines original ideas with an understanding of the various cultures and needs of consumers in diverse countries and regions to develop innovative products and technologies that create new value and new markets. Approximately 2,800 Kao Group personnel conduct research and development. R&D expenditures for the entire Kao Group in 2015 were ¥52.0 billion, equivalent to 3.5% of net sales.

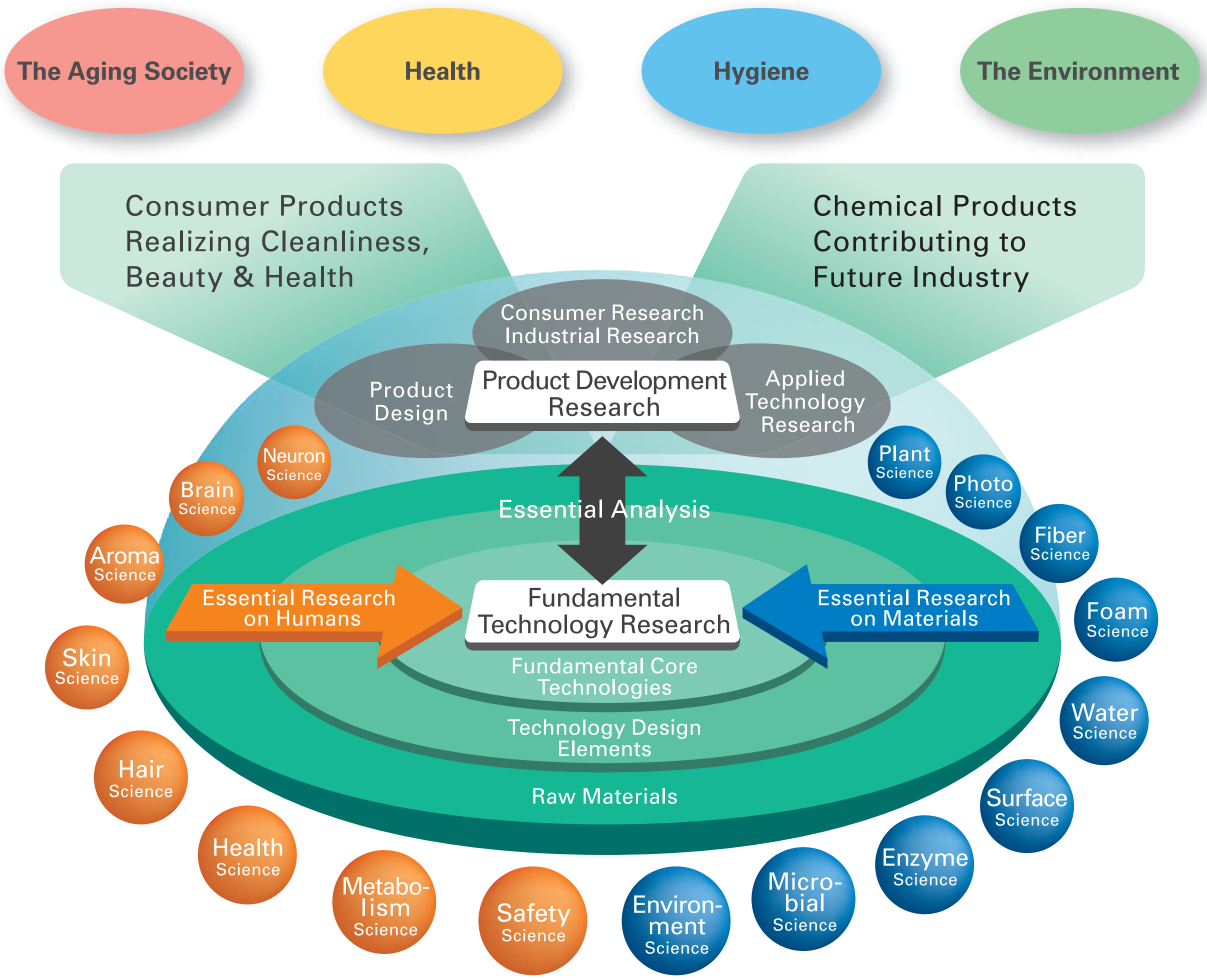
Kao's Essential Research

The hallmark of Kao's R&D, central to the creation of consumer products and chemicals, is our engagement in varied and wide-ranging essential research across a broad spectrum of scientific fields, which can be grouped into "humans" and "materials." The essential properties of both groups are explored through fundamental technology research that reveals the structure of phenomena and substances, enabling us to deepen and combine the two areas. Furthermore, we combine the two areas with product development research, which includes consumer research, product design, and applied technology research. This is key to creating products with high added value not only in terms of their functions, but also for helping to resolve environmental and other social issues. For this reason, we actively promote interactive exchange of information and technologies across research organizations. The resulting linkage and expansion of research fields is the wellspring of new innovation.

Kao is committed to *Yoki-Monozukuri** with R&D at the core. We aim to contribute to addressing social issues globally in a variety of fields including cleanliness, beauty, health and the environment.

* 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."

Essential Research



Topics in 2015

Selected for Asia IP Elite for the Third Year in a Row

Kao was selected for the third year in a row as one of the Asia IP Elite, an honor given to Asian companies with superior intellectual property (IP) strategies. The awards are planned and held by *Intellectual Asset Management*, an internationally recognized periodical on IP management. Selection is based on factors including the number of patent filings in each country, litigation to assert rights, corporate stance on the importance of IP rights, and interviews with experts in the field.

Kao Enters into a Comprehensive Research Agreement for Industry-Academia Collaboration with Juntendo University in Japan

Kao entered into a comprehensive research agreement with Juntendo University to obtain new research findings that will contribute to the resolution of social issues in areas including cleanliness, beauty, health, aging, the environment and hygiene. By promoting open innovation through industry-academia collaboration that encompasses shared use of research findings and facilities, including exchange of researchers and mutual use of research facilities, Kao will reinforce its fundamental research in the fields of medicine and health.

Beauty Care Business

Basic Policy

Kao conducts essential research for a deep understanding of the true nature of the skin and hair of people around the world and develops materials and formulations that give rise to new functions. By doing so, we aim to help consumers achieve healthy, beautiful skin and hair, and to offer beauty proposals tailored to diverse lifestyles.

2015 R&D expenditures: **¥23.9 billion**

Human Health Care Business

Basic Policy

Kao researches the body and mind to improve quality of life by making the most of people’s natural vitality.

2015 R&D expenditures: **¥11.9 billion**

Fabric and Home Care Business

Basic Policy

Kao’s research and development spans a wide range of fields from household products that meet the diverse needs of consumers to products for professional use where a high level of cleanliness and hygiene is required.

2015 R&D expenditures: **¥7.1 billion**

Chemical Business

Basic Policy

Kao’s research and development strives for more substantive R&D results in areas including oils and fats, surfactants and polymers to produce chemical products distinguished by their ability to meet diverse needs in a wide range of industries.

2015 R&D expenditures: **¥9.1 billion**

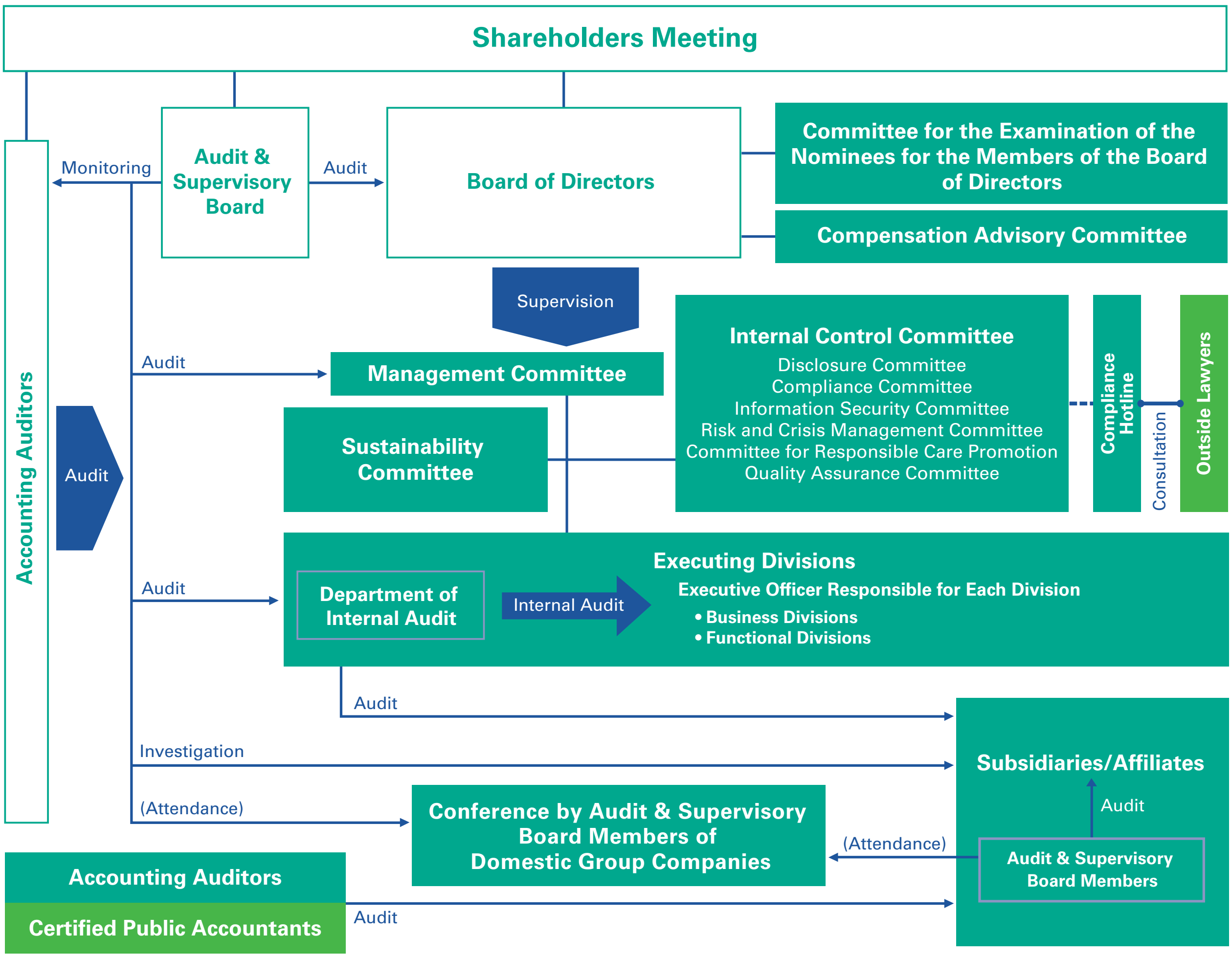
Corporate Governance

Basic Stance and Structure

Kao's basic stance on measures related to corporate governance is to implement the necessary policies and fulfill its accountability by setting up and operating a management structure and internal control system in order to rapidly realize efficient, sound, fair and highly transparent management with the aim of continuously increasing corporate value and achieving the long-term targets and mid-term plan.

In accordance with this stance, Kao works to improve governance as a company with an Audit & Supervisory Board by strengthening the supervisory function of the Board of Directors and the auditing function of the Audit & Supervisory Board. An overview of Kao's governance structure is given in the following chart.

Corporate Governance Structure



Note: Our policy is to ask lawyers and other experts, as necessary, when making business decisions concerning business management and daily operations.

Board of Directors

The Board of Directors invites people from outside the Company with diverse experiences, knowledge and a high level of insight. Composed of four inside members and three outside members, it ensures lively discussions while maintaining diversity and independence.

Number of Members	7
Outside Directors Included in Above	3 (approximately 42%)
Independence	The Company has reported all three Outside Directors to the Tokyo Stock Exchange as Independent Outside Directors who have met the qualifications for independence in the Standards for Independence of Outside Directors/Audit & Supervisory Board Members of Kao Corporation (the "Standards"). The Standards, which have been established with reference to the Independence Tests of the New York Stock Exchange, can be found at: http://www.kao.com/jp/en/corp_imgs/corp_info/governance_002.pdf
Chairman	Independent Outside Director
Term of Office	1 year (voluntarily shorter than the statutory period)
Number of Meetings	15 times in 2015 (including extraordinary meetings)
Average Attendance Rate of Outside Directors	100%

Audit & Supervisory Board

The Audit & Supervisory Board ensures the effectiveness of its audits through the collaboration of the Full-time Audit & Supervisory Board Members with the Outside Audit & Supervisory Board Members, a majority of whom have qualifications such as attorney-at-law or certified public accountant, who maintain independence and expertise as outside parties.

Number of Members	5
Outside Audit & Supervisory Board Members Included in Above	3 (60%)
Independence	The Company has reported all three Outside Audit & Supervisory Board Members to the Tokyo Stock Exchange as Independent Outside Audit & Supervisory Board Members who have met the qualifications in the Standards.
Chairman	Full-time Audit & Supervisory Board Member
Term of Office	4 years (statutory period: prohibited by law to shorten the period)
Number of Meetings	10 times in 2015 (including extraordinary meetings)
Average Attendance Rate of Outside Audit & Supervisory Board Members	Board of Directors Meetings: 97% Audit & Supervisory Board Meetings: 98% Meetings to exchange opinions with Representative Directors: 100% (3 times in 2015)

Committee for the Examination of the Nominees for the Members of the Board of Directors

This committee conducts advance examination of the appropriateness of nominees for election or re-election as Representative Director and Director as proposed to the General Meeting of Shareholders and the Board of Directors, and submits its opinions to the Board of Directors. In addition, the committee discusses the composition and diversity of the members of the Board of Directors, including the proportion of Inside Directors and Outside Directors, and the qualities and abilities required of the Chief Executive Officer and Directors of the Company, and reports the results of its examination to the Board of Directors. In the course of its examination, the committee also receives reports on Executive Officers in charge of execution.

Number of Members	6
Composition	All Outside Directors and all Outside Audit & Supervisory Board Members
Chairman	Chosen by committee members. The chairman was an Independent Outside Director in 2015.
Number of Meetings	3 times in 2015
Attendance Rate	100%

Compensation Advisory Committee

This committee examines the compensation system and remuneration levels for Directors and Executive Officers and submits the results of its examinations to the Board of Directors.

Number of Members	9
Composition	Chairman of the Board of Directors (position currently vacant), all Representative Directors, all Outside Directors and all Outside Audit & Supervisory Board Members
Chairman	Chosen by committee members. The chairman was an Independent Outside Director in 2015.
Number of Meetings	3 times in 2015 including preparatory discussions.
Compensation System	See next page

Support System for Outside Directors and Outside Audit & Supervisory Board Members

To allow for active discussions at meetings of the Board of Directors, the Board of Directors Secretariat provides Outside Directors and Outside Audit & Supervisory Board Members with sufficient explanations by distributing materials on matters such as the background, purposes and content of the respective agenda items, as necessary, prior to meetings of the Board of Directors. Furthermore, under this support system, in addition to support staff, administrative divisions such as Internal Audit, the Legal and Compliance Department and the Accounting and Finance Department provide Outside Audit & Supervisory Board Members with assistance upon request.

Comment from an Independent Outside Director

Toru Nagashima
Independent
Outside Director,
Senior Advisor,
Teijin Limited

I have been a member of Kao's Board of Directors for more than three years, with expectations placed on my global experience as an executive of a company that, like Kao, is a manufacturer. During that period, I have mainly been involved in discussions of:

1) Ongoing consideration of further innovations in and execution of corporate governance; in other words, consideration of the corporate governance system we consider best for Kao's sustained growth under our present conditions;

2) Clearly working out and implementing risk management for Kanebo Cosmetics, a subsidiary that faced the management crisis of a voluntary product recall in July 2013. As the parent company of a consumer goods business group, we put the recovery and care of customers first, with an unwavering stance of wholeheartedly providing fair and equitable compensation and support; and

3) Ambitious initiatives for further growth and the investment to fund them, amid strong performance consisting of six consecutive fiscal years of increases in sales and profits.

In these discussions, I give my opinion whenever I have doubts about proposals for execution. So far, however, I have enthusiastically supported the decisions that have been made.

Compensation System for Members of the Board of Directors, Audit & Supervisory Board Members and Executive Officers

Kao's compensation system for members of the Board of Directors, Audit & Supervisory Board Members and Executive Officers is aimed at (1) securing and retaining diverse and excellent personnel to establish and improve competitive advantages; (2) promoting prioritized measures for lasting increases in corporate value; and (3) sharing interests in common with shareholders.

Remuneration of members of the Board of Directors, other than Outside Directors, and Executive Officers consists of base salary, a bonus as short-term incentive compensation, and stock options as long-term incentive compensation, and is designed to provide an impetus for continuing annual improvement in business results and medium-to-long-term growth. Linkage of remuneration to business results increases with rank, based on the responsibility for duties and business results of each position. An overview of the components of remuneration is as shown below.

(1) Base salary
Paid as fixed monthly remuneration in an amount determined in accordance with duties as an Executive Officer and rank.

(2) Bonus as short-term incentive compensation
When the full amount is paid, the bonus is set at 50% of base salary for the President and Chief Executive Officer, 40% of base salary for the Chairman of the Board of Directors and Executive Officers with titles other than the Chief Executive Officer, and 30% of base salary for other Executive Officers. The rate of payment of the bonus is set within a range of 0-200%, depending on the degree of achievement of targets for net sales and income (gross profit less selling, general and administrative expenses), the degree of their improvement from the previous year, and the degree of achievement of the target for Economic Value Added (EVA), the Company's main management metric, which takes capital cost into account.

(3) Stock options as long-term incentive compensation
Set at around 30% of base salary for each position.

Kao's true value lies in its "*Yoki-Monozukuri**," backed by research and technological development. Therefore, I always listen to these innovative proposals with excitement. For Kao's products and brands of excellent value to be used by people worldwide, I have been urging my fellow Directors to tell a story – in other words, to build a business model that not only creates excellent products through *Yoki-Monozukuri* but also conveys their excellence to the public. Last year, we started a project to communicate Kao's value. We considered how to accurately convey the essential value of Kao's products to our partners in the retail industry and the consumers who actually use the products. We are now carrying out those measures. I am pleased that my experience seems to have been useful in these discussions. Conversely, I would also like Kao to aim for *Yoki-Monozukuri* and a new business model from the viewpoint of its markets and its customers.

Stimulating discussion at Board of Directors meetings is a topic that is often raised. At Kao, the President puts forth immediate and medium-to-long-term issues and regularly directs the itinerary for discussions are held at Board meetings throughout the year. As a result, we Outside Officers, including Audit & Supervisory Board Members, are always aware of the progress and purposes of current discussions, enabling us to participate with a grasp of the bigger picture. With this broad perspective, I would like to make my next proposal to Kao as it aims to become a company with a global presence: I suggest that the company should look beyond its past successes in Japan to discover and cultivate human assets who can perform on a global level for the growth that will take Kao to the next stage.

* See note on page 12

Compensation for Outside Directors, who are independent from the execution of business operations, consists of fixed monthly remuneration only.

The compensation system and compensation standards for members of the Board of Directors and Executive Officers are examined by the Compensation Advisory Committee, which is chaired by an Outside Director, and determined by resolution of the Board of Directors from the standpoint of ensuring the objectivity and transparency of the determination process. The Compensation Advisory Committee is composed of the Chairman of the Board of Directors, all Representative Directors, all Outside Directors and all Outside Audit & Supervisory Board Members. Independent Directors and Audit & Supervisory Board Members constitute a majority of the members of the committee, which meets at least once a year during the remuneration adjustment period.

Compensation for Audit & Supervisory Board Members consists of fixed monthly remuneration. Compensation standards are determined at meetings of the Audit & Supervisory Board.

Compensation standards for members of the Board of Directors, Executive Officers and Audit & Supervisory Board Members are determined after ascertaining standards at other major manufacturers of a similar size, industry category and business type to the Company each year using officer compensation survey data from an external survey organization.

The Company has no retirement bonus system for Directors or Audit & Supervisory Board Members.

Response to the Corporate Governance Code

With regard to Japan's Corporate Governance Code (the "Code"), which was established by the Tokyo Stock Exchange in June 2015, Kao released a Report Concerning Corporate Governance, which covers the status of implementation of each principle of the Code, in Japanese and English in July 2015. The stated aim of the Code is to seek "'growth-oriented governance' by promoting timely and decisive decision-making based upon transparent and fair decision-making." This is in alignment with the stance on measures to improve corporate governance that Kao has been promoting to increase its corporate value, and it will sincerely implement this aim, based firmly on the intent of the principles established in the Code. To ensure a better understanding of the status of Kao's implementation of the principles required to be disclosed under the Code, Kao's Report Concerning Corporate Governance arranges its corporate governance measures to date and their current status in a systematic fashion for publication, rather than the order published in the Code. Moreover, the Report Concerning Corporate Governance is not complete once it has been submitted. The content is updated as necessary, earnestly incorporating advice and opinions received through dialogue with investors in Japan and overseas. Since the July 2015 revision, the report has been updated five times.

Kao will continue to further enhance corporate governance and review it according to the business environment with the aim of ongoing development and maximization of corporate value from a medium-to-long-term standpoint.

(For Reference)
The Chairman of the Board of Directors of Kao reported on the Company's stance on corporate governance and its current status at the December 22, 2015 meeting of the Council of Experts Concerning the Follow-up of Japan's Stewardship Code and Japan's Corporate Governance Code (an organizational body established by the Tokyo Stock Exchange and the Financial Services Agency to follow up on the status of diffusion and establishment of Japan's Stewardship Code and Corporate Governance Code, and to discuss and propose measures necessary to further enhance the corporate governance of listed companies).

http://www.fsa.go.jp/en/refer/councils/follow-up/index.html

Third-Party Opinion

Toshiaki Oguchi
Representative Director,
Governance for Owners Japan KK;
A member of The Council of Experts Concerning the Follow-up of Japan's Stewardship Code and Japan's Corporate Governance Code

We at Governance for Owners Japan KK have been engaging in constructive dialogue with Kao Corporation on behalf of our global institutional investor clients for more than five years since 2010. Although there was a voluntary product recall by Kanebo Cosmetics, a subsidiary of Kao, in 2013, Kao's clear policies and conscientious explanations minimized its downward impact, and as a result Kao's shareholder value (stock price) has more than tripled during this period.

We would summarize our impression of Kao's corporate governance as the manifestation of the "Innovation" expressed in the Kao Way. When we began our dialogue with Kao, its Board of Directors was made up of 13 Inside Directors and two Independent Outside Directors. The composition of the Board has changed substantially, now consisting of three Inside Directors, two Independent Outside Directors and one Non-Independent Outside Director, and the position of chairman is held by an Independent Outside Director rather than an Inside Director.* We realize that these changes have been the result of ongoing reexamination, as well as trial and error.

For example, we have learned about the circumstances that led to the inclusion of a non-independent bank executive as an Outside Director. This was a result of Kao's emphasis on diversity, with Directors from the fields of manufacturing, finance and management consulting, all possessing the global experience required by the Board of Directors as their common thread. We have also been told about the various methods used to enhance discussions at Board of Directors meetings, as well as the process of trial and error used in setting the scope of the Committee for the Examination of the Nominees for the Members of the Board of Directors. Hearing about these matters, we believe that because Kao has gone through such processes, it has developed unique, firmly grounded corporate governance. The results have been sustained growth and increased corporate value, which in turn have earned approbation from institutional investors outside the company.

Innovation in corporate governance has no end. For example, we have discussed the necessity of diversity – in gender, nationality or otherwise – among the members of the Board of Directors, based on factors such as the nature of Kao's businesses and its further expansion outside Japan. We also believe ongoing discussion is required to select the most appropriate form of corporate organization for Kao. Global institutional investors, including our company's clients, will remain closely attentive to Kao's initiatives to contribute to sustainability – including social and environmental issues – while working for profitable growth, as it has advocated.

We look forward to Kao's continued use of "Innovation" to resolve these issues.

* As of April 2016, there are four Inside Directors and all Outside Directors are independent.

Board of Directors and Audit & Supervisory Board Members

(As of April 1, 2016)

Board of Directors

Michitaka Sawada[1]

Representative Director

Apr.	1981	Joined the Company
Mar.	1999	Manager, Materials Development Research Laboratories
Jul.	2003	Vice President, Sanitary Products Research Laboratories
Jun.	2006	Executive Officer, Vice President, Global Research & Development
Apr.	2007	Vice President, Global Research & Development, Human Health Care
Jun.	2008	Member of the Board, Executive Officer
Jun.	2012	Representative Director, President and Chief Executive Officer (current)
Jan.	2014	Responsible for Product Quality Management
Jan.	2016	Responsible for Corporate Strategy (current)

Toshiaki Takeuchi[1]

Representative Director

Apr.	1981	Joined the Company
Mar.	2009	Vice President, Corporate Planning, Kao Customer Marketing Co., Ltd.
Mar.	2010	Member of the Board, Executive Officer, Kao Customer Marketing Co., Ltd.
May	2011	Member of the Board, Senior Managing Executive Officer, Kao Customer Marketing Co., Ltd.
May	2012	Representative Director, Senior Managing Executive Officer, Kao Customer Marketing Co., Ltd.
Jun.	2012	Executive Officer
Apr.	2013	Representative Director, Executive Vice President, Kao Customer Marketing Co., Ltd.
Mar.	2014	Member of the Board, Representative Director, Managing Executive Officer, President, Kao Customer Marketing Co., Ltd. (current)
Jan.	2016	Representative Director, Senior Managing Executive Officer; Representative Director, President, Kao Group Customer Marketing Co., Ltd. (current)

Katsuhiko Yoshida[1]

Representative Director

Apr.	1979	Joined the Company
Apr.	2007	President, Human Health Care Business Unit
Jun.	2007	Executive Officer
Apr.	2010	President, Fabric and Home Care Business Unit
Jun.	2012	Managing Executive Officer (current)
Mar.	2014	Member of the Board, Representative Director, President, Consumer Products; Responsible for Kao Professional Services Co., Ltd. (current)
Mar.	2015	Representative Director, Senior Managing Executive Officer (current)

Yoshihiro Hasebe[1]

Director

Apr.	1990	Joined the Company
Mar.	2008	Director, Research and Development – Fabric and Home Care Research – Household Products Research
Mar.	2011	Vice President, Research and Development – Beauty Research – Hair Beauty Research
Jan.	2014	Vice President, Research and Development – Core Technology; Vice President, Research and Development – Eco-Innovation Research
Mar.	2014	Executive Officer, Vice President, Research and Development
Mar.	2015	Senior Vice President, Research and Development (current)
Jan.	2016	Managing Executive Officer (current)
Mar.	2016	Member of the Board (current)

Sonosuke Kadonaga[2]

Independent [3]

President, Intrinsics,
Dean, Department of Management,
Kenichi Ohmae Graduate School of Business,
Business Breakthrough University

Apr.	1976	Joined Chiyoda Corporation
Jun.	1981	Master of Science in Chemical Engineering, Massachusetts Institute of Technology, School of Engineering, U.S.A.
Aug.	1986	Joined McKinsey & Company, Inc., Japan
Jul.	2009	President, Intrinsics (current)
Jun.	2012	Member of the Board, Kao Corporation (current)
Mar.	2014	Chairman of the Board of Directors (current)

Toru Nagashima[2]

Independent [3]

Senior Advisor, Teijin Limited

Apr.	1965	Joined Teijin Limited
Jul.	1974	Courses taken in the MBA Program, University of Utah, U.S.A.
Oct.	1975	Seconded to Polynova S.A., Mexico
Jun.	2000	Member of the Board, and CESHO (Chief Environment, Safety & Health Officer), Teijin Limited
Apr.	2001	Member of the Board, CMO (Chief Marketing Officer) and General Manager of Corporate Strategy & Planning Office, Teijin Limited
Jun.	2001	Managing Director, CMO (Chief Marketing Officer) and General Manager of Corporate Strategy & Planning Office, Teijin Limited
Nov.	2001	President & Representative Director, COO, Teijin Limited
Jun.	2002	President & Representative Director, CEO, Teijin Limited
Jun.	2008	Chairman of the Board, Teijin Limited
Mar.	2013	Member of the Board, Kao Corporation (current)
Apr.	2013	Senior Advisor, Member of the Board, Teijin Limited
Jun.	2013	Senior Advisor, Teijin Limited (current)

Masayuki Oku[2]

Independent [3]

Chairman of the Board, Sumitomo Mitsui Financial Group, Inc.

Apr.	1968	Joined Sumitomo Bank
May	1975	LL.M., University of Michigan Law School, U.S.A.
Jan.	1991	Branch Manager, Chicago Branch, Sumitomo Bank
Jun.	1994	Director, Sumitomo Bank
Nov.	1998	Managing Director, Sumitomo Bank
Jun.	1999	Managing Director and Managing Executive Officer, Sumitomo Bank
Jan.	2001	Senior Managing Director and Senior Managing Executive Officer, Sumitomo Bank
Apr.	2001	Senior Managing Director and Senior Managing Executive Officer, Sumitomo Mitsui Banking Corporation
Dec.	2002	Senior Managing Director, Sumitomo Mitsui Financial Group, Inc.
Jun.	2003	Deputy President and Executive Officer, Sumitomo Mitsui Banking Corporation
Jun.	2005	Chairman of the Board, Sumitomo Mitsui Financial Group, Inc. (current), and President and Chief Executive Officer, Sumitomo Mitsui Banking Corporation
Mar.	2014	Member of the Board, Kao Corporation (current)

Notes: 1. Holds the post of Executive Officer concurrently
2. Outside Director
3. Reported to Tokyo Stock Exchange, Inc. as Independent Director as set forth in the Regulations of Tokyo Stock Exchange, Inc.

Audit & Supervisory Board Members

Shoji Kobayashi

Full-time Audit & Supervisory Board Member

Apr.	1979	Joined the Company
Jun.	2006	Executive Officer
Apr.	2007	Vice President, Chemical Business Unit
Jun.	2010	President, Chemical Business Unit
Mar.	2013	Full-time Audit & Supervisory Board Member (current)

Norio Igarashi[1]

Independent [2]

Audit & Supervisory Board Member, Certified Public Accountant, Professor, Yokohama National University

Apr.	1977	Registered as Certified Public Accountant
Jul.	1988	Partner, Aoyama Audit Corporation and Price Waterhouse
Apr.	2007	Professor, Graduate School of International Social Sciences, Yokohama National University (current)
Mar.	2013	Audit & Supervisory Board Member, Kao Corporation (current)

Toshiharu Numata

Full-time Audit & Supervisory Board Member

Apr.	1989	Joined the Company
Jun.	2005	Executive Officer
Jun.	2006	Member of the Board, Executive Officer; and Senior Vice President, Research and Development
Jun.	2008	Member of the Board, Executive Vice President; Senior Vice President, Research and Development; and Responsible for Chemical Business, Product Quality Management; and TCR Promotion
May	2012	Member of the Board, Managing Executive Officer; Senior Vice President, Research and Development; and Responsible for Chemical Business Unit, Product Quality Management; TCR Promotion; and China Business
Jun.	2012	Senior Managing Executive Officer; President, Consumer Products and Chemical Business, China; Chairman of the Board and Chief Executive Officer, Kao (China) Holding Co., Ltd.; Chairman of the Board, Kao Commercial (Shanghai) Co., Ltd.; and Chairman of the Board, Kanebo Cosmetics (China) Co., Ltd.
Mar.	2015	Full-time Audit & Supervisory Board Member (current)

Yumiko Waseda[1]

Independent [2]

Audit & Supervisory Board Member, Attorney-at-Law

Apr.	1985	Registered as an attorney-at-law; Joined Masayuki Matsuda Law & Patent Offices (now Mori Hamada & Matsumoto, a law firm)
Apr.	2013	Joined Tokyo Roppongi Law & Patent Offices
Jan.	2014	Partner, Tokyo Roppongi Law & Patent Offices (current)
Mar.	2014	Audit & Supervisory Board Member, Kao Corporation (current)

Toraki Inoue[1]

Independent [2]

Audit & Supervisory Board Member,
Certified Public Accountant,
Representative Director, President, Accounting Advisory Co., Ltd.

Oct.	1980	Entered Arthur Andersen
Dec.	1985	Registered as Certified Public Accountant
Jun.	1987	Resided in New York Office of Arthur Andersen
Oct.	1995	National Partner of Arthur Andersen
Oct.	1997	Worldwide Partner of Arthur Andersen
Jul.	1999	Representative Partner, Asahi & Co.
Jul.	2008	Toraki Inoue Certified Public Accountant Office (current)
Jun.	2010	Representative Director, President, Accounting Advisory Co., Ltd. (current)
Mar.	2016	Audit & Supervisory Board Member, Kao Corporation (current)

Notes: 1. Outside Audit & Supervisory Board Member
2. Reported to Tokyo Stock Exchange, Inc. as Independent Audit & Supervisory Board Member as set forth in the Regulations of Tokyo Stock Exchange, Inc.

Executive Officers and Executive Fellows

(As of April 1, 2016)

Executive Officers

Michitaka Sawada
President and Chief Executive Officer
Responsible for Corporate Strategy

Katsuhiko Yoshida
Senior Managing Executive Officer
President, Consumer Products
Responsible for Kao Professional Services Co., Ltd.

Toshiaki Takeuchi
Senior Managing Executive Officer
Representative Director, President, Kao Group Customer Marketing Co., Ltd.
Representative Director, President, Kao Customer Marketing Co., Ltd.

Masumi Natsusaka
Managing Executive Officer
Responsible for Beauty Care Business
President, Beauty Care – Cosmetics Business Unit
Representative Director, President, Kanebo Cosmetics Inc.

Motohiro Morimura
Managing Executive Officer
Senior Vice President, Supply Chain Management
Responsible for TCR Promotion

Yasushi Aoki
Managing Executive Officer
Senior Vice President, Human Capital Development
Representative Director, Chairman of the Board, Kanebo Cosmetics Inc.
Senior Executive Officer, Senior Vice President, Human Resources and Administration, Kanebo Cosmetics Inc.
President, Kao Group Corporate Pension Fund

Hideko Aoki
Managing Executive Officer
Senior Vice President, Product Quality Management

Kozo Saito
Managing Executive Officer
President, Consumer Products – International Business Management
Chairman of the Board, Kao USA Inc.

Yoshihiro Hasebe
Managing Executive Officer
Senior Vice President, Research and Development

Yoshimichi Saita
Senior Vice President, Media Planning and Management
Vice President, Media Planning and Management – Product Public Relations

Kenji Miyawaki
Senior Vice President, Marketing Research and Development

Kazuyoshi Aoki
Senior Vice President, Accounting and Finance

Tadaaki Sugiyama
Senior Vice President, Legal and Compliance

Masakazu Negoro
President, Chemical Business Unit
Chairman of the Board, Fatty Chemical (Malaysia) Sdn. Bhd.
Chairman of the Board, Pilipinas Kao, Inc.
Presidente, Kao Chemicals Europe, S.L.

Hideki Tanaka
Senior Vice President, Procurement

Takehiko Shinto
Representative Director, Executive Vice President, Kao Group Customer Marketing Co., Ltd.
Representative Director, President, Kanebo Cosmetics Sales Inc.

Jun Shida
Vice President, Research and Development – Development Research – Health Care and Household

Yasushi Wada
Vice President, Supply Chain Management – Demand and Supply Planning Center

Tomoharu Matsuda
President, Beauty Care – Skin Care and Hair Care Business Unit

Masayuki Abe
Senior Vice President, Enterprise Information Solutions

Naoki Komoda
President, Fabric and Home Care Business Unit

Hitoshi Hosokawa
Vice President, Research and Development – Development Research – Skin Care, Hair Care and Cosmetics

Hiroyuki Yamashita
Vice President, Supply Chain Management – Technology Development Center
Vice President, Supply Chain Management – Demand and Supply Planning Center – Human Health Care

Minoru Nakanishi
Regional Executive Officer, President, Consumer Products, Greater China
Chairman of the Board and President, Kao (China) Holding Co., Ltd.
Chairman of the Board, Kao Commercial (Shanghai) Co., Ltd.
Chairman of the Board, Kanebo Cosmetics (China) Co., Ltd.

Akemi Ishiwata
Senior Vice President, Corporate Communications

Satoru Tanaka
President, Human Health Care Business Unit

Shigeru Ueyama
Senior Vice President, Corporate Strategy

Executive Fellows

Yoshinori Takema
Corporate Executive Fellow

Takuji Yasukawa
Corporate Executive Fellow

Minoru Utsumi
Corporate Executive Fellow

Yuji Furui
Corporate Executive Fellow
Doctor of Medical Science

Chiaki Mukai
Corporate Executive Fellow
Astronaut; Doctor of Medical Science

Risk and Crisis Management

Basic Policy and Organization

Kao regards the potential negative impact on its management targets and business activities as a "risk" and the manifestation of such risk as a "crisis," and has established an organization for appropriate risk and crisis management.

Based on the Risk and Crisis Management Policy, the Risk and Crisis Management Committee, chaired by the member of the Board of Directors or Executive Officer in charge of risk and crisis management, ascertains the progress of cross-divisional Company-wide risk management and establishes a system and operating plans for risk and crisis management activities.

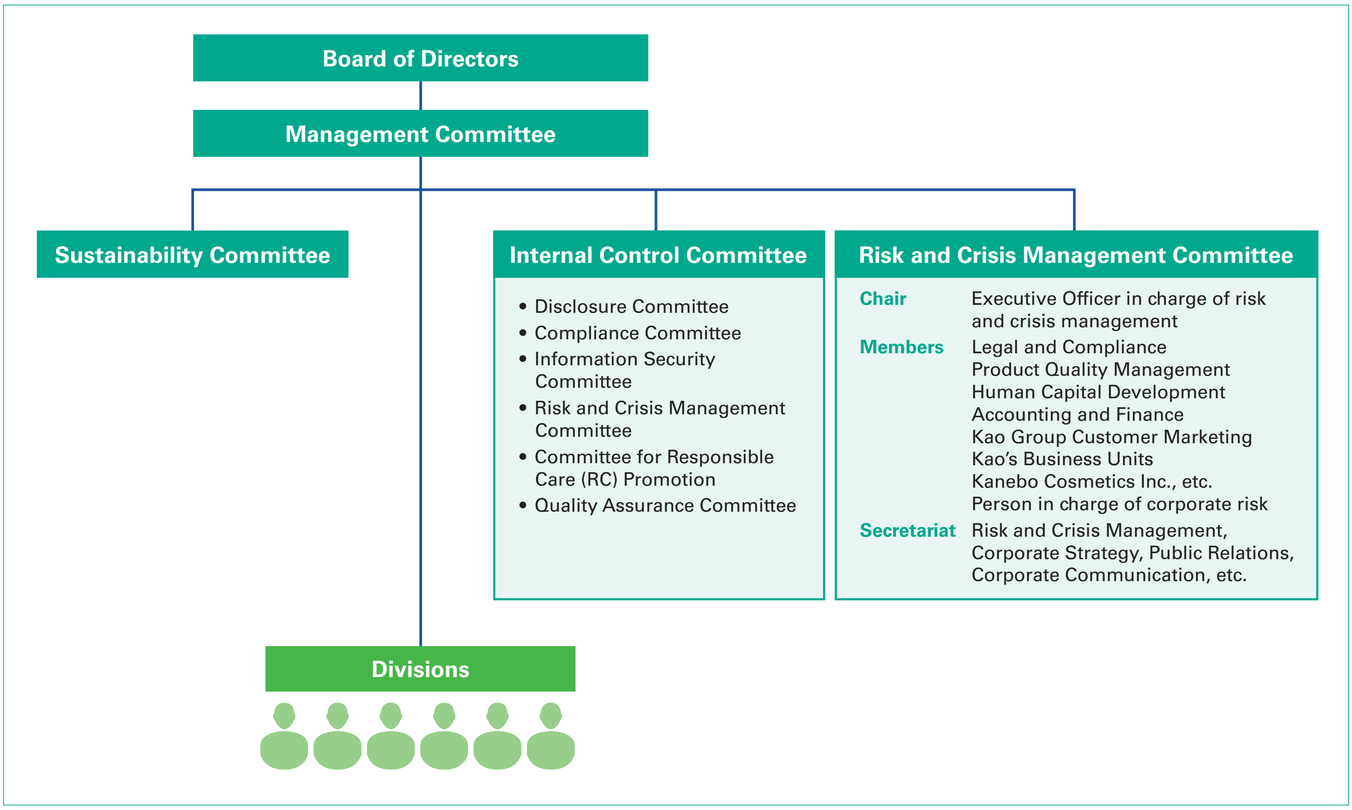
Based on this policy and plan, departments concerned with risk or subsidiaries and affiliates appropriately manage risk by ascertaining and assessing risks, formulating and implementing necessary countermeasures.

In addition, Kao specifies major Company-wide risks as "corporate risks" and appoints a person to appropriately manage each risk.

When a crisis occurs, Kao responds promptly to minimize injury and damage by establishing an organization for countermeasures centered on this person in charge of corporate risks, and on departments concerned with risk or subsidiaries and affiliates for other risks. In addition, depending on the magnitude of the impact on the Kao Group as a whole, Kao also establishes a countermeasures headquarters with the President and Chief Executive Officer or other person as its general manager.

Management of the abovementioned risks and crises is reported to and discussed at the Meeting of the Board of Directors or the Management Committee on a regular basis as well as in a timely fashion whenever necessary.

Risk and Crisis Management Organization



Priority Themes

1. Building a New Risk and Crisis Management Organization

The globalization of our business increases the uncertainty and complexity of the management environment, as well as the scale and speed of the impact on business activities when a risk becomes manifest. In light of this situation, Kao worked as follows in 2015 to build a new risk and crisis management organization.

(1) Expanding the Scope for Strengthening Risk Management

The scope for strengthening risk management was expanded to include not only the former operational risks such as accidents and disasters, product problems and issues with compliance, but also strategy risks that would hinder the achievement of short-term and mid-term plans as well as risks involving trust in the Company, which are closely related to these risks.

(2) Clarifying Major Risks to Be Handled by Management and Building an Organization for Response

Kao has specified major Company-wide risks as "corporate risks," appointed an Executive Officer in charge of managing such risks, and built a new organization to promote risk management.

Corporate risks include not only risks that have an impact on business continuity, such as an earthquake with an epicenter in the Tokyo metropolitan area, for which Kao has been enhancing countermeasures, but also other risks such as those related to management strategy.

(3) Strengthening the Organization and Initial Response When a Crisis Occurs

Previously, dealing with risks has mainly been consideration of risk reduction activities to prevent the manifestation of risks and activities to minimize their impact. For major risks, in addition to these risk reduction activities, we have decided to strengthen the organization and our initial response when a crisis occurs, assuming the manifestation of such risks.

In 2016, we will further strengthen our risk reduction activities and implement speedy and appropriate responses under our new risk and crisis management organization when a crisis occurs.

2. Identifying Risks That Could Seriously Affect Achievement of Management Targets and Business Activities, and Strengthening Countermeasures

For operational risks, Kao conducts risk surveys at key divisions and subsidiaries in Japan as well as at Kao Group companies outside Japan to identify events that could seriously affect Kao Group business activities, factors in their occurrence, current countermeasures and issues.

Risk surveys at Kao Group companies outside Japan in 2015 ascertained the establishment of organizations to deal with emergency situations, the creation of action plans and the implementation status of education and training in order to confirm that such companies are going through the PDCA cycle in dealing with emergency situations that affect lives and business continuity. As a result, we were able to understand the differences in the response levels of Kao Group companies outside Japan with regard to their establishment of organizations to deal with social disorder caused by factors such as terrorist attacks, which have occurred in many countries in recent years, and pandemics of new types of influenza or other diseases.

In 2016, we will work to enhance the level of response of the entire Kao Group to emergency situations related to social disorder or pandemics by revising global guidelines and strengthening response organizations at Kao Group companies outside Japan.

3. Strengthening the Business Continuity Plan (BCP)*

We have been working to strengthen our supply chain to ensure delivery of products to customers by revising our raw materials procurement, production and logistics systems assuming a large-scale earthquake that may strike in the future.

In 2015, we considered alternate locations for continuing the functions of headquarters, assuming a situation in which we were unable to secure key personnel or use main locations due to an earthquake with an epicenter in the Tokyo metropolitan area. In addition, we identified issues such as a response organization and standards for business continuity assuming a pandemic of a new type of influenza or other disease, and made revisions.

In 2016, we will deal with these issues in greater depth to strengthen the BCP.

* A plan for continuing key corporate activities through procedures to decide in advance which operations and functions should be continued, and which methods should be applied to continue activities, assuming various situations that cause the interruption and/or shutdown of business activities due to various events and the factors in their occurrence

Compliance

Basic Policy

Kao upholds the principle of integrity, passed down from its founder, as one of the "Values" of its corporate philosophy, the Kao Way. "Integrity" means to behave lawfully and ethically and conduct fair and honest business activities. Kao regards integrity as the starting point of compliance and promotes it as a foundation for earning the respect and trust of all stakeholders.

Structure

Kao has established a Compliance Committee, chaired by a Senior Managing Executive Officer and comprised of representatives of relevant divisions and affiliates. Once every six months, the committee (1) discusses the establishment and revision of Kao's code of conduct, the Kao Business Conduct Guidelines (BCG), and other internal compliance-related guidelines; (2) implements educational activities to promote the spread and establishment of corporate ethics both in Japan and overseas; and (3) monitors the operation of and responses to the compliance hotlines. The committee then reports important matters, provides an overview of activities and makes proposals to the Board of Directors as appropriate.

Verifying the Validity and Appropriateness of Compliance Activities

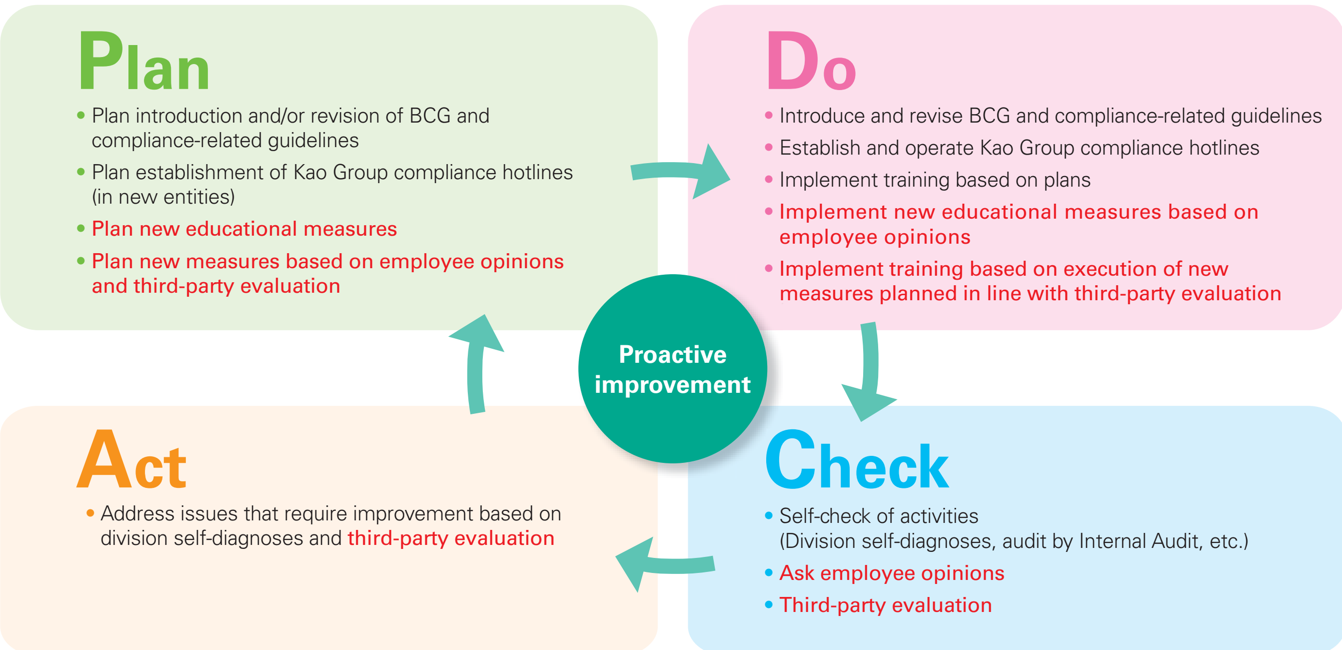
Based on its medium-to-long-term and annual action plans, Kao conducts compliance promotion activities including regular revision of the BCG, maintenance and operation of compliance hotlines, and Integrity Workshops. To confirm the validity and appropriateness of the activities being conducted so that they lead to more effective compliance activities, Kao has decided to ask the opinions of compliance promoters and general staff in all departments within the Company, through activities to collect employee opinions and a Compliance Roundtable, and to obtain verification from a consulting firm outside the Company from 2015 onward in order to establish action plans for subsequent years.

Compliance Awareness Month

In its activities to listen to employee opinions, Kao has received a lot of calls from employees to make compliance activities more relevant to their daily work. In response, Kao has set October as Compliance Awareness Month for all Kao Group companies in Japan, to coincide with the Corporate Ethics Awareness Month designated by Keidanren (The Japan Business Federation). Activities conducted have included posting a message from the Compliance Committee Chairman on the intranet and posters, disseminating compliance messages to each department from Executive Officers, an event to choose a

PDCA Cycle for Compliance Activities

The Kao Group's Compliance Activities (Evaluation processes are in red)



compliance logo through intranet voting, sharing case studies, and a test to review the BCG. Employees expressed opinions that the vote on the logo enhanced a feeling of unity among the Group companies, and that the month offered a novel opportunity to reflect on compliance once each year. In 2016, Compliance Awareness Month will be held throughout the entire Kao Group, including Group companies outside Japan.

Implementing Guidelines for Compliance

In the BCG, Kao has made clear its strong stance against bribery by specifying that bribes shall not be given to or received from any party, regardless of affiliation. Furthermore, the BCG prohibits "facilitation payments," which are small payments to government officials.

In addition, the Kao Group has introduced the Kao Anti-Bribery Guidelines, which include detailed anti-bribery rules applicable Group-wide as well as operating procedures for entertainment, giving and receiving gifts, and other matters geared to the business, country or region. The Kao Group has also introduced the Kao Guidelines for Avoiding Conflicts of Interest, which set forth requirements for approval and notification to deal with specific circumstances where a conflict of interest may arise such as competitive activities, transactions, monetary loans and personal investments by executives and employees.

In 2015, the Kao Business Conduct Guidelines Casebook, a collection of case studies in a question-and-answer format that was previously issued in Japanese and English, was made available in local versions in 17 languages and distributed to employees in each country or region. Moreover, the BCG was revised in April 2016 with updated content to incorporate the Kao Group's measures since 2013 and its approach to its operating environment.

Accelerating the Spread of Integrity Workshops

To deepen understanding of the BCG and other compliance-related rules, group training is conducted for new employees, newly appointed managers, executives in Japan and employees of Group companies outside Japan. A BCG refresher test is also conducted every year so that employees review its content (participation rate: 95.2% (33,508 of 35,175 employees)). Moreover, Integrity Workshops for BCG training have been held since 2008. In 2015, workshops were held at Group companies in Europe, mainly conducted by 16 instructors selected at the end of 2014, bringing the cumulative participation rate to 85% (9,360 of 11,000 employees). Integrity Workshops will continue to be conducted in 2016, mainly in areas where they have not yet been held.

Establishing and Operating Compliance Hotlines

In accordance with the needs of each country or region, the Kao Group either sets up both internal and external hotlines or operates only an external hotline. After properly confirming the caller's needs, the company will investigate the matter while taking steps to protect the caller's privacy to the fullest extent possible. The company will obtain consent from the caller when third-party confirmation is necessary. The company will also ensure that the caller suffers no disadvantage as a result of a report or consultation made in good faith. In 2015, there were 196 calls to the hotlines in the Kao Group, including companies outside Japan, none of which concerned serious matters. About 70% of the calls were consultations about workplace communication.

Selected as One of the World's Most Ethical Companies for Ten Consecutive Years

Kao has been selected as one of the 2016 World's Most Ethical Companies, as announced by the U.S. think tank Ethisphere Institute in March 2016. The company has been on this list since the inception of the list in 2007. Among both Japanese companies and global manufacturers of daily consumer goods and chemicals, Kao is the only company to be chosen for ten consecutive years. This year, 131 companies worldwide were selected. This recognition reflects that the spirit of integrity passed down from Kao's founding continues to be implemented by all Kao Group members through practice of the Kao Way and the BCG.

World's Most Ethical Companies presentation

Sustainability

Basic Policy

Based on its corporate philosophy, the Kao Way, the Kao Group contributes to realizing a sustainable society by working to find solutions to social issues through *Yoki-Monozukuri* tailored to the needs of the times and the community.

On July 1, 2013, we announced the Kao Sustainability Statement to share with stakeholders inside and outside the Kao Group our policy for achieving both corporate growth and a sustainable society as our business expands globally. With this statement as our point of reference, the Kao Group proactively seeks the trust and support of its stakeholders, aiming to enhance its contributions to a sustainable society.

Kao Sustainability Statement

Topics

Respect for Human Rights: Adoption of Kao Human Rights Policy

In 2005, Kao joined the United Nations Global Compact, which defines 10 principles in the four areas of human rights, labor, the environment and anti-corruption. In addition, Kao has implemented initiatives for respecting human rights, making its stance clear in the Kao Business Conduct Guidelines, the Guidelines for Supplier's Assessment and other internal rules. In light of growing interest from the international community, Kao adopted the Kao Human Rights Policy in June 2015 based on the United Nations Guiding Principles on Business and Human Rights. In this policy, Kao sets forth its respect for international principles on human rights, its efforts for human rights due diligence, employee education and other matters. Since adopting the policy, we have been working to disseminate it among employees through measures such as an explanatory meeting and an introduction in the company newsletter. To prepare for human rights due diligence, we have been considering methods for human rights risk assessment in Kao Group companies and establishing the structure for promotion. In addition, Kao has begun requesting its suppliers to register with Sedex, a global platform for sharing ethical data on corporations, in addition to the current supplier self-assessments conducted by Kao itself.

SRI Indexes and External CSR Evaluations (As of March 25, 2016)

SRI indexes for which Kao has been selected

CSR-related evaluations from external organizations

Kao Corporation named for ten consecutive years

Kao Corporation also received Gold Class 2016 and Industry Mover 2016

SRI: Socially Responsible Investment
CSR: Corporate Social Responsibility

Environment

Basic Policy

In a society confronted with a range of global environmental challenges, such as the depletion of natural resources and global warming, Kao has adopted the mission of striving for the enrichment of the lives of people globally. In 2009, we announced the Kao Environmental Statement and medium-term objectives for 2020. The entire Kao Group has been focusing on manufacturing that reduces environmental impact and on ecology-centered management as it continues meeting its responsibilities as a user of chemicals. We recognize CO_2, water, chemical substances and biodiversity as four priority areas for taking action.

In addition, we conduct "eco together" activities to promote cooperation with our diverse stakeholders, including consumers, business partners and society, throughout the product lifecycle, from raw material procurement to production, distribution, sales, use and disposal. Outside Japan, we promote nationwide cleanliness and water-saving activities in China jointly with the Center for Environmental Education and Communications of the Ministry of Environmental Protection of China. Activities are focused on the theme of "aiming to save 10,000 liters annually per household."

Initiatives in 2015

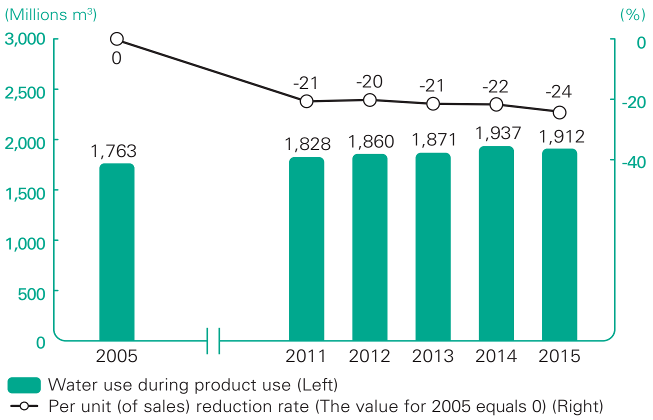
1. Reducing Water Consumption during Product Use

For household laundering, which consumes a large amount of water, Kao launched the concentrated liquid laundry detergent *Attack Neo* in 2009. The use of ultra-concentration technology that requires only one laundry rinse cycle saves not only water but also electricity and time. In August 2013, we launched *Ultra Attack Neo*, which uses a new cleaning ingredient for high-performance, speedy laundering that powerfully removes dirt and odors with just five minutes of washing time. We have also introduced water-saving laundry detergents in China, Australia, Singapore, Hong Kong, Thailand and Indonesia.

For dishwashing, another activity that consumes a large amount of water, in August 2014 we launched an improved version of *CuCute* dishwashing detergent with higher cleaning power and faster rinsing.

Water consumption in the bath is even higher. We launched improved versions of *Merit Shampoo*, which cuts rinse water by approximately 20 percent compared with the original version, in 2010 and *Bath Magiclean* bathroom cleaner, which offers improved cleaning power and easier rinsing, in August 2015.

Water Use during Product Use*



* Water use during product use is defined as the amount of water during the product use stage mainly of individual consumer products in Japan, multiplied by their annual sales quantity. Some data entries through 2005 have been retroactively modified.

2. Activities to Conserve Biodiversity

Kao works to conserve biodiversity in line with the Kao Basic Policy on Biodiversity Conservation, which was announced in 2011. Each Kao plant conducts its business activities in consideration of regional ecosystems. In June 2015, Pilipinas Kao, Inc. received the PEZA (Philippine Economic Zone Authority) Environmental Performance Award from the government of the Philippines in recognition of mangrove planting, beach cleanup and other activities it has been conducting since 2010. In October 2015, Kao Corporation's Kashima Plant received an award from the Minister of the Environment of Japan in a contest for corporate activities to promote a vibrant ecosystem, in recognition of its activities to create a forest for employees on its grounds.

Pilipinas Kao environmental protection team

Receiving an award from President Aquino

Supply Chain

Basic Policy

Kao is further enhancing its competitiveness in global markets with the aim of becoming a company with a global presence. We conduct procurement of raw materials that is not only fair and impartial, based on legal compliance and the highest ethics, but that also contributes to corporate growth, with attention to product quality and stable procurement. With the aim of contributing to the sustainability of the world, which we have adopted as part of the mission of the Kao Way, we give full consideration to preservation of natural resources, conservation, safety and human rights as we strive to fulfill our corporate social responsibilities.

Initiatives

Sustainable Procurement of Raw Materials

In recognition of the risks to sustainable development from scarcity of resources, degradation of biodiversity, climate change and other environmental problems, as well as human rights issues such as forced labor, Kao strives for sustainable procurement of raw materials. These initiatives require comprehensive engagement of the supply chain. In particular, we work toward climate change mitigation and conservation of water resources by participating in the CDP[1] Supply Chain Project[2] and requiring major suppliers to disclose and reduce greenhouse gas emissions and use water resources appropriately. We also conduct activities to conserve forest resources.

In addition, in cooperation with our suppliers, we are streamlining distribution and reducing the environmental impact of procured products. In particular, based on its awareness of the dependence of its businesses on natural capital, Kao is committed to zero deforestation at the source in its procurement of raw materials including palm oil and paper. Over the medium-to-long term, Kao strives to reduce its use of natural capital by reducing the amount of raw materials used in its business and shifting to alternative raw materials such as algae or other non-edible biomass sources. Moreover, in consideration of human rights and ethical issues that have emerged due to globalization, Kao will promote measures such as confirmation of supply chain risks using Sedex.[3]

Specific activities are as follows.

1. Procurement of Sustainable Raw Materials

Under its procurement guidelines, Kao has declared a goal of switching to procurement of sustainable raw materials for palm oil, paper and pulp by 2020 as an initiative toward zero deforestation. Kao has joined the Roundtable on Sustainable Palm Oil and received supply chain certification at its related plants for procurement of certified palm oil and palm kernel oil. By 2020, Kao aims to purchase only sustainable palm oil and palm kernel oil that is traceable to the plantation. As of the end of 2015, Kao has confirmed traceability to the mill, and efforts for confirmation to the plantation are continuing. As for procurement of paper and pulp, by 2020 Kao aims to purchase only recycled paper or sustainably sourced paper and pulp for use in its consumer products, packaging and office paper, and has achieved a progress rate of 96% toward that goal as of the end of 2015. In particular, by 2020 Kao aims to purchase only pulp for raw materials that is traceable to the source.

2. Sustainable Sourcing of Plant Resources

In recognition of the problems of the scarcity of plant resources and plunder of resources, Kao purchases plant resources in consideration of ABS[4] and continues initiatives to diversify sourcing routes and to convert from natural to cultivated plants, considering the natural environment and local communities at their source

3. Initiatives to Reduce Dependence on Petrochemical Resources in Packaging

Kao continues efforts to reduce total volume of plastics used through minimization of container size and development of refill containers, while promoting use of biomass materials such as plant-based polyethylene in containers and packaging.

Traceability of Paper and Pulp

	2013*	2014	2015
Amount purchased (tons)	100	127	147
Traceability rate	3%	78%	96%

* The value for amount purchased in 2013 equals 100.

Notes: 1. CDP (Carbon Disclosure Project) refers to cooperation between institutional investors and major corporations in natural capital initiatives and promotion of disclosure of greenhouse gas emissions, and water and forest conservation activities.
2. The CDP Supply Chain Project refers to cooperation between the CDP and corporations, with corporations requesting their suppliers to disclose information regarding natural capital initiatives; this project affects the entire supply chain.
3. Sedex (Supplier Ethical Data Exchange) is a large-scale, global platform for the sharing of information relating to labor standards, health and safety, environmental protection and business practices, aimed at promoting the adoption and maintenance of ethical business practices in global supply chains.
4. ABS (Access and Benefit Sharing) refers to access to genetic resources and the fair and equitable sharing of benefits arising from their utilization, as defined by the Convention on Biological Diversity.

Human Capital Development

Basic Policy

The efforts of each and every employee to pursue individual achievements by exercising his or her own abilities and characteristics to the utmost can contribute to the success of the employer. Based on this concept, Kao has established Guidelines for Human Capital Development with the aim of creating such an environment and corporate culture. We provide various opportunities and support for employees to develop their skills and capabilities in accordance with their own level of motivation, individual characteristics and organizational goals.

Promoting Diversity and Inclusion

We fairly evaluate the performance of each employee to find, develop and promote human capital with motivation and capabilities. In addition, we work for detailed communication with workplaces by exploring issues through employee opinion surveys and Genba Roundtable sessions in which President Sawada has the opportunity to communicate his vision directly to employees, and for employees to freely share ideas and exchange opinions. We also promote the development of an organizational culture and working environment in which both individuals and the company achieve growth.

Cultivating Employees Who Can Act Globally

Employees' personal growth is vital to the growth of the company as a whole. Kao implements a wide range of different training programs, providing Kao employees all over the world with learning opportunities. Training is designed to meet a wide range of different needs, and incorporates common elements based on a global perspective as well as elements tailored to meet the specific needs of particular regions, companies or positions.

The Global Leadership Development Program (GLDP) is a global program in which members selected from companies in the Kao Group study Kao's business challenges from a broader perspective, engage in vigorous discussions and make proposals to executive management. Networking among participants and overseas sessions also provide opportunities to learn about diverse cultures. At the same time, in-house trainers are cultivated at individual Kao business locations around the world, working with speed and attention to detail to ensure that all Kao employees absorb the Kao Way and Kao's emphasis on integrity.

Active Participation by Women

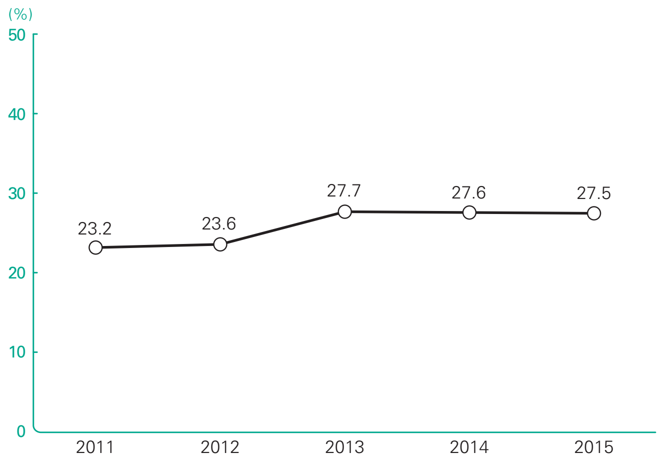
Evaluating and promoting employees based on their motivation and capabilities leads to expanded roles for female employees. At Kao Corporation, the Kao Group's headquarters, three female officers have been appointed to the positions of Managing Executive Officer, Executive Officer and Audit & Supervisory Board Member. As of December 31, 2015, the percentage of female managers in the Kao Group is 27.5% worldwide and 10.4% in Japan.

Composition of Kao Group Employees and Managers

(As of December 31, 2015)

	Employees	Female employees (%)	Managers	Female managers (%)
Japan	22,105	12,124 (54.8%)	2,557	267 (10.4%)
Asia (excluding Japan)	7,091	3,412 (48.1%)	1,032	492 (47.7%)
Americas and Europe	3,830	1,804 (47.1%)	1,142	542 (47.5%)
Total	33,026	17,340 (52.5%)	4,731	1,301 (27.5%)

Change in Percentage of Female Managers



Financial Section

11-Year Summary

Kao Corporation and Consolidated Subsidiaries

Years ended December 31, 2015 to 2012, period ended December 31, 2012, and years ended March 31, 2012 to 2006.	Dec. 2015	Dec. 2014	Dec. 2013	Dec. 2012 (Restated)
	Millions of yen			
For the year:				
Net sales	¥1,471,791	¥1,401,707	¥1,315,217	¥1,220,359
Business Segments				
Beauty Care Business	607,692	589,907	570,268	537,814
Human Health Care Business	280,723	240,077	210,628	189,614
Fabric and Home Care Business	334,416	324,505	311,023	291,988
Consumer Products Business	1,222,831	1,154,489	1,091,919	1,019,416
Chemical Business	288,456	288,022	261,192	236,473
Eliminations	(39,496)	(40,804)	(37,894)	(35,530)
Former Segments				
Consumer Products	—	—	—	—
Prestige Cosmetics	—	—	—	—
Chemical Products	—	—	—	—
Eliminations	—	—	—	—
Geographic Area				
Japan	1,019,016	997,309	959,405	933,767
Asia	281,533	244,903	199,655	160,005
Asia and Oceania	—	—	—	—
Americas	137,827	124,216	108,599	89,998
North America	—	—	—	—
Europe	154,350	152,056	134,168	110,519
Eliminations	(120,935)	(116,777)	(86,610)	(73,930)
Operating income	164,380	133,270	124,656	111,791
Net income	98,862	79,590	64,764	53,107
Capital expenditures	83,414	68,484	63,687	—
Depreciation and amortization	73,623	79,660	77,297	—
Cash flows	135,394	125,436	109,497	—
Research and development expenditures	51,987	51,739	49,650	—
(% of sales)	3.5%	3.7%	3.8%	—
Advertising expenditures	94,496	92,410	86,406	—
(% of sales)	6.4%	6.6%	6.6%	—
At year end:				
Total assets	1,281,869	1,198,233	1,133,276	—
Net worth	675,608	658,232	628,709	—
Number of employees	33,026	32,707	33,054	—
	Yen			
Per share:				
Net income	¥ 197.19	¥ 156.46	¥ 126.03	¥101.77
Cash dividends	80.00	70.00	64.00	—
Net worth	1,347.29	1,313.63	1,227.54	—
Weighted average number of shares outstanding during the period (in thousands)	501,352	508,687	513,880	—
	%			
Key financial ratios:				
Return on sales	6.7%	5.7%	4.9%	4.4%
Return on equity	14.8	12.4	10.7	9.5
Net worth ratio	52.7	54.9	55.5	—

Notes: 1. Due to a change in the fiscal year end, the term of consolidation for the fiscal period ended December 31, 2012 consists of the nine months from April to December for Kao Corporation and its subsidiaries whose fiscal year end was previously March 31 and the twelve months from January to December for subsidiaries whose fiscal year end was December 31.
2. December 2012 (Restated) represents figures for the year from January 1 to December 31, 2012, for Kao Group companies whose fiscal year end was previously March 31.
3. As of January 2014, certain changes have been made in inter-company transactions among subsidiaries in the Consumer Products Business in the Americas and Europe.
4. Australia and New Zealand, which had been included in Asia and Oceania until the fiscal year ended March 31, 2012, have been reclassified under Americas from the fiscal period ended December 31, 2012.
5. Kao reorganized its operations effective April 2007 by integrating the former consumer products business and prestige cosmetics business into the Consumer Products Business, which is divided into three businesses (the Beauty Care Business, the Human Health Care Business and the Fabric and Home Care Business). Together with the Chemical Business, Kao's business operations now consist of four segments. Figures for March 2007 have been restated to reflect the change.
6. 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.

	Dec. 2012	Mar. 2012	Mar. 2011	Mar. 2010	Mar. 2009	Mar. 2008	Mar. 2007	Mar. 2006
Millions of yen								
	¥1,012,595	¥1,216,096	¥1,186,831	¥1,184,385	¥1,276,316	¥1,318,514	¥1,231,808	¥ 971,230
	444,425	537,938	533,514	547,944	588,330	627,914	584,284	—
	151,977	181,758	175,761	183,151	191,319	191,300	183,608	—
	236,748	285,645	279,008	276,918	274,202	274,657	269,519	—
	833,150	1,005,341	988,283	1,008,013	1,053,851	1,093,871	1,037,411	—
	208,071	247,635	231,997	207,834	262,058	258,674	223,609	—
	(28,626)	(36,880)	(33,449)	(31,462)	(39,593)	(34,031)	(29,212)	—
	—	—	—	—	—	—	744,748	704,034
	—	—	—	—	—	—	292,663	85,247
	—	—	—	—	—	—	223,609	208,890
	—	—	—	—	—	—	(29,212)	(26,941)
	720,789	925,339	912,443	918,499	953,369	968,594	924,196	708,056
	159,857	—	—	—	—	—	—	—
	—	173,588	152,361	131,699	161,927	158,295	125,989	110,898
	89,998	—	—	—	—	—	—	—
	—	85,397	80,328	79,200	98,999	111,017	106,731	95,168
	110,519	117,005	112,123	111,158	140,623	154,648	135,918	109,486
	(68,568)	(85,233)	(70,424)	(56,171)	(78,602)	(74,040)	(61,026)	(52,378)
	101,567	108,590	104,591	94,034	96,800	116,253	120,858	120,135
	52,765	52,435	46,738	40,507	64,463	66,562	70,528	71,140
	41,929	47,178	49,101	44,868	44,624	49,045	70,143	203,595
	59,788	79,798	81,380	84,778	87,463	93,444	92,171	60,758
	80,200	101,960	97,028	95,269	122,441	131,114	134,906	107,943
	37,493	48,171	45,516	44,911	46,126	45,070	44,389	40,262
	3.7%	4.0%	3.8%	3.8%	3.6%	3.4%	3.6%	4.1%
	67,045	82,209	81,082	86,359	90,258	99,176	96,892	83,770
	6.6%	6.8%	6.8%	7.3%	7.1%	7.5%	7.9%	8.6%
	1,030,347	991,272	1,022,799	1,065,751	1,119,676	1,232,601	1,247,797	1,220,564
	582,699	538,030	528,895	565,133	545,230	574,038	564,532	509,676
	33,350	34,069	34,743	34,913	33,745	32,900	32,175	29,908
Yen								
	¥ 101.12	¥ 100.46	¥ 87.69	¥ 75.57	¥ 120.25	¥ 122.53	¥ 129.41	¥ 130.58
	62.00	60.00	58.00	57.00	56.00	54.00	52.00	50.00
	1,116.61	1,031.08	1,013.05	1,054.31	1,017.19	1,070.67	1,035.66	935.11
	521,824	521,936	532,980	536,009	536,085	543,228	544,996	544,127
%								
	5.2%	4.3%	3.9%	3.4%	5.1%	5.0%	5.7%	7.3%
	9.4	9.8	8.5	7.3	11.5	11.7	13.1	14.9
	56.6	54.3	51.7	53.0	48.7	46.6	45.2	41.8

7. 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.
8. Net sales by geographic area including interregion sales are classified based on the location of Kao Group companies.
9. Cash flows are defined as net income plus depreciation and amortization minus cash dividends.
10. Net income per share is computed based on the weighted average number of shares outstanding during the respective years. 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.
11. Cash dividends per share are the amounts applicable to the respective years, including dividends to be paid after the end of the year.
12. Net worth is equity, excluding minority interests and stock acquisition rights.
13. In calculating return on equity, equity excludes minority interests and stock acquisition rights.

Management Discussion and Analysis

Overview of Consolidated Results

The Kao Group has been working to carry out Kao Group Mid-term Plan 2015 (K15), which started in fiscal 2013, with the aim of becoming a company with a global presence as it works for both sustained "profitable growth" by increasing the added value of its products and "contributions to the sustainability of the world" by making proposals to resolve social issues and conducting social contribution activities through its business activities. As a result, the Kao Group has been able to achieve all of the targets of K15 as of fiscal 2015, which was the final year of the plan.

(For Reference)

Kao Group Mid-term Plan 2015 (K15)

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

Target 2: Achieve numerical management targets for fiscal 2015

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

* Ratio of net sales to foreign customers to consolidated net sales

During the fiscal year ended December 31, 2015, the global economy recovered moderately, although weakness was apparent in emerging nations in Asia and elsewhere. The Japanese economy also continued on a moderate recovery track. The household and personal care products market in Japan, a key market for the Kao Group, grew by 3 percent on a value basis and consumer purchase prices rose compared with the previous fiscal year. Excluding inbound demand (demand from visitors to Japan), the cosmetics market in Japan contracted by 2 percent on a value basis due to a tough year-on-year comparison associated with the impact of an increase in the consumption tax rate on April 1, 2014.

Under these circumstances, the Kao Group has been working to launch and nurture products with high added value in response to changes in consumer needs based on its concept of *Yoki-Monozukuri* (see note on page 12), which emphasizes research and development geared to customers and consumers. The Kao Group has also been conducting cost reduction activities and other measures.

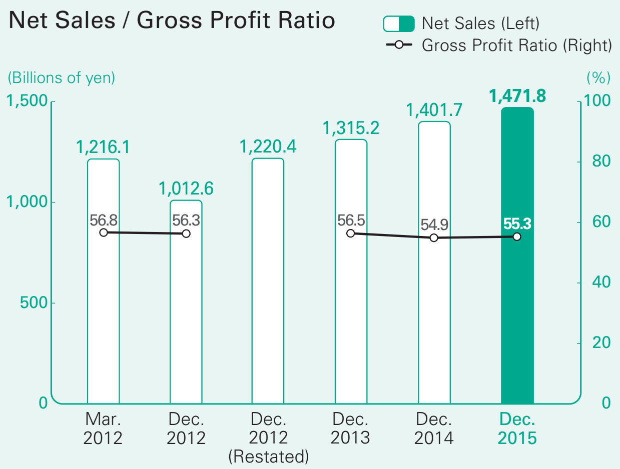
Net sales increased 5.0 percent compared with the previous fiscal year to ¥1,471.8 billion (US$12,217.1 million).

Operating income was ¥164.4 billion (US$1,364.5 million), an increase of ¥31.1 billion compared with the previous fiscal year. Net income increased ¥19.3 billion compared with the previous fiscal year to ¥98.9 billion (US$820.6 million).

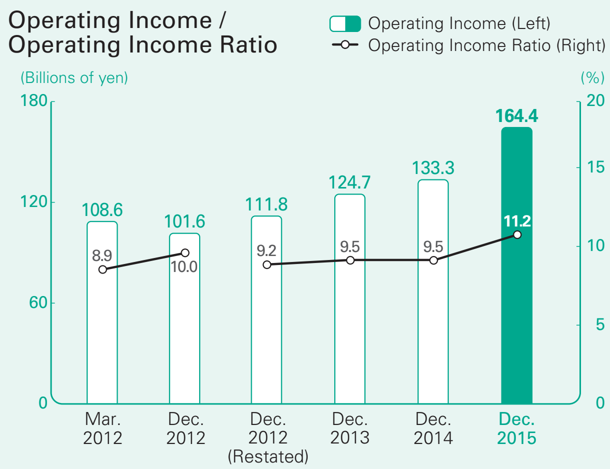
Analysis of Income Statement

Net sales increased 5.0 percent compared with the previous fiscal year to ¥1,471.8 billion (US$12,217.1 million). Excluding the effect of currency translation, net sales would have increased 2.8 percent. In the Consumer Products Business in Japan, market share grew and sales increased due to factors

(Year ended March 31, 2012, period ended December 31, 2012 and years ended December 31, 2012 to 2015)



Note: The gross profit ratio has not been disclosed for the year ended December 31, 2012.



Costs, Expenses and Income as Percentages of Net Sales

Years ended December 31, 2015, 2014 and 2013	Dec. 2015	Dec. 2014	Dec. 2013
Cost of sales	44.7%	45.1%	43.5%
Gross profit	55.3	54.9	56.5
Selling, general and administrative expenses	44.1	45.4	47.0
Operating income	11.2	9.5	9.5
Income before income taxes and minority interests	11.0	9.0	8.7
Net income	6.7	5.7	4.9

including market growth, new product launches and further enhancement of sales promotion activities. Outside Japan, sales in Asia grew substantially. In the Chemical Business, sales decreased excluding the effect of currency translation due to selling price adjustments associated with fluctuations in raw material prices and the impact of a decline in demand in some customer industries.

Profits increased due to the effect of increased sales, mainly in the Human Health Care Business in Japan and the Consumer Products Business in Asia, and lower prices of raw materials, mainly natural fats and oils and petrochemicals, among other factors. Operating income was ¥164.4 billion (US$1,364.5 million), an increase of ¥31.1 billion compared with the previous fiscal year. Net income increased ¥19.3 billion compared with the previous fiscal year to ¥98.9 billion (US$820.6 million).

Net income per share was ¥197.19 (US$1.64), an increase of ¥40.73, or 26.0 percent, from ¥156.46 in the previous fiscal year.

Information by Segment

Consumer Products Business

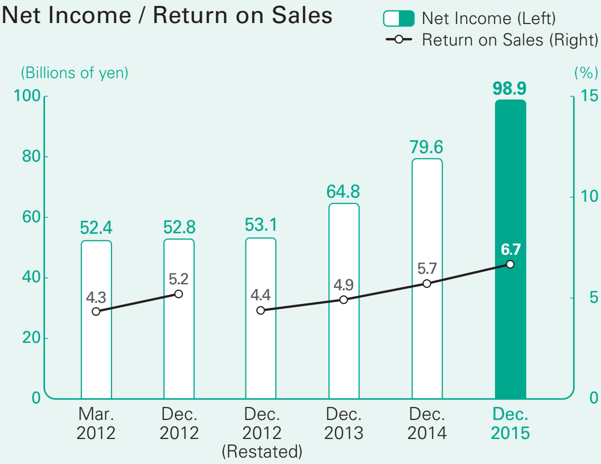
Sales increased 5.9 percent compared with the previous fiscal year to ¥1,222.8 billion (US$10,150.5 million). Excluding the effect of currency translation, sales would have increased 3.8 percent.

In Japan, sales increased 2.6 percent compared with the previous fiscal year to ¥923.0 billion (US$7,661.6 million). Excluding the effect of the revision of the sales system for Kao Sofina, sales would have increased 3.4 percent. The Kao Group made efforts that included responding to changing consumer lifestyles and social issues such as the environment, health, the aging society and hygiene, launching numerous high-value-added products and enhancing proposal-oriented sales activities. Sales grew, mainly of sanitary products, although sales of cosmetics decreased compared with the previous fiscal year.

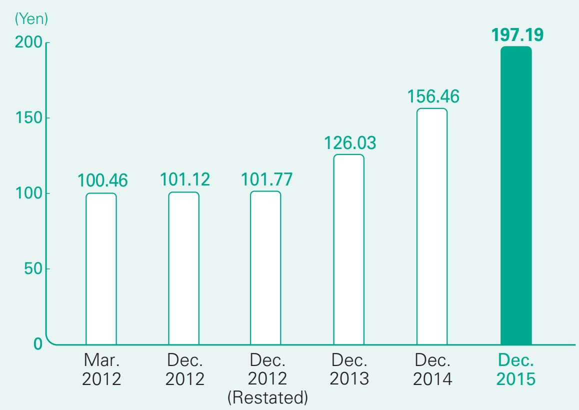
In Asia, sales increased 27.7 percent to ¥179.5 billion (US$1,489.6 million). Excluding the effect of currency

(Year ended March 31, 2012, period ended December 31, 2012 and years ended December 31, 2012 to 2015)

Net Income / Return on Sales



Net Income per Share



translation, sales would have increased 18.1 percent. Growth continued as the Kao Group worked in areas such as launching and nurturing products targeting the middle-class consumer segment, collaborating with retailers, utilizing wholesale channels and expanding sales regions.

In the Americas, sales increased 12.4 percent to ¥89.7 billion (US$744.9 million). Excluding the effect of currency translation, sales would have decreased 0.1 percent. Sales of skin care products and professional hair care products grew, but sales of hair care products decreased compared with the previous fiscal year.

In Europe, sales increased 6.7 percent to ¥89.9 billion (US$746.2 million). Excluding the effect of currency translation, sales would have increased 5.7 percent. Sales of hair care products and professional hair care products grew.

Operating income increased ¥22.9 billion compared with the previous fiscal year to ¥134.2 billion (US$1,114.0 million) due to factors including the effect of increased sales in the Human Health Care Business in Japan and increased sales in Asia.

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

Beauty Care Business

Sales increased 3.0 percent compared with the previous fiscal year to ¥607.7 billion (US$5,044.3 million). Excluding the effect of currency translation, sales would have increased 0.5 percent.

Sales of cosmetics decreased 2.3 percent compared with the previous fiscal year to ¥254.7 billion (US$2,114.2 million). Excluding the effect of currency translation, sales would have decreased 3.0 percent. Excluding the effect of the revision of the sales system for Kao Sofina, sales would have increased 0.6 percent, or decreased 0.2 percent excluding the effect of currency translation. In Japan, the Kao Group continued to work to reinforce focal brands, but sales decreased compared with the previous fiscal year due to the impact of severe market competition. The Kao Group began its reform of the Kao Sofina brand in November, with advance sales at a flagship store in Ginza, Tokyo of new *SOFINA iP* products for women in the "quest for long-lasting beauty," even under harsh conditions such as fatigue and stress. In self-selection brands, sales of *KATE TOKYO* makeup grew and the *suisai* skin care brand performed well due to inbound demand. Outside Japan, sales increased from the previous fiscal year excluding the effect of currency translation due to strong performance in China, where structural reforms have been completed, and the rest of Asia, with strong performance by *KATE TOKYO* in particular.

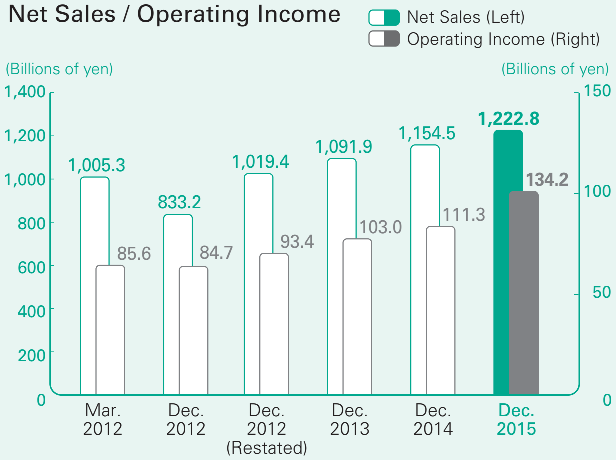
Sales of skin care products increased compared with the previous fiscal year. In Japan, sales increased with strong performance by *Bioré* UV care products and facial cleanser and *Curél* for sensitive skin. In Asia, *Bioré* performed steadily and sales grew excluding the effect of currency translation. Sales in the Americas grew excluding the effect of currency translation, with steady performance by *Bioré* due to the addition of items based on new proposals.

Sales of hair care products increased compared with the previous fiscal year. In Japan, sales increased as new shampoo and conditioner products performed steadily and

(Year ended March 31, 2012, period ended December 31, 2012 and years ended December 31, 2012 to 2015)

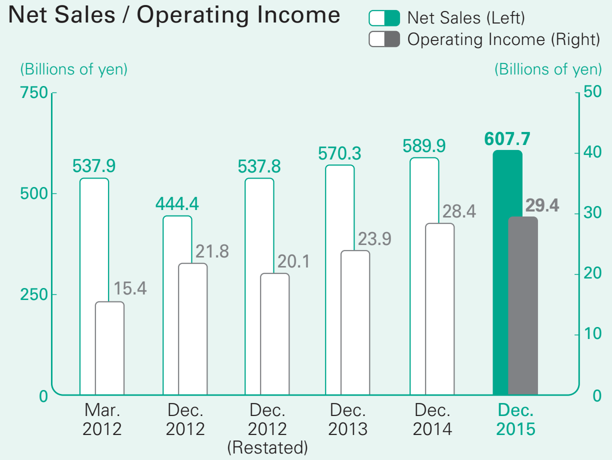
Consumer Products Business

Net Sales / Operating Income



Beauty Care Business

Net Sales / Operating Income



increased market share. In Asia, sales excluding the effect of currency translation decreased because the Kao Group narrowed down its brands. In the Americas, sales were basically unchanged excluding the effect of currency translation. In Europe, sales increased excluding the effect of currency translation, due to firm performance by *John Frieda* and professional hair care products.

Operating income increased ¥1.0 billion compared with the previous fiscal year to ¥29.4 billion (US$244.2 million), mainly due to the effect of increased sales and more efficient management of expenses. Operating income before amortization of goodwill and other items related to acquisitions (EBITA) decreased ¥1.5 billion compared with the previous fiscal year to ¥55.8 billion (US$463.0 million), which is equivalent to 9.2 percent of sales.

Human Health Care Business

Sales increased 16.9 percent compared with the previous fiscal year to ¥280.7 billion (US$2,330.2 million). Excluding the effect of currency translation, sales would have increased 14.3 percent.

Sales of food and beverage products decreased compared with the previous fiscal year. For the *Healthya* brand of functional drinks that promote body fat utilization, the Kao Group strengthened its promotion of the function of highly concentrated tea catechins in increasing the fat-burning ability of its green tea. However, *Healthya* products, which include coffee drinks as well as green tea, were impacted by intensifying market competition.

Sales of sanitary products increased substantially. The *Laurier* brand of sanitary napkins increased its market share in Japan due to growth in sales of high-value-added products such as *Laurier F*, which wicks moisture away to be gentle on the skin, and *Laurier Slim Guard*, which offers both high absorbency and comfort. Sales of *Laurier* also increased steadily in Asia. *Merries* baby diapers continued to sell strongly in Japan, and the Kao Group is expanding production capacity. In China, sales of both imports from Japan and locally produced products targeting the middle-class consumer segment grew. In Indonesia, locally produced products launched in September 2014 targeting the middle-class consumer segment sold steadily, including the expansion of distribution channels.

Sales of personal health products increased compared with the previous fiscal year. Sales of oral care products increased as the Kao Group launched high-value-added products. Sales of bath additives were steady. Sales of *MegRhythm* steam thermo sheets increased substantially as the Kao Group captured inbound demand, mainly for *MegRhythm Steam Eye Masks*.

Operating income increased ¥13.7 billion compared with the previous fiscal year to ¥35.5 billion (US$295.1 million), mainly due to the effect of the increase in sales.

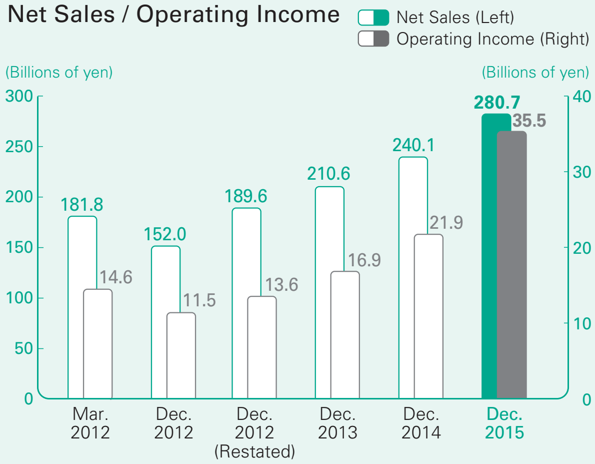
Fabric and Home Care Business

Sales increased 3.1 percent compared with the previous fiscal year to ¥334.4 billion (US$2,775.9 million). Excluding the effect of currency translation, sales would have increased 2.1 percent.

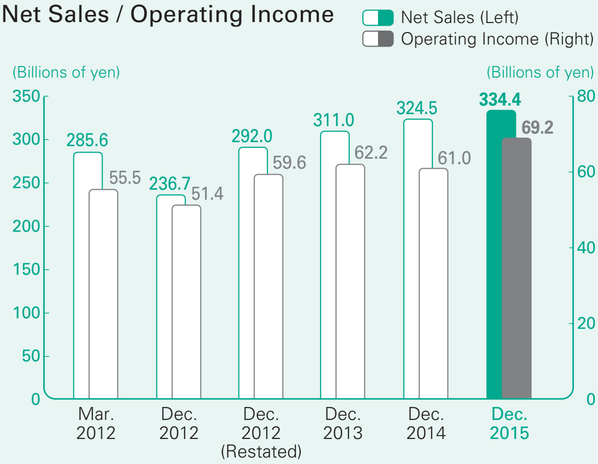
Sales of fabric care products increased compared with the previous fiscal year. Sales in Japan were basically unchanged from the previous fiscal year due to the contraction of the

(Year ended March 31, 2012, period ended December 31, 2012 and years ended December 31, 2012 to 2015)

Human Health Care Business
Net Sales / Operating Income



Fabric and Home Care Business
Net Sales / Operating Income



powder laundry detergent market and the impact of market competition. The Kao Group improved *Ultra Attack Neo* ultra-concentrated liquid laundry detergent with a combination of surfactants and citric acid for previously unattainable whiteness and launched *Attack Antibacterial EX Super Clear Gel* liquid laundry detergent, a blend of clear antibacterial components. In fabric softeners, *Humming* was renewed to enable both softness and quick water absorbency. For *Humming Fine*, the Kao Group made improvements to add the first drying effect to its 24-hour deodorant. In addition, market share increased for *Flair Fragrance* fabric softener featuring about twice the fragrance release capability when sensing moisture or perspiration. In Asia, sales increased compared with the previous fiscal year. Sales of *Attack* laundry detergent grew, due in part to the contribution of *Attack Jaz1*, a powder detergent for hand washing targeting the middle-class consumer segment launched in Indonesia in June 2014.

Sales of home care products increased compared with the previous fiscal year. In Japan, *CuCute* dishwashing detergent continued to perform strongly. *Magiclean* household cleaners, which underwent a complete renewal, and *Quickle* household cleaning sheets sold well. The renewed *Resesh* fabric refresher stimulated the market and sales were strong. In fabric care and home care products, the Kao Group also gained support from consumers with the launch of the *Deodorizing Strong* range, which aims to address concerns about odors at nursing care sites and improve quality of life.

Operating income increased ¥8.3 billion compared with the previous fiscal year to ¥69.2 billion (US$574.7 million) due to the effect of an increase in sales of high-value added products and lower raw material prices.

Chemical Business

Sales increased 0.2 percent compared with the previous fiscal year to ¥288.5 billion (US$2,394.4 million). Excluding the effect of currency translation, sales would have decreased 2.3 percent.

Demand remained weak in some customer industries in Japan. Outside Japan, although there was a decrease in demand in customer industries and a decline in public works investment in some sectors, growth was apparent in export demand with the depreciation of the euro.

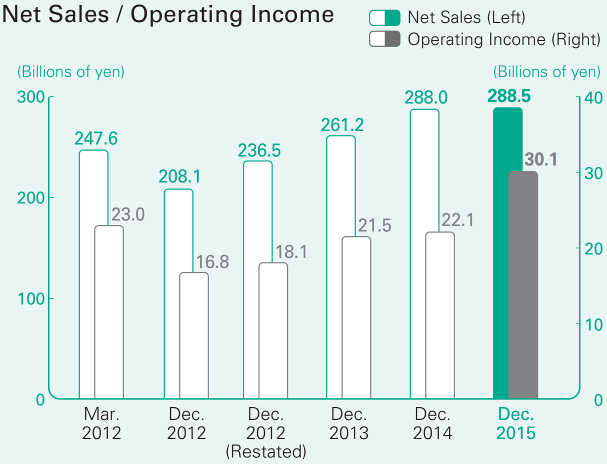
Sales of oleo chemicals were impacted by adjustments in selling prices in connection with fluctuations in raw material prices and by a decrease in demand in customer industries. In performance chemicals, amid stagnant demand associated with decreased public investment and other factors, the Kao Group worked to develop and expand sales of high-value-added products with reduced environmental impact. Specialty chemicals were impacted by structural changes in the personal computer market, but sales of high-value-added products grew as the Kao Group provided products that meet customer needs.

Operating income increased ¥8.1 billion compared with the previous fiscal year to ¥30.1 billion (US$250.0 million) due to the effect of increased sales of high-value-added products and cost reduction activities.

(Year ended March 31, 2012, period ended December 31, 2012 and years ended December 31, 2012 to 2015)

Chemical Business

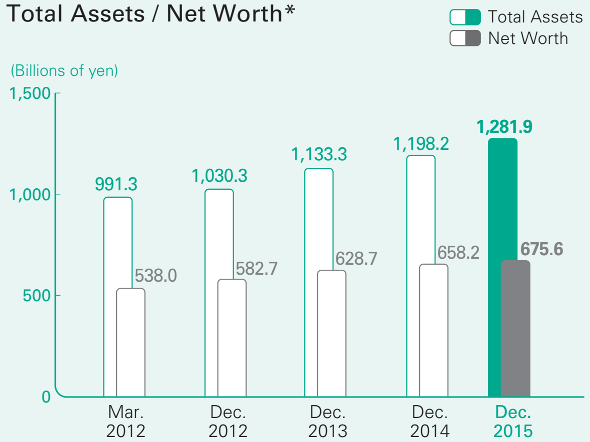
Net Sales / Operating Income



Note: Net sales include intersegment sales.

(Year ended March 31, 2012, period ended December 31, 2012 and years ended December 31, 2013 to 2015)

Total Assets / Net Worth*



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

Financial Structure

Total assets increased ¥83.6 billion from the end of the previous fiscal year to ¥1,281.9 billion (US$10,640.6 million). The principal increases in assets were a ¥17.7 billion increase in cash and time deposits, a ¥64.9 billion increase in short-term investments, a ¥9.9 billion increase in other current assets, and a ¥20.1 billion increase in property, plant and equipment. The principal decrease in assets was a ¥24.2 billion decrease in intangible assets due to the progress of amortization of trademarks and other intellectual property rights and goodwill.

Total liabilities increased ¥68.9 billion from the end of the previous fiscal year to ¥594.7 billion (US$4,936.8 million). The principal increases in liabilities were a ¥39.4 billion increase in long-term debt, a ¥31.8 billion increase in liability for retirement benefits, which includes an increase due to the adoption of an accounting standard for retirement benefits, and a ¥10.0 billion increase in notes and accounts payable – other. The principal decrease in liabilities was a ¥20.0 billion decrease in current portion of long-term debt.

Total equity increased ¥14.7 billion from the end of the previous fiscal year to ¥687.1 billion (US$5,703.8 million). The principal increase in equity was net income totaling ¥98.9 billion. The principal decreases in net assets were foreign currency translation adjustments of ¥14.5 billion and payments of dividends from retained earnings totaling ¥37.1 billion.

Due to the adoption of an accounting standard for retirement benefits, the balance of retained earnings at the beginning of the period decreased by ¥27.9 billion.

As a result of the above factors, the net worth ratio (defined as net worth divided by total assets) was 52.7 percent compared with 54.9 percent at the end of the previous fiscal year.

Cash Flows

The balance of cash and cash equivalents as of December 31, 2015 increased ¥80.8 billion from a year earlier to ¥309.4 billion (US$2,568.6 million).

Cash Flows from Operating Activities

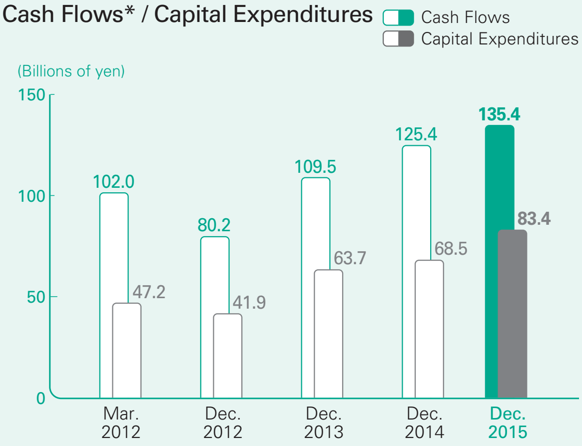
Net cash provided by operating activities totaled ¥180.9 billion (US$1,501.3 million). The principal increases in net cash were income before income taxes and minority interests of ¥161.6 billion, depreciation and amortization of ¥73.6 billion and change in notes and accounts payable – other and accrued expenses of ¥8.6 billion. The principal decreases in net cash were income taxes paid of ¥46.2 billion and change in trade receivables of ¥8.4 billion.

Cash Flows from Investing Activities

Net cash used in investing activities totaled ¥74.0 billion (US$614.4 million). This primarily consisted of purchase of property, plant and equipment of ¥64.1 billion.

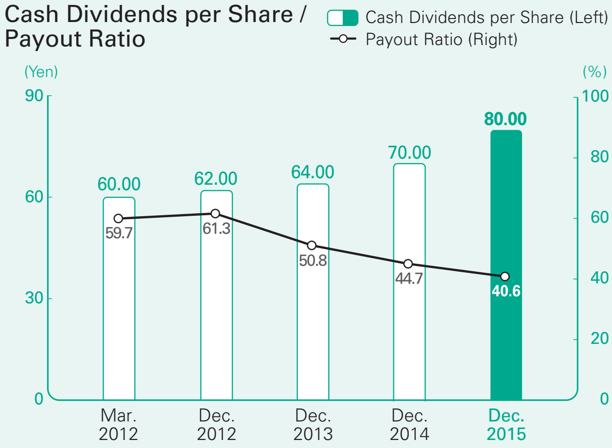
(Year ended March 31, 2012, period ended December 31, 2012 and years ended December 31, 2013 to 2015)

Cash Flows* / Capital Expenditures



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

Cash Dividends per Share / Payout Ratio



Cash Flows from Financing Activities

Net cash used in financing activities totaled ¥20.6 billion (US$171.0 million). This primarily consisted of ¥38.4 billion for payments of cash dividends, including to minority shareholders. In March 2015, the Kao Group repaid loans totaling ¥20.0 billion but borrowed ¥40.0 billion with the objective of maintaining an appropriate capital cost ratio and reinforcing its financial base to invest for growth.

Basic Policies Regarding Distribution of Profits and Dividends for the Period

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

In accordance with these policies, Kao Corporation announced a year-end dividend for fiscal 2015 of ¥42.00 (US$0.35) per share, an increase of ¥6.00 per share compared with the previous fiscal year. Consequently, cash dividends for the fiscal year increased ¥10.00 per share compared with the previous fiscal year, resulting in a total of ¥80.00 (US$0.66) per share. The consolidated payout ratio was 40.6 percent.

For the fiscal year ending December 31, 2016, Kao Corporation plans to pay total cash dividends of ¥92.00 per share, an increase of ¥12.00 per share compared with the fiscal year ended December 31, 2015. Although the operating environment is challenging, this plan is in accordance with Kao Corporation's basic policies regarding distribution of profits, and free cash flow and other factors have also been taken into consideration. As a result, Kao Corporation is aiming for its 27th consecutive fiscal year of increases in dividends.

EVA

Economic Value Added (EVA®) is the Kao Group's main management metric, defined as net operating profit after tax (NOPAT) less a charge for the cost of capital employed in the business. We believe EVA indicates "true" profit. Continuously increasing EVA raises corporate value, which is consistent with the long-term interest of not only shareholders but other stakeholders as well. The Kao Group aims to conduct business activities that expand the scale of its business while also increasing EVA, and uses EVA for business performance evaluation, performance-based compensation and strategic decision-making. During the fiscal year ended December 31, 2015, EVA increased to 244 from 165 in the previous year due to double-digit growth in NOPAT and the Kao Group's ability to minimize the increase in invested capital by maximizing the use of its assets. As a result, EVA for the year set new record highs in terms of both the amount of improvement and the absolute value. EVA is expressed as an index with the year ended December 31, 2011 as 100. The Kao Group conducted the following EVA-related activities during the fiscal year.

Investing for Growth: During the fiscal year ended December 31, 2015, the Kao Group invested aggressively for future growth. The Kao Group expanded the capacity of production lines inside and outside Japan, mainly for sanitary products, and a new factory in China for the Chemical Business was completed and started production. The Kao Group also relocated its Odawara Research Laboratories and invested in reform of cosmetics business. Research and development expenditures were ¥52.0 billion (US$431.5 million), which was the equivalent of 3.5 percent of net sales, remaining at a high level relative to net sales.

Increasing Profit: During the fiscal year ended December 31, 2015, the Consumer Products Business in Japan, excluding cosmetics, continued to increase its market share, and the Consumer Products Business performed well in Asia. As a result, sales grew substantially, leading to an increase in profit. In addition, cost reduction activities and the benefits from the stabilization of raw material prices at a low level contributed significantly to improvement in NOPAT.

Financial Improvement: Free cash flow* increased ¥25.5 billion to ¥106.8 billion (US$886.9 million) for the fiscal year ended December 31, 2015. 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, followed by stable and continuous dividends. Kao Corporation increased cash dividends per share for the fiscal year by ¥10.00 to ¥80.00 (US$0.66) for the 26th consecutive year of growth in cash dividends.

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

Business Risks and Other Risks

Various risks arise in the course of a company's business. The Kao Group takes reasonable measures to mitigate risks by preventing the occurrence of, diversifying and hedging them. In the event a risk manifests itself, the Kao Group responds appropriately and works to minimize its impact.

However, unanticipated situations may occur that exert a significant impact on the Kao Group's business results and financial condition. The risks described below are not a comprehensive list of risks the Kao Group faces. Other risks exist and may have an impact on investment decisions. Any statements below concerning the future are judgments made by Kao Corporation as of the submission of its securities report to the Ministry of Finance on March 25, 2016.

(1) Consumer Products Business

1. Response to Changes in Consumer Needs

The Kao Group's Consumer Products Business is affected by business cycles and changes in consumers' values in the market of each country. The Consumer Products Business maintains and improves brand value by understanding changes in consumer needs and using the comprehensive strength of the Kao Group's product development and manufacturing in working to create high-value-added products and provide services through approaches in areas including the environment, health, the aging society and hygiene. However, as a consequence of uncertainties in these business activities due to various factors, the Consumer Products Business may be unable to provide products and services that respond to changes in consumer needs and brand value could decrease. This could have an impact on the Kao Group's business results and financial condition.

2. Response to Changes in Retailing

The Kao Group's Consumer Products Business is affected by changes in the structure of retailing, including progress in the creation of new corporate groups through retail industry mergers and integration in the market and the emergence of new retail channels. The Consumer Products Business conducts sales activities and makes new offerings that respond to these structural changes. However, as a consequence of uncertainties in these business activities due to various factors, the Consumer Products Business may be unable to conduct sales activities or make new offerings that respond to these structural changes. This could have an impact on the Kao Group's business results and financial condition.

(2) Chemical Business

The Kao Group's Chemical Business is affected by factors including trends in customer demand and fluctuations in raw material prices. The Chemical Business promotes creation of high-value added products that match customer needs, conducts research and development of products in consideration of the environment, and provides such products while working to reduce costs and deal with product prices. However, as a consequence of uncertainties in these business activities due to various factors, the Chemical Business may be unable to provide products that match customer needs or respond to matters such as fluctuations in raw material prices. This could have an impact on the Kao Group's business results and financial condition.

(3) Business Acquisitions, Business Alliances and Mergers

The Kao Group may implement business acquisitions, business alliances, mergers or other such measures. When implementing them, the Kao Group makes decisions after thoroughly assessing economic value and its partner companies. However, due to various unforeseeable uncertainties in its business activities, the Kao Group may be unable to produce the results it initially expected. This could have an impact on the Kao Group's business results and financial condition.

(4) Overseas Business Expansion

As one of its growth strategies, the Kao Group is conducting operations in markets in Asia, the Americas, Europe and elsewhere, with a particular emphasis on strengthening its operations in countries where higher economic growth rates and market expansion are forecast. However, the Kao Group may be unable to strengthen its operations as a consequence of uncertainties due to various factors in the course of business including the occurrence of a slowdown in economic growth or uncertain political or social conditions, intensifying competition, the inability to conduct sufficient cost management or the emergence of problems in relationships with retail outlets, sales agents or other trading partners. This could have an impact on the Kao Group's business results and financial condition.

(5) Procurement of Raw Materials

Market prices for natural fats and oils and petroleum-related materials used as raw materials for products of the Kao Group are affected by factors 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. In addition, the Kao Group is conducting development of substitute raw materials for natural fats and oils through research into advanced effective utilization of non-edible raw materials. However, unexpectedly radical changes in market conditions and pricing could have an impact on the Kao Group's business results and financial condition.

(6) 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 have an impact on the Kao Group's business results and financial condition.

(7) Response to Natural Disasters, Accidents and Other Incidents

To deal with earthquakes and other natural disasters, the Kao Group has formulated disaster countermeasures for its production facilities and primary offices and a business continuity plan (BCP), and will continue to strengthen and reinforce them in the future. However, the occurrence and consequent damage of an earthquake on a scale exceeding assumptions that hinder the supply of products to the market due to problems in areas such as securing raw materials and maintaining production, among other impediments, could have a serious impact on the Kao Group's business results and financial condition. In addition, the emergence of major changes in demand trends due to a worsening economic environment associated with the earthquake could have a serious impact on the Kao Group's business results and financial condition. Furthermore, the occurrence of an explosion or fire 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 harmful substances, the spread of infectious disease, terrorism, political change, riots and other incidents could hinder the supply of products to the market. This could have a serious impact on the Kao Group's reputation, business results and financial condition.

(8) 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, because items on the financial statements of overseas consolidated subsidiaries are translated into Japanese yen, substantial variance in the exchange rate from the expected rate at the time of conversion will have an impact on the Kao Group's business results and financial condition.

(9) Impact of Deferred Tax Assets and 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. The Kao Group may not generate the expected cash flow due to divergence from planned future business results, a decline in market value or other factors. This could have an impact on the Kao Group's business results and financial condition.

(10) Securing Human Capital

The Kao Group strives to secure diverse, superior human capital to achieve its business goals globally. Human capital with advanced expertise in areas such as research and development, production technologies, marketing and sales activities are indispensable in aiming for the *Yoki-Monozukuri* (see note on page 12) that consumers support. However, an inability to secure the necessary human capital due to changes in employment conditions or other factors could have an impact on the Kao Group's business results and financial condition.

(11) Compliance with Laws and Regulations

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 by the Kao Group or by a consignee or other party could have an impact on the Kao Group's reputation, business results and financial condition. Moreover, a 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.

(12) Information Management

The Kao Group possesses confidential information related to matters including research and development, production, marketing and sales, as well as the personal information of numerous customers used for product development, sales promotion and other purposes. The Kao Group conducts thorough information management using guidelines for handling information and implements appropriate security measures for its information systems, including both hardware and software. However, a leak of confidential or personal information held by the Kao Group resulting from an attack on its server, unlawful access, a computer virus or other factor that exceeds expectations could have an impact on the Kao Group's reputation, business results and financial condition.

(13) Litigation

The Kao Group conducts diverse businesses globally, and various types of litigation may be brought against it. The result of such litigation could have an impact on the Kao Group's business results and financial condition.

Consolidated Balance Sheet

Kao Corporation and Consolidated Subsidiaries
December 31, 2015 and 2014

	Millions of yen		Thousands of U.S. dollars (Note 2)
Assets	Dec. 2015	Dec. 2014	Dec. 2015
Current assets:			
Cash and time deposits (Notes 3 and 17)	¥ 125,159	¥ 107,412	$ 1,038,923
Short-term investments (Notes 3, 4 and 17)	188,551	123,639	1,565,128
Notes and accounts receivable (Note 17):			
Trade	204,734	203,396	1,699,460
Nonconsolidated subsidiaries and affiliates	1,999	1,835	16,593
Other	4,126	7,604	34,249
Inventories:			
Finished goods	112,329	111,831	932,423
Work in process and raw materials	45,805	45,956	380,219
Deferred tax assets (Note 7)	20,763	20,232	172,350
Other current assets	31,393	21,477	260,588
Allowance for doubtful receivables (Note 17)	(1,626)	(1,648)	(13,497)
Total current assets	733,233	641,734	6,086,436
Property, plant and equipment (Note 5):			
Land	64,715	69,445	537,187
Buildings and structures	376,714	361,223	3,127,036
Machinery, equipment and other	799,266	782,794	6,634,565
Lease assets (Note 8)	11,212	11,261	93,069
Construction in progress	18,734	27,381	155,507
Total	1,270,641	1,252,104	10,547,364
Accumulated depreciation	(942,911)	(944,489)	(7,826,936)
Net property, plant and equipment	327,730	307,615	2,720,428
Intangible assets:			
Goodwill	127,099	139,941	1,055,026
Trademarks	1,791	15,145	14,867
Other intangible assets	14,832	12,844	123,118
Total intangible assets	143,722	167,930	1,193,011
Investments and other assets:			
Investment securities (Notes 4 and 17)	12,945	11,655	107,454
Investments in and advances to nonconsolidated subsidiaries and affiliates	9,385	9,329	77,903
Deferred tax assets (Note 7)	23,896	20,630	198,357
Asset for retirement benefits (Note 9)	1,027	9,692	8,525
Other assets	29,931	29,648	248,452
Total investments and other assets	77,184	80,954	640,691
	¥1,281,869	¥1,198,233	$10,640,566

See Notes to Consolidated Financial Statements.

Liabilities and Equity	Millions of yen Dec. 2015	Millions of yen Dec. 2014	Thousands of U.S. dollars (Note 2) Dec. 2015
Current liabilities:			
Short-term debt (Notes 6 and 17)	¥ 47	¥ 1,137	$ 390
Current portion of long-term debt (Notes 6 and 17)	748	20,776	6,209
Notes and accounts payable (Note 17):			
Trade	128,650	124,979	1,067,901
Nonconsolidated subsidiaries and affiliates	8,628	8,433	71,619
Other	71,794	61,766	595,950
Income taxes payable (Note 17)	32,073	28,108	266,232
Accrued expenses	99,003	94,584	821,806
Liability for loss related to cosmetics	2,891	8,220	23,998
Other current liabilities (Notes 6 and 7)	33,659	32,533	279,397
Total current liabilities	377,493	380,536	3,133,502
Long-term liabilities:			
Long-term debt (Notes 6 and 17)	123,536	84,152	1,025,450
Liability for retirement benefits (Note 9)	74,178	42,414	615,738
Liability for loss related to cosmetics	2,474	—	20,536
Other long-term liabilities (Notes 6 and 7)	17,055	18,738	141,571
Total long-term liabilities	217,243	145,304	1,803,295
Commitments and contingent liabilities (Notes 8, 10 and 18)			
Equity (Notes 11 and 12):			
Common stock:			
Authorized-1,000,000,000 shares in 2015 and 2014			
Issued-504,000,000 shares in 2015 and 2014	85,424	85,424	709,089
Capital surplus	108,659	109,561	901,959
Stock acquisition rights	889	944	7,379
Retained earnings	502,134	468,684	4,168,125
Treasury stock, at cost			
(2,541,816 shares in 2015 and 2,921,992 shares in 2014)	(8,202)	(9,719)	(68,083)
Accumulated other comprehensive income			
Unrealized gain on available-for-sale securities	7,063	5,507	58,629
Deferred gain (loss) on derivatives under hedge accounting	(3)	8	(25)
Foreign currency translation adjustments	(19,315)	(4,853)	(160,330)
Remeasurements of defined benefit plans	(152)	3,619	(1,262)
Total	676,497	659,175	5,615,481
Minority interests	10,636	13,218	88,288
Total equity	687,133	672,393	5,703,769
	¥1,281,869	¥1,198,233	$10,640,566

Consolidated Statement of Income

Kao Corporation and Consolidated Subsidiaries
Years ended December 31, 2015 and 2014

	Millions of yen		Thousands of U.S. dollars (Note 2)
	Dec. 2015	Dec. 2014	Dec. 2015
Net sales (Note 14)	¥1,471,791	¥1,401,707	$12,217,075
Cost of sales	658,221	632,205	5,463,775
Gross profit	813,570	769,502	6,753,300
Selling, general and administrative expenses (Note 15)	649,190	636,232	5,388,811
Operating income (Note 14)	164,380	133,270	1,364,489
Other income (expenses):			
Interest and dividend income	1,261	1,014	10,467
Interest expense	(1,486)	(1,295)	(12,335)
Foreign currency exchange gain (loss)	(472)	1,171	(3,918)
Equity in earnings (losses) of nonconsolidated subsidiaries and affiliates	2,656	2,225	22,047
Impairment loss (Notes 5 and 14)	(4,014)	(132)	(33,319)
Other, net (Note 16)	(746)	(9,492)	(6,193)
Other income (expenses), net	(2,801)	(6,509)	(23,251)
Income before income taxes and minority interests	161,579	126,761	1,341,238
Income taxes (Note 7):			
Current	49,574	44,316	411,504
Deferred	12,525	2,023	103,968
Total income taxes	62,099	46,339	515,472
Income before minority interests	99,480	80,422	825,766
Minority interests in earnings of consolidated subsidiaries	618	832	5,130
Net income	¥ 98,862	¥ 79,590	$ 820,636
	Yen		U.S. dollars (Note 2)
Per share of common stock (Notes 1.v and 19):			
Basic net income	¥197.19	¥156.46	$1.64
Diluted net income	196.92	156.24	1.63
Cash dividends applicable to the year	80.00	70.00	0.66

See Notes to Consolidated Financial Statements.

Consolidated Statement of Comprehensive Income

Kao Corporation and Consolidated Subsidiaries
Years ended December 31, 2015 and 2014

	Millions of yen		Thousands of U.S. dollars (Note 2)
	Dec. 2015	Dec. 2014	Dec. 2015
Income before minority interests	¥ 99,480	¥ 80,422	$ 825,766
Other comprehensive income (Note 13)			
Unrealized gain (loss) on available-for-sale securities	1,310	639	10,874
Foreign currency translation adjustments	(15,793)	24,709	(131,094)
Share of other comprehensive income in affiliates	(9)	222	(75)
Remeasurements of defined benefit plans	(3,712)	(3,725)	(30,813)
Total other comprehensive income	(18,204)	21,845	(151,108)
Comprehensive income	¥ 81,276	¥102,267	$ 674,658
Comprehensive income attributable to:			
Shareholders of Kao Corporation	¥ 82,173	¥100,250	$ 682,104
Minority interests	(897)	2,017	(7,446)

See Notes to Consolidated Financial Statements.

Consolidated Statement of Changes in Equity

Kao Corporation and Consolidated Subsidiaries
Years ended December 31, 2015 and 2014

	Thousands	Millions of yen												
	Outstanding number of shares of common stock	Common stock	Capital surplus	Stock acquisition rights	Retained earnings	Treasury stock, at cost	Unrealized gain on available-for-sale securities	Deferred gain (loss) on derivatives under hedge accounting	Foreign currency translation adjustments	Post retirement liability adjustments for foreign consolidated subsidiaries	Remeasurements of defined benefit plans	Total	Minority interests	Total equity
Balance at January 1, 2014	512,170	¥85,424	¥109,561	¥1,120	¥471,383	¥ (9,397)	¥ 4,733	¥ 12	¥(28,416)	¥(4,590)	¥ —	¥629,830	¥12,810	¥642,640
Net income					79,590							79,590		79,590
Cash dividends, ¥66.00 per share					(33,814)							(33,814)		(33,814)
Purchase of treasury stock	(11,527)					(50,041)						(50,041)		(50,041)
Disposal of treasury stock	435				(79)	1,323						1,244		1,244
Retirement of treasury stock					(48,396)	48,396						—		—
Net change in the year				(176)			774	(4)	23,563	4,590	3,619	32,366	408	32,774
Balance at December 31, 2014 (January 1, 2015, as previously reported)	501,078	85,424	109,561	944	468,684	(9,719)	5,507	8	(4,853)	—	3,619	659,175	13,218	672,393
Cumulative effect of accounting change (Notes 1.n and 9)					(27,931)							(27,931)		(27,931)
Balance at January 1, 2015 (as restated)	501,078	85,424	109,561	944	440,753	(9,719)	5,507	8	(4,853)	—	3,619	631,244	13,218	644,462
Net income					98,862							98,862		98,862
Cash dividends, ¥74.00 per share					(37,091)							(37,091)		(37,091)
Purchase of treasury stock	(9)					(54)						(54)		(54)
Disposal of treasury stock	389				(390)	1,571						1,181		1,181
Change due to purchase of shares of consolidated subsidiaries			(902)									(902)		(902)
Net change in the year				(55)			1,556	(11)	(14,462)		(3,771)	(16,743)	(2,582)	(19,325)
Balance at December 31, 2015	501,458	¥85,424	¥108,659	¥ 889	¥502,134	¥ (8,202)	¥ 7,063	¥ (3)	¥(19,315)	¥ —	¥ (152)	¥676,497	¥10,636	¥687,133

	Thousands	Thousands of U.S. dollars (Note 2)												
	Outstanding number of shares of common stock	Common stock	Capital surplus	Stock acquisition rights	Retained earnings	Treasury stock, at cost	Unrealized gain on available-for-sale securities	Deferred gain (loss) on derivatives under hedge accounting	Foreign currency translation adjustments	Post retirement liability adjustments for foreign consolidated subsidiaries	Remeasurements of defined benefit plans	Total	Minority interests	Total equity
Balance at December 31, 2014 (January 1, 2015, as previously reported)	501,078	$709,089	$909,446	$7,836	$3,890,462	$(80,675)	$45,713	$ 67	$(40,284)	$—	$ 30,040	$5,471,694	$109,720	$5,581,414
Cumulative effect of accounting change (Notes 1.n and 9)					(231,850)							(231,850)		(231,850)
Balance at January 1, 2015 (as restated)	501,078	709,089	909,446	7,836	3,658,612	(80,675)	45,713	67	(40,284)		30,040	5,239,844	109,720	5,349,564
Net income					820,636							820,636		820,636
Cash dividends, US$0.61 per share					(307,886)							(307,886)		(307,886)
Purchase of treasury stock	(9)					(448)						(448)		(448)
Disposal of treasury stock	389				(3,237)	13,040						9,803		9,803
Change due to purchase of shares of consolidated subsidiaries			(7,487)									(7,487)		(7,487)
Net change in the year				(457)			12,916	(92)	(120,046)		(31,302)	(138,981)	(21,432)	(160,413)
Balance at December 31, 2015	501,458	$709,089	$901,959	$7,379	$4,168,125	$(68,083)	$58,629	$(25)	$(160,330)	$—	$ (1,262)	$5,615,481	$ 88,288	$5,703,769

See Notes to Consolidated Financial Statements.

Consolidated Statement of Cash Flows

Kao Corporation and Consolidated Subsidiaries
Years ended December 31, 2015 and 2014

	Millions of yen		Thousands of U.S. dollars (Note 2)
	Dec. 2015	Dec. 2014	Dec. 2015
Operating activities:			
Income before income taxes and minority interests	¥161,579	¥126,761	$1,341,238
Adjustments for:			
Income taxes paid	(46,234)	(49,294)	(383,780)
Depreciation and amortization	73,623	79,660	611,131
Impairment loss (Note 5)	4,014	132	33,319
(Gain) loss on sales or disposals of property, plant and equipment, and intangible assets, net	3,499	2,706	29,045
Equity in (earnings) losses of nonconsolidated subsidiaries and affiliates	(2,656)	(2,225)	(22,047)
Unrealized foreign currency exchange (gain) loss	(768)	(1,220)	(6,375)
Change in trade receivables	(8,410)	(10,953)	(69,810)
Change in inventories	(4,745)	(12,397)	(39,387)
Change in trade payables	7,334	6,715	60,878
Change in notes and accounts payable - other and accrued expenses	8,581	2,048	71,229
Change in accrued consumption taxes	(2,535)	6,576	(21,043)
Other, net	(12,418)	(3,391)	(103,078)
Net cash provided by operating activities	180,864	145,118	1,501,320
Investing activities:			
Payments into time deposits	(2,669)	(2,125)	(22,155)
Proceeds from withdrawal of time deposits	1,355	88	11,248
Purchase of property, plant and equipment	(64,056)	(51,151)	(531,717)
Purchase of intangible assets	(5,619)	(4,507)	(46,642)
Increase in investments in and advances to nonconsolidated subsidiaries and affiliates	—	(1,358)	—
Other, net	(3,031)	(4,755)	(25,161)
Net cash used in investing activities	(74,020)	(63,808)	(614,427)
Financing activities:			
Increase (decrease) in short-term debt	(1,128)	(273)	(9,363)
Proceeds from long-term loans	40,000	20,001	332,033
Repayments of long-term loans	(20,012)	(20,009)	(166,116)
Purchase of treasury stock	(55)	(50,044)	(457)
Payments of cash dividends	(38,375)	(34,963)	(318,544)
Other, net	(1,031)	266	(8,558)
Net cash used in financing activities	(20,601)	(85,022)	(171,005)
Translation adjustments on cash and cash equivalents	(5,466)	4,776	(45,373)
Net increase (decrease) in cash and cash equivalents	80,777	1,064	670,515
Cash and cash equivalents, beginning of year (Note 3)	228,662	227,598	1,898,083
Cash and cash equivalents, end of year (Note 3)	¥309,439	¥228,662	$2,568,598

See Notes to Consolidated Financial Statements.

Notes to Consolidated Financial Statements

Kao Corporation and Consolidated Subsidiaries
Years ended December 31, 2015 and 2014

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 accordance with accounting principles generally accepted in Japan ("Japanese GAAP"), which are different in certain respects as to application and disclosure requirements of International Financial Reporting Standards.

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

The preparation of financial statements in accordance 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 and influence concepts, 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.

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 recorded in equity through other comprehensive income
3) Expensing capitalized development costs of R&D
4) Cancellation of the fair value model of accounting for property, plant, and equipment and investment properties and incorporation of the cost model of accounting
5) Exclusion of minority interests from net income, if contained in net income

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 such 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 of America 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 recorded in equity through other comprehensive income
3) Expensing capitalized development costs of R&D
4) Cancellation of the fair value model of accounting for property, plant, and equipment and investment properties and incorporation of the cost model of accounting
5) Exclusion of minority interests from net income, if contained in net income

e) Business combinations

The accounting standard for business combinations requires companies to account for business combinations in accordance with the 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 a 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 price allocation.

Under the accounting standard for business divestitures, in a business divestiture 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 divestiture in the statement of income. In a business divestiture where the interests of the investor continue and the investment is not settled, no such gain or loss on business divestiture is recognized.

The "Accounting Standard for Business Combinations" (ASBJ Statement No. 21 issued by the Accounting Standards Board of Japan (ASBJ), in September 2013, hereinafter "Business Combinations Accounting Standard"), "Accounting Standard for Consolidated Financial Statements" (ASBJ Statement No. 22 issued in September 2013, hereinafter "Consolidation Accounting Standard") and "Accounting Standard for Business Divestitures" (ASBJ Statement No. 7 issued in September 2013, hereinafter "Business Divestitures Accounting Standard") could be adopted as of the beginning of fiscal years starting on or after April 1, 2014. Accordingly, the Company has early adopted these accounting standards (except as provided in Article 39 of the Consolidation Accounting Standard) as of the fiscal year ended December 31, 2015. Under these accounting standards, the Company records the difference caused by changes in the Company's equity shares in subsidiaries that it continues to control as capital surplus and records acquisition-related expenses as expenses during the fiscal year in which the expenses were incurred. With regard to business combinations conducted on or after the beginning of the fiscal year ended December 31, 2015, the Company has changed its accounting method to reflect the revised allocation of acquisition costs arising from settlement of provisional accounting treatment in the quarterly consolidated financial statement in which the business combination occurs.

The Company has adopted these accounting standards as of the beginning of the fiscal year ended December 31, 2015 and has applied them thereafter in accordance with the transitional handling set forth in Article 58-2 (4) of the Business Combinations Accounting Standard, Article 44-5 (4) of the Consolidation Accounting Standard and Article 57-4 (4) of the Business Divestitures Accounting Standard.

The impact of these changes on the consolidated financial statements was immaterial.

f) Cash equivalents

For purposes of the consolidated statement 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) Allowance for doubtful receivables

To provide for potential loss on trade receivables, loans and other receivables, the Company and its domestic consolidated subsidiaries provide an allowance for the expected amount of unrecoverable receivables.

Allowances for ordinary debt are computed based on the historical rate of default. For specified receivables, such as those where recovery is doubtful, the Company and its domestic consolidated subsidiaries consider the likelihood of recovery on an individual basis and record an allowance for the amount of debt expected to be unrecoverable. Foreign consolidated subsidiaries mainly record an allowance for the amount of specified receivables expected to be unrecoverable.

h) Inventories

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

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

i) Short-term investments and investment securities

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

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

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

j) Property, plant and equipment

Property, plant and equipment are stated at cost. Depreciation of property, plant and equipment is computed under the straight-line method over the estimated useful lives, principally ranging from 21 to 35 years for buildings and structures and 7 or 9 years for machinery and equipment.

k) Intangible assets

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

l) Long-lived assets

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

m) Liability for loss related to cosmetics

To provide for payment of compensation-related and other expenses, the estimated substantive amount of actual loss related to cosmetics as of the end of the fiscal year is recorded.

n) 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 employees who retire early.

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 defined contribution plans and/or defined benefit plans. 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 statement of income.

In May 2012, the ASBJ issued ASBJ Statement No. 26, "Accounting Standard for Retirement Benefits" and ASBJ Guidance No. 25, "Guidance on Accounting Standard for Retirement Benefits", which replaced the accounting standard for retirement benefits that had been issued by the Business Accounting Council in 1998 with an effective date of April 1, 2000, and the other related practical guidance, and were followed by partial amendments from time to time through 2009. Major changes are as follows:

(a) Under the revised accounting standard, actuarial gains and losses and past service costs that are yet to be recognized in profit or loss are recognized within equity (accumulated other comprehensive income), after adjusting for tax effects, and any resulting deficit or surplus is recognized as a liability (liability for retirement benefits) or asset (asset for retirement benefits).

(b) The revised accounting standard does not change how to recognize actuarial gains and losses and past service costs in profit or loss. Those amounts are recognized in profit or loss over a certain period no longer than the expected average remaining service period of the employees. However, actuarial gains and losses and past service costs that arose in the current period and have not yet been recognized in profit or loss are included in other comprehensive income, and actuarial gains and losses and past service costs that were recognized in other comprehensive income in prior periods and then recognized in profit or loss in the current period shall be treated as reclassification adjustments.

(c) The revised accounting standard also made certain amendments relating to the method of attributing expected benefit to periods and relating to the discount rate and expected future salary increases.

The revised accounting standard and guidance for (a) and (b) above are effective for the end of annual periods beginning on or after April 1, 2013, and for (c) above are effective for the beginning of annual periods beginning on or after April 1, 2014, or for the beginning of annual periods beginning on or after April 1, 2015, subject to certain disclosure in March 2015, both with earlier application being permitted from the beginning of annual periods beginning on or after April 1, 2013. However, no retrospective application of this accounting standard to consolidated financial statements in prior periods is required.

The Company applied the revised accounting standard and the guidance for (a) and (b) above from the fiscal year ended December 31, 2014.

Furthermore, the Company applied the revised accounting standard and guidance for (c) above from the beginning of the fiscal year ended December 31, 2015, as provided in the main clause of Article 35 of the Retirement Benefits Accounting Standard and the main clause of Article 67 of the Retirement Benefits Guidance, and revised the methods for calculating retirement benefit obligations and service costs as follows. The method for attributing projected benefits to periods changed from the straight-line basis to the benefit formula basis. In addition, determination of the discount rate changed from a method based on the number of years for the underlying obligations approximating the average remaining years of service of the eligible employees to a method that uses several discount rates that are set for each expected retirement benefit payment period.

In accordance with the transitional handling set forth in Article 37 of the Retirement Benefits Accounting Standard, the effect associated with the change in the method of calculating retirement benefit obligations and service costs was recognized by adjusting retained earnings at the beginning of the fiscal year ended December 31, 2015.

As a result, liability for retirement benefits increased by ¥32,906 million (US$273,146 thousand), asset for retirement benefits decreased by ¥9,692 million (US$80,452 thousand) and retained earnings decreased by ¥27,931 million (US$231,850 thousand) at the beginning of the fiscal year ended December 31, 2015. The effect of this change on operating income and income before income taxes and minority interests for the fiscal year was immaterial. Net worth per share increased by ¥55.70 (US$0.46). The effect of this change on net income per share and diluted net income per share for the fiscal year was immaterial.

o) 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.

p) 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.

q) 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.

All other leases are accounted for as operating leases.

r) Income taxes

The Companies provide for income taxes applicable to all items included in the consolidated statement 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.

The Company and certain subsidiaries file tax returns under the consolidated taxation system, which allows tax payments to be based on the consolidated profits or losses.

s) 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 statement of income to the extent that they are not hedged by foreign exchange derivatives.

t) 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.

u) 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 statement 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 is recognized and included in interest expense or income as incurred.

v) 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 statement of income are dividends applicable to the respective years including dividends to be paid after the end of the year.

w) 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 following revision of an accounting standard, the new policy is applied retrospectively unless the revised accounting standard includes specific transitional provisions, in which case the entity shall comply with the specific transitional provisions.
2) Changes in Presentation
   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.

x) Changes in presentation

Consolidated Statement of Income

"Impairment loss," which was included in "Other, net" under "Other income (expenses)" in the previous fiscal year, is presented separately from the fiscal year ended December 31, 2015 due to its increased materiality. The consolidated financial statements for the previous fiscal year have been reclassified to reflect the change in presentation.

As a result, ¥132 million included in "Other" under "Other income (expenses)" on the consolidated statement of income for the previous fiscal year has been reclassified as "Impairment loss."

Consolidated Statement of Cash Flows

"Impairment loss" and "Change in accrued consumption taxes", which were included in "Other, net" under "Operating activities" in the previous fiscal year, are presented separately from the fiscal year ended December 31, 2015 due to their increased materiality. The consolidated financial statements for the previous fiscal year have been reclassified to reflect the change in presentation.

As a result, ¥3,317 million of "Other, net" under "Operating activities" on the consolidated statement of cash flows for the previous fiscal year has been reclassified as ¥132 million for "Impairment loss", ¥6,576 million for "Change in accrued consumption taxes" and negative ¥3,391 million for "Other, net."

2 Translation into United States Dollars

The Companies' accounts are maintained in or translated into Japanese yen. The United States dollar (US$) amounts included herein represent translations using the approximate exchange rate at December 31, 2015 of ¥120.47=US$1, solely for convenience. The translations should not be construed as representations that Japanese yen amounts have been, could have been, or could in the future be, converted into United States dollars at that or any other rate.

3 Cash and Cash Equivalents

Cash and cash equivalents at December 31, 2015 and 2014 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	Dec. 2015	Dec. 2014	Dec. 2015
Cash and time deposits	¥125,159	¥107,412	$1,038,923
Short-term investments	188,551	123,639	1,565,128
Less: time deposits and short-term investments which mature or become due over three months after the date of acquisition	(4,271)	(2,389)	(35,453)
Cash and cash equivalents	¥309,439	¥228,662	$2,568,598

4 Short-Term Investments and Investment Securities

Short-term investments and investment securities as of December 31, 2015 and 2014 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	Dec. 2015	Dec. 2014	Dec. 2015
Short-term investments:			
Investment trust funds and other	¥188,551	¥123,639	$1,565,128
Total	¥188,551	¥123,639	$1,565,128
Investment securities:			
Marketable equity securities	¥ 11,772	¥ 10,473	$ 97,717
Investment trust funds and other	1,173	1,182	9,737
Total	¥ 12,945	¥ 11,655	$ 107,454

The carrying amount and aggregate fair value of the securities classified as available-for-sale and held-to-maturity at December 31, 2015 and 2014 were as follows:

	Millions of yen			
	Dec. 2015			
	Cost	Unrealized gains	Unrealized losses	Fair value
Securities classified as:				
Available-for-sale:				
Equity securities	¥ 2,397	¥9,377	¥ (2)	¥ 11,772
Debt securities and other	69,559	—	—	69,559
Held-to-maturity:				
Debt securities and other	118,992	—	—	118,992

	Millions of yen			
	Dec. 2014			
	Cost	Unrealized gains	Unrealized losses	Fair value
Securities classified as:				
Available-for-sale:				
Equity securities	¥ 2,641	¥7,853	¥(21)	¥ 10,473
Debt securities and other	47,644	—	—	47,644
Held-to-maturity:				
Debt securities and other	75,995	—	—	75,995

	Thousands of U.S. dollars			
	Dec. 2015			
	Cost	Unrealized gains	Unrealized losses	Fair value
Securities classified as:				
Available-for-sale:				
Equity securities	$ 19,897	$77,837	$(17)	$ 97,717
Debt securities and other	577,397	—	—	577,397
Held-to-maturity:				
Debt securities and other	987,731	—	—	987,731

Available-for-sale securities whose fair values are not readily determinable as of December 31, 2015 and 2014 were as follows:

	Carrying amount		
	Millions of yen		Thousands of U.S. dollars
	Dec. 2015	Dec. 2014	Dec. 2015
Available-for-sale:			
Equity securities	¥1,173	¥1,182	$9,737
Total	¥1,173	¥1,182	$9,737

Proceeds from sales of available-for-sale securities for the years ended December 31, 2015 and 2014 were ¥641 million (US$5,321 thousand) and ¥47 million, respectively. Gross realized gains and losses on these sales, computed on the moving-average cost basis, for the year ended December 31, 2015 were ¥375 million (US$3,113 thousand) and ¥8 million (US$66 thousand), respectively. Additionally, gross realized gains and losses for the year ended 2014 were ¥18 million and ¥1 million, respectively.

The carrying values of debt securities by contractual maturities for securities classified as held-to-maturity at December 31, 2015 are included in Note 17.

5 Long-lived Assets

The Companies reviewed their long-lived assets for impairment as of the years ended December 31, 2015 and 2014. As a result, the Companies recognized impairment losses of ¥4,014 million (US$33,319 thousand) and ¥132 million as other expense for the years ended December 31, 2015 and 2014, respectively. The details were as follows:

(Year ended December 31, 2015)

The Companies recorded impairment losses for the following asset groups.

			Millions of yen	Thousands of U.S. dollars
Use	Classification	Location	Dec. 2015	Dec. 2015
Assets for business	Machinery, equipment and other, etc.	Spain	¥ 174	$ 1,444
Assets to be disposed of	Land, etc.	Japan and other	2,557	21,225
Idle assets	Land, etc.	Japan and other	1,283	10,650
			¥4,014	$33,319

The Companies categorize assets for business mainly based on business units. Assets to be disposed of and idle assets are grouped on an individual basis.

In the fiscal year ended December 31, 2015, the Companies recorded impairment losses totaling ¥4,014 million (US$33,319 thousand) as other expense by reducing the net book value to the recoverable value of each asset because they did not expect to recover the investment amount due to a decline in profitability and a decrease in market price. This total consisted of ¥3,583 million (US$29,742 thousand) for land, ¥288 million (US$2,391 thousand) for buildings and structures, and ¥143 million (US$1,186 thousand) for machinery, equipment and other.

The recoverable amounts of assets for business were measured at value in use, which was considered zero because future cash flows were not expected. The recoverable amounts of assets to be disposed of and idle assets were measured at the net selling price, estimated based on appraisal value and other items.

(Year ended December 31, 2014)

The details of impairment loss are not disclosed because the amount was immaterial.

6 Short-Term and Long-Term Debt

Short-term debt at December 31, 2015 and 2014 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	Dec. 2015	Dec. 2014	Dec. 2015
Unsecured loans principally from financial institutions	¥47	¥1,137	$390
Total	¥47	¥1,137	$390

The weighted average interest rates applicable to the above loans were 4.33% and 1.49% at December 31, 2015 and 2014, respectively. In addition to the above short-term debt, deposits payable to affiliates, included in other current liabilities, were ¥10,388 million (US$86,229 thousand) and ¥9,074 million at December 31, 2015 and 2014, respectively, and the applicable interest rates were 0.45% and 0.48% at December 31, 2015 and 2014, respectively.

Long-term debt at December 31, 2015 and 2014 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	Dec. 2015	Dec. 2014	Dec. 2015
Unsecured bonds due 2018, 0.39%	¥ 25,000	¥ 25,000	$ 207,521
Unsecured bonds due 2020, 0.62%	25,000	25,000	207,521
Unsecured loans principally from financial institutions, weighted average rate of 0.19% in Dec. 2015, 0.31% in Dec. 2014	70,075	50,096	581,680
Lease obligations	4,209	4,832	34,937
	¥124,284	¥104,928	$1,031,659
Less current portion	(748)	(20,776)	(6,209)
Total	¥123,536	¥ 84,152	$1,025,450

In addition to the above long-term debt, deposits payable to customers, included in other long-term liabilities, were ¥6,186 million (US$51,349 thousand) and ¥6,066 million at December 31, 2015 and 2014, respectively, and the applicable interest rates were 0.10% and 0.11% at December 31, 2015 and 2014, respectively.

The aggregate annual maturities of long-term debt as of December 31, 2015 were as follows:

Years ending December 31	Millions of yen	Thousands of U.S. dollars
2016	¥ 748	$ 6,209
2017	30,685	254,710
2018	25,604	212,534
2019	40,514	336,301
2020	25,515	211,795
2021 and thereafter	1,218	10,110
Total	¥124,284	$1,031,659

7 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 36% for the years ended December 31, 2015 and 2014.

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

Tax effects of significant temporary differences and tax loss carryforwards that resulted in deferred tax assets or liabilities at December 31, 2015 and 2014 were as follows:

	Millions of yen		Thousands of U.S. dollars
	Dec. 2015	Dec. 2014	Dec. 2015
Deferred tax assets:			
Depreciation and amortization	¥ 21,454	¥ 22,644	$ 178,086
Liability for retirement benefits	21,567	13,920	179,024
Accrued expenses	12,766	13,290	105,968
Enterprise taxes	1,729	1,780	14,352
Tax loss carryforwards	15,516	20,826	128,796
Other	16,968	19,100	140,848
Less valuation allowance	(19,542)	(21,096)	(162,215)
Deferred tax assets	¥ 70,458	¥ 70,464	$ 584,859
Deferred tax liabilities:			
Unrealized gain on available-for-sale securities	¥ (2,989)	¥ (2,765)	$ (24,811)
Undistributed foreign earnings	(12,867)	(12,747)	(106,807)
Deferred gains on sales of property	(3,140)	(3,495)	(26,065)
Asset for retirement benefits	(0)	(5,133)	(0)
Other	(8,955)	(8,883)	(74,333)
Deferred tax liabilities	¥(27,951)	¥(33,023)	$(232,016)
Net deferred tax assets	¥ 42,507	¥ 37,441	$ 352,843

Reconciliation between the normal effective statutory tax rates and the actual effective tax rates reflected in the accompanying consolidated statement of income was as follows:

	Dec. 2015
Normal effective statutory tax rate	35.64%
Tax credit for research and development costs and other	(2.74)
Valuation allowance	1.26
Amortization expenses not deductible for income tax purposes	2.83
Effect of change in corporate income tax rate	3.15
Tax rate difference of consolidated subsidiaries	(2.12)
Other – net	0.41
Actual effective tax rate	38.43%

For the year ended December 31, 2014, the reconciliation is not disclosed because the difference is less than 5% of the normal effective statutory tax rate.

The "Act for Partial Revision of the Income Tax Act, etc." (Act No. 9 of 2015) and the "Act for Partial Revision of the Local Tax Act, etc." (Act No. 2 of 2015) were promulgated on March 31, 2015 in Japan, resulting in a reduction in the rates of corporate income taxes from fiscal years beginning on or after April 1, 2015. Accordingly, the effective statutory tax rate used to measure deferred tax assets and liabilities will change from the former 35.64% to 33.06% for temporary differences expected to be reversed in the fiscal year beginning January 1, 2016, and to 32.26% for temporary differences expected to be reversed in fiscal years beginning January 1, 2017. As a result of these changes, deferred tax assets (the net amount deducting deferred tax liabilities) decreased by ¥4,465 million (US$37,063 thousand), deferred income taxes increased by ¥5,091 million (US$42,260 thousand), unrealized gain on available-for-sale securities increased by ¥308 million (US$2,557 thousand), and remeasurements of defined benefit plans increased by ¥318 million (US$2,640 thousand).

8 Leases

(a) Finance leases:

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

(b) Operating leases:

The minimum rental commitments under noncancellable operating leases as of December 31, 2015 and 2014 were as follows:

	Millions of yen		Thousands of U.S. dollars
	Dec. 2015	Dec. 2014	Dec. 2015
Due within one year	¥ 7,909	¥ 9,868	$ 65,651
Due after one year	20,767	23,110	172,383
Total	¥28,676	¥32,978	$238,034

9 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 foreign consolidated subsidiaries have defined contribution plans and/or defined benefit plans.

(1) Changes in defined benefit obligation

The changes in defined benefit obligation for the years ended December 31, 2015 and 2014 were as follows:

	Millions of yen		Thousands of U.S. dollars
	Dec. 2015	Dec. 2014	Dec. 2015
Balance at beginning of year (as previously reported)	¥283,672	¥272,497	$2,354,711
Cumulative effect of accounting change	42,598	—	353,598
Balance at beginning of year (as restated)	326,270	272,497	2,708,309
Current service cost	8,897	9,641	73,852
Interest cost	3,620	5,112	30,049
Actuarial gain and loss	(990)	3,546	(8,218)
Benefits paid	(10,879)	(10,421)	(90,305)
Past service cost	9	(483)	75
Other	(1,361)	3,780	(11,297)
Balance at end of year	¥325,566	¥283,672	$2,702,465

(2) Changes in plan assets

The changes in plan assets for the years ended December 31, 2015 and 2014 were as follows:

	Millions of yen		Thousands of U.S. dollars
	Dec. 2015	Dec. 2014	Dec. 2015
Balance at beginning of year	¥250,950	¥230,352	$2,083,091
Expected return on plan assets	8,149	5,329	67,643
Actuarial gain and loss	(6,866)	12,681	(56,993)
Contribution by the employer	10,548	10,551	87,557
Benefits paid	(9,929)	(9,630)	(82,419)
Other	(437)	1,667	(3,627)
Balance at end of year	¥252,415	¥250,950	$2,095,252

(3) Reconciliation between the liability recorded in the consolidated balance sheet and the balances of defined benefit obligation and plan assets

Reconciliations at December 31, 2015 and 2014 were as follows:

	Millions of yen		Thousands of U.S. dollars
	Dec. 2015	Dec. 2014	Dec. 2015
Funded defined benefit obligation	¥ 323,147	¥ 281,199	$ 2,682,386
Plan assets	(252,415)	(250,950)	(2,095,252)
Total	70,732	30,249	587,134
Unfunded defined benefit obligation	2,419	2,473	20,079
Net liability for defined benefit obligation	¥ 73,151	¥ 32,722	$ 607,213

	Millions of yen		Thousands of U.S. dollars
	Dec. 2015	Dec. 2014	Dec. 2015
Liability for retirement benefits	¥74,178	¥42,414	$615,738
Asset for retirement benefits	(1,027)	(9,692)	(8,525)
Net liability for defined benefit obligation	¥73,151	¥32,722	$607,213

(4) Benefit costs

Components of net periodic benefit costs for the years ended December 31, 2015 and 2014 were as follows:

	Millions of yen		Thousands of U.S. dollars
	Dec. 2015	Dec. 2014	Dec. 2015
Current service cost	¥ 8,897	¥ 9,641	$ 73,852
Interest cost	3,620	5,112	30,049
Expected return on plan assets	(8,149)	(5,329)	(67,643)
Amortization of actuarial gain and loss	426	(892)	3,536
Amortization of past service cost	(2,213)	(4,077)	(18,370)
Other	413	1,651	3,429
Net periodic benefit costs	¥ 2,994	¥ 6,106	$ 24,853

In addition to the above net periodic benefit costs, the costs for the defined contribution plan were ¥3,593 million (US$29,825 thousand) and ¥3,382 million for the years ended December 31, 2015 and 2014, respectively.

(5) Amounts recognized in other comprehensive income

Amounts recognized in other comprehensive income (before income tax effect) in respect of defined retirement benefit plans for the years ended December 31, 2015 and 2014 were as follows:

	Millions of yen		Thousands of U.S. dollars
	Dec. 2015	Dec. 2014	Dec. 2015
Prior service cost	¥(2,256)	¥—	$(18,727)
Actuarial (gains) losses	(4,674)	—	(38,798)
Other	454	—	3,769
Total	¥(6,476)	¥—	$(53,756)

(6) Amounts recognized in accumulated other comprehensive income

Amounts recognized in accumulated other comprehensive income (before income tax effect) in respect of defined retirement benefit plans as of December 31, 2015 and 2014 were as follows:

	Millions of yen		Thousands of U.S. dollars
	Dec. 2015	Dec. 2014	Dec. 2015
Unrecognized past service costs	¥ 1,533	¥3,789	$ 12,725
Unrecognized actuarial gain and loss	(2,127)	2,547	(17,656)
Other	—	(454)	—
Total	¥ (594)	¥5,882	$ (4,931)

(7) Plan assets

Components of plan assets at December 31, 2015 and 2014 were as follows:

	Dec. 2015	Dec. 2014
Debt securities	73%	77%
Equity securities	20	17
Cash and deposits	1	1
Other	6	5
Total	100%	100%

The expected rate of return on plan assets is determined considering components of plan assets, actual return on plan assets, policy on plan asset management, market trends and other factors.

(8) Actuarial assumptions

Assumptions used for the years ended December 31, 2015 and 2014 were as follows:

	Dec. 2015	Dec. 2014
Discount rate	Primarily 1.3%	Primarily 1.6%
Expected rate of return on plan assets	Primarily 3.0%	Primarily 2.0%

10 Contingent Liabilities

At December 31, 2015, the Companies had the following contingent liabilities:

	Millions of yen	Thousands of U.S. dollars
Trade notes discounted	¥46	$382
Guarantees of borrowings of employees	52	432

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.

11 Equity

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

(a) Dividends

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

For companies that meet certain criteria such as having: (1) a board of directors, (2) independent auditors, (3) an audit & supervisory board, and (4) terms of service of directors prescribed as one year under the articles of incorporation rather than the normal term of two years, the boards of directors of such companies may declare dividends (except for dividends in kind) at any time during the fiscal year if the companies have prescribed so in their articles of incorporation. The Company meets all four criteria, but has not made the said prescription in its articles of incorporation. The Company pays the dividends semiannually 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 Companies Act permits companies to distribute dividends-in-kind (non-cash assets) to shareholders subject to a certain limitation and additional requirements. The Companies Act provides certain limitations on the amounts available for dividends or the purchase of own stock. The limitation is defined as the amount available for distribution to the shareholders, but the amount of net assets after dividends must be maintained at no less than ¥3 million.

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

The Companies Act 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 Companies Act, the total amount of additional paid-in capital and legal reserve may be reversed without limitation. The Companies Act 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, totaled ¥14,117 million (US$117,183 thousand) at both December 31, 2015 and 2014. The Company's additional paid-in capital amount, which is included in capital surplus, totaled ¥108,889 million (US$903,868 thousand) at both December 31, 2015 and 2014.

The accompanying consolidated financial statements do not include any provision for the year-end dividend of ¥42.0 (US$0.35) per share, aggregating ¥21,085 million (US$175,023 thousand) which the Company will subsequently propose at the 110th Annual General Meeting of Shareholders to be held on March 25, 2016 as an appropriation of retained earnings in respect of the year ended December 31, 2015.

(c) Treasury stock and treasury stock acquisition rights

The Companies Act also provides for companies to purchase their 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 Companies Act, stock acquisition rights are presented as a separate component of equity.

The Companies Act also provides that companies can purchase both their 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.

12 Stock-Based Compensation Plans

The stock options for the year ended December 31, 2015 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 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	$25.73	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	$19.55	September 1, 2011 through August 31, 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	$18.18	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	$18.71	September 1, 2013 through August 31, 2018
Stock option 2012 I	9 Directors of the Company	30,000 shares*	August 23, 2012	¥1	$0.01	July 1, 2014 through June 28, 2019
Stock option 2012 II	22 Executive Officers of the Company******	49,000 shares*	August 23, 2012	¥1	$0.01	July 1, 2014 through June 28, 2019
Stock option 2013 I	10 Directors of the Company	22,000 shares*	May 23, 2013	¥1	$0.01	July 1, 2015 through June 30, 2020
Stock option 2013 II	22 Executive Officers of the Company*******	27,000 shares*	May 23, 2013	¥1	$0.01	July 1, 2015 through June 30, 2020
Stock option 2014 I	6 Directors of the Company	12,000 shares*	May 22, 2014	¥1	$0.01	July 1, 2016 through June 30, 2021
Stock option 2014 II	23 Executive Officers of the Company********	28,000 shares*	May 22, 2014	¥1	$0.01	July 1, 2016 through June 30, 2021
Stock option 2015 I	6 Directors of the Company	13,000 shares*	May 21, 2015	¥1	$0.01	July 1, 2017 through June 30, 2022
Stock option 2015 II	23 Executive Officers of the Company*********	27,000 shares*	May 21, 2015	¥1	$0.01	July 1, 2017 through June 30, 2022

* The number of options originally granted converts into the 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 12 Executive Officers were not members of the Board of Directors of the Company at the date of grant.
**** The 12 Executive Officers were not members of the Board of Directors of the Company at the date of grant.
***** The 13 Executive Officers were not members of the Board of Directors of the Company at the date of grant.
****** The 22 Executive Officers were not members of the Board of Directors of the Company at the date of grant.
******* The 22 Executive Officers were not members of the Board of Directors of the Company at the date of grant.
******** The 23 Executive Officers were not members of the Board of Directors of the Company at the date of grant.
********* The 23 Executive Officers were not members of the Board of Directors of the Company at the date of grant.

Stock option activity was as follows:

(Number of shares)

	Stock option 2008 I	Stock option 2008 II	Stock option 2008 III	Stock option 2009 I	Stock option 2009 II	Stock option 2009 III	Stock option 2010 I	Stock option 2010 II	Stock option 2010 III	Stock option 2011 I
For the year ended December 31, 2015										
Non-vested										
Outstanding at December 31, 2014	—	—	—	—	—	—	—	—	—	—
Granted	—	—	—	—	—	—	—	—	—	—
Expired	—	—	—	—	—	—	—	—	—	—
Vested	—	—	—	—	—	—	—	—	—	—
Outstanding at December 31, 2015	—	—	—	—	—	—	—	—	—	—
Vested										
Outstanding at December 31, 2014	4,000	1,000	345,000	8,000	5,000	274,000	16,000	8,000	164,000	19,000
Vested	—	—	—	—	—	—	—	—	—	—
Exercised	4,000	1,000	197,000	1,000	—	62,000	7,000	1,000	33,000	3,000
Expired	—	—	148,000	—	—	—	—	—	—	—
Outstanding at December 31, 2015	—	—	—	7,000	5,000	212,000	9,000	7,000	131,000	16,000
Exercise price										
Yen	¥1	¥1	¥3,100	¥1	¥1	¥2,355	¥1	¥1	¥2,190	¥1
U.S. dollars	$0.01	$0.01	$25.73	$0.01	$0.01	$19.55	$0.01	$0.01	$18.18	$0.01
Average stock price at exercise										
Yen	¥6,088	¥5,134	¥5,362	¥5,553	—	¥5,472	¥5,631	¥6,152	¥5,641	¥6,064
U.S. dollars	$50.54	$42.62	$44.51	$46.09	—	$45.42	$46.74	$51.07	$46.82	$50.34
Fair value price at grant date										
Yen	¥2,865	¥2,865	¥426	¥2,115	¥2,115	¥394	¥1,749	¥1,749	¥245	¥1,718
U.S. dollars	$23.78	$23.78	$3.54	$17.56	$17.56	$3.27	$14.52	$14.52	$2.03	$14.26

(Number of shares)

	Stock option 2011 II	Stock option 2011 III	Stock option 2012 I	Stock option 2012 II	Stock option 2013 I	Stock option 2013 II	Stock option 2014 I	Stock option 2014 II	Stock option 2015 I	Stock option 2015 II
For the year ended December 31, 2015										
Non-vested										
Outstanding at December 31, 2014	—	—	—	—	—	—	—	—	—	—
Granted	—	—	—	—	—	—	—	—	13,000	27,000
Expired	—	—	—	—	—	—	—	—	—	—
Vested	—	—	—	—	—	—	—	—	13,000	27,000
Outstanding at December 31, 2015	—	—	—	—	—	—	—	—	—	—
Vested										
Outstanding at December 31, 2014	14,000	331,000	23,000	42,000	22,000	27,000	12,000	28,000	—	—
Vested	—	—	—	—	—	—	—	—	13,000	27,000
Exercised	—	59,000	2,000	10,000	4,000	5,000	—	—	—	—
Expired	—	—	—	—	—	—	—	—	—	—
Outstanding at December 31, 2015	14,000	272,000	21,000	32,000	18,000	22,000	12,000	28,000	13,000	27,000
Exercise price										
Yen	¥1	¥2,254	¥1	¥1	¥1	¥1	¥1	¥1	¥1	¥1
U.S. dollars	$0.01	$18.71	$0.01	$0.01	$0.01	$0.01	$0.01	$0.01	$0.01	$0.01
Average stock price at exercise										
Yen	—	¥5,451	¥5,778	¥5,437	¥5,439	¥5,511	—	—	—	—
U.S. dollars	—	$45.25	$47.96	$45.13	$45.15	$45.75	—	—	—	—
Fair value price at grant date										
Yen	¥1,718	¥211	¥2,119	¥2,119	¥3,027	¥3,027	¥3,808	¥3,808	¥5,630	¥5,630
U.S. dollars	$14.26	$1.75	$17.59	$17.59	$25.13	$25.13	$31.61	$31.61	$46.73	$46.73

The fair value prices for 2015 stock options were estimated using the Black-Scholes Option Pricing Model with the following assumptions:

	Stock option 2015 I	Stock option 2015 II
Volatility of stock price	21.458%	21.458%
Estimated remaining outstanding period	3.5 years	3.5 years
Estimated dividend per share		
Yen	¥70	¥70
U.S. dollars	$0.58	$0.58
Risk-free interest rate	0.018%	0.018%

13 Comprehensive Income

Each component of other comprehensive income for the years ended December 31, 2015 and 2014 was as follows:

	Millions of yen		Thousands of U.S. dollars
	Dec. 2015	Dec. 2014	Dec. 2015
Unrealized gain (loss) on available-for-sale securities			
Gains (losses) arising during the year	¥ 1,915	¥ 1,005	$ 15,896
Reclassification adjustments to profit or loss	(367)	(11)	(3,046)
Amount before income tax effect	1,548	994	12,850
Income tax effect	(238)	(355)	(1,976)
Total	¥ 1,310	¥ 639	$ 10,874
Foreign currency translation adjustments			
Adjustments arising during the year	¥(13,498)	¥24,709	$(112,044)
Reclassification adjustments to profit or loss	(2,295)	—	(19,050)
Amount before income tax effect	(15,793)	24,709	(131,094)
Income tax effect	—	—	—
Total	¥(15,793)	¥24,709	$(131,094)
Share of other comprehensive income in affiliates			
Gains (losses) arising during the year	¥ 17	¥ 226	$ 141
Reclassification adjustments to profit or loss	(26)	(4)	(216)
Total	¥ (9)	¥ 222	$ (75)
Remeasurements of defined benefit plans			
Adjustments arising during the year	¥ (5,132)	¥ (5,127)	$ (42,600)
Reclassification adjustments to profit or loss	(1,344)	(460)	(11,156)
Amount before income tax effect	(6,476)	(5,587)	(53,756)
Income tax effect	2,764	1,862	22,943
Total	¥ (3,712)	¥ (3,725)	$ (30,813)
Total other comprehensive income	¥(18,204)	¥21,845	$(151,108)

14 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 cosmetics, skin care and hair care products. The Human Health Care Business segment manufactures and sells food and beverage, sanitary and personal health products. The Fabric and Home Care Business segment manufactures and sells fabric care and home care products. The Chemical Business segment manufactures and sells oleo chemicals, performance chemicals and specialty chemicals.

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

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

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

Information by reportable segment of the Companies for the years ended December 31, 2015 and 2014 was as follows:

	Millions of yen						
	Dec. 2015						
	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	¥607,692	¥280,723	¥334,416	¥1,222,831	¥248,960	¥ —	¥1,471,791
Intersegment sales	—	—	—	—	39,496	(39,496)	—
Total sales	607,692	280,723	334,416	1,222,831	288,456	(39,496)	1,471,791
Segment profit (Operating income)	¥ 29,420	¥ 35,546	¥ 69,233	¥ 134,199	¥ 30,115	¥ 66	¥ 164,380
Segment assets **	¥459,880	¥195,368	¥160,745	¥ 815,993	¥271,879	¥193,997	¥1,281,869
Other							
Depreciation and amortization***	¥ 29,514	¥ 10,458	¥ 7,972	¥ 47,944	¥ 12,801	¥ —	¥ 60,745
Investments in equity method affiliates**	3,686	1,020	1,184	5,890	3,495	—	9,385
Increase in property, plant and equipment and intangible assets	20,643	31,173	15,297	67,113	16,301	—	83,414

* Reconciliation of segment profit includes elimination of intersegment transactions of inventory.
Reconciliation of assets includes ¥228,295 million of the Company's financial assets and negative ¥34,298 million of elimination of receivables among reportable segments.
** Balances as of December 31, 2015
*** Depreciation and amortization excludes amortization of goodwill.

	Millions of yen						
	Dec. 2014						
	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	¥589,907	¥240,077	¥324,505	¥1,154,489	¥247,218	¥ —	¥1,401,707
Intersegment sales	—	—	—	—	40,804	(40,804)	—
Total sales	589,907	240,077	324,505	1,154,489	288,022	(40,804)	1,401,707
Segment profit (Operating income)	¥ 28,437	¥ 21,880	¥ 60,952	¥ 111,269	¥ 22,060	¥ (59)	¥ 133,270
Segment assets **	¥466,128	¥161,280	¥158,552	¥ 785,960	¥273,397	¥138,876	¥1,198,233
Other							
Depreciation and amortization***	¥ 30,302	¥ 10,618	¥ 9,541	¥ 50,461	¥ 14,101	¥ —	¥ 64,562
Investments in equity method affiliates**	3,782	1,122	1,328	6,232	3,032	—	9,264
Increase in property, plant and equipment and intangible assets	17,042	22,956	13,781	53,779	14,705	—	68,484

* Reconciliation of segment profit includes elimination of intersegment transactions of inventory.
Reconciliation of assets includes¥163,750 million of the Company's financial assets and negative ¥24,874 million of elimination of receivables among reportable segments.
** Balances as of December 31, 2014
*** Depreciation and amortization excludes amortization of goodwill.

	Thousands of U.S. dollars						
	Dec. 2015						
	Reportable segment						
	Consumer Products Business						
	Beauty Care Business	Human Health Care Business	Fabric and Home Care Business	Total	Chemical Business	Reconciliations*	Consolidated
Sales to customers	$5,044,343	$2,330,231	$2,775,928	$10,150,502	$2,066,573	$ —	$12,217,075
Intersegment sales	—	—	—	—	327,849	(327,849)	—
Total sales	5,044,343	2,330,231	2,775,928	10,150,502	2,394,422	(327,849)	12,217,075
Segment profit (Operating income)	$ 244,210	$ 295,061	$ 574,691	$ 1,113,962	$ 249,979	$ 548	$ 1,364,489
Segment assets**	$3,817,382	$1,621,715	$1,334,315	$ 6,773,412	$2,256,819	$1,610,335	$10,640,566
Other							
Depreciation and amortization***	$ 244,990	$ 86,810	$ 66,174	$ 397,974	$ 106,259	$ —	$ 504,233
Investments in equity method affiliates**	30,597	8,467	9,828	48,892	29,011	—	77,903
Increase in property, plant and equipment and intangible assets	171,353	258,762	126,978	557,093	135,312	—	692,405

* Reconciliation of segment profit includes elimination of intersegment transactions of inventory.
Reconciliation of assets includes $1,895,036 thousand of the Company's financial assets and negative $284,702 thousand of elimination of receivables among reportable segments.
** Balances as of December 31, 2015
*** Depreciation and amortization excludes amortization of goodwill.

(b) Information related to reportable segments

Sales by geographic area for the years ended December 31, 2015 and 2014 were as follows:

	Millions of yen				
	Dec. 2015				
	Japan	Asia	Americas*	Europe**	Consolidated
Sales to customers	¥956,073	¥247,860	¥134,189	¥133,669	¥1,471,791

	Millions of yen				
	Dec. 2014				
	Japan	Asia	Americas*	Europe**	Consolidated
Sales to customers	¥937,696	¥203,174	¥125,324	¥135,513	¥1,401,707

	Thousands of U.S. dollars				
	Dec. 2015				
	Japan	Asia	Americas*	Europe**	Consolidated
Sales to customers	$7,936,192	$2,057,442	$1,113,879	$1,109,562	$12,217,075

Note: Sales are classified by country or region based on the location of customers.

Property, plant and equipment by geographic area at December 31, 2015 and 2014 was as follows:

	Millions of yen				
	Dec. 2015				
	Japan	Asia	Americas*	Europe**	Consolidated
Property, plant and equipment	¥216,495	¥80,039	¥14,586	¥16,610	¥327,730

	Millions of yen				
	Dec. 2014				
	Japan	Asia	Americas*	Europe**	Consolidated
Property, plant and equipment	¥199,484	¥75,294	¥13,721	¥19,116	¥307,615

	Thousands of U.S. dollars				
	Dec. 2015				
	Japan	Asia	Americas*	Europe**	Consolidated
Property, plant and equipment	$1,797,086	$664,389	$121,076	$137,877	$2,720,428

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

(c) Impairment losses by reportable segment

Impairment losses by reportable segment for the years ended December 31, 2015 and 2014 were as follows:

	Millions of yen						
	Dec. 2015						
	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	¥2,459	¥510	¥657	¥3,626	¥388	¥—	¥4,014

	Millions of yen						
	Dec. 2014						
	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	¥62	¥28	¥42	¥132	¥—	¥—	¥132

	Thousands of U.S. dollars						
	Dec. 2015						
	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	$20,412	$4,233	$ 5,454	$30,099	$3,220	$—	$33,319

(d) Amortization and balance of goodwill by reportable segment

Amortization and balance of goodwill by reportable segment for the years ended December 31, 2015 and 2014 were as follows:

	Millions of yen						
	Dec. 2015						
	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	¥ 12,879	¥—	¥—	¥ 12,879	¥—	¥—	¥ 12,879
Goodwill at December 31, 2015	127,099	—	—	127,099	—	—	127,099

	Millions of yen						
	Dec. 2014						
	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	¥ 15,098	¥—	¥—	¥ 15,098	¥—	¥—	¥ 15,098
Goodwill at December 31, 2014	139,941	—	—	139,941	—	—	139,941

	Thousands of U.S. dollars						
	Dec. 2015						
	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	$ 106,906	$—	$—	$ 106,906	$—	$—	$ 106,906
Goodwill at December 31, 2015	1,055,026	—	—	1,055,026	—	—	1,055,026

15 Selling, General and Administrative Expenses

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

	Millions of yen		Thousands of U.S. dollars
	Dec. 2015	Dec. 2014	Dec. 2015
Freight/warehouse	¥ 85,609	¥ 81,391	$ 710,625
Advertising	94,496	92,410	784,394
Sales promotion	78,264	73,072	649,656
Salaries and bonuses	133,310	130,974	1,106,583
Research and development	51,987	51,739	431,535

16 Other Income (Expenses)

"Other, net" consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	Dec. 2015	Dec. 2014	Dec. 2015
Gain on sales of investment securities	¥ 375	¥ 18	$ 3,113
Gain on liquidation of subsidiaries	299	—	2,482
Loss related to cosmetics	(1,035)	(8,896)	(8,591)
Loss on sales or disposals of property, plant and equipment, and intangible assets, net	(3,499)	(2,706)	(29,045)
Other, net	3,114	2,092	25,848
Total	¥ (746)	¥(9,492)	$ (6,193)

17 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 purpose 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 that internal deliberations and approval processes, in which customer credit standing is reviewed, are conducted before entering into transactions with new customers. In addition, the Companies secure guarantee deposits or collateral as necessary. Furthermore, the Companies monitor due dates and manage balances of receivables by customer and periodically check the credit risk of key customers.

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

Investment securities are mainly cross-shareholdings, and the Companies hold the shares in cases where they consider such shareholdings, including the number of shares held, to be reasonable in consideration of their necessity in terms of business activities, such as maintaining and strengthening business alliances and transactions, trends in the issuing companies' stock, and other matters. These cross-shareholdings are subject to the impact of trends in stock markets and the business environment in which the Companies operate. However, each year the Companies ascertain the reasonableness of cross-shareholdings and review their continuance and the number of shares held.

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 maintenance of appropriate capital cost ratio 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 prices in active markets. If a quoted price is not available, other rational valuation techniques are used. Also, see Note 18 for details of the fair values of derivatives. The contract amounts of derivatives which are shown in Note 18 do not represent the amounts exchanged by the parties and do not measure the Companies' exposure to credit or market risk.

The carrying amount, fair value and unrealized gain or loss of financial instruments as of December 31, 2015 and 2014 consisted of the following:

	Millions of yen		
		Dec. 2015	
	Carrying amount	Fair value	Unrealized gain/(loss)
Cash and time deposits	¥125,159	¥125,159	¥ —
Short-term investments	188,551	188,551	—
Notes and accounts receivable	210,859		
Allowance for doubtful receivables	(1,345)		
Notes and accounts receivable, net	209,514	209,514	—
Investment securities	11,772	11,772	—
Total	¥534,996	¥534,996	¥ —
Short-term debt	¥ 47	¥ 47	¥ —
Current portion of long-term debt	748	752	4
Notes and accounts payable	209,072	209,072	—
Income taxes payable	32,073	32,073	—
Long-term debt	123,536	124,516	980
Total	¥365,476	¥366,460	¥984
Derivatives	¥ 1,413	¥ 1,413	¥ —

	Millions of yen		
	Dec. 2014		
	Carrying amount	Fair value	Unrealized gain/(loss)
Cash and time deposits	¥ 107,412	¥ 107,412	¥ —
Short-term investments	123,639	123,639	—
Notes and accounts receivable	212,835		
Allowance for doubtful receivables	(1,371)		
Notes and accounts receivable, net	211,464	211,464	—
Investment securities	10,473	10,473	—
Total	¥ 452,988	¥ 452,988	¥ —
Short-term debt	¥ 1,137	¥ 1,137	¥ —
Current portion of long-term debt	20,776	20,810	34
Notes and accounts payable	195,178	195,178	—
Income taxes payable	28,108	28,108	—
Long-term debt	84,152	85,258	1,106
Total	¥ 329,351	¥ 330,491	¥ 1,140
Derivatives	¥ (412)	¥ (412)	¥ —

	Thousands of U.S. dollars		
	Dec. 2015		
	Carrying amount	Fair value	Unrealized gain/(loss)
Cash and time deposits	$ 1,038,923	$ 1,038,923	$ —
Short-term investments	1,565,128	1,565,128	—
Notes and accounts receivable	1,750,302		
Allowance for doubtful receivables	(11,165)		
Notes and accounts receivable, net	1,739,137	1,739,137	—
Investment securities	97,717	97,717	—
Total	$ 4,440,905	$ 4,440,905	$ —
Short-term debt	$ 390	$ 390	$ —
Current portion of long-term debt	6,209	6,242	33
Notes and accounts payable	1,735,470	1,735,470	—
Income taxes payable	266,232	266,232	—
Long-term debt	1,025,450	1,033,585	8,135
Total	$ 3,033,751	$ 3,041,919	$ 8,168
Derivatives	$ 11,729	$ 11,729	$ —

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

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

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

Current portion of long-term debt
The fair value of fixed interest loans is measured at the present

value by discounting expected repayments of principal and interest in the remaining period using an assumed interest rate on an equivalent new loan.

Notes and accounts payable, and income taxes payable

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

Long-term debt

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

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

The long-term debt of various interest loans is 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. The fair value of this 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 18.

The carrying amount of financial instruments whose fair value cannot be reliably determined as of December 31, 2015 and 2014 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	Dec. 2015	Dec. 2014	Dec. 2015
Investment securities that do not have a quoted market price in an active market	¥1,173	¥1,182	$9,737

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

The maturity analysis for financial assets and securities with contractual maturities as of December 31, 2015 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	¥125,159	¥—	¥—	¥—
Short-term investments and investment securities:				
Held-to-maturity debt securities	119,006	—	—	—
Available-for-sale other securities with contractual maturities	—	—	—	—
Notes and accounts receivable	210,859	—	—	—
Total	¥455,024	¥—	¥—	¥—

	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	$1,038,923	$—	$—	$—
Short-term investments and investment securities:				
Held-to-maturity debt securities	987,848	—	—	—
Available-for-sale other securities with contractual maturities	—	—	—	—
Notes and accounts receivable	1,750,302	—	—	—
Total	$3,777,073	$—	$—	$—

Please see Note 6 for annual maturities of long-term debt.

18 Derivatives

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

The Company had the following derivative contracts outstanding to which hedge accounting was not applied at December 31, 2015 and 2014:

Currency-related

	Millions of yen			
	Dec. 2015			
	Contract amount	Contract amount due after one year	Fair value	Unrealized gain / (loss)
Foreign exchange forward contracts:				
Buying U.S. Dollar	¥ 4,400	¥ 2,856	¥ 314	¥ 314
Buying Japanese Yen	822	778	(99)	(99)
Buying other currencies	87	—	0	0
Selling U.S. Dollar	22,521	9,729	(99)	(99)
Selling Chinese Yuan	4,578	3,379	110	110
Selling other currencies	1,457	—	2	2
Foreign currency swaps:				
Receiving Japanese Yen, paying Chinese Yuan	2,279	2,279	(417)	(417)
Receiving U.S. Dollar, paying Indonesian Rupiah	10,280	10,280	1,636	1,636
Other currencies	143	143	3	3

	Millions of yen			
	Dec. 2014			
	Contract amount	Contract amount due after one year	Fair value	Unrealized gain / (loss)
Foreign exchange forward contracts:				
Buying U.S. Dollar	¥3,652	¥2,980	¥ 154	¥ 154
Buying Japanese Yen	863	808	(115)	(115)
Buying other currencies	27	—	(0)	(0)
Selling U.S. Dollar	6,285	—	(162)	(162)
Selling Chinese Yuan	3,053	3,053	(67)	(67)
Selling other currencies	1,368	—	36	36
Foreign currency swaps:				
Receiving Japanese Yen, paying Chinese Yuan	2,279	2,279	(602)	(602)
Receiving U.S. Dollar, paying Indonesian Rupiah	7,750	7,750	405	405

	Thousands of U.S. dollars			
	Dec. 2015			
	Contract amount	Contract amount due after one year	Fair value	Unrealized gain / (loss)
Foreign exchange forward contracts:				
Buying U.S. Dollar	$ 36,524	$ 23,707	$ 2,606	$ 2,606
Buying Japanese Yen	6,823	6,458	(822)	(822)
Buying other currencies	722	—	0	0
Selling U.S. Dollar	186,943	80,759	(822)	(822)
Selling Chinese Yuan	38,001	28,048	913	913
Selling other currencies	12,094	—	17	17
Foreign currency swaps:				
Receiving Japanese Yen, paying Chinese Yuan	18,918	18,918	(3,461)	(3,461)
Receiving U.S. Dollar, paying Indonesian Rupiah	85,332	85,332	13,580	13,580
Other currencies	1,187	1,187	25	25

Interest-related

	Millions of yen			
	Dec. 2015			
	Contract amount	Contract amount due after one year	Fair value	Unrealized gain / (loss)
Interest rate swaps:				
Receiving floating rate, paying fixed rate	¥2,652	¥2,652	¥(37)	¥(37)

	Millions of yen			
	Dec. 2014			
	Contract amount	Contract amount due after one year	Fair value	Unrealized gain / (loss)
Interest rate swaps:				
Receiving floating rate, paying fixed rate	¥2,637	¥2,637	¥(61)	¥(61)

	Thousands of U.S. dollars			
	Dec. 2015			
	Contract amount	Contract amount due after one year	Fair value	Unrealized gain / (loss)
Interest rate swaps:				
Receiving floating rate, paying fixed rate	$22,014	$22,014	$(307)	$(307)

(b) Derivative transactions to which hedge accounting is applied

The Companies had the following derivative contracts outstanding to which hedge accounting was applied at December 31, 2014:

	Millions of yen			
	Dec. 2014			
	Hedged item	Contract amount	Contract amount due after one year	Fair value
Interest rate swaps:				
(Fixed rate payment, Floating rate receipt)	Long-term debt	¥20,000	—	—

The interest rate swaps which qualify for hedge accounting and meet specific matching criteria are not remeasured at market value but the differentials paid or received under the swap agreements are recognized and included in interest expense or income. In addition, the fair value of the interest rate swaps is included in that of the hedged item, long-term debt, in Note 17.

19 Net Income per Share

A reconciliation of the differences between basic and diluted net income per share ("EPS") for the years ended December 31, 2015 and 2014 was as follows:

	Millions of yen	Thousands of shares	Yen	U.S. dollars
	Net income	Weighted average shares	EPS	
For the year ended December 31, 2015:				
Basic EPS				
Net income available to common shareholders	¥98,862	501,352	¥197.19	$1.64
Effect of dilutive securities				
Warrants	—	701		
Diluted EPS				
Net income for computation	¥98,862	502,053	¥196.92	$1.63
For the year ended December 31, 2014:				
Basic EPS				
Net income available to common shareholders	¥79,590	508,687	¥156.46	
Effect of dilutive securities				
Warrants	—	710		
Diluted EPS				
Net income for computation	¥79,590	509,397	¥156.24	

20 Subsequent Event

Transaction under Common Control

At the meeting of the Board of Directors of the Company held on November 19, 2015, it was resolved to conduct an absorption-type company split in which the Company will transfer all the shares of Kao Customer Marketing Co., Ltd., Kanebo Cosmetics Sales Inc. and Kao Field Marketing Co., Ltd. to Kao Group Customer Marketing Preparation Co., Ltd., a consolidated subsidiary of the Company.

a) Summary of the Transaction

1) Names and Business Content of Companies Involved in the Combination

Combining company: Kao Corporation
Business content: Manufacturing and sales of consumer products, chemical products, etc.
Combined company: Kao Group Customer Marketing Preparation Co., Ltd.
Business content: Sales of consumer products, etc.

2) Date of Business Combination

January 1, 2016

3) Legal Form of the Business Combination

Simplified absorption-type company split with Kao Group Customer Marketing Preparation Co., Ltd. as the successor company

4) Name of Company after the Combination

Kao Group Customer Marketing Co., Ltd. (Kao Group Customer Marketing Preparation Co., Ltd. changed its name as of January 1, 2016)

5) Other Items Related to the Summary of the Transaction

The Company will conduct the absorption-type company split to leverage the "comprehensive strength of the Kao Group" to strengthen the Companies' ability to provide products and services by promoting integrated management of the sales functions of the Kao Group.

b) Summary of Accounting Treatment Used

The Company plans to treat the transaction as a transaction under common control based on the "Accounting Standard for Business Combinations" (ASBJ Statement No. 21 issued on September 13, 2013) and "Guidance on Accounting Standard for Business Combinations and Accounting Standard for Business Divestitures" (ASBJ Guidance No. 10 issued on September 13, 2013).

Independent Auditor's Report

Deloitte.

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Japan

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Fax:+81 (3) 6720 8205
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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 its consolidated subsidiaries as of December 31, 2015, 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 accordance with accounting principles generally accepted in Japan, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in Japan. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the 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 its consolidated subsidiaries as of December 31, 2015, and the consolidated results of their operations and their cash flows for the year then ended in accordance 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 accordance with the basis stated in Note 2 to the consolidated financial statements. Such U.S. dollar amounts are presented solely for the convenience of readers outside Japan.

Deloitte Touche Tohmatsu LLC

March 22, 2016

Member of
Deloitte Touche Tohmatsu Limited

Principal Subsidiaries and Affiliates (As of March 25, 2016)

Country/Area	Business: Beauty Care	Business: Human Health Care	Business: Fabric and Home Care	Business: Chemical	Company
Japan	●	●	●		Kao Group Customer Marketing Co., Ltd.
	●	●	●		Kao Customer Marketing Co., Ltd.
	●				Kanebo Cosmetics Inc.
	●				Kanebo Cosmetics Sales Inc.
	●				E'quipe, Ltd.
	●				Kanebo Cosmillion Ltd.
	●				Kao Cosmetic Products Odawara Co., Ltd.
	●				Nivea-Kao Co., Ltd.
		●	●		Kao Sanitary Products Ehime Co., Ltd.
			●		Kao Professional Services Co., Ltd.
				●	Kao-Quaker Co., Ltd.
China	●	●	●	●	Kao (China) Holding Co., Ltd.
	●	●	●		Kao Corporation Shanghai
		●			Kao (Hefei) Co., Ltd.
	●	●	●		Kao Commercial (Shanghai) Co., Ltd.
	●				Kanebo Cosmetics (China) Co., Ltd.
	●				Shanghai Kanebo Cosmetics Co., Ltd.
				●	Kao Chemical Corporation Shanghai
				●	Kao Trading Corporation Shanghai
				●	Kao (Shanghai) Chemical Industries Co., Ltd.
	●	●	●		Kao (Hong Kong) Ltd.
Taiwan	●	●	●	●	Kao (Taiwan) Corporation
Vietnam	●	●	●		Kao Vietnam Co., Ltd.
Philippines				●	Pilipinas Kao, Inc.
Thailand	●	●	●	●	Kao Industrial (Thailand) Co., Ltd.
	●	●	●		Kao Commercial (Thailand) Co., Ltd.
Malaysia	●				Kao Soap (Malaysia) Sdn. Bhd.
	●	●	●		Kao (Malaysia) Sdn. Bhd.
				●	Fatty Chemical (Malaysia) Sdn. Bhd.
				●	Kao Plasticizer (Malaysia) Sdn. Bhd.
				●	Kao Oleochemical (Malaysia) Sdn. Bhd.
Singapore	●	●	●	●	Kao Singapore Private Limited
Indonesia	●	●	●		PT Kao Indonesia
				●	PT. Kao Indonesia Chemicals
Australia	●		●		Kao Australia Pty. Limited
Canada	●				Kao Canada Inc.
United States	●				Kao USA Inc.
				●	Kao America Inc.
				●	Kao Specialties Americas LLC
Mexico				●	Quimi-Kao, S.A. de C.V.
Germany	●				Kao Germany GmbH
	●				Guhl Ikebana GmbH
	●				Kao Manufacturing Germany GmbH
				●	Kao Chemicals GmbH
Netherlands	●				Kao Netherlands B.V.
United Kingdom	●				Kao (UK) Limited
	●				KPSS (UK) Limited
	●				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 December 31, 2015)

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: 504,000,000 shares
Outstanding (excluding treasury stock):
502,014,676 shares
Number of Shareholders: 53,272

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.

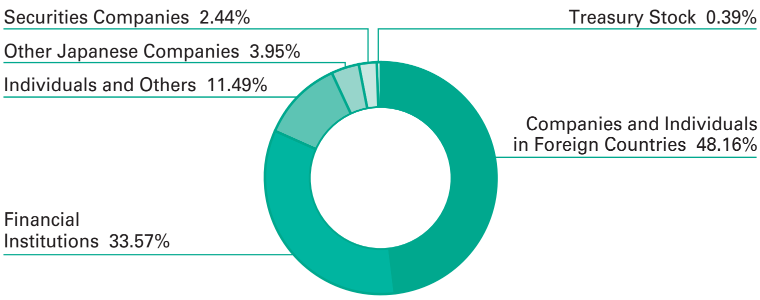
For the Kao Sustainability Report and Kao Group Profile, please refer to the Kao Group website at http://www.kao.com/group/en/group/reports.html

Top Ten Shareholders

Name of Shareholder	Number of Shares (thousand shares)	Ratio of Shareholding (percentage)
Japan Trustee Services Bank, Ltd. (Trust Account)	34,018	6.78
The Master Trust Bank of Japan, Ltd. (Trust Account)	32,957	6.56
JPMorgan Chase Bank 380055	22,183	4.42
State Street Bank and Trust Company 505223	16,207	3.23
Tokio Marine & Nichido Fire Insurance Co., Ltd.	8,442	1.68
State Street Bank West Client – Treaty 505234	8,153	1.62
The Bank of New York Mellon SA/NV 10	7,603	1.51
State Street Bank and Trust Company 505225	7,190	1.43
Nippon Life Insurance Company	6,691	1.33
National Mutual Insurance Federation of Agricultural Cooperatives	6,524	1.30

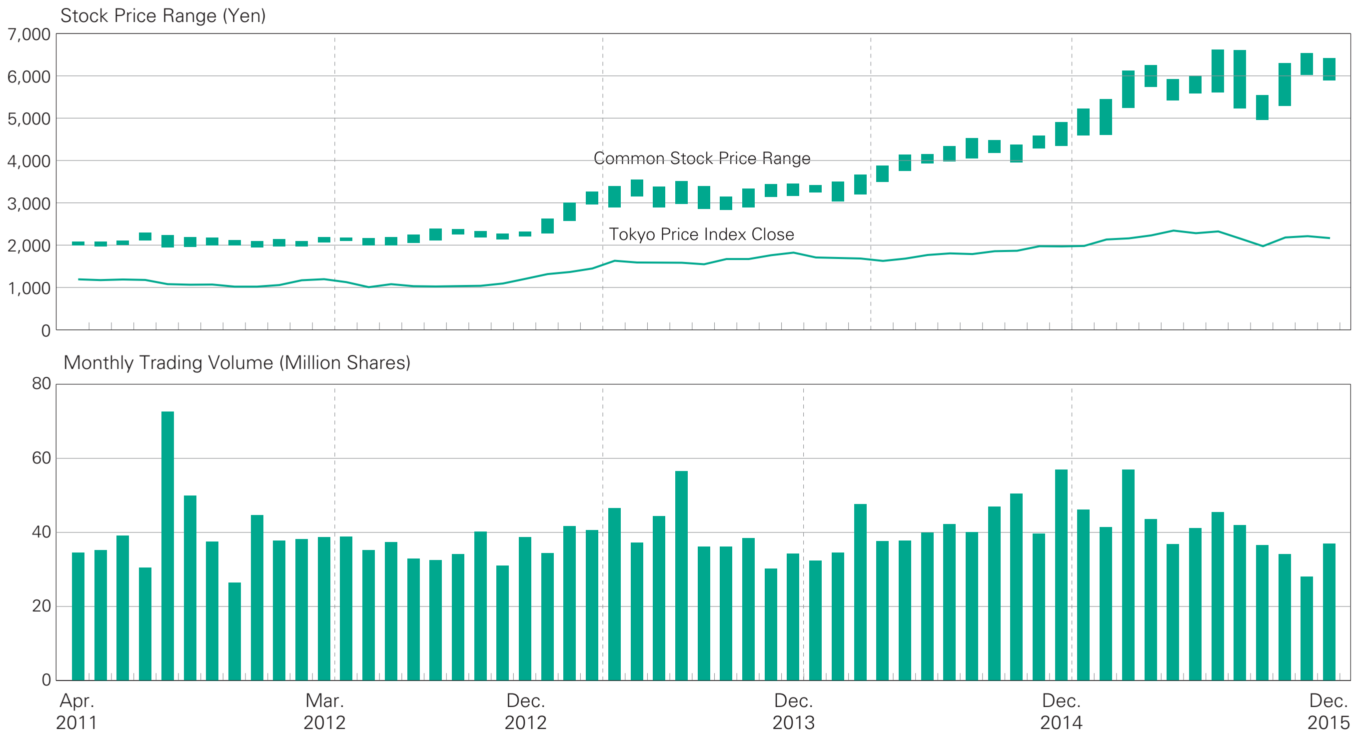
Notes: 1. The number of shares in the list above may include the number of shares held in trusts or subject to share administration.
2. The ratio of shareholding for each shareholder above has been calculated based on the number of issued shares excluding treasury shares.

Composition of Shareholders



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

Stock Price Range and Trading Volume (Tokyo Stock Exchange)



Kao

Enriching lives, in harmony with nature.

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