

February 29, 2016

## NOTICE OF THE 110<sup>th</sup> ANNUAL GENERAL MEETING OF SHAREHOLDERS

To Our Shareholders:

Kao Corporation (the "Company") is pleased to announce that the 110<sup>th</sup> Annual General Meeting of Shareholders of the Company ("AGM") will be held on March 25, 2016 at 10:00 a.m., at The Prince Park Tower Tokyo, Ballroom, B2 (8-1 Shiba Koen 4-chome, Minato-ku, Tokyo, Japan). At the AGM, shareholders who hold one hundred (100) or more shares of record as of December 31, 2015 ("Shareholders") will be presented with the Business Report, the Consolidated Financial Documents and Financial Documents for the fiscal year which ended on December 31, 2015. For your reference, we have enclosed a copy of our Business Results announced on February 3, 2016 and an English summary of the Business Report. At the AGM, Shareholders will be asked to vote on the following agenda items: *(Please note that a shareholder is entitled to one vote per unit of shares, with each unit consisting of one hundred (100) shares.)*

- 1: Proposal for Appropriation of Retained Earnings**
- 2: Election of seven (7) Members of the Board**
- 3: Election of one (1) Audit & Supervisory Board Member**
- 4: Revision to the Aggregate Amount of Remuneration, etc., of Outside Directors**

As we attach great importance to your exercise of voting rights at the AGM, we have enclosed, for your convenience, an English summary of the Proxy Statement, the original of which is in the Japanese language and is being distributed to all registered shareholders or their standing proxies in Japan. In accordance with Companies Act of Japan, we face strict quorum requirements for some of the agenda items listed above. Therefore, we strongly urge you to exercise your voting rights at the AGM.

As part of our ongoing effort to improve the quality of communications with our foreign investors and to increase the voting participation of foreign investors at the AGM, the Company has retained Georgeson as our Global Information Agent to assist us with the AGM. If you have any questions, please contact Cheryl Tirol at +001-201-222-4375 or [ctirol@georgeson.com](mailto:ctirol@georgeson.com), or Michael Menahem at +001-201-222-4374 or [mmenahem@georgeson.com](mailto:mmenahem@georgeson.com). The enclosed materials are also available on our website at [http://www.kao.com/jp/en/corp\\_ir/shareholders.html](http://www.kao.com/jp/en/corp_ir/shareholders.html)

**PLEASE CONTACT YOUR BROKER OR CUSTODIAN WITH YOUR VOTING INSTRUCTIONS AS SOON AS POSSIBLE.**

Thank you very much for your attention.

Very truly yours,



Michitaka Sawada  
President and Chief Executive Officer

ISIN	JP3205800000
SEDOL	6483809
TSE	4452

# Kao Corporation

## English Summary of the PROXY STATEMENT

The Proxy Statement of Kao Corporation (the “Company”) in the Japanese language has been prepared for the purpose of the 110th Annual General Meeting of Shareholders of the Company (the “AGM”) to be held on March 25, 2016 at 10:00 a.m., at The Prince Park Tower Tokyo, Ball Room, B2 (8-1 Shiba Koen 4-chome, Minato-ku, Tokyo, Japan), and is to be furnished to all shareholders of the Company holding at least one Unit Share\* (“Shareholders”) of record as of December 31, 2015 (the “Record Date”).

All Shareholders have valid voting rights and are entitled to vote at the AGM. In order to properly transact business at the AGM, Shareholders holding more than one third of all the voting rights as of the Record Date must be present either in person or be represented by proxy at the AGM.

*\*Note: A shareholder is entitled to one voting right per Unit Share, with each Unit Share consisting of one hundred (100) shares.*

### **PROPOSAL 1: PROPOSAL FOR APPROPRIATION OF RETAINED EARNINGS**

In order to achieve profitable growth, the Company 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.

The following distribution of year-end retained earnings is proposed:

- (1) Matters concerning Assets to be Distributed to Shareholders and Aggregate Amount thereof  
42.00 yen per share of common stock of the Company  
Aggregate amount of distribution: 21,084,616,392 yen
- (2) Effective Date of Distribution of Retained Earnings  
March 28, 2016

If this proposal is adopted without any amendment, then, by adding the interim dividends of **38.00 yen per share** to the above year-end dividends of **42.00 yen per share**, the total dividends for this fiscal year will be **80.00 yen per share**, an increase of 10.00 yen per share over the previous fiscal year, representing a consolidated payout ratio of 40.6%.

<b>THE BOARD OF DIRECTORS UNANIMOUSLY RECOMMENDS A VOTE IN FAVOR OF PROPOSAL 1.</b>
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## PROPOSAL 2: ELECTION OF SEVEN (7) MEMBERS OF THE BOARD

The terms of office of all six (6) incumbent Members of the Board will expire at the conclusion of the AGM. To enhance planning and deliberation of innovation strategy which will contribute to the Company's mission, "Satisfaction and enrichment of the lives of people" at the Board of Directors, and to improve corporate value, the Company will increase the Board of Directors by one (1) member. Accordingly, the Company proposes that a total of seven (7) Members of the Board, including three (3) Outside Directors, be elected.

Provided below is the relevant personal information and career summary held by each of the nominees. Also, if nominees of Proposal 2 and Proposal 3 are elected, as proposed by the Company, there will be three (3) Independent Outside Directors and three (3) Independent Outside Audit & Supervisory Board Members, according to "Standards for Independence of Outside Directors/Audit & Supervisory Board Members of Kao Corporation." Accordingly, six (6) out of twelve (12) attendees of the meeting of the Board of Directors will be independent, so the Company believes adequate discussions based on their opinions independent from the Company's management will be possible at the meeting of the Board of Directors.

Please refer to the following website for details of "Standards for Independence of Outside Directors/Audit & Supervisory Board Members of Kao Corporation."

[http://www.kao.com/jp/en/corp\\_info/governance.html](http://www.kao.com/jp/en/corp_info/governance.html)

### 1. Michitaka Sawada (Date of Birth: December 20, 1955 ) Re-nomination



#### [Career summary, status and duties at the Company]

April 1981	Joined the Company
June 2006	Executive Officer
June 2008	Member of the Board, Executive Officer
June 2012	Representative Director, President and Chief Executive Officer (current)
January 2016	Responsible for Corporate Strategy, Global (current)

#### [Reason for appointment as a nominee for Member of the Board]

Attendance to the Meeting of the Board of Directors: **15/15 (100%)**

Number of the Company shares owned: **23,300 shares**

Term of office at the conclusion of this AGM: **7 years and 9 months**

Ever since assuming office as Representative Director, President and Chief Executive Officer in 2012, Mr. Michitaka Sawada has been at the forefront of furthering the "Yoki-Monozukuri" philosophy, which emphasizes R&D functions, as well as in aiming to become a "company with global existence," working to achieve both "profitable growth" and "social sustainability," and increasing corporate value, through the best use of the Kao Group's assets. Mr. Sawada has also directed the formulation of the "Kao Group Mid-term Plan 2015 (K15)," and under strong leadership based on his considerable experience and extensive expertise, he has steadily carried out the Plan, has accomplished all targets, and has achieved new records of net sales and profits, as well as an increase in overseas sales ratios. In order to ensure sustainable growth of the Kao Group through supervision and execution of management, taking all stakeholders into account, and strengthening the decision-making functions of the Board of Directors concerning material matters, the Company appoints Mr. Sawada as a nominee to continue as a Member of the Board.

**2.Katsuhiko Yoshida** (Date of Birth: April 5, 1954 ) **Re-nomination**



**[Career summary, status and duties at the Company]**

April 1979	Joined the Company
June 2007	Executive Officer
June 2012	Managing Executive Officer
March 2014	Representative Director, Managing Executive Officer President, Consumer Products; and Responsible for Kao Professional Services Co., Ltd. (current)
March 2015	Representative Director, Senior Managing Executive Officer (current)

Attendance to the Meeting of the Board of Directors: **15/15 (100%)**

Number of the Company shares owned: **34,700 shares**

Term of office at the conclusion of this AGM: **2 years**

**[Reason for appointment as a nominee for Member of the Board]**

Over many years, Mr. Katsuhiko Yoshida has been involved in product development which constitutes the core function of the “Yoki-Monozukuri” philosophy, as well as in marketing operations for communicating the essential value of such philosophy to consumers. Mr. Yoshida currently performs duties of being in overall charge of the Consumer Products Business, based on his expertise in relation to both the domestic and overseas Consumer Products Business. Mr. Yoshida is familiar with the global competition environment surrounding the Company, the expectations that stakeholders, including consumers and business partners, have for the Company, and the strengths of and tasks facing the Company in relation to the same. Mr. Yoshida has been actively presenting opinions and proposals in deliberations of the Board of Directors concerning material matters in the management of the Company, based on his considerable experience and expertise. The Company has determined that Mr. Yoshida will be able to contribute to further increasing the corporate value of the Kao Group by using his experience and expertise in the planning and deliberation of management strategies, etc. at the Board of Directors and supervision of execution, and for this reason appoints Mr. Yoshida as a nominee to continue as a Member of the Board.

**3.Toshiaki Takeuchi** (Date of Birth: March 22, 1959) **Re-nomination**



**[Career summary, status and duties at the Company]**

April 1981	Joined the Company
June 2012	Executive Officer
March 2014	Representative Director, Managing Executive Officer Representative Director, President, Kao Customer Marketing Co., Ltd. (current)
January 2016	Representative Director, Senior Managing Executive Officer; and Representative Director, President, Kao Group Customer Marketing Co., Ltd. (current)

Attendance to the Meeting of the Board of Directors: **15/15 (100%)**

Number of the Company shares owned: **14,800 shares**

Term of office at the conclusion of this AGM: **2 years**

**[Other material position(s) held]**

Representative Director, President, Kao Group Customer Marketing Co., Ltd.; and Representative Director, President, Kao Customer Marketing Co., Ltd.

**[Reason for appointment as a nominee for Member of the Board]**

Over many years, Mr. Toshiaki Takeuchi has been involved in sales operations for delivering to consumers the products produced based on the “Yoki-Monozukuri” philosophy, and is therefore well acquainted with the actual sites of sales, including distribution and retail businesses operating on a global basis. Mr. Takeuchi currently serves as Representative Director, President of Kao Group Customer Marketing Co., Ltd., a distribution subsidiary of the Company’s products, and as such, performs duties based on his expertise in relation to both domestic and overseas sales business. Mr. Takeuchi is familiar with the global competition environment surrounding the Company, and the expectations that stakeholders, including consumers and business partners, have for the Company, and the strengths of and tasks facing the Company concerning the same, and has been actively presenting opinions and proposals in deliberations of the Board of Directors concerning material matters in the management of the Company, based on his considerable experience and expertise. The Company has determined that Mr. Takeuchi will be able to contribute to further increasing the corporate value of the Kao Group by using his experience and expertise in the planning and deliberation of management strategies, etc. at the Board of Directors and supervision of execution, and for this reason appoints Mr. Takeuchi as a nominee to continue as a Member of the Board.

**4. Yoshihiro Hasebe** (Date of Birth: July 30, 1960) New Nominee



Number of the Company shares owned: **2,900 shares**

**[Career summary]**

- |              |  |
|--------------|--|
| April 1990   | Joined the Company   |
| March 2008   | Director, Research and Development – Fabric and Home Care Research – Household Products Research, Global   |
| March 2011   | Vice President, Research and Development - Beauty Research - Hair Beauty Research, Global  |
| January 2014 | Vice President, Research and Development - Core Technology, Global; and Vice President, Research and Development - Eco-Innovation Research, Global |
| March 2014   | Executive Officer; and Vice President, Research and Development, Global  |
| March 2015   | Senior Vice President, Research and Development, Global (current)  |
| January 2016 | Managing Executive Officer (current)   |

**[Reason for appointment as a nominee for Member of the Board]**

Over many years, Mr. Yoshihiro Hasebe has been involved in R&D activities in various fields, including fundamental research and product development research, and has been the driving force in providing the world with innovative products which contribute to enriching people’s lifestyles. In order to respond to the expectations that stakeholders, including consumers and business partners, have for the Company, the Company has determined that Mr. Hasebe will be able to hereafter contribute to further increasing the corporate value of the Kao Group by using his experience and expertise in the planning and deliberation of management strategies, etc. at the Board of Directors and supervision of execution, and for this reason appoints Mr. Hasebe as a nominee for Member of the Board.

**5.Sonosuke Kadonaga** (Date of Birth: August 5, 1952 )

Re-nomination

Nominee for  
Outside Director

Nominee for  
Independent  
Director



**[Career summary, status and duties at the Company]**

April 1976	Joined Chiyoda Corporation
June 1981	Master of Science in Chemical Engineering, Massachusetts Institute of Technology, School of Engineering, U.S.A.
August 1986	Joined McKinsey & Company, Inc., Japan
July 2009	President, Intrinsic (current)
June 2012	Member of the Board, Kao Corporation (current)

Attendance to the  
Meeting of the  
Board of Directors:  
**15/15 (100%)**

**[Other material position(s) held]**

President, Intrinsic; and  
Dean, Department of Management, Kenichi Ohmae Graduate School of  
Business , Business Breakthrough University

Number of the  
Company shares  
owned: **10,000  
shares**

**[Reason for appointment as a nominee for Outside Director]**

Mr. Sonosuke Kadonaga has expertise in relation to international corporate management gleaned from his considerable experience at a foreign-affiliated consulting company. In addition, as a measure to enhance the neutrality and independence of the Board of Directors, Mr. Kadonaga, as an Independent Outside Director, has chaired the meetings of the Board of Directors since March 2014, and has thereby contributed to enabling active discussions at such meetings without any distinction between Inside/Outside Directors. In view of these facts, the Company has determined that it would be most suitable if Mr. Kadonaga were to continue to supervise the management of the Company as an Independent Outside Director, and for this reason appoints Mr. Kadonaga as a nominee to continue as an Outside Director.

Term of office at  
the conclusion of  
this AGM: **3 years  
and 9 months**

**[Matters regarding independency]**

The Company has reported to the Tokyo Stock Exchange, Inc. that Mr. Sonosuke Kadonaga is an Independent Director as set forth in the Regulations of the Tokyo Stock Exchange, Inc. The Company will continue the above report if Mr. Sonosuke Kadonaga is reelected and assumes office as a Member of the Board.

**6.Toru Nagashima** (Date of Birth: January 2, 1943)

Re-nomination

Nominee for  
Outside Director

Nominee for  
Independent  
Director



Attendance to the Meeting of the Board of Directors: **15/15 (100%)**

Number of the Company shares owned: **0 shares**

Term of office at the conclusion of this AGM: **3 years**

**[Career summary, status and duties at the Company]**

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

**[Other material position(s) held]**

Senior Advisor, Teijin Limited; and  
Outside Director, Sekisui Chemical Co., Ltd.

**[Reason for appointment as a nominee for Outside Director]**

Mr. Toru Nagashima has considerable experience and expertise in relation to management of a global company, gleaned from being a manager of a manufacturing company operating in various countries around the world. Mr. Nagashima has been actively presenting opinions and proposals in deliberations of the Board of Directors concerning material matters in the management of the Company, based on his considerable experience and expertise. In view of these facts, the Company has determined that it would be most suitable if Mr. Nagashima were to continue to supervise the management of the Company as an Independent Outside Director, and for this reason appoints Mr. Nagashima as a nominee to continue as an Outside Director.

**[Matters regarding independency]**

The Company has reported to the Tokyo Stock Exchange, Inc. that Mr. Toru Nagashima is an Independent Director as set forth in the Regulations of the Tokyo Stock Exchange, Inc. If Mr. Toru Nagashima is reelected and assumes office as a Member of the Board, the Company will continue the above report. Mr. Toru Nagashima previously had executive authority at Teijin Limited but after assuming office as Chairman of the Board of Teijin Limited in June 2008, he has been principally involved in the execution of external affairs for, and has not been directly involved in the execution of internal affairs for, Teijin Limited. Although the Company engages in transactions with Teijin Limited in terms of purchasing goods, the amounts involved in such transactions account for less than 0.1% of the Company's net sales and less than 1% of Teijin Limited's net sales for the latest fiscal year, respectively. Mr. Toru Nagashima served as Vice Chairman of the Japan Association of Corporate Executives (JACE), but he resigned in April 2014. Although, the Company engages in transactions with the JACE in terms of the payment of membership fees, the amounts involved in such transactions account for less than 1% of the Company's net sales and the JACE's current income for the latest fiscal year, respectively. Mr. Toru Nagashima served as Chairman of the Japan Overseas Enterprises Association (JOEA), but he resigned in June 2013. Although, the Company engages in transactions with the JOEA in terms of the payment of membership fees, the amounts involved in such transactions account for less than 0.1% of the Company's net sales and less than 2% of the JOEA's current income for the latest fiscal year respectively. Mr. Toru Nagashima served as Chairman of the Japan Chemical Fibers Association (JCFA), but he resigned in July 2007. Although, the Company engages in transactions with the JCFA in terms of attendance at seminars held by JCFA, the amounts involved in such transactions account for less than 0.1% of the Company's net sales and JCFA's gross income for the latest fiscal year, respectively. Furthermore, Mr. Toru Nagashima serves as Director of the Japan Corporate Governance Network (JCGN), and although the Company engages in transactions with the JCGN in terms of attendance at seminars held by JCGN, the amounts involved in such transactions account for less than 0.1% of the Company's net sales and JCGN's gross income for the latest fiscal year, respectively.



**7.Masayuki Oku** (Date of Birth: December 2, 1944)

Re-nomination

Nominee for  
Outside Director

Nominee for  
Independent  
Director



Attendance to the Meeting of the Board of Directors: **15/15 (100%)**

Number of the Company shares owned: **0 shares**

Term of office at the conclusion of this AGM: **2 years**

**[Career summary, status and duties at the Company]**

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

**[Other material position(s) held]**

Chairman of the Board, Sumitomo Mitsui Financial Group, Inc. ;  
Outside Director, Panasonic Corporation;  
Outside Audit & Supervisory Board Member, Nankai Electric Railway Co., Ltd.  
Outside Director, Komatsu Ltd. ;  
Outside Director, Chugai Pharmaceutical Co., Ltd. ; and  
Non-executive Director, The Bank of East Asia, Limited

**[Reason for appointment as a nominee for Outside Director]**

Mr. Masayuki Oku has played an active role internationally in the fields of finance and financial affairs, such as being a manager of a major financial institution, and has considerable experience and expertise in relation to global corporate management. Mr. Oku has been actively presenting opinions and proposals in deliberations of the Board of Directors concerning material matters in the management of the Company, based on his considerable experience and expertise. As of the end of FY2012, the total amount of loans of the Kao Group from the group companies of Sumitomo Mitsui Financial Group, Inc., where Mr. Oku serves as Chairman of the Board, was 2.12%, i.e., slightly above the Company's prescribed independence criteria of being less than 2%, of the total consolidated assets of the Kao Group, and the Company, therefore, had not acknowledged Mr. Oku as an Independent Officer. However, the total amounts of loans were less than 2% as of the end of each of FY 2013, FY 2014 and FY 2015, and, therefore, if Mr. Oku is reelected as a Member of the Board at the AGM and assumes office, the Company will report to the Tokyo Stock Exchange, Inc. that Mr. Masayuki Oku is an Independent Director as set forth in the Regulations of the Tokyo Stock Exchange, Inc. In view of these facts, the Company has determined that it would be most suitable if Mr. Oku were to continue to supervise the management of the Company as an Independent Outside Director, and for this reason appoints Mr. Oku as a nominee to continue as an Outside Director.

**[Matters regarding independency]**

If Mr. Masayuki Oku is reelected and assumes office as a Member of the Board, the Company will report to the Tokyo Stock Exchange, Inc. that Mr. Masayuki Oku is an Independent Director as set forth in the Regulations of the Tokyo Stock Exchange, Inc.

Mr. Masayuki Oku had executive authority at Sumitomo Mitsui Banking Corporation (SMBC), but no longer has such authority since April 2011 in SMBC. The Company conducts regular bank transactions with SMBC and the Company has loans from SMBC as described in the attached Business Report page 7.

**[Special notes concerning nominees]**

**[Special relationship between the Company and the nominees for Members of the Board]**

There are no special interests between the Company and the nominees for Members of the Board.

**[Matters regarding Outside Directors]**

Of the nominees for Members of the Board, Messrs. Sonosuke Kadonaga, Toru Nagashima and Masayuki Oku are nominees for Outside Directors.

**[Summary of liability limitation agreements]**

Pursuant to Article 427, Paragraph 1 of the Companies Act and the Articles of Incorporation of the Company, the Company entered into an agreement with Messrs. Sonosuke Kadonaga, Toru Nagashima and Masayuki Oku, respectively, to the effect that his liability under Article 423, Paragraph 1 of the Companies Act will be limited to the higher of: 10 million yen; or any amount prescribed by applicable laws and regulations. If they are reelected and assume office, the Company will continue these agreements with them.

**[In case a nominee for outside director was in office as officer, director or audit and supervisory board member of another company/companies during the past five years, the fact that a violation of any laws, regulations and/or the Articles of Incorporation, or of any improper execution of duties, was made during his/her tenure at such other company/companies, as well as the actions taken in advance by said candidate to prevent said fact and post-facto actions taken as responses to said fact.]**

- Nikko Cordial Securities Inc. ( NCSI ,now SMBC Nikko Securities Inc.) where Mr. Masayuki Oku served as a Member of the Board, a business improvement order was issued against NCSI by the Finance Service Agency (FSA) in April 2011, in connection with an incident in which an employee defrauded certain customers of their money through means not connected to their accounts at NCSI. Moreover, a business improvement order was issued against NCSI by the FSA in April 2012, in connection with deficient internal control systems with respect to undisclosed corporate information and inappropriate solicitation activities. Furthermore, a business improvement order was issued against NCSI by the FSA in August 2012, regarding a failure to put in place necessary and appropriate measures to prevent unfair transactions related to undisclosed corporate information.
- Panasonic Corporation, where Mr. Masayuki Oku serves as an Outside Director, received an order for the payment of fines issued by the European Commission in December 2011 with respect to its violation of antitrust laws conducted in relation to its refrigeration compressor business, but he was not an Outside Director when this violation took place. Moreover, Panasonic Corporation entered into an agreement with the United States Department of Justice in July 2013, and the Canadian Competition Bureau in February 2014, respectively, for Panasonic Corporation to pay fines with respect to its violation of antitrust laws conducted in relation to its automotive parts business. He was unaware of such violations until these relevant facts were revealed, but he had been executing his day-to-day duties through the Board of Directors, etc., from the perspective of ensuring compliance with laws and regulations, striving to avoid any execution of business in conflict with applicable laws and regulations. Since the aforementioned violation was revealed, Mr. Masayuki Oku has verified the content of Panasonic Corporation's efforts to avoid the recurrence thereof.

**[The fact that a nominee for outside director is a person executing business or an executive officer of specified related business operators of the Company, or was in the past five years a person executing business or an executive officer of specified related business operators of the Company.]**

In the past 5 years, Mr. Masayuki Oku was once an Executive Officer of SMBC, a specified related business operator of the Company.

**THE BOARD OF DIRECTORS UNANIMOUSLY RECOMMENDS A VOTE IN FAVOR OF THIS PROPOSAL 2.**

**PROPOSAL 3: ELECTION OF ONE (1) AUDIT & SUPERVISORY BOARD MEMBER**

Of the five (5) incumbent Audit & Supervisory Board Members, the term of office of Mr. Teruo Suzuki will expire at the conclusion of the AGM. Accordingly, the Company proposes that one (1) Audit & Supervisory Board Member be elected as an Outside Audit & Supervisory Board Member.

The Audit & Supervisory Board has approved the submission of this proposal to the AGM. Provided below is the relevant personal information and career summary held by the nominee.

**Toraki Inoue** (Date of Birth: September 6, 1956)

New Nominee

Nominee for  
Outside Audit &  
Supervisory  
Board Member

Nominee for  
Independent  
Audit &  
Supervisory  
Board Member



Number of the  
Company shares  
owned: **0 shares**

**[Career summary]**

October 1980	Entered Arthur Andersen
December 1985	Registered as Certified Public Accountant
June 1987	Resided in New York Office of Arthur Andersen
October 1995	National Partner of Arthur Andersen
October 1997	Worldwide Partner of Arthur Andersen
July 1999	Representative Partner, Asahi & Co.
July 2008	Toraki Inoue Certified Public Accountant Office (current)
June 2010	Representative Director, President, Accounting Advisory Co., Ltd. (current)

**[Other material position(s) held]**

Certified Public Accountant; and  
Representative Director, President, Accounting Advisory Co., Ltd.

**[Reason for appointment as a nominee for Outside Audit & Supervisory Board Member]**

The Company appoints Mr. Toraki Inoue as a nominee for Outside Audit & Supervisory Board Member, in the expectation that he will use his highly professional skills as a certified public accountant, and his expertise, including in relation to fields such as the International Financial Reporting Standards (IFRS), which the Company employs from FY2016, as well as his experience as a corporate accounting consultant based thereon, in the auditing of the Company.

**[Matters regarding independency]**

If Mr. Toraki Inoue is elected and assumes office as an Audit & Supervisory Board Member, the Company will report to the Tokyo Stock Exchange, Inc. that Mr. Toraki Inoue is an Independent Audit & Supervisory Board Member as set forth in the Regulations of the Tokyo Stock Exchange, Inc.

**[Special relationship between the Company and the nominees for Audit & Supervisory Board Member]**

There are no special interests between Mr. Toraki Inoue and the Company.

**[Matters regarding Outside Audit & Supervisory Board Member]**

Mr. Toraki Inoue is a nominee for Outside Audit & Supervisory Board Member.

**[Summary of liability limitation agreements]**

If Mr. Toraki Inoue is elected and assumes office as an Audit & Supervisory Board Member, the Company will enter into an agreement with Mr. Toraki Inoue, to the effect that his liability under Article 423, Paragraph 1 of the Companies Act will be limited to the higher of: 10 million yen; or any amount prescribed by applicable laws and regulations.


**THE BOARD OF DIRECTORS UNANIMOUSLY RECOMMENDS A VOTE IN FAVOR OF THIS PROPOSAL 3.**

**PROPOSAL 4: REVISION TO THE AGGREGATE AMOUNT OF REMUNERATION, ETC., OF OUTSIDE DIRECTORS**

Remuneration for Outside Directors of the Company has consisted of fixed monthly remuneration and share remuneration type stock options as long-term incentive compensation. However, it is proposed that the amount of remuneration, etc. for Outside Directors be revised to the amounts specified below, taking into account matters such as: placing further emphasis on the supervisory role of Outside Directors, and abolishing compensation in the form of stock options which are highly correlated to business results, and instead, solely providing fixed monthly remuneration comprising an amount equivalent thereto; changes having been caused to the environment surrounding corporate governance and also to the duties and responsibilities of Outside Directors; and the increase in the number of Outside Directors currently being considered for the further reinforcement of the Company’s corporate governance system in the future. It was approved, at the 101st Annual General Meeting of Shareholders held on June 28, 2007, that the annual amount of 630 million yen or less be paid to Members of the Board, including bonuses (excluding, however, remuneration paid to Members of the Board who also serve as employees, for their services as employees), among which an annual amount of 30 million yen or less was to be paid to Outside Directors, and these amounts have continued to apply to date. However, for the reasons described above, it is proposed that revisions be made to increase solely the amount of remuneration, etc. for Outside Directors, without changing the aggregate amount, more specifically, starting from the 111th fiscal year which commenced on January 1, 2016, the annual amount of 630 million yen or less is to be paid to Members of the Board, among which an annual amount of 100 million yen or less is to be paid to Outside Directors. The Company currently has six (6) Members of the Board (including three Outside Directors.) If Proposal 2 is approved as proposed by the Company, the number of the Members of the Board will be seven (7), three (3) of whom will be Outside Directors.

Apart from the above amount of remuneration, etc. for Members of the Board of the Company, it was approved at the 100th Annual General Meeting of Shareholders held on June 29, 2006, that compensation, etc. relating to stock acquisition rights, be allotted to Members of the Board of the Company as stock options, in an annual amount of 200 million yen or less.

(For reference)

		Current	
Maximum amount of remuneration, etc. of Members of the Board in total (per year)	Maximum amount	630 million yen	
	The amount paid to Outside Directors	30 million yen	
		After the revision	
		630 million yen (Not revised)	
		100 million yen (Revised)	

**THE BOARD OF DIRECTORS UNANIMOUSLY RECOMMENDS A VOTE IN FAVOR OF THIS PROPOSAL 4.**

# **BUSINESS REPORT**

## **(From January 1, 2015 to December 31, 2015)**

### **I Current Condition of the Kao Group**

#### **1. Business Progress and Results**

Please see the attached *Business Results* pages 5 through 11 for the summary.

#### **2. Status of Capital Investments**

The aggregate amount of capital investments, etc., for this fiscal year was 83.4billion yen.

In the Consumer Products Business, the reinforcement, streamlining, maintenance and renewal, etc. of facilities were conducted. The production capacity of sanitary product plants in Japan and overseas was expanded in order to reinforce the supply system. At the Odawara Office, research facilities were expanded, and a new building equipped with the latest production facilities was constructed, in relation to cosmetics.

In the Chemical Business, the construction of a new plant was completed in Shanghai, China, and the production capacity for surfactants was expanded in Indonesia, and the streamlining, maintenance, renewal, etc. of facilities were conducted.

#### **3. Financing Status**

Kao Corporation (the “Company”) effectively used its group’s capital to cover necessary capital investments.

In March 2015, borrowings were repaid in the amount of 20 billion yen, and new borrowings were made in the amount of 40 billion yen for the purpose of maintaining an appropriate capital cost ratio and reinforcing the financial basis for growth investment.

#### **4. Issues for Management**

With intensifying market competition, changing market structure and volatility in raw material market conditions and exchange rates, the operating environment remains uncertain. Changes in the attitudes of consumers regarding the environment, health and other matters and associated changes in their purchasing attitudes, as well as the aging society, hygiene and other social issues, are growing in significance. Moreover, amid the global expansion of business and the progress of structural changes in various fields, companies must deal with all possible risks entailed in their businesses. Under these conditions, the Kao Group will continuously increase corporate value by addressing and dealing appropriately with the following issues.

(i) Regarding brightening products containing the ingredient Rhododenol sold by Kanebo Cosmetics, for which a voluntary recall was announced on July 4, 2013, Kanebo Cosmetics has been responding seriously with support for the recovery and compensation of people who have experienced vitiligo-like symptoms. In addition, the entire Kao Group is making efforts with a view of the tasks before it as working to prevent recurrence while striving to ensure greater safety and reliability.

(ii) To deal with all possible risks entailed in its businesses, the Kao Group will define serious company-wide risks as corporate risks and work to prevent damage to the corporate value of the Group as a whole by further enhancing its management system.

The Kao Group is currently formulating K20, a mid-term plan that will begin in fiscal 2017, with a targeted direction as follows. The targeted direction of the plan is to ensure that the Kao Group fulfills its role of a leading company and that it increases corporate value. In order to achieve this, the Kao Group will insist on sustainable growth, principally by the following means: continuously increasing net sales and profits; prioritizing profits over sales expansion; advancing the post-deflation growth model and proactively investing in M&A; creating and proposing profitable businesses. In addition, the Kao Group will provide sustainable returns to stakeholders, such as its employees, the society, and its shareholders.

All members of the Kao Group share and practice the corporate philosophy, “The Kao Way” which expressly states the Kao Group’s unique corporate culture and the essence of its corporate spirit, as the very foundation of these activities. In addition, the Kao Group as a whole will make further efforts and devote itself to realizing its major mission specified in the Kao Way, i.e., “to strive for the wholehearted satisfaction and enrichment of the lives of people globally and to contribute to the sustainability of the world,” as well as its corporate message, “Enriching lives, in harmony with nature.”

The continued understanding and further support of the shareholders in business operations of the Kao Group will be greatly appreciated.



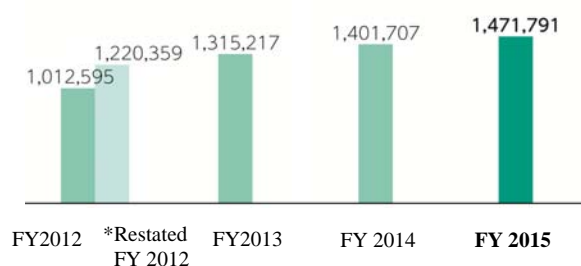
## 5. Transitions of Assets and Profits and Losses

<i>Item</i>	<b>FY 2012</b>	<b>*Restated FY 2012</b>	<b>FY 2013</b>	<b>FY 2014</b>	<b>FY 2015</b>
	(million yen)	(million yen)	(million yen)	(million yen)	(million yen)
Net sales	1,012,595	1,220,359	1,315,217	1,401,707	1,471,791
Operating income	101,567	111,791	124,656	133,270	164,380
Ordinary income	104,214	114,115	128,053	138,784	169,273
Net income	52,765	53,107	64,764	79,590	98,862
Total assets	1,030,347	1,030,347	1,133,276	1,198,233	1,281,869
Total shareholders' equity	596,083	596,083	642,640	672,393	687,133
	(yen)	(yen)	(yen)	(yen)	(yen)
Net income per share	101.12	101.77	126.03	156.46	197.19

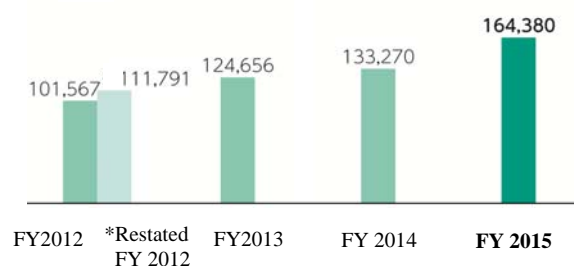
### Notes:

- In FY 2012, both revenues and profits increased compared with the same period of the previous year, principally as a result of decrease in raw materials mainly for natural oils and fats and petrochemicals, and cost reduction activities and efficient use of expenses. Due to a change in the fiscal year end, the term of consolidation for the fiscal year ended December 31, 2012 is the nine-month period from April to December for the Company and its subsidiaries whose fiscal year end was previously March 31 and the twelve-month period from January to December for subsidiaries whose fiscal year end was December 31.
- \*Restated FY 2012 is the same period of the previous year (January 1 to December 31, 2012) for the purpose of comparison with FY 2013 (January 1 to December 31, 2013).
- In FY 2013, despite recording expenses related to the voluntary recall implemented by Kanebo Cosmetics Inc., both revenues and profits increased, principally as a result of new product launches, further strengthening of sales promotion activities, cost reduction activities and a decrease in depreciation and amortization expenses.
- In FY 2014, despite recording expenses related to compensation in Kanebo Cosmetics Inc., both revenues and profits increased, principally as a result of the launch of high-value-added products and proactive sales activities.
- The summary of the business results for FY 2015 is mentioned in the attached Business Results page 5 through 11.

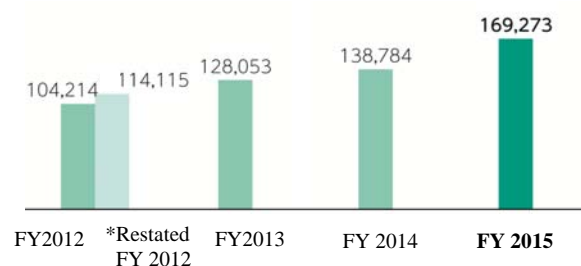
### Net Sales (million yen)



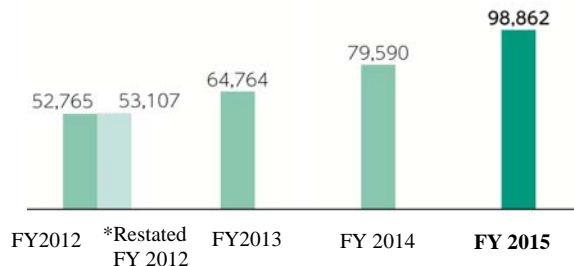
### Operating Income (million yen)



### Ordinary Income (million yen)



### Net Income (million yen)



6. Main Businesses of the Kao Group (as of December 31, 2015)

Business Category		Main Products
Consumer Products Business	Beauty Care Business	< Cosmetics > counseling cosmetics, self-selection cosmetics
		< Skin care products > soaps, facial cleansers, body cleansers
		< Hair care products > shampoos, conditioners, hair styling agents, hair coloring agents
	Human Health Care Business	< Food and beverage products > beverages
		< Sanitary products > sanitary napkins, baby diapers
		< Personal health products > bath additives, oral care products, men's products
Fabric & Home Care Business	< Fabric care products > laundry detergents, fabric treatments	
	< Home care products > kitchen cleaning products, house cleaning products, paper cleaning products, commercial-use products	
Chemical Business	< Oleo chemicals > fatty alcohols, fatty amines, fatty acids, glycerin, commercial-use edible fats and oils	
	< Performance chemicals > surfactants, plastics additives, superplasticizers for concrete admixtures	
	< Specialty chemicals > toner and toner binder for copiers and printers, ink and colorants for inkjet printers, fragrances and aroma chemicals	

## 7. Main Subsidiaries and Affiliates (as of December 31, 2015)

Name of Company	Capital Stock	Ratio of Voting Rights	Main Businesses
Kao Customer Marketing Co., Ltd.	JPY 1,830 million	100%	Sales of consumer products
Kanebo Cosmetics Inc.	JPY 7,500 million	100%	Manufacture and sales of cosmetics products
Kanebo Cosmetics Sales Inc.	JPY 100 million	100%	Sales of cosmetics products
Kao (China) Holding Co., Ltd.	CNY 2,604 million	100%	Control of affiliates in the People's Republic of China and sales of cosmetics products
Kao Commercial (Shanghai) Co., Ltd.	CNY 1,348 million	100%	Sales of consumer products
Kao (Taiwan) Corporation	TWD 597 million	92%	Manufacture and sales of consumer products and sales of chemical products
Pilipinas Kao, Inc.	USD 74 million	100%	Manufacture and sales of oleo chemicals products
Kao Industrial (Thailand) Co., Ltd.	THB 2,000 million	100%	Manufacture and sales of consumer products and chemical products
Fatty Chemical (Malaysia) Sdn. Bhd.	MYR 120 million	70%	Manufacture and sales of oleo chemicals products
Kao Singapore Private Limited	USD 45 million	100%	Sales of consumer products and chemical products
Kao USA Inc.	USD 1	100%	Manufacture and sales of skin care and hair care products, and sales of hair care products for beauty salons
Kao Specialties Americas LLC	USD 1	100%	Manufacture and sales of chemical products
Kao Germany GmbH	EUR 25 million	100%	Sales of skin care products, and manufacture and sales of hair care products for beauty salons
Kao Chemicals Europe, S.L.	EUR 74 million	100%	Control of affiliates in the business of chemical products in Europe, etc.
Kao Chemicals GmbH	EUR 9 million	100%	Manufacture and sales of chemical products
Kao Corporation S.A.	EUR 56 million	100%	Manufacture and sales of chemical products
Nivea-Kao Co., Ltd.	JPY 200 million	40%	Manufacture and sales of skin care products

*Notes:*

- 1. Nivea-Kao Co., Ltd. is a company accounted for by the equity method.*
- 2. The above ratio of voting rights has been calculated based on the total number of voting rights held by the Company and its subsidiaries.*
- 3. The status of the specified wholly-owned subsidiary (meaning a wholly-owned subsidiary, etc., where the book value of such wholly-owned subsidiary, etc. exceeds one-fifth (1/5) of the amount of the Company's total assets) as of the last day of this fiscal year was as follows:*

*Name of specified wholly-owned subsidiary: Kanebo Cosmetics Inc.*

*Address of specified wholly-owned subsidiary: 14-10, Nihonbashi Kayabacho 1-chome, Chuo-ku, Tokyo, Japan*

*Book value of shares of specified wholly-owned subsidiary: JPY 275,332 million*

*Amount of total assets of the Company: JPY 1,131,277 million*

## 8. Main Offices, Plants, Laboratories, and Subsidiaries (as of December 31, 2015)

### (1) The Company

Name	Location
Head Office	Chuo-ku, Tokyo
Sumida Office	Sumida-ku, Tokyo
Osaka Office	Nishi-ku, Osaka-shi, Osaka
Odawara Office	Odawara-shi, Kanagawa
Sakata Plant	Sakata-shi, Yamagata
Tochigi Plant	Ichikai-machi, Haga-gun, Tochigi
Kashima Plant	Kamisu-shi, Ibaraki
Tokyo Plant	Sumida-ku, Tokyo
Kawasaki Plant	Kawasaki-ku, Kawasaki-shi, Kanagawa
Toyohashi Plant	Toyohashi-shi, Aichi
Wakayama Plant	Wakayama-shi, Wakayama
Tochigi Research Laboratories	Ichikai-machi, Haga-gun, Tochigi
Tokyo Research Laboratories	Sumida-ku, Tokyo
Odawara Research Laboratories	Odawara-shi, Kanagawa
Wakayama Research Laboratories	Wakayama-shi, Wakayama

### (2) Subsidiaries

#### 1) Domestic

Company	Location
Kao Customer Marketing Co., Ltd.	Chuo-ku, Tokyo (Head Office) and 8 regional headquarter offices
Kanebo Cosmetics Inc.	Chuo-ku, Tokyo (Head Office)
Kanebo Cosmetics Sales Co., Ltd.	Chuo-ku, Tokyo (Head Office) and 8 regional headquarter offices
Kao Cosmetic Products Odawara Co., Ltd.	Odawara-shi, Kanagawa (Head Office)
Kao Sanitary Products Ehime Co., Ltd.	Saijo-shi, Ehime (Head Office)

#### 2) Overseas

Company	Location
Kao (China) Holding Co., Ltd.	The People's Republic of China
Kao Commercial (Shanghai) Co., Ltd.	The People's Republic of China
Kao (Taiwan) Corporation	Taiwan
Pilipinas Kao, Inc.	The Republic of the Philippines
Kao Industrial (Thailand) Co., Ltd.	The Kingdom of Thailand
Fatty Chemical (Malaysia) Sdn. Bhd.	The Federation of Malaysia
Kao Singapore Private Limited	The Republic of Singapore
Kao USA Inc.	The United States of America
Kao Specialties Americas LLC	The United States of America
Kao Germany GmbH	The Federal Republic of Germany
Kao Chemicals Europe, S.L.	Spain
Kao Chemicals GmbH	The Federal Republic of Germany
Kao Corporation S.A.	Spain

## 9. Employees of Kao Group (as of December 31, 2015)

Business Category	Number of Employees
Consumer Products Business	28,143
Beauty Care Business	19,242
Human Health Care Business	4,647
Fabric & Home Care Business	4,254
Chemical Business	3,311
Others	1,572
Total	33,026

Notes:

1. The total number of employees has increased by 319 from the previous fiscal year.
2. Of the above, the number of the Company's employees is 6,970.

**10. Main Lenders (as of December 31, 2015)**

<b>Lenders</b>	<b>Outstanding Balance (million yen)</b>
Mizuho Bank, Ltd.	20,000
Sumitomo Mitsui Banking Corporation	20,000
Development Bank of Japan Inc.	10,000

## II Shares of the Company (as of December 31, 2015)

1. Number of authorized shares 1,000,000,000 shares

2. Number of issued shares 504,000,000 shares

*Notes: The number of issued shares includes 1,985,324 treasury shares.*

3. Number of shareholders 53,272

### 4. Major Shareholders (Top 10)

Shareholders	Investment in Kao by Shareholders	
	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
JP Morgan 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.*

### III Stock Acquisition Rights, etc., of the Company

The Company issues stock acquisition rights (*shinkabu yoyakuken*), as the two types of stock options described below, to the members of the Board of Directors (the “Board”) , Executive Officers, and employees of the Company and its affiliated companies.

- Share Remuneration Type Stock Options

Share remuneration type stock options are allotted as remuneration, to the Members of the Board of the Company as well as to the Executive Officers of the Company who are not members of the Board of the Company. The amount to be paid-in by an allottee at the time of the allotment of the stock acquisition rights is set off against the remuneration to be received by the allottee, and the exercise price is one (1) yen per share. Share remuneration type stock options are allotted for the purpose of enhancing the motivation and morale of the allottees to improve the corporate performance and stock value of the Company through further strengthening the correlation between remuneration to the allottees and the performance and stock value of the Company, as well as for the purpose of further increasing the Company’s corporate value through promoting the shared interests of the allottees and the Company’s shareholders.

In the following list, the 8<sup>th</sup>-A, 9<sup>th</sup>-A, 10<sup>th</sup>-A, 11<sup>th</sup>, 12<sup>th</sup>, 13<sup>th</sup> and 14<sup>th</sup> Stock Acquisition Rights were issued as share remuneration type stock options.

- Traditional Type Stock Options

Traditional type stock options are allotted as an incentive to the employees of the Company as well as to the Members of the Board and employees of the Company’s affiliated companies. There is no amount to be paid-in by an allottee at the time of the allotment of the stock acquisition rights, and the exercise price is decided based on the Company’s stock price as of the date of the allotment. Traditional type stock options are allotted for the purpose of further increasing the Company’s corporate value through promoting the shared interests of the allottees and the Company’s shareholders.

In the following list, the 8<sup>th</sup>-B, 9<sup>th</sup>-B and 10<sup>th</sup>-B Stock Acquisition Rights were issued as traditional type stock options.

From FY 2012, traditional type stock options are not allotted in accordance with the revision of the Kao Group’s remuneration and incentive plans for managers.

#### 1. Stock Acquisition Rights (as of December 31, 2015)

Name (Date of Issue)	Number of Stock Acquisition Rights	Type and Number of Shares to be Delivered upon Exercise of Stock Acquisition Rights	Amount Paid in for Allotment of Stock Acquisition Rights	Value of Assets Contributed upon Exercise of Stock Acquisition Rights	Period for Exercising Stock Acquisition Rights
8 <sup>th</sup> - A Stock Acquisition Rights (August 28, 2009)	12	12,000 shares of the Company’s common stock	2,115,000 yen per stock acquisition right	1 yen per share	July 1, 2011 - June 30, 2016
8 <sup>th</sup> - B Stock Acquisition Rights (August 28, 2009)	212	212,000 shares of the Company’s common stock	<i>Gratis</i>	2,355 yen per share	September 1, 2011 - August 31, 2016
9 <sup>th</sup> - A Stock Acquisition Rights (August 25, 2010)	16	16,000 shares of the Company’s common stock	1,749,000 yen per stock acquisition right	1 yen per share	July 1, 2012 - June 30, 2017
9 <sup>th</sup> - B Stock Acquisition Rights (August 25, 2010)	131	131,000 shares of the Company’s common stock	<i>Gratis</i>	2,190 yen per share	September 1, 2012 - August 31, 2017

Name (Date of Issue)	Number of Stock Acquisition Rights	Type and Number of Shares to be Delivered upon Exercise of Stock Acquisition Rights	Amount Paid in for Allotment of Stock Acquisition Rights	Value of Assets Contributed upon Exercise of Stock Acquisition Rights	Period for Exercising Stock Acquisition Rights
10 <sup>th</sup> - A Stock Acquisition Rights (August 25, 2011)	30	30,000 shares of the Company's common stock	1,718,000 yen per stock acquisition right	1 yen per share	July 1, 2013 - June 29, 2018
10 <sup>th</sup> - B Stock Acquisition Rights (August 25, 2011)	272	272,000 shares of the Company's common stock	<i>Gratis</i>	2,254 yen per share	September 1, 2013 - August 31, 2018
11 <sup>th</sup> Stock Acquisition Rights (August 23, 2012)	53	53,000 shares of the Company's common stock	2,119,000 yen per stock acquisition right	1 yen per share	July 1, 2014 - June 28, 2019
12 <sup>th</sup> Stock Acquisition Rights (May 23, 2013)	40	40,000 shares of the Company's common stock	3,027,000 yen per stock acquisition right	1 yen per share	July 1, 2015 - June 30, 2020
13 <sup>th</sup> Stock Acquisition Rights (May 22, 2014)	40	40,000 shares of the Company's common stock	3,808,000 yen per stock acquisition right	1 yen per share	July 1, 2016 - June 30, 2021
14 <sup>th</sup> Stock Acquisition Rights (May 21, 2015)	40	40,000 shares of the Company's common stock	5,630,000 yen per stock acquisition right	1 yen per share	July 1, 2017 - June 30, 2022

## 2. Stock Acquisition Rights Held by Members of the Board and Audit & Supervisory Board Members of the Company (as of December 31, 2015)

### (1) Stock Acquisition Rights Held by Members of the Board (Excluding Outside Directors)

Name	Number of Stock Acquisition Rights Holders	Number of Stock Acquisition Rights Allotted	Number of Shares to be Delivered upon Exercise of Stock Acquisition Rights
8 <sup>th</sup> - B Stock Acquisition Rights	1	5	5,000
11 <sup>th</sup> Stock Acquisition Rights	1	3	3,000
12 <sup>th</sup> Stock Acquisition Rights	2	5	5,000
13 <sup>th</sup> Stock Acquisition Rights	3	8	8,000
14 <sup>th</sup> Stock Acquisition Rights	3	9	9,000

### (2) Stock Acquisition Rights Held by Outside Directors

Name	Number of Stock Acquisition Rights Holders	Number of Stock Acquisition Rights Allotted	Number of Shares to be Delivered upon Exercise of Stock Acquisition Rights
11 <sup>th</sup> Stock Acquisition Rights	1	2	2,000
12 <sup>th</sup> Stock Acquisition Rights	2	2	2,000
13 <sup>th</sup> Stock Acquisition Rights	3	4	4,000
14 <sup>th</sup> Stock Acquisition Rights	3	4	4,000

### (3) Stock Acquisition Rights Held by Audit & Supervisory Board Members

Name	Number of Stock Acquisition Rights Holders	Number of Stock Acquisition Rights Allotted	Number of Shares to be Delivered upon Exercise of Stock Acquisition Rights
10 <sup>th</sup> - A Stock Acquisition Rights	2	5	5,000



Name	Number of Stock Acquisition Rights Holders	Number of Stock Acquisition Rights Allotted	Number of Shares to be Delivered upon Exercise of Stock Acquisition Rights
11 <sup>th</sup> Stock Acquisition Rights	2	6	6,000
12 <sup>th</sup> Stock Acquisition Rights	1	3	3,000
13 <sup>th</sup> Stock Acquisition Rights	1	3	3,000

*Note: The Company does not allot stock acquisition rights to its Audit & Supervisory Board Members. The Stock Acquisition Rights held by Audit & Supervisory Board Members described above were allotted to them when they were Members of the Board and Executive Officers who are not Members of the Board.*

### **3. Stock Acquisition Rights, Allotted to Employees, etc., of the Company during This Fiscal Year**

Name	Stock Acquisition Rights Allottees	Number of Stock Acquisition Rights Allottees	Number of Stock Acquisition Rights Allotted	Number of Shares to be Delivered upon Exercise of Stock Acquisition Rights
14 <sup>th</sup> Stock Acquisition Rights	Employees of the Company	23	27	27,000

*Note: The above Employees of the Company, allottees of 14<sup>th</sup> Stock Acquisition Rights, are Executive Officers who are not Members of the Board.*

#### IV Members of the Board and Audit & Supervisory Board Members of the Company

##### 1. Status of Members of the Board and Audit & Supervisory Board Members (as of December 31, 2015)

Title	Name	Duties at the Company and Other Material Position(s) Held
Representative Director, President and Chief Executive Officer	Michitaka Sawada	
Representative Director, Senior Managing Executive Officer	Katsuhiko Yoshida	President, Consumer Products, Global Responsible for Kao Professional Services Co., Ltd.
Representative Director, Managing Executive Officer	Toshiaki Takeuchi	Representative Director, President, Kao Customer Marketing Co., Ltd.
Member of the Board	Sonosuke Kadonaga	President, Intrinsic Dean, Department of Management, Kenichi Ohmae Graduate School of Business, Business Breakthrough University
Member of the Board	Toru Nagashima	Senior Advisor, Teijin Limited Outside Director, Sekisui Chemical Co., Ltd.
Member of the Board	Masayuki Oku	Chairman of the Board, Sumitomo Mitsui Financial Group, Inc. Outside Director, Panasonic Corporation Outside Audit & Supervisory Board Member, Nankai Electric Railway Co., Ltd. Outside Director, Komatsu Ltd. Outside Director, Chugai Pharmaceutical Co., Ltd. Non-executive Director, The Bank of East Asia, Limited
Full-time Audit & Supervisory Board Member	Shoji Kobayashi	
Full-time Audit & Supervisory Board Member	Toshiharu Numata	
Audit & Supervisory Board Member	Teruo Suzuki	Certified Public Accountant Outside Audit & Supervisory Board Member, Kubota Corporation
Audit & Supervisory Board Member	Norio Igarashi	Certified Public Accountant Visiting Professor, Yokohama National University, Center for Economic Growth Strategy Outside Audit & Supervisory Board Member, Matsui Securities Co., Ltd.
Audit & Supervisory Board Member	Yumiko Waseda	Attorney-at-Law Outside Audit & Supervisory Board Member, Asahi Group Holdings, Ltd.

*Notes:*

1. Messrs. Sonosuke Kadonaga, Toru Nagashima and Masayuki Oku are Outside Directors.
2. Messrs. Teruo Suzuki, Norio Igarashi and Ms. Yumiko Waseda are Outside Audit & Supervisory Board Members.
3. Messrs. Teruo Suzuki and Norio Igarashi, who are qualified as a Certified Public Accountant, have considerable expertise in finance and accounting.
4. The Company reported Messrs. Sonosuke Kadonaga, Toru Nagashima, Teruo Suzuki, Norio Igarashi and Ms. Yumiko Waseda to the Tokyo Stock Exchange, Inc. as Independent Directors/Audit & Supervisory Board Members as set forth in the Regulations of the Tokyo Stock Exchange, Inc.
5. Personnel changes in Members of the Board and Audit & Supervisory Board Members during this fiscal year:
  - (1) Mr. Toshiharu Numata was elected, and took office, as an Audit & Supervisory Board Member, at the 109<sup>th</sup> Annual General Meeting of Shareholders held on March 25, 2015.
  - (2) Mr. Takayuki Ishige, an Audit & Supervisory Board Member retired from his office upon the expiration of his term at the close of the 109<sup>th</sup> Annual General Meeting of Shareholders held on March 25, 2015.

- (3) *At the meeting of the Board of Directors held on March 25, 2015, Mr. Katsuhiko Yoshida, Representative Director, Managing Executive Officer, was newly elected, and took office as a Representative Director, Senior Managing Executive Officer.*
6. *Mr. Masayuki Oku served as Vice Chairman, Japan Business Federation (Keidanren) from January 1 2015 to June 2 during FY 2015.*

## **2. Summary of Liability Limitation Agreements**

According to Article 427., Paragraph 1 of the Companies Act and Articles of Incorporation of the Company, the Company entered into an agreement with each Member of the Board (excluding Executive Director, etc.) and Audit & Supervisory Board Member to the effect that the liability of each Member of the Board (excluding Executive Director, etc.) or Audit & Supervisory Board Member under Article 423., Paragraph 1 of the Companies Act will be limited to the higher of: 10 million yen; or any amount prescribed by applicable laws and regulations.

## **3. Remuneration, etc., Paid to Members of the Board and Audit & Supervisory Board Members**

### **(1) Policy for Determining Amount and Calculation Method of Remuneration**

The Company's fundamental position on remunerations of Members of the Board of Directors, Audit & Supervisory Board Members and Executive Officers is as follows: (1) compensation system which attracts diverse and excellent candidates to establish and improve competitive advantages; (2) compensation system which promotes continuous improvement of corporate value and shares interests with shareholders; and (3) objective and transparent decision making process regarding compensations.

The remunerations of the members of Board of Directors except Outside Directors consist of three factors below, and they are decided based on the roles as members of Board of Directors and positions concurrently held by such members.

#### **(1) Monthly fixed salary**

#### **(2) A short-term incentive compensation in the form of bonus**

The amount of bonus is set at around 20% of the estimated annual standard salary of each position, and this linked amount is set to fluctuate between 0~200% depending on the circumstances of achievement of EVA target and both sales and operating income targets.

#### **(3) A long-term incentive compensation in the form of stock options(Share Remuneration Type Stock Options)**

The amount of compensation in the form of stock option is set between about 10~20% of the estimated annual standard salary of each position.

The compensations for the Outside Directors independent of the execution of Company's operations consist of monthly fixed salary and stock options (Share Remuneration Type Stock Options).

The compensations of the Audit & Supervisory Board Members consist only of monthly fixed salary.

Based on the outside research institution's data on Members of the Board of Directors' and Audit & Supervisory Board Members' remunerations, the Company decides on compensations of the members of Board of Directors and Audit & Supervisory Board Members by checking the remuneration system and the level of remunerations of other well-known manufacturing companies with a similar business size and in a similar business category.

The Company has no retirement bonus system for both the members of Board of Directors and the Audit & Supervisory Board Members.

As for the decision on compensations of the members of Board of Directors, the Company has established the Compensation Advisory Committee in order to fulfill similar function as the compensation committee of a "Company with Nominating Committee, etc."

The Compensation Advisory Committee consists of the Chairman of the Board of Directors, all Representative Directors, all Outside Directors and all Outside Audit & Supervisory Board Members. The Compensation Advisory Committee examines and evaluates the appropriateness of the remuneration system and the level of remunerations for the members of the Board of Directors and Executive Officers after considering the input from the Committee members. During FY2015, this committee met 3 times to reconfirm and revise fundamental position on remunerations for FY2016.

The results of the examination and evaluation are to be reported at a meeting of the Board of Directors.

(2) Aggregate Amount of Remuneration, etc., Paid to Members of the Board and Audit & Supervisory Board Members in This Fiscal Year

Category	Number of Directors/Audit & Supervisory Board Members	Aggregate Amount of Remuneration, etc.
Members of the Board of Directors (including, in parentheses, Outside Directors)	6 (3)	270 million yen (51 million yen)
Audit & Supervisory Board Members(including, in parentheses, Outside Audit & Supervisory Board Members)	6 (3)	68 million yen (21 million yen)
Total (including, in parentheses, Outside Directors and Outside Audit & Supervisory Board Members)	12 (6)	338 million yen (73 million yen)

Notes:

1. The above numbers of Directors/Audit & Supervisory Board Members include 1 Audit & Supervisory Board Member who resigned at the conclusion of the 109<sup>th</sup> Annual General Meeting of Shareholders held on March 25, 2015.
2. The aggregate amount of remuneration, etc., paid to Members of the Board includes the following amounts:
  - (1) The amount to be paid as the bonuses for this fiscal year to Members of the Board  
70 million yen to 3 Members of the Board
  - (2) The amount of remuneration, etc., as stock acquisition rights allotted as stock options based on the resolution of the meeting of the Board of Directors held on April 23, 2015.  
73 million yen to 6 Members of the Board (including 23 million yen paid to 3 Outside Directors)
3. Maximum aggregate amounts of remuneration, etc., are as follows:
  - (1) Maximum aggregate amounts of remuneration, etc., to be paid to Members of the Board
    - (i) An annual amount of 630 million yen (resolved at the 101st Annual General Meeting of Shareholders held on June 28, 2007)  
This amount includes an annual amount of 30 million yen for Outside Directors, and does not include remuneration paid to Members of the Board who also serve as employees of the Company, for their services as employees.
    - (ii) An annual amount of 200 million yen (resolved at the 100th Annual General Meeting of Shareholders held on June 29, 2006)  
This amount was approved as the maximum amount of stock acquisition rights to be allotted as stock options, apart from the amount in (i) above.
  - (2) The maximum aggregate amount of remuneration, etc., to be paid to Audit & Supervisory Board Members  
An annual amount of 85 million yen (resolved at the 78th Annual General Meeting of Shareholders held on June 29, 1984)

#### 4. Outside Directors and Outside Audit & Supervisory Board Members

- (1) Relationships between the Company and Entities where Outside Directors and Outside Audit & Supervisory Board Members hold positions

Title	Name	Material Position(s) Held	Relationship with the Company
Member of the Board	Sonosuke Kadonaga	Intrinsics	No special relation
		Kenichi Ohmae Graduate School of Business, Business Breakthrough University	No special relation
Member of the Board	Toru Nagashima	Sekisui Chemical Co., Ltd.	No special relation
Member of the Board	Masayuki Oku	Panasonic Corporation	The Company outsources services and sells its products to Panasonic Corporation.
		Nankai Electric Railway Co., Ltd.	No special relation
		Komatsu Ltd.	No special relation
		Chugai Pharmaceutical Co., Ltd.	No special relation
		The Bank of East Asia, Limited	No special relation

<b>Title</b>	<b>Name</b>	<b>Material Position(s) Held</b>	<b>Relationship with the Company</b>
Audit & Supervisory Board Member	Teruo Suzuki	Kubota Corporation	The Company purchases Kubota Corporation's products from Kubota Corporation
Audit & Supervisory Board Member	Norio Igarashi	Matsui Securities Co., Ltd.	No special relation
Audit & Supervisory Board Member	Yumiko Waseda	Asahi Group Holdings, Ltd.	No special relation

(2) Principal activities during this fiscal year

<b>Title</b>	<b>Name</b>	<b>Attendance at Meetings of the Board of Directors</b>	<b>Attendance at Meetings of the Audit &amp; Supervisory Board</b>	<b>Comments at Meetings</b>
Member of the Board	Sonosuke Kadonaga	15 out of 15 meetings	—	As the chairman of the Board, he contributed to the activation and the streamlining of the proceedings. Also, at meetings of the Board of Directors, he made comments principally based on his considerable experience as a management consultant.
Member of the Board	Toru Nagashima	15 out of 15 meetings	—	At meetings of the Board of Directors, he made comments principally based on his considerable experience as a manager of a manufacturing company.
Member of the Board	Masayuki Oku	15 out of 15 meetings	—	At meetings of the Board of Directors, he made comments principally based on his considerable experience as a manager of a financial institution.
Audit & Supervisory Board Member	Teruo Suzuki	15 out of 15 meetings	10 out of 10 meetings	At meetings of the Board of Directors and meetings of the Audit & Supervisory Board, he made comments principally based on his professional opinion as a certified public accountant.
Audit & Supervisory Board Member	Norio Igarashi	15 out of 15 meetings	9 out of 10 meetings	At meetings of the Board of Directors and meetings of the Audit & Supervisory Board, he made comments principally based on his professional opinion as a certified public accountant and a university professor.
Audit & Supervisory Board Member	Yumiko Waseda	14 out of 15 meetings	10 out of 10 meetings	At meetings of the Board of Directors and meetings of the Audit & Supervisory Board, she made comments principally based on her professional opinion as an attorney-at-law.

**(For Reference) Status of Executive Officers (as of January 1, 2016)**

<b>Title</b>	<b>Name</b>	<b>Duties at the Company and Other Material Position(s) Held</b>
President and Chief Executive Officer	Michitaka Sawada	Responsible for Corporate Strategy, Global
Senior Managing Executive Officer	Katsuhiko Yoshida	President, Consumer Products, Global; Responsible for Kao Professional Services Co., Ltd.
Senior Managing Executive Officer	Toshiaki Takeuchi	Representative Director, President, Kao Group Customer Marketing Co., Ltd.; Representative Director, President, Kao Customer Marketing Co., Ltd.
Managing Executive Officer	Masumi Natsusaka	Responsible for Beauty Care Business; President, Beauty Care - Cosmetics Business Unit, Global; Representative Director, President, Kanebo Cosmetics Inc.
Managing Executive Officer	Motohiro Morimura	Senior Vice President, Supply Chain Management, Global; Responsible for TCR Promotion
Managing Executive Officer	Yasushi Aoki	Senior Vice President, Human Capital Development, Global; 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
Managing Executive Officer	Hideko Aoki	Senior Vice President, Product Quality Management, Global
Managing Executive Officer	Kozo Saito	President, Consumer Products - International Business Management, Global; Chairman of the Board, Kao USA Inc.
Managing Executive Officer	Yoshihiro Hasebe	Senior Vice President, Research and Development, Global
Executive Officer	Yoshimichi Saita	Senior Vice President, Media Planning and Management, Global
Executive Officer	Kenji Miyawaki	Senior Vice President, Marketing Research and Development, Global
Executive Officer	Kazuyoshi Aoki	Senior Vice President, Accounting and Finance, Global
Executive Officer	Tadaaki Sugiyama	Senior Vice President, Legal and Compliance, Global
Executive Officer	Masakazu Negoro	President, Chemical Business Unit, Global; Chairman of the Board, Fatty Chemical (Malaysia) Sdn, Bhd.; Chairman of the Board, Pilipinas Kao, Inc.; Presidente, Kao Chemicals Europe, S.L.
Executive Officer	Hideki Tanaka	Senior Vice President, Procurement, Global
Executive Officer	Takehiko Shinto	Representative Director, Executive Vice President, Kao Group Customer Marketing Co., Ltd.; Representative Director, President, Kanebo Cosmetics Sales Inc.
Executive Officer	Jun Shida	Vice President, Research and Development - Development Research – Health Care/ Household, Global
Executive Officer	Yasushi Wada	Vice President, Supply Chain Management - Demand & Supply Planning Center, Global
Executive Officer	Tomoharu Matsuda	President, Beauty Care - Skin Care & Hair Care Business Unit, Global
Executive Officer	Masayuki Abe	Senior Vice President, Enterprise Information Solutions, Global

<b>Title</b>	<b>Name</b>	<b>Duties at the Company and Other Material Position(s) Held</b>
Executive Officer	Naoki Komoda	President, Fabric and Home Care Business Unit, Global
Executive Officer	Hitoshi Hosokawa	Vice President, Research and Development - Development Research – Skin Care/ Hair Care/ Cosmetics, Global
Executive Officer	Hiroyuki Yamashita	Vice President, Supply Chain Management – Technology Development Center, Global; Vice President, Supply Chain Management – Demand & Supply Planning Center – Human Health Care, Global
Executive Officer	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.
Executive Officer	Akemi Ishiwata	Senior Vice President, Corporate Communications, Global
Executive Officer	Satoru Tanaka	President, Human Health Care Business Unit, Global
Executive Officer	Shigeru Ueyama	Senior Vice President, Corporate Strategy, Global

## V The Accounting Auditor of the Company

### 1. Name of the Accounting Auditor

Deloitte Touche Tohmatsu LLC

### 2. Amount of Remuneration, etc., to be Paid to the Accounting Auditor for This Fiscal Year

- (1) Amount of remuneration, etc., to be paid by the Company as Accounting Auditor fees:  
95 million yen
- (2) Aggregate amount of monetary and other proprietary benefits to be paid by the Company and its subsidiaries:  
183 million yen

Notes:

1. *The audit contract between the Company and the Accounting Auditor does not clearly distinguish between remuneration, etc., paid for the audit conducted in accordance with the Companies Act from that paid for the audit conducted in accordance with the Financial Instruments and Exchange Law, and it is practically impossible to make such a distinction. The amount of remuneration, etc., specified in (1) above, is the aggregate amount of remuneration, etc., for these two types of audits.*
2. *After having performed the necessary verification as to the appropriateness of matters such as the content of the Accounting Auditor's audit plan, the status of performance of duties by the Accounting Auditor, and the basis for the calculation of the estimated remuneration for the Accounting Auditor, the Audit & Supervisory Board has decided to consent to the amount of remuneration, etc. to be paid to the Accounting Auditor.*
3. *In addition to the audit certification services under Article 2. 1 of the Certified Public Accountant Law, providing advice and guidance concerning the introduction of International Financial Reporting Standards (IFRS), etc. have been entrusted to the Accounting Auditor of the Company.*
4. *Of the Company's main subsidiaries and affiliates listed on page 5, audits (limited to audits under the Companies Act or the Financial Instruments and Exchange Law, and including audits under equivalent foreign laws and regulations), in respect of Kao (China) Holding Co., Ltd., Kao Commercial (Shanghai) Co., Ltd., Kao (Taiwan) Corporation, Pilipinas Kao, Inc., Kao Industrial (Thailand) Co., Ltd., Fatty Chemical (Malaysia) Sdn. Bhd., Kao Singapore Private Limited, Kao Germany GmbH, Kao Chemicals Europe, S.L., Kao Chemicals GmbH, and Kao Corporation S.A., have been performed, by certified public accountants or accounting firms other than the Company's Accounting Auditor (including those with equivalent foreign qualifications).*

### 3. Policy for Determining the Dismissal or Non-reappointment of the Accounting Auditor

If any item of Article 340, Paragraph 1 of the Companies Act is found to apply to the Accounting Auditor, the Audit & Supervisory Board will dismiss the Accounting Auditor with the consent of all Audit & Supervisory Board Members. In such case, the Audit & Supervisory Board Members selected by the Audit & Supervisory Board will report the dismissal of the Accounting Auditor and the reason for the dismissal at the first General Meeting of Shareholders held after the dismissal. Furthermore, if the Audit & Supervisory Board finds any problem in the qualifications, independence, or reliability of the Accounting Auditor, the content of a proposal to be submitted to the General Meeting of Shareholders for dismissal or non-reappointment of the Accounting Auditor will be determined.

If the Board of Directors finds any problem, such as in the qualifications, independence, or reliability of the Accounting Auditor, the Board of Directors will request the Audit & Supervisory Board to cause the dismissal or non-reappointment of the Accounting Auditor to be proposed to the General Meeting of Shareholders, and the Audit & Supervisory Board shall decide upon the content of the relevant proposal to be submitted to the General Meeting of Shareholders after having determined the appropriateness of such matter.



## **VI Systems to Assure Appropriate Business Operations of the Company and Outline of Management of such Systems**

### **1. Systems to Assure Appropriate Business Operations of the Company**

The Board of Directors made the following resolution with respect to the “Policy regarding the Development of the Internal Control System.”

#### **[Basic Policy Regarding the Internal Control System]**

The Company has established an Internal Control Committee chaired by the President and CEO. An important task of the committee is to develop a management structure, organization and system that facilitates legally compliant, efficient, sound and highly transparent management that aims to consistently increase corporate value, and for this objective, the Company implements the following systems:

#### **(1) A system to ensure that execution of duties of Members of the Board and employees of the Company and its subsidiaries conforms to laws and the Articles of Incorporation**

Members of the Board, Executive Officers and employees of the Company and its subsidiaries (Kao Group) should act with integrity based on “Kao’s Business Conduct Guidelines (BCG),” which govern compliance with laws, the Articles of Incorporation, internal rules and social ethics. The Compliance Committee, chaired by the Member of the Board in charge of compliance, promotes Kao Group’s compliance as a whole. On the basis of the provision of BCG which declares Kao’s position to reject any relationship with anti-social forces, the Company promotes cooperation with governmental agencies etc. and collection and management of information regarding anti-social forces and establishes and maintains its internal system. Monitoring by the Department of Internal Audit as well as notices and reports to the Compliance Reporting Hotline from concerned parties in and outside the Company enable Kao to quickly gauge the state of compliance, work to quickly resolve any issues that arise, and take appropriate steps to prevent the recurrence of similar cases.

#### **(2) A system for retention and management of information concerning Members of the Board’s execution of their duties**

Information (minutes, decision records and their relevant materials, account books and records, and other information and the like) related to the Members of the Board’s execution of their duties is properly retained and managed according to the document retention and management policies and other related policies. The Members of the Board, Audit & Supervisory Board Members and employees designated by them may access such information at any time.

#### **(3) Rules and other systems concerning management of risk of losses by the Company and its subsidiaries**

With regard to the risk of losses, the Company regards potential negative impact on management targets and business activities as “risks” and the manifestation of such risks as a “crisis,” and has established systems for appropriate risk and crisis management. Based on the Risk & Crisis Management Policy, the Risk & 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 plan for the preparation and application of 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, and other activities. In addition, after deliberation by the Management Committee, the President and Chief Executive Officer specifies major Company-wide risks as corporate risk and appoints a person to appropriately manage such risk. When a crisis occurs, the Company responds promptly by establishing an organization for countermeasures centered on this person in charge for corporate risk, and on departments concerned with risk or subsidiaries and affiliates for other types of risk. In addition, depending on the magnitude of the impact on the Group as a whole, the Company 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.

**(4) A system to ensure that Members of the Board of the Company and its subsidiaries efficiently execute their duties**

After determining the direction to be focused on in a mid-term business plan, the Board of Directors reflects such direction in the mid-term plans of each department and subsidiary. The mid-term plans are reviewed annually by the Board of Directors and the Management Committee, and necessary adjustments are made in response to the progress of the plans and changes in the business environment. The Management Committee reviews, monthly or whenever appropriate, the progress of the revenue and expenditure plan and other important business plans of each division and subsidiary, extracts the main issues and then implements measures in response. In order to separate supervision and execution functions and to ensure the effectiveness of these functions and to accelerate execution, the decision rules for the Board of Directors and the Management Committee including items that arise from subsidiaries are established and reviewed as necessary.

**(5) A system to ensure the appropriateness of business operations in the Company and its subsidiaries**

The Internal Control Committee and related committees promote various policies to make sure that the business activities of the Kao Group conform to laws and the respective Articles of Incorporation. In addition, they promote and monitor efforts to ensure the appropriateness and efficiency of business operations throughout the Kao Group, and report regularly to the Board of Directors. Representative Directors, Members of the Board and Executive Officers in charge of business operations provide guidance for the development of appropriate internal control systems for subsidiaries, according to their respective duties.

**(6) A system concerning reporting to the Company regarding execution of duties of Members of the Board of the Company's subsidiaries**

The Company applies the Group Management rules to all subsidiaries, which require prior approvals of or reporting to the Company. The Company requires them to gain prior approvals or make a report on important management matters to the Board of Directors, Management Committee or an executive officer who are in charge of the subsidiary in accordance with such rules as well as the decision and reporting rules for the Board of Directors and Management Committee. In addition, Members of the Board of the Company's subsidiaries, regularly or as necessary, discuss or report to the periodic meetings held every month in principle and established by each business area or functional area which supports business. Also, Department of Internal Audit and responsible divisions, regularly or as necessary, monitor the state of implementation of prior approvals or reporting based on the rules.

**(7) A system to ensure the reliability of financial reports**

In order to ensure the reliability of financial reports, the Company evaluates, improves and documents in writing the state of the Company's internal control system and the process of business operations based on the principles of the Internal Control Committee and the Board of Directors confirms these activities regularly.

**(8) Employees to be assigned if Audit & Supervisory Board Members request staff to assist in their duties**

In the event that a request is made by Audit & Supervisory Board Members for the assignment of staff to provide assistance to conduct their audits effectively, the Members of the Board should assign employees after discussing the selection of specific personnel with the Audit & Supervisory Board Members.

**(9) Independence of employees in the preceding paragraph from Members of the Board and ensuring effectiveness of instruction by Audit & Supervisory Board Members to such employees**

In assignment, evaluation, transfer and disciplinary action of or to employees who assist in the duties of Audit & Supervisory Board Members, the prior consent of the Audit & Supervisory Board should be obtained. Instructions by the Audit & Supervisory Board to such employees should not be restricted unreasonably, and such employees must follow the instructions.

**(10) A system for Members of the Board, Executive Officers and employees of the Company and Members of the Board, Audit & Supervisory Board Members and employees, etc of the Company's subsidiaries to report to Audit & Supervisory Board Members of the Company**

Audit & Supervisory Board Members may attend meetings of the Management Committee, the Internal Control Committee and related committees, and may access the minutes, decision records and other documents of important meetings at any time. They may also receive activity reports from the head of each division and subsidiary regularly or as necessary, and have periodic exchanges of views with Representative Directors of the Company and major subsidiaries and exchanges of views with Representative Directors of the Company's subsidiaries when conducting an audit. In addition, members of the Board of Directors, Executive Officers and employees of the Company and members of the Board of Directors, Audit & Supervisory Board Members and employees of subsidiaries, etc should promptly report to Audit & Supervisory Board Members when any fact that may potentially cause significant harm to the Company or to its subsidiaries or any fact of a serious violation of laws or the Articles of Incorporation occurred or when those fact were reported. Compliance Committee reports information delivered to Compliance Hotline and Department of Internal Audit reports audit results to Audit & Supervisory Board Members regularly or as necessary. Audit & Supervisory Board Members of subsidiaries share audit results with Audit & Supervisory Board Members of the Company at the meeting of Audit & Supervisory Board Members of Domestic Kao Group held periodically.

**(11) A system to ensure that those who made such reports in the preceding paragraph shall not receive any disadvantageous treatment due to his/her submission of the reports**

Members of the Board and employees of Kao Group who made reports to Compliance Hotline or to Audit & Supervisory Board Members, etc shall not receive any disadvantageous treatment due to his/her submission of the reports and the Company stipulates prohibiting any disadvantageous treatment in Kao Business Conduct Guideline and ensures compliance of this rule.

**(12) Policy concerning payment or reimbursement of expenses pertaining to execution of duties by Audit & Supervisory Board Members including advance payment of expenses and reimbursement procedure, etc.**

In the event of requests for appropriation to the fiscal year budget for the payment of expenses and other expenditures arising in the execution of the duties of Audit & Supervisory Board Members, a budget is accordingly provided. When expenses provided for in the budget arise, or when the necessity arises for the execution of non-budgeted emergency or additional auditing or other duties and Audit & Supervisory Board Members charge expenses pertaining to execution of their duties or debt disposal, the Company shall promptly accept such requests, except in the cases set forth in Article 388 of the Companies Act.

**(13) A system to ensure that audits by Audit & Supervisory Board Members are conducted effectively**

To conduct efficient and effective audits, Audit & Supervisory Board Members maintain a close cooperative relationship, which includes the exchange of information, with the Accounting Auditor and the internal audit functional departments such as Department of Internal Audit, as well as Audit & Supervisory Board Members and internal audit departments of subsidiaries. In addition, Audit & Supervisory Board Members may independently receive support from outside specialists such as lawyers and certified public accountants when necessary.

## **(14) Implement of a system to ensure the appropriateness of business operations**

The Board of Directors conducts periodic reviews of implemente of a system to ensure the appropriateness of Kao Group's business operations, and includes the summary of state of implement in the business report.

## **2. Outline of Management of Systems to Assure Appropriate Business Operations of the Company**

Based on the above policies, the Company is working to set up and properly operate its internal control system. Principal efforts made during this fiscal year, which are considered to be important in terms of internal control, include the following:

### **(Efforts Concerning Compliance)**

Under the initiative of the Compliance Committee chaired by the Representative Director, efforts have been continuously made in this area, involving both domestic and overseas Kao Group companies, such as by setting up Kao Business Conduct Guidelines ("BCG") and related regulations, setting up and operating the Compliance Hotline, carrying out educational and awareness activities (e-learning, verification tests, training programs (e.g. lectures and discussions, etc.).

During this fiscal year, as principal activities in addition to the continuous measures and activities mentioned above, in order to objectively check the effects of, and make further improvements in, the various measures and activities relating to compliance, "activities of obtaining employee opinions" were carried out under which opinions were obtained from a large number of employees and the level of their understanding of compliance issues was checked. In line with such "activities of obtaining employee opinions," October 2015 was prescribed as a "compliance month," and posters containing the monthly message from the Chairman of the Compliance Committee were indicated, messages were sent from respective officers to the sections which they are in charge of, logo marks were voted upon, and BCG verification tests were conducted. Furthermore, third-party verification was sought from outside specialists, centering on verification of measures for preventing the provision/acceptance of bribes, whereby tasks were identified and ideas for future improvements were examined.

### **(Efforts Concerning Risk Management)**

Necessary preparations and training are being conducted to bring about a recognition of the risks which may have a material adverse effect on the achievement of management targets and business activities, and to formulate and execute risk reduction measures concerning the same, as well as to minimize damage to the extent possible, should any risk become apparent.

During this fiscal year, in order to enhance its ability to respond to risks, a system to further manage risks was developed during this fiscal year, whereby corporate risks which are material to the Kao Group will be selected and dealt with in a prioritized manner. In addition, the "Risk Management Committee," which had previously developed a cross-divisional Company-wide risk management system and had furthered the formulation of operational plans, was renamed as the "Risk & Crisis Management Committee," thus forming a system for the committee to assume the role of properly and swiftly taking measures when confronted with a "crisis" where any risk has become apparent.

### **(Efforts Concerning Subsidiary Management)**

Agenda items have been submitted and reports made from subsidiaries to the Company whenever necessary, in accordance with the Group Management rules, known as the "Policy Manual," that set forth matters regarding which subsidiaries are required to obtain prior approval from the Company or to make a report to the Company.

In addition, at periodic meetings established based on the businesses and the functions for supporting such businesses, agenda items have been submitted and reports made whenever necessary, based on the criteria for submission of agenda items. In addition, the Department of Internal Audit and sections in charge of subsidiary management have verified that agenda items have been submitted and reports made in accordance with regulations, etc., by way of site visits for auditing purposes or by causing checklists to be submitted. Moreover, Representative Directors and Executive Officers have supervised the setting up and operation of an internal control system in respect of subsidiaries, in accordance with the division of their duties.

### **(Efforts Concerning Auditing by Audit & Supervisory Board Members)**

The Audit & Supervisory Board members have attended important meetings such as meetings of the Board of Directors, the Management Committee, the Internal Control Committee and related committees, etc., made

site visits to plants and research laboratories, etc. for auditing purposes, heard opinions from business sections and functional sections, performed investigations concerning domestic and overseas subsidiaries, held meetings for exchanging opinions with Representative Directors of the Company and its material subsidiaries, and held meetings by Audit & Supervisory Board Members of Domestic Group Companies (which are held semiannually and intended principally for the exchange of opinions between the Audit & Supervisory Board members of the Company and its subsidiaries).

In relation to the Accounting Auditor, while supervising independence and appropriateness of audits, a report on the audit plan (annual) and reports on accounting audit results (in respect of each quarterly review and year-end closing of accounts) have been received and information and opinions exchanged, and the selection of the Accounting Auditor was also discussed.

Furthermore, the Audit & Supervisory Board members have been working closely with Department of Internal Audit and other internal auditing sections, such as by exchanging information and opinions on a regular basis and whenever necessary, and has therefore been working to improve the effectiveness and efficiency of audits.

**(Status of Revision of Basic Policy Regarding Internal Control System)**

During this fiscal year, in response to the revision of the Companies Act which took effect on May 1, 2015, the Company partially revised its Basic Policy Regarding the Internal Control System, based on a resolution adopted at the meeting of the Board of Directors held in April 2015. In addition, at the meeting of the Board of Directors held in December 2015, a resolution was adopted to partially revise such policy in respect of section “(3) Rules and other systems concerning management of risk of losses by the Company and its subsidiaries” thereof, such as revising the definition of the term “risk,” adding the definition of the term “crisis,” and adding provisions concerning the corporate risk system. Revisions are thus being made in a timely manner, whenever necessary, to set up an internal control system corresponding to current conditions.

- End -

**Kao Corporation Reports Business Results**

Tokyo, February 3, 2016 - Kao Corporation today announced its consolidated business results for the fiscal year ended December 31, 2015. The following summary of the business results is unaudited and for reference only.

Ticker code: 4452

**Consolidated Financial Highlights**

(Millions of yen, millions of U.S. dollars, except per share data)

Jan. - Dec.	Fiscal Year			
	2015	2014	Growth	2015
	Yen	Yen	%	U.S. dollars
Net sales	<b>1,471,791</b>	1,401,707	5.0	<b>12,217.1</b>
Operating income	<b>164,380</b>	133,270	23.3	<b>1,364.5</b>
Ordinary income	<b>169,273</b>	138,784	22.0	<b>1,405.1</b>
Net income	<b>98,862</b>	79,590	24.2	<b>820.6</b>
Comprehensive income	<b>81,276</b>	102,267	(20.5)	<b>674.7</b>
ROE (Net income / Net worth)	<b>14.8%</b>	12.4%	-	<b>14.8%</b>
ROA (Ordinary income / Total assets)	<b>13.7%</b>	11.9%	-	<b>13.7%</b>
Operating income / Net sales	<b>11.2%</b>	9.5%	-	<b>11.2%</b>
Total assets	<b>1,281,869</b>	1,198,233	7.0	<b>10,640.6</b>
Total net assets	<b>687,133</b>	672,393	2.2	<b>5,703.8</b>
Net worth <sup>1</sup>	<b>675,608</b>	658,232	2.6	<b>5,608.1</b>
Net worth ratio <sup>2</sup>	<b>52.7%</b>	54.9%	-	<b>52.7%</b>
Net worth per share (Yen/US\$) <sup>3</sup>	<b>1,347.29</b>	1,313.63	2.6	<b>11.18</b>
Net income per share (Yen/US\$) <sup>4</sup>	<b>197.19</b>	156.46	26.0	<b>1.64</b>
Net income per share, fully diluted (Yen/US\$)	<b>196.92</b>	156.24	26.0	<b>1.63</b>
	<b>2015</b>	2014	Change	<b>2015</b>
	Yen	Yen	Yen	U.S. dollars
Cash flows from operating activities	<b>180,864</b>	145,118	35,746	<b>1,501.3</b>
Cash flows from investing activities	<b>(74,020)</b>	(63,808)	(10,212)	<b>(614.4)</b>
Cash flows from financing activities	<b>(20,601)</b>	(85,022)	64,421	<b>(171.0)</b>
Cash and cash equivalents, end of period	<b>309,439</b>	228,662	80,777	<b>2,568.6</b>

Notes:

1. Net worth is net assets, excluding minority interests and stock acquisition rights.
2. The net worth ratio is defined as net worth divided by total assets.
3. Net worth per share is computed based on the number of shares outstanding at the end of the periods excluding treasury stock.
4. Net income per share is computed based on the weighted average number of shares outstanding during each respective period.
5. 

Number of issued shares outstanding at the end of the periods (common stock)	December 31, 2015	December 31, 2014
Number of issued shares including treasury stock	504,000,000 shares	504,000,000 shares
Number of shares of treasury stock	2,541,816 shares	2,921,992 shares
6. 

Weighted average number of shares outstanding during the fiscal year	Ended December 31, 2015	Ended December 31, 2014
	501,351,849 shares	508,686,870 shares

**Consolidated Results by Segment**

Jan. - Dec.	Net sales				Operating income		
	Billions of yen		Growth %		Billions of yen		
	2015	2014	Like-for-like *		2015	2014	Change
Beauty Care	607.7	589.9	3.0	0.5	29.4	28.4	1.0
Human Health Care	280.7	240.1	16.9	14.3	35.5	21.9	13.7
Fabric and Home Care	334.4	324.5	3.1	2.1	69.2	61.0	8.3
Consumer Products Total	1,222.8	1,154.5	5.9	3.8	134.2	111.3	22.9
Chemical	288.5	288.0	0.2	(2.3)	30.1	22.1	8.1
Total	1,511.3	1,442.5	4.8	2.6	164.3	133.3	31.0
Reconciliations	(39.5)	(40.8)	-	-	0.1	(0.1)	0.1
Consolidated	1,471.8	1,401.7	5.0	2.8	164.4	133.3	31.1

Jan. - Dec.	Net sales				Operating income		
	Millions of U.S. dollars		Growth %		Millions of U.S. dollars		
	2015	2014	Like-for-like *		2015	2014	Change
Beauty Care	5,044.3	4,896.7	3.0	0.5	244.2	236.0	8.2
Human Health Care	2,330.2	1,992.8	16.9	14.3	295.1	181.6	113.4
Fabric and Home Care	2,775.9	2,693.7	3.1	2.1	574.7	506.0	68.7
Consumer Products Total	10,150.5	9,583.2	5.9	3.8	1,114.0	923.6	190.3
Chemical	2,394.4	2,390.8	0.2	(2.3)	250.0	183.1	66.9
Total	12,544.9	11,974.0	4.8	2.6	1,363.9	1,106.7	257.2
Reconciliations	(327.8)	(338.7)	-	-	0.5	(0.5)	1.0
Consolidated	12,217.1	11,635.3	5.0	2.8	1,364.5	1,106.3	258.2

\* Like-for-like growth rates exclude the currency translation effect related to translation of local currencies into Japanese yen.

**Consolidated Net Sales Composition**

Jan. - Dec.	Billions of yen		Growth %	Millions of U.S. dollars	
	2015	2014		2015	2014
<b>Consumer Products</b>					
Beauty Care	412.3	415.5	(0.8)	3,422.2	3,449.4
Human Health Care	221.9	198.7	11.7	1,841.8	1,649.0
Fabric and Home Care	288.8	285.8	1.1	2,397.6	2,372.6
Total Japan	923.0	900.0	2.6	7,661.6	7,471.0
Asia	179.5	140.5	27.7	1,489.6	1,166.2
Americas	89.7	79.9	12.4	744.9	662.9
Europe	89.9	84.2	6.7	746.2	699.1
Eliminations	(59.3)	(50.1)	-	(491.8)	(416.0)
<b>Total</b>	<b>1,222.8</b>	<b>1,154.5</b>	<b>5.9</b>	<b>10,150.5</b>	<b>9,583.2</b>
<b>Chemical</b>					
Japan	130.0	131.9	(1.4)	1,079.2	1,094.9
Asia	105.7	108.8	(2.8)	877.6	903.0
Americas	48.2	44.5	8.3	399.9	369.3
Europe	64.8	68.1	(4.9)	537.8	565.4
Eliminations	(60.2)	(65.3)	-	(500.0)	(541.9)
<b>Total</b>	<b>288.5</b>	<b>288.0</b>	<b>0.2</b>	<b>2,394.4</b>	<b>2,390.8</b>
<b>Total before Reconciliations</b>	<b>1,511.3</b>	<b>1,442.5</b>	<b>4.8</b>	<b>12,544.9</b>	<b>11,974.0</b>
Reconciliations	(39.5)	(40.8)	-	(327.8)	(338.7)
<b>Consolidated</b>	<b>1,471.8</b>	<b>1,401.7</b>	<b>5.0</b>	<b>12,217.1</b>	<b>11,635.3</b>

**Reference: Consolidated Results by Geographic Area<sup>1</sup>**

Jan. - Dec.	Net sales				Operating income		
	Billions of yen		Growth %		Billions of yen		
	2015	2014	Like-for-like <sup>2</sup>		2015	2014	Change
Japan	<b>1,019.0</b>	997.3	2.2	2.2	<b>128.6</b>	111.4	17.1
Asia	<b>281.5</b>	244.9	15.0	6.1	<b>20.0</b>	11.3	8.6
Americas	<b>137.8</b>	124.2	11.0	(0.1)	<b>7.0</b>	6.1	0.9
Europe	<b>154.4</b>	152.1	1.5	2.8	<b>9.9</b>	3.9	6.0
Total	<b>1,592.7</b>	1,518.5	4.9	2.7	<b>165.4</b>	132.8	32.6
Reconciliations	<b>(120.9)</b>	(116.8)	-	-	<b>(1.0)</b>	0.5	(1.5)
Consolidated	<b>1,471.8</b>	1,401.7	5.0	2.8	<b>164.4</b>	133.3	31.1

Jan. - Dec.	Net sales				Operating income		
	Millions of U.S. dollars		Growth %		Millions of U.S. dollars		
	2015	2014	Like-for-like <sup>2</sup>		2015	2014	Change
Japan	<b>8,458.7</b>	8,278.5	2.2	2.2	<b>1,067.1</b>	925.0	142.1
Asia	<b>2,337.0</b>	2,032.9	15.0	6.1	<b>165.9</b>	94.1	71.7
Americas	<b>1,144.1</b>	1,031.1	11.0	(0.1)	<b>57.8</b>	50.5	7.3
Europe	<b>1,281.2</b>	1,262.2	1.5	2.8	<b>82.0</b>	32.6	49.4
Total	<b>13,220.9</b>	12,604.7	4.9	2.7	<b>1,372.8</b>	1,102.3	270.4
Reconciliations	<b>(1,003.9)</b>	(969.3)	-	-	<b>(8.3)</b>	3.9	(12.2)
Consolidated	<b>12,217.1</b>	11,635.3	5.0	2.8	<b>1,364.5</b>	1,106.3	258.2

*Notes:*

1. Information on consolidated results by geographic area is for reference.

2. Like-for-like growth rates exclude the currency translation effect related to translation of local currencies into Japanese yen.

3. Net sales to foreign customers were 35.0% of net sales compared with 33.1% for the same period a year earlier.

**Dividend**

(Millions of yen, millions of U.S. dollars, except per share data)

	Dec. 31, 2015	Dec. 31, 2014	Dec. 31, 2015
	Yen	Yen	U.S. dollars
Annual cash dividends per share (Yen/US\$)	<b>80.00</b>	70.00	<b>0.66</b>
Total dividend payment amount	<b>40,158</b>	35,501	<b>333.3</b>
Payout ratio (consolidated)	<b>40.6%</b>	44.7%	<b>40.6%</b>
Cash dividends / Total net assets (consolidated)	<b>6.0%</b>	5.5%	<b>6.0%</b>

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**Forecast of Consolidated Results for the Six Months Ending June 30, 2016 and the Fiscal Year Ending December 31, 2016**

The Kao Group will change the accounting standards it applies to International Financial Reporting Standards (IFRS) from the first quarter of 2016.

(Billions of yen, millions of U.S. dollars, except per share data)

	Six months ending June 30, 2016			Fiscal Year ending December 31, 2016		
	Yen	Growth % <sup>2</sup>	U.S. dollars	Yen	Growth % <sup>2</sup>	U.S. dollars
Net sales	710.0	1.9	5,893.6	1,510.0	2.4	12,534.2
Operating income	65.0	1.5	539.6	184.0	9.7	1,527.4
Income before income taxes	65.0	3.5	539.6	183.0	10.0	1,519.1
Net income, attributable to owners of parent	38.0	2.1	315.4	120.0	14.2	996.1
Basic earnings per share (Yen/US\$) <sup>1</sup>	75.78	-	0.63	239.30	-	1.99
Cash dividends per share (Yen/US\$)	46.00	-	0.38	92.00	-	0.76

1. Basic earnings per share is computed based on the estimated weighted average number of shares outstanding during the fiscal year.

2. Growth is calculated based on actual results for 2015 (IFRS). Please note that actual results for 2015 (IFRS) are current rough estimates and are subject to change.

**Note for This News Release:**

U.S. dollar amounts represent translations using the approximate exchange rate on December 31, 2015 of 120.47 yen = 1 U.S. dollar, and are presented solely for the convenience of readers.

**Forward-Looking Statements**

Forward-looking statements such as earnings forecasts and other projections contained in this release are based on information available at this time and assumptions that management believes to be reasonable, and do not constitute guarantees of future performance. Actual results may differ materially from those expectations due to various factors.

**For further information, please contact:**

Mitsuhiro Watanabe  
Vice President  
Investor Relations  
Tel: +81-3-3660-7101  
Fax: +81-3-3660-8978  
E-mail: ir@kao.co.jp

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**1. Analysis of Business Results and Financial Condition****1.1. Analysis of Business Results****1.1.1. Trends in Overall Business Results for the Fiscal Year**

	(Billions of yen, except per share data)		
	2015	2014	Growth %
Net sales	<b>1,471.8</b>	1,401.7	5.0
Operating income	<b>164.4</b>	133.3	23.3
Ordinary income	<b>169.3</b>	138.8	22.0
Net income	<b>98.9</b>	79.6	24.2
Net income per share (Yen)	<b>197.19</b>	156.46	26.0
Net income per share, fully diluted (Yen)	<b>196.92</b>	156.24	26.0

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 FY2015

Consolidated net sales	¥1,400.0 billion
Consolidated operating income	¥150.0 billion
Overseas sales ratio*	30% 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% 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% 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.

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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*,”\* which emphasizes research and development geared to customers and consumers. The Kao Group has also been conducting cost reduction activities and other measures.

*\* 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.”*

Net sales increased 5.0% compared with the previous fiscal year to 1,471.8 billion yen. Excluding the effect of currency translation, net sales would have increased 2.8%. In the Consumer Products Business in Japan, market share grew and sales increased due to factors 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 yen, an increase of 31.1 billion yen compared with the previous fiscal year. Ordinary income increased 30.5 billion yen compared with the previous fiscal year to 169.3 billion yen. Net income increased 19.3 billion yen compared with the previous fiscal year to 98.9 billion yen.

Operating income before amortization of goodwill and other items related to acquisitions (EBITA) increased 28.7 billion yen compared with the previous fiscal year to 190.7 billion yen, which is equivalent to 13.0% of net sales.

Net income per share was 197.19 yen, an increase of 40.73 yen, or 26.0%, from 156.46 yen in the previous fiscal year.

Economic value added (EVA\*), which the Kao Group uses as a management indicator, increased substantially compared with the previous fiscal year, reflecting an increase in net operating profit after tax (NOPAT).

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

The main exchange rates used for translating the financial statement items (income and expenses) of foreign consolidated subsidiaries and affiliates were as shown below.

	First quarter (Jan. – Mar.)	Second quarter (Apr. – Jun.)	Third quarter (Jul. – Sep.)	Fourth quarter (Oct. – Dec.)
Yen/U.S. dollar	119.15 (102.87)	121.33 (102.16)	122.23 (103.92)	121.43 (114.43)
Yen/Euro	134.43 (140.94)	134.14 (140.13)	135.91 (137.78)	132.99 (142.88)

*Note: Figures in parentheses represent the exchange rates for the same period of the previous fiscal year.*

### 1.1.1.1. Trends by Segment for the Fiscal Year

#### *Summary of Results by Business Segment*

##### **Consumer Products Business**

Sales increased 5.9% compared with the previous fiscal year to 1,222.8 billion yen. Excluding the effect of currency translation, sales would have increased 3.8%.

In Japan, sales increased 2.6% compared with the previous fiscal year to 923.0 billion yen. Excluding the effect of the revision of the sales system for Kao Sofina, sales would have increased 3.4%. 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% to 179.5 billion yen. Excluding the effect of currency translation, sales would have increased 18.1%. 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% to 89.7 billion yen. Excluding the effect of currency translation, sales would have decreased 0.1%. 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% to 89.9 billion yen. Excluding the effect of currency translation, sales would have increased 5.7%. Sales of hair care products and professional hair care products grew.

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Operating income increased 22.9 billion yen compared with the previous fiscal year to 134.2 billion yen 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% compared with the previous fiscal year to 607.7 billion yen. Excluding the effect of currency translation, sales would have increased 0.5%.

Sales of cosmetics decreased 2.3% compared with the previous fiscal year to 254.7 billion yen. Excluding the effect of currency translation, sales would have decreased 3.0%. Excluding the effect of the revision of the sales system for Kao Sofina, sales would have increased 0.6%, or decreased 0.2% 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 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.

*News Release*

Operating income increased 1.0 billion yen compared with the previous fiscal year to 29.4 billion yen, 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 yen compared with the previous fiscal year to 55.8 billion yen, which is equivalent to 9.2% of sales.

*Human Health Care Business*

Sales increased 16.9% compared with the previous fiscal year to 280.7 billion yen. Excluding the effect of currency translation, sales would have increased 14.3%.

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 yen compared with the previous fiscal year to 35.5 billion yen, mainly due to the effect of the increase in sales.

*Fabric and Home Care Business*

Sales increased 3.1% compared with the previous fiscal year to 334.4 billion yen. Excluding the effect of currency translation, sales would have increased 2.1%.

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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 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 yen compared with the previous fiscal year to 69.2 billion yen 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% compared with the previous fiscal year to 288.5 billion yen. Excluding the effect of currency translation, sales would have decreased 2.3%.

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 yen compared with the previous fiscal year to 30.1 billion yen due to the effect of increased sales of high-value-added products and cost reduction activities.

### 1.1.2. Forecast for the Fiscal Year Ending December 31, 2016

The Kao Group will change the accounting standards it applies to International Financial Reporting Standards (IFRS) from the first quarter of fiscal 2016.

	(Billions of yen, except per share data)	
	2016 Forecast (IFRS)	Growth*
Net sales	1,510.0	2.4%
Operating income	184.0	9.7%
Income before income taxes	183.0	10.0%
Net income, attributable to owners of parent	120.0	14.2%
Basic earnings per share (Yen)	239.30	14.1%

\* 2015 IFRS results used for "Growth" are provisional estimates, and are subject to change based on the results of an accounting audit.

#### 1.1.2.1. Forecast of Overall Business Results for the Fiscal Year Ending December 31, 2016

A continuing moderate recovery is expected for the global economy, although there is a risk of a downturn due to factors including the impact of the trend toward normalization of monetary policy in the United States and Europe, the economic outlook in China and other emerging nations, the impact of a drop in prices of crude oil and other commodities, fluctuations in exchange rates, and geopolitical risks. In Japan, amid continuing improvement in conditions for employment and income, the economy is expected to recover moderately, due in part to the effects of various economic measures, but there is also a possibility of impact from an economic downturn overseas, and the outlook for the operating environment remains unclear.



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Amid these circumstances, the Kao Group will accurately respond to various changes in the operating environment of the Consumer Products Business and aims for sustained “profitable growth” globally by increasing the added value of its products from the consumer’s perspective. In the Chemical Business, the Kao Group will carry out measures such as developing high-value-added products that are unaffected by trends in raw material prices and enhancing eco-chemical products with a reduced environmental impact. The Kao Group has positioned fiscal 2016 as a year of preparation for ongoing growth toward its next mid-term plan.

Please note that the Kao Group will change the accounting standards it applies to International Financial Reporting Standards (IFRS) from the first quarter of fiscal 2016. Accordingly, increases and decreases below are calculated based on IFRS estimates for fiscal 2015 results.

The Kao Group forecasts that net sales will increase 2.4% year on year to 1,510.0 billion yen. Excluding the effect of currency translation, sales are forecast to increase 3.8%. The Kao Group will work to stimulate the market with new product launches and other measures in Japan and overseas, and expects an increase in sales volume.

Overall, the Kao Group expects lower raw material prices compared with the previous fiscal year, with prices for natural oils and fats expected to remain basically unchanged and market prices for petrochemicals forecast to stabilize at low levels. In addition, the Kao Group will continue to conduct cost reduction activities and other measures.

Based on these assumptions, the Kao Group forecasts a 9.7% increase in operating income to 184.0 billion yen, a 10.0% increase in income before income taxes to 183.0 billion yen, and a 14.2% increase in net income, attributable to owners of parent to 120.0 billion yen.

Economic value added (EVA) is forecast to increase due to an increase in net operating profit after tax (NOPAT).

**1.1.2.2. Forecast by Business Segment for the Fiscal Year Ending December 31, 2016**

In the Consumer Products Business in Japan, the market for household and personal care products is projected to grow slightly on a value basis. The cosmetics market is expected to remain flat. In overseas markets, growth is expected to continue in Asia, and a moderate recovery is projected in the Americas and Europe. In this situation, the Kao Group will work to create strong brands based on a high level of safety and reliability.

*News Release*

In the Beauty Care Business, the Kao Group will work to revitalize the market by adding greater value to products and proposing the Group's own originality and appeal while assessing changes in consumer attitudes toward beauty and lifestyle habits. In Japan, the Kao Group will promote initiatives including launches and cultivation of distinctive new products tailored to changes in consumer needs and reform of marketing activities and sales methods to meet changes in consumer purchasing behavior. For example, in response to calls for simple, easy-to-use and more environmentally conscious products, the Kao Group will launch new refills for shampoos and conditioners with containers that answer all these requests.

For cosmetics, by putting into motion the reform of Kao Sofina, which began in November 2015, and also beginning reform of Kanebo Cosmetics, the Kao Group will make the most of their respective individual characteristics to further raise their brand value. Overseas, the Kao Group will work to develop high-value-added products that incorporate its original technologies and nurture and strengthen core brands.

The Kao Group forecasts that sales in this business will decrease 0.1% year on year to 608.0 billion yen. Excluding the effect of currency translation, sales are forecast to increase 0.9%.

The Human Health Care Business will promote product development focused on health care for both body and spirit. In sales of food and beverage products, the Kao Group will capitalize on products approved as Foods for Specified Health Uses that are differentiated by their high level of functional health value, and enhance promotion of their functions while further expanding their base of loyal users. At the same time, the Kao Group will strengthen its health support solutions business in response to rising health consciousness as a result of mandatory special health examinations and specified health guidance. The Kao Group aims to create sanitary products that are gentle on skin and that offer greater comfort and a sense of confidence. In addition, the Kao Group will expand production capacity to meet the strong demand overseas for Japanese-made baby diapers and work to further enhance integration between its Japanese and overseas operations. In China and Indonesia, the Kao Group will expand its rollout of baby diapers produced locally targeting the middle-class consumer segment. The Kao Group will work to further raise the brand value of its personal health products by continuing to make original new proposals with products that can become healthy daily lifestyle habits.

The Kao Group forecasts that sales in this business will increase 8.7% year on year to 306.0 billion yen.

In the Fabric and Home Care Business, the Kao Group will strengthen its brands and offer proposals for improvements in daily life based on insights into changing consumer lifestyles, developing high-value-added products that offer cleanliness, comfort and enjoyment in various everyday situations. In collaboration with retailers, the Kao Group will further promote its “eco together” environmental statement with instructional activities that aim to reduce environmental impact throughout the entire lifecycle of products such as the *Neo* series, which includes *Ultra Attack Neo* ultra-concentrated liquid laundry detergent, and refill products for liquid and powder laundry detergents. The Kao Group will work to develop and nurture products that incorporate its technologies to meet local consumer needs in Asia and will expand its rollout of laundry detergent targeting the middle-class consumer segment in Indonesia.

The Kao Group forecasts that sales in this business will increase 1.4% year on year to 340.0 billion yen.

In the Chemical Business, the Kao Group will promote global supply of distinctive chemical products that meet the diverse needs of a wide range of industries. In oleo chemicals, the Kao Group will stably supply high-quality products to meet increasing demand for fatty alcohols, fatty amines and higher-value-added derivatives made from natural oils and fats, mainly in Asia. In performance chemicals, growth is forecast in Asia, while the forecast for Japan includes an improved export environment for customer industries and recovery in demand. In specialty chemicals, the Kao Group will work to expand sales of products related to information materials and strive to offer products that anticipate customer trends.

In addition, the Kao Group will work to expand sales by opening up the markets of emerging nations, where growth is expected, while developing new materials using unique and environmentally conscious technologies in response to rising concern about the environment worldwide.

As a result of the above, including adjustments in selling prices in response to fluctuations in raw material prices, the Kao Group forecasts that sales in this business will increase 2.4% year on year to 295.0 billion yen.

**1.1.2.3. Underlying Assumptions of the Forecast for the Fiscal Year Ending December 31, 2016**

The above forecast was made assuming translation rates of one U.S. dollar to 118 yen and one euro to 128 yen.

Please note that although there is potential for volatility in prices of natural oils and fats and petrochemicals, assumptions for prices are based on information currently available to the Kao Group.

**1.2. Analysis of Financial Condition****Analysis of Assets, Liabilities, Net Assets and Cash Flows****1.2.1. Analysis of Assets, Liabilities, Net Assets and Cash Flows for the Fiscal Year Ended December 31, 2015****Summary of Consolidated Financial Condition**

	Billions of yen			Millions of U.S. dollars
	As of Dec. 31, 2015	As of Dec. 31, 2014	Incr./(Dcr.)	As of Dec. 31, 2015
Total assets	<b>1,281.9</b>	1,198.2	83.6	<b>10,640.6</b>
Total net assets	<b>687.1</b>	672.4	14.7	<b>5,703.8</b>
Net worth ratio	<b>52.7%</b>	54.9%	-	<b>52.7%</b>
Net worth per share (Yen/US\$)	<b>1,347.29</b>	1,313.63	33.66	<b>11.18</b>
Total debt	<b>120.1</b>	101.2	18.9	<b>997.1</b>

**Summary of Consolidated Cash Flows**

	Billions of yen			Millions of U.S. dollars
	2015	2014	Incr./(Dcr.)	2015
Cash flows from operating activities	<b>180.9</b>	145.1	35.7	<b>1,501.3</b>
Cash flows from investing activities	<b>(74.0)</b>	(63.8)	(10.2)	<b>(614.4)</b>
Free cash flow*	<b>106.8</b>	81.3	25.5	<b>886.9</b>
Cash flows from financing activities	<b>(20.6)</b>	(85.0)	64.4	<b>(171.0)</b>

\* Free cash flow is the sum of cash flows from operating activities and cash flows from investing activities.

Total assets increased 83.6 billion yen from December 31, 2014 to 1,281.9 billion yen. The principal increases in assets were a 17.7 billion yen increase in cash and time deposits, a 48.0

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billion yen increase in short-term investments, a 23.1 billion yen increase in other current assets, and a 20.1 billion yen increase in property, plant and equipment. The principal decrease in assets was a 24.2 billion yen 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 yen from December 31, 2014 to 594.7 billion yen. The principal increases in liabilities were a 40.0 billion yen increase in long-term loans, a 31.8 billion yen increase in liability for retirement benefits, which includes an increase due to the adoption of an accounting standard for retirement benefits, and a 9.8 billion yen increase in accounts payable – other. The principal decrease in liabilities was a 20.0 billion yen decrease in current portion of long-term loans.

Total net assets increased 14.7 billion yen from December 31, 2014 to 687.1 billion yen. The principal increase in net assets was net income totaling 98.9 billion yen. The principal decreases in net assets were foreign currency translation adjustments of 14.5 billion yen and payments of dividends from retained earnings totaling 37.1 billion yen.

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 yen.

As a result of the above factors, the net worth ratio (defined as net worth divided by total assets) was 52.7% compared with 54.9% as of December 31, 2014.

Cash flows from operating activities totaled 180.9 billion yen. The principal increases in net cash were income before income taxes and minority interests of 161.6 billion yen, depreciation and amortization of 73.6 billion yen and change in accounts payable – other and accrued expenses of 8.6 billion yen. The principal decreases in net cash were income taxes paid of 46.2 billion yen and change in trade receivables of 8.4 billion yen.

Cash flows from investing activities totaled negative 74.0 billion yen. This primarily consisted of purchase of property, plant and equipment of 64.1 billion yen.

Free cash flow, the sum of cash flows from operating activities and cash flows from investing activities, was 106.8 billion yen.

Cash flows from financing activities totaled negative 20.6 billion yen. This primarily consisted of 38.4 billion yen for payments of cash dividends, including to minority shareholders. In March 2015, the Kao Group repaid loans totaling 20.0 billion yen but

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borrowed 40.0 billion yen with the objective of maintaining an appropriate capital cost ratio and reinforcing its financial base to invest for growth.

The balance of cash and cash equivalents as of December 31, 2015 increased 80.8 billion yen from a year earlier to 309.4 billion yen.

**1.2.2. Forecast of Assets, Liabilities, Net Assets and Cash Flows for the Fiscal Year Ending December 31, 2016**

Cash flows from operating activities are forecast to be approximately 180.0 billion yen, due in part to an increase in income before income taxes.

In cash flows from investing activities, the Kao Group plans capital expenditures of approximately 100.0 billion yen, an increase from fiscal 2015, which will include aggressive investment for global expansion and capital investment for purposes such as increasing production capacity, promoting streamlining and improving distribution efficiency.

In cash flows from financing activities, the Kao Group expects to pay cash dividends and to make other expenditures.

As a result of the above, the balance of cash and cash equivalents as of December 31, 2016 is forecast to increase approximately 40.0 billion yen from the previous fiscal year end to approximately 350.0 billion yen.

**Cash Flow Indices**

	2015	2014	2013	2012 <sup>1</sup>	2011
Net worth / Total assets (%)	52.7	54.9	55.5	56.6	54.3
Market capitalization / Total assets (%)	244.7	198.9	149.6	113.9	114.3
Interest-bearing debt / Operating cash flow (years)	0.8	0.8	0.6	1.2	0.9
Operating cash flow / Interest paid (times)	128.3	116.1	148.9	73.1	51.1

*Notes:*

1. Due to a change in the fiscal year end, 2012 is April to December 2012 for Kao Corporation and its subsidiaries whose fiscal year end was previously March 31 and January to December 2012 for subsidiaries whose fiscal year end was December 31.
2. All indices are computed based on consolidated data.
3. Net worth is net assets, excluding minority interests and stock acquisition rights.
4. Market capitalization equals the stock price at the end of the period multiplied by the number of shares outstanding at the end of the period (excluding treasury stock).
5. Operating cash flow is stated in the consolidated statement of cash flows. Interest-bearing debt is all debt included in the consolidated balance sheet on which interest is paid.

**1.3. Basic Policies Regarding Distribution of Profits and Dividends for the Fiscal Years Ended December 31, 2015 and Ending December 31, 2016**

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

In accordance with these policies, the Company plans to pay a year-end dividend for fiscal 2015 of 42.00 yen per share, an increase of 6.00 yen per share compared with the previous fiscal year. Consequently, cash dividends for the fiscal year will increase 10.00 yen per share compared with the previous fiscal year, resulting in a total of 80.00 yen per share. The consolidated payout ratio will be 40.6%.

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

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#### 1.4. Items Related to Summary Information (Other)

**(1) Changes in material subsidiaries during the period (changes in specified subsidiaries due to changes in the scope of consolidation):** Yes

New: None

Excluded: 1 company (Company name) Kao Prestige Limited

**(2) Accounting procedures specific to the preparation of consolidated financial statements:** Yes

**(3) Changes in accounting principles, changes in accounting estimates, and retrospective restatements:**

Adoption of Accounting Standard for Retirement Benefits

The Company has adopted the “Accounting Standard for Retirement Benefits” (ASBJ Statement No. 26 issued on May 17, 2012, hereinafter “Retirement Benefits Accounting Standard”) and the “Guidance on Accounting Standard for Retirement Benefits” (ASBJ Guidance No. 25 issued on March 26, 2015, hereinafter “Retirement Benefits Guidance”) as 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 yen, asset for retirement benefits decreased by 9,692 million yen and retained earnings decreased by 27,931 million yen at the beginning of the fiscal year ended December 31, 2015. The effect of this change on operating income, ordinary income and income before income taxes and minority interests for the fiscal year was immaterial.



Adoption of Accounting Standard for Business Combinations

The “Accounting Standard for Business Combinations” (ASBJ Statement No. 21 issued on September 13, 2013, hereinafter “Business Combinations Accounting Standard”), “Accounting Standard for Consolidated Financial Statements” (ASBJ Statement No. 22 issued on September 13, 2013, hereinafter “Consolidated Accounting Standard”) and “Accounting Standard for Business Divestitures” (ASBJ Statement No. 7 issued on September 13, 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 conducted the early adoption of these accounting standards (except as provided in Article 39 of the Consolidated 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 tentative 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 will apply 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 Consolidated 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.

**Changes in Method of Presentation**

Consolidated Statement of Income

“Gain on sales of investment securities,” which was included in “Other” under “Extraordinary gain” 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 method of presentation.

As a result, 18 million yen included in “Other” under “Extraordinary gain” on the consolidated statement of income for the previous fiscal year has been reclassified as “Gain on sales of investment securities.”

“Impairment loss,” which was included in “Other” under “Extraordinary loss” 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 method of presentation.

As a result, 132 million yen included in “Other” under “Extraordinary loss” 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” 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 method of presentation.

As a result, 1,404 million yen of “Other” under “Operating activities” on the consolidated statement of cash flows for the previous fiscal year has been reclassified as 132 million yen for “Impairment loss”, 6,576 million yen for “Change in accrued consumption taxes” and negative 5,304 million for “Other.”

#### **Impairment Loss**

##### Previous Fiscal Year (January 1, 2014 – December 31, 2014)

Omitted from presentation because the amount was insignificant.

##### Current Fiscal Year (January 1, 2015 – December 31, 2015)

The Kao Group recorded impairment losses for the following asset groups.

(Millions of yen)			
Use	Classification	Location	Impairment Loss
Assets for business	Machinery, equipment and vehicles, etc.	Spain	174
Assets to be disposed of	Land, etc.	Yokohama, Kanagawa Prefecture, etc.	2,557
Idle assets	Land, etc.	Kitakyushu, Fukuoka Prefecture, etc.	1,283

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The Kao Group categorizes assets for business mainly based on business units. Assets to be disposed of and idle assets are grouped on individual basis.

In the fiscal year ended December 31, 2015, the Kao Group recorded impairment losses totaling 4,014 million yen under extraordinary loss by reducing the net book value to the recoverable value of each asset because it 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 yen for land, 288 million yen for buildings and structures, 117 million yen for machinery, equipment and vehicles, and 26 million yen for tools, furniture and fixtures.

The recoverable amounts of assets for business were measured by 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.

**Revision of Deferred Tax Assets and Liabilities due to Changes, etc. in Rates of Corporate and Other Taxes**

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, 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 net of deferred tax liabilities have decreased by 4,465 million yen, deferred income taxes have increased by 5,091 million yen, unrealized gain on available-for-sale securities has increased by 308 million yen, and remeasurements of defined benefit plans have increased by 318 million yen.

**Significant Subsequent Event**

Common Control Transaction

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.

1. Summary of the Transaction

(1) Names and Business Content of Companies Party to 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. (change of name from Kao Group Customer Marketing Preparation Co., Ltd. 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 be able to leverage the “comprehensive strength of the Kao Group” to provide products and services at a higher level by promoting integrated management of the sales functions of the Kao Group.

2. Summary of Accounting Treatment Used

The Company plans to treat the transaction as a common control transaction 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).

## **2. Management Policies**

### **2.1. Management Policies of the Kao Group**

The Kao Group'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. 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.

The Kao Group aims to be the global group of companies that is closest to the consumers and customers in each market, earning the respect and trust of its shareholders and all other stakeholders as it achieves "profitable growth."

In its corporate governance, the Kao Group works for ongoing innovation\* and further enhances its internal control system to achieve management that is swift, efficient and sound, as well as impartial and transparent, as it continuously increases its corporate value.

*\*Innovation is one of the values of the Kao Way, the corporate philosophy of the Kao Group.*

The corporate philosophy that forms the basis of these activities is "The Kao Way," which clearly expresses the Kao Group's unique corporate culture and the essence of its corporate spirit, and is shared and practiced by all employees.

### **2.2. Management Metric Used as a Target**

EVA, which is used to measure true profit by factoring in the cost of invested capital, is the Kao Group's principal management metric. Continuous growth in EVA is linked to increased corporate value, which means long-term profits not only for shareholders, but for all Kao Group stakeholders as well. While working to expand its business scale, the Kao Group views EVA growth as a primary focus of operating activity. The Kao Group also uses this metric to determine the direction of long-term management strategies, to assess specific businesses, to evaluate acquisitions and capital investment, and to develop performance targets for each fiscal year.

### **2.3. Medium-to-long-term Management Strategies**

Structural changes are occurring worldwide in the Kao Group's operating environment over the medium to long term, including 1) a shift in the center of the economy as emerging nations create enormous markets, 2) the emergence of new consumers including people who are increasingly dependent on digital media, as well as the growing elderly population, and 3) rising interest in sustainability. The Kao Group sees opportunities for significant progress from these changes, and deploys Group strengths such as its ability to analyze consumer needs and its research and development capabilities to provide products and services adapted to markets and consumers. The Kao Group will also concentrate on developing initiatives for marketing and sales that convey the essential value of those products and services in the e-commerce market, which has been growing rapidly in recent years, in addition to the traditional bricks-and-mortar market, and proactively promote entry into untapped markets and the creation of new markets where it can make full use of these initiatives.

To promote sustainability, the Kao Group strives for innovative technological development in the environmental field, and works to develop products with full consideration for human safety and reduced environmental impact throughout the entire product lifecycle from product development, raw material procurement and production to consumer use and disposal. The Kao Group will also promote the development and procurement of renewable raw materials and raw materials derived from non-edible materials, among other measures. Along with pursuing these measures and other initiatives for the environment, the Kao Group promotes the establishment of a corporate brand for Kao as a group of companies that contributes to "the wholehearted satisfaction and enrichment" of the lives of people globally in the domains of cleanliness, beauty and health.

Regarding business segments, in the Consumer Products Business, which consists of the three businesses of Beauty Care, Human Health Care, and Fabric and Home Care, and the Chemical Business, the Kao Group will emphasize research and development to make high-quality and innovative products geared to consumers and customers, based on a concept referred to within the Group as "*Yoki-Monozukuri*," and aims to become 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 offering proposals to resolve social issues and conducting social contribution activities through its business activities.

With regard to Kao Group Mid-term Plan 2015 (K15), which started in fiscal 2013, please note that the Kao Group has achieved all of its targets and completed the plan by fiscal 2015,

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the final year of the plan. The Kao Group is currently formulating K20, a mid-term plan that will begin in fiscal 2017, with a targeted direction as follows.

In order to fulfill the role of a leading company and increase corporate value,

1. Insist on sustainable growth

- Continuously increase net sales and profits
- Prioritize profits over sales expansion
- Advance the post-deflation growth model and proactively invest in M&A
- Create and propose profitable businesses

2. Provide sustainable returns to stakeholders

- To employees: Continuously increase compensation and benefits
- To society: Pay taxes, provide employment and conduct social contribution activities
- To shareholders: Continuously increase cash dividends

With regard to operating structure, through the global management integration of the Consumer Products Business, the Kao Group is strengthening its matrix management of business units and functional divisions, and promoting reformation of its profit structure from a perspective of what is best for the Group as a whole.

#### **2.4. Issues for Management**

With intensifying market competition, changing market structure and volatility in raw material market conditions and exchange rates, the operating environment remains uncertain. Changes in the attitudes of consumers regarding the environment, health and other matters and associated changes in their purchasing attitudes, as well as the aging society, hygiene and other social issues, are growing in significance. Moreover, amid the global expansion of business and the progress of structural changes in various fields, companies must deal with all possible risks entailed in their businesses.

Under these conditions, the Kao Group will continuously increase corporate value by addressing and dealing appropriately with the following issues.

- 1) Regarding brightening products containing the ingredient Rhododenol sold by Kanebo Cosmetics, for which a voluntary recall was announced on July 4, 2013, Kanebo Cosmetics has been responding seriously with support for the recovery and compensation of people who have experienced vitiligo-like symptoms. In addition, the entire Kao Group is making efforts with a view of the tasks before it as working to prevent recurrence while striving to ensure greater safety and reliability.

- 2) To deal with all possible risks entailed in its businesses, the Kao Group will define serious company-wide risks as corporate risks and work to prevent damage to the corporate value of the Group as a whole by further enhancing its management system.

### **3. Basic Approach to Selection of Accounting Standards**

Having decided that unifying accounting standards within the Kao Group will contribute to improving the quality of Group business management, the Kao Group will voluntarily apply International Financial Reporting Standards (IFRS) from the first quarter of fiscal 2016. This application will enable management based on standardized procedures and information for each Group company and business, and the Kao Group intends to reinforce its management foundation in order to increase its corporate value as a global company. The Kao Group also believes that the application of IFRS will facilitate the international comparability of its financial statements in capital markets.



**Consolidated Balance Sheet**

Millions of yen

	FY2015 Dec. 31, 2015	FY2014 Dec. 31, 2014
<b>Assets</b>		
<b>Current assets</b>		
Cash and time deposits	125,159	107,412
Notes and accounts receivable - trade	205,603	204,060
Short-term investments	158,651	110,639
Merchandise and finished goods	112,329	111,831
Work in process	12,293	12,833
Raw materials and supplies	33,512	33,123
Prepaid expenses	7,048	6,832
Deferred tax assets	20,763	20,232
Other	59,501	36,420
Allowance for doubtful receivables	(1,626)	(1,648)
<b>Total current assets</b>	<b>733,233</b>	<b>641,734</b>
<b>Fixed assets</b>		
Property, plant and equipment		
Buildings and structures	376,714	361,223
Accumulated depreciation	(270,488)	(267,219)
<b>Buildings and structures, net</b>	<b>106,226</b>	<b>94,004</b>
Machinery, equipment and vehicles	711,661	696,451
Accumulated depreciation	(591,438)	(597,907)
<b>Machinery, equipment and vehicles, net</b>	<b>120,223</b>	<b>98,544</b>
Tools, furniture and fixtures	87,605	86,343
Accumulated depreciation	(74,398)	(73,563)
<b>Tools, furniture and fixtures, net</b>	<b>13,207</b>	<b>12,780</b>
Land	64,715	69,445
Lease assets	11,212	11,261
Accumulated depreciation	(6,587)	(5,800)
<b>Lease assets, net</b>	<b>4,625</b>	<b>5,461</b>
Construction in progress	18,734	27,381
<b>Total property, plant and equipment</b>	<b>327,730</b>	<b>307,615</b>
Intangible assets		
Goodwill	127,099	139,941
Trademarks	1,791	15,145
Other	14,832	12,844
<b>Total intangible assets</b>	<b>143,722</b>	<b>167,930</b>
Investments and other assets		
Investment securities	22,331	20,984
Long-term loans	1,171	1,432
Long-term prepaid expenses	17,583	17,281
Deferred tax assets	23,896	20,630
Asset for retirement benefits	1,027	9,692
Other	11,860	11,612
Allowance for doubtful receivables	(684)	(677)
<b>Total investments and other assets</b>	<b>77,184</b>	<b>80,954</b>
<b>Total fixed assets</b>	<b>548,636</b>	<b>556,499</b>
<b>Total assets</b>	<b>1,281,869</b>	<b>1,198,233</b>

**Consolidated Balance Sheet***Millions of yen*

	FY2015 Dec. 31, 2015	FY2014 Dec. 31, 2014
<b>Liabilities</b>		
<b>Current liabilities</b>		
Notes and accounts payable - trade	133,728	129,711
Short-term loans	47	1,137
Current portion of long-term loans	15	20,013
Accounts payable - other	76,078	66,230
Accrued expenses	99,033	94,666
Income taxes payable	32,073	28,108
Liability for loss related to cosmetics	2,891	8,220
Other	33,628	32,451
<b>Total current liabilities</b>	<b>377,493</b>	<b>380,536</b>
<b>Long-term liabilities</b>		
Bonds	50,000	50,000
Long-term loans	70,060	30,083
Liability for retirement benefits	74,178	42,414
Liability for loss related to cosmetics	2,474	-
Other	20,531	22,807
<b>Total long-term liabilities</b>	<b>217,243</b>	<b>145,304</b>
<b>Total liabilities</b>	<b>594,736</b>	<b>525,840</b>
<b>Net assets</b>		
<b>Shareholders' equity</b>		
Common stock	85,424	85,424
Capital surplus	108,659	109,561
Retained earnings	502,134	468,684
Treasury stock, at cost	(8,202)	(9,719)
<b>Total shareholders' equity</b>	<b>688,015</b>	<b>653,950</b>
<b>Accumulated other comprehensive income</b>		
Unrealized gain on available-for-sale securities	7,063	5,507
Deferred gain (loss) on derivatives under hedge accounting	(3)	8
Foreign currency translation adjustments	(19,315)	(4,853)
Remeasurements of defined benefit plans	(152)	3,619
<b>Total accumulated other comprehensive income</b>	<b>(12,407)</b>	<b>4,281</b>
<b>Stock acquisition rights</b>	<b>889</b>	<b>944</b>
<b>Minority interests</b>	<b>10,636</b>	<b>13,218</b>
<b>Total net assets</b>	<b>687,133</b>	<b>672,393</b>
<b>Total liabilities and net assets</b>	<b>1,281,869</b>	<b>1,198,233</b>

**Consolidated Statement of Income***Millions of yen*

	FY2015 Jan. - Dec.	FY2014 Jan. - Dec.
<b>Net sales</b>	<b>1,471,791</b>	<b>1,401,707</b>
Cost of sales	658,221	632,205
<b>Gross profit</b>	<b>813,570</b>	<b>769,502</b>
Selling, general and administrative expenses	649,190	636,232
<b>Operating income</b>	<b>164,380</b>	<b>133,270</b>
Non-operating income		
Interest income	1,043	817
Dividend income	218	197
Equity in earnings of nonconsolidated subsidiaries and affiliates	2,656	2,225
Foreign currency exchange gain	-	1,171
Other	3,683	3,355
Total non-operating income	7,600	7,765
Non-operating expenses		
Interest expense	1,486	1,295
Foreign currency exchange loss	472	-
Other	749	956
Total non-operating expenses	2,707	2,251
<b>Ordinary income</b>	<b>169,273</b>	<b>138,784</b>
Extraordinary gain		
Gain on sales of fixed assets	410	200
Gain on sales of investment securities	375	18
Gain on liquidation of subsidiaries	299	-
Other	477	114
Total extraordinary gain	1,561	332
Extraordinary loss		
Loss on sales/disposals of fixed assets	3,909	2,906
Impairment loss	4,014	132
Loss related to cosmetics	1,035	8,896
Other	297	421
Total extraordinary loss	9,255	12,355
<b>Income before income taxes and minority interests</b>	<b>161,579</b>	<b>126,761</b>
Income taxes		
Income taxes - current	49,574	44,316
Income taxes - deferred	12,525	2,023
Total income taxes	62,099	46,339
<b>Income before minority interests</b>	<b>99,480</b>	<b>80,422</b>
Minority interests	618	832
<b>Net income</b>	<b>98,862</b>	<b>79,590</b>

**Consolidated Statement of Comprehensive Income***Millions of yen*

	FY2015	FY2014
	Jan. - Dec.	Jan. - Dec.
<b>Income before minority interests</b>	<b>99,480</b>	<b>80,422</b>
Other comprehensive income		
Unrealized gain (loss) on available-for-sale securities	1,310	639
Foreign currency translation adjustments	(15,793)	24,709
Share in other comprehensive income of associates applied for equity method	(9)	222
Remeasurements of defined benefit plans	(3,712)	(3,725)
Other comprehensive income	(18,204)	21,845
<b>Comprehensive income</b>	<b>81,276</b>	<b>102,267</b>
Attributable to:		
Shareholders of Kao Corporation	82,173	100,250
Minority interests	(897)	2,017

**Major Items of Consolidated Selling, General and Administrative Expenses***Millions of yen*

	FY2015	FY2014
	Jan. - Dec.	Jan. - Dec.
Freight/warehouse	85,609	81,391
Advertising	94,496	92,410
Sales promotion	78,264	73,072
Salaries and bonuses	133,310	130,974
Research and development	51,987	51,739

**Consolidated Statement of Changes in Equity**

Millions of yen

FY2015 Jan. - Dec.	Shareholders' equity					Total shareholders' equity
	Common stock	Capital surplus	Retained earnings	Treasury stock, at cost		
Balance at beginning of current period	85,424	109,561	468,684	(9,719)		<b>653,950</b>
Cumulative effects of changes in accounting policies			(27,931)			<b>(27,931)</b>
Restated balance	85,424	109,561	440,753	(9,719)		<b>626,019</b>
Changes of items during the period						
Cash dividends			(37,091)			<b>(37,091)</b>
Net income			98,862			<b>98,862</b>
Purchase of treasury stock				(54)		<b>(54)</b>
Disposal of treasury stock			(390)	1,571		<b>1,181</b>
Purchase of shares of consolidated subsidiaries		(902)				<b>(902)</b>
Net changes of items other than shareholders' equity during the period						
Total changes of items during the period	-	(902)	61,381	1,517		<b>61,996</b>
Balance at end of period	85,424	108,659	502,134	(8,202)		<b>688,015</b>

FY2015 Jan. - Dec.	Accumulated other comprehensive income					Stock acquisition rights	Minority interests	Total net assets
	Unrealized gain on available-for-sale securities	Deferred gain (loss) on derivatives under hedge accounting	Foreign currency translation adjustments	Remeasurements of defined benefit plans	Total accumulated other comprehensive income			
Balance at beginning of current period	5,507	8	(4,853)	3,619	4,281	944	13,218	<b>672,393</b>
Cumulative effects of changes in accounting policies								<b>(27,931)</b>
Restated balance	5,507	8	(4,853)	3,619	4,281	944	13,218	<b>644,462</b>
Changes of items during the period								
Cash dividends								<b>(37,091)</b>
Net income								<b>98,862</b>
Purchase of treasury stock								<b>(54)</b>
Disposal of treasury stock								<b>1,181</b>
Purchase of shares of consolidated subsidiaries								<b>(902)</b>
Net changes of items other than shareholders' equity during the period	1,556	(11)	(14,462)	(3,771)	(16,688)	(55)	(2,582)	<b>(19,325)</b>
Total changes of items during the period	1,556	(11)	(14,462)	(3,771)	(16,688)	(55)	(2,582)	<b>42,671</b>
Balance at end of period	7,063	(3)	(19,315)	(152)	(12,407)	889	10,636	<b>687,133</b>

Consolidated Statement of Changes in Equity (Continued)

Millions of yen

FY2014 Jan. - Dec.	Shareholders' equity					Total shareholders' equity
	Common stock	Capital surplus	Retained earnings	Treasury stock, at cost		
Balance at beginning of current period	85,424	109,561	471,383	(9,397)		656,971
Changes of items during the period						
Cash dividends			(33,814)			(33,814)
Net income			79,590			79,590
Purchase of treasury stock				(50,041)		(50,041)
Disposal of treasury stock			(79)	1,323		1,244
Retirement of treasury stock			(48,396)	48,396		-
Net changes of items other than shareholders' equity during the period						
Total changes of items during the period	-	-	(2,699)	(322)		(3,021)
Balance at end of period	85,424	109,561	468,684	(9,719)		653,950

FY2014 Jan. - Dec.	Accumulated other comprehensive income						Stock acquisition rights	Minority interests	Total net assets
	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 accumulated other comprehensive income			
Balance at beginning of current period	4,733	12	(28,416)	(4,590)	-	(28,261)	1,120	12,810	642,640
Changes of items during the period									
Cash dividends									(33,814)
Net income									79,590
Purchase of treasury stock									(50,041)
Disposal of treasury stock									1,244
Retirement of treasury stock									-
Net changes of items other than shareholders' equity during the period	774	(4)	23,563	4,590	3,619	32,542	(176)	408	32,774
Total changes of items during the period	774	(4)	23,563	4,590	3,619	32,542	(176)	408	29,753
Balance at end of period	5,507	8	(4,853)	-	3,619	4,281	944	13,218	672,393

**Consolidated Statement of Cash Flows***Millions of yen*

	FY2015	FY2014
	Jan. - Dec.	Jan. - Dec.
<b>Operating activities:</b>		
Income before income taxes and minority interests	161,579	126,761
Adjustments for:		
Depreciation and amortization	73,623	79,660
Impairment loss	4,014	132
(Gain) loss on sales and retirement of fixed assets	3,499	2,706
Interest and dividend income	(1,261)	(1,014)
Interest expense	1,486	1,295
Unrealized foreign currency exchange (gain) loss	(768)	(1,220)
Equity in (earnings) losses of nonconsolidated subsidiaries and affiliates	(2,656)	(2,225)
Change in trade receivables	(8,410)	(10,953)
Change in inventories	(4,745)	(12,397)
Change in trade payables	7,334	6,715
Change in accounts payable - other and accrued expenses	8,581	2,048
Change in accrued consumption taxes	(2,535)	6,576
Other, net	(14,255)	(5,304)
Subtotal	225,486	192,780
Interest and cash dividends received	3,021	2,882
Interest paid	(1,409)	(1,250)
Income taxes paid	(46,234)	(49,294)
<b>Cash flows from operating activities</b>	<b>180,864</b>	<b>145,118</b>
<b>Investing activities:</b>		
Payments into time deposits	(2,669)	(2,125)
Proceeds from withdrawal of time deposits	1,355	88
Purchase of property, plant and equipment	(64,056)	(51,151)
Purchase of intangible assets	(5,619)	(4,507)
Payments for long-term prepaid expenses	(5,559)	(4,472)
Change in short-term loans, net	40	(19)
Payments for long-term loans	(153)	(546)
Other, net	2,641	(1,076)
<b>Cash flows from investing activities</b>	<b>(74,020)</b>	<b>(63,808)</b>
<b>Financing activities:</b>		
Change in short-term loans, net	(1,128)	(273)
Proceeds from long-term loans	40,000	20,001
Repayments of long-term loans	(20,012)	(20,009)
Purchase of treasury stock	(55)	(50,044)
Payments of cash dividends	(37,137)	(33,856)
Payments of cash dividends to minority shareholders	(1,238)	(1,107)
Other, net	(1,031)	266
<b>Cash flows from financing activities</b>	<b>(20,601)</b>	<b>(85,022)</b>
<b>Translation adjustments on cash and cash equivalents</b>	<b>(5,466)</b>	<b>4,776</b>
<b>Net increase (decrease) in cash and cash equivalents</b>	<b>80,777</b>	<b>1,064</b>
<b>Cash and cash equivalents, beginning of period</b>	<b>228,662</b>	<b>227,598</b>
<b>Cash and cash equivalents, end of period</b>	<b>309,439</b>	<b>228,662</b>

**Consolidated Segment Information**

Major Products by Reportable Segment

Reportable Segments		Major Products	
Consumer Products Business	Beauty Care Business	Cosmetics	Counseling cosmetics, Self-selection cosmetics
		Skin care products	Soaps, Facial cleansers, Body cleansers
		Hair care products	Shampoos, Conditioners, Hair styling agents, Hair coloring agents
	Human Health Care Business	Food and beverage products	Beverages
		Sanitary products	Sanitary napkins, Baby diapers
		Personal health products	Bath additives, Oral care products, Men's products
	Fabric and Home Care Business	Fabric care products	Laundry detergents, Fabric treatments
		Home care products	Kitchen cleaning products, House cleaning products, Paper cleaning products, Commercial-use products
	Chemical Business	Oleo chemicals	Fatty alcohols, Fatty amines, Fatty acids Glycerin, Commercial-use edible fats and oils
Performance chemicals		Surfactants, Plastics additives, Superplasticizers for concrete admixtures	
Specialty chemicals		Toner and toner binder for copiers and printers, Ink and colorants for inkjet printers, Fragrances and aroma chemicals	



**Consolidated Segment Information (Continued)**

Millions of yen

FY2015 Jan. - Dec.	Consumer Products Business				Chemical Business	Total	Reconciliations	Consolidated
	Beauty Care Business	Human Health Care Business	Fabric and Home Care Business	Total				
<b>Net sales</b>								
Sales to customers	607,692	280,723	334,416	1,222,831	248,960	1,471,791	-	1,471,791
Intersegment sales	-	-	-	-	39,496	39,496	(39,496)	-
<b>Total</b>	607,692	280,723	334,416	1,222,831	288,456	1,511,287	(39,496)	1,471,791
<b>Operating income</b>	29,420	35,546	69,233	134,199	30,115	164,314	66 <sup>1</sup>	164,380
% of net sales	4.8	12.7	20.7	11.0	10.4	10.9	-	11.2
<b>Total assets</b>	459,880	195,368	160,745	815,993	271,879	1,087,872	193,997 <sup>2</sup>	1,281,869
<b>Depreciation and amortization<sup>3</sup></b>	29,514	10,458	7,972	47,944	12,801	60,745	-	60,745
<b>Amortization of goodwill</b>	12,879	-	-	12,879	-	12,879	-	12,879
<b>Investment for affiliates applied for equity method</b>	3,686	1,020	1,184	5,890	3,495	9,385	-	9,385
<b>Capital expenditure<sup>5</sup></b>	20,643	31,173	15,297	67,113	16,301	83,414	-	83,414
<b>FY2014 Jan. - Dec.</b>								
	<b>Consumer Products Business</b>				<b>Chemical Business</b>	<b>Total</b>	<b>Reconciliations</b>	<b>Consolidated</b>
	Beauty Care Business	Human Health Care Business	Fabric and Home Care Business	Total				
<b>Net sales</b>								
Sales to customers	589,907	240,077	324,505	1,154,489	247,218	1,401,707	-	1,401,707
Intersegment sales	-	-	-	-	40,804	40,804	(40,804)	-
<b>Total</b>	589,907	240,077	324,505	1,154,489	288,022	1,442,511	(40,804)	1,401,707
<b>Operating income</b>	28,437	21,880	60,952	111,269	22,060	133,329	(59) <sup>1</sup>	133,270
% of net sales	4.8	9.1	18.8	9.6	7.7	9.2	-	9.5
<b>Total assets</b>	466,128	161,280	158,552	785,960	273,397	1,059,357	138,876 <sup>4</sup>	1,198,233
<b>Depreciation and amortization<sup>3</sup></b>	30,302	10,618	9,541	50,461	14,101	64,562	-	64,562
<b>Amortization of goodwill</b>	15,098	-	-	15,098	-	15,098	-	15,098
<b>Investment for affiliates applied for equity method</b>	3,782	1,122	1,328	6,232	3,032	9,264	-	9,264
<b>Capital expenditure<sup>5</sup></b>	17,042	22,956	13,781	53,779	14,705	68,484	-	68,484

## Notes:

1 Reconciliation of operating income includes elimination of intersegment inventory transactions.

2 Includes 228,295 million yen of Kao's financial assets and -34,298 million yen elimination of receivables among reportable segments

3 Excludes amortization of goodwill

4 Includes 163,750 million yen of Kao's financial assets and -24,874 million yen elimination of receivables among reportable segments

5 Includes long-term prepaid expenses