Kao Corporation Reports Business Results

Tokyo, February 4, 2014 - Kao Corporation today announced its consolidated business results for the fiscal year ended December 31, 2013. 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)

	Fiscal Year			
	2013 Jan. - Dec.	2012 Apr. - Dec. [1]	Adjusted growth [2]	**2013 Jan. - Dec.**
	Yen	Yen	%	U.S. dollars
Net sales	**1,315,217**	1,012,595	7.8	**12,479.5**
Operating income	**124,656**	101,567	11.5	**1,182.8**
Ordinary income	**128,053**	104,214	12.2	**1,215.0**
Net income	**64,764**	52,765	21.9	**614.5**
Comprehensive income	**109,627**	79,524	36.2	**1,040.2**
ROE (Net income / Net worth)	**10.7%**	9.4%	-	**10.7%**
ROA (Ordinary income / Total assets)	**11.8%**	10.3%	-	**11.8%**
Operating income / Net sales	**9.5%**	10.0%	-	**9.5%**
			Growth%	
Total assets	**1,133,276**	1,030,347	10.0	**10,753.2**
Total net assets	**642,640**	596,083	7.8	**6,097.7**
Net worth[3]	**628,709**	582,699	7.9	**5,965.5**
Net worth ratio[4]	**55.5%**	56.6%	-	**55.5%**
			Adjusted growth% [2]	
Net worth per share (Yen/US$)[5]	**1,227.54**	1,116.61	9.9	**11.65**
Net income per share (Yen/US$)[6]	**126.03**	101.12	23.8	**1.20**
Net income per share, fully diluted (Yen/US$)	**125.89**	101.08	23.7	**1.19**
Net cash provided by operating activities	**178,745**	97,357	-	**1,696.0**
Net cash used in investing activities	**(57,778)**	(44,641)	-	**(548.2)**
Net cash used in financing activities	**(67,459)**	(32,028)	-	**(640.1)**
Cash and cash equivalents, end of period	**227,598**	160,435	-	**2,159.6**

Notes:

1. *Kao Corporation (the Company) changed its fiscal year end from March 31 to December 31 from the fiscal year ended December 31, 2012. FY2012 was April 1, 2012 to December 31, 2012 for Kao Corporation and its subsidiaries whose fiscal year end was previously March 31 and January 1, 2012 to December 31, 2012 for subsidiaries whose fiscal year end was December 31.*
2. *Adjusted growth for FY2013 (January 1 to December 31, 2013) is a comparison with the restated business results for the twelve-month period from January 1 to December 31, 2012.*
3. *Net worth is net assets, excluding minority interests and stock acquisition rights.*
4. *The net worth ratio is defined as net worth divided by total assets.*
5. *Net worth per share is computed based on the number of shares outstanding at the end of the periods excluding treasury stock.*
6. *Net income per share is computed based on the weighted average number of shares outstanding during each respective period.*
7. *Number of shares outstanding at the end of the periods (common stock)*

	December 31, 2013	December 31, 2012
Number of shares including treasury stock	*516,000,000 shares*	*526,212,501 shares*
Number of shares of treasury stock	*3,829,950 shares*	*4,368,145 shares*

8. *Weighted average number of shares outstanding during the fiscal year*

Ended December 31, 2013	Ended December 31, 2012
513,879,952 shares	*521,824,203 shares*

Consolidated Results by Segment

Jan. - Dec.	Net sales: Billions of yen 2013	Restated 2012[1]	Adjusted growth %[2]	Like-for-like[3]	Operating income: Billions of yen 2013	Restated 2012[1]	Adjusted change[2]
Beauty Care	**570.3**	537.8	6.0	0.2	**23.9**	20.1	3.8
Human Health Care	**210.6**	189.6	11.1	7.8	**16.9**	13.6	3.2
Fabric and Home Care	**311.0**	292.0	6.5	4.5	**62.2**	59.6	2.6
Consumer Products Total	**1,091.9**	1,019.4	7.1	2.9	**103.0**	93.4	9.6
Chemical	**261.2**	236.5	10.5	(1.0)	**21.5**	18.1	3.4
Total	**1,353.1**	1,255.9	7.7	2.1	**124.5**	111.5	13.0
Reconciliations	**(37.9)**	(35.5)	-	-	**0.2**	0.3	(0.2)
Consolidated	**1,315.2**	1,220.4	7.8	2.1	**124.7**	111.8	12.9

Jan. - Dec.	Net sales: Millions of U.S. dollars 2013	Restated 2012[1]	Adjusted growth %[2]	Like-for-like[3]	Operating income: Millions of U.S. dollars 2013	Restated 2012[1]	Adjusted change[2]
Beauty Care	**5,411.0**	5,103.1	6.0	0.2	**227.1**	191.1	36.0
Human Health Care	**1,998.6**	1,799.2	11.1	7.8	**159.9**	129.1	30.7
Fabric and Home Care	**2,951.2**	2,770.5	6.5	4.5	**590.0**	565.7	24.4
Consumer Products Total	**10,360.7**	9,672.8	7.1	2.9	**977.0**	885.9	91.1
Chemical	**2,478.3**	2,243.8	10.5	(1.0)	**204.1**	171.7	32.4
Total	**12,839.1**	11,916.6	7.7	2.1	**1,181.1**	1,057.6	123.5
Reconciliations	**(359.6)**	(337.1)	-	-	**1.7**	3.2	(1.5)
Consolidated	**12,479.5**	11,579.5	7.8	2.1	**1,182.8**	1,060.7	122.1

Reference: Consolidated Results by Geographic Area[4]

Jan. - Dec.	Net sales: Billions of yen 2013	Restated 2012[1]	Adjusted growth %[2]	Like-for-like[3]	Operating income: Billions of yen 2013	Restated 2012[1]	Adjusted change[2]
Japan	**959.4**	933.8	2.7	2.7	**101.3**	96.5	4.9
Asia	**199.7**	160.0	24.8	3.5	**12.8**	6.4	6.4
Americas	**108.6**	90.0	20.7	(1.0)	**5.2**	2.8	2.4
Europe	**134.2**	110.5	21.4	(3.2)	**7.3**	6.1	1.2
Total	**1,401.8**	1,294.3	8.3	2.1	**126.7**	111.8	14.8
Reconciliations	**(86.6)**	(73.9)	-	-	**(2.0)**	(0.0)	(2.0)
Consolidated	**1,315.2**	1,220.4	7.8	2.1	**124.7**	111.8	12.9

Jan. - Dec.	Net sales: Millions of U.S. dollars 2013	Restated 2012[1]	Adjusted growth %[2]	Like-for-like[3]	Operating income: Millions of U.S. dollars 2013	Restated 2012[1]	Adjusted change[2]
Japan	**9,103.4**	8,860.1	2.7	2.7	**961.5**	915.5	46.0
Asia	**1,894.4**	1,518.2	24.8	3.5	**121.7**	61.0	60.7
Americas	**1,030.4**	854.0	20.7	(1.0)	**49.3**	26.3	22.9
Europe	**1,273.1**	1,048.7	21.4	(3.2)	**69.2**	58.2	11.1
Total	**13,301.3**	12,281.0	8.3	2.1	**1,201.7**	1,061.0	140.7
Reconciliations	**(821.8)**	(701.5)	-	-	**(18.9)**	(0.3)	(18.7)
Consolidated	**12,479.5**	11,579.5	7.8	2.1	**1,182.8**	1,060.7	122.1

Notes:
1. *Due to the change in the fiscal year end in 2012, "Restated 2012" presents the period from January 1 to December 31, 2012 for the purpose of comparison with FY2013 (January 1 to December 31, 2013).*
2. *Adjusted growth and adjusted change for FY2013 (January 1 to December 31, 2013) are comparisons with "Restated 2012."*
3. *Like-for-like growth rates exclude the currency translation effect related to translation of local currencies into Japanese yen.*
4. *Information on consolidated results by geographic area is for reference.*
5. *Net sales to foreign customers were 30.9% of consolidated net sales compared with 26.8% for the same period a year earlier.*

Dividend

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

	Dec. 31, 2013	Dec. 31, 2012	**Dec. 31, 2013**
	Yen	Yen	U.S. dollars
Annual cash dividends per share (Yen/US$)	**64.00**	62.00	**0.61**
Total dividend payment amount	**32,811**	32,388	**311.3**
Payout ratio (consolidated)	**50.8%**	61.3%	**50.8%**
Cash dividends / Total net assets (consolidated)	**5.5%**	5.8%	**5.5%**

Forecast of Consolidated Results for the Year Ending December 31, 2014

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

	Six months ending June 30, 2014			Year ending December 31, 2014		
	Yen	Growth %	U.S. dollars	Yen	Growth %	U.S. dollars
Net sales	650.0	4.0	6,167.6	1,370.0	4.2	12,999.3
Operating income	43.0	0.1	408.0	130.0	4.3	1,233.5
Ordinary income	45.0	0.2	427.0	133.0	3.9	1,262.0
Net income	26.0	42.4	246.7	75.0	15.8	711.6
Net income per share (Yen/US$)*	50.76	43.3	0.48	146.44	16.2	1.39
Cash dividends per share (Yen/US$)	34.00	-	0.32	68.00	-	0.65

** Net income per share is computed based on the estimated weighted average number of shares outstanding during the fiscal year.*

Reference : Non-consolidated Financial Highlights

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

	Fiscal Year		
	2013 Jan. - Dec.	2012 Apr. - Dec. [1]	**2013 Jan. - Dec.**
	Yen	Yen	U.S. dollars
Net sales	**768,565**	567,402	**7,292.6**
Operating income	**93,217**	70,182	**884.5**
Ordinary income	**111,650**	81,563	**1,059.4**
Net income	**74,591**	54,555	**707.8**
Total assets	**985,839**	956,792	**9,354.2**
Total net assets	**600,797**	586,537	**5,700.7**
Net worth[2]	**599,677**	585,243	**5,690.1**
Net worth ratio[3]	**60.8%**	61.2%	**60.8%**
Net worth per share (Yen/US$)[4]	**1,169.58**	1,120.29	**11.10**
Net income per share (Yen/US$)[5]	**144.99**	104.44	**1.38**
Net income per share, fully diluted (Yen/US$)	**144.84**	104.39	**1.37**

Notes:

1. *The Company changed its fiscal year end from March 31 to December 31 from the fiscal year ended December 31, 2012.*
2. *Net worth is net assets, excluding minority interests and stock acquisition rights.*
3. *The net worth ratio is defined as net worth divided by total assets.*
4. *Net worth per share is computed based on the number of shares outstanding at the end of the periods excluding treasury stock.*
5. *Net income per share is computed based on the weighted average number of shares outstanding during each respective period.*

Note for This News Release:
U.S. dollar amounts represent translations using the approximate exchange rate on December 30, 2013 of 105.39 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:
Sadanao Kawashima
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. Business Results for the Fiscal Year

(Billions of yen, except per share data)

	FY2013	(For reference) Restated FY2012[1]	Adjusted growth[2]	FY2012[3]
Net sales	**1,315.2**	1,220.4	7.8%	1,012.6
Operating income	**124.7**	111.8	11.5%	101.6
Ordinary income	**128.1**	114.1	12.2%	104.2
Net income	**64.8**	53.1	21.9%	52.8
Net income per share (Yen)	**126.03**	101.77	23.8%	101.12
Net income per share, fully diluted (Yen)	**125.89**	101.73	23.7%	101.08

Notes:

1. *"(For reference) Restated FY2012" is the same period of the previous year (January 1 to December 31, 2012) for the purpose of comparison with FY2013 (January 1 to December 31, 2013).*
2. *"Adjusted growth" presents comparisons with restated FY2012.*
   (Restated FY2012 is January 1, 2012 to December 31, 2012 for both Kao Corporation and its subsidiaries whose fiscal year end was previously March 31 and for subsidiaries whose fiscal year end was December 31.)
3. *The Company changed its fiscal year end from March 31 to December 31 from the fiscal year ended December 31, 2012. FY2012 was April 1, 2012 to December 31, 2012 for Kao Corporation and its subsidiaries whose fiscal year end was previously March 31 and January 1, 2012 to December 31, 2012 for subsidiaries whose fiscal year end was December 31.*

The following rates of increase or decrease are comparisons with restated FY2012.

1.1.1.1. Overall Business Trends during the Fiscal Year

During the fiscal year ended December 31, 2013, a weak recovery of the overall global economy continued. As the tempo of economic expansion moderated in emerging nations, the United States showed a recovery trend and signs of an upturn became evident in Europe, although weakness persisted. The Japanese economy gradually recovered as personal consumption picked up due to a sense of expectation regarding government economic measures. The household and personal care products market in Japan, a key market for the Kao Group, grew by 2% on a value basis compared with the period from January to December 2012, and a sense emerged that the decline in consumer purchase prices had bottomed out. The cosmetics market in Japan fell short of the level of restated FY2012.

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

* *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."*

Kanebo Cosmetics Inc., Lissage Ltd. and e'quipe, Ltd. of the Kao Group announced a voluntary recall on July 4, 2013 due to the confirmation of cases of white blotches appearing on the skin of consumers who have used brightening products containing the ingredient Rhododenol that are manufactured and sold by the three companies because of the possibility of a connection between the symptoms and the products. In addition to conducting a thorough recall of the relevant products, the companies are working to gain an understanding of the conditions of people who are experiencing symptoms and to support their recovery. Moreover, the Kao Group is working to prevent a recurrence. A total of 12.1 billion yen related to the voluntary recall consisted of a decrease of 2.4 billion yen in gross profit due to factors including the deduction from net sales of goods returned from retailers and 9.7 billion yen in expenditures, including an estimated portion recorded as other expenses, under extraordinary loss.

Net sales increased 7.8% compared with restated FY2012 to 1,315.2 billion yen. Excluding the effect of currency translation, net sales would have increased 2.1%. In the Consumer Products Business in Japan, sales of each business were steady excluding the impact of the volunatry recall, due in part to market growth, new product launches and further strengthening of sales promotion activities. In Asia, sales were strong in the Human Health Care Business, which includes sanitary products, and the Fabric and Home Care Business, which includes laundry detergents. In the Chemical Business, excluding the effect of currency translation, sales decreased compared with restated FY2012 due to the impact of decreased demand from customer industries and fluctuations in selling prices in connection with lower prices for natural fats and oils used as raw materials.

Operating income increased 12.9 billion yen compared with restated FY2012 to 124.7 billion yen, despite recording expenses related to the voluntary recall, due to the effect of increased sales of the Consumer Products Business in Japan and Asia in addition to factors including cost reduction activities and a decrease in depreciation and amortization expenses, and ordinary income increased 13.9 billion yen compared with restated FY2012 to 128.1 billion yen. Net income increased 11.7 billion yen compared with restated FY2012 to 64.8 billion yen despite recording extraordinary loss and other factors.

Operating income before amortization of goodwill and other items related to acquisitions

(EBITA) increased 11.0 billion yen compared with restated FY2012 to 154.8 billion yen, which is equivalent to 11.8% of net sales.

Net income per share was 126.03 yen, an increase of 24.26 yen, or 23.8%, from 101.77 yen in restated FY2012.

Economic value added (EVA*), which the Kao Group uses as a management indicator, was higher than restated FY2012, reflecting an increase in net operating profit after tax (NOPAT) and efforts to reduce invested capital, including shareholder returns through stock repurchases.

**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 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	92.57 (79.75)	99.23 (79.81)	98.06 (78.12)	102.11 (82.79)
Yen/Euro	122.02 (106.31)	129.56 (101.20)	130.72 (98.15)	139.93 (108.18)

Note: Figures in parentheses represent the exchange rates for the same quarter of restated FY2012.

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1.1.1.2. Trends by Segment for the Fiscal Year

Summary of Results by Business Segment

Consumer Products Business

Sales increased 7.1% compared with restated FY2012 to 1,091.9 billion yen. Excluding the effect of currency translation, sales would have increased 2.9%.

In Japan, sales increased 2.8% to 866.4 billion yen. Sales grew in a relatively stable market environment as the Kao Group launched new and improved products in response to changing consumer lifestyles and social issues such as the environment, health consciousness and the aging society, and enhanced proposal-based sales, among other measures. On the other hand, sales of Kanebo Cosmetics were impacted by returns from retailers and self-imposed cutbacks in marketing activities in connection with the voluntary recall of brightening products containing the ingredient Rhododenol.

In Asia, sales increased 33.3% to 116.4 billion yen. Excluding the effect of currency translation, sales would have increased 11.0%. Steady growth continued as a result of integrated management in Asia, including Japan, and the Kao Group carried out aggressive measures including collaboration with retailers, utilization of wholesale channels, and expansion of sales of laundry detergents. In China, the Kao Group launched baby diapers and laundry detergent targeting middle-class consumers.

In the Americas, sales increased 21.7% to 68.9 billion yen. Excluding the effect of currency translation, sales would have increased 0.5%. Sales of improved skin care products grew.

In Europe, sales increased 26.0% to 72.1 billion yen. Excluding the effect of currency translation, sales would have increased 1.0%. Sales of professional hair care products were steady.

Operating income increased 9.6 billion yen compared with restated FY2012 to 103.0 billion yen due to the effect of increased sales as a result of strong performance in Japan and Asia in addition to factors including a decrease in depreciation and amortization expenses and more efficient management of expenses.

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 6.0% compared with restated FY2012 to 570.3 billion yen. Excluding the effect of currency translation, sales would have increased 0.2%.

Sales of cosmetics decreased 1.1% compared with restated FY2012 to 257.1 billion yen. Excluding the effect of currency translation, sales would have decreased 3.4%.

In Japan, sales decreased compared with restated FY2012, due in part to the impact of returns from retailers and self-imposed cutbacks in marketing activities in connection with the voluntary recall of Kanebo Cosmetics brightening products containing the ingredient Rhododenol. In a contracting market, the Kao Group continued to work to reinforce focal brands, with growth in sales of counseling brands *SOFINA Primavista* base makeup and the renewed *GRACE SOFINA* skin care line, as well as self-selection brands *KATE* makeup and *Allie* UV care. Outside Japan, sales increased compared with restated FY2012, excluding the effect of currency translation.

Sales of skin care products increased compared with restated FY2012. In Japan, sales increased with growth in sales of *Bioré* facial cleansers and UV care products and strong performance by *Bioré U* body cleanser, which added new scented offerings, and *Curél* derma care products. In Asia, *Bioré* facial and body cleansers performed strongly and sales grew. In the Americas, an improved version of *Jergens Natural Glow* sunless self-tanning hand and body lotion performed steadily.

Sales of hair care products were on par with restated FY2012. In Japan, shampoos and conditioners were on a recovery track as new products performed steadily and new hair styling products performed well, but hair coloring products were impacted by market contraction. In Asia, sales decreased compared with restated FY2012 excluding the effect of currency translation amid severe competitive conditions. In the Americas and Europe, sales of the *Goldwell* professional hair care brand increased.

Operating income was impacted by the voluntary recall but increased 3.8 billion yen compared with restated FY2012 to 23.9 billion yen, due in part to the effect of increased sales and a decrease in depreciation and amortization expenses. Operating income before amortization of goodwill and other items related to acquisitions (EBITA) increased 2.0 billion yen compared with restated FY2012 to 54.0 billion yen, which is equivalent to 9.5% of sales.

Human Health Care Business

Sales increased 11.1% compared with restated FY2012 to 210.6 billion yen. Excluding the effect of currency translation, sales would have increased 7.8%.

Sales of food and beverage products increased compared with restated FY2012, due in part to strong sales of *Healthya Coffee*, launched in Japan in April 2013 from the *Healthya* series of functional drinks that promote body fat utilization.

Sales of sanitary products increased compared with restated FY2012. In the *Laurier* brand of sanitary napkins, sales of high-value-added products such as *Laurier F*, which protects skin from dampness and chafing, increased in Japan with the effect of the launch of improved products, and sales of the *Laurier* brand increased in Asia, mainly in Indonesia and Thailand.

Sales of *Merries* baby diapers were strong in Japan and also grew in China and Russia. In China, at the beginning of the fiscal year the Kao Group began sales of locally manufactured products targeting middle-class consumers and worked to expand sales.

Sales of personal health products increased compared with restated FY2012. Sales of oral care products increased compared with restated FY2012 due in part to sales of new high-value-added products. Bath additives sold strongly and sales of *Megurhythm* steam thermo power pads also increased substantially.

Operating income increased 3.2 billion yen compared with restated FY2012 to 16.9 billion yen due to more efficient management of expenses in addition to the effect of increased sales.

Fabric and Home Care Business

Sales increased 6.5% compared with restated FY2012 to 311.0 billion yen. Excluding the effect of currency translation, sales would have increased 4.5%.

Sales of fabric care products increased compared with restated FY2012. In Japan, the Kao Group worked to highlight the reduced laundry time and environmental appeal of conserving water, electricity and resources with the *Neo* series, which includes *Ultra Attack Neo* ultra-concentrated liquid laundry detergent. In August 2013, the Kao Group launched *Ultra Attack Neo*, which effectively removes stains and odors in just five minutes of washing time as a proposal for use with a reduced-time washing function in response to the social trend toward an increase in two-income households, and expanded the number of users, including users of *Attack Neo Antibacterial EX Power*, which has strong deodorizing and antibacterial properties. In addition, the Kao Group stimulated the powder laundry detergent market with the April 2013 launch of a refill product for *Attack* powder laundry detergent that reduces environmental impact. *Flair Fragrance* fabric softener and *Wide Haiter EX Power*, a fabric bleach for color garments with a powerful deodorizing function, performed well. Sales grew in Asia as *Attack* laundry detergent performed strongly in Indonesia and Thailand and the Kao Group stimulated the markets in Taiwan and Hong Kong with the launch of a liquid laundry detergent with a strengthened antibacterial function.

Sales of home care products increased compared with restated FY2012. In Japan, *Kitchen Haiter* bleach performed strongly. Sales of household cleaners increased with new products such as *Bath Magiclean Aroma Deodorizer Plus* and *Toilet Magiclean Aroma Deodorizer Plus*. In addition, the Kao Group launched a 3D adsorbent dry sheet with more fibers for *Quickle Wiper* household cleaning sheets, and sales were strong.

Operating income increased 2.6 billion yen compared with restated FY2012 to 62.2 billion yen due to the effect of increased sales and cost reduction activities.

Chemical Business

Demand increased in certain customer industries in Japan, including in export-related industries due to the depreciation of the yen and in construction-related industries due to reconstruction demand following the Great East Japan Earthquake and demand in advance of the April 2014 increase in the consumption tax rate. However, sales were impacted by selling price adjustments in connection with lower prices for natural fats and oils used as raw materials and the economic slump in Europe. As a result of these factors, sales were 261.2 billion yen, an increase of 10.5% compared with restated FY2012, including the impact of the depreciation of the yen on currency translation. However, excluding the effect of currency translation, sales would have decreased 1.0%.

In oleo chemicals, the Kao Group expanded its facilities for fatty alcohols and increased sales volume. However, sales were impacted by a drop in demand from customer industries and fluctuations in selling prices due to lower prices for natural fats and oils used as raw materials. In performance chemicals, sales were firm as the Kao Group worked to develop and expand sales of high-value-added products with reduced environmental impact. Specialty chemicals were impacted by the economic downturn and structural changes in the personal computer market.

Operating income increased 3.4 billion yen compared with restated FY2012 to 21.5 billion yen, despite the impact of lower demand from customer industries, as the Kao Group worked to increase sales volume and reduce costs.

1.1.2. Forecast for the Fiscal Year Ending December 31, 2014

(Billions of yen, except per share data)

	FY2014 (Forecast)	FY2013 (Actual)	Growth
Net sales	1,370.0	1,315.2	4.2%
Operating income	130.0	124.7	4.3%
Ordinary income	133.0	128.1	3.9%
Net income	75.0	64.8	15.8%
Net income per share (Yen)	146.44	126.03	16.2%

1.1.2.1. Forecast of Overall Business Results for the Fiscal Year Ending December 31, 2014

Continued recovery, albeit weak, is forecast for the global economy, although there are concerns about the risk of a downturn due to factors including the impact of the tapering of quantitative easing in the United States, the public debt problem in Europe and the economic outlook in emerging nations. In Japan, although economic recovery is expected to continue, underpinned by the effects of economic measures, there is also a possibility of impact from the increase in the consumption tax rate and an economic downturn overseas, and the outlook for the operating environment remains unclear.

Amid these circumstances, the Kao Group will accurately respond to various changes in the operating environment of the Consumer Products Business as it aims to achieve sustained profitable growth globally with consumer-driven, high-value-added products. In the Chemical Business, the Kao Group will work to strengthen global operations and carry out measures such as developing products with a reduced environmental impact. The Kao Group forecasts that net sales will increase 4.2% year on year to 1,370.0 billion yen. 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.

As for raw material prices, although petrochemical prices are stable, prices of natural oils and fats are forecast to rise. In addition, the Kao Group will work to continue price adjustments and cost reduction activities, while at the same time it will proactively invest for global business development to achieve the Kao Group Mid-term Plan 2015 (K15). Based on these assumptions, the Kao Group forecasts a 4.3% increase in operating income to 130.0 billion yen, a 3.9% increase in ordinary income to 133.0 billion yen, and a 15.8% increase in net income to 75.0 billion yen.

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, 2014

In the Consumer Products Business in Japan, despite the expected impact of an increase in the consumption tax rate, 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 North America and Europe. In this situation, the Kao Group will take the following actions to create strong brands based on a high level of safety and reliability.

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. Overseas, the Kao Group will work to develop high-value-added products that incorporate its original technologies and cultivate and strengthen core brands.

The Kao Group forecasts that sales in this business will increase 2.8% year on year to 586.0 billion yen.

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 use products approved as Foods for Specified Health Uses that are differentiated by their high level of functional health value in order to further expand its base of loyal users. At the same time, it will offer a health support solutions program 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 reassurance, and will expand production capacity to deal with increases in demand. In China, 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 8.2% year on year to 228.0 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 a refill product for powder laundry detergent. In China and other countries in Asia, the Kao Group will work to develop and nurture products that incorporate its technologies to meet local consumer needs.

The Kao Group forecasts that sales in this business will increase 2.2% year on year to 318.0 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 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, where growth is forecast in the market for products related to information materials, the Kao Group will work to offer products that anticipate customer trends.

In addition, the Kao Group will work to expand sales by opening up growth markets such as the BRICs countries while developing new materials using unique, 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 5.7% year on year to 276.0 billion yen.

1.1.2.3. Underlying Assumptions of the Forecast for the Fiscal Year Ending December 31, 2014

The above forecast was made assuming translation rates of one U.S. dollar to 100 yen and one euro to 135 yen.

Please note that although there is potential for supply-and-demand-related volatility in prices of natural oils and fats and petrochemicals due to growth in demand from emerging nations, abnormal weather conditions and other factors, assumptions for raw material prices, including for natural oils and fats, are based on information currently available to the Kao Group.

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1.2. Analysis of Financial Condition

Analysis of Assets, Liabilities, Net Assets and Cash Flow

1.2.1. Status of Assets, Liabilities, Net Assets and Cash Flow for the Fiscal Year Ended December 31, 2013

Summary of Consolidated Financial Condition

	Billions of yen			Millions of U.S. dollars
	As of Dec. 31, 2013	As of Dec. 31, 2012	Incr./ (Dcr.)	**As of Dec. 31, 2013**
Total assets	**1,133.3**	1,030.3	102.9	**10,753.2**
Total net assets	**642.6**	596.1	46.6	**6,097.7**
Net worth ratio	**55.5%**	56.6%	-	**55.5%**
Net worth per share (Yen/US$)	**1,227.54**	1,116.61	110.93	**11.65**
Total debt	**101.4**	103.2	(1.8)	**962.0**

Summary of Consolidated Cash Flows

	Billions of yen		Millions of U.S. dollars
	FY2013 Jan. to Dec. 2013	FY2012 Apr. to Dec. 2012	**FY2013 Jan. to Dec. 2013**
Net cash provided by operating activities	**178.7**	97.4	**1,696.0**
Net cash used in investing activities	**(57.8)**	(44.6)	**(548.2)**
Free cash flow*	**121.0**	52.7	**1,147.8**
Net cash used in financing activities	**(67.5)**	(32.0)	**(640.1)**

**Free cash flow is the sum of net cash provided by operating activities and net cash used in investing activities.*

Note: The Company changed its fiscal year end from March 31 to December 31 from the fiscal year ended December 31, 2012. FY2012 was April 1, 2012 to December 31, 2012 for Kao Corporation and its subsidiaries whose fiscal year end was previously March 31 and January 1, 2012 to December 31, 2012 for subsidiaries whose fiscal year end was December 31.

Total assets increased 102.9 billion yen from the end of fiscal 2012 to 1,133.3 billion yen. The principal increases in assets were a 27.0 billion yen increase in cash and time deposits, a 17.6 billion yen increase in notes and accounts receivable – trade, a 32.7 billion yen increase in short-term investments, a 14.7 billion yen increase in merchandise and finished goods and a 24.9 billion yen increase in property, plant and equipment. The principal decrease in assets was a 23.3 billion yen decrease in intangible assets due to the progress of amortization of trademarks and other intellectual property rights and goodwill.

Total liabilities increased 56.4 billion yen from the end of fiscal 2012 to 490.6 billion yen.

The principal increases in liabilities were a 10.5 billion yen increase in notes and accounts payable – trade, a 20.0 billion yen increase in current portion of long-term loans, a 3.7 billion yen increase in notes and accounts payable – other, a 16.7 billion yen increase in accrued expenses, a 20.7 billion yen increase in income taxes payable and a 3.1 billion yen increase in liability for employee retirement benefits. The principal decreases in liabilities were a 1.8 billion yen decrease in short-term loans and a 20.0 billion yen decrease in long-term loans.

Total net assets increased 46.6 billion yen from the end of fiscal 2012 to 642.6 billion yen. The principal increases in net assets were net income totaling 64.8 billion yen and foreign currency translation adjustments of 43.5 billion yen. The principal decreases in net assets were a 30.0 billion yen decrease due to purchase of treasury stock and payments of dividends from retained earnings totaling 32.6 billion yen. In June 2013, Kao Corporation retired treasury stock.

As a result, the net worth ratio (defined as net worth divided by total assets) was 55.5% compared with 56.6% at the end of fiscal 2012.

Net cash provided by operating activities totaled 178.7 billion yen. The principal increases in net cash were income before income taxes and minority interests of 114.9 billion yen, depreciation and amortization of 77.3 billion yen, change in trade payables of 3.5 billion yen and change in accounts payable – other and accrued expenses of 16.8 billion yen. The principal decreases in net cash were income taxes paid of 29.8 billion yen and change in inventories of 5.4 billion yen.

Net cash used in investing activities totaled 57.8 billion yen. This primarily consisted of 55.7 billion yen for purchase of property, plant and equipment and 4.9 billion yen for purchase of intangible assets.

Free cash flow, the sum of net cash provided by operating activities and net cash used in investing activities, was 121.0 billion yen.

Net cash used in financing activities totaled 67.5 billion yen. The principal decreases in net cash were 30.0 billion yen for purchase of treasury stock and 35.0 billion yen for payments of cash dividends, including to minority shareholders. In June 2013, Kao Corporation redeemed 50.0 billion yen in bonds and issued bonds in the same amount in the same month to maintain an appropriate capital cost ratio and to enhance its financial base for investment in growth.

The balance of cash and cash equivalents at December 31, 2013 increased 67.2 billion yen compared with the end of fiscal 2012 to 227.6 billion yen.

1.2.2. Forecast of Assets, Liabilities, Net Assets and Cash Flow for the Fiscal Year Ending December 31, 2014

Net cash provided by operating activities is forecast to be approximately 150.0 billion yen, due in part to an increase in income before income taxes and minority interests.

In net cash used in investing activities, the Kao Group plans capital expenditures of approximately 55.0 billion yen, 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 net cash used in 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, 2014 is forecast to increase approximately 50.0 billion yen from the previous fiscal year end to approximately 280.0 billion yen.

Cash Flow Indices

	FY2013	FY2012	FY2011	FY2010	FY2009
Net worth / Total assets (%)	**55.5**	56.6	54.3	51.7	53.0
Market capitalization / Total assets (%)	**149.6**	113.9	114.3	105.9	119.2
Interest-bearing debt / Operating cash flow (years)	**0.6**	1.2	0.9	1.1	1.1
Operating cash flow / Interest paid (times)	**148.9**	73.1	51.1	45.4	40.3

Notes:.

1. *Due to a change in the fiscal year end, FY2012 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 statements of cash flows. Interest-bearing debt is all debt included in the consolidated balance sheets on which interest is paid.*

1.3. Basic Policies Regarding Distribution of Profits and Dividends for the Fiscal Years Ended December 31, 2013 and Ending December 31, 2014

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 its scheduled year-end dividend for the fiscal year ended December 31, 2013 of 32.00 yen per share, an increase of 1.00 yen per share compared with the previous fiscal year. Consequently, cash dividends for the fiscal year will increase 2.00 yen per share compared with the previous fiscal year, resulting in a total of 64.00 yen per share. The consolidated payout ratio will be 50.8%.

For the fiscal year ending December 31, 2014, the Company plans to pay total cash dividends of 68.00 yen per share, an increase of 4.00 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 projected consolidated payout ratio is 46.4%.

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1.4. Items Related to Summary Information (Other)

(1) Changes in material subsidiaries during the fiscal year: None

(2) Accounting procedures specific to the preparation of quarterly consolidated financial statements: None

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

(Changes in accounting principles that are difficult to distinguish from changes in accounting estimates)

The method for depreciation of property, plant and equipment (excluding lease assets), which was previously mainly the declining balance method for Kao Corporation and its consolidated subsidiaries in Japan, has been changed to the straight-line method from the fiscal year ended December 31, 2013. The change is due to a reconsideration of factors including the actual conditions of use of the property, plant and equipment of the Kao Group on the occasion of a shift to global integrated management that began in the Beauty Care Business in the Americas and Europe in 2012 and includes the Consumer Products Business in Asia from 2013.

As a result, Kao Corporation has decided that the use of the straight-line method of depreciation is able to more appropriately reflect the corporate activities of the Kao Group because stable operation is expected throughout the period of use due to the extension of product life cycles to establish a global brand.

The impact of this change on operating income, ordinary income and income before income taxes and minority interests for the fiscal year ended December 31, 2013 is immaterial.

(4) Explanatory notes regarding the going concern assumption: None

(5) Information regarding voluntary recall

In connection with the voluntary recall by Kanebo Cosmetics Inc., Lissage Ltd. and e'quipe, Ltd., gross profit decreased 2,400 million yen due to factors including the deduction from net sales of goods returned from retailers, and 9,652 million yen in expenditures, including an estimated portion recorded as other expenses, has been recorded as "Loss related to cosmetics" under extraordinary loss on the consolidated statements of income.

The relevant amount of impact is included in operating income of the "Beauty Care Business" segment in consolidated segment information.

Please note that items in compensation expenses for which actual losses can not be estimated have not been recorded in "Loss related to cosmetics."

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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 continually raises its corporate value on the basis of "profitable growth."

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 segments such as the growing elderly population, and 3) rising interest in environmental issues. The Kao Group sees opportunities for significant progress from these changes, and will work to achieve global growth by promoting ecology-centered management and establishing its corporate identity in line with its corporate message of “Enriching lives, in harmony with nature.”

Regarding business activities, in the Consumer Products Business area, which consists of the three businesses of Beauty Care, Human Health Care, and Fabric and Home Care, and the Chemical Business area, the Kao Group will emphasize research and development to make high-quality, innovative products geared to consumers and customers, a concept referred to within the Group as “*Yoki-Monozukuri*,” and aim 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 society” by resolving social issues and conducting social contribution activities through its business activities.

To realize this vision and increase corporate value, the Kao Group is now implementing Kao Group Mid-term Plan 2015 (K15), with 2013 as the first year.

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

The growth strategies for achieving the plan’s goals are as follows.

1) Expand the Consumer Products Business globally
   Continued substantial expansion is forecast for the growth markets of Asia and other emerging nations. The Kao Group will work to expand its business with product development that incorporates its original technologies, centered on products in the domain of “cleanliness” including laundry detergents, baby diapers and sanitary napkins targeting the growing middle-class consumer segment.

   In North America, Europe and other mature markets, the Kao Group will work on high-value-added products that incorporate its original technologies in the fields of cosmetics, skin care and hair care, and professional hair care.

2) Further Reinforce the Fabric and Home Care Business, and accelerate profitable growth in the Beauty Care and Human Health Care Businesses

In the Fabric and Home Care Business, its core profit base, the Kao Group will work to maintain or capture the top share in each product category.

In addition to strengthening the cosmetics business in the Beauty Care Business, the Kao Group will aim for greater growth and expansion with high-value-added products and services focused on health and the aging society in the Human Health Care Business.

3) Reinforce the Chemical Business
In the Chemical Business, the Kao Group will aim for rapid progress toward an eco-chemical business through eco-innovation.

In addition, the Kao Group will strengthen synergy with the Consumer Products Business.

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

2.4. Issues for Management

On July 4, 2013, Kanebo Cosmetics Inc., Lissage Ltd. and e'quipe, Ltd. of the Kao Group announced a voluntary recall of certain of their brightening products.

In addition to promoting a thorough recall of the relevant products, the Kao Group views the tasks before it as responding wholeheartedly with individual visits to people who have reported symptoms and making efforts to prevent recurrence while working to ensure greater safety and reliability. The entire Kao Group will continue to deal seriously with these matters.

With intensifying market competition, changing market structure and volatility in raw material market conditions and exchange rates, the operating environment remains severe and uncertain.

In addition, changes in consumer attitudes in everyday life and associated changes in their purchasing attitudes are occurring and concerns are rising regarding social issues such as increasing environmental awareness and health consciousness, and the aging society.

By steadily carrying out the growth strategies of Kao Group Mid-term Plan 2015 (K15), which was formulated with this operating environment in mind, the Kao Group will deal with these various issues, and work for both sustained “profitable growth” through the development of high-value-added products and “contributions to society” as it aims to become a company with a global presence.

Consolidated Balance Sheets

Millions of yen

	FY2013 Dec. 31, 2013	FY2012 Dec. 31, 2012
Assets		
Current assets		
Cash and time deposits	126,314	99,334
Notes and accounts receivable - trade	181,882	164,250
Short-term investments	90,145	57,443
Merchandise and finished goods	99,453	84,712
Work in process	11,340	10,789
Raw materials and supplies	28,315	26,706
Prepaid expenses	6,300	6,123
Deferred tax assets	22,736	17,002
Other	29,149	28,397
Allowance for doubtful receivables	(1,669)	(1,349)
Total current assets	**593,965**	**493,407**
Fixed assets		
Property, plant and equipment		
Buildings and structures	354,012	332,690
Accumulated depreciation	(266,783)	(254,505)
Buildings and structures, net	87,229	78,185
Machinery, equipment and vehicles	661,155	631,347
Accumulated depreciation	(578,682)	(558,596)
Machinery, equipment and vehicles, net	82,473	72,751
Tools, furniture and fixtures	86,792	83,747
Accumulated depreciation	(73,810)	(71,377)
Tools, furniture and fixtures, net	12,982	12,370
Land	64,900	64,807
Lease assets	12,049	11,889
Accumulated depreciation	(5,294)	(4,435)
Lease assets, net	6,755	7,454
Construction in progress	22,945	16,777
Total property, plant and equipment	277,284	252,344
Intangible assets		
Goodwill	152,286	159,165
Trademarks	28,498	41,851
Other	11,834	14,907
Total intangible assets	192,618	215,923
Investments and other assets		
Investment securities	18,050	14,822
Long-term loans	1,389	1,567
Long-term prepaid expenses	15,542	14,254
Deferred tax assets	23,985	28,282
Other	11,177	10,176
Allowance for doubtful receivables	(734)	(428)
Total investments and other assets	69,409	68,673
Total fixed assets	**539,311**	**536,940**
Total assets	**1,133,276**	**1,030,347**

Consolidated Balance Sheets

Millions of yen

	FY2013 Dec. 31, 2013	FY2012 Dec. 31, 2012
Liabilities		
Current liabilities		
Notes and accounts payable - trade	115,997	105,472
Short-term loans	1,278	3,115
Current portion of bonds	-	50,000
Current portion of long-term loans	20,009	7
Accounts payable - other	56,139	52,485
Accrued expenses	91,117	74,449
Income taxes payable	32,322	11,658
Other	21,452	18,688
Total current liabilities	**338,314**	**315,874**
Long-term liabilities		
Bonds	50,000	-
Long-term loans	30,094	50,066
Liability for employee retirement benefits	48,847	45,717
Other	23,381	22,607
Total long-term liabilities	**152,322**	**118,390**
Total liabilities	**490,636**	**434,264**
Net assets		
Shareholders' equity		
Common stock	85,424	85,424
Capital surplus	109,561	109,561
Retained earnings	471,383	468,019
Treasury stock, at cost	(9,397)	(8,985)
Total shareholders' equity	**656,971**	**654,019**
Accumulated other comprehensive income		
Unrealized gain on available-for-sale securities	4,733	2,447
Deferred gain (loss) on derivatives under hedge accounting	12	6
Foreign currency translation adjustments	(28,416)	(71,872)
Post retirement liability adjustments for foreign consolidated subsidiaries	(4,590)	(1,901)
Total accumulated other comprehensive income	**(28,261)**	**(71,320)**
Stock acquisition rights	**1,120**	**1,294**
Minority interests	**12,810**	**12,090**
Total net assets	**642,640**	**596,083**
Total liabilities and net assets	**1,133,276**	**1,030,347**

Consolidated Statements of Income

Millions of yen

	FY2013 Jan. - Dec.	FY2012 * Apr. - Dec.
Net sales	**1,315,217**	**1,012,595**
Cost of sales	572,769	442,522
Gross profit	**742,448**	**570,073**
Selling, general and administrative expenses	617,792	468,506
Operating income	**124,656**	**101,567**
Non-operating income		
Interest income	955	838
Dividend income	178	173
Equity in earnings of nonconsolidated subsidiaries and affiliates	2,272	1,710
Other	2,846	2,256
Total non-operating income	6,251	4,977
Non-operating expenses		
Interest expense	1,213	1,181
Foreign currency exchange loss	320	280
Other	1,321	869
Total non-operating expenses	2,854	2,330
Ordinary income	**128,053**	**104,214**
Extraordinary gain		
Gain on sales of fixed assets	68	133
Gain on sales of stock of subsidiary	-	270
Gain on transfer of business	350	-
Other	475	245
Total extraordinary gain	893	648
Extraordinary loss		
Loss on sales/disposals of fixed assets	2,713	2,215
Loss related to cosmetics	9,652	-
Other	1,642	343
Total extraordinary loss	14,007	2,558
Income before income taxes and minority interests	**114,939**	**102,304**
Income taxes		
Income taxes - current	50,752	32,550
Income taxes - deferred	(1,619)	15,619
Total income taxes	49,133	48,169
Income before minority interests	**65,806**	**54,135**
Minority interests	1,042	1,370
Net income	**64,764**	**52,765**

** The Company changed its fiscal year end from March 31 to December 31 from the fiscal year ended December 31, 2012. In the Consolidated Statements of Income, Consolidated Statements of Comprehensive Income, Major Items of Consolidated Selling, General and Administrative Expenses, Consolidated Statements of Changes in Equity, Consolidated Statements of Cash Flows and Consolidated Segment Information, FY2012 was April 1, 2012 to December 31, 2012 for Kao Corporation and its subsidiaries whose fiscal year end was previously March 31 and January 1, 2012 to December 31, 2012 for subsidiaries whose fiscal year end was December 31.*

Consolidated Statements of Comprehensive Income

Millions of yen

	FY2013 Jan. - Dec.	FY2012 * Apr. - Dec.
Income before minority interests	**65,806**	**54,135**
Other comprehensive income		
Adjustments for unrealized gains or losses on available-for-sale securities	2,044	141
Foreign currency translation adjustments	44,201	25,315
Share in other comprehensive income of associates applied for equity method	335	137
Post retirement liability adjustments for foreign consolidated subsidiaries	(2,759)	(204)
Other comprehensive income	43,821	25,389
Comprehensive income	**109,627**	**79,524**
Attributable to:		
Shareholders of Kao Corporation	107,823	76,956
Minority interests	1,804	2,568

Major Items of Consolidated Selling, General and Administrative Expenses

Millions of yen

	FY2013 Jan. - Dec.	FY2012 * Apr. - Dec.
Freight/warehouse	77,253	56,792
Advertising	86,406	67,045
Sales promotion	69,554	52,101
Salaries and bonuses	130,265	97,738
Research and development	49,650	37,493

Consolidated Statements of Changes in Equity

Millions of yen

FY2013 Jan. - Dec.	Shareholders' equity					Accumulated other comprehensive income					Stock acquisition rights	Minority interests	Total net assets
	Common stock	Capital surplus	Retained earnings	Treasury stock, at cost	**Total shareholders' equity**	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	**Total accumulated other comprehensive income**			
Balance at beginning of current period	85,424	109,561	468,019	(8,985)	**654,019**	2,447	6	(71,872)	(1,901)	**(71,320)**	1,294	12,090	**596,083**
Changes of items during the period													
Cash dividends			(32,564)		**(32,564)**								**(32,564)**
Net income			64,764		**64,764**								**64,764**
Purchase of treasury stock				(30,038)	**(30,038)**								**(30,038)**
Disposal of treasury stock			(79)	888	**809**								**809**
Retirement of treasury stock			(28,738)	28,738	**-**								**-**
Change of scope of consolidation			(19)		**(19)**								**(19)**
Net changes of items other than shareholders' equity during the period						2,286	6	43,456	(2,689)	**43,059**	(174)	720	**43,605**
Total changes of items during the period	-	-	3,364	(412)	**2,952**	2,286	6	43,456	(2,689)	**43,059**	(174)	720	**46,557**
Balance at end of period	85,424	109,561	471,383	(9,397)	**656,971**	4,733	12	(28,416)	(4,590)	**(28,261)**	1,120	12,810	**642,640**

FY2012 * Apr. - Dec.	Shareholders' equity					Accumulated other comprehensive income					Stock acquisition rights	Minority interests	Total net assets
	Common stock	Capital surplus	Retained earnings	Treasury stock, at cost	**Total shareholders' equity**	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	**Total accumulated other comprehensive income**			
Balance at beginning of current period	85,424	109,561	447,619	(9,064)	**633,540**	2,283	(3)	(96,094)	(1,697)	**(95,511)**	1,238	10,437	**549,704**
Changes of items during the period													
Cash dividends			(32,353)		**(32,353)**								**(32,353)**
Net income			52,765		**52,765**								**52,765**
Purchase of treasury stock				(6)	**(6)**								**(6)**
Disposal of treasury stock			(12)	85	**73**								**73**
Net changes of items other than shareholders' equity during the period						164	9	24,222	(204)	**24,191**	56	1,653	**25,900**
Total changes of items during the period	-	-	20,400	79	**20,479**	164	9	24,222	(204)	**24,191**	56	1,653	**46,379**
Balance at end of period	85,424	109,561	468,019	(8,985)	**654,019**	2,447	6	(71,872)	(1,901)	**(71,320)**	1,294	12,090	**596,083**

Consolidated Statements of Cash Flows

Millions of yen

	FY2013 Jan. - Dec.	FY2012 * Apr. - Dec.
Operating activities:		
Income before income taxes and minority interests	114,939	102,304
Adjustments for:		
Depreciation and amortization	77,297	59,788
(Gain) loss on sales and retirement of fixed assets	2,644	2,082
(Gain) loss on transfer of business	(350)	-
Interest and dividend income	(1,133)	(1,011)
Interest expense	1,213	1,181
Unrealized foreign currency exchange (gain) loss	381	(1,389)
Equity in (earnings) losses of nonconsolidated subsidiaries and affiliates	(2,272)	(1,710)
Change in trade receivables	(2,415)	(12,395)
Change in inventories	(5,405)	5,083
Change in trade payables	3,505	(9,637)
Change in accounts payable - other and accrued expenses	16,819	(117)
Other, net	1,481	(7,885)
Subtotal	206,704	136,294
Interest and cash dividends received	3,070	2,499
Interest paid	(1,200)	(1,331)
Income taxes paid	(29,829)	(40,105)
Net cash provided by operating activities	**178,745**	**97,357**
Investing activities:		
Payments into time deposits	(4,802)	(1,939)
Proceeds from withdrawal of time deposits	7,190	4,400
Purchase of short-term investments	(7,998)	(10,000)
Proceeds from the redemption and sales of short-term investments	13,000	5,078
Purchase of property, plant and equipment	(55,672)	(34,555)
Purchase of intangible assets	(4,882)	(2,595)
Payments for long-term prepaid expenses	(5,316)	(5,091)
Change in short-term loans, net	823	(293)
Payments for long-term loans	(419)	(470)
Purchase of investments in subsidiaries resulting in change in scope of consolidation	(891)	-
Other, net	1,189	824
Net cash used in investing activities	**(57,778)**	**(44,641)**
Financing activities:		
Change in short-term loans, net	(2,311)	717
Proceeds from long-term loans	19	217
Repayments of long-term loans	(9)	(205)
Proceeds from issuance of bonds	50,000	-
Redemption of bonds	(50,000)	-
Purchase of treasury stock	(30,039)	(7)
Payments of cash dividends	(33,824)	(31,163)
Payments of cash dividends to minority shareholders	(1,161)	(2,350)
Other, net	(134)	763
Net cash used in financing activities	**(67,459)**	**(32,028)**
Translation adjustments on cash and cash equivalents	**13,032**	**9,702**
Net increase (decrease) in cash and cash equivalents	**66,540**	**30,390**
Cash and cash equivalents, beginning of period	**160,435**	**129,737**
Cash and cash equivalents from newly consolidated subsidiaries, increase	**623**	**308**
Cash and cash equivalents, end of period	**227,598**	**160,435**

Consolidated Segment Information

Millions of yen

FY2013 Jan. - Dec.	Consumer Products Business				Chemical Business	Total	Reconciliations	Consolidated
	Beauty Care Business	Human Health Care Business	Fabric and Home Care Business	Total				
Net sales								
Sales to customers	570,268	210,628	311,023	**1,091,919**	**223,298**	**1,315,217**	-	**1,315,217**
Intersegment sales	-	-	-	-	**37,894**	**37,894**	(37,894)	-
Total	570,268	210,628	311,023	**1,091,919**	**261,192**	**1,353,111**	(37,894)	**1,315,217**
Operating income	23,933	16,850	62,183	**102,966**	**21,509**	**124,475**	181 [1]	**124,656**
% of net sales	4.2	8.0	20.0	9.4	8.2	9.2	-	9.5
Total assets	482,704	130,610	148,936	**762,250**	**245,720**	**1,007,970**	125,306 [2]	**1,133,276**
Depreciation and amortization[3]	32,094	8,993	9,008	**50,095**	**13,373**	**63,468**	-	**63,468**
Amortization of goodwill	13,829	-	-	**13,829**	-	**13,829**	-	**13,829**
Investment for affiliates applied for equity method	3,074	994	1,116	**5,184**	**2,026**	**7,210**	-	**7,210**
Capital expenditure[5]	19,219	13,628	14,699	**47,546**	**16,141**	**63,687**	-	**63,687**

FY2012* Apr. - Dec.	Consumer Products Business				Chemical Business	Total	Reconciliations	Consolidated
	Beauty Care Business	Human Health Care Business	Fabric and Home Care Business	Total				
Net sales								
Sales to customers	444,425	151,977	236,748	**833,150**	**179,445**	**1,012,595**	-	**1,012,595**
Intersegment sales	-	-	-	-	**28,626**	**28,626**	(28,626)	-
Total	444,425	151,977	236,748	**833,150**	**208,071**	**1,041,221**	(28,626)	**1,012,595**
Operating income	21,821	11,548	51,368	**84,737**	**16,813**	**101,550**	17 [1]	**101,567**
% of net sales	4.9	7.6	21.7	10.2	8.1	9.8	-	10.0
Total assets	466,279	112,751	143,177	**722,207**	**217,046**	**939,253**	91,094 [4]	**1,030,347**
Depreciation and amortization[3]	26,365	6,410	6,669	**39,444**	**10,626**	**50,070**	-	**50,070**
Amortization of goodwill	9,718	-	-	**9,718**	-	**9,718**	-	**9,718**
Investment for affiliates applied for equity method	2,660	1,010	1,194	**4,864**	**1,736**	**6,600**	-	**6,600**
Capital expenditure[5]	11,693	8,830	8,701	**29,224**	**12,705**	**41,929**	-	**41,929**

Notes:

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

2 *Includes 152,828 million yen of the Company's financial assets and -27,522 million yen elimination of receivables among reportable segments*

3 *Excludes amortization of goodwill*

4 *Includes 111,393 million yen of the Company's financial assets and -20,299 million yen elimination of receivables among reportable segments*

5 *Includes long-term prepaid expenses*

Consolidated Net Sales Composition

Millions of yen

	FY2013 Jan. - Dec.	Restated FY2012 ** Jan. - Dec.	Adjusted growth % **
Consumer Products Business			
Beauty Care Business	408,594	408,297	0.1
Human Health Care Business	181,911	170,302	6.8
Fabric and Home Care Business	275,876	264,423	4.3
Total Japan	866,381	843,022	2.8
Asia	116,434	87,332	33.3
Americas	68,911	56,644	21.7
Europe	72,150	57,253	26.0
Eliminations	(31,957)	(24,835)	-
Total	**1,091,919**	**1,019,416**	**7.1**
Chemical Business			
Japan	125,616	121,832	3.1
Asia	86,765	75,556	14.8
Americas	39,898	33,558	18.9
Europe	62,259	53,465	16.4
Eliminations	(53,346)	(47,938)	-
Total	**261,192**	**236,473**	**10.5**
Total before Reconciliations	**1,353,111**	**1,255,889**	**7.7**
Reconciliations	(37,894)	(35,530)	-
Consolidated	**1,315,217**	**1,220,359**	**7.8**

** *"Restated FY2012" is the same period of the previous year (January 1 to December 31, 2012) for the purpose of comparison with FY2013 (January 1 to December 31, 2013).*
Adjusted growth presents comparisons with "Restated 2012".
("Restated 2012" is January 1, 2012 to December 31, 2012 for both Kao Corporation and its subsidiaries whose fiscal year end was previously March 31 and for subsidiaries whose fiscal year end was December 31.)

Appendix

Major Products by Reportable Segment

<table>
<tr><th colspan="2">Reportable Segments</th><th colspan="2">Major Products</th></tr>
<tr><td rowspan="8">Consumer Products Business</td><td rowspan="3">Beauty Care Business</td><td>Cosmetics</td><td>Counseling cosmetics,
self-selection cosmetics</td></tr>
<tr><td>Skin care products</td><td>Soaps, facial cleansers,
body cleansers</td></tr>
<tr><td>Hair care products</td><td>Shampoos, conditioners,
hair styling agents,
hair coloring agents</td></tr>
<tr><td rowspan="3">Human Health Care Business</td><td>Food and beverage products</td><td>Beverages</td></tr>
<tr><td>Sanitary products</td><td>Sanitary napkins,
baby diapers</td></tr>
<tr><td>Personal health products</td><td>Bath additives, oral care products,
men's products</td></tr>
<tr><td rowspan="2">Fabric and Home Care Business</td><td>Fabric care products</td><td>Laundry detergents,
fabric treatments</td></tr>
<tr><td>Home care products</td><td>Kitchen cleaning products,
house cleaning products,
paper cleaning products,
commercial-use products</td></tr>
<tr><td colspan="2" rowspan="3">Chemical Business</td><td>Oleo chemicals</td><td>Fatty alcohols, fatty amines,
fatty acids, glycerin,
commercial-use edible fats and oils</td></tr>
<tr><td>Performance chemicals</td><td>Surfactants, plastics additives,
superplasticizers for concrete admixtures</td></tr>
<tr><td>Specialty chemicals</td><td>Toner and toner binder for
copiers and printers, ink and
colorants for inkjet printers,
fragrances and aroma chemicals</td></tr>
</table>