News Release

Kao Corporation
February 3, 2016

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

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

	Net sales				Operating income		
	Billions of yen		Growth %		Billions of yen		
Jan. - Dec.	**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

	Net sales				Operating income		
	Millions of U.S. dollars		Growth %		Millions of U.S. dollars		
Jan. - Dec.	**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

	Billions of yen		Growth	Millions of U.S. dollars	
Jan. - Dec.	**2015**	2014	%	**2015**	2014
Consumer Products					
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)
Total	**1,222.8**	1,154.5	5.9	**10,150.5**	9,583.2
Chemical					
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)
Total	**288.5**	288.0	0.2	**2,394.4**	2,390.8
Total before Reconciliations	**1,511.3**	1,442.5	4.8	**12,544.9**	11,974.0
Reconciliations	**(39.5)**	(40.8)	-	**(327.8)**	(338.7)
Consolidated	**1,471.8**	1,401.7	5.0	**12,217.1**	11,635.3

Reference: Consolidated Results by Geographic Area[1]

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

	Net sales				Operating income		
	Millions of U.S. dollars		Growth %		Millions of U.S. dollars		
Jan. - Dec.	**2015**	2014		Like-for-like [2]	**2015**	2014	Change
Japan	**8,458.7**	8,278.5	2.2	2.2	**1,067.1**	925.0	142.1
Asia	**2,337.0**	2,032.9	15.0	6.1	**165.9**	94.1	71.7
Americas	**1,144.1**	1,031.1	11.0	(0.1)	**57.8**	50.5	7.3
Europe	**1,281.2**	1,262.2	1.5	2.8	**82.0**	32.6	49.4
Total	**13,220.9**	12,604.7	4.9	2.7	**1,372.8**	1,102.3	270.4
Reconciliations	**(1,003.9)**	(969.3)	-	-	**(8.3)**	3.9	(12.2)
Consolidated	**12,217.1**	11,635.3	5.0	2.8	**1,364.5**	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$)	**80.00**	70.00	**0.66**
Total dividend payment amount	**40,158**	35,501	**333.3**
Payout ratio (consolidated)	**40.6%**	44.7%	**40.6%**
Cash dividends / Total net assets (consolidated)	**6.0%**	5.5%	**6.0%**

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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 % [2]	U.S. dollars	Yen	Growth % [2]	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$)[1]	75.78	-	0.63	239.30	-	1.99
Cash dividends per share (Yen/US$)	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.

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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	**1,471.8**	1,401.7	5.0
Operating income	**164.4**	133.3	23.3
Ordinary income	**169.3**	138.8	22.0
Net income	**98.9**	79.6	24.2
Net income per share (Yen)	**197.19**	156.46	26.0
Net income per share, fully diluted (Yen)	**196.92**	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)

<u>Kao Group Mid-term Plan 2015 (K15)</u>

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.

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.

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.

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%.

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.

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.

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	**1,281.9**	1,198.2	83.6	**10,640.6**
Total net assets	**687.1**	672.4	14.7	**5,703.8**
Net worth ratio	**52.7%**	54.9%	-	**52.7%**
Net worth per share (Yen/US$)	**1,347.29**	1,313. 63	33.66	**11.18**
Total debt	**120.1**	101.2	18.9	**997.1**

Summary of Consolidated Cash Flows

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

* *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

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 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[1]	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.

(Remainder of page intentionally left blank.)

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:

<u>Adoption of Accounting Standard for Retirement Benefits</u>

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

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, 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
Assets		
Current assets		
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)
Total current assets	**733,233**	**641,734**
Fixed assets		
Property, plant and equipment		
Buildings and structures	376,714	361,223
Accumulated depreciation	(270,488)	(267,219)
Buildings and structures, net	106,226	94,004
Machinery, equipment and vehicles	711,661	696,451
Accumulated depreciation	(591,438)	(597,907)
Machinery, equipment and vehicles, net	120,223	98,544
Tools, furniture and fixtures	87,605	86,343
Accumulated depreciation	(74,398)	(73,563)
Tools, furniture and fixtures, net	13,207	12,780
Land	64,715	69,445
Lease assets	11,212	11,261
Accumulated depreciation	(6,587)	(5,800)
Lease assets, net	4,625	5,461
Construction in progress	18,734	27,381
Total property, plant and equipment	327,730	307,615
Intangible assets		
Goodwill	127,099	139,941
Trademarks	1,791	15,145
Other	14,832	12,844
Total intangible assets	143,722	167,930
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)
Total investments and other assets	77,184	80,954
Total fixed assets	**548,636**	**556,499**
Total assets	**1,281,869**	**1,198,233**

Consolidated Balance Sheet

Millions of yen

	FY2015 Dec. 31, 2015	FY2014 Dec. 31, 2014
Liabilities		
Current liabilities		
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
Total current liabilities	**377,493**	**380,536**
Long-term liabilities		
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
Total long-term liabilities	**217,243**	**145,304**
Total liabilities	**594,736**	**525,840**
Net assets		
Shareholders' equity		
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)
Total shareholders' equity	**688,015**	**653,950**
Accumulated other comprehensive income		
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
Total accumulated other comprehensive income	**(12,407)**	**4,281**
Stock acquisition rights	**889**	**944**
Minority interests	**10,636**	**13,218**
Total net assets	**687,133**	**672,393**
Total liabilities and net assets	**1,281,869**	**1,198,233**

Consolidated Statement of Income

Millions of yen

	FY2015 Jan. - Dec.	FY2014 Jan. - Dec.
Net sales	**1,471,791**	**1,401,707**
Cost of sales	658,221	632,205
Gross profit	**813,570**	**769,502**
Selling, general and administrative expenses	649,190	636,232
Operating income	**164,380**	**133,270**
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
Ordinary income	**169,273**	**138,784**
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
Income before income taxes and minority interests	**161,579**	**126,761**
Income taxes		
Income taxes - current	49,574	44,316
Income taxes - deferred	12,525	2,023
Total income taxes	62,099	46,339
Income before minority interests	**99,480**	**80,422**
Minority interests	618	832
Net income	**98,862**	**79,590**

Consolidated Statement of Comprehensive Income

Millions of yen

	FY2015 Jan. - Dec.	FY2014 Jan. - Dec.
Income before minority interests	**99,480**	**80,422**
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
Comprehensive income	**81,276**	**102,267**
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 Jan. - Dec.	FY2014 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: Common stock	Shareholders' equity: Capital surplus	Shareholders' equity: Retained earnings	Shareholders' equity: Treasury stock, at cost	Shareholders' equity: **Total shareholders' equity**
Balance at beginning of current period	85,424	109,561	468,684	(9,719)	**653,950**
Cumulative effects of changes in accounting policies			(27,931)		**(27,931)**
Restated balance	85,424	109,561	440,753	(9,719)	**626,019**
Changes of items during the period					
Cash dividends			(37,091)		**(37,091)**
Net income			98,862		**98,862**
Purchase of treasury stock				(54)	**(54)**
Disposal of treasury stock			(390)	1,571	**1,181**
Purchase of shares of consolidated subsidiaries		(902)			**(902)**
Net changes of items other than shareholders' equity during the period					
Total changes of items during the period	-	(902)	61,381	1,517	**61,996**
Balance at end of period	85,424	108,659	502,134	(8,202)	**688,015**

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

Consolidated Statement of Changes in Equity *(Continued)*

Millions of yen

FY2014 Jan. - Dec.	Shareholders' equity				
	Common stock	Capital surplus	Retained earnings	Treasury stock, at cost	**Total shareholders' equity**
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 Jan. - Dec.	FY2014 Jan. - Dec.
Operating activities:		
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)
Cash flows from operating activities	**180,864**	**145,118**
Investing activities:		
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)
Cash flows from investing activities	**(74,020)**	**(63,808)**
Financing activities:		
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
Cash flows from financing activities	**(20,601)**	**(85,022)**
Translation adjustments on cash and cash equivalents	**(5,466)**	**4,776**
Net increase (decrease) in cash and cash equivalents	**80,777**	**1,064**
Cash and cash equivalents, beginning of period	**228,662**	**227,598**
Cash and cash equivalents, end of period	**309,439**	**228,662**

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** Beauty Care Business	Human Health Care Business	Fabric and Home Care Business	**Total**	**Chemical Business**	**Total**	Reconciliations	**Consolidated**
Net sales								
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)	**-**
Total	607,692	280,723	334,416	**1,222,831**	288,456	**1,511,287**	(39,496)	**1,471,791**
Operating income	29,420	35,546	69,233	**134,199**	30,115	**164,314**	66 [1]	**164,380**
% of net sales	4.8	12.7	20.7	**11.0**	10.4	**10.9**	-	**11.2**
Total assets	459,880	195,368	160,745	**815,993**	271,879	**1,087,872**	193,997 [2]	**1,281,869**
Depreciation and amortization[3]	29,514	10,458	7,972	**47,944**	12,801	**60,745**	-	**60,745**
Amortization of goodwill	12,879	-	-	**12,879**	-	**12,879**	-	**12,879**
Investment for affiliates applied for equity method	3,686	1,020	1,184	**5,890**	3,495	**9,385**	-	**9,385**
Capital expenditure[5]	20,643	31,173	15,297	**67,113**	16,301	**83,414**	-	**83,414**

FY2014 Jan. - Dec.	**Consumer Products Business** Beauty Care Business	Human Health Care Business	Fabric and Home Care Business	**Total**	**Chemical Business**	**Total**	Reconciliations	**Consolidated**
Net sales								
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)	**-**
Total	589,907	240,077	324,505	**1,154,489**	288,022	**1,442,511**	(40,804)	**1,401,707**
Operating income	28,437	21,880	60,952	**111,269**	22,060	**133,329**	(59) [1]	**133,270**
% of net sales	4.8	9.1	18.8	**9.6**	7.7	**9.2**	-	**9.5**
Total assets	466,128	161,280	158,552	**785,960**	273,397	**1,059,357**	138,876 [4]	**1,198,233**
Depreciation and amortization[3]	30,302	10,618	9,541	**50,461**	14,101	**64,562**	-	**64,562**
Amortization of goodwill	15,098	-	-	**15,098**	-	**15,098**	-	**15,098**
Investment for affiliates applied for equity method	3,782	1,122	1,328	**6,232**	3,032	**9,264**	-	**9,264**
Capital expenditure[5]	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