14-10, Nihonbashi Kayabacho 1-chome, Chuo-ku, TOKYO 103-8210 JAPAN

February 24, 2017

NOTICE OF THE 111th ANNUAL GENERAL MEETING OF SHAREHOLDERS

To Our Shareholders:

Kao Corporation (the "Company") is pleased to announce that the 111th Annual General Meeting of Shareholders of the Company ("AGM") will be held on March 21, 2017 at 10:00 a.m., at The Prince Park Tower Tokyo, Ballroom, B2 (8-1 Shiba Koen 4-chome, Minato-ku, Tokyo, Japan). At the AGM, shareholders who hold one hundred (100) or more shares of record as of December 31, 2016 ("Shareholders") will be presented with the Business Report, the Consolidated Financial Documents and Financial Documents for the fiscal year which ended on December 31, 2016. For your reference, we have enclosed a copy of our Business Results announced on February 2, 2017 and an English summary of the Business Report. At the AGM, Shareholders will be asked to vote on the following agenda items: (*Please note that a shareholder is entitled to one vote per unit of shares, with each unit consisting of one hundred (100) shares.*)

1: Proposal for Appropriation of Retained Earnings
2: Election of seven (7) Members of the Board
3: Election of two (2) Audit & Supervisory Board Members
4: Decision on Amounts and Details of Performance-based Stock Incentive Plan for Members of the Board, etc.

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

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

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

Thank you very much for your attention.

Very truly yours,

Michitaka Sawada

Michitaka Sawada
President and Chief Executive Officer

ISIN	JP3205800000
SEDOL	6483809
TSE	4452

Kao Corporation

English Summary of the PROXY STATEMENT

The Proxy Statement of Kao Corporation (the "Company") in the Japanese language has been prepared for the purpose of the 111th Annual General Meeting of Shareholders of the Company (the "AGM") to be held on March 21, 2017 at 10:00 a.m., at The Prince Park Tower Tokyo, Ball Room, B2 (8-1 Shiba Koen 4-chome, Minato-ku, Tokyo, Japan), and is to be furnished to all shareholders of the Company holding at least one Unit Share* ("Shareholders") of record as of December 31, 2016 (the "Record Date").

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

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

PROPOSAL 1: PROPOSAL FOR APPROPRIATION OF RETAINED EARNINGS

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

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

(1)Matters concerning Assets to be Distributed to Shareholders and Aggregate Amount thereof
48.00 yen per share of common share of the Company
Aggregate amount of distribution: 23,684,104,224 yen

(2) Effective Date of Distribution of Retained Earnings
March 22, 2017

If this proposal is adopted without any amendment, then, by adding the interim dividends of **46.00 yen per share** to the above year-end dividends of **48.00 yen per share**, the total dividends for this fiscal year will be **94.00 yen per share**, an increase of 14.00 yen per share over the previous fiscal year, representing a consolidated payout ratio of 37.1%.

THE BOARD OF DIRECTORS UNANIMOUSLY RECOMMENDS A VOTE IN FAVOR OF PROPOSAL 1.

PROPOSAL 2: ELECTION OF SEVEN (7) MEMBERS OF THE BOARD

The terms of office of all seven (7) incumbent Members of the Board will expire at the conclusion of the AGM. Accordingly, the Company proposes that a total of seven (7) Members of the Board, including three (3) Outside Directors, be elected.
Provided below is the relevant personal information and career summary held by each of the nominees.
Also, if nominees of Proposal 2 and Proposal 3 are elected, as proposed by the Company, there will be three (3) Independent Outside Directors and three (3) Independent Outside Audit & Supervisory Board Members, according to "Standards for Independence of Outside Directors/Audit & Supervisory Board Members of Kao Corporation." Accordingly, six (6) out of twelve (12) attendees of the meeting of the Board of Directors will be independent, so the Company believes adequate discussions based on their opinions independent from the Company's management will be possible at the meeting of the Board of Directors.
Please refer to the following website for details of "Standards for Independence of Outside Directors/ Audit & Supervisory Board Members of Kao Corporation."
http://www.kao.com/jp/en/corp_imgs/corp_info/governance_002.pdf

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

Attendance to the Meeting of the Board of Directors: **14/14 (100%)**

Number of the Company shares owned: **27,600 shares**

Term of office at the conclusion of this AGM: **8 years and 9 months**

[Career summary, status and duties at the Company]

April 1981	Joined the Company
June 2006	Executive Officer
June 2008	Member of the Board, Executive Officer
June 2012	Representative Director, President and Chief Executive Officer (current)

[Reason for appointment as a nominee for Member of the Board]
Ever since assuming office as Representative Director, President and Chief Executive Officer in 2012, Mr. Sawada has been at the forefront of furthering the "Yoki-Monozukuri" philosophy, which emphasizes R&D functions, as well as in aiming to become a "company with global existence," working to achieve both "profitable growth" and "social sustainability," and increasing corporate value, through the best use of the Kao Group's assets. In addition to his accomplishment of the Kao Group Mid-term Plan "K15," which he has formulated by setting high-level goals and targets, he has made even further challenges by having newly formulated the Kao Group Mid-term Plan "K20," which is to apply starting from FY 2017, under the slogan of "transforming ourselves to drive change." The Company expects that "K20" will also be steadily and successfully carried out under Mr. Sawada's strong leadership. In order to ensure sustainable growth of the Kao Group through supervision and execution of management, taking all stakeholders into account, and strengthening the decision-making functions of the Board of Directors concerning material matters, the Company appoints Mr. Sawada as a nominee to continue as a Member of the Board.

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

Attendance to the Meeting of the Board of Directors: **14/14 (100%)**

Number of the Company shares owned: **37,800 shares**

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

[Career summary, status and duties at the Company]

April 1979	Joined the Company
June 2007	Executive Officer
June 2012	Managing Executive Officer
March 2014	Representative Director, Managing Executive Officer
March 2015	Representative Director, Senior Managing Executive Officer (current)
January 2017	President, Consumer Products, Global; Senior Vice President, Marketing Research and Development, Global; and Responsible for Kao Professional Services Co., Ltd. (current)

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

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

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

Attendance to the Meeting of the Board of Directors: **14/14 (100%)**

Number of the Company shares owned: **18,300 shares**

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

[Career summary, status and duties at the Company]

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

[Other material position(s) held]

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

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

4.Yoshihiro Hasebe (Date of Birth: July 30, 1960) Re-nomination

Attendance to the Meeting of the Board of Directors (Since his appointment on March 25, 2016): **12/12 (100%)**

Number of the Company shares owned: **5,000 shares**

Term of office at the conclusion of this AGM: **1 year**

[Career summary, status and duties at the Company]

April 1990	Joined the Company
March 2014	Executive Officer
March 2015	Senior Vice President, Research and Development, Global (current)
January 2016	Managing Executive Officer (current)
March 2016	Member of the Board (current)

[Reason for appointment as a nominee for Member of the Board]
Over many years, Mr. Hasebe has been involved in R&D activities in various fields, including fundamental research and product development research, and has been the driving force in providing the world with innovative products which contribute to enriching people's lifestyles. Mr. Hasebe is familiar with the global competition environment, changes of consumers and business partners, the expectations from stakeholders surrounding the Company, and the strengths of and tasks facing the Company concerning the same, and has been actively presenting opinions and proposals in deliberations of the Board of Directors concerning material matters in the management of the Company, based on his considerable experience and expertise. The Company has determined that Mr. Hasebe will be able to contribute to further increasing the corporate value of the Kao Group by using his experience and expertise in the planning and deliberation of management strategies, etc. at the Board of Directors and supervision of execution, and for this reason appoints Mr. Hasebe as a nominee to continue as a Member of the Board.

5.Sonosuke Kadonaga (Date of Birth: August 5, 1952) Re-nomination | Nominee for Outside Director | Nominee for Independent Director

[Career summary, status and duties at the Company]

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

Attendance to the Meeting of the Board of Directors: **14/14 (100%)**

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

Term of office at the conclusion of this AGM: **4 years and 9 months**

[Other material position(s) held]

President, Intrinsics;
Member of the Board, Business Breakthrough Inc.; and
Vice President, Business Breakthrough University

[Reason for appointment as a nominee for Outside Director]

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

[Matters regarding independency]

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

Mr. Kadonaga had executive authority at McKinsey & Company, Inc., Japan (McKinsey), but he resigned in June 2009. Although the Company engages in transactions with McKinsey in terms of the entrustment of services, the amounts involved in such transactions account for less than 0.1% of the Company's net sales and less than 1% of McKinsey's net sales for the latest fiscal year, respectively.

6.Masayuki Oku (Date of Birth: December 2, 1944) Re-nomination | Nominee for Outside Director | Nominee for Independent Director

Attendance to the Meeting of the Board of Directors: **13/14 (92.9%)**

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

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

[Career summary, status and duties at the Company]

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

[Other material position(s) held]

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

[Reason for appointment as a nominee for Outside Director]

Mr. Oku has played an active role internationally in the fields of finance and financial affairs, such as being a manager of a major financial institution, and has considerable experience and expertise in relation to global corporate management. Mr. Oku has been actively presenting opinions and proposals in deliberations of the Board of Directors concerning material matters in the management of the Company, based on his considerable experience and expertise. In view of these facts, the Company has determined that it would be most suitable if Mr. Oku were to continue to supervise the management of the Company as an Independent Outside Director, and for this reason appoints Mr. Oku as a nominee to continue as an Outside Director.

[Matters regarding independency]

The Company has reported to the Tokyo Stock Exchange, Inc. that Mr. Oku is an Independent Director as set forth in the Regulations of the Tokyo Stock Exchange, Inc. The Company will continue the above report if Mr. Oku is reelected and assumes office as a Member of the Board.
Mr. Oku had executive authority at Sumitomo Mitsui Banking Corporation (SMBC), but no longer has such authority since April 2011 in SMBC. The Company conducts regular bank transactions with SMBC and the Company has loans from SMBC, but the total amounts of loans were less than 2%of the total assets of the Company as of the end of the lastest fiscal year.

7.Yukio Nagira (Date of Birth: January 28, 1948) New Nominee | Nominee for Outside Director | Nominee for Independent Director

Number of the Company shares owned: **2,000 shares**

[Career summary]

April 1971	Joined Nitto Denko Corporation
June 1998	Director, Nitto Denko Corporation
June 2001	Executive Managing Director, Nitto Denko Corporation
June 2003	Director, Executive Vice President, Nitto Denko Corporation
June 2007	Director, Senior Executive Vice President, Nitto Denko Corporation
April 2008	Representative Director, President, Nitto Denko Corporation
April 2014	Representative Director, Chairman, Nitto Denko Corporation (current)

[Other material position(s) held]

Representative Director, Chairman, Nitto Denko Corporation

[Reason for appointment as a nominee for Outside Director]

Mr. Nagira has considerable experience and expertise in relation to global company management and human resources development, gleaned principally from his time as a manager of a manufacturing company which responds to changes in the business environment and actively pursues its overseas operations. In addition, based on such company's proprietary technologies, Mr. Nagira has been actively involved in the creation of new business and has made effective use of merger and acquisition projects. The Company expects that Mr. Nagira will offer proposals helpful to the Company in the global expansion of its business, the maximization of its assets and the development of new assets, all of which are essential for accomplishing the Kao Group Mid-term Plan "K20." In view of the foregoing, the Company has determined that it would be most suitable if Mr. Nagira were to supervise the management of the Company in the capacity of an Independent Outside Director, and for this reason appoints Mr. Nagira as a nominee for Outside Director.

[Matters regarding independency]

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

Mr. Nagira has executive authority at Nitto Denko Corporation and although the Company engages in transactions with Nitto Denko Corporation in terms of purchasing goods, the amounts involved in such transactions account for less than 0.1% of the Company's net sales and Nitto Denko Corporation's net sales for the latest fiscal year, respectively.

[Special notes concerning nominees]

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

・Mr. Yukio Nagira, a nominee for Outside Director, concurrently serves as Representative Director, Chairman, Nitto Denko Corporation and the Company engaged in non-constant transactions with Nitto Denko Corporation in terms of purchasing goods (at less than 1 millon yen) in FY2016.

・There are no special interests between the Company and the nominees for Members of the Board other than those set forth above.

[Matters regarding Outside Directors]

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

[Summary of liability limitation agreements]

Pursuant to Article 427, Paragraph 1 of the Companies Act and the Articles of Incorporation of the Company, the Company entered into an agreement with Messrs. Sonosuke Kadonaga and Masayuki Oku, respectively, to the effect that his liability under Article 423, Paragraph 1 of the Companies Act will be limited to the higher of: 10 million yen; or any amount prescribed by applicable laws and regulations. If they are reelected and assume office, the Company will continue these agreements with them. In addition, if Mr. Yukio Nagira, a nominee for Outside Director, is elected and assumes office as an Outside Director, the Company and Mr. Yukio Nagira will enter into an agreement under the same terms and conditions.

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

In December 2012, Panasonic Corporation, where Mr. Masayuki Oku, a nominee for Outside Director, has been serving as an Outside Director since June 2008, received an order from the European Commission to pay fines for Panasonic Corporation's violation of antitrust laws conducted in relation to its cathode-ray tube (CRT) business. Although Panasonic Corporation challenged the case in court, the European Court of Justice dismissed its petition with prejudice in July 2016, whereby the fines were finalized. Furthermore, in December 2016, Panasonic Corporation also paid fines to the European Commission in order to obtain a settlement for its violation of antitrust laws conducted in relation to its rechargeable battery business. However, at the time Panasonic Corporation engaged in such violations, Mr. Masayuki Oku had not yet assumed office as its Outside Director. Moreover, Panasonic Corporation entered into an agreement with the United States Department of Justice in July 2013,and the Canadian Competition Bureau in February 2014, respectively, for Panasonic Corporation to pay fines with respect to its violation of antitrust laws conducted in relation to its automotive parts business. Mr. Masayuki Oku was unaware of such violations until these relevant facts were revealed, but he had been executing his day-to-day duties through the Board of Directors, etc., from the perspective of ensuring compliance with laws and regulations, striving to avoid any execution of business in conflict with applicable laws and regulations. Since the aforementioned violation was revealed, Mr. Masayuki Oku has verified the content of Panasonic Corporation's efforts to avoid the recurrence thereof.

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

(For Reference)

[Policy on Nomination of Members of the Board and Audit & Supervisory Board Member Candidates]

The Members of the Board and Audit & Supervisory Board Members who attend the meeting of the Board of Directors deliberate on the appropriateness of the business strategies, the risks related to their realization and other matters in an objective and multifaceted fashion. They also supervise and audit the status of execution. To conduct these tasks, the Company considers it important that parties from inside and outside the Company with a greater diversity of experience, knowledge, expertise and insight conduct examinations through joint contributions of opinions from various perspectives. Consequently, the Company nominates the appropriate Members of the Board and Audit & Supervisory Board Members to realize this objective.

In addition, to promote sharing of the knowledge and information obtained related to the Company's management and businesses from predecessor to successor, the Company sets staggered terms of office for Outside Directors and Outside Audit & Supervisory Board Members.

[Stance on Balance among Knowledge, Experience and Skills, and on Diversity and Size of the Board of Directors]

In accordance with the above policy on nomination, the Company ensures diversity and a balance among the knowledge, experience and skills of the Board of Directors as a whole as follows. In addition, the Company sets the appropriate size of the Board of Directors in consideration of the simplification of the Board of Directors to accelerate decision-making for dealing with business expansion and other matters, and the balance of diverse personnel required to conduct the proper deliberations and supervision of execution, premised on the delegation of responsibility to appropriately placed Executive Officers.

Inside Directors are nominated with emphasis on their experience of the operation, including global operation, of R&D, marketing, sales, production and other divisions related to Yoki-Monozukuri and the operation of divisions related to corporate functions that support these divisions, as well as their understanding of the business environment in which the Company operates and the Company's strengths and issues for dealing with it, necessary for the appropriate planning and deliberation of business strategies.

Outside Directors are nominated with emphasis on diverse experience, their knowledge and high level of insight obtained from such experience that cannot be obtained from Inside Directors alone in deliberations on business strategies, together with consideration for their independence. Examples include experience, including global experience, managing a company that provides products and services in a different field from the Company, and consulting or academic experience. In addition, the Company aims to have Outside Directors comprise approximately half of the Board of Directors to ensure its diversity and influence.

Full-time Audit & Supervisory Board Members are nominated with emphasis on the balance of business experience of each person to date and the knowledge gained therefrom, experience working overseas, and qualities that can ensure independence from persons executing business. The nominees are selected from inside the Company from persons involved in corporate management of accounting and finance, operation of business, the supply chain from R&D to production and sales and persons with overseas and other business experience.

Outside Audit & Supervisory Board Members are nominated with emphasis on a high level of expertise and insight from their experience as lawyers, certified public accountant, academic or other profession, and their legal qualification in terms of being outside the Company and their independence. In addition, to increase the independence and neutrality of the Audit & Supervisory Board, a majority are Outside Audit & Supervisory Board Members who meet the Standards for Independence.

When nominating Audit & Supervisory Board Members, the Company emphasizes experience, disposition, expertise and other characteristics necessary for deliberation, etc. of the business strategies.

Moreover, the Company recognizes that, in addition to knowledge, experience and ability, the diverse perspectives of women, non-Japanese and others contribute to the promotion of business, global expansion and proper supervision and auditing, and promotes the appointment of such diverse personnel as Members of the Board of Directors, Audit & Supervisory Board Members and Executive Officers.

[Procedures for the Nomination of Members of the Board and Audit & Supervisory Board Member Candidates]

To objectively confirm that all Members of the Board candidates, including candidates for the Member of the Board who will become President and Chief Executive Officer, conform with the above policy and stance, the Company has a Committee for the Examination of the Nominees for the Members of the Board of Directors, composed exclusively of all Independent Directors and Audit & Supervisory Board Members, etc. This committee also deliberates as necessary on the above nomination policies and other related matters.

With regard to nominees for Audit & Supervisory Board Members, the Audit & Supervisory Board, which includes independent Outside Audit & Supervisory Board Members as its members, examines the appropriateness and qualifications, etc. of each nominee, based on its independent and objective perspective and in accordance with the above-described policy and the policy of nominating nominees for Audit & Supervisory Board Members established by the Audit & Supervisory Board. Furthermore, with the consent of the Audit & Supervisory Board, the Board of Directors determines such nominees as the nominees for Audit & Supervisory Board Members to be presented in a proposal for the Annual General Meeting of Shareholders.

PROPOSAL 3: ELECTION OF TWO (2) AUDIT & SUPERVISORY BOARD MEMBERS

Of the five (5) incumbent Audit & Supervisory Board Members, the term of office of Mr. Shoji Kobayashi and Mr. Norio Igarashi will expire at the conclusion of the AGM. Accordingly, the Company proposes that two (2) Audit & Supervisory Board Members be elected as an Outside Audit & Supervisory Board Members.

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

1. Katsuya Fujii (Date of Birth: September 8, 1957) New Nominee

Number of the Company shares owned: **5,000 shares**

[Career summary]

April 1980	Joined the Company
March 2003	Vice President, Investor Relations, Accounting and Finance
June 2011	Vice President, Treasury, Global (current)

[Other material position(s) held]

Audit & Supervisory Board Member, Kao Group Customer Marketing Co., Ltd.
However, Mr. Fujii is to resign the position above before the AGM.

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

Mr. Fujii has considerable expertise in relation to accounting and financial affairs, having held important accounting, financial affairs and IR positions over many years, and also has an abundance of experience in the management of the Kao Group, gleaned principally from his time as an Audit & Supervisory Board Member of one of the Company's affiliates. He has also been involved in management by being responsible for the promotion of EVA (Economic Value Added), which is a management indicator used by the Company. The Company has determined that Mr. Fujii will make full use of his experience in the auditing of the Company, and for this reason appoints Mr. Fujii as a nominee for Audit & Supervisory Board Member.

2.Hideki Amano (Date of Birth: November 26, 1953) New Nominee | Nominee for Outside Audit & Supervisory Board Member | Nominee for Independent Audit & Supervisory Board Member

Number of the Company shares owned: **4,000 shares**

[Career summary]

April 1976	Entered Arthur Andersen
September 1980	Registered as Certified Public Accountant
June 1984	Resided in Dusseldorf Office of Arthur Andersen
September 1992	Representative employee, Inoue Saito Eiwa Audit Corporation
September 2011	Vice President (Audit Management), KPMG AZSA LLC.; and Member, KPMG Global Audit Steering Group
July 2015	Executive Senior Partner, KPMG AZSA LLC.

[Other material position(s) held]

Certified Public Accountant; and
Outside Audit & Supervisory Board Member, Toppan Forms Co., Ltd.

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

Mr. Amano has a high level of professional expertise as a certified public accountant. At a major auditing firm, he has acted as a chief auditor for numerous leading companies operating overseas, and based also on his experience as a steering committee member of a major international auditing firm in alliance with such auditing firm, he has considerable expertise in global management. The Company has determined that Mr. Amano will make full use of his experience in the auditing of the entire Kao Group, including in relation to the global expansion intended by the Company, and for this reason appoints Mr. Amano as a nominee for Outside Audit & Supervisory Board Member. Although Mr. Amano has never been directly involved in company management other than in the capacity of outside officer, the Company considers, based on the above reasons, that he will properly perform his duties as an Outside Audit & Supervisory Board Member.

[Matters regarding independency]

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

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

There are no special interests between the Company and the nominees for Audit & Supervisory Board Members.

[Matters regarding Outside Audit & Supervisory Board Member]

Mr. Hideki Amano is a nominee for Outside Audit & Supervisory Board Member.

[Summary of liability limitation agreements]

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

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

PROPOSAL 4: DECISION ON AMOUNTS AND DETAILS OF PERFORMANCE-BASED STOCK INCENTIVE PLAN FOR MEMBERS OF THE BOARD, ETC.

1. Reason for the Proposal and Reason Justifying such Compensation, etc.

This proposal is to request shareholders to approve the introduction of a new performance share plan for the members of the Board of Directors (excluding Outside Directors) and Executive Officers (hereinafter "Directors, etc.") under which the Company's shares and the amount of money equivalent to the converted value of such Company's shares (hereinafter the "Company Shares, etc.") will be vested or paid (hereinafter "vested, etc.") to Directors, etc. depending on, among others, the level of achievement of performance targets in the mid-term plan, etc. (hereinafter the "Plan").

As the introduction of the Plan is proposed for the purpose of improving the Company's mid- and long-term performance as well as increasing the awareness of contributions to increasing corporate value, the proposal is considered to be appropriate. The Company has established a Compensation Advisory Committee, which is chaired by an Independent Outside Director, and in which the majority of the members are Independent Outside Directors and Independent Audit & Supervisory Board Members, to ensure the transparency and objectivity of the determination process regarding compensation for the members of the Board of Directors and Executive Officers and the introduction of the Plan has been reviewed at the Compensation Advisory Committee.

This proposal is to provide performance share to Directors, etc. separately and in addition to the maximum amount of compensation for the members of the Board of Directors that had been approved at the 101st Annual General Meeting of Shareholders held on June 28, 2007 (630 million yen including bonuses for the members of the Board of Directors (excluding the amount of salary, etc. received by the members of the Board of Directors who serve concurrently as employees for their service as employees)).

The number of the members of the Board of Directors (excluding Outside Directors) covered by the Plan will be 4 at the close of the AGM provided that the Proposal 2 "Election of Seven Members of the Board" is approved as proposed. As stated above, the Plan also covers Executive Officers (the number of Executive Officers not concurrently serving as Directors who are covered by the Plan will be 22 provided that the Proposal 2 is approved as proposed) and compensation based on the Plan includes compensation for Executive Officers. In consideration of the possibility that one or more of these Executive Officers will assume the office of Director during the covered period of the Trust (as defined in 2.(2) below), this proposal pertains to the amount and other terms and conditions and calculation method of the total compensation under the Plan as performance share, etc. for Directors, etc.

Subject to the approval of the proposal regarding the Plan at the AGM, the Company will abolish stock options (share remuneration type stock options) as a form of executive compensation that had been approved at the 100th Annual General Meeting of Shareholders held on June 29, 2006 except for the ones already allotted and new stock options will no longer be issued from fiscal year 2017 onwards. As a result, the compensation for Directors, etc. will consist of "base salary," "bonus" and "performance share."

2. Amount of and Other Terms and Conditions of Compensation, etc. under the Plan

(1) Outline of the Plan

The Plan is a performance share plan under which the Company's shares are acquired through a trust using the amount of money to be contributed by the Company and Company Shares, etc. are vested, etc. to Directors, etc. through the trust (see (2) onward for the details).

<table>
<tr><td>①Persons entitled to the Company Shares, etc. to be vested, etc. that are covered by this proposal</td><td colspan="2">Directors, etc.(the members of the Board of Directors (excluding Outside Directors) and Executive Officers)</td></tr>
<tr><td>②Maximum amount of money to be contributed by the Company (as stated in (2) below)</td><td colspan="2">The maximum amount is 1.85 billion yen for the Covered Period of four fiscal years.</td></tr>
<tr><td>③Maximum number of the Company Shares, etc. (including the Company's shares subject to conversion into cash) to be vested, etc. to Directors, etc. from the Trust and the acquisition method for such shares
(as stated in (2) and (3) below)</td><td colspan="2">The maximum number of the Company's shares is 340,000 for the Covered Period of four fiscal years.

As the Company's shares will be acquired from the stock market, there will be no dilution.

The yearly average of the above maximum number of the Company's shares is approximately 85,000 shares, which is approximately 0.017% of the total number of the Company's issued shares (as of December 31, 2016, after deducting treasury shares).</td></tr>
<tr><td>④Measurement of the level of achievement of performance targets etc. (as stated in (3) below)</td><td colspan="2">The achievement linked coefficient varies between 0% and 200% depending on the level of achievement of performance targets in the mid-term plan etc. The performance targets etc. indicators will be the Compound Average Growth Rate (CAGR) of like-for-like net sales (excluding the effect of currency translation, change of sales system, etc.), consolidated operating income, etc. with respect to the initial Covered Period.</td></tr>
<tr><td rowspan="2">⑤Timing of vesting, etc. of Company Shares, etc. to Directors, etc. (as stated in (4) below)</td><td>Achievement- linked portion
(70% of the total)</td><td>After the expiration of the Covered Period (Initial Covered Period: 4 fiscal years from the fiscal year ending December 31, 2017 to the fiscal year ending December 31, 2020)</td></tr>
<tr><td>Fixed portion
(30% of the total)</td><td>After the end of each fiscal year within the Covered Period
However, Directors, etc. shall continue to hold Company shares acquired as the fixed portion until the end of the Covered Period.</td></tr>
</table>

(2) Maximum Amount of Money to be Contributed by the Company
The period covered by the Plan shall be the fiscal years subject to the mid-term plan of the Company (hereinafter the “Covered Period”). The initial Covered Period shall be the period of four fiscal years from the fiscal year ending December 31, 2017 to the fiscal year ending December 31, 2020.
The Company will establish a trust whose beneficiaries are Directors, etc. satisfying beneficiary requirements and whose term corresponds to the Covered Period (hereinafter the “Trust”) by contributing trust money to the Trust up to the maximum amount of 1.85 billion yen for the Covered Period of four fiscal years. The maximum amount is set in consideration of the level of compensation under the existing stock options (share remuneration type stock options). The Trust will acquire the Company’s shares from the stock market using the trust money in accordance with the directions of the Trust administrator. The Company will grant certain points (as prescribed in (3) below) to Directors, etc. each year during the Covered Period and Company Shares, etc. corresponding to the number of points over a certain period (as prescribed in (4) below) will be vested, etc. from the Trust.
At the expiration of the Trust term, the Trust may be continued by modifying the Trust Agreement and entrusting additional money in lieu of the establishment of a new Trust. In this case, the Trust term shall be extended further with respect to the number of years corresponding to the then mid-term plan. The Company will make additional contributions within the upper limit of trust money for which approval by resolution of an Annual General Meeting of Shareholders has been obtained for each extended Trust term; provided, however, that in cases where such additional contributions are to be made, when there are any Company’s shares and money remaining in the trust property (hereinafter “Residual Shares, etc.”) as at the last day of the Trust term prior to the extension, the sum of the amount of Residual Shares, etc. and additional trust money to be contributed shall be within the upper limit of trust money for which approval by resolution of an Annual General Meeting of Shareholders has been obtained.

(3) Calculation Method and Maximum Number of Company’s Shares to be Vested, etc. to Directors, etc. (Including the Company’s Shares Subject to Conversion into Cash)
Points prescribed in (i) and (ii) below will be granted to Directors, etc. as a precondition for the vesting, etc. of Company Shares, etc. One point shall be equivalent to one Company share, and fractions less than one point will be disregarded, however, in cases where share split, consolidation of shares, etc. has been made during the Trust term with respect to Company’s shares, the number of Company’s shares per point will be adjusted according to the share split ratio, consolidation of shares ratio, etc.
(i) Achievement-linked portion
To Directors etc. who hold office on the last day of any fiscal year during the Covered Period (including Directors, etc. who resigned due to expiry of term of office or for other reasons on the last day of any fiscal year during the Covered Period and Directors, etc. who died on the last day of any fiscal year during the Covered Period), single fiscal-year points calculated by the following formula based on points that have been determined in advance with respect to each executive position (hereinafter “Executive Position Points”) will be granted on the last day of the fiscal year. After the end of the Covered Period, the number of achievement-linked points is calculated by adding up the single fiscal-year points granted to Directors, etc., and then multiplying such cumulative total by the achievement linked coefficient depending on the level of the achievement of performance targets in the mid-term plan etc. (the same applies to the Directors, etc. who resigned due to expiry of term of office or for other reasons during the Covered Period).
(Calculation formula of single fiscal-year points)
Executive Position Points x 70%
(Calculation formula of number of achievement-linked points)
Cumulative total of single fiscal-year points during the Covered Period x Achievement linked coefficient*[1]*[2]

*[1] The achievement linked coefficient varies between 0% and 200% depending on the level of achievement of performance targets in the mid-term plan, etc. The performance targets etc. indicators will be the Compound Average Growth Rate (CAGR) of like-for-like net sales (excluding the effect of currency translation, change of sales system, etc.) and consolidated operating income, etc. with respect to the initial Covered Period.
*[2] In cases where a Directors, etc. dies before the end of the Covered Period (including cases where the Director, etc. died before the end of the Period after resigning due to expiry of term of office or for other reasons), the number of achievement-linked points will be calculated by adding together the single fiscal-year points granted up to the death and assuming that the achievement linked coefficient is 100%.

(ii) Fixed portion
To Directors, etc. who hold office on the last day of any fiscal year during the Covered Period (including Directors, etc. who resigned due to expiry of term of office or for other reasons on said day and Directors, etc. who died on said day), fixed points calculated by the following formula based on the Executive Position Points will be granted on the last day of each fiscal year during the Covered Period.
(Calculation formula of number of fixed points) Executive Position Points x 30%

The maximum number of Company's shares to be vested (including the Company's shares subject to conversion into cash) to Directors, etc. based on the number of points granted to Directors, etc. shall be 340,000 for the Covered Period of four fiscal years. This is set by using share price at the present time and other such factors as reference, in consideration of the aforementioned upper limit of trust money.

(4) Method and Timing of Vesting, etc. of Company Shares, etc. to Directors, etc.
(i) Achievement-linked portion
The timing at which Company Shares, etc. pertaining to the achievement-linked portion are vested, etc. will be after the end of the Covered Period. The specific method and timing of vesting, etc. are as follows: Directors, etc. who meet the requirements for beneficiaries shall, at around June immediately after the end of the Covered Period, receive the Company's shares corresponding to 50% of the number of achievement-linked points (the number of shares less than a share unit will be rounded up), and receive money equivalent to the Company's shares corresponding to the number of remaining achievement-linked points that are converted into cash under the Trust. However, in cases where such Directors, etc. do not have a securities brokerage account that handles Japanese shares, such Directors, etc. shall receive money equivalent to Company shares corresponding to the number of achievement-linked points that are converted into cash under the Trust.
(ii) Fixed portion
The timing at which Company Shares, etc. pertaining to the fixed portion are vested, etc. will be after the end of each fiscal year during the Covered Period. The specific method and timing of vesting, etc. are as follows:
Directors, etc. who meet the requirements for beneficiaries shall, at around June immediately after the end of each fiscal year during the Period, receive Company shares corresponding to 50% of the number of fixed points (the number of shares less than a share unit will be rounded up), and receive money equivalent to Company shares corresponding to the number of remaining fixed points that are converted into cash under the Trust. However, in cases where such Directors, etc. do not have a securities brokerage account that handles Japanese shares, such Directors, etc. shall receive money equivalent to Company's shares corresponding to the number of fixed points that are converted into cash under the Trust.
Of note, Directors, etc. shall continue to hold Company shares acquired as the fixed portion until the end of the Covered Period.

If a Director, etc. who meets the requirements for beneficiaries were to die during the Trust term, the Company's shares that correspond to the cumulative total of the number of achievement-linked points calculated at the time of his/her death and the number of fixed points subject to the pending beneficiary admission procedures will be converted into cash under the Trust and the heir of said Director, etc. shall receive such cash from the Trust.

(5) Treatment of Dividends of the Company's Shares under the Trust
Dividends paid to the Trust with respect to the Company's shares under the Trust will, not only be allocated to trust fees and trust expenses, but also be reserved in the amount equivalent to the per-share dividend amount per point according to the number of points calculated by multiplying the cumulative total of single fiscal-year points of Directors, etc. as at each dividend record date during the Covered Period by the achievement linked coefficient, so that Directors, etc. will receive such reserve amounts together with vesting Company Shares, etc. according to (4) above.

(6) Exercising Voting Rights Related to the Company's Shares under the Trust
Voting rights related to the Company's shares under the Trust (the Company's shares before being vested, etc. to Directors, etc.) shall not be exercised during the Trust term to ensure the neutrality of the Company management.

(7) Other details of the Plan

Other details of the Plan will be determined by the Board of Directors each time the Trust is established, the Trust Agreement is modified, and additional money is contributed to the Trust.

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

BUSINESS REPORT
(From January 1, 2016 to December 31, 2016)

Adoption of International Financial Reporting Standards (IFRS)

Having decided that unifying accounting standards within the Kao Group will contribute to improving the quality of its business management, the Kao Group has voluntarily adopted IFRS from the FY 2016.This 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 adoption of IFRS will facilitate the international comparability of its financial statements in capital markets.
Presentation of financial figures for the previous fiscal year also conforms to IFRS.

I Current Condition of the Kao Group

1. Business Progress and Results

Please see the attached *Business Results* pages 1 through 7 for the summary.

2. Status of Capital Investments

The aggregate amount of capital investments, etc., for this fiscal year was 89.7billion yen.

In the Consumer Products Business, the reinforcement, streamlining, maintenance and renewal, etc. of facilities were conducted in each business. In the Human Health Care Business, the production capacity of sanitary product plants in Japan and overseas were expanded in order to reinforce the supply system. In the Beauty Care Business, the new research facility, "Beauty Research & Innovation Center" was opened at Odawara office which is a research and production base for cosmetics. In the Chemical Business, the expansion of production capacity, streamlining, maintenance and renewal, etc. of facilities were conducted in Japan and overseas.

3. Financing Status

Kao Corporation (the "Company") globally and effectively used its group's capital to cover necessary operating activities and investing activities including capital investments, corporate acquisitions, etc.

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 changes in the 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.

- To deal with changes in the risks entailed in its businesses, the Kao Group will define the serious company-wide risks among its main 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.
- 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 earnestly 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.

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

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

(For Reference) Medium-to-long-term Management Strategies of the Kao Group

(1) Long-term Targets

As vision by 2030, the Kao Group aims to make the Company a company with a global presence by combining sustained "profitable growth," and "contributions to the sustainability of the world" with proposals to resolve social issues and social contribution activities conducted through its business operations. To achieve this vision, the Kao Group will promote the further reinforcement of the existing businesses that are its strength and the creation of new markets from a global perspective utilizing the R&D capabilities that will create value for the future, in addition to implementing basic measures to further raise the level of safety and reliability.

It is becoming difficult to predict the various changes that will occur throughout the world in all aspects, such as speed, size and direction. To deal with this situation, the Kao Group aims to achieve the above vision by fully embracing the slogan of "transforming ourselves to drive change."

The Kao Group's vision by 2030 is as follows.

Make the Kao Group a company with a global presence that

■ Has a distinctive corporate image

■ Is a high-profit global consumer goods company that exceeds:
- 2.5 trillion yen in net sales (1.0 trillion yen outside Japan)
- 17% operating margin
- 20% ROE

■ Provides a high level of returns to stakeholders

(2) Mid-term Business Plan

The Kao Group regards the year 2020 as an important milestone toward achieving its vision by 2030. To enhance corporate value, it established the Kao Group Mid-term Plan 2020 "K20" targeting the four years from FY 2017 to FY 2020.

K20 Goals – Three Commitments

■ Commitment to fostering a distinctive corporate image
Become a company that is always by the consumer's side

■ Commitment to profitable growth
- Continue to set new record highs for profits
- Aim for like-for-like* net sales CAGR of +5%, operating margin of 15%
- Three 100 billion yen brands (Merries baby diapers, Attack laundry detergents, Bioré skin care products)

*Excluding the effect of currency translation, change of sales system, etc.

■ Commitment to returns to stakeholders
- Shareholders: Continuous cash dividend increases (40% payout ratio target)
- Employees: Continuous improvement in compensation, benefits and health support
- Customers: Maximization of win-win relationships
- Society: Advanced measures to address social issues

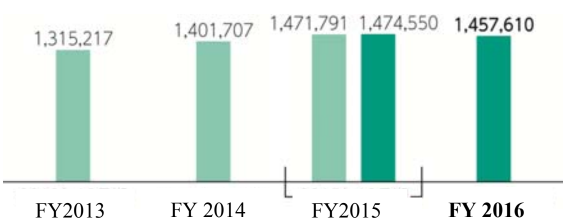
The Kao Group has established Integrity, passed down from Kao's founder, as one of the core Values of the Kao Way. Under K20, this Integrity will continue to be embraced in the Group's daily business activities as it maintains thorough quality control and information control, sincere consumer communications, strict compliance and effective crisis management. Through such endeavors, the Kao Group aims to reinforce its credibility in a global society.

5. Transitions of Assets and Profits and Losses

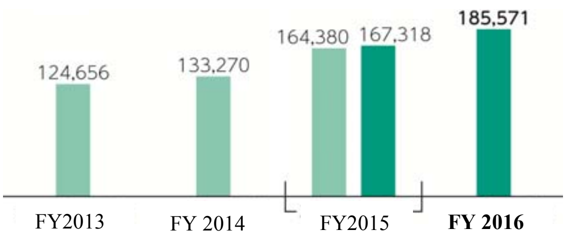
Item	Japanese GAAP			IFRS	
	FY 2013	FY 2014	FY 2015	FY 2015	FY 2016
Net sales	(million yen) 1,315,217	(million yen) 1,401,707	(million yen) 1,471,791	(million yen) 1,474,550	(million yen) 1,457,610
Operating income	124,656	133,270	164,380	167,318	185,571
Income before income taxes	114,939	126,761	161,579	166,038	183,430
Net income	65,806	80,422	99,480	105,952	127,889
Net income, attributable to owners of the parent	64,764	79,590	98,862	105,196	126,551
Total assets	1,133,276	1,198,233	1,281,869	1,311,064	1,338,309
Total equity	642,640	672,393	687,133	691,987	691,463
Basic earnings per share	(yen) 126.03	(yen) 156.46	(yen) 197.19	(yen) 209.82	(yen) 253.43

Notes:
1. The Kao Group has voluntarily adopted IFRS from the FY 2016.
2. “Transitions of Assets and Profits and Losses” are indicated using the terms based on the IFRS. The terms based on the IFRS respectively correspond to the following terms under the Japanese GAAP: “Income before income taxes” corresponds to “Income before income taxes and minority interests”; “Net income” corresponds to “Income before minority interests”; “Net income, attributable to owners of the parent” corresponds to “Net income”; “Total equity” corresponds to “Total net assets”; and “Basic earnings per share” corresponds to “Net income per share”.

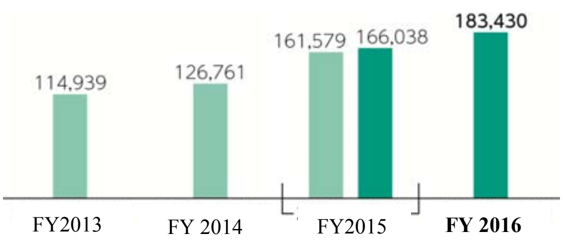
Net Sales (million yen)



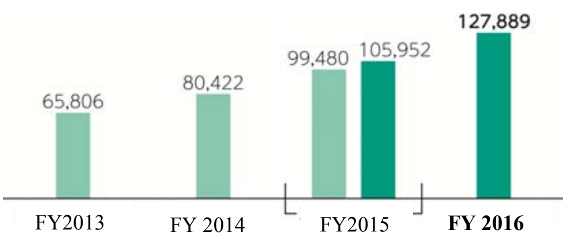
Operating Income (million yen)



Income before income taxes (million yen)



Net Income (million yen)



6. Main Businesses of the Kao Group (as of December 31, 2016)

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

7. Main Subsidiaries (as of December 31, 2016)

Name of Company	Capital Stock	Ratio of Voting Rights	Main Businesses
Kao Group Customer Marketing Co., Ltd.	JPY 10 million	100%	Control of affiliates in the business of sales of consumer products in Japan
Kao Customer Marketing Co., Ltd.	JPY 1,830 million	100%	Sales of consumer products
Kanebo Cosmetics Inc.	JPY 7,500 million	100%	Manufacture and sales of cosmetics products
Kanebo Cosmetics Sales Inc.	JPY 100 million	100%	Sales of cosmetics products
Kao Transport & Logistics Co., Ltd.	JPY 15 million	100%	Transportation and inventory management of consumer products
Kao (China) Holding Co., Ltd.	CNY 2,603,727 thousand	100%	Control of affiliates in the People's Republic of China and sales of cosmetics products
Kao Corporation Shanghai	CNY 564,200 thousand	100%	Manufacture and sales of consumer products
Kao (Hefei) Co., Ltd.	CNY 588,502 thousand	100%	Manufacture and sales of consumer products
Kao Commercial (Shanghai) Co., Ltd.	CNY 1,348,490 thousand	100%	Sales of consumer products
Kanebo Cosmetics (China) Co., Ltd.	CNY 1,271,687 thousand	100%	Sales of cosmetics products
Kao (Shanghai) Chemical Industries Co., Ltd.	CNY 550,000 thousand	100%	Manufacture and sales of chemical products
Kao (Taiwan) Corporation	TWD 597,300 thousand	92%	Manufacture and sales of consumer products and sales of chemical products
Pilipinas Kao, Inc.	USD 73,835 thousand	100%	Manufacture and sales of oleo chemicals products
Kao Industrial (Thailand) Co., Ltd.	THB 2,000,000 thousand	100%	Manufacture and sales of consumer products and chemical products
Kao Commercial (Thailand) Co., Ltd.	THB 2,000 thousand	100%	Sales of consumer products
Fatty Chemical (Malaysia) Sdn. Bhd.	MYR 120,000 thousand	70%	Manufacture and sales of oleo chemicals products
PT Kao Indonesia	IDR 1,064,706 million	72%	Manufacture and sales of consumer products
Kao USA Inc.	USD 1	100%	Manufacture and sales of skin care and hair care products, and sales of hair care products for beauty salons
Kao America Inc.	USD 3,200 thousand	100%	Provision of corporate services to affiliates in the United States
Kao Specialties Americas LLC	USD 1	100%	Manufacture and sales of chemical products
Kao Germany GmbH	EUR 25,000 thousand	100%	Sales of skin care products, and manufacture and sales of hair care products for beauty salons
Kao Manufacturing Germany GmbH	EUR 13,000 thousand	100%	Manufacture and sales of hair care products
Kao Chemicals GmbH	EUR 9,101 thousand	100%	Manufacture and sales of chemical products
Molton Brown Limited	GBP 516 thousand	100%	Manufacture and sales of cosmetics products
Kao Chemicals Europe, S.L.	EUR 74,035 thousand	100%	Control of affiliates in the business of chemical products in Europe, etc.
Kao Corporation S.A.	EUR 56,411 thousand	100%	Manufacture and sales of chemical products

Note:
The above ratio of voting rights has been calculated based on the total number of voting rights held by the Company and its subsidiaries.

8. Main Offices, Plants, Laboratories, and Subsidiaries (as of December 31, 2016)

(1) The Company

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

(2) Subsidiaries

1) Domestic

Company	Location
Kao Group Customer Marketing Co., Ltd.	Chuo-ku, Tokyo (Head Office)
Kao Customer Marketing Co., Ltd.	Chuo-ku, Tokyo (Head Office) and 8 regional headquarter offices
Kanebo Cosmetics Inc.	Chuo-ku, Tokyo (Head Office)
Kanebo Cosmetics Sales Co., Ltd.	Chuo-ku, Tokyo (Head Office) and 8 regional headquarter offices
Kao Transport & Logistics Co., Ltd.	Sumida-ku, Tokyo (Head Office) and 41 offices
Kao Cosmetic Products Odawara Co., Ltd.	Odawara-shi, Kanagawa (Head Office)
Kao Sanitary Products Ehime Co., Ltd.	Saijo-shi, Ehime (Head Office)

2) Overseas

Company	Location
Kao (China) Holding Co., Ltd.	The People's Republic of China
Kao Corporation Shanghai	The People's Republic of China
Kao (Hefei) Co., Ltd.	The People's Republic of China
Kao Commercial (Shanghai) Co., Ltd.	The People's Republic of China
Kanebo Cosmetics (China) Co., Ltd.	The People's Republic of China
Kao (Shanghai) Chemical Industries Co., Ltd.	The People's Republic of China
Kao (Taiwan) Corporation	Taiwan
Pilipinas Kao, Inc.	The Republic of the Philippines
Kao Industrial (Thailand) Co., Ltd.	The Kingdom of Thailand
Kao Commercial (Thailand) Co., Ltd.	The Kingdom of Thailand
Fatty Chemical (Malaysia) Sdn. Bhd.	The Federation of Malaysia
PT Kao Indonesia	The Republic of Indonesia
Kao USA Inc.	The United States of America
Kao America Inc.	The United States of America
Kao Specialties Americas LLC	The United States of America
Kao Germany GmbH	The Federal Republic of Germany
Kao Manufacturing Germany GmbH	The Federal Republic of Germany
Kao Chemicals GmbH	The Federal Republic of Germany
Molton Brown Limited	The United Kingdom of Great Britain and Northern Ireland
Kao Chemicals Europe, S.L.	Spain
Kao Corporation S.A.	Spain

9. Employees of Kao Group (as of December 31, 2016)

Business Category	Number of Employees
Consumer Products Business	28,017
Beauty Care Business	17,771
Human Health Care Business	5,445
Fabric & Home Care Business	4,801
Chemical Business	3,460
Others	1,718
Total	33,195

Notes:

1. The total number of employees has increased by 913 from the previous fiscal year. In performing a comparison, the number of employees as of the end of the previous fiscal year has been recategorized based on the IFRS.

2. Of the above, the number of the Company's employees is 7,195.

10. Main Lenders (as of December 31, 2016)

No relevant information.

II Shares of the Company (as of December 31, 2016)

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

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

Notes:
1. The number of issued shares includes 10,581,162 treasury shares.
2. At the meeting of the Board of Directors held on February 2, 2017, the Company resolved to retire 9,000,000 shares of treasury shares and the number of issued shares will be reduced to 495,000,000 shares after the execution of such retirement.

3. Number of shareholders
66,437

4. Major Shareholders (Top 10)

Shareholders	Investment in Kao by Shareholders	
	Number of shares (thousand shares)	Ratio of shareholding (percentage)
The Master Trust Bank of Japan, Ltd. (Trust Account)	35,712	7.24
Japan Trustee Services Bank, Ltd. (Trust Account)	33,237	6.74
JP Morgan Chase Bank 380055	19,817	4.02
State Street Bank and Trust Company 505223	12,954	2.63
Tokio Marine & Nichido Fire Insurance Co., Ltd.	7,809	1.58
State Street Bank West Client – Treaty 505234	7,801	1.58
Japan Trustee Services Bank, Ltd. (Trust Account 7)	7,299	1.48
The Bank of New York Mellon SA/NV 10	7,199	1.46
Nippon Life Insurance Company	6,691	1.36
National Mutual Insurance Federation of Agricultural Cooperatives	6,524	1.32

Notes:
1. The Company holds 10,581 thousand shares of treasury shares, which is not shown in the above list.
2. The number of shares in the list above may include the number of shares held in trusts or subject to share administration.
3. The ratio of shareholding for each shareholder above has been calculated based on the number of issued shares excluding treasury shares.

III Stock Acquisition Rights, etc., of the Company

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

・Share Remuneration Type Stock Options

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

In the following list, the 9th-A, 10th-A, 11th, 12th, 13th , 14th and 15th Stock Acquisition Rights were issued as share remuneration type stock options.

・Traditional Type Stock Options

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

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

From FY 2012, the Company does not allot traditional type stock options in accordance with the revision of the Kao Group's remuneration and incentive plans for managers.

1. Stock Acquisition Rights (as of December 31, 2016)

Name (Date of Issue)	Number of Stock Acquisition Rights	Type and Number of Shares to be Delivered upon Exercise of Stock Acquisition Rights	Amount Paid in for Allotment of Stock Acquisition Rights	Value of Assets Contributed upon Exercise of Stock Acquisition Rights	Period for Exercising Stock Acquisition Rights
9th - A Stock Acquisition Rights (August 25, 2010)	11	11,000 shares of the Company's common stock	1,749,000 yen per stock acquisition right	1 yen per share	July 1, 2012 - June 30, 2017
9th - B Stock Acquisition Rights (August 25, 2010)	103	103,000 shares of the Company's common stock	*Gratis*	2,190 yen per share	September 1, 2012 - August 31, 2017
10th - A Stock Acquisition Rights (August 25, 2011)	23	23,000 shares of the Company's common stock	1,718,000 yen per stock acquisition right	1 yen per share	July 1, 2013 - June 29, 2018
10th - B Stock Acquisition Rights (August 25, 2011)	224	224,000 shares of the Company's common stock	*Gratis*	2,254 yen per share	September 1, 2013 - August 31, 2018
11th Stock Acquisition Rights (August 23, 2012)	37	37,000 shares of the Company's common stock	2,119,000 yen per stock acquisition right	1 yen per share	July 1, 2014 - June 28, 2019

Name (Date of Issue)	Number of Stock Acquisition Rights	Type and Number of Shares to be Delivered upon Exercise of Stock Acquisition Rights	Amount Paid in for Allotment of Stock Acquisition Rights	Value of Assets Contributed upon Exercise of Stock Acquisition Rights	Period for Exercising Stock Acquisition Rights
12th Stock Acquisition Rights (May 23, 2013)	38	38,000 shares of the Company's common stock	3,027,000 yen per stock acquisition right	1 yen per share	July 1, 2015 - June 30, 2020
13th Stock Acquisition Rights (May 22, 2014)	33	33,000 shares of the Company's common stock	3,808,000 yen per stock acquisition right	1 yen per share	July 1, 2016 - June 30, 2021
14th Stock Acquisition Rights (May 21, 2015)	40	40,000 shares of the Company's common stock	5,630,000 yen per stock acquisition right	1 yen per share	July 1, 2017 - June 30, 2022
15th Stock Acquisition Rights (May 26, 2016)	40	40,000 shares of the Company's common stock	5,681,000 yen per stock acquisition right	1 yen per share	July 1, 2018 - June 30, 2023

2. Stock Acquisition Rights Held by Members of the Board and Audit & Supervisory Board Members of the Company (as of December 31, 2016)

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

Name	Number of Stock Acquisition Rights Holders	Number of Stock Acquisition Rights Allotted	Number of Shares to be Delivered upon Exercise of Stock Acquisition Rights
12th Stock Acquisition Rights	1	4	4,000
13th Stock Acquisition Rights	2	5	5,000
14th Stock Acquisition Rights	4	10	10,000
15th Stock Acquisition Rights	4	12	12,000

(2) Stock Acquisition Rights Held by Outside Directors

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

Note: From FY 2016, the Company does not allot stock acquisition rights to its Outside Directors in accordance with the revision of the compensation system for Outside Directors.

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

Name	Number of Stock Acquisition Rights Holders	Number of Stock Acquisition Rights Allotted	Number of Shares to be Delivered upon Exercise of Stock Acquisition Rights
10th - A Stock Acquisition Rights	1	2	2,000
11th Stock Acquisition Rights	2	6	6,000
12th Stock Acquisition Rights	1	3	3,000
13th Stock Acquisition Rights	1	3	3,000

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

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

Name	Stock Acquisition Rights Allottees	Number of Stock Acquisition Rights Allottees	Number of Stock Acquisition Rights Allotted	Number of Shares to be Delivered upon Exercise of Stock Acquisition Rights
15th Stock Acquisition Rights	Employees of the Company	23	28	28,000

Note: The above Employees of the Company, allottees of 15th Stock Acquisition Rights, are Executive Officers who are not Members of the Board.

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

1. Status of Members of the Board and Audit & Supervisory Board Members (as of December 31, 2016)

Title	Name	Duties at the Company and Other Material Position(s) Held
Representative Director, President and Chief Executive Officer	Michitaka Sawada	Responsible for Corporate Strategy, Global
Representative Director, Senior Managing Executive Officer	Katsuhiko Yoshida	President, Consumer Products, Global Responsible for Kao Professional Services Co., Ltd.
Representative Director, Senior Managing Executive Officer	Toshiaki Takeuchi	Representative Director, President, Kao Group Customer Marketing Co., Ltd. Representative Director, President, Kao Customer Marketing Co., Ltd.
Director, Managing Executive Officer	Yoshihiro Hasebe	Senior Vice President, Research and Development, Global
Member of the Board	Sonosuke Kadonaga	President, Intrinsics Member of the Board, Business Breakthrough Inc. Vice President, Business Breakthrough University
Member of the Board	Toru Nagashima	Senior Advisor, Teijin Limited Outside Director, Aeon Co., Ltd. Outside Audit & Supervisory Board Member, Daikin Industries, Ltd.
Member of the Board	Masayuki Oku	Chairman of the Board, Sumitomo Mitsui Financial Group, Inc. Outside Director, Panasonic Corporation Outside Audit & Supervisory Board Member, Nankai Electric Railway Co., Ltd. Outside Director, Komatsu Ltd. Outside Director, Chugai Pharmaceutical Co., Ltd. Non-executive Director, The Bank of East Asia, Limited
Full-time Audit & Supervisory Board Member	Shoji Kobayashi	
Full-time Audit & Supervisory Board Member	Toshiharu Numata	
Audit & Supervisory Board Member	Norio Igarashi	Certified Public Accountant Visiting Professor, Yokohama National University, Center for Economic Growth Strategy Director, Audit & Supervisory Committee Member, Mitsubishi UFJ Securities Holdings Co., Ltd.
Audit & Supervisory Board Member	Yumiko Waseda	Attorney-at-Law Outside Audit & Supervisory Board Member, Asahi Group Holdings, Ltd.
Audit & Supervisory Board Member	Toraki Inoue	Certified Public Accountant Representative Director, President, Accounting Advisory Co., Ltd. Outside Audit & Supervisory Board Member, Aozora Bank, Ltd.

Notes:

1. *Messrs. Sonosuke Kadonaga, Toru Nagashima and Masayuki Oku are Outside Directors.*
2. *Mr. Norio Igarashi, Ms. Yumiko Waseda and Mr. Toraki Inoue are Outside Audit & Supervisory Board Members.*
3. *Messrs. Norio Igarashi and Toraki Inoue, who are qualified as a Certified Public Accountant, have considerable expertise in finance and accounting.*
4. *The Company reported Messrs. Sonosuke Kadonaga, Toru Nagashima, Masayuki Oku, Norio Igarashi, Ms. Yumiko Waseda and Mr. Toraki Inoue to the Tokyo Stock Exchange, Inc. as Independent Directors/Audit & Supervisory Board Members as set forth in the Regulations of the Tokyo Stock Exchange, Inc.*

5. Personnel changes in Members of the Board and Audit & Supervisory Board Members during this fiscal year:

(1) Mr. Yoshihiro Hasebe was elected, and took office, as a Member of the Board, and, Mr. Toraki Inoue was elected, and took office, as an Audit & Supervisory Board Member, respectively, at the 110th Annual General Meeting of Shareholders held on March 25, 2016.

(2) Mr. Teruo Suzuki, an Audit & Supervisory Board Member retired from his office upon the expiration of his term at the close of the 110th Annual General Meeting of Shareholders held on March 25, 2016.

(3) On January 1, 2016, Mr. Toshiaki Takeuchi, Representative Director, Managing Executive Officer, was newly elected, and took office as a Representative Director, Senior Managing Executive Officer.

6. Mr. Sonosuke Kadonaga serves as Dean, Department of Management, Kenichi Omae Graduate School of Business, Business Breakthrough University, and in addition, serves as Vice President, Business Breakthrough University from April 1, 2016.

7. Mr. Toru Nagashima served as Outside Director, Sekisui Chemical Co., Ltd. from January 1, 2016 to June 28 during FY 2016.

8. Mr. Norio Igarashi served as Outside Audit & Supervisory Board Member, Matsui Securities Co., Ltd. from January 1, 2016 to June 26 during FY 2016.

2. Summary of Liability Limitation Agreements

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

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

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

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

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

1) Base salary

Paid as fixed monthly remuneration in an amount determined in accordance with duties as an Executive Officer and rank.

2) Bonus as short-term incentive compensation

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

3) Stock options as long-term incentive compensation

Set at around 30% of base salary for each position.

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

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

Compensation for Audit & Supervisory Board Members consists of fixed monthly remuneration.
Compensation standards are determined at meetings of the Audit & Supervisory Board.
Compensation standards for Members of the Board, Executive Officers and Audit & Supervisory Board Members are determined after ascertaining standards at other major manufacturers of a similar size, industry category and business type to the Company each year using officer compensation survey data from an external survey organization.
The Company has no retirement bonus system for Directors or Audit & Supervisory Board Members.

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

Category	Number of Directors/Audit & Supervisory Board Members	Aggregate Amount of Remuneration, etc.
Members of the Board (including, in parentheses, Outside Directors)	7 (3)	414 million yen (52 million yen)
Audit & Supervisory Board Members(including, in parentheses, Outside Audit & Supervisory Board Members)	6 (4)	76 million yen (28 million yen)
Total (including, in parentheses, Outside Directors and Outside Audit & Supervisory Board Members)	13 (7)	490 million yen (80 million yen)

Notes:

1. *The above numbers of Directors/Audit & Supervisory Board Members include 1 Audit & Supervisory Board Member who resigned at the conclusion of the 110th Annual General Meeting of Shareholders held on March 25, 2016.*
2. *The aggregate amount of remuneration, etc., paid to Members of the Board includes the following amounts:*
   (1) The amount to be paid as the bonuses for this fiscal year to Members of the Board
   112 million yen to 4 Members of the Board
   (2) The amount of remuneration, etc., as stock acquisition rights allotted as stock options based on the resolution of the meeting of the Board of Directors held on April 27, 2016.
   68 million yen to 4 Members of the Board
3. *Maximum aggregate amounts of remuneration, etc., are as follows:*
   (1) Maximum aggregate amounts of remuneration, etc., to be paid to Members of the Board
   (i) An annual amount of 630 million yen (resolved at the 101st Annual General Meeting of Shareholders held on June 28, 2007)
   This amount includes an annual amount of 100 million yen for Outside Directors (resolved at the 110th Annual General Meeting of Shareholders held on March 25, 2016), and does not include remuneration paid to Members of the Board who also serve as employees of the Company, for their services as employees.
   (ii) An annual amount of 200 million yen (resolved at the 100th Annual General Meeting of Shareholders held on June 29, 2006)
   This amount was approved as the maximum amount of stock acquisition rights to be allotted as stock options, apart from the amount in (i) above.
   (2) The maximum aggregate amount of remuneration, etc., to be paid to Audit & Supervisory Board Members
   An annual amount of 85 million yen (resolved at the 78th Annual General Meeting of Shareholders held on June 29, 1984)

4. Outside Directors and Outside Audit & Supervisory Board Members

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

Title	Name	Material Position(s) Held	Relationship with the Company
Member of the Board	Sonosuke Kadonaga	Intrinsics	No special relation
		Business Breakthrough Inc.	No special relation
		Business Breakthrough University	No special relation
Member of the Board	Toru Nagashima	Aeon Co., Ltd.	No special relation
		Daikin Industries, Ltd.	The Company outsources services to Daikin Industries, Ltd.
Member of the Board	Masayuki Oku	Panasonic Corporation	The Company outsources services and sells its products to Panasonic Corporation.
		Nankai Electric Railway Co., Ltd.	No special relation
		Komatsu Ltd.	No special relation
		Chugai Pharmaceutical Co., Ltd.	No special relation
		The Bank of East Asia, Limited	No special relation
Audit & Supervisory Board Member	Norio Igarashi	Mitsubishi UFJ Securities Holdings Co., Ltd.	No special relation
Audit & Supervisory Board Member	Yumiko Waseda	Asahi Group Holdings, Ltd.	No special relation
Audit & Supervisory Board Member	Toraki Inoue	Accounting Advisory Co., Ltd.	No special relation
		Aozora Bank, Ltd.	No special relation

Notes:

1. *There is no special relation between the Company and Sekisui Chemical Co., Ltd., which Mr. Toru Nagashima served as Outside Director until June 28, 2016.*
2. *There is no special relation between the Company and Matsui Securities Co., Ltd. which Mr. Norio Igarashi served as Outside Audit & Supervisory Board Member until June 26, 2016.*

(2) Principal activities during this fiscal year

Title	Name	Attendance at Meetings of the Board of Directors	Attendance at Meetings of the Audit & Supervisory Board	Comments at Meetings
Member of the Board	Sonosuke Kadonaga	14 out of 14 meetings	—	As the chairman of the Board, he contributed to the activation and the streamlining of the proceedings. Also, at meetings of the Board of Directors, he made comments principally based on his considerable experience as a management consultant.
Member of the Board	Toru Nagashima	13 out of 14 meetings	—	At meetings of the Board of Directors, he made comments principally based on his considerable experience as a manager of a manufacturing company.
Member of the Board	Masayuki Oku	13 out of 14 meetings	—	At meetings of the Board of Directors, he made comments principally based on his considerable experience as a manager of a financial institution.

Title	Name	Attendance at Meetings of the Board of Directors	Attendance at Meetings of the Audit & Supervisory Board	Comments at Meetings
Audit & Supervisory Board Member	Norio Igarashi	12 out of 14 meetings	9 out of 9 meetings	At meetings of the Board of Directors and meetings of the Audit & Supervisory Board, he made comments principally based on his professional opinion as a certified public accountant and a university professor.
Audit & Supervisory Board Member	Yumiko Waseda	14 out of 14 meetings	9 out of 9 meetings	At meetings of the Board of Directors and meetings of the Audit & Supervisory Board, she made comments principally based on her professional opinion as an attorney-at-law.
Audit & Supervisory Board Member	Toraki Inoue	12 out of 12 meetings	7 out of 7 meetings	At meetings of the Board of Directors and meetings of the Audit & Supervisory Board, he made comments principally based on his professional opinion as a certified public accountant.

Note:

During this fiscal year, 14 meetings of the Board of Directors and 9 meetings of Audit & Supervisory Board were held. After Mr. Toraki Inoue took offices as an Audit & Supervisory Board Member, 12 meetings of the Board of Directors and 7 meetings of the Audit & Supervisory Board were held.

(For Reference) Status of Executive Officers (as of January 1, 2017)

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

Title	Name	Duties at the Company and Other Material Position(s) Held
Executive Officer	Naoki Komoda	President, Fabric and Home Care Business Unit, Global
Executive Officer	Hitoshi Hosokawa	Vice President, Research and Development - Development Research – Skin Care/ Hair Care/ Cosmetics, Global
Executive Officer	Hiroyuki Yamashita	Vice President, Supply Chain Management – Technology Development Center, Global
Executive Officer	Minoru Nakanishi	Regional Executive Officer, President, Consumer Products, Greater China; Chairman of the Board, President, Kao (China) Holding Co., Ltd.; Chairman of the Board, President, Kao Corporation Shanghai; Chairman of the Board, President, Kao Commercial (Shanghai) Co., Ltd.; Chairman of the Board, President, Kao (Hefei) Co., Ltd.; Chairman of the Board, Kanebo Cosmetics (China) Co., Ltd.
Executive Officer	Akemi Ishiwata	Senior Vice President, Corporate Communications, Global
Executive Officer	Satoru Tanaka	President, Human Health Care Business Unit, Global
Executive Officer	Shigeru Ueyama	Senior Vice President, Corporate Strategy, Global
Executive Officer	Kenichi Yamauchi	Senior Vice President, Accounting and Finance, Global; President, Kao America Inc.

V The Accounting Auditor of the Company

1. Name of the Accounting Auditor

Deloitte Touche Tohmatsu LLC

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

(1) Amount of remuneration, etc., to be paid by the Company as Accounting Auditor fees:
95 million yen

(2) Aggregate amount of monetary and other proprietary benefits to be paid by the Company and its subsidiaries:
167 million yen

Notes:

1. The audit contract between the Company and the Accounting Auditor does not clearly distinguish between remuneration, etc., paid for the audit conducted in accordance with the Companies Act from that paid for the audit conducted in accordance with the Financial Instruments and Exchange Law, and it is practically impossible to make such a distinction. The amount of remuneration, etc., specified in (1) above, is the aggregate amount of remuneration, etc., for these two types of audits.

2. After having performed the necessary verification as to the appropriateness of matters such as the content of the Accounting Auditor's audit plan, the status of performance of duties by the Accounting Auditor, and the basis for the calculation of the estimated remuneration for the Accounting Auditor, the Audit & Supervisory Board has decided to consent to the amount of remuneration, etc. to be paid to the Accounting Auditor.

3. In addition to the audit certification services under Article 2. 1 of the Certified Public Accountant Law, providing advice and guidance concerning the application of IFRS 15 "Revenue from Contracts with Customers," have been entrusted to the Accounting Auditor of the Company.

4. Of the Company's main subsidiaries listed on page 5 audits (limited to audits under the Companies Act or the Financial Instruments and Exchange Law, and including audits under equivalent foreign laws and regulations), in respect of Kao (China) Holding Co., Ltd., Kao Corporation Shanghai, Kao (Hefei) Co., Ltd. , Kao Commercial (Shanghai) Co., Ltd., Kanebo Cosmetics (China) Co., Ltd., Kao (Shanghai) Chemical Industries Co., Ltd., Kao (Taiwan) Corporation, Pilipinas Kao, Inc., Kao Industrial (Thailand) Co., Ltd., Kao Commercial (Thailand) Co., Ltd., Fatty Chemical (Malaysia) Sdn. Bhd., PT Kao Indonesia, Kao Germany GmbH, Kao Manufacturing Germany GmbH, Kao Chemicals GmbH, Molton Brown Limited, Kao Chemicals Europe, S.L., and Kao Corporation S.A. have been performed, by certified public accountants or accounting firms other than the Company's Accounting Auditor (including those with equivalent foreign qualifications).

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

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

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

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

1. Systems to Assure Appropriate Business Operations of the Company

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

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

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

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

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

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

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

With regard to the risk of losses, the Company regards potential negative impact on management targets and business activities as "risks" and the manifestation of such risks as a "crisis," and has established systems for appropriate risk and crisis management. Based on the Risk and Crisis Management Policy, the Risk & Crisis Management Committee, chaired by the member of the Board of Directors or Executive Officer in charge of risk and crisis management, ascertains the progress of cross-divisional Company-wide risk management and establishes a plan for the preparation and application of risk and crisis management activities. Based on this policy and plan, departments concerned with risk or subsidiaries and affiliates appropriately manage risk by ascertaining and assessing risks, formulating and implementing necessary countermeasures, and other activities. In addition, after deliberation by the Management Committee, the President and Chief Executive Officer specifies major Company-wide risks as corporate risk and appoints a person to appropriately manage such risk. When a crisis occurs, the Company responds promptly by establishing an organization for countermeasures centered on this person in charge for corporate risk, and on departments concerned with risk or subsidiaries and affiliates for other types of risk. In addition, depending on the magnitude of the impact on the Group as a whole, the Company also establishes a countermeasures headquarters with the President and Chief Executive Officer or other person as its general manager. Management of the abovementioned risks and crises is reported to and discussed at the Meeting of the Board of Directors or the Management Committee on a regular basis as well as in a timely fashion whenever necessary.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

As for the principal activities this fiscal year, the BCG was revised in April, reflecting and incorporating therein the policies and regulations prescribed by the Company in the last few years as well as the requirements from the society at large. In line with the foregoing, explanation sessions on BCG revisions, managerial training, and training at several overseas Kao Group companies were performed in order to promote further understanding on compliance issues. In addition, "activities of obtaining employee opinions" were conducted after such training sessions and on other occasions, to check the level of understating concerning, and the penetration of, compliance activities. Furthermore, "compliance month," which commenced in Japan in r 2015, was expanded to and performed at overseas Kao Group companies, principally in the following manner: indicating posters containing monthly messages from the Chairman of the Compliance Committee, listing various kinds of information on the intranet, sharing case studies involving subjects common to domestic and overseas Kao Group companies, as well as performing department self-checks, BCG verification tests, and compliance awareness/status investigations as a means to help the respective organizations to review the current status of risks and related activities.

(Efforts Concerning Risk and Crisis Management)
In January 2016, the "Risk Management Committee" was renamed as the "Risk & Crisis Management Committee," and it now carries out its activities by fulfilling a broader range of roles, in addition to its conventional role, in order to facilitate making prompt and appropriate responses in the event of encountering a "crisis" as and when any risk becomes apparent. Measures for responding to major corporate risks have been promoted Company-wide, with the Risk & Crisis Management Committee managing the progress thereof. Corporate risks include not only risks such as natural disasters (e.g. large earthquakes) or pandemics that would affect the continuation of business, concerning which the Company has strived to strengthen countermeasures, but also include risks involved in management strategies. With regard to such risks, efforts have been made to formulate systems for making appropriate responses thereto, recognize the tasks involved and develop specific risk reduction measures, and to ensure that the members of the relevant departments and affiliates are thoroughly informed of risks, concerning which new systems have been created. In addition, with regard to large earthquakes, reporting and safety confirmation training has been conducted to strengthen the ability to respond to any such crisis upon the occurrence thereof and to cultivate crisis consciousness.

(Efforts Concerning Subsidiary Management)
Agenda items have been submitted and reports made from subsidiaries to the Company whenever necessary, in accordance with the Group Management rules, known as the "Policy Manual," that set forth matters regarding which subsidiaries are required to obtain prior approval from the Company or to make a report to the Company.
In addition, at periodic meetings established based on the businesses and the functions for supporting such businesses, agenda items have been submitted and reports made whenever necessary, based on the criteria for submission of agenda items. In addition, the Department of Internal Audit and sections in charge of subsidiary management have verified that agenda items have been submitted and reports made in accordance with regulations, etc., by way of site visits for auditing purposes or by causing checklists to be submitted.

Moreover, Representative Directors and Executive Officers have supervised the setting up and operation of an internal control system in respect of subsidiaries, in accordance with the division of their duties.

(Efforts Concerning Auditing by Audit & Supervisory Board Members)
The Audit & Supervisory Board members have attended important meetings such as meetings of the Board of Directors, the Management Committee, the Internal Control Committee and related committees, etc., made site visits to plants and research laboratories, etc. for auditing purposes, heard opinions from business sections and functional sections, performed investigations concerning domestic and overseas subsidiaries, held meetings for exchanging opinions with Representative Directors of the Company and its material subsidiaries, and held meetings by Audit & Supervisory Board Members of Domestic Group Companies (which are held semiannually and intended principally for the exchange of opinions between the Audit & Supervisory Board members of the Company and its subsidiaries).
In relation to the Accounting Auditor, while supervising independence and appropriateness of audits, a report on the audit plan (annual) and reports on accounting audit results (in respect of each quarterly review and year-end closing of accounts) have been received and information and opinions exchanged, and the selection of the Accounting Auditor was also discussed.
Furthermore, the Audit & Supervisory Board members have been working closely with Department of Internal Audit and other internal auditing sections, such as by exchanging information and opinions on a regular basis and whenever necessary, and has therefore been working to improve the effectiveness and efficiency of audits.

(Status of Revisions to Basic Policy Regarding the Internal Control Systems)
This fiscal year, no revisions have been made to applicable laws and regulations which would necessitate changes to the Basic Policy Regarding the Internal Control Systems (hereinafter, the "Policies"). Furthermore, as a result of interviews with subordinate committees of the Internal Control Committee, relevant departments, Audit & Supervisory Board Members and others, it has been confirmed that internal control systems are in fact being operated in accordance with the Policies. For this reason, it was resolved, at a meeting of the Board of Directors held in December 2016, that no changes were required to be made to the Policies.

- End -

Consolidated Financial Results for the Fiscal Year Ended December 31, 2016 [IFRS]

February 2, 2017

Company name: Kao Corporation
Tokyo Stock Exchange in Japan
Stock code: 4452
(URL: http://www.kao.com/jp/en/corp_ir/investors.html)
Representative: Michitaka Sawada, President and CEO
Contact person: Mitsuhiro Watanabe, Vice President, Investor Relations
E-mail: ir@kao.co.jp

Scheduled starting date of the dividend payments: March 22, 2017
Supplementary documents of the financial results: Yes
Holding financial results information meeting: Yes (for institutional investors and analysts)

(Millions of yen, except per share amounts)
(Amounts less than one million yen are rounded)

1. Consolidated financial results for the fiscal year ended December 31, 2016 (from January 1, 2016 to December 31, 2016)

(1) Consolidated operating results

(Percentages indicate year-on-year changes)

	Fiscal year ended December 31, 2016	%	Fiscal year ended December 31, 2015	%
Net sales	1,457,610	(1.1)	1,474,550	-
Operating income	185,571	10.9	167,318	-
Income before income taxes	183,430	10.5	166,038	-
Net income	127,889	20.7	105,952	-
Net income, attributable to owners of the parent	126,551	20.3	105,196	-
Comprehensive income	94,129	2.1	92,151	-

	Fiscal year ended December 31, 2016	Fiscal year ended December 31, 2015
Basic earnings per share (Yen)	253.43	209.82
Diluted earnings per share (Yen)	253.18	209.53
Ratio of net income to equity attributable to owners of the parent	18.6%	16.1%
Ratio of income before income taxes to total assets	13.8%	13.1%
Ratio of operating income to net sales	12.7%	11.3%
(Reference) Share of profit/loss in investments accounted for using the equity method	1,894	1,517

(2) Consolidated financial position

	December 31, 2016	December 31, 2015
Total assets	1,338,309	1,311,064
Total equity	691,463	691,987
Equity attributable to owners of the parent	679,842	680,996
Ratio of equity attributable to owners of the parent to total assets	50.8%	51.9%
Equity attributable to owners of the parent per share (Yen)	1,379.37	1,358.03

(3) Consolidated cash flows

	Fiscal year ended December 31, 2016	Fiscal year ended December 31, 2015
Net cash flows from operating activities	184,307	181,672
Net cash flows from investing activities	(88,639)	(74,124)
Net cash flows from financing activities	(95,043)	(20,773)
Cash and cash equivalents at the end of the year	303,026	309,922

2. Dividends

	Year ending December 31, 2017 (Forecast)	Year ended December 31, 2016	Year ended December 31, 2015
Annual cash dividends per share (Yen)			
1st quarter end	-	-	-
2nd quarter end	54.00	46.00	38.00
3rd quarter end	-	-	-
Fiscal year end	54.00	48.00	42.00
Total	108.00	94.00	80.00
Total dividend payment amount		46,787	40,158
Payout ratio (consolidated)	38.6%	37.1%	38.1%
Ratio of dividends to equity attributable to owners of the parent (consolidated)		6.9%	6.1%

3. Forecast of consolidated operating results for the fiscal year ending December 31, 2017 (from January 1, 2017 to December 31, 2017)

(Millions of yen, except per share amounts)
(Percentages indicate year-on-year changes)

	Six months ending June 30, 2017	%	Year ending December 31, 2017	%
Net sales	700,000	0.1	1,470,000	0.9
Operating income	82,000	1.1	200,000	7.8
Income before income taxes	82,000	6.3	199,000	8.5
Net income, attributable to owners of the parent	52,000	4.0	138,000	9.0
Basic earnings per share (Yen)	105.51	-	280.00	-

Note: From the fiscal year ending December 31, 2017, the Kao Group plans to adopt IFRS 15, “Revenue from Contracts with Customers” early in tandem with a revision of its sales system for the Consumer Products Business in Japan. As a result, certain items formerly treated as expenses will be deducted from net sales. Calculating net sales for the previous year using the same standard, growth rates in the forecast of consolidated business results would be 4.5% for the interim period and 5.3% for the full fiscal year.

4. Others

(1) Changes in significant subsidiaries during the year (changes in specified subsidiaries resulting in change in scope of consolidation): None

(2) Changes in accounting policies and changes in accounting estimates

1) Changes in accounting principles required by IFRS: None
2) Changes in accounting principles due to reasons other than 1): None
3) Changes in accounting estimates: Yes

For details, please refer to "2. Items Related to Summary Information (Notes), (2) Changes in accounting principles and changes in accounting estimates".

(3) Number of issued shares outstanding at the end of the year (ordinary shares)

	December 31, 2016	December 31, 2015
Number of issued shares including treasury shares	504,000,000	504,000,000
Number of treasury shares	11,137,654	2,541,816

	Fiscal year ended December 31, 2016	Fiscal year ended December 31, 2015
Weighted average number of shares outstanding during the year	499,355,189	501,351,849

Notice regarding execution of audit procedures

This financial results report is exempt from audit procedures based on the Financial Instruments and Exchange Law of Japan. At the time of disclosure of this report, audit procedures for financial statements are in progress.

Explanation regarding the appropriate use of forecast of operating results and other special items

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

Please refer to "1. Analysis of Operating Results and Financial Condition" for the suppositions that form the assumptions for earnings forecasts and cautions concerning the use of earnings forecasts.

Adoption of International Financial Reporting Standards (IFRS)

The Group has adopted International Financial Reporting Standards (IFRS) from the fiscal year ended December 31, 2016. Presentation of figures in the consolidated financial statements for the previous year also conforms to IFRS.
For differences between IFRS and Japanese GAAP in the financial statements, see information on first-time adoption of IFRS in the Investor Relations section of the Company's website.

1. Analysis of Operating Results and Financial Condition

(1) Analysis of Operating Results

Operating Results for the Fiscal Year Ended December 31, 2016

The Kao Group has adopted International Financial Reporting Standards (IFRS) from the fiscal year ended December 31, 2016. In addition, financial figures for the previous fiscal year have been restated using IFRS for comparative analysis.

(Billions of yen, except per share amounts)

	2016	2015	Growth %
Net sales	1,457.6	1,474.6	(1.1)
Operating income	185.6	167.3	10.9
Operating margin (%)	12.7	11.3	-
Income before income taxes	183.4	166.0	10.5
Net income	127.9	106.0	20.7
Net income, attributable to owners of the parent	126.6	105.2	20.3
Basic earnings per share (Yen)	253.43	209.82	20.8

1) Trends in Overall Results for the Fiscal Year Ended December 31, 2016

During the fiscal year ended December 31, 2016, the global economy slowed in the first half due to factors including a trend toward normalization of monetary policy in the United States and Europe, sluggish economies in emerging nations and elsewhere, and a drop in the price of crude oil, but turned toward recovery in the second half, centered on the United States. The Japanese economy continued on a moderate recovery track, although delays in improvement have become apparent in some sectors. Moreover, it was a volatile year in foreign exchange markets. The household and personal care products market in Japan, a key market for the Kao Group, grew by 2% on a value basis and consumer purchase prices remained nearly flat compared with the previous fiscal year. The cosmetics market in Japan grew by 1%, excluding inbound demand (demand from visitors to Japan).

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 conducted 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."*

To improve capital efficiency and increase shareholder returns, Kao Corporation resolved at a meeting of its Board of Directors held on August 25, 2016 to repurchase its own shares, and repurchased shares totaling 50.0 billion yen.

Net sales decreased 1.1% compared with the previous fiscal year to 1,457.6 billion yen. Excluding the effect of currency translation, net sales would have increased 3.2%. In the Consumer Products Business, sales increased in Japan due to factors including market growth, launches of new and improved products, and further enhancement of sales promotion activities. Outside Japan, sales in Asia increased, excluding the effect of currency translation. In the Chemical Business, sales increased compared with the previous fiscal year, excluding the effect of currency translation, as the Kao Group worked to adjust selling prices in response to rising costs for natural fats and oils, although sales were impacted by a decline in demand in some customer industries.

As for profits, due to the effect of increased sales in the Consumer Products Business in Japan and Asia, a decrease in the cost of petrochemical raw materials and other factors, operating income was 185.6 billion yen, an increase of 18.3 billion yen compared with the previous fiscal year, the operating margin was 12.7% and income before income taxes was 183.4 billion yen, an increase of 17.4 billion yen. Net income was 127.9 billion yen, an increase of 21.9 billion yen.

Basic earnings per share were 253.43 yen, an increase of 43.61 yen, or 20.8%, from 209.82 yen in the previous fiscal year.

Economic value added (EVA*), which the Kao Group uses as a management indicator, increased 14.8 billion yen compared with the previous fiscal year to 73.4 billion yen, due in part to an increase in net operating profit after tax (NOPAT) and efforts to reduce capital invested including the implementation of shareholder returns through a share repurchase.

** 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	115.31 (119.15)	108.05 (121.33)	102.38 (122.23)	109.41 (121.43)
Yen/Euro	127.15 (134.43)	122.05 (134.14)	114.24 (135.91)	117.88 (132.99)
Yen/Chinese yuan	17.63 (19.11)	16.55 (19.56)	15.36 (19.41)	16.01 (19.00)

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

2) Trends by Segment during the Fiscal Year

Summary of Segment Information

Consolidated Results by Segment

(Billions of yen)

Fiscal year ended December 31	Net sales				Operating income			
	2016	2015	Growth %	Like-for-like*	2016	2015	Change	% of net sales
Beauty Care	601.6	608.6	(1.1)	2.9	51.1	37.9	13.2	8.5
Human Health Care	273.1	281.7	(3.1)	1.3	25.9	33.4	(7.4)	9.5
Fabric and Home Care	345.2	335.3	2.9	4.7	78.1	66.1	12.0	22.6
Total Consumer Products	1,219.8	1,225.6	(0.5)	3.0	155.1	137.4	17.7	12.7
Chemical	273.8	288.5	(5.1)	2.5	29.7	28.6	1.1	10.8
Total	1,493.6	1,514.1	(1.3)	2.9	184.8	166.0	18.8	12.4
Reconciliations	(36.0)	(39.5)	-	-	0.8	1.3	(0.5)	-
Consolidated	1,457.6	1,474.6	(1.1)	3.2	185.6	167.3	18.3	12.7

Note:
* 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)

Fiscal year ended December 31	Net sales			
	2016	2015	Growth %	Like-for-like*
Beauty Care	425.3	412.3	3.2	3.2
Human Health Care	215.3	222.7	(3.3)	(3.3)
Fabric and Home Care	302.3	288.8	4.7	4.7
Total Japan	943.0	923.8	2.1	2.1
Asia	180.8	182.7	(1.1)	13.0
Americas	80.1	89.7	(10.7)	(0.5)
Europe	78.1	89.9	(13.1)	(0.8)
Eliminations	(62.2)	(60.5)	-	-
Total Consumer Products	1,219.8	1,225.6	(0.5)	3.0
Japan	124.0	130.0	(4.6)	(4.6)
Asia	103.8	105.8	(1.9)	12.4
Americas	44.6	48.2	(7.4)	7.8
Europe	59.4	64.8	(8.3)	2.4
Eliminations	(58.0)	(60.3)	-	-
Total Chemical	273.8	288.5	(5.1)	2.5
Total	1,493.6	1,514.1	(1.3)	2.9
Reconciliations	(36.0)	(39.5)	-	-
Consolidated	1,457.6	1,474.6	(1.1)	3.2

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

Reference: Consolidated Results by Geographic Area[1]

(Billions of yen)

Fiscal year ended December 31	Net sales				Operating income			
	2016	2015	Growth %	Like-for-like[2]	2016	2015	Change	% of net sales
Japan	1,035.7	1,019.8	1.6	1.6	145.1	127.8	17.4	14.0
Asia	281.5	284.8	(1.1)	13.0	22.8	20.9	2.0	8.1
Americas	124.7	137.8	(9.6)	2.4	7.2	7.8	(0.6)	5.8
Europe	137.2	154.4	(11.1)	0.5	9.4	12.1	(2.7)	6.8
Total	1,579.1	1,596.8	(1.1)	3.6	184.6	168.5	16.1	11.7
Reconciliations	(121.5)	(122.2)	-	-	1.0	(1.1)	2.2	-
Consolidated	1,457.6	1,474.6	(1.1)	3.2	185.6	167.3	18.3	12.7

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.

Net sales outside Japan were 33.8% of net sales compared with 35.2% for the previous fiscal year. Excluding the effect of currency translation, net sales outside Japan would have been 36.6% of net sales.

Consumer Products Business

Sales decreased 0.5% compared with the previous fiscal year to 1,219.8 billion yen. Excluding the effect of currency translation, sales would have increased 3.0%.

In Japan, sales increased 2.1% to 943.0 billion yen. The Kao Group made efforts that included working to respond to the changing lifestyles and diversifying preferences of consumers, and social issues such as the environment, health, the aging society and hygiene, by launching numerous high-value-added products and enhancing proposal-oriented sales activities.

In Asia, sales decreased 1.1% to 180.8 billion yen. Excluding the effect of currency translation, sales would have increased 13.0%. 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 decreased 10.7% to 80.1 billion yen. Excluding the effect of currency translation, sales would have decreased 0.5%. Although sales of skin care products and professional hair care products grew, sales of hair care products decreased compared with the previous fiscal year.

In Europe, sales decreased 13.1% to 78.1 billion yen. Excluding the effect of currency translation, sales would have decreased 0.8%. Although sales of professional hair care products were nearly flat, sales of hair care products decreased compared with the previous fiscal year.

Operating income increased 17.7 billion yen compared with the previous fiscal year to 155.1 billion yen due to factors including the effect of increased sales in the Fabric and Home Care Business in Japan, increased sales in Asia, a decrease in the cost of raw materials and the completion of amortization of trademarks.

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 decreased 1.1% compared with the previous fiscal year to 601.6 billion yen. Excluding the effect of currency translation, sales would have increased 2.9%.

Sales of cosmetics were on a par with the previous fiscal year at 255.0 billion yen. Excluding the effect of currency translation, sales would have increased 2.8%. In Japan, sales increased due to factors including good performance by new products launched in 2015 and enhanced in-store sales promotion activities. Major reforms in the cosmetics business started in September 2016 and sales of the *SOFINA iP* series, for which sales channels have expanded, and of the new global brand *KANEBO* were steady. In counseling cosmetics, the *ALBLANC* skin brightening brand and the *RMK* brand performed strongly, and in self-selection cosmetics, sales of *KATE* and *media* makeup grew. Sales increased outside Japan, due in part to strong performance in China and Taiwan.

Sales of skin care products increased. In Japan, sales increased due to growth in sales of *Bioré* facial cleanser and UV care as well as *Curél* derma care products. Sales also grew in Asia and in the Americas as *Bioré* sold strongly.

Sales of hair care products decreased. In Japan, the Kao Group conducted a complete renewal of *Essential* shampoos and conditioners and other measures, but sales were flat due to intensifying competition. The Kao Group also launched new easy-to-use, environmentally conscious refill products, which gained the support of consumers. Outside Japan, sales decreased as severe conditions continued.

Operating income increased 13.2 billion yen compared with the previous fiscal year to 51.1 billion yen, due to the effect of increased sales in Japan, the completion of amortization of trademarks related to Kanebo Cosmetics, and an impairment loss and other items recorded in the previous fiscal year.

Human Health Care Business

Sales decreased 3.1% compared with the previous fiscal year to 273.1 billion yen. Excluding the effect of currency translation, sales would have increased 1.3%.

For food and beverage products, signs of recovery became apparent as the Kao Group strengthened its promotion of the function of highly concentrated tea catechins in *Healthya Green Tea,* a functional drink that enhances the body's ability to metabolize fat and facilitates reduction of body fat, and worked to cultivate new users.

Sales of sanitary products increased. Sales of the *Laurier* brand of sanitary napkins grew steadily. In Japan, a high-value-added scented version of *Laurier Slim Guard*, which offers both high absorbency and comfort, was launched and sales increased. In Asia, sales of high-value-added products increased strongly. Sales of *Merries* baby diapers were nearly flat excluding the effect of currency translation. In Japan, amid a decline in demand for purchasing with the purpose of resale in China compared with the previous fiscal year, the Kao Group began full-scale efforts for cross-border e-commerce for the Chinese market, but sales decreased. In addition, the Kao Group has mostly resolved prolonged shortages in stores, and resumed marketing activities. Market share is recovering, supported by the June 2016 launch of an improved product with even better breathability, among other factors. In China, where market growth continues, sales increased even as the Kao Group conducted a transformation of its sales structure. In Indonesia, sales of locally produced *Merries* targeting the middle-class consumer segment were favorable.

Sales of personal health products increased. Sales of oral care products increased with good performance by *Pure Oral* toothpaste and mouthwash. Sales of bath additives increased. Although sales of *MegRhythm* steam thermo sheets decreased due to a decline in inbound demand, the product is on a recovery trend as a result of factors including enhanced in-store sales promotion activities and advertising.

Operating income decreased 7.4 billion yen compared with the previous fiscal year to 25.9 billion yen due to factors including the effect of aggressive marketing expenditures, an increase in depreciation, the effect of exchange rate fluctuations and a decrease in inbound demand.

Fabric and Home Care Business

Sales increased 2.9% compared with the previous fiscal year to 345.2 billion yen. Excluding the effect of currency translation, sales would have increased 4.7%.

Sales of fabric care products increased compared with the previous fiscal year. In Japan's fiercely competitive market environment, both sales and market share increased from responding to the larger-sized products category and the contribution of new and improved products. Sales of laundry detergents increased, centered on ultra-concentrated liquid laundry detergent *Ultra Attack Neo* and the rest of the *Neo* series, as well as conventional-type *Attack Antibacterial EX Super Clear Gel*. For fabric softeners, as the market for high-value-added products expanded, the Kao Group launched a new *Flair Fragrance* product that features a new fragrance release function, and *Flair Fragrance IROKA*, a premium fabric softener, and sales increased. *Humming Fine*, which has a strong deodorizing effect, sold strongly. Sales also increased in Asia compared with the previous fiscal year. In particular, sales were strong for *Attack Jaz1*, a powder detergent for hand washing targeting the middle-class consumer segment in Indonesia.

Sales of home care products increased. In Japan, for *CuCute* dishwashing detergent, the Kao Group launched *CuCute CLEAR Foam Spray*, a new foam spray type product. In response to the conventional notion that a sponge is used with dishwashing detergent, the product created a new market with the entirely new concept of "spraying away residue from places a sponge can't reach." Sales of *Magiclean* household cleaners for the bath, toilet, kitchen and other areas grew with value-added offerings such as deodorizing, disinfecting and anti-staining. In addition, sales of *Resesh* clothing, fabric and air refresher and *Quickle* household cleaning mop kit grew steadily. Sales grew in Asia as *Magiclean*, a high-value-added household cleaner that responds to lifestyles in each country for use in various daily life settings, performed strongly in Thailand and elsewhere.

Operating income increased 12.0 billion yen compared with the previous fiscal year to 78.1 billion yen due to factors including the effect of increased sales and a decrease in the cost of raw materials.

Chemical Business

Sales decreased 5.1% compared with the previous fiscal year to 273.8 billion yen. Excluding the effect of currency translation, sales would have increased 2.5%.

In Japan, sales were impacted by a trend toward a decrease in demand in some customer industry markets, including construction materials. Outside Japan, excluding the effect of currency translation, sales increased despite the negative effects from the decrease in demand among customer industries, as the Kao Group worked to expand sales and adjust the selling prices of oleo chemicals.

Sales of oleo chemicals continued to increase as the Kao Group worked to adjust selling prices in line with the continuing rise of raw material prices. In performance chemicals, the Kao Group worked to develop and expand sales of high-value-added products with a reduced environmental footprint, but was impacted by worsening conditions in the construction materials and other markets. Sales of specialty chemicals decreased due to ongoing sluggish demand and structural changes in the personal computer market.

Operating income increased 1.1 billion yen compared with the previous fiscal year to 29.7 billion yen as the Kao Group promoted high-value-added products, worked to adjust selling prices and conducted other measures in response to rising costs for natural fats and oils in a severe business environment.

In June 2016, the Kao Group announced the acquisition of ink companies in the United States and Europe to accelerate the development of its water-based pigment inkjet ink, which contributes to reducing environmental footprint, and the global rollout of the business. The company in the United States became a consolidated subsidiary in July 2016.

Forecast of Business Results (Billions of yen, except per share amounts)

	2017	2016	Growth %
Net sales	1,470.0	1,457.6	0.9*
Operating income	200.0	185.6	7.8
Operating margin (%)	13.6	12.7	-
Income before income taxes	199.0	183.4	8.5
Net income, attributable to owners of the parent	138.0	126.6	9.0
Basic earnings per share (Yen)	280.00	253.43	10.5

** From fiscal 2017, the Kao Group plans to adopt IFRS 15, "Revenue from Contracts with Customers" early in tandem with a revision of its sales system. Calculating net sales for the previous fiscal year using the same standard, the above growth rate would be an increase of 5.3% (an increase of 4.7% excluding the effect of currency translation).*

1) Forecast of Overall Business Results for the Fiscal Year Ending December 31, 2017

Expectations for the global economy are spreading in the United States and worldwide, but on the other hand, as anti-globalization and protectionist trends are starting to become conspicuous, there are concerns about a downturn in business conditions due to trends in government policies and financial markets in each country, as well as 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 fiscal year ending December 31, 2017 is the initial year of the Kao Group Mid-term Plan "K20," which will span the four-year period to 2020. The Kao Group will steadily implement the various strategies incorporated in the plan, one by one.

From the first quarter of 2017, the Kao Group plans to adopt IFRS 15, "Revenue from Contracts with Customers" early in tandem with a revision of its sales system for the Consumer Products Business in Japan. As a result, the Kao Group forecasts that net sales will increase 0.9% year on year to 1,470.0 billion yen due to the deduction from net sales of certain items formerly treated as expenses. Calculating net sales for the fiscal year ended December 31, 2016 using the same standard, the increase in net sales would be 5.3% (4.7% excluding the effect of currency translation). The Kao Group will work to stimulate the market with new product launches and other measures inside and outside Japan, and expects an increase in sales volume.

Overall, the Kao Group expects higher raw material prices compared with the previous fiscal year, with prices for natural oils and fats forecast to remain at a high level and market prices for petrochemicals forecast to rise somewhat. In addition, the Kao Group will continue to conduct cost reduction activities and other measures.

Based on these assumptions, the Kao Group forecasts a 7.8% increase in operating income to 200.0 billion yen, an operating margin of 13.6%, an 8.5% increase in income before income taxes to 199.0 billion yen, and a 9.0% increase in net income, attributable to owners of the parent to 138.0 billion yen.

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

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2) Forecast by Segment for the Fiscal Year Ending December 31, 2017

For the growth rates for each business segment below, sales for the previous fiscal year have been calculated using the same standard as for fiscal 2017.

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 cosmetics, the Kao Group will further aggressively promote the reform of Kao Sofina and Kanebo Cosmetics, brighten up their brand identities by accentuating the features of their respective products, and strive to restore their luster in the market. Outside Japan, 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 increase 5.3% year on year to 601.0 billion yen.

The Human Health Care Business will promote product development focused on health care for both body and spirit. In 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 in Japan. The Kao Group aims to create sanitary products that are gentle on skin and that offer greater comfort and a sense of confidence. In China, the Kao Group will strengthen the growing e-commerce channel and baby specialty store channel. In addition, the Kao Group will work to further enhance integration between its Japanese and overseas operations to meet the strong demand for Japanese-made baby diapers from outside Japan. In 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 280.0 billion yen.

In the Fabric and Home Care Business, the Kao Group will strengthen its brands and offer proposals for enriched daily lives 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 2.9% year on year to 340.0 billion yen.

In the Chemical Business, the Kao Group will promote global supply of distinctive high-value-added 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 demand for infrastructure. 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 global climate change.

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 3.9% year on year to 284.0 billion yen.

3) Underlying Assumptions of the Forecast for the Fiscal Year Ending December 31, 2017

The above forecast was made assuming translation rates of one U.S. dollar to 110 yen, one euro to 123 yen and one Chinese yuan to 16.8 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.

(2) Analysis of Financial Condition

Analysis of Assets, Liabilities, Equity and Cash Flows

1) Analysis of Assets, Liabilities, Equity and Cash Flows for the Fiscal Year Ended December 31, 2016

Summary of Consolidated Financial Position

(Billions of yen, except per share amounts)

	December 31, 2016	December 31, 2015	Incr./(Dcr.)
Total assets	1,338.3	1,311.1	27.2
Total liabilities	646.8	619.1	27.8
Total equity	691.5	692.0	(0.5)
Ratio of equity attributable to owners of the parent to total assets	50.8%	51.9%	-
Equity attributable to owners of the parent per share (Yen)	1,379.37	1,358.03	21.34
Bonds and borrowings	120.6	120.5	0.1

Summary of Consolidated Cash Flows

(Billions of yen)

	2016	2015	Incr./(Dcr.)
Net cash flows from operating activities	184.3	181.7	2.6
Net cash flows from investing activities	(88.6)	(74.1)	(14.5)
Free cash flow*	95.7	107.5	(11.9)
Net cash flows from financing activities	(95.0)	(20.8)	(74.3)

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

Total assets increased 27.2 billion yen from December 31, 2015 to 1,338.3 billion yen. The principal increases in assets were a 13.9 billion yen increase in inventories and a 32.8 billion yen increase in property, plant and equipment. The principal decreases in assets were a 6.9 billion yen decrease in cash and cash equivalents and a 14.2 billion yen decrease in other current assets.

Total liabilities increased 27.8 billion yen from December 31, 2015 to 646.8 billion yen. The principal increases in liabilities were a 10.1 billion yen increase in trade and other payables, a 5.7 billion yen increase in other current liabilities and a 19.1 billion yen increase in retirement benefit liabilities. The principal decrease in liabilities was a 9.3 billion yen decrease in provisions.

Total equity decreased 0.5 billion yen from December 31, 2015 to 691.5 billion yen. The principal increase in equity was net income totaling 127.9 billion yen. The principal decreases in equity were 50.0 billion yen due to purchase of treasury shares from the market, exchange differences on translation of foreign operations of 16.2 billion yen, remeasurements of defined benefit plans totaling 16.1 billion yen and dividends totaling 45.1 billion yen.

As a result of the above factors, the ratio of equity attributable to owners of the parent to total assets was 50.8% compared with 51.9% at December 31, 2015.

Net cash flows from operating activities totaled 184.3 billion yen. The principal increases in net cash were income before income taxes of 183.4 billion yen, depreciation and amortization of 51.1 billion yen and increase in retirement benefit liabilities of 20.0 billion yen. The principal decreases in net cash were increase in inventories of 17.4 billion yen, other, which includes accrued expenses, of 7.2 billion yen and income taxes paid of 48.7 billion yen.

Net cash flows from investing activities totaled negative 88.6 billion yen. This primarily consisted of payments into time deposits of 11.6 billion yen, purchase of property, plant and equipment of 74.6 billion yen and purchase of intangible assets of 5.1 billion yen.

Free cash flow, the sum of net cash flows from operating activities and net cash flows from investing activities, was 95.7 billion yen.

Net cash flows from financing activities totaled negative 95.0 billion yen. This primarily consisted of 50.0 billion yen for purchase of treasury shares and 45.1 billion yen for dividends paid to owners of the parent and non-controlling interests.

The balance of cash and cash equivalents at December 31, 2016 decreased 6.9 billion yen compared with December 31, 2015 to 303.0 billion yen, including the effect of exchange rate changes.

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2) Forecast of Assets, Liabilities, Net Assets and Cash Flows for the Fiscal Year Ending December 31, 2017

Net cash flows from operating activities are forecast to be approximately 190.0 billion yen, due in part to an increase in income before income taxes.

In net cash flows from investing activities, the Kao Group plans capital expenditures of approximately 75.0 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 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, 2017 is forecast to increase approximately 60.0 billion yen from the previous fiscal year end to approximately 360.0 billion yen.

Cash Flow Indices

	2016	2015
Equity attributable to owner of the parent / Total assets (%)	50.8	51.9
Market capitalization / Total assets (%)	204.1	239.2
Interest-bearing debt / Operating cash flow (years)	0.7	0.7
Operating cash flow / Interest paid (times)	122.6	124.2

Notes:
1. *All figures are computed based on consolidated data.*
2. *Market capitalization is calculated based on the number of issued and outstanding shares less treasury shares.*
3. *Interest-bearing debt is all debt included in the consolidated statement of financial position on which interest is paid.*
4. *The Kao Group has applied IFRS from fiscal 2016, with a transition date of January 1, 2015. Accordingly, figures for fiscal 2014 and earlier are not presented.*

(3) Basic Policies Regarding Distribution of Profits and Dividends for the Fiscal Years Ended December 31, 2016 and Ending December 31, 2017

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 shares from the standpoint of improving capital efficiency.

In accordance with these policies, the Company plans to pay a year-end dividend for fiscal 2016 of 48.00 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 14.00 yen per share compared with the previous fiscal year, resulting in a total of 94.00 yen per share. The consolidated payout ratio will be 37.1%.

For fiscal 2017, the Company plans to pay total cash dividends of 108.00 yen per share, an increase of 14.00 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 28th consecutive fiscal year of increases in dividends.

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2. Management Policies

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 a global company 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) 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. The Kao Group views EVA growth as a primary focus of operating activity that expands business scale by making the maximum use of assets, and raising asset efficiency. The Kao Group also uses this metric to determine the direction of long-term management strategies, to assess specific businesses, to make evaluations on investment in facilities, acquisitions and other items, and to develop performance targets for each fiscal year.

3) Medium-to-long-term Management Strategies of the Kao Group

1. Long-term Management Strategy

(1) <u>Long-term Targets</u>

As vision by 2030 based on the above management policies, the Kao Group aims to make Kao a company with a global presence by combining sustained "profitable growth," and "contributions to the sustainability of the world" with proposals to resolve social issues and social contribution activities conducted through its business operations. To achieve this vision, the Kao Group will promote the further reinforcement of the existing businesses that are its strength and the creation of new markets from a global perspective utilizing the R&D capabilities that will create value for the future, in addition to implementing basic measures to further raise the level of safety and reliability.

It is becoming difficult to predict the various changes that will occur throughout the world in all aspects, such as speed, size and direction. To deal with this situation, the Kao Group aims to achieve the above vision by fully embracing the slogan of “transforming ourselves to drive change.”

The Kao Group’s vision by 2030 is as follows.
Make the Kao Group a company with a global presence that

■ Has a distinctive corporate image
■ Is a high-profit global consumer goods company that exceeds:
  - 2.5 trillion yen in net sales (1.0 trillion yen outside Japan)
  - 17% operating margin
  - 20% ROE
■ Provides a high level of returns to stakeholders

(2) Mid-term Business Plan

The Kao Group regards its mid-term business plan for the period to 2020 as an important milestone toward achieving its vision by 2030. To enhance corporate value, it established the Kao Group Mid-term Plan 2020 “K20” targeting the four years from fiscal 2017 to fiscal 2020 and announced it publicly on December 12, 2016.

K20 Goals – Three Commitments

■ Commitment to fostering a distinctive corporate image
  Become a company that is always by the consumer’s side
■ Commitment to profitable growth
  - Continue to set new record highs for profits
  - Aim for like-for-like* net sales CAGR of +5%, operating margin of 15%
  - Three 100 billion yen brands (*Merries* baby diapers, *Attack* laundry detergents, *Bioré* skin care products)

**Excluding the effect of currency translation, change of sales system, etc.*

■ Commitment to returns to stakeholders
  - Shareholders: Continuous cash dividend increases (40% payout ratio target)
  - Employees: Continuous improvement in compensation, benefits and health support
  - Customers: Maximization of win-win relationships
  - Society: Advanced measures to address social issues

The Kao Group has established Integrity, passed down from Kao’s founder, as one of the core Values of its corporate philosophy, the Kao Way. Under K20, this Integrity will continue to be embraced in the Group’s daily business activities as it maintains thorough quality control and information control, sincere consumer communications, strict compliance and effective crisis management. Through such endeavors, the Kao Group aims to reinforce its credibility in a global society.

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 changes in the 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 earnestly 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 changes in the risks entailed in its businesses, the Kao Group will define the serious company-wide risks among its main 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.

5) Basic Approach to Selection of Accounting Standards

Having decided that unifying accounting standards within the Kao Group will contribute to improving the quality of its business management, the Kao Group has voluntarily adopted International Financial Reporting Standards (IFRS) from the fiscal 2016. This 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 Statement of Financial Position

(Millions of yen)

	December 31, 2016	December 31, 2015	Transition date January 1, 2015
Assets			
Current assets			
Cash and cash equivalents	303,026	309,922	228,967
Trade and other receivables	208,459	210,707	212,742
Inventories	165,200	151,271	151,876
Current income tax assets	1,462	2,077	1,261
Other financial assets	13,038	5,065	4,034
Other current assets	23,812	38,005	47,299
Subtotal	714,997	717,047	646,179
Non-current assets held for sale	344	1,330	-
Total current assets	715,341	718,377	646,179
Non-current assets			
Property, plant and equipment	370,835	337,997	319,282
Goodwill	137,783	138,251	138,751
Intangible assets	14,689	15,705	23,626
Investments accounted for using the equity method	4,701	4,209	3,544
Other financial assets	25,473	29,339	26,088
Other non-current assets	18,548	17,732	7,966
Deferred tax assets	50,939	49,454	61,194
Total non-current assets	622,968	592,687	580,451
Total assets	1,338,309	1,311,064	1,226,630

Consolidated Statement of Financial Position

(Millions of yen)

	December 31, 2016	December 31, 2015	Transition date January 1, 2015
Liabilities and equity			
Liabilities			
Current liabilities			
Trade and other payables	216,893	206,760	193,460
Bonds and borrowings	30,289	339	21,422
Income tax payables	32,621	32,184	28,283
Other financial liabilities	8,164	6,929	5,765
Provisions	11,370	16,772	33,360
Other current liabilities	131,112	125,422	123,916
Total current liabilities	430,449	388,406	406,206
Non-current liabilities			
Bonds and borrowings	90,357	120,207	80,188
Retirement benefit liabilities	94,773	75,706	77,895
Other financial liabilities	11,666	11,817	12,813
Provisions	13,809	17,704	5,296
Other non-current liabilities	5,264	4,919	5,411
Deferred tax liabilities	528	318	433
Total non-current liabilities	216,397	230,671	182,036
Total liabilities	646,846	619,077	588,242
Equity			
Share capital	85,424	85,424	85,424
Capital surplus	107,648	108,659	109,561
Treasury shares	(57,124)	(8,202)	(9,719)
Other components of equity	(21,821)	(4,184)	7,601
Retained earnings	565,715	499,299	431,975
Equity attributable to owners of the parent	679,842	680,996	624,842
Non-controlling interests	11,621	10,991	13,546
Total equity	691,463	691,987	638,388
Total liabilities and equity	1,338,309	1,311,064	1,226,630

Consolidated Satement of Income

(Millions of yen)

	Notes	Fiscal year ended December 31, 2016	Fiscal year ended December 31, 2015
Net sales	1	1,457,610	1,474,550
Cost of sales		(637,502)	(658,865)
Gross profit		820,108	815,685
Selling, general and administrative expenses	2	(633,368)	(642,729)
Other operating income		13,677	14,099
Other operating expenses		(14,846)	(19,737)
Operating income	1	185,571	167,318
Financial income		1,389	1,416
Financial expenses		(5,424)	(4,213)
Share of profit in investments accounted for using the equity method		1,894	1,517
Income before income taxes		183,430	166,038
Income taxes		(55,541)	(60,086)
Net income		127,889	105,952
Attributable to:			
Owners of the parent		126,551	105,196
Non-controlling interests		1,338	756
Net income		127,889	105,952
Earnings per share			
Basic (Yen)	3	253.43	209.82
Diluted (Yen)	3	253.18	209.53

Consolidated Statement of Comprehensive Income

(Millions of yen)

	Fiscal year ended December 31, 2016	Fiscal year ended December 31, 2015
Net income	127,889	105,952
Other comprehensive income		
Items that will not be reclassified to profit or loss:		
Net gain (loss) on revaluation of financial assets measured at fair value through other comprehensive income	(906)	1,795
Remeasurements of defined benefit plans	(16,111)	(770)
Share of other comprehensive income of investments accounted for using the equity method	(72)	245
Total of items that will not be reclassified to profit or loss	(17,089)	1,270
Items that may be reclassified subsequently to profit or loss:		
Exchange differences on translation of foreign operations	(16,661)	(15,064)
Net gain (loss) on derivatives designated as cash flow hedges	-	12
Share of other comprehensive income of investments accounted for using the equity method	(10)	(19)
Total of items that may be reclassified subsequently to profit or loss	(16,671)	(15,071)
Other comprehensive income, net of taxes	(33,760)	(13,801)
Comprehensive income	94,129	92,151
Attributable to:		
Owners of the parent	93,284	93,011
Non-controlling interests	845	(860)
Comprehensive income	94,129	92,151

Consolidated Statement of Changes in Equity

(Millions of yen)

	Equity attributable to owners of the parent												
				Other components of equity									
	Share capital	Capital surplus	Treasury shares	Subscription rights to shares	Exchange differences on translation of foreign operations	Net gain (loss) on derivatives designated as cash flow hedges	Net gain (loss) on revaluation of financial assets measured at fair value through other compre-hensive income	Remeasur-ements of defined benefit plans	Total	Retained earnings	Total	Non-controlling interests	Total equity
January 1, 2016	85,424	108,659	(8,202)	902	(13,513)	(3)	8,430	-	(4,184)	499,299	680,996	10,991	691,987
Net income	-	-	-	-	-	-	-	-	-	126,551	126,551	1,338	127,889
Other comprehensive income	-	-	-	-	(16,248)	7	(970)	(16,056)	(33,267)	-	(33,267)	(493)	(33,760)
Comprehensive income	-	-	-	-	(16,248)	7	(970)	(16,056)	(33,267)	126,551	93,284	845	94,129
Disposal of treasury shares	-	-	1,099	(189)	-	-	-	-	(189)	(404)	506	-	506
Purchase of treasury shares	-	-	(50,021)	-	-	-	-	-	-	-	(50,021)	-	(50,021)
Share-based payment transactions	-	-	-	227	-	-	-	-	227	-	227	-	227
Dividends	-	-	-	-	-	-	-	-	-	(44,139)	(44,139)	(955)	(45,094)
Changes in the ownership interest in a subsidiary	-	(1,011)	-	-	-	-	-	-	-	-	(1,011)	1,007	(4)
Transfer from other components of equity to retained earnings	-	-	-	(29)	-	-	(435)	16,056	15,592	(15,592)	-	-	-
Other increase (decrease)	-	-	-	-	-	-	-	-	-	-	-	(267)	(267)
Total transactions with the owners	-	(1,011)	(48,922)	9	-	-	(435)	16,056	15,630	(60,135)	(94,438)	(215)	(94,653)
December 31, 2016	85,424	107,648	(57,124)	911	(29,761)	4	7,025	-	(21,821)	565,715	679,842	11,621	691,463
January 1, 2015	85,424	109,561	(9,719)	980	-	(4)	6,625	-	7,601	431,975	624,842	13,546	638,388
Net income	-	-	-	-	-	-	-	-	-	105,196	105,196	756	105,952
Other comprehensive income	-	-	-	-	(13,513)	1	2,041	(714)	(12,185)	-	(12,185)	(1,616)	(13,801)
Comprehensive income	-	-	-	-	(13,513)	1	2,041	(714)	(12,185)	105,196	93,011	(860)	92,151
Disposal of treasury shares	-	-	1,571	(231)	-	-	-	-	(231)	(375)	965	-	965
Purchase of treasury shares	-	-	(54)	-	-	-	-	-	-	-	(54)	-	(54)
Share-based payment transactions	-	-	-	225	-	-	-	-	225	-	225	-	225
Dividends	-	-	-	-	-	-	-	-	-	(37,091)	(37,091)	(1,248)	(38,339)
Changes in the ownership interest in a subsidiary	-	(902)	-	-	-	-	-	-	-	-	(902)	(334)	(1,236)
Transfer from other components of equity to retained earnings	-	-	-	(72)	-	-	(236)	714	406	(406)	-	-	-
Other increase (decrease)	-	-	-	-	-	-	-	-	-	-	-	(113)	(113)
Total transactions with the owners	-	(902)	1,517	(78)	-	-	(236)	714	400	(37,872)	(36,857)	(1,695)	(38,552)
December 31, 2015	85,424	108,659	(8,202)	902	(13,513)	(3)	8,430	-	(4,184)	499,299	680,996	10,991	691,987

Consolidated Statement of Cash Flows

(Millions of yen)

	Fiscal year ended December 31, 2016	Fiscal year ended December 31, 2015
Cash flows from operating activities		
Income before income taxes	183,430	166,038
Depreciation and amortization	51,116	57,423
Interest and dividend income	(1,247)	(1,266)
Interest expense	1,484	1,528
Share of profit in investments accounted for using the equity method	(1,894)	(1,517)
(Gains) losses on sale and disposal of property, plant and equipment, and intangible assets	3,466	3,497
(Increase) decrease in trade and other receivables	(4,049)	(4,882)
(Increase) decrease in inventories	(17,450)	(3,964)
Increase (decrease) in trade and other payables	4,388	9,707
Increase (decrease) in retirement benefit liabilities	19,967	(997)
Other	(7,175)	2,321
Subtotal	232,036	227,888
Interest received	1,003	1,004
Dividends received	1,479	1,315
Interest paid	(1,503)	(1,462)
Income taxes paid	(48,708)	(47,073)
Net cash flows from operating activities	184,307	181,672
Cash flows from investing activities		
Payments into time deposits	(11,570)	(2,669)
Proceeds from withdrawal of time deposits	3,703	1,355
Purchase of property, plant and equipment	(74,637)	(69,023)
Purchase of intangible assets	(5,060)	(5,598)
Acquisition of subsidiaries	(3,659)	-
Other	2,584	1,811
Net cash flows from investing activities	(88,639)	(74,124)
Cash flows from financing activities		
Increase (decrease) in short-term borrowings	(44)	(1,128)
Proceeds from long-term borrowings	200	40,080
Repayments of long-term borrowings	(317)	(20,068)
Purchase of treasury shares	(50,021)	(55)
Dividends paid to owners of the parent	(44,188)	(37,137)
Dividends paid to non-controlling interests	(955)	(1,248)
Other	282	(1,217)
Net cash flows from financing activities	(95,043)	(20,773)
Net increase (decrease) in cash and cash equivalents	625	86,775
Cash and cash equivalents at the beginning of the year	309,922	228,967
Effect of exchange rate changes on cash and cash equivalents	(7,521)	(5,820)
Cash and cash equivalents at the end of the year	303,026	309,922

Notes to Consolidated Financial Statements

(Changes in accounting principles and changes in accounting estimates)

Change in useful lives of property, plant and equipment

In conducting proactive capital investment, mainly in machinery and equipment, the Kao Group recognizes that the comparability of manufacturing costs for consideration on a global level of optimization of production bases is one of the issues it must address from a management perspective.

Consequently, the Kao Group globally unified its fixed asset systems in January 2016. The Kao Group decided to take advantage of this change to make the useful lives of machinery and equipment consistent (generally 9 or 10 years depending on the type of equipment) from the fiscal year ended December 31, 2016 to better reflect the actual use of machinery and equipment in global production. The effect of this change in accounting estimates on the consolidated financial statements is immaterial.

1. Segment Information

(1) Summary of reportable segments

Major products by reportable segment are as follows:

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

(2) Sales and results of reportable segments

(Millions of yen)

Fiscal year ended December 31, 2016	Reportable Segments							
	Consumer Products Business							
	Beauty Care Business	Human Health Care Business	Fabric and Home Care Business	Subtotal	Chemical Business	Total	Reconciliations[1]	Consolidated
Net sales								
Sales to customers	601,620	273,067	345,163	1,219,850	237,760	1,457,610	-	1,457,610
Intersegment sales and transfers[2]	-	-	-	-	36,025	36,025	(36,025)	-
Total net sales	601,620	273,067	345,163	1,219,850	273,785	1,493,635	(36,025)	1,457,610
Operating income (loss)	51,086	25,948	78,099	155,133	29,683	184,816	755	185,571
% of net sales	8.5	9.5	22.6	12.7	10.8	12.4	-	12.7
Financial income								1,389
Financial expenses								(5,424)
Share of profit in investments accounted for using the equity method								1,894
Income before income taxes								183,430
Depreciation and amortization	18,399	12,930	7,876	39,205	11,650	50,855	261	51,116
Impairment loss	43	26	40	109	-	109	-	109
Capital Expenditure[3]	20,135	41,752	16,050	77,937	11,877	89,814	86	89,900

Notes:
1. The operating income reconciliation of 755 million yen includes corporate expenses not allocated to reportable segments, as well as elimination of intersegment inventory transactions.
2. Intersegment sales and transfers are mainly calculated based on market price and manufacturing cost.
3. Capital expenditures include investments in property, plant and equipment, intangible assets and other non-current assets.

Fiscal year ended December 31, 2015	Reportable Segments							
	Consumer Products Business							
	Beauty Care Business	Human Health Care Business	Fabric and Home Care Business	Subtotal	Chemical Business	Total	Reconciliations[1]	Consolidated
Net sales								
Sales to customers	608,617	281,672	335,308	1,225,597	248,953	1,474,550	-	1,474,550
Intersegment sales and transfers[2]	-	-	-	-	39,517	39,517	(39,517)	-
Total net sales	608,617	281,672	335,308	1,225,597	288,470	1,514,067	(39,517)	1,474,550
Operating income (loss)	37,929	33,368	66,124	137,421	28,593	166,014	1,304	167,318
% of net sales	6.2	11.8	19.7	11.2	9.9	11.0	-	11.3
Financial income								1,416
Financial expenses								(4,213)
Share of profit in investments accounted for using the equity method								1,517
Income before income taxes								166,038
Depreciation and amortization	26,028	10,236	8,072	44,336	12,804	57,140	283	57,423
Impairment loss	2,476	510	657	3,643	388	4,031	-	4,031
Capital Expenditure[3]	20,458	30,962	15,150	66,570	16,244	82,814	34	82,848

Notes:
1. The operating income reconciliation of 1,304 million yen includes corporate expenses not allocated to reportable segments, as well as elimination of intersegment inventory transactions.
2. Intersegment sales and transfers are mainly calculated based on market price and manufacturing cost.
3. Capital expenditures include investments in property, plant and equipment, intangible assets and other non-current assets.

(3) Geographical Information

The breakdown of sales to customers and non-current assets (excluding financial assets, deferred tax assets and retirement benefit assets) by geographic area is as follows:

(Millions of yen)

Sales to customers	Fiscal year ended December 31, 2016	Fiscal year ended December 31, 2015
Japan	964,904	956,033
Asia	251,284	249,335
(China)	103,346	96,565
Americas	120,782	134,080
(United States)	93,148	102,865
Europe	120,640	135,102
Total	1,457,610	1,474,550

Note: Sales are classified based on the location of customers.

Non-current assets (excluding financial assets, deferred tax assets and retirement benefit assets)	Fiscal year ended December 31, 2016	Fiscal year ended December 31, 2015	Transition date January 1, 2015
Japan	415,993	375,831	357,162
Asia	81,927	86,362	81,980
Americas	22,854	21,535	20,738
Europe	24,731	29,126	32,238
Total	545,505	512,854	492,118

2. Selling, General and Administrative Expenses

The breakdown of selling, general and administrative expenses is as follows:

(Millions of yen)

	Fiscal year ended December 31, 2016	Fiscal year ended December 31, 2015
Freight/warehouse	58,168	60,737
Advertising	97,437	94,745
Sales promotion	83,161	79,910
Employee benefits	191,122	191,392
Depreciation	11,236	11,695
Amortization	6,173	13,957
Research and development	54,567	52,699
Other	131,504	137,594
Total	633,368	642,729

3. Earnings per Share

(1) The basis for calculating basic earnings per share

(Millions of yen)

	Fiscal year ended December 31, 2016	Fiscal year ended December 31, 2015
Net income, attributable to owners of the parent	126,551	105,196
Amounts not attributable to ordinary shareholders of the parent	-	-
Net income used to calculate basic earnings per share	126,551	105,196
		(Thousands of shares)
Weighted average number of ordinary shares	499,355	501,352
		(Yen)
Basic earnings per share	253.43	209.82

(2) The basis for calculating diluted earnings per share

(Millions of yen)

	Fiscal year ended December 31, 2016	Fiscal year ended December 31, 2015
Net income used to calculate basic earnings per share	126,551	105,196
Adjustments to net income	-	-
Net income used to calculate diluted earnings per share	126,551	105,196
		(Thousands of shares)
Weighted average number of ordinary shares	499,355	501,352
Increase in ordinary shares		
Subscription rights to shares	483	701
Weighted average number of ordinary shares after dilution	499,838	502,053
		(Yen)
Diluted earnings per share	253.18	209.53
Summary of potential ordinary shares not included in the calculation of diluted earnings per share because they have no dilutive effect	-	-

4. Significant Subsequent Events

At its meeting held on February 2, 2017, the Board of Directors resolved to retire treasury shares in accordance with Article 178 of the Companies Act. The number of shares to be retired corresponds to the number of shares of Kao Corporation's shares purchased from the market during the fiscal year ended December 31, 2016.

Shares to be retired: Ordinary shares of the Company

Number of shares to be retired: 9,000,000 shares

Value of shares to be retired (plan): 48,429 million yen

Scheduled retirement date: March 1, 2017

Notes regarding Assumption of Going Concern

None applicable.