

## Summary of Financial Results for the Fiscal Year Ended March 31, 2016

[Japanese GAAP]

Company name: **KOSÉ Corporation**

Stock listing: Tokyo Stock Exchange, First Section

Stock code: 4922

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Scheduled date of general meeting of shareholders: June 29, 2016

Scheduled date of filing of Securities Report: June 29, 2016

Scheduled date of dividend payment: June 30, 2016

Preparation of supplementary materials for financial results: Yes

Holding of financial results meeting: Yes (for analysts)

(Rounded down to million yen)

### 1. Consolidated Financial Results for the Fiscal Year Ended March 31, 2016

(April 1, 2015 – March 31, 2016)

(1) Consolidated financial results (YoY change % represents changes from the previous fiscal year)

	Net sales (Million yen)	YoY change (%)	Operating income (Million yen)	YoY change (%)	Ordinary income (Million yen)	YoY change (%)	Profit attributable to owners of parent (Million yen)	YoY change (%)
FY03/2016	243,390	17.1	34,634	52.9	34,566	37.7	18,655	54.7
FY03/2015	207,821	9.4	22,647	19.6	25,106	16.8	12,057	8.3

Note: Comprehensive income (million yen) FY03/2016: 13,197 (down 33.0%) FY03/2015: 19,688 (up 43.1%)

	Net income per share (basic) (Yen)	Net income per share (diluted) (Yen)	Return on equity (%)	Ordinary income to total assets (%)	Operating income to net sales (%)
FY03/2016	327.04	-	13.0	15.8	14.2
FY03/2015	211.37	-	9.1	12.8	10.9

Ref.: Equity in earnings of affiliates (million yen) FY03/2016: - FY03/2015: -

(2) Consolidated financial position

	Total assets (Million yen)	Net assets (Million yen)	Equity ratio (%)	Net assets per share (Yen)
FY03/2016	233,275	158,543	63.2	2,583.76
FY03/2015	205,006	149,637	68.3	2,455.34

Ref.: Shareholders' equity (million yen) FY03/2016: 147,388 FY03/2015: 140,065

(3) Consolidated cash flow position

	Net cash provided by (used in)			Cash and cash equivalents at end of period (Million yen)
	Operating activities (Million yen)	Investing activities (Million yen)	Financing activities (Million yen)	
FY03/2016	26,410	(19,948)	(4,057)	52,997
FY03/2015	15,217	(15,165)	(4,836)	50,754

### 2. Dividends

	Dividend per share					Total dividends (Million yen)	Payout ratio (consolidated) (%)	Dividend on net assets (consolidated) (%)
	1Q-end (Yen)	2Q-end (Yen)	3Q-end (Yen)	Year-end (Yen)	Total (Yen)			
FY03/2015	-	27.00	-	37.00	64.00	3,650	30.3	2.8
FY03/2016	-	37.00	-	57.00	94.00	5,362	28.7	3.7
FY03/2017 (forecast)	-	47.00	-	47.00	94.00		25.7	

Note: Breakdown of dividends for the fiscal year ended Mar. 31, 2016:

Ordinary dividends: 47 yen; Commemorative dividends for the 70th Founding Anniversary: 10 yen

### 3. Consolidated Forecast for the Fiscal Year Ending March 31, 2017 (April 1, 2016 – March 31, 2017)

(YoY change % represents changes from the previous fiscal year)

	Net sales (Million yen)	YoY change (%)	Operating income (Million yen)	YoY change (%)	Ordinary income (Million yen)	YoY change (%)	Profit attributable to owners of parent (Million yen)	YoY change (%)	Net income per share (Yen)
First half	122,000	5.7	14,000	(22.4)	14,100	(24.6)	6,800	(37.9)	119.21
Full year	254,000	4.4	36,000	3.9	36,200	4.7	20,900	12.0	366.38

**\* Notes**

(1) Changes in consolidated subsidiaries during the period (changes in scope of consolidation): None

Newly added: -

Excluded: -

(2) Changes in accounting policies and accounting-based estimates, and restatements

1) Changes in accounting policies due to revisions in accounting standards, others : Yes

2) Changes in accounting policies other than 1) above : None

3) Changes in accounting-based estimates : None

4) Restatements : None

Note: Please refer to "4. Consolidated Financial Statements, (5) Notes to Consolidated Financial Statements, Changes in Accounting Policies" on page 17 of the attachments for further information.

(3) Number of shares outstanding (common stock)

1) Number of shares outstanding (incl. treasury shares) at end of the period

As of March 31, 2016: 60,592,541 shares As of March 31, 2015: 60,592,541 shares

2) Number of treasury shares at end of the period

As of March 31, 2016: 3,548,245 shares As of March 31, 2015: 3,547,427 shares

3) Average number of shares outstanding during the period

FY03/2016: 57,044,660 shares FY03/2015: 57,045,438 shares

**(Reference) Non-consolidated financial results**

**Non-consolidated Financial Results for the Fiscal Year Ended March 31, 2016**

**(April 1, 2015 – March 31, 2016)**

(1) Non-consolidated financial results

(YoY change % represents changes from the previous fiscal year)

	Net sales (Million yen)	YoY change (%)	Operating income (Million yen)	YoY change (%)	Ordinary income (Million yen)	YoY change (%)	Net income (Million yen)	YoY change (%)
FY03/2016	115,125	15.3	8,190	33.2	13,016	10.2	9,599	28.8
FY03/2015	99,868	5.0	6,150	1.2	11,816	6.9	7,455	0.5

	Net income per share (basic) (Yen)	Net income per share (diluted) (Yen)
FY03/2016	168.29	-
FY03/2015	130.70	-

(2) Non-consolidated financial position

	Total assets (Million yen)	Net assets (Million yen)	Equity ratio (%)	Net assets per share (Yen)
FY03/2016	137,232	88,750	64.7	1,555.81
FY03/2015	126,106	84,112	66.7	1,474.50

Ref.: Shareholders' equity (million yen) FY03/2016: 88,750 FY03/2015: 84,112

Note 1: Indication of audit procedure implementation status

The current financial report is exempted from audit procedures based on the Financial Instruments and Exchange Act. At the time of disclosure, the audit procedures for these financial statements based on the Financial Instruments and Exchange Act have not been completed.

Note 2: Cautionary statement with respect to forward-looking statements

These materials contain forward-looking statements and statements of this nature based on assumptions judged to be valid and information available to the Company as of the announcement date of the summary. These statements are not promises by the Company regarding future performance. As such, actual results may differ significantly from these projections resulting from changes in the economic environment and other risks and uncertainties. For discussion of the assumptions and other factors considered by the Company in preparing the above projections, please refer to the section "1. Analysis of Results of Operations and Financial Position, (1) Analysis of Results of Operations" of the attachments.

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# 1. Analysis of Results of Operations and Financial Position

## (1) Analysis of Results of Operations

### 1) Financial Results for the Current Fiscal Year

#### a. Review of Operations

Millions of yen, %

Operating segment	FY03/2015		FY03/2016		YoY change	
	Amount	% comp.	Amount	% comp.	Amount	%
Cosmetics	152,806	73.5	180,168	74.0	27,362	17.9
Cosmetaries	53,214	25.6	60,987	25.1	7,773	14.6
Other	1,800	0.9	2,234	0.9	433	24.1
Total net sales	207,821	100.0	243,390	100.0	35,569	17.1

	FY03/2015		FY03/2016		YoY change	
	Amount	% of sales	Amount	% of sales	Amount	%
Operating income	22,647	10.9	34,634	14.2	11,986	52.9
Ordinary income	25,106	12.1	34,566	14.2	9,459	37.7
Profit attributable to owners of parent	12,057	5.8	18,655	7.7	6,598	54.7

In the fiscal year that ended on March 31, 2016, the moderate recovery of the Japanese economy continued as corporate earnings increased and the number of jobs improved. However, the outlook remained uncertain as there was a sign of weakness in some segments of consumer spending. In the Japanese cosmetics industry, according to statistics for cosmetics shipments compiled by the Ministry of Economy, Trade and Industry, sales volume and monetary sales of cosmetics since 2015 were both higher than one year earlier.

The KOSÉ Group started a new medium-term management plan in April 2015 with the central theme of building and strengthening global brands. There are two core strategies: “promote brands to win recognition and respect around the world” and “achieve a sustainable improvement in performance.” By taking actions based on this plan, the KOSÉ Group made progress toward the goals of becoming a company with a global presence and further increasing the pace of growth.

In the current fiscal year, net sales increased 17.1% from one year earlier to 243,390 million yen, the 3rd consecutive year of record-high sales (up 15.4 % after excluding the effects of changes in foreign exchange rates.) Sales were higher in all business segments. There were several main reasons for this growth. First was the growth of sales and earnings in existing businesses as they steadily became stronger due to the benefits of defensive and offensive reforms that started in April 2008. Second was higher demand from foreign tourists visiting Japan. Third was the strong performance of the U.S. company TARTE, INC., which was acquired in the previous fiscal year and has surpassed its targets. The share of overseas sales in total consolidated sales was 17.7%.

Operating income increased 52.9% to 34,634 million yen mainly due to sales growth resulting from the aggressive use of selling expenses and to the efficient use of general and administrative expenses. Ordinary income increased 37.7 % to 34,566 million yen due to the effect of foreign exchange losses, and profit attributable to owners of parent increased 54.7 % to 18,655 million yen. Earnings at all levels set a new record for the KOSÉ Group.

**b. Results by Business Segment****Cosmetics Business***Millions of yen, %*

	FY03/2015	FY03/2016	YoY change	
			Amount	%
Sales to third parties	152,806	180,168	27,362	17.9
Intragroup sales and transfers	-	-	-	-
Total net sales	152,806	180,168	-	-
Operating income	21,051	32,246	11,195	53.2
Operating margin	13.8	17.9	-	-

In the cosmetics business, sales in Japan were up mainly because of the strong performance of ALBION CO.,LTD., which sells luxury cosmetics, and higher sales of high-prestige brands like COSME DECORTE and JILL STUART as more actions were taken to strengthen flagship global brands. In the prestige brand category, the SEKKISEI brand, now celebrating its 30th anniversary, recorded strong sales and a new line of makeup products was added to the ESPRIQUE brand in order to attract a broader range of customer segments. Overseas, sales increased despite ongoing structural reforms for operations in China. Sales were higher in Taiwan and South Korea and sales growth at U.S. company TARTE,INC. surpassed the plan. Overall, sales in the cosmetics business increased 17.9 % to 180,168 million yen and operating income increased 53.2 % to 32,246 million yen.

Major new products introduced during the fiscal year were as follows:

COSME DECORTE LIPOSOME Treatment Liquid (skincare series)

SEKKISEI Herbal Gel (skincare series)

ESPRIQUE Éclat (base makeup series)

**Cosmetaries Business***Millions of yen, %*

	FY03/2015	FY03/2016	YoY change	
			Amount	%
Sales to third parties	53,214	60,987	7,773	14.6
Intragroup sales and transfers	-	162	-	-
Total net sales	53,214	61,150	-	-
Operating income	4,695	5,332	637	13.6
Operating margin	8.8	8.7	-	-

In the cosmetaries business, sales growth was driven by the strong performances by brands in key categories at KOSÉ COSMEPORT CORP. including CLEAR TURN facial sheet masks and SUNCUT® sunscreen products. Also, the self-selection makeup brands FASIO and VISÉE, ELSIA, which was repositioned as a brand for a comprehensive selection of aging care products, and SEKKISUI, which is sold only at convenience stores, performed well. As a result, sales in the cosmetaries business increased 14.6 % to 60,987 million yen and operating income increased 13.6 % to 5,332 million yen.

Major new products introduced during the fiscal year were as follows:

KOSÉ COSMEPORT CLEAR TURN Essence Mask (skincare series)

FASIO Good Curl Mascara (makeup series)

ELSIA (makeup series)

**Other Business***Millions of yen, %*

	FY03/2015	FY03/2016	YoY change	
			Amount	%
Sales to third parties	1,800	2,234	433	24.1
Intragroup sales and transfers	752	967	-	-
Total net sales	2,552	3,202	-	-
Operating income	757	1,318	560	74.1
Operating margin	29.7	41.2	-	-

In the other business segment, there were increases in sales of amenity products and orders for the manufacture of OEM products. As a result, sales increased 24.1 % to 2,234 million yen and operating income increased 74.1 % to 1,318 million yen.

**2) Outlook for Next Fiscal Year**

In Japan, the economy is expected to continue to recover slowly because of a continuation in the improvement in the number of jobs and personal income along with the benefits of government economic stimulus measures. However, there are concerns about slowing economic growth in China and other emerging countries and uncertainty concerning the future directions of the price of crude oil and foreign exchange rates. As a result, the outlook is expected to become even more unclear.

The KOSÉ Group plans to continue making progress toward goals of the medium-term management plan that started in April 2015 and defines the next few years as a time for building and strengthening global brands. The plan's core strategies are "promoting brands to win recognition and respect around the world" and "achieving a sustainable improvement in performance." By focusing on these goals, the Group is aiming to continue to grow.

Based on this outlook, KOSÉ forecasts net sales of 254,000 million yen (up 4.4% from the previous fiscal year), operating income of 36,000 million yen (up 3.9%), ordinary income of 36,200 million yen (up 4.7%), and profit attributable to owners of parent of 20,900 million yen (up 12.0%). The outlook for business segments is shown below. The forecasts for capital expenditures are 10,100 million yen and depreciation expenses are 6,200 million yen.

**Medium-term outlook**

To adapt with flexibility to changes in market conditions and to make swift decision-making, the Group has a policy of reviewing and revising every year its medium-term management plan (numerical performance targets) for the following three fiscal years based on performance in the preceding fiscal year and other factors. By taking the actions outlined above, the Group is determined to reach its goals of net sales of 277,000 million yen, an operating income of 41,000 million yen, a return on total assets (ROA) of at least 15.0%, and return on equity (ROE) of at least 13.0% in the fiscal year ending on March 31, 2019.

*Millions of yen, %*

Operating segment	FY03/2016		FY03/2017 (forecast)		YoY change	
	Amount	% comp.	Amount	% comp.	Amount	%
Cosmetics	180,168	74.0	188,600	74.3	8,431	4.7
Cosmetaries	60,987	25.1	63,100	24.8	2,112	3.5
Other	2,234	0.9	2,300	0.9	65	2.9
Total net sales	243,390	100.0	254,000	100.0	10,609	4.4

	FY03/2016		FY03/2017 (forecast)		YoY change	
	Amount	% of sales	Amount	% of sales	Amount	%
Operating income	34,634	14.2	36,000	14.2	1,365	3.9
Ordinary income	34,566	14.2	36,200	14.3	1,633	4.7
Profit attributable to owners of parent	18,655	7.7	20,900	8.2	2,244	12.0

\* Forecasts are based on foreign exchange rates of 113 yen to the U.S. dollar, 3.5 yen to the Taiwan dollar and 17.4 yen to the Chinese yuan.

## (2) Analysis of Financial Position

### 1) Balance sheet position

The current ratio was 279.3%, 18.2 percentage points lower than one year earlier, and the quick ratio was 207.4%, a decline of 15.4 percentage points, as of March 31, 2016. These decreases were attributable mainly to the following items.

Assets increased 28,268 million yen. There was a 19,120 million yen increase in quick assets, mainly the result of increases of 21,335 million yen in cash and deposits, 1,367 million yen in notes and accounts receivable-trade, and 5,417 million yen in securities, and a decrease of 9,000 million yen in money held in trust. All other current assets increased 7,754 million yen mainly due to an increase of 6,102 million yen in inventories. Non-current assets increased 1,393 million yen due to an increase of 4,701 million yen in property, plant and equipment, a decrease of 1,759 million yen in intangible assets and a decrease of 1,549 million yen in investments and other assets.

Liabilities increased 19,363 million yen. Current liabilities increased 12,558 million yen mainly due to increases of 1,188 million yen in notes and accounts payable-trade, 1,596 million yen in electronically recorded obligations-operating, 416 million yen in short-term loans payable, 5,794 million yen in accounts payable-other, and 3,017 million yen in income taxes payable. Non-current liabilities increased 6,804 million yen mainly due to an increase of 6,841 million yen in net defined benefit liability.

Interest-bearing debt amounted to 1,704 million yen, and the debt-to-equity ratio was 0.01.

### 2) Cash flows

Millions of yen

	FY03/2015	FY03/2016	YoY change
Net cash provided by (used in) operating activities	15,217	26,410	11,193
Net cash provided by (used in) investing activities	(15,165)	(19,948)	(4,782)
Net cash provided by (used in) financing activities	(4,836)	(4,057)	778
Increase in cash and cash equivalents	(2,001)	2,220	4,221
Cash and cash equivalents at end of period	50,754	52,997	2,242

Cash and cash equivalents (consolidated basis) as of March 31, 2016 were 52,997 million yen, an increase of 2,242 million yen, or 4.4%, compared with March 31, 2015. Cash flows and major components during the current fiscal year are as follows.

Net cash provided by operating activities increased 73.6% to 26,410 million yen. This was mainly the net result of income before income taxes and non-controlling interests of 33,862 million yen, depreciation, a non-cash expense, of 5,744 million yen, impairment loss of 539 million yen, gain on redemption of securities of 566 million yen, a decrease in net defined benefit liability of 2,070 million yen, an increase in inventories of 6,244 million yen, an increase in notes and accounts receivable-trade of 1,604 million yen, an increase in other assets of 797 million yen, an increase in notes and accounts payable-trade of 1,872 million yen, an

increase in other liabilities of 4,643 million yen, and income taxes paid of 10,133 million yen.

Net cash used in investing activities increased 31.5% to 19,948 million yen. The major components were a net payment of 16,603 million yen into time deposit, a net proceeds of 4,364 million yen for sales, purchase and redemption of securities, purchase of property, plant and equipment of 7,075 million yen, purchase of intangible assets of 474 million yen, a net payment of 1,564 million yen for sales, purchase and redemption of investment securities, and a decrease in other investments of 1,396 million yen.

Net cash used in financing activities decreased 16.1% to 4,057 million yen. This was mainly due to an increase in short-term loans payable of 436 million yen, and cash dividends paid of 4,297 million yen.

### 3) Cash flow indicators

	FY03/2012	FY03/2013	FY03/2014	FY03/2015	FY03/2016
Shareholders' equity ratio (%)	63.7	64.8	67.0	68.3	63.2
Shareholders' equity ratio based on market prices (%)	64.3	72.2	103.8	184.5	267.8
Interest-bearing debt to cash flow ratio	0.5	0.6	0.1	0.1	0.1
Interest coverage ratio	317.6	350.6	663.8	4,073.8	1,285.9

Notes:

Shareholders' equity ratio: Shareholders' equity / Total assets

Shareholders' equity ratio based on market prices: Market capitalization / Total assets

Interest-bearing debt to cash flow ratio: Interest-bearing debt / Cash flows

Interest coverage ratio: Cash flows (before interests and income taxes paid) / Interest payments

- These indicators are calculated on a consolidated basis.

- Market capitalization is based on the number of shares issued less treasury shares.

The closing price of stock on the balance sheet date is adjusted in case the Company conducts a stock split for shareholders of record at the fiscal year end.

- Cash flows are calculated using the figures for operating cash flows in the consolidated statement of cash flows.

- Interest-bearing debt includes all liabilities on the consolidated balance sheet that incur interest. Interest expenses paid on the consolidated statement of cash flows is used for interest payments.

### (3) Profit Allocation Policy and Dividends for FY03/2016 and FY03/2017

Preserving a stable dividend is the fundamental policy for profit allocations. KOSÉ plans to return earnings to shareholders while taking into account the need to retain earnings to fund future growth as well as the company's current financial soundness, operating results and the dividend payout ratio.

KOSÉ has a fundamental policy of paying an interim dividend and a year-end dividend. Shareholders determine the year-end dividend at the annual meeting and the Board of Directors determines the interim dividend.

KOSÉ plans to pay a year-end dividend per share of 57 yen. This is the sum of a 47 yen ordinary dividend, which is an increase of 10 yen, and a 10 yen dividend to commemorate the 70th Founding Anniversary. Shareholders received an interim dividend of 37 yen per share on December 10, 2015. This will result in a dividend of 94 yen per share applicable to the current fiscal year (ended March 31, 2016).

In the next fiscal year (ending March 31, 2017), KOSÉ plans to pay an annual dividend of 94 yen per share.



## 2. Management Policies

### (1) Fundamental Management Policy

The KOSÉ Group is guided by the philosophy of providing cosmetics and services with the outstanding quality that can earn the true satisfaction of customers. This spirit is evident in many ways. One is R&D activities and manufacturing technology that create new cosmetics such as innovative foundation products and the industry's first beauty serum. Another is a distinctive brand marketing program in which brands that match the needs of consumers are supplied through various sales channels. The philosophy also serves as a driving force behind the Group's growth and development.

The Group will continue to make effective use of these resources while conducting business operations in line with three guidelines for its activities.

- (a) Products: KOSÉ will propose the value of "Beauty" and link this value with customer needs.
- (b) Place: KOSÉ wants to grow with business partners who share the values of KOSÉ brands and products.
- (c) Service: KOSÉ will offer value-added services in order to achieve the greatest possible customer satisfaction.

At the same time, the Group will fulfill its social responsibilities by further increasing its commitment to strict compliance with laws and regulations and to environmental protection.

### (2) Performance Indicators

The Group is placing priority on improving the operating margin, return on total assets (ROA) and return on equity (ROE).

Note:  $ROA = (\text{Operating income} + \text{Interest and dividends income}) / \text{Total assets (average at beginning and end of year)} \times 100$

$ROE = \text{Net income} / \text{Shareholders' equity (average at beginning and end of year)} \times 100$

### (3) Medium- and Long-Term Strategies and Important Issues

The KOSÉ Group has a long-term vision called VISION2020 to serve as a roadmap for growth for the period ending in March 2021. To achieve the goals of this vision, the Group has defined three phases to become an organization with a global presence: a V-shaped turnaround, building and strengthening global brands, and global expansion with higher earnings.

In phase I—the V-shaped turnaround—the Group enacted "defensive reforms" to develop a business structure that can withstand challenges posed by the changing business landscape while eliminating waste to improve operating efficiency. There were also "offensive reforms" to refine the strengths of existing brands and increase sales and profitability of existing businesses. The plan was brought to a close with record performances in fiscal 2014, its final fiscal year ended March 31, 2015.

Phase II has the objective of building and strengthening global brands. By focusing on two newly established core goals, group companies plan to use the benefits of reforms enacted during phase I and will sustain sales growth.

The performance targets of VISION2020 have been increased because of the strong sales and earnings growth in the fiscal year ended March 31, 2016, which is the first year of Phase II. The targets are now consolidated sales of 300 billion yen and an operating margin of at least 15.0%.

#### The three phases of VISION2020

- Phase I: V-shaped turnaround (April 2012 to March 2015)
- Phase II: Building and strengthening global brands (April 2015 to March 2018)
- Phase III: Global expansion with higher earnings (April 2018 to March 2021)

#### Two basic strategies for “Building and strengthening global brands”

- 1) Promote brands to win recognition and respect around the world.
  - (a) Promote Flagship Global Brands.
  - (b) Accelerate the pace of developing new markets.
  - (c) Implement the strategies of all business segments.
- 2) Achieve a sustainable improvement in performance.
  - (a) Develop products and services that can create new markets and are highly competitive.
  - (b) Improve the performance of human resources.
  - (c) Operate more efficiently.

### **3. Basic Approach for the Selection of Accounting Standards**

The KOSÉ Group is actively considering the adoption of International Financial Reporting Standards (IFRS) with objectives that include improved international comparability of financial data in capital markets and higher creditworthiness overseas. This is in line with its medium- and long-term strategies and factors in domestic and international circumstances in achieving the aim of becoming a corporation with a global presence.

## 4. Consolidated Financial Statements

### (1) Consolidated Balance Sheet

Millions of yen

	FY03/2015 (As of Mar. 31, 2015)	FY03/2016 (As of Mar. 31, 2016)
Assets		
Current assets		
Cash and deposits	48,214	69,549
Notes and accounts receivable-trade	31,563	32,931
Securities	11,938	17,356
Money held in trust	9,000	-
Merchandise and finished goods	15,529	19,276
Work in process	1,982	2,070
Raw materials and supplies	10,588	12,854
Deferred tax assets	4,588	5,269
Other	1,339	2,106
Allowance for doubtful accounts	(267)	(63)
Total current assets	134,476	161,351
Non-current assets		
Property, plant and equipment		
Buildings and structures	30,607	30,938
Accumulated depreciation	(18,885)	(19,532)
Buildings and structures, net	11,721	11,406
Machinery, equipment and vehicles	12,964	13,332
Accumulated depreciation	(11,284)	(11,543)
Machinery, equipment and vehicles, net	1,680	1,788
Tools, furniture and fixtures	32,186	33,251
Accumulated depreciation	(27,622)	(28,562)
Tools, furniture and fixtures, net	4,564	4,688
Land	17,041	16,868
Leased assets	1,369	1,524
Accumulated depreciation	(779)	(913)
Leased assets, net	590	610
Construction in progress	194	5,131
Total property, plant and equipment	35,792	40,494
Intangible assets		
Software	1,529	1,354
Goodwill	10,481	9,626
Other	9,689	8,959
Total intangible assets	21,700	19,941
Investments and other assets		
Investment securities	6,720	3,486
Deferred tax assets	3,476	5,540
Other	2,990	2,628
Allowance for doubtful accounts	(149)	(167)
Total investments and other assets	13,037	11,488
Total non-current assets	70,530	71,923
Total assets	205,006	233,275

*Millions of yen*

	FY03/2015 (As of Mar. 31, 2015)	FY03/2016 (As of Mar. 31, 2016)
<b>Liabilities</b>		
Current liabilities		
Notes and accounts payable-trade	6,793	7,981
Electronically recorded obligations-operating	10,432	12,029
Short-term loans payable	600	1,016
Lease obligations	175	187
Accounts payable-other	8,176	13,971
Accrued expenses	9,117	10,327
Income taxes payable	4,520	7,537
Accrued consumption taxes	2,703	2,065
Provision for sales returns	1,910	1,896
Other	777	753
Total current liabilities	45,207	57,766
Non-current liabilities		
Lease obligations	472	500
Provision for directors' retirement benefits	1,991	2,164
Net defined benefit liability	4,107	10,948
Deferred tax liabilities	3,229	2,844
Other	359	506
Total non-current liabilities	10,160	16,965
Total liabilities	55,368	74,731
<b>Net assets</b>		
Shareholders' equity		
Capital stock	4,848	4,848
Capital surplus	6,390	6,388
Retained earnings	127,047	141,480
Treasury shares	(9,082)	(9,091)
Total shareholders' equity	129,203	143,626
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	1,375	669
Foreign currency translation adjustment	4,909	4,729
Remeasurements of defined benefit plans	4,576	(1,635)
Total accumulated other comprehensive income	10,861	3,762
Non-controlling interests	9,572	11,154
Total net assets	149,637	158,543
<b>Total liabilities and net assets</b>	<b>205,006</b>	<b>233,275</b>

**(2) Consolidated Statements of Income and Comprehensive Income****Consolidated Statement of Income***Millions of yen*

	FY03/2015 (Apr. 1, 2014 – Mar. 31, 2015)	FY03/2016 (Apr. 1, 2015 – Mar. 31, 2016)
Net sales	207,821	243,390
Cost of sales	50,763	59,469
Gross profit	157,057	183,920
Selling, general and administrative expenses		
Advertising expenses	14,314	17,111
Promotion expenses	40,791	46,832
Freightage and packing expenses	7,526	8,579
Salaries and allowances	39,099	41,719
Retirement benefit expenses	1,290	892
Legal welfare expenses	6,156	6,643
Depreciation	2,811	2,966
Other	22,420	24,542
Total selling, general and administrative expenses	134,410	149,286
Operating income	22,647	34,634
Non-operating income		
Interest income	242	278
Dividend income	72	68
Patent licensing	47	39
Gain on redemption of securities	76	566
Foreign exchange gains	1,733	-
Miscellaneous income	323	228
Total non-operating income	2,496	1,183
Non-operating expenses		
Interest expenses	8	14
Rent expenses on real estates	4	5
Commission fee	18	12
Foreign exchange losses	-	1,201
Miscellaneous loss	5	18
Total non-operating expenses	37	1,251
Ordinary income	25,106	34,566
Extraordinary income		
Gain on sales of non-current assets	2	0
Gain on sales of investment securities	7	38
Gain on sales of golf memberships	1	-
Total extraordinary income	11	38
Extraordinary losses		
Loss on disposal of non-current assets	217	200
Loss on valuation of investment securities	-	1
Impairment loss	-	539
Loss on liquidation of business	1,131	-
Other	74	0
Total extraordinary losses	1,423	741
Income before income taxes and non-controlling interests	23,694	33,862
Income taxes-current	8,488	13,147
Income taxes-deferred	1,961	108
Total income taxes	10,449	13,255
Profit	13,244	20,607
Profit attributable to non-controlling interests	1,186	1,951
Profit attributable to owners of parent	12,057	18,655

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

	FY03/2015 (Apr. 1, 2014 – Mar. 31, 2015)	FY03/2016 (Apr. 1, 2015 – Mar. 31, 2016)
Profit	13,244	20,607
Other comprehensive income		
Valuation difference on available-for-sale securities	614	(710)
Foreign currency translation adjustment	3,336	(193)
Remeasurements of defined benefit plans, net of tax	2,493	(6,506)
Total other comprehensive income	6,443	(7,409)
Comprehensive income	19,688	13,197
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	18,298	11,556
Comprehensive income attributable to non-controlling interests	1,389	1,640

**(3) Consolidated Statement of Changes in Equity**

FY03/2015 (Apr. 1, 2014 – Mar. 31, 2015)

*Millions of yen*

	Shareholders' equity				
	Capital stock	Capital surplus	Retained earnings	Treasury shares	Total shareholders' equity
Balance at beginning of current period	4,848	6,390	118,070	(9,079)	120,229
Changes of items during period					
Dividends of surplus			(3,080)		(3,080)
Profit attributable to owners of parent			12,057		12,057
Purchase of treasury shares				(3)	(3)
Disposal of treasury shares		0		0	0
Net changes of items other than shareholders' equity					
Total changes of items during period	-	0	8,977	(3)	8,974
Balance at end of current period	4,848	6,390	127,047	(9,082)	129,203

*Millions of yen*

	Accumulated other comprehensive income				Non-controlling interests	Total net assets
	Valuation difference on available-for-sale securities	Foreign currency translation adjustment	Remeasurements of defined benefit plans	Total accumulated other comprehensive income		
Balance at beginning of current period	763	1,653	2,203	4,620	7,960	132,810
Changes of items during period						
Dividends of surplus						(3,080)
Profit attributable to owners of parent						12,057
Purchase of treasury shares						(3)
Disposal of treasury shares						0
Net changes of items other than shareholders' equity	612	3,256	2,372	6,241	1,611	7,852
Total changes of items during period	612	3,256	2,372	6,241	1,611	16,826
Balance at end of current period	1,375	4,909	4,576	10,861	9,572	149,637

FY03/2016 (Apr. 1, 2015 – Mar. 31, 2016)

Millions of yen

	Shareholders' equity				
	Capital stock	Capital surplus	Retained earnings	Treasury shares	Total shareholders' equity
Balance at beginning of current period	4,848	6,390	127,047	(9,082)	129,203
Changes of items during period					
Dividends of surplus			(4,221)		(4,221)
Profit attributable to owners of parent			18,655		18,655
Purchase of treasury shares				(8)	(8)
Change of scope of consolidation			(1)		(1)
Change in treasury shares of parent arising from transactions with non-controlling shareholders		(2)			(2)
Net changes of items other than shareholders' equity					
Total changes of items during period	-	(2)	14,433	(8)	14,422
Balance at end of current period	4,848	6,388	141,480	(9,091)	143,626

Millions of yen

	Accumulated other comprehensive income				Non-controlling interests	Total net assets
	Valuation difference on available-for-sale securities	Foreign currency translation adjustment	Remeasurements of defined benefit plans	Total accumulated other comprehensive income		
Balance at beginning of current period	1,375	4,909	4,576	10,861	9,572	149,637
Changes of items during period						
Dividends of surplus						(4,221)
Profit attributable to owners of parent						18,655
Purchase of treasury shares						(8)
Change of scope of consolidation						(1)
Change in treasury shares of parent arising from transactions with non-controlling shareholders						(2)
Net changes of items other than shareholders' equity	(706)	(180)	(6,212)	(7,099)	1,582	(5,517)
Total changes of items during period	(706)	(180)	(6,212)	(7,099)	1,582	8,905
Balance at end of current period	669	4,729	(1,635)	3,762	11,154	158,543



**(4) Consolidated Statement of Cash Flows***Millions of yen*

	FY03/2015 (Apr. 1, 2014 – Mar. 31, 2015)	FY03/2016 (Apr. 1, 2015 – Mar. 31, 2016)
Cash flows from operating activities		
Income before income taxes and non-controlling interests	23,694	33,862
Depreciation	5,293	5,744
Impairment loss	-	539
Loss on liquidation of business	1,131	-
Amortization of goodwill	569	859
Increase (decrease) in allowance for doubtful accounts	(15)	(183)
Increase (decrease) in provision for directors' retirement benefits	(1,187)	173
Increase (decrease) in net defined benefit liability	(2,058)	(2,070)
Increase (decrease) in other provision	(135)	(15)
Loss (gain) on disposal of non-current assets	214	200
Interest and dividend income	(315)	(347)
Interest expenses	8	14
Foreign exchange losses (gains)	6	145
Loss (gain) on redemption of securities	(76)	(566)
Loss (gain) on valuation of investment securities	-	1
Loss (gain) on sales of investment securities	(7)	(38)
Decrease (increase) in notes and accounts receivable-trade	867	(1,604)
Decrease (increase) in inventories	(6,093)	(6,244)
Increase (decrease) in notes and accounts payable-trade	3,400	1,872
Decrease (increase) in other assets	(1,948)	(797)
Increase (decrease) in other liabilities	1,405	4,643
Subtotal	24,752	36,186
Interest and dividend income received	333	386
Interest expenses paid	(6)	(28)
Income taxes paid	(9,862)	(10,133)
Net cash provided by (used in) operating activities	15,217	26,410
Cash flows from investing activities		
Payments into time deposits	(14,682)	(28,083)
Proceeds from withdrawal of time deposits	13,708	11,480
Purchase of securities	(4,149)	(4,602)
Proceeds from sales and redemption of securities	5,615	8,966
Purchase of property, plant and equipment	(4,492)	(7,075)
Proceeds from sales of property, plant and equipment	12	9
Purchase of intangible assets	(597)	(474)
Purchase of investment securities	(2,477)	(2,104)
Proceeds from sales and redemption of investment securities	438	539
Purchase of shares of subsidiaries resulting in change in scope of consolidation	(12,879)	-
Decrease (increase) in other investments	4,338	1,396
Net cash provided by (used in) investing activities	(15,165)	(19,948)

	<i>Millions of yen</i>	
	FY03/2015	FY03/2016
	(Apr. 1, 2014 – Mar. 31, 2015)	(Apr. 1, 2015 – Mar. 31, 2016)
Cash flows from financing activities		
Net increase (decrease) in short-term loans payable	(482)	436
Repayments of long-term loans payable	(1,068)	-
Net decrease (increase) in treasury shares	(3)	(8)
Proceeds from share issuance to non-controlling shareholders	-	16
Cash dividends paid	(3,080)	(4,221)
Cash dividends paid to non-controlling shareholders	(64)	(76)
Other, net	(137)	(204)
Net cash provided by (used in) financing activities	(4,836)	(4,057)
Effect of exchange rate change on cash and cash equivalents	2,782	(184)
Net increase (decrease) in cash and cash equivalents	(2,001)	2,220
Cash and cash equivalents at beginning of period	52,755	50,754
Increase in cash and cash equivalents from newly consolidated subsidiary	-	22
Cash and cash equivalents at end of period	50,754	52,997

## **(5) Notes to Consolidated Financial Statements**

### **Going Concern Assumption**

Not applicable.

### **Changes in Accounting Policies**

Application of the Accounting Standard for Business Combinations, etc.

The Company has applied the “Accounting Standard for Business Combinations” (Accounting Standards Board of Japan (ASBJ) Statement No. 21, September 13, 2013), “Accounting Standard for Consolidated Financial Statements” (ASBJ Statement No. 22, September 13, 2013), “Accounting Standard for Business Divestitures” (ASBJ Statement No. 7, September 13, 2013), etc. from the current fiscal year. Accordingly, difference arising from changes in the Company’s ownership interests in subsidiaries in cases where control is retained is recognized in capital surplus, and the acquisition-related costs in connection with business combinations are recognized as expenses in the fiscal year in which they arise. Regarding business combinations that take place on or after the beginning of the current fiscal year, the Company has revised the method to reflect reviewed allocation of the acquisition-related costs arising from determination of the provisional accounting treatment on the consolidated financial statements to which the date of the business combination belongs. In addition, the presentation of profit and other items has been revised, and the minority interests item has been renamed non-controlling interests. For consistency with these changes, the consolidated financial statements for the previous fiscal year have been revised.

The Company has adopted the Accounting Standard for Business Combinations, etc. prospectively from the beginning of the current fiscal year in accordance with the transitional accounting treatments set forth in Article 58-2 (4) of the Accounting Standard for Business Combinations, Article 44-5 (4) of the Accounting Standard for Consolidated Financial Statements and Article 57-4 (4) of the Accounting Standard for Business Divestitures.

The effect of these changes on profit or loss in the current fiscal year and capital surplus at the end of the same period is insignificant.

In the consolidated statement of cash flows for the current fiscal year, cash flows arising from sales of shares of subsidiaries that do not result in change in the scope of consolidation were presented in the section of “Cash flows from financing activities.”

The effect on capital surplus in the consolidated statement of changes in equity for the current fiscal year is insignificant.

The effect on net assets per share and net income per share in the current fiscal year is also insignificant.

### **Segment and Other Information**

#### **(1) Overview of reportable segment**

Segments used for financial reporting are the Company’s constituent units for which separate financial information is available and for which the highest management decision-making body performs periodic studies for the purposes of determining the allocation of resources and evaluating performance.

To offer products that meet a diverse range of customer needs, the KOSÉ Group uses a variety of brands to sell products that it conceives and develops. Group companies conduct business activities by establishing and implementing comprehensive strategies in Japan and overseas for each brand.

As a result, the Company has two reportable business segments, cosmetics and cosmetaries, that are based on individual brands.

In the cosmetics segment, principal products are KOSÉ, SEKKISEI, ESPRIQUE, COSME DECORTE, PRÉDIA, INFINITY, JILL STUART, CRIE, ALBION and others. In the cosmetaries segment, principal products are FASIO, ELSIA, SALON STYLE, softymo, STEPHEN KNOLL NEW YORK, RIMMEL, Nature & Co and others.

(2) Information related to net sales and profit or loss for each reportable segment

FY03/2015 (Apr. 1, 2014 – Mar. 31, 2015)

Millions of yen

	Reportable segment			Other (Note 1)	Total	Adjustment (Note 2)	Amounts shown on consolidated financial statements (Note 3)
	Cosmetics	Cosmetaries	Subtotal				
Net sales							
(1) Sales to third parties	152,806	53,214	206,020	1,800	207,821	-	207,821
(2) Intragroup sales and transfers	-	-	-	752	752	(752)	-
Total sales	152,806	53,214	206,020	2,552	208,573	(752)	207,821
Segment profit	21,051	4,695	25,746	757	26,503	(3,856)	22,647

FY03/2016 (Apr. 1, 2015 – Mar. 31, 2016)

Millions of yen

	Reportable segment			Other (Note 1)	Total	Adjustment (Note 2)	Amounts shown on consolidated financial statements (Note 3)
	Cosmetics	Cosmetaries	Subtotal				
Net sales							
(1) Sales to third parties	180,168	60,987	241,156	2,234	243,390	-	243,390
(2) Intragroup sales and transfers	-	162	162	967	1,130	(1,130)	-
Total sales	180,168	61,150	241,318	3,202	244,521	(1,130)	243,390
Segment profit	32,246	5,332	37,579	1,318	38,897	(4,262)	34,634

Notes: 1. The "other" segment consists of activities that are not included in any of the reportable segments: amenity products and real estate leasing.

2. Adjustments to segment profits are as follows.

Millions of yen

	FY03/2015	FY03/2016
Eliminations for intersegment transactions	24	(109)
Corporate expenses that cannot be allocated to reporting segments	(3,880)	(4,152)
Total	(3,856)	(4,262)

Corporate expenses consist primarily of expenses related to the administration division at the Company and expenses for basic research that are not assigned to any particular reportable segment.

3. Segment profit is adjusted with operating income shown on the consolidated financial statements.

(3) Geographic sales information

FY03/2015 (Apr. 1, 2014 – Mar. 31, 2015)

Millions of yen

Japan	Asia	Europe & USA	Total
173,841	25,598	8,381	207,821

FY03/2016 (Apr. 1, 2015 – Mar. 31, 2016)

Millions of yen

Japan	Asia	Europe & USA	Total
200,310	27,189	15,890	243,390

**Per Share Information**

Yen

	FY03/2015 (Apr. 1, 2014 – Mar. 31, 2015)	FY03/2016 (Apr. 1, 2015 – Mar. 31, 2016)
Net assets per share	2,455.34	2,583.76
Net income per share	211.37	327.04

Notes: 1. Net income per share (diluted) is not presented since the Company has no outstanding dilutive securities.

2. The following is a reconciliation of net income per share.

Millions of yen

	FY03/2015 (Apr. 1, 2014 – Mar. 31, 2015)	FY03/2016 (Apr. 1, 2015 – Mar. 31, 2016)
Profit attributable to owners of parent	12,057	18,655
Net income not attributable to common shareholders	-	-
Profit attributable to owners of parent available to common stock	12,057	18,655
Average number of shares outstanding (thousand shares)	57,045	57,044

**Subsequent Events**

Not applicable.

*Note: This is a translation of Japanese Kessan Tanshin (including attachments), a summary of financial statements prepared in accordance with accounting principles generally accepted in Japan. This translation is prepared and provided for the purpose of the reader's convenience. All readers are recommended to refer to the original version in Japanese of the report for complete information.*