



October 31, 2016

Summary of Financial Results for the Second Quarter of Fiscal Year Ending March 31, 2017 (Six Months Ended September 30, 2016)

[Japanese GAAP]

Company name: **KOSÉ Corporation**

Stock listing: Tokyo Stock Exchange, First Section

Stock code: 4922

URL: <http://www.kose.co.jp/>

President & CEO: Kazutoshi Kobayashi

Contact: Hitonori Nakata, General Manager of IR Department Tel: +81- (0) 3-3273-1511

Scheduled date of filing of Quarterly Report: November 11, 2016

Scheduled date of dividend payment: December 9, 2016

Preparation of supplementary materials for quarterly financial results: Yes

Holding of quarterly financial results meeting: Yes (for analysts)

(Rounded down to million yen)

1. Consolidated Financial Results for the Six Months Ended September 30, 2016 (April 1, 2016 – September 30, 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 (%)
2Q FY03/2017	125,788	9.0	18,698	3.6	17,594	(5.9)	10,070	(8.0)
2Q FY03/2016	115,407	22.8	18,045	156.1	18,691	130.6	10,951	164.5

Note: Comprehensive income (million yen) 2Q FY03/2017: 6,518 (down 45.9%) 2Q FY03/2016: 12,040 (up 239.3%)

	Net income per share (basic) (Yen)	Net income per share (diluted) (Yen)
2Q FY03/2017	176.53	-
2Q FY03/2016	191.98	-

(2) Consolidated financial position

	Total assets (Million yen)	Net assets (Million yen)	Equity ratio (%)	Net assets per share (Yen)
2Q FY03/2017	224,875	161,748	66.5	2,623.26
FY03/2016	233,275	158,543	63.2	2,583.76

Ref.: Shareholders' equity (million yen) 2Q FY03/2017: 149,641 FY03/2016: 147,388

2. Dividends

	Dividend per share				
	1Q-end (Yen)	2Q-end (Yen)	3Q-end (Yen)	Year-end (Yen)	Total (Yen)
FY03/2016	-	37.00	-	57.00	94.00
FY03/2017	-	47.00	-	-	-
FY03/2017 (forecast)	-	-	-	47.00	94.00

Note: Revisions to the most recently announced dividend forecast: None

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)
Full year	256,000	5.2	37,000	6.8	36,300	5.0	20,900	12.0	366.38

Note: Revisions to the most recently announced consolidated forecast: Yes

*** Notes**

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

Newly added: -

Excluded: -

(2) Application of special accounting methods for presenting consolidated quarterly financial statements: None

(3) 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 "2. Matters Related to Summary Information (Notes), (2) Changes in Accounting Policies and Accounting-based Estimates, and Restatements" on page 5 of the attachments for further information.

(4) Number of shares outstanding (common stock)

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

As of September 30, 2016: 60,592,541 shares

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

2) Number of treasury shares at end of the period

As of September 30, 2016: 3,548,315 shares

As of March 31, 2016: 3,548,245 shares

3) Average number of shares outstanding during the period

2Q FY03/2017: 57,044,284 shares

2Q FY03/2016: 57,044,851 shares

Note 1: Indication of quarterly review procedure implementation status

The current quarterly financial summary is exempted from quarterly review procedures based on the Financial Instruments and Exchange Act. At the time of disclosure, the review procedures for the quarterly 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. Qualitative Information on Consolidated Quarterly Financial Performance, (2) Explanation of Consolidated Forecast and Other Forward-looking Statements" on page 4 of the attachments.

Contents of Attachments

1. Qualitative Information on Consolidated Quarterly Financial Performance	2
(1) Explanation of Results of Operations	2
(2) Explanation of Consolidated Forecast and Other Forward-looking Statements	4
2. Matters Related to Summary Information (Notes)	5
(1) Changes in Consolidated Subsidiaries during the Period	5
(2) Changes in Accounting Policies and Accounting-based Estimates, and Restatements	5
(3) Additional Information	5
3. Consolidated Quarterly Financial Statements	6
(1) Consolidated Quarterly Balance Sheet	6
(2) Consolidated Quarterly Statements of Income and Comprehensive Income	8
Consolidated Quarterly Statement of Income	
(For the Six-month Period)	8
Consolidated Quarterly Statement of Comprehensive Income	
(For the Six-month Period)	9
(3) Notes to Consolidated Quarterly Financial Statements	10
(Going Concern Assumption)	10
(Precaution Concerning Significant Changes in Shareholders' Equity)	10
(Segment and Other Information)	10

1. Qualitative Information on Consolidated Quarterly Financial Performance

(1) Explanation of Results of Operations

Six Months Ended September 30, 2016 (April 1, 2016 – September 30, 2016)

Millions of yen, %

Operating segment	2Q FY03/2016		2Q FY03/2017		YoY change	
	Amount	% comp.	Amount	% comp.	Amount	%
Cosmetics	83,626	72.5	90,973	72.3	7,346	8.8
Cosmetaries	30,694	26.6	33,731	26.8	3,037	9.9
Other	1,086	0.9	1,083	0.9	(2)	(0.2)
Total net sales	115,407	100.0	125,788	100.0	10,381	9.0

	2Q FY03/2016		2Q FY03/2017		YoY change	
	Amount	% of sales	Amount	% of sales	Amount	%
Operating income	18,045	15.6	18,698	14.9	652	3.6
Ordinary income	18,691	16.2	17,594	14.0	(1,096)	(5.9)
Profit attributable to owners of parent	10,951	9.5	10,070	8.0	(881)	(8.0)

1) Review of Operations

In the first half (April 1 to September 30, 2016) of the current fiscal year, the Japanese economy continued to recover slowly because of improvements in employment, personal income and other areas. However, there are concerns about the effects of foreign exchange rates and slowing economic growth in China and other emerging countries. As a result, the outlook is becoming increasingly uncertain due to weakness in some economic indicators, including corporate earnings and 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 April 2016 were roughly flat year on year.

This fiscal year is the second year of the KOSÉ Group's medium-term management plan 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 is making progress toward the goals of becoming a company with a global presence and further increasing the pace of growth.

In the first half, net sales increased 9.0% from one year earlier to 125,788 million yen, reaching an all-time high for quarterly sales (up 10.9 % after excluding the effects of changes in foreign exchange rates). ~~The growth in sales was attributable to~~ Although growth of the number of foreign tourists in Japan has started to slow, there were higher sales to consumers in Japan, chiefly high-prestige brands, and a big increase in sales at the U.S. company Tarte, Inc. Overseas sales were 17.6% of total consolidated sales.

Operating income increased 3.6% to a record high 18,698 million yen mainly due to sales growth resulting from the aggressive use of selling expenses, and effective use of general and administrative expenses. Ordinary income decreased 5.9% to 17,594 million yen caused by foreign exchange losses, and profit attributable to owners of parent decreased 8.0% to 10,070 million yen.

2) Results by Business Segment**a. Cosmetics Business***Millions of yen, %*

	2Q FY03/2016	2Q FY03/2017	YoY change	
			Amount	%
Sales to third parties	83,626	90,973	7,346	8.8
Intragroup sales and transfers	-	-	-	-
Total net sales	83,626	90,973	-	-
Operating income	15,671	17,461	1,789	11.4
Operating margin	18.7	19.2	-	-

In the cosmetics business, sales in Japan were driven by the strong performance of ALBION CO.,LTD., which sells luxury cosmetics, and higher sales of high-prestige brands like COSME DECORTE and JILL STUART, which are positioned as flagship global brands, and the make-up artist's brand ADDICTION. In the prestige brand category, sales of SEKKISEI skin care products were down from one year earlier when there were special promotions, but there was growth in sales of ESPRIQUE makeup products and in sales of some other brands. Overseas, sales increased despite ongoing structural reforms that began in the previous fiscal year for operations in China. Much higher duty-free sales of cosmetics in South Korea and sales growth at Tarte that exceeded the Company's plan made big contributions to overseas sales.

Overall, sales in the cosmetics business increased 8.8% to 90,973 million yen and operating income increased 11.4% to 17,461 million yen.

b. Cosmetaries Business*Millions of yen, %*

	2Q FY03/2016	2Q FY03/2017	YoY change	
			Amount	%
Sales to third parties	30,694	33,731	3,037	9.9
Intragroup sales and transfers	98	324	-	-
Total net sales	30,792	34,056	-	-
Operating income	3,768	2,987	(781)	(20.7)
Operating margin	12.2	8.8	-	-

In the cosmetaries business, sales growth was driven by higher sales of brands in key categories such as sheet masks and shampoo at KOSÉ COSMEPORT CORP. There were also strong performances by the self-selection makeup brand VISÉE, the result of launching a new product line and expanding sales channels, and the FASIO brand due to brisk sales of mascara products.

As a result, sales in the cosmetaries business increased 9.9% to 33,731 million yen and operating income decreased 20.7% to 2,987 million yen due to extensive marketing investments.

c. Other Business*Millions of yen, %*

	2Q FY03/2016	2Q FY03/2017	YoY change	
			Amount	%
Sales to third parties	1,086	1,083	(2)	(0.2)
Intragroup sales and transfers	333	320	-	-
Total net sales	1,419	1,404	-	-
Operating income	510	529	18	3.6
Operating margin	36.0	37.7	-	-

In the other business segment, sales of amenity products and orders for the manufacture of OEM products were roughly flat year on year. As a result, sales decreased 0.2% to 1,083 million yen and operating income increased 3.6% to 529 million yen.

(2) Explanation of Consolidated Forecast and Other Forward-looking Statements

Japan's slow economic recovery is expected to continue as the number of jobs and personal income increase and the economy benefits from government policies. However, there are concerns about foreign exchange rate movements, slowing economic growth in emerging countries and other events.

In the first half of the fiscal year ending March 31, 2017, net sales and earnings increased. Sales in Japan centered on high-prestige brand products were remained strong, and U.S. company Tarte, Inc. continued to perform well.

Based on this outlook, KOSÉ revised its forecast for the fiscal year ending March 31, 2017 that was announced on July 29, 2016 as follows.

	Net sales	Operating income	Ordinary income	Profit attributable to owners of parent	Net income per share
	<i>Millions of yen</i>	<i>Millions of yen</i>	<i>Millions of yen</i>	<i>Millions of yen</i>	<i>Yen</i>
Previous forecast (A)	254,000	36,000	36,200	20,900	366.38
Revised forecast (B)	256,000	37,000	36,300	20,900	366.38
Change (B – A)	2,000	1,000	100	-	-
Percentage change (%)	0.8	2.8	0.3	-	-
(Reference) Previous fiscal year results (Fiscal year ended Mar. 31, 2016)	243,390	34,634	34,566	18,655	327.04

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

Operating segment	FY03/2016		FY03/2017 (forecast)		YoY change	
	Amount	% comp.	Amount	% comp.	Amount	%
Cosmetics	180,168	74.0	189,800	74.2	9,631	5.3
Cosmetaries	60,987	25.1	64,100	25.0	3,112	5.1
Other	2,234	0.9	2,100	0.8	(134)	(6.0)
Total net sales	243,390	100.0	256,000	100.0	12,609	5.2

	FY03/2016		FY03/2017 (forecast)		YoY change	
	Amount	% of sales	Amount	% of sales	Amount	%
Operating income	34,634	14.2	37,000	14.5	2,365	6.8
Ordinary income	34,566	14.2	36,300	14.2	1,733	5.0
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 107 yen to the U.S. dollar, 3.3 yen to the Taiwan dollar and 16.2 yen to the Chinese yuan.

2. Matters Related to Summary Information (Notes)

(1) Changes in Consolidated Subsidiaries during the Period

Not applicable.

(2) Changes in Accounting Policies and Accounting-based Estimates, and Restatements

(Changes in Accounting Policies)

Application of Practical Solution on a Change in Depreciation Method due to Tax Reform 2016

Following the revised Corporation Tax Act, the Company and its consolidated subsidiaries in Japan have adopted the “Practical Solution on a Change in Depreciation Method due to Tax Reform 2016” (Accounting Standards Board of Japan (ASBJ) Practical Issues Task Force (PITF) No. 32, June 17, 2016) from the first quarter of the current fiscal year, and changed the depreciation method for facilities attached to buildings and structures acquired on or after April 1, 2016, from the declining-balance method to the straight-line method.

The effect of this change on operating income, ordinary income and profit before income taxes for the first half is insignificant.

(3) Additional Information

(Application of Implementation Guidance on Recoverability of Deferred Tax Assets)

Effective from the first quarter of the current fiscal year, the Company has applied the “Implementation Guidance on Recoverability of Deferred Tax Assets” (ASBJ Guidance No. 26, March 28, 2016).

3. Consolidated Quarterly Financial Statements**(1) Consolidated Quarterly Balance Sheet***Millions of yen*

	FY03/2016 (As of Mar. 31, 2016)	2Q FY03/2017 (As of Sep. 30, 2016)
Assets		
Current assets		
Cash and deposits	69,549	71,743
Notes and accounts receivable-trade	32,931	32,160
Securities	17,356	7,637
Merchandise and finished goods	19,276	20,104
Work in process	2,070	2,079
Raw materials and supplies	12,854	15,143
Deferred tax assets	5,269	4,650
Other	2,106	2,053
Allowance for doubtful accounts	(63)	(66)
Total current assets	161,351	155,506
Non-current assets		
Property, plant and equipment		
Buildings and structures	30,938	30,977
Accumulated depreciation	(19,532)	(19,695)
Buildings and structures, net	11,406	11,282
Machinery, equipment and vehicles	13,332	13,502
Accumulated depreciation	(11,543)	(11,553)
Machinery, equipment and vehicles, net	1,788	1,948
Tools, furniture and fixtures	33,251	33,659
Accumulated depreciation	(28,562)	(28,714)
Tools, furniture and fixtures, net	4,688	4,944
Land	16,868	16,533
Leased assets	1,524	1,538
Accumulated depreciation	(913)	(997)
Leased assets, net	610	541
Construction in progress	5,131	5,510
Total property, plant and equipment	40,494	40,760
Intangible assets		
Software	1,354	1,287
Goodwill	9,626	7,857
Other	8,959	7,580
Total intangible assets	19,941	16,724
Investments and other assets		
Investment securities	3,486	3,922
Deferred tax assets	5,540	5,434
Other	2,628	2,689
Allowance for doubtful accounts	(167)	(163)
Total investments and other assets	11,488	11,883
Total non-current assets	71,923	69,368
Total assets	233,275	224,875

Millions of yen

	FY03/2016 (As of Mar. 31, 2016)	2Q FY03/2017 (As of Sep. 30, 2016)
Liabilities		
Current liabilities		
Notes and accounts payable-trade	7,981	8,425
Electronically recorded obligations-operating	12,029	13,911
Short-term loans payable	1,016	958
Lease obligations	187	174
Accounts payable-other	13,971	7,599
Accrued expenses	10,327	8,667
Income taxes payable	7,537	3,985
Accrued consumption taxes	2,065	1,274
Provision for sales returns	1,896	1,884
Other	753	921
Total current liabilities	57,766	47,803
Non-current liabilities		
Lease obligations	500	439
Provision for directors' retirement benefits	2,164	2,288
Net defined benefit liability	10,948	9,844
Deferred tax liabilities	2,844	2,264
Other	506	485
Total non-current liabilities	16,965	15,323
Total liabilities	74,731	63,126
Net assets		
Shareholders' equity		
Capital stock	4,848	4,848
Capital surplus	6,388	6,388
Retained earnings	141,480	148,299
Treasury shares	(9,091)	(9,092)
Total shareholders' equity	143,626	150,444
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	669	398
Foreign currency translation adjustment	4,729	264
Remeasurements of defined benefit plans	(1,635)	(1,464)
Total accumulated other comprehensive income	3,762	(802)
Non-controlling interests	11,154	12,106
Total net assets	158,543	161,748
Total liabilities and net assets	233,275	224,875

(2) Consolidated Quarterly Statements of Income and Comprehensive Income**Consolidated Quarterly Statement of Income**
(For the Six-month Period)*Millions of yen*

	2Q FY03/2016 (Apr. 1, 2015 – Sep. 30, 2015)	2Q FY03/2017 (Apr. 1, 2016 – Sep. 30, 2016)
Net sales	115,407	125,788
Cost of sales	27,670	30,733
Gross profit	87,736	95,054
Selling, general and administrative expenses		
Advertising expenses	7,156	8,375
Promotion expenses	21,300	23,995
Freightage and packing expenses	4,152	4,629
Salaries and allowances	20,261	21,072
Retirement benefit expenses	446	910
Legal welfare expenses	3,147	3,179
Depreciation	1,425	1,440
Other	11,801	12,753
Total selling, general and administrative expenses	69,691	76,356
Operating income	18,045	18,698
Non-operating income		
Interest income	144	124
Dividend income	40	39
Patent licensing	23	18
Gain on redemption of securities	521	70
Miscellaneous income	68	128
Total non-operating income	798	383
Non-operating expenses		
Interest expenses	6	3
Commission fee	5	3
Foreign exchange losses	122	1,453
Miscellaneous loss	18	25
Total non-operating expenses	152	1,486
Ordinary income	18,691	17,594
Extraordinary income		
Gain on sales of non-current assets	0	169
Gain on sales of investment securities	38	-
Total extraordinary income	38	169
Extraordinary losses		
Loss on disposal of non-current assets	46	139
Loss on valuation of investment securities	1	0
Other	0	-
Total extraordinary losses	47	140
Profit before income taxes	18,682	17,623
Income taxes-current	5,996	5,917
Income taxes-deferred	677	467
Total income taxes	6,674	6,384
Profit	12,008	11,238
Profit attributable to non-controlling interests	1,057	1,168
Profit attributable to owners of parent	10,951	10,070

Consolidated Quarterly Statement of Comprehensive Income
(For the Six-month Period)

Millions of yen

	2Q FY03/2016 (Apr. 1, 2015 – Sep. 30, 2015)	2Q FY03/2017 (Apr. 1, 2016 – Sep. 30, 2016)
Profit	12,008	11,238
Other comprehensive income		
Valuation difference on available-for-sale securities	(439)	(273)
Foreign currency translation adjustment	647	(4,636)
Remeasurements of defined benefit plans, net of tax	(175)	190
Total other comprehensive income	31	(4,719)
Comprehensive income	12,040	6,518
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	10,963	5,505
Comprehensive income attributable to non-controlling interests	1,077	1,013

(3) Notes to Consolidated Quarterly Financial Statements**Going Concern Assumption**

Not applicable.

Precaution Concerning Significant Changes in Shareholders' Equity

Not applicable.

Segment and Other Information**Segment Information**

I. 2Q FY03/2016 (Apr. 1, 2015 – Sep. 30, 2015)

1. Information related to net sales and profit or loss for each reportable segment

Millions of yen

	Reportable segment			Other (Note 1)	Total	Adjustment (Note 2)	Amounts shown on consolidated quarterly statement of income (Note 3)
	Cosmetics	Cosmetaries	Subtotal				
Net sales							
(1) Sales to third parties	83,626	30,694	114,320	1,086	115,407	-	115,407
(2) Intragroup sales and transfers	-	98	98	333	431	(431)	-
Total sales	83,626	30,792	114,419	1,419	115,838	(431)	115,407
Segment profit	15,671	3,768	19,440	510	19,950	(1,905)	18,045

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

Eliminations for intersegment transactions	12
Corporate expenses that cannot be allocated to reporting segments	(1,918)

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 quarterly statement of income.

2. Information related to impairment losses on non-current assets and goodwill, etc. for each reportable segment

No significant items in 2Q FY03/2016.

3. Geographic sales information

Millions of yen

Japan	Asia	Europe & USA	Total
97,005	11,502	6,899	115,407

II. 2Q FY03/2017 (Apr. 1, 2016 – Sep. 30, 2016)

1. Information related to net sales and profit or loss for each reportable segment

Millions of yen

	Reportable segment			Other (Note 1)	Total	Adjustment (Note 2)	Amounts shown on consolidated quarterly statement of income (Note 3)
	Cosmetics	Cosmetaries	Subtotal				
Net sales							
(1) Sales to third parties	90,973	33,731	124,704	1,083	125,788	-	125,788
(2) Intragroup sales and transfers	-	324	324	320	645	(645)	-
Total sales	90,973	34,056	125,029	1,404	126,433	(645)	125,788
Segment profit	17,461	2,987	20,448	529	20,977	(2,279)	18,698

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

Eliminations for intersegment transactions	42
Corporate expenses that cannot be allocated to reportable segments	(2,322)

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 quarterly statement of income.

2. Information related to impairment losses on non-current assets and goodwill, etc. for each reportable segment

No significant items in 2Q FY03/2017.

3. Geographic sales information

Millions of yen

Japan	Asia	Europe/USA/Other	Total
103,615	11,622	10,550	125,788

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.