

Summary of Financial Results for the Fiscal Year Ended March 31, 2019

[Japanese GAAP]

Company name: **KOSÉ Corporation**

Stock listing: Tokyo Stock Exchange, First Section

Stock code: 4922

URL: <https://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 general meeting of shareholders: June 27, 2019

Scheduled date of filing of Securities Report: June 27, 2019

Scheduled date of dividend payment: June 28, 2019

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, 2019

(April 1, 2018 – March 31, 2019)

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

	Net sales (Million yen)	YoY change (%)	Operating profit (Million yen)	YoY change (%)	Ordinary profit (Million yen)	YoY change (%)	Profit attributable to owners of parent (Million yen)	YoY change (%)
FY03/2019	332,995	9.8	52,408	8.3	53,976	11.3	37,004	20.9
FY03/2018	303,399	13.7	48,408	23.6	48,508	22.6	30,611	41.3

Note: Comprehensive income (million yen) FY03/2019: 36,427 (down 1.3%) FY03/2018: 36,908 (up 49.8%)

	Net income per share (basic) (Yen)	Net income per share (diluted) (Yen)	Return on equity (%)	Ordinary profit to total assets (%)	Operating profit to net sales (%)
FY03/2019	648.71	-	18.8	18.9	15.7
FY03/2018	536.63	-	17.6	18.7	16.0

Ref.: Equity in earnings of affiliates (million yen) FY03/2019: - FY03/2018: -

(2) Consolidated financial position

	Total assets (Million yen)	Net assets (Million yen)	Equity ratio (%)	Net assets per share (Yen)
FY03/2019	300,162	224,841	69.6	3,660.77
FY03/2018	270,370	198,607	68.1	3,227.07

Ref.: Shareholders' equity (million yen) FY03/2019: 208,823 FY03/2018: 184,083

(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)	
FY03/2019	32,989	(20,669)	(10,426)	64,264
FY03/2018	34,918	(10,369)	(16,400)	63,883

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)			
FY03/2018	-	63.00	-	85.00	148.00	8,442	27.6	4.9
FY03/2019	-	85.00	-	95.00	180.00	10,267	27.7	5.2
FY03/2020 (forecast)	-	95.00	-	95.00	190.00		29.2	

3. Consolidated Forecast for the Fiscal Year Ending March 31, 2020 (April 1, 2019 – March 31, 2020)

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

	Net sales (Million yen)	YoY change (%)	Operating profit (Million yen)	YoY change (%)	Ordinary profit (Million yen)	YoY change (%)	Profit attributable to owners of parent (Million yen)	YoY change (%)	Net income per share (Yen)
First half	174,200	8.2	31,500	2.6	31,800	(2.5)	20,900	(5.9)	366.38
Full year	352,000	5.7	54,000	3.0	54,700	1.3	37,100	0.3	650.37

*** Notes**

(1) Changes in consolidated subsidiaries during the period (changes in scope of consolidation): Yes

Newly added: - Excluded: 1 KOSÉ COSMETICS CO., LTD. (CHINA)

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

- 1) Changes in accounting policies due to revisions in accounting standards, others : None
- 2) Changes in accounting policies other than 1) above : None
- 3) Changes in accounting-based estimates : None
- 4) Restatements : None

(3) Number of shares outstanding (common stock)

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

As of March 31, 2019 60,592,541 shares As of March 31, 2018 60,592,541 shares

2) Number of treasury shares at end of the period

As of March 31, 2019 3,549,024 shares As of March 31, 2018 3,548,828 shares

3) Average number of shares outstanding during the period

FY03/2019 57,043,584 shares FY03/2018 57,043,906 shares

(Reference) Non-consolidated financial results

Non-consolidated Financial Results for the Fiscal Year Ended March 31, 2019

(April 1, 2018 – March 31, 2019)

(1) Non-consolidated financial results *(YoY change % represents changes from the previous fiscal year)*

	Net sales (Million yen)	YoY change (%)	Operating profit (Million yen)	YoY change (%)	Ordinary profit (Million yen)	YoY change (%)	Net income (Million yen)	YoY change (%)
FY03/2019	155,244	14.2	15,399	34.1	29,728	48.5	25,445	70.8
FY03/2018	135,893	12.8	11,481	38.0	20,021	33.3	14,893	47.9

	Net income per share (basic) (Yen)	Net income per share (diluted) (Yen)
FY03/2019	446.08	-
FY03/2018	261.09	-

(2) Non-consolidated financial position

	Total assets (Million yen)	Net assets (Million yen)	Equity ratio (%)	Net assets per share (Yen)
FY03/2019	166,430	119,441	71.8	2,093.87
FY03/2018	148,351	103,522	69.8	1,814.80

Ref.: Shareholders' equity (million yen) FY03/2019: 119,441 FY03/2018: 103,522

Note 1: This financial report is not subject to audit by certified public accountants or auditing firms.

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 KOSÉ as of the announcement date of the summary. These statements are not promises by KOSÉ 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 KOSÉ 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.

Contents of Attachments

1. Analysis of Results of Operations and Financial Position	2
(1) Analysis of Results of Operations	2
(2) Analysis of Financial Position	5
(3) Profit Allocation Policy and Dividends for FY03/2019 and FY03/2020	7
2. Management Policies	7
(1) Fundamental Management Policy	7
(2) Performance Indicators	7
(3) Medium- and Long-Term Strategies and Important Issues	7
3. Basic Approach for the Selection of Accounting Standards	8
4. Consolidated Financial Statements and Notes	9
(1) Consolidated Balance Sheet	9
(2) Consolidated Statements of Income and Comprehensive Income	11
Consolidated Statement of Income	11
Consolidated Statement of Comprehensive Income	12
(3) Consolidated Statement of Changes in Equity	13
(4) Consolidated Statement of Cash Flows	15
(5) Notes to Consolidated Financial Statements	17
(Going Concern Assumption)	17
(Notes to Consolidated Statement of Income)	17
(Changes in Consolidated Subsidiaries during the Period)	17
(Reclassifications)	17
(Segment and Other Information)	18
(Per Share Information)	19
(Subsequent Events)	19

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	FY03/2018		FY03/2019		YoY change	
	Amount	% comp.	Amount	% comp.	Amount	%
Cosmetics	229,603	75.7	254,965	76.6	25,362	11.0
Cosmetaries	71,323	23.5	74,632	22.4	3,308	4.6
Other	2,473	0.8	3,398	1.0	924	37.4
Total net sales	303,399	100.0	332,995	100.0	29,596	9.8

	FY03/2018		FY03/2019		YoY change	
	Amount	% of sales	Amount	% of sales	Amount	%
Operating profit	48,408	16.0	52,408	15.7	3,999	8.3
Ordinary profit	48,508	16.0	53,976	16.2	5,467	11.3
Profit attributable to owners of parent	30,611	10.1	37,004	11.1	6,393	20.9

In the fiscal year that ended on March 31, 2019, the Japanese economy continued to recover slowly mainly because of improvements in corporate earnings and the number of jobs and an increase in capital expenditures. In the Japanese cosmetics industry, according to statistics for cosmetics shipments compiled by the Ministry of Economy, Trade and Industry (January to December), the sales volume and monetary sales of cosmetics increased compared with one year earlier. Overseas, in the primary markets for the KOSÉ Group, overall Asian economies are staging a rebound although there are some regional differences in economic strength, and the U.S. economy continued to recover.

The current fiscal year is the first year of the KOSÉ Group's new medium-term management plan that has the central theme of upgrading global brands and reinforcing customer points of contact. The objective of this plan is global and borderless growth through the greatest possible use of KOSÉ's resources and the constant creation of innovative value. A powerful business foundation capable of supporting growth will underpin all activities.

In the current fiscal year, net sales increased 9.8% to 332,995 million yen (up 9.9% after excluding the effects of changes in foreign exchange rates) as a result of strong sales in Japan and Asia. This was the sixth consecutive year of record-high sales. Overseas sales were 27.9% of total sales.

Earnings were higher due to the growth in sales resulting from the aggressive use of selling expenses and the more efficient use of general and administrative expenses. Operating profit increased 8.3% to 52,408 million yen and ordinary profit increased 11.3% to 53,976 million yen. Profit attributable to owners of parent increased 20.9% to 37,004 million yen. This includes a gain on the sale of shares of a manufacturing subsidiary in China and a compensation received due to the termination of a licensing agreement for the RIMMEL brand. Earnings at all levels set a new record for the KOSÉ Group.

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

	FY03/2018	FY03/2019	YoY change	
			Amount	%
Sales to third parties	229,603	254,965	25,362	11.0
Intragroup sales and transfers	-	-	-	-
Total net sales	229,603	254,965	25,362	11.0
Operating profit	46,382	51,401	5,018	10.8
Operating margin	20.2	20.2	-	-

In the cosmetics business, sale increased in the high-prestige category as the COSME DECORTE brand posted record-high sales in Japan and overseas, a new format for selling products at specialty stores contributed to the performance of ALBION CO., LTD., and sales increased at the U.S. company Tarte, Inc., which sells primarily makeup products. In the prestige category, in Japan there was a big increase in sales of the ONE BY KOSÉ brand, a line of unique products with outstanding efficacy that perform specific beauty care functions. During the current fiscal year, this brand launched a medicated whitening serum and a medicated cream for reducing wrinkles. There were also activities in Japan to increase sales of LECHÉRI, a new skin care brand in the mid-price range, and other products. Overseas, sales were higher in all Asian countries where KOSÉ operates, including higher sales in South Korea and China due to strong sales of key global brands. In addition, duty-free sales in Japan and overseas continued to increase throughout the fiscal year. Overall, sales in the cosmetics business increased 11.0% to 254,965 million yen and operating profit increased 10.8% to 51,401 million yen.

Cosmetaries Business*Millions of yen, %*

	FY03/2018	FY03/2019	YoY change	
			Amount	%
Sales to third parties	71,323	74,632	3,308	4.6
Intragroup sales and transfers	564	753	188	33.4
Total net sales	71,887	75,385	3,497	4.9
Operating profit	5,826	5,043	(782)	(13.4)
Operating margin	8.1	6.7	-	-

In the cosmetaries business, sales benefited from the strong performances of the SUNCUT line of sunscreen products and the SALON STYLE BIOLISS line of botanical hair care products of KOSÉ COSMEPORT CORP. Other contributors to sales growth were Visée self-selection makeup products, the STEPHEN KNOLL NEW YORK line of hair care products and NAIL HOLIC nail care products. As a result, sales in the cosmetaries business increased 4.6% to 74,632 million yen and operating profit decreased 13.4% to 5,043 million yen.

Other Business*Millions of yen, %*

	FY03/2018	FY03/2019	YoY change	
			Amount	%
Sales to third parties	2,473	3,398	924	37.4
Intragroup sales and transfers	673	721	47	7.0
Total net sales	3,147	4,119	972	30.9
Operating profit	1,057	1,537	480	45.4
Operating margin	33.6	37.3	-	-

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 37.4% to 3,398 million yen and operating profit increased 45.4% to 1,537 million yen.

c. Net Sales by Region (Sales to Third Parties)*Millions of yen, %*

	FY03/2018		FY03/2019		YoY change	
	Amount	% comp.	Amount	% comp.	Amount	%
Japan	227,889	75.1	240,202	72.1	12,313	5.4
Asia	35,232	11.6	51,474	15.5	16,241	46.1
North America	36,939	12.2	37,546	11.3	607	1.6
Other	3,338	1.1	3,772	1.1	434	13.0
Total net sales	303,399	100.0	332,955	100.0	29,596	9.8

Japan

“Closer to Customers” is a central theme for activities in Japan. One way that we are accomplishing this goal is by holding KOSÉ Beauty Festa events in major cities of Japan in order to provide information about the major brands of the KOSÉ Group. The goal is to increase points of contact with customers in a manner that is not limited to a particular brand or distribution channel. Due to these activities, core brands posted growth in major sales channels.

In the department store channel, which is used mainly for high-prestige brands, COSME DECORTE, a brand for products with significant added value, attracted new customers for products in its skin care, base makeup, point makeup and other major categories. Nurturing the existing customer base also contributed to sales growth in the high-prestige category. In the drug store and general merchandise store channels, which are used primarily for the prestige category and cosmetaries products, sales of INFINITY cosmetics, which are sold at stores that provide counseling, and other major brands were generally strong. There were particularly high growth rates in the sales of ONE BY KOSÉ and softymo in the skin care category, Visée and NAIL HOLIC in the makeup category, STEPHEN KNOLL NEW YORK and SALON STYLE BIOLISS in the hair care category, and SUNCUT in the sunscreen category.

Regarding sales to foreign tourists in Japan, due to the January 2019 enactment of China’s E-Commerce Law, a significant downturn was expected in purchases for the purpose of reselling items in China. Despite the effects of this new law, sales to foreign tourists increased because of the steady growth in sales to individual tourists. As a result, sales increased 5.4% to 240,202 million yen.

Asia

Activities in Asia focused on reinforcing existing sales channels throughout this region and expanding relatively new sales channels like duty-free stores and e-commerce. The objective is establishing global and borderless customer base by using activities including linkage with Japan’s foreign tourist market. During the current fiscal year, sales were higher in almost every country and region where KOSÉ sells its products in Asia. There was a big increase in duty-free sales in South Korea and the strong growth of e-commerce sales in China continued. In addition, there were special events in Hong Kong, where KOSÉ’s overseas operations began, to celebrate the 50th anniversary of the start of activities outside Japan. There were also events to celebrate the 30th anniversary of the start of activities in China and the KOSÉ Beauty Expo (China) was held in major cities of China to give millennials an opportunity to experience first-hand the benefits of KOSÉ Group products. As a result, sales increased 46.1% to 51,474 million yen.

North America

Although competition in the makeup market is intense, Tarte continued to achieve sales growth at specialty stores and in the e-commerce sector. As a result, sales increased 1.6% to 37,546 million yen.

Other

Sales increased 13.0% to 3,772 million yen because of strong increase in e-commerce sales of Tarte in Europe and Australia.

2) Outlook for the Next Fiscal Year

Although there are some signs of weakness, 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, caution is still required regarding the outlook because of risk involving foreign exchange rates, increasing uncertainty about the global economy, the effects of trade policies of various countries and other factors.

The KOSÉ Group has established VISION2026 for the purpose of providing guidelines for advancing to the next stage of growth as KOSÉ looks ahead to the 80th anniversary of its founding in 2026. The objective of this vision is global and borderless growth, backed by a powerful business foundation capable of supporting growth, through the greatest possible use of KOSÉ's resources and the constant creation of innovative value.

Based on this outlook, KOSÉ forecasts net sales of 352,000 million yen (up 5.7% from the previous fiscal year), operating profit of 54,000 million yen (up 3.0%), ordinary profit of 54,700 million yen (up 1.3%), and profit attributable to owners of parent of 37,100 million yen (up 0.3%). The outlook for business segments is shown below. The capital expenditure forecast is 18,100 million yen and the depreciation expense forecast is 10,100 million yen.

Millions of yen, %

Operating segment	FY03/2019		FY03/2020 (forecast)		YoY change	
	Amount	% comp.	Amount	% comp.	Amount	%
Cosmetics	254,965	76.6	273,300	77.7	18,334	7.2
Cosmetaries	74,632	22.4	74,700	21.2	67	0.1
Other	3,398	1.0	4,000	1.1	601	17.7
Total net sales	332,995	100.0	352,000	100.0	19,004	5.7

	FY03/2019		FY03/2020 (forecast)		YoY change	
	Amount	% of sales	Amount	% of sales	Amount	%
Operating profit	52,408	15.7	54,000	15.3	1,591	3.0
Ordinary profit	53,976	16.2	54,700	15.5	723	1.3
Profit attributable to owners of parent	37,004	11.1	37,100	10.5	95	0.3

* Forecasts are based on foreign exchange rates of 110 yen to the U.S. dollar, 3.6 yen to the Taiwan dollar, 16.7 yen to the Chinese yuan and 0.1 yen to Korean won.

(2) Analysis of Financial Position

1) Balance Sheet Position

The current ratio was 310.5%, 12.5 percentage points higher than one year earlier, and the quick ratio was 210.5%, a decrease of 1.8 percentage points, as of March 31, 2019. These changes were attributable mainly to the following items.

Assets increased 29,792 million yen. There was a 5,844 million yen increase in quick assets, mainly the result of increases of 10,748 million yen in cash and deposits, 3,370 million yen in notes and accounts receivable-trade, and a decrease of 8,274 million yen in securities. All other current assets increased 12,277 million yen mainly due to an increase of 9,841 million yen in inventories. Non-current assets increased 11,670 million yen due to an increase of 8,885 million yen in property, plant and equipment, a decrease of 714 million yen in intangible assets and an increase of 3,499 million yen in investments and other assets.

Liabilities increased 3,557 million yen. Current liabilities increased 3,313 million yen mainly due to increases of 3,236 million yen in electronically recorded obligations-operating and 1,293 million yen in accrued expenses, and a decrease of 1,240 million yen in accrued consumption taxes. Non-current liabilities increased 244 million yen mainly due to increases of 352 million yen in lease obligations and 333 million yen in provision for directors' retirement benefits, and a decrease of 517 million yen in net defined benefit liability.

Interest-bearing debt amounted to 1,666 million yen, and the debt-to-equity ratio was 0.01.

2) Cash Flows*Millions of yen*

	FY03/2018	FY03/2019	YoY change
Net cash provided by (used in) operating activities	34,918	32,989	(1,929)
Net cash provided by (used in) investing activities	(10,369)	(20,669)	(10,300)
Net cash provided by (used in) financing activities	(16,400)	(10,426)	5,974
Increase in cash and cash equivalents	8,261	380	(7,880)
Cash and cash equivalents at end of period	63,883	64,264	380

Cash and cash equivalents (consolidated basis) as of March 31, 2019 were 64,264 million yen, an increase of 380 million yen, or 0.6%, compared with March 31, 2018. Cash flows and major components during the current fiscal year are as follows.

Net cash provided by operating activities decreased 5.5% to 32,989 million yen. This was mainly the net result of profit before income taxes of 54,949 million yen, depreciation, a non-cash expense, of 8,018 million yen, increases of 10,377 million yen in inventories, 3,795 million yen in notes and accounts receivable-trade, 1,388 million yen in other assets, 2,668 million yen in notes and accounts payable-trade, and 440 million yen in other liabilities, and income taxes paid of 17,469 million yen.

Net cash used in investing activities increased 99.3% to 20,669 million yen. The major components were proceeds of 678 million yen from sales of shares of subsidiaries resulting in change in scope of consolidation, purchase of property, plant and equipment of 15,191 million yen, a net payment of 2,659 million yen into time deposits, and purchase of intangible assets of 1,910 million yen.

Net cash used in financing activities decreased 36.4% to 10,426 million yen. This was mainly due to cash dividends paid of 10,189 million yen.

3) Cash Flow Indicators

	FY03/2015	FY03/2016	FY03/2017	FY03/2018	FY03/2019
Shareholders' equity ratio (%)	68.3	63.2	66.3	68.1	69.6
Shareholders' equity ratio based on market prices (%)	184.5	267.8	232.4	469.9	386.4
Interest-bearing debt to cash flow ratio	0.1	0.1	0.1	0.0	0.1
Interest coverage ratio	4,073.8	1,285.9	5,133.3	9,274.6	23,555.3

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) / 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 KOSÉ 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.

- KOSÉ has applied "Partial Amendments to Accounting Standard for Tax Effect Accounting" (Accounting Standards Board of Japan (ASBJ) Statement No. 28, February 16, 2018) at the beginning of the current fiscal year. Cash flow indicators for the previous fiscal years have been adjusted retroactively to conform with this accounting standard.

(3) Profit Allocation Policy and Dividends for FY03/2019 and FY03/2020

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 increase the year-end ordinary dividend by 10 yen per share to 95 yen. Shareholders received an interim dividend of 85 yen per share on December 10, 2018. This will result in a dividend of 180 yen per share applicable to the current fiscal year (ended March 31, 2019).

In the next fiscal year (ending March 31, 2020), KOSÉ plans to pay an annual dividend of 190 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 the products of 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: $ROA = (\text{Operating profit} + \text{Interest and dividends}) / \text{Total assets (average at beginning and end of year)} \times 100$

$ROE = \text{Profit attributable to owners of parent/ Shareholders' equity (average at beginning and end of year)} \times 100$

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

The KOSÉ Group is enacting VISION2026 for the purpose of providing guidelines for advancing to the next stage of growth as KOSÉ looks ahead to the 80th anniversary of its founding in 2026.

VISION2026 has the goals of raising net sales to 500,000 million yen and the operating margin to at least 16%. To accomplish these goals, the Group has defined three phases to become an organization with global presence: "Phase I: Upgrade global brands and reinforce customer points of contact," "Phase II: Increase KOSÉ's global presence and improve the customer experience," and "Phase III: Become a customer-driven company appreciated by people worldwide."

During the medium-term management plan that started in April 2019, based on the basic strategies explained below, the KOSÉ Group will continue to focus on measures for accomplishing the goals of Phase I: Upgrade global brands and reinforce customer points of contact.

From a longer-term perspective, the KOSÉ Group will have to adapt to changes in market conditions with flexibility and make decisions with even greater speed. This is why the Group reviews and revises every year its medium-term management plan for the following three fiscal years based on performance in the preceding fiscal year and other factors. The targets for the fiscal year ending in March 2022 are sales of 395,000 million yen, an operating margin of 16.0%, a return on assets of 18.0% or more and a return on equity of 16.0% or more.

The three phases of VISION2026

- Phase I: Upgrade global brands and reinforce customer points of contact (April 2018 to March 2021)
- Phase II: Increase KOSÉ's global presence and improve the customer experience (April 2021 to March 2024)
- Phase III: Become a customer-driven company appreciated by people worldwide (April 2024 to March 2027)

Basic strategies for VISION2026

1) Three growth strategies

- (a) Accelerate globalization of brands
- (b) Proactively develop unique products
- (c) Explore new growth domains

2) Two value creation vectors

- (a) Aim for even more personal customer experiences
- (b) Focus on unique forms of value by utilizing external resources and technologies

3) Three business foundations

- (a) Build a sound foundation for the company growth
- (b) Recruit people who can adapt to changes in market conditions
- (c) Create an environment that allows people to realize their full potential

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 and Notes

(1) Consolidated Balance Sheet

Millions of yen

	FY03/2018 (As of Mar. 31, 2018)	FY03/2019 (As of Mar. 31, 2019)
Assets		
Current assets		
Cash and deposits	83,637	94,385
Notes and accounts receivable-trade	41,403	44,773
Securities	8,274	-
Merchandise and finished goods	29,260	34,121
Work in process	2,407	3,005
Raw materials and supplies	19,271	23,655
Other	2,913	5,383
Allowance for doubtful accounts	(48)	(83)
Total current assets	187,119	205,241
Non-current assets		
Property, plant and equipment		
Buildings and structures	37,813	40,960
Accumulated depreciation	(20,961)	(21,303)
Buildings and structures, net	16,852	19,657
Machinery, equipment and vehicles	16,078	17,012
Accumulated depreciation	(12,251)	(12,299)
Machinery, equipment and vehicles, net	3,827	4,713
Tools, furniture and fixtures	36,164	39,199
Accumulated depreciation	(30,357)	(32,097)
Tools, furniture and fixtures, net	5,806	7,101
Land	16,555	17,566
Leased assets	1,932	1,954
Accumulated depreciation	(1,314)	(1,117)
Leased assets, net	618	837
Construction in progress	4,351	7,020
Total property, plant and equipment	48,011	56,896
Intangible assets		
Software	1,563	2,296
Goodwill	7,629	6,675
Other	7,190	6,697
Total intangible assets	16,383	15,669
Investments and other assets		
Investment securities	10,381	11,664
Deferred tax assets	5,872	7,574
Other	2,850	3,361
Allowance for doubtful accounts	(247)	(245)
Total investments and other assets	18,856	22,355
Total non-current assets	83,250	94,921
Total assets	270,370	300,162

Millions of yen

	FY03/2018 (As of Mar. 31, 2018)	FY03/2019 (As of Mar. 31, 2019)
Liabilities		
Current liabilities		
Notes and accounts payable-trade	9,534	9,764
Electronically recorded obligations-operating	15,849	19,086
Short-term loans payable	600	600
Lease obligations	227	228
Accounts payable-other	13,725	14,371
Accrued expenses	9,423	10,716
Income taxes payable	7,865	7,661
Accrued consumption taxes	1,872	632
Provision for sales returns	1,928	2,132
Other	1,767	913
Total current liabilities	62,793	66,107
Non-current liabilities		
Lease obligations	484	837
Provision for directors' retirement benefits	2,513	2,846
Net defined benefit liability	4,952	4,435
Deferred tax liabilities	25	-
Other	993	1,094
Total non-current liabilities	8,969	9,213
Total liabilities	71,763	75,321
Net assets		
Shareholders' equity		
Capital stock	4,848	4,848
Retained earnings	180,514	207,821
Treasury shares	(9,098)	(9,102)
Total shareholders' equity	176,263	203,566
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	3,651	3,750
Foreign currency translation adjustment	4,098	1,781
Remeasurements of defined benefit plans	70	(275)
Total accumulated other comprehensive income	7,820	5,256
Non-controlling interests	14,523	16,018
Total net assets	198,607	224,841
Total liabilities and net assets	270,370	300,162

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

	FY03/2018 (Apr. 1, 2017 – Mar. 31, 2018)	FY03/2019 (Apr. 1, 2018 – Mar. 31, 2019)
Net sales	303,399	332,995
Cost of sales	81,547	88,608
Gross profit	221,852	244,387
Selling, general and administrative expenses		
Advertising expenses	20,008	23,473
Promotion expenses	55,374	61,439
Freightage and packing expenses	11,731	14,030
Salaries and allowances	45,420	48,383
Retirement benefit expenses	1,922	1,288
Legal welfare expenses	7,041	7,393
Depreciation	3,188	3,757
Other	28,755	32,211
Total selling, general and administrative expenses	173,443	191,979
Operating profit	48,408	52,408
Non-operating income		
Interest income	196	513
Dividend income	74	137
Patent licensing	34	38
Gain on redemption of securities	4	-
Refunded consumption taxes	382	-
Foreign exchange gains	-	574
Miscellaneous income	328	455
Total non-operating income	1,020	1,720
Non-operating expenses		
Interest expenses	5	2
Loss on redemption of securities	-	10
Rent expenses on real estates	4	4
Commission fee	10	13
Loss on investments in partnership	-	87
Foreign exchange losses	774	-
Miscellaneous loss	127	33
Total non-operating expenses	920	151
Ordinary profit	48,508	53,976
Extraordinary income		
Gain on sales of non-current assets	32	3
Gain on sales of investment securities	0	2
Gain on sales of shares of subsidiaries and associates	-	925
Gain on liquidation of business	-	* 796
Total extraordinary income	32	1,727
Extraordinary losses		
Loss on disposal of non-current assets	213	463
Loss on valuation of shares of subsidiaries and associates	-	173
Impairment loss	79	108
Other	6	9
Total extraordinary losses	299	754
Profit before income taxes	48,242	54,949
Income taxes-current	15,961	17,310
Income taxes-deferred	(1,246)	(1,363)
Total income taxes	14,715	15,946
Profit	33,526	39,002
Profit attributable to non-controlling interests	2,914	1,997
Profit attributable to owners of parent	30,611	37,004

Consolidated Statement of Comprehensive Income*Millions of yen*

	FY03/2018 (Apr. 1, 2017 – Mar. 31, 2018)	FY03/2019 (Apr. 1, 2018 – Mar. 31, 2019)
Profit	33,526	39,002
Other comprehensive income		
Valuation difference on available-for-sale securities	2,189	97
Foreign currency translation adjustment	168	(2,362)
Remeasurements of defined benefit plans, net of tax	1,023	(309)
Total other comprehensive income	3,381	(2,575)
Comprehensive income	36,908	36,427
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	33,974	34,440
Comprehensive income attributable to non-controlling interests	2,934	1,986

(3) Consolidated Statement of Changes in Equity

FY03/2018 (Apr. 1, 2017 – Mar. 31, 2018)

Millions of yen

	Shareholders' equity				
	Capital stock	Capital surplus	Retained earnings	Treasury shares	Total shareholders' equity
Balance at beginning of current period	4,848	6,388	157,205	(9,093)	159,348
Changes of items during period					
Dividends of surplus			(7,187)		(7,187)
Profit attributable to owners of parent			30,611		30,611
Purchase of treasury shares				(5)	(5)
Change in treasury shares of parent arising from transactions with non-controlling shareholders		(6,388)	(115)		(6,503)
Net changes of items other than shareholders' equity					
Total changes of items during period	-	(6,388)	23,308	(5)	16,914
Balance at end of current period	4,848	-	180,514	(9,098)	176,263

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	1,462	3,915	(918)	4,458	13,323	177,130
Changes of items during period						
Dividends of surplus						(7,187)
Profit attributable to owners of parent						30,611
Purchase of treasury shares						(5)
Change in treasury shares of parent arising from transactions with non-controlling shareholders						(6,503)
Net changes of items other than shareholders' equity	2,189	182	989	3,361	1,200	4,562
Total changes of items during period	2,189	182	989	3,361	1,200	21,476
Balance at end of current period	3,651	4,098	70	7,820	14,523	198,607

FY03/2019 (Apr. 1, 2018 – Mar. 31, 2019)

Millions of yen

	Shareholders' equity			
	Capital stock	Retained earnings	Treasury shares	Total shareholders' equity
Balance at beginning of current period	4,848	180,514	(9,098)	176,263
Changes of items during period				
Dividends of surplus		(9,697)		(9,697)
Profit attributable to owners of parent		37,004		37,004
Purchase of treasury shares			(4)	(4)
Net changes of items other than shareholders' equity				
Total changes of items during period	-	27,307	(4)	27,303
Balance at end of current period	4,848	207,821	(9,102)	203,566

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	3,651	4,098	70	7,820	14,523	198,607
Changes of items during period						
Dividends of surplus						(9,697)
Profit attributable to owners of parent						37,004
Purchase of treasury shares						(4)
Net changes of items other than shareholders' equity	99	(2,317)	(346)	(2,564)	1,495	(1,068)
Total changes of items during period	99	(2,317)	(346)	(2,564)	1,495	26,234
Balance at end of current period	3,750	1,781	(275)	5,256	16,018	224,841

(4) Consolidated Statement of Cash Flows

	<i>Millions of yen</i>	
	FY03/2018	FY03/2019
	(Apr. 1, 2017 – Mar. 31, 2018)	(Apr. 1, 2018 – Mar. 31, 2019)
Cash flows from operating activities		
Profit before income taxes	48,242	54,949
Depreciation	6,977	8,018
Impairment loss	79	108
Amortization of goodwill	816	805
Increase (decrease) in allowance for doubtful accounts	65	37
Increase (decrease) in provision for directors' retirement benefits	166	333
Increase (decrease) in net defined benefit liability	(1,887)	(1,147)
Increase (decrease) in other provision	(68)	199
Loss (gain) on disposal of non-current assets	181	459
Interest and dividend income	(271)	(651)
Interest expenses	5	2
Foreign exchange losses (gains)	213	(180)
Loss (gain) on redemption of securities	(4)	10
Loss (gain) on sales of investment securities	(0)	(2)
Loss (gain) on sales of shares of subsidiaries and associates	-	(925)
Loss on valuation of shares of subsidiaries and associates	-	173
Loss (gain) on investments in partnership	-	87
Gain on liquidation of business	-	(796)
Decrease (increase) in notes and accounts receivable-trade	(3,073)	(3,795)
Decrease (increase) in inventories	(10,375)	(10,377)
Increase (decrease) in notes and accounts payable-trade	3,416	2,668
Decrease (increase) in other assets	584	(1,388)
Increase (decrease) in other liabilities	3,744	440
Other, net	6	9
Subtotal	48,817	49,041
Interest and dividend income received	262	622
Interest expenses paid	(5)	(2)
Compensation received for business liquidation	-	796
Income taxes paid	(14,156)	(17,469)
Net cash provided by (used in) operating activities	34,918	32,989
Cash flows from investing activities		
Payments into time deposits	(30,269)	(32,232)
Proceeds from withdrawal of time deposits	30,065	29,573
Purchase of securities	(565)	-
Proceeds from sales and redemption of securities	1,674	520
Purchase of property, plant and equipment	(9,939)	(15,191)
Proceeds from sales of property, plant and equipment	15	95
Purchase of intangible assets	(1,001)	(1,910)
Purchase of investment securities	(111)	(1,099)
Proceeds from sales and redemption of investment securities	10	2
Purchase of shares of subsidiaries	(185)	(395)
Proceeds from sales of shares of subsidiaries resulting in change in scope of consolidation	-	678
Decrease (increase) in other investments	(62)	(709)
Net cash provided by (used in) investing activities	(10,369)	(20,669)

Millions of yen

	FY03/2018 (Apr. 1, 2017 – Mar. 31, 2018)	FY03/2019 (Apr. 1, 2018 – Mar. 31, 2019)
Cash flows from financing activities		
Net increase (decrease) in short-term loans payable	(530)	-
Net decrease (increase) in treasury shares	(5)	(4)
Cash dividends paid	(7,187)	(9,697)
Cash dividends paid to non-controlling shareholders	(372)	(492)
Payments from changes in ownership interests in subsidiaries that do not result in change in scope of consolidation	(7,897)	-
Purchase of treasury shares of subsidiaries	(192)	-
Other, net	(214)	(232)
Net cash provided by (used in) financing activities	(16,400)	(10,426)
Effect of exchange rate change on cash and cash equivalents	113	(1,512)
Net increase (decrease) in cash and cash equivalents	8,261	380
Cash and cash equivalents at beginning of period	55,622	63,883
Cash and cash equivalents at end of period	63,883	64,264

(5) Notes to Consolidated Financial Statements**Going Concern Assumption**

Not applicable.

Notes to Consolidated Statement of Income

Gain on liquidation of business

FY03/2019 (Apr. 1, 2018 – Mar. 31, 2019)

The licensing agreement with Coty Inc. that allowed KOSÉ to sell RIMMEL brand products in Japan was terminated on October 31, 2018. As a result, the decision was made to liquidate COSMEDIC CO., LTD., a consolidated subsidiary of KOSÉ that performed sales activities for the RIMMEL brand. KOSÉ posted the difference between the compensation received due to the termination of this agreement and the loss on the liquidation of COSMEDIC as a gain on liquidation of business.

Changes in Consolidated Subsidiaries during the Period

In the current fiscal year, KOSÉ sold all the equity interests in KOSÉ COSMETICS CO., LTD. in China. As a result, this company is no longer a specified subsidiary of KOSÉ and excluded from the scope of consolidation.

Only the statement of income of KOSÉ COSMETICS CO., LTD. was consolidated until the completion of the sale of equity interests.

Reclassifications

Changes in Conjunction with the Application of the Partial Amendments to Accounting Standard for Tax Effect Accounting

KOSÉ has applied “Partial Amendments to Accounting Standard for Tax Effect Accounting” (ASBJ Statement No. 28, February 16, 2018) at the beginning of the current fiscal year. Accordingly, deferred tax assets and deferred tax liabilities are reclassified and included in the investments and other assets section and the non-current liabilities section, respectively.

As a result, “deferred tax assets” under “current assets” in the consolidated balance sheet for the previous fiscal year decreased 6,044 million yen and “deferred tax assets” under “investments and other assets” increased 4,869 million yen. In addition, “other current liabilities” under “current liabilities” decreased 28 million yen and “deferred tax liabilities” under non-current liabilities decreased 1,147 million yen.

Net figures are used for deferred tax assets and deferred tax liabilities for the same taxing authority. This change reduced total assets by 1,175 million yen.

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, KOSÉ 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, ADDICTION, CRIE, ALBION, Tarte and others. In the cosmetaries segment, principal products are Visée, FASIO, ELSIA, softymo, SUNCUT®, CLEAR TURN, STEPHEN KNOLL NEW YORK, Nature & Co and others.

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

FY03/2018 (Apr. 1, 2017 – Mar. 31, 2018)

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	229,603	71,323	300,926	2,473	303,399	-	303,399
(2) Intragroup sales and transfers	-	564	564	673	1,238	(1,238)	-
Total sales	229,603	71,887	301,490	3,147	304,637	(1,238)	303,399
Segment profit	46,382	5,826	52,208	1,057	53,265	(4,857)	48,408

FY03/2019 (Apr. 1, 2018 – Mar. 31, 2019)

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	254,965	74,632	329,597	3,398	332,995	-	332,995
(2) Intragroup sales and transfers	-	753	753	721	1,474	(1,474)	-
Total sales	254,965	75,385	330,351	4,119	334,470	(1,474)	332,995
Segment profit	51,401	5,043	56,444	1,537	57,982	(5,574)	52,408

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 profit are as follows.

	<i>Millions of yen</i>	
	FY03/2018	FY03/2019
Eliminations for intersegment transactions	26	78
Corporate expenses that cannot be allocated to reporting segments	(4,883)	(5,652)
Total	(4,857)	(5,574)

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

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

(3) Geographic sales information

FY03/2018 (Apr. 1, 2017 – Mar. 31, 2018)

Millions of yen

Japan	Asia	North America	Other	Total
227,889	35,232	36,939	3,338	303,399

FY03/2019 (Apr. 1, 2018 – Mar. 31, 2019)

Millions of yen

Japan	Asia	North America	Other	Total
240,202	51,474	37,546	3,772	332,995

Per Share Information

Yen

	FY03/2018 (Apr. 1, 2017 – Mar. 31, 2018)	FY03/2019 (Apr. 1, 2018 – Mar. 31, 2019)
Net assets per share	3,227.07	3,660.77
Net income per share	536.63	648.71

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

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

Millions of yen

	FY03/2018 (Apr. 1, 2017 – Mar. 31, 2018)	FY03/2019 (Apr. 1, 2018 – Mar. 31, 2019)
Profit attributable to owners of parent	30,611	37,004
Net income not attributable to common shareholders	-	-
Profit attributable to owners of parent available to common stock	30,611	37,004
Average number of shares outstanding (thousand shares)	57,043	57,043

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.