



April 30, 2020

Summary of Financial Results for the Fiscal Year Ended March 31, 2020

[Japanese GAAP]

Company name: **KOSÉ Corporation** Stock listing: Tokyo Stock Exchange, First Section
 Stock code: 4922 URL: <https://www.kose.co.jp/>
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 Scheduled date of general meeting of shareholders: June 26, 2020
 Scheduled date of filing of Securities Report: June 26, 2020
 Scheduled date of dividend payment: June 29, 2020
 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, 2020 (April 1, 2019 – March 31, 2020)

(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 (%)
FY03/2020	327,724	(1.6)	40,231	(23.2)	40,932	(24.2)	26,682	(27.9)
FY03/2019	332,995	9.8	52,408	8.3	53,976	11.3	37,004	20.9

Note: Comprehensive income (million yen) FY03/2020: 26,703 (down 26.7%) FY03/2019: 36,427 (down 1.3%)

	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 (%)
FY03/2020	467.76	-	12.3	13.4	12.3
FY03/2019	648.71	-	18.8	18.9	15.7

Ref.: Equity in earnings of affiliates (million yen) FY03/2020: - FY03/2019: -

(2) Consolidated financial position

	Total assets (Million yen)	Net assets (Million yen)	Equity ratio (%)	Net assets per share (Yen)
FY03/2020	308,606	240,202	72.5	3,920.41
FY03/2019	300,162	224,841	69.6	3,660.77

Ref.: Shareholders' equity (million yen) FY03/2020: 223,633 FY03/2019: 208,823

(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)	
FY03/2020	37,090	(19,006)	(11,448)	70,284
FY03/2019	32,989	(20,669)	(10,426)	64,264

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)			
FY03/2019	-	85.00	-	95.00	180.00	10,267	27.7	5.2
FY03/2020	-	95.00	-	95.00	190.00	10,838	40.6	5.0
FY03/2021 (forecast)	-	-	-	-	-	-	-	-

Note: Dividend forecast for the fiscal year ending March 31, 2021 has not yet determined at this time.

An announcement will be made promptly once it becomes possible to determine a reliable forecast.

3. Consolidated Forecast for the Fiscal Year Ending March 31, 2021 (April 1, 2020 – March 31, 2021)

(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)
Full year	286,600	(12.5)	17,200	(57.2)	18,200	(55.5)	12,500	(53.2)	219.13

*** 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 : 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, 2020 60,592,541 shares As of March 31, 2019 60,592,541 shares

2) Number of treasury shares at end of the period

As of March 31, 2020 3,549,075 shares As of March 31, 2019 3,549,024 shares

3) Average number of shares outstanding during the period

FY03/2020 57,043,493 shares FY03/2019 57,043,584 shares

(Reference) Non-consolidated financial results

Non-consolidated Financial Results for the Fiscal Year Ended March 31, 2020

(April 1, 2019 – March 31, 2020)

(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 (%)
FY03/2020	146,482	(5.6)	4,234	(72.5)	19,177	(35.5)	17,180	(32.5)
FY03/2019	155,244	14.2	15,399	34.1	29,728	48.5	25,445	70.8

	Net income per share (basic) (Yen)	Net income per share (diluted) (Yen)
FY03/2020	301.18	-
FY03/2019	446.08	-

(2) Non-consolidated financial position

	Total assets (Million yen)	Net assets (Million yen)	Equity ratio (%)	Net assets per share (Yen)
FY03/2020	163,666	126,475	77.3	2,217.18
FY03/2019	166,430	119,441	71.8	2,093.87

Ref.: Shareholders' equity (million yen) FY03/2020: 126,475 FY03/2019: 119,441

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.

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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	FY03/2019		FY03/2020		YoY change	
	Amount	% comp.	Amount	% comp.	Amount	%
Cosmetics	254,965	76.6	251,894	76.9	(3,071)	(1.2)
Cosmetaries	74,632	22.4	71,912	21.9	(2,719)	(3.6)
Other	3,398	1.0	3,916	1.2	518	15.3
Total net sales	332,995	100.0	327,724	100.0	(5,271)	(1.6)

	FY03/2019		FY03/2020		YoY change	
	Amount	% of sales	Amount	% of sales	Amount	%
Operating profit	52,408	15.7	40,231	12.3	(12,176)	(23.2)
Ordinary profit	53,976	16.2	40,932	12.5	(13,044)	(24.2)
Profit attributable to owners of parent	37,004	11.1	26,682	8.1	(10,322)	(27.9)

In the fiscal year that ended on March 31, 2020, the Japanese economy recovered slowly as improvements in employment, personal income and other areas offset the negative impact of a series of natural disasters. However, the novel coronavirus (COVID-19) outbreak is currently severely impacting the Japanese economy.

In the Japanese cosmetics industry, according to statistics for cosmetics shipments compiled by the Ministry of Economy, Trade and Industry, the sales volume and monetary sales of cosmetics increased compared with one year earlier. Overseas, in the primary markets for the KOSÉ Group, economic growth slowed in some Asian countries but the U.S. economy continued to recover.

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 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 decreased 1.6% to 327,724 million yen (down 0.5% after excluding the effects of changes in foreign exchange rates). Although sales remained strong in Asia, total sales were lower mainly because of a decline in sales to foreign tourists in Japan, the end of the upturn in sales prior to Japan's October 2019 consumption tax hike, and the COVID-19 crisis. Overseas sales were 32.1% of total sales.

Although sales decreased and selling, general and administrative expenses increased, business operations remained profitable in a difficult operating environment because of various measures for profitability. As a result, operating profit decreased 23.2% to 40,231 million yen. After foreign exchange losses, interest income, the refund of consumption taxes and other items, ordinary profit decreased 24.2% to 40,932 million yen. Profit attributable to owners of parent decreased 27.9% to 26,682 million yen.

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

	FY03/2019	FY03/2020	YoY change	
			Amount	%
Sales to third parties	254,965	251,894	(3,071)	(1.2)
Intragroup sales and transfers	-	-	-	-
Total net sales	254,965	251,894	-	-
Operating profit	51,401	44,663	(6,737)	(13.1)
Operating margin	20.2	17.7	-	-

In the high-prestige category of the cosmetics business, sales of DECORTÉ, INFINITY, SEKKISEI MYV and other products were higher but sales decreased at ALBION CO., LTD. and the U.S. company Tarte, Inc. In the prestige category, sales were higher for the ESPRIQUE brand of makeup products but lower for SEKKISEI and other brands. Overall, sales in the cosmetics business decreased 1.2% to 251,894 million yen and operating profit decreased 13.1% to 44,663 million yen.

Cosmetaries Business*Millions of yen, %*

	FY03/2019	FY03/2020	YoY change	
			Amount	%
Sales to third parties	74,632	71,912	(2,719)	(3.6)
Intragroup sales and transfers	753	-	-	-
Total net sales	75,385	71,912	-	-
Operating profit	5,043	211	(4,832)	(95.8)
Operating margin	6.7	0.3	-	-

In the cosmetaries business, sales were higher for the STEPHEN KNOLL NEW YORK products and sales also benefited from the strong performance of KOSÉ COSMEPORT Corp. for its BIOLISS line of hair care products and the GRACE ONE aging care brand. However, sales in this business were brought down primarily by a decrease in sales of CLEAR TURN products to foreign tourists in Japan, the end of a licensing agreement with RIMMEL and a decline in sales of VISÉE and other makeup brands. As a result, sales in the cosmetaries business decreased 3.6% to 71,912 million yen and operating profit decreased 95.8% to 211 million yen due to an increase in cost of sales and selling expenses.

Other Business*Millions of yen, %*

	FY03/2019	FY03/2020	YoY change	
			Amount	%
Sales to third parties	3,398	3,916	518	15.3
Intragroup sales and transfers	721	594	-	-
Total net sales	4,119	4,511	-	-
Operating profit	1,537	1,283	(254)	(16.5)
Operating margin	37.3	28.4	-	-

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 15.3% to 3,916 million yen but operating profit decreased 16.5% to 1,283 million yen due to an increase in cost of sales.

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

	FY03/2019		FY03/2020		YoY change	
	Amount	% comp.	Amount	% comp.	Amount	%
Japan	240,202	72.1	222,550	67.9	(17,652)	(7.3)
Asia	51,474	15.5	64,353	19.6	12,878	25.0
North America	37,546	11.3	35,897	11.0	(1,649)	(4.4)
Other	3,772	1.1	4,923	1.5	1,151	30.5
Total net sales	332,995	100.0	327,724	100.0	(5,271)	(1.6)

Japan

Sales to foreign tourists in Japan were lower because of the expansion of sales channels in Asia, foreign exchange rate movements and other reasons. Sales were also negatively affected, as mentioned above, by natural disasters, chiefly heavy rain and typhoons, the drop-off in sales following the upturn prior to the October 2019 consumption tax hike, and the COVID-19 crisis. Overall, sales decreased in all major sales channels.

In the department store channel, sales were lower for high-prestige brands such as DECORTÉ and the products of ALBION CO., LTD. In the drug store and general merchandise store channels, SEKKISEI and other prestige brands posted lower sales. Sales also decreased in the cosmetaries business, mainly for VISÉE and other makeup brands. As a result, sales in Japan decreased 7.3% to 222,550 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 marketing activities for foreign tourists in Japan. Sales decreased in Taiwan and Hong Kong mainly because of a decline in the number of tourists from China. But sales were higher in South Korea, where duty-free channel sales are strong, and in China due to the consistently strong growth of department store and e-commerce channel sales. As a result, sales increased 25.0% to 64,353 million yen.

North America

There were many activities to establish sales channels for the DECORTÉ brand in North America, mainly at department stores. Tarte strengthened product lineups in the mascara, concealer and other categories, launched products in the clean beauty category and took other steps to attract new customer segments. Despite these activities, sales were affected by the challenging business climate in the prestige makeup market. As a result, sales decreased 4.4% to 35,897 million yen.

Other

Sales increased 30.5% to 4,923 million yen in this category because of the growth of sales of Tarte products in Europe.

2) Outlook for the Next Fiscal Year

The economic environment in Japan and worldwide is likely to remain extremely challenging because of the global COVID-19 pandemic. Countries are enacting lockdowns, requesting people to stay home, restricting travel and taking other actions to stop this outbreak. These actions are limiting business activities by restricting the movements of consumers and reducing opportunities to make purchases. Business operations have fallen sharply on both the supply and demand sides. Consequently, there are concerns that the negative impact on consumer sentiment as well as on jobs and personal income will cause a long-term economic slowdown.

Based on this outlook, KOSÉ forecasts net sales of 286,600 million yen (down 12.5% from the previous fiscal year), operating profit of 17,200 million yen (down 57.2%), ordinary profit of 18,200 million yen (down 55.5%), and profit attributable to owners of parent of 12,500 million yen (down 53.2%). There are no business segment forecasts at this time because it is difficult to determine reliable forecasts as the economic environment is expected to remain uncertain, as mentioned above. The capital expenditure forecast is 24,300 million yen and the depreciation expense forecast is 11,900 million yen.

In prior years, KOSÉ has announced a three-year management plan. There is no new plan at this time because the current plan is incorporated in VISION2026, which started in the fiscal year ending in March 2021. An announcement will be made promptly if there are any revisions to VISION2026.

* Forecasts are based on foreign exchange rates of 107 yen to the U.S. dollar, 15.2 yen to the Chinese yuan and 0.09 yen to Korean won.

(2) Analysis of Financial Position

1) Balance Sheet Position

The current ratio was 342.6%, 32.1 percentage points higher than one year earlier, and the quick ratio was 227.8%, an increase of 17.3 percentage points, as of March 31, 2020. These changes were attributable mainly to the following items.

Assets increased 8,443 million yen. There was a 3,230 million yen decrease in quick assets, mainly the result of an increase of 3,171 million yen in cash and deposits and a decrease of 6,401 million yen in notes and accounts receivable-trade. Current assets decreased 802 million yen. Non-current assets increased 9,246 million yen due to an increase of 9,125 million yen in property, plant and equipment, a decrease of 895 million yen in intangible assets and an increase of 1,015 million yen in investments and other assets.

Liabilities decreased 6,917 million yen. Current liabilities decreased 6,430 million yen mainly due to a decrease of 3,567 million yen in notes and accounts payable-trade, a decrease of 3,572 million yen in electronically recorded obligations-operating, an increase of 1,580 million yen in accrued expenses and a decrease of 3,429 million yen in income taxes payable. Non-current liabilities decreased 486 million yen mainly due to a decrease of 124 million yen in lease obligations..

Interest-bearing debt amounted to 1,654 million yen, and the debt-to-equity ratio was 0.01.

2) Cash Flows

	<i>Millions of yen</i>		
	FY03/2019	FY03/2020	YoY change
Net cash provided by (used in) operating activities	32,989	37,090	4,100
Net cash provided by (used in) investing activities	(20,669)	(19,006)	1,662
Net cash provided by (used in) financing activities	(10,426)	(11,448)	(1,022)
Increase in cash and cash equivalents	380	6,019	5,638
Cash and cash equivalents at end of period	64,264	70,284	6,019

Cash and cash equivalents (consolidated basis) as of March 31, 2020 were 70,284 million yen, an increase of 6,019 million yen, or 9.4%, compared with March 31, 2019. Cash flows and major components during the current fiscal year are as follows.

Net cash provided by operating activities increased 12.4% to 37,090 million yen. This was mainly the net result of profit before income taxes of 40,365 million yen, depreciation, a non-cash expense, of 8,838 million yen, an increase of 822 million yen in inventories, a decrease of 6,252 million yen in notes and accounts receivable-trade, a decrease of 1,389 million yen in other assets, a decrease of 6,121 million yen in notes and accounts payable-trade, an increase of 3,037 million yen in other liabilities, and income taxes paid of 17,150 million yen.

Net cash used in investing activities decreased 8.0% to 19,006 million yen. The major components were the purchase of property, plant and equipment of 17,980 million yen, a net proceeds of 2,805 million yen from time deposits, and purchase of intangible assets of 1,894 million yen.

Net cash used in financing activities increased 9.8% to 11,448 million yen. This was mainly due to cash dividends paid of 11,322 million yen.

3) Cash Flow Indicators

	FY03/2016	FY03/2017	FY03/2018	FY03/2019	FY03/2020
Shareholders' equity ratio (%)	63.2	66.3	68.1	69.6	72.5
Shareholders' equity ratio based on market prices (%)	267.8	232.4	469.9	386.4	246.4
Interest-bearing debt to cash flow ratio	0.1	0.1	0.0	0.1	0.0
Interest coverage ratio	1,285.9	5,133.3	9,274.6	23,555.3	3,942.6

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 deducting 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.

(3) Profit Allocation Policy and Dividends for FY03/2020 and FY03/2021

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 plans to pay an ordinary dividend of 95 yen per share. Shareholders received an interim dividend of 95 yen per share on December 10, 2019. This will result in a dividend of 190 yen per share applicable to the current fiscal year (ended March 31, 2020).

Dividend forecast for the next fiscal year (ending March 31, 2021) has not yet been determined at this time. An announcement will be made promptly once it becomes possible to determine a reliable forecast.

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 KOSÉ Group will continue to fully utilize these strengths in order to operate all businesses with the objective of becoming a company with a global presence.

The KOSÉ Group future vision: Become a company with a global presence

Become a company with exceptional customer loyalty -A portfolio filled with extremely appealing brands-

- (a) A company people envy: A company everyone knows, envies and gives due respect
- (b) A company like no other: A distinctive company that is imbued with originality and similar to no other company
- (c) A company people need: A company that customers cannot live without, resulting in high ratios of repeat purchases and long-term customers

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

(2) Performance Indicators

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

Note: $ROA = (\text{Operating profit} + \text{Interest and dividends}) / \text{Total assets (average at beginning and end of year)} \times 100$
 $ROE = \text{Profit attributable to owners of parent} / \text{Shareholders' equity (average at beginning and end of year)} \times 100$

(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 a company 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."

Based on the basic strategies that were announced in April 2018 as 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.

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) Use digital technology for more and better 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) Promote diversity and inclusion
 - (c) Develop a sustainability strategy spanning the entire value chain

3. Basic Approach for the Selection of Accounting Standards

The KOSÉ Group is continuing studies for the future 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 company with a global presence.

4. Consolidated Financial Statements and Notes

(1) Consolidated Balance Sheet

	<i>Millions of yen</i>	
	FY03/2019 (As of Mar. 31, 2019)	FY03/2020 (As of Mar. 31, 2020)
Assets		
Current assets		
Cash and deposits	94,385	97,556
Notes and accounts receivable-trade	44,773	38,371
Merchandise and finished goods	34,121	35,775
Work in process	3,005	3,472
Raw materials and supplies	23,655	22,192
Other	5,383	7,146
Allowance for doubtful accounts	(83)	(77)
Total current assets	205,241	204,438
Non-current assets		
Property, plant and equipment		
Buildings and structures	40,960	45,590
Accumulated depreciation	(21,303)	(22,671)
Buildings and structures, net	19,657	22,919
Machinery, equipment and vehicles	17,012	18,543
Accumulated depreciation	(12,299)	(13,290)
Machinery, equipment and vehicles, net	4,713	5,252
Tools, furniture and fixtures	39,199	43,151
Accumulated depreciation	(32,097)	(34,581)
Tools, furniture and fixtures, net	7,101	8,570
Land	17,566	17,569
Leased assets	1,954	2,000
Accumulated depreciation	(1,117)	(1,356)
Leased assets, net	837	643
Construction in progress	7,020	11,068
Total property, plant and equipment	56,896	66,022
Intangible assets		
Software	2,296	3,245
Goodwill	6,675	5,794
Other	6,697	5,733
Total intangible assets	15,669	14,774
Investments and other assets		
Investment securities	11,664	13,433
Deferred tax assets	7,574	6,272
Other	3,361	3,900
Allowance for doubtful accounts	(245)	(236)
Total investments and other assets	22,355	23,370
Total non-current assets	94,921	104,167
Total assets	300,162	308,606

Millions of yen

	FY03/2019 (As of Mar. 31, 2019)	FY03/2020 (As of Mar. 31, 2020)
Liabilities		
Current liabilities		
Notes and accounts payable-trade	9,764	6,196
Electronically recorded obligations-operating	19,086	15,513
Short-term borrowings	600	727
Lease obligations	228	214
Accounts payable-other	14,371	13,086
Accrued expenses	10,716	12,296
Income taxes payable	7,661	4,232
Accrued consumption taxes	632	1,537
Provision for sales returns	2,132	1,967
Other	913	3,903
Total current liabilities	66,107	59,676
Non-current liabilities		
Lease obligations	837	712
Provision for retirement benefits for directors (and other officers)	2,846	3,334
Retirement benefit liability	4,435	4,346
Other	1,094	332
Total non-current liabilities	9,213	8,727
Total liabilities	75,321	68,403
Net assets		
Shareholders' equity		
Share capital	4,848	4,848
Capital surplus	-	15
Retained earnings	207,821	223,665
Treasury shares	(9,102)	(9,103)
Total shareholders' equity	203,566	219,425
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	3,750	4,434
Foreign currency translation adjustment	1,781	1,063
Remeasurements of defined benefit plans	(275)	(1,289)
Total accumulated other comprehensive income	5,256	4,208
Non-controlling interests	16,018	16,569
Total net assets	224,841	240,202
Total liabilities and net assets	300,162	308,606

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

	FY03/2019 (Apr. 1, 2018 – Mar. 31, 2019)	FY03/2020 (Apr. 1, 2019 – Mar. 31, 2020)
Net sales	332,995	327,724
Cost of sales	88,608	88,703
Gross profit	244,387	239,020
Selling, general and administrative expenses		
Advertising expenses	23,473	21,468
Promotion expenses	61,439	65,447
Freight and packing costs	14,030	15,236
Salaries and allowances	48,383	50,820
Retirement benefit expenses	1,288	786
Legal welfare expenses	7,393	7,627
Depreciation	3,757	4,047
Other	32,211	33,355
Total selling, general and administrative expenses	191,979	198,789
Operating profit	52,408	40,231
Non-operating income		
Interest income	513	551
Dividend income	137	111
Commission income	-	54
Refunded consumption taxes	-	185
Patent licensing	38	16
Foreign exchange gains	574	-
Subsidy income	-	85
Miscellaneous income	455	390
Total non-operating income	1,720	1,394
Non-operating expenses		
Interest expenses	2	7
Loss on redemption of securities	10	-
Rent expenses on real estates	4	4
Commission expenses	13	13
Loss on investments in partnership	87	62
Foreign exchange losses	-	517
Miscellaneous loss	33	87
Total non-operating expenses	151	693
Ordinary profit	53,976	40,932
Extraordinary income		
Gain on sales of non-current assets	3	9
Gain on sales of investment securities	2	1
Gain on sales of shares of subsidiaries and associates	925	-
Gain on liquidation of business	* 796	115
Total extraordinary income	1,727	127
Extraordinary losses		
Loss on disposal of non-current assets	463	419
Loss on valuation of investment securities	9	147
Loss on valuation of shares of subsidiaries and associates	173	51
Impairment loss	108	76
Total extraordinary losses	754	693
Profit before income taxes	54,949	40,365
Income taxes-current	17,310	11,104
Income taxes-deferred	(1,363)	1,427
Total income taxes	15,946	12,532
Profit	39,002	27,833
Profit attributable to non-controlling interests	1,997	1,151
Profit attributable to owners of parent	37,004	26,682

Consolidated Statement of Comprehensive Income*Millions of yen*

	FY03/2019 (Apr. 1, 2018 – Mar. 31, 2019)	FY03/2020 (Apr. 1, 2019 – Mar. 31, 2020)
Profit	39,002	27,833
Other comprehensive income		
Valuation difference on available-for-sale securities	97	679
Foreign currency translation adjustment	(2,362)	(734)
Remeasurements of defined benefit plans, net of tax	(309)	(1,074)
Total other comprehensive income	(2,575)	(1,129)
Comprehensive income	36,427	26,703
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	34,440	25,634
Comprehensive income attributable to non-controlling interests	1,986	1,069

(3) Consolidated Statement of Changes in Equity

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

FY03/2020 (Apr. 1, 2019 – Mar. 31, 2020)

Millions of yen

	Shareholders' equity				
	Capital stock	Capital surplus	Retained earnings	Treasury shares	Total shareholders' equity
Balance at beginning of current period	4,848	-	207,821	(9,102)	203,566
Changes of items during period					
Dividends of surplus			(10,838)		(10,838)
Profit attributable to owners of parent			26,682		26,682
Purchase of treasury shares				(0)	(0)
Increase by merger		15			15
Net changes of items other than shareholders' equity					
Total changes of items during period	-	15	15,844	(0)	15,858
Balance at end of current period	4,848	15	223,665	(9,103)	219,425

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	3,750	1,781	(275)	5,256	16,018	224,841
Changes of items during period						
Dividends of surplus						(10,838)
Profit attributable to owners of parent						26,682
Purchase of treasury shares						(0)
Increase by merger						15
Net changes of items other than shareholders' equity	683	(717)	(1,014)	(1,047)	550	(497)
Total changes of items during period	683	(717)	(1,014)	(1,047)	550	15,360
Balance at end of current period	4,434	1,063	(1,289)	4,208	16,569	240,202

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

	FY03/2019 (Apr. 1, 2018 – Mar. 31, 2019)	FY03/2020 (Apr. 1, 2019 – Mar. 31, 2020)
Cash flows from operating activities		
Profit before income taxes	54,949	40,365
Depreciation	8,018	8,838
Impairment loss	108	76
Amortization of goodwill	805	795
Increase (decrease) in allowance for doubtful accounts	37	(12)
Increase (decrease) in provision for retirement benefits for directors (and other officers)	333	487
Increase (decrease) in retirement benefit liability	(1,147)	(1,104)
Increase (decrease) in other provision	199	120
Loss (gain) on disposal of non-current assets	459	409
Interest and dividend income	(651)	(662)
Interest expenses	2	7
Foreign exchange losses (gains)	(180)	345
Loss (gain) on redemption of securities	10	-
Loss (gain) on sales of investment securities	(2)	(1)
Loss (gain) on sales of shares of subsidiaries and associates	(925)	-
Loss on valuation of shares of subsidiaries and associates	173	51
Loss (gain) on valuation of investment securities	9	146
Loss (gain) on investments in partnership	87	62
Gain on liquidation of business	(796)	(115)
Decrease (increase) in notes and accounts receivable-trade	(3,795)	6,252
Decrease (increase) in inventories	(10,377)	(822)
Increase (decrease) in notes and accounts payable-trade	2,668	(6,121)
Decrease (increase) in other assets	(1,388)	1,389
Increase (decrease) in other liabilities	440	3,037
Other, net	-	0
Subtotal	49,041	53,547
Interest and dividend income received	622	706
Interest expenses paid	(2)	(13)
Compensation received for business liquidation	796	-
Income taxes paid	(17,469)	(17,150)
Net cash provided by (used in) operating activities	32,989	37,090

Millions of yen

	FY03/2019 (Apr. 1, 2018 – Mar. 31, 2019)	FY03/2020 (Apr. 1, 2019 – Mar. 31, 2020)
Cash flows from investing activities		
Payments into time deposits	(32,232)	(30,237)
Proceeds from withdrawal of time deposits	29,573	33,042
Proceeds from sales and redemption of securities	520	-
Purchase of property, plant and equipment	(15,191)	(17,980)
Proceeds from sales of property, plant and equipment	95	12
Payments for retirement of property, plant and equipment	-	(79)
Purchase of intangible assets	(1,910)	(1,894)
Purchase of investment securities	(1,099)	(950)
Proceeds from sales and redemption of investment securities	2	2
Purchase of shares of subsidiaries	(395)	(283)
Proceeds from sales of shares of subsidiaries resulting in change in scope of consolidation	678	-
Loan advances	-	(153)
Decrease (increase) in other investments	(709)	(485)
Net cash provided by (used in) investing activities	(20,669)	(19,006)
Cash flows from financing activities		
Net increase (decrease) in short-term borrowings	-	123
Net decrease (increase) in treasury shares	(4)	(0)
Cash dividends paid	(9,697)	(10,838)
Cash dividends paid to non-controlling shareholders	(492)	(483)
Purchase of treasury shares of subsidiaries	-	(19)
Other, net	(232)	(229)
Net cash provided by (used in) financing activities	(10,426)	(11,448)
Effect of exchange rate change on cash and cash equivalents	(1,512)	(615)
Net increase (decrease) in cash and cash equivalents	380	6,019
Cash and cash equivalents at beginning of period	63,883	64,264
Cash and cash equivalents at end of period	64,264	70,284

(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.

Reclassifications

Consolidated statement of income

“Loss on valuation of investment securities,” included in “other” under “extraordinary losses” in the previous fiscal year, is reclassified and presented as a separate line item in the current fiscal year, because the amount exceeds 10/100 of total extraordinary losses. To conform to this change, the consolidated financial statements for the previous fiscal year are restated.

Accordingly, “other” of 9 million yen under “extraordinary losses” in the consolidated statement of income for the previous fiscal year has been reclassified as “loss on valuation of investment securities” of 9 million yen.

Consolidated statement of cash flows

“Loss (gain) on valuation of investment securities,” included in “other, net” under “cash flows from operating activities” in the previous fiscal year, is reclassified and presented as a separate line item in the current fiscal year, due to an increase in the materiality of impact in the context of consolidated financial statements. To conform to this change, the consolidated financial statements for the previous fiscal year are restated.

Accordingly, “other, net” of 9 million yen under “cash flows from operating activities” in the consolidated statement of cash flows of the previous fiscal year has been reclassified as “loss (gain) on valuation of investment securities” of 9 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 and others.

(2) Calculation methods for net sales and profit or loss, assets, liabilities and other items for each reportable segment

The accounting method used for reportable segments is generally the same as the methods listed in “Basis of Preparation of Consolidated Financial Statements”.

Profits for reportable segments are operating profit figures.

Intragroup sales and transfers are based on market prices.

(3) Information related to net sales and profit or loss, assets, liabilities and other items for each reportable segment

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

FY03/2020 (Apr. 1, 2019 – Mar. 31, 2020)

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	251,894	71,912	323,807	3,916	327,724	-	327,724
(2) Intragroup sales and transfers	-	-	-	594	594	(594)	-
Total sales	251,894	71,912	323,807	4,511	328,319	(594)	327,724
Segment profit	44,663	211	44,875	1,283	46,158	(5,926)	40,231

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.

Millions of yen

	FY03/2019	FY03/2020
Eliminations for intersegment transactions	78	28
Corporate expenses that cannot be allocated to reporting segments	(5,652)	(5,955)
Total	(5,574)	(5,926)

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.

(4) Geographic sales information

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

FY03/2020 (Apr. 1, 2019 – Mar. 31, 2020)

Millions of yen

Japan	Asia	North America	Other	Total
222,550	64,353	35,897	4,923	327,724

Per Share Information

Yen

	FY03/2019 (Apr. 1, 2018 – Mar. 31, 2019)	FY03/2020 (Apr. 1, 2019 – Mar. 31, 2020)
Net assets per share	3,660.77	3,920.41
Net income per share	648.71	467.76

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

	FY03/2019 (Apr. 1, 2018 – Mar. 31, 2019)	FY03/2020 (Apr. 1, 2019 – Mar. 31, 2020)
Profit attributable to owners of parent	37,004	26,682
Net income not attributable to common shareholders	-	-
Profit attributable to owners of parent available to common stock	37,004	26,682
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.