

## Financial Information

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## Six-Year Summary

	Millions of yen						Thousands of U.S. dollars <sup>1</sup>
	FY2017	FY2016	FY2015	FY2014	FY2013	FY2012	FY2017
<b>Performance:</b>							
Net sales	303,399	266,762	243,390	207,821	190,049	170,685	2,862,255
Gross profit	221,852	199,735	183,920	157,057	143,390	128,587	2,092,943
Selling, general and administrative expenses	173,443	160,574	149,286	134,410	124,456	116,722	1,636,255
Operating profit	48,408	39,160	34,634	22,647	18,934	11,864	456,679
Interest and dividend income	271	294	347	315	432	342	2,557
Profit before income taxes	48,242	39,425	33,862	23,694	20,757	12,813	455,113
Profit attributable to owners of parent	30,611	21,657	18,655	12,057	11,132	6,720	288,783
Comprehensive income	36,908	24,643	13,197	19,688	13,756	8,656	348,189
Cash and cash equivalents at end of period	63,883	55,622	52,997	50,754	52,755	32,121	602,670
Current assets	193,164	172,074	161,351	134,476	130,391	115,067	1,822,302
Total assets	271,545	247,191	233,275	205,006	186,274	173,014	2,561,745
Current liabilities	62,821	56,033	57,766	45,207	39,877	35,206	592,651
Long-term debt	10,116	14,027	16,965	10,160	13,585	18,497	95,434
Shareholders' equity	176,263	159,348	143,626	129,203	120,229	111,495	1,662,858
Interest-bearing debt	1,311	1,629	1,704	1,248	1,386	5,006	12,368
Depreciation and amortization	6,977	5,821	5,744	5,293	4,679	4,607	65,821
Capital expenditures	10,065	10,770	10,445	21,143	5,750	5,599	94,953

	Yen						U.S. dollars <sup>1</sup>
	FY2017	FY2016	FY2015	FY2014	FY2013	FY2012	FY2017
<b>Per Share Data:</b>							
Net income (basic)	536.63	379.66	327.04	211.37	195.15	117.22	5.06
Net assets	3,227.07	2,871.60	2,583.76	2,455.34	2,188.59	1,964.85	30.44
Cash dividends	148.00	110.00	94.00	64.00	48.00	41.00	1.40

	%					
	FY2017	FY2016	FY2015	FY2014	FY2013	FY2012
<b>Financial Ratios:</b>						
Shareholders' equity ratio	67.8	66.3	63.2	68.3	67.0	64.8
Debt-to-equity ratio (times)	0.01	0.01	0.01	0.01	0.01	0.04
ROE <sup>2</sup>	17.6	13.9	13.0	9.1	9.4	6.1
ROA <sup>3</sup>	18.8	16.4	16.0	11.7	10.8	7.1
Gross profit margin	73.1	74.9	75.6	75.6	75.4	75.3
Operating profit margin	16.0	14.7	14.2	10.9	10.0	7.0
Profit attributable to owners of parent to net sales	10.1	8.1	7.7	5.8	5.9	3.9
Payout ratio	27.6	29.0	28.7	30.3	24.6	35.0

Notes: 1. The U.S. dollar amounts are translated, for convenience only, at the rate of ¥106 to US\$1.00, the approximate rate of exchange on March 31, 2018.

2. ROE = Profit attributable to owners of parent / (Yearly average of total shareholders' equity + Yearly average of total valuation, translation adjustments and other) × 100

3. ROA = (Operating profit + Interest and dividend income) / Yearly average of total assets × 100

# Management's Discussion and Analysis

## Results Summary

In fiscal 2017, 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), sales volume and monetary sales of cosmetics increased compared with one year earlier. Overseas, the primary markets for the KOSÉ Group, overall Asian economies are staging a rebound and the U.S. economy continued to recover.

Fiscal 2017 is the final 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 fiscal 2017, sales were higher in all business segments and regions. Net sales increased 13.7% to ¥303,399 million (US\$2,862 million) (up 12.8% after excluding the effects of changes in foreign exchange rates). This was the fifth consecutive year of record-high sales. The share of overseas sales in total consolidated sales was 24.9%.

Earnings were higher mainly because of an increase in gross profit due to sales growth and the more efficient use of selling, general and administrative expenses, while sales

compositions of products with higher cost of sales ratio increased. Operating profit increased 23.6%, to ¥48,408 million (US\$457 million), ordinary profit increased 22.6%, to ¥48,508 million (US\$458 million) and profit attributable to owners of parent increased 41.3%, to ¥30,611 million (US\$289 million). Earnings at all levels set a new record for the KOSÉ Group.

### Results by Business Segment

#### ● Cosmetics Business

In the cosmetics business, one main contributor to sales growth in the high-prestige category was *COSME DECORTE*, which set a record sales in Japan and overseas. Strong sales of luxury skin care products, and base makeup and other products of ALBION CO., LTD. and the continuation of rapid growth of store and e-commerce sales at the U.S. company Tarte, Inc. were two more significant reasons for sales growth in this category. In addition, *JILL STUART*, *ADDICTION* and other makeup brands contributed to sales growth due in part to measures aimed at increasing sales in Asia. In the prestige category, all brands took initiatives to increase the number of new customers. Initiatives included promotional activities to offer ideas for different ways to use *SEKKISEI* skin care products in each season of the year and the ongoing campaign for *ONE BY KOSÉ* medicated moisturizing serum to raise awareness of this brand.

Overall, sales in the cosmetics business increased 15.4%, to ¥229,603 million (US\$2,166 million) and operating profit increased 25.4%, to ¥46,382 million (US\$438 million).

#### ● Cosmetaries Business

Higher sales of several brands in key product categories at KOSÉ COSMEPORT CORP. were a major reason for growth in sales of the cosmetaries business. Two of the brands that performed well were *SOFTYMO*, a line of face washes and cleansing products, and *CLEAR TURN*, a line of facial sheet masks. Strong sales of the *VISÉE* and *FASIO* self-selection makeup brands and the *NAIL HOLIC* nail care product brand were another reason for the increase in segment sales.

As a result, sales in the cosmetaries business increased 8.7%, to ¥71,323 million (US\$673 million) and operating profit increased 3.5%, to ¥5,826 million (US\$55 million).

#### ● Other Business

In the other business segment, there was an increase in sales of amenity and other products. Sales increased 17.8%, to ¥2,473 million (US\$23 million) and operating profit decreased 1.6%, to ¥1,057 million (US\$10 million).

### Operating Expenses

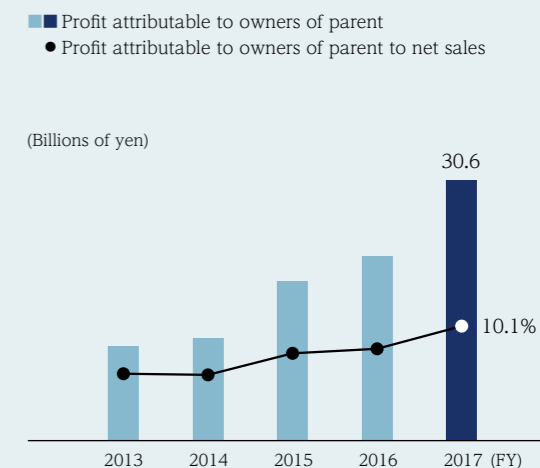
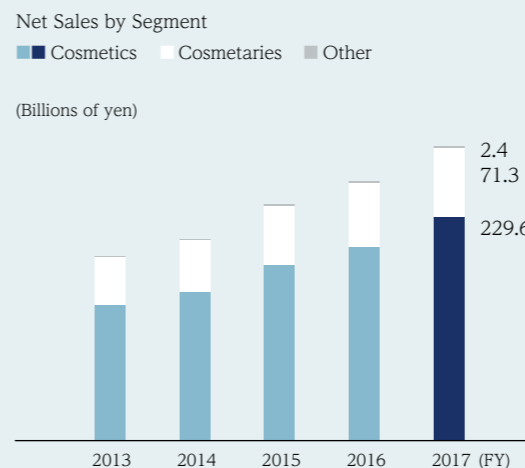
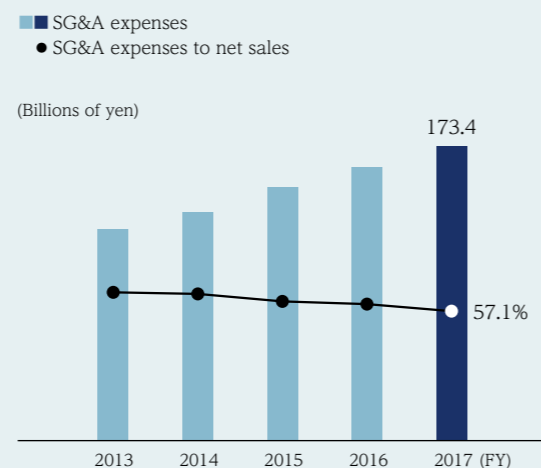
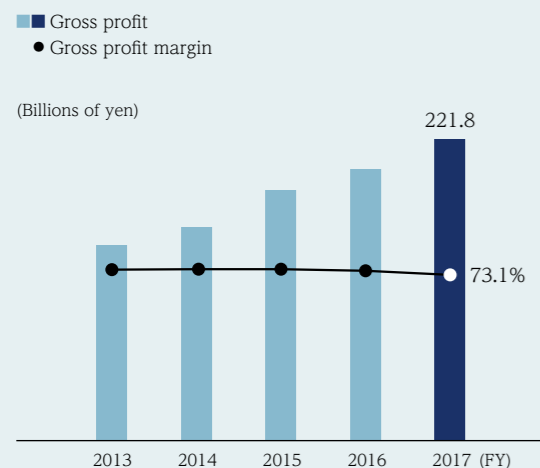
The cost of sales rose 21.7%, or ¥14,520 million, year on year, to ¥81,547 million (US\$769 million) in tandem with the substantial increase in net sales.

Selling, general and administrative (SG&A) expenses increased 8.0%, or ¥12,868 million, year on year, to ¥173,443 million (US\$1,636 million). By raising funds from internal efforts to rein in expanding general and administrative expenses and applying them to advertising expenses and promotion expenses, the KOSÉ Group reduced

the ratio of SG&A expenses to net sales by 3.0 percentage points as net sales grew.

### Non-Operating Income and Expenses

The main items affecting non-operating income and expenses during fiscal 2017 were as follows. The KOSÉ Group recorded ¥271 million (US\$3 million) in interest and dividend income, ¥774 million (US\$7 million) in foreign exchange loss. As a result, non-operating income and expenses for fiscal 2017 totaled income of ¥100 million.



## Financial Condition

### Assets and Liabilities

Assets increased ¥24,354 million at the end of fiscal 2017. There was a ¥10,393 million increase in quick assets, mainly the result of increases of ¥11,716 million in cash and deposits, ¥3,074 million in notes and accounts receivable-trade, and a decrease of ¥4,397 million in securities. All other current assets increased ¥10,696 million mainly due to an increase of ¥10,210 million in inventories. Non-current assets increased ¥3,265 million due to an increase of ¥3,188 million in property, plant and equipment, a decrease of ¥1,355 million in intangible assets and an increase of ¥1,432 million in investments and other assets.

Liabilities increased ¥2,878 million. Current liabilities increased ¥6,788 million mainly due to increases of ¥3,870 million in electronically recorded obligations-operating, ¥1,540 million in accounts payable-other, and ¥1,788 million in income taxes payable.

Non-current liabilities decreased ¥3,910 million mainly due to decreases of ¥3,254 million in net defined benefit liability and ¥1,411 million in deferred tax liabilities.

Interest-bearing debt amounted to ¥1,311 million (US\$12 million), and the debt-to-equity ratio was 0.01.

### Shareholders' Equity

Total shareholders' equity at the end of fiscal 2017 stood at ¥176,263 million (US\$1,663 million), an increase of ¥16,914 million from the previous fiscal year-end. This was due mainly to an increase of ¥23,308 million in retained earnings.

### Key Performance Indicators

The operating profit margin, return on assets (ROA) and return on equity (ROE) are key performance indicators of the KOSÉ Group.

The operating profit margin increased 1.3 percentage points from the previous fiscal year to 16.0%. ROA increased 2.4 percentage points to 18.8% and ROE increased 3.7 percentage points to 17.6%.

### Financing

The KOSÉ Group's position is that it has secured sufficient funds for continued business operations.

Regarding the use of funds going forward, the Group will strengthen its financial condition through retained earnings, while pursuing capital investments and M&A to generate future cash flow, and enhancing capital efficiency. In addition, temporarily surplus funds are invested in financial products with a priority on safety.

### Cash Flows

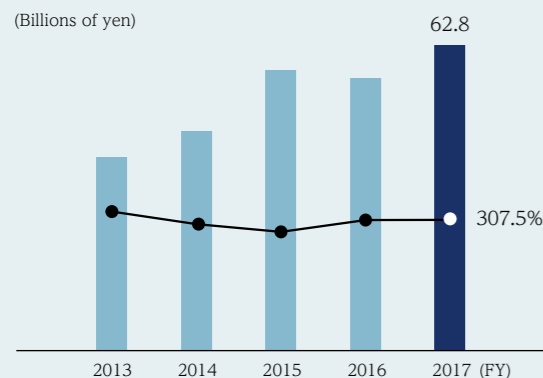
Cash and cash equivalents as of March 31, 2018 were ¥63,883 million (US\$603 million), an increase of ¥8,261 million, or 14.9%, compared with March 31, 2017.

Net cash provided by operating activities increased 101.5%, to ¥34,918 million (US\$329 million). This was mainly the net result of profit before income taxes of ¥48,242 million (US\$455 million), depreciation and amortization of ¥6,977 million (US\$66 million), a decrease in net defined benefit liability of ¥1,887 million (US\$18 million), an increase in inventories of ¥10,375 million (US\$98 million), an increase in notes and accounts receivable-trade of ¥3,073 million (US\$29 million), and income taxes paid of ¥14,156 million (US\$134 million).

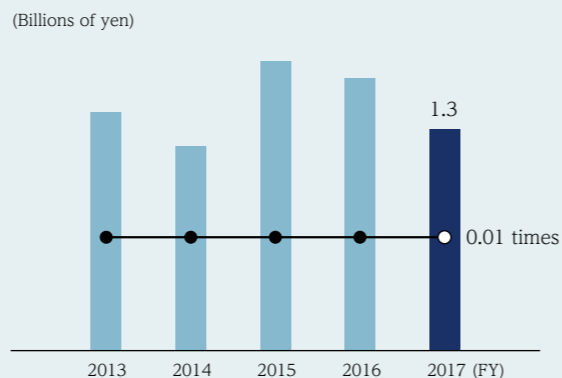
Net cash used in investing activities increased 27.1%, to ¥10,369 million (US\$98 million). The major components were proceeds of ¥1,674 million (US\$16 million) from sales and redemption of securities, purchase of property, plant and equipment of ¥9,939 million (US\$94 million), and purchase of intangible assets of ¥1,001 million (US\$9 million).

Net cash used in financing activities increased 162.4%, to ¥16,400 million (US\$155 million). This was mainly due to cash dividends paid of ¥7,559 million (US\$71 million) and payments from changes in ownership interests in subsidiaries that do not result in change in scope of consolidation of ¥7,897 million (US\$75 million).

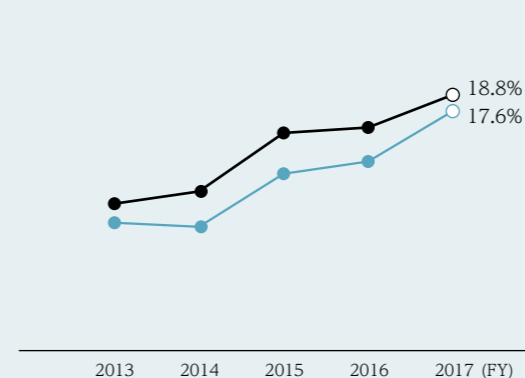
■ Current liabilities  
● Current ratio



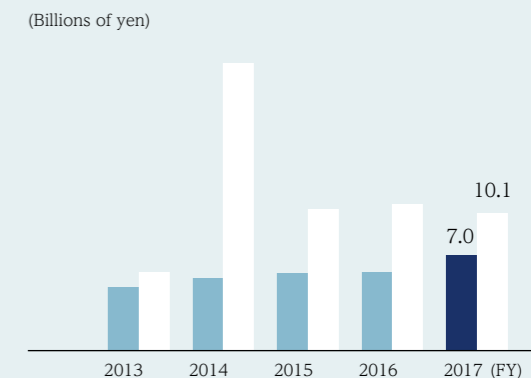
■ Interest-bearing debt  
● Debt-to-equity ratio



● ROA  
● ROE



■ Depreciation and amortization  
■ Capital expenditures



## Business and Other Risks

The following explanations of risk factors in this annual report are presented with the objective of proactively disclosing information of material interest to investors for making investment decisions. From the standpoint of proactive disclosure, these explanations include factors that are not necessarily of this nature and factors associated with external matters that are beyond the control of the KOSÉ Group that can influence the decision making of investors. This is not meant to be a complete list of potential risks.

These risk factors could have a material influence on the KOSÉ Group's management performance and financial position.

Please note that the forward-looking statements contained herein are based on the Company's judgments, which were made as of June 28, 2018.

### Strategic Investment Activities

The KOSÉ Group makes various investment decisions from a strategic perspective. The decision-making process is conducted after sufficient information has been gathered, but the investments may not produce the initially forecast results due to unforeseen changes in the business environment, and this could have a material influence on the KOSÉ Group's management performance and financial position.

### Cosmetic Market

#### 1) Japan's cosmetic market

In Japan's cosmetic market, which is now mature, new entrants have entered from other industries in recent years, and, as a result, competition has intensified. Further challenges are posed in Japan by major changes in sales and distribution channels due to the shortage of successors for aging store owners among specialty cosmetic stores, the formation of alliances and realignment among large retail chains, and the expanding e-commerce market driven by the Internet. In addition, purchases by foreign visitors in the domestic cosmetics market are having an increasing impact. The KOSÉ Group has made and implemented various proposals to cope with these changes, but if they prove ineffectual, it could see a material influence to its management performance and financial position.

#### 2) Overseas market

The KOSÉ Group conducts business in China and other overseas markets. These overseas businesses expose the Group to risks associated with drastic changes in retail and distribution channels due to factors such as the expansion of the mail order

market, economic slowdown, political instability, epidemic disease or contagion, labor problems, infrastructure disruptions, social unrest or unforeseen revisions to laws and regulations as a result of terrorism or other factors, natural disasters caused by abnormal or unseasonable weather and other risks. These factors could have a material influence on the Group's management performance and financial position.

#### 3) Adapting to market needs

The development of new brands and the reinforcement and cultivation of existing brands in response to changing consumer needs, and related marketing activities, have a large influence on business performance. However, these business activities involve various uncertainties, and if results are not in line with initial plans due to a decline in brand value as a result of divergence from the needs of consumers, this could have a material influence on the Group's management performance and financial position.

### Market Risks

#### 1) Procurement of raw materials and other goods

The KOSÉ Group is moving forward with the diversification of procurement of raw materials and other goods to include overseas sources in order to minimize market risk. It also maintains good relationships with suppliers to obtain necessary raw materials and subcontracted products at appropriate prices and on a timely basis. However, changes in international circumstances or an inflow of speculative money could temporarily destabilize the supply-demand balance, thereby impacting purchase prices. Furthermore, in the event that suppliers are unable to continue their operations (due to bankruptcy, suspension of business operations or other reasons), unexpected disasters or accidents, sudden increases in demand among the industry or other factors, the Group may encounter difficulties in obtaining essential raw materials or other goods or providing products. These factors could have a material influence on the Group's management performance and financial position.

#### 2) Foreign exchange

The KOSÉ Group is subject to the risk of foreign exchange rate volatility at the time of settlement for transactions denominated in foreign currencies. The Group strives to limit the impact of this risk within the Group by building a structure of localized production to minimize import/export transactions. However,

these risks cannot be completely avoided. Also, the reported figures of overseas consolidated subsidiaries are denominated in local currencies, but converted to yen for the preparation of consolidated financial accounts. As a result, a sharp change in foreign exchange rates could have a material influence on the KOSÉ Group's management performance and financial position.

#### 3) Marketable securities

The KOSÉ Group holds marketable securities with market prices, and a sharp fluctuation in market prices presents the risk of valuation losses.

Also, changes in the market prices of marketable securities could impact the pension assets held by the KOSÉ Group's corporate pension fund, causing an increase or decrease in pension expenses, which could have a material influence on the KOSÉ Group's management performance and financial position.

#### 4) Laws and regulations

The KOSÉ Group's business activities are subject to various domestic and overseas laws and regulations including the Law for Ensuring the Quality, Efficacy and Safety of Medical Devices, standards related to quality, safety and the environment, the Companies Act, tax laws, and labor-related and transaction-related laws and ordinances, among others. The Group strives to remain compliant with all these laws and regulations, but a change in the laws and regulations or the unforeseen enactment of new laws or regulations, particularly overseas, could temporarily restrict the Group's business activities and have a material influence on the KOSÉ Group's management performance and financial position.

#### 5) Intellectual property rights and important litigation

The KOSÉ Group retains intellectual property rights including patents, trademarks, and design rights to maintain its competitive advantage vis-à-vis competitors, and takes appropriate measures to protect these rights. However, despite these measures, the Group's market share could be eroded if third parties were to make and distribute imitation products, ignoring the Group's rights. This could impact the Group's business. The KOSÉ Group conducts sufficient research to ensure that its business activities do not infringe upon the intellectual property rights of third parties, but if the Group were to be sued by a third party for intellectual property rights infringement, the Group may be required to pay damages and indemnities, and its production and sales restricted. This could

have a material influence on the KOSÉ Group's management performance and financial position.

#### 6) Information management

The KOSÉ Group manages personal and confidential information strictly by establishing internal rules, conducting internal audits and taking other actions. For example, as prescribed by the Personal Information Protection Law and the Ministry of Economy, Trade and Industry guidelines, the Company has established its Personal Information Management Committee and internal rules. However, a leakage of confidential information due to whatever reason could adversely affect business operations, and such leakages may have a material influence on the KOSÉ Group's management performance and financial position.

#### 7) Disasters

The KOSÉ Group has instituted safety measures to minimize the adverse impact of a suspension of business activities due to natural disasters. However, the occurrence of a large earthquake, tsunami, or power outage that exceeds its expectations could cause production activities to be suspended, logistics systems to slow, and the information system to be disrupted, thereby materially influencing the KOSÉ Group's management performance and financial position.

#### 8) Customer relations

The KOSÉ Group manufactures products with its first priority on the delivery of secure and safe products to customers. The Group refers to its thinking about quality as its "quality policy," and has stipulated a quality policy message and five declarations of activities. The Group bases its daily activities on this policy, but the occurrence of an unforeseen situation that impairs the satisfaction or trust of customers could have a material influence on the KOSÉ Group's management performance and financial position.

#### 9) Securing human resources

It is essential for the Group to secure and develop human resources in a variety of fields in order to respond to various changes in both the Japanese and overseas markets. However, if it is not possible to secure the necessary human resources due to changes in the employment situation and development does not go according to plan, this could have a material influence on the Group's management performance and financial position.

# Consolidated Financial Statements

## Consolidated Balance Sheets

KOSÉ Corporation and Consolidated Subsidiaries  
At March 31, 2018 and 2017

	Millions of yen		Thousands of U.S. dollars
	2018	2017	2018
<b>Assets</b>			
Current assets			
Cash and deposits	83,637	71,921	789,028
Notes and accounts receivable-trade	41,403	38,328	390,594
Securities	8,274	12,672	78,057
Merchandise and finished goods	29,260	20,982	276,038
Work in process	2,407	2,086	22,708
Raw materials and supplies	19,271	17,660	181,802
Deferred tax assets	6,044	5,647	57,019
Other	2,913	2,823	27,481
Allowance for doubtful accounts	(48)	(47)	(453)
Total current assets	193,164	172,074	1,822,302
Non-current assets			
Property, plant and equipment			
Buildings and structures	37,813	37,087	356,726
Accumulated depreciation	(20,961)	(19,686)	(197,745)
Buildings and structures, net	16,852	17,400	158,981
Machinery, equipment and vehicles	16,078	15,242	151,679
Accumulated depreciation	(12,251)	(11,759)	(115,575)
Machinery, equipment and vehicles, net	3,827	3,482	36,104
Tools, furniture and fixtures	36,164	34,511	341,170
Accumulated depreciation	(30,357)	(29,442)	(286,387)
Tools, furniture and fixtures, net	5,806	5,068	54,774
Land	16,555	16,524	156,179
Leased assets	1,932	1,637	18,226
Accumulated depreciation	(1,314)	(1,094)	(12,396)
Leased assets, net	618	543	5,830
Construction in progress	4,351	1,801	41,047
Total property, plant and equipment	48,011	44,822	452,934
Intangible assets			
Software	1,563	1,445	14,745
Goodwill	7,629	8,479	71,972
Other	7,190	7,814	67,830
Total intangible assets	16,383	17,739	154,557
Investments and other assets			
Investment securities	10,381	6,864	97,934
Deferred tax assets	1,002	3,156	9,453
Other	2,850	2,727	26,887
Allowance for doubtful accounts	(247)	(193)	(2,330)
Total investments and other assets	13,986	12,554	131,943
Total non-current assets	78,381	75,116	739,443
Total assets	271,545	247,191	2,561,745

	Millions of yen		Thousands of U.S. dollars
	2018	2017	2018
<b>Liabilities</b>			
Current liabilities			
Notes and accounts payable-trade	9,534	9,533	89,943
Electronically recorded obligations-operating	15,849	11,978	149,519
Short-term loans payable	600	1,016	5,660
Lease obligations	227	174	2,142
Accounts payable-other	13,725	12,184	129,481
Accrued expenses	9,423	10,964	88,896
Income taxes payable	7,865	6,077	74,198
Accrued consumption taxes	1,872	1,242	17,660
Provision for sales returns	1,928	1,998	18,189
Other	1,795	862	16,934
Total current liabilities	62,821	56,033	592,651
Non-current liabilities			
Lease obligations	484	438	4,566
Provision for directors' retirement benefits	2,513	2,346	23,708
Net defined benefit liability	4,952	8,207	46,717
Deferred tax liabilities	1,172	2,583	11,057
Other	993	452	9,368
Total non-current liabilities	10,116	14,027	95,434
Total liabilities	72,938	70,060	688,094
<b>Net assets</b>			
Shareholders' equity			
Capital stock	4,848	4,848	45,736
Capital surplus	—	6,388	—
Retained earnings	180,514	157,205	1,702,962
Treasury shares	(9,098)	(9,093)	(85,830)
Total shareholders' equity	176,263	159,348	1,662,858
Accumulated other comprehensive income			
Valuation difference on available-for-sale securities	3,651	1,462	34,443
Foreign currency translation adjustment	4,098	3,915	38,660
Remeasurements of defined benefit plans	70	(918)	660
Total accumulated other comprehensive income	7,820	4,458	73,774
Non-controlling interests	14,523	13,323	137,009
Total net assets	198,607	177,130	1,873,651
Total liabilities and net assets	271,545	247,191	2,561,745

## Consolidated Statements of Income

KOSÉ Corporation and Consolidated Subsidiaries  
Years ended March 31, 2018 and 2017

	Millions of yen		Thousands of U.S. dollars
	2018	2017	2018
Net sales	303,399	266,762	2,862,255
Cost of sales	81,547	67,027	769,311
Gross profit	221,852	199,735	2,092,943
Selling, general and administrative expenses			
Advertising expenses	20,008	18,684	188,755
Promotion expenses	55,374	51,208	522,396
Freightage and packing expenses	11,731	9,621	110,670
Salaries and allowances	45,420	43,830	428,491
Retirement benefit expenses	1,922	1,813	18,132
Legal welfare expenses	7,041	6,621	66,425
Depreciation	3,188	2,945	30,075
Other	28,755	25,849	271,274
Total selling, general and administrative expenses	173,443	160,574	1,636,255
Operating profit	48,408	39,160	456,679
Non-operating income			
Interest income	196	220	1,849
Dividend income	74	73	698
Patent licensing	34	30	321
Gain on redemption of securities	4	—	38
Refunded consumption taxes	382	47	3,604
Miscellaneous income	328	325	3,094
Total non-operating income	1,020	696	9,623
Non-operating expenses			
Interest expenses	5	7	47
Loss on redemption of securities	—	5	—
Rent expenses on real estates	4	4	38
Commission fee	10	30	94
Foreign exchange losses	774	217	7,302
Miscellaneous loss	127	27	1,198
Total non-operating expenses	920	292	8,679
Ordinary profit	48,508	39,564	457,623
Extraordinary income			
Gain on sales of non-current assets	32	168	302
Gain on sales of investment securities	0	—	0
Total extraordinary income	32	168	302
Extraordinary losses			
Loss on disposal of non-current assets	213	272	2,009
Loss on valuation of investment securities	—	14	—
Impairment loss	79	21	745
Other	6	—	57
Total extraordinary losses	299	308	2,821
Profit before income taxes	48,242	39,425	455,113
Income taxes-current	15,961	14,276	150,575
Income taxes-deferred	(1,246)	1,208	(11,755)
Total income taxes	14,715	15,485	138,821
Profit	33,526	23,939	316,283
Profit attributable to non-controlling interests	2,914	2,282	27,491
Profit attributable to owners of parent	30,611	21,657	288,783

## Consolidated Statements of Comprehensive Income

KOSÉ Corporation and Consolidated Subsidiaries  
Years ended March 31, 2018 and 2017

	Millions of yen		Thousands of U.S. dollars
	2018	2017	2018
Profit	33,526	23,939	316,283
Other comprehensive income			
Valuation difference on available-for-sale securities	2,189	794	20,651
Foreign currency translation adjustment	168	(842)	1,585
Remeasurements of defined benefit plans, net of tax	1,023	751	9,651
Total other comprehensive income	3,381	703	31,896
Comprehensive income	36,908	24,643	348,189
Comprehensive income attributable to			
Comprehensive income attributable to owners of parent	33,974	22,353	320,509
Comprehensive income attributable to non-controlling interests	2,934	2,290	27,679

## Consolidated Statements of Changes in Net Assets

KOSÉ Corporation and Consolidated Subsidiaries  
Years ended March 31, 2018 and 2017

	Millions of yen				
	Shareholders' equity				
	Capital stock	Capital surplus	Retained earnings	Treasury shares	Total shareholders' equity
Balance as of April 1, 2016	4,848	6,388	141,480	(9,091)	143,626
Dividends of surplus			(5,932)		(5,932)
Profit attributable to owners of parent			21,657		21,657
Purchase of treasury shares				(1)	(1)
Net changes of items other than shareholders' equity					
Total changes during the period	—	—	15,724	(1)	15,722
Balance as of March 31, 2017	4,848	6,388	157,205	(9,093)	159,348

	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 as of April 1, 2016	669	4,729	(1,635)	3,762	11,154	158,543
Dividends of surplus						(5,932)
Profit attributable to owners of parent						21,657
Purchase of treasury shares						(1)
Net changes of items other than shareholders' equity	792	(813)	716	695	2,168	2,864
Total changes during the period	792	(813)	716	695	2,168	18,587
Balance as of March 31, 2017	1,462	3,915	(918)	4,458	13,323	177,130

	Millions of yen				
	Shareholders' equity				
	Capital stock	Capital surplus	Retained earnings	Treasury shares	Total shareholders' equity
Balance as of April 1, 2017	4,848	6,388	157,205	(9,093)	159,348
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 during the period	—	(6,388)	23,308	(5)	16,914
Balance as of March 31, 2018	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 as of April 1, 2017	1,462	3,915	(918)	4,458	13,323	177,130
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 during the period	2,189	182	989	3,361	1,200	21,476
Balance as of March 31, 2018	3,651	4,098	70	7,820	14,523	198,607

## Consolidated Statements of Cash Flows

KOSÉ Corporation and Consolidated Subsidiaries  
Years ended March 31, 2018 and 2017

	Thousands of U.S. dollars				
	Shareholders' equity				
	Capital stock	Capital surplus	Retained earnings	Treasury shares	Total shareholders' equity
Balance as of April 1, 2017	45,736	60,264	1,483,066	(85,783)	1,503,283
Dividends of surplus			(67,802)		(67,802)
Profit attributable to owners of parent			288,783		288,783
Purchase of treasury shares				(47)	(47)
Change in treasury shares of parent arising from transactions with non-controlling shareholders		(60,264)	(1,085)		(61,349)
Net changes of items other than shareholders' equity					
Total changes during the period	—	(60,264)	219,887	(47)	159,566
Balance as of March 31, 2018	45,736	—	1,702,962	(85,830)	1,662,858

	Thousands of U.S. dollars					
	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 as of April 1, 2017	13,792	36,934	(8,660)	42,057	125,689	1,671,038
Dividends of surplus						(67,802)
Profit attributable to owners of parent						288,783
Purchase of treasury shares						(47)
Change in treasury shares of parent arising from transactions with non-controlling shareholders						(61,349)
Net changes of items other than shareholders' equity	20,651	1,717	9,330	31,708	11,321	43,038
Total changes during the period	20,651	1,717	9,330	31,708	11,321	202,604
Balance as of March 31, 2018	34,443	38,660	660	73,774	137,009	1,873,651

	Millions of yen		
	2018	2017	2018
<b>Cash flows from operating activities</b>			
Profit before income taxes	48,242	39,425	455,113
Depreciation and amortization	6,977	5,821	65,821
Impairment loss	79	21	745
Amortization of goodwill	816	772	7,698
Increase (decrease) in allowance for doubtful accounts	65	13	613
Increase (decrease) in provision for directors' retirement benefits	166	181	1,566
Increase (decrease) in net defined benefit liability	(1,887)	(1,707)	(17,802)
Increase (decrease) in other provision	(68)	97	(642)
Loss (gain) on disposal of non-current assets	181	103	1,708
Interest and dividend income	(271)	(294)	(2,557)
Interest expenses	5	7	47
Foreign exchange losses (gains)	213	178	2,009
Loss (gain) on redemption of securities	(4)	5	(38)
Loss (gain) on valuation of investment securities	—	14	—
Loss (gain) on sales of investment securities	(0)	—	(0)
Decrease (increase) in notes and accounts receivable-trade	(3,073)	(5,541)	(28,991)
Decrease (increase) in inventories	(10,375)	(6,348)	(97,877)
Increase (decrease) in notes and accounts payable-trade	3,416	1,386	32,226
Decrease (increase) in other assets	584	(284)	5,509
Increase (decrease) in other liabilities	3,744	(1,029)	35,321
Other, net	6	—	57
Subtotal	48,817	32,823	460,538
Interest and dividend income received	262	335	2,472
Interest expenses paid	(5)	(6)	(47)
Income taxes paid	(14,156)	(15,824)	(133,547)
Net cash provided by (used in) operating activities	34,918	17,327	329,415
<b>Cash flows from investing activities</b>			
Payments into time deposits	(30,269)	(31,688)	(285,557)
Proceeds from withdrawal of time deposits	30,065	32,474	283,632
Purchase of securities	(565)	—	(5,330)
Proceeds from sales and redemption of securities	1,674	5,881	15,792
Purchase of property, plant and equipment	(9,939)	(10,941)	(93,764)
Proceeds from sales of property, plant and equipment	15	855	142
Purchase of intangible assets	(1,001)	(585)	(9,443)
Proceeds from sales of intangible assets	—	0	—
Purchase of investment securities	(111)	(3,864)	(1,047)
Proceeds from sales and redemption of investment securities	10	—	94
Purchase of shares of subsidiaries	(185)	(116)	(1,745)
Decrease (increase) in other investments	(62)	(174)	(585)
Net cash provided by (used in) investing activities	(10,369)	(8,158)	(97,821)
<b>Cash flows from financing activities</b>			
Net increase (decrease) in short-term loans payable	(530)	—	(5,000)
Net decrease (increase) in treasury shares	(5)	(1)	(47)
Cash dividends paid	(7,187)	(5,932)	(67,802)
Cash dividends paid to non-controlling shareholders	(372)	(121)	(3,509)
Payments from changes in ownership interests in subsidiaries that do not result in change in scope of consolidation	(7,897)	—	(74,500)
Purchase of treasury shares of subsidiaries	(192)	—	(1,811)
Other, net	(214)	(194)	(2,019)
Net cash provided by (used in) financing activities	(16,400)	(6,250)	(154,717)
Effect of exchange rate change on cash and cash equivalents	113	(293)	1,066
Net increase (decrease) in cash and cash equivalents	8,261	2,625	77,934
Cash and cash equivalents at beginning of period	55,622	52,997	524,736
Cash and cash equivalents at end of period	63,883	55,622	602,670