



Seeking a New Radiance

A Sharper Market Focus

Annual Report 2009



Wisdom and
for Peo



Beauty ple and the Earth

Since KOSÉ's founding in 1946, the seminal concept of its corporate activities has been "To offer the highest-quality cosmetics to each and every customer, drawing on our original technologies." To bring forth the radiance present inherently in all women, KOSÉ has developed a series of breakthrough cosmetics, such as beauty serums and powder-based foundations. The Company's objective going forward is to win the support of customers throughout the world.

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Corporate Philosophy

• Statement of Purpose

To create a culture and values embodying a distinctive beauty through a sophisticated fusion of sensuousness and intelligence

• Management Philosophy

KOSÉ's management is deeply devoted to all the people who believe in and support KOSÉ.

- Respect the values and skills of each employee.
- Always aim for higher growth—never settle for stability.
- Strive for the highest possible quality backed by exclusive technology.
- Meet and exceed the expectations of customers.
- Strive to build a stronger global presence.

• Action Guidelines

The actions of each employee shape the present and future KOSÉ.

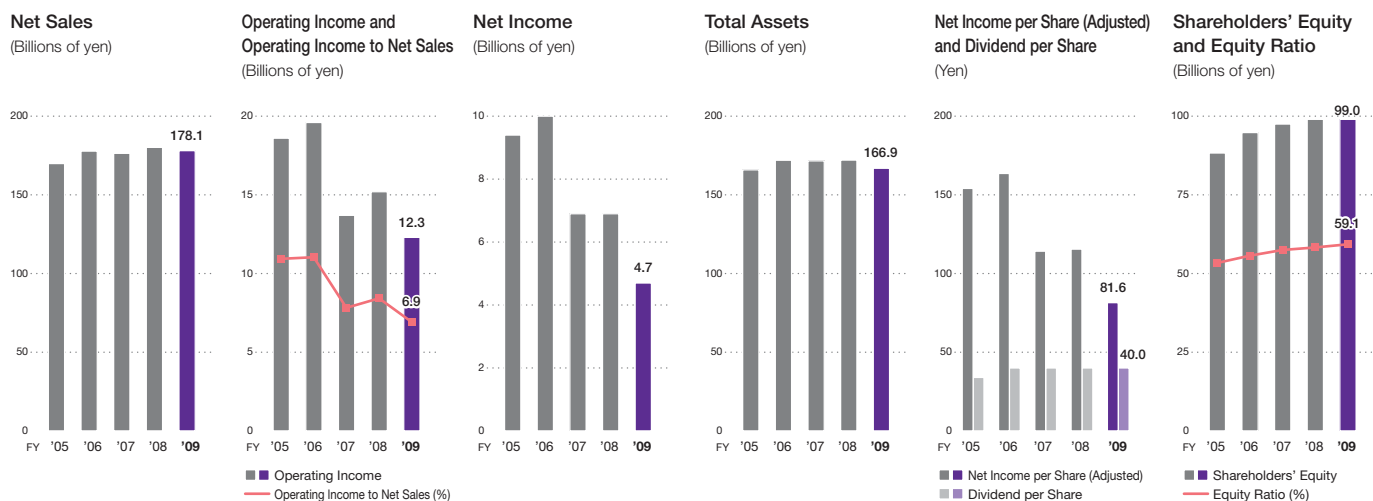
- Be sincere. Retain an intent focus on goals.
- Go beyond the conventional.
- Never lose your enthusiasm and the desire to improve.
- Have the courage to communicate with others openly and honestly.

Financial Highlights

KOSÉ Corporation and Consolidated Subsidiaries
Years ended March 31, 2009, 2008 and 2007

| | Millions of yen | | | Thousands of U.S. dollars |
|--|-----------------|-----------|-----------|---------------------------|
| | 2009 | 2008 | 2007 | 2009 |
| For the Year | | | | |
| Net sales | ¥ 178,121 | ¥ 180,222 | ¥ 176,390 | \$1,817,561 |
| Gross profit..... | 132,841 | 134,918 | 131,731 | 1,355,520 |
| Operating income..... | 12,303 | 15,187 | 13,730 | 125,541 |
| Income before income taxes and minority interests..... | 11,261 | 14,477 | 14,466 | 114,908 |
| Net income..... | 4,742 | 6,900 | 6,895 | 48,388 |
| At Year-End | | | | |
| Shareholders' equity | ¥ 98,988 | ¥ 99,027 | ¥ 97,490 | \$1,010,082 |
| Total assets | 166,920 | 172,128 | 171,638 | 1,703,265 |
| | Yen | | | U.S. dollars |
| Per Share | | | | |
| Net income: | | | | |
| Basic | ¥ 81.55 | ¥ 115.50 | ¥ 114.22 | \$ 0.83 |
| Adjusted for stock splits..... | 81.55 | 115.50 | 114.22 | 0.83 |
| Net assets | 1,699.92 | 1,693.55 | 1,636.44 | 17.35 |
| Cash dividends..... | 40.00 | 40.00 | 40.00 | 0.41 |

Notes: 1. The U.S. dollar amounts are translated, for convenience only, at the rate of ¥98=US\$1, the approximate rate of exchange on March 31, 2009.
2. See Six-Year Summary notes on page 28.



Forward-Looking Statements

This annual report contains forward-looking statements about KOSÉ Corporation's future plans, strategies and performance that are not historical facts. Risks and uncertainties resulting from changes in the business environment may have a significant effect on the actual business results. Please also note that we shall not be held responsible for any omissions or errors in data and content in this document.

To Our Shareholders

Based on our founding spirit,
we are aiming for further growth
through implementing reforms.

Since KOSÉ's founding in 1946, the seminal concept of its corporate activities has been "To offer the highest-quality cosmetics to each and every customer, drawing on our original technologies." To win the heartfelt satisfaction of our customers, we create cosmetics of superior quality and want to feel that we are delivering these products into the hands of each and every one of our customers. This strong concept, created by the founder of KOSÉ, Kozaburo Kobayashi, still lives in KOSÉ today, and it is present in the Company's research and development as well as production activities, procurement systems, and marketing activities.

As we draw on these assets, we intend to continue our initiatives going forward as stated in the four tenets of our Medium-Term Management Plan announced last year: "restructuring KOSÉ's cosmetics business in Japan," "strengthening KOSÉ's international business position," "taking initiatives in new business domains," and "bolstering KOSÉ's corporate power."

I intend to maintain the spirit of KOSÉ's founding and, through reforms, recreate KOSÉ as a truly competitive company. When the world economy recovers, we are convinced that we will be able to achieve further growth in our activities.



Kazutoshi Kobayashi, President



An Interview with the President

Q1 How do you evaluate KOSÉ's performance during fiscal 2009, ended March 31, 2009?

A The KOSÉ Group is evolving its original brand marketing strategies and moving forward to respond flexibly to market diversity and customer needs. In addition, we are allocating our management resources optimally and working to improve operating efficiency and profitability. We are steadily implementing initiatives to attain the four key objectives of our Medium-Term Management Plan—"restructuring KOSÉ's cosmetics business in Japan," "strengthening KOSÉ's international business position," "taking initiatives in new business domains," and "bolstering KOSÉ's corporate power." Although our business reforms are still ongoing, we feel we are making steady progress toward our objectives.

During fiscal 2009, we confronted a difficult operating environment as economic conditions deteriorated and the yen appreciated against other major currencies. Amid this environment, KOSÉ reported net sales of ¥178,121 million, a slight decline of 1.2% from the previous fiscal year. On the other hand, as a result of an increase in the cost of sales ratio and expenditures related to the relocation of the head office, operating income declined 19.0%, to ¥12,303 million. As a result of a foreign currency loss, net income for the fiscal year under review decreased 31.3%, to ¥4,742 million.

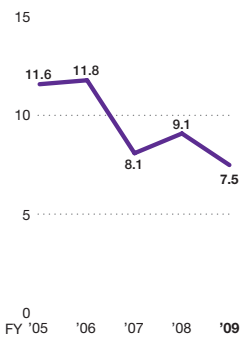
Q2 As the global downturn continues, how has this influenced trends in the markets for cosmetics?

A In Japan, people used to describe the ratio of the value of the cosmetic market to gross domestic product (GDP) as "firm," but since fall 2008, economic conditions have become severe, and consumers are seeking to protect their lifestyles even more than previously. We see from trends in consumption that consumers are behaving more wisely, choosing their products more carefully, refraining from making purchases in some cases, and becoming more frugal.

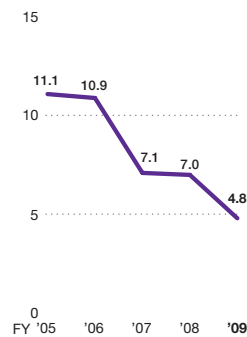
Even in department stores, which are experiencing tough business conditions, although we have not seen major sales declines, such as those that are being experienced in the sales of apparel and accessories, cosmetics are now being influenced by trends in the economy.

If we examine shipments of cosmetics by category in Japan from January through December 2008, we find that skin-care products overall have remained firm. This reflects changes in the lifestyles of women as well as changes in the natural environment, such as the increase in ultraviolet rays and the trend toward global warming, which trigger early aging and dryness of the skin. We believe these developments are increasing people's needs for cosmetics. Women in the mature age-group of 40

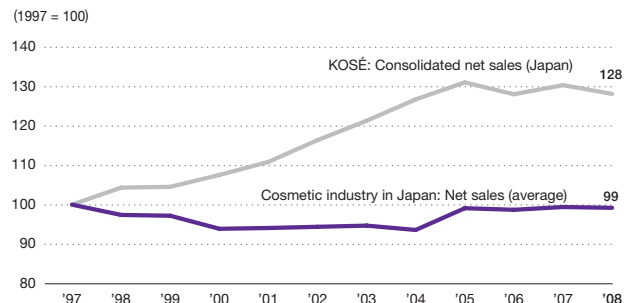
ROA (%)



ROE (%)



Annual Growth Rates of KOSÉ and the Cosmetic Industry in Japan (1997=100)



Source: Surveys of Japan's Ministry of Economy, Trade and Industry (excludes exports)

years and older have an especially strong interest in anti-aging, and they do not hesitate to invest in themselves. Since we can expect them to use cosmetics on a daily basis, I am continuing to tell our staff members that we should not attribute slow sales to economic conditions but, rather, we should try hard to promote business. Even in this environment, there are many initiatives we can take, and I am convinced that, by offering consumers attractive products, we can expand our market share.

Q3 In your Medium-Term Management Plan, you mention domestic business first. What progress have you made in this area?

A In our Medium-Term Management Plan, we have especially emphasized strengthening our business foundation through reforms, fostering brands that have an international presence, and aiming to become a growth company that can compete globally.

In our domestic business activities, major issues we are addressing include “enhancing the capabilities and sharpening the image of retail stores carrying KOSÉ products,” and, in this area, we are proceeding with reforms with an eye on the future. We are also moving ahead with changing our orientation from an emphasis on sales to an emphasis on profitability and shifting to a high-profit structure.

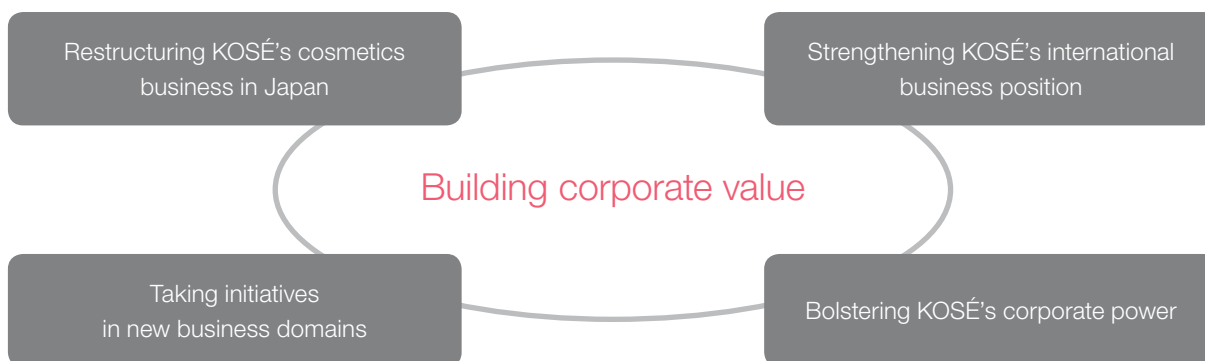
At present, we are eliminating unprofitable stores and are working to implement reforms in retail stores that deal in our products to enable us to concentrate our marketing and selling resources. As of March 2008, one in three of the stores carrying our products that are customers of KOSÉ SALES CO., LTD., was unprofitable for us. Over a period of three years, we will be reviewing the investments we make in these stores (including the dispatching of personnel and the provision of sales promotion items). We are stepping up our investments in stores with strong customer-drawing power and strong counseling capabilities.

For those stores where we provide simplified marketing support, we have introduced a new Order Center, which offers assistance via low-cost telephone responses. In addition, even in the drugstore market, where we made a late start, we are strengthening our marketing systems. I believe that, through these activities, we are proceeding steadily toward reforms in our business activities in Japan.

Q4 How are KOSÉ's overseas business operations developing?

A For KOSÉ to continue to grow, success in our overseas business activities is indispensable. For the time being, we are striving to build a solid position in Asia, especially in China, and will be working to bolster our capabilities and brand power to compete internationally.

Four Core Themes of the Medium-Term Management Plan



We are placing particular emphasis on the establishment of global brands. Our objective is to further develop and establish *SEKKISEI* and *COSME DECORTE* as quickly as possible as world brands that will be accepted and supported internationally. We are also proceeding aggressively with the further development of our licensed brands, including *JILLSTUART*.

In China, we have accumulated a strong record of accomplishments since we entered that market more than 20 years ago. In fiscal 2008, we began full-scale participation in the cosmetic specialty stores, including those in the interior regions of China, through *PRÉDIA*. Going forward, we plan to introduce our high-prestige brands and target sales to affluent consumers. (For further details on KOSÉ's international strategy, please refer to the Global Strategy section on pages 8 to 11.)

Q5 KOSÉ is described as a company that takes excellent care of its brands. Please describe KOSÉ's approach to brand management.

A KOSÉ has grown because of its "original brand marketing." When we say "brand marketing," we mean that, under our business model, we develop brands that are matched to consumers' preferences and lifestyles and then market these through sales channels that are best suited to the brands.



We have a number of popular brands that have been best-sellers for 20 to 30 years. We nurture existing brands and breathe new life into them by modifying them gradually to match the changing times. However, in recent years, our reliance on new brands has increased, and a decline in marketing efficiency has emerged. To address this issue, we are restructuring the product lines in each of our brands. We are also clarifying target customer groups for these brands and working to make their special features easier to understand. More so than before, we must strive to cultivate repeat customers and foster long-term, best-selling brands. In our Medium-Term Management Plan, we have included "reviewing KOSÉ's brand portfolio" as one of our priority tasks.

Even when economic conditions are challenging, we believe that by returning to the basic concept of "Conscientious Marketing of Quality Products in Quality Stores" and implementing reforms, we can make further leaps forward in our business activities.

Q6 What do you mean specifically by "Conscientious Marketing of Quality Products in Quality Stores?"

A "Conscientious Marketing of Quality Products in Quality Stores" is our original philosophy for action that our founder Kozaburo Kobayashi championed. I definitely do not



believe we should change this ideal that we have valued so highly for so many years.

One of KOSÉ's strengths has been its sales activities based on counseling, principally for skin care and base makeup. I believe we should place even more emphasis on these counseling activities. For example, *SEKKISEI SUPREME* was developed with consideration for the environmental damage to the skin that begins to occur when people are in their 30s. We explain conscientiously the differences between *SEKKISEI SUPREME* and previous products and the features of this new product with the aims of "winning new customers" and "maintaining the support of existing customers." Therefore, even following the introduction of new products, sales of existing products have not shown major declines, and the *SEKKISEI* brand has shown growth overall. Since *SEKKISEI SUPREME* is a product sold with counseling services, we believe that "Conscientious Marketing of Quality Products in Quality Stores" will become realized at the retail store level.

It also means persuading customers, based on our explanations of the power and effectiveness of our products as well as communicating the original value of our brands. I believe that only people can really move the hearts of other people.

Q7 When you mention "shareholder returns," what do you have in mind? Also, could you comment on your fund-raising position?

A Our basic policy is to pay stable dividends to shareholders. In deciding on appropriate cash dividends, we give due consideration to building retained earnings to enable us to expand our business going forward, strengthening our financial position, trends in performance, and our dividend payout ratio.

Regarding our capabilities for raising funds, we believe we are in a position to secure the funds necessary for the expansion of our business activities going forward. Among uses of funds, we will work to expand retained earnings to strengthen our financial position as we make investments in facilities and M&A to create future cash flow and raise our return on capital. In addition, when we have idle cash temporarily, we will invest it with maximum priority on the safety of the principal.

Q8 As the times pass through a turning point, what is KOSÉ's vision for the years to come?

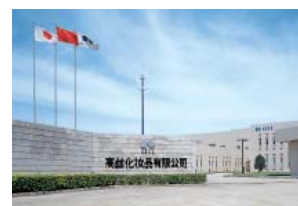
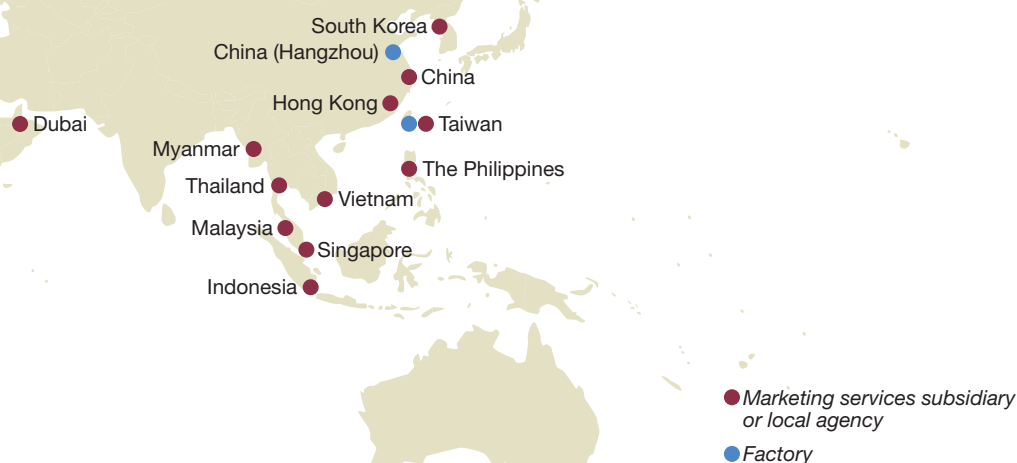
A Certainly, at the present time in the midst of a global downturn, we are experiencing an economic crisis of unprecedented proportions. However, I am not pessimistic about the downturn. After the bursting of Japan's economic bubble, KOSÉ experienced major leaps forward after introducing a new corporate identity program. I believe we are a company that is strong in the face of adversity. At the same time, during difficult periods like today, when the assumptions we have held thus far are toppled so easily by the flow of world events, we must make KOSÉ a company that is highly "risk resistant."

In our project to "bolster our corporate power," which we are implementing now, we are reviewing costs throughout KOSÉ and working to cut manufacturing expenses and overhead costs. Making good products and cutting costs are issues we will have to confront forever, and we are taking the initiative in implementing reforms. In addition, we are proceeding with improvements in our manufacturing systems that will enable us to respond speedily to changes in the market as well as improvements in our human resource development systems. Looking ahead, we will strive to share the awareness of the importance of reforms with our employees and relentlessly pursue reform efforts.

Kozaburo Kobayashi, our founder, commenced business with a strong passion for creating cosmetics that fulfill dreams and longings for beauty. The outlook for the economy remains uncertain, but there is still much room for growth in the cosmetic industry. We are striving to offer products and services that generate a high degree of customer loyalty and are not influenced by economic fluctuations by delivering a "radiance" to our customers.

Global Strategy

KOSÉ is aiming to become a company with a global presence, and it is currently working to develop its overseas business operations in 13 countries and regions, principally in the high-growth markets of Asia. In the market for top-quality cosmetics, where it is strong, KOSÉ is moving ahead with activities to foster global brands that can be marketed around the world.



Showing a World Presence

In its overseas operations, KOSÉ has conducted research on the markets it has entered, examining distribution channels, customer preferences, purchasing power, and other characteristics. Based on this research, the Company has selected appropriate target segments and chosen brands that are appropriate for introduction into each overseas market from among those it has developed for the Japanese market. Both sales and income from these overseas activities have expanded year by year, with especially high growth in the markets of Asia outside Japan. At present, KOSÉ is also taking initiatives to enter additional promising growth markets.

Production centers have been established in China and Taiwan, and some of the brands sold in markets overseas are manufactured at these centers. These production facilities have obtained ISO 9001 certification and have introduced the same level of stringent quality standards that are applied in Japan. In addition, in Shanghai, KOSÉ has established its Technical Research Management Branch Office, which is engaged in research on products that are suited to the skin characteristics of Chinese women and other activities.



Developing Global Brands

In the market for top-quality cosmetics, where we have a strong position, we are working to increase the awareness and value of our brands with the aim of establishing global brands with an international presence.

KOSÉ is promoting the development of *SEKKISEI*, *BEAUTÉ de KOSÉ*, and the high-prestige brand *COSME DECORTE* as strategic brands with a consistent image and is endeavoring to nurture as well as strengthen them on a transnational basis as global brands. In addition to this group of brands, the Company is aiming to expand sales of its licensed brands, including *JILLSTUART*.

SEKKISEI: Aggressive Promotion as a Global Brand

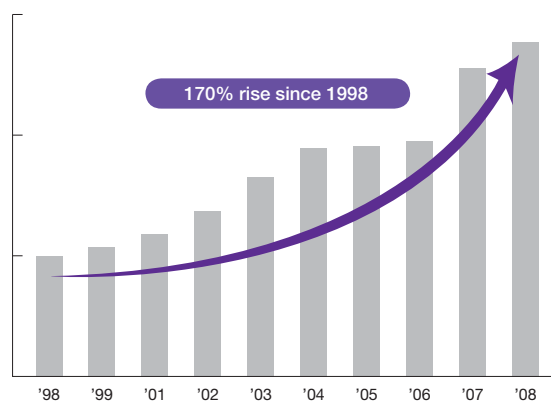
SEKKISEI, which is KOSÉ's representative skin-care brand, is one of the mainstays supporting growth in sales overseas. Featuring an effective blend of Japanese and Chinese herbal extracts and ease of use, KOSÉ has sold an accumulated total of more than 36 million individual bottles of this lotion in Japan since its introduction in 1985. We are now marketing *SEKKISEI* in 13 countries and regions, and it is a favorite of many customers.

Currently, in overseas markets, KOSÉ is promoting *SEKKISEI SUPREME*, which is the top-of-the-line product in the *SEKKISEI* line. After introducing this product in South Korea in 2008, we began full-scale marketing activities simultaneously in a range of other Asian countries in spring 2009.



Well-known Japanese actresses feature in advertising campaigns that seek to communicate that *SEKKISEI* is a global brand "born in Japan."

Trends in Overseas Sales of *SEKKISEI*





COSME DECORTE: KOSÉ's High-Prestige Brand for the World Market

KOSÉ's high-prestige brand *COSME DECORTE* was created in 1970, and, over the intervening period of nearly 40 years, it has become a long-term best-seller. In Japan, it is sold at department stores and certain cosmetic specialty stores. KOSÉ endeavors to ensure that *COSME DECORTE* exceeds customer expectations, as a top-quality cosmetic product with top-quality counseling services.

COSME DECORTE is now offered at department stores in six countries and regions, and we plan to introduce this brand line into the Chinese market in July 2009.



KOSÉ's high-prestige brands proudly express supreme confidence.



JILLSTUART: Success in International Development of Licensed Brands



Marketing licensed brands overseas is a newly successful area for KOSÉ.

JILLSTUART, with its feminine design, is a brand that has won many fans among women around the world. KOSÉ licensed and began to market this cosmetic brand in Japan in 2005. Marketing activities were expanded to cover Taiwan and Hong Kong in 2008.

In Taiwan, where we began the first overseas marketing of *JILLSTUART* beauty items, the response was even more favorable than anticipated. These items are currently offered at five stores in Taiwan and one store in Hong Kong. Sales are expanding at all these locations, and we are considering entering other countries.



Activities in Principal Overseas Markets

Taiwan

SEKKISEI has penetrated the market in Taiwan and has achieved a high degree of brand recognition. In addition, *KOSÉ* has introduced *COSME DECORTE* in top-quality department stores and *FASIO* in drugstores. The *JILLSTUART* makeup brand that was introduced in March 2008 continues to generate strong customer interest and demand.

South Korea

KOSÉ is marketing its high-prestige *COSME DECORTE* line through department stores in South Korea. Activities are in progress to expand the lineup of product and service offerings. The number of customers is increasing, and sales are growing steadily. In addition, initiatives are under way to develop business with cosmetic specialty stores and duty-free shops.

China

KOSÉ has more than 20 years of experience in the Chinese market. Along with the growth of the market, *KOSÉ* has adjusted its brand portfolio and is steadily enhancing its brand image. *SEKKISEI* and *BEAUTÉ de KOSÉ* are imported from Japan, while brands developed especially for the Chinese market, *AVENIR* (for sale in department stores) and *RECIPEO* (for sale through agents), are manufactured locally. The quality of *KOSÉ* products has been recognized, and, in 2006, they were awarded the Chinese government's "reliable brand" prize.

Beginning in June 2008, *KOSÉ* has marketed the *RIMMEL* line of makeup products under licensing arrangements. In addition, the Company is strengthening its initiatives targeted not only at department stores but also at leading cosmetic specialty stores. Going forward, *KOSÉ* will introduce its high-end cosmetic lines targeted at high-net-worth customers.



RIMMEL

Development of a Specialty Store Brand in China as in Japan

In China, *KOSÉ* has begun to conclude sales contracts with leading cosmetic specialty stores managed by individuals and has introduced the *PRÉDIA* specialty store brand to those stores. Despite a relatively high price in the Chinese market, *PRÉDIA*'s concept of "Sea & Spa" products has been accepted and sales are expanding steadily. The number of stores concluding contracts with the Company had exceeded 100 at the end of 2008. *KOSÉ* plans to select leading cosmetic stores and increase the number of stores to about 1,000 over the next several years.

KOSÉ anticipates growth in high-value-added brands through these partner stores, especially in regions where the number of department stores is small. As in Japan, we are adopting a stringent policy for selecting quality stores, and we plan to expand market coverage throughout China, including the interior areas.



Building product confidence through provision of conscientious counseling services

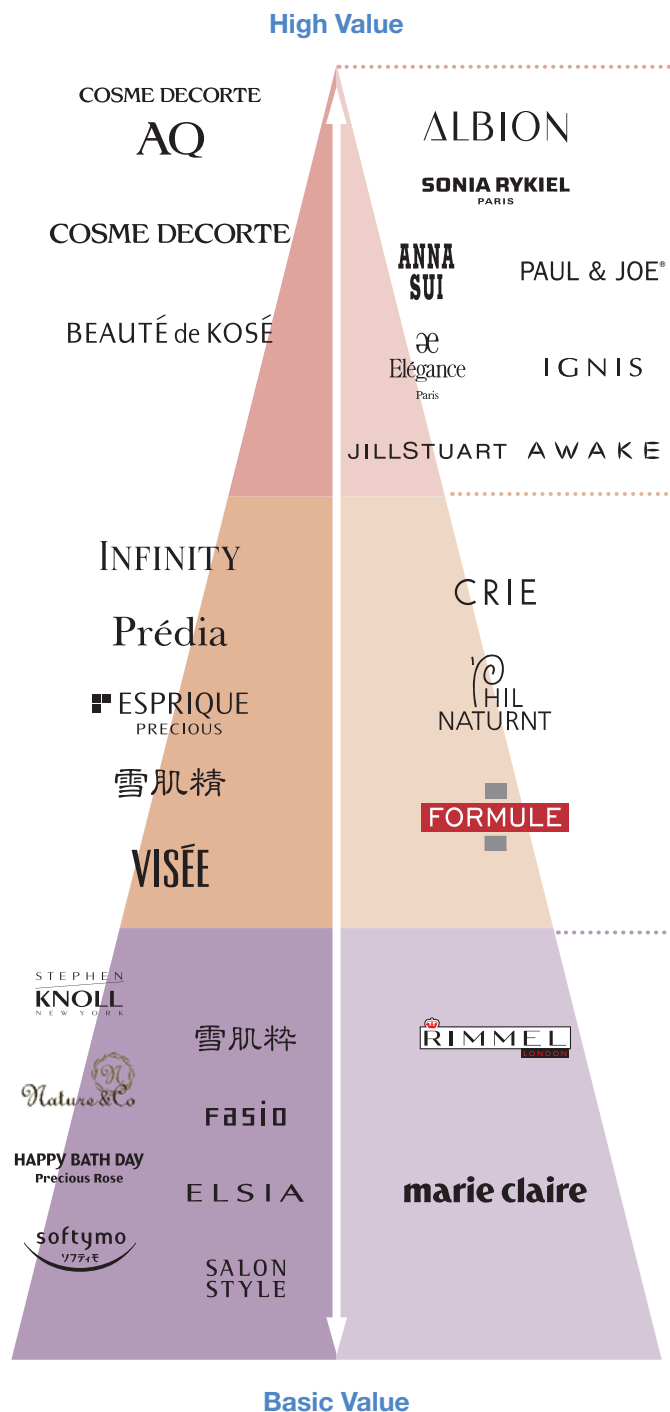
Brand Marketing

Through its "original brand marketing approach," KOSÉ creates brands suited to the preferences and lifestyles of consumers through a sophisticated fusion of sensuousness and intelligence and then offers these via the most appropriate distribution channels.

Attractive Brands via Optimal Sales Channels

To meet a diverse range of customer needs, KOSÉ creates attractive brands that reflect an understanding of all aspects of the cosmetic experience, from the product itself to sales channels and communication at the sales interface. Essential elements in this process include the analysis of "the value customers attach to cosmetics" and "customers' lifestyle values" and the use of this analysis in setting brand strategy. Then, taking the two words "sensuousness" and "intelligence" as a baseline, we consider carefully all aspects of the brand value we wish to create, from texture to fragrance, potential and actual effectiveness, price, package design, brand image, and the occasion as well as the season when the cosmetic will be used.

Special features of KOSÉ's brand marketing include its "selective sales channel system." Relying on this system, we take the brands we have developed through careful attention to the changing times and select the best marketing channels, meaning the channels optimally matched to the buying styles and habits of the target customer groups. In today's cosmetic markets, there are two basic approaches to sales. One involves providing counseling to customers, and the other is to leave customers free to choose on their own, the "self-selection" approach. In view of these two approaches, we decide on the right brand concepts and sales methods for each channel—including specialty cosmetic stores, department stores, mass retailers, drugstores, and convenience stores—and design products accordingly.



KOSÉ develops product lineups in three different brand categories classified by added value: high-prestige brands, prestige brands, and self-selection brands.

High-Prestige Brands: The Highest Levels of Quality and Service

KOSÉ's high-prestige brands are high-value-added brands that have been developed through infusing the Company's state-of-the-art R&D findings and technology. As befits high-prestige brands, they are sold exclusively in specialty cosmetic stores and department stores. Sales personnel who have been trained in beauty and cosmetics offer counseling services, including skin analysis and detailed, personalized skin-care advice, and are able to introduce and recommend top-quality products to customers.



COSME DECORTE AQ:
The highest quality available with today's technology



JILLSTUART:
This brand was created in collaboration with an overseas designer.

Prestige Brands: High-Value-Added Cosmetics for a Wider Customer Group

Encompassing a number of brands aiming for higher added value that are sold through a broader range of sales channels, the prestige group of brands is positioned in the high-sales-volume market zone. These brands are sold with counseling services through specialty cosmetic stores, general merchandise stores, and drugstores. Beauty serums *MOISTURE SKIN REPAIR*, which contains Rice Power® Extract No. 11, and *ASTALUTION*, containing astaxanthin, are included among prestige brands.



ESPRIQUE PRECIOUS:
This brand features a charming and feminine type of beauty, especially for young adult women.



PRÉDIA:
This brand is sold with counseling services only through speciality cosmetic stores.

Self-Selection Brands: Excellent Quality at Reasonable Prices

In addition to cosmetics, self-selection brands include hair-care products, such as shampoos and conditioners, as well as other toiletries developed with cosmetic product concepts. These brands, offering excellent quality at reasonable prices, are sold in general merchandise stores, drugstores, convenience stores, variety stores, and elsewhere. KOSÉ has named this product category as its "cosmetaries business," which is a fusion of "cosmetics" and "toiletries."



SOFTYMO:
A brand of consolidated subsidiary KOSÉ COSMEPORT CORP.

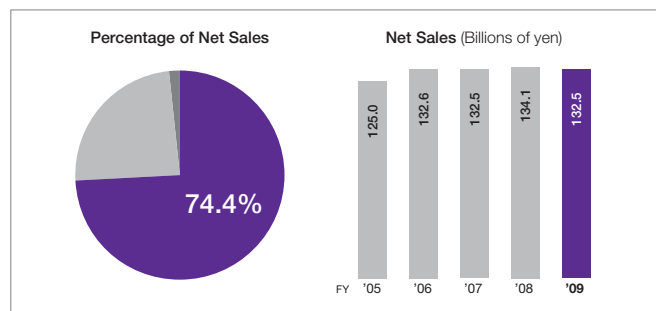


FASIO:
A brand of consolidated subsidiary KOSÉ COSMENIENCE CO., LTD.

Review of Operations

Cosmetics Business

High-Prestige and Prestige Brands



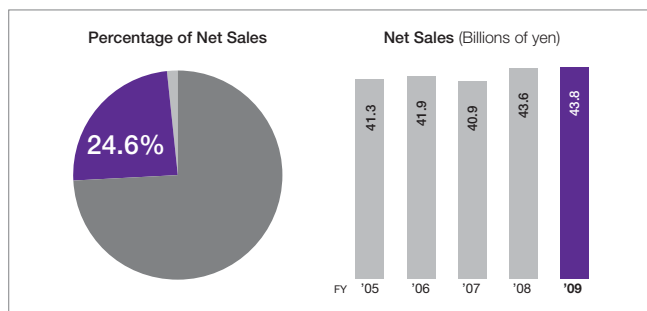
Sales of the cosmetics business declined 1.2%, to ¥132,517 million, and operating income decreased 10.0%, to ¥14,572 million.

In the cosmetics business in Japan, in addition to working to build the value of its high-quality brands in cosmetic specialty stores and department stores, KOSÉ placed emphasis on strengthening its counseling services, introducing *SEKKISEI SUPREME*, and expanding the number of stores handling its *INFINITY* brand line of cosmetics. Those brands and *JILLSTUART* reported strong sales. However, performance overall reflected the difficult operating conditions. One of the main causes was the decline in revenues from makeup products in major brand lines that are sold through a range of sales channels.

Overseas, KOSÉ took initiatives to further develop its brand presence and introduced *JILLSTUART* products in Taiwan and Hong Kong. In addition, it launched activities to expand cosmetic specialty store channels in China. As a result of those various activities, the Company reported expansion in performance.

Cosmetaries Business

Self-Selection Brands



Although retail store reform measures had some impact, sales in the cosmetaries business only rose 0.6%, to ¥43,821 million, and, owing to increases in marketing expenses and other factors, operating income decreased 90.2%, to ¥136 million.

In this business, KOSÉ worked to revitalize its brands, including implementation of renewals for major brands and aggressive advertising and sales promotion activities. The Company also introduced a new skin-care brand, *NATURE & CO*, and carried out other measures to expand its customer base.

Other Business

Manufacturing of OEM Products, Amenity Cosmetics for Hotels, and Cosmetics for Institutional Use

In part as a result of the sale of two subsidiaries in this business segment, sales declined 29.4%, to ¥1,782 million, but operating income increased 10.6%, to ¥444 million.

Within this segment, while sales in the special order division, which are distributed mainly through sales agents, increased, on-order manufacturing of OEM products decreased.

Strengthening the COSME DECORTE Brand and Enhancing the Value of the High-Prestige Lineup

KOSÉ is taking initiatives to strengthen the *COSME DECORTE* brand line and increase the value of its high-prestige cosmetic domain. In August 2008, the Company renewed its top-ranking *COSME DECORTE AQ* makeup lineup and introduced *VITAL-SCIENCE PREMIUM*, an anti-aging care line, in September. In February 2009, KOSÉ also introduced *WHITE-SCIENCE PREMIUM* in its skin whitening lineup.



Securing a Stable Customer Base through a Focus on Counseling Services



KOSÉ is working to create a stable customer base by offering counseling services and offering products that are best suited to individual consumers. In April 2008, the Company introduced *SEKKISEI SUPREME* and, in October, began to offer a renewal of its *INFINITY* skin-care lineup. Then, in February 2009, KOSÉ added its whitening product selection to the *PRÉDIA SPA et MER* line.

Self-Selection Brands Fight Hard to Win Customer Support

Sales of KOSÉ's self-selection brands are holding strong because of their acceptance by many customers as reasonably priced luxury products. In August 2008, the Company introduced a renewed version of its hair and body cosmetic lineup, *HAPPY BATH DAY PRECIOUS ROSE*, which features the fragrance of roses. KOSÉ conducted a wide range of activities to promote the brand. These included TV commercials starring the popular "NEWS" young men's singing group and an event held in Tokyo's Shibuya district, a mecca for young people. These activities succeeded in increasing the popularity of this brand with the younger generation.



Research and Development

In its R&D activities, KOSÉ seeks to use its original technologies to create cosmetics that are better than any offered before, replete with new attractiveness and possibilities—cosmetics that meet customers' needs and exceed expectations.

Research and Development Are the Driving Forces for KOSÉ's Activities

In addition to conducting R&D related to products it will market, such as makeup, skin-care, and hair-care items, KOSÉ engages in a multifaceted program of R&D that is highly regarded within and outside the cosmetic industry and spans fragrances, beauty, dermatology, pharmaceuticals, basic materials, safety, the natural environment, and other areas. As our management philosophy states, "Meet and exceed the expectations of customers," we strive to bring revolutionary ideas to the cosmetic culture, propose new lifestyles, and offer a wide selection of cosmetic products to the market.

Cosmetics That Challenge the Accepted Wisdom

KOSÉ develops epoch-making cosmetics before other companies and works to make these "must-have" items for women. "Beauty serums," which are now used widely by women, were first developed by KOSÉ in 1975, and the Company went on to establish a position for the preparations as essential cosmetic items in the market. Moreover, KOSÉ has built an established reputation in the development of cosmetic foundations by introducing a series of foundation products that have exceeded customers' expectations. These have included powder-type foundations, which the Company introduced in 1976 and which have gone on to become the principal type of foundation in today's market. KOSÉ also was the first to offer a two-way cake foundation that can be applied with either a wet or dry sponge, in 1979, as well as a cake foundation that features over 80% hydration.

A Chronology of KOSÉ's Epoch-Making Cosmetics

1975

ALPHARD R·C LIQUID PRECIOUS



Beauty serum

1979

TWO WAY CAKE



Foundation applicable with either a wet or dry sponge

1992

MOISTURE LIPOSOME



COSME DECORTE cosmetic serum with long-lasting hydration properties featuring liposome technology

KOSÉ has also pioneered in creating many new types of materials it has incorporated into its cosmetic products. For example, KOSÉ's *COSME DECORTE* cosmetic serum *MOISTURE LIPOSOME*, launched in 1992, incorporates liposome technology that had not been used previously in cosmetic products because of difficulties with mass production. These liposomes are extraordinary because they can penetrate the stratum corneum layer of the skin and prolong the beneficial effects of the serum on the skin from the inside. KOSÉ was the first company in the cosmetic industry to commercialize products containing liposomes.

Among other original products that KOSÉ has introduced successfully are the beauty serum *COSME DECORTE WHITE-SCIENCE FRESH CONCENTRATE*, first marketed in 1997, which contains a powder that liquefies when applied to the skin, and beauty serum *MOISTURE SKIN REPAIR*, introduced in 2004 and containing Rice Power® Extract No. 11, which improves the natural moisture retention properties of the skin.



Incorporating Cutting-Edge R&D Results in KOSÉ Products

KOSÉ is actively engaged in cooperative industry-academia R&D.

The Company has worked together on joint research with the University of Tokyo, Japan's leading academic institution, for about 20 years, and these efforts have made clear the effects of active oxygen on the skin. In 2005, KOSÉ succeeded in developing the cosmetic product *ASTALUTION* containing astaxanthin, which is effective in removing active oxygen that is closely linked with the aging of the skin. In 2007, KOSÉ became the first company in the cosmetic industry to establish a joint research office within the University of Tokyo. The office has conducted leading-edge research on anti-aging, deepening the relationship between that university and KOSÉ.



1997

COSME DECORTE
WHITE-SCIENCE FRESH CONCENTRATE



Beauty serum containing a powder that liquefies when applied to the skin

2004

MOISTURE SKIN REPAIR



Beauty serum containing Rice Power® Extract No. 11 with proven moisture retention properties

2005

ASTALUTION



Beauty serum containing astaxanthin, which is effective in removing active oxygen

Aiming for Original Technology and Highest Quality

We believe it is our duty to provide support so that our customers are able to experience satisfaction and peace of mind through our cosmetic products. To accomplish this, we have encompassed the spirit of our research and development in the three words of “sensuousness,” “intelligence,” and “reliability.”

KOSÉ's R&D Philosophy

1. Pursue R&D that creates new markets that benefit customers
2. Globalize technology and products
3. Accept the challenge of breaking away from conventional thinking
4. Offer ultimate quality based on original technology
5. Create R&D systems that draw on the capabilities of individuals and the collective strengths of the Group

● KOSÉ Research Laboratory

This laboratory is responsible for product R&D and developmental R&D, including the creation of future cosmetics, such as skin-care, makeup, hair-care, and other products.

● KOSÉ Fundamental Research Laboratory

This laboratory conducts research on basic technologies, quality assurance, new materials that will become the basis for newly developed cosmetics, and skin mechanisms.

● KOSÉ Research Laboratory—Technical Research Center

This center is responsible for the supervision of products and the management of R&D activities as well as the collection of the latest related information and the management of intellectual property.



KOSÉ Research Laboratory, Tokyo

“Making You Feel That KOSÉ Products Have Been Carefully Made and Delivered Just for You”

KOSÉ's Production Systems Pursue the Ultimate in Quality

To deliver the highest-quality products into the hands of customers, KOSÉ devotes considerable effort and energy to optimizing its production environment. The KOSÉ Group has set itself demanding criteria at its production centers and pursues even higher quality. In addition, beginning in the 1970s, KOSÉ was one of the first companies to introduce scientifically based quality control (QC) activities in the cosmetic industry and, in 1980, became the first company in Japan's cosmetic industry to win the Deming Prize. At present, all of its overseas production plants and manufacturing facilities of affiliated companies have obtained ISO 9001 certification for quality assurance.



The Saitama and Gunma plants are the focal points of KOSÉ's production activities.

Joint Research with Academia on Anti-Aging Care

Discovery of the Effectiveness of Cocoa Bean Extract

One of the causes of wrinkles and sagging skin is the deterioration of the elastic fiber of the inner skin caused by ultraviolet light, which leads to a loss of pliability of the skin.

Through its research together with Hoshi University, KOSÉ has discovered that cocoa bean extract is effective in restraining the decline in fibrillin production and structural change in skin fibers that is linked to a loss of pliability due to ultraviolet light. KOSÉ has added cocoa bean extract to all products in the *COSME DECORTE VITAL-SCIENCE PREMIUM* line, which was introduced in September 2008.



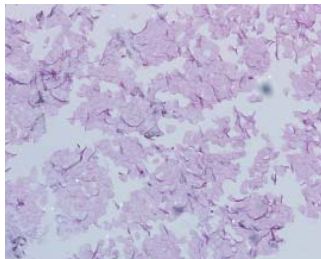
Creating Cosmetic Foundations That Are Gentler to the Skin

Development of Phospholipid-Coated Oxidized Titanium

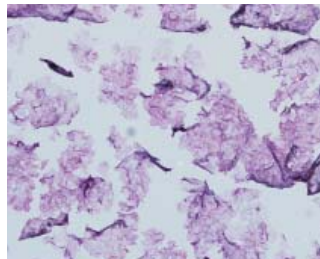
The oxidized titanium used in cosmetic foundations and sunscreen preparations is an effective pulverulent body for white pigments and preparations for screening out ultraviolet rays. In addition, phospholipids have an affinity with the skin and are highly effective in promoting skin care.

Condition of the Skin after Seven Days' Use

Cells in the corneal layer of skin coated with phospholipid-coated oxidized titanium maintain their normal condition.



Skin coated with phospholipid-coated oxidized titanium



Skin coated with oil-coated oxidized titanium

KOSÉ has used phospholipids, a field where it has many years of research experience and accomplishments, to coat oxidized titanium and has thereby developed phospholipid-coated oxidized titanium, which is much gentler to the skin. KOSÉ has incorporated this ingredient in its *COSME DECORTE VITAL-SCIENCE PREMIUM POWDER FOUNDATION REALITY*, which was released to the market in September 2008.

Corporate Social Responsibility

KOSÉ's corporate slogan is "Wisdom and Beauty for People and the Earth." In addition to initiatives to preserve the natural environment, the Company conducts a broad program of activities to encourage interchange with the community, contribute to society, and support cultural activities.

Together with Our Customers

To assure customers of the quality of its cosmetics, KOSÉ has established its own high safety standards at all stages of production, from the choice of raw materials through manufacturing. Even after customers have purchased KOSÉ cosmetics, the Company ensures the quality of its products manufactured at the same time by storing them carefully and confirming their safety. In addition, we have established a consulting and advisory center that gathers the opinions of customers and feeds this information back into product development and management activities.

Together with Society

To establish symbiotic relationships with society, KOSÉ encourages interchange with regional communities, provides assistance for regional environmental groups, and takes measures to normalize workplace conditions to promote the employment of the physically challenged. Moreover, as a company that is engaged in the pursuit of beauty, the Company provides support for the arts, cultural and sports activities, and academic pursuits.

Together with Our Business Partners

Since its founding, KOSÉ has emphasized its relationships with retail stores and managed its activities to achieve symbiosis and mutual prosperity. In addition, the Company places emphasis on building partnerships with its business associates in a broad range of activities, including suppliers of raw materials, distributors, and others.

Together with Our Employees

KOSÉ works to stimulate the interest and drive of its staff members both through its well-rounded program of education and training and its internal Personnel Recruitment System. In addition, the Company has introduced personnel systems that make it possible for employees to achieve a good balance between work and their personal lives, including giving employees a choice of places of employment to enable them to structure their own lifestyles.

Together with Our Shareholders

KOSÉ places emphasis on structuring its investor relations (IR) program to gain the understanding and confidence of shareholders and investors through the proper disclosure of information. Also, as a well-known cosmetic company, KOSÉ holds stock investment seminars especially for women.



KOSÉ Sustainability Report 2008



KOSÉ Green Procurement Standards

KOSÉ's Environmental Preservation Activities

KOSÉ formed its Global Environment Committee in 1997, with the goal of taking proactive initiatives to address environmental issues. Thus far, the Company has issued its Basic Environmental Policy and Environmental Action Program, which constitute, in effect, an environmental proclamation. Each year, the Company prepares a KOSÉ Eco Plan and implements a program of environmental initiatives based on this action plan.

Moreover, KOSÉ issues its *Sustainability Report* to make its program of activities and their results widely known to the general public. This report is intended to enhance the awareness of the Company's environmental activities among employees and pave the way for the next year's program.

KOSÉ's Environmental Indicators

In the conduct of its environmental preservation activities, KOSÉ has established the following six objectives for its environment-related indicators.

1. Monitoring and voluntarily reducing emissions of environmentally polluting substances
2. Promoting the development of eco-products
3. Reducing industrial wastes
4. Conserving energy
5. Implementing environmental management systems
6. Promoting activities to enhance awareness and understanding of environmental preservation

All Domestic Production Plants Obtain ISO 14001 Certification

In addition to the Company's production plants in Japan, KOSÉ's Xiasha Plant in China and one of its domestic distribution centers have obtained ISO 14001 certification for environmental management. Since the activities of production and distribution departments are especially likely to place a burden on the natural environment, KOSÉ is taking proactive initiatives



Promoting recycling

that include conserving resources and energy, recycling used items, and reducing waste.

At KOSÉ's factories located in Saitama and Gunma prefectures, which are the focal points of the manufacturing activities of the KOSÉ Group, waste materials are recycled and reused for society's benefit whenever possible. Specific activities include converting bulk waste to energy fuel and using waste glass as a roadbed material for paving purposes. In particular, one of the environmental activities developed originally and introduced by KOSÉ is the use of dehydrated sludge obtained from effluent as an ingredient in fertilizer. As a result of these various activities, the recycling ratio at both plants has exceeded our objective of 99.5%, and both facilities have achieved zero waste.

In the development of products, KOSÉ employs materials that are environmentally friendly and makes use of recycled paper and other materials. Other environmentally conscious activities include developing products that can be purchased in refill form and eliminating cardboard boxes for shipment.

In addition, in areas other than production and distribution, the Company is working to reduce waste by implementing "3R (Reduce, Reuse, Recycle) campaigns," reducing garbage emissions to zero, and encouraging "green" purchasing.

KOSÉ's Activities Contributing to Society

Providing Support for Employment of Physically Challenged Individuals

To provide assistance to physically challenged individuals, KOSÉ established ADVANCE CO., LTD., a company engaged principally in the production of cosmetics that was established in 1992. This was the first company in Japan in the cosmetic industry to be set up as a special corporation under the Law concerning Employment of Disabled Persons. To make it possible for all employees of ADVANCE's production facility to work safely, signs printed in braille, handrails, and emergency stop buttons have been installed, and, as with other plants, ADVANCE's facilities have obtained both ISO 14001 and ISO 9001 certifications.

As another example, at the Order Center of KOSÉ SALES CO., LTD., in Akita Prefecture, which employs people with hearing disabilities, the center strives to promote communication and make it an easy place in which to work. It has held regular sign language training workshops and established a library where those interested can look up matters related to sign language. These activities have been recognized, and the center was awarded the "Good Example Prize for Workplaces Employing Disabled Persons for 2008." This encouragement prize is sponsored by the Japan Association for Employment of the Elderly and Persons with Disabilities.



Shifting to Universal Design in Product Packaging

To improve usability for the visually impaired, KOSÉ COSMEPORT CORP., a subsidiary of KOSÉ, is introducing braille content on the caps and outer packaging of products.

The novelty of these package designs has been highly appraised, and, in May 2008, these products were awarded the Kinoshita Prize of the Novelty and Creative Division, which is sponsored by the Japan Packaging Institute. Also, in spring 2009, for persons with impaired color vision, KOSÉ COSMEPORT adopted new package designs for its sunscreen products that are easy to read.



To make it easier for the visually challenged to select products, KOSÉ is working to print product information in braille on its packages.

Contributing to Sporting Events Where Beauty Is a Competitive Factor

KOSÉ has been selected as an official cosmetic partner of Japan's national synchronized swimming team and provided support for the team's participation in the Beijing Summer Olympic Games in 2008. Synchronized swimming is a sport in which the athletes' makeup and the beauty of their movements are important competitive factors. In addition, KOSÉ has become an official partner of the Japan Skating Federation and will provide ongoing support to Japan's figure skating team until the end of the Vancouver 2010 Olympic Winter Games.



Sponsoring Makeup Seminars at Schools for Challenged Individuals

For students who have spent many years studying inside schools for challenged individuals, graduation from high school means they will now go out on their own into society. By providing lectures on the basics of makeup, KOSÉ helps them to take the next steps in their lives with confidence.

Human Resource Training For Personnel Working with KOSÉ

Reforming Work Practices in Leading-Edge Work Environments

With the move to KOSÉ's new head office in August 2008, all of the Company's headquarters functions, which had been spread around in various locations, came together. The new head office is based on an open office concept, which we have named "Marché," after the French word for market, because it features open spaces and an improved environment for exchanging personnel, equipment, and information. Under this new concept, KOSÉ is working to encourage smooth communication among staff members, promote cross-departmental projects, and endeavor to create new value.



The Library Cafe provides an attractive communication area.

Support for Career Development



KOSÉ sponsors a wide variety of types of training for all its employees, but especially for its beauty counseling staff, for whom KOSÉ provides sophisticated, specialized training to enhance their skills and encourage them to take pride in offering advice on cosmetics. Moreover, the Company offers career planning seminars for staff members in their third year with KOSÉ as well as for personnel in their 30s and 50s, to support ongoing growth and development throughout their lives.

Offering an Improved Training Environment

The KOSÉ Oji Training Center, which is located in the Oji area of greater metropolitan Tokyo, where the Company began its operations, is KOSÉ's key human resources training center. It offers not only internal employee training and middle-management-level courses but also the most-advanced training for sales staff and beauty counseling staff from all parts of Japan. Since its opening in April 2008, the center has been operating at maximum capacity every day. To promote close communication, the new head office, Oji Center, and Research Laboratories are located close to one another, and the Company has established its Galerie KOSÉ next to the KOSÉ Oji Training Center. Galerie KOSÉ is a museum and library containing information about KOSÉ's history and cosmetic culture, which enables staff members and others to come in contact with the seminal origins of KOSÉ's craftsmanship as a manufacturer of cosmetics.



The new training center offers a large meeting hall, 12 classrooms, and lodging facilities for 132 people.

Management System

KOSÉ has adopted a principle of "continuing to manage in ways that enhance the corporate value of the KOSÉ Group." Following this principle, the Company is taking management initiatives to expand and improve the efficiency of its business activities.

KOSÉ's Corporate Governance System

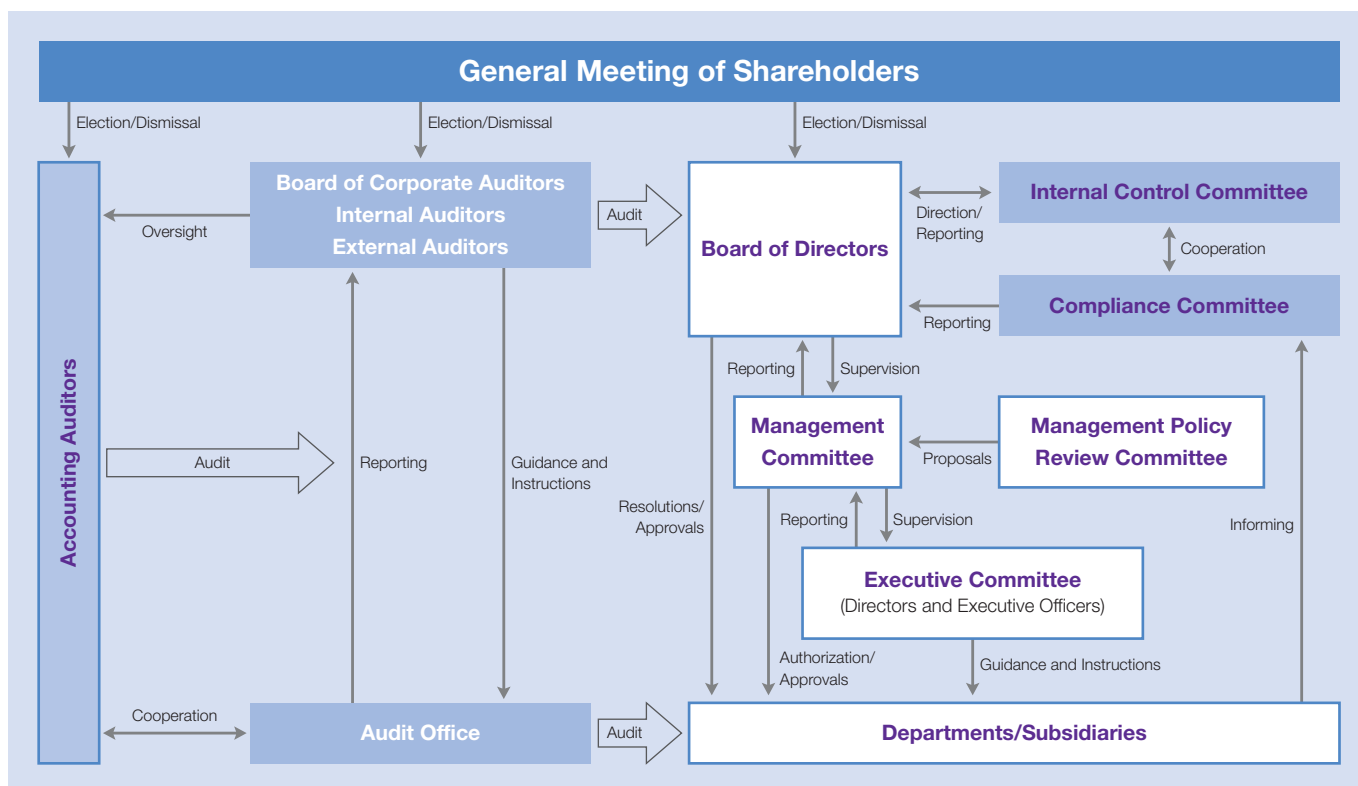
To maintain the confidence of society, the KOSÉ Group believes that a strong corporate governance system is indispensable. Accordingly, KOSÉ has adopted the corporate governance system shown in the diagram below.

Management Surveillance Functions

The KOSÉ Group has adopted the corporate auditor governance model under which the Board of Corporate Auditors is responsible for auditing the Board of Directors in the

performance of their duties and the Board of Directors supervises the activities of the Management Committee.

The Board of Directors currently has 11 members. By clarifying the scope of responsibility of each director, KOSÉ has created strong systems for making rapid and timely decisions with a relatively small management group. When conducting meetings of the Board of Directors, both directors and corporate auditors express their opinions frankly and discuss relevant issues while performing mutual checking functions and fulfilling their governance duties.



In the day-to-day conduct of duties, KOSÉ has adopted the executive officer system and separated the management decision-making function of the Board of Directors from the business execution functions of the executive officers. In addition, KOSÉ has established its Management Committee, which is responsible for discussing important management issues and exerting overall control over the execution of business activities.

Corporate Auditors and Internal Auditing

KOSÉ's corporate auditors attend important meetings of the Board of Directors and other committees and audit the activities of the Board of Directors and business execution activities. There are four corporate auditors, two of whom are outside, independent auditors and have no special interests in the Company that would represent a conflict of interest. At present, one of these is a licensed certified public accountant and the other is a lawyer. These two independent auditors express their opinions and give suggestions from their perspective as experienced professionals.

In addition, the Company has formed an Audit Office, which is an organizational unit in charge of internal audits and is independent of the departments in charge of conducting business operations. The Audit Office supervises the conduct of business activities from an overall perspective and, following its audits, confirms whether improvements have been made.

Accounting Auditors

KOSÉ has selected Ernst & Young ShinNihon LLC as its independent accounting firm to conduct the auditing of its activities. The accounting auditors hold periodic meetings with management, share information on the results of internal audits, and work together with the Company to implement effective audits.

Remuneration of Directors and Auditors

KOSÉ pays the following remuneration to its directors and auditors on an aggregate basis (for the fiscal year ended March 31, 2009).

| Position | Amount of Remuneration |
|--------------------|--|
| Directors | ¥658 million |
| Corporate auditors | ¥52 million (including ¥10 million in remuneration for outside auditors) |

Note: These amounts include (a) additions to reserves for the payment of retirement and severance costs that were treated as expenses for accounting purposes of ¥63 million (¥60 million for nine directors and ¥2 million each for three corporate auditors) and (b) ¥38 million for management bonuses (¥37 million for eight directors and ¥0 million in total for two corporate auditors).

Remuneration Paid for Audits

Remuneration paid to the auditing firm was as follows (for the fiscal year ended March 31, 2009).

| Type of Company | Compensation for the Audit Statement | Compensation for Other Services |
|---------------------------|--------------------------------------|---------------------------------|
| Reporting company | ¥85 million | N/A |
| Consolidated subsidiaries | ¥13 million | N/A |
| Total | ¥99 million | N/A |

Internal Control Systems

Based on KOSÉ's established policy for internal controls to ensure sound business operations, the Company strives to improve the effectiveness of internal controls executed by all KOSÉ Group executives and employees and ensure the effectiveness of these controls.

KOSÉ has established a Compliance Committee and taken other initiatives to ensure strict compliance with laws and regulations as well as fairness and ethical behavior in all Company activities. In addition, the Company has created a Compliance Communication System that allows employees to receive consultation and offer information related to compliance matters.

To manage various risks, KOSÉ has established a set of rules related to crisis management and created systems for preventing risk as well as an emergency information transmission and response system for use in times of crises. As part of the Company's information management system, KOSÉ preserves and maintains business documents and other information in accordance with established Company rules. To manage the operations of Group companies as a whole effectively, the Company has created rules for Group management that require the supervision of the management plans and performance of individual Group members, based on established criteria. Additionally, to ensure the reliability of financial reporting, based on the intent of the Financial Products & Exchange Law, the Company designs and operates internal controls for financial reporting and assesses and reports on the effectiveness of these controls on a continuing basis.

To ensure that these internal control systems are structured properly and operate effectively, KOSÉ has established its Internal Control Committee. Under the direction of this

committee, the Internal Control Implementation Unit takes a central role in implementing matters relevant to internal control. The corporate auditors are responsible for supervising and verifying the design and operation of internal control systems.

“Motivated to Follow the Right Path”

KOSÉ wants not only to be fully compliant with laws and regulations but also to maintain symbiotic relationships with its stakeholders and earn the trust of society at large.

To this end, the Company has prepared the KOSÉ Group Action Guidelines and implements initiatives to ensure that each and every person working in the Group follows these basic guidelines. At the core of these guidelines is the Company's “Action Charter,” which contains a phrase regarded by Kozaburo Kobayashi, the founder of KOSÉ, as the Company's basic philosophy and key words to live by—“Motivated to Follow the Right Path.” In addition, the Company has prepared its Rules for Action to give specific directions that all members of KOSÉ management and staff should follow.

Board of Directors, Corporate Auditors, and Executive Officers

(As of June 26, 2009)



YASUKIYO KOBAYASHI
Chairman

Chairman

Yasukiyo Kobayashi

President

Kazutoshi Kobayashi

Managing Directors

Izuo Ikemi
Masaru Enomoto
Shinji Ishikura

Directors

Reijiro Kobayashi
Hideo Kobayashi
Takao Kobayashi
Minoru Miyagi
Kazumasa Hanagata
Noboru Naito

Corporate Auditors

Toshiaki Tsuchiko
Yoshikazu Kojima
Masanori Odakura (External)
Kenichi Fujinawa (External)

Executive Officers

Noriaki Murakami
Kumi Arakane
Kiyoto Nagahama



KAZUTOSHI KOBAYASHI
President

Financial Section

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Six-Year Summary

KOSÉ Corporation and Consolidated Subsidiaries

Years ended March 31, 2009, 2008, 2007, 2006, 2005 and 2004

| | Millions of yen | | | | | | Thousands of U.S. dollars |
|---|-----------------|-----------|-----------|-----------|-----------|-----------|------------------------------|
| | 2009 | 2008 | 2007 | 2006 | 2005 | 2004 | 2009 |
| Performance: | | | | | | | |
| Net sales..... | ¥ 178,121 | ¥ 180,222 | ¥ 176,390 | ¥ 177,810 | ¥ 169,913 | ¥ 160,641 | \$1,817,561 |
| Gross profit..... | 132,841 | 134,918 | 131,731 | 134,696 | 128,691 | 122,425 | 1,355,520 |
| SG&A expenses..... | 120,538 | 119,730 | 118,001 | 115,135 | 110,140 | 104,501 | 1,229,980 |
| Operating income | 12,303 | 15,187 | 13,730 | 19,561 | 18,550 | 17,923 | 125,541 |
| Interest and dividend income | 473 | 445 | 264 | 301 | 235 | 388 | 4,827 |
| Income before income taxes and minority interests..... | 11,261 | 14,477 | 14,466 | 18,701 | 18,264 | 18,082 | 114,908 |
| Net income | 4,742 | 6,900 | 6,895 | 9,986 | 9,411 | 8,941 | 48,388 |
| Cash and cash equivalents | 39,073 | 34,093 | 31,121 | 31,404 | 26,083 | 24,081 | 398,704 |
| Current assets | 100,760 | 100,502 | 101,065 | 101,613 | 93,756 | 84,243 | 1,028,163 |
| Total assets..... | 166,920 | 172,128 | 171,638 | 171,975 | 165,886 | 158,092 | 1,703,265 |
| Current liabilities..... | 37,199 | 40,145 | 40,052 | 40,556 | 41,377 | 38,649 | 379,582 |
| Long-term debt..... | — | — | — | 1,500 | — | 1,500 | — |
| Shareholders' equity | 98,988 | 99,027 | 97,490 | 94,809 | 88,316 | 80,736 | 1,010,082 |
| Interest-bearing debt..... | 4,593 | 4,824 | 6,202 | 6,766 | 4,864 | 6,039 | 46,867 |
| Depreciation and amortization..... | 5,593 | 5,452 | 5,135 | 4,996 | 4,002 | 3,738 | 57,071 |
| Capital expenditures | 6,622 | 5,804 | 4,014 | 7,347 | 7,350 | 6,934 | 67,571 |
| Cash flow..... | 10,335 | 12,352 | 12,030 | 14,982 | 13,413 | 12,679 | 105,459 |

Per Share Data:

| | Yen | | | | | | U.S. dollars |
|---------------------------------|----------|----------|----------|----------|----------|----------|--------------|
| Net income | | | | | | | |
| Basic..... | ¥ 81.55 | ¥ 115.50 | ¥ 114.22 | ¥ 180.00 | ¥ 186.51 | ¥ 194.68 | \$ 0.83 |
| Adjusted for stock splits | 81.55 | 115.50 | 114.22 | 163.64 | 154.14 | 146.27 | 0.83 |
| Net assets | 1,699.92 | 1,693.55 | 1,636.44 | 1,730.68 | 1,762.91 | 1,772.23 | 17.35 |
| Cash dividends | 40.00 | 40.00 | 40.00 | 40.00 | 34.00 | 32.00 | 0.41 |

Financial Ratios:

| | % | | | | | |
|-------------------------------|-------|-------|-------|-------|-------|-------|
| Equity ratio..... | 59.1% | 58.1% | 57.3% | 55.5% | 53.2% | 51.1% |
| Debt-to-equity ratio..... | 4.7 | 4.8 | 6.3 | 7.1 | 5.5 | 7.5 |
| ROE..... | 4.8 | 7.0 | 7.1 | 10.9 | 11.1 | 11.6 |
| ROA..... | 7.5 | 9.1 | 8.1 | 11.8 | 11.6 | 11.7 |
| Gross profit margin | 74.6 | 74.9 | 74.7 | 75.8 | 75.7 | 76.2 |
| Net income to net sales | 2.7 | 3.8 | 3.9 | 5.6 | 5.5 | 5.6 |
| Payout ratio | 49.0 | 34.6 | 35.0 | 22.2 | 18.2 | 16.3 |

Notes: 1. The U.S. dollar amounts are translated, for convenience only, at the rate of ¥98 = US\$1, the approximate rate of exchange on March 31, 2009.

2. Shareholders' equity prior to the fiscal year ended March 31, 2005 includes total valuation, translation adjustments and other.

Shareholders' equity ratio, per share net assets and debt-to-equity ratio are calculated including total valuation, translation adjustments and other.

Cash flow = Net income + depreciation and amortization

ROE = Net income / (yearly average of total shareholders' equity + yearly average of total valuation, translation adjustments and other) x 100

ROA = (Operating income + interest and dividend income) / yearly average of total assets x 100

Management's Discussion and Analysis

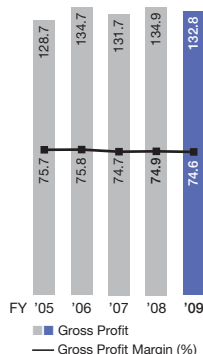
SUMMARY

During fiscal 2009, ended March 31, 2009, accompanying the deceleration in the world economy triggered by the financial crisis overseas, the Japanese economy experienced major deterioration, as a result of the major decline in corporate profitability along with the adverse impact on consumer spending resulting from uncertainty regarding future conditions. In the cosmetic industry, according to data for calendar 2008 issued by Japan's Ministry of Economy, Trade and Industry, both unit sales and sales in value terms decreased.

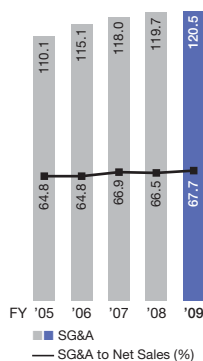
Amid this market environment, the KOSÉ Group moved forward with the implementation of its original brand marketing strategy and responded flexibly to the increasingly diverse needs of the market and customers. To this end, the Group worked to allocate its resources optimally, increase management efficiency, and strengthen profitability.

As a result of these and other factors, including a weakening of consumer spending along with the deterioration in market conditions and the adverse impact of the appreciation of the yen, consolidated net sales declined ¥2.1 billion, or 1.2%, to ¥178.1 billion (US\$1,818 million). After excluding the effect of currency factors on overseas sales, consolidated net sales were 0.2% lower than for the previous fiscal year. By geographical area, sales outside Japan rose ¥0.7 billion, or 4.0%, to ¥19.1 billion (US\$195 million), and accounted for 10.7% of consolidated net sales, 0.5 percentage point higher than in the prior fiscal year. Regarding earnings, as a result of an increase in the cost of sales ratio, expenses related to the relocation of the head office to new premises, and other factors, operating income declined ¥2.9 billion, or 19.0%, to ¥12.3 billion (US\$126 million). Net income decreased ¥2.2 billion, or 31.3%, to ¥4.7 billion (US\$48 million).

Gross Profit and Gross Profit Margin (Billions of yen)



SG&A and SG&A to Net Sales (Billions of yen)



Results by Business Segment

■ Cosmetics Business

In the cosmetics business in Japan, in addition to working to build the value of its high-quality brands in cosmetic specialty stores and department stores, KOSÉ placed emphasis on strengthening its counseling services, introducing *SEKKISEI SUPREME*, and expanding the number of stores handling its *INFINITY* line of cosmetics. Those brands and *JILLSTUART* reported strong sales. However, performance overall reflected the difficult operating conditions. One of the main causes was the decline in revenues from makeup products in major brand lines that are sold through a range of sales channels.

Overseas, KOSÉ took initiatives to further develop its brand presence and introduced *JILLSTUART* products in Taiwan and Hong Kong. In addition, KOSÉ launched activities to expand cosmetic specialty store channels in China. As a result of those various activities, KOSÉ reported expansion in performance.

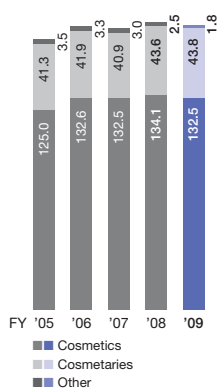
Due to the above factors, sales in the cosmetics business declined ¥1.6 billion, or 1.2%, to ¥132.5 billion (US\$1,352 million), and operating income decreased ¥1.6 billion, or 10.0%, to ¥14.6 billion (US\$149 million).

■ Cosmetaries Business

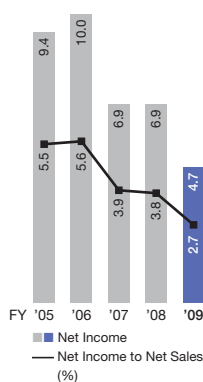
In this business, KOSÉ worked to revitalize its brands, including implementation of renewals for major brands and aggressive advertising and sales promotion activities. KOSÉ also introduced a new skin-care brand, *NATURE & CO*, and carried out other measures to expand its customer base.

As a consequence, although retail store reform measures had some impact, sales in the cosmetaries business only rose ¥0.3 billion, or 0.6%, to ¥43.8 billion (US\$447 million),

Net Sales by Segment
(Billions of yen)



Net Income and Net Income to Net Sales
(Billions of yen)



and, owing to increases in marketing expenses and other factors, operating income decreased ¥1.2 billion, or 90.2%, to ¥0.1 billion (US\$1 million).

■ Other Business

Within this segment, while sales in the special order division, which are distributed mainly through sales agents, increased, on-order manufacturing of OEM products decreased.

In part as a result of the sale of two subsidiaries in this business segment, sales declined ¥0.7 billion, or 29.4%, to ¥1.8 billion (US\$18 million), but operating income increased ¥42 million, or 10.6%, to ¥0.4 billion (US\$5 million).

Cost of Sales and Operating Expenses

The cost of sales amounted to ¥45.3 billion (US\$462 million), which was virtually level with the previous fiscal year, and the cost of sales ratio rose 0.3 percentage point, to 25.4%. This rise was due to changes in the composition of sales and an increase in disposal costs.

Selling, general and administrative (SG&A) expenses increased ¥0.8 billion, or 0.7%, to ¥120.5 billion (US\$1,230 million). Although KOSÉ implemented aggressive sales activities, including advertising and sales promotion for new products and upgraded items, expenditures for advertising and sales promotion declined ¥0.8 billion, or 1.7%, to ¥46.4 billion (US\$473 million), as a consequence of measures to use these expenditures more efficiently. As a result, the ratio of advertising and promotional expenditures to net sales declined 0.2 percentage point, to 26.0%. Personnel expenses rose ¥0.4 billion, or 1.0%, to ¥43.8 billion (US\$447 million), because of the higher personnel costs of beauty counseling staff and other factors. The ratio of personnel expenses to net sales rose 0.5 percentage point, to 24.6%. (Please note that welfare and education expenditures, which were formerly included in personnel costs, have been included in administrative expenses from the fiscal year under review. Comparisons with previous fiscal years were made after making appropriate adjustments.) In addition to the previously mentioned factors, additional costs were incurred in connection with the relocation of the head office. Owing to these various factors, the ratio of SG&A expenses to net sales rose 1.2 percentage points, to 67.7%.

Other Income and Expenses

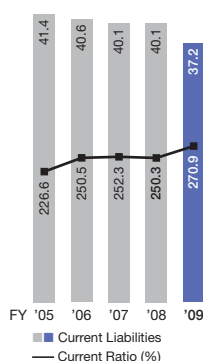
The principal changes in other income and expenses during the fiscal year under review were as follows. KOSÉ reported ¥0.5 billion (US\$5 million) in interest and dividend income for the year, but the Company reported a foreign exchange loss of ¥0.9 billion (US\$9 million) because of the increase in the value of the yen, a loss on the disposal of noncurrent assets of ¥0.4 billion (US\$4 million), a valuation loss on investment securities of ¥0.3 billion (US\$3 million), and an impairment loss of ¥0.2 billion (US\$2 million). As a consequence of these and other factors, net other income and expenses amounted to a loss of ¥1.0 billion (US\$11 million).

FINANCIAL CONDITION

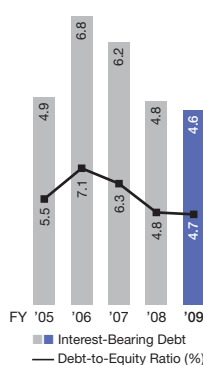
■ Assets and Liabilities

Current assets increased ¥0.3 billion, or 0.3%, to ¥100.8 billion (US\$1,028 million), as cash and cash equivalents rose ¥5.0 billion while time deposits and short-term investment in securities declined ¥4.6 billion.

Current Liabilities and Current Ratio
(Billions of yen)



Interest-Bearing Debt and Debt-to-Equity Ratio
(Billions of yen)



Investments and long-term advances declined ¥4.7 billion, or 29.6%, to ¥11.2 billion (US\$115 million), owing mainly to a decrease in investments in securities of ¥5.2 billion.

Tangible fixed assets rose ¥0.5 billion, or 1.2%, to ¥39.3 billion (US\$401 million), owing to investments in construction of a training center, equipment for the head office, and other items as well as the overall advanced state of depreciation of facilities.

Current liabilities were down ¥2.9 billion, or 7.3%, to ¥37.2 billion (US\$380 million), as a consequence of a decrease in accrued income taxes of ¥1.7 billion owing to a decline in the level of taxable income, lower consumption and other taxes payable accompanying the decline in net sales, smaller provisions to the returned merchandise adjustment reserve, and other factors.

Fixed liabilities were down ¥1.7 billion, or 6.2%, to ¥25.3 billion (US\$258 million), because of a decline in the reserve for retirement benefits and other factors. Note that the balance of interest-bearing debt at fiscal year-end was ¥4.6 billion (US\$47 million), and the debt-to-equity ratio was 4.7%.

As a result of the previously mentioned factors, the current ratio on a consolidated basis was 270.9% and the quick ratio was 194.5%, up 20.6 percentage points and 13.4 percentage points, respectively.

■ Shareholders' Equity

Total shareholders' equity at the end of the fiscal year stood at ¥99.0 billion (US\$1,010 million), approximately the same as at the previous fiscal year-end. Although retained earnings rose ¥2.4 billion, to ¥95.0 billion (US\$969 million), treasury stock rose ¥2.4 billion, to ¥7.2 billion (US\$74 million), following the purchase of outstanding Company shares.

■ Performance Indicators

The operating income margin, a key performance indicator for the KOSÉ Group, declined 1.5 percentage points, to 6.9%. In addition, the ROA decreased 1.6 percentage points, to 7.5%.

Note: ROA = (Operating income + interest and dividend income) / yearly average of total assets x 100

■ Financing

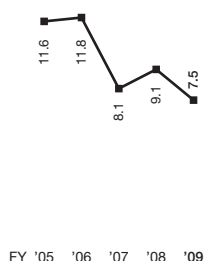
The KOSÉ Group had sufficient capital to conduct business operations during the fiscal year ended March 31, 2009. Regarding the use of funds going forward, retained earnings will be used to strengthen the Company's financial position and fund capital expenditures as well as for mergers and acquisitions that can generate future cash flows and thereby improve the efficiency of capital utilization. Funds not required for the immediate needs of the business will be invested in a manner that places priority on the safety of the principal.

Cash Flows

Net cash provided by operating activities was ¥8.9 billion (US\$91 million). The major components contributing to the operating cash flow were income before income taxes and minority interests of ¥11.3 billion (US\$115 million), depreciation and amortization (which are not accompanied by cash flows) of ¥5.6 billion (US\$57 million), a decrease in the provision for retirement benefits of ¥1.9 billion (US\$20 million), an increase in inventories of ¥1.1 billion (US\$11 million), an increase in notes and accounts payable—trade of ¥0.9 billion (US\$10 million), and income taxes paid of ¥6.6 billion (US\$67 million).

Net cash provided by investing activities was ¥1.9 billion (US\$19 million). This was mainly due to a net decrease in time deposits and short-term investments in securities of ¥5.2 billion (US\$53 million), purchase of property, plant and equipment, including expenses for the construction of a training center and facilities for the new head office,

ROA (%)



of ¥5.8 billion (US\$59 million), purchase of intangible assets of ¥1.1 billion (US\$11 million), and net inflow from investment securities (purchase of investment securities and proceeds from sales and redemption of investment securities) of ¥4.2 billion (US\$43 million).

Net cash used in financing activities was ¥5.2 billion (US\$53 million). This was mainly the result of the net increase in treasury stock of ¥2.4 billion (US\$25 million), cash dividends paid of ¥2.4 billion (US\$25 million), and other factors.

As a result of these cash flows, the balance of cash and cash equivalents on a consolidated basis at the end of the fiscal year amounted to ¥39.1 billion (US\$399 million), which was ¥5.0 billion, or 14.6%, higher than at the end of the previous fiscal year.

BUSINESS AND OTHER RISKS

The following explanations of risk factors 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 KOSÉ that can influence the decision making of investors. This is not meant to be a complete list of potential risks.

1. Business Activities

Based on its sales strategies for Japan, KOSÉ sells products through retail stores, department stores, general merchandise stores, and other sales channels via consolidated subsidiaries KOSÉ SALES CO., LTD., and KOSÉ COSMEPORT CORP. as well as other Group companies.

To strengthen the marketing capabilities of Group sales companies, KOSÉ assigns its own employees to work at these companies and sends full- and part-time advisers to provide counseling-based sales services at retail stores. The sale of cosmetics requires a thorough understanding of each customer's complexion, personal preferences, and other matters. Due to the need to offer this type of counseling at retail stores, KOSÉ places importance on recruiting and training beauty advisers. Consequently, as a rule, beauty advisers are hired directly as full-time employees of KOSÉ rather than by the Group's sales subsidiaries.

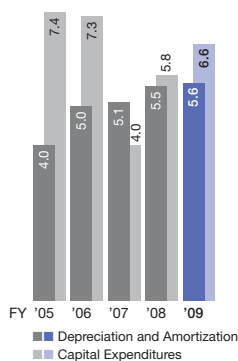
■ Competition among Group Companies

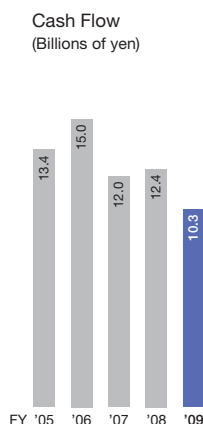
KOSÉ owns 79.3% of the equity of consolidated subsidiary ALBION CO., LTD. As a manufacturer and marketer of luxury cosmetics, ALBION is one of the KOSÉ Group's most important companies. ALBION has highly distinctive sales strategies and sells products that overlap with some of the luxury brand product categories of KOSÉ. As a result, there is some competition between KOSÉ and ALBION. KOSÉ believes that the preservation of ALBION's highly distinctive sales strategies is vital to the future growth of that company as well as the growth of the entire KOSÉ Group. Consequently, the current sales strategies of ALBION will be continued.

■ Overseas Operations

The KOSÉ Group is primarily engaged in the manufacture and sale of cosmetic products in Japan and other countries. Most of the Group's resources, including personnel, capital, and property and equipment, are in Japan. However, the Group's policy is to expand operations in markets with growth potential, such as China and other Asian

Depreciation and Amortization and Capital Expenditures (Billions of yen)





countries. These overseas businesses expose the Group to risks associated with unforeseen revisions to laws and regulations, political instability, labor problems, infrastructure disruptions, social unrest caused by terrorism, and other risks.

2. Japan's Cosmetic Market

The volume of shipments in Japan's cosmetic market has been flat for a number of years, but new entrants have entered the market from other industries, and, as a result, competition has intensified. Further challenges are posed in Japan by difficulties faced by specialty cosmetic stores due to such factors as the shortage of successors for aging store owners and persons to replace store owners who are exiting their businesses as well as rapid changes in sales channels along with the formation of alliances and business reorganizations. These factors could have a significant impact on the Group's business strategies.

3. Regulatory Environment

■ Regulation under the Pharmaceutical Affairs Law

In Japan, approval is required under the Pharmaceutical Affairs Law to manufacture and sell medicated cosmetics and cosmetic products. KOSÉ and its Group companies have fulfilled these requirements, but approvals must be renewed every five years. However, when there are violations of legal regulations, orders may be issued to cease all or a portion of business operations, or relevant licenses may be cancelled. Moreover, when certain manufacturing facilities do not meet the standards set by the Japanese Ministry of Health, Labour and Welfare, use of these facilities may be prohibited.

■ Administrative Guidance by Government Authorities

The KOSÉ Group selects ingredients used in its medicated cosmetic and cosmetic products after conducting stringent examinations to ensure legality. However, the Group may be forced to stop using certain ingredients because of the discovery of detrimental effects on health and the environment, or their use may be banned through administrative guidance. In such circumstances, the KOSÉ Group may have to terminate the launch of a new product, either due to an order from a regulatory agency or on a voluntary basis, or recall products already on the market.

■ Product Liability Law and Other Laws

The KOSÉ Group does business in Japan and a number of other countries. These activities are subject to product liability laws and other laws and regulations of these countries. In Japan, KOSÉ follows the regulations of the antimonopoly, patent, and consumer protection laws. The Company is also required to meet its obligations under laws related to the handling of chemical substances and other aspects of its business activities. Overseas, KOSÉ must comply with export restrictions, tariffs, and other import regulations and product ingredient regulations particular to each country in which it conducts business operations. KOSÉ constantly collects the latest information concerning these laws and regulations to take actions needed to ensure compliance. In the event, however, that the KOSÉ Group is judged not to be in compliance with a regulation or the Company is unable to adapt to a change in a regulation, the Group may not only incur additional expenses but also may have difficulty conducting its business activities.

4. Intellectual Property

■ Limits to Protection of Intellectual Property

The KOSÉ Group retains a certain volume of intellectual property to develop products that are differentiated from those of competitors and to maintain the competitive advantages of those products. It is impossible, however, to completely prevent unforeseen acts of misappropriation of technology or imitations of its products. Consequently, it is possible that business activities could be affected by the erosion of markets for the KOSÉ Group's products as a result of the theft of technology or the development of products imitating those of the Company.

■ Infringement of Patents of Other Companies

The KOSÉ Group conducts stringent examinations of existing patents related to the products that it manufactures and sells to be certain that products incorporate no technologies that infringe on the patents of other companies. A patent infringement may occur, however, because it is not possible in practice to examine all existing patents. If an infringement is discovered, the KOSÉ Group will try to resolve the problem through negotiations with the patent holder to obtain a cross-licensing agreement or reach another solution. In some cases, technologies may be changed to avoid the infringement issue. Such infringement, however, may result in unforeseen expenses if the KOSÉ Group has to change its product specifications, recall products, and/or take other actions. Furthermore, if the patent holder is the first to discover the infringement, KOSÉ could not only receive a warning but also be subject to an order to cease manufacture of the products in question and pay damages.

Comparable risks exist with regard to trademarks. Before applying for approval of a trademark, KOSÉ conducts an examination to verify that no similar trademarks have been registered. In practice, however, this process usually occurs after the trademark is already being used. Since there is a delay of approximately six months between the filing of an application for a trademark and its public announcement, the possibility exists that a KOSÉ product will infringe on a trademark while a product is in the planning stages. Since Japan's trademark laws follow the principle of first to file, waiting to use a trademark until after the registration process has been completed is the most effective way of avoiding this risk. In actual business practice, however, this is not practical. In the event of a trademark infringement, the situation must be resolved through negotiations with the first-to-file party.

5. Procurement of Raw Materials

To obtain adequate supplies of raw materials at appropriate prices and on a timely basis, the KOSÉ Group diversifies its sources of raw materials essential to manufacture its products and maintains good relationships with suppliers. However, in the event of delays or disruptions in the supply of these materials, or an increase in demand within the cosmetic industry, the Group may encounter difficulties in obtaining essential raw materials.

6. Computer Systems and Networks

The Company's primary computer systems are all located in a centralized information center to secure the effective utilization of information and the efficient management of related operating expenses. To prevent interruptions in operations, there are built-in redundancies in servers and other hardware, as well as network connections to provide

a reliable backup system. Furthermore, the computer center is equipped with fire prevention and other safety systems to ensure stable operations.

Nevertheless, the Group may encounter difficulties in production, logistics, order processing, and other functions that are handled by its primarily computer systems if operation is disrupted because of fires or other accidents, unexpected malfunctions, or other circumstances that may disrupt the normal operation of computer systems.

7. Information Management

The KOSÉ Group manages personal, R&D, and other 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. Moreover, the server that stores personal information of individuals who use the KOSÉ Web site is protected by stringent access restrictions and is a stand-alone system physically separate from KOSÉ's internal network that prevents access by all persons, including KOSÉ employees, who do not have authorization to view this information. A leakage of confidential information due to whatever cause, however, could affect business operations because of the possible need to pay compensation and/or the damage such leakages may do to the KOSÉ Group's reputation.

R&D information is managed in the same strict manner. In the event of a leakage of information, business operations could be affected by an unauthorized use of the information or the development of a comparable technology by a third party.

8. Disasters

The primary manufacturing centers of the KOSÉ Group in Japan are KOSÉ's factories in Saitama and Gunma prefectures and the ALBION plant in Saitama Prefecture. Overseas, the Group operates plants in China and Taiwan. Since each of these plants manufactures different products, there are limited possibilities for replacing the output of one particular factory with that of another. Consequently, in the event of fire or other incident that reduces or stops production at a particular plant, the supply of certain products could be interrupted. Moreover, natural disasters, traffic accidents, and other adverse events could prevent the Company's logistics systems from functioning adequately.

The KOSÉ Group conducts R&D activities at the KOSÉ Research Laboratory and Technical Information Management Center, which are both located in Tokyo's Kita Ward, as well as the Fundamental Research Laboratory in Tokyo's Itabashi Ward. In the event of a disaster or other unforeseen circumstances that may result in the impairment or suspension of the activities of these research centers, there could be a disruption of R&D activities.

9. New Strains of Influenza

In the case of the emergence of new strains of influenza or other epidemic diseases with a major impact on society, the KOSÉ Group—because its business activities involve daily contact with customers and business partners—may have to limit its contact with customers and its marketing activities. In addition, if stores carrying KOSÉ products close, or otherwise suspend their operations, such circumstances could have an effect on KOSÉ's performance in Japan and overseas.

Consolidated Balance Sheets

KOSÉ Corporation and Consolidated Subsidiaries
At March 31, 2009 and 2008

| Assets | Millions of yen | | Thousands of U.S. dollars (Note 3) |
|---|-----------------|----------|---------------------------------------|
| | 2009 | 2008 | 2009 |
| Current assets: | | | |
| Cash and cash equivalents | ¥ 39,073 | ¥ 34,093 | \$ 398,704 |
| Time deposits and short-term investments in securities (Note 5) | 9,248 | 13,888 | 94,367 |
| Notes and accounts receivable—trade..... | 24,044 | 24,735 | 245,347 |
| Allowance for doubtful accounts | (283) | (276) | (2,888) |
| Inventories (Note 4) | 21,846 | 21,299 | 222,918 |
| Deferred tax assets—current (Note 9) | 4,637 | 4,725 | 47,316 |
| Other | 2,194 | 2,035 | 22,388 |
| Total current assets..... | 100,760 | 100,502 | 1,028,163 |
| Investments and long-term advances: | | | |
| Investments in and advances to unconsolidated subsidiaries and affiliates | 20 | 20 | 204 |
| Investment securities (Note 5) | 7,938 | 13,141 | 81,000 |
| Other | 3,615 | 3,070 | 36,888 |
| Allowance for doubtful accounts | (326) | (246) | (3,327) |
| Total investments and long-term advances | 11,247 | 15,985 | 114,765 |
| Property, plant and equipment (Note 6): | | | |
| Land (Note 8) | 17,701 | 17,773 | 180,622 |
| Buildings and structures (Note 8) | 31,367 | 28,420 | 320,071 |
| Machinery and equipment..... | 39,894 | 39,329 | 407,082 |
| Leased assets..... | 114 | — | 1,163 |
| Construction in progress..... | 214 | 1,326 | 2,184 |
| | 89,290 | 86,848 | 911,122 |
| Accumulated depreciation..... | (49,994) | (48,017) | (510,143) |
| Total property, plant and equipment | 39,296 | 38,831 | 400,980 |
| Other assets: | | | |
| Intangible assets | 3,006 | 3,548 | 30,673 |
| Deferred tax assets—noncurrent (Note 9)..... | 12,610 | 13,260 | 128,673 |
| Total other assets..... | 15,616 | 16,808 | 159,347 |
| Total assets..... | ¥166,920 | ¥172,128 | \$1,703,265 |

See accompanying notes to consolidated financial statements.

| Liabilities and net assets | Millions of yen | | Thousands of U.S. dollars (Note 3) |
|--|-----------------|----------|---------------------------------------|
| | 2009 | 2008 | 2009 |
| Current liabilities: | | | |
| Short-term loans payable (Notes 7 and 8) | ¥ 4,485 | ¥ 4,824 | \$ 45,765 |
| Notes and accounts payable—trade | 14,187 | 14,002 | 144,765 |
| Income taxes payable (Note 9) | 1,978 | 3,711 | 20,184 |
| Lease obligations | 28 | — | 286 |
| Other (Note 10) | 16,518 | 17,604 | 168,551 |
| Total current liabilities | 37,199 | 40,145 | 379,582 |
| Noncurrent liabilities: | | | |
| Long-term lease obligations | 79 | — | 806 |
| Provision for retirement benefits (Note 11) | 21,279 | 23,197 | 217,133 |
| Provision for directors' retirement benefits | 3,845 | 3,649 | 39,235 |
| Other | 48 | 87 | 490 |
| Total noncurrent liabilities | 25,252 | 26,935 | 257,673 |
| Commitments and contingent liabilities (Note 16) | | | |
| Net assets | | | |
| Shareholders' equity (Note 12): | | | |
| Common stock, without par value: | | | |
| Authorized: 200,000,000 shares in 2009 and 2008 | | | |
| Issued: 60,592,541 shares in 2009 and 2008 | 4,848 | 4,848 | 49,469 |
| Capital surplus | 6,390 | 6,391 | 65,204 |
| Retained earnings | 94,977 | 92,577 | 969,153 |
| Treasury stock, at cost: 2,544,823 shares in 2009 and 1,544,258 shares in 2008 ... | (7,228) | (4,789) | (73,755) |
| Total shareholders' equity | 98,988 | 99,027 | 1,010,082 |
| Valuation and translation adjustments: | | | |
| Valuation difference on available-for-sale securities | 145 | 230 | 1,480 |
| Foreign currency translation adjustment | (456) | 743 | (4,653) |
| Total valuation and translation adjustments | (311) | 973 | (3,173) |
| Minority interests | 5,791 | 5,047 | 59,092 |
| Total net assets | 104,468 | 105,048 | 1,066,000 |
| Total liabilities and net assets | ¥166,920 | ¥172,128 | \$1,703,265 |

Consolidated Statements of Income

KOSÉ Corporation and Consolidated Subsidiaries
Years ended March 31, 2009, 2008 and 2007

| | Millions of yen | | | Thousands of U.S. dollars (Note 3) |
|---|-----------------|----------|----------|---------------------------------------|
| | 2009 | 2008 | 2007 | 2009 |
| Net sales | ¥178,121 | ¥180,222 | ¥176,390 | \$1,817,561 |
| Cost of sales | 45,279 | 45,304 | 44,659 | 462,031 |
| Gross profit | 132,841 | 134,918 | 131,731 | 1,355,520 |
| Selling, general and administrative expenses (Notes 13 and 15) | 120,538 | 119,730 | 118,001 | 1,229,980 |
| Operating income | 12,303 | 15,187 | 13,730 | 125,541 |
| Other income (expenses): | | | | |
| Interest expense | (82) | (77) | (65) | (837) |
| Interest and dividend income | 473 | 445 | 264 | 4,827 |
| Foreign exchange (loss) gain | (869) | (853) | 243 | (8,867) |
| Gain (loss) on sales or disposal of noncurrent assets..... | (381) | 28 | (333) | (3,888) |
| Impairment loss | (154) | (27) | — | (1,571) |
| Gain on sales of investment securities (Note 5)..... | 36 | 10 | — | 367 |
| Loss on valuation of investment securities..... | (336) | (158) | — | (3,429) |
| Other, net..... | 271 | (79) | 626 | 2,765 |
| | (1,042) | (711) | 735 | (10,633) |
| Income before income taxes and minority interests | 11,261 | 14,477 | 14,466 | 114,908 |
| Income taxes (Note 9): | | | | |
| Current | (4,895) | (6,122) | (6,414) | (49,949) |
| Deferred..... | (796) | (430) | (325) | (8,122) |
| | (5,691) | (6,552) | (6,739) | (58,071) |
| Minority interests | (827) | (1,023) | (832) | (8,439) |
| Net income (Note 19) | ¥ 4,742 | ¥ 6,900 | ¥ 6,895 | \$ 48,388 |

See accompanying notes to consolidated financial statements.

Consolidated Statements of Changes in Net Assets

KOSÉ Corporation and Consolidated Subsidiaries
Years ended March 31, 2009, 2008 and 2007

| | Millions of yen | | | | | | | | | | |
|--|----------------------|-----------------|-------------------|----------------|----------------------------|---|------------------------------------|---|---|--------------------|------------------|
| | Shareholders' equity | | | | | Valuation and translation adjustments | | | | | |
| | Common stock | Capital surplus | Retained earnings | Treasury stock | Total shareholders' equity | Valuation difference on available-for-sale securities | Deferred gains or losses on hedges | Foreign currency translation adjustment | Total valuation and translation adjustments | Minority interests | Total net assets |
| Balance as of March 31, 2006 | ¥4,848 | ¥6,391 | ¥83,682 | ¥ (111) | ¥94,809 | ¥234 | ¥20 | ¥ 307 | ¥ 562 | ¥3,338 | ¥ 98,711 |
| Changes in fiscal year ended | | | | | | | | | | | |
| March 31, 2007: | | | | | | | | | | | |
| Dividends distributed from retained earnings | — | — | (1,211) | — | (1,211) | — | — | — | — | — | (1,211) |
| Dividends distributed from retained earnings (interim dividends) | — | — | (1,211) | — | (1,211) | — | — | — | — | — | (1,211) |
| Bonuses to directors and statutory auditors | — | — | (76) | — | (76) | — | — | — | — | — | (76) |
| Net income | — | — | 6,895 | — | 6,895 | — | — | — | — | — | 6,895 |
| Purchase of treasury stock | — | — | — | (1,717) | (1,717) | — | — | — | — | — | (1,717) |
| Disposal of treasury stock | — | 0 | — | 1 | 1 | — | — | — | — | — | 1 |
| Net changes in items other than shareholders' equity | — | — | — | — | — | 112 | (15) | 116 | 213 | 756 | 969 |
| Total changes in fiscal year ended | | | | | | | | | | | |
| March 31, 2007 | — | 0 | 4,396 | (1,716) | 2,680 | 112 | (15) | 116 | 213 | 756 | 3,650 |
| Balance as of March 31, 2007 | ¥4,848 | ¥6,391 | ¥88,078 | ¥(1,827) | ¥97,490 | ¥347 | ¥ 4 | ¥ 424 | ¥ 776 | ¥4,094 | ¥102,362 |
| Changes in fiscal year ended | | | | | | | | | | | |
| March 31, 2008: | | | | | | | | | | | |
| Dividends distributed from retained earnings | — | — | (1,200) | — | (1,200) | — | — | — | — | — | (1,200) |
| Dividends distributed from retained earnings (interim dividends) | — | — | (1,200) | — | (1,200) | — | — | — | — | — | (1,200) |
| Net income | — | — | 6,900 | — | 6,900 | — | — | — | — | — | 6,900 |
| Purchase of treasury stock | — | — | — | (2,961) | (2,961) | — | — | — | — | — | (2,961) |
| Disposal of treasury stock | — | (0) | — | 0 | 0 | — | — | — | — | — | 0 |
| Net changes in items other than shareholders' equity | — | — | — | — | — | (117) | (4) | 318 | 196 | 952 | 1,149 |
| Total changes in fiscal year ended | | | | | | | | | | | |
| March 31, 2008 | — | (0) | 4,498 | (2,961) | 1,536 | (117) | (4) | 318 | 196 | 952 | 2,686 |
| Balance as of March 31, 2008 | ¥4,848 | ¥6,391 | ¥92,577 | ¥(4,789) | ¥99,027 | ¥230 | ¥— | ¥ 743 | ¥ 973 | ¥5,047 | ¥105,048 |
| Changes in fiscal year ended | | | | | | | | | | | |
| March 31, 2009: | | | | | | | | | | | |
| Dividends from surplus | — | — | (2,341) | — | (2,341) | — | — | — | — | — | (2,341) |
| Net income | — | — | 4,742 | — | 4,742 | — | — | — | — | — | 4,742 |
| Purchase of treasury stock | — | — | — | (2,441) | (2,441) | — | — | — | — | — | (2,441) |
| Disposal of treasury stock | — | (0) | — | 1 | 1 | — | — | — | — | — | 1 |
| Net changes in items other than shareholders' equity | — | — | — | — | — | (84) | — | (1,200) | (1,284) | 744 | (540) |
| Total changes in fiscal year ended | | | | | | | | | | | |
| March 31, 2009 | — | (0) | 2,400 | (2,439) | (39) | (84) | — | (1,200) | (1,284) | 744 | (580) |
| Balance as of March 31, 2009 | ¥4,848 | ¥6,390 | ¥94,977 | ¥(7,228) | ¥98,988 | ¥145 | ¥— | ¥ (456) | ¥ (311) | ¥5,791 | ¥104,468 |

| | Thousands of U.S. dollars (Note 3) | | | | | | | | | | |
|--|------------------------------------|-----------------|-------------------|----------------|----------------------------|---|------------------------------------|---|---|--------------------|------------------|
| | Shareholders' equity | | | | | Valuation and translation adjustments | | | | | |
| | Common stock | Capital surplus | Retained earnings | Treasury stock | Total shareholders' equity | Valuation difference on available-for-sale securities | Deferred gains or losses on hedges | Foreign currency translation adjustment | Total valuation and translation adjustments | Minority interests | Total net assets |
| Balance as of March 31, 2008 | \$49,469 | \$65,214 | \$944,663 | \$(48,867) | \$1,010,480 | \$2,347 | \$— | \$ 7,582 | \$ 9,929 | \$51,500 | \$1,071,918 |
| Changes in fiscal year ended | | | | | | | | | | | |
| March 31, 2009: | | | | | | | | | | | |
| Dividends from surplus | — | — | (23,888) | — | (23,888) | — | — | — | — | — | (23,888) |
| Net income | — | — | 48,388 | — | 48,388 | — | — | — | — | — | 48,388 |
| Purchase of treasury stock | — | — | — | (24,908) | (24,908) | — | — | — | — | — | (24,908) |
| Disposal of treasury stock | — | (0) | — | 10 | 10 | — | — | — | — | — | 10 |
| Net changes in items other than shareholders' equity | — | — | — | — | — | (857) | — | (12,245) | (13,102) | 7,592 | (5,510) |
| Total changes in fiscal year ended | | | | | | | | | | | |
| March 31, 2009 | — | (0) | 24,490 | (24,888) | (398) | (857) | — | (12,245) | (13,102) | 7,592 | (5,918) |
| Balance as of March 31, 2009 | \$49,469 | \$65,204 | \$969,153 | \$(73,755) | \$1,010,082 | \$1,480 | \$— | \$ (4,653) | \$ (3,173) | \$59,092 | \$1,066,000 |

See accompanying notes to consolidated financial statements.

Consolidated Statements of Cash Flows

KOSÉ Corporation and Consolidated Subsidiaries
Years ended March 31, 2009, 2008 and 2007

| | Millions of yen | | | Thousands of U.S. dollars (Note 3) |
|--|-----------------|----------------|----------------|---------------------------------------|
| | 2009 | 2008 | 2007 | 2009 |
| Net cash provided by (used in) operating activities: | | | | |
| Income before income taxes and minority interests | ¥11,261 | ¥14,477 | ¥14,466 | \$114,908 |
| Depreciation and amortization..... | 5,593 | 5,452 | 5,135 | 57,071 |
| Impairment loss | 154 | 27 | — | 1,571 |
| Increase (decrease) in allowance for doubtful accounts | 92 | (14) | (52) | 939 |
| Decrease in provision for retirement benefits | (1,918) | (2,472) | (2,159) | (19,571) |
| Increase in provision for directors' retirement benefits | 195 | 248 | 199 | 1,990 |
| Loss (gain) on disposal of noncurrent assets | 381 | (28) | 333 | 3,888 |
| Interest and dividend income | (473) | (445) | (264) | (4,827) |
| Interest expense | 82 | 77 | 65 | 837 |
| Foreign exchange loss (gain) | 606 | 71 | (136) | 6,184 |
| Gain on sales of investment securities..... | (36) | (47) | — | (367) |
| Loss on valuation of investment securities..... | 336 | 158 | — | 3,429 |
| Decrease (increase) in notes and accounts receivable—trade | (273) | 1,839 | 35 | (2,786) |
| Decrease (increase) in inventories..... | (1,075) | (89) | 1,577 | (10,969) |
| Increase in notes and accounts payable—trade | 938 | 1,396 | 16 | 9,571 |
| Other, net..... | (799) | (97) | (660) | (8,153) |
| Subtotal | 15,062 | 20,552 | 18,555 | 153,694 |
| Interest and dividend income received | 472 | 439 | 254 | 4,816 |
| Interest expenses paid | (80) | (100) | (59) | (816) |
| Other | 85 | 77 | 474 | 867 |
| Income taxes paid..... | (6,612) | (6,151) | (8,021) | (67,469) |
| Net cash provided by operating activities..... | 8,927 | 14,817 | 11,203 | 91,092 |
| Net cash provided by (used in) investing activities: | | | | |
| Decrease (increase) in time deposits and short-term investments in securities | 5,186 | 1,699 | (313) | 52,918 |
| Purchase of property, plant and equipment | (5,771) | (4,940) | (3,551) | (58,888) |
| Purchase of intangible assets..... | (1,120) | (83) | (524) | (11,429) |
| Purchase of investment securities | (1,640) | (2,590) | (3,019) | (16,735) |
| Proceeds from sales and redemption of investment securities..... | 5,817 | 112 | 516 | 59,357 |
| Decrease (increase) in other investments..... | (606) | 472 | (20) | (6,184) |
| Net cash provided by (used in) investing activities..... | 1,865 | (5,331) | (6,911) | 19,031 |
| Net cash provided by (used in) financing activities: | | | | |
| Net increase (decrease) in short-term loans payable..... | (317) | 128 | (559) | (3,235) |
| Repayment of long-term loans payable | — | (1,500) | — | — |
| Net increase in treasury stock | (2,440) | (2,961) | (1,716) | (24,898) |
| Cash dividends paid and other, net | (2,424) | (2,467) | (2,490) | (24,735) |
| Net cash used in financing activities | (5,183) | (6,800) | (4,766) | (52,888) |
| Effect of exchange rate changes on cash and cash equivalents | | | | |
| | (637) | 288 | 207 | (6,500) |
| Net increase (decrease) in cash and cash equivalents..... | 4,972 | 2,974 | (267) | 50,735 |
| Cash and cash equivalents at beginning of period | 34,093 | 31,119 | 31,386 | 347,888 |
| Cash and cash equivalents at end of period | ¥39,066 | ¥34,093 | ¥31,121 | \$398,633 |

See accompanying notes to consolidated financial statements.

Notes to Consolidated Financial Statements

1. Summary of Significant Accounting Policies

a. Basis of Preparation

The accompanying consolidated financial statements have been prepared from the accounts maintained by KOSÉ Corporation (the “Company”) and its consolidated subsidiaries in accordance with the provisions set forth in the Corporation Law of Japan and in conformity with accounting principles generally accepted in Japan, which are different in certain respects as to the application and disclosure requirements of International Financial Reporting Standards, and are compiled from the consolidated financial statements prepared by the Company as required by the Financial Instruments and Exchange Law of Japan.

As permitted by the Financial Instruments and Exchange Law, amounts of less than one million yen have been omitted. Consequently, the totals shown in the accompanying consolidated financial statements (both in yen and U.S. dollars) do not necessarily agree with the sum of the individual amounts.

Certain amounts in the prior years’ financial statements have been reclassified to conform to the current year’s presentation.

b. Basis of Consolidation

The accompanying consolidated financial statements include the accounts of the Company and all significant subsidiaries controlled directly or indirectly by the Company. The accounts of the consolidated subsidiaries are included on the basis of fiscal periods which end on, or three months prior to, March 31. All significant intercompany items have been eliminated in consolidation.

Investments in significant affiliates over which the Company exercises considerable influence in terms of their operating and financial policies are accounted for by the equity method.

The differences arising from the cost of the Company’s investments in subsidiaries and affiliates over the equity in their net assets at the dates of acquisition are amortized on a straight-line basis over their estimated useful lives or over a period of five years if the Company cannot precisely estimate the useful life. In cases where the differences are immaterial, they are charged to income when incurred. Assets and liabilities at the overseas consolidated subsidiaries are revalued at market.

Investments in other affiliates and unconsolidated subsidiaries, not significant in amount, are carried at cost or less. Where there has been permanent impairment in the value of its investments, the Company has written them down.

c. Foreign Currency Translation

Current and noncurrent monetary accounts denominated in foreign currencies of the Company and its domestic consolidated subsidiaries are translated into yen at the current exchange rates in effect at the balance sheet date.

The revenue and expense accounts of the overseas consolidated subsidiaries are translated into yen at the average exchange rates in effect during the year. The balance

sheet accounts of the overseas consolidated subsidiaries are translated into yen at the rates of exchange in effect at the balance sheet date except for the components of net assets excluding minority interests which are translated at their historical exchange rates.

d. Cash Equivalents

The Company considers all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents. Cash equivalents in the accompanying consolidated statements of cash flows exclude bank overdrafts of ¥6 million (\$61 thousand), nil and ¥1 million at March 31, 2009, 2008 and 2007, respectively, in accordance with current Japanese accounting standards.

e. Inventories

Inventories are stated at cost determined primarily by the average method. When their costs exceed the net realizable value, the costs over the net realizable value are recorded as cost.

Changes in Accounting Policy

Effective the year ended March 31, 2009, the Company and its consolidated subsidiaries adopted the "Accounting Standard for Measurement of Inventories" (Accounting Standards Board of Japan Statement No. 9, July 5, 2006). The impact on operating income and income before income taxes and minority interests was nil for the year ended March 31, 2009.

f. Securities

Securities, except for investments in unconsolidated subsidiaries and affiliates, are classified as trading securities, held-to-maturity securities or other securities. Trading securities are carried at fair value and held-to-maturity securities are carried at cost or amortized cost. Marketable securities classified as other securities are carried at fair value with any changes in unrealized holding gain or loss, net of the applicable income taxes, included directly in net assets. Non-marketable securities classified as other securities are carried at cost. Cost of securities sold is determined by the moving average method.

g. Fixed Assets

Property, plant and equipment are stated at cost. Depreciation of property, plant and equipment excluding leased assets at the Company and its domestic consolidated subsidiaries is calculated by the declining-balance method at rates based on the estimated useful lives of the respective assets ranging from 15 to 65 years for buildings and structures, except for buildings acquired on or subsequent to April 1, 1998 on which depreciation is calculated by the straight-line method, and from two to nine years for machinery and equipment. Depreciation of property, plant and equipment at the overseas consolidated subsidiaries is computed by the straight-line method. Maintenance

and minor repairs are charged to income as incurred; major renewals and improvements are capitalized.

Software development costs are amortized over an anticipated useful life of five years by the straight-line method. Intangible assets other than software development costs are amortized by the straight-line method over their respective estimated useful lives.

Depreciation of leased assets where the ownership is not transferred to the lessee is calculated by the straight-line method over the terms of the respective leases.

Changes in Accounting Policy

Effective April 1, 2008, the Company and its domestic consolidated subsidiaries have changed the estimated useful lives of certain machinery based on an amendment to the Corporation Tax Law of Japan for tangible fixed assets. The impact on operating income and income before income taxes and minority interests was immaterial for the year ended March 31, 2009.

Effective April 1, 2007, the Company and its domestic consolidated subsidiaries have changed their method of depreciation based on an amendment to the Corporation Tax Law of Japan for tangible fixed assets acquired on or after April 1, 2007. The impact on operating income and income before income taxes and minority interests was immaterial for the year ended March 31, 2008.

Effective April 1, 2007, the Company and its domestic consolidated subsidiaries have changed their method of depreciation based on an amendment to the Corporation Tax Law of Japan for tangible fixed assets acquired on or prior to March 31, 2007. Such tangible fixed assets are to be depreciated based on the difference between the equivalent of 5% of acquisition cost and memorandum value over a period of five years once they have been fully depreciated to the limits of their respective depreciable amounts effective April 1, 2007. The impact on operating income and income before income taxes and minority interests was immaterial for the year ended March 31, 2008.

h. Leases

Leases classified as finance leases of the Company and its domestic consolidated subsidiaries are accounted for as ordinary sales and purchases whether or not the ownership of the leased assets is transferred to the lessee.

Changes in Accounting Policy

Effective the year ended March 31, 2009, the Company and its consolidated subsidiaries adopted the "Accounting Standard for Lease Transactions" (Accounting Standards Board of Japan Statement No. 13, revised on March 30, 2007) and the "Guidance on Accounting Standard for Lease Transactions" (Accounting Standards Board of Japan Guidance No. 16, revised on March 30, 2007). The impact on operating income and income before income taxes and minority interests was immaterial for the year ended March 31, 2009.

However, lease transactions entered into prior to March 31, 2008 are accounted for as operating leases (whether such leases are classified as operating or finance leases).

i. Reserve for Returned Unsold Goods

The reserve for returned unsold goods included in “Other” under “Current liabilities” is provided at an estimated amount to cover anticipated losses on such goods at the Company and certain domestic consolidated subsidiaries.

j. Retirement Benefits

Accrued employees’ retirement benefits at the balance sheet date are provided primarily at an amount calculated based on the retirement benefit obligation and the fair value of the pension plan assets as of the balance sheet date as adjusted for unrecognized prior service cost and unrecognized actuarial gain or loss.

The retirement benefit obligation has been allocated to each period by the straight-line method over the estimated remaining years of service of the eligible employees.

Actuarial gain or loss is amortized in the year following the year in which the gain or loss is recognized primarily by the straight-line method over a period of 10 years which falls within the average remaining years of service of the participants in the plans.

In addition, subject to the shareholders’ approval, directors and corporate auditors of the Company and a certain consolidated subsidiary are customarily entitled to lump-sum payments under their respective unfunded severance benefit plans. The provision for severance benefits for those officers has been made at estimated amounts.

k. Income Taxes

Deferred tax assets and liabilities are determined based on the differences between financial reporting and the tax bases of the assets and liabilities and are measured using the enacted tax rates and laws which will be in effect when the differences are expected to reverse.

l. Research and Development Expenses

Research and development expenses are charged to income when incurred.

m. Derivative Financial Instruments

The Company and certain consolidated subsidiaries enter into derivatives transactions in order to manage certain risks arising from adverse fluctuation in foreign currency exchange rates. Derivatives are carried at fair value with any changes in unrealized gain or loss charged or credited to income, except for those which meet the criteria for deferral hedge accounting under which unrealized gain or loss is deferred as an asset or a liability. Receivables and payables hedged by qualified forward foreign exchange contracts are translated at the corresponding foreign exchange contract rates.

2. Accounting Changes

a. Practical Solution on Unification of Accounting Policies Applied to Foreign Subsidiaries for Consolidated Financial Statements

Effective April 1, 2008, the Company and all overseas consolidated subsidiaries adopted “Practical Solution on Unification of Accounting Policies Applied to Foreign Subsidiaries for Consolidated Financial Statements” (Accounting Standards Board of Japan PITF No. 18), and carried out adjustments that must be made for the accounting for consolidation. The impact on operating income and income before income taxes and minority interests was immaterial for the year ended March 31, 2009.

b. Accounting Standard for Presentation of Net Assets in the Balance Sheet

Effective the year ended March 31, 2007, the Company and its consolidated subsidiaries adopted an accounting standard for the presentation of net assets in the balance sheet and the related implementation guidance. In addition, effective the year ended March 31, 2007, the Company and its consolidated subsidiaries are required to prepare consolidated statements of changes in net assets instead of consolidated statements of shareholders’ equity.

c. Accounting Standard for Directors’ Bonuses

Effective the year ended March 31, 2007, the Company and its consolidated subsidiaries adopted the “Accounting Standard for Directors’ Bonuses” (Accounting Standards Board of Japan Statement No. 4, November 29, 2005).

As a result of the adoption of this accounting standard, operating income, income before income taxes and minority interests, and net income each decreased by ¥73 million for the year ended March 31, 2007 from the corresponding amounts which would have been recorded under the previous method.

3. U.S. Dollar Amounts

The translation of yen amounts into U.S. dollar amounts is included solely for the convenience of readers outside Japan and has been made, as a matter of arithmetic computation only, at ¥98 = U.S.\$1.00, the approximate rate of exchange in effect on March 31, 2009. The translation should not be construed as a representation that yen have been, could have been or could in the future be converted into U.S. dollars at the above or any other rate.

4. Inventories

Inventories at March 31, 2009 and 2008 consisted of the following:

| | Millions of yen | | Thousands of U.S. dollars |
|--------------------------------------|-----------------|---------|---------------------------|
| | 2009 | 2008 | 2009 |
| Merchandise and finished goods | ¥11,549 | ¥11,137 | \$117,847 |
| Work in process | 1,262 | 1,299 | 12,878 |
| Raw materials and supplies | 9,034 | 8,862 | 92,184 |
| Total..... | ¥21,846 | ¥21,299 | \$222,918 |

5. Securities

Marketable securities classified as held-to-maturity securities at March 31, 2009 and 2008 are summarized as follows:

| | Millions of yen | | | Thousands of U.S. dollars | | |
|---|-----------------|------------|------------------------|---------------------------|------------|------------------------|
| | Carrying value | Fair value | Unrealized gain (loss) | Carrying value | Fair value | Unrealized gain (loss) |
| March 31, 2009 | | | | | | |
| Securities whose fair value exceeds their carrying value: | | | | | | |
| Government bonds | ¥ — | ¥ — | ¥ — | \$ — | \$ — | \$ — |
| Corporate bonds | — | — | — | — | — | — |
| Other | — | — | — | — | — | — |
| Subtotal | — | — | — | — | — | — |
| Securities whose carrying value exceeds their fair value: | | | | | | |
| Government bonds | — | — | — | — | — | — |
| Corporate bonds | 207 | 204 | (3) | 2,112 | 2,082 | (31) |
| Other | 200 | 109 | (90) | 2,041 | 1,112 | (918) |
| Subtotal | 407 | 313 | (93) | 4,153 | 3,194 | (949) |
| Total | ¥407 | ¥313 | ¥(93) | \$4,153 | \$3,194 | \$(949) |
| March 31, 2008 | | | | | | |
| Securities whose fair value exceeds their carrying value: | | | | | | |
| Government bonds | ¥ — | ¥ — | ¥ — | — | — | — |
| Corporate bonds | 65 | 67 | 1 | — | — | — |
| Other | — | — | — | — | — | — |
| Subtotal | 65 | 67 | 1 | — | — | — |
| Securities whose carrying value exceeds their fair value: | | | | | | |
| Government bonds | — | — | — | — | — | — |
| Corporate bonds | 173 | 170 | (2) | — | — | — |
| Other | 100 | 93 | (6) | — | — | — |
| Subtotal | 273 | 263 | (9) | — | — | — |
| Total | ¥339 | ¥331 | ¥(8) | — | — | — |

The carrying value of non-marketable securities classified as held-to-maturity securities and other securities at March 31, 2009 and 2008 is summarized as follows:

| | Millions of yen | | Thousands of U.S. dollars |
|--|-----------------|---------|---------------------------|
| | 2009 | 2008 | 2009 |
| Held-to-maturity securities: | | | |
| Commercial paper | ¥18,483 | ¥18,978 | \$188,602 |
| Negotiable deposits | 3,500 | 5,800 | 35,714 |
| Mortgage-backed securities..... | 3,000 | 3,000 | 30,612 |
| Other securities: | | | |
| Unlisted stock | 1,040 | 1,039 | 10,612 |
| Dividends on shares of preferred stock | — | 1,000 | — |
| Investment in dormant partnership | 100 | — | 1,020 |

Sales of securities classified as other securities for the years ended March 31, 2009, 2008 and 2007 are summarized as follows:

| | Millions of yen | | | Thousands of U.S. dollars |
|--|-----------------|------|------|---------------------------|
| | 2009 | 2008 | 2007 | 2009 |
| Sales of securities..... | ¥3,302 | ¥110 | ¥— | \$33,694 |
| Aggregate gain on sales of securities..... | 36 | 10 | — | 367 |

The redemption schedule for securities with maturity dates classified as other securities at March 31, 2009 is summarized as follows:

| | Millions of yen | | | |
|-----------------------|-------------------------|---------------------------------------|--|---------------------|
| | Due in one year or less | Due after one year through five years | Due after five years through ten years | Due after ten years |
| March 31, 2009 | | | | |
| Corporate bonds | ¥ 1,550 | ¥ 126 | ¥1,294 | ¥— |
| Other | 24,983 | 3,209 | 880 | — |
| Total..... | ¥26,534 | ¥3,335 | ¥2,174 | ¥— |

| | Thousands of U.S. dollars | | | |
|-----------------------|---------------------------|---------------------------------------|--|---------------------|
| | Due in one year or less | Due after one year through five years | Due after five years through ten years | Due after ten years |
| March 31, 2009 | | | | |
| Corporate bonds | \$ 15,816 | \$ 1,286 | \$13,204 | \$— |
| Other | 254,929 | 32,745 | 8,980 | — |
| Total..... | \$270,755 | \$34,031 | \$22,184 | \$— |

6. Depreciation and Amortization

Depreciation and amortization for the years ended March 31, 2009, 2008 and 2007 amounted to ¥5,593 million (\$57,071 thousand), ¥5,452 million and ¥5,135 million, respectively.

7. Short-Term Loans Payable and Long-Term Loans Payable

Short-term loans payable include overdrafts. The annual interest rates applicable to such borrowings at March 31, 2009 and 2008 ranged from 1.15% to 4.51% and from 1.15% to 7.50%, respectively.

The Company had no long-term loans payable at March 31, 2009 and 2008.

8. Pledged Assets

There were no pledged assets as collateral for short-term loans payable at March 31, 2009 and 2008.

9. Income Taxes

Income taxes in Japan applicable to the Company and its domestic consolidated subsidiaries consist of corporate income taxes (national), enterprise taxes (local) and inhabitants' per capita taxes (local), which resulted in a statutory tax rate of approximately 40.4% for the years ended March 31, 2009, 2008 and 2007. Income taxes of the overseas consolidated subsidiaries are based generally on the tax rates applicable in their respective countries of incorporation.

The effective tax rates reflected in the accompanying consolidated statements of income for the years ended March 31, 2009, 2008 and 2007 differ from the statutory tax rate for the following reasons:

| | 2009 | 2008 | 2007 |
|---|--------------|-------|-------|
| Statutory tax rate | 40.4% | 40.4% | 40.4% |
| Effect of: | | | |
| Income of certain overseas consolidated subsidiaries whose statutory tax rates are lower than those of domestic consolidated subsidiaries | (2.7) | (1.0) | (0.3) |
| Expenses not deductible for income tax purposes | 3.8 | 2.8 | 3.2 |
| Dividend income not deductible for income tax purposes | (0.1) | (0.1) | (0.2) |
| Tax on undistributed profit | 1.7 | 1.9 | 1.3 |
| Special deduction for income taxes | (1.7) | (1.8) | (1.9) |
| Increase in valuation allowance | 9.6 | 2.1 | 1.8 |
| Other, net | (0.5) | 1.0 | 2.3 |
| Effective tax rates | 50.5% | 45.3% | 46.6% |

The significant components of deferred tax assets and liabilities as of March 31, 2009 and 2008 were as follows:

| | Millions of yen | | Thousands of U.S. dollars |
|--|-----------------|---------|------------------------------|
| | 2009 | 2008 | 2009 |
| Deferred tax assets: | | | |
| Allowance for doubtful accounts | ¥ 1,157 | ¥ 974 | \$ 11,806 |
| Provision for retirement benefits | 10,162 | 10,857 | 103,694 |
| Deferred assets for tax purposes | 2,299 | 2,263 | 23,459 |
| Inventories | 372 | 418 | 3,796 |
| Fixed assets and inventory reserves | 654 | 539 | 6,673 |
| Impairment loss | 660 | 609 | 6,735 |
| Loss on valuation of investment securities..... | 194 | 236 | 1,980 |
| Accrued bonuses..... | 1,915 | 1,944 | 19,541 |
| Accrued enterprise tax..... | 193 | 341 | 1,969 |
| Other | 3,518 | 3,189 | 35,898 |
| Gross deferred tax assets..... | 21,128 | 21,374 | 215,592 |
| Less: | | | |
| Valuation allowance..... | (3,527) | (2,813) | (35,990) |
| Total deferred tax assets..... | 17,600 | 18,561 | 179,592 |
| Deferred tax liabilities: | | | |
| Deferred gain on repurchased property | (254) | (259) | (2,592) |
| Valuation difference on available-for-sale securities..... | (98) | (155) | (1,000) |
| Other | — | (159) | — |
| Total deferred tax liabilities | (352) | (574) | (3,592) |
| Net deferred tax assets..... | ¥17,247 | ¥17,986 | \$175,990 |

10. Reserve for Returned Unsold Goods

The reserve for returned unsold goods included in “Other” under “Current liabilities” amounted to ¥2,116 million (\$21,592 thousand) and ¥2,321 million at March 31, 2009 and 2008, respectively.

11. Retirement Benefit Plan

The Company and its domestic consolidated subsidiaries have a defined benefit pension plan, known as a “cash balance plan,” which allows pension benefits to fluctuate in accordance with market interest rates.

The following table sets forth the funded and accrued status of the plan and the amounts recognized in the accompanying consolidated balance sheets at March 31, 2009 and 2008 for the Company’s and its domestic consolidated subsidiaries’ defined benefit plan:

| | Millions of yen | | Thousands of U.S. dollars |
|---|------------------|-----------|---------------------------|
| | 2009 | 2008 | 2009 |
| Retirement benefit obligation | ¥(50,151) | ¥(50,052) | \$(511,745) |
| Plan assets at fair value | 23,799 | 28,506 | 242,847 |
| Unfunded retirement benefit obligation..... | (26,352) | (21,545) | (268,898) |
| Unrecognized actuarial gain..... | 5,073 | (1,652) | 51,765 |
| Provision for retirement benefits..... | ¥(21,279) | ¥(23,197) | \$(217,133) |

The components of retirement benefit expenses for the years ended March 31, 2009, 2008 and 2007 are outlined as follows:

| | Millions of yen | | | Thousands of U.S. dollars |
|--------------------------------------|-----------------|--------|--------|---------------------------|
| | 2009 | 2008 | 2007 | 2009 |
| Service cost..... | ¥1,533 | ¥1,650 | ¥1,602 | \$15,643 |
| Interest cost | 751 | 741 | 742 | 7,663 |
| Expected return on plan assets | (427) | (457) | (415) | (4,357) |
| Actuarial gain..... | (347) | (853) | (702) | (3,541) |
| Total..... | ¥1,509 | ¥1,080 | ¥1,227 | \$15,398 |

The assumptions used in accounting for the above plans for the years ended March 31, 2009, 2008 and 2007 were as follows:

| | 2009 | 2008 | 2007 |
|---|-------------|------|------|
| Discount rate..... | 1.5% | 1.5% | 1.5% |
| Expected rate of return on pension plan assets: | | | |
| Defined benefit pension plan | 1.5% | 1.5% | 1.5% |

12. Shareholders' Equity

The Corporation Law of Japan (the “Law”), which superseded most of the provisions of the Commercial Code of Japan, went into effect on May 1, 2006. The Law provides that an amount equal to 10% of the amount to be disbursed as distributions of capital surplus (other than the capital reserve) and retained earnings (other than the legal reserve) be transferred to the capital reserve and the legal reserve, respectively, until the sum of the capital reserve and the legal reserve equals 25% of the capital stock account. Such distributions can be made at any time by resolution of the shareholders, or by the Board of Directors if certain conditions are met.

The retained earnings account in the accompanying consolidated balance sheets at March 31, 2009 included a legal reserve of ¥774 million (\$7,898 thousand).

15. Selling, General and Administrative Expenses

Selling, general and administrative expenses for the years ended March 31, 2009, 2008 and 2007 consisted of the following:

| | Millions of yen | | | Thousands of U.S. dollars |
|---|-----------------|----------|----------|---------------------------|
| | 2009 | 2008 | 2007 | 2009 |
| Advertising and promotional expenses..... | ¥ 46,390 | ¥ 47,176 | ¥ 46,345 | \$ 473,367 |
| Personnel expenses | 43,843 | 43,404 | 42,768 | 447,378 |
| Other | 30,304 | 29,149 | 28,887 | 309,224 |
| Total..... | ¥120,538 | ¥119,730 | ¥118,001 | \$1,229,980 |

The Company and its consolidated subsidiaries have changed their method of accounting for personnel expenses. As a result of this change, welfare and education expenses were shifted from "Personnel expenses" to "Other."

The Company and its consolidated subsidiaries have changed their method of accounting for research and development expenses. As a result of this change, expenses related to research and development activities were shifted from "Personnel expenses" to "Other."

16. Commitments and Contingent Liabilities

The Company and its consolidated subsidiaries had the following contingent liabilities at March 31, 2009:

| | Millions of yen | Thousands of U.S. dollars |
|--|-----------------|---------------------------|
| As guarantor of indebtedness in connection with: | | |
| Employees' housing loans..... | ¥ 0 | \$ 0 |
| Renovation of stores by agents..... | 30 | 306 |
| Total | ¥30 | \$306 |

17. Derivatives

Various derivatives transactions, including forward foreign exchange contracts and foreign currency option contracts utilized by the Company and certain of its consolidated subsidiaries, entail a certain degree of market risk. However, the Company and these consolidated subsidiaries do not anticipate significant risk resulting from these derivatives, all of which have been designated as hedges. The Company and its consolidated subsidiaries have adopted internal rules governing derivatives transactions which prescribe appropriate authorization and reporting policies. The Company is exposed to credit risk in the event of nonperformance by the counterparties to the derivatives positions, but any such loss would not be material because the Company enters into such transactions only with financial institutions with high credit ratings.

18. Related Party Transactions

Not applicable for the year ended March 31, 2009.

Effective April 1, 2008, the Company and its consolidated subsidiaries adopted the “Accounting Standard for Related Party Disclosures” (Accounting Standards Board of Japan Statement No. 11, October 17, 2006) and the “Guidance on Accounting Standard for Related Party Disclosures” (Accounting Standards Board of Japan Guidance No. 13, October 17, 2006).

There is no change in the range of disclosure as a result of the adoption of these accounting standards.

19. Amounts per Share

| | Yen | | | U.S. dollars |
|---------------------|----------|----------|----------|--------------|
| | 2009 | 2008 | 2007 | 2009 |
| Net income: | | | | |
| Basic | ¥ 81.55 | ¥ 115.50 | ¥ 114.22 | \$ 0.83 |
| Cash dividends..... | 40.00 | 40.00 | 40.00 | 0.41 |
| Net assets | 1,699.92 | 1,693.55 | 1,636.44 | 17.35 |

In accordance with the accounting standard for earnings per share which went into effect on April 1, 2002, net income per share for the years ended March 31, 2009, 2008 and 2007 was calculated based on the net income available for distribution to shareholders of common stock and the weighted-average number of shares of common stock outstanding during the respective years. Net assets per share at March 31, 2009, 2008 and 2007 were computed based on the net assets available for distribution to the shareholders and the number of shares of common stock outstanding at each respective year-end.

Information used in the calculation of basic net income per share for the year ended March 31, 2009 was as follows:

| | Millions of yen | Thousands of U.S. dollars |
|---|-----------------|---------------------------|
| Net income..... | ¥4,742 | \$48,388 |
| Net income relating to common stock | ¥4,742 | \$48,388 |

Weighted-average number of shares of common stock: 58,156,259

Diluted net income per share has not been presented for the years ended March 31, 2009, 2008 and 2007 because the Company had no potentially dilutive shares outstanding as of these balance sheet dates.

Cash dividends per share represent the cash dividends declared as applicable to the respective fiscal years together with the interim cash dividends paid.

20. Segment Information

Business Segments

The Company and its consolidated subsidiaries are primarily engaged in the manufacture and sale of products in Japan and overseas in three major segments: “cosmetics,” which includes high-quality brand cosmetics which are distributed and sold with

counseling in prestige markets such as department stores and high-quality specialty cosmetic shops, “cosmetaries,” which includes mass-market cosmetics and toiletries, and “other,” which includes various products for hotels, golf courses and other private facilities as well as OEM products.

Business segments of the Company and its consolidated subsidiaries for the years ended March 31, 2009, 2008 and 2007 are outlined as follows:

| Year ended March 31, 2009 | Millions of yen | | | | | |
|--|---------------------------|-------------|----------|-------------|-------------|--------------|
| | Cosmetics | Cosmetaries | Other | Total | Elimination | Consolidated |
| I. Sales and operating income: | | | | | | |
| Sales to third parties.... | ¥132,517 | ¥43,821 | ¥1,782 | ¥178,121 | ¥ — | ¥178,121 |
| Intragroup sales and transfers | — | 0 | 2,412 | 2,412 | (2,412) | — |
| Total sales..... | 132,517 | 43,821 | 4,195 | 180,534 | (2,412) | 178,121 |
| Operating expenses..... | 117,944 | 43,685 | 3,751 | 165,380 | 437 | 165,818 |
| Operating income.... | ¥ 14,572 | ¥ 136 | ¥ 444 | ¥ 15,153 | ¥ (2,850) | ¥ 12,303 |
| II. Total assets, depreciation and amortization, impairment loss and capital expenditures: | | | | | | |
| Total assets | ¥ 74,599 | ¥23,210 | ¥5,958 | ¥103,769 | ¥63,151 | ¥166,920 |
| Depreciation and amortization..... | 3,559 | 1,187 | 367 | 5,114 | 479 | 5,593 |
| Impairment loss..... | — | — | — | — | 154 | 154 |
| Capital expenditures.... | 4,444 | 1,274 | 393 | 6,113 | 509 | 6,622 |
| Year ended March 31, 2009 | Thousands of U.S. dollars | | | | | |
| | Cosmetics | Cosmetaries | Other | Total | Elimination | Consolidated |
| I. Sales and operating income: | | | | | | |
| Sales to third parties.... | \$1,352,214 | \$447,153 | \$18,184 | \$1,817,561 | \$ — | \$1,817,561 |
| Intragroup sales and transfers | — | 0 | 24,612 | 24,612 | (24,612) | — |
| Total sales..... | 1,352,214 | 447,153 | 42,806 | 1,842,184 | (24,612) | 1,817,561 |
| Operating expenses.... | 1,203,510 | 445,765 | 38,276 | 1,687,551 | 4,459 | 1,692,020 |
| Operating income.... | \$ 148,694 | \$ 1,388 | \$ 4,530 | \$ 154,622 | \$ (29,082) | \$ 125,541 |
| II. Total assets, depreciation and amortization, impairment loss and capital expenditures: | | | | | | |
| Total assets | \$ 761,214 | \$236,837 | \$60,796 | \$1,058,867 | \$644,398 | \$1,703,265 |
| Depreciation and amortization..... | 36,316 | 12,112 | 3,745 | 52,184 | 4,888 | 57,071 |
| Impairment loss..... | — | — | — | — | 1,571 | 1,571 |
| Capital expenditures.... | 45,347 | 13,000 | 4,010 | 62,378 | 5,194 | 67,571 |

| Year ended March 31, 2008 | Millions of yen | | | | | |
|--|-----------------|-------------|--------|----------|-------------|--------------|
| | Cosmetics | Cosmetaries | Other | Total | Elimination | Consolidated |
| I. Sales and operating income: | | | | | | |
| Sales to third parties.... | ¥134,139 | ¥43,559 | ¥2,524 | ¥180,222 | ¥ — | ¥180,222 |
| Intragroup sales and transfers | 17 | — | 2,356 | 2,374 | (2,374) | — |
| Total sales | 134,156 | 43,559 | 4,881 | 182,597 | (2,374) | 180,222 |
| Operating expenses | 117,958 | 42,175 | 4,479 | 164,613 | 421 | 165,035 |
| Operating income | ¥ 16,198 | ¥ 1,383 | ¥ 401 | ¥ 17,983 | ¥ (2,796) | ¥ 15,187 |
| II. Total assets, depreciation and amortization, impairment loss and capital expenditures: | | | | | | |
| Total assets | ¥ 74,577 | ¥22,968 | ¥6,279 | ¥103,825 | ¥68,303 | ¥172,128 |
| Depreciation and amortization..... | 3,410 | 1,209 | 378 | 4,998 | 454 | 5,452 |
| Impairment loss..... | — | — | — | — | 27 | 27 |
| Capital expenditures.... | 4,173 | 972 | 289 | 5,435 | 368 | 5,804 |
| Millions of yen | | | | | | |
| Year ended March 31, 2007 | Cosmetics | Cosmetaries | Other | Total | Elimination | Consolidated |
| I. Sales and operating income: | | | | | | |
| Sales to third parties.... | ¥132,464 | ¥40,938 | ¥2,988 | ¥176,390 | ¥ — | ¥176,390 |
| Intragroup sales and transfers | 24 | — | 2,282 | 2,306 | (2,306) | — |
| Total sales | 132,488 | 40,938 | 5,270 | 178,697 | (2,306) | 176,390 |
| Operating expenses | 117,677 | 39,894 | 4,917 | 162,488 | 172 | 162,660 |
| Operating income | ¥ 14,811 | ¥ 1,044 | ¥ 353 | ¥ 16,208 | ¥ (2,478) | ¥ 13,730 |
| II. Total assets, depreciation and amortization and capital expenditures: | | | | | | |
| Total assets | ¥ 75,954 | ¥21,176 | ¥7,268 | ¥104,399 | ¥67,238 | ¥171,638 |
| Depreciation and amortization..... | 3,199 | 1,064 | 411 | 4,676 | 459 | 5,135 |
| Capital expenditures.... | 2,897 | 661 | 220 | 3,779 | 234 | 4,014 |

Geographical Segments

No information on geographical segments has been presented because the Company and its consolidated subsidiaries have conducted over 90% of their sales in the domestic market (inside Japan) and over 90% of the Company's consolidated total assets were located in Japan as of and for the years ended March 31, 2009, 2008 and 2007.

Overseas Sales

Overseas sales, which include export sales of the Company and its domestic consolidated subsidiaries and sales (other than exports to Japan) of the overseas subsidiaries, for the year ended March 31, 2009 are summarized in the table below.

The overseas sales information has been presented after the elimination of intercompany sales transactions.

| Year ended March 31, 2009 | Millions of yen | | |
|--|-----------------|-------------|-----------------|
| | Asia | Other | Total |
| Overseas sales | ¥18,530 | ¥573 | ¥ 19,103 |
| Consolidated net sales | | | 180,222 |
| Overseas sales as a percentage of consolidated net sales.... | 10.4% | 0.3% | 10.7% |

| Year ended March 31, 2009 | Thousands of U.S. dollars | | |
|--|---------------------------|----------------|-------------------|
| | Asia | Other | Total |
| Overseas sales | \$189,082 | \$5,847 | \$ 194,929 |
| Consolidated net sales | | | 1,817,561 |
| Overseas sales as a percentage of consolidated net sales.. | 10.4% | 0.3% | 10.7% |

Classification of the country or region is determined by geographical location and connectedness of its major market.

The principal countries and regions belonging to geographical segments other than Japan are as follows:

- (1) Asia Taiwan, China, South Korea, Hong Kong and Singapore
- (2) Other Countries and regions other than Asia and Japan

| Year ended March 31, 2008 | Millions of yen | Thousands of U.S. dollars |
|---|-----------------|---------------------------|
| Overseas sales | ¥ 18,363 | \$ 183,630 |
| Consolidated net sales | 180,222 | 1,802,220 |
| Overseas sales as a percentage of consolidated net sales..... | 10.2% | |

Since sales of each country or region other than Japan constituted less than 10% of consolidated net sales for the year ended March 31, 2008, disclosure by geographical segment has been omitted.

Since overseas sales were less than 10% of consolidated net sales for the year ended March 31, 2007, the disclosure of overseas sales information for that year has been omitted.

21. Subsequent Event

Not applicable for the year ended March 31, 2009.

Report of Independent Auditors

The Board of Directors
KOSÉ Corporation

We have audited the accompanying consolidated balance sheets of KOSÉ Corporation and consolidated subsidiaries as of March 31, 2009 and 2008, and the related consolidated statements of income, changes in net assets, and cash flows for each of the three years in the period ended March 31, 2009, all expressed in yen. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in Japan. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of KOSÉ Corporation and consolidated subsidiaries at March 31, 2009 and 2008, and the consolidated results of their operations and their cash flows for each of the three years in the period ended March 31, 2009 in conformity with accounting principles generally accepted in Japan.

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended March 31, 2009 are presented solely for convenience. Our audit also included the translation of yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made on the basis described in Note 3.

June 26, 2009

Ernst & Young Shin Nihon LLC

Principal Consolidated Subsidiaries

Production Related Subsidiaries

| Company Name | Country | Paid-in Capital | Ownership |
|----------------------------------|---------|-----------------|-----------|
| COSME LABO CO., LTD. | Japan | ¥10 million | 100.0% |
| ADVANCE CO., LTD. | Japan | ¥90 million | 100.0% |
| INTERCOSME INC. | Japan | ¥50 million | 100.0% |
| ALBION CO., LTD. | Japan | ¥760 million | 79.3% |
| TECHNOLABO CO., LTD. | Japan | ¥10 million | 79.3% |
| KOSÉ COSMETICS CO., LTD. (CHINA) | China | RMB88.7 million | 100.0% |
| TAIWAN KOSÉ CO., LTD. | Taiwan | NT\$180 million | 100.0% |

Marketing and Services Related Subsidiaries

| Company Name | Country | Paid-in Capital | Ownership |
|--|-------------|-----------------|-----------|
| KOSÉ SALES CO., LTD. | Japan | ¥300 million | 100.0% |
| KOSÉ COSMENIENCE CO., LTD. | Japan | ¥30 million | 100.0% |
| KOSÉ COSMEPORT CORP. | Japan | ¥30 million | 100.0% |
| CARTE LABORATORIES INC. | Japan | ¥10 million | 100.0% |
| COSMEDIC CO., LTD. | Japan | ¥30 million | 100.0% |
| CRIE CO., LTD. | Japan | ¥10 million | 100.0% |
| KOSÉ COSMEPIA CO., LTD. | Japan | ¥10 million | 100.0% |
| Dr. PHIL COSMETICS INC. | Japan | ¥40 million | 100.0% |
| KOSÉ INSURANCE SERVICE CO., LTD. | Japan | ¥10 million | 100.0% |
| A-L DEVELOPMENT CO., LTD. | Japan | ¥109 million | 44.2% |
| KOSÉ (HONG KONG) CO., LTD. | China | HK\$5.9 million | 100.0% |
| KOSÉ COSMETICS SALES (CHINA) CO., LTD. | China | RMB61.9 million | 100.0% |
| KOSÉ SINGAPORE PTE. LTD. | Singapore | S\$1.7 million | 100.0% |
| KOSÉ AMERICA INC. | U.S.A. | US\$2 million | 100.0% |
| KOSÉ KOREA CO., LTD. | South Korea | ₩10,300 million | 91.3% |
| KOSÉ (THAILAND) CO., LTD. | Thailand | BAHT5 million | 49.0% |
| KOSÉ (MALAYSIA) SDN. BHD. | Malaysia | RM0.5 million | 30.0% |
| ALBION COSMETICS (AMERICA) INC. | U.S.A. | US\$2 million | 79.3% |
| ALBION COSMETICS (HK) LTD. | China | HK\$12 million | 79.3% |

(As of March 31, 2009)

Corporate Information

(As of March 31, 2009)

Corporate Name:

KOSÉ Corporation

Web Site:

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

Founding:

March 2, 1946

IR Site (English):

<http://www.kose.co.jp/jp/en/ir/>

Incorporation:

June 11, 1948

Number of Employees:

5,370

Head Office:

3-6-2, Nihonbashi, Chuo-ku, Tokyo 103-8251, Japan
Tel: +81-3-3273-1511

Fiscal Year-End:

March 31

Shareholder Information

(As of March 31, 2009)

Common Stock:

Authorized: 200,000,000 shares

Issued: 60,592,541 shares

Capital:

¥4,848 million

Number of Shareholders:

16,780

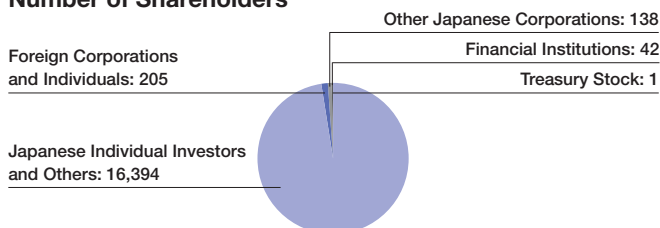
Stock Listing:

Tokyo Stock Exchange, First Section (Code: 4922)

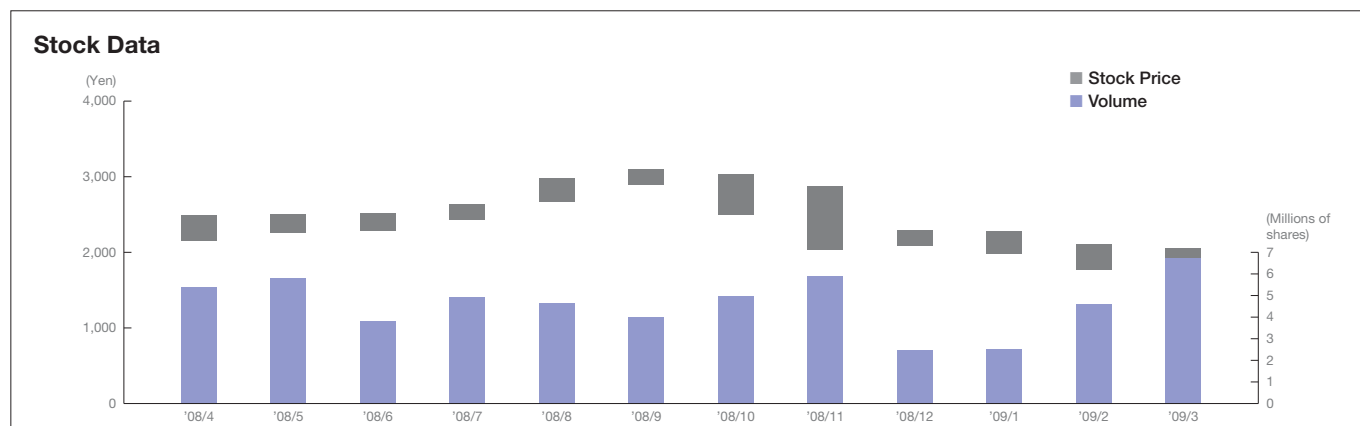
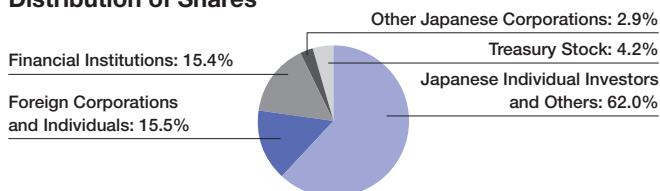
Transfer Agent:

Mizuho Trust & Banking Co., Ltd.

Number of Shareholders



Distribution of Shares





3-6-2, Nihonbashi, Chuo-ku, Tokyo 103-8251, Japan
Tel: +81-3-3273-1511

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

<http://www.kose.co.jp/jp/en/ir/>



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