

2010

Annual Report

Seeking a New Radiance

Reaffirming Our Course,
Offering New Value

Wisdom and Beauty for People 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."

The Company's objective going forward is
to win the support of customers throughout the world.

Today, KOSÉ is entering
a new era based on
its tradition.



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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.

For KOSÉ, tradition does not mean continuing along the same paths without changing the ways it does things.

As we pursue KOSÉ's unchanging mission of making the world a brighter place through cosmetics, we are evolving and continuing to innovate. It is precisely this "constant change" that is KOSÉ's tradition.

Change Born from Tradition

The wellspring of KOSÉ's originality is its courage to break through and clear away the accepted wisdom and prevailing assumptions.

We at KOSÉ seek out the essence of the value that we offer to our customers and relentlessly pursue the challenge of continuing to develop unique cosmetic products ahead of anyone else while constantly creating KOSÉ anew.

Regenerating “KOSÉ, the Creator of Cosmetic Foundations”

Foundation products are an important cosmetic category because they are key to earning customer loyalty and will be indispensable going forward. In the 1970s, KOSÉ developed epoch-making foundation preparations one after another and experienced a series of successes, but in recent years performance of these products has been lackluster. Beginning in 2005, KOSÉ launched its “Foundation Project” and focused on research, development, and promotion of these foundations. As a consequence, KOSÉ was able to develop many innovative new products and began to regenerate its past “KOSÉ-like” pattern of successes.

Disavowing Past Successes without Exception

In the Foundation Project, we first basically disavowed all our previous powder foundation-type

products and launched a thorough review that extended from the materials we use to our manufacturing processes. For example, beige-colored (phospholipid-coated) titanium dioxide was born as a new material from these initiatives, and it became the driving force for innovative change in various KOSÉ brands.

Building Brand Reputation and Individuality

In the case of the *ESPRIQUE PRECIOUS* brand line, we launched a powder foundation in 2007. We confirmed its basic quality about two years before introduction to the market, and gave it consideration as we continued its development. In a stagnant market for foundation sales, we were successful in generating revenues that exceeded the previous year's

foundation product levels. During the next season, *ESPRIQUE PRECIOUS BEAUTY SKIN PACT MOISTURE* was ranked number one in the powder foundation division in the customer word-of-mouth comment websites. Through these initiatives, we were successful in winning a loyal group of repeat customers, and *ESPRIQUE PRECIOUS* foundation became a powerful driver for the brand line as a whole. We are continuing to make improvements and evolve it into an even-better product. On the other hand, our high-prestige *COSME DECORTE* series—both *ETERNIA SUR FOUNDATION*, with its startlingly new feel, and *MAQUIEXPERT COVERING MAKEUP FOUNDATION*, for professionals—is performing above planned expectations.

Please see page 17 for further details on these products.

KOSÉ will continue to introduce products one after another that offer value that heretofore did not exist and thereby strengthen its position as a pioneer.



KOSÉ has many products that are long-running best-sellers and have won the strong support of customers around the world. These include *COSME DECORTE* and *SEKKISEI*, which have marked their 40th and 25th anniversaries, respectively, since their launch. KOSÉ's tradition of "constant change" is very much alive and well in these brand lines.

Creating Brands that Last

We have continued to build on these and other existing brand assets and evolve them on an ongoing basis.

The key to the longevity of KOSÉ brands is "high-quality counseling," a capability that is a special source of pride for KOSÉ. In our counseling activities, we can see the faces of individual customers. This enables us to communicate the attractiveness and true value of our brands and to offer them until our customers are fully satisfied.

Enhancing the Value of the SEKKISEI Brand

The SEKKISEI skin-care brand, which was launched in 1985, is a long-running best-seller that has now been enjoyed by two generations of mothers and daughters. Until the introduction of SEKKISEI, incorporation of Chinese herbal medicine approaches in cosmetics was rare. In naming this brand line, we used Chinese characters, which represented a departure from typical cosmetic naming conventions at that time. The characters mean “snow,” “skin,” and “essence” and suggest pure white, glowing, beautiful skin. SEKKISEI is currently marketed in Japan and 13 countries and economies around the world.

It will be essential for KOSÉ to continue offering its customers such long-running best-selling products, while also being attentive to changes in the times and laying the foundations for further development. Looking ahead, it will be necessary to maintain and enhance strong brands from a future-oriented perspective to achieve significant progress in KOSÉ's development.

Creating SEKKISEI that Goes Beyond SEKKISEI

The addition of SEKKISEI SUPREME, a preparation offering even more-advanced skin whitening properties, to the SEKKISEI line in April 2008 has made a major contribution to KOSÉ's overall performance.

In developing SEKKISEI SUPREME, we included four Japanese and Chinese plant-based ingredients to

combat skin damage resulting from the surrounding environment and stress. Among these, melothria heterophylla extract, which KOSÉ has researched for about 15 years, was specially chosen for its properties. Also, to give SEKKISEI SUPREME healing properties, KOSÉ adopted a new aroma therapy approach. In designing this preparation, we adopted a white bottle instead of the previous deep blue container, thus creating “white SEKKISEI.”

Counseling Puts Us Side by Side Our Customers

SEKKISEI SUPREME is being marketed strategically through carefully

selected retail stores, which offer their customers information and counseling. By providing customers with accurate information on SEKKISEI SUPREME and the differences between it and its predecessor SEKKISEI, KOSÉ is winning new customers and building a loyal, high-quality customer group. As we are adopting the same counseling sales approach for this product in overseas markets, including Asia in particular, we are anticipating further growth.

KOSÉ evolves its products to meet the changing needs of the times, and, by deepening its ties with customers, will continue to nurture numerous long-running best-selling brands.



Financial Highlights

KOSÉ Corporation and Consolidated Subsidiaries
Years ended March 31, 2010, 2009 and 2008

| | Millions of yen | | | Thousands of U.S. dollars |
|--|-----------------|----------|----------|---------------------------|
| | 2010 | 2009 | 2008 | 2010 |
| For the Year | | | | |
| Net sales | ¥172,564 | ¥178,121 | ¥180,222 | \$1,855,527 |
| Gross profit..... | 128,096 | 132,841 | 134,918 | 1,377,376 |
| Operating income | 10,132 | 12,303 | 15,187 | 108,946 |
| Income before income taxes and minority interests..... | 9,418 | 11,261 | 14,477 | 101,269 |
| Net income..... | 5,154 | 4,742 | 6,900 | 55,419 |

At Year-End

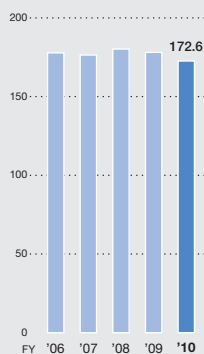
| | Millions of yen | Millions of yen | Millions of yen | Thousands of U.S. dollars |
|----------------------------|-----------------|-----------------|-----------------|---------------------------|
| | 2010 | 2009 | 2008 | 2010 |
| Shareholders' equity | ¥101,820 | ¥ 98,988 | ¥ 99,027 | \$1,094,839 |
| Total assets | 167,395 | 166,920 | 172,128 | 1,799,946 |

Per Share

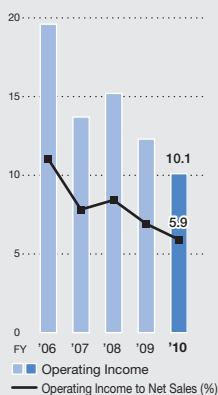
| | Yen | Yen | Yen | U.S. dollars |
|--------------------------------|-----------------|----------|----------|----------------|
| Net income: | | | | |
| Basic | ¥ 88.81 | ¥ 81.55 | ¥ 115.50 | \$ 0.95 |
| Adjusted for stock splits..... | 88.81 | 81.55 | 115.50 | 0.95 |
| Net assets | 1,746.59 | 1,699.92 | 1,693.55 | 18.78 |
| Cash dividends..... | 40.00 | 40.00 | 40.00 | 0.43 |

Notes: 1. The U.S. dollar amounts are translated, for convenience only, at the rate of ¥93=US\$1, the approximate rate of exchange on March 31, 2010.
2. See Six-Year Summary notes on page 26.

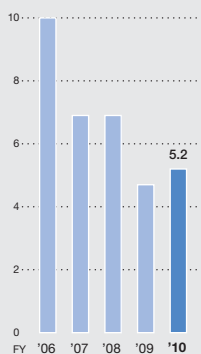
Net Sales
(Billions of yen)



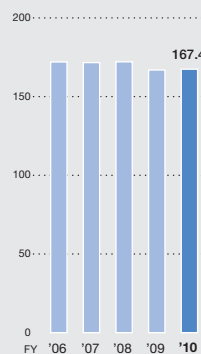
Operating Income and Operating Income to Net Sales
(Billions of yen)



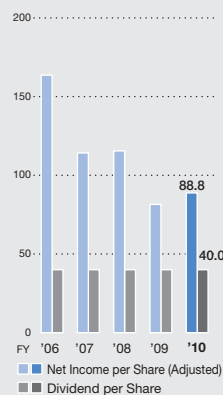
Net Income
(Billions of yen)



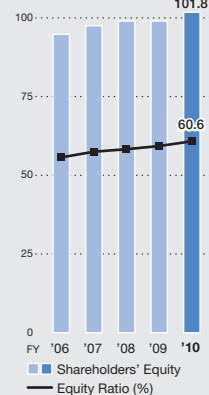
Total Assets
(Billions of yen)



Net Income per Share (Adjusted) and Dividend per Share
(Yen)



Shareholders' Equity and Equity Ratio
(Billions of yen)



To Our Shareholders



KOSÉ's strength lies in its tradition of “continuing to innovate on its own initiative.”

Today, through proactive reforms that are ahead of changes in the market environment, we are beginning to show sure and steady results.

KOSÉ “Continuing to Change”

A stance of staying ahead of the market

Since I became president, I have moved ahead with reforms at KOSÉ. These reforms, to phrase them in different terms, are intended to draw on our strengths to give customers “satisfaction” and “inspiration” that go beyond their expectations and create KOSÉ anew to meet the needs of the times. Whenever I have an opportunity, I tell our staff that KOSÉ's tradition is our stance of pursuing “continuing change.” Having the courage to

break away from the common wisdom and the flexibility not to be bound by precedents are inherent in KOSÉ's corporate culture. In market environments such as those we are experiencing today, our stance must be to not shrink away from change but to be proactive and take the initiative.

Today, as we move into the third year of implementing the reforms that we began prior to changes in the market, we are, one by one, beginning to yield sure and steady results.

Review of Performance in Fiscal 2010

Bipolarization of consumer preferences continues in the market

In fiscal 2010, ended March 31, 2010, although our cosmetaries business expanded, performance in the cosmetics business was below that of the previous year, and net sales amounted to ¥172,564 million, a decline of 3.1% from the previous fiscal year. Profitwise, although we implemented management reforms to secure profitability, as a result of the decline in net sales and increases in manufacturing costs owing to changes in the product mix, operating income decreased 17.6%, to ¥10,132 million. Also, despite the reporting of impairment losses on fixed assets arising from the outsourcing of our distribution operations, as a consequence of lower income taxes and other factors, net income rose 8.7%, to ¥5,154 million.

As a result of prolonged economic stagnation, some say that consumers have developed a preference for low-priced products. Even in the cosmetic market, we have seen a trend for some customers—who formerly purchased products in the high-volume, medium-priced zone—to shift to low-priced products. On the other hand, analysis of the purchasing trends among customers for *COSME DECORTE*, our high-prestige brand line, shows that, on the contrary, the value of the average purchase per frequent *COSME DECORTE* user is increasing. Therefore, products that have value are

winning customer support and loyalty even in severe market conditions. A clear bipolarization has emerged between price-oriented and value-oriented customers.

Progress under KOSÉ's Medium-Term Management Plan

How to become a company with a global presence

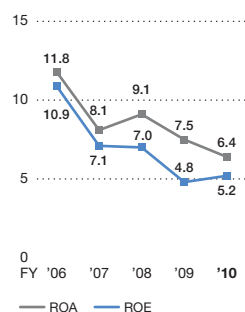
Under our three-year Medium-Term Management Plan, which covers the period from April 2008 through March 2011, we are showing steady progress toward implementing our four initiatives under the plan: “restructuring KOSÉ's cosmetics business in Japan,” “strengthening KOSÉ's international business position,” “taking initiatives in new business domains,” and “bolstering KOSÉ's corporate power.” We have made no changes in these objectives, and, as we restructure our cosmetics business in Japan to increase profitability, we are allocating resources to international and new business, which are our targeted growth areas.

Restructuring KOSÉ's Cosmetics Business in Japan

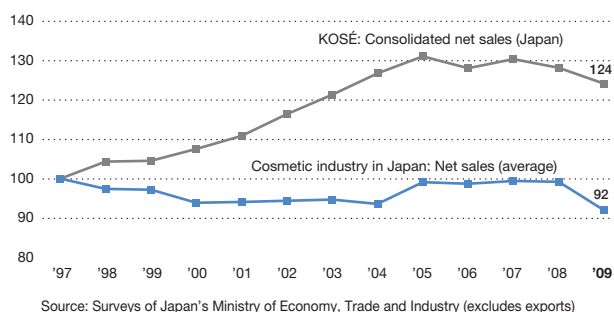
Enhancing the capabilities of stores carrying KOSÉ products and increasing management efficiency

Reforms among stores carrying our products include further progress in enhancing their capabilities and sharpening their image. Along with these reforms, we are also implementing measures to optimize our marketing bases as well as further strengthen and increase the efficiency

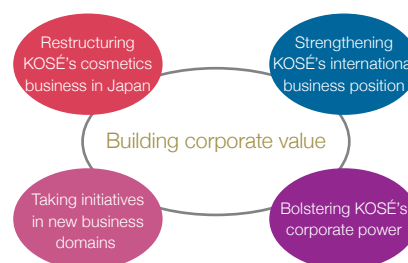
ROA / ROE (%)



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



Four Core Initiatives of the Medium-Term Management Plan



of our marketing systems. As a result of these initiatives, the ratio of returned goods has declined, and the overall value of such returns has been reduced.

Also, as a consequence of our activities to strengthen our marketing and training systems by making them optimally suited to our various marketing channels—which include general merchandise stores, cosmetic specialty stores, and drugstores—the number of retail store business partners working in close teamwork with KOSÉ has increased. We have also conducted a thorough review of product prices, functions, value added, and other attributes of our products, and this has led to improved understanding among our business partners that we are evolving to meet the needs of the times.

Strengthening areas where repeat purchase ratios are high and reducing the number of items that we offer

To respond to the weakness among customers in their drive to consume, we have reformed our previous approach of tending to depend on the introduction of new products and individual items and have taken the initiative in reducing the number of items that we offer. In addition, we are striving to strengthen those product areas, such as skin-care items and foundations, where consumers make repeat purchases. In our Foundation Project, we are moving ahead with the development of powder foundations, which are the principal items in Japan's foundation market. The new foundations we have launched in our *ESPRIQUE PRECIOUS* and *COSME DECORTE* brand lines have proved to be breakthroughs, and we sense a stronger interest among consumers. Also, in our Foundation Project, we are now in the process of developing liquid foundation products.

Aggressively developing brands with distinctive features

In Japan, the previous worship of European and U.S. brand products has become weaker, and the principal trend among consumers is to emphasize their own sense of values rather than follow the latest fashion

trends or be concerned about what others are thinking. This represents the arrival of a favorable opportunity for Japan's cosmetic manufacturing companies. In 2009, we began to aggressively pursue the development of brands with distinctive features. New brands launched included *ADDICTION*, which was developed with one of the world's leading makeup artists acting as creative director, and *GRANDAINÉ LUXAGE*, a skin-care brand for consumers in their 40s. Each of these new brands has been highly acclaimed.

Strengthening KOSÉ's International Business Position

Raising KOSÉ's presence in Asian markets

KOSÉ is developing its business operations in 13 countries and economies (including the United States), located principally in Asia. The Asian markets are expected to experience faster growth than other regions, and competition for winning market share in Asia is becoming more intense. To be a winner in this competition and accelerate our growth, we are keenly aware of the necessity of implementing new strategies. We are, therefore, working to foster global brands that will be accepted worldwide and win a solid presence in overseas markets. At the present time, we are endeavoring to build a strong business foundation in Asia and raise KOSÉ's market presence.



KOSÉ is developing its business operations in 13 countries and economies (including the United States), located principally in Asia.



Steadily deepening KOSÉ's penetration of the high-growth Chinese market

Thus far, we have focused our marketing activities in China in department stores located in the coastal areas of that country. As a consequence of China's sustained economic development, the number of consumers with purchasing power has increased not only in the coastal but also in the medium-sized cities located in the interior areas of China. The existence of the many leading cosmetic specialty stores located in these cities has drawn greater attention, and we are in the process of expanding the number of such stores we have under contract to market KOSÉ products. As of December 2009, the number of these stores had exceeded 200. The top Japanese cosmetic brands are quite popular in these specialty stores. We have also introduced our *PRÉDIA** specialty store brand in China and are further strengthening our counseling capabilities. Our aim is to give our customers a level of satisfaction that exceeds their expectations. In addition, in July 2009, at our first *COSME DECORTE* store in China, which we opened in a leading department store in Beijing, we have introduced our highest-prestige brand *COSME DECORTE AQ* and are working to approach and win new customers among the growing number of affluent consumers in China. We are also working to gradually strengthen our presence in the Chinese market by broadening our targeted geographic area and offering high-value products to those customers who are seeking them.

*A brand developed for cosmetic specialty stores based on KOSÉ's Sea & Spa concept of relaxation

Fostering world-class brands

KOSÉ's *SEKKISEI* brand has now marked its 25th anniversary since its launching. In 2009, we introduced *SEKKISEI SUPREME* as the top of the *SEKKISEI* brand line and presented it in a white bottle. This has made it possible for us to approach a broader target market. In addition, we are expanding the number of stores

offering the original *SEKKISEI* brand in its deep blue bottle. Also in KOSÉ's representative high-prestige *COSME DECORTE* brand line, sales of long-running best-seller products, such as *MOISTURE LIPOSOME*, which has entered its 18th year since launching, are holding strong and have made deep inroads especially in the Taiwanese, South Korean, and Hong Kong markets. Also, we have introduced the *JILLSTUART* brand line, which we licensed from overseas, in South Korea, following its successful introduction in Taiwan and Hong Kong, and sales are continuing to expand at double-digit rates. Since we were successful in establishing our rights to the *JILLSTUART* brand line worldwide in October 2009, we are now in a position to develop this business more flexibly. Going forward, we will work to substantially increase the value of our brands and expand our business activities aggressively.

Entering additional markets overseas

Besides the overseas marketing activities described, KOSÉ is also continuing to consider entering other high-growth countries overseas. In preparation, we are conducting consumer awareness studies and research on cosmetic distribution channels in these countries.

Taking Initiatives in New Business Domains

Full-scale entry into the men's skin-care cosmetic market

Formulating growth strategies not only for overseas markets but also for the Japanese cosmetic market is well within the realm of possibility. KOSÉ has already made a full-scale entry into the men's skin-care cosmetic market under the major *adidas*



brand. We have also concluded licensing agreements with Coty Inc. of the United States for importing and manufacturing in Japan, and, beginning in February 2010, we began marketing of *adidas skin protection*. Drawing on our product development and marketing capabilities, we will offer new sports performance products that match the lifestyles and preferences of Japanese men.

Bolstering KOSÉ's Corporate Power

Outsourcing our distribution operations and focusing corporate resources on our core businesses

In October 2009, we decided to outsource the distribution-related product delivery and administrative activities that we had formerly conducted internally. Therefore, by outsourcing distribution operations and concentrating our corporate resources on our core cosmetic manufacturing and marketing activities, we are aiming to increase management efficiency and profitability. In addition, as a result of this move toward outsourcing, we are anticipating merits that will include improving the quality of distribution operations, being able to respond more speedily to changes in the market, and reducing the load on the natural environment through enhanced efficiency in distribution. We are sched-

uled to complete the transition to an outsourcing system for all distribution activities during fiscal 2012.



Implementing the KOSÉ Idea Contest (KIC) internally

As part of bolstering product development capability, we have instituted the KIC, or the KOSÉ Idea Contest, to obtain ideas and suggestions. The results of the KIC have given us many ideas from staff in all departments and all lines of work. They have also renewed our appreciation of how strong the awareness and interest in cosmetics is among our staff. We want to share the results of the KIC and position them as a valuable Company asset as well as use them to further enhance the attractiveness of KOSÉ products and increase customer satisfaction.

Creating a New Radiance

Opening new paths for KOSÉ's development

I believe that the key to KOSÉ's further development is to continue to pursue KOSÉ's "essence." What we must avoid is losing KOSÉ's superior positioning in the cosmetics business because then KOSÉ would cease to be a presence that delights its customers.

Cosmetics give people dreams and inherently have the potential for making customers happy. We must never think of cosmetics just as products and must never forget the concept that cosmetics give customers heartfelt joy and delight. This is the spirit KOSÉ has had since its founding, and it is the source of our guideline for action, which is "conscientious marketing of quality products in quality stores."

We at KOSÉ will continue to pursue the development of latent sources of growth in the cosmetic market and will continue to work to offer a "radiance" to the world around us.

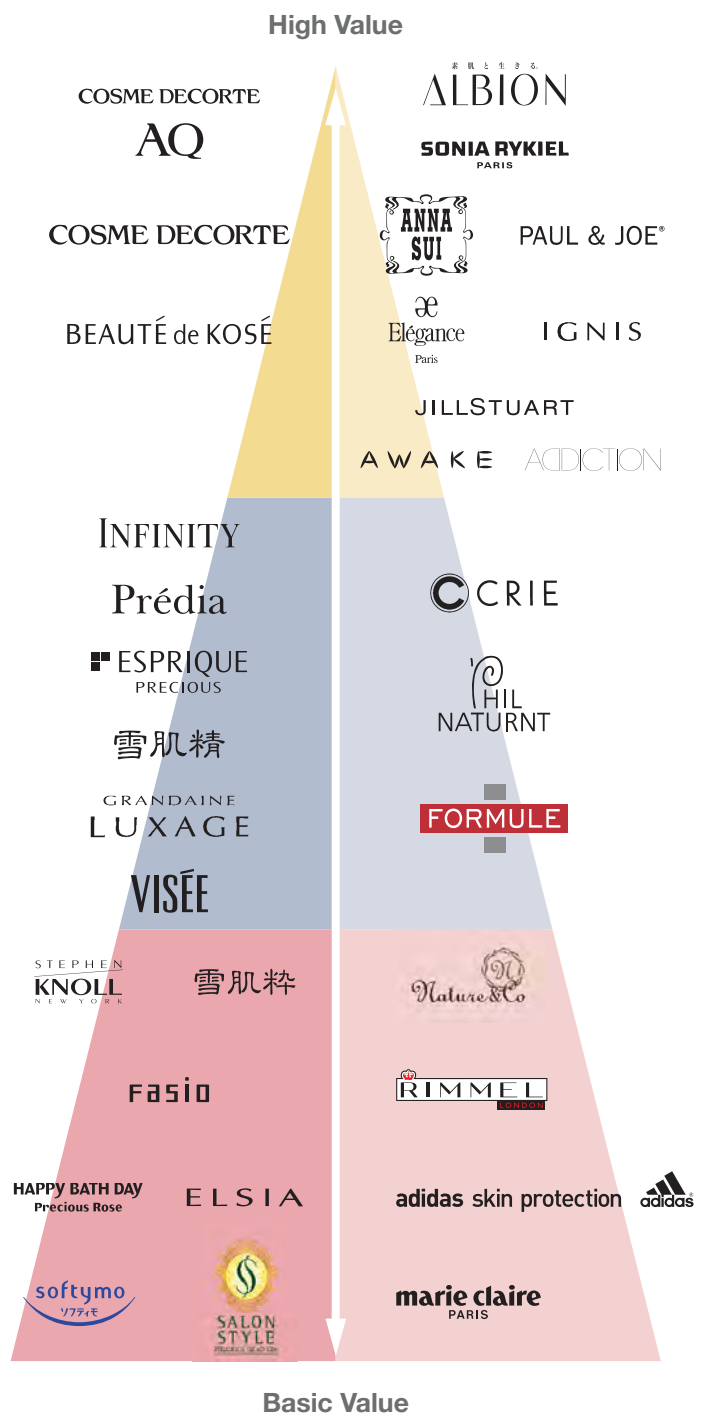
Brand Marketing

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, drug-stores, and convenience stores—and design products accordingly.



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



COSME DECORTE is KOSÉ's high-quality brand line.



AWAKE is a preparation that provides relaxation and frees the skin from the effects of stress.



SEKKISEI, which has now celebrated its 25th year since launch, is one of KOSÉ's long-term best-sellers.



INFINITY brand products contain concentrated skin-care ingredients and have moisture-retaining and anti-aging properties.



SOFTYMO is a brand focused mainly on face-cleansing and face-washing preparations.



RIMMEL is a brand licensed from Coty Inc. of the United States.

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.

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 drug-stores. Beauty serums **MOISTURE SKIN REPAIR**, which contains Rice Power® Extract No. 11, and **ASTALUTION**, containing astaxanthin, are included among prestige brands.

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."

Brand Highlights

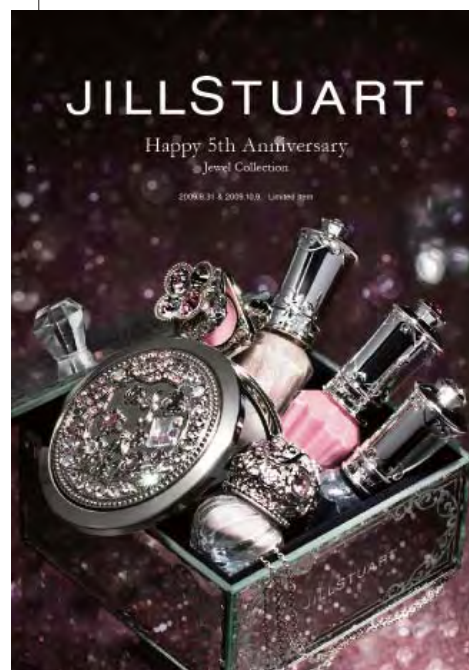


COSME DECORTE AQ MELIORITY

In the *COSME DECORTE* brand line, KOSÉ fully renewed *COSME DECORTE AQ MELIORITY*, the very top strata in this line, in November 2009. These products reawaken the skin's original health and beauty and were designed under the skin-care concept of seeming to "change the impression given by the user's face."

JILLSTUART

JILLSTUART is a brand line targeted at trend-conscious women in their 20s. Since its introduction in Japan in 2005, it has been popular and sales are expanding. After also introducing the line in Taiwan and Hong Kong, KOSÉ launched the line in South Korea in August 2009. Also, in 2009, to mark the fifth anniversary of its debut, KOSÉ introduced a special limited collection of products.



ADDICTION

Launched in July 2009, *ADDICTION* is a new makeup brand. The *ADDICTION* lineup contains colors and sensations never available before in makeup items and was produced by AYAKO, a makeup artist residing in New York. It is highly individualistic and attains the objective of offering "makeup created especially for the wearer."



ESPRIQUE PRECIOUS

ESPRIQUE PRECIOUS debuted in 2006 and, as a total cosmetic brand, it is targeted at women around 30 years of age. The foundation in this brand line has won an established reputation for quality. *DRAMATICAL VEIL PACT UV LASTING*, which was launched in February 2010, fits perfectly in the “diamond zone” of the female face where people’s eyes tend to focus. It gives mid-summer skin just the right amount of moisture and preserves skin clarity.



GRANDAINE LUXAGE

Intended mainly for women in their 40s, *GRANDAINE LUXAGE* debuted as a new brand in September 2009. It was developed with a focus on the changes in the appearance of the skin due to aging, such as tiny wrinkles and lack of firmness. It has high antioxidant properties and contains sesame seed sprout extract, which restrains the stress caused by activated oxygen on the skin.



NATURE & CO

NATURE & CO, launched in February 2009, is a skin-care brand for women who favor natural preparations. This brand was developed with women in mind who do not like to compromise effectiveness, while carefully preserving the gentleness of natural ingredients. It uses some plant extract essences, which have been certified to be organic, from throughout the world.

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.

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.



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

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

2007

ESPRIQUE PRECIOUS BEAUTY SKIN PACT UV



This was the first cosmetic developed as part of the Foundation Project. Aiming for superior pore coverage effectiveness, KOSÉ thoroughly reexamined the raw materials used and processing methods, while also making changes in the color palette. It features high moisture retention and a fine finish that remains virtually unchanged for many hours from the time it is applied to the skin as well as an ideal, smooth skin texture.

2009

COSME DECORTE ETERNIA SUR FOUNDATION



Feeling like soft chocolate to the touch, this foundation offers a completely new sensation. Made with “trans-balloon powder” (with each and every tiny orb in the powder containing a bubble of air) coated with beige-colored (phospholipid-coated) titanium dioxide, it gives a natural and beautiful look to the skin.

2009

COSME DECORTE MAQUIEXPERT COVERING MAKEUP FOUNDATION

This is cream foundation for professionals, which offers superior covering and cosmetic-holding properties. With its matte-like texture giving a smooth, moist impression, this foundation gives the skin a new look instantly. As a result of further improvement using the semi-moist emulsion method employing a gel preparation, its finished look, usability, and sustainability have been greatly improved.



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.

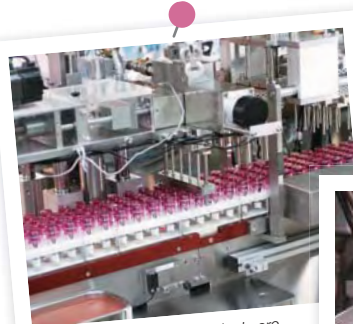


KOSÉ Research Laboratory, Tokyo

“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.



Giving Customers a Say in Quality Management

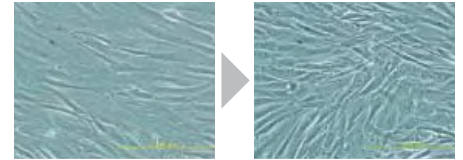
KOSÉ shares the comments of its customers throughout the Company as a whole with the aim of making them useful in improving its products and services. Comments gathered by KOSÉ's Customer Service Office and from branches located in various parts of Japan are considered by the Quality Information Study Committee, which meets at the Company's Sayama Plant once a month. Results of this committee's discussions are put to use in improving and enhancing the quality of KOSÉ products.

Discovery of the Antioxidation Properties of Sesame Seed Sprout Extract



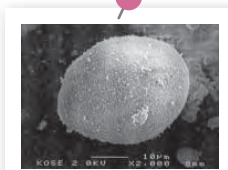
KOSÉ began to identify new ingredients in sesame seed sprouts that have been used in food and pharmaceutical products for many years and incorporated these into *GRANDAINE LUXAGE*. Almost all the ingredients contained in sesame seed sprouts are relatively insoluble in water and are, therefore, difficult to include in cosmetic liquids. However, as a result of research on changes in ingredients that take place as sesame seeds sprout, it was discovered that water-soluble lignan glycosides are produced at the time of sprouting. Sesame sprout extract restrains skin stress caused by active oxygen because of its strong antioxidant properties and is expected to make skin healthier and more beautiful.

Anti-aging effects of cell repair and regeneration



Cells that have been damaged by exposure to ultraviolet (UV) rays recover their proliferation potency five days after being treated with sesame seed sprout extract.

KOSÉ Research Papers Receive Many Awards



AWAKE AQUA TRANS POWDER, containing moisture-retentive powder



A research paper entitled "Aroma Constituents of the Fragrant Sweet Pea" based on joint research by KOSÉ and Takasago International Corporation was presented at COSM'Innov 2010, a research conference held in Cosmetic Valley (in France's Loire district) in March 2010, and received the highest COSM'Innov Award. The paper presented research findings on two types of sweet peas with strong aroma characteristics, and the research succeeded in replicating these aromas. Through these and other activities, KOSÉ will continue to develop new and attractive aromas.

In addition, in May 2009, another paper, entitled "Development of Powder Preparations with Moisture-Retentive Structures and Their Effectiveness," received an award from The Society of Cosmetics Chemists of Japan, one of Japan's leading academic organizations, in recognition of its contribution to the furtherance and development of the cosmetic industry. KOSÉ's originally developed moisture-retentive powder is a basic material that encapsulates a substantial amount of water in powder particles. While the material is in powder form, it liquefies when applied to the skin, giving a cool and moist sensation.

KOSÉ Research Paper Becomes the First Cosmetics-Related Article to Appear in the Academic Magazine *Cell*

In joint research with the Tokyo Medical and Dental University and other institutions, KOSÉ and its research partners have become the first in the world to identify the mechanism that causes graying of human hair. According to this research, graying is caused when the DNA of melanocyte stem cells, which give hair its color, suffer accumulated damage. The report on this research was published in the June 2009 issue of *Cell*, the most-authoritative magazine in the field of cell biology, and became the first article to appear in that publication on research results in the cosmetic industry. The results of this research are extremely important not only for the development of active ingredients targeting graying and the commercialization of related products but also for the research fields of regenerative medicine and anti-aging.

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, KOSÉ engages in a broad program of activities that contribute to society.

Aiming to Raise Environmental Awareness

To take more pro-active initiatives to address environmental issues, KOSÉ formed its Global Environment Committee. Also, KOSÉ has issued its Basic Environmental Policy and Environmental Action Program, while also carrying out various activities based on its annual KOSÉ Eco Plan. Moreover, KOSÉ issues its *Sustainability Report* each year to enhance the awareness of the Company's environmental activities among employees and prepare the way for implementing the following year's CSR program.

Implementing Eco-Friendly Initiatives in Production

Besides the Company's production plants in Japan, KOSÉ's Xiasha Plant in China and other manufacturing locations have obtained ISO 14001 certification for environment management. Since the activities of production departments are especially likely to place a burden on the natural environment, KOSÉ is taking proactive initiatives that include conserving resources and energy, recycling used items, and reducing waste.



KOSÉ Sustainability Report 2009

Making Products Eco-Compatible

In the development of products, KOSÉ selects materials that reflect concern for the natural environment; makes use of recycled materials, such as recycled paper; and implements other eco-friendly measures, such as the development of refillable containers for its products and the elimination of packaging materials for shipment. Also, as it values its relationships with its business partners, KOSÉ gains their cooperation in environmental protection activities, such as green procurement.

Acting 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.

Acting Together with Our Employees

In our relationships with employees, we engage in human resource development by providing expanded education and training opportunities. In addition, we have instituted a personnel system that enables employees to apply for the types of work and positions they aspire to and another system that allows employees to apply for being stationed in the geographical area of their choice.

Color Recognition Barrier-Free Packaging



In spring 2009, subsidiary KOSÉ COSMEPORT CORP. launched a new sun-screen with packaging that is easily legible to persons with color-recognition deficiencies. The packaging makes use of a dark blue base-sheet background with yellow-and-red lettering that is readable by persons with normal color recognition but is also easy for color-challenged persons to recognize and read. This type of packaging, which overcomes the color recognition barrier, is the first of its kind to be introduced in the cosmetic industry.

In-House Awards for Voluntary Eco-Activities

To heighten the awareness of the natural environment among employees, beginning in 1999, KOSÉ's Earth Environment Committee began to give awards for Eco-Activity Examples, which are eco-friendly activities that employees undertake on a voluntary basis. Activities receiving awards have included reduction in garbage through the introduction of air-filled cushioning materials, the substantial lowering (by a factor of about 89%) of electric power use through the development of light-focusing heaters for use in the lipstick manufacturing process, and reductions in volume of materials through the introduction of simplified packaging for articles used only for displays. These eco-friendly activities have also generated other positive results, including increasing productivity and lowering costs.

Contributing to Nature- Protection Activities through SEKKISEI

In July and August 2009, KOSÉ implemented its "SAVE the BLUE" campaign that contributes a percentage of the sales of SEKKISEI cosmetic lotion to activities that nurture the coral reefs of Okinawa. The idea for this campaign originated from the "deep blue" SEKKISEI bottle, which symbolizes the brand and gave rise to plans to protect the blue of nature and ensure that the beautiful sea with its broad coral reefs remains for future generations to enjoy. For each bottle of this cosmetic lotion sold, KOSÉ contributes the funds needed for nurturing an area of coral equivalent to the size of the bottom of the SEKKISEI bottle.



Providing Employment Opportunities for the Physically Challenged



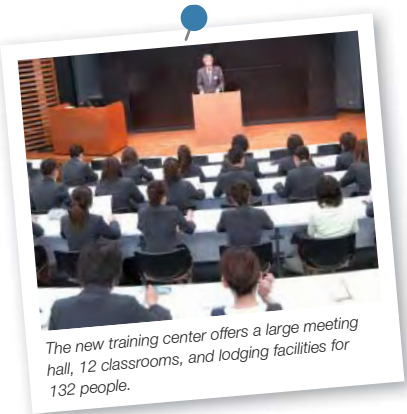
KOSÉ subsidiary ADVANCE CO., LTD., was established in 1992 as the first company in the cosmetic industry to be formed as a special corporation under the Law concerning Employment of Disabled Persons. The company's principal line of business is the production of cosmetics, and, as with other KOSÉ Group plants, it has obtained ISO 14001 and ISO 9001 certification. In addition, at the Order Center of KOSÉ SALES CO., LTD., in Akita Prefecture, which employs persons with hearing disabilities, activities are conducted to promote communication and make the center an easier place to work for everyone. These include the holding of regular sign language training workshops and the establishment of a library containing information on matters related to sign language.

Supporting Sports Where Beauty Is a Competitive Factor



KOSÉ provides active assistance for those sports where the beauty of the athlete's makeup and their limb movements draw special attention from the audience. KOSÉ is an official partner of the Japan Skating Federation and provides support for keeping Japan's figure skating team members in beautiful condition. In addition, KOSÉ has been the official cosmetic partner for Japan's national synchronized swimming team for many years. Even in the midst of the difficult conditions that synchronized swimmers must endure, KOSÉ's makeup products can be fully relied on to provide the athletes with support and sustain their beautiful appearance. Also, KOSÉ's skin-care products offer strong assistance for maintaining the healthy condition of the athletes' skin, which tends to become highly sensitive to contact with water.

Developing Human Resources Who Can Respond to the Changing Times



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

To respond successfully to severe changes in the operating environment, KOSÉ is implementing initiatives to change the awareness of its personnel on a Companywide basis. In November 2008, KOSÉ prepared and issued its *Ten Principles of Management Style*, which is a set of guidelines that personnel in managerial positions are asked to follow. Moreover, to ensure high standards of compliance with rules and regulations, KOSÉ provides training in compliance through e-learning courses. In addition, at the KOSÉ Oji Training Center, which is located in the Oji district of Tokyo, where the Company was originally established, KOSÉ is supporting the career advancement of its staff by conducting state-of-the-art training courses for its marketing personnel and beauty counseling staff.

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 Directors and the Board of Corporate Auditors are responsible for the surveillance and monitoring of the performance of business activities.

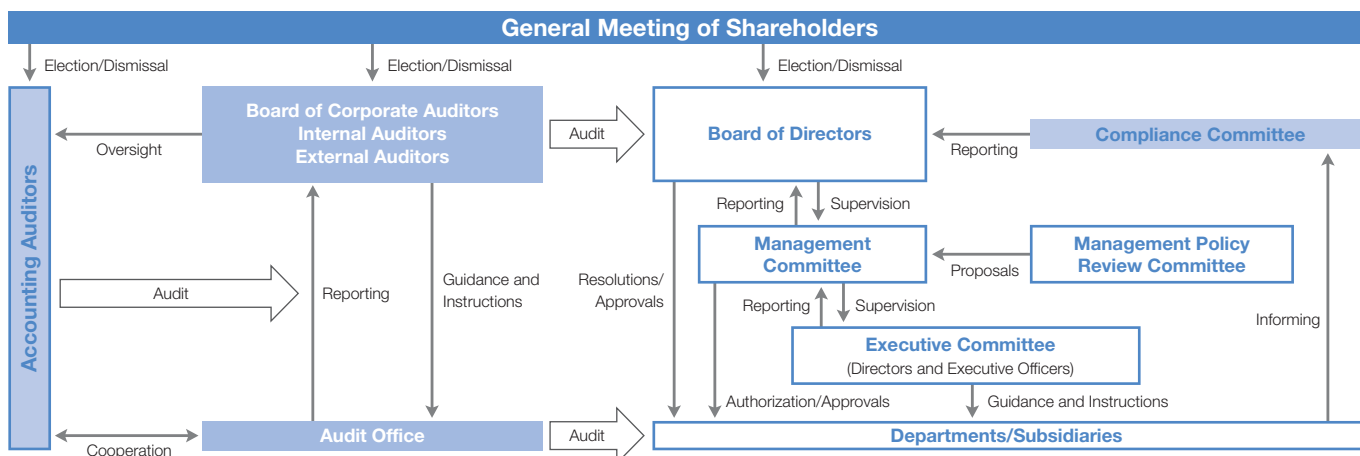
Business activities are executed flexibly by the Management Committee, which is chaired by the President, the Management Policy Review Committee, the Board of Directors, and others, and, thereby, the management of the Company is conducted quickly and efficiently. By clarifying the scope of responsibility of each director, KOSÉ has created systems for making rapid and timely decisions with a relatively small management group. When meetings of the Board of Directors are held, both directors and corporate auditors express their opinions frankly and discuss relevant issues as they perform mutual checking functions and fulfill their governance duties. In addition, the Company has adopted the executive officer system

and is taking active initiatives to improve the efficiency of 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. The Board of Auditors comprises one full-time corporate auditor and three part-time auditors. Two members of the Board of Auditors are external auditors who have been selected for their independence and absence of vested interests with any group of shareholders or other interested parties. These external auditors are responsible for supervising and auditing the Board of Directors in the performance of their duties.

External auditor Masanori Odakura is fully independent and, as a licensed certified public accountant, conducts his auditing duties as an experienced professional. He is also a senior partner of Seinan Accounting Office, but KOSÉ has no business relationships with that company. In addition, based on the judgment that there should be no concern about a conflict with the interests of the Company’s shareholders in general, Mr. Odakura has been named as an independent director of the Tokyo Stock Exchange Co., Ltd. External auditor Kenichi Fujinawa is also fully



independent, and, as an attorney at law, conducts his auditing duties as a legal professional. He is also a senior partner of the Nagashima Ohno & Tsunematsu Law Firm. Although the Company calls on Mr. Fujinawa in his capacity as a lawyer to provide legal advice from time to time, the compensation that is paid for these services is set with reference to market prices for such services, and this does not represent a conflict of interest.

Additionally, the Company's Audit Office, which is an independent organizational unit separate from departments conducting business activities, has specialized staff who are engaged in internal auditing activities. This office prepares annual and interim auditing plans and supervises the conduct of business activities from an overall perspective. Results of internal auditing activities are reported to the President and the corporate auditors. The managers of departments that have been audited are also informed of the results, and the Audit Office 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, and, when making reports to corporate auditors on the results of their auditing activities, exchange information and opinions as deemed appropriate. In addition, the accounting auditors share 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, 2010).

(Millions of Yen)

| Position | Total Amount of Remuneration | Total Amounts by Type of Remuneration | | | Number of Officers Receiving Remuneration |
|--|------------------------------|---------------------------------------|---------|-----------------------------------|---|
| | | Basic Remuneration | Bonuses | Provision for Retirement Payments | |
| Directors | 578 | 510 | 7 | 59 | 10 |
| Auditors (excluding external auditors) | 41 | 38 | 0 | 2 | 2 |
| External auditors | 10 | 10 | None | None | 2 |

Remuneration Paid for Audits

Remuneration paid to the auditing firm was as follows (for the fiscal year ended March 31, 2010).

(Millions of Yen)

| Type of Company | Amounts for the Year under Review | |
|---------------------------|--------------------------------------|---------------------------------|
| | Compensation for the Audit Statement | Compensation for Other Services |
| Reporting company | 83 | None |
| Consolidated subsidiaries | 13 | None |
| Total | 97 | None |

Internal Control Systems

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

Under its compliance system, KOSÉ has prepared guidelines for behavior and has implemented measures to make these available to and observed by all management and staff. The Company has also established a Compliance Committee as part of its activities to structure systems to ensure strict compliance with laws and regulations as well as maintain fairness and ethical behavior in all Company activities.

To manage various risks, KOSÉ has established a set of rules related to crisis management and created systems for preventing risk in various departments as well as developed an emergency information transmission and response system for use in times of crisis. As part of the Company's information management system, KOSÉ preserves and maintains documents related to conduct of business activities in accordance with Company rules. To manage operations of Group companies, based on rules for Group management, the Company supervises the management plans of those companies and assesses their performance. Moreover, to ensure 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 then assesses and reports on effectiveness of these controls on a continuing basis. Additionally, the Audit Office and the corporate auditors supervise and verify the status and operation of internal control systems.

2010

Financial Section

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Six-Year Summary

KOSÉ Corporation and Consolidated Subsidiaries
Years ended March 31, 2010, 2009, 2008, 2007, 2006 and 2005

| | Millions of yen | | | | | | Thousands of U.S. dollars |
|---|-----------------|-----------|-----------|-----------|-----------|-----------|---------------------------|
| | 2010 | 2009 | 2008 | 2007 | 2006 | 2005 | 2010 |
| Performance: | | | | | | | |
| Net sales..... | ¥ 172,564 | ¥ 178,121 | ¥ 180,222 | ¥ 176,390 | ¥ 177,810 | ¥ 169,913 | \$1,855,527 |
| Gross profit..... | 128,096 | 132,841 | 134,918 | 131,731 | 134,696 | 128,691 | 1,377,376 |
| SG&A expenses..... | 117,964 | 120,538 | 119,730 | 118,001 | 115,135 | 110,140 | 1,268,430 |
| Operating income..... | 10,132 | 12,303 | 15,187 | 13,730 | 19,561 | 18,550 | 108,946 |
| Interest and dividend income..... | 544 | 473 | 445 | 264 | 301 | 235 | 5,849 |
| Income before income taxes and minority interests..... | 9,418 | 11,261 | 14,477 | 14,466 | 18,701 | 18,264 | 101,269 |
| Net income..... | 5,154 | 4,742 | 6,900 | 6,895 | 9,986 | 9,411 | 55,419 |
| Cash and cash equivalents..... | 33,801 | 39,073 | 34,093 | 31,121 | 31,404 | 26,083 | 363,452 |
| Current assets..... | 99,925 | 100,760 | 100,502 | 101,065 | 101,613 | 93,756 | 1,074,462 |
| Total assets..... | 167,395 | 166,920 | 172,128 | 171,638 | 171,975 | 165,886 | 1,799,946 |
| Current liabilities..... | 35,643 | 37,199 | 40,145 | 40,052 | 40,556 | 41,377 | 383,258 |
| Long-term debt..... | — | — | — | — | 1,500 | — | — |
| Shareholders' equity..... | 101,820 | 98,988 | 99,027 | 97,490 | 94,809 | 88,316 | 1,094,839 |
| Interest-bearing debt..... | 4,502 | 4,593 | 4,824 | 6,202 | 6,766 | 4,864 | 48,409 |
| Depreciation and amortization..... | 5,892 | 5,593 | 5,452 | 5,135 | 4,996 | 4,002 | 63,355 |
| Capital expenditures..... | 6,463 | 6,622 | 5,804 | 4,014 | 7,347 | 7,350 | 69,495 |

Yen

U.S. dollars

Per Share Data:

| | | | | | | | |
|--------------------------------|----------|----------|----------|----------|----------|----------|---------|
| Net income | | | | | | | |
| Basic..... | ¥ 88.81 | ¥ 81.55 | ¥ 115.50 | ¥ 114.22 | ¥ 180.00 | ¥ 186.51 | \$ 0.95 |
| Adjusted for stock splits..... | 88.81 | 81.55 | 115.50 | 114.22 | 163.64 | 154.14 | 0.95 |
| Net assets..... | 1,746.59 | 1,699.92 | 1,693.55 | 1,636.44 | 1,730.68 | 1,762.91 | 18.78 |
| Cash dividends..... | 40.00 | 40.00 | 40.00 | 40.00 | 40.00 | 34.00 | 0.43 |

%

Financial Ratios:

| | | | | | | |
|---------------------------------|-------|-------|-------|-------|-------|-------|
| Shareholders' equity ratio..... | 60.6% | 59.1% | 58.1% | 57.3% | 55.5% | 53.2% |
| Debt-to-equity ratio..... | 4.4 | 4.7 | 4.8 | 6.3 | 7.1 | 5.5 |
| ROE..... | 5.2 | 4.8 | 7.0 | 7.1 | 10.9 | 11.1 |
| ROA..... | 6.4 | 7.5 | 9.1 | 8.1 | 11.8 | 11.6 |
| Gross profit margin..... | 74.2 | 74.6 | 74.9 | 74.7 | 75.8 | 75.7 |
| Net income to net sales..... | 3.0 | 2.7 | 3.8 | 3.9 | 5.6 | 5.5 |
| Payout ratio..... | 45.0 | 49.0 | 34.6 | 35.0 | 22.2 | 18.2 |

Notes: 1. The U.S. dollar amounts are translated, for convenience only, at the rate of ¥93 = US\$1, the approximate rate of exchange on March 31, 2010.

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.

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 2010, ended March 31, 2010, although there were signs of improvement in the Japanese economy, including recovery in corporate profitability, employment and household income conditions remained harsh, while the decline in consumer prices and weakness in personal consumption continued. In the cosmetic industry, according to data for calendar 2009 issued by Japan's Ministry of Economy, Trade and Industry, unit sales rose slightly, but sales in value terms posted a marked decline.

Amid this market environment, the KOSÉ Group moved forward steadily with its management reforms based on its Medium-Term Management Plan. The Group responded flexibly to the increasingly diverse needs of the market and its customers, promoted the optimal allocation of its resources, and worked to increase management efficiency and strengthen profitability.

As a consequence of the weakening of personal consumption along with the deterioration in economic conditions and the adverse effect of the appreciation of the yen, consolidated net sales declined ¥5.6 billion, or 3.1%, to ¥172.6 billion (US\$1,856 million). After excluding the effect of currency factors on overseas sales, consolidated net sales declined 1.8% from the level of the previous year.

Among overseas sales, sales in Asia outside Japan, including China, expanded, but because of currency factors, after conversion to yen, the percentage of KOSÉ's overseas sales in total consolidated sales increased only 0.1 percentage point, to 10.8%.

Regarding earnings, the Company worked to allocate its selling and administrative expenses more efficiently and implement reforms to secure profitability even in a difficult operating environment. However, the decline in net sales and the increase in the cost of sales ratio, owing to changes in the composition of sales, resulted in a 17.6% decrease in operating income of ¥2.2 billion, to ¥10.1 billion (US\$109 million). In addition, although the Company reported impairment losses on fixed

assets accompanying the outsourcing of its distribution activities, as a result of declines in income taxes and minority interests, net income increased 8.7%, or ¥0.4 billion, to ¥5.2 billion (US\$55 million).

Results by Business Segment

■ Cosmetics Business

In the cosmetics business in Japan, KOSÉ worked to further build the value of its high-quality brands in cosmetic specialty stores and department stores. These activities included the launching of makeup brand *ADDICTION* in department stores and the renewal of the *COSME DECORTE AQ MELIORITY* line. The Company continued aggressive marketing activities and effective advertising campaigns to promote sales of major brands, including *SEKKISEI* and *GRANDDAINE LUXAGE*, which was introduced in September 2009. However, because of the weak market conditions, including prolonged stagnation in consumer spending, domestic sales performance was weak.

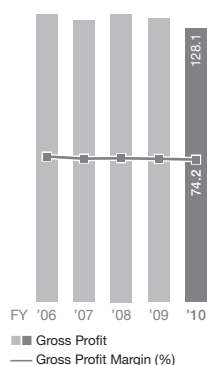
Overseas, KOSÉ implemented initiatives to expand sales through the cosmetic specialty store channel in China and proceeded steadily with the introduction of new brands in overseas markets. The activities aimed at business expansion produced favorable results. On the other hand, because the yen strengthened in comparison with the previous fiscal year, on a yen basis, overseas sales decreased.

Due to these factors, sales in the cosmetics business declined ¥6.4 billion, or 4.8%, to ¥126.1 billion (US\$1,356 million), and operating income decreased ¥2.7 billion, or 18.4%, to ¥11.9 billion (US\$128 million).

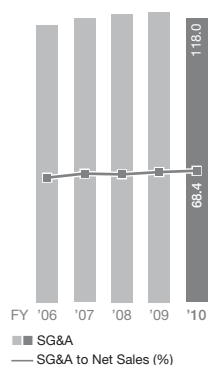
■ Cosmetaries Business

In this business, in spite of the effects of the Company's store reform policy and a reactionary decline following promotions in the previous year, KOSÉ worked to revitalize its brands, including renewals for major brands, and undertook aggressive advertising and sales promotion activities to expand its

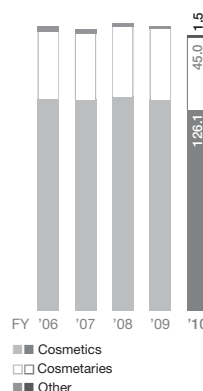
Gross Profit and Gross Profit Margin (Billions of yen)



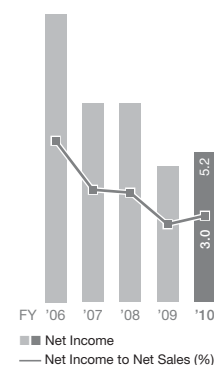
SG&A and SG&A to Net Sales (Billions of yen)



Net Sales by Segment (Billions of yen)



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



customer base. In addition, the Company made a full-scale entry into the men's cosmetic market by introducing a new line-up of products for men, *adidas skin protection*.

As a result, sales in the cosmetaries business rose ¥1.2 billion, or 2.6%, to ¥45.0 billion (US\$484 million), and operating income rose ¥0.4 billion, or 330.1%, to ¥0.6 billion (US\$6 million).

■ Other Business

Within this segment, sales declined ¥0.3 billion, or 16.6%, to ¥1.5 billion (US\$16 million). This reflected a decrease in orders for the on-order manufacturing of OEM products. Operating income rose ¥0.1 billion, or 17.2%, to ¥0.5 billion (US\$6 million).

Cost of Sales and Operating Expenses

The cost of sales amounted to ¥44.5 billion (US\$478 million), which was ¥0.8 billion, or 1.8%, lower than in the previous fiscal year. This decline was due to changes in the product mix and other factors. The ratio of the cost of sales to net sales rose 0.4 percentage point, to 25.8%.

Selling, general and administrative (SG&A) expenses declined ¥2.6 billion, or 2.1%, to ¥118.0 billion (US\$1,268 million). Of this total, advertising and sales promotional expenses decreased ¥2.2 billion, or 4.8%, to ¥44.1 billion (US\$475 million). Although KOSÉ launched new products and renewed existing items as it pursued aggressive marketing activities, this decline in promotional expenses was made possible by more-effective allocation of expenses. As a result, the ratio of advertising and sales promotional expenses to net sales decreased 0.4 percentage point, to 25.6%. Personnel expenses rose ¥0.6 billion, or 1.4%, to ¥44.5 billion (US\$478 million), mainly because of an increase in retirement and severance payments. The ratio of personnel expenses to net sales increased 1.2 percentage points, to 25.8%. Despite activities to reduce expenses overall, the ratio of SG&A expenses to net sales increased 0.7 percentage point, to 68.4%.

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\$6 million) in interest and dividend income for the year and ¥0.3 billion (US\$3 million) in income from the sale of investment securities. On the other hand, the Company posted losses on the sale of fixed assets of ¥0.2 billion (US\$3 million) and ¥1.4 billion (US\$15 million) in impairment losses on distribution facilities in connection with the outsourcing of distribution activities. As a result of these various factors, other income and expenses, net, amounted to expenses of ¥0.7 billion (US\$8 million).

FINANCIAL CONDITION

■ Assets and Liabilities

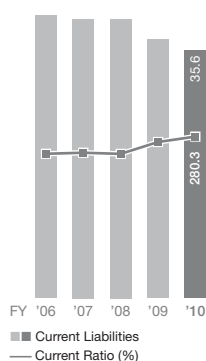
Current assets decreased ¥0.8 billion, or 0.8%, to ¥99.9 billion (US\$1,074 million), primarily as a result of a decline in cash and cash equivalents of ¥5.3 billion, which was partially offset by an increase in time deposits and short-term investments in securities of ¥3.4 billion.

Investments and long-term advances increased ¥2.5 billion, or 22.6%, to ¥13.8 billion (US\$148 million), mainly due to an increase in investment securities of ¥2.5 billion.

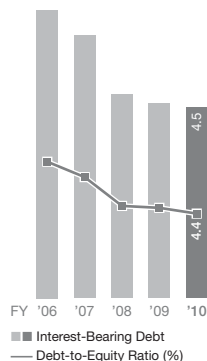
Tangible fixed assets decreased ¥2.0 billion, or 5.0%, to ¥37.3 billion (US\$401 million), despite investment expenditures on metal molds, because of the ongoing decline in the balance of depreciable assets and the resulting decline in depreciation charges. Other assets increased ¥0.7 billion, or 4.6%, to ¥16.3 billion (US\$176 million), because of a rise in intangible fixed assets accompanying purchases of rights to brand trademarks.

Current liabilities were down ¥1.6 billion, or 4.2%, to ¥35.6 billion (US\$383 million), reflecting a decline in notes and accounts payable—trade of ¥1.6 billion and a drop in income taxes payable of ¥0.4 billion owing to the decrease in taxable income.

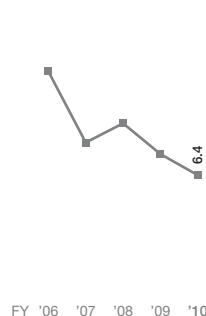
Current Liabilities and Current Ratio (Billions of yen)



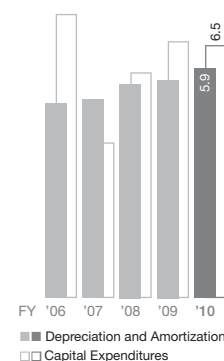
Interest-Bearing Debt and Debt-to-Equity Ratio (Billions of yen)



ROA (%)



Depreciation and Amortization and Capital Expenditures (Billions of yen)



Fixed liabilities declined ¥1.0 billion, or 4.1%, to ¥24.2 billion (US\$260 million), because of a decrease in the provision for retirement benefits and other factors. Please note that the balance of interest-bearing debt at fiscal year-end was ¥4.5 billion (US\$48 million) and the debt-to-equity ratio was 4.4%.

As a result of the previously mentioned factors, the current ratio on a consolidated basis was 280.3%, up 9.4 percentage points from the previous fiscal year-end, and the quick ratio was 197.0%, representing an increase of 2.5 percentage points.

■ Shareholders' Equity

Total shareholders' equity at the end of the fiscal year stood at ¥101.8 billion (US\$1,095 million), ¥2.8 billion, or 2.9%, higher than at the end of the previous fiscal year. This was primarily due to an increase in retained earnings of ¥2.8 billion, to ¥97.8 billion (US\$1,052 million).

■ Performance Indicators

The operating income margin, a key performance indicator for the KOSÉ Group, decreased 1.0 percentage point, to 5.9%. In addition, the ROA declined 1.1 percentage points, to 6.4%.

Note: $ROA = (\text{Operating income} + \text{interest and dividend income}) / \text{yearly average of total assets} \times 100$

■ Financing

The KOSÉ Group had sufficient capital to conduct business operations during the fiscal year ended March 31, 2010. 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 ¥10.3 billion (US\$111 million). The major components influencing the operating cash flows were income before income taxes and minority interests of ¥9.4 billion (US\$101 million), depreciation and amortization (which are not accompanied by cash outflows) of ¥5.9 billion (US\$63 million), impairment losses of ¥1.4 billion (US\$15 million), a decrease in the provision for retirement benefits of ¥1.2 billion (US\$13 million), an increase in inventories of ¥0.8 billion (US\$9 million), a decrease in notes and accounts payable—trade of ¥1.1 billion (US\$12 million), and income taxes paid of ¥3.7 billion (US\$40 million).

Net cash used in investing activities was ¥12.6 billion (US\$136 million). This was mainly due to a net increase in time deposits and short-term investments in securities of ¥2.7 billion (US\$29 million), purchase of property, plant and equipment (including

expenditures for purchases of metal molds) of ¥3.9 billion (US\$41 million), expenditures for the purchase of intangible assets of ¥2.3 billion (US\$25 million), and a net outflow related to investment securities (purchase of investment securities and proceeds from sales and redemption of investment securities) of ¥3.2 billion (US\$34 million).

Net cash used in financing activities was ¥2.7 billion (US\$29 million). This was mainly the result of cash dividends paid of ¥2.5 billion (US\$26 million).

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 ¥33.8 billion (US\$363 million), which was ¥5.3 billion, or 13.5%, lower 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. These risk factors could have a material influence on KOSÉ's management performance and financial position. Please note that the forward-looking statements contained herein are based on the Company's judgments, which were made as of June 29, 2010.

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 79.4% 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 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

In Japan's cosmetic market, which is now mature, new entrants have entered from other industries in recent years, and, as a result, competition has intensified. Further challenges are posed in Japan by 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 material influence on KOSÉ's management performance and financial position.

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. Moreover, KOSÉ must take full account of the content of relevant international treaties and trends in environmental regulations. 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. If the patent holder is the first to discover the infringement, KOSÉ could receive a warning and 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 that suppliers are unable to continue their operations (due to bankruptcy, suspension of business operations, or for other reasons), unexpected accidents, sudden increases in demand, or other factors, 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 primary 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, 2010 and 2009

| Assets | Millions of yen | | Thousands of U.S. dollars (Note 3) |
|---|-----------------|----------|---------------------------------------|
| | 2010 | 2009 | 2010 |
| Current assets: | | | |
| Cash and cash equivalents (Note 5) | ¥ 33,801 | ¥ 39,073 | \$ 363,452 |
| Time deposits and short-term investments in securities (Notes 5 and 6)..... | 12,691 | 9,248 | 136,462 |
| Notes and accounts receivable—trade (Note 5) | 23,720 | 24,044 | 255,054 |
| Allowance for doubtful accounts | (266) | (283) | (2,860) |
| Inventories (Note 4) | 22,717 | 21,846 | 244,269 |
| Deferred tax assets—current (Note 10) | 4,387 | 4,637 | 47,172 |
| Other | 2,874 | 2,194 | 30,903 |
| Total current assets..... | 99,925 | 100,760 | 1,074,462 |
| Investments and long-term advances: | | | |
| Investments in and advances to unconsolidated subsidiaries and affiliates | 20 | 20 | 215 |
| Investment securities (Notes 5 and 6)..... | 10,485 | 7,938 | 112,742 |
| Other | 3,499 | 3,615 | 37,624 |
| Allowance for doubtful accounts | (211) | (326) | (2,269) |
| Total investments and long-term advances | 13,793 | 11,247 | 148,312 |
| Property, plant and equipment (Note 7): | | | |
| Land (Note 9)..... | 17,220 | 17,701 | 185,161 |
| Buildings and structures (Note 9) | 31,435 | 31,367 | 338,011 |
| Machinery and equipment..... | 41,325 | 39,894 | 444,355 |
| Leased assets..... | 249 | 114 | 2,677 |
| Construction in progress | 68 | 214 | 731 |
| | 90,300 | 89,290 | 970,968 |
| Accumulated depreciation..... | (52,963) | (49,994) | (569,495) |
| Total property, plant and equipment | 37,337 | 39,296 | 401,473 |
| Other assets: | | | |
| Intangible assets | 3,885 | 3,006 | 41,774 |
| Deferred tax assets—noncurrent (Note 10)..... | 12,453 | 12,610 | 133,903 |
| Total other assets..... | 16,338 | 15,616 | 175,677 |
| Total assets | ¥167,395 | ¥166,920 | \$1,799,946 |

See accompanying notes to consolidated financial statements.

| Liabilities and net assets | Millions of yen | | Thousands of U.S. dollars (Note 3) |
|--|-----------------|----------|---------------------------------------|
| | 2010 | 2009 | 2010 |
| Current liabilities: | | | |
| Short-term loans payable (Notes 8 and 9) | ¥ 4,294 | ¥ 4,485 | \$ 46,172 |
| Notes and accounts payable—trade | 12,604 | 14,187 | 135,527 |
| Income taxes payable (Note 10) | 1,609 | 1,978 | 17,301 |
| Lease obligations | 57 | 28 | 613 |
| Other (Note 11) | 17,077 | 16,518 | 183,624 |
| Total current liabilities | 35,643 | 37,199 | 383,258 |
| Noncurrent liabilities: | | | |
| Long-term lease obligations | 150 | 79 | 1,613 |
| Provision for retirement benefits (Note 12) | 20,034 | 21,279 | 215,419 |
| Provision for directors' retirement benefits | 3,998 | 3,845 | 42,989 |
| Other | 29 | 48 | 312 |
| Total noncurrent liabilities | 24,213 | 25,252 | 260,355 |
| Commitments and contingent liabilities (Note 17) | | | |
| Net assets | | | |
| Shareholders' equity (Note 13): | | | |
| Common stock, without par value: | | | |
| Authorized: 200,000,000 shares in 2010 and 2009 | | | |
| Issued: 60,592,541 shares in 2010 and 2009 | 4,848 | 4,848 | 52,129 |
| Capital surplus | 6,390 | 6,390 | 68,710 |
| Retained earnings | 97,810 | 94,977 | 1,051,720 |
| Treasury stock, at cost: 2,545,000 shares in 2010 and 2,544,823 shares in 2009 | (7,229) | (7,228) | (77,731) |
| Total shareholders' equity | 101,820 | 98,988 | 1,094,839 |
| Valuation and translation adjustments: | | | |
| Valuation difference on available-for-sale securities | 45 | 145 | 484 |
| Foreign currency translation adjustment | (480) | (456) | (5,161) |
| Total valuation and translation adjustments | (435) | (311) | (4,677) |
| Minority interests | 6,153 | 5,791 | 66,161 |
| Total net assets | 107,538 | 104,468 | 1,156,323 |
| Total liabilities and net assets | ¥167,395 | ¥166,920 | \$1,799,946 |

Consolidated Statements of Income

KOSÉ Corporation and Consolidated Subsidiaries
Years ended March 31, 2010, 2009 and 2008

| | Millions of yen | | | Thousands of U.S. dollars (Note 3) |
|--|-----------------|----------|----------|---------------------------------------|
| | 2010 | 2009 | 2008 | 2010 |
| Net sales | ¥172,564 | ¥178,121 | ¥180,222 | \$1,855,527 |
| Cost of sales | 44,468 | 45,279 | 45,304 | 478,151 |
| Gross profit..... | 128,096 | 132,841 | 134,918 | 1,377,376 |
| Selling, general and administrative expenses (Notes 14 and 16)..... | 117,964 | 120,538 | 119,730 | 1,268,430 |
| Operating income..... | 10,132 | 12,303 | 15,187 | 108,946 |
| Other income (expenses): | | | | |
| Interest expense..... | (56) | (82) | (77) | (602) |
| Interest and dividend income..... | 544 | 473 | 445 | 5,849 |
| Foreign exchange loss..... | (49) | (869) | (853) | (527) |
| Gain (loss) on sales or disposal of noncurrent assets..... | (238) | (381) | 28 | (2,559) |
| Impairment loss..... | (1,376) | (154) | (27) | (14,796) |
| Gain on sales of investment securities (Note 6)..... | 282 | 36 | 10 | 3,032 |
| Loss on valuation of investment securities..... | (6) | (336) | (158) | (65) |
| Reversal of allowance for doubtful accounts..... | 35 | — | — | 376 |
| Loss on liquidation of subsidiaries and affiliates..... | (111) | — | — | (1,194) |
| Other, net..... | 261 | 271 | (79) | 2,806 |
| | (713) | (1,042) | (711) | (7,667) |
| Income before income taxes and minority interests | 9,418 | 11,261 | 14,477 | 101,269 |
| Income taxes (Note 10): | | | | |
| Current..... | (3,327) | (4,895) | (6,122) | (35,774) |
| Deferred..... | (461) | (796) | (430) | (4,957) |
| | (3,789) | (5,691) | (6,552) | (40,742) |
| Minority interests | (474) | (827) | (1,023) | (5,097) |
| Net income (Note 20)..... | ¥ 5,154 | ¥ 4,742 | ¥ 6,900 | \$ 55,419 |

See accompanying notes to consolidated financial statements.

Consolidated Statements of Changes in Net Assets

KOSÉ Corporation and Consolidated Subsidiaries
Years ended March 31, 2010, 2009 and 2008

| | 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, 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 |
| Changes in fiscal year ended | | | | | | | | | | | |
| March 31, 2010: | | | | | | | | | | | |
| Dividends from surplus | — | — | (2,321) | — | (2,321) | — | — | — | — | — | (2,321) |
| Net income | — | — | 5,154 | — | 5,154 | — | — | — | — | — | 5,154 |
| Purchase of treasury stock | — | — | — | (0) | (0) | — | — | — | — | — | (0) |
| Disposal of treasury stock | — | (0) | — | 0 | 0 | — | — | — | — | — | 0 |
| Transfer to capital surplus from retained earnings | — | 0 | (0) | — | — | — | — | — | — | — | — |
| Net changes in items other than shareholders' equity | — | — | — | — | — | (100) | — | (23) | (124) | 361 | 237 |
| Total changes in fiscal year ended | | | | | | | | | | | |
| March 31, 2010 | — | (0) | 2,833 | (0) | 2,832 | (100) | — | (23) | (124) | 361 | 3,069 |
| Balance as of March 31, 2010 | ¥4,848 | ¥6,390 | ¥97,810 | ¥(7,229) | ¥101,820 | ¥ 45 | ¥— | ¥ (480) | ¥ (435) | ¥6,153 | ¥107,538 |

| | 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, 2009 | \$52,129 | \$68,710 | \$1,021,258 | \$(77,720) | \$1,064,387 | \$1,559 | \$— | \$(4,903) | \$(3,344) | \$62,269 | \$1,123,312 |
| Changes in fiscal year ended | | | | | | | | | | | |
| March 31, 2010: | | | | | | | | | | | |
| Dividends from surplus | — | — | (24,957) | — | (24,957) | — | — | — | — | — | (24,957) |
| Net income | — | — | 55,419 | — | 55,419 | — | — | — | — | — | 55,419 |
| Purchase of treasury stock | — | — | — | (0) | (0) | — | — | — | — | — | (0) |
| Disposal of treasury stock | — | (0) | — | 0 | 0 | — | — | — | — | — | 0 |
| Transfer to capital surplus from retained earnings | — | 0 | (0) | — | — | — | — | — | — | — | — |
| Net changes in items other than shareholders' equity | — | — | — | — | — | (1,075) | — | (247) | (1,333) | 3,882 | 2,548 |
| Total changes in fiscal year ended | | | | | | | | | | | |
| March 31, 2010 | — | (0) | 30,462 | (0) | 30,452 | (1,075) | — | (247) | (1,333) | 3,882 | 33,000 |
| Balance as of March 31, 2010 | \$52,129 | \$68,710 | \$1,051,720 | \$(77,731) | \$1,094,839 | \$ 484 | \$— | \$(5,161) | \$(4,677) | \$66,161 | \$1,156,323 |

See accompanying notes to consolidated financial statements.

Consolidated Statements of Cash Flows

KOSÉ Corporation and Consolidated Subsidiaries
Years ended March 31, 2010, 2009 and 2008

| | Millions of yen | | | Thousands of U.S. dollars (Note 3) |
|--|-----------------|----------------|----------------|---------------------------------------|
| | 2010 | 2009 | 2008 | 2010 |
| Net cash provided by (used in) operating activities: | | | | |
| Income before income taxes and minority interests | ¥ 9,418 | ¥11,261 | ¥14,477 | \$101,269 |
| Depreciation and amortization..... | 5,892 | 5,593 | 5,452 | 63,355 |
| Impairment loss | 1,376 | 154 | 27 | 14,796 |
| Increase (decrease) in allowance for doubtful accounts | (102) | 92 | (14) | (1,097) |
| Decrease in provision for retirement benefits | (1,244) | (1,918) | (2,472) | (13,376) |
| Increase in provision for directors' retirement benefits | 153 | 195 | 248 | 1,645 |
| Loss (gain) on disposal of noncurrent assets | 238 | 381 | (28) | 2,559 |
| Interest and dividend income | (544) | (473) | (445) | (5,849) |
| Interest expense | 56 | 82 | 77 | 602 |
| Foreign exchange loss | 163 | 606 | 71 | 1,753 |
| Gain on sales of investment securities..... | (282) | (36) | (47) | (3,032) |
| Loss on valuation of investment securities..... | 6 | 336 | 158 | 65 |
| Loss on liquidation of subsidiaries and affiliates | 111 | — | — | 1,194 |
| Decrease (increase) in notes and accounts receivable—trade | 452 | (273) | 1,839 | 4,860 |
| Increase in inventories..... | (817) | (1,075) | (89) | (8,785) |
| Increase (decrease) in notes and accounts payable—trade | (1,080) | 938 | 1,396 | (11,613) |
| Other, net..... | (235) | (799) | (97) | (2,527) |
| Subtotal | 13,558 | 15,062 | 20,552 | 145,785 |
| Interest and dividend income received | 541 | 472 | 439 | 5,817 |
| Interest expenses paid | (71) | (80) | (100) | (763) |
| Other | — | 85 | 77 | — |
| Income taxes paid..... | (3,699) | (6,612) | (6,151) | (39,774) |
| Net cash provided by operating activities..... | 10,328 | 8,927 | 14,817 | 111,054 |
| Net cash provided by (used in) investing activities: | | | | |
| Decrease (increase) in time deposits and short-term investments in securities | (2,716) | 5,186 | 1,699 | (29,204) |
| Purchase of property, plant and equipment..... | (3,858) | (5,771) | (4,940) | (41,484) |
| Purchase of intangible assets..... | (2,321) | (1,120) | (83) | (24,957) |
| Purchase of investment securities | (4,580) | (1,640) | (2,590) | (49,247) |
| Proceeds from sales and redemption of investment securities..... | 1,419 | 5,817 | 112 | 15,258 |
| Decrease (increase) in other investments..... | (565) | (606) | 472 | (6,075) |
| Net cash provided by (used in) investing activities..... | (12,622) | 1,865 | (5,331) | (135,720) |
| Net cash provided by (used in) financing activities: | | | | |
| Net increase (decrease) in short-term loans payable..... | (200) | (317) | 128 | (2,151) |
| Repayment of long-term loans payable | — | — | (1,500) | — |
| Net increase in treasury stock | (0) | (2,440) | (2,961) | (0) |
| Cash dividends paid and other, net | (2,460) | (2,424) | (2,467) | (26,452) |
| Net cash used in financing activities | (2,661) | (5,183) | (6,800) | (28,613) |
| Effect of exchange rate changes on cash and cash equivalents | | | | |
| | (324) | (637) | 288 | (3,484) |
| Net increase (decrease) in cash and cash equivalents..... | (5,279) | 4,972 | 2,974 | (56,763) |
| Cash and cash equivalents at beginning of period..... | 39,066 | 34,093 | 31,119 | 420,065 |
| Cash and cash equivalents at end of period | ¥33,787 | ¥39,066 | ¥34,093 | \$363,301 |

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 ¥14 million (\$150 thousand), ¥6 million and nil at March 31, 2010, 2009 and 2008, 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.

Changes in Accounting Policy

Effective the year ended March 31, 2010, the Company and its consolidated subsidiaries adopted the "Partial Amendments to Accounting Standard for Retirement Benefits (Part 3)," (Accounting Standards Board of Japan Statement No. 19, July 31, 2008). The impact on operating income and income before income taxes and minority interests was nil for the year ended March 31, 2010.

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

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.

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 ¥93 = U.S.\$1.00, the approximate rate of exchange in effect on March 31, 2010. 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, 2010 and 2009 consisted of the following:

| | Millions of yen | | Thousands of U.S. dollars |
|--------------------------------------|-----------------|---------|------------------------------|
| | 2010 | 2009 | 2010 |
| Merchandise and finished goods | ¥12,764 | ¥11,549 | \$137,247 |
| Work in process | 1,299 | 1,262 | 13,968 |
| Raw materials and supplies | 8,653 | 9,034 | 93,043 |
| Total | ¥22,717 | ¥21,846 | \$244,269 |

5. Financial Instruments

a. Information on the Financial Instruments

The Company and its consolidated subsidiaries mainly utilize low-risk financial instruments. Notes and accounts receivable—trade are subject to customer credit risk. The Company and its consolidated subsidiaries manage this risk by monitoring the due dates and the outstanding balances for individual customers and by assessing credit risk every year. Investment securities mainly are composed of low-risk instruments classified as held-to-maturity securities, which are subject to possible changes in market price. The Company and its consolidated subsidiaries manage this risk by fair values every quarter. Notes and accounts payable—trade are subject to liquidity risk. The Company and its consolidated subsidiaries manage this risk by preparing cash-flow plans every month with payments made on a timely basis.

b. Information on Fair Value of Financial Instruments

Information on fair values of financial instruments at March 31, 2010 and 2009 is summarized as follows (excluding financial instruments for which it is difficult to assess the fair value):

| | Millions of yen | | | Thousands of U.S. dollars | | |
|---|-----------------|----------------|------------------------|---------------------------|------------------|------------------------|
| | Carrying value | Fair value | Unrealized gain (loss) | Carrying value | Fair value | Unrealized gain (loss) |
| March 31, 2010 | | | | | | |
| Assets | | | | | | |
| Cash and cash equivalents ... | ¥33,801 | ¥33,801 | ¥ (0) | \$363,452 | \$363,452 | \$ (0) |
| Time deposits and short-term investments in securities..... | 12,691 | 12,690 | (0) | 136,462 | 136,452 | (0) |
| Notes and accounts receivable—trade..... | 23,720 | 23,720 | — | 255,054 | 255,054 | — |
| Investment securities..... | 9,187 | 9,109 | (78) | 98,785 | 97,946 | (839) |
| Total assets | ¥79,401 | ¥79,321 | ¥(79) | \$853,774 | \$852,914 | \$(849) |
| Liabilities | | | | | | |
| Notes and accounts payable—trade | ¥12,604 | ¥12,604 | ¥ — | \$135,527 | \$135,527 | \$ — |
| Total liabilities..... | ¥12,604 | ¥12,604 | ¥ — | \$135,527 | \$135,527 | \$ — |

Determining fair values of financial instruments is as follows:

- Cash and cash equivalents, time deposits and notes and accounts receivable—trade
Due to the short-term nature of these assets, the Company and its consolidated subsidiaries assessed fair value and carrying value as almost equal.
- Investment securities (included in short-term investments in securities)
The Company and its consolidated subsidiaries recorded fair values at prices on stock exchanges or from correspondent financial institutions.
- Notes and accounts payable—trade
The Company and its consolidated subsidiaries assessed the fair value as equal to carrying value because payments are settled in the short term.
The carrying value of financial instruments for which the fair value is not readily determinable at March 31, 2010 is summarized as follows:

| | Millions of yen | Thousands of U.S. dollars |
|--|-----------------|---------------------------|
| Unlisted stock..... | ¥1,198 | \$12,882 |
| Investment in dormant partnership..... | 120 | 1,290 |
| Total | ¥1,318 | \$14,172 |

The redemption schedule for monetary claims and marketable securities with maturities classified as other securities at March 31, 2010 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 |
| Cash and cash equivalents | ¥33,573 | ¥ — | ¥ — | ¥— |
| Time deposits and short-term investments | | | | |
| in securities | 12,702 | — | — | — |
| Notes and accounts receivable—trade | 23,720 | — | — | — |
| Investment securities classified | | | | |
| as held-to-maturity securities | — | 326 | 100 | — |
| Investment securities classified | | | | |
| as other securities | — | 4,806 | 2,000 | — |
| Total | ¥69,998 | ¥5,132 | ¥2,100 | ¥— |

| | 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 |
| Cash and cash equivalents | \$361,000 | \$ — | \$ — | \$— |
| Time deposits and short-term investments | | | | |
| in securities | 136,581 | — | — | — |
| Notes and accounts receivable—trade | 255,054 | — | — | — |
| Investment securities classified | | | | |
| as held-to-maturity securities | — | 3,505 | 1,075 | — |
| Investment securities classified | | | | |
| as other securities | — | 51,677 | 21,505 | — |
| Total | \$752,667 | \$55,183 | \$22,581 | \$— |

Changes in Accounting Policy

Effective the year ended March 31, 2010, the Company and its consolidated subsidiaries adopted the “Accounting Standard for Financial Instruments” (Accounting Standards Board of Japan Statement No. 10, March 10, 2008) and the “Guidance on Accounting Standard for Disclosures about Fair Market Value on Financial Instruments,” (Accounting Standards Board of Japan Guidance No. 19, March 10, 2008).

Marketable securities classified as other securities at March 31, 2010 and 2009 are summarized as follows:

| | Millions of yen | | | Thousands of U.S. dollars | | |
|---|------------------|----------------|------------------------|---------------------------|----------------|------------------------|
| | Acquisition cost | Carrying value | Unrealized gain (loss) | Acquisition cost | Carrying value | Unrealized gain (loss) |
| March 31, 2010 | | | | | | |
| Securities whose carrying value exceeds their acquisition cost: | | | | | | |
| Stock..... | ¥ 826 | ¥ 957 | ¥131 | \$ 8,882 | \$ 10,290 | \$1,409 |
| Debt securities..... | 1,805 | 1,885 | 80 | 19,409 | 20,269 | 860 |
| Other..... | 869 | 932 | 63 | 9,344 | 10,022 | 677 |
| Subtotal..... | 3,500 | 3,775 | 275 | 37,634 | 40,591 | 2,957 |
| Securities whose acquisition cost exceeds their carrying value: | | | | | | |
| Stock..... | 604 | 535 | (69) | 6,495 | 5,753 | (742) |
| Debt securities..... | 4,428 | 4,305 | (122) | 47,613 | 46,290 | (1,312) |
| Other..... | 1,842 | 1,835 | (6) | 19,806 | 19,731 | (65) |
| Subtotal..... | 6,875 | 6,677 | (198) | 73,925 | 71,796 | (2,129) |
| Total..... | ¥10,376 | ¥10,452 | ¥ 76 | \$111,570 | \$112,387 | \$ 817 |

| | Millions of yen | | |
|---|------------------|----------------|------------------------|
| | Acquisition cost | Carrying value | Unrealized gain (loss) |
| March 31, 2009 | | | |
| Securities whose carrying value exceeds their acquisition cost: | | | |
| Stock..... | ¥ 33 | ¥ 46 | ¥ 13 |
| Debt securities..... | 1,118 | 1,278 | 160 |
| Other..... | 999 | 1,279 | 280 |
| Subtotal..... | 2,151 | 2,605 | 453 |
| Securities whose acquisition cost exceeds their carrying value: | | | |
| Stock..... | 811 | 774 | (36) |
| Debt securities..... | 3,028 | 2,892 | (136) |
| Other..... | 1,726 | 1,689 | (36) |
| Subtotal..... | 5,565 | 5,355 | (209) |
| Total..... | ¥7,717 | ¥7,961 | ¥243 |

Sales of securities classified as other securities for the years ended March 31, 2010, 2009 and 2008 are summarized as follows:

| | Millions of yen | | | Thousands of U.S. dollars | | |
|-----------------------|---------------------|---------------------------------------|---------------------------------------|---------------------------|---------------------------------------|---------------------------------------|
| | Sales of securities | Aggregate gain on sales of securities | Aggregate loss on sales of securities | Sales of securities | Aggregate gain on sales of securities | Aggregate loss on sales of securities |
| March 31, 2010 | | | | | | |
| Stock..... | ¥ 1 | ¥ — | ¥ 0 | \$ 11 | \$ — | \$ 0 |
| Debt securities..... | 903 | 282 | — | 9,710 | 3,032 | — |
| Other..... | — | — | — | — | — | — |
| Total..... | ¥904 | ¥282 | ¥ 0 | \$9,720 | \$3,032 | \$ 0 |

| | Millions of yen | |
|--|-----------------|------|
| | 2009 | 2008 |
| Sales of securities..... | ¥3,302 | ¥110 |
| Aggregate gain on sales of securities..... | 36 | 10 |

The Company and its consolidated subsidiaries recognized ¥6 million (\$65 thousand) as a loss on valuation of investment securities for the year ended March 31, 2010.

7. Depreciation and Amortization

Depreciation and amortization for the years ended March 31, 2010, 2009 and 2008 amounted to ¥5,892 million (\$63,355 thousand), ¥5,593 million and ¥5,452 million, respectively.

8. 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, 2010 and 2009 ranged from 0.78% to 4.37% and from 1.15% to 4.51%, respectively.

The Company had no long-term loans payable at March 31, 2010 and 2009.

9. Pledged Assets

There were no pledged assets as collateral for short-term loans payable at March 31, 2010 and 2009.

10. 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, 2010, 2009 and 2008. 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, 2010, 2009 and 2008 differ from the statutory tax rate for the following reasons:

| | 2010 | 2009 | 2008 |
|--|--------------|-------|-------|
| 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..... | (6.4) | (2.7) | (1.0) |
| Expenses not deductible for income tax purposes..... | 3.3 | 3.8 | 2.8 |
| Dividend income not deductible for income tax purposes..... | (0.2) | (0.1) | (0.1) |
| Tax on undistributed profit..... | 1.0 | 1.7 | 1.9 |
| Special deduction for income taxes..... | (2.4) | (1.7) | (1.8) |
| Increase in valuation allowance..... | 3.8 | 9.6 | 2.1 |
| Other, net..... | 0.7 | (0.5) | 1.0 |
| Effective tax rates..... | 40.2% | 50.5% | 45.3% |

The significant components of deferred tax assets and liabilities as of March 31, 2010 and 2009 were as follows:

| | Millions of yen | | Thousands of U.S. dollars |
|--|-----------------|---------|------------------------------|
| | 2010 | 2009 | 2010 |
| Deferred tax assets: | | | |
| Allowance for doubtful accounts | ¥ 681 | ¥ 1,157 | \$ 7,323 |
| Provision for retirement benefits | 9,707 | 10,162 | 104,376 |
| Deferred assets for tax purposes | 2,078 | 2,299 | 22,344 |
| Inventories | 484 | 372 | 5,204 |
| Fixed assets and inventory reserves | 770 | 654 | 8,280 |
| Impairment loss | 1,457 | 660 | 15,667 |
| Loss on valuation of investment securities..... | 197 | 194 | 2,118 |
| Accrued bonuses..... | 1,885 | 1,915 | 20,269 |
| Accrued enterprise tax..... | 195 | 193 | 2,097 |
| Other | 1,423 | 3,518 | 15,301 |
| Gross deferred tax assets..... | 18,882 | 21,128 | 203,032 |
| Less: | | | |
| Valuation allowance..... | (1,761) | (3,527) | (18,935) |
| Total deferred tax assets..... | 17,121 | 17,600 | 184,097 |
| Deferred tax liabilities: | | | |
| Deferred gain on repurchased property | (249) | (254) | (2,677) |
| Valuation difference on available-for-sale securities..... | (30) | (98) | (323) |
| Total deferred tax liabilities | (280) | (352) | (3,011) |
| Net deferred tax assets..... | ¥16,841 | ¥17,247 | \$181,086 |

11. Reserve for Returned Unsold Goods

The reserve for returned unsold goods included in "Other" under "Current liabilities" amounted to ¥2,034 million (\$21,871 thousand) and ¥2,116 million at March 31, 2010 and 2009, respectively.

12. 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, 2010 and 2009 for the Company's and its domestic consolidated subsidiaries' defined benefit plan:

| | Millions of yen | | Thousands of U.S. dollars |
|---|-----------------|-----------|------------------------------|
| | 2010 | 2009 | 2010 |
| Retirement benefit obligation | ¥(49,863) | ¥(50,151) | \$(536,161) |
| Plan assets at fair value | 28,600 | 23,799 | 307,527 |
| Unfunded retirement benefit obligation..... | (21,262) | (26,352) | (228,624) |
| Unrecognized actuarial gain..... | 1,228 | 5,073 | 13,204 |
| Provision for retirement benefits..... | ¥(20,034) | ¥(21,279) | \$(215,419) |

The components of retirement benefit expenses for the years ended March 31, 2010, 2009 and 2008 are outlined as follows:

| | Millions of yen | | | Thousands of U.S. dollars |
|--------------------------------------|-----------------|--------|--------|---------------------------|
| | 2010 | 2009 | 2008 | 2010 |
| Service cost..... | ¥1,579 | ¥1,533 | ¥1,650 | \$16,978 |
| Interest cost | 751 | 751 | 741 | 8,075 |
| Expected return on plan assets | (356) | (427) | (457) | (3,828) |
| Actuarial gain..... | 251 | (347) | (853) | 2,699 |
| Total..... | ¥2,226 | ¥1,509 | ¥1,080 | \$23,935 |

The assumptions used in accounting for the above plans for the years ended March 31, 2010, 2009 and 2008 were as follows:

| | 2010 | 2009 | 2008 |
|---|-------------|------|------|
| 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% |

13. 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, 2010 included a legal reserve of ¥774 million (\$8,323 thousand).

14. Research and Development Expenses

Research and development expenses included in "Selling, general and administrative expenses" for the years ended March 31, 2010, 2009 and 2008 totaled ¥4,306 million (\$46,301 thousand), ¥4,333 million and ¥4,282 million, respectively.

15. Leases

Lessees' Accounting

Main leased assets are computers included in "Machinery and equipment."

The following pro forma amounts represent the acquisition costs, accumulated depreciation/amortization and net book value of the leased assets as of March 31, 2010 and 2009 which would have been reflected in the accompanying consolidated balance sheets if finance lease accounting had been applied to the finance leases currently accounted for as operating leases:

| | Millions of yen | | | Thousands of U.S. dollars | | |
|-------------------------------|------------------|--|----------------|---------------------------|--|----------------|
| | Acquisition cost | Accumulated depreciation/ amortization | Net book value | Acquisition cost | Accumulated depreciation/ amortization | Net book value |
| March 31, 2010 | | | | | | |
| Machinery and equipment | ¥203 | ¥147 | ¥56 | \$2,183 | \$1,581 | \$602 |
| Software..... | 0 | 0 | 0 | 0 | 0 | 0 |
| Total..... | ¥204 | ¥147 | ¥56 | \$2,194 | \$1,581 | \$602 |

| | Millions of yen | | |
|-------------------------------|------------------|--|----------------|
| | Acquisition cost | Accumulated depreciation/ amortization | Net book value |
| March 31, 2009 | | | |
| Machinery and equipment | ¥325 | ¥198 | ¥126 |
| Software..... | 0 | 0 | 0 |
| Total..... | ¥325 | ¥198 | ¥126 |

Lease payments related to finance leases accounted for as operating leases in the accompanying consolidated financial statements amounted to ¥61 million (\$656 thousand), ¥83 million and ¥129 million for the years ended March 31, 2010, 2009 and 2008, respectively.

Assumed depreciation/amortization and interest expense amounted to ¥58 million (\$624 thousand) and ¥1 million (\$11 thousand), respectively, for the year ended March 31, 2010, ¥79 million and ¥2 million, respectively, for the year ended March 31, 2009, ¥126 million and ¥3 million, respectively, for the year ended March 31, 2008. Depreciation/amortization is determined by the straight-line method over the remaining terms of the respective leased assets.

Future minimum lease payments (including the interest portion thereon) subsequent to March 31, 2010 for finance leases accounted for as operating leases are summarized as follows:

| Year ending March 31, | Millions of yen | Thousands of U.S. dollars |
|---------------------------|-----------------|---------------------------|
| 2011..... | ¥41 | \$441 |
| 2012 and thereafter | 20 | 215 |
| Total..... | ¥61 | \$656 |

16. Selling, General and Administrative Expenses

Selling, general and administrative expenses for the years ended March 31, 2010, 2009 and 2008 consisted of the following:

| | Millions of yen | | | Thousands of U.S. dollars |
|---|-----------------|----------|----------|---------------------------|
| | 2010 | 2009 | 2008 | 2010 |
| Advertising and promotional expenses..... | ¥ 44,148 | ¥ 46,390 | ¥ 47,176 | \$ 474,710 |
| Personnel expenses | 44,462 | 43,843 | 43,404 | 478,086 |
| Other..... | 29,352 | 30,304 | 29,149 | 315,613 |
| Total..... | ¥117,964 | ¥120,538 | ¥119,730 | \$1,268,430 |

Effective April 1, 2008, 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."

Effective April 1, 2008, the Company and its consolidated subsidiaries have changed their method of accounting for research and development expenses during the year ended March 31, 2009. As a result of this change, expenses related to research and development activities were shifted from “Personnel expenses” to “Other.”

17. Commitments and Contingent Liabilities

The Company and its consolidated subsidiaries had the following contingent liabilities at March 31, 2010:

| | Millions of yen | Thousands of U.S. dollars |
|--|-----------------|---------------------------|
| As guarantor of indebtedness in connection with: | | |
| Renovation of stores by agents | ¥17 | \$183 |
| Total | ¥17 | \$183 |

18. 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.

19. Related Party Transactions

Mr. Kenichi Fujinawa, a statutory auditor of the Company, works for Nagashima Ohno & Tsunematsu Law Firm (the “Law Firm”). The Company paid ¥27 million (\$290 thousand) to the Law Firm in advisory fees during the year ended March 31, 2010. The Company determined the transaction price by referring to general lawyers’ fees. The Law Firm did not own any shares of the Company at March 31, 2010.

20. Amounts per Share

| | Yen | | | U.S. dollars |
|---------------------|-----------------|----------|----------|----------------|
| | 2010 | 2009 | 2008 | 2010 |
| Net income: | | | | |
| Basic | ¥ 88.81 | ¥ 81.55 | ¥ 115.50 | \$ 0.95 |
| Cash dividends..... | 40.00 | 40.00 | 40.00 | 0.43 |
| Net assets | 1,746.59 | 1,699.92 | 1,693.55 | 18.78 |

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, 2010, 2009 and 2008 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, 2010, 2009 and 2008 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, 2010 was as follows:

| | Millions of yen | Thousands of U.S. dollars |
|---|-----------------|---------------------------|
| Net income..... | ¥5,154 | \$55,419 |
| Net income relating to common stock | ¥5,154 | \$55,419 |

Weighted-average number of shares of common stock: 58,047,562

Diluted net income per share has not been presented for the years ended March 31, 2010, 2009 and 2008 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.

21. 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, 2010, 2009 and 2008 are outlined as follows:

| Year ended March 31, 2010 | Millions of yen | | | | | Consolidated |
|--|-----------------|----------------|---------------|-----------------|-----------------|-----------------|
| | Cosmetics | Cosmetaries | Other | Total | Eliminations | |
| I. Sales and operating income: | | | | | | |
| Sales to third parties..... | ¥126,104 | ¥44,972 | ¥1,487 | ¥172,564 | ¥ — | ¥172,564 |
| Intragroup sales and transfers | — | — | 2,339 | 2,339 | (2,339) | — |
| Total sales | 126,104 | 44,972 | 3,826 | 174,904 | (2,339) | 172,564 |
| Operating expenses..... | 114,214 | 44,387 | 3,305 | 161,908 | 524 | 162,432 |
| Operating income | ¥ 11,890 | ¥ 585 | ¥ 521 | ¥ 12,996 | ¥(2,864) | ¥ 10,132 |
| II. Total assets, depreciation and amortization, impairment loss and capital expenditures: | | | | | | |
| Total assets | ¥ 73,940 | ¥24,828 | ¥5,303 | ¥104,072 | ¥63,322 | ¥167,395 |
| Depreciation and amortization..... | 3,827 | 1,250 | 321 | 5,400 | 491 | 5,892 |
| Impairment loss..... | 720 | 535 | 120 | 1,376 | — | 1,376 |
| Capital expenditures..... | 3,548 | 784 | 202 | 4,536 | 1,927 | 6,463 |

| Year ended March 31, 2010 | Thousands of U.S. dollars | | | | | |
|--------------------------------------|---------------------------|-------------|----------|-------------|--------------|--------------|
| | Cosmetics | Cosmetaries | Other | Total | Eliminations | Consolidated |
| I. Sales and operating income: | | | | | | |
| Sales to third parties..... | \$1,355,957 | \$483,570 | \$15,989 | \$1,855,527 | \$ — | \$1,855,527 |
| Intragroup sales and transfers | — | — | 25,151 | 25,151 | (25,151) | — |
| Total sales..... | 1,355,957 | 483,570 | 41,140 | 1,880,688 | (25,151) | 1,855,527 |
| Operating expenses | 1,228,108 | 477,280 | 35,538 | 1,740,946 | 5,634 | 1,746,581 |
| Operating income..... | \$ 127,849 | \$ 6,290 | \$ 5,602 | \$ 139,742 | \$(30,796) | \$ 108,946 |

| | | | | | | |
|--|------------|-----------|----------|-------------|-----------|-------------|
| II. Total assets, depreciation and amortization, impairment loss and capital expenditures: | | | | | | |
| Total assets | \$ 795,054 | \$266,968 | \$57,022 | \$1,119,054 | \$680,882 | \$1,799,946 |
| Depreciation and amortization..... | 41,151 | 13,441 | 3,452 | 58,065 | 5,280 | 63,355 |
| Impairment loss..... | 7,742 | 5,753 | 1,290 | 14,796 | — | 14,796 |
| Capital expenditures..... | 38,151 | 8,430 | 2,172 | 48,774 | 20,720 | 69,495 |

| Year ended March 31, 2009 | Millions of yen | | | | | |
|--------------------------------------|-----------------|-------------|--------|----------|--------------|--------------|
| | Cosmetics | Cosmetaries | Other | Total | Eliminations | 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, 2008 | Millions of yen | | | | | Eliminations | Consolidated |
|--|-----------------|-------------|--------|----------|---------|--------------|--------------|
| | Cosmetics | Cosmetaries | Other | Total | | | |
| 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 |

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, 2010, 2009 and 2008.

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, 2010 are summarized in the table below.

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

| Year ended March 31, 2010 | Millions of yen | | |
|--|-----------------|-------------|-----------------|
| | Asia | Other | Total |
| Overseas sales | ¥18,310 | ¥371 | ¥ 18,682 |
| Consolidated net sales | | | 172,564 |
| Overseas sales as a percentage of consolidated net sales | 10.6% | 0.2% | 10.8% |

| Year ended March 31, 2010 | Thousands of U.S. dollars | | |
|--|---------------------------|----------------|-------------------|
| | Asia | Other | Total |
| Overseas sales | \$196,882 | \$3,989 | \$ 200,882 |
| Consolidated net sales | | | 1,855,527 |
| Overseas sales as a percentage of consolidated net sales | 10.6% | 0.2% | 10.8% |

| Year ended March 31, 2009 | Millions of yen | | |
|---|-----------------|-------|----------|
| | Asia | Other | Total |
| Overseas sales | ¥18,530 | ¥573 | ¥ 19,103 |
| Consolidated net sales | | | 178,121 |
| 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 | |
|---|-----------------|---------|
| Overseas sales | ¥ | 18,363 |
| Consolidated net sales | | 180,222 |
| 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.

22. Rental Property

Rental property includes investment properties and property which is being constructed, developed or renovated as well as idle property that is not expected to be used in the future.

Since the total amount of rental property held by the Company and its domestic consolidated subsidiaries was immaterial for the year ended March 31, 2010, this information has been omitted.

Changes in Accounting Policy

Effective the year ended March 31, 2010, the Company and its consolidated subsidiaries adopted the "Accounting Standard for Disclosures about Fair Value of Investment and Rental Property," (Accounting Standards Board of Japan Statement No. 20, November 28, 2008) and the "Guidance on Accounting Standard for Disclosures about Fair Value of Investment and Rental Property," (Accounting Standards Board of Japan Guidance No. 23, November 28, 2008).

23. Subsequent Event

Not applicable for the year ended March 31, 2010.

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, 2010 and 2009, 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, 2010, 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, 2010 and 2009, and the consolidated results of their operations and their cash flows for each of the three years in the period ended March 31, 2010 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, 2010 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 29, 2010

Ernst & Young Shinnihon LLC

Principal Consolidated Subsidiaries

Production Related Subsidiaries

| Company Name | Country | Paid-in Capital | Ownership |
|----------------------------------|---------|-----------------|-----------|
| ADVANCE CO., LTD. | Japan | ¥90 million | 100.0% |
| INTERCOSME INC. | Japan | ¥50 million | 100.0% |
| ALBION CO., LTD. | Japan | ¥760 million | 79.4% |
| TECHNOLABO CO., LTD. | Japan | ¥10 million | 79.4% |
| 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% |
| COSME LABO 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 KOREA CO., LTD. | South Korea | ₩10,300 million | 100.0% |
| KOSÉ (THAILAND) CO., LTD. | Thailand | BAHT5 million | 49.0% |
| KOSÉ (MALAYSIA) SDN. BHD. | Malaysia | RM1 million | 65.0% |
| ALBION COSMETICS (AMERICA) INC. | U.S.A. | US\$2 million | 79.4% |
| ALBION COSMETICS (HK) LTD. | China | HK\$12 million | 79.4% |

(As of March 31, 2010)

Corporate Information

(As of March 31, 2010)

Corporate Name: KOSÉ Corporation

Founding: March 2, 1946

Incorporation: June 11, 1948

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

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

IR Site (English): <http://www.kose.co.jp/jp/en/ir/>

Number of Employees: 5,632

Fiscal Year-End: March 31

Board of Directors (As of June 29, 2010)

Chairman
Yasukiyo Kobayashi

President
Kazutoshi Kobayashi

Managing Director
Izuo Ikemi

Directors
Takao Kobayashi
Minoru Miyagi
Kazumasa Hanagata
Noboru Naito

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

Executive Officers
Kumi Arakane
Kiyoto Nagahama

Shareholder Information

(As of March 31, 2010)

Common Stock: Authorized: 200,000,000 shares
Issued: 60,592,541 shares

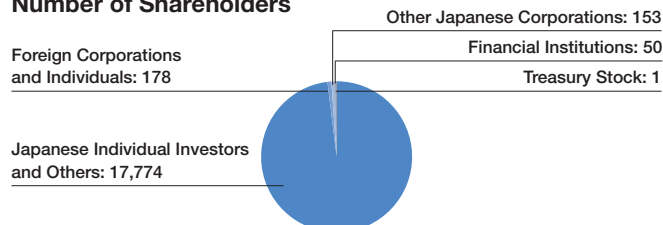
Capital: ¥4,848 million

Number of Shareholders: 18,156

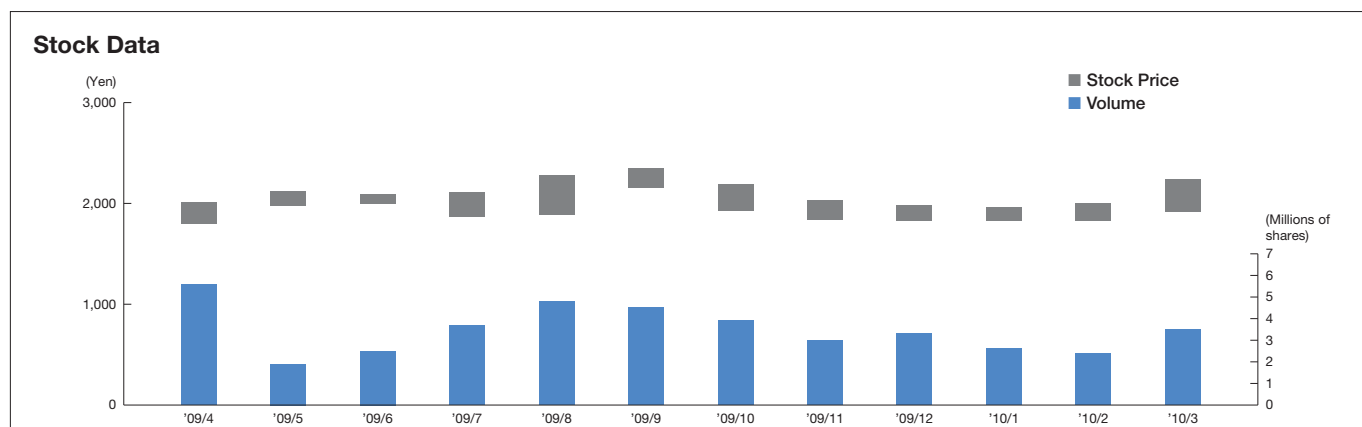
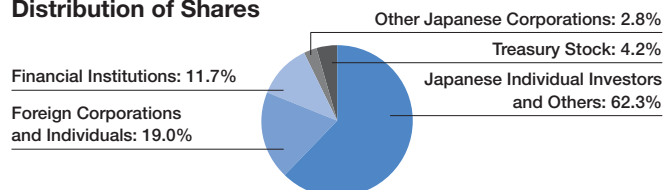
Stock Listing: Tokyo Stock Exchange, First Section
(Code: 4922)

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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