



August 3, 2005

**Summary of Financial Results for Three Months Ended June 30, 2005  
(Consolidated)**

Company name: **KOSÉ Corporation**  
 Stock code: 4922  
 Stock exchange listing: Tokyo Stock Exchange, First Section  
 Company Domicile: 3-6-2, Nihonbashi, Chuo-ku, Tokyo, 103-8251, Japan  
 President: Yasukiyo Kobayashi  
 URL: <http://www.kose.co.jp/>  
 Contact: Hiroshi Kawai,  
 General Manager of Investor Relations Division  
 Tel: +81- (0) 3-3273-1812

**1. Accounting Policies in the Preparation of Quarterly Financial Results**

- |   |      |
|---|------|
| 1) Adoption of simplified accounting method:                  | None |
| 2) Change in accounting method in current fiscal year:        | None |
| 3) Change in scope of consolidation and use of equity method: | Yes  |
| Description: Consolidation (Newly added): 1                   |      |

**2. Financial results for the first quarter ended June 2005 (April 1, 2005 – June 30, 2005)**

(1) Results of Operations

Rounded down to million yen

	Net sales		Operating income		Ordinary income	
	Million yen	YoY change (%)	Million yen	YoY change (%)	Million yen	YoY change (%)
Three months ended Jun. 2005	42,052	5.2	2,522	(38.3)	2,724	(36.1)
Three months ended Jun. 2004	39,992	7.2	4,085	114.0	4,266	115.1
(Reference) Year ended Mar. 2005	169,913	5.8	18,550	3.5	18,905	6.6

	Net income		Net income per share	Diluted net income per share
	Million yen	YoY change (%)	Yen	Yen
Three months ended Jun. 2005	(404)	-	(7.34)	-
Three months ended Jun. 2004	1,780	5.7	35.57	-
(Reference) Year ended Mar. 2005	9,411	5.3	186.51	-

Notes:

- The percentages shown for net sales, operating income, ordinary income and net income represent changes from the same period in the previous year.
- After adjusting for the 1-to-1.1 stock split conducted on May 20, 2005, retroactively adjusted for stock splits to the beginning of FY 2004, net income per share was 32.33 yen for the three months ended June 30, 2004, and 169.56 yen for the fiscal year ended March 31, 2005.

## (2) Financial Position

	Total assets	Shareholders' equity	Shareholders' equity ratio	Shareholders' equity per share
	Million yen	Million yen	%	Yen
As of Jun. 2005	161,951	87,082	53.8	1,581.74
As of Jun. 2004	157,266	81,614	51.9	1,630.47
(Reference) As of Mar. 2005	165,886	88,316	53.2	1,762.91

Note: After adjusting for the 1-to-1.1 stock split conducted on May 20, 2005, retroactively adjusted for stock splits to the beginning of FY 2004, shareholders' equity per share was 1,482.24 yen as of June 30, 2004, and 1,602.65 yen as of June 30, 2005.

## (3) Cash flow position

	Net cash provided by (used in)			Cash and cash equivalents at end of period
	Operating activities	Investing activities	Financing activities	
	Million yen	Million yen	Million yen	Million yen
Three months ended Jun. 2005	(2,083)	1,642	(887)	24,815
Three months ended Jun. 2004	(489)	(1,144)	(2)	22,391
(Reference) Year ended Mar. 2005	10,737	(6,062)	(2,668)	26,068

## 3. Forecast for the Fiscal Year Ending March 2006 (April 1, 2005 - March 31, 2006)

There are no revisions to the forecast announced on May 12, 2005.

	Net sales	Ordinary income	Net income
	Million yen	Million yen	Million yen
Interim	87,200	9,000	3,300
Full year	177,700	19,000	8,700

Reference: Net income per share for the fiscal year ending March 2006: 156.38 yen

Notes: The estimated net income per share is calculated based on an estimated number of shares outstanding after taking the stock split scheduled on May 20, 2005 into account.

### **Cautionary statement**

Forecasts regarding future performance in these materials are based judgments made in accordance with information available at the time this presentation was prepared. Forecasts therefore embody risks and uncertainties. Readers should be aware that actual results and events might differ substantially from these forecasts.

## Consolidated Results of Operations

### (1) Financial Results for Three Months Ended June 2005 (April 1, 2005 – June 30, 2005)

*Millions of yen, %*

Operating segment	Three months ended Jun. 2004		Three months ended Jun. 2005		Change	
	Amount	% comp.	Amount	% comp.	Amount	%
Cosmetics	29,128	72.8	30,906	73.5	1,777	6.1
Cosmetaries	9,954	24.9	10,287	24.5	332	3.3
Other	908	2.3	858	2.0	(50)	(5.6)
<b>Total net sales</b>	<b>39,992</b>	<b>100.0</b>	<b>42,052</b>	<b>100.0</b>	<b>2,059</b>	<b>5.2</b>

Item	Three months ended Jun. 2004		Three months ended Jun. 2005		Change	
	Amount	%	Amount	%	Amount	%
Operating income	4,085	10.2	2,522	6.0	(1,563)	(38.3)
Ordinary income	4,266	10.7	2,724	6.5	(1,542)	(36.1)
Net income	1,780	4.5	(404)	(1.0)	(2,184)	-

During the first quarter, the Japanese economy continued to slowly recover despite the higher price of crude oil and other sources of concern. The economy was supported by mainly by rising capital expenditures, mostly by manufacturers, and improving operating results at many companies. In the cosmetics industry, there has been growth in both unit volume and monetary sales of cosmetics in Japan during the first five months of 2005, based on statistics compiled by the Ministry of Economy, Trade and Industry.

In this environment, KOSÉ conducted its distinctive brand marketing activities, strengthening actions to support sales of brands designed for specific sales channels, such as specialty cosmetics stores, department stores and GMSs. In addition, KOSÉ backed up core brands by introducing distinctive new products and conducting high-profile advertising and sales promotion activities that are closely linked to sales counters for KOSÉ products.

Due to these factors, sales in the first quarter reflected strong performances by high-value-added brands and “self-selection” cosmetics that are distributed through wholesalers. The result was a 5.2% increase in net sales to 42,052 million yen. Earnings, however, were impacted by differences relative to the previous fiscal year in the timing of certain promotions and by a shift in the posting of some operating expenses because some sales promotion expenses budgeted for the first quarter were not used in the previous fiscal year. As a result, operating income was down 38.3% to 2,522 million yen and ordinary income declined 36.1% to 2,724 million yen. After inclusion of charges resulting from the adoption of asset impairment accounting, there was a net loss of 404 million yen.

As first-quarter results were generally the same as had been planned, KOSÉ is making no revisions to its first-half and full-year consolidated forecasts.

#### Reference: Consolidated Operating Results

Operating segment	Three months ended Jun. 2003		Three months ended Jun. 2004		Three months ended Jun. 2005	
	Amount	%	Amount	%	Amount	%
Net sales	37,298	-	39,992	7.2	42,052	5.2
Operating income	1,909	-	4,085	114.0	2,522	(38.3)
Ordinary income	1,983	-	4,266	115.1	2,724	(36.1)
Net income	1,684	-	1,780	5.7	(404)	-

Advertising	2,403	-	2,635	9.7	2,958	12.3
Sales promotion	7,897	-	7,540	(4.5)	8,989	19.2
<b>Total</b>	<b>10,301</b>	<b>-</b>	<b>10,175</b>	<b>(1.2)</b>	<b>11,948</b>	<b>17.4</b>

## **(2) Results by Business Segment**

### Cosmetics Business

In the cosmetics business, KOSÉ introduced distinctive new products for core brands such as SEKKISEI and SEIKISHO, conducting high-profile advertising and sales promotion campaigns to back up these products. In addition, PRÉDIA, INFINITY and other brands that targeted specific distribution channels contributed to sales growth due to introduce new whitening products.

Outside Japan, operating results were strong due to effective sales campaigns that chiefly targeted the SEKKISEI brand. One major initiative is the introduction of BEAUTÉ de KOSÉ products at upscale department stores in China and Taiwan. In Korea as well, activities focused on increasing the number of leading department stores that sell KOSÉ products.

The result was a 6.1% increase in cosmetics sales to 30,906 million yen.

### Cosmetaries Business

In the cosmetaries business, sales increased mainly because of growing sales of hair care products, including STEPHEN KNOLL products and the line of SALON STYLE products, which are sold through wholesalers. In the makeup products, FASIO continued to perform well.

The result was a 3.3% increase in sales to 10,287 million yen.

### Other Business

In the other business, there was a decline in orders for the manufacture of OEM products. In the amenities category, sales were slightly increased year on year despite sales promotion activities targeting sales agents.

The result was a 5.6% decrease in sales to 858 million yen.

## 1. Summary Consolidated Balance Sheets

Unit: Millions of yen

Account	1Q FY 2004 As of Jun. 30, 2004	1Q FY 2005 As of Jun. 30, 2005	Change	FY 2004 As of March 31, 2005
<b>Assets</b>				
<b>I. Current assets</b>				
Cash and time deposits	16,648	18,936	(277)	19,213
Notes and accounts receivable	21,648	23,555	(825)	24,381
Short-term investments in securities	15,205	15,099	(3,500)	18,599
Inventories	20,600	25,089	2,690	22,398
Deferred tax assets-current	3,674	3,988	(136)	4,124
Other current assets	5,451	5,459	38	5,420
Allowance for doubtful accounts	(385)	(381)	(0)	(381)
Total current assets	82,845	91,745	(2,010)	93,756
<b>II. Fixed Assets</b>				
<b>Property, plant and equipment</b>				
Buildings and structures	11,155	12,424	(109)	12,534
Machinery and automotive equip.	3,064	2,934	(10)	2,944
Furniture and fixtures	6,312	6,005	(713)	6,718
Land	17,200	16,429	(932)	17,362
Construction in progress	1,696	155	6	148
Total property, plant and equipment	39,430	37,948	(1,759)	39,708
<b>Intangible assets</b>				
Software	859	4,071	483	3,587
Software under development	2,653	525	(693)	1,219
Other intangible assets	269	267	2	264
Total intangible assets	3,782	4,864	(207)	5,072
<b>Investments and others</b>				
Investments in securities	13,271	10,413	96	10,316
Deferred tax assets-non-current	15,618	14,897	(18)	14,915
Others	2,545	2,418	(44)	2,463
Allowance for doubtful accounts	(228)	(336)	9	(345)
Total investments and others	31,207	27,392	43	27,349
Total fixed assets	74,421	70,205	(1,923)	72,129
<b>Total Assets</b>	157,266	161,951	(3,934)	165,886

Unit: Millions of yen

Account	1Q FY 2004 As of Jun. 30, 2004	1Q FY 2005 As of Jun. 30, 2005	Change	FY 2004 As of March 31, 2005
<b>Liabilities</b>				
<b>I. Current liabilities</b>				
Notes and accounts payable	17,121	18,969	3,709	15,260
Short-term borrowings	5,339	4,870	5	4,864
Accounts payable-other	5,104	6,034	(1,319)	7,353
Accrued expenses	4,033	4,206	(2,877)	7,083
Accrued income taxes	1,417	1,454	(3,562)	5,017
Other current liabilities	4,044	3,761	1,964	1,797
<b>Total current liabilities</b>	<b>37,061</b>	<b>39,297</b>	<b>(2,080)</b>	<b>41,377</b>
<b>I. Long-term liabilities</b>				
Long-term debt	1,500	-	-	-
Accrued employees' retirement benefits	31,370	29,320	(515)	29,836
Accrued officers' severance benefits	2,730	3,099	220	2,879
Other long-term liabilities	172	173	7	166
<b>Total long-term liabilities</b>	<b>35,772</b>	<b>32,594</b>	<b>(288)</b>	<b>32,883</b>
<b>Total Liabilities</b>	<b>72,833</b>	<b>71,891</b>	<b>(2,368)</b>	<b>74,260</b>
<b>Minority Interests</b>	<b>2,817</b>	<b>2,977</b>	<b>(331)</b>	<b>3,308</b>
<b>Shareholders' Equity</b>				
I. Common stock	4,848	4,848	-	4,848
II. Capital surplus	6,390	6,391	0	6,391
III. Consolidated retained earnings	68,833	74,282	(1,330)	75,613
IV. Net unrealized holdings gains (losses) on other securities	521	399	31	367
V. Foreign currency translation adjustments	1,090	1,255	82	1,173
VI. Treasury stock	(70)	(94)	(17)	(76)
<b>Total Shareholders' Equity</b>	<b>81,614</b>	<b>87,082</b>	<b>(1,234)</b>	<b>88,316</b>
<b>Total Liabilities, Minority Interests and Shareholders' Equity</b>	<b>157,266</b>	<b>161,951</b>	<b>(3,934)</b>	<b>165,886</b>

## 2. Summary Consolidated Statements of Income

Unit: Millions of yen

Account	1Q FY 2004 Apr. 1, 2004 - Jun. 30, 2004		1Q FY 2005 Apr. 1, 2005 - Jun. 30, 2005		Change		FY 2004 Apr. 1, 2004 - Mar. 31, 2005	
	Amount	%	Amount	%	Amount	%	Amount	%
<b>Net sales</b>	39,992	100.0	42,052	100.0	2,059	105.2	169,913	100.0
<b>Cost of sales</b>	9,419	23.6	10,325	24.6	905	109.6	41,221	24.3
<b>Gross profit</b>	30,572	76.4	31,727	75.4	1,154	103.8	128,691	75.7
SG&A expenses	26,486	66.2	29,204	69.4	2,717	110.3	110,140	64.8
<b>Operating income</b>	4,085	10.2	2,522	6.0	(1,563)	61.7	18,550	10.9
Non-operating income								
Interest and dividends income	93		98		4		235	
Foreign exchange gains	26		53		27		79	
Other non-operating income	107		80		(26)		210	
<b>Total non-operating income</b>	227	0.6	232	0.6	4	102.1	526	0.3
Non-operating expenses								
Interest expense	18		17		(1)		111	
Other non-operating expenses	27		13		(14)		59	
<b>Total non-operating expenses</b>	46	0.1	30	0.1	(16)	65.7	171	0.1
<b>Ordinary income</b>	4,266	10.7	2,724	6.5	(1,542)	63.9	18,905	11.1
Extraordinary income	68	0.2	10	0.0	(58)	14.7	296	0.2
Extraordinary loss*	18	0.1	1,840	4.4	1,821	-	937	0.6
<b>Net income before income taxes</b>	4,316	10.8	894	2.1	(3,421)	20.7	18,264	10.7
Income taxes-current	1,486	3.7	1,463	3.5	(22)	98.5	7,179	4.2
Income taxes-deferred	816	2.0	132	0.3	(683)	16.3	1,171	0.7
Minority interests-income	232	0.6	-	-	-	-	502	0.3
Minority interests-loss	-	-	297	0.7	-	-	-	-
<b>Net income</b>	1,780	4.5	-	-	-	-	9,411	5.5
<b>Net loss</b>	-	-	404	1.0	-	-	-	-

\* Extraordinary loss includes a 1,832 million yen of impairment loss in the current first quarter.

### 3. Summary Consolidated Statements of Cash Flows

Unit: Millions of yen

Account	1Q FY 2004 Apr. 1, 2004 - Jun. 30, 2004	1Q FY 2005 Apr. 1, 2005 - Jun. 30, 2005
<b>I. Cash flows from operating activities</b>		
Net income before income taxes	4,316	894
Depreciation	857	1,114
Impairment loss	-	1,832
Increase (decrease) in provision of allowance for doubtful accounts	(106)	(9)
Increase (decrease) in accrued employees' retirement benefits	(466)	(516)
Increase (decrease) in accrued officers' severance benefits for director	107	220
Loss (gain) on disposal of fixed assets	18	5
Interest and dividend income	(93)	(98)
Decrease (increase) in notes and accounts receivable	1,731	906
Decrease (increase) in inventories	(2,760)	(2,625)
Increase (decrease) in notes and accounts payable	2,574	4,620
Others	(2,499)	(3,467)
Subtotal	3,679	2,875
Interest and dividends received	110	88
Interest paid	(13)	(16)
Income taxes paid	(4,266)	(5,031)
Net cash used in operating activities	(489)	(2,083)
<b>II. Cash flows from investing activities</b>		
Decrease (increase) in securities	1,499	3,499
Payment for purchase of property, plant and equipment	(1,477)	(798)
Proceeds from sale of property, plant and equipment	145	1
Payment for acquisition of intangible assets	(182)	(88)
Payment for acquisition of investments in securities	(2)	(2)
Others	(1,127)	(968)
Net cash provided by investment activities	(1,144)	1,642
<b>III. Cash flows from financing activities</b>		
Increase (decrease) in short-term borrowings	814	8
Net change from purchase and sale of treasury stock	(22)	(17)
Payment of dividends	(794)	(879)
Net cash used in financing activities	(2)	(887)
<b>IV. Effect of exchange rate changes on cash and cash equivalents</b>	(2)	76
<b>V. Increase (decrease) in cash and cash equivalents</b>	(1,639)	(1,252)
<b>VI. Cash and cash equivalents at beginning of period</b>	24,030	26,068
<b>VII. Cash and cash equivalents at end of period</b>	22,391	24,815