



KOSÉ Group TNFD Report

KOSÉ Corporation

I. KOSÉ and Nature

- I-i. Sustainability of the KOSÉ Group
- I-ii. Approach to Natural Capital
- I-iii. Approach to Disclosure

II. General Requirements

III. Governance

- III-i. Board of Directors
- III-ii. Sustainability Committee
- III-iii. Respect for Human Rights and Engagement with Local Communities

IV. Strategy

- IV-i. Scoping
- IV-ii. Locate: Find points of contact with nature
- IV-iii. Evaluate: Diagnose dependency and impact
- IV-iv. Assess: Evaluate risks and opportunities
- IV-v. Overall Business Strategy

V. Managing Risk and Impact

- V-i. Risk Management Framework

VI. Metrics and Targets

- VI-i. Core Global Metrics: Dependency and impact
- VI-ii. Core Global Metrics: Risks and opportunities
- VI-iii. Medium-to-Long Term Targets

VII. Specific Initiatives

- Activities to Protect the Sea
- Activities to Protect Forests
- Activities to Protect Water
- Cleanup Activities
- Membership and Registration in Biodiversity-Related Organizations

I

KOSÉ and Nature

I-i. Sustainability of the KOSÉ Group

I. KOSÉ and Nature

Since its foundation, the KOSÉ Group has received many blessings from nature in the course of its business activities. Having first expressed our corporate message “Creating Beauty in a Sustainable World” in 1991, we have since promoted unique activities to address a wide range of social issues from the two aspects of “for people” and “for the Earth.” In 2020, we announced our sustainability strategies, which set out the Group’s entire sustainability initiatives and targets up to 2030. In defining the themes that we should work on, our corporate message, “Creating Beauty in a Sustainable World” serves as our guiding principle for sustainability, and our Group’s Behavioral Charter, “Mind to Follow the Right Path,” is positioned as a policy that forms the basis of all our corporate activities. We are committed to promoting sustainability activities, recognizing that addressing social issues is one of the most important management issues that is essential to achieve both business growth and realization of a sustainable society.

Guiding Principle for Sustainability

Creating Beauty in a Sustainable World

KOSÉ is a company that delivers state-of-the-art value by creating beauty through sensuousness and intelligence, love and craftsmanship.

We aspire to build a future where people possess confidence and positivity, embracing

both themselves and others for who they are.

A future where all can live peacefully in a wholesome world.

To bring about that future, we pledge to do our utmost through the intelligent creation of beauty.

The power of beauty can change the world.
More than anything, we believe in the power of beauty.

Fundamental Policy

Mind to Follow the Right Path

The motto of Kozaburo Kobayashi, the founder of KOSÉ, is Mind to Follow the Right Path. The foundation of our corporate spirit since day one, these words are part of the Behavioral Charter that all KOSÉ Group employees must follow. They also serve as the fundamental policy of the KOSÉ Sustainability Plan. We are governed by the Mind to Follow the Right Path motto of our founder that is part of our Behavioral Charter, which is the core of the Group’s code of conduct. We endeavor fully to become a company trusted and supported widely by society through actions based on honest and trustworthy decisions and the respect of the human rights of each person involved.



To follow the right path requires
Courage
Patience
Wisdom and Effort

Flexibility and Honesty
Each moment, each day,
deepen your commitment
to staying on this path

Kozaburo Kobayashi, Founder of KOSÉ 3

I-ii. Approach to Natural Capital

The KOSÉ Group has established a policy for natural capital in its sustainability strategy. In this context, we have revised the KOSÉ Group Basic Environmental Policy in 2024, considering the importance of protecting biodiversity, which is the foundation of the natural environment.

I. KOSÉ and Nature

KOSÉ Group Basic Environmental Policy

The KOSÉ Group first expressed the corporate message “Creating Beauty in a Sustainable World” in 1991 and has endeavored to conserve the environment through business activities ever since. In all business activities, we work alongside employees and other stakeholders of the KOSÉ Group, including customers, suppliers, business partners, collaborators, local communities, and the environment, to address a wide range of environmental issues with a view to realizing a future where everyone can live with peace of mind on a healthy planet. This policy covers all our business activities, including mergers and acquisitions, and entry into new projects.

1 We will work with stakeholders to reduce the environmental burden and to conserve the environment, taking into consideration the entire value chain.

I. Climate Change : We will contribute to climate change mitigation by reducing greenhouse gas (GHG) emissions through energy conservation, conversion to renewable energy, and promotion of the use of low-carbon materials.

II. Water Resources : We will work to conserve water resources by using water sparingly, reusing water, and taking other steps to improve water use efficiency, as well as through wastewater quality management, development of products requiring less water during production and use, and management of water sources.

III. Waste Reduction and Resource Recycling : We will work toward realization of a circular economy by helping to reduce, and improve the efficiency of, use of finite resources through waste and plastic reduction, recycling activities, and adoption of lighter packaging materials. Our Measures for Circular Economy.

IV. Biodiversity : We will work to conserve and restore biodiversity in recognition of our dependence and impact on natural capital.

V. Forest and Marine Conservation : We will uphold No Deforestation, No Peat, No Exploitation (NDPE)* commitments. We will also advance initiatives contributing to marine conservation. *No clearing of forests leading to the conversion of natural forests to agricultural or other non-forestry land use, no peatland development, and no exploitation of communities.

VI. Pollution Prevention : We will prevent environmental pollution through proper management of pollutants occurring within our business activities and thorough management of chemical substances designated by law.

2 We will provide environmentally friendly products and services.

We will work to reduce the environmental burden throughout the product life cycle from procurement of materials, manufacturing, distribution, and logistics, to sale, use, disposal, and recycling.

3 We will comply with environmental laws and regulations in Japan and overseas, agreements with stakeholders, industry norms, and self-imposed standards.

We will comply with the relevant laws, regulations, and agreements in every aspect of our business activities, and we will run campaigns to improve the environment around our business sites and actively support environmental conservation projects.

4 We will establish environmental management systems and engage in ongoing implementation and improvement of environmental conservation activities wherever we do business in Japan and overseas.

We operate under an environmental management framework centered on the Sustainability Committee, which adheres to the KOSÉ Group Basic Environmental Policy in its supervision of overall sustainability management. The Sustainability Committee is chaired by the President & CEO and reports to the Board of Directors.

5 We will place importance on communicating with society.

We will strive to enhance society’s trust in the KOSÉ Group by disclosing environmental information to stakeholders in a timely and appropriate manner and promoting stakeholder understanding through dialogue and collaboration.

6 We will enhance the environmental awareness of employees through education and awareness-raising activities.

We will strive to raise employee awareness based on the idea that all activities begin with employees.

President & CEO, KOSÉ Corporation
Kazutoshi Kobayashi



I-ii. Approach to Natural Capital

I. KOSÉ and Nature

The KOSÉ Group utilizes natural capital in its business activities, including the use of water and plant-derived ingredients as raw materials for cosmetics and in the production of cosmetics, in the formulation of cosmetic paper boxes, and in the procurement of energy. In accordance with 「KOSÉ Group Basic Environmental Policy」, the KOSÉ Group has formulated 「KOSÉ Group Biodiversity Policy」 to clarify the Group's stance on the importance of preserving biodiversity, and is promoting initiatives in this area.

KOSÉ Group Biodiversity Policy

Our beautiful global environment is the source of healthy living for everyone. Because water and many other ingredients in cosmetics come from nature, we benefit from the natural environment every day in our business activities. Acknowledging biodiversity and conservation and restoration as a major issue for management, we incorporate biodiversity considerations into our business activities in keeping with the following KOSÉ Group Biodiversity Policy.

1. We will establish frameworks for ascertaining our dependence and impact on biodiversity across the entire value chain, for assessing biodiversity-related risks, and for avoiding or mitigating negative impacts on biodiversity of our business activities, and we will work to restore or revive biodiversity by implementing these frameworks.
2. Based on the results of biodiversity risk assessments and scenario analyses, we will set performance indicators and targets for integration into specific countermeasures and strategy.
3. Seeking harmony with the natural environment and ecosystems in areas where we operate, we will coordinate and collaborate with all our different stakeholders to engage in activities for biodiversity conservation.
4. We will promote supply and technological development of products with minor impact on biodiversity across the entire product life cycle from procurement of materials through to disposal and recycling.
5. We will comply with laws, regulations, and pacts in Japan and overseas.
6. We will actively disclose biodiversity-related information and initiatives.
7. We will enhance the biodiversity awareness of employees through education and awareness-raising activities.

We will continue to aim for balance between aspirations for a sustainable society and business growth by contributing to the realization of a nature-positive society that exists in harmony with nature.

※This policy has been approved by the Board of Directors.

※This policy applies to the entire KOSÉ Group, suppliers, and other stakeholders.

I-iii. Approach to Disclosure

I. KOSÉ and Nature

Amid the international community agreeing to halt and reverse the loss of biodiversity and achieve a “nature positive” state, the G7 2030 Nature Compact in 2021 and the COP15 Kunming-Montreal Global Biodiversity Framework in 2022 call for corporate initiatives and information disclosure on natural capital. Based on the recommendations of the Taskforce on Nature-related Financial Disclosure (TNFD), the Group has identified its dependency and impact on nature and analyzed and assessed its risks and opportunities. We will also participate in the TNFD Forum and register as a TNFD Adopter, and promote initiatives and information disclosure concerning natural capital and biodiversity.



II

General Requirements

The TNFD provides general requirements that organizations should consider when applying the framework, regardless of sector. The following six general requirements were considered in the disclosures in this Report.

II. General Requirements

1. Application of materiality

Ever since the KOSÉ Group first expressed its corporate message of “Creating Beauty in a Sustainable World” in 1991, the Group has worked for environmental conservation through its business activities. In this report, based on the double materiality approach, we evaluated not only the impact of nature-related issues on the KOSÉ Group’s business activities, but also the impact of our business activities on nature.

2. Scope of disclosure

In this Report, evaluation and disclosures have been made for the KOSÉ Group’s upstream and direct operations (including surrounding areas).

- Going forward, we plan to review downstream evaluations, while continuing with upstream investigations.

3. Location of nature-related issues

In direct operational locations, which were designated as priority locations, evaluations were made, taking into account the specific geographical conditions of the location. In the evaluation of dependency and impact, we evaluated the impact of the Gunma Factory’s operations on the surrounding environment by using secondary data published by Isesaki City in Gunma Prefecture, where the factory is located. We also conducted scenario analysis on the KOSÉ INDUSTRIES CO., LTD.’s Gunma Factory to create a scenario that reflects the characteristics of the relevant local government and locations, and to identify potential future risks and opportunities.

4. Integration with other sustainability issues

We recognize that climate change and natural capital are interrelated and impact each other. We also recognize the risk that the cost of procuring palm oil—a key raw material in cosmetics—may change as yields of palm oil fluctuate in various parts of the world due to rising temperatures. Climate change negatively impacts the natural environment, and natural capital provides valuable measures to counter climate change. Recognizing the importance of considering both in a holistic manner, we will continue to work on both.

5. Time horizons considered

In this Report, we conducted evaluations based on the following time horizons: short-term of three years or less, medium-term of about 3–10 years, and long-term of 10 years or longer.

6. Engagement with indigenous peoples, local communities and stakeholders involved in identifying and assessing the organization’s nature-related issues

In governance, we have made disclosures about our stakeholder engagement process.

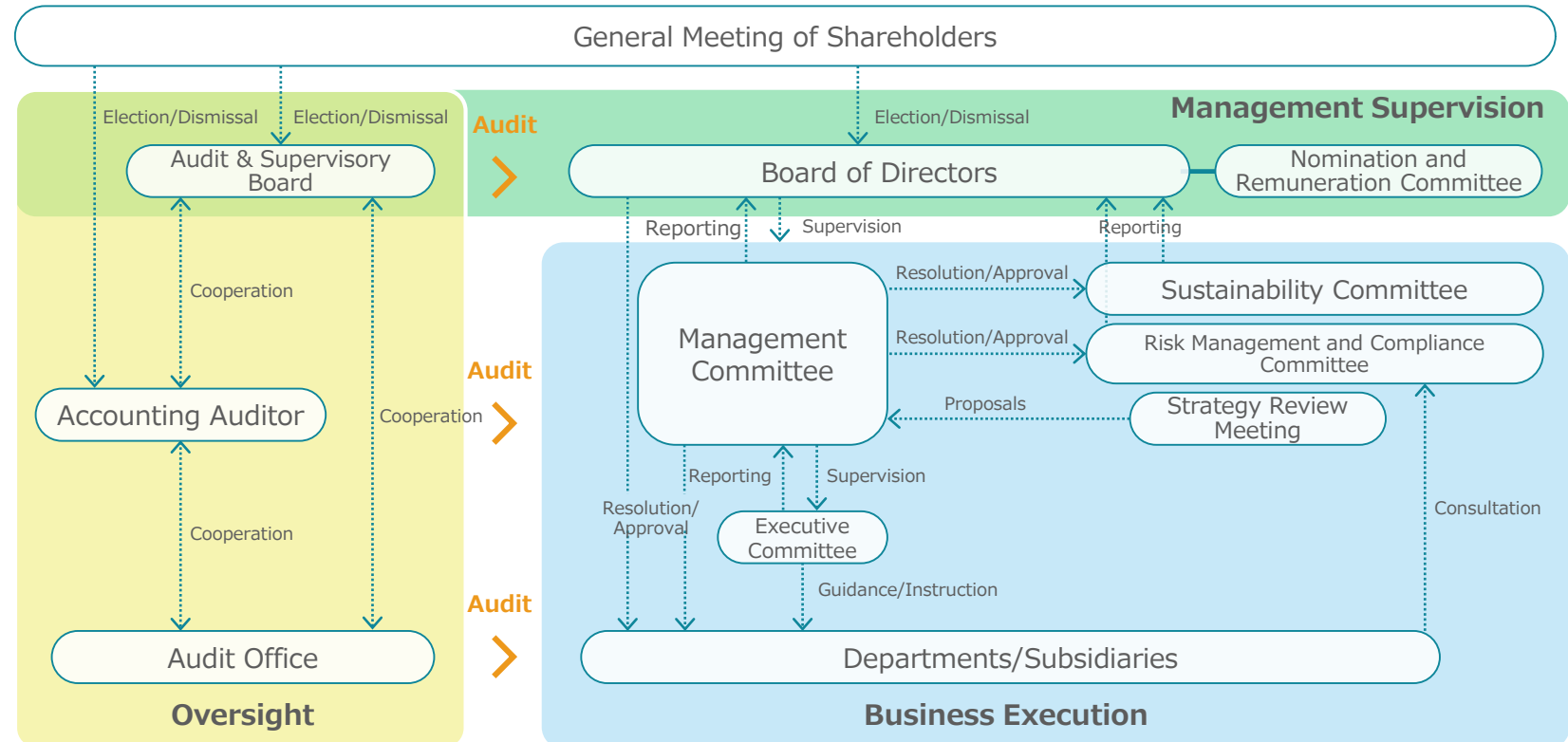
III

Governance

III-i. Board of Directors

The KOSÉ Group Board of Directors meets once each month, in principle, to decide on matters stipulated in laws and regulations and the Articles of Incorporation and important management-related matters, as well as to supervise the execution of duties by directors. The scope of this supervision includes the execution of business operations related to sustainability, with a focus on climate change, resource recycling, and biodiversity, and supervisory matters regarding the division of duties and responsibilities of directors are defined.

The Board of Directors is chaired by the President & CEO. The Board of Directors supervises the execution of business operations, which are controlled by the Management Committee and several other subordinate bodies and committees, including the Executive Committee, the Sustainability Committee, and the Risk Management and Compliance Committee.



III. Governance

Governance

Strategy

Managing Risk and Impact

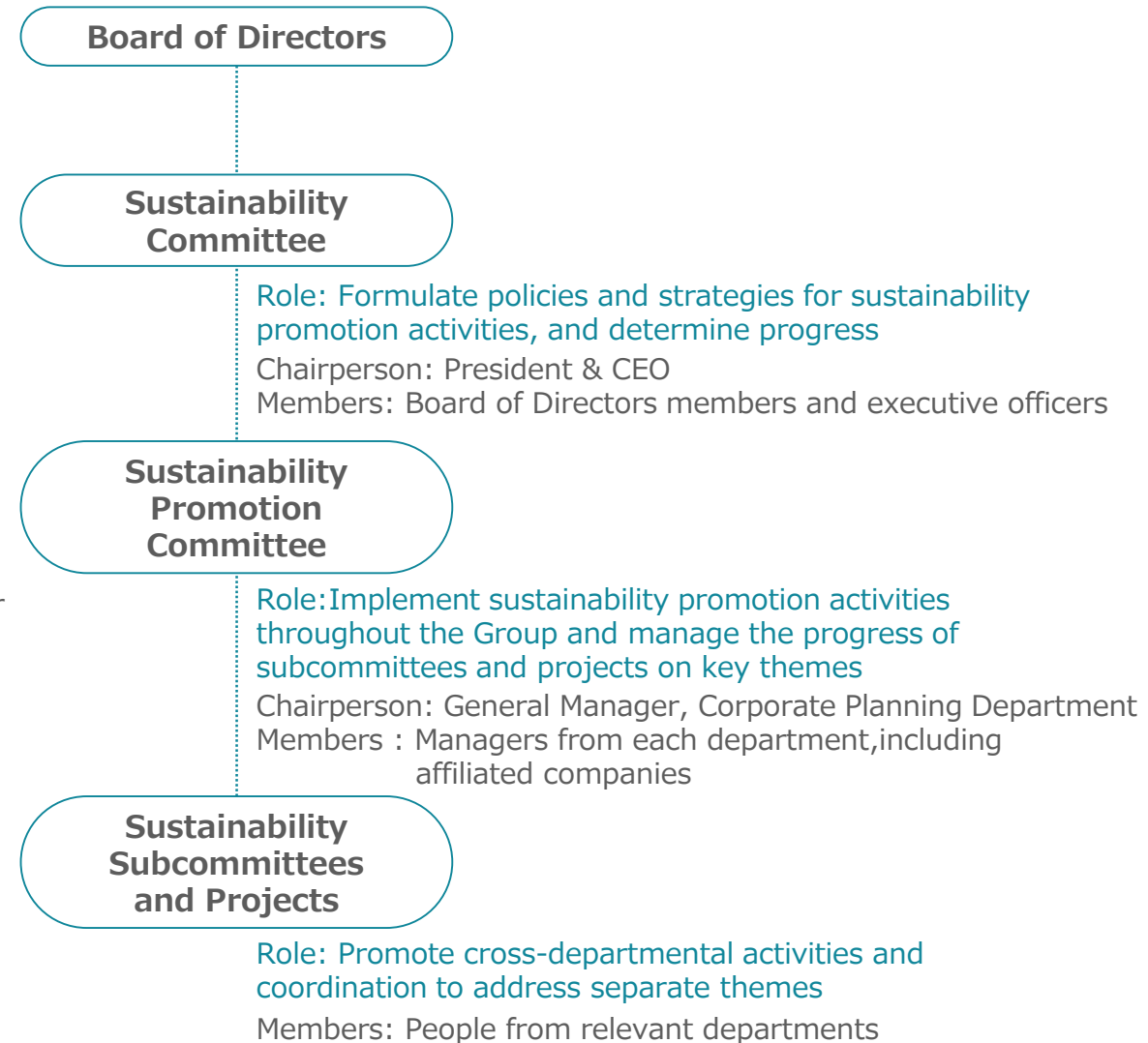
Metrics and Targets

L E A P

III-ii. Sustainability Committee

III. Governance

The KOSÉ Group views issues related to sustainability as management issues and has established a system for promoting solutions to these issues. Specifically, we have established a Sustainability Committee chaired by the President & CEO, which proposes sustainability strategies to the Management Committee for approval and reports to the Board of Directors. The Board of Directors is responsible for overseeing the company's overall sustainability promotion activities by reporting and deliberating on various material issues related to sustainability strategies, including climate change, resource recycling, and biodiversity. The President, who chairs the committee, is also responsible for assessing and monitoring risks and opportunities related to issues, and reports at least once a year at Board of Directors meetings for discussion and review of initiatives. In addition, based on the KOSÉ Group's sustainability strategies, the Sustainability Promotion Committee has established subcommittees and projects for each individual theme to promote more effective cross-departmental initiatives.



Governance

Strategy

Managing Risk and Impact

Metrics and Targets

L E A P

III-iii. Respect for Human Rights and Engagement with Local Communities

III. Governance

The KOSÉ Group recognizes that business activities that respect human rights are extremely important. To this end, we formulated the KOSÉ Group Action Guidelines in 2005 and have been committed to respecting the human rights of all people associated with the KOSÉ Group, including employees, business partners, and customers, and to acting accordingly. Respect for human rights is promoted in all our business activities. In 2020, we formulated the KOSÉ Group Human Rights Policy with reference to international norms such as the United Nation’s Guiding Principles on Business and Human Rights (UNGPs) to more strongly promote human rights initiatives in the KOSÉ Group Action Guidelines. The policy has been approved by the Board of Directors and signed by the President & CEO.

The KOSÉ Group conducts human rights due diligence in keeping with the procedures outlined in the UNGPs and based on the laws and regulations of each country in which we do business, and since FY2021, we have conducted a Human Rights Risk Assessment in order to determine possible negative impacts and issues to be addressed. We recognize the human rights risks for the communities and residents near where our bases are located, including “living conditions, water access, and health impacts” and “impacts from environmental burdens,” and we conduct our business activities with an awareness of our coexistence with local communities.

We have also established consultation and reporting channels for any cases of negative human rights impacts should they occur, and the number and content of such consultations and the responses to them are regularly reported to the Board of Directors.

KOSÉ Group Action Guidelines
<https://corp.kose.co.jp/en/sustainability/management/>
Respect for Human Rights
<https://corp.kose.co.jp/en/sustainability/rights/>

Governance

Strategy

Managing Risk and Impact

Metrics and Targets

L E A P

IV Strategy

IV- i . Scoping

We assessed the KOSÉ Group’s dependency and impact on natural capital in our production activities and in activities in the upstream value chain. In the assessment, we used Exploring Natural Capital Opportunities, Risks and Exposure (ENCORE), the High Impact Commodity List (HICL) defined by the Science Base Targets Network (SBTN) and other tools to identify dependency and impact. Then, based on the two perspectives of importance to our business and ecologically sensitive location, we determined that water resources and palm oil have higher priority in our production activities and raw material procurement, respectively.

IV. Strategy

Governance

Strategy

Managing Risk and Impact

Metrics and Targets

L E A P

	Dependency	Impact
Very high		
High	Groundwater Surface water	GHG emissions Waste Water use
Medium	Plant-derived materials	Non-greenhouse gases, air pollutants Soil pollutants Water pollutants
Low	Dilution effect	
Very low		

Dependency and impact results in the manufacture of cosmetics, using ENCORE

HICL	Other
Palm oil	
Soybeans	
	Mica
	Deep sea water Thermal spring water

Main raw materials we use in the manufacture of cosmetics
(Dependency was assessed by taking into account the sales ratio of the brands that use the raw materials and the procured volume)

IV-ii. Locate: Find points of contact with nature

Water

Priority locations were selected from among the KOSÉ Group's main sites of direct operations based on the perspectives of locations that are ecologically important and sensitive and locations that are important and ecologically important and sensitive to the KOSÉ Group.

Several tools were used to compare natural conditions, biodiversity risks, and water risks around each manufacturing site. The results showed that there were no significant differences among the sites, so they were prioritized by volume and source of water intake (Is water taken from groundwater as well as tap water?), and by volume and destination of effluent (Is water discharged directly into a nearby river instead of sewage?) (High volume \cong High dependence, high impact).

Tools used

- Think Nature's J-BMP (biodiversity map)
- WWF Biodiversity Risk Filter (used to assess the status of biodiversity at domestic manufacturing sites)
- AQUIEDUCT, WWF Water Risk Filter (used to assess water risk at domestic manufacturing sites)
- IBAT (used to assess biodiversity risk at domestic manufacturing sites)

Ultimately, there were no significant differences among the sites in terms of ecological importance and sensitivity.

As a result of comparing the natural conditions surrounding the sites, whether or not water is taken from groundwater, the volume of water used, the volume of wastewater discharged, and the importance of the plant within the company, the Gunma Factory was positioned as the most important site as it is highly dependent on water, takes water from groundwater and discharges it into rivers, and is the company's mother factory.

		KOSÉ INDUSTRIES CO., LTD.		ADVANCE Co., Ltd.	ALBION Co., Ltd.
		Gunma Factory	Sayama Factory	Iriso Factory	Kumagaya Factory
Sensitive locations	Areas of water stress	Moderate	Moderate	Moderate	Moderate
	Biodiversity risk	Physical	2.95	2.98	2.98
Reputation		2.41	2.66	2.66	2.62
Material locations	Water dependence	Very high Water intake: High	High Water intake: Medium	Medium Water intake: Low	High Water intake: Medium

IV. Strategy

Governance

Strategy

Managing Risk and Impact

Metrics and Targets

L E A P

IV-ii. Locate: Find points of contact with nature

Palm oil

In terms of nature-related issues in the upstream value chain, we focused on palm oil, which is procured as a raw material for cosmetics, and which is listed on the SBTN's HICL. Palm oil-derived raw materials are used in the Group's main brands, which use many plant-derived raw materials, with 50% of all palm oil procured coming from Indonesia and 30% from Malaysia.

Both Indonesia and Malaysia, which are major palm oil producers, are areas that nurture important biodiversity as they are home to large areas of tropical rainforests (an important biome in Southeast Asia). However, the extensive clearance of forests to cultivate oil palms (the source of palm oil) has become a global problem, with the deforestation encroaching on the habitats of wild animals, affecting endangered species such as orangutans.¹ On the island of Borneo, 50% of forests has been lost, primarily due to the development of palm plantations.² Although the scale of development in rainforests has been decreasing in recent years, it remains a serious problem.

1. From WWF Japan's website
<https://www.wwf.or.jp/activities/basicinfo/2484.html>

2. From WWF Japan's website
<https://www.wwf.or.jp/activities/basicinfo/4339.html>

IV. Strategy

Governance

Strategy

Managing Risk
and Impact

Metrics and
Targets

L E A P

IV-iii. Evaluate: Diagnose dependency and impact

IV. Strategy

Water

Water intake (dependency)

The KOSÉ INDUSTRIES CO., LTD. Gunma Factory uses tap water and groundwater. (2023 water intake = Tap water: 18,618 m², Groundwater: 166,202 m²)

Tap water

Tap water is sourced from and relies on the ecosystem services provided by the forests in the Mikuni Mountains in Minakami Town, Tone-gun.

Groundwater

Groundwater is sourced from and relies on the groundwater veins in the layers of gravel underneath Isesaki City.

➤ The Gunma Factory draws a lot of groundwater and is expected to increase its use of groundwater in the future.

Wastewater (impact)

On the other hand, wastewater is treated at a water treatment facility on the premises before being discharged into the nearby Kasukawa River (2023 wastewater: 99,589 m²)

Impact on nearby ecosystems

Drawing water and discharging wastewater could potentially have an impact on the ecosystems around the Kasukawa River. Especially when using groundwater, fluctuations in the water table and pumping up of groundwater may lead to land subsidence and decrease the amount of spring water in the surrounding area. Some organisms are dependent on spring water for their habitat and reproduction, and a decrease in springs could affect their ecosystems.

In addition, although the Iyoku Wetlands are located nearby and it is assumed that there is a connection between the wetlands and endemic and rare species unique to the region, the local government has not implemented any specific activities to protect surrounding organisms, and we must consider the ecological impact of our factory.

Consequently, there was concern about the following impacts at the Gunma Factory from a long-term perspective.

1. Decrease in aquatic organisms that are dependent on spring areas and disappearance of habitats, due to land subsidence and the decrease and depletion of spring water in surrounding river areas caused by groundwater use
2. Deterioration of water quality to the Kasukawa River, into which wastewater from the factory is discharged (if the BOD of wastewater exceeds the BOD of the Kasukawa River, there could be a negative impact on organisms)

Result of document study



1. A survey by the city government was unable to confirm any land subsidence.¹ It also showed that the volume of groundwater intake in Isesaki City as a whole is on a downward trend.² On the other hand, it was found that no studies of impacts on spring-dependent organisms had been conducted in the past. As an indicator of biota, many spring-dependent organisms that survived in Gunma Prefecture are endangered or extinct. The absence of spring-dependent species of freshwater fish in the Kasukawa River, which have been observed to inhabit other surrounding rivers (with the exception of the *Lefua echigonia* (a type of loach) which is moderately dependent on spring water), suggests that the spring environment has been affected in some way.³
2. Wastewater was being discharged from the factory to a destination with a BOD value higher than the lower limit of river water near the outlet (2.3 mg/L).⁴ Consequently, lowering the BOD value before discharging the wastewater could help to purify the water in the Kasuga River.

1, 2. <https://www.pref.gunma.jp/uploaded/attachment/100712.pdf>

3. See species listed in the Ministry of Environment's RDB and extinct species in Gunma Prefecture, *Maebashi City 2018 Natural Environment Survey (Fish and Aquatic Life) Report (Draft)*

4. <https://www.city.isesaki.lg.jp/material/files/group/29/R4isesakisinokankyou.pdf>

IV-iii. Evaluate: Diagnose dependency and impact

Palm oil

IV. Strategy

Governance

Strategy

Managing Risk and Impact

Metrics and Targets

L E A P

Dependency

Palm oil-derived raw materials are used in the Group's main brands, which use many plant-derived raw materials, and our annual procurement of the raw material in FY2023 was 2,640 tons on a palm oil equivalent basis. In addition, the value of products using this raw material account for more than 40% of the Group's sales. Our business is so highly dependent on this natural resource that it would be difficult to continue manufacturing if we could not procure this item.

Impact

We recognize that we are indirectly impacting local forest ecosystems and biodiversity as well as local communities through the procurement of palm oil. Our response to this is described in the following section, Assess.

IV- iv . Assess: Assess risks and opportunities

Water

Having evaluated the dependency and impact of the KOSÉ Group’s business on natural capital in the earlier sections of Locate and Evaluate, based on this, we diagnosed the risks and opportunities in our business in light of forecasts of future international and regional biodiversity trends. The results of these assessments are used as input information in the company-wide risk management process.

Risk and opportunity categories		Description of risks and opportunities in business	Degree of impact	Term
Physical risks	Chronic	Water intake restrictions due to the depletion of groundwater	+	Long term
		Substantial cost increase due to switching to tap water	-	Long term
Transition risks	Policy and regulation	Cost increase due to switching to tap water because of restrictions on the use of groundwater (setting of upper limits through ordinances, etc.)	-	Long term
Opportunities	Protection, restoration, and rehabilitation of ecosystems	Implement measures to improve the biodiversity of spring-dependent ecosystems, aiming for factories that exist in harmony with the surrounding ecosystem	+	Medium/long term
		Support sustainable community development and biodiversity restoration in the forests in the Mikuni Mountains, which are the source of the main course of Tone River (which supplies the tap water)	-	Medium/long term
		Help purify the river environment by discharging water with BOD values lower than the standard when discharging water into the Kasukawa River	+	Medium/long term
	Market	Improve responsiveness to market changes (greater ethical consumption, etc.) by promoting our contribution to the protection, restoration, and rehabilitation of ecosystems to end users through marketing, etc.	+	Medium/long term
	Reputational capital	Enhance corporate value through our efforts for the protection, restoration, and rehabilitation of ecosystems	+	Medium/long term

Countermeasures

We understand how important water that is nurtured by ecosystems around our factories is in the manufacturing of cosmetics. We have therefore undertaken initiatives to minimize the amount of water used in the manufacturing process, and we have implemented measures to minimize our impact on the environment by properly treating the water we use.

(Reduction target and results of reducing water consumption) Specifically, we have set a target to reduce our water consumption (water intake) for the responsible use of water resources by 12% by 2030 (compared to 2018, per production unit).

In the future, we will work with local communities and contribute to the maintenance of healthy ecosystems by having a symbiotic relationship with surrounding ecosystems, such as our employees participating in activities for the conservation of surrounding ecosystems.

IV. Strategy

Governance

Strategy

Managing Risk and Impact

Metrics and Targets

L E A P

IV- iv . Assess: Assess risks and opportunities

Palm oil

Risk and opportunity categories		Description of risks and opportunities in business	Degree of impact	Term
Physical risks	Chronic	Risk of resource depletion over the long term due to the destruction of ecosystems and loss of biodiversity	+	Medium/long term
	Acute	Disrupted supply of raw materials due to more severe extreme weather events (hurricanes, etc.)	+	Short/medium/long term
Transition risks	Policy and regulation	Increased compliance costs as a result of new laws and regulations for environmental protection	-	Medium/long term
	Reputation	Loss of consumer and investor confidence with respect to environmental destruction	+	Medium/long term
Opportunities	Sustainable use of natural capital	Potential for long-term sustainable procurement of palm oil by promoting the procurement of sustainable palm oil	+	Medium/long term
	Market	Improved product appeal when the use of sustainable palm oil becomes a condition of purchase for consumers and retailers	+	Medium/long term

Countermeasures

Risk initiatives

- As a countermeasure that considers the potential impact on palm oil farmers and local processing plants, we have established purchasing routes that can withstand the physical impact of climate change, such as the occurrence of large hurricanes, storm surges, floods, landslides, and wildfires. To diversify procurement routes, we have already secured multiple suppliers for palm-derived raw materials, a typical material used in large quantities.
- As part of our response to the sustainable procurement of palm oil, we have also clarified our sustainability strategy and shared our Basic Procurement Policy and Guidelines for Suppliers to suppliers, and in accordance with this policy, we conduct an annual survey of suppliers using a Supplier Questionnaire and evaluate their responses.

Opportunity initiatives

- As a strategy for realizing opportunities, we launched a working group to address palm oil issues, as a subordinate body of the Sustainability Committee which promotes the KOSÉ Group's sustainability initiatives. In May 2019, we became a member of the RSPO, and in June 2019, we also joined JaSPON, a domestic network for the sustainable procurement of palm oil.
- As an example of the implementation of this strategy, in 2020, we started purchasing RSPO certification credits through the Book and Claim model, and in 2021, we initiated the mass balance model to purchasing by obtaining SC certification at our main factories. In 2023, we renewed our accreditation after passing a follow-up SC certification assessment at our main factories.
- The total of procured certified palm oil and purchased RSPO certification credits through the Book and Claim model was 30.2%, an increase of 9.5 points from 20.7% in 2022.
- After attending the RSPO General Assembly in Indonesia in late November 2023, we participated in a WildAsia tour to visit small-scale farmers and factories in Malaysia. We engaged in dialogue with various stakeholders about the current situation and issues/needs on the ground, and we deepened our awareness of the issues.

IV. Strategy

Governance

Strategy

Managing Risk and Impact

Metrics and Targets

L E A P

IV-v. Overall Business Strategy

IV. Strategy

To achieve sustainable management, the KOSÉ Group emphasizes not only analyzing the risks and opportunities of existing business models, but also confronting actual or potential nature-related issues that exist in the market and envisioning new market challenges that leverage the KOSÉ Group’s unique strengths and creativity. To this end, we held a workshop across business divisions, aimed at creating business opportunities for a nature-positive society. The workshop was attended by about 20 members from various sectors of the value chain, including Group companies, who shared their knowledge, insights, and ideas on sustainability and biodiversity.

The workshop featured the following actions and explored a variety of strategies and approaches to address nature-related issues.

1 Understand the nature-related issues and delve deeply into their causes



2 Verbalize the value that we are delivering to customers and society plus the value we want to continue to deliver



3 Consider approaches to resolving the issues without compromising our distinctive uniqueness and the value we provide



We will continue to brush up on the ideas generated in the workshop with a view to their implementation and promote initiatives for sustainable management and for the realization of a nature-positive society.

Governance

Strategy

Managing Risk and Impact

Metrics and Targets

L E A P

IV-v. Overall Business Strategy

IV. Strategy

Governance

Strategy

Managing Risk and Impact

Metrics and Targets

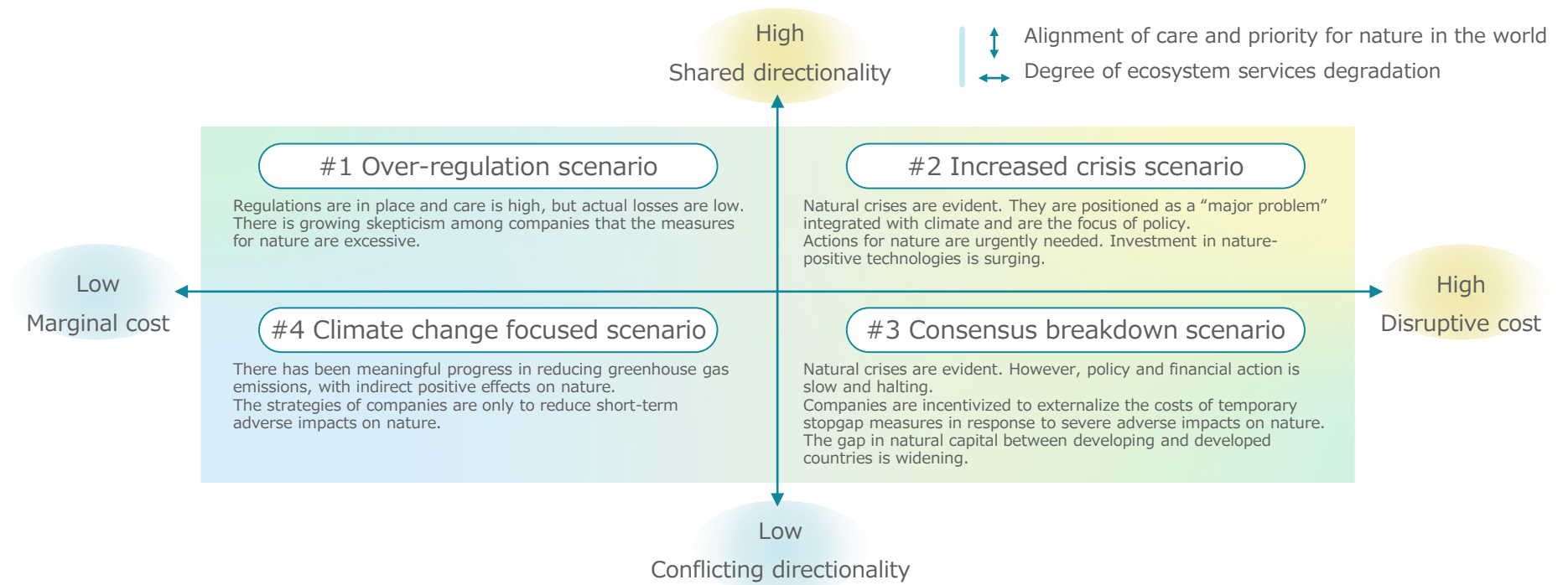
L E A P

The business environment is becoming increasingly complex and changes that are difficult to predict are affecting the industry. In this context, we emphasize having a highly resilient strategy and an awareness and structure that can respond quickly to change in order to adapt to change and maintain sustainable growth.

We conducted a scenario analysis workshop to assess the resilience of our strategies to nature-related risks and opportunities. For this scenario analysis, we utilized a 2x2 framework in accordance with TNFD guidelines.

The vertical axis of the 2x2 framework was set to “Aligning care and priority for nature in the world” and the horizontal axis was set to “degree of ecosystem services degradation.” Among our factories, KOSÉ INDUSTRIES CO., LTD. Gunma Factory was selected as the location with the highest degree of nature-related dependency and impact.

On this occasion, scenario analysis was conducted only for the second and third quadrants.



IV-v. Overall Business Strategy

[Process for creating scenarios for each quadrant] Risks and opportunities

↑ Alignment of care and priority for nature in the world
 ↔ Degree of ecosystem services degradation

IV. Strategy

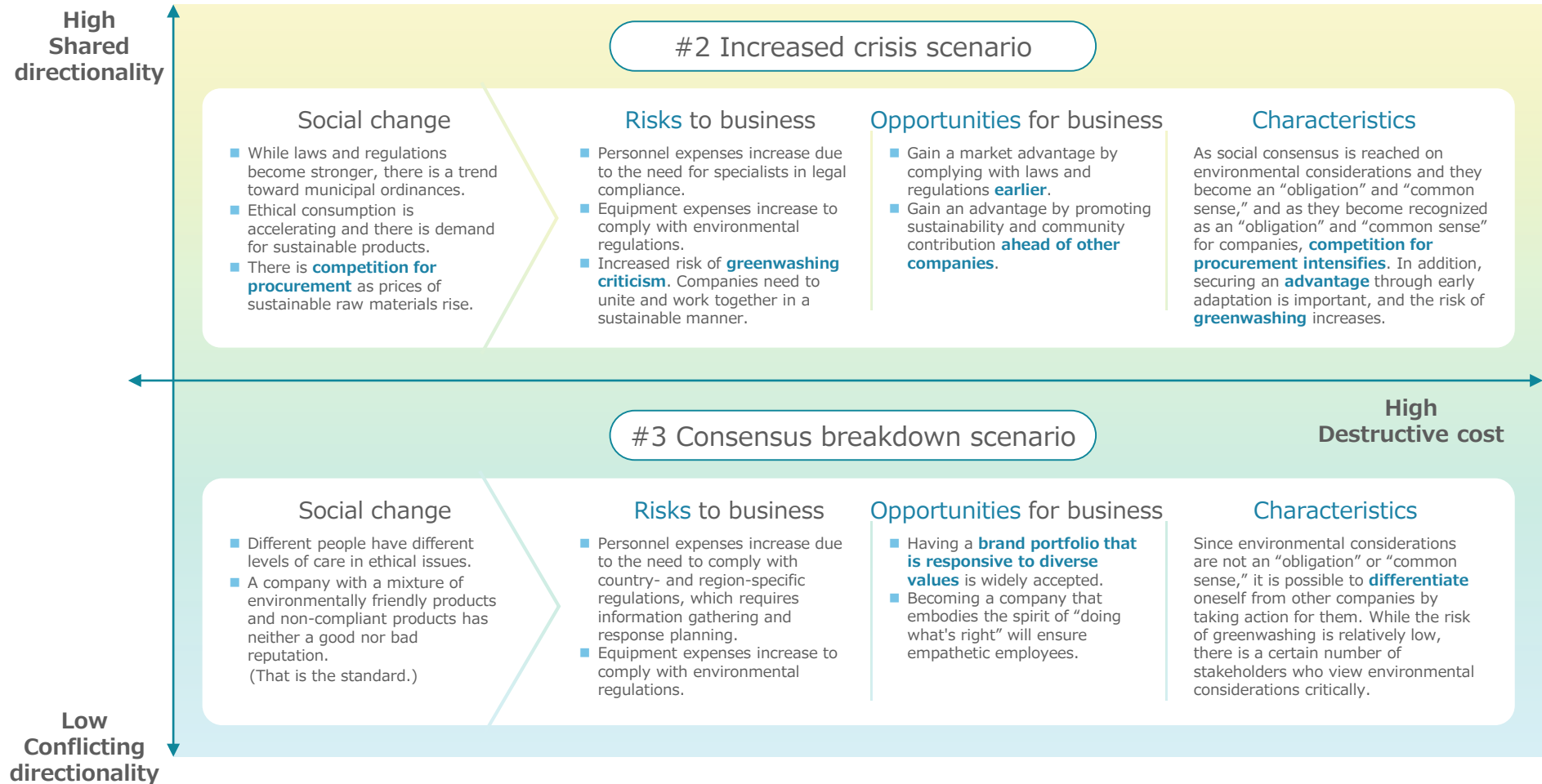
Governance

Strategy

Managing Risk and Impact

Metrics and Targets

L E A P



IV-v. Overall Business Strategy

IV. Strategy

Governance

Strategy

Managing Risk and Impact

Metrics and Targets

L E A P

[Points common to both quadrants]

Risks

- There is a risk of instability and increased costs in raw material procurement due to the combined effects of climate change and degradation of ecosystem services, as well as increased demand from a growing global population.
- As one of Japan's leading cosmetics companies, not conducting business and implementing initiatives that take the natural environment into consideration, and falling behind in ESG measures, would be a major reputational risk.
- Participants voiced their concerns about damage to corporate/brand value due to greenwashing criticism (being flamed on social media), and recognized that society will demand more substantive efforts in the future.

Opportunities

- KOSÉ has been working earnestly on sustainability and has been communicating this outside the company. In the cosmetics business, a company's brand image is extremely important, and we believe this will be a strength for KOSÉ.
- KOSÉ's strength is its ability to develop and propose broad product lineups for diverse consumers, and this will be a strength as needs for environmentally friendly products and brands increase in the future.

It seems that three initiatives need to be strengthened in order to address the risks and shape the opportunities seen in the two quadrants.

1 Secure sustainability professionals and conduct awareness-raising and educational activities for all employees.

2 Given the current international framework, trends in each country, and information disclosure trends, environmental regulations and information disclosure requirements are expected to strengthen at least through 2030. We will therefore invest resources to ensure that we can respond properly, thereby reducing risk and achieving a first-mover advantage.

3 Increase transparency and strengthen supplier engagement through traceability as a response to raw material procurement risks.

We recognized the importance of sensing changes in the market and customer base by collecting data on laws, local government trends and ordinances, consumer trends and other information as appropriate.

V

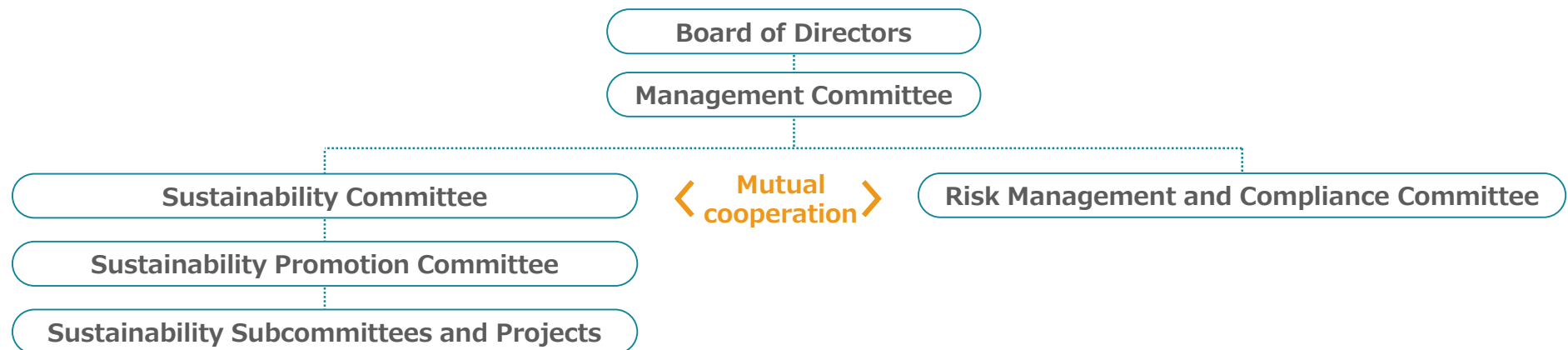
Managing Risk and Impact

V-i. Risk Management Framework

V. Managing Risk and Impact

The global risks of the KOSÉ Group, including risks related to climate change, resource recycling, biodiversity, and other sustainability-related risks, are defined in the Risk Management and Compliance Regulations based on the enterprise risk management (ERM) framework. Risks are subdivided into major risk categories and individual risk items from a short-, medium-, and long-term viewpoint in terms of frequency of occurrence, and the entire Group is covered using the Risk Assessment Sheet. Once a year, we assess the impact and likelihood of an event and identify risks that need to be addressed. These assessments are conducted by the Risk Management and Compliance Committee (the “Risk Committee”), and responsibility for them lies with the President & CEO, who chairs the Risk Committee. Under the ERM framework, the Risk Management and Compliance Regulations clearly provide that risks are to be considered, not only for direct operations, but also upstream (suppliers) and downstream (specific business partners, consumers, etc.) in the value chain. The process for determining the identified risks involves the Risk Committee developing a Risk Response Plan from the Risk Assessment Sheet, which is approved by the President & CEO (chair of the Risk Committee) and then reported to the Management Committee and Board of Directors for deliberation and approval. The risks are reviewed at least once a year.

In addition, as part of the company-wide risk management, the Sustainability Committee actively engages in discussions to resolve sustainability issues, including climate change issues at each company, with its subordinate organizations, the Sustainability Promotion Committee—which is composed of Sustainability Committee members from each Group company and manages progress in addressing sustainability issues across the Group—as well as six subcommittees. Committee resolutions are reported to the Management Committee and the Board of Directors for approval. Progress is evaluated at meetings of the Sustainability Committee, the Sustainability Promotion Committee, and its subcommittees. This process enables us to identify and visualize the risks that are important to our organization. The management program is evaluated annually, and constant improvements are made through a PDCA cycle of performance and adherence to operational procedures, internal audits, and management reviews.



- Governance
- Strategy
- Managing Risk and Impact**
- Metrics and Targets
- L E A P

VI

Metrics and Targets

VI-i. Core Global Metrics: Dependency and impact

VI. Metrics and Targets

Governance

Strategy

Managing Risk and Impact

Metrics and Targets

L E A P

Metric no.	Driver of nature change	Metric	KOSÉ Group disclosures
-	Climate change	Greenhouse gas emissions	See Sustainability Data
C1.0	Land/freshwater/ocean change	Total spatial footprint (km ²)	0.32 km ² No change for the 2020 transition
C1.1		Extent of land/freshwater/ocean change	4,663 m ² 2020 as the base year
C2.0	Pollution/pollution removal	Pollutants released to soil	No emissions from KOSÉ factories
C2.1		Wastewater	See Sustainability Data
C2.2		Waste generation and disposal	See Sustainability Data
C2.3		Plastic pollution	Response in progress
C2.4		Total non-greenhouse gas air pollutants	See Sustainability Data
C3.0	Resource use/replenishment	Water withdrawal and consumption from areas of water stress	See Sustainability Data
C3.1		Quantity of high-risk natural commodities sourced from land/ocean/freshwater	xx tons

VI-ii. Core Global Metrics: Risks and opportunities

VI. Metrics and Targets

Governance

Strategy

Managing Risk and Impact

Metrics and Targets

L E A P

Metric no.	Driver of nature change	Metric	KOSÉ Group disclosures
C7.0	Risk	Value of assets, liabilities, revenue, and expenses that are assessed as vulnerable to nature-related transition risks (total and proportion of total)	<ul style="list-style-type: none"> In upstream, the use of palm oil is considered vulnerable: Palm oil-related materials are used in about 40% of products. Consequently, approximately 120 billion yen, or 40% of sales of 300.4 billion yen in 2023. In direct operations, restrictions may be placed on the use of groundwater (upper limits set by ordinances, etc.), and the increase in costs when switching to tap water could have a financial impact: Calculate the increase in cost when all water is switched to tap water.
C7.1		Value of assets, liabilities, revenue and expenses that are assessed as vulnerable to nature-related physical risks (total and proportion of total)	<ul style="list-style-type: none"> In upstream, the use of palm oil is considered vulnerable: Amount is the same as C7.0 In direct operations, production being stopped due to disasters is considered vulnerable: Estimation of amount to be considered in the future
C7.2		Description and value of significant fines/penalties received/litigation action in the year due to negative nature-related impacts	Nil
C7.3	Opportunity	Amount of capital expenditure, financing or investment deployed towards nature-related opportunities (by type of opportunity)	Response in progress
C7.4		Increase and proportion of revenue from products and services producing demonstrable positive impacts on nature (with a description of impacts)	Response in progress

VI-iii. Medium-to-Long Term Targets

VI. Metrics and Targets

The following metrics and targets are used to manage nature-related dependency/impact and risks/opportunities.

Activity Theme	Commitment	Indicators	Target	Achieve by	
Lower the overall environmental impact of business operations	Reduce CO ₂ emissions	Scope1·2	-55% (Target for total emission reduction vs. 2018)	2030	
			Carbon Neutrality	2040	
		Scope3	-30% (Target for total emission reduction vs. 2018)	2030	
		Scope1·2·3	Net Zero	2050	
	Reduce use of water resources through responsible practices			-12% (Production units vs. 2018)	2030
	Procure sustainable palm oil to protect the environment and grow with society.		Responsible palm oil procurement	100%	2030
	Sustainability-conscious design for plastic packaging materials		Use of containers and packaging materials aligned with the 4Rs	100%	2030
			Usage rate of recycled and biomass plastic	50%	2030
		Amount of usage of petroleum-based virgin plastic	-50%	2030	
Environmental programs where KOSÉ operates	We will coexist and prosper with local communities, conducting environmental conservation activities with a focus on production facilities, which affect the environment.	Local community environmental conservation activities	20 activities or more	2030	

Governance

Strategy

Managing Risk and Impact

Metrics and Targets

L E A P

VII Specific Initiatives

Activities to Protect the Sea

VII. Specific Initiatives



SEKKISEI SAVE the BLUE Ocean Project Protecting Coral in Okinawa

The SEKKISEI SAVE the BLUE: Ocean Project is a summer campaign that has been run since 2009, with a portion of sales of eligible SEKKISEI brand products purchased during the campaign period being donated to fund coral cultivation activities in Okinawa. As of FY2023, a total of 20,211 coral polyps had been planted over the 15 years of activities (covering an area of 122,696,123 cm²¹).

1. Equivalent to approximately 32.7 25-meter regulation-size swimming pools

Release dated May 8, 2024

<https://corp.kose.co.jp/ja/news/8627/>

SEKKISEI 「SAVE the BLUE~Ocean Project~」

https://sekkisei.jp/site/p/savetheblue_oceanproject.aspx



SEKKISEI SAVE the BLUE Snow Project Contributing to the use of renewable energy for the power of the Hakuba Valley

In 2022, we launched a winter campaign called the Sekkisei SAVE the BLUE Snow Project. Part of the proceeds of sales of certain Sekkisei products during the campaign period were used to aid in switching to renewable energy sources for the Hakuba Valley, a resort in the foothills of the Northern Alps mountain range in northern Nagano. Switching to renewable energy helps reduce CO2 emissions.

Release dated Oct. 30, 2023

<https://corp.kose.co.jp/ja/news/8298/>

SEKKISEI 「SAVE the BLUE ~Snow Project~」

https://sekkisei.jp/site/p/savetheblue_snowproject.aspx

Activities to Protect Forests

VII. Specific Initiatives



BIOLISS PEACEFUL GREEN Project Tree-planting in Bioliss Forest in Fuefuki City, Yamanashi Prefecture

KOSÉ donated part of the proceeds from sales to "Present Tree," a forest restoration project carried out by NPO Environmental Relations. 37 employees in Ashigawa-cho, Fuefuki City, Yamanashi Prefecture, participated in the project, planting trees under the direction of the Central Forestry Association. They planted a total of 400 deciduous tree saplings (Japanese beech, Mongolian oak, Yamazakura cherry trees, Amur cork trees, and maples). The project, which began in 2022, has planted 3,300 m² of forest.

BIOLISS PEACEFUL GREEN Project
<https://www.bioliss.jp/peacefulgreen/>



Environmental Conservation Activities in Totoro's Forests, Dotted in and around the Sayama Hills

Totoro's Forests are dotted in and around the Sayama Hills, close to the Sayama Factory where we manufacture cosmetics. We have been providing donation support with the aim of contributing to environmental conservation at Totoro's Forests to protect the rich nature and many flora and fauna.

KOSÉ Sustainability | Together with the Community
<https://corp.kose.co.jp/ja/sustainability/community/>

Activities to Protect Water



Participation and collaboration in national water environment survey conducted by the National Water Environment Map Implementation Committee

Since 2023, we have participated and collaborated in the national water environment survey conducted by the National Water Environment Map Implementation Committee. We investigate the water environment and water resource situation in nearby areas, using our findings to contribute to the protection of local environments.

【Study locations】

- Sayama factory • Gunma Factory • Minami-Alps Factory
- ▶ Iruma River ▶ Hirose River ▶ Midai River
- Furo River Kasu River

KOSÉ Sustainability | Efforts in manufacturing
<https://corp.kose.co.jp/ja/sustainability/environment/production/>

Cleanup Activities



Participation and Sponsorship of the BLUE SANTA Beach Cleanup Event by ALBION PHILOSOPHY

As part of its sustainability promotion activities, ALBION PHILOSOPHY, the brand's flagship store, carried out cleanup activities as a way of contributing to the local community and environment in which it operates. The company has registered for the Machikado Clean Day project organized by Chuo City in Tokyo, with ALBION staff taking part in the monthly cleanup activities.

Release dated June 1, 2023
<http://www01.rashisa.albion.co.jp/wp/wpcontent/uploads/2023/06/20230601.pdf>

VII. Specific Initiatives

Membership and Registration in Biodiversity-Related Organizations

VII. Specific Initiatives



Sustainable palm oil initiatives Dialogues with small-scale Malaysian farmers aimed at solving the problems they face

After attending in the RSPO General Assembly held in Indonesia in late November 2023, KOSÉ participated in the Wild Asia tour. We toured small Malaysian farms and factories and talked with various stakeholders about the state of their work, the challenges they faced, and their needs.

KOSÉ Sustainability | Response to Sustainable Palm Oil
<https://corp.kose.co.jp/ja/sustainability/scm/>



Participating in Biodiversity Initiatives, and Promoting Group-wide Initiatives

In 2024, KOSÉ joined the Taskforce on Nature-related Financial Disclosures (TNFD) Forum to identify biodiversity-related risks related to the Group's business activities and to create opportunities to contribute to a nature-positive society. We are acknowledged as an Early Adopter, aiming for early disclosures, and we promote information disclosure.

We also support 30by30—a pledge to conserve at least 30% of our land and sea areas as healthy ecosystems—and we have joined the 30by30 Alliance for Biodiversity. In addition to preparing to obtain certification for the areas where we currently conduct environmental conservation activities as Nature-Symbiosis Sites, we are promoting activities to reduce biodiversity risks in line with the characteristics of each area and encourage nature positivity.



KOSÉ Corporation

Published September 2, 2024