

KOSÉ REPORT 2018

Integrated Report



Our Philosophy

Wisdom and Beauty for People and the Earth

Since its foundation in 1946, KOSÉ has focused on the creation of beauty, mainly through cosmetics. KOSÉ combines wisdom, a unique tradition and innovation to create a driving force for people and for the future of our precious Earth.

Statement of Purpose

Create a culture and values
embodying a distinctive beauty through
a sophisticated fusion of
sensuousness and intelligence.

Behavioral Charter

Mind to Follow the Right Path

Forward-looking statements

This 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.

Editorial policy

The report aims to provide stakeholders with a deeper understanding of our activities by reporting not only financial information, but also non-financial information including our management policies, strategies and our approaches behind the scenes. Please refer to our website for information related to IR and CSR.

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The Path of Value Creation

The KOSÉ Corporation was founded in March 2, 1946. We have earned trust from our customers and partners since our founding during the chaos after the war by providing high-quality products at the right price. Even in a rapidly changing generation, the spirit of our roots continues to live on to this day as the foundation which shapes our company.

VISION2020

VISION2026

Becoming a company with a global presence

1946–1969

1970–1990

1991–2006

2007–2010

2011–2014

2015–2017

2018–

Foundation

Growth

Maturity

Defensive Reforms

Offensive Reforms

Toward a New Growth Stage

KOBAYASHI UNLIMITED PARTNERSHIP founded, delivering high-quality cosmetics to market

1946.3.2

Kozaburo Kobayashi founded KOBAYASHI UNLIMITED PARTNERSHIP in Oji, Kitaku, Tokyo (restructured as KOBAYASHI KOSÉ COMPANY LIMITED in 1948).



1963

A technological alliance was established with L'Oréal of France to start our salon business (the joint-venture contract ended in 2001).



1964

The Sayama Factory opened in Sayama City, Saitama. The premises was 109,091m², which boasted the largest cosmetics factory in Asia.



1968

Sales began in Hong Kong, which is our first entry into overseas markets, and expanded with focus on Southeast Asia thereafter.



Continued introduction of innovative products, growth into a general cosmetics manufacturer

1970

COSME DECORTE, a dedicated luxury brand, was released to deliver the highest quality of cosmetics with the best service.



1975

Launched industry's first beauty serum, ALPHARD R.C LIQUID. FIT ON released the following year. The categories of "beauty serum" and "powder foundation" were launched.



1980

Our production headquarters received the first Deming Prize in the industry for the introduction of modern quality management methods.



1985

SEKKISEI, which combined Japanese and Chinese herbal extracts, was released. More than 56 million units have been sold up until now.



Introduction of CI, IPO, and strengthening of management foundation

1991

Corporate Identity (CI) was introduced. The corporate name was changed to the KOSÉ Corporation and the corporate logo was renewed.



1998

The Gunma Factory acquired ISO9002 (quality) certification.

2000

KOSÉ became listed on the first section of the Tokyo Stock Exchange one year after its initial public offering.



2004

Established a research laboratory in Kitaku, Tokyo, and developed new research structure.

2006

KOSÉ entered into official partner agreements with the Japan Skating Federation and the Japan Artistic Swimming Team.

Implementation of Management Reforms

Improved management efficiency by eliminating all waste through measures including the selection of stores that sell KOSÉ products, reducing product returns and outsourcing logistics to strengthen management foundations.

Raising the appeal of stores that sell KOSÉ products and reducing product returns
Streamlining the brand portfolio and minimizing stock keeping units

2009

The SAVE the BLUE environmental conservation project started.



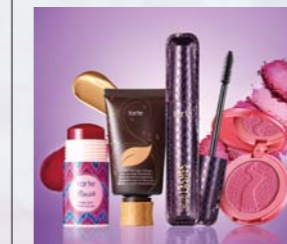
V-Shaped Turnaround

While continuing our "defensive reforms" for improved management efficiency and a corporate structure resilient to change, we conducted "offensive reforms" that improved profitability by refining the strengths of existing brands.

Strengthen mass-market businesses
Maintain a brand management structure

2014

Tarte, Inc., a cosmetics company in the United States, became a subsidiary of KOSÉ.



Building and Strengthening Global Brands

Building on the results of our reforms to date, we have been further accelerating growth to become a company with a global presence based on two new basic strategies.

Promote flagship global brands

2016

Sales of DECORTÉ began in North America.

2017

A new manufacturing facility was opened in Gunma Factory and started operation as a mother factory. Opened research center France branch in Lyon, first research facility in Europe.



Upgrade Global Brands and Reinforce Customer Points of Contact

We will work to build and strengthen global brands, enhance product competitiveness and increase profitability as we raise the presence and brand value of our products in the markets of Asia, North America and Europe.

Net Sales for fiscal 2017
¥303.3 billion

Our History

A company that creates a diverse array of brands and human resources that can succeed worldwide

A company dedicated to being a source of beauty for everyone

Our Vision 2026

Become a Company with a Global Presence

Under VISION2026, its medium- to long-term vision, KOSÉ aims to become a company that creates a diverse array of brands and human resources that can succeed worldwide; a place where people are proud to work; and a company that uses foresight for constant creation.

A company that constantly attracts more customers and is a place where people are proud to work

A company that uses foresight for the constant creation of innovative value

Our Strength

Three Strengths to Create the KOSÉ of Tomorrow

Research and Development

KOSÉ is pursuing the enhancement of R&D capabilities backed by leading-edge science to produce many innovative new products. The driving force is the creation of a self-sufficient organization unique to KOSÉ that draws on its employees' pioneering efforts and ideas.

Unique Brand Marketing

KOSÉ's viewpoint extends beyond the short term to embrace brand development with a long-term perspective that includes bold innovations. As a result, it has many long-selling brands despite being in the cosmetics market, which is constantly undergoing drastic changes.

Commitment to Quality

Since its founding, KOSÉ has been passionate about creating the finest cosmetics, with stringent quality control from raw material procurement to manufacturing. As a result of factors including its activities to improve quality from the customer's point of view and its quality assurance system, KOSÉ is recognized worldwide for the quality it offers.

Unique Brands with Value

“Sensuousness” and “intelligence” are the two key words that drive the creation of attractive, valuable brands at KOSÉ. We take our research—based on leading scientific discoveries—and develop cosmetics that meet our customers’ wants and needs. To anticipate the diverse needs of customers and to build brands, KOSÉ focuses on not only products, but also distribution and communication. Our brands are divided into two major categories: the KOSÉ brand, a brand that has the company’s name on it; and the individual brands, which represent a wide variety of highly original brands.

Our Business

HIGH-PRESTIGE Brands

The Highest Levels of Quality and Service

A group of top-quality brands developed by integrating all of KOSÉ’s cutting-edge technologies. They are sold mainly at specialty cosmetics stores and department stores that distribute exclusive brands. KOSÉ’s specially trained beauty staff offer meticulous counseling, including skin diagnosis, to help each customer select the most suited products.

High Added Value
Cosmetics Business

Individual Brands

DECORTÉ AQ DECORTÉ JILLSTUART INFINITY KOSÉ 雪肌精 SEKKISEI MYV	ADDICTION Prédia Paul Stuart Awake	ALBION CO., LTD. ALBION IGNIS Éléance PARIS IN FIORE PAUL & JOE ANNA SUI Tarte, Inc. tarte high-performance naturals
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PRESTIGE Brands

High-Value-Added Cosmetics for Everyone

A group of brands that, while pursuing high added value, meet the needs of a broad range of distribution channels, from specialty cosmetics stores to mass retailers, drugstores and e-commerce.

High Added Value
Cosmetics Business

雪肌精

ONE BY KOSÉ ASTABLANC CARTÉ CLINITY ESPRIQUE	CRIE CO., LTD. CRIE Dr. PHIL COSMETICS INC. PHIL NATURNT FORMULE KOSÉ PROVISION CO., LTD. 米肌 MAIHADA 肌
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COSMETARIES Brands

For Daily Life One Step Above

A group of self-selection brands, including cosmetics and toiletries such as shampoo, that are developed using the same approach as the one used to develop cosmetics. We call this category of products “cosmetaries*.” We offer high-quality products at reasonable prices through mass retailers, drugstores, convenience stores and other retail outlets.

*Cosmetaries: A coined term combining “cosmetics” and “toiletries”

Basic Value
Cosmetaries Business

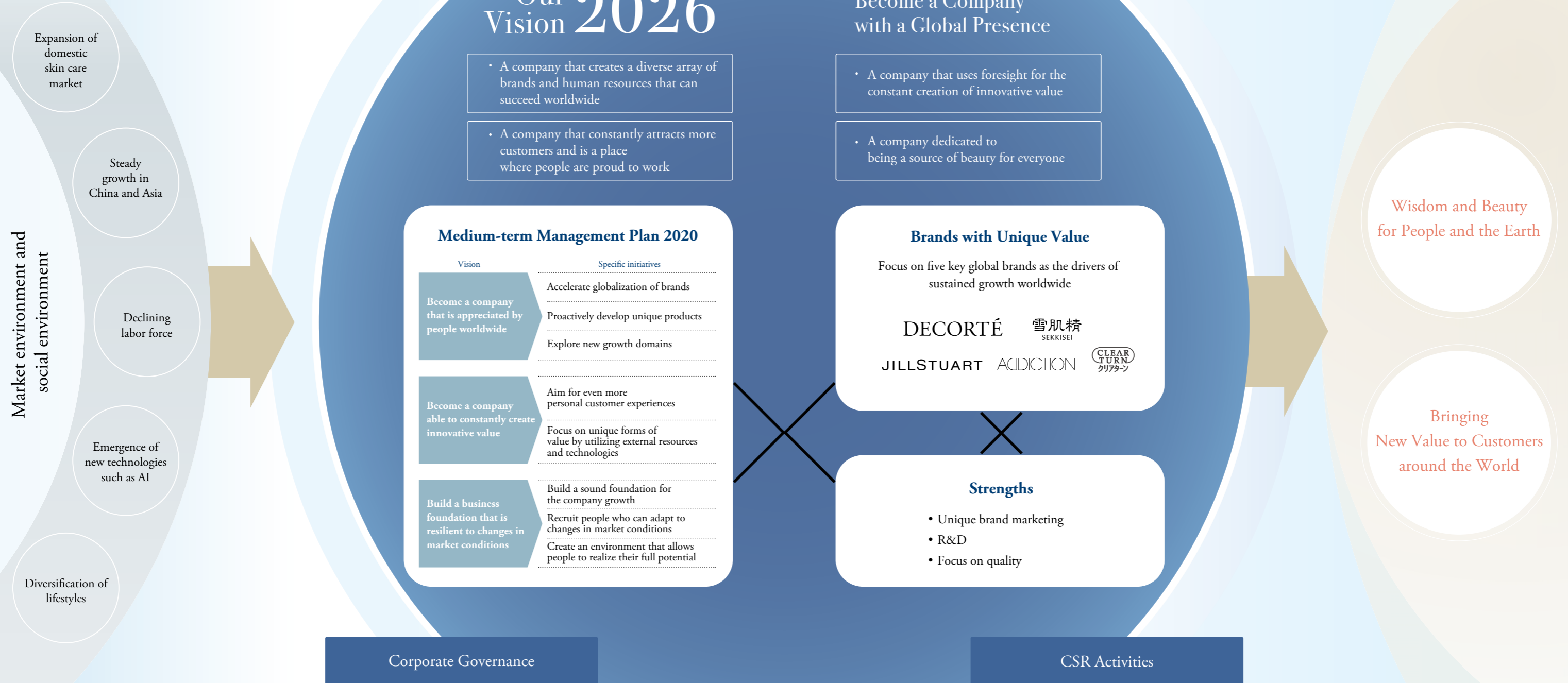
Visée ELISIA softymo Je l'aime BIOLISS Botanical CLEAR TURN 黒糖精 GRACE ONE	FASIO NATURE & CO KOSÉ COSMEPORT CORP.	SportsBeauty NAIL HOLIC STEPHEN KNOLL NEW YORK RIMMEL LONDON
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KOSÉ Brands



Value Creation Process

To make its corporate message of “Wisdom and Beauty for People and the Earth” a reality, KOSÉ is making the best use of the strengths it has cultivated in Japan over the 70 years since its founding with the aim of becoming a company with a global presence.



CSR Activities

As we execute our CSR activities, we identify issues to be prioritized based on the ISO 26000 guidelines, while taking into consideration the changing international situation. In July 2017, we signed the United Nations Global Compact (UNGC), and selected a focus set of Sustainable Development Goals (SDGs) that we believe we will be able to address in the future.



Review Activity Themes and Goals Using the SDGs

We believe that the cosmetic products we manufacture and sell benefit our largely female customer base, helping them play an active role in society. Our products also contribute to an improvement in their quality of life (QOL). In addition, all of our corporate activities, including the procurement of raw materials and environmental impact, are closely related to our SDG goals.

In response, we have reorganized and reviewed the individual CSR activity themes we have been engaged in, with reference to the 17 goals and 169 SDG targets of the SDGs issued in 2016.

- Matching the 169 SDG targets with the previous list of CSR targets
- Confirming the order of priority of the activity themes and setting high-priority themes

▶ Details are provided on pages 36 to 37

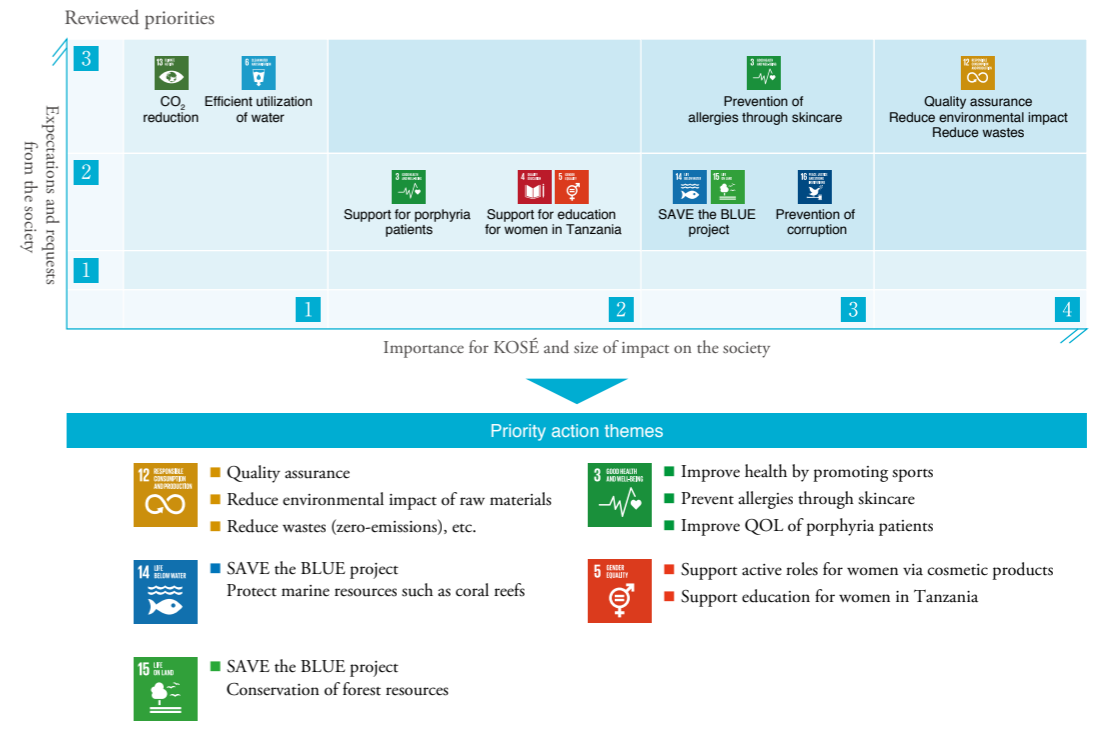
Signed the UNGC

In July 2017, we signed the UNGC. Based on our Basic CSR Principles of “Wisdom and Beauty for People and the Earth” and the “Mind to Follow the Right Path,” we support and put into practice the 10 Principles of the UNGC in the four areas of “human rights,” “labor,” “environment” and “anti-corruption,” as we work towards the achievement of a sustainable society as a global member.

Identifying Priority Themes

KOSÉ has established activity themes and mid-term goals by organizing its corporate activities using ISO 26000. Furthermore, in fiscal 2016, we identified priority themes from the mid-term goals using the SDGs. We made assessments using the two axes of “expectations and requests from the society” and “importance for KOSÉ and size of impact on the society.” As a result, the following items were established as priority activity themes for fiscal 2017. We believe that each of these is relevant and can contribute to the SDG goals.

These priority activity themes will continue to be reviewed as necessary to meet the demands of a changing society.

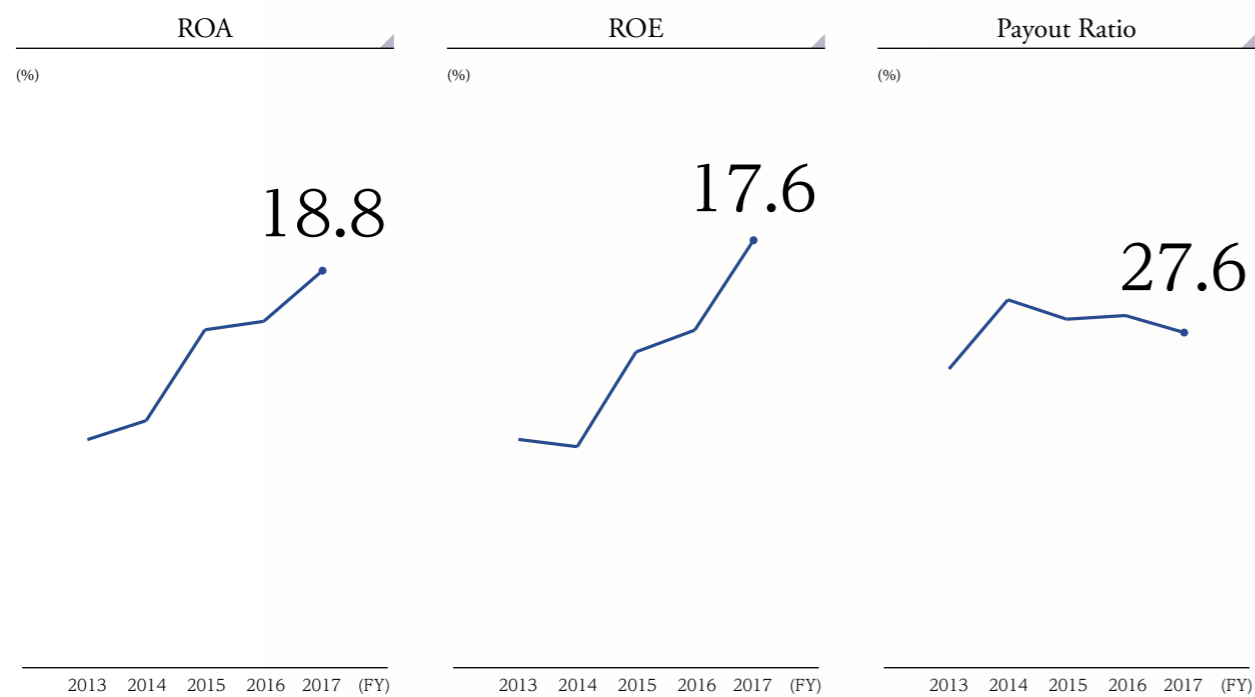
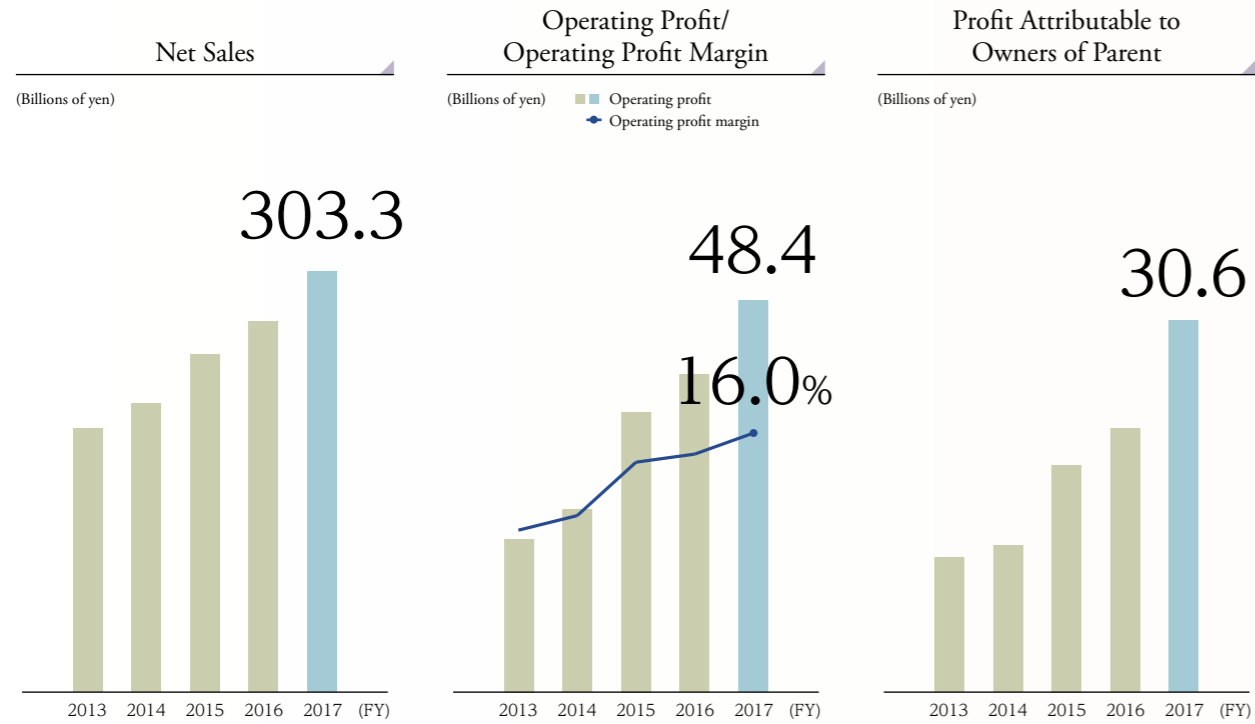


SDGs About the UN SDGs

Quoted from Global Compact Network Japan
www.ungcn.org/sdgs/index.html

In September 2015, the 193 member states of the UN adopted the 2030 Agenda for Sustainable Development, a plan to end severe poverty, inequality and injustice, protect the planet, and ensure prosperity for all in the next 15 years. This agenda comprises Sustainable Development Goals (SDGs). The SDGs are an expansive challenge by the entire world to engage in efforts to ensure that no one is left behind. It includes issues that were not fully addressed in the Millennium Development Goals, with 17 goals, including the worsening environmental issues discussed in Rio+20, and 169 targets.

Financial Highlights and Non-Financial Highlights



Number of employees



There is a diverse team of 13,502 employees active at Group companies covering 13 countries and regions around the world. The proportion of beauty advisors who are regular employees exceeds 90% in Japan.

⇒ **13,502**
(As of March 31, 2018)

Rate of return to work after childcare leave

Every single female employee who gave birth took childcare leave and more than 90% of these subsequently returned to work. We have also enhanced our systems and carried out work environment improvements to support work-life balance, including shortened working hours.



⇒ **More than 90%**

Recycle rate

Achieved zero emission (recycling rate of 99.5%) at Gunma Factory and Sayama Factory in 2005. Currently, all factories in Japan have achieved zero emission.

⇒ **99.5%**



R&D expenses

We are working to further improve our R&D activities in order to strengthen our technology development capabilities and quality control systems, which will enable us to create even greater customer value and respond to the challenges of globalization.

⇒ **¥5.3 billion**
(For fiscal 2017)



Area planted with coral reefs

We started the SAVE the BLUE project from 2009 to protect coral reefs in Okinawa that are in danger of extinction. Every year, we plant an area of coral equivalent to the total area of the bases of all the SEKKISEI bottles sold during the campaign.

⇒ **87,491,413 cm²**

(Cumulative total from 2009 to 2017)
Equivalent to approximately 23.3 swimming pools each 25 meters long (375 m²)





Kazutoshi Kobayashi
President & CEO

We will continue to create unique value by
anticipating changes in the world
and tackling globalization with an even greater sense of speed.

Q Please sum up fiscal 2017 results.

A Both the cosmetics and cosmetaries* businesses delivered favorable results, driving net sales and operating profit to record highs for the fifth and fourth consecutive years, respectively.

KOSÉ has been working on VISION2020, a medium- to long-term vision for growth between fiscal 2012 and fiscal 2020. The roadmap we are following toward this destination is split into three phases, with fiscal 2017 being the last year of phase II—the period for building and strengthening global brands. We positioned fiscal 2017 as a crucial year for laying a solid foundation for the success of phase III, and we made progress toward our growth strategies.

Against this backdrop, business results moved in a favorable direction in all segments and all regions in fiscal 2017. Net sales increased 13.7% year on year, to ¥303.3 billion, and operating profit increased 23.6% year on year, to ¥48.4 billion. This consolidated performance drove net sales and operating profit to record highs for the fifth and fourth consecutive years, respectively.

The cosmetics business generated very good results, especially in the high-prestige category. This achievement reflects another record-breaking year for *DECORTÉ* at home and abroad; brisk sales of luxury skincare products and base makeup by the ALBION Group; sustained growth for U.S.-based Tarte, Inc., along in-store and e-commerce marketing channels; and favorable demand for high-prestige makeup brands, including *JILL STUART* and *ADDICTION*, through measures to increase sales in Asia. Also in the prestige category, efforts were directed toward attracting new customers to all brands. Examples of this approach included promotional activities for *SEKKISEI* highlighting different ways to use the products depending on the season and an ongoing campaign for *ONE BY KOSÉ* medicated moisturizing serum to raise brand awareness.

In the cosmetaries business, the emphasis was on cultivating demand for well-established items while launching new products, guided by KOSÉ COSMEPORT's "Category No.1" strategy. Key contributors to sales were *SOFTYMO* facial washes and cleansing products, *CLEAR TURN* facial sheet masks and *BIOLISS*, a new series in the in-bath category. Among self-selection makeup brands, *VISÉE* and *FASIO* as well as the *NAIL HOLIC* nail care brand performed well. Of note, *NAIL HOLIC* also posted record-high sales in KOSÉ's nail category, and enjoys a high share of the low-priced nail polish market.

*Cosmetaries: A coined term combining "cosmetics" and "toiletries"

ALBION Group also enjoyed brisk demand for both mainstay skincare and base makeup

Foundation products *Smartskin* and *Chiffon* helped attract new customers. *ALBION*, which generates about 60% of its sales through stores specializing in cosmetics, is pursuing a new *ALBION*-only store format that will expand the potential of specialty stores.



Q Please provide some concrete results from VISION2020 and fiscal 2017.

A Sales were up in all marketing regions: Japan, Asia and North America. We marked steady progress in expanding points of customer contact for key global brands.

Phase II—building and strengthening global brands—wrapped up in fiscal 2017. During this phase, we made steady progress toward promoting flagship global brands, accelerating the pace of developing new markets and operating more efficiently.

By geographical area, sales were up in every region, with tremendous year-on-year improvement in Japan as well as overseas. In China, restructuring efforts began to show rewards as rising demand for “made-in-Japan” products spurred sales of high-prestige cosmetics and kept e-commerce activity buzzing. In South Korea, sales at duty-free stores grew significantly. In North America, Tarte, which has presented outstanding growth, made a major contribution to net sales. In Japan, the steady capture of inbound demand from tourists complemented demand from customers in the home market, translating into higher domestic sales.

Looking at efforts by brand, we positioned *DECORTÉ*, *SEKKISEI*, *JILL STUART*, *ADDICTION* and *CLEAR TURN* as flagship global brands, and worked to build and strengthen these five brands, while cultivating demand.

Continuing from last year, *DECORTÉ* was the brand that delivered the most noticeable growth in global markets. In Japan, the brand’s high-prestige *AQ* skincare underwent renewal in autumn 2017, followed by a full-scale revamp of point makeup products in February 2018. Since *DECORTÉ* debuted in Europe in 2012, marketing efforts have focused on introducing the brand into perfumeries (specialty cosmetics stores) in Italy. In 2018, an event was held in Milan to showcase the new *AQ* lineup. The bustling occasion was a success, and attracted store owners from all over Italy. Prior to this, in October 2017, the brand made its second European debut at Selfridges—a high-end chain of department stores in the United Kingdom.

SEKKISEI made inroads overseas with *SEKKISEI MYV (MIYAVI)*, a high-value-added skin care series, and set up its first global counter in China as a permanent overseas store presence.

JILL STUART maintained brisk growth at home and abroad, thanks to a solid market reception from customers in Japan, China and other parts of Asia to unique makeup with an original world view. Efforts were also directed toward reinforcing the basemake lineup, headlined by the September 2017 launch of *Pure Essence Cushion Compact*.

ADDICTION was also busy, in brand terms, entering South Korea in 2016 with products conscious of global market preferences, such as point makeup in a rich color palette. In 2017, the uniform worn by *ADDICTION* beauty advisors was redesigned, and with this new image the brand established a presence in China and began selling products at department stores and in the e-commerce market.



Tarte’s favorable market reception due to brick-and-mortar stores and social networking sites

In addition to sales at cosmetics specialty stores *SEPHORA* and *ULTA* in North America, Tarte’s sales have grown rapidly through its own e-commerce site. The Tarte brand has become well-established in the minds of its target Millennial audience, with the number of followers on key social networking sites continuing to rise, hitting more than eight million on Instagram.

Q What is planned under VISION2026?

A Our goal is to become a company with a global presence by anticipating changes from a global perspective and continuing to create unique value.

KOSÉ’s net sales for fiscal 2017 exceeded ¥300 billion, beating the target set for fiscal 2020 and achieving the *VISION2020* target three years early. Results were also outstanding in terms of profit, with operating margins reaching 16% in fiscal 2017, up from 7% in fiscal 2012—the first year of *VISION2020*. These gains were primarily driven by employing a virtuous cycle structure designed to deliver constantly higher efficiency in selling, general and administrative expenses, and maximize the effect of higher sales.

Given these results, the *KOSÉ* Group amended phase III of *VISION2020*, which the Group was to transition to in fiscal 2018, and redefined its medium- to long-term vision based on a new view of growth. *VISION2026* targets net sales of ¥500 billion and an operating margin greater than 16%. The strategic roadmap still highlights our goal to become a company with a global presence through three phases—upgrade global brands and reinforce points of customer contact; increase *KOSÉ*’s global presence and improve the customer experience; and become a customer-driven company appreciated by people worldwide.

Our end vision remains unchanged. We will anticipate changes from a global perspective and constantly strive to create unique value, translating this vision into products that benefit as many people as possible. To this end, we have set new performance targets, namely, an overseas sales ratio of at least 35% and a ratio of at least 15% for net sales generated over new marketing channels, including e-commerce.



Drafting VISION2026—To become a company with a global presence

Given the fact that KOSÉ already achieved its consolidated VISION2020 targets ahead of schedule, management drafted a new vision and initiated phase I in fiscal 2018. The net sales target for fiscal 2026 is ¥500 billion.

Phase I	Upgrade global brands and reinforce points of customer contact	(April 2018 – March 2021)
Phase II	Increase KOSÉ's global presence and improve the customer experience	(April 2021 – March 2024)
Phase III	Become customer-driven company appreciated by people worldwide	(April 2024 – March 2027)

Q What are the basic strategies outlined in the new Medium-term Management Plan 2020?

A We aim to maximize a strong business platform and resources, create unique value, and realize global, borderless growth.

New Medium-term Management Plan 2020 (Basic Strategies)
(April 2018 – March 2021)

① Three Growth Strategies

- (1) Accelerate globalization of brands
- (2) Actively develop unique products
- (3) Explore new growth domains

② Two Value Vectors

- (1) Aim for even more personal customer experiences
- (2) Focus on unique forms of value by utilizing external resources and technologies

③ Three Business Foundations

- (1) Build a sound foundation for the company growth
- (2) Recruit people who can adapt to changes in market conditions
- (3) Create an environment that allows people to realize their full potential

Performance Benchmarks

Net sales	370 billion
Operating margin	16.2%
ROA	18.0%
ROE	15.0%

Under the new Medium-term Management Plan 2020, we will maximize resources, including personnel, R&D strengths and production capabilities; and tirelessly strive to create unique value to achieve growth that is both global and borderless.

The first growth strategy is to accelerate the globalization of brands. We have tapped five brands as flagship global brands and will pursue the globalization of these brands with a greater sense of speed.

To date, KOSÉ has entered many markets throughout Asia, expanded its presence and worked to raise the profiles of brands in its portfolio. Going forward, however, we will emphasize expansion well aware that points of contacts with customers go beyond the borders of these markets.

We will strive to forge lasting relationships with customers as this kind of commitment encourages customers to make repeat purchases. This is especially true in Greater China, where consumer appetites are considerable and people will cross several national borders in their desire to obtain Japanese cosmetics. We will leverage effective marketing with an all-Asia perspective to attract the attention of these borderless shoppers.

In April 2018, we shook up our marketing structure. Previously, operating departments handled marketing for each brand, and international business was basically under the oversight of the international department. The recent restructuring split the international department into a department for Asian business and another for U.S. and European businesses, thereby clarifying roles and responsibilities for marketing activities. Also, to deal with issues related to the digital domain, we established a digital marketing department, which will take a corporate perspective in addressing consumers' ever-increasing embrace of digital shopping methods.

The second growth strategy is to actively develop unique products. Toward this end, we are working to reinforce our R&D structure at home and abroad. In March 2019, we expect to finish construction of our new advanced technology research laboratory, in Oji, Kita-ku—the area of Tokyo where KOSÉ began business—

geographically centralizing domestic R&D functions in this area. In addition, we established KOSÉ R&D France, in Lyon, France, to allow us to quickly apply the results of basic research and technology development, such as our leading-edge dermatology research, to the creation of marketable products.

Seeking to build a business platform that is resilient to changes in the operating environment, we will continue to strengthen our production structure, which is a vital ingredient in our recipe for growth. Specifically, we will reinforce our production and supply structure, with an emphasis on three key domestic factories, including the new production facility in Gunma Prefecture (that went online in March 2017) as well as renewed use of the Sayama Factory and the ALBION Group's manufacturing site. In this way, we will be ready to respond swiftly to demand even when factors, such as inbound purchasing interest, exceed anticipated production requirements.



Q What are your thoughts on shareholder returns? Any other matters of importance you'd like to share with stakeholders?

At KOSÉ, we believe a stable dividend is the basis of returning profits to shareholders. But our dividend policy must account for such factors as financial position, the status of business results and the payout ratio, with due care taken to maintain sufficient internal reserves to allow future business expansion. The annual dividend for fiscal 2017 was set at ¥148 per share, comprising a year-end dividend of ¥85 per share, up ¥22 per share over fiscal 2016, and an interim dividend of ¥63 per share.

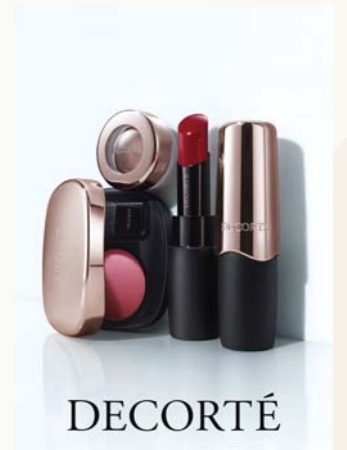
For fiscal 2018, we anticipate an annual dividend of ¥170 per share.

In fiscal 2026, the goal year for the medium- to long-term vision VISION2026, the KOSÉ Group will celebrate its 80th anniversary. Looking back, even since KOSÉ listed its stock in December 1999, the market environment has changed beyond recognition, driven by globalization. Against this backdrop, we have tried to remain sensitive to these various changes while presenting customers with new value.

A company with a global presence—as we aspire to be—can be defined in many ways. To us, it means being a company with brands used worldwide and human resources employed globally. It means being a company that garners the love and the loyalty of more and more people, where those who work are proud to do so. It means being a company that constantly creates unique value by anticipating market needs. It also means being a company that seeks to reveal the beauty within each and every person.

We will not be satisfied with the favorable business results we now enjoy but will rather strive toward our next milestone, in 2026, by constantly embracing new challenges irrespective of country, region and sales channel to get our message out there that we are always working to provide new value to customers.

As we travel this road, the continued support of our stakeholders will be integral to our success.



Becoming a Company with a Presence in Overseas Markets Built on Global Brands Originating in Japan

DECORTÉ

DECORTÉ—High-prestige brand with luxury-level quality that transcends time and crosses borders

DECORTÉ debuted overseas in 1997 with the launch of products in Taiwan. After carving out sales channels in countries throughout Asia, the brand set up shop mainly in department stores, starting with China in 2009, then Italy in 2012, and the United States and Canada in 2016. In 2017, *DECORTÉ* got a spot at Selfridges, a high-end department store chain in the United Kingdom, expanding the brand's sales network to 12 countries and regions.

In Japan, the brand acquired greater loyalty among a wider range of customers with the tremendous popularity of *Eye Glow Gem*, a point makeup product.

Overseas, an emphasis on *AQ*, a top-of-the-line anti-aging skincare series, has

underpinned *DECORTÉ*'s status as a high-prestige brand. In addition, an interesting phenomenon has emerged. As the number of tourists to Japan rises, so does awareness of *DECORTÉ*'s brand status among those who visit department stores in Japan. People who have purchased *DECORTÉ* products on such visits spread the word about the brand on social media and then purchase products online once back in their home countries. This has prompted a rapid increase in sales as well as brand recognition.



Revamped AQ skincare

In 2017, *AQ*—a symbol series of the brand—was revamped, and salon events were held in the luxurious atmosphere of five-star hotels in each country where the brand has a presence.

In 2018, promotions for *Moisture Liposome*, a bestseller, will be rolled out simultaneously worldwide, highlighting a message of original brand value.

The decision has also been made to set up *DECORTÉ* in a perfumery (cosmetic store) in Spain in 2018, illustrating our efforts to seek out new markets and showcase the ultimate in quality and service that has endured since the brand first appeared.



Global counter at department store in China

SEKKISEI

SEKKISEI—Representative “made-in-Japan” skincare brand

Soon after its 1985 debut in Japan, *SEKKISEI* was introduced to the rest of Asia and is now carving out a place in North America. Overseas, the brand is sold mainly at department stores, but in recent years, other purchasing channels have been explored, including e-commerce, duty-free stores, in-flight sales and drugstores, as part of efforts to develop and reinforce brand access to customers outside Japan. In the 2010s, *SEKKISEI* experienced a boom in demand from visitors to Japan, leading to new products, such as eye cream and sheet masks, developed with the needs of overseas customers in mind.

SEKKISEI MYV (MIYAVI) went on sale in September 2016 as a strategic product based on KOSÉ's global strategy. The plan is to emphasize the appeal of *SEKKISEI* as a global brand through the placement of *SEKKISEI* global counters mainly at flagship stores in Asia. In 2018, an original formula was developed for *SEKKISEI MYV (MIYAVI)* using Japanese ingredients. By offering this new service, we will further boost the value of *SEKKISEI* as a skincare brand.



SEKKISEI global counter, with decorations made of traditional Japanese paper and backlit displays, exuding a Japanese-style cosmopolitan atmosphere.



SEKKISEI MYV (MIYAVI), which went on sale in 2016, is the most luxurious series in the brand, imbued with the aesthetics of traditional Japan and featuring an advanced formula.

“ VOICE ”

The only brand that can achieve a truly high level of consumer awareness in the global market is *DECORTÉ*



Kousuke Amemiya
Chief Global Marketer
DECORTÉ

DECORTÉ products are made with the latest technologies and manufacturing methods available to the KOSÉ Group. It goes without saying that we aim for high standards in terms of making skin beautiful, as well as in product fragrance, texture and design so that women who buy *DECORTÉ* products enjoy using them and feel satisfied in their choices. The development policy that supports this goal has earned *DECORTÉ* high marks at home and abroad.

DECORTÉ has already established a position as a top-brand in Japan, and it is our mission to achieve similar status in Asia, North America and Europe as soon as possible. The brand policy needed to complete this mission highlights a hands-on approach to the communication of value. Through valuable input from experienced salon staff, we will convey value that customers around the world will find nowhere else but in *DECORTÉ*. I firmly believe that the only brand capable of achieving a truly high level of consumer awareness in the global market is *DECORTÉ*.

“ VOICE ”

Embodying the essence of Japan and transforming Asia's *SEKKISEI* into global *SEKKISEI*

Since its debut in 1985, *SEKKISEI* has gained the loyal support of women in Japan and throughout Asia who appreciate the brand's characteristic well-balanced blend of oriental herbal extracts, the incredibly youthful-looking skin that they achieve with this brand and the pleasant feel of the products. Today, *SEKKISEI* is a core brand in KOSÉ's portfolio. *SEKKISEI* is notable in the lotion category for its longevity having been on the market for more than 30 years, and loved by mothers and daughters alike. However, the younger generation is not yet fully aware of *SEKKISEI*'s excellence as a skincare product that has set the standard in Japan for more than three decades. This is a message we need to communicate more fully. Going forward, we will pinpoint the right marketing channels to highlight *SEKKISEI*'s excellent quality, and by doing so will encourage new users to actively seek out and purchase the product. By communicating a brand identity that evokes 'Japaneseness,' or the essence of Japan, and showcasing the wonderful features of *SEKKISEI* to existing and potential customers, we will see the brand evolve from Asia's *SEKKISEI* to a global *SEKKISEI*.



Hideki Matsumoto
Manager,
Consumer Brands Division Planning Section 4
SEKKISEI

JILL STUART

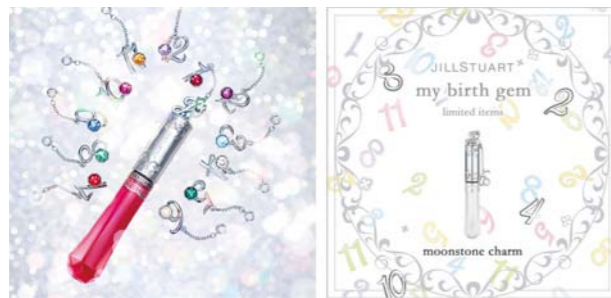


Lip Blossom launch in August 2017. Limited-time service to engrave a name or favorite word on the cap very well received by customers looking for gift or personal keepsake.

JILL STUART—Cosmetics of Japan-standard quality created through collaboration with a world-class designer

JILL STUART BEAUTY, a cosmetics brand born in 2005, was the amalgamation of New York fashion designer Jill Stuart's exceptional worldview and the KOSÉ Group's strengths in brand marketing, R&D and technology. Upon its debut, this brand immediately inspired wildly enthusiastic support from women with a high sense of fashion. In 2016, we accelerated efforts to develop overseas demand, and today the brand is found in department stores and duty-free shops in Taiwan, Hong Kong, Thailand, South Korea, China and Singapore. Sales have grown consistently during the 13 years since its debut, with the 2017 launch of *Lip Blossom* leading to record-high results in the lip category. A service to engrave a name into the cap was offered worldwide and was well received by customers.

Product designs evoking the image of vintage jewelry sparked considerable attention on social networking sites, exemplifying the speed at which information can be distributed and its extensive reach. Seeking to utilize these advantages, we will again use digital media and other channels in 2018, to spread the word about highly marketable products, such as *Loose Blush*, and raise brand recognition. This autumn, we also plan to expand the range of shades in the foundation line to 10, with the needs of a global market in mind.



Birth Gem Gloss, a lip-gloss that embodies happiness and features a birthstone charm, was a hot topic on social networking sites.

“ VOICE ”

Demonstrate presence as global brand from both a fashion and a cosmetics perspective



Mayumi Sato
Brand manager
JILL STUART

JILL STUART creates an “innocent sexy” vibe for women. The brand has a solid fan base in Asia, including Japan. Now the plan is to develop a presence in New York, where the brand originated. Jill Stuart herself is totally behind the plan to boost brand profile in North America, and she says she wants the brand to be viewed from both a fashion and a cosmetics perspective.

For JILL STUART to be a truly global brand, we have to strengthen all aspects of image, quality and service. Right now, we are pouring our efforts into the development of products with greater appeal and improving our service skills at shops worldwide as we strive to build a foundation for growth. Looking to the future, I'd like to see the brand expand into Oceania and Europe and become a brand that delivers fun and excitement to women around the world.



ADDICTION

ADDICTION—A makeup artist's brand boasting a lineup primed for the global market

The ADDICTION brand is under the creative direction of AYAKO, an internationally-famed New York-based makeup artist. The brand aims to enable all women, regardless of nationality or age, to create a personal style. In 2016, ADDICTION began to expand, entering South Korea, Taiwan and Hong Kong. In 2017, the brand ventured into China's e-commerce market. Product promotion with a global perspective is a noteworthy characteristic of ADDICTION. Core product, *THE EYESHADOW* provides a palette of 99 colors and textures. It has made a huge splash in every market where it is sold. The *BASE MAKE-UP COLLECTION*, with 108 rich textures, colors and a fresh finish was rolled out simultaneously worldwide in autumn 2017. This range provides a simple formula for all women to achieve a professional look, regardless of age, nationality or personal orientation.

The ADDICTION brand will mark its 10th anniversary in 2019, which is a perfect milestone year to draw on product qualities fine-tuned over the years and take the brand to China's e-commerce market and North America. Going forward, we will continue to ensure thorough training for the ADDICTION personal advisors, or sales staff, and present the best makeup to women around the world.



THE EYESHADOW—a 99-shade collection with a special emphasis on color and texture—is a symbol of the brand.



Black-toned ADDICTION counter with display of testers in rich color variations.

“ VOICE ”

ADDICTION—A brand created using the experience of internationally-celebrated AYAKO, and the development and technology strengths of KOSÉ



THE BASE MAKE-UP COLLECTION, launched in September 2017, features 108 products for buildably rich texture and color

Cosmetics brands developed by makeup artists are many and competition at department stores is fierce in every market. In this environment, ADDICTION has a major advantage—trust in Japanese quality. AYAKO herself is Japanese. She has a strong commitment to *monodukuri*—production with a deep sense of craftsmanship—and she is particular about subtle variations in every color and about differences in textures and the feel of makeup on the skin. She puts a lot of effort into the creative process. ADDICTION is the culmination of AYAKO's experience, acquired on the world stage, and KOSÉ's expertise in development and production technologies. Because the brand is the synergistic demonstration of these strengths, I am confident that we can make inroads through further global expansion, including the North American market.



Fumio Iguchi
Brand manager
ADDICTION

Brand Marketing

KOSÉ has cultivated numerous long-selling brands, each with a sense of “presence” in a cosmetics market characterized by diverse sales methods and channels, and by increasingly borderless access to products. Our goal now is to present to markets worldwide a collection of brands that have been refined under the discerning eye of our Japanese customers.

Brand Marketing with Long-Term Perspective Created Numerous Long-Selling Brands

KOSÉ began developing and manufacturing its own products shortly after the end of World War II. Almost immediately, the Company acquired a solid reputation for high quality. Later, KOSÉ debuted a string of trailblazing products, including the world’s first beauty serum and power foundation, and also became known for its innovative R&D capabilities. While KOSÉ was a solid company, our corporate identity (CI) or presence in the market lacked an equivalent robustness since we had never set forth a comprehensive brand strategy. Then in 1991, KOSÉ clarified its CI and adopted a unique approach to brand marketing. In 2011, the Company realigned its corporate structure, which had been divided by function, and laid out a system to manage the value chain (i.e., product planning, brand development, marketing and sales employee training) by brand. This made it possible to quickly and accurately reflect the comments of target customer groups in product, sales and service activities.

In articulating its brand strategy, KOSÉ took a long-term perspective. Management believed then—and still does—that a brand should be nurtured over time, not suddenly switched out of the portfolio if profitability temporarily trends lower. The goal is to showcase the essential features of a brand, devise the best marketing method for it and then boost sales through constant brand development. We value the worldview that infuses each brand but strive to adjust concepts to better match customer preferences and purchasing styles, which constantly evolve with the times. This strategy is exactly what drives successful brand marketing for KOSÉ, and is what has allowed us to build a portfolio of many long-selling products that have enjoyed loyal customer support for more than 30 years.

KOSÉ Beauty Festa Draws Big Crowds in Fukuoka and Hiroshima

This event brings all of the representative brands in the KOSÉ Group portfolio under one roof for a limited time. KOSÉ has opened the event in many cities all over Japan, including Tokyo and Osaka, with Fukuoka and Hiroshima added to the list in fiscal 2017. All told, KOSÉ Beauty Festa has taken place six times since 2013, with aggregate attendance exceeding 53,000.

Visitors to a KOSÉ Beauty Festa are free to look at and try out a variety of brands that, under normal circumstances, would be marketed separately over different channels. This is an opportunity for existing and potential customers to explore products beyond the borders of brand and marketing channels. For KOSÉ, these events allow product planning and development teams to interact with customers, and this direct contact often leads to new product concepts and proposals.

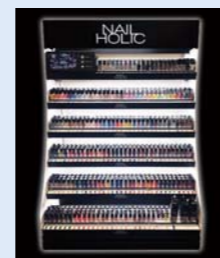


Event ran for three days, from February 16, 2018, at Hiroshima Kamiyacho Shareo Central Place. Long lines formed for every brand.

Total Shipments Top 20 Million Units in First Three Years on Market! NAIL HOLIC Takes No.1* Spot

NAIL HOLIC is a nail brand in a rich palette of colors (totaling 175) and textures that debuted in February 2015. In the three years since its market introduction, the brand has shipped more than 20 million units, marking a historic high for KOSÉ in the nail category. Also of note, since March 2017, NAIL HOLIC has continuously captured the No.1 spot nationwide in the nail polish category in terms of sales value.

*Intage Inc. POS data on estimated nail polish sales volume (value)



Special display case for all 175 colors. Many customers buy several shades at a time.

Preserving Accumulated Brand Value While Raising Profile in World Markets

Our unique brand marketing fueled awareness of many distinctive brands in the KOSÉ product portfolio over various channels, enabling us to successfully build a corporate group with the ability to respond to diverse customer needs. Then, in 2012, we began to pursue a global brand strategy in earnest, seeking to foster a new cosmetics culture in Japan and open up the home market, while using the experience and results we had achieved through the development of multiple brands at home to our advantage when entering world markets. In 2018, we picked up the pace of this process, making solid inroads into such enormous markets as China and North America as well as Europe.



In March 2018, we launched skin-brightening products in the luxury COSME DECORTE AQ series

Digital-first Brand — New Awake Debut

In February 2018, the high-prestige brand Awake was revamped. We partnered with Tarte, a KOSÉ Group member in the United States, on everything from marketing to product planning and design, culminating in a re-imagined brand concept. Awake is being marketed via digital channels and geared to changing lifestyles and diversifying consumer behavior. The message we want to convey to customers is a world view that emphasizes a positive attitude and enjoying life, regardless of age, by recognizing that beauty is all about being natural.



New Awake lineup emphasizes skincare with concentrated botanical power.

Established Asia Business Division, Europe and America Business Division and Digital Marketing Division to Reinforce Global Marketing

In April 2018, KOSÉ split its Global Business Division in two, creating the Asia Business Division and the Europe and America Business Division, with a view toward advancing globalization and seamless expansion of brand businesses. These two departments will oversee subsidiaries and branches in each geographical region. In addition, the Company set up the Digital Marketing Department to strengthen its response to consumers’ embrace of the digital movement. Through these structural changes, we added a digital dimension to our marketing strategy and forged a system that enables each brand to expand its business activities globally and seamlessly.

Research and Development

At KOSÉ, R&D activities reflect the power of three words—intelligence, sensuousness and reliability—and a concept dating back to our earliest days that emphasizes cosmetics of the highest quality to elicit total customer satisfaction. We will continue to create high-quality products with a priority on safety as well as products that consistently bring about new ideas and innovation in cosmetic culture.

》 Achieving Finest Quality from Customer Perspective through Innovation 》 Reaching beyond Conventional Thinking and Assumptions

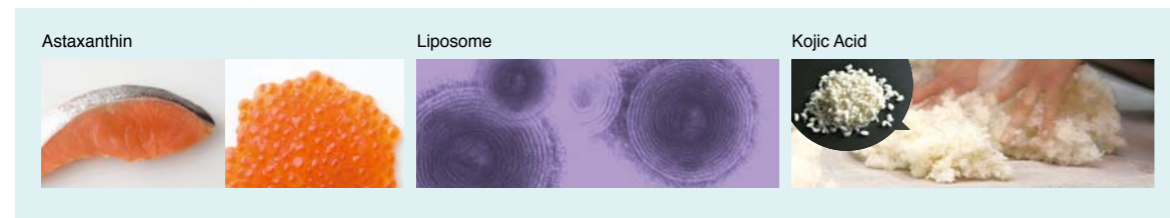
KOSÉ's R&D activities are guided by a philosophy of creating a uniquely beautiful culture through the high-level integration of three words reflecting values—intelligence, sensuousness and reliability—and to supply affordable yet superior products. Research emphasizing originality and speed generates high-value-added results and is the fuel that drives KOSÉ's growth.

Since our establishment, we have brought trailblazing, new cosmetics to market. Our efforts have heralded many new categories in cosmetics, such as beauty serum, in 1975, and powder foundation, in 1976. In 1992, we debuted *COSME DECORTE Moisture Liposome*, a beauty serum incorporating liposome technology, which we had studied as a delivery mechanism for the development of quasi-medical products. Liposome technology had not been applied to a cosmetic product before, tagging *COSME DECORTE Moisture Liposome* as an industry first. Now regarded as a long-seller, this product has enjoyed robust sales, with more than seven million bottles sold to date. We later enhanced the formula, adding several highly effective beauty ingredients, including astaxanthin and kojic acid. These results reflect a deeply rooted corporate culture that enables researchers to rise to various challenges. In 2016, on the occasion of our 70th anniversary, we redefined our "Laboratory Vision" to accelerate global growth.

Laboratory Vision

Be constantly producing "good things" for customers through innovation that reaches beyond conventional thinking and assumptions, thereby serving as a driving force to expand the number of avid supporters of KOSÉ in Japan, throughout Asia, and around the world.

■ Representative Beauty Ingredient Gems for KOSÉ

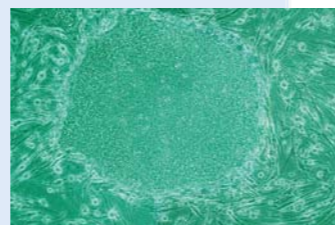


Focus on Dermatology Expands Potential of Cosmetics to Address Aging and Atopic Dermatitis through Skincare

We promote basic research with a long-term perspective in a quest for discoveries that will help address social issues and consumer concerns through cosmetics. Our strength in the area of basic research is on dermatology-related studies focusing on aging and the subsequent application of results to new skincare products. In 1994, we pinpointed the impact of singlet oxygen on aging, solidifying our reputation for results in the dermatology-related arena.

In 2009, we partnered with Keio University School of Medicine and began joint research on skincare and the skin's barrier function. We established an endowed course in 2013 to promote this topic further and have been working to contribute to preventative medicine for atopic dermatitis and better quality of life (QOL) during periods of remission*. We are also delving into induced pluripotent stem (iPS) cells research to identify the mechanism behind the aging process and are engaged in the development of new anti-aging skincare ingredients.

*Remission: A stable period in which the symptoms of a disease decrease temporarily or disappear



Involved in aging-related research using iPS cells



Advanced Technology Laboratory, scheduled for completion in March 2019 (Oji, Kita-ku, Tokyo)

》 High-Performance, Flexible R&D Structure that 》 Quickly Generated Products with Originality

We are realigning our research structure to strengthen global competitiveness and cultivate new markets. In 2017, we established the Customer Value Creation Laboratories as a structure for new innovation and also opened our first research facility in Europe—the France Branch—in Lyon, France, which is regarded as a hub for leading-edge dermatological technology. We will draw on the advantages presented within the local environment while pursuing dermatological research and applying the results to the development of cosmetics. Meanwhile, work continues on the Advanced Technology Laboratory, which is scheduled for completion in 2019 and will concentrate domestic research facilities in Oji, Kita-ku, the district of our original operations.

Through these changes, we aim to build a high-performance, flexible R&D structure. This will in turn allow us to enhance our research, raise the value of the products we provide to customers and reinforce our next-generation technology research, which will underpin the creation of new value. Ultimately, this structure will facilitate quick commercialization of products.

Successful 3D Capture of Dark Spot Structure in Skin —Keratinocyte Enveloped by Melanocyte—

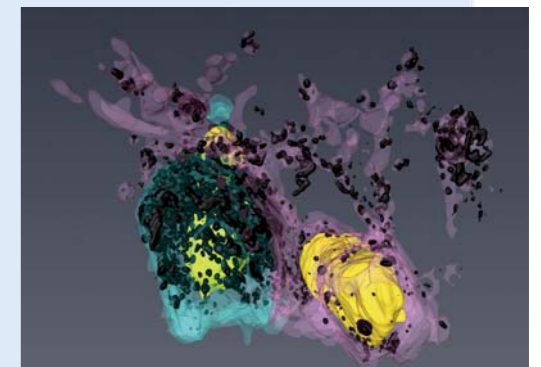
In joint research with Keisuke Ohta, associate professor at Kurume University's Advanced Imaging Research Center, KOSÉ visualized a melanocyte—pigment cell—and a keratinocyte—surface cell—at the site of a dark spot on human skin and successfully captured the three-dimensional positional relationship. The image showed a difference in shape between the melanocyte in the dark spot and



a similar cell in an unblemished area revealing that the melanocyte in the dark spot was enlarged and puffy and essentially held the keratinocyte in a dermatological stranglehold. The image also revealed for the very first time that the melanocyte discharged a large amount of mature, black melanin on to the keratinocyte.

From these insights, KOSÉ reconfirmed the effectiveness of kojic acid, which prevents melanin from clumping into a dark spot, and used this approach to create *Melanoshot White*, a quasi-drug, skin-brightening beauty serum.

Melanoshot White quasi-drug beauty serum under ONE BY KOSÉ label debuted in April 2018



Three-dimensional positional relationship of melanocyte (pink) and keratinocyte (blue) in a dark spot on the skin

Commitment to Quality

Since its earliest days, the KOSÉ Group has been totally committed to the production of the very best cosmetics through meticulous quality control, from raw materials procurement to manufacturing. The underlying message in the KOSÉ “quality policy,” established in fiscal 2010, prioritizes customer satisfaction and emphasizes quality from a perspective that is both broad and deep.

Carrying on Our Founder’s Commitment through Ongoing Enhancement of Quality Assurance System

Kozaburo Kobayashi, who founded KOSÉ in 1946, believed the Company had a duty to develop products of superior quality that would make consumers happy. Amid persistent shortages of raw materials in the postwar years, Kobayashi scrambled to procure high-quality ingredients and took pride in providing customers with cosmetics that were of “KOSÉ quality.” Many customers throughout Japan recognized and appreciated this kind of quality, behind which was a belief that “only one product out of millions of cosmetics delivered to the market reaches the customer, so cherish the one.” This is a belief or policy to which KOSÉ still adheres to today. We pursue the highest quality across the entire value chain. In the 1970s, we were quick to introduce quality control (QC) using scientific methods at our production sites, and in 1980, we marked a cosmetics industry first when the Manufacturing Department captured a Deming Prize—the Quality Control Award for Operations Business Units. After the 1990s, we adopted ISO 9001 international quality standards as well as a cosmetics GMP*-compliant management system, and we will always strive to maintain this excellent standard.



Product inspection process

*Cosmetics GMP (Good Manufacturing Practices for cosmetics): Technical standards for production and quality control of cosmetic products



Japanese Quality for the World

The reputation of made-in-Japan, refined, high-quality cosmetics is rising worldwide, and KOSÉ’s own production volume has expanded considerably to meet greater demand. In March 2017, we built a new manufacturing facility on the grounds of our Gunma Factory, reinforcing production capacity for high-value-added cosmetics. In 2018, we will go further by expanding production capacity at the Sayama Factory, strengthening the production supply structure at three domestic factories (including the ALBION Kumagaya Factory) and promoting technological innovation to deliver ultimate quality.

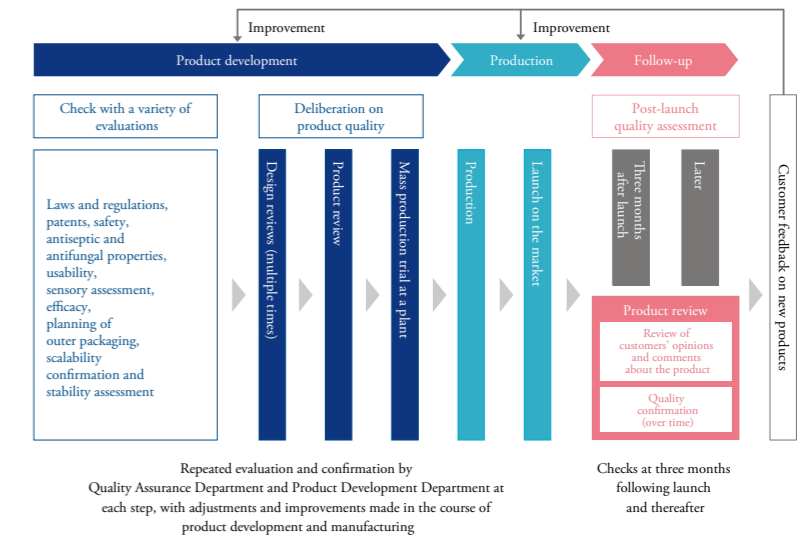
We are also working to globalize our quality assurance system, paralleling efforts to accelerate access to our brands and products on the world stage. We updated the KOSÉ Quality Assurance Standards from a global perspective, and we are sharing the content with domestic and international outsourcing partners, as well as companies that make the raw materials, containers and packaging that we use in our products. In addition, to ensure the global suitability of final products shipped from our domestic factories to markets overseas, we are building a cross-structural quality assurance system linking research laboratories, the production department and the Quality Assurance Department.

Building Framework that Prioritizes Safety and Peace of Mind in Creating Innovative Products

In new product development, we prioritize safety to ensure that customers can use our products with peace of mind. Each step, from the raw materials-related stages through to container- and packaging-related stages, undergoes repeated evaluation and confirmation by the Quality Assurance Department and the Product Development Department in line with various quality standards, including our own stringent safety criteria. In addition, we envision the conditions in which customers might use products and run strict tests on final products to confirm safety and other factors before putting any products on the market.

To balance quality that evokes product safety and peace of mind with the flexibility to quickly create innovative products, KOSÉ also maintains a structure whereby the Quality Assurance Department and the Product Development Department work together right from the initial stage of development to evaluate and confirm the safety of new products. Going further, we employ a framework through which product development and production departments are entrusted with quality assurance functions and associated authority, while the Quality Assurance Department adopts an overall perspective, identifying aspects of importance and checking that each department is functioning properly. We strive to promote quality-oriented product development but not at the cost of new perspectives and free thought.

Quality assurance in the development process of new products sold by the KOSÉ Group



Repeated evaluation and confirmation by Quality Assurance Department and Product Development Department at each step, with adjustments and improvements made in the course of product development and manufacturing

Checks at three months following launch and thereafter

Policy Prioritizing Safety while Maintaining Stand against Animal Testing

At KOSÉ, we prioritize safety while promoting the development of cosmetics, including quasi-drugs, through a policy of not conducting animal testing but instead using alternative methods. Alternatives include tests using cultured cells to determine possible sensitivity or allergic reaction to products on the skin and the eyes. Such tests use cells applicable to the type of test or three-dimensional models built from cells, including a restructured human epidermal model and a restructured human cornea-like epithelium model.

Alternative-based safety evaluation methods are encouraging development through cooperation among cosmetics makers, and KOSÉ itself is keen to develop and verify new alternatives and contribute to the industry.

Initiative to Make Products that All Customers Find Easy to Use

KOSÉ wants everyone who picks up a KOSÉ-brand product to be able to enjoy it, so considerable thought and a variety of ideas have gone into container design. Naturally, caps are easy to open and refills are easy to use. Additionally, we incorporate braille labeling, packaging with a different feel and designs in varied colors for the products of key brands.



“Embossing” Products are identifiable by fingertip, even refill pouches, through the use of embossing.

“Makeup remover” is written in braille on an attached sticker.

“Sunscreen” is written in braille on clear packaging.

Create an Environment that Allows People to Realize Their Full Potential

At KOSÉ, our goal is to be a company with a global presence, and to achieve this goal we need human resources with world-class skills, that is to say people who anticipate changes from a global perspective and constantly create unique value. We maintain three management platforms to create an environment that allows our employees to realize their full potential, ultimately delivering us to the targets stated in our medium-term management plan.

》 Promote Education and Awareness about Human Rights and Advocate Diversity Management

Employees are a source of corporate growth that hone the company's competitive edge. However, for employees themselves to grow, they must have a healthy working environment. At the KOSÉ Group, we strive to cultivate an atmosphere that enables human resources with diverse characteristics to demonstrate their skills. To that end, we promote education and awareness about human rights and advocate diversity management. In the KOSÉ Group Action Guidelines, we stipulate respect of human rights for all and zero tolerance for any actions that might lead to discrimination. We encourage acceptance and understanding in the workplace and endeavor to build a healthy working environment where diversity is valued. In management-level programs, we seek to raise awareness of human rights and provide training to ensure respect of others regardless of nationality, race, religion, educational background or age. We also promote an understanding of sexual diversity (i.e., LGBT*) extending to sexual orientation and gender identity.

*LGBT: Lesbian, Gay, Bisexual and Transgender

》 Consider Working Environment and Work-life Balance

We are building a comfortable working environment designed to help employees find a good balance between their professional and private lives. As part of this process, we encourage fixed-term contract employees to shift to regular employee status. We also take an approach to recruitment that does not limit prospective regular employees by such factors as job type, region, or gender. In addition, with the health of employees and a good work-life balance in mind, we track working hours and set reduction targets to optimize time and effort. We also offer wellness guidance by industrial doctors based on the results of annual health checks and respective work situation. We have introduced programs, such as childcare/nursing care leave and shortened working hours, to help employees balance family and career through approaches to work matched to life events. Of regular employees who had babies, 100% took childcare leave, and more than 90% of these women later returned to work.

Certified as Excellent Enterprise of Health and Productivity Management (White 500)

Efforts to improve the health and wellbeing of employees will lead to higher productivity, according to health management principles. As such, a good working environment and good health practices are key management issues for any company. This is an ideal that the KOSÉ Group wholeheartedly embraces. We promote and support measures to keep working hours to an appropriate level and help employees maintain good health. These efforts were certified in 2017 and again in 2018 under a program sponsored by the Ministry of Economy, Trade and Industry and the Nippon Kenko Kaigi to recognize companies—the “White 500”—that maintain excellent health and productivity management programs.



》 Developing Human Resources and Fostering a Corporate Culture that Promotes Innovation

Our global strategy includes a picture of the ideal employee—someone who fearlessly embraces challenges, with a flexible perspective, and gives us the benefit of individuality—and we are keen to attract and keep people who add a new dimension of diversity to our talent pool. In fiscal 2018, we hired 73 people for career track positions and 221 people as beauty advisors. In his address at the welcoming ceremony for new employees, the president said “Members of the Digital Native Generation, senior colleagues will be motivated by your presence. I want you to reimagine KOSÉ and embrace this mission with resolve.”

We maintain an in-house recruitment system that gives existing employees with a desire to take on new challenges the opportunity to work at a different job within the organization. In addition, we introduced a contest back in fiscal 2008 called KIC* with the aim of eliciting ideas from employees for new products with business potential. The contest is held once every two years. In fiscal 2016, we expanded eligibility to include ideas from employees overseas, leading to about 2,000 entries. The most excellent entries are acknowledged with an award. In fiscal 2017, we initiated a program that goes way beyond idea creation to the launch of new businesses.

*KIC: KOSÉ Idea Contest



Global KIC award ceremony in 2016

》 Developing Beauty Professionals Active Worldwide

We also emphasize training for beauty advisors, who interact most closely with customers, and seek to create a group of beauty professionals. Toward this end, in fiscal 2014, we promoted contract employees to regular employee status, and after fiscal 2015, we switched to a practice of hiring new graduates as regular employees rather than contract employees. For mid-career hires, we introduced an exam-based promotion system, with more than a hundred beauty advisors passing the test each year. Through these approaches, the number of beauty advisors who are regular employees has grown to about 90% of the total. In addition, we run a nationwide program for beauty advisors that gives them the option to change branch and continue their careers in a different location. Concurrently, we maintain an in-house recruitment system that enables beauty advisors to take on the challenge of working in other roles within the company. These efforts expand career path options and provide new motivation for job satisfaction.

Seeking to improve the technical skills of beauty advisors, we complemented an existing training and instruction program with our own bespoke KOSÉ Makeup Lesson Examination in fiscal 2014. This examination has been approved by Japan's Ministry of Health, Labour and Welfare. Another noteworthy aspect of this examination is that it evaluates beauty advisors for their skills in applying customers' makeup but also assesses their ability to teach customers how to do their own makeup. The examination thus contributes to enhanced skills and spurs motivation as well.

7th Global EMB Contest to Select Top Beauty Advisors

About 4,600 beauty advisors from Japan and abroad are eligible to participate in the Global EMB* Contest. The event is an opportunity for beauty advisors from around the world to improve their skills. The 7th Global EMB Contest took place over two days in April 2018. On the first day, the finalists, comprising 17 beauty advisors from Japan and overseas who had reached the final stage of competition, gathered at KOSÉ's Oji Training Center in Kita-ku, Tokyo, to showcase their skills before the judges. The results were announced the next day with an awards ceremony at the Tokyo Dome Hotel (Bunkyo-ku, Tokyo). The grand prize went to Kaori Yoshida, a beauty advisor in Japan, with Japan's Masami Okamoto and Taiwan's Yu Chen Wei in the runner-up positions.

*EMB: Expectation, Meet, Beyond



Grand prize winner announcement



SAVE the BLUE Project

At KOSÉ, we want to contribute to the realization of a sustainable society for everyone connected to us and, by extension, our precious planet. We launched the SAVE the BLUE Project in 2009 as part of an effort to give shape to our corporate message “Wisdom and Beauty for People and the Earth,” and thereby support activities to protect the global environment.

Domestic Activities

Steps We Can Take Now to Protect the Beautiful Ocean

SAVE the BLUE debuted in 2009, with a portion of sales from SEKKISEI—a brand loved by many customers—directed toward activities to protect the coral reefs in Okinawa. The project name derives from the azure bottles that symbolize the SEKKISEI brand and our desire to ensure that oceans remain as beautifully blue as these azure bottles for future generations.

In 2017, our two-month campaign ran through July and August. A portion of sales from select products in the SEKKISEI series purchased by customers during these summer months was donated to a local organization in Okinawa to cover the cost of growing an amount of coral equivalent to the total surface area of the bottom* of the containers of project-designated SEKKISEI products. In the autumn, the cultivated coral was transplanted onto existing reefs in Okinawa. A total of 14,440 coral seedlings—totaling 87,491,413cm² or about 23.3 times the size of an official short-course (25m) swimming pool—have been planted over the past nine years, bringing coral forests back to life. In 2011, the third year of the project, transplanted coral began to spawn, expanding the area still further.

*SEKKISEI lotion regular size: 4cm x 5cm = 20cm²



Drawing on the theme “Live on THE Earth,” the limited edition design for donation-eligible SEKKISEI products in 2017 featured sea turtles and coral



Japan

Overseas Activities

Helping to Green China’s Desert and Protect Sea Turtles in Thailand and Malaysia

From 2011, the SAVE the BLUE project expanded to other countries in Asia. KOSÉ participates in various activities, based on environmental protection efforts required in each region. In 2017, we supported projects in four countries: China, Thailand, Singapore and Malaysia.

Thailand



Sea turtle release project in cooperation with the Marine and Coastal Resource Research Center, established by Thai government to protect marine ecosystems and breed sea turtles for release.

Malaysia



From 2017, partnered with volunteer group Lang Tengah Turtle Watch Organization, in support of activities to protect sea turtles from extinction by preventing their eggs from being poached.

Singapore



Provided support to state-owned National Parks Board to facilitate project involving junior and senior high school students from 10 schools in Singapore. The students conducted surveys of marine environment, checked on shellfish that inhabit coastal areas and performed follow-up surveys on the accumulation of chemical substances in marine life.

China



Support for activities of Green Life, a non-profit organization that purchases and plants seedlings for greening the deserts of Inner Mongolia.

Efforts to Promote Sports

KOSÉ developed original water-repellant technology under a concept of looking beautiful even when doing sports and in 1981 debuted *SPORTS BEAUTY*, the industry’s first cosmetics brand created especially for sports-active women. With this as a stepping stone, we have continued to support athletes in various sports, encouraging them to be active and compete beautifully.

Figure Skating

As an official partner of the Japan Skating Federation since 2006, KOSÉ has provided support, including makeup and makeup lessons, to figure skaters. In 2016, we marked a first as the title sponsor of the KOSÉ Team Challenge Cup, an international event on the figure skating circuit. A makeup room was set up in the competitor zone, where KOSÉ makeup artists applied makeup and offered eye-catching suggestions. This space attracted steady interest from all skaters, regardless of nationality or gender, and earned stellar reviews, exemplified by a comment that “the artist-applied makeup created an expression that would not have been possible on my own.”



Skaters representing Japan at the World Figure Skating Championships 2018

Artistic Swimming

In April 2006, KOSÉ signed an official cosmetic partner agreement with Mermaid Japan, which represents Japan in international artistic swimming competitions, and has provided constant support for the team ever since. We create makeup designs matched to costumes and music and provide detailed instructions on makeup techniques so that team members can apply their own makeup at competition sites. The products used are available on the market and include *COSME DECORTE MAQUIEXPERT* and *FASIO*, which boast superior water-repellency. Our expertise goes beyond competition makeup, with suggestions on daily skincare to deliver total beauty solutions.



Mermaid Japan (national team)



Makeup lesson

Ladies Professional Golf, Walking Competitions and Other Events

In 2016, we launched a new product in the *SPORTS BEAUTY* line—the first in 16 years. We took advantage of this marketing event to sign sponsorship deals with female professional golfers, extending the list to 10. *SPORTS BEAUTY* products provide protection from exposure to strong ultraviolet rays during rounds of golf and promote a good skincare routine for women who want to look beautiful even when playing sports.

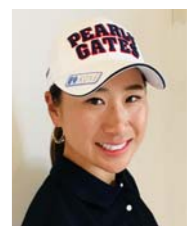
We also sponsor a variety of community-based sports events, including walking competitions.



Kotono Kozuma



Kumiko Kaneda



Megumi Kido

Measures to Address Climate Change and Reduce Environmental Load

At KOSÉ, our CSR activities reflect our corporate message “Wisdom and Beauty for People and the Earth.” We designed the KOSÉ Basic Environmental Policy on the fundamental concept that underpins ISO 14001, the international standard on environmental management. Under the policy, environmental working groups are responsible for implementing activities companywide under the oversight of the CSR Promotion Committee.

Implementing Activities to Reduce Environmental Burden at Every Stage of the Value Chain

KOSÉ recognizes that business activities (such as production, marketing and logistics) have an impact on the environment and we vigorously strive to reduce this burden. We set benchmarks for CO₂ emissions, water consumption and waste as priority targets and publish data on our website to show the impact that our corporate activities have on the environment. In production activities, we constantly observe measures to reduce industrial waste, save energy and prevent environmental pollution. We also install energy-saving equipment, such as co-generation systems, at all factories. Meanwhile, with respect to product development and sales, we take steps to develop and improve the raw materials used in cosmetics and the materials used in containers, packaging and in-store display cases, with attention to the impact that such components have on the environment.



An environment-friendly co-generation system using natural gas at our Gunma Factory.

As Responsible Cosmetics Maker, Provide Customers with More Environment-friendly Products



Reducing amount of plastic used in containers and packaging

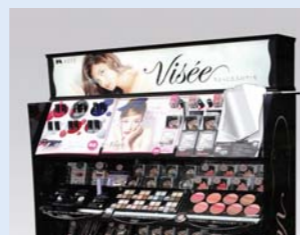
We are working to limit the environmental burden from our operations, with an emphasis on reducing the amount of plastic in containers, utilizing refills and opting for more environmentally friendly product contents. Efforts include an end to domestic and overseas shipments of cleansing products that contain microplastic beads, which have been cited for detrimental effect on ocean environments, and a switch to plant-based raw materials.

Of note, in 2013, we switched from a box to film packaging for *SEKKISEI Sun Protect Essence Gel*, one of our best-selling products, and greatly reduced the amount of plastic used. The packaging was later redesigned, cutting the plastic content even more. This packaging method has been applied to many other products, including *FASIO* makeup and *SPORTS BEAUTY*, our sunscreen brand.

Actively Cutting CO₂ Emissions from Store Display Cases and Sales and Logistics Operations

We had been using fluorescent lighting in display cases for cosmetics sold at drugstores and mass retailers, but starting with the display case for makeup brand *VISÉE*, we opted for light-emitting diode (LED) lighting instead. LEDs last longer than fluorescent lights and consume less power, and we will actively continue to utilize LEDs for our displays.

Samples, which allow customers to try a product before making a purchase, and product information on cardboard mounts used to be delivered to stores in paper boxes. From 2009, we discontinued this format in favor of plastic bags. This shift to simplified packaging has cut waste to one-fifth and the space required for transporting samples to about two-thirds, compared with the paper box format. In addition, our CO₂ footprint has gotten smaller because the streamlined size of sample packages facilitates shared transport of products with other companies in the cosmetics industry and thus reduces the number of trucks on the road.



VISÉE display case using LED lighting

Activities with Suppliers and Retailers

At KOSÉ, we have always subscribed to the idea of co-existence and co-prosperity with our business partners. We value the sense of partnership that infuses our relationships with all business partners, and we emphasize CSR throughout our supply chain, extending beyond Japan to points overseas, to grow along with suppliers and retailers.

Promoting CSR Supply Chain Management

We conduct CSR procurement for raw materials conscious of society and the environment, in line with our Basic Procurement Policy. We promote detailed information exchange opportunities with suppliers to develop mutual understanding of pertinent issues and to track environment-oriented responses and respect for human rights through questionnaires.

KOSÉ's Basic Procurement Policy

1. Quality and safety assurance

In procurement activities, we will prioritize quality and safety, in line with the KOSÉ Basic Quality Policy.

2. Fair and equitable

We will provide all suppliers, at home and abroad, with the opportunity to compete on an equal footing, regardless of company size. In business transactions, we will emphasize fairness in procurement activities, taking a comprehensive view of such factors as quality, price, delivery time, supply capabilities and management stability.

3. Adhere to laws, regulations and social norms

We will adhere to the laws, regulations and social norms observed in each country and region, and conduct procurement conscious of CSR, paying attention to such factors as the protection of the global environment and conservation of resources, safety and human rights, to fulfill our social responsibilities.

4. Co-existence and co-prosperity

We will aim to achieve enduring, mutual development through procurement activities by understanding our suppliers and they understand us and by building relationships of trust.

5. Ensure information security

We will rigorously manage confidential information and personal information related to procurement activities.

Emphasizing Sense of Partnership with Suppliers

KOSÉ holds a policy meeting with our suppliers once a year to explain to them the KOSÉ Group's policies, business plan and purchasing policy. We also use this event to organize a party for our suppliers as a show of gratitude and to recognize those who have contributed significantly to our success, particularly, business results, improved quality and environmental considerations. In fiscal 2017, we welcomed participants representing more than 80 domestic and international suppliers, including those providing us with raw materials and fragrances, materials, OEM services and various production work. We asked suppliers to continue to be good partners in our enduring pursuit of higher quality, environment-friendly business activities and CSR awareness. This event draws an increasing number of participants from abroad, so interpreters are brought in to provide simultaneous translation of presentations.



Co-existence and Co-prosperity with Retailers

Since its foundation, the KOSÉ Group has always worked closely with retailers under a system that not only sells products direct to retailers but also supports sales efforts at stores through visits by beauty advisors and suggestions on in-store displays. To enable store staff to offer advice along with KOSÉ products, we hold numerous seminars for retailers and their employees.



CSR Activity Targets List



Stakeholder	Important issue	Activity theme	Medium-term target	Fiscal 2017 results	SDGs
Customer	We will provide high quality products and services that prioritize safety and security as a company that creates beauty for people	Security, Safety and Quality	Enhance quality assurance system throughout the entire Group	• Consolidated quality assurance information and carried out further effective utilization	
			Enhance safety assurance system throughout the entire Group	• Promoted development of a safety assurance system to cover expanding business areas, such as new distribution channels and overseas • Developed a system that does not use animals for safety evaluation operations and promoted activities at Japan Cosmetic Industry Association and special academic conferences	
		R&D from a customer perspective	Deepen the relationship with the fields of cosmetic medicine, preventative medicine and health promotion, and support QOL	• Contributed in preventative medicine, etc. via the release of research results at academic conferences and research papers • Held an endowed program at Keio University School of Medicine on a continuous basis to support research on skincare and allergies • Promoted improvement of QOL of porphyria patients, via the continuous provision of cosmetic products	3
			Offer a high level of satisfaction by exceeding customer expectations through cosmetic products	• Strove to develop value added products under the slogan "closer to our customers," while taking diversity into consideration from a customer perspective	
			Promote development of products and packaging that improve usability	• Continued the pursuit of products and packaging that are easy to use for everyone • Increased the number of containers with braille, tactile identification, etc. for visually challenged people	3
		Communication with customers	Improve QOL for people with disabilities through cosmetics	• Continued sponsoring the Caremake Association, with the aim of increasing the QOL for visually challenged people (second year)	5
Improve our capability to respond to customer expectations and requests	• Made use of Customer Response Knowledge shared across related companies using a common system at various contact points • Reviewed consumer-oriented voluntary declarations for announcement				
Environment	We will engage in resource and energy conservation in consideration of biodiversity and environmental protection	Energy and resource conservation throughout the entire value chain	Understand and reduce greenhouse gas emissions	• Promoted collection of data on CO ₂ emissions at business locations in Japan and overseas	12 13
			Understand and reduce water resources used and wastewater volumes	• Promoted collection of data on water consumption and wastewater volumes at business locations in Japan and overseas	6
			Understand and reduce waste volumes	• Achieved zero waste emissions at our manufacturing sites in Japan • Promoted collection of data on waste volumes at business locations in Japan and overseas • Promoted effective use of raw materials and product inventory	12
		Environmental consideration in product containers and packaging	• Continuously promoted and strengthened activities to reduce environmental impact • Stopped the use of plastic microbeads in cleansers	12	
Preserving biodiversity	Continue and expand our SAVE the BLUE project	• Expanded activities to preserve nature with our customers and business partners in Japan and Asian countries	13 14 15		
Business partner	We will carry forward the idea of "co-existence and co-prosperity" passed down since our foundation, to promote CSR activities throughout the entire supply chain	Raw material procurement	• Promote CSR procurement throughout the entire supply chain • Implement fixed-point observation based on the Basic CSR Policy	• Continued to review the Basic CSR Procurement Policy (Revision of the Green Procurement Standards) • Communicated with suppliers through purchase policy briefings, supplier appreciation events, information exchange meetings, etc.	
Employee	We will strive to develop human resources and create a working environment to enable each employee to fully demonstrate their abilities	Respect for human rights	Promote human rights education and awareness	• Implemented e-learning for all employees based on the theme of compliance concerning employment, labor and infringement of rights • Implemented management-level training based on the theme of respecting the human rights of employees	5
		Promotion of diversity and working-style reform	Promote active role of women and the employment of foreign nationals	• Promoted recruitment of new graduates as beauty advisors and shifted to regular employment of fixed-term contract employees • Introduced a support system for child-rearing and nursing	8
			Employment of people with disabilities and retired employees	• Engaged in activities to fulfill our employment targets for people with disabilities • Introduced and implemented a reemployment system	
		Human resource development	Improve and raise health awareness	• Continuing from last year, certified as an Excellent Enterprise of Health and Productivity Management 2018 (White 500), based on the recognition of our employee health management	
Local community	We will promote social contribution through cosmetic products with the aim of coexisting in harmony with local communities	Academic support	Academic support focusing on universities	• Held the second term of KOSÉ Endowed Program for Skincare and Allergy Preventive Medicine at Keio University School of Medicine, with plans for an additional three years	3
		Support promotion of sports and improve health	Support promotion of sports, with a focus on highly artistic sports (ice skating)	• Continued support as an official partner of the Japan Skating Federation • Held KOSÉ Team Challenge Cup and provided make-up assistance to athletes in the U.S.	3
			Support promotion of sports, with a focus on highly artistic sports (artistic swimming)	• Continued to act as an official sponsor and official cosmetic partner of Mermaid Japan, the Japan national artistic swimming team	3
		Cultural inheritance and support for agriculture	Support and promote Japanese agriculture	• Continued sponsoring Women in Agriculture Project, as well as various PR activities to improve the image of agriculture	
		Assistance to disaster affected areas	Support disaster affected areas continuously through Fukushima Sakura Project, etc.	• Continued participating in the Fukushima Sakura Project and cosponsored project mapping in Shirakawa City. Planted cherry blossom seedlings at a nursery facility in Ibaraki	
		Supporting education and women	Support provision of high-quality education	• Continued supporting Sakura Girls Junior High School in Tanzania (Central Africa)	4 5
CSR management	CSR management	Building CSR foundations	Built a CSR foundation and activity system throughout the entire Group, and raised awareness within the Company	• Continued to review our direction and identified issues based on ISO 26000 • Promoted the fostering of a CSR mindset on our 70th anniversary • Participated in the UNGC and incorporated SDGs into our primary activity indicators	
		Corporate governance	Sound management and building a system to maintain social trust	• Continued appropriate operation of Board of Directors and Audit and Supervisory Board. Implemented internal audits both within and outside Japan with appropriate disclosure	
		Stakeholder engagement	Active disclosure and dialogue with stakeholders	• Disclosed status of activities and issues based on ISO 26000 and held stakeholder dialogue • Released KOSÉ Report and disclosed CSR information to stakeholders through creating a PR blog • Held dialogue between top management and stock market personnel, and engaged in communication at seminars for individual investors, etc.	
		Compliance	Promote compliance activities	• Responded to internal reporting (appropriately and quickly responded to internal reporting from compliance consultation contact points) • Continued various compliance education and enhanced awareness-raising activities • Implemented e-learning on employment and labor, infringement of rights, anti-social influences and insider trading under the title "Learning the basics of compliance through cases"	16
		Information security	Strengthen personal information protection system and preventative measures	• Responded to the My Number System and implemented regular audits for management and operation system • Implemented training on personal information protection and information security risks at the management level	
		Business continuity planning	Measures to continue operations during emergencies	• Introduced a system to confirm the safety of employees during emergencies	

Directors and Audit & Supervisory Board Members



Management Team

From back left »

Iwao Toigawa Director (External)	Kazuhiro Suzuki Standing Audit & Supervisory Board Member	Michihito Yanai Director	Kumi Arakane (Real name: Kumi Kameyama) Standing Audit & Supervisory Board Member	Masanori Kobayashi Executive Director
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From front left »

Koichi Shibusawa Executive Director	Takao Kobayashi Senior Executive Director	Kazutoshi Kobayashi President & CEO
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From back left »

Yukino Kikuma Director (External)	Yusuke Kobayashi Director	Kazuya Kitagawa Director	Minoru Murakami Audit & Supervisory Board Member (External)	Nobuo Iwafuchi Audit & Supervisory Board Member (External)
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From front left »

Yasukiyo Kobayashi Honorary Chairman	Atsuo Kumada Executive Director
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Corporate Governance

Basic Policy

The KOSÉ Group has established the principle, centered on its management philosophy, to “continually conduct management to enhance its enterprise value as the KOSÉ Group,” and strives for management focused on business expansion and efficiency. Functional corporate governance is essential to maintain

management that enhances enterprise value. The KOSÉ Group considers corporate governance to be an important management issue, and is working to establish organizational frameworks and structures for the conduct of sound management, and to create systems to retain the continued trust of society.

Summary of Governance Structure

(As of June 30, 2018)

Main Items	Details
Form of organizational design	Company with an Audit & Supervisory Board
Number of directors (of which, number of external directors)	10 (2)
Number of Audit & Supervisory Board members (of which, number of external Audit & Supervisory Board members)	4 (2)
Number of times the Board of Directors meetings are held for fiscal 2017 (attendance rate of external directors)	13 (100%)
Number of times the Audit & Supervisory Board meetings are held for fiscal 2017 (attendance rate of external Audit & Supervisory Board members)	8 (100%)
Term of office of directors	2 years
Optional committee of the Board of Directors	Personnel Committee
Accounting auditor	Ernst & Young ShinNihon LLC

Corporate Governance Structure

KOSÉ is a company with an Audit & Supervisory Board. In addition, the chairperson of the Board of Directors serves as the president of the Company. For the execution of business, the Company flexibly employs the Management Committee chaired by the president, the Management Policy Review Committee, the Executive Committee, and other bodies for the swift and efficient conduct of business.

The execution of business at the Company is conducted through a structure that clearly stipulates the scope of authority for directors, implemented by a small number of persons to

allow for swift decision making. For the conduct of the Board of Directors, the Company effectively exercises a mutual check and balance system, including debate in which directors and Audit & Supervisory Board members express unreserved opinions, in order to fulfill the governance function.

The Company has also adopted an executive officer system, and proactively implements measures for the efficient execution of business. The current structure consists of 10 directors and 13 executive officers, and we are actively pursuing measures to improve management efficiency.

Board of Directors

The Board of Directors meets in principle once each month, to decide on matters stipulated by laws and regulations, as well as important matters relating to management, and to supervise the conduct of duties by directors. In addition, the Company has established the Management Committee, composed primarily of executive directors and chaired by the president, to hold consultations on important matters relating to management,

and provide for the overall control of the execution of business. Further, as necessary, the Company conducts swift and efficient management through such bodies as the Executive Committee, which shares information for the daily execution of business, and the Management Policy Review Committee, which considers more specific and detailed matters.

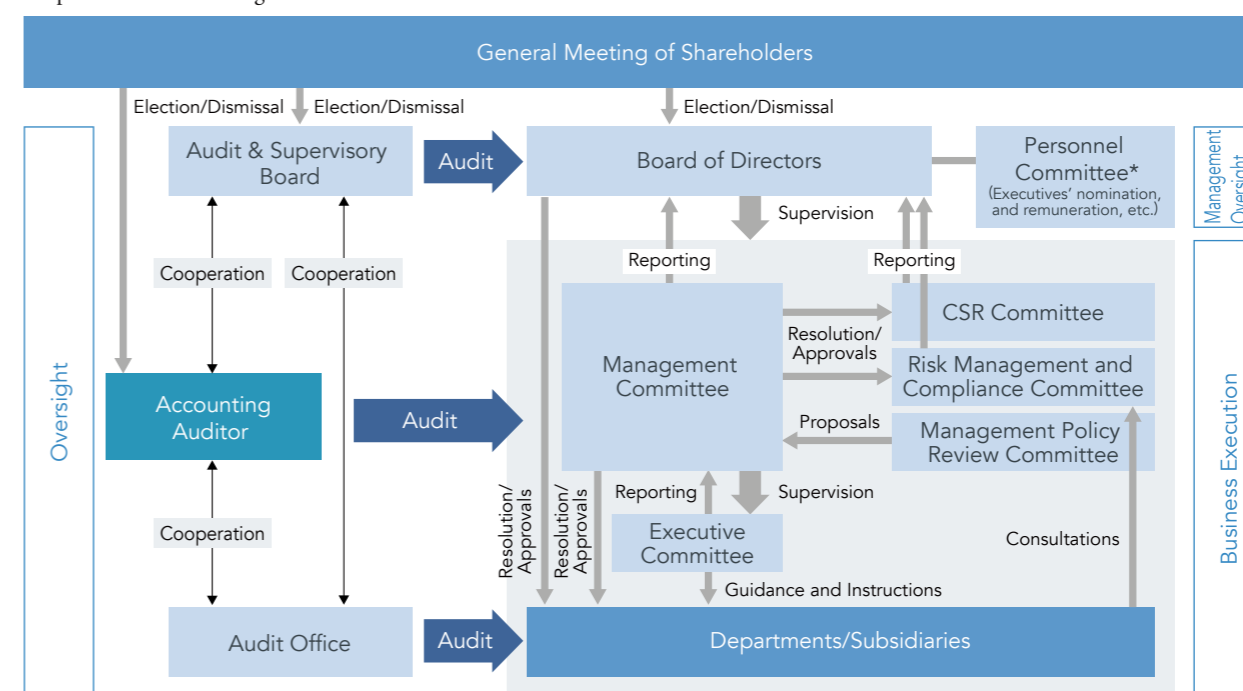
Audit & Supervisory Board

KOSÉ has adopted the Audit & Supervisory Board system, with an Audit & Supervisory Board comprising two full-time (standing) and two part-time Audit & Supervisory Board members. The two part-time Audit & Supervisory Board members are external Audit & Supervisory Board members registered as independent officers as prescribed by Tokyo Stock Exchange, Inc. For cooperation between the Audit & Supervisory Board members and the accounting auditor, the Company provides for the exchange of appropriate information and opinions through reporting on the annual account auditing plan, the accounting auditing report following

the settlement of accounts, the report of important accounting policies following the release of quarterly financial statements, and the internal control auditing report.

The Audit Office, an organization independent from business divisions, conducts audits of business activity in general, based on the medium-term and annual audit plans. Results of internal audits are reported to the president and Audit & Supervisory Board members, the heads of divisions subject to audit are notified, and the Audit Office confirms the status of improvement.

Corporate Governance Organization



*The Personnel Committee is composed chiefly of external directors and Audit & Supervisory Board members.

External Directors and External Audit & Supervisory Board Members

The Company has appointed two external directors and two external Audit & Supervisory Board members who are not biased toward the interests of certain shareholders or interested parties.

The external directors provide advice regarding the directors' execution of their duties and carry out monitoring and supervision of each director, and the external Audit & Supervisory Board members carry out monitoring and auditing of the directors' execution of their duties from an expert's viewpoint as an attorney at law and a certified public accountant.

The external Audit & Supervisory Board members and the accounting auditor cooperate by mutually reporting on the annual accounting audit plan and making an accounting audit report following the settlement of accounts to exchange appropriate information and opinions.

In addition, cooperation with the Audit Office entails the submission to the standing Audit & Supervisory Board members of an annual internal audit plan and an explanation of its contents by

the Audit Office, attendance by the standing Audit & Supervisory Board members at “audit results briefings” conducted by the Audit Office for departments subject to audits, and submission and reporting to the standing Audit & Supervisory Board members of copies of internal auditing results reports and internal control reports that have been submitted and reported to the president by the Audit Office. The external Audit & Supervisory Board members receive reports and explanations of the contents of these items from the standing Audit & Supervisory Board members and offer their opinions as appropriate.

The Company has not established a policy on independence. However, it has determined that there is no danger of a conflict of interest arising between either the external directors or the external Audit & Supervisory Board members and general shareholders, and has registered them as independent officers as stipulated by Tokyo Stock Exchange, Inc.

Reasons for Selection and Activities of External Directors and Audit & Supervisory Board Members

Attendance at Board of Directors and Audit & Supervisory Board Meetings in Fiscal 2017

		Board of Directors Meetings (Convened 13 times)		Audit & Supervisory Board Meetings (Convened 8 times)	
		Number of Meetings Attended	Percentage of Meetings Attended	Number of Meetings Attended	Percentage of Meetings Attended
Director (External)	Iwao Toigawa	13	100%	—	—
Audit & Supervisory Board Member (External)	Minoru Murakami	13	100%	8	100%
Audit & Supervisory Board Member (External)	Nobuo Iwafuchi	13	100%	8	100%

Title	Name	Reasons for Selection
Director (External)	Iwao Toigawa	Mr. Toigawa has highly specialized knowledge as an attorney and extensive knowledge concerning corporate management. As a result, the Company believes he can provide guidance and advice concerning management and use an independent and objective standpoint to supervise management. Furthermore, the Company believes that there is no concern of Mr. Toigawa having a conflict of interest with general shareholders and has accordingly designated him an Independent Director.
Director (External) (Assumed office in June 2018)	Yukino Kikuma	Ms. Kikuma has highly specialized knowledge as an attorney and particularly deep insight concerning corporate law, as well as media-related experience. As a result, the Company believes she can provide fresh, impartial suggestions and advice to management, and use her independent and objective standpoint to guide management. Furthermore, the Company believes that Ms. Kikuma has no conflict of interest with general shareholders and has accordingly designated her an Independent Director.

Officer Remuneration

As a policy for determining the details of remuneration of Company officers, the Company has decided on a remuneration structure that emphasizes increasing corporate value over the medium to long term.

Remuneration of directors consists of monthly remuneration and bonuses to raise the linkage between improvements in corporate business results and officer performance, taking into consideration the responsibilities they bear for improvement of business results each fiscal year and growth in corporate value over the medium to long term.

The amount of monthly remuneration is determined according to the position of each director, taking into account the operating environment and other factors. Bonuses are determined based on the business results of the Group and of the relevant department, as well as on an evaluation of individual performance.

Audit & Supervisory Board members receive monthly remuneration according to position.

Officer remuneration shall be classified into directors and Audit & Supervisory Board members for determination at the General Meeting of Shareholders and allocated to each officer within the scope of the total amount for each officer classification. Such allocations are determined for directors by the Board of Directors after discussion of their appropriateness by the Personnel Committee, which is composed mainly of external officers, and for Audit & Supervisory Board members by mutual agreement among the Audit & Supervisory Board.

In addition, the Company has established a retirement benefit plan for Company officers. The Company has established criteria for the relevant payment amount and allocates provisions to a reserve for each year of each officer's tenure.

Total Remuneration by Officer Classification, Amount by Type of Remuneration and Number of Eligible Officers

Officer Classification	Total Remuneration (Millions of yen)	Amount of Remuneration by Type (Millions of yen)			Number of Eligible Officers
		Basic Remuneration	Bonuses	Provision for Officers' Retirement Benefits	
Directors (excluding external directors)	425	266	48	110	11
Audit & Supervisory Board members (excluding External Audit & Supervisory Board members)	42	40	—	2	3
External officers	30	30	—	—	3

Persons Receiving Total Remuneration of ¥100 Million or More

Name	Officer Classification	Company	Amount of Remuneration by Type (Millions of yen)			Total Remuneration (Millions of yen)
			Basic Remuneration	Bonuses	Provision for Officers' Retirement Benefits	
Kazutoshi Kobayashi	Director	KOSÉ Corporation	127	16	55	199

Risk Management and Compliance

Pursuant to its Principles of Internal Control, which sets forth the objective of ensuring the appropriateness of business, the Company strives to enhance and ensure the effectiveness of its mechanisms for internal control practiced by all officers and employees of the Group.

The Board of Directors meetings are held regularly and as necessary in accordance with laws and regulations, the Articles of Incorporation, the Board of Directors Regulations, Approval Rules and other regulations governing matters for approval for the mutual supervision of the performance of duties by directors. Directors perform their duties in accordance with the resolutions by the Board of Directors and internal regulations. The Audit & Supervisory Board members audit the appropriateness of the performance of duties by directors based on the Audit & Supervisory Board Regulations and Audit & Supervisory Board Audit Standards. The Audit Office conducts regular internal audits concerning all operations on compliance with laws and regulations, the Articles of Incorporation, internal regulations and the appropriateness of business execution procedures and details based on the Internal Audit Regulations. The Audit Office reports the results of internal audits to Audit & Supervisory Board members. Compliance at KOSÉ refers to not only compliance with laws and regulations, but also acting in accordance with social ethics through a spirit of rightful action. The compliance promotion structure and activities are based on the Risk Management and Compliance Regulations, and the details of these activities are regularly reported to the Board of Directors by the Compliance Committee. The Compliance Promotion Committee conducts educational activities including training for directors and employees. Both internal and external whistleblower contact points have been established as a structure for receiving reports and consultations from directors and employees.

Important data related to decision making on business execution including the meeting minutes for the General Meeting of Shareholders, the meeting minutes for the Board of Directors and approval documents are appropriately retained and managed and made available for viewing by directors and Audit & Supervisory Board members at any time as prescribed in laws and regulations and internal regulations. Departments responsible for the timely disclosure of important company information and other disclosures have been assigned, and the Board of Directors gathers information that should be disclosed in a prompt and comprehensive manner, and conducts timely and appropriate disclosure in accordance with laws and regulations.

The Risk Management and Compliance Regulations have been prescribed as regulations for appropriately recognizing and managing risks in order to respond to all threats to the Company's sustainable development, particularly compliance problems, quality problems, information security problems, market problems, the

occurrence of disasters and other various risks. Persons responsible for individual risks are assigned and a risk management structure is promoted in accordance with these regulations. The Risk Management Committee has been established to supervise risk management, and it works to enhance the risk management structure by regularly reporting on the details of its discussions and activities to the Board of Directors, formulating risk management policies, inspecting and following-up on risk response, and responding and holding discussions when a risk occurs. The Crisis Management Regulations have been prescribed as regulations concerning risk management, and a structure has been established to respond swiftly and appropriately in order to minimize the damage if a significant risk manifests.

We aim to clarify the scope of duties, authorities and responsibilities of each director and achieve appropriate and efficient group management by directors through monitoring and oversight by independent external directors and Audit & Supervisory Board members. The Board of Directors has prescribed important matters that should be proposed or reported in the Board of Directors Regulations in an effort to improve the efficiency of the operation of the Board of Directors. In addition, a Management Council has been established to improve the efficiency of decision making on business execution. An executive officer system has been adopted in an effort to achieve the prompt performance of duties.

Persons responsible for supervising affiliated companies have been assigned and the Company dispatches directors and Audit & Supervisory Board members to affiliated companies as a general rule in an effort to strengthen governance for the entire Group and monitor management. Persons responsible for supervising affiliated companies receive reports on the status of management, financial position and other important management matters for each subsidiary based on the Affiliated Companies Management Regulations. The overall business activities of affiliated companies are also subject to internal audits by the Audit Office, and the Audit Office conducts regular internal audits on compliance with laws and regulations, the Articles of Incorporation, internal regulations, and the appropriateness of business execution procedures and details based on the Internal Audit Regulations.

To ensure the reliability of financial reporting, the Company has set up and operates an internal control system for financial reporting in conformity with the intent of the Financial Instruments and Exchange Law and other laws, and continuously evaluates and reports on its effectiveness. In addition, when there is a need for correction and improvement, we will promptly take countermeasures.

The Audit Office and Audit & Supervisory Board members monitor and inspect the status of design and operation of these systems.

Financial Information

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Six-Year Summary

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

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

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

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

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

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

Management's Discussion and Analysis

Results Summary

In fiscal 2017, the Japanese economy continued to recover slowly mainly because of improvements in corporate earnings and the number of jobs and an increase in capital expenditures. In the Japanese cosmetics industry, according to statistics for cosmetics shipments compiled by the Ministry of Economy, Trade and Industry (January to December), sales volume and monetary sales of cosmetics increased compared with one year earlier. Overseas, the primary markets for the KOSÉ Group, overall Asian economies are staging a rebound and the U.S. economy continued to recover.

Fiscal 2017 is the final year of the KOSÉ Group's medium-term management plan with the central theme of building and strengthening global brands. There are two core strategies: "promote brands to win recognition and respect around the world" and "achieve a sustainable improvement in performance." By taking actions based on this plan, the KOSÉ Group is making progress toward the goals of becoming a company with a global presence and further increasing the pace of growth.

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

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

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

Results by Business Segment

● Cosmetics Business

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

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

● Cosmetaries Business

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

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

● Other Business

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

Operating Expenses

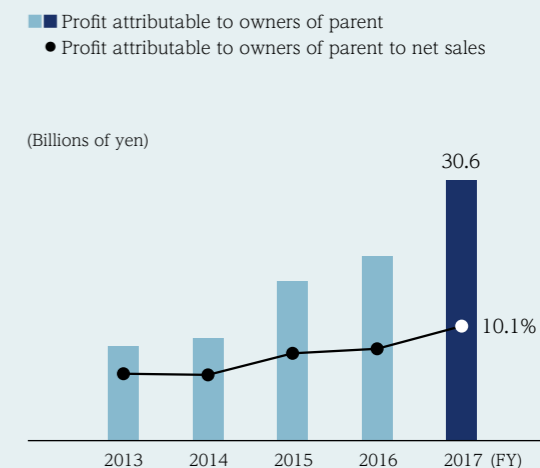
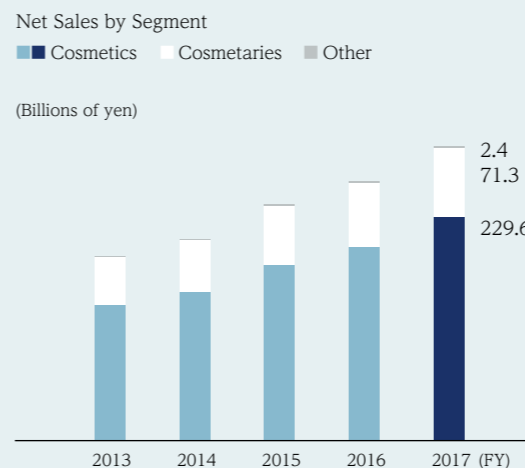
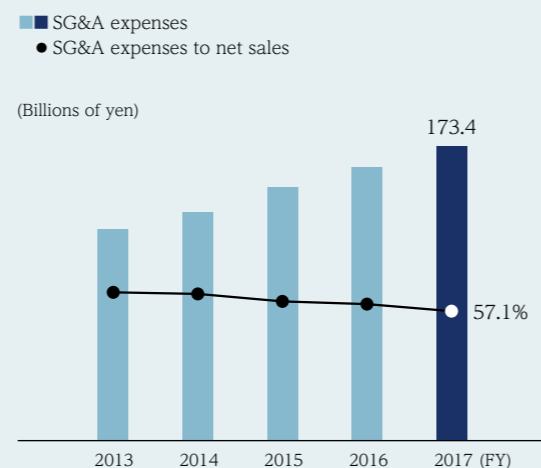
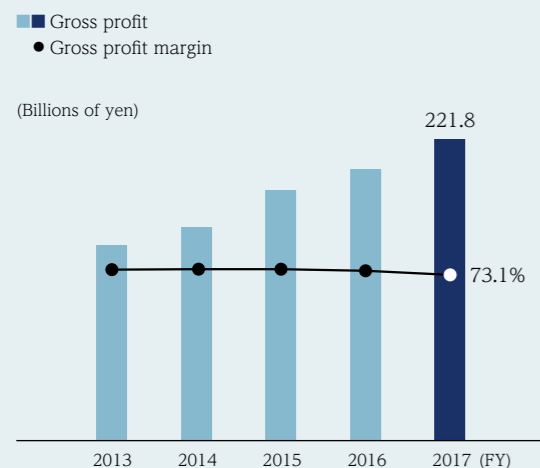
The cost of sales rose 21.7%, or ¥14,520 million, year on year, to ¥81,547 million (US\$769 million) in tandem with the substantial increase in net sales.

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

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

Non-Operating Income and Expenses

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



Financial Condition

Assets and Liabilities

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

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

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

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

Shareholders' Equity

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

Key Performance Indicators

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

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

Financing

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

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

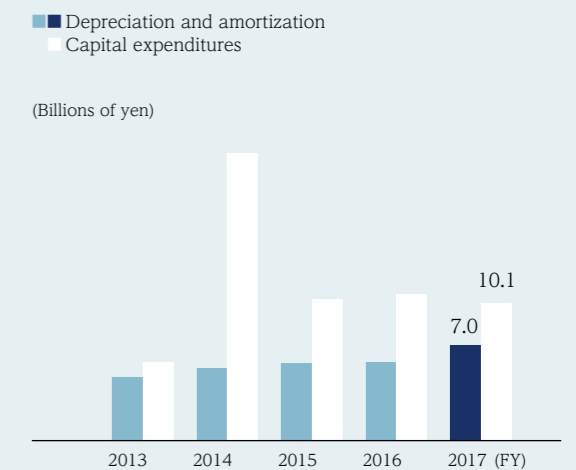
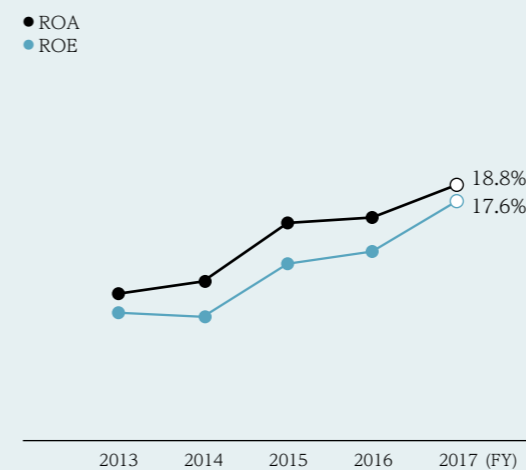
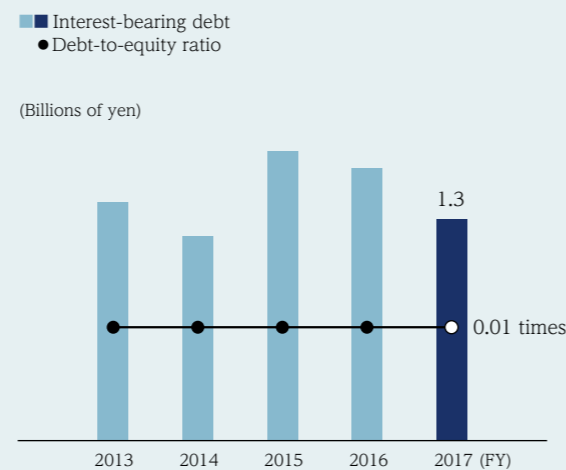
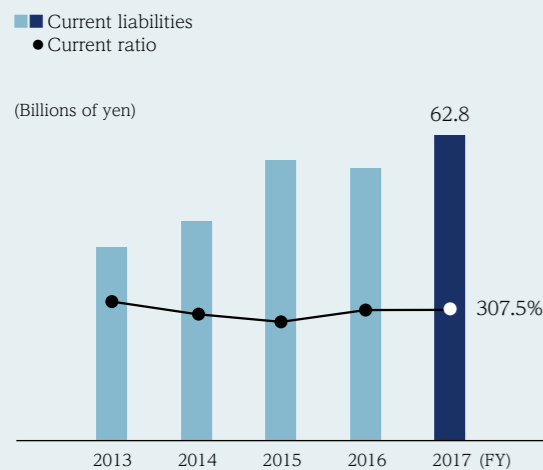
Cash Flows

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

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

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

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



Business and Other Risks

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

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

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

Strategic Investment Activities

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

Cosmetic Market

1) Japan's cosmetic market

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

2) Overseas market

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

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

3) Adapting to market needs

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

Market Risks

1) Procurement of raw materials and other goods

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

2) Foreign exchange

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

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

3) Marketable securities

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

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

4) Laws and regulations

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

5) Intellectual property rights and important litigation

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

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

6) Information management

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

7) Disasters

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

8) Customer relations

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

9) Securing human resources

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

Consolidated Financial Statements

Consolidated Balance Sheets

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

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

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

Consolidated Statements of Income

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

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

Consolidated Statements of Comprehensive Income

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

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

Consolidated Statements of Changes in Net Assets

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

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

	Millions of yen					
	Accumulated other comprehensive income				Non-controlling interests	Total net assets
	Valuation difference on available-for-sale securities	Foreign currency translation adjustment	Remeasurements of defined benefit plans	Total accumulated other comprehensive income		
Balance as of April 1, 2016	669	4,729	(1,635)	3,762	11,154	158,543
Dividends of surplus						(5,932)
Profit attributable to owners of parent						21,657
Purchase of treasury shares						(1)
Net changes of items other than shareholders' equity	792	(813)	716	695	2,168	2,864
Total changes during the period	792	(813)	716	695	2,168	18,587
Balance as of March 31, 2017	1,462	3,915	(918)	4,458	13,323	177,130

	Millions of yen				
	Shareholders' equity				
	Capital stock	Capital surplus	Retained earnings	Treasury shares	Total shareholders' equity
Balance as of April 1, 2017	4,848	6,388	157,205	(9,093)	159,348
Dividends of surplus			(7,187)		(7,187)
Profit attributable to owners of parent			30,611		30,611
Purchase of treasury shares				(5)	(5)
Change in treasury shares of parent arising from transactions with non-controlling shareholders		(6,388)	(115)		(6,503)
Net changes of items other than shareholders' equity					
Total changes during the period	—	(6,388)	23,308	(5)	16,914
Balance as of March 31, 2018	4,848	—	180,514	(9,098)	176,263

	Millions of yen					
	Accumulated other comprehensive income				Non-controlling interests	Total net assets
	Valuation difference on available-for-sale securities	Foreign currency translation adjustment	Remeasurements of defined benefit plans	Total accumulated other comprehensive income		
Balance as of April 1, 2017	1,462	3,915	(918)	4,458	13,323	177,130
Dividends of surplus						(7,187)
Profit attributable to owners of parent						30,611
Purchase of treasury shares						(5)
Change in treasury shares of parent arising from transactions with non-controlling shareholders						(6,503)
Net changes of items other than shareholders' equity	2,189	182	989	3,361	1,200	4,562
Total changes during the period	2,189	182	989	3,361	1,200	21,476
Balance as of March 31, 2018	3,651	4,098	70	7,820	14,523	198,607

Consolidated Statements of Cash Flows

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

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

	Thousands of U.S. dollars					
	Accumulated other comprehensive income				Non-controlling interests	Total net assets
	Valuation difference on available-for-sale securities	Foreign currency translation adjustment	Remeasurements of defined benefit plans	Total accumulated other comprehensive income		
Balance as of April 1, 2017	13,792	36,934	(8,660)	42,057	125,689	1,671,038
Dividends of surplus						(67,802)
Profit attributable to owners of parent						288,783
Purchase of treasury shares						(47)
Change in treasury shares of parent arising from transactions with non-controlling shareholders						(61,349)
Net changes of items other than shareholders' equity	20,651	1,717	9,330	31,708	11,321	43,038
Total changes during the period	20,651	1,717	9,330	31,708	11,321	202,604
Balance as of March 31, 2018	34,443	38,660	660	73,774	137,009	1,873,651

Millions of yen

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

Principal Subsidiaries (As of March 31, 2018)

Production Related Subsidiaries

Company Name	Country	Paid-in Capital	Ownership
ADVANCE CO., LTD.	Japan	JPY 90 million	100.0%
KOSÉ INDUSTRIES CO., LTD.	Japan	JPY 100 million	100.0%
ALBION CO., LTD.	Japan	JPY 760 million	79.5%
KOSÉ COSMETICS CO., LTD. (CHINA)*	China	CNY 88 million	100.0%
TAIWAN KOSÉ CO., LTD.	Taiwan	TWD 180 million	100.0%

*Completed transfer on May 31, 2018.

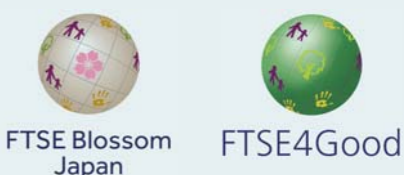
Marketing and Services Related Subsidiaries

Company Name	Country	Paid-in Capital	Ownership
KOSÉ SALES CO., LTD.	Japan	JPY 300 million	100.0%
KOSÉ COSMENIENCE CO., LTD.	Japan	JPY 30 million	100.0%
KOSÉ COSMEPORT CORP.	Japan	JPY 30 million	100.0%
COSMEDIC CO., LTD.	Japan	JPY 30 million	100.0%
CRIE CO., LTD.	Japan	JPY 10 million	100.0%
Dr. PHIL COSMETICS INC.	Japan	JPY 40 million	100.0%
KOSÉ PROVISION CO., LTD.	Japan	JPY 30 million	100.0%
KOSÉ COSMEPIA CO., LTD.	Japan	JPY 10 million	100.0%
KOSÉ INSURANCE SERVICE CO., LTD.	Japan	JPY 10 million	100.0%
COSME LABO CO., LTD.	Japan	JPY 10 million	100.0%
KOSÉ MILBON COSMETICS CO., LTD.	Japan	JPY 10 million	51.0%
KOSÉ (HONG KONG) CO., LTD.	China	HKD 15 million	100.0%
KOSÉ COSMETICS SALES (CHINA) CO., LTD.	China	CNY 235 million	100.0%
KOSÉ SINGAPORE PTE. LTD.	Singapore	SGD 1 million	100.0%
KOSÉ KOREA CO., LTD.	South Korea	KRW 25,000 million	100.0%
KOSÉ (MALAYSIA) SDN. BHD.	Malaysia	MYR 1 million	100.0%
KOSÉ (THAILAND) CO., LTD.	Thailand	THB 5 million	49.0%
KOSÉ CORPORATION INDIA PVT. LTD.	India	INR 700 million	100.0%
PT. INDONESIA KOSÉ	Indonesia	IDR 10,000 million	100.0%
KOSÉ AMERICA, INC.	U.S.A.	USD 2 million	100.0%
KOSÉ BRASIL COMÉRCIO DE COSMÉTICOS LTDA.	Brazil	USD 1 million	100.0%
TARTE, INC.	U.S.A.	USD 159	98.0%
ALBION COSMETICS (AMERICA), INC.	U.S.A.	USD 2 million	79.5%
ALBION COSMETICS (HK) LIMITED.	China	HKD 71 million	79.5%
ALBION COSMETICS (SHANGHAI) CO., LTD.	China	CNY 37 million	79.5%
ALBION COSMETICS (TAIWAN) CO., LTD.	Taiwan	TWD 10 million	79.5%

Corporate Information (As of March 31, 2018)

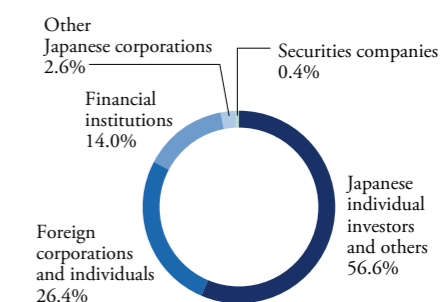
Corporate Name:	KOSÉ Corporation	Web Site:	https://www.kose.co.jp
Founding:	March 1946	IR Site (English):	http://www.kose.co.jp/company/en/ir/
Incorporation:	June 1948	Number of Employees (Consolidated):	13,502
Head Office:	3-6-2, Nihonbashi, Chuo-ku, Tokyo 103-8251, Japan Tel: +81-3-3273-1511	Fiscal Year-End:	March 31

Stock Information (As of March 31, 2018)

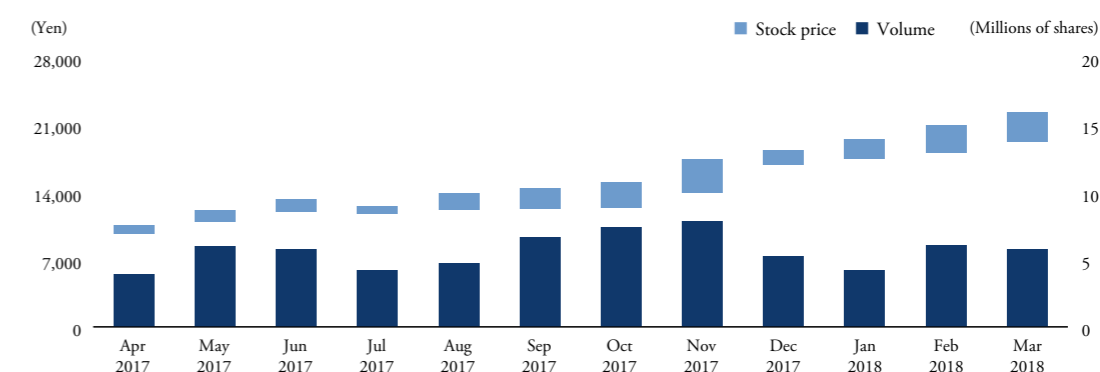


Common Stock (Authorized):	200,000,000 shares
Common Stock (Issued):	60,592,541 shares
Capital:	¥4,848 million
Number of Shareholders:	11,579
Stock Listing:	Tokyo Stock Exchange, First Section (Code: 4922)
Transfer Agent:	Mizuho Trust & Banking Co., Ltd.

Distribution of Shares



Stock Data





KOSÉ

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

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