

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.



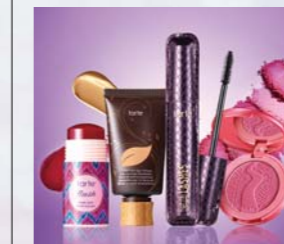
V-Shaped Turnaround

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



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



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.

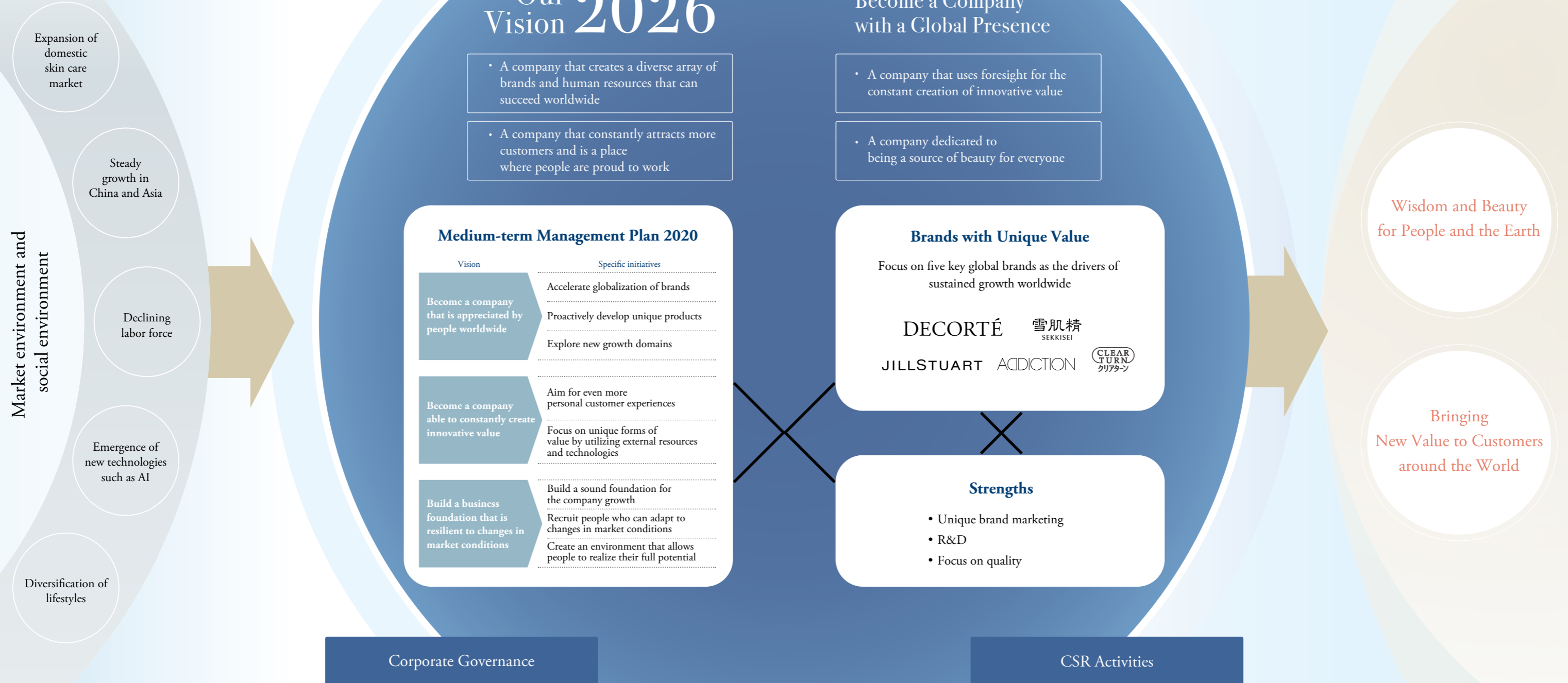
*Cosmetaries: A coined term combining “cosmetics” and “toiletries”

Basic Value
Cosmetaries Business



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.



Our Value

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

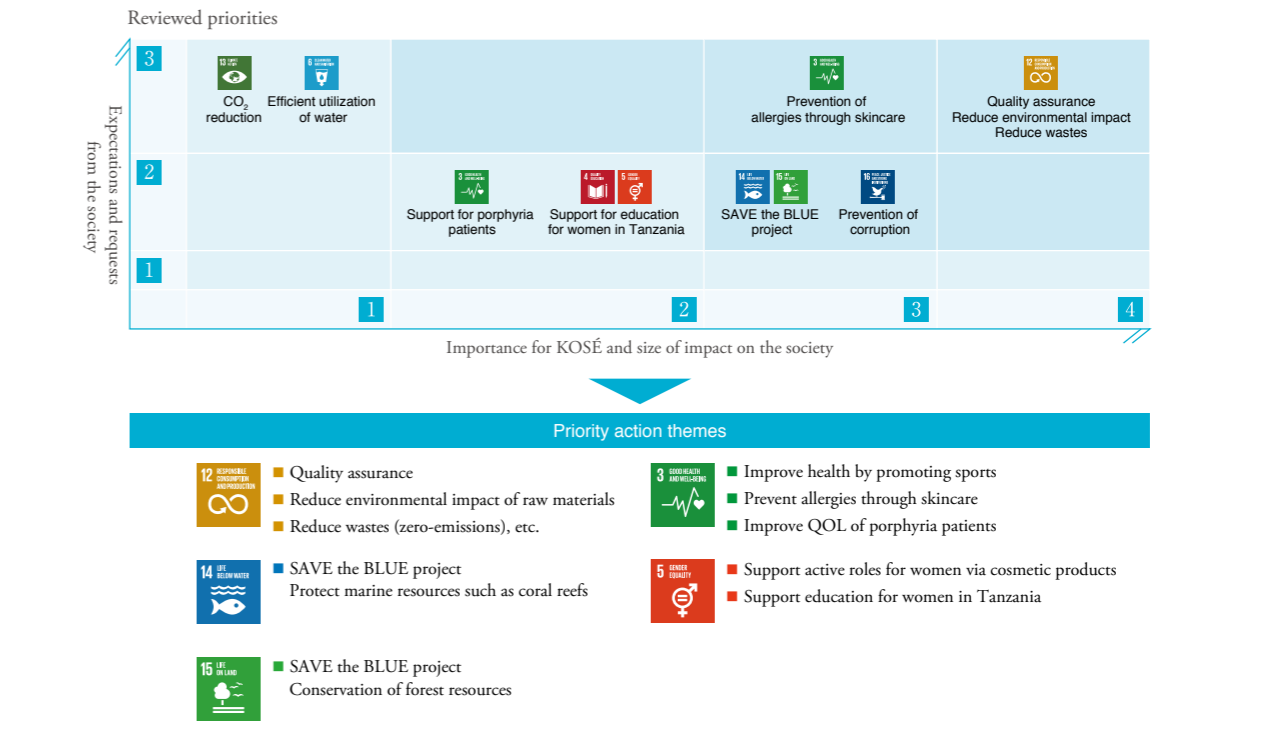
Signed the UNGC

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.

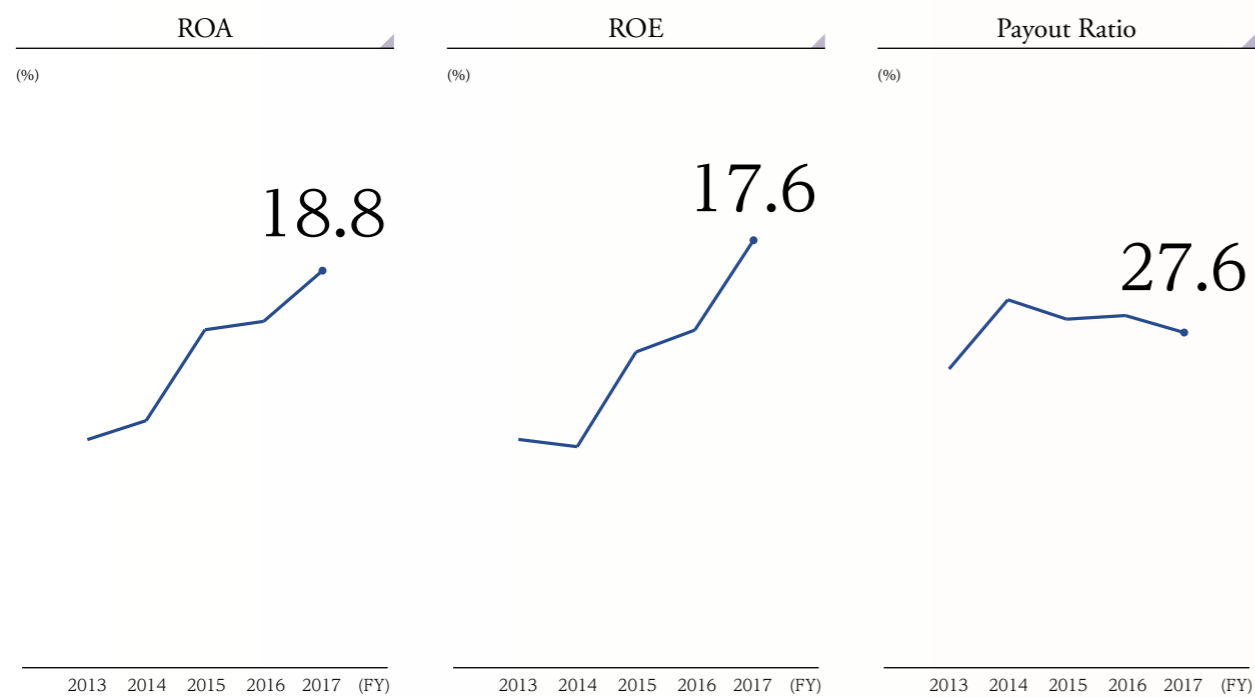
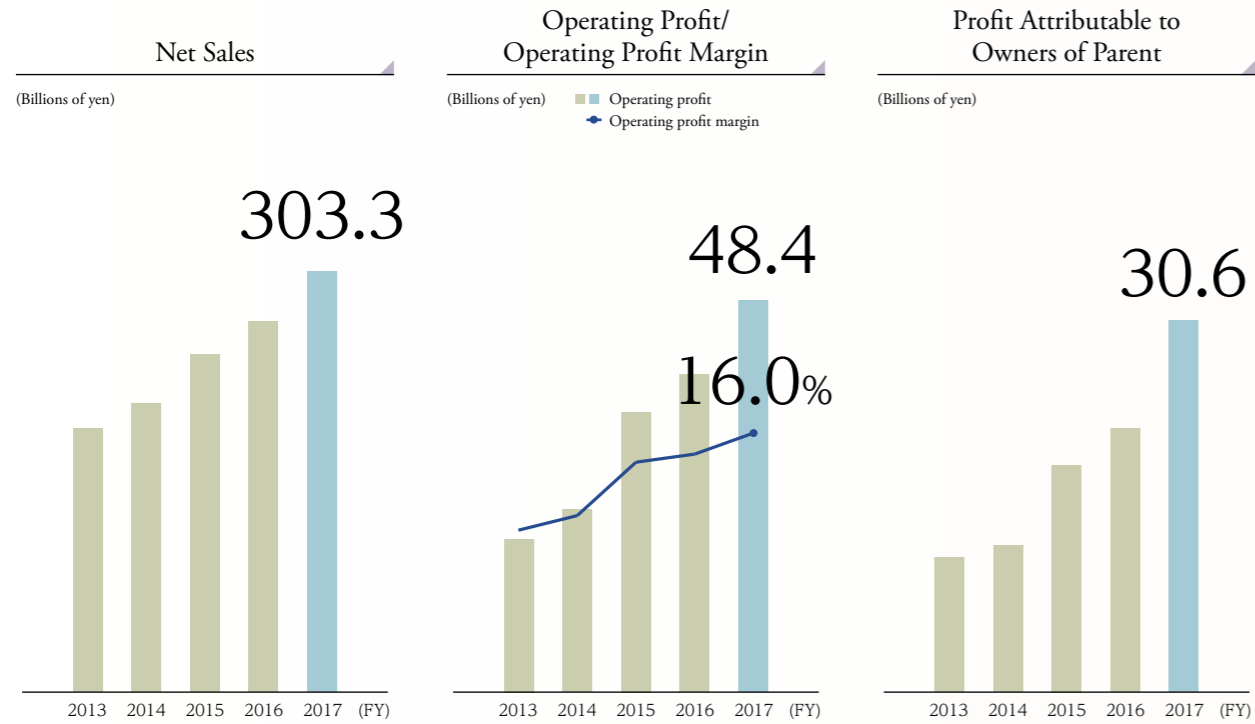


SDGs About the UN SDGs

Quoted from Global Compact Network Japan
www.ungcnj.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%**



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)

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)

