

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.

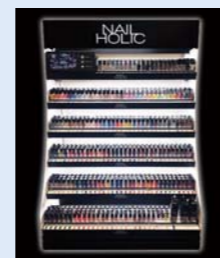


Event ran for three days, from February 16, 2018, at Hiroshima Kamiyacho Shareo Central Place. Long lines formed for every brand.

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

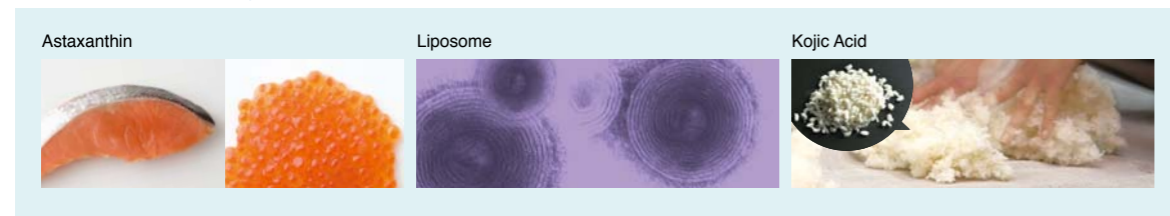
KOSÉ's R&D activities are guided by a philosophy of creating a uniquely beautiful culture through the high-level integration of three words reflecting values—intelligence, sensuousness and reliability—and to supply affordable yet superior products. Research emphasizing originality and speed generates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

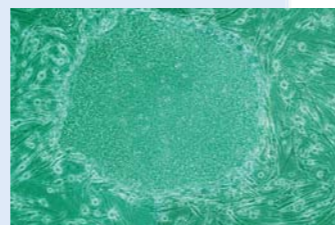


Focus on Dermatology Expands Potential of Cosmetics to Address Aging and Atopic Dermatitis through Skincare

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.

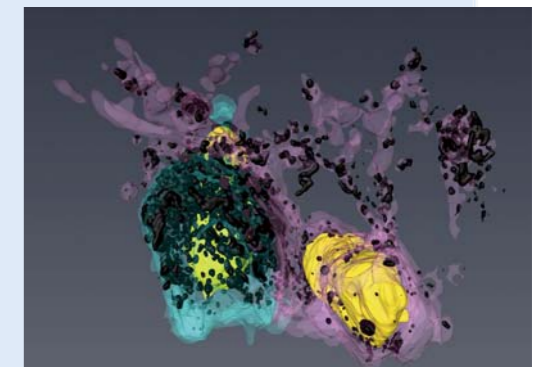
Through these changes, we aim to build a high-performance, flexible R&D structure. This will in turn allow us to enhance our research, raise the value of the products we provide to customers and reinforce our next-generation technology research, which will underpin the creation of new value. Ultimately,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



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

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.

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.

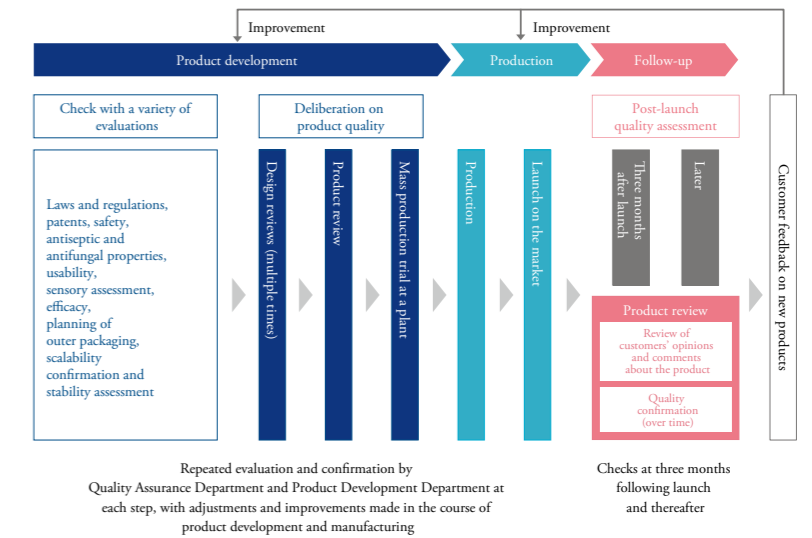
We are also working to globalize our quality assurance system, paralleling efforts to accelerate access to our brands and products on the world stage. We updated the KOSÉ Quality Assurance Standards from a global perspective, and we are sharing the content with domestic and international outsourcing 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.



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



China

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.



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.

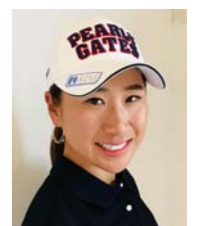
We also sponsor a variety of community-based sports events, including walking competitions.



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

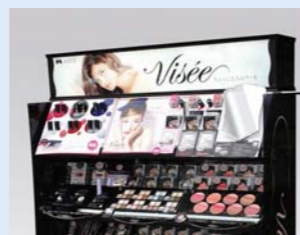
We are working to limit the environmental burden from our operations, with an emphasis on reducing the amount of plastic in containers, utilizing refills and opting for more environmentally friendly product contents. Efforts include an end to domestic and overseas shipments of cleansing products that 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	
	Create a system to collect and utilize customer feedback from a variety of channels	• Promoted the improvement of products and services by collecting and sharing customer feedback across the Company • Opened a simple customer communication contact point on the KOSÉ website (product information)			
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		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	