



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.

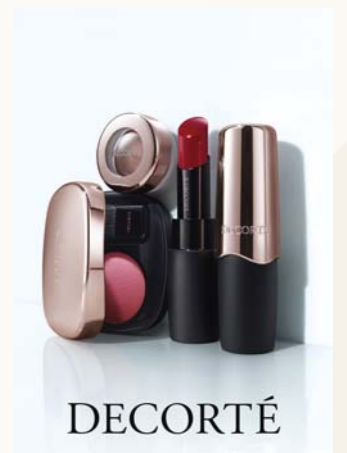
For fiscal 2018, we anticipate an annual dividend of ¥170 per share.

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