

# Directors and Audit & Supervisory Board Members



# Management Team

From back left »

<b>Iwao Toigawa</b> Director (External)	<b>Kazuhiro Suzuki</b> Standing Audit & Supervisory Board Member	<b>Michihito Yanai</b> Director	<b>Kumi Arakane</b> (Real name: Kumi Kameyama) Standing Audit & Supervisory Board Member	<b>Masanori Kobayashi</b> Executive Director
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<b>Koichi Shibusawa</b> Executive Director	<b>Takao Kobayashi</b> Senior Executive Director	<b>Kazutoshi Kobayashi</b> President & CEO
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<b>Yukino Kikuma</b> Director (External)	<b>Yusuke Kobayashi</b> Director	<b>Kazuya Kitagawa</b> Director	<b>Minoru Murakami</b> Audit & Supervisory Board Member (External)	<b>Nobuo Iwafuchi</b> Audit & Supervisory Board Member (External)
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<b>Yasukiyo Kobayashi</b> Honorary Chairman	<b>Atsuo Kumada</b> 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.

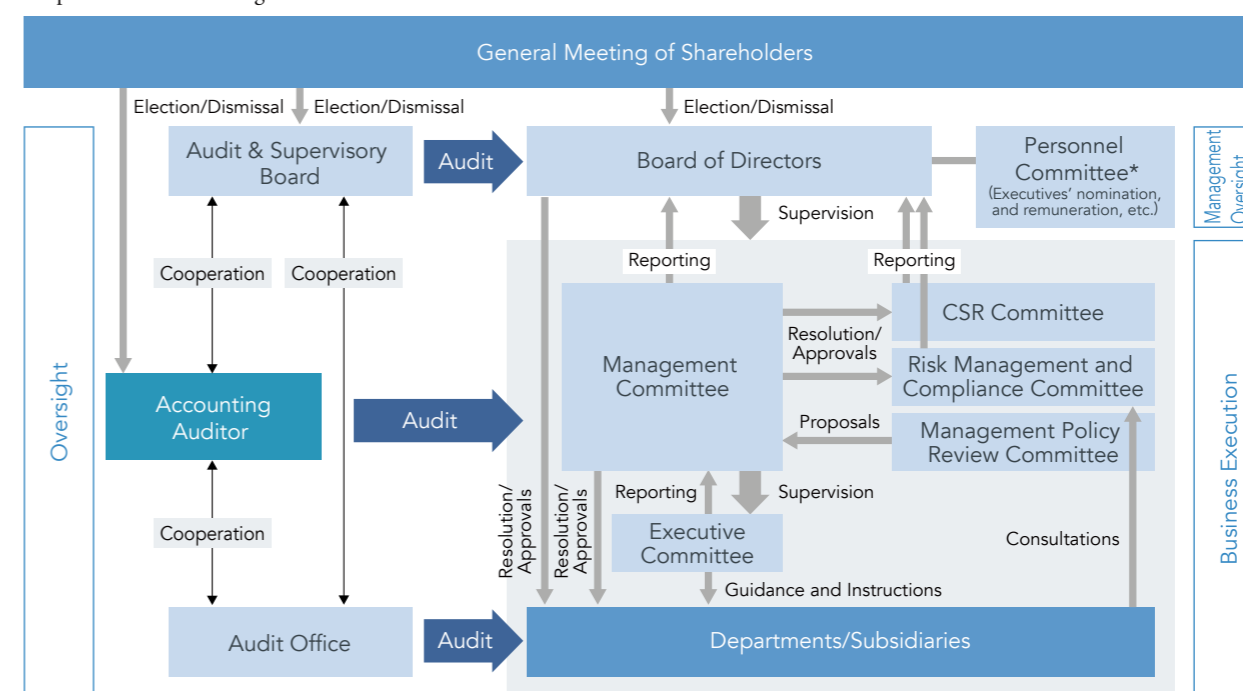
## Audit & Supervisory Board

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.