

## Brand Marketing

KOSÉ has cultivated numerous long-selling brands, each with a unique presence in a cosmetics market characterized by diverse sales methods and channels, and increasing access to products across borders. Our goal now is to roll out to markets worldwide a collection of brands that have been refined under the discerning eye of our Japanese customers.

### Numerous Long-Selling Brands through Brand Marketing with a Long-Term Perspective

KOSÉ's founder Kozaburo Kobayashi began manufacturing and selling cosmetics in 1946, with a passion for cosmetics that offer people dreams and hope. He maintained a spirit of coexistence and co-prosperity with his business partners and a commitment to consistently providing high-quality products. In the 1970s, KOSÉ created a series of original, trailblazing products, including beauty serum and powder foundation, and also became known for its unique R&D capabilities. In 1991, we announced the introduction of a corporate identity program and began working to establish our corporate brand while conducting unique brand marketing activities. Since 2011, we have realigned our corporate structure, which had been divided by function, and established a system to manage the value chain by brand. As a result of these measures, customer feedback is quickly and accurately reflected in products, sales

and services. Today, we constantly keep a close watch on changes in society and the business environment and are building our ability to respond with agility in ways such as diversifying into digital and other sales channels and stepping up our global expansion. In its brand development, KOSÉ devises strategies from a long-term viewpoint. We safeguard the unique value and image that infuse each brand as we adjust and cultivate them to better match customer tastes and purchasing styles, which constantly evolve. This strategy is what drives our brand marketing, and is what has allowed us to build a portfolio of numerous long-selling brands that have enjoyed loyal customer support for more than 30 years.

#### KOSÉ Beauty Festa: Where Customers Can Explore Brands and Meet Employees

The KOSÉ Beauty Festa assembles all of the representative brands in the KOSÉ Group portfolio under one roof for a limited time. Since fiscal 2013, KOSÉ has held the event in Tokyo, Osaka and other major cities throughout Japan, including Sapporo and Nagoya in fiscal 2018. Aggregate attendance at KOSÉ Beauty Festa since it began has exceeded 68,000.

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 in different channels. The event is an opportunity for existing and potential customers to explore products across brands and marketing channels. For KOSÉ, the event allows product planning and development teams to interact directly with customers, which often leads to new product concepts and proposals.



KOSÉ Beauty Festa ran for three days, from March 8, 2019, in the first floor event spaces of Nagoya JR Gate Tower. Long lines formed for the DECORTÉ booth.

#### A Hub for Transmitting Japanese Beauty and Culture: Maison KOSÉ Opens in Paris, France

In November 2018, Maison KOSÉ, our first concept shop in Europe, opened in Paris, a city at the forefront of beauty. The shop provides the opportunity to experience our spirit of craftsmanship as a Japanese cosmetics manufacturer as well as our fusion of traditional Japanese culture and cutting-edge technology through counseling sales and services for SEKKISEI, DECORTÉ and other products. The shop will also act as a hub for transmitting information throughout Europe about KOSÉ as it creates unique value that originates in Japan.



Maison KOSÉ

### Next Step toward Becoming a Company with a Global Presence: KOSÉ Celebrates 50 Years of Operations outside Japan and 30 Years in China

KOSÉ began operating in overseas markets in 1968 in Hong Kong. We started by selling a lineup of products considered KOSÉ's strengths, such as beauty serum and powder foundation, unique products that carved out a new genre in the cosmetics industry. Back then, KOSÉ was not well known in Hong Kong, nor was the unique Japanese concept of

counseling sales, so steady effort and time were necessary. However, we built a following among local customers, and in recent years customers throughout Asia are regular purchasers of brands such as SEKKISEI and DECORTÉ. We will promote brand rollouts for customers worldwide with the aim of establishing world-class brands.



Ceremonies were held in Hong Kong and Shanghai in October 2018 for the 50th anniversary of KOSÉ's expansion overseas and its 30th anniversary in China.



Executive Director Masanori Kobayashi delivering a speech at the Hong Kong anniversary ceremony

#### Borderless Initiatives beyond the Scope of the Cosmetics Business

Established in 2017 as a joint venture with Milbon Co., Ltd., KOSÉ MILBON COSMETICS CO., LTD. launched IMPREA, a new cosmetics brand sold through beauty salons. We are also focusing on initiatives that go beyond the scope of the cosmetics business. In July 2019, KOSÉ established a joint venture with Maruho Co., Ltd., a manufacturer of dermatology products. The venture will leverage the value that KOSÉ and Maruho offer in cosmetics and pharmaceuticals, respectively.

#### 25th Anniversary of the Makeup Brand VISÉE

VISÉE, a makeup brand that has consistently used contemporary fashion leaders as its image character to maintain its position as a trendsetter among young women in each era, celebrated its 25th anniversary.

In tune with the times, we are also enhancing our initiatives for personalized beauty to offer products in a wide range of colors to suit each individual's skin. We have advanced the fusion of beauty and digital technology with the introduction of VISÉE AI Personal Color Finder, a personal color diagnostic service that uses AI technology to instantaneously determine the range of colors that match the user's skin tone based on a portrait photo. In May 2019, we held a 25th anniversary event where attendees could experience the brand's image and products.



25th anniversary event for the VISÉE brand

# Research and Development

KOSÉ has taken a concept dating back to its earliest days emphasizing cosmetics of the finest quality that elicit total customer satisfaction and summarized it in three words: intelligence, sensuousness and reliability. Our R&D activities follow a guiding principle of integrating these three values. In refining our products with a priority on safety, we will continue to take on the challenge of creating products that consistently bring about new ideas and innovation in cosmetics culture.



## Reaching beyond Convention to Achieve the Finest Quality for Customers

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

Since its establishment, KOSÉ has brought trailblazing cosmetics to market. We have created many new categories in cosmetics, such as beauty serum in 1975, and powder foundation in 1976. In 1992, we launched *COSME DECORTE MOISTURE LIPOSOME*, a beauty serum incorporating liposome technology, which we had been studying as a delivery mechanism for cosmetics classified as quasi-drugs. Liposomes were difficult

to stabilize, so they had not been applied to a cosmetic product before. Our success with *COSME DECORTE MOISTURE LIPOSOME* was an industry first. This product is a long-seller, and has enjoyed robust sales exceeding 7 million bottles. Since its launch, we have continued to develop a series of highly effective beauty ingredients, including astaxanthin and kojic acid. These achievements reflect a deeply rooted corporate culture that enables researchers to rise to various challenges. Moreover, on the occasion of our 70th anniversary in 2016, we established our "Laboratory Vision" to accelerate global growth. We are working to realize this vision by identifying issues, formulating action plans to resolve those issues, and going through the plan-do-check-act (PDCA) cycle.

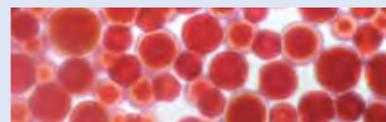
### Laboratory Vision

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 Ingredients from KOSÉ R&D

#### Astaxanthin

A red antioxidant component extracted from salmon, algae and other sources



#### Liposomes

Successful stabilization of multilayered phospholipid membranes



#### Kojic acid

Created from rice fermentation technology



### Focusing on Dermatology to Address Aging and Allergic Diseases

We promote basic research with a long-term perspective in a quest for cosmetics discoveries that will help address social issues and consumer concerns. Our strength in basic research is in the field of dermatology, with a focus on aging and the application of findings to new skin care products. Among our successes in this field, in 1994 we pinpointed the impact of singlet oxygen on skin aging. In 2009, we partnered with Keio University School of Medicine and began joint research on skin care and the skin's barrier function. We established an endowed course in 2013 to promote further research and have been working to contribute to preventative medicine for allergic diseases and better quality of life (QOL) during periods of remission.\* We are also exploring induced pluripotent stem (iPS) cell research to identify the mechanism behind the skin aging process and are engaged in the development of new anti-aging skin care ingredients.

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



Aging-related research using iPS cells

## Building an R&D Structure for Speed and Originality

We are reorganizing our research structure to strengthen global competitiveness and cultivate new markets. In 2017, we established the Customer Value Creation Laboratories as an organization for new innovation and also opened our first European research center in Lyon, France—the France Laboratory Branch—which is regarded as a hub for leading-edge dermatological technology. We will draw on the advantages of the local environment while pursuing dermatological research and applying the findings to the development of cosmetics. In addition, the Advanced Technology Laboratory was opened in spring 2019, concentrating domestic research facilities in Oji, Kita-ku, Tokyo, the district of KOSÉ's original operations.

Through these changes, we aim to build a high-performance, flexible R&D structure. The changes will enhance the coordination of research, thus raising the value of the products we provide to customers and research of next-generation technologies that underpin the creation of new value.

Ultimately, this structure will facilitate quick commercialization of products.



Advanced Technology Laboratory, completed in March 2019 (Oji, Kita-ku, Tokyo)

## Promoting Beauty-Centered Open Innovation

In June 2018, KOSÉ began the industry's first Accelerator Program with the aim of generating new value through co-creation. The program combines the resources we have cultivated in-house with external entities solicited through a wide-ranging, open invitation. We solicited ideas from start-ups in domains where we intend to strengthen collaboration in the future, centered on integrating beauty with digital technology, and beauty with cutting-edge technologies. Six companies were selected from the more than 80 that responded. Six co-creation teams were formed with the addition of selected KOSÉ employees to each company's team. The teams prepared interim reports in October 2018, then refined their research topics for demonstrations. As a result, in the final report in January 2019, we decided to incorporate quantum computing, which we had been working on with MDR Inc., into our R&D. We have adopted the research theme of co-creation between humans and computers, and are now moving into the proof-of-concept stage.

Through such co-creation with external entities, we will generate new value that more clearly expresses beauty in comfortable, fulfilling lifestyles.

### Overview of the Accelerator Program

#### Three Domains Where We Intend to Strengthen Collaboration

- (1) Using technology in communicating with users
- (2) Creating new beauty services
- (3) Using cutting-edge technologies to develop products and services

#### Schedule



MDR Inc. members and KOSÉ employees selected for a co-creation team in the Accelerator Program

# Satisfying Customers

Since its earliest days, the KOSÉ Group has been totally committed to meticulous quality control, from raw materials procurement to manufacturing, in order to produce the finest cosmetics. The underlying message in the KOSÉ Quality Policy, established in fiscal 2010, is “Customer satisfaction is our goal.” It emphasizes quality from a perspective that is both broad and deep.

## Adhering to Our Founder’s Belief: Ongoing Enhancement of Quality Assurance

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 supply shortages in the postwar years, KOSÉ scrambled to procure high-quality ingredients and took pride in being known by customers as a company that delivered quality. The number of loyal customers grew as a result of this high quality, behind which was Kobayashi’s belief that “only one product out of millions of cosmetics delivered to the market reaches the customer, so cherish the one.” KOSÉ still adheres to this belief today. We pursue the highest quality at each stage of the entire value chain. In the 1970s, we were quick to introduce quality control using scientific methods at our production sites, and in 1980 we marked a domestic cosmetics industry first when our Manufacturing Department won a Deming Prize.<sup>1</sup> In the 1990s,

we adopted ISO 9001 international quality standards as well as a cosmetics GMP<sup>2</sup>-compliant management system in our ongoing commitment to quality.

1. Deming Prize: An award given in Japan to companies and individuals who have successfully implemented total quality management of industrial products
2. Cosmetics GMP (Good Manufacturing Practices for cosmetics): Technical standard for production and quality control of cosmetic products



Product inspection process

## KOSÉ Quality for the World

Appreciation for made-in-Japan, refined, high-quality cosmetics is rising worldwide, and KOSÉ’s own production volume has expanded considerably to meet demand. In March 2017, we built a new manufacturing facility on the grounds of our Gunma Factory to increase production capacity for high-value-added cosmetics. Furthermore, in addition to increasing production capacity at the Sayama Factory and Kumagaya Factory of ALBION CO., LTD., we will construct a new production base, the Minami Alps Factory (provisional name), which is scheduled to begin operating in 2021. We will proactively enhance our production and supply structure and promote technological innovation to deliver the ultimate in quality.



New manufacturing facility at the Gunma Factory

KOSÉ is also working to globalize its quality assurance system in step with efforts to accelerate rollouts of its brands and products on the world stage. As part of these efforts, we updated the KOSÉ Quality Assurance Standards from a global perspective, and are sharing them with domestic and overseas contract manufacturers, as well as companies that make the 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 quality assurance system that links research laboratories, the Production Department and the Quality Assurance Department.



Artist's rendition of the new Minami Alps Factory (provisional name)

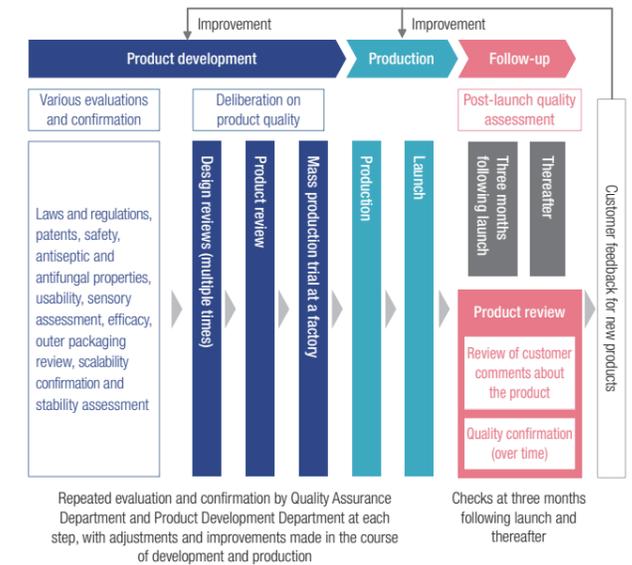
## Building a Framework That Prioritizes Peace of Mind and Safety While Valuing Novelty

Because cosmetics come in direct contact with the skin and hair, to ensure that customers can use our products with peace of mind, we prioritize safety in the development of new products through rigorous and repeated evaluations in line with the highest quality standards at each step from raw materials to finished products. Before putting products on the market, for final confirmation of safety we run them through tests under the various conditions in which they are expected to be used.

KOSÉ has built a system in which the Quality Assurance Department and the Product Development Department work together from the initial stage of development to evaluate the safety of new products. This system enables us to rapidly create products that give customers peace of mind and are safe while placing a premium on novel viewpoints and imaginative approaches. Furthermore, while giving the highest priority to safety, we develop our cosmetics, including quasi-drugs, under a policy of using testing methods that do not involve animals.

▶ For details: <https://www.kose.co.jp/company/en/csr/theme1/>

### Quality Assurance in the KOSÉ Group’s New Product Development



## Our Declaration of Consumer Orientation: “Closer to Our Customers”

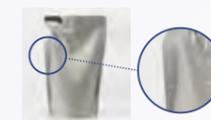
KOSÉ established the slogan “Closer to Our Customers” for use inside the Company and in April 2018 announced its Declaration of Consumer Orientation. It signifies that each employee thoroughly adopts an approach of taking the viewpoint of customers to deliver cosmetics with value, and has been in use since it was set forth as the basic policy of KOSÉ’s medium-term management plan for fiscal 2011. We intend to step up our efforts to further advance a customer viewpoint in the activities of all departments.

We strive to communicate information to our customers in an appropriate and timely matter through shops and websites. Knowledge stored at our Customer Service Center is shared throughout the KOSÉ Group, including affiliated companies, and is used by various departments.

To promptly utilize the valuable opinions and comments of our customers, we share them throughout the Company in real time using the Smile Data System. The content is aggregated,

analyzed and regularly reported to the relevant departments, which use it to improve products and services, thus heightening customer satisfaction.

### Examples of Improvements Utilizing Customer Feedback



Notches in the refill pouch make it easy to tell that it contains shampoo.



Labelling on the outer box clearly identifies the different types of SEKKISEI, making it easier to select the desired product.

### ▶ Note: Declaration of Consumer Orientation

<https://www.kose.co.jp/company/ja/info/customer-oriented/> (Japanese only)



# Creating an Environment That Allows People to Realize Their Full Potential

To achieve its goal of becoming a company with a global presence, KOSÉ needs human resources that can succeed worldwide—people who use foresight for the constant creation of innovative value. Based on three management foundations, we work to create an environment that enables our employees to realize their full potential, ultimately leading to the achievement of the targets stated in our medium-term management plan.



## Promoting Human Rights Education and Awareness-Raising and Diversity Management

Employees are the source of corporate growth and competitiveness. For employees to grow, they must have a healthy workplace environment. As a cosmetics company, the KOSÉ Group aims to cultivate a workplace environment that allows women to realize their full potential and enables diverse human resources to demonstrate their skills. To that end, we promote human rights education and awareness-raising and diversity management. In the KOSÉ Group Action Guidelines, we stipulate respect for the human rights of 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 workplace environment where diversity is valued. In management development programs, we conduct training and raise awareness of human rights to ensure respect for such rights regardless of nationality, race, religion, educational background or age. We also promote understanding of gender diversity (LGBT\* and others) including sexual orientation and gender identity.

\* LGBT: An acronym for Lesbian, Gay, Bisexual and Transgender



## Establishing Working Conditions That Promote Work-life Balance

To achieve a good balance between our employees' professional and private lives, we are making efforts to enhance their health and working conditions. Specifically, we endeavor to accurately track each employee's working hours and set reduction targets for overtime work to optimize time spent on the job. We also offer wellness guidance by industrial doctors based on the results of

annual health checks and respective work situations. In addition, we have introduced childcare/nursing care leave, shortened working hours and other programs tailored to life events in order to help employees balance career and family. All regular employees who took maternity leave also took childcare leave, and more than 90% of these women later returned to work.

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

From a management viewpoint, strategically encouraging employees to manage their own health will lead to higher productivity. The concept of health and productivity management has thus been proposed from the perspective of an investment that will lead to higher profitability. Wholeheartedly embracing this concept, the KOSÉ Group promotes health and productivity management measures for its employees' working environment, particularly in regard to keeping working hours to an appropriate level and helping employees maintain good health. In recognition of these efforts, KOSÉ has been certified for the third consecutive year since 2017 as an excellent corporation that engages in health and productivity management in cooperation with insurers in the White 500 for 2019, sponsored by the Ministry of Economy, Trade and Industry and the Nippon Kenko Kaigi.



## Developing Human Resources and Fostering a Corporate Culture That Promotes Innovation

As part of our global strategy, we focus on attracting and keeping people who fearlessly embrace challenges with a flexible perspective, give us the benefit of their individuality and add a new dimension of diversity to our talent pool.

We maintain an in-house recruitment system that gives existing employees with a desire to take on new challenges the opportunity to work at different jobs within the Company. In addition, we have integrated Link,<sup>1</sup> a program for generating innovation to create new value in beauty that we have been conducting since 2017, with our Accelerator Program. Employees who we expect to play key roles in the future are

given the task of commercializing new businesses in cooperation with external start-ups. This is just one way in which we create a structure that supports enthusiasm and a spirit of challenge.

1. Link (Leadership and Innovation program for New KOSÉ): An internal incubation program launched in 2017



## Developing Global Beauty Professionals

We also emphasize training for Beauty Advisors, who interact most closely with customers, in order to create a group of beauty professionals. In fiscal 2014, we promoted contract employees to regular employee status, and in 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 100 Beauty Advisors passing the test each year. As a result of these measures, the proportion of Beauty Advisors who are regular employees has risen to about 90%. In addition, we run a program for Beauty Advisors that gives them the option to change branches and continue their careers in different locations nationwide. Concurrently, our in-house recruitment system enables Beauty Advisors to take on the challenge of

working in other roles within the Company. These efforts expand career path options and enhance job satisfaction.

Seeking to improve the technical skills of Beauty Advisors, in fiscal 2014 we complemented an existing training and instruction program with our own distinctive KOSÉ Makeup Lesson Examination, which has been approved by Japan's Ministry of Health, Labour and Welfare. The examination contributes to enhancing skills and spurs motivation. It consists of Level Two for base makeup, for which all Beauty Advisors in Japan are eligible, and Level One for makeup highlights, which can be taken by those who pass Level Two. Since the examination was introduced, more than 1,200 Beauty Advisors have passed one of the levels. In the future, we aim to have all Beauty Advisors obtain these qualifications as a preparatory job skill.

### The 8th Global EMB Contest to Select Top Beauty Advisors

About 5,000 Beauty Advisors from Asia including Japan participated in the 8th Global EMB\* Contest. This event is aimed at encouraging the development of world-class Beauty Advisors by offering contestants the opportunity to present the results of their efforts to refine their customer service skills and beauty knowledge and techniques to impress and bring joy to the greatest number of customers. The final round of the contest took place in April 2019, with the 17 remaining contestants from their respective districts gathering at KOSÉ's Oji Training Center in Kita-ku, Tokyo to showcase their skills. The next day, results were announced and an awards ceremony was held at the Hilton Tokyo Bay in Urayasu City, Chiba. The grand prize went to Yoshiko Ota, a Beauty Advisor in Japan, with Japan's Minami Nakada and Taiwan's Yu-Chien Wei as runners-up. \* EMB (Expectation, Meet, Beyond): Implies that people not only meet, but exceed expectations



Announcement of the grand prize winner

# SAVE the BLUE Project

For 10 years, KOSÉ has been conducting the SAVE the BLUE project as an initiative that embodies its corporate message “Wisdom and Beauty for People and the Earth.” We will continue to support activities to protect the global environment with the aim of realizing a sustainable society.



## Activities in Japan: Steps We Can Take Now to Protect Our Beautiful Oceans and Blue Planet

The SAVE the BLUE project 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. Corals, which are highly susceptible to temperature and other environmental changes, are in need of greater conservation efforts. A portion of sales from select products in the SEKKISEI series purchased by customers during our summer campaigns is donated to a local organization in Okinawa. The funds are used to cover the cost of growing an amount of corals equivalent to the total surface area of the bottoms\* of the containers of project-designated SEKKISEI products, and for

transplanting the cultivated corals onto reefs in Okinawa. Over the past 10 years, corals covering a total of 96,757,321 cm<sup>2</sup>, or about 25.8 times the size of an official short-course (25 m) swimming pool, have been transplanted.

To mark the first decade of the project, in 2018 we also held a winter campaign. Since rich forest soil is indispensable for oceans to thrive, we have also started planting trees to cover an area equivalent to the total surface area of the bottoms of designated SEKKISEI products sold.

\* In the case of SEKKISEI lotion regular size: approx. 4 cm x 5 cm = approx. 20 cm<sup>2</sup>



Summer campaign poster (Transplanting corals)

Winter campaign poster (Forest conservation)



We also held a program for elementary school students entitled “Give Your Impressions of the SAVE the BLUE Coral Protection Story in Words and Pictures and Win a Trip to Study Corals.”

## Global Activities: Projects in 10 Countries or Regions

The SAVE the BLUE Project has spread globally. In fiscal 2018, it was conducted in China, Taiwan, Hong Kong, South Korea, Thailand, Singapore, Malaysia, Indonesia, the United States and Japan. We also carried out a program for staff from overseas to study corals in Okinawa and to present their environmental conservation activities in their respective regions.

KOSÉ has announced its support of the Sustainable Development Goals (SDGs) advocated by the United Nations, and through the SAVE the BLUE project it will

further advance its efforts to protect our blue planet through marine conservation.



A global program for traveling to Okinawa to study corals



China Desert afforestation

Taiwan Marine conservation

Thailand Marine conservation

Singapore Coral reef preservation

Malaysia Sea turtle preservation

# Promoting Sports

To enhance people's quality of life, KOSÉ is involved in the promotion of sports, which are an important part of healthy lifestyles. As a cosmetics company, we continue to cosponsor and support teams and individual athletes in various sports, particularly those that combine beauty, art and fashion.



## Figure Skating

As an official partner of the Japan Skating Federation since 2006, KOSÉ has mainly provided makeup and makeup lessons to figure skaters. We incorporate recent trends in proposing makeup colors and looks that match the images the skaters wish to project, and then advise them on how to apply their own makeup. In addition, we have enhanced our support at exhibitions and ice shows by providing staff to apply the skaters' makeup. We have received a positive response from the skaters, with comments such as “The makeup really motivated me. You did a beautiful job, which helped me perform with confidence.”

In 2016, we marked a first as the title sponsor of the KOSÉ Team Challenge Cup, an international event on the figure skating circuit. We are expanding the range of our support, including signing individual contracts with athletes who participate in the tournament.



Skater Rika Kihira

Applying makeup to skaters at the makeup booth

## Artistic Swimming

In April 2006, KOSÉ signed an official cosmetic partner agreement with the Japanese national team, nicknamed “Mermaid Japan,” which represents Japan in international artistic swimming competitions. Since then, we have provided constant support for the team. We create makeup designs matched to costumes and music and conduct a regular course of lessons so that team members can apply their own makeup at competition sites. We use only commercially available products that are highly waterproof and colorfast, such as FASIO and ADDICTION, and help team members focus on their performance with confidence by providing detailed guidance on makeup techniques that

prevent it from coming off during intense movements in the pool. Our expertise goes beyond competition makeup to offer total beauty solutions, including suggestions on daily skincare.



Swimmer's competition makeup

Makeup lesson

## Snow Sports

In October 2018, we signed a contract with the Ski Association of Japan (SNOW JAPAN) to become an official sponsor. We actively support athletes who perform on the world stage and support the development of all snow sports.



SNOW JAPAN

## Addressing Climate Change and Reducing Environmental Burden

KOSÉ's sustainability activities reflect its corporate message "Wisdom and Beauty for People and the Earth." We based the KOSÉ Basic Environmental Policy on the fundamental concept that underpins ISO 14001, the international standard on environmental management, with activities conducted primarily by cross-departmental environmental working groups.



### Reducing 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 CO<sub>2</sub> 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 continue to reduce industrial waste, save energy and prevent environmental pollution. We also promote energy-saving activities at all of our factories. For example, we install energy-saving equipment such as cogeneration systems. 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, paying attention to the impact that such components have on the environment.



An environment-friendly cogeneration system using natural gas at our Gunma Factory

#### Use of Environmentally Responsible FSC-Certified Paper to Promote Sustainable Forestry

Forest Stewardship Council (FSC)-certification is given to wood that is harvested and processed in a manner that promotes sustainable forestry, benefits local communities and is also economically sustainable. FSC-certified paper is made from such wood. FSC-certified paper is used for the outer box of some *SEKKISEI* products.



Launched in December 2018 as a limited-edition product, medicated *SEKKISEI Lotion* (super big size) uses FSC-certified paper for its outer box.

#### Addressing the Problem of Plastic in the Environment

Plastic microbeads are a raw material used in cleansers and other rinse-off products. They are safe for humans, and have been used as a highly functional raw material, but recently concerns about their environmental impact have been raised in Japan and overseas. In light of such concerns, the KOSÉ Group has taken measures to address this problem. In fiscal 2014, for example, we discontinued the use of microbeads in newly developed cleansers, replacing them with vegetable-based materials with a low environmental burden. We have also completed a switchover to vegetable-based materials for existing cleansers. Since January 2018, none of the cleansers we have shipped contain microbeads.

We are also working to reduce the amount of plastic used in containers. We have launched refill products for the *DECORTÉ* products *MOISTURE LIPOSOME* and *PRIME LATTE*, resulting in about a 40% reduction in plastic per item compared with regular containers. We are working to reduce our environmental burden in a variety of ways, including the use of plant-derived plastic in products from Kosé Cosmeport Corp.



Reusing the pump significantly reduces the amount of plastic used

## Activities in the Supply Chain

KOSÉ has always pursued co-existence and co-prosperity with its business partners. We value the sense of partnership that infuses all of these relationships, and we emphasize sustainability throughout our supply chain, extending beyond Japan to points overseas, to grow along with suppliers and retailers.



### Promoting Sustainability in the Supply Chain

We conduct sustainable, socially and environmentally responsible procurement for raw materials in line with our Basic Procurement Policy. We promote detailed information exchange with suppliers to develop mutual understanding of pertinent issues and use questionnaires to track environment-oriented responses and respect for human rights.

#### KOSÉ's Basic Procurement Policy

##### 1. Quality and safety assurance

Our procurement activities are implemented in line with the "KOSÉ Quality Policy," with the highest priority on quality and safety.

##### 2. Fair and unbiased competition

We offer opportunities for fair and equitable competition to all suppliers, regardless of scale, both in Japan and abroad. Procurement decisions are made in a fair manner based on a comprehensive consideration of quality, prices, delivery times, supply capacity, management stability and other factors.

##### 3. Compliance with laws, regulations and social norms

In our CSR-compliant procurement practices, we comply with laws, regulations and social norms of different countries and regions, and give due consideration to the conservation of resources and the global environment, safety, human rights, and other factors in order to fulfill our social responsibility.

##### 4. Co-existence and co-prosperity

Our aim is to ensure the ongoing development of both our suppliers and ourselves by building mutual understanding and trust through our procurement activities.

##### 5. Assurance of information security

Confidential information and personal information related to procurement activities are strictly protected.

#### Emphasizing a Sense of Partnership with Suppliers

KOSÉ holds a policy meeting with its suppliers once a year to explain the KOSÉ Group's policies, business plan and purchasing policy. A party is also held at this event to show our gratitude and to recognize those suppliers who have contributed significantly to our success, particularly to our business results, improved quality and environmental considerations. In fiscal 2018, we welcomed participants from nearly 100 domestic and international suppliers, including those providing us with raw materials and fragrances, other materials, OEM services and various production work. We asked suppliers to continue to be good partners in our ongoing pursuit of higher quality and sustainability. This event draws an increasing number of participants from abroad, so interpreters provide simultaneous translation.



#### Addressing the Issue of Sustainable Palm Oil

Palm oil is a vegetable oil harvested from oil palms grown in Southeast Asia and other regions. It is used around the world in various applications such as food, and some is used as a raw material for cosmetics. However, there are problematic issues such as the destruction of tropical rain forests caused by oil palm plantation development.

KOSÉ maintains an ongoing dialogue with relevant NGOs and suppliers. In fiscal 2018, we applied for membership in the Roundtable on Sustainable Palm Oil (RSPO) and have started investigating various issues with the aim of commencing the use of sustainable palm oil by fiscal 2020.

# Sustainability Activities

In conducting activities to help achieve a sustainable society, the KOSÉ Group identifies issues it should address based on ISO 26000 and other guidelines, external ESG assessments and other methods, and prioritizes them while taking into consideration the changing international situation. In July 2017, we signed the United Nations Global Compact (UNGC), and have selected a focused set of SDGs that we believe we can help address.

## Process for the Selection of Sustainability Activity Targets



## Review of Activity Themes and Targets with Reference to the SDGs

We believe that the cosmetic products the KOSÉ Group manufactures and sells benefit our customers worldwide by helping them play an active role in society and contributing to an improvement in their quality of life (QOL). In addition, all of our corporate activities, including consideration of human

rights in the procurement of raw materials and reduction of environmental burden, are closely related to the SDGs. Accordingly, we have reorganized and reviewed the individual sustainability activity themes we have been engaged in, with reference to the 17 SDGs and their 169 targets issued in 2016.

- Alignment of previous sustainability activity targets with the 169 SDG targets
- Confirmation of the order of priority for activity themes and setting of high-priority themes

For details, see pages 38-39.

### Signing the UNGC

In July 2017, we signed the UNGC. Based on the basic sustainability principles underpinning our corporate message of “Wisdom and Beauty for People and the Earth” and the “Mind to Follow the Right Path” motto of the Company’s founder, we support and put into practice the 10 Principles of the UNGC in the four areas of human rights, labor, environment and anti-corruption, as we work to achieve a sustainable society as a member of the global community.

► For details: <https://www.kose.co.jp/company/en/csr/target/>



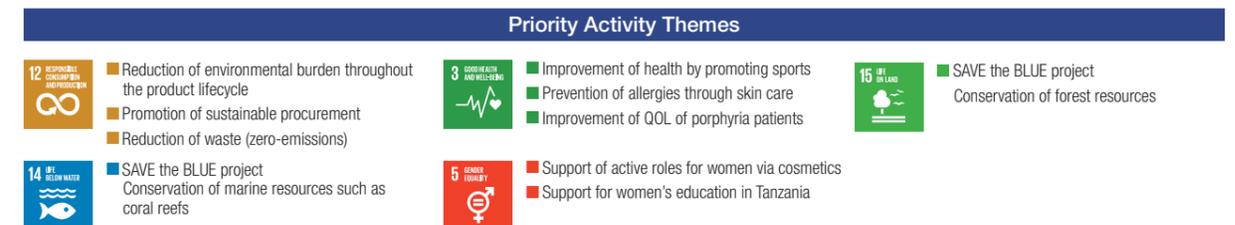
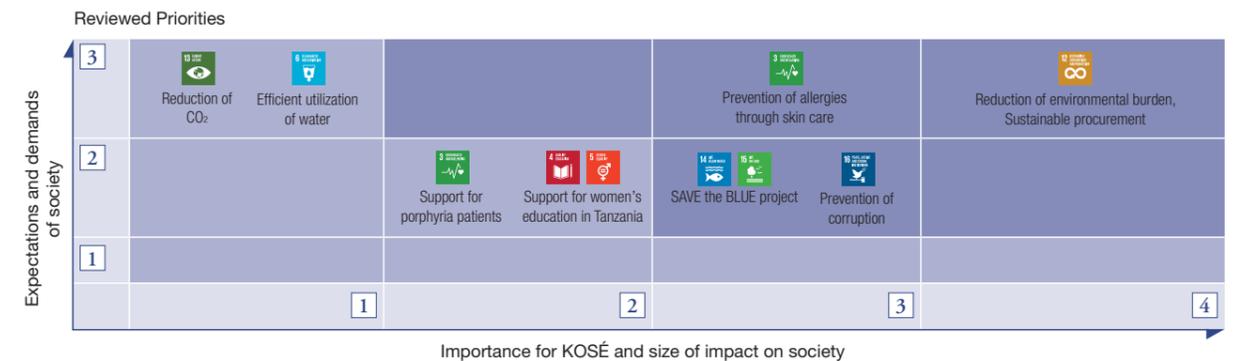
## Identification of Priority Activity Themes

KOSÉ has established activity themes and mid-term goals by organizing its corporate activities using ISO 26000 and other guidelines and external ESG assessments. In fiscal 2017, we referenced the SDGs to identify priority themes from the mid-term goals. To establish priority activity themes, we made assessments based on the two axes of “Expectations and demands from society” and “Importance for KOSÉ and size of impact on society.” We believe that each is relevant and can contribute to achieving the SDGs. We have announced our

intention to continue increasing our focus on sustainability, with measures including the issuance of our first integrated report in fiscal 2018, the establishment in fiscal 2019 of a dedicated in-house organization, and the renaming of the CSR Committee as the Sustainability Committee.

We will continue to review these priority activity themes as necessary to meet the changing expectations and demands of society.

► For details: <https://www.kose.co.jp/company/en/csr/target/>



### About the UN SDGs

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

\* Rio+20: The United Nations Conference on Sustainable Development, which took place in Rio de Janeiro, Brazil in 2012

► Translation of quote from Global Compact Network Japan [www.ungcn.org/sdgs/index.html](http://www.ungcn.org/sdgs/index.html)



# Activity Targets



Stakeholder	Important Issue	Activity Theme	Medium-Term Target	Fiscal 2018 Results	SDGs
Customer	Reliability We will provide high-quality products and services that prioritize peace of mind and safety as a company that creates beauty for people. + Adaptability We will work to satisfy diverse customers around the world.	Peace of mind, safety and quality	Enhance quality assurance system throughout the entire Group	<ul style="list-style-type: none"> <li>Formed project to introduce ISO 22716</li> <li>Strengthened efforts to reduce number of complaints regarding quality, and standardized voluntary recall procedures</li> </ul>	3 8
		R&D from a customer perspective	Enhance safety assurance system throughout the entire Group	<ul style="list-style-type: none"> <li>Disseminated information on KOSÉ's safety assurance by posting it on the R&amp;D section of the Company website</li> <li>Promoted establishment of a safety assurance system for addressing expanding business areas such as new distribution channels and countries</li> </ul>	
			Work to satisfy diverse customers around the world (region, tastes, age, gender, LGBT, religion, people with disabilities, etc.) through cosmetics	<ul style="list-style-type: none"> <li>Implemented and announced Declaration of Consumer Orientation (April 2018)</li> <li>Announced a policy of enhancing adaptability as a company that meets the needs of diverse customers around the world through craftsmanship</li> </ul>	5
		Promote development of products and packaging that improve usability	<ul style="list-style-type: none"> <li>Promoted development of product packaging that is easy for all to use and to refill</li> <li>Introduced pouches with tactile identification features</li> </ul>	3	
Communication with customers	Deepen the relationship with the fields of cosmetic medicine, preventative medicine and health promotion, and improve QOL	<ul style="list-style-type: none"> <li>Continued to support research on skin care and allergies through an endowed course at Keio University School of Medicine</li> <li>Provided foundation as the first step in creating an in-house scheme to improve the QOL of porphyria patients</li> </ul>	3		
	Improve our capability to respond to customer expectations and requests	<ul style="list-style-type: none"> <li>Publicized Declaration of Consumer Orientation (April 2018)</li> </ul>			
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	<ul style="list-style-type: none"> <li>Expanded the scope of calculation of CO<sub>2</sub> emissions (subsidiaries, business locations) and streamlined data aggregation</li> </ul>	12 13
			Understand and reduce water resources used/wastewater volume	<ul style="list-style-type: none"> <li>Collected data on water consumption/wastewater and promoted efficiency improvements</li> </ul>	6
			Understand and reduce waste volumes	<ul style="list-style-type: none"> <li>Collected data on waste volume and promoted efficiency improvements</li> </ul>	12
			Consider the environment in product containers and packaging	<ul style="list-style-type: none"> <li>Strengthened efforts to reduce the amount of plastic used in products</li> <li>Began using FSC-certified paper for product outer boxes</li> </ul>	12
			Consider the environment in product contents	<ul style="list-style-type: none"> <li>As of January 2018, ended all shipments of cleansers containing plastic microbeads</li> <li>Formulated and announced policies for using sustainable palm oil</li> </ul>	14 15
		Promote environmental policy and disclosure of environmental benchmarks	<ul style="list-style-type: none"> <li>Expanded the scope of disclosure of environmental benchmarks</li> </ul>	14	
Preserving biodiversity	Continue and expand our SAVE the BLUE project and contribute to the global environment	<ul style="list-style-type: none"> <li>With the 10th year of the SAVE the BLUE project and the International Year of the Reef as milestones, conducted various activities to preserve coral reefs and to publicize those activities. Expanded activities to include 10 countries and regions.</li> <li>Started new winter activities for forest conservation</li> </ul>	13 14 15		
Business partner	We will carry forward the idea of "co-existence and co-prosperity" passed down since our foundation, to promote sustainability activities throughout the entire supply chain.	Raw material procurement	<ul style="list-style-type: none"> <li>Promote sustainable procurement throughout the entire supply chain</li> <li>Implement fixed-point observation based on the Basic CSR Policy</li> </ul>	<ul style="list-style-type: none"> <li>Adopted Global Compact Network Japan (GCNJ) standards for supplier surveys to strengthen human rights considerations (overseas child labor and working conditions, etc.) and other matters</li> </ul>	12
		Sustainable palm oil procurement	Begin sustainable palm oil procurement by fiscal 2020	<ul style="list-style-type: none"> <li>Formed in-house task force for sustainable palm oil procurement and announced policies for future initiatives</li> </ul>	12
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	<ul style="list-style-type: none"> <li>Conducted training for newly appointed managers to encourage consideration of employee diversity (LGBT, etc.)</li> </ul>	5
		Promotion of diversity and working-style reform	Promote diversity and flexible, diverse ways of working	<ul style="list-style-type: none"> <li>Formed an executive committee on work-style reform. Conducted a study of measures to create a corporate culture that empowers women by proposing flexible and diverse ways of working. Introduced a work-at-home system for Head Office as one such measure.</li> </ul>	8
			Employ people with disabilities and rehire retired employees	<ul style="list-style-type: none"> <li>Introduced system for re-employment of retirees (February 2019)</li> <li>Maintained a stable employment rate for people with disabilities throughout the year in accordance with the law</li> </ul>	
		Human resource development	Improve and raise employee health awareness	<ul style="list-style-type: none"> <li>Certified as an Excellent Enterprise of Health and Productivity Management (White 500) for the third consecutive year</li> </ul>	
Local community	We will promote social contribution through cosmetic products with the aim of coexisting in harmony with local communities.	Academic support	Provide academic support focused on universities	<ul style="list-style-type: none"> <li>Continued to develop global human resources</li> <li>Clarified development policies according to class and role</li> <li>Conducted measures to develop core human resources for the future with the Accelerator Program</li> </ul>	3
		Improvement of quality of life (QOL) through promotion of sports (health promotion)	Promote various sports that include elements such as beauty, art and fashion	<ul style="list-style-type: none"> <li>Held the second term (second year) of the KOSÉ Endowed Course for Skin Care and Allergy Prevention at Keio University School of Medicine</li> <li>Continued to support the advancement of cosmetology through support for The Cosmetology Research Foundation</li> </ul>	3
			Promote health and regional development through sponsorship of amateur sports events	<ul style="list-style-type: none"> <li>Continued to provide support as an official partner of the Japan Skating Federation (13th year) and the International Skating Union (7th year), and as official cosmetics partner of "Mermaid Japan," which represents Japan in international artistic swimming competitions (13th year)</li> <li>Signed an official sponsorship contract with the Ski Association of Japan (SNOW JAPAN) and started providing support (October 2018)</li> </ul>	3
		Cultural inheritance	Promote culture and art	<ul style="list-style-type: none"> <li>Provided support for Arukimedesu walking events in locations throughout Japan, the Iwai Masakado Half Marathon in Bando City, Ibaraki Prefecture, and the Koedo Kawagoe Half Marathon in Saitama Prefecture; cosponsored the Ishigaki Island Marathon through the Sports Beauty brand, etc.</li> </ul>	
		Assistance to disaster affected areas	Support disaster affected areas continuously through Fukushima Sakura Project, etc.	<ul style="list-style-type: none"> <li>Sponsored the 15th World Ballet Festival and the Fox Parade (Kitsune no Gyoretsu), a New Year's Eve festival held in Oji, Kita-ku, Tokyo</li> </ul>	
		Supporting education and women	Provide and support high-quality education for women around the world	<ul style="list-style-type: none"> <li>Continued participating in the Fukushima Sakura Project, and cosponsored projection mapping. Planted cherry tree seedlings from Fukushima at a childcare facility.</li> </ul>	4 5
Sustainability management		Building sustainability foundations	Build a foundation and activity system for sustainability throughout the entire Group, and raise awareness within the Company	<ul style="list-style-type: none"> <li>Continued supporting Sakura Girls Junior High School in Tanzania in Central Africa (3rd year)</li> </ul>	
		Corporate governance	Sound management and building a system to maintain social trust	<ul style="list-style-type: none"> <li>Continued to review our direction and identify issues based on ISO 26000</li> <li>Continued to participate in the UNGC and incorporated SDGs into our priority activity themes (2nd year)</li> </ul>	
		Stakeholder engagement	Actively disclose information to and dialogue with stakeholders	<ul style="list-style-type: none"> <li>Increased the number of external directors from 1 to 2</li> </ul>	
				<ul style="list-style-type: none"> <li>Continued to disclose issues and status of activities based on ISO 26000</li> <li>Disseminated policy on contributing to achievement of the SDGs</li> <li>Strengthened communication of various sustainability information to stakeholders</li> </ul>	
		Compliance	Promote compliance activities	<ul style="list-style-type: none"> <li>Published KOSÉ Report 2018, our first integrated report combining an IR report, corporate brochure and sustainability report (September 2018)</li> </ul>	
Information security	Strengthen personal information protection system and preventative measures	<ul style="list-style-type: none"> <li>Published KOSÉ Report 2018, our first integrated report combining an IR report, corporate brochure and sustainability report (September 2018)</li> <li>Conducted e-learning on fundamentals of compliance, displayed compliance awareness posters in-house, etc.</li> </ul>	16		
			Enhanced security using SSL on the Company website	<ul style="list-style-type: none"> <li>Conducted e-learning on fundamentals of compliance, displayed compliance awareness posters in-house, etc.</li> </ul>	
			Implemented security countermeasures in connection with the expansion of digital business		