



SHISEIDO

ANNUAL REPORT 2015 / 12

Shiseido Company, Limited

[For the period ended December 31, 2015]



Create brands that win

The goals of VISION 2020:

To create the basis for Shiseido to remain vital for the next 100 years.

To make us number one in Japan and Asia.

We will do so by increasing the value of Shiseido's brands
to create strong brands that consumers support.



worldwide

Brand



Make all activi

With



ties consumer-oriented

Shiseido's corporate mission is to inspire a life of beauty and culture.
To bring smiles and happiness to consumers around the world,
we are making all our activities consumer-oriented.
We will focus on consumers, gaining an insight into what they think and
considering their feelings to become their best partner.



Further change lies ahead

We have smoothly initiated reforms.
They have led to change and yielded definite successes.
And they have clarified what we must do next.
With the united efforts of all Shiseido employees,
we will move to the next stage of reforms to ensure growth.

Comm



for Shiseido

mitment



**From a
Winner**

A Message from President and CEO Masahiko Uotani

We are resolutely committed to achieving VISION 2020. The goal of this medium-to-long-term strategy is to create the basis for Shiseido to remain vital for the next 100 years. We are making consumers the center of everything we do to generate growth in brand value in Japan and around the world. In the first three years ending 2017, we will rebuild our business foundation. Shiseido made major changes for the future during the first year of VISION 2020, and took a strong first step that has yielded some definite successes and invigorated employees.

However, major reforms lie ahead. To put Shiseido on a solid footing, now is the time to aggressively strengthen our foundation to generate outstanding growth from 2018 in the final three years of VISION 2020.

Our mission is to “inspire a life of beauty and culture,” thus we aim to create value in the cosmetics market and many other markets related to beauty that helps people around the world live this moment, this life, beautifully.

We must be consumer-oriented. We must relentlessly enhance our advantages. And all Shiseido employees must continuously take on the challenge of creating beauty for diverse consumers. When we do so, we will transform “from a leader in Japan to a winner worldwide.”

All Shiseido employees are united in following through with reforms to achieve a sustainable society that delights people with beauty. We know stakeholder expectations are high, and we intend to meet them.

May 2016



Masahiko Uotani
President and CEO

Leader in Japan to a Worldwide

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Editorial Policy



We want to make our consumers around the world smile. Aiming to be a global beauty company, Shiseido is implementing bold reforms.

We will advance into the future with even more forward-looking communication.

Editorial Policy

Annual Report 2015/12 covers all of Shiseido's management and corporate activities, from management directions and strategies and the status of its businesses to non-financial information about its corporate social responsibility (CSR) and other activities. We produced the report with reference to the international integrated reporting framework provided by the International Integrated Reporting Council.

Reporting Period

Annual Report 2015/12 primarily covers results for the period ended December 2015 (April 1, 2015 to December 31, 2015; January 1, 2015 to December 31, 2015 for overseas consolidated subsidiaries). It also includes certain information from before and shortly after this period.

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Scope of Coverage

In principle, Annual Report 2015/12 covers Shiseido Company, Limited (the Company) and its 91 consolidated subsidiaries (collectively, the Shiseido Group) as of December 31, 2015, except as otherwise noted.

Guidelines for Disclosing Non-Financial Information

- United Nations Global Compact
- ISO26000 (international guidance standard for social responsibility issued by the International Organization for Standardization)
- Sustainability Reporting Guidelines, Version 4 (international guidelines for corporate sustainability reporting issued by the Global Reporting Initiative)
- 2012 Environmental Reporting Guidelines (issued by Japan's Ministry of the Environment)

Month of Issue

May 2016

Change in Fiscal Year-End

The period ended December 2015 is an irregular fiscal period due to the alignment of the fiscal periods of all Group companies.

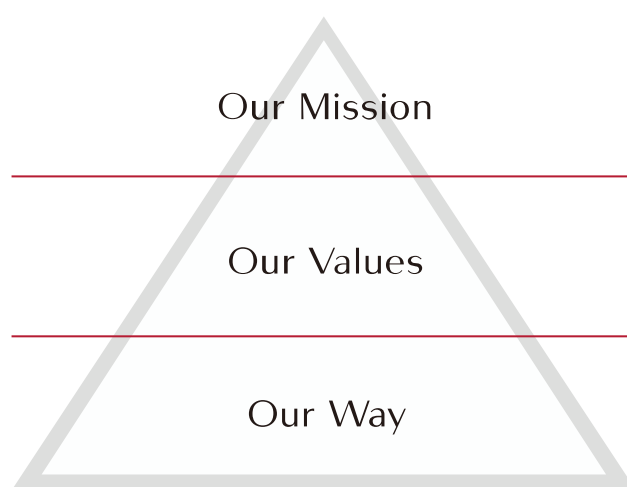
To promote consistent Group management and increase the transparency and quality of the results and other information it discloses, the Company has decided to align all fiscal years in the Shiseido Group. The fiscal period ended December 31, 2015 is the 9 months from April 1, 2015 to December 31, 2015 for Shiseido and its consolidated subsidiaries in Japan and the 12 months from January 1, 2015 to December 31, 2015 for all other subsidiaries. In this report, it is referred to as "the period ended December 2015" in the text and as "2015/12" in tables, charts and graphs.

Forward-Looking Statements

In this annual report, statements other than historical facts are forward-looking statements that reflect the Company's plans and expectations. These forward-looking statements involve risks, uncertainties and other factors that may cause actual results and achievements to differ from those anticipated in these statements.

Our Mission, Values and Way

Our Mission, Values and Way (MVW) is the Shiseido Group corporate philosophy. It codifies the *raison d'être*, values and action standards that all Shiseido Group employees must always keep in mind. We want to continuously increase corporate value by realizing our mission of helping people live beautifully.



Our Mission

We cultivate relationships with people
We appreciate genuine, meaningful values
We inspire a life of beauty and culture.

Our Values

In Heritage, Excellence
In Diversity, Strength
In Innovation, Growth

Our Way

All members of Shiseido Group pursue
shared and sustainable growth with all stakeholders.

With Consumers
With Business Partners
With Employees
With Shareholders
With Society and the Earth

Value Creation Model

Guided by its mission of inspiring a life of beauty and culture, Shiseido is implementing its medium-to-long-term strategy VISION 2020 with the goal of achieving a happy, sustainable society through beauty. While strengthening the foundation for implementing our strategy, we maintain a consumer orientation that links all business processes, including research and development, production, procurement and consumer care in comprehensive marketing and innovation to achieve strong growth and create value.

Through beauty, we will achieve a sustainable society that makes people happy.



Shiseido's Strengths

Our heritage of more than 140 years has given rise to a foundation and strengths that other companies cannot match.

Shiseido was founded in 1872 in Ginza, Tokyo, as the first Western-style pharmacy in Japan. The name Shiseido incorporates our founder's desire to discover and create new value, a desire that has endured for more than 140 years and has built our unique heritage. This heritage has led to a foundation and strengths unique to Shiseido that are key to our successful evolution going forward.

Technology & Science

Shiseido constantly creates high-quality, highly functional and safe cosmetics with new concepts, and leading beauty techniques. This ability is supported by an industry-leading R&D and production technology platform, which we continuously improve.



OMOTENASHI

Shiseido aims to enrich both the external appearance and the hearts of consumers. Our 22,000 beauty consultants worldwide provide personal counseling to consumers, embodying the power of our brands.



Shiseido in 2015/12

Net Sales

¥763.1 billion

Up 12.6 percent period on period¹

Operating Income

¥37.7 billion

Up 77.4 percent period on period¹

Countries and Regions Served

Approx. 120

Notes: 1. The fiscal period ended December 31, 2015 is the 9 months from April 1, 2015 to December 31, 2015 for Shiseido and its consolidated subsidiaries in Japan and the 12 months from January 1, 2015 to December 31, 2015 for all other subsidiaries. In this report, it is referred to as "the period ended December 2015" in the text and as "2015/12" in tables, charts and graphs. For period-on-period comparisons, this report uses results for the corresponding period of the previous fiscal year, referred to as "the previous fiscal period" in the text and as "2015/3 (Adjusted)" in tables, charts and graphs.

Sense of Beauty

Shiseido has cultivated its sense of beauty over its long history. As a cosmetics company originating in Japan, we have made this sense a unique strength among global companies with our belief in the importance of nature and the seasons, and our ceaseless attention to detail.



Art & Design

Our ability to communicate the value we propose and create is a major strength. This strength has driven advertising and design in Japan since we opened the Shiseido Design Department in 1916.



Human Centric

Shiseido's businesses are human centric. This is reflected in our desire to be consumer-oriented and in the value that we convey to consumers through our beauty consultants. Our belief in the importance of people as represented by consumers and our employees is the foundation on which we have formed our values.



Number of Employees^{2,3}

46,000

Percentage of Female Leaders³

50.6 percent

Global Ranking
Annual Sales

5th⁴

2. The number of employees includes full-time employees and temporary employees. Temporary employees include part-time workers. Dispatched employees are excluded.

3. As of December 31, 2015

4. WWD Beauty Inc. ranking among global cosmetics manufacturers in the beauty category, excluding food and daily necessities (April 2016)

Brands at a Glance (See Overview of Brand Categories on page 29.)

Prestige



SHISEIDO

J C AP A E T



clé de peau BEAUTÉ

J C AP A E T



bareMinerals

J C* AP A E T



NARS

J C* AP A E T



BENEFIQUE

J AP A

Fragrance



ISSEY MIYAKE

J C AP A E T

narciso rodriguez

J C AP A E T

ELIE SAAB

J C AP A E T

Professional



SHISEIDO PROFESSIONAL

J C AP



JOICO

C AP A E

* Only in Hong Kong

Main Regions of Availability (As of March 31, 2016)

Japan: J China: C Asia Pacific: AP Americas: A EMEA*: E Travel Retail: T

Cosmetics



ELIXIR

J C AP



MAQuillAGE

J C AP



HAKU

J AP



PRIOR

J



ANESSA

J C AP T



AQUALABEL

J AP A



INTEGRATE

J AP



Za

C AP



AUPRES

C



urara

C



PURE&MILD

C

Personal Care



TSUBAKI

J C AP E



SEA BREEZE

J AP



SENKA

J C AP

Healthcare



The Collagen

J



IHADA

J

* Europe, Middle East and Africa

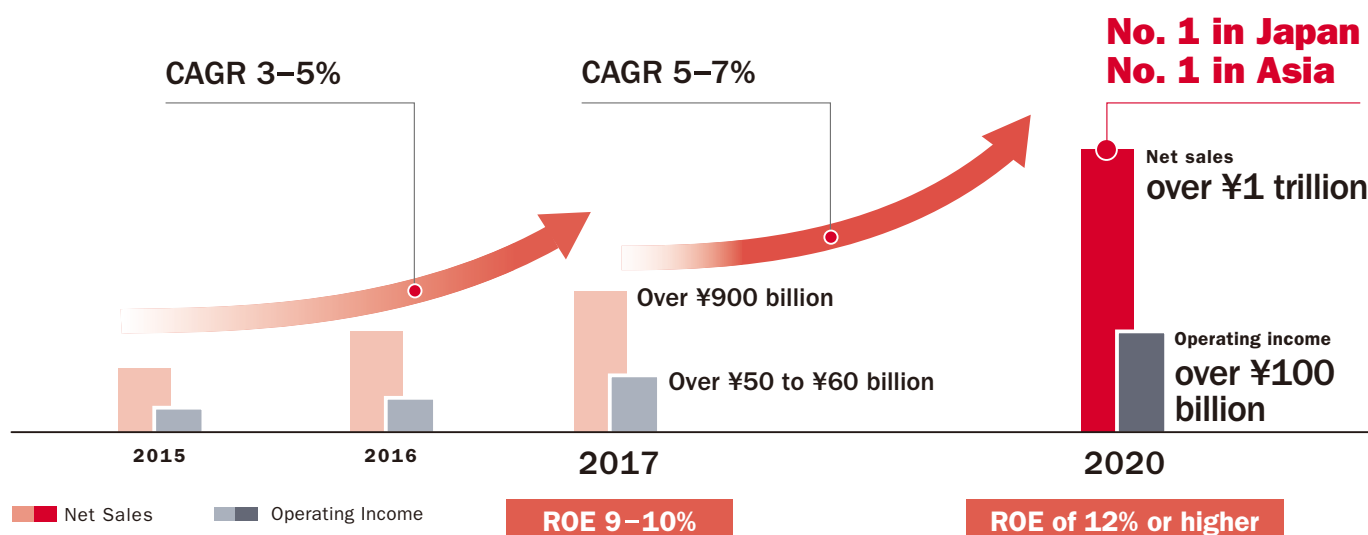


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Numerical Targets for 2017 and 2020



Shiseido announced its medium-to-long-term strategy VISION 2020 in December 2014 and initiated reforms for the future. Our goal for 2020 is to create the basis for ensuring that Shiseido will remain vital for the next 100 years and to generate even greater value for consumers and society. We also aim to be number one in Japan and Asia, with targets for net sales of over ¥1 trillion, operating income over ¥100 billion, and ROE of 12 percent or higher.

Overview of VISION 2020

We will reengineer all activities and shift to aggressive management during the six years through 2020. During the first three years, we will rebuild our business foundation and invest aggressively for growth. During the final three years, we will implement new strategies to accelerate growth that leverage the business foundation we have built to enter new markets. In this way, we will achieve strong growth.

Targeted Outcomes and Roadmap for VISION 2020

2015–2017

Rebuild the Business Foundation

- Brand selection and concentration
- Invest in marketing, R&D and supply chain management
- Restore growth in Japan, rebuild the China business and improve profitability overseas
- Reform organizational culture, nurture employees and build a global management foundation
- Generate ¥30–¥40 billion from cost reductions to fund investment (in 2017)

2018–2020

New Strategy to Accelerate Growth

- Develop new brands, conduct M&A
- Continue to invest and secure returns
- Enter new areas and businesses
- Establish a global management organization
- Review and revise business models

2020

Creating the model for ensuring that Shiseido will remain vital for the next 100 years

Become a company supported and needed by society and consumers worldwide

We want to be a company...

- Filled with energy
- Overflowing with youthfulness
- Always much talked about
- That the younger generations adores
- Be a multi-cultural company

Net sales over ¥1 trillion

Operating income over ¥100 billion

ROE of 12% or higher

From a Leader in Japan to a Winner Worldwide

Launch of VISION 2020 with the Resolve to Change

On the launch of VISION 2020 last year, I declared that we must rejuvenate Shiseido. We have seen results since then, but we need to move forward with reforms even more rapidly.

In the past, Shiseido was not quickly and accurately addressing changing consumers and markets. We were also cutting back on investment in R&D and marketing, which caused our brand value and market share to decline.

These problems required a solution, so we transformed all of our activities to focus on consumers. We intend to increase the power of Shiseido Group brands and prevail in Japan and in markets around the world.

Our roadmap for the six years through 2020 has two phases. The first three-year phase is already under way, and involves rebuilding our business foundation so that we can grow. During the second three-year phase we will leverage this foundation to generate greater growth. Our targets for 2020 are net sales over ¥1 trillion, operating income over ¥100 billion, and ROE of 12 percent or higher.

2015: A Year of Change and Success

We made changes for the future in 2015. It was a year of favorable results including sales growth in every region we serve.

The Japan Business finally stopped losing market share and got back on a growth trajectory. We generated steady success in dealing with the challenge of transforming aggressive investment in brand innovation and marketing into sales and growth. Brand sales grew strongly, overcoming the tendency for new product sales to stop growing after their second year on the market, which we refer to as the two-year wall. At the same time, the ICHIGAN Project, which involves cross-divisional, consumer-oriented collaboration among all employees, took root in our corporate culture.

► For details, see Feature – Growth Strategy by Region – Japan (pages 30-31).

Our sizeable investments in marketing in our prestige category resulted in strong sales growth for the SHISEIDO, clé de peau BEAUTÉ and NARS brands in Japan and overseas.

Moreover, we tackled legacy problems head on. We withdrew from unprofitable brands, liquidated overseas subsidiaries,

Figure 1: 2015 Successes and Key Initiatives for the Future

Successes
<ul style="list-style-type: none">• Steady growth for core brands• Established the regional headquarters system• Progress in reforming the cost structure
Key Initiatives for the Future
<ul style="list-style-type: none">• Sustainable growth for the Japan Business• Improvement of profitability overseas• Rebuilding of the China business

Brands with Strong Sales Growth in 2015



SHISEIDO



clé de peau BEAUTÉ



NARS

further optimized market inventories in China, and implemented structural reforms in the Americas. These and other initiatives created the foundation for medium-to-long-term growth (Figure 1).

We made various changes and have achieved some successes, but we have three major issues to deal with before we can achieve the objectives of VISION 2020.

The first is to continue growing our brands in Japan. Totally committed to consumer-oriented activities, we will strengthen our brands through selection and concentration and continue to increase marketing investment to ensure growth in the Japan Business.

► For details, see Feature – Growth Strategy by Region – Japan (pages 30-31).

The second issue is improving profitability overseas. Over the past 10 years our overseas sales ratio has increased dramatically to more than half of net sales, but overseas profitability is still extremely low, which is depressing the Group's operating profitability. We will strengthen our brands to increase sales further, while also reforming our cost structure in each region to generate funds for investment that will create a solid earnings foundation.

The third issue is rebuilding the China business. Competition has intensified and markets have changed in China. Shiseido needs a powerful presence, so we will build further on our success in the prestige category, reengineer our cosmetics business, and rejuvenate our China-only AUPRES brand.

► For details, see Feature – Growth Strategy by Region – China (pages 32-33).

We must be bolder and move more quickly to implement reforms to generate growth over the medium to long term.

Future Policies and Initiatives: Increase the Power of Brands Using Consumer Orientation

First and foremost, our consumer orientation will remain central in VISION 2020. We will generate synergies by fusing marketing and innovation, and increase the value of our brands

globally by institutionalizing comprehensive cross-divisional consumer-oriented initiatives (Figure 2).

Our marketing strategy involves building a brand portfolio that centers on the prestige category, where we have been successful, and totally embracing brand selection and concentration. We also intend to increase investment in marketing by a total of more than ¥100 billion during the three years ending December 2017 to nurture

Potent Brands

Figure 2: Key Strategies for Increasing Brand Value



Masahiko Uotani
Shiseido Group CEO



numerous potent brands (Figure 3). As a result, we plan to build a portfolio with 15 core brands in Japan comprising 90 percent of sales by 2020. Initiatives in 2016 will include innovating SHISEIDO worldwide to continue strengthening the prestige category. We will also nurture our low-priced cosmetics and personal care brands in Japan.

► For details, see Feature – Growth Strategy by Brand (pages 38-39).

We will also create new value using the center of excellence concept (Figure 4). Regions that are at the forefront of categories and have the ability to influence them globally will lead the Group in collecting information, formulating strategy, developing products and other initiatives for shared use in marketing operations worldwide. Japan will be the center of excellence for skincare, the United States for makeup and digital marketing, and Europe for fragrances. We will establish a base in New York for the growing e-commerce and digital markets to ensure a timely, genuine dialogue with the young, and other consumers worldwide.

Our strategy for innovation involves expanding the scale of each of our research centers around the world to develop products that reflect the needs of local consumers. We will also continue to maintain and strengthen our basic and platform research at our research centers in Japan to support growth. We plan to complete the Global Innovation Center (tentative name) in Yokohama at the end of 2018.

► For details, see The Value Creation Process to Achieve Beauty – Research and Development (pages 41-43).

We are also formulating a global supply chain strategy that is linked to our marketing strategy. We are constructing a new factory in Osaka that will be our primary manufacturing facility for skin-

care products globally, and expect to begin operations there in 2020. We will leverage the high-quality image of products made in Japan and expand supply to China, Asia and other regions.

► For details, see The Value Creation Process to Achieve Beauty – Production and Procurement (pages 46-47).

Future Policies and Initiatives: Launch a Global Management Organization

We need to enhance our consumer-oriented initiatives, so we have embraced a “Think Global, Act Local” mindset to step up our transition from a system centered on the head office to delegating authority to regions and their local markets. In January 2016, we launched a matrix organization encompassing five brand categories based on consumer purchasing style and six regions. Each regional headquarters has its own president and CFO with broad authority and responsibility for management and finances, which will enhance their ability to address

local consumers and markets. The regional presidents are totally committed to increasing sales and improving profitability.

► For details, see Feature – Our Global Management Organization Is Fully Operational (pages 26-39).

Committed to an Aggressive Investment Plan

As I have mentioned, we are rebuilding our business foundation during the three years through 2017 to help us achieve our targets for 2020. We therefore plan to increase marketing

Aggressive Investment

Figure 3: Marketing Investment Plan

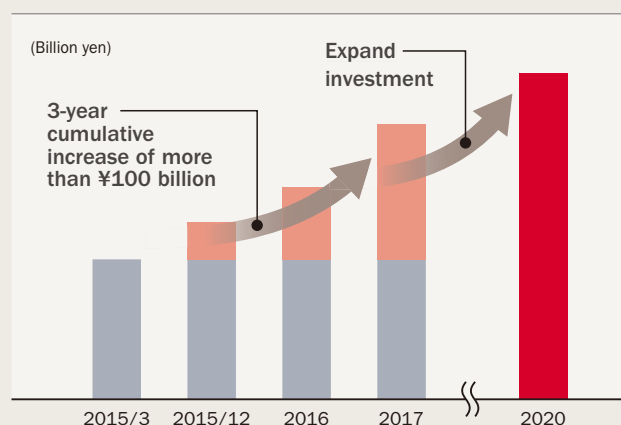


Figure 4: Center of Excellence Concept



investment in brand innovation and growth markets and to conduct aggressive capital investments including renewal of sales counters for our core brands. We plan to support our aggressive targets for sustainable growth in 2016 with capital expenditures totaling ¥73.8 billion (Figure 5).

Cost structure reforms are generating savings that are helping fund our investments in growth, and our progress exceeded plan during 2015. We expect to reduce costs by ¥30 to ¥40 billion in the year ending December 2017 compared with the year ended March 2014. Our sights are set on generating a total of ¥60 billion in cost reductions for the three years ending 2017.

► For details, see CFO Norio Tadakawa on Shiseido's Financial Strategy (pages 24-25).

Creating an Organizational Culture and Nurturing Employees Who Drive Success

We must reform our organizational culture and leverage employee diversity to achieve the objectives of VISION 2020. I have been telling our people that there is no shame in failure as long as we take on challenges. Our people are gradually becoming open to giving it a try, and we are building an organizational culture that enables people to keep trying after errors. We will concentrate on unleashing the potential in each and every Shiseido employee and on creating a culture in which teams and the organization focus on winning. We will also reassign our people internationally and provide training opportunities to nurture managers who excel on a global level.

► For details, see Nurturing People Who Can Win Worldwide (page 58).

Committed to Taking on Challenges

We also need to enhance governance globally. We have created meetings so that the regional presidents and executive officers at headquarters can discuss and rapidly share global risks and opportunities, and to accelerate management decision-making.

► For details, see Corporate Governance (pages 64-73).

Committed to Numerical Targets

We are committed to reaching all of our numerical targets for the year ending December 2017 in order to achieve the objectives of VISION 2020 (Figure 6). Our operating environment will be as fluid as ever during the year ending December 2016, but we will build our strength by aggressively investing and by implementing additional reforms to ensure sustainable growth.

VISION 2020 is designed to ensure that Shiseido will remain vital for the next 100 years. We can only achieve this if we increase the value of Shiseido's brands globally. I am convinced that we can do this if our employees worldwide tap into the enduring strengths we have acquired during our history of more than 140 years and always focus on winning with a consumer orientation. We want to transform "from a leader in Japan to a winner worldwide," and will continue to take on challenges to achieve the objectives of VISION 2020. We invite you to share our expectations for success.

Figure 5: Aggressive Capex to Achieve Medium- and Long-Term Growth

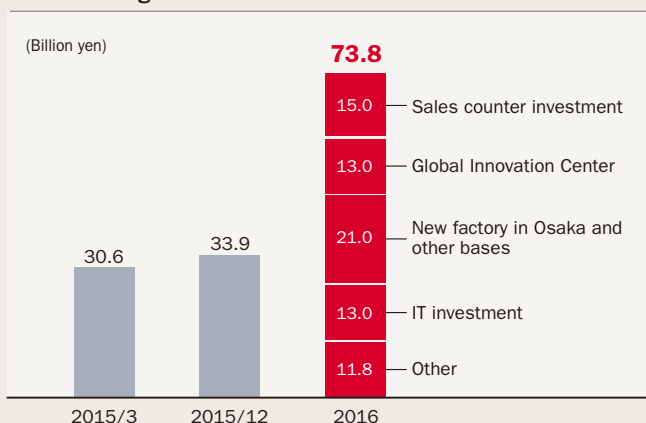
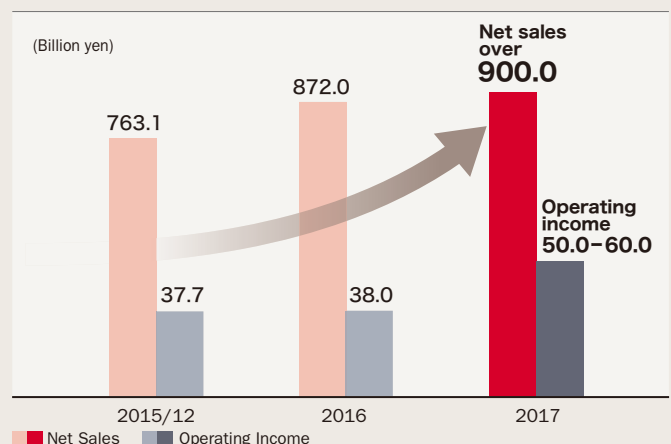


Figure 6: Numerical Targets up to 2017



Notes: 1. As a transitional period, the period ended December 2015 is the 9 months from April to December 2015 for Shiseido and its consolidated subsidiaries in Japan and the 12 months from January to December 2015 for all other subsidiaries.
2. Outlook for the year ending December 2016 is as of February 9, 2016.

CFO Norio Tadakawa on Shiseido's Financial Strategy



Shiseido Is Building a Solid Management Foundation and Increasing Capital Efficiency to Achieve the Objectives of VISION 2020

Norio Tadakawa
Corporate Officer
Shiseido Group CFO

Transition to Growth

We got off to a good start in 2015, the first year of VISION 2020. Increasing sales was a top priority, and we generated 5 percent period-on-period growth on a real basis excluding extraordinary factors such as the rebound from the drop in demand caused by the consumption tax hike and inbound demand. Shiseido had been unable to generate growth since the financial crisis of 2008, so our transition to growth in the first year of VISION 2020 represents a major achievement. We also established a virtuous cycle for earnings in which aggressive investment supported sales growth and we generated earnings that exceeded outlays. Now, our challenge is to maintain and increase this growth momentum.

Business Structure Reforms

We are implementing business structure reforms to generate capital for investing in growth. Our target for the year ending December 2017 is cost reductions of ¥30 to ¥40 billion compared with the year ended March 2014.

compared with the year ended March 2014, with a total of about ¥60 billion for the three years ending December 2017. Results were good for the year ended December 2015: We reduced costs by ¥7.5 billion, exceeding our plan of ¥4 billion. We will continue to execute initiatives worldwide, conducting reforms that extend to our organizational structure and businesses (Figure 1).

A More Sophisticated Financial Strategy

We are also seeing clear progress in enhancing management precision since shifting in 2015 to a system under which I coordinate with regional CFOs. This is exemplified by our success in enabling timely understanding of expenses and earnings. In January 2016, we launched a management system that links brands and regions. Our aim is to make further progress in raising return on investment (ROI) for marketing and other investments. We will also enhance information disclosure by disclosing results in new reportable segments by region to ensure accountability

Figure 1: Business Structure Reforms



Figure 2: Achievements in 2015 and Initiatives for 2016

2015	2016
Structural Reform <ul style="list-style-type: none"> Commitment from regional CFOs Results surpassed plan 	Structural Reform <ul style="list-style-type: none"> Initiate radical reforms in Europe Decisive business structure reforms
Enhanced Management Precision <ul style="list-style-type: none"> Standardized P/L worldwide Unified operation of global finance organization Consistent fiscal periods enabled flexible redeployment of resources 	Fully Implement Regional Management <ul style="list-style-type: none"> Increase accountability Enhance information disclosure with new segments
	Strengthen Brand Management <ul style="list-style-type: none"> Increase marketing ROI by introducing and using global brand P/L management
	Increase Capital Efficiency <ul style="list-style-type: none"> Increase ROE, and accelerate the cash conversion cycle and asset turnover

under the global management system we launched at the beginning of 2016.

In addition, we will focus on increasing capital efficiency. We are implementing reforms that link supply chain management with stores to handle inventory more efficiently and shorten our cash conversion cycle (Figure 2).

Approach to Debt-Equity Balance

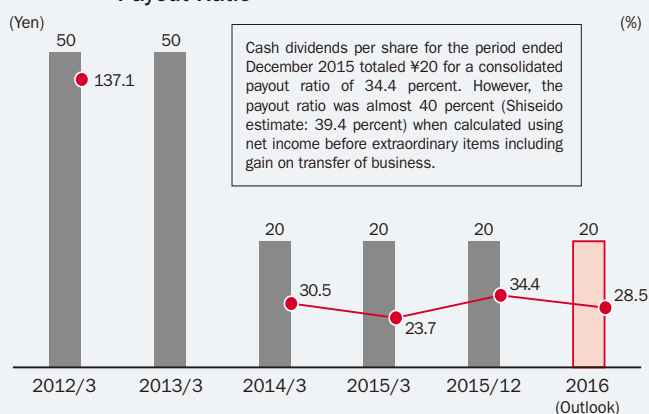
We will make decisions about the balance between assets and liabilities in light of capital costs, recovery period and other characteristics of capital available for investment, the market environment, and operational status. We also have the benchmarks of 25 percent for the interest-bearing debt ratio and a 1:1 ratio of interest-bearing debt to EBITDA so that we can maintain favorable access to funding for attractive projects.

The ratio of interest-bearing debt to EBITDA as of December 31, 2015 was 0.8 times, indicating that we have rebuilt a strong financial base. We will expand investment to aggressively pursue sustainable growth.

Shareholder Returns

Our total shareholder return policy targets returns to shareholders directly through dividends and by generating medium- and long-term share price gains. We will also conduct share buy-backs if we consider them appropriate in light of free cash flow and the market environment. This policy is our basis for making strategic investments that drive earnings growth and increase corporate value. Shiseido's goal for returns over the medium term is a consolidated payout ratio of 40 percent, with stable, consistent dividends supported by earnings growth (Figure 3).

Figure 3: Cash Dividends per Share and Consolidated Payout Ratio*



*Not presented for the year ended March 2013 because of the net loss

2016 Outlook (As of February 9, 2016)

We expect an uncertain operating environment during the year ending December 2016 due to factors including the deceleration of China's economy; fluctuations in the foreign exchange, stock and oil markets; and movements in the U.S. economy. However, we will continue to invest aggressively in marketing and to implement structural reforms that rebuild our business foundation and ensure growth over the medium to long term.

We forecast net sales of ¥872.0 billion, a 3 percent increase year on year on a local currency basis. We are targeting increased growth in every region we serve, but factors such as the expiration of a fragrance brand license agreement may impact results.

Earnings will be subject to positive factors including the effect of structural reforms and increased marginal income due to higher sales, but we will also make bold investments centered on marketing. In addition, we will implement additional contingency measures at a cost of ¥5.5 billion in light of concerns about the rapid slowdown in the global economy at the beginning of 2016. We forecast operating income of ¥38.0 billion, a 12 percent decrease year on year on a local currency basis, and net income attributable to owners of parent of ¥28.0 billion.

Results for the Period Ended December 2015 and Outlook for the Year Ending December 2016

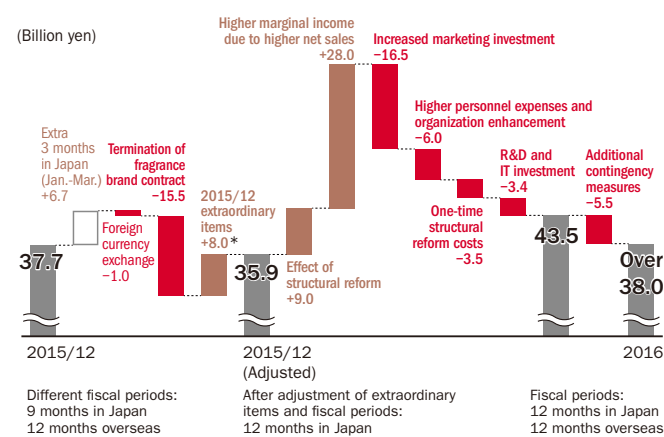
(Billion yen)	2015/12	2015/12 (Adjusted)	2016/12 (Outlook)	Change from 2015/12 (Yen basis)	Change from 2015/12 (Adjusted)* (Local currency basis)
Net Sales	763.1	863.3	872.0	1.0%	3%
Operating Income	37.7	44.3	38.0	(14.3%)	(12%)
Extraordinary Gain	5.3	—	6.0	(32.1%)	—
Net income Attributable to Owners of Parent	23.2	29.5	28.0	(5.0%)	—
ROE	6.0	—	7.0	—	—

Exchange Rates for Major Currencies

Period Ended	Year Ending
December 2015	December 2016 (Outlook)
USD 1 = JPY 121.1	USD 1 = JPY 119
EUR 1 = JPY 134.3	EUR 1 = JPY 130
CNY 1 = JPY 19.2	CNY 1 = JPY 18

* For comparison purposes, figures for the period ended 2015 have been adjusted to a 12-month period ended December 31, 2015 for Japan and overseas to correspond with the year ending December 2016. 2016 outlook and change from 2015/12 (adjusted) on a local currency basis are based on exchange rate estimates as of February 9, 2016.

Year Ending December 2016: Breakdown of Changes in Operating Income Outlook



* China distribution & inventory reform: +5.0
Accelerated structural reform: +3.0



Feature

Our Global Management Organization Is Fully Operational

Think Global, Act Local

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38 Growth Strategy by Brand

30 Growth Strategy by Region



2016: Our global management organization with six regional headquarters has begun.

The Leaders of the Six Regional Headquarters



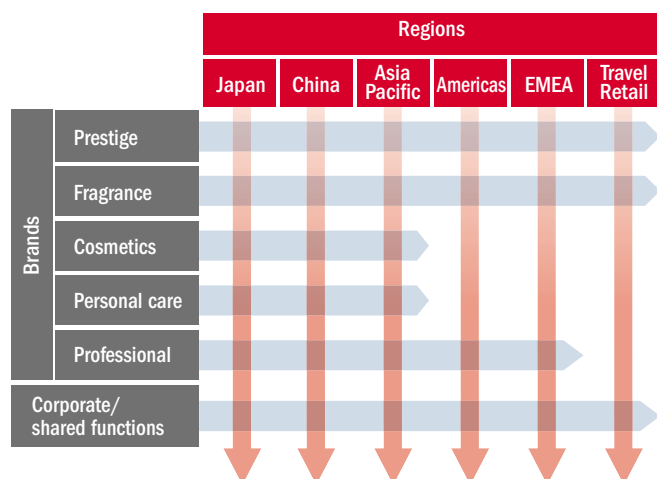
(From left) Louis Desazars, President & CEO, Shiseido EMEA; Jean-Philippe Charrier, President, Shiseido Asia Pacific; Shiseido Group CEO Masahiko Uotani; Toru Sakai, President & CEO, Shiseido Japan; Marc Rey, President & CEO, Shiseido Americas; Philippe Lesné, President, Shiseido Travel Retail. Currently, the China regional headquarters does not have a president or CEO. Instead, Shiseido has established a project under the direct control of Shiseido Group CEO Uotani to reform the China business.

Our global management organization became fully operational in 2016. As the key to becoming a global beauty company, this new management organization is built on the concept of Think Global, Act Local, which involves tailoring activities to particular regions and markets while conducting Groupwide management with a global perspective. We now have an organization matrix comprising five brand categories based on consumer purchasing style and six regions. This organization gives leaders in each region broad responsibility and authority for marketing, finance and other

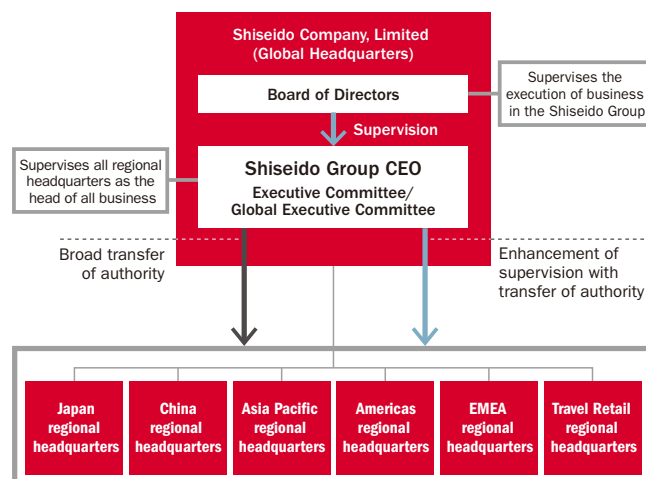
aspects of management related to sales and profits. It will enable appropriate marketing activities and flexible decision-making in each region, thus enhancing our ability to address changes in consumer purchasing style and markets. It will also establish a foundation that enables each region to generate profit.

This feature provides an overview of regions and brand categories, and regional and brand leaders' explanations of their strategies for the future.

Global Management Organization with Region and Brand Vectors



Governance Structure for Regional and Global Headquarters



Overview of the Region × Brand Global Management Organization

Overview of Regions

Core Brands

Japan

The market is growing moderately, supported by inbound demand. Shiseido markets through a wide array of channels including drugstores, cosmetics specialty stores and department stores, and has a particularly strong presence in the prestige and cosmetics categories.

SHISEIDO
GINZA TOKYO

clé de peau
BEAUTÉ

ELIXIR

MAQUILLAGE

ANESSA

TSUBAKI

China

This market is growing at a mid-single-digit rate, and the number of cosmetics users is forecast to increase further. E-commerce is an expanding channel. Shiseido began doing business in China in 1981, and sells its global brands in the prestige category and mainly its dedicated China brands in the cosmetics and personal care categories.

SHISEIDO
GINZA TOKYO

clé de peau
BEAUTÉ

AUPRES
歐珀萊

urara

ZA

TSUBAKI

Asia Pacific

The cosmetics market is growing, backed by the expanding middle-income consumer segment. Shiseido does business in a broad array of categories from prestige to cosmetics and personal care, and has established a powerful position in Taiwan, Thailand, Vietnam and elsewhere.

SHISEIDO
GINZA TOKYO

clé de peau
BEAUTÉ

NARS

ZA

思科

Americas

The makeup category has recently been growing in the world's largest cosmetics market. Shiseido focuses on marketing products in the prestige category including NARS and bareMinerals, which is the number-one foundation in the United States. Shiseido suncare holds the number-one position in department stores. Channels include department stores and cosmetics specialty stores.

SHISEIDO
GINZA TOKYO

bareMinerals

NARS

clé de peau
BEAUTÉ

JOICO
the joy of healthy hair

narciso rodriguez
PARFUMS

EMEA*

Moderate overall market growth. Shiseido focuses on the prestige and fragrance categories in marketing through channels that include department stores and perfumeries.

* Europe, Middle East and Africa

SHISEIDO
GINZA TOKYO

NARS

ISSEY MIYAKE
PARFUMS

narciso rodriguez
PARFUMS

ELIE SAAB
PARFUMS

Travel Retail

The number of tourists is increasing with the globalization of economies, manufacturing and culture, with particularly strong market expansion in Asia. Shiseido is steadily expanding this business by increasing the number of counters at locations including airport duty-free shops.

SHISEIDO
GINZA TOKYO

clé de peau
BEAUTÉ

bareMinerals

NARS

Overview of Brand Categories

Core Brands

Prestige

Mainly high-priced skincare and makeup products sold with beauty consultant counseling, primarily in department stores and cosmetics specialty stores.



- SHISEIDO
- clé de peau BEAUTÉ
- bareMinerals
- NARS
- BENEFIQUE

Fragrance

Collaboration with famous designers and brands to sell high-priced fragrances that enable consumers to achieve their own style.



- ISSEY MIYAKE
- narciso rodríguez
- ELIE SAAB
- Azzedine Alaïa

Cosmetics

Mid- and low-priced cosmetics that consumers select themselves, primarily sold in drugstores and general merchandise stores.



- ELIXIR
- ANESSA
- MAQUILLAGE
- Za
- HAKU
- AUPRES
- AQUALABEL
- urara

Personal Care

Low-priced skincare cosmetics, shampoo and other haircare products, as well as body care products, primarily sold in drugstores and general merchandise stores.



- TSUBAKI
- SENKA
- SEA BREEZE

Professional

Sales of hair care and styling agents, hair color products and technical merchandise for hair salons. Also operates beauty salons in Japan and Thailand.



- SHISEIDO PROFESSIONAL
- JOICO

Japan

We will achieve sustainable growth through consumer-oriented marketing.

Mid- and High-Priced Brands Are Solid, Low-Priced Brands Need Work

The Japan Business was the key to rejuvenating Shiseido during the period ended December 2015. Store sales increased 16 percent period on period, exceeding market growth of 8 percent. This solid progress in generating growth was the result of brand innovation and the success of bold marketing reforms with a total consumer orientation. The “two-year wall” is a key performance indicator for us, and we overcame it. Our aggressive initiatives to capture inbound demand also succeeded.

By brand, sales grew substantially in the prestige category, with sales of *SHISEIDO* increasing 43 percent period on period and sales of *clé de peau BEAUTÉ* increasing 36 percent. Mid-priced brands also performed well, with steady growth in sales of core brands *ELIXIR* and *MAQUILLAGE*. Although sales in the mid- and high-priced categories grew steadily, in the low-priced cosmetics category, we are working to strengthen brands such as *AQUALABEL* and *INTEGRATE*, which lost share and require action.

Brand Selection and Concentration and Continued Increases in Marketing Investment

We will strengthen our mid- and high-priced categories during the year ending December 2016 while intensely nurturing



Toru Sakai
President & CEO, Shiseido Japan

Sales plan for the year ending
December 2016

¥406.0
billion
(+3 percent year on year)

low-priced brands and implementing brand selection and concentration. By 2020, we aim to have a portfolio of 15 brands that account for 90 percent of sales. Concurrently, we will continue increasing marketing investment to ensure sustainable growth in the Japan Business.

In the mid- and high-priced categories, we initiated new brand communication that included the launch of innovations for *SHISEIDO* in January 2016 and the successive opening of new sales counters. For low-priced brands, we will enhance promotions for the cosmetics brands *AQUALABEL* and *INTEGRATE*. We separated the personal care category from the cosmetics business in April 2015, and are now enhancing its marketing and management organization. Specifically, we will continue to nurture *TSUBAKI*, and plan to strengthen investment in advertising for the solid *SENKA* brand, among other initiatives. In addition, we moved *MA CHÉRIE*, *AG Deo 24* and *uno* from the cosmetics category to the personal care business. We expect this change in commercial distribution to increase consumer points of contact due to the increase in retail outlets that handle these products.

Borderless Marketing to Capture Inbound Demand

Inbound demand is growing steadily with the influx of tourists visiting Japan. We therefore plan to enhance consumer care in ways such as continuing to increase the number of beauty consultants in department stores and dispatching interpreters.

Through our subsidiary THE GINZA Co., Ltd., which sells cosmetics at locations including airport duty-free shops in Japan, we are boosting in-flight sales and sales volume at downtown duty-free shops, and plan to capture strong inbound demand by expanding duty-free counters, adding beauty consultants and growing our directly owned SHISEIDO THE GINZA store.

A key recent market trend is that national markets are no longer discrete. We need to

look at Japan, China, Taiwan and Southeast Asia as a single market and move quickly to establish borderless marketing that addresses consumer movement.

Aiming for Market Leadership through Unified Operations and the One Japan Concept





















In October 2015 Shiseido spun off a portion of the domestic cosmetics business to Shiseido Sales Co., Ltd., which we renamed Shiseido Japan Co., Ltd. As a result, we eliminated the sales company system we had used for about 90 years in favor of a Japan regional headquarters with a unified organization including corporate functions such as marketing, personnel, information technology and finance. Our objective is to be a company that is consumer-oriented in everything it does – we want to symbolize

the new Shiseido. We will create a comprehensive organization in which marketing and sales unite to share information including consumer needs and reactions and can discuss and make decisions quickly.

In addition, we launched a trade marketing organization in 2016 and have started making sales counter proposals for drugstores, general merchandise stores and other major retailers based on analysis of big data including POS data to strengthen category management.

Unbound by convention, we will build a unified, consumer-oriented organization and business model to spur Shiseido's growth and create corporate value. We call this the One Japan concept, under which all employees will fulfill their mission as marketers to drive Shiseido to the number-one market position in Japan by 2020.

Period-on-Period Change in Store Sales and Market Share by Brand for the Period Ended December 2015

	Period-on-period change in store sales	Period-on-period change in market share		Period-on-period change in store sales	Period-on-period change in market share
	+43%			+58%	
	+36%			+34% (Wholesaler shipments)	
	+14%			+5%	
	+15%			+7%	
	+57%			-22% (Wholesaler shipments)	

Data source: Japan Business period-on-period store sales (retail basis): actual results for Apr.-Dec. 2015. Period-on-Period comparison of share by brand and category in Japan: actual results for Apr.-Dec. 2015 (SRI basis); *TSUBAKI* and *SENKA*: actual wholesaler shipments. *SHISEIDO* and *clé de peau BEAUTÉ* brands: share of department store sales.

Note: Wholesaler figures for *TSUBAKI* from April to December 2015 were low because shipments were brisk at the time the brand was renewed in March 2015.



ELIXIR

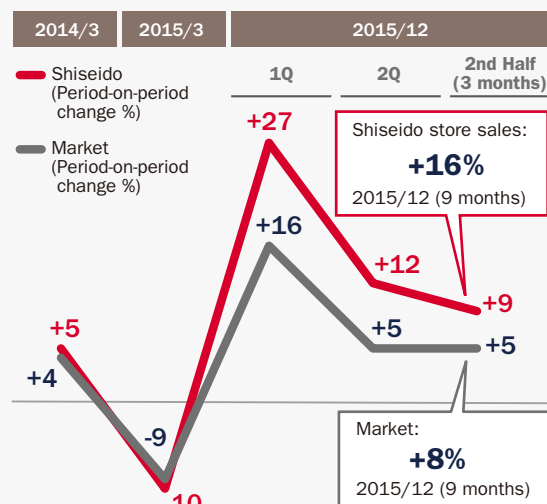


INTEGRATE



SENKA

Period-on-Period Change in Domestic Store Sales: Market vs. Shiseido



Note: The substantial period-on-period change is due to the surge and subsequent pullback in demand ahead of and following the consumption tax hike in April 2014, respectively.

China

We will leverage the Group's comprehensive strength and restructure our business to get back on a growth trajectory.

A Market with Excellent and Enduring Potential

The deceleration of China's economy is a cause for concern, but China's cosmetics market is forecast to continue growing at a mid-single-digit rate. The upper middle class will grow over the medium to long term, which will support an increase in cosmetics consumption. The Chinese market continues to have excellent potential despite intensifying competition from global peers and emerging local and Korean brands.

Sales in the cosmetics category were down in the period ended December 2015, but we were able to significantly increase store sales of prestige brands including SHISEIDO and *clé de peau BEAUTÉ*. E-commerce and personal care sales were also strong. In addition, store inventory optimization continued from the previous year, and we accelerated our conversion from a sell-in to a sell-out business model.

In the year ending December 2016, we will continue to build on our strength in the prestige category and enhance e-commerce while reengineering the cosmetics business. Restructuring the cosmetics business organization and restoring the China-only brand *AUPRES* are urgent priorities for the fundamental recovery of the China business. We will leverage the Shiseido Group's strengths to prepare for renewed growth.



Kentaro Fujiwara
Chairman & President,
Shiseido China Co., Ltd. (left)

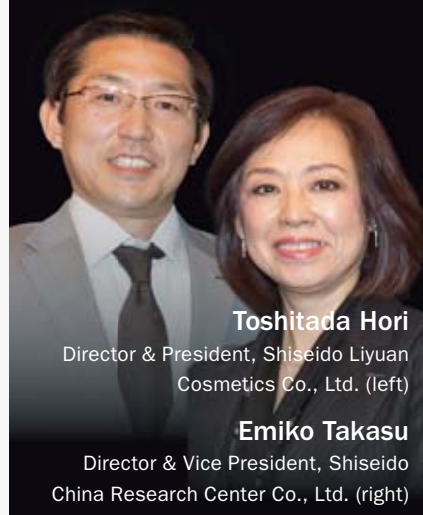
Morgan Tan
President, Shiseido Hong
Kong Co., Ltd. (right)

Sales plan for the year ending
December 2016

¥130.5
billion

(+10 percent year on year)
(+4 percent year on year excluding
extraordinary factor*)

* Reduced sales due to the policy for optimizing
store inventory levels implemented in the
period ended December 2015



Toshitada Hori
Director & President, Shiseido Liyuan
Cosmetics Co., Ltd. (left)

Emiko Takasu
Director & Vice President, Shiseido
China Research Center Co., Ltd. (right)

Strength in the Prestige Category and E-Commerce

Strong trust in products made in Japan is backing sales growth in the prestige category. We will continue implementing our growth strategy through ongoing investment.

In addition, our sales channels are rapidly shifting from brick-and-mortar stores to e-commerce. E-commerce sales increased about 60 percent year on year during the period ended December 2015 and account for 15 percent of China business sales. We are enhancing the linkage between digital marketing and retail malls so that e-commerce increases to over 30 percent of sales in China by the year ending December 2020.

Restructuring the Cosmetics Business by Reforming Our Organization and Strengthening Brands

We amended our sales organization for the cosmetics category in 2015, but sales decreased due to temporary organizational disruptions. We subsequently innovated our management structure, revamped our sales organization, retained veteran employees, recruited new employees and implemented other initiatives that have essentially normalized operations. In the year ending December 2016, we plan not to appoint a president or CEO for the China regional headquarters. Instead, we

have established a project under the direct control of Shiseido Group CEO Uotani to reform the China business. While continuing to reform our organization and personnel system, we will strengthen internal communication over time to ensure that all employees share the same mindset.

In addition, we are strengthening cooperation with distributors and cosmetics specialty stores through initiatives that have included holding seminars and consultation meetings for store proprietors at about 30 locations throughout China attended by some 1,500 people. We are also reinforcing our product lineup with a focus on the *urara* and *PURE&MILD* brands.

Incorporating Consumer Needs to Rejuvenate the AUPRES Brand

AUPRES is a brand for Chinese department stores that has been popular with local consumers for more than two decades.

In recent years, however, the brand's appeal has not been fully conveyed due to factors such as a decrease in marketing investment. This has caused sales to decline. We want to understand consumer anew, so we are conducting detailed analyses of changing consumer preferences and needs and using them as the basis for a brand renewal. As a new approach to brand communication through our consumer interface, we are renewing sales counters and beauty consultant uniforms. In addition, initiatives to provide even better counseling include enhancing skin measuring equipment. Moreover, we plan to innovate the visual elements of our advertising to highlight the value of our brands to consumers again. In our sales channels, we are reviewing the current number of counters at department stores and promoting a retail store strategy that increases points of consumer contact by addressing the needs of upper middle-

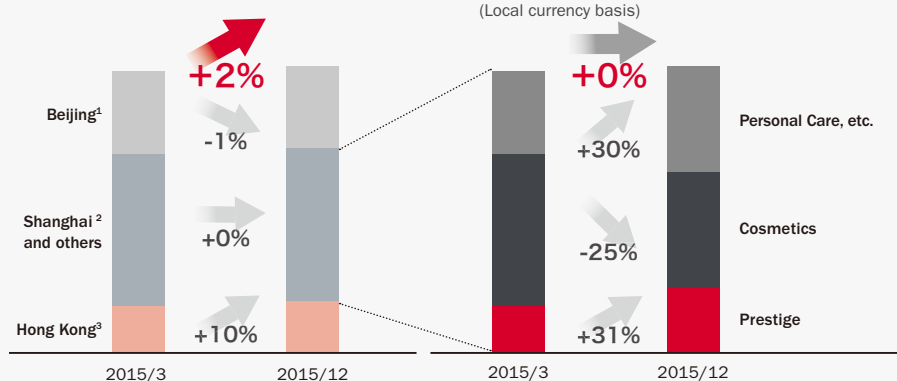
class consumers in ways such as advancing into new channels. We are also collaborating with the China Innovation Center to better align product development with market characteristics.

Strengthening Collaboration throughout China to Once Again Drive Growth for the Shiseido Group

The China business has underpinned Shiseido's Global Business and still has outstanding potential for growth. In addition to sales, we handle a variety of functions including production, R&D and procurement, so we are promoting collaboration among various teams under a China business reform project. We intend to succeed at reforming our organization and rebuilding our brands so that the China business once again drives growth for the Shiseido Group.

Sales in China by Company

(Local currency basis)



1. Shiseido Liyuan Cosmetics Co., Ltd., subsidiary handling AUPRES in mainland China
2. Shiseido China Co., Ltd., subsidiary handling all brands except AUPRES in mainland China
3. Shiseido Hong Kong Cosmetics Ltd., subsidiary in Hong Kong

Renewal of AUPRES Brand Communication



New sales counter



AUPRES



urara



PURE&MILD

Asia Pacific

Stronger regional marketing will raise our profile.

Expanding Our Market Presence by Addressing Local Needs

Backed by high growth potential in Asian markets, sales and operating income grew strongly for the Asia business in the period ended December 2015. Sales remained solid in Singapore, Malaysia and Vietnam, and grew steadily

in Taiwan and South Korea. In addition, enhanced initiatives in the professional business drove sales increases for hair color and hair care products.

In the year ending December 2016, we intend to continue accelerating growth in the prestige category, which includes the *SHISEIDO*, *clé de peau BEAUTÉ* and *NARS* brands. We will also focus on nurturing mid-

priced cosmetics and personal care brands such as *Za* and *SENKA* for the growing middle-class demographic, while stepping up collaborative initiatives with retailers.

Further enhancement of marketing has become a priority with increased investment in Asian markets by competing brands in recent years. We established Shiseido Asia Pacific Pte. Ltd. in Singapore

Americas

We will increase profitability by refocusing our resources and unleashing our talents to enhance the power of our brands.

SHISEIDO and *NARS* are Drivers

Our top priority is to enhance the power of our brands and expand market share in the Americas, which comprise the world's largest cosmetics market. We will focus our efforts on further expanding our presence in this highly competitive market.

Net sales in the Americas increased 4 percent year on year on a local currency basis in the period ended December 2015. The *bareMinerals* makeup brand accounts for about 40 percent of net sales. New products for this brand sold

well, but overall brand sales decreased because sales of the liquid foundation *BARESKIN* stagnated following a strong showing after the product's launch in 2014. The makeup artist brand *NARS*, however, drove growth in the prestige category supported by intensified digital marketing. In addition, sales of *SHISEIDO* skin-care and sun care products increased. According to a 2015 market survey in the United States, sales at Shiseido Group stores increased 8.3 percent overall year on year, exceeding the 7.7 percent growth of the U.S. market and placing Shiseido fourth in U.S. market share.*

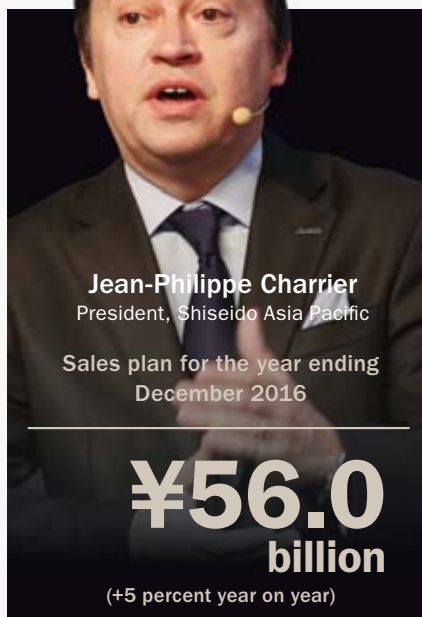
Structural Reforms to Increase Profitability

The Americas business is targeting year-on-year sales growth of 6 percent for the year ending December 2016. We will achieve this target by enhancing the power of the *SHISEIDO*, *clé de peau BEAUTÉ* and *NARS* brands in the prestige category. At the same time, we will execute two key initiatives. The first will be establishing integrated operations in the Americas to improve profitability. We will increase efficiency by integrating IT and other systems that had been separated by brand.

* Source: Dec. 2015 NPD Data Market Shares & Ranking 2014 YTD, Market Shares & Ranking 2015 YTD

in June 2015 to address such market trends. It is assuming authority from Japan headquarters for overseeing operations and brand marketing in the region. The broad transfer of authority to the region will accelerate decision-making and help us nurture brands that are popular with Asian consumers. We have also aggregated operations at a single office building in Singapore, which enables us to build a highly efficient organization with superb cost performance.

We will take full advantage of the benefits of the regional headquarters system to enhance the presence of Shiseido's prestige brands and focus on consumer-



Jean-Philippe Charrier
President, Shiseido Asia Pacific

Sales plan for the year ending
December 2016

¥56.0
billion
(+5 percent year on year)

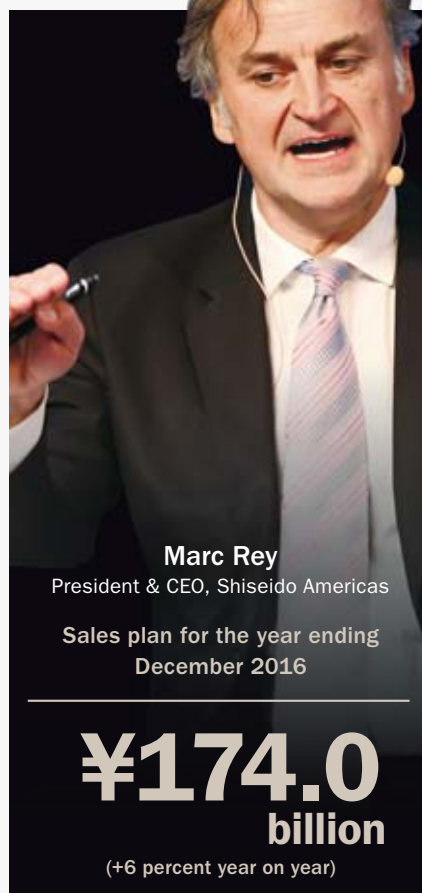
oriented marketing that addresses local needs, which will raise Shiseido's Asia Pacific profile.



Za is a brand for middle-class consumers in Asia

The second initiative will be restoring the growth potential of Bare Escentuals, Inc.'s *bareMinerals* brand, which is essential to ensuring steady growth in the U.S. market. In the big picture, *bareMinerals* is an extremely powerful brand. It is the third largest specialty makeup brand in the U.S. market and has the top share of the country's foundation market. Ninety percent of U.S. consumers know it and 40 percent have used it. We will initiate radical reforms to build an organization that can leverage this powerful brand. We will review our marketing strategy and restructure channels such as our own stores, department stores, mail order and e-commerce in order to adapt to changing markets and consumers. In addition, we plan to construct a comprehensive system for operating costs and other components by carefully reviewing the status of each.

Embracing the spirit of One Shiseido, we



Marc Rey
President & CEO, Shiseido Americas

Sales plan for the year ending
December 2016

¥174.0
billion
(+6 percent year on year)

will further enhance and optimize our powerful brands for the consumers in our region, and reform our organization to ensure strong growth and improve profitability.



bareMinerals new skincare line

EMEA*

Our objective is to establish a unified business structure within the EMEA region to enhance our competitiveness.

Continuously Increase Brand Strength and Develop Products That Meet Regional Needs

The EMEA business serves the extensive region of Europe, the Middle East and Africa (EMEA), which is an incredibly diverse and intensely competitive market. We aim to achieve stable growth and profitability based on the fragrance and prestige businesses. Sales of Beauté Prestige International S.A.'s designer fragrances, including *ISSEY MIYAKE* and *narciso rodri-guez*, increased during the period ended December 2015. The market environment was challenging for *SHISEIDO* in Germany, Switzerland and elsewhere, but *ULTIMUNE*

* Europe, Middle East and Africa

sales and sales of mascara developed using feedback from European consumers were strong.

Two Issues in Increasing Profitability

We have begun to tackle two issues. The first is strengthening our fragrance brands and acquiring new ones. The other is establishing the regional headquarters system. Doing so will transform our organization so that it generates stable earnings.

Strengthening Fragrance Brands and Acquiring New Ones

Beauté Prestige International's fragrance business represents about half of EMEA business sales, and has outstanding growth potential. The expiration of the Jean Paul Gaultier license agreement during the period ended December 2015 will cause a temporary drop in sales. However, we will enhance our brand portfolio in ways such as nurturing existing brands and strengthening our distribution business while searching for new brands. In addition, we are targeting further growth by expanding marketing investment.

Travel Retail

We will continue to grow rapidly with a focus on Asia through aggressive initiatives.

Contributions from Sales Counter Increases and Development of Dedicated Products

The Travel Retail business is one of Shiseido's most profitable operations and has exceptional potential for growth. Net sales for the period ended December 2015 increased more than 20 percent year on

year. Driven by Asia, this result was due to aggressive measures led by the Travel Retail headquarters based in Singapore to serve the significantly higher number of Asian tourists. On the other hand, sales in Europe and the Americas were stagnant due to factors including geopolitical uncertainties, so we have issues to resolve.

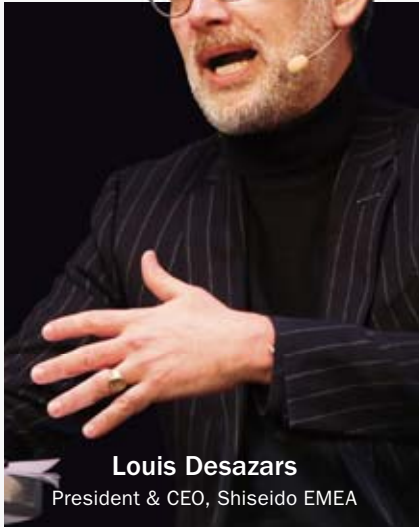
In the year ending December 2016 and after, we will continue to aggressively open sales counters for *SHISEIDO*, *clé de peau BEAUTÉ* and other brands. We will also strengthen store activities by adding beauty consultants and providing consumer care training. In addition, we plan to enhance advertising in airports and inflight

Establishing a Unified Business Structure

We are now implementing the structural reforms for our business model and organization that we had been unable to initiate previously. The cosmetics business and Beauté Prestige International's fragrance business have operated under separate management. However, after extensive discussion with managers in each business and region, we have decided to integrate our organizations to generate synergies within the Shiseido Group.

The first step will be consolidating offices in each country to integrate sales and IT systems and employ shared services. We will also integrate businesses in ways such as managing all brands within a single organization. In addition, we will establish a system of integrated management for all businesses in the EMEA region, with a president deployed in each country. We also plan to consolidate several existing logistics centers.

Integration will require management and



Louis Desazars
President & CEO, Shiseido EMEA

Sales plan for the year ending
December 2016

¥87.0 billion
(-14 percent year on year)
(+11 percent year on year excluding extraordinary factor*)

* Reduced sales due to the expiration of the Jean Paul Gaultier license agreement

employees to share the same mindset. It will be based on a general consensus, with common goals and shared understanding arrived at through close consultation with employee representatives. We intend to energize the entire European organization through marketing investment funded by cost reductions from efficiencies that integration will provide.


Our objective is to unify and grow Shiseido's EMEA business by building a foundation for the future and taking on challenges with unflagging speed to solidify our position in European markets.



narciso rodriguez

magazines, and expand the lineup of dedicated products tailored to the needs of travelers. These initiatives will further accelerate growth with a focus on Asia.

The Travel Retail business is global, with strategic bases in Asia, Europe and the Americas. As such, we aim to understand the needs of consumers around the world and increase the value of Shiseido's brands globally.



Philippe Lesné
President,
Shiseido Travel Retail

Sales plan for the year ending
December 2016

¥18.5 billion*
(+10 percent year on year)

* Excluding fragrance sales and travel retail sales in Japan



clé de peau BEAUTÉ counter at an airport duty-free shop



ULTIMUNE dedicated travel retail item

SHISEIDO

We have begun a new stage, with empathy as the theme for brand renewal.

Substantial Growth in 2015

SHISEIDO, the Shiseido Group's core brand, is available in 88 countries and regions. Sales of this brand increased 9 percent year on year in 2015. As shown in the diagram below, sales grew in all markets, steadily increasing market share. The beauty serum *ULTIMUNE* drove growth. Launched in September 2014, it has become a symbol of SHISEIDO. We focused on the immunological capabilities of the skin in developing *ULTIMUNE*, which has benefited from unified global marketing. Consumers worldwide are praising *ULTIMUNE* and sales are strong in its second year on the market.



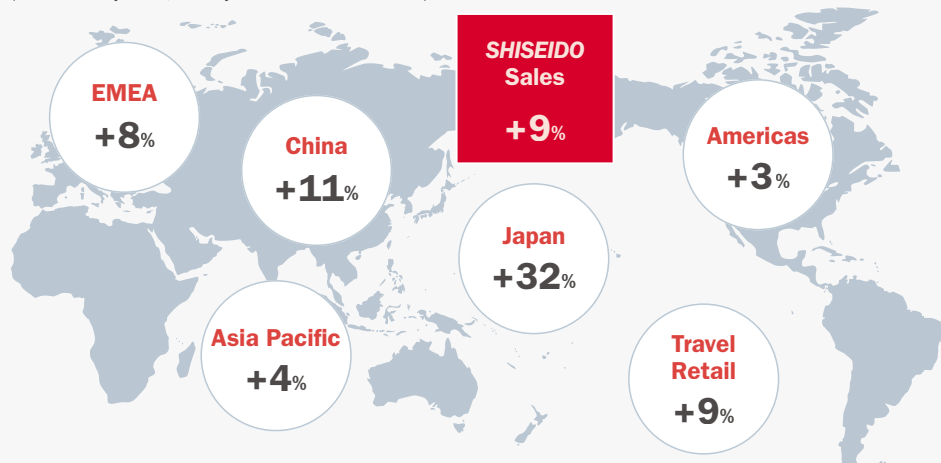
Comprehensive Brand Innovation

In January 2016, we began a comprehensive innovation for SHISEIDO to build its value worldwide. Based on our conviction that beauty creates empathy and has the power to make a better world, we are innovating products, store counters and communications such as advertising to create empathy with consumers worldwide and increase brand value.

We have also classified product functions according to the four newly defined approaches of Defend, Regenerate, Reveal and Express to more clearly communicate the role of each product to consumers. Complementing *ULTIMUNE* and its ability to defend the beauty of skin, in

Year-on-Year Growth in Shipments of SHISEIDO

(Local currency basis, January 2015 to December 2015)



ULTIMUNE



Innovative advertising visual designed to create empathy with a diverse array of consumers

March 2016 we launched our first brand innovation, a new foundation that reveals the beauty of skin.

We have innovated our interface with consumers at store counters, transforming from a face-to-face to an open style. Based on the theme “treasure every encounter, for it will never recur,” we will successively give our counters around the world a Japanese sense of beauty, achieving an *omotenashi* style that suits consumers living in this social era.

Moreover, we will elicit empathy from diverse consumers worldwide by employing creative directors and photographers who are successful worldwide and models who embody inner beauty to convey messages that celebrate the diversity of beauty. We have also innovated the brand logo by adding references to Shiseido’s birthplace in Ginza, Tokyo and expressing the soul of the brand.

Brands That Create Empathy with Consumers

Our communication with consumers will evolve further as a result of the recent brand innovations. We will create empathy with many people and effectively nurture *ULTIMUNE* as a core item that builds *SHISEIDO* from a brand with annual sales of ¥100 billion into a brand with sales of more than ¥150 billion by 2020. Innovating *SHISEIDO* is the first step toward ensuring that Shiseido will remain vital for the next 50-100 years. We will build a solid position for *SHISEIDO* as the global representative brand of the Shiseido Group. You can count on it.



A *SHISEIDO* social counter innovated for empathy and experiential value



Synchro Skin Lasting Liquid Foundation, a new creation in our first round of brand innovations



Value Creation Section

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58 Nurturing People Who Can Win Worldwide



The Value Creation Process to Achieve Beauty



Consumer-Oriented Research and Development

Our R&D emphasizes the creation of experiences that resonate with consumers far more than those from tangible craftsmanship. Specifically, we consider how we can give consumers heartfelt satisfaction in ways beyond enhancing the functions and effectiveness of our products and services. We therefore emphasize research activities that provide insights into what consumers think and feel, transform those insights into realities, and communicate the resulting value.

Shiseido Advantages

- ▶ Nine research centers worldwide in five countries, including Japan
- ▶ Strong R&D capabilities cultivated over more than 100 years, centered on skin-brightening and anti-aging
- ▶ R&D activities aimed at heartfelt consumer satisfaction and integrated with marketing activities

Achievements during the Period Ended December 2015

- ▶ Concluded an agreement to expand collaboration with MGH/Harvard Cutaneous Biology Research Center (CBRC) of the United States.
- ▶ Opened the Shanghai Office of the China Research Center to strengthen collaboration with local marketing.
- ▶ Raised R&D expenses to ¥11.3 billion. (April–December 2015 in Japan, January–December 2015 overseas)

R&D Capabilities Nurtured over 100 Years

In 2016, Shiseido will celebrate 100 years since first opening a research facility. We have always developed high-quality products based on leading-edge dermatology and formulation development technology. In 1916, we established the Cosmetics Division and opened a testing room, which later expanded into the Shiseido Research & Development Lab and then into the current Shiseido Research Center. Shiseido R&D has always been a leader in driving progress, with research successes including numerous breakthroughs in the fields of skin-brightening and anti-aging. We have established research centers in regions worldwide since 2000 to promote product development that is aligned with the unique characteristics of consumers in each region. We will continue to address sophisticated and diversifying beauty needs to thrive over the next 100 years.

Shiseido R&D: 100 Years of Progress

1916

Opened a testing room in Ginza, Tokyo

With the opening of a separate store for the sale of cosmetics, a testing room was established largely to handle new product development and other responsibilities.



Testing room

1939

Opened the Shiseido Research & Development Lab

We made the testing room an independent research center to modernize the cosmetics business through scientific methods.



Shiseido Research & Development Lab

1968

Opened the Shiseido Research Labs (currently Shiseido Research Center) in Yokohama City

To enable rapid response to diversifying consumer needs, we expanded basic research beyond cosmetics products.



Shiseido Research Labs

1989

MGH/Harvard CBRC of the United States established

We initiated basic dermatological research, with scientists from a broad array of fields including biology and immunology collaborating with academia.



MGH/Harvard CBRC

2002

Opened a research center in China

Research into and product development for the cosmetic habits, skin and hair of Chinese consumers began.



MGH/Harvard CBRC

2014

Opened Shiseido cell-Processing and Expansion Center (SPEC®) in Kobe

We are promoting R&D with the objective of commercializing hair regenerative medicine for people who are experiencing alopecia and pattern baldness.

2018

New research center to open in the Minato Mirai 21 area of Yokohama City

We will strengthen basic and platform research to create new value and support future growth.

Strengthening Our Global R&D Organization

We are enhancing our research and development by expanding the scale of our nine research centers in five countries to create an organization that conducts R&D based on consumer insights in regions worldwide. We will therefore be better able to develop products that address local needs, and we will strengthen collaboration with local marketing.

We will also increase the number of research personnel worldwide from the current level of about 1,000 to about 1,500 by 2020, and raise the ratio of R&D expenses to net sales from the current 1.8 percent to 2.5 percent in 2020.

At the same time, we will focus on strengthening basic research at our centers in Japan to support future growth. We will therefore open the Global Innovation Center in Yokohama, Japan at the end of 2018. This new research center will accelerate innovation by bringing together a diverse group of researchers, knowledge and expertise from around the world.

Global Innovation Center



Image of completed facility (scheduled to begin operating at the end of 2018)

Overview

Location	Yokohama, Kanagawa Prefecture
Facility overview	14 stories above ground, 2 stories below ground
Site area	7,023 m ²
Total cost	¥30-¥40 billion (estimate)



The Global Innovation Center is a new research center that will create new value by conducting collaborative research into beauty and leading-edge technologies in various fields. A communication area on the first floor will be open to the public, symbolizing the facility's coexistence with the community.

Understanding What Resonates with Consumers

Understanding the culture and lifestyles of countries and regions is crucial to creating products and services that delight consumers worldwide and exceed their expectations.

We gain insights into consumers with surveys of preferences for the texture, color and fragrance of cosmetics and by considering skin condition, beauty consciousness and behavior, living

environment and other issues from perspectives including dermatology and cultural anthropology.

We also emphasize detailed studies of specific consumers because interviews, questionnaires and behavioral studies alone do not always provide complete understanding. Advances in neuroscience are now elucidating thought and perception processes and unconscious behavior, which formerly posed difficulties for scientific methodologies. We believe that brain research is an effective approach for creating resonant experiences for consumers because it can identify latent desires.

Life Science Research for the Future

Shiseido is a leader in skin-brightening technology in Japan and around the world. We excel in the key research fields of skin brightening and anti-aging, in which we have become an industry leader in life science by constantly elucidating novel skin mechanisms and developing highly active cosmetics ingredients. For example, we have developed four of the 20 active skin-brightening ingredients currently approved by Japan's Ministry of Health, Labour and Welfare.

Our aim is to provide value that meshes with consumer lifestyles. Backed by our accumulated technological capabilities, in recent years we have expanded from addressing specific consumer concerns such as dark spots and wrinkles to incorporating research in social sciences such as psychology and behavioral science, and began research in the interdisciplinary field of "emotions and skin."

In addition, we have committed to the field of regenerative medicine by opening the Shiseido cell-Processing and Expansion Center (SPEC®) in the Kobe Biomedical Innovation Cluster. This is our core research facility for commercializing hair regenerative medicine. SPEC® received official approval from the authorities in June 2015 for its cell manufacturing process. It will collaborate with medical institutions, primarily to promote research and development for hair regenerative medicine to treat alopecia and pattern baldness.



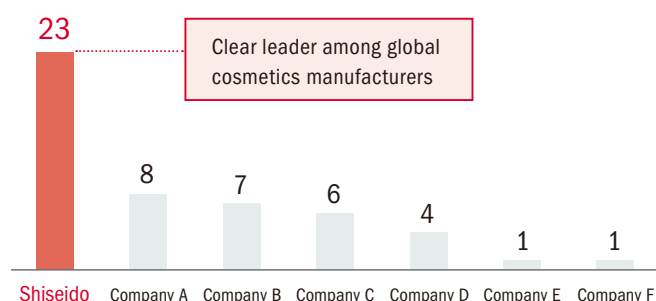
Dermal sheath cup cell

The Shiseido cell-Processing and Expansion Center (SPEC®), established in 2014, cultivates and processes cells to quickly achieve regenerative medicine for hair and other applications.

External Recognition

Shiseido continues to earn recognition for excellence at International Federation of Societies of Cosmetic Chemists (IFSCC) Congresses and Conferences, the most authoritative meetings in the cosmetic-related sciences. Shiseido has now won 23 IFSCC awards, including 19 top awards and 4 other awards, which is the most among cosmetics manufacturers worldwide. We will further enhance this technology to support the development of products with high added value that will engender global competitiveness.

Awards Received at IFSCC Congresses and Conferences
(As of May 2016)



Focusing on Safety

As a corporation that handles chemical substances, Shiseido places the highest priority on quality and safety, and has been conducting full-scale research into cosmetics safety since the 1960s. A particular current goal agreed to at the World Summit on Sustainable Development in 2002 is to use and produce chemicals in ways that minimize significant adverse effects on human health and the environment by 2020. With this goal in mind, Shiseido's fundamental stance is not to sell products that adversely impact human health or the environment, based on information it has collected regarding domestic and international regulatory trends and chemical substance safety, and the latest scientific knowledge.

Specifically, we strictly comply with the laws and regulations of the regions we serve, including Europe's REACH Regulation for controlling chemical substances, the nanomaterial regulations required for cosmetics in Europe, and plastic microbead regulations in the United States. As shown by our unilateral decision to stop using triclosan and other substances, we also discontinue use of substances legally approved for ingredients and switch to alternative substances on scientific grounds. Moreover, we do not use cosmetics ingredients judged to be genetically modified because a global consensus about their safety has not emerged.

We only use raw materials we are convinced are safe, and perform patch tests and actual usage tests supervised by dermatologists.

In these ways, we deliver high-quality products that we have carefully confirmed to be safe for humans and the environment.

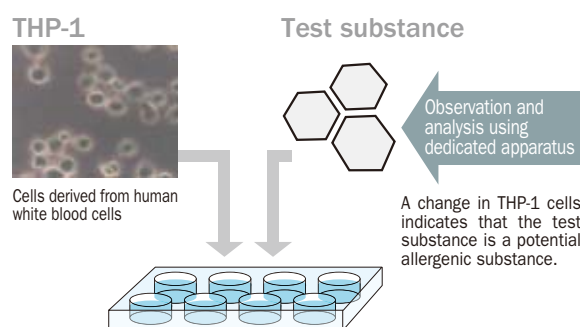
Policy toward Abolishing Animal Testing for Cosmetics

The Shiseido Safety Assurance System comprises three major steps: examining existing toxicological data, applying alternative methods and human testing. Shiseido does not test its cosmetic products or ingredients on animals except when absolutely mandated by law¹ or in the rare case where there are absolutely no alternative methods for guaranteeing product safety.²

We have been developing alternative testing methods for more than 20 years. Recently, in collaboration with Kao Corporation, we have been working on the Human Cell Line Activation Test (h-CLAT), a method for assessing sensitization potential of substances that does not involve animals. This method costs less and requires a smaller volume of samples and less time than animal testing, but provides highly precise evaluation of sensitization. Draft guidelines for the method have been published by the Organization for Economic Cooperation and Development (OECD). Shiseido and Kao Corporation are working together worldwide in cooperation with relevant institutions with the goal of adopting the guidelines during 2016. Moreover, in December 2014 we made our patents in Japan related to h-CLAT available for royalty-free use to promote adoption of the method in Japan when used as a skin sensitization test.

1. In China, in order to guarantee the safety of imported cosmetics, safety studies including animal testing may be required.
2. When new ingredients or ingredients that have already been used are suspected to be potentially harmful based on the latest scientific knowledge, safety studies including animal testing may be required.

h-CLAT



An alternative to animal testing, the h-CLAT method uses characteristic changes in human white blood cells in reaction to sensitizers. Allergy potential is evaluated by cultivating these cells together with test substances.



Product Development

1 Research and Development 2 **Product Development** 3 Production and Procurement 4 Advertising and Design 5 Consumer Care

Consumer-Oriented Product Development

Our product development creates potent brands through consumer orientation. We use our proprietary system for collecting and analyzing consumer feedback in 21 countries and regions, as well as create online communities in Japan for direct contact with consumers. By gaining accurate insight into latent consumer needs, we consistently create products that propose new value worldwide.

Shiseido Advantages

- ▶ New value propositions with accurate insight into latent consumer needs
- ▶ Collection, analysis and sharing of consumer feedback from sources including the Mirror system and the communities we sponsor for use in product development
- ▶ Environmentally friendly manufacturing that facilitates the coexistence of beauty and ecology

Achievements during the Period Ended December 2015

- ▶ Added items to the *HAKU* brand with accurate insight into latent consumer needs.
- ▶ Created online communities that directly collect consumer feedback.
- ▶ Began using mechanically recycled polyethylene terephthalate (PET) for *SEA BREEZE* product packaging.
- ▶ Created refills for *clé de peau BEAUTÉ Synactif* that offer both sophisticated aesthetics and environmental friendliness.

New Value Creation

Shiseido aims for consumer-oriented marketing centered on brands. We are therefore promoting the creation of strong brands that are based on the value that consumers seek.

The skin-brightening¹ brand *HAKU* has held the number one² share of Japan's skin-brightening beauty market for 11 consecutive years since its launch in 2005. We have supported this brand with sophisticated research into skin-brightening and prevention of dark spots. In March 2015 we addressed feedback from consumers who wanted effective daily basic care as well as a beauty serum by launching three medicated products – an essence serum, a lotion/emulsion and a foaming emulsion – that offer advanced, high-performance skin-brightening with new functions.³ We do not simply add individual products to the lineup. Instead, each item is uniquely designed with a distinct function for use according to skin condition. We succeeded in developing products that are effective, pleasant to use and that transform how the skin actually feels day to day. *HAKU* store sales after the launch were a significant 1.5 times⁴ higher year on year. We will continue to develop products with new value proposals by gaining insight into latent consumer needs.

1. Skin-brightening products suppress the formation of melanin, thus preventing dark spots and freckles.
2. INTAGE Inc., SRI - Skin-brightening beauty market cumulative sales (value basis), May 2005-March 2016
3. Essence serums, lotion/emulsions and foaming emulsions with skin-brightening and moisturizing effects.
4. Japan Business retail store sales; period-on-period comparison for April-December 2015



Initiatives to Incorporate Consumer Feedback

Shiseido shares valuable feedback from consumer consultation and requests and other sources throughout the Company and incorporates it in product development in order to achieve a consumer orientation.

We are using a system called Mirror in 21 countries and regions including Japan to efficiently collect and analyze consumer feedback in real time for shared use by our internal divisions,

including research, production, product development and sales. Moreover, centralized collection and management of consumer comments has enhanced our ability to respond to risks.

In April 2015, we created online communities in Japan for subscribers to our e-mail newsletters and members of our total beauty website watashi+ to directly collect their thoughts about our products and beauty.

We take consumer opinions and evaluations of our products seriously and use them as reference in making product improvements. They provide us with an understanding of how consumers feel about the cosmetics they use in their daily lives, and why. We use this knowledge to create more satisfying value.

The Shiseido Group corporate website presents our Mirror system and characteristic examples of products that reflect consumer feedback.

<http://www.shiseidogroup.com/csr/challenge/customer/response.html>

Product Development Committed to Reducing Environmental Impact

Shiseido formulated its Production Eco Standards in the year ended March 2011 to serve as environmental standards



We even allocate time for obtaining consumer feedback in new employee training. Activities such as actual product use instill the basic approach of working from the consumer's perspective.

for product design. They are not simply standards for environmental friendliness. Rather, they are intended to support new lifestyle proposals through manufacturing that facilitates the coexistence of beauty and ecology without impairing the value of cosmetics in terms of effectiveness, user experience, ease of use and beauty of design.

Specifically, we are promoting the use of cosmetics product containers made of sugar cane-derived polyethylene and mechanically recycled PET,⁵ expanding the range of refill products and increasing the use of environmentally friendly paper such as bagasse paper made from sugar cane fiber residue left over in the juice extraction process and Forest Stewardship Council certified paper. We are also moving to conserve water resources by reducing the amount of water required to manufacture and use our products.

5. High-purity, high-quality PET resin produced by using heat, vacuum and other processing to decontaminate resin from PET bottles that have been sorted, flaked and washed

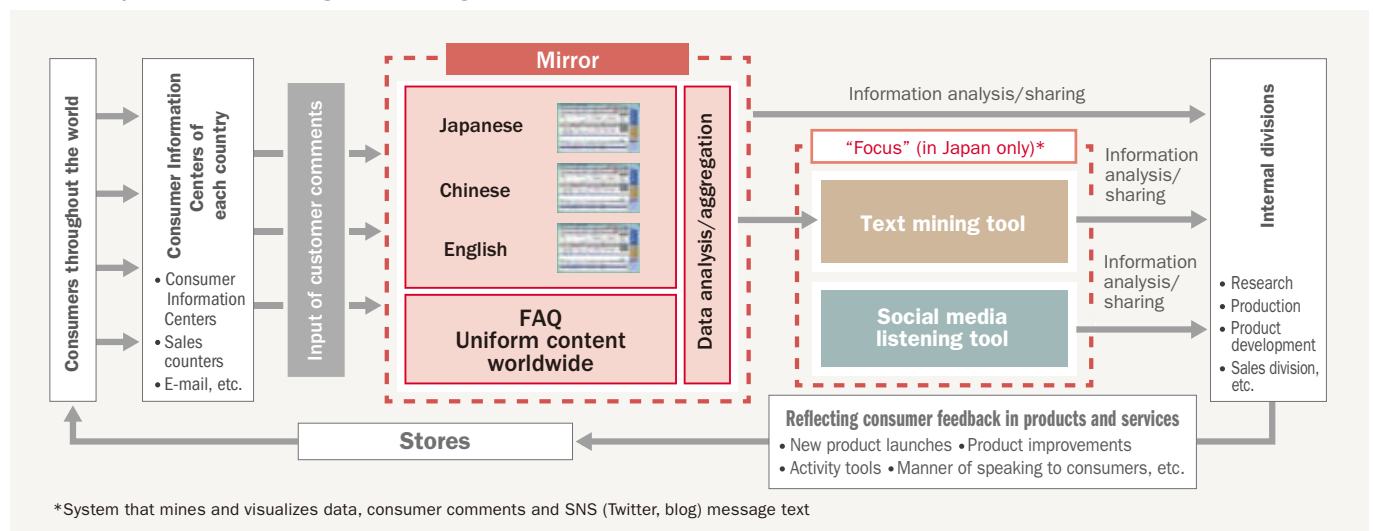


We have begun using mechanically recycled PET for SEA BREEZE product packaging.



clé de peau BEAUTÉ Synactif received the Cosmetics Packaging Award at Japan Packaging Contest 2015 for refills that offer both sophisticated aesthetics and environmental friendliness.

Mirror: A System for Collecting and Utilizing Consumer Feedback





Consumer-Oriented Production and Procurement

We are building a global production and supply system that responds to changing demands with outstanding accuracy and flexibility. It is linked with Groupwide marketing strategy, and takes into account elements such as time to market, inventory and raw material procurement. In addition, while prioritizing high quality and safety, we are building a production and procurement system that truly satisfies consumers and is highly competitive because it incorporates consumer-oriented ideas and innovative technology.

Shiseido Advantages

- ▶ 13 product bases around the world and distribution bases that deliver products to consumers on a timely basis
- ▶ Strong onsite capabilities for continuous work process improvement
- ▶ Total commitment to quality and safety (adherence to ISO22716*)

* International standard for cosmetics manufacturing (cosmetics GMP)

Achievements during the Period Ended December 2015

- ▶ Achieved cost of sales reduction target for the period with cost structure reforms.
- ▶ Conducted flexible and rapid production, procurement and distribution to address the sharp increase in inbound demand and other market changes.
- ▶ Created new value through cooperation with suppliers.

Global Supply Chain Strategy

Shiseido operates 13 production bases around the world, in Japan, China, Taiwan, Vietnam, France and the United States. We are structuring a highly competitive global supply chain in which each leading-edge production base has unique features and implements initiatives such as improving quality and productivity and further reducing manufacturing costs.

In addition, we aim to produce only what we need when we need and ensure timely delivery to consumers by introducing a global sales and operations planning system that encompasses demand forecasts and supply plans.

Establishing a New Supply Chain Base in Osaka

Shiseido will build a new global supply chain base in Ibaraki City, Osaka Prefecture with the goal of starting operations in 2020. At the new base, we will construct the Osaka New Factory to serve as the primary manufacturing facility accurately addressing global needs for high-quality skincare cosmetics. The production functions of the existing Osaka Factory will also be relocated to the new facility, which will have about 1.5 times the manufacturing capacity. The new factory will lead our manufacturing operations as a “factory that creates the future,” where humans and robots collaborate to develop highly efficient production technologies based on our accumulated expertise in skincare product manufacturing. We will also achieve an efficient product supply system by building the Shiseido Kansai Integration Center (tentative name) on the



Artist's rendition of completed Osaka New Factory

Overview

Location	Ibaraki City, Osaka Prefecture	Land area	72,350 m ²
Facility overview	Factory: 4 stories above ground Logistics base: 5 stories above ground	Total cost	About ¥40 billion (estimate)

same premises. This flagship distribution base will incorporate domestic and international logistics functions along with product storage and shipping capabilities. To ensure that the new base coexists with the community, we are taking steps to reduce environmental impact and achieve harmony with the surrounding environment.

Safety Management That Delivers High Quality

Shiseido places top priority on quality and safety to deliver products that consumers can use with peace of mind. Going beyond adherence to the quality standards set by global guidelines, we have established Shiseido Good Manufacturing Practice (Shiseido GMP) as an even more stringent self-imposed standard for maintaining and controlling quality and safety in manufacturing. In addition, we rigorously check items related to raw material safety so that we only use carefully selected materials.

Shiseido has also established a plant cultivation test facility (a plant factory) within the Kakegawa Factory to grow plants for use as raw materials for active ingredients in cosmetics, and operates a test farm. These and other initiatives target plant raw material procurement that is safe, reliable and has high traceability to the producer.



A plant cultivation test facility and test farm within the Kakegawa Factory demonstrate how plant raw materials are made.

Environmental Activities in Manufacturing

Fulfilling its responsibilities as a global company, Shiseido conducts activities at each of its production bases to reduce environmental impact. In particular, we create specific action plans to achieve our targets for reducing CO₂ emissions and assiduously use PDCA cycles. In addition, we achieve zero emissions at all of our production bases in Japan by recycling waste. These are just some of our ongoing initiatives to actively conserve energy, reduce waste and recycle.

Cooperation with Business Partners

Shiseido took its inclusion in the United Nations Global Compact as an opportunity to formulate the Shiseido Group Supplier Code of Conduct in 2006 (revised December 2011). The code stipulates our standards for human rights, legal compliance, labor practices, protection of intellectual property and maintenance of confidentiality, protection of the environment, fair operating practices and compliance monitoring. We distribute the code to educate our suppliers worldwide, and conclude purchasing contracts and memorandums of understanding (MoUs) to ensure compliance. Among the suppliers subject to the Shiseido Group Supplier Code of Conduct, more than 1,500 companies globally had concluded MoUs as of March 2015.



In addition, we monitor compliance with the Shiseido Group Supplier Code of Conduct through regular surveys of suppliers in Japan and overseas.

Transactions Subject to the Shiseido Group Supplier Code of Conduct

Transactions	Purchased Items or Services
Items such as raw materials that are directly used for products	Fragrances, raw materials, etc.
Outsourced products	Cosmetics, beauty equipment, etc.
Sales support products	Small size samples, actual samples, etc.
Packaging	Containers, wrapping materials, package inserts, labels, outer cases, etc.
Outsourced sets	Outsourced set production, etc.
Promotional products	Printed matter (leaflets, catalogs, etc.), premiums, counter furnishings and accessories, sales counter activity tools, promotional event tools

Creating New Value by Collaborating with Suppliers

Shiseido and its suppliers of fragrances and raw materials innovate by sharing their respective expertise. For materials, Shiseido holds a development proposal meeting twice a year in principle. Each year, we receive approximately 80 proposals from suppliers, and have created new value from a number of proposals made in the period ended December 2015.



Consumer-Oriented Advertising and Design

Shiseido aims to create consumer-oriented designs in all areas from product packaging and communications to stores and sales counters. We are constantly enhancing our capabilities, adopting methods that are finely attuned to change by deepening our understanding of diverse consumer values and lifestyles in Japan and around the world. We constantly absorb knowledge from internal and external sources to refine our sensitivity as we continue to take on the challenge of creating new value.

Shiseido Advantages

- ▶ An in-house creative department that achieves comprehensive branding
- ▶ A creative network with offices in the Americas, Europe and China
- ▶ Creative knowledge acquired over 100 years that aligns us with the values of diverse consumers

Achievements during the Period Ended December 2015

- ▶ *ULTIMUNE* received the Gold Pentaward, an international award for packaging design, in the Luxury category.
- ▶ The 2015 corporate advertising titled “50 Selfies of Lady Gaga” received a Japan Newspaper Publishers and Editors Association Newspaper Advertising Award, the Dentsu Newspaper Advertising Excellence Award and the Tokyo Arts Directors Club (ADC) Award for Best Newspaper Ad.

Unique Shiseido Creativity

In 1916, Shiseido established the Design Department, currently the Advertising and Design Department, to create communications regarding beauty and culture. Our unique aesthetic sense, symbolized by our iconic typeface, remains linked to our heritage, while we create new ways of interpreting beauty through design in areas such as product packaging, communications, stores and sales counters.

A recent key issue for companies is how to share value and build relationships with consumers. Having an in-house agency with 130 designers at studios worldwide who participate in the creative process from the early stages of value creation (product development) to the final stages of creative refinement (copywriting and art direction), is a unique and important Shiseido strength. The Advertising and Design Department is celebrating the completion of its first 100 years in 2016. It will continue to advance with research and development and marketing as an engine that drives the value creation process.

Creativity That Keeps Up with Consumers

Shiseido serves a diversity of consumers in Japan, the Americas, Asia, Europe and elsewhere amid continuously changing lifestyles and living environments. As a result, we are constantly analyzing and renewing our corporate and product brand images to be attuned to the times and mindsets of consumers, and are evolving our creative organization, methods and approaches.

In 2015, we strengthened our design group in China to further enhance our global creative network. That same year, we also appointed a global creative director with international experience in Paris and New York to rejuvenate the *SHISEIDO* image. The online video “High School Girl?” that we developed to build a connection with the digital-consumer generation received nine million views – the most in Japan – and became an overseas sensation.



The “High School Girl?” online video ad received the Grand Prix Film award, one of the Epica Awards, a series of international advertising awards headquartered in France. It subsequently won the gold award in the film category at the Asia Pacific Advertising Festival (ADFEST) and other advertising awards in Japan and overseas.



Consumer-Oriented Care

Essential to maintaining a customer orientation, our beauty consultants listen to consumer requests and recommend products and beauty information according to each person's skin and cosmetics use with consideration for their feelings. By routinely collecting and analyzing feedback to get a real-time understanding, they aim to improve the quality of care and satisfaction.

Shiseido Advantages

- ▶ Approximately 22,000 beauty consultants worldwide who act as our point of contact with consumers, communicating brand value with a spirit of *omotenashi*
- ▶ Development and use of consumer care software that condenses the expertise we have acquired in consumer care and beauty techniques
- ▶ A Consumer Information Center that is highly regarded by consumers for its dedication to handling inquiries and consultation

Achievements during the Period Ended December 2015

- ▶ Handled approximately 80,000 inquiries/comments at the Consumer Information Center and collected approximately 85,000 consumer comments from sales counters (April 1, 2015 to December 31, 2015).
- ▶ The Consumer Information Center received the highest 3 Stars Quality Service rating for the third consecutive year in HDI-Japan's Benchmarking Survey.
- ▶ Received the Award of Excellence in the Fiscal 2015 Service & Hospitality Awards.

Initiatives to Enhance the Spirit of *Omotenashi*

Beauty consultants fulfill the crucial role of listening to consumer requests at the sales counter and recommending products and beauty information according to each person's skin and cosmetics use. Aiming for high-quality counseling activities from our beauty professionals, in 1998 Shiseido was the first in the industry to implement internal certification of competency in beauty knowledge and technology. This system was approved by the Ministry of Health, Labour and Welfare.

Beauty consultants emphasize reaching out to consumers with the spirit of *omotenashi* (hospitality) to maximize satisfaction and help increase regular users.

In 2011, we formulated the *Shiseido Beauty Consultant Omotenashi Credo*, a code of conduct shared by beauty consultants worldwide. It serves to embody the spirit of *omotenashi* in day-to-day activities at sales counters.

We also hold the Shiseido Global Beauty Consultant Contest at regular intervals. With approximately 22,000 participants around the world, the contest encourages beauty consultants to review their beauty techniques and consumer care every day and refine and enhance their professional skills.



The *Shiseido Beauty Consultant Omotenashi Credo* is a code of conduct shared by beauty consultants worldwide.

Higher Levels of Consumer Care

Shiseido is improving consumer care and proposal capabilities at sales counters by using original software that condenses the consumer care expertise and beauty technology cultivated over many years. We are also using international versions of this software overseas.

In June 2013, we equipped approximately 10,000 beauty consultants in Japan with the Beauty Tablet, a mobile information terminal. In the following month, we began installing four proprietary software applications for use in serving consumers at sales counters: a makeup simulator that projects

the user's face just like a mirror and allows consumers to freely experience makeup patterns virtually, without removing actual makeup; a foundation finder and applications for skin-care consultation and healthcare that allow consumers to choose the most appropriate product from a large range of items. We use this kind of leading technology as a tool to improve consumer satisfaction by capturing interest at the sales counter and giving consumers the means to discover their own charm.

We are also helping consumers from overseas to experience Shiseido products and achieve the beauty they desire by issuing Beauty Tablet applications and communication sheets in Chinese (simplified and traditional Chinese characters), English and Thai.



Consumer-Oriented Service

Beauty consultants put consumers first by serving them with consideration for their feelings. The goal of their day-to-day activities is to ensure that consumers want to visit our sales counters again.

Shiseido also collects, analyzes and internally shares consumer feedback, and uses it for product development and initiatives to improve service. We also use consumer feedback to further enhance consumer care and satisfaction by providing it to workplaces in real time to prompt review of activities and highlight issues that we need to address. (Please refer to “Initiatives to Incorporate Consumer Feedback” on pages 44-45 for details about our Mirror system.)

In 1968, Shiseido established the consumer care organization that is now known as the Consumer Information Center. It provides consumer care and feeds back consumer

information within Shiseido to make consumers the starting point of all corporate activities.

The help desk in the Consumer Information Center is an important point of consumer contact. It sincerely handles inquiries and consultation, and is dedicated to providing the most helpful information to consumers. Proactive consumer communication also includes online beauty consultation called Web BC counseling, which we have been providing via our total beauty service website watashi+ since 2012.

Help Desk Institute is the world's largest support service industry association, and its Japanese subsidiary, HDI-Japan, regularly evaluates the quality of the Consumer Information Center's service. In 2015, the center received the highest 3 Stars Quality Service rating for the third consecutive year in the quality monitoring (telephone) division of HDI-Japan's Benchmark Award.



The CEO of HDI-Japan (center) with Shiseido Consumer Information Center staff members



Case Study: Comprehensive Marketing to Create Value

Our goal is to make *clé de peau BEAUTÉ* the number one global prestige brand.

We are implementing comprehensive marketing to increase brand value. The following case study explains how comprehensive marketing creates value for *clé de peau BEAUTÉ*, which has the leading share of the high-priced market in Japan.

Shiseido Has Built a Top-End Brand Image for *clé de peau BEAUTÉ*

Evolving from *clé de peau*, which was introduced in 1982, *clé de peau BEAUTÉ* (CPB), Shiseido's top-end brand, was launched in 1996. The brand name resonates with the beauty of the French expression meaning "the key to skin" and the concept of "opening the door to a new world of beauty." Available in 12 countries and regions including Japan, CPB has constantly evolved since its launch by incorporating the latest knowledge and state-of-the-art technology. It has the leading share of the high-priced market in Japan,* and accounts for the largest share of sales in the Japan Business.

We innovated CPB in 2011 to enhance its global presence. Embracing the unique core brand value of "radiance of joy," our objective was to attract new consumers by expressing the unique value of CPB products together with the brand's world view. At the same time, we integrated our internal organization from research and product development to sales counter activities to make global marketing more effective.

Since the innovation, global sales have continued to increase at just under double-digit rates year on year. During the period ended December 2015, solid double-digit growth in each of the regions CPB is sold resulted in a 37 percent year-on-year increase in overall sales.

* INTAGE Inc., SLI survey of January-December 2015 market share for general cosmetics priced at ¥10,000 or higher (value basis, excluding haircare products)



Comprehensive Marketing for CPB

Comprehensive marketing links all processes with a consumer-oriented viewpoint, from research and product development to advertising and consumer care at sales counters to maximize brand value. In 2011, CPB became our first brand to take this approach, which the Shiseido Group adopted in 2014. CPB has continued to evolve in step with consumers through integrated initiatives that create and deliver new value.



1 Research

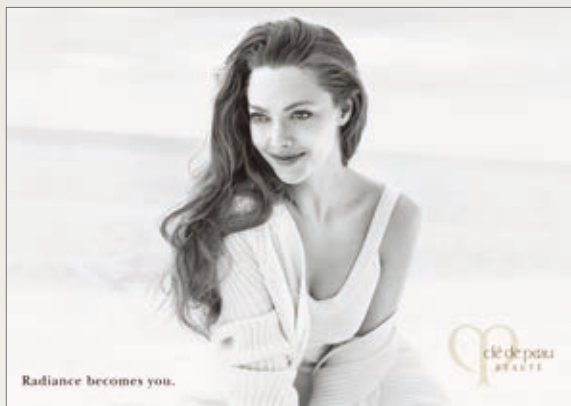
The research and development that Shiseido has cultivated over its 140-year history backs clé de Peau BEAUTÉ Laboratories, which have specialists in many R&D areas. Focusing on cells, the smallest units that make up the skin, these researchers constantly take on challenges in leading-edge R&D with a commitment to continuous progress and innovation. clé de Peau BEAUTÉ Laboratories use the “brain

skin theory,” elucidated through unique CPB research. According to this theory, skin is able to think for itself and process information, much like the brain. The skin has systems that enable it to counter external stresses such as ultraviolet radiation and dryness. Keeping these systems sound and reducing cellular stress helps the skin keep itself radiant and beautiful.



2 Product Development

We thoroughly research latent consumer needs to get insight into changing values to create products that propose new value concepts. We conduct surveys and studies on an ongoing basis in areas such as the functions, textures and fragrances that consumers want. Delighting consumers with products that yield results from regular use motivates our daily development initiatives.



3 Production and Procurement

We have made safety our top priority in cosmetics manufacturing so that consumers can use our products with peace of mind. CPB products offer superior quality because they use raw materials with the highest purity. We perform a wide array of tests to confirm consistent quality and safety, and energetically conduct quality assurance with a global perspective.

4 Advertising and Design

We strive for extremely beautiful package designs that are vibrant, exhilarating and radiant, and that offer consumers outstanding performance and ease of use. Our advertising and design also share a consistent message, from advertising, websites and other media with powerfully appealing radiant imagery to Radiance Counters that exhilarate consumers.

5 Consumer Care

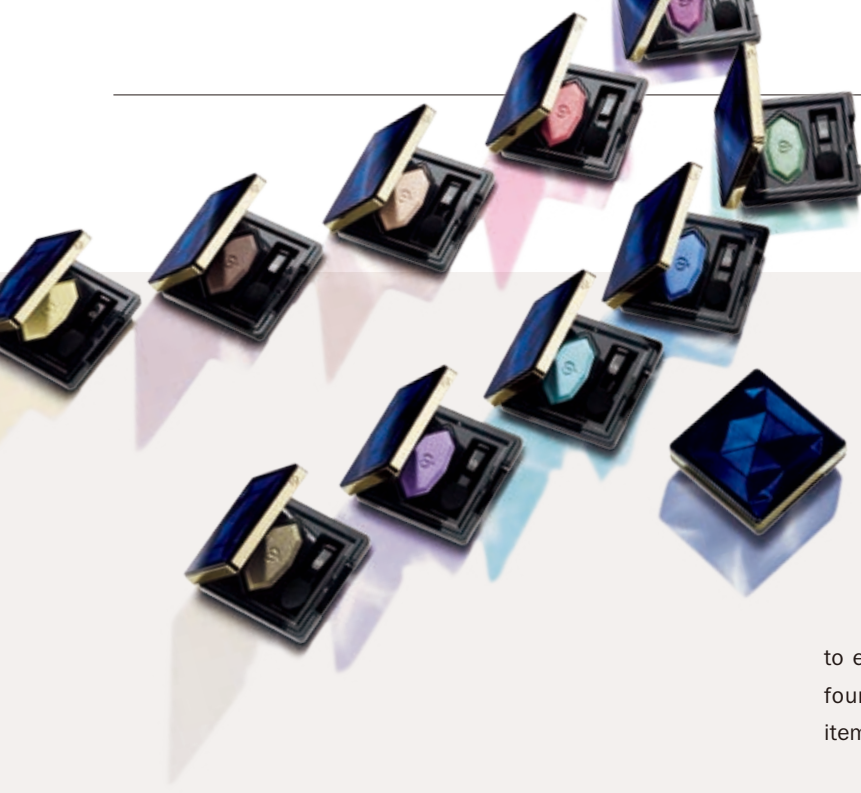
Our beauty consultants are evangelists who communicate CPB's world view and unique value to satisfy consumers' sophisticated sense of beauty. They provide counseling that resonates with consumers, sharing ways to experience the exhilaration of using CPB in addition to its benefits for the skin. Beauty consultants' sales counter activities bring us close to consumers and further increase the number of regular users.



With the facets of a jewel, *la crème* gives a feeling of radiant exhilaration.



Radiance Counters give powerful expression to the radiance of the brand and its products. We embraced a consumer orientation to make them comfortable and inviting.



Innovations to Further Increase Brand Value

We innovated the core series of skincare products in February 2016 to further enhance the value of the CPB brand. Development of this series was based on the new brain skin theory, which evolved into the two distinct approaches of encouraging both the radiance of the surface of the skin and the inner radiance of the skin upon which external appearance depends. Insisting on a product that feels good on the skin, we aim for exhilaration from daily use and skin that glows with inner vitality.



Innovated skincare items

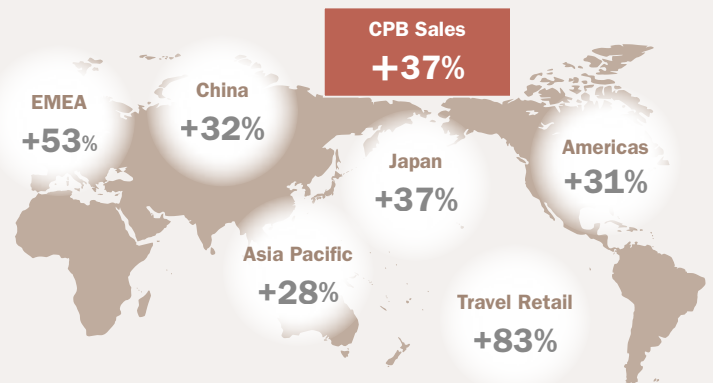
We are also complementing skincare with makeup products to enhance the power of the CPB brand. We have developed a foundation that creates a beautiful look and color makeup items that bring out the unique charm of each consumer.

Targeting the Top of the Prestige Market

Sales of CPB increased in all regions worldwide during 2015. Our goal is to make CPB Japan's first global luxury brand by 2020. The values that consumers associate with luxury are changing, with intrinsic value in particular gaining in importance. We will identify consumer needs and leverage science and the craftsmanship and technology born of Japan to develop products with intrinsic value. Targeting the top of the prestige market, we will implement comprehensive marketing worldwide and increase the number of sales counters to accelerate global sales.

Year-on-Year Growth in Shipments of *clé de peau BEAUTÉ*

(Local currency basis, January 2015 to December 2015)



Creating a Beautiful Society



Achievements during the Period Ended December 2015

- ▶ Our social business model in Bangladesh was selected as an initiative of the Business Call to Action (BCTA) led by United Nations Development Programme (UNDP).
- ▶ Around the world we held 3,231 Shiseido Life Quality Beauty Seminars with 55,814 attendees.
(Total for April to December 2015 in Japan and January to December 2015 overseas)
- ▶ We published a booklet titled *Cancer Patients' Guide to Caring for Your Appearance* and distributed it to cancer patient groups.

Initiatives to Raise Quality of Life through Cosmetics

We want to meet consumers around the world and help to make them beautiful. We want them to experience the power of cosmetics. This mindset is our basis for holding public beauty seminars that address various contemporary societal needs. We also provide practical advice at Shiseido Life Quality Makeup in Japan and abroad, which employs unique cover makeup technology to resolve appearance concerns.

Public Beauty Seminars

Shiseido Kodomo Seminars visit elementary schools to teach correct cleansing methods and communicate the importance of ultraviolet radiation protection. In addition, Shiseido has been operating a social business throughout Japan since 2013 involving Shiseido Life Quality Beauty Seminars. For students and adults, we offer the Freshers' grooming program and provide beauty lectures on improving beauty techniques and makeup skills. For the elderly, we offer Lively Beauty Classrooms based on the makeup therapy program¹ that we developed. We



have confirmed that this program extends healthy life expectancy.² Another social welfare business involves CSR Beauty Seminars at facilities for the disabled and elsewhere throughout Japan.

1. A classroom-based program in which participants enjoy makeup and skincare with the assistance of dedicated staff members

2. The time people can live independently. The World Health Organization proposed this indicator in 2000.

Shiseido Life Quality Makeup

Shiseido Life Quality Makeup provides free makeup advice, such as proposals for methods for covering various skin problems with cosmetics, for people with serious skin concerns including appearance and beauty concerns such as bruises, dark spots, vitiligo, skin irregularities including scars and burn marks, side effects of cancer treatment such as dullness, other changes in skin color and loss of eyebrows and eyelashes, and scars and tumor removal marks after surgery. As of December 2015, we had provided training primarily at Shiseido Life Quality Beauty Center in Ginza, Tokyo and at approximately 380 business partners and medical institutions throughout Japan that support our efforts. We also conducted these activities overseas in places such as Shanghai, Hong Kong and Taiwan. These activities improve quality of life and empower people to live as they wish. Our aim is to achieve a happier society by increasing the number of people who can reintegrate socially.



Demonstration of how to use the *Perfect Cover Foundation* lineup of products to address skin concerns. Over 4,500 people have visited the Shiseido Life Quality Beauty Center since it opened in 2006. The center conducts activities that support the power of the makeup process, including skin-care, for people with various skin concerns.

Helping to Empower Women

Shiseido established the Shiseido Female Researcher Science Grant as one way to help empower women. This grant provides support for female researchers who will lead the next generation in the natural sciences. We are also proactively nurturing women in science fields with a career

development program that supports junior high school and high school girls in selecting science courses.

Moreover, we have signed the Women's Empowerment Principles, which is a set of international guidelines collaboratively developed by the United Nations Global Compact and UN Women and formalized following international conferences of multiple stakeholders. We work through our core business to resolve international social issues such as improving the status of women and their economic empowerment.



Support for Women in Bangladesh

Since the year ended March 2012, Shiseido has been promoting activities to improve the social status and support the success of rural Bangladeshi women. These activities involve skincare products developed with Halal Certification specifically for local use along with educational activities such as workshops on health, hygiene and nutrition to help empower women and improve daily living habits. In September 2015, these activities were selected as an initiative of the Business Call to Action led by United Nations Development Programme, which aims for business models involving both social contribution and business activities. Shiseido is the first Asian cosmetics company to receive this recognition. Following our corporate mission of inspiring a life of beauty and culture, we will continue to help empower the many women who want to decide how they live and promote activities that delight people worldwide.



Using a picture-card show in the Bengali language as an educational activity



Les DIVAS specialized local cosmetics that have received Halal certification

Support for Beauty and Health

A common global language, sports excite people and bring them together. Shiseido provides support for sports to help

the people of the world lead active, beautiful lives. We do not simply sponsor particular events. Rather, we see sports as a form of marketing that creates new value, and will strengthen marketing and communications that involve sport. The tangible and intangible assets related to health and beauty we have developed over many years enhance the appeal of athletes, and we will further increase corporate value through various activities that inspire lives of beauty and culture.

Communicating Our Corporate Culture

Shiseido regards its history as corporate culture, and an intellectual and emotional asset. It is a unique feature of Shiseido that we utilize to continue creating new value in the future.

The Shiseido Corporate Museum (Kakegawa, Shizuoka Prefecture) centralizes the collection and storage of corporate materials such as products and advertisements spanning 144 years. We use these materials internally for purposes such as product development and staff training, and the museum is also open to the public as a base for communicating our corporate culture.

In addition, our aim has been to contribute to a spiritually rich society by disseminating culture through artistic and cultural activities and support over many years. The Shiseido Gallery in Ginza, Tokyo was founded in 1919 and is Japan's oldest operating art gallery. It holds exhibitions with a focus on contemporary art, including "shiseido art egg" for works selected from submissions by up-and-coming artists. Shiseido also exhibits a collection of some of these works at Shiseido Art House in Kakegawa, Shizuoka Prefecture.

Hanatsubaki is a corporate culture magazine we launched in 1937 that consistently communicates leading-edge content in areas including culture, fashion and art. The annual Hanatsubaki Award for Contemporary Poetry, established in 1983, continues to support language that conveys beauty.



The Shiseido Gallery continues to proactively introduce expression that is both avant-garde and pure.

Creating a Beautiful Environment



Achievements during the Period Ended December 2015

- ▶ We began using mechanically recycled PET for SEA BREEZE product packaging (see page 45).
- ▶ *clé de peau BEAUTÉ Synactif* received the Cosmetics Packaging Award at Japan Packaging Contest 2015 for refills that offer both sophisticated aesthetics and environmental friendliness (see page 45).
- ▶ Product formulation began using the plants cultivated at an in-house test facility (a plant factory) as raw material (see page 47).
- ▶ We continued to promote forest conservation activities in Japan and abroad (Nagasaki, Wakayama, Yokohama, China, Thailand and elsewhere).

Basic Policy for Environmental Activities

The name Shiseido derives from a Chinese expression meaning “Praise the virtues of the great Earth, which nurtures new life and brings forth new values.” In line with this expression, Shiseido has consistently shown consideration for the environment since its foundation, with gratitude and esteem for the bounty of the Earth. We are now executing the Shiseido Earth Care Project, an environmental initiative involving all employees throughout the world aimed at engendering a new lifestyle that links beauty and eco activities.

Shiseido's Promise to Society

In November 2008, Shiseido announced its strong dedication to the environment by endorsing “Caring for Climate: The Business Leadership Platform,” a climate change initiative spearheaded by the United Nations Global Compact. In March 2009, Shiseido became the first company in the cosmetics industry in Japan to be certified as an “Eco-First Company”¹ by Japan's Ministry of the Environment. In addition to reporting the progress of committed initiatives to the Ministry of the Environment, we make regular announcements through the Shiseido Group corporate website and other channels.



1. Created by the Ministry of the Environment in April 2008. Further promotes the efforts of leading companies to protect the environment by having them make a commitment to the Minister for the Environment.

Reducing Environmental Impact

Shiseido is emphasizing environmental friendliness throughout the product lifecycle and global reduction of CO₂ emissions.

Environmental friendliness throughout the product lifecycle is based on the Production Eco Standards, and includes initiatives

at all stages, from research and development to product planning, procurement, production, distribution, sales and disposal. We have set global CO₂ emission reduction targets for 2017 and 2020, and our business facilities are working to meet them.

CO₂ Emission Reduction Targets

Scope		Base Year	2017 Target	2020 Target	Criteria
Domestic	Production facilities	Year ended March 2010	18% reduction	20% reduction	Absolute amount
	Non-production facilities		11% reduction	14% reduction	
Overseas	Production facilities		22% reduction	23% reduction	Compared with BAU ²
	Non-production facilities		8% reduction	11% reduction	Absolute amount ³

2. Comparison of the CO₂ emissions that would be expected if particular reduction measures were not implemented (“business as usual” or BAU) and the CO₂ emissions that would be expected if reduction measures were implemented

3. Excludes facilities from which data has not yet been acquired.

Initiatives to Preserve Biodiversity

Demand for palm oil has increased dramatically in recent years. Illegal logging is carried out in tropical rainforests to create large-scale plantations of the African oil palm (*Elaeis guineensis*), a raw material of palm oil, and the resulting threat to wildlife and impact of deforestation on global warming have become issues. Since 2010, Shiseido has been participating in the Roundtable on Sustainable Palm Oil (RSPO), which was established to promote and manage a sustainable palm oil industry. From 2013, we have only used RSPO-certified palm oil and palm kernel oil. Certification requires employing the Book & Claim system⁴ as determined by the RSPO.



4. A system for trading the output of palm oil and palm kernel oil produced at RSPO-certified plantations as certified credits. The system has the same structure as green electricity, which means that the purchase of certificates is recognized as the purchase of RSPO-certified oil.

Nurturing People Who Can Win Worldwide



Achievements during the Period Ended December 2015

- ▶ The percentage of female leaders reached 50.6 percent globally, 28.5 percent in Japan (as of December 31, 2015).
- ▶ Formulated the BIG WIN 5 working principles for all employees worldwide, and the Organization and Personnel Principles.
- ▶ Globally innovated all personnel activities from hiring to training, transfers, promotion, evaluation and compensation.

Diversity and Inclusion

As of December 31, 2015, a total of 46,198 employees worked for Shiseido at more than 100 subsidiaries and workplaces in many countries and regions worldwide. They have diverse attributes, including values, viewpoints, gender, age, and employment status, and some 60 different nationalities.

As such, Shiseido is bringing together and utilizing the capabilities of people with diverse approaches and values to form a corporate organization that creates new value to meet the wide-ranging needs of consumers worldwide and to achieve VISION 2020.

In Japan, Shiseido has introduced a variety of support programs that balance work with childcare and nursing care. We will continue striving to be a leading company in Japan with respect to the empowerment of women by enabling both male and female employees to raise children and care for family members while maintaining active, meaningful careers. To this end, we will structure role models for balancing childcare and nursing care with active careers and flexibly address diverse values to achieve highly productive work arrangements. Our goal is to raise the percentage of women in leadership positions to 30 percent by December 31, 2016. (The percentage of female leaders as of December 31, 2015 was 28.5 percent.)

Nurturing Global Human Resources

Since its founding, Shiseido has been so focused on nurturing its human resources that people have called the Company “Shoseido” in a play on words that uses a quaint Japanese term for “student.” This focus was reflected in the Declaration of Shiseido ‘Co-Excellence’ adopted in 2006. The declaration aims to cultivate people by linking the growth of workers with that of the Company. In 2008, Shiseido also formulated its Global Human Resources Policy to achieve global management. This policy promotes the quality and efficiency of human resources. In 2015, as measures to support the achievement of VISION 2020, we

formulated the BIG WIN 5 working principles to reform the behavior of all Shiseido Group employees worldwide, and the Organization and Personnel Principles, which define the desired image for Shiseido’s organization and personnel. By innovating all personnel activities from hiring to training, transfers, promotion, evaluation and compensation, we will produce a greater number of capable employees who can constantly take on challenges and create value for customers. This will strengthen the Group and establish an organization that prevails against the competition.

To achieve the objectives of VISION 2020, we must transform our culture so that employees take on new challenges without hesitation. Accordingly, in 2016 we will introduce competencies in Japan that embody the BIG WIN 5 working principles. At the same time, we will practice performance management that promotes repeated trial and error – an attitude of “keep on trying” – while sharing goals between supervisors and subordinates. This will improve our organization’s ability to compete successfully by nurturing people who can win worldwide.

Personnel Framework Reform to Become a Global Company

We have innovated all personnel activities to achieve VISION 2020, and in 2016 and beyond we will strengthen talent development to provide opportunities to unleash the individual potential of our employees and help them to shine and contribute worldwide. First, we will nurture employees who excel even further by accelerating global mobility, which involves international personnel exchanges, and by increasing the number of challenging and exciting workplaces and opportunities. These experiences will help employees to grow with the Group. Second, we will increase investment in training. Specifically, we will provide opportunities for study outside the Company in leadership, MBA and other programs.

Our initiatives focus on bringing out the potential of people so they continue to exceed consumer expectations, and on creating teams of individual winners who prevail over our competitors.



Management Section

- 60 Directors, Audit & Supervisory Board Members and Corporate Officers
- 64 Corporate Governance
- 74 Risk Management



Directors, Audit & Supervisory Board Members and Corporate Officers

(As of April 1, 2016)



Representative Director, President and CEO

① Masahiko Uotani

(Date of birth: June 2, 1954)

Chairman of the Board
Responsible for Corporate Strategy, Corporate Communication, Internal Audit,
Global Cosmetics and Personal Care Brands

1977 Joined the Lion Dentrifrice Co., Ltd. (currently Lion Corporation)
1983 Graduated from Columbia University in the City of New York, Graduate School of Business Administration (MBA)
1988 Manager, Citibank, N.A.
1991 Representative Director, Vice President of Kraft Japan Limited (currently Mondelēz Japan Limited)
1994 Director, Executive Vice President and Chief Officer of Marketing of Coca-Cola (Japan) Co., Ltd.
2001 Representative Director, President of Coca-Cola (Japan) Co., Ltd. (Global Officer)
2006 Representative Director, Chairman of Coca-Cola (Japan) Co., Ltd.
2007 Representative Director, Chief Executive Partner of BrandVision Inc.

2011 Outside Director of ASKUL Corporation
2012 Corporate Advisor of Coca-Cola West Co., Ltd. [incumbent]
Director of Citibank Japan Ltd. (part time)
2013 Outside Chief Marketing Advisor of Shiseido
2014 President and CEO [incumbent], Chairman of CSR Committee
Representative Director [incumbent]
2015 Responsible for Human Resources and Corporate Culture Reforms
Responsible for Global Business (International Business, China Business and Professional Business)
Chief Officer of International Business Division
Responsible for Global Business
Responsible for Corporate Communication [incumbent]
2016 Responsible for Corporate Strategy, Internal Audit, Global Cosmetics and Personal Care Brands [incumbent]

Representative Director, Executive Vice President

② Tsunehiko Iwai

(Date of birth: May 28, 1953)

Chief Technology and Innovation Officer
Responsible for Research and Development, Supply Chain, Technical Strategy, Legal and Governance, Compliance and Sustainability Strategy
Chairman of Compliance Committee

1979 Joined Shiseido
2002 General Manager of Product Commercialization Planning Department
2004 Chief Officer of Fine Chemical Division
2006 General Manager of Technical Department
2008 Corporate Officer
2009 General Manager of Quality Management Department
2010 Responsible for Technical Planning, Quality Management and Frontier Science Business
2013 Responsible for Technical Planning, Quality Management, Pharmaceuticals Affairs, CSR, Environmental Affairs and Frontier Science Business
2014 Corporate Executive Officer
Responsible for Research & Development, Production and Technical Affairs
Director



Representative Director, Corporate Executive Officer

③ Toru Sakai

(Date of birth: October 16, 1956)

Representative Director, President and CEO,
Shiseido Japan Co., Ltd.
Responsible for Japan Region

2015 Chief Technology and Innovation Officer [incumbent]
Responsible for Research and Development,
Supply Chain and Technical Strategy
Chief Technical Strategy Officer and Chief Quality
Officer
Responsible for Technical Planning, Quality
Management and Frontier Science Business
Responsible for Pharmaceuticals Affairs
2016 Representative Director [incumbent]
Executive Vice President [incumbent]
Responsible for Research and Development,
Supply Chain and Technical Strategy [incumbent]
Responsible for Regulatory Strategy
Responsible for Legal and Governance,
Compliance and Sustainability Strategy [incumbent]
Chairman of Compliance Committee [incumbent]

1982 Joined Shiseido
2008 General Manager of Purchasing Department
2010 Corporate Officer
Responsible for Production, Purchasing
and Logistics
2012 General Manager of Corporate Planning
Department
2013 Corporate Executive Officer [incumbent]
Responsible for Domestic Cosmetics Business,
Business Strategies
Director
2014 Responsible for Domestic Cosmetics Business
and Healthcare Business
Chief Officer of Domestic Cosmetics Business Division
2015 Representative Director [incumbent]
President, Japan Region
Responsible for Japan Business, Healthcare
Business and Digital Business
Representative Director, President and CEO,
Shiseido Japan Co., Ltd. [incumbent]
2016 Responsible for Japan Region [incumbent]

*Independent Director provided in Rule 436-2 of the
Tokyo Stock Exchange Securities Listing Regulations

External Director*

④ Yoko Ishikura

(Date of birth: March 19, 1949)

1985 Joined McKinsey & Company Inc. Japan Office
1992 Professor, School of International Politics,
Economics and Communication, Aoyama Gakuin
University
1996 Director (part-time), Avon Products Inc.
2000 Professor, Graduate School of International Corporate
Strategy, Hitotsubashi University
2001 Member of the Central Education Council
2004 Director (part-time), Vodafone Holdings K.K.
Outside Director (part-time) of Japan Post
2005 Vice President, the Science Council of Japan
2006 Outside Director, Mitsui O.S.K. Lines, Ltd.
2008 Member (part-time) of the Council for Science and
Technology Policy
2010 Outside Director, Nissin Food Holdings Co., Ltd.
[incumbent]
Outside Director, Fujitsu Limited
2011 Professor, Graduate School of Media Design,
Keio University
2012 Professor Emeritus, Hitotsubashi University
[incumbent]
Outside Director, Lifenet Insurance Company
[incumbent]
2014 Outside Director, Sojitz Corporation [incumbent]
2015 External Director of Shiseido [incumbent]

External Director*

⑤ Shoichiro Iwata

(Date of birth: August 14, 1950)

Chairman of Remuneration Advisory Committee

1973 Joined Lion Fat and Oil Co., Ltd. (currently Lion Corporation)
1986 Joined Plus Corporation, Deputy General Manager of Product Development Division
1992 Head of ASKUL Business Project, Sales Division of Plus Corporation
1995 Manager of ASKUL Business Division, Plus Corporation
1997 Representative Director, President of ASKUL Corporation [incumbent]
2000 CEO of ASKUL Corporation [incumbent]
2006 External Director of Shiseido [incumbent]
Chairman of Remuneration Advisory Committee [incumbent]
2015 External Director of Minnano Wedding Co., Ltd. [incumbent]

External Director*

⑥ Kanoko Oishi

(Date of birth: March 24, 1961)

1983 Joined Nippon Life Insurance Company
1987 McKinsey & Company, Inc. (New York Office)
1988 Obtained an MBA from Harvard Business School
McKinsey & Company, Inc. (Tokyo Office)
2000 CEO, Mediva Inc. [incumbent]
CEO, Seinan MEDIVA Co., Ltd. (Currently Seeds 1 Co., Ltd.) [incumbent]
2001 Outside Auditor, ASKUL Corporation
2002 Outside Director, ASKUL Corporation
2004 COO of Platanus Medical Corp. [incumbent]
2010 Outside Director, Astellas Pharma Inc.
2015 Outside Director, Ezaki Glico Co., Ltd. [incumbent]
External Board Member, Santen Pharmaceutical Co., Ltd. [incumbent]
External Director, Suruga Bank Ltd. [incumbent]
2016 External Director of Shiseido [incumbent]

External Director*

⑦ Tatsuo Uemura

(Date of birth: April 19, 1948)

Chairman of Nomination Advisory Committee

1977 Lecturer, Faculty of Law, The University of Kitakyushu
1979 Associate Professor, Faculty of Law, The University of Kitakyushu
1981 Associate Professor, School of Law, Senshu University
1986 Professor, School of Law, Senshu University
1990 Professor, College of Law and Politics, Rikkyo University
1997 Professor, School of Law, Waseda University [incumbent]
2003 Director, Center of Excellence - Waseda Institute for Corporation Law and Society
Professor, Waseda Law School
2004 External Director, Jasdac Securities Exchange, Inc.
2006 External Director of Shiseido [incumbent]
Chairman of Nomination Advisory Committee [incumbent]
Dean of Faculty of Law and the School of Law, Waseda University
2008 Director, Global Center of Excellence - Waseda Institute for Corporation Law and Society [incumbent]
2012 Member of the Board of Governors of Japan Broadcasting Corporation (NHK)
Auditor of the Audit Committee of NHK
2013 Acting Chairman of the Board of Governors of NHK

Corporate Officers Not Serving Concurrently as Directors

Yoichi Shimatani

Corporate Executive Officer
Chief Research and Development Officer

Jun Aoki

Chief People Officer
Department Director, Human Resources Department
(Responsible for China Business Innovation Project, Executive and External Relations)

Jean-Philippe Charrier

President, Shiseido Asia Pacific Pte. Ltd. and Managing Director, Shiseido Singapore Co., (Pte.) Ltd.
(Responsible for Asia Pacific Region)

Kentaro Fujiwara

Chairman and President, Shiseido China Co., Ltd.

Takahiro Hayashi

Chief Creative Officer
(Responsible for Advertising and Design, Corporate Culture)

Katharina Hühne

Senior Vice President, Global Professional Business

Masaya Hosaka

Chief Technical Strategy Officer and Chief Quality Officer
(Responsible for Technical Strategy, Regulatory Strategy, Quality Management, Frontier Science Business)

Mitsuru Kameyama

Chief Information Officer and Department Director, Global Information and Communication Technology Department

Yasushi Kushida

Chief Supply Chain Officer
Chairman, Shanghai Zotos Citic Cosmetics Co., Ltd.

Yoshiaki Okabe

Brand Director, SHISEIDO Brand Unit,
Global Prestige Brands

Audit & Supervisory Board Member

⑧ **Yoshinori Nishimura**
(Date of birth: June 28, 1955)

1979 Joined Shiseido
2005 General Manager of Financial Department
2008 General Manager of Corporate Planning Department
Group Leader of Finance Strategy Group and
General Manager of Financial Department of
Shiseido Business Solutions Co., Ltd.
2009 President of Shiseido Deutschland GmbH
2011 Corporate Officer, Chief Financial Officer
Responsible for Finance, Investor Relations and
Information System Planning
Responsible for Internal Control
2012 Director
2014 Audit & Supervisory Board Member (standing)
[incumbent]

Audit & Supervisory Board Member

⑨ **Kyoko Okada**
(Date of birth: July 26, 1959)

1982 Joined Shiseido
2003 Professional Business Operations Division
2004 Corporate Social Responsibility Department
2006 Corporate Culture Department
2011 General Manager of Corporate Culture
Department
2012 General Manager of Corporate Culture
Department and Group Leader for the 150-Year
History Compilation Project
2015 General Manager, Executive Section, General
Affairs Department
Audit & Supervisory Board Member (standing)
[incumbent]

External Audit & Supervisory Board Member*

⑩ **Akio Harada**
(Date of birth: November 3, 1939)

2001 Public Prosecutor-General
2004 Attorney at law [incumbent]
2005 External Audit & Supervisory Board Member of
Shiseido [incumbent]
External Corporate Auditor of Sumitomo
Corporation
External Director of Seiko Holdings Corporation
[incumbent]
2009 External Director of Japan Post Holdings Co., Ltd.
2011 External Director of Turnaround Initiative
Corporation of Japan
2013 Outside Director of Sumitomo Corporation
[incumbent]
2014 Director of Yamazaki Baking Co., Ltd.
[incumbent]

External Audit & Supervisory Board Member*

⑪ **Nobuo Otsuka**
(Date of birth: January 10, 1942)

1988 President and Director of Keiseikai Hospital
2007 External Audit & Supervisory Board Member of
Shiseido [incumbent]
2010 Chairman of Keiseikai Hospital [incumbent]

External Audit & Supervisory Board Member*

⑫ **Eiko Tsujiyama**
(Date of birth: December 11, 1947)

2003 Professor, School of Commerce and the
Graduate School of Commerce, Waseda
University [incumbent]
2008 Outside Corporate Auditor of Mitsubishi
Corporation [incumbent]
2010 Outside Director of ORIX Corporation
[incumbent]
Dean of the Graduate School of Commerce,
Waseda University
2011 Outside Corporate Auditor of Lawson, INC.
[incumbent]
Outside Audit & Supervisory Board Member of
NTT DOCOMO, INC. [incumbent]
2012 External Audit & Supervisory Board Member of
Shiseido [incumbent]

* Independent Director/Audit & Supervisory Board Member provided in Rule 436-2 of the Tokyo Stock Exchange Securities Listing Regulations

Yoshihiro Shiojima

Chief Legal and Governance Officer
(Responsible for Compliance, Sustainability Strategy)

Mikiko Soejima

Chief Beauty Officer,
Chief Beauty Officer, Shiseido Japan Co., Ltd.
(Responsible for Beauty Creation, Consumer Information,
Japan Region)

Shigekazu Sugiyama

Senior Vice President, Cosmetics Brands, Shiseido Japan Co., Ltd.
President and Representative Director, Shiseido FITIT Co., Ltd.
(Responsible for Cosmetics Brands, Japan Business)

Norio Tadakawa

Chief Finance Officer
(Responsible for Finance, Corporate Planning)

Mari Tamura

Senior Vice President, Global Prestige Brands

Corporate executive officers retired as of December 31,
2015: Ralph Ahrbeck, Chikako Sekine

Corporate officers retired as of December 31, 2015: Kiyoshi
Ishimoto, Norio Iwasaki, Naoki Murakami, Kazuhisa Shibata,
Shigeru Takano

Note: Norio Iwasaki, Naoki Murakami, Kazuhisa Shibata and
Shigeru Takano were appointed as corporate officers of
Shiseido Japan Co., Ltd. effective January 1, 2016.

We are evolving governance to achieve VISION 2020.

Masahiko Uotani
Representative Director
President and CEO
Chairman of the Board



Shiseido is strengthening corporate governance to enhance management transparency and fairness. We have significantly evolved our corporate governance structure to achieve the objectives of VISION 2020.

Our impetus is the new matrix management organization we inaugurated on January 1, 2016. We have delegated many of the former responsibilities of the head office to regional headquarters and are promot-

ing the localization of responsibility and authority. Premised on this new management organization, in the period ended December 2015 the Board of Directors frequently discussed the ideal corporate governance system for Shiseido, including the composition and operation of the Board of Directors.

The board concluded that monitoring board-type corporate governance would ensure appropriate and satisfactory super-

vision of the Shiseido Group as a whole. We believe that we should structurally enhance corporate governance and integrate it with management strategy because it is the foundation for sustainable corporate growth. We will continue to enhance the functions of the Board of Directors with the objective of maximizing corporate and shareholder value over the medium to long term.

Measures to Address Issues Determined at Board of Director Meetings

		Completed	
<div> <p>To integrate corporate governance and management strategy</p> <p>×</p> <p>To make the Board of Directors a "monitoring board"</p> </div>	Corporate Governance Story	<ul style="list-style-type: none"> Amended the corporate governance policy to clarify the role of corporate governance 	
	Board Composition	<ul style="list-style-type: none"> Clarified the Company's view on the ratio of external directors 	
	Enhancement of Board Functions	<ul style="list-style-type: none"> Revision of Board of Directors agenda selection criteria 	

Message from an External Director

We aim for high-performance corporate governance that engenders confidence in management.

Every company has its own corporate philosophy and values that it has historically emphasized. A core Shiseido value is its desire to help people live beautifully. Fully implementing this corporate philosophy and value is fundamental to management. The work of external directors involves constant attention to ensure that managers and employees are working together to do so.

As stated on page 15, being human centric is one of Shiseido's five strengths. Shiseido has always evolved in tandem with people. Consumers, employees, managers and shareholders alike want to live beautifully. If these people and society as a whole continue to need and appreciate Shiseido, we can

reward shareholders for their trust and mandate through means including stock price gains and dividends.

Management conscientiously explains the inner workings of their companies to external directors, who in turn make efforts to understand those workings in order to evaluate management, which ultimately engenders confidence in management. This process enables bold management by enhancing its authority. Just as drivers can step on the gas without hesitation if they have faith in the brakes, high-performance governance engenders confidence in management. External directors must always ask themselves whether they are fulfilling this function.



Tatsuo Uemura
External Director
Professor, School of Law,
Waseda University

Ongoing Initiatives in the Year Ending December 2016

- Establish corporate governance guidelines that systemize corporate governance practices to support implementation of the corporate mission and medium-to-long-term strategies
- Organize and enhance information disclosure
- Continuously ensure and increase diversity of skills and experience when selecting director candidates
- Continuously study the succession plan for the CEO with consideration of the circumstances of the Company
- Continuously study the succession plan for external directors with consideration of the circumstances of the Company
- Focus the agenda on important matters that the Board of Directors should discuss
- Enhance provision of information to external directors
- Clarify the functions, authority and other aspects of the Nomination Advisory Committee and the Remuneration Advisory Committee
- Continuously evaluate board effectiveness

Example of Reform in the Period Ended December 2015: Board of Directors Reforms

We modified the agenda of the Board of Directors to support its transition to a monitoring board.

As much authority as possible is now delegated to corporate officers, and the chairman of the board proactively determines the agenda to reduce the time the board spends discussing matters related to daily operations and increase the time it spends discussing medium- and long-term strategy. In addition, the board receives progress reports on corporate strategy proposals and presentations of medium- and long-term strategy from the heads of each region so that it has access to the information it requires to oversee management and identify medium-term issues and risks for active discussion by directors and Audit & Supervisory Board members with diverse perspectives and skills.

Basic Policy

The Shiseido Group sets out “to inspire a life of beauty and culture” as its corporate mission, and defines corporate governance as its “platform to realize sustainable growth by fulfilling its corporate mission.”

We strive to maximize medium-to-long-term corporate and shareholder value by implementing and reinforcing corporate governance to maintain and improve management transparency, fairness and speed, and through dialogue with all stakeholders from consumers, business partners, employees, and shareholders to society and the Earth. At the same time, by fulfilling its responsibilities as a member of society, the Group works to optimize the value it delivers to respective stakeholders.

Management and Execution Structure

Reason for Choosing the Current Structure

Shiseido Co., Ltd. (the Company) has selected the framework of a company with an Audit & Supervisory Board structure with double check functions for business execution: supervision by the Board of Directors and audits of legality and adequacy by Audit & Supervisory Board members. In order to maintain and improve management transparency, fairness and speed as per the basic policy for corporate governance, the Company has reinforced the supervisory function of the Board of Directors by incorporating outstanding functions including those of a company with committees such as a nominating committee.

Effective January 2016, the Shiseido Group committed to a new matrix organization encompassing five brand businesses and six regions. Under the new organization, the Company serves as the global headquarters responsible for providing overall supervision of the Group and the support it requires, and is promoting local-

ization of responsibility and authority by delegating much of the authority formerly exercised by the Company to respective regional head offices for Japan, China, Asia Pacific, the Americas, EMEA, and travel retail. During the period ended December 2015, the Board of Directors frequently discussed issues including the composition and operation of the Board of Directors to determine an ideal corporate governance system, premised on the new management structure. As a result, the Board of Directors concluded that adopting a monitoring board structure would be appropriate to ensure adequate overall supervision of the Shiseido Group, and resolved to implement monitoring board corporate governance while leveraging the advantages of a company with an Audit & Supervisory Board.

Board of Directors

The Board of Directors is composed of seven members, including four external directors. The small number of members facilitates rapid decision making. The Board of Directors meets at least once a month to discuss a focused agenda of significant matters. Eleven Board of Directors meetings were held in the period ended December 2015 (April 1, 2015 to December 31, 2015).

Board of Directors meetings are attended by the five Audit & Supervisory Board members, including three from outside the Company, in addition to the seven directors. The external directors and Audit & Supervisory Board members check the deliberations and decisions made at Board of Directors meetings to ensure that all necessary information has been heard, issues have been discussed thoroughly, and the decisions made are objective and rational.

Diversity of Directors and Audit & Supervisory Board Members

The Company believes that the Board of Directors of the Company should be com-

posed of directors with various viewpoints and backgrounds, on top of diverse and sophisticated skills, for effective supervision over the execution of business as well as decision-making on critical matters. Furthermore, the Company believes that Audit & Supervisory Board members should have the same diversity and sophisticated skills as the directors as they have a duty to attend meetings of the Board of Directors and state opinions as necessary.

When considering diversity, the Company selects candidates based on their personality and insight regardless of attributes such as gender, age, and nationality in order to stress diversity of these attributes as well as diversity in terms of competencies including professional skills and experience in various fields related to business management. In addition, the Company has set term limits for external directors and external Audit & Supervisory Board members so that management can benefit from views that are not bound by the Company's existing structures, and ensures appropriate transition to newly-appointed external directors and external Audit & Supervisory Board members by allowing a handover period from those who have served for an extended period.

Ratio of External Directors on the Board of Directors

Given the decision to adopt monitoring board corporate governance, the Company established its view on the ratio of external directors on the Board of Directors following extensive discussion of corporate governance by the Board of Directors and assessment of the effectiveness of the Board of Directors during the period ended December 2015.

The Company's articles of incorporation limit the number of board members to 12. The Company considers issues including business portfolio and scale in electing the optimum number of directors to appropriately supervise management.

The Company shall have at least three external directors to ensure that they have a certain degree of influence within the Board of Directors. The Company has established a target of making at least half of the board external directors.

Independence is an emphasis in selecting external directors and Audit & Supervisory Board members. In principle, external director and Audit & Supervisory Board member candidates must meet the Company's criteria for independence and have an independent mindset.

Composition of Directors and Audit & Supervisory Board Members

Of the seven directors in office as of March 31, 2016, four (57.1 percent) are highly independent external directors who

meet the Company's criteria for independence of external directors and Audit & Supervisory Board members. The other three directors who serve concurrently as corporate officers include one with a career in management outside the Shiseido Group, and two with careers within the Shiseido Group. Two directors are women (28.6 percent).

The five Audit & Supervisory Board members include three highly independent external members (60.0 percent) and two full-time members with careers within the Shiseido Group. Two members are women (40.0 percent).

Of the total 12 directors and Audit & Supervisory Board members, seven (58.3 percent) are defined as highly independent and four (33.3 percent) are women.

Succession Plan and Training for Directors, Audit and Supervisory Board Members and Corporate Officers

The Company recognizes the importance of succession plans for the President and CEO as its leading officer and for external directors and external Audit & Supervisory Board members who play key roles in supervising management. The Company has a succession plan that includes limits on term of office and clear criteria for successor candidates, and is consistently on the agenda of the Nomination Advisory Committee rather than only prior to a succession event.

The Company also recognizes the importance of appointing people with requisite credentials to serve as directors, Audit

Criteria for Independence of External Directors and Audit & Supervisory Board Members (Summary)

- Not a person who is or has ever been responsible for executing the business of the Company or its affiliated companies
 - Not a person of which the Shiseido Group is or has ever been a major client
 - Not a person who is or has ever been a major client of the Shiseido Group
 - Not a person who is or has ever been a major shareholder of the Company
 - Not a person who executes or has ever executed business for an entity in which the Shiseido Group is a major shareholder
 - Not a professional such as an attorney or a consultant who has received a large amount of money from the Shiseido Group
 - Not a person who is or has ever been an accounting auditor of the Company
 - Not a person who is receiving or has ever received a large donation of money or assets from the Shiseido Group
 - Not a person affiliated with a company that reciprocally appoints a director or Audit & Supervisory Board member from the Shiseido Group
 - Not a spouse or close relative of any person excluded above
 - Not a person who could otherwise be reasonably judged unable to fulfill the duties of an independent director or independent Audit & Supervisory Board member
- (Please refer to the Notice of Convocation for the 116th Ordinary General Meeting of Shareholders available at Shiseido's corporate website for details.)
http://www.shiseidogroup.com/ir/shareholder/e1606shm/pdf/shm_0000.pdf

Progress of Shiseido's Corporate Governance Policy

Clarify allocation of responsibility

- 2001 Introduced corporate officer system
- 2001 Introduced 1-year term for directors
- 2006 Set upper term limit per position
- 2006 Formulated rules governing promotions and demotions for corporate officers
- 2006 Lowered upper age limit per position for holding office

Enhance management transparency and soundness

- 2001 Established Remuneration Advisory Committee
- 2005 Established Nomination Advisory Committee

Reinforce supervisory and auditing functions

- 2005 Increased number of external Audit & Supervisory Board members from 2 to 3
- 2006 Appointed external directors
- 2011 Increased number of external directors from 2 to 3
- 2012 Established standards for assessing independence
- 2015 Established view on the ratio of external directors
- 2016 Increased number of external directors from 3 to 4

Strengthen decision-making functions

- 2001 Established Corporate Executive Officer Committee (currently the Executive Committee) and Policy Meeting of Corporate Officers
- 2002 Reduced number of directors

& Supervisory Board members and corporate officers, and providing them with necessary training and information. The Company provides training for director and Audit & Supervisory Board member candidates on matters including legal and statutory authority and obligations, and uses training programs provided by external institutions as necessary. The Company also provides training for newly appointed external directors and external Audit & Supervisory Board members regarding the Company's industry, history, business overview, strategy and other background.

Furthermore, the Company enhances the leadership capabilities of executive directors and corporate officers by conducting an in-house executive program and using training at external institutions. We cultivate the next generation of executives by providing training for executives who are corporate officer candidates to nurture the leadership and management skills required for senior management.

Execution Structure

The adoption of a corporate officer system has separated the decision-making and supervisory functions of the Board of Directors from the business execution

functions of corporate officers. The Executive Committee, at which corporate officers deliberate and make decisions regarding material issues, and the Meetings for Development of Medium-term/Annual Plans, at which corporate officers propose and make decisions regarding management plans and brand strategy, clarify management responsibilities and accelerate management. The Company's President and CEO chairs these two committees.

In addition, the Decision-Making Meeting of Corporate Officers makes decisions regarding business execution and discusses matters including proposals to the Board of Directors and the Executive Committee.

The term of office of directors and corporate officers is one year. The term limit of corporate officers is four years per position in principle and six years maximum.

Audit Structure

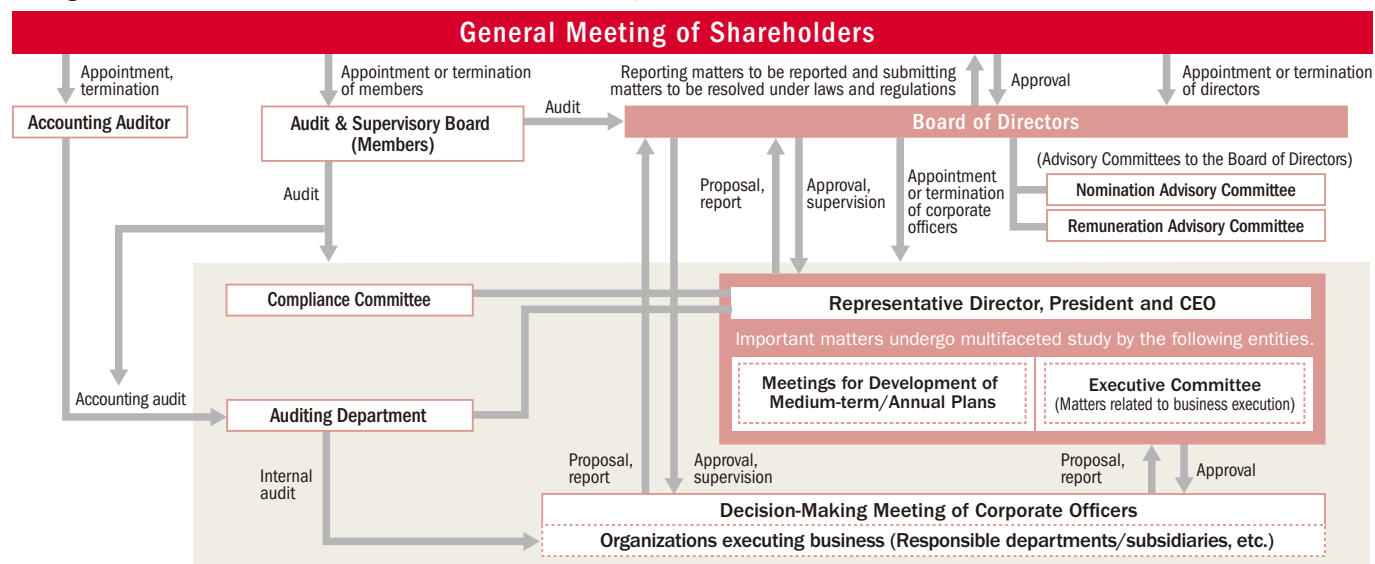
Shiseido's Audit & Supervisory Board consists of two full-time members and three external members. Audit & Supervisory Board members attend Board of Directors meetings and other important meetings, where they actively voice their opinions. They also conduct audits of the legality and

adequacy of directors' performance including audits of the accounts of the entire Shiseido Group. In conducting audits, full-time Audit & Supervisory Board members use their advantage as auditors who were originally employees of the Company and are well acquainted with its internal operations.

Representative directors and Audit & Supervisory Board members meet regularly to exchange opinions and resolve corporate governance issues. Shiseido maintains a framework to ensure that Audit & Supervisory Board members discharge their duties effectively. For example, the Company arranges liaison meetings with the accounting auditor and the Auditing Department in addition to assigning Audit & Supervisory Board Staff Group members to assist in audits. Audit & Supervisory Board member attendance for the 12 Audit & Supervisory Board meetings held in the period ended December 2015 (April 1, 2015 to December 31, 2015) was 100 percent for three members and 91.6 percent for two members. Audit & Supervisory Board member attendance at Board of Directors meetings was 100 percent for three members, 90.9 percent for one member, and 81.8 percent for one member.

Internal audits of the entire Group are conducted to ensure that business is exe-

Management and Business Execution Structure of Shiseido Co., Ltd.



cuted in an appropriate manner, and audit results are reported to the Board of Directors and Audit & Supervisory Board.

Shiseido employs three types of audits: internal audits, audits by the Audit & Supervisory Board members, and accounting audits. To increase the effectiveness and efficiency of audits, Shiseido has been enhancing mutual cooperation among the parties concerned through means such as regular liaison meetings to report on audit plans and audit results and to exchange opinions.

Committees

With a view to promoting transparency and objectivity in management, Shiseido has established two committees to advise the Board of Directors: the Nomination Advisory Committee, which makes recommendations on director and corporate officer candidates and promotions; and the Remuneration Advisory Committee, which makes recommendations on executive remuneration and performance evaluation standards. Both committees are chaired by external directors to ensure objectivity.

Furthermore, the CSR Committee was established as a committee that reports

directly to the Board of Directors, but it was dissolved in the period ended December 2015, and the Compliance Committee, which reports directly to the President and CEO, was established in 2016. The Compliance Committee collaborates with compliance organizations at main regional headquarters around the world and provides overall direction for activities that improve corporate quality, including the promotion of legal compliance, fair business practices and risk countermeasures. Chaired by the Executive Vice President, the committee is composed of members from across the Shiseido Group, including the heads of each region.

Advisory Committees to the Board of Directors

Nomination Advisory Committee	
[Chair]	Tatsuo Uemura, External Director
[Members]	Yoko Ishikura, External Director
	Shoichiro Iwata, External Director
	Kanoko Oishi, External Director
	Masahiko Uotani, Representative Director, President and CEO
	Tsunehiko Iwai, Representative Director, Executive Vice President

Convened three times in the period ended December 2015. Reported on the selection of directors and Audit & Supervisory Board members and on the nomination of corporate officers, and studied corporate officer promotion, appointment, retirement and external recruiting.

Remuneration Advisory Committee	
[Chair]	Shoichiro Iwata, External Director
[Members]	Yoko Ishikura, External Director
	Kanoko Oishi, External Director
	Tatsuo Uemura, External Director
	Masahiko Uotani, Representative Director, President and CEO
	Toru Sakai, Representative Director, Corporate Executive Officer

Convened seven times in the period ended December 2015. Activities included reviewing director bonuses for the period ended December 2015 and the remuneration system for 2016 and 2017.

Remuneration for Directors, Audit & Supervisory Board Members and Corporate Officers

Basic Philosophy and Overview of Remuneration for Directors, Audit & Supervisory Board Members and Corporate Officers

The Company regards the remuneration policy for directors, Audit & Supervisory Board members and corporate officers as an important matter for corporate gover-

nance. The policy is therefore designed by the Remuneration Advisory Committee chaired by an external director, based on the following basic philosophy, while incorporating objective points of view.

Remuneration for directors and corporate officers consists of basic remuneration and performance-linked remuneration. The Company sets appropriate remuneration levels by making comparisons with companies in the same industry or of the same scale in Japan and overseas, taking the Company's

financial condition into consideration.

External directors and Audit & Supervisory Board members receive only basic remuneration, as fluctuating remuneration such as performance-linked remuneration is inconsistent with their supervisory functions from a stance independent from business execution. Shiseido also abolished its officers' retirement benefit plan as of June 29, 2004, the date of the 104th Ordinary General Meeting of Shareholders.

New Director, Audit & Supervisory Board Member and Corporate Officer Remuneration Policy Aligned to the Three-Year Plan of 2015 through 2017

Overview

The Company has positioned the three years ending December 2017 as the period for reengineering its business foundation to enable accelerated growth in the three years

The remuneration policy for directors, Audit & Supervisory Board members and corporate officers shall:

1. contribute to realizing the corporate mission;
2. be designed to provide the amount of remuneration commensurate with the Company's capability to secure and maintain superior personnel;
3. be designed to reflect the Company's medium-to-long-term business strategy, and to strongly motivate directors, Audit & Supervisory Board members and corporate officers eligible for remuneration to achieve medium-to-long-term growth;
4. have a mechanism incorporated to prevent wrongdoing and overemphasis on short-term views; and
5. be designed to be transparent, fair and reasonable from the viewpoint of accountability to stakeholders including shareholders and employees, and shall ensure these points by determining remuneration through appropriate processes.

ending December 2020. Accordingly, the remuneration policy for directors and corporate officers for the three years ending December 2017 is designed to motivate directors and corporate officers to lead this transformation by implementing drastic reforms.

The Company assumes that financial data such as consolidated results and the results of businesses for which the officers are responsible will take time to reflect the outcomes of the reengineering of the business foundation. In addition, some challenges to be resolved may require actions such as optimization of market inventory levels that may negatively impact business performance data in the short term. To achieve long-term growth, however, these issues must be resolved. The Company has therefore adopted an individual performance evaluation framework for both basic and performance-linked remuneration that is based on the achievement of strategic targets to provide incentives

for directors and corporate officers to strategically resolve those issues from a long-term growth perspective.

This remuneration policy is designed specifically to ensure successful reengineering of the business foundation. The Company will therefore review it again in the year ending December 2018 and after.

Basic Remuneration

Basic remuneration corresponds to each officer's role grade, which is based on the scale and scope of responsibilities and impact on Group management. Moreover, basic remuneration may increase within the same role grade within a designated range in accordance with the performance of respective directors or corporate officers in the previous fiscal year in terms of numerical business performance and personal performance evaluation. This mechanism allows the Company to adjust basic remuneration in light of the achievements of

respective directors and corporate officers.

The Company will continue to pay external directors and Audit & Supervisory Board members fixed basic remuneration with no variable component as under the previous system.

Performance-Linked Remuneration

Performance-linked remuneration consists of an annual bonus provided based on annual results, and stock options as long-term incentive remuneration that are designed to give directors and corporate officers a medium-to-long-term perspective, not just a single-year focus, and to motivate management to become more aware of the Company's performance and share price. In addition, both types of remuneration have a component based on evaluation of personal performance to further motivate directors and corporate officers to resolve strategic challenges from a long-term perspective.

Proportion of Remuneration by Remuneration Type for Each Rank of Director

Rank as Corporate Officer	Composition of remuneration as officer			Total
	Basic remuneration	Performance-linked remuneration		
		Annual bonus	Long-term incentive remuneration	
President and CEO	50%	25%	25%	100%
Executive Vice President	54% - 56%	22% - 23%	22% - 23%	
Corporate Senior Executive Officer	54% - 58%	21% - 23%	21% - 23%	
Corporate Executive Officer	54% - 60%	20% - 23%	20% - 23%	
Corporate Officer	56% - 64%	18% - 22%	18% - 22%	

Notes:

1. In this model, the basic remuneration amount is the median in the applicable role grade, and the achievement rate related to performance-linked remuneration is 100%.
2. The proportion of remuneration for representative directors and directors is the same.
3. Because different remuneration tables will be applied depending on the role grade of respective directors and corporate officers, proportion of remuneration by remuneration type will vary even within the same rank.
4. Directors who serve as the chairman of the Board shall be provided with a fixed amount of remuneration separately, which is not, however, included in the table.

Evaluation Weights of Annual Bonus for Directors

Evaluation item	Performance indicators	Evaluation weight									
		President and CEO		Corporate officers in charge of businesses				Corporate officers other than those in charge of businesses			
				Regional headquarters President		Other		CFO		Others	
Whole Group performance	Consolidated net sales	20%	70%	5%	20%	10%	20%	20%	70%	20%	70%
	Consolidated operating income	30%		10%		10%		30%		50%	
	Net income attributable to owners of parent	20%		5%		—		20%		—	
Performance of business unit in charge	Business performance evaluation	—		50%		50%		—		—	
Personal evaluation	Level of achievement of strategic goals set individually	30%									

Note: The weights of performance indicators for representative directors and directors are the same.

Annual Bonus

The Company has determined evaluation items for the annual bonus linked to performance in accordance with the scope of responsibilities of the respective director or corporate officer as described in the table below. In addition, the achievement rates for consolidated net sales and consolidated operating income targets are common performance indicators used for all directors and corporate officers. The policy also has a personal performance evaluation component for all directors and corporate officers to provide a standard for evaluating the level of achievement of strategic goals in initiatives such as reengi-

neering the business foundation for sustainable growth that cannot be measured with financial performance data.

Long-Term Incentive Remuneration

The Company has imposed performance terms and conditions on the stock compensation-type stock options included in performance-linked remuneration. The limits on this long-term incentive remuneration apply on two occasions: when the stock acquisition rights are allotted, and when the allotted stock acquisition rights have vested.

When actually allotting the stock acquisition rights after obtaining approval for the maximum number of stock acquisition rights

to be allotted at the General Meeting of Shareholders, the Company shall increase or decrease the number of stock acquisition rights to be granted in the range of 0 to the maximum by using the performance indicators for annual bonuses for the preceding fiscal year. In addition, the Company has introduced a mechanism when the stock acquisition rights vest that limits the exercise of stock acquisition rights to 30 to 100 percent of the allotted number, according to consolidated results and other indicators up to the preceding fiscal year. The Company is thereby enhancing the incentive to improve medium-to-long-term business performance and achieve targets.

Terms and Conditions Regarding Performance on Long-Term Incentive-Type Remuneration

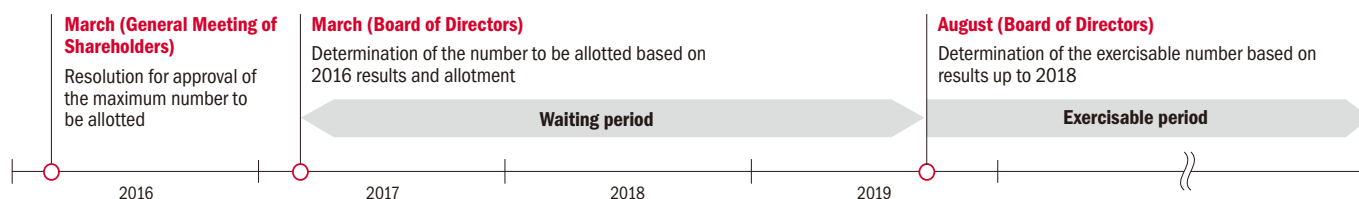
When stock acquisition rights are allotted:

- Use the same consolidated results data (net sales, operating income and net income attributable to owners of parent), evaluation of responsibility for business performance, and personal performance evaluation that are employed in calculating annual bonus for each officer.
- Determine the number of stock acquisition rights to be allotted through deliberation by the evaluation working group.

When the stock acquisition rights vest:

- Calculate the operating income growth rate by comparing operating income for the fiscal year preceding the fiscal year in which the stock acquisition right allotment date is included with the subsequent fiscal year.
- Calculate the operating income growth rates for the same fiscal years as above for international cosmetics industry sales leaders including Kao Corporation (Japan), L'Oreal S.A. (France) and Estee Lauder Companies Inc. (U.S.A.), which have been designated in advance for peer comparison.
- Decide the number of stock acquisition rights allotted to each director or corporate officer exercisable by comparing the operating income growth rate of the Company with its designated peers.

Schedule of Allotment and Exercise of Long-Term Incentive Remuneration



Role of the Evaluation Working Group

Under the current remuneration policy, personal evaluation of each director and corporate officer has a significant impact on determining total remuneration, including basic remuneration, annual bonus and long-term incentive remuneration. The Company has therefore established the Evaluation Working Group to ensure that personal evaluations are objective, fair

and transparent. Because of the importance of independence from business execution, the Evaluation Working Group consists of external directors, and external Audit & Supervisory Board members have been added in the year ending December 2016.

The Evaluation Working Group evaluates the performance of the President and CEO, and also deliberates on the President and CEO's personal performance evaluations of

the other corporate officers, including those who serve concurrently as directors. As a shared organization of the Nomination Advisory Committee and the Remuneration Advisory Committee, the Evaluation Working Group reports the details and results of its discussions to both committees.

Remuneration for Directors and Audit & Supervisory Board Members for the Period Ended December 2015

(Millions of yen)

	Basic	Bonuses	Long-Term Incentive (Stock Options)	Total
Directors (8)	145	68	28	242
External directors (4 of the 8 directors)	29	—	—	29
Audit & Supervisory Board members (6)	73	—	—	73
External Audit & Supervisory Board members (3 of the 6 members)	27	—	—	27
Total	218	68	28	315

Notes:

- The Company changed its fiscal year-end from March 31 to December 31 during the period ended December 2015. Accordingly, remuneration information for the period ended December 2015 is for the nine months beginning April 1, 2015 and ended December 31, 2015.
- Basic remuneration for directors has the ceiling amount of ¥30 million per month as per the resolution of the 89th Ordinary General Meeting of Shareholders held on June 29, 1989. Basic remuneration for Audit & Supervisory Board members has the ceiling amount of ¥10 million per month as per the resolution of the 105th Ordinary General Meeting of Shareholders held on June 29, 2005.
- The above amount of basic remuneration includes ¥5 million as basic remuneration for the period ended December 2015 that one subsidiary of the Company paid through the Company to one director of the Company who served concurrently as the director of said subsidiary.
- The amount of long-term incentive stock options indicated above represents the expenses for the period ended December 2015 associated with stock options (stock acquisition rights) granted in the period, upon the approval of the Ordinary General Meeting of Shareholders, in consideration of duties executed by directors.
- In addition to the above payments, ¥2 million was recognized for the period ended December 2015 as expenses associated with stock options granted to three directors when they were corporate officers, not directors.
- None of the directors or the Audit & Supervisory Board members will be paid remuneration other than the executive remuneration described above (including remuneration described in Notes 2 through 5, above).

Remuneration by Type to Representative Directors and Directors Whose Total Remuneration Exceeded ¥100 Million for the Period Ended December 2015

(Millions of yen)

	Basic	Short-Term Incentive Bonus	Long-Term Incentive Stock Options	Total
Masahiko Uotani Representative Director	61	46	11	119
Toru Sakai Representative Director	23	11	5	40

Notes:

- The Company changed its fiscal year-end from March 31 to December 31 during the period ended December 2015. Accordingly, remuneration information for the period ended December 2015 is for the nine months beginning April 1, 2015 and ended December 31, 2015.
- The above amount of basic remuneration includes ¥5 million as basic remuneration for the period ended December 2015 that one subsidiary paid through the Company to Representative Director Toru Sakai, who served concurrently as the director of said subsidiary.
- The amount of long-term incentive stock options indicated above represents the expenses for the period ended December 2015 associated with stock options (stock acquisition rights) granted, upon the approval of the Ordinary General Meeting of Shareholders, in consideration of duties executed by directors.
- Neither of the two directors above will be paid remuneration other than the remuneration described above (including remuneration described in Notes 2 and 3, above).

Compliance

Shiseido has established the Shiseido Group corporate philosophy, Our Mission, Values and Way. Our Mission defines the Shiseido Group's corporate mission and business domains, and sets out our *raison d'être*. Our Values define the approach that must be shared by all employees of the Shiseido Group in order to realize Our Mission. Our Way and the Shiseido Group Standards of Business Conduct and Ethics promote legitimate and fair business practices by defining standards for ensuring the highest level of ethical conduct.

In the period ended December 2015, the CSR Committee, which reported directly to the Board of Directors, presided over improvements in the quality of the Company such as promoting lawful and fair business

practices throughout the Group as well as risk countermeasures. It submitted proposals for and reported on action plans and their results to the Board of Directors.

To promote lawful and fair business activities at workplaces, the Company has assigned a Business Ethics Leader at each workplace in Japan and a Business Ethics Officer (BEO) and a Corporate Ethics Leader to assist the BEO at each affiliate overseas. In addition, the Company conducts regular workshops on corporate ethics. Business Ethics Leaders and BEOs reported the results of corporate ethics activities at their respective workplaces to the CSR Committee.

In Japan, Shiseido has established the in-house Shiseido Consultation Office staffed with consultants, to facilitate early discovery and correction of conduct in the Group that violates laws, ordinances, the

Company's articles of incorporation or other internal regulations. This office provides consultation to employees on a wide range of business-related matters. In the year ended March 2015, the CSR Committee Hotline (renamed the Compliance Committee Hotline in the year ending December 2016) was established to specialize in receiving reports on misconduct and operational risks. Employees are informed about this hotline, along with "Reporting to Audit & Supervisory Board Members" that was set up at the same time to accept reports via e-mail pointing out management issues and misconduct involving senior executives. These contact points strengthen the Company's internal systems for reporting compliance issues.

Outside Japan, a whistleblower hotline is provided at each subsidiary. In addition, the Shiseido Group Global Hotline was established

in the CSR Committee (in the Compliance Committee from the year ending December 2016) for reporting and consultation on issues that could not be resolved internally.

As for internal regulations, Shiseido is promoting awareness and thorough enforcement of the Global Policy for Preventing Insider Trading, which applies to all Shiseido Group employees worldwide because the Company's stock can be traded outside of Japan in the form of American Depositary Receipts. Shiseido also enacted the Shiseido Group Social Media Policy in November 2011 in response to problems arising at various companies as a result of the expanding use of social media.

With the transition to the new organizational structure, the CSR Committee was dissolved in the period ended December 2015 and the Compliance Committee was established in the year ending December 2016. The Compliance Committee presides over improvements in the quality of the Company such as legitimate and fair business practices throughout the Group as well as risk countermeasures.

Dialogue with Shareholders and Investors

Shiseido is committed to timely and appropriate disclosure. The Company emphasizes dialogue with shareholders and investors to maintain accountability and

work to increase corporate value by incorporating their opinions in management.

Shiseido views the General Meeting of Shareholders as an opportunity to fulfill its accountability to shareholders and discuss its position as a company with employees, business partners, society and consumers. At the general meeting, the Company sincerely listens to the opinions of shareholders and strives to give considerate explanations and responses. In addition, the Company provides proactive disclosure in the Notice of Convocation, and exchanges opinions on governance with shareholders throughout the year.

The President and CEO leads meetings for institutional investors twice a year to present first-half and full year results, while the Chief Financial Officer (CFO) holds teleconferences to discuss first and third-quarter results, and heads of each business hold business briefings. The President and CEO, CFO and members of the Investor Relations Department also visit investors in Japan and overseas and respond to requests for one-to-one meetings from institutional investors. Shiseido conducts more than 500 such meetings annually. In addition to business status and strategies, Shiseido actively discusses environmental, social and governance (ESG) and other non-financial information with investors.

In addition, the President and CEO (or the CFO) attend meetings held by securities

companies for individual investors twice a year to explain the Company's strategies and results, and Shiseido makes webcasts of presentations and question-and-answer sessions available on the Shiseido Group corporate website. Shiseido also conducts surveys of General Meeting of Shareholders attendees, and collects the valued opinions and comments of shareholders from telephone and e-mail inquiries. The Company uses the results for purposes such as improving the General Meeting of Shareholders and disclosure materials. Furthermore, the Company holds Investors' Meetings for individual shareholders twice a year as a forum for individual shareholders to air their views regarding Shiseido's shareholder policies and communications.

Shiseido also collects investor opinions and puts them to use in management. The Investor Relations Department obtains shareholder and investor opinions from dialogues and communicates them within the Company in various ways, which contributes to management reforms. Specifically, investor opinions concerning management are analyzed to identify management issues, which are reported in a timely fashion. Company reports prepared by securities analysts are promptly shared by senior management when issued. Investor feedback is conveyed to employees via the Company intranet and other internal communication media.

Overview of Investor Relations Activities

Activities	Details	
For securities analysts and institutional investors	<ul style="list-style-type: none"> Twice-yearly meetings to announce first-half and full-year results and webcasts on the Shiseido Group corporate website (teleconferences to announce first- and third-quarter results) One-to-one meetings at Shiseido 	<ul style="list-style-type: none"> One-to-one meetings with investors in Europe, North America, Asia, etc. Visits to domestic and overseas institutional investors and asset owners Business briefings
For individual investors	<ul style="list-style-type: none"> Twice-yearly information meetings led by the President and CEO (or the CFO) and webcasts on the Shiseido Group corporate website Twice-yearly shareholder meetings (for individual shareholders) and online reports of meetings on the Shiseido Group corporate website 	<ul style="list-style-type: none"> Surveys of General Meeting of Shareholders attendees Responses to shareholder inquiries by telephone and e-mail
IR materials available on the Shiseido Group corporate website	<ul style="list-style-type: none"> Notice of Convocation of the Ordinary General Meeting of Shareholders Annual securities filing and quarterly reports (Japanese only) Corporate Governance Report Timely disclosure materials Financial Results Briefing materials 	<ul style="list-style-type: none"> Consolidated Settlement of Accounts Annual Report To Our Shareholders and Investors (Printed brochure for shareholders) (Japanese only) CSR Report (website), non-financial information regarding ESG (website)
Other	<ul style="list-style-type: none"> Analysis of investor opinions concerning management and reports on management issues Sharing of Company reports prepared by securities analysts 	<ul style="list-style-type: none"> Internal communication to convey investor evaluations of Shiseido to employees

Risk Management

In the period ended December 2015, Shiseido conducted risk management under the leadership of the CSR Committee, which reported directly to the Board of Directors. The CSR Committee promoted initiatives to minimize risk and was closely and continuously involved in resolving risks that materialized.

With the transition to the new organizational structure, the CSR Committee was dissolved in the period ended December 2015 and the Compliance Committee was established in the year ending December 2016. The Compliance Committee formulates global medium- and long-term risk management policies and conducts risk assessment to identify Group-wide risks and study countermeasures.

Risk Assessment

Shiseido assesses risk at the Group level. The Company conducted a survey with 40 items related to compliance risk at the head office and facilities, subsidiaries and affiliated companies in Japan and overseas to evaluate the impact, probability and extent of countermeasures for risks. Based on the survey results and the advice of external consultants, the Company identifies serious risks and clarifies actions required to manage them, maintains Group countermeasures at designated levels and takes other measures to prevent risks from

materializing or to minimize the impact of risks if they materialize.

Notable outcomes of Shiseido's risk management were the designation of the four key compliance themes of personal information security, prevention of bribery, prevention of cartels, and prevention of supplier risk, and the creation of the Compliance Program with a Plan-Do-Check-Action framework to ensure thorough Group-wide implementation.

Risk Response

Shiseido clearly defines and classifies risks to respond promptly and appropriately. When a risk materializes, the division where it materialized promptly reports to the Compliance Committee Office (reported to the CSR Committee Office until December 2015) according to the risk definition and category. The office assigns a level to each risk ranging from 1 to 3 depending on the magnitude of impact on operations and society. A risk response organization corresponding to the risk level is activated. It studies countermeasures to minimize and contain damage, continuously monitors the status and results of response and measures to prevent recurrence, and reports to the Compliance Committee (reported the CSR Committee until December 2015) in a timely and appropriate manner.

Business Continuity Plan (BCP)

Shiseido has established a policy for business continuity activities as a risk management policy. It has four facets: ensure the safety of employees and their families; protect Company assets; continue operations; and earn the trust of stakeholders. While the BCP must respond to all disasters and risks that might halt operations, the Company classifies disasters and risks into two distinct categories and has formulated representative BCPs for them: the Earthquake Response BCP for those that cause sudden damage, and the New Influenza Strain (Infectious Disease) Response BCP for those that cause incremental damage over the long term. The Company will take risk characteristics into account and apply one of these BCP categories if business continuity risk other than that associated with earthquakes and infectious diseases materializes.

When the Great East Japan Earthquake struck in March 2011, the Company established the Headquarters for Emergency Disaster Response at the head office based on our Earthquake Response BCP to respond rapidly in coordination with the Area Headquarters for Disaster Response overseeing the disaster area.

Business Continuity Plan (BCP)

Risk Management Policy

- Ensure the safety of employees and their families
- Protect Company assets
- Continue operations
- Earn the trust of stakeholders

New Influenza Strain (Infectious Disease) Response BCP

Risks that will flare up and die down while causing incremental damage over the long term and that therefore require appropriate responses according to circumstances.
(Examples include wars and infectious diseases such as new strains of influenza, SARS and Ebola.)

Earthquake Response BCP

Risks that require a serial response over time following a sudden disaster or accident that causes damage.
(Examples include earthquakes, fires, storms and floods, and terrorism.)

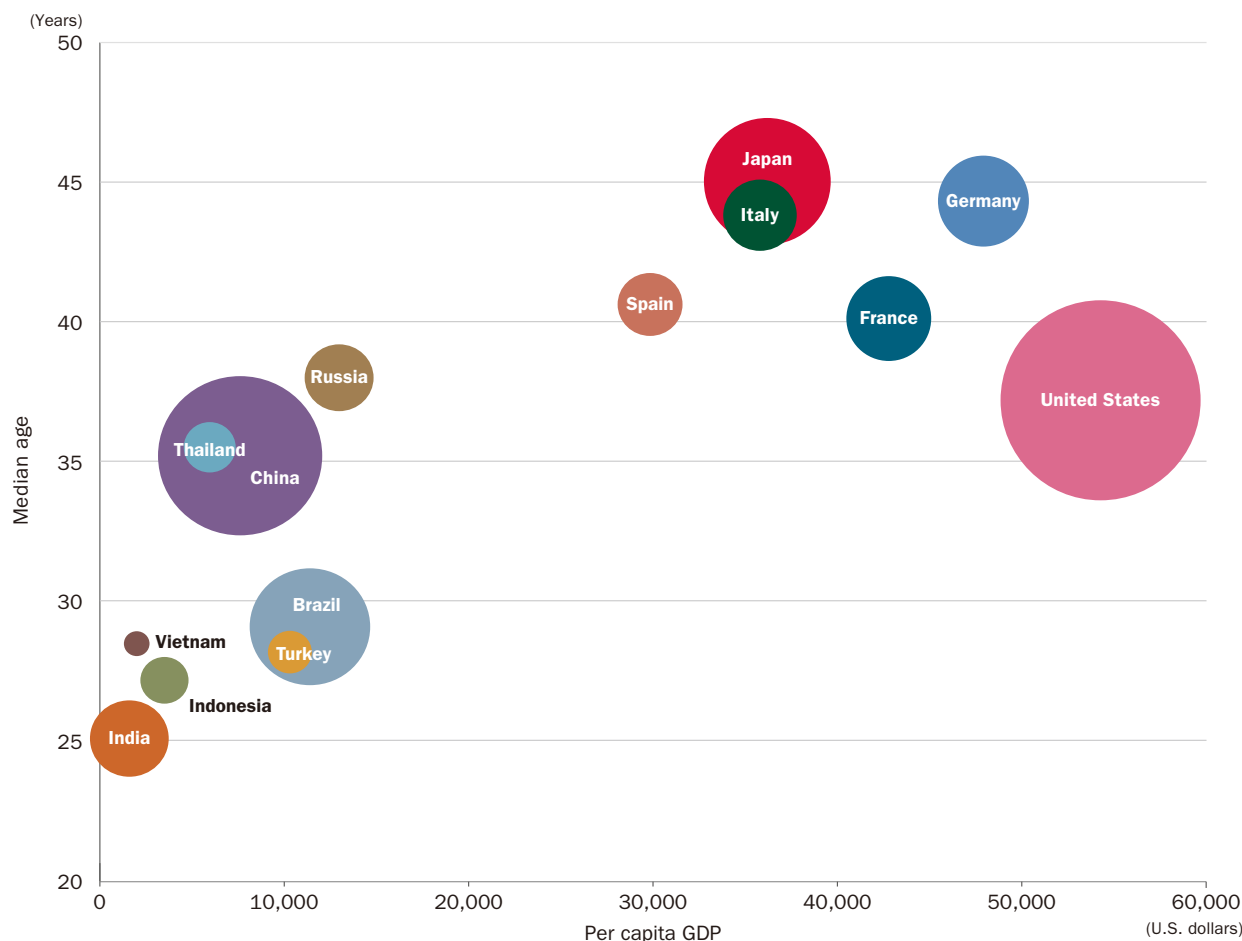
Basic Data Section

76	Market Data	80	Financial and Non-Financial Highlights
78	11-Year Summary of Selected Financial Data	84	Main Subsidiaries and Affiliates

Market Data

Beauty and Personal Care Markets by Country

■ Beauty and Personal Care Market Scale¹ by Country, Per Capita GDP and Median Age²



■ Beauty and Personal Care Market Scale by Country and Population (2015)

Country	Beauty and Personal Care Market Scale (Millions of U.S. dollars)	Population (Millions)	Country	Beauty and Personal Care Market Scale (Millions of U.S. dollars)	Population (Millions)
United States	80,042	322	Italy	10,159	60
China (excluding Hong Kong)	50,683	1,376	Russia	8,927	144
Japan	32,150	127	Spain	7,919	46
Brazil	30,249	208	Thailand	5,071	68
Germany	16,543	81	Indonesia	4,359	258
France	14,396	64	Turkey	3,626	79
India	11,656	1,311	Vietnam	1,234	93

Source for beauty and personal care market scale: Euromonitor International, as of April 5, 2016

Source for per capita GDP, median age and population: "World Statistics 2016," Statistics Bureau, Ministry of Internal Affairs and Communications

1. Circle size indicates beauty and personal care market scale

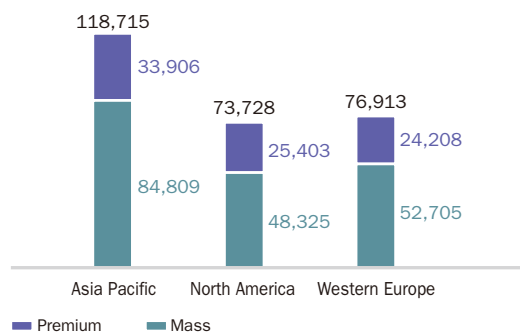
2. The midpoint age separating the upper from the lower half of ages for each population ranked in order from the lowest to highest

Please note that the relevant market data were compiled from data publicly available from several institutions and are not directly related to Shiseido's strategies. Also, annual data for each region are calculated based on local currencies translated into U.S. dollars at average 2015 exchange rates.

Beauty and Personal Care Market Trends by Area (Premium and Mass Categories¹)

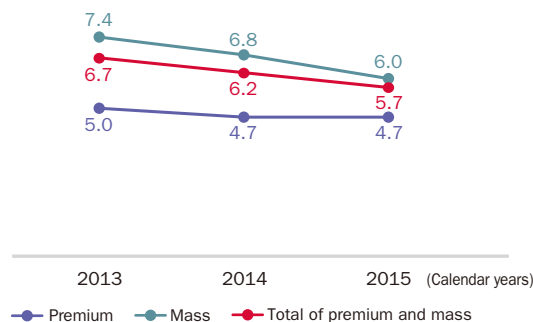
■ Beauty and Personal Care Market Scale by Area² (2015)

(Millions of U.S. dollars)



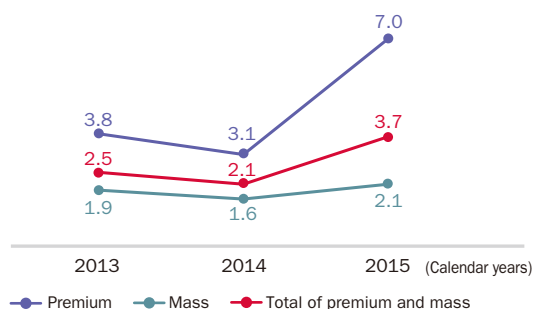
■ Market Growth Rate: Asia Pacific³

(%)



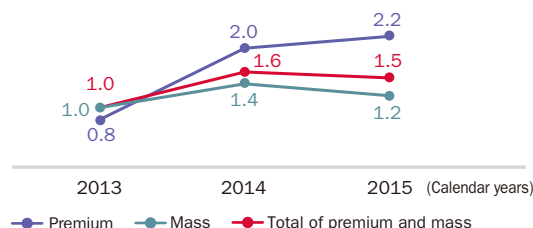
■ Market Growth Rate: North America³

(%)



■ Market Growth Rate: Western Europe³

(%)



Source: Euromonitor International, as of April 5, 2016

1. Categories are not delineated by price. They are determined comprehensively by Euromonitor International based on standards for positioning, price, sales channel, sales volume and other data for each area.

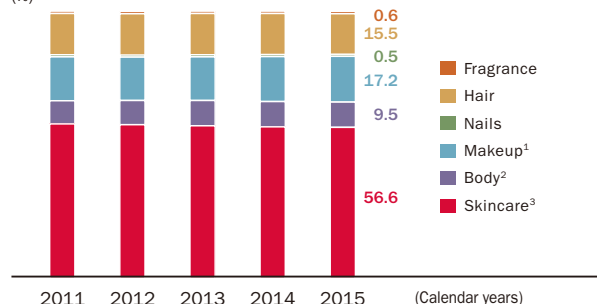
2. Excluding depilatories, men's shaving and oral care categories

3. Asia Pacific: 46 countries including Japan, China and India; North America: Canada and the United States; Western Europe: 25 countries including France, the United Kingdom and Italy

The Domestic Cosmetics Market

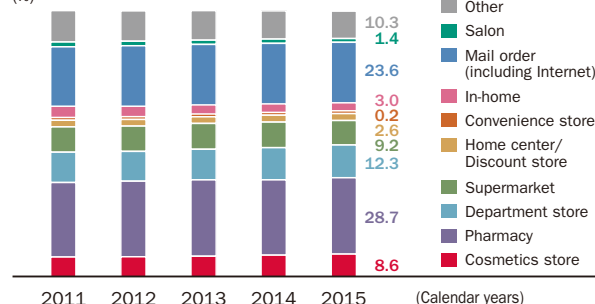
■ Market Composition by Beauty Category

(%)



■ Market Composition by Channel

(%)



Source: INTAGE Inc., SLI survey of general cosmetics market (cosmetics, haircare, body care, and others defined by Shiseido), January 1, 2010 to December 31, 2015 comparison of purchases (value base) by beauty categories defined by Shiseido

Source: INTAGE Inc., SLI survey of general cosmetics market (cosmetics, haircare, body care and others defined by Shiseido), January 1, 2010 to December 31, 2015 comparison of purchases (value base) by channel

1. Foundation, eye shadow, lipstick, etc.

2. Bath additives, sunscreen, deodorant, etc.

3. Makeup remover, makeup base, beauty lotion, etc.

11-Year Summary of Selected Financial Data

Shiseido Company, Limited, and Subsidiaries

For the fiscal periods ended March 31, 2006 to December 31, 2015

Note: Due to the change in the fiscal year-end, the period ended December 31, 2015 was an irregular fiscal period.¹

	2006/3	2007/3	2008/3	2009/3	2010/3
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Operating Results:

Net sales	¥670,957	¥694,594	¥723,484	¥690,256	¥644,201
Cost of sales	176,883	185,532	186,466	171,752	160,166
Selling, general and administrative expenses	455,194	459,056	473,553	468,589	433,684
Operating income	38,879	50,005	63,465	49,914	50,350
EBITDA (Note 4)	65,281	78,836	94,960	75,077	75,699
Net income (loss) attributable to owners of parent (Note 5)	14,435	25,293	35,459	19,373	33,671

Financial Position

(At period-end):

Total assets	¥671,841	¥739,832	¥675,864	¥606,568	¥775,445
Short-term liabilities (Note 6)	12,786	66,144	38,653	27,601	112,693
Long-term debt	69,491	61,694	24,566	34,451	101,753
Interest-bearing debt	82,277	127,838	63,219	62,053	214,446
Net assets	387,612	403,796	399,738	351,951	365,207

Cash Flows:

Cash flows from operating activities	¥ 21,812	¥ 69,431	¥ 75,307	¥ 42,767	¥ 69,431
Cash flows from investing activities	(12,640)	(18,482)	(5,802)	(28,157)	(204,884)
Cash flows from financing activities	(29,959)	1,836	(95,882)	(32,283)	120,359
Cash and cash equivalents at end of year	89,014	145,259	120,393	91,857	77,157

Per Share Data

(In yen and U.S. dollars):

Net income (loss) (Note 7)	¥ 34.4	¥ 60.9	¥ 86.1	¥ 48.0	¥ 84.6
Net assets (Note 7)	906.1	940.8	946.2	839.9	875.7
Cash dividend	30.0	32.0	34.0	50.0	50.0
Weighted average number of shares outstanding during the period (thousands)	412,855	412,572	407,696	403,240	397,886

Financial Ratios:

Operating profitability (%)	5.8	7.2	8.8	7.2	7.8
Return on assets (%)	2.1	3.6	5.0	3.0	4.9
Operating ROA (%) (Note 8)	5.9	7.4	9.4	8.2	7.5
Return on equity (%)	3.9	6.6	9.2	5.4	9.8
Equity ratio (%)	55.7	52.5	56.6	55.6	44.9
Interest coverage ratio (times) (Note 9)	8.6	30.6	39.1	23.6	45.4
Debt-equity ratio (times) (Note 10)	0.22	0.33	0.17	0.18	0.62
Interest-bearing debt ratio (%) (Note 11)	17.5	24.0	13.7	15.0	37.0
Payout ratio (Consolidated) (%)	87.2	52.6	39.5	104.1	59.1
Number of employees at year-end (Note 12)	25,781	27,460	28,793	28,810	28,968
Net sales per employee	¥26.0	¥25.3	¥25.1	¥24.0	¥22.2

- Notes: 1. The fiscal period ended December 31, 2015 is the 9 months from April 1, 2015 to December 31, 2015 for Shiseido and its consolidated subsidiaries in Japan and the 12 months from January 1, 2015 to December 31, 2015 for all other subsidiaries. In this report, it is referred to as "the period ended December 2015" in the text and as "2015/12" in tables, charts and graphs.
2. Amounts less than one million yen are omitted.
3. U.S. dollar amounts are converted from yen, for convenience only, at the rate of ¥120.54 = US\$1 prevailing on December 31, 2015.
4. EBITDA (Earnings before interest, tax, depreciation and amortization) = Income (loss) before income taxes + Interest expense + Depreciation and amortization + Impairment loss on goodwill and other intangible assets
5. Effective from the fiscal period ended December 31, 2015, Shiseido has applied the "Accounting Standard for Business Combinations" (Accounting Standards Board of Japan (ASBJ) Statement No. 21, September 13, 2013), and the title "Net income (loss)" has been changed to "Net income (loss) attributable to owners of parent."
6. Short-term liabilities = Short-term debt + Current portion of long-term debt
7. Net income (loss) per share (primary) is based on the average number of shares outstanding during the fiscal year. Net assets per share is calculated using the number of shares outstanding as of the balance sheet date. Net Income (loss) per share is calculated before dilution.

					Millions of yen (Except per share data) (Note 2)	Thousands of U.S. dollars (Except per share data) (Note 3)
2011/3 ^(Note 12)	2012/3	2013/3 ^(Note 13)	2014/3	2015/3	2015/12	2015/12
¥670,701	¥682,385	¥677,727	¥762,047	¥777,687	¥763,058	\$6,330,330
168,692	162,989	166,783	189,559	196,433	196,009	1,626,090
457,550	480,260	484,898	522,843	553,640	529,388	4,391,803
44,458	39,135	26,045	49,644	27,613	37,660	312,427
65,576	76,974	61,463	91,285	90,703	80,635	668,948
12,790	14,515	(14,685)	26,149	33,668	23,210	192,550
¥739,120	¥720,707	¥715,593	¥801,346	¥823,636	¥808,547	\$6,707,706
16,361	9,734	39,394	64,054	75,615	18,996	157,590
181,155	175,418	145,274	91,864	31,281	67,617	560,950
197,517	185,153	184,669	155,918	106,897	86,613	718,541
320,127	303,715	303,153	358,707	409,369	413,334	3,429,019
¥ 67,586	¥ 52,599	¥ 42,040	¥ 84,320	¥ 32,134	¥ 60,529	\$ 502,148
(30,303)	(20,668)	(25,534)	(16,799)	11,538	(23,137)	(191,944)
(39,571)	(35,482)	(24,745)	(47,462)	(58,419)	(30,151)	(250,132)
88,592	82,974	80,253	110,163	100,807	104,926	870,466
¥ 32.1	¥ 36.5	¥ (36.9)	¥ 65.7	¥ 84.4	¥ 58.2	\$ 0.48
772.1	729.9	721.2	849.4	970.0	981.4	8.14
50.0	50.0	50.0	20.0	20.0	20.0	0.17
397,864	397,974	398,007	398,300	398,704	399,026	
6.6	5.7	3.8	6.5	3.6	4.9	
1.7	2.0	(2.0)	3.4	4.1	2.8	
6.1	5.6	3.8	6.8	3.6	4.8	
3.9	4.9	(5.1)	8.4	9.4	6.0	
41.6	40.3	40.1	42.2	47.0	48.4	
32.8	27.3	22.5	47.5	24.2	71.7	
0.64	0.64	0.64	0.46	0.28	0.22	
38.2	37.9	37.9	30.3	20.7	17.3	
155.5	137.1	—	30.5	23.7	34.4	
31,310	32,595	33,356	33,054	33,000	33,783	
¥21.4	¥20.9	¥20.3	¥23.1	¥23.6	¥22.6	\$187

8. Operating ROA = (Operating income + Interest and dividend income) ÷ Total assets (Yearly average)

9. Interest coverage ratio = Net cash provided by operating activities ÷ Interest paid* *Interest paid is as stated in the consolidated statements of cash flows.

10. Debt-equity ratio = Interest-bearing debt ÷ Equity* *Equity = Total net assets – Stock acquisition rights – Non-controlling interests in consolidated subsidiaries

11. Interest-bearing debt ratio = Interest-bearing debt ÷ Invested capital* *Invested capital = Interest-bearing debt + Total net assets

12. The number of employees at year-end does not include temporary employees.

13. Shiseido Group subsidiaries in the Americas formerly recognized samples and promotional items associated with marketing activities at stores as assets when acquired and expensed them when shipped to customers. However, effective the fiscal year ended March 31, 2012 these subsidiaries began to expense these items when acquired as part of efforts to standardize Group accounting policies. The Shiseido Group applied this change retrospectively and restated the consolidated financial statements for the fiscal year ended March 31, 2011 accordingly.

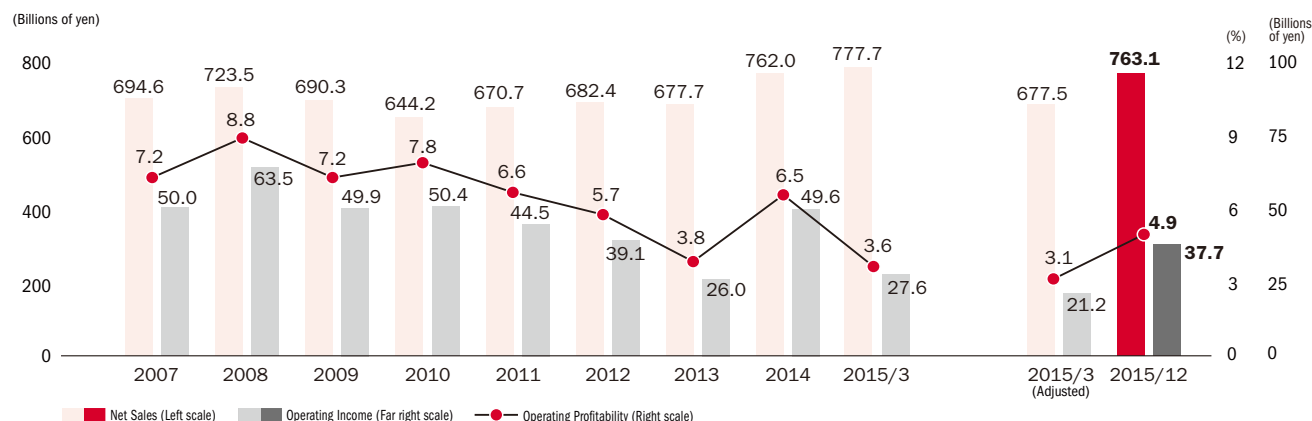
14. Effective the fiscal year ended March 31, 2014, the Shiseido Group applied Employee Benefits (IAS 19, amended June 16, 2013) to certain consolidated subsidiaries and changed the method for recognizing changes in net defined benefit obligation. The Shiseido Group applied this change retrospectively and restated the consolidated financial statements for the fiscal year ended March 31, 2013 accordingly.

Financial and Non-Financial Highlights

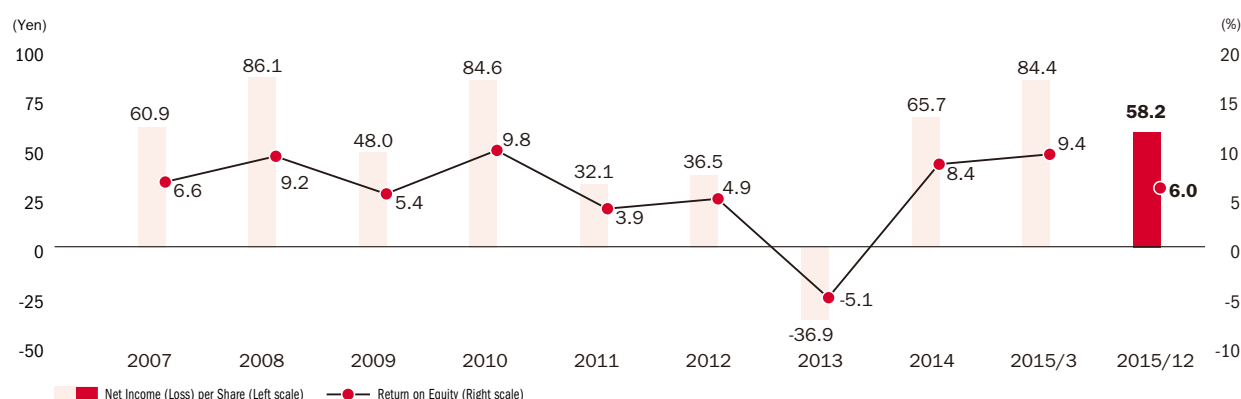
Note: Due to the change in the fiscal year-end, the period ended December 31, 2015 was an irregular fiscal period.¹

Financial Value

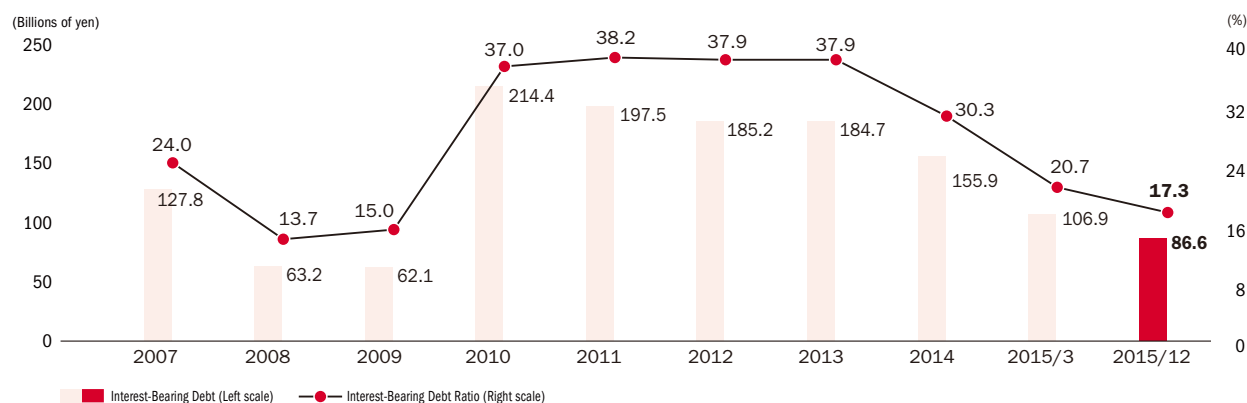
Net Sales, Operating Income & Operating Profitability¹



Net Income (Loss) per Share² & Return on Equity^{3,4}



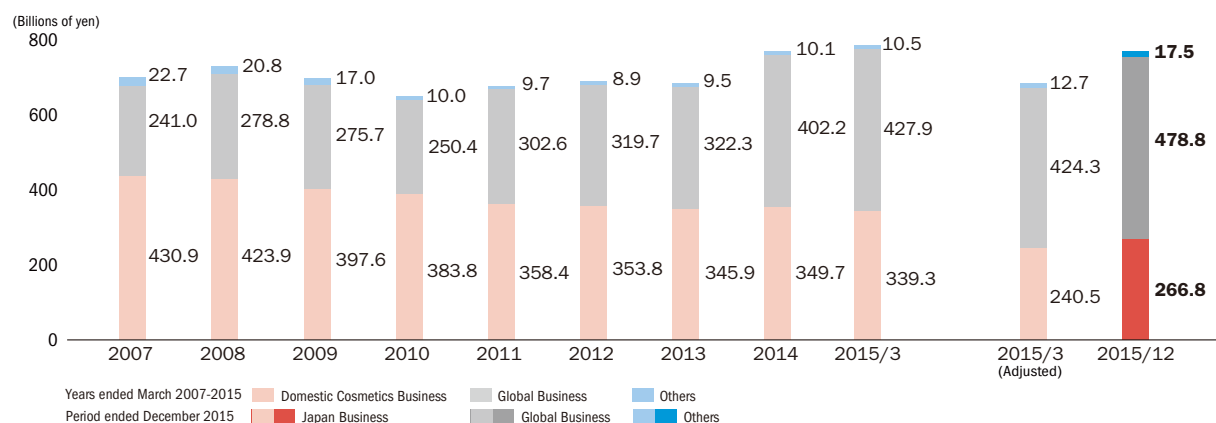
Interest-Bearing Debt & Interest-Bearing Debt Ratio^{3,5}



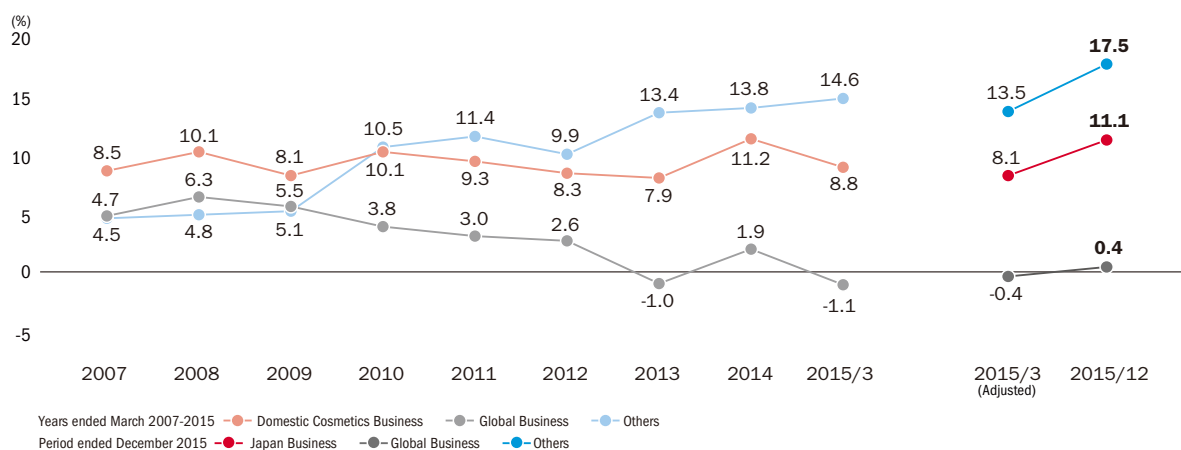
Notes:

- The fiscal period ended December 31, 2015 is the 9 months from April 1, 2015 to December 31, 2015 for Shiseido and its consolidated subsidiaries in Japan and the 12 months from January 1, 2015 to December 31, 2015 for all other subsidiaries. In this report, it is referred to as "the period ended December 2015" in the text and as "2015/12" in tables, charts and graphs. For period-on-period comparisons, this report uses results for the corresponding period of the previous fiscal year, referred to as "the previous fiscal period" in the text and as "2015/3 (Adjusted)" in tables, charts and graphs.
- Net income (loss) per share is calculated before dilution based on the average number of shares outstanding during the fiscal year/period.
- Shiseido Group subsidiaries in the Americas formerly recognized samples and promotional items associated with marketing activities at stores as assets when acquired and expensed them when shipped to customers. However, effective the year ended March 2012 these subsidiaries began to expense these items when acquired as part of its efforts to standardize Group accounting policies. The Shiseido Group applied this change retrospectively and restated the consolidated financial statements for the year ended March 2011 accordingly. Changes in accounting treatment due to the amendment of Employee Benefits (International Accounting Standard (IAS) No. 19) are not retrospectively applied prior to the year ended March 2012.
- ROE for the period ended December 2015 is calculated using consolidated net income attributable to owners of parent for the year as the numerator and the average of equity at March 31, 2015 and December 31, 2015 as the denominator.

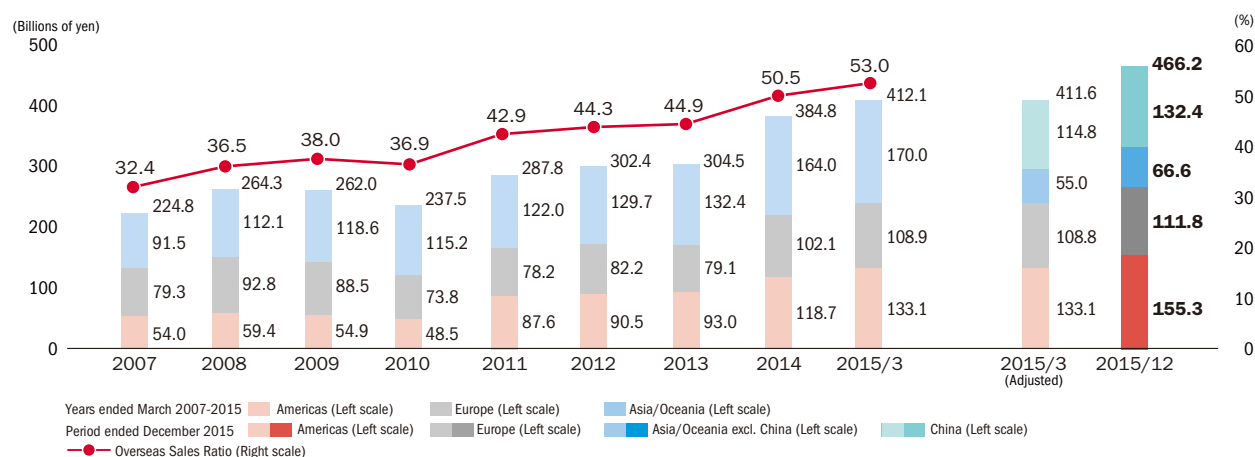
Net Sales by Reportable Segment^{1,6,7,9,10}



Operating Profitability by Reportable Segment^{1,6,8,9,10}



Overseas Sales & Overseas Sales Ratio¹



5. Interest-bearing debt ratio = Interest-bearing debt ÷ Invested capital* *Invested capital = Interest-bearing debt + Total net assets

6. Domestic Professional Division sales are included in the Global Business segment.

7. Net sales by reportable segment represent sales to external customers only and do not include intersegment/interarea sales or transfers.

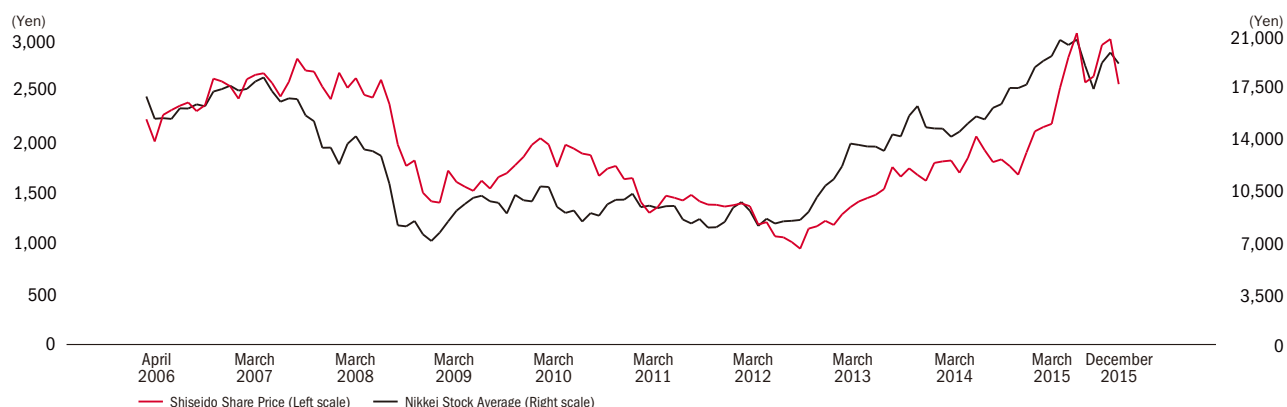
8. Operating profitability by reportable segment does not include eliminations/corporate.

9. Segments were changed to reflect application of the "Revised Accounting Standard for Disclosures about Segments of an Enterprise and Related Information" (ASBJ Statement No. 17 of March 27, 2009) in the year ended March 2011. The change in segments has been retrospectively applied to data for years ended March 2010 and earlier.

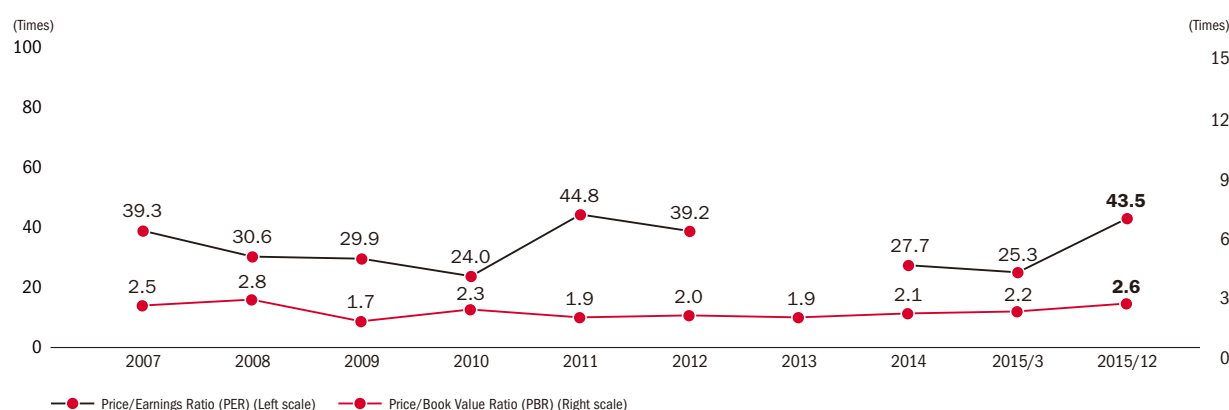
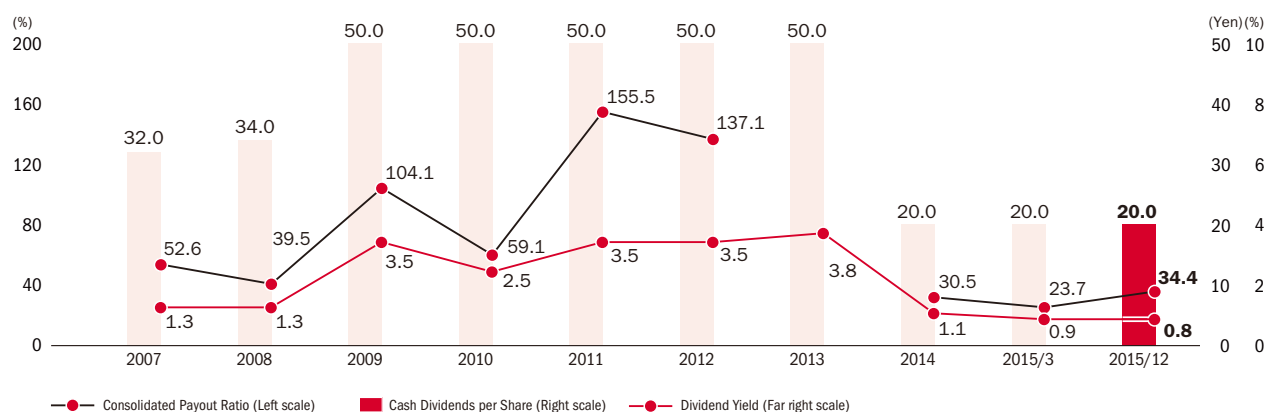
10. The Company partially revised its reportable segment classification method effective from the fiscal period ended December 31, 2015. Accordingly, the "Domestic Cosmetics Business" and "Global Business" segments have been reclassified as the "Japan Business" and "Global Business" segments, respectively. Taking into account this change, certain subsidiaries previously included in the "Domestic Cosmetics Business" segment have been reallocated to the "Global Business" and "Others" segments. Moreover, in order to more accurately grasp actual operating results in each segment, the allocation method for certain expenses has also been revised.

Shareholder Value

Shiseido Share Price & Nikkei Stock Average



Price/Earnings Ratio (PER)^{11, 12} & Price/Book Value Ratio (PBR)¹³

**Consolidated Payout Ratio¹¹, Cash Dividends per Share & Dividend Yield¹⁴**

11. Not presented for the year ended March 2013 because of the net loss.

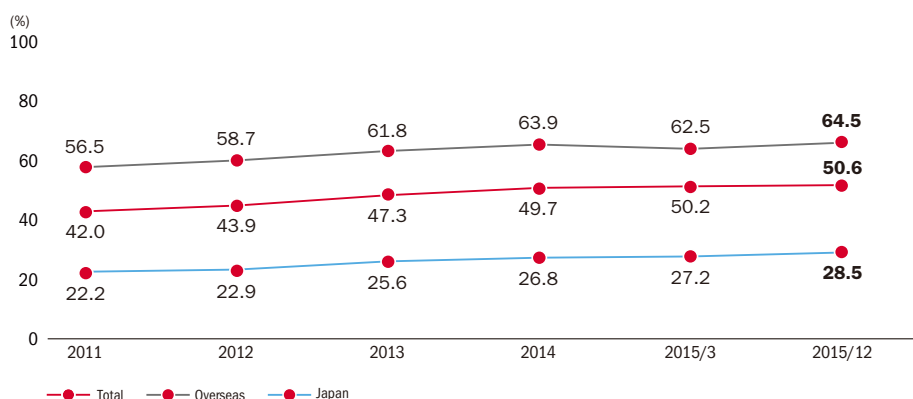
12. Price/Earnings Ratio = Closing stock price at fiscal year-end ÷ Net income per share

13. Price/Book Value Ratio = Closing stock price at fiscal year-end \div Net assets per share

14. Dividend Yield = Cash dividends per share ÷ Closing stock price at fiscal year-end

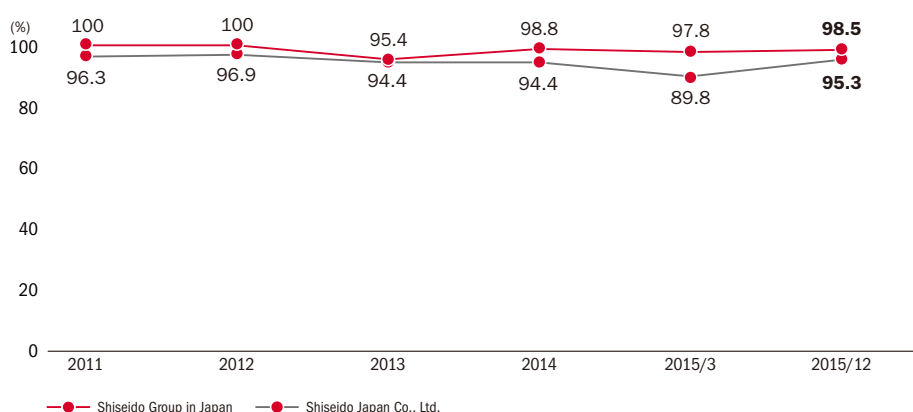
Human and Social Value

Percentage of Female Leaders¹⁵



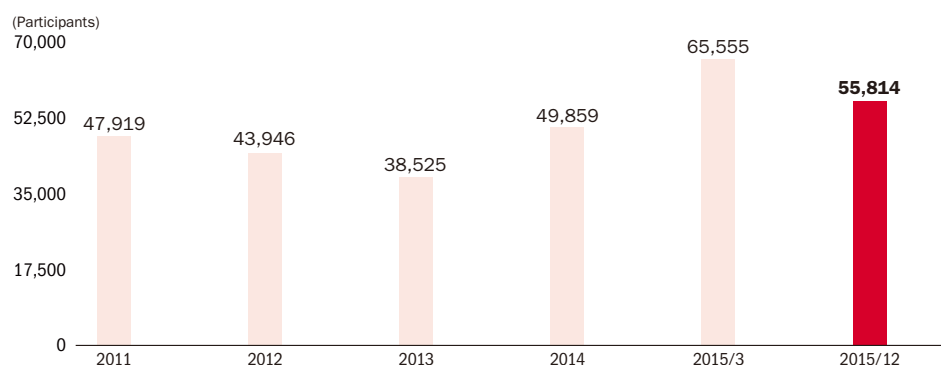
Shiseido has been energetically promoting women to positions of leadership. Overseas, more than 60 percent of leadership positions are held by women. In Japan, the percentage of women in leadership positions was 28.5 percent as of December 31, 2015. Shiseido has the goal of raising this to 30 percent by December 31, 2016.

Stability Rate for Employees in Japan Returning to Work after Taking Childcare Leave^{16,17}



Shiseido introduced systems and programs in 1990 to raise the productivity of employees by helping them balance work with childcare and nursing care. As a result, the stability rate for employees in Japan returning to work after taking childcare leave has remained at a high level.

Number of Shiseido Life Quality Beauty Seminar Participants



Shiseido wants to help all consumers achieve the beauty they desire, and therefore holds Shiseido Life Quality Beauty Seminars around the world for the elderly, the developmentally challenged, and other participants. We held 3,231 seminars in the period ended December 2015 (April-December 2015 in Japan, January-December 2015 overseas), and 55,814 people participated.

For details, see Shiseido Life Quality Beauty Seminars (page 55).

15. For years ended March 2011 through March 2015, percentage of female leaders is as of April 1 each year in Japan and January 1 each year overseas. For the period ended December 2015, percentage of female leaders is as of December 31.

16. Number of employees who returned to work after taking childcare leave in the previous fiscal year and are still working as of the end of the current year ÷ total number of employees who returned to work after taking childcare leave in the previous fiscal year x 100

17. Target personnel in Shiseido Group companies in Japan: managerial/major career path personnel; target personnel in Shiseido Japan Co., Ltd.: beauty consultants (excluding fixed-term contract employees)

Main Subsidiaries and Affiliates

Company Name	Location	Paid-in Capital	Equity Ownership Percentage ¹
Shiseido Japan Co., Ltd. ²	Chuo-ku, Tokyo	¥100 million	100.0
Shiseido FITIT Co., Ltd.	Chuo-ku, Tokyo	¥10 million	100.0
Shiseido International Inc.	Chuo-ku, Tokyo	¥30 million	100.0
The Ginza Co., Ltd.	Chuo-ku, Tokyo	¥100 million	98.2
Shiseido Pharmaceutical Co., Ltd.	Chuo-ku, Tokyo	¥100 million	100.0
FT Shiseido Co., Ltd.	Chuo-ku, Tokyo	¥100 million	100.0
Shiseido Professional Co., Ltd.	Chuo-ku, Tokyo	¥250 million	100.0
Shiseido Beauty Salon Co., Ltd.	Chuo-ku, Tokyo	¥100 million	100.0
Shiseido Americas Corporation	Delaware, U.S.A.	(Thousands of U.S. dollars) \$403,070	100.0
Shiseido America, Inc.	New York, U.S.A.	(Thousands of U.S. dollars) \$28,000	100.0 (100.0)
Bare Escentuals, Inc.	Delaware, U.S.A.	(U.S. dollars) \$0.01	100.0 (100.0)
Bare Escentuals Beauty, Inc.	Delaware, U.S.A.	(U.S. dollars) \$1.00	100.0 (100.0)
Zotos International, Inc.	Connecticut, U.S.A.	(Thousands of U.S. dollars) \$25,000	100.0 (100.0)
Shiseido International Europe S.A.	Paris, France	(Thousands of euro) €257,032	100.0
Shiseido International France S.A.S.	Paris, France	(Thousands of euro) €36,295	100.0 (100.0)
Shiseido Deutschland GmbH	Dusseldorf, Germany	(Thousands of euro) €5,200	100.0 (100.0)
Shiseido Cosmetici (Italia) S.p.A.	Milan, Italy	(Thousands of euro) €2,400	100.0 (100.0)
Shiseido Europe S.A.S.	Paris, France	(Thousands of euro) €9,000	100.0 (100.0)
Shiseido (RUS), LLC.	Moscow, Russia	(Thousands of Russian rubles) RUB 106,200	100.0 (100.0)
Beauté Prestige International S.A.	Paris, France	(Thousands of euro) €17,760	100.0 (100.0)
Shiseido China Co., Ltd.	Shanghai, China	(Thousands of yuan) CNY 565,093	100.0
Shanghai Zotos Citic Cosmetics Co., Ltd.	Shanghai, China	(Thousands of yuan) CNY 418,271	92.6 (66.4)
Shiseido Liyuan Cosmetics Co., Ltd.	Beijing, China	(Thousands of yuan) CNY 94,300	65.0 (33.0)
Shiseido Hong Kong Cosmetics Ltd.	Hong Kong, China	(Thousands of HK dollars) HKD 123,000	100.0
Shiseido Asia Pacific Pte. Ltd.	Singapore	(Thousands of SGD) 3,625	100.0
Taiwan Shiseido Co., Ltd.	Taipei, Taiwan	(Thousands of NT dollars) NTD 1,154,588	51.0
Shiseido Vietnam Inc.	Dong Nai Province, Vietnam	(Millions of VND) 1,061,993	100.0
Shiseido Travel Retail Asia Pacific Pte. Ltd.	Singapore	(Thousands of U.S. dollars) \$48	100.0 (100.0)
Shiseido Parlour Co., Ltd.	Chuo-ku, Tokyo	¥100 million	99.3
Selan Anonymous Association ³	Chiyoda-ku, Tokyo	¥11,600 million	[100.0]
Other Consolidated Subsidiaries: 61 companies ⁴	—	—	—
(Equity-method affiliates): 4 companies	—	—	—

Notes:

- Numbers in parentheses include indirect equity ownership, and numbers in brackets represent ownership by parties with a close relationship or those in agreement with Shiseido.
- Shiseido Sales Co., Ltd., which engaged in the sale of cosmetics, etc., changed its trade name to Shiseido Japan Co., Ltd. effective October 1, 2015, and effective the same date, part of the Company's cosmetics business in Japan was transferred to Shiseido Japan by company split.
- A company of less than 50 percent equity ownership that is treated as a subsidiary because Shiseido is essentially in control.
- Number of consolidated subsidiaries as of December 31, 2015

Management's Discussion and Analysis

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Operating Results and Financial Condition

Operating Results

Effective from this fiscal period, Shiseido and its consolidated subsidiaries in Japan excluding TaiShi Trading Co., Ltd., Bare Escentuals, KK and Selan Anonymous Association changed their balance sheet dates from March 31 to December 31. At the same time, the consolidated balance sheet date was amended from March 31 to December 31. As a result, the balance sheet dates of all consolidated subsidiaries are the same as the consolidated balance sheet date. By aligning the balance sheet dates of all consolidated subsidiaries, we aim to promote the management of a unified group and to enhance the transparency and quality of management through timely and pertinent disclosure of operating results and other important information.

Following this change in balance sheet date, the accounting period of the current fiscal period is 9 months, from April 1, 2015 to December 31, 2015.

For period-on-period comparisons, this report uses results for the corresponding period of the previous fiscal year, referred to as "the previous fiscal period" in the text and as "2015/3 (Adjusted)" in tables, charts and graphs.

Overview of Operating Results

In the fiscal period ended December 31, 2015, the Japanese economy continued to recover moderately supported by government measures to stimulate the economy, and consumer spending was stable overall. Similarly, the domestic cosmetics market remained firm because of ongoing recovery and inbound demand. In overseas cosmetics markets, results were closely linked to economic conditions in their respective regions. Growth in Europe was moderate and varied by country. However, growth remained firm in China, Asia and the Americas.

In the fiscal period ended December 31, 2015, Shiseido initiated bold steps to implement VISION 2020, the medium- and long-term strategy for remaining vital for the next 100 years. The fiscal period ended December 31, 2015 was therefore positioned as the start of a three-year plan to rebuild the business foundation. To enhance the value of strategic core brands, we shifted to a consumer-oriented focus for all Group activities, strengthened marketing innovation, and implemented initiatives to utilize diverse human resources and structure a global organization to support these efforts.

As a result, domestic sales increased 11.7 percent period on period. Overseas sales increased 13.3 percent on a yen basis and 5.4 percent on a local currency basis.

Operating income increased 77.4 percent period on period. Higher marginal income due to growth in net sales, aggressive marketing investment and efficient cost management were factors supporting the increase.

Net income attributable to owners of parent decreased 15.7 percent period on period. Factors included the absence of the gain on transfer of business recognized in other income (expenses) in the previous fiscal period from the sale of the *DECLÉOR* and *CARITA* brands, the lower tax rate related to the sale, and an increase in tax expenses due to a smaller tax benefit related to

the elimination of unrealized earnings as a result of the irregular fiscal period. As a result, consolidated operating profitability was 4.9 percent.

Net Sales

Net sales increased 12.6 percent compared with the previous fiscal period to ¥763,058 million (\$6,330,330 thousand). Domestic sales increased 11.7 percent to ¥296,903 million (\$2,463,107 thousand), supported by the success of brand innovations focused on mid- and high-priced brands, and steadily capturing inbound demand. Overseas sales increased 5.4 percent on a local currency basis with period-on-period growth across the board in China, Asia, the Americas and Europe. Translated into yen, overseas sales grew 13.3 percent to ¥466,155 million (\$3,867,222 thousand) because the yen remained relatively weak.

Net Sales/Overseas Sales Ratio

(Billions of yen)	2012/3	2013/3	2014/3	2015/3	2015/3 (Adjusted)	2015/12
Net Sales	682.4	677.7	762.0	777.7	677.5	763.1
Overseas Sales Ratio (%)	44.3	44.9	50.5	53.0	—	—
Domestic Sales	380.0	373.2	377.3	365.6	265.9	296.9
Overseas Sales	302.4	304.5	384.8	412.1	411.6	466.2

Cost of Sales and Selling, General and Administrative Expenses

Cost of Sales

Cost of sales increased 11.3 percent compared with the previous fiscal period to ¥196,009 million (\$1,626,090 thousand). The ratio of cost of sales to net sales decreased 0.3 percentage points to 25.7 percent, mainly because of the effect of cost structure reforms and product mix improvements.

Selling, General and Administrative Expenses

Selling, general and administrative (SG&A) expenses increased 10.3 percent compared with the previous fiscal period to ¥529,388 million (\$4,391,803 thousand). The ratio of SG&A expenses to net sales decreased 1.5 percentage points to 69.4 percent because net sales increased at a faster rate than SG&A expenses. Details of SG&A expenses are as follows.

Marketing Costs

Marketing costs consist of advertising and promotional expenses. The ratio of marketing costs to net sales increased 0.5 percentage points to 25.2 percent. Key factors were higher advertising expenses due to an aggressive increase in spending for television commercials and other media, and enhanced corporate advertising.

Personnel Expenses

The ratio of personnel expenses to net sales decreased 1.6 percentage points to 25.7 percent. This ratio improved because structural reforms raised productivity, and net sales increased at a higher rate than personnel expenses.

Other Expenses

The ratio of other expenses to net sales decreased 0.3 percentage points to 17.2 percent. R&D expenses increased, but other expenses decreased period on period because of the steady progress of cost structure reforms.

M&A-Related Amortization Expenses

The ratio of amortization expenses associated with mergers and acquisitions to net sales decreased 0.1 percentage points to 1.3 percent.

Cost of Sales Ratio/SG&A Expenses Ratio/SG&A Expenses						
	2012/3	2013/3	2014/3	2015/3	2015/3 (Adjusted)	2015/12
Cost of Sales Ratio (%)	23.9	24.6	24.9	25.2	26.0	25.7
SG&A Expenses Ratio (%)	70.4	71.6	68.6	71.2	70.9	69.4
Marketing Costs	23.5	23.5	22.2	23.4	24.7	25.2
Personnel Expenses	23.9	24.7	23.9	24.5	27.3	25.7
Other Expenses	21.6	22.0	21.3	22.1	17.5	17.2
M&A-Related Amortization Expenses	1.4	1.4	1.2	1.2	1.4	1.3
SG&A Expenses (Billions of yen)	480.3	484.9	522.8	553.6	480.1	529.4
Marketing Costs	160.3	159.0	169.3	182.2	167.0	192.1
Personnel Expenses	163.3	167.7	181.8	190.6	185.2	196.0
Other Expenses	147.6	149.1	162.7	171.4	118.5	131.2
M&A-Related Amortization Expenses	9.1	9.1	9.0	9.4	9.4	10.1

Note: From the fiscal period ended December 31, 2015, counter depreciation expenses and costs of BCs who are hired by distributors and retailers previously included in other expenses have been reclassified as marketing costs and personnel expenses, respectively.

Operating Income

Operating income increased 77.4 percent compared with the previous fiscal period to ¥37,660 million (\$312,427 thousand). Factors included an increase in marginal income due to growth in net sales, and more efficient cost management while investing aggressively in marketing. Operating profitability increased 1.8 percentage points to 4.9 percent.

Operating Income/Operating Profitability						
(Billions of yen)	2012/3	2013/3	2014/3	2015/3	2015/3 (Adjusted)	2015/12
Operating Income	39.1	26.0	49.6	27.6	21.2	37.7
Operating Profitability (%)	5.7	3.8	6.5	3.6	3.1	4.9

Other Income (Expenses)

Net other income was ¥5,232 million (\$43,404 thousand). The increase was largely due to compensation for early license agreement termination and the extraordinary bonus that arose in connection with the transfer of *Jean Paul GAULTIER* fragrance intellectual property rights, and gain on transfer of the *Ayura* brand and a subsidiary in Turkey.

Income before Income Taxes

Income before income taxes increased 9.8 percent compared with the previous fiscal period to ¥42,892 million (\$355,832 thousand).

Income Taxes, Including Deferred Taxes

Income taxes, including deferred taxes, increased 94.0 percent compared with the previous fiscal period to ¥17,292 million (\$143,454 thousand). Factors included the increase in tax expenses due to a smaller tax benefit related to the elimination of unrealized earnings as a result of the irregular fiscal period.

Net Income Attributable to Non-Controlling Interests

Net income attributable to non-controlling interests decreased 9.3 percent compared with the previous fiscal period to ¥2,389 million (\$19,819 thousand).

Net Income Attributable to Owners of Parent

Net income attributable to owners of parent decreased 15.7 percent compared with the previous fiscal period to ¥23,210 million (\$192,550 thousand). Net income per share was ¥58.2 (\$0.48). ROE was 6.0 percent.

Net Income (Loss) Attributable to Non-Controlling Interests/Return on Equity

(Billions of yen)	2012/3	2013/3	2014/3	2015/3	2015/3 (Adjusted)	2015/12
Net Income (Loss) Attributable to Owners of Parent	14.5	(14.7)	26.1	33.7	27.5	23.2
Return on Equity (%)	4.9	(5.1)	8.4	9.4	—	6.0

Note: Consolidated ROE for the fiscal period ended December 31, 2015 is calculated using consolidated net income attributable to owners of parent for the year as the numerator and the average of equity at March 31, 2015 and December 31, 2015 as the denominator.

ROE for the previous fiscal period has not been presented because a precise figure for equity has not been calculated.

Review by Reportable Segment

Japan Business

Net Sales

Net sales in the Japan Business segment increased 10.9 percent compared with the previous fiscal period to ¥266,773 million (\$2,213,149 thousand). As in the previous period, we continued to implement consumer-oriented initiatives aimed at enhancing brand value. At the same time, we strengthened efforts to innovate core brands and expanded marketing investments. As a result, sales of core brands grew steadily. Several brands generated strong growth, including the *ELIXIR* skincare brand, in its second year of brand innovation; the *MAQUILLAGE* makeup brand; the top-end prestige brand *clé de peau BEAUTÉ*; and *SHISEIDO*, which is being driven by the hit *ULTIMUNE*, a serum that draws out the skin's natural beauty.

Furthermore, we energetically took steps to address increasing inbound demand from the growing number of tourists visiting Japan, such as dispatching interpreters to stores and using multi-language tablets.

Shiseido also worked to deliver more value through alliances

and collaboration with other companies. Our initiatives to expand sales corners included a partnership with U.K.-based Burberry Ltd. and collaboration with a major distribution group that operates through various sales channels including convenience stores to plan and develop dedicated products that address the needs of consumers.

In the low-priced cosmetics and haircare categories, where issues remain, we took new approaches to more clearly communicate the value of our brands to consumers in an intensely competitive environment. We also continued to enhance initiatives including the development of new products and creation of sales corners that are aligned with consumer needs.

In the healthcare category, sales of the medicated lip cream *MOILIP* were robust due largely to inbound demand.

Operating Income

Operating income increased 52.1 percent compared with the previous fiscal period to ¥30,534 million (\$253,310 thousand). More efficient cost management and increased marginal income as a result of higher sales more than compensated for higher marketing investment.

Global Business

Net Sales

In the Global Business segment, sales rose 5.1 percent in local currency terms, and totaled ¥478,803 million (\$3,972,150 thousand) after translation into yen, a period-on-period increase of 12.9 percent that reflects the depreciation of the yen. Buoyed by efforts to successfully promote the reinforcement of brands that match the attributes of each area, sales were up period on period across the regions of China, Asia, the Americas and Europe.

In China, results were mixed amid efforts to promote business reforms. While prestige brand and e-commerce sales were robust, sales of mid-priced products stalled because of intense competition and temporary disruptions while we revamped our sales organization.

In Asia, sales remained strong in Singapore and Malaysia as well as in the travel retail business, which includes sales of cosmetics through such channels as airport duty-free stores. Moreover, intensified initiatives in the professional business improved results in hair color and haircare products.

Net Sales by Reportable Segment

Former segments					New segments		
(Billions of yen)	2012/3	2013/3	2014/3	2015/3	(Billions of yen)	2015/3 (Adjusted)	2015/12
Domestic Cosmetics Business	353.8	345.9	349.7	339.3	Japan Business	240.5	266.8
Global Business	319.7	322.3	402.2	427.9	Global Business	424.3	478.8
Others	8.9	9.5	10.1	10.5	Others	12.7	17.5
Total	682.4	677.7	762.0	777.7	Total	677.5	763.1

Income by Reportable Segment (Before Amortization of Goodwill)

Former segments					New segments		
(Billions of yen)	2012/3	2013/3	2014/3	2015/3	(Billions of yen)	2015/3 (Adjusted)	2015/12
Domestic Cosmetics Business	29.6	27.7	39.6	30.2	Japan Business	20.2	30.6
Global Business	13.6	2.1	12.1	(0.1)	Global Business	2.7	7.2
Others	1.4	2.0	2.1	2.2	Others	3.1	4.9

Income by Reportable Segment (After Amortization of Goodwill)

Former segments					New segments		
(Billions of yen)	2012/3	2013/3	2014/3	2015/3	(Billions of yen)	2015/3 (Adjusted)	2015/12
Domestic Cosmetics Business	29.5	27.5	39.5	30.0	Japan Business	20.1	30.5
Global Business	8.2	(3.3)	7.7	(4.7)	Global Business	(1.9)	2.1
Others	1.4	2.0	2.1	2.2	Others	3.1	4.9

Note: The Company partially revised its reportable segment classification method effective from the fiscal period ended December 31, 2015. Accordingly, the "Domestic Cosmetics Business" and "Global Business" segments have been reclassified as the "Japan Business" and "Global Business" segments, respectively. Taking into account this change, certain subsidiaries previously included in the "Domestic Cosmetics Business" segment have been reallocated to the "Global Business" and "Others" segments. Moreover, in order to more accurately grasp actual operating results in each segment, the allocation method for certain expenses has also been revised. Results and expenses for 2015/3 (Adjusted) (the corresponding period of the previous fiscal period) have been adjusted to conform to the new reportable segment classification and expense allocation methods.

In the Americas, *bareMinerals* sales were stagnant. In contrast, sales of *SHISEIDO* skin and sunscreen products drove sales growth, as did sales of the makeup artist brand *NARS*, for which we strengthened digital marketing.

In Europe, we struggled in Germany, Switzerland and other countries with challenging market environments. However, *ISSEY MIYAKE*, *narciso rodriguez* and other designer fragrance brand sales increased. *ULTIMUNE* serum within *SHISEIDO* performed well, as did mascara products that were developed in Europe to reflect the needs of the region. As of December 31, 2015, *SHISEIDO* was available in 88 countries and regions, including Japan.

Operating Income

Operating income was ¥2,112 million (\$17,521 thousand) compared with an operating loss of ¥1,897 million for the previous fiscal period. Efficient expense management and increased marginal income as a result of higher sales more than compensated for higher marketing investment, primarily in China and the fragrance business.

Others

Net Sales

Net sales in the Others segment increased 37.8 percent compared with the previous fiscal period to ¥17,481 million (\$145,022 thousand), reflecting successful efforts to capture inbound demand at THE GINZA Co., Ltd., which is mainly engaged in duty-free cosmetics sales in domestic airports. Sales were firm at Shiseido Parlour Co., Ltd., which operates in the restaurant business, supported by a renewal of its western confectionery lineup in October 2015. In the Frontier Science business, strong sales of bio-hyaluronic acid, a raw material for cosmetics and pharmaceuticals, complemented robust sales of 2e and NAVISION cosmetics for medical institutions, derived from our beauty care skin research.

Operating Income

Operating income increased 58.0 percent compared with the previous fiscal period to ¥4,921 million (\$40,824 thousand).

Profitability by Reportable Segment (Before Amortization of Goodwill)

Former segments					New segments		
(%)	2012/3	2013/3	2014/3	2015/3	(%)	2015/3 (Adjusted)	2015/12
Domestic Cosmetics Business	8.3	8.0	11.3	8.8	Japan Business	8.2	11.1
Global Business	4.2	0.6	3.0	(0.0)	Global Business	0.6	1.5
Others	9.9	13.4	13.8	14.6	Others	13.5	17.5

Profitability by Reportable Segment (After Amortization of Goodwill)

Former segments					New segments		
(%)	2012/3	2013/3	2014/3	2015/3	(%)	2015/3 (Adjusted)	2015/12
Domestic Cosmetics Business	8.3	7.9	11.2	8.8	Japan Business	8.1	11.1
Global Business	2.6	(1.0)	1.9	(1.1)	Global Business	(0.4)	0.4
Others	9.9	13.4	13.8	14.6	Others	13.5	17.5

Note: Net profitability by reportable segment is calculated against sales for the segment, including intersegment sales.

Overseas sales by destination are as follows.

Overseas Sales

(Billions of yen)	2012/3	2013/3	2014/3	2015/3	2015/3 (Adjusted)	2015/12
China	89.1	90.7	111.5	114.8	114.8	132.4
Asia	40.6	41.7	52.5	55.3	55.0	66.6
Americas	90.5	93.0	118.7	133.1	133.1	155.3
Europe	82.2	79.1	102.1	108.9	108.8	111.8
Total	302.4	304.5	384.8	412.1	411.6	466.2

Period-on-Period Growth in Overseas Sales (Local Currency Basis)*

(%)	2012/3	2013/3	2014/3	2015/3	2015/12
China	16.2	(0.2)	(1.8)	(4.8)	3.7
Asia	5.6	4.6	2.8	(1.4)	15.0
Americas	13.2	3.4	4.2	3.5	3.5
Europe	10.7	3.2	2.6	(1.4)	4.6
Total	11.9	2.4	1.8	(0.9)	5.4

* The above period-on-period growth in overseas sales on a local currency basis is a period-on-period comparison before translation into yen. Exchange rates for each fiscal period are presented below.

(Yen)	2012/3	2013/3	2014/3	2015/3	2015/12
U.S. dollar 1	79.8	79.8	97.7	105.9	121.1
Euro 1	111.1	102.6	129.7	140.4	134.3
Chinese yuan 1	12.4	12.7	15.9	17.2	19.2

Liquidity and Capital Resources

Financing and Liquidity Management

Shiseido seeks to generate stable operating cash flow and ensure a wide range of funding methods, with the aims of securing sufficient capital for operating activities and maintaining sufficient liquidity and a sound financial position. We fund working capital, capital expenditures, and investments and loans needed for sustainable growth primarily with cash on hand and operating cash flow supplemented by bank borrowings and bond issues. Shiseido has set a benchmark of 25 percent for the interest-bearing debt ratio to maintain finances at a level that enables access to capital on favorable terms. Shiseido meets its funding requirements for large-scale investments using optimum, timely methods given factors including operating status, financial position and market environment.

One of our targets for short-term liquidity is to maintain cash on hand at a level of approximately 1.5 months of consolidated net sales. As of December 31, 2015, cash, time deposits and short-term investments in securities totaled ¥124,457 million (\$1,032,495 thousand) and represented 1.7 months of consolidated net sales for the period from January 1, 2015 to December 31, 2015.

Interest-bearing liabilities as of December 31, 2015 totaled ¥86,613 million (\$718,541 thousand). Shiseido uses diversified funding methods. These include an unused shelf registration in Japan for ¥90.0 billion of straight bonds. Moreover, Shiseido Co., Ltd. and two subsidiaries in Europe and the United States have established a syndicated loan program with unused commitments totaling \$300 million. A subsidiary in the United States has also established an unused commercial paper program totaling \$65 million. As of December 31, 2015, Shiseido maintained a sufficient level of liquidity and a high level of financial flexibility because of its diversified funding methods.

Cash Flows

Cash and cash equivalents (net cash) as of December 31, 2015 totaled ¥104,926 million (\$870,466 thousand), an increase of ¥4,118 million (\$34,162 thousand) compared with the previous fiscal period end.

Cash Flows Summary

(Billions of yen)	2014/3	2015/3	2015/12
Cash Flows from Operating Activities	84.3	32.1	60.5
Cash Flows from Investing Activities	(16.8)	11.5	(23.1)
Cash Flows from Financing Activities	(47.5)	(58.4)	(30.2)
Cash and Cash Equivalents at End of Period	110.2	100.8	104.9

Cash Flows from Operating Activities

Net cash provided by operating activities was ¥60,529 million (\$502,148 thousand). Income before income taxes was ¥42,892 million (\$355,832 thousand), depreciation was

¥31,761 million (\$263,489 thousand), amortization of goodwill was ¥5,172 million (\$42,906 thousand), and increase in notes and accounts payable was ¥7,405 million (\$61,431 thousand). On the other hand, gain on transfer of business was ¥5,772 million (\$47,884 thousand) and income taxes paid totaled ¥24,935 million (\$206,860 thousand).

Cash Flows from Investing Activities

Net cash used in investing activities was ¥23,137 million (\$191,944 thousand). Among other factors, capital expenditures used ¥32,370 million (\$268,541 thousand), while proceeds from sales of investments in securities provided ¥6,762 million (\$56,097 thousand) and proceeds from transfer of business provided ¥4,233 million (\$35,116 thousand).

Cash Flows from Operating Activities/Capital Expenditures*

(Billions of yen)	2012/3	2013/3	2014/3	2015/3	2015/12
Cash Flows from Operating Activities	52.6	42.0	84.3	32.1	60.5
Capital expenditures*	29.2	29.7	28.3	26.8	32.4

* Property, plant and equipment + Intangible assets + Long-term prepaid expenses

Cash Flows from Financing Activities

Net cash used in financing activities was ¥30,151 million (\$250,132 thousand). Factors including repayment of long-term debt of ¥68,599 million (\$569,097 thousand) including redemption of bonds of ¥40,000 million (\$331,840 thousand), net decrease in short-term debt, including commercial paper, of ¥15,600 million (\$129,417 thousand) and cash dividend paid of ¥7,711 million (\$63,970 thousand) more than offset proceeds from long-term debt of ¥65,001 million (\$539,248 thousand), including proceeds from issuance of bonds of ¥30,000 million (\$248,880 thousand).

Assets, Liabilities and Net Assets

Assets

As of December 31, 2015, total assets decreased 1.8 percent compared with the previous fiscal period end to ¥808,547 million (\$6,707,706 thousand).

Current assets decreased 1.1 percent compared with the previous fiscal period end to ¥410,673 million (\$3,406,943 thousand). Non-current assets (fixed assets) decreased 2.6 percent compared with the previous fiscal period end to ¥397,873 million (\$3,300,754 thousand) mainly due to the amortization of goodwill and the sale of investments in securities by Shiseido Co., Ltd.

Liabilities

Total liabilities as of December 31, 2015 decreased 4.6 percent compared with the previous fiscal period end to ¥395,212 million (\$3,278,679 thousand).

Net Assets

Total net assets as of December 31, 2015 increased 1.0 percent compared with the previous fiscal period end to ¥413,334 million (\$3,429,019 thousand), mainly due to an increase in shareholders' equity.

Total Assets/Operating ROA					
(Billions of yen)	2012/3	2013/3	2014/3	2015/3	2015/12
Total Assets	720.7	715.6	801.3	823.6	808.5
Operating ROA (%)	5.6	3.8	6.8	3.6	4.8

Net Assets/Interest-Bearing Debt					
(Billions of yen)	2012/3	2013/3	2014/3	2015/3	2015/12
Net Assets	303.7	303.2	358.7	409.4	413.3
Interest-Bearing Debt	185.2	184.7	155.9	106.9	86.6

Equity Ratio/Interest-Bearing Debt Ratio					
(%)	2012/3	2013/3	2014/3	2015/3	2015/12
Equity Ratio	40.3	40.1	42.2	47.0	48.4
Interest-Bearing Debt Ratio	37.9	37.9	30.3	20.7	17.3

As of December 31, 2015 net assets per share increased ¥11.4 (\$0.09) compared with the previous fiscal period end to ¥981.4 (\$8.14). The equity ratio increased 1.4 percentage points to 48.4 percent from 47.0 percent a period earlier.

Credit Ratings

Shiseido recognizes the need to maintain a certain level of credit rating to secure financial flexibility that is consistent with our capital/liquidity policies and to secure access to sufficient capital resources through capital markets. Shiseido has acquired ratings from Moody's Japan K.K. (Moody's) and Standard and Poor's Ratings Japan K.K. (S&P) to facilitate fund procurement in global capital markets.

	Moody's	S&P
Long-term	A2 (Outlook: Stable)	A- (Outlook: Stable)
Short-term	P-1	A-2

(As of February 29, 2016)

Outlook for the Fiscal Year Ending December 31, 2016 (As of February 9, 2016)

Despite expectations that the global economy as a whole will continue to recover moderately throughout the fiscal year ending December 31, 2016, economic conditions are subject to certain downside risks. They include the impact of measures to normalize financial policies in the United States, uncertainty about the economic outlook for China and other emerging countries, the effects of fluctuations in foreign currency exchange rates, the drop in crude oil prices, and geopolitical concerns. In Japan, the positive impact of various policies and ongoing improvement in employment and income circumstances are expected to support continued moderate recovery. However, the potential negative impact of economic conditions overseas on the Japanese economy is a cause for concern.

Outlook for the Year Ending December 31, 2016

	2015/12	2015/12 (Adjusted) ¹	2016/12 (Outlook)	Change from 2015/12 (Adjusted)	
(Billions of yen)				(Yen basis)	(Local currency basis)
Net Sales	763.1	863.3	872.0	1.0%	3%
Japan Business	295.2	395.2	406.0	2.7%	3%
China Business	125.7	125.7	130.5	3.8%	10%
Asia Pacific Business	53.2	53.4	56.0	4.8%	5%
Americas Business	167.5	167.5	174.0	3.9%	6%
EMEA ² Business	104.2	104.2	87.0	(16.5%)	(14%)
Travel Retail Business	17.2	17.2	18.5	7.6%	10%
Operating Income	37.7	44.3	38.0	(14.3%)	(12%)
Net Income Attributable to Owners of Parent	23.2	29.5	28.0	(5.0%)	—

Notes: 1. Effective from the fiscal year ending December 31, 2016, the Company plans to revise its reportable segments classification method in line with changes to its organizational system and to change its reportable segments to "Japan Business," "China Business," "Asia Pacific Business," "Americas Business," "EMEA Business," and "Travel Retail Business." Results for the fiscal period ended December 31, 2015 have been restated using a simplified method.

2. Europe, the Middle East and Africa

3. 2015/12 (Adjusted): Figures for the Company and its consolidated subsidiaries with March 31 fiscal period-ends have been adjusted to the 12-month period January 31-December 31, 2015.

Under these circumstances, Shiseido will continue to invest and implement structural reforms while promoting efforts to rebuild its business foundation. We will increase marketing investments globally in the prestige category to build a strong brand portfolio while reinforcing our digital marketing and e-commerce initiatives.

In addition to the above, the transfer of *Jean Paul GAULTIER* fragrance intellectual property rights in January 2016 and the impact of foreign currency exchange rate movements will affect consolidated net sales, which we project will total ¥872.0 billion. While earnings are estimated to increase in line with the growth in net sales, operating income is anticipated to total ¥38.0 billion due to aggressive investment and plans to continue implementing structural reforms, and net income attributable to owners of parent is estimated at ¥28.0 billion.

Japan Business

We will continue brand selection and concentration and expansion of marketing investment in the Japan Business. At the same time, we will work closely with consumers and pursue trade marketing to enhance our ability to create attractive sales corners. In addition, we will strengthen measures to capture inbound demand. Through the measures for sustainable growth, we aim to expand market share. We estimate segment sales of ¥406.0 billion.

China Business

We will enhance the collective efforts of Shiseido's head office and local subsidiaries in China to restructure the business and build a foundation for renewed growth. We will strengthen the robust prestige category and e-commerce, and work on rebuilding the cosmetics business. We estimate segment sales of ¥130.5 billion.

Asia Pacific Business

In the Asia Pacific Business, we intend to accelerate prestige brand growth. Moreover, we will focus on fostering *Za* and *SENKA* and reinforce joint initiatives with retailers. We estimate segment sales of ¥56.0 billion.

Americas Business

In the Americas Business, we will continue to strengthen robust *NARS* and *SHISEIDO*. We will also implement drastic business reforms at Bare Escentuals, Inc. to restore flagging sales and growth potential. We estimate segment sales of ¥174.0 billion.

EMEA Business

In the EMEA Business, initiatives to build a platform for improving profitability will include nurturing fragrance brands, establishing a regional head office structure, and increasing organizational and

infrastructure efficiency. However, we estimate segment sales of ¥87.0 billion, due to the considerable impact of the transfer of *Jean Paul GAULTIER* fragrance intellectual property rights.

Travel Retail Business

In the Travel Retail Business, we will focus on increasing the number of counters and enhance advertising and promotions at airports, strengthen the development of dedicated products that address the unique needs of travelers, and accelerate growth with a focus on Asia. We estimate segment sales of ¥18.5 billion.

We base our predictions on major currency exchange rates (as of February 9, 2016) of ¥119 per U.S. dollar, ¥130 per euro, and ¥18.0 per Chinese yuan.

Business and Other Risks

The various risks that could potentially affect the business performance and financial position of Shiseido are summarized below. We feel that these risks could have a major impact on investors' decisions. Items that deal with future events are based on our judgment as of March 25, 2016. Please note that the potential risks are not limited to those listed below.

1. Decrease in Brand Value

Shiseido owns a range of symbolic brands such as *SHISEIDO* and will continue working to enhance their brand value, but a decline in brand value from an unforeseen event could negatively affect Shiseido's business performance and financial position.

2. Consumer Services

Shiseido places high priority on its relationships with consumers. The Shiseido Group corporate philosophy Our Mission, Values and Way and the Shiseido Group Standards of Business Conduct and Ethics clearly state that we shall act in a manner that earns the satisfaction and trust of consumers, and we will continue working to ensure that all employees are aware of these standards. However, an unforeseen event could cause loss of such satisfaction and trust, leading to a decline in the value of Shiseido brands. Shiseido's business performance and financial position could be negatively affected as a result.

3. Strategic Investment Activities

When making decisions about investments in strategic markets, mergers and acquisitions, and expansion in new businesses and new markets, Shiseido endeavors to collect sufficient information and undertake due diligence prior to making rational judgments. Due to various unforeseeable factors that may cause the operating environment to deteriorate, however, we may not achieve the results originally anticipated. This could negatively affect Shiseido's business performance and financial position.

4. The Competitive Environment of the Cosmetics Industry

Shiseido operates in the cosmetics industry, in which competition is intensifying on a global scale. Competition for share among Japanese cosmetics companies in the mature domestic market is intensifying because of factors including the expanding influence of global competitors in the prestige market, and the entry of new competitors from other industries. In addition, in overseas markets such as China and other Asian countries, which Shiseido has positioned as central to its growth strategy, the competitive environment is becoming increasingly challenging as global competitors are aggressively conducting mergers and acquisitions and expanding market share by executing marketing activities to raise consumer awareness of their brands. Consequently, inability to respond to this competitive environment effectively could negatively affect Shiseido's business performance and financial position.

5. Overseas Business Activities

As of December 31, 2015, *SHISEIDO* was available in 88 countries and regions including Japan, and overseas sales account for a growing percentage of consolidated net sales each period. In the course of conducting overseas business, Shiseido's business performance and financial position could be negatively affected by various factors. These include the occurrence of sudden and unpredictable economic, political and social crises; terrorism, war and civil war; economic and civil upheaval resulting from the spread of contagious diseases such as new strains of influenza; natural disasters; and severe or abnormal weather.

6. Market Risk

Raw material prices

International market conditions affect the price of raw materials used in Shiseido products. Factors affecting market conditions include geopolitical risk, the impact on supply and demand from increasing demand in developing countries and speculative capital flows, weather abnormalities and changes in exchange rates. Shiseido constantly works to limit the impact of rising raw material prices by reducing cost of sales and other means. However, changes in market conditions and prices that exceed projections could negatively affect Shiseido's business performance and financial position.

Exchange rates

Export, import and other transactions denominated in foreign currencies expose Shiseido to foreign exchange rate risk. Although we hedge foreign exchange rate risk through means such as limiting export and import transactions by establishing production bases to serve local markets, we are unable to completely eliminate risk. Moreover, the financial statements of overseas consolidated subsidiaries and equity affiliates are denominated in local currencies that are translated into yen upon inclusion in the consolidated financial statements. This has the potential to exert a negative impact on operating performance if the yen appreciates versus foreign currencies when revenues exceed expenses. Moreover, Shiseido's investments in overseas subsidiaries and equity affiliates are subject to foreign currency translation adjustments that reduce shareholders' equity if the yen appreciates. Foreign exchange fluctuations that exceed assumptions could negatively affect Shiseido's business performance and financial position.

Share prices

As of December 31, 2015, Shiseido held investments in securities and is therefore exposed to the risk of changes in share price, which can increase or decrease unrealized gains or losses and expose Shiseido to the risk of loss on revaluation. In addition, a portion of the pension plan assets of Shiseido's retirement benefit plan is invested in shares with a market price. Lower share prices could therefore reduce pension plan assets and negatively affect operating performance by increasing retirement benefit expenses. Unforeseen situations could negatively affect Shiseido's business performance and financial position.

7. Responding Appropriately to Market Needs

Shiseido's ability to develop and cultivate products and brands and to conduct marketing activities that respond appropriately to market needs exerts a significant impact on its sales and earnings. To respond to market needs, we continuously develop appealing new products and brands; reinforce and cultivate new and existing products and brands through marketing activities; and withdraw existing products and brands that no longer meet market needs. However, by nature these activities entail uncertainties that may prevent Shiseido from achieving its intended results, which could negatively affect Shiseido's business performance and financial position.

8. Specific Business Partners

Significant changes are taking place in retail and wholesale distribution channels. Failure to respond effectively to these changes could negatively affect Shiseido's business performance and financial position.

9. Regulatory Risk

Shiseido is subject to a range of domestic and overseas legal provisions in the course of conducting business. These include Japan's revised Pharmaceutical Affairs Law, as well as quality-related standards, environmental standards, accounting standards, and tax regulations. We aspire to be completely ethical based on legal compliance and corporate social responsibility. However, future regulatory changes or the establishment of unanticipated new regulations may limit Shiseido's activities, which could negatively affect Shiseido's business performance and financial position.

10. Material Litigation

In the fiscal period ended December 31, 2015, Shiseido was not involved in material litigation. In the future, unfavorable judgments resulting from material litigation could negatively affect Shiseido's business performance and financial position.

11. Information Security Risk

Shiseido takes various measures aimed at protecting its information assets, which include consumers' personal information and industrial secrets. Specifically, in Japan we have formulated and rigorously comply with our Personal Information Protection Rules for the handling of individual number and specific personal information, Confidential Information Controlling Regulation and Information System Controlling Regulation to carefully handle personal consumer information and protect all information assets. Overseas, we have also established rules based on the laws of the countries in which we operate. However, unforeseeable events, such as leakage of information due to unauthorized access, could negatively affect the Shiseido's Group's business performance and financial position.

12. Natural Disasters and Accidents

Shiseido has developed a business continuity plan covering issues critical to the continued operation of production bases, distribution bases, information systems and the head office to minimize loss due to interruption of production, distribution or sales resulting from the occurrence of a natural disaster or accident, such as a major earthquake. However, a natural disaster or accident that exceeds the assumptions of this plan and disrupts production, distribution or sales could negatively affect Shiseido's business performance and financial position.

Significant Accounting Estimates

Shiseido prepares its consolidated financial statements in accordance with accounting principles generally accepted in Japan. In preparing these financial statements, we select and apply accounting policies and necessarily make estimates that affect the presentation of reported amounts for assets, liabilities, revenue and expenses. We consider information including historical data in making rational estimates. However, due to the unpredictable nature of these estimates, actual results may vary.

Shiseido considers the following significant accounting policies to exert a large effect on key decisions regarding the estimates used in the consolidated financial statements.

Property, Plant and Equipment

Shiseido reviews fixed assets, primarily property, plant and equipment, for impairment whenever circumstances indicate that their carrying value may not be recoverable. Business-use assets are pooled by business division to estimate future cash flow, and the net sales value of idle assets is estimated for each separate asset. Based on these estimates, assets are devalued from book value to recoverable value. We consider the estimates of future cash flow and recoverable value to be rational. However, unpredictable factors could cause changes in underlying assumptions and estimates. This could change our estimates, decrease future cash flow and recoverable value, and require us to recognize impairment losses.

Goodwill, Trademarks and Other Intangible Assets

Shiseido reviews goodwill, trademarks and other intangible assets for impairment. Shiseido employs the opinions of external experts in estimating fair value and examining impairment for goodwill, trademarks and other intangible assets. The discounted cash flow method primarily used to estimate fair value relies extensively on estimates and assumptions regarding future cash flow and discount rate. These estimates and assumptions may significantly affect measurement and the amount of impairment recognized. We consider the estimates of fair value used for measuring impairment to be rational. However, unforeseen changes to underlying assumptions and estimates could reduce fair value and require us to recognize impairment losses.

Securities

Shiseido recognizes loss on revaluation for securities reported as available-for-sale securities for which fair value or market price has fallen substantially below acquisition cost. Securities deemed recoverable are excluded. Securities with a fair value that is more than 50 percent below acquisition cost as of the balance sheet date are deemed unrecoverable. The recoverability of securities with a fair value from 30 to 50 percent below acquisition cost is evaluated according to the performance and financial condition of the issuing entity. Loss on revaluation is recognized for securities for which fair value is not available if market price has fallen to more than 50 percent below the acquisition cost due to the finan-

cial condition of the issuing entity. Securities deemed recoverable are excluded. We consider the estimates of recoverability to be appropriate. However, in the future the market price of securities deemed recoverable may decrease and the performance and financial condition of the issuing entity may deteriorate. This could require us to recognize loss on revaluation.

Deferred Tax Assets

Shiseido has established a valuation allowance for deferred tax assets deemed unrecoverable using appropriate deferred tax asset accounting. Historical data and future projections are used to evaluate the recoverability of deferred tax assets to sufficiently determine taxable status. We consider these to be appropriate. However, unpredictable factors could cause changes in underlying assumptions that could reduce or eliminate deferred tax assets. This could require us to provide additional allowances for deferred tax assets.

Retirement Benefits and Obligations

Shiseido's domestic retirement benefit plans consist primarily of corporate pension plans and termination allowance plans. Employee benefits and obligations are calculated based on assumptions including discount rate, employee turnover rate, mortality rate and projected rate of return on pension plan assets. These assumptions are revised annually. Discount rate and expected return on pension plan assets are critical assumptions in determining benefits and obligations. The discount rate is determined based on the market rate as of the balance sheet date for long-term fixed-rate bonds that carry little or no risk. Expected return on pension plan assets is determined based on an expected weighted-average return for the various types of assets held within the plan. We consider these assumptions to be appropriate. However, actual results may vary and changes in the underlying assumptions could occur. This could affect retirement benefits and obligations.

Financial Section

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Consolidated Financial Statements

CONSOLIDATED BALANCE SHEETS

Shiseido Company, Limited and Subsidiaries
March 31, 2015 and December 31, 2015

	Note	Millions of yen		Thousands of U.S. dollars (Note 1)
		2015/3	2015/12	2015/12
ASSETS				
Current Assets:				
Cash and time deposits	3, 4, 7	¥ 103,603	¥ 116,771	\$ 968,732
Short-term investments in securities	3, 4, 5	18,266	7,685	63,754
Notes and accounts receivable:	4			
Trade		131,951	127,201	1,055,259
Unconsolidated subsidiaries and affiliates		—	—	—
		131,951	127,201	1,055,259
Less: allowance for doubtful accounts		(1,733)	(1,765)	(14,642)
		130,217	125,436	1,040,617
Inventories	6	106,696	105,928	878,778
Deferred tax assets	9	32,240	28,242	234,295
Other current assets		24,046	26,608	220,740
Total current assets		415,069	410,673	3,406,943
Property, Plant and Equipment, at Cost:	18, 19			
Buildings and structures	7	163,777	162,630	1,349,178
Machinery and equipment	7	166,523	164,851	1,367,604
Leased assets		6,678	7,373	61,166
		336,979	334,855	2,777,957
Less: accumulated depreciation		(232,001)	(236,406)	(1,961,224)
		104,978	98,448	816,724
Land		30,256	29,989	248,788
Construction in progress		1,752	5,843	48,473
Total property, plant and equipment	22	136,986	134,281	1,113,995
Intangible Assets:	18			
Goodwill	22	64,453	59,430	493,031
Leased assets		635	513	4,255
Trademarks		58,005	60,087	498,481
Other intangible assets		44,027	41,372	343,222
Total intangible assets		167,121	161,403	1,338,999
Investments and Other Assets:				
Investments in securities	4, 5, 7	26,381	24,631	204,338
Investments in unconsolidated subsidiaries and affiliates	4	2,853	2,803	23,253
Long-term prepaid expenses		12,842	12,692	105,292
Deferred tax assets	9	37,960	36,833	305,566
Other investments	7	24,420	25,226	209,274
Total investments and other assets		104,458	102,187	847,743
Total Assets	22	¥ 823,636	¥ 808,547	\$6,707,706

The accompanying notes are an integral part of the consolidated financial statements.

		Millions of yen	Thousands of U.S. dollars (Note 1)	
	Note	2015/3	2015/12	2015/12
LIABILITIES AND NET ASSETS				
Current Liabilities:				
Short-term debt	4, 7	¥ 27,789	¥ 11,386	\$ 94,458
Current portion of long-term debt	4, 7	47,825	7,610	63,132
Notes and accounts payable:	4			
Trade		32,905	32,162	266,815
Unconsolidated subsidiaries and affiliates		1,555	939	7,789
		34,460	33,102	274,614
Electronically recorded obligations - operating	4	25,980	29,213	242,351
Other payables	4	35,329	37,090	307,698
Accrued income taxes		16,210	4,661	38,667
Reserve for sales returns		15,101	14,799	122,772
Accrued bonuses for employees		17,012	18,480	153,310
Accrued bonuses for directors		182	55	456
Provision for liabilities and charges		649	1,192	9,888
Provision for structural reforms		10	—	—
Deferred tax liabilities	9	39	16	132
Other current liabilities		44,788	49,176	407,964
Total current liabilities		265,381	206,784	1,715,480
Long-Term Liabilities:				
Long-term debt	4, 7	31,281	67,617	560,950
Liability for retirement benefits	8	77,704	83,656	694,010
Allowance for losses on guarantees		350	350	2,903
Allowance for environmental measures		395	377	3,127
Provision for structural reforms		1,005	990	8,213
Deferred tax liabilities	9	33,198	31,270	259,415
Other long-term liabilities		4,949	4,165	34,552
Total long-term liabilities		148,885	188,428	1,563,198
Total Liabilities		414,267	395,212	3,278,679
CONTINGENT LIABILITIES				
NET ASSETS				
Shareholders' Equity:				
Common stock	10	64,506	64,506	535,141
Authorized: 1,200,000,000 shares as of March 31, 2015 and December 31, 2015	11			
Issued: 400,000,000 shares as of March 31, 2015 and December 31, 2015				
Capital surplus		70,258	70,258	582,860
Retained earnings		218,757	233,933	1,940,708
Less: treasury stock, at cost		(2,214)	(1,700)	(14,103)
Treasury stock: 1,173,894 shares as of March 31, 2015 and 899,741 shares as of December 31, 2015				
Total shareholders' equity		351,308	366,999	3,044,624
Accumulated Other Comprehensive Income:				
Unrealized gains (losses) on available-for-sale securities	5	6,443	8,144	67,562
Foreign currency translation adjustments		48,544	40,374	334,942
Accumulated adjustments for retirement benefits		(19,435)	(23,854)	(197,892)
Total accumulated other comprehensive income		35,552	24,664	204,612
Stock Acquisition Rights	12	1,043	863	7,159
Non-Controlling Interests in Consolidated Subsidiaries		21,465	20,806	172,606
Total Net Assets		409,369	413,334	3,429,019
Total Liabilities and Net Assets		¥823,636	¥ 808,547	\$6,707,706

CONSOLIDATED STATEMENTS OF INCOME/ CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

Shiseido Company, Limited and Subsidiaries
For the fiscal periods ended March 31, 2015 and December 31, 2015

CONSOLIDATED STATEMENTS OF INCOME

	Note	Millions of yen		Thousands of U.S. dollars (Note 1)
		2015/3	2015/12	2015/12
Net Sales	22	¥777,687	¥763,058	\$6,330,330
Cost of Sales		196,433	196,009	1,626,090
Gross profit		581,254	567,048	4,704,230
Selling, General and Administrative Expenses	13	553,640	529,388	4,391,803
Operating income	22	27,613	37,660	312,427
Other Income (Expenses):				
Interest and dividend income		1,759	1,731	14,360
Interest expense		(1,207)	(809)	(6,711)
Foreign exchange gain (loss)		(657)	(1,790)	(14,849)
Equity in earnings of affiliates		212	149	1,236
Gain on sales of investments in securities	5	203	2,426	20,126
Loss on revaluation of investments in securities		(0)	(6)	(49)
Gain (loss) on sales and disposal of property, plant and equipment		3,257	(436)	(3,617)
Gain on transfer of business	17	22,268	5,772	47,884
Impairment loss	18, 22	(2,531)	(153)	(1,269)
Structural reform expenses	19	(3,273)	(1,485)	(12,319)
Loss on liquidation of subsidiaries and affiliates	20	(125)	(812)	(6,736)
Other, net		1,519	646	5,359
		21,425	5,232	43,404
Income before income taxes		49,038	42,892	355,832
Income Taxes	9			
Current		20,230	15,267	126,655
Deferred		(7,419)	2,024	16,791
		12,811	17,292	143,454
Net income		36,227	25,600	212,377
Net Income Attributable to Non-Controlling Interests		(2,558)	(2,389)	(19,819)
Net Income Attributable to Owners of Parent		¥ 33,668	¥ 23,210	\$ 192,550

	Note	Yen		U.S. dollars (Note 1)
		2015/3	2015/12	2015/12
Per Share	2 (9)			
Net income — basic		¥84.4	¥58.2	\$0.48
— diluted		84.3	58.1	0.48
Cash dividend		20.0	20.0	0.17
Weighted Average Number of Shares (thousands)		398,704	399,026	

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	Note	Millions of yen		Thousands of U.S. dollars (Note 1)
		2015/3	2015/12	2015/12
Net Income		¥36,227	¥ 25,600	\$212,377
Other Comprehensive Income				
Unrealized gains (losses) on available-for-sale securities	5	2,842	1,690	14,020
Foreign currency translation adjustments		30,822	(9,173)	(76,099)
Adjustments for retirement benefits		773	(4,468)	(37,066)
Share of other comprehensive income of associates accounted for under the equity method		2	(55)	(456)
Total other comprehensive income (loss)	21	34,441	(12,005)	(99,593)
Comprehensive Income		¥70,668	¥ 13,594	\$112,775
(Breakdown)				
Comprehensive income attributable to owners of parent		¥66,193	¥ 12,323	\$102,231
Comprehensive income attributable to non-controlling interests		4,474	1,271	10,544

The accompanying notes are an integral part of the consolidated financial statements.

CONSOLIDATED STATEMENTS OF CHANGES IN NET ASSETS

Shiseido Company, Limited and Subsidiaries

For the fiscal periods ended March 31, 2015 and December 31, 2015

	Thousands			Millions of yen						
	Number of shares of common stock	Common stock	Capital surplus	Retained earnings	Treasury stock, at cost	Unrealized gains (losses) on available-for-sale securities	Foreign currency translation adjustments	Accumulated adjustments for retirement benefits	Stock acquisition rights	Non-controlling interests in consolidated subsidiaries
Balance as of April 1, 2014	400,000	¥64,506	¥70,258	¥203,452	¥(2,682)	¥3,544	¥19,690	¥(20,207)	¥ 941	¥19,204
Effect of changes in accounting policies (cumulative)	—	—	—	(10,303)	—	—	—	—	—	(2)
Balance at beginning of year reflecting changes in accounting policies	400,000	64,506	70,258	193,149	(2,682)	3,544	19,690	(20,207)	941	19,201
Net income attributable to owners of parent	—	—	—	33,668	—	—	—	—	—	—
Cash dividend from retained earnings	—	—	—	(7,972)	—	—	—	—	—	—
Equity transactions with non-controlling interests and others	—	—	—	(133)	—	—	—	—	—	—
Acquisition of treasury stock	—	—	—	—	(6)	—	—	—	—	—
Disposal of treasury stock	—	—	—	(93)	474	—	—	—	—	—
Change in scope of consolidation	—	—	—	139	—	—	—	—	—	—
Net changes of items other than shareholders' equity	—	—	—	—	—	2,899	28,854	771	102	2,263
Balance as of March 31, 2015	400,000	64,506	70,258	218,757	(2,214)	6,443	48,544	(19,435)	1,043	21,465
Net income attributable to owners of parent	—	—	—	23,210	—	—	—	—	—	—
Cash dividend from retained earnings	—	—	—	(7,979)	—	—	—	—	—	—
Equity transactions with non-controlling interests and others	—	—	—	(55)	—	—	—	—	—	—
Acquisition of treasury stock	—	—	—	—	(10)	—	—	—	—	—
Disposal of treasury stock	—	—	0	—	524	—	—	—	—	—
Net changes of items other than shareholders' equity	—	—	—	—	—	1,701	(8,170)	(4,418)	(180)	(658)
Balance as of December 31, 2015	400,000	¥64,506	¥70,258	¥233,933	¥(1,700)	¥8,144	¥40,374	¥(23,854)	¥ 863	¥20,806
	Thousands			Thousands of U.S. dollars (Note 1)						
	Number of shares of common stock	Common stock	Capital surplus	Retained earnings	Treasury stock, at cost	Unrealized gains (losses) on available-for-sale securities	Foreign currency translation adjustments	Accumulated adjustments for retirement benefits	Stock acquisition rights	Non-controlling interests in consolidated subsidiaries
Balance as of April 1, 2015	400,000	\$535,141	\$582,860	\$1,814,808	\$(18,367)	\$53,451	\$402,721	\$(161,232)	\$8,652	\$178,073
Net income attributable to owners of parent	—	—	—	192,550	—	—	—	—	—	—
Cash dividend from retained earnings	—	—	—	(66,193)	—	—	—	—	—	—
Equity transactions with non-controlling interests and others	—	—	—	(456)	—	—	—	—	—	—
Acquisition of treasury stock	—	—	—	—	(82)	—	—	—	—	—
Disposal of treasury stock	—	—	0	—	4,347	—	—	—	—	—
Net changes of items other than shareholders' equity	—	—	—	—	—	14,111	(67,778)	(36,651)	(1,493)	(5,458)
Balance as of December 31, 2015	400,000	\$535,141	\$582,860	\$1,940,708	\$(14,103)	\$67,562	\$334,942	\$(197,892)	\$7,159	\$172,606

The accompanying notes are an integral part of the consolidated financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

Shiseido Company, Limited and Subsidiaries

For the fiscal periods ended March 31, 2015 and December 31, 2015

		Millions of yen	Thousands of U.S. dollars (Note 1)	
	Note	2015/3	2015/12	2015/12
Cash Flows from Operating Activities:				
Income before income taxes		¥ 49,038	¥ 42,892	\$ 355,832
Depreciation		33,353	31,761	263,489
Amortization of goodwill		4,726	5,172	42,906
Impairment loss		2,531	153	1,269
(Gain) loss on sales and disposal of property, plant and equipment		(3,257)	436	3,617
(Gain) loss on sales of investments in securities		(203)	(2,426)	(20,126)
(Gain) loss on revaluation of investments in securities		0	6	49
Gain on transfer of business		(22,268)	(5,772)	(47,884)
Loss on liquidation of subsidiaries and affiliates		—	812	6,736
Increase (decrease) in allowance for doubtful accounts		260	620	5,143
Increase (decrease) in reserve for sales returns		3,490	(396)	(3,285)
Increase (decrease) in accrued bonuses for employees		(1,568)	1,845	15,306
Increase (decrease) in accrued bonuses for directors		(107)	(127)	(1,053)
Increase (decrease) in provision for liabilities and charges		219	621	5,151
Increase (decrease) in provision for structural reforms		(168)	(25)	(207)
Increase (decrease) in liability for retirement benefits		2,086	1,562	12,958
Increase (decrease) in allowance for environmental measures		—	(18)	(149)
Interest and dividend income		(1,759)	(1,731)	(14,360)
Interest expense		1,207	809	6,711
Equity in earnings of affiliates		(212)	(149)	(1,236)
(Increase) decrease in notes and accounts receivable		11,173	(1,745)	(14,476)
(Increase) decrease in inventories		(11,625)	(2,846)	(23,610)
Increase (decrease) in notes and accounts payable		(8,586)	7,405	61,431
Other		(1,882)	5,721	47,461
Subtotal		56,446	84,579	701,667
Interest and dividends received		1,709	1,728	14,335
Interest paid		(1,328)	(843)	(6,993)
Income taxes paid		(24,693)	(24,935)	(206,860)
Net cash provided by operating activities		32,134	60,529	502,148
Cash Flows from Investing Activities:				
Transfers to time deposits		(17,777)	(18,312)	(151,916)
Proceeds from maturity of time deposits		17,412	17,915	148,622
Acquisition of short-term investments in securities		—	(89)	(738)
Proceeds from sales of short-term investments in securities		1,300	14	116
Acquisition of investments in securities		(296)	(1,051)	(8,719)
Proceeds from sales of investments in securities		1,842	6,762	56,097
Proceeds from transfer of business		29,823	4,233	35,116
Acquisition of property, plant and equipment		(15,610)	(16,941)	(140,542)
Proceeds from sales of property, plant and equipment		5,577	829	6,877
Acquisition of intangible assets		(5,225)	(10,055)	(83,416)
Payments of long-term prepaid expenses		(5,938)	(5,373)	(44,574)
Payments of long-term loans receivable		—	(140)	(1,161)
Acquisition of shares in subsidiaries resulting in change in scope of consolidation		—	(221)	(1,833)
Sales of shares in subsidiaries resulting in change in scope of consolidation		—	(141)	(1,169)
Other		429	(566)	(4,695)
Net cash provided by (used in) investing activities		11,538	(23,137)	(191,944)
Cash Flows from Financing Activities:				
Net increase (decrease) in short-term debt		23,039	(15,600)	(129,417)
Proceeds from long-term debt		—	65,001	539,248
Repayment of long-term debt		(70,917)	(68,599)	(569,097)
Repayment of lease obligations		(2,012)	(1,686)	(13,987)
Acquisition of treasury stock		(6)	(10)	(82)
Disposal of treasury stock		381	525	4,355
Cash dividend paid		(7,988)	(7,711)	(63,970)
Cash dividend paid to non-controlling interests		(914)	(2,071)	(17,181)
Net cash used in financing activities		(58,419)	(30,151)	(250,132)
Effect of Exchange Rate Changes on Cash and Cash Equivalents		4,818	(3,121)	(25,891)
Net Change in Cash and Cash Equivalents		(9,927)	4,118	34,162
Cash and Cash Equivalents at Beginning of Year	3	110,163	100,807	836,295
Increase in Cash and Cash Equivalents from Newly Consolidated Subsidiary		571	—	—
Cash and Cash Equivalents at End of Year	3	¥100,807	¥104,926	\$ 870,466

The accompanying notes are an integral part of the consolidated financial statements.

Notes to the Consolidated Financial Statements

Shiseido Company, Limited and Subsidiaries

1. BASIS OF PRESENTING CONSOLIDATED FINANCIAL STATEMENTS

Accounting Principles and Presentation

The financial statements of Shiseido Company, Limited (the "Company") and its consolidated subsidiaries have been prepared in accordance with the provisions set forth in the Financial Instruments and Exchange Law and Companies Act and in conformity with accounting principles generally accepted in Japan. Therefore, application and disclosure requirements are different from International Financial Reporting Standards in certain respects.

Certain items presented in the consolidated financial statements filed with the Director of the Kanto Finance Bureau in Japan have been reclassified for the convenience of the reader.

Amounts in U.S. dollars are included solely for the convenience of the reader. The rate of ¥120.54 = US\$1 prevailing on December 31, 2015 has been used in translating the consolidated financial statements expressed in Japanese yen into U.S. dollars. Such translations should not be construed as representations that the Japanese yen amounts could be readily converted, realized or settled in U.S. dollars at this rate.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(1) Scope of Consolidation

The Company has 93 subsidiaries (companies over which the Company exercises control over operations) as of December 31, 2015 (94 as of March 31, 2015). The accompanying consolidated financial statements as of December 31, 2015 include the accounts of the Company and its 91 (92 as of March 31, 2015) significant subsidiaries (the "Companies").

The Company has 4 affiliates (companies that are not subsidiaries but over which the Company exercises significant influence) as of December 31, 2015 (4 as of March 31, 2015). Investments in 4 affiliates are accounted for by the equity method as of December 31, 2015 (4 as of March 31, 2015).

Three companies—PT Shiseido Professional Indonesia, Shiseido Asia Pacific Pte. Ltd. and JOICO Belgium NV—were established and commenced operations during the period and thus have been included in the scope of consolidation in the fiscal period ended December 31, 2015.

Shares held in Ayura Laboratories Inc., Shiseido Hellas S.A. and SHISEIDO Kozmetik Anonim Sirketi were sold during the period. Accordingly, these companies were excluded from the scope of consolidation in the fiscal period under review.

Shiseido Beauty Foods Co., Ltd. was liquidated during the period. Accordingly, this company was excluded from the scope of consolidation in the fiscal period ended December 31, 2015.

The major consolidated subsidiaries are listed in "Main Subsidiaries and Affiliates" on page 84.

Investments in 2 unconsolidated subsidiaries are stated at cost as they are immaterial to the consolidated financial statements.

The Company has adopted the "full fair value method" so that all of the assets and liabilities of the subsidiaries are marked to fair value as of the date of acquisition of control.

All significant intercompany balances and transactions have been eliminated in consolidation. All material unrealized profits included in assets resulting from intercompany transactions are eliminated.

(2) Inventories

Inventories are generally valued at cost, determined by the periodic average method. The carrying amount in the balance sheet is calculated with consideration of write-downs due to decreased profitability.

(3) Property, Plant and Equipment (Excluding Leased Assets)

Tangible fixed assets are, in principle, depreciated using the straight-line method. The main estimated useful lives are as follows:

- Buildings and structures: 2-50 years
- Machinery, equipment and vehicles: 2-12 years
- Tools, furniture and fixtures: 2-15 years

(4) Intangible Assets (Excluding Leased Assets)

Intangible assets are, in principle, amortized using the straight-line method. The main estimated useful lives are as follows:

- Software: 5 years
- Customer relationships: 10 years

(5) Leased Assets

Finance leased assets that are not deemed to transfer ownership of the leased property to the lessee are depreciated using the straight-line method over the period of the lease, with zero residual value.

(6) Long-Term Prepaid Expenses

Long-term prepaid expenses are primarily amortized using the straight-line method.

(7) Goodwill

Amortization of goodwill is determined on a case by case basis and is generally amortized using the straight-line method over a period not exceeding 20 years.

(8) Securities

The Company and its consolidated subsidiaries categorize their existing securities as available-for-sale securities. Those securities with market prices are carried at fair value prevailing at the fiscal year end, with net unrealized gains and losses, net of taxes, reported separately in net assets. The cost of securities sold is mainly calculated using the moving-average method.

If fair value is not available, securities are carried at cost, which is determined mainly by the moving-average method. Investments in limited partnerships are recorded as investments in securities at the amount of interest in such partnerships calculated based on ownership percentage. Investment gain or loss is included in net income or loss in proportion to the ownership interests in the net asset value of the partnership.

Securities with remaining maturities of one year or less and securities that are recognized as cash equivalents are classified as short-term investments in securities. Those with maturities extending beyond one year are included in investments in securities as non-current assets.

(9) Net Income and Cash Dividend per Share

Net income per share of common stock is based on the weighted average number of shares of common stock outstanding during each year. The computation of diluted net income per share of common stock reflects the maximum possible dilution that could occur if securities or other contracts to issue common stock were exercised or converted into common stock or resulted in the issuance of common stock.

Cash dividend per share shown for each year in the consolidated statements of operations represents the dividend declared as applicable to the respective year, rather than that paid in each year.

(10) Accounting for Consumption Tax

In Japan, consumption tax is imposed at a flat rate on all domestic consumption of goods, assets and services (with certain exemptions). The consumption tax withheld upon sales is recorded as a liability. Consumption tax, which is paid by the Company and its domestic consolidated subsidiaries on purchases of goods, assets and services, is offset against the balance withheld, and the net amount is subsequently paid to the national government.

Transactions subject to consumption taxes are recorded at amounts exclusive of consumption taxes.

(11) Allowance for Doubtful Accounts

The Company and its domestic consolidated subsidiaries provide an allowance for doubtful accounts based on the historic percentage of actual bad debt losses against the balance of total receivables and the amount of uncollectible receivables estimated on an individual basis. Overseas consolidated subsidiaries record the allowance based primarily on the amount of uncollectible receivables estimated on an individual basis.

(12) Reserve for Sales Returns

The Companies provide a reserve for sales returns for future losses considering the past return ratios and distributors' stock.

(13) Accrued Bonuses for Employees

The Companies provide accrued bonuses for employees based on the estimated amounts to be paid in respect of the fiscal year. This reserve includes bonuses for corporate officers who are non-Board members, for whom the calculations are the same as those described in Accrued Bonuses for Directors.

(14) Accrued Bonuses for Directors

The Companies provide accrued bonuses for members of the Board of Directors who concurrently serve as corporate executive officers based on the estimated amounts to be paid in respect of the fiscal year.

(15) Provision for Liabilities and Charges

To provide for losses due to legal risks, product guarantee risks, tax risks, and other factors, certain overseas consolidated subsidiaries record provisions, the amount of which is based on estimated losses to be incurred considering the likelihood of such losses in the future.

(16) Allowance for Losses on Guarantees

The Company provides an allowance for estimated probable losses on guarantees based on the financial status of the parties for which guarantees have been provided.

(17) Allowance for Environmental Measures

The Company and its domestic consolidated subsidiaries provide a reserve for the estimated cost to treat polychlorinated biphenyl (PCB) waste as required by the "Act on Special Measures Concerning Promotion of Proper Treatment of PCB Wastes" (Act No. 65 of 2001).

(18) Provision for Structural Reforms

The Company provides a reserve for the estimated amount of expenses and the losses to be incurred in association with structural reforms.

(19) Liability for Retirement Benefits

- ① Periodic allocation methodology for the estimated retirement benefit amount

The retirement benefit obligation is calculated by allocating the estimated retirement benefit amount until the end of the current fiscal year on a benefit formula basis.

- ② Amortization of past service cost and actuarial gains/losses

Past service cost is primarily amortized on a straight-line basis over a 10-year period, which is shorter than the average remaining years of service of the eligible employees.

Net actuarial gain or loss is primarily amortized from the following year on a straight-line basis over a 10-year period, which is shorter than the average remaining years of service of the eligible employees.

(20) Foreign Currency Translation

Receivables and payables denominated in foreign currencies are translated into Japanese yen at the exchange rate prevailing on the respective balance sheet dates, and resulting exchange gains or losses are included in net income or loss for the fiscal year.

(21) Derivatives and Hedging Activities

The Companies use derivatives such as foreign exchange forward contracts, foreign currency options, interest rate swap contracts, and interest rate and currency swap contracts to reduce market risks and maintain stable profits. The Companies limit their use of derivative transactions to the amounts of foreign currency denominated receivables and payables and actual requirements, and do not use derivatives for speculative trading.

The Companies execute and manage derivatives within the limits of established internal rules and regulations, and reduce credit risk by limiting counterparties to highly creditworthy financial institutions.

Derivatives are carried at fair value with gains or losses recognized in the consolidated statements of operations. For derivatives used for hedging purposes, if derivatives meet the requirements for hedge accounting, gains or losses on derivatives are

deferred until recognition of the hedged transactions.

If interest rate swap contracts are used as a hedge and meet certain hedging criteria, the interest rate swaps are not stated at fair value, and instead the amount to be received under the interest rate swap contract is added to or deducted from the interest on the liabilities for which the swap contract was executed (special accounting). If interest rate and currency swap contracts are used as a hedge and meet certain hedging criteria, the interest rate and currency swap contracts are not stated at fair value, and instead the amount to be received under the interest rate and currency swap contracts is added to or deducted from the interest on the liabilities for which the swap contracts were executed, and the liabilities denominated in foreign currencies, for which the interest rate and currency swap contracts were executed, are translated at the contracted rate (integral accounting).

Measurement of hedge effectiveness is not considered necessary for interest rate swap contracts that meet the requirements for special accounting and interest rate and currency swap contracts that meet the requirements for integral accounting.

(22) Foreign Currency Denominated Financial Statements

Financial statements of overseas consolidated subsidiaries and affiliates that are denominated in foreign currencies are translated into Japanese yen at the exchange rates prevailing at the respective balance sheet dates of those subsidiaries for assets and liabilities, and at the historical exchange rates for shareholders' equity. All income and expense amounts are translated at the average rates of exchange during the fiscal year of those subsidiaries and affiliates.

The resulting translation adjustments are included in net assets as foreign currency translation adjustments and minority interests.

(23) Definition of "Cash and Cash Equivalents" in Consolidated Statements of Cash Flows

Cash and cash equivalents as shown in the consolidated statements of cash flows are composed of cash in hand, readily available time deposits, and short-term investments with maturities of 3 months or less at the time of purchase that are exposed to insignificant risk of change in value.

(24) Practical Solution on Unification of Accounting Policies Applied to Foreign Subsidiaries for Consolidated Financial Statements

The Company has applied "Practical Solution on Unification of Accounting Policies Applied to Foreign Subsidiaries for Consolidated Financial Statements" (ASBJ Practical Issues Task Force No. 18, February 19, 2010 amendment), and necessary modifications have been made for consolidation.

(25) Application of Consolidated Taxation System

The Company and certain domestic consolidated subsidiaries applied a consolidated taxation system.

(26) Change in Accounting Policies

The Company has applied the "Accounting Standard for Business Combinations" (Accounting Standards Board of Japan (ASBJ) Statement No. 21, September 13, 2013), the "Accounting Standard for Consolidated Financial Statements" (ASBJ Statement No. 22, September 13, 2013) and the "Accounting Standard for Business Divestitures" (ASBJ Statement No. 7, September 13, 2013) effective from the fiscal period ended December 31, 2015. Under the adopted accounting standards, differences arising from the change in the Company's ownership interest in subsidiaries are accounted for as capital surplus as long as the Company retains control over its subsidiaries, and acquisition-related costs are accounted for as expenses in the fiscal period in which such costs are incurred. Furthermore, effective for business combinations occurring on or after the beginning of the fiscal period ended December 31, 2015, adjustments of the provisional allocation of acquisition costs for a business combination due to the completion of measurement are retrospectively reflected as if the accounting for the business combination had been completed at the acquisition date. In addition, the title "net income" has been changed to "net income attributable to shareholders of the Company," and the title "minority interests" has been changed to "non-controlling interests." The consolidated financial statements for the previous fiscal year have been reclassified to reflect these changes in presentation.

In accordance with the transitional treatment prescribed in Clause 58-2 (4) of the "Accounting Standard for Business Combinations," in Clause 44-5 (4) of the "Accounting Standard for Consolidated Financial Statements" and in Clause 57-4 (4) of the "Accounting Standard for Business Divestitures," the aforementioned accounting standards have been applied from the beginning of the fiscal period ended December 31, 2015.

(27) Change in Consolidated Fiscal Period-Ends

Effective from this fiscal period, Shiseido and its consolidated subsidiaries in Japan excluding TaiShi Trading Co., Ltd., Bare Escentuals, KK and Selan Anonymous Association changed their balance sheet dates from March 31 to December 31. At the same time, the consolidated balance sheet date was amended from March 31 to December 31. As a result, the balance sheet dates of all consolidated subsidiaries are the same as the consolidated balance sheet date. By aligning the balance sheet dates of all consolidated subsidiaries, we aim to promote the management of a unified group and to enhance the transparency and quality of management through timely and pertinent disclosure of operating results and other important information.

Following this change in balance sheet date, the accounting period of the current fiscal period is 9 months, from April 1, 2015 to December 31, 2015.

3. CASH FLOW INFORMATION

The reconciliation of cash and time deposits shown in the consolidated balance sheets and cash and cash equivalents shown in the consolidated statements of cash flows as of March 31, 2015 and December 31, 2015 is as follows:

	Millions of yen	Thousands of U.S. dollars (Note 1)	
	2015/3	2015/12	2015/12
Cash and time deposits	¥103,603	¥116,771	\$ 968,732
Short-term investments in securities	18,266	7,685	63,754
Total	¥121,869	¥124,457	\$1,032,495
Time deposits with maturities exceeding 3 months	(18,999)	(17,463)	(144,873)
Debt securities with maturities exceeding 3 months	(2,061)	(2,067)	(17,147)
Cash and cash equivalents	¥100,807	¥104,926	\$ 870,466

For the fiscal period ended March 31, 2015

The breakdown of book value of assets and liabilities associated with the transferred businesses, transfer value and proceeds from transfer of business related to the *DECLÉOR* and *CARITA* brands are as follows:

Current assets	¥6,731 million
Non-current assets	¥7,623 million
Current liabilities	¥(4,085) million
Non-current liabilities	¥(1,798) million
Foreign currency translation adjustments	¥788 million
Gain on transfer of business	¥22,268 million
Transfer value	¥31,532 million
Cash and cash equivalents	¥(1,708) million
Net cash proceeds from transfer of business	¥29,823 million

Significant non-cash transactions are as follows:

¥2,656 million and ¥1,417 million (\$11,755 thousand) of assets and obligations related to finance lease transactions were newly recorded in the periods ended March 31, 2015 and December 31, 2015, respectively.

4. FINANCIAL INSTRUMENTS

(1) Financial Instruments

① Policy for financial instruments

The Companies limit fund management to short-term deposits, investments in securities and other methods.

As a matter of policy, the Companies procure funds using bank loans, commercial paper, bonds and other methods.

The Companies use derivatives to avoid the risk of foreign exchange rate fluctuations associated with receivables and payables denominated in foreign currencies and the risk of interest rate fluctuations associated with loans. The Companies limit the use of derivatives to the volume of receivables and payables and actual requirements, and do not engage in speculative transactions.

② Types of financial instruments, risks and risk management system

Notes and accounts receivable are exposed to customer credit risk. The Companies mitigate this risk by managing settlement date and amount due for each counterparty.

Investments in securities, primarily the equity securities of corporations with which the Companies do business, are exposed to the risk of fluctuations in market price. The Companies manage this risk by periodically examining market prices and the financial condition of the issuing entities.

Notes, electronically recorded obligations and accounts payable are due within one year.

Interest-bearing debt includes short-term borrowings and commercial paper, which the Companies use to procure funds for operating transactions, as well as long-term borrowings, bonds and lease obligations, which the Companies use to fund investments and loans, capital expenditures and operating transactions. Floating-rate debt is exposed to the risk of interest rate fluctuations. The Companies hedge this risk for specific long-term borrowings by using derivatives (interest rate swap contracts and interest rate and currency swap contracts) to avoid the risk of interest rate fluctuations and fix interest payments.

The Companies use foreign exchange forward contracts and foreign currency options to hedge the risk of foreign exchange fluctuations associated with receivables and payables denominated in foreign currencies and interest rate swap contracts to hedge the risk of interest rate fluctuations associated with floating-rate debt, and interest rate and currency swap contracts to hedge the risk of foreign exchange fluctuations and fluctuations in interest rates associated with debt in foreign currencies.

(21) Derivatives and Hedging Activities in Note 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES explains hedge accounting, hedging instruments and methods, hedging policy, hedged items, and assessment of hedging effectiveness.

The Companies execute and manage derivatives within the limits of established internal rules and regulations, and reduce credit risk by limiting counterparties to highly creditworthy financial institutions.

Payables and interest-bearing debt are exposed to liquidity risk that the Companies manage in ways such as preparing monthly capital deployment reports.

③ Supplemental information on the fair value of financial instruments

The Companies calculate the fair value of financial instruments based on market prices, or by using reasonable estimates when market prices are not available. These estimates include variable factors, and are subject to fluctuation due to changes in the underlying assumptions. The contract amounts of the derivatives discussed in Note 16. DERIVATIVE FINANCIAL INSTRUMENTS below are not an indicator of the market risk associated with derivative transactions.

(2) Fair Value of Financial Instruments

Fair value and variance with carrying value presented on the consolidated balance sheets are as follows. Fair values that are not readily determinable are not included in the following table (See *2 for additional information).

Millions of yen			
	2015/3		
	Carrying value (*)	Fair value (*)	Variance
① Cash and time deposits	¥103,603	¥103,603	—
② Notes and accounts receivable (less allowance for doubtful accounts)	130,217	130,217	—
③ Short-term investments in securities and investments in securities Available-for-sale securities	40,779	40,779	—
④ Notes, accounts payable, Electronically recorded obligations and other payables	(95,769)	(95,769)	—
⑤ Short-term borrowings from banks and other financial institutions	(27,187)	(27,187)	—
⑥ Commercial papers	(602)	(602)	—
⑦ Bonds	(40,000)	(40,036)	¥ (36)
⑧ Long-term borrowings from banks and other financial institutions	(34,783)	(38,979)	(4,195)
⑨ Lease obligations	(4,324)	(4,380)	(56)
⑩ Derivative instruments			
i. Hedge accounting not applied	(303)	(303)	—
ii. Hedge accounting applied	—	3,547	3,547

Millions of yen			
	2015/12		
	Carrying value (*)	Fair value (*)	Variance
① Cash and time deposits	¥ 116,771	¥ 116,771	—
② Notes and accounts receivable (less allowance for doubtful accounts)	125,436	125,436	—
③ Short-term investments in securities and investments in securities Available-for-sale securities	30,854	30,854	—
④ Notes, accounts payable, Electronically recorded obligations and other payables	(99,406)	(99,406)	—
⑤ Short-term borrowings from banks and other financial institutions	(7,167)	(7,167)	—
⑥ Commercial papers	(4,218)	(4,218)	—
⑦ Bonds	(30,000)	(30,180)	¥ (180)
⑧ Long-term borrowings from banks and other financial institutions	(41,172)	(43,708)	(2,536)
⑨ Lease obligations	(4,054)	(4,071)	(16)
⑩ Derivative instruments			
i. Hedge accounting not applied	(16)	(16)	—
ii. Hedge accounting applied	—	1,859	1,859

Thousands of U.S. dollars (Note 1)

	2015/12		
	Carrying value (*)	Fair value (*)	Variance
① Cash and time deposits	\$ 968,732	\$ 968,732	—
② Notes and accounts receivable (less allowance for doubtful accounts)	1,040,617	1,040,617	—
③ Short-term investments in securities and investments in securities Available-for-sale securities	255,964	255,964	—
④ Notes, accounts payable, Electronically recorded obligations and other payables	(824,672)	(824,672)	—
⑤ Short-term borrowings from banks and other financial institutions	(59,457)	(59,457)	—
⑥ Commercial papers	(34,992)	(34,992)	—
⑦ Bonds	(248,880)	(250,373)	\$ (1,493)
⑧ Long-term borrowings from banks and other financial institutions	(341,562)	(362,601)	(21,038)
⑨ Lease obligations	(33,631)	(33,773)	(132)
⑩ Derivative instruments			
i. Hedge accounting not applied	(132)	(132)	—
ii. Hedge accounting applied	—	15,422	15,422

* Liabilities are in parentheses. Derivative instruments are presented as net amounts receivable or payable, with net amounts payable in parentheses.

*1: Method for calculating the fair value of financial instruments, derivative instruments and securities

- ① Cash and time deposits; ② Notes and accounts receivable
Carrying value is used for fair value for these short-term items because these amounts are approximately the same.
- ③ Short-term investments in securities and investments in securities
Short-term investments in securities are held as available-for-sale securities. Market prices on exchanges are used to determine the fair value of equity securities. Prices quoted by financial institutions are used to determine the fair value of bonds. Carrying value is used for fair value for instruments with short-term maturities included in available-for-sale securities because these amounts are approximately the same.
- ④ Notes, accounts payable, Electronically recorded obligations and other payables; ⑤ Short-term borrowings from banks and other financial institutions; ⑥ Commercial papers
Carrying value approximates fair value for these short-term items.
- ⑦ Bonds
Fair value of bonds issued by the Company is calculated based on market prices.
- ⑧ Long-term borrowings from banks and other financial institutions
Floating-rate long-term borrowing reflects market interest rates. In addition, fair value approximates carrying value because the Company's creditworthiness does not vary significantly after assuming long-term borrowings. Therefore, carrying value is used for fair value of floating-rate long-term borrowing. Fair value of fixed-rate long-term borrowing is the discounted value of total principal and interest using an assumed interest rate on equivalent new borrowings.
- ⑨ Lease obligations
The fair value of lease obligations is the discounted present value of total principal and interest using an assumed interest rate on equivalent new lease transactions.
- ⑩ Derivative instruments
Please refer to Note 16. DERIVATIVE FINANCIAL INSTRUMENTS.

*2: Fair values that are difficult to determine as of March 31, 2015 and December 31, 2015

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2015/3	2015/12	2015/12
	Carrying value	Carrying value	Carrying value
Shares of subsidiaries and affiliates	¥2,853	¥2,803	\$23,253
Unlisted equity securities	2,988	544	4,513
Investment in limited partnership and others	879	918	7,615

Market prices do not exist for these items, or the cost of estimating future cash flows is considered prohibitive. These items are not included in ③ Short-term investments in securities and investments in securities, because their fair values are not readily determinable.

Loss on revaluation for securities stated at cost was recognized in the amounts of ¥0 million and ¥6 million (\$49 thousand) for the periods ended March 31, 2015 and December 31, 2015, respectively.

*3: Maturity dates of financial assets are as follows:

Millions of yen				
	2015/3			
	Due in 1 year or less	Due after 1 year through 5 years	Due after 5 years through 10 years	Due after 10 years
Cash and time deposits	¥103,603	—	—	—
Notes and accounts receivable	130,217	—	—	—
Short-term investments in securities and investments in securities				
Available-for-sale securities with maturity (Negotiable certificate of deposit)	—	—	—	—
Available-for-sale securities with maturity (Corporate bonds)	—	—	—	¥1,500
Available-for-sale securities with maturity (Investment trust)	3,197	—	—	—
Available-for-sale securities with maturity (Investment in limited partnership and others)	113	¥716	—	—
Other	9,000	—	—	—
	¥246,131	¥716	—	¥1,500

Millions of yen				
	2015/12			
	Due in 1 year or less	Due after 1 year through 5 years	Due after 5 years through 10 years	Due after 10 years
Cash and time deposits	¥116,771	—	—	—
Notes and accounts receivable	125,436	—	—	—
Short-term investments in securities and investments in securities				
Available-for-sale securities with maturity (Negotiable certificate of deposit)	—	—	—	—
Available-for-sale securities with maturity (Corporate bonds)	—	—	—	—
Available-for-sale securities with maturity (Investment trust)	2,618	—	—	—
Available-for-sale securities with maturity (Investment in limited partnership and others)	141	¥776	—	—
Other	—	—	—	—
	¥244,967	¥776	—	—

Thousands of U.S. dollars (Note 1)				
	2015/12			
	Due in 1 year or less	Due after 1 year through 5 years	Due after 5 years through 10 years	Due after 10 years
Cash and time deposits	\$ 968,732	—	—	—
Notes and accounts receivable	1,040,617	—	—	—
Short-term investments in securities and investments in securities				
Available-for-sale securities with maturity (Negotiable certificate of deposit)	—	—	—	—
Available-for-sale securities with maturity (Corporate bonds)	—	—	—	—
Available-for-sale securities with maturity (Investment trust)	21,718	—	—	—
Available-for-sale securities with maturity (Investment in limited partnership and others)	1,169	\$6,437	—	—
Other	—	—	—	—
	\$2,032,246	\$6,437	—	—

5. SECURITIES

The acquisition cost, carrying amount, and gross unrealized gains and losses for securities stated at fair value by security type at March 31, 2015 and December 31, 2015 are as follows:

Available-for-sale securities:

	Millions of yen			
	2015/3			
	Acquisition cost	Carrying amount	Gross unrealized gains	Gross unrealized losses
Equity securities	¥10,294	¥19,358	¥9,166	¥101
Bonds	10,499	10,521	22	0
Other	10,354	10,900	545	—
	¥31,148	¥40,779	¥9,733	¥102

	Millions of yen			
	2015/12			
	Acquisition cost	Carrying amount	Gross unrealized gains	Gross unrealized losses
Equity securities	¥10,299	¥22,013	¥11,763	¥50
Other	8,430	8,841	410	—
	¥18,730	¥30,854	¥12,174	¥50

	Thousands of U.S. dollars (Note 1)			
	2015/12			
	Acquisition cost	Carrying amount	Gross unrealized gains	Gross unrealized losses
Equity securities	\$ 85,440	\$182,619	\$ 97,585	\$414
Other	69,935	73,344	3,401	—
	\$155,384	\$255,964	\$100,995	\$414

* There is no loss on revaluation of investments in securities stated at fair value for the periods ended March 31, 2015 and December 31, 2015, respectively.

Proceeds from sales, and gross realized gains and losses from sales of available-for-sale securities in the periods ended March 31, 2015 and December 31, 2015 are as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2015/3	2015/12	2015/12
Proceeds from sales	¥3,142	¥6,777	\$56,222
Gross realized gains	233	2,428	20,142
Gross realized losses	29	0	0

6. INVENTORIES

Inventories held by the Companies as of March 31, 2015 and December 31, 2015 are as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2015/3	2015/12	2015/12
Merchandise and finished products	¥ 76,636	¥ 74,629	\$619,122
Work in process	5,558	5,726	47,502
Raw materials and supplies	24,501	25,572	212,145
	¥106,696	¥105,928	\$878,778

7. SHORT-TERM AND LONG-TERM DEBT

Short-term and long-term debt as of March 31, 2015 and December 31, 2015 are as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2015/3	2015/12	2015/12
Short-term borrowings from banks and other financial institutions (weighted average interest rate 4.33%)	¥ 27,187	¥ 7,167	\$ 59,457
Commercial papers	602	4,218	34,992
Short-term debt	¥ 27,789	¥11,386	\$ 94,458
Long-term borrowings from banks and other financial institutions			
(Borrowings due within one year, weighted average interest rate 0.61%)	5,952	5,739	47,610
(Borrowings due after one year, weighted average interest rate 0.51%)	28,831	35,432	293,943
0.55% unsecured yen bonds due in June 2015	40,000	—	—
0.24% unsecured yen bonds due in June 2020	—	15,000	124,440
0.37% unsecured yen bonds due in June 2022	—	15,000	124,440
Lease obligations			
(Borrowings due within one year, weighted average interest rate 2.02%)	1,873	1,870	15,513
(Borrowings due after one year, weighted average interest rate 2.29%)	2,450	2,184	18,118
	¥ 79,107	¥75,227	\$624,083
Less: portion due within one year	(47,825)	(7,610)	(63,132)
Long-term debt	¥ 31,281	¥67,617	\$560,950

The aggregate annual maturities of long-term debt as of December 31, 2015 are as follows:

For the years ending December 31	Millions of yen	Thousands of U.S. dollars (Note 1)
2016	¥ 7,610	\$ 63,132
2017	4,469	37,074
2018	1,283	10,643
2019	988	8,196
2020	15,893	131,848
2021 and thereafter	44,981	373,162
	¥75,227	\$624,083

Assets pledged as collateral as of March 31, 2015 and December 31, 2015 are as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2015/3	2015/12	2015/12
Buildings and structures	¥14,197	¥13,681	\$113,497
Other investments	15,200	15,200	126,099
Investments in securities	1,155	1,155	9,581
Cash and time deposits	1,207	1,797	14,907
Machinery and equipment	1	1	8
	¥31,762	¥31,835	\$264,103

The above assets are pledged as collateral for derivative transactions (interest rate swaps) and the following collateralized liabilities as of March 31, 2015 and December 31, 2015:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2015/3	2015/12	2015/12
Current portion of long-term debt	¥ 730	¥ 730	\$ 6,056
Long-term debt	21,025	20,295	168,367
	¥21,755	¥21,025	\$174,423

8. RETIREMENT BENEFITS

(1) The Company and its domestic consolidated subsidiaries have contributory funded pension plans, unfunded termination allowance plans, defined contribution plans and a retirement benefit prepayment plan. In some cases, additional voluntary retirement benefits were paid when an employee retired, which were accounted for as retirement benefit expenses when incurred. In addition, certain overseas subsidiaries have defined benefit plans, retirement allowance plans and defined contribution plans. The Company and certain consolidated subsidiaries use a simplified method for calculating retirement benefits.

(2) Details of defined benefit plans, including plans applying a simplified method as of March 31, 2015 and December 31, 2015 are as follows:

① Movement in retirement benefit obligations	Millions of yen		Thousands of U.S. dollars (Note 1)
	2015/3	2015/12	2015/12
Balance at the beginning of the period	¥237,747	¥265,149	\$2,199,676
Effect of changes in accounting policies (cumulative)	16,188	—	—
Balance at beginning of period reflecting changes in accounting policies	253,935	265,149	2,199,676
Service cost	6,971	5,459	45,287
Interest cost	3,850	2,422	20,092
Actuarial loss (gain)	11,516	2,398	19,893
Benefits paid	(11,277)	(8,356)	(69,321)
Other	153	(1,248)	(10,353)
Balance at the end of the period	¥265,149	¥265,825	\$2,205,284

② Movement in plan assets	Millions of yen		Thousands of U.S. dollars (Note 1)
	2015/3	2015/12	2015/12
Balance at the beginning of the period	¥176,921	¥187,445	\$1,555,043
Expected return on plan assets	7,041	5,599	46,449
Actuarial loss (gain)	7,997	(6,185)	(51,310)
Contributions paid by the employer	3,425	2,536	21,038
Benefits paid	(7,961)	(6,687)	(55,475)
Other	20	(538)	(4,463)
Balance at the end of the period	¥187,445	¥182,168	\$1,511,265

③ Reconciliation of retirement benefit obligations and plan assets to liability for retirement benefits	Millions of yen		Thousands of U.S. dollars (Note 1)
	2015/3	2015/12	2015/12
Funded retirement benefit obligations	¥ 205,367	¥ 206,002	\$ 1,708,992
Plan assets	(187,445)	(182,168)	(1,511,265)
	17,922	23,833	197,718
Unfunded retirement benefit obligations	59,782	59,823	496,291
Total net liability for retirement benefits	¥ 77,704	¥ 83,656	\$ 694,010
Liability for retirement benefits	¥ 77,704	¥ 83,656	\$ 694,010
Total net liability for retirement benefits	¥ 77,704	¥ 83,656	\$ 694,010

④ Retirement benefit costs	Millions of yen		Thousands of U.S. dollars (Note 1)
	2015/3	2015/12	2015/12
Service cost	¥ 6,971	¥ 5,459	\$ 45,287
Interest cost	3,850	2,422	20,092
Expected return on plan assets	(7,041)	(5,599)	(46,449)
Net actuarial gain and loss amortization	4,710	3,478	28,853
Past service costs amortization	(0)	77	638
Other	1,411	846	7,018
Total retirement benefit costs	¥ 9,901	¥ 6,685	\$ 55,458

⑤ Adjustments for retirement benefits	Millions of yen		Thousands of U.S. dollars (Note 1)
	2015/3	2015/12	2015/12
Net actuarial gain and loss amortization	¥(1,191)	¥4,992	\$41,413

⑥ Accumulated adjustments for retirement benefits	Millions of yen		Thousands of U.S. dollars (Note 1)
	2015/3	2015/12	2015/12
Past service costs that are yet to be recognized	¥ 207	¥ 129	\$ 1,070
Actuarial gain and loss that are yet to be recognized	30,674	35,649	295,744
Total balance at the end of the period	¥30,882	¥35,779	\$296,822

⑦ Plan assets

I Plan assets comprise:

	2015/3	2015/12
Bonds	59.5%	59.1%
Equity securities	21.4%	21.2%
Other	19.1%	19.7%
Total	100.0%	100.0%

II Long-term expected rate of return

Terms of payment, portfolio of plan assets, historical returns, operating policy, market trends and other factors have been considered in determining the long-term expected rate of return.

⑧ Actuarial assumptions

The principal actuarial assumptions (expressed as weighted averages) are as follows:

	2015/3	2015/12
Discount rate	1.0%~1.3%	0.9%~1.2%
Long-term expected rate of return	4.0%	4.0%

(3) Defined contribution plans

Contributions to defined contribution plans and retirement benefit prepayment plans are ¥1,425 million and ¥415 million, respectively, for the period ended March 31, 2015.

Contributions to defined contribution plans and retirement benefit prepayment plans are ¥1,572 million (\$13,041 thousand) and ¥305 million (\$2,530 thousand), respectively, for the period ended December 31, 2015.

9. INCOME TAXES

Income taxes applicable to the Company and its domestic consolidated subsidiaries consist of corporation, inhabitants and enterprise taxes. The statutory income tax rate was 33.0% for the fiscal period ended December 31, 2015.

Reconciliation of the statutory tax rate and the effective tax rate for the periods ended March 31, 2015 and December 31, 2015 is as follows:

	2015/3	2015/12
Statutory tax rate	36.0%	33.0%
Increase (decrease) due to:		
Permanently non-deductible expenses	0.6	0.7
Dividend income not taxable	1.4	2.5
Unrealized intercompany profit	(1.9)	4.4
Adjustment of deferred tax assets for enacted changes in tax laws and rates	5.5	—
Tax credits	(2.1)	(2.3)
Differences of statutory tax rates for overseas consolidated subsidiaries	(17.3)	2.0
Change in valuation allowance	0.3	(0.5)
Others	3.6	0.5
Effective tax rate	26.1%	40.3%

Amendments to the amount of deferred tax assets and liabilities associated with changes in tax rates including primarily corporate taxes.

Deferred tax assets and liabilities (both current and non-current) as of March 31, 2015 and December 31, 2015 are as follows:

	Millions of yen	Thousands of U.S. dollars (Note 1)	
	2015/3	2015/12	2015/12
Deferred tax assets:			
Liability for retirement benefits	¥25,158	¥27,267	\$226,207
Inventories	12,436	10,773	89,372
Depreciation	2,201	1,966	16,309
Unrealized intercompany profit in inventory and property, plant and equipment	10,112	5,720	47,453
Accrued expenses	6,294	6,685	55,458
Accrued bonuses for employees	3,838	4,351	36,095
Financial instruments	4,049	3,632	30,131
Tax losses carried forward	3,130	4,271	35,432
Reserve for sales returns	1,661	1,751	14,526
Accrued enterprise tax	699	225	1,866
Unrealized gains (losses) on available-for-sale securities	38	22	182
Other	9,245	9,902	82,147
Total gross deferred tax assets	78,866	76,570	635,224
Less: valuation allowance	(2,785)	(4,762)	(39,505)
Total deferred tax assets	¥76,080	¥71,807	\$595,710
Deferred tax liabilities:			
Goodwill and other intangible assets	¥31,432	¥29,883	\$247,909
Special tax-purpose reserve	723	710	5,890
Unrealized gains (losses) on available-for-sale securities	3,343	4,094	33,963
Undistributed earnings of overseas consolidated subsidiaries	1,360	1,347	11,174
Other	2,257	1,982	16,442
Total deferred tax liabilities	¥39,118	¥38,018	\$315,397
Net deferred tax assets	¥36,962	¥33,788	\$280,305

Net deferred tax assets are included in the consolidated balance sheets as follows:

	Millions of yen	Thousands of U.S. dollars (Note 1)	
	2015/3	2015/12	2015/12
Current assets-deferred tax assets	¥ 32,240	¥ 28,242	\$ 234,295
Investments and other assets-deferred tax assets	37,960	36,833	305,566
Current liabilities-deferred tax liabilities	(39)	(16)	(132)
Long-term liabilities-deferred tax liabilities	(33,198)	(31,270)	(259,415)
Net deferred tax assets	¥ 36,962	¥ 33,788	\$ 280,305

10. CONTINGENT LIABILITIES

There are no significant contingent liabilities to be disclosed.

11. NET ASSETS

Under Japanese laws and regulations, the entire amount paid for new shares must be designated as common stock. However, a company may, by a resolution of the Board of Directors, designate an amount not exceeding one half of the price of the new shares as additional paid-in capital, which is included in capital surplus.

Under the Japanese Companies Act ("the Act"), in cases where dividend distribution of surplus is made, the lesser of an amount equal to 10% of the dividend or the excess, if any, of 25% of common stock over the total of additional paid-in capital and legal earnings reserve, must be set aside as additional paid-in capital or legal earnings reserve. Legal earnings reserve is included in retained earnings in the accompanying consolidated balance sheets. Under the Act, both legal earnings reserve and additional paid-in capital used to eliminate or reduce a deficit generally require a resolution of the shareholders' meeting.

Additional paid-in capital and legal earnings reserve may not be distributed as dividends. Under the Act, all additional paid-in capital and legal earnings reserve may be transferred to other capital surplus and retained earnings under certain conditions.

The maximum amount that the Company can distribute as dividends is calculated based on the non-consolidated financial

statements of the Company in accordance with the Act. Under the Act, companies can pay a dividend at any time during the fiscal year in addition to the year-end dividend upon resolution at the shareholders' meeting. For companies that meet certain criteria such as: (1) having a Board of Directors, (2) having accounting auditors, (3) having a Board of Corporate Auditors, and (4) the term of service of the directors is prescribed as one year rather than two years as the normal term by its articles of incorporation, the Board of Directors may declare a dividend if the company has prescribed so in its articles of incorporation.

A semi-annual interim dividend may also be paid once a year upon resolution by the Board of Directors if the articles of incorporation of the company so stipulate. Cash dividends charged to retained earnings during the fiscal year were the year-end cash dividend for the preceding fiscal year and the interim cash dividend for the current fiscal year.

Appropriations are not accrued in the consolidated financial statements for the corresponding period, but are recorded in the subsequent accounting period after shareholders' meeting approval has been obtained.

Retained earnings at December 31, 2015 include amounts representing year-end cash dividend of ¥3,991 million (\$33,109 thousand), ¥10.0 (\$0.08) per share, which was approved at the shareholders' meeting held on March 25, 2016.

12. STOCK OPTION PLAN

Summarized information on the stock options granted as of December 31, 2015 is as follows:

① Stock option plan approved by the shareholders on June 29, 2006 and resolved by the Board of Directors on July 31, 2006

	Stock options granted on August 23, 2006	Stock options granted on August 23, 2006	Total
Number of shares for options granted	67,000 shares	74,000 shares	141,000 shares
Number of shares for options outstanding	25,000 shares	39,000 shares	64,000 shares
Exercise price	¥2,300	¥2,300	
Exercisable period	August 1, 2008 - July 30, 2016	August 1, 2008 - July 30, 2016	

② Stock option plan approved by the shareholders on June 26, 2007 and resolved by the Board of Directors on July 31, 2007

	Stock options granted on August 23, 2007	Stock options granted on August 23, 2007	Total
Number of shares for options granted	81,000 shares	78,000 shares	159,000 shares
Number of shares for options outstanding	80,000 shares	66,000 shares	146,000 shares
Exercise price	¥2,615	¥2,615	
Exercisable period	August 1, 2009 - July 30, 2017	August 1, 2009 - July 30, 2017	

③ Stock option plan resolved by the Board of Directors on July 31, 2008

	Stock options granted on August 21, 2008	Total
Number of shares for options granted	40,000 shares	40,000 shares
Number of shares for options outstanding	12,000 shares	12,000 shares
Exercise price	¥1	
Exercisable period	August 1, 2011 - July 30, 2018	

④ Stock option plan approved by the shareholders on June 24, 2009 and resolved by the Board of Directors on July 31, 2009

	Stock options granted on August 28, 2009	Stock options granted on August 30, 2009	Total
Number of shares for options granted	81,400 shares	53,500 shares	134,900 shares
Number of shares for options outstanding	10,400 shares	30,000 shares	40,400 shares
Exercise price	¥1	¥1	
Exercisable period	August 1, 2012 - July 31, 2019	August 1, 2012 - July 31, 2019	

⑤ Stock option plan approved by the shareholders on June 25, 2010 and resolved by the Board of Directors on July 29, 2010

	Stock options granted on August 30, 2010	Stock options granted on August 30, 2010	Total
Number of shares for options granted	59,100 shares	46,800 shares	105,900 shares
Number of shares for options outstanding	5,400 shares	31,200 shares	36,600 shares
Exercise price	¥1	¥1	
Exercisable period	August 1, 2013 - July 31, 2020	August 1, 2013 - July 31, 2020	

⑥ Stock option plan approved by the shareholders on June 24, 2011 and resolved by the Board of Directors on July 29, 2011

	Stock options granted on August 30, 2011	Stock options granted on August 30, 2011	Total
Number of shares for options granted	90,800 shares	63,600 shares	154,400 shares
Number of shares for options outstanding	33,900 shares	53,000 shares	86,900 shares
Exercise price	¥1	¥1	
Exercisable period	August 1, 2014 - July 31, 2026	August 1, 2014 - July 31, 2026	

⑦ Stock option plan approved by the shareholders on June 26, 2012 and resolved by the Board of Directors on July 31, 2012

	Stock options granted on August 30, 2012	Stock options granted on August 30, 2012	Total
Number of shares for options granted	108,600 shares	100,400 shares	209,000 shares
Number of shares for options outstanding	87,000 shares	92,100 shares	179,100 shares
Exercise price	¥1	¥1	
Exercisable period	August 1, 2015 - July 31, 2027	August 1, 2015 - July 31, 2027	

⑧ Stock option plan approved by the shareholders on June 25, 2013 and resolved by the Board of Directors on July 31, 2013

	Stock options granted on August 29, 2013	Stock options granted on August 29, 2013	Total
Number of shares for options granted	44,100 shares	39,500 shares	83,600 shares
Number of shares for options outstanding	44,100 shares	39,500 shares	83,600 shares
Exercise price	¥1	¥1	
Exercisable period	August 1, 2016 - July 31, 2028	August 1, 2016 - July 31, 2028	

⑨ Stock option plan approved by the shareholders on June 25, 2014 and resolved by the Board of Directors on July 31, 2014

	Stock options granted on August 28, 2014	Stock options granted on August 28, 2014	Total
Number of shares for options granted	76,900 shares	57,400 shares	134,300 shares
Number of shares for options outstanding	76,900 shares	57,400 shares	134,300 shares
Exercise price	¥1	¥1	
Exercisable period	August 1, 2017 - July 31, 2029	August 1, 2017 - July 31, 2029	

13. RESEARCH AND DEVELOPMENT EXPENSES

Research and development expenses are expensed as incurred.

Research and development expenses, which are included in selling, general and administrative expenses, totaled ¥14,226 million and ¥11,299 million (\$93,736 thousand) for the fiscal periods ended March 31, 2015 and December 31, 2015, respectively.

There are no research and development expenses included in total manufacturing expenses for the fiscal periods ended March 31, 2015 and December 31, 2015.

14. TRANSACTIONS WITH RELATED PARTIES

(1) Director and auditor of the company

For the fiscal period ended March 31, 2015

Type	Name	Location	Capital or Investments	Business or Profession	Voting Rights Held (%)	Relationship with the Related Parties	Transactions	Amount	Account Name	Balance as of March 31, 2015
Representative Director	Shinzo Maeda (*)	—	—	Chairman of the Company	Direct 0.0 Indirect 0.0	—	Exercise of new stock acquisition rights (stock options)	¥11 million	—	—

* Shinzo Maeda resigned from office as Representative Director and Chairman of the Company on June 25, 2014, and the above transaction relates to his period in office during the fiscal period.

For the fiscal period ended December 31, 2015

There is no transaction with related parties in the fiscal period ended December 31, 2015.

(2) Director and auditor of the significant corporate affiliate

For the fiscal period ended March 31, 2015

There is no transaction with related parties in the fiscal period ended March 31, 2015.

For the fiscal period ended December 31, 2015

Type	Name	Location	Capital or Investments	Business or Profession	Voting Rights Held (%)	Relationship with the Related Parties	Transactions	Amount	Account Name	Balance as of December 31, 2015
Executive	Lee, Kuo-Hsin	—	—	Taiwan Shiseido Co., Ltd. Executive Director	—	Real estate leasing	Real estate leasing (*1)	¥10 million (\$82 thousand)	—	—
Company with a majority of the voting rights held by an executive or close relative	Lucien Henri S.A.S. (*2)	France	130 thousand EUR	Sales of cosmetics and fragrances	—	Sales of products	Sales of cosmetics and fragrances (*3)	¥30 million (\$248 thousand)	Account Receivable	¥0 million (\$0 thousand)

*1 Rents are determined based on the average price around the estate.

*2 100% directly held by an executive of BPI S.A., Mr. Eric Henry and close relatives.

*3 Transactions are under normal terms and conditions, and considered as independent third-party transactions

15. ACCOUNTING FOR LEASES

The Companies have various lease agreements whereby the Companies act both as a lessee and a lessor.

(1) Finance leases

Non-ownership-transfer finance lease transactions

① As lessee:

Leased assets mainly consist of mold tools, fixtures, and software.

② As lessor:

None applicable

(2) Operating leases

Lease obligations under operating leases at March 31, 2015 and December 31, 2015 are as follows:

	Millions of yen	Thousands of U.S. dollars (Note 1)	
	2015/3	2015/12	2015/12
① As lessee:			
The scheduled maturities of future lease rental payments on such non-cancelable lease contracts are as follows:			
Due within 1 year	¥ 7,622	¥ 7,510	\$ 62,302
Due after 1 year	33,028	31,348	260,063
	¥40,651	¥38,859	\$322,374
② As lessor:			
The scheduled maturities of future lease rental payments on such non-cancelable lease contracts are as follows:			
Due within 1 year	¥ 160	¥ 172	\$ 1,426
Due after 1 year	3,782	3,925	32,561
	¥ 3,943	¥ 4,097	\$ 33,988

16. DERIVATIVE FINANCIAL INSTRUMENTS

The contract amount, estimated fair value and unrealized gain (loss) of the derivative instruments as of March 31, 2015 are as follows:

① Derivatives that do not meet the criteria for hedge accounting

		Millions of yen			
		2015/3			
		Contract amount			
		Total	Settled over 1 year	Estimated fair value	Unrealized gain (loss)
Foreign exchange contracts: Selling	US\$	¥ 9,331	—	¥(233)	¥(233)
	EUR	17,837	—	59	59
	GBP	1,664	—	(32)	(32)
	AU\$	193	—	1	1
Foreign exchange contracts: Buying	US\$	1,823	—	9	9
	EUR	38,595	—	(108)	(108)
		—	—	¥(303)	¥(303)

* Calculation method of fair value

Based on the amount presented by the financial institution

② Derivatives that meet the criteria for hedge accounting

		Millions of yen			
		2015/3			
		Contract amount			
		Main hedged item	Total	Settled over 1 year	Estimated fair value
Interest rate and currency swap contracts: To pay fixed yen/receive variable US\$		Foreign currency long-term debt	¥12,500	¥ 7,500	¥4,074
Interest rate swap contracts: To pay fixed/receive variable		Long-term debt	21,755	21,025	(527)

* Calculation method of fair value

Based on the amount presented by the financial institution

The contract amount, estimated fair value and unrealized gain (loss) of the derivative instruments as of December 31, 2015 are as follows:

① Derivatives that do not meet the criteria for hedge accounting

Millions of yen				
2015/12				
Contract amount				
	Total	Settled over 1 year	Estimated fair value	Unrealized gain (loss)
Foreign exchange contracts: Selling US\$	¥11,380	—	¥ (6)	¥ (6)
GBP	1,737	—	9	9
AU\$	187	—	(6)	(6)
Foreign exchange contracts: Buying US\$	2,299	—	21	21
EUR	26,397	—	(34)	(34)
	—	—	¥(16)	¥(16)

* Calculation method of fair value
Based on the amount presented by the financial institution

Thousands of U.S. dollars (Note 1)				
2015/12				
Contract amount				
	Total	Settled over 1 year	Estimated fair value	Unrealized gain (loss)
Foreign exchange contracts: Selling US\$	\$ 94,408	—	\$ (49)	\$ (49)
GBP	14,410	—	74	74
AU\$	1,551	—	(49)	(49)
Foreign exchange contracts: Buying US\$	19,072	—	174	174
EUR	218,989	—	(282)	(282)
	—	—	\$(132)	\$(132)

② Derivatives that meet the criteria for hedge accounting

Millions of yen				
2015/12				
Contract amount				
Main hedged item	Total	Settled over 1 year	Estimated fair value	
Interest rate and currency swap contracts: To pay fixed yen/receive variable US\$	Foreign currency long-term debt	¥ 7,500	¥ 2,500	¥2,469
Interest rate swap contracts: To pay fixed/receive variable	Long-term debt	21,025	20,295	(609)

* Calculation method of fair value
Based on the amount presented by the financial institution

Thousands of U.S. dollars (Note 1)				
2015/12				
Contract amount				
Main hedged item	Total	Settled over 1 year	Estimated fair value	
Interest rate and currency swap contracts: To pay fixed yen/receive variable US\$	Foreign currency long-term debt	\$ 62,220	\$ 20,740	\$20,482
Interest rate swap contracts: To pay fixed/receive variable	Long-term debt	174,423	168,367	(5,052)

17. GAIN ON TRANSFER OF BUSINESS

For the fiscal period ended March 31, 2015

For the fiscal period ended March 31, 2015, it resulted from the sale of the *DECLÉOR* and *CARITA* brands.

For the fiscal period ended December 31, 2015

In addition to such items as compensation for early license agreement termination and the extraordinary bonus that arose in connection with the transfer of Jean Paul GAULTIER fragrance intellectual property rights, business transfer income comprised income from the transfer of Ayura Laboratories Inc. and subsidiary SHISEIDO Kozmetic Anonim Sirketi.

18. IMPAIRMENT LOSS

For the fiscal period ended March 31, 2015

The Company incurred impairment losses on overseas non-current assets.

Use	Type	Location
Business-use assets	Other intangible fixed assets. Buildings and structures, and others	United States
Idle assets	Building and structures, and others	Taiwan, and others

The Shiseido Group's business-use assets are grouped according to the minimum independent cash flow-generating unit, based on business classification. Idle assets are pooled according to individual property.

Customer-related intangible assets of Bare Escentuals, Inc. were subject to impairment tests based on U.S. accounting standards after comprehensive consideration of the situation in which that company's net sales have fallen below projections. Consequently, such assets were devalued to their recoverable amount, resulting in other expenses of ¥2,377 million. The recoverable amount was measured as the value in use, at a discount rate of 11.5%.

Regarding business-use assets, the book values of buildings and structures have been devalued to their recoverable amount, resulting in ¥42 million other expenses. The recoverable value was computed using the net sales value, evaluated based on the estimated price if sold.

With respect to idle assets, the Group's assets that are no longer expected to be used in the future have been devalued to their recoverable amount, resulting in ¥111 million other expenses. The recoverable amount was estimated based on the net sales value, which was assessed based on the expected selling price.

For the fiscal period ended December 31, 2015

The Company incurred impairment losses on overseas non-current assets.

Use	Type	Location
Business-use assets	Buildings and structures, and others	United States
Idle assets	Other intangible fixed assets, and others	China, and others

The Shiseido Group's business-use assets are grouped according to the minimum independent cash flow-generating unit, based on business classification. Idle assets are pooled according to individual property.

Regarding business-use assets, their book values were written-down to their recoverable amount, resulting in other expenses of ¥62 million (\$514 thousand). The recoverable amount was estimated based on the net sales value, which was assessed based on the expected selling price.

With respect to idle assets, the Group's assets that are no longer expected to be used in the future have been devalued to their recoverable amount, resulting in a ¥90 million (\$746 thousand) other expenses. The recoverable amount was estimated based on the net sales value, which was assessed based on the expected selling price.

19. STRUCTURAL REFORM EXPENSES

For the fiscal period ended March 31, 2015

Structural reform expenses are expenses associated with optimizing store-level inventories and HR management enhancement, which are part of one-time expenses related to business structural reforms resulting from drastic reassessment of organizations, and processes aimed at building a robust business structure.

Structural reform expenses for the period ended March 31, 2015 are as follows:

	Millions of yen
	2015/3
Structural reform expense	
Adjustment store stock*	¥1,197
Early retirement bonus	2,075
	¥3,273

* Resulted from optimizing market inventory levels in China, for the fiscal period ended March 31, 2015.

For the fiscal period ended December 31, 2015

Structural reform expenses refer to retirement premiums paid to early retirees and other expenses included in temporary expenses attributable to structural reforms in progress worldwide.

20. LOSS ON LIQUIDATION OF SUBSIDIARIES AND AFFILIATES

For the fiscal period ended March 31, 2015

The loss is related to the liquidation of a subsidiary in Australia.

For the fiscal period ended December 31, 2015

The Company reported losses on the transfer of a subsidiary in Greece and the liquidation of a subsidiary in India.

21. OTHER COMPREHENSIVE INCOME

The components of other comprehensive income including reclassification adjustments and tax (expense) or benefit for the periods ended March 31, 2015 and December 31, 2015 are as follows:

	Millions of yen	Thousands of U.S. dollars (Note 1)	
	2015/3	2015/12	2015/12
Unrealized gains (losses) on available-for-sale securities, net of taxes:			
Increase (decrease) during the fiscal year	¥ 3,763	¥ 2,435	\$ 20,200
Reclassification adjustments	185	70	580
Amount before tax	3,948	2,506	20,789
Tax (expense) or benefit	(1,106)	(815)	(6,761)
Subtotal	¥ 2,842	¥ 1,690	\$ 14,020
Foreign currency translation adjustments:			
Increase (decrease) during the fiscal year	¥30,208	¥ (9,180)	\$(76,157)
Reclassification adjustments	469	(60)	(497)
Amount before tax	30,678	(9,241)	(76,663)
Tax (expense) or benefit	143	67	555
Subtotal	¥30,822	¥ (9,173)	\$(76,099)
Adjustments for retirement benefits:			
Increase (decrease) during the fiscal year	¥ (3,519)	¥ (8,583)	\$(71,204)
Reclassification adjustments	4,710	3,590	29,782
Amount before tax	1,191	(4,992)	(41,413)
Tax (expense) or benefit	(417)	524	4,347
Subtotal	¥ 773	¥ (4,468)	\$(37,066)
Share of other comprehensive income of associates accounted for under the equity method:			
Increase (decrease) during the fiscal year	¥ 2	¥ (55)	\$ (456)
Total other comprehensive income	¥34,441	¥(12,005)	\$(99,593)

22. SEGMENT INFORMATION

(1) General information about reportable segments

With respect to its reportable segments, the Company is able to obtain discrete financial data from among its component units. Accordingly, its segments are subject to regular review in order to assist decision-making on allocation of managerial resources and evaluation of business performance by the Board of Directors.

The Company's main business is the production and sale of cosmetics. Under a business structure classified according to domestic and global regions, various business departments in the head office formulate comprehensive strategies and promote business activities. Consequently, the Company has classified its operations into two segments along geographical lines: Japan Business and Global Business.

The Japan Business segment includes the Japan business (production and sale of cosmetics, cosmetics accessories, and toiletries), the healthcare business (production and sale of health & beauty foods and over-the-counter drugs), and the production and sale of non-Shiseido-brand products and mail-order products and other businesses.

The Global Business segment covers the overseas cosmetics business (production and sale of cosmetics, cosmetics accessories, and toiletries) and the domestic and overseas professional business (production and sale of beauty salon products) and other businesses.

(2) Basis of measurement for reported segment sales, profit or loss, segment assets and other material items

The accounting treatment for the Group's reported business segments is generally the same as described in 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES. Segment income is based on operating income.

The prices of intersegment transactions and transfers are determined by price negotiations based on the Company's submission of preferred prices after taking market conditions into account.

(3) Information about reported segment sales, profit or loss, segment assets and other material items

Segment information as of and for the fiscal periods ended March 31, 2015 and December 31, 2015 is as follows:

Millions of yen						
2015/3						
	Japan Business	Global Business	Others* ¹	Subtotal	Adjustment* ²	Total
Net Sales						
Sales to outside customers	¥332,218	¥427,899	¥17,568	¥777,687	—	¥777,687
Intersegment sales or transfers	9,033	2,991	13,917	25,941	¥(25,941)	—
Total	¥341,251	¥430,891	¥31,485	¥803,628	¥(25,941)	¥777,687
Segment Income (Loss)* ³	¥ 29,214	¥ (5,315)	¥ 3,754	¥ 27,653	¥ (40)	¥ 27,613
Segment Assets	¥201,177	¥514,274	¥48,523	¥763,976	¥ 59,660	¥823,636
Other Items						
Depreciation and Amortization	¥ 11,125	¥ 21,020	¥ 1,205	¥ 33,351	¥ 2	¥ 33,353
Amortization of Goodwill	141	4,584	—	4,726	—	4,726
Increase in Property, Plant and Equipment and Intangible Assets	13,905	15,295	1,456	30,657	(55)	30,602

Millions of yen						
2015/12						
	Japan Business	Global Business	Others* ¹	Subtotal	Adjustment* ²	Total
Net Sales						
Sales to outside customers	¥266,773	¥478,803	¥17,481	¥763,058	—	¥763,058
Intersegment sales or transfers	8,068	2,566	10,623	21,258	¥(21,258)	—
Total	¥274,841	¥481,370	¥28,104	¥784,317	¥(21,258)	¥763,058
Segment Income* ³	¥ 30,534	¥ 2,112	¥ 4,921	¥ 37,568	¥ 91	¥ 37,660
Segment Assets	¥202,779	¥498,842	¥49,034	¥750,656	¥ 57,890	¥808,547
Other Items						
Depreciation and Amortization	¥ 9,139	¥ 21,413	¥ 1,195	¥ 31,747	¥ 13	¥ 31,761
Amortization of Goodwill	106	5,065	—	5,172	—	5,172
Increase in Property, Plant and Equipment and Intangible Assets	13,028	20,316	539	33,884	—	33,884

Thousands of U.S. dollars (Note 1)

	2015/12					
	Japan Business	Global Business	Others* ¹	Subtotal	Adjustment* ²	Total
Net Sales						
Sales to outside customers	\$2,213,149	\$3,972,150	\$145,022	\$6,330,330	—	\$6,330,330
Intersegment sales or transfers	66,932	21,287	88,128	176,356	\$(176,356)	—
Total	\$2,280,081	\$3,993,446	\$233,150	\$6,506,694	\$(176,356)	\$6,330,330
Segment Income* ³	\$ 253,310	\$ 17,521	\$ 40,824	\$ 311,664	\$ 754	\$ 312,427
Segment Assets	\$1,682,254	\$4,138,393	\$406,786	\$6,227,443	\$ 480,255	\$6,707,706
Other Items						
Depreciation and Amortization	\$ 75,817	\$ 177,642	\$ 9,913	\$ 263,373	\$ 107	\$ 263,489
Amortization of Goodwill	879	42,019	—	42,906	—	42,906
Increase in Property, Plant and Equipment and Intangible Assets	108,080	168,541	4,471	281,101	—	281,101

*1. "Others" include businesses not included in the other units of segment reporting. These include the Frontier Science Business (production and sale of cosmetics raw materials, medical-use drugs, medical cosmetics, purification/analytical equipment and others) and the restaurant business and other businesses.

*2. Below is a description of adjustments.

(1) The "Segment Income (Loss)" adjustment relates to intersegment transaction eliminations.

(2) The "Company-wide assets (not allocated to specific segments)" included in the "Segment Assets" adjustment line as of March 31, 2015 and December 31, 2015 were ¥62,912 million and ¥61,082 million (\$506,736 thousand), respectively, consisting mainly of assets not belonging to specific segments (cash and time deposits, short-term investments in securities, investments in securities and others) and assets related to administrative operations. "Intersegment eliminations" included in the "Segment Assets" adjustment line as of March 31, 2015 and December 31, 2015 were ¥3,251 million and ¥3,192 million (\$26,480 thousand), respectively.

(3) The "Depreciation and Amortization" adjustment refers to depreciation expenses related to company-wide assets and intersegment eliminations. Long-term prepaid expenses are included in "Depreciation and Amortization" and "Increase in Property, Plant and Equipment and Intangible Assets."

*3. Segment income (loss) is adjusted for operating income described in the consolidated statements of operations.

(Related Information)

For the fiscal period ended March 31, 2015

① Information on products and services

Sales to outside customers in the cosmetics business exceed 90% of net sales of the consolidated statement of income and, therefore, the Company omits this disclosure.

② Geographical information

I Net sales

Millions of yen

2015/3						
Japan	Americas		Europe	Asia / Oceania		Total
		U.S.A.			China	
¥365,615	¥133,088	¥116,022	¥108,936	¥170,046	¥114,776	¥777,687

* Classification of net sales is determined by country or geographical location.

II Property, Plant and Equipment

Millions of yen

2015/3						
Japan	Americas		Europe	Asia / Oceania		Total
		U.S.A.			China	
¥81,717	¥20,054	¥19,923	¥8,151	¥27,063	¥17,067	¥136,986

③ Main customers information

There is no outside customer representing 10% or more of net sales of the consolidated statement of income and, therefore, the Company omits this disclosure.

For the fiscal period ended December 31, 2015

① Information on products and services

Sales to outside customers in the cosmetics business exceed 90% of net sales of the consolidated statement of income and, therefore, the Company omits this disclosure.

② Geographical information

I Net sales

Millions of yen

2015/12						
Japan	Americas		Europe	Asia/Oceania		Total
		U.S.A.			China	
¥296,903	¥155,303	¥136,557	¥111,818	¥199,033	¥132,446	¥763,058

Thousands of U.S. dollars (Note 1)

2015/12						
Japan	Americas		Europe	Asia/Oceania		Total
		U.S.A.			China	
\$2,463,107	\$1,288,393	\$1,132,877	\$927,642	\$1,651,178	\$1,098,772	\$6,330,330

* Classification of net sales is determined by country or geographical location.

II Property, Plant and Equipment

Millions of yen

2015/12						
Japan	Americas		Europe	Asia/Oceania		Total
		U.S.A.			China	
¥81,774	¥21,633	¥21,559	¥7,076	¥23,797	¥14,038	¥134,281

Thousands of U.S. dollars (Note 1)

2015/12						
Japan	Americas		Europe	Asia/Oceania		Total
		U.S.A.			China	
\$678,397	\$179,467	\$178,853	\$58,702	\$197,419	\$116,459	\$1,113,995

③ Main customers information

There is no outside customer representing 10% or more of net sales of the consolidated statement of income and, therefore, the Company omits this disclosure.

(4) Information about segment loss on impairment of fixed assets

Millions of yen

2015/3			
Japan Business	Global Business	Others	Total
¥5	¥2,525	—	¥2,531

Millions of yen

Thousands of U.S. dollars (Note 1)

2015/12				2015/12			
Japan Business	Global Business	Others	Total	Japan Business	Global Business	Others	Total
—	¥153	—	¥153	—	\$1,269	—	\$1,269

(5) Information about segment unamortized goodwill

Millions of yen

2015/3			
Japan Business	Global Business	Others	Total
¥993	¥63,460	—	¥64,453

Millions of yen

Thousands of U.S. dollars (Note 1)

2015/12				2015/12			
Japan Business	Global Business	Others	Total	Japan Business	Global Business	Others	Total
¥886	¥58,543	—	¥59,430	\$7,350	\$485,672	—	\$493,031

23. SUBSEQUENT EVENTS

Transfer of significant assets

On April 9, 2015, BEAUTÉ PRESTIGE INTERNATIONAL S.A. (hereinafter: "BPI"), an affiliate of the Company, entered into an agreement (hereinafter: "Agreement") with PUIG, S.L. (hereinafter: "PUIG") to transfer the intellectual property rights (hereinafter: "IP rights") of Jean Paul GAULTIER (hereinafter: "JPG") managed by BPI regarding fragrance products and other related activities. The transfer was completed on January 4, 2016.

(1) Reason for the transfer

BPI has developed and distributed JPG fragrance products since 1991 under a license agreement (hereinafter: the "License Agreement") expiring in June 2016 for Class 3 products in accordance with the international classification of goods and services. PUIG became the majority shareholder of the fashion house Jean Paul GAULTIER in 2011 and wanted to develop and sell JPG fragrances on its own. Accordingly, BPI and PUIG entered into the agreement regarding the transfer of IP rights to JPG fragrances.

(2) Name of counterparty to the agreement

PUIG, S.L.

(3) Summary of properties and assets to be transferred

IP rights (trademarks, design rights, and copyrights) and shares of Noms de Code S.A.S. held by BPI and the Company. Noms de Code S.A.S. is a subsidiary of the Company and owns part of the IP rights.

(4) Overview of the agreement

Agreement to transfer the properties and assets above and an early termination agreement of the License Agreement

(5) Transfer date

January 4, 2016

(6) Transfer value

IP rights and shares of Noms de Code S.A.S.: €69,500,000

Extra bonus to be paid when JPG fragrance's business result in the fiscal period 2015 meets the pre-agreed conditions: Maximum of €20,000,000

(7) Impact of the License Agreement on the Shiseido Group's financial position, and business results

Gain on sales resulting from the transfer of IP rights will be recognized in the fiscal year ending December 31, 2016. The impact of the transfer on consolidated financial statements is currently being calculated. Compensation for early termination of the License Agreement and a portion of the extra bonus described in (6) Transfer value in the amount of ¥4,602 million has already been recorded as Gain on Transfer of Business for the fiscal period ended December 31, 2015.

Change in business segment classification

Effective from the fiscal year ending December 31, 2016, the Company has decided to revise the business segment classification for its reportable segments in line with changes to its organizational system. Under this change, the Company's reportable "Japan Business" and "Global Business" segments have been reclassified into the reportable "Japan Business," "China Business," "Asia Pacific Business," "Americas Business," "EMEA Business" and "Travel Retail Business" segments effective from the fiscal year ending December 31, 2016.

Meanwhile, steps are currently being taken to calculate the amounts of net sales, segment income (loss), segment assets, segment liabilities and other items by reportable segment for the fiscal period under review after this change in reportable segment classification.

Independent Auditor's Report



To the Shareholders and Board of Directors of
Shiseido Company, Limited:

We have audited the accompanying consolidated financial statements of Shiseido Company, Limited and its consolidated subsidiaries, which comprise the consolidated balance sheets as at March 31, 2015, and December 31, 2015, and the consolidated statements of income, statements of comprehensive income, statements of changes in net assets and statements of cash flows for the year ended March 31, 2015 and the nine-month period ended December 31, 2015, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in Japan, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatements, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in Japan. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our judgement, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, while the objective of the financial statement audit is not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Shiseido Company, Limited and its consolidated subsidiaries as at March 31, 2015 and December 31, 2015, and their financial performance and cash flows for the year ended March 31, 2015 and the nine-month period ended December 31, 2015 in accordance with accounting principles generally accepted in Japan.

Convenience Translation

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the nine-month period ended December 31, 2015 are presented solely for convenience. Our audit also included the translation of yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made on the basis described in Note 1 to the consolidated financial statements.

KPMG AZSA LLC

March 25, 2016
Tokyo, Japan

Corporate and Investor Information

(As of December 31, 2015)

Head Office

Shiseido Company, Limited

5-5, Ginza 7-chome, Chuo-ku
Tokyo 104-0061, Japan
Tel: +81-3-3572-5111

Foundation

September 17, 1872

Incorporation

June 24, 1927

Capital

¥64,506,725,140

Number of Employees

33,783 [12,415]

Note: The number of employees shown denotes full-time employees. Annual average number of temporary employees is shown in brackets. Temporary employees include part-time workers. Dispatched employees are excluded.

Fiscal Year-End

December 31

Note: The fiscal year-end changed from March 31 to December 31 as of the fiscal period ended December 31, 2015.

Shareholders' Meeting

The Ordinary General Meeting of Shareholders is held in late March.

Stock Listings

Common Stock: Tokyo Stock Exchange (Code: 4911)

American Depositary Receipts: U.S. Over-the-Counter

American Depositary Receipts

CUSIP: 824841407

Ratio (ADR:ORD): 1:1

Exchange: OTC QX (Over-the-Counter)

Symbol: SSDOY

Depository: The Bank of New York Mellon
101 Barclay Street, 22W
New York, NY 10286, U.S.A.

Accounting Auditors

KPMG AZSA LLC

Share Registrar

Sumitomo Mitsui Trust Bank, Limited

4-1, Marunouchi 1-chome,
Chiyoda-ku, Tokyo 100-8233, Japan

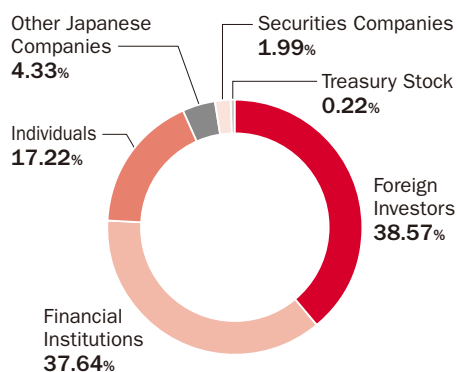
Number of Shareholders

53,202

Common Shares Issued and Outstanding

400,000,000 (including 899,741 in treasury stock)

Composition of Shareholders by Number of Shares



Composition of Shareholders (%)

(By number of shares)	2015/3	2015/12
Foreign Investors	38.64	38.57
Financial Institutions	35.79	37.64
Individuals	19.30	17.22
Other Japanese Companies	4.47	4.33
Securities Companies	1.49	1.99
Treasury Stock	0.29	0.22
(By number of shareholders)	2015/3	2015/12
Foreign Investors	1.08	1.22
Financial Institutions	0.18	0.17
Individuals	97.51	97.42
Other Japanese Companies	1.15	1.08
Securities Companies	0.06	0.09
Treasury Stock	0.00	0.00

Principal Shareholders

Shareholders	Number of shares held (thousands)	Percentage of shareholding
The Master Trust Bank of Japan, Ltd. (Trust Account)	30,470	7.63
JP MORGAN CHASE BANK 380055	27,325	6.84
Mizuho Bank, Ltd.	21,226	5.31
Japan Trustee Services Bank, Ltd. (Trust Account)	16,501	4.13
Association of Shiseido Employees' Investment in the Company's shares	7,762	1.94
THE BANK OF NEW YORK MELLON SA/NV 10	6,012	1.50
BNYM TREATY DTT 15	5,998	1.50
Sompo Japan Nipponkoa Insurance Inc.	5,934	1.48
Nippon Life Insurance Company	5,615	1.40
Mitsui Sumitomo Insurance Company, Limited	5,600	1.40

Calculations of percentage of shareholding are based on the total number of issued and outstanding shares excluding treasury stock.

Website Guide

Shiseido websites present additional activities and data not contained in this report. Shiseido also has a corporate website that provides a variety of information.

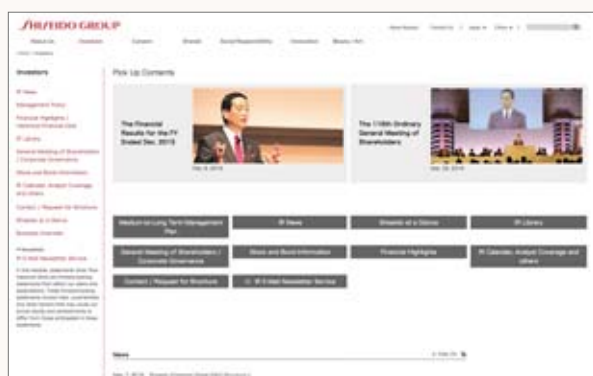
Corporate website

<http://www.shiseidogroup.com/>



Investor relations website

<http://www.shiseidogroup.com/ir/>



CSR website

<http://www.shiseidogroup.com/csr/>



watashi+ (Japanese Only)

<http://www.shiseido.co.jp/wp/>



This site provides an array of online options for purchasing cosmetics and receiving answers to questions and concerns about cosmetics and makeup.

PICK UP TECHNOLOGY

<http://www.shiseidogroup.com/technology/>



This site highlights functions, quality and safety of technologies that support Shiseido beauty.

Shiseido's Advertising and Design Department

<http://www.shiseidogroup.com/beauty-art/advertising/>



This site is for Shiseido's Advertising and Design Department. It presents the department's creative activities to communicate Shiseido beauty worldwide.

For further information, please contact the Investor Relations Department

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6-2, Higashi-shimbashi 1-chome,
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