Be a Global 
Winner with Our Heritage

We will win in Japan and around the world and strengthen individual Shiseido Group brands. Our initiatives are having a definite effect. We will continue reforms with sights set on 2020 and beyond.
This annual report seeks to achieve fruitful dialogue with shareholders and investors by presenting in a condensed format our initiatives toward achieving increased corporate value in the medium-to-long term.

### 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.

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### Editorial Policy/Contents

- **Reporting Period**: May 2017
- **Change in Fiscal Year-End**: Effective from the previous fiscal period, Shiseido and consolidated subsidiaries whose account settlement date was March 31 changed the date to December 31. Following this change, the accounting period of the previous fiscal period was 9 months, from April 1, 2015 to December 31, 2015 for these companies, and the 12 months to December 31, 2015 for consolidated subsidiaries that already had a December 31 fiscal year-end. Year-on-year changes in amounts and percentage are comparisons for reference between the twelve months ended December 31, 2016 and the twelve months ended December 31, 2015.
- **Various information not included in this annual report is available on our corporate website.**
  - Shiseido Group corporate website: [http://www.shiseidogroup.com](http://www.shiseidogroup.com)

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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 corporate mission of inspiring a life of beauty and culture, Shiseido seeks to achieve a sustainable society that makes people happy 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.**

- **VISION 2020**
  - Targeted Outcomes: Flourish as a company supported and needed by society and consumers worldwide
  - Numerical Targets: Net sales over ¥1 trillion
    - Operating income over ¥100 billion
    - ROE of 12% or higher

- **Be a Global Winner with Our Heritage**

- **Consumer-oriented**

- **Global Governance System**
  - Addressing Social Issues and Expectations
Shiseido’s DNA

We will fully leverage and further refine the strengths we have built.

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—the DNA shared by all its employees that is key to our successful evolution going forward.

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 Japanese culture and traditions, and our ceaseless attention to detail.

Art & Design

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

OMOTENASHI

Shiseido’s approximately 20,000 beauty consultants worldwide work as beauty professionals, building close relationships with individual consumers. They aim to enrich both the external appearance and the hearts of consumers and convey the value of our brands.

Japanese Aesthetics

Shiseido’s businesses are human centric. This is reflected in our desire to be consumer-oriented in everything we do, including conveying value 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.

Technology & Science

Shiseido constantly creates high-quality, highly functional, safe and innovative cosmetics and leading beauty techniques, supported by its industry-leading R&D and production technology capabilities.

Human Centric

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

¥850.3 billion
(+5.2% year on year¹ on a local currency basis)
(-1.5% year on year¹ on a yen basis)

Operating Income

¥36.8 billion
(-17.0% year on year¹)

Operating Profitability

4.3%
(-0.8 percentage points year on year³)

ROE

8.2%
(6.0%⁵ for period ended December 2015)

¹ Excluding fixed and daily necessities
² Year-on-year percentage change is +9% excluding the effect of the termination of the Jean Paul GAULTIER license and the acquisition of the DOLCE&GABBANA license.
³ Year-on-year percentage change is +0% excluding the effect of the acquisition of Laura Mercier.
⁴ For calculating consolidated ROE for the period ended December 2015, the numerator used is net income attributable to owners of the parent for the nine months ended December 31, 2015 for Shiseido and its consolidated subsidiaries whose fiscal year ended in March, and for the 12 months ended December 31, 2015 for consolidated subsidiaries whose fiscal year ended in December. The ROE is 7.6 percent when calculated based on net income attributable to owners of the parent for the 12 months ended December 2015.
⁵ The number of employees includes full-time employees and temporary employees. Temporary employees include part-time workers. Dispatched employees are excluded.
⁶ As of January 1, 2017
⁷ The International Federation of Societies of Cosmetic Chemists is an organization that brings together cosmetic chemists from around the world in pursuit of cosmetic technology development that achieves greater functionality and safety.
⁸ As of December 31, 2016

Overview

Facts & Figures

Position in Japan and Asia

No. 1
Among Japanese/Asian cosmetics manufacturers for annual sales in the beauty category*

WWD Beauty Inc. annual ranking (April 2017)

Countries and Regions Served

Approx. 120

Employees*²/Nationalities Employed*³

45,000/66

Ranking as a Company Empowering Women in Japan

No. 1
for three consecutive years
(Nikkei BP, Nikkei Woman)

Net Sales by Business Segment

Travel Retail

Net sales ¥24.8 billion
+60.4 % YoY (local currency basis)

EMEA

Net sales ¥85.2 billion
-8.1 % YoY (local currency basis)

Asia Pacific

Net sales ¥162.6 billion
+8.0 % YoY (local currency basis)

Share of total sales

Japan

Net sales ¥407.6 billion
+2.9 % YoY (local currency basis)

China

Net sales ¥120.5 billion
+11.4 % YoY (local currency basis)

EMEA

Net sales ¥85.2 billion
-8.1 % YoY (local currency basis)

No. 1 Position in Japan and Asia

No. 1 Ranking as a Company Empowering Women in Japan

No. 1 Net sales

¥407.6 billion
+2.9 % YoY

Travel Retail

No. 1 Share of total sales

48.0%

EMEA

No. 1 Net sales

¥85.2 billion
-8.1 % YoY

No. 1 Countries and Regions Served

Approx. 120

Net sales

† Travel Retail

¥24.8 billion
+60.4 % YoY (local currency basis)

EMEA

¥85.2 billion
-8.1 % YoY (local currency basis)

Asia Pacific

¥162.6 billion
+8.0 % YoY (local currency basis)

Notes: 1. The fiscal period ended December 31, 2015 is the 9 months from April 1, 2015 to December 31, 2015 for Shiseido and consolidated subsidiaries whose account settlement date was March 31 and the 12 months from January 1, 2015 to December 31, 2015 for consolidated subsidiaries whose account settlement date was December 31. 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 comparisons with the year ended December 2016, this report uses results for the 12 months ended December 2015, referred to as “2015/12 (Adjusted)” in tables, charts and graphs.

2. Excluding fixed and daily necessities

3. Year-on-year percentage change is +9% excluding the effect of the termination of the Jean Paul GAULTIER license and the acquisition of the DOLCE&GABBANA license.

4. Year-on-year percentage change is +0% excluding the effect of the acquisition of Laura Mercier.

5. For calculating consolidated ROE for the period ended December 2015, the numerator used is net income attributable to owners of the parent for the nine months ended December 31, 2015 for Shiseido and its consolidated subsidiaries whose fiscal year ended in March, and for the 12 months ended December 31, 2015 for consolidated subsidiaries whose fiscal year ended in December. The ROE is 7.6 percent when calculated based on net income attributable to owners of the parent for the 12 months ended December 2015.

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

7. As of January 1, 2017

8. The International Federation of Societies of Cosmetic Chemists is an organization that brings together cosmetic chemists from around the world in pursuit of cosmetic technology development that achieves greater functionality and safety.

9. As of December 31, 2016

Awards Received at IFSC® Congress and Conferences (As of November 2016)

24

- Conference Poster Award
- Conference Award (Podium Presentation)
- Congress Award
- Congress Poster Award
- Congress Award (Podium Presentation)

Percentage of Female Leaders*⁵

53.2%

Japan

30.0%

Overseas

69.3%

No. 1 Among Japanese/Asian cosmetics manufacturers for annual sales in the beauty category*
Overview

Brands at a Glance

**Prestige**
High-priced, high-added-value products sold through counseling, primarily in department stores and cosmetics specialty stores

- SHISEIDO
- clé de peau BEAUTÉ
- bareMinerals

**Fragrance**
High-priced, highly fashionable fragrances that offer consumers personal style proposals through collaboration with famous designers

- NARS
- IPSA
- Laura Mercier
- BENEFIQUE

**Cosmetics**
Mid- and low-priced cosmetics that consumers select themselves, primarily sold in drugstores and general merchandise stores. Counseling sales tailored to market, brand and channel characteristics are also offered.

- ELIXIR
- MAQuillAGE
- HAKU
- PRIOR
- ANESSA
- AQUALABEL
- INTEGRATE

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

- SENKA
- TSUBAKI
- SEABREEZE

**Professional**
Hair care and styling agents, hair color products and other merchandise for hair salons

- SHISEIDO PROFESSIONAL
- JOICO

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*Main Regions of Availability (As of March 31, 2017)*
- Japan: ☀
- China: ☀
- Asia Pacific: ☀
- Americas: ☀
- EMEA: ☀
- Travel Retail: ☀

1. Local currency basis
2. Hong Kong only

Note: In addition to our core business categories of prestige, fragrance, cosmetics, personal care and professional, “Other” makes up 6.3% of sales.

We intend to step up reforms going forward.
When I became President and CEO three years ago, I declared that I would restore Shiseido’s vitality, and since, have implemented various reforms. Behind these reforms were a serious sense of crisis and a desire for a change shared by all Shiseido employees. Before I assumed office in 2014, Shiseido was growing as a whole, to a certain extent, but losing market share in Japan. That region accounted for about half of total net sales. At the same time, sales in our overseas businesses were growing. However, low profitability was an issue. Sluggish sales and earnings led to several years of aggressive reductions of investment in consumer-oriented marketing and R&D. As a consequence, Shiseido struggled to respond promptly and accurately to changes in consumers and markets, and so the Company fell into a vicious cycle of declining consumer support and brand value.

I was convinced that Shiseido would waste its future if this situation persisted, and so I committed to the implementation of a substantial shift to a consumer-oriented approach in all activities throughout the Company. We began the breakdown of the vicious cycle in 2015 by initiating our medium-to-long-term strategy, VISION 2020, creating a model that would ensure Shiseido remains vital for the next 100 years and beyond.

Under VISION 2020, we aim to become a global winner with our heritage. Our targets for 2020 are net sales of over ¥1 trillion, operating income of over ¥100 billion, and ROE of 12 percent or higher.

We divided the six years through to 2020 into two phases. During the first three-year phase, we have been investing aggressively in rebuilding our business foundation. During the second three-year phase, we intend to leverage the foundation we build in the first three years to accelerate and generate significant growth.

We started by working on enhancing brand value—the cornerstone for growth. Brands are built by combining consumer-oriented marketing with innovative product development. In marketing, we strategically selected brands positioned for comprehensively reinforced investment with a focus on consumers. Global prestige brands including SHISEIDO,clé de peau BEAUTÉ, NARS and IPSA grew and keep growing substantially as a result. We plan to increase marketing investment by a combined total of more than ¥100 billion over the three years from 2015 to 2017. To generate the needed investment capital we anticipate cost reductions of more than ¥60 billion over the same period thanks to cost structure reforms.


Next, we addressed and resolved a number of legacy issues. Specific initiatives included optimizing store inventories in China and elsewhere in Asia, withdrawing from unprofitable businesses, and integrating back office operations and IT systems. We executed these initiatives with strong determination, all for the future growth of Shiseido.

In 2016, we committed ourselves fully to creating a virtuous cycle for future growth.

VISION 2020: Shiseido’s Consumer-Oriented Transformation

A Clear Growth Trajectory in 2016

We started by working on enhancing brand value—the cornerstone for growth. Brands are built by combining consumer-oriented marketing with innovative product development. In marketing, we strategically selected brands positioned for comprehensively reinforced investment with a focus on consumers. Global prestige brands including SHISEIDO, clé de peau BEAUTÉ, NARS and IPSA grew and keep growing substantially as a result. We plan to increase marketing investment by a combined total of more than ¥100 billion over the three years from 2015 to 2017. To generate the needed investment capital we anticipate cost reductions of more than ¥60 billion over the same period thanks to cost structure reforms.


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In addition, we launched four Centers of Excellence (CoEs) meant for creating new value. CoEs in regions that have the greatest global influence in specific categories lead the Shiseido Group with initiatives ranging from collecting information to formulating global strategy and developing products. Japan hosts the Center of Excellence for skincare, the Americas for makeup and digital marketing, and Europe for fragrances. We share results from the CoEs globally to create value across regions.

▶ See “Engagement Agenda 2: Looking toward 2020 and Beyond” on page 42 for details.

This included the January 2016 launch of a global management structure that brought major changes. This new matrix organization divided into six regional headquarters and five brand categories gives each headquarters broad authority and responsibility over operations in their respective regions. Our former organization was centered on Japan and the head office, but by shifting to the matrix organization and implementing marketing that is attuned to the needs of local consumers, we aim to drive substantial global growth. At the same time, we implemented organizational reforms in the Americas and EMEA regions to establish autonomous management and grow sales and earnings independently.

▶ See “Engagement Agenda 1: Region × Brand” on pages 23-35 for details.

Ongoing Progress of VISION 2020

Rebuild the Business Foundation

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<td>Address and Resolve Legacy Issues</td>
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<td>* Optimize store inventories in China and elsewhere in Asia</td>
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<td>* Withdraw from unprofitable businesses Greece, Turkey, and the Za business in India</td>
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<td>* Integrate organization and raise efficiency Integration of basic office functions and IT systems in EMEA and the Americas</td>
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<td>* Promote structural reforms in EMEA and the Americas EMEA: Integration of cosmetics and fragrance organizations Americas: Structural reforms at Bare Escentuals Inc.</td>
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Create a Virtuous Cycle

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<td>Create a Virtuous Cycle</td>
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<td>* Implement strategies for brand selection, concentration and enhancement Review key brands</td>
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<td>* Start the matrix organization and Centers of Excellence</td>
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<td>* Acquire and license new brands Laura Mercier and Dolce&amp;Gabbana</td>
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<tr>
<td>* Increase investment in marketing and innovation</td>
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<td>* Cost structure reforms</td>
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Strongening Our Brand Portfolio on a Global Scale

In addition to our organic growth efforts, we added two new brands to our portfolio. We acquired the U.S. makeup brand Laura Mercier in July 2016. In October 2016, we entered into a licensing agreement for the world-renowned fashion brand Dolce&Gabbana. The appropriate regional headquarters reviewed their brand portfolios and recommended these strategic brands for their areas to me and the Board of Directors. These two brands are sure to contribute to our global growth.

As a successful result of these consumer-oriented reforms and numerous initiatives, we achieved net sales of ¥850.3 billion for the year ended December 2016. This represents 5 percent growth for the year on a local currency basis and follows 4 percent growth for the year ended December 2015. Two consecutive years of growth are a clear indication that these reforms are working. Evidence that brand power is increasing steadily includes growing sales centered on key brands in the prestige category in every region. In addition to the Japan Business, which is back on a growth track, operations in the China Business and Travel Retail are among the biggest contributors to overall success.

As a result of one-time costs stemming from structural reforms and M&As, operating income was ¥36.8 billion.


However, we still have issues to resolve.

Some categories have not met our expectations despite our focused efforts. There still remain issues to be dealt with from 2017.

Sales on Growth Track

Note: The figure for 2014 excludes the impact of the rebound after the consumption tax hike, market inventory optimization in China and Asia, and distribution center problems in the Americas. The figure for 2013 excludes the impact of the rush demand before the consumption tax hike and sales of DECLÉOR and CARITA brands.
Ongoing Investment Increases in 2017

We will complete the rebuilding of our business foundation in 2017, the third year of the first three-year phase of VISION 2020. We will continue to increase investment to achieve net sales of ¥1 trillion and operating income of over ¥100 billion in 2020.

Specifically, we will focus on the following three points.

First, we will continue to increase investment in growing categories.

Prestige brands will have top priority. We will selectively concentrate investment in prestige, with significant increases for SHISEIDO andclé de peau BEAUTÉ alongside other brands. We will also aggressively increase investment in our new brands, Laura Mercier and Dolce&Gabbana, which are expected to generate substantial growth.

At the same time, we will expand Japanese brands to Asia, in particular China, and accelerate growth by strengthening communications attuned to local characteristics. Japanese brands are trusted and have a reputation for quality, which is a unique competitive advantage.

Second, we will address lingering issues.

A particularly urgent issue that we will prioritize is the rejuvenation of bareMinerals, AUPRES, and personal care products in Japan. In 2016, we implemented fundamental structural reforms at Bare Escentuals Inc., the owner of the bareMinerals brand. We moved its headquarters functions from San Francisco to New York City, where the Americas regional headquarters is located, and in 2017 launched a new management team with a goal of growth. Rebranding began in 2016 for the China-exclusive brand AUPRES, which has not been performing well in recent years. We reexamined the brand value of AUPRES, innovating counters, brand communications and advertising. In 2017, we are targeting a turnaround to growth by renewing products in three stages – spring, summer and fall – based on the new brand value.

We will completely overhaul our strategy for personal care products in Japan, and focus on categories in which Shiseido demonstrates its strengths.

Third, we will increase productivity.

The task of improving profitability remains, and we will launch initiatives in categories we have been unable to address to date. We will make further progress in ways such as fundamentally reorganizing our business portfolio and boldly phasing out products and SKUs* with low profitability. We will also address regional issues so that all regional headquarters can achieve double-digit operating profitability by 2020.

Accelerating Growth toward 2020

We are set to implement various initiatives linked to accelerating growth strategies in the second three-year phase ending 2020. Stepping up innovation will have particular emphasis in driving growth over the medium-to-long term. We will address consumer changes with particular emphasis in driving growth over the medium-to-long term. We will address consumer changes with

Moreover, we will complete our world-class* research center, the Global Innovation Center (GIC), located in Japan, by the end of 2018. The GIC will innovate by bringing together R&D knowledge and expertise from the largest groups of people in the world energetically pursuing high-level open innovation.

We are set to implement various initiatives linked to accelerating growth strategies in the second three-year phase ending 2020. Stepping up innovation will have particular emphasis in driving growth over the medium-to-long term. We will address consumer changes with particular emphasis in driving growth over the medium-to-long term. We will address consumer changes with

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* Stock keeping unit: The smallest distinct item in inventory management

Key Actions for Completing the Rebuilding of the Business Foundation

Focus further on key areas

◆ Give top priority to prestige brands
◆ Accelerate growth of Japanese brands
◆ Strengthen digital communication and e-commerce

Address lingering issues

◆ Structural reform of Bare Escentuals Inc.
◆ Strengthen AUPRES
◆ Japan: Review strategies for personal care products

Improve productivity

◆ Boldly reorganize brand and business portfolio
◆ Phase out products and SKUs
To Remain Vital for the Next 100 Years and Beyond

We will make Shiseido a company that remains vital for the next 100 years and beyond. To do so, we must draw on our corporate mission to “inspire a life of beauty and culture” by realizing sustainable growth in cooperation with society.

Strengthening corporate governance as a management system is essential for sustainable growth. Shiseido has made large investments quickly and boldly, including investments in M&A, research centers, new factories and marketing. The primary enabling factor is that our Board of Directors, a majority of whom are independent, external directors and external Audit & Supervisory Board members, duly fulfill their monitoring functions of reviewing and evaluating our strategies. We will continue to evolve our corporate governance in line with global standards to improve corporate value over the long term and enhance its effectiveness.

Moreover, I have reaffirmed the importance of Shiseido’s more than 140-year heritage of tradition and culture. It is the source of Shiseido’s originality, and our businesses are recognized internationally for enhancing cultural value. “Environment, society and governance” (ESG) is an important aspect of long-term corporate growth, but Shiseido will pursue a unique strategy in which it emphasizes “environment, society, culture, and governance,” or what we call ESCG, while working to achieve sustainable growth.

We will also continue to develop our people and implement organizational reforms to compete successfully worldwide. Enhancing diversity is particularly important for global growth. Bringing together the diverse opinions of people who vary in terms of nationality, gender, age and work experience is fundamental to a strong organization and to the creation of value. In particular, I believe Shiseido should be a leader in empowering women, which is a social issue in Japan. Since 2016, female leaders account for more than 30 percent of management-level employees at Shiseido Japan. We are currently empowering female leaders to raise this number to 40 percent or higher by 2020.

A culture of repeated trial and error – an attitude of “keep on trying” – has taken root among Shiseido employees. We will devote ourselves to “One Shiseido” while leveraging the unique features of the countries and regions that we serve.

We are absolutely committed to being a global winner with our heritage. We will generate solid growth in every region in 2020 and beyond by aligning brands loved by people around the world with the ability to create unprecedented value through innovation.

We invite you to share our enthusiasm for the future.
Six Regional Headquarters and Our Global Management Structure

**Think Global, Act Local**

In 2016, we launched the global management structure that is the key for Shiseido to become a winner worldwide. We have a matrix organization of five categories and six regions in which each region has broad authority for marketing, finance and other functions and responsibility for sales and earnings. This approach enables regionally relevant marketing activities and flexible decisions, which enhance our ability to respond to consumer purchasing behavior and market changes.

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**Region × Brand Matrix Organization**

- **Brands**: Cosmetics, Personal care, Professional, Corporate/shared functions, Fragrance, Prestige
- **Regions**: Japan, China, Asia Pacific, Americas, EMEA, Travel Retail

**Leaders Responsible for the Six Regions**

1. Kentaro Fujiwara, President, Shiseido China
2. Jean-Philippe Charrier, President, Shiseido Asia Pacific
3. Masahiko Uotani, Shiseido Group CEO
4. Shigekazu Sugiyama, President, Shiseido Japan
5. Philippe Leoni, President, Shiseido Travel Retail
6. Marc Rey, President & CEO, Shiseido Americas
7. Louis Desazars, President & CEO, Shiseido Group EMEA

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**2017 Full-Year Forecast**

Year on Year (Local Currency Basis), Net Sales

- **Japan**: +19% (¥164.0 billion)
- **Asia Pacific**: +30% (¥32.5 billion)
- **Europe, Middle East and Africa (EMEA)**: +34% (¥133.0 billion)
- **China**: +14% (¥122.0 billion)
- **Americas**: +6% (¥10.2 billion)
- **Travel Retail**: +3% (¥132.0 billion)

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Note: From the year ending December 2017, in line with organizational reform, reporting segments have been reviewed and re-categorized as Japan, China, Asia Pacific, Americas, EMEA, Travel Retail, Professional and Other.
Rigorous Selection and Concentration to Sustain Growth

Shigekazu Sugiyama
President, Shiseido Japan

Achievements and Initiatives

In the year ended December 2016, the Japan Business achieved its net sales target for the second consecutive year. Net sales increased 2.9 percent year on year and operating income increased 4.4 percent. We firmly established growth momentum by fully committing to the implementation of the ICHIGAN Project, which involves cross-divisional, consumer-oriented collaboration among all employees, and by focusing on selection and concentration for marketing investments. We also successfully captured the inbound demand of tourists visiting Japan, generating strong growth forclé de peau BEAUTÉ in the prestige brand category. SHISEIDO sales and market share also increased significantly, driven by ULTIMUNE beauty serum. In addition, sales of ELIXIR, MAQuillAGE and ANESSA increased in the cosmetics and personal care category, and sales at cosmetics specialty stores also expanded.

However, sales in the personal care category decreased year on year due in part to intensified competition, despite aggressive marketing that included new product launches. We will implement additional measures to address this key issue.

Strategies for the Future

- Concentrate on the main businesses
- Change the main businesses
- Be sure to win and achieve milestones

Key themes for the Japan Business will be building growth momentum to generate sustainable sales and income growth that supports overall Group profitability. Moreover, our policies under the new organization in place from 2017 are: concentrate on the main businesses, change the main businesses, and be sure to win and achieve milestones.

Concentrating on the main businesses involves always thinking from the consumer’s perspective, and focusing in mind and action on those businesses, in particular cosmetics. We will carry out integrated marketing centered on our brands under the ICHIGAN concept that unites marketing and sales functions. Changing the main businesses means adapting to changes in consumers and society. For example, we will increase investment in the digital marketing and e-commerce categories. Furthermore, we will bolster skincare, base makeup and sun-care, which are our strengths. With visitors to Japan on the increase, we will also aggressively implement borderless marketing to capture inbound demand.

It is imperative that we rebuild the personal care category, which continues to underperform. We will overhaul our strategies for this category in areas including brand positioning, merchandising approach and sales organization. Points of sale are key for the cosmetics and personal care categories, so we entered into a strategic alliance in 2016 with Unicharm Corporation and Lion Corporation to create more attractive sales displays. We started such cooperative activities in 2017 with the goal of increasing sales and productivity.

Being sure to win and achieve milestones means further increasing market share and reclaiming our position as market leader.

We want to be the most appealing beauty company in Japan. We will select and concentrate in the categories in which we can steadily increase sales and profits. For the fiscal year ending December 31, 2017 we forecast a 3 percent year on year increase in sales to ¥391.0 billion.
Achievements and Initiatives

The China Business generated strong growth in the prestige category and e-commerce during the year ended December 2016. The results were significant: net sales increased 11.4 percent year on year and operating profitability increased 3.9 percentage points. Prestige category sales increased 33 percent year on year as growth of SHISEIDO, clé de peau BEAUTÉ and IPSA outstripped that of competing brands in the department store channel. Moreover, e-commerce generated dramatic growth of over 50 percent year on year, and expanded to 23 percent of total sales in China excluding Hong Kong.

In our cosmetics category, measures to restore sales included installing new sales counters and expanding into new channels to revitalize core brand AUPRES, and renewing PURE&MILD products. However, this remains an area that requires further work.

Strategies for the Future

We will further strengthen key categories and address those in which issues remain. In the rapidly developing e-commerce market, we will employ a cross-channel strategy mainly targeting millennials to grow focus brands. We will also build growth momentum by expanding our e-commerce business through strategic partnerships with a leading e-commerce website operator.

In the cosmetics category, we will continue to increase investment in core brand AUPRES. We made further progress in rebranding initiatives launched in spring 2016 and have been executing a series of full product renewals since March 2017 based on our proprietary “Golden Circulation Theory,” which defines a healthy and stable skin regeneration cycle. In the department store channel, which remains challenging, we are closing unprofitable counters. Nonetheless, we are targeting double-digit sales growth by taking steps to accelerate our response to consumer changes, such as opening brand shops in shopping malls, a growing channel that is attracting a rising number of consumers.

In the prestige category, we will drive growth through ongoing reinforcement with a focus on SHISEIDO, clé de peau BEAUTÉ and IPSA and by implementing a borderless marketing strategy throughout Asia.

An increasing number of consumers in China have a high opinion of the quality of products that are made in Japan. Given this market environment, we are positioning ELIXIR as a strategic brand originating from Japan with a marketing approach attuned to the lifestyles and preferences of Chinese consumers. We have been opening ELIXIR brand shops in shopping malls since January 2017 and have launched the brand in e-commerce channels. We will fully leverage digital marketing while communicating the value of a quality brand originating from Japan.

As a result of these initiatives, for the year ending December 2017, we forecast a 14 percent year-on-year increase in sales on a local currency basis to ¥132.0 billion. We are also targeting improved profitability by coordinating and strengthening the functions of Chinese subsidiaries to increase productivity and efficiency.

Strategies for the Future

- Continue to strengthen the prestige category
- Restore growth potential in the cosmetics category
- Expand investment in the growing e-commerce and digital markets

We will further strengthen key categories and address those in which issues remain.

In the rapidly developing e-commerce market, we will employ a cross-channel strategy mainly targeting millennials to grow focus brands. We will also build growth momentum by expanding our e-commerce business through strategic partnerships with a leading e-commerce website operator.

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Overview of Gurwitch Products, LLC.

Businesses Distribution of cosmetics under the Laura Mercier and RéVive brand names

Established 1995
Sales (year ended December 2015) US$175 million

Achievements and Initiatives

During the year ended December 2016, the Americas Business implemented various reforms to enhance profitability.

A major highlight of the year was our July acquisition of Gurwitch Products, LLC., the owner of Laura Mercier, a solidly established prestige makeup brand inspired by French aesthetics, and RéVive, a prestige skincare brand. We are confident that this acquisition will be a valuable asset in strengthening our brand portfolio and increasing market share. In particular, the makeup market has been growing remarkably in the Americas in recent years, so we expect strong growth for Laura Mercier.

Structural reforms remained a priority at Bare Escentuals, Inc., which accounts for about 40 percent of our sales in the Americas and has had lingering issues for several years. We transferred Bare Escentuals’ headquarters functions from San Francisco to New York, where the Americas regional headquarters is located, to raise the efficiency of our regional organization through integration. Meanwhile, with our digital strategy as the fulcrum we strengthened our prestige makeup brands throughout the region. In addition, we began formulating global innovation strategies for application in marketing worldwide with the launch of our Makeup and Digital Marketing Centers of Excellence.

The Americas Business generated 8.0 percent year-on-year sales growth for the year ended December 2016, but incurred an operating loss because of aggressive marketing investment and one-time costs for structural reform. Nonetheless, we are steadily building the foundation for future earnings and expect a strong recovery in profitability as we move forward.

Strategies for the Future

- Restore growth for bareMinerals
- Strengthen prestige brands with a focus on the makeup category
- Improve efficiency and productivity by reinforcing organizational capabilities

The Americas Business will expand its growth potential by implementing structural reforms of the bareMinerals brand and by strengthening prestige brands with a focus on the makeup category.

The bareMinerals brand is beginning to turn around due to factors including the strong performance of GEN NUDE, BAREPRO and other newly launched products and increased digital marketing. We also renewed the mainstay loose powder foundation ORIGINAL in spring 2017. We intend to use our new management structure to strengthen marketing, restore growth potential and quickly regenerate brand earnings, with the goal of achieving profitability after amortization of goodwill in the year ending December 2018.

The integration of Laura Mercier with existing businesses is progressing smoothly. We will increase marketing investment for growth, and build sales in department stores and independent specialty stores, which are the main channels for this brand.

In addition, the full-fledged operation of the regional headquarters system has enabled bold, rapid decision-making, and significant benefits have begun to appear in our supply chain. We will continue to improve profitability with haste, dramatically increasing operational efficiency through such means as setting key performance indicators and managing inventory based on a common region-wide management system.

As a result of these initiatives, with the addition of sales of Laura Mercier, the Americas Business plans to achieve a 19 percent year-on-year increase in net sales on a local currency basis to ¥164.0 billion for the year ending December 2017.
**EMEA**

**Building the Foundation for Growth by Increasing Investment in Dolce&Gabbana**

Louis Desazars  
President & CEO, Shiseido Group EMEA

**Achievements and Initiatives**

During the year ended December 2016, the EMEA Business strengthened marketing to further grow prestige brands including SHISEIDO, narciso rodriguez and ISSEY MIYAKE. We also started a license business in October 2016 for Italian luxury fashion brand Dolce&Gabbana to expand market share in the fragrance category. This business, a major step forward for us, is based on an exclusive global license for the development, production and sale of fragrances, makeup and skincare products. We will create new value by collaborating with this global fashion and beauty industry leader.

We have also integrated the fragrance and cosmetics businesses in each country, which had operated separately in our region, to streamline back office operations and generate sales synergies. As a result, we improved organizational efficiency and increased our team unity in the spirit of “One Shiseido.”

Net sales of the EMEA Business decreased 8.1 percent year on year on a local currency basis due to the termination of the Jean Paul GAULTIER license agreement. However, excluding the impact of Jean Paul GAULTIER and Dolce&Gabbana, for which license activities began in October 2016, sales in real terms increased 9.0 percent. Operating profitability decreased 12.3 percentage points year on year because of reduced marginal income due to lower net sales, structural reforms associated with the integration of regional organizations, and enhanced investment in Dolce&Gabbana.

**Strategies for the Future**

- Increase investment in Dolce&Gabbana to expand growth potential
- Make focused, selective investments in strong brands and product lines
- Improve profitability through organizational integration

For SHISEIDO, which continues to grow faster than the market, we are targeting further growth through optimization by concentrating on lines for reinforcement and selectively reducing the number of products. We will also expand value globally by building on our role as host region to the Fragrance Center of Excellence.

We will boldly invest in advertising and other marketing expenses to strengthen brand equity in our fully operational Dolce&Gabbana business. At present, we plan to finish shifting production to Shiseido factories during the first half of the year ending December 2017 and to balance shipments and investment in the second half, which will significantly improve profitability. Building upon major upfront investment in the year ending December 2017, we aim to restore the growth momentum of the brand and put Dolce&Gabbana in the black from the year ending December 2018. Over the medium term, in addition to operations in Europe, we will leverage Shiseido’s global network to strengthen sales of this brand in the Travel Retail Business, Asia, China and elsewhere. In addition, we intend to accelerate sales growth by using the Shiseido Group’s sophisticated technological and product development capabilities to enhance the product lineup and expand our fragrance, makeup and skincare lines.

We forecast that net sales in the EMEA Business will increase 34 percent year on year on a local currency basis to ¥111.0 billion for the year ending December 2017 with full-year sales of Dolce&Gabbana.
Achievements and Initiatives/Strategies for the Future

- Strengthen the prestige category with aggressive investment
- Expand sales of brands from Japan
- Enhance regional headquarters functions

In the Asia Pacific region, with the January 2016 transfer of regional supervision and marketing functions to Singapore from the head office in Japan, the regional headquarters became fully operational. The increased authority of the regional headquarter has accelerated decision-making and reforms, with clear results: net sales for the year ended December 31, 2016 increased 7.0 percent year on year with increases in every country in our region. A highlight was the substantial growth in sales of prestige brands SHISEIDO, clé de peau BEAUTÉ and NARS in South Korea, Thailand and Vietnam. In addition, sales of SENNA, a personal care brand originating from Japan, increased in South Korea and Thailand because of energetic marketing geared to local consumer needs.

Going forward, we will build momentum. We will further increase investment in the prestige category during the year ending December 2017. We will also maintain localized marketing in the cosmetics and personal care categories, and energetically market brands from Japan that are highly trusted. We intend to work together as a team with the aim of increasing net sales 6 percent year on year on a local currency basis to ¥48.5 billion in the year ending December 2017.

Travel Retail

Accelerating Growth through Aggressive Investment Attuned to the Distinctive Needs of Tourists

Philippe Lesné
President, Shiseido Travel Retail

The Travel Retail Business sells cosmetics in various channels including airport duty-free shops, and is Shiseido’s most profitable business. For the year ended December 2016, net sales increased 60.4 percent year on year, which was significantly higher than the market growth rate, and operating profitability increased 8.1 percentage points to 22.1 percent. This performance was the result of several factors. For example, we addressed the growing number of tourists originating from Asia and elsewhere by increas-
Trust is essential for companies to grow sustainably. Shiseido has always been a sustainable company that emphasizes trust and seeks to resolve social issues through its operations. Indeed, Shiseido’s first president, Shinzo Fukuhara, stated that companies sustain themselves and grow if they have the trust of society, and that trust is an important intangible asset.

Looking forward, we must continue to earn the trust of constantly changing consumers and society. Through discussions on our aspirations for 2020 through 2030 with employees around the world, we have realized that we need to significantly transform ourselves because of these changes, and have committed to pursuing fundamental reforms.

We have undertaken the task of formulating and implementing a sustainability strategy to create new business models that positively influence the world while carefully observing changes and risks relevant to consumers’ daily lives, the communities we serve, and the environment in order to proactively support all three. We have identified the three priority areas of Person (Consumers), Community (Society), and Planet (Environment) and will energetically work toward the Sustainable Development Goals (SDGs) adopted by the United Nations.

We must also revolutionize manufacturing to achieve sustainable growth. We need to transform not only our products and services, but our product categories and our very industry itself. This is our mindset as we execute initiatives to bring together internal and external knowledge and people under the key strategy of “fusion and innovation.” Innovation should transcend the boundaries between regions and between all facets of our operations, and come to life everywhere; in stores, sales, manufacturing, research and so on. In fall 2016, the hCLAT test that we jointly developed with Kao Corporation as an alternative to animal testing was adopted as an Organization for Economic Co-operation and Development (OECD) Test Guideline for evaluating the safety of chemicals. This is an excellent example of how we are generating innovation by going beyond the borders of the Company to bring together knowledge and people for safe, reliable manufacturing.

Our ability to accomplish these initiatives depends on how intently we focus on making consumers happy by drawing on Shiseido’s corporate mission to “inspire a life of beauty and culture” – in other words, by providing and sharing beauty. To remain vital for the next 100 years and beyond, we will constantly transform in all our businesses to contribute to consumers and society as a global beauty company.

Totally committed to fulfilling our mission, we will carry on transforming ourselves so that we continue to earn the trust of consumers and society one hundred years from now.

Tsunehiko Iwai
Representative Director, Executive Vice President
Sustainability Strategy Overview

- **Person (Consumers):** Supporting Healthy, Happy Lives
- **Community (Society):** Contributing to Realizing a Society That Accepts Diversity
- **Planet (Environment):** Sustainable Product Design and Manufacturing

**Business Growth**

**Resolving Social and Environmental Issues**

**Enhance & Expand Activities**

The Shiseido Group’s Sustainability Strategy

Looking ahead to the next 100 years and beyond, the Shiseido Group intends to grow with society as a global beauty company that stakeholders worldwide need and support.

It is critical to Shiseido’s sustainable growth to take proactive initiatives that resolve social and environmental issues, particularly the Sustainable Development Goals (SDGs) adopted by the United Nations, and realize a healthy society over the long term.

The Shiseido Group’s sustainability strategy is a growth strategy both for solving social and environmental problems and for business expansion. Our goal is to achieve a sustainable society that delights people through beauty. In this society, sustainability is crucial for consumers, for the society to which they belong, and for the global environment, which supports people’s lives. Our sustainability strategy therefore focuses on three areas: Person (Consumers), Community (Society) and Planet (Environment).

For Person, our mission illuminates our desire to support people’s healthy, happy lives. For Community, we will contribute to realizing a society that accepts diversities such as gender, age and nationality. For Planet, we will promote sustainable product design and manufacturing to develop attractive products and services that go beyond mere concern for environmental issues.

We will identify key issues from the viewpoints of impact on our businesses and society’s expectations, align our activities with them and revise them regularly in accordance with changes in our society.

Collaboration with the International Community for the SDGs and Other Initiatives

Based on a proposal by the United Nations, the SDGs are a set of 17 goals and 169 targets for realizing a sustainable world by 2030. They call upon all 193 countries in the United Nations to work hard to achieve these goals.

Shiseido provides support for women’s empowerment and conducts a variety of other related initiatives. For example, we announced our participation in the United Nations Global Compact in September 2004 to support its ten principles in four fields, and signed the Women’s Empowerment Principles (WEPs) in September 2010. We will continue to strengthen our efforts to achieve the SDGs.
Looking toward 2020 and Beyond

Aspirations in Three Areas

**Person**

Supporting Healthy, Happy Lives

We mobilize our collective wisdom to provide innovative products and services that fully leverage our sophisticated technological capabilities. Moreover, we place the highest priority on quality and safety so that consumers can use our products with peace of mind, and proactively provide information on product safety.

Our aim is to be a lifelong partner of consumers worldwide by helping them fulfill their desire to live healthily and beautifully.

**Community**

Contributing to Realizing a Society That Accepts Diversity

The realization of a society that accepts differences in gender, age, nationality and other attributes is an important and urgent issue. In this context, Shiseido is focusing on the empowerment of women, who are deeply significant to our business.

In collaboration with UN Women, a UN agency that promotes gender equality and women’s empowerment, we will promote education on gender equality for young people. We will also support the independence of women in developing countries through our business activities. Fostering a corporate culture in which employees accept each other’s differences is an important task that leads to new value creation. As such, we will continue to develop work environments in which our employees can demonstrate their capabilities.

**Planet**

Sustainable Product Design and Manufacturing

Shiseido believes that preserving the environment, which is intimately connected to people’s lives, and promoting sustainable manufacturing, are initiatives for passing on a beautiful planet to the next generation. Our goal is to both grow our businesses and minimize environmental impact in our value chain not simply by addressing environmental concerns, but also by adding new value that impresses consumers. While providing attractive products and services, we will also raise awareness of and encourage consumer behavior that does not harm the environment.

**Examples of Main Initiatives**

**Shiseido Life Quality Makeup**

Shiseido Life Quality Makeup is a service in which Shiseido provides free makeup advice, proposing cosmetics as a way to resolve various skin problems such as blotches, dark spots, vitiligo, skin irregularities including scars and burn marks, and side effects of cancer treatment such as dullness, other changes in skin color and loss of eyebrows and eyelashes. We provide this service primarily at the Shiseido Life Quality Beauty Center in Ginza, Tokyo as well as at approximately 380 business partners and medical institutions throughout Japan and overseas in Shanghai, Hong Kong and Taiwan. These activities improve quality of life and help to empower people to live as they wish. Our aim is to achieve a happier society.

**Promoting Education on Gender Equality in Collaboration with UN Women**

UN Women has launched the HeForShe gender equality campaign with the belief that the active involvement of men is indispensable for eradicating pronounced inequalities faced by women and girls worldwide, including violence and discrimination. Shiseido supports this campaign, and will actively collaborate with UN Women in promoting activities that raise awareness of HeForShe within the Shiseido Group and externally. We will also roll out gender equality education activities for the high school and university students who will be society’s leaders in the future.

**Use of Mechanically Recycled Polyethylene Terephthalate (PET)**

Shiseido formulated its Production Eco Standards in 2010 to serve as environmental standards for product design. In addition to environmental friendliness, we have been emphasizing design and ease of use. We focused on mechanically recycled PET* resin in designing environmentally friendly containers. Unlike beverage bottles for which mechanically recycled PET is already in use, cosmetics containers were difficult to make from this material because of their widely varying thicknesses and shapes. However, we successfully developed mass production technology that passed our stringent quality tests after repeated trials. Shiseido began using mechanically recycled PET resin for SEA BREEZE containers in September 2015. We will continue to broaden the use of this material for product containers.

* High-quality, high-recovery PET resin produced by using heat, vacuum and other processes to decontaminate resin from PET bottles that have been sorted, ranked and washed.

**Other Activities**

**SHISEIDO LIFE QUALITY BEAUTY SEMINARS**

http://www.shiseidogroup.com/sustainability/seminar/

**Promotion of Safe and Reliable Manufacturing**

http://www.shiseidogroup.com/sustainability/challenge/making/

**Initiatives in Response to Animal Testing and Alternative Methods**

http://www.shiseidogroup.com/sustainability/challenge/experiment/

**Providing information according to consumer life stage: Skin Care from Babyhood**

http://www.shiseidogroup.com/sustainability/challenge/making/

**Empowerment of Rural Bangladesh Women**

http://www.shiseidogroup.com/sustainability/support/

**Support for Empowerment of Women in Society**

http://www.shiseidogroup.com/sustainability/labor/diversity.html

**Initiatives to Realize a Rewarding Workplace**

http://www.shiseidogroup.com/sustainability/labor/working.html

**Reduction of water usage by developing rinse-aid facial wash**


**Initiatives for the issue of palm oil**

http://www.shiseidogroup.com/sustainability/env/diversity.html#diversity.html

**Camellia Planting and Conservation Activities on the Goto Islands in Nagasaki Prefecture, Where a Raw Material for TSUBAKI is Produced**


**SENKA Speedy Perfect Whip Airly Touch**

http://www.shiseidogroup.com/sustainability/env/goods/index.html#no099
Shiseido was founded as a Western-style pharmacy in 1872 and since then has created products backed by science and technology. As we move forward, we are energetically promoting a global system for generating innovation to realize our corporate mission of inspiring a life of beauty and culture.

The Innovation Center in Japan acts as the hub for our research and development, and is primarily responsible for basic research and for research in new categories. Other innovation centers around the world are linked to this hub much like the spokes of a wheel. Through the close cooperation of each innovation center within this hub-and-spoke network, we will transform the new technologies we create into optimal value for consumers worldwide. In the year ended December 2016 we upgraded and expanded the Americas Innovation Center and the Shanghai Branch of the China Innovation Center. Furthermore, in January 2017, we established the Asia Pacific Innovation Center in Singapore to accurately respond to consumer needs in the rapidly growing countries of Southeast Asia. We now have nine R&D bases in five countries and regions.

To nurture and strengthen our brands, we have also launched our Centers of Excellence (CoEs) in which regions that significantly influence categories globally lead the Group in initiatives ranging from strategy-building to developing products. Japan hosts the CoE for skincare, the Americas for makeup and digital marketing, and Europe for fragrances. We will use CoE knowledge for brands and marketing in each country we serve. In addition, we will strengthen collaboration among the innovation centers in our hub-and-spoke network, the CoEs, and our three production bases in Japan and 10 production bases in five other countries and regions to generate innovation globally through the convergence of knowledge.

Shiseido’s Global Network
http://www.shiseidogroup.com/rd/network.html

We are now constructing the Global Innovation Center (GIC), a new research center that will be the global hub maximizing the R&D capabilities of our hub-and-spoke network. Scheduled to open at the end of 2018, GIC is located in the Minato Mirai 21 area of Yokohama, Kanagawa Prefecture. GIC is an urban open lab that will bring together diverse knowledge and people from organizations around the world – including advanced research institutions and companies in other industries – to accelerate the creation of consumer-oriented value and to create an “innovation ecosystem” that transcends national and industry borders.

The first and second floors of GIC will be an open communication space where consumers can be inspired by beauty. The first floor will feature the Beauty Bar, where consumers can freely try out cosmetics, and the Active Beauty Station for consumers who seek healthy and active beauty. The Deli & Café, which will offer a healthy menu inspired by research into food and beauty, will also be located on the first floor. The second floor will feature a museum, which will present Shiseido’s history along with the potential for beauty in the future. Researchers will be engaged in planning and operation of these facilities to give them a tangible connection with contemporary issues and market trends and to identify new research themes.

"Innovation Ecosystem"
We intend to build an ecosystem at GIC that continuously generates innovation. Much like the ecological systems on Earth that are natural environments made up of diverse elements, this “innovation ecosystem” will be an analogus structure that brings together stakeholders including companies in other industries, external research institutions, suppliers and consumers to achieve synergies that transcend industry and national boundaries to create innovation.
Specific Initiatives to Generate Innovation

Shiseido will continue to strengthen basic research that supports its high-quality products and services. We will also promote open innovation so that we can respond in a timely manner to consumer needs and a market environment that are diversifying as technologies evolve and the social environment changes.

Research and Development

Recognition of Effect and Efficacy of New Active Ingredient Retinol in Improving Wrinkles for the First Time in Japan

In February 2017, the Japanese Ministry of Health, Labour and Welfare approved Shiseido Retino Vital Cream V containing the active ingredient retinol as a quasi-drug for improving wrinkles. We will begin introducing it through multiple brands. Although the efficacy of skincare in improving wrinkles was not recognized by the ministry for many years, Shiseido proved that retinol improves deep wrinkles in accordance with the guidelines established by the Japanese Cosmetic Science Society. Shiseido is the only company that can manufacture and sell wrinkle-improving products with the active ingredient retinol in Japan, and will continue to advance anti-aging research.

Marketing

Developing a New Business Model through the Acquisition of MATCHCo.

Shiseido has acquired U.S. venture MATCHCo., which has developed direct marketing that enables consumers to measure their own skin tones with a smartphone app and to purchase custom-made foundation online that matches those tones. We will combine MATCHCo.’s innovative digital technologies and knowledge in this area with our R&D capabilities to enhance our business model by capturing the emerging trend of cosmetics personalization.

Production

Manufacturing Reforms Using Robots

Shiseido is working to introduce automation at domestic and overseas production and logistics bases to improve production capacity and quality to support its sustainable growth. We are developing humanoid robots that can perform complex, intricate assembly processes for products such as makeup in collaboration with people to achieve a new kind of manufacturing suited to a high product mix and low production volumes. We will expand the use of robots in tandem with technological innovation and to cover future shortfalls in workers.

Nurturing People and an Organization That Can Win Worldwide

Shiseido aims to be a company that is full of energy for growth and respected by the younger generations around the world. We will achieve this by nurturing a large number of employees who create value for consumers through innovation. By strengthening Shiseido through the capabilities of its people, we will create a winning organization that will prevail over competitors. Our matrix organization is the foundation for developing and deploying globally competitive people. We are focusing on fully leveraging the capabilities of our people through an integrated process from hiring and selection to training and assignment.

Talent Development

- Increase investments in training
  - MBA program for young employees
  - Reinforcement of training program for nurturing management personnel
- Launch of the Digital Academy for promoting the digital literacy of all employees
- Launch of the Shiseido Leadership Academy

Establish and Execute Processes for Improving Performance

- Objective calibration
- Performance evaluation system that helps people set and achieve higher goals
- Manager’s support for subordinates’ growth

Diversity and Inclusion

- Create new value by bringing together diverse employees
- Build an organization where employees have opportunities to excel regardless of gender, especially in Japan

We have formulated our BIG WIN 5 working principles to achieve VISION 2020 and our Organization and HR Principles to define our aspirations for our organization and people. Extending beyond our approach to personnel training, these principles apply to all of our human resource initiatives. We inspire our employees to take on the challenge of being consumer-oriented in everything they do, and encourage them to lead by example.
We will increase corporate value over the medium-to-long term through sustainable growth and by building a powerful management foundation.

During 2016, the second year of our three-year plan for rebuilding our business foundation, we succeeded in breaking away from persistent zero growth and successfully building growth momentum. The reforms of the past two years for a turnaround in growth have had a noticeable effect, and have enhanced our earning power. We will steadily maintain our growth momentum by continuing to increase investment. At the same time, we will emphasize ROI and increase productivity to improve profitability. Through such initiatives we will achieve our VISION 2020 targets of net sales of over ¥3 trillion, operating income of over ¥100 billion, and ROE of 12 percent or higher, and medium-to-long-term growth in corporate value.

We will also enhance cash management to support aggressive investment and share timely information about operating performance. We will continue to enhance shareholder returns while taking into consideration the market environment, free cash flow and investments for growth, including M&A. In addition, we will conduct timely funding by the optimum method based on factors including capital cost, operating trends, our financial condition and the market environment.

* Stock keeping unit: The smallest distinct item in inventory management

Our financial strategy focuses on increasing ROE, which will guide us in optimizing our capital structure, determining our dividend policy, establishing investment criteria and configuring capital cost. Our shareholder return policy targets total returns, comprising direct returns to shareholders through dividends and medium-to-long-term share price gains. Given this mindset, our objective is to increase profits and improve capital efficiency by driving growth through strategic investment, which will increase dividends and our share price over the medium-to-long term. We will continue to enhance shareholder returns while taking into consideration the market environment, free cash flow and investments for growth, including M&A. In addition, we will conduct timely funding by the optimum method based on factors including capital cost, operating trends, our financial condition and the market environment.

**Theme 3 Financial Strategy**

**Increasing Capital Efficiency Premised on an Optimum Capital Structure**

Shiseido is improving brand ROI and implementing other initiatives to enhance productivity with the goal of operating profitability of 10 percent or higher for all regional headquarters by 2020. We will bolster core businesses with M&A and alliances, and improve profitability by boldly reorganizing our business portfolio in ways such as divesting unprofitable and non-core businesses. In addition, we will improve productivity by substantially reducing inefficient SKUs,* rationalizing back office operations, and raising brand ROI. Cost structure reform will generate capital for investment. We will achieve cost reductions of ¥30 to ¥40 billion in the year ending December 2017 compared with the year ended March 2015 as we step up initiatives to improve our profit structure worldwide.

* Stock keeping unit: The smallest distinct item in inventory management

**Theme 2 Autonomous Management by Regional Headquarters for Sales Growth and Improved Profitability**

**Theme 1 Increased Investment**

**Aggressive Management That Achieves Sustainable Sales Growth**

As a result of our ability to consistently generate cash in our core businesses, EBITDA for the year ended December 2016 was ¥90.1 billion. In the year ending December 2017, we will complete the rebuilding of our business foundation and aggressively increase investment in research and development, marketing and other areas to achieve sustainable growth. Specifically, we will further increase marketing investment to put newly added Laura Mercier and Dolce&Gabbana brands on a growth track and focus on strengthening prestige brands, which underpin our sales and continue to grow. We will thus selectively concentrate investment on categories in which we anticipate expansion to structure a potent brand portfolio for sustainable growth.

**Norio Tadakawa**

Corporate Officer
Chief Financial Officer

**Engagement Agenda 3**

Financial Strategy for Increasing Corporate Value over the Medium-to-Long Term
Main Themes in Detail

**Theme 1 Increased Investment – Aggressive Management That Achieves Sustainable Growth**

- Our ability to consistently generate cash has improved. We forecast that EBITDA will be higher than ¥90.0 billion for the year ending December 2017.
- Capital investment exceeded ¥100.0 billion for the year ended December 2016 largely due to investment of ¥56.5 billion in the Global Innovation Center and the new Otsuka Factory. Shares of subsidiaries mainly resulting from the acquisition of Laura Mercier, and intangible assets related to the licensing agreement for Dolce&Gabbana.
- In the year ending December 2017, we will aggressively increase investment in brands, mainly prestige, that are made in Japan, in digital marketing, e-commerce, and other growth fields, in addition to continuing investment to generate long-term growth.

**Investment for Growth and Selection and Concentration**

**M&A, Licensing and Collaboration for Growth**
- Enhanced business and brand portfolio
  - July 2016 Acquisition of Laura Mercier and Riviva
- New business models for beauty: digital technology acquisition
  - December 2016 Established Shiseido Ventures Partners and invested in Drives, Inc.
  - January 2017 Acquisition of MATCHCo.

**Business Divestitures, Alliances and Exit from Unprofitable Businesses**
- Diversifies and alliances
  - June 2016 Sale of Ajura Laboratories Inc. and related assets
  - July 2015 Greece: Sale of subsidiary
  - December 2015 Turkey: Sale of subsidiary
- Exit from unprofitable businesses
  - November 2015 India: Termination of Za brand sales and dissolution of subsidiary

**Impact of Brand Acquisitions and License Contracts on the Balance Sheet**
- Intangible assets
  - Intangible assets at December 31, 2016 were ¥246.3 billion, an increase of ¥84.9 billion compared with December 31, 2015. Future excess earnings expected from Laura Mercier and Riviva are recognized as goodwill and trademarks. Future payments related to Dolce&Gabbana trademarks are recognized as both intangible assets and liabilities.
- Interest-bearing debt
  - Shiseido funded the brand acquisition and licensing agreement with corporate bonds and bank borrowings, and recognized future payments related to trademarks in liabilities as long-term payables. As a result, interest-bearing debt (including long-term payables) increased ¥89.2 billion compared with December 31, 2015.

**Targeting Consolidated Operating Profitability of 10 Percent**

Operating profitability targets and initiatives in each segment

- **Japan**
  - Energetically nurture key brands and increase ROI
  - Selection, concentration and reduction of product variations
  - Sales strategy for expanding brand contact points with consumers

- **China**
  - Shift to a digitally adept business model
  - Strengthen functional coordination among subsidiaries and enhance efficiency
  - Energetically leverage Japanese quality and brands made in Japan

- **Asia Pacific**
  - Expand sales with localized marketing
  - Energetically leverage Japanese quality and brands made in Japan
  - Strengthen regional headquarters functions

- **Americas**
  - Achieve growth turnaround and improve profitability at Bare Escentuals Inc.
  - Increase sales and raise productivity by enhancing organizational capabilities
  - Expand makeup brand growth and ROI using digital approaches

- **EMEA**
  - Increase ROI by escalating growth in fragrances and by enhancing brand power
  - Raise productivity with organizational integration
  - Fully develop operations in the United Kingdom, the Middle East, and elsewhere

**Cost Structure Reforms More Successful Than Planned**

Cost Structure Reforms and Outcomes

- **Japan**
  - Optimized product specifications (Reviewed materials part by part)
  - Shifted to outsourcing
  - Reduced waste of promotional items

- **China**
  - Strict competition for promotional item purchasing
  - Reviewed lease contracts
  - Strengthened supplier negotiations
  - Outsourced logistics

- **EMEA**
  - Shared services
  - System integration and consolidation

- **Travel Retail**
  - Aggressively expand brands and sales counters, and increase investment
  - Further enhance organizational and marketing capabilities
During the three years ending December 2017, we have been rebuilding our business foundation and prioritizing investments to achieve sustainable growth and to enhance our ability to generate cash.

The payout ratio for the year ended December 2016 was almost 40 percent (Shiseido estimate: 39.8 percent) when calculated using net income before extraordinary items including gain on sales of property, plant and equipment (including the sale of the former Kamakura Factory site).

The average payout ratio for the most recent three years (year ended March 2015, period ended December 2015 and year ended December 2016) is 42.4 percent (before items including gain on transfer of business).

We will emphasize stable cash dividends and buy back shares flexibly.

The target medium-term consolidated dividend payout ratio is 40 percent.

We will maintain an A rating to enable favorable funding.

The five-year average ROE is 8.0 percent.*

*Calculated based on an adjusted ROE of 7.9 percent for the period ended December 2015 and a forecasted ROE of 6.5 percentage for the year ending December 2017

We expedited addressing and resolving legacy issues, and recognized restructuring expenses for upfront investment.

We will maintain an A rating to enable favorable funding.

The target interest-bearing debt ratio is 25 percent.

Shiseido meets its funding requirements for large-scale investments using optimum, timely methods given factors including operating status, financial position and market environment.
Directors, Audit & Supervisory Board Members and Corporate Officers

(As of May 1, 2017)

Representative Director, President and CEO

Masahiko Uotani
(Dates of birth: June 2, 1954)

Chairman of the Board
Responsible for Japan Region, China Region, Asia Pacific Region, Americas Region, Europe, Middle East and Africa Region, Travel Retail
Direct reporting organizations: Corporate Strategy, Innovation Design Labs, Global Prestige Brands

1977 Joined the Lion DenShincor Co., Ltd. (currently Lion Corporation)
1978 Manager, Dilsbin, N.A.
1991 Representative Director, Vice President of Khaft 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 ASHLA Corporation
2012 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)

Tsunehiko Iwai
(Dates of birth: May 24, 1953)

Representative Director, Executive Vice President

Assisting CEO
Chief Technology and Innovation Officer
Chief Quality Officer
Responsible for Corporate Culture Reforms
Responsible for Human Resources, Corporate Culture Reforms
Responsible for Global Business (International Business, China Business, Professional Business)
Chief Officer of International Business Division
Responsible for Regulatory Strategy
Responsible for Legal and Governance, Compliance
Responsible for Technical Planning, Quality Management
Corporate Strategy, Innovation Design Lab., Global Prestige Brands

1979 Joined Shiseido
2002 General Manager of Product Commercialization Planning Department
2004 Chief Officer of Fine Chemical Division
2006 General Manager of Technical Department
2006 Corporate Officer
2009 General Manager of Quality Management Department
2010 Responsible for Technical Planning, Quality Management, Frontier Science Business
2013 Responsible for Technical Planning, Quality Management, Pharmaceutical Affairs, CSR, Environmental Affairs, Frontier Science Business
2014 Corporate Executive Officer
Responsible for Research & Development, Production, Technical Affairs
2015 Chief Technology and Innovation Officer (incumbent)
Responsible for Research and Development, SCM, Technical Strategy
Chief Technical Strategy Officer and Chief Quality Officer
2017 Representative Director, Chairman of CSR Committee
Responsible for Technical Planning, Quality Management, Frontier Science Business
Responsible for Regulatory Strategy
Responsible for Legal and Governance, Compliance
Responsible for Corporate Communication
Responsible for Innovation for Value Creation Project

Yoko Ishikura
(Dates of birth: May 28, 1953)

Representative Director

Chief People Officer
Chief Creative Officer
Responsible for Human Resources, Advertising and Design
Chairman of CSR Committee

2002 Director (part-time), Avon Products Inc.
2007 Representative Director, Chief Executive Partner
2008 Director, the Science Council of Japan
2010 Director, Nissin Food Holdings Co., Ltd.
2011 Member of the Central Education Council
2014 Outside Director (part-time), Keio University
2015 Outside Director, Nippon Medical School
2017 Outside Director, Nippon Medical School

Notes: 1. External directors and external Audit & Supervisory Board members are as of December 31, 2016.
2. Independent Director provided in Rule 436-2 of the Tokyo Stock Exchange Securities Listing Regulations.
Management Section

External Director*  Shoichi Iwata  (Date of birth: August 14, 1950)
Chairman of Remuneration Advisory Committee

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

External Director*  Kanoko Oishi  (Date of birth: March 24, 1941)

1983  Joined Nippon Life Insurance Company
1988  McKinley & Company Inc., (Tokyo Office)
2000  CEO, Media Inc.  [incumbent]
CEO, Saison MEDIAN Co., Ltd.  (Currently Seeds 1 Co., Ltd.) [incumbent]
2001  Outside Auditor, ASKU Corporation
2002  Outside Directors, ASKU Corporation
2010  Outside Directors, Asahi Pharma Inc.
2015  Outside Directors, Eikai Gesso Co., Ltd.  [incumbent]
Internal Director, Santon Pharmaceutical Co., Ltd.  [incumbent]
External Director, Suno Bank Ltd.  [incumbent]
2016  External Director of Shiseido  [incumbent]

External Director*  Tatsuo Uemura  (Date of birth: April 18, 1949)
Chairman of Nomination Advisory Committee

1977  Lecture, Faculty of Law, The University of Kyushu
1979  Associate Professor, Faculty of Law, The University of Kyushu
1981  Associate Professor, School of Law, Sendai University
1986  Professor, School of Law, Sendai University
1990  Professor, College of Law and Politics, Keio University
1997  Professor, School of Law, Waseda University
2003  Director, Center of Excellence - Waseda Institute for Corporate Law and Society
2004  Director, Jadig Securities Exchange, Inc.  Professor, Faculty of Law, Waseda University  [incumbent]
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 Corporate 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 Who Do Not Serve as Director

Yoichi Shimatani
Corporate Executive Officer
Chief Research and Development Officer
Responsible for R&D Administration, Cosmetics R&D, Cosmetics Value Development, Intellectual Property, Basic Research, Life Science Research, Quality Assurance

Shigekazu Sugiyama
Corporate Executive Officer
Responsible for Asia Pacific Region

Jean-Philippe Charrier
Responsible for Asia Pacific Region

Kentarou Fujiwara
Responsible for China Region

Katharina Hohne
Senior Vice President, Global Professional Business

Masaya Hosaka
Chief Supply Chain Officer
Responsible for SCM, Production, Technology and Engineering, Purchasing, Factories, Frontier Science Business

Mitsuru Kameyama
Chief Information Officer
Responsible for Global Information and Communication Technology Department

Yasushi Kushido
Assisting Chief Technology and Innovation Officer
Responsible for Special Mission Projects

Yoshihiro Shimizu
Chief Legal and Governance Officer
Responsible for Legal and Governance, Compliance, Sustainability Strategy, Executive and External Relations

Mikiko Soejima
Chief Beauty Officer
Responsible for Beauty Creation

Norio Tadakawa
Chief Finance Officer
Responsible for Finance, Financial Management, Investor Relations, Business Development

Yoshiaki Okada
Board Director, SHISEIDO Board Unit, Global Prestige Brands

Chairman of Remuneration Advisory Committee

Chairman of Nomination Advisory Committee

Chairman of Remuneration Advisory Committee [incumbent]

Chairman of Nomination Advisory Committee [incumbent]

Chairman of Remuneration Advisory Committee [incumbent]

Chairman of Nomination Advisory Committee [incumbent]
I became a Shiseido external director three years ago. I participate in Board of Directors, new year Group policy kick-off and various other meetings and also spend a substantial amount of time working with front-line employees, so I see that Shiseido is changing significantly.

Shiseido’s corporate governance is also at the forefront among corporations in Japan, and continues to evolve. Shiseido makes decisions with exceptional speed, which I largely attribute to CEO Masahiko Uotani’s excellent leadership. The acquisition of the Dolce&Gabbana license is representative. Multiple investment projects were in progress at the same time, including the acquisition of Laura Mercier. Mr. Uotani addressed this situation by emailed detailed reports on up-to-the-moment changes in progress to all attendees of Board of Directors meetings, including external directors and Audit & Supervisory Board members. The speed, accuracy and timeliness of these reports allowed sufficient discussion among external directors. Japanese companies tended to emphasize formulaic governance for a while in response to the establishment of the Corporate Governance Code, but companies need to grow. Shiseido recognizes that to achieve growth, corporate governance must be predicated on maintaining established frameworks and transparency to create an environment that lets management make bold moves quickly according to the circumstances. Ongoing reform is critical for Shiseido’s future. It may be challenging, but Shiseido must accelerate innovation and investment to maintain momentum. Hiring and nurturing people is key to reform and growth. More talented people than ever will come to Shiseido from around the world if Shiseido creates an environment in which employees can demonstrate their true abilities. I strongly believe that this will truly make Shiseido a company with highly valuable people. Shiseido is a vibrant company that is drawing on its traditions and clear vision under solid leadership to take on numerous challenges. I am confident that with transparent and bold management, Shiseido will earn international respect as a global beauty company from Japan.

The Shiseido Group defines corporate governance as its “platform to realize sustainable growth by fulfilling its corporate mission,” and is enhancing corporate governance to achieve the objectives of its medium-to-long-term strategy, VISION 2020. We have been fully committed to the evolution of corporate governance since 2001, and the ongoing reforms to date can be divided into three stages.

The first stage initiated corporate governance reform initiatives to separate the functions of management supervision and execution. The second stage was the introduction of the corporate officer system, and the third stage established Remuneration Advisory Committees. The objective of this tense collaboration is not to excessively limit or decrease the CEO’s authority, but to establish a process driven by full accountability of the CEO to the Board of Directors and other supervisory organs to regularly evaluate the CEO and management execution given the broad authority vested in the CEO. Tense collaboration will enable both swift management decisions by President and CEO, which that executive needs in order to exercise ultimate leadership of Shiseido’s global management.

The Shiseido Group’s Governance by the Numbers – Directors and Audit & Supervisory Board Members

![Shiseido’s Governance by the Numbers](image_url)
Corporate Governance System
Basic Policy
The Shiseido Group, including Shiseido Company, Limited (the Company), set 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 maintain 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 Shiseido Group works to optimize the value it delivers to respective stakeholders.

Reason for Choosing the Current Structure
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 categories and six regions. Under this organization, the Company serves as the global headquarters responsible for providing overall supervision of the Group and the support it requires, and is promoting localization of responsibility and authority by delegating much of the authority formerly exercised by the Company to respective regional headquarters for Japan, China, Asia Pacific, the Americas, EMEA, and Travel Retail. 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 this organization and management structure. As a result, the Board of Directors concluded that adapting a monitoring board structure would be appropriate for ensuring 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.

Diversity of Directors and Audit & Supervisory Board Members
The Company believes that the Board of Directors of the Company should be composed 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
The Company’s articles of incorporation limit the number of directors 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 directors external.

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.

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 (collectively the Shiseido Group) in a business capacity
- 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 executives 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 received a large donation of money or assets from the Shiseido Group
- Not a person who is or has ever been an accounting auditor of the Company
- Not a spouse or close relative of any person excluded above
- Not a person affiliated with a company that reciprocally appoints a director or representative director (the Shiseido Group)
- Not a person who could otherwise be reasonably judged unable to fulfill the duties of an independent director or independent Audit & Supervisory Board member

(http://www.shiseidogroup.com/en/about/governance/)

Succession Plan and Training for Directors, Audit and Supervisory Board Members and Corporate Officers
The Company recognizes the importance of succession plans for the 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 & 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.

Committees
With a view to promoting transparency and objectivity in management, the Company 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 Compliance Committee has been established as a committee that reports directly to the CEO. It collaborates with compliance organizations at the six regional headquarters 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.

Evaluation Working Group
The Company’s aim in corporate governance is to appropriately concentrate authority in the CEO while maintaining strong oversight functions to balance that authority. Accordingly, the Company has established the Evaluation Working Group as a shared organization of the Nomination Advisory Committee and the Remuneration Advisory Committee to discuss and consider matters relating to the CEO, including reappointment and replacement. The Evaluation Working Group conducts performance evaluation that includes a personal evaluation of the CEO and confirms the appropriateness of the CEO’s remuneration. In this way, the Evaluation Working Group comprehensively oversees the CEO from two aspects: appointment and dismissal, and incentives. To emphasize its independence from the CEO and the CEO’s business execution framework, the Evaluation Working Group consists solely of external directors and external Audit & Supervisory Board members.
Remuneration for Directors, Audit & Supervisory Board Members and Corporate Officers

Overview of the Policy for 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 governance. 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.

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 to prevent wrongdoings and overemphases 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.

The remuneration policy for directors, Audit & Supervisory Board members and corporate officers is designed to:

1. be designed to provide the amount of remuneration commensurate with the Company’s capability to secure and maintain superior personnel;
2. 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;
3. have a mechanism to prevent wrongdoings and overemphases on short-term views; and
4. 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.

Director, Audit & Supervisory Board Member and Corporate Officer Remuneration Policy for the Three Years through December 2017

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 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.

The current remuneration policy for directors and corporate officers based on this mindset provides basic remuneration and 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 align the interests of directors and corporate officers with those of shareholders and to give them a medium-to-long-term perspective, not just a single-year focus.

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.

- 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 Corporate Officer Remuneration Policy has introduced a mechanism when the stock acquisition rights vest that limits the exercise of stock acquisition rights 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.

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

Evaluation Weights of Annual Bonus for Directors

<table>
<thead>
<tr>
<th>Evaluation item</th>
<th>Performance indicators</th>
<th>Evaluation weight</th>
</tr>
</thead>
<tbody>
<tr>
<td>President and CEO</td>
<td>Corporate officers in charge of businesses</td>
<td>Corporate officers other than those in charge of businesses</td>
</tr>
<tr>
<td>Regional headquar ters President</td>
<td>20%</td>
<td>5%</td>
</tr>
<tr>
<td>CFO</td>
<td>20%</td>
<td>10%</td>
</tr>
<tr>
<td>Others</td>
<td>20%</td>
<td>10%</td>
</tr>
<tr>
<td>Performance of charge</td>
<td>20%</td>
<td>5%</td>
</tr>
<tr>
<td>Business performance evaluation</td>
<td>20%</td>
<td>5%</td>
</tr>
<tr>
<td>Other</td>
<td>20%</td>
<td>10%</td>
</tr>
<tr>
<td>Personal evaluation</td>
<td>50%</td>
<td>50%</td>
</tr>
</tbody>
</table>

Note: There is no difference in the performance indicators and the weight of those indicators applied to directors based on whether a director has representation rights.

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 based on deliberation by and resolution of the Board of Directors.

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. 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.

- Calculate the operating income growth rates for the same fiscal years as above for international cosmetics industry sales leaders including Kose Corporation (Japan), L’Oreal S.A. (France) and Estée 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

<table>
<thead>
<tr>
<th>Month (General Meeting of Shareholders)</th>
<th>March (Board of Directors)</th>
<th>August (Board of Directors)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Resolution for approval of the maximum number to be allotted</td>
<td>Determination of the number to be allotted based on 2017 results and allotment</td>
<td>Determination of the exercisable number based on results up to 2019</td>
</tr>
<tr>
<td>Waiting period</td>
<td>Waiting period</td>
<td>Waiting period</td>
</tr>
<tr>
<td>2017/12</td>
<td>2019/12</td>
<td>2020/12</td>
</tr>
</tbody>
</table>

Remuneration for Directors and Audit & Supervisory Board Members for the Year Ended December 2016 (Millions of yen)

<table>
<thead>
<tr>
<th></th>
<th>Basic</th>
<th>Bonuses</th>
<th>Long-Term Incentive (Stock Options)</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Directors (7)</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>External directors (4 of the 7 directors)</td>
<td>272</td>
<td>120</td>
<td>50</td>
<td>443</td>
</tr>
<tr>
<td>49</td>
<td>—</td>
<td>—</td>
<td>49</td>
<td></td>
</tr>
<tr>
<td>Audit &amp; Supervisory Board members (5)</td>
<td>99</td>
<td>—</td>
<td>—</td>
<td>99</td>
</tr>
<tr>
<td>External Audit &amp; Supervisory Board members (3 of the 5 members)</td>
<td>36</td>
<td>—</td>
<td>—</td>
<td>36</td>
</tr>
<tr>
<td>Total</td>
<td>372</td>
<td>120</td>
<td>50</td>
<td>542</td>
</tr>
</tbody>
</table>

Notes:
1. 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.
2. The above amount of basic remuneration includes ¥23 million as basic remuneration for the year ended December 2016 that one subsidiary of the Company paid to one director of the Company who served concurrently as the director of said subsidiary.
3. The amount of long-term incentive stock options indicated above represents the expenses for the year ended December 2016 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.
4. In addition to the above payments, ¥0.3 million was recognized for the year ended December 2016 as expenses associated with stock options granted to one director when that director was a corporate officer, not a director.
5. 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 1 through 4 above).

Remuneration by Type to Representative Directors and Directors Whose Total Remuneration Exceeded ¥100 Million for the Year Ended December 2016 (Millions of yen)

<table>
<thead>
<tr>
<th></th>
<th>Basic</th>
<th>Bonuses</th>
<th>Long-Term Incentive (Stock Options)</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Masahiko Uotani, Representative Director</td>
<td>129</td>
<td>77</td>
<td>29</td>
<td>236</td>
</tr>
<tr>
<td>Tsunehiko Iwai, Representative Director</td>
<td>47</td>
<td>21</td>
<td>6</td>
<td>75</td>
</tr>
<tr>
<td>Toru Sakai, Representative Director</td>
<td>47</td>
<td>20</td>
<td>14</td>
<td>82</td>
</tr>
</tbody>
</table>

Notes:
1. The above amount of basic remuneration includes ¥23 million as basic remuneration for the year ended December 2016 that one subsidiary paid to one director of the Company who served concurrently as the director of said subsidiary.
2. The amount of long-term incentive stock options indicated above represents the expenses for the year ended December 2016 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.
3. Neither of the three directors above will be paid remuneration other than the remuneration described above (including remuneration described in Notes 1 and 2 above).
Data Section

Financial and Non-Financial Highlights

Financial Value

Net Sales, Operating Income and Operating Profitability\(^1\)

<table>
<thead>
<tr>
<th>Year</th>
<th>Net Sales (Billions of yen)</th>
<th>Operating Income (Billions of yen)</th>
<th>Operating Profitability (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2016/12</td>
<td>856.3</td>
<td>77.0</td>
<td>8.8</td>
</tr>
<tr>
<td>2015/12</td>
<td>779.7</td>
<td>71.7</td>
<td>9.0</td>
</tr>
<tr>
<td>2014/13</td>
<td>716.1</td>
<td>66.6</td>
<td>9.3</td>
</tr>
<tr>
<td>2013/14</td>
<td>663.1</td>
<td>63.1</td>
<td>9.5</td>
</tr>
<tr>
<td>2012/13</td>
<td>613.3</td>
<td>59.1</td>
<td>9.7</td>
</tr>
<tr>
<td>2011/12</td>
<td>565.0</td>
<td>55.5</td>
<td>9.8</td>
</tr>
<tr>
<td>2010/11</td>
<td>518.0</td>
<td>51.9</td>
<td>10.1</td>
</tr>
<tr>
<td>2009/10</td>
<td>478.8</td>
<td>47.9</td>
<td>10.1</td>
</tr>
<tr>
<td>2008/09</td>
<td>439.6</td>
<td>43.7</td>
<td>9.8</td>
</tr>
</tbody>
</table>

Net Income (Loss) per Share\(^2\) and Return on Equity\(^3,4\)

<table>
<thead>
<tr>
<th>Year</th>
<th>Net Income per Share (yen)</th>
<th>Return on Equity (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2016/12</td>
<td>8.2</td>
<td>35.5</td>
</tr>
<tr>
<td>2015/12</td>
<td>8.1</td>
<td>35.7</td>
</tr>
<tr>
<td>2014/13</td>
<td>8.4</td>
<td>36.4</td>
</tr>
<tr>
<td>2013/14</td>
<td>8.1</td>
<td>35.3</td>
</tr>
<tr>
<td>2012/13</td>
<td>7.3</td>
<td>34.3</td>
</tr>
<tr>
<td>2011/12</td>
<td>6.3</td>
<td>32.8</td>
</tr>
<tr>
<td>2010/11</td>
<td>5.4</td>
<td>31.0</td>
</tr>
<tr>
<td>2009/10</td>
<td>4.3</td>
<td>29.5</td>
</tr>
<tr>
<td>2008/09</td>
<td>3.3</td>
<td>27.5</td>
</tr>
</tbody>
</table>

Interest-Bearing Debt and Interest-Bearing Debt Ratio\(^5,6\)

<table>
<thead>
<tr>
<th>Year</th>
<th>Interest-Bearing Debt (Billions of yen)</th>
<th>Interest-Bearing Debt Ratio (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2016/12</td>
<td>120.6</td>
<td>15.6</td>
</tr>
<tr>
<td>2015/12</td>
<td>115.6</td>
<td>15.3</td>
</tr>
<tr>
<td>2014/13</td>
<td>110.9</td>
<td>14.8</td>
</tr>
<tr>
<td>2013/14</td>
<td>106.9</td>
<td>14.3</td>
</tr>
<tr>
<td>2012/13</td>
<td>103.5</td>
<td>13.9</td>
</tr>
<tr>
<td>2011/12</td>
<td>99.9</td>
<td>13.4</td>
</tr>
<tr>
<td>2010/11</td>
<td>96.6</td>
<td>12.9</td>
</tr>
<tr>
<td>2009/10</td>
<td>93.4</td>
<td>12.4</td>
</tr>
<tr>
<td>2008/09</td>
<td>90.3</td>
<td>11.9</td>
</tr>
</tbody>
</table>

EBITDA\(^a\) and Free Cash Flow

<table>
<thead>
<tr>
<th>Year</th>
<th>EBITDA (Billions of yen)</th>
<th>Free Cash Flow (Billions of yen)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2016/12</td>
<td>80.1</td>
<td>75.6</td>
</tr>
<tr>
<td>2015/12</td>
<td>75.7</td>
<td>70.6</td>
</tr>
<tr>
<td>2014/13</td>
<td>71.7</td>
<td>66.6</td>
</tr>
<tr>
<td>2013/14</td>
<td>63.1</td>
<td>59.1</td>
</tr>
<tr>
<td>2012/13</td>
<td>59.0</td>
<td>55.5</td>
</tr>
<tr>
<td>2011/12</td>
<td>55.2</td>
<td>51.9</td>
</tr>
<tr>
<td>2010/11</td>
<td>51.5</td>
<td>47.3</td>
</tr>
<tr>
<td>2009/10</td>
<td>47.9</td>
<td>43.7</td>
</tr>
<tr>
<td>2008/09</td>
<td>43.7</td>
<td>39.8</td>
</tr>
</tbody>
</table>

Net Sales by Reportable Segment\(^7,8,9,10,11,12\)

<table>
<thead>
<tr>
<th>Segment</th>
<th>Net Sales (Billions of yen)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Domestic Cosmetics Business</td>
<td>318.6</td>
</tr>
<tr>
<td>Global Business</td>
<td>302.6</td>
</tr>
<tr>
<td>Americas Business</td>
<td>185.2</td>
</tr>
<tr>
<td>EMEA Business</td>
<td>175.5</td>
</tr>
<tr>
<td>Asia Pacific Business</td>
<td>140.4</td>
</tr>
<tr>
<td>Others</td>
<td>96.6</td>
</tr>
</tbody>
</table>

Operating Profitability by Reportable Segment\(^7,8,9,10,11,12\)

<table>
<thead>
<tr>
<th>Segment</th>
<th>Operating Profitability (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Domestic Cosmetics Business</td>
<td>15.6</td>
</tr>
<tr>
<td>Global Business</td>
<td>15.3</td>
</tr>
<tr>
<td>Americas Business</td>
<td>14.8</td>
</tr>
<tr>
<td>EMEA Business</td>
<td>14.3</td>
</tr>
<tr>
<td>Asia Pacific Business</td>
<td>13.9</td>
</tr>
<tr>
<td>Others</td>
<td>13.4</td>
</tr>
</tbody>
</table>

Notes:
1. The fiscal period ended December 31, 2015 is the 9 months from April 1, 2015 to December 31, 2015 for Shiseido and consolidated subsidiaries whose account settlement date was March 31, and the 12 months from January 1, 2015 to December 31, 2015 for unconsolidated subsidiaries whose account settlement date was December 31. In this report, it is referred to as “the period ended December 2015” in the text and “2015/12” in tables, charts and graphs. For comparisons with the year ended December 2014, this report uses results for the 12 months ended December 2015, referred to as “2015/12 (Adjusted)” in tables, charts and graphs.
2. Net income (loss) per share is calculated before dilution based on the average number of shares outstanding during the fiscal year/period.
3. 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, in the Americas, Int'l, and Travel Retail divisions, the Shiseido Group classifies these items as operating expenses. The Shiseido Group applies the 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 Standards (IAS) No. 19) are not reflected in the comparison of net income (loss) per share.
4. In calculating interest-bearing debt for the fiscal period ended December 2015, the numerator used is net income attributable to owners of the parent for the nine months ended December 31, 2015 for Shiseido and its consolidated subsidiaries whose fiscal year ended in March, and for the 12 months ended December 31, 2015 for consolidated subsidiaries whose fiscal year ended in December. The ROE is 7.6 percent when calculated in line with changes in the method of classifying reportable segments.
5. Interests-bearing debt ratio = Interests-bearing debt / Invested capital  * Invested capital = Interest-bearing debt + Total net assets
6. EBITDA (Earnings before interest, tax, depreciation and amortization) = Income (loss) before income taxes + Interest expenses + Depreciation and amortization + Impairment losses on goodwill and other intangible assets
7. Domestic Professional Division sales are included in the Global Business segment.
8. Net sales by reportable segment represent sales to external customers only and do not include intersegment/intrasegment sales or transfers.
9. Operating profitability by reportable segment does not include eliminations/corporate.
10. The fiscal period ended December 31, 2015 for Shiseido and consolidated subsidiaries whose account settlement date was March 31 and the 12 months from January 1, 2015 to December 31, 2015 for consolidated subsidiaries whose fiscal year ended in December. The ROE is 7.6 percent when calculated in line with changes in the method of classifying reportable segments.
11. The Company partially revised its reportable segment classification method effective from the period ended December 2015. Accordingly, the “Domestic Cosmetics Business” and “Global Business” segments were 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 were reclassified as the “Japan Business” segment. The change in segments has been retrospectively applied to data for years ended March 2010 and earlier.
12. Effective from the year ended December 2015, reportable segment classifications have been changed from the “Japan Business” and “Global Business” segments to the “Japan Business”, “China Business”, Asia Pacific Business, Americas Business, “TAMA Business”, and “Travel Retail Business” segments in accordance with changes in the organizational structure of the Shiseido Group. Segment information for the 12 months ended December 2015 has been restated to reflect changes in the method of classifying reportable segments.
Shiseido has been energetically promoting women to positions of leadership. Overseas, nearly 70 percent of leadership positions are held by women. In Japan, the percentage of women in leadership positions was 30 percent as of December 31, 2016, thus achieving our goal for the year.

Since 1990, Shiseido has introduced systems and programs 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.

We are strengthening promotion of diversity because we believe that collaboration among employees with diverse ideas and values enables us to create new value. We have raised the number of non-Japanese hires since the year ended March 2012. We are also emphasizing mid-career hiring, which has more than doubled over the same period.
Market Data

Beauty and Personal Care Markets by Country

Beauty and Personal Care Market Scale by Country, Per Capita GDP and Median Age

Market Growth Rate by Area

Market Growth Rate: North America

Market Growth Rate: Asia Pacific

Market Growth Rate: Western Europe

The Domestic Cosmetics Market

Market Composition by Beauty Category

Market Composition by Channel

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 2016 exchange rates.
### Operating Results:

<table>
<thead>
<tr>
<th>Year</th>
<th>Net sales</th>
<th>Cost of sales</th>
<th>Selling, general and administrative expenses</th>
<th>Operating income</th>
<th>Net income (loss) attributable to owners of parent</th>
</tr>
</thead>
<tbody>
<tr>
<td>2007/3</td>
<td>¥794,594</td>
<td>¥185,532</td>
<td>¥459,056</td>
<td>¥50,005</td>
<td>¥18,836</td>
</tr>
<tr>
<td>2008/3</td>
<td>¥723,484</td>
<td>¥186,466</td>
<td>¥473,556</td>
<td>¥50,005</td>
<td>¥23,210</td>
</tr>
<tr>
<td>2009/3</td>
<td>¥690,256</td>
<td>¥166,166</td>
<td>¥468,589</td>
<td>¥50,005</td>
<td>¥23,210</td>
</tr>
<tr>
<td>2010/3</td>
<td>¥644,201</td>
<td>¥160,166</td>
<td>¥433,684</td>
<td>¥39,135</td>
<td>¥31,600</td>
</tr>
<tr>
<td>2011/3</td>
<td>¥670,701</td>
<td>¥169,692</td>
<td>¥457,550</td>
<td>¥39,135</td>
<td>¥31,600</td>
</tr>
<tr>
<td>2012/3</td>
<td>¥682,385</td>
<td>¥162,989</td>
<td>¥198,839</td>
<td>¥39,135</td>
<td>¥31,600</td>
</tr>
<tr>
<td>2013/3</td>
<td>¥777,772</td>
<td>¥166,783</td>
<td>¥189,559</td>
<td>¥39,135</td>
<td>¥31,600</td>
</tr>
<tr>
<td>2014/3</td>
<td>¥762,047</td>
<td>¥196,433</td>
<td>¥196,009</td>
<td>¥39,135</td>
<td>¥31,600</td>
</tr>
<tr>
<td>2015/3</td>
<td>¥777,687</td>
<td>¥207,553</td>
<td></td>
<td>¥39,135</td>
<td>¥31,600</td>
</tr>
<tr>
<td>2016/12</td>
<td>¥808,547</td>
<td>¥232,101</td>
<td></td>
<td>¥39,135</td>
<td>¥31,600</td>
</tr>
<tr>
<td>2016/12</td>
<td>¥850,306</td>
<td>¥247,604</td>
<td></td>
<td>¥39,135</td>
<td>¥31,600</td>
</tr>
</tbody>
</table>

### Financial Position (At period-end):

<table>
<thead>
<tr>
<th>Year</th>
<th>Total assets</th>
<th>Short-term liabilities</th>
<th>Long-term debt</th>
<th>Interest-bearing debt</th>
<th>Net assets</th>
<th>Cash flows from operating activities</th>
<th>Cash flows from investing activities</th>
<th>Cash flows from financing activities</th>
<th>Cash and cash equivalents at end of year</th>
</tr>
</thead>
<tbody>
<tr>
<td>2007/3</td>
<td>¥7,393,832</td>
<td>¥675,865</td>
<td>¥606,568</td>
<td>¥775,445</td>
<td>¥720,707</td>
<td>¥808,547</td>
<td>(20,668)</td>
<td>(35,482)</td>
<td>145,259</td>
</tr>
<tr>
<td>2008/3</td>
<td>¥715,593</td>
<td>¥810,346</td>
<td>¥823,636</td>
<td>¥808,547</td>
<td>¥715,593</td>
<td>¥808,547</td>
<td>(20,668)</td>
<td>(35,482)</td>
<td>145,259</td>
</tr>
<tr>
<td>2009/3</td>
<td>¥801,346</td>
<td>¥1,034,754</td>
<td>¥3,551,617</td>
<td>¥808,547</td>
<td>¥801,346</td>
<td>¥808,547</td>
<td>(20,668)</td>
<td>(35,482)</td>
<td>145,259</td>
</tr>
</tbody>
</table>

### Cash Flows:

- **Cash flows from operating activities**: ¥69,431
- **Cash flows from investing activities**: (18,482)
- **Cash flows from financing activities**: 1,836
- **Cash and cash equivalents at end of year**: 145,259

### Per Share Data (In yen and U.S. dollars):

- **Price**: ¥60.9
- **Net assets**: 397,974
- **Cash dividend**: 32.0
- **Weighted average number of shares outstanding during the period**: 412,572
- **Net income (loss) per share (primary)**: 36.5
- **Net assets per share**: 397,974
- **Cash flows from operating activities**: 27,460
- **Operating ROA (%)**: 7.2
- **Return on equity (%)**: 6.6
- **Interest expense (times)**: 0.31
- **Interest-bearing debt ratio (%)**: 24.0
- **Payout ratio (Consolidated) (%)**: 52.6

### Financial Ratios:

- **Operating profitability (%)**: 7.2
- **Return on assets (%)**: 3.6
- **Return on equity (%)**: 6.6
- **Interest coverage ratio (times)**: 50.8
- **Interest-bearing debt ratio (%)**: 24.0
- **Payout ratio (Consolidated) (%)**: 52.6
- **Net income (loss) per share (primary)**: 36.5
- **Net assets per share**: 32,595
- **Cash flows from operating activities**: 27,460

### Notes:

1. The fiscal period ended December 31, 2016 is the 9 months from April 1, 2016 to December 31, 2016 for Shiseido and its consolidated subsidiaries in Japan and the 13 months from January 1, 2016 to December 31, 2016 for all other subsidiaries. In this report, it is referred to as “the period ended December 2016” in the text and as “2016/12” in tables, charts and graphs.

2. U.S. dollar amounts are converted from yen, for convenience only, at the rate of ¥116.53 = US$1 prevailing on December 31, 2016.

3. Interest paid is as stated in the consolidated statements of cash flows.

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, 2013, Shiseido has applied the “Accounting Standard for Business Combinations” (Accounting Standards Board of Japan (ASBJ) 2013-1) for the “Net incomes” line item has been changed to “Net income (loss) attributable to owners of parent.”

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

7. Interest coverage ratio = Net cash provided by operating activities / Interest paid

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

10. Interest-bearing debt ratio = Interest-bearing debt / Equity

11. Gross income per employee = Net sales / Number of employees

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

13. Shiseido Group applied this change retroactively and restated the consolidated financial statements for the fiscal year ended March 31, 2013 accordingly.

14. Shiseido Group applied this change retroactively and restated the consolidated financial statements for the fiscal year ended March 31, 2013 accordingly.

15. The financial statements for the fiscal year ended March 31, 2014, the Shiseido Group applied Operating Income GAAP 684.0, issued on April 6, 2014, to certain consolidated subsidiaries and changed the method for recognizing changes in net defined benefit obligation. The Shiseido Group applied this change retroactively and restated the consolidated financial statements for the fiscal year ended March 31, 2013 accordingly.

16. From the year ended December 2016, Shiseido has been recognizing long-term payables associated with Dolce&Gabbana. For the year ended December 2016, the interest-bearing debt ratio including these long-term payables was 29.8 percent, the debt-equity ratio was 0.45 and interest-bearing debt was ¥175,832 million.

17. The number of employees at year-end does not include temporary employees.
Effective from the previous fiscal period, Shiseido and consolidated subsidiaries in Japan changed their balance sheet dates from March 31 to December 31. Following this change, the accounting period of the previous fiscal period was nine months from April 1, 2015 to December 31, 2015. Year-on-year changes in amounts and percentages in the following analysis are comparisons for reference between the 12 months ended December 31, 2016 and the 12 months ended December 31, 2015.

Despite signs of weakness in certain areas, moderate economic recovery continued in Japan during the fiscal year ended December 31, 2016, supported by factors including improvement in the employment environment. The domestic cosmetics market continued to expand, benefiting from improved business confidence and an increase in the number of tourists from overseas. Outside Japan, the European cosmetics market grew moderately despite varying performance from country to country, while the markets of China, Asia and the Americas continued to expand steadily.

In the fiscal period ended December 31, 2015, the Shiseido Group launched its VI$ION 2020 medium-to-long-term strategy for remaining vital for the next 100 years. As a company that is transforming “from a leader in Japan to a winner worldwide,” we have shifted to a consumer-oriented focus for all activities and are working diligently to globally enhance our brand value. We have positioned the three years that began from the fiscal period ended December 31, 2015 as a period for rebuilding our business foundation to generate outstanding growth over the three-year period that will commence from the fiscal year ending December 31, 2018. In addition to undertaking aggressive investment, we are establishing a foundation to accelerate growth.

In the fiscal year ended December 31, 2016, the Shiseido Group adopted a matrix organization that encompasses five brand categories and six regions. This matrix organization is built on the concept “Think Global, Act Local,” which involves tailoring activities to particular regions in response to changes in each country while conducting Group-wide management and promoting marketing, brand and other strategies with a global perspective. Under this matrix, the Company has delegated broad authority and responsibilities to each region, and enhanced its ability to respond to consumer needs that differ from market to market. We strengthened marketing and innovation with a strategic focus on enhancing brand value. We also concentrated on implementing measures to utilize diverse human resources and to help our people improve their skills, while building and strengthening our global organization. Moreover, we ramped up investments in the global prestige category to further accelerate growth. In July 2016, we acquired Laura Mercier, a prestige brand mainly in the makeup category, and RéVive, a prestige skincare brand. In October 2016, we commenced sales under a license agreement with the Italian luxury fashion brand company Dolce&Gabbana S.r.l. to develop, manufacture and sell fragrance, makeup and skincare products.
supported by the growth in sales of prestige brands including SHISEIDO, cli de peau BEAUTÉ and NARS mainly in Thailand, Vietnam, and the contribution from NARS and personal care brand SEKINA in South Korea. SEKINA sales were also strong in other countries due to collaborative research into cosmetics behavior by the regional headquarters and the SENKA brand holder to develop country-specific advertising that resonates with consumers, as well as an increase in marketing channels and the number of stores that handle the SENKA brand.

As a result of the above factors, segment sales increased 11.4 percent year on year on a local currency basis. Translated into yen, segment sales decreased 4.2 percent year on year to ¥1,207,479 million (¥1,033,888 thousand). Operating income was ¥4,166 million (¥4,166 million), compared with an operating loss of ¥476 million for the 12 months ended December 31, 2015. Although marketing investments and personnel expenses increased, we returned to operating profitability largely as a result of increased margin income due to higher sales and lower cost of sales due to an improved product mix.

Asia Pacific Business

In the Asia Pacific region, the headquarters located in Singapore fully exercised its supervisory and marketing functions to execute activities rooted even more deeply in the communities of the countries we serve. The Asia Pacific Business generated steady growth, especially strong.

Other Income (Expenses)

Net other income increased to ¥13,087 million ($112,305 thousand). This was largely due to extraordinary gains from the sale of intellectual property rights in connection with the Jean Paul GAULTIER fragrance business and the sale of the land at the closed Kamakura Factory.

Income before Income Taxes

Income before income taxes decreased 6.1 percent year on year to ¥49,886 million ($427,924 thousand).

Income Taxes, Including Deferred Taxes

Income taxes, including deferred taxes, decreased 24.9 percent year on year to ¥15,941 million ($136,797 thousand).

Net Income Attributable to Non-Controlling Interests

Net income attributable to non-controlling interests decreased 24.2 percent year on year to ¥1,823 million ($15,644 thousand).

Net Income Attributable to Owners of Parent

Net income attributable to owners of parent increased 9.0 percent year on year to ¥32,101 million ($275,474 thousand).

Operating Income

Operating income decreased 17.0 percent year on year to ¥36,780 million ($315,626 thousand) due to factors such as one-time costs associated with brand acquisitions, license agreements, and structural reform of Baré Escentuals, Inc. in the United States and the greater-than-expected impact from the appreciation of the yen. The increase in net sales, improvements in the product mix through increased sales of prestige brands, the effect of cost structure reforms and other factors partially offset the decrease.

Other Revenues

Other revenues increased 7.0 percent year on year to ¥1,647 million ($14,508 thousand) due to factors such as higher sales.

Other Revenues, net of income taxes

Other revenues, net of income taxes increased 7.0 percent year on year to ¥1,647 million ($14,508 thousand) due to factors such as higher sales.

Review by Reportable Segment

Change in Business Segment Classification

Effective from the fiscal year ended December 31, 2016, reportable segment classifications have been changed from the “Japan Business” and “Global Business” segments to the “Japan Business,” “China Business,” “Asia Pacific Business,” “Americas Business,” “EMEA Business” and “Travel Retail Business” segments in accordance with the organizational structure of the Shiseido Group. Segment information for the corresponding period of the previous fiscal year has been restated in line with changes in the method of classifying reportable segments.

Japan Business

The Japan Business grew steadily during the fiscal year ended December 31, 2016. Factors included consumer-oriented brand innovation, the selection and concentration of marketing investment, and increased inbound sales due to initiatives to earn the business of tourists visiting Japan with a focus on airport duty free and department stores. In the prestige category, results for the cli de peau BEAUTÉ luxury brand were especially strong, SHISEIDO also captured greater market share due to a significant increase in sales largely driven by robust results for the ULTIMUNE power infusing concentrate, which helps to draw out the skin’s natural beauty. In the cosmetics category, sales of the midpriced ELIXIR skincare, MAQuillAGE makeup and ANESSA sun screen brands once again increased year on year. Meanwhile, for low-priced products, which are mainly in the personal care category, we introduced new items and actively engaged in marketing activities. However, sales decreased year on year due to the increasingly competitive environment.

As a result of the above factors, segment sales increased 2.9 percent year on year to ¥407,628 million ($3,458,052 thousand). While aggressive marketing investment continued, operating income grew 4.4 percent year on year to ¥57,417 million ($450,722 thousand) largely because of higher margin income due to the increase in sales, improvements in the product mix, and the effect of cost structure reforms.

China Business

China Business sales increased mainly in the prestige and e-commerce categories. In the prestige category in particular, the contribution from SHISEIDO, cli de peau BEAUTÉ and IPSA supported stronger growth than that of competitors in the department store channel. E-commerce sales growth also substantially outpaced market growth due to initiatives to capture increasing demand as the market expands, such as marketing collaboration with a major local online site operator. At the same time, we installed new AUPIRES counters and renewed PURE &AMOLD to address the issues we have with our locally produced prestige brands, but the effect of these initiatives was limited.

Income by Reportable Segment (after Amortization of Goodwill)

Effective from the fiscal year ended December 31, 2016, reportable segment classifications have been changed from the “Japan Business” and “Global Business” segments to the “Japan Business,” “China Business,” “Asia Pacific Business,” “Americas Business,” “EMEA Business” and “Travel Retail Business” segments in accordance with the organizational structure of the Shiseido Group. Segment information for the corresponding period of the previous fiscal year has been restated in line with changes in the method of classifying reportable segments.

Notes: 1. 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 were renamed as the “Japan Business,” “Global Business” segments and “Other” segments while the “Japan Business,” “China Business,” “Asia Pacific Business,” “Americas Business,” “EMEA Business” and “Travel Retail Business” segments in accordance with the organizational structure of the Shiseido Group. Segment information for the corresponding period of the previous fiscal year has been restated in line with changes in the method of classifying reportable segments.

Net Sales by Reportable Segment

Income by Reportable Segment (after Amortization of Goodwill)

Effective from the fiscal year ended December 31, 2016, reportable segment classifications have been changed from the “Japan Business” and “Global Business” segments to the “Japan Business,” “China Business,” “Asia Pacific Business,” “Americas Business,” “EMEA Business” and “Travel Retail Business” segments in accordance with the organizational structure of the Shiseido Group. Segment information for the corresponding period of the previous fiscal year has been restated in line with changes in the method of classifying reportable segments.
of the makeup market, which is growing mainly in the United States. In addition, Bare Escentuals, Inc. moved its headquarters functions from San Francisco to New York, where our regional headquarters’ supervisory and marketing functions are located. Our organization is now more integrated and better to share prestige marketing knowledge throughout the region and fully reinforce brands. We also strengthened digital marketing to address the rapidly growing e-commerce market.

EMEA Business

The EMEA Business increased marketing investments to enhance the value of brands including SHISEIDO and designer fragrances Narciso Rodriguez and TSEY MIYAKE. We also concluded a license agreement with the leading Italian luxury fashion company Dolce&Gabbana S.r.l. to increase market share in the fragrance market, which is largest in Europe. In addition, the EMEA Business relocated its regional headquarters’ supervisory and marketing functions to central Paris to enhance both growth potential and profitability by integrating the organizations and functions of each country within the region, eliminating duplication among the cosmetics and fragrance categories to uniformly develop business. Despite the steady growth in sales of SHISEIDO and Narciso Rodriguez, the loss of Jean Paul Gaultier sales due to the termination of the license agreement at the beginning of the fiscal year ended December 31, 2016 significantly affected segment sales, which decreased 8.1 percent year on year on a local currency basis. Translated into yen, sales decreased 18.2 percent year on year to ¥80,215 million ($731,270 thousand). Operating loss was ¥7,224 million ($61,992 thousand), compared with operating income of ¥4,597 million for the 12 months ended December 31, 2015. Factors included reduced marginal income due to lower sales, and one-time costs associated with the Dolce&Gabbana license agreement. Excluding the impact of the Jean Paul Gaultier license termination and the Dolce&Gabbana license acquisition, sales increased 9.0 percent on a local currency basis.

Travel Retail Business

The Travel Retail Business includes the sale of cosmetics through channels such as airport duty-free stores, and serves a growing market centered on Asia. Shiseido is stronger than other brands originating in Japan in the travel retail market, which has high profit margins and considerable growth potential. However, since segment sales account for a small proportion of net sales compared with competitors worldwide, we are aggressively developing travel retail as a key business. During the fiscal year ended December 31, 2016, we opened new counters, improved consumer services at existing locations, introduced dedicated products for Travel Retail, and reinforced relationships with major retailers.

Sales per store increased as a result, mainly at major airport duty-free stores in China, South Korea and elsewhere in Asia, and overall growth substantially exceeded the market. Segment sales increased 60.4 percent year on year on a local currency basis. Translated into yen, sales increased 44.2 percent year on year, to ¥24,793 million ($222,760 thousand). Operating income increased 126.8 percent year on year to ¥5,470 million ($46,940 thousand) largely because of increased marginal income due to higher sales.

Profitability by Reportable Segment (before Amortization of Goodwill)

<table>
<thead>
<tr>
<th>Segment</th>
<th>2015/3</th>
<th>2016/3</th>
<th>2017/3</th>
<th>2015/12</th>
<th>2016/12</th>
<th>2017/12</th>
</tr>
</thead>
<tbody>
<tr>
<td>Domestic Cosmetics Business</td>
<td>8.0</td>
<td>11.3</td>
<td>8.8</td>
<td>11.5</td>
<td>11.7</td>
<td>11.5</td>
</tr>
<tr>
<td>Global Business</td>
<td>0.6</td>
<td>3.0</td>
<td>0.9</td>
<td>2.3</td>
<td>2.3</td>
<td>2.3</td>
</tr>
<tr>
<td>Others</td>
<td>13.4</td>
<td>13.8</td>
<td>14.8</td>
<td>15.3</td>
<td>17.5</td>
<td>17.5</td>
</tr>
<tr>
<td>Total</td>
<td>22.0</td>
<td>28.1</td>
<td>24.5</td>
<td>30.1</td>
<td>30.9</td>
<td>30.9</td>
</tr>
</tbody>
</table>

Profitability by Reportable Segment (after Amortization of Goodwill)

<table>
<thead>
<tr>
<th>Segment</th>
<th>2015/3</th>
<th>2016/3</th>
<th>2017/3</th>
<th>2015/12</th>
<th>2016/12</th>
<th>2017/12</th>
</tr>
</thead>
<tbody>
<tr>
<td>Domestic Cosmetics Business</td>
<td>8.0</td>
<td>11.3</td>
<td>8.8</td>
<td>11.5</td>
<td>11.7</td>
<td>11.5</td>
</tr>
<tr>
<td>Global Business</td>
<td>0.6</td>
<td>3.0</td>
<td>0.9</td>
<td>2.3</td>
<td>2.3</td>
<td>2.3</td>
</tr>
<tr>
<td>Others</td>
<td>13.4</td>
<td>13.8</td>
<td>14.8</td>
<td>15.3</td>
<td>17.5</td>
<td>17.5</td>
</tr>
<tr>
<td>Total</td>
<td>22.0</td>
<td>28.1</td>
<td>24.5</td>
<td>30.1</td>
<td>30.9</td>
<td>30.9</td>
</tr>
</tbody>
</table>

Liquidity and Capital Resources

Financing and Liquidity Management

The Shiseido Group 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 of its 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, 2016, cash, time deposits and short-term investments in securities totaled ¥128,032 million ($1,098,704 thousand) and represented 1.8 months of consolidated net sales for the fiscal year ended December 31, 2016.

Interest-bearing debt as of December 31, 2016 totaled ¥120,580 million ($1,034,754 million). Shiseido uses diversified funding methods, which include an unused shelf registration in Japan for ¥140.0 billion ($1,201,407 thousand) of straight bonds. In addition, Shiseido Co., Ltd. and two subsidiaries in Europe and the United States have established a syndicated loan program with unused commitments totaling ¥300 billion. A subsidiary in the United States has also established an unused commercial paper program totaling ¥55 million. As of December 31, 2016, Shiseido maintained a sufficient level of liquidity and a high level of financial flexibility because of its diversified funding methods.

Shiseido has been recognizing long-term payables associated with Dolce&Gabbana. For the year ended December 2016, Shiseido has been recognizing long-term payables of ¥10,000 million ($85,814 thousand). On the other hand, proceeds from transfer of business provided ¥10,938 million ($95,864 thousand). On the other hand, acquisition of property, plant and equipment used ¥31,366 million ($269,166 thousand), acquisition of intangible assets used ¥32,340 million ($277,525 thousand), and acquisition of shares in subsidiaries resulting in change in scope of consolidation used ¥24,426 million ($200,611 thousand).

Cash Flows from Operating Activities

Net cash used in investing activities was ¥70,640 million ($606,195 thousand). Proceeds from transfer of business provided ¥10,938 million ($95,864 thousand). On the other hand, acquisition of property, plant and equipment used ¥31,366 million ($269,166 thousand), acquisition of intangible assets used ¥32,340 million ($277,525 thousand), and acquisition of shares in subsidiaries resulting in change in scope of consolidation used ¥24,426 million ($200,611 thousand).

Cash Flows from Operating Activities/Capital Expenditures

Cash Flows from Financing Activities

Net cash provided by financing activities was ¥22,378 million ($190,038 thousand). Proceeds from long-term debt provided ¥50,000 million ($427,444 thousand) including proceeds from issuance of bonds of ¥10,000 million ($85,814 thousand). On the other hand, repayment of long-term debt used ¥5,738 million ($49,240 thousand) and cash dividend paid used ¥8,214 million ($70,488 thousand).

Assets, Liabilities and Net Assets

Assets

As of December 31, 2016, total assets increased 17.0 percent compared with December 31, 2015 to ¥404,007 million ($3,563,117 thousand), reflecting long-term payables associated with the Dolce&Gabbana license agreement and increased investment.

Liabilities

Total liabilities as of December 31, 2016 increased 34.6 percent compared with December 31, 2015 to ¥532,137 million ($4,566,523 thousand), reflecting long-term payables associated with the Dolce&Gabbana license agreement and increased investment.

Net Assets

Total net assets as of December 31, 2016 increased 0.1 percent compared with December 31, 2015 to ¥143,870 million ($1,551,617 thousand), mainly due to an increase in shareholders’ equity.
Forecast for the Fiscal Year Ending December 31, 2017
(Announced on February 9, 2017)

Forecast for the Year Ending December 31, 2017

Operating Income
Net Income Attributable to Owners of Parent

<table>
<thead>
<tr>
<th>Year-end segment classification</th>
<th>2016/12/31 Forecast</th>
<th>2016/12/31 Actual</th>
<th>2016/12/31 Actual(A)</th>
<th>2015/12/31 Forecast</th>
<th>2015/12/31 Actual</th>
<th>2015/12/31 Actual(A)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Net Sales</td>
<td>¥460.6</td>
<td>¥384.3</td>
<td>¥384.3</td>
<td>¥456.0</td>
<td>¥384.3</td>
<td>¥384.3</td>
</tr>
<tr>
<td>Japan Business</td>
<td>946.0</td>
<td>1,019.7</td>
<td>1,019.7</td>
<td>946.0</td>
<td>1,019.7</td>
<td>1,019.7</td>
</tr>
<tr>
<td>China Business</td>
<td>208.5</td>
<td>257.6</td>
<td>257.6</td>
<td>208.5</td>
<td>257.6</td>
<td>257.6</td>
</tr>
<tr>
<td>Asia Pacific Business</td>
<td>22.6</td>
<td>26.0</td>
<td>26.0</td>
<td>22.6</td>
<td>26.0</td>
<td>26.0</td>
</tr>
<tr>
<td>Americas Business</td>
<td>6.4</td>
<td>7.9</td>
<td>7.9</td>
<td>6.4</td>
<td>7.9</td>
<td>7.9</td>
</tr>
<tr>
<td>Travel Retail Business</td>
<td>22.6</td>
<td>31.0</td>
<td>31.0</td>
<td>22.6</td>
<td>31.0</td>
<td>31.0</td>
</tr>
<tr>
<td>Professional Business</td>
<td>4.3</td>
<td>4.5</td>
<td>4.5</td>
<td>4.3</td>
<td>4.5</td>
<td>4.5</td>
</tr>
<tr>
<td>Operating Income</td>
<td>45.5</td>
<td>23.4</td>
<td>23.4</td>
<td>45.5</td>
<td>23.4</td>
<td>23.4</td>
</tr>
</tbody>
</table>

Notes: 1. Effective from the fiscal year ending December 31, 2017, the Company has revised its revenue segment classification method in line with changes to its organizational system. Under this change, sales are in place to newly include the “Americas Business” and “Professional Business” segments. The revenue segment classification methods in prior years have not been restated. Furthermore, the results of operations of business segments not included in reportable segments and comprised of manufacturing operations and the activities of the Frontier Science and Business units have been reallocated at the Group level for more accurate financial reporting. As a result, the Group’s total net operating income includes the results of the “Americas Business” and “Professional Business” segments.

2. “Other” refers to the operations of business segments not included in reportable segments and comprised of manufacturing operations.
mergers and acquisitions, and expansion in new businesses and new markets. Shiseido endeavors to conduct 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. 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 segment, new competitors from other industries. In addition, in overseas markets such as China and other Asian countries, 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, 2016, SHISEIDO was available in 88 countries and regions including Japan, and overseas sales account for a growing percentage of the Shiseido Group’s consolidated net sales each period. In the course of conducting 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; 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 Group 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. The Shiseido Group 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 the Shiseido Group’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, 2016, 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 the Shiseido’s retirement benefit plan is invested in listed shares. 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 and risks. 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; natural disasters; and severe or abnormal weather.

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 and regulatory 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 year ended December 31, 2016, 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 complied 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.

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 deemed recoverable if forecasted cash flow is sufficient to recover all costs of disposal. We consider the estimates of future cash flow and recoverable value to be reasonable. 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 periodically. 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 revaluing recoverable securities for which fair value is not available if actual value has fallen to more than 50 percent below the acquisition cost due to the financial 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 and estimates 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 for defined benefits 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 reviewed 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, which could affect retirement benefits and obligations.
## Consolidated Financial Statements

### CONSOLIDATED BALANCE SHEETS

Shiseido Company Limited and Subsidiaries

December 31, 2015 and 2016

<table>
<thead>
<tr>
<th>Note</th>
<th>2015/12</th>
<th>2016/12</th>
<th>2016/12</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Millions of yen</td>
<td>Thousands of U.S. dollars</td>
<td>Note 1</td>
</tr>
<tr>
<td><strong>ASSETS</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Current Assets:</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cash and time deposits</td>
<td>¥ 116,771</td>
<td>$ 120,126</td>
<td>¥ 1,030,859</td>
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<tr>
<td>Short-term investments in securities</td>
<td>¥ 7,685</td>
<td>¥ 7,905</td>
<td>¥ 67,836</td>
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<td>Notes and accounts receivable:</td>
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<tr>
<td>Trade</td>
<td>¥ 127,201</td>
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<td>¥ 1,173,672</td>
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<tr>
<td>Unconsolidated subsidiaries and affiliates</td>
<td>¥ 0</td>
<td>¥ 0</td>
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</tr>
<tr>
<td>Less: allowance for doubtful accounts</td>
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</tr>
<tr>
<td>Inventories</td>
<td>¥ 125,436</td>
<td>¥ 134,835</td>
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<td>Deferred tax assets</td>
<td>¥ 105,928</td>
<td>¥ 115,672</td>
<td>¥ 992,637</td>
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<td>Other current assets</td>
<td>¥ 26,608</td>
<td>¥ 31,589</td>
<td>¥ 271,080</td>
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<tr>
<td>Total current assets</td>
<td>¥ 410,673</td>
<td>¥ 443,748</td>
<td>¥ 3,808,015</td>
</tr>
<tr>
<td>Property, Plant, and Equipment, at Cost:</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Buildings and structures</td>
<td>¥ 162,630</td>
<td>¥ 164,817</td>
<td>¥ 1,414,373</td>
</tr>
<tr>
<td>Machinery and equipment</td>
<td>¥ 164,851</td>
<td>¥ 167,218</td>
<td>¥ 1,434,978</td>
</tr>
<tr>
<td>Leased assets</td>
<td>¥ 334,855</td>
<td>¥ 339,450</td>
<td>¥ 2,912,983</td>
</tr>
<tr>
<td>Less: accumulated depreciation</td>
<td>¥ 98,448</td>
<td>¥ 101,178</td>
<td>¥ 868,257</td>
</tr>
<tr>
<td>Land</td>
<td>¥ 29,989</td>
<td>¥ 36,604</td>
<td>¥ 314,116</td>
</tr>
<tr>
<td>Construction in progress</td>
<td>¥ 5,843</td>
<td>¥ 18,411</td>
<td>¥ 157,993</td>
</tr>
<tr>
<td>Total property, plant, and equipment</td>
<td>¥ 134,281</td>
<td>¥ 156,194</td>
<td>¥ 1,340,375</td>
</tr>
<tr>
<td>Intangible Assets:</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Goodwill</td>
<td>¥ 59,430</td>
<td>¥ 59,795</td>
<td>¥ 513,129</td>
</tr>
<tr>
<td>Leased assets</td>
<td>¥ 513</td>
<td>¥ 401</td>
<td>¥ 3,441</td>
</tr>
<tr>
<td>Trademarks</td>
<td>¥ 60,087</td>
<td>¥ 146,209</td>
<td>¥ 157,993</td>
</tr>
<tr>
<td>Other intangible assets</td>
<td>¥ 41,372</td>
<td>¥ 39,927</td>
<td>¥ 342,632</td>
</tr>
<tr>
<td>Total intangible assets</td>
<td>¥ 161,403</td>
<td>¥ 246,333</td>
<td>¥ 2,113,901</td>
</tr>
<tr>
<td>Investments and Other Assets:</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Investments in securities</td>
<td>¥ 24,631</td>
<td>¥ 22,532</td>
<td>¥ 193,357</td>
</tr>
<tr>
<td>Investments in unconsolidated subsidiaries and affiliates</td>
<td>¥ 2,803</td>
<td>¥ 2,367</td>
<td>¥ 20,312</td>
</tr>
<tr>
<td>Long-term prepaid expenses</td>
<td>¥ 12,692</td>
<td>¥ 13,377</td>
<td>¥ 114,794</td>
</tr>
<tr>
<td>Deferred tax assets</td>
<td>¥ 36,833</td>
<td>¥ 37,371</td>
<td>¥ 320,698</td>
</tr>
<tr>
<td>Other investments</td>
<td>¥ 25,226</td>
<td>¥ 24,081</td>
<td>¥ 206,650</td>
</tr>
<tr>
<td>Total investments and other assets</td>
<td>¥ 102,187</td>
<td>¥ 99,729</td>
<td>¥ 855,822</td>
</tr>
<tr>
<td><strong>Total Assets</strong></td>
<td>¥ 808,547</td>
<td>¥ 946,007</td>
<td>¥ 8,118,141</td>
</tr>
</tbody>
</table>

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

### LIABILITIES AND NET ASSETS

<table>
<thead>
<tr>
<th>Note</th>
<th>2015/12</th>
<th>2016/12</th>
<th>2016/12</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Millions of yen</td>
<td>Thousands of U.S. dollars</td>
<td>Note 1</td>
</tr>
<tr>
<td><strong>LIABILITIES</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Current Liabilities:</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Short-term debt</td>
<td>¥ 11,386</td>
<td>¥ 11,583</td>
<td>¥ 99,399</td>
</tr>
<tr>
<td>Current portion of long-term debt</td>
<td>¥ 7,630</td>
<td>¥ 4,974</td>
<td>¥ 42,684</td>
</tr>
<tr>
<td>Notes and accounts payable:</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Trade</td>
<td>¥ 32,162</td>
<td>¥ 30,149</td>
<td>¥ 430,352</td>
</tr>
<tr>
<td>Unconsolidated subsidiaries and affiliates</td>
<td>¥ 939</td>
<td>¥ 930</td>
<td>¥ 7,980</td>
</tr>
<tr>
<td>Reserve for sales returns</td>
<td>¥ 35,102</td>
<td>¥ 31,080</td>
<td>¥ 438,342</td>
</tr>
<tr>
<td>Accrued income taxes</td>
<td>¥ 29,213</td>
<td>¥ 32,312</td>
<td>¥ 277,284</td>
</tr>
<tr>
<td>Other payables</td>
<td>¥ 37,090</td>
<td>¥ 43,453</td>
<td>¥ 372,891</td>
</tr>
<tr>
<td>Accrued bonuses for directors</td>
<td>¥ 4,661</td>
<td>¥ 5,561</td>
<td>¥ 47,721</td>
</tr>
<tr>
<td>Provision for liabilities and charges</td>
<td>¥ 1,192</td>
<td>¥ 2,024</td>
<td>¥ 17,368</td>
</tr>
<tr>
<td>Deferred tax liabilities</td>
<td>¥ 16</td>
<td>¥ 0</td>
<td>¥ 0</td>
</tr>
<tr>
<td>Other current liabilities</td>
<td>¥ 40,176</td>
<td>¥ 60,538</td>
<td>¥ 519,505</td>
</tr>
<tr>
<td><strong>Total current liabilities</strong></td>
<td>¥ 206,784</td>
<td>¥ 246,687</td>
<td>¥ 2,116,939</td>
</tr>
<tr>
<td>**Long-Term Liabilities: **</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Long-term debt</td>
<td>¥ 32,312</td>
<td>¥ 277,284</td>
<td>¥ 2,116,939</td>
</tr>
<tr>
<td>Long-term payables</td>
<td>¥ 127,201</td>
<td>¥ 136,768</td>
<td>¥ 1,173,672</td>
</tr>
<tr>
<td>Liability for retirement benefits</td>
<td>¥ 43,453</td>
<td>¥ 372,891</td>
<td>¥ 372,891</td>
</tr>
<tr>
<td>Allowance for losses on guarantees</td>
<td>¥ 32,975</td>
<td>¥ 282,974</td>
<td>¥ 282,974</td>
</tr>
<tr>
<td>Allowance for environmental measures</td>
<td>¥ 377</td>
<td>¥ 3,226</td>
<td>¥ 3,226</td>
</tr>
<tr>
<td>Provision for structural reforms</td>
<td>¥ 350</td>
<td>¥ 3,003</td>
<td>¥ 3,003</td>
</tr>
<tr>
<td>Deferred tax liabilities</td>
<td>¥ 350</td>
<td>¥ 3,003</td>
<td>¥ 3,003</td>
</tr>
<tr>
<td>Other long-term liabilities</td>
<td>¥ 3,450</td>
<td>¥ 27,949</td>
<td>¥ 27,949</td>
</tr>
<tr>
<td><strong>Total long-term liabilities</strong></td>
<td>¥ 188,428</td>
<td>¥ 285,449</td>
<td>¥ 2,449,575</td>
</tr>
<tr>
<td><strong>Total Liabilities</strong></td>
<td>¥ 395,212</td>
<td>¥ 532,137</td>
<td>¥ 4,566,523</td>
</tr>
<tr>
<td><strong>CONTINGENT LIABILITIES</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>NET ASSETS</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Shareholders' Equity:</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Common stock</td>
<td>¥ 64,506</td>
<td>¥ 553,557</td>
<td>¥ 553,557</td>
</tr>
<tr>
<td>Authorized: 1,200,000,000 shares as of December 31, 2015 and 2016</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Issued: 400,000,000 shares as of December 31, 2015 and 2016</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Capital surplus</td>
<td>¥ 64,506</td>
<td>¥ 553,557</td>
<td>¥ 553,557</td>
</tr>
<tr>
<td>Retained earnings</td>
<td>¥ 70,258</td>
<td>¥ 607,963</td>
<td>¥ 607,963</td>
</tr>
<tr>
<td>Less: treasury stock, at cost</td>
<td>(¥ 1,325)</td>
<td>(¥ 11,370)</td>
<td>(¥ 11,370)</td>
</tr>
<tr>
<td><strong>Total shareholders' equity</strong></td>
<td>¥ 366,999</td>
<td>¥ 392,033</td>
<td>¥ 3,364,223</td>
</tr>
<tr>
<td><strong>Total Net Assets</strong></td>
<td>¥ 413,334</td>
<td>¥ 413,870</td>
<td>¥ 3,561,617</td>
</tr>
</tbody>
</table>

The accompanying notes are an integral part of the consolidated financial statements.
### CONSOLIDATED STATEMENTS OF INCOME

Shiseido Company, Limited and Subsidiaries
For the fiscal period ended December 31, 2015 and the fiscal year ended December 31, 2016

<table>
<thead>
<tr>
<th>Note</th>
<th>2015/12</th>
<th>2016/12</th>
<th>% Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Net Sales</td>
<td>¥763,058</td>
<td>¥880,306</td>
<td>15.5%</td>
</tr>
<tr>
<td>Cost of Sales</td>
<td>190,039</td>
<td>207,553</td>
<td>9.2%</td>
</tr>
<tr>
<td>Gross profit</td>
<td>¥573,019</td>
<td>¥672,753</td>
<td>17.5%</td>
</tr>
<tr>
<td>Selling, General and Administrative Expenses</td>
<td>529,388</td>
<td>606,972</td>
<td>14.4%</td>
</tr>
<tr>
<td>Operating Income</td>
<td>25,630</td>
<td>65,181</td>
<td>157.9%</td>
</tr>
<tr>
<td>Other Income (Expenses):</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Interest and dividend income</td>
<td>1,731</td>
<td>1,293</td>
<td>-24.3%</td>
</tr>
<tr>
<td>Gain on sales of investments in securities</td>
<td>2,426</td>
<td>402</td>
<td>-82.8%</td>
</tr>
<tr>
<td>Loss on realisation of investments in securities</td>
<td>(6)</td>
<td>(25)</td>
<td>-125.0%</td>
</tr>
<tr>
<td>Gain (loss) on sales and disposal of property, plant and equipment</td>
<td>(1,790)</td>
<td>(5,276)</td>
<td>-195.8%</td>
</tr>
<tr>
<td>Equity in earnings of affiliates</td>
<td>149</td>
<td>290</td>
<td>93.1%</td>
</tr>
<tr>
<td>Gain on transfer of business</td>
<td>5,072</td>
<td>8,952</td>
<td>76.8%</td>
</tr>
<tr>
<td>Impairment loss</td>
<td>0</td>
<td>(370)</td>
<td>-100.0%</td>
</tr>
<tr>
<td>Structural reform expenses</td>
<td>(148)</td>
<td>(4,037)</td>
<td>-1,954.4%</td>
</tr>
<tr>
<td>Loss on liquidation of subsidiaries and affiliates</td>
<td>(812)</td>
<td>—</td>
<td>—</td>
</tr>
<tr>
<td>Information security expenses</td>
<td>(214)</td>
<td>(4,925)</td>
<td>-1,954.4%</td>
</tr>
<tr>
<td>Other, net</td>
<td>646</td>
<td>926</td>
<td>44.5%</td>
</tr>
<tr>
<td>Income before income taxes</td>
<td>42,892</td>
<td>49,866</td>
<td>16.3%</td>
</tr>
</tbody>
</table>

### Income Taxes

<table>
<thead>
<tr>
<th>Note</th>
<th>2015/12</th>
<th>2016/12</th>
<th>% Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Current</td>
<td>15,267</td>
<td>17,907</td>
<td>17.2%</td>
</tr>
<tr>
<td>Deferred</td>
<td>2,024</td>
<td>(2,568)</td>
<td>-126.6%</td>
</tr>
<tr>
<td>Total</td>
<td>17,292</td>
<td>15,342</td>
<td>-11.3%</td>
</tr>
</tbody>
</table>

### Net income

<table>
<thead>
<tr>
<th>Note</th>
<th>2015/12</th>
<th>2016/12</th>
<th>% Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Gross profit</td>
<td>¥573,019</td>
<td>¥672,753</td>
<td>17.5%</td>
</tr>
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<td>402</td>
<td>-82.8%</td>
</tr>
<tr>
<td>Loss on realisation of investments in securities</td>
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<td>(25)</td>
<td>-125.0%</td>
</tr>
<tr>
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<td>(5,276)</td>
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<td>5,072</td>
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</tr>
<tr>
<td>Impairment loss</td>
<td>0</td>
<td>(370)</td>
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</tr>
<tr>
<td>Structural reform expenses</td>
<td>(148)</td>
<td>(4,037)</td>
<td>-1,954.4%</td>
</tr>
<tr>
<td>Loss on liquidation of subsidiaries and affiliates</td>
<td>(812)</td>
<td>—</td>
<td>—</td>
</tr>
<tr>
<td>Information security expenses</td>
<td>(214)</td>
<td>(4,925)</td>
<td>-1,954.4%</td>
</tr>
<tr>
<td>Other, net</td>
<td>646</td>
<td>926</td>
<td>44.5%</td>
</tr>
<tr>
<td>Income before income taxes</td>
<td>42,892</td>
<td>49,866</td>
<td>16.3%</td>
</tr>
<tr>
<td>Income taxes</td>
<td>17,292</td>
<td>15,342</td>
<td>-11.3%</td>
</tr>
<tr>
<td>Net income attributable to non-controlling interests</td>
<td>(46)</td>
<td>(10,898)</td>
<td>-240.2%</td>
</tr>
</tbody>
</table>

### Net Income Attributable to Owners of Parent

<table>
<thead>
<tr>
<th>Note</th>
<th>2015/12</th>
<th>2016/12</th>
<th>% Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Net income attributable to owners of parent</td>
<td>¥23,210</td>
<td>¥32,101</td>
<td>39.2%</td>
</tr>
</tbody>
</table>

### Net Income Per Share

<table>
<thead>
<tr>
<th>Note</th>
<th>2015/12</th>
<th>2016/12</th>
<th>% Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Basic</td>
<td>¥58.2</td>
<td>¥80.4</td>
<td>37.7%</td>
</tr>
<tr>
<td>Diluted</td>
<td>¥58.1</td>
<td>¥80.3</td>
<td>37.6%</td>
</tr>
</tbody>
</table>

### 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 period ended December 31, 2015 and the fiscal year ended December 31, 2016

1 BASIS OF PRESENTING CONSOLIDATED FINANCIAL STATEMENTS

The accompanying consolidated financial statements were prepared in accordance with the provisions set forth in the Financial Instruments and Exchange Law and Company Acts and in conformity with the accounting principles generally accepted in Japan. Therefore, application and disclosure requirements are different from International Financial Reporting Standards in certain respects.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

\[ (1) \text{Scope of Consolidation} \]

The Company has 92 subsidiaries (companies over which the Company exercises control over operations) as of December 31, 2016 (93 as of December 31, 2015). The accompanying consolidated financial statements as of December 31, 2016 include the accounts of the Company and its 90 (91 as of December 31, 2015) significant subsidiaries (the "Companies").

The Company has 3 affiliates (companies that are not subsidiaries but over which the Company exercises significant influence) as of December 31, 2016; 4 as of December 31, 2015. Investments in 3 affiliates are accounted for by the equity method as of December 31, 2016 (4 as of December 31, 2015).

\[ (2) \text{Inventories} \]

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.

\[ (3) \text{Property, Plant and Equipment (Excluding Leased Assets)} \]

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

- Customer relationships: 10 years
- Trademarks: 10-15 years (except for those with indefinite useful lives)

\[ (4) \text{Intangible Assets (Excluding Leased Assets)} \]

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.

\[ (5) \text{Leased Assets} \]

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

- Buildings and structures: 25-60 years
- Machinery, equipment and vehicles: 2-12 years
- Tools, furniture and fixtures: 2-10 years

\[ (6) \text{Long-Term Prepaid Expenses} \]

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

\[ (7) \text{Goodwill} \]

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.

\[ (8) \text{Securities} \]

The Company and its consolidated subsidiaries categorize their existing securities as available-for-sale securities. Those securities are carried at fair value prevailing at the fiscal year end, with 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.

Cash Flows from Operating Activities:

Income before income taxes

\[ \text{Depreciation} \]

\[ \text{Amortization of goodwill} \]

\[ \text{Impairment loss} \]

Gain (loss) on sales of investments in securities

Gain on transfer of business

\[ \text{Note 2015/12} \]

\[ \text{Cash Flows from Operating Activities:} \]

\[ \text{Depreciation} \]

\[ \text{Amortization of goodwill} \]

\[ \text{Impairment loss} \]

\[ \text{Gain (loss) on sales of investments in securities} \]

\[ \text{Gain on transfer of business} \]

\[ \text{Other} \]

\[ \text{Change in Consolidated Fiscal Period-Ends} \]

\[ \text{Gain on transfer of business (5,772)} \]

\[ \text{Loss on liquidation of subsidiaries and affiliates (812)} \]

\[ \text{Other 5,721} \]

\[ \text{Change in Consolidated Fiscal Period-Ends} \]

\[ \text{Increase (decrease) in allowance for doubtful accounts 680} \]

\[ \text{Increase (decrease) in accrued bonuses for employees 1,845} \]

\[ \text{Increase (decrease) in accrued bonuses for directors (127)} \]

\[ \text{Increase (decrease) in liability for retirement benefits 1,562} \]

\[ \text{Interest and dividends received 1,798} \]

\[ \text{Increase in liabilities and received dividends 1,798} \]

\[ \text{Interest paid (843)} \]

\[ \text{Other 5,721} \]

\[ \text{Net cash provided by operating activities 84,579} \]

\[ \text{Cash Flows from Investing Activities:} \]

\[ \text{Transfers to time deposits (18,312)} \]

\[ \text{Proceeds from maturity of time deposits (1,979)} \]

\[ \text{Acquisition of short-term investments in securities (1,053)} \]

\[ \text{Proceeds from sales of short-term investments in securities (14)} \]

\[ \text{Acquisition of investments in securities (5,721)} \]

\[ \text{Proceeds from sales of investments in securities (6,761)} \]

\[ \text{Proceeds from transfers of (4,253)} \]

\[ \text{Acquisition of property, plant and equipment (10,934)} \]

\[ \text{Proceeds from sales of property, plant and equipment (76,792)} \]

\[ \text{Acquisition of intangible assets (10,059)} \]

\[ \text{Payments of long-term prepaid expenses (5,575)} \]

\[ \text{Payments of long-term loans receivable (2,558)} \]

\[ \text{Acquisition of shares in subsidiaries resulting in change in scope of consolidation (221)} \]

\[ \text{Sales of shares in subsidiaries resulting in change in scope of consolidation (241)} \]

\[ \text{Other (596)} \]

\[ \text{Net cash used in investing activities (5,315) (70,049) (306,129)} \]

\[ \text{Cash Flows from Financing Activities:} \]

\[ \text{Net increase (decrease) in short-term debt (15,600)} \]

\[ \text{Proceeds from long-term debt (65,901)} \]

\[ \text{Proceeds from long-term debt (65,901)} \]

\[ \text{Repayment of lease obligations (1,989)} \]

\[ \text{Repayment of treasury stock (30)} \]

\[ \text{Sale of treasury stock (927)} \]

\[ \text{Cash dividend paid (7,711)} \]

\[ \text{Cash dividend paid to non-controlling interests (2,071)} \]

\[ \text{Sales of shares in subsidiaries not resulting in change in scope of consolidation (922)} \]

\[ \text{Net cash provided by (used in) financing activities 529 (4,539) (2,692) 52,901} \]

\[ \text{Cash and Cash Equivalents at End of Year 3 (100,807) 104,926 900,420} \]

\[ \text{Cash and Cash Equivalents at End of Year 3 912,026 912,122 3,707,754} \]
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.

Cash dividend per share shown for each year in the consolidated statements of income represents the dividend declared as applicable to the respective year, rather than 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 provision amounts 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 Waste" (Act No. 65 of 2001).

(18) Fiscal Year 2016 Structural Reforms

The Companies provide the 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 method for the estimated retirement benefits

   The retirement benefit obligation is calculated by allocating the estimated retirement benefits 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 other 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 recorded in the consolidated statements of income. 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 foreign exchange forward contracts are used as a hedge and meet certain criteria, the exchange forward contracts are not stated at fair value, and instead the amount to be received under the exchange forward contracts is added to or deducted from the assets or liabilities for which the exchange forward contract was executed.

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 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).

Management 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 non-controlling 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, March 26, 2015 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) Changes in Presentation

Due to the increase in quantitative significance of “Long-term payables” which was included in “Other long-term liabilities” in the previous fiscal period, the Company has changed to record it separately for this fiscal year.

The consolidated financial statements for the fiscal period ended December 31, 2016 were reorganized in order to reflect this alteration. As a result, ¥4,165 million recorded as “Other long-term liabilities” on the balance sheets for the previous fiscal period has been classified as “payables and accrued liabilities” and ¥9,450 million of “Other long-term liabilities” respectively.

(27) Accounting Standard Issued but Not Yet Adopted

1. The Company and domestic affiliates


   (1) Overview

   Following the framework in Auditing Committee Report No. 66 “Audit Treatment regarding the Judgment of Recoverability of Deferred Tax Assets,” which prescribes estimation of deferred tax assets according to the classification of the entity by one of five types, the following treatments were changed as necessary:

   1. Treatment for an entity that does not meet any of the criteria types 1 to 5;
   2. Criteria for types 2 and 3;
   3. Treatment for deductible temporary differences that an entity classified as type 2 is unable to schedule;
   4. Treatment for the period which an entity classified as type 3 is able to reasonably estimate with respect to future taxable income before consideration of taxable or deductible temporary differences that exist at the end of current annual period; and
   5. Treatment for meet as criteria 2 or 3 for an entity classified as type 4.

   (2) Effective date

   The guidance is effective from the beginning of the year ending December 31, 2017.

   (3) Effects of application of the guidance

   The impact of Company's consolidated financial statements from the adoption of implementation guidance on recoverability of deferred tax assets is under evaluation at the time of the preparation of consolidated financial statements.

2. Foreign Affiliates

   Standard/interpretation

   Outline of the new/revised standards

   To be adopted by the Group

   IFRS 16

   Lease

   Revision to accounting treatment for lease

   From the beginning of the year ending December 31, 2019

   ASU 2016-12

   Lease

   Revision to accounting treatment for lease

   From the beginning of the year ending December 31, 2019

The impact of Company's consolidated financial statements from the adoption of standards is under evaluation at the time of the preparation of consolidated financial statements.
3 CASH FLOW INFORMATION

(1) The reconciliation of cash and cash equivalents shown in the consolidated balance sheets and the cash and cash equivalents shown in the consolidated statements of cash flows as of December 31, 2015 and 2016 is as follows:

<table>
<thead>
<tr>
<th>Million of yen</th>
<th>Thousands of U.S. dollars</th>
</tr>
</thead>
<tbody>
<tr>
<td>2015/12</td>
<td>2016/12</td>
</tr>
<tr>
<td>Cash and time deposits</td>
<td>¥116,771</td>
</tr>
<tr>
<td>Short-term investments in securities</td>
<td>7,685</td>
</tr>
<tr>
<td>Total</td>
<td>¥124,457</td>
</tr>
<tr>
<td>Time deposits with maturities exceeding 3 months</td>
<td>(17,463)</td>
</tr>
<tr>
<td>Debt securities with maturities exceeding 3 months</td>
<td>(2,087)</td>
</tr>
<tr>
<td>Cash and cash equivalents</td>
<td>¥104,026</td>
</tr>
</tbody>
</table>

(2) For the main breakdown of assets, liabilities and the acquisition cost of Gurwitch Products, LLC, which was newly consolidated as a result of the acquisition in 2016:

For the fiscal year ended December 31, 2016

<table>
<thead>
<tr>
<th>Million of yen</th>
<th>Thousand of U.S. dollars (Note 3)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Current assets</td>
<td>¥8,658</td>
</tr>
<tr>
<td>Non-current assets</td>
<td>¥19,024</td>
</tr>
<tr>
<td>Current liabilities</td>
<td>¥1,965</td>
</tr>
<tr>
<td>Acquisition cost of newly consolidated subsidiaries</td>
<td>¥25,717</td>
</tr>
<tr>
<td>Cash and cash equivalents of newly consolidated subsidiaries</td>
<td>(1,291)</td>
</tr>
</tbody>
</table>

(3) Significant non-cash transactions are as follows:

For the fiscal period ended December 31, 2015

<table>
<thead>
<tr>
<th>Million of yen</th>
<th>Thousand of U.S. dollars</th>
</tr>
</thead>
<tbody>
<tr>
<td>Lease assets</td>
<td>¥1,417 million</td>
</tr>
<tr>
<td>Lease obligations</td>
<td>1,417 million</td>
</tr>
<tr>
<td>For the fiscal year ended December 31, 2016</td>
<td></td>
</tr>
<tr>
<td>Lease assets</td>
<td>¥1,700 million</td>
</tr>
<tr>
<td>Lease obligations</td>
<td>1,700 million</td>
</tr>
</tbody>
</table>
| Newly recorded assets and liabilities related to intangible assets are as follows:
For the fiscal year ended December 31, 2016 | |
| Intangible assets | ¥61,608 million | $(528,687 thousand) |
| Long-term payables (including other payables) | 61,608 million |

4 FINANCIAL INSTRUMENTS

(1) Financial Instruments

i. 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.

ii. 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. Long-term payables, which are mostly liabilities incurred in connection with the execution of a license agreement, are not exposed to foreign exchange risk and interest rate risk. 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.

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 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).

For the fiscal period ended December 31, 2016

<table>
<thead>
<tr>
<th>Million of yen</th>
<th>Thousand of U.S. dollars (Note 4)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Current assets</td>
<td>¥8,658</td>
</tr>
<tr>
<td>Non-current assets</td>
<td>¥19,024</td>
</tr>
<tr>
<td>Current liabilities</td>
<td>¥1,965</td>
</tr>
<tr>
<td>Acquisition cost of newly consolidated subsidiaries</td>
<td>¥25,717</td>
</tr>
<tr>
<td>Cash and cash equivalents of newly consolidated subsidiaries</td>
<td>(1,291)</td>
</tr>
</tbody>
</table>

For the fiscal year ended December 31, 2016

<table>
<thead>
<tr>
<th>Million of yen</th>
<th>Thousand of U.S. dollars (Note 4)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Lease assets</td>
<td>¥1,417 million</td>
</tr>
<tr>
<td>Lease obligations</td>
<td>1,417 million</td>
</tr>
<tr>
<td>For the fiscal year ended December 31, 2016</td>
<td></td>
</tr>
<tr>
<td>Lease assets</td>
<td>¥1,700 million</td>
</tr>
<tr>
<td>Lease obligations</td>
<td>1,700 million</td>
</tr>
</tbody>
</table>
| Newly recorded assets and liabilities related to intangible assets are as follows:
For the fiscal year ended December 31, 2016 | |
| Intangible assets | ¥61,608 million | (528,687 thousand) |
| Long-term payables (including other payables) | 61,608 million |

(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).

<table>
<thead>
<tr>
<th>Million of yen</th>
<th>Thousand of U.S. dollars (Note 4)</th>
<th>Variance</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash and time deposits</td>
<td>¥116,771</td>
<td>¥116,771</td>
</tr>
<tr>
<td>Time deposits with maturities exceeding 3 months</td>
<td>(17,463)</td>
<td>(13,004)</td>
</tr>
<tr>
<td>Debt securities with maturities exceeding 3 months</td>
<td>(2,087)</td>
<td>(1,905)</td>
</tr>
<tr>
<td>Cash and cash equivalents</td>
<td>¥104,026</td>
<td>¥113,122</td>
</tr>
</tbody>
</table>

(3) Significant non-cash transactions are as follows:

For the fiscal period ended December 31, 2015

<table>
<thead>
<tr>
<th>Million of yen</th>
<th>Thousand of U.S. dollars</th>
</tr>
</thead>
<tbody>
<tr>
<td>Short-term investments in securities and investments in securities available-for-sale securities</td>
<td>30,854</td>
</tr>
<tr>
<td>Notes and accounts payable, Electronically recorded obligations and other payables</td>
<td>(99,406)</td>
</tr>
<tr>
<td>Short-term borrowings from banks and other financial institutions</td>
<td>(7,167)</td>
</tr>
<tr>
<td>Commercial papers</td>
<td>(4,218)</td>
</tr>
<tr>
<td>Bonds</td>
<td>(30,000)</td>
</tr>
<tr>
<td>Long-term borrowings from banks and other financial institutions</td>
<td>(41,172)</td>
</tr>
<tr>
<td>Lease obligations</td>
<td>(4,054)</td>
</tr>
<tr>
<td>Derivative instruments</td>
<td>—</td>
</tr>
<tr>
<td>i. Hedge accounting not applied</td>
<td>(16)</td>
</tr>
<tr>
<td>ii. Hedge accounting applied</td>
<td>1,920</td>
</tr>
</tbody>
</table>

For the fiscal year ended December 31, 2016

<table>
<thead>
<tr>
<th>Million of yen</th>
<th>Thousand of U.S. dollars</th>
</tr>
</thead>
<tbody>
<tr>
<td>Short-term investments in securities and investments in securities available-for-sale securities</td>
<td>28,961</td>
</tr>
<tr>
<td>Notes and accounts payable, Electronically recorded obligations and other payables</td>
<td>(126,845)</td>
</tr>
<tr>
<td>Short-term borrowings from banks and other financial institutions</td>
<td>(6,399)</td>
</tr>
<tr>
<td>Commercial papers</td>
<td>(5,243)</td>
</tr>
<tr>
<td>Bonds</td>
<td>(40,000)</td>
</tr>
<tr>
<td>Long-term borrowings from banks and other financial institutions</td>
<td>(45,426)</td>
</tr>
<tr>
<td>Lease obligations</td>
<td>(3,970)</td>
</tr>
<tr>
<td>Derivative instruments</td>
<td>—</td>
</tr>
<tr>
<td>i. Hedge accounting not applied</td>
<td>(601)</td>
</tr>
<tr>
<td>ii. Hedge accounting applied</td>
<td>2,220</td>
</tr>
<tr>
<td>Long-term payables</td>
<td>(53,135)</td>
</tr>
</tbody>
</table>
### Notes to the Consolidated Financial Statements

#### Thousands of U.S. dollars (Note 1)

<table>
<thead>
<tr>
<th>Carrying value (*)</th>
<th>Fair value (*)</th>
<th>Variance</th>
</tr>
</thead>
<tbody>
<tr>
<td>$1,030,859</td>
<td>$1,030,859</td>
<td>—</td>
</tr>
</tbody>
</table>

#### Carrying value (Note 2)

<table>
<thead>
<tr>
<th>Notes and accounts receivable</th>
<th>Carrying value</th>
<th>Fair value</th>
<th>Variance</th>
</tr>
</thead>
<tbody>
<tr>
<td>(less allowance for doubtful accounts)</td>
<td>1,157,084</td>
<td>1,157,084</td>
<td>—</td>
</tr>
</tbody>
</table>

#### Short-term investments in securities and investments in securities

<table>
<thead>
<tr>
<th>Carrying value (*)</th>
<th>Fair value (*)</th>
<th>Variance</th>
</tr>
</thead>
<tbody>
<tr>
<td>248,528</td>
<td>248,528</td>
<td>—</td>
</tr>
</tbody>
</table>

#### Notes and accounts payable, Electronically recorded obligations and other payables

<table>
<thead>
<tr>
<th>Due in 1 year or less</th>
<th>Due after 1 year</th>
<th>Due after 5 years</th>
<th>Due after 10 years</th>
</tr>
</thead>
<tbody>
<tr>
<td>(1,088,517)</td>
<td>(1,088,517)</td>
<td>—</td>
<td>—</td>
</tr>
</tbody>
</table>

#### Short-term borrowings from banks and other financial institutions

<table>
<thead>
<tr>
<th>Due in 1 year or less</th>
<th>Due after 1 year</th>
<th>Due after 5 years</th>
<th>Due after 10 years</th>
</tr>
</thead>
<tbody>
<tr>
<td>(54,398)</td>
<td>(54,398)</td>
<td>—</td>
<td>—</td>
</tr>
</tbody>
</table>

#### Commercial papers

<table>
<thead>
<tr>
<th>Due in 1 year or less</th>
<th>Due after 1 year</th>
<th>Due after 5 years</th>
<th>Due after 10 years</th>
</tr>
</thead>
<tbody>
<tr>
<td>(44,992)</td>
<td>(44,992)</td>
<td>—</td>
<td>—</td>
</tr>
</tbody>
</table>

#### Bonds

<table>
<thead>
<tr>
<th>Due in 1 year or less</th>
<th>Due after 1 year</th>
<th>Due after 5 years</th>
<th>Due after 10 years</th>
</tr>
</thead>
<tbody>
<tr>
<td>(344,675)</td>
<td>(344,675)</td>
<td>1,415</td>
<td>—</td>
</tr>
</tbody>
</table>

#### Long-term borrowings from banks and other financial institutions

<table>
<thead>
<tr>
<th>Due in 1 year or less</th>
<th>Due after 1 year</th>
<th>Due after 5 years</th>
<th>Due after 10 years</th>
</tr>
</thead>
<tbody>
<tr>
<td>(867,750)</td>
<td>(867,750)</td>
<td>6,298</td>
<td>—</td>
</tr>
</tbody>
</table>

#### Lease obligations

<table>
<thead>
<tr>
<th>Due in 1 year or less</th>
<th>Due after 1 year</th>
<th>Due after 5 years</th>
<th>Due after 10 years</th>
</tr>
</thead>
<tbody>
<tr>
<td>(30,936)</td>
<td>(30,936)</td>
<td>—</td>
<td>—</td>
</tr>
</tbody>
</table>

#### Derivative instruments

<table>
<thead>
<tr>
<th>Due in 1 year or less</th>
<th>Due after 1 year</th>
<th>Due after 5 years</th>
<th>Due after 10 years</th>
</tr>
</thead>
<tbody>
<tr>
<td>(5,157)</td>
<td>(5,157)</td>
<td>—</td>
<td>—</td>
</tr>
</tbody>
</table>

#### Long-term payables

<table>
<thead>
<tr>
<th>Due in 1 year or less</th>
<th>Due after 1 year</th>
<th>Due after 5 years</th>
<th>Due after 10 years</th>
</tr>
</thead>
<tbody>
<tr>
<td>(455,977)</td>
<td>(455,977)</td>
<td>—</td>
<td>—</td>
</tr>
</tbody>
</table>

---

* Liabilities are in parentheses. Derivative instruments are presented as net amounts receivable or payable, with net amounts payable in parentheses.

**Method for calculating the fair value of financial instruments, derivative instruments and securities**


**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.

**Derivative instruments**

Please refer to Note 10. DERIVATIVE FINANCIAL INSTRUMENTS.

**Long-term payables**

CARRYING VALUE AND FAIR VALUE OF LONG-TERM PAYABLES ARE MEASURED AND CALCULATED AS THE PRESENT VALUE DISCOUNTED USING THE INTEREST RATE THAT IS ASSUMED TO BE APPLIED WHEN AN ADDITIONAL LOAN IS TAKEN OUT FROM BANKS, ETC. FOR FUTURE CASH FLOWS.

---

**5 SECURITIES**

The acquisition cost, carrying amount, and gross unrealized gains and losses for securities stated at fair value by security type at December 31, 2015 and 2016 are as follows:

#### Available-for-sale securities:

<table>
<thead>
<tr>
<th>Acquisition cost</th>
<th>Carrying amount</th>
<th>Gross unrealized gains</th>
<th>Gross unrealized losses</th>
</tr>
</thead>
<tbody>
<tr>
<td>Equity securities</td>
<td>$10,299</td>
<td>$22,013</td>
<td>$11,763</td>
</tr>
<tr>
<td>Other</td>
<td>$8,840</td>
<td>$18,750</td>
<td>$12,174</td>
</tr>
</tbody>
</table>

---

* Maturity dates of financial assets are as follows:

<table>
<thead>
<tr>
<th>Due in 1 year or less</th>
<th>Due after 1 year</th>
<th>Due after 5 years</th>
<th>Due after 10 years</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash and time deposits</td>
<td>$110,771</td>
<td>—</td>
<td>—</td>
</tr>
</tbody>
</table>
The aggregate annual maturities of long-term debt as of December 31, 2016 are as follows:

<table>
<thead>
<tr>
<th>Year Ending December 31</th>
<th>Millions of yen</th>
<th>Thousands of U.S. dollars</th>
</tr>
</thead>
<tbody>
<tr>
<td>2017</td>
<td>¥7,819</td>
<td>$67,098</td>
</tr>
<tr>
<td>2018</td>
<td>4,248</td>
<td>36,454</td>
</tr>
<tr>
<td>2019</td>
<td>14,024</td>
<td>120,346</td>
</tr>
<tr>
<td>2020</td>
<td>18,919</td>
<td>162,365</td>
</tr>
<tr>
<td>2021</td>
<td>26,476</td>
<td>227,203</td>
</tr>
<tr>
<td>2022 and thereafter</td>
<td>¥92,759</td>
<td>¥796,009</td>
</tr>
</tbody>
</table>

Assets pledged as collateral as of December 31, 2015 and 2016 are as follows:

<table>
<thead>
<tr>
<th>Year</th>
<th>Millions of yen</th>
<th>Thousands of U.S. dollars</th>
</tr>
</thead>
<tbody>
<tr>
<td>2015/12</td>
<td>¥13,681</td>
<td>$112,940</td>
</tr>
<tr>
<td>Other investments</td>
<td>15,200</td>
<td>130,438</td>
</tr>
<tr>
<td>Investments in securities</td>
<td>1,155</td>
<td>9,911</td>
</tr>
<tr>
<td>Cash and time deposits</td>
<td>1,797</td>
<td>15,515</td>
</tr>
<tr>
<td>Machinery and equipment</td>
<td>¥31,835</td>
<td>$268,832</td>
</tr>
</tbody>
</table>

The above assets are pledged as collateral for derivative transactions (interest rate swaps) and the following collateralized liabilities as of December 31, 2015 and 2016:

<table>
<thead>
<tr>
<th>Year</th>
<th>Millions of yen</th>
<th>Thousands of U.S. dollars</th>
</tr>
</thead>
<tbody>
<tr>
<td>2015/12</td>
<td>¥13,161</td>
<td>$113,161</td>
</tr>
<tr>
<td>Short-term debt</td>
<td>¥20,295</td>
<td>$174,161</td>
</tr>
<tr>
<td>Long-term debt</td>
<td>¥21,025</td>
<td>$174,161</td>
</tr>
</tbody>
</table>

6 INVENTORIES

Inventories held by the Companies as of December 31, 2015 and 2016 are as follows:

<table>
<thead>
<tr>
<th>Year</th>
<th>Millions of yen</th>
<th>Thousands of U.S. dollars</th>
</tr>
</thead>
<tbody>
<tr>
<td>2015/12</td>
<td>¥74,629</td>
<td>$698,807</td>
</tr>
<tr>
<td>Work in process</td>
<td>7,976</td>
<td>68,245</td>
</tr>
<tr>
<td>Raw materials and supplies</td>
<td>25,572</td>
<td>245,284</td>
</tr>
</tbody>
</table>

7 SHORT-TERM AND LONG-TERM DEBT

Short-term and long-term debt as of December 31, 2015 and 2016 are as follows:

<table>
<thead>
<tr>
<th>Year</th>
<th>Millions of yen</th>
<th>Thousands of U.S. dollars</th>
</tr>
</thead>
<tbody>
<tr>
<td>2015/12</td>
<td>¥7,167</td>
<td>$63,399</td>
</tr>
<tr>
<td>Commercial papers (weighted average interest rate 1.10%)</td>
<td>4,218</td>
<td>44,992</td>
</tr>
<tr>
<td>Short-term debt</td>
<td>¥11,386</td>
<td>$93,999</td>
</tr>
<tr>
<td>Long-term borrowings from banks and other financial institutions (Borrowings due within one year, weighted average interest rate 0.70%)</td>
<td>5,739</td>
<td>27,718</td>
</tr>
<tr>
<td>(Borrowings due after one year, weighted average interest rate 0.23%)</td>
<td>35,432</td>
<td>333,733</td>
</tr>
<tr>
<td>0.37% unsecured yen bonds due in June 2022</td>
<td>15,000</td>
<td>128,722</td>
</tr>
<tr>
<td>0.001% unsecured yen bonds due in December 2019</td>
<td>—</td>
<td>85,814</td>
</tr>
<tr>
<td>Lease obligations</td>
<td>—</td>
<td>—</td>
</tr>
<tr>
<td>Balance at the beginning of the year</td>
<td>¥265,149</td>
<td>$2,281,172</td>
</tr>
<tr>
<td>Balance at the end of the year</td>
<td>¥265,825</td>
<td>$2,422,864</td>
</tr>
<tr>
<td>Balance</td>
<td>¥7,819</td>
<td>$67,098</td>
</tr>
<tr>
<td>Less: portion due within one year</td>
<td>¥7,810</td>
<td>(7,810)</td>
</tr>
<tr>
<td>Short-term debt</td>
<td>¥7,819</td>
<td>$67,098</td>
</tr>
</tbody>
</table>

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 for calculating retirement benefits as of December 31, 2015 and 2016 are as follows:
(3) Defined contribution plans

Contributions to defined contribution plans and retirement benefit prepayment plans are ¥1,572 million and ¥305 million, respectively, for the period ended December 31, 2015.

Contributions to defined contribution plans and retirement benefit prepayment plans are ¥1,438 million ($12,340 thousand) and ¥428 million ($3,672 thousand), respectively, for the year ended December 31, 2016.

Campaigns applicable to the Company and its domestic consolidated subsidiaries consist of corporation, inhabitants and enterprise taxes. The statutory income tax rate was 33% for the fiscal year ended December 31, 2016. Reconciliation of the statutory tax rate and the effective tax rate for the fiscal period ended December 31, 2015 and the fiscal year ended December 31, 2016 is as follows:

<table>
<thead>
<tr>
<th>2015/12</th>
<th>2016/12</th>
</tr>
</thead>
<tbody>
<tr>
<td>Statutory tax rate</td>
<td>33.0%</td>
</tr>
<tr>
<td>Increase (decrease) due to:</td>
<td></td>
</tr>
<tr>
<td>Permanently nondeductible expenses</td>
<td>0.7</td>
</tr>
<tr>
<td>Dividend income not taxable</td>
<td>2.5</td>
</tr>
<tr>
<td>Unrealized intercompany profit</td>
<td>4.4</td>
</tr>
<tr>
<td>Adjustment of deferred tax assets for enacted changes in tax rates</td>
<td>6.6</td>
</tr>
<tr>
<td>Tax credits</td>
<td></td>
</tr>
<tr>
<td>Differences of statutory tax rates for overseas consolidated subsidiaries</td>
<td>2.0</td>
</tr>
<tr>
<td>Change in valuation allowance</td>
<td>(0.5)</td>
</tr>
<tr>
<td>Others</td>
<td>0.1</td>
</tr>
<tr>
<td>Effective tax rate</td>
<td>40.3%</td>
</tr>
</tbody>
</table>

The “Act for Partial Amendment of the Income Tax, etc.” (Act No. 15 of 2016) and the “Act for Partial Amendment of the Local Tax Act, etc.” (Act No. 13 of 2016) were enacted on March 29, 2016. In addition, the “Act for Partial Amendment of the Consumption Tax, etc. for the radical improvement of the tax system ensuring financial resources for the social securities” was established on November 18, 2016. Due to the above legislation, the statutory effective tax rate used for the calculation of deferred tax assets and liabilities in the fiscal year as of December 31, 2016 was changed to 31% from 32% in the previous fiscal period.

The impact of this change on the consolidated financial statements in the fiscal year ended December 31, 2016 is immaterial.

Deferred tax assets and liabilities (both current and non-current) as of December 31, 2015 and 2016 are as follows:

<table>
<thead>
<tr>
<th>2015/12</th>
<th>2016/12</th>
</tr>
</thead>
<tbody>
<tr>
<td>Deferred tax assets:</td>
<td></td>
</tr>
<tr>
<td>Liability for retirement benefits</td>
<td>¥27,267</td>
</tr>
<tr>
<td>Inventories</td>
<td>10,773</td>
</tr>
<tr>
<td>Depreciation</td>
<td>1,946</td>
</tr>
<tr>
<td>Unrealized intercompany profit in inventory and property, plant and equipment</td>
<td>5,720</td>
</tr>
<tr>
<td>Accrued expenses</td>
<td>6,685</td>
</tr>
<tr>
<td>Accrued bonuses for employees</td>
<td>4,351</td>
</tr>
<tr>
<td>Loss on revaluation of financial instruments</td>
<td>3,632</td>
</tr>
<tr>
<td>Tax losses carried forward</td>
<td>4,271</td>
</tr>
<tr>
<td>Reserve for sales returns</td>
<td>1,751</td>
</tr>
<tr>
<td>Accrued enterprise tax</td>
<td>225</td>
</tr>
<tr>
<td>Other</td>
<td>9,902</td>
</tr>
<tr>
<td>Total gross deferred tax assets</td>
<td>¥12,958</td>
</tr>
<tr>
<td>Less: realized tax losses</td>
<td>0.1%</td>
</tr>
<tr>
<td>Total deferred tax assets</td>
<td>¥12,958</td>
</tr>
<tr>
<td>Deferred tax liabilities:</td>
<td></td>
</tr>
<tr>
<td>Goodwill and other intangible assets</td>
<td>¥29,883</td>
</tr>
<tr>
<td>Special purpose reserve</td>
<td>710</td>
</tr>
<tr>
<td>Unrealized gains (losses) on available-for-sale securities</td>
<td>4,051</td>
</tr>
<tr>
<td>Undistributed earnings of overseas consolidated subsidiaries</td>
<td>1,347</td>
</tr>
<tr>
<td>Other</td>
<td>1,852</td>
</tr>
<tr>
<td>Total deferred tax liabilities</td>
<td>¥27,390</td>
</tr>
<tr>
<td>Net deferred tax assets</td>
<td>¥33,788</td>
</tr>
</tbody>
</table>

Notes to the Consolidated Financial Statements
### Stock Option Plan

Summarized information on the stock options granted as of December 31, 2016 is as follows:

<table>
<thead>
<tr>
<th>Stock option plan approved by the shareholders on June 24, 2009 and resolved by the Board of Directors on July 31, 2009</th>
<th>Stock option plan approved by the shareholders on June 25, 2010 and resolved by the Board of Directors on July 29, 2010</th>
<th>Stock option plan approved by the shareholders on June 24, 2011 and resolved by the Board of Directors on July 29, 2011</th>
<th>Stock option plan approved by the shareholders on June 26, 2012 and resolved by the Board of Directors on July 31, 2012</th>
<th>Stock option plan approved by the shareholders on June 25, 2013 and resolved by the Board of Directors on July 29, 2013</th>
<th>Stock option plan approved by the shareholders on June 24, 2014 and resolved by the Board of Directors on July 31, 2014</th>
<th>Stock option plan approved by the shareholders on June 23, 2015 and resolved by the Board of Directors on February 23, 2016</th>
<th>Stock option plan approved by the shareholders on June 25, 2016 and resolved by the Board of Directors on July 29, 2016</th>
</tr>
</thead>
<tbody>
<tr>
<td>Number of shares for options granted</td>
<td>81,400 shares</td>
<td>53,500 shares</td>
<td>134,900 shares</td>
<td>90,800 shares</td>
<td>63,600 shares</td>
<td>154,400 shares</td>
<td>76,900 shares</td>
</tr>
<tr>
<td>Number of shares for options outstanding</td>
<td>7,400 shares</td>
<td>20,600 shares</td>
<td>28,000 shares</td>
<td>7,300 shares</td>
<td>4,200 shares</td>
<td>9,700 shares</td>
<td>7,300 shares</td>
</tr>
<tr>
<td>Exercise price</td>
<td>¥1</td>
<td>¥1</td>
<td>¥1</td>
<td>¥1</td>
<td>¥1</td>
<td>¥1</td>
<td>¥1</td>
</tr>
</tbody>
</table>

### CONTINGENT LIABILITIES

There are no significant contingent liabilities to be disclosed.

### 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 the company that meets certain conditions, 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.

### 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 ¥11,299 million and ¥18,264 million ($167,732 thousand) for the fiscal periods ended December 31, 2016 and the fiscal year ended December 31, 2016, respectively. There are no research and development expenses included in total manufacturing expenses for the fiscal period ended December 31, 2015 and the fiscal year ended December 31, 2016.
14 TRANSACTIONS WITH RELATED PARTIES

The contract amount, estimated fair value and unrealized gain (loss) of the derivative instruments as of December 31, 2015 are as follows:

For the fiscal period ended December 31, 2015

Relationship

Type

Balance as at December 31, 2015

Millions of yen

Derivatives that do not meet the criteria for hedge accounting

Company with a majority of the voting rights held by an executive or close relative

<table>
<thead>
<tr>
<th>Type</th>
<th>Name</th>
<th>Location</th>
<th>Capital or Investments</th>
<th>Business or Profession</th>
<th>Voting Rights Held (%)</th>
<th>Account Name</th>
<th>Accounts receivable</th>
</tr>
</thead>
<tbody>
<tr>
<td>Executive</td>
<td>Lee, Rue-Han</td>
<td>——</td>
<td>——</td>
<td>Taiwan Shiseido Co.</td>
<td>100%</td>
<td>——</td>
<td>——</td>
</tr>
<tr>
<td>Executive</td>
<td>Sh我们应该在文本中找到。</td>
<td>——</td>
<td>——</td>
<td>Taiwan Shiseido Co.</td>
<td>100%</td>
<td>——</td>
<td>——</td>
</tr>
<tr>
<td>Executive</td>
<td>Taegu, Chung</td>
<td>——</td>
<td>——</td>
<td>Taiwan Shiseido Co.</td>
<td>100%</td>
<td>——</td>
<td>——</td>
</tr>
<tr>
<td>Executive</td>
<td>Yoo, Young-Hoon</td>
<td>——</td>
<td>——</td>
<td>Taiwan Shiseido Co.</td>
<td>100%</td>
<td>——</td>
<td>——</td>
</tr>
</tbody>
</table>

* Rents are determined based on the average price near the estate.
* 100% directly held by an executive of Beauté Prestige International S.A. (BPI S.A.), Mr. Eric HENRY and close relatives
* Transactions are under normal terms and conditions, and considered as independent third-party transactions

For the fiscal year ended December 31, 2016

Relationship

Type

Balance as of December 31, 2015

Millions of yen

Derivatives that do not meet the criteria for hedge accounting

Company with a majority of the voting rights held by an executive or close relative

<table>
<thead>
<tr>
<th>Type</th>
<th>Name</th>
<th>Location</th>
<th>Capital or Investments</th>
<th>Business or Profession</th>
<th>Voting Rights Held (%)</th>
<th>Account Name</th>
<th>Accounts receivable</th>
</tr>
</thead>
<tbody>
<tr>
<td>Executive</td>
<td>Lucien Henri S.A. (*)</td>
<td>France</td>
<td>130</td>
<td>Thousand</td>
<td>EUR</td>
<td>——</td>
<td>——</td>
</tr>
<tr>
<td>Executive</td>
<td>Lucien Henri S.A. (*)</td>
<td>France</td>
<td>130</td>
<td>Thousand</td>
<td>EUR</td>
<td>——</td>
<td>——</td>
</tr>
</tbody>
</table>

* Calculation method of fair value
Based on the amount presented by the counterparty financial institution

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
As lessee:
Leased assets mainly consist of molds, tools, fixtures, and software.
As lessor:
None

(2) Operating leases
Lease obligations under operating leases at December 31, 2015 and 2016 are as follows:

<table>
<thead>
<tr>
<th>Year</th>
<th>2015/12</th>
<th>2016/12</th>
<th>2016/12</th>
</tr>
</thead>
<tbody>
<tr>
<td>Millones of yen</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>As lessee:</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Due within 1 year</td>
<td>$7,510</td>
<td>$9,033</td>
<td>$77,556</td>
</tr>
<tr>
<td>Due after 1 year</td>
<td>$38,859</td>
<td>$41,235</td>
<td>$353,857</td>
</tr>
<tr>
<td>As lessor:</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Due within 1 year</td>
<td>$1,172</td>
<td>$1,379</td>
<td>$1,476</td>
</tr>
<tr>
<td>Due after 1 year</td>
<td>$3,925</td>
<td>$3,925</td>
<td>$33,682</td>
</tr>
</tbody>
</table>

15 DERIVATIVE FINANCIAL INSTRUMENTS

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

<table>
<thead>
<tr>
<th>Year</th>
<th>2015/12</th>
<th>2016/12</th>
<th>2016/12</th>
</tr>
</thead>
<tbody>
<tr>
<td>Millones of yen</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Foreign exchange contracts: Selling</td>
<td>$11,380</td>
<td>——</td>
<td>——</td>
</tr>
<tr>
<td>U.S. dollars</td>
<td>$11,380</td>
<td>——</td>
<td>——</td>
</tr>
<tr>
<td>GBP</td>
<td>1,737</td>
<td>——</td>
<td>9</td>
</tr>
<tr>
<td>Foreign exchange contracts: Buying</td>
<td>$2,299</td>
<td>——</td>
<td>21</td>
</tr>
<tr>
<td>U.S. dollars</td>
<td>$2,299</td>
<td>——</td>
<td>21</td>
</tr>
<tr>
<td>EUR</td>
<td>26,397</td>
<td>——</td>
<td>(34)</td>
</tr>
</tbody>
</table>

* Calculation method of fair value
Based on the amount presented by the counterparty financial institution

(2) Derivatives that meet the criteria for hedge accounting

<table>
<thead>
<tr>
<th>Year</th>
<th>2015/12</th>
<th>2016/12</th>
<th>2016/12</th>
</tr>
</thead>
<tbody>
<tr>
<td>Millones of yen</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Interest rate and currency swap contracts: To pay fixed/yield/variable U.S. dollars</td>
<td>$7,500</td>
<td>$2,500</td>
<td>$2,469</td>
</tr>
<tr>
<td>Foreign currency long-term debt</td>
<td>$7,500</td>
<td>$2,500</td>
<td>$2,469</td>
</tr>
<tr>
<td>Interest rate swap contracts: To pay fixed/variable</td>
<td>$21,025</td>
<td>$20,295</td>
<td>(609)</td>
</tr>
<tr>
<td>Long-term debt</td>
<td>$21,025</td>
<td>$20,295</td>
<td>(609)</td>
</tr>
</tbody>
</table>

* Calculation method of fair value
Based on the amount presented by the counterparty financial institution

The contract amount, estimated fair value and unrealized gain (loss) of the derivative instruments as of December 31, 2016 are as follows:

(1) Derivatives that do not meet the criteria for hedge accounting

<table>
<thead>
<tr>
<th>Year</th>
<th>2016/12</th>
<th>2016/12</th>
<th>2016/12</th>
</tr>
</thead>
<tbody>
<tr>
<td>Millones of yen</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Foreign exchange contracts: Selling</td>
<td>$12,928</td>
<td>——</td>
<td>——</td>
</tr>
<tr>
<td>U.S. dollars</td>
<td>$12,928</td>
<td>——</td>
<td>——</td>
</tr>
<tr>
<td>GBP</td>
<td>1,602</td>
<td>——</td>
<td>(19)</td>
</tr>
<tr>
<td>Foreign exchange contracts: Buying</td>
<td>$1,048</td>
<td>——</td>
<td>——</td>
</tr>
<tr>
<td>U.S. dollars</td>
<td>$1,048</td>
<td>——</td>
<td>——</td>
</tr>
</tbody>
</table>

* Calculation method of fair value
Based on the amount presented by the counterparty financial institution
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 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 ¥153 million ($1,312 thousand) of other expenses. The recoverable amount was estimated based on the net sales value, which was assessed based on the expected selling price.

### 20 STRUCTURAL REFORM EXPENSES

For the fiscal period ended December 31, 2015 and the fiscal year ended December 31, 2016 Structural reform expenses relate to retirement premiums paid to early retirees and other expenses included in temporary expenses attributable to structural reforms in progress worldwide.

### 21 LOSS ON LIQUIDATION OF SUBSIDIARIES AND AFFILIATES

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.

### 22 INFORMATION SECURITY EXPENSES

For the fiscal year ended December 31, 2016 Information security expenses refer to the costs incurred due to illegal access by a third party to the official online shopping website of a consolidated subsidiary. Expenses comprise the costs required to properly identify the causes, apologize to consumers and put in place countermeasures.

### 23 OTHER COMPREHENSIVE INCOME

The components of other comprehensive income including reclassification adjustments and tax (expense) or benefit for the fiscal period ended December 31, 2015 and the fiscal year ended December 31, 2016 are as follows:

<table>
<thead>
<tr>
<th></th>
<th>2015/12</th>
<th>2016/12</th>
<th>2016/12</th>
</tr>
</thead>
<tbody>
<tr>
<td>Unrealized gains (losses) on available-for-sale securities, net of taxes:</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Increase (decrease) during the fiscal year</td>
<td>¥ 2,435</td>
<td>¥ (1,661)</td>
<td>$ (14,253)</td>
</tr>
<tr>
<td>Reclassification adjustments</td>
<td>70</td>
<td>(402)</td>
<td>(3,449)</td>
</tr>
<tr>
<td>Amount before tax</td>
<td>2,506</td>
<td>(2,064)</td>
<td>(17,712)</td>
</tr>
<tr>
<td>Tax (expense) or benefit</td>
<td>(815)</td>
<td>1,250</td>
<td>10,726</td>
</tr>
<tr>
<td>Subtotal</td>
<td>¥ 1,690</td>
<td>¥ (823)</td>
<td>$ (5,976)</td>
</tr>
<tr>
<td>Foreign currency translation adjustments:</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Increase (decrease) during the fiscal year</td>
<td>¥ (0,180)</td>
<td>¥14,897</td>
<td>$127,838</td>
</tr>
<tr>
<td>Reclassification adjustments</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Amount before tax</td>
<td>(9,241)</td>
<td>(14,897)</td>
<td>(127,838)</td>
</tr>
<tr>
<td>Tax (expense) or benefit</td>
<td>67</td>
<td>(9)</td>
<td>(77)</td>
</tr>
<tr>
<td>Subtotal</td>
<td>¥ (9,173)</td>
<td>¥14,906</td>
<td>$127,915</td>
</tr>
<tr>
<td>Adjustments for retirement benefits:</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Increase (decrease) during the fiscal year</td>
<td>¥ (8,583)</td>
<td>¥20,799</td>
<td>$177,971</td>
</tr>
<tr>
<td>Reclassification adjustments</td>
<td>3,500</td>
<td>7,294</td>
<td>62,593</td>
</tr>
<tr>
<td>Amount before tax</td>
<td>(4,992)</td>
<td>(13,445)</td>
<td>(115,378)</td>
</tr>
<tr>
<td>Tax (expense) or benefit</td>
<td>524</td>
<td>4,309</td>
<td>36,977</td>
</tr>
<tr>
<td>Subtotal</td>
<td>¥ (4,468)</td>
<td>¥ (9,136)</td>
<td>$ (78,400)</td>
</tr>
<tr>
<td>Share of other comprehensive income of associates accounted for under the equity method:</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Increase (decrease) during the fiscal year</td>
<td>¥ (55)</td>
<td>¥ (51)</td>
<td>$ (326)</td>
</tr>
<tr>
<td>Reclassification adjustments</td>
<td>—</td>
<td>—</td>
<td>—</td>
</tr>
<tr>
<td>Subtotal</td>
<td>¥ (55)</td>
<td>¥ (51)</td>
<td>$ (326)</td>
</tr>
<tr>
<td>Total other comprehensive income</td>
<td>¥ (12,005)</td>
<td>¥ (24,946)</td>
<td>$ (214,073)</td>
</tr>
</tbody>
</table>
(Acquisition) Shiseido Americas Corporation, a subsidiary of the Company, signed an agreement with Alticor Inc. to acquire 100% of the membership interests in Gurwitch Products, LLC., a marketer of global prestige cosmetics and skincare brands on June 2, 2016, and acquired the membership interests on July 12, 2016.

(1) Outline of Business Combination

(1) Name of the acquired company

Name of the acquired company: Gurwitch Products, LLC.

(2) Business area: Distribution of cosmetics under Laura Mercier and RéVive brands.

(3) Major reasons for the business combination

In consistency with the Company’s medium-to-long-term strategy VISION 2020 goal to accelerate global growth and its strategy to leverage regional strengths, assets and expertise for global benefit, the acquisition was carried out because Laura Mercier, which has a strong presence in the prestige make-up market, and prestige skincare brand RéVive are highly complementary to the Shiseido Group’s portfolio of prestige make-up and skincare brands, and the combination is expected to provide the Shiseido Group with significant growth opportunities, expanded customer reach and an even stronger foothold in the fast-growing prestige make-up market.

(4) Effective date of the business combination

July 12, 2016

(5) Legal form of the business combination

Name of the acquired company after the combination: No change

(6) Ratio of acquired voting rights

100%

(7) Major reasons for the determination of the acquiring company

The determination was made because Shiseido Americas Corporation, a subsidiary of the Company, acquired the membership interests and cosmetics brands in exchange for cash.

(8) Period for which the operating results of the acquired company are included in the consolidated financial statements

From July 12, 2016 to December 31, 2016

(9) Breakdown of cost and consideration for the acquisition of the acquired company by type

Consideration for the acquisition:
Cash: ¥25,717 million ($220,689 thousand)
Cost: ¥25,717 million ($220,689 thousand)

(10) Content and amount of major acquisition-related costs

Advisory expenses and others: ¥576 million ($4,942 thousand)

(11) Amount of goodwill arising from the business combination, cause of the goodwill, and amortization method and period

Amount of goodwill arising from the business combination: ¥6,628 million ($56,878 thousand)
Cause of the goodwill: The goodwill arose due to future additional earnings power that is expected from future business development.
Amortization method and period:
By straight-line method over 10 years

(12) Amounts of assets received and liabilities assumed on the date of business combination, and their major components

Current assets: ¥8,658 million ($74,298 thousand)
Non-current assets: ¥12,396 million ($106,376 thousand)
Total assets: ¥21,055 million ($180,683 thousand)
Current liabilities: ¥1,965 million ($16,862 thousand)
Non-current liabilities: ¥1,965 million ($16,862 thousand)
Total liabilities: ¥1,965 million ($16,862 thousand)

(13) Approximate amount of impact on the consolidated statements of income for the fiscal year ended December 31, 2016 assuming that the business combination was completed on the first day of the fiscal year ended December 31, 2016, and the calculation method

Net sales: ¥9,926 million ($85,179 thousand)
Operating loss: ¥184 million ($1,578 thousand)

(14) Method of calculating the proforma information

The proforma information is the difference between the amounts of net sales and profits and loss information calculated assuming that the business combination was completed on the first day of the fiscal year ended December 31, 2016 and the impact of net sales and profits and loss information on the consolidated statement of income. In addition, amortization is calculated by assuming the goodwill and other intangible assets recognized upon the business combination were recognized on the first day of the fiscal year ended December 31, 2016.

This note is not subject to independent audit.

(25) SEGMENT INFORMATION

(1) General information about reportable segments

With respect to its reportable segments, the Company is able to obtain delineated financial data from among its structural units. Accordingly, its segments are subject to regular examination in order to assist decision-making in allocation of managerial resources and evaluation of business performance by the Board of Directors.

Shiseido’s main business is the production and sale of cosmetics. The Company engages in business activities under a matrix organization encompassing five brand categories (Prestige, Fragrance, Cosmetics, Personal Care and Professional) based on consumer purchasing style and six regions (Japan, China, Asia Pacific, the Americas, EMEA and Travel Retail). This matrix organization gives the leader in each region broad authority as well as responsibility for sales and profits. Coupled with this broad authority and responsibility, the leaders in each region exercise flexible decision-making. In specific terms, the Company’s six reportable segments comprise the “Japan Business,” “China Business,” “Asia Pacific Business,” “Americas Business,” “EMEA Business” and “Travel Retail Business.”

Moreover, and in line with this matrix, the Company has revised the manner in which it allocates assets and no longer allocates segment assets. The Japan Business is mainly comprised of the domestic business by brand category (Prestige, Fragrance, Cosmetics, Personal Care and Professional), the healthcare business (production and sale of health and beauty foods as well as over-counter drugs), the frontier science business (the production and sale of such items as cosmetics ingredients, ethical drugs, beauty and medical-use cosmetics and purification and analysis equipment) and the restaurant business, and other businesses.

The China Business covers business in China by brand category (Prestige, Fragrance, Cosmetics, Personal Care and Professional).

The Asia Pacific Business covers business in the Asia and Oceania regions excluding Japan and China by brand category (Prestige, Fragrance, Cosmetics, Personal Care and Professional).

The Americas Business covers business in the Americas region by brand category (Prestige, Fragrance and Professional). The EMEA Business covers business in Europe, the Middle East and Africa region by brand category (Prestige and Fragrance), and the Travel Retail Business covers the operation of worldwide duty-free stores excluding Japan by brand category (Prestige and Fragrance).

(Change in business segment classification)

Effective from the fiscal year ended December 31, 2016, reportable segment classifications have been changed from the “Japan Business” and “Global Business” segments to the “Japan Business,” “China Business,” “Asia Pacific Business,” “Americas Business,” “EMEA Business” and “Travel Retail Business” segments in accordance with changes in the organizational structure of the Shiseido Group. Segment information for the corresponding period of the previous fiscal year has been restated in line with changes in the method of classifying reportable segments.

(2) Basis of measurement for reported segment sales, profit or loss 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 period ended December 31, 2015 and the fiscal year ended December 31, 2016 is as follows:
### Million yen

#### 2015/12

<table>
<thead>
<tr>
<th>Net Sales</th>
<th>Japan Business</th>
<th>China Business</th>
<th>Asia Pacific Business</th>
<th>Americas Business</th>
<th>EMEA Business</th>
<th>Travel Retail Business</th>
<th>Subtotal Adjusted*2</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sales to outside customers</td>
<td>¥229,722</td>
<td>¥235,696</td>
<td>¥52,739</td>
<td>¥157,528</td>
<td>¥314,178</td>
<td>¥17,193</td>
<td>¥763,058</td>
<td>—</td>
</tr>
<tr>
<td>Intersegment sales or transfers</td>
<td>396</td>
<td>293</td>
<td>931</td>
<td>670</td>
<td>763</td>
<td>9,413</td>
<td>7,877</td>
<td>¥47,187</td>
</tr>
<tr>
<td>Total</td>
<td>¥230,118</td>
<td>¥236,032</td>
<td>¥53,670</td>
<td>¥164,088</td>
<td>¥323,635</td>
<td>¥27,063</td>
<td>¥770,931</td>
<td>—</td>
</tr>
<tr>
<td>Segment Income/Loss*1</td>
<td>¥ 43,288</td>
<td>¥ 2,064</td>
<td>¥ 52,964</td>
<td>¥ 4,175</td>
<td>¥ 2,405</td>
<td>¥ 40,523</td>
<td>¥ 6,951</td>
<td>¥ 37,605</td>
</tr>
<tr>
<td>Other Items</td>
<td>¥ 2,240</td>
<td>¥ 4,319</td>
<td>¥ 1,879</td>
<td>¥ 10,580</td>
<td>¥ 3,004</td>
<td>¥ 539</td>
<td>¥ 33,577</td>
<td>¥ 922</td>
</tr>
<tr>
<td>Depreciation and Amortization of Goodwill</td>
<td>¥ 2,240</td>
<td>¥ 4,319</td>
<td>¥ 1,879</td>
<td>¥ 10,580</td>
<td>¥ 3,004</td>
<td>¥ 539</td>
<td>¥ 33,577</td>
<td>¥ 922</td>
</tr>
<tr>
<td>Amortization of Goodwill</td>
<td>¥ 116</td>
<td>¥ 419</td>
<td>¥ 9</td>
<td>¥ 4,056</td>
<td>—</td>
<td>¥ 5,112</td>
<td>¥ 5,174</td>
<td></td>
</tr>
</tbody>
</table>

For the fiscal period ended December 31, 2015
- 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.

#### 2016/12

<table>
<thead>
<tr>
<th>Net Sales</th>
<th>Japan Business</th>
<th>China Business</th>
<th>Asia Pacific Business</th>
<th>Americas Business</th>
<th>EMEA Business</th>
<th>Travel Retail Business</th>
<th>Subtotal Adjusted*2</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sales to outside customers</td>
<td>¥407,628</td>
<td>¥120,479</td>
<td>¥49,633</td>
<td>¥162,556</td>
<td>¥85,215</td>
<td>¥24,793</td>
<td>¥850,306</td>
<td>—</td>
</tr>
<tr>
<td>Intersegment sales or transfers</td>
<td>46,404</td>
<td>215</td>
<td>2,114</td>
<td>8,876</td>
<td>4,566</td>
<td>5,172</td>
<td>5,172</td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>¥454,033</td>
<td>¥120,580</td>
<td>¥49,868</td>
<td>¥172,548</td>
<td>¥89,471</td>
<td>¥24,793</td>
<td>¥911,296</td>
<td>—</td>
</tr>
<tr>
<td>Segment Income/Loss*1</td>
<td>¥ 57,457</td>
<td>¥ 4,066</td>
<td>¥ 1,102</td>
<td>¥ 11,663</td>
<td>¥ 7,742</td>
<td>¥ 6,470</td>
<td>¥ 49,118</td>
<td>¥ 12,336</td>
</tr>
<tr>
<td>Other Items</td>
<td>¥ 141</td>
<td>¥ 385</td>
<td>¥ 62</td>
<td>¥ 4,337</td>
<td>—</td>
<td>¥ 4,916</td>
<td>¥ 4,952</td>
<td></td>
</tr>
</tbody>
</table>

For the fiscal year ended December 31, 2016
- 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.

### (Related Information)

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

<table>
<thead>
<tr>
<th>Million yen</th>
<th>2015/12</th>
<th>2016/12</th>
</tr>
</thead>
<tbody>
<tr>
<td>Americas</td>
<td>¥296,903</td>
<td>¥315,303</td>
</tr>
<tr>
<td>Europe</td>
<td>¥155,303</td>
<td>¥136,557</td>
</tr>
<tr>
<td>Asia/Oceania</td>
<td>¥131,818</td>
<td>¥111,818</td>
</tr>
</tbody>
</table>

### II. Property, Plant and Equipment

<table>
<thead>
<tr>
<th>Million yen</th>
<th>2015/12</th>
<th>2016/12</th>
</tr>
</thead>
<tbody>
<tr>
<td>Americas</td>
<td>¥199,033</td>
<td>¥233,446</td>
</tr>
<tr>
<td>Europe</td>
<td>¥132,446</td>
<td>¥134,281</td>
</tr>
<tr>
<td>Asia/Oceania</td>
<td>¥850,306</td>
<td>—</td>
</tr>
</tbody>
</table>

### Notes to the Consolidated Financial Statements

- 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.

### Related Figures

- Classification of net sales is determined by country or geographical location.

### Depreciation and Amortization

- 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.

- The “Segment Income (Loss)” adjustment relates to intersegment transaction eliminations amounting to ¥1,775 million and ¥2,539 million ($21,788 thousand), Company-wide expenses totaling ¥(10,689) million and ¥(14,877) million ($127,666 thousand) not allocated to each segment, as of December 31, 2015 and 2016, respectively.
- The “Depreciation and Amortization” adjustment refers to depreciation expenses related to company-wide assets and intersegment eliminations. Amortization of long-term prepaid expenses is included in “Depreciation and Amortization.”
- Segment income (loss) is based on operating income described in the consolidated statements of income.
- The amounts of segment assets and liabilities do not fall within the scope of periodic consideration for the purposes of determining the allocation of management assets or the evaluation of performance. As a result, details of segment assets and liabilities are not presented.
Notes to the Consolidated Financial Statements

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 December 31, 2015 and 2016, and the consolidated statements of income, statements of comprehensive income, statements of changes in net assets and statements of cash flows for the nine-month period ended December 31, 2015 and the year ended December 31, 2016, 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 December 31, 2015 and 2016, and their financial performance and cash flows for the nine-month period ended December 31, 2015 and the year ended December 31, 2016 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, 2016 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.

April 7, 2017
Tokyo, Japan

26 SUBSEQUENT EVENTS

(Change in business segment classification)

In line with changes to its internal management classification method, the Company has revised its reportable segments that comprised the “Japan Business,” “China Business,” “Asia Pacific Business,” “Americas Business,” “EMEA Business” and “Travel Retail Business” into the “Japan Business,” “China Business,” “Asia Pacific Business,” “Americas Business,” “EMEA Business,” “Travel Retail Business” and “Professional Business” from the fiscal year ending December 31, 2017.

Steps are currently being taken to calculate the amounts of net sales, segment income/(loss) and other items by reportable segment for the fiscal year ended December 31, 2016 based on this change in reportable segment classification.

(4) Information about segment loss on impairment of fixed assets

Millions of yen

<table>
<thead>
<tr>
<th>Year</th>
<th>Japan Business</th>
<th>China Business</th>
<th>Asia-Pacific Business</th>
<th>Americas Business</th>
<th>EMEA Business</th>
<th>Travel Retail Business</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>2015/12</td>
<td>¥3</td>
<td>¥62</td>
<td>—</td>
<td>¥62</td>
<td>¥24</td>
<td>—</td>
<td>¥153</td>
</tr>
<tr>
<td>2016/12</td>
<td>—</td>
<td>¥153</td>
<td>¥0</td>
<td>—</td>
<td>—</td>
<td>—</td>
<td>¥153</td>
</tr>
</tbody>
</table>

Thousands of U.S. dollars (Note 1)

<table>
<thead>
<tr>
<th>Year</th>
<th>Japan Business</th>
<th>China Business</th>
<th>Asia-Pacific Business</th>
<th>Americas Business</th>
<th>EMEA Business</th>
<th>Travel Retail Business</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>2016/12</td>
<td>—</td>
<td>¥1,312</td>
<td>¥0</td>
<td>—</td>
<td>—</td>
<td>—</td>
<td>¥1,312</td>
</tr>
</tbody>
</table>

(5) Information about segment unamortized goodwill

Millions of yen

<table>
<thead>
<tr>
<th>Year</th>
<th>Japan Business</th>
<th>China Business</th>
<th>Asia-Pacific Business</th>
<th>Americas Business</th>
<th>EMEA Business</th>
<th>Travel Retail Business</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>2015/12</td>
<td>¥886</td>
<td>¥3,362</td>
<td>¥270</td>
<td>¥2,007</td>
<td>—</td>
<td>—</td>
<td>¥50,430</td>
</tr>
<tr>
<td>2016/12</td>
<td>¥745</td>
<td>¥2,836</td>
<td>¥195</td>
<td>¥56,015</td>
<td>¥2</td>
<td>—</td>
<td>¥59,795</td>
</tr>
</tbody>
</table>

Thousands of U.S. dollars (Note 1)

<table>
<thead>
<tr>
<th>Year</th>
<th>Japan Business</th>
<th>China Business</th>
<th>Asia-Pacific Business</th>
<th>Americas Business</th>
<th>EMEA Business</th>
<th>Travel Retail Business</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>2016/12</td>
<td>¥6,393</td>
<td>¥24,337</td>
<td>¥1,673</td>
<td>¥480,691</td>
<td>¥17</td>
<td>—</td>
<td>¥513,129</td>
</tr>
</tbody>
</table>
Corporate and Investor Information

(As of December 31, 2016)

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
36,549 [9,427]

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

Shareholders’ Meeting
The Ordinary General Meeting of Shareholders is held in late March.

Stock Listings
Common Stock: Tokyo Stock Exchange (Code: 4911)
American Depository Receipts: U.S. Over-the-Counter

American Depositary Receipts
CUSIP: 824841407
Ratio (ADR:ORD): 1:1
Exchange: Over-the-Counter
Symbol: SSOY
Depositary: 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

For further information, please contact:
Investor Relations Department
Shiseido Company, Limited
6-2, Higashi-shimbashi 1-chome, Minato-ku, Tokyo 105-8310, Japan
Tel: +81-3-3572-5111
http://www.shiseidogroup.com/inquiry/mail/

Summary of Information by Topic

<table>
<thead>
<tr>
<th>Topic</th>
<th>Relevant Section of Annual Report</th>
<th>Shiseido Group Corporate Website</th>
</tr>
</thead>
<tbody>
<tr>
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