ANNUAL REPORT 2016

Shiseido Company, Limited

[For the period ended December 31, 2016]

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.

Editorial Policy/Contents

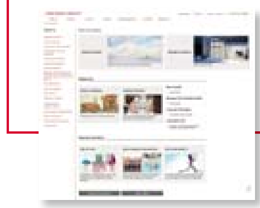
This annual report seeks to achieve fruitful dialogue with shareholders and investors by presenting in a condensed format our initiatives toward achieving increased corporate value in the medium-to-long term.

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.

Various information not included in this annual report is available on our corporate website.
Shiseido Group corporate website ▸ http://www.shiseidogroup.com

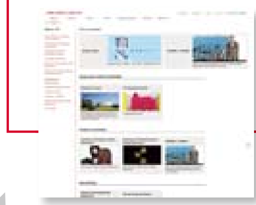
Annual Report

About Us
Corporate Information, Business Overview, Corporate Profile, History of Shiseido, Major Offices, and other information



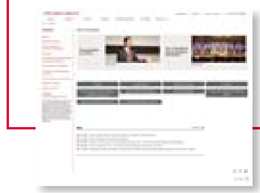
http://www.shiseidogroup.com/company/

Beauty/Art
Corporate Cultural Activities, Art Supporting Activity, Activities of the Beauty Creation Department, and other information



http://www.shiseidogroup.com/beauty-art/

Investors
IR News, Financial Highlights/Historical Financial Data, General Meeting of Shareholders/Corporate Governance, and other information

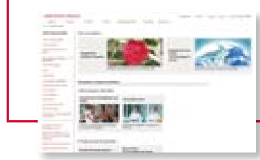


http://www.shiseidogroup.com/ir/

Brands
Information on our brands by category, such as prestige and cosmetics

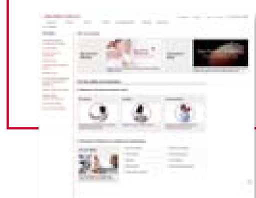
http://www.shiseidogroup.com/brands/

Sustainability
Sustainability strategy with regard to Core Subjects of ISO26000 (including Human Rights, Labor Practices, and Environment), Activity Results Data, GRI Guidelines Index, and other information



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

Innovation
Our Vision on Technology, History of Cosmetic Technologies, systems, history of awards received, Seminar/Event, and other information



http://www.shiseidogroup.com/rd/

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.

Reporting Period
Annual Report 2016 primarily covers results for the year ended December 2016 (January 1, 2016 to December 31, 2016). It also includes certain information from before and shortly after this period.

Scope of Coverage
In principle, Annual Report 2016 covers Shiseido Company, Limited (the Company) and its 90 consolidated subsidiaries (collectively, the Shiseido Group) as of December 31, 2016, except as otherwise noted.

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

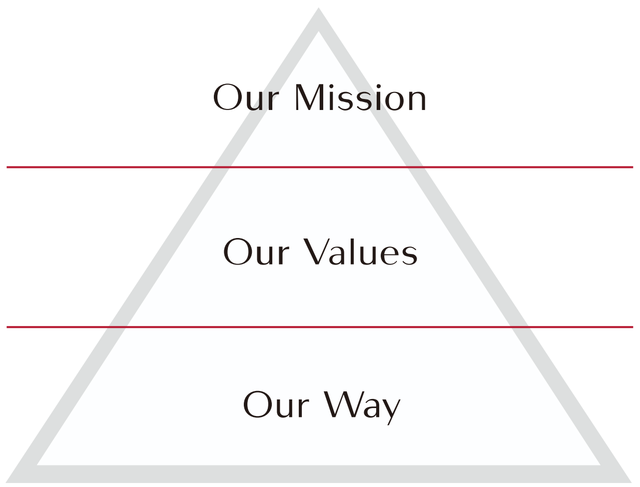
Month of Publication
May 2017

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.

MVW

Our Mission, Values and Way



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.

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.

Japanese Aesthetics

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.

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.

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.

Human Centric

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.

Facts & Figures

Net Sales

¥850.3 billion

(+5.2% year on year[1] on a local currency basis
-1.5% year on year[1] on a yen basis)

Led by the prestige category and supported by the acquisition and licensing of new brands, net sales grew year on year on a local currency basis in each region we serve except EMEA.* However, net sales decreased when translated into yen due to the pronounced foreign exchange effect of yen appreciation.

* Europe, Middle East and Africa

Operating Income

¥36.8 billion

(-17.0% year on year[1])

Operating income benefited from higher marginal income due to growth in net sales and the effect of cost structure reforms, but decreased year on year due to one-time expenses associated with new brand acquisitions and licensing agreements, and structural reform expenses, as well as to the larger-than-expected effect of yen appreciation.

Position in Japan and Asia

No. 1

Among Japanese/Asian cosmetics manufacturers for annual sales in the beauty category[2]

WWD *Beauty Inc.* annual ranking (April 2017)

Countries and Regions Served

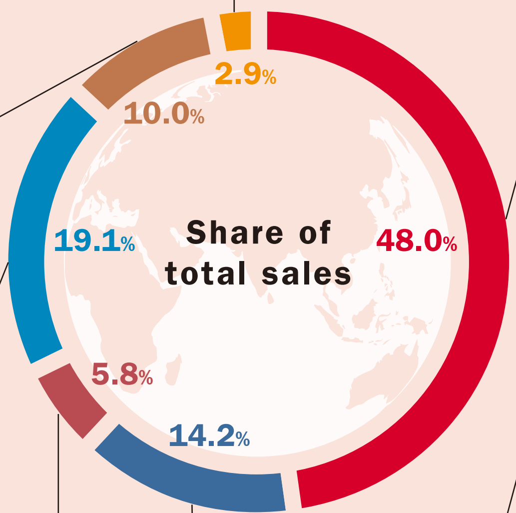
Approx. 120

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[3]
(Local currency basis)

Americas
Net sales **¥162.6** billion
+8.0 % YoY[4]
(Local currency basis)



Japan
Net sales **¥407.6** billion
+2.9 % YoY

China
Net sales **¥120.5** billion
+11.4 % YoY
(Local currency basis)

Asia Pacific
Net sales **¥49.6** billion
+7.0 % 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 food 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*.

Operating Profitability

4.3%

(-0.8 percentage points year on year[1])

Operating profitability decreased 0.8 percentage points year on year reflecting the decline in operating income.

ROE

8.2%

(6.0%[5] for period ended December 2015)

Our target for ROE in VISION 2020 is 12 percent or higher. ROE was 8.2 percent for the year ended December 2016 in tandem with an increase in EPS.

Employees[6,7]/Nationalities Employed[6]

45,000/66

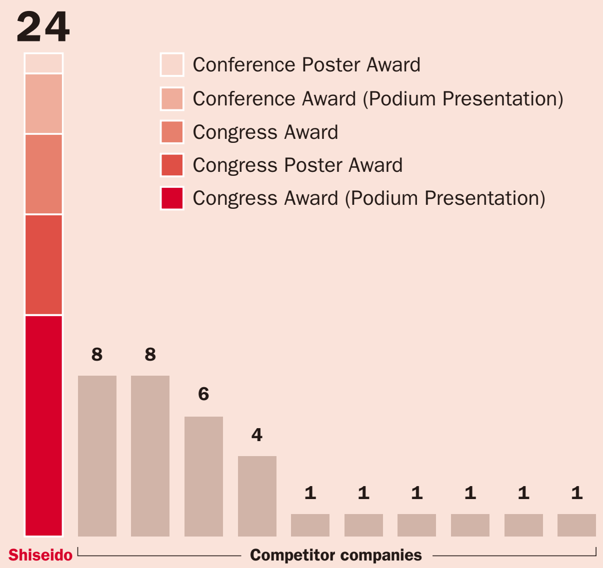
Ranking as a Company Empowering Women in Japan

No. 1

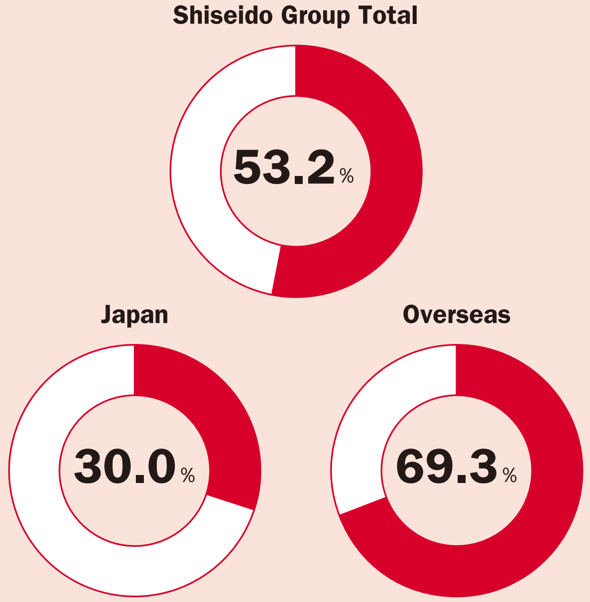
for three consecutive years

(Nikkei BP, *Nikkei Woman*)

Awards Received at IFSCC[8] Congress and Conferences (As of November 2016)



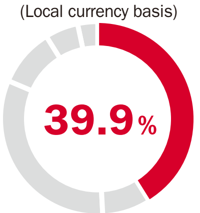
Percentage of Female Leaders[9]



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

Brands at a Glance

Share of total sales (Local currency basis)



+15% Year on year[1]

Prestige

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

SHISEIDO
J C AP A E T

clé de peau BEAUTÉ
J C AP A E T

bareMinerals
J C[2] AP A E T

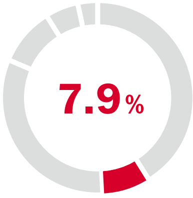
NARS
J C[2] AP A E T

IPSA
J C AP

Laura Mercier
J C[2] AP A E

BENEFIQUE
J

Share of total sales (Local currency basis)



-15% Year on year[1]

Fragrance

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

Dolce&Gabbana
J C[2] AP A E T

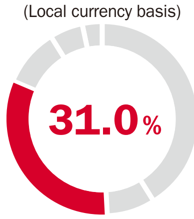
ISSEY MIYAKE
J C[2] AP A E T

narciso rodriguez
J C[2] AP A E T

Main Regions of Availability (As of March 31, 2017) Japan: J China: C Asia Pacific: AP Americas: A EMEA: E Travel Retail: T

1. Local currency basis
2. Hong Kong only

Share of total sales (Local currency basis)



+1% Year on year[1]

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
J C AP

MAQuillAGE
J C AP

HAKU
J C

PRIOR
J

ANESSA
J C AP T

AQUALABEL
J

INTEGRATE
J

d program
J

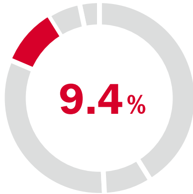
AUPRES
C

urara
C

PURE&MILD
C

Za
C AP

Share of total sales (Local currency basis)



+2% Year on year[1]

Personal care

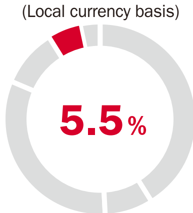
Low-priced skincare products, shampoo and other haircare products, as well as body care products, primarily sold in drugstores and general merchandise stores

SENKA
J C AP

TSUBAKI
J C AP

SEA BREEZE
J

Share of total sales (Local currency basis)



+2% Year on year[1]

Professional

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

SHISEIDO PROFESSIONAL
J C AP

JOICO
C AP A E

Note: In addition to our core business categories of prestige, fragrance, cosmetics, personal care and professional, "Other" makes up 6.3% of sales. "Other" includes THE GINZA, Frontier Science Business, and Shiseido Parlour.

The CEO on Shiseido's Management Strategy

We intend to step up reforms going forward.

Masahiko Uotani
Shiseido Group CEO

Medium-to-Long-Term Strategy VISION 2020

Be a Global Winner with Our Heritage

2015-2017	2018-2020
Rebuild the Business Foundation	**New Strategy to Accelerate Growth**

Numerical Targets (2020 December)

Net sales
over ¥1 trillion

Operating income
over ¥100 billion

ROE
12% or higher

VISION 2020: Shiseido's Consumer-Oriented Transformation

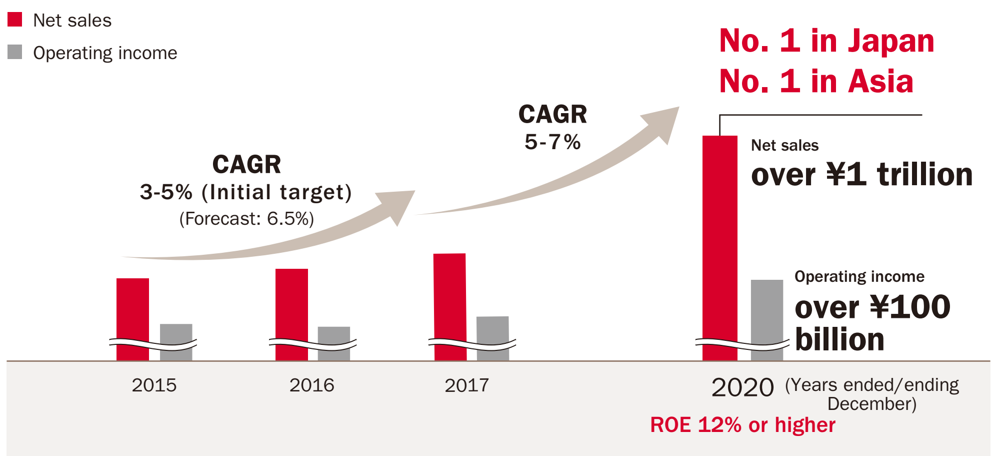
When I became President and CEO three years ago, I declared that I would restore Shiseido's vitality, and since, have implemented various reforms. Behind these reforms were a serious sense of crisis and a desire for a change shared by all Shiseido employees. Before I assumed office in 2014, Shiseido 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.

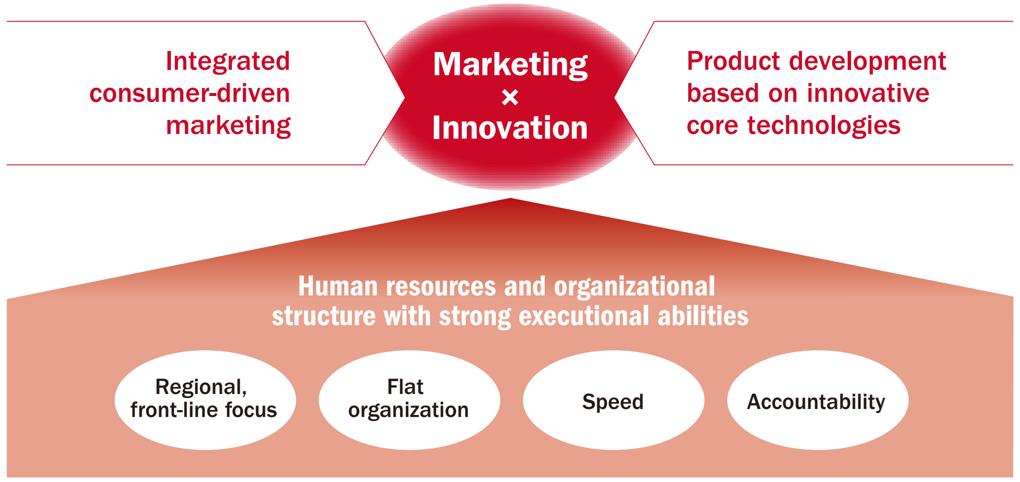
Under VISION 2020, we aim to become a global winner with our heritage. Our targets for 2020 are net sales of over ¥1 trillion, operating income of over ¥100 billion, and ROE of 12 percent or higher.

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.

Numerical Targets of VISION 2020



Increasing Brand Value



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.

▶ See "Engagement Agenda 3: Financial Strategy for Increasing Corporate Value over the Medium-to-Long Term" on pages 46-50 for details.

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.

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.

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.

Ongoing Progress of VISION 2020

Rebuild the Business Foundation — 2014/2015, 2016

New Strategy to Accelerate Growth — 2017, 2018, 2019, 2020

Address and Resolve Legacy Issues

- **Optimize store inventories in China and elsewhere in Asia**
- **Withdraw from unprofitable businesses**
  Greece, Turkey, and the *Za* business in India
- **Integrate organization and raise efficiency**
  Integration of back office functions and IT systems in EMEA and the Americas
- **Promote structural reforms in EMEA and the Americas**
  EMEA: Integration of cosmetics and fragrance organizations
  Americas: Structural reforms at Bare Escentuals Inc.

Create a Virtuous Cycle

- **Implement strategies for brand selection, concentration and enhancement**
  Renew key brands
- **Start the matrix organization and Centers of Excellence**
- **Acquire and license new brands**
  Laura Mercier and *Dolce&Gabbana*
- **Increase investment in marketing and innovation**
- **Cost structure reforms**

Strengthening Our Brand Portfolio on a Global Scale

Laura Mercier

Dolce&Gabbana

In addition to our organic growth efforts, we added 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.

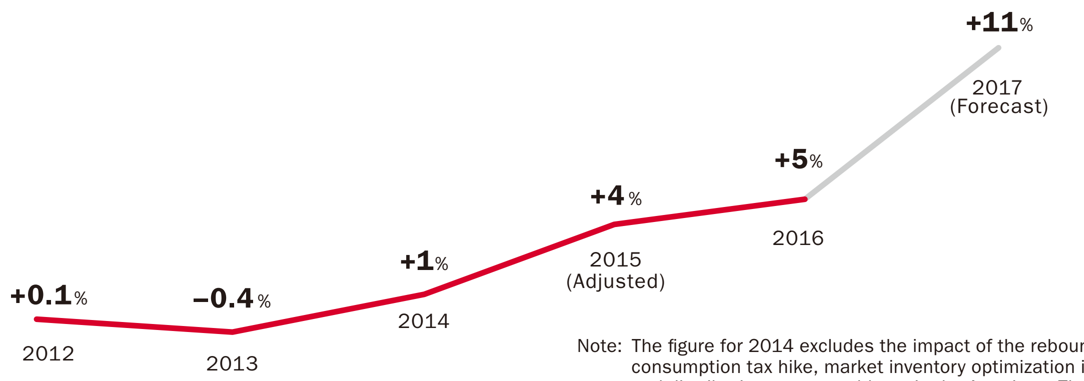
As a successful result of these consumer-oriented reforms and numerous initiatives, we achieved net sales of ¥850.3 billion for the year ended December 2016. This represents 5 percent growth for the year on a local currency basis and follows 4 percent growth for the year ended December 2015. Two consecutive 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.

▶ See "Overview: Facts & Figures" on pages 10-11 for details.

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* and *clé 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 for Shiseido. We will also invest in digital marketing and other domains that are growing rapidly around the world. We plan to raise the ratio of e-commerce to over 20 percent of prestige sales by the end of 2020.

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.

▶ See "Engagement Agenda 3: Financial Strategy for Increasing Corporate Value over the Medium-to-Long Term" on pages 46-50 for details.

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

Forecast and Initiatives for the Year Ending December 2017

Forecast for the Year Ending December 2017
(Announced February 9, 2017)

(Billions of yen)	2017/12 (Plan)	2016/12	Year-on-Year Change (Yen basis)	(Local currency basis)
Net sales	940.0	850.3	+10.5%	+11.0%
Operating income	45.5	36.8	+23.7%	–
Extraordinary income/loss (Net)	-2.5	12.7*	–	–
Net income attributable to owners of parent	26.0	32.1	-19.0%	–
ROE	6.5%	8.2%	–	–

Exchange Rates for Major Currencies

Year ending December 2017 (Estimate)	Year ended December 2016
USD 1 = JPY 110	USD 1 = JPY 108.9
EUR 1 = JPY 118	EUR 1 = JPY 120.4
CNY 1 = JPY 16	CNY 1 = JPY 16.4

* Other income for the year ended December 2016 included ¥9.0 billion loss on sale of the Kamakura Factory site, and ¥9.0 billion gain on transfer of intellectual property rights for the fragrance brand *Jean Paul GAULTIER*.

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

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 the introduction of new value and products. One example is our proactive investment in establishing a leading position in personalized cosmetics, a new field that we believe will gain great momentum. MATCHCo. is a U.S. start-up that we acquired in January 2017. The company is a pioneer in the personalization field.

In the same vein, we will also introduce innovative technologies and ideas from outside Shiseido through alliances. In December 2016, we established the venture capital organization Shiseido Venture Partners. Thus, we are energetically incorporating emerging value and groundbreaking technologies.

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 around the world.

▶ See "Engagement Agenda 2: Looking toward 2020 and Beyond" on pages 36-45 for details.

* A single research facility for cosmetics and beauty care with one of the largest groups of people in the world energetically pursuing high-level open innovation.

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.

▶ See "Management Section, Corporate Governance" on pages 57-62 for details.

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.

▶ See "Engagement Agenda 2: Looking toward 2020," page 45, for details.

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.

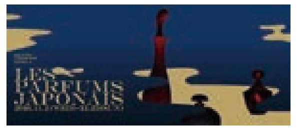
We invite you to share our enthusiasm for the future.

Shiseido's ESCG

Environment

Society

Culture



Governance

Four of seven directors and three of five Audit & Supervisory Board members are external (independent)

Engagement Agenda 1

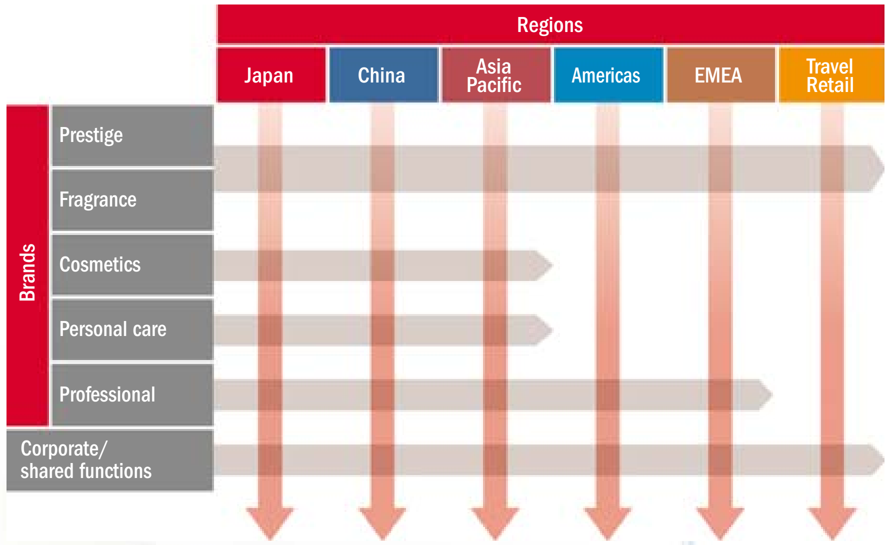
Region × Brand

Six Regional Headquarters and Our Global Management Structure

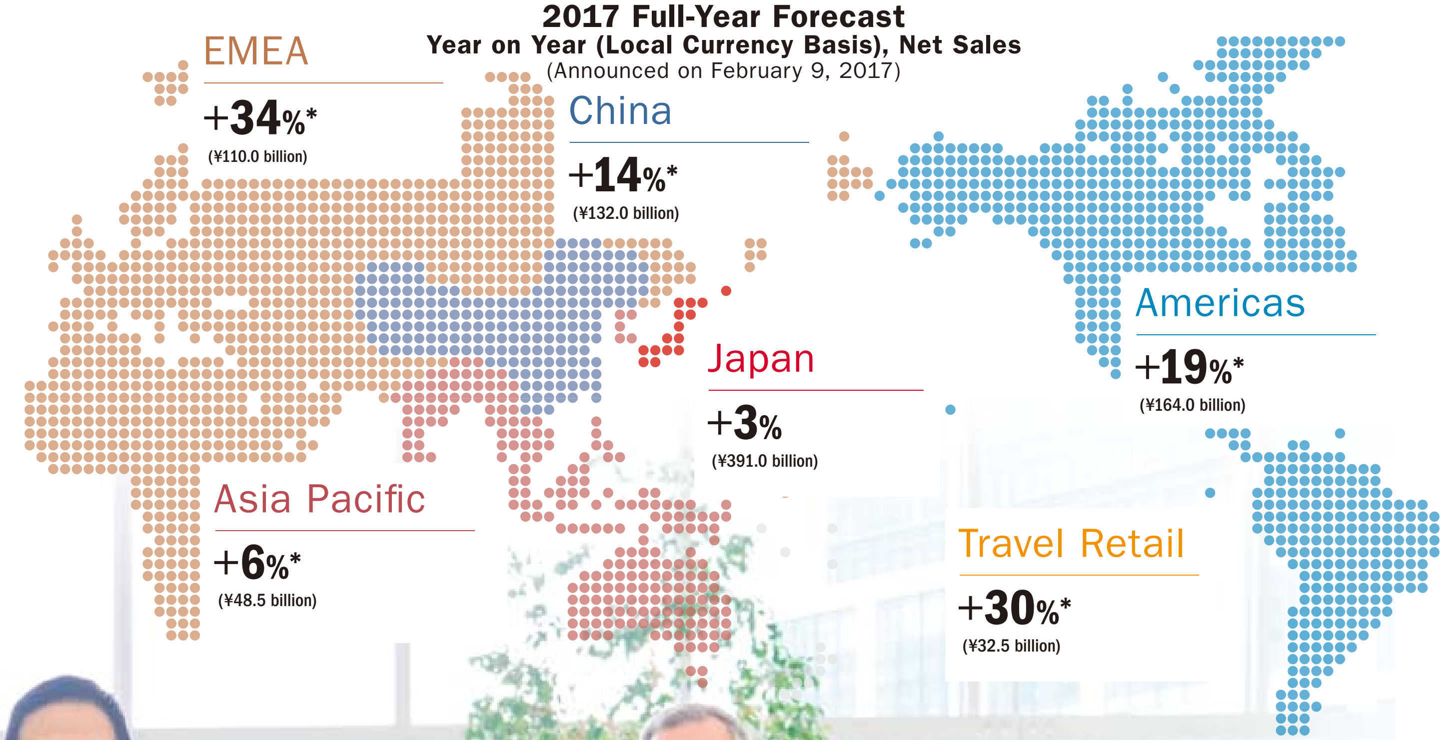
Think Global, Act Local

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.

Region × Brand Matrix Organization



2017 Full-Year Forecast
Year on Year (Local Currency Basis), Net Sales
(Announced on February 9, 2017)



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 Lesné**, President, Shiseido Travel Retail
6. **Marc Rey**, President & CEO, Shiseido Americas
7. **Louis Desazars**, President & CEO, Shiseido Group EMEA

Note: From the year ending December 2017, in line with organizational reform, reporting segments have been reviewed and recategorized as Japan, China, Asia Pacific, Americas, EMEA, Travel Retail, Professional and Other.

Japan

Rigorous Selection and Concentration to Sustain Growth

Shigekazu Sugiyama
President, Shiseido Japan

SHISEIDO

clé de peau BEAUTÉ

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 for *clé 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 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 suncare, 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.

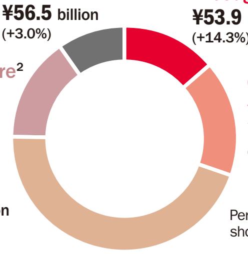
We want to be the most appealing beauty company in Japan. We will select and concentrate in the categories in which we can steadily increase sales and profits. For the fiscal year ending December 31, 2017 we forecast a 3 percent year on year increase in sales to ¥391.0 billion.

ANESSA

Net Sales and Operating Income

(Billions of yen)	2016/12	2015/12 (Adjusted)	Year-on-year change
Net sales	407.6	396.0	+2.9%
Operating income	57.4	55.0	+4.4%
Operating profitability	12.6%	12.6%	+0.0pt

2016/12 Sales by Business



Notes: 1. The former Prestige business has been divided into "Prestige" and "Cosmetics Specialty Stores" in line with the management structure of Japan.
2. Three brands, *AG+* (renamed *AgDEO24* after the renewal), *uno* and *MA CHÉRIE*, were transferred from "Cosmetics" to "Personal Care" in the first quarter of the year ended December 2016. Results for the previous fiscal year have been adjusted based on the post-transfer classification.
3. "Others" include THE GINZA, SHISEIDO Professional, Frontier Science Business, and Shiseido Parlour and other businesses.
4. Including cosmetics specialty stores

2016/12 Sales Growth Momentum

Prestige[4]	↗
Cosmetics	↗
Personal Care	↘

Against the market growth rate:
↗ Outperformed
↘ Underperformed

Store Sales of Major Brands in Japan Business: 2016/12 versus Previous Year

Prestige[1]					
clé de peau BEAUTÉ	↗	*SHISEIDO*	↗	*BENEFIQUE*	→
IPSA	↗	*NARS*	↗		
Cosmetics					
ELIXIR	↗	*MAQuillAGE*	↗	*ANESSA*	↗
AQUALABEL	↘	*INTEGRATE*	↗	*HAKU*	↘
Personal Care[2]					
TSUBAKI	↘	*SENKA*	↘	*SEA BREEZE*	↗

↗ Better result than the previous year ↘ Poorer result than the previous year
→ Equivalent to the previous year

Notes: 1. Including sales at cosmetics specialty stores 2. Shipments from wholesalers to retailers

China

Building Strong Growth Momentum by Overcoming Challenges

Kentaro Fujiwara
President,
Shiseido China

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

- **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.

AUPRES sales counter

clé de peau BEAUTÉ sales counter

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.

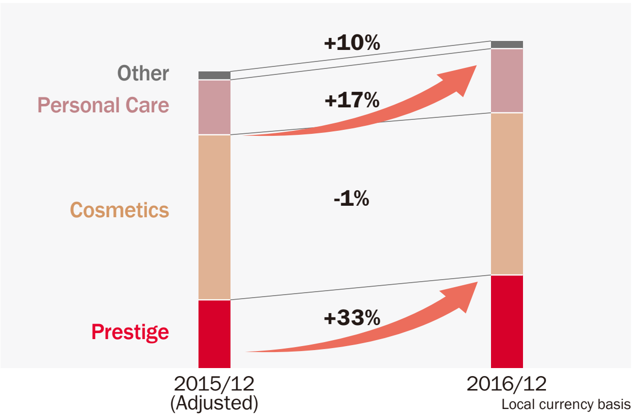
As a result of these initiatives, for the year ending December 2017, we forecast a 14 percent year-on-year increase in sales on a local currency basis to ¥132.0 billion. We are also targeting improved profitability by coordinating and strengthening the functions of Chinese subsidiaries to increase productivity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

ELIXIR advertising featuring a model popular in China

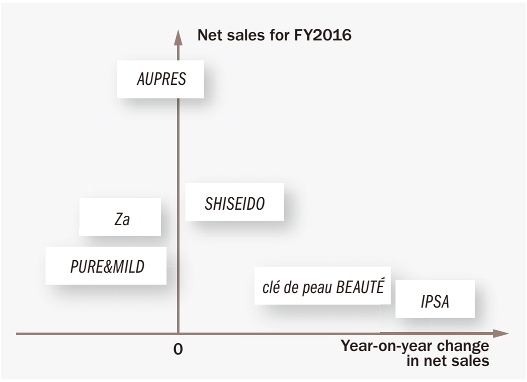
Net Sales and Operating Income

(Billions of yen)	2016/12	2015/12 (Adjusted)	Year-on-year change
Net sales	120.5	125.7	-4.2% (Local currency basis +11.4%)
Operating income	4.2	-0.5	–
Operating profitability	3.5%	-0.4%	+3.9pt

Sales by Business Versus Previous Year



Store Sales by Brand



Americas

Accelerating Sales Growth through Structural Reform and New Brand Additions to Build a Foundation for Future Earnings

Marc Rey
President & CEO, Shiseido Americas

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.

bareMinerals

Net Sales and Operating Income

(Billions of yen)	2016/12	2015/12 (Adjusted)	Year-on-year change
Net sales	162.6	167.5	-3.0% (Local currency basis +8.0%)
Operating income	-11.8	-5.6	–
Operating profitability	-6.8%	-3.1%	-3.7pt

* Year-on-year percentage change is +0% (local currency basis) excluding the effect of the acquisition of *Laura Mercier*.

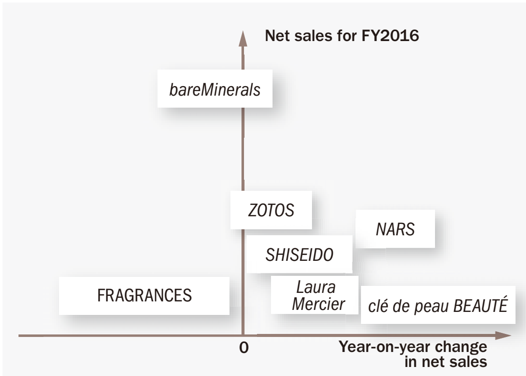
2016/12 Sales Growth Momentum

Prestige ↗

Fragrance ↘

Against the market growth rate:
↗ Outperformed
↘ Underperformed

Store Sales by Brand



Local currency basis

NARS sales counter

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.

Laura Mercier

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

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*.

ISSEY MIYAKE

Net Sales and Operating Income

(Billions of yen)	2016/12	2015/12 (Adjusted)	Year-on-year change
Net sales	85.2	104.2	-18.2% (Local currency basis -8.1%)
Operating income	-7.2	4.6	–
Operating profitability	-8.1%	4.2%	-12.3pt

* Year-on-year percentage change is +9% (local currency basis) excluding the effect of the termination of the *Jean Paul GAULTIER* license and the acquisition of the *Dolce&Gabbana* license.

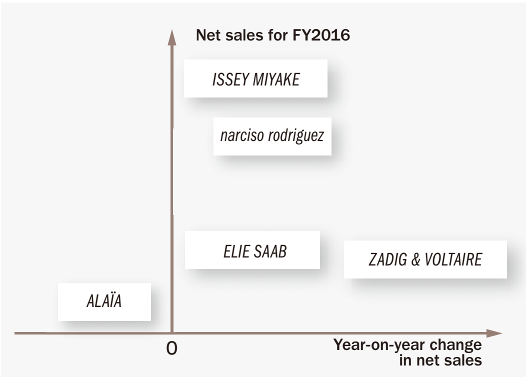
2016/12 Sales Growth Momentum

Prestige	↗
Fragrance*	↗

Against the market growth rate:
↗ Outperformed
↘ Underperformed

* Excluding impact of *Jean Paul GAULTIER* and *Dolce&Gabbana*

Store Sales by Fragrance Brand



Local currency basis

narciso rodriguez

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**

Overview of the *Dolce&Gabbana* License Agreement

Licensor	Dolce&Gabbana S.r.l.
Licensee	Beauté Prestige International S.A. (at time of agreement)
License details	Covers the development, production and sale of *Dolce&Gabbana* brand fragrances and cosmetics
Start	October 1, 2016

Overview of the *Dolce&Gabbana* Brand Cosmetics Business

Sales (year ended December 2015)	Approximately EUR 400 million
Main sales channels	Department stores, perfumeries, cosmetics specialty stores, duty-free shops and directly owned stores

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*.

Asia Pacific

Building Potent Brands with Localized Marketing

Jean-Philippe Charrier
President, Shiseido Asia Pacific

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 headquarters 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 *SENKA*, 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 a local currency basis to ¥48.5 billion in the year ending December 2017.

SHISEIDO counter

Net Sales and Operating Income

(Billions of yen)	2016/12	2015/12 (Adjusted)	Year-on-year change
Net sales	49.6	52.7	-5.9% (Local currency basis +7.0%)
Operating income	1.1	0.4	+171.8%
Operating profitability	2.2%	0.8%	+1.4pt

2016/12 Sales Growth Momentum

Prestige	↗
Cosmetics	↘
Personal Care	↗

Against the market growth rate:
↗ Outperformed
↘ Underperformed

SENKA

Travel Retail

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

Philippe Lesné
President, Shiseido Travel Retail

Achievements and Initiatives/Strategies for the Future

- **Increase the number of counters at airports worldwide**
- **Tailor marketing to the needs of travelers**
- **Develop dedicated travel retail products**

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 increasing the number of counters that sell brands including *SHISEIDO* and *clé de peau BEAUTÉ* and by enhancing our service at existing points of sale. We also strengthened advertising at airports and proactively launched dedicated Travel Retail products. Other initiatives that supported our performance included conducting digitally adept consumer-oriented marketing and developing relationships with major retailers. Moreover, we see much room for growth given that sales in Shiseido's Travel Retail Business account for a smaller total and proportion of net sales than they do at global competitors.

Shiseido will continue to invest aggressively in the Travel Retail Business, which is one of its priority businesses. We forecast that sales for the year ending December 2017 will increase 30 percent year on year on a local currency basis to ¥32.5 billion, driven by strengthened borderless marketing that includes Japan and Asia and sales counter expansion and enhancement, among other initiatives.

The goal of the Travel Retail Business is to make the world beautiful. We will strengthen our organization in the spirit of "One Shiseido" to drive Group growth.

Net Sales and Operating Income

(Billions of yen)	2016/12	2015/12 (Adjusted)	Year-on-year change
Net sales	24.8	17.2	+44.2% (Local currency basis +60.4%)
Operating income	5.5	2.4	+126.8%
Operating profitability	22.1%	14.0%	+8.1pt

Engagement Agenda 2

Looking toward 2020 and Beyond

A Message from the Executive Vice President

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

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.

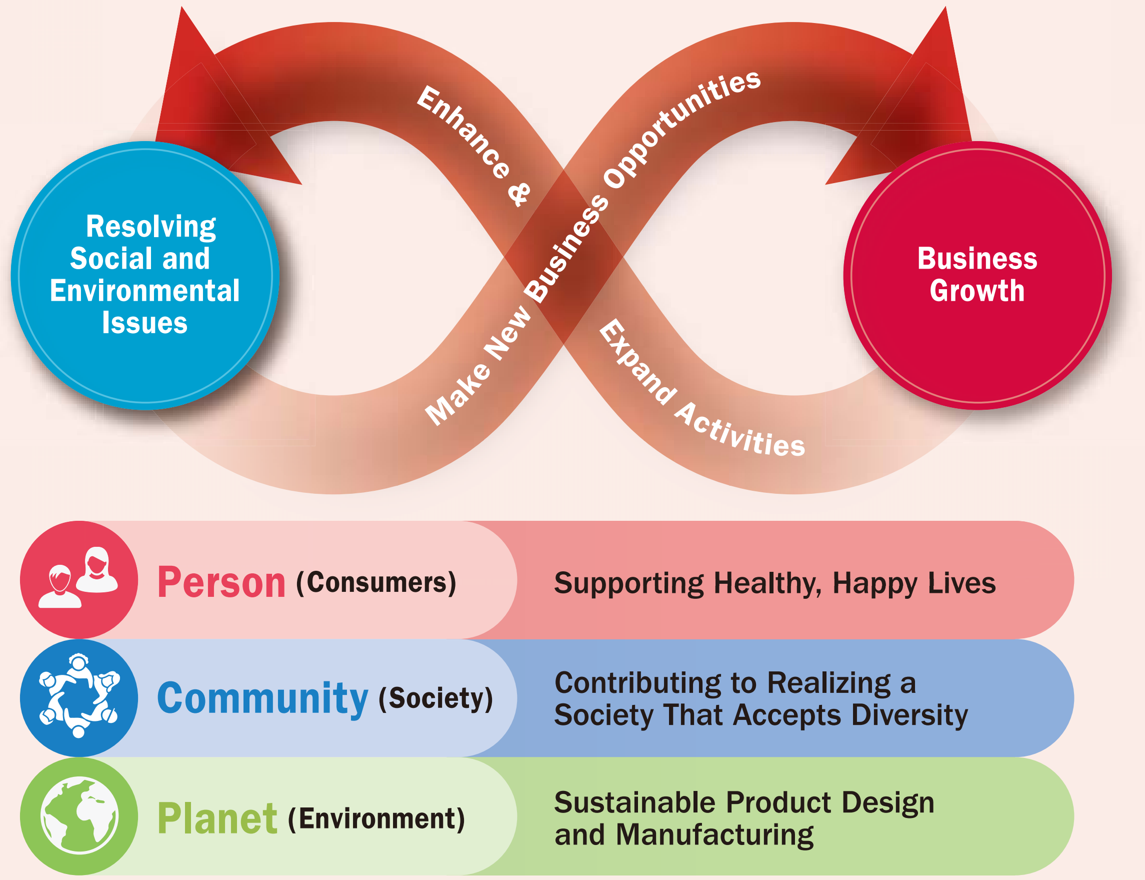
We have undertaken the task of formulating and implementing a sustainability strategy to create new business models that positively influence the world while carefully observing changes and risks relevant to consumers' daily lives, the communities we serve, and the environment in order to proactively 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 h-CLAT 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.

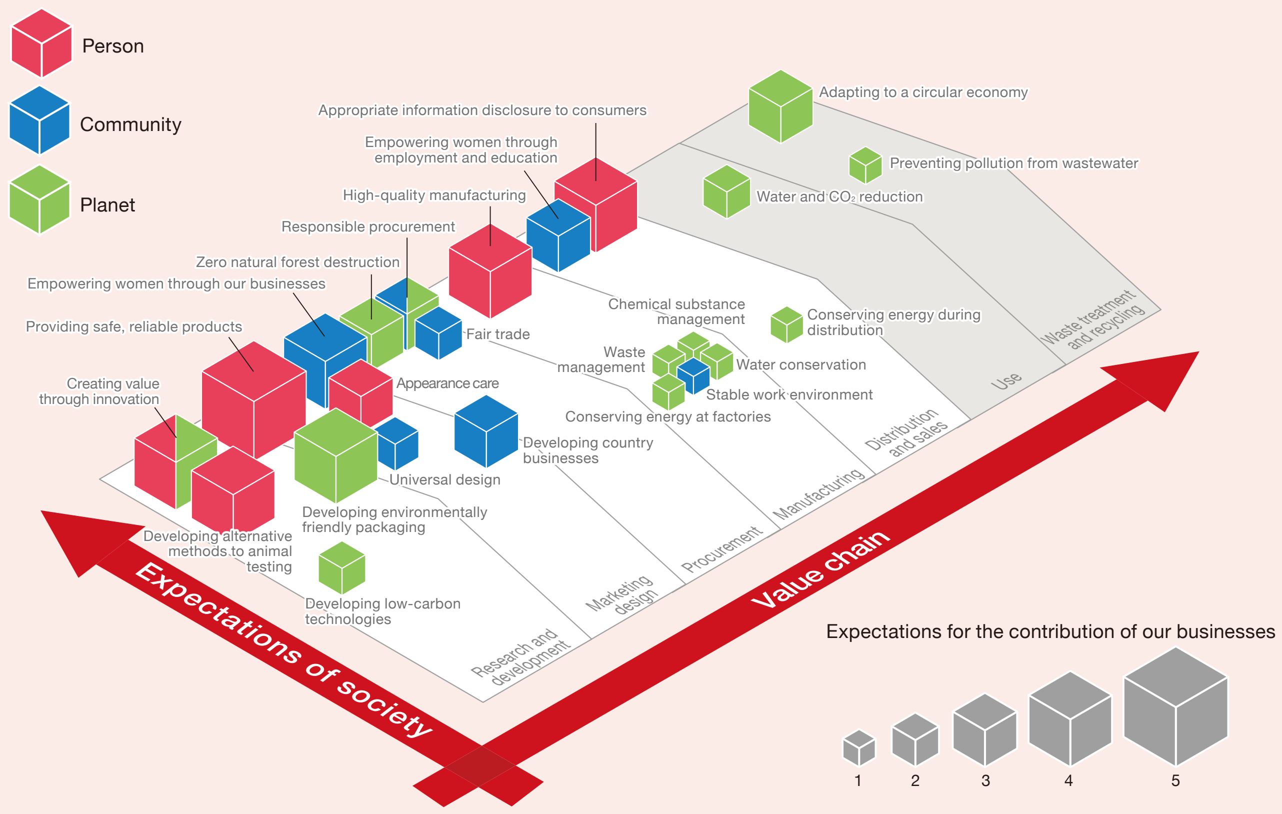
Our ability to accomplish these initiatives depends on how intently we focus on making consumers happy by drawing on Shiseido's corporate mission to "inspire a life of beauty and culture" – in other words, by providing and sharing beauty. To remain vital for the next 100 years and beyond, we will constantly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

Sustainability Strategy

Sustainability Strategy Overview



Priority Issues for Sustainability



We will develop people, respect human rights and transparently disclose information as important initiatives that support the Shiseido Group's value chain.

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 (SGDs) 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.

Aspirations in Three Areas

Examples of Main Initiatives | Other Activities

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 will 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.

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.

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/bskincare/

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.

Promoting Education on Gender Equality in Collaboration with UN Women

In support of
HeForShe
UN Women Solidarity Movement for Gender Equality

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.

Other Activities

Empowerment of Rural Bangladesh Women
http://www.shiseidogroup.com/sustainability/bop_empower/

Support for Empowerment of Women in Society
http://www.shiseidogroup.com/sustainability/support/

Initiatives to Realize a Rewarding Workplace

Reviewing how employees work, eliminating long working hours, and increasing ways of working
http://www.shiseidogroup.com/sustainability/labor/working.html

Diversity & Inclusion within the Company
http://www.shiseidogroup.com/sustainability/labor/diversity.html

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.

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

Other Activities

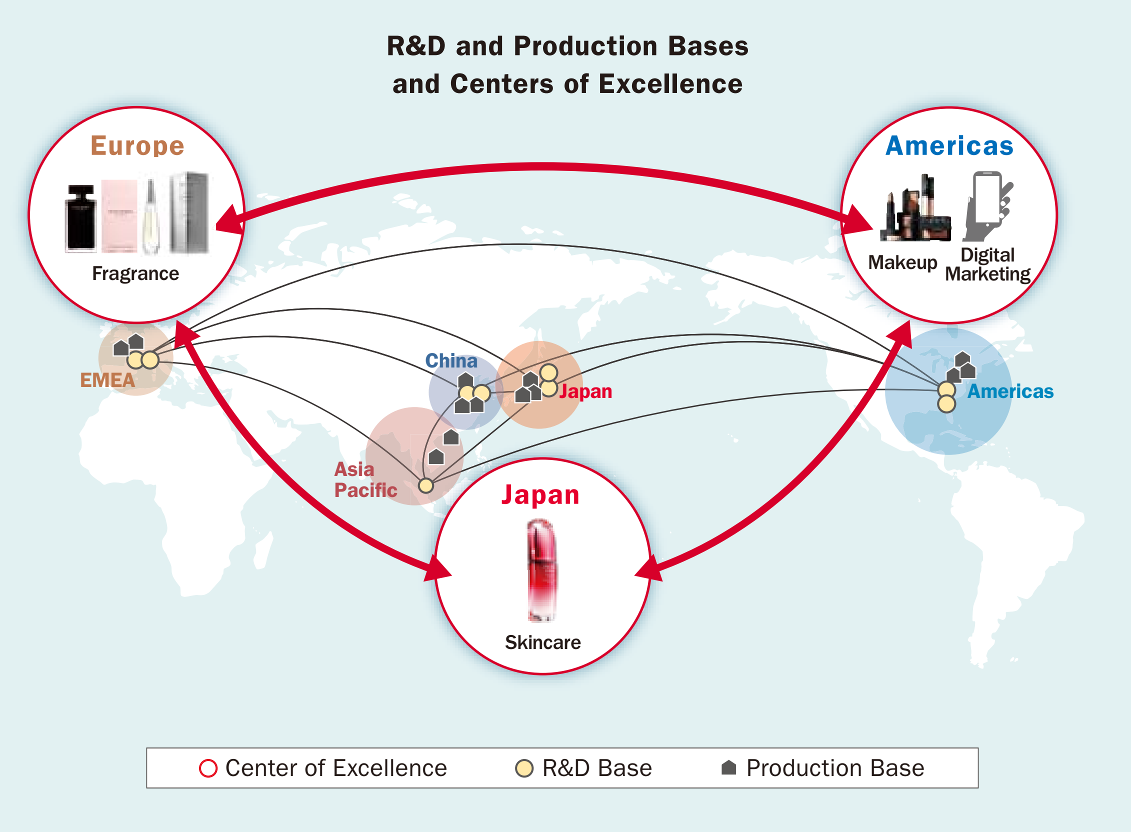
Initiatives for the issue of palm oil
http://www.shiseidogroup.com/sustainability/env/diversity.html#new121106

Camellia Planting and Conservation Activities on the Goto Islands in Nagasaki Prefecture, Where a Raw Material for *TSUBAKI* is Produced
http://www.shiseidogroup.com/sustainability/env/diversity.html#new141128

Reduction of water usage by developing rinse-aid facial wash *SENKA Speedy Perfect Whip Airly Touch*
http://www.shiseidogroup.com/sustainability/env/goods/index.html#no099

Generating Innovation

A Global System for Generating Innovation



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

Urban Open Lab: A Hub for Innovation

Image of the Global Innovation Center scheduled to open at the end of 2018

Global Innovation Center

The open communication area on the first and second floors is produced by Kundo Koyama (Orange and Partners Co., Ltd.) and designed by Oki Sato (nendo Inc.).

Location	2-52 Takashima 1-chome, Nishi-ku, and ten additional parcels of land in 56-2, Minato Mirai 21 area, Yokohama
Facility overview	7,023m²
Site area	16 floors above ground and 1 floor below ground (steel-framed reinforced concrete construction, total floor area of 58,231m², building height of 76.91m)
Total cost	¥30–40 billion (estimate)

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 analogous 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.

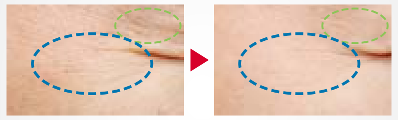
Specific Initiatives to Generate Innovation

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.

Wrinkle Improvement with New Retinol Product*

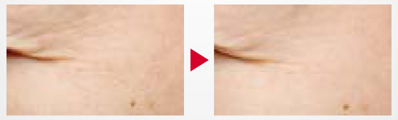
New product containing retinol

Before use (4.75) After 9 weeks (4.0)



Product without retinol

Before use (4.75) After 9 weeks (4.5)



Representative example of wrinkle improvement with product containing active ingredient retinol. (53-year-old subject)

* Numbers in parentheses are wrinkle grade judgments

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.

News Release
▶ http://www.shiseidogroup.com/news/detail.html?n=00000000002140

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.

News Release
▶ http://www.shiseidogroup.com/news/detail.html?n=00000000002114

Production

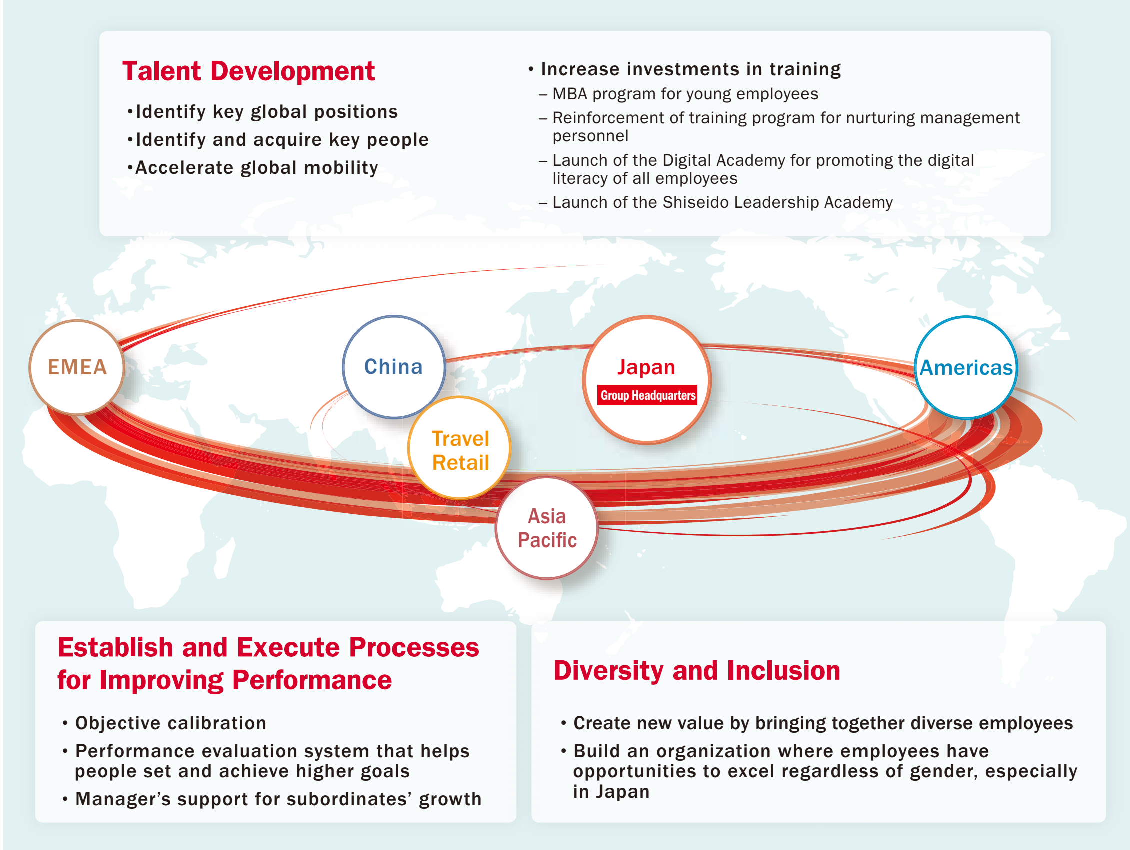
Manufacturing Reforms Using Robots

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.

News Release
▶ http://www.shiseidogroup.com/news/detail.html?n=00000000002150

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.



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.

BIG WIN 5	Organization and HR Principles
All for consumers	Shiseido will enhance our organizational capability especially in key professional skills and competencies, to lead creation of consumer values by converging both internal and external knowledge and skills.
Speak up, take action	Shiseido will encourage proactive individual growth and development by exploiting one's full potential.
Deliver your commitment	Shiseido will establish ambitious growth targets across all teams and will deliver its commitment.
Inspire mutual growth	Shiseido will inspire innovation through fusion and assimilation of diversity in cultures and values as a true global organization.
Lead with integrity	Shiseido will empower leaders who take actions and lead by example, and who encourage challenges of teams, by supporting them closely in order to respond to the change of the business environment.

Engagement Agenda 3

Financial Strategy for Increasing Corporate Value over the Medium-to-Long Term

The CFO on Shiseido's Financial Strategy

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 ¥1 trillion, operating income of over ¥100 billion, and ROE of 12 percent or higher, and medium-to-long-term growth in corporate value.

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.

Theme 2 Increasing Productivity

Autonomous Management by Regional Headquarters for Sales Growth and Improved Profitability

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.

We will also enhance cash management to support aggressive investment and share timely information about operating conditions worldwide to flexibly reallocate investment to successful categories. This will enable us to maximize returns by adapting quickly to market change.

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

Theme 3 Financial Strategy

Increasing Capital Efficiency Premised on an Optimum Capital Structure

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.

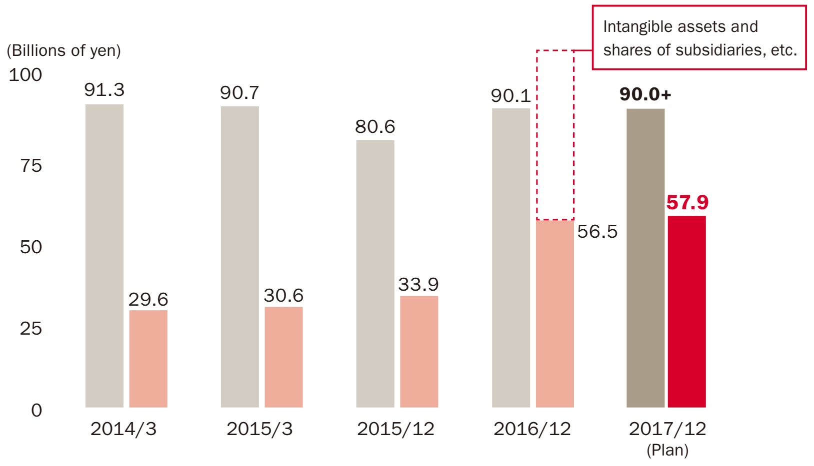
Norio Tadakawa
Corporate Officer
Chief Financial Officer

Main Themes in Detail

Theme 1 Increased Investment – Aggressive Management That Achieves Sustainable Growth

Cash Generation and Aggressive Investment

EBITDA and Capital Investment



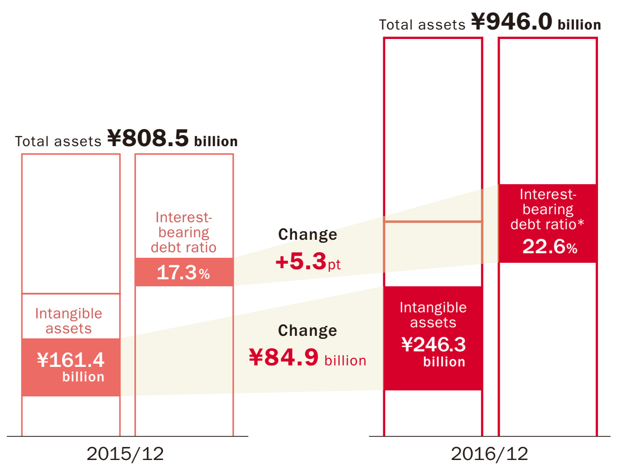
* Earnings before interest, tax, depreciation and amortization = Income (loss) before income taxes + Interest expense + Depreciation and amortization + Impairment loss on goodwill and other intangible assets

- 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 Osaka 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		Business Divestitures, Alliances and Exit from Unprofitable Businesses
Enhanced business and brand portfolio		**Divestitures and alliances**
July 2016 Acquisition of *Laura Mercier* and *RéVive*	October 2016 Start of *Dolce&Gabbana* licensing business	June 2015 Sale of Ayura Laboratories Inc. and related assets July 2015 Greece: Sale of subsidiary December 2015 Turkey: Sale of subsidiary
New business models for beauty; digital technology acquisition		**Exit from unprofitable businesses**
December 2016 Established Shiseido Venture Partners and invested in dricos, Inc.	January 2017 Acquisition of MATCHCo.	November 2015 India: Termination of *Za* brand sales and dissolution of subsidiary

Impact of Brand Acquisitions and License Contracts on the Balance Sheet



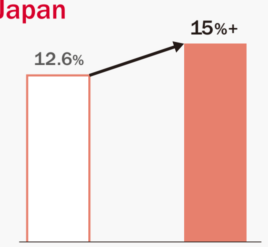
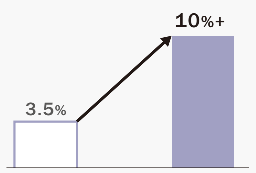
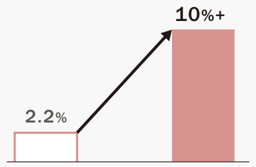
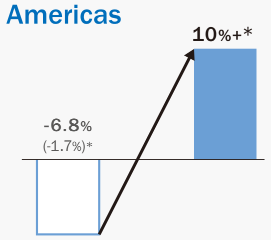
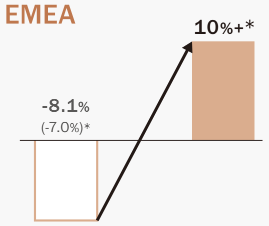
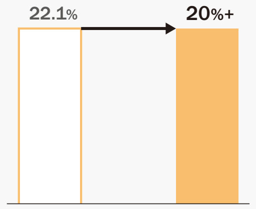
- **Intangible assets**
  Intangible assets at December 31, 2016 were ¥246.3 billion, an increase of ¥84.9 billion compared with December 31, 2015.
  Future excess earnings expected from *Laura Mercier* and *RéVive* are recognized as goodwill and trademarks.
  Future payments related to *Dolce&Gabbana* 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.

* The interest-bearing debt ratio was 29.8% including long-term payables associated with *Dolce&Gabbana*.

Theme 2 Increasing Productivity – Autonomous Management by Regional Headquarters for Sales Growth and Improved Profitability

Targeting Consolidated Operating Profitability of 10 Percent

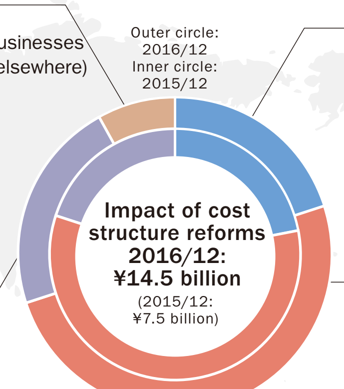
Operating profitability targets and initiatives in each segment

Segment	2016/12 operating profitability / 2020/12 operating profitability (goal)	Initiatives and policies toward year ending December 2020
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
Travel Retail		Aggressively expand brands and sales counters, and increase investment Further enhance organizational and marketing capabilities

* Operating profitability for the Americas and EMEA before amortization of goodwill, etc.

Cost Structure Reforms More Successful Than Planned

Cost Structure Reforms and Outcomes

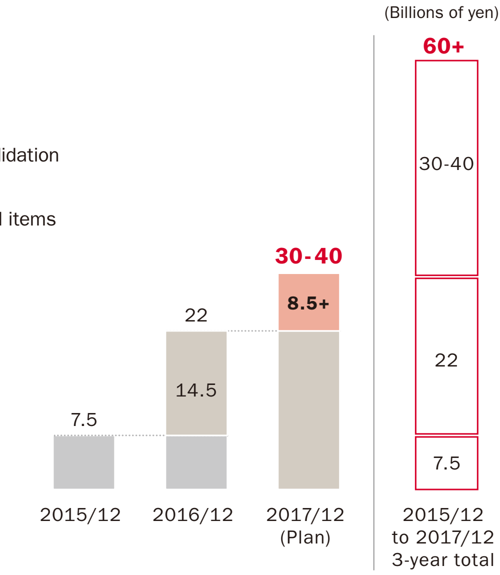


EMEA
- Exited unprofitable businesses (Greece, Turkey and elsewhere)
- Consolidated raw material purchasing
- Raised supply chain efficiency

Americas
- Shared services
- System integration and consolidation
- Shifted to outsourcing
- Reduced waste of promotional items

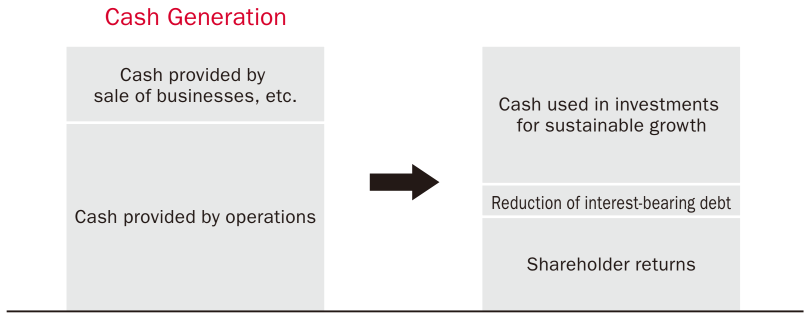
China
- Strict competition for promotional item purchasing
- Reviewed lease contracts
- Strengthened supplier negotiations
- Outsourced logistics

Japan
- Optimized product specifications (Reviewed materials part by part)
- Strategic purchasing activities
- Enhanced process for controlling cost of sales
- Promotional item selection and concentration
- Global purchasing



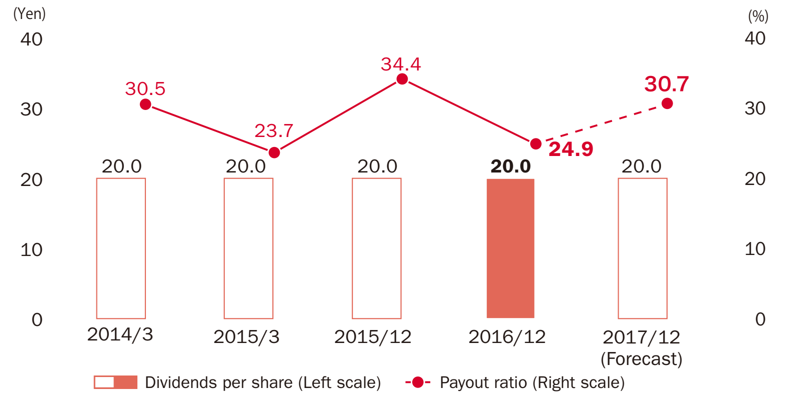
Theme 3 Financial Strategy – Increasing Capital Efficiency Premised on an Optimum Capital Structure

Capital Allocation Approach for Three-Year Business Foundation Rebuilding (2015 through 2017)



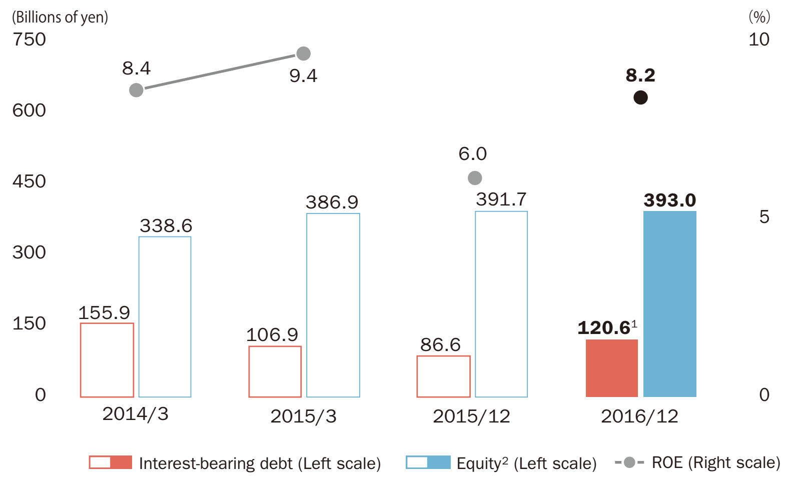
- During the three years ending December 2017, we have been rebuilding our business foundation and prioritizing investments to achieve sustainable growth and to enhance our ability to generate cash.
- We will allocate a portion of increased earnings to dividends when earnings directly associated with businesses exceed the yearly plan and we do not make additional investments for growth.

Dividends per Share and Payout Ratio



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

Capital Structure and ROE



Notes: 1. Interest-bearing debt including long-term payables associated with *Dolce&Gabbana* is ¥175.8 billion.
2. Equity = Total net assets – Stock acquisition rights – Non-controlling interests in consolidated subsidiaries

- The five-year average ROE is **8.0 percent***

* Calculated based on an adjusted ROE of 7.6 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.

Credit Rating (As of February 28, 2017)

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

- 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.

Management Section

Directors, Audit & Supervisory Board Members and Corporate Officers

(As of May 1, 2017)[1]

Representative Director, President and CEO

1 Masahiko Uotani (Date 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 Lab., Global Prestige Brands

1977 Joined the Lion Dentifrice Co., Ltd. (currently Lion Corporation)
1988 Manager, Citibank, N.A.
1991 Representative Director, Vice President of Kraft Japan Limited (currently Mondelēz Japan Limited)
1994 Director, Executive Vice President and Chief Officer of Marketing of Coca-Cola (Japan) Co., Ltd.
2001 Representative Director, President of Coca-Cola (Japan) Co., Ltd. (Global Officer)
2006 Representative Director, Chairman of Coca-Cola (Japan) Co., Ltd.
2007 Representative Director, Chief Executive Partner of BrandVision Inc.
2011 Outside Director of ASKUL Corporation
2012 Director of Citibank Japan Ltd. (part-time)
2013 Outside Chief Marketing Advisor of Shiseido
2014 President and CEO [incumbent]
Chairman of CSR Committee
Representative Director [incumbent]
2015 Responsible for Human Resources, Corporate Culture Reforms
Responsible for Global Business (International Business, China Business, Professional Business)
Chief Officer of International Business Division
Responsible for Global Business
Responsible for Corporate Communication
2016 Responsible for Corporate Strategy, Internal Audit, Global Cosmetics, Personal Care Brands
2017 Responsible for Japan Region, China Region, Asia Pacific Region, Americas Region, Europe, Middle East and Africa Region, Travel Retail [incumbent]
Direct reporting organizations: Corporate Strategy, Innovation Design Lab., Global Prestige Brands [incumbent]

Representative Director, Executive Vice President

2 Tsunehiko Iwai (Date of birth: May 28, 1953)

Assisting CEO
Chief Technology and Innovation Officer
Chief Quality Officer
Responsible for Legal and Governance, Compliance
Sustainability Strategy, Executive and External Relations
Direct reporting organizations: Corporate Communications, Corporate Culture, Internal Audit, Technical Strategy, Regulatory Strategy, Quality Strategy

1979 Joined Shiseido
2002 General Manager of Product Commercialization Planning Department
2004 Chief Officer of Fine Chemical Division
2006 General Manager of Technical Department
2008 Corporate Officer
2009 General Manager of Quality Management Department
2010 Responsible for Technical Planning, Quality Management, 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
Director
2015 Chief Technology and Innovation Officer [incumbent]
Responsible for Research and Development, SCM, Technical Strategy
Chief Technical Strategy Officer and Chief Quality Officer
Responsible for Technical Planning, Quality Management, Frontier Science Business
Responsible for Pharmaceutical Affairs
2016 Representative Director [incumbent]
Executive Vice President [incumbent]
Responsible for Research and Development, SCM, Technical Strategy
Responsible for Regulatory Strategy
Responsible for Legal and Governance, Compliance [incumbent]
Responsible for Sustainability Strategy
Chairman of Compliance Committee [incumbent]
2017 Assisting CEO [incumbent]
Chief Technology and Innovation Officer [incumbent]
Chief Quality Officer [incumbent]
Responsible for Sustainability Strategy, Executive and External Relations [incumbent]
Direct reporting organizations: Corporate Communications, Corporate Culture, Internal Audit, Technical Strategy, Regulatory Strategy, Quality Strategy [incumbent]
Responsible for Innovation for Value Creation Project

Director, Corporate Executive Officer

3 Jun Aoki (Date of birth: April 30, 1957)

Chief People Officer
Chief Creative Officer
Responsible for Human Resources, Advertising and Design, China Business Innovation Project

1980 Joined Maki and Associates
1991 Joined McKinsey & Company Inc. Japan Office Associate Consultant
1993 Engagement Manager of McKinsey & Company Inc. Japan Office
1995 Senior Engagement Manager of McKinsey & Company Inc. Japan Office
1999 CEO of BNP Paribas Cardif Japan
2011 Head of International Human Resources of BNP Paribas Cardif (in France)
2014 Corporate Advisor of Shiseido
2015 Department Director, Human Resources Department
Responsible for Human Resources, Corporate Culture Reforms
Corporate Officer
Chief People Officer, Department Director, Human Resources Department [incumbent]
2016 Responsible for China Business Innovation Project [incumbent]
Responsible for Executive and External Relations
Chairman of Shiseido Liyuan Cosmetics Co., Ltd. [incumbent]
2017 Corporate Executive Officer [incumbent]
Chief Creative Officer [incumbent]
Responsible for Advertising and Design [incumbent]
Director [incumbent]

External Director[2]

4 Yoko Ishikura (Date of birth: March 19, 1949)

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

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

External Director*

5 Shoichiro Iwata (Date of birth: August 14, 1950)

Chairman of Remuneration Advisory Committee

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

External Director*

6 Kanoko Oishi (Date of birth: March 24, 1961)

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

External Director*

7 Tatsuo Uemura (Date of birth: April 19, 1948)

Chairman of Nomination Advisory Committee

1977 Lecturer, Faculty of Law, The University of Kitakyushu
1979 Associate Professor, Faculty of Law, The University of Kitakyushu
1981 Associate Professor, School of Law, Senshu University
1986 Professor, School of Law, Senshu University
1990 Professor, College of Law and Politics, Rikkyo University
1997 Professor, School of Law, Waseda University
2003 Director, Center of Excellence - Waseda Institute for Corporation Law and Society
Professor, Waseda Law School
2004 External Director, Jasdaq Securities Exchange, Inc.
Professor, Faculty of Law, Waseda University [incumbent][1]
2006 External Director of Shiseido [incumbent]
Chairman of Nomination Advisory Committee [incumbent]
Dean of Faculty of Law and the School of Law, Waseda University
2008 Director, Global Center of Excellence - Waseda Institute for Corporation Law and Society [incumbent]
2012 Member of the Board of Governors of Japan Broadcasting Corporation (NHK)
Auditor of the Audit Committee of NHK
2013 Acting Chairman of the Board of Governors of NHK

Audit & Supervisory Board Member

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

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

Audit & Supervisory Board Member

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

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

External Audit & Supervisory Board Member*

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

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

External Audit & Supervisory Board Member*

11 Hiroshi Ozu (Date of birth: July 21, 1949)

1974 Public prosecutor, Tokyo District Public Prosecutors Office
2001 Chief Prosecutor, Saga District Public Prosecutors Office
2002 Public prosecutor, Supreme Public Prosecutors Office
2004 Director-General of the Secretariat of the Minister, Ministry of Justice
2006 Director-General of the Criminal Affairs Bureau, Ministry of Justice
2007 Vice-Minister of Justice, Ministry of Justice
2009 Superintending Prosecutor, Sapporo High Public Prosecutors Office
2010 Deputy Prosecutor General, Supreme Public Prosecutors Office
2011 Superintending Prosecutor, Tokyo High Public Prosecutors Office
2012 Prosecutor General, Supreme Public Prosecutors Office
2014 Registered as attorney
2015 External Audit & Supervisory Board Member, MITSUI & CO., LTD. [incumbent]
Outside Audit & Supervisory Board Member, TOYOTA MOTOR CORPORATION [incumbent]
2016 Representative Director, Shimizu Scholarship Foundation, general incorporated foundations [incumbent]
2017 External Audit & Supervisory Board Member of Shiseido [incumbent]

External Audit & Supervisory Board Member*

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

2003 Professor, School of Commerce and the Graduate School of Commerce, Waseda University
2004 Professor, Faculty of Commerce, Waseda University [incumbent]
2008 Outside Audit & Supervisory Board Member of Mitsubishi Corporation
2010 Outside Director of ORIX Corporation
Dean of the Graduate School of Commerce, Waseda University
2011 Outside Corporate Auditor of LAWSON, INC. [incumbent]
Outside Audit & Supervisory Board Member of NTT DOCOMO, INC. [incumbent]
2012 External Audit & Supervisory Board Member of Shiseido [incumbent]

・External Audit & Supervisory Board member retired as of March 28, 2017: Akio Harada

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

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 Assessment

Shigekazu Sugiyama
Corporate Executive Officer
Responsible for Japan Region
Representative Director, President, Shiseido Japan Co., Ltd.

Jean-Philippe Charrier
Responsible for Asia Pacific Region
President, Shiseido Asia Pacific Pte. Ltd.

Kentaro Fujiwara
Responsible for China Region
Chairman and President, Shiseido China Co., Ltd.

Katharina Höhne
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 Kushida
Assisting Chief Technology and Innovation Officer
Responsible for Special Mission Projects

Yoshiaki Okabe
Brand Director, SHISEIDO Brand Unit, Global Prestige Brands

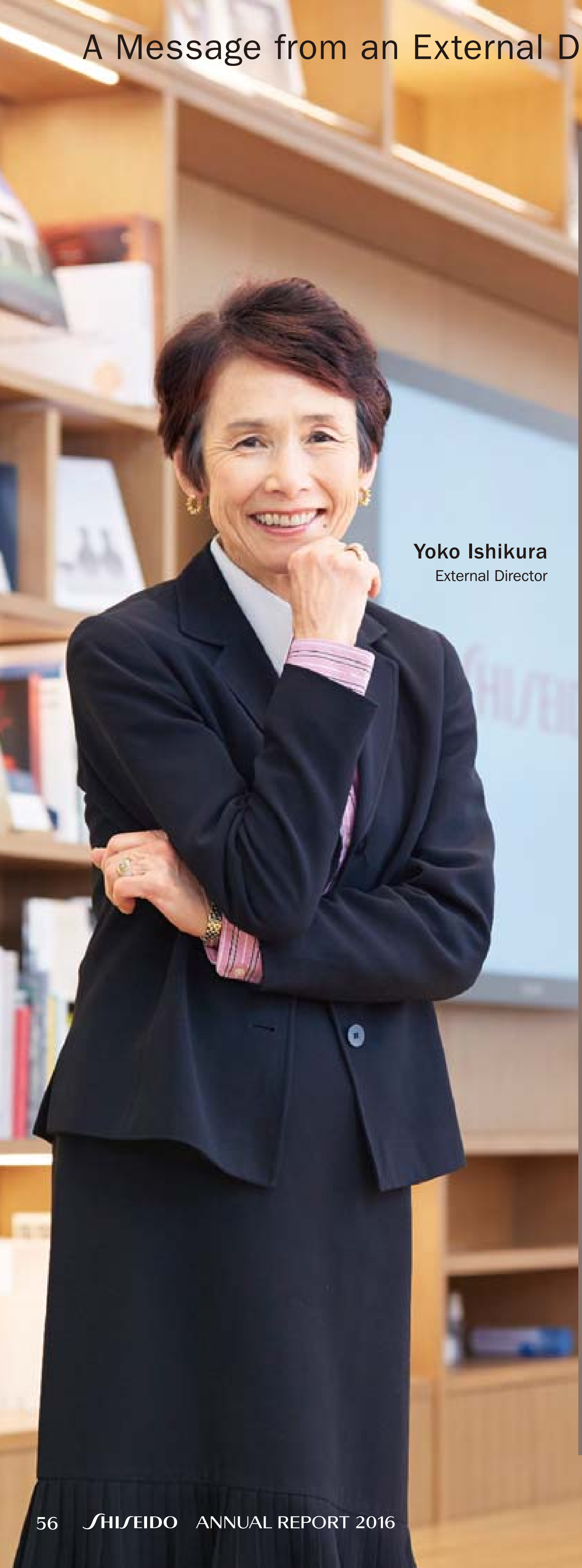
Yoshihiro Shiojima
Chief Legal and Governance Officer
Responsible for Legal and Governance, Compliance, Sustainability Strategy, Executive and External Relations

Mikiko Soejima
Chief Beauty Officer
Responsible for Beauty Creation
Chief Beauty Officer, Shiseido Japan Co., Ltd.
Responsible for Beauty Consultant Representative, Beauty Consultation Planning, Consumer Information, Shiseido Japan Co., Ltd.

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

・Corporate officer retired as of December 31, 2016: Takahiro Hayashi
・Corporate officer retired as of April 30, 2017: Mari Tamura

A Message from an External Director



Yoko Ishikura
External Director

Sharing information with haste and transparency will drive Shiseido's reforms and growth

I became a Shiseido external director three years ago. I participate in Board of Directors, new year Group policy kickoff 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 e-mailing 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.

Corporate Governance

For more information on our corporate governance
General Meeting of Shareholders/
Corporate Governance
▸ http://www.shiseidogroup.com/ir/account/
· Corporate Governance Policy
· Corporate Governance Report
· Notice of Convocation etc.

Progress of the Evolution of Corporate Governance

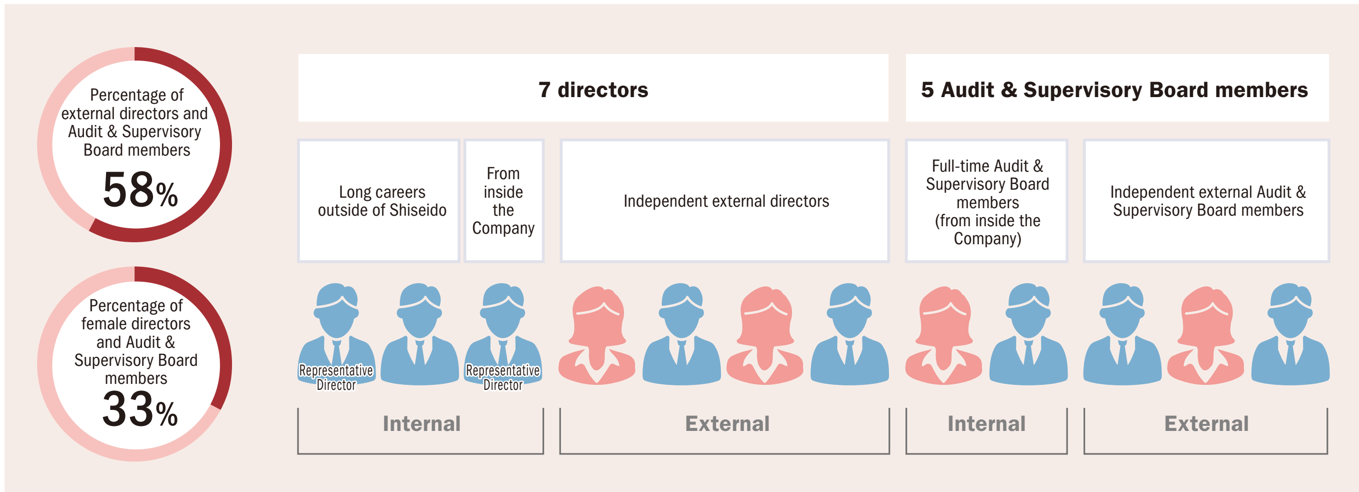
The Shiseido Group defines corporate governance as its "platform to realize sustainable growth by fulfilling its corporate mission," and is enhancing corporate governance to achieve the objectives of its medium-to-long-term strategy, VISION 2020. We have been fully committed to the evolution of corporate 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 included the introduction of the corporate officer system. At the second stage, we implemented many initiatives for creating the framework of our corporate governance such as the establishment of the Nomination Advisory Committee and the appointment of external directors. In this way, we have set out objective quantitative and pro forma standards. We enhanced the quality of corporate governance by rigorously employing this framework and disclosing the outcomes. We have now begun the third stage, in which we are targeting corporate governance that furthers sustainable growth. We will achieve tense collaboration by balancing management oversight and supervision with the broad authority vested in the President and CEO, which that executive needs in order to exercise ultimate leadership of Shiseido's global management.

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 the CEO and the ability of supervisory organs to quickly and effectively exercise potent checks and put on the brakes as needed.

Shiseido's Governance by the Numbers – Directors and Audit & Supervisory Board Members

(As of March 31, 2017)



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

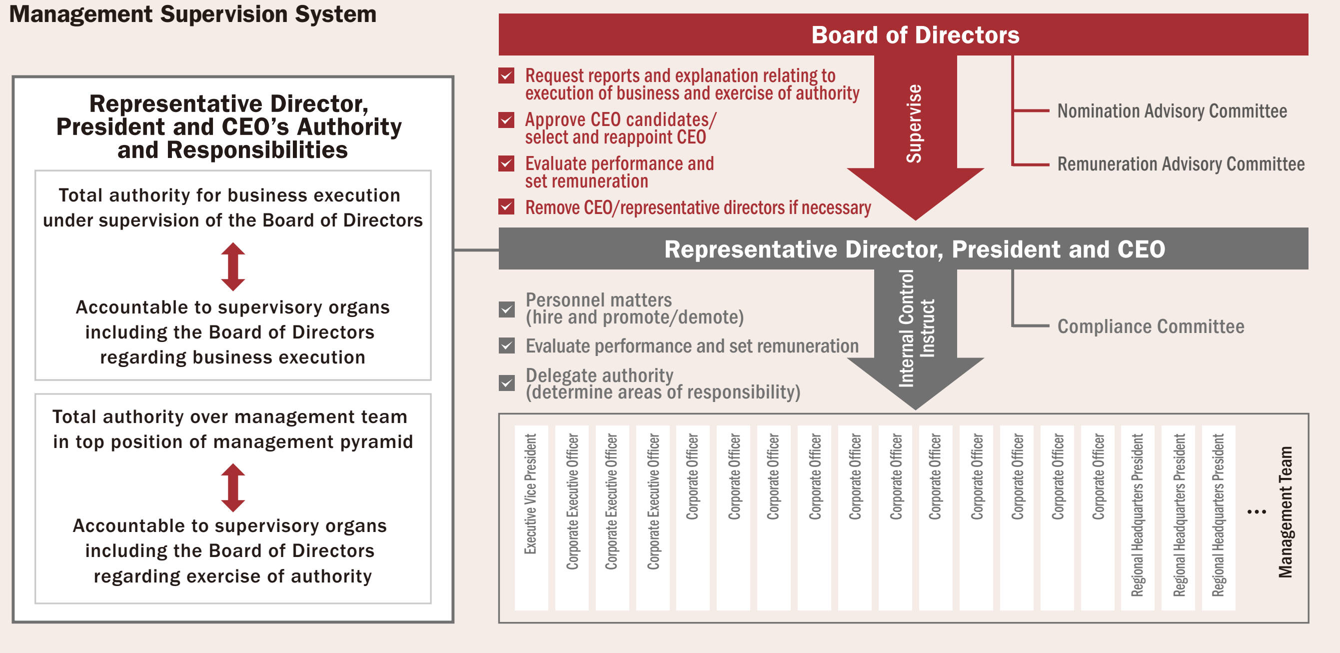
Diversity of Directors and Audit & Supervisory Board Members

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.

Management Supervision System



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)
- Not a person of which the Shiseido Group is or has ever been a major client
- Not a person who is or has ever been a major client of the Shiseido Group
- Not a person who is or has ever been a major shareholder of the Company
- Not a person who executes or has ever executed business for an entity in which the Shiseido Group is a major shareholder
- Not a professional such as an attorney or a consultant who has received a large amount of money from the Shiseido Group
- Not a person who is receiving 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 Audit & Supervisory Board member from 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

(Please refer to the Corporate Governance Report available at Shiseido’s corporate website for details.)

http://www.shiseidogroup.com/ir/account/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 a strong oversight function to counterbalance 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.

Members of the Nomination Advisory Committee and the Remuneration Advisory Committee

Nomination Advisory Committee	
(Chair)	Tatsuo Uemura, External Director
(Members)	Yoko Ishikura, External Director
	Shoichiro Iwata, External Director
	Kanoko Oishi, External Director
	Masahiko Uotani, Representative Director, President and CEO

Remuneration Advisory Committee	
(Chair)	Shoichiro Iwata, External Director
(Members)	Yoko Ishikura, External Director
	Kanoko Oishi, External Director
	Tatsuo Uemura, External Director
	Masahiko Uotani, Representative Director, President and CEO

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 incorporated to prevent wrongdoing and overemphasis on short-term views; and
5. be designed to be transparent, fair and reasonable from the viewpoint of accountability to stakeholders including shareholders and employees, and shall ensure these points by determining remuneration through appropriate processes.

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.

Proportion of Remuneration by Remuneration Type for Each Rank of Director

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

Notes: 1. In this model, the basic remuneration amount is the median in the applicable role grade, and the achievement rate related to performance-linked remuneration is 100%.
2. There is no difference in the proportion of remuneration by remuneration type applied to directors based on whether a director has representation rights.
3. Because different remuneration tables will be applied depending on the role grade of respective directors and corporate officers, proportion of remuneration by remuneration type will vary even within the same rank.
4. Directors who serve as the chairman of the Board shall be provided with a fixed amount of remuneration separately, which is not, however, included in the table.

· 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

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

Note: 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.

· Long-Term Incentive Remuneration

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

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

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

When stock acquisition rights are allotted:

· Use the same consolidated results data (net sales, operating income and net income attributable to owners of parent), evaluation of responsibility for business performance, and personal performance evaluation that are employed in calculating annual bonus for each officer.

· Determine the number of stock acquisition rights to be allotted based on deliberation by and resolution of the Board of Directors.

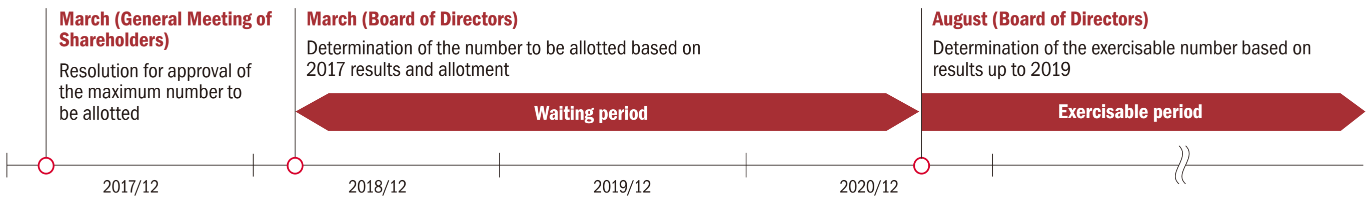
When the stock acquisition rights vest:

· 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.

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



Remuneration for Directors and Audit & Supervisory Board Members for the Year Ended December 2016

(Millions of yen)

	Basic	Bonuses	Long-Term Incentive (Stock Options)	Total
Directors (7)	272	120	50	443
External directors (4 of the 7 directors)	49	—	—	49
Audit & Supervisory Board members (5)	99	—	—	99
External Audit & Supervisory Board members (3 of the 5 members)	36	—	—	36
Total	372	120	50	542

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 through the Company 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)

	Basic	Bonuses	Long-Term Incentive (Stock Options)	Total
Masahiko Uotani Representative Director	129	77	29	236
Tsunehiko Iwai Representative Director	47	21	6	75
Toru Sakai Representative Director	47	20	14	82

Notes:

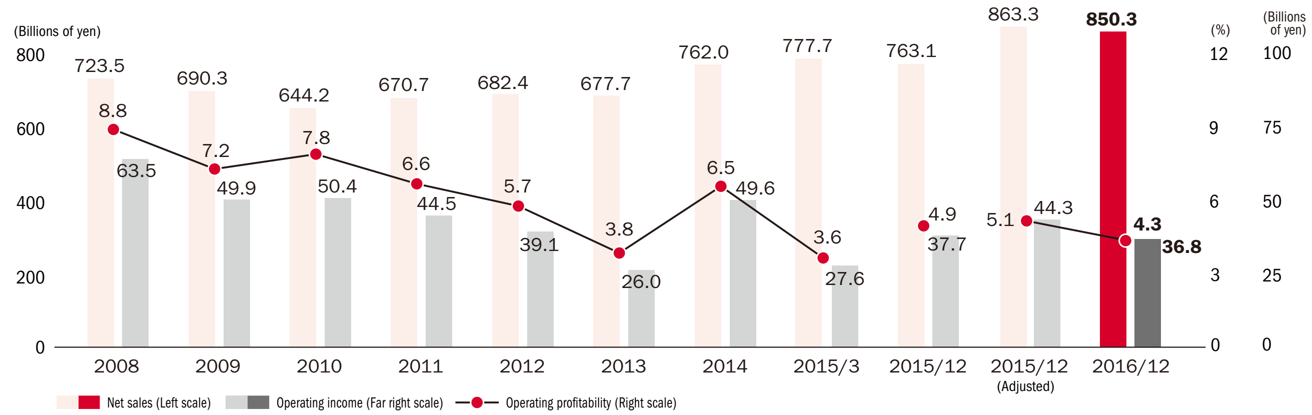
1. The above amount of basic remuneration includes ¥23 million as basic remuneration for the year ended December 2016 that one subsidiary paid through the Company to Representative Director Toru Sakai, who served concurrently as the director of said subsidiary.
2. The amount of long-term incentive stock 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

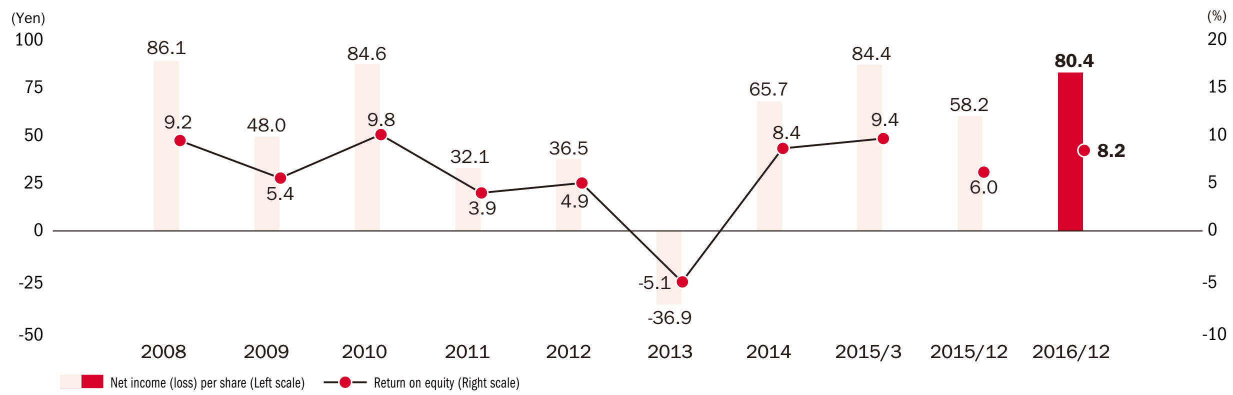
Financial and Non-Financial Highlights

Financial Value

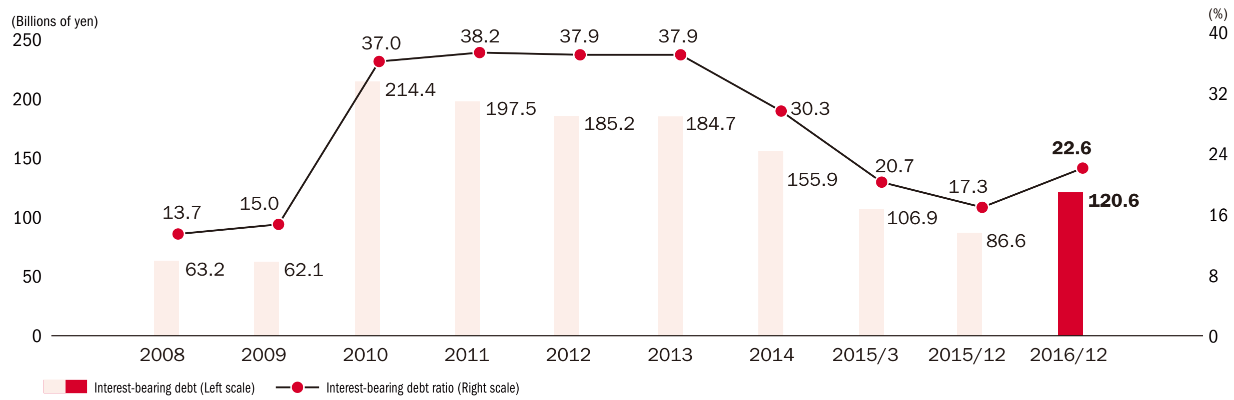
Net Sales, Operating Income and Operating Profitability[1]



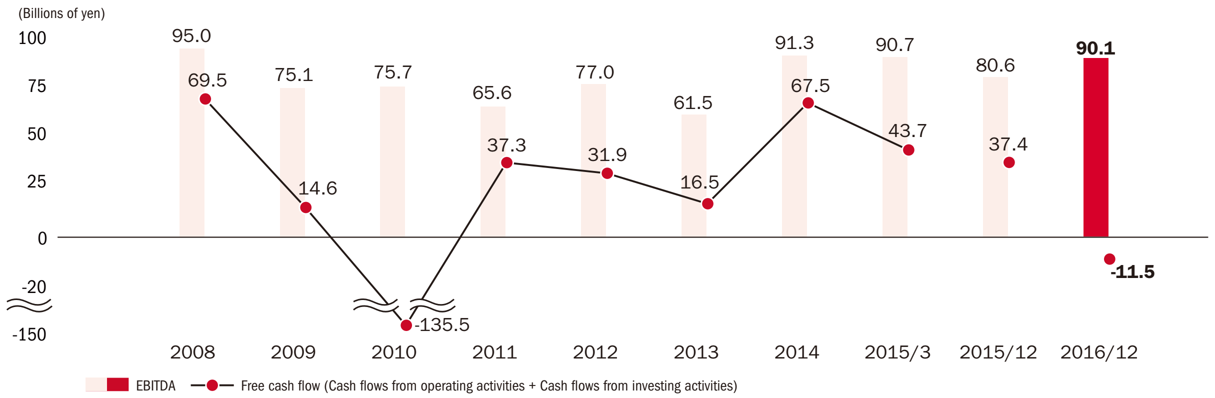
Net Income (Loss) per Share[2] and Return on Equity[3,4]



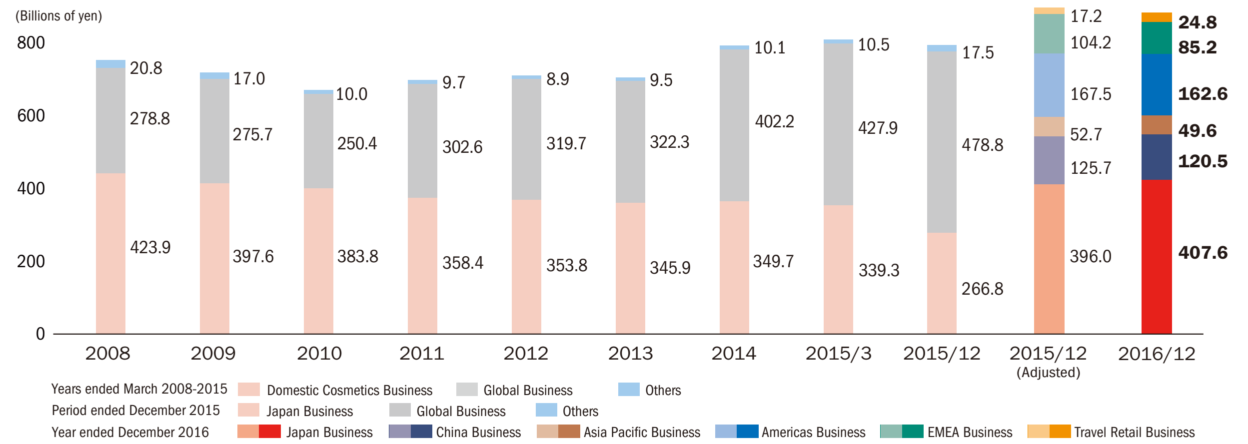
Interest-Bearing Debt and Interest-Bearing Debt Ratio[3,5]



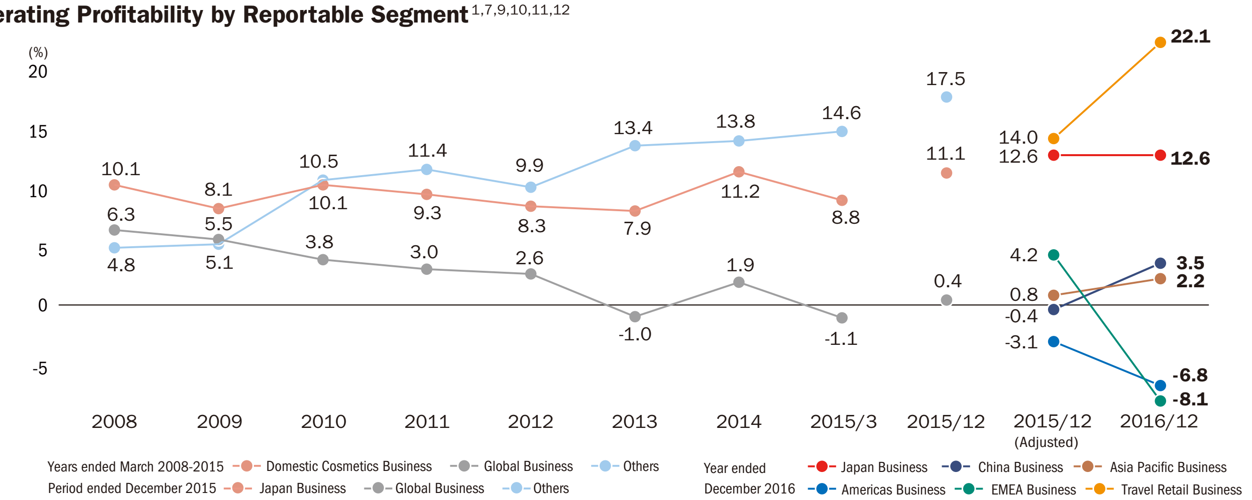
EBITDA[6] and Free Cash Flow



Net Sales by Reportable Segment[1,7,8,10,11,12]



Operating Profitability by Reportable Segment[1,7,9,10,11,12]

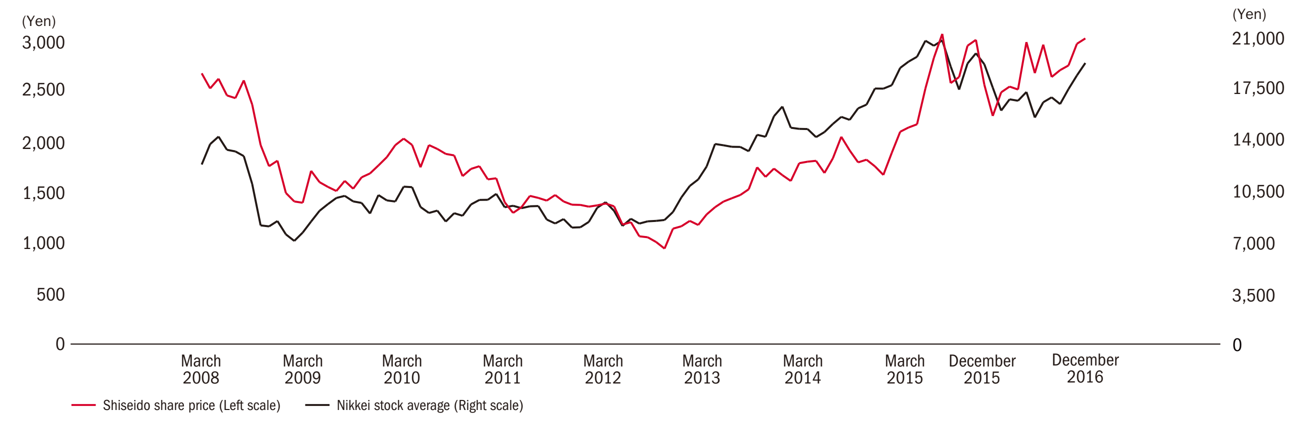


Notes:

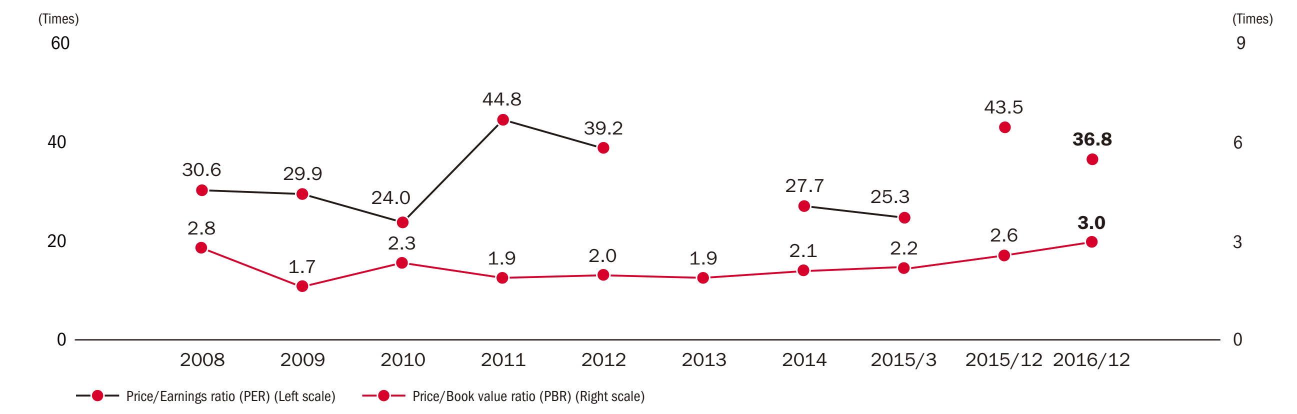
1. The fiscal period ended December 31, 2015 is the 9 months from April 1, 2015 to December 31, 2015 for Shiseido and consolidated subsidiaries whose account settlement date was March 31 and the 12 months from January 1, 2015 to December 31, 2015 for consolidated subsidiaries whose account settlement 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. 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, effective the year ended March 2012 these subsidiaries began to expense these items when acquired as part of its efforts to standardize Group accounting policies. The Shiseido Group applied this change retrospectively and restated the consolidated financial statements for the year ended March 2011 accordingly. Changes in accounting treatment due to the amendment of Employee Benefits (International Accounting Standard (IAS) No. 19) are not retrospectively applied prior to the year ended March 2012.
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. Interest-bearing debt ratio = Interest-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 expense + Depreciation and amortization + Impairment loss 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/interarea sales or transfers.
9. Operating profitability by reportable segment does not include eliminations/corporate.
10. Segments were changed to reflect application of the "Revised Accounting Standard for Disclosures about Segments of an Enterprise and Related information" (ASBJ Statement No. 17 of March 27, 2009) in the year ended March 2011. The change in segments has been retrospectively applied to data for years ended March 2010 and earlier.
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 re-allocated to the "Global Business" and "Others" segments. Moreover, in order to more accurately grasp actual operating results in each segment, the allocation method for certain expenses was also revised.
12. Effective from the year ended December 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 12 months ended December 2015 has been restated in line with changes in the method of classifying reportable segments.

Shareholder Value

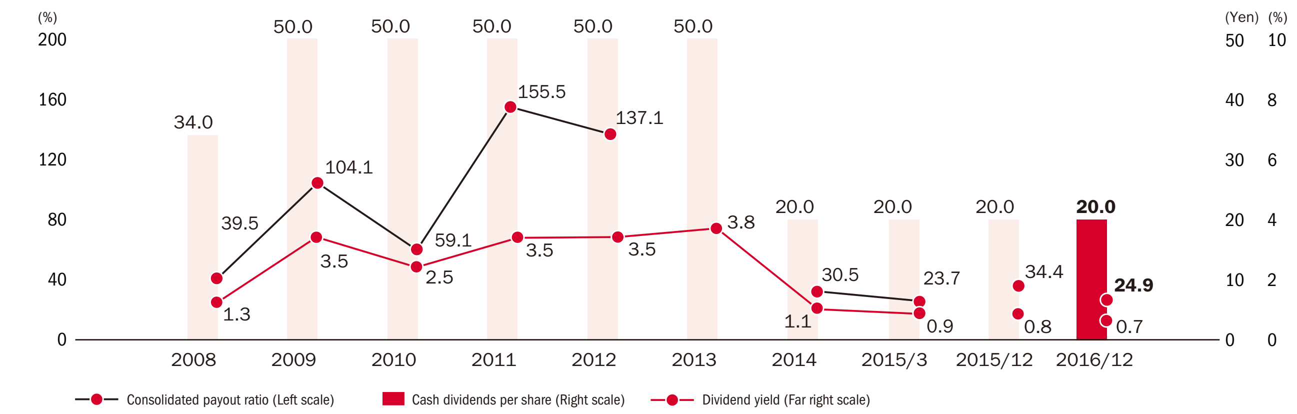
Shiseido Share Price & Nikkei Stock Average



Price/Earnings Ratio (PER)[13, 14] & Price/Book Value Ratio (PBR)[15]



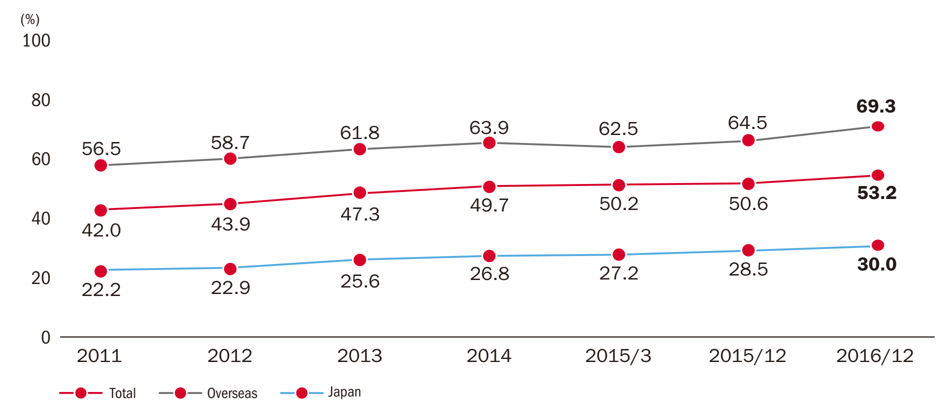
Consolidated Payout Ratio,[13] Cash Dividends per Share & Dividend Yield[16]



13. PER and consolidated payout ratio are not presented for the year ended March 2013 because of the net loss.
14. Price/Earnings ratio = Closing stock price at fiscal year-end / Net income per share
15. Price/Book value ratio = Closing stock price at fiscal year-end / Net assets per share
16. Dividend yield = Cash dividends per share / Closing stock price at fiscal year-end

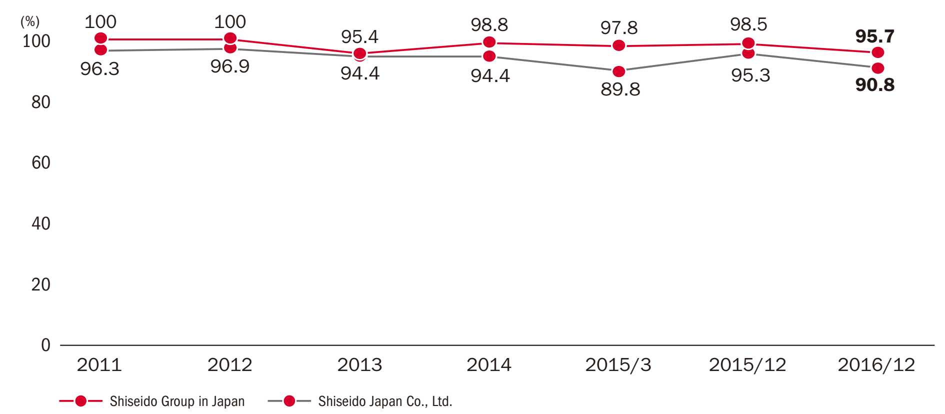
Human and Social Value

Percentage of Female Leaders[17]



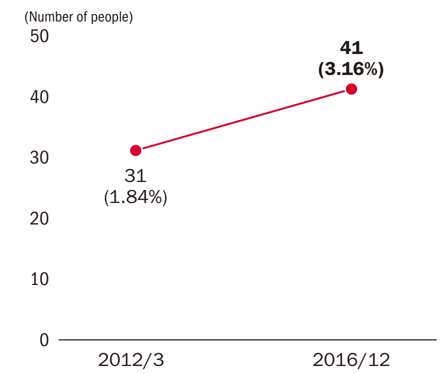
Shiseido has been energetically promoting women to positions of leadership. Overseas, nearly 70 percent of leadership positions are held by women. In Japan, the percentage of women in leadership positions was 30 percent as of December 31, 2016, thus achieving our goal for the year.

Stability Rate for Employees in Japan Returning to Work after Taking Childcare Leave[18]

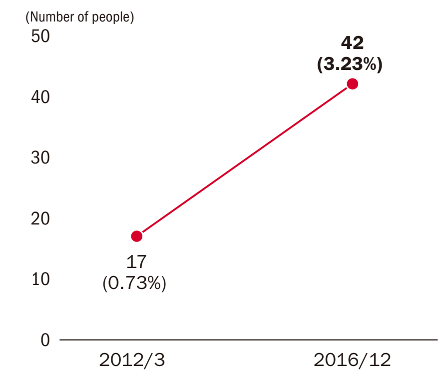


Since 1990, Shiseido has introduced systems and programs to raise the productivity of employees by helping them balance work with childcare and nursing care. As a result, the stability rate for employees in Japan returning to work after taking childcare leave has remained at a high level.

Non-Japanese Hires[19]



Mid-Career Hires[20]



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.

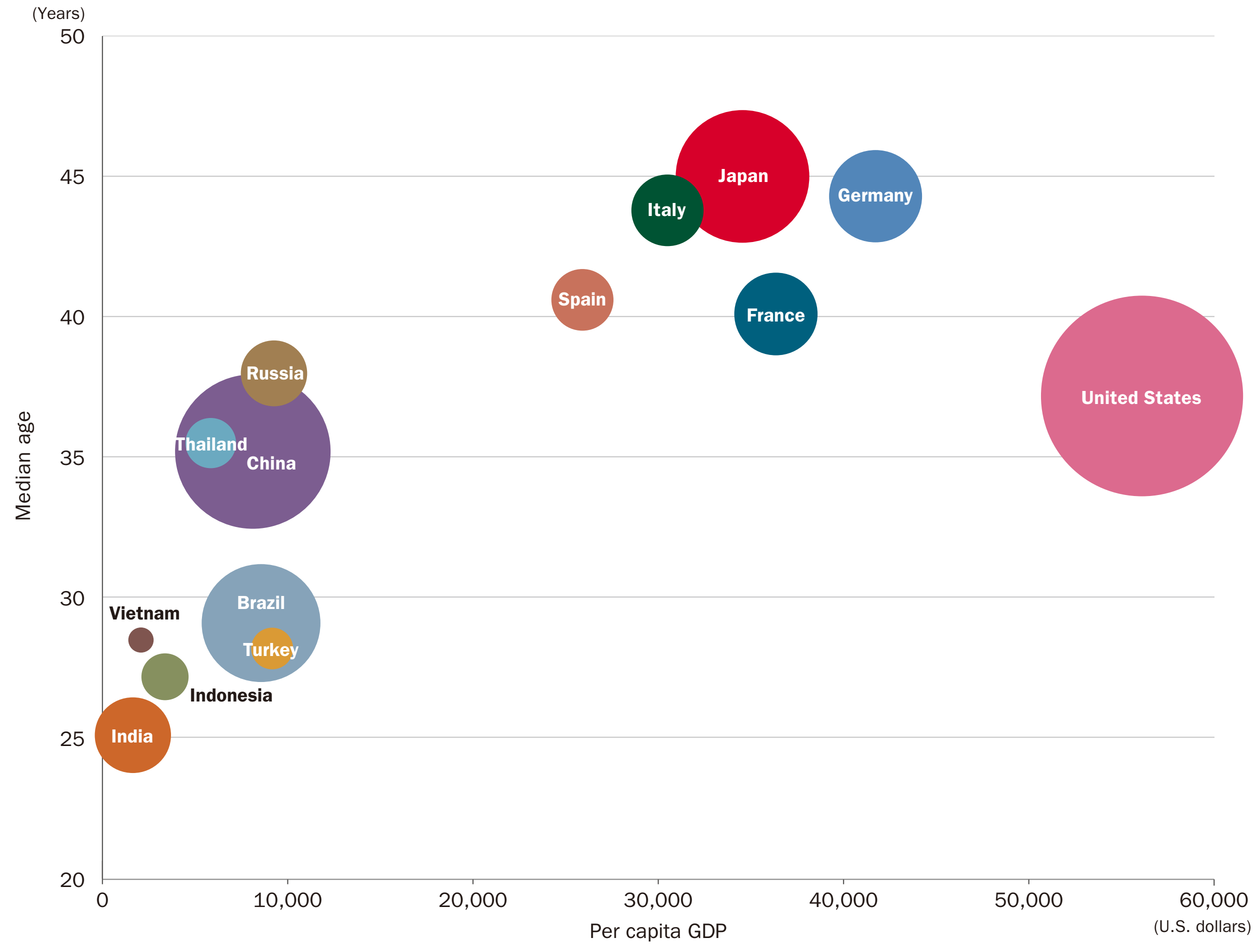
17. For years ended March 2011 through March 2015, percentage of female leaders is as of April 1 each year in Japan and January 1 each year overseas. For the period ended December 2015 and the year ended December 2016, percentage of female leaders is as of December 31.
18. Number of employees who returned to work after taking childcare leave in the previous fiscal year and are still working as of the end of the current year / total number of employees who returned to work after taking childcare leave in the previous fiscal year x 100
19. Target personnel in Shiseido Group companies in Japan: managerial/major career path personnel; target personnel in Shiseido Japan Co., Ltd.: beauty consultants (excluding fixed-term contract employees)
20. Shiseido Company, Limited data

Market Data

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.

Beauty and Personal Care Markets by Country

Beauty and Personal Care Market Scale[1] by Country, Per Capita GDP and Median Age[2]



Beauty and Personal Care Market Scale by Country and Population (2016)

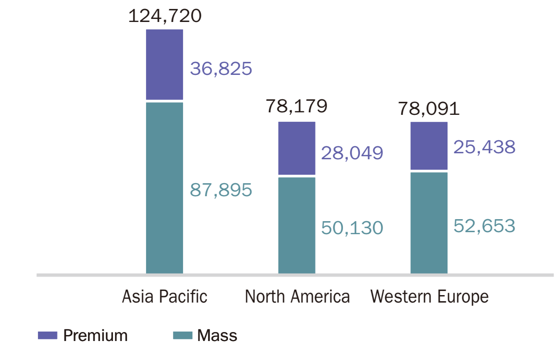
Country	Beauty and Personal Care Market Scale (Millions of U.S. dollars)	Population (Millions)	Country	Beauty and Personal Care Market Scale (Millions of U.S. dollars)	Population (Millions)
United States	84,836	324	Italy	10,816	60
China (Excluding Hong Kong)	50,226	1,382	Russia	9,140	143
Japan	37,075	127	Spain	8,010	46
Brazil	29,294	210	Thailand	5,318	68
Germany	17,947	81	Indonesia	4,620	261
France	14,402	65	Turkey	3,650	80
India	12,061	1,327	Vietnam	1,331	94

Source for beauty and personal care market scale: Euromonitor International, as of April 4, 2017
Source for per capita GDP, median age and population: "World Statistics 2017," Statistics Bureau, Ministry of Internal Affairs and Communications
Notes: 1. Circle size indicates beauty and personal care market scale
2. The midpoint age separating the upper from the lower half of ages for each population ranked in order from the lowest to highest

Beauty and Personal Care Market Trends by Area (Premium and Mass Categories[1])

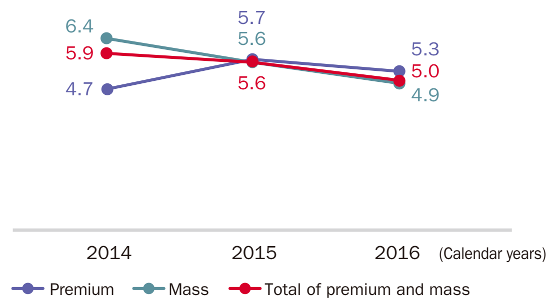
Beauty and Personal Care Market Scale by Area[2] (2016)

(Millions of U.S. dollars)



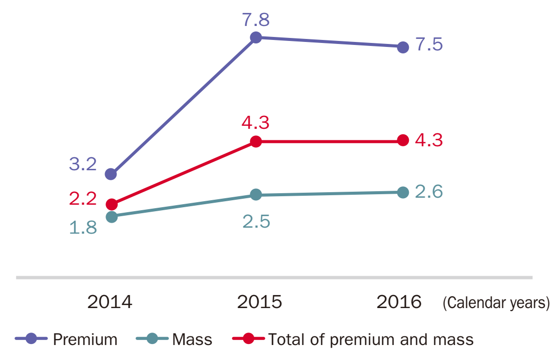
Market Growth Rate: Asia Pacific[3]

(%)



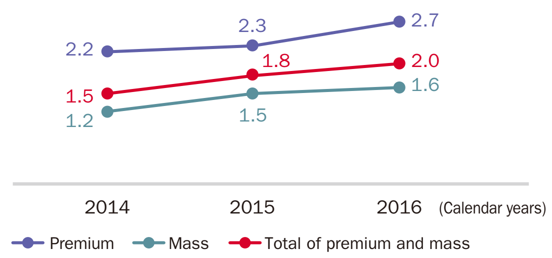
Market Growth Rate: North America[3]

(%)



Market Growth Rate: Western Europe[3]

(%)

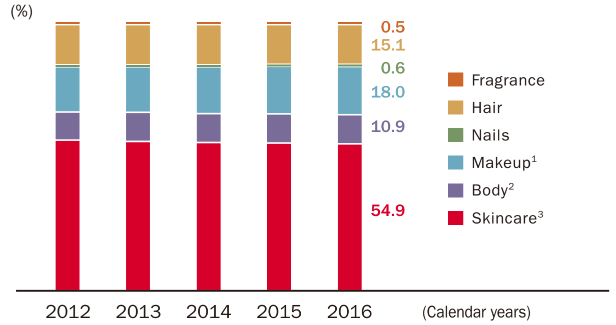


Source: Euromonitor International, as of April 4, 2017
Notes: 1. Categories are not delineated by price. They are determined comprehensively by Euromonitor International based on standards for positioning, price, sales channel, sales volume and other data for each area.
2. Excluding depilatories, men's shaving and oral care categories
3. Asia Pacific: 46 countries including Japan, China and India; North America: Canada and the United States; Western Europe: 25 countries including France, the United Kingdom and Italy

The Domestic Cosmetics Market

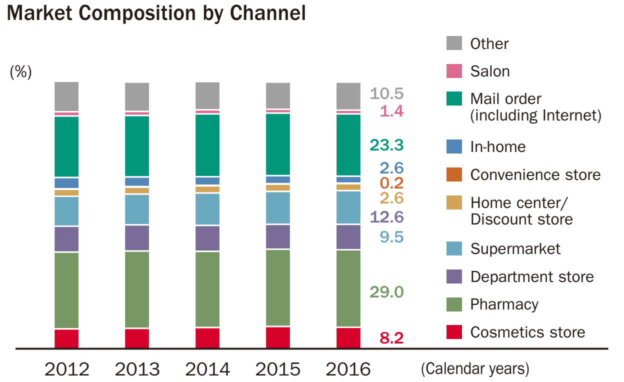
Market Composition by Beauty Category

(%)



Market Composition by Channel

(%)



Source for market composition by channel: INTAGE Inc., SLI survey of general cosmetics market (cosmetics, haircare, body care, and others defined by Shiseido), January 1, 2012 to December 31, 2016 comparison of purchases (value base) by beauty categories defined by Shiseido
Source for market composition by beauty category: INTAGE Inc., SLI survey of general cosmetics market (cosmetics, haircare, body care and others defined by Shiseido), January 1, 2012 to December 31, 2016 comparison of purchases (value base) by channel
Notes: 1. Foundation, eye shadow, lipstick, etc.
2. Bath additives, sunscreen, deodorant, etc.
3. Makeup remover, makeup base, beauty lotion, etc. Also includes facial cleansers.

11-Year Summary of Selected Financial Data

Shiseido Company, Limited, and Subsidiaries
For the fiscal periods ended March 31, 2007 to December 31, 2016

	2007/3	2008/3	2009/3	2010/3	2011/3	2012/3	2013/3	2014/3	2015/3	2015/12	2016/12 Millions of yen (Except per share data)	2016/12 Thousands of U.S. dollars (Except per share data)
Operating Results:												
Net sales	¥694,594	¥723,484	¥690,256	¥644,201	¥670,701	¥682,385	¥677,727	¥762,047	¥777,687	¥763,058	¥850,306	$7,296,884
Cost of sales	185,532	186,466	171,752	160,166	168,692	162,989	166,783	189,559	196,433	196,009	207,553	1,781,112
Selling, general and administrative expenses	459,056	473,553	468,589	433,684	457,550	480,260	484,898	522,843	553,640	529,388	605,972	5,200,137
Operating income	50,005	63,465	49,914	50,350	44,458	39,135	26,045	49,644	27,613	37,660	36,780	315,626
EBITDA	78,836	94,960	75,077	75,699	65,576	76,974	61,463	91,285	90,703	80,635	90,078	773,002
Net income (loss) attributable to owners of parent	25,293	35,459	19,373	33,671	12,790	14,515	(14,685)	26,149	33,668	23,210	32,101	275,474
Financial Position (At period-end):												
Total assets	¥739,832	¥675,864	¥606,568	¥775,445	¥739,120	¥720,707	¥715,593	¥801,346	¥823,636	¥808,547	¥946,007	$8,118,141
Short-term liabilities	66,144	38,653	27,601	112,693	16,361	9,734	39,394	64,054	75,615	18,996	19,403	166,506
Long-term debt	61,694	24,566	34,451	101,753	181,155	175,418	145,274	91,864	31,281	67,617	156,428	1,342,383
Interest-bearing debt	127,838	63,219	62,053	214,446	197,517	185,153	184,669	155,918	106,897	86,613	120,580	1,034,754
Net assets	403,796	399,738	351,951	365,207	320,127	303,715	303,153	358,707	409,369	413,334	413,870	3,551,617
Cash Flows:												
Cash flows from operating activities	¥ 69,431	¥ 75,307	¥ 42,767	¥ 69,431	¥ 67,586	¥ 52,599	¥ 42,040	¥ 84,320	¥ 32,134	¥ 60,529	¥ 59,129	$ 507,414
Cash flows from investing activities	(18,482)	(5,802)	(28,157)	(204,884)	(30,303)	(20,668)	(25,534)	(16,799)	11,538	(23,137)	(70,640)	(606,195)
Cash flows from financing activities	1,836	(95,882)	(32,283)	120,359	(39,571)	(35,482)	(24,745)	(47,462)	(58,419)	(30,151)	22,378	192,036
Cash and cash equivalents at end of year	145,259	120,393	91,857	77,157	88,592	82,974	80,253	110,163	100,807	104,926	113,122	970,754
Per Share Data (In yen and U.S. dollars):												
Net income (loss)	¥ 60.9	¥ 86.1	¥ 48.0	¥ 84.6	¥ 32.1	¥ 36.5	¥ (36.9)	¥ 65.7	¥ 84.4	¥ 58.2	¥ 80.4	$ 0.68
Net assets	940.8	946.2	839.9	875.7	772.1	729.9	721.2	849.4	970.0	981.4	984.1	8.44
Cash dividend	32.0	34.0	50.0	50.0	50.0	50.0	50.0	20.0	20.0	20.0	20.0	0.17
Weighted average number of shares outstanding during the period (thousands)	412,572	407,696	403,240	397,886	397,864	397,974	398,007	398,300	398,704	399,026	399,227	
Financial Ratios:												
Operating profitability (%)	7.2	8.8	7.2	7.8	6.6	5.7	3.8	6.5	3.6	4.9	4.3	
Return on assets (%)	3.6	5.0	3.0	4.9	1.7	2.0	(2.0)	3.4	4.1	2.8	3.4	
Operating ROA (%)	7.4	9.4	8.2	7.5	6.1	5.6	3.8	6.8	3.6	4.8	4.3	
Return on equity (%)	6.6	9.2	5.4	9.8	3.9	4.9	(5.1)	8.4	9.4	6.0	8.2	
Equity ratio (%)	52.5	56.6	55.6	44.9	41.6	40.3	40.1	42.2	47.0	48.4	41.5	
Interest coverage ratio (times)	30.6	39.1	23.6	45.4	32.8	27.3	22.5	47.5	24.2	71.7	70.5	
Debt-equity ratio (times)	0.33	0.17	0.18	0.62	0.64	0.64	0.64	0.46	0.28	0.22	0.31	
Interest-bearing debt ratio (%)	24.0	13.7	15.0	37.0	38.2	37.9	37.9	30.3	20.7	17.3	22.6	
Payout ratio (Consolidated) (%)	52.6	39.5	104.1	59.1	155.5	137.1	—	30.5	23.7	34.4	24.9	
Number of employees at year-end	27,460	28,793	28,810	28,968	31,310	32,595	33,356	33,054	33,000	33,783	36,549	
Net sales per employee	¥25.3	¥25.1	¥24.0	¥22.2	¥21.4	¥20.9	¥20.3	¥23.1	¥23.6	¥22.6	¥23.2	$199

Notes:
1. The fiscal period ended December 31, 2015 is the 9 months from April 1, 2015 to December 31, 2015 for Shiseido and its consolidated subsidiaries in Japan and the 12 months from January 1, 2015 to December 31, 2015 for all other subsidiaries. In this report, it is referred to as "the period ended December 2015" in the text and as "2015/12" in tables, charts and graphs.
2. Amounts less than one million yen are omitted.
3. U.S. dollar amounts are converted from yen, for convenience only, at the rate of ¥116.53 = US$1 prevailing on December 31, 2016.
4. EBITDA (Earnings before interest, tax, depreciation and amortization) = Income (loss) before income taxes + Interest expense + Depreciation and amortization + Impairment loss on goodwill and other intangible assets
5. Effective from the fiscal period ended December 31, 2015, Shiseido has applied the "Accounting Standard for Business Combinations" (Accounting Standards Board of Japan (ASBJ) Statement No. 21, September 13, 2013), and the title "Net income (loss)" has been changed to "Net income (loss) attributable to owners of parent."
6. Short-term liabilities = Short-term debt + Current portion of long-term debt
7. Net income (loss) per share (primary) is based on the average number of shares outstanding during the fiscal year. Net assets per share is calculated using the number of shares outstanding as of the balance sheet date. Net Income (loss) per share is calculated before dilution.
8. Operating ROA = (Operating income + Interest and dividend income) / Total assets (Yearly average)
9. Interest coverage ratio = Net cash provided by operating activities / Interest paid* *Interest paid is as stated in the consolidated statements of cash flows.
10. Debt-equity ratio = Interest-bearing debt / Equity* *Equity = Total net assets – Stock acquisition rights – Non-controlling interests in consolidated subsidiaries
11. Interest-bearing debt ratio = Interest-bearing debt / Invested capital* *Invested capital = Interest-bearing debt + Total net assets
12. The number of employees at year-end does not include temporary employees.
13. Shiseido Group subsidiaries in the Americas formerly recognized samples and promotional items associated with marketing activities at stores as assets when acquired and expensed them when shipped to customers. However, effective the fiscal year ended March 31, 2012 these subsidiaries began to expense these items when acquired as part of efforts to standardize Group accounting policies. The Shiseido Group applied this change retrospectively and restated the consolidated financial statements for the fiscal year ended March 31, 2011 accordingly.
14. Effective the fiscal year ended March 31, 2014, the Shiseido Group applied Employee Benefits (IAS 19, amended June 16, 2013) to certain consolidated subsidiaries and changed the method for recognizing changes in net defined benefit obligation. The Shiseido Group applied this change retrospectively and restated the consolidated financial statements for the fiscal year ended March 31, 2013 accordingly.
15. 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.

Financial Section

Operating Results and Financial Condition

Operating Results

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 VISION 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.

Net Sales

Consolidated net sales for the fiscal year ended December 31, 2016 increased 5.2 percent on a local currency basis compared with the 12 months ended December 31, 2015. Growth came mainly from higher sales in the prestige category in each region and additional sales from newly acquired brands. Translated into yen, consolidated net sales decreased 1.5 percent to ¥850,306 million ($7,296,884 thousand) due to the significant foreign exchange impact from the appreciation of the yen.

Net Sales

(Billions of yen)	2013/3	2014/3	2015/3	2015/3 (Adjusted)	2015/12	2015/12 (Adjusted)	**2016/12**
Net Sales	677.7	762.0	777.7	677.5	763.1	863.3	**850.3**

Cost of Sales and Selling, General and Administrative Expenses

Cost of Sales

Cost of sales decreased 4.0 percent year on year to ¥207,553 million ($1,781,112 thousand). The ratio of cost of sales to net sales decreased 0.7 percentage points to 24.4 percent. Sales in Japan have a lower ratio of cost of sales to net sales and accounted for a larger proportion of net sales. Additional factors included improvements in the product mix through increased sales of prestige brands and the effect of cost structure reforms.

Selling, General and Administrative Expenses

Selling, general and administrative (SG&A) expenses increased 0.5 percent year on year to ¥605,972 million ($5,200,137 thousand). Details of SG&A expenses are as follows:

Marketing Costs

The ratio of marketing costs to net sales increased 0.1 percentage points to 36.3 percent. Key factors were investments in growth to rebuild the business foundation and increased investment in new brands.

Personnel Expenses

The ratio of personnel expenses to net sales increased 0.1 percentage points to 13.2 percent. The main factor for the increase was higher retirement benefits recognized in Japan.

Other Expenses

The ratio of other expenses to net sales increased 1.3 percentage points to 21.8 percent due largely to costs associated with brand acquisitions and license agreements. R&D expenses, which are included in SG&A expenses, were ¥18,264 million ($156,732 thousand) and represented 2.1 percent of net sales.

Cost of Sales Ratio/SG&A Expenses Ratio/SG&A Expenses

	2013/3	2014/3	2015/3	2015/3 (Adjusted)	2015/12	2015/12 (Adjusted)	2016/12
Cost of Sales Ratio (%)	24.6	24.9	25.2	26.0	25.7	25.1	**24.4**
SG&A Expenses Ratio (%)	71.6	68.6	71.2	70.9	69.4	69.8	**71.3**
Marketing Costs	23.5	22.2	23.4	24.7	25.2	36.2	**36.3**
Personnel Expenses	24.7	23.9	24.5	27.3	25.7	13.1	**13.2**
Other Expenses	23.4	22.5	23.3	18.9	18.5	20.5	**21.8**
SG&A Expenses (Billions of yen)	484.9	522.8	553.6	480.1	529.4	602.7	**606.0**
Marketing Costs	159.0	169.3	182.2	167.0	192.1	312.1	**308.8**
Personnel Expenses	167.7	181.8	190.6	185.2	196.0	113.5	**112.0**
Other Expenses	158.2	171.7	180.8	127.9	141.3	177.1	**185.2**

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

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 Bare 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.

Operating Income/Operating Profitability

(Billions of yen)	2013/3	2014/3	2015/3	2015/3 (Adjusted)	2015/12	2015/12 (Adjusted)	2016/12
Operating Income	26.0	49.6	27.6	21.2	37.7	44.3	**36.8**
Operating Profitability (%)	3.8	6.5	3.6	3.1	4.9	5.1	**4.3**

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 land at the closed Kamakura Factory.

Income before Income Taxes

Income before income taxes decreased 6.1 percent year on year to ¥49,866 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).

Consolidated operating profitability was 4.3 percent. Consolidated return on equity (ROE) was 8.2 percent.

The major foreign currency rates applicable to the consolidated statements of income are ¥108.9 per U.S. dollar, ¥120.4 per euro, and ¥16.4 per Chinese yuan.

Net Income (Loss) Attributable to Owners of Parent/ Return on Equity

(Billions of yen)	2013/3	2014/3	2015/3	2015/3 (Adjusted)	2015/12	2015/12 (Adjusted)	2016/12
Net Income (Loss) Attributable to Owners of Parent	(14.7)	26.1	33.7	27.5	23.2	29.5	**32.1**
ROE (%)	(5.1)	8.4	9.4	–	6.0	–	**8.2**

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

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 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.

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 *clé 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 mid-priced *ELIXIR* skincare, *MAQuillAGE* makeup and *ANESSA* sunscreen 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 ($3,498,052 thousand). While aggressive marketing investment continued, operating income grew 4.4 percent year on year to ¥57,417 million ($492,722 thousand) largely because of higher marginal income due to the increase in sales, improvements in the product mix, and the effects 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*, *clé 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 *AUPRES* counters and renewed *PURE&MILD* to address the issues we have with our locally produced mid-priced brands, but the effect of these initiatives was limited.

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 ¥120,479 million ($1,033,888 thousand). Operating income was ¥4,166 million ($35,750 thousand), 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 marginal income due to higher sales and lower cost of sales due to an improved product mix.

Asia Pacific Business

In the Asia Pacific Business, the regional 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, supported by the growth in sales of prestige brands including *SHISEIDO*, *clé de peau BEAUTÉ* and *NARS* mainly in Thailand, Vietnam, and the contribution from *NARS* and personal care brand *SENKA* in South Korea. *SENKA* 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 7.0 percent year on year on a local currency basis. Translated into yen, however, sales decreased 5.9 year on year to ¥49,633 million ($425,924 thousand). Operating income increased 171.8 percent year on year to ¥1,102 million ($9,456 thousand) largely because of increased marginal income due to higher sales.

Americas Business

The Americas Business focused on the prestige category and increased marketing investments. We acquired the *Laura Mercier* brand in July 2016 to strengthen our brand portfolio and increase our share

Net Sales by Reportable Segment

Former segments

(Billions of yen)	2013/3	2014/3	2015/3
Domestic Cosmetics Business	345.9	349.7	339.3
Global Business	322.3	402.2	427.9
Others	9.5	10.1	10.5
Total	677.7	762.0	777.7

New segments[1]

(Billions of yen)	2015/3 (Adjusted)	2015/12
Japan Business	240.5	266.8
Global Business	424.3	478.8
Others	12.7	17.5
Total	677.5	763.1

New segments[2]

(Billions of yen)	2015/12 (Adjusted)	2016/12
Japan Business	396.0	**407.6**
China Business	125.7	**120.5**
Asia Pacific Business	52.7	**49.6**
Americas Business	167.5	**162.6**
EMEA Business	104.2	**85.2**
Travel Retail Business	17.2	**24.8**

Income by Reportable Segment (before Amortization of Goodwill)

Former segments

(Billions of yen)	2013/3	2014/3	2015/3
Domestic Cosmetics Business	27.7	39.6	30.2
Global Business	2.1	12.1	(0.1)
Others	2.0	2.1	2.2

New segments[1]

(Billions of yen)	2015/3 (Adjusted)	2015/12
Japan Business	20.2	30.6
Global Business	2.7	7.2
Others	3.1	4.9

New segments[2]

(Billions of yen)	2015/12 (Adjusted)	2016/12
Japan Business	55.1	**57.8**
China Business	(0.0)	**4.6**
Asia Pacific Business	0.5	**1.2**
Americas Business	3.8	**(2.9)**
EMEA Business	4.6	**(6.3)**
Travel Retai Business	2.4	**5.5**

Income by Reportable Segment (after Amortization of Goodwill)

Former segments

(Billions of yen)	2013/3	2014/3	2015/3
Domestic Cosmetics Business	27.5	39.5	30.0
Global Business	(3.3)	7.7	(4.7)
Others	2.0	2.1	2.2

New segments[1]

(Billions of yen)	2015/3 (Adjusted)	2015/12
Japan Business	20.1	30.5
Global Business	(1.9)	2.1
Others	3.1	4.9

New segments[2]

(Billions of yen)	2015/12 (Adjusted)	2016/12
Japan Business	55.0	**57.4**
China Business	(0.5)	**4.2**
Asia Pacific Business	0.4	**1.1**
Americas Business	(5.6)	**(11.8)**
EMEA Business	4.6	**(7.2)**
Travel Retail Business	2.4	**5.5**

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 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 reallocated to the "Global Business" and "Others" segments. Moreover, in order to more accurately grasp actual operating results in each segment, the allocation method for certain expenses has also been revised. Income and expenses for 2015/3 (Adjusted) (the corresponding period of the previous fiscal period) have been adjusted to conform to the new reportable segment classification and expense allocation methods.

2. 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.

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 able 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.

As a result of the above factors, segment sales increased 8.0 percent year on year on a local currency basis. Sales benefitted from the continued growth of *SHISEIDO*, *NARS* and *clé de peau BEAUTÉ*, and from newly acquired brands. Translated into yen, sales decreased 3.0 percent year on year to ¥162,556 million ($1,394,971 thousand). Operating loss was ¥11,813 million ($101,373 thousand). Factors included increased marketing investments, structural reform expenses at Bare Escentuals, Inc., and one-time costs and the amortization of goodwill associated with the acquisition of brands.

EMEA Business

The EMEA Business increased marketing investments to enhance the value of brands including *SHISEIDO* and designer fragrances *narciso rodriguez* and *ISSEY 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 ¥85,215 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, Thailand 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 ($212,760 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)

Former segments

(%)	2013/3	2014/3	2015/3
Domestic Cosmetics Business	8.0	11.3	8.8
Global Business	0.6	3.0	(0.0)
Others	13.4	13.8	14.6

New segments[1]

(%)	2015/3 (Adjusted)	2015/12
Japan Business	8.2	11.1
Global Business	0.6	1.5
Others	13.5	17.5

New segments[2]

(Billions of yen)	2015/12 (Adjusted)	2016/12
Japan Business	12.6	**12.7**
China Business	(0.0)	**3.8**
Asia Pacific Business	0.9	**2.3**
Americas Business	2.2	**(1.7)**
EMEA Business	4.2	**(7.0)**
Travel Retail Business	14.0	**22.1**

Profitability by Reportable Segment (after Amortization of Goodwill)

Former segments

(%)	2013/3	2014/3	2015/3
Domestic Cosmetics Business	7.9	11.2	8.8
Global Business	(1.0)	1.9	(1.1)
Others	13.4	13.8	14.6

New segments[1]

(%)	2015/3 (Adjusted)	2015/12
Japan Business	8.1	11.1
Global Business	(0.4)	0.4
Others	13.5	17.5

New segments[2]

(Billions of yen)	2015/12 (Adjusted)	2016/12
Japan Business	12.6	**12.6**
China Business	(0.4)	**3.5**
Asia Pacific Business	0.8	**2.2**
Americas Business	(3.1)	**(6.8)**
EMEA Business	4.2	**(8.1)**
Travel Retail Business	14.0	**22.1**

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

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 for the interest-bearing debt ratio to maintain finances at a level that enables access to capital on favorable terms. Shiseido meets its funding requirements for large-scale investments using optimum, timely methods given factors including operating status, financial position and market environment.

One of our targets for short-term liquidity is to maintain cash on hand at a level of approximately 1.5 months of consolidated net sales. As of December 31, 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 thousand).* 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 million. 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.

* 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 including these long-term payables was ¥175,832 million ($1,508,898 thousand).

Cash Flows

Cash and cash equivalents (net cash) as of December 31, 2016 totaled ¥113,122 million ($970,754 thousand), an increase of ¥8,196 million compared with December 31, 2015.

Cash Flows Summary

(Billions of yen)	2015/3	2015/12	2016/12
Cash Flows from Operating Activities	32.1	60.5	**59.1**
Cash Flows from Investing Activities	11.5	(23.1)	**(70.6)**
Cash Flows from Financing Activities	(58.4)	(30.2)	**22.4**
Cash and Cash Equivalents at End of Period	100.8	104.9	**113.1**

Cash Flows from Operating Activities

Net cash provided by operating activities was ¥59,129 million ($507,414 thousand). Income before income taxes was ¥49,866 million ($427,924 thousand), depreciation was ¥34,480 million ($295,889 thousand), amortization of goodwill was ¥4,916 million ($42,186 thousand), and increase in notes and accounts payable was ¥19,058 million ($163,545 thousand). On the other hand, increase in notes and accounts receivable was ¥10,578 million ($90,774 thousand), increase in inventories was ¥9,500 ($81,524 thousand), gain on transfer of business was ¥8,952 million ($76,821 thousand) and income taxes paid totaled ¥16,415 million ($140,865 thousand).

Cash Flows from Investing Activities

Net cash used in investing activities was ¥70,640 million ($606,195 thousand). Proceeds from transfer of business provided ¥10,938 million ($93,864 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 ($209,611 thousand).

Cash Flows from Operating Activities/Capital Expenditures[1]

(Billions of yen)	2013/3	2014/3	2015/3	2015/12	2016/12
Cash Flows from Operating Activities	42.0	84.3	32.1	60.5	**59.1**
Capital Expenditures[1]	29.7	28.3	26.8	32.4	**44.8**

Notes: 1. Property, plant and equipment + Intangible assets + Long-term prepaid expenses
2. Trademarks are excluded from intangible fixed asset capital expenditures.

Cash Flows from Financing Activities

Net cash provided by financing activities was ¥22,378 million ($192,036 thousand). Proceeds from long-term debt provided ¥30,000 million ($257,444 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 ¥946,007 million ($8,118,141 thousand).

Current assets increased 8.1 percent compared with December 31, 2015 to ¥443,748 million ($3,808,015 thousand). Non-current assets (fixed assets) increased 26.2 percent compared with December 31, 2015 to ¥502,258 million ($4,310,117 thousand) largely due to an increase in intangible assets associated with the acquisition of brands, including *Laura Mercier,* and with the *Dolce&Gabbana* license agreement.

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 debt.

Net Assets

Total net assets as of December 31, 2016 increased 0.1 percent compared with December 31, 2015 to ¥413,870 million ($3,551,617 thousand), mainly due to an increase in shareholders' equity.

Total Assets/Operating ROA

(Billions of yen)	2013/3	2014/3	2015/3	2015/12	2016/12
Total Assets	715.6	801.3	823.6	808.5	**946.0**
Operating ROA (%)	3.8	6.8	3.6	4.8	**4.3**

Net Assets/Interest-Bearing Debt

(Billions of yen)	2013/3	2014/3	2015/3	2015/12	2016/12
Net Assets	303.2	358.7	409.4	413.3	**413.9**
Interest-Bearing Debt	184.7	155.9	106.9	86.6	**120.6***

Equity Ratio/Interest-Bearing Debt Ratio

(%)	2013/3	2014/3	2015/3	2015/12	2016/12
Equity Ratio	40.1	42.2	47.0	48.4	**41.5**
Interest-Bearing Debt Ratio	37.9	30.3	20.7	17.3	**22.6***

* 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, and interest-bearing debt was ¥175,832 million ($1,508,898 thousand).

As of December 31, 2016, net assets per share increased ¥2.77 ($0.02) compared with December 31, 2015 to ¥984.13 ($8.45). The equity ratio decreased 6.9 percentage points to 41.5 percent.

Credit Ratings

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

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

(As of February 28, 2017)

Forecast for the Fiscal Year Ending December 31, 2017

Forecast for the Year Ending December 31, 2017
(Announced on February 9, 2017)

	2017/12 (Estimate)	Year-on-year increase (decrease): % Change	Year-on-year increase (decrease): % change in local currency terms	2016/12[1] (Results)
Net Sales	940.0	10.5%	11%	850.3
Japan Business	391.0	2.6%	3%	381.2
China Business	132.0	11.8%	14%	118.1
Asia Pacific Business	48.5	6.4%	6%	45.6
Americas Business	164.0	19.3%	19%	137.5
EMEA Business	111.0	31.9%	34%	84.1
Travel Retail Business	32.5	31.0%	30%	24.8
Professional Business	47.0	4.5%	4%	45.0
Other[2]	14.0	0%	0%	14.0
Operating Income	45.5	23.7%	–	36.8
Net Income Attributable to Owners of Parent	26.0	-19.0%	–	32.1

Notes: 1. Effective from the fiscal year ending December 31, 2017, the Company has revised its reportable segment classification method in line with changes to its organizational system. Under this change, plans are in place to reclassify the Company's reportable segments into the "Japan Business," "China Business," "Asia Pacific Business," "Americas Business," "EMEA Business," "Travel Retail Business" and "Professional Business." Meanwhile, operating results data for the fiscal year under review has been rearranged using the simplified method.
2. "Other" refers to the operations of business segments not included in reportable segments and is comprised of manufacturing operations and the activities of the Frontier Science and Restaurant businesses.

Despite expectations that the global economy as a whole will continue to recover moderately during the fiscal year ending December 31, 2017, future conditions remain uncertain. U.S. trade and financial policies, political events in Europe, and economic conditions in Asia are among factors that may impact operating conditions.

Under these circumstances, Shiseido will continue to rebuild its business foundation to achieve the targets identified under the medium-to-long-term strategy VISION 2020. Specifically, the Group is targeting high growth by adopting a selection and concentration approach toward prestige brands, brands that are made in Japan, digital, e-commerce and other categories expected to expand in the future. Shiseido will rigorously manage returns by brand to improve profitability, and will implement initiatives including efforts to turn around underperforming brands and conduct a bold review of businesses and the brand portfolio. The Group will creatively strengthen brands through innovation by actively employing the Centers of Excellence to cultivate strong brands that can excel globally. Centers of Excellence is a concept under which regions that are at the forefront of categories and have the ability to influence them globally will lead the Group in collecting information, formulating strategy, developing products and other initiatives for shared use in marketing operations worldwide. Japan will host the Center of Excellence for skincare, the United States for makeup and digital marketing, and Europe for fragrances. In addition, the Group will invest in emerging companies in leading-edge businesses to gain access to innovative technologies and ideas and promote open innovation that drives the development of high-value-added products. The Company will support these initiatives by nurturing and recruiting human resources globally while building mechanisms that allow each and every employee to make the most of their talents and potential.

We expect these initiatives to result in consolidated net sales for the fiscal year ending December 31, 2017 of ¥940.0 billion. Operating income is forecast to total ¥45.5 billion due to increased marginal income as a result of higher sales. Net income attributable to owners of parent is projected to be ¥26.0 billion.

Segment Forecast

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.

The following segment outlook is based on this change of classification.

Japan Business

In the Japan Business, we will build the robust prestige category by increasing marketing investments and capturing inbound demand. We will also enhance the strength of our brands in the cosmetics category by increasing points of customer contact. We still have work to do in low-priced categories, where we will thoroughly review strategies, rigorously employ selection and concentration for categories and brands in which the Group is strong, and use alliances with companies and collaboration with retailers to rebuild. We forecast that segment sales will increase 3 percent year on year to ¥391.0 billion.

China Business

In the China Business, we will further strengthen the prestige category, in which market share is steadily increasing. We will also increase investments in the rapidly growing e-commerce market. Initiatives to address issues in and reinforce the mid-priced cosmetics category will include a complete renewal of *AUPRES* in March 2017 and the launch of *ELIXIR* as a skincare brand that originated in Japan. We forecast that segment sales will increase 14 percent year on year on a local currency basis to ¥132.0 billion.

Asia Pacific Business

In the Asia Pacific Business, we will strengthen the prestige category by aggressively investing in sales counters. We will roll out products that are made in Japan in the cosmetics and personal care categories and optimize communication with consumers by region to expand sales. We forecast that segment sales will increase 6 percent year on year on a local currency basis to ¥48.5 billion.

Americas Business

In the Americas Business, we will prioritize the rejuvenation of *bareMinerals* and will invest in *Laura Mercier*, *NARS* and other brands to further enhance brand strength in the makeup category. We will also improve profitability by increasing business efficiency within the region. We forecast that segment sales will increase 19 percent year on year on a local currency basis to ¥164.0 billion.

EMEA Business

In the EMEA Business, we began selling *Dolce&Gabbana* fragrances and other products in October 2016 after licensing the brand earlier in the year, and will substantially increase marketing investments in the brand. We plan to transfer production to a Shiseido Group factory during the first half of the fiscal year ending December 31, 2017, and expect the profitability of the brand to improve substantially. We will also focus investment on selected *SHISEIDO* brand lines. We will build the foundation for enhanced profitability after integrating regional EMEA organizations. We forecast that segment sales will increase 34 percent year on year on a local currency basis to ¥111.0 billion.

Travel Retail Business

The Travel Retail Business has exceptional potential for growth, and we will aggressively increase investment in this priority business. Specifically, we will focus on increasing the number of counters at airports throughout the world, enhancing sales promotions, tailoring marketing to the unique needs of travelers, and developing dedicated products for Travel Retail. We forecast that segment sales will increase 30 percent year on year on a local currency basis to ¥32.5 billion.

Professional Business

In the Professional Business, we will continue to focus on strengthening the coloring category to accelerate growth in China and Asia. We forecast that segment sales will increase 4 percent year on year on a local currency basis to ¥47.0 billion.

Other

In the Frontier Science business, we will continue to focus on sales of bio-hyaluronic acid, a raw material for pharmaceuticals and cosmetics, and on sales of *2e* and *NAVISION* cosmetics, derived from beauty care skin research, for medical institutions. In the Restaurant business, we will continue to develop menus that address customers' tastes and build business overseas, which began in Singapore last year. Segment sales are forecast to be unchanged year on year at ¥14.0 billion.

We base our predictions on major currency exchange rates of ¥110 per U.S. dollar, ¥118 per euro, and ¥16 per Chinese yuan.

Business and Other Risks

The various risks that could potentially affect the business performance and financial position of Shiseido are summarized below. We feel that these risks could have a major impact on investors' decisions. Items that deal with future events are based on our judgment as of March 28, 2017. Please note that the potential risks are not limited to those listed below.

1. Decrease in Brand Value

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

2. Consumer Services

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

3. Strategic Investment Activities

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

4. Competitive Environment of the Cosmetics Industry

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

5. Overseas Business Activities

As of December 31, 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 overseas business, Shiseido's business performance and financial position could be negatively affected by various factors. These include the occurrence of sudden and unpredictable economic, political and social crises; terrorism, war and civil war; economic and civil upheaval resulting from the spread of contagious diseases; 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 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 that may prevent Shiseido from achieving its intended results, which could negatively affect Shiseido's business performance and financial position.

8. Specific Business Partners

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

9. Regulatory Risk

Shiseido is subject to a range of domestic and overseas legal 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 comply with our Personal Information Protection Rules for the handling of individual number and specific personal information, Confidential Information Controlling Regulation and Information System Controlling Regulation to carefully handle personal consumer information and protect all information assets. Overseas, we have also established rules based on the laws of the countries in which we operate. However, unforeseeable events, such as leakage of information due to unauthorized access, could negatively affect the Shiseido's Group's business performance and financial position.

12. Natural Disasters and Accidents

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

Significant Accounting Estimates

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

Property, Plant and Equipment

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

Goodwill, Trademarks and Other Intangible Assets

Shiseido reviews goodwill, trademarks and other intangible assets for impairment 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 revaluation is recognized for 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 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 revised annually. Discount rate and expected return on pension plan assets are critical assumptions in determining benefits and obligations. The discount rate is determined based on the market rate as of the balance sheet date for long-term fixed-rate bonds that carry little or no risk. Expected return on pension plan assets is determined based on an expected weighted-average return for the various types of assets held within the plan. We consider these assumptions to be appropriate. However, actual results may vary and changes in the underlying assumptions could occur, which could affect retirement benefits and obligations.

Consolidated Financial Statements

CONSOLIDATED BALANCE SHEETS

Shiseido Company, Limited and Subsidiaries
December 31, 2015 and 2016

	Note	Millions of yen		Thousands of U.S. dollars (Note 1)
		2015/12	2016/12	2016/12
ASSETS				
Current Assets:				
Cash and time deposits	3, 4, 7	¥ 116,771	¥ 120,126	$ 1,030,859
Short-term investments in securities	3, 4, 5	7,685	7,905	67,836
Notes and accounts receivable:	4			
Trade		127,201	136,768	1,173,672
Unconsolidated subsidiaries and affiliates		0	0	0
		127,201	136,768	1,173,672
Less: allowance for doubtful accounts		(1,765)	(1,933)	(16,588)
		125,436	134,835	1,157,084
Inventories	6	105,928	115,672	992,637
Deferred tax assets	9	28,242	33,618	288,492
Other current assets		26,608	31,589	271,080
Total current assets		410,673	443,748	3,808,015
Property, Plant and Equipment, at Cost:				
Buildings and structures	7	162,630	164,817	1,414,373
Machinery and equipment	7	164,851	167,218	1,434,978
Leased assets		7,373	7,414	63,623
		334,855	339,450	2,912,983
Less: accumulated depreciation		(236,406)	(238,271)	(2,044,718)
		98,448	101,178	868,257
Land		29,989	36,604	314,116
Construction in progress		5,843	18,411	157,993
Total property, plant and equipment	19, 25	134,281	156,194	1,340,375
Intangible Assets:				
Goodwill	25	59,430	59,795	513,129
Leased assets		513	401	3,441
Trademarks		60,087	146,209	1,254,689
Other intangible assets		41,372	39,927	342,632
Total intangible assets	19	161,403	246,333	2,113,901
Investments and Other Assets:				
Investments in securities	4, 5, 7	24,631	22,532	193,357
Investments in unconsolidated subsidiaries and affiliates	4	2,803	2,367	20,312
Long-term prepaid expenses		12,692	13,377	114,794
Deferred tax assets	9	36,833	37,371	320,698
Other investments	7	25,226	24,081	206,650
Total investments and other assets		102,187	99,729	855,822
Total Assets		¥ 808,547	¥ 946,007	$ 8,118,141

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

	Note	Millions of yen		Thousands of U.S. dollars (Note 1)
		2015/12	2016/12	2016/12
LIABILITIES AND NET ASSETS				
Current Liabilities:				
Short-term debt	4, 7	¥ 11,386	¥ 11,583	$ 99,399
Current portion of long-term debt	4, 7	7,610	4,974	42,684
Notes and accounts payable:	4			
Trade		32,162	50,149	430,352
Unconsolidated subsidiaries and affiliates		939	930	7,980
		33,102	51,080	438,342
Electronically recorded obligations - operating	4	29,213	32,312	277,284
Other payables	4, 7	37,090	43,453	372,891
Accrued income taxes		4,661	5,561	47,721
Reserve for sales returns		14,799	12,948	111,113
Accrued bonuses for employees		18,480	22,110	189,736
Accrued bonuses for directors		55	99	849
Provision for liabilities and charges		1,192	2,024	17,368
Deferred tax liabilities	9	16	0	0
Other current liabilities		49,176	60,538	519,505
Total current liabilities		206,784	246,687	2,116,939
Long-Term Liabilities:				
Long-term debt	4, 7	67,617	104,022	892,662
Long-term payables	2, 4, 7	715	53,135	455,977
Liability for retirement benefits	8	83,656	94,489	810,855
Allowance for losses on guarantees		350	350	3,003
Allowance for environmental measures		377	376	3,226
Provision for structural reforms		990	—	—
Deferred tax liabilities	9	31,270	29,818	255,882
Other long-term liabilities		3,450	3,257	27,949
Total long-term liabilities		188,428	285,449	2,449,575
Total Liabilities		395,212	532,137	4,566,523
CONTINGENT LIABILITIES	10			
NET ASSETS	11			
Shareholders' Equity:				
Common stock		64,506	64,506	553,557
Authorized: 1,200,000,000 shares as of December 31, 2015 and 2016 Issued: 400,000,000 shares as of December 31, 2015 and 2016				
Capital surplus		70,258	70,846	607,963
Retained earnings		233,933	258,005	2,214,065
Less: treasury stock, at cost		(1,700)	(1,325)	(11,370)
Treasury stock: 899,741 shares as of December 31, 2015 and 700,745 shares as of December 31, 2016				
Total shareholders' equity		366,999	392,033	3,364,223
Accumulated Other Comprehensive Income:				
Unrealized gains (losses) on available-for-sale securities	5	8,144	7,389	63,408
Foreign currency translation adjustments		40,374	26,516	227,546
Accumulated adjustments for retirement benefits		(23,854)	(32,975)	(282,974)
Total accumulated other comprehensive income		24,664	930	7,980
Stock Acquisition Rights	12	863	818	7,019
Non-Controlling Interests in Consolidated Subsidiaries		20,806	20,087	172,376
Total Net Assets		413,334	413,870	3,551,617
Total Liabilities and Net Assets		¥808,547	¥946,007	$8,118,141

CONSOLIDATED STATEMENTS OF INCOME/ CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

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

CONSOLIDATED STATEMENTS OF INCOME

	Note	Millions of yen 2015/12	Millions of yen 2016/12	Thousands of U.S. dollars (Note 1) 2016/12
Net Sales	25	¥763,058	¥850,306	$7,296,884
Cost of Sales		196,009	207,553	1,781,112
Gross profit		567,048	642,753	5,515,772
Selling, General and Administrative Expenses	13	529,388	605,972	5,200,137
Operating income	25	37,660	36,780	315,626
Other Income (Expenses):				
Interest and dividend income		1,731	1,293	11,095
Interest expense		(809)	(814)	(6,985)
Foreign exchange gain (loss)		(1,790)	(1,270)	(10,898)
Equity in earnings of affiliates		149	260	2,231
Gain on sales of investments in securities	5	2,426	402	3,449
Loss on revaluation of investments in securities		(6)	(21)	(180)
Gain (loss) on sales and disposal of property, plant and equipment	18	(436)	8,122	69,698
Gain on transfer of business	17	5,772	8,952	76,821
Impairment loss	19	(153)	(153)	(1,312)
Structural reform expenses	20	(1,485)	(4,037)	(34,643)
Loss on liquidation of subsidiaries and affiliates	21	(812)	—	—
Information security expenses	22	—	(574)	(4,925)
Other, net		646	926	7,946
		5,232	13,086	112,297
Income before income taxes		42,892	49,866	427,924
Income Taxes	9			
Current		15,267	17,507	150,235
Deferred		2,024	(1,565)	(13,430)
		17,292	15,941	136,797
Net income		25,600	33,925	291,126
Net Income Attributable to Non-Controlling Interests		(2,389)	(1,823)	(15,644)
Net Income Attributable to Owners of Parent		¥ 23,210	¥ 32,101	$ 275,474

		Yen		U.S. dollars (Note 1)
Per Share	2			
Net income attributable to owners of parent — basic		¥58.2	¥80.4	$0.68
— diluted		58.1	80.3	0.68
Cash dividend		20.0	20.0	0.17
Weighted Average Number of Shares (thousands)		399,026	399,227	

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

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

	Note	Millions of yen 2015/12	Millions of yen 2016/12	Thousands of U.S. dollars (Note 1) 2016/12
Net Income		¥ 25,600	¥ 33,925	$ 291,126
Other Comprehensive Income				
Unrealized gains (losses) on available-for-sale securities	5	1,690	(813)	(6,976)
Foreign currency translation adjustments		(9,173)	(14,906)	(127,915)
Adjustments for retirement benefits		(4,468)	(9,136)	(78,400)
Share of other comprehensive income of associates accounted for under the equity method		(55)	(90)	(772)
Total other comprehensive income (loss)	23	¥(12,005)	¥(24,946)	$(214,073)
Comprehensive Income		¥ 13,594	¥ 8,978	$ 77,044
(Breakdown)				
Comprehensive income attributable to owners of parent		¥ 12,323	¥ 8,367	$ 71,801
Comprehensive income attributable to non-controlling interests		1,271	611	5,243

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

CONSOLIDATED STATEMENTS OF CHANGES IN NET ASSETS

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

	Thousands	Millions of yen								
	Number of shares of common stock	Common stock	Capital surplus	Retained earnings	Treasury stock, at cost	Unrealized gains (losses) on available-for-sale securities	Foreign currency translation adjustments	Accumulated adjustments for retirement benefits	Stock acquisition rights	Non-controlling interests in consolidated subsidiaries
Balance as of April 1, 2015	400,000	¥64,506	¥70,258	¥218,757	¥(2,214)	¥6,443	¥ 48,544	¥(19,435)	¥1,043	¥21,465
Net income attributable to owners of parent	—	—	—	23,210	—	—	—	—	—	—
Cash dividend from retained earnings	—	—	—	(7,979)	—	—	—	—	—	—
Equity transactions with non-controlling interests and others	—	—	—	(55)	—	—	—	—	—	—
Acquisition of treasury stock	—	—	—	—	(10)	—	—	—	—	—
Disposal of treasury stock	—	—	0	—	524	—	—	—	—	—
Net changes of items other than shareholders' equity	—	—	—	—	—	1,701	(8,170)	(4,418)	(180)	(658)
Balance as of December 31, 2015	400,000	64,506	70,258	233,933	(1,700)	8,144	40,374	(23,854)	863	20,806
Net income attributable to owners of parent	—	—	—	32,101	—	—	—	—	—	—
Cash dividend from retained earnings	—	—	—	(7,983)	—	—	—	—	—	—
Equity transactions with non-controlling interests and others	—	—	575	(46)	—	—	—	—	—	—
Acquisition of treasury stock	—	—	—	—	(6)	—	—	—	—	—
Disposal of treasury stock	—	—	11	—	380	—	—	—	—	—
Net changes of items other than shareholders' equity	—	—	—	—	—	(755)	(13,858)	(9,120)	(44)	(718)
Balance as of December 31, 2016	400,000	¥64,506	¥70,846	¥258,005	¥(1,325)	¥7,389	¥ 26,516	¥(32,975)	¥ 818	¥20,087

	Thousands	Thousands of U.S. dollars (Note 1)								
	Number of shares of common stock	Common stock	Capital surplus	Retained earnings	Treasury stock, at cost	Unrealized gains (losses) on available-for-sale securities	Foreign currency translation adjustments	Accumulated adjustments for retirement benefit	Stock acquisition rights	Non-controlling interests in consolidated subsidiaries
Balance as of January 1, 2016	400,000	$553,557	$602,917	$2,007,491	$(14,588)	$69,887	$ 346,468	$(204,702)	$7,405	$178,546
Net income attributable to owners of parent	—	—	—	275,474	—	—	—	—	—	—
Cash dividend from retained earnings	—	—	—	(68,505)	—	—	—	—	—	—
Equity transactions with non-controlling interests and others	—	—	4,934	(394)	—	—	—	—	—	—
Acquisition of treasury stock	—	—	—	—	(51)	—	—	—	—	—
Disposal of treasury stock	—	—	94	—	3,260	—	—	—	—	—
Net changes of items other than shareholders' equity	—	—		—	—	(6,479)	(118,922)	(78,263)	(377)	(6,161)
Balance as of December 31, 2016	400,000	$553,557	$607,963	$2,214,065	$(11,370)	$63,408	$ 227,546	$(282,974)	$7,019	$172,376

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

		Millions of yen		Thousands of U.S. dollars (Note 1)
	Note	2015/12	2016/12	2016/12
Cash Flows from Operating Activities:				
Income before income taxes		¥ 42,892	¥ 49,866	$ 427,924
Depreciation		31,761	34,480	295,889
Amortization of goodwill		5,172	4,916	42,186
Impairment loss		153	153	1,312
(Gain) loss on sales and disposal of property, plant and equipment		436	(7,132)	(61,203)
(Gain) loss on sales of investments in securities		(2,426)	(402)	(3,449)
(Gain) loss on revaluation of investments in securities		6	21	180
Gain on transfer of business		(5,772)	(8,952)	(76,821)
Loss on liquidation of subsidiaries and affiliates		812	—	—
Increase (decrease) in allowance for doubtful accounts		620	233	1,999
Increase (decrease) in reserve for sales returns		(396)	(1,526)	(13,095)
Increase (decrease) in accrued bonuses for employees		1,845	3,917	33,613
Increase (decrease) in accrued bonuses for directors		(127)	44	377
Increase (decrease) in provision for liabilities and charges		621	896	7,689
Increase (decrease) in provision for structural reforms		(25)	(990)	(8,495)
Increase (decrease) in liability for retirement benefits		1,562	(2,168)	(18,604)
Increase (decrease) in allowance for environmental measures		(18)	(1)	(8)
Interest and dividend income		(1,731)	(1,293)	(11,095)
Interest expense		809	814	6,985
Equity in earnings of affiliates		(149)	(260)	(2,231)
(Increase) decrease in notes and accounts receivable		(1,745)	(10,578)	(90,774)
(Increase) decrease in inventories		(2,846)	(9,500)	(81,524)
Increase (decrease) in notes and accounts payable		7,405	19,058	163,545
Other		5,721	3,235	27,761
Subtotal		84,579	74,831	642,160
Interest and dividends received		1,728	1,552	13,318
Interest paid		(843)	(838)	(7,191)
Income taxes paid		(24,935)	(16,415)	(140,865)
Net cash provided by operating activities		60,529	59,129	507,414
Cash Flows from Investing Activities:				
Transfers to time deposits		(18,312)	(14,207)	(121,917)
Proceeds from maturity of time deposits		17,915	17,641	151,385
Acquisition of short-term investments in securities		(89)	(4)	(34)
Proceeds from sales of short-term investments in securities		14	—	—
Acquisition of investments in securities		(1,051)	(430)	(3,690)
Proceeds from sales of investments in securities		6,762	650	5,577
Proceeds from transfer of business		4,233	10,938	93,864
Acquisition of property, plant and equipment		(16,941)	(31,366)	(269,166)
Proceeds from sales of property, plant and equipment		829	8,832	75,791
Acquisition of intangible assets		(10,055)	(32,340)	(277,525)
Payments of long-term prepaid expenses		(5,373)	(6,124)	(52,552)
Payments of long-term loans receivable		(140)	—	—
Acquisition of shares in subsidiaries resulting in change in scope of consolidation	3	(221)	(24,426)	(209,611)
Sales of shares in subsidiaries resulting in change in scope of consolidation		(141)	—	—
Other		(566)	197	1,690
Net cash used in investing activities		(23,137)	(70,640)	(606,195)
Cash Flows from Financing Activities:				
Net increase (decrease) in short-term debt		(15,600)	529	4,539
Proceeds from long-term debt		65,001	40,000	343,259
Repayment of long-term debt		(68,599)	(5,738)	(49,240)
Repayment of lease obligations		(1,686)	(2,187)	(18,767)
Acquisition of treasury stock		(10)	(6)	(51)
Disposal of treasury stock		525	392	3,363
Cash dividend paid		(7,711)	(8,214)	(70,488)
Cash dividend paid to non-controlling interests		(2,071)	(3,359)	(28,825)
Sales of shares in subsidiaries not resulting in change in scope of consolidation		—	962	8,255
Other		—	0	0
Net cash provided by (used in) financing activities		(30,151)	22,378	192,036
Effect of Exchange Rate Changes on Cash and Cash Equivalents		(3,121)	(2,672)	(22,929)
Net Change in Cash and Cash Equivalents		4,118	8,196	70,333
Cash and Cash Equivalents at Beginning of Year	3	100,807	104,926	900,420
Cash and Cash Equivalents at End of Year	3	¥104,926	¥113,122	$ 970,754

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

Notes to the Consolidated Financial Statements

Shiseido Company, Limited and Subsidiaries

1 BASIS OF PRESENTING CONSOLIDATED FINANCIAL STATEMENTS

Accounting Principles and Presentation

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

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

Amounts in U.S. dollars are included solely for the convenience of the reader. The rate of ¥116.53 = US$1 prevailing on December 31, 2016 has been used in translating the consolidated financial statements expressed in Japanese yen into U.S. dollars. Such translations should not be construed as representations that the Japanese yen amounts could be readily converted, realized or settled in U.S. dollars at this rate.

Change in Consolidated Fiscal Period-Ends

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.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(1) 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).

Gurwitch UK Ltd. has been included in the scope of consolidation effective from the fiscal year ended December 31, 2016 following the new acquisition of shares during the fiscal year ended December 31, 2016. Gurwitch Products, LLC. and GBP UK LLC. have been merged with Shiseido Americas Corporation by way of absorption in the fiscal year ended December 31, 2016 after the acquisition of new shares during the fiscal year ended December 31, 2016.

Noms de Code S.A.S. was excluded from the scope of consolidation effective from the fiscal year ended December 31, 2016 following the transfer of shares held.

Bare Escentuals Canada, Inc, was excluded from the scope of consolidation effective from the fiscal year ended December 31, 2016 following completion of an absorption-type merger with Shiseido (Canada) Inc.

Salle de Fete was excluded as an affiliated company accounted for by the equity method effective from the fiscal year ended December 31, 2016 following the transfer of shares held.

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

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

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

(2) Inventories

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

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

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

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

(4) Intangible Assets (Excluding Leased Assets)

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

Software: 5 years
Customer relationships: 10 years
Trademarks: 10-15 years (except for those with indefinite useful lives)

(5) Leased Assets

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

(6) Long-Term Prepaid Expenses

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

(7) Goodwill

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

(8) Securities

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

If fair value is not available, securities are carried at cost, which is determined mainly by the moving-average method.

Investments in limited partnerships are recorded as investments in securities at the amount of interest in such partnerships calculated based on ownership percentage. Investment gain or loss is included in net income or loss in proportion to the ownership interests in the net asset value of the partnership.

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

(9) Net Income and Cash Dividend per Share

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

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

(10) Accounting for Consumption Tax

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

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

(11) Allowance for Doubtful Accounts

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

(12) Reserve for Sales Returns

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

(13) Accrued Bonuses for Employees

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

(14) Accrued Bonuses for Directors

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

(15) Provision for Liabilities and Charges

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

(16) Allowance for Losses on Guarantees

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

(17) Allowance for Environmental Measures

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

(18) Provision for Structural Reforms

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

(19) Liability for Retirement Benefits

① Periodic allocation 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 actual requirements, and do not use derivatives for speculative trading.

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

Derivatives are carried at fair value with gains or losses recognized in the consolidated statements of 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 contract was executed (special accounting).

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

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

(22) Foreign Currency Denominated Financial Statements

Financial statements of overseas consolidated subsidiaries and affiliates that are denominated in foreign currencies are translated into Japanese yen at the exchange rates prevailing at the respective balance sheet dates of those subsidiaries for assets and liabilities, and at the historical exchange rates for shareholders' equity. All income and expense amounts are translate 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, 2015 has been rearranged 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 into ¥715 million of "Long-term payables" and ¥3,450 million of "Other long-term liabilities" respectively.

(27) Accounting Standard Issued but Not Yet Adopted

1. The Company and domestic affiliates

Implementation Guidance on Recoverability of Deferred Tax Assets Accounting Standards Boards of Japan (ASBJ Guidance No. 26, March 28, 2016)

(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 lease is under evaluation at the time of the preparation of consolidated financial statements.

3 CASH FLOW INFORMATION

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

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2015/12	2016/12	2016/12
Cash and time deposits	¥116,771	**¥120,126**	**$1,030,859**
Short-term investments in securities	7,685	**7,905**	**67,836**
Total	¥124,457	**¥128,032**	**$1,098,704**
Time deposits with maturities exceeding 3 months	(17,463)	**(13,004)**	**(111,593)**
Debt securities with maturities exceeding 3 months	(2,067)	**(1,905)**	**(16,347)**
Cash and cash equivalents	¥104,926	**¥113,122**	**$ 970,754**

(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 of shares is as follows:
For the fiscal year ended December 31, 2016

	Millions of yen	Thousands of U.S. dollars (Note 1)
Current assets	¥ 8,658	$ 74,298
Non-current assets	¥19,024	$163,254
Current liabilities	¥ (1,965)	$ (16,862)
Acquisition cost of newly consolidated subsidiaries	¥25,717	$220,689
Cash and cash equivalents of newly consolidated subsidiaries	¥ (1,291)	$ (11,078)
Acquisition of shares in subsidiaries resulting in change in scope of consolidation	¥24,426	$209,611

(3) Significant non-cash transactions are as follows:
Newly recorded assets and liabilities related to finance lease transactions are as follows:
For the fiscal period ended December 31, 2015

Lease assets	¥1,417 million	
Lease obligations	1,417 million	

For the fiscal year ended December 31, 2016

Lease assets	¥1,700 million	($14,588 thousand)
Lease obligations	1,700 million	(14,588 thousand)

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	(528,687 thousand)

4 FINANCIAL INSTRUMENTS

(1) Financial Instruments

① Policy for financial instruments

The Companies limit fund management to short-term deposits, investments in securities and other methods.

As a matter of policy, the Companies procure funds using bank loans, commercial paper, bonds and other methods.

The Companies use derivatives to avoid the risk of foreign exchange rate fluctuations associated with receivables and payables denominated in foreign currencies and the risk of interest rate fluctuations associated with loans. The Companies limit the use of derivatives to the volume of receivables and payables and actual requirements, and do not engage in speculative transactions.

② Types of financial instruments, risks and risk management system

Notes and accounts receivable are exposed to customer credit risk. The Companies mitigate this risk by managing settlement date and amount due for each counterparty.

Investments in securities, primarily the equity securities of corporations with which the Companies do business, are exposed to the risk of fluctuations in market price. The Companies manage this risk by periodically examining market prices and the financial condition of the issuing entities.

Notes, electronically recorded obligations and accounts payable are due within one year.

Interest-bearing debt includes short-term borrowings and commercial paper, which the Companies use to procure funds for operating transactions, as well as long-term borrowings, bonds and lease obligations, which the Companies use to fund investments and loans, capital expenditures and operating transactions. 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.

③ Supplemental information on the fair value of financial instruments

The Companies calculate the fair value of financial instruments based on market prices, or by using reasonable estimates when market prices are not available. These estimates include variable factors, and are subject to fluctuation due to changes in the underlying assumptions. The contract amounts of the derivatives discussed in Note 16. DERIVATIVE FINANCIAL INSTRUMENTS are not an indicator of the market risk associated with derivative transactions.

(2) Fair Value of Financial Instruments

Fair value and variance with carrying value presented on the consolidated balance sheets are as follows. Fair values that are not readily determinable are not included in the following table (See *2 for additional information).

	Millions of yen		
	2015/12		
	Carrying value (*)	Fair value (*)	Variance
① Cash and time deposits	¥116,771	¥116,771	—
② Notes and accounts receivable (less allowance for doubtful accounts)	125,436	125,436	—
③ Short-term investments in securities and investments in securities Available-for-sale securities	30,854	30,854	—
④ Notes and accounts payable, Electronically recorded obligations and other payables	(99,406)	(99,406)	—
⑤ Short-term borrowings from banks and other financial institutions	(7,167)	(7,167)	—
⑥ Commercial papers	(4,218)	(4,218)	—
⑦ Bonds	(30,000)	(30,180)	¥ (180)
⑧ Long-term borrowings from banks and other financial institutions	(41,172)	(43,708)	(2,536)
⑨ Lease obligations	(4,054)	(4,071)	(16)
⑩ Derivative instruments			
i. Hedge accounting not applied	(16)	(16)	—
ii. Hedge accounting applied	—	1,859	1,859

	Millions of yen		
	2016/12		
	Carrying value (*)	Fair value (*)	Variance
① Cash and time deposits	**¥ 120,126**	**¥ 120,126**	**—**
② Notes and accounts receivable (less allowance for doubtful accounts)	**134,835**	**134,835**	**—**
③ Short-term investments in securities and investments in securities Available-for-sale securities	**28,961**	**28,961**	**—**
④ Notes and accounts payable, Electronically recorded obligations and other payables	**(126,845)**	**(126,845)**	**—**
⑤ Short-term borrowings from banks and other financial institutions	**(6,339)**	**(6,339)**	**—**
⑥ Commercial papers	**(5,243)**	**(5,243)**	**—**
⑦ Bonds	**(40,000)**	**(40,165)**	**¥(165)**
⑧ Long-term borrowings from banks and other financial institutions	**(65,426)**	**(66,160)**	**(734)**
⑨ Lease obligations	**(3,570)**	**(3,605)**	**(35)**
⑩ Derivative instruments			
i. Hedge accounting not applied	**(601)**	**(601)**	**—**
ii. Hedge accounting applied	**—**	**(22)**	**(22)**
⑪ Long-term payables	**(53,135)**	**(53,135)**	**—**

	Thousands of U.S. dollars (Note 1)		
	2016/12		
	Carrying value (*)	Fair value (*)	Variance
① Cash and time deposits	$1,030,859	$1,030,859	—
② Notes and accounts receivable (less allowance for doubtful accounts)	1,157,084	1,157,084	—
③ Short-term investments in securities and investments in securities Available-for-sale securities	248,528	248,528	—
④ Notes and accounts payable, Electronically recorded obligations and other payables	(1,088,517)	(1,088,517)	—
⑤ Short-term borrowings from banks and other financial institutions	(54,398)	(54,398)	—
⑥ Commercial papers	(44,992)	(44,992)	—
⑦ Bonds	(343,259)	(344,675)	(1,415)
⑧ Long-term borrowings from banks and other financial institutions	(561,451)	(567,750)	(6,298)
⑨ Lease obligations	(30,635)	(30,936)	(300)
⑩ Derivative instruments			
i. Hedge accounting not applied	(5,157)	(5,157)	—
ii. Hedge accounting applied	—	(188)	(188)
⑪ Long-term payables	(455,977)	(455,977)	—

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

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

① Cash and time deposits; ② Notes and accounts receivable
Carrying value is used for fair value for these short-term items because these amounts are approximately the same.

③ Short-term investments in securities and investments in securities
Short-term investments in securities are held as available-for-sale securities. Market prices on exchanges are used to determine the fair value of equity securities. Prices quoted by financial institutions are used to determine the fair value of bonds. Carrying value is used for fair value for instruments with short-term maturities included in available-for-sale securities because these amounts are approximately the same.

④ Notes and accounts payable, Electronically recorded obligations and other payables; ⑤ Short-term borrowings from banks and other financial institutions; ⑥ Commercial papers
Carrying value approximates fair value for these short-term items.

⑦ Bonds
Fair value of bonds issued by the Company is calculated based on market prices.

⑧ Long-term borrowings from banks and other financial institutions
Floating-rate long-term borrowing reflects market interest rates. In addition, fair value approximates carrying value because the Company's creditworthiness does not vary significantly after assuming long-term borrowings. Therefore, carrying value is used for fair value of floating-rate long-term borrowing. Fair value of fixed-rate long-term borrowing is the discounted value of total principal and interest using an assumed interest rate on equivalent new borrowings.

⑨ Lease obligations
The fair value of lease obligations is the discounted present value of total principal and interest using an assumed interest rate on equivalent new lease transactions.

⑩ Derivative instruments
Please refer to Note 16. DERIVATIVE FINANCIAL INSTRUMENTS.

⑪ 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.

*2 Fair values that are difficult to determine as of December 31, 2015 and 2016

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2015/12	2016/12	2016/12
	Carrying value	Carrying value	Carrying value
Shares of subsidiaries and affiliates	¥2,803	¥2,367	$20,312
Unlisted equity securities	544	552	4,736
Investment in limited partnership and others	918	924	7,929

Market prices do not exist for these items, or the cost of estimating future cash flows is considered prohibitive. These items are not included in ③ Short-term investments in securities and investments in securities, because their fair values are not readily determinable.

Loss on revaluation for securities stated at cost was recognized in the amounts of ¥6 million and ¥21 million ($180 thousand) for the fiscal period ended December 31, 2015 and the fiscal year ended December 31, 2016, respectively.

*3 Maturity dates of financial assets are as follows:

	Millions of yen			
	2015/12			
	Due in 1 year or less	Due after 1 year through 5 years	Due after 5 years through 10 years	Due after 10 years
Cash and time deposits	¥116,771	—	—	—
Notes and accounts receivable	125,436	—	—	—
Short-term investments in securities and investments in securities				
Available-for-sale securities with maturity (Negotiable certificate of deposit)	—	—	—	—
Available-for-sale securities with maturity (Corporate bonds)	—	—	—	—
Available-for-sale securities with maturity (Investment trusts)	2,618	—	—	—
Available-for-sale securities with maturity (Investment in limited partnerships and others)	141	¥776	—	—
Other	—	—	—	—
	¥244,967	¥776	—	—

	Millions of yen			
	2016/12			
	Due in 1 year or less	Due after 1 year through 5 years	Due after 5 years through 10 years	Due after 10 years
Cash and time deposits	¥120,126	—	—	—
Notes and accounts receivable	134,835	—	—	—
Short-term investments in securities and investments in securities				
Available-for-sale securities with maturity (Negotiable certificate of deposit)	6,000	—	—	—
Available-for-sale securities with maturity (Corporate bonds)	—	—	—	—
Available-for-sale securities with maturity (Investment trusts)	1,905	—	—	—
Available-for-sale securities with maturity (Investment in limited partnerships and others)	77	¥846	—	—
Other	—	—	—	—
	¥262,945	¥846	—	—

	Thousands of U.S. dollars (Note 1)			
	2016/12			
	Due in 1 year or less	Due after 1 year through 5 years	Due after 5 years through 10 years	Due after 10 years
Cash and time deposits	$1,030,859	—	—	—
Notes and accounts receivable	1,157,084	—	—	—
Short-term investments in securities and investments in securities				
Available-for-sale securities with maturity (Negotiable certificate of deposit)	51,488	—	—	—
Available-for-sale securities with maturity (Corporate bonds)	—	—	—	—
Available-for-sale securities with maturity (Investment trusts)	16,347	—	—	—
Available-for-sale securities with maturity (Investment in limited partnerships and others)	660	$7,259	—	—
Other	—	—	—	—
	$2,256,457	$7,259	—	—

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:

	Millions of yen			
	2015/12			
	Acquisition cost	Carrying amount	Gross unrealized gains	Gross unrealized losses
Equity securities	¥10,299	¥22,013	¥11,763	¥(50)
Other	8,430	8,841	410	—
	¥18,730	¥30,854	¥12,174	¥(50)

	Millions of yen			
	2016/12			
	Acquisition cost	Carrying amount	Gross unrealized gains	Gross unrealized losses
Equity securities	¥10,123	¥19,899	¥ 9,899	¥(123)
Other	8,785	9,061	275	—
	¥18,909	¥28,961	¥10,175	¥(123)

	Thousands of U.S. dollars (Note 1)			
	2016/12			
	Acquisition cost	Carrying amount	Gross unrealized gains	Gross unrealized losses
Equity securities	$ 86,870	$170,762	$84,948	$(1,055)
Other	75,388	77,756	2,359	—
	$162,267	$248,528	$87,316	$(1,055)

* There is no loss on revaluation of investments in securities stated at fair value for the fiscal period ended December 31, 2015 and the fiscal year ended December 31, 2016, respectively.

Proceeds from sales, and gross realized gains and losses from sales of available-for-sale securities in the fiscal period ended December 31, 2015 and the fiscal year ended December 31, 2016 are as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2015/12	2016/12	2016/12
Proceeds from sales	¥6,777	¥650	$5,577
Gross realized gains	2,428	403	3,458
Gross realized losses	0	0	0

6 INVENTORIES

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

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2015/12	2016/12	2016/12
Merchandise and finished products	¥ 74,629	¥ 81,432	$698,807
Work in process	5,726	5,657	48,545
Raw materials and supplies	25,572	28,583	245,284
	¥105,928	¥115,672	$992,637

7 SHORT-TERM AND LONG-TERM DEBT

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

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2015/12	2016/12	2016/12
Short-term borrowings from banks and other financial institutions (weighted average interest rate 5.51%)	¥ 7,167	¥ 6,339	$ 54,398
Commercial papers (weighted average interest rate 1.10%)	4,218	5,243	44,992
Short-term debt	¥11,386	¥ 11,583	$ 99,399
Long-term borrowings from banks and other financial institutions			
(Borrowings due within one year, weighted average interest rate 0.70%)	5,739	3,230	27,718
(Borrowings due after one year, weighted average interest rate 0.23%)	35,432	62,196	533,733
0.237% unsecured yen bonds due in June 2020	15,000	15,000	128,722
0.374% unsecured yen bonds due in June 2022	15,000	15,000	128,722
0.001% unsecured yen bonds due in December 2019	—	10,000	85,814
Lease obligations			
(Borrowings due within one year, weighted average interest rate 1.92%)	1,870	1,744	14,966
(Borrowings due after one year, weighted average interest rate 2.23%)	2,184	1,826	15,669
Long-term payables (including other payables) (weighted average interest rate 2.50%)	—	55,251	474,135
	¥75,227	¥164,248	$1,409,491
Less: portion due within one year	(7,610)	(7,819)	(67,098)
Long-term debt	¥67,617	¥156,428	$1,342,383

The aggregate annual maturities of long-term debt as of December 31, 2016 are as follows:

For the years ending December 31	Millions of yen	Thousands of U.S. dollars (Note 1)
2017	¥ 7,819	$ 67,098
2018	4,248	36,454
2019	14,024	120,346
2020	18,919	162,353
2021	26,476	227,203
2022 and thereafter	92,759	796,009
	¥164,248	$1,409,491

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

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2015/12	2016/12	2016/12
Buildings and structures	¥13,681	¥13,161	$112,940
Other investments	15,200	15,200	130,438
Investments in securities	1,155	1,155	9,911
Cash and time deposits	1,797	1,808	15,515
Machinery and equipment	1	0	0
	¥31,835	¥31,327	$268,832

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:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2015/12	2016/12	2016/12
Current portion of long-term debt	¥ 730	¥ 730	$ 6,264
Long-term debt	20,295	19,565	167,896
	¥21,025	¥20,295	$174,161

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 December 31, 2016 are as follows:

① Movement in retirement benefit obligations	Millions of yen		Thousands of U.S. dollars (Note 1)
	2015/12	2016/12	2016/12
Balance at the beginning of the year	¥265,149	¥265,825	$2,281,172
Service cost	5,459	6,996	60,036
Interest cost	2,422	3,015	25,873
Actuarial loss (gain)	2,398	17,571	150,785
Benefits paid	(8,356)	(10,706)	(91,873)
Other	(1,248)	(353)	(3,029)
Balance at the end of the year	¥265,825	¥282,348	$2,422,964

② Movement in plan assets

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2015/12	2016/12	2016/12
Balance at the beginning of the year	¥187,445	¥182,168	$1,563,271
Expected return on plan assets	5,599	7,260	62,301
Actuarial loss (gain)	(6,185)	(3,168)	(27,186)
Contributions paid by the employer	2,536	9,567	82,099
Benefits paid	(6,687)	(7,879)	(67,613)
Other	(538)	(89)	(763)
Balance at the end of the year	¥182,168	¥187,859	$1,612,108

③ Reconciliation of retirement benefit obligations and plan assets to liability for retirement benefits

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2015/12	2016/12	2016/12
Funded retirement benefit obligations	¥ 206,002	¥ 220,405	$1,891,401
Plan assets	(182,168)	(187,859)	(1,612,108)
	23,833	32,546	279,292
Unfunded retirement benefit obligations	59,823	61,943	531,562
Total net liability for retirement benefits	¥ 83,656	¥ 94,489	$ 810,855
Liability for retirement benefits	¥ 83,656	¥ 94,489	$ 810,855
Total net liability for retirement benefits	¥ 83,656	¥ 94,489	$ 810,855

④ Retirement benefit costs

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2015/12	2016/12	2016/12
Service cost	¥ 5,459	¥ 6,996	$ 60,036
Interest cost	2,422	3,015	25,873
Expected return on plan assets	(5,599)	(7,260)	(62,301)
Net actuarial gain and loss amortization	3,478	7,190	61,700
Past service costs amortization	77	103	883
Other	846	2,200	18,879
Total retirement benefit costs	¥ 6,685	¥12,246	$105,088

⑤ Adjustments for retirement benefits before tax

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2015/12	2016/12	2016/12
Net actuarial gain and loss amortization	¥4,992	¥13,445	$115,378

⑥ Accumulated adjustments for retirement benefits before tax

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2015/12	2016/12	2016/12
Past service costs that are yet to be recognized	¥ 129	¥ 25	$ 214
Actuarial gain and loss that are yet to be recognized	35,649	49,052	420,938
Total balance at the end of the year	¥35,779	¥49,078	$421,161

⑦ Plan assets

Ⅰ Plan assets comprise:

	2015/12	2016/12
Bonds	59.1%	57.5%
Equity securities	21.2%	20.4%
Other	19.7%	22.1%
Total	100.0%	100.0%

Ⅱ Long-term expected rate of return on plan assets

Terms of payment, portfolio of plan assets, historical returns, operating policy, market trends and other factors have been considered in determining the long-term expected rate of return on plan assets.

⑧ Actuarial assumptions

The principal actuarial assumptions (expressed as weighted averages) are as follows:

	2015/12	2016/12
Discount rate	0.9%~1.2%	0.6%~0.8%
Long-term expected rate of return on plan assets	4.0%	4.0%

(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.

9 INCOME TAXES

Income taxes applicable to the Company and its domestic consolidated subsidiaries consist of corporation, inhabitants and enterprise taxes. The statutory income tax rate was 33% 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:

	2015/12	2016/12
Statutory tax rate	33.0%	33.0%
Increase (decrease) due to:		
Permanently non-deductible expenses	0.7	0.8
Dividend income not taxable	2.5	0.9
Unrealized intercompany profit	4.4	(4.2)
Adjustment of deferred tax assets for enacted changes in tax rates	—	0.6
Tax credits	(2.3)	(2.9)
Differences of statutory tax rates for overseas consolidated subsidiaries	2.0	1.4
Change in valuation allowance	(0.5)	1.0
Others	0.5	1.4
Effective tax rate	40.3%	32.0%

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” and the “Act for Partial Amendment of the Local Tax and the Local Distribution Tax, etc. for the radical improvement of the tax system ensuring financial resources for the social securities” were 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:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2015/12	2016/12	2016/12
Deferred tax assets:			
Liability for retirement benefits	¥27,267	¥30,854	$264,773
Inventories	10,773	12,845	110,229
Depreciation	1,966	1,602	13,747
Unrealized intercompany profit in inventory and property, plant and equipment	5,720	6,768	58,079
Accrued expenses	6,685	8,191	70,290
Accrued bonuses for employees	4,351	5,207	44,683
Loss on revaluation of financial instruments	3,632	1,025	8,796
Tax losses carried forward	4,271	4,118	35,338
Reserve for sales returns	1,751	958	8,221
Accrued enterprise tax	225	781	6,702
Other	9,902	12,955	111,173
Total gross deferred tax assets	76,548	85,309	732,077
Less: valuation allowance	(4,762)	(6,474)	(55,556)
Total deferred tax assets	¥71,785	¥78,835	$676,521
Deferred tax liabilities:			
Goodwill and other intangible assets	¥29,883	¥26,545	$227,795
Special tax-purpose reserve	710	2,544	21,831
Unrealized gains (losses) on available-for-sale securities	4,072	2,812	24,131
Undistributed earnings of overseas consolidated subsidiaries	1,347	1,918	16,459
Other	1,982	3,843	32,978
Total deferred tax liabilities	¥37,996	¥37,664	$323,212
Net deferred tax assets	¥33,788	¥41,170	$353,299

Net deferred tax assets are included in the consolidated balance sheets as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2015/12	2016/12	2016/12
Current assets–deferred tax assets	¥ 28,242	¥ 33,618	$ 288,492
Investments and other assets–deferred tax assets	36,833	37,371	320,698
Current liabilities–deferred tax liabilities	(16)	0	(0)
Long-term liabilities–deferred tax liabilities	(31,270)	(29,818)	(255,882)
Net deferred tax assets	¥ 33,788	¥ 41,170	$ 353,299

10 CONTINGENT LIABILITIES

There are no significant contingent liabilities to be disclosed.

11 NET ASSETS

Under Japanese laws and regulations, the entire amount paid for new shares must be designated as common stock. However, a company may, by a resolution of the Board of Directors, designate an amount not exceeding one half of the price of the new shares as additional paid-in capital, which is included in capital surplus.

Under the Japanese Companies Act ("the Act"), in cases where dividend distribution of surplus is made, the lesser of an amount equal to 10% of the dividend or the excess, if any, of 25% of common stock over the total of additional paid-in capital and legal earnings reserve, must be set aside as additional paid-in capital or legal earnings reserve. Legal earnings reserve is included in retained earnings in the accompanying consolidated balance sheets. Under the Act, both legal earnings reserve and additional paid-in capital used to eliminate or reduce a deficit generally require a resolution of the shareholders' meeting.

Additional paid-in capital and legal earnings reserve may not be distributed as dividends. Under the Act, all additional paid-in capital and legal earnings reserve may be transferred to other capital surplus and retained earnings under certain conditions.

The maximum amount that the Company can distribute as dividends is calculated based on the non-consolidated financial statements of the Company in accordance with the Act. Under the Act, companies can pay a dividend at any time during the fiscal year in addition to the year-end dividend upon resolution at the shareholders' meeting. For the company that meets certain criteria such as: (1) having a Board of Directors, (2) having accounting auditors, (3) having a Board of Corporate Auditors, and (4) the term of service of the directors is prescribed as one year rather than two years as the normal term by its articles of incorporation, the Board of Directors may declare a dividend if the company has prescribed so in its articles of incorporation.

A semi-annual interim dividend may also be paid once a year upon resolution by the Board of Directors if the articles of incorporation of the company so stipulate. Cash dividends charged to retained earnings during the fiscal year were the year-end cash dividend for the preceding fiscal year and the interim cash dividend for the current fiscal year.

Appropriations are not accrued in the consolidated financial statements for the corresponding period, but are recorded in the subsequent accounting period after shareholders' meeting approval has been obtained.

Retained earnings at December 31, 2016 include amounts representing year-end cash dividend of ¥3,992 million ($34,257 thousand), ¥10.0 ($0.08) per share, which was approved at the shareholders' meeting held on March 28, 2017.

12 STOCK OPTION PLAN

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

① Stock option plan approved by the shareholders on June 26, 2007 and resolved by the Board of Directors on July 31, 2007

	Stock options granted on August 23, 2007	Stock options granted on August 23, 2007	Total
Number of shares for options granted	81,000 shares	78,000 shares	159,000 shares
Number of shares for options outstanding	74,000 shares	45,000 shares	119,000 shares
Exercise price	¥2,615	¥2,615	
Exercisable period	August 1, 2009 - July 30, 2017	August 1, 2009 - July 30, 2017	

② Stock option plan resolved by the Board of Directors on July 31, 2008

	Stock options granted on August 21, 2008	Total
Number of shares for options granted	40,000 shares	40,000 shares
Number of shares for options outstanding	9,000 shares	9,000 shares
Exercise price	¥1	
Exercisable period	August 1, 2011 - July 30, 2018	

③ Stock option plan approved by the shareholders on June 24, 2009 and resolved by the Board of Directors on July 31, 2009

	Stock options granted on August 28, 2009	Stock options granted on August 30, 2009	Total
Number of shares for options granted	81,400 shares	53,500 shares	134,900 shares
Number of shares for options outstanding	7,400 shares	20,600 shares	28,000 shares
Exercise price	¥1	¥1	
Exercisable period	August 1, 2012 - July 31, 2019	August 1, 2012 - July 31, 2019	

④ Stock option plan approved by the shareholders on June 25, 2010 and resolved by the Board of Directors on July 29, 2010

	Stock options granted on August 30, 2010	Stock options granted on August 30, 2010	Total
Number of shares for options granted	59,100 shares	46,800 shares	105,900 shares
Number of shares for options outstanding	5,400 shares	23,400 shares	28,800 shares
Exercise price	¥1	¥1	
Exercisable period	August 1, 2013 - July 31, 2020	August 1, 2013 - July 31, 2020	

⑤ Stock option plan approved by the shareholders on June 24, 2011 and resolved by the Board of Directors on July 29, 2011

	Stock options granted on August 30, 2011	Stock options granted on August 30, 2011	Total
Number of shares for options granted	90,800 shares	63,600 shares	154,400 shares
Number of shares for options outstanding	7,300 shares	42,400 shares	49,700 shares
Exercise price	¥1	¥1	
Exercisable period	August 1, 2014 - July 31, 2026	August 1, 2014 - July 31, 2026	

⑥ Stock option plan approved by the shareholders on June 26, 2012 and resolved by the Board of Directors on July 31, 2012

	Stock options granted on August 30, 2012	Stock options granted on August 30, 2012	Total
Number of shares for options granted	108,600 shares	100,400 shares	209,000 shares
Number of shares for options outstanding	67,000 shares	57,100 shares	124,100 shares
Exercise price	¥1	¥1	
Exercisable period	August 1, 2015 - July 31, 2027	August 1, 2015 - July 31, 2027	

⑦ Stock option plan approved by the shareholders on June 25, 2013 and resolved by the Board of Directors on July 31, 2013

	Stock options granted on August 29, 2013	Stock options granted on August 29, 2013	Total
Number of shares for options granted	44,100 shares	39,500 shares	83,600 shares
Number of shares for options outstanding	44,100 shares	39,500 shares	83,600 shares
Exercise price	¥1	¥1	
Exercisable period	August 1, 2016 - July 31, 2028	August 1, 2016 - July 31, 2028	

⑧ Stock option plan approved by the shareholders on June 25, 2014 and resolved by the Board of Directors on July 31, 2014

	Stock options granted on August 28, 2014	Stock options granted on August 28, 2014	Total
Number of shares for options granted	76,900 shares	57,400 shares	134,300 shares
Number of shares for options outstanding	76,900 shares	57,400 shares	134,300 shares
Exercise price	¥1	¥1	
Exercisable period	August 1, 2017 - July 31, 2029	August 1, 2017 - July 31, 2029	

⑨ Stock option plan approved by the shareholders on June 23, 2015 and resolved by the Board of Directors on February 23, 2016

	Stock options granted on March 30, 2015	Stock options granted on March 30, 2015	Total
Number of shares for options granted	23,700 shares	46,300 shares	70,000 shares
Number of shares for options outstanding	23,700 shares	46,300 shares	70,000 shares
Exercise price	¥1	¥1	
Exercisable period	September 1, 2018 - February 28, 2031	September 1, 2018 - February 28, 2031	

13 RESEARCH AND DEVELOPMENT EXPENSES

Research and development expenses are expensed as incurred.

Research and development expenses, which are included in selling, general and administrative expenses, totaled ¥11,299 million and ¥18,264 million ($156,732 thousand) for the fiscal period ended December 31, 2015 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

Director and auditor of the significant corporate affiliate

For the fiscal period ended December 31, 2015

Type	Name	Location	Capital or Investments	Business or Profession	Voting Rights Held (%)	Relationship with the Related Parties	Transactions	Amount	Account Name	Balance as of December 31, 2015
Executive	Lee. Kuo-Hsin	—	—	Taiwan Shiseido Co., Ltd. Executive Director	—	Real estate leasing	Real estate leasing (*1)	¥10 million	—	—
Company with a majority of the voting rights held by an executive or close relative	Lucien Henri S.A.S (*2)	France	130 thousand EUR	Sales of cosmetics and fragrances	—	Sales of products	Sales of cosmetics and fragrances (*3)	¥30 million	Accounts receivable	¥0 million

*1 Rents are determined based on the average price near the estate
2 100% directly held by an executive of Beauté Prestige International S.A. (BPI. S.A.), Mr. Eric HENRY and close relatives
3 Transactions are under normal terms and conditions, and considered as independent third-party transactions

For the fiscal year ended December 31, 2016

Type	Name	Location	Capital or Investments	Business or Profession	Voting Rights Held (%)	Relationship with the Related Parties	Transactions	Amount	Account Name	Balance as of December 31, 2016
Company with a majority of the voting rights held by an executive or close relative	Lucien Henri S.A.S (*1)	France	130 thousand EUR	Sales of cosmetics and fragrances	—	Sales of products	Sales of cosmetics and fragrances (*2)	¥20 million ($171 thousand)	Accounts receivable	¥0 million ($0 thousand)

*1 100% directly held by an executive of BPI S.A., Mr. Eric HENRY and close relatives
*2 Transactions are under normal terms and conditions, and considered as independent third-party transactions

15 ACCOUNTING FOR LEASES

The Companies have various lease agreements whereby the Companies act both as a lessee and a lessor.

(1) Finance leases

Non-ownership-transfer finance lease transactions
① As lessee:
Leased assets mainly consist of molds, tools, fixtures, and software.
② As lessor:
None

(2) Operating leases

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

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2015/12	2016/12	2016/12
① As lessee:			
The scheduled maturities of future lease rental payments on such non-cancelable lease contracts are as follows:			
Due within 1 year	¥ 7,510	¥ 9,033	$ 77,516
Due after 1 year	31,348	32,202	276,340
	¥38,859	¥41,235	$353,857
② As lessor:			
The scheduled maturities of future lease rental payments on such non-cancelable lease contracts are as follows:			
Due within 1 year	¥ 172	¥ 172	$ 1,476
Due after 1 year	3,925	3,753	32,206
	¥ 4,097	¥ 3,925	$ 33,682

16 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

		Millions of yen			
		2015/12			
		Contract amount			
		Total	Settled over 1 year	Estimated fair value	Unrealized gain (loss)
Foreign exchange contracts: Selling	US$	¥11,380	—	¥ (6)	¥ (6)
	GBP	1,737	—	9	9
	AU$	187	—	(6)	(6)
Foreign exchange contracts: Buying	US$	2,299	—	21	21
	EUR	26,397	—	(34)	(34)
		—	—	¥(16)	¥(16)

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

② Derivatives that meet the criteria for hedge accounting

	Millions of yen			
	2015/12			
		Contract amount		
	Main hedged item	Total	Settled over 1 year	Estimated fair value
Interest rate and currency swap contracts: To pay fixed yen/receive variable US$	Foreign currency long-term debt	¥ 7,500	¥ 2,500	¥2,469
Interest rate swap contracts: To pay fixed/receive variable	Long-term debt	21,025	20,295	(609)

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

		Millions of yen			
		2016/12			
		Contract amount			
		Total	Settled over 1 year	Estimated fair value	Unrealized gain (loss)
Foreign exchange contracts: Selling	US$	¥12,828	—	¥(593)	¥(593)
	GBP	1,602	—	(19)	(19)
	AU$	159	—	1	1
Foreign exchange contracts: Buying	US$	1,048	—	10	10
		—	—	¥(601)	¥(601)

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

		Thousands of U.S. dollars (Note 1)			
		2016/12			
		Contract amount			
		Total	Settled over 1 year	Estimated fair value	Unrealized gain (loss)
Foreign exchange contracts: Selling	US$	$110,083	—	$(5,088)	$(5,088)
	GBP	13,747	—	(163)	(163)
	AU$	1,364	—	8	8
Foreign exchange contracts: Buying	US$	8,993	—	85	85
		—	—	$(5,157)	$(5,157)

② Derivatives that meet the criteria for hedge accounting

Millions of yen

	2016/12			
		Contract amount		
	Main hedged item	Total	Settled over 1 year	Estimated fair value
Interest rate and currency swap contracts: To pay fixed yen/receive variable US$	Foreign currency long-term debt	¥ 2,500	—	¥ 718
Interest rate swap contracts: To pay fixed/receive variable	Long-term debt	20,295	¥19,565	(741)

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

Thousands of U.S. dollars (Note 1)

	2016/12			
		Contract amount		
	Main hedged item	Total	Settled over 1 year	Estimated fair value
Interest rate and currency swap contracts: To pay fixed yen/receive variable US$	Foreign currency long-term debt	$ 21,453	—	$ 6,161
Interest rate swap contracts: To pay fixed/receive variable	Long-term debt	174,161	$167,896	(6,358)

17 GAIN ON TRANSFER OF BUSINESS

For the fiscal period ended December 31, 2015

In addition to such items as compensation for early license agreement termination and the extraordinary bonus that arose in connection with the transfer of *Jean Paul GAULTIER* fragrance intellectual property rights, the gain on transfer of business comprised income from the transfer of the *Ayura* brand and subsidiary SHISEIDO Kozmetic Anonim Sirketi.

For the fiscal year ended December 31, 2016

It resulted from the transfer of *Jean Paul GAULTIER* fragrance intellectual property rights.

18 GAIN (LOSS) ON SALES AND DISPOSAL OF PROPERTY, PLANT AND EQUIPMENT

For the fiscal year ended December 31, 2016

Mainly the gain on the sale of land at the closed Kamakura Factory.

19 IMPAIRMENT LOSS

For the fiscal period ended December 31, 2015

The Company incurred impairment losses on overseas non-current assets.

Use	Type	Location
Business-use assets	Buildings and structures, and others	United States
Idle assets	Other intangible fixed assets, and others	China, and others

The Shiseido Group's business-use assets are grouped according to the minimum independent cash flow-generating unit, based on business classification. Idle assets are pooled according to individual property.

Regarding business-use assets, their book values were written-down to their recoverable amount, resulting in other expenses of ¥62 million. The recoverable amount was estimated based on the net sales value, which was assessed based on the expected selling price.

With respect to idle assets, the Group's assets that are no longer expected to be used in the future have been devalued to their recoverable amount, resulting in ¥90 million of other expenses. The recoverable amount was estimated based on the net sales value, which was assessed based on the expected selling price.

For the fiscal year ended December 31, 2016

Use	Type	Location
Idle assets	Other intangible fixed assets, and others	China, and others

The Shiseido Group's business-use assets are grouped according to the minimum independent cash flow-generating unit, based on business classification. Idle assets are pooled according to individual property.

Regarding 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:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2015/12	2016/12	2016/12
Unrealized gains (losses) on available-for-sale securities, net of taxes:			
Increase (decrease) during the fiscal year	¥ 2,435	¥ (1,661)	$ (14,253)
Reclassification adjustments	70	(402)	(3,449)
Amount before tax	2,506	(2,064)	(17,712)
Tax (expense) or benefit	(815)	1,250	10,726
Subtotal	¥ 1,690	¥ (813)	$ (6,976)
Foreign currency translation adjustments:			
Increase (decrease) during the fiscal year	¥ (9,180)	¥(14,897)	$(127,838)
Reclassification adjustments	(60)	0	0
Amount before tax	(9,241)	(14,897)	(127,838)
Tax (expense) or benefit	67	(9)	(77)
Subtotal	¥ (9,173)	¥(14,906)	$(127,915)
Adjustments for retirement benefits:			
Increase (decrease) during the fiscal year	¥ (8,583)	¥(20,739)	$(177,971)
Reclassification adjustments	3,590	7,294	62,593
Amount before tax	(4,992)	(13,445)	(115,378)
Tax (expense) or benefit	524	4,309	36,977
Subtotal	¥ (4,468)	¥ (9,136)	$ (78,400)
Share of other comprehensive income of associates accounted for under the equity method:			
Increase (decrease) during the fiscal year	¥ (55)	¥ (51)	$ (437)
Reclassification adjustments	—	(38)	(326)
Subtotal	¥ (55)	¥ (90)	$ (772)
Total other comprehensive income	¥(12,005)	¥(24,946)	$(214,073)

24 BUSINESS COMBINATIONS

(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.
Business area: Distribution of cosmetics under *Laura Mercier* and *RéVive* brand names

② 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.

③ Effective date of the business combination
July 12, 2016

④ Legal form of the business combination
Acquisition of membership interests in exchange for cash

⑤ 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.

(2) 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

(3) 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)

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

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

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

① Amount of goodwill arising from the business combination
¥6,628 million ($56,878 thousand)
② Cause of the goodwill
The goodwill arose due to future additional earnings power that is expected from future business development.
③ Amortization method and period
By straight-line method over 10 years

(6) 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)
Total liabilities	¥(1,965) million	($16,862 thousand)

(7) Amount allocated to intangible assets other than goodwill and the breakdown by major type, and weighted average amortization period for all the intangible assets and by major type

Breakdown by major type	Amount	Amortization period
Trademarks	¥7,836 million ($67,244 thousand)	Indefinite useful life
Customer relationships	¥3,491 million ($29,957 thousand)	10 years

(8) 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)

(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 on 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 give 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-the-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). 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:

Millions of yen

	Japan Business	China Business	Asia Pacific Business	Americas Business	EMEA Business	Travel Retail Business	Subtotal	Adjustment*2	Total
	2015/12								
Net Sales									
Sales to outside customers	¥295,722	¥125,696	¥52,739	¥167,528	¥104,178	¥17,193	¥763,058	—	¥763,058
Intersegment sales or transfers	30,946	271	453	10,763	5,153	—	47,587	¥(47,587)	—
Total	¥326,668	¥125,967	¥53,192	¥178,292	¥109,331	¥17,193	¥810,646	¥(47,587)	¥763,058
Segment Income/Loss*3	¥ 43,288	¥ (79)	¥ 1,044	¥ (5,058)	¥ 4,913	¥ 2,465	¥ 46,573	¥ (8,913)	¥ 37,660
Other Items									
Depreciation and Amortization	¥ 9,240	¥ 6,714	¥ 1,940	¥ 10,340	¥ 2,354	¥ 445	¥ 31,035	¥ 725	¥ 31,761
Amortization of Goodwill	106	429	69	4,566	—	—	5,172	—	5,172

Millions of yen

	Japan Business	China Business	Asia Pacific Business	Americas Business	EMEA*1 Business	Travel Retail Business	Subtotal	Adjustment*2	Total
	2016/12								
Net Sales									
Sales to outside customers	¥407,628	¥120,479	¥49,633	¥162,556	¥85,215	¥24,793	¥850,306	—	¥850,306
Intersegment sales or transfers	46,404	101	234	9,992	4,256	—	60,989	¥(60,989)	—
Total	¥454,033	¥120,580	¥49,868	¥172,548	¥89,471	¥24,793	¥911,296	¥(60,989)	¥850,306
Segment Income/Loss*3	¥ 57,417	¥ 4,166	¥ 1,102	¥ (11,813)	¥ (7,224)	¥ 5,470	¥ 49,118	¥(12,338)	¥ 36,780
Other Items									
Depreciation and Amortization	¥ 12,646	¥ 5,419	¥ 1,879	¥ 10,050	¥ 3,024	¥ 536	¥ 33,557	¥ 922	¥ 34,480
Amortization of Goodwill	141	385	61	4,327	—	—	4,916	—	4,916

Thousands of U.S. dollars (Note 1)

	Japan Business	China Business	Asia Pacific Business	Americas Business	EMEA*1 Business	Travel Retail Business	Subtotal	Adjustment*2	Total
	2016/12								
Net Sales									
Sales to outside customers	$3,498,052	$1,033,888	$425,924	$1,394,971	$731,270	$212,760	$7,296,884	—	$7,296,884
Intersegment sales or transfers	398,215	866	2,008	85,746	36,522	—	523,375	$(523,375)	—
Total	$3,896,275	$1,034,754	$427,941	$1,480,717	$767,793	$212,760	$7,820,269	$(523,375)	$7,296,884
Segment Income/Loss*3	$ 492,722	$ 35,750	$ 9,456	$ (101,373)	$ (61,992)	$ 46,940	$ 421,505	$ (105,878)	$ 315,626
Other Items									
Depreciation and Amortization	$ 108,521	$ 46,503	$ 16,124	$ 86,243	$ 25,950	$ 4,599	$ 287,968	$ 7,912	$ 295,889
Amortization of Goodwill	1,209	3,303	523	37,132	—	—	42,186	—	42,186

*1 The EMEA Business refers to Europe, the Middle East and Africa regions.

*2 Details of adjustments are as follows:

(1) 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.

(2) The "Depreciation and Amortization" adjustment refers to depreciation expenses related to company-wide assets and intersegment eliminations. Amortization of long-term prepaid expenses are included in "Depreciation and Amortization."

*3 Segment income (loss) is based on operating income described in the consolidated statements of income.

*4 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.

(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

Millions of yen

Japan	Americas	U.S.A.	Europe	Asia/Oceania	China	Total
2015/12						
¥296,903	¥155,303	¥136,557	¥111,818	¥199,033	¥132,446	¥763,058

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

Ⅱ Property, Plant and Equipment

Millions of yen

Japan	Americas	U.S.A.	Europe	Asia/Oceania	China	Total
2015/12						
¥81,774	¥21,633	¥21,559	¥7,076	¥23,797	¥14,038	¥134,281

③ Main customers

There is no outside customer representing 10% or more of net sales of the consolidated statement of income and, therefore, the Company omits this disclosure.

For the fiscal year ended December 31, 2016

① Information on products and services

Sales to outside customers in the cosmetics business exceed 90% of net sales of the consolidated statement of income and, therefore, the Company omits this disclosure.

② Geographical information

Ⅰ Net sales

Millions of yen

Japan	Americas	U.S.A.	Europe	Asia/Oceania	China	Total
2016/12						
¥407,735	¥148,351	¥130,176	¥95,301	¥198,918	¥129,820	¥850,306

Thousands of U.S. dollars (Note 1)

Japan	Americas	U.S.A.	Europe	Asia/Oceania	China	Total
2016/12						
$3,498,970	$1,273,071	$1,117,102	$817,823	$1,707,011	$1,114,047	$7,296,884

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

Ⅱ Property, Plant and Equipment

Millions of yen

Japan	Americas	U.S.A.	Europe	Asia/Oceania	China	Total
2016/12						
¥102,054	¥23,290	¥23,213	¥7,425	¥23,423	¥11,972	¥156,194

Thousands of U.S. dollars (Note 1)

Japan	Americas	U.S.A.	Europe	Asia/Oceania	China	Total
2016/12						
$875,774	$199,862	$199,201	$63,717	$201,004	$102,737	$1,340,375

③ Main customers information

There is no outside customer representing 10% or more of net sales of the consolidated statement of income and, therefore, the Company omits this disclosure.

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

Millions of yen

2015/12						
Japan Business	China Business	Asia Pacific Business	Americas Business	EMEA Business	Travel Retail Business	Total
¥3	¥62	—	¥62	¥24	—	¥153

Millions of yen

2016/12						
Japan Business	China Business	Asia Pacific Business	Americas Business	EMEA Business	Travel Retail Business	Total
—	¥153	¥0	—	—	—	¥153

Thousands of U.S. dollars (Note 1)

2016/12						
Japan Business	China Business	Asia Pacific Business	Americas Business	EMEA Business	Travel Retail Business	Total
—	$1,312	$0	—	—	—	$1,312

(5) Information about segment unamortized goodwill

Millions of yen

2015/12						
Japan Business	China Business	Asia Pacific Business	Americas Business	EMEA Business	Travel Retail Business	Total
¥886	¥3,362	¥270	¥54,907	¥2	—	¥59,430

Millions of yen

2016/12						
Japan Business	China Business	Asia Pacific Business	Americas Business	EMEA Business	Travel Retail Business	Total
¥745	¥2,836	¥195	¥56,015	¥2	—	¥59,795

Thousands of U.S. dollars (Note 1)

2016/12						
Japan Business	China Business	Asia Pacific Business	Americas Business	EMEA Business	Travel Retail Business	Total
$6,393	$24,337	$1,673	$480,691	$17	—	$513,129

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.

Independent Auditor's Report

KPMG

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.

KPMG AZSA LLC

April 7, 2017
Tokyo, Japan

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 Depositary Receipts: U.S. Over-the-Counter

American Depositary Receipts

CUSIP: 824841407
Ratio (ADR:ORD): 1:1
Exchange: Over-the-Counter
Symbol: SSDOY
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

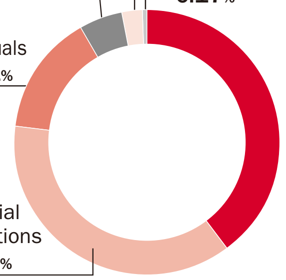
Number of Shareholders

45,552

Common Shares Issued and Outstanding

400,000,000 (including 700,745 in treasury stock)

Composition of Shareholders by Number of Shares



Composition of Shareholders (%)

(By number of shares)	2015/12	2016/12
Foreign Investors	38.57	37.34
Financial Institutions	37.64	39.86
Individuals	17.22	14.71
Other Japanese Companies	4.33	5.24
Securities Companies	1.99	2.65
Treasury Stock	0.22	0.17
(By number of shareholders)	2015/12	2016/12
Foreign Investors	1.22	1.44
Financial Institutions	0.17	0.18
Individuals	97.42	97.03
Other Japanese Companies	1.08	1.24
Securities Companies	0.09	0.08
Treasury Stock	0.00	0.00

Principal Shareholders

Shareholders	Number of shares held (thousands)	Percentage of shareholding
The Master Trust Bank of Japan, Ltd. (Trust Account)	34,085	8.53
Mizuho Bank, Ltd.	21,226	5.31
Japan Trustee Services Bank, Ltd. (Trust Account)	17,354	4.34
BNYM TREATY DTT 15	9,590	2.40
Association of Shiseido Employees' Investment in the Company's shares	7,419	1.85
JP MORGAN CHASE BANK 380055	7,390	1.85
Sompo Japan Nipponkoa Insurance Inc.	5,934	1.48
Nippon Life Insurance Company	5,615	1.40
Mitsui Sumitomo Insurance Company, Limited	5,600	1.40
STATE STREET BANK AND TRUST COMPANY 505225	5,508	1.37

Note: Calculations of percentage of shareholding are based on the total number of issued and outstanding shares excluding treasury stock.

Summary of Information by Topic

Topic	Relevant Section of Annual Report	Shiseido Group Corporate Website http://www.shiseidogroup.com/
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Characteristics of Operations	• Shiseido's DNA ...... p. 8 • Facts & Figures ...... p. 10 • Market Data ...... p. 68	About Us – Vision and Values http://www.shiseidogroup.com/company/vision/ About Us – Corporate Profile http://www.shiseidogroup.com/company/structure/ About Us – History of Shiseido http://www.shiseidogroup.com/company/past/
Brand Portfolio	• Brands at a Glance ...... p. 12 • Region × Brand ...... p. 23	Brands http://www.shiseidogroup.com/brands/
Medium-to-Long-Term Management Strategy	• The CEO on Shiseido's Management Strategy ...... p. 14 • The CFO on Shiseido's Financial Strategy ...... p. 46	Investors – Management Policy http://www.shiseidogroup.com/ir/strategy/ Investors – IR Library http://www.shiseidogroup.com/ir/library/
Sustainability Strategy	• Looking toward 2020 and Beyond ...... p. 36	Sustainability http://www.shiseidogroup.com/sustainability/ Investors – IR Library/Non-financial Information Report Regarding ESG http://www.shiseidogroup.com/ir/library/esg/
Engagement with Local Communities	• Sustainability Strategy ...... p. 38 • Aspirations in Three Areas ...... p. 40	Sustainability – Participation in Community and Development http://www.shiseidogroup.com/sustainability/community/
Environmental Initiatives	• Sustainability Strategy ...... p. 38 • Aspirations in Three Areas ...... p. 40	Sustainability – Environment http://www.shiseidogroup.com/sustainability/env/
Research and Development	• Generating Innovation ...... p. 42	Innovation http://www.shiseidogroup.com/rd/
Diversity and Inclusion	• The CEO on Shiseido's Management Strategy ...... p. 14	Sustainability – Labor Practices http://www.shiseidogroup.com/sustainability/labor/
Corporate Governance	• Management Section ...... p. 51	Investors – General Meeting of Shareholders/ Corporate Governance http://www.shiseidogroup.com/ir/account/governance/
Financial Data	• Data Section ...... p. 63	Investors – IR Library http://www.shiseidogroup.com/ir/library/

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