SHISEIDO

ANNUAL REPORT 2017

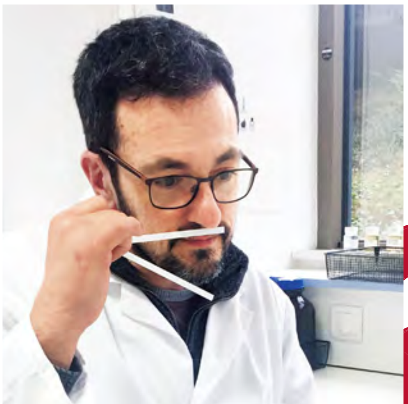
Shiseido Company, Limited

[For the period ended December 31, 2017]









Be a Global Winner with Our Heritage

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

Our Values

Our 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

Contents

Editorial Policy

Reporting Period
Annual Report 2017 primarily covers results for the year ended December 2017 (January 1, 2017 to December 31, 2017). It also includes certain information from before and shortly after this period.

Scope of Coverage
In principle, *Annual Report 2017* covers Shiseido Company, Limited (the Company) and its 79 consolidated subsidiaries (collectively, the Shiseido Group) as of December 31, 2017, except as otherwise noted.

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.

Month of Publication
June 2018

Shiseido's DNA

Since its establishment in 1872, Shiseido has created various kinds of value as a cosmetics company originating from Japan through the provision of "beauty," its main business. The unique traditions and culture that Shiseido has cultivated over its long history are deeply rooted in the Company's DNA, representing strengths that will allow Shiseido to provide new value to society and realize sustainable growth going forward.

Shiseido's DNA

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 cutting–edge beauty solutions, 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.

1872

Japan's first private Western-style pharmacy established in Ginza, Tokyo, by Arinobu Fukuhara

1897

Advanced into the cosmetics industry. Launched *Eudermine*, which used Western pharmacological technology that was state-of-the-art at the time

1916

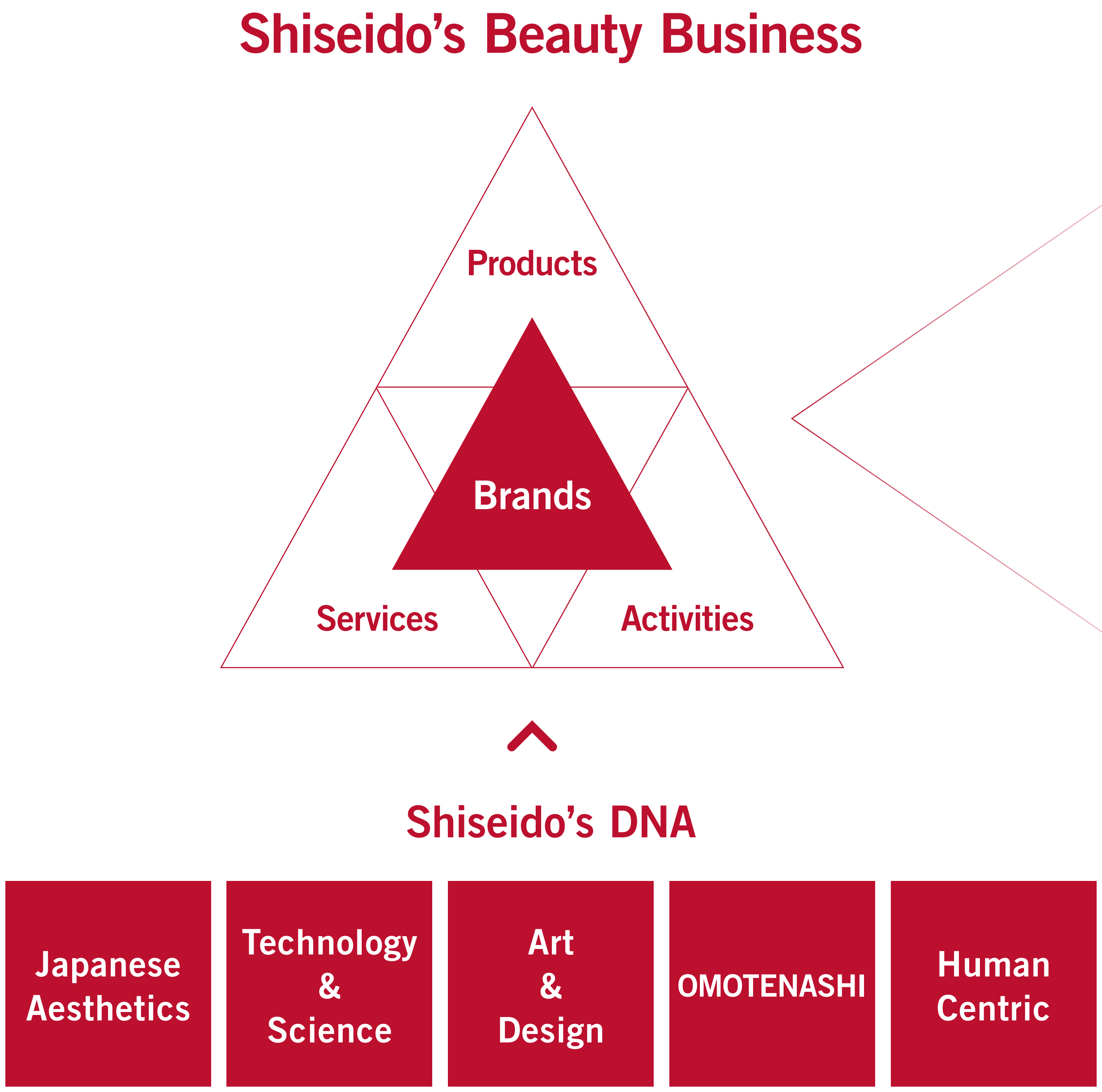
Made cosmetics division independent, and opened design department (predecessor of the current Creative Division) and testing room (predecessor of the current Research and Development Division)

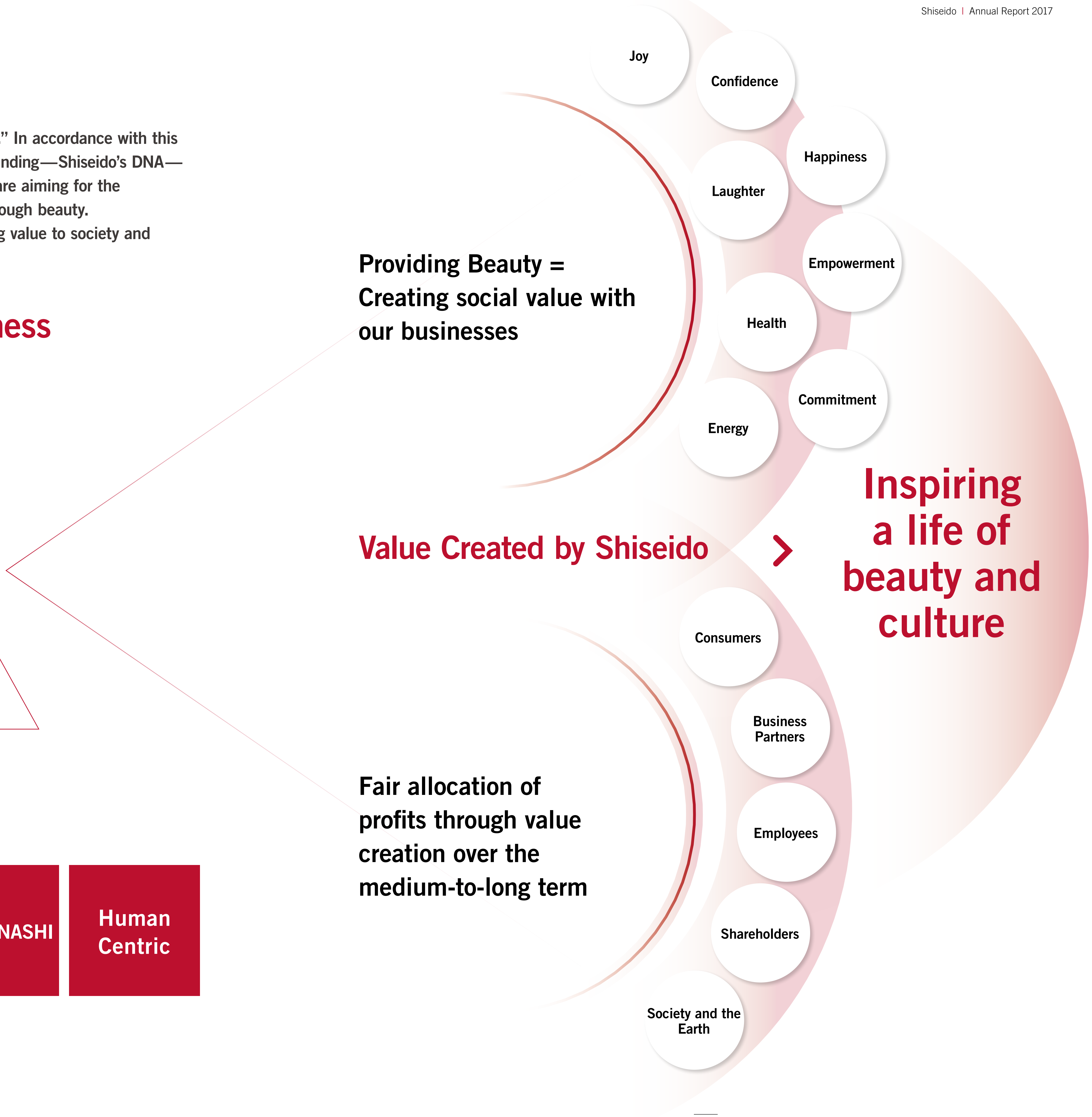
1934

Promotional campaign by Miss Shiseido (predecessor of the current Shiseido beauty consultants)

Beauty Innovation Model
"Beauty Can Change the World"

Shiseido's corporate mission is "to inspire a life of beauty and culture." In accordance with this mission, we leverage the strengths that we have cultivated since our founding—Shiseido's DNA—as the base of our operations in the beauty business. In this way, we are aiming for the realization of a sustainable society in which people find happiness through beauty.
Moving forward, we will work to realize sustainable growth by providing value to society and sharing the resulting profits with our stakeholders.





Major Business Categories and Brands at a Glance

Main Regions of Availability
Japan China Asia Pacific Americas EMEA Travel Retail

Prestige

Share of total sales (YoY sales growth*1)

42%
(+19%)

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


SHISEIDO


Clé de Peau Beauté


bareMinerals
*2


NARS


IPSA


Laura Mercier
*2


BENEFIQUE

Fragrance

11%
(+59%)

High-priced fragrances created through collaboration with famous designers


Dolce&Gabbana
*2


ISSEY MIYAKE
*2


narciso rodriguez
*2

Cosmetics

30%
(+8%)

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


ELIXIR


MAQuillAGE


HAKU


PRIOR


ANESSA


AQUALABEL


INTEGRATE


d program


AUPRES


urara


PURE&MILD


Za

Personal Care

9%
(+11%)

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


SENKA


TSUBAKI

Professional

5%
(+4%)

Hair care and styling products, hair color products, perm products, and other products for hair salons


SHISEIDO PROFESSIONAL

*1 Local currency basis *2 Hong Kong only
Note: In addition to our core business categories of prestige, fragrance, cosmetics, personal care and professional, "Other" makes up 3% of sales. "Other" includes Shiseido Parlour and other businesses.

Facts & Figures

Net Sales

+18.2% year on year on a yen basis

+16.0% year on year on a local currency basis

¥1,005.1 billion

Net sales increased 16.0% year on year on a local currency basis. Key factors supporting this increase included global growth in the prestige category, where we continue to expand strategic investment, and additional sales from brands added by the Shiseido Group in 2016. Due to the positive effect of yen depreciation, net sales increased 18.2% year on year on a yen basis.

Operating Income

+118.7% year on year

¥80.4 billion

Operating income recorded a substantial increase. This was mainly due to an increase in the operating margin accompanying the growth in sales, improved efficiency in marketing investment, and benefits derived from cost structure reform.

Operating Margin

+3.7 percentage points year on year

8.0%

Accompanying the increase in operating income, the operating margin increased 3.7 percentage points year on year.

ROE

8.2% FY 2016

5.6%

Under the medium-to-long-term strategy "VISION 2020," we have a target of over 14% for ROE in 2020. Due to an impairment loss for Bare Escentuals, Inc., ROE was 5.6% in the fiscal year under review.

Net Sales by Business Segment[1] (Year-on-year comparisons on a local currency basis)

Travel Retail

Net sales ¥44.5 billion

+73.8% YoY

EMEA

Net sales ¥128.4 billion

+30.0% YoY[2, 4]

Americas

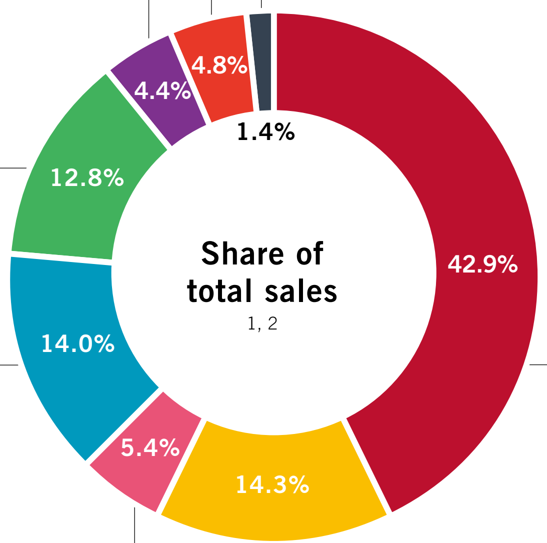
Net sales ¥140.4 billion

+6.6% YoY[2, 3]

Asia Pacific

Net sales ¥54.2 billion

+11.2% YoY



Professional

Net sales ¥48.0 billion

+4.3% YoY

Other[5]

Net sales ¥14.3 billion

+2.3% YoY

Japan

Net sales ¥431.0 billion

+13.1% YoY

China

Net sales ¥144.3 billion

+20.1% YoY

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

Approx. 45,000 / Approx. 70

Countries and Regions Served

Approx. 120

Ranking in Japan and Asia

Among Japanese / Asian cosmetics manufacturers for annual sales in the beauty category[9]

No. 1

WWD BEAUTY INC. THE 2017 BEAUTY TOP 100 (May 2018)

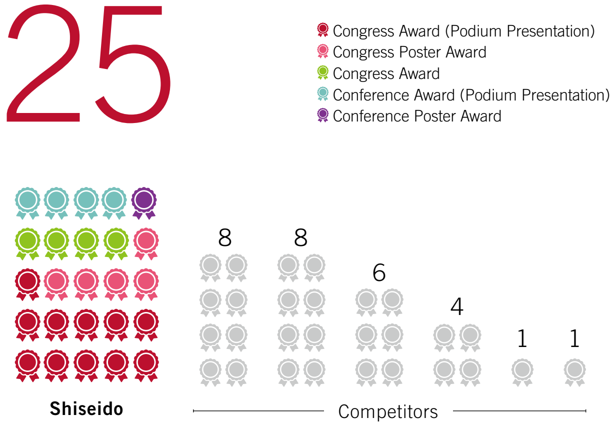
Percentage of Female Leaders[8]

Shiseido Group Total

52.7%

Awards Received at IFSCC[10] Congresses and Conferences (As of December 2017)

25



1 Effective from 2017, the Company has revised its reportable segment classification method in line with the Group's internal management structure. As a result, reportable segment classifications have been changed to the "Japan Business," "China Business," "Asia Pacific Business," "Americas Business," "EMEA Business," "Travel Retail Business" and "Professional Business" segments.
2 Effective from 2017, the U.K.-based bareMinerals and NARS, which were previously recorded under the Americas Business, are recorded under the EMEA Business; and the Latin America–based Fragrance business, which was previously recorded under the EMEA Business, is recorded under the Americas Business.
3 Organic sales excluding the impact of *Laura Mercier* and *Dolce&Gabbana* declined 12% year on year.
4 Organic sales excluding the impact of *Dolce&Gabbana* rose 7% year on year.
5 "Other" includes manufacturing operations, the Frontier Science Business, the Restaurant Business, etc.
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, 2018
8 As of December 31, 2017
9 Excluding food and daily necessities
10 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.

Stronger, Faster Growth. Today, Tomorrow, and into the Future.

Masahiko Uotani
Representative Director,
President and CEO

Medium-to-Long-Term Strategy

VISION 2020

Be a Global Winner with Our Heritage

2015–17
Rebuild the Business Foundation

2018–20
New Strategy to Accelerate Growth

Business Plan (2020)

Net sales
over ¥1.2 trillion

Operating income
over ¥120 billion

ROE
14% or higher

Shiseido made strong progress in 2017. We surpassed ¥1 trillion in net sales, achieving our 2020 target three years ahead of schedule, and our operating income reached an all-time high. We have now completed the stage of rebuilding our business foundation. We have moved on to a stage of rapid progress, and over the next three years Shiseido will implement a new strategy to accelerate growth.

2017—Building Confidence and Conviction in Shiseido's Bright Future

In 2017, Shiseido recorded higher sales in Japan, China, Travel Retail, and all of our other markets. Overall, the Shiseido Group's sales increased 16 percent year on year on a local currency basis and surpassed ¥1 trillion. Operating income more than doubled from the previous year to reach a record high of ¥80.4 billion. Our strong sales growth led to higher profit margins, and the ratio of personnel and other SG&A expenses to net sales declined. Even though we have stepped up our marketing investment in line with our plans, we have succeeded in bolstering our profitability.

Net income declined year on year in 2017, due largely to an extraordinary loss associated with Bare Escentuals, Inc., in the United States. This impairment loss on intangible and other fixed assets had a significant adverse effect on our net income for the year. But it was the right decision. Although we acquired Bare Escentuals in 2010, we have failed to grow the brand in line with our plans. Under VISION 2020, 2017 was positioned as the final year for rebuilding our business foundation. Accordingly, we reevaluated the actual situation at Bare Escentuals based on a profit plan adjusted for market and consumer changes, and decided to record an impairment loss.

Overall, our initiatives made 2017 a year of solid progress for Shiseido. We significantly reinforced our business foundation, and on that robust base we are already moving toward the objective set out in VISION 2020—Be a Global Winner with Our Heritage.

Operating Results in 2017–Major Achievements

- ✔ Reaching net sales of ¥1 trillion three years ahead of schedule
- ✔ Generating record-high operating income
- ✔ Increasing sales in all markets worldwide
- ✔ Increasing profitability while expanding marketing investment

Three Years of Progress— With a Focus on Speed and Growth

In 2015, Shiseido launched VISION 2020, our medium-to-long-term strategy that covers the six-year period to 2020, and the first three years of that period were positioned for the rebuilding of our business foundation. To that end, we instituted a variety of reforms, including rigorous measures to resolve the issues in our businesses in Japan and other regions. We also stepped up marketing investment to a cumulative total of more than ¥110 billion.

Over the past three years, we have achieved solid results in a wide range of areas. Those achievements are not only reflected in our improved performance in 2017. They have also bolstered our business foundation, and on that strong base, we will accelerate our growth toward 2020. In particular, in management we established a new global structure to make Shiseido a winner worldwide, and in marketing our Prestige First strategy drove substantial gains.

Under the global management structure, which was introduced in 2016, I serve as the Group CEO and work together with six regional CEOs. This structure enables the Company to implement marketing activities attuned to the characteristics of each region and facilitates flexible decision-making. In this way, we are working to bolster our ability to respond to consumer purchasing behavior and market changes. The regional CEOs have broad managerial authority and responsibility for sales and profits.

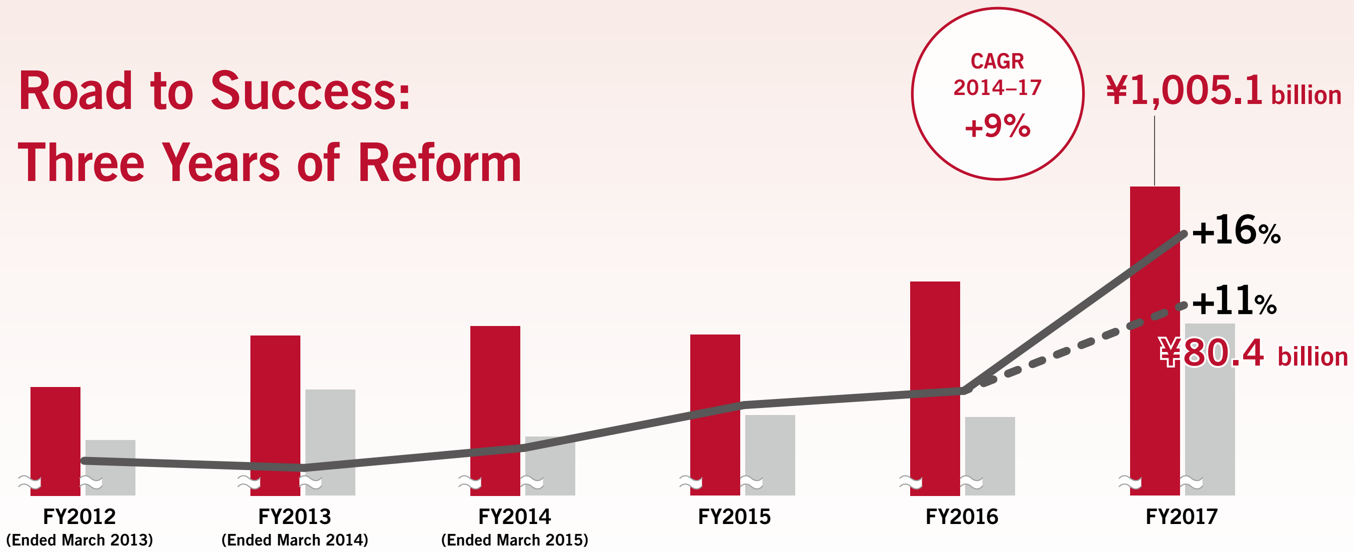
For further information, see page 22, "Global Strategy."

Another strength of this management structure is the network of Centers of Excellence (CoEs). Each product category is led by the region that excels in that category. The designated CoEs then take the lead role in the formulation of global strategies and the development of products for their categories. In this way, Japan hosts the CoE for skincare, the Americas for makeup and digital marketing, and EMEA for fragrances. With this new global management structure, in 2017 we recorded higher sales in every region worldwide.

Moreover, starting from 2018, we are advancing an approach known as Connected Multi-Value Creation. Under this approach, Shiseido's operations in each region are not managed and controlled by the global headquarters in Japan. Rather, each regional headquarters transcends the role of a simple sales base and acts as a center for value creation. As we move forward, the knowledge cultivated in each region will be shared around the world and leveraged in marketing initiatives.

In marketing, our highest priority is the advancement of the Prestige First strategy. Under this strategy, we are accelerating growth by concentrating our marketing investment on prestige brands. This process of selection and concentration

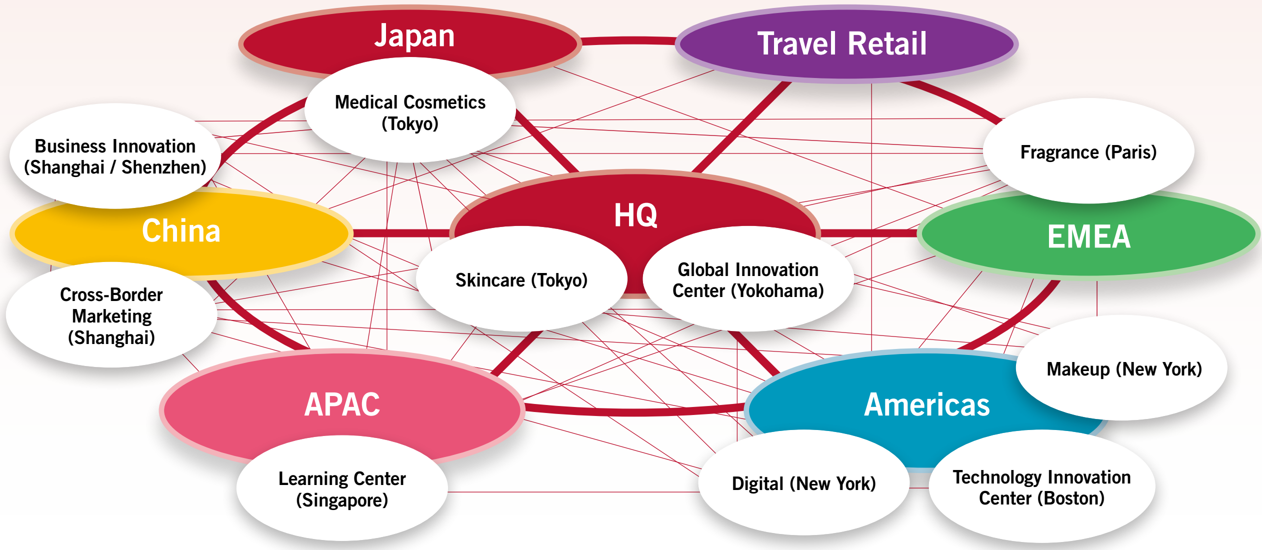
Road to Success: Three Years of Reform



Notes: 1. The figures for 2013 exclude the impact of last-minute demand ahead of the consumption tax hike. The figures for 2014 exclude the impact of the rebound after the consumption tax hike, market inventory optimization in China and Asia Pacific, and distribution center issues in the Americas.
2. 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.

"Connected Multi-Value Creation" Model

Evolution of "Centers of Excellence"



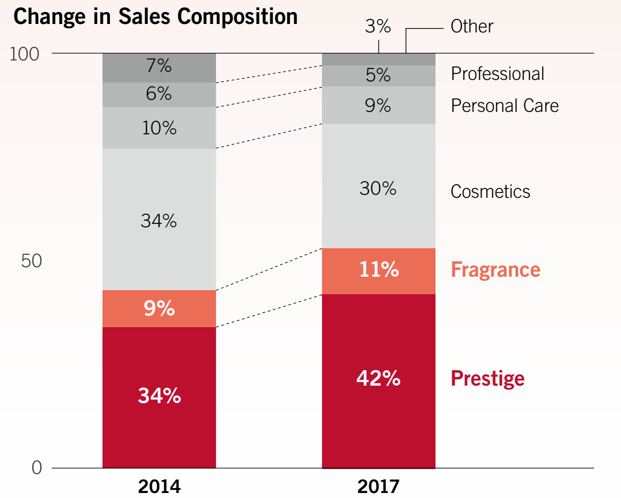
has made a significant contribution to our profitability gains. For example, sales of fragrances and other prestige products increased 1.5 times over the three years from 2015 to 2017 and now account for 53 percent of our total sales, versus 43 percent three years ago.

Prestige + Fragrance:

Sales Up 1.5 Times

Sales Composition: More Than 50%

Change in Sales Composition



Nevertheless, on a global basis, we still have work to do, and we still face multiple challenges. We will not be satisfied—with our past achievements, or with our present situation. Rather, we will work with humble confidence and continue to steadily achieve growth in 2018 and beyond.

Achievements in 2015–17

1. Growth of global prestige brands
2. Brand / Business portfolio reinforcement
3. Japan business back on growth track
4. Solid foundation for growth in China and Travel Retail businesses
5. Organizational integration and improved efficiency
6. Establishment of the global management model

Launching the New Three-Year Plan

In March 2018, we announced the New Three-Year Plan, which covers the period from 2018 to 2020, the second phase of VISION 2020. It comprises five key strategies, "Building for the Future," aimed at achieving growth over the next three years—tailoring our brand strategies to the needs of local consumers in markets around the world, stepping up aggressive investment in marketing, accelerating digitization and developing new businesses, and creating new value through innovation. Shiseido believes that people are the source of all value creation, and accordingly we will increase investment in our human resources. Moreover, we will move forward with VISION 2020 through ongoing efforts to enhance our global management model.

For further information, see pages 17 and 18, "Five Key Strategies."

Exploring New Frontiers

Our 2020 business plan incorporates both basic objectives and stretch targets, which take into account the resolution of our supply chain issues. These are challenging targets that will not be easily accomplished. Nonetheless, we will set our sights high, and I expect the Company to record strong progress with new initiatives and reforms.

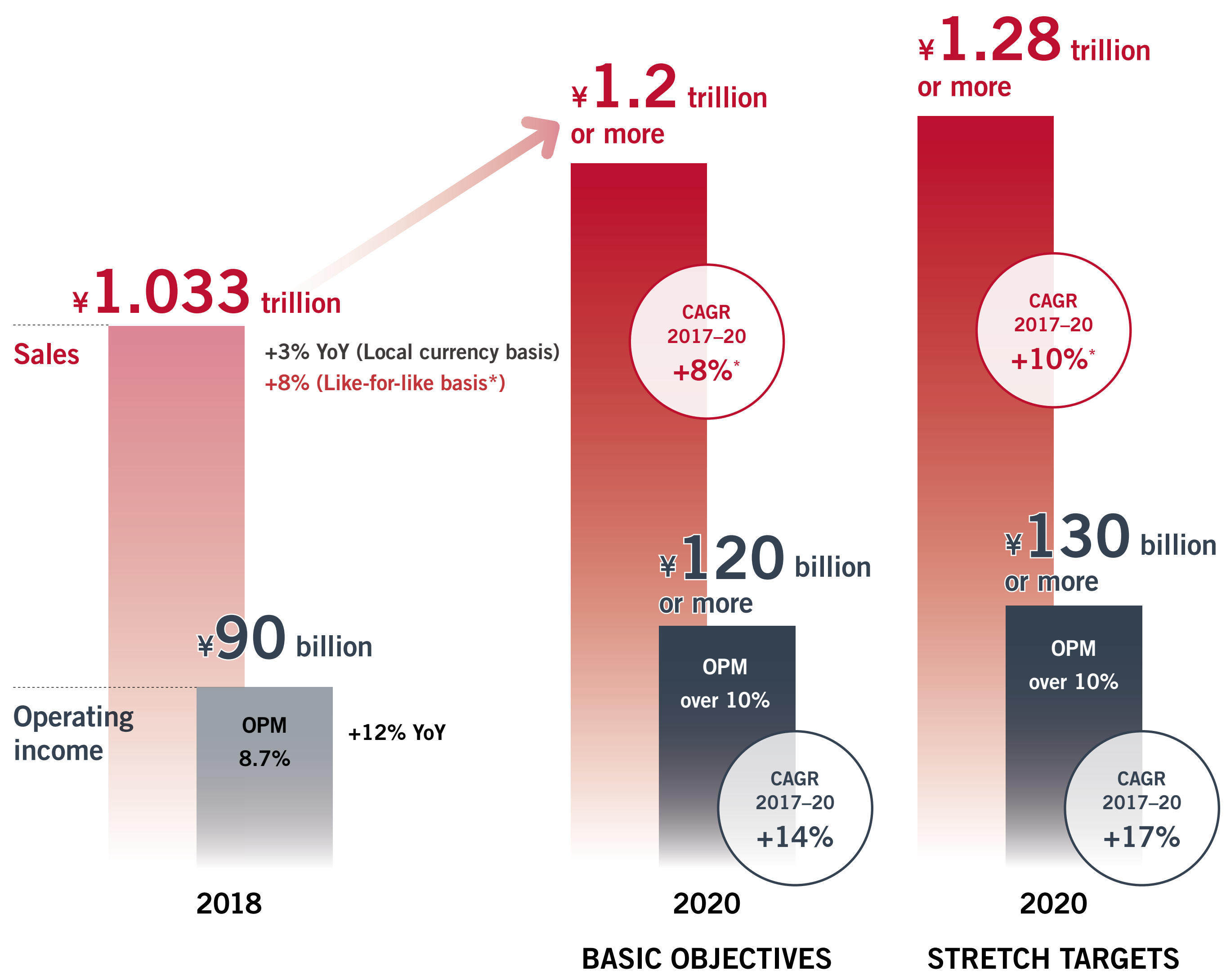
Overview of the New Three-Year Plan

2018–20 Five Key Strategies: "Building for the Future"

1. Further Selection and Concentration of Brand Businesses
2. Acceleration of Digitization and New Business Development
3. New Value Creation through Innovation
4. Talent and Organization Development to Be a Global Winner: "PEOPLE FIRST"
5. New Global Management Model

For further information, see page 18, "Five Key Strategies."

2018–20 Business Plan



* Like-for-like basis excluding the impact of business transfers and other factors

Five Key Strategies

1. Further Selection and Concentration of Brand Businesses

Under the Prestige First strategy, we place the highest priority on the prestige category, which is our strength, to bolster our operations around the world. By leveraging the principles of selection and concentration in brand investment, we will work to achieve growth that outpaces the market. Accordingly, we will strive to achieve growth by concentrating our investment on specific brands in our portfolio—*SHISEIDO, Clé de Peau Beauté, NARS, bareMinerals, IPSA, Laura Mercier*, and *Dolce&Gabbana*. Moreover, in China and other Asian markets, among our cosmetics and personal care brands, we will concentrate our initiatives on made-in-Japan brands, including *ELIXIR, ANESSA, SENKA*, and *INTEGRATE*.

2. Acceleration of Digitization and New Business Development

We will implement measures to strengthen digital marketing and e-commerce worldwide, aiming to increase the e-commerce share of our overall sales from 8% in 2017 to 15% by 2020, and to 40% in China. At the same time, we will work to enhance our CRM initiatives, such as integrating consumer data from e-commerce sites and stores.

In new business development, we will focus on personalization—offering value tailored to the needs of individual consumers. To that end, we will create new products and services that combine IoT and other digital technologies with existing businesses.

3. New Value Creation through Innovation

To leverage synergies, we will take steps to integrate a range of resources. These include the know-how that we have cultivated, the new technologies that we have acquired through mergers and acquisitions, and the human resources who offer high levels of expertise. As a result, we will create new value not only in cosmetics but also in new frontiers such as artificial skin, hair and skin regeneration, and advanced beauty care. To enhance innovation, we will bolster R&D investment. By 2020, we expect to increase the number of R&D personnel to 1,500 and to realize an R&D-to-sales ratio of 3%.

For further information, see pages 46 and 47, "Innovation."

4. Talent and Organization Development to Be a Global Winner: "PEOPLE FIRST"

Developing the next generation of Shiseido leaders is one of our top priorities, and to that end we are working aggressively to enable a large number of motivated employees to enhance their skills. We are instituting a range of initiatives, including training programs as well as English language training in preparation for the English mandate, which starts in October 2018. In addition, we plan to open a global learning center in each region, starting with Asia.

For further information, see pages 44 and 45, "Human Resources Strategy."

5. New Global Management Model

The global management structure that we launched in 2016 enables us to respond promptly and appropriately to conditions in our markets. We have delegated responsibility and authority to the CEO of each regional headquarters, who is in charge of regional management. From 2018, we will go a step further with the start of the Connected Multi-Value Creation Model, which will become a base for the creation of value by each region. Going forward, we will ensure that the wide range of knowledge cultivated in each region is shared with the other regions around the world and fully leveraged in our marketing activities.

Challenges and Initiatives

To achieve the business plan as spelled out in the New Three-Year Plan, there are issues that we need to tackle immediately. First, we need to establish a stable product supply system, and second, we have to improve profitability in the Americas and EMEA. We have already formulated initiatives to address these issues, and I believe that it will be important to show steady results moving forward.

Over the past several years, Shiseido has achieved rapid growth in sales and, in particular, a rapid recovery in the Japan business. Our made-in-Japan products are enjoying growing demand in China and other Asian markets. As a result, product supplies are tight. In response, we will execute countermeasures over multiple time frames. In the short term, we will invest in the facilities at our three existing factories in Japan, strengthen our personnel systems, rationalize SKUs, and expand outsourcing and raw materials procurement linked with growth in demand.

In the medium term, we will build new factories to increase our in-house production capacity. We are already planning to start up the Nasu Factory in Tochigi Prefecture, Japan, in 2019 and the New Osaka Factory in Osaka Prefecture in 2020.

To implement this series of improvements in our supply system, we plan to invest a cumulative total of ¥130 billion over three years.

For further information, see page 47, "Innovation."

Development of supply network

- ✓ Enhancement of facilities at existing factories
- ✓ Collaboration with outsourcing partners
- ✓ Establishment of new factories in Nasu and Osaka
- ✓ Further strengthening of quality control
- ✓ Improvement of working conditions for factory employees
- ✓ Establishment of permanent positions for 1,200 employees on fixed-term contracts

Total investment (2018–20)

¥130 billion

We are steadily stepping up our initiatives to improve profitability in the Americas and EMEA, aiming to achieve an operating margin of more than 10% in 2020. In the Americas, targeting a turnaround in the performance of the *bareMinerals* brand, we will optimize sales channels, revise fixed costs, and bolster digital marketing and e-commerce. In the EMEA Business, we will aim to increase sales of *Dolce&Gabbana*, for which we commenced full-scale in-house production in 2017, and to achieve sustainable growth of *narciso rodriguez*. In addition, we will further optimize the One Shiseido organization, which integrates the cosmetics and fragrance businesses.

For further information, see page 28, "Americas Business," and page 29, "EMEA Business."

Improvement in profitability

Americas

***bareMinerals* turnaround**

- ✓ Sales channels management
- ✓ Fixed cost optimization
- ✓ Reinforcement of digital marketing and e-commerce

EMEA

Higher sales of *Dolce&Gabbana*, sustainable growth of *narciso rodriguez*

Further optimization of the One Shiseido organization

In 2018, as outlined below, we are planning another year of higher sales and profits. While maintaining our priority on investing in growth, we plan to increase dividends by ¥2.5 per share, to ¥30.0.

2018 Forecasts (as of March 5, 2018)

(Billions of yen)	2018	% of Net Sales	2017	YoY Change, %	YoY Change in Local Currency, %
Net Sales	1,033.0	100	1,005.1	+2.8	+3
Operating Income	90.0	8.7	80.4	+11.9	
Ordinary Income	90.0	8.7	80.3	+12.0	
Extraordinary Income / Loss	–6.0	—	–41.8	—	
Net Income Attributable to Owners of Parent	54.0	5.2	22.7	+137.4	

Expected ROE: 12.6%
Exchange rates: 2018 USD1 = JPY110 (–2%), EUR1 = JPY128 (+1%), CNY1 = JPY16.5 (–1%)

For further information, see page 32, "Message from the CFO."

Creating Corporate Value with a Focus on ESG

Under VISION 2020, Shiseido has announced that it will strive to "Be a Global Winner with Our Heritage." To continue to record sustainable growth over the next 100 years, we will aim to be a company that is trusted and needed by consumers around the world and by society. Accordingly, we have a clearly focused management policy—"To Be the Most Trusted Beauty Company in the World."

Since our founding, Shiseido's corporate mission has been "to inspire a life of beauty and culture." Based on that mission, we are aiming for the realization of a sustainable society in which people find happiness through beauty. We believe that Shiseido's business activities can significantly contribute to the creation of value for society and that from a long-term viewpoint, leveraging our businesses to contribute to society through beauty innovation will enhance our corporate value.

Shiseido's products can help to address the wishes of consumers as well as to resolve issues faced by society. In emerging countries, cosmetics play a role in supporting the empowerment of women. In economically developed countries as well, people of different ages and lifestyles, including seniors, working women, young adults, and athletes, have a variety of expectations regarding beauty. Through Beauty Innovation, Shiseido will offer solutions to a wide range of needs and issues related to beauty and cosmetics.

"Beauty can change the world." We believe that beauty can deliver happy smiles and health to people around the world, as well as create energy and confidence. Shiseido's employees share this belief, which is reflected in their approach to their work each day. This approach is also aligned with the philosophy of the United Nations' Sustainable Development Goals (SDGs). Accordingly, Shiseido is aggressively implementing initiatives targeting the realization of the SDGs.

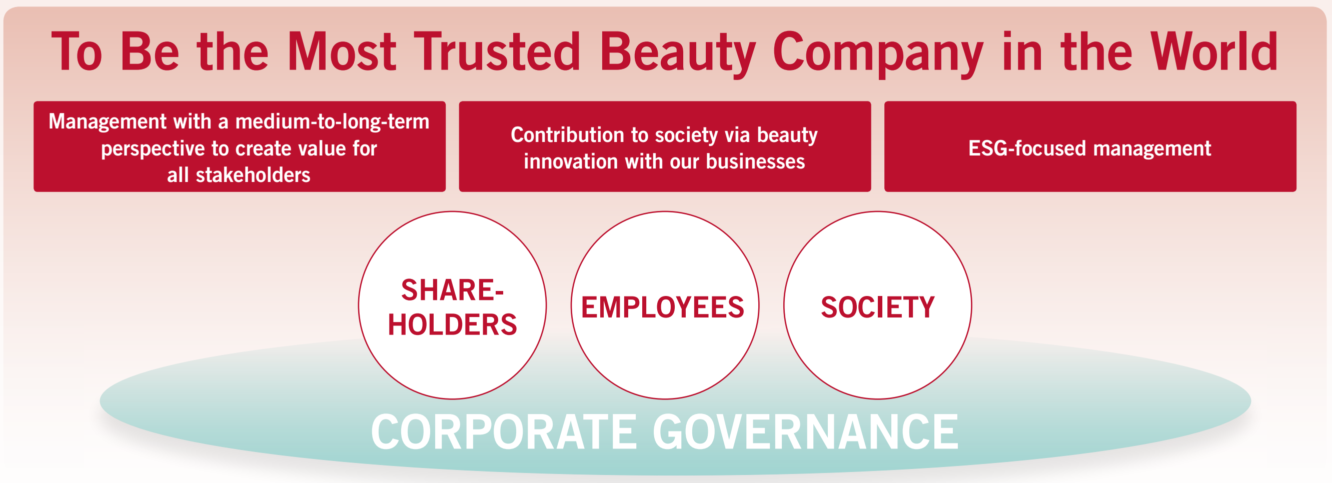
In this way, we will strive to create value for all of our stakeholders, including not only consumers but also society, business partners, employees, and shareholders.

For further information, see pages **38 to 43**, "Sustainability Strategy."

Aggressively Investing in Human Resource Development to Be a Global Winner

From an ESG viewpoint, our people are our biggest asset in establishing the competitive edge that will make us a global winner. There is no question that our growth and progress over the past few years have been led by our human resources. I have directly experienced how the power of people—our employees—has driven our growth. Since I became president in 2014, I have engaged in dialogue with a total of about 65,000 employees. As a result, I have developed a direct understanding of how strongly our employees feel about our business and products, and that understanding has reaffirmed my confidence. For Shiseido to achieve sustainable growth over the next 50 or 100 years, I believe that we must strengthen our human resources.

Shiseido Group Management Policy



Accordingly, investment in human resources is positioned as one of our key strategies under the New Three-Year Plan, and we are now advancing the People First strategy. We have enhanced development programs for the employees who will be our leaders in the future, including global and other managerial-level personnel, as well as professional employees. At global headquarters, we are also launching the English mandate in October 2018. Moreover, we will reinforce our human resource and organizational capabilities through a range of multifaceted measures, such as flexible working styles.

We will also take steps to further advance diversity among our workforce. We will ensure that our people, with their diverse values and experience, can mutually support and challenge one another in order to foster new creativity and innovation.

For further information, see pages **44 and 45**, "Human Resources Strategy."

Increase Investment in Talent Development

- ✓ Leadership development
  - Training and development programs
  - Return of the study abroad program
  - Recruitment of professional talent
  - Global mobility
  - Establishment of Asia Learning Center (Singapore)
- ✓ Promotion of diversity
- ✓ English mandate
  - 1,700 employees currently learning English
- ✓ Global HR database development

Total investment (2018–20)

¥14 billion

2020 and Beyond

Shiseido is currently working to achieve VISION 2020, and at the same time we are advancing management initiatives from a long-term perspective, with a view to 2030. We are taking steps to achieve the No. 1 position in the Japanese and Asian markets and rank among the top three in the global prestige cosmetics market by 2030. Through these initiatives, we will strive to enhance our presence as a global company with net sales of over ¥2 trillion and operating income of over ¥300 billion.

In closing, I would like to ask our stakeholders for their continued support of Shiseido as we prepare to tackle the challenges that lie ahead and strive to achieve stronger, faster growth—today, tomorrow, and into the future.

June 2018

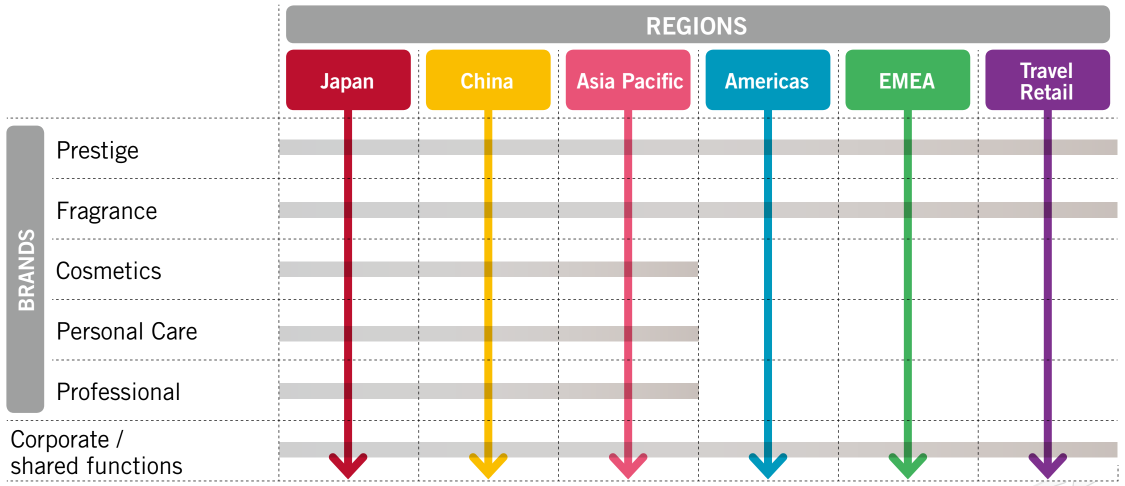
Masahiko Uotani
Representative Director, President and CEO

Six Regional Headquarters and Our Global Management Structure

Shiseido has transitioned from its previous headquarters-oriented management system to a global management structure that delegates a broad range of authority and responsibility to regional headquarters around the world. Our matrix organization cross-matches six regions with five categories. Under this structure, the Company is working to achieve significant global growth through marketing activities attuned to the needs of regional consumers, and flexible decision-making.

Jean-Philippe Charrier, President and CEO, Shiseido Asia Pacific
Franck Marilly, President and CEO, Shiseido EMEA
Shigekazu Sugiyama, President and CEO, Shiseido Japan
Masahiko Uotani, Shiseido Group CEO
Marc Rey, President and CEO, Shiseido Americas
Kentaro Fujiwara, President and CEO, Shiseido China
Philippe Lesné, President and CEO, Shiseido Travel Retail

Region × Brand Matrix Organization



Principal foreign currency exchange rates:
¥110 / USD
¥128 / EUR
¥16.5 / CNY

Net sales in 2020 and CAGR for 2017 to 2020

Figures in parentheses show a like-for-like basis excluding business transfers, etc.

(Announced March 5, 2018)

EMEA
¥143 billion
+9% (+10%)

Japan
¥490 billion
+4% (+4%)

Americas
¥138 billion
+2% (+3%)

Asia Pacific
¥77 billion
+9% (+9%)

China
¥204 billion
+13% (+13%)

Travel Retail
¥111 billion
+20% (+22%)

Notes:
1. Effective from 2018, the Company has changed its reportable segment classification method in line with the Group's internal management structure.
2. As of 2018, internal transaction prices have been partly changed.

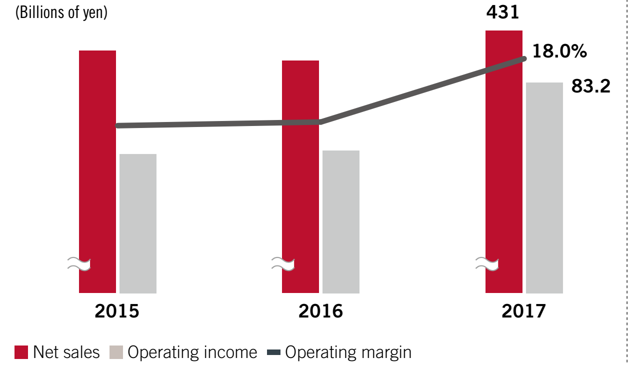
Striving to Secure a Strong No. 1 Position in Japan

Review of 2015 to 2017

Our share of the domestic market, which had been declining, turned around and began to increase during the three-year period, and we established solid growth momentum. Through the regional headquarters, which integrated head office and sales functions, we established marketing initiatives integrating R&D, production, sales, and other functions. These initiatives made a strong contribution to our efforts to increase domestic sales and to capture inbound demand. In addition, we worked to strengthen digital marketing and e-commerce initiatives and to restructure our brand sales channels.

Results in First Three-Year Period

(Billions of yen)



Future Market Landscape

Moving forward, the Japanese market is expected to record sustained growth due to such factors as expansion of the prestige and mid-priced markets and rising inbound demand. In addition, new fields, such as medical cosmetics and personalization, are also drawing considerable attention. We are forecasting a CAGR of +2 percent in the Japanese market over the period from 2017 to 2020.

Note: Euromonitor International forecast in 2017
Premium + mass (skincare, sun care, color, fragrance, hair care, deodorant, bath & shower, other sets/kits)

No. 1 in Japan Strategies

To solidify the No. 1 position in the Japanese market, we will continue to focus investment on *SHISEIDO* and other prestige brands, as well as the three skin-related segments in which we have distinct strengths—skincare, base makeup, and sun care. In addition, we will further accelerate the expansion of our share by introducing innovative products. Across all channels, we will take efforts to expand and strengthen contact points in line with consumer behavioral patterns and purchasing styles. We will also work to attract the younger generations and children of baby boomers, who will lead new markets in the future. In particular, we will continue to invest in marketing for millennials, who very well could be called digital natives. In these ways, we will take steps to expand our market share.

Inbound Strategies

Demand from inbound tourists to Japan is increasing. In response, we will continue to implement cross-border marketing, with a focus not just on Japan but on all of Asia as a single market. Through multiple touch points, including cities, airports, in-flight offers, and cross-border e-commerce, we will aggressively step up our brand initiatives for *SHISEIDO*, *Clé de Peau Beauté*, *ELIXIR*, *ANESSA*, *SENKA*, and other brands. At stores in Japan, we will further enhance our service to inbound consumers by assigning interpreters and leveraging digital tools that facilitate counseling in multiple languages.

Based on these initiatives, the 2020 targets for the Japan Business are net sales of ¥490 billion and an operating margin in the high teens.

ELIXIR

SHISEIDO

VISION 2020 Strategies and Targets

No. 1 in Japan strategies

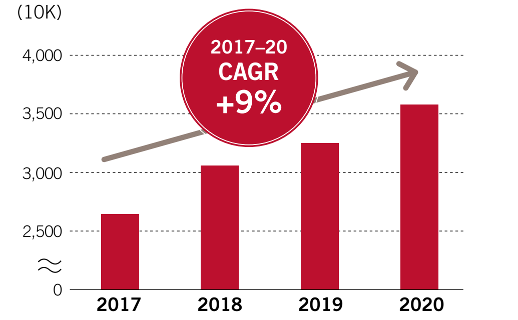
- Focus on three skin-related segments x core brands
- Expand and enhance contact points
- Attract the young and the second baby-boomer generation

Inbound strategies

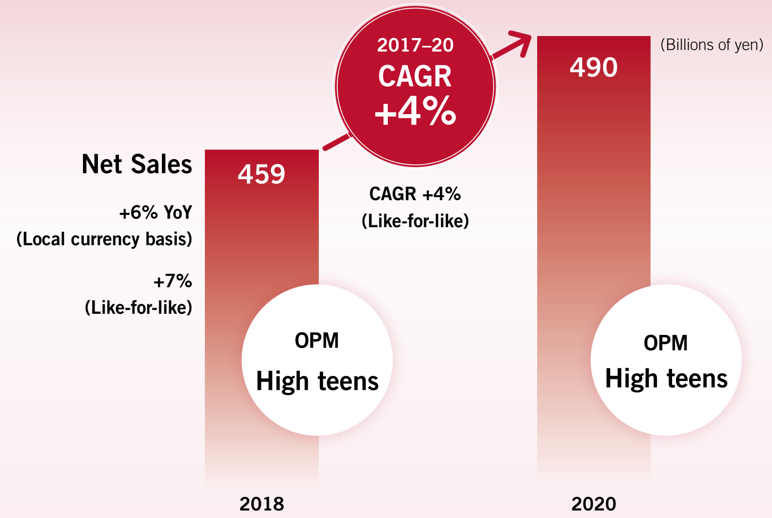
- Cross-border marketing
- Multiple touch points
- Multilingual support at stores
- 2018 plan +10% vs. previous year

Inbound Tourists

(10K)



Source: Mitsubishi Research Institute, *Inbound forecast base plan* (Mar. 2017)



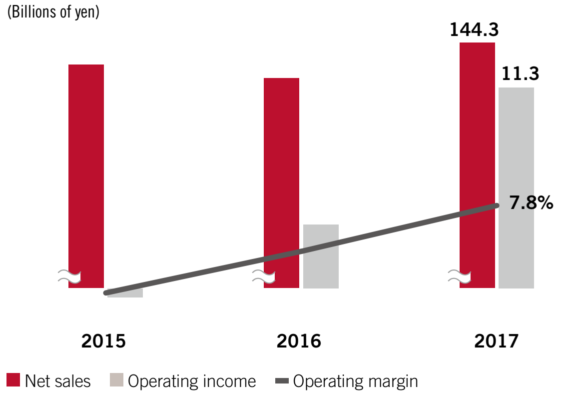
Notes: 1. Like-for-like basis, excluding the impact of business transfers, etc.
2. As of 2018, internal transaction prices have been partly changed.

Aiming for a Top Three Position in China through Bold Investment in Growth Areas

Review of 2015 to 2017

In the China Business, we transitioned from a headquarters focus to a regional orientation, and our profitability improved significantly. We concentrated our marketing investment on the prestige business and e-commerce. In the prestige business, we recorded significant growth, with the CAGR for the last three-year period reaching +41 percent. In addition, the share of China Business sales excluding Hong Kong attributed to e-commerce increased from approximately 15 percent in 2015 to 26 percent. In the cosmetics business, we rebranded *AUPRES* and changed the contract terms for *Za* and *PURE&MILD*, which included reinforcing self-service sales.

Results in First Three-Year Period
(Billions of yen)



Future Market Landscape

The Chinese market is expected to see higher spending by younger consumers (born between 1980 and 2000), as well as market growth led by expansion in tier 3 and tier 4 cities. In addition, due to further growth in what is already one of the world's largest e-commerce markets, we are forecasting a CAGR of +7 percent in the Chinese market over the period from 2017 to 2020.

Note: Euromonitor International forecast in 2017
Premium + mass (skincare, sun care, color, fragrance, hair care, deodorant, bath & shower, other sets/kits)

Key Strategies

We will implement three key strategies to achieve further growth in the China Business. First, we will accelerate the prestige business. Centered on *SHISEIDO*, *Clé de Peau Beauté*, *IPSA*, and others, we will bolster brand equity through localized marketing. In addition, centered on *NARS*, we will take steps to strengthen the makeup category, which is an area of growth. Second, we will expand into tier 3 and tier 4 cities, where growth in consumption is anticipated. We will expand our key sales counters while leveraging Group synergies. Third, we will strengthen digital marketing and e-commerce. The function of e-commerce will change from sales channel to marketing platform. With a focus on this change, we will offer a seamless brand experience aligned with consumer purchasing behavior.

Moreover, to address diversifying needs, we will strengthen exclusive products and personalized services.
In addition, by aggressively implementing CRM initiatives that leverage data, we will increase e-commerce to about 40 percent of sales in the China Business in 2020.

In the cosmetics business, we will implement initiatives targeting sustained growth and further gains in profitability. For *AUPRES*, we will shift investment to tier 3 and tier 4 cities, and the digital marketing and e-commerce field, which is expected to record high levels of growth. To increase the profitability of *Za* and *PURE&MILD*, we will reinforce self-selection sales and open up new channels. For *ELIXIR* and *ANESSA*, we will advance into local cities and work to further expand brand awareness and sales by leveraging their value as highly reliable brands from Japan.

Based on these initiatives, our 2020 targets for the China Business are net sales of ¥204 billion and an operating margin in the low teens.

Clé de Peau Beauté


AUPRES customer service

VISION 2020 Strategies and Targets

Accelerate the growth of the prestige business

- Strengthen brand equity with localized marketing
- Enhance makeup category

Expand into tier 3 and tier 4 cities

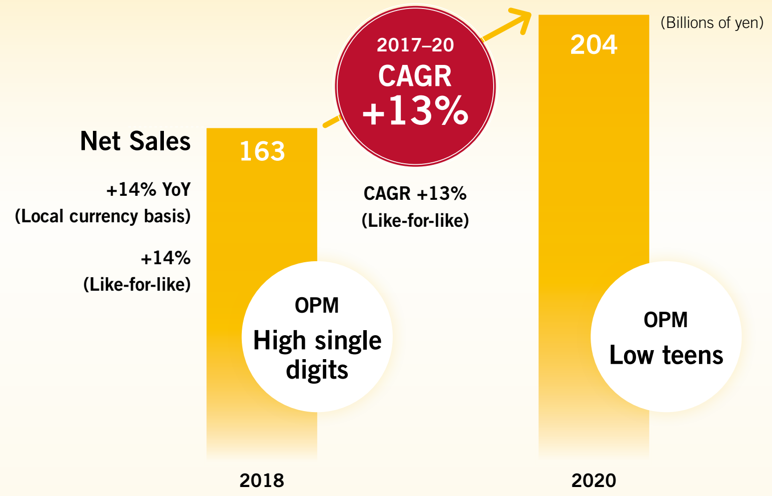
- Increase key counters by leveraging group synergies
- Enhance O2O (online to offline) marketing

Reinforce e-commerce

- Develop seamless brand experience through omni-channel initiatives
- Launch exclusive products / promotions
- Strengthen CRM

Cosmetics business strategy

- *AUPRES*: Reinforce sustainable growth
- *Za*, *PURE&MILD*: Improve profitability
- *ELIXIR*, *ANESSA*: Expand brand awareness and scale of sales



Notes: 1. Like-for-like basis, excluding the impact of business transfers, etc.
2. As of 2018, internal transaction prices have been partly changed.

Americas Business

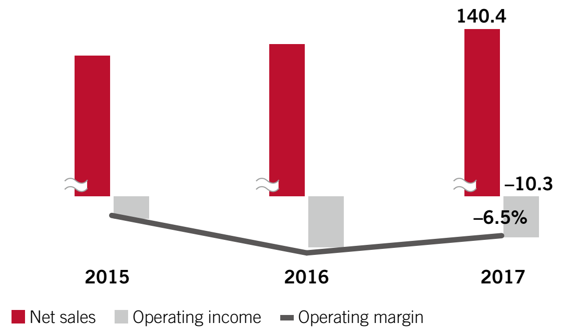
Drastically Improving the Commercial Profitability of the Region to Reach a Double-Digit Operating Margin

bareMinerals

Review of 2015 to 2017

Accompanying the full-scale start of the Centers of Excellence, our marketing initiatives around the world leveraged the digital and makeup strategies created in the Americas. We also recruited people with high levels of expertise in the cosmetics business. In these ways, we consolidated and reinforced our organization. In addition, we acquired venture companies with leading-edge technologies. We responded proactively and rapidly to the *bareMinerals* challenges by initiating a turn-around plan, rebalancing our distribution toward growing and profitable channels, and posting an impairment loss in 2017.

Results in First Three-Year Period
(Billions of yen)



Future Market Landscape

In the U.S. prestige market, over the period from 2017 to 2020, we are forecasting a CAGR of +8 percent for both makeup and skincare. We expect these categories to lead our growth in the U.S. market. Conditions in the department store channel will likely be difficult, while significant growth is anticipated in the e-commerce channel.

Note: According to research by Shiseido. NPD full fiscal 2017 (Department/Specialty Channel, brick and mortar plus retailer.com)

Key Strategies

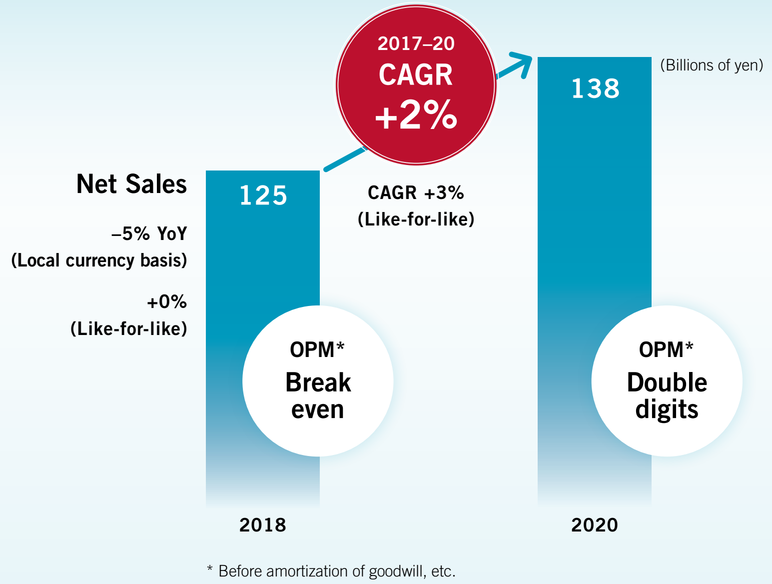
To thoroughly improve profitability, we will take steps to rejuvenate the *bareMinerals* brand. To that end, we will refine brand positioning, optimize sales channels, reevaluate fixed costs, and implement other measures. In addition, to build a solid position in the makeup market, we will accelerate the growth of *NARS* and *Laura Mercier* and reinforce the *SHISEIDO* makeup line. Moreover, through aggressive CRM initiatives, collaboration with major e-commerce website operators, and other initiatives, we will work to bolster sales through our own sites as well as other retail sites.

Based on these initiatives, our 2020 targets are net sales of ¥138.0 billion and an operating margin (before amortization of goodwill, etc.) in the double digits.

WEB Please refer to the following URL for details.
http://www.shiseidogroup.com/ir/pdf/ir20180305_482.pdf

VISION 2020 Strategies and Targets

- Boost in digital sales
- Aggressive growth of makeup brands
- Strict cost control and resource allocation to deliver better profitability
- Adaption of our team in size, skill, and agility to embrace the future



Notes:
1. Like-for-like basis, excluding the impact of business transfers, etc.
2. As of 2018, internal transaction prices have been partly changed.

* Before amortization of goodwill, etc.

EMEA Business

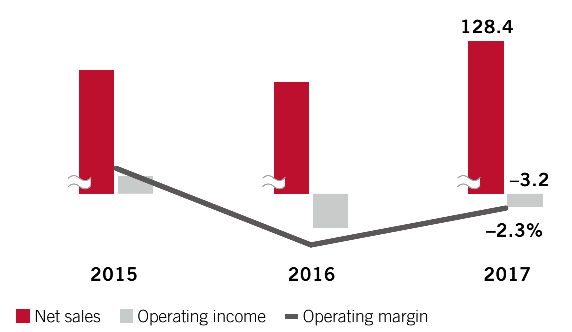
Accelerating the Growth of *Dolce&Gabbana* as We Aim for a Top Five Position*

Dolce&Gabbana

Review of 2015 to 2017

The EMEA Business worked to build a foundation for higher profitability by integrating overlapping cosmetics and fragrance organizations in each country in EMEA. We also stepped up investment in the license business with the *Dolce&Gabbana* luxury fashion brand, which we started in October 2016.

Results in First Three-Year Period
(Billions of yen)



Future Market Landscape

In the EMEA prestige market, growth is expected to be driven by the United Kingdom, Russia, and the Middle East. Due to high growth in the makeup category in particular, we are forecasting a CAGR of +5 percent in the EMEA prestige market over the period from 2017 to 2020.

Note: Euromonitor International forecast in 2017
Premium (skincare, sun care, fragrance)

Key Strategies

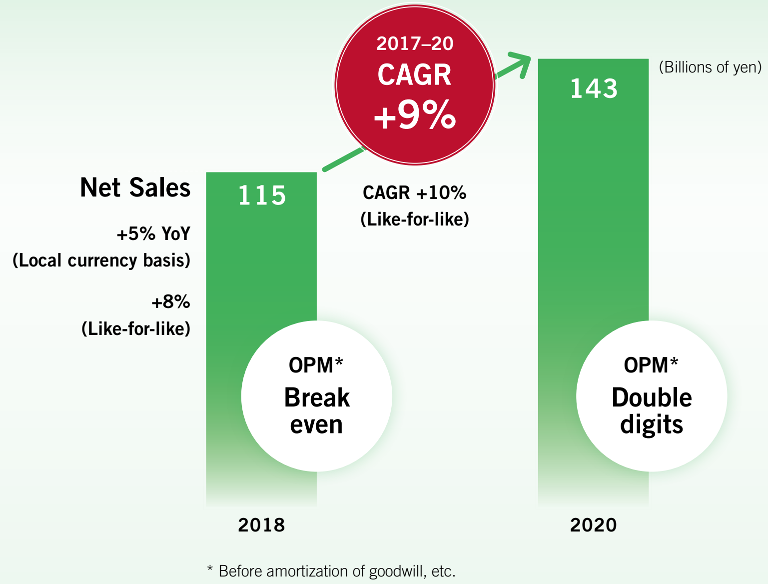
In fragrances, we will expand investment, centered on *Dolce&Gabbana*, and optimize each brand's business model in line with market characteristics. In the skincare category, we will increase *SHISEIDO* brand awareness and equity, and in the prestige channel we will launch *Clé de Peau Beauté* in key countries. We will also reinforce our presence in the makeup category, centered on *SHISEIDO*, *bareMinerals*, *NARS*, and *Laura Mercier*. Moreover, we will further increase productivity by optimizing our integrated organizations as "One Shiseido."

Based on these initiatives, the 2020 targets for the EMEA Business are net sales of ¥143.0 billion and an operating margin (before amortization of goodwill, etc.) in the double digits.

* Ranking in the prestige markets of the key five countries in Europe
Ranking in 2017: 8th

VISION 2020 Strategies and Targets

- Expand fragrance growth
- Reinforce ***SHISEIDO*** brand equity in the skincare category
- Enhance our presence in makeup
- Further optimize integrated organizations



Notes:
1. Like-for-like basis, excluding the impact of business transfers, etc.
2. As of 2018, internal transaction prices have been partly changed.

* Before amortization of goodwill, etc.

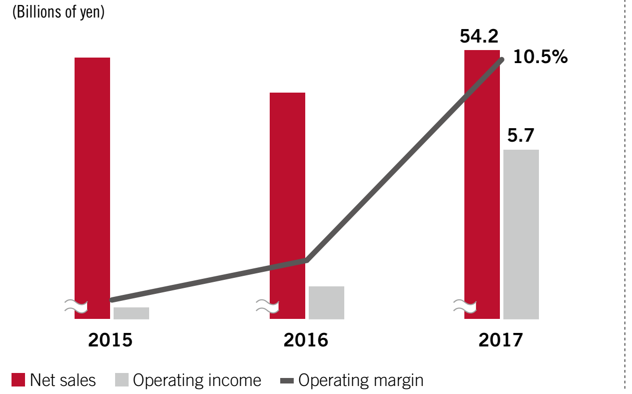
Asia Pacific Business

Aiming for a Top Three* Position in the Prestige Market as We Continue to Strengthen "Made in Japan" Brands

Review of 2015 to 2017

The Asia Pacific Business achieved solid results with the establishment of a new regional headquarters in Singapore and initiatives to strengthen "Made in Japan" brands led by localized marketing. South Korea had been a challenge for many years. However, under the leadership of management with expert knowledge of the local market, we achieved growth and moved from a loss to a profit in South Korea.

Results in First Three-Year Period
(Billions of yen)



Future Market Landscape

We anticipate continued growth in market scale, mainly in such areas as ASEAN countries, South Korea, Oceania, and Taiwan. We are forecasting a CAGR of +7 percent in the Asia Pacific market over the period from 2017 to 2020.

Note: Euromonitor International forecast in 2017

Key Strategies

In the prestige category, we will diversify our contact points with consumers, which had been centered on department stores, and open up new channels, including free-standing stores and e-commerce. Furthermore, in the cosmetics/personal care category, we will establish a portfolio of "Made in Japan" brands, which are highly regarded in the local market, and strengthen categories with growth potential. We will also advance collaboration with major e-commerce operators.

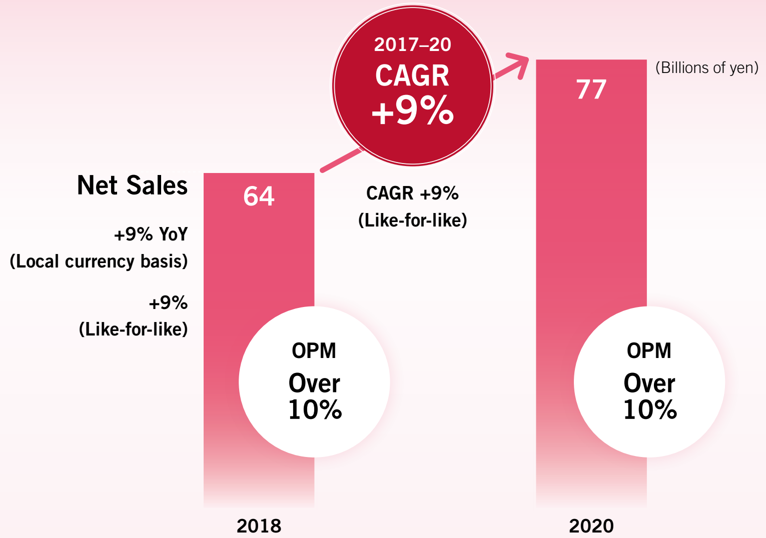
Based on these initiatives, for the Asia Pacific Business we will aim to achieve net sales of ¥77 billion and an operating margin of more than 10 percent for 2020.

Clé de Peau Beauté (Free-standing store)

* 2017: 5th in prestige market (research by Shiseido)

VISION 2020
Strategies and Targets

- Expand contact points with consumers through omni-channel acceleration
- Establish cosmetics / personal care brand portfolio
- Accelerate e-commerce growth



Notes: 1. Like-for-like basis, excluding the impact of business transfers, etc.
2. As of 2018, internal transaction prices have been partly changed.

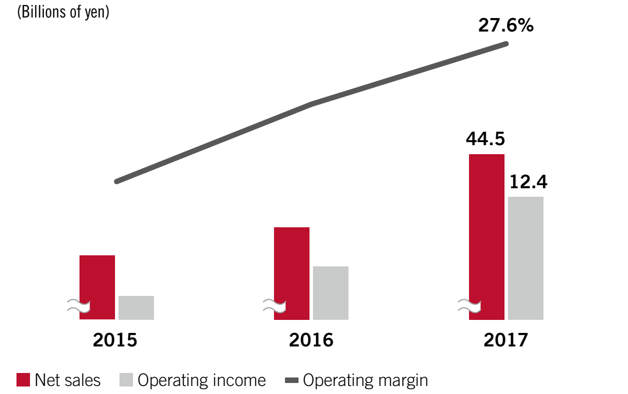
Travel Retail Business

Aiming for a Top Four* Position as We Accelerate Growth through Multi-Brand Initiatives and Cross-Border Marketing

Review of 2015 to 2017

With a focus on growth potential of the travel retail channel, the Travel Retail Business was incorporated into the Company's management strategy. To strengthen the organization, we recruited professionals with experience in the travel retail business. We achieved significant growth by implementing aggressive marketing investment centered on Asia Pacific and strengthening our relationships with major retailers operating duty-free stores around the world.

Results in First Three-Year Period
(Billions of yen)



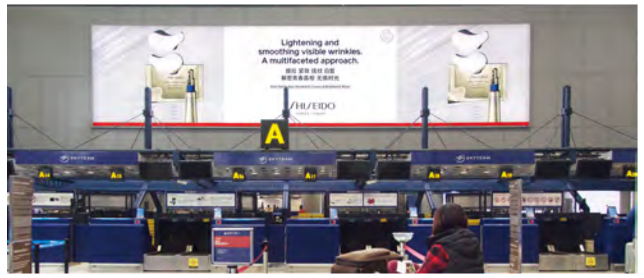
Future Market Landscape

By area, we expect the Asia Pacific region to lead growth, and we are forecasting further market expansion. By category, we expect makeup to record the highest growth, and we are forecasting a CAGR of +10 percent in the global travel retail market over the period from 2017 to 2020.

Note: Market Growth of Cosmetics & Fragrances, forecast by Generation Research (as of September 2017)

Key Strategies

In addition to core brands *SHISEIDO* and *Clé de Peau Beauté*, we will also develop other brands such as *IPSA* and *Laura Mercier* and accelerate growth, centered on Asia. Moreover, we will strengthen marketing through digital communications, with a focus on travelers. Also, by establishing partnerships with major retailers and strengthening our retail excellence capabilities, we will aim to achieve significant increases in sales and productivity. Based on these types of initiatives, the 2020 targets for the Travel Retail Business are net sales of ¥111 billion and an operating margin in the mid-teens.

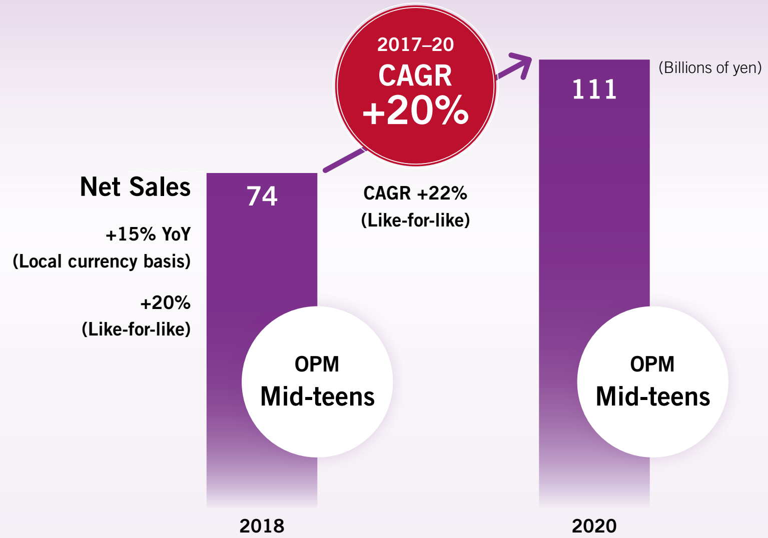


SHISEIDO advertising at airport

* 2016: 6th (Generation Research)

VISION 2020
Strategies and Targets

- Drive multi-brand growth with the addition of *IPSA*, *Laura Mercier*, and other brands
- Advance traveler-centric, innovative marketing
- Expand sales through retail excellence capabilities



Notes: 1. Like-for-like basis, excluding the impact of business transfers, etc.
2. As of 2018, internal transaction prices have been partly changed.

Message from the CFO

"Enhancing cash flow management and capital efficiency toward increased corporate value over the medium-to-long term"

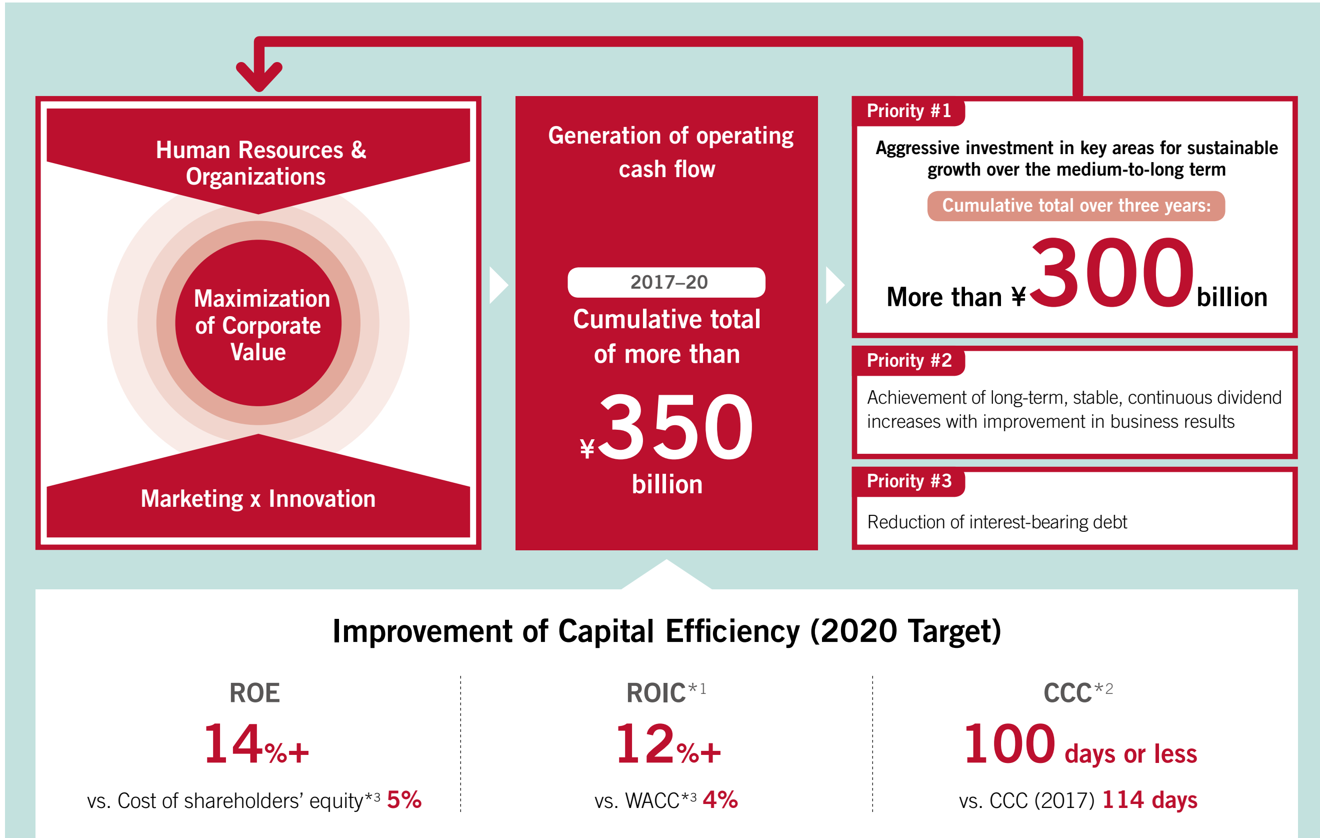
Norio Tadakawa
Corporate Executive Officer
Chief Financial Officer

We have completed the first three years of our medium-to-long-term strategy VISION 2020, which focused on rebuilding our business foundation, and have commenced a new three-year plan aimed at further accelerating our growth. Thus far, we have implemented a range of initiatives targeting sustained growth, including measures to increase investment and bolster productivity. As a result, our sales increased at a CAGR of 9% during the three-year period, and in 2017 we achieved record-high operating income as well as increased dividends for the first time in nine periods.

Strengthening investment in key areas, funded by stable cash flow

To ensure sustainable growth beyond 2020, Shiseido will invest over ¥300 billion during the three years from 2018 in key areas, including human resources, supply chain management, research and development, and IT. While substantial cash flow generation will be required to support that level of investment, our cash generation capability has steadily increased, and in 2017 EBITDA was over ¥100 billion. During the four years from 2017 to 2020, we will generate a total of over ¥350 billion in operating cash flow.

Initiatives to Increase Corporate Value



*1 ROIC (Return On Invested Capital) = Operating Income × (1 – Effective Tax Rate) / (Interest-bearing Debt + Equity)
*2 CCC: Cash Conversion Cycle (days) = Receivables Turnover Period (days) + Inventory Turnover (days) – Payables Turnover Period (days) (average of each indicator during the period is used)
*3 The figures for cost of shareholders' equity and WACC (Weighted Average Cost of Capital) are Shiseido's estimates.

Increasing capital efficiency by improving the cost structure and balance sheet

To increase capital efficiency, we will aim to realize operating margin of 10% or more through top-line growth and further cost structure reforms. Meanwhile, we will implement balance sheet management through appropriate inventory control, leading to a cash conversion cycle (CCC) of 100 days or less. In this way, we will aim to realize ROE of 14% or higher, against cost of shareholders' equity of 5%, and ROIC of over 12%, which exceeds our 4% weighted average cost of capital (WACC).

Bolstering returns to shareholders in the medium-to-long term

In terms of returns to shareholders, we emphasize total returns, comprising direct returns through dividends and increases in share price over the medium-to-long term. In determining dividends, we will focus more on our consolidated results and free cash flow, and from 2018 we will adopt the dividend on equity (DOE) ratio as a measure of our capital policy. Through these efforts, we will strive for long-term stability and continuously enhance returns to shareholders by improving our business results.

Toward Further Sales Growth and Increased Profitability

1. Enhance ROE

2020 Target

ROE

14%+

vs. Cost of shareholders' equity 5%

ROS (Return on sales)

6–7%

- OPM 10%+ for all regional headquarters
- Strengthening of prestige brands / skincare
- Further improvement of cost structure
- Improvement of productivity
- Effective use of hurdle rate

Total asset turnover

1.0–1.1

- Improvement of CCC
- Reduction of SKUs, consistent management of sales per SKU and clarification of withdrawal rules
- Disposal of idle assets and gradual liquidation of strategic shareholdings

Leverage

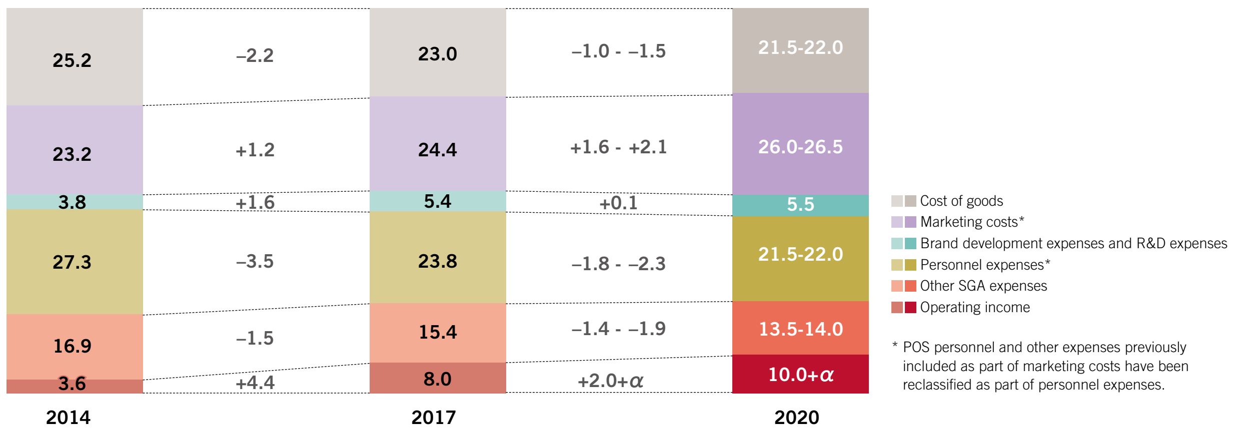
2.0–2.2 times

- KPI management based on interest-bearing debt to EBITDA ratio and debt-to-equity ratio
- Securing reasonable financial soundness and minimization of WACC

Shiseido will aim to increase ROE to 14% or more in 2020 through organic growth. To that end, our value driver will be return on sales (ROS). We plan to increase ROS to 6–7%, principally by increasing operating margin through the promotion of self-sustaining management in each region. We expect to maintain total asset turnover at about 1.0–1.1, the same level as in 2017, through reducing working capital, disposal of idle assets, and other measures.

2. Further Cost Structure Improvement

% of Net Sales



* POS personnel and other expenses previously included as part of marketing costs have been reclassified as part of personnel expenses.

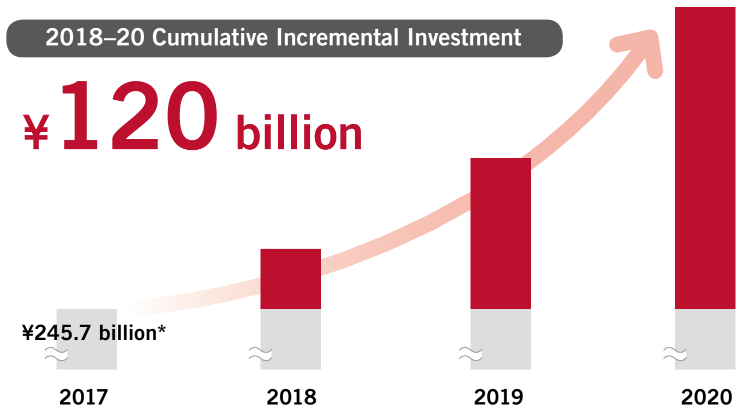
Our top priority is to maximize profits through sustainable sales growth. By achieving sales growth and lowering our fixed-cost ratio, as well as enhancing our brand equity, we will increase marketing return on investment (ROI) and drive growth in profits. In addition, by strengthening prestige brands and skincare products, which have high profitability and repeat rates, we will improve the cost of sales ratio and swiftly realize a cost structure that can generate an operating margin of more than 10%.

3. Further Cost Structural Reforms for Aggressive Marketing Investment

Aggressive Investment in Marketing

2018–20 Cumulative Incremental Investment

¥120 billion



* Marketing costs excluding POS personnel expenses

Improving Productivity: Cost Structural Reforms

2018–20 Total Target

¥40 billion

- COGs reduction
- Improvement of supply chain efficiency
- Productivity improvement through system integration

To further accelerate our growth momentum, we will bolster our marketing investment toward a total of ¥120 billion over the next three years to 2020. We plan to invest ¥25 billion mainly in digital-related areas; ¥15 billion in store counter areas, which are important contact points with consumers; and ¥15 billion in PR/event-related areas. Moreover, to secure resources for these investments, we will aim for ¥40 billion in total cost reductions over three years. In addition to increasing efficiency in COGs, marketing, and other costs, including in the supply chain network, we will also integrate all internal operation processes to enhance productivity.

4. 2020 Operating Margin Target and Initiatives by Region

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

Japan

2018: High teens → 2020: High teens

- Focus on the strategic "three skin-related" categories (skincare, makeup, sun care) x core brands
- Enhance marketing ROI
- Secure inbound sales through cross-border marketing

China

2018: High single digits → 2020: Low teens

- Accelerate growth of prestige business
- Enhance marketing ROI
- Strengthen e-commerce

Asia Pacific

2018: Over 10% → 2020: Over 10%

- Establish a portfolio of brands from Japan
- Strengthen e-commerce

Americas*

2018: Break even → 2020: Double digits

- Rejuvenate *bareMinerals*
- Accelerate growth of makeup brands
- Strengthen e-commerce

EMEA*

2018: Break even → 2020: Double digits

- Enhance growth potential of fragrance brands
- Reinforce *SHISEIDO* brand equity
- Improve organizational productivity

Travel Retail

2018: Mid-teens → 2020: Mid-teens

- Accelerate growth through cross-border marketing
- Enhance productivity through improved retail excellence capabilities

Cash Flow Management to Increase Capital Efficiency

5. Improve CCC through Appropriate Inventory Management

Initiatives

- Reduction of SKUs / Strengthening of per-SKU efficiency management
- Improvement of forecast accuracy
- Reinforcement of inventory management through investment in IT infrastructure
- Shortening of lead times over the entire supply chain, including procurement, production, and supply

Inventory turnover period (2020)

180 days or less

vs. Inventory turnover period (2017): 195 days

Product | Raw materials | Work in process

Receivables turnover period

Payables turnover period

CCC (2020)

100 days or less

vs. CCC (2017): 114 days

To stand on par with other global companies financially, we must not only increase profitability but also maximize cash flow by improving capital efficiency. Accordingly, we have set the cash conversion cycle (CCC) as an important financial indicator. Currently, inventory levels are rising due to higher product inventory for brands acquired through M&A and other initiatives as well as to certain raw materials acquired to offset the risk of out-of-stock situations. In response, we will work to achieve a more appropriate inventory level and aim for a CCC of 100 days or less in 2020. Specifically, we will increase productivity through such measures as improving efficiency by substantially reducing SKUs, strengthening per-SKU efficiency management, and shortening lead times over the entire supply chain, including procurement, production, and supply.

6. Aggressive Investment for Sustainable Growth

Aggressive Investment in Key Areas

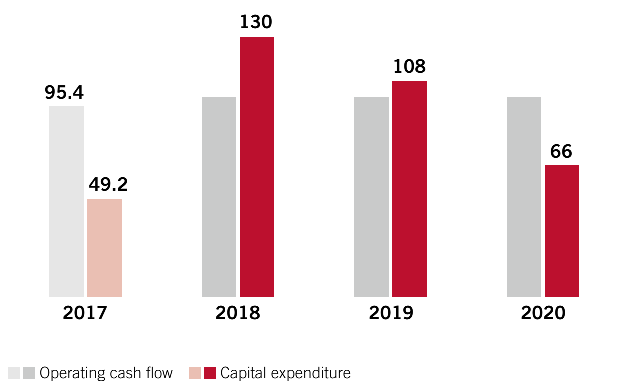
Cumulative total over three years

More than ¥300 billion

New factories / SCM	GIC	Sales counters	IT infrastructure
¥130 billion	¥32 billion	¥57 billion	¥27 billion

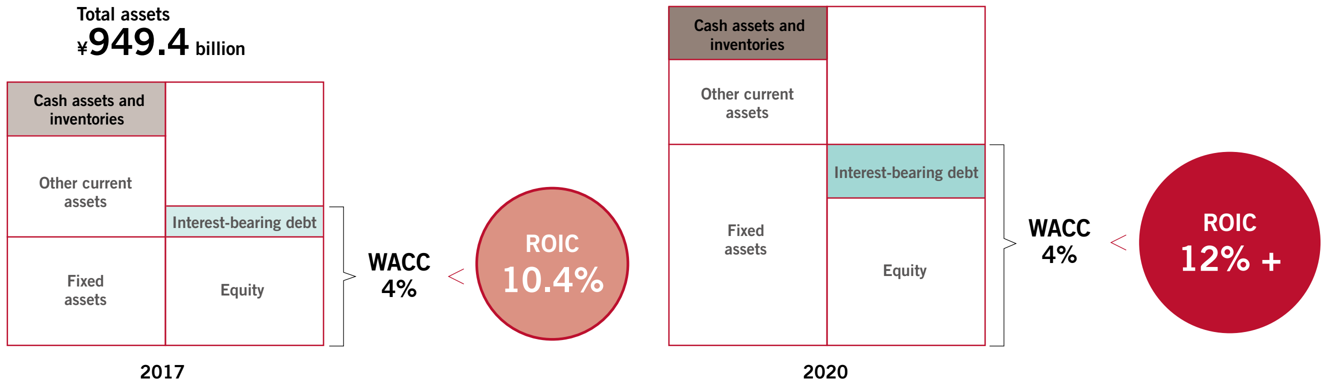
Capital Expenditure Plan

(Billions of yen)



Shiseido has steadily increased its ability to stably generate cash from its business activities. To achieve sustainable growth, we will use these cash inflows as a resource to invest over ¥300 billion in total over three years in priority areas. In response to growing demand, we will take steps to build a system that can supply appropriate quantities in a timely manner. To that end, we will further bolster our investment in new factories and in overall supply chain management. Furthermore, to generate the innovation necessary for future growth, we will strive to strengthen research and development. Accordingly, we will invest in the Global Innovation Center (GIC) and expand points of contact with consumers through investment in store counters.

7. Our Vision for the Balance Sheet

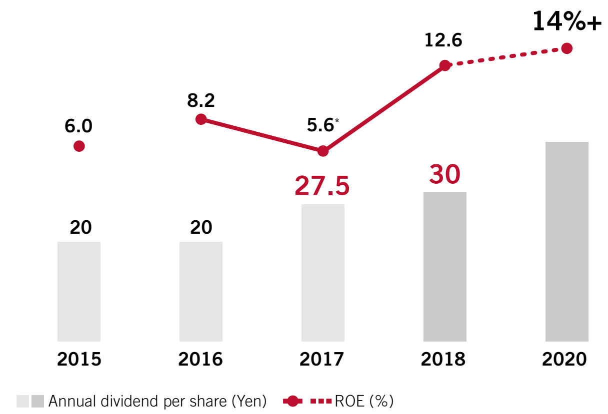


For 2020, we are planning capital expenditures of over ¥300 billion, and accordingly our balance sheet will expand overall. Meanwhile, looking at cash and time deposits, we will maintain a sound level of liquidity on hand at 1.5 months of sales, while giving priority to growth investment. We will also reduce inventories to an appropriate level.

Regarding the balance between liabilities and equity, we will maintain a sound balance sheet while securing a single-A credit rating for fund-raising on advantageous terms. Moreover, given the nature of funds invested and market conditions, we will aim for a debt-to-equity ratio of 0.3 and an interest-bearing debt to EBITDA ratio of 1.0. Through balance sheet and cash flow management, we will target ROIC of over 12%, which exceeds the cost of capital.

8. Shareholder Return Policy

Dividend per Share and ROE



* An impairment loss was recognized for Bare Escentuals, Inc.

Realization of total returns comprising direct returns to shareholders and medium-to-long-term share price gains

2018 dividend (plan)

Increase to ¥30 per share

- Emphasis on consolidated business results and free cash flow
- Long-term, stable, and continuous dividend increase targeting DOE* of 2.5% or higher

* Dividend on equity = ROE × Dividend payout ratio

Based on our approach of emphasizing total returns, comprising direct returns of profits to shareholders and medium-to-long-term share price gains, we will emphasize strategic investment toward sustained growth and aim to maximize corporate value. In addition, to increase our dividend and share price, we will enhance invested capital efficiency while considering the cost of capital. In determining dividends, we will focus on our consolidated business results and free cash flow, and target 2.5% or higher for the DOE ratio, a measure of our capital policy. Through these changes, we will target both the growth of Shiseido and the stable, sustained expansion of returns in line with improving ROE. Also, our policy calls for a flexible approach to buying back shares, with consideration for the market environment.

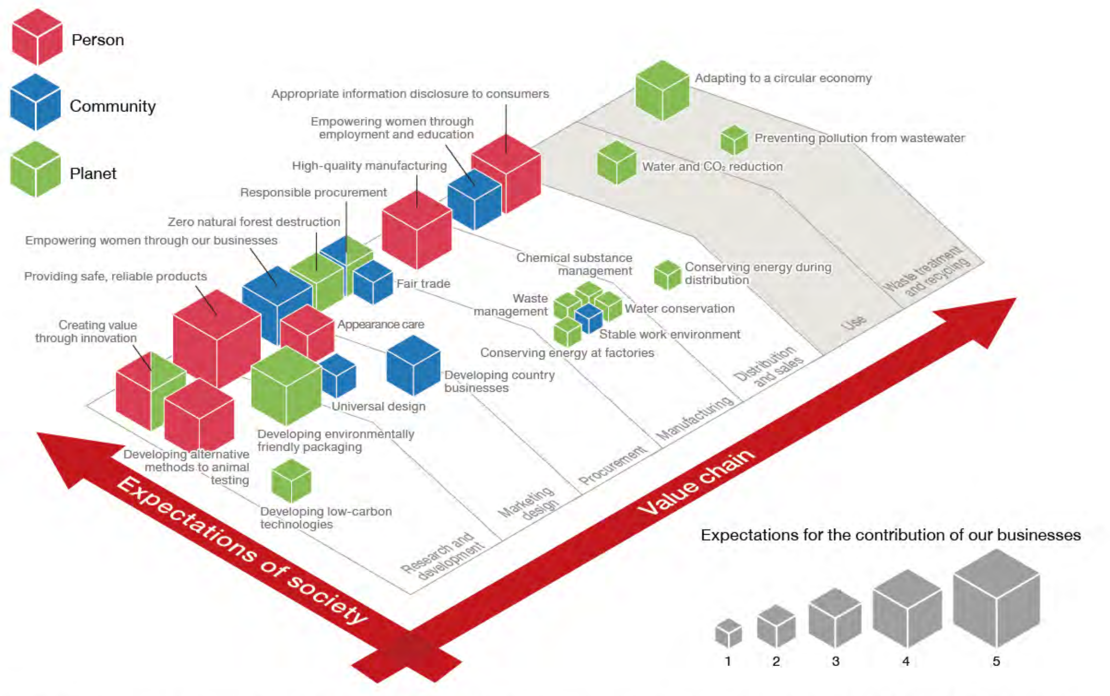
The Shiseido Group's **Sustainability Strategy**

To continue sustainable growth for the next 100 years and beyond, Shiseido aims to become a company that is trusted and needed by consumers and societies around the world. To that end, it is important that we continue to provide value to all of our stakeholders from a medium-to-long-term perspective. Based on our management policy, "To Be the Most Trusted Beauty Company in the World," we will challenge social issues by fostering beauty innovation through our businesses while emphasizing environmental, social, and governance (ESG) management to ensure that Shiseido remains vital in the years ahead. In addition, we will also proactively work toward the Sustainable Development Goals (SDGs) adopted by the United Nations. As a member of global society, we believe that we should contribute to the realization of a sustainable world from a long-term perspective.

Shiseido's sustainability strategy is a growth strategy that targets both solutions to social issues and business expansion. To foster sustainability for all stakeholders, we have selected three priority areas—Person (Consumers), Community (Society), and Planet (Environment). From among these areas, we have selected key issues that directly affect society's expectations and our businesses, and we are addressing these issues on a priority basis and periodically revise them, with consideration for such factors as changes in the market environment.

Sustainability Strategy Overview

Priority Issues for Sustainability

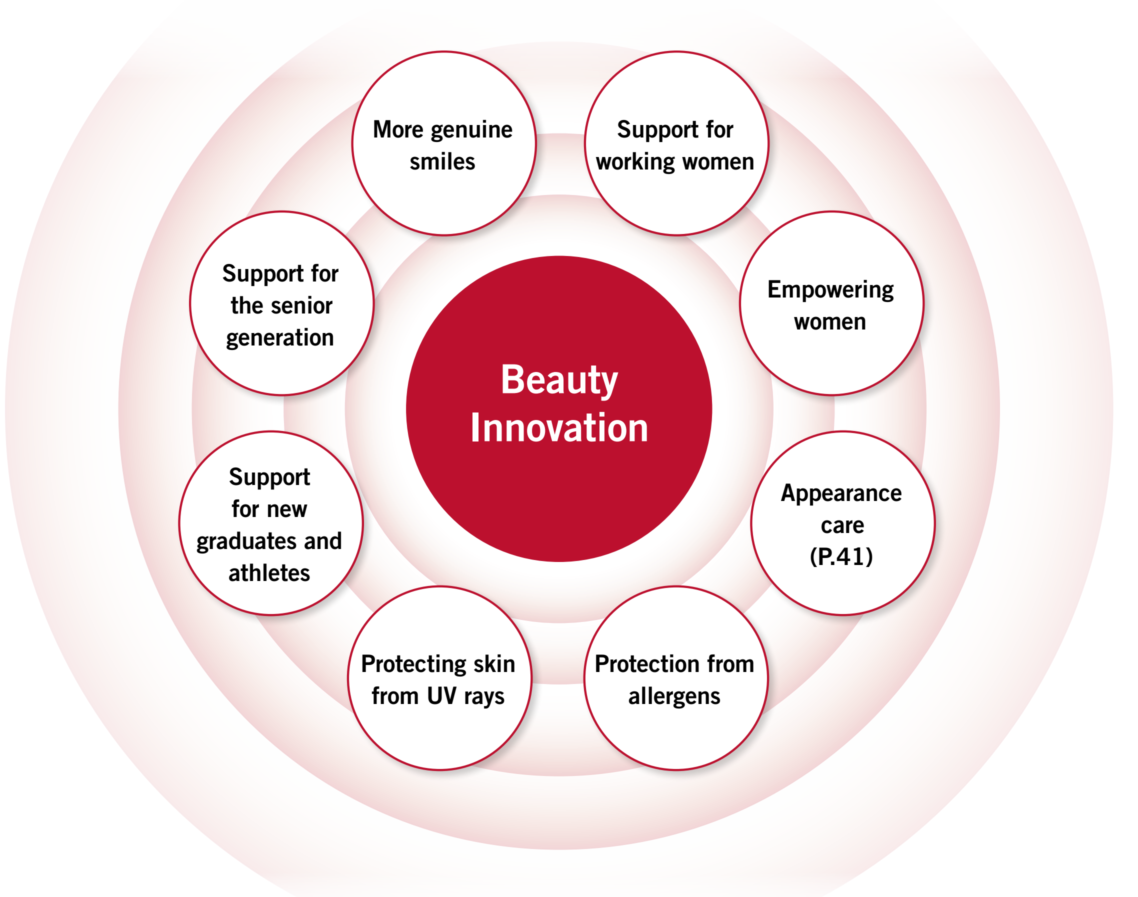


Development of people, respect for human rights, and transparent information disclosure are positioned as basic initiatives that support the whole value chain, and thus, are not described in the chart above.

Creating Social Value with Our Businesses

Shiseido's business activities are centered on "beauty innovation." Beauty can deliver a wide range of benefits, including confidence, energy, health, and happiness, and thus provides extremely important social value. Moreover, Shiseido's unique technologies and activities can offer solutions to the issues and various concerns of people around the world. Therefore, we believe that we can contribute to the realization of a better society through our business activities. We also believe that our human resources play the central role in achieving this purpose. Through aggressive investment in human resources, Shiseido will strive to implement business activities that create social value and resolve social issues.

Creating Social Value through Our Businesses Centered On Beauty Innovation



Collaboration with the International Community for Realization of 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. All member states of the United Nations are called upon to strive to achieve these goals. Shiseido announced its participation in the United Nations Global Compact (UNGC) in September 2004, and is in support of its ten principles in four fields. We also signed the Women's Empowerment Principles (WEPs), a joint initiative between UN Women and the UNGC, in September 2010, and collaborate with UN Women and various stakeholders for the implementation of the WEPs. Moving forward, we will continue to strengthen our efforts to contribute to the achievement of the SDGs.

WE SUPPORT

Principal **Fields of Activity**

We have identified the following important fields of activity in which we can make contributions over the medium-to-long term.

Diverse Beauty

Shiseido aims to create beauty for consumers and to fill the world with smiles by thoroughly understanding consumer attitudes toward beauty and providing safe products and services that can be used with peace of mind. On the other hand, there are people who face difficulties in following lifestyles that are true to their inner selves due to appearance concerns, stereotypes, and prejudice. Using the know-how that we have accumulated over many years, we aim to support the realization of a society in which everyone can choose from diverse values and lifestyles and create their own style of beauty.

Ethical Supply Chain

The UK Modern Slavery Act 2015 was enacted in the United Kingdom to address the issues of slavery, forced labor, and human trafficking, and this type of legislation is now under consideration in other countries. The relationship between business and human rights has been the subject of growing attention in recent years. Shiseido believes that a supply chain that is ethical in terms of both environmental and social factors, including not only the Company but also its business partners, is essential for business continuity. Shiseido has focused on environmental and labor issues related to its businesses. In 2017, we established our policy on human rights and are advancing ethical business activities with enhanced consideration for regional communities and the global environment.

(Dialogue with experts on human rights)

Environmental Conservation

Shiseido believes that environmental conservation, which is directly connected to people's lives, and the promotion of sustainable manufacturing are essential 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 implementing such measures as the development of containers that are both easy to use and beautiful. While offering appealing products and services to consumers, we will also raise their awareness and encourage eco-friendly behavior.

WEB
For further information about the principal fields of activity, please refer to the "Sustainability" section of the Shiseido Group corporate website.
http://www.shiseidogroup.com/sustainability/?rt_bt=menu-sustainability_001

Diverse Beauty

Appearance Care

Consumers' quality of life can be greatly affected by changes in their appearance, such as side effects of cancer treatment, birthmarks, dark spots, vitiligo, and skin irregularities (scars, burn scars, etc.). To help resolve these types of serious concerns for skin or appearance, Shiseido offers a service called "Life Quality Makeup" that provides free makeup advice. Shiseido is advancing the global development of Life Quality Makeup, striving for a society that promotes greater happiness for people the world over.

Perfect Cover Foundation

Perfect Cover Foundation, which was developed by Shiseido, helps to resolve such concerns as portwine stains, nevus of Ota, very dark spots, vitiligo, and skin irregularities, which can be difficult to achieve with ordinary foundation, and covers skin color changes due to side effects from medical treatment. In October 2017, we launched the *Perfect Cover Foundation MV Series*, which offers enhanced functionality. It is long-lasting, less likely to stain clothing, and easy to use. In addition to Japan, the product is currently available in certain markets in Asia. To extend the "Improvement of Quality of Life with Cover Makeup" activities around the world by 2020, we are aiming to expand into more markets and are advancing our research and information development activities.

Shiseido Life Quality Beauty Center

The Shiseido Life Quality Beauty Center was established in Ginza, Tokyo in 2006 as a special facility for teaching consumers how to use Life Quality Makeup and offering advice. In private, individual rooms, our experts provide consultations about particular skin concerns and recommend the best makeup. Subsequently, they offer advice to make sure that the consumers can use the makeup effectively by themselves.

Shiseido Life Quality Business

Shiseido started the Shiseido Life Quality Beauty Seminar in 1949 as a special beauty class that taught students who were graduating from high school how to use cosmetics in order to maintain an appearance appropriate for an adult. Since that time, striving to provide beauty for all consumers, we have undertaken seminar activities throughout Japan for more than 60 years. These activities are intended to help various participants maintain and improve their quality of life.

From July 2013, we have been providing fee-based seminars on how to maintain an appearance appropriate for a working professional and conducting seminar activities that leverage the power of makeup to resolve the issues of an aging society. In addition, we also offer lectures on maintaining one's appearance at facilities and schools for persons with disabilities.

Empowering Women and Education on Gender Equality in Collaboration with UN Women

In support of UN WOMEN

The realization of a society that accepts diversity is an important and urgent issue. 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.

Cosponsoring "Happy Women's Day—To Me in the Future"

On March 8, 2018, we commemorated International Women's Day. Together with BuzzFeed Japan Corporation, we cosponsored "Happy Women's Day—To Me in the Future," a discussion-based event supporting women and men alike in living their own lives. Activities included a discussion with special guest Christel Takigawa and a lecture by a Shiseido researcher about the power of pink, which was selected as the symbol color of the event. Through these types of events, Shiseido aims to realize a society in which women can be proud of being women and in which all people can enjoy dynamic lifestyles.


Discussion participants

Gender Equality Workshops

In collaboration with UN Women, we are sponsoring gender equality workshops for young consumers (principally high school students), who will become future leaders. These workshops encourage young consumers to learn about the variety of gender issues in society as well as to take a personal stand on them and to make presentations to the public, from raising issues to formulating countermeasures. In 2018, which will be the second year of our involvement, we will expand the scope of participants to high schools across Japan, and take steps to involve more students. Representative schools that are selected in regional qualifying competitions will make presentations to government institutions, private-sector companies, NPOs, and other institutions at a conference, which will be held in Tokyo in October 2018.

Promoting the Independence of Women in Bangladesh

Since 2011, Shiseido has been promoting activities for women in rural areas of Bangladesh in order to improve their social status and support their success. These activities include the sale of *Les DIVAS* skincare products, which were developed especially for the local region, as well as educational activities, such as workshops related to health, hygiene, and nutrition. In these ways, we are helping to empower women and improve their lifestyles. Through these activities, we are aiming to leverage our know-how in order to advance our business operations while at the same time contributing to the resolution of the social issues of the women who live in these rural areas.

In addition to the workshops, we launched a new initiative in 2018. In seven regions around Bangladesh, we screened a short movie that promotes the independence of women in these areas. This movie visually communicated the worldview of "Shining Original Beauty," which is the brand concept of *Les DIVAS*. We hope it helps women in Bangladesh recognize their own original beauty and encourage them to think about their own lifestyles.

Ethical Supply Chain

Initiatives to Address the Palm Oil Issue

The demand for palm oil, which is a raw material for food and cosmetics, has been drastically increasing in recent years. Tropical rainforests have been illegally logged for the development of large-scale plantations of Elaeis guineensis, which is the principal source of palm oil. The influence of these activities on endangered wildlife and on global warming from reduced forests is becoming a serious issue. In addition, in recent years growing attention has been paid to forced labor and other human rights issues. In order to support the certified sustainable production of palm oil, since 2010, Shiseido has been participating in the Roundtable on Sustainable Palm Oil (RSPO), which was established with the aim of conserving the environment and promoting and operating a sustainable palm oil industry. In 2018, we formulated the Shiseido Group Sustainable Raw Material Procurement Guidelines and are aiming to transition all of our palm oil to RSPO certified raw materials by 2020.

Participating in Sedex

Sedex Member

Supplier Ethical Information Sharing Platform (Sedex) is a non-profit organization that aims to realize ethical, responsible business practices in the global supply chain. Sedex provides the world's largest platform for managing and sharing ethical supply chain data. Shiseido joined Sedex in August 2017 and registered the Kakegawa Factory (Japan) on the Sedex platform. Going forward, we will steadily register our in-house factories. We will aim to realize an ethical supply chain by objectively evaluating and enhancing social and environmental initiatives in our supply network.

Environmental Conservation

Sustainable Manufacturing

Shiseido formulated its "Production Eco Standards" in 2010 to serve as environmental standards for product design. In addition to environmental friendliness, we are emphasizing design and ease of use. As we moved forward with the development of eco-friendly containers, we focused on mechanically recycled PET* resin. We resolved issues presented by cosmetics containers, such as varying thicknesses and complicated shapes, and since 2015 we have been using mechanically recycled PET resin in containers for *SEA BREEZE* body soap. In the future, we will continue working on such initiatives as sustainable containers and the utilization of paper for related items.

* 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. Its manufacturing generates less CO_2 emissions compared with those of conventional recycling methods.

The Power of People Is Driving Our Growth

Shiseido believes that the power of people is the source of all value. We are working to achieve VISION 2020 and to create value around the world, and in these endeavors, our employees are our most important management resource. In accordance with the concept of "PEOPLE FIRST," Shiseido is increasing its investment in human resource development. By bolstering the strengths of individuals and maximizing the power of our people, we strive to enhance our organizational capabilities and build a strong company that is highly competitive.

Diversity

Companies can drive the creation of new value by bringing together a wide range of people with diverse values, differing backgrounds, and varied experiences, and then encouraging these people to mutually support and challenge each other. As the interests and preferences of people around the world continue to diversify, companies must also take steps to bolster their own diversity. Shiseido is focused on global growth, and we believe that we need to promote diversity in a wide range of areas, including gender, nationality, age, work experience, and other factors.

Becoming a Company That Encourages the Promotion of Female Employees

The empowerment of women is an important social issue, especially in Japan. Shiseido employs a large number of women, while the Company's ratio of female leaders in Japan was 30% in 2017. Moving forward, we plan to increase this ratio to 40% by 2020. Among Japanese companies, we are making comparatively solid progress but for a global company this is still a low level. We recognize that we need to implement additional initiatives in this area centered on Japan. To promote the appointment of female leaders, we are advancing individual development initiatives. We encourage female employees who have potential to become managers to take on challenges through their work experience such as addressing higher level business issues. As a result, the candidates learn the basics of management while generating actual results.

For information about change in the percentage of female leaders, please refer to page 65.

Implementing an English Mandate and Bolstering English Capabilities

Beginning in October 2018, Shiseido will use English as its official in-house language. The objective of this initiative is to enhance communication among the employees in our workforce, which transcends national boundaries. We believe that the use of English will enable everyone to communicate directly with each other, and to promote this, Shiseido offers opportunities to study at the Company's expense. In particular, these initiatives are centered on headquarters employees who need English for their work. In 2017, at the beginning of this program, approximately 1,700 people took advantage of this opportunity.

Advancing Mid-Career Hires

Shiseido believes that mid-career hires are another important way of investing in human resources. We are currently recruiting people with high levels of expertise from outside the Company in order to reinforce areas in which our in-house capabilities are insufficient. Mid-career hires not only strengthen the specialized skills of the entire organization but also promote the generation of new ideas and the creation of value through interactions with employees who are already working at the Company. Shiseido has stepped up mid-career hires at the headquarters since 2016. We are planning to hire 200 more people over the next three years. In addition, we are also increasing the employment of people who have skills that are needed at each regional headquarters.

For more information about mid-career hires, please refer to page 65.

Empowerment

Strengthening the capabilities of each individual employee is an important part of corporate growth. Shiseido is providing educational opportunities to employees who are motivated to continue to learn and grow. To that end, we are creating opportunities and environments in which employees can demonstrate their capabilities. In addition, we expect employees to demonstrate international leadership, possession of specialized skills, ability to accept and lead reforms. Creating opportunities in which employees can significantly enhance their intrinsic capabilities and potential is an important corporate mission. Through a variety of human resource development initiatives, Shiseido is working to maximize the capabilities of its people.

Developing Next-Generation Leaders

To develop people who will lead the next generation, we are investing aggressively in leadership development. In particular, we are taking a Company-wide approach at the global level. We have also taken steps to provide educational opportunities to employees who are motivated to study. For example, we have restarted an overseas MBA program that had been suspended, and we support participation in training programs other than in-house ones. We are also working to rebuild leadership education and are already moving forward with the development of a program for employees in leadership positions.

Furthermore, we are creating venues to support the mutual enhancement of skills on a global basis. In October 2018, we will establish the first World Learning Center in Singapore, where employees from Japan, China, and other Asian markets will study together and help each other to learn. In this way, we will develop employees who will be capable of making active contributions in global settings and leading the Company's future growth.

Our Leadership Development Program provides educational opportunities to next-generation leaders.

- ✓ Overseas full MBA / MOT (two years)
- ✓ Domestic full MBA / MOT (two years)
- ✓ Mini MBA (three months)
- ✓ Short MBA (five days)
- ✓ Overseas Work Experience in emerging countries
- ✓ English Camp
- ✓ Find Myself
- ✓ Online matches with other groups
- ✓ Online MBA Essence
- ✓ DAVOS TOKYO
- ✓ Young Managers Forum

Performance Management

Operational experience is the key driver in the development of competence. Shiseido has introduced a framework for performance enhancement that fosters the development of higher-level abilities by having each individual employee take on challenges while striving for higher targets. Together with the coaching and feedback of supervisors, employees will achieve further individual growth by cultivating new knowledge and skills in order to reach their targets.

Promoting Full-Time Employment

For fixed-term contract employees who have specialized skills and knowledge, and display a strong work ethic, Shiseido is providing opportunities to become full-time employees. In this manner, we will strive to increase the number of highly motivated employees who work energetically. We are advancing this initiative for employees in a variety of fields including beauty consultants, who interact directly with consumers in stores, as well as employees who work in production-related areas at factories.

Global System for Generating **Innovation**

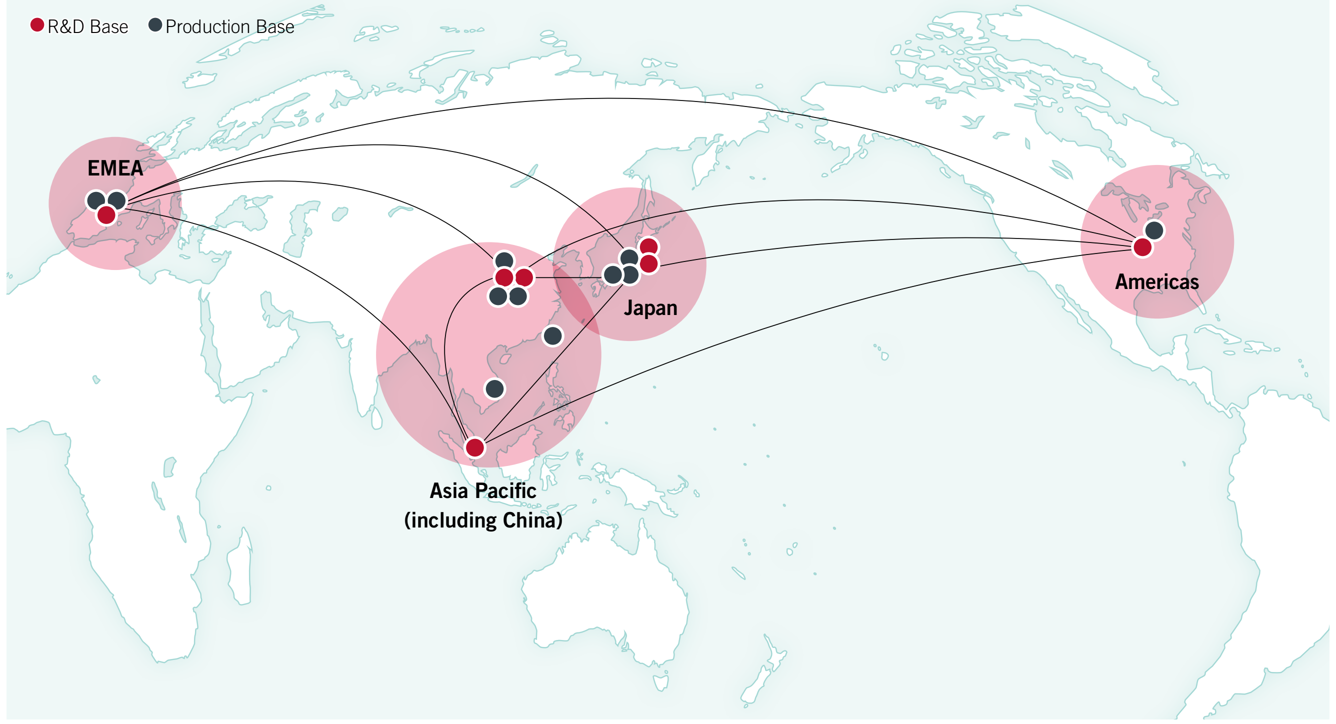
To maintain our competitive edge in global competition and sustain our position as a global leader, we must take steps to reinforce our strengths in innovation. Shiseido has a solid foundation of quality that is highly important for the creation of innovation. In addition, we possess a base of knowledge and technologies that we have cultivated for more than 100 years. Our diverse range of researchers with specialized know-how approached their work creatively, and the symbiotic interactions between knowledge and technologies have fostered the creation of entirely new products and services. Furthermore, by adding the new value acquired through aggressive external tie-ups and M&A, we have generated innovation and launched new markets. This framework is a part of Shiseido's DNA and is a key strength supporting our ability to realize sustained growth.

Our global R&D system is organized along the lines of a hub-and-spoke network. The Innovation Center in Japan, which acts as the hub, is primarily responsible for basic research and research into new categories. Overseas R&D bases, which develop value that is fine-tuned for customers in local markets, are linked to this hub much like the spokes of a wheel. In addition, at the end of 2018 we will open the Global Innovation Center (GIC) as a new R&D base that will play a core role in the hub of this system. As an urban open lab, the GIC will integrate diverse knowledge and human resources from leading research institutions in Japan and overseas as well as companies in other industries. It will also gather information and technologies consolidated from R&D bases in local markets. As a result, the GIC will help us to provide optimal value to consumers in countries around the world. This will make it possible to construct a two-way innovation ecosystem that transcends national and industry boundaries. Moreover, the GIC will also leverage new knowledge and technologies acquired through M&A, and combine them with technologies cultivated in-house by Shiseido. These initiatives will contribute to the generation of new value as we move forward.

Global Innovation Center

The GIC is scheduled to open in the Minatomirai 21 area (Kanagawa Prefecture) at the end of 2018. We are planning to install an open communication space on the first and second floors.

R&D / Production Global Network



Examples of Initiatives

1. Enhancing Capabilities toward Personalization

New skincare system — *Optune*

Cosmetics personalization has become a major trend, and we are working aggressively in the development of new beauty innovation. Our new skincare system, *Optune*, uses dedicated smart phone application software that measures the condition of the skin. This skin-related data is analyzed together with data for the weather, mood, physical condition, and other factors. Finally, *Optune* identifies and provides a serum and moisturizer combination that suits the present condition of the consumer's skin. In addition, in November 2017 we acquired Giaran Inc., a U.S. venture company with virtual makeup technology that leverages AI. Moving forward, by combining new digital technologies with the research know-how that we have accumulated, we will further expand personalization in beauty.

Giaran Inc.'s virtual makeup technology that leverages AI

2. Innovative Artificial Skin Formation Technology — Second Skin

Second Skin,* an innovative patented technology that was recently acquired by Shiseido, enables consumers to immediately conceal wrinkles and sagging. Through the layered application of an exclusive emulsion on top of a polymer-base cream, Second Skin forms an artificial skin that tightens the skin and smooths irregularities. Moving forward, Shiseido will draw on this technology to provide a wide range of other benefits to consumers around the world, such as the development of skincare and sunscreen products that remain highly effective for extended periods. To that end, we will leverage the synergies between our capabilities in research technology development and our strengths in global marketing.

* Acquired from U.S. venture company Olivo Laboratories, LLC, in January 2018

Second Skin

Strengthening Production and Supply Systems to Support Growth

Working to achieve its medium-to-long-term strategy, VISION 2020, Shiseido has taken steps to strengthen its competitive edge. As a result, the Company is experiencing increasing demand in Japan and markets around the world. Moreover, with the rollout of cross-border marketing initiatives, we are seeing growth in demand from consumers overseas who find strong value in high-quality, made-in-Japan cosmetics. In order to meet this growth in domestic and overseas demand, we determined that we need to strengthen our production system for the medium-to-long term. Accordingly, we are currently building the Shiseido Nasu Factory (tentative name) in Tochigi Prefecture, with the aim of starting operations in 2019. This will be Shiseido's first new manufacturing base in Japan in 36 years. Furthermore, we are also moving ahead with construction of the New Osaka Factory. Its completion is scheduled for 2020, and production operations will subsequently be transferred from the current Osaka Factory to the new facility. This new factory will substantially increase our production capacity. In addition, we will build a new distribution center that will be able to handle both domestic and overseas distribution and product storage and shipping. Going forward, these initiatives will not only enable us to address growing demand but also support our efforts to add new value, thereby further reinforcing our global supply chain system.

Conceptional drawing of the New Osaka Factory

Shiseido's **Cultural Assets**

The longstanding culture that Shiseido has inherited and cultivated is an important asset in the Company's endeavors to foster originality, and the important process of transmitting that cultural information gives concrete shape to our corporate philosophy of "inspiring a life of beauty and culture." At the same time, these cultural assets also have tremendous potential to enhance the attitudes and creativity of our employees.

Shiseido's history dates back to 1872 with the establishment of Japan's first private Western-style pharmacy in Ginza, Tokyo. Later, the Company shifted its focus to the cosmetics business, and as lifestyles and values in Japan evolved with the times, we continued to provide new beauty while closely tracking cultural developments and women's lifestyles in each era. These initiatives included the sale of high-quality cosmetics incorporating leading Western technologies and trends as well as pioneering ideas. In this way, the Company's sustained growth has been supported by the cultural assets that we have cultivated over more than 140 years—our approach to the art of manufacturing, our innovative ideas, and our aesthetic sense. These distinctive Shiseido strengths will enable us to "Be a Global Winner with Our Heritage." Moving forward, we will pass these assets down to the employees who will create beauty in the years ahead, thereby generating new value.

Leveraging Cultural Assets as the Source of Innovation

At the Shiseido Corporate Museum, we collect and preserve the Company's cultural assets, such as products that we have created since our founding as well as advertising and other materials. In addition, we conduct verification and research to ensure that these cultural assets can be effectively utilized in the years ahead. In 2018, we launched new initiatives to create the future of Shiseido. Specifically, we conducted research to determine the "Shiseido strengths" that need to be passed down in the current operating environment, which is characterized by globalization and diversity. Based on the results of those inquiries, we identified the ESSENCE OF SHISEIDO—the essential assets that are the source of our competitive edge in global activities. We formulated a future chronological table, called "Questions for the Future," as a tool to pass down the ESSENCE OF SHISEIDO. This table is on display at the Shiseido Ginza Building. Shiseido has faced challenges at each stage of its growth, and the Company has approached those challenges as questions. We created this table as an answer to questions regarding the ways that Shiseido has resolved problems over the course of its history and the value that we have provided through our products and services. With consideration for the Company's history, this tool will be used to help us generate concepts for the creation of value in the future. We will strive to foster innovative thinking and ideas among employees and to generate innovative results.

Questions for the Future

ESSENCE OF SHISEIDO

We researched the "Shiseido strengths" that have continued since the Company's establishment, and to extend those strengths into the future, we have identified three elements that comprise the "ESSENCE OF SHISEIDO".

These are the unchanging characteristics of Shiseido's people.

Three Elements of the "ESSENCE OF SHISEIDO"

Have a Frontier Spirit	Think Hybrid	Inspire People
We provide new beauty values around the world as beauty innovators and evangelists.	The West and the East. Art and science. We create new beauty by uniting a range of different elements.	We believe in the power of beauty. We strive to promote healing, build confidence, and provide strength through beauty.

Examples of Specific Cultural Activities

1. Linking Shiseido's Cultural Assets to Future Value

The Global Innovation Center (GIC), which is scheduled to be completed at the end of 2018, will play a central role in the Company's R&D activities. The GIC, which will handle the role of basic research as well as research in new categories, will aim to create new value through the integration of diverse knowledge and people. The first and second floors will include an open public area for communication with visitors.

We will establish a museum on the second floor. Shiseido has been a creative leader for many years, and by presenting displays of successive generations of products and offering opportunities to experience science interactively, the museum will communicate Shiseido's commitment to the art of manufacturing and the Company's aesthetic sense.

At the same time, researchers will communicate directly with consumers through workshops and other activities, and we are currently considering how these activities could be utilized to foster further inspiration.

2. Shiseido OMOTENASHI – Reaching around the World

Shiseido's brands in the high-price range, which are recording strong growth under the Prestige First strategy, are sold principally through counseling by our beauty consultants. We have approximately 20,000 beauty consultants worldwide. As professionals, they work to master skills and knowledge regarding beauty, and they also study the approach to OMOTENASHI that is an important part of Japanese culture. While earnestly advising individual consumers, the beauty consultants work closely with them and endeavor to ensure that each one of them finds the experience to be enriching. Through their interactions at stores, the beauty consultants explain the value of brands directly to consumers and play an indispensable role in further enhancing the presence of our brands.

3. Creating and Communicating "New Beauty"

Shiseido employs more than 40 hair and makeup artists. This is a large number of artists for a cosmetics company, but these valuable employees play an active role in the vanguard of beauty and fashion as they work to support the creation and communication of beauty. For example, in addition to styling hair and makeup for advertising and commercials, they also provide hair and makeup support for fashion shows, such as those in Paris and New York as well as the Tokyo Collection fashion show. Our hair & makeup artists also research market trends, consumer preferences, and consumer cosmetics behavior, and they actively provide feedback inside and outside the Company. Shiseido draws on the activities of these professionals to support the development of makeup and other products, as well as to contribute to the creation of new beauty that is aligned with the times and responsive to market needs.

Directors and Audit & Supervisory Board Members

(As of April 1, 2018)

1 Masahiko Uotani
Representative Director,
President & CEO

1977 Joined the Lion Dentifrice Co., Ltd. (currently Lion Corporation)
1988 Manager, Citibank, N.A.
2001 Representative Director, President of Coca-Cola (Japan) Co., Ltd. (Global Officer)
2007 Representative Director, Chief Executive Partner of BrandVision Inc.
2013 Outside Chief Marketing Advisor of Shiseido
2014 President & CEO [incumbent]
Representative Director [incumbent]

2 Jun Aoki
Representative Director,
Corporate Executive Officer

1980 Joined Maki and Associates
1991 Joined McKinsey & Company Inc. Japan Office Associate Consultant
1999 CEO of BNP Paribas Cardif Japan
2014 Corporate Advisor of Shiseido
2015 Corporate Officer
Chief People Officer [incumbent]
2016 Chairman of Shiseido Liyuan Cosmetics Co., Ltd. [incumbent]
2017 Corporate Executive Officer [incumbent]
2018 Representative Director [incumbent]

3 Yoichi Shimatani
Director, Corporate Executive Officer

1979 Joined Shiseido
2004 Director & President of Shiseido China Research Center Co., Ltd.
2006 General Manager of Cosmetics Research & Development Center
2007 General Manager of Skincare Development Center
2010 Corporate Officer
2015 Corporate Executive Officer, Chief Research & Development Officer [incumbent]
2018 Representative Director [incumbent]

4 Yoko Ishikura
External Director[1]

1985 Joined McKinsey & Company Inc. Japan Office
1992 Professor, School of International Politics, Economics & Communication, Aoyama Gakuin University
2000 Professor, Graduate School of International Corporate Strategy, Hitotsubashi University
2010 Outside Director, Nissin Food Holdings Co., Ltd. [incumbent]
2011 Professor, Graduate School of Media Design, Keio University
2012 Professor Emeritus, Hitotsubashi University [incumbent]
2014 Outside Director, Sojitz Corporation [incumbent]
2015 External Director of Shiseido [incumbent]

5 Shinsaku Iwahara
External Director[1]

1978 Associate professor, Faculty of Law, The University of Tokyo
1991 Visiting Professor, Harvard Law School, U.S.A.
Professor, Graduate School of Law & Politics, The University of Tokyo
2010 Member, Legislative Council, Ministry of Justice [incumbent]
2013 Professor, Faculty of Law, Waseda University [incumbent]
2015 Member & Chairman, Financial System Council, Financial Services Agency [incumbent]
2017 Adviser to Mori Hamada & Matsumoto [incumbent]
2018 External Director of Shiseido [incumbent]

6 Kanoko Oishi
External Director[1]

1983 Joined Nippon Life Insurance Company
1987 Joined McKinsey & Company, Inc. New York Office
2000 CEO, Mediva Inc. [incumbent]
CEO, Seinan MEDIVA Co., Ltd. (currently Seeds 1 Co., Ltd.) [incumbent]
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]

7 Kyoko Okada
Audit & Supervisory Board Member[1]

1982 Joined Shiseido
2011 General Manager of Corporate Culture Department
2015 Audit & Supervisory Board Member (standing) [incumbent]

8 Takeshi Yoshida
Audit & Supervisory Board Member[1]

1985 Joined Okura Keiei Keiri Gakuin Co., Ltd.
1992 Joined Shiseido
2009 General Manager of Cosmetics Business Planning Department, General Manager of Business Administration Group, Cosmetics Business Planning Department
2011 Executive Vice President, Shiseido Americas Corporation
2014 Department Director, Internal Audit Department
2016 Department Director, Business Planning Department, Shiseido Japan Co., Ltd.
2017 Director, Personal Care Planning Department, FT Shiseido Co., Ltd.
2018 Audit & Supervisory Board Member (standing) [incumbent]

9 Hiroshi Ozu
External Audit & Supervisory Board Member[1]

1974 Public prosecutor, Tokyo District Public Prosecutors Office
2012 Prosecutor General, Supreme Public Prosecutors Office
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 foundation [incumbent]
President of Criminal Justice Welfare Forum Oasis, general incorporated association [incumbent]
2017 External Audit & Supervisory Board Member of Shiseido [incumbent]
President of Japan Criminal Policy Society [incumbent]

10 Eiko Tsujiyama
External Audit & Supervisory Board Member[1]

1977 Lecturer, The College of Humanities, Ibaraki University
1996 Dean of Economics, Musashi University
2003 Professor, School of Commerce and the Graduate School of Commerce, Waseda University
2004 Professor, Faculty of Commerce, Waseda University
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]
2018 Professor Emeritus, Waseda University [incumbent]

11 Nobuo Otsuka
External Audit & Supervisory Board Member[1]

1967 Assistant of classes in the Department of Neuropsychiatry at School of Medicine of Keio University
1988 President & Director of Keiseikai Hospital
2001 Full-time position of President of Keiseikai Hospital
2007 External Audit & Supervisory Board Member of Shiseido [incumbent]
2010 Chairman of Keiseikai Hospital [incumbent]

- Directors retired as of March 27, 2018:
  Director: Tsunehiko Iwai
  (Retired from position of Executive Vice President as of December 31, 2017)
- External Directors: Shoichiro Iwata
  Tatsuo Uemura
- External Audit & Supervisory Board member retired as of March 27, 2018:
  Yoshinori Nishimura

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

For further details of career summaries, please refer to the Notice of Convocation for the 118th Ordinary General Meeting of Shareholders available at Shiseido's corporate website.

http://www.shiseidogroup.com/ir/shareholder/e1806shm/pdf/shm_0000.pdf

Corporate Officers Who Do Not Serve as Director

(As of April 1, 2018)

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

Norio Tadakawa
Corporate Executive Officer
Chief Finance Officer
Responsible for Finance, Financial Management, Investor Relations, Supply Network Strategy, Production Technology, Supply & Purchasing, Global Business Support, Japan Business Support, Factories*

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

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

Katharina Höhne
Senior Vice President,
Global Professional Business
Responsible for
Global Professional Business

Masaya Hosaka
Chief Supply Network Officer
Responsible for Supply Network Strategy, Production Technology, Supply & Purchasing, Global Business Support, Japan Business Support, Factories, Frontier Science Business

Mitsuru Kameyama
Chief Information Technology Officer,
Global Information and Communication Technology Department Director
Responsible for Information and Communication Technology Strategy & Platform, Global System

Yoshiaki Okabe
Chief Brand Officer
Responsible for
SHISEIDO Brand Unit,
Global Prestige Brands

Yoshihiro Shiojima
Chief Legal and Governance Officer,
Chief Quality Officer
Responsible for Legal & Governance, Risk Management, Sustainability Strategy, Regulatory Strategy, Quality Management, Consumer Center
(Shiseido Japan Co., Ltd.)

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

Yukari Suzuki
Chief Brand Officer
Responsible for
Clé de Peau Beauté Brand,
Global Prestige Brands

Naomi Yamamoto
Chief Creative Officer
Responsible for Creative

* Norio Tadakawa is responsible for "Supply Network Strategy, Production Technology, Supply & Purchasing, Global Business Support, Japan Business Support, and Factories" along with Masaya Hosaka.

• Corporate officer retired as of December 31, 2017: Yasushi Kushida

Message from an External Director

Kanoko Oishi
External Director

Contributing to Shiseido's Development by Bridging the Gap between Shiseido, Society, and Consumers

Two years have passed since I became an external director at Shiseido, and during this time the Company has instituted major reforms and, at the same time, achieved a dramatic turnaround in its business results. As an external director, I have had numerous points of contact with Shiseido's management and operations, and I can say that everyone—from the leadership to the front-line employees—is working with a phenomenal sense of speed and urgency. Moreover, in regard to reforms, there is an extremely strong reformist mindset within the Company, which has helped resolve issues facing the Company through a cycle of discussion and action. As a result, in just a short period of time, Shiseido has achieved what an ordinary company could not have achieved in 10 years. I believe that this success is because of the determination of all employees to come together as a single force to improve Shiseido. That determination also includes contributing to progress for Japanese society as a whole through the Company's business activities.

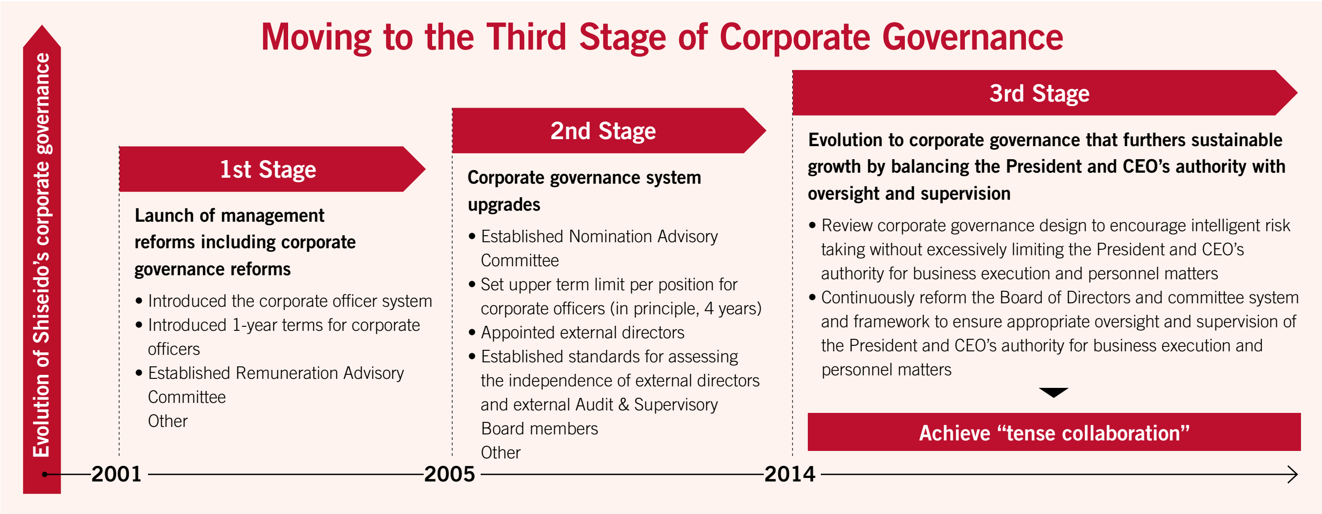
The Board of Directors has also held discussions that have involved going back to the origins of Shiseido. Throughout its history of more than 100 years, what have Shiseido's real strengths been? At the same time, are there some areas in which Shiseido always considered itself strong but in which it has now actually been outdone and lags behind? With an awareness of such problems, we have held lengthy discussions, with no topics off limits, and examined what Shiseido should be like in the future.

Through my attendance and exchange of opinions at various gatherings besides meetings of the Board of Directors, I have reinforced my belief in the potential of Shiseido. Shiseido is not simply a company that manufactures cosmetics; it is a company that provides beauty to society at large and a company that realizes healthy, energetic lifestyles through beauty. Going forward, there are still a wide range of areas in which Shiseido can contribute, and the Company has the management resources to make that possible.

My expertise lies in marketing, medical care, and the healthcare sector, not in cosmetics. Therefore, I believe that my role as an external director is to bridge the gap between Shiseido, society, and consumers, providing a perspective on how the Company and its products are seen by the outside world, and on what direction the Company should take. The brands that Shiseido has built up over many years, and the corporate culture and concepts that lie behind them, are things that can be understood globally. I am confident that Shiseido will make further dramatic progress toward becoming a global company and that these invisible assets will then be put to great use.

Corporate Governance

Progress of the Evolution of Corporate Governance



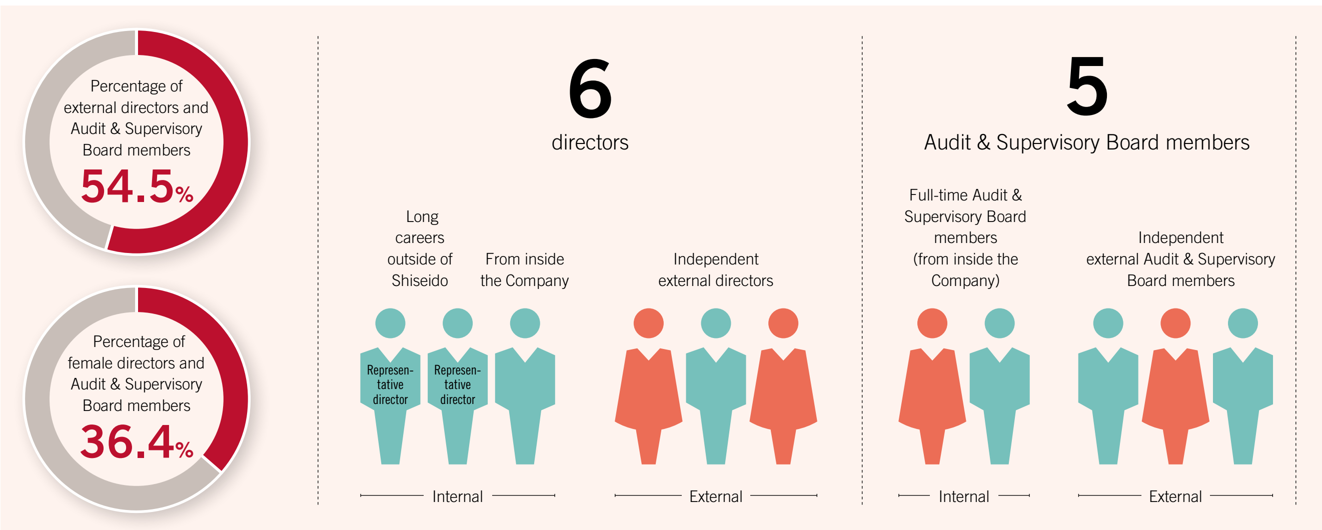
The Shiseido Group (Shiseido or the Group) defines corporate governance as its "platform to realize sustainable growth by fulfilling its corporate mission," and is enhancing corporate governance to achieve the objectives of its medium-to-long-term strategy, VISION 2020. We began full-fledge initiatives toward strengthening corporate governance in 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 actively 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 he or she needs in order to exercise ultimate leadership of Shiseido's global management.

This tense collaboration does not excessively limit or decrease the CEO's authority, but rather establishes 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. This process also sets a precedent for evaluations by the Nomination Advisory Committee and the Remuneration Advisory Committee, which are carried out on a regular basis.

Shiseido's Governance by the Numbers

Directors and Audit & Supervisory Board Members (As of April 1, 2018)



Corporate Governance System

Basic Policy

The Group, including Shiseido Company, Limited (the Company), sets out "to inspire a life of beauty and culture" as its corporate mission, and defines corporate governance as its "platform to realize sustainable growth by fulfilling its corporate mission." We strive to maximize medium-to-long-term corporate and shareholder value by implementing and reinforcing corporate governance to maintain and improve management transparency, fairness, and speed, and through dialogue with all stakeholders from consumers, business partners, employees, and shareholders to society and the earth. At the same time, by fulfilling its responsibilities as a member of society, Shiseido 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 nominating committee, etc.

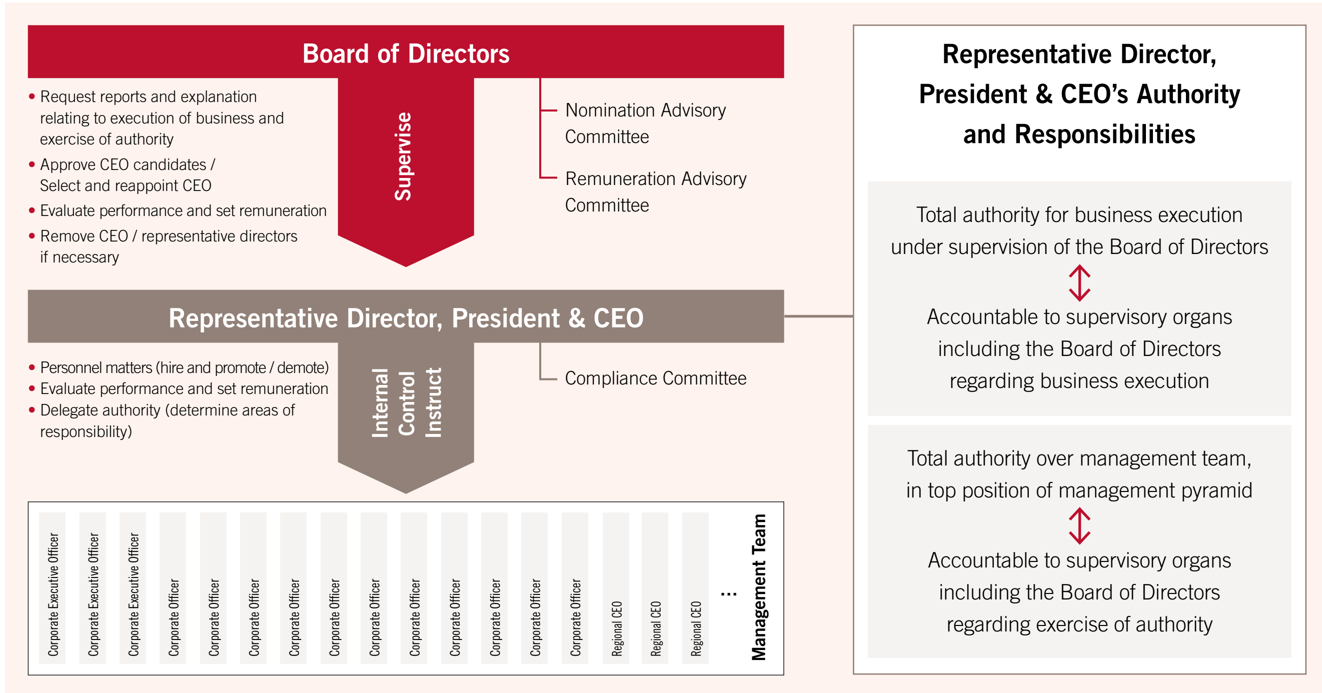
Effective January 2016, Shiseido committed to a new matrix organization encompassing five brand categories and six regions. Under this organization, the Company serves as the global headquarters responsible for providing overall supervision of the Group and the support it requires, and is promoting localization 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 Shiseido. Accordingly, the Company has been implementing monitoring board corporate governance while leveraging the advantages of being 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

Management Supervision System



of these attributes as well as diversity in terms of competencies including professional skills and experience in various fields related to business management.

In addition, the Company has set term limits for external directors and external Audit & Supervisory Board members so that management can benefit from views that are not bound by the Company's existing structures, and ensures appropriate transition to newly appointed external directors and external Audit & Supervisory Board members by allowing a handover period from those who have served for an extended period.

Ratio of External Directors on the Board of Directors

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

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

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

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

- Not a person who is or has ever been responsible for executing the business of the Company or its affiliated companies (collectively, the Shiseido Group)
- Not a person for whom the Shiseido Group is or has ever been a major client or a person who has executed business for an entity for 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 or a person who has executed business for an entity that is or has ever been a major client of the Shiseido Group
- Not a person who executes or has ever executed business for an entity in which the Shiseido Group is a major shareholder
- Not a person who is or has ever been a major shareholder of the Company or a person who has executed business for an entity that is or has ever been a major shareholder of the Company
- 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 from the Shiseido Group or a person who has executed business for an entity that is receiving or has ever received a large donation from the Shiseido Group
- Not a person who is or has ever been an accounting auditor of the Company or a person who has belonged to an entity that 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.)

WEB http://www.shiseidogroup.com/ir/account/governance/

Committees

Basic Policy

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. Committee members are selected from across the Group and include the heads of each region.

Evaluation Working Group

Within the Company's corporate governance, there is a need 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	Yoko Ishikura, External Director
Members	Shinsaku Iwahara, External Director
	Kanoko Oishi, External Director
	Masahiko Uotani, Representative Director, President & CEO

Remuneration Advisory Committee	
Chair	Kanoko Oishi, External Director
Members	Yoko Ishikura, External Director
	Shinsaku Iwahara, External Director
	Masahiko Uotani, Representative Director, President & CEO

Evaluation of the Effectiveness of the Board of Directors

Basic Policy

With the aim of evaluating the effectiveness of the Board of Directors, the Company has in place a policy of regularly identifying issues related to enhancing the effectiveness of the Board of Directors, the Nomination Advisory Committee, and the Remuneration Advisory Committee and confirming the status of efforts to resolve such issues. To incorporate an objective evaluation and analysis from a standpoint that is independent from the Company, third-party evaluations are conducted once every three years. The Company confirms the status of efforts to resolve issues identified through these third-party evaluations, and conducts self-evaluations during the years between third-party evaluations to determine specific initiatives to undertake each year.

Cycle for Continuous Improvements via a Combination of Third-Party Evaluations and Self-Evaluations

	Round 1 of Evaluations (Third Party)	Round 2 of Evaluations (Self)	Round 3 of Evaluations (Self)	Round 4 of Evaluations (Third Party)
Targeted individuals:	All directors and Audit & Supervisory Board members	All directors and Audit & Supervisory Board members	All directors and Audit & Supervisory Board members	
Evaluation method:	Written surveys + Interviews with third-party institutions	Written surveys	Written surveys	
Targeted bodies:	Board of Directors Nomination Advisory Committee Remuneration Advisory Committee	Board of Directors Nomination Advisory Committee Remuneration Advisory Committee	Board of Directors Nomination Advisory Committee Remuneration Advisory Committee	
	2015	2016	2017	2018

Changing the Awareness of Issues

Initiatives Determined through the 2015 Evaluation

- Narrow down agenda items at Board meetings to focus on truly important matters
- Enhance the provision of information to the external directors
- Clarify the functions and authority of both advisory committees
- Expand the task diversity of the Board of Directors
- Develop succession plans for the CEO
- Develop succession plans for the external directors

Initiatives Determined through the 2016 Evaluation

- Narrow down agenda items at Board meetings to focus on truly important matters (ongoing)
- Enhance the provision of information to the external directors (ongoing)
- Strengthen communication between the external directors and the Audit & Supervisory Board
- Develop succession plans for the CEO (ongoing)
- Clarify the functions and role of the Audit & Supervisory Board amid the transition to a monitoring board structure

Initiatives Determined through the 2017 Evaluation

- Develop succession plans for the CEO (ongoing)
- Reconfirm the importance of external directors and develop succession plans
- Ensure even higher levels of diversity for the Board of Directors
- Strengthen communication between the external directors and the Audit & Supervisory Board (ongoing)
- Enhance the secretariat system for the Board of Directors and both advisory committees and strengthen collaboration with the secretariat of the Audit & Supervisory Board
- Enhance the provision of information to the Audit & Supervisory Board regarding both advisory committees

Ongoing Initiatives—Developing Succession Plans for the CEO, External Directors and External Audit & Supervisory Board Members

Within the evaluations of the effectiveness of the Board of Directors, the Company determined that the development of succession plans for the CEO is a task that should be continuously examined by the Board of Directors, the Nomination Advisory Committee, and the Remuneration Advisory Committee. The Company believes that the CEO should have the responsibility and authority to select his or her own successor and that the CEO should be in charge of drafting succession plans. In addition, the Nomination Advisory Committee, which is responsible for certain functions of the Board of Directors, should receive sufficient reports from the CEO regarding the details of the succession plans and the candidates chosen. After the exchange of opinions, the committee should provide feedback to the CEO, evaluating the candidates chosen from an independent standpoint and examining their appropriateness based on management issues the Company is facing.

In addition, the evaluations of the effectiveness of the Board of Directors have highlighted the need for developing succession plans for external directors and external Audit & Supervisory Board members, who play an essential role in monitoring the Company's management. The Company believes that the development of succession plans, which should include oversight on various conditions pertaining to term of office and clear criteria for successor candidates, is an issue that should be constantly on the agenda of the Nomination Advisory Committee rather than something only addressed prior to the succession event.

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 from 2018 to 2020

The Company positions the three years from 2018 to 2020 as a period in which it will pursue new strategies to accelerate growth.

The three-year period from 2015 to 2017 was positioned as a time for the Company to rebuild its business foundation. Accordingly, the remuneration policy for directors and corporate officers for these three years was designed to motivate directors and corporate officers to lead this transformation by implementing drastic reforms. The policy also included an incentive for directors and corporate officers to strategically tackle issues that may require actions that may negatively impact business performance in the short term but must be resolved in order to realize growth over the long term.

From 2018, the Company will continue to undertake efforts in structural reforms while working to create a virtuous cycle that will help accelerate growth. This will essentially involve adhering to the business structure prevailing up through 2017, while on the other hand revising the remuneration scheme to place more focus on the notion of "pay linked to the corporate mission," which constitutes a step beyond the notion of "pay for performance" whereby remuneration paid to a corporate officer and director reflects his or her accomplishments. Under the notion of "pay linked to the corporate mission," the Company will evaluate the extent to which long-term strategies reflecting its management approach and corporate philosophy have been achieved, in addition to considering net sales, operating income, and other quantitative financial results.

Under the new remuneration policy, the Company has increased the maximum rate of the annual bonus payment, meaning that its officers are now eligible for a larger annual bonus payment than before in the event that growth achieved greatly exceeds the objectives. Also, the long-term incentive-type remuneration, another component of performance-linked compensation, now involves providing stock compensation that is equivalent in monetary value to the annual bonus in principle. As such, performance-linked compensation as a whole is now more substantially linked to performance, given that the maximum rate of the annual bonus payment has been increased.

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.

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 on the next page. The achievement rates for consolidated net sales and consolidated operating income targets are common performance indicators used for all directors and corporate officers. Although, on the one hand, it is essential that the entire management team remains aware of matters involving net income attributable to owners of parent, on the other hand, it is crucial that management not let such a benchmark weigh too heavily on proactive efforts particularly involving future growth-oriented investment. As such, after deliberations by the Remuneration Advisory Committee, the Company has provisionally established certain standards (thresholds) as described in the table above, with the evaluation framework designed so that the Remuneration Advisory Committee will consider the possibility of lowering the percentage amount of the annual bonus payment attributable to the Company-wide performance component of the total annual bonus, if results fall below the thresholds. In addition, as was the case for remuneration policy up to 2017, the Company has set personal performance evaluation components for all directors and corporate officers to provide a standard for evaluating the level of achievement of strategic goals in initiatives that cannot be measured with financial performance data, such as rebuilding the business foundation for sustainable growth.

Proportion of Remuneration by Remuneration Type for Each Rank of Director

<table>
<tr><th rowspan="3">Rank as Corporate Officer</th><th colspan="4">Composition of remuneration as corporate officer</th></tr>
<tr><th rowspan="2">Basic remuneration</th><th colspan="2">Performance-linked remuneration</th><th rowspan="2">Total</th></tr>
<tr><th>Annual bonus</th><th>Long-term incentive remuneration</th></tr>
<tr><td>President & CEO</td><td>46%</td><td>27%</td><td>27%</td><td rowspan="5">100%</td></tr>
<tr><td>Executive Vice President</td><td>54–56%</td><td>22–23%</td><td>22–23%</td></tr>
<tr><td>Corporate Senior Executive Officer</td><td>54–58%</td><td>21–23%</td><td>21–23%</td></tr>
<tr><td>Corporate Executive Officer</td><td>54–60%</td><td>20–23%</td><td>20–23%</td></tr>
<tr><td>Corporate Officer</td><td>56–64%</td><td>18–22%</td><td>18–22%</td></tr>
</table>

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. Separate compensation paid to a director who serves as the chairman of the Board is not included in this table.

Evaluation Weights of Annual Bonus for Directors

<table>
<tr><th rowspan="3">Evaluation item</th><th rowspan="3">Performance indicators</th><th colspan="10">Evaluation weight</th></tr>
<tr><th colspan="2" rowspan="2">President & CEO</th><th colspan="4">Corporate officers in charge of businesses</th><th colspan="4">Corporate officers other than those in charge of businesses</th></tr>
<tr><th colspan="2">Regional headquarters President</th><th colspan="2">Other</th><th colspan="2">CFO</th><th colspan="2">Other</th></tr>
<tr><td rowspan="3">Whole Group performance</td><td>Consolidated net sales</td><td>30%</td><td rowspan="2">70%</td><td>10%</td><td rowspan="2">20%</td><td>10%</td><td rowspan="2">20%</td><td>30%</td><td rowspan="2">70%</td><td>30%</td><td rowspan="2">70%</td></tr>
<tr><td>Consolidated operating income</td><td>40%</td><td>10%</td><td>10%</td><td>40%</td><td>40%</td></tr>
<tr><td>Net income attributable to owners of parent</td><td colspan="10">The Remuneration Advisory Committee considers the possibility of lowering the percentage amount of the annual bonus payment attributable to the Company-wide performance component of the total annual bonus, if results fall below the thresholds</td></tr>
<tr><td>Performance of business unit in charge</td><td>Business performance evaluation</td><td colspan="2">—</td><td colspan="2">50%</td><td colspan="2">50%</td><td colspan="2">—</td><td colspan="2">—</td></tr>
<tr><td rowspan="2">Personal evaluation</td><td rowspan="2">Level of achievement of strategic goals set individually</td><td colspan="10">30%</td></tr>
<tr><td colspan="10">Individuals decide on five or less important targets aimed at realizing long-term strategies that reflect management approach and corporate philosophy.</td></tr>
</table>

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

Long-Term Incentive-Type Remuneration

The Company has imposed performance terms and conditions on the stock compensation-type stock options included in

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 the 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:

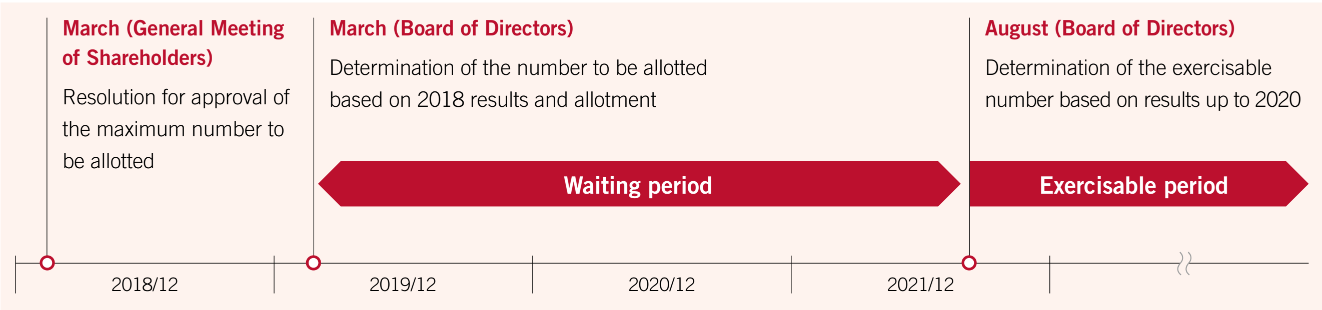
- Calculate the operating income growth rate by comparing operating income for the fiscal year preceding the fiscal year in which the stock acquisition right allotment date is included with the subsequent fiscal year.
- Calculate the operating income growth rates for the same fiscal years as above for 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.

performance-linked remuneration. The limits on this long-term incentive-type 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.

In 2018, the Company will continue to provide performance-linked stock options under its long-term incentive-type remuneration scheme, but it will also keep considering the possibility of shifting to a stock compensation approach that would be better tailored to its remuneration philosophy.

Schedule of Allotment and Exercise of Long-Term Incentive-Type Remuneration



Remuneration for Directors and Audit & Supervisory Board Members for the Year Ended December 2017

(Millions of yen)

	Basic Remuneration	Annual Bonus	Long-Term Incentive (Stock Options)	Total
Directors (8)	270	222	93	585
External directors (4 of the 8 directors)	58	—	—	58
Audit & Supervisory Board members (6)	103	—	—	103
External Audit & Supervisory Board members (4 of the 6 members)	38	—	—	38
Total	373	222	93	688

Notes: 1. The total of the above basic remuneration and annual bonus for directors has the ceiling amount of ¥2.0 billion or less (including a total of ¥0.2 billion or less for external directors) as per the resolution of the 118th Ordinary General Meeting of Shareholders held on March 27, 2018. 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 amount of long-term incentive-type stock options indicated above represents the expenses for the year ended December 2017 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. In addition to the above payments, ¥16 million was recognized for the year ended December 2017 as expenses associated with stock options granted to one director when that director was a corporate officer, not a director.
4. 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 3, above).

Remuneration by Type to Representative Directors and Directors Whose Total Remuneration Exceeded ¥100 Million for the Year Ended December 2017

(Millions of yen)

	Basic Remuneration	Annual Bonus	Long-Term Incentive (Stock Options)	Total
Masahiko Uotani Representative Director	127	179	69	377
Tsunehiko Iwai Representative Director	46	22	23	92

Notes: 1. The amount of long-term incentive-type stock options indicated above represents the expenses for the year ended December 2017 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.
2. Neither of the two directors above will be paid remuneration other than the remuneration described above.

Risk Management and Compliance

Compliance Committee

The Company has established the Compliance Committee as a committee that reports directly to the CEO. This committee oversees all areas in which Shiseido should fulfill its social responsibilities. In addition to accurately assessing social changes and in-house conditions, identifying main causes of management risks, and deliberating and approving measures to prevent or mitigate risks, the committee reports incidents where risks have occurred and examines measures to prevent recurrence. Furthermore, the committee reports whistle-blowing matters and matters raised for consultation, considers measures to fundamentally improve the workplace culture, monitors compliance-related activities, and examines issues that need to be improved. As risk management relates closely with the characteristics of the industry in which the Company operates and the business model it employs, as well as with the Company's management strategies, the Compliance Committee reports directly to the CEO, who bears the most responsibility for business execution, and submits reports to the Board of Directors when necessary.

Risk Monitoring by the Board of Directors

Monitoring risk on a Group-wide basis is an important matter toward which the Board of Directors should focus its efforts. The Board of Directors receives reports on the main causes of risks identified by the Compliance Committee and provides feedback on the measures the committee has developed to prevent and mitigate risks. Also, in regard to individual matters reported and strategies proposed, the Board of Directors holds discussions on the prerequisites of individual issues, the level of risk tolerance, and maximum risk limits to confirm whether or not risks are being considered in an appropriate manner. Through these means, the Board identifies management risks, implements measures to prevent and mitigate such risks, and works to realize an adequate level of risk taking.

In addition to receiving reports and proposals on individual matters and reports from the Compliance Committee, the Board of Directors compiles information related to risk through the exchange of information with the Audit & Supervisory Board. This information helps the Board realize highly effective risk monitoring.

Revised List of Major Risks

Among items pertaining to its business and financial conditions, the Company revises the list of risks it believes could impact its financial or business performance in a timely fashion based on examinations made by the Compliance Committee. In undertaking these revisions, the Company not only determined the necessity of existing risk items and additional risk items, it also revised the level of priority given in the event a risk should occur based on the significance of a given risk's impact.

At the time that this annual report was published, the Company believed that, in light of conditions surrounding its business in 2017, the following items have the potential to significantly impact the decision-making of investors.

Business Risks

1. Consumer Services
2. Quality Control
3. Strategic Investment Activities
4. Information Security Risks
5. Competitive Environment of the Cosmetics Industry
6. Responding Appropriately to Market Needs
7. Specific Business Partners
8. Operational Risks
9. Hiring and Developing Talented Human Resources
10. Consideration for the Environment and Human Rights
11. Material Litigation
12. Regulatory Risks
13. Raw Material Price Fluctuations
14. Exchange Rate Fluctuations
15. Share Price Fluctuations
16. Geopolitical Risks
17. Natural Disasters and Accidents
18. Decrease in Brand Value

Please see "Business and Other Risks" (page 73) for details.

Whistle-Blowing System

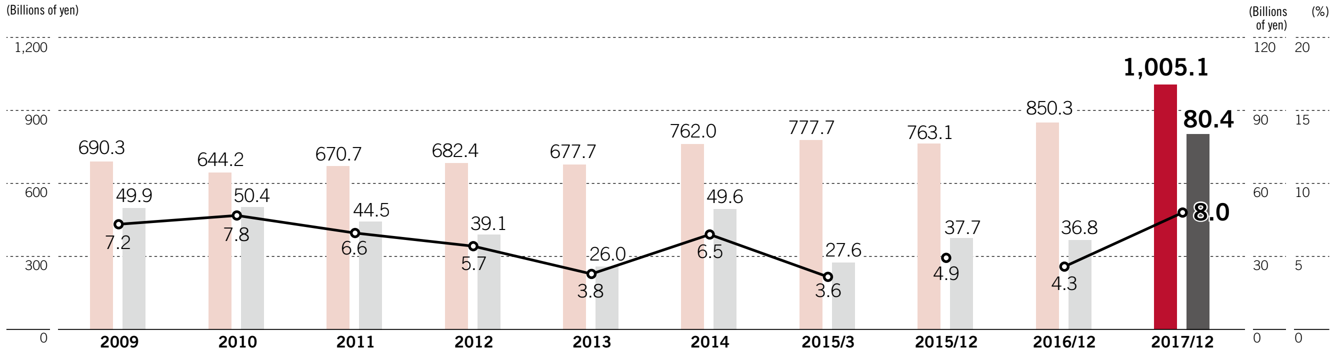
To discover issues that violate laws, the articles of incorporation, or other regulations within Shiseido and to promptly correct such issues, the Company has established the Compliance Committee Hotline to serve as a means of reporting compliance-related issues. In addition, the Company has set up hotlines at each Group company, where employees in charge of corporate ethics promotion act as a contact for whistle-blowing and consultations. In the Japan region, the Company has established one hotline as an internal point of contact staffed by in-house counselors and another as an external point of contact staffed by out-of-house counselors. The Company has also created the Reporting E-mail to Audit & Supervisory Board Members that allows for direct reports to the Audit & Supervisory Board members, and is pursuing efforts to make all of these hotlines well-known among its employees.

To secure the effectiveness of these whistle-blowing systems, the Company has developed internal regulations to ensure that directors, Audit & Supervisory Board Members, corporate officers, and employees are not dismissed, discharged from service, or receive any other disadvantageous treatment due to reporting or seeking consultation on compliance-related issues. The Company is also taking steps to make these regulations well-known.

Financial and Non-Financial Highlights

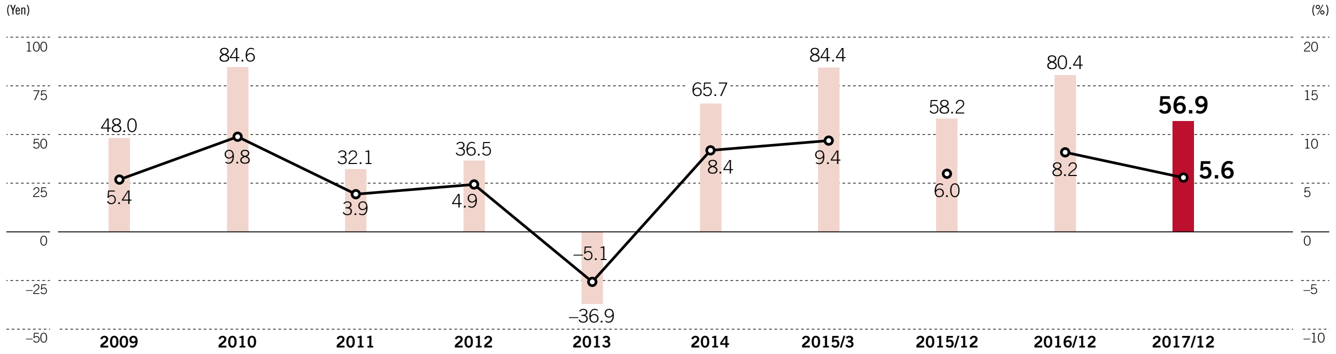
Financial Value

Net Sales, Operating Income, and Operating Margin[1]



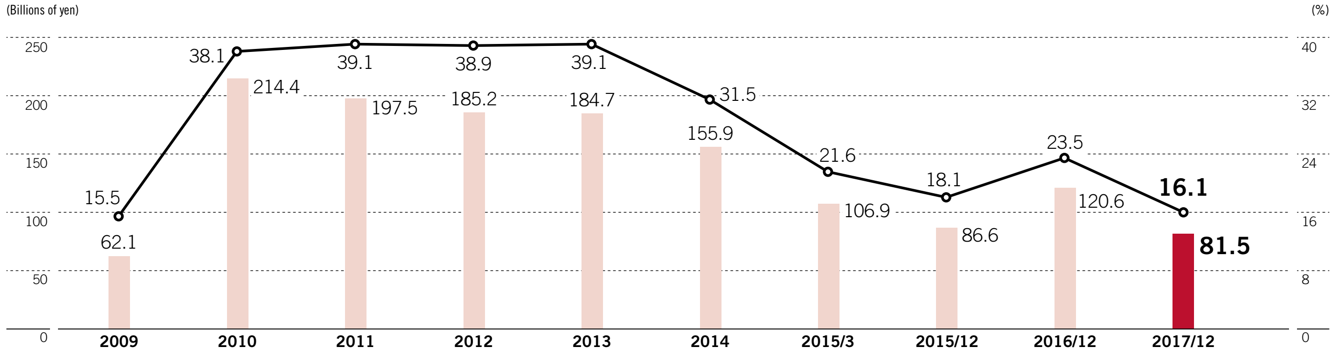
Net sales (Left scale) Operating income (Right scale) Operating margin (Far right scale)

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



Net income (loss) per share (Left scale) Return on equity (Right scale)

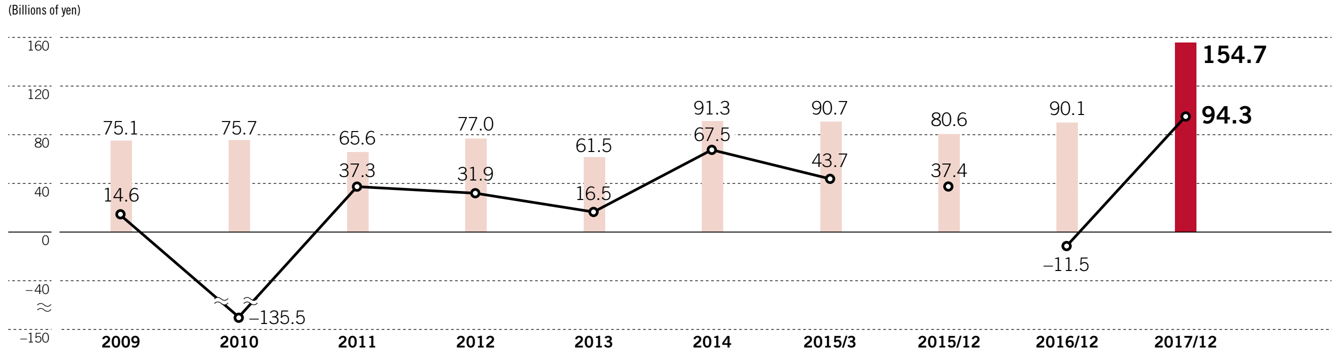
Interest-Bearing Debt and Interest-Bearing Debt Ratio[3, 5]



Interest-bearing debt (Left scale) Interest-bearing debt ratio (Right scale)

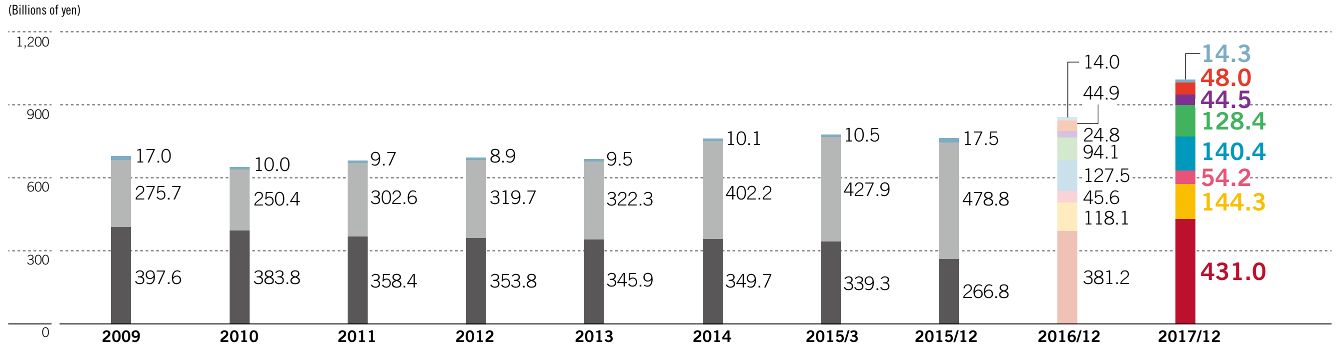
1 The fiscal year ended December 31, 2015 is the 9 months from April 1, 2015 to December 31, 2015 for Shiseido and its consolidated subsidiaries in Japan and the 12 months from January 1, 2015 to December 31, 2015 for all other subsidiaries. In this report, it is referred to as "the year ended December 2015" in the text and as "2015/12" 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 The 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 figures for the year ended March 2011 accordingly. Effective from the fiscal year ended March 31, 2014, certain subsidiaries of the Shiseido Group's retrospectively adopted a new standard for Employee Benefits (IAS 19, amended June 16, 2011) 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.
4 For calculating consolidated ROE for the period ended December 2015, the numerator used is net income attributable to owners of 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 parent for the 12 months ended December 2015.
5 Interest-bearing debt ratio = Interest-bearing debt / Invested capital* *Invested capital = Interest-bearing debt + Equity
6 EBITDA (Earnings before interest, tax, depreciation and amortization) = Income (loss) before income taxes + Interest expense + Depreciation and amortization expense + Impairment loss on goodwill and other intangible assets
7 Domestic Professional Division sales are included in the Global Business segment.

EBITDA[6] and Free Cash Flow



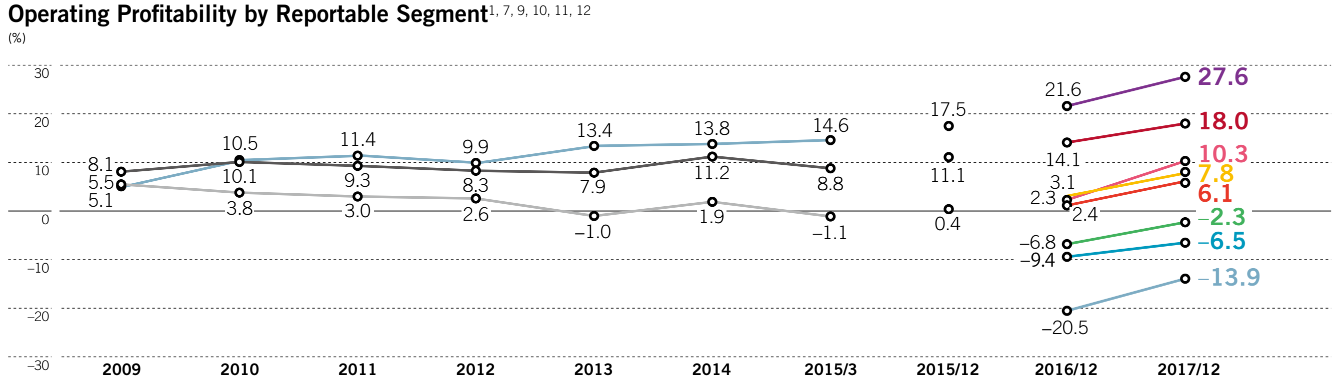
EBITDA — Free cash flow (Cash flows from operating activities + Cash flows from investing activities)

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



Years ended March 2009–2015 Domestic Cosmetics Business Global Business Others Year ended December 2015 Japan Business Global Business Others
Year ended December 2016 Japan Business China Business Asia Pacific Business Americas Business EMEA Business Travel Retail Business Professional Business Other
Year ended December 2017 Japan Business China Business Asia Pacific Business Americas Business EMEA Business Travel Retail Business Professional Business Other

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



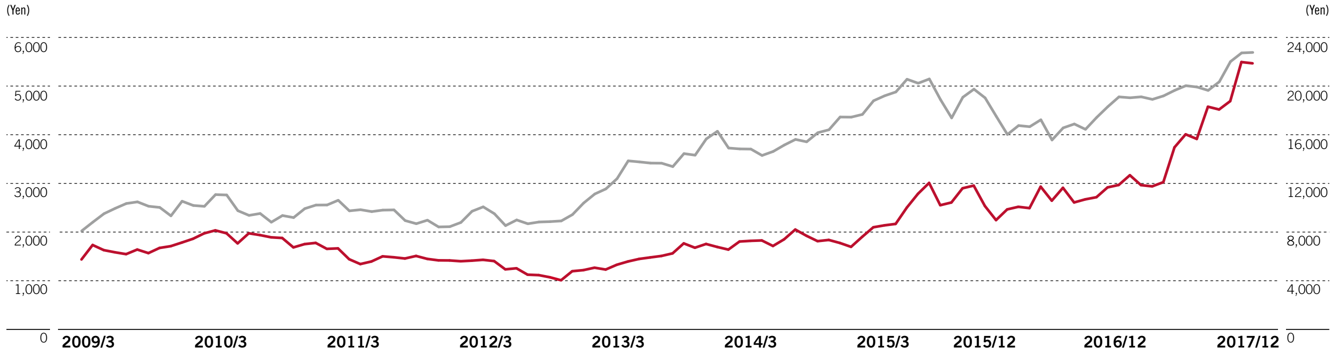
Years ended March 2009–2015 — Domestic Cosmetics Business — Global Business — Others Year ended December 2015 — Japan Business — Global Business — Others
Year ended December 2016 — Japan Business — China Business — Asia Pacific Business — Americas Business — EMEA Business — Travel Retail Business — Professional Business — Other
Year ended December 2017 — Japan Business — China Business — Asia Pacific Business — Americas Business — EMEA Business — Travel Retail Business — Professional Business — Other

8 Net sales by reportable segment represent sales to external customers only and do not include intersegment/interarea sales or transfers.
9 Operating margin 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 reallocated to "Global Business" and "Others". 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 2017, the Company has revised its reportable segment classification method in line with the Group's internal financial management structure. As a result, reportable segment classifications have been changed to the "Japan Business," "China Business," "Asia Pacific Business," "Americas Business," "EMEA Business," "Travel Retail Business," and "Professional Business" segments. Segment information for the year ended December 2016 has been restated in line with changes in the method of classifying reportable segments.

Financial and Non-Financial Highlights

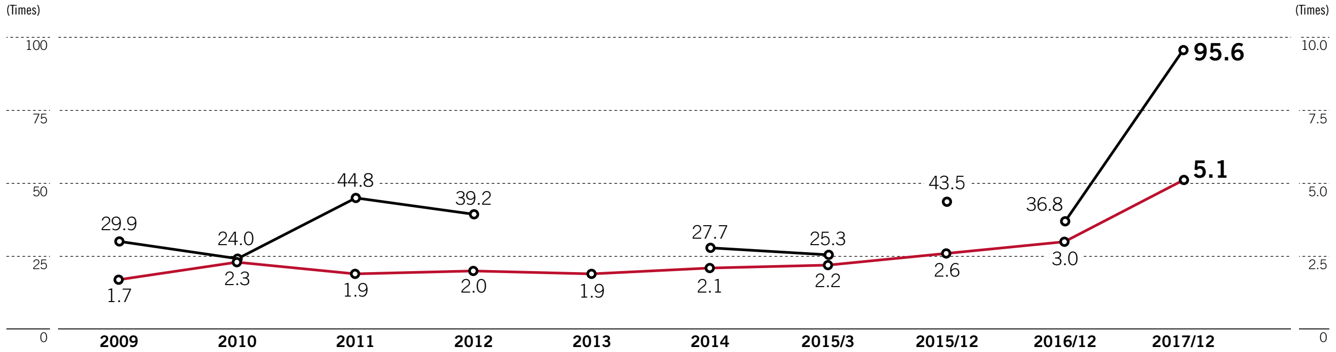
Shareholder Value

Shiseido Share Price & Nikkei Stock Average



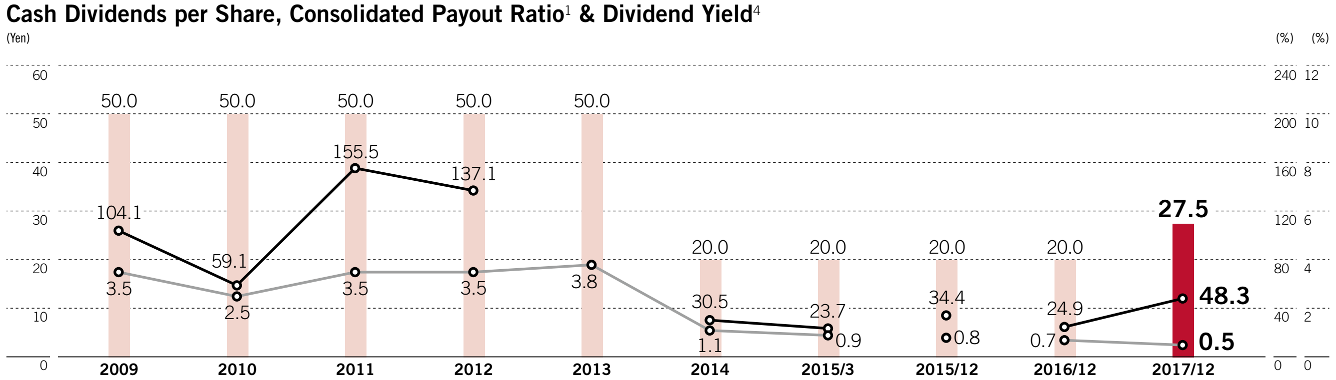
— Shiseido share price (Left scale) — Nikkei stock average (Right scale)

Price/Earnings Ratio (PER)[1, 2] & Price/Book Value Ratio (PBR)[3]



— Price/Earnings ratio (PER) (Left scale) — Price/Book value ratio (PBR) (Right scale)

Cash Dividends per Share, Consolidated Payout Ratio[1] & Dividend Yield[4]

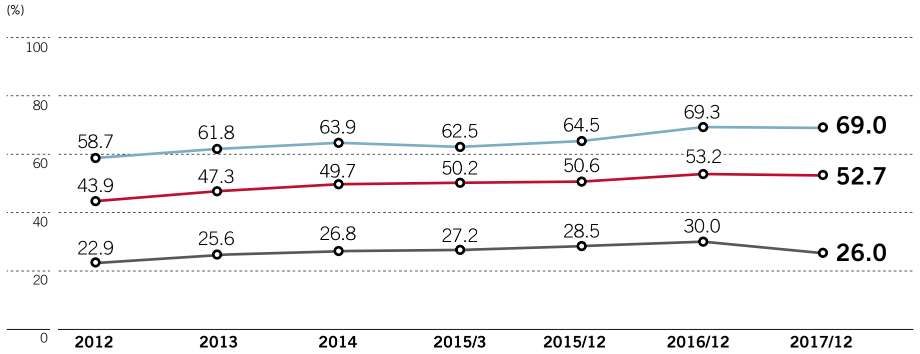


Cash dividends per share (Left scale) — Consolidated payout ratio (Right scale) — Dividend yield (Far right scale)

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

Human and Social Value

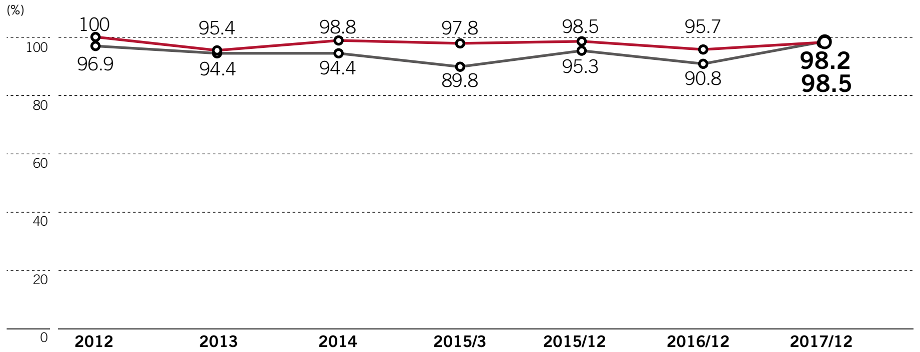
Percentage of Female Leaders[5]



— Total — Overseas — Japan

Shiseido has been actively promoting women to positions of leadership. Overseas, nearly 70 percent of leadership positions are held by women. In Japan, through the further promotion of efforts that encourage the active role of female employees, Shiseido aims to raise the percentage of female leaders to 40 percent by 2020.

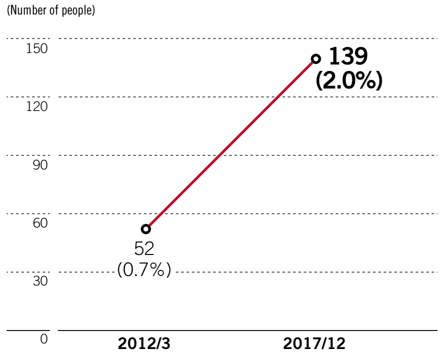
Stability Rate for Employees in Japan Returning to Work after Taking Childcare Leave[6]



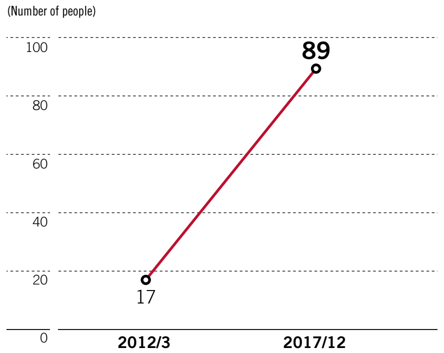
— Shiseido Group in Japan — Japan

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.

Number and Ratio of Non-Japanese Hires in Japan[7]



Track Record of Mid-Career Hires in Japan[8]



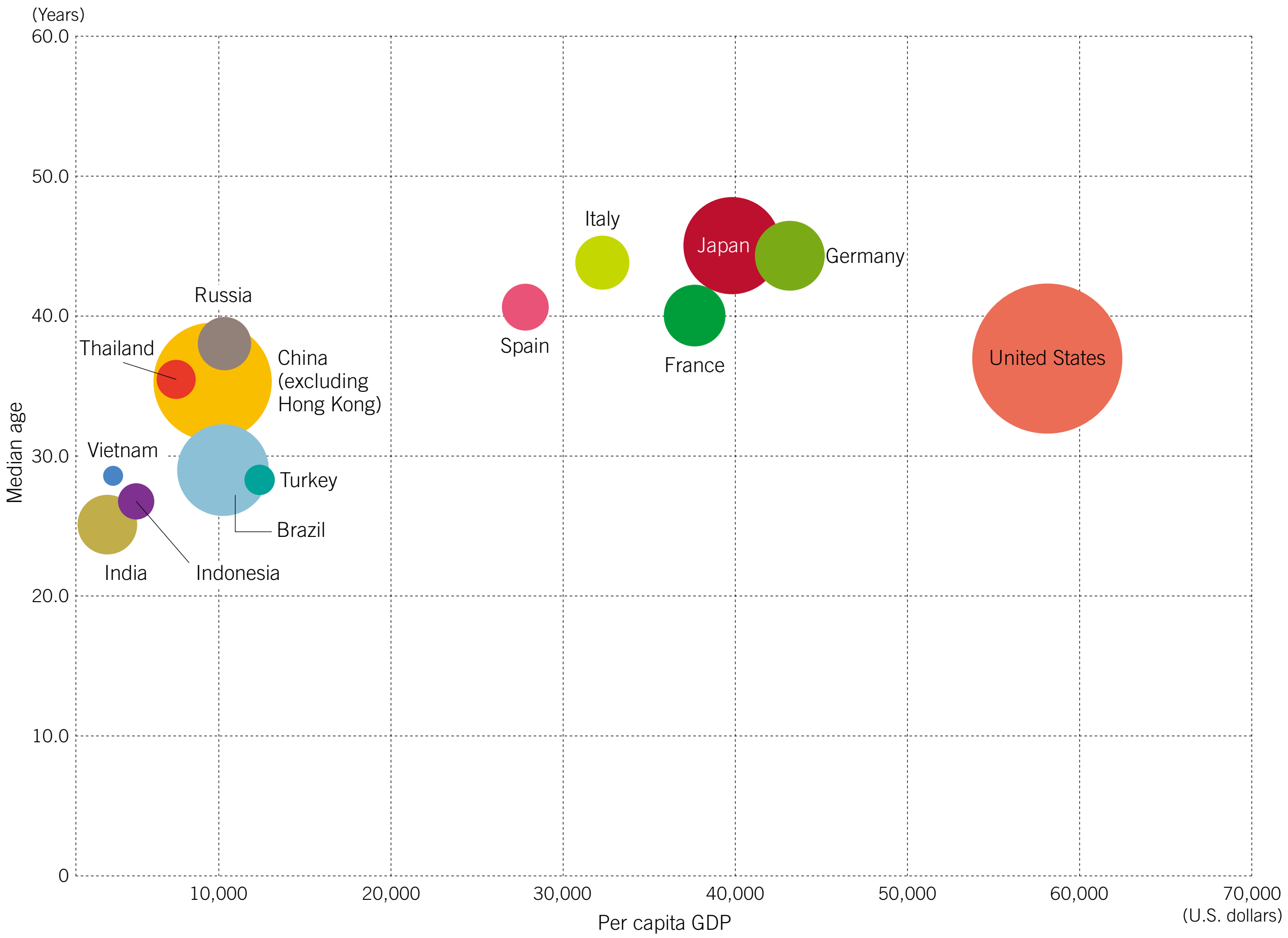
Shiseido is strengthening the promotion of diversity because it believes that collaboration among employees with diverse ideas and values enables it to create new value. As such, the number of non-Japanese hires in Japan has more than doubled since the year ended March 2012. Shiseido is also emphasizing mid-career hiring, which has seen a significant increase in recent years.

5 For the years ended March 2012 through March 2015, the 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 subsequent 2016, the percentage of female leaders is as of December 31 for both Japan and overseas.
6 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
7 Shiseido Company, Limited data
8 Figures for the fiscal year ended March 2012 are as they were on March 31, 2012, and figures for the fiscal year ended December 2017 are as they were on December 31, 2017.

Market Data

Beauty and Personal Care Markets by Country

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

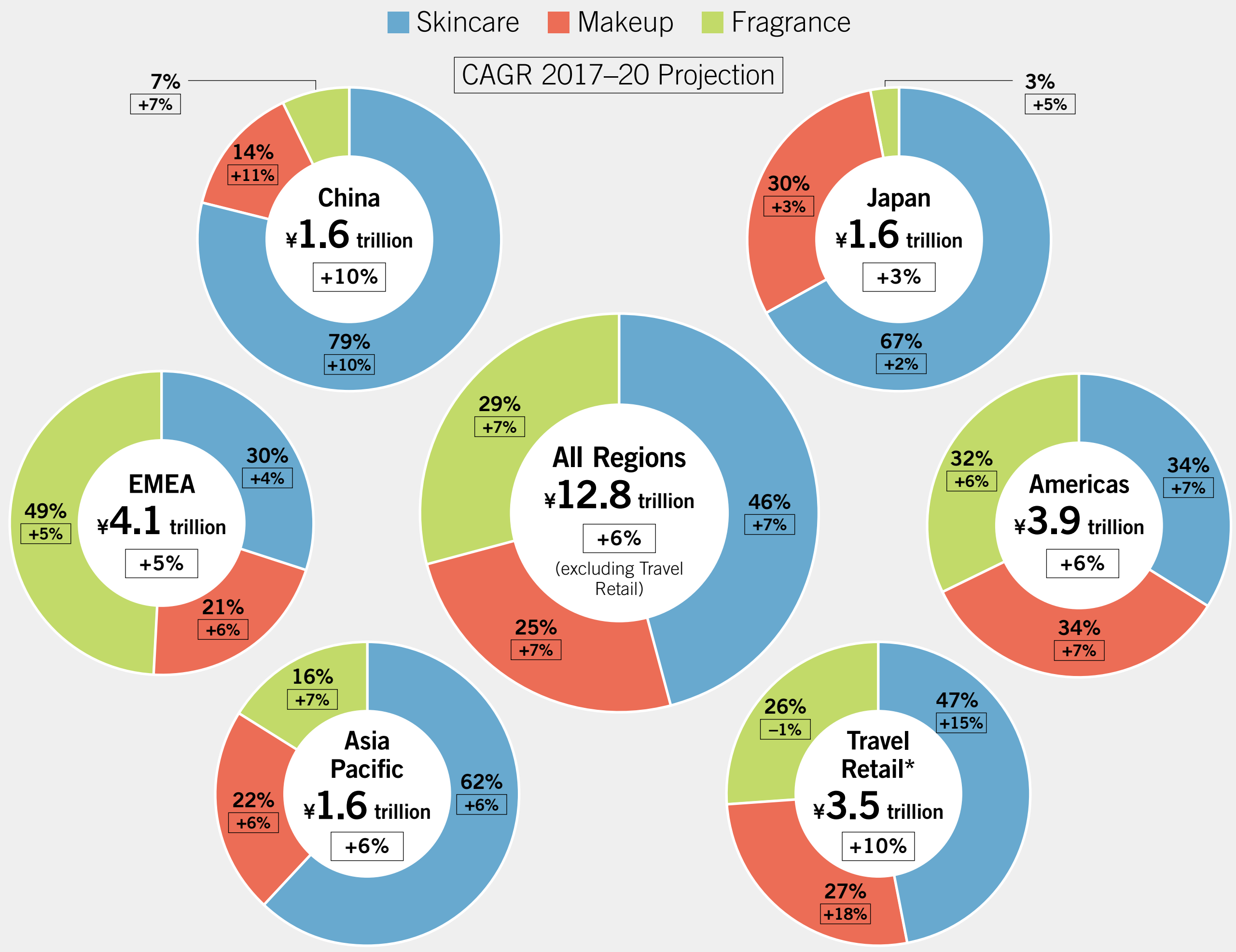


Beauty and Personal Care Market Scale by Country and Population (2017)

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	86,070	326	Italy	11,174	59
China (excluding Hong Kong)	53,494	1,410	Russia	10,874	144
Japan	36,072	127	Spain	8,381	46
Brazil	32,129	209	Thailand	5,837	69
Germany	18,637	82	Indonesia	5,030	264
France	14,545	65	Turkey	3,522	81
India	13,580	1,339	Vietnam	1,526	96

Source for beauty and personal care market scale: Euromonitor International, as of April 23, 2018
Source for per capita GDP, median age, and population: "World Statistics 2017," Statistics Bureau, Ministry of Internal Affairs and Communications
*1 Circle size indicates beauty and personal care market scale.
*2 The midpoint age separating the upper from the lower half of ages for each population ranked in order from the lowest to highest
Please note that the relevant market data was compiled from data publicly available from several institutions and is not directly related to Shiseido's strategies. Also, annual data for each region is calculated based on local currencies translated into U.S. dollars at average 2017 exchange rates.

Prestige: Market Size and Projected Growth Rate in 2020

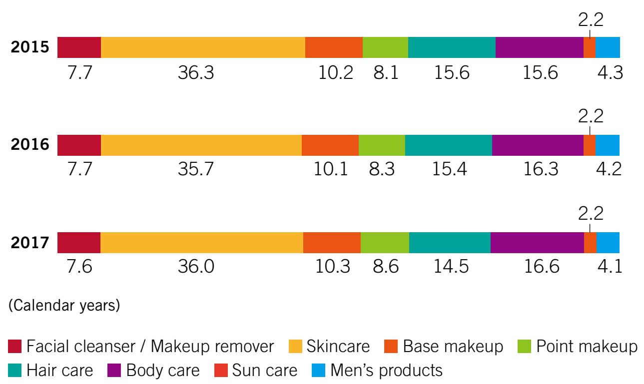


Sources: • Euromonitor International 2017 edition (excluding Travel Retail) • Premium (skincare, sun care, color, fragrance)
• Annual date for each region is calculated based on local currencies translated into Japanese yen at the average exchange rate for 2017.
* Travel Retail: Generation Research

Domestic Cosmetics Market

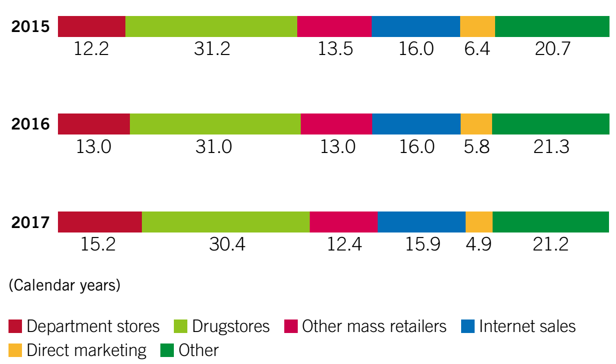
Market Composition by Beauty Category

(%)



Market Composition by Channel

(%)



Sources: Market composition by beauty category: UMI (as of March 2018, according to research by Shiseido) general cosmetics market (defined by Shiseido), January 1, 2015 to December 31, 2017, comparison of purchases (value base) by beauty categories defined by Shiseido
Market composition by channel: UMI (as of March 2018, according to research by Shiseido) general cosmetics market (defined by Shiseido), January 1, 2015 to December 31, 2017, comparison of purchases (value base) by channel

11-Year Summary of Selected Financial Data

Shiseido Company, Limited and Subsidiaries
For the fiscal years ended March 31, 2008 to December 31, 2017

	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) 2017/12	Thousands of U.S. dollars (Except per share data) 2017/12
Operating Results:												
Net sales	723,484	690,256	644,201	670,701	682,385	677,727	762,047	777,687	763,058	850,306	**1,005,062**	**8,890,420**
Cost of sales	186,466	171,752	160,166	168,692	162,989	166,783	189,559	196,433	196,009	207,553	**231,327**	**2,046,236**
Selling, general and administrative expenses	473,553	468,589	433,684	457,550	480,260	484,898	522,843	553,640	529,388	605,972	**693,298**	**6,132,666**
Operating income	63,465	49,914	50,350	44,458	39,135	26,045	49,644	27,613	37,660	36,780	**80,437**	**711,517**
EBITDA	94,960	75,077	75,699	65,576	76,974	61,463	91,285	90,703	80,635	90,078	**154,741**	**1,368,783**
Net income (loss) attributable to owners of parent	35,459	19,373	33,671	12,790	14,515	(14,685)	26,149	33,668	23,210	32,101	**22,749**	**201,229**
Financial Position (At period-end):												
Total assets	675,864	606,568	775,445	739,120	720,707	715,593	801,346	823,636	808,547	934,590	**949,425**	**8,398,275**
Short-term liabilities	38,653	27,601	112,693	16,361	9,734	39,394	64,054	75,615	18,996	19,403	**12,203**	**107,943**
Long-term debt	24,566	34,451	101,753	181,155	175,418	145,274	91,864	31,281	67,617	156,428	**128,411**	**1,135,877**
Interest-bearing debt	63,219	62,053	214,446	197,517	185,153	184,669	155,918	106,897	86,613	120,580	**81,463**	**720,592**
Equity	382,469	337,224	348,323	307,269	290,494	287,069	338,561	386,860	391,664	392,963	**423,447**	**3,745,661**
Cash Flows:												
Cash flows from operating activities	75,307	42,767	69,431	67,586	52,599	42,040	84,320	32,134	60,529	59,129	**95,392**	**843,803**
Cash flows from investing activities	(5,802)	(28,157)	(204,884)	(30,303)	(20,668)	(25,534)	(16,799)	11,538	(23,137)	(70,640)	**(1,061)**	**(9,385)**
Cash flows from financing activities	(95,882)	(32,283)	120,359	(39,571)	(35,482)	(24,745)	(47,462)	(58,419)	(30,151)	22,378	**(53,117)**	**(469,854)**
Cash and cash equivalents at end of year	120,393	91,857	77,157	88,592	82,974	80,253	110,163	100,807	104,926	113,122	**156,834**	**1,387,297**
Per Share Data (In yen and U.S. dollars):												
Net income (loss)	86.1	48.0	84.6	32.1	36.5	(36.9)	65.7	84.4	58.2	80.4	**56.9**	**0.50**
Net assets	946.2	839.9	875.7	772.1	729.9	721.2	849.4	970.0	981.4	984.1	**1,059.8**	**9.37**
Cash dividend	34.0	50.0	50.0	50.0	50.0	50.0	20.0	20.0	20.0	20.0	**27.5**	**0.24**
Weighted average number of shares outstanding during the period (thousands)	407,696	403,240	397,886	397,864	397,974	398,007	398,300	398,704	399,026	399,227	**399,466**	
Financial Ratios:												
Operating margin (%)	8.8	7.2	7.8	6.6	5.7	3.8	6.5	3.6	4.9	4.3	**8.0**	
Return on assets (%)	5.0	3.0	4.9	1.7	2.0	(2.0)	3.4	4.1	2.8	3.7	**2.4**	
Operating ROA (%)	9.4	8.2	7.5	6.1	5.6	3.8	6.8	3.6	4.8	4.4	**8.7**	
Return on equity (%)	9.2	5.4	9.8	3.9	4.9	(5.1)	8.4	9.4	6.0	8.2	**5.6**	
Equity ratio (%)	56.6	55.6	44.9	41.6	40.3	40.1	42.2	47.0	48.4	42.0	**44.6**	
Interest-bearing debt to EBITDA ratio (times)	0.7	0.8	2.8	3.0	2.4	3.0	1.7	1.2	1.1	1.3	**0.5**	
Debt-equity ratio (times)	0.17	0.18	0.62	0.64	0.64	0.64	0.46	0.28	0.22	0.31	**0.19**	
Interest-bearing debt ratio (%)	14.2	15.5	38.1	39.1	38.9	39.1	31.5	21.6	18.1	23.5	**16.1**	
Payout ratio (consolidated) (%)	39.5	104.1	59.1	155.5	137.1	—	30.5	23.7	34.4	24.9	**48.3**	
Number of employees at year-end	28,793	28,810	28,968	31,310	32,595	33,356	33,054	33,000	33,783	36,549	**37,438**	
Net sales per employee	25.1	24.0	22.2	21.4	20.9	20.3	23.1	23.6	22.6	23.2	**26.8**	**237**

Notes: 1. The fiscal year 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 year 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 ¥113.05 = US$1 prevailing on December 31, 2017.
4. EBITDA (Earnings before interest, taxes, depreciation and amortization) = Net income (loss) before income taxes + Interest expense + Depreciation and amortization expense + Impairment loss on goodwill and other intangible assets
5. Short-term liabilities = Short-term debt + Current portion of long-term debt
6. 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.
7. Operating ROA = (Operating income + Interest and dividend income) / Total assets (Yearly average)
8. Interest-bearing debt to EBITDA ratio = Interest-bearing debt / EBITDA
9. Debt-equity ratio = Interest-bearing debt / Equity* *Equity = Total net assets – Stock acquisition rights – Non-controlling interests in consolidated subsidiaries
10. Interest-bearing debt ratio = Interest-bearing debt / Invested capital* *Invested capital = Interest-bearing debt + Equity
11. The number of employees at year-end does not include temporary employees.
12. Shiseido Group subsidiaries in the Americas formerly recognized free samples and promotional items associated with marketing activities in stores as assets when acquired and expensed them after shipped to customers. However, effective from the fiscal year ended March 31, 2012 these subsidiaries began to expense these items when acquired in order to conform with the Group's accounting policies. As a result, the Shiseido Group retrospectively restated the consolidated financial statements for the fiscal year ended March 31, 2011, accordingly.
13. Effective from the fiscal year ended March 31, 2014, certain subsidiaries of the Shiseido Group's retrospectively adopted a new standard for Employee Benefits (IAS 19, amended June 16, 2011) 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.
14. From the year ended December 2016, Shiseido has been recognizing long-term payables associated with *Dolce&Gabbana*. For the year ended December 2017, the interest-bearing debt ratio including these long-term payables was 24.9 percent, the debt-equity ratio was 0.33, and interest-bearing debt was ¥140,615 million.
15. In November 2015, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2015-17, "Income Taxes (Topic 740): Balance Sheet Classification of Deferred Taxes" ("ASU 2015-17"). The standard requires that deferred tax assets and liabilities be classified as non-current on the balance sheet rather than being separated into current and non-current. Effective from the first quarter of the current fiscal year, affiliates in the Americas have adopted ASU 2015-17 on a retrospective basis. Accordingly, the Company reclassified the current deferred taxes to non-current on the December 31, 2016 consolidated balance sheet. As a result, ¥11,845 million recorded as "Deferred tax assets" on the consolidated balance sheet for the previous fiscal year has been reclassified from the current to non-current and offset by ¥11,416 million in the non-current "Deferred tax liabilities."

Operating Results and Financial Condition

OPERATING RESULTS

For the fiscal year 2017, economic conditions in Japan continued to follow a course of moderate recovery such as positive turnaround in consumer spending reflecting the improvements in employment and income environment. Conditions in the domestic cosmetics market were also stable supported by the underlying recovery trend and the increased demand from the growing number of overseas visitors to Japan. In international cosmetics markets, overall growth in Europe was slow, as the growth conditions vary from country to country. The Americas experienced slow expansion, while China and other Asian markets continued to record steady growth.

In 2015, the Shiseido Group launched the VISION 2020 medium-to-long-term strategy, which is designed to ensure that the Group sustain growth for the next 100 years. We pursue "to be a global winner with our heritage", we are emphasizing a consumer-oriented focus in all of our activities and taking steps to enhance our brand value on a global basis. We positioned 2015 to 2017 as a three-year period for rebuilding our business foundation by increasing investment in marketing and innovation, and advancing structural reforms to support strong growth over the following three years, from 2018 to 2020.

During the fiscal year 2017, the Group increased investment in areas where the future sales growth is expected, such as the prestige category, digital communication, and e-commerce. We also expanded investment in marketing aimed at achieving higher growth for *Laura Mercier*, a prestige brand focusing on makeup we acquired in 2016, and *Dolce&Gabbana*, a brand that mainly offers fragrances, with which we concluded a licensing agreement in the same year. In addition, we approached Japan, China, and Travel Retail as a single market, and we worked to expand cross-border marketing across the entire Asia, with a principal focus on Chinese consumers. To improve profitability, we rigorously managed profits by business and brand, and we reduced products with low contributions to sales and income. Furthermore, we took steps to restructure our global business and brand portfolios, such as the sale of Zotos International, Inc. (hereinafter, "Zotos"), a North American subsidiary.

As a result of these initiatives, consolidated net sales for the fiscal year 2017 increased by 16.0 percent year on year in a local currency basis. Key factors supporting this increase included global growth in the prestige category, where we continue to expand strategic investment, and additional sales from new brands introduced by the Group since the previous fiscal year. Translated into yen, consolidated net sales rose 18.2 percent year on year to ¥1,005,062 million ($8,890,420 thousand), due to the positive effect of yen depreciation.

Operating income increased 118.7 percent year on year to ¥80,437 million ($711,517 thousand),which gain was principally due to an increase in marginal income accompanying the growth in sales, improved efficiency in marketing investment, and the effects of cost structure reforms.

A gain on the sale of Zotos shares and related assets was recorded as other income. Other expenses included expenses from the voluntary product recall-related expenses and an impairment loss on intangible and other assets related to Bare Escentuals, Inc. (hereinafter, "Bare Escentuals") in the Americas. As a result, net income attributable to owners of parent declined 29.1 percent year on year to ¥22,749 million ($201,229 thousand).

After we acquired Bare Escentuals in 2010, we implemented a range of initiatives, such as expanding consumer contact points and enhancing product development. Nonetheless, we were not able to achieve the planned level of growth for the brand. The fiscal year 2017 was the final year of the first phase of VISION 2020, in which we focused on rebuilding our business foundation. Guided by our management policy of "facing reality," we are committed to rapidly addressing issues without delay. Accordingly, we closely examined the future potential of our businesses and brands. The Board of Directors carefully considered the details of marketing and structural reforms, as well as the level of profits that would be achievable with the implementation of those reforms. As a result, in the process of evaluating intangible assets, we made the decision to recognize an impairment loss on Bare Escentuals.

For the fiscal year 2017, the consolidated operating margin was 8.0 percent, and consolidated return on equity (ROE) was 5.6 percent. The major foreign currency exchange rates applied to income and expense accounting line items in the Company's financial statements for the fiscal year 2017 are JPY112.2/USD, JPY126.7/EUR, and JPY16.6/CNY.

REVIEW BY REPORTABLE SEGMENT

Net Sales by Reportable Segment

Segments[1]

(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

Net Sales by Reportable Segment

Segments[2]

(Billions of yen)	2016/12	**2017/12**
Japan Business	381.2	**431.0**
China Business	118.1	**144.3**
Asia Pacific Business	45.6	**54.2**
Americas Business	127.5	**140.4**
EMEA Business	94.1	**128.4**
Travel Retail Business	24.8	**44.5**
Professional Business	44.9	**48.0**
Other[3]	14.0	**14.3**

Income by Reportable Segment

Segments[1]

(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

Income by Reportable Segment

Segments[2]

(Billions of yen)	2016/12	**2017/12**
Japan Business	56.4	**83.2**
China Business	3.6	**11.3**
Asia Pacific Business	1.1	**5.7**
Americas Business	(12.8)	**(10.3)**
EMEA Business	(6.7)	**(3.2)**
Travel Retail Business	5.4	**12.4**
Professional Business	1.1	**3.0**
Other[3]	(11.9)	**(12.9)**

Operating Margin by Reportable Segment[4]

Segments[1]

(%)	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

Operating Margin by Reportable Segment[4]

Segments[2]

(%)	2016/12	**2017/12**
Japan Business	14.1	**18.0**
China Business	3.1	**7.8**
Asia Pacific Business	2.3	**10.3**
Americas Business	(9.4)	**(6.5)**
EMEA Business	(6.8)	**(2.3)**
Travel Retail Business	21.6	**27.6**
Professional Business	2.4	**6.1**
Other[3]	(20.5)	**(13.9)**

Notes:

1. Change in Business Segment Classification
Effective from the fiscal year 2016, the Company has revised its reportable segment classification method in line with the Group's internal financial management structure. As a result, 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.
Segment information for 2015/12 (Adjusted) (the corresponding period of the previous fiscal year) has been restated in line with changes in the method of classifying reportable segments.
2. Change in Business Segment Classification
Effective from the fiscal year 2017, the Company has revised its reportable segment classification method in line with the Group's internal financial management structure. As a result, reportable segment classifications have been changed to the "Japan Business," "China Business," "Asia Pacific Business," "Americas Business," "EMEA Business," "Travel Retail Business" and "Professional Business" segments.
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.
3. "Other" includes head office administration departments, manufacturing operations as well as the activities of the Frontier Science business (production and sale of cosmetic raw materials, medical-use drugs, medical cosmetics, precision and analytical equipment), the Restaurant business, etc.
4. "Operating margin by reportable segment" is calculated against sales for the segment, including intersegment sales.

Japan Business

In the fiscal year 2017, the Japan Business expanded at a rate substantially higher than market growth. We have increased marketing investment for brands in the mid- to high-price range, and these brands continued to perform well. Sales to domestic customers expanded, and we steadily captured demand from overseas visitors to Japan. To achieve sustainable growth, we are focusing on three skin-related segments in which we have strengths—Skincare, Base makeup, and Sun care. This focus led to significant growth in market share in each of these segments. In the personal care category, which has presented certain challenges, we worked to streamline our focused brands and categories and strengthen points of contact with customers. As a result, we achieved a recovery in sales and significant improvement in profitability.

We also launched the Shiseido Facial Expression Project in April 2017. This initiative leverages our innovative wrinkle improvement technology, which utilizes pure retinol as the active ingredient, to help women show their intrinsic rich facial expressions. The project's first product was *ELIXIR SUPERIEUR Enriched Wrinkle Cream S*, a wrinkle-reducing product that was launched in June. The second product, *SHISEIDO VITAL-PERFECTION Wrinklelift Deep Retinowhite 4*, which offers the benefits of both wrinkle reduction and skin brightening, was introduced in November. Combined sales of these two products, including China, the rest of Asia, and Travel Retail, exceeded 1.7 million units.

Consequently, the segment's sales increased 13.1 percent year on year, to ¥431,026 million ($3,812,702 thousand). Operating income rose 47.6 percent, to ¥83,154 million ($735,550 thousand), which was primarily attributable to higher marginal income accompanying the growth in sales, the effects of cost structure reforms, and improvement in the efficiency of marketing investment.

China Business

In the China Business, prestige brands such as *SHISEIDO, Clé de Peau Beauté* and *IPSA* continued to record strong growth by leveraging their appeal as products "Made in Japan." In addition, e-commerce sales drove strong sales growth in the personal care category. In the past, personal care products have contributed the majority of sales in the e-commerce segment. However, in line with changes in consumer purchasing behavior, we actively launched products in the prestige and cosmetics categories, and rolled out digital marketing activities and stepped up marketing collaboration with a major e-commerce retailer. As a result of these types of initiatives, the China Business recorded substantial growth in e-commerce sales. An increasing number of customers in China have high regard for the value of products that are "Made in Japan." In consideration of this trend, we positioned the *ELIXIR* brand, which originated in Japan, as a strategic brand, and we stepped up initiatives aligned with the lifestyles and preferences of local customers. We also took steps to improve profitability in the cosmetics category. These initiatives included renewing the *AUPRES* brand, which recorded year-on-year growth in sales, and reinforcing self-service sales of *Za* and *PURE&MILD*.

As a result, the segment's sales were up 20.1 percent year on year on a local currency basis. Translated into yen, sales rose 22.2 percent, to ¥144,266 million ($1,276,125 thousand). Operating income increased 212.2 percent year on year, to ¥11,329 million ($100,212 thousand), which was due not only to higher marginal income accompanying the increase in sales but also to such factors as improved efficiency in marketing investment.

Asia Pacific Business

In the Asia Pacific Business, we recorded strong growth in sales of *Clé de Peau Beauté, NARS*, and other prestige brands, mainly in South Korea, Thailand, and Taiwan. Sales of *Clé de Peau Beauté* products were especially strong in the Company-owned retail store opened in Singapore. In the cosmetics and personal care categories, sales growth was driven by *SENKA*, which benefited from enhanced marketing tailored to the differing consumer preferences and lifestyles in each country, and by the sunscreen brand *ANESSA*, which we expanded the marketing channels.

Consequently, the segment's sales increased 11.2 percent year on year on a local currency basis. Translated into yen, sales were up 18.8 percent to ¥54,169 million ($479,159 thousand). Operating income rose 439.5 percent year on year, to ¥5,745 million ($50,818 thousand), largely due to improvement in the product mix and higher marginal income accompanying the growth in sales.

Americas Business

In the Americas Business, *NARS, SHISEIDO*, and other prestige brands continued to record growth in sales. We also increased marketing investment in the *Laura Mercier* brand, which we acquired in 2016. Sales of the *bareMinerals* brand, which we are working to restructure, decreased year on year due to the impact of department store closures and intensified competition in specialty stores. The Group is implementing a strategy of selection and concentration to further strengthen its business and brand portfolios. As part of this strategy, we acquired MATCHCo., whose latest technology can determine a customer's unique skin tone through a mobile app and use the data to blend a perfectly matching personalized foundation for each consumer. We also acquired Giaran, Inc., which possesses AI-based personalization technology.

As a result, the segment's sales were up 6.6 percent year on year on a local currency basis. Translated into yen, sales rose 10.1 percent ¥140,413 million ($1,242,043 thousand). In addition to the decline in *bareMinerals* sales, we also recorded increased costs associated with the Center of Excellence and implemented advance investment in *Laura Mercier* and in digital marketing. Nonetheless, due principally to the higher sales of *NARS* and *SHISEIDO* products and to the efficient utilization of expenditures, the operating loss in the Americas Business segment was reduced by ¥2,501 million ($22,122 thousand) from the previous fiscal year, to ¥10,288 million ($91,003 thousand).

EMEA Business

In the EMEA Business, we increased marketing investment in *Dolce&Gabbana*, for which we concluded a licensing agreement in 2016, in order to further enhance brand value. We also took steps to establish a more profitable business foundation by combining the cosmetics and fragrance businesses which previously operated separately into a single organization and implementing other structural reforms such as integrating back office and logistics systems.

The segment's sales increased 30.0 percent year on year on a local currency basis. Translated into yen, sales rose 36.4 percent to ¥128,418 million ($1,135,939 thousand), which increase resulted primarily from steady growth in existing brands led by *NARS* and the *narciso rodriguez* fragrance brand, and the additional contribution from sales of *Dolce&Gabbana* products. Although we increased marketing investment, we recorded higher marginal income accompanying the increase in sales, and the segment's operating loss was reduced by ¥3,531 million ($31,233 thousand) from the previous fiscal year, to ¥3,181 million ($28,137 thousand).

Travel Retail Business

The Travel Retail Business involves the sale of cosmetics through channels such as airport duty-free stores. The travel retail market is expanding due to an increase in travelers, especially in Asia. We believe that the Shiseido Group has potential for further growth in the travel retail business, which we have positioned as one of our most important businesses. Accordingly, we are working actively to further strengthen our position in the global prestige market segment. During the fiscal year 2017, we actively engaged in promotions and advertising in airports around the world, introduced products exclusively available through travel retail channels, and took steps to strengthen our relationships with major retailers.

These initiatives resulted in higher sales per airport duty-free store as well as substantial sales growth in South Korea, China, Thailand, and other countries in Asia. As a result, the segment's sales grew 73.8 percent year on year on a local currency basis. Translated into yen, sales increased 79.3 percent to ¥44,495 million ($393,586 thousand). Operating income increased 130.3 percent year on year to ¥12,361 million ($109,340 thousand), due to higher marginal income accompanying the growth in sales as well as the improvement in productivity per store and other factors.

Professional Business

In the Professional Business, we provide professional products to hair salons, including hair care, hair styling products, hair color, and hair perming products. It also has directly operated beauty salons in Japan and Thailand. During the fiscal year 2017, we worked to strengthen products and marketing in order to accelerate growth in China and the rest of Asia.

As a result, the segment's sales grew 4.3 percent year on year on a local currency basis. Translated into yen, sales rose 6.7 percent to ¥47,959 million ($424,228 thousand). Operating income increased 168.1 percent year on year, to ¥2,958 million ($26,165 thousand), principally due to higher marginal income accompanying the growth in sales.

In December 2017, we transferred the shares and assets associated with the business of our subsidiary Zotos to Henkel AG & Co. KGaA of Germany. The transfer of Zotos, which operates a hair care business centered in the Americas, was part of the global restructuring of our business and brand portfolios.

[Reference]
Period-on-Period Growth in Sales (Local Currency Basis)

(%)	2014/3	2015/3	2015/12 (Adjusted)	2016/12	**2017/12**
Net Sales	1.3	(2.0)	7.8	5.2	**16.0**

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

(Yen)	2014/3	2015/3	2015/12	2016/12	**2017/12**
USD	97.7	105.9	121.2	108.9	**112.2**
EUR	129.7	140.4	134.3	120.4	**126.7**
CNY	15.9	17.2	19.2	16.4	**16.6**

Sales by Region

(Billions of yen)	2014/3	2015/3	2015/12	2016/12	**2017/12**
Japan	377.3	365.6	296.9	407.7	**456.9**
China	111.5	114.8	132.4	129.8	**161.0**
Asia (excl. China)	52.5	55.3	66.6	69.1	**94.9**
Americas	118.7	133.1	155.3	148.4	**163.9**
Europe	102.1	108.9	111.8	95.3	**128.3**
Total	762.0	777.7	763.1	850.3	**1,005.1**

Note: Sales are categorized by country or region based on customer location.

CASH FLOWS

Cash and cash equivalents (net cash) as of December 31, 2017, totaled ¥156,834 million ($1,387,297 thousand), an increase of ¥43,711 million ($386,651 thousand) compared with previous year.

Cash Flows Summary

(Billions of yen)	2015/12	2016/12	**2017/12**
Cash Flows from Operating Activities	60.5	59.1	**95.4**
Cash Flows from Investing Activities	(23.1)	(70.6)	**(1.1)**
Cash Flows from Financing Activities	(30.2)	22.4	**(53.1)**
Cash and Cash Equivalents at End of Year	104.9	113.1	**156.8**

Cash Flows from Operating Activities

Net cash provided by operating activities was ¥95,392 million ($843,803 thousand). Income before income taxes was ¥38,555 million ($341,043 thousand), depreciation was ¥39,614 million ($350,411 thousand), amortization of goodwill was ¥4,235 million ($37,461 thousand), impairment loss was ¥70,922 million ($627,350 thousand), and increase in notes and accounts payable was ¥22,082 million ($195,329 thousand). On the other hand, increase in notes and accounts receivable was ¥25,447 million ($225,095 thousand), increase in inventories was ¥13,287 million ($117,532 thousand), and gain on transfer of business was ¥36,787 million ($325,404 thousand).

Cash Flows from Investing Activities

Net cash used in investing activities was ¥1,061 million ($9,385 thousand). Proceeds from transfer of business provided ¥53,549 million ($473,675 thousand). On the other hand, acquisition of property, plant and equipment used ¥36,015 million ($318,575 thousand), acquisition of intangible assets used ¥8,618 million ($76,231 thousand), payments of long-term prepaid expenses used ¥6,581 million ($58,213 thousand), and acquisition of shares in subsidiaries resulting in change in scope of consolidation used ¥5,226 million ($46,227 thousand).

Cash Flows from Financing Activities

Net cash used in financing activities was ¥53,117 million ($469,854 thousand). Proceeds from long-term debt provided ¥10,000 million ($88,456 thousand). On the other hand, repayment of long-term debt used ¥45,762 million ($404,794 thousand) and cash dividend paid used ¥8,977 million ($79,407 thousand).

BUSINESS AND OTHER RISKS

The various risks that could potentially affect the business performance and financial position of the Shiseido Group 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 27, 2018. Please note that the potential risks are not limited to those listed below.

1. Consumer Services

The Shiseido Group places high priority on its relationships with consumers. The 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 the Group's brands. The Group's business performance and financial position could be negatively affected as a result.

2. Quality Control

The Shiseido Group acts in accordance with its belief that achieving customer satisfaction through the provision of high-quality, safe products is top priority. In addition to strict compliance with laws and regulations, the Group has formulated Quality Management Basic Guidelines and Global Quality Policy Guidance, which are applied throughout the Group. On this basis, the Group is working to maintain and control quality. At the development stage of new products, the Group has established in-house, rigorous safety assurance standards, with reference to domestic and overseas safety assurance guidelines. At the manufacturing stage, the Group observes ISO22716 cosmetics good manufacturing practices (GMP) and manufactures cosmetics products in accordance with rigorous quality control. However, in the event of an unexpected incident regarding quality, such as a major problem with quality below the expectation, concerns about safety based on newly obtained scientific knowledge or other factors, and social trust in the Shiseido Group could decline and the Group's financial position and business performance could be negatively affected.

3. Strategic Investment Activities
When making decisions about investments in strategic markets, mergers and acquisitions, and expansion in new businesses and new markets, the Shiseido Group 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 the Group's business performance and financial position.

4. Information Security Risks
The Shiseido Group takes various measures aimed at protecting its information assets, which include consumers' personal information and confidential information. 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 Regulations and Information System Controlling Regulations 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 Group's business performance and financial position.

5. Competitive Environment of the Cosmetics Industry
The Shiseido Group operates in the cosmetics industry, in which competition is intensifying on a global scale. Competition in the mature domestic market is intensifying because of factors including the increased level of competition with companies in the same industry and the entry of new competitors from other industries. In addition, in overseas markets such as China and other Asian countries, which the Group 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, the inability to respond to this competitive environment effectively could negatively affect the Group's business performance and financial position.

6. Responding Appropriately to Market Needs
The Shiseido Group'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 the Group from achieving its intended results, which could negatively affect the Group's business performance and financial position.

7. Specific Business Partners
Failure to respond effectively to changes in retail and whole sale distribution channels could negatively affect the Shiseido Group's business performance and financial position.

8. Operational Risks
In the event of an incident of fraud or other wrongdoing by someone associated with the business operations of the Shiseido Group, such as an employee or business partner, or by a third party, society's evaluation of the Group could decline, directly or indirectly, and the Group's business performance and financial position could be negatively affected.

9. Hiring and Developing Talented Human Resources
The Shiseido Group is working to strengthen the employment of diverse human resources; develop training programs that draw out the capabilities of employees; and hire and develop talented human resources. In addition, the Group is working to maintain workplace environments that enable employees to work in a comfortable manner. However, in the event that the hiring and development of necessary employees does not proceed according to plan, or that there is an outflow of human resources that substantially exceeds expectations, competitiveness could decline and business expansion could be hindered. The Group's business performance and financial position could be negatively affected as a result.

10. Consideration for the Environment and Human Rights
The Shiseido Group conducts business activities with consideration for the environment and strictly observes various related environmental laws and regulations. In addition, stakeholders are increasingly concerned with possible violations of the human rights of workers in the raw material procurement process. In response, the Group is working to identify any potential issues related to consideration for the environment, human rights, working environments, and health and safety in the procurement process, and to resolve issues through cooperation with suppliers. These efforts extend over the entire value chain, reaching back to the location that produces the raw materials. However, in the event of an inability to respond appropriately to these issues at worksites or in the supply chain, social trust in the Group could decline and its business performance and financial position could be negatively affected.

11. Material Litigation
In the fiscal year 2017, the Shiseido Group was not involved in any material litigation. In the future, unfavorable judgments resulting from material litigation could negatively affect the Group's business performance and financial position.

12. Regulatory Risks
The Shiseido Group is subject to a range of domestic and overseas legal and regulatory provisions in the course of conducting business. These include Japanese laws pertaining to ensuring the quality, efficacy, and safety of pharmaceutical products and medical devices, as well as quality-related standards, environmental standards, accounting standards, and tax regulations. The Group aspires 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 the Group's activities, which could negatively affect the Group's business performance and financial position.

13. Raw Material Price Fluctuations
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 fluctuations in exchange rates. The Shiseido Group constantly works to limit the impact of rising raw material prices by reducing the cost of sales and other means. However, changes in market conditions and prices that exceed projections could negatively affect the Group's business performance and financial position.

14. Exchange Rate Fluctuations
Export, import, and other transactions denominated in foreign currencies expose the Shiseido Group to foreign exchange rate risk. Although the Group hedges 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, the Group'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 the Group's business performance and financial position.

15. Share Price Fluctuations
As of December 31, 2017, the Shiseido Group 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 the Group to the risk of loss on revaluation. In addition, a portion of the pension plan assets of the Group'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 the Group's business performance and financial position.

16. Geopolitical Risks
In the course of conducting business, the Shiseido Group's business performance and financial position could be negatively affected by various geopolitical 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.

17. Natural Disasters and Accidents
The Shiseido Group 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 the Group's business performance and financial position.

18. Decrease in Brand Value
The Shiseido Group will continue working to enhance the value of the brands it owns, but a decline in brand value due to the above circumstances or some other unforeseen event could negatively affect the Group's business performance and financial position.

SIGNIFICANT ACCOUNTING ESTIMATES

The Shiseido Group 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 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. The Shiseido Group considers the following significant accounting estimates which exert a significant influence on the consolidated financial statements.

Property, Plant and Equipment
The Shiseido Group reviews 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
The Shiseido Group 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

The Shiseido Group 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, which could require us to recognize loss on revaluation.

Deferred Tax Assets

The Shiseido Group 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

The Shiseido Group'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.

ANALYSIS OF OPERATING RESULTS

NET SALES

Consolidated net sales for the fiscal year 2017 increased 16.0 percent year on year on a local currency basis. This increase resulted from global growth in the prestige market segment, where the Group has increased strategic investment, and from the new brands added to the Group since last fiscal year. After conversion into yen, consolidated net sales were ¥1,005,062 million ($8,890,420 thousand), an increase of 18.2 percent year on year, due to the positive effect of yen depreciation.

Net Sales

(Billions of yen)	2014/3	2015/3	2015/3 (Adjusted)	2015/12	2015/12 (Adjusted)	2016/12	**2017/12**
Net Sales	762.0	777.7	677.5	763.1	863.3	850.3	**1,005.1**

COST OF SALES AND SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

Cost of Sales

Cost of sales increased 11.5 percent year on year to ¥231,327 million ($2,046,236 thousand). The ratio for cost of sales to net sales improved 1.4 percentage points to 23.0 percent, which primarily attributable to improvements in the product mix through increased sales of prestige brands and to the effects of cost structure reforms.

Selling, General and Administrative Expenses

Selling, general and administrative (SG&A) expenses increased 14.4 percent to ¥693,298 million ($6,132,666 thousand) compare with last year. Details of SG&A expenses are as follows:

Marketing Costs

The ratio of marketing costs to net sales decreased 0.6 percentage point to 35.7 percent. This was a result of improvement in marketing investment efficiency, which offset investment in growth to rebuild the business foundation and increased investment in new brands.

Personnel Expenses

The ratio of personnel expenses to net sales decreased 0.7 percentage point to 12.5 percent.

Other Expenses

The ratio of other expenses to net sales decreased 1.1 percentage points to 20.7 percent.

R&D expenses, which are included in SG&A expenses, were ¥24,230 million ($214,329 thousand) and represented 2.4 percent of net sales.

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

	2014/3	2015/3	2015/3 (Adjusted)	2015/12	2015/12 (Adjusted)	2016/12	**2017/12**
Cost of Sales Ratio (%)	24.9	25.2	26.0	25.7	25.1	24.4	**23.0**
SG&A Expenses Ratio (%)	68.6	71.2	70.9	69.4	69.8	71.3	**69.0**
Marketing Costs	22.2	23.4	24.7	25.2	36.2	36.3	**35.7**
Personnel Expenses	23.9	24.5	27.3	25.7	13.1	13.2	**12.5**
Other Expenses	22.5	23.3	18.9	18.5	20.5	21.8	**20.7**
SG&A Expenses (Billions of yen)	522.8	553.6	480.1	529.4	602.7	606.0	**693.3**
Marketing Costs	169.3	182.2	167.0	192.1	312.1	308.8	**359.2**
Personnel Expenses	181.8	190.6	185.2	196.0	113.5	112.0	**125.8**
Other Expenses	171.7	180.8	127.9	141.3	177.1	185.2	**208.3**

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 increased 118.7 percent year on year to ¥80,437 million ($711,517 thousand), which was principally due to an increase in marginal income accompanying the growth in sales, improved efficiency in marketing investment, and the effects of cost structure reforms.

Operating Income / Operating Margin

(Billions of yen)	2014/3	2015/3	2015/3 (Adjusted)	2015/12	2015/12 (Adjusted)	2016/12	**2017/12**
Operating Income	49.6	27.6	21.2	37.7	44.3	36.8	**80.4**
Operating Margin (%)	6.5	3.6	3.1	4.9	5.1	4.3	**8.0**

OTHER INCOME (EXPENSES)

Net other expenses were ¥41,881 million ($370,464 thousand), which was due to impairment loss associated with Bare Escentuals, Inc., in Americas.

INCOME BEFORE INCOME TAXES

Income before income taxes decreased 22.7 percent year on year to ¥38,555 million ($341,043 thousand).

INCOME TAXES, INCLUDING DEFERRED TAXES

Income taxes including deferred taxes decreased 17.2 percent year on year to ¥13,200 million ($116,762 thousand).

NET INCOME ATTRIBUTABLE TO NON-CONTROLLING INTERESTS

Net income attributable to non-controlling interests increased 42.9 percent year on year to ¥2,606 million ($23,051 thousand).

NET INCOME ATTRIBUTABLE TO OWNERS OF PARENT

Net income attributable to owners of parent decreased 29.1 percent year on year to ¥22,749 million ($201,229 thousand).

Net Income Attributable to Owners of Parent / Return on Equity

(Billions of yen)	2014/3	2015/3	2015/3 (Adjusted)	2015/12	2015/12 (Adjusted)	2016/12	**2017/12**
Net Income Attributable to Owners of Parent	26.1	33.7	27.5	23.2	29.5	32.1	**22.7**
ROE (%)	8.4	9.4	—	6.0	—	8.2	**5.6**

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.

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, 2017, cash, time deposits, and short-term investments in securities totaled ¥174,479 million ($1,543,379 thousand) and represented 2.1 months of consolidated net sales for the fiscal year 2017.

Interest-bearing debt as of December 31, 2017 totaled ¥140,615 million ($1,243,830 thousand) (including interest-bearing debt associated with *Dolce&Gabbana*). Shiseido uses diversified funding methods, which include authorized but unissued straight bonds for ¥140,000 million ($1,238,390 thousand). In addition, Shiseido Co., Ltd. and two subsidiaries in EMEA and the Americas have established a syndicated loan program with authorized but unused commitments totaling $300,000 thousand. A subsidiary in the Americas also holds unused commercial paper totaling $100,000 thousand. As of December 31, 2017, the Shiseido Group maintained a sufficient level of liquidity and a high level of financial flexibility through its diversified funding methods.

Total Assets / Operating ROA

(Billions of yen)	2014/3	2015/3	2015/12	2016/12	**2017/12**
Total Assets	801.3	823.6	808.5	934.6	**949.4**
Operating ROA (%)	6.8	3.6	4.8	4.4	**8.7**

Equity / Interest-Bearing Debt

(Billions of yen)	2014/3	2015/3	2015/12	2016/12	**2017/12**
Equity	338.6	386.9	391.7	393.0	**423.4**
Interest-Bearing Debt	155.9	106.9	86.6	120.6	**81.5***

Equity Ratio / Interest-Bearing Debt Ratio

(%)	2014/3	2015/3	2015/12	2016/12	**2017/12**
Equity Ratio	42.2	47.0	48.4	42.0	**44.6**
Interest-Bearing Debt Ratio	31.5	21.6	18.1	23.5	**16.1**

* Since the fiscal year 2016, Shiseido has been recognizing long-term payables associated with *Dolce&Gabbana*.
For the fiscal year 2017, the interest-bearing debt ratio including these long-term payables was 24.9 percent, and interest-bearing debt was ¥140,615 million ($1,243,830 thousand).

CREDIT RATINGS

The Shiseido Group recognizes the need to maintain a certain level of credit rating to secure financial flexibility that is consistent with its capital/liquidity policies and to secure access to sufficient capital resources through capital markets. The Shiseido Group has acquired ratings from Moody's Japan K.K. (Moody's) and Standard and Poor's Global Ratings Japan (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, 2018)

ASSETS, LIABILITIES, AND NET ASSETS

Assets

As of December 31, 2017, total assets increased 1.6 percent compared with December 31, 2016, to ¥949,425 million ($8,398,275 thousand). Current assets were up 21.8 percent compared with the previous fiscal year to ¥526,245 million ($4,654,975 thousand), due to such factors as increases in cash and time deposits and in notes and accounts receivable. Non-current assets were down 15.8 percent compared with December 31, 2016, to ¥423,179 million ($3,743,290 thousand), largely due to a decrease in intangible assets resulting from declines in goodwill and trademarks associated with the impairment loss on Bare Escentuals.

Liabilities

Total liabilities as of December 31, 2017, were down 3.3 percent from a year earlier, to ¥503,552 million ($4,454,241 thousand), largely due to declines in long-term debt and in liability for retirement benefits.

Net Assets

Total net assets as of December 31, 2017, increased 7.7 percent compared with December 31, 2016, to ¥445,872 million ($3,944,024 thousand), mainly due to an increase in retained earnings.

As of December 31, 2017, net assets per share were up ¥75.71 from a year earlier, to ¥1,059.84 ($9.37). The equity ratio increased 2.6 percentage points, to 44.6 percent.

FORECAST FOR THE FISCAL YEAR 2018

We are forecasting consolidated net sales of ¥1,033,000 million, an increase of 2.8 percent year on year, or 8 percent on a like-for-like basis, excluding the influence of extraordinary factors such as the sale of Zotos International, Inc., in the fiscal year 2017. Due to such factors as higher marginal income accompanying the increase in net sales, operating income is forecasted to reach ¥90,000 million and net income attributable to owners of parent is forecasted to reach ¥54,000 million.

Consolidated Financial Results Forecast for the Fiscal Year 2018

	Net Sales	Operating Income	Net Income Attributable to Owners of Parent	Net Income per Share
Forecast (A)	Billions of yen 1,033.0	Billions of yen 90.0	Billions of yen 54.0	Yen 135.2
(Reference) Results for fiscal year 2017 (B)	1,005.1	80.4	22.7	56.9
Amount of increase or decrease (A–B)	27.9	9.6	31.3	—
Rate of increase or decrease (%)	2.8	11.9	137.4	—

Consolidated Financial Statements
Consolidated Balance Sheets

Shiseido Company, Limited and Subsidiaries
December 31, 2016 and 2017

	Note	Millions of yen 2016/12	Millions of yen 2017/12	Thousands of U.S. dollars (Note 1) 2017/12
ASSETS				
Current Assets:				
Cash and time deposits	27	120,126	166,698	1,474,551
Short-term investments in securities		7,905	7,781	68,827
Notes and accounts receivable:				
Trade		136,768	162,058	1,433,507
Unconsolidated subsidiaries and affiliates		0	0	0
		136,768	162,058	1,433,507
Less: allowance for doubtful accounts		(1,933)	(1,727)	(15,276)
		134,835	160,331	1,418,230
Inventories	3	115,672	129,954	1,149,526
Deferred tax assets		21,773	25,467	225,272
Other current assets		31,589	36,012	318,549
Total current assets		431,903	526,245	4,654,975
Property, Plant and Equipment, at Cost:				
Buildings and structures	27	164,817	162,538	1,437,753
Machinery and equipment	27	167,218	162,959	1,441,477
Leased assets		7,414	7,244	64,077
		339,450	332,742	2,943,317
Less: accumulated depreciation		(238,271)	(228,228)	(2,018,823)
		101,178	104,514	924,493
Land		36,604	36,971	327,032
Construction in progress		18,411	17,196	152,109
Total property, plant and equipment		156,194	158,681	1,403,635
Intangible Assets:				
Goodwill		59,795	12,166	107,616
Leased assets		401	247	2,184
Trademarks		146,209	121,347	1,073,392
Other intangible assets		39,927	34,825	308,049
Total intangible assets		246,333	168,586	1,491,251
Investments and Other Assets:				
Investments in securities	27	22,532	23,970	212,030
Investments in unconsolidated subsidiaries and affiliates		2,367	2,310	20,433
Long-term prepaid expenses		13,377	13,991	123,759
Deferred tax assets		37,800	30,658	271,189
Other investments	27	24,081	24,979	220,955
Total investments and other assets		100,158	95,910	848,385
Total Assets		934,590	949,425	8,398,275

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

	Note	Millions of yen 2016/12	Millions of yen 2017/12	Thousands of U.S. dollars (Note 1) 2017/12
LIABILITIES AND NET ASSETS				
Current Liabilities:				
Short-term debt		11,583	8,540	75,541
Current portion of long-term debt	27	4,974	2,122	18,770
Notes and accounts payable:				
Trade		50,149	47,676	421,724
Unconsolidated subsidiaries and affiliates		930	1,463	12,941
		51,080	49,140	434,674
Electronically recorded obligations–operating		32,312	37,892	335,179
Other payables		43,453	59,903	529,880
Accrued income taxes		5,561	25,032	221,424
Reserve for sales returns		12,948	14,012	123,945
Accrued bonuses for employees		22,110	25,019	221,309
Accrued bonuses for directors		99	119	1,052
Provision for liabilities and charges		2,024	2,005	17,735
Deferred tax liabilities		0	2	17
Other current liabilities		60,538	67,587	597,850
Total current liabilities		246,687	291,379	2,577,434
Long-Term Liabilities:				
Long-term debt	27	104,022	70,801	626,280
Long-term payables		53,135	59,255	524,148
Liability for retirement benefits		94,489	73,745	652,321
Allowance for losses on guarantees		350	350	3,095
Allowance for environmental measures		376	260	2,299
Deferred tax liabilities		18,402	3,762	33,277
Other long-term liabilities		3,257	3,998	35,364
Total long-term liabilities		274,033	212,173	1,876,806
Total Liabilities		520,720	503,552	4,454,241
CONTINGENT LIABILITIES				
NET ASSETS				
Shareholders' Equity:				
Common stock		64,506	64,506	570,597
Authorized: 1,200,000,000 shares as of December 31, 2016 and 2017				
Issued: 400,000,000 shares as of December 31, 2016 and 2017				
Capital surplus		70,846	70,808	626,342
Retained earnings		258,005	271,681	2,403,193
Less: treasury stock, at cost		(1,325)	(874)	(7,731)
Treasury stock: 700,745 shares as of December 31, 2016 and 460,033 shares as of December 31, 2017				
Total shareholders' equity		392,033	406,121	3,592,401
Accumulated Other Comprehensive Income:				
Unrealized gains (losses) on available-for-sale securities		7,389	8,664	76,638
Foreign currency translation adjustments		26,516	28,726	254,099
Accumulated adjustments for retirement benefits		(32,975)	(20,064)	(177,478)
Total accumulated other comprehensive income		930	17,326	153,259
Stock Acquisition Rights		818	874	7,731
Non-Controlling Interests in Consolidated Subsidiaries		20,087	21,550	190,623
Total Net Assets		413,870	445,872	3,944,024
Total Liabilities and Net Assets		934,590	949,425	8,398,275

Consolidated Statements of Income / Consolidated Statements of Comprehensive Income

Shiseido Company, Limited and Subsidiaries
For the fiscal years 2016 and 2017

CONSOLIDATED STATEMENTS OF INCOME

	Note	2016/12 (Millions of yen)	2017/12 (Millions of yen)	2017/12 (Thousands of U.S. dollars (Note 1))
Net Sales		850,306	**1,005,062**	**8,890,420**
Cost of Sales		207,553	**231,327**	**2,046,236**
Gross profit		642,753	**773,735**	**6,844,183**
Selling, General and Administrative Expenses	4	605,972	**693,298**	**6,132,666**
Operating income		36,780	**80,437**	**711,517**
Other Income (Expenses):				
Interest and dividend income		1,293	**1,439**	**12,728**
Interest expense		(814)	**(991)**	**(8,766)**
Other interest on debt		(336)	**(1,382)**	**(12,224)**
Foreign exchange gain (loss)		(1,270)	**(216)**	**(1,910)**
Equity in earnings of affiliates		260	**284**	**2,512**
Gain (loss) on sales of investments in securities		402	**1,146**	**10,137**
Loss on revaluation of investments in securities		(21)	**—**	**—**
Gain (loss) on sales and disposal of property, plant and equipment	5	8,122	**(1,013)**	**(8,960)**
Gain on transfer of business	6	8,952	**36,787**	**325,404**
Gain on sales of shares of subsidiaries and affiliates	7	—	**211**	**1,866**
Impairment loss	8	(153)	**(70,922)**	**(627,350)**
Structural reform expenses	9	(4,037)	**(4,479)**	**(39,619)**
Voluntary product recall-related expenses	10	—	**(3,233)**	**(28,597)**
Loss on liquidation of subsidiaries and affiliates	11	—	**(136)**	**(1,203)**
Temporary expenses associated with reforms to human resource systems	12	—	**(130)**	**(1,149)**
Information security expenses	13	(574)	**—**	**—**
Other, net		1,262	**755**	**6,678**
Subtotal		13,086	**(41,881)**	**(370,464)**
Income before income taxes		49,866	**38,555**	**341,043**
Income Taxes				
Current		17,507	**29,416**	**260,203**
Deferred		(1,565)	**(16,215)**	**(143,432)**
Subtotal		15,941	**13,200**	**116,762**
Net income		33,925	**25,355**	**224,281**
Net Income Attributable to Non-Controlling Interests		(1,823)	**(2,606)**	**(23,051)**
Net Income Attributable to Owners of Parent		32,101	**22,749**	**201,229**

		2016/12 (Yen)	2017/12 (Yen)	2017/12 (U.S. dollars (Note 1))
Per Share				
Net income attributable to owners of parent — basic		80.4	**56.9**	**0.50**
— diluted		80.3	**56.9**	**0.50**
Cash dividend		20.0	**27.5**	**0.24**
Weighted Average Number of Shares (thousands)		399,227	**399,466**	

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

Shiseido Company, Limited and Subsidiaries
For the fiscal years ended December 31, 2016 and 2017

	Note	2016/12 (Millions of yen)	2017/12 (Millions of yen)	2017/12 (Thousands of U.S. dollars (Note 1))
Net Income		33,925	**25,355**	**224,281**
Other Comprehensive Income				
Unrealized gains (losses) on available-for-sale securities		(813)	**1,166**	**10,314**
Foreign currency translation adjustments		(14,906)	**3,073**	**27,182**
Adjustments for retirement benefits		(9,136)	**12,890**	**114,020**
Share of other comprehensive income of associates accounted for under the equity method		(90)	**(30)**	**(265)**
Total other comprehensive income (loss)	14	(24,946)	**17,100**	**151,260**
Comprehensive Income		8,978	**42,456**	**375,550**
(Breakdown)				
Comprehensive income attributable to owners of parent		8,367	**39,145**	**346,262**
Comprehensive income attributable to non-controlling interests		611	**3,310**	**29,279**

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 years 2016 and 2017

	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 benefit	Stock acquisition rights	Non-controlling interests in consolidated subsidiaries
Balance as of January 1, 2016	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**
Net income attributable to owners of parent	**—**	**—**	**—**	**22,749**	**—**	**—**	**—**	**—**	**—**	**—**
Cash dividend from retained earnings	**—**	**—**	**—**	**(8,986)**	**—**	**—**	**—**	**—**	**—**	**—**
Equity transactions with non-controlling interests and others	**—**	**—**	**(81)**	**(87)**	**—**	**—**	**—**	**—**	**—**	**—**
Acquisition of treasury stock	**—**	**—**	**—**	**—**	**(17)**	**—**	**—**	**—**	**—**	**—**
Disposal of treasury stock	**—**	**—**	**43**	**—**	**468**	**—**	**—**	**—**	**—**	**—**
Net changes of items other than shareholders' equity	**—**	**—**	**—**	**—**	**—**	**1,275**	**2,210**	**12,910**	**55**	**1,462**
Balance as of December 31, 2017	**400,000**	**64,506**	**70,808**	**271,681**	**(874)**	**8,664**	**28,726**	**(20,064)**	**874**	**21,550**

	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, 2017	**400,000**	**570,597**	**626,678**	**2,282,220**	**(11,720)**	**65,360**	**234,551**	**(291,685)**	**7,235**	**177,682**
Net income attributable to owners of parent	**—**	**—**	**—**	**201,229**	**—**	**—**	**—**	**—**	**—**	**—**
Cash dividend from retained earnings	**—**	**—**	**—**	**(79,486)**	**—**	**—**	**—**	**—**	**—**	**—**
Equity transactions with non-controlling interests and others	**—**	**—**	**(716)**	**(769)**	**—**	**—**	**—**	**—**	**—**	**—**
Acquisition of treasury stock	**—**	**—**	**—**	**—**	**(150)**	**—**	**—**	**—**	**—**	**—**
Disposal of treasury stock	**—**	**—**	**380**	**—**	**4,139**	**—**	**—**	**—**	**—**	**—**
Net changes of items other than shareholders' equity	**—**	**—**	**—**	**—**	**—**	**11,278**	**19,548**	**114,197**	**486**	**12,932**
Balance as of December 31, 2017	**400,000**	**570,597**	**626,342**	**2,403,193**	**(7,731)**	**76,638**	**254,099**	**(177,478)**	**7,731**	**190,623**

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 years 2016 and 2017

	Note	2016/12 (Millions of yen)	2017/12 (Millions of yen)	2017/12 (Thousands of U.S. dollars (Note 1))
Cash Flows from Operating Activities:				
Income before income taxes		49,866	**38,555**	**341,043**
Depreciation		34,480	**39,614**	**350,411**
Amortization of goodwill		4,916	**4,235**	**37,461**
Impairment loss		153	**70,922**	**627,350**
(Gain) loss on sales and disposal of property, plant and equipment		(7,132)	**1,013**	**8,960**
(Gain) loss on sales of investments in securities		(402)	**(1,146)**	**(10,137)**
(Gain) loss on revaluation of investments in securities		21	**—**	**—**
Gain on transfer of business		(8,952)	**(36,787)**	**(325,404)**
(Gain) loss on liquidation of subsidiaries and affiliates		—	**(211)**	**(1,866)**
Increase (decrease) in allowance for doubtful accounts		233	**17**	**150**
Increase (decrease) in reserve for sales returns		(1,526)	**934**	**8,261**
Increase (decrease) in accrued bonuses for employees		3,917	**3,207**	**28,367**
Increase (decrease) in accrued bonuses for directors		44	**19**	**168**
Increase (decrease) in provision for liabilities and charges		896	**(207)**	**(1,831)**
Increase (decrease) in provision for structural reforms		(990)	**—**	**—**
Increase (decrease) in liability for retirement benefits		(2,168)	**(2,472)**	**(21,866)**
Increase (decrease) in allowance for environmental measures		(1)	**(115)**	**(1,017)**
Interest and dividend income		(1,293)	**(1,439)**	**(12,728)**
Interest expense		814	**991**	**8,766**
Other interest on debt		336	**1,382**	**12,224**
Equity in earnings of affiliates		(260)	**(284)**	**(2,512)**
(Increase) decrease in notes and accounts receivable		(10,578)	**(25,447)**	**(225,095)**
(Increase) decrease in inventories		(9,500)	**(13,287)**	**(117,532)**
Increase (decrease) in notes and accounts payable		19,058	**22,082**	**195,329**
Other		2,898	**4,916**	**43,485**
Subtotal		74,831	**106,494**	**942,007**
Interest and dividends received		1,552	**1,516**	**13,409**
Interest paid		(838)	**(984)**	**(8,704)**
Interest paid on other debt		—	**(1,736)**	**(15,356)**
Income taxes paid		(16,415)	**(9,898)**	**(87,554)**
Net cash provided by operating activities		59,129	**95,392**	**843,803**
Cash Flows from Investing Activities:				
Transfers to time deposits		(14,207)	**(17,439)**	**(154,259)**
Proceeds from maturity of time deposits		17,641	**15,148**	**133,993**
Acquisition of short-term investments in securities		(4)	**(3)**	**(26)**
Acquisition of investments in securities		(430)	**(4)**	**(35)**
Proceeds from sales of investments in securities		650	**1,922**	**17,001**
Proceeds from transfer of business	16	10,938	**53,549**	**473,675**
Acquisition of property, plant and equipment		(31,366)	**(36,015)**	**(318,575)**
Proceeds from sales of property, plant and equipment		8,832	**1,703**	**15,064**
Acquisition of intangible assets		(32,340)	**(8,618)**	**(76,231)**
Payments of long-term prepaid expenses		(6,124)	**(6,581)**	**(58,213)**
Acquisition of shares in subsidiaries resulting in change in scope of consolidation	16	(24,426)	**(5,226)**	**(46,227)**
Sales of shares in subsidiaries resulting in change in scope of consolidation		—	**500**	**4,422**
Other		197	**4**	**35**
Net cash used in investing activities		(70,640)	**(1,061)**	**(9,385)**
Cash Flows from Financing Activities:				
Net increase (decrease) in short-term debt		529	**(3,170)**	**(28,040)**
Proceeds from long-term debt		40,000	**10,000**	**88,456**
Repayment of long-term debt		(5,738)	**(45,762)**	**(404,794)**
Repayment of lease obligations		(2,187)	**(2,125)**	**(18,796)**
Acquisition of treasury stock		(6)	**(17)**	**(150)**
Disposal of treasury stock		392	**511**	**4,520**
Cash dividend paid		(8,214)	**(8,977)**	**(79,407)**
Cash dividend paid to non-controlling interests		(3,359)	**(2,390)**	**(21,141)**
Repayment of long-term accounts payable		—	**(1,145)**	**(10,128)**
Sales of shares in subsidiaries not resulting in change in scope of consolidation		962	**—**	**—**
Other		0	**(39)**	**(344)**
Net cash provided by (used in) financing activities		22,378	**(53,117)**	**(469,854)**
Effect of Exchange Rate Changes on Cash and Cash Equivalents		(2,672)	**2,498**	**22,096**
Net Change in Cash and Cash Equivalents		8,196	**43,711**	**386,651**
Cash and Cash Equivalents at Beginning of Year		104,926	**113,122**	**1,000,636**
Cash and Cash Equivalents at End of Year	16	113,122	**156,834**	**1,387,297**

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

(1) 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 ¥113.05 = US$1 prevailing on December 31, 2017 has been used in translating the consolidated financial statements expressed in Japanese yen into U.S. dollars. Such translations should not be construed as representations that the Japanese yen amounts could be readily converted, realized or settled in U.S. dollars at this rate.

(2) Scope of Consolidation

Number of consolidated subsidiaries: 79

Apart from the change described below, principal subsidiaries are listed in the Group's most recent Securities Report (submitted March 27, 2018). Since there are no other major changes, the list is omitted from this report. Please refer to the Shiseido Group's website for the list of principal subsidiaries.

[Additions: 4 companies]

MATCHCo. and JWALK, LLC have been included in the scope of consolidation following the new acquisition of shares. In addition, KODOMOLOGY Co., Ltd. and Shiseido Group Middle East LLC have been included in the scope of consolidation since they were established as subsidiaries. Furthermore, Giaran, Inc. has been merged with Shiseido Americas Corporation by way of absorption after the acquisition of new shares during the fiscal year 2017.

[Exclusions: 15 companies]

KINARI Inc., Shiseido Irica Technology Inc., Zotos International, Inc., Piidea Canada, Ltd., Joico Holdings B.V., Joico Laboratories Europe B.V., and Joico Belgium N.V. were excluded from the scope of consolidation following the transfer of shares held. The following companies were excluded from the scope of consolidation following absorption-type mergers into other companies: Shiseido Information Network Co., Ltd. into Shiseido Japan Co., Ltd., Shiseido Professional Korea into Shiseido Korea Co., Ltd., Shiseido España S.A. into Beauté Prestige International S.A.U., Shiseido Europe S.A.S. into Beauté Prestige International S.A., Beauté Prestige International S.p.A. (Italy) into Shiseido Group Italy S.p.A., and Beauté Prestige International GmbH (Germany) into Shiseido Group Germany GmbH.

InterAct Co., Ltd. was excluded from the scope of consolidation due to its liquidation.

Shiseido India Private Limited was excluded from the scope of consolidation because it is not materially significant.

Names, etc., of main subsidiaries excluded from consolidation

Main unconsolidated subsidiary: Beauté Prestige International Ltd. (UK)
(Reason for Exclusion from Consolidation)
Unconsolidated subsidiaries are excluded from the scope of consolidation because they are small in size or are not involved in the main business of the Company. They are materially insignificant in terms of total assets, net sales, net income (portion attributable to equity interest), and retained earnings (portion attributable to equity interest), etc., have a minimal impact on the consolidated financials, and are materially insignificant in general.

(3) Matters Concerning Application of the Equity Method

Number of affiliated companies accounted for by the equity method: 3

Major company name: Pierre Fabre Japon Co., Ltd.

Nonconsolidated subsidiaries that are not accounted for by the equity method

Nonconsolidated subsidiaries that are not accounted for by the equity method including Beauté Prestige International Ltd. (UK) are small in scale and do not engage in full-scale operations, and net income (the Company's interest share) and retained earnings (the Company's interest share) have a minimal effect on the Company's consolidated financial statements. Also, these subsidiaries are insignificant in general, thus these companies are excluded from the scope of equity method application.

Matters Concerning the Business Terms and Other Items of Consolidated Subsidiaries

The account settlement dates of consolidated subsidiaries match the consolidated account settlement date.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(1) 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.

(2) 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

(3) 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)

(4) 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.

(5) Long-Term Prepaid Expenses
Long-term prepaid expenses are primarily amortized using the straight-line method.

(6) 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.

(7) 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.

(8) 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.

(9) 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.

(10) 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.

(11) Reserve for Sales Returns
The Companies provide a reserve for sales returns for future losses considering the past return ratios and distributors' stock.

(12) 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.

(13) 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.

(14) 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.

(15) 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.

(16) 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).

(17) 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.

(18) 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.

(19) 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.

(20) 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 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.

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

The resulting translation adjustments are included in net assets as foreign currency translation adjustments and non-controlling interests.

(22) 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.

(23) 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.

(24) Application of Consolidated Taxation System
The Company and certain domestic consolidated subsidiaries applied a consolidated taxation system.

(25) Additional Information
Effective from the first quarter of the current fiscal year, the Company and domestic affiliates have been adopting "Implementation Guidance on Recoverability of Deferred Tax Assets Accounting Standards Boards of Japan" (ASBJ Guidance No. 26, March 28, 2016).

(26) Changes in Presentation
① In November 2015, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2015-17, "Income Taxes (Topic 740): Balance Sheet Classification of Deferred Taxes" ("ASU 2015-17"). The standard requires that deferred tax assets and liabilities be classified as non-current on the balance sheet rather than being separated into current and non-current. Effective from the first quarter of the current fiscal year, affiliates in Americas have been adopting ASU 2015-17 on a retrospective basis. Accordingly, the Company reclassified the current deferred taxes to non-current on the December 31, 2016 Consolidated Balance Sheet. As a result, ¥11,845 million recorded as "Deferred tax assets" on the consolidated balance sheets for the previous fiscal year has been reclassified from current to non-current and offset for ¥11,416 million by the non-current "Deferred tax liabilities."
② Due to the increase in quantitative significance of "Other interest on debt " which was included in "Other, net" in "Other Income

(Expenses)" in the previous fiscal year, the Company has changed to record it separately for this fiscal year.

In order to reflect this alteration, the consolidated financial statements for the fiscal year ended December 31, 2016 have been rearranged. As a result, ¥926 million recorded as "Other, net" on the consolidated statements of income for the previous fiscal year has been reclassified into ¥336 million of "Other interest on debt" and ¥1,262 million of "Other, net" respectively.

On the other hand, ¥3,235 million recorded as "Other" in cash flow from operating activities on the consolidated statements of cash flows for previous fiscal year has been reclassified into ¥336 million of "Other interest on debt" and ¥2,898 million of "Other," respectively.

(27) Accounting Standard Issued but Not Yet Adopted

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 the Company's consolidated financial statements from the adoption of standards lease is under evaluation at the time of the preparation of the consolidated financial statements.

3. INVENTORIES

Inventories held by the Companies as of December 31, 2016 and 2017 are as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2016/12	2017/12	2017/12
Merchandise and finished products	81,432	**88,620**	**783,900**
Work in process	5,657	**5,450**	**48,208**
Raw materials and supplies	28,583	**35,884**	**317,417**
	115,672	**129,954**	**1,149,526**

4. 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 ¥18,264 million and ¥24,230 million ($214,329 thousand) for the fiscal years 2016 and 2017, respectively.

There are no research and development expenses included in total manufacturing expenses for the fiscal years 2016 and 2017.

5. 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.

6. GAIN ON TRANSFER OF BUSINESS

For the fiscal year ended December 31, 2016

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

For the fiscal year ended December 31, 2017

This gain is attributed mainly to the transfer of the shares of Zotos International, Inc. and related business assets.

7. GAIN ON SALES OF SHARES OF SUBSIDIARIES AND AFFILIATES

For the fiscal year ended December 31, 2017

The gain is attributed to the transfer of KINARI Inc.

8. IMPAIRMENT LOSS

For the fiscal year 2016

The Company recognized impairment losses on the fixed assets of overseas subsidiaries.

Use	Type	Location
Unutilized assets, etc.	Other intangible assets, etc.	China, etc.

The Group groups its business-use assets according to the minimum independent cash-flow-generating units, based on business classifications. Unutilized assets are grouped by the individual property.

Regarding unutilized 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 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 2017

The Company recognized impairment losses on the fixed assets of domestic and overseas subsidiaries.

Use	Type	Location
Assets for business use	**Goodwill, trademarks, other intangible assets, and buildings and structures, etc.**	**United States**
Unutilized assets, etc.	**Other intangible assets, etc.**	**China, etc.**

The Group groups its business-use assets according to the minimum independent cash-flow-generating units, based on business classifications. Unutilized assets are grouped by the individual property.

As a result, the goodwill, etc. recorded at the time Bare Escentuals, Inc. was acquired in the Americas business, which are considered among the assets for business use, was written down to fair value after an impairment test based on U.S. accounting standards was performed, after consideration of all facts, including the fact that sales were trending below the plan. The breakdown is shown below. Primarily, fair value was determined by the income approach, and a discount rate of 10% was used.

	Millions of yen	Thousands of U.S. dollars (Note 1)
Goodwill	43,195	382,087
Trademarks	23,711	209,739
Customer-related intangible assets	2,418	21,388
Buildings and structures, etc.	1,548	13,693
	70,874	626,926

Unutilized group assets that are no longer expected to be used in the future have been written down to their recoverable value, resulting in a ¥48 million ($424 thousand) other expenses. The recoverable amount is estimated based on the expected selling price after calculating net sale value.

9. STRUCTURAL REFORM EXPENSES

For the fiscal year ended December 31, 2016

Structural reform expenses refer to retirement premiums paid to early retirees and other expenses included in temporary expenses attributable to structural reforms in progress worldwide.

For the fiscal year ended December 31, 2017

Structural reform expenses mainly reflect early retiree retirement premiums and the closure of the Company's stores of Bare Escentuals Beauty, Inc. included in temporary expenses incurred as a result of ongoing structural reforms across all global regions.

10. VOLUNTARY PRODUCT RECALL-RELATED EXPENSES

For the fiscal year ended December 31, 2017

The expenses reflect voluntary recalls of products that do not meet the Company's quality standards.

11. LOSS ON LIQUIDATION OF SUBSIDIARIES AND AFFILIATES

For the fiscal year ended December 31, 2017

A loss on the ongoing liquidation of a subsidiary in India.

12. TEMPORARY EXPENSES ASSOCIATED WITH REFORMS TO HUMAN RESOURCE SYSTEMS

For the fiscal year ended December 31, 2017

Temporary expenses associated with the reorganization of the human resource systems of certain employees working at the Company's factories.

13. 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.

14. OTHER COMPREHENSIVE INCOME

The components of other comprehensive income including reclassification adjustments and tax (expense) or benefit for the fiscal years 2016 and 2017 are as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2016/12	**2017/12**	**2017/12**
Unrealized gains (losses) on available-for-sale securities, net of taxes:			
Increase (decrease) during the fiscal year	(1,661)	**3,003**	**26,563**
Reclassification adjustments	(402)	**(1,000)**	**(8,845)**
Amount before tax	(2,064)	**2,002**	**17,708**
Tax (expense) or benefit	1,250	**(835)**	**(7,386)**
Subtotal	(813)	**1,166**	**10,314**
Foreign currency translation adjustments:			
Increase (decrease) during the fiscal year	(14,897)	**3,037**	**26,864**
Reclassification adjustments	0	**97**	**858**
Amount before tax	(14,897)	**3,135**	**27,731**
Tax (expense) or benefit	(9)	**(62)**	**(548)**
Subtotal	(14,906)	**3,073**	**27,182**
Adjustments for retirement benefits:			
Increase (decrease) during the fiscal year	(20,739)	**10,097**	**89,314**
Reclassification adjustments	7,294	**8,956**	**79,221**
Amount before tax	(13,445)	**19,054**	**168,544**
Tax (expense) or benefit	4,309	**(6,164)**	**(54,524)**
Subtotal	(9,136)	**12,890**	**114,020**
Share of other comprehensive income of associates accounted for under the equity method:			
Increase (decrease) during the fiscal year	(51)	**(49)**	**(433)**
Reclassification adjustments	(38)	**19**	**168**
Subtotal	(90)	**(30)**	**(265)**
Total other comprehensive income (loss)	(24,946)	**17,100**	**151,260**

15. NET ASSETS

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

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

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

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

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

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

Retained earnings at December 31, 2017 include amounts representing year-end cash dividend of ¥5,993 million ($53,011 thousand), ¥15.0 ($0.13) per share, which was approved at the shareholders' meeting held on March 27, 2018.

16. 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, 2016 and 2017 is as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2016/12	2017/12	2017/12
Cash and time deposits	120,126	166,698	1,474,551
Short-term investments in securities	7,905	7,781	68,827
Total	128,032	174,479	1,543,379
Time deposits with maturities exceeding 3 months	(13,004)	(15,863)	(140,318)
Debt securities with maturities exceeding 3 months	(1,905)	(1,781)	(15,754)
Cash and cash equivalents	113,122	156,834	1,387,297

(2) The main breakdown of assets and liabilities for a transfer or acquisition of business exchange for cash and cash equivalents

For the fiscal year 2017

The main breakdown of assets and liabilities transferred and the transfer price and cash in-flow from the sale of Zotos International Inc. is as follows:

	Millions of yen	Thousands of U.S. dollars (Note 1)
Current assets	11,578	102,414
Fixed assets	11,647	103,025
Current liabilities	(3,752)	(33,188)
Long-term liabilities	(987)	(8,730)
Gain on transfer of business	35,999	318,434
Transfer price of business	54,485	481,954
Other	(595)	(5,263)
Cash and cash equivalents	(1,541)	(13,631)
Proceeds from the transfer of business	52,348	463,051

(3) The main breakdown of assets and liabilities possessed by a company newly consolidated as a result of the acquisition of shares

For the fiscal year 2016

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:

	Millions of yen
Current assets	8,658
Non-current assets	19,024
Current liabilities	(1,965)
Acquisition cost of newly consolidated subsidiaries	25,717
Cash and cash equivalents of newly consolidated subsidiaries	(1,291)
Acquisition of shares in subsidiaries resulting in change in scope of consolidation	24,426

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

Newly recorded assets and liabilities related to finance lease transactions are as follows:

For the fiscal year 2016	Millions of yen
Lease assets	1,700
Lease obligations	1,700

For the fiscal year 2017	Millions of yen	Thousands of U.S. dollars (Note 1)
Lease assets	1,917	16,957
Lease obligations	1,917	16,957

Newly recorded assets and liabilities related to licence agreement are as follows:

For the fiscal year 2016

	Millions of yen
Intangible assets	61,608
Long-term payables (including other payables)	61,608

17. ACCOUNTING FOR LEASES

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

(1) Finance leases

Non-ownership-transfer finance lease transactions

① As lessee:

Leased assets mainly consist of mold tools, fixtures, and software.

② As lessor:

None applicable

(2) Operating leases

Lease obligations under operating leases on December 31, 2016 and 2017 are as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2016/12	2017/12	2017/12
① As lessee:			
The scheduled maturities of future lease rental payments on such non-cancelable lease contracts are as follows:			
Due within 1 year	9,033	9,994	88,403
Due after 1 year	32,202	68,211	603,370
	41,235	78,205	691,773
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	1,521
Due after 1 year	3,753	3,580	31,667
	3,925	3,753	33,197

18. 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 papers, 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 papers, 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 rate fluctuations associated with receivables and payables denominated in foreign currencies. In addition, we have entered interest rate swap contracts to hedge the risk of interest rate fluctuations associated with floating-rate debt. Also, we use 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.

(20) 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 20. 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

	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, electrically 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)	—

Millions of yen

	2017/12		
	Carrying value (*)	Fair value (*)	Variance
① Cash and time deposits	166,698	166,698	—
② Notes and accounts receivable (less allowance for doubtful accounts)	160,331	160,331	—
③ Short-term investments in securities and investments in securities Available-for-sale securities	30,325	30,325	—
④ Notes and accounts payable, electrically recorded obligations and other payables	(146,936)	(146,936)	—
⑤ Short-term borrowings from banks and other financial institutions	(8,540)	(8,540)	—
⑥ Commercial papers	—	—	—
⑦ Bonds	(40,000)	(40,128)	(128)
⑧ Long-term borrowings from banks and other financial institutions	(29,566)	(29,566)	(0)
⑨ Lease obligations	(3,357)	(3,380)	(23)
⑩ Derivative instruments			
i. Hedge accounting not applied	53	53	—
ii. Hedge accounting applied	—	(611)	(611)
⑪ Long-term payables	(59,255)	(59,255)	—

Thousands of U.S. dollars (Note 1)

	2017/12		
	Carrying value (*)	Fair value (*)	Variance
① Cash and time deposits	**1,474,551**	**1,474,551**	**—**
② Notes and accounts receivable (less allowance for doubtful accounts)	**1,418,230**	**1,418,230**	**—**
③ Short-term investments in securities and investments in securities Available-for-sale securities	**268,244**	**268,244**	**—**
④ Notes and accounts payable, electrically recorded obligations and other payables	**(1,299,743)**	**(1,299,743)**	**—**
⑤ Short-term borrowings from banks and other financial institutions	**(75,541)**	**(75,541)**	**—**
⑥ Commercial papers	**—**	**—**	**—**
⑦ Bonds	**(353,825)**	**(354,957)**	**(1,132)**
⑧ Long-term borrowings from banks and other financial institutions	**(261,530)**	**(261,530)**	**(0)**
⑨ Lease obligations	**(29,694)**	**(29,898)**	**(203)**
⑩ Derivative instruments			
i. Hedge accounting not applied	**468**	**468**	**—**
ii. Hedge accounting applied	**—**	**(5,404)**	**(5,404)**
⑪ Long-term payables	**(524,148)**	**(524,148)**	**—**

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

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

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

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

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

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

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

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

⑩ Derivative instruments
Please refer to Note 20. 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, 2016 and December 31, 2017

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2016/12	**2017/12**	**2017/12**
		Carrying value	
Shares of subsidiaries and affiliates	2,367	**2,310**	**20,433**
Unlisted equity securities	552	**516**	**4,564**
Investment in limited partnership and others	924	**910**	**8,049**

Market prices do not exist for these items, and estimating future cash flows is cost prohibitive. Therefore, 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 ¥21 million for the fiscal year ended December 31, 2016. There are no securities to be revaluated for the fiscal year ended December 31, 2017.

*3: Maturity dates of financial assets are as follows:

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 trust)	1,905	—	—	—
Available-for-sale securities with maturity (Investment in limited partnership and others)	77	846	—	—
Other	—	—	—	—
	262,945	846	—	—

Millions of yen

	2017/12			
	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	**166,698**	**—**	**—**	**—**
Notes and accounts receivable	**160,331**	**—**	**—**	**—**
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 trust)	**1,781**	**—**	**—**	**—**
Available-for-sale securities with maturity (Investment in limited partnership and others)	**910**	**—**	**—**	**—**
Other	**—**	**—**	**—**	**—**
	335,721	**—**	**—**	**—**

Thousands of U.S. dollars (Note 1)

	2017/12			
	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	**1,474,551**	—	—	—
Notes and accounts receivable	**1,418,230**	—	—	—
Short-term investments in securities and investments in securities				
Available-for-sale securities with maturity (Negotiable certificate of deposit)	**53,073**	—	—	—
Available-for-sale securities with maturity (Corporate bonds)	—	—	—	—
Available-for-sale securities with maturity (Investment trust)	**15,754**	—	—	—
Available-for-sale securities with maturity (Investment in limited partnership and others)	**8,049**	—	—	—
Other	—	—	—	—
	2,969,668	—	—	—

19. SECURITIES

The acquisition cost, carrying amount, and gross unrealized gains and losses for securities stated at fair value by security type on December 31, 2016 and 2017 are as follows:
Available-for-sale securities:

Millions of yen

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

Millions of yen

	2017/12			
	Carrying amount	Acquisition cost	Gross unrealized gains	Gross unrealized losses
Equity securities	**21,387**	**9,382**	**12,032**	**(27)**
Other	**8,937**	**8,875**	**62**	—
	30,325	**18,257**	**12,094**	**(27)**

Thousands of U.S. dollars (Note 1)

	2017/12			
	Carrying amount	Acquisition cost	Gross unrealized gains	Gross unrealized losses
Equity securities	**189,181**	**82,989**	**106,430**	**(238)**
Other	**79,053**	**78,505**	**548**	—
	268,244	**161,494**	**106,979**	**(238)**

Note: There is no loss on revaluation of investments in securities stated at fair value for the fiscal years 2016 and 2017, respectively.

Proceeds from sales, and gross realized gains and losses from sales of available-for-sale securities in the years ended December 31, 2016 and 2017 are as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2016/12	2017/12	2017/12
Proceeds from sales	650	**1,922**	**17,001**
Gross realized gains	403	**1,173**	**10,375**
Gross realized losses	0	**27**	**238**

20. DERIVATIVE FINANCIAL INSTRUMENTS

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)

Note: Calculation method of fair value
Based on the amount presented by the financial institution

② Derivatives that meet the criteria for hedge accounting

Millions of yen

	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)

Note: Calculation method of fair value
Based on the amount presented by the financial institution

The contract amount, estimated fair value and unrealized gain (loss) of the derivative instruments as of December 31, 2017 are as follows:

① Derivatives that do not meet the criteria for hedge accounting

Millions of yen

		2017/12			
		Contract amount			
		Total	Settled over 1 year	Estimated fair value	Unrealized gain (loss)
Foreign exchange contracts: Selling	US$	**24,447**	**—**	**69**	**69**
	EUR	**3,915**	**—**	**(2)**	**(2)**
	GBP	**3,049**	**—**	**(6)**	**(6)**
	AU$	**157**	**—**	**(0)**	**(0)**
Foreign exchange contracts: Buying	US$	**677**	**—**	**(1)**	**(1)**
	GBP	**469**	**—**	**(3)**	**(3)**
		—	**—**	**53**	**53**

Note: Calculation method of fair value
Based on the amount presented by the financial institution

Thousands of U.S. dollars (Note 1)

		2017/12			
		Contract amount			
		Total	Settled over 1 year	Estimated fair value	Unrealized gain (loss)
Foreign exchange contracts: Selling	US$	**216,249**	**—**	**610**	**610**
	EUR	**34,630**	**—**	**(17)**	**(17)**
	GBP	**26,970**	**—**	**(53)**	**(53)**
	AU$	**1,388**	**—**	**(0)**	**(0)**
Foreign exchange contracts: Buying	US$	**5,988**	**—**	**(8)**	**(8)**
	GBP	**4,148**	**—**	**(26)**	**(26)**
		—	**—**	**468**	**468**

② Derivatives that meet the criteria for hedge accounting

Millions of yen

	2017/12			
		Contract amount		
	Main hedged item	Total	Settled over 1 year	Estimated fair value
Interest rate swap contracts: To pay fixed / receive variable	**Long-term debt**	**19,565**	**18,835**	**(611)**

Note: Calculation method of fair value
Based on the amount presented by the financial institution

Thousands of U.S. dollars (Note 1)

	2017/12			
		Contract amount		
	Main hedged item	Total	Settled over 1 year	Estimated fair value
Interest rate swap contracts: To pay fixed / receive variable	**Long-term debt**	**173,065**	**166,607**	**(5,404)**

21. 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 the simplified method to determine retirement benefits obligations.

(2) Details of defined benefit plans, including plans applying a simplified method as of December 31, 2016 and 2017 are as follows:

① Change in retirement benefit obligations

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2016/12	2017/12	2017/12
Balance at the beginning of the year	265,825	**282,348**	**2,497,549**
Service cost	6,996	**7,075**	**62,582**
Interest cost	3,015	**1,931**	**17,080**
Actuarial loss (gain)	17,571	**(5,289)**	**(46,784)**
Benefits paid	(10,706)	**(10,520)**	**(93,056)**
Other	(353)	**(1,605)**	**(14,197)**
Balance at the end of the year	282,348	**273,940**	**2,423,175**

② Change in plan assets

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2016/12	2017/12	2017/12
Balance at the beginning of the year	182,168	**187,859**	**1,661,733**
Expected return on plan assets	7,260	**5,595**	**49,491**
Actuarial loss (gain)	(3,168)	**4,806**	**42,512**
Contributions paid by the employer	9,567	**9,657**	**85,422**
Benefits paid	(7,879)	**(7,907)**	**(69,942)**
Other	(89)	**183**	**1,618**
Balance at the end of the year	187,859	**200,195**	**1,770,853**

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

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2016/12	2017/12	2017/12
Funded retirement benefit obligations	220,405	**221,291**	**1,957,461**
Plan assets	(187,859)	**(200,195)**	**(1,770,853)**
	32,546	**21,096**	**186,607**
Unfunded retirement benefit obligations	61,943	**52,649**	**465,714**
Total net liability for retirement benefits	94,489	**73,745**	**652,321**
Liability for retirement benefits	94,489	**73,745**	**652,321**
Total net liability for retirement benefits	94,489	**73,745**	**652,321**

④ Retirement benefit costs

	2016/12	2017/12	2017/12
		Millions of yen	Thousands of U.S. dollars (Note 1)
Service cost	6,996	**7,075**	**62,582**
Interest cost	3,015	**1,931**	**17,080**
Expected return on plan assets	(7,260)	**(5,595)**	**(49,491)**
Net actuarial gain and loss amortization	7,190	**8,930**	**78,991**
Past service costs amortization	103	**25**	**221**
Other	2,200	**1,330**	**11,764**
Total retirement benefit costs	12,246	**13,698**	**121,167**

⑤ Adjustments for retirement benefits before tax

	2016/12	2017/12	2017/12
		Millions of yen	Thousands of U.S. dollars (Note 1)
Net actuarial gain and loss amortization	13,445	**(19,054)**	**(168,544)**

⑥ Accumulated adjustments for retirement benefits before tax

	2016/12	2017/12	2017/12
		Millions of yen	Thousands of U.S. dollars (Note 1)
Past service costs that are yet to be recognized	25	**0**	**0**
Actuarial gain and loss that are yet to be recognized	49,052	**30,152**	**226,713**
Total balance at the end of the year	49,078	**30,152**	**226,713**

⑦ Plan assets

I Plan assets comprise:

	2016/12	2017/12
Bonds	57.5%	**51.0%**
Equity securities	20.4%	**22.6%**
Other	22.1%	**26.4%**
Total	100.0%	**100.0%**

II Long-term expected rate of return

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

⑧ Actuarial assumptions

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

	2016/12	2017/12
Discount rate	0.6%~0.8%	**0.5%~0.8%**
Long-term expected rate of return	4.0%	**3.0%**

(3) Defined contribution plans

Contributions to defined contribution plans and retirement benefit prepayment plans are ¥1,438 million and ¥428 million, respectively, for the year ended December 31, 2016.

Contributions to defined contribution plans and retirement benefit prepayment plans are ¥3,479 million ($30,773 thousand) and ¥457 million ($4,042 thousand), respectively, for the year ended December 31, 2017.

22. STOCK OPTION PLAN

Summary of stock options granted as of December 31, 2017 is as follows:

① Stock option plan approved by the shareholders on June 24, 2009 and resolved by the Board of Directors on July 30, 2009

	Stock options granted on August 28, 2009	Stock options granted on August 28, 2009	Total
Number of shares for options granted	81,400 shares	53,500 shares	134,900 shares
Number of shares for options outstanding	3,700 shares	11,400 shares	15,100 shares
Exercise price	¥1	¥1	
Exercisable period	August 1, 2012 – July 31, 2019	August 1, 2012 – July 31, 2019	

② 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	9,700 shares	15,100 shares
Exercise price	¥1	¥1	
Exercisable period	August 1, 2013 – July 31, 2020	August 1, 2013 – July 31, 2020	

③ 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	37,100 shares	44,400 shares
Exercise price	¥1	¥1	
Exercisable period	August 1, 2014 – July 31, 2026	August 1, 2014 – July 31, 2026	

④ 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	16,200 shares	40,000 shares	56,200 shares
Exercise price	¥1	¥1	
Exercisable period	August 1, 2015 – July 31, 2027	August 1, 2015 – July 31, 2027	

⑤ 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	28,800 shares	31,900 shares	60,700 shares
Exercise price	¥1	¥1	
Exercisable period	August 1, 2016 – July 31, 2028	August 1, 2016 – July 31, 2028	

⑥ 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	70,100 shares	56,900 shares	127,000 shares
Exercise price	¥1	¥1	
Exercisable period	August 1, 2017 – July 31, 2029	August 1, 2017 – July 31, 2029	

⑦ 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, 2016	Stock options granted on March 30, 2016	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	

⑧ Stock option plan approved by the shareholders on March 25, 2016 and resolved by the Board of Directors on February 23, 2017

	Stock options granted on March 30, 2017	Stock options granted on March 30, 2017	Total
Number of shares for options granted	40,400 shares	71,600 shares	112,000 shares
Number of shares for options outstanding	40,400 shares	71,600 shares	112,000 shares
Exercise price	¥1	¥1	
Exercisable period	September 1, 2019 – February 29, 2032	September 1, 2019 – February 29, 2032	

23. 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 31% for the fiscal year ended December 31, 2017.

Reconciliation of the statutory tax rate and the effective tax rate for the years ended December 31, 2016 and 2017 is as follows:

	2016/12	**2017/12**
Statutory tax rate	33.0%	**31.0%**
Increase (decrease) due to:		
Permanently non-deductible expenses	0.8	**0.3**
Permanently non-taxable incomes	0.9	**1.3**
Unrealized intercompany profit	(4.2)	**(0.4)**
Adjustment of deferred tax assets for enacted changes in tax laws and rates	0.6	**—**
Tax credits	(2.9)	**(3.5)**
Differences of statutory tax rates for domestic consolidated subsidaries	0.6	**5.3**
Differences of statutory tax rates for overseas consolidated subsidiaries	1.4	**(10.1)**
Change in valuation allowance	1.0	**(0.1)**
Impairment of goodwill	—	**34.7**
Gain on transfer of business in tax	—	**(17.6)**
Impact of the Tax Reform Act in the United States	—	**(8.1)**
Others	0.8	**1.4**
Effective tax rate	32.0%	**34.2%**

(Changes in Presentation)

Due to the increase in quantitative significance of “Differences of statutory tax rates for domestic consolidated subsidiaries” which was included in “Others” in the previous fiscal year, the Company has changed to record it separately for this fiscal year.

In order to reflect this alteration, the consolidated financial statements for the fiscal year 2016 have been rearranged. As a result, 1.4% presented as “Others” in the chart above for the previous fiscal year has been reclassified into 0.6% of “Differences of statutory tax rates for domestic consoli-dated subsidiaries” and 0.8% of “Others” respectively.

Deferred tax assets and liabilities (both current and non-current) as of December 31, 2016 and 2017 are as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2016/12	**2017/12**	**2017/12**
Deferred tax assets:			
Liability for retirement benefits	30,854	**23,921**	**211,596**
Unrealized intercompany profit in inventory and property, plant and equipment	6,768	**6,240**	**55,196**
Inventories	12,845	**12,149**	**107,465**
Loss on revaluation of financial instruments	1,025	**405**	**3,582**
Accrued expenses	8,191	**8,548**	**75,612**
Accrued bonuses for employees	5,207	**5,872**	**51,941**
Tax losses carried forward	4,118	**2,753**	**24,352**
Depreciation	1,602	**3,024**	**26,749**
Reserve for sales returns	958	**724**	**6,404**
Accrued enterprise tax	781	**2,056**	**18,186**
Other	12,955	**9,246**	**81,786**
Total gross deferred tax assets	85,309	**74,943**	**662,919**
Less: valuation allowance	(6,474)	**(4,137)**	**(36,594)**
Total deferred tax assets	78,835	**70,805**	**626,315**
Deferred tax liabilities:			
Goodwill and other intangible assets	26,545	**9,136**	**80,813**
Unrealized gains (losses) on available-for-sale securities	2,812	**3,636**	**32,162**
Undistributed earnings of overseas consolidated subsidiaries	1,918	**2,167**	**19,168**
Special tax-purpose reserve	2,544	**2,511**	**22,211**
Other	3,843	**991**	**8,766**
Total deferred tax liabilities	37,664	**18,444**	**163,149**
Net deferred tax assets	41,170	**52,361**	**463,166**

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

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2016/12	**2017/12**	**2017/12**
Current assets–deferred tax assets	21,773	**25,467**	**225,272**
Investments and other assets–deferred tax assets	37,800	**30,658**	**271,189**
Current liabilities–deferred tax liabilities	(0)	**(2)**	**(17)**
Long-term liabilities–deferred tax liabilities	(18,402)	**(3,762)**	**(33,277)**
Net deferred tax assets	41,170	**52,361**	**463,166**

(Impact of the Tax Reform Act in the United States)

In December 2017, the Tax Reform Act was passed in the United States, and the federal income tax rate will be reduced from 35% to 21% effective from January 1, 2018. As a result, “Deferred tax liabilities” decreased by ¥3,296 million ($29,155 thousand), “Deferred income taxes” decreased by ¥3,271 million ($28,934 thousand), “Accrued income taxes” increased by ¥158 million ($1,397 thousand), “Current income taxes” increased by ¥157 million ($1,388 thousand), and Foreign currency translation adjustments” increased by ¥23 million ($203 thousand).

24. BUSINESS COMBINATIONS

(Business Divestiture)

The Group concluded an agreement on transferring the shares of its consolidated subsidiary, Zotos International, Inc. (hereinafter "Zotos"), which operates a professional hair care business globally, and related business assets to Henkel AG & Co. KGaA (hereinafter, Henkel) on October 26, 2017, and completed the sale of the business on December 28, 2017.

1. Reason for the Transfer:

The Group has been promoting a selection and concentration strategy in order to enhance its brand portfolio across the globe and drive growth under its mid- to long-term business strategy VISION 2020, with which the Group aims to "Be a Global Winner with Our Heritage." The Group's Professional business plays an important role in its brand portfolio, and it plans to concentrate and boost its investment in the professional market in Asia.

While pursuing the selection and concentration strategy, the Group underwent a thorough review with Henkel regarding the transfer of Zotos, which is based in North America and generates the majority of its sales from the North American market. As a result, it arrived at the conclusion that transferring Zotos to Henkel would be the best option for Zotos and the Group, and thus, decided to sign the transfer agreement.

2. Name of the Transferee:

Henkel AG & Co. KGaA

3. Date of the Transfer:

December 28, 2017

4. Outline of Transaction Including Legal Form:

Share transfer for which consideration is funded only by cash

5. Name of the Subsidiary and Business Description:

(1) Name: **Zotos International, Inc.**
(2) Business description: **Manufacturing and distribution of professional hair care, hair color and styling products**

6. Summary of Accounting Treatment Used:

(1) Amount of gain on transfer

Gain on transfer of business ¥35,999 million ($318,434 thousand)

(2) Book value of assets and liabilities related to the transferred business and main breakdown

	Millions of yen	Thousands of U.S. dollars (Note 1)
Current assets	11,578	102,414
Fixed assets	11,647	103,025
Total assets	23,225	205,440
Current liabilities	3,752	33,188
Long-term liabilities	987	8,730
Total liabilities	4,739	41,919

(3) Accounting treatment

The difference between book value and sales price of the transferred shares, etc. is recorded in "Gain on transfer of business" under other income.

7. Reporting Segment of the Separated Business:

Professional Business

8. Estimated Profit Related to the Separated Business Recorded in the Consolidated Statements of Income for the Fiscal Year 2017:

	Millions of yen	Thousands of U.S. dollars (Note 1)
Net sales	26,982	238,673
Operating income	2,381	21,061

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 its structural units through co-administration. 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 based on consumer purchasing style (Prestige, Fragrance, Cosmetics, Personal Care and Professional) and six regions (Japan, China, Asia Pacific, the Americas, EMEA and Travel Retail). This matrix organization gives the leader in each region broad authority as well as responsibility for sales and profits to ensure flexible decision-making. In specific terms, the Company's seven reportable segments, which are mainly regions, are comprised of the "Japan Business," "China Business," "Asia Pacific Business," "Americas Business," "EMEA Business," "Travel Retail Business" and "Professional Business."

The Japan Business is mainly comprised of the domestic business by brand category (Prestige, Cosmetics and Personal Care, etc.) and the healthcare business (production and sale of health & beauty foods as well as over-the-counter drugs).

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

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

The Americas Business covers business in the Americas region by brand category (Prestige and Fragrance).

The EMEA Business covers business in Europe, the Middle East and African regions by brand category (Prestige and Fragrance, etc.).

The Travel Retail Business covers the operation of worldwide duty-free stores excluding Japan by brand category (Prestige, Fragrance and Cosmetics).

The Professional Business encompasses the manufacture and sale of hair and beauty salon products in the Americas, Japan, China, and the rest of Asia.

Other includes the manufacturing business, the frontier science business (production and sale of cosmetic raw materials, etc.), and the restaurant business.

(Changes in the Method of Classifying Reportable Segment)

The Company has revised its reportable segment classification method in line with the Group's internal financial management structure. As a result, the "Japan Business," "China Business," "Asia Pacific Business," "Americas Business," "EMEA Business" and "Travel Retail Business" reportable segments have been changed to the "Japan Business," "China Business," "Asia Pacific Business," "Americas Business," "EMEA Business," "Travel Retail Business" and "Professional Business" segments effective from the fiscal year ended December 31, 2017.

In line with this change, manufacturing operations, Frontier Science business, Restaurant business, etc. included in the "Japan Business" have been included in the "Other."

According to the change in the Company's management structure in line with our matrix organization approach, *bareMinerals, NARS* etc. in the United Kingdom included in the "Americas Business" have been included in the "EMEA Business." The Fragrance business in Latin America included in the "EMEA Business" has been included in the "Americas Business."

Segment information for 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 marketing conditions into account.

(3) Information about reported segment sales, profit or loss and other material items

Segment information for the fiscal year 2016 is as follows:

Millions of yen

	Reportable Segment					
	Japan Business	China Business	Asia Pacific Business	Americas Business	EMEA Business (*1)	Travel Retail Business
Net Sales						
Sales to Outside Customers	381,232	118,087	45,593	127,499	94,138	24,811
Intersegment Sales or Transfers	19,489	153	161	9,010	4,828	3
Total	400,721	118,240	45,754	136,510	98,966	24,815
Segment Income / (Loss)	56,356	3,629	1,064	(12,799)	(6,712)	5,368
Other Items						
Depreciation and Amortization	7,088	4,190	1,659	8,176	3,002	409
Amortization of Goodwill	141	385	61	3,702	—	—

	Reportable Segment	Other (*2)	Total	Adjustments (*3)	Total Shown in Consolidated Financial Statements (*4)
	Professional Business				
Net Sales					
Sales to Outside Customers	44,947	13,997	850,306	—	850,306
Intersegment Sales or Transfers	382	44,178	78,207	(78,207)	—
Total	45,329	58,176	928,514	(78,207)	850,306
Segment Income / (Loss)	1,103	(11,940)	36,071	708	36,780
Other Items					
Depreciation and Amortization	1,183	8,769	34,480	—	34,480
Amortization of Goodwill	624	—	4,916	—	4,916

*1 The EMEA Business includes the Middle East and African regions.
*2 "Other" includes head office administration departments, manufacturing operations as well as the activities of the Frontier Science business (production and sale of cosmetic raw materials, medical-use drugs, medical cosmetics, precision and analytical equipment), the Restaurant business, etc.
*3 Segment income/(loss) adjustment is mainly intersegment transaction eliminations.
*4 Segment income/(loss) is adjusted for operating income described in the consolidated statements of income.
*5 Assets and liabilities by segment are not provided because they are not subject to reallocation and appraisal of management resources on a periodic basis.

Segment information for the fiscal year 2017 is as follows:

Millions of yen

	Reportable Segment					
	Japan Business	China Business	Asia Pacific Business	Americas Business	EMEA Business (*1)	Travel Retail Business
Net Sales						
Sales to Outside Customers	**431,026**	**144,266**	**54,169**	**140,413**	**128,418**	**44,495**
Intersegment Sales or Transfers	**30,574**	**305**	**1,471**	**19,000**	**9,153**	**349**
Total	**461,600**	**144,572**	**55,640**	**159,413**	**137,572**	**44,844**
Segment Income / (Loss)	**83,154**	**11,329**	**5,745**	**(10,288)**	**(3,181)**	**12,361**
Other Items						
Depreciation and Amortization	**6,928**	**3,964**	**1,933**	**9,795**	**6,679**	**396**
Amortization of Goodwill	**141**	**396**	**61**	**3,304**	**—**	**—**

	Reportable Segment	Other (*2)	Total	Adjustments (*3)	Total Shown in Consolidated Financial Statements (*4)
	Professional Business				
Net Sales					
Sales to Outside Customers	**47,959**	**14,314**	**1,005,062**	**—**	**1,005,062**
Intersegment Sales or Transfers	**399**	**78,728**	**139,982**	**(139,982)**	**—**
Total	**48,359**	**93,042**	**1,145,045**	**(139,982)**	**1,005,062**
Segment Income / (Loss)	**2,958**	**(12,926)**	**89,154**	**(8,716)**	**80,437**
Other Items					
Depreciation and Amortization	**856**	**9,059**	**39,614**	**—**	**39,614**
Amortization of Goodwill	**331**	**—**	**4,235**	**—**	**4,235**

Thousands of U.S. dollars (Note 1)

	Reportable Segment					
	Japan Business	China Business	Asia Pacific Business	Americas Business	EMEA Business (*1)	Travel Retail Business
Net Sales						
Sales to Outside Customers	**3,812,702**	**1,276,125**	**479,159**	**1,242,043**	**1,135,939**	**393,586**
Intersegment Sales or Transfers	**270,446**	**2,697**	**13,011**	**168,067**	**80,964**	**3,087**
Total	**4,083,149**	**1,278,832**	**492,171**	**1,410,110**	**1,216,912**	**396,674**
Segment Income / (Loss)	**735,550**	**100,212**	**50,818**	**(91,003)**	**(28,137)**	**109,340**
Other Items						
Depreciation and Amortization	**61,282**	**35,064**	**17,098**	**86,643**	**59,080**	**3,502**
Amortization of Goodwill	**1,247**	**3,502**	**539**	**29,226**	**—**	**—**

	Reportable Segment	Other (*2)	Total	Adjustments (*3)	Total Shown in Consolidated Financial Statements (*4)
	Professional Business				
Net Sales					
Sales to Outside Customers	**424,228**	**126,616**	**8,890,420**	**—**	**8,890,420**
Intersegment Sales or Transfers	**3,529**	**696,399**	**1,238,230**	**(1,238,230)**	**—**
Total	**427,766**	**823,016**	**10,128,659**	**(1,238,230)**	**8,890,420**
Segment Income / (Loss)	**26,165**	**(114,338)**	**788,624**	**(77,098)**	**711,517**
Other Items					
Depreciation and Amortization	**7,571**	**80,132**	**350,411**	**—**	**350,411**
Amortization of Goodwill	**2,927**	**—**	**37,461**	**—**	**37,461**

*1 The EMEA Business includes the Middle East and African regions.
*2 "Other" includes head office administration departments, manufacturing operations as well as the activities of the Frontier Science business (production and sale of cosmetic raw materials, medical-use drugs, medical cosmetics, precision and analytical equipment), the Restaurant business, etc.
*3 Segment income/(loss) adjustment is mainly intersegment transaction eliminations.
*4 Segment income/(loss) is adjusted for operating income described in the consolidated statements of income.
*5 Assets and liabilities by segment are not provided because they are not subject to reallocation and appraisal of management resources on a periodic basis.

(Related Information)

For the fiscal year 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

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

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

II Property, Plant and Equipment

Millions of yen

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

③ Main customers information

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

For the fiscal year 2017

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

2017/12						
Japan	Americas		Europe	Asia / Oceania		Total
		U.S.A.			China	
456,929	163,934	137,788	128,334	255,865	160,951	1,005,062

Thousands of U.S. dollars (Note 1)

2017/12						
Japan	Americas		Europe	Asia / Oceania		Total
		U.S.A.			China	
4,041,831	1,450,101	1,218,823	1,135,196	2,263,290	1,423,715	8,890,420

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

II Property, Plant and Equipment

Millions of yen

2017/12						
Japan	Americas		Europe	Asia / Oceania		Total
		U.S.A.			China	
111,601	15,195	15,119	8,606	23,278	10,901	158,681

Thousands of U.S. dollars (Note 1)

2017/12						
Japan	Americas		Europe	Asia / Oceania		Total
		U.S.A.			China	
987,182	134,409	133,737	76,125	205,908	96,426	1,403,635

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

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

Millions of yen

2017/12								
Japan Business	China Business	Asia Pacific Business	Americas Business	EMEA Business	Travel Retail Business	Professional Business	Other	Total
—	47	—	70,874	—	—	0	—	70,922

Thousands of U.S. dollars (Note 1)

2017/12								
Japan Business	China Business	Asia Pacific Business	Americas Business	EMEA Business	Travel Retail Business	Professional Business	Other	Total
—	415	—	626,926	—	—	0	—	627,350

(5) Information about segment unamortized goodwill

Millions of yen

2016/12								
Japan Business	China Business	Asia Pacific Business	Americas Business	EMEA Business	Travel Retail Business	Professional Business	Other	Total
745	2,836	195	54,403	2	—	1,612	—	59,795

Millions of yen

2017/12								
Japan Business	China Business	Asia Pacific Business	Americas Business	EMEA Business	Travel Retail Business	Professional Business	Other	Total
603	**2,331**	**128**	**9,100**	**2**	**—**	**—**	**—**	**12,166**

Thousands of U.S. dollars (Note 1)

2017/12								
Japan Business	China Business	Asia Pacific Business	Americas Business	EMEA Business	Travel Retail Business	Professional Business	Other	Total
5,333	**20,619**	**1,132**	**80,495**	**17**	**—**	**—**	**—**	**107,616**

26. TRANSACTIONS WITH RELATED PARTIES

Director and auditor of the significant corporate affiliate

For the fiscal year 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	Account Receivable	¥0 million

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

For the fiscal year 2017

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, 2017
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)**	**¥24 million ($212 thousand)**	**Account 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.

27. SHORT-TERM AND LONG-TERM DEBT

Short-term and long-term debt as of December 31, 2016 and 2017 are as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2016/12	**2017/12**	**2017/12**
Short-term borrowings from banks and other financial institutions			
(weighted average interest rate 5.10%)	6,339	**8,540**	**75,541**
Commercial papers	5,243	**—**	**—**
Short-term debt	11,583	**8,540**	**75,541**
Long-term borrowings from banks and other financial institutions			
(Borrowings due within one year, weighted average interest rate 0.54%)	3,230	**731**	**6,466**
(Borrowings due after one year, weighted average interest rate 0.37%)	62,196	**28,835**	**255,064**
0.001% unsecured yen bonds due in December 2019	10,000	**10,000**	**88,456**
0.237% unsecured yen bonds due in June 2020	15,000	**15,000**	**132,684**
0.374% unsecured yen bonds due in June 2022	15,000	**15,000**	**132,684**
Lease obligations			
(Borrowings due within one year, weighted average interest rate 2.05%)	1,744	**1,391**	**12,304**
(Borrowings due after one year, weighted average interest rate 2.15%)	1,826	**1,966**	**17,390**
Long-term payables (including other payables)			
(due within and after one year, weighted average interest rate 2.50%)	55,251	**59,151**	**523,228**
	164,248	**132,075**	**1,168,288**
Less: portion due within one year	(7,819)	**(3,663)**	**(32,401)**
Long-term debt	156,428	**128,411**	**1,135,877**

The aggregate annual maturities of short-term and long-term debt as of December 31, 2017 are as follows:

For the years ending December 31	Millions of yen	Thousands of U.S. dollars (Note 1)
2018	**12,203**	**107,943**
2019	**13,356**	**118,142**
2020	**18,360**	**162,406**
2021	**13,487**	**119,301**
2022	**19,149**	**169,385**
2023 and thereafter	**64,058**	**566,634**
	140,615	**1,243,830**

Assets pledged as collateral as of December 31, 2016 and 2017 are as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2016/12	**2017/12**	**2017/12**
Cash and time deposits	1,808	**1,815**	**16,054**
Buildings and structures	13,161	**12,709**	**112,419**
Machinery and equipment	0	**0**	**0**
Investments in securities	1,155	**1,155**	**10,216**
Other investments	15,200	**15,200**	**134,453**
	31,327	**30,881**	**273,162**

The above assets are pledged as collateral for derivative transactions (interest rate swaps) and the following collateralized liabilities as of December 31, 2016 and 2017:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2016/12	2017/12	2017/12
Current portion of long-term debt	730	730	6,457
Long-term debt	19,565	18,835	166,607
	20,295	19,565	173,065

28. CONTINGENT LIABILITIES

There are no significant contingent liabilities to be disclosed.

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, 2016 and 2017, and the consolidated statements of income, statements of comprehensive income, statements of changes in net assets and statements of cash flows for the years then ended, 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 misstatements.

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 judgment, including the assessment of the risks of material misstatements 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, 2016 and 2017, and their financial performance and cash flows for the years then ended 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 year ended December 31, 2017 are presented solely for convenience. Our audit also included the translation of yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made on the basis described in Note 1 to the consolidated financial statements.

KPMG AZSA LLC

March 30, 2018
Tokyo, Japan

Corporate and Investor Information

(As of December 31, 2017)

Head Office
Shiseido Company, Limited
5-5, Ginza 7-chome, Chuo-ku
Tokyo 104-0061, Japan
Tel: +81-3-3572-5111

Founding
September 17, 1872

Incorporation
June 24, 1927

Capital
¥64,506,725,140

Number of Employees
37,438 [8,271]

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.

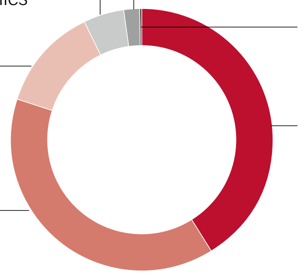
Accounting Auditors
KPMG AZSA LLC

Share Registrar
Sumitomo Mitsui Trust Bank, Limited
4-1, Marunouchi 1-chome,
Chiyoda-ku, Tokyo 100-8233, Japan

Number of Shareholders
42,604

Common Shares Issued and Outstanding
400,000,000 (including 460,033 in treasury stock)

Composition of Shareholders by Number of Shares



Composition of Shareholders (%)

(By number of shares)	2016/12	2017/12
Foreign Investors	37.34	41.35
Financial Institutions	39.86	38.64
Individuals	14.71	12.83
Other Japanese Companies	5.24	5.00
Securities Companies	2.65	2.04
Treasury Stock	0.17	0.11

(By number of shareholders)	2016/12	2017/12
Foreign Investors	1.44	1.79
Financial Institutions	0.18	0.21
Individuals	97.03	96.57
Other Japanese Companies	1.24	1.34
Securities Companies	0.08	0.07
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)	38,033	9.51
Japan Trustee Services Bank, Ltd. (Trust Account)	19,214	4.80
Mizuho Bank, Ltd.	15,626	3.91
BNYM TREATY DTT 15	11,726	2.93
Japan Trustee Services Bank, Ltd. (Trust Account 5)	7,103	1.77
STATE STREET BANK WEST CLIENT-TREATY 505234	6,636	1.66
THE BANK OF NEW YORK MELLON 140044	6,194	1.55
Association of Shiseido Employees' Investment in the Company's shares	6,158	1.54
Japan Trustee Services Bank, Ltd. (Trust Account 7)	6,085	1.52
STATE STREET BANK AND TRUST COMPANY 505225	5,635	1.41

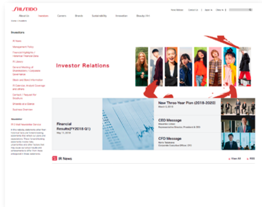
Note: Calculations of percentage of shareholding are based on the total number of issued and outstanding shares excluding treasury stock.

Various information not included in this annual report is available on our corporate website.

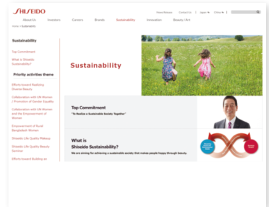
Shiseido Group corporate website ▸ http://www.shiseidogroup.com

Annual Report

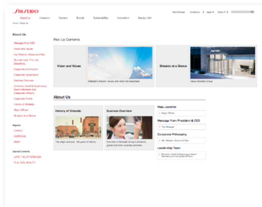
Investors
IR News, Financial Highlights / Historical Financial Data, General Meeting of Shareholders / Corporate Governance, and other information



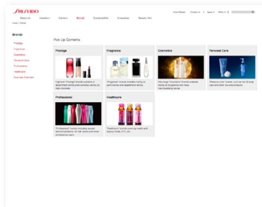
Sustainability
Sustainability strategy, Initiatives by stakeholder, Measures to address Human Rights, Compliance, etc.; Activity Results Data, GRI Content Index, and other information



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

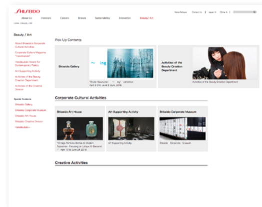


Brands
Information on our brands by category, such as prestige and cosmetics



Innovation
Our visions on technology, Research Areas, Global Network, Research Achievements, Safety Assurance, and other information

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



For further information, please contact:

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Shiseido Company, Limited
6-2, Higashi-shimbashi 1-chome,
Minato-ku, Tokyo 105-8310, Japan

Tel: +81-3-3572-5111
http://www.shiseidogroup.com/inquiry/mail/