April 28, 2015

Dear Sirs and Madams,

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Shiseido's "New Three-Year Plan" (FY2015 to FY2017)

Shiseido formulated the "New Three-Year Plan" (FY2015 to FY2017) to be started this fiscal year. Towards the realization of the medium to long-term strategy "VISION 2020" formulated last year, the first three years of FY2015 to FY2017 are positioned as the "period for reconstruction of the business foundation" to resolve structural issues on domestic and international businesses completely as well as to realize a growth strategy that makes aggressive marketing investments, which hopefully results in the acceleration of a sustained growth during the subsequent three years (FY2018 to FY2020).

"VISION 2020" for FY2015 to FY2020

With the main theme "Rejuvenate Shiseido," we will reconstruct all business activities and increase our company value "based on customers’ need" aiming at becoming a company that "is filled with energy," "is overflowing with youthful spirit," "is a topic of conversation around the world," "is inspiring to, and admired by, younger generations," and "is driven forth by diverse culture" by FY2020.

The quantitative goals are 100 billion yen or more group operating profit and 12% or more ROE in FY2020. To achieve these goals, we aim at increasing the consolidated sales to over one trillion yen.

Position of the New Three-Year Plan (FY2015 to FY2017) and goals

In the New Three-Year Plan, we will focus on "building of the foundation for top share in Japan," "acceleration of global growth," and "reengineering of the China business" as priority strategies to secure our future sustained growth. The common strategy points to realize these are "Nurture strong brands," "Bold investment in growth areas," and "Direct connection between headquarters and the front line." Simultaneously, we will work with structural reforms across the company to ensure the capital for the realization of these strategies.

In this Three-Year Plan, we will aim at increasing the consolidated sales to over one trillion yen or more consolidated sales, 50 to 60 billion yen operating profits, and 9 to 10% ROE in FY2017, which is the final fiscal year, with Japan business as the revenue base and global business as the growth drivers.
(1) Build the foundation for top share in Japan

Nurture strong brands

Society and consumption activities have been diversified and "active consumers," who purchase goods based on their discerning eyes, are increasing their presence. We think that it is important to create brands that meet the needs of such customers, connect with the customers, and continue to be loved by the customers. We will promote the creation of strong brands through lean investments and through a "customer-based" approach while responding to a wide range of customer needs, by arranging and integrating brands overlapping in the portfolio and with low customer needs based on customer demand.

To realize this, we will focus on developing brands that continue to achieve a certain sales scale and profitability through brand life cycle management, including clarification of brand revision and discontinuation rules, etc. In addition, we will consider acquiring brands by M&A in order to meet the customer needs that our current brands cannot cover.

Also in the EC domain, which is a growing market, we will try to expand sales reinforcing cooperation with client EC sites and major EC companies mainly using our own site "watashi+.”

Expanded recruitment of beauty consultants (BC) and appointment as permanent employees

Currently we have about 10,000 BCs who meet customers at stores in Japan. BCs, who can connect products with customers and communicate directly with customers, are extremely important for us to proceed with the customer-oriented reinforcement of brands. Now we have decided to expand the recruitment of BCs and appointment as permanent employees as shown below to further enhance communication skills with our customers at store fronts.

First, newly-hired employees in FY2016 (who will join in April, 2016) will be expanded to approximately 500 nationwide. With the growing number of young BCs, we will reinforce communication skills with our customers of the same generation as well as realize the activation of the organization. We will also conduct appointment tests for approximately 2,000 current contract employees to promote appointment as permanent employees from April 2016. This would help BCs to develop a greater sense of responsibility and motivation than ever before and provide an environment where they can fully perform their beauty and communication skills.

(2) Acceleration of global growth

Transition to a new matrix organization

We will start the migration to the new matrix organization with the brand axis and regional axis from FY2015 toward full-scale operation from FY2016. We will cultivate strong brands and execute marketing suitable for each area under the concept of "Think Global, Act Local (Perform activities closely related to local sites with consideration from a global viewpoint)."

Specifically, we will divide our business into brand business domains, which are Prestige, Cosmetics, Personal Care, and Professional and the global regions and markets into Japan, China, Asia, US, EU, and the travel retail, each of which can maximize its performance in our optimized organization reform.

In addition we will introduce the "regional headquarters system" in Japan, China, Asia, EU, and US, which
configures "region-specific headquarters" that are closely involved in local needs and business environment and retain responsibilities and rights for all business activities. Supported by this, we will construct an organization for local research and development, product development, marketing, and sales activities. As a part of this, in Japan we will set up Japan RHQ (regional headquarters) integrating the functions of product development, marketing, and sales, which had been divided into headquarters and sales companies from April 2015.

Expand travel retail (TR*) share
From now on, we will aim at more sales growth in the TR market, which will be a growth driver, as well. More specifically we will perform such as expansion of cosmetics counter investments, and increase in numbers and training of BCs, who meet customers at store fronts, and development of products exclusive to TR. In April 2015, we will aim at expansion of TR business too including inbound by opening a cosmetics corner at the tax-free shop newly opened in the third terminal following the first and second terminals of Narita International Airport for expansion of contacts with foreign tourists, mainly from Asia. (*TR: Business to sell products for foreign tourists at tax-free shops in airports, etc.)

(3) Reengineer the China business
In China, which is the top priority market, we have made steady progress in reconstruction of the business by reconstructing the brand portfolio based on customers, reviewing sweeping reform of the business structure, optimizing the inventory in FY2014, etc. We are also proceeding with large-scale reorganization aiming at speedy decision making and responses to severe market competition by localization such as migrating to the China RHQ (regional headquarters) system and increasing the appointment of local employees as executives. In addition, we clarify the positioning of brands to expand and develop products locally launched and localized from the R&D phase in China to focus on working with the enforcement of the local brand power. Moreover, we will innovate toward a region-based sales framework and strengthen the competitive edge by improving the beauty knowledge, and communication skills of the store front BCs, who are contact points with customers. We will also expand the digital business such as EC and promote structural reforms for marketing investments steadily to make the reconstruction of the business and future growth steadier.

Activities toward reinforcement of the foundation to realize the priority strategies
Expand investments and increase in personnel in the research and development field
In research and development, we will enhance basic/fundamental researches to innovate product development to cooperate with and be fused with marketing. We will increase the R&D investment by 40% by FY2017 compared to FY2014 and the current personnel in the worldwide laboratories from approximately 1,000 to 1,500 by FY2020. In addition, we will establish a regional-based research organization and expand the scale in the laboratories in Japan, China, Southeast Asia (Thailand), Europe (France), and the US in order to accelerate localization in the research and development field, aiming at strengthening cooperation with product development and marketing that grasp customer insights in each country and region.
Establish the Global Innovation Center (tentative name)

On the other hand, the base for basic researches to support the future growth continues to be located in Japan, which is our origin, and we will reinforce this field thoroughly. We decided to establish the "Global Innovation Center (tentative name)" in Minato Mirai 21 in Yokohama, whose scale is the world's largest as a research base of a cosmetic company, as a new research base for this strategy (going to start operation at the end of 2018). We will accelerate the creation of new innovation by collecting diverse research and development human resources, promoting open innovation, and calling upon the world's expertise in this facility. In addition, this place will embody open research as an urban open laboratory in which customers, marketers, researchers, etc. communicate directly and create new values.

Reinforcement of marketing for customers

For the reinforcement of customer-oriented marketing, we will increase the marketing cost by 100 billion yen or more in total for these three years. To accelerate sales growth, we will select and concentrate investment target brands to improve the quality of marketing investments. More specifically, we will solidify sales growth by focusing on marketing investments which directly affect customers, research and development investments, etc. including the arrangement of stores, cosmetics samples, and advertising.

Securement of investment funds by restructuring

To implement these R&D investments and marketing investments, we will promote our structural reforms launched in FY2014 more powerfully and globally. We will squeeze 30 to 40 billion yen by FY2017 in total out of costs, marketing costs, inventory/supply chain management expense, back office costs, labor costs, and production costs to migrate the total amount to investments.

Reinforcement of the "SHISEIDO" brand image

We will reinforce the identity and image of our corporate brand “SHISEIDO.”

Firstly, we changed the design of the brand logo of "SHISEIDO" in order to emphasize our "active," "vigorous," "positive "and" energetic" impression and raise its presence.

We decided to limit the use of our company name "SHISEIDO" only for two brands, which are the global brand "SHSEIDO" and "SHISEIDO Professional" for a unified and consistent brand image. Other brands such as "MAQUILLAGE" and "ELIXIR” will have their brand name or logo highlighted as a marketing strategy.