

ANNUAL REPORT 2015

Shiseido Company, Limited | For the year ended March 31, 2015 |

SHISEIDO

with you.

“Facing rea

Shiseido has been
beauty for over 140
expectations for gro



lity.”

helping consumers pursue
years, but it has not met
wth.

Position

Annual Sales

5th*
in the World

*WWD Beauty Inc. ranking among global cosmetics manufacturers in the beauty category, excluding food and daily necessities (April 2015)

Results for the Year Ended March 2015

Net Sales

¥777.7 billion

Overseas Sales Ratio

53.0%



**“Presi
refo**

**We need
are under**

dent and CEO Uotani's ms have begun.”

strong growth! Groupwide reforms
way to increase brand value.

Action in the Year Ended March 2015

April

Masahiko Uotani was appointed
President and CEO

October

Brand manager system initiated

July

ICHIGAN Project began in Japan

October

Optimization of market inventory levels
in China and Asia announced

September

First round of marketing reforms,
ULTIMUNE launched

December

Medium- and long-term strategy
VISION 2020 announced



**“Consu
everyt**

**Consumer
changing.
its activiti**

Keywords for Consumer-Oriented Transformation

- An organization that prioritizes regions and the front lines
- Comprehensive marketing
- Evaluation based on store sales
- Stronger investment in consumer-oriented marketing



**mer-oriented in
hing we do.”**

**values and behavior are constantly
Shiseido will change so that all of
es are consumer-oriented.**

“Shiseido is ch

We will become a winn
the world by creating the
will remain vital for the
getting down to work!



anging.”

ing company in Japan, Asia, and
model for ensuring that Shiseido
next 100 years. We’re just

Medium- and Long-Term Strategy VISION 2020

Targeted Outcomes for 2020

Become a company supported and needed by society and consumers worldwide

- Become a company full of energy for growth
- Become a company that is brimming with youthfulness
- Become a company that is a topic of conversation around the world
- Become a company that young people adore
- Become a company that is a blend of diverse cultures

Numerical Targets for 2020

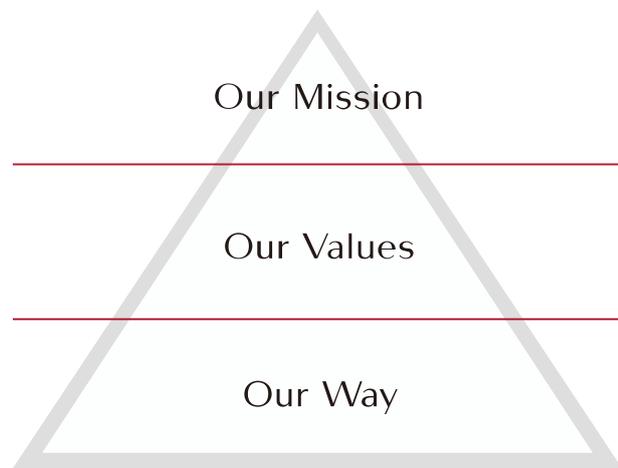
Net sales
over ¥1 trillion

Operating income
over ¥100 billion

ROE of
12% or more

Our Mission, Values and Way

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



Our Mission

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

Our Values

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

Our Way

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

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

Changes to MVW in April 2015

- We changed the English version of Our Mission by including “inspire” in order to more clearly express that we create value with a focus on the cosmetics business while reaching out to many markets through beauty. The Japanese version remains unchanged.
- We changed the structure of Our Values to emphasize innovation and elicit strong awareness among employees that innovation generates growth.
- We revised the content of Our Way by including “with” to clarify our stance of advancing with consumers and to more simply express our action standard of working together with all stakeholders for sustained growth.

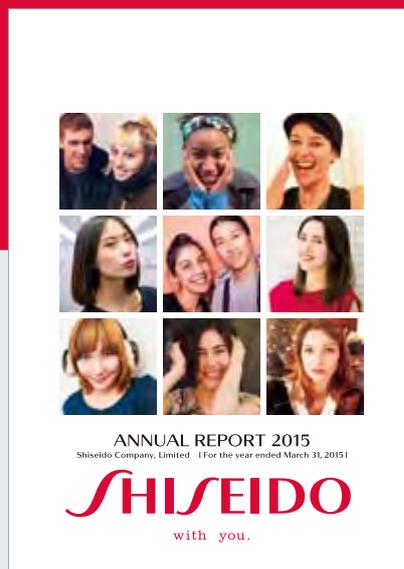
Get close to consumers and make them smile. *Annual Report 2015* communicates the reforms we are implementing to completely transform Shiseido for the future.

Shiseido advances with consumers around the world as their needs change, helping them to live beautifully.

Over more than 140 years, Shiseido has been creating value by eliciting beauty. We will implement reforms to make consumer orientation central to everything we do so that we remain a going concern for the next 50 and 100 years.

We created *Annual Report 2015* to help readers understand Shiseido's medium- and long-term value and our vision as we move toward the future.

We hope you enjoy *Annual Report 2015*.



● **Editorial Policy**

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

● **Reporting Period**

Annual Report 2015 primarily covers results for the year ended March 2015 (April 1, 2014 to March 31, 2015; January 1, 2014 to December 31, 2014 for overseas consolidated subsidiaries). It also includes certain information from before and shortly after this period.

● **Scope of Coverage**

In principle, *Annual Report 2015* covers Shiseido Company, Limited (the Company) and its 92 consolidated subsidiaries (collectively, the Shiseido Group) as of March 31, 2015, except as otherwise noted.

● **Guidelines for Disclosing Non-Financial Information**

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

● **Month of Issue**

July 2015

Change in Fiscal Year

Until the year ended March 2015, the fiscal years of Shiseido Company, Limited (the "Company") and most of its subsidiaries in Japan have ended in March and the fiscal years of its subsidiaries overseas have ended in December. To promote consistent Group management and increase the transparency and quality of the results and other information it discloses, the Company has decided to align all fiscal years in the Shiseido Group. The year ending December 2015 will be a transition period comprising the nine months ending December 2015 for the Company and most of its subsidiaries in Japan and the 12 months ending in December 2015 for its subsidiaries overseas. From 2016, fiscal years of all Group companies will be for the 12 months ending in December.

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.

Overall Map for Value Creation/Contents

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



About the Overall Map for Value Creation

Our mission is helping people live beautifully. This is the basis for our goal of achieving a sustainable society that makes people happy through beauty. As a milestone toward achieving this goal, we will implement VISION 2020, in which we have set the targeted outcomes and numerical targets for 2020.

The platforms for executing our strategy are addressing social issues and expectations, and building a global governance system. While strengthening these platforms, we will make consumer orientation central to everything we do. All processes including research, production, procurement and consumer care will collaborate in implementing comprehensive marketing and innovation to achieve strong growth and value creation.

Annual Report 2015 is modeled on Shiseido's overall map for value creation (page 12), and each section is one point on that map.

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Japan, China, Asia, Americas, Europe,
Prestige Category

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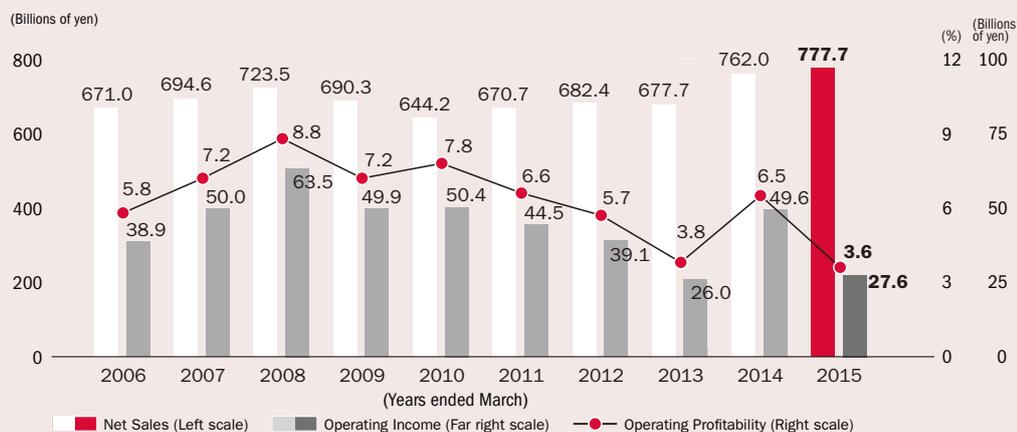
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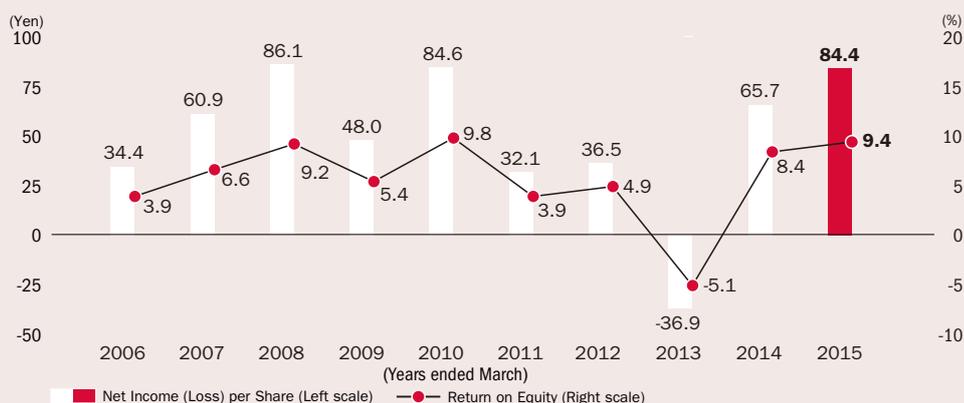
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Financial Value

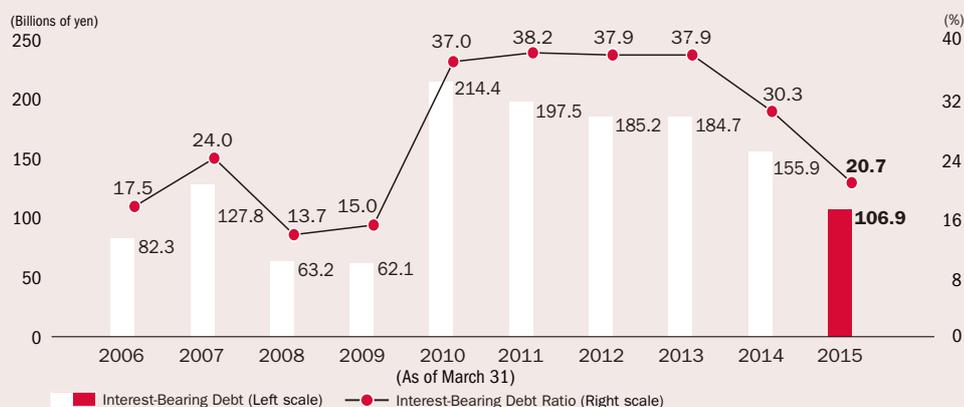
Net Sales, Operating Income & Operating Profitability



Net sales have risen approximately ¥100 billion over the past 10 years due in part to the impact of foreign exchange, but operating income has been trending downward. The main factor has been the increase in less profitable overseas sales. Operating income decreased again in the year ended March 2015 partly because of the pullback in demand following the surge ahead of the April 2014 hike in Japan's consumption tax and the optimization of market inventory levels in China and Asia.

Net Income (Loss) per Share¹ & Return on Equity²

Shiseido recorded net loss in the year ended March 2013 when it incurred significant structural reform and impairment losses. Net income increased for the year ended March 2015 and ROE rose to 9.4 percent due to factors including gain on transfer of the *DECLÉOR* and *CARITA* brands.

Interest-Bearing Debt & Interest-Bearing Debt Ratio^{2,3}

Shiseido maintains sound finances and liquidity. Interest-bearing debt increased significantly in the year ended March 2010 due to the acquisition of Bare Escentuals, Inc., but has decreased since then. We also repaid bank loans during the year ended March 2015 using funds from the transfer of the *DECLÉOR* and *CARITA* brands, which significantly reduced interest-bearing debt.

Notes:

- Net income (loss) per share is calculated before dilution based on the average number of shares outstanding during the fiscal year.
- Shiseido Group subsidiaries in the Americas formerly recognized samples and promotional items associated with marketing activities at stores as assets when acquired and expensed them when shipped to customers. However, effective the year ended March 2012 these subsidiaries began to expense these items when acquired as part of its efforts to standardize Group accounting policies. The Shiseido Group applied this change retrospectively and restated the consolidated financial statements for the year ended March 2011 accordingly. Changes in accounting treatment due to the amendment of Employee Benefits (International Accounting Standard (ISA) No. 19) are not retrospectively applied prior to the year ended March 2013.
- Interest-bearing debt ratio = Interest-bearing debt ÷ Invested capital* *Invested capital = Interest-bearing debt + Total net assets

Net Sales by Reportable Segment^{4, 5, 7}



Global Business sales have expanded partly due to the impact of exchange rates, with the Americas driving growth during the year ended March 2015. Net sales set a new record as a result. On the other hand, Domestic Cosmetics Business sales have been in a downtrend, and decreased year on year for the year ended March 2015 because of the pullback in demand following the surge ahead of the April 2014 hike in Japan's consumption tax.

Operating Profitability by Reportable Segment^{6,7}



Operating profitability has been stable in the Domestic Cosmetics Business, and was 8.8 percent for the year ended March 2015 as cost structure reform and other factors offset increased investment in marketing. Improving profitability is a priority in the Global Business because its operating profitability has been trending downward. Operating loss was 1.1 percent partly due to optimization of market inventory levels in China and Asia.

Overseas Sales & Overseas Sales Ratio



The overseas sales ratio has been increasing year by year. It was 53.0 percent for the year ended March 2015. By region, sales are highest in Asia and Oceania, which includes our China business.

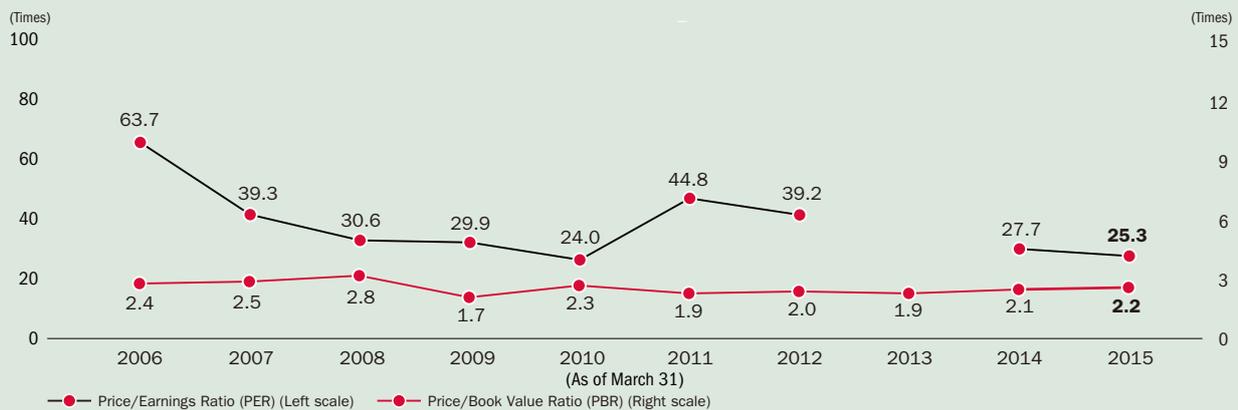
4. Domestic Professional Division sales are included in the Global Business segment.
 5. Net sales by reportable segment represent sales to external customers only and do not include intersegment/interarea sales or transfers.
 6. Operating profitability by reportable segment does not include eliminations/corporate.
 7. Segments have been 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. Data for years prior to the year ended March 2007 are not presented as the change in segments has not been retrospectively applied to those years.

Shareholder Value

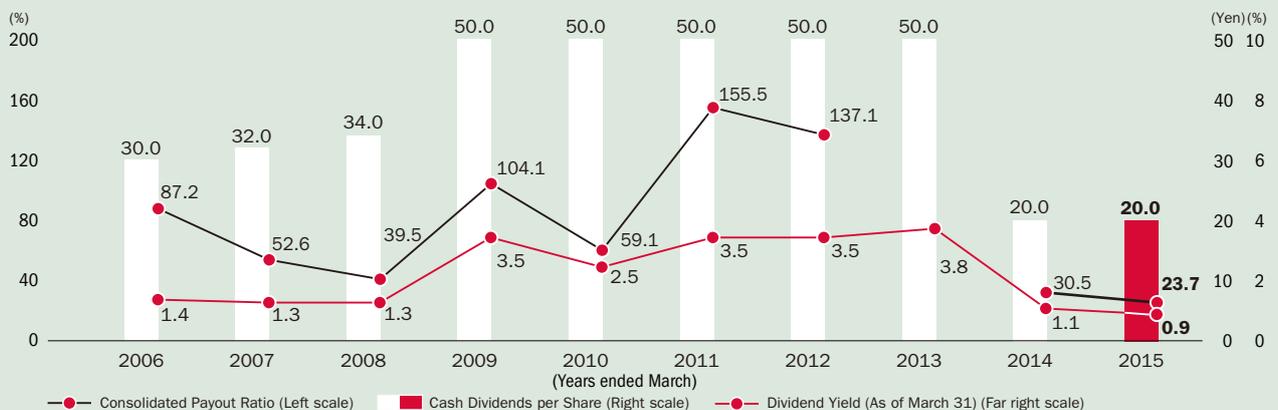
Shiseido Share Price & Nikkei Stock Average



Price/Earnings Ratio (PER)^{8,9} & Price/Book Value Ratio (PBR)¹⁰



Consolidated Payout Ratio⁸, Cash Dividends per Share & Dividend Yield¹¹



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

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

10. Price/Book Value Ratio = Closing stock price at fiscal year-end ÷ Net assets per share

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

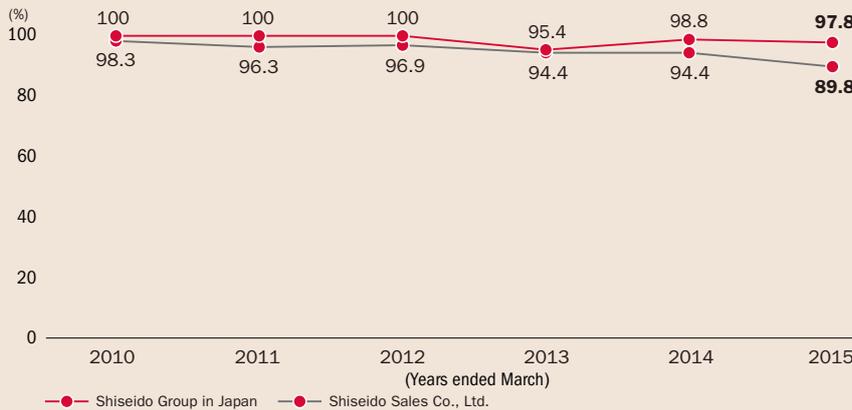
Human and Social Value

Percentage of Female Leaders¹²



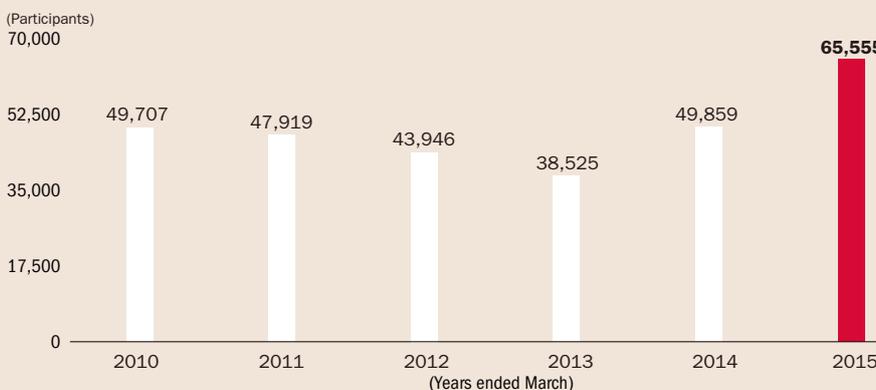
Shiseido has been energetically promoting women to positions of leadership. Overseas, more than 60 percent of leadership positions are held by women. In Japan, the percentage of women in leadership positions was 27.2 percent as of April 1, 2015. Shiseido has the goal of raising this to 30 percent by 2016.

Stability Rate for Employees in Japan Returning to Work after Taking Childcare Leave^{13, 14}



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

Number of SHISEIDO LIFE QUALITY BEAUTY SEMINAR Participants



Shiseido wants to help all consumers achieve the beauty they desire, and therefore holds SHISEIDO LIFE QUALITY BEAUTY SEMINARS around the world for the elderly, the developmentally challenged, and other participants. We held 3,877 seminars in the year ended March 2015, and 65,555 people participated.

(Please refer to page 57 for details on SHISEIDO LIFE QUALITY BEAUTY SEMINARS.)

12. Percentage of female leaders is as of April 1 each year in Japan and January 1 each year overseas.
 13. Number of employees who returned to work after taking childcare leave in the previous fiscal year and are still working as of March 31 of the current year ÷ total number of employees who returned to work after taking childcare leave in the previous fiscal year x 100
 14. Target personnel in Shiseido Group companies in Japan: managerial/major career path personnel; target personnel in Shiseido Sales Co., Ltd.: beauty consultants (excluding fixed-term contract employees)

Prestige



global brand
SHISEIDO

J C A U E



clé de peau BEAUTÉ

J C A U E



bareMinerals

J C * A U E

Cosmetics



ELIXIR

J C A U



MAQuillAGE

J C A



AQUALABEL

J C A



INTEGRATE

J C A



ANESSA

J C A

Personal Care



TSUBAKI

J C A E



SENKA

J C A



SEA BREEZE

J A

Main Regions of Availability
(As of March 31, 2015)

Japan: **J** China: **C** Other Asian countries: **A**
North America: **U** Europe: **E**



NARS
J C* A U E



BENEFIQUE
J A

Fragrance



ISSEY MIYAKE
J C A U E
narciso rodriguez
J C A U E
ELIE SAAB
C A U E



HAKU
J C A



PRIOR
J



Za
C A



AUPRES
C



urara
C



PURE&MILD
C

Professional



THE HAIR CARE
J C A



JOICO
C A U

Healthcare



The Collagen
J

* Only in Hong Kong

VISION 2020 and



Position on the Overall Map for Value Creation (page 12)

VISION 2020 and Three-Year Plans



Our mission is to help people live beautifully, and we are implementing reforms through 2020 to achieve our targeted outcomes.

In this section, President and CEO Masahiko Uotani explains our targeted outcomes and reforms to create value, and CFO Norio Tadakawa explains financial strategy.

President and CEO Masahiko Uotani on Shiseido's Management Strategy

▶ Page 22

CFO Norio Tadakawa on Shiseido's Financial Strategy

▶ Page 30

Three-Year Plans



President and CEO Masahiko Uotani on Shiseido's Management Strategy



Masahiko Uotani
Representative Director
President and CEO
Shiseido Group CEO

■ Shiseido's Problems and Their Causes

Strong growth will rejuvenate Shiseido. That is my conviction and my focus.

We can only grow if we win in the marketplace. Shiseido has not been growing because it refused to face and resolve the obvious problems that were halting growth.

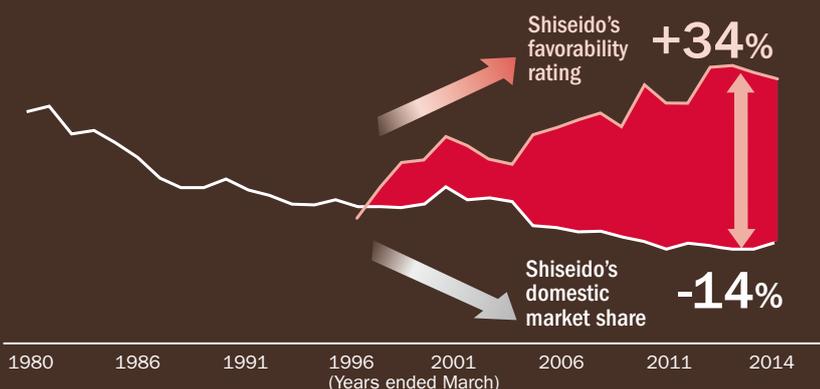
Figure 1 highlights a key problem. People may like Shiseido even better than they did 30 years ago, but our market share has been decreasing. Consumers are saying they do not buy our products even though they like us.

Why? Shiseido has failed to stay relevant to constantly changing consumers and markets. Figure 2 shows that investment in marketing, research and development has been decreasing, which has kept us from adapting to change. Our inefficient organization also diluted our brand portfolio with too many products and brands.

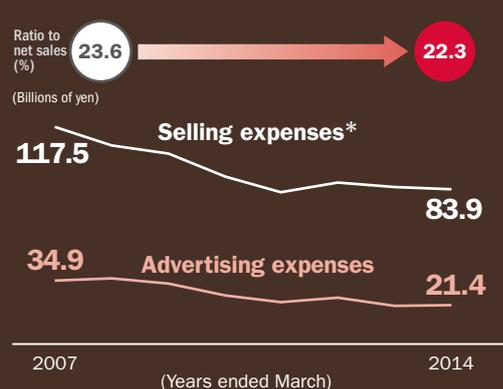
Our customer interface is the arena where we must solve these problems. During the past year, I discussed Shiseido and its problems with some 35,000 employees in Japan and overseas. I repeatedly heard comments like Shiseido cannot make decisions or respond to market changes quickly, and that the organization centered on Japan and the head office causes paralysis and obscures responsibility.

Facing reality

(Figure 1) Favorability Rating and Domestic Market Share



(Figure 2) Marketing Investment (Japan)



Favorability rating and market share to 2002 are based on Shiseido surveys. Market share for April 2003 to March 2009 is based on INTAGE Inc. SLI - Diary data. For April 2009 to March 2013, market share is based on INTAGE Inc. SLI - web purchase comparison data (value basis) for general cosmetics (defined by Shiseido; comprising cosmetics, haircare, body care and others).

* Sample, rebate and promotional expenses

■ Consumer-Oriented Transformation

We must first become totally consumer-oriented. Society is increasingly diverse and information-based. People today like to live life on their own terms, and want to actively make their own choices. These consumers require Shiseido to be a partner that helps them live life on their own terms, rather than setting terms by presenting an ideal of beauty as in the past. We used to instruct consumers, but now we must partner with them while we create value.

■ Overview of VISION 2020

We announced VISION 2020 in December 2014. It is a medium- and long-term strategy for Shiseido's evolution over the next 100 years, and lays out our targets for 2020. Shiseido's management team structured VISION 2020 as a set of specific action plans based on thorough discussion of targeted outcomes. This plan will enable our transformation into a new Shiseido.

Our goals for 2020 include building the model that will keep Shiseido vital for the next 100 years and deliver outstanding value to consumers and society. We will enhance the value of each Shiseido Group brand by focusing

Goal: Win in Japan and worldwide

completely on the consumer, and that will make us a winner in Japan and worldwide. By 2020, I want Shiseido to be full of energy for growth and relevant to society and consumers worldwide. Our numerical targets are net sales of over ¥1 trillion, operating income of over ¥100 billion, and ROE of 12 percent or more.

We will make our numbers by radically transforming Shiseido during the six years through 2020 and completely shifting to aggressive management. Figure 3 summarizes our roadmap through 2020. We will restructure our operating fundamentals during the first three years through 2017, and proactively invest to totally empower growth. This will open doors to new categories and businesses that will help us grow even faster during the three years through 2020. VISION 2020 challenges Shiseido like never before, but we will succeed if all employees make sure they are consumer-oriented.

(Figure 3) Targeted Outcomes and Roadmap for VISION 2020



* Travel Retail

Consumer-oriented in everything we do

specifics. We will structure an organizational matrix using brand categories based on consumer purchasing style and geographical areas, and establish

■ VISION 2020 Strategies

Our top priority in VISION 2020 is rebuilding the brand value that is the backbone of our business. Figure 4 shows how we will generate synergies by combining marketing that is focused on insights into consumer needs and purchasing behavior with innovative product development that encompasses product formulation, packaging and production. The key word here is “comprehensive.” We will not think of functions like research, development, production and sales as vertically discrete organizations as we did in the past. Instead, we will tie them together with a shared focus on consumers to increase brand value.

We will also radically reengineer our human resources and organizational structure to give them strong executional abilities. We will “think global, act local” to transform our conventional organization centered on Japan and the head office. This will involve transferring significant authority to front-line sales. Figure 5 provides

regional headquarters in each area with a CEO and CFO. Each area will receive broad authority and responsibility ranging from marketing to sales and finance, which will make us more responsive to consumers and markets. All Group companies worldwide now have the same fiscal year, which will facilitate this process.

We will also transform our corporate culture to prevail against the competition. Our organization will be agile and unified because we will share the will to transform Shiseido through our own actions and the commitment to decisively take on challenges.

Committed to transformation, we will implement the reforms of VISION 2020 under the slogan “Rejuvenate Shiseido.”

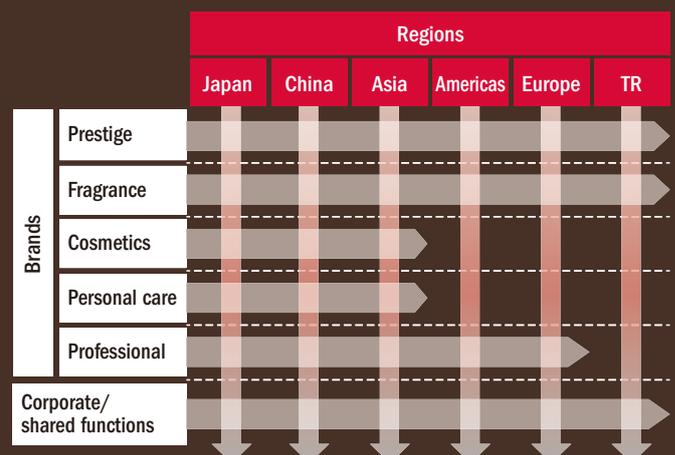
■ A Year of Initiatives and Results

We launched a three-year plan in April 2015, but we had already initiated reforms in the year ended March 2015.

(Figure 4) Key Strategies for Increasing Brand Value



(Figure 5) New Organizational Matrix with Brand and Region Vectors



Marketing innovations in Japan are representative. Figure 6 outlines the six major brand renewals and launches we executed, which included the launch of *ULTIMUNE* within the global brand *SHISEIDO* for global markets. These innovations were strongly positive and helped store sales grow. Our ICHIGAN Project drove these initiatives. All employees are involved in this project, which embraces a consumer-oriented, cross-divisional mindset. The ICHIGAN Project is exciting because it brings together people like researchers, managers and marketers to develop bright ideas for communicating brand value, and it puts them on the front lines giving sales corner presentations and handing out samples when we launch new products.

Sales growth had been slow in China, so we eliminated inventory problems that distracted us from selling to consumers. We are now positioned to completely reengineer our China business.

Internationally, we have brought together talented managers who will help us win. Our new management team is capable, experienced and committed to staying ahead of market change.

We are definitely producing results. The major brand renewals led the rebound in sales in Japan and helped us grow faster than the market. New customers and the



Employees work on a sales corner presentation as part of the ICHIGAN Project.

Shiseido Group's domestic market share also increased. People at Shiseido are excited again, especially at the customer interface.

We still have plenty of work ahead, but outcomes so far prove that a total commitment to customers will rejuvenate and empower Shiseido.

Shiseido is changing

(Figure 6) Brand Marketing Innovations in the Year Ended March 2015

					
Global brand <i>SHISEIDO</i> <i>ULTIMUNE</i>	<i>ELIXIR</i>	<i>MAQuillAGE</i>	<i>PRIOR</i>	<i>TSUBAKI</i>	<i>HAKU</i>

■ Strategy 1: Create Strong Brands

Several strategies will accelerate our progress.

First, we must create strong brands. Figure 7 shows our approach during the six years through 2020. We will increase consumer-oriented marketing investment to more than ¥100 billion during the three years through 2017. Figure 8 highlights the multiple strong brands we plan to nurture through 2020. We will expand sales of core brands such as the global brand *SHISEIDO* and *bareMinerals* to around ¥100 billion each, and sales of brands such as *ELIXIR* and *clé de peau BEAUTÉ* to around ¥50 billion.

Brand selection and concentration will be essential to achieving these goals. We are inefficient because we have too many brands in Japan. We will therefore rigorously employ product lifecycle management with clear rules for improving or eliminating brands, and carefully select brands that meet designated sales and earnings criteria. We will also restructure a consumer-oriented portfolio by reorganizing, consolidating or eliminating overlapping brands or those that consumers do not seem to need. At the same time, we will consider

acquiring brands to help us satisfy consumer needs.

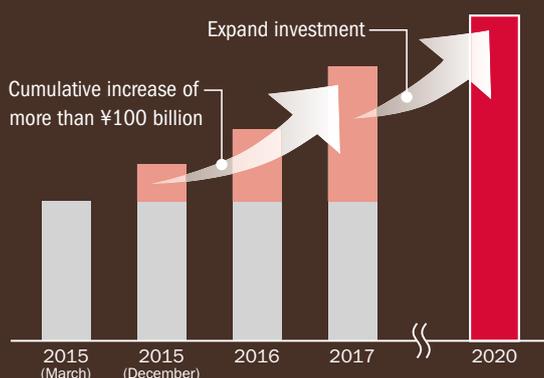
In the prestige category, we will concentrate worldwide on the global brand *SHISEIDO*, *bareMinerals*, *clé de peau BEAUTÉ* and *NARS*. The global brand *SHISEIDO* is particularly important in reengineering the value of Shiseido's brands. We will concentrate investments where they will generate potent global growth, with emphasis on *ULTIMUNE* launched in 2014. In the cosmetics category, we will selectively nurture *ELIXIR* in China and Asia in addition to Japan. We will also aggressively nurture *Za*, which is a mid-priced brand for young consumers that is already supported by Asian women in their 20s. In addition, we will invest aggressively in the personal care category, which encompasses haircare and other products.

Our beauty consultants are crucial to building brands because they are right at the customer interface communicating value. We will therefore do everything we can to make sure our beauty consultants are enthusiastic and excited about Shiseido, particularly in Japan and China. Figure 9 summarizes our approach. In Japan, we plan to recruit 500 beauty consultants as full-time employees in

April 2016, and we also plan to transition beauty consultants from contract to regular employment, link evaluation to store sales, and revise the compensation system.

Create strong brands

(Figure 7) Marketing Investment Plan



(Figure 8) Create Strong Brands

- Select brands to concentrate investment
- Restructure the brand portfolio



We are also reengineering our brand manager system. We will nurture strong brands by giving brand managers authority and responsibility for everything from development to sales and earnings.

The appeal of our brands has been fading in China, so we will invest aggressively to restore it and regain customer support. We will review every facet of brand strategy and upgrade beauty consultant compensation. We will also localize by shifting key components of the China business from Tokyo to China. This will help us develop and market products more effectively because we will have an accurate understanding of market needs.

■ **Strategy 2: Invest in Growth Businesses**

While nurturing our brands, we will also invest in growth businesses in rapidly expanding markets.

The travel retail market offers outstanding opportunities because the number of travelers from China and elsewhere in Asia is forecast to increase significantly. Figure 10 highlights moves to strengthen our travel retail business. We have established a new headquarters in Singapore, and will build travel retail into a significant business

Change into an agile, unified organization

by increasing the number of counters and enhancing our lineup exclusively for travel retail.

Growth is also accelerating in the e-commerce market, so we will deploy resources to e-commerce in Japan and every market we serve worldwide. We expect e-commerce in China to generate 30 percent of our China sales in 2020, so we will invest to make sure we benefit from market change. The dedicated organizations we have created in China and Japan will expand this business with fresh new ideas.

■ **Strategy 3: Build an Organization That Benefits from Diversity**

Our initiatives will require us to strengthen our people and organization to enhance our front-line capabilities and effectiveness. We must therefore ensure that our organization benefits from diversity.

Specifically, we will enhance employee training through the Marketing Academy while energetically recruiting highly qualified professionals from outside

(Figure 9) Motivate Beauty Consultants (BC)

Encourage recruiting of and promotion to regular employees

Switch to an evaluation and position/compensation system that is linked to store sales



(Figure 10) Expand Travel Retail Business

Establish an independent organization in Asia

Enhance investment in sales counters



Shiseido. Moreover, we will proactively rotate personnel, including from Japan to overseas assignments and vice versa. We will also promote women to management positions, reform the seniority-based personnel system, and hire talented young employees.



regions they serve while comprehensively strengthening basic and platform research at our centers in Japan. In addition, we have decided to open the Global Innovation Center at the end of 2018 in Yokohama, Japan. It will be the largest of its kind among global cosmetics companies. The center will drive value creation by bringing together diverse minds from around the world and promoting open innovation.

We will fund investment in growth by intensifying cost structure reforms. We are exhaustively reviewing costs at the granular, product level, and plan to generate ¥30 to ¥40 billion in savings during 2017 and ¥60 billion over the three years through 2017. (Please refer to “CFO Norio Tadakawa on Shiseido’s Financial Strategy” on pages 30 to 31 for details.)

Strategy 4: Build the Foundation for Growth

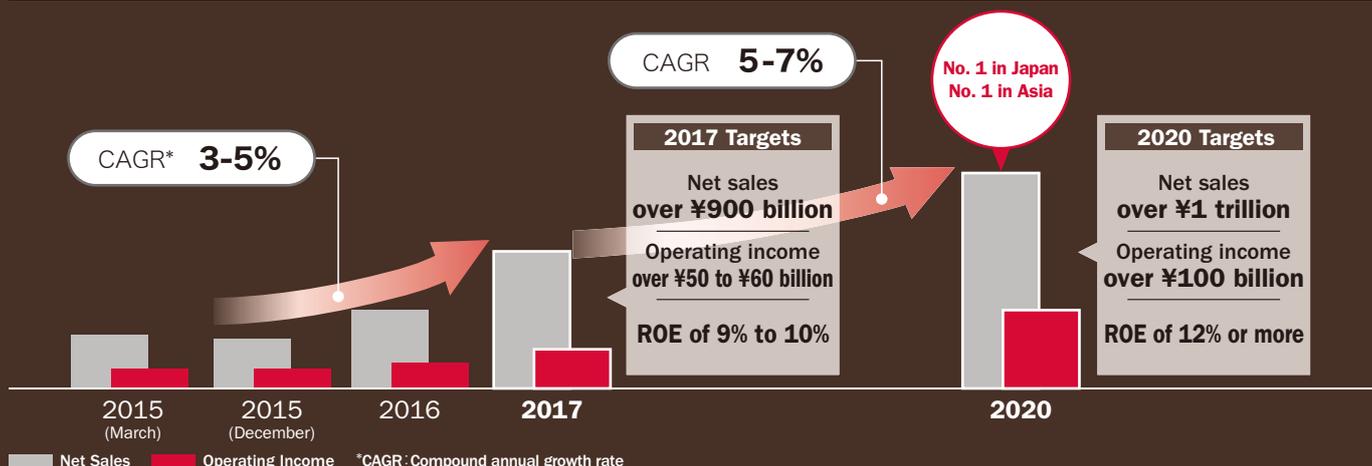
Another focus will be creating the foundation for value creation and growth over the medium and long term. One key to this strategy will be substantially increasing investment in research and development through 2017 by 40 percent compared with the year ended March 2015.

We plan to increase the number of employees at research centers worldwide to 1,500 by 2020 from approximately 1,000 at present. We will also form a closer connection between our nine research centers worldwide and the

Numerical Targets of the Current Three-Year Plan

We will restructure our business foundation with a target of more than ¥900 billion for net sales by 2017 during our current three-year plan. We will also steadily increase the power of our brands and grow our top line as our first step toward achieving our net sales target for 2020 of over ¥1 trillion. These targets assume a compound annual growth rate (CAGR) of 3 to 5 percent. Figure 13 shows CAGR by region; we plan to increase CAGR to 3 percent in Japan, 9

(Figure 11) Numerical Targets for 2017 and 2020



percent in China, 7 percent in Asia, 6 percent in the Americas, and 2 percent in Europe. Investment during the first two years will restrain operating income, but we will begin generating returns in 2017, and are targeting operating income of ¥50 to ¥60 billion for that year. We are also targeting ROE of 9 to 10 percent for 2017. (Please refer to “Feature: Area x Brand Growth Strategy” on pages 32 to 41 for details about strategy by geographical area, and to the outlook for 2015 in “Operating Results and Financial Condition” on page 91.)



■ Commitment to the Future

The mission incorporated in the Shiseido Group corporate philosophy Our Mission, Values and Way (MVW) is to help people live

beautifully. We create value with a focus on the cosmetics business while reaching out to many markets through beauty. Examples of markets with potential include food, clothing, shelter, lifestyle and sports. The Shiseido of the future has vast potential to create value in tandem with changing consumers.

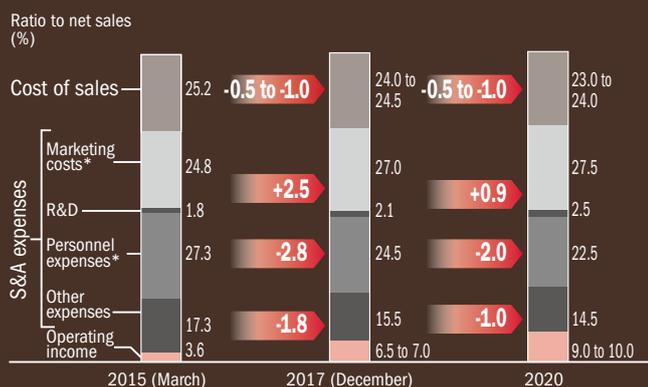
Building the model for the future Shiseido will test our

Resolute commitment to the future

strength. We want to be a company that is relevant and successful worldwide, so our employees around the world will effect change. Senior management is also resolutely committed to implementing VISION 2020. I will devote myself to this challenge.

Shiseido is now in action. We ask for your support as we move forward.

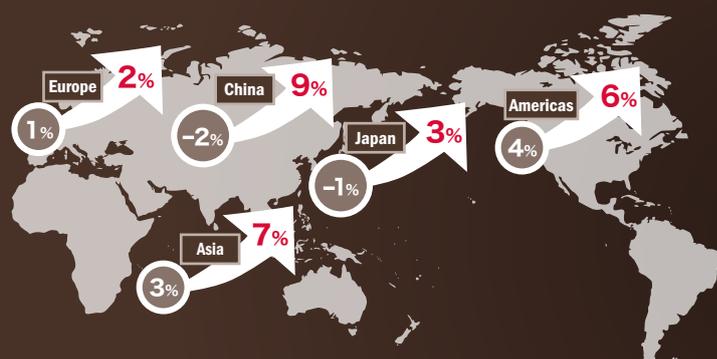
(Figure 12) Cost Structure (Ratio to Net Sales)



* Counter depreciation expenses and costs of BCs who are hired by distributors and retailers previously included in other expenses have been reclassified as marketing costs and personnel expenses, respectively.

(Figure 13) Sales Growth by Region*

(CAGR for 3 years ended March 2015 vs. 3 years ending 2017)



* On a local currency basis

CFO Norio Tadakawa on Shiseido's Financial Strategy



Changing to Increase Corporate Value

We will generate growth by quickly understanding our risks and opportunities and flexibly reallocating resources.

Norio Tadakawa
Corporate Officer
Shiseido Group CFO

Better Management and Capital Efficiency

Shiseido's top priority is to maximize earnings in its core businesses. We will steadily increase earnings with consistent top-line growth that reduces the fixed-cost ratio. First and foremost we need to increase brand equity. Strong brands increase our return on marketing and other investments, which complements growth to support increased earnings.

We also need to increase asset turnover. We will improve our cash conversion cycle by shortening inventory turnover with better supply chain management. This will involve increasing the accuracy of forecasting,¹ promptly sharing information among frontline sales and production, using the Shanghai Pilot Free-Trade Zone in China to develop and manufacture products, and shortening inspection time. We will

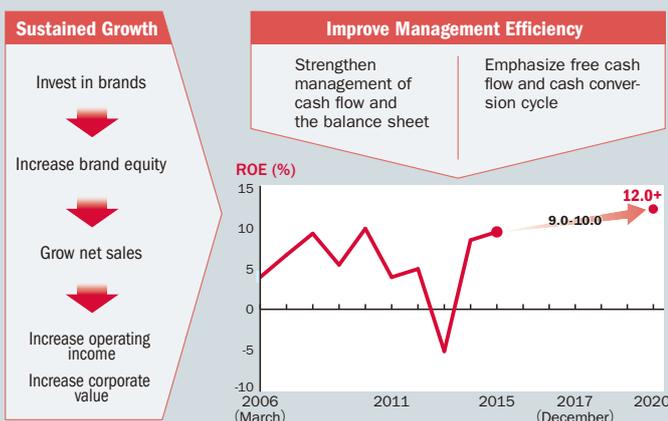
also compress the cash-to-cash cycle for receivables by managing accounts more rigorously in each country.

Intelligent funding is central to capital efficiency. We have a benchmark of 25 percent for the interest-bearing debt ratio² so that we can maintain favorable access to funding for attractive projects while improving capital efficiency. We meet our funding requirements for large-scale investments using optimum, timely methods given factors including operating status, financial position and market environment.

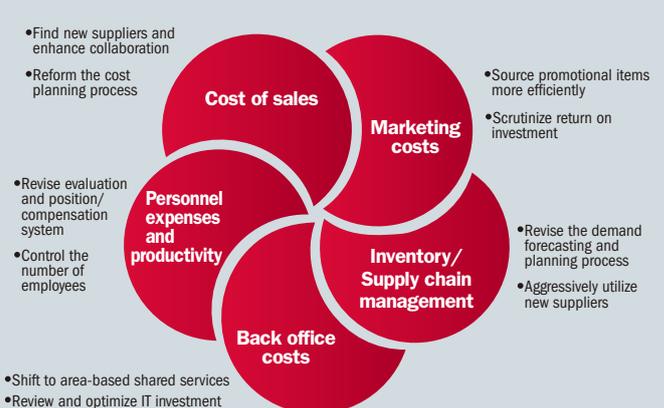
ROE should increase as a result of these initiatives. Our ROE targets are 9 to 10 percent for 2017 and 12 percent or more for 2020.

1. Methods for making future projections, including current analysis, historical statistics, results and experience
2. Interest-bearing debt ÷ (Interest-bearing debt + Total net assets)

Increase in ROE (Sustained Growth and Improving Management Efficiency)



Promotion of Structural Reform



Cost Savings Will Fund Growth Investments

We have initiated new structural reforms to support VISION 2020. They involve squarely facing our core issues and giving area managers and officers in charge of businesses responsibility for resolving them with successful organizational and process reforms. We will focus worldwide on cost of sales, marketing costs, inventory and supply chain management, back office costs, and higher manufacturing productivity. We plan to generate funds for investment by reducing costs by ¥30 to ¥40 billion during 2017 and by ¥60 billion over the three years through 2017. Structural reforms will also make our organization stronger.

Improved Management Precision

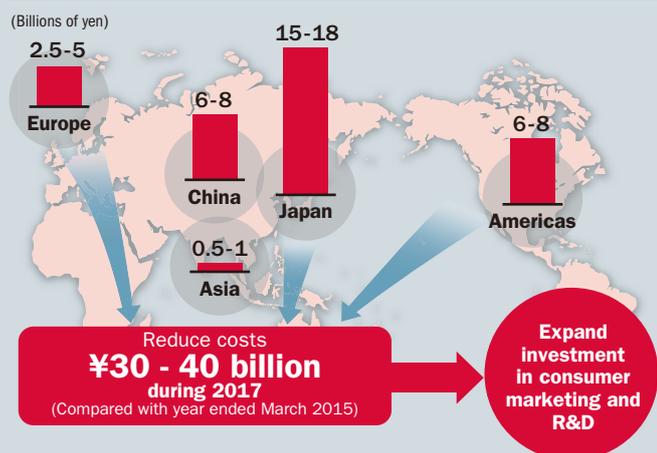
Some investors and financial analysts have criticized Shiseido because we have frequently revised our initial fiscal year forecasts downward. This is part of a much wider issue – we need to collect, use and forecast information better in order to grow. In 2014, we verified our daily store sales numbers and monthly income and expenses for each brand in Japan and shared these data throughout the Company. That helped us make faster, more effective decisions for subsequent actions. Overseas, we also verified daily shipments and enhanced forecasting management. We will further evolve our management fundamentals to implement matrix management by brand and region from January 2016. Moreover, we have eliminated multiple layers of communication, and will transition to a simplified

communication system in which I speak directly with regions and brandholder CFOs. Our ability to communicate and understand current conditions in real time will help us flexibly reallocate resources worldwide and generate growth, especially now that we have standardized the fiscal years of all Group companies. Better information means better management. And that means we will be better able to achieve the targets we commit to.

Shareholder Returns

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

Cost Reduction Targets by Region



Cash Dividends per Share and Consolidated Payout Ratio*





Feature:

Area × Brand Growth Strategy



Position on the Overall Map for Value Creation (page 12)

Feature: Area × Brand Growth Strategy



Shiseido is implementing consumer-oriented reforms worldwide to create the model for itself for the next 100 years. We are embracing the “think global, act local” mindset in transitioning to an organization centered on markets and regions that are close to consumers and introducing regional headquarters and a system in which brand managers have authority and responsibility for products and brands.

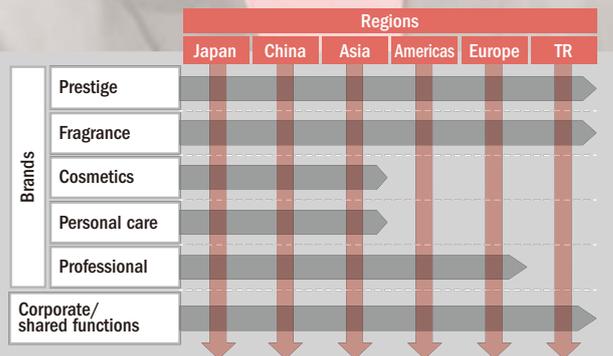
This feature is a forum for the leaders responsible for regions and brands in the new organization to discuss their goals and strategies.

Note: Information in the feature is as of July 2015.



- Japan** ▶ Page 34
- China** ▶ Page 36
- Asia** (Including the Travel Retail Category and Za) ▶ Page 38
- Americas** ▶ Page 39
- Europe** ▶ Page 40
- Prestige Category** ▶ Page 41
(Global brand *SHISEIDO*, *clé de peau BEAUTÉ*)

■ New Organizational Matrix with Brand and Region Vectors



Target for 2017

▶ **3% CAGR**
for Japan business sales
over three years

Targets for 2020

▶ **No.1**
in the domestic
cosmetics market

▶ Share of top 15 brands in net sales:
90% of Japan business sales

Make All Activities Consumer-Oriented

Shiseido must do everything possible to reverse the long-term market share decline of its business in Japan to remain vital for the next 100 years. Our mission is to be number one in Japan by 2020. We will implement radical reforms to ensure all activities are totally consumer-oriented to once again be the Shiseido that consumers support.

We will build the foundation to achieve these goals during the three years beginning 2015. This will involve creating strong brands and building an organization that can prevail against competitors. Our aim is a 3 percent CAGR for sales, compared with negative 1 percent over the previous three years.

Creating Strong Brands

Increasing the value of our brands and products while enhancing consumer loyalty to create strong brands is an urgent priority.

First, we will restructure and remove redundancies from our brand portfolio with a consumer orientation to clarify the value of our brands. We will then increase brand value by ensuring comprehensive collaboration among divisions ranging from research and manufacturing to advertising and sales so that all employees present a unified front in communicating brand value to consumers.

This mindset drove a succession of consumer-oriented marketing innovations during 2014 that are now generating significant results. Specifically, we started with the launch of *ULTIMUNE* within the global brand *SHISEIDO*, then innovated the key *ELIXIR*, *MAQUILLAGE*, *TSUBAKI* and *HAKU* brands, and subsequently launched the new *PRIOR* brand for mature women. Each initiative has met with enthusiastic response, and some products have already substantially exceeded initial sales plans.

Behind these brand innovations was the ICHIGAN Project involving cross-divisional collaboration among all Shiseido employees. Employees united to conduct consumer-oriented marketing, and when we launched new products, head office, research and factory employees joined sales staff in conducting sales corner presentation and sampling. As a result of these and similar initiatives, domestic sales regained momentum in the second half of the year ended March 2015 following brand innovations with sales growth rates higher* than the recovery of the overall market. We are confident the results show that our consumers support these initiatives, and have strengthened our resolve to innovate further.

Spontaneous consumer-oriented ICHIGAN initiatives will be of primary importance, with ICHIGAN becoming an intrinsic Shiseido approach as we sequentially strengthen brands.

*Comparison of Shiseido's results and market growth rates for the year ended March 2015 with those of the year ended March 2013, which was not skewed by a surge in demand related to the consumption tax increase.

Become number one in Japan through activities that are completely consumer-oriented.

(From left)

Toru Sakai

Representative Director
Corporate Executive Officer
President, Shiseido Japan

Mikiko Soejima

Corporate Officer
Senior Vice President,
Beauty, Japan Business Division

Enhancing the Strengths of the Beauty Consultants Who Communicate Brand Value

We will achieve our targeted outcomes for 2020 by arranging systems and mechanisms that will bring out the strengths of our roughly 10,000 beauty consultants in Japan as evangelists who are absolutely necessary for communicating Shiseido value. Specifically, we will innovate the system for evaluation based on responsibilities and contribution and promote a change from fixed-term contracts to regular full-time employment. We also plan to recruit approximately 500 new beauty consultants as full-time employees in 2016, the first such initiative in about 10 years. While adding recruits will increase beauty consultant-related expenses on a one-time basis, personnel expenses in Japan as a whole will not increase. Making beauty consultants full-time employees will increase their motivation, and adding youthful beauty consultants will expand encounters with young consumers.

Investments Driven by Selection and Concentration

As we implement initiatives to

enhance the strength of our brands, we will select and concentrate to clarify the brands we will focus on in each category. In Japan, the top 30 brands currently account for 90 percent of sales. We plan to strictly manage brand cycles and use other approaches to reduce this to a portfolio in which our top 15 brands account for 90 percent of sales in the three years through 2020. Looking at focus brands by category, Shiseido's core prestige category will have three brands: the global brand *SHISEIDO*, *clé de peau BEAUTÉ* and *BENEFIQUE*. The cosmetics category will have six brands, including *ELIXIR* and *MAQuillage*. We will also intensify initiatives in the personal care category to nurture sales of brands such as *TSUBAKI*, *SENKA* and *SEA BREEZE*.

At the same time, we must expand value in new businesses to become number one in Japan. Inbound demand has grown rapidly recently, which we will capture by continuing current initiatives such as multilingual service at sales counters and the use of websites and social networking in marketing. We will also seek the insights of the growing number of visitors to Japan, especially consumers from China and Taiwan, in order to conduct marketing that accurately reflects their needs.

Digital approaches are essential for staying in touch with the younger generation. We will focus investment on *watashi+*, a website with approximately 2 million members, to enhance its mind-share and use the large volume of data that it generates in our marketing.

An Agile Organization That Drives the Market

Going forward, we will significantly change the framework of our organization. Our businesses in Japan will be structured around divisions in brand categories such as prestige, cosmetics, personal care and digital, complemented by management of functions such as planning, marketing and beauty consultants. We will also continue to enhance the brand manager system under which each main brand has a manager with the authority and responsibility to oversee everything from the brand's development to revenue. In these ways, we will eliminate or unify redundant functions that are separated between head office and sales companies. Thus we will build an agile organization that will allow us to respond to market change with speed.

We have been steadily implementing consumer-oriented business reforms in Japan, starting with the optimization of market inventories in 2013 followed by initiatives such as unification of sales activities. All employees have noticed good results from these reforms, which has clearly energized our workplace. We will reestablish Shiseido's domestic business as a presence that further drives Japan's cosmetics market.



BENEFIQUE



ELIXIR



MAQuillage

Target for 2017

▶ **9% CAGR**
for China business sales
over three years

Target for 2020

▶ **E-commerce share of
China business sales:**
30%

Resolving Structural Issues

The China business used to drive Shiseido's growth. It grew rapidly after we established a subsidiary in China in 1991 and built a powerful presence, with sales expanding to over ¥100 billion. Recently, however, growth has slowed and earnings have dried up. The problems have been decreasing brand value and an inability to respond to market change. Also, a complex organization and processes resulted in inadequate management. Consequently, energy for growth was sapped.

Given this situation, we implemented rapid reforms from 2014 to become a truly consumer-oriented marketing company. We optimized excessive market inventory levels by collecting inventories and restraining shipments totaling more than ¥10 billion to sweep away obstacles to growth and focus completely on retail

activities. We made store sales the unified performance indicator and installed a mechanism that links shipments with store sales. Furthermore, in January 2015 we began innovating the management organization. We have transferred the functions and authority of the China Business Division at the head office in Tokyo to China and are taking steps to localize management.

The Next Level of Reengineering

Reengineering the China business is our most important initiative in creating a model for Shiseido to ensure that it remains vital for the next 100 years. We must move forward step by step to restore the power of our presence in China. Specific steps will include revising our channel strategy and strengthening our area-based marketing structure. In addition, we will therefore thoroughly review and reengineer our operating structure in China. We will concentrate on increasing brand value and building an organization that will accelerate our response to market change.

Reengineering Strategy

We are moving completely away from a system that depends on sell-in and totally innovating our brand portfolio based on unprecedented large-scale consumer research to direct bold investment in the brands we are nurturing. We will invest in marketing to nurture the global brand *SHISEIDO*, which has been in recovery mode since the launch of *ULTIMUNE* and has substantial regional growth potential. For *clé de peau BEAUTÉ*, a strong performer handled by approximately 40 stores, we will focus on growing sales to wealthy consumers. At the same time, we will revamp the portfolio and targeting of the China-only brand *AUPRES* based on consumer connection and evaluation, and also restructure the channel policy and brand strategy for *urara* and *PURE&MILD*. In addition, we will actively nurture *Za* as a brand for the expanding middle-income consumer segment, and selectively nurture *ELIXIR* in China as well. We will localize development, including finding new suppliers, so that we accurately meet consumer needs.

Reengineer totally to become consumer-oriented.

Ralph Ahrbeck
Corporate Executive Officer
President, Shiseido China



AUPRES



urara



PURE&MILD

reducing other expenses and right-sizing headcount.

Shiseido's Growth Driver Once Again

We plan for a 9 percent CAGR for sales over the next three years compared with negative 2 percent over the previous three years, which will be higher than the market growth rate. While we are pushing ahead with reengineering of our operating structure during 2015, we expect to accelerate growth from 2016.

We will further enhance consumer-orientated activities, invest resources to build brand value, and totally reengineer operations to make China a growth driver for Shiseido once again.

We see the rapidly growing e-commerce market as a key growth area in which we are adding personnel and aggressively implementing measures. We established an independent e-commerce division in October 2014 and are building expertise throughout the Group, creating new platforms and promoting collaboration with shopping malls. E-commerce sales in the China business for 2014 more than doubled year on year and exceeded plan. Pushing for further acceleration, we want e-commerce to account for 20 percent or more of China business sales in 2017 and rise to 30 percent or more of sales in 2020.

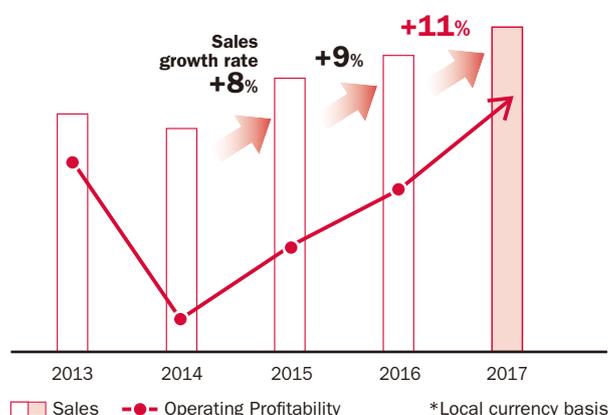
Organizationally, we will establish a regional headquarters function to enable us to further transfer functions and authority to decision makers who are close to consumers. We have already recruited more than 10 managers locally and we will continue to bring on local hires. We will also fully review the compensation, training and organization of beauty consultants with the aim of enhancing counseling with a spirit of *omotenashi*, a Shiseido strength.

In tandem with these initiatives, we will concentrate on reducing costs to generate funds for growth investments. We will reduce cost of sales by enhancing supply chain management while

Roadmap for Reengineering the China Business

2014	2015	2016-2017
<ul style="list-style-type: none"> Collect excess market inventory, primarily at department stores Optimize market inventory levels by reining in shipments Initiate organizational restructuring 	<ul style="list-style-type: none"> Restructure brand portfolio Move completely away from the sell-in focus in sales activities Strengthen local ties of the sales organization Expedite organizational restructuring and localization Enhance local R&D Expand e-commerce Reform the management organization 	<ul style="list-style-type: none"> Expand store sales Implement new brand strategy Launch locally developed products Accelerate marketing enhancements Formulate new channel policies Develop new BC organization Realize the effects of cost structure reforms

Sales Growth and Operating Profitability* (Plan)



Targets for 2017

▶ **7% CAGR**
for Asia business sales
over three years

▶ Za sales:
+37%
(compared with the year
ended March 2015)

▶ Travel retail sales (worldwide):
+30%
(compared with the year ended
March 2015)

Increasing Growth Potential

We have a solid presence in the rapidly growing markets of Asia, a key region for us, but our market share has dropped over the past three years. Factors in the decline include insufficient brand development and a weak response to market change.

We have begun to address these problems through consumer-oriented reforms. In 2015, we are establishing a regional headquarters in Asia while transitioning to regionally centralized management. We also aim to increase growth potential by employing selection and concentration to totally restructure our brand portfolio. We are targeting a 7 percent CAGR for sales over the next three years, in contrast to a CAGR of 3 percent over the previous three years.

Enhancing Investment through Selection and Concentration

In the prestige category, we will reinforce the global brand *SHISEIDO* and expand its market share. We will also invest in and nurture *clé de peau BEAUTÉ* and *NARS*, which have strong growth potential. At the same time, we will expand and strengthen brands including *Za*, *SENKA* and *ELIXIR* because growth is crucial in the middle-income consumer segment, which accounts for 60 percent of the market.

Za is sold mainly in the drugstore and department store channels of 11 countries and regions in Asia. It has a strong position among women in their 20s in countries such as China, Taiwan, and Thailand and we expect further strong growth as a result of the strong partnership between our global team and local marketers. While investing aggressively in marketing, we will expand makeup market share and increase sales of skincare with the aim of increasing *Za* sales 37 percent by 2017 compared with the year ended March 2015.

We will also increase investment in the highly profitable travel retail category, which offers excellent potential for growth.

Led by the recently established global travel retail headquarters in Singapore, we increased the number of sales counters that handle *Shiseido* products and enhanced our line of travel retail exclusive products. We expect worldwide sales in the travel retail category to increase 30 percent by 2017 compared with the year ended March 2015, driven by growth in Asia.

We must accelerate growth in Asia to support *Shiseido*'s evolution. We will generate solid growth in the rapidly changing, surging markets of Asia.



Za

Prevail in Asia by rapidly changing and surging ahead.

(From left)
Jean-Philippe Charrier
Corporate Officer
President, Shiseido Asia Pacific

Philippe Lesne
President,
Shiseido Global Travel Retail

Ikuko Hori
Za Brand Manager

Targets for 2017

▶ **6% CAGR**

for Americas business sales over three years

▶ **NARS sales:****+50%**

(compared with the year ended March 2015)

▶ **bareMinerals sales:****+25%**

(compared with the year ended March 2015)

Focusing on Businesses That Drive Potential

Our business continues to grow in the Americas, the world's largest cosmetics market. We will further accelerate brand growth through 2020, and we intend to raise our profile in a region that is crowded with competitors.

Our target over the next three years is a 6 percent CAGR for sales in the Americas business. We will concentrate investment in key brands to achieve this ambitious target, which exceeds the CAGR of 4 percent over the previous three years.

Continuing Evolution of the Strong NARS and bareMinerals Brands

The makeup brand NARS is a key to future growth. The makeup category has been growing strongly in the Americas lately, and robust growth in sales of NARS has exceeded the market growth rate. We will invest aggressively in NARS to build on this growth momentum. We expect sales to increase 50 percent by 2017 compared with the year ended March 2015.



bareMinerals



NARS

We will fully highlight the world view of creative director François Nars while differentiating NARS from competitors by evolving it as a brand with a powerful fashion aesthetic. We will also further strengthen marketing via the Internet and other digital media to grow sales by enhancing our global digital media presence.

The bareMinerals brand is widely popular in the Americas, mainly for its mineral foundation. Overall sales of this brand have recovered due to the popularity of the liquid foundation BARESKIN, which was launched in 2014. With ongoing marketing enhancements, we expect sales to increase 25 percent by 2017 compared with the year ended March 2015. Among various initiatives, we plan to implement branding that aligns with the preferences of consumers who like a natural look, further promote the launch of novel products, upgrade our POS system and enhance our website.

Improving Profitability

We will also implement structural reforms throughout the Americas business to improve profitability and innovate in order to make substantial contributions to earnings. We are currently raising efficiency and optimizing operations by integrating back office functions, implementing cost controls for promotional and other products, and by carefully reviewing all costs.

Operations in the Americas are a growth business with excellent brand strength and market opportunities. We are confident that we can develop even greater power by unifying the strengths of individual brands. We will make rapid progress as a business that delivers outstanding value to consumers.

Increase presence by building diverse, strong brands.

(From left)

Simon Cowell
CEO
Bare Escentuals, Inc.

Louis Desazars
Global CEO
NARS Cosmetics

Targets for 2017

> 2% CAGR
for Europe business sales
over three years

► BPI* sales:

+7%
(compared with the year
ended March 2015)

* Beauté Prestige International S.A.

Prestige Business Development

The Europe business operates in a widely diverse geographical area including Europe, the Middle East and Africa. Our mission is to develop our presence in this intensely competitive market through steady growth and profitability enabled by establishing Shiseido brands that the world admires.

By enhancing unified marketing throughout Europe for the global brand *SHISEIDO*, which is the core of our prestige business in this region, we will accelerate development that matches market needs, and enhance our response to the major regional retailers for further growth.

Reinforce the Fragrance Business

The fragrance business of Beauté Prestige International S.A. (BPI) accounts for about half of Shiseido's Europe business sales, so strengthening this business represents a major growth opportunity. With an established presence in the fragrance business, BPI will move forward to be one of the leading companies in the

fragrance category. While the license agreement for *Jean Paul GAULTIER* will expire at the end of 2015, we will strengthen our brand portfolio with media investment and new brands. We plan for sales to grow 7 percent by 2017 compared with the year ended March 2015. We also plan to enhance our growth toward 2020 by expanding marketing investment.

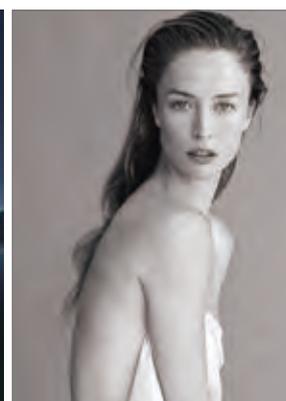
Enhance Profitability and Steady Growth

Increasing profitability and securing the resources for marketing investments is a major objective of the Europe business. Having a regional headquarters in Europe to lead operations will enable flexible decision-making and improve efficiency. We will also take steps to increase cost efficiency of point-of-sale materials and other items through centralized manufacturing.

We are targeting a CAGR of 2 percent for sales over the next three years compared with 1 percent over the previous three years.* Success in Europe,



ISSEY MIYAKE



narciso rodriguez

where new trends and culture are created, will contribute significantly to our global competitiveness. The Europe business will have the advantage of diversity in continuing to implement front-line reforms to achieve potent development.

* This is slightly low due to the sale of the *CARITA* and *DECLÉOR* brands and the expiration of the license agreement for *Jean Paul GAULTIER*.



Build the brands that the world admires.

(From left)
Atsushi Sato
CEO
Shiseido International Europe S.A.

Eric Henry
COO
Beauté Prestige International S.A.

Brand > Prestige Category (Global Brand *SHISEIDO*, *clé de peau BEAUTÉ*)

Target for 2017

▶ **ULTIMUNE sales:**

+70%

(compared with the year ended March 2015; sales volume basis)

▶ **Global brand *SHISEIDO* sales:**

+10%

(compared with the year ended March 2015)

▶ ***clé de peau BEAUTÉ* sales:**

+20%

(compared with the year ended March 2015)

Focus on Nurturing Brands to Increase Their Value Worldwide

In the prestige category, which centers on high-priced brands, our strategy involves nurturing four main brands – the global brand *SHISEIDO*, *clé de peau BEAUTÉ*, *bareMinerals* and *NARS* – to further enhance the power of our brands in this category through 2020.

Aggressively Develop the Global Brand *SHISEIDO*

The global brand *SHISEIDO* is available in 89 countries and regions, and is the Shiseido Group's most important core brand. Launched in 2014, *ULTIMUNE* generated strong sales and received numerous best cosmetics awards in Japan and overseas.

We will enhance marketing and strengthen links with other skincare products while further nurturing *ULTIMUNE* to build the overall presence of the global brand *SHISEIDO*. We will also build support for the brand among young consumers by designing brand concepts tailored to target consumers and renewing adver-

tising. We will also strengthen localized research and collaboration with teams in the countries and regions we serve.

We plan for sales of the global brand *SHISEIDO* to increase 10 percent by 2017 compared with the year ended March 2015. In particular, we expect sales of *ULTIMUNE* to grow strongly worldwide, increasing 70 percent compared with the year ended March 2015 on a sales volume basis.

clé de peau BEAUTÉ: Leader in the Prestige Market

clé de peau BEAUTÉ is our top-end brand in the prestige category. Following the 2011 renewal of this brand, we quickly implemented comprehensive marketing that generated steady sales growth. We are targeting leadership in the high-prestige market by 2020, and will strengthen the development of this brand in Japan, Asia and the Americas.

As a concrete action, we will concentrate on the visualization of the brand's value at every touch point with the consumer ranging from products and advertising to sales counters and digital



Global brand *SHISEIDO*



clé de peau BEAUTÉ

media. We expect the sales growth of *clé de peau BEAUTÉ* to be 20 percent by 2017 compared with the year ended March 2015. We will continuously implement bold initiatives to achieve leadership in the high-prestige market.



Establish world-leading brands.

(From left)
Yoshiaki Okabe
Corporate Officer
SHISEIDO Brand Director

Keiichi Fujii
clé de peau BEAUTÉ Brand Director

Value Creation Se



Position on the Overall Map for Value Creation (page 12)



Basic Policy

Our Mission, Values and Way are the Shiseido Group philosophy that guides us in creating value by making consumer orientation central to all our activities. We are promoting comprehensive collaboration among processes including research, product development and consumer care, and the creation of an organization that enables us to respond quickly to changing consumers. As a result, we are innovating marketing. This section explains our initiatives.

ction



Consumer-Oriented Initiatives Now in Progress	▶ Page 44
Initiatives to Achieve Innovative Product Development	▶ Page 46
Research and Development	▶ Page 48
Product Development	▶ Page 50
Production and Procurement	▶ Page 52
Advertising and Design	▶ Page 54
Consumer Care	▶ Page 55
Cross-Divisional Initiatives	▶ Page 57

Consumer-Oriented Initiatives Now in Progress

Being consumer-oriented is one of the components of our medium- and long-term strategy VISION 2020. Consumer-oriented action to create the Shiseido of the future has begun to emerge on the front lines and is steadily yielding results. This section presents case studies of comprehensive marketing centered on the consumer-oriented ICHIGAN Project in Japan, the goal of which is to encourage cross-divisional collaboration in creating sales counters and communicating value. We will become even more consumer-oriented as the Group collaborates to increase brand value.

Groupwide Sales Corner Creation for the Launch of the New ELIXIR



Heightened Sense of Unity through a Cross-Divisional Initiative

Our second brand innovation was the new ELIXIR brand, which we launched in October 2014. We implemented the ICHIGAN Project during the launch, with President and CEO Masahiko Uotani, 18 officers and approximately 350 employees from research, production, the head office and elsewhere joining front-line staff to conduct sales corner presentations at 10,000 stores throughout Japan in the three days before launch. The sales counters created through this Groupwide initiative were vigorous and ambitious and won the admiration of drug-store personnel who felt that Shiseido's potential was remarkable.

The success of this and other initiatives supported strong store sales for the new ELIXIR. The cross-divisional activities also heightened Shiseido's sense of unity.



Cons
orie

Enhancing the Consumer-Oriented Mindset through Interaction with Consumers

The Kuki Factory in Japan manufactures TSUBAKI. Production personnel suggested sampling activities at neighboring stores as a point of contact with consumers for communicating product value. As production personnel worked exclusively in the factory, many would be interacting with consumers for the first time, so they prepared by thinking about how to communicate TSUBAKI's appeal to consumers, reviewed product merits and conducted practice sampling.

Sampling began in November 2014, and in conjunction with the innovation of the TSUBAKI brand in March 2015, factory personnel were able to provide samples to approximately 15,000 area residents over 12 days. Results were outstanding, with sales increasing by a factor of five from a year earlier at general merchandise stores where sampling was conducted. These activities were an opportunity for the employees to reaffirm their gratitude for consumers, Shiseido's *raison d'être*, and their sense of responsibility toward work, and have energized our production activities.



Sampling Activities by TSUBAKI Production Personnel



Integrated
consumer-driven
marketing

Marketing
×
Innovation

Product development
based on
innovative core
technologies

Communicating the Value of the Factory Manufacturing a New MAQuillAGE Foundation



Positive Impact of Communicating Value Created by Production Processes to Consumers

We launched *MAQuillAGE Dramatic Powdery UV* foundation in February 2015 to address the desire of women in their 20s to 40s for a “barely there” natural finish that blends into the skin. We manufacture this novel foundation using a “mousse press” method that mixes beauty serum and powder to create a mousse. Responsible for producing *MAQuillAGE Dramatic Powdery UV*, the Kakegawa Factory had been designing production equipment from scratch and devising other techniques to create other unique products. However, we had not been adequately communicating with consumers about the initiatives of our factories. Kakegawa Factory personnel felt that providing such information to a large number of beauty consultants and retailers could help communicate the value of this new foundation to more consumers. They therefore took the initiative to conduct measures including holding factory tours and seminars and producing a DVD for beauty consultants and retailers. As a result, their efforts to communicate product value were more effective, which had an extremely positive impact on product sales.



umer-
nted

Creating New Value by Developing Consumer Orientation

We are developing consumer-oriented technology using our understanding of consumers.

Shiseido has been operating a social business on a test basis in farm villages in Bangladesh. We conducted a survey on the skin of local women about four years ago, and found that their skin was aging fast due to the effect of powerful ultraviolet radiation. The researchers who conducted the survey then began developing a sunscreen for humid climates that would not lose its effectiveness when exposed to water or sweat like conventional sunscreens. In 2014 they turned their attention to the minerals and other components of water and sweat and succeeded in developing WetForce, a proprietary technology that provides enhanced protection against ultraviolet rays when in contact with sweat or water.

In March 2015, we launched a sunscreen that uses this technology within the global brand *SHISEIDO*, and sales have been strong in the United States and Japan. We plan to step up the development of such consumer-oriented technologies toward commercialization.



Development of WetForce, a Consumer-Oriented Proprietary Technology



Initiatives to Achieve Innovative Product Development

We innovate during research and development through product development that draws on innovative basic technologies and through collaboration and integration with marketing. To ensure Shiseido remains a vital company in the future, we are expanding investment in research and development to establish a strong foundation for new value creation by 2020.

Expanding Investment in Research and Development That Achieves Innovation

We will strengthen our research and development by expanding the scale of research centers in Japan, China, Southeast Asia, Europe and the United States to create an organization that is driven by consumer insights in regions worldwide. We will therefore be able to develop products that better address local needs, and we will strengthen collaboration with local marketing. We will also increase the number of research personnel worldwide from the current level of about 1,000 to about 1,500 by 2020, and raise the ratio of R&D expenses to net sales from the current 1.8 percent to 2.5 percent in 2020.

Strengthening Global Research and Development



The New Global Innovation Center (Tentative Name)



(Image)

Enhancing Basic Research to Create New Value

We will localize research and development while comprehensively strengthening basic research that supports future growth by locating hubs for such research in Japan. We will therefore open the Global Innovation Center (tentative name) in Yokohama, Japan at the end of 2018, which will accelerate innovation by bringing together a diverse group of researchers, knowledge and expertise from around the world.

About the New Global Innovation Center

- Concept**
- ① **An urban “open lab”**
Creating value through direct exchanges with active consumers
 - ② **Integration of diverse expertise**
Creating value by bringing together people from cutting-edge research facilities and other industries, such as retail
 - ③ **Global innovation hub**
Communicating value through the centralization of consumer and technical information

Overview		Location	Yokohama City	Overview of the building	14 floors above ground and 2 floors below ground
		Site area	7,023 m ²	Total construction cost	¥30 to ¥40 billion (estimate)

Integrated
consumer-driven
marketing

Marketing
×
Innovation

Product development
based on
innovative core
technologies

Proof of Technological Prowess Unmatched by Other Companies

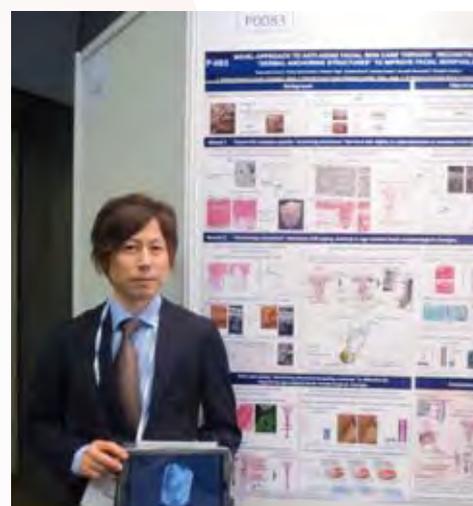
Shiseido continues to earn recognition for excellence at International Federation of Societies of Cosmetic Chemists (IFSCC) Congresses and Conferences, the most authoritative meetings in the cosmetic-related sciences. At the IFSCC Congress held in October 2014, Shiseido received the top award in the poster presentation category for its research into a novel approach to anti-aging facial skin care. Shiseido has now won 23 IFSCC awards, including 19 top awards, which is the most among cosmetics manufacturers worldwide. We will further enhance this technology to support the development of products that are highly competitive globally.

(For details on the winning research, go to <http://www.shiseidogroup.com/rd/ifsc/>)

■ Number of Awards Received at IFSCC Congresses and Conferences (As of July 2015)



Recognition of Excellence from IFSCC



Receiving the top award in the poster presentation category at the 28th IFSCC Congress

Initiatives to Commercialize Hair Regenerative Medicine



Dermal sheath cup cell

Achieving Beauty and Health in the New Field of Regenerative Medicine

Shiseido opened the Shiseido Cell-Processing and Expansion Center (SPEC) in May 2014. Located in the Kobe Biomedical Innovation Cluster in Kobe, Japan, the center will be our core research and development facility for commercializing hair regenerative medicine.

Targeting the clinical application of regenerative medicine to treat alopecia and thinning hair, Shiseido concluded a technical collaboration agreement in July 2013 with Canadian bio-venture company RepliCel Life Sciences Inc. to acquire an exclusive geographic license to use RepliCel Hair-01 (RCH-01) hair regeneration technology in Asia, including Japan. RCH-01 is an autologous cell transplantation technology, in which specific cells isolated from the hair follicles taken from the scalp of a patient are cultured and injected into the balding scalp area, potentially stimulating residing hair follicles and promoting new growth in the balding scalp area. This technology has no risk of immune rejection because it uses the patient's own cells. We will conduct research and development in the outstanding environment for applied regenerative medicine research in the Kobe Biomedical Innovation Cluster to commercialize this highly safe technology as soon as possible.

Research and Development

Shiseido Advantages

- Nine research centers worldwide in five countries, including Japan
- Strong R&D capabilities cultivated over more than a century, with strengths in skin-brightening and anti-aging
- R&D activities that emphasize heartfelt consumer satisfaction are integrated with marketing

Highlights of the Year Ended March 2015

- Shiseido won top honors in the poster presentation category at the 28th International Federation of Societies of Cosmetic Chemists (IFSCC) 2014 Congress. This marks Shiseido's 23rd IFSCC award, including top awards, the largest number among cosmetics manufacturers worldwide.
- R&D expenses increased 5.1 percent year on year to ¥14,226 million, and represented 1.8 percent of net sales, unchanged from the previous fiscal year.
- Shiseido announced the establishment of a new research center, the Global Innovation Center (tentative name), in Yokohama. We expect it to begin operating at the end of 2018.

Research and Development That Achieves Inner and Outer Beauty

The objective of our research and development is to create superior value and quality to achieve the beauty consumers want by integrating our broad portfolio of technologies and knowledge with our sales counter and marketing organization. We also want to address sophisticated and diverse beauty needs, so we are creating new value by producing experiences that resonate with consumers and go beyond the tangible craftsmanship that has traditionally been the point of origin of our relationships with them. Specifically, we contemplate how we can give consumers heartfelt satisfaction as we enhance the functions and effectiveness of our products and

services. We are therefore emphasizing research activities that provide insights into what consumers think and feel, transform those insights into realities, and communicate the resulting value. Our advanced R&D capabilities promote all of these activities, and we always strongly emphasize safety so that consumers can use our products with peace of mind.

Promoting Innovative Research and Development

Shiseido generates value at nine research centers in five countries staffed by approximately 1,000 researchers to maximize its R&D capabilities. Specifically, Japanese research centers with responsibilities ranging from basic research to product development are hubs and

overseas research facilities that create value tailored to their local markets are spokes. This hub-and-spoke system generates synergies and delivers optimum value to local consumers. We will also establish the Global Innovation Center (tentative name) in Yokohama as a research center that generates new value by integrating the interaction and knowledge of diverse people to create innovative technologies. We expect this facility to begin operating at the end of 2018.

A Leader in Skin-Brightening and Anti-Aging

Our key research fields include 1) development of highly active cosmetic ingredients for skin brightening and anti-aging, in which we excel; 2) elucidation of complex mechanisms such as skin

ULTIMUNE, the result of Marketing × Innovation



We are enhancing consumer-oriented brand marketing to raise brand value. Launched in 2014, ULTIMUNE inaugurated our marketing reforms. This article introduces the processes involved.

01

More than 20 Years of Research into Skin and Immunity

Shiseido believes all women possess powers that fully bring out their beauty, regardless of their age. One such power is the skin's immunity. Skin intrinsically acts to beautify itself and has the power to fight various kinds of skin damage. Over 20 years ago, we began pioneering research into the skin's immunity in collaboration with the Cutaneous Biology Research Center (Massachusetts General Hospital/Harvard Skin Studies).

functions and aging; and 3) development of emulsification technologies, which are very important for cosmetics. For example, Shiseido is a leader in skin-brightening research in Japan and around the world. We have developed four of the 20 or so active skin-brightening ingredients currently approved by Japan's Ministry of Health, Labour and Welfare. We also employ the different characteristics of these ingredients to develop skin-brightening products that address consumers' various skin coloration concerns. In addition, we are working to enhance our technological capabilities through full-scale entry into regenerative medicine, a new field for us, and initiatives in social sciences such as psychology and ethology.

Focused on Safety

As a corporation that handles chemical substances, Shiseido places the highest priority on quality and safety, and has been conducting full-scale research into cosmetics safety since the 1960s.

A particular current goal of an international accord adopted by Shiseido and other participants of the World Summit on Sustainable Development in 2002 is to use and produce chemicals by 2020 in ways that lead to the minimization of significant adverse effects on human health and the environment. With this accord in mind, Shiseido's fundamental stance is not to sell

products that adversely impact human health or the environment, based on information it has collected regarding domestic and international regulatory trends and chemical substance safety, and the latest scientific knowledge.

Specifically, we strictly comply with the laws and regulations of the regions we serve, including Europe's REACH Regulation for controlling chemical substances, the nanomaterial regulations required for cosmetics in Europe, and plastic microbead regulations in the United States. As shown by our unilateral decision to stop using triclosan and other substances, we also discontinue use of substances legally approved for ingredients and switch to alternative substances in the event that scientifically valid information of concern is reported. Moreover, we do not use cosmetics ingredients judged to be genetically modified because a global consensus about their safety has not emerged. We only use raw materials we are convinced are safe, and perform patch tests and actual usage tests supervised by dermatologists.

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

Policy toward Abolishing Animal Testing for Cosmetics

Shiseido does not test its cosmetic products or ingredients on animals except when absolutely mandated by law,¹ or in

the rare case where there are absolutely no alternative methods for guaranteeing product safety.²

Shiseido's mission is to provide safe and effective products to consumers, and to comply with the cosmetics regulations in force, while understanding and respecting the principles behind animal protection.

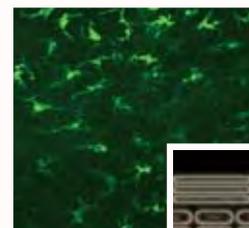
We have been developing alternative testing methods for more than 20 years. Recently, in collaboration with Kao Corporation, we have been developing the Human Cell Line Activation Test (h-CLAT), a method for assessing sensitization to substances that does not involve animals. This method costs less and requires smaller samples and less time than animal testing, but provides highly precise measurement of sensitization. We are championing this technology worldwide while involving cosmetics companies in Japan and overseas, with the goal of official certification in 2015. Exemplifying our commitment, in December 2014 we made our patents in Japan related to h-CLAT available for royalty-free use.

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

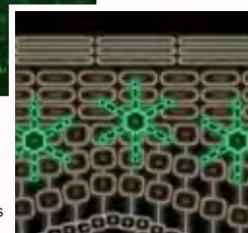
02

Direct Action on Langerhans Cells, Which Govern Immunity

Shiseido focused on Langerhans cells, which govern the skin's immunity and serve functions including suppression of factors that cause skin damage. We found that Langerhans cell functions are weakened not only by adverse external factors such as dryness in the air, air pollution and ultraviolet rays, but also by aging and stress. Based on these findings, we developed the world's first ingredient that acts directly on Langerhans cells to improve functions that have been weakened by aging and stress as well as by external factors.



Langerhans cells (green) in the epidermis (the skin's outer structure)



Dendritic Langerhans cells (Image)

Continued next page

Product Development



Shiseido Advantages

- Value creation that starts with consumers to accurately reflect insights into latent needs
- Product development that uses the Mirror system to collect, analyze and share consumer feedback
- Production that facilitates the coexistence of beauty and ecology

Highlights of the Year Ended March 2015

- January 2015: Launched the total brand *PRIOR* that proposes a new beauty standard for mature women and was developed with careful attention to target consumer insights.
- Expanded the Mirror system to 21 countries and regions.
- Expanded the switch to sugar cane-derived polyethylene packaging to approximately 60 cosmetics products.

New Value Creation

We introduced the *PRIOR* brand for mature women in January 2015. Before the launch, we conducted surveys of approximately 6,700 mature women regarding subjects including their mindset, behavior and cosmetics usage. Using these surveys to observe and analyze issues including daily activities and cosmetics usage, we learned that mature women strongly felt they wanted to accept aging while maintaining their appeal, but also wanted simple ways to resolve skin concerns. Armed with a clear understanding of these needs, we executed consumer-oriented marketing that unified all phases from planning to sales. We established a core concept of “easy ways to resolve problems unique to adults.” That is how we created *PRIOR*,

a brand that fulfills the ideals and true feelings of mature women to propose a new beauty standard by women. Haircare and foundation products have driven solid sales since the launch.

We continue to enhance our focus on consumers to develop products with new value proposals that meets their needs.



PRIOR

Initiatives to Incorporate Consumer Feedback

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

We are using a system called Mirror in 21 countries and regions including Japan to efficiently collect, analyze and organize consumer feedback in real time for shared use by our internal divisions, including research, production, product development and sales. Moreover, centralized collection and management of consumer comments has enhanced our ability to respond to risks. We take consumer opinions and evaluations of our products seriously

03

Creation of a New Beauty Serum Concept

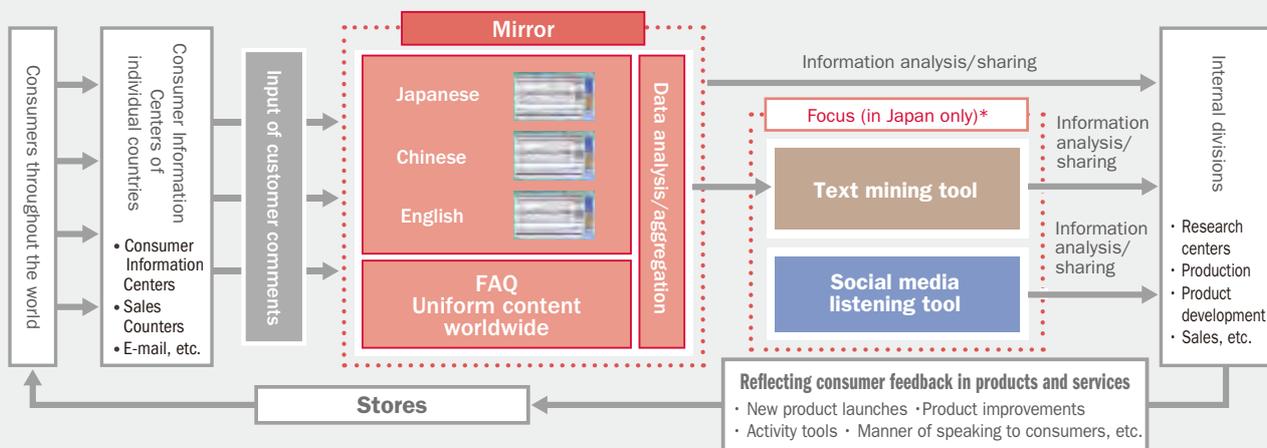
Based on our research, we created the new beauty serum *ULTIMUNE* using the concept that the skin has an intrinsic ability to make itself beautiful. It is formulated with *ULTIMUNE* Complex,* a unique protective ingredient we developed that activates everyone's innate immunological ability to beautify their own skin, which leads to strong skin that protects itself from various damaging factors such as dryness in the air.

* Carboxymethyl glucan Na, PEG/PPG-14/7 dimethyl ether and rose water and glycerin (a moisturizing element for protecting skin)



ULTIMUNE Complex (Image)

■ Mirror: A System for Collecting and Utilizing Consumer Feedback



*System that mines and visualizes data and consumer comments and SNS (Twitter, blog) message text

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

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

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

Product Development Committed to Reducing Environmental Impact

Shiseido formulated its Production Eco Standards in the year ended March 2011 to serve as environmental standards for product design. They are not simply standards for environmental friendliness. Rather, they are intended to support new lifestyle proposals through production that facilitates the coexistence of beauty and ecology without impairing the value of cosmetics in terms of factors such as effectiveness, user experience, ease of use and beauty of design.

Specifically, we are switching to cosmetics product containers made of sugar

cane-derived polyethylene, adding refill products and expanding the use of environmentally friendly paper such as bagasse paper made from sugar cane fiber residue left over in the juice extraction process and Forest Stewardship Council certified paper. We are also moving to conserve water resources by reducing the amount of water required to manufacture and use our products.



We began switching to sugar cane-derived polyethylene packaging in September 2011 with SUPER MILD. The expanding range of products with this new packaging currently includes ELIXIR, TSUBAKI and ANESSA.

04

Passionate about Texture and Fragrance

Consumers use cosmetics every day, and Shiseido believes that product texture and fragrance are important for achieving consumer satisfaction. We therefore focused on texture and fragrance as we developed *ULTIMUNE*. We achieved exquisite texture through approximately 400 experiments aiming to condense beauty ingredients and create a combined sensation of penetration and smoothness. *ULTIMUNE*'s green floral fragrance created by Shiseido through aromacological research, gives people a feeling of well-being.



▶ Continued next page

Production and Procurement



Shiseido Advantages

- An optimum global production network structured around production bases in 13 locations worldwide
- Total commitment to quality and safety

Highlights of the Year Ended March 2015

- A new building at the factory in Vietnam began commercial operations in November 2014, which increased production volume to 43.8 million units per year, or 1.7 times compared with December 2013.
- Established a plant cultivation test facility within the Kakegawa Factory to grow plants for use as raw materials for active ingredients for cosmetics, and began full-scale operation of a test farm. We have begun selling six products formulated with ingredients produced at Ettusais Farm.
- Conducted 459 surveys of compliance with the Shiseido Group Supplier Code of Conduct.

Global Production Network and Procurement Activities

Shiseido is proactively structuring an optimum global production network to stably supply products to consumers worldwide. We currently have a total of 13 production bases in Japan, China, Taiwan, Vietnam, France and the United States.

In addition, the business partners that Shiseido works with in its various procurement activities are essential to providing safe, excellent products and services. We work to achieve sustained, mutual development with all of our suppliers, who we view as partners in the creation of new value.

Addressing Consumer Needs and Increasing Production Efficiency

Shiseido is upgrading its production bases to accurately address ever-changing consumer needs while increasing profitability. Specifically, we are shifting production among bases to raise production efficiency and innovate production technology by specializing each factory.

Established in 2010, the state-of-the-art factory in Vietnam complies with the ISO22716 (Cosmetics GMP) international standards. With a new building that began full-scale operations in November 2014, it is positioned as our most important production base for supplying Japan and the fast-growing ASEAN markets, and we are manufacturing mid- and low-priced skincare products there.

We closed the Kamakura Factory in March 2015. The remaining three factories in Japan are positioned as respective mother factories that evolve Shiseido's production technologies while extending these technologies to overseas factories.

Environmental Activities in Manufacturing

Each of Shiseido's production bases proactively conducts environmental activities, and we lead the cosmetics industry in promoting production activities with reduced environmental impact.

We set down detailed action plans to achieve our targets for reducing CO₂ emissions and assiduously use PDCA cycles. In addition, we achieve zero emissions at all of our production bases in Japan by using waste substances as raw materials. Each

05

Making Skin Beautiful through the Power of Plants

Plants have the power to survive adverse external factors. *ULTIMUNE* incorporates this power. Skin is exposed to adverse effects from many quarters including dryness in the air and ultraviolet rays, so we focused on ginkgo because its vitality has allowed it to survive for millions of years, and on the Eastern and Western herbs perilla and thyme because of their antibacterial properties. To keep the skin's surface healthy, we formulated a moisturizing botanical cocktail* including these plants.

* Ginkgo leaf extract, perilla extract, wild thyme extract, PEG/PPG-17/4 dimethyl ether, and glycerin (a moisturizing element for protecting skin)





■ Transactions Subject to the Shiseido Group Supplier Code of Conduct

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

factory actively conserves energy, reduces waste and recycles in ongoing activities to reduce environmental impact.

Quality and Safety Management in Manufacturing

Shiseido places top priority on quality and safety to deliver products that consumers can use with peace of mind. Going beyond adherence to the quality standards set by global guidelines, we have established Shiseido Good Manufacturing Practice (Shiseido GMP) as an even more rigorous self-imposed standard for maintaining and controlling quality in manufacturing.

We also comply with all items of the ISO22716 standards to base manufacturing on rigorous quality control. We only use carefully selected raw materials for which the items related to safety have been meticulously confirmed. Similarly, we

provide consumers with food and health-care products they can use regularly with peace of mind by employing standards such as HACCP* and ISO22000.

In April 2013, Shiseido established a plant cultivation test facility within the Kakegawa Factory to grow plants for use as raw materials for active ingredients for cosmetics, and began full-scale operation of a test farm. These initiatives target even greater quality consistency and plant raw material procurement that is reliable, safe and has high traceability to the producer.

* A set of food hygiene management techniques developed to ensure food safety in the U.S. space program.

Cooperation with Business Partners

Shiseido took the opportunity as a member of the United Nations Global Compact to formulate the Shiseido Group Supplier Code of Conduct in 2006 (revised December 2011). The code stipulates our standards for human rights, legal

compliance, labor practices, the protection of intellectual property and maintenance of confidentiality, protection of the environment, fair operating practices and compliance monitoring. We distribute the code to educate our suppliers in Japan and overseas about it, and conclude purchasing contracts and memorandums of understanding (MoUs) to ensure compliance.

As of March 2015, Shiseido had MoUs with more than 1,500 companies in Japan and overseas that are among the suppliers subject to the Shiseido Group Supplier Code of Conduct.

In addition, we monitor compliance with the Shiseido Group Supplier Code of Conduct through regular surveys of approximately 500 suppliers in Japan and overseas.



Network Japan
WE SUPPORT

06

Shiseido Quality

We want consumers to feel perfectly safe using our products. Shiseido is dedicated to maintaining quality and safety in its operations, and assiduously controls quality in the production of *ULTIMUNE*. We have established our own rigorous standards to maintain consistent quality from ingredient procurement and manufacturing to shipping. Not suited to automation, the production of *ULTIMUNE* is largely a manual process that requires considerable care. To ensure that we deliver a safe product that consumers can rely upon, production staff employ their own five senses to carefully examine the product, which includes using the product themselves to check its feel, in addition to conducting rigorous checks with the latest inspection equipment.



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Advertising and Design



Shiseido Advantages

- An in-house creative department that works with marketing from the initial stages of value creation to achieve comprehensive branding
- A creative network with offices in the Americas, Europe and China to quickly draw on local consumer insights
- Creative knowledge acquired over a century that aligns us with the values of diverse consumers

Highlights of the Year Ended March 2015

- clé de peau BEAUTÉ Synactif Fragrance* received a Silver Pentaward in the 2014 Pentawards Worldwide Packaging Design Awards Competition.
- ULTIMUNE* received a 2014 Good Design Award from the Japan Institute of Design Promotion.

Creativity That Changes with Consumers

The Advertising and Design Department is an in-house creative department responsible for the design of Shiseido products and advertising. Its 130 creators bring to life designs that connect with consumers in areas ranging from packaging and advertising to websites and interiors.

Consumers of Shiseido products are not limited to Japan. We operate worldwide in the Americas, Asia, Europe and elsewhere, so our approaches and expressive techniques evolve in alignment with the wide-ranging values of diverse consumers. We also bring in external expertise and take other steps to enhance our ability to plan global communication strategies.

One of our unchanging missions is to create Shiseido value and share it with consumers. Driven by the Rejuvenate Shiseido theme of VISION 2020, we are also innovating our actions in step with the quickening pace of change of everything from consumer behavior to globalization. The Advertising and Design Department will continue to develop a more exciting and powerful connection between Shiseido and the world.

Unique Shiseido Creativity

In 1916, Shiseido established the Design Department, currently the Advertising and Design Department, to create and communicate new beauty and culture. It has passed down its unique aesthetic sense symbolized by

the unique Shiseido typeface while creating new, modern beauty.

A key recent issue for companies is how to share value and build relationships with consumers. Having an in-house organization that participates from the early stages of value creation (product development) to craft appropriate expression and enable ongoing refinement with a long-term perspective is a unique and important Shiseido strength. The Advertising and Design Department will celebrate its first century in 2016. It will continue to advance with research and development and marketing as an engine that drives the value creation process.

07

A Color That Symbolizes Life and the Global Brand SHISEIDO

We also focused intently on product packaging details during the development of *ULTIMUNE* to establish a global brand. It features gradation from a red base and a thick glass form that represents healthy skin, and the packaging embodies the dynamism of life. The organic design is easy to hold and invites the touch. Centered on Shiseido red, the carefully designed *ULTIMUNE* has a unique presence that captures anew international awareness of the global brand SHISEIDO.



Consumer Care



Shiseido Advantages

- Approximately 22,000 beauty consultants worldwide who act as our point of contact with consumers, communicating brand value with a spirit of *omotenashi*
- A Consumer Information Center that is highly regarded by consumers for its dedication to handling inquiries and consultation

Highlights of the Year Ended March 2015

- Approximately 10,000 beauty consultants in Japan are using the Beauty Tablet, a mobile information terminal (iPad).
- Handled approximately 100,000 inquiries/comments at the Consumer Information Center and collected approximately 90,000 consumer comments from sales counters.
- Received a 3 Stars Quality Service rating for the second consecutive year in the quality monitoring (telephone) division of HDI-Japan's Fiscal 2014 Benchmarking Survey.

Initiatives to Enhance the Spirit of *Omotenashi*

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

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

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

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

Consumer-Oriented Service

Shiseido collects, analyzes and internally shares consumer feedback, and uses it for product development

and initiatives to improve service. We also use consumer feedback to further enhance consumer care and satisfaction by providing it to workplaces in real time to prompt review of activities and highlight issues that we need to address. (Please refer to "Initiatives to Incorporate Consumer Feedback" on pages 50 to 51 for details about our Mirror system.)

In 1968, Shiseido established the consumer care organization that is now



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

08

Wonder and Joy at Launch

ULTIMUNE can be used by anyone regardless of age group or skin type, and our beauty consultants began introducing the products to consumers prior to launch. They fully communicated *ULTIMUNE*'s special ability to draw out the skin's intrinsic beauty by having consumers experience its feel and fragrance directly. We also conducted multifaceted promotional activities around the world that included a major transit advertising campaign at launch, original decorations at main stores and special events at all stores. These activities enabled us to reach out to prospective users of Shiseido products.



Advertising mural covering an entire wall

Continued next page

known as the Consumer Information Center. It provides consumer care and feeds back consumer information within Shiseido to make consumers the starting point of all corporate activities.

The Consumer Information Center is an important point of consumer contact. It sincerely handles inquiries and consultation, and is dedicated to providing the most helpful information to consumers. Proactive consumer communication also includes online beauty consultation called Web BC counseling, which we have provided via our total beauty service website *watashi+* since 2012. Help Desk Institute is the world's largest support service industry association, and its Japanese subsidiary, HDI-Japan, evaluated

the quality of the Consumer Information Center's service.

Shiseido's Consumer Information Center received the highest 3 Stars Quality Service rating for the second consecutive year in the quality monitoring (telephone) division of HDI-Japan's Fiscal 2014 Benchmarking Survey.

Higher Levels of Consumer Care

Shiseido is improving consumer care and proposal capabilities at sales counters by using software it developed that condenses the consumer care expertise and beauty technology it has cultivated to date. We are also using international versions of this software overseas.

In June 2013, we equipped approximately 10,000 beauty consultants in Japan with the Beauty Tablet, a mobile information terminal (iPad). In the following month, we began installing four proprietary software applications for use in serving consumers at sales counters: a makeup simulator that projects the user's face just like a mirror and allows consumers to freely experience makeup patterns virtually without removing actual makeup; a foundation finder and applications for skincare consultation and healthcare that allow

consumers to choose the most appropriate product from a large selection of items. We use this kind of leading technology as a tool to improve consumer satisfaction by capturing interest at the sales counter and giving consumers the means to discover their own charm.

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



Approximately 10,000 beauty consultants in Japan use Beauty Tablets (iPads) in serving consumers at sales counters.



09

Awakening the Beauty Within

We have successively made *ULTIMUNE* available in 89 countries and regions since advance sales began in July 2014. Sales have increased with unprecedented speed. We hit our planned worldwide shipment goal for the year ended December 2014 by the end of October 2014, and in Japan, *ULTIMUNE* sales volume as of December 31, 2014 was approximately three times greater than the four-month average for Shiseido's overall beauty serum sales volume. The value of *ULTIMUNE* is also winning broad recognition. As of May 31, 2015, it has received 63 awards in Japan and around the world, including the Prix d'Excellence de la Beauté Award 2015 from *Marie Claire*, France's leading monthly women's fashion and beauty magazine. We will awaken the inner beauty of even more women through proactive sales counter activities.



BEST OF THE YEAR
VoCE
BEST COSMETICS
2014年 美容液部門
1位



美容プロが選ぶ
2014ベストコスメ
美容液部門
第1位



Numerous magazines have awarded *ULTIMUNE* with their prize for cosmetics.

Cross-Divisional Initiatives

Women and
Beauty

Culture

Environment

Personnel

Shiseido Advantages

- Implementing initiatives to raise consumer quality of life (QOL) through the power of the makeup process including skincare
- Helping women excel in ways such as signing the Women's Empowerment Principles
- Promoting personnel diversity and inclusion

Highlights of the Year Ended March 2015

- The United Nations Global Compact selected Shiseido for inclusion in the Global Compact 100 stock index (11 Japanese companies including Shiseido were among the 100 companies selected).
- The Ethisphere Institute selected Shiseido as one of the World's Most Ethical Companies for the fourth consecutive year.
- Shiseido received the "Minister of State for Special Missions Prize" in the first "Advanced Corporation Awards for the Promotion of Women" hosted by the Cabinet Office.
- Shiseido ranked first for the second consecutive year in *Nikkei Woman's* "100 Best Companies Where Women Play an Active Part."

Areas in Which We Apply Our Capabilities, and People, the Source of Value Creation

Our basic policy for fulfilling the corporate mission of helping people live beautifully is to address social expectations and challenges in the course of business. Our basis for doing so is Our Way, the code of conduct for all Shiseido Group employees worldwide, and the Shiseido Group Standards of Business Conduct and Ethics. These codes of conduct draw on numerous global standards, including the United Nations Global Compact, which we have participated in since 2004, and the ISO26000 standards.

Among various social expectations and challenges, we are concentrating on three core areas in which we can apply Shiseido's unique capabilities – women and beauty, culture, and the environment – as well as on nurturing the people who are the source of value creation.

Women and Beauty

Initiatives to Enhance the Quality of Life through Cosmetics

Since its founding in 1872, Shiseido has used the cumulative results of its research on cosmetics and beauty products and methods to help people achieve the beauty they desire. Therefore, we actively promote the

SHISEIDO LIFE QUALITY BEAUTY PROGRAM to enhance the quality of life (QOL) of consumers by enriching their hearts.

SHISEIDO LIFE QUALITY MAKEUP

SHISEIDO LIFE QUALITY MAKEUP provides free makeup advice such as proposals for covering various skin problems with cosmetics, for people with serious skin concerns including beauty concerns such as bruises, dark spots, vitiligo, skin irregularities including scars and burn marks, and side effects of cancer treatment such as dullness, other changes in skin color and loss of eyebrows and eyelashes. As of March 2015, we had provided training at approximately 370 business partner and medical institution locations throughout Japan that support our efforts. We also conduct these activities overseas in places including Shanghai and Hong Kong in China and Taipei and Kaohsiung in Taiwan.



Demonstration of how to use the *Perfect Cover Foundation* lineup of products to address skin concerns. Over 3,000 people have visited the SHISEIDO LIFE QUALITY BEAUTY CENTER since it opened in 2006. The center conducts activities that support the power of the makeup process, including skincare, for people with various skin concerns.

SHISEIDO LIFE QUALITY BUSINESS

We hold SHISEIDO LIFE QUALITY BEAUTY SEMINARS throughout Japan as a social business that aims to improve and support the quality of life while addressing the various beauty needs of groups including the elderly, the developmentally challenged, students and adults.

These activities include the Makeup Service, which is a makeup therapy program¹ that Shiseido developed. We have confirmed that this program effectively addresses key issues of the super-aged society because it extends healthy life expectancy.² We will use these verification results to develop the value of cosmetics



During the year ended March 2015, a total of 65,555 people attended 3,877 SHISEIDO LIFE QUALITY BEAUTY SEMINARS, which were conducted at medical institutions, senior care facilities and various events worldwide. These seminars are free of charge overseas.

for the elderly and will cooperate with nursing care and medical facilities to proactively offer various healthcare services that help the elderly extend their healthy life expectancy.

1. A classroom-based program in which participants enjoy makeup and skincare with the assistance of dedicated staff members
2. The time people can live independently. The World Health Organization proposed this indicator in 2000.

Helping to Empower Women

Shiseido empowers women in the natural sciences. The Shiseido Female Researcher Science Grant for female researchers who will lead the next generation provides broadly based support to empower female researchers. We are also proactively nurturing women in science fields with a career development program that supports junior high school and high school girls in selecting science courses.

As part of our support for women, we have signed the Women's Empowerment Principles (WEPs).³ We seek to address international social issues such as improving the status of women and their economic empowerment.

3. A set of international guidelines collaboratively developed by the United Nations Global Compact and UN Women.

Culture

Aiming to contribute to a spiritually affluent society through support for the arts, Shiseido cultivates and disseminates its corporate culture.

Founded in 1919 and today Japan's oldest operating art gallery, the Shiseido Gallery in Ginza, Tokyo holds exhibitions with a focus on contemporary art, including "Tsubaki-kai" for group exhibitions and "shiseido art egg" for exhibiting works selected from submissions by up-and-coming artists. Shiseido also exhibits a collection of some of these works at Shiseido Art House in Kakegawa, Shizuoka Prefecture. The Shiseido Corporate Museum (Kakegawa, Shizuoka Prefecture)



Founded in 1919, the Shiseido Gallery is Japan's oldest operating art gallery. It continues to energetically present contemporary expression that is both cutting edge and genuine.

collects and exhibits corporate materials such as products and advertisements spanning 143 years.

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

Environment

Basic Policy for Environmental Activities

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

Shiseido's Promise to Society

In November 2008, Shiseido expressed to the world its strong dedication to the environment by endorsing "Caring for Climate: The Business Leadership Platform," a climate change initiative spearheaded by the United Nations Global Compact. In March 2009, Shiseido became the first company in the cosmetics industry in Japan to be certified as an "Eco-First Company"⁴ by Japan's Ministry of the Environment. In addition to reporting the progress of committed initiatives to the Ministry of the Environment, we make regular announcements through the Shiseido Group corporate website and other channels.



In October 2014, CDP (formerly the Carbon Disclosure Project), an international not-for-profit organization headquartered in the UK, commended Shiseido as a company with superior activities for the reduction of greenhouse effect gas emissions and climate change risks based on a survey by CDP. This commendation gave us a position in the "Climate Performance Leadership Index."

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

Reducing Environmental Impact

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

Environmental friendliness throughout the product lifecycle is based on the Production Eco Standards, and includes initiatives at all stages, from research and development to product planning, procurement, production, distribution, sales and disposal. We have set global CO₂ emission reduction targets for 2017 and 2020 and our business facilities are working to meet them.

Initiatives to Preserve Biodiversity

The demand for palm oil has increased dramatically in recent years. Illegal logging is carried out in tropical rainforests to create large-scale plantations of the African oil palm (*Elaeis guineensis*), a raw material of palm oil, and the resulting threat to wildlife and impact of deforestation on global warming have become issues. Since 2010, Shiseido has been participating in the Roundtable on Sustainable Palm Oil (RSPO), which was established to promote and manage a sustainable palm oil industry. Pursuant to a resolution of the RSPO General Assembly in March 2012, Shiseido declared it would switch to the exclusive use of RSPO-certified palm oil and palm kernel oil by 2013. Certification requires employing the Book & Claim system⁵ as determined by the RSPO. Shiseido's declaration has been posted on the RSPO website.



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

Personnel

Diversity and Inclusion

As of March 31, 2015, a total of 45,948 employees worked for Shiseido at more than 100 subsidiaries and workplaces in many countries and regions worldwide. They have diverse attributes, including values, viewpoints, nationality, gender, age, employment status and developmental challenges.

Accordingly, Shiseido is bringing together people with diversity consciousness and values to create a corporate organization that creates new value that meets the diverse needs of consumers worldwide and to achieve VISION 2020 by exercising their capabilities to create new value.

About 90 percent of Shiseido product users and 80 percent of our employees are women, so our female employees must play a central role in management and business activities. Accordingly, since 1990 Shiseido has introduced a variety of support programs that balance work with childcare and nursing care.

As a result, we have built career awareness among women, and as of April 1, 2015 had increased the percentage of female leaders in Japan by approximately 7.3 points compared with 2010 to 27.2 percent. The percentage of female managers worldwide, including Japan, is 50.2 percent.

We will structure role models for the



Kangaroo Shiodome, an in-house nursery school, and the Kangaroo Staff system, which supports sales counter activities during evening hours by having other employees fill in for beauty consultants who are taking time off to care for their children, are two examples of Shiseido's original initiatives to help balance work with childcare and nursing care.

career steps of women and achieve flexible, highly productive work arrangements appropriate for diverse values.

Nurturing Global Human Resources

Since its founding, Shiseido has been so focused on nurturing its human resources that people have called the Company "Shoseido" in a play on words that uses a quaint Japanese term for "student." This focus was reflected in the Declaration of Shiseido 'Co-Excellence' adopted in 2006. The declaration aims to cultivate people by linking the growth of workers with that of the Company. In 2008 Shiseido also formulated its Global Human Resources Policy to achieve global management. This policy promotes the quality and efficiency of human resource systems and practices in ways such as improving the motivation of overseas subsidiary employees. In 2009, Shiseido launched the forerunner of the current Shiseido Executive Program to nurture candidates into global management leaders. We also initiated the Shiseido Regional Leadership Program in each region in 2011 to promote the development of future business leaders at a regional level. In 2015, measures to support the achievement of VISION 2020 began. We formulated the BIG WIN 5 working principles to transform the behavior of all Shiseido Group employees, and the Organization and Personnel Principles to achieve the desired image for Shiseido's organization and personnel. These sets of principles will be the basis for innovating all personnel activities from hiring to training, transferring, promoting, evaluating and compensating. This will produce personnel who can constantly take on challenges and create value for customers, which will strengthen the Group with the capabilities of its employees and achieve an organization that prevails against the competition. All officers, managers and employees will be expected to act accordingly.

Management Section



Position on the Overall Map for Value Creation (page 12)



Management Section

In executing reforms to increase corporate value, Shiseido is enhancing corporate governance and management to build a powerful management organization. This section covers the renewed and enhanced management organization that is leading reform.

Directors, Audit & Supervisory Board Members and Corporate Officers

▶ Page 62

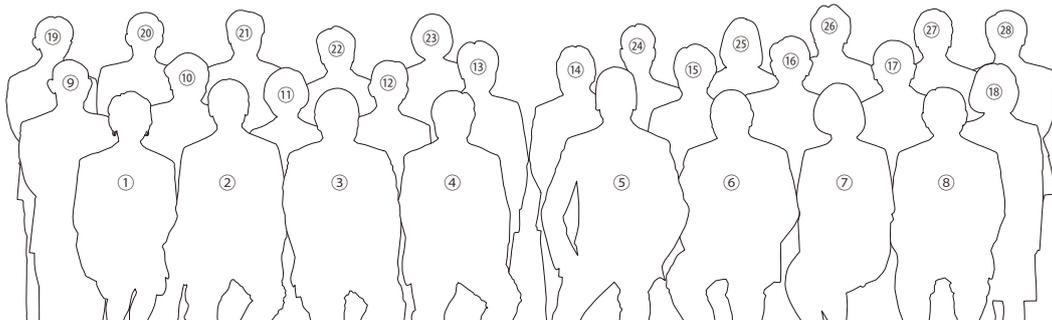
Corporate Governance

▶ Page 66

Risk Management

▶ Page 76

“We are resolutely committed to moving forward along the road to change.”



(Left to right) Back row: 19 Kazuhisa Shibata, 20 Kiyoshi Ishimoto, 21 Masaya Hosaka, 22 Shigekazu Sugiyama, 23 Mikiko Soejima, 24 Shigeru Takano, 25 Mari Tamura, 26 Jun Aoki, 27 Takahiro Hayashi, 28 Norio Tadakawa
 Middle row: 9 Nobuo Otsuka, 10 Tatsuo Uemura, 11 Kyoko Okada, 12 Naoki Murakami, 13 Norio Iwasaki, 14 Jean-Philippe Charrier, 15 Yoshiaki Okabe, 16 Akio Harada, 17 Shoichiro Iwata, 18 Eiko Tsujiyama
 Front row: 1 Yoko Ishikura, 2 Yoichi Shimatani, 3 Tsunehiko Iwai, 4 Toru Sakai, 5 Masahiko Uotani, 6 Ralph Ahrbeck, 7 Chikako Sekine, 8 Yoshinori Nishimura

Directors, Audit & Supervisory Board Members and Corporate Officers

(As of June 23, 2015)



Representative Director, President and CEO

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

CEO, Chairman of the Board, Chairman of CSR Committee, Responsible for Global Business and Corporate Communication

- 1977 Joined the Lion Dentifrice Co., Ltd. (currently Lion Corporation)
- 1983 Graduated from Columbia University in the City of New York, Graduate School of Business Administration (MBA)
- 1988 Manager, Citibank, N.A.
- 1991 Representative Director, Vice President of Kraft Japan Limited (currently Mondelez Japan Limited)
- 1994 Director, Executive Vice President and Chief Officer of Marketing of Coca-Cola (Japan) Co., Ltd.
- 2001 Representative Director, President of Coca-Cola (Japan) Co., Ltd.
- 2006 Representative Director, Chairman of Coca-Cola (Japan) Co., Ltd.
- 2007 Representative Director, Chief Executive Partner of BrandVision Inc.
- 2011 Outside Director of ASKUL Corporation
- 2012 Corporate Advisor of Coca-Cola West Co., Ltd. [incumbent] Director of Citibank Japan Ltd. (part time)
- 2013 Outside Chief Marketing Advisor of Shiseido
- 2014 President and CEO [incumbent], Chairman of CSR Committee [incumbent], Representative Director [incumbent]
- 2015 Responsible for Human Resources and Corporate Culture Reforms, Responsible for Global Business (International Business, China Business and Professional Business), Chief Officer of International Business Division
Responsible for Global Business and Corporate Communication [incumbent]

Representative Director, Corporate Executive Officer

Toru Sakai (Date of birth: October 16, 1956)

President, Shiseido Japan
Responsible for Japan Business, Healthcare Business and Digital Business

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



Director, Corporate Executive Officer



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

Chief Technology and Innovation Officer
Responsible for Research and Development, SCM and Technical Strategy

- 1979 Joined Shiseido
- 2002 General Manager of Product Commercialization Planning Department
- 2004 Chief Officer of Fine Chemical Division
- 2006 General Manager of Technical Department
- 2008 Corporate Officer
- 2009 General Manager of Quality Management Department
- 2010 Responsible for Technical Planning, Quality Management and Frontier Science Business
- 2013 Responsible for Technical Planning, Quality Management, Pharmaceuticals Affairs, CSR, Environmental Affairs and Frontier Science Business
- 2014 Corporate Executive Officer [incumbent], Responsible for Research & Development, Production, and Technical Affairs Director [incumbent]
- 2015 Chief Technology and Innovation Officer [incumbent], Responsible for Research and Development, SCM, and Technical Strategy [incumbent]

New appointment



External Director

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

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

External Director

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

Chairman of Remuneration Advisory Committee

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



External Director

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

Chairman of Nomination Advisory Committee

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





Audit & Supervisory Board Member

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

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

Audit & Supervisory Board Member

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

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

New appointment



External Audit & Supervisory Board Member

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

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



External Audit & Supervisory Board Member

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

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

External Audit & Supervisory Board Member

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

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



Corporate Officers

Ralph Ahrbeck New appointment

Corporate Executive Officer
Chief Strategy Officer and President, Shiseido China
Responsible for Corporate Strategy,
China Business

Chikako Sekine

Corporate Executive Officer
Chief Beauty Officer
Responsible for the area of Beauty (Global & Japan), Beauty Creation, and Consumer Information

Yoichi Shimatani

Corporate Executive Officer
Chief Research and Development Officer
Responsible for Research and Development

Jun Aoki New appointment

Chief People Officer
Responsible for Human Resources, General Manager of Human Resources Department

Jean-Philippe Charrier

President, Shiseido Asia Pacific, Global Business Division
Responsible for Asia Pacific Business

Takahiro Hayashi

Chief Creative Officer
Responsible for Corporate Culture and Advertising Creation

Masaya Hosaka

Chief Technical Strategy Officer and Chief Quality Officer
Responsible for Technical Strategy, Quality Management, Pharmaceutical Affairs, and Frontier Science Business

Kiyoshi Ishimoto

Chief Supply Chain Officer
Responsible for Production, Purchasing, and Logistics

Norio Iwasaki

Senior Vice President, Personal Care Brands, Japan Business Division
Responsible for Personal Care Brands, Japan Business
President and Representative Director, FT Shiseido Co., Ltd.

Naoki Murakami New appointment

Senior Vice President, Prestige Brands, Japan Business Division
Responsible for Prestige Brands, Japan Business
President and Representative Director, Shiseido International Inc.

Yoshiaki Okabe New appointment

SHISEIDO Brand Director, Global Business Division
Responsible for SHISEIDO Brand

Kazuhisa Shibata

Chief Administration Officer
Responsible for General Affairs, Legal Affairs, Executive Affairs, CSR, and Environment

Mikiko Soejima New appointment

Senior Vice President, Beauty, Japan Business Division
Responsible for the area of Beauty, Japan Business

Shigekazu Sugiyama

Senior Vice President, Cosmetics Brands, Japan Business Division
Responsible for Cosmetics Brands, Japan Business
President and Representative Director, Shiseido FITT Co., Ltd.

Norio Tadakawa

Chief Finance Officer
Responsible for Finance, Information System Planning, and Internal Control

Shigeru Takano New appointment

Chairman and President, Shiseido China Co., Ltd.
Responsible for Shiseido China Co., Ltd.

Mari Tamura New appointment

Senior Vice President, Global Prestige Brands, Global Business Division
Responsible for Prestige Brands, Global Business

• Directors retired as of June 23, 2015: Director Yu Okazawa (Retired from position of Corporate Executive Officer as of March 31, 2015), External Director Taeko Nagai
• Audit & Supervisory Board Member retired as of June 23, 2015: Audit & Supervisory Board Member Yasuko Takayama
• Directors retired as of March 31, 2015: Representative Director Carsten Fischer (Retired from position of Corporate Senior Executive Officer as of March 31, 2015)
• Corporate Officers retired as of March 31, 2015: Corporate Executive Officer Ryuichi Yabuki, Corporate Officer Hiroshi Maruyama
• Corporate Officer retired as of December 31, 2014: Corporate Officer Shigetō Ohtsuki
* Independent Director/Audit & Supervisory Board Member required by Rule 436-2 of the Tokyo Stock Exchange Securities Listing Regulations.

Corporate Governance

Basic Policy

Shiseido Company, Limited, hereafter “Shiseido” or “the Company,” recognizes that maximizing corporate and shareholder value over the medium and long term, fulfilling social responsibilities and achieving sustainable growth and development are key to maintaining support as a valuable company from all stakeholders (consumers, business partners, employees, shareholders, society and the Earth). The Company is therefore setting higher standards of corporate governance to improve management transparency, fairness and speed, which are necessary for maintaining stakeholder support.

Management and Execution Structure

Reason for Choosing a Hybrid Audit & Supervisory Board Structure

Shiseido 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.

Furthermore, the Company believes

that as a global corporation it must establish corporate governance that earns a high level of stakeholder trust while also strengthening senior management in order to prevail against competitors.

Shiseido has therefore worked to reform corporate governance in four areas: clarifying the allocation of responsibility, enhancing management transparency and soundness, reinforcing supervisory and auditing functions, and strengthening decision-making functions.

Shiseido has strengthened these functions by establishing committees and a corporate executive officer system to create a hybrid structure that integrates these outstanding features of a company with a nominating and other committees based on the Audit & Supervisory Board structure.

Board of Directors

The Board of Directors is composed of six members, including three external directors. The small number of members facilitates rapid decision making. The Board of Directors meets at least once a month to discuss all significant matters. Fourteen Board of Directors meetings were held in the year ended March 2015.

Board of Directors meetings are attended by the five Audit & Supervisory

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

Philosophy behind the Selection of Members of the Board of Directors

Shiseido believes that its Board of Directors should comprise members with various viewpoints and backgrounds, on top of diverse and sophisticated skills, for effective supervision of business execution as well as decision-making on critical matters. The Company expects members of the Board of Directors and Audit & Supervisory Board to perform double check functions: supervision by the Board of Directors and audits by the Audit & Supervisory Board members. To enable them to perform these functions more effectively, the Company believes that having external members is important not only on the Audit & Supervisory Board, which is legally required to include external members, but also among directors with voting rights, and that a high degree of independence is

Progress of Shiseido's Corporate Governance Policy

Enhance Management Transparency, Fairness and Speed

Clarify allocation of responsibility

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

Enhance management transparency and soundness

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

Reinforce supervisory and auditing functions

- 2005 Increased number of external Audit & Supervisory Board members from 2 to 3
- 2006 Appointed external directors
- 2011 Increased number of external directors from 2 to 3
- 2012 Established standards for assessing independence

Strengthen decision-making functions

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

a critical requirement in both capacities. The Company appointed two external directors in June 2006, and added a third external director in June 2011. Having external directors has stimulated discussion at Board of Directors meetings and strengthened its supervisory capabilities. Furthermore, the Company has established its own Standards for Assessing the Independence of External Directors and Audit & Supervisory Board Members* to objectively judge the independence of external directors and Audit & Supervisory Board members. Based on these standards, the Company has designated three external directors as independent directors and three external Audit & Supervisory Board members as independent members pursuant to the Tokyo Stock Exchange's Securities Listing Regulations.

Furthermore, diversity of the members of the Board of Directors is essential in decision-making on critical matters. In this respect, women's values and ideas are of particular importance to the Company as a cosmetics manufacturer, and female representation on the Board of Directors is considered vital. As of June 30, 2015, seven, or 64 percent of the 11 members of the Board of Directors and the Audit & Supervisory Board have built careers out-

side of the Company; and three, or 27 percent, are women.

* See page 68 for the detailed "Standards for Assessing the Independence of External Directors and Audit & Supervisory Board Members"

Provision of Training to Directors, Corporate Officers, etc. and Cultivation of the Next Generation of Management

Prior to the assumption of office, Shiseido's newly appointed external directors and external Audit & Supervisory Board members take part in training programs through which they attain knowledge of the Company, such as the industry in which it operates, its history, an overview of its business, strategies and more. In addition, new directors and new Audit & Supervisory Board members receive training on their statutory authority and duties, including training by external institutions as needed. For directors responsible for business execution and corporate officers, the Company holds an executive program in which the President and CEO also participates, as well as utilizing training at external institutions, in order to develop leadership capabilities to an even higher level.

To cultivate the next generation of management, executives who are corpo-

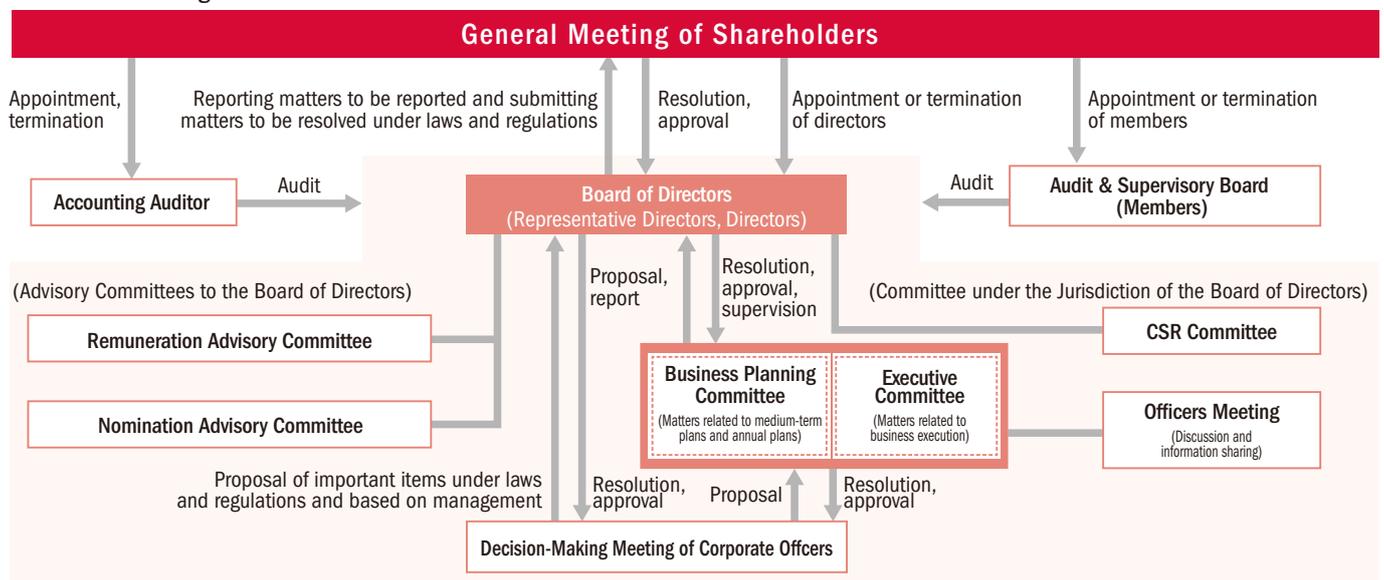
rate officer candidates are provided with training programs to acquire the leadership abilities and management skills required for top management officers.

Execution Structure

The adoption of a corporate officer system has separated the decision-making and supervisory functions of the Board of Directors from the business execution functions of corporate officers. The Executive Committee, which acts as the final decision-making body regarding material issues, and the Business Planning Committee, which determines matters related to Shiseido's medium-term and yearly plans, clarify management responsibilities and accelerate management. The Company's President and CEO chairs these two committees. In addition, the Decision-Making Meeting of Corporate Officers makes decisions regarding business execution and discusses matters including proposals to the Board of Directors and the Executive Committee.

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

Shiseido's Management and Business Execution Structure



Standards for Assessing the Independence of External Directors and Audit & Supervisory Board Members

Shiseido Company, Limited (“the Company”) judges external directors and external Audit & Supervisory Board members (collectively, “external board members”) or external board member candidates to be sufficiently independent from the Company if, as a result of the Company’s research conducted to the maximum extent practical, the external board member, or external board member candidate, has been found to meet all of the following criteria:

1. A person who is not nor has ever been responsible for executing the business of the Company or its affiliated companies (collectively, “the Shiseido Group”). In the case of an external Audit & Supervisory Board member, in addition to the above, a person who has never been a non-executive director or accounting advisor of the Shiseido Group (or, if the accounting advisor is a corporate entity, a person who has never been responsible for executing business for the accounting advisor).
2. A person who does not fall under any of the following descriptions for the current or last nine (9) fiscal years (collectively referred to herein after as the “relevant fiscal years”).
 - 1) A person of which the Shiseido Group is a major client or a person who executes business for said person (including persons who ever executed said person’s business during the relevant fiscal years; the same applies to Items 2) to 4) of this paragraph, below).
 - 2) A major client of the Shiseido Group or a person who executes the business of said client.
 - 3) A major shareholder of the Company who directly or indirectly holds, or has held, 10 percent or more of the total voting rights of the Company, or a person who executes business for such shareholder, in the relevant fiscal years.
 - 4) A person who executes business for an entity in which the Shiseido Group directly or indirectly holds, or has held, 10 percent or more of the voting rights in the relevant fiscal years.
 - 5) A consultant, accounting professional or legal professional who has received a large amount of money or other assets other than remuneration as a board member from the Shiseido Group during the relevant fiscal years. Or, if the consultant, accounting professional or legal professional is a corporate entity, association or other organization, a person belonging to said organization (including persons who have ever belonged to said organization during the relevant fiscal years; the same applies to Items 6 and 7 of this paragraph, below).
 - 6) A person who has received a large donation of money or assets from the Shiseido Group in the relevant fiscal years. Or, if the person is a corporate entity, association or other organization, a person belonging to such organization.
 - 7) An accounting auditor of the Company (including a person who has ever been an accounting auditor of the Company during the relevant fiscal years). Or, if the accounting auditor is a corporate entity, association or other organization, a person belonging to such organization.
3. A person who is not a spouse, relative within the second degree, live-in relative or person sharing living costs, of any of the persons listed below, provided, however, that Item 2) is relevant only when judging the independence of an external Audit & Supervisory Board member.
 - 1) A key executive of the Shiseido Group.
 - 2) A non-executive director of a Shiseido Group company.
 - 3) A person described in Items 1) through 4) in Paragraph 2, provided, however, that with respect to persons executing business for such persons this item is limited to key persons.
 - 4) A person listed in Items 5) through 7) in Paragraph 2, provided, however, that with respect to persons belonging to such organizations this item is limited to key persons.
4. None of the interlocking relationships listed below apply.
 - 1) If an external board member or board member candidate of the Company is currently serving as an executive, external director, Audit & Supervisory Board member, or in a position equivalent thereto, of another domestic or overseas company, an executive, external director or Audit & Supervisory Board member (excluding the external board member or external board member candidate himself/herself), or a person in a position equivalent thereto, in the Shiseido Group is concurrently serving as a director (including external director), executive officer, Audit & Supervisory Board member (including external member), executive officer, or in a position equivalent thereto, at the same company.
 - 2) If an external board member or external board member candidate of the Company currently executes business for or is a board member, or in a position equivalent to board member, of a corporate entity (excluding companies) or other organization outside the Company, a person who executes business for or who is an external director, Audit & Supervisory Board member (excluding the external board member or external board member candidate himself/herself), or in a position thereto, of the Shiseido Group is also serving as director or Audit & Supervisory Board member, or in a position equivalent thereto, at the same organization.
5. In addition to Paragraphs 1 through 4 above, no other circumstances exist in which the person could reasonably be judged unable to fulfill the duties of an independent board member.
6. There are currently no expectations that any of Paragraphs 1 through 5 above will apply.

In addition to the above, monetary and other additional standards are provided in detail in the notes, which are available under Notice of Convocation: the 115th Ordinary General Meeting of Shareholders in the IR section of the Shiseido Group corporate website. (<http://www.shiseidogroup.com/ir/shareholder/e1506shm/html/index.html>).

Audit Structure

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

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

Representative directors and Audit & Supervisory Board members meet regularly to exchange opinions and resolve corporate governance issues. Shiseido main-

tains a framework to ensure that Audit & Supervisory Board members discharge their duties effectively. For example, the Company arranges liaison meetings with the accounting auditors and the Internal Auditing Department in addition to assigning full-time staff to assist in audits. Audit & Supervisory Board member attendance for the 14 Audit & Supervisory Board meetings held in the year ended March 2015

was 100 percent for four members and 92.8 percent for one member. Audit & Supervisory Board member attendance at Board of Directors meetings was 100 percent for three members, 92.8 percent for one member, and 85.7 percent for one member. Internal audits of the entire Group are conducted to ensure that business is executed in an appropriate manner, and audit results are reported to the Board of Directors and Audit & Supervisory Board.

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

Committees

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

Furthermore, the CSR Committee has been established as a committee that reports directly to the Board of Directors. The CSR Committee covers all areas in which the Shiseido Group is expected to fulfill its corporate social responsibility (CSR). It monitors the demands and expect-

tations of society and considers the direction for the Group's CSR activities. At the same time, it understands and assesses CSR issues and risks associated with management strategy and business operations and takes necessary countermeasures. For key themes, it makes proposals and reports on the outcomes of activities to the Board of Directors. Chaired by Shiseido's President and CEO, the CSR Committee is composed of members representing a broad cross-section of the Company, and also includes external experts to ensure expertise, third-party perspectives and transparency. In addition, it includes the Chairman of the Central Executive Committee, Shiseido Labor Union, for employee representation.

Committees and Their Members

Advisory Committees to the Board of Directors

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

Convened three times in the year ended March 2015. Activities included reviewing director bonuses for the year ended March 2015 and the new remuneration system for the three years ending 2017.

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

Convened three times in the year ended March 2015. Developed a proposed executive framework comprising directors, Audit & Supervisory Board members and corporate officers, and also studied executive promotion, appointment, retirement and external recruiting.

Committee Reporting Directly to the Board of Directors

CSR Committee	
[Chair]	Masahiko Uotani, Representative Director, President and CEO, Responsible for Global Business and Corporate Communication
[Members]	Toru Sakai, Representative Director, Corporate Executive Officer, President, Shiseido Japan, Responsible for Japan Business, Health Care Business and Digital Business
	Tsunehiko Iwai, Director, Corporate Executive Officer, Chief Technology and Innovation Officer, Responsible for Research and Development, SCM, and Technical Strategy
	Jun Aoki, Corporate Officer, Chief People Officer, Responsible for Human Resources, General Manager of Human Resources Department
	Kazuhiisa Shibata, Corporate Officer, Responsible for General Affairs, Legal Affairs, Executive Affairs, CSR and Environmental Affairs
	Norio Tadakawa, Corporate Officer (Chief Financial Officer), Responsible for Finance, Information System Planning and Internal Control
	Kentaro Fujiwara, General Manager of Corporate Strategy Department
	Hajime Akatsuka, Chairman of the Central Executive Committee, Shiseido Labor Union
	Mariko Kawaguchi, External Member, Daiwa Institute of Research
[Observers]	Yoshinori Nishimura, Full-time Audit & Supervisory Board Member
	Kyoko Okada, Full-time Audit & Supervisory Board Member

Convened three times in the year ended March 2015. Deliberated matters such as sharing of and response to Groupwide risk and compliance issues, determining society's expectations for the Shiseido Group, and the direction of future activities.

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

Basic Principle of Remuneration Policy

Chaired by an external director to maintain objectivity and high transparency, the Remuneration Advisory Committee establishes Shiseido's remuneration policy for directors, Audit & Supervisory Board members and corporate officers. Remuneration for directors, Audit & Supervisory Board members and corporate officers consists of basic remuneration that is not linked to business performance and performance-linked remuneration that fluctuates depending on the achievement of management targets and share price. 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 performance 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.

Shiseido will introduce a new remuneration policy for directors, Audit & Supervisory Board members and corporate officers effective from 2015, but there will be no change to this basic principle.

Director, Audit & Supervisory Board Member and Corporate Officer Remuneration Policy of the Year Ended March 2015

Through March 31, 2015, remuneration for directors, Audit & Supervisory Board members and corporate officers consisted of a basic fixed portion and a performance-linked portion that fluctuates depending on the achievement of management targets and share price.

Performance-linked remuneration consisted of a short-term incentive bonus based on annual consolidated results, medium-term incentive remuneration paid upon the completion of the Three-Year Plan based on factors such as the level of achievement of the plan targets and stock options (with an exercise price of ¥1 per share) as a long-term incentive, primarily aimed at fostering a shared awareness of profits with shareholders. Performance-linked remuneration was designed to give directors and corporate officers a medium-to-long-term perspective, not just a single-year focus, and to motivate management to become more aware of the

Company's performance and share price.

However, Shiseido did not set medium-term incentive remuneration for the year ended March 2015 because the Company focused on preparing for the next stage of growth under a new management structure and took the year to formulate a new medium-term business plan to achieve renewed growth. The Company also assumed it would introduce a new remuneration system in 2015. In addition, a portion of the medium-term incentive remuneration for the year ended March 2015 (about 60 percent of the average amount of remuneration for eligible directors) was replaced by payment of bonuses and stock options as long-term incentive remuneration for the year ended March 2015.

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

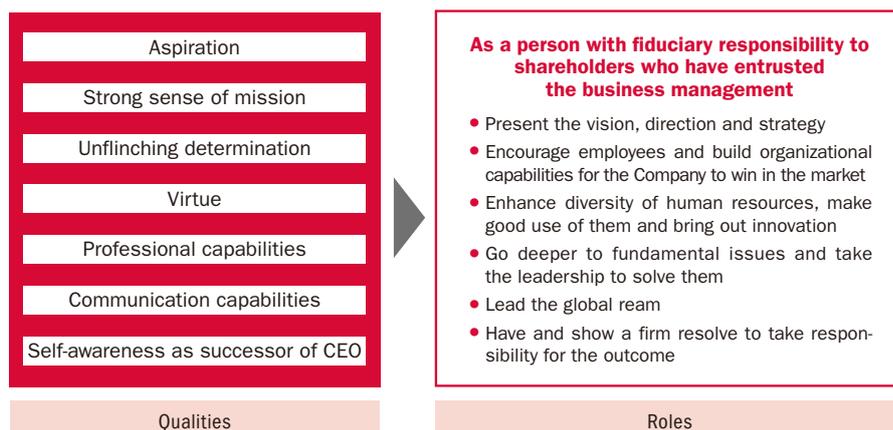
Purpose of Changes and Basic Concept of the New Remuneration Policy

Shiseido launched a new Three-Year plan at the beginning of 2015. Taking this opportunity, the Company implemented changes to the remuneration policy for directors, Audit & Supervisory Board members and corporate officers to link it more closely to their performance and responsibilities. This new policy will motivate them

Basic Concept of the New Director and Corporate Officer Remuneration Policy

1. Design to be able to provide rewards for implementation of drastic structural transformation
2. Clarify roles and responsibilities of respective directors, audit & supervisory board members and corporate officers under the new organizational structure and design a scheme of remunerations to be provided in accordance with the level of their roles and responsibilities
3. Ensure that the remuneration levels will support prevention of outflow of talented personnel and acquisition of such personnel from outside as needed

Required Qualities and Roles of Directors, Audit & Supervisory Board Members and Corporate Officers during the Time of Transformation



to steadily achieve the Three-Year Plan from 2015 through 2017, and ensure the solid foundation for Shiseido to remain an outstanding company for the next 100 years.

The new remuneration policy for directors, Audit & Supervisory Board members and corporate officers first clarifies the qualities and roles of the officers who will lead Shiseido's transformation by implementing the radical reforms to reengineer its business foundation. The policy then provides them with compensation commensurate with their achievement of the required results. The Company assumes that performance data such as consolidated results and the results of businesses for which the officers are responsible will take time to reflect the outcomes of the reengineering of the business foundation from 2015 through 2017. At the same time, over the next three years the Company will require its officers to resolve highly

important issues and generate results from the perspective of the Company's long-term growth. Shiseido therefore concluded that the former remuneration policy's strong correlation with performance data would not have provided sufficient rewards for officers' efforts during the transformation from 2015 through 2017 and for its outcomes. The Company therefore decided to increase the weight of evaluation for the result of strategic initiatives that are not quickly reflected in performance figures, in addition to the evaluation based on consolidated results and the results of the businesses for which respective directors and corporate officers are responsible.

The new remuneration policy is designed specifically to ensure that the reengineering of the business foundation is successful. Shiseido will therefore review the policy again for 2018 and beyond to realign it with

the business environment, challenges, and management goals for 2018 and beyond.

Overview of New Remuneration Policy

The new remuneration policy for directors, Audit & Supervisory Board members and corporate officers will change the levels and the package for both basic remuneration and performance-linked remuneration in accordance with the basic concept above.

First, the level of the basic remuneration has been revised. Previously, basic remuneration was determined based on the rank of the corporate officer. The new policy, however, has role grades that determine basic compensation based on the level of the roles and responsibilities of directors, Audit & Supervisory Board members and corporate officers. We also changed the framework for performance-linked remuneration so that it effectively works as an

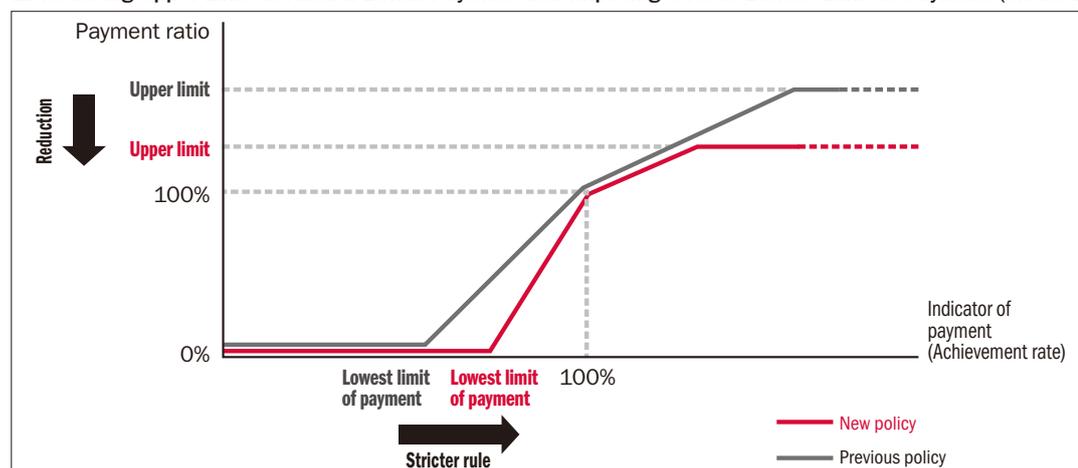
■ Proportion of Remuneration by Remuneration Type for Each Rank of Director

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

Notes:

- 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%.
- The proportion of remuneration for representative directors and directors is the same.
- 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.
- Directors who serve as the chairman of the Board shall be provided with a fixed amount of remuneration separately, which is not, however, included in the table.

■ Reducing Upper Limit of Annual Bonus Payment and Imposing Stricter Lowest Limit of Payment (Model Diagram)



incentive for reengineering the business foundation from 2015 through 2017.

Consequently, while the new remuneration policy for directors, Audit & Supervisory Board members and corporate officers is similar to the previous remuneration policy in that the percentage of performance-linked compensation increases in conjunction with the scale and scope of their responsibilities and impact on Group management, the proportion of the basic remuneration is higher than in the previous policy. However, the conditions for performance-linked remuneration are more stringent than under the previous policy. The upper limit of the annual bonus payout rate is lower and payments are more strictly limited if targets are not fully achieved. Moreover, long-term incentive remuneration has a new performance-linked component. As a result, the overall remuneration policy is designed to be more stringent because officers will not be sufficiently remunerated in they fail to fully achieve their targets.

Basic Remuneration

In the past, basic remuneration was fixed according to corporate officer rank, but the new policy is designed so that remuneration corresponds to each officer's role grade according to a table based on the scale and scope of their responsibilities and impact on Group management. Moreover, the system allows

basic compensation to increase within a designated range even within the same role grade in accordance with the performance of the respective director or corporate officer in the previous fiscal year. These changes allow the Company to adjust basic remuneration according to the roles and responsibilities of the respective director or corporate officer. The increase of remuneration shall be determined based on business results and personal performance evaluation.

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

Performance-Linked Remuneration

Performance-linked remuneration consists of an annual bonus provided based on annual results, and stock options as long-term incentive-type remuneration that are designed to give directors and corporate officers a medium-to-long-term perspective, not just a single-year focus, and to motivate management to become more aware of the Company's performance and share price.

Annual Bonus

The Company has determined evaluation items for the annual bonus linked to performance in accordance with the scope of responsibilities of the respective director

or corporate officer as described in the table below. In addition, the achievement rates for consolidated net sales and consolidated operating income targets are common performance indicators used for all directors and corporate officers. The new policy also has a personal performance evaluation component for all directors and corporate officers to provide a standard for evaluating the level of achievement of strategic goals in initiatives such as reengineering the business foundation for sustainable growth that cannot be measured with financial performance data.

Long-Term Incentive Remuneration

The Company has imposed performance terms and conditions on the stock compensation-type stock options included in performance-linked remuneration. The limits on this long-term incentive remuneration apply on two occasions: when the stock acquisition rights are allotted, and when the allotted stock acquisition rights have vested. In this way, although the exercise price is only ¥1 per share, there is stronger incentive to improve business results after allotment.

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

■ Evaluation Weights Of Annual Bonus for Directors

Evaluation item	Performance indicators	Evaluation weight									
		President and CEO		Corporate officers in charge of businesses				Corporate officers other than those in charge of businesses			
				Regional headquarters President		Other		CSO and CFO		Others	
Whole Group performance	Consolidated net sales	20%	70%	15%	35%	10%	20%	20%	70%	20%	70%
	Consolidated operating income	30%		20%		10%		30%		50%	
	Consolidated net income	20%		—		—		20%		—	
Performance of business unit in charge	Business performance evaluation	—		35%		50%		—		—	
Personal evaluation	Level of achievement of strategic goals set individually	30%									

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

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

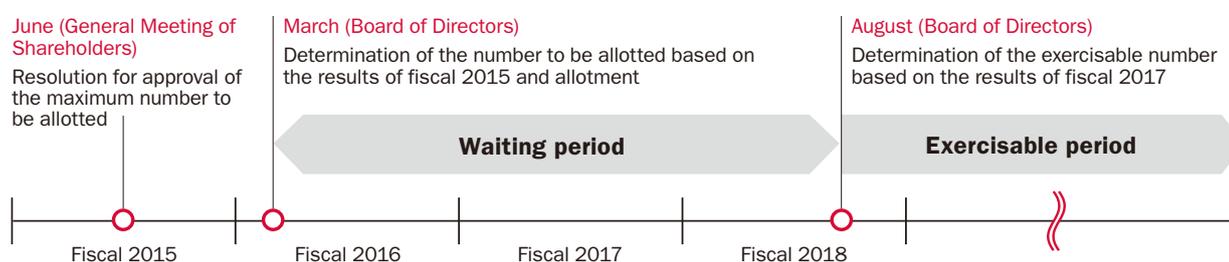
When stock acquisition rights are allotted:

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

When the stock acquisition rights vest:

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

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



stock acquisition rights to be granted in the range of 0 to 130 percent of the baseline by using the performance indicators for annual bonuses for the immediately 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 immediately preceding fiscal year. The Company thereby enhanced the incentive to improve medium- to long-term business performance and achieve targets compared to its former approach to stock options.

Roles of the Remuneration Advisory Committee and the Evaluation Working Group Established within the Committee

Under the new remuneration policy, personal evaluation of each director, Audit & Supervisory Board member and corporate officer will have a significant impact on determining total remuneration, including basic remuneration, annual bonus and long-term incentive remuneration. The Company has therefore established the Evaluation Working Group within the Remuneration Advisory Committee to ensure that personal evaluations are objective, fair and transparent. The Evaluation Working Group consists of external directors and full-time Audit &

Supervisory Board members because of the importance of independence from the business execution.

The Evaluation Working Group discusses the personal evaluation of each director and corporate officer to facilitate the committee's report to the Board of Directors on items including the performance evaluation of each director, Audit & Supervisory Board member and corporate officer. The Evaluation Working Group also reports the details and results of its discussions to the Nomination Advisory Committee because the details of personal evaluations are relevant to the promotion or demotion of directors and corporate officers.

■ Remuneration for Directors and Audit & Supervisory Board Members for the Year Ended March 2015

(Millions of yen)

	Basic	Bonuses	Long-Term Incentive (Stock Options)	Total
Directors (11)	262	51	130	445
External directors (3 of the 11 directors)	39	—	—	39
Audit & Supervisory Board members (6)	96	—	—	96
External Audit & Supervisory Board members (3 of the 6 members)	36	—	—	36
Total	358	51	130	541

Notes:

1. Basic remuneration for directors has the ceiling amount of ¥30 million per month as per the resolution of the 89th Ordinary General Meeting of Shareholders held on June 29, 1989. Basic remuneration for Audit & Supervisory Board members has the ceiling amount of ¥10 million per month as per the resolution of the 105th Ordinary General Meeting of Shareholders held on June 29, 2005.
2. The above amount of basic remuneration includes ¥32 million as basic remuneration for the year ended March 2015 that four subsidiaries of the Company paid through the Company to one director of the Company who served concurrently as the director of said subsidiaries.
3. The amount of long-term incentive stock options indicated above represents the expenses for the year ended March 2015 associated with stock options (stock acquisition rights) granted in the fiscal year, upon the approval of the Ordinary General Meeting of Shareholders, in consideration of duties executed by directors.
4. The following remuneration and other compensation are in addition to the above payments:
 - 1) ¥8 million was recognized for the year ended March 2015 as expenses associated with stock options granted to three directors and one Audit & Supervisory Board member when they were corporate officers, not directors.
 - 2) ¥23 million in officers' retirement benefits was paid to a director who retired as of the conclusion of the 114th Ordinary General Meeting of Shareholders held on June 25, 2014 as the portion of final payment following the abolishment of the officers' retirement benefit plan in 2004.
5. None of the directors or the Audit & Supervisory Board members will be paid remuneration other than the executive remuneration described above (including remuneration described in Notes 1 through 4, above).

■ Remuneration by Type to Representative Directors and Directors Whose Total Remuneration Exceeded ¥100 Million for the Year Ended March 2015 (Millions of yen)

	Basic	Short-Term Incentive Bonus	Long-Term Incentive Stock Options	Total
Masahiko Uotani Representative Director	47	6	9	63
Carsten Fischer Representative Director	82	29	65	178

Notes:

1. The above amount of basic remuneration includes ¥32 million as basic remuneration for the year ended March 2015 that four subsidiaries paid through the Company to Representative Director Carsten Fischer, who served concurrently as the director of said subsidiaries.
2. The amount of long-term incentive stock options indicated above represents the expenses for the year ended March 2015 associated with stock options (stock acquisition rights) granted, upon the approval of the Ordinary General Meeting of Shareholders, in consideration of duties executed by directors.
3. Neither of the two directors above will be paid remuneration other than the remuneration described above (including remuneration described in Notes 1 and 2, above).

Compliance

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

The CSR Committee, which reports directly to the Board of Directors, is responsible for improving the quality of the Company in ways such as promoting lawful and fair business practices throughout the Group as well as risk countermeasures. It submits proposals for and reports on action plans and their results to the Board of Directors.

To promote lawful and fair business activities at workplaces, the Company has assigned a Business Ethics Leader at

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

In Japan, Shiseido has established the Shiseido External Consultation Office at a law firm outside the Company for reporting and consultation, as well as the in-house Shiseido Consultation Office staffed with consultants, to facilitate early discovery and correction of conduct in the Group that violates laws, ordinances, the Company's articles of incorporation or other internal regulations. These offices provide consultation to employees on a wide range of business-related matters. In the year ended March 2015, the CSR Committee Hotline was established to specialize in receiving reports on misconduct and operational risks. Employees have been informed about this hotline, along with "Reporting to Audit & Supervisory Board Members" that

was set up at the same time to accept reports via e-mail pointing out management issues and misconduct involving senior executives. These new contact points have strengthened the Company's internal systems for reporting compliance issues.

Outside Japan, a whistleblower hotline is provided at each subsidiary. In addition, the Shiseido Group Global Hotline is available in the CSR Committee for report and consultation on issues that cannot be resolved internally.

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

Dialogue with Shareholders and Investors

Shiseido is committed to timely and appropriate disclosure. The Company emphasizes dialogue with shareholders and investors to maintain accountability and work to increase corporate value by incorporating their opinions in management. Shiseido views the General Meeting of Shareholders as an opportunity to fulfill its accountability to shareholders and discuss its position as a company with employees, business partners, society and consumers. At the general meeting, the Company sincerely listens to the opinions of shareholders and strives to give considerate explanations and responses. In addition, the Company provides proactive disclosure in the Notice of Convocation, and exchanges opinions on governance with shareholders throughout the year.

The President and CEO leads meetings for institutional investors twice a year to present first-half and full year results, while the Chief Financial Officer (CFO)

holds teleconferences to discuss first and third-quarter results, as well as business briefings. The President and CEO, CFO and members of the Investor Relations Department also visit investors in Japan and overseas and respond to requests for one-to-one meetings from institutional investors. In the year ended March 2015, Shiseido conducted more than 500 such meetings. In addition to subjects such as business status and strategies, Shiseido actively discusses environmental, social and governance (ESG) and other non-financial information with investors.

In addition, the President and CEO (or the CFO) participates in meetings held by securities companies for individual investors twice a year to explain the Company's strategies and results, and Shiseido makes webcasts of presentations and question-and-answer sessions available on the Shiseido Group corporate website. Shiseido also conducts a survey once every six months, primarily of individual shareholders, and collects the valued opinions and comments of shareholders

from telephone and e-mail inquiries. The Company uses the results for purposes such as improving the General Meeting of Shareholders and disclosure materials. Furthermore, the Company holds Investors' Meetings for individual shareholders twice a year as a forum for individual shareholders to air their views regarding Shiseido's shareholder policies and communications.

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

■ Overview of Investor Relations Activities

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

Risk Management

Shiseido conducts risk management under the leadership of the CSR Committee, which reports directly to the Board of Directors. The CSR Committee promotes initiatives to minimize risk and is closely and continuously involved in resolving risks that materialize.

Risk Assessment

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

Notable outcomes of Shiseido's risk management were the designation of the four key compliance themes of personal information security, prevention of bribery, prevention of cartels, and prevention of

supplier risk, and the creation of the Compliance Program with a Plan-Do-Check-Action framework to ensure thorough Groupwide implementation.

Risk Response

Shiseido clearly defines and classifies risks into 10 categories to respond promptly and appropriately. When a risk materializes, the division where it materialized promptly reports to the CSR Committee according to the risk definition and category. The CSR Committee Office assigns a level to each risk ranging from 1 to 3 depending on the magnitude of impact on operations and society. A risk response organization corresponding to the risk level is activated. It studies countermeasures to minimize and contain damage, continuously monitors the status and results of response and measures to prevent recurrence, and reports to the CSR Committee in a timely and appropriate manner.

Business Continuity Plan (BCP)

Shiseido has established a policy for business continuity activities as a risk

management policy. It has four facets: ensure the safety of employees and their families; protect Company assets; continue operations; and earn the trust of stakeholders. While the BCP must respond to all disasters and risks that might halt operations, the Company classifies disasters and risks into two distinct categories and has formulated representative BCPs for them: the Earthquake Response BCP for those that cause sudden damage, and the Infectious Disease Response BCP for those that cause incremental damage over the long term. The Company will take risk characteristics into account and apply one of these BCP categories if business continuity risk other than that associated with earthquakes and infectious diseases materializes. When the Great East Japan Earthquake struck in March 2011, the Company established the Headquarters for Emergency Disaster Response at the head office based on our Earthquake Response BCP to respond rapidly in coordination with the Area Headquarters for Disaster Response overseeing the disaster area.

■ Business Continuity Plan (BCP)

Risk Management Policy

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

New Influenza Strain (Infectious Disease) Response BCP

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

Earthquake Response BCP

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

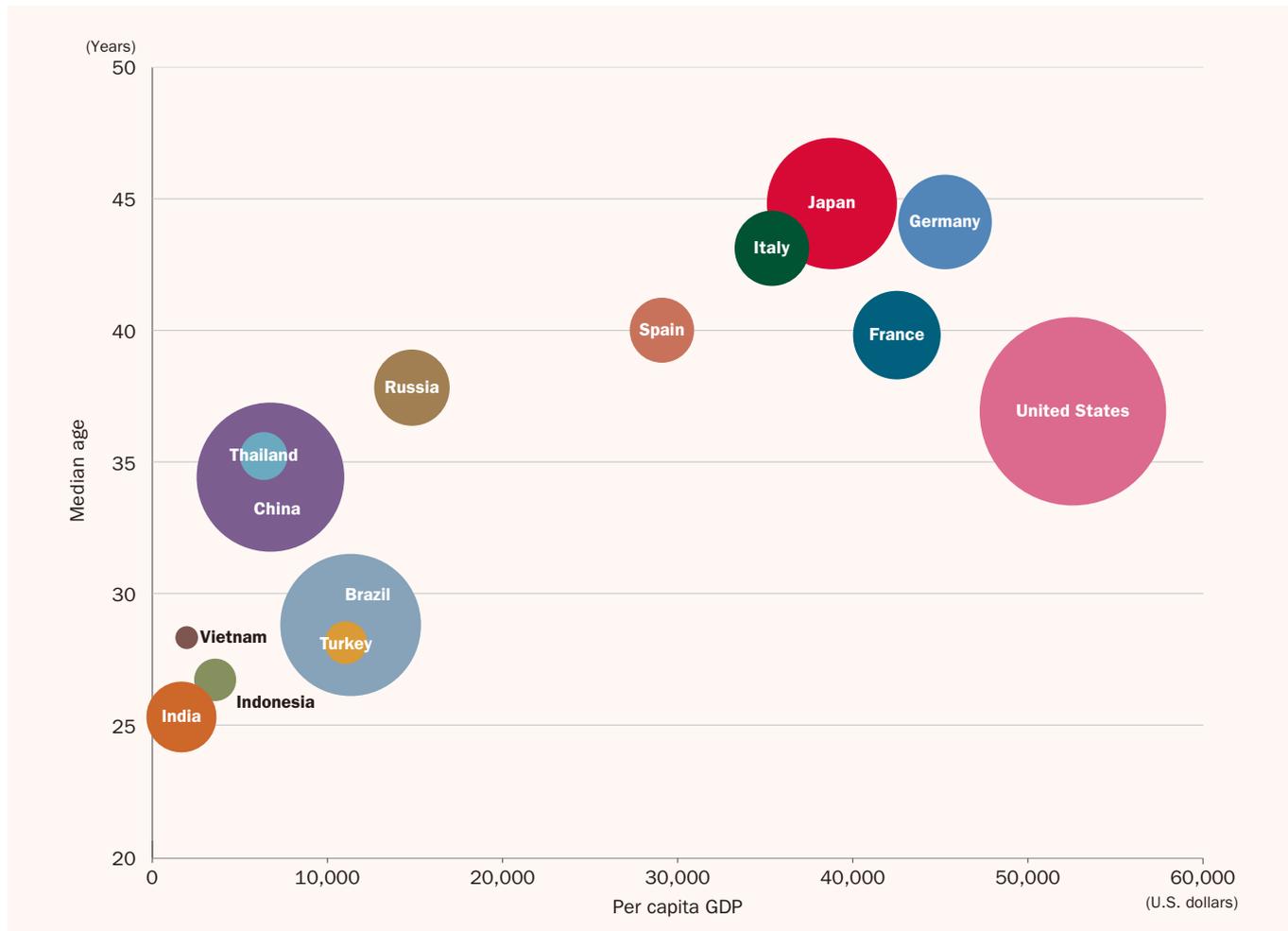
Basic Data Section

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Market Data

Beauty and Personal Care Markets by Country

■ Beauty and Personal Care Market Scale⁴ by Country, Per Capita GDP and Median Age²



■ Beauty and Personal Care Market Scale by Country and Population (2014)

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	76,276	323	Italy	12,187	61
China (excluding Hong Kong)	47,806	1,394	India	10,757	1,267
Brazil	43,454	202	Spain	9,092	47
Japan	37,116	127	Thailand	4,936	67
Germany	19,231	83	Turkey	3,934	76
France	16,835	65	Indonesia	3,873	253
Russia	12,499	143	Vietnam	1,124	93

Source for beauty and personal care market scale: Euromonitor International, as of July 1, 2015

Source for per capita GDP, median age and population: "World Statistics 2015," Statistics Bureau, Ministry of Internal Affairs and Communications

1. Circle size indicates beauty and personal care market scale

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

Please note that the relevant market data were compiled from data publicly available from several institutions and are not directly related to Shiseido's strategies. Also, annual data for each region are calculated based on local currencies translated into U.S. dollars at average 2014 exchange rates.

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

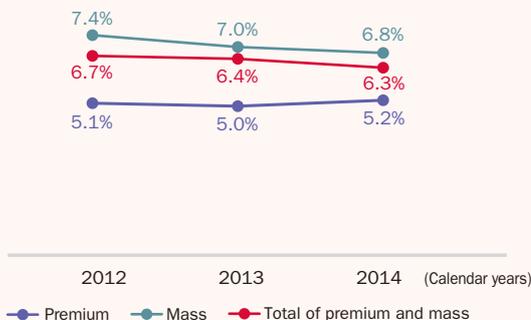
■ Beauty and Personal Care Market Scale by Area² (2014)

(Millions of U.S. dollars)



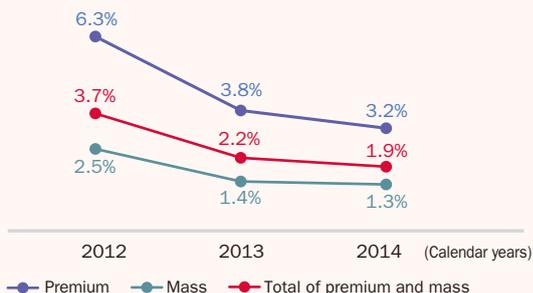
■ Market Growth Rate: Asia Pacific³

(%)



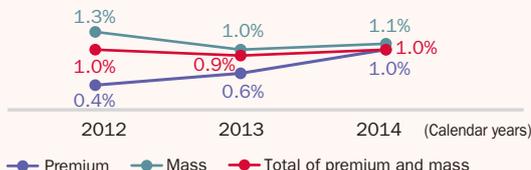
■ Market Growth Rate: North America³

(%)



■ Market Growth Rate: Western Europe³

(%)



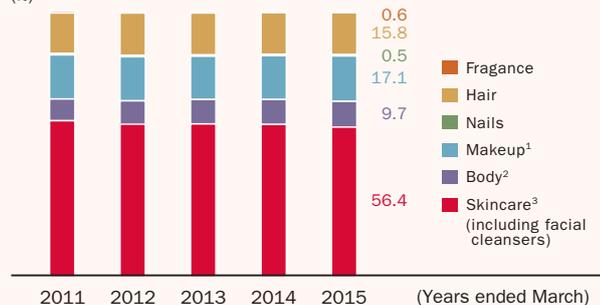
Source: Euromonitor International, as of May 11, 2015

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

The Domestic Cosmetics Market

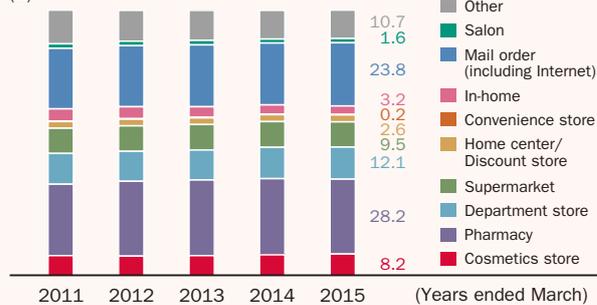
■ Market Composition by Beauty Category

(%)



■ Market Composition by Channel

(%)



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

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

- Foundation, eye shadow, lipstick, etc.
- Bath additives, sunscreen, deodorant, etc.
- Makeup remover, makeup base, beauty lotion, etc.

11-Year Summary of Selected Financial Data

Shiseido Company, Limited, and Subsidiaries
For the fiscal years ended March 31, 2005 to 2015

	2005	2006	2007	2008	2009
Operating Results:					
Net sales	¥639,828	¥670,957	¥694,594	¥723,484	¥690,256
Cost of sales	168,636	176,883	185,532	186,466	171,752
Selling, general and administrative expenses	444,663	455,194	459,056	473,553	468,589
Operating income	26,529	38,879	50,005	63,465	49,914
EBITDA (Note 3)	29,043	65,281	78,836	94,960	75,077
Net income (loss)	(8,856)	14,435	25,293	35,459	19,373

Financial Position (At year-end):

Total assets	¥701,094	¥671,841	¥739,832	¥675,864	¥606,568
Short-term liabilities (Note 4)	25,212	12,786	66,144	38,653	27,601
Long-term debt	69,114	69,491	61,694	24,566	34,451
Interest-bearing debt	94,327	82,277	127,838	63,219	62,053
Net assets	369,956	387,612	403,796	399,738	351,951

Cash Flows:

Cash flows from operating activities	¥ 52,433	¥ 21,812	¥ 69,431	¥ 75,307	¥ 42,767
Cash flows from investing activities	(24,900)	(12,640)	(18,482)	(5,802)	(28,157)
Cash flows from financing activities	17,421	(29,959)	1,836	(95,882)	(32,283)
Cash and cash equivalents at end of year	108,280	89,014	145,259	120,393	91,857

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

Net income (loss) (Note 5)	¥ (21.5)	¥ 34.4	¥ 60.9	¥ 86.1	¥ 48.0
Net assets (Note 5)	866.5	906.1	940.8	946.2	839.9
Cash dividend	24.0	30.0	32.0	34.0	50.0
Weighted average number of shares outstanding during the period (thousands)	414,218	412,855	412,572	407,696	403,240

Financial Ratios:

Operating profitability (%)	4.1	5.8	7.2	8.8	7.2
Return on assets (%)	(1.3)	2.1	3.6	5.0	3.0
Operating ROA (%) (Note 6)	4.3	5.9	7.4	9.4	8.2
Return on equity (%)	(2.4)	3.9	6.6	9.2	5.4
Equity ratio (%)	51.2	55.7	52.5	56.6	55.6
Interest coverage ratio (times) (Note 7)	22.1	8.6	30.6	39.1	23.6
Debt-equity ratio (times) (Note 8)	0.26	0.22	0.33	0.17	0.18
Interest-bearing debt ratio (%) (Note 9)	20.3	17.5	24.0	13.7	15.0
Payout ratio (Consolidated) (%)	—	87.2	52.6	39.5	104.1
Number of employees at year-end (Note 10)	24,184	25,781	27,460	28,793	28,810
Net sales per employee	¥26.5	¥26.0	¥25.3	¥25.1	¥24.0

- Notes: 1. Amounts less than one million yen are omitted.
2. U.S. dollar amounts are converted from yen, for convenience only, at the rate of ¥120.27 = US\$1 prevailing on March 31, 2015.
3. EBITDA (Earnings before interest, tax, depreciation and amortization) = Income before income taxes + Interest expense + Depreciation and amortization + Impairment loss on goodwill and other intangible assets
4. Short-term liabilities = Short-term debt + Current portion of long-term debt
5. Net income 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.
6. Operating ROA = (Operating income + Interest and dividend income) ÷ Total assets (Yearly average)
7. Interest coverage ratio = Net cash provided by operating activities ÷ Interest paid* *Interest paid is as stated in the consolidated statements of cash flows.

					Millions of yen (Except per share data) (Note 1)	Thousands of U.S. dollars (Except per share data) (Note 2)
2010	2011(Note 11)	2012	2013(Note 12)	2014	2015	2015
¥644,201	¥670,701	¥682,385	¥677,727	¥762,047	¥777,687	\$6,466,176
160,166	168,692	162,989	166,783	189,559	196,433	1,633,266
433,684	457,550	480,260	484,898	522,843	553,640	4,603,309
50,350	44,458	39,135	26,045	49,644	27,613	229,591
75,699	65,576	76,974	61,463	91,285	90,703	754,161
33,671	12,790	14,515	(14,685)	26,149	33,668	279,936
¥775,445	¥739,120	¥720,707	¥715,593	¥801,346	¥823,636	\$6,848,224
112,693	16,361	9,734	39,394	64,054	75,615	628,710
101,753	181,155	175,418	145,274	91,864	31,281	260,089
214,446	197,517	185,153	184,669	155,918	106,897	888,808
365,207	320,127	303,715	303,153	358,707	409,369	3,403,749
¥ 69,431	¥ 67,586	¥ 52,599	¥ 42,040	¥ 84,320	¥ 32,134	\$ 267,182
(204,884)	(30,303)	(20,668)	(25,534)	(16,799)	11,538	95,934
120,359	(39,571)	(35,482)	(24,745)	(47,462)	(58,419)	(485,732)
77,157	88,592	82,974	80,253	110,163	100,807	838,172
¥ 84.6	¥ 32.1	¥ 36.5	¥ (36.9)	¥ 65.7	¥ 84.4	\$0.70
875.7	772.1	729.9	721.2	849.4	970.0	8.07
50.0	50.0	50.0	50.0	20.0	20.0	0.17
397,886	397,864	397,974	398,007	398,300	398,704	
7.8	6.6	5.7	3.8	6.5	3.6	
4.9	1.7	2.0	(2.0)	3.4	4.1	
7.5	6.1	5.6	3.8	6.8	3.6	
9.8	3.9	4.9	(5.1)	8.4	9.4	
44.9	41.6	40.3	40.1	42.2	47.0	
45.4	32.8	27.3	22.5	47.5	24.2	
0.62	0.64	0.64	0.64	0.46	0.28	
37.0	38.2	37.9	37.9	30.3	20.7	
59.1	155.5	137.1	—	30.5	23.7	
28,968	31,310	32,595	33,356	33,054	33,000	
¥22.2	¥21.4	¥20.9	¥20.3	¥23.1	¥23.6	\$196

8. Debt-equity ratio = Interest-bearing debt ÷ Equity* *Equity = Total net assets – Stock acquisition rights – Minority interests in consolidated subsidiaries
9. Interest-bearing debt ratio = Interest-bearing debt ÷ Invested capital* *Invested capital = Interest-bearing debt + Total net assets
10. The number of employees at year-end does not include temporary employees.
11. Shiseido Group subsidiaries in the Americas formerly recognized samples and promotional items associated with marketing activities at stores as assets when acquired and expensed them when shipped to customers. However, effective the fiscal year ended March 31, 2012 these subsidiaries began to expense these items when acquired as part of efforts to standardize Group accounting policies. The Shiseido Group applied this change retrospectively and restated the consolidated financial statements for the fiscal year ended March 31, 2011 accordingly.
12. Effective the fiscal year ended March 31, 2014, the Shiseido Group applied Employee Benefits (IAS 19, amended June 16, 2013) to certain consolidated subsidiaries and changed the method for recognizing changes in net defined benefit obligation. The Shiseido Group applied this change retrospectively and restated the consolidated financial statements for the fiscal year ended March 31, 2013 accordingly.

Environmental Data

Shiseido has reported the volume of energy used (inputs) and environmental impact (outputs) determined through environmental accounting for the year ended March 2015.

The data was calculated and disclosed using Sustainability Reporting Guidelines, Version 4 of the Global Reporting Initiative (GRI) and the 2012 Environmental Reporting

Guidelines issued by Japan's Ministry of the Environment.

Shiseido will enhance the presentation of its environmental data to the greatest possible extent and raise the environmental awareness of employees as it works to further promote environmental activities.

Environmental Performance Data

Indicator		Scope	Year ended March 2014	Year ended March 2015
Japan	Inputs	Electric power (ten thousand kWh)	Production facilities: 2,988 Non-production facilities: 3,316	2,901 3,256
		City gas (ten thousand m ³)	Production facilities: 559	599
			Non-production facilities: 81	69
		LPG (t)	Production facilities: 7	8
			Non-production facilities: 0	0
		Fuel (kl)	Production facilities: 0	0
	Non-production facilities: 2,029		1,814	
	Steam (GJ)	Non-production facilities: 9,475	10,027	
		Water (ten thousand m ³)	Production facilities: 73	76
	Outputs	CO ₂ (t) ²	Production facilities: 24,460 Non-production facilities: 20,454	28,424 22,433
		SO _x (t)	Production facilities: 0	0
		NO _x (t)	Production facilities: 13	17
		Wastewater (ten thousand m ³)	Production facilities: 65	68
			BOD (t)	Production facilities: 14
COD (t)		Production facilities: 26	30	
Waste (t)		Production facilities: 3,148	3,765	
		Non-production facilities: 1,271	1,117	
Recycling ratio (%)	Production facilities: 100	100		
Overseas	Inputs	Electric power (ten thousand kWh)	Production facilities: 4,243 Non-production facilities: 714	4,531 533
		City gas (ten thousand m ³)	Production facilities: 372	370
			Non-production facilities: 24	12
		LPG (t)	Production facilities: 116	199
			Non-production facilities: 0	0
		Fuel (kl)	Production facilities: 61	73
	Non-production facilities: 1,103		1,078	
	Steam (t)	Production facilities: 4,217	3,915	
		Water (ten thousand m ³)	Production facilities: 48	52
	Outputs	CO ₂ (t) ²	Production facilities: 22,627 Non-production facilities: 4,907	25,355 3,954
		Waste (t)	Production facilities: 3,936	4,189
			Non-production facilities: 980	394
Recycling ratio (%)		Production facilities: 81	83	

1. Data for overseas non-production facilities includes major facilities only

2. The CO₂ equivalent of the total emissions of the six greenhouse gases (water vapor, CO₂, methane, nitrous oxide, ozone and chlorofluorocarbons)

Environmental Accounting

1. Environmental Conservation Costs

Category	Main initiatives	(Millions of yen)		
		Investment	Expenses	
(1) Cost breakdown by operation		346	174	
(1) - 1. Pollution prevention costs	Water contamination, atmospheric pollution, etc.	171	46	
	(1) - 2. Global environmental conservation costs	Promotion of energy conservation, measures to protect the ozone layer, etc.	172	3
		(1) - 3. Resource recycling costs	Waste processing, recycling, wastewater re-use, material usage reduction, etc.	3
(2) Upstream and downstream costs	Costs associated with Recycling of Containers and Packaging Recycling Law, green procurement, product recycling, etc.	0	187	
(3) Administrative costs	Personnel expenses (excluding R&D) for environmental management	12	445	
(4) Research and development costs	R&D for environmentally friendly products, etc. (including personnel expenses)	0	14	
(5) Social contribution costs	Environmental conservation activities of employees, including camellia tree-planting and conservation; support of environmental groups; disclosure of environmental information; environmental advertising, etc.	8	73	
(6) Environmental remediation costs	Environmental remediation costs, etc.	0	0	
(7) Other costs		0	0	
Total		366	893	

2. Environmental Conservation Outcomes

Outcomes		(Millions of yen)
		Economic effect
Earnings	Revenue from the recycling of waste generated in main business activities and the recycling of used products, etc.	37
Cost savings	From energy conservation	174
	Waste-related	4
	From resource conservation	21
	Other	0
Total		236

Environmental accounting period: April 1, 2014 - March 31, 2015 (Japan); January 1, 2014 - December 31, 2014 (Overseas)

Scope: Domestic and overseas factories, domestic research centers and head office departments

Social Data

The following tables present personnel data in addition to data in the areas of women and beauty and culture.

Shiseido presents more detailed information, GRI Guidelines balance sheet, and other information not included in this publication in the Social Responsibility section of the Shiseido Group corporate website (<http://www.shiseidogroup.com/csr/>)

in order to deepen stakeholder understanding of Shiseido's CSR initiatives.

We will further enhance data relevant to our social activities and personnel with the aim of providing easily understandable information to stakeholders.

Data for Social Contribution Activities

Area	Item	Indicator	Unit	Year ended March 2014	Year ended March 2015	Scope	
Women and Beauty	SHISEIDO LIFE QUALITY BEAUTY PROGRAM	LIFE QUALITY BEAUTY CENTERS	Number of countries and regions (number of centers) (Note 1)	Countries and regions (centers)	3 (5)	3 (5)	Japan and overseas
			Number of users	Persons	1,583	1,680	Japan and overseas
	LIFE QUALITY BEAUTY SEMINARS ¹	Number of seminars held	Times	2,812	3,877	Japan and overseas	
		Number of participants	Persons	49,859	65,555	Japan and overseas	
	Activities for children	Shiseido Children's Seminar ²	Number of attendees (Note 2)	Persons	701	791	Japan
	Support for junior high school and high school girls in selecting science courses		Number of attendees	Persons	656	239	Japan
	Shiseido Female Researcher Science Grant		Number of grant recipients	Persons	10	10	Japan
	Shiseido Running Club	Number of running classes held	Times	2	1	Japan	
Number of lectures held outside the Company		Times	3	2	Japan		
Culture	Shiseido Gallery	Number of visitors	Persons	42,399	58,494	Japan	
	Shiseido Corporate Museum		Persons	27,970	31,408	Japan	
	Shiseido Art House		Persons	29,576	36,169	Japan	
Social Contribution by Employees	Shiseido Hanatsubaki Fund ³	Monthly number of pledges (Note 3)	Pledges	17,162	17,016	Japan	

1. In 2013, we initiated the SHISEIDO LIFE QUALITY BUSINESS by integrating the Shiseido Cosmetic Therapy Program for the Elderly launched in 2011 with various beauty seminars that we have been conducting for groups including the elderly and developmentally challenged, students and adults.

2. Seminars that provide information to pre-adolescents on skin and hygiene and how to care for their changing skin correctly

3. Employees make donations from their wages and voluntarily participate in support activities. There are currently 10 support groups.

Note 1: Japan (Tokyo); China (Shanghai, Hong Kong); Taiwan (Taipei, Kaohsiung).

Note 2: For fifth- and sixth-year elementary school children.

Note 3: 1 pledge = ¥100; pledge totals for March.

Personnel Data

Indicator	Unit	Year ended March 2014	Year ended March 2015	Scope	Reference
Number of employees	Persons	46,980	46,351	Group employees in Japan and overseas (including fixed-term contract employees) ⁴	Number of fixed-term contract employees is average for the year.
Average age	Years	40.2	40.7	Group employees in Japan (excluding fixed-term contract employees)	
Average years of service	Years	16.4	16.9	Group employees in Japan (excluding fixed-term contract employees)	
Hours worked (total hours worked annually per employee)	Hours	1,812.8	1,832.6	Group employees in Japan (excluding managers and fixed-term contract employees)	Scheduled working hours Year ended March 2014: 1,844.5 hours Year ended March 2015: 1,852.25 hours
Ratio of female employees	%	83.1	83.4	Group employees in Japan (including fixed-term contract employees)	
Ratio of female leaders	%	26.8	27.2	Group employees in Japan	Managers with subordinates
Employees rehired after retirement	Persons	287	262	Group employees in Japan	
Ratio of physically and developmentally challenged employees	%	1.85	2.03	Group employees in Japan	
Employees taking nursing care leave	Persons	29	26	Group employees in Japan (including fixed-term contract employees)	
Employees taking time off for nursing care	Persons	14	16	Group employees in Japan (including fixed-term contract employees)	
Employees taking childcare leave	Persons	1,507	1,421	Group employees in Japan (including fixed-term contract employees)	Including data for short-term childcare leave program
Employees taking time off for childcare	Persons	1,829	1,882	Group employees in Japan (including fixed-term contract employees)	
Kangaroo Staff ⁵	Persons	1,635	1,674	Group employees in Japan	A system of Shiseido Sales Co., Ltd.

4. Data for Group employees in Japan as of April 1

5. Staff who support retail activities during evening hours by filling in for beauty consultants who are taking time off to care for their children

Main Subsidiaries and Affiliates

Company Name	Location	Paid-in Capital	Equity ownership percentage ¹
Shiseido Sales Co., Ltd.	Minato-ku, Tokyo	¥100 million	100.0
Shiseido FITIT Co., Ltd.	Chuo-ku, Tokyo	¥10 million	100.0
Shiseido International Inc.	Chuo-ku, Tokyo	¥30 million	100.0
The Ginza Co., Ltd.	Chuo-ku, Tokyo	¥100 million	98.2
Shiseido Pharmaceutical Co., Ltd.	Chuo-ku, Tokyo	¥100 million	100.0
FT Shiseido Co., Ltd.	Chuo-ku, Tokyo	¥100 million	100.0
Shiseido Professional Co., Ltd.	Chuo-ku, Tokyo	¥250 million	100.0
Shiseido Beauty Salon Co., Ltd.	Chuo-ku, Tokyo	¥100 million	100.0
Shiseido Americas Corporation	Delaware, U.S.A.	(Thousands of U.S. dollars) \$403,070	100.0
Shiseido America, Inc.	New York, U.S.A.	(Thousands of U.S. dollars) \$28,000	100.0 (100.0)
Bare Escentuals, Inc.	Delaware, U.S.A.	(U.S. dollars) \$0.01	100.0 (100.0)
Bare Escentuals, Beauty Inc.	Delaware, U.S.A.	(U.S. dollars) \$1.00	100.0 (100.0)
Zotos International, Inc.	Connecticut, U.S.A.	(Thousands of U.S. dollars) \$25,000	100.0 (100.0)
Shiseido International Europe S.A.	Paris, France	(Thousands of euro) €256,133	100.0
Shiseido International France S.A.S.	Paris, France	(Thousands of euro) €36,295	100.0 (100.0)
Shiseido Deutschland GmbH	Dusseldorf, Germany	(Thousands of euro) €5,200	100.0 (100.0)
Shiseido Cosmetici (Italia) S.p.A.	Milan, Italy	(Thousands of euro) €2,400	100.0 (100.0)
Shiseido Europe S.A.S.	Paris, France	(Thousands of euro) €9,000	100.0 (100.0)
Shiseido (RUS), LLC.	Moscow, Russia	(Thousands of Russian rubles) RUB 106,200	100.0 (100.0)
Beauté Prestige International S.A.	Paris, France	(Thousands of euro) €17,760	100.0 (100.0)
Shiseido China Co., Ltd.	Shanghai, China	(Thousands of yuan) CNY 565,093	100.0
Shanghai Zotos Citic Cosmetics Co., Ltd.	Shanghai, China	(Thousands of yuan) CNY 418,271	92.6 (66.4)
Shiseido Liyuan Cosmetics Co., Ltd.	Beijing, China	(Thousands of yuan) CNY 94,300	65.0 (33.0)
Shiseido Hong Kong Cosmetics Ltd.	Hong Kong, China	(Thousands of HK dollars) HKD 123,000	100.0
Taiwan Shiseido Co., Ltd.	Taipei, Taiwan	(Thousands of NT dollars) NTD 1,154,588	51.0
Shiseido Travel Retail Asia Pacific Pte. Ltd.	Singapore	(Thousands of U.S. dollars) \$48	100.0 (100.0)
Shiseido Parlour Co., Ltd.	Chuo-ku, Tokyo	¥100 million	99.3
Selan Anonymous Association ²	Chiyoda-ku, Tokyo	¥11,600 million	[100.0]
Other Consolidated Subsidiaries: 64 companies ³	—	—	—
(Equity-method affiliates): 4 companies	—	—	—

Notes: 1. Numbers in parentheses include indirect equity ownership, and numbers in brackets represent ownership by parties with a close relationship or those in agreement with Shiseido.

2. A company of less than 50 percent equity ownership that is treated as a subsidiary because Shiseido is essentially in control

3. Other consolidated subsidiaries is the sum of domestic subsidiaries as of March 31, 2015 and overseas subsidiaries as of December 31, 2014.

Management's Discussion and Analysis

Operating Results and Financial Condition

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Operating Results and Financial Condition

Operating Results

Overview

In the fiscal year ended March 31, 2015, the economic situation in Japan was characterized by continued moderate recovery underpinned by government economic measures. However, the recovery in personal consumption was weak, affected by uncertain consumer sentiment stemming from rising prices in the wake of a weakened yen in the second half.

By contrast, the world economy showed modest overall recovery despite the ongoing impact of the European debt problem and a slowdown in economic growth in China. Both the Japanese and overseas cosmetics markets are closely linked with economic conditions in their respective countries. In Japan, although signs of recovery appeared toward the second half, the cosmetics market was significantly impacted in the first half of the period by a pullback in demand following a surge ahead of the consumption tax hike, resulting in a year-on-year decline in the annual growth rate. European cosmetics markets remained mostly unchanged year on year, while markets in the Americas and Asia maintained steady growth.

In this environment, the Shiseido Group positioned the fiscal year ended March 31, 2015 as a time to prepare for drastic reforms. Specifically, we are targeting three major priorities: strengthening marketing execution and brand capabilities from the consumer's perspective, reforming our organization and corporate culture, and reinforcing our operational foundation. We also formulated a new long-term vision and a medium-term business plan that started in 2015. These are encapsulated in VISION 2020, a medium- and long-term strategy announced on December 17, 2014.

As a result, consolidated net sales increased 2.1 percent compared with the previous fiscal year. Domestic sales decreased 3.1 percent year on year. Overseas sales grew 7.1 percent.

Operating income decreased 44.4 percent year on year. Domestic factors included a decline in marginal income as a result of the decrease in domestic sales, and an increase in personnel expenses from higher bonus payments in Japan due to achievement of performance targets for the previous fiscal year. Overseas factors included stepped-up marketing investments, costs related to optimization of market inventories in Asia, centered on China, and increased expenses associated with problems at our U.S. distribution center.

Despite the decrease in operating income and an impairment loss on customer-related intangible assets of Bare Escentuals, Inc., net income grew 28.8 percent, due to gain on transfer of business from the sale of the *DECLÉOR* and *CARITA* brands. Consolidated operating profitability was 3.6 percent, consolidated return on equity (ROE) was 9.4 percent, and the overseas sales ratio was 53.0 percent.

Net Sales

Net sales increased 2.1 percent compared with the previous fiscal year to ¥777,687 million (\$6,466,176 thousand), but decreased 2.0 percent on a local currency basis. Domestic sales decreased 3.1 percent compared with the previous fiscal year due to the pullback in demand following the surge ahead of the consumption tax hike. Overseas sales edged down 0.9 percent on a local currency basis, but after translation into yen, overseas sales grew 7.1 percent because of the yen's depreciation.

Net Sales/Overseas Sales Ratio

(Billions of yen)	2011	2012	2013	2014	2015
Net Sales	670.7	682.4	677.7	762.0	777.7
Overseas Sales Ratio (%)	42.9	44.3	44.9	50.5	53.0
Domestic Sales	382.9	380.0	373.2	377.3	365.6
Overseas Sales	287.8	302.4	304.5	384.8	412.1

Cost of Sales and Selling, General and Administrative Expenses

Cost of Sales

Cost of sales increased 3.6 percent compared with the previous fiscal year to ¥196,433 million (\$1,633,266 thousand). The ratio of cost of sales to net sales increased 0.3 percentage points to 25.2 percent, mainly because the reserve for sales returns increased due to an increase in the number of discontinued products in Japan.

Selling, General and Administrative Expenses

Selling, general and administrative expenses (SG&A) increased 5.9 percent compared with the previous fiscal year to ¥553,640 million (\$4,603,309 thousand). The ratio of SG&A expenses to net sales increased 2.6 percentage points to 71.2 percent. Details of SG&A expenses are as follows.

Marketing Costs

Marketing costs consist of advertising and promotional expenses. The ratio of marketing costs to net sales increased 1.2 percentage points to 23.4 percent. Increased marketing investment overseas more than offset a decrease in marketing investment in Japan compared with the previous fiscal year, when we stepped up marketing investment to capture the surge in demand ahead of the consumption tax hike.

Personnel Expenses

The ratio of personnel expenses to net sales increased 0.6 percentage points to 24.5 percent. The primary reason was higher bonus payments in Japan due to achievement of performance targets for the previous fiscal year.

Other Expenses

The ratio of other expenses to net sales increased 0.8 percentage points to 22.1 percent. The primary reason was proactive investment in projects such as restructuring to create a matrix organization and business structure reforms.

M&A-Related Amortization Expenses

The ratio of amortization expenses associated with mergers and acquisitions to net sales was unchanged at 1.2 percent.

Cost of Sales Ratio/SG&A Expenses Ratio/SG&A Expenses					
	2011	2012	2013	2014	2015
Cost of Sales Ratio (%)	25.2	23.9	24.6	24.9	25.2
SG&A Expenses Ratio (%)	68.2	70.4	71.6	68.6	71.2
Marketing Costs	21.5	23.5	23.5	22.2	23.4
Personnel Expenses	23.7	23.9	24.7	23.9	24.5
Other Expenses	21.7	21.6	22.0	21.3	22.1
M&A-Related Amortization Expenses	1.3	1.4	1.4	1.2	1.2
SG&A Expenses (Billions of yen)	457.6	480.3	484.9	522.8	553.6
Marketing Costs	144.4	160.3	159.0	169.3	182.2
Personnel Expenses	159.3	163.3	167.7	181.8	190.6
Other Expenses	145.3	147.6	149.1	162.7	171.4
M&A-Related Amortization Expenses	8.6	9.1	9.1	9.0	9.4

Operating Income

Operating income decreased 44.4 percent compared with the previous fiscal year to ¥27,613 million (\$229,591 thousand). Domestic factors included a decline in marginal income as a result of the decrease in domestic sales, and an increase in personnel expenses from higher bonus payments in Japan due to achievement of performance targets for the previous fiscal year. Overseas factors included stepped-up marketing investments, costs related to optimization of market inventories in Asia, centered on China, and increased expenses associated with problems at our U.S. distribution center. Operating profitability decreased 2.9 percentage points to 3.6 percent.

Operating Income/Operating Profitability					
(Billions of yen)	2011	2012	2013	2014	2015
Operating Income	44.5	39.1	26.0	49.6	27.6
Operating Profitability (%)	6.6	5.7	3.8	6.5	3.6

Other Income (Expenses)

Net other income increased to ¥21,425 million (\$178,140 thousand) from ¥782 million for the previous fiscal year. The increase was largely due to gain on transfer of business from the sale of the *DECLÉOR* and *CARITA* brands, which more than compensated for impairment loss on customer-related intangible assets of Bare Escentuals, Inc.

Income before Income Taxes

Income before income taxes decreased 2.8 percent compared with the previous fiscal year to ¥49,038 million (\$407,732 thousand).

Income Taxes, Including Deferred Taxes

Income taxes, including deferred taxes, decreased 40.9 percent compared with the previous fiscal year to ¥12,811 million (\$106,518 thousand).

Minority Interests in Net Income of Consolidated Subsidiaries

Minority interests in net income of consolidated subsidiaries decreased 1.1 percent compared with the previous fiscal year to ¥2,558 million (\$21,268 thousand).

Net Income

Net income increased 28.8 percent compared with the previous fiscal year to ¥33,668 million (\$279,936 thousand). Net income per share increased to ¥84.4 (\$0.70) from ¥65.7 for the previous fiscal year.

ROE increased 1.0 percentage point to 9.4 percent from 8.4 percent for the previous fiscal year.

Net Income (Loss) /Return on Equity					
(Billions of yen)	2011	2012	2013	2014	2015
Net Income (Loss)	12.8	14.5	(14.7)	26.1	33.7
Return on Equity (%)	3.9	4.9	(5.1)	8.4	9.4

Review by Reportable Segment

Domestic Cosmetics Business

Sales in the Domestic Cosmetics Business segment (page 88) decreased 3.0 percent compared with the previous fiscal year to ¥339,294 million (\$2,821,102 thousand). In both the cosmetics business and the healthcare business, sales decreased year on year due to the significant impact of the pullback in demand following the surge ahead of the consumption tax hike. However, the cosmetics business trended upward in the second half, with the renewal of brands and the introduction of new brands driving higher sales of mid-priced and high-priced products. Moreover, in October 2014 cosmetics were added to the list of items available free of consumption tax for overseas tourists visiting Japan, resulting in a significant increase in inbound sales. These and other factors in the second half brought positive signs for 2015.

Domestic Cosmetics Business Division

In the cosmetics business, we continued a marketing reform project that started in the fiscal year ended March 31, 2014, and in the fiscal year ended March 31, 2015 we launched the ICHIGAN Project, in which all employees – including R&D, product development, production, and corporate staff, as well as sales staff – unite in an ongoing effort to deliver brand value to consumers. As a result, we achieved positive outcomes, including growth in over-the-counter sales of the *ELIXIR* moisture-retention brand for adults desiring supple skin and the high-quality *MAQUILLAGE* makeup brand that provides adults with new levels of beauty. Moreover, *PRIOR*, a comprehensive brand for mature

women that was launched following a relentless pursuit of insights from this consumer segment, was well received. We also posted healthy sales of the top-end brand *clé de peau BEAUTÉ* and the global brand *SHISEIDO*.

Thus sales of our mid-priced and high-priced products are recovering, but sales of low-priced cosmetics, toiletries such as shampoos and men's items struggled in a harsh competitive environment, which poses a challenge. The ICHIGAN Project, which is producing positive outcomes as part of our marketing reform project, will not end. Rather, we will evolve it into "ICHIGAN marketing" in which the entire Group unites in constantly conveying brand value to consumers. We will also boost sales by reinforcing low-priced products, toiletries and men's items, where issues remain. We started doing so by renewing the *TSUBAKI* haircare brand in March 2015.

Healthcare Business Division

Sales in the healthcare business declined year on year, due mainly to the impact of the pullback in demand following the surge ahead of the consumption tax hike. However, we comprehensively renewed beauty food brand *The Collagen* and the *IHADA* brand of medical-use products for treating facial skin problems, which resulted in increased sales for both.

Segment income (operating income) for the Domestic Cosmetics Business decreased 23.9 percent compared with the previous fiscal year to ¥30,039 million (\$249,763 thousand) due to factors including the increase in personnel expenses as a result of higher bonuses in addition to the decline in marginal income as a result of the decrease in sales.

Global Business

Sales in the Global Business segment increased 6.4 percent compared with the previous fiscal year to ¥427,899 million (\$3,557,819 thousand) because of the effect of the depreciation of the yen on translating foreign currency into yen, but decreased 1.3 percent on a local currency basis.

Overseas Cosmetics Division

In the Americas, the makeup artist brand *NARS* and the fragrance business again performed well. Other drivers of sales growth included the global brand *SHISEIDO*, which scored a hit with the launch of *ULTIMUNE* beauty serum in 2014, and *bareMinerals*, which benefited from a favorable response to *BARESKIN*, its first liquid foundation.

In Europe, we struggled in some key countries including Germany and Italy due to challenging market conditions. However, *narciso rodriguez* and other designer fragrance brands performed well.

In the top-priority market of China, we sought to rebuild our business by launching a consumer segmentation project aimed at conducting consumer-oriented marketing activities while rearranging our brand portfolio. We also continued optimizing market inventory levels. In other Asian markets,

we similarly promoted optimization of market inventory levels, resulting in a year-on-year decline in sales on a local currency basis in Asia. Although sales have decreased temporarily, we now have a framework in place in which over-the-counter sales and product shipments are soundly connected, which will enable us to achieve growth from 2015.

In emerging countries, we made good progress in Indonesia, where we began selling our products in 1958. Our business there, via distributors, has performed well and delivered healthy sales growth. During the year, we established a subsidiary and commenced direct operations in Indonesia, with the aim of reinforcing our business foundation. As of December 31, 2014, the global brand *SHISEIDO* was available in 89 countries and regions, including Japan.

Overseas and Domestic Professional Divisions

In the professional business, we have focused on tapping Asian markets since 2010, and dramatic growth in China, South Korea and Taiwan drove this business during the fiscal year ended March 31, 2015. However, the pronounced impact of the sales of the *DECLÉOR* and *CARITA* brands resulted in a decrease in sales compared with the previous fiscal year.

Segment loss (operating loss) for the Global Business totaled ¥4,687 million (\$38,970 thousand) compared with segment income (operating income) of ¥7,660 million for the previous fiscal year. Factors included increased marketing investments, increased expenses associated with problems at our U.S. distribution center, increase in the reserve for sales returns in Greece, and costs related to optimization of market inventories in China and elsewhere in Asia.

Others

Sales in the Others segment grew 3.7 percent compared with the previous fiscal year to ¥10,493 million (\$87,245 thousand). This year-on-year increase was partly due to healthy performance by the Frontier Science Division, as well as growth in the food and beverage business, where both restaurants and retail delivered solid results.

Frontier Science Division

Frontier Science Division sales increased year on year. In addition to bio-hyaluronic acid, a raw material for cosmetics and pharmaceuticals, sales of *2e* and *NAVISION* cosmetics for medical institutions, derived from our beauty care skin research, remained strong.

Other Businesses

Shiseido Parlour Co., Ltd., a subsidiary in the restaurant business, sought to develop exclusive products for airport shops. As a result, its retail division performed well, including at department stores, railway stations and airports. Its restaurant division also increased sales, resulting in record sales for Shiseido Parlour. Meanwhile, French restaurant *L'Osier*, which

reopened in October 2013 after renovation, continued to perform well in the fiscal year ended March 31, 2015, resulting in a year-on-year sales increase for the Group's food and beverage business.

Net Sales by Reportable Segment

(Billions of yen)	2011	2012	2013	2014	2015
Domestic Cosmetics Business	358.4	353.8	345.9	349.7	339.3
Global Business	302.6	319.7	322.3	402.2	427.9
Others	9.7	8.9	9.5	10.1	10.5
Total	670.7	682.4	677.7	762.0	777.7

Income by Reportable Segment (Before Amortization of Goodwill)

(Billions of yen)	2011	2012	2013	2014	2015
Domestic Cosmetics Business	33.7	29.6	27.7	39.6	30.2
Global Business	14.1	13.6	2.1	12.1	(0.1)
Others	1.8	1.4	2.0	2.1	2.2

Income by Reportable Segment (After Amortization of Goodwill)

(Billions of yen)	2011	2012	2013	2014	2015
Domestic Cosmetics Business	33.6	29.5	27.5	39.5	30.0
Global Business	9.0	8.2	(3.3)	7.7	(4.7)
Others	1.8	1.4	2.0	2.1	2.2

Profitability by Reportable Segment (Before Amortization of Goodwill)

(%)	2011	2012	2013	2014	2015
Domestic Cosmetics Business	9.4	8.3	8.0	11.3	8.8
Global Business	4.6	4.2	0.6	3.0	(0.0)
Others	11.4	9.9	13.4	13.8	14.6

Profitability by Reportable Segment (After Amortization of Goodwill)

(%)	2011	2012	2013	2014	2015
Domestic Cosmetics Business	9.3	8.3	7.9	11.2	8.8
Global Business	3.0	2.6	(1.0)	1.9	(1.1)
Others	11.4	9.9	13.4	13.8	14.6

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

Segment income (operating income) for Others increased 7.4 percent compared with the previous fiscal year to ¥2,234 million (\$18,574 thousand) because of higher marginal income resulting from increased sales.

Overseas sales by destination are as follows.

Overseas Sales

(Billions of yen)	2011	2012	2013	2014	2015
Americas	87.6	90.5	93.0	118.7	133.1
Europe	78.2	82.2	79.1	102.1	108.9
Asia/Oceania	122.0	129.7	132.4	164.0	170.1
China	81.0	89.1	90.7	111.5	114.8
Total	287.8	302.4	304.5	384.8	412.1

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

(%)	2011	2012	2013	2014	2015
Americas	88.0	13.2	3.4	4.2	3.5
Europe	16.9	10.7	3.2	2.6	(1.4)
Asia/Oceania	10.4	11.7	1.3	(0.3)	(3.7)
China	—	16.2	(0.2)	(1.8)	(4.8)
Total	28.3	11.9	2.4	1.8	(0.9)

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

(Yen)	2011	2012	2013	2014	2015
U.S. dollar 1	87.8	79.8	79.8	97.7	105.9
Euro 1	116.4	111.1	102.6	129.7	140.4
Chinese yuan 1	13.0	12.4	12.7	15.9	17.2

Liquidity and Capital Resources

Financing and Liquidity Management

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

One of our targets for short-term liquidity is to maintain cash on hand at a level of approximately 1.5 months of consolidated net sales. As of March 31, 2015, cash, time deposits and short-term investments in securities totaled ¥121,869 million (\$1,013,295 thousand) and represented 1.9 months of consolidated net sales.

Interest-bearing liabilities as of March 31, 2015 totaled ¥106,897 million (\$888,808 thousand), largely reflecting funds procured for the acquisition of Bare Escentuals in March 2010. Shiseido uses diversified funding methods. These include an unused shelf registration in Japan for ¥120.0 billion of straight bonds. Moreover, Shiseido Co., Ltd. and two subsidiaries in Europe and the United States have established a syndicated loan program with unused commitments totaling \$300 million. A subsidiary in the United States has also established an unused

commercial paper program totaling \$100 million. As of March 31, 2015, Shiseido maintained a sufficient level of liquidity and a high level of financial flexibility because of its diversified funding methods.

Cash Flows

Cash and cash equivalents (net cash) as of March 31, 2015 totaled ¥100,807 million (\$838,172 thousand), a decrease of ¥9,355 million compared with the previous fiscal year end.

Cash Flows Summary

(Billions of yen)	2013	2014	2015
Cash Flows from Operating Activities	42.0	84.3	32.1
Cash Flows from Investing Activities	(25.5)	(16.8)	11.5
Cash Flows from Financing Activities	(24.7)	(47.5)	(58.4)
Cash and Cash Equivalents at End of Year	80.3	110.2	100.8

Cash Flows from Operating Activities

Net cash provided by operating activities decreased ¥52,185 million (\$433,898 thousand) compared with the previous fiscal year to ¥32,134 million (\$267,182 thousand). Income before income taxes was ¥49,038 million (\$407,732 thousand), depreciation was ¥33,353 million (\$277,317 thousand), amortization of goodwill was ¥4,726 million (\$39,294 thousand), and decrease in notes and accounts receivable was ¥11,173 million (\$92,899 thousand). On the other hand, gain on transfer of business was ¥22,268 million (\$185,150 thousand), increase in inventories was ¥11,625 million (\$96,657 thousand), decrease in notes and accounts payable was ¥8,586 million (\$71,389 thousand), and income taxes paid totaled ¥24,693 million (\$205,313 thousand).

Cash Flows from Investing Activities

Net cash provided by investing activities was ¥11,538 million (\$95,934 thousand) compared with net cash used in investing activities of ¥16,799 million in the previous fiscal year. Among other factors, capital expenditures used ¥26,774 million (\$222,615 thousand), while the sale of the *DECLÉOR* and *CARITA* brands provided ¥29,823 million (\$247,967 thousand).

Cash Flows from Operating Activities/Capital Expenditures*

(Billions of yen)	2011	2012	2013	2014	2015
Cash Flows from Operating Activities	67.6	52.6	42.0	84.3	32.1
Capital expenditures*	26.3	29.2	29.7	28.3	26.8

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

Cash Flows from Financing Activities

Net cash used in financing activities increased ¥10,956 million compared with the previous fiscal year to ¥58,419 million (\$485,732 thousand) as factors including repayment of long-term debt of ¥70,917 million (\$589,648 thousand) including redemption of bonds of ¥50,000 million (\$415,731 thousand) and cash

dividend paid of ¥7,988 million (\$66,417 thousand) more than offset net increase in short-term debt, including commercial paper, of ¥23,039 million (\$191,560 thousand).

Assets, Liabilities and Net Assets

Assets

As of March 31, 2015, total assets increased 2.8 percent compared with the previous fiscal year end to ¥823,636 million (\$6,848,224 thousand).

Current assets increased 3.1 percent compared with the previous fiscal year end to ¥415,069 million (\$3,451,143 thousand). Non-current assets (fixed assets) increased 2.5 percent compared with the previous fiscal year end to ¥408,567 million (\$3,397,081 thousand) because the effect of foreign currency translation offset the reduction of assets due to the sale of the *DECLÉOR* and *CARITA* brands.

Liabilities

Total liabilities as of March 31, 2015 decreased 6.4 percent compared with the previous fiscal year end to ¥414,267 million (\$3,444,474 thousand) due to factors including the redemption of bonds. A detailed explanation of interest-bearing debt is available in Note 7. SHORT-TERM AND LONG-TERM DEBT of the Notes to the Consolidated Financial Statements.

Net Assets

Total net assets as of March 31, 2015 increased 14.1 percent compared with the previous fiscal year end to ¥409,369 million (\$3,403,749 thousand), mainly due to an increase in shareholders' equity and to foreign currency translation adjustments. As a result, as of March 31, 2015 net assets per share increased ¥120.6 (\$1.00) compared with the previous fiscal year end to ¥970.0 (\$8.07). The equity ratio increased 4.8 percentage points to 47.0 percent from 42.2 percent a year earlier.

Total Assets/Operating ROA

(Billions of yen)	2011	2012	2013	2014	2015
Total Assets	739.1	720.7	715.6	801.3	823.6
Operating ROA (%)	6.1	5.6	3.8	6.8	3.6

Net Assets/Interest-Bearing Debt

(Billions of yen)	2011	2012	2013	2014	2015
Net Assets	320.1	303.7	303.2	358.7	409.4
Interest-Bearing Debt	197.5	185.2	184.7	155.9	106.9

Equity Ratio/Interest-Bearing Debt Ratio

(%)	2011	2012	2013	2014	2015
Equity Ratio	41.6	40.3	40.1	42.2	47.0
Interest-Bearing Debt Ratio	38.2	37.9	37.9	30.3	20.7

Credit Ratings

Shiseido recognizes that it needs 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. Shiseido has acquired ratings from Moody's Japan K.K. (Moody's) and Standard and Poor's Ratings Japan K.K. (S&P) to facilitate fund procurement in global capital markets.

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

(As of May 31, 2015)

Outlook for the Fiscal Year Ending December 31, 2015

Consolidated performance forecasts for 2015 are based on the nine-month period (April–December) for the Company and subsidiaries with March 31 fiscal year-ends, and the 12-month period (January–December) for subsidiaries with December 31 fiscal year-ends, due to a planned change in the fiscal year.

Due to recovery of our domestic business and efforts to rebuild our business in China, we forecast consolidated net sales will increase 7.8 percent year on year (previous fiscal year adjusted for comparison) to ¥730.0 billion. Despite increased marketing investments, we expect higher net sales to raise marginal income. Accordingly, we forecast that operating income will increase 31.9 percent year on year (previous fiscal year adjusted for comparison) to ¥28.0 billion, and net income attributable to owners of parent will decrease 63.7 percent to ¥10.0 billion.

Past Results Compared with Forecast for the Year Ending December 2015

(Billions of yen)	Year Ended March 2015	Year Ended March 2015 (Adjusted)	Year Ending December 2015	Adjusted Year-on-Year Increase/Decrease
Net Sales	777.7	677.5	730.0	7.8%
Japan Business	332.2	240.5	259.0	7.7%
Global Business	427.9	424.3	457.5	7.8%
Others	17.6	12.7	13.5	6.4%
Operating Income	27.6	21.2	28.0	31.9%
Net Income Attributable to Owners of Parent	33.7	27.5	10.0	(63.7%)
Reference				
Domestic Sales	365.6	265.9	285.0	7.2%
Overseas Sales	412.1	411.6	445.0	8.1%

* Effective 2015, the Company has partially reorganized its business segment classification method, ahead of a new organizational system to start in 2016. The former "Domestic Cosmetics Business" and "Global Business" segments will become the "Japan Business" and "Global Business" segments. Some subsidiaries previously included under the "Domestic Cosmetics Business" segment will be included under the "Global Business" or "Others" segment.

Japan Business

We expect the domestic cosmetics market to expand moderately in line with economic recovery. In this environment, we will expedite brand reinforcement to expand market share. At the same time, we will focus on inbound sales and the digital business, in which we anticipate significant future growth. We forecast segment sales will increase 7.7 percent year on year (previous fiscal year adjusted for comparison) to ¥259.0 billion. We also forecast an increase in segment operating income.

Global Business

In Europe, we expect conditions in the cosmetics market to remain difficult due to the impact of the debt crisis. In the Americas, however, the cosmetics market is expected to maintain moderate growth. In Asia, meanwhile, we look forward to continued market growth, especially in China. In this environment, we will continue working to rebuild our China business. At the same time, we will promote brand reinforcement matched to the attributes of each area. We will also focus on the high-growth travel retail market. Through these efforts, together with foreign exchange factors, we forecast segment sales will increase 7.8 percent year on year (previous fiscal year adjusted for comparison) to ¥457.5 billion. We also forecast an increase in segment operating income.

Others

Going forward, we will continue striving to reinforce our presence in the Frontier Science Division, which is underpinned by cosmetics raw materials, medical-use pharmaceuticals, chromatography-related machinery, and cosmetics for medical institutions. We forecast segment sales will increase 6.4 percent year on year (previous fiscal year adjusted for comparison) to ¥13.5 billion. We also forecast an increase in segment operating income.

We base our predictions on major currency exchange rates of ¥115 per U.S. dollar, ¥130 per euro, and ¥18.0 per Chinese yuan.

Business and Other Risks

The various risks that could potentially affect the business performance and financial position of Shiseido are summarized below. We feel that these risks could have a major impact on investors' decisions. Items that deal with future events are based on our judgment as of June 23, 2015. Please note that the potential risks are not limited to those listed below.

1. Decrease in Value of the Corporate Brand

The corporate brand is shared by all Group companies in Shiseido's domestic and overseas business activities. We will continue working to enhance the value of this brand, but a decline in the brand's value from an unforeseen event could negatively affect Shiseido's business performance and financial position.

2. Consumer Services

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

3. Strategic Investment Activities

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

4. The Competitive Environment of the Cosmetics Industry

Shiseido operates in the cosmetics industry, in which competition is intensifying on a global scale. Competition for share among Japanese cosmetics companies in the mature domestic market is intensifying because of factors including the expanding influence of global competitors in the prestige market, and the entry of new competitors from other industries. In addition, in overseas markets such as China and other Asian countries, which Shiseido has positioned as central to its growth strategy, the competitive environment is becoming increasingly challenging as global competitors are aggressively conducting mergers and acquisitions and expanding market share by executing marketing

activities to raise consumer awareness of their brands. Consequently, inability to respond to this competitive environment effectively could negatively affect Shiseido's business performance and financial position.

5. Overseas Business Activities

As of December 31, 2014, Shiseido conducted business in 89 countries and regions (including Japan), and overseas sales account for a growing percentage of consolidated net sales each year, totaling 53.0 percent in the fiscal year under review. In the course of conducting overseas business, Shiseido's business performance and financial position could be negatively affected by various factors. These include the occurrence of sudden and unpredictable economic, political and social crises; terrorism, war and civil war; economic and civil upheaval resulting from the spread of contagious diseases such as new strains of influenza; and severe or abnormal weather.

6. Market Risk

Raw material prices

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

Exchange rates

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

Share prices

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

7. Responding Appropriately to Market Needs

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

8. Specific Business Partners

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

9. Regulatory Risk

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

10. Material Litigation

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

11. Information Security Risk

Shiseido takes various measures aimed at protecting its information assets, which include consumers' personal information and industrial secrets. Specifically, we have formulated and rigorously comply with our Personal Information Protection Rules, Confidential Information Controlling Regulation and Information System Controlling Regulation to carefully handle personal consumer information and protect all information assets. Moreover, Shiseido has obtained Privacy Mark certification, a Japanese Industrial Standard that recognizes the appropriateness of a company's systems for protecting personal information. However, unforeseeable events, such as leakage of information due to unauthorized access, could negatively affect the Shiseido's Group's business performance and financial position.

12. Natural Disasters and Accidents

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

Significant Accounting Estimates

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

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

Property, Plant and Equipment

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

Goodwill, Trademarks and Other Intangible Assets

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

Securities

Shiseido recognizes loss on revaluation for securities reported as available-for-sale securities for which fair value or market price has fallen substantially below acquisition cost. Securities deemed recoverable are excluded. Securities with a fair value that is more than 50 percent below acquisition cost as of the balance sheet date are deemed unrecoverable. The recoverability of securities with a fair value from 30 to 50 percent below acquisition cost is evaluated according to the performance and financial condition of the issuing entity. Loss on revaluation is recognized for securities for which fair

value is not available if market price has fallen to more than 50 percent below the acquisition cost due to the financial condition of the issuing entity. Securities deemed recoverable are excluded. We consider the estimates of recoverability to be appropriate. However, in the future the market price of securities deemed recoverable may decrease and the performance and financial condition of the issuing entity may deteriorate. This could require us to recognize loss on revaluation.

Deferred Tax Assets

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

Retirement Benefits and Obligations

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

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Consolidated Financial Statements

CONSOLIDATED BALANCE SHEETS

Shiseido Company, Limited and Subsidiaries
March 31, 2014 and 2015

	Note	Millions of yen		Thousands of U.S. dollars (Note 1)
		2014	2015	2015
ASSETS				
Current Assets:				
Cash and time deposits	3, 4, 7	¥ 95,774	¥ 103,603	\$ 861,420
Short-term investments in securities	3, 4, 5	33,129	18,266	151,874
Notes and accounts receivable:	4			
Trade		138,279	131,951	1,097,123
Unconsolidated subsidiaries and affiliates		3	—	—
		138,282	131,951	1,097,123
Less: allowance for doubtful accounts		(1,483)	(1,733)	(14,409)
		136,799	130,217	1,082,705
Inventories	6	90,244	106,696	887,137
Deferred tax assets	9	26,568	32,240	268,063
Other current assets		20,072	24,046	199,933
Total current assets		402,588	415,069	3,451,143
Property, Plant and Equipment, at Cost:				
Buildings and structures	7	166,117	163,777	1,361,744
Machinery and equipment	7	165,286	166,523	1,384,576
Leased assets		7,359	6,678	55,525
		338,764	336,979	2,801,854
Less: accumulated depreciation		(238,020)	(232,001)	(1,929,001)
		100,743	104,978	872,852
Land		30,853	30,256	251,567
Construction in progress		3,282	1,752	14,567
Total property, plant and equipment	23	134,879	136,986	1,138,987
Intangible Assets:				
Goodwill	23	63,377	64,453	535,902
Leased assets		586	635	5,279
Trademarks		55,173	58,005	482,289
Other intangible assets		47,595	44,027	366,068
Total intangible assets		166,732	167,121	1,389,548
Investments and Other Assets:				
Investments in securities	4, 5, 7	24,833	26,381	219,348
Investments in unconsolidated subsidiaries and affiliates	4	2,055	2,853	23,721
Long-term prepaid expenses		11,994	12,842	106,776
Deferred tax assets	9	33,118	37,960	315,623
Other investments	7	25,143	24,420	203,043
Total investments and other assets		97,145	104,458	868,529
Total Assets	23	¥ 801,346	¥ 823,636	\$ 6,848,224

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

Millions of yen

Thousands of
U.S. dollars (Note 1)

	Note	2014	2015	2015
LIABILITIES AND NET ASSETS				
Current Liabilities:				
Short-term debt	4, 7	¥ 6,727	¥ 27,789	\$ 231,055
Current portion of long-term debt	4, 7	57,326	47,825	397,646
Notes and accounts payable:	4			
Trade		50,066	32,905	273,592
Unconsolidated subsidiaries and affiliates		878	1,555	12,929
		50,945	34,460	286,521
Electronically recorded obligations - operating	4	—	25,980	216,013
Other payables	4	48,043	35,329	293,747
Accrued income taxes		17,503	16,210	134,780
Reserve for sales returns		11,084	15,101	125,559
Accrued bonuses for employees		18,094	17,012	141,448
Accrued bonuses for directors		290	182	1,513
Provision for liabilities and charges		486	649	5,396
Provision for structural reforms		122	10	83
Deferred tax liabilities	9	35	39	324
Other current liabilities		39,123	44,788	372,395
Total current liabilities		249,783	265,381	2,206,543
Long-Term Liabilities:				
Long-term debt	4, 7	91,864	31,281	260,089
Liability for retirement benefits	8	60,825	77,704	646,079
Allowance for losses on guarantees		350	350	2,910
Allowance for environmental measures		395	395	3,284
Provision for structural reforms		1,061	1,005	8,356
Deferred tax liabilities	9	33,413	33,198	276,028
Other long-term liabilities		4,945	4,949	41,149
Total long-term liabilities		192,855	148,885	1,237,923
Total Liabilities		442,638	414,267	3,444,474
CONTINGENT LIABILITIES				
	10			
NET ASSETS				
	11			
Shareholders' Equity:				
Common stock		64,506	64,506	536,343
Authorized: 1,200,000,000 shares as of March 31, 2014 and 2015				
Issued: 400,000,000 shares as of March 31, 2014 and 2015				
Capital surplus		70,258	70,258	584,168
Retained earnings		203,452	218,757	1,818,882
Less: treasury stock, at cost		(2,682)	(2,214)	(18,408)
Treasury stock: 1,422,159 shares as of March 31, 2014 and 1,173,894 shares as of March 31, 2015				
Total shareholders' equity		335,535	351,308	2,920,994
Accumulated Other Comprehensive Income:				
Unrealized gains (losses) on available-for-sale securities	5	3,544	6,443	53,571
Foreign currency translation adjustments		19,690	48,544	403,625
Accumulated adjustments for retirement benefits		(20,207)	(19,435)	(161,594)
Total accumulated other comprehensive income		3,026	35,552	295,601
Stock Acquisition Rights	12	941	1,043	8,672
Minority Interests in Consolidated Subsidiaries		19,204	21,465	178,473
Total Net Assets		358,707	409,369	3,403,749
Total Liabilities and Net Assets		¥801,346	¥823,636	\$6,848,224

CONSOLIDATED STATEMENTS OF INCOME/ CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

Shiseido Company, Limited and Subsidiaries
For the fiscal years ended March 31, 2014 and 2015

CONSOLIDATED STATEMENTS OF INCOME

	Note	Millions of yen		Thousands of U.S. dollars (Note 1)
		2014	2015	2015
Net Sales	23	¥762,047	¥777,687	\$6,466,176
Cost of Sales		189,559	196,433	1,633,266
Gross profit		572,487	581,254	4,832,909
Selling, General and Administrative Expenses	13	522,843	553,640	4,603,309
Operating income	23	49,644	27,613	229,591
Other Income (Expenses):				
Interest and dividend income		1,610	1,759	14,625
Interest expense		(1,731)	(1,207)	(10,035)
Foreign exchange gain (loss)		739	(657)	(5,462)
Equity in earnings of affiliates		82	212	1,762
Gain on sales of investments in securities	5	641	203	1,687
Loss on revaluation of investments in securities		(76)	(0)	(0)
Gain (loss) on sales and disposal of property, plant and equipment		4,960	3,257	27,080
Gain on transfer of business	17	—	22,268	185,150
Impairment loss	18, 23	(969)	(2,531)	(21,044)
Structural reform expenses	19	(5,555)	(3,273)	(27,213)
Loss on liquidation of subsidiaries and affiliates	20	—	(125)	(1,039)
Other, net		1,081	1,519	12,629
Income before income taxes		782	21,425	178,140
Income Taxes	9	50,427	49,038	407,732
Current		22,155	20,230	168,204
Income taxes for prior periods		1,700	—	—
Deferred		(2,164)	(7,419)	(61,686)
Income before minority interests		21,690	12,811	106,518
Minority Interests in Net Income of Consolidated Subsidiaries		28,736	36,227	301,213
		(2,587)	(2,558)	(21,268)
Net income		¥ 26,149	¥ 33,668	\$ 279,936

	Note	Yen		U.S. dollars (Note 1)
		2014	2015	2015
Per Share	2 (9)			
Net income — basic		¥65.7	¥84.4	\$0.70
— diluted		65.5	84.3	0.70
Cash dividend		20.0	20.0	0.17
Weighted Average Number of Shares (thousands)		398,300	398,704	

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	Note	Millions of yen		Thousands of U.S. dollars (Note 1)
		2014	2015	2015
Income before Minority Interests		¥28,736	¥36,227	\$301,213
Other Comprehensive Income				
Unrealized gains (losses) on available-for-sale securities	5	814	2,842	23,630
Foreign currency translation adjustments		60,698	30,822	256,273
Adjustments for retirement benefits		391	773	6,427
Share of other comprehensive income of entities accounted for under the equity method		81	2	16
Total other comprehensive income	21	61,986	34,441	286,364
Comprehensive Income		¥90,722	¥70,668	\$587,577
(Breakdown)				
Comprehensive income attributable to shareholders of the Company		¥84,750	¥66,193	\$550,370
Comprehensive income attributable to minority interests		5,971	4,474	37,199

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 ended March 31, 2014 and 2015

	Thousands				Millions of yen						
	Number of shares of common stock	Common stock	Capital surplus	Retained earnings	Treasury stock, at cost	Unrealized gains (losses) on available-for-sale securities	Foreign currency translation adjustments	Accumulated adjustments for retirement benefits	Stock acquisition rights	Minority interests in consolidated subsidiaries	
Balance as of April 1, 2013	400,000	¥64,506	¥70,258	¥191,476	¥(3,697)	¥2,799	¥(37,832)	¥ (440)	¥ 846	¥15,237	
Net income	—	—	—	26,149	—	—	—	—	—	—	
Cash dividend from retained earnings	—	—	—	(13,933)	—	—	—	—	—	—	
Equity transactions with non-controlling interests and others	—	—	—	(5)	—	—	—	—	—	—	
Acquisition of treasury stock	—	—	—	—	(5)	—	—	—	—	—	
Disposal of treasury stock	—	—	—	(234)	1,021	—	—	—	—	—	
Net changes of items other than shareholders' equity	—	—	—	—	—	744	57,523	(19,767)	95	3,966	
Balance as of March 31, 2014	400,000	64,506	70,258	203,452	(2,682)	3,544	19,690	(20,207)	941	19,204	
Effect of changes in accounting policies (cumulative)	—	—	—	(10,303)	—	—	—	—	—	(2)	
Balance at beginning of year reflecting changes in accounting policies	400,000	64,506	70,258	193,149	(2,682)	3,544	19,690	(20,207)	941	19,201	
Net income	—	—	—	33,668	—	—	—	—	—	—	
Cash dividend from retained earnings	—	—	—	(7,972)	—	—	—	—	—	—	
Equity transactions with non-controlling interests and others	—	—	—	(133)	—	—	—	—	—	—	
Acquisition of treasury stock	—	—	—	—	(6)	—	—	—	—	—	
Disposal of treasury stock	—	—	—	(93)	474	—	—	—	—	—	
Change in scope of consolidation	—	—	—	139	—	—	—	—	—	—	
Net changes of items other than shareholders' equity	—	—	—	—	—	2,899	28,854	771	102	2,263	
Balance as of March 31, 2015	400,000	¥64,506	¥70,258	¥218,757	¥(2,214)	¥6,443	¥ 48,544	¥(19,435)	¥1,043	¥21,465	

	Thousands				Thousands of U.S. dollars (Note 1)						
	Number of shares of common stock	Common stock	Capital surplus	Retained earnings	Treasury stock, at cost	Unrealized gains (losses) on available-for-sale securities	Foreign currency translation adjustments	Accumulated adjustments for retirement benefits	Stock acquisition rights	Minority interests in consolidated subsidiaries	
Balance as of April 1, 2014	400,000	\$536,343	\$584,168	\$1,691,627	\$(22,299)	\$29,467	\$163,714	\$(168,013)	\$7,824	\$159,674	
Effect of changes in accounting policies (cumulative)	—	—	—	(85,665)	—	—	—	—	—	(16)	
Balance at beginning of year reflecting changes in accounting policies	400,000	536,343	584,168	1,605,961	(22,299)	29,467	163,714	(168,013)	7,824	159,649	
Net income	—	—	—	279,936	—	—	—	—	—	—	
Cash dividend from retained earnings	—	—	—	(66,284)	—	—	—	—	—	—	
Equity transactions with non-controlling interests and others	—	—	—	(1,105)	—	—	—	—	—	—	
Acquisition of treasury stock	—	—	—	—	(49)	—	—	—	—	—	
Disposal of treasury stock	—	—	—	(773)	3,941	—	—	—	—	—	
Change in scope of consolidation	—	—	—	1,155	—	—	—	—	—	—	
Net changes of items other than shareholders' equity	—	—	—	—	—	24,104	239,910	6,410	848	18,815	
Balance as of March 31, 2015	400,000	\$536,343	\$584,168	\$1,818,882	\$(18,408)	\$53,571	\$ 403,625	\$(161,594)	\$8,672	\$178,473	

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 ended March 31, 2014 and 2015

	Note	Millions of yen		Thousands of U.S. dollars (Note 1)
		2014	2015	2015
Cash Flows from Operating Activities:				
Income before income taxes		¥ 50,427	¥ 49,038	\$ 407,732
Depreciation		33,618	33,353	277,317
Amortization of goodwill		4,571	4,726	39,294
Impairment loss		969	2,531	21,044
(Gain) loss on sales and disposal of property, plant and equipment		(4,960)	(3,257)	(27,080)
(Gain) loss on sales of investments in securities		(702)	(203)	(1,687)
(Gain) loss on revaluation of investments in securities		76	0	0
Gain on transfer of business		—	(22,268)	(185,150)
Increase (decrease) in allowance for doubtful accounts		213	260	2,161
Increase (decrease) in reserve for sales returns		(580)	3,490	29,018
Increase (decrease) in accrued bonuses for employees		4,482	(1,568)	(13,037)
Increase (decrease) in accrued bonuses for directors		21	(107)	(889)
Increase (decrease) in provision for liabilities and charges		1	219	1,820
Increase (decrease) in provision for structural reforms		(574)	(168)	(1,396)
Increase (decrease) in accrued retirement benefits		(45,042)	—	—
Increase (decrease) in liability for retirement benefits		29,504	2,086	17,344
Increase (decrease) in allowance for environmental measures		(49)	—	—
(Increase) decrease in prepaid pension expenses		17,155	—	—
Interest and dividend income		(1,610)	(1,759)	(14,625)
Interest expense		1,731	1,207	10,035
Equity in earnings (losses) of affiliates		(82)	(212)	(1,762)
(Increase) decrease in notes and accounts receivable		(3,000)	11,173	92,899
(Increase) decrease in inventories		7,827	(11,625)	(96,657)
Increase (decrease) in notes and accounts payable		6,260	(8,586)	(71,389)
Other		1,980	(1,882)	(15,648)
Subtotal		102,239	56,446	469,327
Interest and dividends received		1,461	1,709	14,209
Interest paid		(1,775)	(1,328)	(11,041)
Income taxes paid		(17,605)	(24,693)	(205,313)
Net cash provided by operating activities		84,320	32,134	267,182
Cash Flows from Investing Activities:				
Transfers to time deposits		(22,273)	(17,777)	(147,809)
Proceeds from maturity of time deposits		17,702	17,412	144,774
Acquisition of short-term investments in securities		(816)	—	—
Proceeds from sales of short-term investments in securities		883	1,300	10,809
Acquisition of investments in securities		(1,504)	(296)	(2,461)
Proceeds from sales of investments in securities		6,440	1,842	15,315
Proceeds from transfer of business	3	—	29,823	247,967
Acquisition of property, plant and equipment		(17,964)	(15,610)	(129,791)
Proceeds from sales of property, plant and equipment		7,462	5,577	46,370
Acquisition of intangible assets		(4,393)	(5,225)	(43,443)
Payments of long-term prepaid expenses		(5,955)	(5,938)	(49,372)
Other		3,618	429	3,566
Net cash provided by (used in) investing activities		(16,799)	11,538	95,934
Cash Flows from Financing Activities:				
Net increase (decrease) in short-term debt		(395)	23,039	191,560
Proceeds from long-term debt		22,874	—	—
Repayment of long-term debt		(52,496)	(70,917)	(589,648)
Repayment of lease obligations		(2,222)	(2,012)	(16,729)
Acquisition of treasury stock		(5)	(6)	(49)
Disposal of treasury stock		786	381	3,167
Cash dividend paid		(13,949)	(7,988)	(66,417)
Cash dividend paid to minority shareholders		(2,053)	(914)	(7,599)
Net cash used in financing activities		(47,462)	(58,419)	(485,732)
Effect of Exchange Rate Changes on Cash and Cash Equivalents		9,852	4,818	40,059
Net Change in Cash and Cash Equivalents		29,910	(9,927)	(82,539)
Cash and Cash Equivalents at Beginning of Year	3	80,253	110,163	915,964
Increase in Cash and Cash Equivalents from Newly Consolidated Subsidiary		—	571	4,747
Cash and Cash Equivalents at End of Year	3	¥110,163	¥100,807	\$ 838,172

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

Notes to the Consolidated Financial Statements

Shiseido Company, Limited and Subsidiaries

1. BASIS OF PRESENTING CONSOLIDATED FINANCIAL STATEMENTS

Accounting Principles and Presentation

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

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

Certain reclassifications have been made in the consolidated financial statements for the year ended March 31, 2014 to conform to the presentation for the year ended March 31, 2015.

Amounts in U.S. dollars are included solely for the convenience of the reader. The rate of ¥120.27 = US\$1 prevailing on March 31, 2015 has been used in translating the consolidated financial statements expressed in Japanese yen into U.S. dollars. Such translations should not be construed as representations that the Japanese yen amounts could be readily converted, realized or settled in U.S. dollars at this rate.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(1) Scope of Consolidation

The Company has 94 subsidiaries (companies over which the Company exercises control over operations) as of March 31, 2015 (98 as of March 31, 2014). The accompanying consolidated financial statements as of March 31, 2015 include the accounts of the Company and its 92 (94 as of March 31, 2014) significant subsidiaries (the "Companies").

The Company has 4 affiliates (companies that are not subsidiaries but over which the Company exercises significant influence) as of March 31, 2015 (7 as of March 31, 2014). Investments in 4 affiliates are accounted for by the equity method as of March 31, 2015 (3 as of March 31, 2014).

Shiseido Middle East FZCO, Shiseido India Private Limited and PT Shiseido Cosmetics Indonesia commenced business operations during the period and thus are included in the scope of consolidation in the current fiscal year.

All of the shares in Carita International S.A. and FIPAL S.A.S., as well as FIPAL's three subsidiaries, were sold. Accordingly, those companies were excluded from the scope of consolidation in the current fiscal year.

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

Since the fiscal year end for certain consolidated subsidiaries is December 31, their financial statements as of that date are used in the preparation of the Company's consolidated financial statements. When significant transactions occur at those subsidiaries between their fiscal year end and the Company's fiscal year end, these transactions are included in the Company's consolidated financial statements.

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

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

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

(2) Inventories

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

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

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

Buildings and structures: 2-50 years

Machinery, equipment and vehicles: 2-15 years

Tools, furniture and fixtures: 2-15 years

(4) Intangible Assets (Excluding Leased Assets)

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

Software: 5 years

Customer relationships: 10 years

(5) Leased Assets

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

(6) Long-Term Prepaid Expenses

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

(7) Goodwill

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

(8) Securities

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

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

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

(9) Net Income and Cash Dividend per Share

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

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

(10) Accounting for Consumption Tax

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

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

(11) Allowance for Doubtful Accounts

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

(12) Reserve for Sales Returns

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

(13) Accrued Bonuses for Employees

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

(14) Accrued Bonuses for Directors

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

(15) Provision for Liabilities and Charges

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

(16) Allowance for Losses on Guarantees

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

(17) Allowance for Environmental Measures

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

(18) Provision for Structural Reforms

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

(19) Liability for Retirement Benefits

① Periodic allocation methodology for the estimated retirement benefit amount

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

② Amortization of past service cost and actuarial gains/losses

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

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

(20) Foreign Currency Translation

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

(21) Derivatives and Hedging Activities

The Companies use derivatives such as foreign exchange forward contracts, foreign currency options, interest rate swap contracts, and interest rate and currency swap contracts to reduce market risks and maintain stable profits. The Companies limit their use of derivative transactions to the amounts of foreign currency denominated receivables and payables and actual

requirements, and do not use derivatives for speculative trading.

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

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

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

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

(22) Foreign Currency Denominated Financial Statements

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

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

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

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

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

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

(25) Application of Consolidated Taxation System

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

(26) Change in Accounting Policies

① Application of Accounting Standard for Retirement Benefits

The Company and its domestic consolidated subsidiaries adopted article 35 of the "Accounting Standard for Retirement Benefits" (ASBJ Statement No. 26, May 17, 2012 (hereinafter, "Statement No. 26")) and article 67 of the "Guidance on Accounting Standard for Retirement Benefits" (ASBJ Guidance No. 25, March 26, 2015 (hereinafter, "Guidance No. 25")) from the fiscal year ended March 31, 2015, and have changed the determination of retirement benefit obligations and current service costs. In addition, the Company and its consolidated domestic subsidiaries have changed the method of attributing expected benefit to periods from a straight-line basis to a benefit formula basis and the method of determining the discount rates from the method of using the period approximating the expected average remaining working lives of employees for the period of underlying bonds to the method of using the discount rates reflecting the estimated timing of each benefit payment.

In accordance with article 37 of Statement No. 26, the effect of the change in accounting policies has been recognized in retained earnings at the beginning of the fiscal year ended March 31, 2015. As a result of the application, liability for retirement benefits and deferred tax assets increased by ¥16,188 million (\$134,597 thousand) and ¥5,882 million (\$48,906 thousand), respectively, while retained earnings and minority interests decreased by ¥10,303 million (\$85,665 thousand) and ¥2 million (\$16 thousand), respectively. In addition, operating income, ordinary income and income before income taxes increased by ¥602 million (\$5,005 thousand) in the fiscal year ended March 31, 2015, respectively. Furthermore, net assets per share at March 31, 2015 decreased by ¥24.9 (\$0.21) and net income per share and net income per share (fully diluted) increased by ¥1.0 (\$0.01) compared with the previous method.

② Change in Depreciation Method for Property, Plant and Equipment

The Company and its domestic consolidated subsidiaries mainly adopted the declining balance method for depreciation of property, plant and equipment (excluding buildings (excluding accompanying facilities attached to buildings) and leased assets) up to March 31, 2014. Effective the fiscal year ended March 31, 2015, the Company and its domestic consolidated subsidiaries have applied the straight-line method. The Shiseido Group expects a long-term stability of capacity utilization and income generating resulting from drastic reassessments of its brand management (including for existing products) and business operational style. The Company and its domestic consolidated subsidiaries also look forward to sustained growth and stronger responsiveness in overseas markets and global advancement of the business. In addition, to make accounting processes standardized in the global operation, the Company and its domestic consolidated subsidiaries reviewed the depreciation method for property, plant and equipment. Consequently, the Company and its domestic consolidated subsidiaries have adopted the straight-line method of depreciation as adopted in the overseas consolidated subsidiaries since the Group believes that this method provides a more appropriate reflection of actual business conditions. As a result of this change,

compared to the previous method used, depreciation decreased by ¥1,124 million (\$9,345 thousand) while operating income, ordinary income, and income before income taxes each increased by ¥1,124 million (\$9,345 thousand) in the fiscal year ended March 31, 2015. In addition, net income per share and net income per share (fully diluted) increased by ¥1.8 (\$0.01) and ¥1.8 (\$0.01), respectively, compared with the previous method.

(27) Accounting Standards Issued but Not Yet Adopted

Accounting Standard for Business Combinations and others

- “Accounting Standard for Business Combinations” (ASBJ Statement No. 21, September 13, 2013)
- “Accounting Standard for Consolidated Financial Statements” (ASBJ Statement No. 22, September 13, 2013)
- “Accounting Standard for Business Divestitures” (ASBJ Statement No. 7, September 13, 2013)
- “Accounting Standard for Earnings Per Share” (ASBJ Statement No. 2, September 13, 2013)
- “Guidance on Accounting Standard for Business Combinations and Accounting Standard for Business Divestitures” (ASBJ Guidance No. 10, September 13, 2013)
- “Guidance on Accounting Standard for Earnings Per Share” (ASBJ Guidance No. 4, September 13, 2013)

① Overview

These accounting standards were revised mainly focusing on 1) the treatment of the parent company's changes in equity of its subsidiary while the parent company's control is continuing because of additional acquisition of shares of the subsidiary; 2) the treatment of acquisition-related expenses; 3) the presentation of net income and the change from minority interests to non-controlling interests; and 4) the treatment of provisional accounting.

② Expected Application Date

The Company expects to apply these accounting standards from the fiscal year beginning April 1, 2015.

③ Effect of Applying the Accounting Standard

The effect of the application of these accounting standards is under consideration.

(28) Changes in Accounting Estimates

Change in estimation of useful lives and residual values of property, plant and equipment

Following the aforementioned change in depreciation method, the Shiseido Group assessed the actual status of its operations and, effective the fiscal year ended March 31, 2015, changed the estimate of certain property, plant and equipment to reflect such actual status. As for determining residual value, the Company and its domestic consolidated subsidiaries have adopted the method in which the depreciable assets be depreciated to memorandum value at the end of their useful lives. As a result of this change, compared to the previous method used, depreciation increased by ¥49 million (\$407 thousand) while operating income, ordinary income, and income before income taxes each decreased by ¥49 million (\$407 thousand). In addition, net income per share and net income per share (fully diluted) both decreased by ¥0.1 (\$0.00) compared with the previous method.

3. CASH FLOW INFORMATION

The reconciliation of cash and time deposits shown in the consolidated balance sheets and cash and cash equivalents shown in the consolidated statements of cash flows as of March 31, 2014 and 2015 is as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2014	2015	2015
Cash and time deposits	¥ 95,774	¥103,603	\$ 861,420
Short-term investments in securities	33,129	18,266	151,874
Total	¥128,903	¥121,869	\$1,013,295
Time deposits with maturities exceeding 3 months	(16,377)	(18,999)	(157,969)
Debt securities with maturities exceeding 3 months	(2,362)	(2,061)	(17,136)
Cash and cash equivalents	¥110,163	¥100,807	\$ 838,172

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

Current assets	¥6,731 million (\$5,965 thousand)
Non-current assets	¥7,623 million (\$63,382 thousand)
Current liabilities	¥(4,085) million (\$33,965 thousand)
Non-current liabilities	¥(1,798) million (\$14,949 thousand)
Foreign currency translation adjustments	¥788 million (\$6,551 thousand)
Gain on transfer of business	¥22,268 million (\$185,150 thousand)
Transfer value	¥31,532 million (\$262,176 thousand)
Cash and cash equivalents	¥(1,708) million (\$14,201 thousand)
Net cash proceeds from transfer of business	¥29,823 million (\$247,967 thousand)

Significant non-cash transactions are as follows:

¥1,564 million and ¥2,656 million (\$22,083 thousand) of assets and obligations related to finance lease transactions were newly recorded in the years ended March 31, 2014 and 2015, respectively.

4. FINANCIAL INSTRUMENTS

(1) Financial Instruments

① Policy for financial instruments

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

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

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

② Types of financial instruments, risks and risk management system

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

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

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

Interest-bearing debt includes short-term borrowings and commercial paper, which the Companies use to procure funds for operating transactions, as well as long-term borrowings, bonds and lease obligations, which the Companies use to fund investments and loans, capital expenditures and operating transactions. Floating-rate debt is exposed to the risk of interest rate fluctuations. The Companies hedge this risk for specific long-term borrowings by using derivatives (interest rate swap contracts and interest rate and currency swap contracts) to avoid the risk of interest rate fluctuations and fix interest payments.

The Companies use foreign exchange forward contracts and foreign currency options to hedge the risk of foreign exchange fluctuations associated with receivables and payables denominated in foreign currencies and interest rate swap contracts to hedge the risk of interest rate fluctuations associated with floating-rate debt, and interest rate and currency swap contracts to hedge the risk of foreign exchange fluctuations and fluctuations in interest rates associated with debt in foreign currencies. (21) Derivatives and Hedging Activities in Note 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES explains hedge accounting, hedging instruments and methods, hedging policy, hedged items, and assessment of hedging effectiveness.

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

Payables and interest-bearing debt are exposed to liquidity risk that the Companies manage in ways such as preparing monthly capital deployment reports.

③ Supplemental information on the fair value of financial instruments

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

(2) Fair Value of Financial Instruments

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

	Millions of yen		
	2014		
	Carrying value (*)	Fair value (*)	Variance
① Cash and time deposits	¥ 95,774	¥ 95,774	—
② Notes and accounts receivable (less allowance for doubtful accounts)	136,799	136,799	—
③ Short-term investments in securities and investments in securities Available-for-sale securities	54,034	54,034	—
④ Notes, accounts payable and other payables	(98,989)	(98,989)	—
⑤ Short-term borrowings from banks and other financial institutions	(6,727)	(6,727)	—
⑥ Commercial papers	—	—	—
⑦ Bonds	(90,000)	(90,337)	¥ (337)
⑧ Long-term borrowings from banks and other financial institutions	(55,640)	(58,140)	(2,499)
⑨ Lease obligations	(3,550)	(3,585)	(35)
⑩ Derivative instruments			
i. Hedge accounting not applied	1	1	—
ii. Hedge accounting applied	—	2,562	2,562

Millions of yen

	2015		
	Carrying value (*)	Fair value (*)	Variance
① Cash and time deposits	¥103,603	¥103,603	—
② Notes and accounts receivable (less allowance for doubtful accounts)	130,217	130,217	—
③ Short-term investments in securities and investments in securities Available-for-sale securities	40,779	40,779	—
④ Notes, electronically recorded obligations, accounts payable and other payables	(95,769)	(95,769)	—
⑤ Short-term borrowings from banks and other financial institutions	(27,187)	(27,187)	—
⑥ Commercial papers	(602)	(602)	—
⑦ Bonds	(40,000)	(40,036)	¥ (36)
⑧ Long-term borrowings from banks and other financial institutions	(34,783)	(38,979)	(4,195)
⑨ Lease obligations	(4,324)	(4,380)	(56)
⑩ Derivative instruments			
i. Hedge accounting not applied	(303)	(303)	—
ii. Hedge accounting applied	—	3,547	3,547

Thousands of U.S. dollars (Note 1)

	2015		
	Carrying value (*)	Fair value (*)	Variance
① Cash and time deposits	\$ 861,420	\$ 861,420	—
② Notes and accounts receivable (less allowance for doubtful accounts)	1,082,705	1,082,705	—
③ Short-term investments in securities and investments in securities Available-for-sale securities	339,062	339,062	—
④ Notes, electronically recorded obligations, accounts payable and other payables	(796,283)	(796,283)	—
⑤ Short-term borrowings from banks and other financial institutions	(226,049)	(226,049)	—
⑥ Commercial papers	(5,005)	(5,005)	—
⑦ Bonds	(332,585)	(332,884)	\$ (299)
⑧ Long-term borrowings from banks and other financial institutions	(289,207)	(324,095)	(34,879)
⑨ Lease obligations	(35,952)	(36,418)	(465)
⑩ Derivative instruments			
i. Hedge accounting not applied	(2,519)	(2,519)	—
ii. Hedge accounting applied	—	29,491	29,491

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

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

- 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, electronically recorded obligations, accounts payable and other payables; ⑤ Short-term borrowings from banks and other financial institutions; ⑥ Commercial papers
Carrying value approximates fair value for these short-term items.
- ⑦ Bonds
Fair value of bonds issued by the Company is calculated based on market prices.
- ⑧ Long-term borrowings from banks and other financial institutions
Floating-rate long-term borrowing reflects market interest rates. In addition, fair value approximates carrying value because the Company's creditworthiness does not vary significantly after assuming long-term borrowings. Therefore, carrying value is used for fair value of floating-rate long-term borrowing. Fair value of fixed-rate long-term borrowing is the discounted value of total principal and interest using an assumed interest rate on equivalent new borrowings.
- ⑨ Lease obligations
The fair value of lease obligations is the discounted present value of total principal and interest using an assumed interest rate on equivalent new lease transactions.
- ⑩ Derivative instruments
Please refer to Note 16. DERIVATIVE FINANCIAL INSTRUMENTS.

Notes to the Consolidated Financial Statements

*2: Fair values that are difficult to determine as of March 31, 2014 and 2015

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2014	2015	2015
	Carrying value	Carrying value	Carrying value
Shares of subsidiaries and affiliates	¥2,055	¥2,853	\$23,721
Unlisted equity securities	3,052	2,988	24,844
Investment in limited partnership and others	876	879	7,308

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

Loss on revaluation for securities stated at cost was recognized in the amounts of ¥11 million and ¥0 million (\$0 thousand) for the years ended March 31, 2014 and 2015, respectively.

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

	Millions of yen			
	2014			
	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	¥ 95,774	—	—	—
Notes and accounts receivable	136,799	—	—	—
Short-term investments in securities and investments in securities				
Available-for-sale securities with maturity (Negotiable certificate of deposit)	7,000	—	—	—
Available-for-sale securities with maturity (Corporate bonds)	300	—	—	¥3,000
Available-for-sale securities with maturity (Investment trust)	2,763	—	—	—
Available-for-sale securities with maturity (Investment in limited partnership and others)	159	¥716	—	—
Other	15,000	—	—	1,000
	¥257,796	¥716	—	¥4,000

	Millions of yen			
	2015			
	Due in 1 year or less	Due after 1 year through 5 years	Due after 5 years through 10 years	Due after 10 years
Cash and time deposits	¥103,603	—	—	—
Notes and accounts receivable	130,217	—	—	—
Short-term investments in securities and investments in securities				
Available-for-sale securities with maturity (Negotiable certificate of deposit)	—	—	—	—
Available-for-sale securities with maturity (Corporate bonds)	—	—	—	¥1,500
Available-for-sale securities with maturity (Investment trust)	3,197	—	—	—
Available-for-sale securities with maturity (Investment in limited partnership and others)	113	¥716	—	—
Other	9,000	—	—	—
	¥246,131	¥716	—	¥1,500

	Thousands of U.S. dollars (Note 1)			
	2015			
	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	\$ 861,420	—	—	—
Notes and accounts receivable	1,082,705	—	—	—
Short-term investments in securities and investments in securities				
Available-for-sale securities with maturity (Negotiable certificate of deposit)	—	—	—	—
Available-for-sale securities with maturity (Corporate bonds)	—	—	—	\$12,471
Available-for-sale securities with maturity (Investment trust)	26,581	—	—	—
Available-for-sale securities with maturity (Investment in limited partnership and others)	939	\$5,953	—	—
Other	74,831	—	—	—
	\$2,046,487	\$5,953	—	\$12,471

5. SECURITIES

The acquisition cost, carrying amount, and gross unrealized gains and losses for securities stated at fair value by security type at March 31, 2014 and 2015 are as follows:

Available-for-sale securities:

	Millions of yen			
	2014			
	Acquisition cost	Carrying amount	Gross unrealized gains	Gross unrealized losses
Equity securities	¥10,286	¥15,699	¥5,956	¥543
Bonds	19,298	18,976	—	321
Other	18,802	19,358	555	—
	¥48,387	¥54,034	¥6,512	¥865

	Millions of yen			
	2015			
	Acquisition cost	Carrying amount	Gross unrealized gains	Gross unrealized losses
Equity securities	¥10,294	¥19,358	¥9,166	¥101
Bonds	10,499	10,521	22	0
Other	10,354	10,900	545	—
	¥31,148	¥40,779	¥9,733	¥102

	Thousands of U.S. dollars (Note 1)			
	2015			
	Acquisition cost	Carrying amount	Gross unrealized gains	Gross unrealized losses
Equity securities	\$ 85,590	\$160,954	\$76,211	\$839
Bonds	87,295	87,478	182	0
Other	86,089	90,629	4,531	—
	\$258,983	\$339,062	\$80,926	\$848

* There is no loss on revaluation of investments in securities stated at fair value for the years ended March 31, 2014 and 2015, respectively.

Proceeds from sales, and gross realized gains and losses from sales of available-for-sale securities in the years ended March 31, 2014 and 2015 are as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2014	2015	2015
	Proceeds from sales	¥7,324	¥3,142
Gross realized gains	717	233	1,937
Gross realized losses	14	29	241

6. INVENTORIES

Inventories held by the Companies as of March 31, 2014 and 2015 are as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2014	2015	2015
	Merchandise and finished products	¥64,251	¥ 76,636
Work in process	4,585	5,558	46,212
Raw materials and supplies	21,407	24,501	203,716
	¥90,244	¥106,696	\$887,137

7. SHORT-TERM AND LONG-TERM DEBT

Short-term and long-term debt as of March 31, 2014 and 2015 are as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2014	2015	2015
Short-term borrowings from banks and other financial institutions (weighted average interest rate 0.75%)	¥ 6,727	¥ 27,187	\$ 226,049
Commercial papers	—	602	5,005
Short-term debt	¥ 6,727	¥ 27,789	\$ 231,055
Long-term borrowings from banks and other financial institutions (Borrowings due within one year, weighted average interest rate 0.53%)	5,926	5,952	49,488
(Borrowings due after one year, weighted average interest rate 0.70%)	49,714	28,831	239,718
0.65% unsecured yen bonds due in December 2014	50,000	—	—
0.55% unsecured yen bonds due in June 2015	40,000	40,000	332,585
Lease obligations (Borrowings due within one year, weighted average interest rate 2.22%)	1,400	1,873	15,573
(Borrowings due after one year, weighted average interest rate 2.17%)	2,149	2,450	20,370
	¥149,190	¥ 79,107	\$ 657,745
Less: portion due within one year	(57,326)	(47,825)	(397,646)
Long-term debt	¥ 91,864	¥ 31,281	\$ 260,089

The aggregate annual maturities of long-term debt as of March 31, 2015 are as follows:

For the years ending March 31	Millions of yen	Thousands of U.S. dollars (Note 1)
2016	¥47,825	\$397,646
2017	7,116	59,166
2018	4,085	33,965
2019	980	8,148
2020	879	7,308
2021 and thereafter	18,219	151,484
	¥79,107	\$657,745

Assets pledged as collateral as of March 31, 2014 and 2015 are as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2014	2015	2015
Buildings and structures	¥14,717	¥14,197	\$118,042
Other investments	15,200	15,200	126,382
Investments in securities	1,155	1,155	9,603
Cash and time deposits	1,092	1,207	10,035
Machinery and equipment	1	1	8
	¥32,166	¥31,762	\$264,089

The above assets are pledged as collateral for derivative transactions (interest rate swaps) and the following collateralized liabilities as of March 31, 2014 and 2015:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2014	2015	2015
Current portion of long-term debt	¥ 730	¥ 730	\$ 6,069
Long-term debt	21,755	21,025	174,814
	¥22,485	¥21,755	\$180,884

8. RETIREMENT BENEFITS

(1) The Company and its domestic consolidated subsidiaries have contributory funded pension plans, unfunded termination allowance plans, defined contribution plans and a retirement benefit prepayment plan. In some cases, additional voluntary retirement benefits were paid when an employee retired, which were accounted for as retirement benefit expenses when incurred. In addition, certain overseas subsidiaries have defined benefit plans, retirement allowance plans and defined contribution plans. The Company and certain consolidated subsidiaries use a simplified method for calculating retirement benefits. Please refer to explanation of changes in accounting policies for retirement benefit in the current fiscal year in note 2(26).

(2) Details of defined benefit plans, including a plan applying a simplified method as of March 31, 2014 and 2015 are as follows:

① Movement in retirement benefit obligations	Millions of yen		Thousands of U.S. dollars (Note 1)
	2014	2015	2015
Balance at the beginning of the year	¥238,016	¥237,747	\$1,976,777
Effect of changes in accounting policies (cumulative)	—	16,188	134,597
Balance at beginning of year reflecting changes in accounting policies	238,016	253,935	2,111,374
Service cost	7,835	6,971	57,961
Interest cost	3,838	3,850	32,011
Actuarial loss (gain)	(2,289)	11,516	95,751
Benefits paid	(10,910)	(11,277)	(93,764)
Other	1,256	153	1,272
Balance at the end of the year	¥237,747	¥265,149	\$2,204,614

② Movement in plan assets	Millions of yen		Thousands of U.S. dollars (Note 1)
	2014	2015	2015
Balance at the beginning of the year	¥171,783	¥176,921	\$1,471,031
Expected return on plan assets	6,845	7,041	58,543
Actuarial loss (gain)	2,387	7,997	66,492
Contributions paid by the employer	3,633	3,425	28,477
Benefits paid	(8,013)	(7,961)	(66,192)
Other	286	20	166
Balance at the end of the year	¥176,921	¥187,445	\$1,558,534

③ Reconciliation from retirement benefit obligations and plan assets to liability for retirement benefits	Millions of yen		Thousands of U.S. dollars (Note 1)
	2014	2015	2015
Funded retirement benefit obligations	¥ 194,363	¥ 205,367	\$ 1,707,549
Plan assets	(176,921)	(187,445)	(1,558,534)
	17,442	17,922	149,014
Unfunded retirement benefit obligations	43,383	59,782	497,064
Total net liability for retirement benefits	¥ 60,825	¥ 77,704	\$ 646,079
Liability for retirement benefits	¥ 60,825	¥ 77,704	\$ 646,079
Total net liability for retirement benefits	¥ 60,825	¥ 77,704	\$ 646,079

④ Retirement benefit costs	Millions of yen		Thousands of U.S. dollars (Note 1)
	2014	2015	2015
Service cost	¥ 7,835	¥ 6,971	\$ 57,961
Interest cost	3,838	3,850	32,011
Expected return on plan assets	(6,845)	(7,041)	(58,543)
Net actuarial gain and loss amortization	3,773	4,710	39,161
Past service costs amortization	(313)	(0)	(0)
Other	714	1,411	11,731
Total retirement benefit costs	¥ 9,003	¥ 9,901	\$ 82,323

⑤ Adjustments for retirement benefits	Millions of yen		Thousands of U.S. dollars (Note 1)
	2014	2015	2015
Net actuarial gain and loss amortization	¥(533)	¥(1,191)	\$(9,902)

⑥ Accumulated adjustments for retirement benefits	Millions of yen		Thousands of U.S. dollars (Note 1)
	2014	2015	2015
Past service costs that are yet to be recognized	¥ 207	¥ 207	\$ 1,721
Actuarial gain and loss that are yet to be recognized	31,621	30,674	255,042
Total balance at the end of the year	¥31,828	¥30,882	\$256,772

⑦ Plan assets

I Plan assets comprise:

	2014	2015
Bonds	62.4%	59.5%
Equity securities	18.8%	21.4%
Other	18.8%	19.1%
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:

	2014	2015
Discount rate	1.6%	1.0%~1.3%
Long-term expected rate of return	4.0%	4.0%

(3) Defined contribution plans

Contributions to defined contribution plans and retirement benefit prepayment plans are ¥1,439 million and ¥431 million, respectively, for the year ended March 31, 2014.

Contributions to defined contribution plans and retirement benefit prepayment plans are ¥1,425 million (\$11,848 thousand) and ¥415 million (\$3,450 thousand), respectively, for the year ended March 31, 2015.

9. INCOME TAXES

Income taxes applicable to the Company and its domestic consolidated subsidiaries consist of corporation, inhabitants and enterprise taxes. The statutory income tax rate was 36.0% for the fiscal year ended March 31, 2015.

Reconciliation of the statutory tax rate and the effective tax rate for the years ended March 31, 2014 and 2015 is as follows:

	2014	2015
Statutory tax rate	38.0%	36.0%
Increase (decrease) due to:		
Permanently nondeductible expenses	0.8	0.6
Dividend income not taxable	0.5	1.4
Unrealized intercompany profit	(1.5)	(1.9)
Adjustment of deferred tax assets for enacted changes in tax laws and rates	1.8	5.5
Tax credits	(2.0)	(2.1)
Differences of statutory tax rates for overseas consolidated subsidiaries	(0.1)	(17.3)
Income taxes for prior periods	3.4	—
Change in valuation allowance	(0.9)	0.3
Others	3.0	3.6
Effective tax rate	43.0%	26.1%

Amendments to the amount of deferred tax assets and liabilities associated with changes in tax rates including primarily corporate taxes.

On March 31, 2015, amendments to the Japanese tax regulations were enacted into law. Based on the amendments, the statutory income tax rates utilized for the measurement of deferred tax assets and liabilities for the temporary differences expected to be reversed from April 1, 2015 to December 31, 2016 and on or after January 1, 2017 are changed from 36% for the fiscal year ended March 31, 2014 to 33% and 32%, respectively.

Due to these changes in statutory income tax rates, net deferred tax assets (after deducting the deferred tax liabilities) decreased by ¥3,253 million (\$27,047 thousand) as of March 31, 2015, and income taxes – deferred expensed for the fiscal year ended March 31, 2015 and unrealized gains (losses) on available-for-sale securities and remeasurements of defined benefit plans increased by ¥2,715 million (\$22,574 thousand), ¥357 million (\$2,968 thousand) and ¥896 million (-\$7,449 thousand), respectively.

Deferred tax assets and liabilities (both current and non-current) as of March 31, 2014 and 2015 are as follows:

	Millions of yen		Thousands of
	2014	2015	U.S. dollars (Note 1)
Deferred tax assets:			
Liability for retirement benefits	¥21,395	¥25,158	\$209,179
Inventories	11,560	12,436	103,400
Depreciation	3,410	2,201	18,300
Unrealized intercompany profit in inventory and property, plant and equipment	5,340	10,112	84,077
Accrued expenses	7,720	6,294	52,332
Accrued bonuses for employees	4,898	3,838	31,911
Financial instruments	4,083	4,049	33,665
Tax losses carried forward	495	3,130	26,024
Reserve for sales returns	540	1,661	13,810
Accrued enterprise tax	875	699	5,811
Unrealized gains (losses) on available-for-sale securities	309	38	315
Other	7,052	9,245	76,868
Total gross deferred tax assets	67,683	78,866	655,741
Less: valuation allowance	(3,748)	(2,785)	(23,156)
Total deferred tax assets	¥63,934	¥76,080	\$632,576
Deferred tax liabilities:			
Goodwill and other intangible assets	¥32,478	¥31,432	\$261,345
Special tax-purpose reserve	784	723	6,011
Unrealized gains (losses) on available-for-sale securities	2,482	3,343	27,795
Undistributed earnings of overseas consolidated subsidiaries	1,144	1,360	11,307
Other	806	2,257	18,766
Total deferred tax liabilities	¥37,696	¥39,118	\$325,251
Net deferred tax assets	¥26,237	¥36,962	\$307,325

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

	Millions of yen		Thousands of
	2014	2015	U.S. dollars (Note 1)
Current assets-deferred tax assets	¥ 26,568	¥ 32,240	\$ 268,063
Investments and other assets-deferred tax assets	33,118	37,960	315,623
Current liabilities-deferred tax liabilities	(35)	(39)	(324)
Long-term liabilities-deferred tax liabilities	(33,413)	(33,198)	(276,028)
Net deferred tax assets	¥ 26,237	¥ 36,962	\$ 307,325

10. CONTINGENT LIABILITIES

There are no significant contingent liabilities to be disclosed.

11. NET ASSETS

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

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

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

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

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

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

Retained earnings at March 31, 2015 include amounts representing year-end cash dividend of ¥3,988 million (\$33,158 thousand), ¥10.0 (\$0.08) per share, which was approved at the shareholders' meeting held on June 23, 2015.

12. STOCK OPTION PLAN

Summarized information on the stock options granted as of March 31, 2015 is as follows:

① Stock option plan approved by the shareholders on June 29, 2005

	Stock options granted on July 28, 2005	Total
Number of shares for options granted	261,000 shares	261,000 shares
Number of shares for options outstanding	38,000 shares	38,000 shares
Exercise price	¥1,481	
Exercisable period	July 1, 2007 - June 28, 2015	

② Stock option plan approved by the shareholders on June 29, 2006 and resolved by the Board of Directors on July 31, 2006

	Stock options granted on August 23, 2006	Stock options granted on August 23, 2006	Total
Number of shares for options granted	67,000 shares	74,000 shares	141,000 shares
Number of shares for options outstanding	67,000 shares	74,000 shares	141,000 shares
Exercise price	¥2,300		¥2,300
Exercisable period	August 1, 2008 - July 30, 2016		August 1, 2008 - July 30, 2016

③ Stock option plan approved by the shareholders on June 26, 2007 and resolved by the Board of Directors on July 31, 2007

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

④ Stock option plan approved by the shareholders on June 25, 2008 and resolved by the Board of Directors on July 31, 2008

	Stock options granted on August 21, 2008	Stock options granted on August 21, 2008	Total
Number of shares for options granted	46,000 shares	40,000 shares	86,000 shares
Number of shares for options outstanding	9,000 shares	12,000 shares	21,000 shares
Exercise price	¥1		¥1
Exercisable period	August 1, 2011 - July 30, 2018		August 1, 2011 - July 30, 2018

⑤ Stock option plan approved by the shareholders on June 24, 2009 and resolved by the Board of Directors on July 31, 2009

	Stock options granted on August 28, 2009	Stock options granted on August 28, 2009	Total
Number of shares for options granted	81,400 shares	53,500 shares	134,900 shares
Number of shares for options outstanding	34,400 shares	30,000 shares	64,400 shares
Exercise price	¥1	¥1	
Exercisable period	August 1, 2012 - July 31, 2019	August 1, 2012 - July 31, 2019	

⑥ 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	26,500 shares	35,100 shares	61,600 shares
Exercise price	¥1	¥1	
Exercisable period	August 1, 2013 - July 31, 2020	August 1, 2013 - July 31, 2020	

⑦ 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	90,800 shares	58,300 shares	149,100 shares
Exercise price	¥1	¥1	
Exercisable period	August 1, 2014 - July 31, 2026	August 1, 2014 - July 31, 2026	

⑧ 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	108,600 shares	100,400 shares	209,000 shares
Exercise price	¥1	¥1	
Exercisable period	August 1, 2015 - July 31, 2027	August 1, 2015 - July 31, 2027	

⑨ Stock option plan approved by the shareholders on June 25, 2013 and resolved by the Board of Directors on July 31, 2013

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

⑩ Stock option plan approved by the shareholders on June 25, 2014 and resolved by the Board of Directors on July 31, 2014

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

13. RESEARCH AND DEVELOPMENT EXPENSES

Research and development expenses are expensed as incurred.

Research and development expenses, which are included in selling, general and administrative expenses, totaled ¥13,540 million and ¥14,226 million (\$118,283 thousand) for the fiscal years ended March 31, 2014 and 2015, respectively.

There are no research and development expenses included in total manufacturing expenses for the fiscal years ended March 31, 2014 and 2015.

14. TRANSACTIONS WITH RELATED PARTIES

There is no transaction with related parties in the fiscal year ended March 31, 2014.

The Company received ¥11 million (\$91 thousand) from Shinzo Maeda, Representative Director, Chairman of the Company, in connection with the exercise of new stock acquisition rights (stock options), for the fiscal year ended March 31, 2015. (Mr. Shinzo Maeda resigned from office as Representative Director and Chairman of the Company on June 25, 2014, and the above transaction relates to his period in office during the fiscal year.)

15. ACCOUNTING FOR LEASES

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

(1) Finance leases

Non-ownership-transfer finance lease transactions

① As lessee:

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

② As lessor:

None applicable

(2) Operating leases

Lease obligations under operating leases at March 31, 2014 and 2015 are as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2014	2015	2015
① As lessee:			
The scheduled maturities of future lease rental payments on such non-cancelable lease contracts are as follows:			
Due within 1 year	¥ 6,911	¥ 7,622	\$ 63,374
Due after 1 year	27,748	33,028	274,615
	¥34,660	¥40,651	\$337,997
② As lessor:			
The scheduled maturities of future lease rental payments on such non-cancelable lease contracts are as follows:			
Due within 1 year	¥ 160	¥ 160	\$ 1,330
Due after 1 year	3,943	3,782	31,445
	¥ 4,104	¥ 3,943	\$32,784

16. DERIVATIVE FINANCIAL INSTRUMENTS

The contract amount, estimated fair value and unrealized gain (loss) of the derivative instruments as of March 31, 2014 are as follows:

① Derivatives that do not meet the criteria for hedge accounting

		Millions of yen			
		2014			
		Contract amount		Estimated fair value	Unrealized gain (loss)
Total	Settled over 1 year				
Foreign exchange contracts: Selling	US\$	¥ 5,974	—	¥ 50	¥ 50
	EUR	4,449	—	(0)	(0)
	GBP	1,717	—	(20)	(20)
Foreign exchange contracts: Buying	AU\$	83	—	4	4
	US\$	2,147	—	(16)	(16)
	EUR	11,892	—	(15)	(15)
		—	—	¥ 1	¥ 1

② Derivatives that meet the criteria for hedge accounting

	Millions of yen		
	2014		
	Contract amount		
	Total	Settled over 1 year	Estimated fair value
Interest rate and currency swap contracts: To pay fixed yen/receive variable US\$	¥17,500	¥12,500	¥2,340
Interest rate swap contracts: To pay fixed/to receive variable	22,485	21,755	221

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

① Derivatives that do not meet the criteria for hedge accounting

	Millions of yen			
	2015			
	Contract amount			
	Total	Settled over 1 year	Estimated fair value	Unrealized gain (loss)
Foreign exchange contracts: Selling US\$	¥ 9,331	—	¥(233)	¥(233)
EUR	17,837	—	59	59
GBP	1,664	—	(32)	(32)
AU\$	193	—	1	1
Foreign exchange contracts: Buying US\$	1,823	—	9	9
EUR	38,595	—	(108)	(108)
	—	—	¥(303)	¥(303)

Thousands of U.S. dollars (Note 1)

	2015			
	Contract amount			
	Total	Settled over 1 year	Estimated fair value	Unrealized gain (loss)
Foreign exchange contracts: Selling US\$	\$ 77,583	—	\$(1,937)	\$(1,937)
EUR	148,307	—	490	490
GBP	13,835	—	(266)	(266)
AU\$	1,604	—	8	8
Foreign exchange contracts: Buying US\$	15,157	—	74	74
EUR	320,902	—	(897)	(897)
	—	—	\$(2,519)	\$(2,519)

② Derivatives that meet the criteria for hedge accounting

	Millions of yen		
	2015		
	Contract amount		
	Total	Settled over 1 year	Estimated fair value
Interest rate and currency swap contracts: To pay fixed yen/to receive variable US\$	¥12,500	¥ 7,500	¥4,074
Interest rate swap contracts: To pay fixed/to receive variable	21,755	21,025	(527)

Thousands of U.S. dollars (Note 1)

	2015		
	Contract amount		
	Total	Settled over 1 year	Estimated fair value
Interest rate and currency swap contracts: To pay fixed yen/to receive variable US\$	\$103,932	\$ 62,359	\$33,873
Interest rate swap contracts: To pay fixed/to receive variable	180,884	174,814	(4,381)

17. GAIN ON TRANSFER OF BUSINESS

For the fiscal year ended March 31, 2015, it resulted from the sale of the DECLÉOR and CARITA brands.

18. IMPAIRMENT LOSS

To assess impairment, the Companies pool their business-use assets separately from their idle assets.

Business-use assets are generally pooled according to the minimum independent cash-flow-generating unit, based on business classification. Idle assets are pooled according to each separate property. Business-use assets mainly have been devalued from book value to recoverable value, with the differences reported as other expenses. Idle assets whose market values have declined, mainly due to be sold, have been devalued from book value to recoverable value, with the differences reported as other expenses.

For the fiscal year ended March 31, 2014, in the Global Business segment, goodwill related to the acquisition of the Zotos was subject to impairment tests based on U.S. accounting standards. Consequently, such goodwill was devalued to its recoverable value, resulting in a ¥936 million reported as other expenses. The recoverable value was measured as the value in use, which was calculated by discounting estimated net cash inflows using a discount rate of 11.5%.

The book values of tools, instruments, and fixtures were devalued to their recoverable value, resulting in ¥33 million in other expenses.

The recoverable value is computed using the net sales value, evaluated based on the estimated price if sold.

For the fiscal year ended March 31, 2015, in the Global Business segment, customer-related intangible assets of Bare Escentuals, Inc. were subject to impairment tests based on U.S. accounting standards after comprehensive consideration of the situation in which that company's net sales have fallen below projections. Consequently, such assets were devalued to their recoverable amount, resulting in other expenses of ¥2,377 million (\$19,763 thousand). The recoverable amount is measured as the value in use, at a discount rate of 11.5%.

Among business-use assets, the book values of buildings and structures have been devalued to their recoverable amount, resulting in ¥42 million (\$349 thousand) other expenses. The recoverable value is computed using the net sales value, evaluated based on the estimated price if sold.

With respect to idle assets, the Group's assets that are no longer expected to be used in the future have been devalued to their recoverable amount, resulting in ¥111 million (\$922 thousand) other expenses. The recoverable value is computed using the net sales value, evaluated based on the estimated price if sold.

19. STRUCTURAL REFORM EXPENSES

For the fiscal year ended March 31, 2014, structural reform expenses are expenses associated with optimizing store-level inventories and HR management enhancement, which are part of one-time expenses related to business structural reforms resulting from drastic reassessment of organizations, and processes aimed at building a robust business structure.

For the fiscal year ended March 31, 2015, structural reform expenses are expenses associated with optimizing store-level inventories and HR management enhancement, which are part of one-time expenses related to business structural reforms resulting from drastic reassessment of organizations, and processes aimed at building a robust business structure.

Structural reform expenses for the years ended March 31, 2014 and 2015 are as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2014	2015	2015
Structural reform expense			
Adjustment store stock*	¥3,961	¥1,197	\$ 9,952
Early retirement bonus	1,593	2,075	17,252
	¥5,555	¥3,273	\$27,213

* For the fiscal year ended March 31, 2015, it resulted from optimizing market inventory levels in China.

20. LOSS ON LIQUIDATION OF SUBSIDIARIES AND AFFILIATES

For the fiscal year ended March 31, 2015, the loss is related to the liquidation of a subsidiary in Australia.

21. OTHER COMPREHENSIVE INCOME

The components of other comprehensive income including reclassification adjustments and tax (expense) or benefit for the years ended March 31, 2014 and 2015 are as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2014	2015	2015
Unrealized gains (losses) on available-for-sale securities, net of taxes:			
Increase (decrease) during the fiscal year	¥ 1,749	¥ 3,763	\$ 31,287
Reclassification adjustments	(556)	185	1,538
Amount before tax	1,193	3,948	32,826
Tax (expense) or benefit	(378)	(1,106)	(9,195)
Subtotal	¥ 814	¥ 2,842	\$ 23,630
Foreign currency translation adjustments:			
Increase (decrease) during the fiscal year	¥60,698	¥30,208	\$251,168
Reclassification adjustments	—	469	3,899
Amount before tax	60,698	30,678	255,076
Tax (expense) or benefit	—	143	1,188
Subtotal	¥60,698	¥30,822	\$256,273
Adjustments for retirement benefits:			
Increase (decrease) during the fiscal year	¥ 460	¥ (3,519)	\$ (29,259)
Reclassification adjustments	72	4,710	39,161
Amount before tax	533	1,191	9,902
Tax (expense) or benefit	(142)	(417)	(3,467)
Subtotal	¥ 391	¥ 773	\$ 6,427
Share of other comprehensive income of associates accounted for under the equity method:			
Increase (decrease) during the fiscal year	¥ 81	¥ 2	\$ 16
Total other comprehensive income	¥61,986	¥34,441	\$286,364

22. BUSINESS COMBINATIONS

(Business Divestiture)

On April 30, 2014, the Company transferred all of the shares of its subsidiaries and affiliates responsible for the *DECLÉOR* and *CARITA* brands, which mainly comprise skincare, bodycare, and haircare businesses, and the related assets to L'Oréal S.A.

(1) Outline of Business Divestiture

- ① Name of successor entity
L'Oréal S.A.
- ② Description of divested businesses
Manufacturing and sales of cosmetics
- ③ Major reasons of business divestiture
The Professional Division of the Company will in the future direct its focus on the "hair" and "Asia" business areas. Accordingly, the Company determined that, for both the Company and the *DECLÉOR* and *CARITA* brands, it is the best option to sell the said brands, whose strengths are different from those of the Company's focus areas to L'Oréal S.A.
- ④ Effective date of business divestiture
April 30, 2014
- ⑤ Other matters related to the transaction including legal form
The consideration of the transfer of shares and the related assets is limited to cash.

(2) Outline of Accounting Treatment of Transaction

- ① Gain on transfer of business: ¥22,268 million (\$185,150 thousand)
- ② Book value of assets and liabilities associated with the transferred businesses and the breakdown

Current assets:	¥6,731 million (\$55,965 thousand)
Non-current assets:	¥7,623 million (\$63,382 thousand)
Total assets:	¥14,354 million (\$119,348 thousand)
Current liabilities:	¥4,085 million (\$33,965 thousand)
Non-current liabilities:	¥1,798 million (\$14,949 thousand)
Total liabilities:	¥5,884 million (\$48,923 thousand)

(3) Reportable segment(s) in which the divested businesses were included

Global Business

(4) Net sales and operating loss attributing to the transferred businesses recorded in the consolidated statement of income for the fiscal year ended March 31, 2015

Net sales: ¥3,075 million (\$25,567 thousand)

Operating loss: ¥377 million (\$3,134 thousand)

23. SEGMENT INFORMATION**(1) General information about reportable segments**

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

The Company's main business is the production and sale of cosmetics. Under a business structure classified according to domestic and global regions, various business departments in the head office formulate comprehensive strategies and promote business activities. Consequently, the Company has classified its operations into two segments along geographical lines: Domestic Cosmetics Business and Global Business.

The Domestic Cosmetics Business segment includes the domestic cosmetics business (production and sale of cosmetics, cosmetics accessories, and toiletries), the healthcare business (production and sale of health & beauty foods and over-the-counter drugs), and the production and sale of non-Shiseido-brand products and mail-order products and other businesses.

The Global Business segment covers the overseas cosmetics business (production and sale of cosmetics, cosmetics accessories, and toiletries) and the domestic and overseas professional business (production and sale of beauty salon products) and other businesses.

(2) Basis of measurement for reported segment sales, profit or loss, segment assets and other material items

The accounting treatment for the Group's reported business segments is generally the same as described in 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES. Segment income is based on operating income.

The prices of intersegment transactions and transfers are determined by price negotiations based on the Company's submission of preferred prices after taking market conditions into account.

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

Segment information as of and for the fiscal years ended March 31, 2014 and 2015 is as follows:

	Millions of yen					
	2014					
	Domestic Cosmetics Business	Global Business	Others*1	Subtotal	Adjustment*2	Total
Net Sales						
Sales to outside customers	¥349,718	¥402,213	¥10,114	¥762,047	—	¥762,047
Intersegment sales or transfers	2,108	3,280	4,937	10,326	¥ (10,326)	—
Total	¥351,826	¥405,494	¥15,052	¥772,373	¥ (10,326)	¥762,047
Segment Income*3	¥ 39,460	¥ 7,659	¥ 2,081	¥ 49,201	¥ 442	¥ 49,644
Segment Assets	¥199,326	¥483,606	¥44,044	¥726,977	¥ 74,369	¥801,346
Other Items						
Depreciation and Amortization	¥ 12,770	¥ 19,856	¥ 965	¥ 33,592	¥ 26	¥ 33,618
Amortization of Goodwill	¥ 141	¥ 4,430	—	¥ 4,571	—	¥ 4,571
Increase in Property, Plant and Equipment and Intangible Assets	¥ 14,318	¥ 15,098	¥ 199	¥ 29,616	—	¥ 29,616

	Millions of yen					
	2015					
	Domestic Cosmetics Business	Global Business	Others*1	Subtotal	Adjustment*2	Total
Net Sales						
Sales to outside customers	¥339,294	¥427,899	¥10,493	¥777,687	—	¥777,687
Intersegment sales or transfers	2,664	2,991	4,798	10,453	¥ (10,453)	—
Total	¥341,958	¥430,891	¥15,291	¥788,140	¥ (10,453)	¥777,687
Segment Income (Loss)*3	¥ 30,039	¥ (4,687)	¥ 2,234	¥ 27,586	¥ 26	¥ 27,613
Segment Assets	¥206,493	¥514,006	¥42,519	¥763,019	¥ 60,617	¥823,636
Other Items						
Depreciation and Amortization	¥ 11,561	¥ 20,993	¥ 796	¥ 33,351	¥ 2	¥ 33,353
Amortization of Goodwill	¥ 141	¥ 4,584	—	¥ 4,726	—	¥ 4,726
Increase in Property, Plant and Equipment and Intangible Assets	¥ 14,995	¥ 15,264	¥ 342	¥ 30,602	—	¥ 30,602

Thousands of U.S. dollars (Note 1)

	2015					
	Domestic Cosmetics Business	Global Business	Others* ¹	Subtotal	Adjustment* ²	Total
Net Sales						
Sales to outside customers	\$2,821,102	\$3,557,819	\$ 87,245	\$6,466,176	—	\$6,466,176
Intersegment sales or transfers	22,150	24,869	39,893	86,912	\$(86,912)	—
Total	\$2,843,252	\$3,582,697	\$127,138	\$6,553,088	\$(86,912)	\$6,466,176
Segment Income (Loss) * ³	\$ 249,763	\$(38,970)	\$ 18,574	\$ 229,367	\$ 216	\$ 229,591
Segment Assets	\$1,716,911	\$4,273,767	\$353,529	\$6,344,217	\$504,007	\$6,848,224
Other Items						
Depreciation and Amortization	\$ 96,125	\$ 174,548	\$ 6,618	\$ 277,301	\$ 16	\$ 277,317
Amortization of Goodwill	\$ 1,172	\$ 38,114	—	\$ 39,294	—	\$ 39,294
Increase in Property, Plant and Equipment and Intangible Assets	\$ 124,677	\$ 126,914	\$ 2,843	\$ 254,444	—	\$ 254,444

*1. "Others" include businesses not included in the other units of segment reporting. These include the Frontier Science Business (production and sale of cosmetics raw materials, medical-use drugs, medical cosmetics, purification/analytical equipment and others) and the restaurant business and other businesses.

*2. Below is a description of adjustments.

(1) The "Segment Income (Loss)" adjustment relates to intersegment transaction eliminations.

(2) The "Company-wide assets (not allocated to specific segments)" included in the "Segment Assets" adjustment line as of March 31, 2014 and 2015 were ¥76,790 million and ¥62,912 million (\$523,089 thousand), respectively, consisting mainly of assets not belonging to specific segments (cash and time deposits, short-term investments in securities, investments in securities and others) and assets related to administrative operations. "Intersegment eliminations" included in the "Segment Assets" adjustment line as of March 31, 2014 and 2015 were ¥2,421 million and ¥2,294 million (\$19,073 thousand), respectively.

(3) The "Depreciation and Amortization" adjustment refers to depreciation expenses related to company-wide assets and intersegment eliminations. Long-term prepaid expenses are included in "Depreciation and Amortization" and "Increase in Property, Plant and Equipment and Intangible Assets."

*3. Segment income (loss) is adjusted for operating income described in the consolidated statements of operations.

*4. As stated in Note 2 (26) "Changes in Accounting Policies," effective the fiscal year ended March 31, 2015, the Accounting Standard for Retirement Benefits is being applied transitionally as determined in its Clause 37. As a result, segment incomes for the Domestic Cosmetics Business, Global Business, and Others segments increased by ¥469 million (\$3,899 thousand), ¥124 million (\$1,031 thousand), and ¥8 million (\$66 thousand), respectively.

*5. As stated in Note 2 (26) "Changes in Accounting Policies," the Company has changed the depreciation method for property, plant and equipment, effective the fiscal year ended March 31, 2015. As a result, segment income in the Domestic Cosmetics Business, Global Business, and Others segments increased by ¥997 million (\$8,289 thousand), ¥100 million (\$831 thousand), and ¥26 million (\$216 thousand), respectively.

*6. As stated in Note 2 (28) "Changes in Accounting Estimates," the Company has changed the method of estimating useful lives and residual values of property, plant and equipment, effective the fiscal year ended March 31, 2015. As a result, segment income decreased by ¥20 million (\$166 thousand) in the Domestic Cosmetics Business segment, increased by ¥17 million (\$141 thousand) in the Global Business segment, and decreased by ¥46 million (\$382 thousand) in the Others segment.

(Related Information)

For the fiscal year ended March 31, 2014

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						
2014						
Japan	Americas		Europe	Asia / Oceania		Total
		U.S.A.			China	
¥377,272	¥118,682	¥102,734	¥102,137	¥163,954	¥111,495	¥762,047

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

II Property, Plant and Equipment

Millions of yen						
2014						
Japan	Americas		Europe	Asia / Oceania		Total
		U.S.A.			China	
¥82,490	¥19,034	¥18,915	¥9,240	¥24,113	¥16,238	¥134,879

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 ended March 31, 2015

① Information on products and services

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

② Geographical information

I Net sales

Millions of yen

2015						
Japan	Americas		Europe	Asia/Oceania		Total
		U.S.A.			China	
¥365,615	¥133,088	¥116,022	¥108,936	¥170,046	¥114,776	¥777,687

Thousands of U.S. dollars (Note 1)

2015						
Japan	Americas		Europe	Asia/Oceania		Total
		U.S.A.			China	
\$3,039,951	\$1,106,576	\$964,679	\$905,762	\$1,413,868	\$954,319	\$6,466,176

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

II Property, Plant and Equipment

Millions of yen

2015						
Japan	Americas		Europe	Asia/Oceania		Total
		U.S.A.			China	
¥81,717	¥20,054	¥19,923	¥8,151	¥27,063	¥17,067	¥136,986

Thousands of U.S. dollars (Note 1)

2015						
Japan	Americas		Europe	Asia/Oceania		Total
		U.S.A.			China	
\$679,446	\$166,741	\$165,652	\$67,772	\$225,018	\$141,905	\$1,138,987

③ Main customers information

Sales to main customers is not existing 10% 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

2014			
Domestic Cosmetics Business	Global Business	Others	Total
—	¥957	¥12	¥969

Millions of yen

Thousands of U.S. dollars (Note 1)

2015				2015			
Domestic Cosmetics Business	Global Business	Others	Total	Domestic Cosmetics Business	Global Business	Others	Total
¥5	¥2,525	—	¥2,531	\$41	\$20,994	—	\$21,044

(5) Information about segment unamortized goodwill

Millions of yen							
2014							
Domestic Cosmetics Business	Global Business	Others	Total				
¥1,135	¥62,242	—	¥63,377				

Millions of yen				Thousands of U.S. dollars (Note 1)			
2015				2015			
Domestic Cosmetics Business	Global Business	Others	Total	Domestic Cosmetics Business	Global Business	Others	Total
¥993	¥63,460	—	¥64,453	\$8,256	\$527,646	—	\$535,902

24. SUBSEQUENT EVENTS

(Transfer of significant assets and conclusion of significant agreements)

On April 9, 2015, BEAUTÉ PRESTIGE INTERNATIONAL S.A. (BPI), a subsidiary of the Company entered into an agreement (the Agreement) with PUIG, S.L. (Puig) to transfer intellectual property rights ("IP rights") of Jean Paul GAULTIER (JPG) regarding fragrance products and other related activities, which BPI has been managing.

(1) Reason for the transfer

BPI has developed and distributed JPG fragrance products since 1991 under a license agreement (the License Agreement) for Class 3 products, which expires in June 2016. Puig became the majority shareholder of the fashion house Jean Paul GAULTIER in 2011 and wants to develop and sell JPG fragrances on its own. Accordingly, BPI and Puig entered into the Agreement regarding the transfer of IP rights to JPG fragrances.

(2) Name of counterparty to the Agreement

PUIG, S.L.

(3) Summary of properties and assets to be transferred

IP rights (trademarks, design rights, and copyrights) and shares of Noms de Code S.A.S. held by BPI and the Company. Noms de Code S.A.S. owns part of the IP rights.

(4) Overview of the Agreement

Agreement to transfer the properties and assets above and an early termination agreement of the License Agreement

(5) Signing and closing date and transfer date

April 9, 2015 and January 4, 2016 (planned)

(6) Transfer value

IP rights and shares of Noms de Code S.A.S.: €69,500,000

Extra bonus paid when JPG fragrance's business result in fiscal 2015 meets pre-agreed conditions: Maximum of €20,000,000

(7) Impact of the License Agreement on the Shiseido Group's financial position, and business results

The impact of the transfer on the consolidated financial statements including gain on sales and compensation for early termination of the License Agreement is currently being computed.

(Issue of domestic unsecured straight bonds)

At its meeting held on April 27, 2015, the Board of Directors passed a resolution to issue unsecured yen bonds. Based on this resolution, the 7th and 8th unsecured yen bonds were issued on June 17, 2015. The details are outlined below.

	Shiseido 7th unsecured yen bonds	Shiseido 8th unsecured yen bonds
(1) Security name	Shiseido 7th unsecured yen bonds	Shiseido 8th unsecured yen bonds
(2) Total amounts of issue	¥15.0 billion	¥15.0 billion
(3) Issue price	¥100 for each ¥100 bond issued	¥100 for each ¥100 bond issued
(4) Interest rate	0.237% per annum	0.374% per annum
(5) Time of maturity	June 17, 2020	June 17, 2022
(6) Redemption method	Lump sum payment upon maturity	Lump sum payment upon maturity
(7) Application of funds procured	Redemption of bonds, repayments of loans, and others	Redemption of bonds, repayments of loans, and others

Independent Auditor's Report



To the Shareholders and Board of Directors of
Shiseido Company, Limited:

We have audited the accompanying consolidated financial statements of Shiseido Company, Limited and its consolidated subsidiaries, which comprise the consolidated balance sheets as at March 31, 2015 and 2014, 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 misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our judgement, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, while the objective of the financial statement audit is not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Shiseido Company, Limited and its consolidated subsidiaries as at March 31, 2015 and 2014, 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 March 31, 2015 are presented solely for convenience. Our audit also included the translation of yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made on the basis described in Note 1 to the consolidated financial statements.

KPMG AZSA LLC

June 23, 2015
Tokyo, Japan

Corporate and Investor Information

(As of March 31, 2015)

Head Office

Shiseido Company, Limited

5-5, Ginza 7-chome, Chuo-ku
Tokyo 104-0061, Japan
Tel: +81-3-3572-5111

Foundation

September 17, 1872

Incorporation

June 24, 1927

Capital

¥64,506,725,140

Number of Employees

33,000 [12,948]

Note: The number of employees shown denotes full-time employees. Annual average number of temporary employees is shown in brackets. Temporary employees are part-time workers. Dispatched employees are excluded.

Fiscal Year-End

December 31

Note: The fiscal year-end will change to December 31 for all Group companies in 2016. 2015 is a transitional year in which Group companies in Japan will have a nine-month fiscal period ending December 31, 2015, and Group companies overseas will have a twelve-month fiscal year ending December 31, 2015.

Shareholders' Meeting

The Ordinary General Meeting of Shareholders is held in late March (From 2016).

Stock Listings

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

American Depositary Receipts

CUSIP: 824841407
Ratio (ADR:ORD): 1:1
Exchange: OTC QX (Over-the-Counter)
Symbol: SSDOY
Depository: The Bank of New York Mellon
101 Barclay Street, 22W
New York, NY 10286, U.S.A.

Accounting Auditors

KPMG AZSA LLC

Share Registrar

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

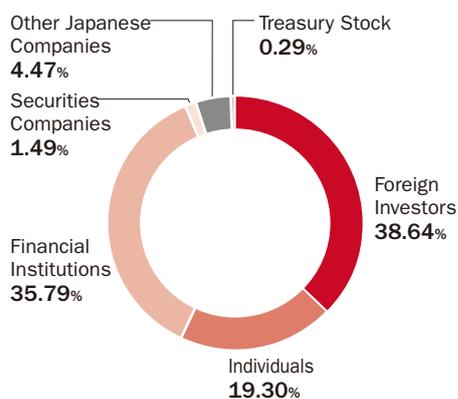
Number of Shareholders

53,008

Common Shares Issued and Outstanding

400,000,000 (including 1,173,894 in treasury stock)

Composition of Shareholders by Number of Shares



Composition of Shareholders (%)

	2014	2015
(By number of shares)		
Foreign Investors	35.48	38.64
Individuals	20.98	19.30
Financial Institutions	36.04	35.79
Securities Companies	2.35	1.49
Other Japanese Companies	4.77	4.47
Treasury Stock	0.35	0.29
(By number of shareholders)		
Foreign Investors	0.89	1.08
Individuals	97.78	97.51
Financial Institutions	0.19	0.18
Securities Companies	0.05	0.06
Other Japanese Companies	1.06	1.15
Treasury Stock	0.00	0.00

Principal Shareholders

Shareholders	Number of shares held (thousands)	Percentage of shareholding
JP MORGAN CHASE BANK 380055	29,703	7.44
The Master Trust Bank of Japan, Ltd. (Trust Account)	28,377	7.11
Mizuho Bank, Ltd.	21,226	5.32
Japan Trustee Services Bank, Ltd. (Trust Account)	13,594	3.40
Association of Shiseido Employees' Investment in the Company's shares	9,405	2.35
Sompo Japan Nipponkoa Insurance Inc.	5,934	1.48
Nippon Life Insurance Company	5,615	1.40
Mitsui Sumitomo Insurance Company, Limited	5,600	1.40
THE BANK OF NEW YORK MELLON SA/NV 10	5,286	1.32
STATE STREET BANK AND TRUST COMPANY	5,227	1.31

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

Website Guide

Shiseido websites present additional activities and data not contained in this report. Shiseido also has a corporate website that provides a variety of information.

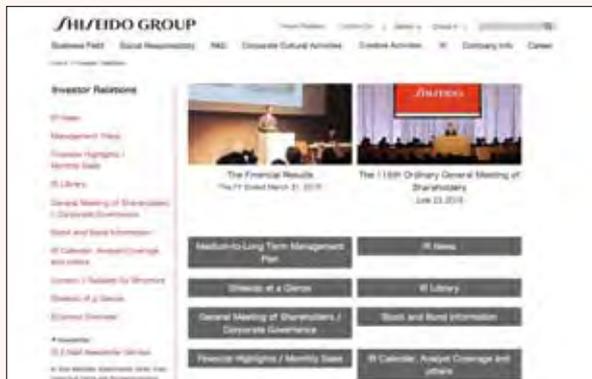
Corporate website

<http://www.shiseidogroup.com/>



Investor relations website

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



CSR website

<http://www.shiseidogroup.com/csr/>



watashi+ (Japanese Only)

<http://www.shiseido.co.jp/wp/>



This site provides an array of online options for purchasing cosmetics and receiving answers to questions and concerns about cosmetics and makeup.

PICK UP TECHNOLOGY

<http://www.shiseidogroup.com/technology/>



This site highlights functions, quality and safety of technologies that support Shiseido beauty.

Shiseido's Advertising and Design Department

<http://www.shiseidogroup.com/creative/advertising/>



This site is for Shiseido's Advertising and Design Department. It presents the department's creative activities to communicate Shiseido beauty worldwide.

For further information, please contact
Investor Relations Department

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