



(Translation)



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Dear Sirs and Madams,

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Shiseido Formulated Medium-to-Long Term Strategy "VISION 2020"

Shiseido Co., Ltd. formulated a corporate strategy for FY2015 to 2020 called "VISION 2020"

We will face up to the reality that we could not fully utilize our strengths we have developed so far, such as R&D/technical capabilities, global business deployment capabilities, and the ability to propose a cosmetic culture. By doing so, we will construct all activities from a "customer-focused viewpoint" and heighten our corporate value, considering what we should do and what kind of company we should become toward 2020 in order to stay in business for decades to come and beyond.

1. Main Theme of VISION 2020

Rejuvenate! Shiseido

These words symbolize our intention to change actively and quickly and create new things in order to break down our static image and provide more valuable products to customers for the next six years. We will use these words to improve our morals in various situations.

2. Goal of VISION 2020

(1) Together with active consumers

Tokyo won the right to host the 2020 Olympics/Paralympics and there is a growing trend towards changes in all of Japan. In 2020, people in society will come to live like themselves and, in terms of consumption, active consumers are expected to gain even more power than today. The aim of VISION 2020 is to become a company which keeps responding to the expectations of consumers, mainly active consumers, from the viewpoint of real life toward 2020, which is the year to represent changes in Japan.



(2) Realize high-quality sustainable profitability

We will reconstruct our business foundation for the first three years from 2015 to 2017 and then reinforce our strategy management for the growing areas for the three years from 2018 to 2020. In the first three years, we will reinforce our brands and business in China/Asia/Travel retail(*2) /E-commerce to achieve the CAGR(*1) target of 3 to 5%. In the following three years, we will aim at the CAGR of 5 to 7% in sales by introduction of new brands, M&A, and penetration into emerging countries and unexplored areas. Moreover, we will proceed with organization/human affairs reform, expansion of marketing/R&D investments, and company-wide structural reform for six years without a break.

By doing so, we will construct high-quality sustainable profitability and aim at an operating income of 100 billion yen or more and an ROE of 12% or more in FY2020. The target consolidated net sales is 1 trillion yen or more to realize the above-mentioned operating profits. We will achieve these numerical targets and make an effort to become a company appraised by customers and the society as “an energetic company,” “a company talked about all over the world,” “a company yearned for by the young,” and “a youthful company.”

*1 CAGR: Compound Annual Growth Rate

*2 TR: Travel retail business to sell products for overseas tourists at duty-free shops in airports, etc.

To promote VISION 2020, we pursue top line growth and cost optimization at the same time. We will mainly reinforce investments in marketing, R&D, human resources, and new business, recognizing that one of the significant causes of our past inability to leverage our strengths was the recent decrease in our investments. We will generate the capital for investment reinforcement and perform more in-depth structural reform. Moreover, we will reform our organization and personnel system in order to do thorough marketing and R&D from the viewpoint of customers.

3. Specific Activities in VISION 2020

(1) Construction of the optimal brand portfolio

We will divide our brand business into four types based on our customers' point-of-purchase type, which are prestige, cosmetics, personal care, and professional, and reposition the brands in order to cultivate many strong brands and execute marketing optimized for each area.

① Prestige business

This is the core business of our group and we will aim at global growth.

We will cultivate our global brands: "SHISEIDO," "bareMinerals," "Clé de Peau BEAUTE," and "NARS." They will lead the expansion of our share by stable growth in Japan, America, and Europe, and growth in the high growth markets: Travel retail, China, and Asia.

② Cosmetics business

We will introduce the lines of "Elixir" for China and other Asian countries in the medium-to-high price and high-value added areas and "Za" as a low-price product and for the young generation mainly in emerging countries in Asia, expecting that the expansion of the sales scale will be accelerated by the growth of the markets mainly in China and Asia. Also, we will put a lot of effort into E-commerce, which is expanding, in Japan and China.

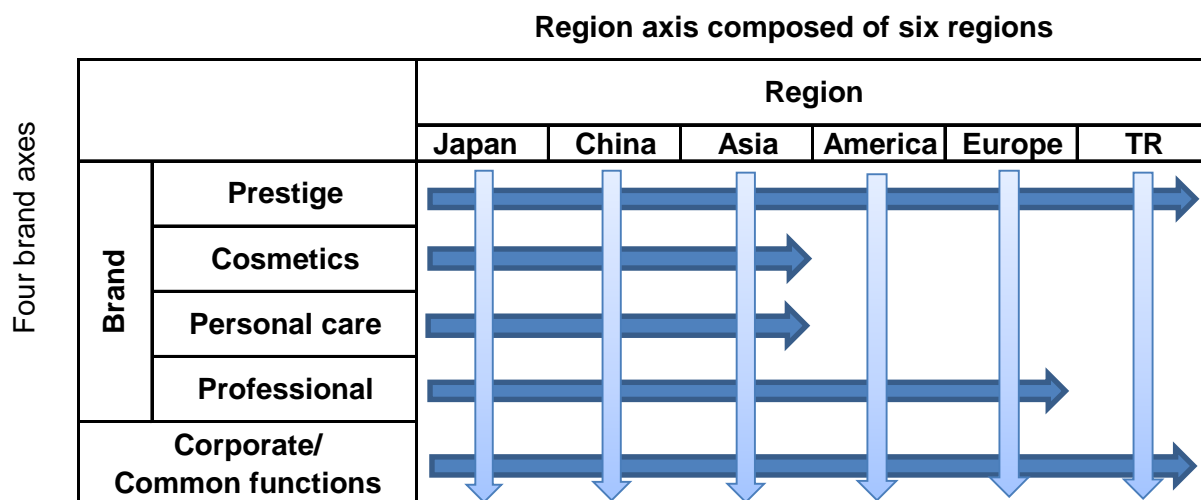
③ Personal care business

We will reform the positioning of brands in each category such as hair, bath, body, and men's to reconstruct our business structure. We will also improve our competitiveness by pursuing simple and clear benefits and reinforcing in-store maintenance.

④ Professional business

We will cultivate the core brands in Asia: "Shiseido Professional" and "JOICO". The goal in the Asian market is to achieve a high growth rate besides Japan and America. We will also actively create values and contribute to salon management to meet the needs of practitioners.

[New matrix organization chart of "brand axes" and "region axes"]



(2) Organizational reform

We will construct an organization with high execution capabilities prioritizing the four factors, which are a local/hands-on policy, flatness, speed, and accountability in order to execute comprehensive marketing from production/research to customers as well as develop products based on our innovative base technologies.

① New organization system of "brand axis" and "regional axis"

We will start the matrix operation based on the brand axis and regional axis composed of the four kinds of brand business mentioned above. It will cultivate strong brands in each area.

② Introduction of the regional headquarters system

The regional headquarters system is to be introduced in six regions. By doing so, we will practice "Think Global, Act Local" by promoting cultivation of brands



based on regions as well as accelerating decision making and production development in each region.

③ Unification of HQ and domestic affiliates

We will reorganize the four divisions including prestige, cosmetics, personal care, and digital, based on how customers purchase our products in order to unify HQ with domestic affiliates and uniformly improve the ability to convey values to customers.

Moreover, we will integrate and consolidate the planning functions, sales functions, and management functions across HQ and affiliates to simplify the organization and processes as well as assign personnel so that the sales capabilities will be improved.

(3) Reinforcement of investments

We will reinforce investments in order to realize sustainable sales growth and profit expansion making use of our strengths.

① Marketing investments

We will reinforce the investments for customers by promoting the selection and concentration of the invested brands. For three years from FY2015, we will use all of the capital generated by structural reform for growth investments to increase the marketing investments by 100 billion yen or more in total from FY2015. It is a step for the construction of the optimal brand portfolio and increases in brand value and loyalty.

② Increases in R&D investments and the number of researchers

We will reinforce the investments in R&D (increase the ratio of R&D to sales from 1.8% to 2.5%) and personnel (increase the number of global researchers from about 1,000 to 1,500) for the purpose of creation of growth opportunities through innovation.

- Establishment of a Global Innovation Center (Japan)

We will reinforce the basic foundation research which supports future growth as well as set up an "urban-type open lab" in the center by establishing this center.

We will promote creation of values in cooperation with customers and partners through direct communication.

- Global reinforcement of product development

To develop products based on local needs, we will expand the scales of the research centers in America, Europe, Southeast Asia, and China.

③ Investments in areas where we must achieve growth

We will reinforce the Travel retail and EC/digital area in order to expand contacts with customers and make quick responses to changes in the purchase behaviors of customers.

- Expansion of the Travel retail area, which has ripple effects and high profitability

In particular, we will expand the Asian market, which is expected to grow significantly, by separation of organizations, introduction of specialized products, and counter investments.

- Reinforcement of the EC and digital areas to reach the young generation



We will reinforce IT and marketing by setting up independent departments and headquarters (HQ) which will formulate strategies in Japan and China.

(4) Company-wide structural reform

We will generate capital as well as optimize the costs in order to expand the investments for customers and realize PULL-type marketing.

① Cost optimization

We will promote cost optimization in terms of COG, marketing, inventory/SCM, back-office, labor, and productivity.

② Structural reform cutting to the knot

We will expand structural reform, which has been focused on Japan led by HQ to all over the world/all regions including the business structure reconstruction in China. The structural reform will change the current cost-focused working method such as reduction and streamlining, even going into the organization and processes.

③ Generation of investment capital

We will generate 30 to 40 billion yen globally by FY2017 and expand the investments in marketing/R&D for customers.

(5) Reform of the personnel system

We will reform the personnel system in order to activate our organization and promote rejuvenation.

① Reinforcement of "diversity"

- We will reinforce the diversity by promoting recruitment of outside personnel, reform of the Japan-centric assignment of positions, utilization of female personnel, etc.

② Introduction of the competition principle

- We will strengthen the competition principle by recruitment of capable (young) human resources, training for selected employees, increase in performance-based promotion of salary, etc.

③ Clarification of roles and responsibilities

- We will clarify roles and responsibilities by reforming our office regulation design and cultivating the culture in which personnel fulfill their responsibilities.

④ Activation of (domestic) beauty consultants

- We will promote recruitment of full-time workers and promotion of contract workers to full-time workers in order to secure capable human resources for the purpose of improvements in beauty-related expertise.
- We will change the personnel evaluation and treatment structures interlocked with the store sales. It will establish a system to reward young employees who achieve good results.
- We will create attractive second carriers (sales, new business, and independence support) for employees over a certain age to enable them to work in accordance with their lifestyles.



(6) Reconstruction of the China business

We will realize firm growth of profits in the future by promoting the rebuilding of the business in order to solve problems such as the complex organization/processes and the delay of the response to changes in the market. The important implementation items are as follows:

- ① Reconstruction of the brand portfolio/Expansion of investments
- ② Unification of the activity goal into store sales
- ③ Separation of the EC business to become the top digital company
- ④ Reinforcement of our organizational power by localization of authority and recruitment of local human resources
- ⑤ Reconstruction and activation of the BC organization
- ⑥ Reduction of the cost

[Direction of the strategy in each region]

Japan	Share recovery	Expansion of customer investments, prestige/cosmetics-prioritized reinforcement, and selection and concentration of the personal care area
China	Business reconstruction	Expansion of customer investments, localization of functions and authority, and separation of the EC business
Asia	Growth expansion	Expansion of the share in the prestige area, establishment of the foundation of cosmetics, and reinforcement of the target countries of TR and emerging countries
America	Profitability improvement	Acceleration of the growth of makeup brands, back-office integration, and normalization of ADC*
Europe	Profitability improvement	Uniform marketing in Europe, back-office integration, and restructuring business in low-profitability countries

*ADC: Americas Distribution Center

4. Financial strategy

(1) Investments and shareholder return

The profits generated by the structural reform will be given back to growth investments such as marketing investments, R&D, and M&A. As for shareholder return, since these are up-front growth investments for the time being, we will keep stable and continuous dividends with the initial guideline of the dividend ratio of 40% in the medium term. We will also perform active stock buy-back considering the free cash-flow level and market conditions by prioritizing the improvement in the capital efficiency.

(2) Financial KPI

We will improve our brand values and realize top line growth through brand investments to increase our operating profits and company value toward sustainable growth. In addition, we will make an effort to promote improvement in our



management efficiency by improving the management of our cash flow and balance sheet better than before, prioritizing the free cash flow and cash conversion cycle. The ROE target is 9 to 10% in FY2017 and 12% or more in FY2020.

In order to realize VISION 2020, we will make a company-wide effort with the top management taking the lead through various activities, including renewal/reinforcement of the organization of the top management, commitment of all executive officers to structural reform, exertion of leadership prioritizing on-site operations, and clarification of accountability.

Moreover, we will improve the social value, which is the coexistence of the environment and society, in order to realize our corporate identity, which helps with the “creation of beautiful life cultures.”

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