



Notice of Convocation

The 116th Ordinary General Meeting of Shareholders

[Disclaimer: Please note that the following purports to be an accurate and complete translation of the original Japanese version prepared for the convenience of our shareholders with voting rights outside Japan for reference. In the case of any discrepancy between the translation and the Japanese original, the latter shall prevail. Please be advised that certain expressions for domestic voting procedures that are not applicable to the aforesaid shareholders are omitted or modified to avoid confusion. Please also be advised that this material will not facilitate your status as a registered shareholder, who is authorized to physically attend the ordinary general meeting of shareholders in person, unless presenting the original Notice of Convocation and the Voting Form in Japanese to the receptionist at the place of the meeting.]

Table of Contents

Notice of Convocation

| | |
|---|---|
| Notice of Convocation of the 116th Ordinary General Meeting of Shareholders | 3 |
|---|---|

Business Report

| | |
|---|----|
| 1. Matters Concerning Shiseido Group | 6 |
| 2. Matters Concerning Shares Issued by the Company | 30 |
| 3. Matters Concerning Shares Held by the Company | 31 |
| 4. Matters Concerning Stock Acquisition Rights | 33 |
| 5. Matters Concerning Status of Corporate Governance and Directors, Audit & Supervisory Board Members and Corporate Officers of the Company | 36 |

Consolidated Financial Statements

| | |
|--|----|
| Consolidated Balance Sheets | 65 |
| Consolidated Statements of Income | 66 |
| Consolidated Statements of Changes in Net Assets | 68 |
| Notes to the Consolidated Financial Statements | 69 |

Financial Statements

| | |
|--|----|
| Non-Consolidated Balance Sheets | 79 |
| Non-Consolidated Statements of Income | 80 |
| Non-Consolidated Statements of Changes in Net Assets | 81 |
| Notes to the Non-Consolidated Financial Statements | 83 |

Accounting Auditor's Reports

| | |
|--|----|
| Copy of the Accounting Auditor's Report (Consolidated) | 90 |
| Copy of the Accounting Auditor's Report | 92 |
| Copy of the Audit & Supervisory Board's Report | 94 |

Reference Document Concerning the General Meeting of Shareholders

| | |
|--|-----|
| 1. Total Number of Voting Rights Held by Shareholders | 96 |
| 2. Items of Business and Reference Information | 96 |
| First Item of Business: Dividends of Retained Earnings | 96 |
| Second Item of Business: Election of Seven (7) Directors | 97 |
| Third Item of Business: Election of One (1) Audit & Supervisory Board Member | 109 |
| Fourth Item of Business: Payment of Bonuses to Directors | 113 |
| Fifth Item of Business: Determination of Provision of Long-Term Incentive Type Remuneration to Directors | 114 |

Notice of Convocation The 116th Ordinary General Meeting of Shareholders

Dear Shareholders:

We express our deep appreciation to each of the shareholders for their extraordinary daily support.

You are cordially invited to attend the 116th ordinary general meeting of shareholders of *Shiseido* Company, Limited (the “Company”). The meeting will be held as described on page 4.

If you are unable to attend the meeting, you may exercise your voting rights in writing or through website voting. Please examine the accompanying “Reference Document Concerning the General Meeting of Shareholders” and exercise your voting rights.

Yours very truly,

Shiseido Company, Limited



Masahiko Uotani
Representative Director,
President and CEO

Registered Head Office:
5-5, Ginza 7-chome, Chuo-ku, Tokyo
Principal Business Office:
6-2, Higashi-Shimbashi 1-chome,
Minato-ku, Tokyo

(VOTING PROCEDURE FOR REGISTERED SHAREHOLDERS IN JAPAN)¹

When you exercise your voting rights via the Internet etc., please access to Proxy Voting Website (<http://www.web54.net>). Please refer to “Notes to the Use of the Exercise of Voting Rights via the Internet” (omitted).

¹ Please note that shareholders outside Japan shall not use these voting procedures.

PARTICULARS

Date and Time of the Meeting:

Friday, March 25, 2016 at **2:00 p.m.**

The Meeting is not scheduled to be held on the date corresponding to the date of the previous Ordinary General Meeting of Shareholders (June 23, 2015) because the Company changed its fiscal year-end from March 31 to December 31 effective from the 116th Business Term (this Term).

Place of the Meeting:

IMPERIAL Hotel, 2F, Kujyaku Room (Main venue of the event)

1-1, Uchisaiwai-cho 1-chome, Chiyoda-ku, Tokyo, Japan

Matters to Be Dealt with at the Meeting:

Matters for Reporting:

Report on the business report and the consolidated financial statements, non-consolidated financial statements, and the results on the audits of consolidated financial statements by the accounting auditor and the Audit & Supervisory Board for the fiscal period ended December 31, 2015 (April 1, 2015 to December 31, 2015).

Matters for Resolution:

First Item of Business: Dividends of Retained Earnings

Second Item of Business: Election of Seven (7) Directors

Third Item of Business: Election of One (1) Audit & Supervisory Board Member

Fourth Item of Business: Payment of Bonuses to Directors

Fifth Item of Business: Determination of Provision of Long-term Incentive Type Remuneration to Directors

Contents and details of each item are described in the “Reference Document Concerning the General Meeting of Shareholders” in and after page 96.

Matters Related to Exercise of Voting Rights:

1. Validity of the voting in the event of exercise of voting rights by one and the same shareholder via both return mail and via website

In the event that the same and one shareholder exercises voting rights via both return mail and via website, the Company will consider the exercise of voting rights via website shall be valid.

Moreover, the same and one shareholder exercises voting rights via website several times, the Company will consider the last exercise of voting rights via website shall be valid.

2. Requirement for exercise of voting rights through proxy

Shareholders may exercise voting rights through a proxy who shall be a shareholder with voting rights of the Company. In this case, the shareholder or the proxy shall be required to submit a document certifying the power of representation to the Company at the general meeting of shareholders.

About Environment-Friendly General Meeting of Shareholders

At this ordinary general meeting of shareholders, in addition to striving to reduce emissions of greenhouse gases such as CO₂ (carbon dioxide), we will carry out carbon offsets to counterbalance the amount of greenhouse gases emitted through the purchase of credits for reduction or absorption of greenhouse gas emissions achieved elsewhere.

Business Report

(Fiscal Period from April 1, 2015 to December 31, 2015)

Effective from the fiscal period ended December 31, 2015, Shiseido and its consolidated subsidiaries that closed their accounts on March 31 each year changed their fiscal year-ends to December 31. As a result, Shiseido and all consolidated subsidiaries now maintain a uniform settlement date. Accordingly, this business report covers the nine-month period from April 1, 2015 to December 31, 2015 for Shiseido and its consolidated subsidiaries that closed their accounts on March 31 and the 12-month period from January 1, 2015 to December 31, 2015 for the consolidated subsidiaries whose fiscal year-ends were already December 31.

Hereafter, increases and decreases in operating results are compared with the corresponding period of the previous fiscal year. (For companies that closed their accounts on March 31, “corresponding period of the previous fiscal year” refers to the period from April 1 to December 31, 2014. For companies that closed their accounts on December 31, this refers to the period from January 1 to December 31, 2014.)

1. Matters Concerning Shiseido Group

1.1 Business Overview

(1) Progress and Results

1) Overview

■ Progress and Results in the Fiscal Period Ended December 2015

In the fiscal period, the Japanese economy continued on a moderate recovery trend supported by government measures to stimulate the economy. At the same time, consumer spending was stable overall. Similarly, the domestic cosmetics market remained firm. In addition to a persistent recovery trend, this was attributable to contributions from inbound demand. Meanwhile, overseas cosmetics markets, which are closely linked to economic conditions in their respective regions, exhibited mixed results. While there were signs of disparity between countries, growth in EMEA (Europe, the Middle East and Africa) was held to moderate levels. China, Asia and the Americas, on the other hand, continued to experience sound growth.

Against this backdrop, Shiseido Group took bold steps to implement VISION 2020, the medium- and long-term strategy for building a foundation that will enable the Group to remain shining for the next 100 years, from fiscal 2015. The fiscal period was therefore positioned as the start of a three-year plan to reconstruct our business foundation. In order to enhance the value of strategic core brands, all of the Group’s activities were shifted toward a consumer-oriented focus, steps toward strengthening marketing as well as innovation and measures to utilize the diverse human resources and put in place a global organization to support these efforts.

In addition to seeing results through brand innovation initiatives, we worked steadily to capture inbound demand. As a result, domestic sales increased 11.7% compared to the corresponding period of the previous fiscal year. Overseas sales rose 13.3% compared with the corresponding period of the previous fiscal year, as sales were up year on year across all regions, including China, Asia, the Americas and EMEA. Overseas sales also benefited from the positive impact of yen depreciation in the translation of their results to yen. As a result, Shiseido posted a 12.6% increase in consolidated net sales compared with the corresponding period of the previous fiscal year.

Operating income rose by 77.4% owing to the increase in earnings attributable to the growth in net sales. This was during a period of active marketing investment while at the same time efficiently managing costs.

Net income attributable to shareholders of the Company declined by 15.7% year on year. This decrease in net income attributable to shareholders of the Company reflects not only the absence of the gain on transfer to a company in line with the sale of the esthetic brands DECLEOR and CARITA posted as extraordinary income in the previous fiscal year, together with the lower tax burden on the aforementioned gain, but also the increase in tax expenses due to a smaller tax benefit related to the elimination of unrealized earnings as a result of the change to an irregular account settlement period.

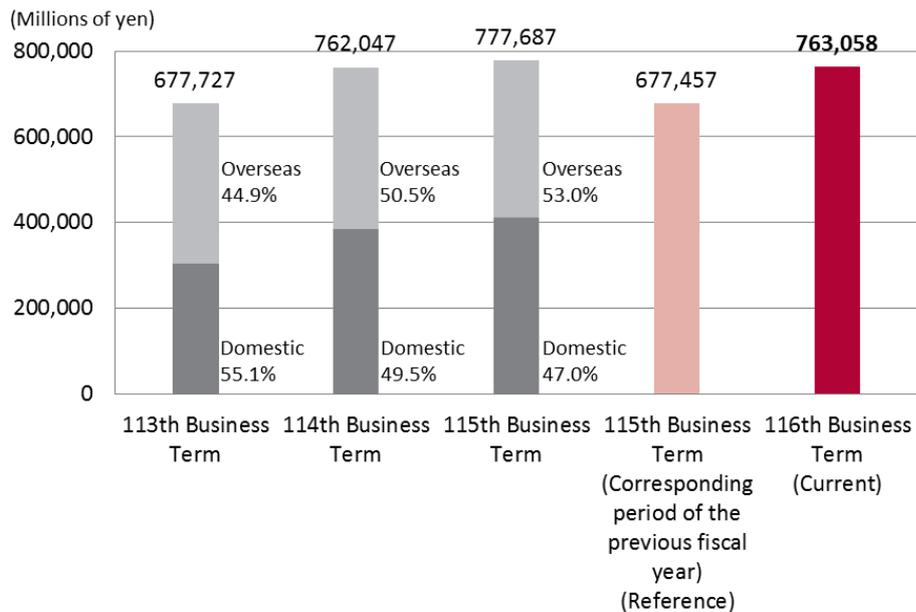
As a result, consolidated operating profitability was 4.9% for the fiscal period and consolidated return on equity (ROE) was 6.0%.

■ Consolidated Results

Net Sales

¥763,058 million

Year-on-year change: +12.6%



Operating Income

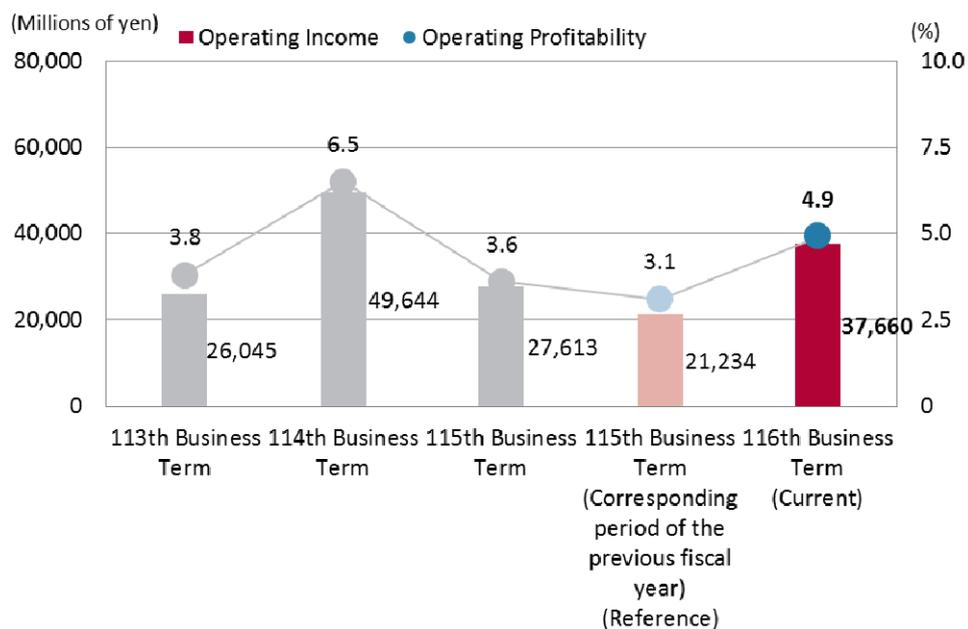
¥37,660 million

Year-on-year change: +77.4%

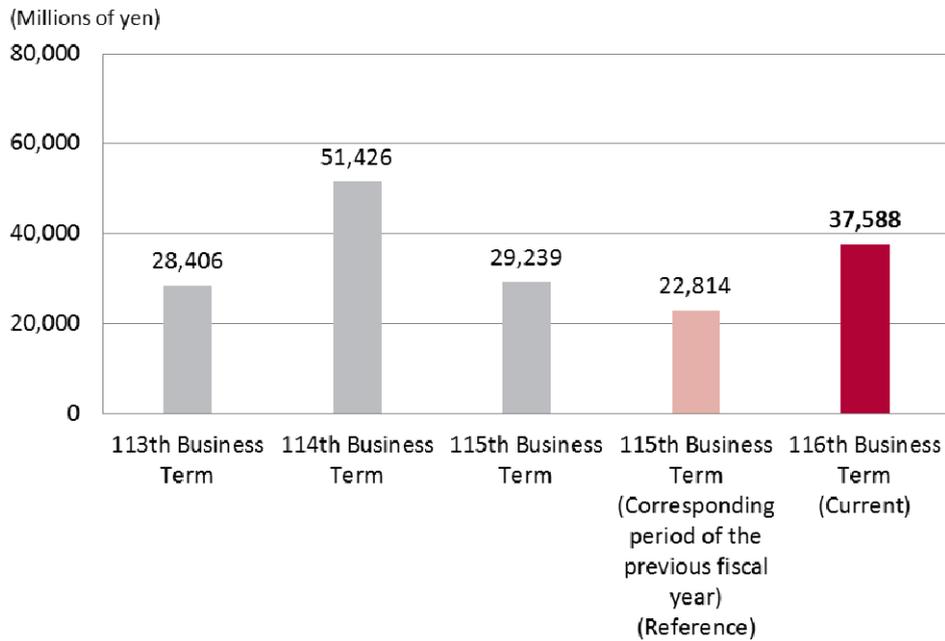
Operating Profitability

4.9%

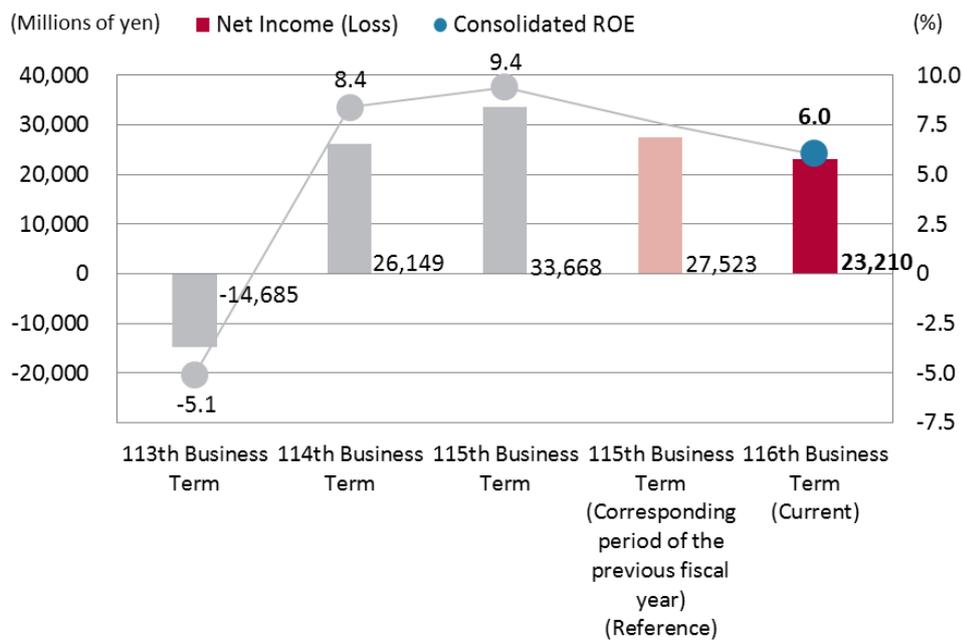
Year-on-year change: +1.8 points



Ordinary Income
¥37,588 million
 Year-on-year change: +64.8%



| | |
|---|---|
| Net Income (Loss) Attributable to Shareholders of the Company ¥23,210 million Year-on-year change: -15.7% | Consolidated ROE (Please refer to Note 3) 6.0% |
|---|---|



Notes:

1. “-”denotes loss, decrease, etc. or negative value.
2. In order to unify the fiscal period, nine months for the Company and its consolidated subsidiaries ending their fiscal period on March 31, and twelve months for those ending their fiscal period on December 31 were included in the consolidation for this fiscal period. The year-on-year changes shown were based on the comparison with the corresponding periods of the previous year respectively. The domestic and overseas sales compositions were not calculated because they covered different periods.
3. The consolidated ROE of this fiscal period was calculated with the net income attributable to shareholders of the Company for the abovementioned consolidated period as the numerator and the average value of shareholders' equity of the 115th and the 116th Business Terms as the denominator.

2) Activities by Business Segment

In the lead up to the start of a new organization system from fiscal 2016, the Company undertook a partial revision of its reportable segment classification method effective from this fiscal period. Accordingly, the preexisting “Domestic Cosmetics Business,” “Global Business” and “Others” segments have been reclassified into the newly created “Japan Business,” “Global Business” and “Others” segments, respectively. Taking into account this change, certain subsidiaries previously included in the “Domestic Cosmetics Business” segment have been reallocated into the “Global Business” and “Others” segments. Moreover, and in order to more accurately grasp the condition of operating results in each segment, steps have also been taken to revise the allocation method of certain expenses. Data for operating results of the corresponding period of the previous fiscal year are presented after restatement based on changes to the business segment classification method and expenses allocation method.

Japan Business Segment

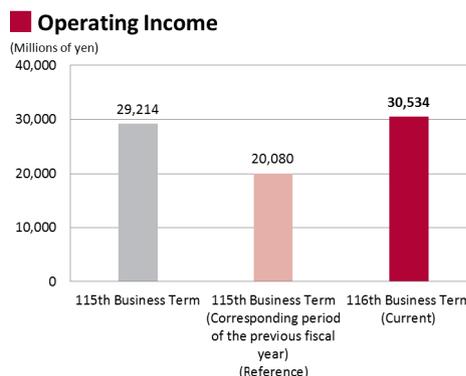
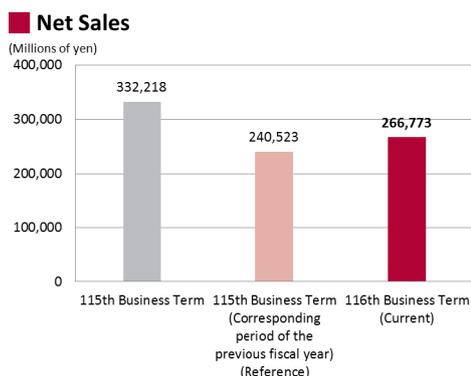


ELIXIR

In the Japan Business segment, sales were up 10.9% compared with the corresponding period of the previous fiscal year, to ¥266,773 million. This increase in sales from the corresponding period of the previous fiscal year reflected success in steady efforts continued from the preceding fiscal year to innovate core brands, as well as proactive initiatives to capture burgeoning inbound demand.

Operating income was ¥30,534 million, an increase of 52.1% compared with the corresponding period of the previous fiscal year. Despite undertaking marketing investment, this was due to various measures including efforts aimed at reducing expenses through greater efficiency in addition to the increase in earnings attributable to the growth in sales.

| | |
|----------------------------|--|
| Main Businesses | Japan Cosmetics Division (production and sale of cosmetics, cosmetic accessories, and toiletries, etc.) |
| | Healthcare Division (production and sale of health & beauty foods and over-the-counter drugs), etc. |



Carrying on from the previous term, we continued to implement consumer-oriented initiatives aimed at enhancing our brand value. At the same time, we strengthened efforts to innovate core brands and expanded marketing investments. As a result, sales of mainstay products enjoyed steady growth. In addition to the ELIXIR skincare brand, which entered a second year of brand innovation, and the MAQUILLAGE makeup brand, we posted a considerable upswing in sales of other items in the clé de Peau BEAUTÉ luxury brand as well as the hit brand SHISEIDO, which is being driven by ULTIMUNE, a serum that draws out the skin's natural beauty.

Furthermore, we took active steps to implement such measures as the dispatch of interpreters to stores and the use of multi-language tablets as a part of our consumer service activities in response to burgeoning inbound demand. This reflected the increase in the number of foreign tourists.

Building on these endeavors, energies were directed toward forming cooperative ties with other companies and to create new value. In addition to a partnership with U.K.-based Burberry Ltd., other measures included the planning and development of dedicated products that address the needs of consumers in conjunction with a major distribution group that operates through various sales channels including convenience stores. Through these and other means, Shiseido has worked diligently to expand its sales floor.

Turning to low-priced cosmetics and the hair care category, which continue to pose a challenge, we pushed forward numerous improvements across a wide-range of areas. Together with a renewal of communication methods, we placed considerable emphasis on further clarifying to consumers the value of our brands amid an intense competitive environment. We will continue to launch new products tailored to consumer needs and reinforce initiatives to create sales floors.

In the healthcare category, trends in sales of the pharmaceutical lip cream, *MOILIP*, were robust thanks largely to inbound demand.



clé de peau BEAUTÉ

Global Business Segment

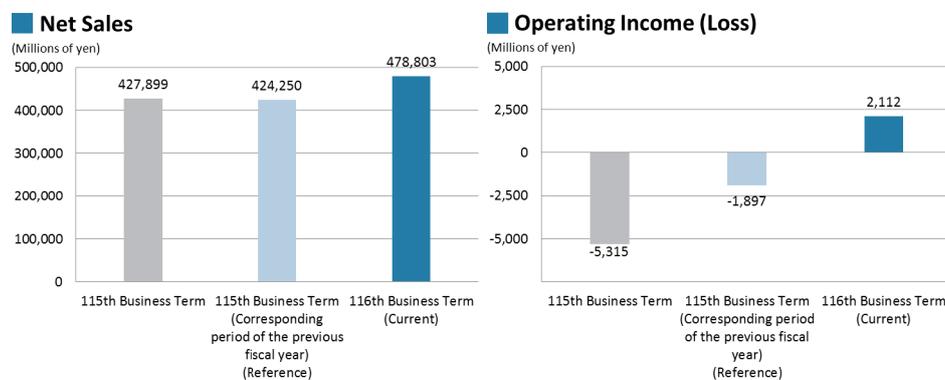


SHISEIDO ULTIMUNE

Sales in the Global Business segment increased 12.9% compared with the corresponding period of the previous fiscal year, to ¥478,803 million and increased 5.1% on a local-currency basis. Buoyed by efforts to successfully promote the reinforcement of brands that match the attributes of each area, sales were up year on year across all the regions of China, Asia, the Americas and EMEA.

Operating income came to ¥2,112 million for the fiscal period. Despite higher marketing investment mainly in the China Business and for fragrances, this result largely reflected the increase in earnings attributable to higher sales and other measures including efforts to reduce expenses through greater efficiency.

| | |
|------------------------|--|
| Main Businesses | Overseas Cosmetics Division (production and sale of cosmetics, cosmetic accessories, and toiletries) |
| | Overseas and Domestic Professional Division (production and sale of beauty salon products, etc.), etc. |



In China, results were mixed amid efforts to promote business reforms. While prestige brands and e-commerce results were robust, sales of products in the mid-priced range stalled. This largely reflected the temporary confusion that arose while undertaking a review of sales and operating organizational systems as well as intense competition.

In Asia, sales remained strong in Singapore and Malaysia as well as in the travel retail business, which included sales of cosmetics through such channels as airport duty-free stores. Moreover, results in hair color and hair care products improved on the back of efforts to reinforce measures in the professional business.

In the Americas, sales of our mineral cosmetics brand, *bareMinerals*, were stagnant. In contrast, results were driven by growth in skin and sunscreen product sales under the brand *SHISEIDO* as well as the makeup artist brand *NARS* where digital marketing is being strengthened.

In EMEA, we struggled in some major countries such as Germany and Switzerland. On a positive note, *ISSEY MIYAKE*, *narciso rodriguez* and other designer fragrance brand sales grew. In the brand *SHISEIDO*, trends were robust for the *ULTIMUNE* serum as well as for mascara, where the development of products that reflect the needs of the region were undertaken locally.

As of December 31, 2015, brand *SHISEIDO* products were sold in 88 countries and regions including Japan worldwide.



SHISEIDO Full Lash Volume Mascara

Others



Shiseido Parlour baked sweets, with revamped packaging

Sales from Others grew 37.8% compared with the corresponding period of the previous fiscal year, to ¥17,481 million. In addition to robust performance by The Ginza Co., Ltd., which is engaged in duty-free cosmetics sales in domestic airports, the frontier science business was firm, leading to increases compared with the corresponding period of the previous fiscal year.

Operating income in this segment rose 58.0% compared with the corresponding period of the previous fiscal year, to ¥4,921 million.

Main Businesses

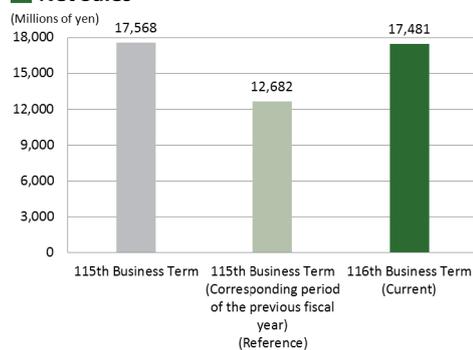
Certain Cosmetics Sales Subsidiaries

Frontier Science Business

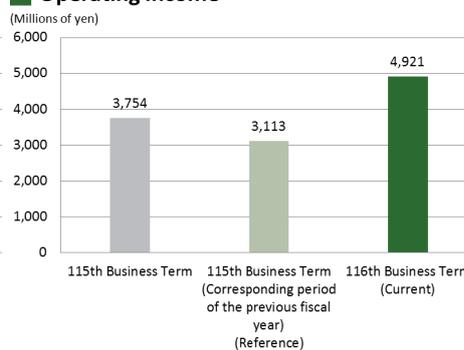
(production and sale of cosmetic raw materials, medical-use drugs, medical cosmetics, precision and analytical equipment, etc.)

Restaurant Business, etc.

Net Sales



Operating Income



The Ginza Co., Ltd. generated higher sales through efforts targeting inbound demand. In addition to strong sales of bio-hyaluronic acid, a raw material for cosmetics and pharmaceuticals, the frontier science business experienced robust sales trends in *2e* and *NAVISION* cosmetics for medical institutions, derived from our beauty care skin research.

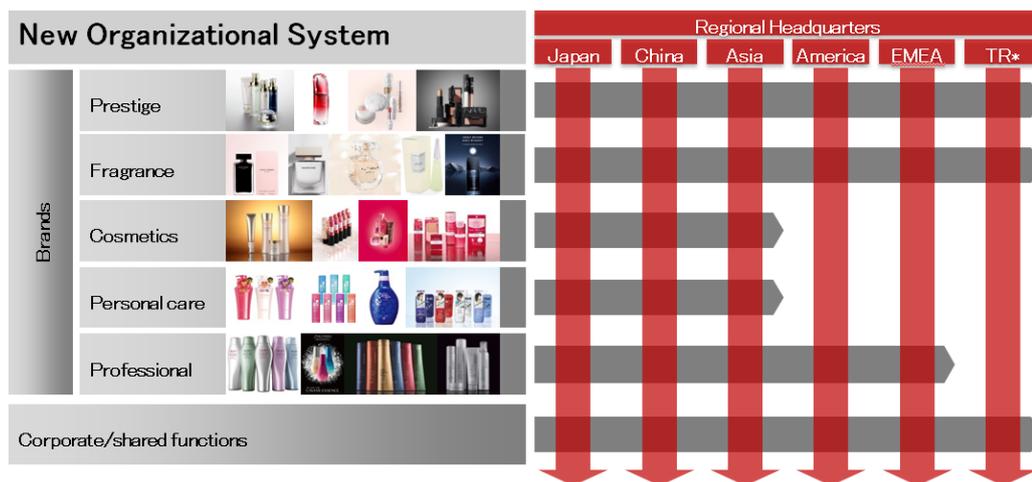
Furthermore, Shiseido Parlour Co., Ltd., which is active in the restaurant business, reported firm sales on the back of a renewal of its western confectionery lineup in October 2015.

3) Business-wide Initiatives

Initiation of a Regional Headquarters System

Embracing a mindset of “Think Global, Act Local” (conduct activities in a manner closely linked to regional locations and on-site, while considering companywide management from a global perspective), in January 2016 we commenced the full-fledged operation of a new matrix organization with five brand businesses categorized according to consumer purchasing style and six regions. With this organization, we aim to nurture strong brands and conduct marketing appropriate to individual regions.

■ New Matrix Organizational Structure



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

We moved forward with preparations, including setting up the organizational structure and management systems, in preparation to establish this new structure in fiscal 2015. In June 2015, we established Shiseido Asia Pacific Pte. Ltd. in Singapore to serve as our Asian regional headquarters and transferred the Asian regional management and marketing functions from Japan to the new entity. In October 2015, Shiseido Japan Co., Ltd., commenced operations as our Japanese regional headquarters, bringing together functions that were previously divided into headquarters and sales companies, thereby creating a system to link activities from product development to marketing and store activities even more closely than before. We moved forward with preparations for the regional headquarters system in other regions as well, devolving responsibility and authority to the regions, putting in place preparations to respond more swiftly and accurately to consumer purchasing behaviors and market fluctuations.

R&D for the Creation of New Value

■ Enhancement of Consumer-oriented R&D

Amid growing diversification of consumer opinions and ongoing business globalization, the Shiseido Group focuses on research and development guided by survey data about our consumers in major cities around the world: their skin, their opinions, actions, tastes, and so on. At the same time, we engage in value development based on consumer insight (depth psychology that consumers themselves are not aware of), on matters such as psychological attitudes towards cosmetics, and buying motives. We also work to further expand this consumer-oriented value development, by strengthening research and development from the three perspectives of “knowing,” “making,” and “telling,” in pursuit of not simply creating cosmetics as products but also creating value that will touch our consumers’ hearts through kotozukuri.

■ Expanding Collaboration with a U.S. Dermatology Laboratory

In July 2015, in the U.S. state of Massachusetts Shiseido entered a new collaboration agreement related to expanded collaboration with the dermatology research center at

Massachusetts General Hospital known as the MGH–Harvard Cutaneous Biology Research Center (CBRC). Established in 1989 by Massachusetts General Hospital and Harvard Medical School with support from Shiseido, CBRC is a general laboratory engaged in leading-edge R&D in the dermatological field. Since its establishment, CBRC has conducted joint R&D with Shiseido in the field of dermatology.

This new alliance will allow us to expand the joint research in the field of dermatology that Shiseido and CBRC have worked on to date, and also include additional initiatives to disseminate information about cosmetics R&D and maintaining healthy skin, in response to shifts in consumer values and lifestyles.

Initiatives to Achieve Sustained Growth

■ Nurturing Human Resources

In fiscal 2015, measures to support the achievement of our medium-to-long-term strategy 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 define 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 consumers, which will strengthen the Group with the capabilities of its employees and achieve an organization that prevails against the competition. By introducing these principles, Shiseido now expects all officers, managers and employees to show initiative and act accordingly, regardless of employment status.

■ Reforming the Organizational Culture

Continuing on from fiscal 2014, in the Japan Business we further strengthened “ICHIGAN marketing” efforts that go beyond divisional boundaries to link R&D, product development, production, sales and other functions. To ensure that these initiatives are not one-off, we sought to entrench ongoing efforts, such as creating sales floors early on based on cross-organizational cooperative structures for each new product launch period.

Furthermore, to realize VISION 2020, our medium-to-long-term strategy, we launched the Future Creation Center as a department to specialize in considering the Company’s future. The center’s members, who were selected through open recruitment, take the lead in visiting offices around Japan to engage in “Future Creation Marathons,” in which they interact with other employees to discuss their future vision of Shiseido and any issues in the path to realizing this vision. Japanese employees also take part in “Future Creation Summits,” in which they discuss the future of society with Company executives. In this manner, employees have begun to discuss a prototype for Shiseido 100 years in the future and act on what needs to be done to achieve these goals.

■ Promoting Employee Diversity

At the Shiseido Group, we promote employee diversity on a global level, and the employees who work for us in various countries and regions worldwide have diverse attributes, including nationality, gender, age, employment status and developmental challenges, as well as values and viewpoints. We also work to recruit and assign professional human resources from outside the Company who have skills that are useful both in Japan and overseas. In fiscal 2015, with the aim of strengthening our operations by incorporating the viewpoints and ways of thinking of these employees with diverse backgrounds, we have introduced support measures to enable all our employees to utilize their abilities to the fullest extent. With a view to further enhancing and accelerating the diversity, we began more aggressive transfer of employees within the Shiseido group, going beyond countries, regions, and entities.

Furthermore, as 90% of the Shiseido Group’s consumers are females, it is important for us to provide new products and services based on our understanding of the values, lifestyles and needs of women. Accordingly, the Group considers it meaningful to take a leadership role in utilizing women and focuses on such efforts. Reflecting this policy, as of the end of fiscal 2015, the ratios of female employees and female leaders in the Shiseido Group worldwide were 84.5% and 50.6% respectively, while in Japan these ratios were 83.1% and 28.5% respectively.

■ Supporting Balance between Work and Childcare and Nursing Care

Since 1990, Shiseido has introduced a variety of systems and measures to support a balance between work and childcare and nursing care. Through these efforts, we aim to be a company that realizes working styles that enhance individual employee productivity by responding flexibly to diverse values, and that enables men and women to advance in their careers while also engaging in child care and nursing care.

We operate childcare facilities within our offices, encourage male employees to take child care leave by offering up to two weeks of paid childcare leave, and have introduced a Kangaroo Staff system to enable beauty consultants (BCs) to take time off for child care. Through these unique initiatives, we are working to create an amenable working environment for employees.

Progressing a step further toward work-life balance, in fiscal 2014 we launched an initiative to be a company where it is easy to work and that encourages fulfilling work by facilitating career advancement by employees who are also engaged in child care and nursing care. While the systems we have introduced in the past to support a work-life balance remain in place, taking into consideration the circumstances of individual BCs we have revised our shift system so that BCs can enhance their skills by interacting with consumers as much as possible on weekends, as well as on evenings during the week. These reforms have had the positive effects of making BCs themselves even more conscious than before about their career advancement and reinvigorating the working environment for BCs during child-rearing years.

■ Initiative to Support Women’s Activities in Bangladesh

In fiscal 2011, Shiseido began to develop and sell skincare products especially for local women in Bangladesh in an effort to enhance their social status and support efforts to create employment. In this initiative, local women visit consumers to sell skincare products developed specifically for local conditions. Shiseido also provides support for improving their social status and lifestyle with educational activities regarding health, hygiene, and nutrition. In September 2015, this activity was recognized as a “Business Call to Action” (BcTA), led by the United Nations Development Programme (UNDP)—the first time an Asian cosmetic company has received this recognition. We were evaluated highly for a business model expected to encourage both social contribution and business activities.



Educational activities regarding hygiene, etc. in a rural area of Bangladesh



Les DIVAS specialized local cosmetics that have received Halal certification

(2) Capital Expenditures

| | Investment (Millions of yen) | Purpose of Investment |
|-------------------------------|---------------------------------|---|
| Property, Plant and Equipment | 18,458 | Renovation and renewal of production facilities Upgrades at overseas stores |
| Intangible Assets | 10,460 | Acquisition of trademark of the brand, "Serge Lutens" Reinforcement of sales management system |
| Long-term Prepaid Expenses | 4,965 | Installations of sales counters and fixtures |
| Total | 33,884 | |

(3) Financing

To fund redemption of bonds, the Company issued ¥15 billion of the 7th unsecured straight bonds and ¥15 billion of the 8th unsecured straight bonds on June 17, 2015.

(4) Summary of Consolidated Income and Assets of the Shiseido Group

(Millions of yen, unless otherwise noted)

| | 113th Business Term (4/1/2012 - 3/31/2013) | 114th Business Term (4/1/2013 - 3/31/2014) | 115th Business Term (4/1/2014 - 3/31/2015) | 116th Business Term (Current term) (4/1/2015 - 12/31/2015) |
|--|---|---|---|--|
| Net Sales | 677,727 | 762,047 | 777,687 | 763,058 |
| Operating Income | 26,045 | 49,644 | 27,613 | 37,660 |
| Operating Income to Net Sales (%) | 3.8 | 6.5 | 3.6 | 4.9 |
| Ordinary Income | 28,406 | 51,426 | 29,239 | 37,588 |
| Net Income (Loss) Attributable to Shareholders of the Company | -14,685 | 26,149 | 33,668 | 23,210 |
| Net Income (Loss) per Share (Yen) | -36.90 | 65.65 | 84.44 | 58.17 |
| Return on Equity (%) | -5.1 | 8.4 | 9.4 | 6.0 |
| Comprehensive Income | 19,985 | 90,722 | 70,668 | 13,594 |
| Total Assets | 715,593 | 801,346 | 823,636 | 808,547 |
| Net Assets | 303,153 | 358,707 | 409,369 | 413,334 |
| Net Assets per Share (Yen) | 721.21 | 849.42 | 970.00 | 981.37 |
| Equity Ratio (%) | 40.1 | 42.2 | 47.0 | 48.4 |
| Price/Earnings Ratio (Times) | — | 27.7 | 25.3 | 43.5 |
| Cash Flows from Operating Activities | 42,040 | 84,320 | 32,134 | 60,529 |
| Cash Flows from Investing Activities | -25,534 | -16,799 | 11,538 | -23,137 |
| Cash Flows from Financing Activities | -24,745 | -47,462 | -58,419 | -30,151 |
| Cash and Cash Equivalents at End of Year/Period | 80,253 | 110,163 | 100,807 | 104,926 |

Notes:

1. “-” denotes loss, decrease, etc. or negative value.
2. Price/Earnings Ratio for the 113th Business Term is not stated as a net loss was recorded for the period due mainly to an impairment loss on goodwill related to the subsidiary acquired.

3. Effective the 114th Business Term, the Company has applied “Employee Benefits” (International Accounting Standard No. 19, amended June 16, 2011), to certain consolidated subsidiaries. This has resulted in a change in recognition of changes in the Company’s net defined benefit liabilities. The change in accounting policy has been applied retroactively and is reflected in the consolidated financial statements for the 113th Business Term.
4. Summary of Non-Consolidated Income and Assets

(Millions of yen)

| | 113th Business Term (4/1/2012 - 3/31/2013) | 114th Business Term (4/1/2013 - 3/31/2014) | 115th Business Term (4/1/2014 - 3/31/2015) | 116th Business Term (Current term) (4/1/2015 - 12/31/2015) |
|------------------|---|---|---|--|
| Net Sales | 220,404 | 219,219 | 241,099 | 165,148 |
| Operating Income | 3,280 | 6,051 | 19,074 | 9,515 |
| Ordinary Income | 27,080 | 23,663 | 39,933 | 35,243 |
| Net Income | 20,119 | 15,482 | 30,498 | 32,811 |
| Total Assets | 589,928 | 603,317 | 601,186 | 580,380 |
| Net Assets | 322,963 | 326,061 | 346,843 | 369,128 |

(5) Capital Policy

1) Fundamental Approach to Capital Policy

The Company endeavors to maintain its shareholders’ equity at a certain level in order to invest promptly and decisively when considered necessary in order to ensure sustainable growth. In addition, the Company regards free cash flow and the cash conversion cycle as important, and practices management focused on ensuring capital efficiency by improving its management of cash flows and its balance sheet.

The Company aims to maintain a financial standing that enables it to obtain financing on favorable terms by targeting a benchmark interest-bearing debt ratio of 25%. For large-scale investments that require financing, the Company will consider factors including business trends, financial condition and market environment to make timely use of the optimum financing method.

Our total shareholder return policy emphasizes maximizing returns to shareholders through direct means in addition to generating medium- and long-term share price gains. To this end, our fundamental policy is to deploy growth-oriented strategic investments to drive increases in earnings and improvements in capital efficiency. Our medium-term profit return objective is to achieve a consolidated dividend payout ratio of 40%. To this end, we will maintain dividend payments in a stable and consistent manner. With respect to share buybacks, we will act appropriately while considering free cash flow levels and the market environment.

2) Income Distribution

(Millions of yen, unless otherwise noted)

| | 113th Business Term (4/1/2012 - 3/31/2013) | 114th Business Term (4/1/2013 - 3/31/2014) | 115th Business Term (4/1/2014 - 3/31/2015) | 116th Business Term (Current term) (4/1/2015 - 12/31/2015) |
|---------------------------------------|---|---|---|--|
| Annual cash dividends per share (Yen) | 50 | 20 | 20 | 20 (P) |
| Annual dividends | 19,900 | 7,968 | 7,975 | 7,981 (P) |
| Consolidated payout ratio (%) | — | 30.5 | 23.7 | 34.4 (P) |

Notes:

1. Annual cash dividends per share and annual dividends for the 116th Business Term (current term) are predicated on the approval of the First Item of Business, Dividends of Retained Earnings, at the ordinary general meeting of shareholders to be held on March 25, 2016.
2. The consolidated payout ratio for the 113th Business Term has not been calculated because a net loss was posted for the same business term.

(6) Issues to Address

1) Corporate Philosophy and Medium-to-Long-Term Strategy VISION 2020

Our Mission, Values and Way (Corporate Philosophy)

Our Mission, Values and Way (MVW) is the Shiseido Group corporate philosophy that every employee of the Shiseido Group shares regardless of their nationality and what affiliate or brand they represent. “Our Mission” defines the Company’s underlying calling, which is “to inspire a life of beauty and culture.” “Our Values” defines the values that must be held and shared by each and every employee of the Shiseido Group aiming to realize Our Mission. And, “Our Way” defines the actions that must be taken and shared by each and every employee of the Shiseido Group aiming to realize “Our Mission.” Guided by this corporate philosophy, we will inspire to a life of beauty and culture with all consumers in this ever-changing world, and realize a sustainable society in which people find happiness through beauty. In these ways, we will deliver sustained improvements in corporate value.

■ Corporate Philosophy of the Shiseido Group



Medium-to-Long-Term Strategy “VISION 2020”

Underpinned by the Group’s corporate mission of helping people live beautifully, in fiscal 2015 Shiseido put in place a medium-and-long-term strategy, VISION 2020, positioning fiscal 2020 as a milestone and with a view to building a foundation that will enable the Company to remain shining for the next 100 years. VISION 2020 sets forth aims to achieve by fiscal 2020: to be “a company filled with energy for growth,” “a company overflowing with youthful spirit,” “a company that is a topic of conversation around the world,” “a company inspiring to, and admired by, younger generations” and “a company driven forth by diverse cultures.” By firmly positioning ourselves as a Japanese company that leads the world’s beauty industry, we are undertaking all our activities from a consumer perspective, enhancing marketing and innovation, and working to employ the diverse human resources and build the global organization to support these efforts.

■ Focus Policies for Enhancing Brand Value



In quantitative terms, we have set consolidated operating income of ¥100 billion or more and an ROE of 12% or higher as our targets for fiscal 2020. To achieve these targets, we will strive for consolidated net sales above ¥1 trillion.

Specifically, our strategy will entail dividing the time until fiscal 2020 into the three-year period covering fiscal 2015 to fiscal 2017 and the three-year period covering fiscal 2018 to fiscal 2020. The first three years will be dedicated to reconstructing our business foundation, and the latter three years to pursuing new strategies aimed at expediting growth. We will implement initiatives in accordance with the road map below.

■ Roadmap toward fiscal 2020



2) Three-year Period from Fiscal 2015 through Fiscal 2017

We have positioned the three years from fiscal 2015 through fiscal 2017 as a period for reconstructing our business foundation. During this period, we will focus on promoting the selection and concentration of brands, expanding investments in marketing as well as R&D with a view to strengthening brands. We will focus on restoring growth in Japan and rebuilding business in China, as well as boosting productivity in Europe and the United States. We will also increase investments in the growth travel retail, digital and e-commerce businesses. As a result, by fiscal 2017 we aim to achieve ¥900 billion or more in consolidated net sales, ¥50–¥60 billion in operating income and an ROE of 9–10%.

Proactive marketing investment

Representing the Company’s name, we will concentrate on reinforcing the flagship brand SHISEIDO as a part of efforts to build a strong brand portfolio focusing on the prestige category. At the same time, we will adhere strictly to a brand selection and concentration approach and reinforce investments in marketing a cumulative total of more than ¥100 billion over the three-year period to fiscal 2017 while nurturing a large number of strong brands. Through these initiatives, we will endeavor to secure a sales composition under which 15 mainstay brands account for 90% of sales in fiscal 2020 in Japan. In addition, we will carefully select brands that continue to meet designated sales and earnings criteria and also consider upgrading and expanding brands through M&As as well as alliances when deemed necessary as a part of efforts to enhance the brand portfolio.

As is the case with skincare in Japan, makeup and digital in the Americas as well as fragrance in EMEA, we will take the lead in gathering information, putting forward strategies, developing products and promoting other measures in those advanced areas that have the greatest global impact in each category. Guided by a center of excellence concept, we will make the most of these measures as we pursue global marketing and develop strong brands that excel on the world stage. In the growth digital and e-commerce markets, in particular, we will establish a base in New York and promote timely as well as interactive communication to hasten new encounters with consumers worldwide including the younger generation.

Strengthen the innovation function

With respect to R&D, we will leverage our advanced basic technologies to promote innovative product development while pursuing coordination and integration with our marketing team. While R&D expenses as a ratio to consolidated net sales was 1.8% in fiscal 2014, we will increase this ratio to 2.5% in fiscal 2020. Plans are also in place to increase the number of worldwide research personnel to 1,500 from the current level of around 1,000.

We will also promote localization in the R&D field. To this end, we will expand the scale of our research facilities—in Japan, China, Southeast Asia, EMEA and the Americas—while building a system for conducting R&D in various regions based on consumer insights. In these ways, we will improve our ability to develop products reflecting local needs and strengthen links with local marketing activities.

Meanwhile, we will continue positioning Japan as the origin for basic and foundational research, which supports future growth, and we will rigorously reinforce our capabilities in this field. We have decided to establish a Global Innovation Center (tentative name) as a new research hub in the Yokohama Minato Mirai 21 District. (Operations are scheduled to commence at the end of fiscal 2018.) By attracting highly diverse R&D personnel and bringing together intelligence from around the world, we will expedite the creation of innovation.

In the area of basic and foundational research, we will strengthen our capabilities in each of the six life science research, material science research, consumer research, beauty equipment, hair regenerative medicine and ICT technology fields. At the same time, we will work diligently to create new value.



Global Innovation Center (tentative name)

Global supply chain strategy

Shiseido is looking to build production bases that exhibit unique attributes and further sharpen production capabilities, while putting in place a global perspective supply chain strategy. Specifically, we will introduce demand forecasting, supply planning and other systems globally as we strive to integrate our supply chain to match market fluctuations. To back up this system, we will construct a new Osaka factory in the city of Ibaraki, Osaka Prefecture, aiming to commence

operations in fiscal 2020, and will transfer production functions from our current Osaka factory to the new facility. The new factory will have 1.5 times the current plant's capacity and serve as a mother plant for the production of skincare cosmetics. Within the same site, we will also construct the Kansai Integration Center (tentative name). This new flagship distribution facility will consolidate logistics functions for Japan and overseas and handle product storage and shipment. In establishing and operating these new facilities, we will work to reduce environmental impact, consider and pursue harmony with the surrounding environment, and strive to achieve symbiosis with local communities.

Based on these initiatives and the center of excellence concept, we will draw on skincare cosmetics developed and produced in Japan as products "made in Japan" which are prestigious and renowned for high quality and look to actively expand demand for the products not only in the domestic market, but also globally in such countries and regions as China and Asia.

Put in place personnel systems that befit a global company

In order to realize the medium- and long-term strategy, VISION 2020, we will overhaul all personnel activities. From fiscal 2016, our energies will reinforce efforts aimed at developing individual employee skills. As a part of these efforts, we will endeavor to provide opportunities that allow employees to excel and shine worldwide. As one measure, we will accelerate the pace of global personnel transfers and placements. Through the experiences gained, these initiatives can be expected to help both employees and the Company to grow. As we move forward, we will work diligently to nurture employees who radiate an increased brilliance. At the same time, we will step up investments in training. In specific terms, we will provide external opportunities such as leaders' programs aimed at honing skills as well as the support needed to acquire academic qualifications such as MBAs.

Working to continuously exceed consumers' expectations, we will unleash the latent potential of each individual and focus on nurturing a team that is capable of rising over its own limitation and surpassing rivals.

Build a growth foundation; restructure to generate investment resources

Going forward, we will continue to advance structural reforms that began in fiscal 2014 across all global regions. By fiscal 2017, we will come up with a three-year cumulative total of approximately ¥60 billion to cover the cost of this initiative (the total of basic costs, marketing costs, inventory and supply chain management costs, back office costs and personnel costs/productivity).

The resources derived from these structural reforms will be allocated to various areas including such marketing investments as sales counters at frontline stores as well as product samples, sales promotions and other direct consumer interface initiatives together with R&D and other investments aimed at expediting revenue growth.

3) Fiscal 2016 Plan

In fiscal 2016, the second year of the three-year plan, we will concentrate on the matters below as we take a further step forward in continuing structural reforms and proactive investments. As a result, we will thoroughly reconstruct our business foundation and seek to achieve definitive growth over the medium to long term.

In Japan, we will strive to achieve sustainable growth by increasing our market share. To reinforce our brand strength, we will continue to adopt a selection and concentration approach with respect to our brands. Through these efforts, we will work closely with business partners and pursue trade marketing with a view to enhancing our power of implementation at the storefronts. To capture inbound demand, we will continue to enhance in-store support for foreign visitors to Japan and promote close contact with them by providing information both before and after they

visit. We will address issues in inexpensive cosmetics brands and the Personal Care business division through full-fledged marketing enhancement and brand renewal efforts.

Overseas, we will promote regionally tailored marketing directed by regional headquarters, with a view to expanding growth and achieving higher profitability through structural reform. Furthermore, as our regional headquarters commence full-scale operation, we will augment their organizations and marketing efforts, introduce shared services among indirect departments, and work to reduce costs by consolidating functions as much as possible at companies within each region. In China, we are laying the foundations to rebuild our operations and return to growth through collective headquarters and local company efforts. In mid-priced brands, where sales growth has been sluggish, we will make up-front investments and strengthen our marketing investment. At the same time, we will seek to reinvigorate local brands through these renewal efforts. At Bare Escentuals, Inc., where sales of the *bareMinerals* brand is struggling, we will embark on a dramatic review of all factors, including marketing, channels, organizations and operational costs, in our efforts to reinforce the brand.

4) Address Social Issues and Expectations

In order for Shiseido to remain shining for the next 100 years, it is critical that the communities in which consumers reside as well as the global environment also remain vibrant. In addition to actively resolving a host of issues confronted by society and the environment, we are incorporating social and environmental concerns into every facet of our business activities. In this manner, we are ensuring that our activities continue to evolve and that we are better placed to address consumer needs.

“Environmental responses covering the entire product life cycle” represent a core pillar of our environmental activities. From an environmental perspective, we therefore remain committed to actively developing and adopting refillable products. Moreover, we continue to push forward worldwide initiatives aimed at cutting carbon dioxide emissions. Among various initiatives, we undertook the switch of all palm oil and palm kernel oil used by the Shiseido Group with palm oil certified by the “Roundtable on Sustainable Palm Oil (RSPO)”. We also work diligently to protect biodiversity.

From a social perspective, Shiseido established a safety assurance system based on alternatives to animal experiments and discontinued the use of animal experiments in its cosmetic and quasi-drug development products launched after March 2013 as an animal protection measure. We have also been aggressively and vigorously lobbying relevant public authorities in foreign countries and regions to codify alternatives to animal experiments as validated methods of experiment. Meanwhile, the Company holds a fundamental technology patent in Japan over the Human Cell Line Activation Test (h-CLAT) method, developed as an alternative technique that does not rely on experiments using animals in collaboration with Kao Corporation. Since entering the final phase of consideration for inclusion in the guideline development on safety tests issued by the Organization for Economic Co-operation and Development (OECD), we have continued to offer free of charge our proprietary core technology associated with h-CLAT for use as a skin sensitization test to encourage its application by outside institutions.

Over the years, we have endeavored to cultivate and communicate a strong corporate culture while also supporting the arts. Through these endeavors, we are helping to promote a spiritually rich and affluent society and to reflect the new values that artistic culture provides in our own value creation efforts. Moreover, we encourage active and beautiful lifestyles for people around the world by helping to advance a feeling of excitement and partnership globally.

As a signatory to the Women’s Empowerment Principles (WEPs), a set of international guidelines, Shiseido regards playing a leading role in elevating the social status of women and supporting their advancement as an important part of its mission. As one example, we engage in research support activities targeting women specializing in the natural science field. Our goal is to help nurture female researchers, who will take leading roles in shaping the next generation. Aspiring to help people live beautiful lives, we have continued to assist a great many women in realizing their quest for beauty. Looking ahead, we will work hand-in-hand with women as they search for a beautiful lifestyle as a life-long partner.

1.2 Outline of the Shiseido Group (As of December 31, 2015)

(1) Principal Businesses of the Shiseido Group

| Segment | Main Business |
|-----------------|---|
| Japan Business | Domestic cosmetics division (production and sale of cosmetics, cosmetic accessories, and toiletries, etc.) Healthcare division (production and sale of health & beauty foods and over-the-counter drugs), etc. |
| Global Business | Overseas cosmetics division (production and sale of cosmetics, cosmetic accessories, and toiletries) Overseas and domestic professional division (production and sale of beauty salon products), etc. |
| Others | Certain cosmetics sales subsidiaries Frontier science business (production and sale of cosmetics raw materials, medical-use drugs, medical cosmetics, precision and analytical equipment, etc.) Restaurant business, etc. |

(2) Major Business Hubs

Registered Head Office: 5-5, Ginza 7-chome, Chuo-ku, Tokyo
 Principal Business Office (Shiodome Office): 6-2, Higashi-Shimbashi 1-chome, Minato-ku, Tokyo
 Factories

| Name | Location |
|---|---|
| Kakegawa Factory | Kakegawa-shi, Shizuoka Pref. |
| Osaka Factory | Higashi-Yodogawa-ku, Osaka-shi, Osaka Pref. |
| Kuki Factory | Kuki-shi, Saitama Pref. |
| Shiseido Vietnam Inc. | Bien Hoa, Dong Nai Province, Vietnam |
| Shanghai Zotos Citic Cosmetics Co., Ltd. | Shanghai, China |
| Shiseido Liyuan Cosmetics Co., Ltd. | Beijing, China |
| Shanghai Huani Transparent Beauty Soap Co., Ltd. | Shanghai, China |
| Taiwan Shiseido Co., Ltd. Chung-Li Factory | Jhongli City, Taoyuan Country, Taiwan |
| Shiseido America Inc. East Windsor Factory | East Windsor, New Jersey, U.S.A. |
| Davlyn Industries, Inc. | Monroe Township, New Jersey, U.S.A. |
| Zotos International, Inc. Geneva Factory | Geneva, New York, U.S.A. |
| Shiseido International France S.A.S. Unité du Val de Loire | Ormes, Orléans, Loiret, France |
| Shiseido International France S.A.S. Unité de Gien | Gien, Loiret, France |

Laboratories

| Name | Location |
|--|--|
| Research Center (Shin-Yokohama) | Tsuzuki-ku, Yokohama-shi, Kanagawa Pref. |
| Beauty Creation Research Center | Minato-ku, Tokyo |
| Shiseido Cell-Processing & Expansion Center | Kobe-shi, Hyogo Pref. |
| Shiseido China Research Center | Beijing, China |
| Shiseido China Research Center Shanghai Office | Shanghai, China |
| Shiseido Southeast Asia Research Center | Bangkok, Thailand |
| Shiseido Europe Research Center | Boulogne-Billancourt, Hauts-de-Seine, France |
| Shiseido International France S.A.S. R&D | Ormes, Orléans, Loiret, France |
| Shiseido America Research Center | East Windsor, New Jersey, U.S.A. |
| Zotos International, Inc. R&D | Darien, Connecticut, U.S.A. |

(3) Major Subsidiaries and Affiliated Companies of the Shiseido Group

| Company Name | Location | Paid-in Capital | Ownership Percentage of Voting Rights | Principal Business |
|--------------------------------------|---------------------|---------------------------|---------------------------------------|---|
| Shiseido Japan Co., Ltd. | Chuo-ku, Tokyo | (million JPY) 100 | % 100.0 | Sale of cosmetics, etc. |
| Shiseido FITIT Co., Ltd. | Chuo-ku, Tokyo | (million JPY) 10 | 100.0 | Sale of cosmetics, etc. |
| Shiseido International Inc. | Chuo-ku, Tokyo | (million JPY) 30 | 100.0 | Sale of cosmetics, etc. |
| The Ginza Co., Ltd. | Chuo-ku, Tokyo | (million JPY) 100 | 98.2 | Sale of cosmetics, etc. |
| Shiseido Pharmaceutical Co., Ltd. | Chuo-ku, Tokyo | (million JPY) 100 | 100.0 | Sale of over-the-counter drugs, etc. |
| FT Shiseido Co., Ltd. | Chuo-ku, Tokyo | (million JPY) 100 | 100.0 | Sale of toiletries |
| Shiseido Professional Co., Ltd. | Chuo-ku, Tokyo | (million JPY) 250 | 100.0 | Sale of beauty salon products, etc. |
| Shiseido Beauty Salon Co., Ltd. | Chuo-ku, Tokyo | (million JPY) 100 | 100.0 | Operation of beauty salons |
| Shiseido Americas Corporation | Delaware, U.S.A. | (thousand USD) 403,070 | 100.0 | Holding company and sale of cosmetics, etc. in U.S.A. |
| Shiseido America, Inc. | New York, U.S.A. | (thousand USD) 28,000 | — (100.0) | Production of cosmetics, etc. |
| Bare Escentuals, Inc. | Delaware, U.S.A. | (USD) 0.01 | — (100.0) | Holding company of Bare Escentuals Group |
| Bare Escentuals Beauty, Inc. | Delaware, U.S.A. | (USD) 1.00 | — (100.0) | Sales of cosmetics, etc. |
| Zotos International, Inc. | Connecticut, U.S.A. | (thousand USD) 25,000 | — (100.0) | Holding company of Zotos Group and production and sale of beauty salon products, etc. |
| Shiseido International Europe S.A. | Paris, France | (thousand EUR) 257,032 | 100.0 | Holding company in Europe |
| Shiseido International France S.A.S. | Paris, France | (thousand EUR) 36,295 | — (100.0) | Production of cosmetics, etc. |

| Company Name | Location | Paid-in Capital | Ownership Percentage of Voting Rights | Principal Business |
|---|----------------------------|-------------------------------------|---------------------------------------|--|
| Shiseido Deutschland GmbH | Dusseldorf, Germany | (thousand EUR) 5,200 | % — (100.0) | Sale of cosmetics, etc. |
| Shiseido Cosmetici (Italia) S.p.A. | Milan, Italy | (thousand EUR) 2,400 | — (100.0) | Sale of cosmetics, etc. |
| Shiseido Europe, S.A.S. | Paris, France | (thousand EUR) 9,000 | — (100.0) | Sale of cosmetics, etc. |
| Shiseido (RUS), LLC. | Moscow, Russia | (thousand Russian ruble) 106,200 | — (100.0) | Sale of cosmetics, etc. |
| Beauté Prestige International S.A. | Paris, France | (thousand EUR) 17,760 | — (100.0) | Holding company of Beauté Prestige International Group and sale of designer fragrances, etc. |
| Shiseido China Co., Ltd. | Shanghai, China | (thousand RMB) 565,093 | 100.0 | Holding company and sale of cosmetics, etc. in China |
| Shanghai Zotos Citic Cosmetics Co., Ltd. | Shanghai, China | (thousand RMB) 418,271 | 26.3 (92.6) | Production of cosmetics, etc. |
| Shiseido Liyuan Cosmetics Co., Ltd. | Beijing, China | (thousand RMB) 94,300 | 32.0 (65.0) | Production and sale of cosmetics, etc. |
| Shiseido Hong Kong Cosmetics Ltd. | Hong Kong, China | (thousand HKD) 123,000 | 100.0 | Sale of cosmetics, etc. |
| Shiseido Asia Pacific Pte. Ltd. | Singapore | (thousand SGD) 3,625 | 100.0 | Marketing of cosmetics and professional products and support for operating activities in Asia Pacific region |
| Taiwan Shiseido Co., Ltd. | Taipei, Taiwan | (thousand TWD) 1,154,588 | 51.0 | Holding company and production and sale of cosmetics, etc. in Taiwan |
| Shiseido Vietnam Inc. | Dong Nai Province, Vietnam | (million VND) 1,061,993 | 100.0 | Production of cosmetics, etc. |
| Shiseido Travel Retail Asia Pacific Pte. Ltd. | Singapore | (thousand USD) 48 | — (100.0) | Sale of cosmetics, etc. |
| Shiseido Parlour Co., Ltd. | Chuo-ku, Tokyo | (million JPY) 100 | 99.3 | Operation of restaurants, etc. |
| Selan Anonymous Association | Chiyoda-ku, Tokyo | (million JPY) 11,600 | — [100.0] | Management of real estate, etc. |

Notes:

1. Figures in parentheses () in the Ownership Percentage of Voting Rights column include the share of indirect ownership. Those in brackets [] indicate share of related or approved parties.
2. Shiseido Sales Co., Ltd., which engaged in sale of cosmetics, etc. changed its trade name effective October 1, 2015, to Shiseido Japan Co., Ltd. and effective the same date, Shiseido Japan succeeded part of the Company's cosmetics business in Japan by company split.

(4) Matters Concerning Employees of the Group

| Business Category | Number of Employees | | Comparison with the Corresponding Period of the Previous Fiscal Year | |
|-------------------|---------------------|----------|--|--------|
| Japan Business | 12,021 | [7,404] | -350 | [-119] |
| Global Business | 20,948 | [4,588] | +405 | [-420] |
| Others | 814 | [423] | +48 | [+6] |
| Total | 33,783 | [12,415] | +103 | [-533] |

Notes:

1. “-”denotes decrease.
2. The numbers of employees shown are full-time employees. Annual average numbers of temporary employees are shown in []. Temporary employees include part-time workers, and dispatched employees are excluded.
3. The numbers of employees shown above for both the fiscal period ended December 31, 2015 and the corresponding period of the previous fiscal year reflect partial revision of the segment classification method and revision of the treatment of employees on leave.
4. The ratio of female employees in the Shiseido Group worldwide is 84.5%, while in Japan the ratio is 83.1%.

(5) Main Supplies of Loans to the Group

| Lender | Outstanding Balance |
|-------------------|---------------------|
| Mizuho Bank, Ltd. | 27,768 million JPY |
| | 9,500 million KRW |
| | 2,160 thousand SGD |

2. Matters Concerning Shares Issued by the Company (As of December 31, 2015)

(1) Total Number of Shares Authorized to Be Issued:

1,200,000,000 shares

(2) Number of Shares Issued and Outstanding:

400,000,000 shares (including 899,741 shares of treasury stock)

(3) Number of Shareholders:

53,202

(4) Principal Shareholders:

| Shareholders | Investment in the Company | |
|---|---------------------------|----------------------------|
| | Number of Shares Held | Percentage of Shareholding |
| | (thousand shares) | % |
| The Master Trust Bank of Japan, Ltd. (Trust Account) | 30,470 | 7.63<7.61> |
| JP MORGAN CHASE BANK 380055 | 27,325 | 6.84<6.83> |
| Mizuho Bank, Ltd. | 21,226 | 5.31<5.30> |
| Japan Trustee Services Bank, Ltd. (Trust Account) | 16,501 | 4.13<4.12> |
| Association of Shiseido Employees' Investment in the Company's shares | 7,762 | 1.94<1.94> |
| THE BANK OF NEW YORK MELLON SA/NV 10 | 6,012 | 1.50<1.50> |
| BNYM TREATY DTT 15 | 5,998 | 1.50<1.49> |
| Sompo Japan Nipponkoa Insurance Inc. | 5,934 | 1.48<1.48> |
| Nippon Life Insurance Company | 5,615 | 1.40<1.40> |
| Mitsui Sumitomo Insurance Company, Limited | 5,600 | 1.40<1.40> |

Notes:

- Calculations of percentage of shareholding, including below Notes are based on the total number of issued and outstanding shares excluding treasury stock. Calculations of percentage of shareholding indicated in < > are based on the total number issued and outstanding shares including treasury stock.
- All shares held by The Master Trust Bank of Japan, Ltd. (Trust Account) and Japan Trustee Services Bank, Ltd. (Trust Account) are in connection with the respective bank's trust business.
- The number of shares held by Mizuho Bank, Ltd., 21,226 thousand shares, include their holding of 11,226 thousand shares in its own name and holding by its employee pension trust of 10,000 thousand shares (6,000 thousand shares with voting rights and 4,000 thousand shares without voting rights) under a registered name, Mizuho Trust & Banking Co., Ltd. re-trusted to Trust & Custody Services Bank, Ltd. Employees Pension Trust for Mizuho Bank. A report of amendment to large shareholdings from Mizuho Bank, Ltd. that on May 22, 2014, it held 32,157 thousand shares through joint holdings (Percentage of shareholding: 8.05%), of which 23,526 thousand shares (5.89%,) are held by Mizuho Bank, Ltd. has been filed with the Director-General of the Kanto Finance Bureau and the Company has received its copy.
- A report of amendment to large shareholdings from Mitsubishi UFJ Financial Group, Inc., that on February 2, 2015, it held 30,281 thousand shares through joint holdings (Percentage of shareholding: 7.58%), of which 23,775 thousand shares (5.95%) are held by the Mitsubishi UFJ Trust and Banking Corporation, has been filed with the Director-General of the Kanto Finance Bureau and the Company has received its copy. However, the Mitsubishi UFJ Financial Group has been excluded from the above principal shareholders, as the actual number of shares held by the said company has not been confirmed by the Company as of the end of the fiscal period.
- A report of amendment from the Sumitomo Mitsui Trust Bank, Ltd., that on December 21, 2015, it held 22,382 thousand shares through joint holdings (Percentage of shareholding: 5.60%), of which 16,152 thousand shares (4.04%) are held by the Sumitomo Mitsui Trust Bank, Ltd., has been filed with the Director-General of the Kanto Finance Bureau. However, the Sumitomo Mitsui Trust Bank, Ltd. has been excluded from the above principal shareholders, as the actual number of shares held by the said company has not been confirmed by the Company as of the end of the fiscal period.
- A report of amendment to large shareholdings from Capital Research and Management Company, that on December 22, 2015, it held 28,672 thousand shares (Percentage of shareholdings: 7.18%), has been filed with the Director-General of the Kanto Finance Bureau. However, Capital Research and Management Company has been

excluded from the above principal shareholders, as the actual number of shares held by the said company has not been confirmed by the Company as of the end of the fiscal period.

A report of amendment to large shareholdings from Capital Research and Management Company, that on February 22, 2016, it held 9,482 thousand shares (Percentage of shareholdings: 2.37%), was filed with the Director-General of the Kanto Finance Bureau.

3. Matters Concerning Shares Held by the Company (As of December 31, 2015)

(1) The Company's Policy with Regard to Strategic Stockholdings:

The Company conducts strategic stockholdings of its shares in accordance with the policy below, and keeps such stockholdings at the minimum level necessary.

1. In line with good corporate governance, the Company avoids being an inert stockholder in its strategic stockholdings.
2. The Company takes dividends and other returns into consideration and holds stocks only if they offer business benefits such as facilitating operations.
3. The Company regularly reviews its stockholdings, primarily from the perspective of business benefits and other advantages, and mainly curtails its holdings of stocks that have become less necessary.

(2) The Company's Criteria for Exercising Voting Rights with Regard to Strategic Stockholdings:

When exercising its voting rights with regard to shares of strategic stockholdings, the Company confirms whether the proposed item of business would lead to impairment of shareholder value. It then considers the situation of an investee company and other factors to determine its approval or disapproval before exercising its voting rights.

If the Company wishes to confirm the intent of an item of business, etc., it will discuss the matter with the investee company if necessary.

(3) Number of Stockholdings the Company Holds for Purposes Other Than Realizing Direct Investment Gains and Total Amount on the Balance Sheet:

| Number of Companies | Amount on Balance Sheet |
|---------------------|-------------------------|
| 90 | (million yen) 21,466 |

(4) The 10 Largest Stockholdings of Publicly Listed Companies in the Amount on the Balance Sheet, Which the Company Holds for Purposes Other Than Realizing Direct Investment Gains (Including Publicly Listed Companies of Which Amounts Reported on the Balance Sheet Exceed One Percent of Capital):

| Company | Number of Shares | Amount on Balance Sheet | Main Transaction | Purpose for Holding Shares |
|--------------------------------------|-----------------------------|-------------------------|--|----------------------------------|
| Mizuho Financial Group, Inc. | (thousand shares) 16,625 | (million yen) 4,048 | Financial transactions with the subsidiaries of the issuer | |
| ONO PHARMACEUTICAL CO., LTD. | 117 | 2,537 | Product sales | |
| Mitsubishi UFJ Financial Group, Inc. | 2,496 | 1,890 | Financial transactions with the subsidiaries of the issuer | |
| TOPPAN PRINTING CO., LTD. | 1,628 | 1,822 | Purchase of product packaging and sales promotion materials | |
| Tokio Marine Holdings, Inc. | 300 | 1,413 | Insurance transactions with the subsidiaries of the issuer | To further facilitate operations |
| Paltac Corporation | 600 | 1,296 | Product sales | |
| Dai Nippon Printing Co., Ltd. | 871 | 1,050 | Purchase of product packaging and sales promotion materials | |
| Sompo Japan Nipponkoa Holdings, Inc. | 221 | 887 | Insurance transactions with the subsidiaries of the issuer | |
| MS&AD Insurance Group Holdings, Inc. | 239 | 854 | Insurance transactions with the subsidiaries of the issuer | |
| Sumitomo Mitsui Trust Holdings, Inc. | 1,432 | 660 | Outsourcing administration business of share register and financial transactions with the subsidiaries of the issuer | |

Notes:

1. The Company does not hold shares for the purpose of realizing direct investment gains.
2. In terms of all the companies listed above, the amounts reported on the balance sheet exceed one percent of the amount of capital of the Company.

4. Matters Concerning Stock Acquisition Rights (As of December 31, 2015)

The Company issues stock acquisition rights for directors and corporate officers, etc. These are stock options for directors and corporate officers, etc., which is offered as a long-term incentive.

Total number of shares that are the object of all stock acquisition rights issued as of December 31, 2015 and the percentage thereof to the total number of shares issued and outstanding as of the same date, excluding treasury stock are as follows:

| Total Number of Shares That Are the Object of Stock Acquisition Rights | Percentage of Total Number of Shares Issued and Outstanding (Excluding Treasury Stock) |
|--|--|
| Shares 782,900 | % 0.19 |

These stock acquisition rights were granted as stock options in order to link remuneration of the directors and corporate officers of the Company with an increase in its shareholder value on a long-term basis, while placing emphasis on their sharing interests with its shareholders. These stock options are categorized into two. One is the performance-linked compensation as remuneration to directors and corporate officers since fiscal 2008 and whose amount payable for exercise is set at ¥1, and the other is the performance-linked stock option as remuneration to directors and corporate officers having offices by fiscal 2007 and whose amount payable for exercise is set based on the market fair value of the share of the Company at that time.

The Company revised the directors, audit & supervisory board members and corporate officers remuneration policy in fiscal 2015, and implemented the revised procedure to increase or decrease the number of the stock compensation-type stock options as long-term incentive-type remuneration to be allotted by using the evaluation indicators for annual bonuses after obtaining an approval for the maximum number to be allotted at the general meeting of shareholders and the business performance for the business year relevant to the remuneration is fixed. As the number of stock options to be allotted as compensation for fiscal 2015 has not been fixed, it is not included in the table below.

No stock acquisition rights are allotted to external directors and audit & supervisory board members.

■ Stock Acquisition Rights Issued during in the Past Fiscal Years

| | Issue Date of Stock Acquisition Rights | Grantees of Stock Acquisition Rights | Amount Paid for Stock Acquisition Rights | Amount Contributed upon Exercise of Stock Acquisition Rights | Exercise Period of Stock Acquisition Rights | As of December 31, 2015 | |
|--|--|---|--|--|---|--|---|
| | | | | | | Holding Condition and Number of the Stock Acquisition Rights | Class and Number of Shares to Be Issued Upon Exercise of Stock Acquisition Rights |
| Stock Acquisition Rights Issued in Consideration of Duty | August 23, 2006 | Directors and corporate officers of the Company 23 persons | Gratis issue | 2,300 yen per share | From August 1, 2008 to July 30, 2016 | Others 15 persons 64 rights | Common stock of the Company 64,000 shares |
| | August 23, 2007 | Directors and corporate officers of the Company 21 persons | Gratis issue | 2,615 yen per share | From August 1, 2009 to July 30, 2017 | Others 20 persons 146 rights | Common stock of the Company 146,000 shares |
| | August 21, 2008 | Directors and corporate officers of the Company 19 persons | 2,381 yen | 1 yen per share | From August 1, 2011 to July 30, 2018 | Director of the Company 1 person 3 rights Others 3 persons 9 rights | Common stock of the Company 3,000 shares 9,000 shares |

| | Issue Date of Stock Acquisition Rights | Grantees of Stock Acquisition Rights | Amount Paid for Stock Acquisition Rights | Amount Contributed upon Exercise of Stock Acquisition Rights | Exercise Period of Stock Acquisition Rights | As of December 31, 2015 | |
|--|--|---|--|--|---|--|---|
| | | | | | | Holding Condition and Number of the Stock Acquisition Rights | Class and Number of Shares to Be Issued Upon Exercise of Stock Acquisition Rights |
| Stock Acquisition Rights Issued in Consideration of Duty | August 28, 2009 | Directors and corporate officers of the Company 19 persons | 1,468 yen | 1 yen per share | From August 1, 2012 to July 31, 2019 | Director of the Company 1 person 47 rights | Common stock of the Company 4,700 shares |
| | | | | | | Others 7 persons 357 rights | 35,700 shares |
| | August 30, 2010 | Directors and corporate officers of the Company 18 persons | 1,757 yen | 1 yen per share | From August 1, 2013 to July 31, 2020 | Directors of the Company 2 persons 78 rights | Common stock of the Company 7,800 shares |
| | | | | | | Corporate officer who do not serve as director 1 person 39 rights | 3,900 shares |
| | | | | | | Others 6 persons 249 rights | 24,900 shares |
| | August 30, 2011 | Directors and corporate officers of the Company 17 persons | 1,294 yen | 1 yen per share | From August 1, 2014 to July 31, 2026 | Directors of the Company 2 persons 106 rights | Common stock of the Company 10,600 shares |
| | | | | | | Audit & supervisory board member of the Company 1 person 53 rights | 5,300 shares |
| | | | | | | Corporate officer who do not serve as director 1 person 53 rights | 5,300 shares |
| | | | | | | Others 8 persons 657 rights | 65,700 shares |
| | August 30, 2012 | Directors and corporate officers of the Company 19 persons | 1,001 yen | 1 yen per share | From August 1, 2015 to July 31, 2027 | Directors of the Company 2 persons 136 rights | Common stock of the Company 13,600 shares |
| | | | | | | Audit & supervisory board member of the Company 1 person 68 rights | 6,800 shares |
| | | | | | | Corporate officers who do not serve as director 4 persons 272 rights | 27,200 shares |
| | | | | | | Others 10 persons 1,315 rights | 131,500 shares |

| | Issue Date of Stock Acquisition Rights | Grantees of Stock Acquisition Rights | Amount Paid for Stock Acquisition Rights | Amount Contributed upon Exercise of Stock Acquisition Rights | Exercise Period of Stock Acquisition Rights | As of December 31, 2015 | |
|--|--|--|--|--|---|--|---|
| | | | | | | Holding Condition and Number of the Stock Acquisition Rights | Class and Number of Shares to Be Issued Upon Exercise of Stock Acquisition Rights |
| Stock Acquisition Rights Issued in Consideration of Duty | August 29, 2013 | Directors and corporate officers of the Company 16 persons | 1,434 yen | 1 yen per share | From August 1, 2016 to July 31, 2028 | Directors of the Company 2 persons 91 rights | Common stock of the Company 9,100 shares |
| | | | | | | Audit & supervisory board member of the Company 1 person 38 rights | 3,800 shares |
| | | | | | | Corporate officers who do not serve as director 5 persons 190 rights | 19,000 shares |
| | | | | | | Others 8 persons 517 rights | 51,700 shares |
| | August 28, 2014 | Directors, corporate officers, etc. of the Company 18 persons | 1,898.5 yen | 1 yen per share | From August 1, 2017 to July 31, 2029 | Directors of the Company 3 persons 365 rights | Common stock of the Company 36,500 shares |
| | | | | | | Corporate officers who do not serve as director 9 persons 422 rights | 42,200 shares |
| Others 6 persons 556 rights | | | | | | 55,600 shares | |

Notes:

1. The number of allotted stock acquisition rights and allotted person and class and number of shares to be issued upon exercise of the stock acquisition rights are shown on “Holding Condition and Number of the Stock Acquisition Rights” and “Class and Number of Shares to Be Issued Upon Exercise of Stock Acquisition Rights” as of December 31, 2015.
2. Holding of the stock acquisition rights as of December 31, 2015 by an audit & supervisory board member of the Company was granted during his term of office as a corporate officer and his term of office as a Director serving concurrently as a Corporate Officer.
3. The grantees of the stock acquisition rights issued on August 28, 2014 include one person who was Representative Director, Chairman up to the conclusion of the 114th ordinary general meeting of shareholders.

5. Matters Concerning Status of Corporate Governance and Directors, Audit & Supervisory Board Members and Corporate Officers of the Company

(1) Corporate Governance Policy

The Shiseido Group including the Company sets out “to inspire a life of beauty and culture” as the corporate mission, and defines the corporate governance as our “platform to realize sustainable growth through fulfilling the corporate mission”.

The Company is committed to maintaining and improving management transparency, fairness and speed, by putting into practice and reinforcing the corporate governance, and strives to maximize medium- and long-term corporate and shareholder value through dialogues with all stakeholders, “consumers”, “business partners”, “employees”, “shareholders”, and “society and the Earth”. In addition, while fulfilling social responsibilities, the Company aims to achieve optimized distribution of values to respective stakeholders.

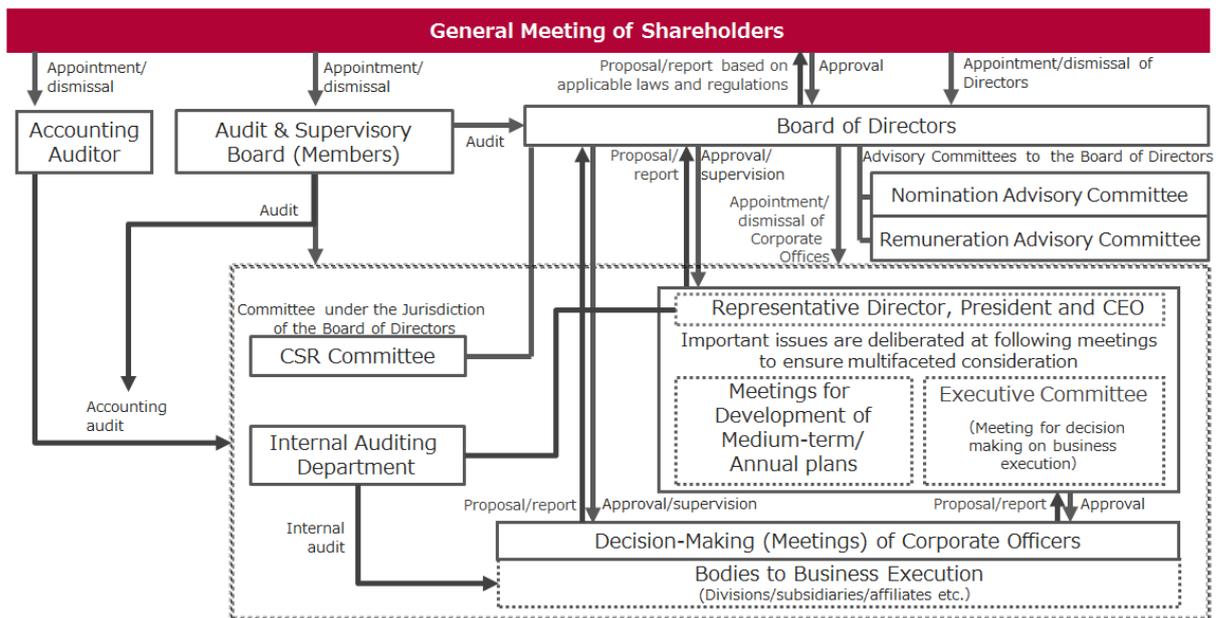
■ Progress of Shiseido’s Corporate Governance Policy

| | | | |
|--|---|---|---|
| Clarifying the allocation of responsibility | 2001 Introduction of the corporate executive 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 | Enhancing management transparency and soundness | 2001 Establishment of the Remuneration Committee 2005 Establishment of the Nomination Advisory Committee |
| Reinforcing supervisory and auditing functions | 2005 Increased number of external Audit & Supervisory Board members from 2 to 3 2006 Inviting external directors 2011 Increased number of external directors from 2 to 3 2012 Established standards for assessing independence 2015 Developed views on the ratio of external directors | Strengthening decision-making function | 2001 Established Corporate Executive Officer Committee (currently Executive Committee) and Policy Meeting of Corporate Officers 2002 Reduced number of directors |

(2) Outline of the Company's System for the Management and Execution of Business

1) Corporate Governance Framework of the Company

Corporate governance framework of the Company as of December 31, 2015 is as follows.



<Committees Associated with Corporate Officers>

Executive Committee:

Executive Committee is the meeting body that comprises corporate officers in charge of business execution and is responsible for deliberation and resolution.

Meetings for Development of Medium-term/Annual Plans:

Meetings for Development of Medium-term/Annual Plans are the meeting body that comprises corporate officers in charge of business execution and is responsible for developing and resolving business plans and brand strategies.

<Advisory Committees to the Board of Directors>

Nomination Advisory Committee:

Makes reports to the Board of Directors on matters including the selection of candidates for directors and corporate officers and their promotions and demotions. The Nomination Advisory Committee had three meetings in fiscal 2015. In addition to reporting on the selections of candidates for directors and audit & supervisory board members and appointment of corporate officers, the committee carried out activities including discussing promotions, recruitments, retirements and appointments from outside of corporate officers.

(Chairman: Mr. Tatsuo Uemura, external director, Committee members: 3 external directors, 2 representative directors)

Remuneration Advisory Committee:

Makes reports to the Board of Directors regarding the remuneration system for directors as well as evaluation of their performance. Remuneration Advisory Committee had seven meetings in fiscal 2015 and reviewed issues including bonuses for the Company's individual directors and corporate officers for fiscal 2015 and a remuneration system for fiscal 2016 and fiscal 2017.

(Chairman: Mr. Shoichiro Iwata, external director, Committee members: 3 external directors, 2 representative directors and 1 external member)

<Committees under the Jurisdiction of the Board of Directors>

CSR Committee:

Addresses all areas that are required for the Shiseido Group to fulfill its social responsibility, grasping the details of social requirements or expectations and examining the direction of CSR activities. The committee also comprehends and evaluates the risks of management strategies and business operations, thereby establishing necessary measures. The CSR Committee had three meetings in fiscal 2015, and addressed important matters related to risk and compliance and conducted assessment, as well as deliberated development of policies to achieve sustainable growth of Shiseido Group and society.

(Chairman: Masahiko Uotani, Representative Director, President and CEO, Committee members: 1 external director, 2 executive directors, 3 corporate officers, 1 general manager of Corporate Strategy Department, 1 labor union representative, 1 external member, Observer: 2 full-time audit & supervisory board members)

2) Reasons for Adopting the Current Framework

The Company has adopted the framework of a company with the audit & supervisory board system, which exercises the dual checking functions over business execution by the Board of Directors and over the legality and effectiveness by the audit & supervisory board members. In order to maintain and improve management transparency, fairness and speed that are provided in the basic policy for the corporate governance within the framework, the Company has incorporated superior functions of company with the nominating committee, etc. and company with the audit & supervisory board system, etc., reinforcing supervisory functions of the Board of Directors.

Effective January 2016, the Shiseido Group has launched full-scale operations of a new matrix-type organizational system with five brand businesses and six regions combined. Under the new organizational system, the Company as the global headquarters is responsible for supervising the overall group and providing necessary support, and is promoting localization of responsibility and authority by delegating many of the authorities that used to be retained by the Company to respective regional head office of Japan, China, Asia, the Americas, EMEA, and travel retail. The Board of Directors held repeated discussions throughout fiscal 2015 with regard to an ideal state of the Company's corporate governance system that includes composition and operation of the Board of Directors under the new management structure as the premise. As a result, the Board of Directors concluded adopting the "monitoring board-type" would be appropriate to ensure sufficiently effective supervisory functions over the overall Shiseido Group, and resolved to implement the "monitoring board-type corporate governance" while leveraging advantages of the company with the audit & supervisory board system.

3) Diversity of Directors and Audit & Supervisory Board Members

The Company believes that the Board of Directors of the Company should be composed of directors with various viewpoints and backgrounds, on top of multilateral sophisticated skills, for effective supervision over the execution of business as well as decision-making on critical matters. Furthermore, the Company believes that audit & supervisory board members should have the same diversity and sophisticated skills as the directors as they have a duty to attend meetings of the Board of Directors and state opinions as necessary.

When considering the diversity, it is a policy of the Company to appoint appropriate persons based on their personality and insight irrespective of gender, age, and nationality, etc., to stress not only diversity of these attributes, but also diversity in terms of tasks including professional knowledge and experiences in various fields related to the business management. In addition, the Company has set a certain maximum term of office for external directors and external audit & supervisory board members in order to reflect their views, which are free from the Company's existing structure, to the management of the Company, and by allowing a handover period from long-serving external directors and audit & external supervisory board members to newly-

appointed external directors and audit & external supervisory board members to ensure appropriate transition.

4) Ratio of External Directors at the Board of Directors

After extensive discussions at the Board of Directors were held with regard to the corporate governance of the Company during fiscal 2015 and also assessment of the effectiveness of the Board of Directors was performed, and in light of the decision that the Company will adopt the “monitoring board-type corporate governance”, the Company established its view on the ratio of external directors at the Board of Directors.

In the Company’s articles of incorporation, the maximum number of board members is set at 12. Respecting this upper limit and in consideration of the Company’s business portfolio and scale, an optimum number of directors is elected such that they are able to appropriately supervise the management.

For external directors, the number is set at three or above to allow such members a certain degree of influence within the board. In addition, the Company has established the target of electing half or more of its directors from outside.

For selecting external directors and Audit & Supervisory Board Members, high priority is given to independence. Our basic principle is that candidates of external directors and Audit & Supervisory Board Members are required to meet the Company’s independence criteria as well as possess high independence in mental attitude.

5) Criteria for Independence of “External Directors and Audit & Supervisory Board Members”

The Company establishes its own rules of “Criteria for Independence of the External Directors and Audit & Supervisory Board Members” (the “Criteria”) with reference to foreign laws and regulations and listing rules, etc. for the purpose of making objective assessment on the independence of the External Directors and Audit & Supervisory Board Members.

In connection with selecting candidates for the External Directors and Audit & Supervisory Board Members, the Company places emphasis on a high degree of the independence of the candidate from the viewpoint of strengthening corporate governance and accordingly, the Company makes judgment on whether or not the candidate has a high degree of the independence in accordance with the Criteria.

The Criteria are as follows:

Shiseido Company, Limited (the “Company”) deems an external director and an audit & supervisory board member (external) (collectively the “External Director and Audit & Supervisory Board Member”) or a candidate for the External Director and Audit & Supervisory Board Member to have sufficient independence against the Company in the event that all the following requirements are fulfilled upon the Company’s research to the practically possible and reasonable extent.

1. He/She is not and has not been an executive personⁱ of the Company or an affiliated companyⁱⁱ (collectively the “Shiseido Group”).

In the case of an audit & supervisory board member (external), in addition to the above, he/she has not been a non-executive director or accounting advisor (in the case of accounting advisor being an artificial person, a staff member in charge of the duty) of the Shiseido Group.

2. He/She does not fall under any of the following items for the current fiscal year and the last nine (9) fiscal years (all these fiscal years being referred to as the “Relevant Fiscal Years”):

- 1) A counterparty which has transactions principally with the Shiseido Groupⁱⁱⁱ, or its executive person (including a person having once been an executive officer for the Relevant Fiscal Years. The same is applicable to Items 2) to 4) of this Clause below);

- 2) A principal counterparty of the Shiseido Group^{iv}, or its executive person;

- 3) A large shareholder who holds or has held directly or indirectly 10% or more of the voting rights of the Company in the Relevant Fiscal Years or its executive person;
 - 4) An executive person of a company of which the Shiseido Group holds or has held directly or indirectly 10% or more of the total voting rights in the Relevant Fiscal Years;
 - 5) A consultant, accounting professional or legal professional who has been paid a large amount of money or other assets^v in addition to the External Director and Audit & Supervisory Board Member's remunerations in the Relevant Fiscal Years. In addition, in the event that the consultant, accounting professional or legal professional is an organization such as artificial person or association, a person who belongs to such organization (including a person who has once belonged to such organization in the Relevant Fiscal Years. The same is applicable to Items 6) and 7) below of this Clause) is included;
 - 6) A person/organization who received donation of a large amount of money or other assets^v from the Shiseido Group in the Relevant Fiscal Years. In addition, in the event that those who received donation from the Shiseido Group are an organization such as artificial person or association, a person who belongs to such organization is included;
 - 7) An accounting auditor of the Company. In addition, in the event that the accounting auditor is an organization such as artificial person or association, a person who belongs to such organization is included.
3. He/She is not a spouse of the following person, relative in second or less degree, relative living in the same place or a person with whom living costs are shared, provided, however that Item 2) is applicable only to make judgment on the independence of an audit & supervisory board member (external):
- 1) An important person^{vi} among executive persons of the Shiseido Group;
 - 2) Non-executive director of a company in the Shiseido Group;
 - 3) A person falling under any of Items 1) to 4) of Clause 2; provided, however, that with respect to these executive persons, applicable only to the important person^{vi};
 - 4) A person falling under any of Items 5) to 7) of Clause 2; provided, however, that with respect to a person belonging to the organization, applicable only to the important persons^{vii}.
4. Any of the following situations that could be deemed as "Cross-Assumption of Offices of Directors, etc." is not applicable:
- 1) In the event that the External Director and Audit & Supervisory Board Member of the Company or a candidate for the External Director and Audit & Supervisory Board Member of the Company currently assumes the office of an executive person, external director, audit & supervisory board member or the office equivalent thereto^{viii} of a company other than the Company, in Japan or overseas (the "Subject Company"), an executive person, external director, audit & supervisory board member (excluding the aforesaid External Director and Audit & Supervisory Board Member or candidate for the External Director and Audit & Supervisory Board Member) or person in the office equivalent thereto of the Shiseido Group assumes the office of a director (including an external director), executive officer, audit & supervisory board member (including audit & supervisory board member (external)), executive officer or person in the position equivalent thereto^{viii} of the Subject Company.
 - 2) In the event that the External Director and Audit & Supervisory Board Member of the Company or a candidate for the External Director and Audit & Supervisory Board Member of the Company currently assumes the office of an executive person, director, officer or the office equivalent to director or officer of an artificial person or other organization (other than a company) (the "Subject Organization"), an executive person, external director, audit & supervisory board member (excluding aforesaid External Director and Audit & Supervisory Board Member or candidate for External Director and Audit & Supervisory Board Member) or person in the office equivalent thereto of the Shiseido Group assumes the office of a director, officer or person in the position equivalent thereto^{ix} of the Subject Organization.

5. In addition to Clauses 1 to 4, there exist no circumstances in which duties imposed on an independent External Director and Audit & Supervisory Board Member are reasonably deemed not to be achieved.
6. It is presently expected that any event or matter stated in Clauses 1 to 5 would not occur or exist hereafter.

Notes:

- i. An “executive person” means an executive director, executive officer, corporate officer, staff executing business of a company divided into interest (*mochibun kaisha*) (in the event of the staff being an artificial person, a person to discharge duties stated in Article 598, Paragraph 1 of the Companies Act), a person executing business of artificial person or organization other than a company and an employed person (an employee, etc.) of an artificial person or organization including a company.
- ii. An “affiliated company” means the affiliated company stated in Article 2, Paragraph 3, Item 22 of the Ordinance on Company Accounting.
- iii. A “counterparty which has transactions principally with the Shiseido Group” means a person/organization falling under any of the following items:
 - 1) The counterparty or the counter party group (a consolidated group to which the company that has direct transactions with the Shiseido Group belongs to) (collectively the “counterparty”) which provides or provided products or services to the Shiseido Group and the aggregate amount of transactions between the counterparty and the Shiseido Group is at least ¥10 million per fiscal year, and exceeds 2% of consolidated net sales of the counterparty (or if the counterparty does not prepare consolidated financial statements, non-consolidated net sales of the counterparty) for the Relevant Fiscal Years.
 - 2) The counterparty group to which the Shiseido Group is or was indebted to the counterparty group and the aggregate amount of indebtedness of the Shiseido Group is at least ¥10 million as at the end of each fiscal year, and exceeds 2% of consolidated total assets (or if the counterparty does not prepare consolidated financial statements, non-consolidated total assets of the counterparty) of the counterparty for the Relevant Fiscal Years.
- iv. A “principal counterparty of the Shiseido Group” means a person/organization falling under any of the following items:
 - 1) The counterparty to which the Shiseido Group provides or provided products or services and the aggregate amount of transactions between the counterparty and the Shiseido Group is at least ¥10 million per fiscal year, and which exceeds 2% of consolidated net sales of the Shiseido Group for the Relevant Fiscal Years.
 - 2) The counterparty to which the Company Group has account-receivable, advance and account due (collectively “account-receivable”) and the aggregate amount of the account-receivable of the Shiseido Group is at least ¥10 million as at the end of each fiscal year, and exceeds 2% of consolidated total assets of the Shiseido Group as at the end of the Relevant Fiscal Years.
 - 3) A financial institution group (to which the direct lender belongs) from which the Shiseido Group borrows or borrowed and the aggregate amount of the borrowing exceeds 2% of consolidated total assets of the Shiseido Group as at the end of the Relevant Fiscal Years.
- v. A “large amount of money or other assets” means an amount of at least ¥10 million per fiscal year.
- vi. An “important person” from among executive persons means a director (excluding external director), an executive officer, corporate officer, and employed person in the office of senior management not lower than general manager.
- vii. An “important person” from among persons “belonging to the organization” stated in 5) and 7) in Clause 2 above means an officer such as certified public accountants belonging to audit corporation or accounting firm, lawyer (including so as to call associates) belonging to law firm, director and supervisor belonging to a judicial foundation, incorporated association, incorporated school and other artificial persons (collectively “Various Artificial Person”) In the event that an organization to which a person belongs is not any of audit corporation, accounting firm, law firm and Various Artificial Person, a person who is deemed objectively and reasonably important equivalent to the persons stated above in this note by the organization.
- viii. An “office of an executive person, external director, audit & supervisory board member or the position equivalent thereto” includes the positions such as “Counselor,” “Advisor,” etc. assumed by retired director, retired audit & supervisory board member, retired executive officer or retired corporate officer enabling them to give advice to the Company, in addition to an executive person defined in Note ii above, non-executive director (including external director), and audit & supervisory board member (including audit & supervisory board member (external)).
- ix. The “office of director or person in the position equivalent thereto” includes the positions such as “Counselor,” “Advisor,” etc. assumed by retired director, retired councilor or retired supervisor enabling them to give advice to the subject organization, in addition to director, councilor or supervisor.

6) Actual Composition of Directors and Audit & Supervisory Board Members

Of six directors who are currently in office as of December 31, 2015, three directors (50.0%) are highly independent external directors who meet the criteria for independence of the external

directors and audit & supervisory board members of the Company. The other three directors who serve concurrently as corporate officers include one with career background as a management outside the Shiseido Group, and two with career background in the Shiseido Group. The directors include one female (16.7%).

Of five audit & supervisory board members, three members (60.0%) are highly independent external audit & supervisory board members and two are full-time members with career background in the Shiseido Group. The members include two female (40.0%).

Of the total eleven directors and audit & supervisory board members, six members (54.5%) are highly independent external directors or external audit & supervisory board members, and three members (27.3%) are female.

7) Succession Plan and Training for Directors, Audit and Supervisory Board Members and Corporate Officers

The Company believes that it is important to have a succession plan for not only President and CEO as leader steering business management, but also for external directors and external audit & supervisory board members who play key roles in supervising functions over the business management. The Company has reviewed the succession plan that includes control of term of office and clarification of requirements for candidates for successors, not only during the time immediately before the replacement but continuously at the Nomination Advisory Committee as a matter that needs to be paid attention to at all times.

The Company also believes in addition to appointing personnel having credentials required to serve as directors, audit & supervisory board members and corporate officers, it is also important to provide them with necessary training and information. The Company provides candidates for new directors and candidates for new audit and supervisory board members with training with regard to legal and statutory authorities and obligations, etc. utilizing training programs provided by external institutions as necessary. In addition, when a new external director or external audit & supervisory board member is scheduled to come on board, the Company provides training regarding the industry the Company operates business in, the history, business overview, strategy, etc. of the Company.

Furthermore, for directors who execute business and corporate officers, the Company holds an in-house executive program, as well as utilizing training at external institutions, in order to develop leadership capabilities to an even higher level. In respect of the cultivation of the next generation of management, executives who are corporate officer candidates are provided with training programs to nurture their leadership abilities and management skills required for top management officers.

(3) Systems for Internal Control

The Company resolved to establish “Basic Policy regarding Internal Control Systems” at the Board of Directors on May 12, 2006 in order to build a highly effective internal control system, and operates the internal control system prepared in accordance with the policy, making necessary revisions as necessary. In fiscal 2015, the Company operated the internal control system and monitored its status in accordance with the basic policy to which matters concerning subsidiary management structure and the auditing structure were added upon resolution by the Board of Directors on March 31, 2015.

Reflecting dissolution of the CSR Committee at the end of fiscal 2015 and launch of Compliance Committee in fiscal 2016, Basic Policy regarding Internal Control Systems was partially amended upon resolution at the Board of Directors on January 29, 2016.

1) System under Which Execution of Duties by Directors Is Ensured to Comply with Laws and Regulations and the Articles of Incorporation of the Company; System under Which Business of the Company Group Is Ensured Duly to Be Conducted

Basic Policy regarding Internal Control Systems adopted in the Company and the Company Group in fiscal 2015 is as follows:

This new Basic Policy regarding Internal Control Systems resolved at the Board of Directors on January 29, 2016 is posted on the Company's website: Investors/General Meeting of Shareholders/Corporate Governance/Internal Control Systems of the Company (<http://www.shiseidogroup.com/ir/account/governance/>).

(1) System under Which Execution of Duties by Directors and Employees of the Company and all Group Companies Is Ensured to Comply with Laws and Regulations and the Articles of Incorporation of the Company; System under Which the Appropriateness of Business of the Whole Group Is Ensured

The Board of Directors shall determine important matters which will affect the Company and its subsidiaries and affiliates as a group.

The representative directors of the Company shall regularly report the status of execution of business to the Board of Directors. External directors shall be elected to strengthen and maintain the Board of Directors' supervisory functions in regard to operational execution. The audit & supervisory board members audit legality and appropriateness of the directors' execution of business. Upon request of any audit & supervisory board member, directors and employees shall report the status of execution of business to the audit & supervisory board member.

In order to realize "Our Mission," which defines the Shiseido Group's corporate philosophy and business domains and sets out its raison d'être, the Company has established "Our Values," which must be held and shared by each and every employee of the Shiseido Group, and "Our Way" and the "Shiseido Ethical Conduct Standards," which sets out the action standards for business conducts with highest ethical standards, and promotes corporate activities that are both legitimate and fair. (*)

The Company should establish a basic policy and rules in line with "Our Way" and the "Shiseido Ethical Conduct Standards," with which the whole Shiseido Group is required to comply. Every group company and business office shall be fully aware of this policy and rules, along with "Our Mission," "Our Values," "Our Way" and the "Shiseido Ethical Conduct Standards," so that environments for the formulation of detailed internal regulations of the Company will be created at every group company and business office.

The "CSR Committee," under jurisdiction of the Board of Directors, shall be responsible for improving the quality of the Company by enhancing legitimate and fair corporate activities of the group, and risk management. The committee shall propose and report the plans and activities to the Board of Directors.

The Company deploys a person in charge of corporate ethics promotion at each group company and business office in order to promote legitimate and fair corporate activities across the Group, and organizes regular training for corporate ethics. The person in charge of corporate ethics promotion drafts plans for corporate ethics activities at each workplace, and reports the status of the said activities and their results to the CSR Committee.

For the purpose of detection and remediation of conducts within the Group that are in violation of laws and regulations, Articles of Incorporation and internal regulations of the Company, the Company shall introduce internal whistle blowing offices under the CSR Committee, where the Chairman of the CSR Committee, staff counselors, an external law office or other representatives will be appointed as a contact for informing and consultations on matters relating to compliance.

In accordance with the internal regulations of the Company pertaining to internal auditing, internal auditing shall be conducted with respect to the whole Group to audit the appropriateness of business.

The results of audit shall be reported to directors and audit & supervisory board members.

(2) System under Which Directors of the Company and all Group Companies Shall Be Ensured to Efficiently Execute Duties

The Company adopted a corporate executive officer system to actualize smooth and highly efficient corporate management, wherein functions of directors, who are responsible for decision-making and overseeing execution of business, are separated from those of corporate officers, who are responsible for business execution.

A representative director shall coordinate and supervise the Group's overall execution of business operations that are directed towards achieving given corporate targets. A corporate officer shall fix the specified target in the assigned field, including all Group companies, and set up a business system by which the target shall efficiently be achieved.

Furthermore, with respect to the execution of important business, the Corporate Executive Officer Committee consisting of corporate officers shall deliberate the business execution from viewpoints of various aspects.

The Board of Directors and the Corporate Executive Officer Committee shall confirm the status of development vis-à-vis the target and conduct necessary improvement measure.

(3) System under Which Information Regarding Execution of Business by the Company's Directors Shall Be Maintained and Managed; System under Which Items Regarding Execution of Business by Directors and Employees of All Group Companies Shall be Reported to the Company

Important documents such as minutes of the Board of Directors meetings and minutes of the Corporate Executive Officer Committee meetings shall be managed pursuant to laws and regulations and the internal regulations of the Company and these important documents shall be presented to directors and audit & supervisory board members immediately whenever requested for inspection.

In addition, for information with respect to execution of business by directors and employees, internal regulations of the Company regarding protection of information assets and information disclosure shall be formulated, and the information shall be managed in accordance with them.

Important information regarding the execution of duties by directors and employees of all Group companies shall be reported in a timely manner to the Company by all Group companies in accordance with the internal regulations of the Company that stipulate matters such as reporting to the Company.

(4) Regulation Regarding Control of Risk for Loss at the Company and all Group Companies and Other Regulation Systems

The "CSR Committee," under the jurisdiction of the Board of Directors, shall manage risks associated with corporate activities of the whole group. Risks associated with management strategy and business execution shall be recognized and evaluated by the Committee so that necessary measures shall be taken. A contingency manual shall be prepared to deal with emergency situation.

In the case of emergency, countermeasure headquarters, projects or teams shall be set up pursuant to the levels of the emergency and shall take countermeasures.

(5) System Related to Employees to Assist Duties of Audit & Supervisory Board Members When Audit & Supervisory Board Members Request to Do So; and Matters Related to the Independence of Such Employees from Directors; Matters Related to Securing the Effectiveness of Instructions from Audit & Supervisory Board Members to Such Employees

The Audit & Supervisory Board Staff Group shall be established and employees shall be positioned there to assist the Audit & Supervisory Board and audit & supervisory board members.

In order to ensure the independence of the employees in the Audit & Supervisory Board Staff Group from directors and the effectiveness of instructions from audit & supervisory board members to them, the audit & supervisory board members' consent shall be necessary for determination of personnel matters such as appointments, movements and evaluations of these employees.

(6) System under Which Directors and Employees Report to Audit & Supervisory Board Members and Other Systems under Which Any Report Is Made to Audit & Supervisory Board Members; System to Ensure That Persons Are Not Treated Disadvantageously for Making Such Reports to Audit & Supervisory Board Members

Directors and employees shall report the status of their execution of duties to audit & supervisory board members by enabling them to attend meetings of the Board of Directors and other important meetings, and they shall also report results of audit performed by the department in charge of internal auditing to audit & supervisory board members. In addition, the status of business and conditions of assets shall be reported to audit & supervisory board members upon their request.

Separately, the Company shall establish a method through which directors and employees, including those of all Group companies, can directly inform audit & supervisory board members of issues, and shall make this method known throughout the Group.

The Company and all Group companies shall develop internal regulations of the Company to ensure that the said directors and employees are not dismissed, discharged from service or receive any other disadvantageous treatment due to reporting to audit & supervisory board members or informing them of issues, and shall make these regulations known.

(7) Matters Regarding Policy on Handling Advance Payment or Repayment of Expenses Resulting from Audit & Supervisory Board Members' Execution of Duties or Other Expenses or Debts Arising from the Said Execution of Duties

Expenses deemed necessary for the execution of duties by the Audit & Supervisory Board and audit & supervisory board members shall be budgeted for and recorded in advance. However, expenses paid urgently or temporarily shall be handled by repaying them afterwards.

(8) Other Systems under Which Audit by Audit & Supervisory Board Members Is Ensured Efficiently to Be Performed

Opinion exchange meetings shall be held regularly between representative directors and audit & supervisory board members. The Company shall ensure a system under which corporate audits are implemented efficiently. Liaison meeting shall be held among audit & supervisory board members, the accounting auditor and the internal auditing department upon request of audit & supervisory board members. In addition, audit & supervisory board members shall be ensured to attend various meetings.

*** Fundamental Thought toward Exclusion of Anti-Social Forces and the Status for Arrangement**

In the Company's "Ethical Conduct Standards," we have declared that "we do not have relationships with individuals or organizations that engage in illegal activities such as threatening public order or safety. We also do not respond to any requests for money or services from such individuals or organizations." A coordination office was established in the CSR Department for the purpose of intensively collecting information, while a manual on how to cope with such forces is maintained on the intranet, among other activities. The Company is strengthening its collection of outside information and cooperation with outside organizations by such means as coordinating with local police offices and having membership of an organization that promotes the exclusion of anti-social forces.

2) Overview of Operation Status of System under Which Execution of Duties by Directors Is Ensured to Comply with Laws and Regulations and the Articles of Incorporation of the Company; System under Which Business of the Company Group Is Ensured Duly to Be Conducted

The Company continues improving and operating the internal control system in accordance with the abovementioned Basic Policy, and operated the system in fiscal 2015 as described below. Overall status of maintenance and operation of the internal control system at the Company and subsidiaries are monitored by the internal audit division and CSR Committee.

(1) System under Which Execution of Duties by Directors and Employees of the Company and all Group Companies Is Ensured to Comply with Laws and Regulations and the Articles of Incorporation of the Company; System under Which the Appropriateness of Business of the Whole Group Is Ensured

- The Company defined themes of focus in compliance that needs to be addressed as a globally-operating company. CSR Committee revised the top commitments accordingly, ensured awareness of them among employees, and also developed specific regulations concerning ethics appropriate for respective countries in order. In addition, CSR Committee reviewed status of initiatives related to corporate ethics inside and outside Japan, including operating status of an internal whistle blowing system.
- In accordance with various regulations pertaining to internal auditing, the Company verified the status of establishment and operation of internal control in the overall Company Group, including effectiveness and efficiency of business operations, reliability of financial reports and status of compliance.

<Measures for elimination of antisocial forces>

To prevent any transaction with antisocial forces, the Company revised a preliminary screening system for new business partners and introduced a further more stringent system than before.

(2) System under Which Directors of the Company and all Group Companies Shall Be Ensured to Efficiently Execute Duties

- By President and CEO deliberating and making decisions at the Executive Committee and the business plan meeting to make final resolutions with regard to important business execution, the Company ensured decision-making which is smooth and yet made based on diverse reviews. In addition, at these meetings, the Company regularly receives reports on status of the progress towards the goals of respective corporate officers.
- From the perspectives of further improving efficiency of the execution of business, the Company worked for full-scale implementation of the regional headquarters system, and established a structure to ensure delegation of authority from the Company to regional headquarters. Accordingly, the Company enhanced the corporate officers system of Shiseido Japan Co., Ltd., which operates business in the Japan region, the main region of the Company Group, and improved the structure enabling effective business execution.

(3) System under Which Information Regarding Execution of Business by the Company's Directors Shall Be Maintained and Managed; System under Which Items Regarding Execution of Business by Directors and Employees of All Group Companies Shall be Reported to the Company

- It is specified to permanently maintain the minutes of the Board of Directors, longer than the statutory retention period of 10 years. In addition, the Company requires minutes of important meetings related to business executions to be retained for 10 years or permanently, depending on meeting bodies. With regard to protection of information assets, the Company developed and has implemented "Information System Controlling Regulation", "Confidential Information Controlling Regulation" and "Personal Information Protection Rules" under "the Shiseido Group Information Security Management Policy".
- With regard to reporting on important matters relating to every group company, the Company has arranged that corporate officers in charge of respective company to report at the Executive Committee or the Board of Directors in compliance with the Regulation on the Board of Directors, as well as the Regulation on the Corporate Officers and the like.

(4) Regulation Regarding Control of Risk for Loss at the Company and all Group Companies and Other Regulation Systems

- The CSR Department put together risk items recognized at group companies, classified them by level, addressed them under the framework determined at each level, and reported them to corporate officers in charge on a monthly basis. The CSR Department also reported the annual results at the CSR Committee.

(5) System Related to Employees to Assist Duties of Audit & Supervisory Board Members When Audit & Supervisory Board Members Request to Do So; and Matters Related to the Independence of Such Employees from Directors; Matters Related to Securing the Effectiveness of Instructions from Audit & Supervisory Board Members to Such Employees

- The Company has arranged a staff group of audit & supervisory board in the internal audit department directly supervised by President and CEO, to assist duties of audit & supervisory board and audit & supervisory board members and has assigned three concurrently-assigned employees.
- In order to secure independence of the employees from the directors, and to secure effectiveness of directions of audit & supervisory board members, decisions on matters relating to appointment, relocation, evaluation and other personnel related matters regarding the employees are made by the director of internal audit department, following consent of a full-time audit & supervisory board member.

(6) System under Which Directors and Employees Report to Audit & Supervisory Board Members and Other Systems under Which Any Report Is Made to Audit & Supervisory Board Members; System to Ensure That Persons Are Not Treated Disadvantageously for Making Such Reports to Audit & Supervisory Board Members

- With regard to the reporting system from directors and the employees to the audit & supervisory board members, the Company ensures that full-time audit & supervisory board members are offered opportunities to attend the board of directors as well and other important meetings for business executors such as Executive Committee and CSR Committee to make sure they are provided with reports and information through those meetings. In addition, upon request from an audit & supervisory board member, the Company provides materials and information.
- With regard to treatment of whistle-blowers who make a report to audit & supervisory board members, inside Japan, the Company ensured awareness among the employees that they will not be unfairly treated, by distributing a card with the contact information of the office for whistle-blowing to audit & supervisory board members. We also provided the management-level employees who have subordinates with relevant training. Outside Japan, the Company informed the supervisors at business offices of the functions and outlines of the hot-line as well as contact information of the whistle-blowing office to reach the audit & supervisory board members.

(7) Matters Regarding Policy on Handling Advance Payment or Repayment of Expenses Resulting from Audit & Supervisory Board Members' Execution of Duties or Other Expenses or Debts Arising from the Said Execution of Duties

- The Company budgets expenses based on the annual activity plan at the beginning of every business year. There is also a rule in place that in case spending in excess of the budgeted amount becomes necessary, a request for additional budget may be made.
- During the fiscal 2015, there was no such case as shortfall in the expense that required repayment of expenses afterwards.

(8) Other framework to ensure that audit & supervisory board members discharge their duties effectively

- Representative directors and audit & supervisory board members met quarterly to exchange opinions. In addition, the accounting auditor and audit & supervisory board members hold opinion exchange meetings as needed, and also hold meetings on reporting audit results on a quarterly basis.
- Full-time audit & supervisory board members receive reports on internal auditing from internal audit division every month, and hold liaison meetings of the group audit & supervisory board members, coordinating with audit & supervisory board members of the subsidiaries in Japan as necessary.

3) Framework for Confirmation of Transactions with Related Parties

The Company investigates and specifies related parties that carry the possibility of having an impact on the Company's financial position and operating results based on the "Accounting Standard for Related Party Disclosures" and the "Guidance on Accounting Standard for Related Party Disclosures," confirms the existence of transactions with the said related parties and the importance of the said transactions, and, if there are transactions to be disclosed, carries out disclosure accordingly.

The existence of related parties, the existence of transactions with related parties, the contents of transactions and other such information, are reported to the Board of Directors in advance of disclosure, and a review is conducted based on the criteria for judgment of importance stipulated in the "Guidance on Accounting Standard for Related Party Disclosures."

(4) Name, Position and Responsibilities at the Company for Directors and Audit & Supervisory Board Members of the Company

(As of December 31, 2015)

| Position | Name | Responsibilities at the Company |
|--|-----------------|---|
| Representative Director President | Masahiko Uotani | CEO Chairman of the Board Responsible for Global Business and Corporate Communication Member of Remuneration Advisory Committee Member of Nomination Advisory Committee Chairman of CSR Committee |
| Representative Director Corporate Executive Officer | Toru Sakai | President, Shiseido Japan Co., Ltd. Responsible for Japan Business, Health Care Business and Digital Business Member of Remuneration Advisory Committee Member of Nomination Advisory Committee Member of CSR Committee |
| Director Corporate Executive Officer | Tsunehiko Iwai | Chief Technology and Innovation Officer Chief Technical Strategy Officer and Chief Quality Officer Responsible for Research and Development, SCM, Technical Strategy, Quality Management, Pharmaceutical Affairs and Frontier Science Business Member of CSR Committee |
| External Director <Independent> | Yoko Ishikura | Member of Remuneration Advisory Committee Member of Nomination Advisory Committee |
| External Director <Independent> | Shoichiro Iwata | Chairman of Remuneration Advisory Committee Member of Nomination Advisory Committee |
| External Director <Independent> | Tatsuo Uemura | Chairman of Nomination Advisory Committee Member of Remuneration Advisory Committee |

(As of January 1, 2016)

| Position | Name | Responsibilities at the Company |
|--|-----------------|---|
| Representative Director President and CEO | Masahiko Uotani | Chairman of the Board Responsible for Corporate Strategy, Corporate Communication and Global Cosmetics and Personal Care Brands Member of Remuneration Advisory Committee Member of Nomination Advisory Committee |
| Representative Director Executive Vice President | Tsunehiko Iwai | Chief Technology and Innovation Officer, Chief Technical Strategy Officer and Chief Quality Officer Responsible for Research and Development, SCM, Technical Strategy, Regulatory Strategy, Quality Management, Frontier Science Business, Legal and Governance, Compliance, Sustainability Strategy Member of CSR Committee Chairman of Compliance Committee Member of Nomination Advisory Committee |
| Representative Director Corporate Executive Officer | Toru Sakai | President, Shiseido Japan Co., Ltd. [Responsible for Japan Region] Member of Remuneration Advisory Committee Member of Compliance Committee |
| External Director <Independent> | Yoko Ishikura | Member of Remuneration Advisory Committee Member of Nomination Advisory Committee |
| External Director <Independent> | Shoichiro Iwata | Chairman of Remuneration Advisory Committee Member of Nomination Advisory Committee |

(As of December 31, 2015)

| Position | Name | Responsibilities at the Company |
|---|---------------------|---------------------------------|
| Audit & Supervisory Board Member (Full-time) | Yoshinori Nishimura | Observer of CSR Committee |
| Audit & Supervisory Board Member (Full-time) | Kyoko Okada | Observer of CSR Committee |
| Audit & Supervisory Board Member (External) <Independent> | Akio Harada | — |
| Audit & Supervisory Board Member (External) <Independent> | Nobuo Otsuka | — |
| Audit & Supervisory Board Member (External) <Independent> | Eiko Tsujiyama | — |

(As of January 1, 2016)

| Position | Name | Responsibilities at the Company |
|---|---------------------|--|
| External Director <Independent> | Tatsuo Uemura | Chairman of Nomination Advisory Committee Member of Remuneration Advisory Committee |
| Audit & Supervisory Board Member (Full-time) | Yoshinori Nishimura | Observer of Compliance Committee |
| Audit & Supervisory Board Member (Full-time) | Kyoko Okada | Observer of Compliance Committee |
| Audit & Supervisory Board Member (External) <Independent> | Akio Harada | — |
| Audit & Supervisory Board Member (External) <Independent> | Nobuo Otsuka | — |
| Audit & Supervisory Board Member (External) <Independent> | Eiko Tsujiyama | — |

Notes:

- There are 6 directors and 5 audit & supervisory board members as of December 31, 2015, of which male are 8 and female are 3.
- Ms. Yoko Ishikura, Mr. Shoichiro Iwata and Mr. Tatsuo Uemura are external directors as provided in Item 15 of Article 2 of the Companies Act of Japan.
- Mr. Akio Harada, Mr. Nobuo Otsuka, and Dr. Eiko Tsujiyama are audit & supervisory board members (external) as provided in Item 16 of Article 2 of the Companies Act of Japan.
- The Company has designated Ms. Yoko Ishikura, Mr. Shoichiro Iwata, Mr. Tatsuo Uemura, Mr. Akio Harada, Mr. Nobuo Otsuka and Dr. Eiko Tsujiyama as “Independent Directors/Audit & Supervisory Board Members” as prescribed in Article 436-2 of the Securities Listing Regulations of the Tokyo Stock Exchange.
All of these external directors and audit & supervisory board members (external) (collectively the “External Directors and Audit & Supervisory Board Members”) meets the Company’s “Criteria for Independence of External Directors and Audit & Supervisory Board Members” (Please refer to 5) Criteria for Independence of “External Directors and Audit & Supervisory Board Members” of (2) Outline of the Company’s System for the Management and Execution of Business under 5. Matters Concerning Status of Corporate Governance and Directors, Audit & Supervisory Board Members and Corporate Officers of the Company in this business report) and have sufficient independency.
- External director Ms. Yoko Ishikura and audit & supervisory board member (full-time) Ms. Kyoko Okada were newly elected at the 115th ordinary general meeting of shareholders of the Company held on June 23, 2015, and assumed office as director and audit & supervisory board member respectively as of the same date. Other directors and audit & supervisory board member (external) Nobuo Otsuka were reelected at the same meeting and reassumed office.
- Mr. Tsunehiko Iwai assumed office as representative directors and was promoted to executive vice president as of January 1, 2016.
- Audit & supervisory board member (full-time) Mr. Yoshinori Nishimura has had experience as the General Manager of the Financial Department of the Company and Chief Financial Officer of the Company, and has respectable knowledge in finance and accounting. Dr. Eiko Tsujiyama, audit & supervisory board member (external), is a professor, School of Commerce and the Graduate School of Commerce, Waseda University and an expert in finance, accounting and tax issues qualified as certified public accountant, and has respectable knowledge in finance and accounting.
- External director Ms. Yoko Ishikura is well-known by the name Ishikura, and that name is therefore presented here, but her name as recorded on the official family register is Ms. Yoko Kurita.

(5) Matters Concerning Important Position at Other Organizations Concurrently Assumed by Directors and Audit & Supervisory Board Members (As of December 31, 2015)

| Position | Name | Important Position at Other Organizations Concurrently Assumed |
|---|-----------------|--|
| External Director | Yoko Ishikura | Outside Director of Nissin Food Holdings Co., Ltd. Outside Director of Lifenet Insurance Company Outside Director of Sojitz Corporation Professor Emeritus of Hitotsubashi University |
| External Director | Shoichiro Iwata | President & Chief Executive Officer of ASKUL Corporation External Director of Minnano Wedding Co., Ltd. |
| External Director | Tatsuo Uemura | Professor, School of Law, Waseda University |
| Audit & Supervisory Board Member (External) | Akio Harada | External Director of Seiko Holdings Corporation Outside Director of Sumitomo Corporation External Director of Yamazaki Baking Co., Ltd. Representative Director of Young Men's Christian Association at the University of Tokyo, public interest incorporated foundation President of Japan Criminal Policy Society President of International Civil and Commercial Law Centre Foundation |
| Audit & Supervisory Board Member (External) | Nobuo Otsuka | Chairman of Keiseikai Hospital Group |
| Audit & Supervisory Board Member (External) | Eiko Tsujiyama | Professor, School of Commerce and the Graduate School of Commerce, Waseda University Outside Corporate Auditor of Mitsubishi Corporation Outside Director of ORIX Corporation Outside Corporate Auditor of LAWSON, INC. Outside Audit & Supervisory Board Member of NTT DOCOMO, INC. |

(6) Outline of Execution of Liability Limitation Agreements

The Company established provisions in the Articles of Incorporation enabling the Company to enter into an agreement with external directors and audit & supervisory board members (external) limiting their liability for compensation of damages through a resolution at the 106th ordinary general meeting of shareholders held on June 29, 2006 for the purpose of inducing external directors and audit & supervisory board members (external) to fully perform expected roles and enabling the Company to invite competent personnel.

Pursuant to these provisions the Company concluded such an agreement with all of the 6 External Directors and Audit & Supervisory Board Members under which his/her liability for compensation of damages shall be limited to the minimum limited liability provided in the laws and regulations.

At present, the Company has no specific need to conclude liability limitation agreements with non-executive directors other than external directors, or audit & supervisory board members other than audit & supervisory board members (external). Therefore, the Company has not amended the Articles of Incorporation to change the scope of those with whom it may conclude liability limitation agreements.

(7) Important Position at Other Organizations Concurrently Assumed by External Directors and Audit & Supervisory Board Members and Relationships between Organizations and the Company

| Concurrent Position at Other Organization | Important Position at Other Organizations Concurrently Assumed and Relationships Between Organizations and the Company | | | | | |
|---|--|---|---|---------------------------------|---|--|
| | Transaction Matter, etc. | Vendor, Recipient of Supporting Money, etc. | Purchaser, Provider of Supporting Money, etc. | Percentage of Transaction Value | Value for Comparison | Significance of Relations |
| Yoko Ishikura, External Director | | | | | | |
| Outside Director of Nissin Food Holdings Co., Ltd. | The Company has no special relationships of interest with Nissin Food Holdings Co., Ltd. | | | | | — |
| Outside Director of Lifenet Insurance Company | The Company has no special relationships of interest with Lifenet Insurance Company. | | | | | — |
| Outside Director of Sojitz Corporation | Outsourcing business, etc. | Sojitz Group | Shiseido Group | Less than 0.1% | Total amount of the consolidated cost of sales and the consolidated selling, general and administrative expenses of the Company for the fiscal period ended December 31, 2015 | Transaction value is minimal for the Shiseido Group. |
| | | | | Less than 0.1% | Total revenues of Sojitz Corporation on a consolidated basis for the third quarter of the fiscal year ending March 31, 2016 | Transaction value is minimal for Sojitz Group. |
| Professor Emeritus of Hitotsubashi University | The Company has no special relationships of interest with Hitotsubashi University. | | | | | — |
| Shoichiro Iwata, External Director | | | | | | |
| President & Chief Executive Officer of ASKUL Corporation | Stationeries, etc. | ASKUL Group | Shiseido Group | Less than 0.1% | Total amount of the consolidated cost of sales and the consolidated selling, general and administrative expenses of the Company for the fiscal period ended December 31, 2015 | Transaction value is minimal for the Shiseido Group. |
| | | | | Approx. 0.1% | Consolidated net sales of ASKUL Corporation for the fiscal year ended May 31, 2015 | Transaction value is minimal for ASKUL Group. |
| | Cosmetics, etc. | Shiseido Group | ASKUL Group | Less than 0.1% | Consolidated net sales of the Company for the fiscal period ended December 31, 2015 | Transaction value is minimal for the Shiseido Group. |
| | | | | Approx. 0.1% | Consolidated cost of sales of ASKUL Corporation for the fiscal year ended May 31, 2015 | Transaction value is minimal for ASKUL Group. |
| ASKUL Corporation sells cosmetics, etc. and has a relationship with the Company consisting of transactions in competition. Consequently, the contents and maximum amounts of transactions between the Company and ASKUL Corporation are approved in advance at the Board of Directors along with matters pertaining to transactions with conflicts of interest, and the results are reported to the Board of Directors following the end of the business year of ASKUL Corporation. The amount of ASKUL Corporation's net sales of cosmetics, etc. in that period was less than 0.1% of the consolidated net sales of the Company, and in the fiscal year ended May 31, 2015, ASKUL Corporation's net sales of cosmetics, etc. accounted for approximately 0.1% of its total sales. | | | | | Transactions in competition with organization where position is concurrently assumed have no impact on interests of shareholders | |
| External Director of Minnano Wedding Co., Ltd. | The Company has no special relationships of interest with Minnano Wedding Co., Ltd. | | | | | — |

| Concurrent Position at Other Organization | Important Position at Other Organizations Concurrently Assumed and Relationships Between Organizations and the Company | | | | | |
|--|--|---|---|---------------------------------|---|--|
| | Transaction Matter, etc. | Vendor, Recipient of Supporting Money, etc. | Purchaser, Provider of Supporting Money, etc. | Percentage of Transaction Value | Value for Comparison | Significance of Relations |
| Tatsuo Uemura, External Director | | | | | | |
| Professor, School of Law, Waseda University | The Company is engaged in joint studies on beauty and health with Waseda University. Mr. Tatsuo Uemura is not involved in these joint studies. | | | | | — |
| Akio Harada, Audit & Supervisory Board Member (External) | | | | | | |
| External Director of Seiko Holdings Corporation | Commissioning of the development of systems, etc. | Seiko Group | Shiseido Group | Less than 0.1% | Total amount of the consolidated cost of sales and the consolidated selling, general and administrative expenses of the Company for the fiscal period ended December 31, 2015 | Transaction value is minimal for the Shiseido Group. |
| | | | | Less than 0.1% | Consolidated net sales of Seiko Holdings Corporation for the third quarter of the fiscal year ending March 31, 2016 | Transaction value is minimal for the Seiko Group. |
| | Cosmetics, etc. | Shiseido Group | Seiko Group | Less than 0.1% | Consolidated net sales of the Company for the fiscal period ended December 31, 2015 | Transaction value is minimal for the Shiseido Group. |
| | | | | Less than 0.1% | Consolidated cost of sales of Seiko Holdings Corporation for the third quarter of the fiscal year ending March 31, 2016 | Transaction value is minimal for the Seiko Group. |
| Outside Director of Sumitomo Corporation | Commissioning of the development of systems, raw materials, etc. | Sumitomo Corporation Group | Shiseido Group | Approx. 0.1% | Total amount of the consolidated cost of sales and the consolidated selling, general and administrative expenses of the Company for the fiscal period ended December 31, 2015 | Transaction value is minimal for the Shiseido Group. |
| | | | | Less than 0.1% | Total revenues of Sumitomo Corporation on a consolidated basis for the third quarter of the fiscal year ending March 31, 2016 | Transaction value is minimal for the Sumitomo Corporation Group. |
| | Cosmetics, etc. | Shiseido Group | Sumitomo Corporation Group | Less than 0.1% | Consolidated net sales of the Company for the fiscal period ended December 31, 2015 | Transaction value is minimal for the Shiseido Group. |
| | | | | Less than 0.1% | Total cost of sales of Sumitomo Corporation on a consolidated basis for the third quarter of the fiscal year ending March 31, 2016 | Transaction value is minimal for the Sumitomo Corporation Group. |
| External Director of Yamazaki Baking Co., Ltd. | Cosmetics, etc. | Shiseido Group | Yamazaki Baking Group | Less than 0.1% | Consolidated net sales of the Company for the fiscal period ended December 31, 2015 | Transaction value is minimal for the Shiseido Group. |
| | | | | Less than 0.1% | Consolidated cost of sales of Yamazaki Baking Co., Ltd. for the third quarter of the fiscal year ended December 31, 2015 | Transaction value is minimal for the Yamazaki Baking Group. |
| Representative Director of Young Men's Christian Association at the University of Tokyo, public interest incorporated foundation | The Company has no special relationships of interest with Young Men's Christian Association at the University of Tokyo, public interest incorporated foundation. | | | | | — |
| President of Japan Criminal Policy Society | The Company has no special relationships of interest with Japan Criminal Policy Society. | | | | | — |

| Concurrent Position at Other Organization | Important Position at Other Organizations Concurrently Assumed and Relationships Between Organizations and the Company | | | | | |
|--|--|---|---|---------------------------------|---|--|
| | Transaction Matter, etc. | Vendor, Recipient of Supporting Money, etc. | Purchaser, Provider of Supporting Money, etc. | Percentage of Transaction Value | Value for Comparison | Significance of Relations |
| President of International Civil and Commercial Law Centre Foundation | The Company has no special relationships of interest with International Civil and Commercial Law Centre Foundation. | | | | | — |
| Nobuo Otsuka, Audit & Supervisory Board Member (External) | | | | | | |
| Chairman of Keiseikai Hospital Group | The Company has no special relationships of interest with Keiseikai Hospital Group. | | | | | — |
| Eiko Tsujiyama, Audit & Supervisory Board Member (External) | | | | | | |
| Professor, School of Commerce and the Graduate School of Commerce, Waseda University | The Company is engaged in joint studies on beauty and health with Waseda University. Dr. Tsujiyama is not involved in these joint studies. | | | | | — |
| Outside Corporate Auditor of Mitsubishi Corporation | Manufacturing equipment, etc. | Mitsubishi Corporation Group | Shiseido Group | Less than 0.1% | Total amount of the consolidated cost of sales and the consolidated selling, general and administrative expenses of the Company for the fiscal period ended December 31, 2015 | Transaction value is minimal for the Shiseido Group. |
| | | | | Less than 0.1% | Revenues of Mitsubishi Corporation on a consolidated basis for the third quarter of the fiscal year ending March 31, 2016 | Transaction value is minimal for the Mitsubishi Corporation Group. |
| | Cosmetics, etc. | Shiseido Group | Mitsubishi Corporation Group | Approx. 0.2% | Consolidated net sales of the Company for the fiscal period ended December 31, 2015 | Transaction value is minimal for the Shiseido Group. |
| | | | | Less than 0.1% | Cost of revenues of Mitsubishi Corporation on a consolidated basis for the third quarter of the fiscal year ending March 31, 2016 | Transaction value is minimal for the Mitsubishi Corporation Group. |
| Outside Director of ORIX Corporation | Automobile rental, etc. | ORIX Group | Shiseido Group | Less than 0.1% | Total amount of the consolidated cost of sales and the consolidated selling, general and administrative expenses of the Company for the fiscal period ended December 31, 2015 | Transaction value is minimal for the Shiseido Group. |
| | | | | Less than 0.1% | Total amount of operating revenues of ORIX Corporation on a consolidated basis for the third quarter of the fiscal year ending March 31, 2016 | Transaction value is minimal for the ORIX Group. |

| Concurrent Position at Other Organization | Important Position at Other Organizations Concurrently Assumed and Relationships Between Organizations and the Company | | | | | |
|--|--|---|---|---------------------------------|---|--|
| | Transaction Matter, etc. | Vendor, Recipient of Supporting Money, etc. | Purchaser, Provider of Supporting Money, etc. | Percentage of Transaction Value | Value for Comparison | Significance of Relations |
| Outside Corporate Auditor of LAWSON, INC. | Raw materials, chemical, etc. | LAWSON Group | Shiseido Group | Less than 0.1% | Total amount of the consolidated cost of sales and the consolidated selling, general and administrative expenses of the Company for the fiscal period ended December 31, 2015 | Transaction value is minimal for the Shiseido Group. |
| | | | | Less than 0.1% | Consolidated net sales of LAWSON, INC. for the third quarter of the fiscal year ended February 29, 2016 | Transaction value is minimal for the LAWSON Group. |
| | Cosmetics, etc. | Shiseido Group | LAWSON Group | Approx. 0.1% | Consolidated net sales of the Company for the fiscal period ended December 31, 2015 | Transaction value is minimal for the Shiseido Group. |
| | | | | Approx. 0.7% | Consolidated cost of sales of LAWSON, INC. for the third quarter of the fiscal year ended February 29, 2016 | Transaction value is minimal for the LAWSON Group. |
| Outside Audit & Supervisory Board Member of NTT DOCOMO, INC. | Telecommunication services, etc. | NTT DOCOMO Group | Shiseido Group | Less than 0.1% | Total amount of the consolidated cost of sales and the consolidated selling, general and administrative expenses of the Company for the fiscal period ended December 31, 2015 | Transaction value is minimal for the Shiseido Group. |
| | | | | Less than 0.1% | Total amount of operating revenues of the NTT DOCOMO, INC. on a consolidated basis for the third quarter of the fiscal year ending March 31, 2016 | Transaction value is minimal for the NTT DOCOMO Group. |

Notes:

1. In the table, the name of the company group at which the external director and audit & supervisory board member holds a concurrent position includes that company itself, as well as parent companies, consolidated subsidiaries, equity method affiliates, etc. whose names are listed under the "Information on Affiliates" in "1. Overview of the Company" of "Part I. Information on the Company" in the Securities Report submitted by that company in the immediately preceding business year; similarly, "the Shiseido Group" includes Shiseido Company, Limited, as well as parent companies, consolidated subsidiaries, equity-method affiliates, etc. whose names are listed under the "Information on Affiliates" in "1. Overview of the Company" of "Part I. Information on the Company" in the Securities Report submitted in the immediately preceding business year.
2. To apply a unified period in the Shiseido Group, nine months for consolidated subsidiaries ending their fiscal period on March 31, and twelve months for those ending their fiscal period on December 31 were used respectively as the periods for the "transaction value" to calculate the "percentage of transaction value" for this business term in the table. As our review showed the period of nine months was applied to many of the transaction values, in principle we used the most recent three quarters (nine months) for financial data of the other organizations concurrently assumed for "value for comparison" purpose.

(8) Other Main Activities of External Directors and External Audit & Supervisory Board Member

| Position | Name | Major Activities |
|---|-----------------|--|
| External Director | Yoko Ishikura | Since assuming the office of external director in June 2015, Ms. Ishikura attended 8 out of 8 Board of Directors meetings (Attendance rate: 100%). She made remarks from a broad standpoint of international corporate strategies and diversity as necessary and fulfilled a supervisory function in regard to the management. She also served as a member of Remuneration Advisory Committee of the Company and a member of Nomination Advisory Committee of the Company. |
| External Director | Shoichiro Iwata | Mr. Iwata attended 11 out of 11 Board of Directors meetings (Attendance rate: 100%). Based on his views to the management of the Company, which are free from the Company's established structure, he made remarks from a standpoint of a manager in other industry as necessary and fulfilled a supervisory function in regard to the management. He also served as Chairman of Remuneration Advisory Committee of the Company and a member of Nomination Advisory Committee of the Company. |
| External Director | Tatsuo Uemura | Mr. Uemura attended 10 out of 11 Board of Directors meetings (Attendance rate: 90.9%). Based on his experiences and knowledge through in the area of the capital market and corporate governance, in addition to his legal knowledge as a university professor specializing in legal research, he made remarks as necessary and fulfilled a supervisory function in regard to the management. He also served as Chairman of Nomination Advisory Committee of the Company and a member of Remuneration Advisory Committee of the Company. |
| Audit & Supervisory Board Member (External) | Akio Harada | Mr. Harada attended 9 out of 11 Board of Directors meetings (Attendance rate: 81.8%) and 11 out of 12 Audit & Supervisory Board meetings (Attendance rate: 91.6%). Based on his legal experiences and knowledge, he made remarks as necessary and fulfilled a supervisory function. |
| Audit & Supervisory Board Member (External) | Nobuo Otsuka | Mr. Otsuka attended 10 out of 11 Board of Directors meetings (Attendance rate: 90.9%) and 11 out of 12 Audit & Supervisory Board meetings (Attendance rate: 91.6%). Based on his knowledge and experiences as a management executive of medical corporations, he made remarks as necessary and fulfilled a supervisory function. |
| Audit & Supervisory Board Member (External) | Eiko Tsujiyama | Dr. Tsujiyama attended 11 out of 11 Board of Directors meetings (Attendance rate: 100%), while 12 out of 12 Audit & Supervisory Board meetings (Attendance rate: 100%), and fully performed auditing function, through her remarks as appropriate, based on her experience and insight as an expert in finance, accounting and tax issues. |

(9) Name, Position and Responsibilities for Corporate Officers Who Do Not Serve as Director

| Position | Name | Responsibilities | |
|-----------------------------|------------------------|--|--|
| | | As of December 31, 2015 | As of January 1, 2016 |
| Corporate Executive Officer | Ralph Ahrbeck | Responsible for Corporate Strategy Chairman, Shiseido Liyuan Cosmetics Co., Ltd Chairman, Shanghai Zotos Citic Cosmetics Co., Ltd | - |
| Corporate Executive Officer | Chikako Sekine | Chief Beauty Officer [Responsible for the area of Beauty (Global & Japan), Beauty Creation and Consumer Information] | - |
| Corporate Executive Officer | Yoichi Shimatani | Chief Research and Development Officer | Chief Research and Development Officer |
| Corporate Officer | Jun Aoki | Chief People Officer, Department Director, Human Resources Department Member of CSR Committee | Chief People Officer, Department Director, Human Resources Department [Responsible for China Business Innovation Project, Executive and External Relations] Member of Compliance Committee |
| Corporate Officer | Jean-Philippe Charrier | President, Shiseido Asia Pacific Pte. Ltd. [Responsible for Asia Pacific Business] | President, Shiseido Asia Pacific Pte. Ltd. and Managing Director, Shiseido Singapore Co., (Pte.) Ltd. [Responsible for Asia Pacific Region] Member of Compliance Committee |
| Corporate Officer | Takahiro Hayashi | Chief Creative Officer [Responsible for Corporate Culture and Advertising and Design] | Chief Creative Officer [Responsible for Advertising and Design, Corporate Culture] |
| Corporate Officer | Masaya Hosaka | Assisting Chief Technology and Innovation Officer | Assisting Chief Technology and Innovation Officer |
| Corporate Officer | Kiyoshi Ishimoto | Chief Supply Chain Officer [Responsible for Supply Chain Management (Production, Purchasing and Logistics)] | - |
| Corporate Officer | Norio Iwasaki | Responsible for Personal Care Brands, Japan Business Senior Vice President, Personal Care Brands, Shiseido Japan Co., Ltd. President, FT Shiseido Co., Ltd. | - |
| Corporate Officer | Naoki Murakami | Responsible for Prestige Brand, Japan Business Senior Vice President, Prestige Brands, Shiseido Japan Co., Ltd. President and Representative Director, Shiseido International Inc. | - |
| Corporate Officer | Yoshiaki Okabe | SHISEIDO Brand Director, Global Business Division | Brand Director, SHISEIDO Brand Unit, Global Prestige Brands |
| Corporate Officer | Kazuhisa Shibata | Chief Administration Officer [Responsible for General Affairs, Legal Affairs, Executive Affairs, CSR and Environment] | - |

| Position | Name | Responsibilities | |
|-------------------|--------------------|--|--|
| | | As of December 31, 2015 | As of January 1, 2016 |
| Corporate Officer | Mikiko Soejima | Responsible for the area of Beauty, Japan Business | Chief Beauty Officer Chief Beauty Officer, Shiseido Japan Co., Ltd. [Responsible for Beauty Creation, Consumer Information, Japan Region] |
| Corporate Officer | Shigekazu Sugiyama | Responsible for Cosmetics Brands, Japan Business | Senior Vice President, Cosmetics Brands, Shiseido Japan Co., Ltd. President and Representative Director, Shiseido FITIT Co., Ltd. [Responsible for Cosmetics Brands, Japan Business] |
| Corporate Officer | Norio Tadakawa | Chief Finance Officer [Responsible for Finance, Information System Planning and Internal Control] | Chief Finance Officer [Responsible for Finance, Information System Planning and Internal Control] Member of Compliance Committee |
| Corporate Officer | Shigeru Takano | Assistant to Chief Officer of Global Business Division, Global Business Division | - |
| Corporate Officer | Mari Tamura | Senior Vice President, Global Prestige Brands, Global Business Division | Senior Vice President, Global Prestige Brands Member of Compliance Committee |

Notes:

- Corporate officers who retired on December 31, 2015 are as follows. Mr. Norio Iwasaki, Mr. Naoki Murakami, Mr. Kazuhisa Shibata and Mr. Shigeru Takano assumed office as corporate officers of Shiseido Japan Co., Ltd. on January 1, 2016.

| Position | Name |
|-----------------------------|------------------|
| Corporate Executive Officer | Ralph Ahrbeck |
| Corporate Executive Officer | Chikako Sekine |
| Corporate Officer | Kiyoshi Ishimoto |
| Corporate Officer | Norio Iwasaki |
| Corporate Officer | Naoki Murakami |
| Corporate Officer | Kazuhisa Shibata |
| Corporate Officer | Shigeru Takano |

- Corporate officers who were designated as of January 1, 2016 are as follows:

| Position | Name | Responsibilities |
|-------------------|--------------------|---|
| Corporate Officer | Kentaro Fujiwara | Chairman and President, Shiseido China Co., Ltd. Member of Compliance Committee |
| Corporate Officer | Katharina Höhne | Senior Vice President, Global Professional Business |
| Corporate Officer | Mitsuru Kameyama | Chief Information Officer, Department Director, Global Information and Communication Technology Department |
| Corporate Officer | Yasushi Kushida | Chief Supply Chain Officer Chairman, Shanghai Zotos Citic Cosmetics Co., Ltd |
| Corporate Officer | Yoshihiro Shiojima | Chief Legal and Governance Officer Responsible for Compliance, Sustainability Strategy Member of Compliance Committee |

(10) Remuneration, etc. to Directors and Audit & Supervisory Board Members**1) Basic Philosophy and the Overview of the Remuneration, etc. to Directors and Audit Supervisory Board Members of the Company**

The Company regards the directors, audit & supervisory board members and corporate officers remuneration policy as an important matter for the corporate governance. Thus the directors, audit & supervisory board members and corporate officers remuneration policy of the Company is designed at the Remuneration Advisory Committee chaired by external directors based on the following basic philosophy, while incorporating objective points of views.

■ Basic philosophy of the directors, audit & supervisory board members and corporate officers remuneration policy

The directors, audit & supervisory board members and corporate officers remuneration policy shall:

1. contribute to realizing corporate mission;
2. be designed to provide the amount of remuneration commensurate with the Company's capability to secure and maintain superior personnel;
3. be designed to reflect the Company's medium- to long-term business strategy, and designed to strongly motivate directors, audit & supervisory board members and corporate officers eligible for remuneration to bring medium- to long-term growth;
4. have a mechanism incorporated to prevent overemphasis on a short-term views and wrongdoing; and
5. be designed to transparent, fair and reasonable from the viewpoint of accountability to stakeholders including shareholders and employees, and remuneration shall be determined through appropriate processes to ensure those points.

The remuneration of the directors, audit & supervisory board members and corporate officers comprises basic remuneration and performance-linked remuneration, and the Company sets remuneration levels by making comparisons with companies in the same industry or of the same scale in Japan and overseas and by taking the Company's financial condition into consideration.

External directors and audit & supervisory board members receive only basic remuneration, as fluctuating remuneration such as performance-linked remuneration is inconsistent with their supervisory functions from a stance independent from business execution. Meanwhile, the Company abolished its officers' retirement benefit plan as of June 29, 2004 on which the 104th ordinary general meeting of shareholders was held.

2) Directors, audit & supervisory board members and corporate officers remuneration policy aligned to the Three-Year Plan of fiscal 2015 through fiscal 2017

■ Overview

The Company positions the three years from fiscal 2015 through fiscal 2017 to be the period for reconstructing its business foundation to enable accelerated growth in the three years from fiscal 2018 through fiscal 2020. Accordingly, the directors, audit & supervisory board members and corporate officers remuneration policy for the three years from fiscal 2015 to fiscal 2017 is designed to motivate directors, audit & supervisory board members and corporate officers to implement drastic reformation as leader of the transformation.

The Company assumes to require some time before the result of reconstructing the business foundation becomes reflected in business performance data such as consolidated business performance and the relevant business performance under their supervision. In addition, some challenges to be resolved may require actions that may cause negative impact to the business performance data on a short-term, optimization of market inventory level, for example. To achieve

a long-term growth, however, this process is unavoidable as those issues need to be resolved. From the point of view to provide incentives for directors, audit & supervisory board members and corporate officers to strategically resolve those challenges from a long-term growth perspective, the Company has adopted the mechanism of individual performance evaluation for both basic remuneration and performance-linked remuneration (evaluation on the level of achievement against the strategic target).

Because this current directors, audit & supervisory board members and corporate officers remuneration policy is designed specifically to ensure successful restructuring of the business platform, the Company will review the policy again for fiscal 2018 and beyond.

■ **Proportion of remunerations by remuneration type for each rank of directors**

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

Notes:

1. In this model, the basic remuneration amount is the median in the applicable role grade, and the achievement rate related to performance-linked remuneration is 100%.
2. The proportion of remunerations for representative directors and directors are the same.
3. Because different remuneration tables will be applied depending on the role grade of respective directors and corporate officers, proportions of remunerations by remuneration type will vary even within a same rank.
4. Directors who serve as the chairman of the Board shall be provided with a fixed amount of remuneration separately, which is not, however, included in the table.

■ **Basic remuneration**

The Company designs to set basic remunerations in accordance with the role grades, which is set based on size and level of responsibility that respective officers are in charge, as well as the impact to business management of the group. In addition, within a same grade, an increase of the amount is allowed within a certain range in accordance with the performance of respective directors or corporate officers in the previous fiscal year (numerical business performance and personal performance evaluation). These allow the Company to ensure well-modulated basic remuneration as well, commensurate with their achievements of respective directors, audit & supervisory board members and corporate officers.

For external directors and audit & supervisory board members, the Company shall not pay the basic remuneration that has a certain allowance for increase, but pay the fixed remuneration which is fixed at a certain amount only in the same manner as in the past.

■ **Performance-linked remuneration**

The performance-linked remuneration consists of an “annual bonus” provided based on annual business performance, and “stock options as long-term incentive-type remuneration,” designed to motivate the directors and corporate officers to manage business operation while being more conscious about the Company’s performance and share price from the perspectives of not only a single-year but also a medium to long term. In addition, the Company has ensured that the both

remunerations are designed to further motivate them to resolve strategic challenges from a long-term perspective by adding the part of evaluation based on evaluation of personal performance.

■ Annual bonus

The Company has set evaluation items for the annual bonus linked to performance in accordance with the scope respective directors and corporate officers are in charge of as described in the table below, in addition to the achievement rate of target consolidated net sales and consolidated operating income as common performance indicators across directors and corporate officers. We set the individual performance evaluation of all directors and corporate officers in order to add the level of achievement against the strategic goals that cannot be measured by the financial performance figures alone, such as efforts for restructuring of the business platform to realize sustainable growth, to evaluation criteria.

■ Evaluation weights of annual bonus for directors

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

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

■ Long-term incentive stock options

Of the performance-linked remuneration, the Company imposes terms and conditions regarding performance on stock compensation-type stock options as long-term incentive-type remuneration on two occasions when the stock acquisition rights are allotted and the exercise period of the stock acquisition rights allotted starts.

When actually allotting the stock acquisition rights after obtaining an approval for the maximum number of stock acquisition rights to be allotted at the general meeting of shareholders, the Company shall increase or decrease the number of stock acquisition rights to be granted ranging from 0 to the maximum number by using the evaluation indicators for annual bonuses for the immediately preceding fiscal year. In addition, we have introduced a mechanism that when the stock acquisition right exercise period starts, the exercisable number of stock acquisition rights may be determined according to the consolidated performance and other track records up to the immediately preceding fiscal year in the range of 30% to 100% of the allotted number, and thereby strengthen it to functions as incentives for improving medium- to long-term business performance and achieving the targets.

■ **Terms and conditions regarding performance on long-term incentive-type remuneration**

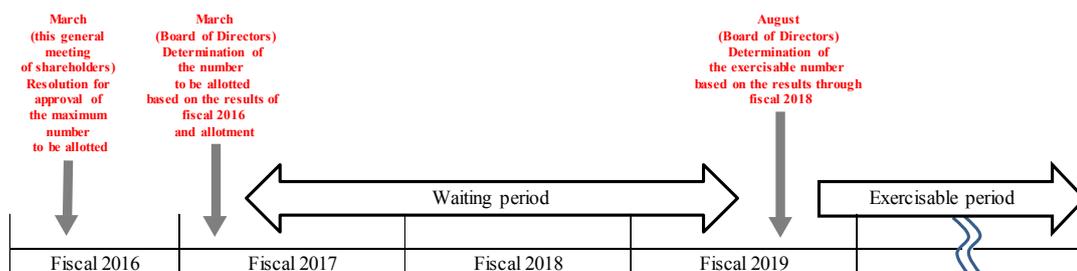
When stock acquisition rights are allotted

- Use the same indicators as used in calculating annual bonus to each officer. Indicators to be used differ from an officer to another, among consolidated business performance (consolidated net sales, consolidated operating income and net income attributable to shareholders of the Company), evaluation of performance of business of which respective officers are in charge, and personal evaluation.
- Determine the number of stock acquisition rights to be allotted through deliberation by the evaluation working group.

When the exercise period of the stock acquisition rights allotted starts

- Calculate the growth rate of operating income by comparing the operating income for the fiscal years preceding and following the fiscal year in which the stock acquisition rights allotment date is included.
- Calculate the growth rates of operating income for the same fiscal years as above of companies such as Kao Corporation (Japan), L’Oreal S.A. (France) and Estee Lauder Companies Inc. (USA), which are the leading cosmetic companies in Japan and overseas and have been designated in advance as companies to be compared with.
- Based on the comparison of the growth rates of operating income between the Company and the companies for comparison, decide the number of stock acquisition rights allotted to each director or corporate officer that are exercisable.

■ **Schedule of allotment and exercise of long-term incentive-type remuneration**



■ **Roles of Remuneration Advisory Committee and evaluation working group established in the Committee**

In the current directors, audit & supervisory board members and corporate officers remuneration policy, personal evaluation of each director and corporate officer will have a significant impact on determination of the amount of all remunerations including basic remuneration, annual bonus and the long-term incentive-type remuneration. To ensure objectivity, fairness and transparency of the personal evaluation, the evaluation working group has been established in the Remuneration Advisory Committee. The evaluation working group is comprised of external directors as importance is put to the independence from the business execution. From fiscal 2016 the group will also include external audit & supervisory board members.

The evaluation working group evaluates the performance of the President and CEO, and also deliberates on the President and CEO’s personal performance evaluations of the other corporate officers (including those who serve concurrently as directors). As the details of personal evaluation relate to the promotion of demotion of directors and corporate officers, the details of deliberation at the evaluation working group and its results are also notified to the Nomination Advisory Committee.

3) Amount of Remuneration, etc. to Directors and Audit & Supervisory Board Members of the Fiscal Period Ended December 31, 2015

(Millions of yen)

| | Basic Remuneration | Bonuses | Long-Term Incentive (Stock Option) | Total |
|--|--------------------|-----------|------------------------------------|------------|
| Directors (8 persons) | 145 | 68 | 28 | 242 |
| External Directors among Directors (4 persons) | 29 | — | — | 29 |
| Audit & Supervisory Board Members (6 persons) | 73 | — | — | 73 |
| Audit & Supervisory Board Members (External) among Audit & Supervisory Board Members (3 persons) | 27 | — | — | 27 |
| Total | 218 | 68 | 28 | 315 |

Notes:

- Effective from the fiscal period, the Company has changed its fiscal year-end from March 31 to December 31; the amounts of remuneration for the fiscal period therefore cover the nine months from April 1 to December 31, 2015.
- 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.
- The above amount of basic remuneration includes ¥5 million as basic remuneration for fiscal 2015 that one subsidiary of the Company paid through the Company to one director of the Company who served concurrently as the director of said subsidiaries.
- The above amount to be paid as bonuses to directors for fiscal 2015 is subject to the approval of the Fourth Item of Business (Payment of Bonuses to Directors) as proposed at this ordinary general meeting of shareholders.
- The amount of long-term incentive type remuneration (stock options) indicated above represents the expenses associated with the fiscal period among the stock options (stock acquisition rights) in the fiscal period, upon the approval of the ordinary general meeting of shareholders, in consideration of performance of duties by directors.
- In addition to the above payments, there are other remuneration, etc. of ¥2 million recorded for the fiscal period ended December 31, 2015 as expenses associated with stock options granted to three directors of the Company, at the time they served as corporate officers not holding the offices of directors.
- None of the directors or the audit & supervisory board members will be paid remunerations other than the executive remunerations described above (including those described in notes 2 through 6).

4) Amounts of Remunerations, etc. of Representative Directors and Directors Whose Total Amount of Remunerations, etc. Exceeds 100 Million Yen, by Type of Remuneration for the Fiscal Period Ended December 31, 2015

(Millions of yen)

| | Basic remuneration | Bonuses | Long-term incentive (Stock option) | Total |
|---|--------------------|---------|------------------------------------|-------|
| Masahiko Uotani, Representative Director | 61 | 46 | 11 | 119 |
| Toru Sakai, Representative Director | 23 | 11 | 5 | 40 |

Notes:

- Effective from the fiscal period, the Company has changed its fiscal year-end from March 31 to December 31; the amounts of remuneration for the fiscal period therefore cover the nine months from April 1 to December 31, 2015.

2. The above amount of basic remuneration includes ¥5 million as basic remuneration for fiscal 2015 that one subsidiary paid through the Company to Mr. Toru Sakai, representative director, who served concurrently as the director of said subsidiaries.
3. The above amount to be paid as bonuses to directors during fiscal 2015 is subject to the approval of the Fourth Item of Business (Payment of Bonuses to Directors) as proposed at this ordinary general meeting of shareholders.
4. The amount of long-term incentive type remuneration (stock options) indicated above represents the expenses associated with the fiscal period among the stock options (stock acquisition rights) in the fiscal period, upon the approval of the ordinary general meeting of shareholders, in consideration of duties executed by directors.
5. None of the two directors above will be paid remunerations other than the remunerations described above (including those described in notes 2 through 4).

(11) Matters Concerning Accounting Auditor

1) Name of Accounting Auditor

KPMG AZSA LLC

Notes:

1. The Company does not conclude execution of agreements for limitation of liabilities with KPMG AZSA LLC.
2. Of the significant subsidiaries of the Company, some overseas subsidiaries are subject to audits of accounts by a certified public accountant or incorporated accounting firm (including overseas auditors possessing similar qualifications) other than the accounting auditor or certified public accountant of the Company.

2) Remuneration, etc. to the Accounting Auditor

(Millions of yen)

| Category | Amount |
|---|--------|
| Remuneration paid for services rendered as the accounting auditor for the fiscal period ended December 31, 2015 | 178 |
| Total cash and other remuneration to be paid by the Company and its subsidiaries to the accounting auditor | 239 |

Note: In the audit contract between the Company and its accounting auditor, remuneration paid for audits under the Companies Act and audits under the Financial Instruments and Exchange Act are not clearly distinguished and cannot be practically separated. Therefore, the total payment for both is shown in “Remuneration paid for services rendered as the accounting auditor for the fiscal period ended December 31, 2015” above.

3) Reason for Audit and Supervisory Board to Have Agreed to Remuneration, etc. to the Accounting Auditor

The Audit and Supervisory Board of the Company reviewed the status of performance of duties and basis for the calculation of the estimated amount of remuneration in the previous fiscal year as well as the validity of both descriptions in the audit plan prepared by the Accounting Auditor during the fiscal period and the estimated amount of remuneration, using the “Practical Guidelines for Cooperation with Accounting Auditors” released by Japan Corporate Auditors Association as a guide, and by way of necessary documents obtained from Directors, internal relevant departments and Accounting Auditor as well as interviews to obtain information from them, and determined that the fees, etc. of the Accounting Auditor was appropriate, and expressed agreement that specified in Article 399, Paragraphs 1 and 2 of the Companies Act.

4) Details of Services Other Than Audit

The Company commissioned to the accounting auditor for supportive service reviewing the business structure and scheme of travel retail. The remuneration, etc. paid for these services was ¥25 million and this amount is included in “Total cash and other remuneration to be paid by the

Company and its subsidiaries to the accounting auditors” of “2) Remuneration, etc. to the Accounting Auditor,” above.

5) Policy Relating to Determination of Dismissal of or Not to Reappoint Accounting Auditor

In the event that the Company determines that keeping an accounting auditor as its accounting auditor causes material troubles to the Company for the reasons, among other things, that the accounting auditor violates its duties, negates its duties or behaves in a manner inappropriate as accounting auditor, the Audit & Supervisory Board shall dismiss the accounting auditor pursuant to Article 340 of the Companies Act. Furthermore, in addition, in the event that it is deemed that the accounting auditor is unable to carry out its duties duly or change of the accounting auditor to another audit firm is reasonably required to enhance the appropriateness of accounting audit, the Board of Directors shall submit a proposal to the general meeting of shareholders for the dismissal of the accounting auditor or not reappointing the accounting auditor in accordance with the resolution of the Audit & Supervisory Board on the proposal resolved in consideration of the opinion of the executive agency.

Amounts in this business report have been rounded down to the nearest million JPY, thousand USD, thousand EUR, thousand RMB, thousand TWD, or million VND. In the notation of 1,000 shares, shares of less than one unit have been omitted.

Consolidated Balance Sheets
(As of December 31, 2015)

(Millions of yen)

| | December 31, 2015 | March 31, 2015 (Reference) | | December 31, 2015 | March 31, 2015 (Reference) |
|---------------------------------------|----------------------|----------------------------------|--|----------------------|----------------------------------|
| ASSETS | | | LIABILITIES | | |
| Current Assets: | 410,673 | 415,069 | Current Liabilities: | 206,784 | 265,381 |
| Cash and Time Deposits | 116,771 | 103,603 | Notes and Accounts Payable | 33,102 | 34,460 |
| Notes and Accounts Receivable | 127,201 | 131,951 | Electronically Recorded Obligations-Operating | 29,213 | 25,980 |
| Short-Term Investments in Securities | 7,685 | 18,266 | Short-Term Debt | 7,167 | 27,187 |
| Inventories | 105,928 | 106,696 | Commercial Papers | 4,218 | 602 |
| Deferred Tax Assets | 28,242 | 32,240 | Current Portion of Bonds | — | 40,000 |
| Other Current Assets | 26,608 | 24,046 | Current Portion of Long-Term Debt | 5,739 | 5,952 |
| Less: Allowance for Doubtful Accounts | -1,765 | -1,733 | Lease Obligations | 1,870 | 1,873 |
| Non-current Assets: | 397,873 | 408,567 | Other Payables | 37,090 | 35,329 |
| Property, Plant and Equipment: | 134,281 | 136,986 | Accrued Income Taxes | 4,661 | 16,210 |
| Buildings and Structures | 58,793 | 62,388 | Provision for Sales Returns | 14,799 | 15,101 |
| Machinery, Equipment and Vehicles | 13,905 | 14,056 | Provision for Bonuses | 18,480 | 17,012 |
| Tools, Furniture and Fixtures | 22,110 | 24,790 | Provision for Directors' Bonuses | 55 | 182 |
| Land | 29,989 | 30,256 | Provision for Risk and Liabilities | 1,192 | 649 |
| Leased Assets | 3,639 | 3,743 | Provision for Structural Reforms | — | 10 |
| Construction in Progress | 5,843 | 1,752 | Deferred Tax Liabilities | 16 | 39 |
| Intangible Assets: | 161,403 | 167,121 | Other Current Liabilities | 49,176 | 44,788 |
| Goodwill | 59,430 | 64,453 | Non-current Liabilities: | 188,428 | 148,885 |
| Leased Assets | 513 | 635 | Bonds | 30,000 | — |
| Trademarks | 60,087 | 58,005 | Long-Term Debt | 35,432 | 28,831 |
| Other Intangible Assets | 41,372 | 44,027 | Lease Obligations | 2,184 | 2,450 |
| Investments and Other Assets: | 102,187 | 104,458 | Net Defined Benefit Liability | 83,656 | 77,704 |
| Investments in Securities | 27,434 | 29,234 | Provision for Losses on Guarantees | 350 | 350 |
| Long-Term Loans Receivable | 396 | — | Provision for Environmental Measures | 377 | 395 |
| Long-Term Prepaid Expenses | 12,692 | 12,842 | Provision for Structural Reforms | 990 | 1,005 |
| Deferred Tax Assets | 36,833 | 37,960 | Deferred Tax Liabilities | 31,270 | 33,198 |
| Other Investments | 24,877 | 24,483 | Other Non-current Liabilities | 4,165 | 4,949 |
| Less: Allowance for Doubtful Accounts | -46 | -62 | Total Liabilities | 395,212 | 414,267 |
| TOTAL ASSETS | 808,547 | 823,636 | NET ASSETS | | |
| | | | Shareholders' Equity: | 366,999 | 351,308 |
| | | | Common Stock | 64,506 | 64,506 |
| | | | Capital Surplus | 70,258 | 70,258 |
| | | | Retained Earnings | 233,933 | 218,757 |
| | | | Less: Treasury Stock, at Cost | -1,700 | -2,214 |
| | | | Accumulated Other Comprehensive Income | 24,664 | 35,552 |
| | | | Unrealized Gains (Losses) on Available-for-Sale Securities, Net of Taxes | 8,144 | 6,443 |
| | | | Foreign Currency Translation Adjustments | 40,374 | 48,544 |
| | | | Remeasurements of Defined Benefit Plans | -23,854 | -19,435 |
| | | | Stock Acquisition Rights | 863 | 1,043 |
| | | | Non-Controlling Interests | 20,806 | 21,465 |
| | | | Total Net Assets | 413,334 | 409,369 |
| | | | TOTAL LIABILITIES AND NET ASSETS | 808,547 | 823,636 |

Consolidated Statements of Income
(Fiscal Period from April 1, 2015 to December 31, 2015)

(Millions of yen)

| | Fiscal Period | Previous Fiscal Year (Reference) |
|---|----------------|-------------------------------------|
| Net Sales | 763,058 | 777,687 |
| Cost of Sales | 196,009 | 196,433 |
| Gross Profit | 567,048 | 581,254 |
| Selling, General and Administrative Expenses | 529,388 | 553,640 |
| Operating Income | 37,660 | 27,613 |
| Other Income | 4,100 | 4,938 |
| Interest Income | 1,172 | 1,194 |
| Dividend Income | 559 | 565 |
| Equity in Earnings of Affiliates | 149 | 212 |
| Rental Income | 669 | 1,006 |
| Subsidy Income | 730 | 874 |
| Other | 819 | 1,085 |
| Other Expenses | 4,172 | 3,312 |
| Interest Expense | 809 | 1,207 |
| Foreign Exchange Loss | 1,790 | 657 |
| Other | 1,571 | 1,447 |
| Ordinary Income | 37,588 | 29,239 |
| Extraordinary Income | 8,894 | 26,923 |
| Gain on Transfer of Business | 5,772 | 22,268 |
| Gain on Sales of Property, Plant and Equipment | 696 | 4,422 |
| Gain on Sales of Investments in Securities | 2,426 | 233 |
| Extraordinary Loss | 3,590 | 7,125 |
| Impairment Loss | 153 | 2,531 |
| Structural Reform Expenses | 1,485 | 3,273 |
| Loss on Liquidation of Subsidiaries and Affiliates | 812 | 125 |
| Loss on Sales and Disposal of Property, Plant and Equipment | 1,132 | 1,164 |
| Loss on Sales of Investments in Securities | 0 | 29 |
| Loss on Revaluation of Investments in Securities | 6 | 0 |
| Income before Income Taxes | 42,892 | 49,038 |
| Income Taxes – Current | 15,267 | 20,230 |
| Income Taxes – Deferred | 2,024 | -7,419 |
| Net Income | 25,600 | 36,227 |
| Net Income Attributable to Non-Controlling Interests | 2,389 | 2,558 |
| Net Income Attributable to Shareholders of the Company | 23,210 | 33,668 |

Reference: Consolidated Statements of Comprehensive Income

(Fiscal Period from April 1, 2015 to December 31, 2015)

(Millions of yen)

| | Fiscal Period | Previous Fiscal Year (Reference) |
|---|---------------|-------------------------------------|
| Net Income | 25,600 | 36,227 |
| Other Comprehensive Income: | | |
| Unrealized Gains (Losses) on Available-for-Sale Securities, Net of Tax | 1,690 | 2,842 |
| Foreign Currency Translation Adjustments | -9,173 | 30,822 |
| Remeasurements of Defined Benefit Plans | -4,468 | 773 |
| Share of Other Comprehensive Income of Entities Accounted for Under the Equity Method | -55 | 2 |
| Total Other Comprehensive Income | -12,005 | 34,441 |
| Comprehensive Income | 13,594 | 70,668 |
| (Breakdown) | | |
| Comprehensive Income Attributable to Shareholders of the Company | 12,323 | 66,193 |
| Comprehensive Income Attributable to Non-Controlling Interests | 1,271 | 4,474 |

The results for the previous fiscal year in the consolidated statements of income and the consolidated statements of comprehensive income refer to the results for the period from April 1, 2014 to March 31, 2015.

Consolidated Statements of Changes in Net Assets
(Fiscal Period from April 1, 2015 to December 31, 2015)

(Millions of yen)

| | Shareholders' Equity | | | | |
|---|----------------------|-----------------|-------------------|-------------------------|----------------------------|
| | Common Stock | Capital Surplus | Retained Earnings | Treasury Stock, at Cost | Total Shareholders' Equity |
| Balance as of April 1, 2015 | 64,506 | 70,258 | 218,757 | -2,214 | 351,308 |
| Changes during the Fiscal Period | | | | | |
| Dividends from Retained Earnings | | | -7,979 | | -7,979 |
| Net income Attributable to Shareholders of the Company | | | 23,210 | | 23,210 |
| Acquisition of Treasury Stock | | | | -10 | -10 |
| Disposal of Treasury Stock | | 0 | | 524 | 525 |
| Equity Transactions with Non-Controlling Interests and Others | | | -55 | | -55 |
| Net Change in Items Other than Shareholders' Equity | | | | | |
| Total Change during the Fiscal Period | — | 0 | 15,176 | 514 | 15,691 |
| Balance as of December 31, 2015 | 64,506 | 70,258 | 233,933 | -1,700 | 366,999 |

(Millions of yen)

| | Accumulated Other Comprehensive Income | | | | Stock Acquisition Rights | Non-Controlling Interests in Consolidated Subsidiaries | Total Net Assets |
|---|--|--|---|--|--------------------------|--|------------------|
| | Unrealized Gains (Losses) on Available-for-Sale Securities, Net of Taxes | Foreign Currency Translation Adjustments | Remeasurements of Defined Benefit Plans | Total Accumulated Other Comprehensive Income | | | |
| Balance as of April 1, 2015 | 6,443 | 48,544 | -19,435 | 35,552 | 1,043 | 21,465 | 409,369 |
| Changes during the Fiscal Period | | | | | | | |
| Dividends from Retained Earnings | | | | | | | -7,979 |
| Net income Attributable to Shareholders of the Company | | | | | | | 23,210 |
| Acquisition of Treasury Stock | | | | | | | -10 |
| Disposal of Treasury Stock | | | | | | | 525 |
| Equity Transactions with Non-Controlling Interests and Others | | | | | | | -55 |
| Net Change in Items Other than Shareholders' Equity | 1,701 | -8,170 | -4,418 | -10,887 | -180 | -658 | -11,726 |
| Total Change during the Fiscal Period | 1,701 | -8,170 | -4,418 | -10,887 | -180 | -658 | 3,965 |
| Balance as of December 31, 2015 | 8,144 | 40,374 | -23,854 | 24,664 | 863 | 20,806 | 413,334 |

Notes to the Consolidated Financial Statements

Basis of Presenting Consolidated Financial Statements

1. Scope of Consolidation

(1) Number of consolidated subsidiaries: 91

Principal subsidiaries are listed in 1.2 Outline of the Shiseido Group (3) Major Subsidiaries and Affiliates of Shiseido Group.

[Additions: 3 companies]

PT Shiseido Professional Indonesia, Shiseido Asia Pacific Pte. Ltd. and JOICO Belgium NV were established during the period and thus are included in the scope of consolidation in the fiscal period ended December 31, 2015.

[Exclusions: 4 companies]

Shares held in Ayura Laboratories Inc., Shiseido Hellas S.A. and SHISEIDO Kozmetick Anonim Sirketi were sold during the period. Accordingly, these companies were excluded from the scope of consolidation in the fiscal period.

Shiseido Beauty Foods Co., Ltd. was liquidated during the period. Accordingly, this company was excluded from the scope of consolidation in the fiscal period.

(2) Unconsolidated subsidiaries

Major company name: Beauté Prestige International Ltd. (UK)

(Reasons for excluding unconsolidated subsidiaries from scope of consolidation)

Since these companies are small in scale or do not engage in full-scale operations, total assets, net sales, net income (the Company's share) and retained earnings (the Company's share) have a minimal impact on the Company's consolidated financial statements, and they are immaterial, thus they are not included in the scope of consolidation.

2. Application of the Equity Method

(1) Affiliates accounted for under the equity method: 4

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

(2) Since the unconsolidated subsidiaries (Beauté Prestige International Ltd. (UK), and others) and affiliates not accounted for under the equity method are small in scale or do not engage in full-scale operations, their net income (the Company's share) and retained earnings (the Company's share) are immaterial and have a minimal impact on the Company's consolidated financial statements, thus they are not included in the scope of equity method application.

3. Change in Consolidated Fiscal Year-Ends

Effective from this fiscal period, Shiseido and its consolidated subsidiaries in Japan excluding Tai Shi Trading Co., Ltd., Bare Escentuals, KK and Selan Anonymous Association changed their balance sheet dates from March 31 to December 31. At the same time, the consolidated balance sheet date was amended from March 31 to December 31. As a result, the balance sheet dates of all consolidated subsidiaries are the same as the consolidated balance sheet date. By aligning the balance sheet dates of all consolidated subsidiaries, we aim to promote the management of a unified group and to enhance the transparency and quality of management through timely and pertinent disclosure of operating results and other important information.

Following this change in balance sheet date, the accounting period of the current fiscal period is nine months, from April 1, 2015 to December 31, 2015.

4. Fiscal Year of Consolidated Subsidiaries

The balance sheet dates of all consolidated subsidiaries are the same as the consolidated balance sheet date.

5. Notes on Accounting Standards

(1) Valuation of Major Assets

1) Securities

Available-for-sale securities:

Securities with readily determinable fair value:

Stated at fair value, based on market prices at fiscal year-end. (Net unrealized gains and losses are reported as a component of net assets. The cost of securities sold is mainly calculated using the moving-average method.)

Available-for-sale securities with qualities similar to that of deposits are stated at cost based on the moving-average method.

Securities without readily determinable fair value:

Primarily stated at cost, based mainly on 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.

2) Inventories

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

(2) Depreciation of Major Assets

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

Property, Plant and Equipment are depreciated mainly using the straight-line method over the following estimated useful lives:

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

2) Intangible Assets (Excluding Leased Assets)

Intangible assets are mainly amortized using the straight-line method over the following estimated useful lives:

| | |
|-------------------------|-----------------|
| Goodwill: | mainly 20 years |
| Software: | mainly 5 years |
| Customer relationships: | mainly 10 years |

3) Leased Assets

Leased assets associated with finance lease transactions that do not transfer ownership are depreciated using the straight-line method over the period of the lease, with zero residual value.

4) Long-Term Prepaid Expenses

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

(3) Significant Provisions

1) Allowance for Doubtful Accounts

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

2) Provision for Sales Returns

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

3) Provision for Bonuses

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

4) Provision for Directors' Bonuses

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 period.

5) Provision for Risk and Liabilities

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

6) Provision 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.

7) Provision 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.

8) Provision for Structural Reforms

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

(4) Basis for Calculating Net Defined Benefit Liability

1) Method for Attributing Estimated Retirement Benefits to Individual Periods of Service

In calculating the benefit obligation, the benefit formula basis is adopted for the purpose of attributing estimated retirement benefits to the period up to the end of the current fiscal period.

2) Calculation of Net Actuarial Gain or Loss and Prior Service Cost

Unrecognized prior 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.

Unrecognized 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.

(5) Translation of Significant Foreign-Currency Assets and Liabilities into Japanese Yen

Receivables and payables denominated in foreign currencies are translated into Japanese yen at the exchange rate prevailing at the end of the consolidated fiscal period and resulting exchange gains and losses are included in net income or loss for the fiscal period.

The financial statements of overseas consolidated subsidiaries and affiliates are translated into yen at the exchange rate prevailing on the respective balance sheet dates of those subsidiaries for assets and liabilities. All income and expenses are translated at the average rate of exchange during the fiscal year and resulting translation adjustments are included in Net Assets as Foreign Currency Translation Adjustments and Non-Controlling Interests.

(6) Significant Accounting for Hedges

Hedge accounting method

Deferral hedge accounting has been applied. The Company applies special accounting treatment to interest rate swaps that meet the requirement of special accounting. The Company also applies integral accounting treatment (special accounting treatment, assignment accounting treatment) to interest rate and currency swaps that meet the requirements of integral accounting.

(7) Other Significant Accounting Policies for Preparation of Consolidated Financial Statements

- 1) Consumption Taxes: The Companies adopted the tax-exclusive method for consumption tax and regional consumption tax.
- 2) Application of Consolidated Taxation System: The Company and certain domestic consolidated subsidiaries applied a consolidated taxation system.

6. Changes in Accounting Policies

The Company has applied the “Accounting Standard for Business Combinations” (Accounting Standards Board of Japan (ASBJ) Statement No. 21, September 13, 2013), the “Accounting Standard for Consolidated Financial Statements” (ASBJ Statement No. 22, September 13, 2013) and the “Accounting Standard for Business Divestitures” (ASBJ Statement No. 7, September 13, 2013) effective from the fiscal period ended December 31, 2015. Under the adopted accounting standards, differences arising from the change in the Company’s ownership interest in subsidiaries are accounted for as capital surplus as long as the Company retains control over its subsidiaries, and acquisition-related costs are accounted for as expenses in the fiscal period in which such costs are incurred. Furthermore, effective for business combinations occurring on or after the beginning of the fiscal period ended December 31, 2015, adjustments of the provisional allocation of acquisition costs for a business combination due to the completion of measurement are retrospectively reflected as if the accounting for the business combination had been completed at the acquisition date. In addition, the title “net income” has been changed to “net income attributable to shareholders of the Company,” and the title “minority interests” has been changed to “non-controlling interests.” The consolidated financial statements for the previous fiscal year have been reclassified to reflect these changes in presentation.

In accordance with the transitional treatment prescribed in Clause 58-2 (4) of the “Accounting Standard for Business Combinations,” in Clause 44-5 (4) of the “Accounting Standard for Consolidated Financial Statements” and in Clause 57-4 (4) of the “Accounting Standard for Business Divestitures,” the aforementioned accounting standards have been applied from the beginning of the fiscal period ended December 31, 2015.

These changes have no impact on the consolidated financial statements for the fiscal period ended December 31, 2015.

Notes to Consolidated Balance Sheet

(1) Inventories

| | |
|----------------------------|-----------------|
| Merchandise and products | ¥74,629 million |
| Work in process | ¥5,726 million |
| Raw materials and supplies | ¥25,572 million |

(2) Collateralized assets and loan liabilities

Assets pledged as collateral are as follows, which are all assets corresponding to non-recourse debt:

| | |
|--|------------------------|
| Buildings and structures | ¥13,681 million |
| Other investments (Guarantee deposit paid) | ¥15,200 million |
| Investments in securities | ¥1,155 million |
| Cash and time deposits | ¥1,797 million |
| Machinery, equipment and vehicles, and tools, furniture and fixtures | ¥1 million |
| Total | ¥31,835 million |

The above assets are pledged as collateral for derivative transactions (interest rate swaps) and the following collateralized liabilities, which are all non-recourse debt:

| | |
|-----------------------------------|-----------------|
| Current portion of long-term debt | ¥730 million |
| Long-term debt | ¥20,295 million |

(3) Accumulated depreciation of property, plant and equipment ¥236,406 million

Notes to Consolidated Statement of Income

(1) Gain on transfer of business

Gain resulted from the compensation for early termination of license agreement and the extra bonus in connection with the transfer of intellectual property rights relating to Jean Paul GAULTIER fragrance, as well as the business transfer of Ayura Laboratories Inc. and a Turkish subsidiary, SHISEIDO Kozmetik Anonim Sirketi.

(2) Impairment loss:

Impairment losses on overseas non-current assets are as follows.

| Use | Type of asset | Location |
|-------------------------|---|------------------|
| Business-use assets | Buildings and Structures, and others | United States |
| Idle assets, and others | Other Intangible Assets, Buildings and Structures, and others | China and others |

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

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

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

(3) Structural reform expenses

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

(4) Loss on liquidation of subsidiaries and affiliates

The Company reported losses on the transfer of a subsidiary in Greece and the liquidation of a subsidiary in India.

Notes to Consolidated Statement of Changes in Net Assets

(1) Shares issued and outstanding

Category and number of shares issued and outstanding as of December 31, 2015

Common stock: 400,000 thousand shares

(2) Dividends

1) Cash dividends paid

| Resolution | Share Class | Cash Dividends Paid (Millions of yen) | Cash Dividends per Share (Yen) | Record Date | Effective Date |
|---|--------------|---------------------------------------|--------------------------------|--------------------|------------------|
| Ordinary General Meeting of Shareholders on June 23, 2015 | Common stock | 3,988 | 10 | March 31, 2015 | June 24, 2015 |
| Board of Directors Meeting on October 31, 2015 | Common stock | 3,990 | 10 | September 30, 2015 | December 4, 2015 |
| Total | | 7,979 | | | |

2) Resolution at the Ordinary General Meeting of Shareholders to be held on March 25, 2016 concerning dividends on shares of common stock made for the fiscal period ended December 31, 2015 but for which the effective date is after the end of the fiscal period.

Cash dividends to be paid: ¥3,991 million
 Cash dividends per share: ¥10
 Record date: December 31, 2015
 Effective date: March 28, 2016
 Funding source: Retained earnings

- (3) Category and number of stock acquisition rights outstanding at fiscal period-end, excluding those for which the exercisable period has not commenced

| | |
|--------------|---------------------|
| Common stock | 648 thousand shares |
|--------------|---------------------|

Financial Instruments

1. Financial Instruments

(1) Policy for financial instruments

The Shiseido Group limits fund management to short-term deposits, investments in securities and other methods. As a matter of policy, the Shiseido Group procures funds using bank loans, commercial papers, bonds and other methods. The Shiseido Group uses 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 Shiseido Group limits 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, related risks and risk management system

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

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

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

Interest-bearing debt includes short-term borrowings and commercial paper, which the Shiseido Group uses to procure funds for operating transactions, as well as long-term borrowings, bonds and lease obligations, which the Shiseido Group uses to fund investments and loans, capital expenditures and operating transactions. Floating-rate debt is exposed to the risk of interest rate fluctuations. The Shiseido Group hedges 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 Shiseido Group uses 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 fluctuations in interest rates 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.

The Shiseido Group executes and manages derivatives within the limits of established internal rules and regulations, and reduces credit risk by limiting counterparties to highly creditworthy financial institutions.

Payables and interest-bearing debt are exposed to liquidity risk that the Shiseido Group manages in ways such as preparing monthly cash flow plan.

2. Fair Value of Financial Instruments

Fair value and variance with carrying value presented on the balance sheet as of December 31, 2015 are as follows. Unlisted equity securities, investments in limited partnerships and other instruments with fair values that are not readily determinable are not included in the following table.

(Millions of yen)

| | Carrying Value* | Fair Value* | Variance |
|---|-----------------|-------------|----------|
| (1) Cash and time deposits | 116,771 | 116,771 | — |
| (2) Notes and accounts receivable (less allowance for doubtful accounts) | 125,436 | 125,436 | — |
| (3) Short-term investments in securities and investments in securities | | | |
| Available-for-sale securities | 30,854 | 30,854 | — |
| (4) Notes payable, Electronically recorded obligations - operating, Accounts payable and Other payables | (99,406) | (99,406) | — |
| (5) Short-term debt | (7,167) | (7,167) | — |
| (6) Commercial papers | (4,218) | (4,218) | — |
| (7) Bonds | (30,000) | (30,180) | -180 |
| (8) Long-term debt | (41,172) | (43,708) | -2,536 |
| (9) Lease obligations | (4,054) | (4,071) | -16 |
| (10) Derivative instruments | | | |
| 1) Hedge accounting not applied | (16) | (16) | — |
| 2) Hedge accounting applied | — | 1,859 | 1,859 |

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

Note: Method for calculating the fair value of financial instruments, short-term investments in securities and derivative transactions

(1) Cash and time deposits; (2) Notes and accounts receivable

Carrying value is used for the fair value of 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 the fair value of instruments with short-term maturities included in available-for-sale securities because these amounts are approximately the same.

(4) Notes payable, electronically recorded obligations, accounts payable and other payables; (5) Short-term debt; (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 debt

Floating-rate long-term debt reflects market interest rates. In addition, fair value approximates carrying value because the Company's creditworthiness does not vary significantly after assuming long-term debt. Therefore, carrying value is used for the fair value of floating-rate long-term borrowing. The 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

The fair value of derivative instruments is based on prices quoted by financial institutions.

Per-Share Information

| | |
|-----------------------|---------|
| Net assets per share: | ¥981.37 |
| Net income per share: | ¥58.17 |

Significant Subsequent Events

Transfer of significant assets

On April 9, 2015, BEAUTÉ PRESTIGE INTERNATIONAL S.A. (hereinafter: “BPI”), an affiliate of the Company, entered into an agreement (hereinafter: “Agreement”) with PUIG, S.L. (hereinafter: “PUIG”) to transfer the intellectual property rights (hereinafter: “IP rights”) of Jean Paul GAULTIER (hereinafter: “JPG”) managed by BPI regarding fragrance products and other related activities. The transfer was completed on January 4, 2016.

(1) Reason for the transfer

BPI has developed and distributed JPG fragrance products since 1991 under a license agreement (hereinafter: the “License Agreement”) expiring in June 2016 for Class 3 products in accordance with the international classification of goods and services. PUIG became the majority shareholder of the fashion house Jean Paul GAULTIER in 2011 and wanted 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. is a subsidiary of the Company and 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) Transfer date

January 4, 2016

(6) Transfer value

IP rights and shares of Noms de Code S.A.S.: €69,500,000

Extra bonus to be paid when JPG fragrance’s business result in the fiscal year 2015 meets the pre-agreed conditions: Maximum of €20,000,000

(7) Impact of the License Agreement on the Shiseido Group's financial position, and business results

Gain on sales resulting from the transfer of IP rights will be recognized in the fiscal year ending December 31, 2016. The impact of the transfer on consolidated financial statements is currently being calculated. Compensation for early termination of the License Agreement and a portion of the extra bonus described in (6) Transfer value in the amount of ¥4,602 million has already been recorded as Gain on Transfer of Business for the fiscal period ended December 31, 2015.

Other

The amounts presented have been rounded down to the nearest million yen.

Non-Consolidated Balance Sheets
(As of December 31, 2015)

(Millions of yen)

| | December 31, 2015 | March 31, 2015 (Reference) | | December 31, 2015 | March 31, 2015 (Reference) |
|--|----------------------|----------------------------------|---|----------------------|----------------------------------|
| ASSETS | | | LIABILITIES | | |
| Current Assets: | 158,305 | 171,869 | Current Liabilities: | 145,061 | 222,929 |
| Cash and Time Deposits | 32,612 | 22,465 | Notes Payable | 843 | 428 |
| Notes Receivable | 109 | 88 | Electronically Recorded Obligations-Operating | 25,622 | 25,980 |
| Accounts Receivable | 77,046 | 90,473 | Accounts Payable | 10,781 | 9,624 |
| Short-Term Investments in Securities | 5,067 | 15,069 | Short-Term Debt | — | 24,000 |
| Merchandise and Products | 9,832 | 8,500 | Current Portion of Bonds | — | 40,000 |
| Work in Process | 2,709 | 2,366 | Current Portion of Long-term Debt | 5,000 | 5,000 |
| Raw Materials and Supplies | 8,991 | 8,082 | Lease Obligations | 1,085 | 1,325 |
| Prepaid Expenses | 2,150 | 2,146 | Other Accounts Payable | 13,094 | 18,233 |
| Short-Term Loans Receivable | 350 | 970 | Accrued Expenses | 507 | 518 |
| Other Accounts Receivable | 14,708 | 13,916 | Accrued Income Taxes | — | 6,019 |
| Deferred Tax Assets | 3,444 | 6,168 | Deposits Received | 1,351 | 1,327 |
| Other Current Assets | 1,281 | 1,930 | Deposits Received from Subsidiaries and Affiliates | 79,690 | 77,821 |
| Less: Allowance for Doubtful Accounts | — | -310 | Provision for Sales Returns | 3,777 | 6,700 |
| Non-current Assets: | 422,074 | 429,317 | Provision for Bonuses | 3,089 | 3,202 |
| Property, Plant and Equipment: | 52,577 | 52,185 | Provision for Directors' Bonuses | 55 | 182 |
| Buildings | 19,981 | 20,392 | Provision for Structural Reforms | — | 10 |
| Structures | 553 | 579 | Other Current Liabilities | 161 | 2,555 |
| Machinery and Equipment | 3,840 | 3,407 | Non-current Liabilities: | 66,190 | 31,413 |
| Vehicles | 35 | 27 | Bonds | 30,000 | — |
| Tools, Furniture and Fixtures | 4,969 | 4,568 | Long-Term Debt | 15,000 | 7,500 |
| Land | 20,195 | 20,195 | Lease Obligations | 1,164 | 1,653 |
| Leased Assets | 2,008 | 2,716 | Provision for Retirement Benefits | 16,792 | 19,310 |
| Construction in Progress | 992 | 298 | Provision for Losses on Guarantees | 578 | 350 |
| Intangible Assets: | 7,538 | 10,109 | Provision for Environmental Measures | 310 | 310 |
| Patent Rights | 27 | 33 | Provision for Structural Reforms | 990 | 1,005 |
| Telephone Rights | 124 | 124 | Other Non-current Liabilities | 1,354 | 1,283 |
| Software | 3,848 | 8,470 | Total Liabilities | 211,251 | 254,343 |
| Software in Progress | 1,317 | 1,279 | NET ASSETS | | |
| Leased Assets | 199 | 199 | Shareholders' Equity: | 360,751 | 339,869 |
| Other Intangible Assets | 2,021 | 2 | Common Stock | 64,506 | 64,506 |
| Investments and Other Assets: | 361,958 | 367,022 | Capital Surplus | 70,258 | 70,258 |
| Investments in Securities | 22,384 | 24,343 | Additional Paid-In Capital | 70,258 | 70,258 |
| Investments in Shares of Subsidiaries and Affiliates | 288,883 | 289,232 | Other Capital Surplus | 0 | — |
| Other Investment Securities of Subsidiaries and Affiliates | 18,786 | 18,786 | Retained Earnings: | 227,685 | 207,318 |
| Capital Investments | 736 | 737 | Legal Reserve | 16,230 | 16,230 |
| Capital Investments in Subsidiaries and Affiliates | 11,816 | 11,816 | Other Retained Earnings | 211,455 | 191,087 |
| Long-Term Loans Receivable | 4,726 | 5,570 | Retained Earnings Carried Forward | 211,455 | 191,087 |
| Prepaid Pension Expenses | 5,602 | 6,010 | Less: Treasury Stock, at Cost | -1,700 | -2,214 |
| Long-Term Prepaid Expenses | 332 | 476 | Valuation, Translation Adjustments and Others: | 7,513 | 5,930 |
| Deferred Tax Assets | 4,304 | 6,635 | Unrealized Gains on Available-for-Sale Securities, Net of Taxes | 7,513 | 5,930 |
| Other Investments | 5,211 | 5,024 | Stock Acquisition Rights | 863 | 1,043 |
| Less: Allowance for Doubtful Accounts | -827 | -1,613 | Total Net Assets | 369,128 | 346,843 |
| TOTAL ASSETS | 580,380 | 601,186 | TOTAL LIABILITIES AND NET ASSETS | 580,380 | 601,186 |

Non-Consolidated Statements of Income
(Fiscal Period from April 1, 2015 to December 31, 2015)

(Millions of yen)

| | Fiscal Period | Previous Fiscal Year (Reference) |
|--|---------------|-------------------------------------|
| Net Sales | 165,148 | 241,099 |
| Cost of Sales | 81,432 | 109,445 |
| Gross Profit | 83,715 | 131,653 |
| Selling, General and Administrative Expenses | 74,199 | 112,578 |
| Operating Income | 9,515 | 19,074 |
| Other Income | 27,114 | 22,799 |
| Interest Income | 147 | 242 |
| Dividend Income | 21,653 | 15,358 |
| Foreign Exchange Gain | 148 | 432 |
| Gain on Investment in Limited Partnerships | 1,178 | 1,275 |
| Royalty Income | 2,972 | 3,880 |
| Other | 1,014 | 1,609 |
| Other Expenses | 1,386 | 1,941 |
| Interest Expense | 325 | 815 |
| Provision of Allowance for Doubtful Accounts | — | 545 |
| Provision for Loss on Guarantees | 228 | — |
| Loss on Investment in Limited Partnerships | — | 7 |
| Other | 833 | 572 |
| Ordinary Income | 35,243 | 39,933 |
| Extraordinary Income | 3,238 | 3,736 |
| Gain on Sales of Shares of Subsidiaries and Affiliates | 567 | — |
| Gain on Liquidation of Subsidiaries and Affiliates | 243 | — |
| Gain on Sales of Property, Plant and Equipment | 0 | 3,485 |
| Gain on Sales of Investments in Securities | 2,426 | 233 |
| Gain on Cancellation of Lease Contracts | 0 | 18 |
| Extraordinary Loss | 1,002 | 2,750 |
| Structural Reform Expenses | — | 1,606 |
| Loss on Sales and Disposal of Property, Plant and Equipment | 198 | 272 |
| Loss on Sales of Investments in Securities | 0 | 15 |
| Loss on Revaluation of Investments in Securities | 6 | 0 |
| Loss on Revaluation of Shares in Subsidiaries and Affiliates | 759 | 819 |
| Loss on Cancellation of Lease Contracts | 37 | 35 |
| Income before Income Taxes | 37,479 | 40,919 |
| Income Taxes – Current | 2,553 | 9,692 |
| Income Taxes – Deferred | 2,114 | 727 |
| Net Income | 32,811 | 30,498 |

The results for the previous fiscal year in the non-consolidated statements of income refer to the results for the period from April 1, 2014 to March 31, 2015.

Non-Consolidated Statements of Changes in Net Assets
(Fiscal Period from April 1, 2015 to December 31, 2015)

(Millions of yen)

| | Shareholders' Equity | | | |
|---|----------------------|----------------------------|-----------------------|-----------------------|
| | Common Stock | Capital Surplus | | |
| | | Additional Paid-In Capital | Other Capital Surplus | Total Capital Surplus |
| Balance as of April 1, 2015 | 64,506 | 70,258 | — | 70,258 |
| Changes during the Fiscal Period | | | | |
| Dividends from Retained Earnings | | | | |
| Net Income | | | | |
| Acquisition of Treasury Stock | | | | |
| Disposal of Treasury Stock | | | 0 | 0 |
| Net Change in Items Other than Shareholders' Equity | | | | |
| Total Change during the Fiscal Period | — | — | 0 | 0 |
| Balance as of December 31, 2015 | 64,506 | 70,258 | 0 | 70,258 |

(Millions of yen)

| | Shareholders' Equity | | | | |
|---|----------------------|-----------------------------------|-------------------------|-------------------------|----------------------------|
| | Retained Earnings | | | Treasury Stock, at Cost | Total Shareholders' Equity |
| | Legal Reserve | Retained Earnings Carried Forward | Total Retained Earnings | | |
| Balance as of April 1, 2015 | 16,230 | 191,087 | 207,318 | -2,214 | 339,869 |
| Changes during the Fiscal Period | | | | | |
| Dividends from Retained Earnings | | -12,443 | -12,443 | | -12,443 |
| Net Income | | 32,811 | 32,811 | | 32,811 |
| Acquisition of Treasury Stock | | | | -10 | -10 |
| Disposal of Treasury Stock | | | | 524 | 525 |
| Net Change in Items Other than Shareholders' Equity | | | | | |
| Total Change during the Fiscal Period | — | 20,367 | 20,367 | 514 | 20,882 |
| Balance as of December 31, 2015 | 16,230 | 211,455 | 227,685 | -1,700 | 360,751 |

(Millions of yen)

| | Valuation, Translation Adjustments and Others | | Stock Acquisition Rights | Total Net Assets |
|---|--|---|--------------------------|------------------|
| | Unrealized Gains (Losses) on Available-for-Sale Securities, Net of Taxes | Total Valuation, Translation Adjustments and Others | | |
| Balance as of April 1, 2015 | 5,930 | 5,930 | 1,043 | 346,843 |
| Changes during the Fiscal Period | | | | |
| Dividends from Retained Earnings | | | | -12,443 |
| Net Income | | | | 32,811 |
| Acquisition of Treasury Stock | | | | -10 |
| Disposal of Treasury Stock | | | | 525 |
| Net Change in Items Other than Shareholders' Equity | 1,583 | 1,583 | -180 | 1,403 |
| Total Change during the Fiscal Period | 1,583 | 1,583 | -180 | 22,285 |
| Balance as of December 31, 2015 | 7,513 | 7,513 | 863 | 369,128 |

Notes to the Non-Consolidated Financial Statements

Significant Accounting Policies

(1) Valuation of Assets

1) Securities

Stock of subsidiaries and affiliates: Stated at cost, based on the moving-average method.

Available-for-sale securities

Securities with readily determinable fair value:

Stated at fair value, based on market prices at fiscal year-end. (Net unrealized gains and losses are reported as a component of net assets. The cost of securities sold is mainly calculated using the moving-average method.)

Available-for-sale securities with qualities similar to that of deposits are stated at cost based on the moving-average method.

Securities without readily determinable fair value:

Primarily stated at cost, based on 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.

2) Inventories

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

(2) Depreciation of Non-current Assets

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

Property, Plant and Equipment are depreciated mainly using the straight-line method over the following estimated useful lives:

| | |
|-------------------------------|-------------------|
| Buildings | mainly 2–50 years |
| Structures | mainly 7–50 years |
| Machinery and equipment | mainly 2–12 years |
| Vehicles | mainly 4–7 years |
| Tools, furniture and fixtures | mainly 2–15 years |

2) Intangible Assets (Excluding Leased Assets)

Intangible assets are mainly amortized using the straight-line method over the following estimated useful lives:

| | |
|----------|----------------|
| Software | mainly 5 years |
|----------|----------------|

3) Leased Assets

Leased assets associated with finance lease transactions that do not transfer ownership are depreciated using the straight-line method over the period of the lease, with zero residual value.

4) Long-term Prepaid Expenses

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

(3) Provisions

1) Allowance for Doubtful Accounts

The Company provides an allowance for doubtful accounts based on the historical percentage of actual bad debt loss as compared to the balance of total receivables and the amount of uncollectible receivables estimated on an individual basis.

2) Provision for Sales Returns

The Company provides a reserve for sales returns for future losses considering the past return ratios and market distributors' stock.

3) Provision for Bonuses

The Company provides accrued bonuses for employees based on the estimated amounts to be paid in respect of the fiscal period. This reserve includes bonuses for corporate officers who are non-Board members, for whom the calculations are the same as those for Provision for Directors' Bonuses.

4) Provision for Directors' Bonuses

The Company provides accrued bonuses to 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 period.

5) Provision for Retirement Benefits

The Company has an obligation to pay retirement benefits to its employees, and therefore the Company provides accrued retirement benefits based on the estimated amount of projected benefit obligation and the fair value of plan assets.

Method for attributing estimated retirement benefits to individual periods of service in calculating the liability related to retirement benefits, the benefit formula basis is adopted for the purpose of attributing estimated retirement benefits to the period up to the end of the current fiscal period.

Unrecognized prior service cost is amortized by the straight-line method over a 10-year period, which is shorter than the average remaining years of service of the eligible employees.

Unrecognized 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.

6) Provision 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.

7) Provision for Environmental Measures

The Company provides 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.

8) Provision for Structural Reforms

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

(4) Significant Accounting for Hedges

Hedge accounting method

Deferral hedge accounting has been applied. The Company applies integral accounting treatment (special accounting treatment, assignment accounting treatment) to interest rate and currency swaps that meet the requirements of integral accounting.

(5) Other Significant Accounting Policies for Preparation of Financial Statements

- 1) Consumption Taxes: The Company adopted the tax-exclusive method for consumption tax and regional consumption tax.
- 2) Application of Consolidated Taxation System: The Company applied a consolidated taxation system.
- 3) Accounting Treatment Related to Retirement Benefits: The method of accounting for unrecognized net actuarial gain or loss and unrecognized prior service cost related to retirement benefits is different from the method adopted in the consolidated financial statements.
- 4) Change of balance sheet date: Effective from the fiscal period, the Company has changed its balance sheet date from March 31 to December 31. Consequently, the accounting period of the current fiscal period was nine months, from April 1, 2015 to December 31, 2015.

(6) Changes in Accounting Policies

The Company has applied the “Accounting Standard for Business Combinations” (Accounting Standards Board of Japan (ASBJ) Statement No. 21, September 13, 2013) and the “Accounting Standard for Business Divestitures” (ASBJ Statement No. 7, September 13, 2013) effective from the fiscal period. Under the adopted accounting standards, acquisition-related costs are accounted for as expenses in the fiscal period in which such costs are incurred. Furthermore, effective for business combinations occurring on or after the beginning of the fiscal period ended December 31, 2015, adjustments of the provisional allocation of acquisition costs for a business combination due to the completion of measurement are retrospectively reflected as if the accounting for the business combination had been completed at the acquisition date.

In accordance with the transitional treatment prescribed in Clause 58-2 (4) of the “Accounting Standard for Business Combinations” and in Clause 57-4 (4) of the “Accounting Standard for Business Divestitures,” the aforementioned accounting standards have been applied from the beginning of the fiscal period ended December 31, 2015.

These changes have no impact on the non-consolidated financial statements for the fiscal period ended December 31, 2015.

Notes to Balance Sheet

(1) Accumulated depreciation of property, plant and equipment: ¥97,805 million

(2) Guarantees

(Millions of yen)

| Warranty | Guaranteed Amount | Liability Guaranteed |
|---------------------------------------|-------------------|------------------------------|
| Shiseido Korea Co., Ltd. | 1,553 | Loans |
| Shiseido Professional Korea Co., Ltd. | 103 | Loans |
| Shiseido Americas Corporation | 4,236 | Commercial papers and others |
| Total | 5,892 | |

(3) Monetary Receivables and Payables from/to Subsidiaries and Affiliates

| | |
|------------------------|-----------------|
| Short-term receivables | ¥89,570 million |
| Long-term receivables | ¥4,593 million |
| Short-term payables | ¥86,657 million |

Notes to Statement of Income

Transactions with Subsidiaries and Affiliates

| | |
|------------------------------|------------------|
| Sales | ¥157,932 million |
| Purchases | ¥16,690 million |
| Other operating transactions | ¥7,214 million |
| Non-operating transactions | ¥25,677 million |

Notes to Statement of Changes in Net Assets

Treasury Stock

(Thousand shares)

| | Number of shares at April 1, 2015 | Increase in shares in the period ended December 31, 2015 | Decrease in shares in the period ended December 31, 2015 | Number of shares at December 31, 2015 |
|--------------|--------------------------------------|--|--|---|
| Common stock | 1,173 | 3 | 278 | 899 |

Note 1: Shares of common stock held as treasury stock increased due to the purchase of 3 thousand shares in response to purchase demands for less than one unit.

Note 2: Shares of common stock held as treasury stock decreased due to exercise of stock options for 278 thousand shares and sale of 0 thousand shares in response to requests from less-than-one-unit shareholders.

Tax-Effect Accounting

Principal components of deferred tax assets and deferred tax liabilities

(Millions of yen)

| | |
|---|---------|
| Deferred tax assets | |
| Write-down of investments in shares of subsidiaries and affiliates | 14,200 |
| Provision for retirement benefits | 3,580 |
| Depreciation | 3,124 |
| Inventories | 1,829 |
| Provision for bonuses | 1,134 |
| Write-down of investments in securities and other investments | 1,027 |
| Provision for sales returns | 367 |
| Other | 1,123 |
| Subtotal | 26,388 |
| Less: Valuation allowance | -14,740 |
| Total | 11,647 |
| Deferred tax liabilities | |
| Unrealized losses on available-for-sale securities | -3,535 |
| Unrealized losses on property, plant and equipment due to company split | -332 |
| Asset retirement obligation | -30 |
| Total | -3,898 |
| Net deferred tax assets | 7,748 |

Transactions with Related Parties

Subsidiaries, affiliates and other related parties

| Type | Name | Voting Rights Held by Company (or held by others) | Relationship | Transactions | Amount of Transactions (Millions of yen) | Accounts name | Balance as of December 31, 2015 (Millions of yen) |
|------------|------------------------------------|---|---------------------------------------|---|--|--|---|
| Subsidiary | Shiseido Japan Co., Ltd. | Direct, 100% | Product sales Concurrent directors | Sales of cosmetics (Note 1) | 47,869 | Accounts receivable | 27,269 |
| | | | | Deposit received (Note 2) | - | Deposits received from subsidiaries and affiliates | 24,578 |
| | | | | Transfer of assets accompanying company split (Note 3) | 9,583 | - | - |
| | | | | Transfer of liabilities accompanying company split (Note 3) | 5,118 | - | - |
| Subsidiary | Shiseido FITIT Co., Ltd. | Direct, 100% | Product sales | Sales of cosmetics (Note 1) | 26,497 | Accounts receivable | 12,439 |
| Subsidiary | FT Shiseido Co., Ltd. | Direct, 100% | Product sales Concurrent directors | Sales of toiletry products (Note 1) | 14,204 | Accounts receivable | 7,291 |
| | | | | Deposit received (Note 2) | - | Deposits received from subsidiaries and affiliates | 6,946 |
| Subsidiary | Shiseido International Inc. | Direct, 100% | Product sales | Sales of cosmetics (Note 1) | 22,954 | Accounts receivable | 12,211 |
| Subsidiary | Shiseido International Europe S.A. | Direct, 100% | No trade transactions | Deposit received (Note 2) | - | Deposits received from subsidiaries and affiliates | 29,896 |

Note 1: Transaction Terms and Relevant Policies

For prices and other transaction terms, the Company sets prices in consideration of market prices and decides final prices based on negotiation.

Note 2: Funding transactions with subsidiaries are carried out as a part of a cash management system.

Note 3: Details of the company split are described under Business Combinations below.

Amounts stated in the “Amount of transactions” column above do not include consumption tax, while balances stated in the “Balance as of December 31, 2015” column above include consumption tax (except for Affiliate Company deposits).

Per-Share Information

| | |
|----------------------|---------|
| Net assets per share | ¥922.74 |
| Net income per share | ¥82.23 |

Business Combinations

Transactions under common control

The Company resolved at the Board of Directors meeting held on June 30, 2015 that, effective October 1, 2015, the Company would transfer a part of its cosmetics business in Japan to Shiseido Sales Co., Ltd. (hereinafter, “Shiseido Sales”), a wholly-owned subsidiary of the Company, by means of a company split (simplified absorption-type company split).

1. Outline of the transaction

(1) Name and description of business involved in business combination

Part of the cosmetics business in Japan

(2) Effective date of business combination

October 1, 2015

(3) Legal form of business combination

Absorption-type company split with the Company as the splitting company and Shiseido Sales as the succeeding company.

(4) Name of the company after combination

Shiseido Japan Co., Ltd.

(5) Other matters related to the outline of the transaction

With the aim of building a structure to allow the capture of consumers and the market trends more quickly and accurately under a comprehensive organization with development through sales integrated in Japan, one of the most important markets, the Company implemented an absorption-type company split by transferring the aforementioned business to Shiseido Sales to launch a Japanese regional headquarters with Shiseido Sales serving as its foundation.

2. Outline of accounting treatment of transaction

The transaction was accounted for as a transaction under common control in accordance with the “Accounting Standard for Business Combinations” (ASBJ Statement No. 21, September 13, 2013) and the “Guidance on Accounting Standard for Business Combinations and Accounting Standard for Business Divestitures” (ASBJ Guidance No. 10, September 13, 2013).

Significant Subsequent Events

Significant company split

The Company resolved at the Board of Directors meeting held on September 30, 2015 that, effective January 1, 2016, the Company would transfer a part of corporate functions for the operations in Japan and healthcare business of the Company to Shiseido Japan Co., Ltd., a wholly-owned subsidiary of the Company, by a company split (simplified absorption-type company split).

1. Outline of the transaction

(1) Name and description of business involved in business combination

Part of corporate functions for the operations in Japan and healthcare business

(2) Effective date of business combination

January 1, 2016

(3) Legal form of business combination

Absorption-type company split with the Company as the splitting company and Shiseido Japan Co., Ltd. as the succeeding company.

(4) Other matters related to the outline of the transaction

By transferring a part of corporate functions for the operations in Japan and healthcare business of the Company to Shiseido Japan Co., Ltd., the Japanese regional headquarters with responsibility and authority over the business activities in Japan would commence its operation on January 1, 2016.

2. Outline of accounting treatment of transaction

The transaction would be accounted for as a transaction under common control in accordance with the “Accounting Standard for Business Combinations” (ASBJ Statement No. 21, September 13, 2013) and the “Guidance on Accounting Standard for Business Combinations and Accounting Standard for Business Divestitures” (ASBJ Guidance No. 10, September 13, 2013).

Other

The amounts presented have been rounded down to the nearest million yen.

Copy of the Accounting Auditor's Report (Consolidated)**Independent Auditor's Report**

February 22, 2016

The Board of Directors
Shiseido Company, Limited

KPMG AZSA LLC

Masahiro Mekada (Seal)
Designated Limited Liability Partner
Engagement Partner
Certified Public Accountant

Ryoji Fujii (Seal)
Designated Limited Liability Partner
Engagement Partner
Certified Public Accountant

Takashi Kawakami (Seal)
Designated Limited Liability Partner
Engagement Partner
Certified Public Accountant

We have audited the consolidated financial statements, comprising the consolidated balance sheet, the consolidated statement of income, the consolidated statement of changes in net assets and the related notes of Shiseido Company, Limited as at December 31, 2015 and for the period from April 1, 2015 to December 31, 2015 in accordance with Article 444-4 of the Companies Act.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the 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 the consolidated financial statements based on our audit as independent auditor. We conducted our audit in accordance with auditing standards generally accepted in Japan. Those standards require that we 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 referred to above present fairly, in all material respects, the financial position and the results of operations of Shiseido Company, Limited and its consolidated subsidiaries for the period, for which the consolidated financial statements were prepared, in accordance with accounting principles generally accepted in Japan.

Other Matter

Our firm and engagement partners have no interest in the Company which should be disclosed pursuant to the provisions of the Certified Public Accountants Law of Japan.

Notes to the Reader of Independent Auditor's Report:

The Independent Auditor's Report herein is the English translation of the Independent Auditor's Report as required by the Companies Act.

Copy of the Accounting Auditor's Report

Independent Auditor's Report

February 22, 2016

The Board of Directors
Shiseido Company, Limited

KPMG AZSA LLC

Masahiro Mekada (Seal)
Designated Limited Liability Partner
Engagement Partner
Certified Public Accountant

Ryoji Fujii (Seal)
Designated Limited Liability Partner
Engagement Partner
Certified Public Accountant

Takashi Kawakami (Seal)
Designated Limited Liability Partner
Engagement Partner
Certified Public Accountant

We have audited the financial statements, comprising the balance sheet, the statement of income, the statement of changes in net assets and the related notes, and the supplementary schedules of Shiseido Company, Limited as at December 31, 2015 and for the period from April 1, 2015 to December 31, 2015 in accordance with Article 436-2-1 of the Companies Act.

Management's Responsibility for the Financial Statements and Others

Management is responsible for the preparation and fair presentation of the financial statements and the supplementary schedules in accordance with accounting principles generally accepted in Japan, and for such internal control as management determines is necessary to enable the preparation of financial statements and the supplementary schedules that are free from material misstatements, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on the financial statements and the supplementary schedules based on our audit as independent auditor. We conducted our audit in accordance with auditing standards generally accepted in Japan. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements and the supplementary schedules are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements and the supplementary schedules. The procedures selected depend on our judgement, including the assessment of the risks of material misstatement of the financial statements and the supplementary schedules, 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 financial statements and the supplementary schedules 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 financial statements and the supplementary schedules.

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 financial statements and the supplementary schedules referred to above present fairly, in all material respects, the financial position and the results of operations of Shiseido Company, Limited for the period, for which the financial statements and the supplementary schedules were prepared, in accordance with accounting principles generally accepted in Japan.

Other Matter

Our firm and engagement partners have no interest in the Company which should be disclosed pursuant to the provisions of the Certified Public Accountants Law of Japan.

Notes to the Reader of Independent Auditor's Report:

The Independent Auditor's Report herein is the English translation of the Independent Auditor's Report as required by the Companies Act.

Copy of the Audit & Supervisory Board's Report**Audit Report**

With respect to the directors' performance of their duties during the 116th business period (from April 1, 2015 to December 31, 2015), the Audit & Supervisory Board has prepared this audit report after deliberations based on the audit reports prepared by each of the audit & supervisory board members, and hereby reports as follows:

1. Method and Contents of Audit by the Audit & Supervisory Board members and the Audit & Supervisory Board

- (1) The Audit & Supervisory Board has established the audit policies, audit plans, etc. and received a report from each of the Audit & Supervisory Board members regarding the status of implementation of their audits and results thereof. In addition, the Audit & Supervisory Board has received reports from the directors, the corporate officers etc., and the accounting auditor regarding the status of performance of their duties, and requested explanations as necessary.
- (2) In conformity with the Audit & Supervisory Board member audit standards established by the Audit & Supervisory Board, and in accordance with the audit policies and audit plans, etc., each of the Audit & Supervisory Board members endeavored to facilitate a mutual understanding with the directors, the corporate officers, the internal audit division and other employees, etc., endeavored to collect information, maintain and improve the audit environment, and conducted the audits based on the methods described below.
 - i) Each of the Audit & Supervisory Board members has attended the meetings of the Board of Directors and other important meetings, received reports on the status of performance of duties from the directors and the internal audit division and requested explanations as necessary, examined important approval/decision documents, and inspected the status of the corporate affairs and assets at the head office and other principal business locations. Also, with respect to the subsidiaries, each of the Audit & Supervisory Board members endeavored to facilitate a mutual understanding and exchanged information with the directors and the Audit & Supervisory Board members, etc. of each subsidiary and received from subsidiaries reports on their respective business as necessary.
 - ii) Each of the Audit & Supervisory Board members monitored and inspected the status of the contents of the Board of Directors' resolutions regarding the development and maintenance of the system to ensure that the directors' performance of their duties complied with all laws, regulations and the articles of incorporation of the company and other systems that are set forth in Article 100, paragraphs 1 and 3 of the Ordinance for Enforcement of the Companies Act of Japan as being necessary for ensuring the appropriateness of the corporate affairs of the company group comprised of a joint stock company and its subsidiaries, and the systems (internal control systems) based on such resolutions. With respect to the internal control related to the financial report, the Audit & Supervisory Board received reports regarding the assessment and status of their audits from the directors, the corporate officers, and KPMG AZSA LLC, and also requested explanations when necessary.
 - iii) Each of the Audit & Supervisory Board members monitored and verified whether the accounting auditor maintained its independence and properly conducted its audit, received a report from the accounting auditor on the status of its performance of duties, and requested explanations as necessary. Each of the Audit & Supervisory Board members were notified by the accounting auditor that it had established a "system to ensure that the performance of the duties of the accounting auditor was properly conducted" (the matters listed in the items of Article 131 of the Company Accounting Regulations) in accordance with the "Quality Control Standards for Audits" (Business Accounting Council on October 28, 2005), and requested explanations as necessary.

Based on the above-described methods, each of the Audit & Supervisory Board members examined the business report and the supplementary schedules, the financial statements (balance sheet, profit and loss statement, shareholders' equity variation statement, and schedule of individual notes) and the annexed specifications thereto, as well as the consolidated financial statements (consolidated balance sheet, consolidated profit and loss statement, consolidated shareholders' equity variation statement, and schedule of consolidated notes), for the business period under consideration.

2. Results of Audit

(1) Results of Audit of Business Report, etc.

- i) We acknowledge that the business report and the annexed specifications thereto fairly present the status of the Company in conformity with the applicable laws and regulations and the articles of incorporation of the company.
- ii) We acknowledge that no misconduct or material fact constituting a violation of any law or regulation or the articles of incorporation of the company was found with respect to the directors' performance of their duties.
- iii) We acknowledge that the Board of Directors' resolutions with respect to the internal control systems are appropriate. We did not find any matter to be mentioned with respect to the directors' performance of their duties concerning the internal control systems.

The Audit & Supervisory Board received reports from the directors stating that the internal control regarding financial reports was effective, and from KPMG AZSA LLC stating that no deficiency was identified in the internal control which was likely to correspond to material weakness, at the time of preparation of the Audit Report.

(2) Results of Audit of Financial Statements and their Annexed Specifications

We acknowledge that the methods and results of audit performed by the accounting auditor, KPMG AZSA LLC, are appropriate.

(3) Results of Audit of Consolidated Financial Statements

We acknowledge that the methods and results of audit performed by the accounting auditor, KPMG AZSA LLC, are appropriate.

February 22, 2016

Audit & Supervisory Board of
Shiseido Company, Limited

Audit & Supervisory Board Member (Full-time)
Yoshinori Nishimura (Seal)

Audit & Supervisory Board Member (Full-time)
Kyoko Okada (Seal)

Audit & Supervisory Board Member (External)
Akio Harada (Seal)

Audit & Supervisory Board Member (External)
Nobuo Otsuka (Seal)

Audit & Supervisory Board Member (External)
Eiko Tsujiyama (Seal)

Reference Document Concerning the General Meeting of Shareholders

1. Total Number of Voting Rights Held by Shareholders: 3,987,071

2. Items of Business and Reference Information:

First Item of Business: Dividends of Retained Earnings

The Company would like to propose the amount of dividend for the fiscal period ended December 31, 2015 be ¥10 per share, according to the basic policy for returns to shareholder below placing emphasis on stable dividends. The total dividend per share for the fiscal period will be ¥20, together with ¥10 interim dividend per share.

(1) Matter related to assignment of assets to be distributed to shareholders and the total amount thereof

An amount per share of common stock of the Company: ¥10
 The total amount thereof: ¥3,991,002,590

(2) The date on which dividends of retained earnings become effective (the commencement day for payment)

March 28, 2016

Basic Policy for Returns to Shareholder

The Company aims to achieve a maximum return to shareholders through direct means and also generating medium- and long-term share price gains. To this end, our fundamental policy is to make strategic investments that drive earnings growth while raising capital efficiency, which will lead to medium- and long-term increases in dividends and share price.

Our target for returns over the medium term is a consolidated payout ratio of 40 percent. Based on this target, we will prioritize payment of stable dividends while implementing share buybacks in a flexible manner.

Trends of Dividends, etc.

(Millions of yen, unless otherwise noted)

| | 113th Business Term (4/1/2012 - 3/31/2013) | 114th Business Term (4/1/2013 - 3/31/2014) | 115th Business Term (4/1/2014 - 3/31/2015) | 116th Business Term (Current term) (4/1/2015 - 12/31/2015) |
|---------------------------------------|---|---|---|--|
| Annual cash dividends per share (Yen) | 50 | 20 | 20 | 20 (P) |
| Annual dividends | 19,900 | 7,968 | 7,975 | 7,981 (P) |
| Consolidated payout ratio (%) | — | 30.5 | 23.7 | 34.4 (P) |

Notes:

- Annual cash dividends per share and annual dividends for the 116th Business Term (current term) are predicated on the approval of this item at the ordinary general meeting of shareholders to be held on March 25, 2016.
- The consolidated payout ratio for the 113th Business Term has not been calculated because a net loss was posted for the same business term.

Consolidated Payout Ratio for the Current term

With regard to the dividends of Retained Earnings for this business term, the total dividend for the period will be ¥20 per share and the consolidated payout ratio will be 34.4%, subject to approval for the proposal as drafted in the above, and based on the net income excluding extraordinary income such as gain on transfer of business, etc., it will be approximately 40% (39.4% in the Company's estimate). The Company positions fiscal 2016 as a year for restructuring the business platform under the medium- to long-term strategy, VISION 2020. We strive to reinforce such investments as aggressive investments in marketing and other initiatives to achieve the medium- to long-term growth including global innovation center and Osaka new factory. We will continue to make investments towards sustainable growth for the future, thereby allowing for greater profit distribution to shareholders in the future.

Second Item of Business: Election of Seven (7) Directors

The Company's Articles of Incorporation provide that the term of director is one (1) year, in order to ask shareholders' confidence on the appointment of directors each year from a viewpoint of directors' management responsibilities. Moreover, the Articles of Incorporation of the Company provide that the authorized number of director is twelve (12) or less upon reduction of the number of the Board of Directors of the Company.

The term of office of six (6) directors will expire at the conclusion of this general meeting of shareholders. Thus, the Company cordially asks shareholders to elect seven (7) directors including four (4) external directors in accordance with the provisions of the Articles of Incorporation in order to promote an agile management capable of responding appropriately to changes in management environment.

Policy and Process under Which Candidates for Directors Are Selected

It is a policy of the Company selecting candidates for directors from an appropriate person who is able to fulfill the duties and responsibility of director in response to entrustment on management by shareholders, fully taking into consideration his/her personality and intellectuality and the like regardless of gender, age and nationality. Pursuant to this policy the Board of Directors decided candidates for directors upon receiving a report from the Nomination Advisory Committee.

Furthermore, the Company sets forth the Criteria for Independence of "External Directors and Audit & Supervisory Board Members" as stated in pages 39 to 41. The four (4) candidates for external directors have fulfilled the Criteria in full.

Candidates for Directors

| No. | Name | Current Position and Responsibilities at the Company | Attributes of the Candidate | |
|-----|-----------------|---|---------------------------------|---|
| 1 | Masahiko Uotani | Representative Director President and CEO Chairman of the Board (Responsible for Corporate Strategy, Corporate Communications, Internal Audit, Global Cosmetics and Personal Care Brands) Member of Remuneration Advisory Committee Member of Nomination Advisory Committee | | |
| 2 | Tsunehiko Iwai | Representative Director Executive Vice President Chief Technology and Innovation Officer, Chief Technical Strategy Officer, Chief Quality Officer (Responsible for Research and Development, Supply Chain, Technical Strategy, Technical Planning, Regulatory Strategy, Quality Management, Frontier Science Business, Legal and Governance, Compliance, and Sustainability Strategy) Chairman of Compliance Committee Member of Nomination Advisory Committee | | |
| 3 | Toru Sakai | Representative Director Corporate Executive Officer President and CEO, Shiseido Japan Co., Ltd. (Responsible for Japan Region) Member of Remuneration Advisory Committee Member of Compliance Committee | | |
| 4 | Yoko Ishikura | External Director Member of Remuneration Advisory Committee Member of Nomination Advisory Committee | Candidate for External Director | Candidate for Independent Director |
| 5 | Shoichiro Iwata | External Director Chairman of Remuneration Advisory Committee Member of Nomination Advisory Committee | Candidate for External Director | Candidate for Independent Director |
| 6 | Kanoko Oishi | — | Candidate for New Director | Candidate for External Director Candidate for Independent Director |
| 7 | Tatsuo Uemura | External Director Chairman of Nomination Advisory Committee Member of Remuneration Advisory Committee | Candidate for External Director | Candidate for Independent Director |

Candidates for Directors

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

Career Summary, and Position and Responsibilities at the Company

- Apr. 1977: Joined the Lion Dentifrice Co., Ltd. (currently Lion Corporation)
- Jun. 1983: Graduated from Columbia University in the City of New York, Graduate School of Business Administration (MBA)
- Jan. 1988: Manager, Citibank, N.A.
- Apr. 1991: Representative Director, Vice President of Kraft Japan Limited (currently Mondelez Japan Limited)
- May 1994: Director, Executive Vice President and Chief Officer of Marketing of Coca-Cola (Japan) Co., Ltd.
- Oct. 2001: Representative Director, President of Coca-Cola (Japan) Co., Ltd. (Global Officer)
- Aug. 2006: Representative Director, Chairman of Coca-Cola (Japan) Co., Ltd.
- Jun. 2007: Representative Director, Chief Executive Partner of BrandVision Inc.
- Aug. 2011: Outside Director of ASKUL Corporation
- Jan. 2012: Corporate Advisor of Coca-Cola West Co., Ltd. [incumbent]
- Oct. 2012: Director of Citibank Japan Ltd. (part time)
- Apr. 2013: Outside Chief Marketing Advisor of the Company
- Apr. 2014: President and CEO of the Company [incumbent]
Chairman of CSR Committee of the Company
- Jun. 2014: Representative Director of the Company [incumbent]
- Jan. 2015: Responsible for Human Resources and Corporate Culture Reforms of the Company
- Feb. 2015: Responsible for Global Business (International Business, China Business and Professional Business) of the Company
Chief Officer of International Business Division of the Company
- Apr. 2015: Responsible for Global Business of the Company
Responsible for Corporate Communication of the Company [incumbent]
- Jan. 2016: Responsible for Corporate Strategy, Internal Audit, Global Cosmetics and Personal Care Brands of the Company [incumbent]

Important Positions at Other Organizations Concurrently Held

None

Reasons for Nomination of the Candidate for Director

As detailed in the above career summary, Mr. Masahiko Uotani has a proven track record in business management and is particularly highly regarded within the marketing field. As a result of this and other factors, the Company invited him to become President and CEO, and in April 2014 he assumed that office. Following his appointment as a director of the Company at the 114th ordinary general meeting of shareholders held on June 25 that year, he was selected as representative director by the Board of Directors and since then has undertaken the mandate given by our shareholders to steer the Company's management.

In fiscal 2015, the Company initiated VISION 2020, the medium- to long-term strategy, and he continuously exerted his sophisticated marketing capabilities and leadership. For the Company to become a "Japanese company that leads the world's beauty industry," he concentrated on reconstructing the business foundation. Embracing a mindset of "Think Global, Act Local (conduct activities in a manner closely linked to regional locations and on-site, while thinking from a global perspective)," he created a new global organization to commence full-fledged operations in January 2016, transferring responsibility and authority to the regions.

Due to these facts the Board of Directors has continuously selected him as a candidate for director.

Based on his career stated in "Career summary, and Position and Responsibilities at the Company" and other career, Mr. Uotani has experience, knowledge and professional information as follows:

- Experience and knowledge to the competent extent on all over the management



- Number of shares of the Company owned
13,400 Shares
- Number of years in office of the Company as Director
1 Year and 9 Months
- Number of attendance at the Board of Directors meetings of the Company for the fiscal period ended December 31, 2015
11 out of 11 Board of Directors meetings
(100%)
- Number of attendance at the Remuneration Advisory Committee meetings of the Company for the fiscal period ended December 31, 2015
4 out of 7 Remuneration Advisory Committee meetings
(57.1%)
The unattended meetings included only those at which his own remuneration was discussed.
- Number of attendance at the Nomination Advisory Committee meetings of the Company for the fiscal period ended December 31, 2015
3 out of 3 Nomination Advisory Committee meetings (100%)
- Number of attendance at the CSR Committee meetings of the Company for the fiscal period ended December 31, 2015
3 out of 3 CSR Committee meetings
(100%)

- Experience and knowledge to the competent extent on sales and marketing
- Experience and knowledge to the competent extent on international business
- Experience and knowledge to the competent extent on marketing and product development
- Experience and knowledge to the competent extent on the general consumer product industry
- Experience and knowledge corporate governance

Special Interest between the Candidate and the Company

There is no special interest between Mr. Masahiko Uotani and the Company.

Message from the President

We initiated VISION 2020, our medium- to long-term strategy, in the aim of becoming a “Japanese company that leads the world’s beauty industry.” For Shiseido to continue shining more as a company for the next 100 years, we will establish a mechanism to encourage challenges, boost enthusiasm of each and every employee more than ever, and realize the corporate philosophy, “to inspire a life of beauty and culture”. And by achieving a long-term growth for the Company as a result, we will undertake the mandate given by our shareholders.

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

Career Summary, and Position and Responsibilities at the Company

- Apr. 1979: Joined the Company
- Apr. 2002: General Manager of Product Commercialization Planning Department of the Company
- Apr. 2004: Chief Officer of Fine Chemical Division of the Company
- Apr. 2006: General Manager of Technical Department of the Company
- Apr. 2008: Corporate Officer of the Company
- Apr. 2009: General Manager of Quality Management Department of the Company
- Apr. 2010: Responsible for Technical Planning, Quality Management and Frontier Science Business of the Company
- Apr. 2013: Responsible for Technical Planning, Quality Management, Pharmaceuticals Affairs, CSR, Environmental Affairs and Frontier Science Business of the Company
- Apr. 2014: Corporate Executive Officer of the Company
Responsible for Research & Development, Production, and Technical Affairs of the Company
- Jun. 2014: Director of the Company
- Apr. 2015: Chief Technology and Innovation Officer of the Company [incumbent]
Responsible for Research and Development, SCM, and Technical Strategy of the Company
- Nov. 2015: Chief Technical Strategy Officer, Chief Quality Officer of the Company [incumbent]
Responsible for Technical Planning, Quality Management, and Frontier Science Business of the Company [incumbent]
Responsible for Pharmaceuticals Affairs of the Company
- Jan. 2016: Representative Director of the Company [incumbent]
Executive Vice President of the Company [incumbent]
Responsible for Research and Development, SCM, and Technical Strategy of the Company [incumbent]
Responsible for Regulatory Strategy of the Company [incumbent]
Responsible for Legal and Governance, Compliance, and Sustainability Strategy of the Company [incumbent]
Chairman of Compliance Committee of the Company [incumbent]



- Number of shares of the Company owned
4,000 Shares
- Number of years in office of the Company as Director
1 Year and 9 Months
- Number of attendance at the Board of Directors meetings of the Company for the fiscal period ended December 31, 2015
11 out of 11 Board of Directors meetings (100%)
- Number of attendance at the CSR Committee meetings of the Company for the fiscal period ended December 31, 2015
3 out of 3 CSR Committee meetings (100%)

Important Positions at Other Organizations Concurrently Held

None

Reasons for Nomination of the Candidate for Director

Mr. Tsunehiko Iwai has actively made statements at the Board of Directors as director of the Company and performed appropriately, determining important managerial events and matters and supervising business execution. Since assuming the office of corporate officer, he has served as officer responsible for quality management, technical planning, pharmaceuticals affairs, CSR, environmental affairs, and frontier science business. Thereafter, he served as officer with overall responsibility for research and development, SCM (Supply Chain Management) and technical strategy, and strove to reinforce R&D by leading innovations in product development to cooperate with and be fused with marketing. He also, as a member of CSR Committee of the Company, has actively made statements at the meetings of the Committee.

Due to these facts the Board of Directors has continuously selected him as a candidate for director.

Based on his career stated in “Career summary, and Position and Responsibilities at the Company” and other career, Mr. Iwai has experience, knowledge and professional information as follows:

- Experience and knowledge to the competent extent on technology and innovation
- Experience and knowledge to the competent extent on supply chains including production, purchasing and logistics
- Experience and knowledge to the competent extent on pharmaceuticals affairs and quality management
- Experience and knowledge to the competent extent on cosmetics and the related consuming product industry

Special Interest between the Candidate and the Company

There is no special interest between Mr. Tsunehiko Iwai and the Company.

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

Career Summary, and Position and Responsibilities at the Company

- Apr. 1982: Joined the Company
- Apr. 2008: General Manager of Purchasing Department of the Company
- Apr. 2010: Corporate Officer of the Company
Responsible for Production, Purchasing and Logistics of the Company
- Apr. 2012: General Manager of Corporate Planning Department of the Company
- Apr. 2013: Corporate Executive Officer of the Company [incumbent]
Responsible for Domestic Cosmetics Business, Business Strategies of the Company
- Jun. 2013: Director of the Company
- Apr. 2014: Responsible for Domestic Cosmetics Business and Healthcare Business of the Company
Chief Officer of Domestic Cosmetics Business Division of the Company
- Apr. 2015: Representative Director of the Company [incumbent]
President, Japan Region of the Company
Responsible for Japan Business, Health Care Business and Digital Business
- Oct. 2015: President and CEO, Shiseido Japan Co., Ltd. [incumbent]
- Jan. 2016: Responsible for Japan Region of the Company [incumbent]

Important Positions at Other Organizations Concurrently Held

President and CEO, Shiseido Japan Co., Ltd.

Reasons for Nomination of the Candidate for Director

Mr. Toru Sakai has actively made statements at the Board of Directors as Director of the Company and performed appropriately, determining important managerial events and matters and supervising business execution. He has ample business experience in overall supply chain operations including production, purchasing and logistics, and after assuming the office of



- Number of shares of the Company owned
3,600 Shares
- Number of years in office of the Company as Director
2 Years and 9 Months
- Number of attendance at the Board of Directors meetings of the Company for the fiscal period ended December 31, 2015
11 out of 11 Board of Directors meetings
(100%)
- Number of attendance at the Remuneration Advisory Committee meetings of the Company for the fiscal period ended December 31, 2015

corporate officer he planned companywide management strategies and implemented structural reforms as General Manager of the Corporate Planning Department. From fiscal 2013 he took responsibility for the domestic cosmetics business, taking charge of the planning and implementation of its business strategies. From fiscal 2015, having overall responsibility for the Japan region he took the lead ahead of overseas regions in efforts to create and operate new organizations fusing sales and marketing. Also, as a member of the Company's Remuneration Advisory Committee, Nomination Advisory Committee and CSR Committee, he attended the meetings of these committees and actively expressed opinions.

Due to these facts the Board of Directors has continuously selected him as a candidate for director.

Based on his career stated in "Career summary, and Position and Responsibilities at the Company" and other career, Mr. Sakai has experience, knowledge and professional information as follows:

- Experience and knowledge to the competent extent on supply chains including production, purchasing and logistics
- Experience and knowledge to the competent extent on cosmetics and the related consuming product industry
- Experience and knowledge on all over the management
- Experience and knowledge on sales and marketing
- Experience and knowledge on corporate governance

Special Interest between the Candidate and the Company

There is no special interest between Mr. Toru Sakai and the Company.

4 out of 7
Remuneration Advisory
Committee meetings
(57.1%)

The unattended
meetings included only
those at which his own
remuneration was
discussed.

- Number of attendance
at the Nomination
Advisory Committee
meetings of the
Company for the fiscal
period ended December
31, 2015

3 out of 3 Nomination
Advisory Committee
meetings (100%)

- Number of attendance
at the CSR Committee
meetings of the
Company for the fiscal
period ended December
31, 2015

2 out of 3 CSR
Committee meetings
(66.6%)

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

Candidate for External Director
Candidate for Independent Director

Career Summary, and Position and Responsibilities at the Company

- May 1980: Obtained an MBA from Darden School of Business, Virginia University
- Jun. 1985: Obtained a DBA from Harvard Business School
- Jul. 1985: Joined McKinsey & Company Inc. Japan Office
- Apr. 1992: Professor, School of International Politics, Economics and Communication, Aoyama Gakuin University
- Mar. 1996: Director (part-time), Avon Products Inc.
- Apr. 2000: Professor, Graduate School of International Corporate Strategy, Hitotsubashi University
- Feb. 2001: Member of the Central Education Council
- Apr. 2004: Director (part-time), Vodafone Holdings K.K.
Outside Director (part-time) of Japan Post
- Oct. 2005: Vice President, the Science Council of Japan
- Jun. 2006: Outside Director, Mitsui O.S.K. Lines, Ltd.
- Jan. 2008: Member (part-time) of the Council for Science and Technology Policy
- Jun. 2010: Outside Director, Nissin Food Holdings Co., Ltd. [incumbent]
Outside Director, Fujitsu Limited
- Apr. 2011: Professor, Graduate School of Media Design, Keio University
- Apr. 2012: Professor Emeritus, Hitotsubashi University [incumbent]
- Jun. 2012: Outside Director, Lifenet Insurance Company [incumbent]
- Jun. 2014: Outside Director, Sojitz Corporation [incumbent]
- Jun. 2015: External Director of the Company [incumbent]



- Number of shares of
the Company owned
100 Shares

- Number of years in
office of the Company
as External Director
9 Months

- Number of attendance
at the Board of
Directors meetings of
the Company for the
fiscal period ended
December 31, 2015

8 out of 8 Board of
Directors meetings
(100%)

Important Positions at Other Organizations Concurrently Held

Outside Director, Nissin Food Holdings Co., Ltd.*
 Outside Director, Lifenet Insurance Company*
 Outside Director, Sojitz Corporation*
 Professor Emeritus, Hitotsubashi University
 (* indicates a listed company)

Reasons for Nomination of the Candidate for External Director

Ms. Yoko Ishikura is a candidate for external director fulfilling the requirements provided in Item 7 of Paragraph 3 of Article 2 of the Ordinances for Enforcement of the Companies Act.

She has a high level of knowledge in international corporate strategy, based on which she has actively made statements at meetings of the Board of Directors. She has achieved as external director of the Company adequate role on supervising the execution of business. Also, as a member of the Company's Remuneration Advisory Committee and Nomination Advisory Committee, she attended the meetings of these committees and actively expressed opinions.

Ms. Ishikura has not participated in management of companies other than as external director and audit & supervisory board member. For the reasons stated above, however, the Company is of an opinion that she would be able to achieve adequately the role of external director. Accordingly, the Board of Directors has decided to continuously select her as a candidate for external director.

Based on her career stated in "Career summary, and Position and Responsibilities at the Company" and other career, Ms. Ishikura has experience, knowledge and professional information as follows:

- Professional knowledge on international politics and economics
- Professional knowledge on international corporate strategy

Special Interest between the Candidate and the Company

Ms. Yoko Ishikura concurrently holds the office of Outside Director of Sojitz Corporation ("Sojitz"), with which the Company has the following transactions:

| Transaction Matter, etc. | Vendor, Recipient of Supporting Money, etc. | Purchaser, Provider of Supporting Money, etc. | Percentage of Transaction Value | Value for Comparison | Significance of Relations |
|----------------------------|---|---|---------------------------------|---|--|
| Outsourcing business, etc. | Sojitz Group | Shiseido Group | Less than 0.1% | Total amount of the consolidated cost of sales and the consolidated selling, general and administrative expenses of the Company for the fiscal period ended December 31, 2015 | Transaction value is minimal for the Shiseido Group. |
| | | | Less than 0.1% | Operating revenues of Sojitz Corporation on a consolidated basis for the third quarter of the fiscal year ending March 31, 2016 | Transaction value is minimal for Sojitz Group. |

- Number of attendance at the Remuneration Advisory Committee meetings of the Company for the fiscal period ended December 31, 2015

6 out of 6
 Remuneration Advisory Committee meetings
 (100%)

- Number of attendance at the Nomination Advisory Committee meetings of the Company for the fiscal period ended December 31, 2015

3 out of 3
 Nomination Advisory Committee meetings
 (100%)

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

Candidate for External Director

Candidate for Independent Director



Career Summary, and Position and Responsibilities at the Company

- Mar. 1973: Joined Lion Fat and Oil Co., Ltd. (currently Lion Corporation)
- Mar. 1986: Joined Plus Corporation
Deputy General Manager of Product Development Division
- May 1992: Head of ASKUL Business Project, Sales Division of Plus Corporation
- Nov. 1995: Manager of ASKUL Business Division, Plus Corporation
- Mar. 1997: President of ASKUL Corporation [incumbent]
- May 2000: Chief Executive Officer of ASKUL Corporation [incumbent]
- Jun. 2006: External Director of the Company [incumbent]
Chairman of Remuneration Advisory Committee of the Company [incumbent]
- Jul. 2015: External Director of Minnano Wedding Co., Ltd. [incumbent]

Important Positions at Other Organizations Concurrently Held

- President & Chief Executive Officer of ASKUL Corporation*
- External Director of Minnano Wedding Co., Ltd.*
- (* indicates a listed company)

Reasons for Nomination of the Candidate for External Director

Mr. Shoichiro Iwata is a candidate for external director fulfilling the requirements provided in Item 7 of Paragraph 3 of Article 2 of the Ordinances for Enforcement of the Companies Act.

Mr. Iwata has reflected his view as an active operator of the different business and industry free from the conventional framework on the management of the Company and he has actively made statements at the Board of Directors. Mr. Iwata performed appropriately as external director including supervising business execution. He also, as the Chairman of Remuneration Advisory Committee and the member of Nomination Advisory Committee of the Company, has actively made statements at the meetings of these Committees.

In his appointment, it will have been more than 10 years since he assumed his current position at the 106th ordinary general meeting of shareholders on June 29, 2006. However, taking into account the Company's current situation and the fact that he maintains a high degree of independence from the Company, the Board of Directors has continuously selected him as a candidate for external director.

Based on his career stated in "Career summary, and Position and Responsibilities at the Company" and other career, Mr. Iwata has experience, knowledge and professional information as follows:

- Experience and knowledge to the competent extent on all over the management
- Experience and knowledge to the competent extent on corporate governance
- Experience and knowledge to the competent extent on marketing and product development
- Experience and knowledge to the competent extent on consumer product industry

- Number of shares of the Company owned
17,500 Shares
- Number of years in office of the Company as External Director
9 Years and 9 Months
- Number of attendance at the Board of Directors meetings of the Company for the fiscal period ended December 31, 2015
11 out of 11 Board of Directors meetings (100%)
- Number at attendance of the Remuneration Advisory Committee meetings of the Company for the fiscal period ended December 31, 2015
7 out of 7 Remuneration Advisory Committee meetings (100%)
- Number of attendance at the Nomination Advisory Committee meetings of the Company for the fiscal period ended December 31, 2015
3 out of 3 Nomination Advisory Committee meeting (100%)

Special Interest between the Candidate and the Company

Mr. Shoichiro Iwata concurrently holds the office of President & Chief Executive Officer of ASKUL Corporation (“ASKUL”), with which the Company has the following transactions:

| Transaction Matter, etc. | Vendor, Recipient of Supporting Money, etc. | Purchaser, Provider of Supporting Money, etc. | Percentage of Transaction Value | Value for Comparison | Significance of Relations |
|--------------------------|---|---|---------------------------------|---|--|
| Stationeries, etc. | ASKUL Group | Shiseido Group | Less than 0.1% | Total amount of the consolidated cost of sales and the consolidated selling, general and administrative expenses of the Company for the fiscal period ended December 31, 2015 | Transaction value is minimal for the Shiseido Group. |
| | | | Approx. 0.1% | Consolidated net sales of ASKUL Corporation for the fiscal year ended May 31, 2015 | Transaction value is minimal for ASKUL Group. |
| Cosmetics, etc. | Shiseido Group | ASKUL Group | Less than 0.1% | Consolidated net sales of the Company for the fiscal period ended December 31, 2015 | Transaction value is minimal for the Shiseido Group. |
| | | | Approx. 0.1% | Consolidated cost of sales of ASKUL Corporation for the fiscal year ended May 31, 2015 | Transaction value is minimal for ASKUL Group. |

ASKUL Corporation sells cosmetics, etc. and has a relationship with the Company consisting of transactions in competition. Consequently, the contents and maximum amounts of transactions between the Company and ASKUL Corporation are approved in advance at the Board of Directors along with matters pertaining to transactions with conflicts of interest, and the results are reported to the Board of Directors following the end of the business year of ASKUL Corporation.

The amount of ASKUL Corporation’s net sales of cosmetics, etc. in that period was less than 0.1% of the consolidated net sales of the Company, and in the fiscal year ended May 31, 2015, ASKUL Corporation’s net sales of cosmetics, etc. accounted for approximately 0.1% of its total sales.

Transactions in competition with organization where position is concurrently assumed have no impact on interests of shareholders

Candidate for New Director

Candidate for External Director

Candidate for Independent Director

6. Kanoko Oishi (Date of birth: March 24, 1961)**Career Summary, and Position and Responsibilities at the Company**

Apr. 1983: Joined Nippon Life Insurance Company
 Aug. 1987: McKinsey & Company, Inc. (New York Office)
 Jun. 1988: Obtained an MBA from Harvard Business School
 Nov. 1988: McKinsey & Company, Inc. (Tokyo Office)
 Jun. 2000: CEO, Mediva Inc. [incumbent]
 Jul. 2000: CEO, Seinan MEDIVA Co., Ltd. (Currently Seeds 1 Co., Ltd.) [incumbent]
 Aug. 2001: Outside Auditor, ASKUL Corporation
 Aug. 2002: Outside Director, ASKUL Corporation
 Aug. 2004: COO of Platanus Medical Corp [incumbent]
 Jun. 2010: Outside Director, Astellas Pharma Inc.
 Jun. 2015: Outside Director, Ezaki Glico Co., Ltd. [incumbent]
 External Board Member, Santen Pharmaceutical Co., Ltd. [incumbent]
 External Director, Suruga Bank Ltd. [incumbent]

Important Positions at Other Organizations Concurrently Held

CEO, MEDIVA Inc.
 CEO, Seeds 1 Co., Ltd.
 Outside Director, Ezaki Glico Co., Ltd.*
 External Board Member, Santen Pharmaceutical Co., Ltd.*
 External Director, Suruga Bank Ltd.*
 (* indicates a listed company)

Reasons for Nomination of the Candidate for External Director

Ms. Kanoko Oishi is a candidate for external director fulfilling the requirements provided in Item 7 of Paragraph 3 of Article 2 of the Ordinances for Enforcement of the Companies Act.

She has many years of experience in managing businesses in Japan and overseas. Currently, she is primarily involved in efforts to transform the healthcare industry from the patient's point of view. In addition, she has accumulated experience as an external director in multiple companies.

Leveraging this experience and knowledge, in addition to supervising management as an external director, the Company is of an opinion that she would contribute to management from a consumer-oriented perspective that extends beyond the conventional framework, thereby helping to enhance the corporate value of the Company.

For the reasons stated above, the Company is of an opinion that she would be able to achieve adequately the role of external director. Accordingly, the Board of Directors has newly selected her as a candidate for external director.

Based on her career stated in "Career summary, and Position and Responsibilities at the Company" and other career, Ms. Oishi has experience, knowledge and professional information as follows:

- Experience and knowledge to the competent extent on all over the management
- Experience and knowledge to the competent extent on healthcare industry

- Number of shares of the Company owned
0 Shares
- Number of years in office of the Company as External Director
—
- Number of attendance at the Board of Directors meetings of the Company for the fiscal period ended December 31, 2015
—

Special Interest between the Candidate and the Company

Ms. Kanoko Oishi concurrently holds the office of Outside Director of Ezaki Glico Co., Ltd. (“Ezaki Glico”), with which the Company has the following transactions:

| Transaction Matter, etc. | Vendor, Recipient of Supporting Money, etc. | Purchaser, Provider of Supporting Money, etc. | Percentage of Transaction Value | Value for Comparison | Significance of Relations |
|---------------------------|---|---|---------------------------------|---|--|
| Snacks, etc. (mail order) | Ezaki Glico Group | Shiseido Group | Less than 0.1% | Total amount of the consolidated cost of sales and the consolidated selling, general and administrative expenses of the Company for the fiscal period ended December 31, 2015 | Transaction value is minimal for the Shiseido Group. |
| | | | Less than 0.1% | Operating revenues of Ezaki Glico Co., Ltd. on a consolidated basis for the third quarter of the fiscal year ending March 31, 2016 | Transaction value is minimal for Ezaki Glico Group. |

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

Candidate for External Director

Candidate for Independent Director



Career Summary, and Position and Responsibilities at the Company

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

Important Positions at Other Organizations Concurrently Held

Professor, School of Law, Waseda University

Reasons for Nomination of the Candidate for External Director

Mr. Tatsuo Uemura is a candidate for external director fulfilling the requirements provided in Item 7 of Paragraph 3 of Article 2 of the Ordinances for Enforcement of the Companies Act.

Mr. Uemura has deep experience and knowledge on capital markets and corporate governance in addition to knowledge on laws as a university professor specializing in research on laws, based on which he has made actively statements at the Board of Directors. He has achieved as external director adequate role on supervising the execution of business. He also, as a member of Remuneration Advisory Committee and as the Chairman of Nomination Advisory Committee of the Company, has actively made statements at the meetings of these Committees.

He has not participated in management of companies other than as external director and audit & supervisory board member. For the reasons stated above, however, the Company is of an opinion that he would be able to achieve adequately the role of external director. In his appointment, it will have been more than 10 years since he assumed his current position at the 106th ordinary general meeting of shareholders on June 29, 2006. However, taking into account the Company's current situation and the fact that he maintains a high degree of independence from the Company, the Board of Directors has continuously selected him as a candidate for external director.

Based on his career stated in "Career summary, and Position and Responsibilities at the Company" and other career, Mr. Uemura has experience, knowledge and professional information as follows:

- Professional knowledge on legal matters
- Professional knowledge on corporate governance

Special Interest between the Candidate and the Company

There is no special interest between Mr. Tatsuo Uemura and the Company

Notes:

1. Conclusion of liability limiting agreement

The Company established provisions in the Articles of Incorporation enabling the Company to enter into an agreement with external directors limiting their liability for compensation of damages through a resolution of the 106th ordinary

- Number of shares of the Company owned
2,400 Shares
- Number of years in office of the Company as External Director
9 Years and 9 Months
- Number of attendance at the Board of Directors meetings of the Company for the fiscal period ended December 31, 2015
10 out of 11 Board of Directors meetings (90.9%)
- Number of attendance at the Remuneration Advisory Committee meetings of the Company for the fiscal period ended December 31, 2015
7 out of 7 Remuneration Advisory Committee meetings (100%)
- Number of attendance at the Nomination Advisory Committee meetings of the Company for the fiscal period ended December 31, 2015
3 out of 3 Nomination Advisory Committee meeting (100%)

general meeting of shareholders held on June 29, 2006 for the purpose of inducing external directors to fully perform expected roles and enabling the Company to invite competent personnel.

Pursuant to these provisions the Company has entered into such agreement with each of Ms. Yoko Ishikura, Mr. Shoichiro Iwata and Mr. Tatsuo Uemura, under which his/her liability for compensation of damages is limited to the minimum limited liability amount provided in the laws and regulations. Upon appointment at the ordinary general meeting of shareholders, the Company and Ms. Kanoko Oishi will enter into an agreement limiting her liability, under which her liability for compensation of damages is limited to the minimum limited liability amount provided in the laws and regulations.

2. Independent Directors

The Company has designated Ms. Yoko Ishikura, Mr. Shoichiro Iwata and Mr. Tatsuo Uemura as Independent Directors prescribed in Article 436-2 of the Securities Listing Regulations of the Tokyo Stock Exchange. Upon appointment at the ordinary general meeting of shareholders, the Company will once again designate them as Independent Directors. Upon appointment at the ordinary general meeting of shareholders, the Company will designate Ms. Kanoko Oishi as Independent Director.

3. Presentation of name

Ms. Yoko Ishikura is well-known by the name Ishikura, and that name is therefore presented here, but her name as recorded on the official family register is Ms. Yoko Kurita.

Third Item of Business: Election of One (1) Audit & Supervisory Board Member

The term of office of Audit & Supervisory Board Member (External), Ms. Eiko Tsujiyama will expire at the conclusion of this ordinary general meeting of shareholders. Accordingly, it is proposed that one (1) audit & supervisory board member be elected.

In regards to submission of this item of business to this general meeting of shareholders, the consent of the Audit & Supervisory Board has been obtained.

Policy and Process under Which the Candidates for Audit & Supervisory Board Member Are Selected

Taking into consideration the importance of audit and roles of audit & supervisory board members for the corporate management, and the personality and knowledge of a candidate therefor, representative directors of the Company select an adequate person as a candidate and the Company receives a report from the Nomination Advisory Committee on whether or not the candidate is adequate. Then the Board of Directors determines the candidate for audit & supervisory board member upon receiving consent of the Audit & Supervisory Board on submitting a proposal for the election to the ordinary general meeting of shareholders.

Furthermore, the Company sets forth the Criteria for Independence of “External Directors and Audit & Supervisory Board Members” as stated in pages 39 to 41. The candidate for external audit & supervisory board member has fulfilled the Criteria in full.

Candidates for Audit & Supervisory Board Member

Candidate for External Audit & Supervisory Board Member

Candidate for Independent Audit & Supervisory Board Member

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



Career Summary, and Position and Responsibilities at the Company

- Apr. 1977: Lecturer, The College of Humanities, Ibaraki University
- Jan. 1982: Visiting Scholar, Columbia Business School, Columbia University, U.S.A.
- Apr. 1985: Assistant Professor, Faculty of Economics, Musashi University
- Sep. 1993: Visiting Scholar, University of Cambridge, U.K.
- Dec. 1993: Ph.D. in Economics, The University of Tokyo
- Apr. 1996: Dean of Economics, Musashi University
- Jul. 2001: International Visiting Fellow, Financial Accounting Standards Board (FASB), U.S.A.
- Apr. 2003: Professor, School of Commerce and the Graduate School of Commerce, Waseda University [incumbent]
- Jun. 2008: Outside Corporate Auditor, Mitsubishi Corporation [incumbent]
- Jun. 2010: Outside Director, ORIX Corporation [incumbent]
- Sep. 2010: Dean of the Graduate School of Commerce, Waseda University
- May 2011: Outside Corporate Auditor, Lawson, Inc. [incumbent]
- Jun. 2011: Outside Audit & Supervisory Board Member, NTT DoCoMo, Inc. [incumbent]
- Jun. 2012: Audit & Supervisory Board Member (External) of the Company [incumbent]

Important Positions at Other Organizations Concurrently Held

Professor, School of Commerce and the Graduate School of Commerce, Waseda University

Outside Corporate Auditor, Mitsubishi Corporation*

Outside Director, ORIX Corporation*

Outside Corporate Auditor, Lawson, Inc.*

Outside Audit & Supervisory Board Member, NTT DoCoMo, Inc.*

(* indicates a listed company)

Reasons for Nomination of the Candidate for External Audit & Supervisory Board Member

Ms. Eiko Tsujiyama is a candidate for external audit & supervisory board member fulfilling the requirements provided in Item 8 of Paragraph 3 of Article 2 of the Ordinances for Enforcement of the Companies Act.

She is a professor of the School of Commerce and the Graduate School of Commerce of Waseda University and an expert in finance, accounting and tax issues qualified as certified public accountant. Ms. Tsujiyama currently holds the office of external director and external audit & supervisory board member for several companies and has affluent experience and a high level of knowledge. Ms. Tsujiyama has not participated in management of companies other than as external director and audit & supervisory board member. For the reasons stated above, however, the Company is of an opinion that she would be able to achieve adequately the role of external audit & supervisory board member. Accordingly, the Board of Directors has continuously selected her as a candidate for external audit & supervisory board member.

Based on her career stated in “Career summary, and Position at the Company” and other career, Ms. Tsujiyama has experience, knowledge and professional information as follows:

- Professional knowledge in finance, accounting and tax issues

- Number of shares of the Company owned
7,400 Shares
- Number of years in office of the Company as External Audit & Supervisory Board Member
3 Years and 9 Months
- Number of attendance at the Board of Directors meetings of the Company for the fiscal period ended December 31, 2015
11 out of 11 Board of Directors meetings (100%)
- Number of attendance at the Audit & Supervisory Board Members meetings of the Company for the fiscal period ended December 31, 2015
12 out of 12 Audit & Supervisory Board Members meetings (100%)

Special Interest between the Candidate and the Company

Ms. Eiko Tsujiyama concurrently holds the office of Outside Corporate Auditor of Mitsubishi Corporation, Outside Director of ORIX Corporation, Outside Corporate Auditor of Lawson, Inc., and Outside Audit & Supervisory Board Member of NTT DoCoMo, Inc. with which the Company has the following transactions:

| Concurrent Position at Other Organization | Transaction Matter, etc. | Vendor, Recipient of Supporting Money, etc. | Purchaser, Provider of Supporting Money, etc. | Percentage of Transaction Value | Value for Comparison | Significance of Relations |
|---|-------------------------------|---|---|---------------------------------|---|--|
| Mitsubishi Corporation | Manufacturing equipment, etc. | Mitsubishi Corporation Group | Shiseido Group | Less than 0.1% | Total amount of the consolidated cost of sales and the consolidated selling, general and administrative expenses of the Company for the fiscal period ended December 31, 2015 | Transaction value is minimal for the Shiseido Group. |
| | | | | Less than 0.1% | Revenues of Mitsubishi Corporation on a consolidated basis for the third quarter of the fiscal year ending March 31, 2016 | Transaction value is minimal for the Mitsubishi Corporation Group. |
| | Cosmetics, etc. | Shiseido Group | Mitsubishi Corporation Group | Approx. 0.2% | Consolidated net sales of the Company for the fiscal period ended December 31, 2015 | Transaction value is minimal for the Shiseido Group. |
| | | | | Less than 0.1% | Cost of revenues of Mitsubishi Corporation on a consolidated basis for the third quarter of the fiscal year ending March 31, 2016 | Transaction value is minimal for the Mitsubishi Corporation Group. |
| ORIX Corporation | Automobile rental, etc. | ORIX Group | Shiseido Group | Less than 0.1% | Total amount of the consolidated cost of sales and the consolidated selling, general and administrative expenses of the Company for the fiscal period ended December 31, 2015 | Transaction value is minimal for the Shiseido Group. |
| | | | | Less than 0.1% | Total amount of operating revenues of ORIX Corporation on a consolidated basis for the third quarter of the fiscal year ending March 31, 2016 | Transaction value is minimal for the ORIX Group. |
| LAWSON, INC. | Raw materials, chemical, etc. | LAWSON Group | Shiseido Group | Less than 0.1% | Total amount of the consolidated cost of sales and the consolidated selling, general and administrative expenses of the Company for the fiscal period ended December 31, 2015 | Transaction value is minimal for the Shiseido Group. |
| | | | | Less than 0.1% | Consolidated net sales of LAWSON, INC. for the third quarter of the fiscal year ended February 29, 2016 | Transaction value is minimal for the LAWSON Group. |
| | Cosmetics, etc. | Shiseido Group | LAWSON Group | Approx. 0.1% | Consolidated net sales of the Company for the fiscal period ended December 31, 2015 | Transaction value is minimal for the Shiseido Group. |
| | | | | Approx. 0.7% | Consolidated cost of sales of LAWSON, INC. for the third quarter of the fiscal year ended February 29, 2016 | Transaction value is minimal for the LAWSON Group. |

| Concurrent Position at Other Organization | Transaction Matter, etc. | Vendor, Recipient of Supporting Money, etc. | Purchaser, Provider of Supporting Money, etc. | Percentage of Transaction Value | Value for Comparison | Significance of Relations |
|---|----------------------------------|---|---|---------------------------------|---|--|
| NTT DOCOMO, INC. | Telecommunication services, etc. | NTT DOCOMO Group | Shiseido Group | Less than 0.1% | Total amount of the consolidated cost of sales and the consolidated selling, general and administrative expenses of the Company for the fiscal period ended December 31, 2015 | Transaction value is minimal for the Shiseido Group. |
| | | | | Less than 0.1% | Total amount of operating revenues of the NTT DOCOMO, INC. on a consolidated basis for the third quarter of the fiscal year ending March 31, 2016 | Transaction value is minimal for the NTT DOCOMO Group. |

Notes:

1. Conclusion of liability limiting agreement

The Company established provisions in the Articles of Incorporation enabling the Company to enter into an agreement with external audit & supervisory board members limiting their liability for compensation of damages through a resolution of the 106th ordinary general meeting of shareholders held on June 29, 2006 for the purpose of inducing external audit & supervisory board members to fully perform expected roles and enabling the Company to invite competent personnel.

Pursuant to these provisions the Company has entered into such agreement with Ms. Eiko Tsujiyama, under which her liability for compensation of damages is limited to the minimum limited liability amount provided in the laws and regulations.

2. Independent Audit & Supervisory Board Member

The Company has designated Ms. Eiko Tsujiyama as Independent Audit & Supervisory Board Member prescribed in Article 436-2 of the Securities Listing Regulations of the Tokyo Stock Exchange. Upon appointment at the ordinary general meeting of shareholders, the Company will once again designate her as Independent Audit & Supervisory Board Member.

Fourth Item of Business: Payment of Bonuses to Directors

This Item of Business is related to a bonus based on annual business performance as a component of the performance-linked remuneration in remuneration, etc. to directors of the Company. The Company hereby asks shareholders to approve the proposal to pay bonuses to three (3) directors in office as a group as at December 31, 2015 excluding three (3) external directors, in the aggregate amount of Yen 68.14 million in accordance with the calculation standards and determination method stated below.

Remuneration, etc. to external directors consist of only fixed remuneration. Accordingly, director bonuses shall not be paid to external directors.

Calculation Bases and Determination Method of Director Bonuses

The Company has set evaluation items for the annual bonus linked to performance in accordance with the scope respective directors and corporate officers are in charge of, in addition to the achievement rate of target consolidated net sales and consolidated operating income as common performance indicators across directors and corporate officers. We set the individual performance evaluation of all directors and corporate officers in order to add the level of achievement against the strategic goals that cannot be measured by the financial performance figures alone, such as efforts for restructuring of the business platform to realize sustainable growth, to evaluation criteria. Under these Calculation Standards, the Board of Directors decides on a draft bonus payment upon receipt of a report from the Remuneration Advisory Committee.

Basic Principle of Director Remuneration System

The directors, audit & supervisory board members and corporate officers remuneration policy of the Company is established by the Remuneration Advisory Committee, which is chaired by an external director, to maintain objectivity and high transparency. Remuneration to directors, audit & supervisory board members and corporate officers of the Company consists of a basic remuneration that is not linked to business performance and a performance-linked remuneration that fluctuates depending on the achievement of management targets and share price. The Company sets remuneration levels by making comparisons with companies in the same industry or of the same scale in Japan and overseas and by taking the Company's financial condition into consideration.

External directors and audit & supervisory board members receive only basic remuneration, as fluctuating remuneration such as performance-linked remuneration is inconsistent with their supervisory functions from a stance independent from business execution. Meanwhile, the Company abolished its officers' retirement benefit plan as of June 29, 2004 on which the 104th ordinary general meeting of shareholders was held.

Directors, Audit & Supervisory Board Members and Corporate Officers Remuneration Policy Aligned to the Three-Year Plan of Fiscal 2015 through Fiscal 2017

The Company has positioned the three years from fiscal 2015 through fiscal 2017 as the period for reconstructing the business foundation to enable the acceleration of growth during the three years from fiscal 2018 through fiscal 2020. Accordingly, during the three years from fiscal 2015 through fiscal 2017 the Company aims to establish a director remuneration system that will motivate directors to act as reform leaders in implementing radical reforms.

The Company expects it to take some time before the successes in reconstructing the business foundation will be reflected in the consolidated performance and in the financial operating results of the business undertaking these reforms. Furthermore, areas to be addressed include the normalization of market inventory levels. Resolving such issues is likely to have a negative impact on operating results in the short term. However, the Company must overcome these barriers in order to achieve long-term growth. From the perspective of providing an incentive for directors to resolve such issues strategically from the standpoint of long-term growth, the Company is introducing a system of personal evaluations (evaluations on the achievement of strategic targets) on both basic remuneration and performance-linked remuneration.

The current director remuneration system has been established with a focus on the certain achievement of efforts to reconstruct the business foundation; the Company will review this system in or after fiscal 2018.

The directors, audit & supervisory board members and corporate officers remuneration policy is described on pages 58 to 63.

Fifth Item of Business: Determination of Provision of Long-Term Incentive Type Remuneration to Directors

This Item of Business is related to the long-term incentive type remuneration of the Company's performance-linked remunerations. Under this long-term incentive type remuneration, shares instead of cash will be provided to directors as remuneration. For this purpose, stock acquisition rights with the exercise price of ¥1 per share will be provided to directors as stock option.

The Company proposes to provide stock acquisition rights to three (3) directors (excluding external directors and subject to approval of the Second Item of Business), as remuneration for the purpose of inducing directors to share with shareholders awareness of the Company's profit and risks through fluctuation of share prices and enhance their volition to improve results of operations and raise the share price of the Company, by linking the enrichment of long-term shareholders' value with directors' remuneration.

For this purpose, the Company cordially requests shareholders to approve allotting as remuneration stock acquisition rights, in which details are stated below, to directors of the Company within a total amount of ¥131.00 million. The total amount of stock acquisition rights is an amount obtained by multiplying the fair value of stock acquisition right by the total number of stock acquisition rights (not more than 1,400) to be allotted.

Stock acquisition rights for allotment as stock options concerning this item of business will be allotted after the consolidated performance for fiscal 2016 is finalized. In the allotment of stock acquisition rights, the number to be allotted will be determined by the Board of Directors based on the level of achievement of consolidated performance targets for fiscal 2016 within the maximum number and the maximum amount subject to the approval of this proposal. In addition, stock acquisition rights to be allotted are subject to the terms and conditions described in (4) below, the number of exercisable stock acquisition rights are designed to fluctuate depending on the level of achievement of performance targets as described in (4) 2).

In connection with the grant of stock acquisition rights, the payment amount per stock acquisition right will be fair value of stock acquisition right and the Company will be deemed to provide directors with an amount equivalent to the payment amount (i.e., the claim for remuneration). Directors will set off the payment amount with the claim for remuneration.

The Company does not schedule to grant stock acquisition rights to external directors due to remuneration of external directors consisting of only basic fixed remuneration.

(1) The Number of Shares Which May Be Issued upon Exercise of Stock Acquisition Rights:

The number of shares which may be issued upon exercise of one stock acquisition right will be 100 ordinary shares (the "Subject Number of Shares").

In the event that the Company is subject to adjustment of the Subject Number of Shares such as in case of share split (including free distribution of the Company's common stock) or share consolidation, the Company may adjust the Subject Number of Shares to the reasonable extent.

(2) An Amount Contributed upon Exercise of Stock Acquisition Rights:

An object contributed upon exercise of stock acquisition rights shall be cash and the amount shall be obtained by multiplying ¥1, which is the exercise price per share, by the Subject Number of Shares.

(3) Exercise Period of Stock Acquisition Rights:

From September 1, 2019 to February 29, 2032

(4) Terms and Conditions of the Exercise of Stock Acquisition Rights:

- 1) Any grantee is required to be in the office of director or executive officer when he or she exercises stock acquisition rights; provided, however, that the foregoing shall not be applicable in case of resignation due to the termination of the term or any other due reason.
- 2) The other terms and conditions of exercise of stock acquisition rights will be provided for in the “grant agreement of stock acquisition rights” to be made between the grantee and the Company.

(5) Restriction on a Transfer of Stock Acquisition Rights:

Any transfer of stock acquisition rights shall be subject to approval of the Board of Directors of the Company.

(6) Other Details of Stock Acquisition Rights

The Board of Directors will determine through its resolution with respect to details of items (1) to (5) and matters not stated in items (1) to (5).

Directors, Audit & Supervisory Board Members and Corporate Officers Remuneration Policy Aligned to the Three-Year Plan of Fiscal 2015 through Fiscal 2017

The Company launched a new Three-Year plan starting fiscal 2015. Taking this opportunity, we implemented changes to the directors, audit & supervisory board members and corporate officers remuneration policy to be more closely linked to performance and responsibility of respective directors and corporate officers.

For details of the new directors, audit & supervisory board members and corporate officers remuneration policy, please refer to pages 58 to 63 herein.

Long-Term Incentive Type Remuneration

The Company has decided to impose terms and conditions regarding performance on stock compensation-type stock options as long-term incentive-type remuneration on two occasions when the stock acquisition rights are allotted and the exercise period of the stock acquisition rights allotted starts.

When actually allotting the stock acquisition rights after obtaining an approval for the maximum number of stock acquisition rights to be allotted at the general meeting of shareholders, the Company shall increase or decrease the number of stock acquisition rights to be granted ranging from 0 to the maximum number by using the evaluation indicators for annual bonuses for the immediately preceding fiscal year. In addition, we have introduced a mechanism that when the stock acquisition right exercise period starts, the exercisable number of stock acquisition rights may be determined according to the consolidated performance and other track records up to the immediately preceding fiscal year in the range of 30% to 100% of the allotted number, and thereby strengthen it to work as incentives for improving medium- to long-term business performance and achieving the targets.

[Terms and conditions regarding performance on long-term incentive-type remuneration]

When stock acquisition rights are allotted

- Use the same indicators as used in calculating annual bonus to each officer. Indicators to be used differ from an officer to another, among consolidated business performance (consolidated net sales, consolidated operating income and net income attributable to shareholders of the Company), evaluation of performance of business of which respective officers are in charge, and personal evaluation.
- Determine the number of stock acquisition rights to be allotted through deliberation by the evaluation working group.

When the exercise period of the stock acquisition rights allotted starts

- Calculate the growth rate of operating income by comparing the operating income for the fiscal years preceding and following the fiscal year in which the stock acquisition rights allotment date is included.
- Calculate the growth rates of operating income for the same fiscal years as above of companies such as Kao Corporation (Japan), L'Oreal S.A. (France) and Estee Lauder Companies Inc. (USA), which are the leading cosmetic companies in Japan and overseas and have been designated in advance as companies to be compared with.
- Based on the comparison of the growth rates of operating income between the Company and the companies for comparison, decide the number of stock acquisition rights allotted to each director or corporate officer that are exercisable.

Linkage with Long-Term Performance

Since the long-term incentive type remuneration of the Company is a system to continually pay to the subject directors in office every year, directors are entitled to payment of the long-term incentive remuneration during the term of office by continuously assuming the office as directors due to execution of suitable management. Also, the exercise period of stock acquisition rights always commences on and after two years after being granted. As a result, the long-term incentive type remuneration works as at least incentive for periods of the term of office as directors in future, plus certain period of time before the exercise period of stock acquisition rights.

Accordingly, stock acquisition rights subject to this Item of Business will fully work as incentive to directors to be granted stock acquisition rights, in order to encourage them to improve the long-term performance and share price appreciation, but not result in management aiming only for the short-term business performance.

Any Influence That Stock Acquisition Rights Subject to This Item of Business to the Total Number of Shares Outstanding Is as Follows:

| | | Ratio to total outstanding of shares excluding treasury stock (As of December 31, 2015) |
|---|----------------|---|
| Number of subject shares (maximum number) | 140,000 shares | 0.03% |
| Number of shares to be issued upon exercise of stock acquisition rights as of December 31, 2015 | 782,900 shares | 0.19% |
| Total | 922,900 shares | 0.23% |

Note: The number of subject stock acquisition rights fluctuates due to the fair market value to be calculated. The maximum number, however, is 1,400.

- End -

Note: In Article 361 of the Companies Act of Japan, financial benefits receivable as a consideration for the execution of duties from the Company such as remuneration and bonus of directors are defined as “remuneration, etc.,” and the term “remuneration, etc.” stated in this item of business is synonymous with such definition.

Information for Other Matters Related to This Notice of Convocation of the Ordinary General Meeting of Shareholders on the Company's Website

The Company's Notice of Convocation of the Ordinary General Meeting of Shareholders is posted on the Company's website and on the Tokyo Stock Exchange's website (<http://www.jpx.co.jp/>) (Japanese and English).

1. In the Company's website, the following are voluntarily disclosed by the Company in the column entitled "Home>IR>General Meeting of Shareholders / Corporate Governance>General Meeting of Shareholders>Notice of the Convocation: the 116th Ordinary General Meeting of Shareholders" (<http://www.shiseidogroup.com/ir/account/shareholder/>):
 2. Items voluntarily disclosed on the Company's website relating to business report:
 - "The 30 Largest Stockholdings of Publicly Listed Companies in the Amount on the Balance Sheet, Which the Company Holds for Purposes Other Than Realizing Direct Investment Gains"
 - "Basic Policy regarding Internal Control Systems, applicable on and after January 1, 2016"
 - "Criteria for "Important Concurrent Position" assumed by Company's directors, audit & supervisory board members and corporate officers"
 - "Criteria for Stating the Relationship between the Company and the Organizations in Which the Company's Directors and Audit & Supervisory Board Members Hold "Important Concurrent Positions"
 3. In cases that the attached documents and "Reference Document Concerning the General Meeting of Shareholders" are amended, the Company will announce updated on the Company's website. (<http://www.shiseidogroup.com/ir/account/shareholder/>)
4. Information for how to contact via Internet for your comments and questions
We welcome comments and questions of our valued shareholders via internet.
We will value your opinions and questions as they help us plan our business report to present on the day of the general meeting of shareholders. We will also categorize items that are related to the matters that are the cause for the general meeting, answer to the matters of particular interest to our shareholders on the day of the general meeting of shareholders, and post them on the Company's website. If you have comments or questions, please contact us through the website:
<http://www.shiseidogroup.jp/ir/account/shareholder/>