Notice of Convocation

The 117th 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.]

SHISEIDO

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SHISEIDO

Securities Code: 4911
March 6, 2017

Notice of Convocation
The 117th 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 117th 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.

SHISEIDO

PARTICULARS

Date and Time of the Meeting:

Tuesday, March 28, 2017 at **10:00 a.m.**

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 year ended December 31, 2016 (January 1, 2016 to December 31, 2016).

Matters for Resolution:

First Item of Business:	Dividends of Retained Earnings
Second Item of Business:	Partial Amendment to the Articles of Incorporation
Third Item of Business:	Election of Seven (7) Directors
Fourth Item of Business:	Election of One (1) Audit & Supervisory Board Member
Fifth Item of Business:	Payment of Bonuses to Directors
Sixth 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 100.

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.

SHISEIDO

Business Report

(Fiscal Year from January 1, 2016 to December 31, 2016)

The Company and its subsidiaries falling within the Company's scope of consolidation previously with a March 31 fiscal year-end changed their account settlement dates to December 31 beginning from the previous fiscal period. As the fiscal period ended December 31, 2015 was a transitional period for changing the account settlement date, it was an irregular consolidated account settlement covering a nine-month period from April 1 to December 31, 2015 for these companies and a 12-month period from January 1 to December 31, 2015 for subsidiaries falling within the Company's scope of consolidation with a December 31 fiscal year-end even before the change. Taking into account the aforementioned, comparative data between the fiscal year under review and the previous fiscal year is presented using the data for the corresponding period of the previous fiscal year for reference purposes. ("Corresponding period of the previous fiscal year" refers to the 12-month period (from January 1 to December 31, 2015) in the previous fiscal year that corresponds to the fiscal year under review (from January 1 to December 31, 2016).)

1. Matters Concerning Shiseido Group

1.1 Business Overview

(1) Progress and Results

1) Overview

■ Progress and Results in the Fiscal Year Ended December 2016

In the fiscal year ended December 31, 2016, despite signs of weakness in certain areas, economic conditions in Japan continued along a moderate recovery path underpinned by such factors as improvements in the employment environment. The domestic cosmetics market continued to expand on the back of an uptick in business confidence and an increase in the number of overseas tourists. Meanwhile, in overseas cosmetics markets, growth, while differing from country to country, was held to a moderate upswing in Europe generally. In China, Asia and the Americas, growth remained firm.

In fiscal 2015, Shiseido Group launched its VISION 2020 medium-to-long-term strategy in a bid to ensure that it remains vital for the next 100 years. As a company that is transforming "from a leader in Japan to a winner worldwide," we are shifting all of our activities toward a consumer-oriented focus and working diligently to globally enhance our brand value. We have positioned the three years beginning from fiscal 2015 as a period for rebuilding our business foundation to generate outstanding growth over the next three-year period commencing fiscal 2018. In addition to undertaking aggressive investment activities, we are putting in place the foundation to accelerate growth.

In the fiscal year under review, the Company adopted a matrix organization that encompasses five brand categories and six regions. This matrix organization is based on the concept "Think Global, Act Local," which involves tailoring activities to particular regions in response to changes in each country while conducting Group-wide management with a global perspective and promoting marketing, brand and other strategies. Under this matrix, we have delegated broad authority and responsibilities to each region, and are strengthening our ability to respond to consumers' needs that differ from market to market. To enhance brand value as the core of our strategies, we bolstered marketing as well as innovation. We also implemented measures to utilize diverse human resources and to help employees lift their skills, while building and strengthening our global organization. Moreover, we ramped up investments in the global prestige category as a part of efforts to further accelerate the pace of growth going forward. In addition to the acquisitions of *Laura Mercier*, a prestige brand mainly in the makeup category, and *RéVive*, a prestige skincare brand, in July 2016, we concluded a license agreement with the Italian luxury fashion brand company Dolce&Gabbana S.r.l. to develop, manufacture and distribute fragrance, makeup and skincare products and commenced sales from October 2016.

As a result, consolidated net sales in the fiscal year ended December 31, 2016 climbed 5.2% compared with the corresponding period of the previous fiscal year on a local currency basis. Together with growth mainly in the prestige categories of each region, this increase in consolidated

net sales was largely attributable to additional sales from the acquisition of new brands. Movements in foreign currency exchange rates and most notably appreciation of the yen had a major impact, with consolidated net sales coming to ¥850.3 billion, 1.5% lower than the level recorded for the corresponding period of the previous fiscal year.

Operating income declined 17.0% year on year, to ¥36.8 billion. Despite the positive contributions from higher margins in line with the increase in net sales, improvements in the product mix through increased sales of prestige brands and the cost reduction effects due to the cost structural reforms, this downturn in operating income was mainly due to the one-time costs incurred following the acquisition of new brands and execution of license agreements, structural reform expenses associated with Bare Escentuals, Inc. in the U.S. and the greater than expected impact of the strong yen.

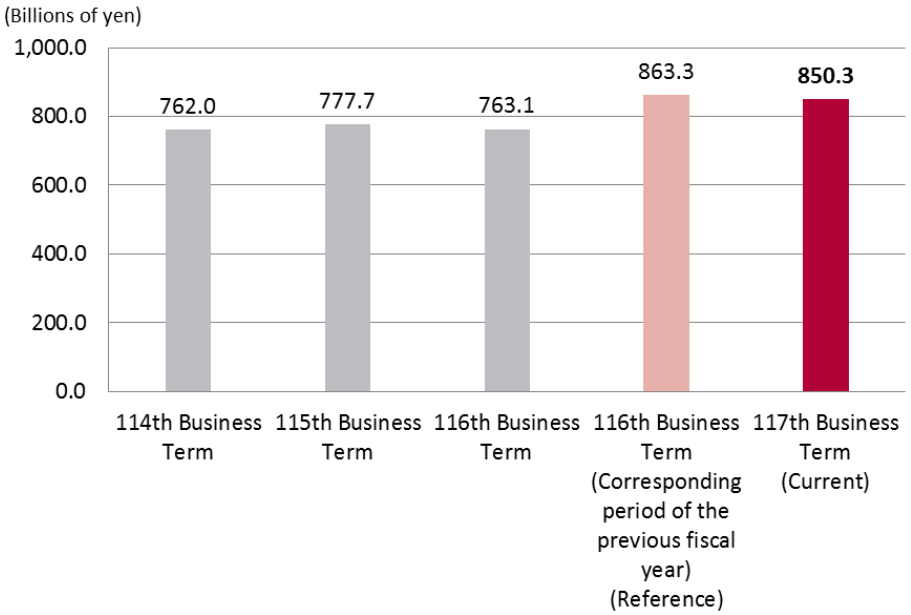
Meanwhile, net income attributable to shareholders of the Company climbed 9.0% compared with the corresponding period of the previous fiscal year, to ¥32.1 billion. This largely reflected the gain on transfer of intellectual property rights in connection with the *Jean Paul GAULTIER* fragrance business as well as the gain on sales of land at the former Kamakura factory recorded as extraordinary income.

For the fiscal year under review, the consolidated operating profitability was 4.3%. Consolidated Return on Equity (ROE) was 8.2%.

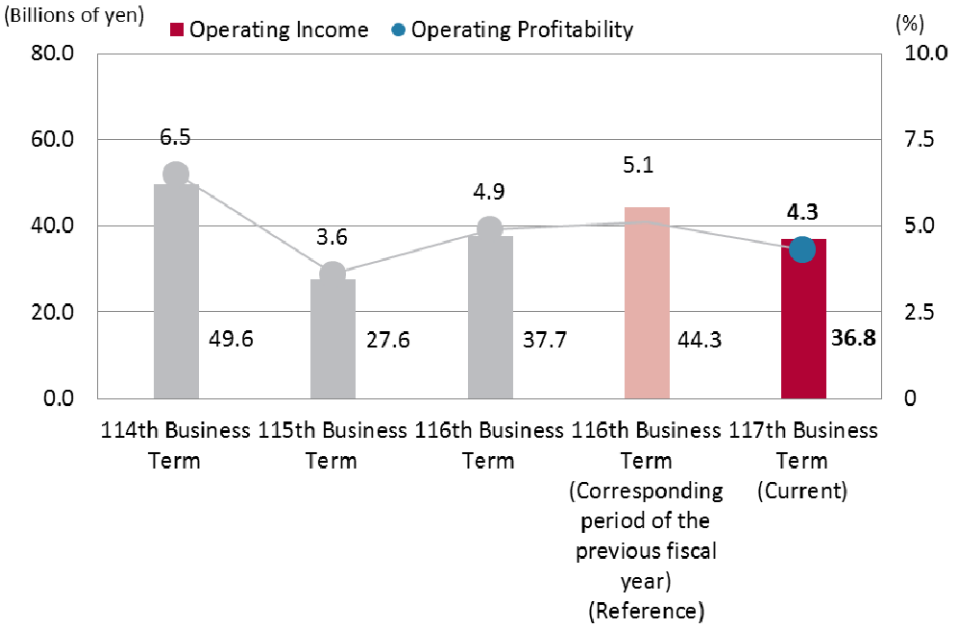
■ Consolidated Results

Net Sales

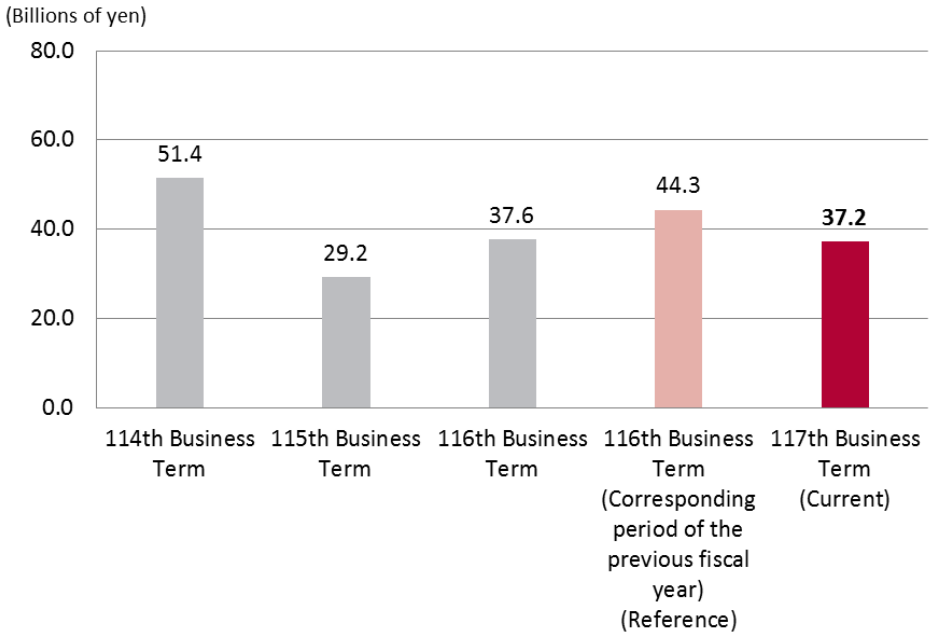
Fiscal 2016: **¥850.3 billion**
Adjusted year-on-year change:-1.5%
(Local currency basis: +5.2%)



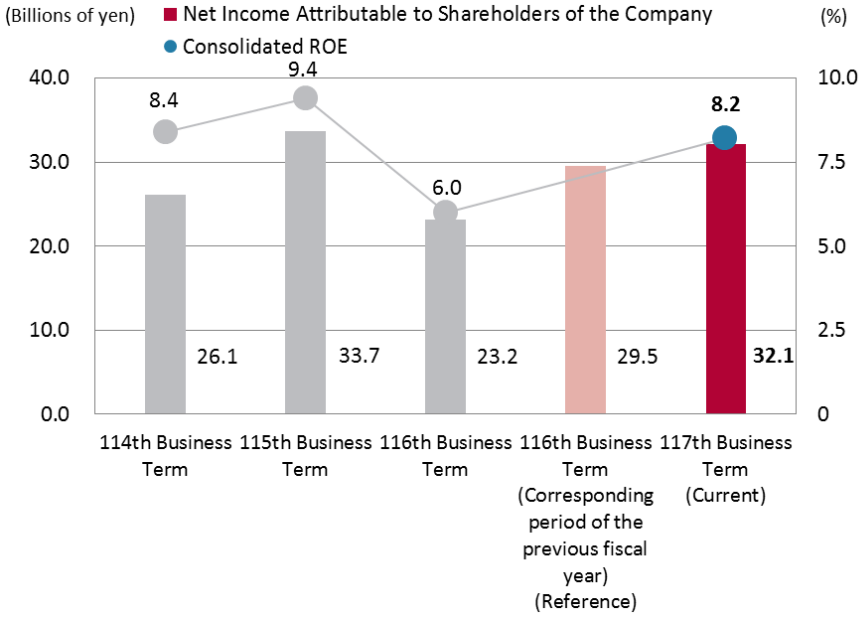
Operating Income	Operating Profitability
Fiscal 2016: **¥36.8 billion** Adjusted year-on-year change: -17.0%	Fiscal 2016: **4.3%** Adjusted year-on-year change: -0.8 points



Ordinary Income
Fiscal 2016: **¥37.2 billion** Adjusted year-on-year change: -16.0%



Net Income Attributable to Shareholders of the Company	Consolidated ROE (Please refer to Note 2)
Fiscal 2016: **¥32.1 billion** Adjusted year-on-year change: +9.0%	Fiscal 2016: **8.2%**



Notes: 1. "-"denotes loss, decrease, etc. or negative value.

2. In calculating consolidated ROE for the 116th Business Term, net income attributable to shareholders of the Company used as the numerator was for a period of nine months for the Company and its subsidiaries that fall within the Company's scope of consolidation with a March 31 fiscal year-end, and twelve months for subsidiaries that fall within the Company's scope of consolidation with a December 31 fiscal year-end. Consolidated ROE is 7.6% when calculated based on net income attributable to shareholders of the Company for the corresponding period of the previous fiscal year.

2) Activities by Business Segment

In conjunction with the launch of the global management structure made up of six regional headquarters, in the fiscal year under review the Company revised its reportable segment classification method. Accordingly, the reporting segments have changed from "Japan Business," "Global Business," and "Others" to "Japan Business, "China Business," "Asia Pacific Business," "Americas Business," "EMEA Business," and "Travel Retail Business."

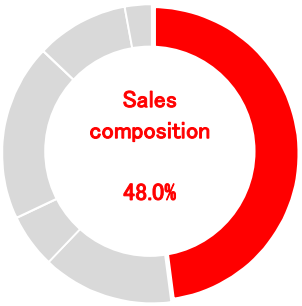
Since the previous fiscal period was a transitional period for changing the account settlement date, comparative data between the fiscal year under review and the previous fiscal year is presented using the data for the corresponding 12-month period of the previous fiscal year for reference purposes.

Japan Business

Strong growth in prestige brands and steady acquisition of inbound demand



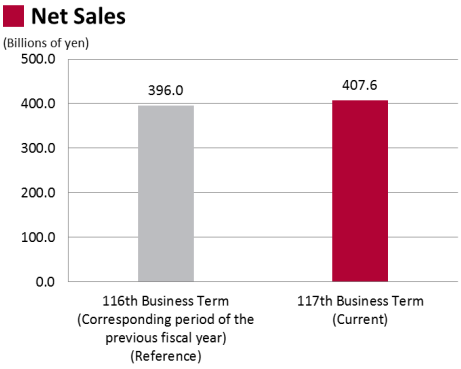
clé de peau BEAUTÉ

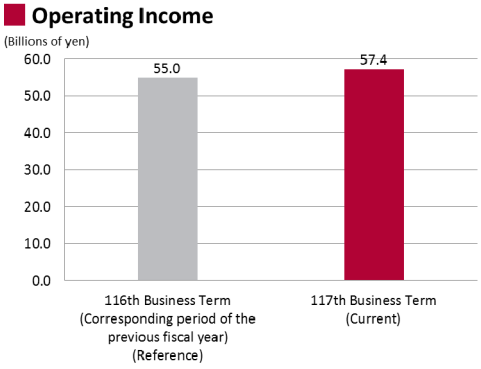


In the Japan Business, growth was steady in the fiscal year under review. In addition to consumer-oriented brand innovation and the selection and concentration approach toward marketing investment, this steady growth was largely attributable to efforts aimed at strengthening activities to secure the support of tourists visiting Japan, mainly at airport duty-free and department stores, thereby capturing inbound tourism demand. In the prestige category, results in the *clé de peau BEAUTÉ* luxury brand were especially strong. *SHISEIDO* also captured a greater share of the market on the back of a significant increase in sales primarily driven by robust results in the *ULTIMUNE* power infusing concentrate, which helps to draw out the skin's natural beauty. In the cosmetics category, the mid-priced skincare *ELIXIR*, makeup *MAQuillAGE* and sunscreen *ANESSA* brands continued to surpass the levels recorded in the previous fiscal year. Meanwhile, for low-priced products, which are mainly centered on the personal care category, we introduced new products and actively engaged in marketing activities. Despite these endeavors, sales fell below the levels recorded in the previous year owing to the fierce competitive environment.

Accounting for each of the aforementioned factors, sales in the Japan Business increased 2.9% compared with the corresponding period of the previous fiscal year, to ¥407.6 billion. While continued steps were taken to engage in aggressive marketing investments, operating income grew 4.4% year on year, to ¥57.4 billion owing mainly to higher margins in line with the increase in net sales, improvements in the product mix and the ongoing effects of cost structural reforms.

Net Sales: ¥407.6 billion Year-on-year change: +2.9%	Operating Income: ¥57.4 billion Year-on-year change: +4.4%



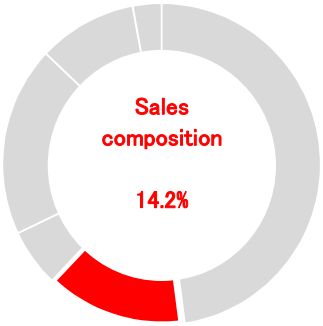


China Business

Expanded growth in prestige brands and e-commerce



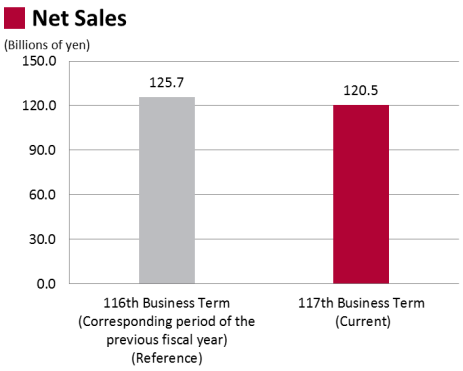
e-commerce website for China

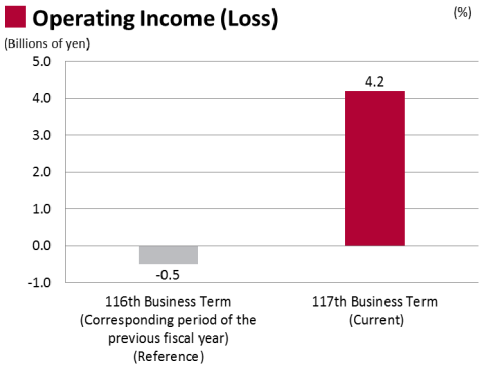


In the China Business, sales increased mainly in the prestige and e-commerce categories. Thanks largely to contributions from such prestige brands as *SHISEIDO*, *clé de peau BEAUTÉ* and *IPSA*, successful efforts were made to overcome the competition in the department store channel and achieve especially high rates of growth. The rate of e-commerce sales growth also outpaced the market mainly due to the positive steps taken to capture increasing demand as the market expands through such measures as marketing collaboration with a major local online site operator. In a bid to address the issue of locally produced mid-priced brands, energies were directed toward rejuvenating sales by adopting a variety of measures including the introduction of new *AUPRES* counters and renewal of *PURE&MILD*. Regrettably, the effects of these endeavors have been limited.

Taking into consideration the factors mentioned above, sales increased 11.4% compared with the corresponding period of the previous fiscal year on a local currency basis. After converting to Japanese yen, segment sales declined 4.2% year on year, to ¥120.5 billion. Operating income saw a positive turnaround of ¥4.6 billion compared with the corresponding period of the previous fiscal year, to ¥4.2 billion. Although marketing investments and personnel expenses increased, this positive turnaround was mainly the result of higher margins in line with the increase in sales, decrease in the cost of sales on the back of enhancements in the product mix.

Net Sales: ¥120.5 billion Year-on-year change: -4.2% (On a local currency basis: +11.4%)	Operating Income (Loss): ¥4.2 billion Year-on-year change: –



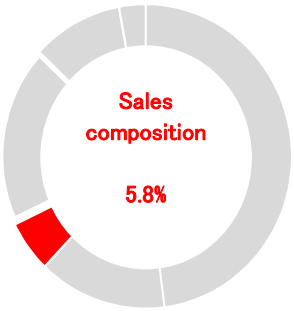


Asia Pacific Business

Consumer needs in each country addressed to realize sustainable growth



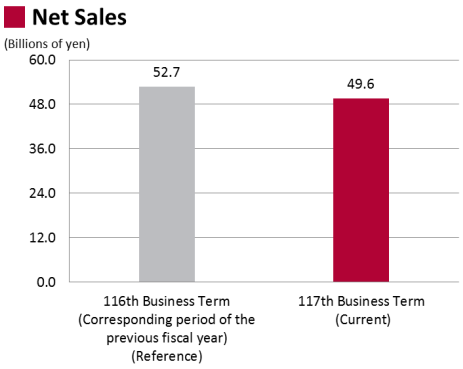
SENKA

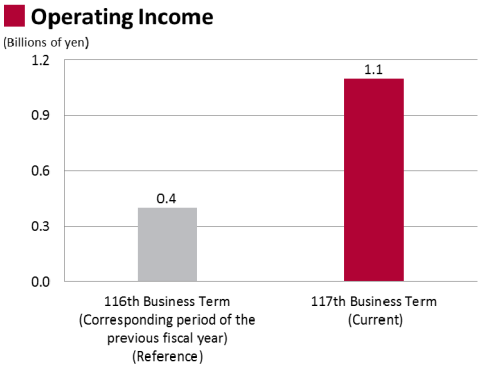


In the Asia Pacific Business, the regional headquarters in Singapore, where coordination and localized marketing functions are located, commenced full-fledged operations. Activities rooted even more deeply in the communities of each country progressed. In addition to the upswing in sales of such brands as *SHISEIDO*, *clé de peau BEAUTÉ* and *NARS* in the prestige category in countries such as Thailand and Vietnam, sales of *NARS* and the personal care *SENKA* brand in South Korea increased contributing to double-digit percentage growth. We undertook research in unison with the *SENKA* brand holder to properly ascertain cosmetics behavior. *SENKA* sales were also robust in other countries. This reflected advertisements that resonate in the minds of consumers that differ from country to country and the increase in marketing channels and the number of stores that handle the *SENKA* brand.

Accounting for these and other factors, sales in this Business rose 7.0% compared with the corresponding period of the previous fiscal year on a local currency basis. After converting to Japanese yen, however, sales declined 5.9% year on year, to ¥49.6 billion. Operating income improved 171.8% compared with the corresponding period of the previous fiscal year, to ¥1.1 billion owing mainly to higher margins in line with the increase in sales.

Net Sales: ¥49.6 billion Year-on-year change: -5.9% (On a local currency basis: +7.0%)	Operating Income: ¥1.1 billion Year-on-year change: +171.8%

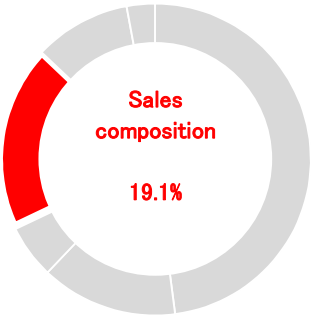




Americas Business

Prestige brands sold well while brand portfolio was strengthened through acquisition of new brands



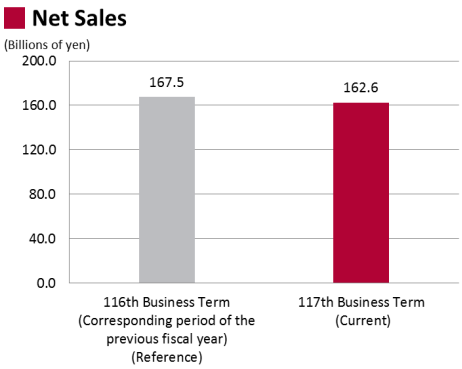


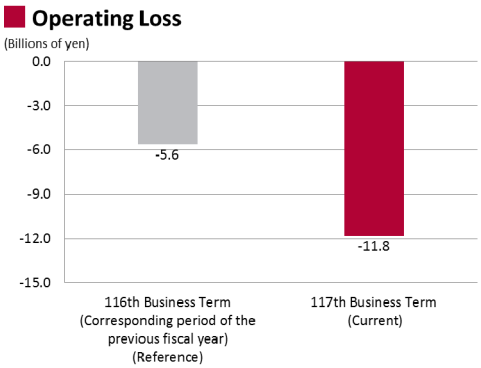
NARS

In the Americas Business, emphasis was placed on the prestige category and on reinforcing marketing investments. Successful steps were also taken to acquire the *Laura Mercier* brand in July 2016 in order to strengthen the brand portfolio and secure an increased share of the makeup market, which is exhibiting growth mainly in the United States. Moreover, the head office functions of Bare Escentuals, Inc. were transferred from San Francisco to New York, where coordination and localized marketing functions of the regional headquarters are located. Through this organizational integration, positive steps have been taken to better share prestige marketing knowledge throughout the region and to fully reinforce brands. In a bid to properly address the needs of the e-commerce market, which is exhibiting rapid growth, measures were implemented to strengthen digital marketing.

Based on the above, sales rose 8.0% compared with the corresponding period of the previous fiscal year on a local currency basis. In addition to continued growth in such brands as *SHISEIDO*, *NARS* and *clé de peau BEAUTÉ*, this result reflects the boost to sales following the acquisition of brands. After converting to Japanese yen, however, sales decreased 3.0% year on year, to ¥162.6 billion. The operating loss in this Business came to ¥11.8 billion. Together with the strengthening of marketing investments, this was primarily due to expenses incurred as a result of the structural reform of Bare Escentuals, Inc., one-time costs incurred in connection with the acquisition of the aforementioned brands and the recognition of goodwill amortization expenses.

Net Sales: ¥162.6 billion Year-on-year change: -3.0% (On a local currency basis: +8.0%)	Operating Loss: ¥11.8 billion Year-on-year change: –

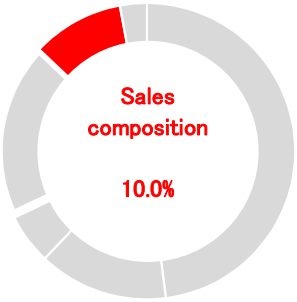




EMEA Business

Continued robust sales of *SHISEIDO* and *narciso rodriguez*, and a new licensing agreement



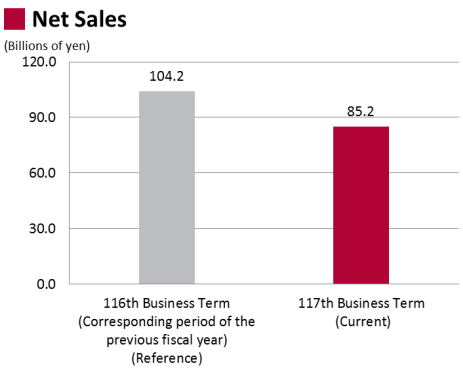


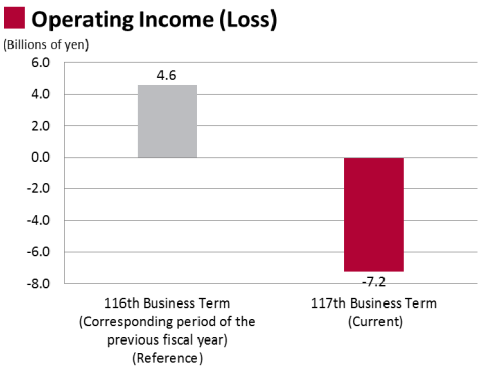
Dolce&Gabbana

In the EMEA Business, marketing investments were stepped up in order to enhance the values of the *SHISEIDO*, designer fragrances *narciso rodriguez* and *ISSEY MIYAKE* as well as other brands. A license agreement in connection with the leading Italian luxury fashion *Dolce&Gabbana* brand was also concluded, with the aim of securing an increased share of the fragrance market, which boasts the EMEA region's largest scale. Moreover, coordination and localized marketing functions of the regional headquarters were relocated to the center of Paris for the purpose of promoting the integration of organizations and functions of each country within the region, eliminating duplication in each of the cosmetics and fragrance categories, and developing business in a uniform manner, to enhance both growth potential and profitability.

Despite the steady growth in sales of *SHISEIDO* and *narciso rodriguez*, sales in the EMEA Business were substantially impacted by the loss of *Jean Paul GAULTIER* sales. This followed the termination of the licensing agreement at the beginning of the fiscal year under review. Accounting for these factors, sales in this segment declined 8.1% compared with the corresponding period of the previous fiscal year on a local currency basis. Coming in at ¥85.2 billion, sales were 18.2% lower year on year after converting to Japanese yen. In addition to the drop in profit margins associated with the downturn in sales, one-time costs were incurred in connection with the *Dolce&Gabbana* license agreement. This led to a negative movement of ¥11.8 billion compared with the corresponding period of the previous fiscal year resulting in an operating loss of ¥7.2 billion. Meanwhile, sales in real terms climbed 9% compared with the corresponding period of the previous fiscal year on a local currency basis after excluding the impact of the termination of the *Jean Paul GAULTIER* license and the effect of the acquisition of the *Dolce&Gabbana* license.

Net Sales: ¥85.2 billion Year-on-year change: -18.2% (On a local currency basis: -8.1%)	Operating Income (Loss): -¥7.2 billion Year-on-year change: –



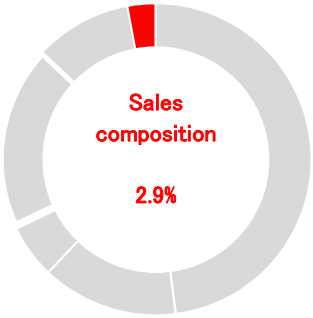


Travel Retail Business

Profits increased substantially through sales growth centering on the Asia region



An event at an airport

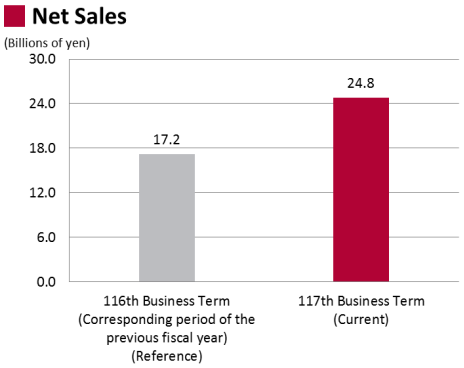


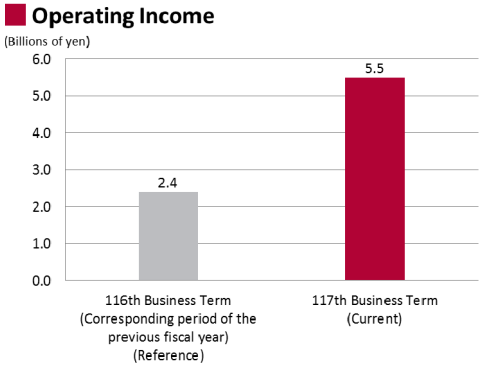
In the Travel Retail Business, which includes the sale of cosmetics through such channels as airport duty-free stores, the market is expanding with a focus on Asia. In regard to this business, which has considerable growth potential and high profit margins, we have strengths among brands originating from Japan; however, the sales composition of this business is small compared with other competitors worldwide. In response to this, we are actively strengthening it as a business of the utmost priority.

In the fiscal year under review, in addition to the opening of new counters, we improved our consumer services at existing sales areas, introduced designated travel retail products and reinforced relationships with major retailers.

As a result, sales per store mainly at major airport duty-free stores throughout Asia including such countries as China, South Korea and Thailand increased. On an overall basis, the Travel Retail Business also reported growth that outstripped the market by a considerable margin. Accounting for these factors, sales in this segment increased 60.4% compared with the corresponding period of the previous fiscal year on a local currency basis. After converting to Japanese yen, sales grew 44.2% year on year, to ¥24.8 billion. Operating income also climbed 126.8% compared with the corresponding period of the previous fiscal year, to ¥5.5 billion on the back of higher margins in line with the increase in sales and other factors.

Net Sales: ¥24.8 billion Year-on-year change: +44.2% (On a local currency basis: +60.4%)	Operating Income: ¥5.5 billion Year-on-year change: +126.8%





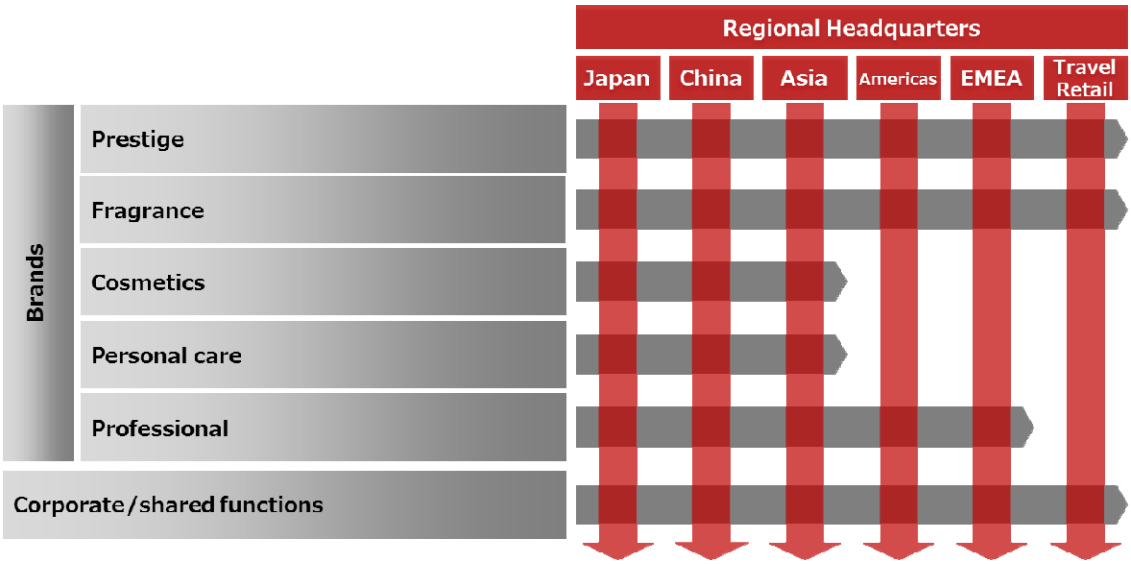
3) Business-wide Initiatives

Initiation of a Regional Headquarters System and Building a "Center of Excellence"

Embracing a policy of "Think Global, Act Local," in January 2016 we started the full-fledged operation of a matrix organization. With this organization, we aim to nurture strong brands and conduct marketing appropriate to individual regions. At each regional headquarters, we acquired human resources with professional skills in areas such as marketing, finance, and human resources to bolster each function, and proceeded with integrating overlapping organizations and functions.

Furthermore, to strengthen and cultivate our brands, the "center of excellence" network, under which regions that are at the forefront of categories and have the ability to influence them globally will lead the group in formulating strategy, developing products, and other initiatives, for shared use for each brand and marketing activities in each country, has started its operation. The center of excellence for skincare is in Japan, while makeup and digital marketing are in the Americas, and fragrance is in Europe.

■ Matrix Organization



■ Center of Excellence Network



R&D for the Creation of New Value

■ Basic R&D Receives High Recognition

During the fiscal year under review, the Company's laboratory marked the 100th anniversary of its predecessor, the testing room. The laboratory has developed high quality products in response to consumer needs, based on the latest dermatological science and formulation development technology.

The laboratory's research and development capabilities have earned high recognition from outside the Company. In the fiscal year under review, the Company won the Poster Award* at the congress of the International Federation of Societies of Cosmetic Chemists (IFSCC), the world's most authoritative meeting in the field of cosmetic science. This is the second consecutive congress at which the researcher concerned has received the Poster Award, making him the first IFSCC presenter in the world to win two IFSCC awards in a row. These award-winning technologies have been used as sources of competitive strength on a global scale, leading to the development of cosmetic products with noticeable effects that are now loved by consumers around the world.

* This time, the Company won its sixth consecutive IFSCC Award from IFSCC Congresses, which are held every other year. Combined with awards won at the IFSCC Conferences, which are held in the years between congresses, the Company has won 24 awards in total, the largest number received by any cosmetics company in the world.

■ Enhancement of Consumer-oriented R&D at the Global Level

To enhance our R&D capabilities around the world based on consumer insight, we will expand our R&D bases not only in Japan, but in regions around the world. During the fiscal year under review, we upgraded and expanded our site in the U.S. in May, and our site in China in November.

We started construction of the Global Innovation Center in Yokohama, aiming to start operation at the end of fiscal 2018. The facility will serve as the central hub for our global R&D bases, and as a place to realize the creation of new value by bringing together basic and foundational research that supports future growth, diverse knowledge, and diverse personnel.







Image of Global Innovation Center

■ Promoting Open Innovation

The Company promotes open innovation to develop products with high added value related to beauty by incorporating innovative technologies and ideas from outside the Company as well as inside.

As part of this effort, in December 2016 the Company established Shiseido Venture Partners to make investments in new ventures that develop and operate innovative business, and made its first investment. Shiseido Venture Partners will continue to aggressively promote investment in promising venture companies, thereby accelerating the acquisition of useful outside knowledge.

In addition, in January 2017, capturing a major consumer trend: cosmetics customization, we acquired US venture company MATCHCo. to secure technology for producing personalized foundation using a smartphone app. We will generate new value by combining MATCHCo's innovative digital technology and the Shiseido Group's R&D capabilities.

Initiatives to Nurture Human Resources to Achieve Sustained Growth

■ Nurturing and Utilizing Human Resources at the Global Level

To achieve its medium-to-long-term strategy, VISION 2020, the Shiseido Group 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.

As a result of the shift to the matrix organization, human resources utilization and development on a global level are becoming more and more important. Due to this, we have started promoting global talent management, in which we fully utilize people's capabilities through a series of processes, such as human resources employment, selection, development, and appointment. Specifically, the Shiseido Leadership Academy, visualizes high quality human resources at the global level, transfers personnel between regions, and strengthens leadership at each level from the top down to young employees. Through the academy, we aim to develop human resources capabilities to use appropriate personnel in appropriate positions and to prepare for the future with global perspectives. The Shiseido Leadership Academy also conducts group training for selected employees from around the world, as well as a Future Leaders Program, primarily for young employees, providing opportunities for them to participate voluntarily in MBA programs in Japan and overseas (full time and short time), and intensive camp-style English language training programs overseas.

■ Realizing Sustainable Career Advancement for All Employees

Since 1990, the Company has introduced its own systems and measures to support a balance between work and childcare and nursing care, to enable men and women engaged in childcare to continue working with peace of mind. Today, we have taken these initiatives to support this balance a step further, evolving into a company that encourages fulfilling work, where employees can advance their careers even while engaging in childcare and nursing care.

During the fiscal year under review, we also reinstated recruitment of beauty consultants (BCs) as regular employees for the first time in 11 years. At the same time, we made progress in hiring contract employees in Japan as regular employees, among other measures aimed at securing high quality personnel. In assigning shifts, we strove to ensure as many opportunities for customer contact as possible, while giving consideration to each individual's circumstances, aiming to enable each BC to improve their skills and advance their careers. Furthermore, we will work to improve and invigorate BC's customer service capabilities and to foster consciousness of career advancement by introducing Lead BC, who is responsible for individual development of BCs, and evolving into a beauty professional group.

Reinforcing our Information Management System

On November 2016, IPSA Company, Limited (IPSA), a wholly-owned subsidiary of the Company, whose business focus is selling cosmetics products, found that its official online

shopping website had been illegally accessed by a third party and that information had possibly been compromised due to the vulnerability of the system. Information that may have been leaked comprised credit card information of customers, as well as personal information.

IPSA and the Company offered sincere support to all the consumers potentially involved in this incident. On January 31, 2017, they completed an investigation involving external experts aimed at clarifying the causes of the incident and preventing any recurrence, and the findings of the investigation report were disclosed.

We regard this situation very seriously, and to prevent a future recurrence, IPSA will improve its official website and strengthen its systems, while the Company will confirm the safety of all Group websites in and outside of Japan and establish an integrated information security maintenance system for the entire Group led by the Information Management Division.

(2) Capital Expenditures

	Investment (Millions of yen)	Purpose of Investment
Property, Plant and Equipment	42,393	Renovation and renewal of production facilities Construction of the new research laboratory, the Global Innovation Center
Intangible Assets	8,132	Renewal of supply chain-related systems
Long-term Prepaid Expenses	5,962	Installations of sales counters and fixtures
Total	56,488	

Note: Capital expenditures: Capital expenditures, and investments in property, plant and equipment, intangible assets (excluding goodwill and trademarks) and long-term prepaid expenses.

(3) Financing

As part of the refinanced short-term debt to procure the required funds for the acquisition of Gurwitch Products, LLC., which held the *Laura Mercier* and *RéVive* brands, and for a licensing contract with Dolce&Gabbana S.r.l., the Company issued the 9th Unsecured Bonds for ¥10 billion on December 19, 2016, and procured long-term debt of ¥30 billion.

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

(Millions of yen, unless otherwise noted)

	114th Business Term (4/1/2013 - 3/31/2014)	115th Business Term (4/1/2014 - 3/31/2015)	116th Business Term (4/1/2015 - 12/31/2015)	117th Business Term (Current term) (1/1/2016 - 12/31/2016)
Net Sales	762,047	777,687	763,058	850,306
Operating Income	49,644	27,613	37,660	36,780
Operating Income to Net Sales (%)	6.5	3.6	4.9	4.3
Ordinary Income	51,426	29,239	37,588	37,174
Net Income Attributable to Shareholders of the Company	26,149	33,668	23,210	32,101
Net Income per Share (Yen)	65.65	84.44	58.17	80.41
Return on Equity (%)	8.4	9.4	6.0	8.2
Comprehensive Income	90,722	70,668	13,594	8,978
Total Assets	801,346	823,636	808,547	946,007
Net Assets	358,707	409,369	413,334	413,870
Net Assets per Share (Yen)	849.42	970.00	981.37	984.13
Equity Ratio (%)	42.2	47.0	48.4	41.5
Price/Earnings Ratio (Times)	27.7	25.3	43.5	36.8
Cash Flows from Operating Activities	84,320	32,134	60,529	59,129
Cash Flows from Investing Activities	-16,799	11,538	-23,137	-70,640
Cash Flows from Financing Activities	-47,462	-58,419	-30,151	22,378
Cash and Cash Equivalents at End of Year/Period	110,163	100,807	104,926	113,122

Notes:

1. "-" denotes loss, decrease, etc. or negative value.
2. Summary of Non-Consolidated Income and Assets

(Millions of yen)

	114th Business Term (4/1/2013 - 3/31/2014)	115th Business Term (4/1/2014 - 3/31/2015)	116th Business Term (4/1/2015 - 12/31/2015)	117th Business Term (Current term) (1/1/2016 - 12/31/2016)
Net Sales	219,219	241,099	165,148	202,774
Operating Income	6,051	19,074	9,515	6,968
Ordinary Income	23,663	39,933	35,243	26,468
Net Income	15,482	30,498	32,811	37,805
Total Assets	603,317	601,186	580,380	620,984
Net Assets	326,061	346,843	369,128	397,318

(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)

	114th Business Term (4/1/2013 - 3/31/2014)	115th Business Term (4/1/2014 - 3/31/2015)	116th Business Term (4/1/2015 - 12/31/2015)	117th Business Term (Current term) (1/1/2016 - 12/31/2016)	
Annual cash dividends per share (Yen)	20	20	20	20	(P)
Annual dividends	7,968	7,975	7,981	7,985	(P)
Consolidated payout ratio (%)	30.5	23.7	34.4	24.9	(P)

Note: Annual cash dividends per share and annual dividends for the 117th 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 28, 2017.

(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 and based on a "Think Global, Act Local" approach, 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



Our Mission

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

私たちは、多くの人々との出会いを通じて、
新しく深みのある価値を発見し、
美しい生活文化を創造します

Our Values

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

伝統は、優位を築く基となり
多様性は、人材と組織を強め
そして革新こそが成長を生み出します

Our Way

All members of Shiseido Group pursue
shared and sustainable growth with all stakeholders.
資生堂グループ全社員は、持続的発展を目指して行動します

With Consumers
お客さまとともに

With Business Partners
取引先とともに

With Employees
社員とともに

With Shareholders
株主とともに

With Society and the Earth
社会・地球とともに

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

Underpinned by the Group's corporate mission of helping people live beautifully, the Company 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 "From a Leader in Japan to a Winner Worldwide", 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, under VISION 2020, we have set consolidated net sales of ¥1 trillion or more, consolidated operating income of ¥100 billion or more and an ROE of 12% or higher as our targets for fiscal 2020. 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 rebuilding our business foundation, and the latter three years to pursuing new strategies aimed at expediting growth. We will conduct activities 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 to fiscal 2017 as a period for rebuilding our business foundation. During this period, we are focusing on settling legacy issues by discontinuing unprofitable brands, reorganizing loss-making overseas subsidiaries, optimizing market inventory levels in China, and making organizational reforms in Europe and the U.S. To accelerate future growth, the Company will enhance its brands through selection and concentration, invest heavily in marketing and innovation, reform the cost structure, nurture personnel and reform organizations, strengthen its brand portfolio through M&A and licensing agreements, and build a global management structure by enhancing its regional headquarters system.

Strengthen brands and proactive marketing investment

We aim to create a number of formidable brands through the innovation of core brands centered on the prestige category while concentrating marketing spending on selected brands. The Company will strengthen marketing by investing a cumulative total of more than ¥100 billion over the three-year period through 2017.

Upholding its vision of "From a Leader in Japan to a Winner Worldwide," the Company intends to reinforce its brand portfolio when necessary through M&A and alliances.

Strengthen the innovation function and promote open innovation

We continue to enhance our R&D organization around the world based on consumer insight, expanding the scale of our nine R&D bases in five countries in order to maximize our R&D capabilities. We have been strengthening collaboration in marketing locally while developing products more in line with local needs.

In the area of basic and foundational research, which supports future growth, we will strengthen our capabilities in each of the following six fields; life science research, material science research, consumer research, beauty equipment, hair regenerative medicine and Information & Communication Technology. At the same time, we will work diligently to create new value.

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. In addition to strengthening our R&D bases, we plan to open our Global Innovation Center by the end of 2018, and increase the number of researchers to a total of up to about 1,500 worldwide.

The Company promotes open innovation to generate new value and markets with a view to creating innovative new products and services related to beauty through the combination of outside technologies and ideas. Our aim is to remain an industry leader while maintaining our global competitive advantages. We plan to obtain new ideas and technologies currently outside our grasp through M&A and investments in venture companies developing cutting-edge businesses.

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 over ¥60 billion to cover the cost of this initiative (the total of cost of goods, 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 2017 Plan

Fiscal 2017, the third year of our three-year plan, is the last fiscal year of rebuilding our business foundation and it will be an extremely important year in terms of setting the stage for the dramatic growth from fiscal 2018. In specific terms, in a bid to achieve the targets identified under the medium-to-long-term strategy, VISION 2020, the Company will strive for high growth by further reinforcing investment in the prestige, made in Japan brand, digital/e-commerce and other categories that can be expected to expand in the future. Also, in order to strengthen brands through the creation of innovation, the Company will actively employ a "center of excellence" network. The Company is expanding marketing investment for the *Dolce&Gabbana* brand, for which it concluded a license agreement for in fiscal 2016, and the *Laura Mercier* brand that was acquired by M&A, also in fiscal 2016. Sales of these brands will contribute to revenue for the full fiscal 2017 year and the Company is striving to realize reduced costs and improved profitability by commencing production of *Dolce&Gabbana* at the Group factories.

In addition to strengthening the product salability, and strengthening and streamlining the organizations for the mineral cosmetics brand made in the United States, *bareMinerals*, and China's *AUPRES*, which are both struggling, the Company will rollout aggressive marketing and aim for growth of both sales and income. Furthermore, the Company will revise its strategy for low-priced products, which are mainly centered on the personal care category, in the Japan Business. Also, with the aim of improving profitability, the Company will improve productivity primarily by significantly reclassifying businesses and the brand portfolio, boldly cutting products that contribute little to sales and income, and strictly managing returns by brand.

In order to implement these initiatives, the Company will nurture and secure global human resources while building a mechanism that allows each and every employee to make the most of their talents and potential.

As a result, consolidated net sales for the fiscal year ending December 31, 2017 are projected to reach ¥940.0 billion. From a profit perspective, operating income is forecast to total ¥45.5 billion on the back of higher profit margins in line with the increase in sales. Ordinary income and net income attributable to shareholders of the Company are anticipated to come in at ¥45.5 billion and ¥26.0 billion, respectively.

4) Enabling Shiseido to remain vital for the next 100 years

Sustainability Strategy

Economic activity has expanded on a global scale while the standard of living has risen to an abundant level. Meanwhile, there are concerns that the growing incidence of global-scale social issues including those that relate to the environment, poverty as well as health and hygiene are undermining the sustainability of human civilization. We recognize the critical importance of promoting the sustainable growth of its business by drawing on our inherent strengths and working vigorously to link efforts aimed at solving environmental and social issues to the Company's business expansion.

Taking into consideration the value chain as it relates to our mission "to inspire a life of beauty and culture," as well as the expectations of society, we have identified Person, Community and the Planet as the scope of our sustainability activities. In particular, we are moving ahead on the key points of providing each and every consumer with healthy and happy lifestyles, realizing a society where diversity is mutually recognized, and designing and producing sustainable products.

Environmental initiatives

We are promoting initiatives to reduce environmental load in the development of cosmetics products. For example, we developed and deployed a new refillable container that anyone can easily use when we renewed *la crème n*, the cream for *clé de peau BEAUTÉ*.

The launch of the refillable container has reduced the amount of plastic used by roughly 73% compared with the original product container. The combination of the inner metallization of the

container and its polyhedral design work produce an effect that expresses a deeply brightened skin tone. This innovative container was recognized in August 2016 with the “Accessible Design Packaging Award”*2 in the “Japan Packaging Contest 2016.”*1

*1 “The Japan Packaging Contest 2016” (held by the Japan Packaging Institute) is Japan’s largest contest for superior packaging designs and packaging technologies. It presents awards in three categories: the Japan Star awards (12 awards), the Packaging Technology awards (6 awards), and the Packaging Department awards (13 awards). The “Accessible Design Packaging Award” is one of the packaging technology awards, and is the second highest award, surpassed only by the Japan Star award.

*2 Award presented for package designs featuring universal design, accessible to the elderly and those with disabilities, and which also improve usability for able-bodied users.



Product and refillable container of *la crème n, clé de peau BEAUTÉ*

Further promote diversity and Support Women’s Activities

A monocultural company is at a disadvantage when it comes to competing amid the globalization of business and the diversifying values of consumers. The Company promotes diversity in terms of nationality, gender, age and other attributes, and believes having employees with diverse ways of thinking and values will lead to the creation of new value and sustained growth.

One of our core missions is to take a leading role in improving the social standing of women and their empowerment, and we have implemented a variety of measures to help advance women’s causes. In January 2017, the Company achieved its target for a 30% ratio of women in management positions in Japan. We will continue to support the advancement of women in the workplace, and now target a 40% ratio of women in management positions by fiscal 2020.

With regards to support for child-rearing, the Company operates its own childcare centers on its business premises. In November 2016, we signed a basic agreement to establish a joint venture with JP Holdings Inc., which provides comprehensive childcare services. In fiscal 2017, we plan to build a childcare center on the premises of our Kakegawa Factory. We are also offering the knowledge we have gained by providing support for child-rearing to other companies interested in setting up their own childcare centers. In these ways, we are helping to address the shortage of childcare centers in Japan, a pressing major social issue.

Contribute to activities that support culture and sports

The Company has continued to create new value for the next generation ever since its foundation to the present day, and this intellectual and emotive pursuit is reflected in its corporate culture. In the initial publication of its corporate culture magazine Hanatsubaki in 1937, we have focused on the discovery of essential items and concepts that withstand the passage of time and unearthing truly outstanding things. The goal of the Company is to ensure that the magazine is on the recommended list for readers. Reaching out to the younger generation, we updated our website in June 2016 and began to publish a paper version of the magazine on a quarterly basis in November.

Sport is a universal language, and the Company encourages people around the world to lead active and beautiful lifestyles by supporting sports activities that bring feelings of excitement and partnership to people. The Company has been a long-running supporter of sports, and since 1979, it has operated the Company’s own female track and field club, the Shiseido Running Club, and co-

sponsored the Tokyo International Women's Marathon, which became the first women's marathon in the world recognized by the International Association of Athletics Federations in that same year. We have also conducted research into proper running posture and training methods, and created sunscreens and skin-brightening products, along with helpful information about how to protect the beauty of skin while engaging in outdoor sports. The Company provides this wisdom and information through its "RUN, RUN, BEAUTY" website, which is accessed by a lot of runners to supplement a life of running for pleasure and beauty.

Through these activities the Company is continuing efforts to remain vital for the next 100 years, upholding its vision of "From a Leader in Japan to a Winner Worldwide." We ask our shareholders for their continued unwavering support.

1.2 Outline of the Shiseido Group (As of December 31, 2016)

(1) Principal Businesses of the Shiseido Group

Segment	Main Business
Japan Business	Cosmetics business in Japan (production and sale of cosmetics, cosmetic accessories, and toiletries, etc.), Professional business in Japan (production and sale of beauty salon products), Healthcare business in Japan (production and sale of health & beauty foods and over-the-counter drugs) and Frontier science business in Japan (production and sale of cosmetics raw materials, medical-use drugs, medical cosmetics, precision and analytical equipment, etc.), Restaurant business, etc.
China Business	Cosmetics business in China (production and sale of cosmetics, cosmetic accessories, and toiletries) and Professional business in China (production and sale of beauty salon products), etc.
Asia Pacific Business	Cosmetics business in Asia and Oceania excluding Japan and China (production and sale of cosmetics, cosmetic accessories, and toiletries) and Professional business in Asia and Oceania excluding Japan and China (production and sale of beauty salon products), etc. (Business includes Asia and Oceania excluding Japan and China.)
Americas Business	Cosmetics business in the Americas (production and sale of cosmetics and cosmetic accessories) and Professional business in Europe and the Americas (production and sale of beauty salon products), etc.
EMEA Business	Cosmetics business in Europe, Middle East and Africa (production and sale of cosmetics and cosmetic accessories), etc.
Travel Retail Business	Cosmetics business worldwide duty-free stores excluding Japan (sale of cosmetics and cosmetic accessories), etc.

(2) Major Business Hubs

Registered Head Office (Ginza 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
Shiseido Kakegawa Factory	Kakegawa-shi, Shizuoka Pref.
Shiseido Osaka Factory	Higashi-Yodogawa-ku, Osaka-shi, Osaka Pref.
Shiseido 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. Hsinchu Factory	Hsinchu 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
Shiseido Research Center (Global Innovation Center)	Tsuzuki-ku, Yokohama-shi, Kanagawa Pref.
Shiseido Beauty Creation Center	Minato-ku, Tokyo
Shiseido cell-Processing & Expansion Center	Kobe-shi, Hyogo Pref.
Shiseido China Research Center Co.,Ltd. (China Innovation Center)	Beijing, China
Shiseido China Research Center Co.,Ltd., Shanghai Branch	Shanghai, China
Shiseido Southeast Asia Research Center	Singapore
Shiseido Europe Innovation Center	Ormes, Orléans, Loiret, France
Shiseido Americas Innovation 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 Americas
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

Company Name	Location	Paid-in Capital	Ownership Percentage of Voting Rights	Principal Business
Shiseido International France S.A.S.	Paris, France	(thousand EUR) 36,295	% — (100.0)	Production of cosmetics, etc.
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) 7,500	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.

Note: 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.

(4) Matters Concerning Employees of the Group

Business Category	Number of Employees		Comparison with the Corresponding Period of the Previous Fiscal Year	
Japan Business	13,134	[6,634]	+874	[-1,018]
China Business	9,274	[96]	-205	[-73]
Asia Pacific Business	3,228	[445]	+244	[-36]
Americas Business	5,942	[356]	+187	[+47]
EMEA Business	2,082	[352]	+104	[+44]
Travel Retail Business	78	[3]	+12	[-3]
Corporate staff	2,811	[1,541]	-180	[-34]
Total	36,549	[9,427]	+1,036	[-1,073]

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. As a revision of the reportable segment classification method was carried out, and partial changes to the aggregation method were made, the numbers of employees after these changes are shown above for the fiscal year under review and corresponding period of the previous fiscal year.
4. The ratio of female employees in the Shiseido Group worldwide is 84.7%, while in Japan (Headquarters and Japan Business) the ratio is 83.3%.

(5) Main Supplies of Loans to the Group

Lender	Outstanding Balance
Mizuho Bank, Ltd.	36,221 million JPY 8,600 million KRW 5,100 thousand SGD 43 thousand EUR

2. Matters Concerning Shares Issued by the Company (As of December 31, 2016)

(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 700,745 shares of treasury stock)

(3) Number of Shareholders:

45,552

(4) Principal Shareholders:

Shareholders	Investment in the Company	
	Number of Shares Held	Percentage of Shareholding
The Master Trust Bank of Japan, Ltd. (Trust Account)	(thousand shares) 34,085	% 8.53<8.52>
Mizuho Bank, Ltd.	21,226	5.31<5.30>
Japan Trustee Services Bank, Ltd. (Trust Account)	17,354	4.34<4.33>
BNYM TREATY DTT 15	9,590	2.40<2.39>
Association of Shiseido Employees' Investment in the Company's shares	7,419	1.85<1.85>
JP MORGAN CHASE BANK 380055	7,390	1.85<1.84>
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>
STATE STREET BANK AND TRUST COMPANY 505225	5,508	1.37<1.37>

Notes:

1. 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.
2. 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.
3. 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 October 22, 2016, it held 37,935 thousand shares through joint holdings (Percentage of shareholding: 9.50%), of which 21,226 thousand shares (5.31%) are held by Mizuho Bank, Ltd., has been filed with the Director-General of the Kanto Finance Bureau.
4. A report of amendment to large shareholdings 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 year.
5. A report of amendment to large shareholdings from Mitsubishi UFJ Financial Group, Inc., that on October 31, 2016, it held 29,639 thousand shares through joint holdings (Percentage of shareholding: 7.42%), of which 23,781 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. However, the Mitsubishi UFJ Trust and Banking Corporation 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 year.
6. A report of amendment to large shareholdings from BlackRock Japan Co., Ltd., that on November 21, 2016, it held 20,041 thousand shares through joint holdings (Percentage of shareholdings: 5.01%), of which 6,512 thousand shares (1.63%) are held by BlackRock Japan Co., Ltd., has been filed with the Director-General of the

Kanto Finance Bureau. However, BlackRock Japan Co., 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 year.

3. Matters Concerning Shares Held by the Company (As of December 31, 2016)

(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
	(million yen)
84	19,434

(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) 3,488	Financial transactions with the subsidiaries of the issuer	To further facilitate operations
TOPPAN PRINTING CO., LTD.	1,628	1,817	Purchase of product packaging and sales promotion materials	
Mitsubishi UFJ Financial Group, Inc.	2,496	1,798	Financial transactions with the subsidiaries of the issuer	
PALTAC CORPORATION	600	1,657	Product sales	
ONO PHARMACEUTICAL CO., LTD.	585	1,494	Product sales	
Tokio Marine Holdings, Inc.	270	1,294	Insurance transactions with the subsidiaries of the issuer	
Dai Nippon Printing Co., Ltd.	871	1,006	Purchase of product packaging and sales promotion materials	
MS&AD Insurance Group Holdings, Inc.	209	759	Insurance transactions with the subsidiaries of the issuer	
Sompo Holdings, Inc.	188	744	Insurance transactions with the subsidiaries of the issuer	
NIPPON FINE CHEMICAL CO.,LTD.	670	604	Purchase of raw materials	

Notes:

1. The Company does not hold shares for the purpose of realizing direct investment gains.
2. Top nine companies of the companies listed above, the amounts reported on the balance sheet exceed one percent of the amount of capital of the Company.
3. In addition to the companies listed above, 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, are posted as items voluntarily disclosed relating to business report on the Company's website: Investors / General Meeting of Shareholders / Corporate Governance / General Meeting of Shareholders (http://www.shiseidogroup.com/ir/account/shareholder/).

4. Matters Concerning Stock Acquisition Rights (As of December 31, 2016)

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, 2016 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	%
646,500	0.16

These stock acquisition rights were granted as stock options in order to link remuneration of the directors and corporate officers, etc. 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.

The status of the stock acquisition rights issued in the fiscal year under review as remuneration for fiscal year 2015 and those issued in the past years are shown below.

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

■ Stock Acquisition Rights Issued during the Fiscal Year under Review

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, 2016	
					Holding Condition and Number of the Stock Acquisition Rights	Class and Number of Shares to Be Issued Upon Exercise of Stock Acquisition Rights
March 30, 2016	Directors of the Company (excluding external director) 3 persons 237 rights	2,515.5 yen	1 yen per share	From September 1, 2018 to February 28, 2031	Directors of the Company (excluding external director) 3 persons 237 rights	Common stock of the Company 23,700 shares
	Corporate officers who do not serve as director 9 persons 295 rights				Corporate officers who do not serve as director of the Company 9 persons 295 rights	29,500 shares
	Corporate officers of wholly-owned subsidiaries of the Company (excluding director and corporate officers of the Company) 4 persons 100 rights				Corporate officers of wholly-owned subsidiaries of the Company (excluding director and corporate officers of the Company) 4 persons 100 rights	10,000 shares
	Others 2 persons 68 rights				Others 2 persons 68 rights	6,800 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, 2016.
2. The grantees of the stock acquisition rights listed above include two persons who were corporate officers up to December 31, 2015.

■ 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, 2016	
					Holding Condition and Number of the Stock Acquisition Rights	Class and Number of Shares to Be Issued Upon Exercise of Stock Acquisition Rights
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 16 persons 119 rights	Common stock of the Company 119,000 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	Common stock of the Company 3,000 shares
					Others 2 persons 6 rights	6,000 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, 2016	
					Holding Condition and Number of the Stock Acquisition Rights	Class and Number of Shares to Be Issued Upon Exercise of Stock Acquisition Rights
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 5 persons 233 rights	23,300 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 does not serve as director of the Company 1 person 39 rights	3,900 shares
					Others 4 persons 171 rights	17,100 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 does not serve as director of the Company 1 person 53 rights	5,300 shares
					Others 5 persons 285 rights	28,500 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 of the Company 2 persons 136 rights	13,600 shares
					Others 8 persons 901 rights	90,100 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, 2016	
					Holding Condition and Number of the Stock Acquisition Rights	Class and Number of Shares to Be Issued Upon Exercise of Stock Acquisition Rights
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 of the Company 3 persons 114 rights	11,400 shares
					Others 10 persons 593 rights	59,300 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 of the Company or its wholly-owned subsidiaries 7 persons 315 rights	31,500 shares
					Others 8 persons 663 rights	66,300 shares

Notes:

1. The number of allotted stock acquisition rights in the past fiscal years 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, 2016.
2. Holding of the stock acquisition rights as of December 31, 2016 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.

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.

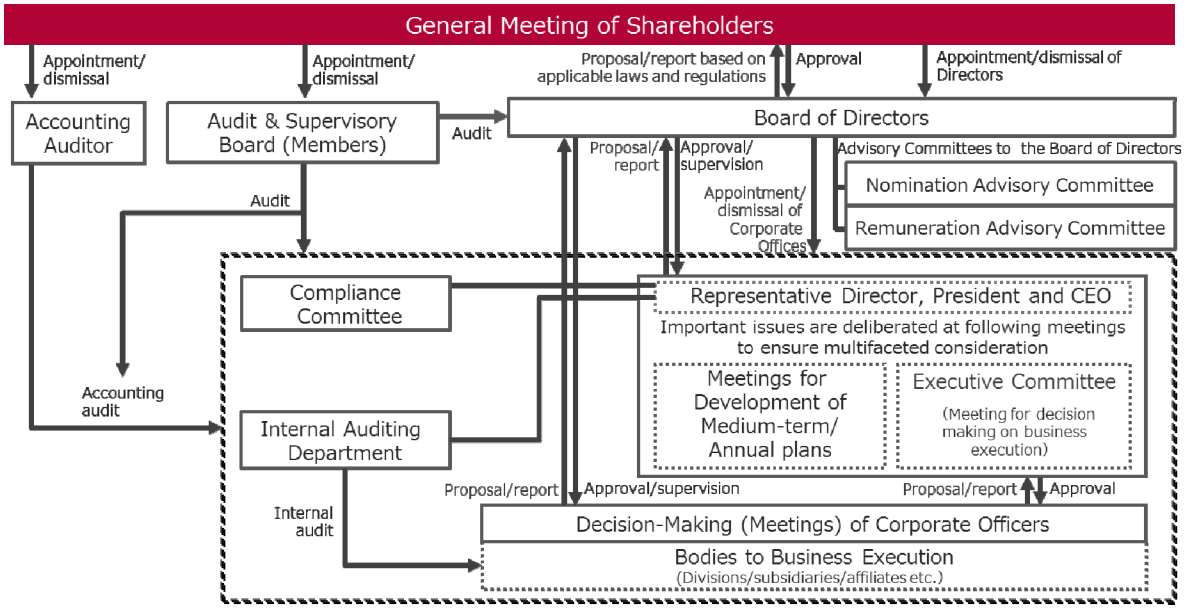
■ **Progress of Shiseido’s Corporate Governance Policy**

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 2016 Increased number of external directors from 3 to 4	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, 2016 is as follows.



<Committees Associated with Corporate Officers>

Executive Committee:

A meeting body that comprises directors who serve concurrently as corporate officers, corporate officers, regional headquarters presidents and others and is responsible for deliberation over particularly important matters from various viewpoints prior to decision-making by Representative Director, President and CEO.

Meetings for Development of Medium-term/Annual Plans:

Meetings for Development of Medium-term/Annual Plans are the meeting body that comprises corporate officers and regional headquarters presidents 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. In fiscal 2016, a total of 6 meetings were held, 2 meetings of the Nomination Advisory Committee and 4 joint meetings of the Nomination Advisory Committee and the Remuneration Advisory Committee. In addition to reporting on the selections of candidates for directors and audit & supervisory board members and appointment of corporate officers, etc., the committee carried out activities including discussing promotions, recruitments, retirements and appointments from outside of corporate officers and the view on the design of the systems of corporate officer.

(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. In fiscal 2016, a total of 8 meetings were held, 4 meetings of the Nomination Advisory Committee and 4 joint meetings of the Nomination Advisory

Committee and the Remuneration Advisory Committee. In addition to discussing bonuses for the Company's directors and corporate officers for fiscal 2015, remunerations for the Company's individual directors and corporate officers for fiscal 2016, and a remuneration system for fiscal 2016, the committee carried out activities including discussing an approach for a revision to the remuneration system for the next three years.

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

<Committees under the Jurisdiction of President and CEO>

Compliance Committee:

Addresses all areas that are required for the Shiseido Group to fulfill its social responsibility, developing a global-based medium- to long-term risk management strategy, establishing a compliance promotion system and a crisis response system of respective regional headquarters, and monitoring and overseeing their compliance promotion status. In addition, we have formed a compliance meeting body under Compliance Committee that reports risk related issues in Japan, reviews recurrence prevention measures, reports whistleblowed matters and matters raised for consultation, studies workplace culture for fundamental improvement measures of issues, monitors compliance related activities and studies issues to improve. In fiscal 2016, we held 2 meetings of Compliance Committee and 1 meeting of the compliance meeting.

(Chairman: Tsunehiko Iwai, Representative Director, Executive Vice President, Committee members: 11 members in total including representative director and corporate officers of the Company, regional headquarters presidents of the Americas, EMEA and Travel Retail, department director of Corporate Strategy Department, 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 category 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 headquarters of Japan, China, Asia, the Americas, EMEA, and Travel Retail. The Board of Directors held repeated discussions 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 directors 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 Criteria for Independence of External Directors and Audit & Supervisory Board Members" 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 overview of the Criteria is as follows. The full text of the Criteria including specific numerical values is posted as items voluntarily disclosed relating to business report on the Company's website: Investors / General Meeting of Shareholders / Corporate Governance / General Meeting of Shareholders (http://www.shiseidogroup.com/ir/account/shareholder/).

■ **Overview of Criteria for Independence of External Directors and Audit & Supervisory Board Members**

i He/She is not originally from Shiseido Company, Limited (the "Company") or an affiliated company (collectively the "Shiseido Group");

ii He/She is not a principal counterparty of the Shiseido Group or originally therefrom;

iii He/She is not a person whose principal counterparty is the Shiseido Group or originally therefrom;

iv He/She is not a large shareholder of the Company or originally therefrom;

v He/She is not an executive of a company whose large shareholder is the Shiseido Group or originally therefrom;

vi He/She is not a lawyer, consultant or the like receiving a large sum of remunerations from the Shiseido Group;

vii He/She is not a person receiving a large amount of donation from the Shiseido Group or originally therefrom;

viii He/She is not an accounting auditor of the Company or originally therefrom;

ix He/She has no one falling under i to viii above among their close relatives;

x He/She does not belong to any company, etc. where such person is in a state of "cross-assumption of Offices of Directors, etc." with the Company;

xi He/She is not in any other circumstances in which duties imposed on an independent External Director and Audit & Supervisory Board Member are reasonably deemed not to be achieved.

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

Of seven directors who are currently in office as of December 31, 2016, four directors (57.1%) 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 two female (28.6%).

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 twelve directors and audit & supervisory board members, seven members (58.3%) are highly independent external directors or external audit & supervisory board members, and four members (33.3%) are female.

7) Succession Plan and Training for Directors, Audit & 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 & 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 meeting 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 2016, the Company operated the internal control system and monitored its status in accordance with the basic policy which was amended upon resolution by the Board of Directors meeting on January 29, 2016, reflecting launch, etc. of Compliance Committee.

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 2016 is as follows:

(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 "Compliance Committee" has been set up in the Company, and while coordinating with organizations that have been set up to fulfill the compliance functions in the respective regional headquarters located in the major regions across the globe, this committee shall be responsible for improving the quality of the Company by enhancing legitimate and fair corporate activities of the group, and risk management. The Compliance Committee shall propose and report the status of the progress and important matters to the Board of Directors through the Representative Director, President and CEO as necessary.

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 Compliance Committee.

For the purpose of detection and remediation of types of conduct within the Group that are in violation of laws, the Articles of Incorporation, and internal regulations of the Shiseido Group, the Company shall set up a hotline under the Compliance Committee, where Compliance Committee Chairman will be appointed as a contact to receive informing or consultations, and it also sets up a hotline at each group company, where the person in charge of ethics promotion will be appointed as a contact to receive informing or consultations. In the Japan region, the Company shall establish one hotline as an in-house-counselor staffed internal point of contact, and one outside-counselor-staffed external point of contact.

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 relevant meeting etc. for decision making on business execution, consisting of corporate officers shall deliberate the business execution from viewpoints of various aspects.

The Board of Directors and the relevant meeting etc. for decision making on business execution 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 relevant meeting etc. for decision making on business execution 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 "Compliance Committee" is set up in the Company, and organizations for the purpose of fulfilling the compliance functions are set up in the respective regional headquarters located in the major regions across the globe. The Committee and the respective organizations will be responsible for overseeing risks related to corporate activities through Group-wide cross-sectional communication. The Compliance Committee recognizes and evaluates risks associated with management strategy and business execution, and takes necessary measures, or assists the regional headquarters located in the major regions across the globe to prepare their own contingency manuals to deal with emergency situations.

In the case of emergency, countermeasure headquarters shall be set up by the regional headquarters of the region where the emergency occurred, the Company, or both, pursuant to the situation, how serious the impact on the Group and other factors, and that headquarters shall take the 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 "Standards of Business Conduct and Ethics," 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 Compliance 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 2016 as described below. Overall status of maintenance and operation of the internal control system at the Company and subsidiaries are included in the scope of the audit by Audit & Supervisory Board (members) and monitored by the internal audit division.

(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 and ensured awareness of the corresponding top commitments among employees. We provided training on entertaining and gift at overseas business offices. We partially amended detailed internal rules in accordance with internal organizational changes, etc. Furthermore, the Compliance Committee and others confirmed the various kinds of risk countermeasures and the operation status and other aspects of the contacts for informing and consultations.
- In accordance with various regulations pertaining to internal auditing, the Company verified the status of establishment and operation of internal control in the overall Shiseido Group, including effectiveness and efficiency of business operations, reliability of financial reports and status of compliance.
- At overseas locations, the Company appointed RMOs (Risk Management Officer) and relocated BEOs (Business Ethics Officer) under RMOs at regional headquarters with the aim of strengthening the system. Inside Japan, the Company strengthened the system for corporate ethics promotion and also provided new training on human rights and corporate ethics as well as personal information and harassment, targeting all employees in Japan.

<Measures for exclusion of anti-social forces>

To prevent any transaction with anti-social forces, the Company applied its preliminary screening system for suppliers in Shiseido Japan Co., Ltd. In addition, the Company introduced a preliminary screening system for preliminary screening on new customers of the cosmetics business to ensure exclusion of anti-social forces.

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

- To enhance appropriateness and properness of final resolutions to be made by Representative Director, President and CEO over important business execution following multifaceted reviews by relevant corporate officers, presidents of regional headquarters and others, the Company has established Executive Committee and Meetings for Development of Medium-term/Annual plans. In addition, at these meetings, the Company regularly receives reports on status of the progress towards the goals of respective corporate officers.

(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," "Personal Information Protection Regulation" and "Individual Numbers and Specific Personal Information Handling Regulation" 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 Company held Compliance Committee and confirmed that the Committee would study risks to be taken by the entire group going forward and measures to reduce the risk levels through relevant education and training, and would implement them accordingly. At the same time, it was approved to appoint RMOs (Risk Management Officer) as persons responsible for respective regional headquarters' risk management.
- The Company appointed risk managers in departments that are required to address risks, as contacts for communications with Compliance Department, thereby having established a support system over activities that departments and offices where risk events occurred undertake to bring them under control.

(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 established the Audit & Supervisory Board Staff Group in the internal audit department directly supervised by Representative Director, 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 meeting as well and other important meetings for business executors such as Executive Committee and Compliance Committee, etc. as observers 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 ensures all employees receive an information card on the office for whistle-blowing to audit & supervisory board members, and thereby are made aware that whistle-blowers will not be unfairly treated. In addition the Company created an ethics card (English version) for employees based in Japan who need a follow-up support in English, with an email address of audit & supervisory board members for whistleblowing on it.

(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 fiscal 2016, 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

- The representative directors and audit & supervisory board members held opinion exchange meetings as needed, and from April 2016, external directors and audit & supervisory board members held information sharing meetings. 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 receive reports on internal auditing from the Quality Management Department and other necessary departments twice a year. In addition, full-time audit & supervisory board members 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, 2016)

Position	Name	Responsibilities at the Company
Representative Director President and CEO	Masahiko Uotani	Chairman of the Board (Corporate Strategy, Business Development, Corporate Communications, Internal Audit, Global Cosmetics and Personal Care Brands) Member of Nomination Advisory Committee Member of Remuneration Advisory Committee
Representative Director Executive Vice President	Tsunehiko Iwai	Chief Technology and Innovation Officer (Research and Development, Supply Chain Management, Technical Strategy, Legal and Governance, Compliance, Sustainability Strategy) Chairman of Compliance Committee Member of Nomination Advisory Committee
Representative Director Corporate Executive Officer	Toru Sakai	Representative Director, President, Shiseido Japan Co., Ltd. (Japan Region) Member of Remuneration Advisory Committee Member of Compliance Committee
External Director <Independent>	Yoko Ishikura	Member of Nomination Advisory Committee Member of Remuneration Advisory Committee
External Director <Independent>	Shoichiro Iwata	Chairman of Remuneration Advisory Committee Member of Nomination Advisory Committee
External Director <Independent>	Kanoko Oishi	Member of Nomination Advisory Committee Member of Remuneration Advisory Committee
External Director <Independent>	Tatsuo Uemura	Chairman of Nomination Advisory Committee Member of Remuneration Advisory Committee

(As of January 1, 2017)

Position	Name	Responsibilities at the Company
Representative Director President and CEO	Masahiko Uotani	Chairman of the Board (Japan Region, China Region, Asia Pacific Region, Americas Region, Europe, Middle East and Africa Region, Travel Retail) Direct reporting organizations (Corporate Strategy, Innovation Design Lab.) Member of Nomination Advisory Committee Member of Remuneration Advisory Committee
Representative Director Executive Vice President	Tsunehiko Iwai	Assisting CEO Chief Technology and Innovation Officer (Legal and Governance, Compliance, Sustainability Strategy, Executive and External Relations, Innovation for Value Creation Project) Direct reporting organizations (Corporate Communications, Corporate Culture, Internal Audit) Chairman of Compliance Committee
Director	Toru Sakai	—
External Director <Independent>	Yoko Ishikura	Member of Nomination Advisory Committee Member of Remuneration Advisory Committee
External Director <Independent>	Shoichiro Iwata	Chairman of Remuneration Advisory Committee Member of Nomination Advisory Committee
External Director <Independent>	Kanoko Oishi	Member of Nomination Advisory Committee Member of Remuneration Advisory Committee
External Director <Independent>	Tatsuo Uemura	Chairman of Nomination Advisory Committee Member of Remuneration Advisory Committee

(As of December 31, 2016)

Position	Name	Responsibilities at the Company
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	—

(As of January 1, 2017)

Position	Name	Responsibilities at the Company
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:

1. There are 7 directors and 5 audit & supervisory board members as of December 31, 2016, of which male are 8 and female are 4.
2. Ms. Yoko Ishikura, Mr. Shoichiro Iwata, Ms. Kanoko Oishi and Mr. Tatsuo Uemura are external directors as provided in Item 15 of Article 2 of the Companies Act of Japan.
3. 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.
4. The Company has designated Ms. Yoko Ishikura, Mr. Shoichiro Iwata, Ms. Kanoko Oishi, 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 "Criteria for Independence of External Directors and Audit & Supervisory Board Members," posted as items voluntarily disclosed relating to business report on the Company's website: Investors / General Meeting of Shareholders / Corporate Governance / General Meeting of Shareholders (http://www.shiseidogroup.com/ir/account/shareholder/)) and have sufficient independency.
5. External director Ms. Kanoko Oishi was newly elected at the 116th ordinary general meeting of shareholders of the Company held on March 25, 2016, and assumed office as director as of the same date. Other directors and audit & supervisory board member (external) Dr. Eiko Tsujiyama were reelected at the same meeting and reassumed office.
6. Audit & supervisory board member (full-time) Mr. Yoshinori Nishimura has had experience as the Department Director 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 at the Faculty 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.
7. 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

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	Kanoko Oishi	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.
External Director	Tatsuo Uemura	Professor, Faculty 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, Faculty of Commerce, Waseda University Outside Audit & Supervisory Board Member of Mitsubishi Corporation Outside Director of ORIX Corporation Outside Corporate Auditor of LAWSON, INC. Outside Audit & Supervisory Board Member of NTT DOCOMO, INC.

Notes:

1. The Company has established "Criteria for "Important Concurrent Position" assumed by Company's directors, audit & supervisory board members and corporate officers." The above information is provided in accordance with the criteria. The criteria are posted as items voluntarily disclosed relating to business report on the Company's website: Investors / General Meeting of Shareholders / Corporate Governance / General Meeting of Shareholders (http://www.shiseidogroup.com/ir/account/shareholder/).
2. External Director Ms. Yoko Ishikura retired as outside Director of Lifenet Insurance Company in June 2016.
3. Audit & Supervisory Board Member (External) Dr. Eiko Tsujiyama retired as Outside Audit & Supervisory Board Member of Mitsubishi Corporation in June 2016.

(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 7 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

	Name	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
External Directors	**Yoko Ishikura**	Outside Director of Nissin Food Holdings Co., Ltd.	Outsourcing business, etc.	Nissin Food Group	Shiseido Group	Less than 0.1%	Total amount of cost of sales and selling, general and administrative expenses of the Company on a consolidated basis for the fiscal year ended December 31, 2016	Transaction value is minimal for the Shiseido Group.
						Less than 0.1%	Consolidated net sales of Nissin Food Holdings Co., Ltd. for the fiscal year ended March 31, 2016	Transaction value is minimal for Nissin Food Group.
		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 cost of sales and selling, general and administrative expenses of the Company on a consolidated basis for the fiscal year ended December 31, 2016	Transaction value is minimal for the Shiseido Group
						Less than 0.1%	Total revenues of Sojitz Corporation on a consolidated basis for the fiscal year ended 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	President & Chief Executive Officer of ASKUL Corporation	Stationeries, etc.	ASKUL Group	Shiseido Group	Less than 0.1%	Total amount of cost of sales and selling, general and administrative expenses of the Company on a consolidated basis for the fiscal year ended December 31, 2016	Transaction value is minimal for the Shiseido Group
						Less than 0.1%	Consolidated net sales of ASKUL Corporation for the fiscal year ended May 20, 2016	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 year ended December 31, 2016	Transaction value is minimal for the Shiseido Group
						Approx. 0.1%	Consolidated cost of sales of ASKUL Corporation for the fiscal year ended May 20, 2016	Transaction value is minimal for ASKUL Group

	Name	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
External Directors	**Shoichiro Iwata**	President & Chief Executive Officer of ASKUL Corporation	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 20, 2016, ASKUL Corporation's net sales of cosmetics, etc. accounted for approximately 0.1% of its consolidated net 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.					—
	Kanoko Oishi	CEO of MEDIVA Inc.	The Company has no special relationships of interest with MEDIVA Inc.					—
		CEO of Seeds 1 Co., Ltd.	The Company has no special relationships of interest with CEO, Seeds 1 Co., Ltd.					—
		Outside Director of Ezaki Glico Co., Ltd.	Snacks, etc. (mail order)	Ezaki Glico Group	Shiseido Group	Less than 0.1%	Total amount of cost of sales and selling, general and administrative expenses of the Company on a consolidated basis for the fiscal year ended December 31, 2016	Transaction value is minimal for the Shiseido Group.
						Less than 0.1%	Consolidated net sales of Ezaki Glico Co., Ltd. for the fiscal year ended March 31, 2016	Transaction value is minimal for Ezaki Glico Group.
		External Board Member of Santen Pharmaceutical Co., Ltd.	Cosmetics, etc.	Shiseido Group	Santen Pharma-ceutical Group	Less than 0.1%	Consolidated net sales of the Company for the fiscal year ended December 31, 2016	Transaction value is minimal for the Shiseido Group.
						Less than 0.1%	Cost of sales of Santen on a consolidated basis for the fiscal year ended March 31, 2016	Transaction value is minimal for Santen Pharmaceutical Group.
		External Director of Suruga Bank Ltd.	The Company has no special relationships of interest with Suruga Bank Ltd.					—
	Tatsuo Uemura	Professor, Faculty of Law, Waseda University	The Company is engaged in joint studies, etc. on beauty and health with Waseda University. Mr. Tatsuo Uemura is not involved in these joint studies.					—

	Name	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
Audit & Supervisory Board Members (External)	**Akio Harada**	External Director of Seiko Holdings Corporation	Commissioning of the development of systems, etc.	Seiko Group	Shiseido Group	Less than 0.1%	Total amount of cost of sales and selling, general and administrative expenses of the Company on a consolidated basis for the fiscal year ended December 31, 2016	Transaction value is minimal for the Shiseido Group.
						Less than 0.1%	Consolidated net sales of Seiko Holdings Corporation for the fiscal year ended 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 year ended December 31, 2016	Transaction value is minimal for the Shiseido Group.
						Less than 0.1%	Consolidated cost of sales of Seiko Holdings Corporation for the fiscal year ended March 31, 2016	Transaction value is minimal for the Seiko Group.
		Outside Director of Sumitomo Corporation	Rental delivery materials, system maintenance and operation, etc.	Sumitomo Corporation Group	Shiseido Group	Less than 0.1%	Total amount of cost of sales and selling, general and administrative expenses of the Company on a consolidated basis for the fiscal year ended December 31, 2016	Transaction value is minimal for the Shiseido Group.
						Less than 0.1%	Total revenues of Sumitomo Corporation on a consolidated basis for the fiscal year ended March 31, 2016	Transaction value is minimal for the Sumitomo Corporation Group.
			Cosmetics, etc.	Shiseido Group	Sumitomo Corporation Group	Approx. 0.2%	Consolidated net sales of the Company for the fiscal year ended December 31, 2016	Transaction value is minimal for the Shiseido Group.
						Less than 0.1%	Total cost of sales of Sumitomo Corporation on a consolidated basis for a fiscal year ended 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 year ended December 31, 2016	Transaction value is minimal for the Shiseido Group.
						Less than 0.1%	Consolidated cost of sales of Yamazaki Baking Co., Ltd. for fiscal year ended December 31, 2016	Transaction value is minimal for the Yamazaki Baking Group.

	Name	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
Audit & Supervisory Board Members (External)	**Akio Harada**	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.					—
		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	Chairman of Keiseikai Hospital Group	The Company has no special relationships of interest with Keiseikai Hospital Group.					—
	Eiko Tsujiyama	Professor, Faculty of Commerce, Waseda University	The Company is engaged in joint studies, etc. on beauty and health with Waseda University. Dr. Tsujiyama is not involved in these joint studies.					—
		Outside Audit & Supervisory Board Member of Mitsubishi Corporation	Raw materials, uniforms used in stores, etc.	Mitsubishi Corporation Group	Shiseido Group	Less than 0.1%	Total amount of cost of sales and selling, general and administrative expenses of the Company on a consolidated basis for the fiscal year ended December 31, 2016	Transaction value is minimal for the Shiseido Group.
						Less than 0.1%	Revenues of Mitsubishi Corporation on a consolidated basis for the fiscal year ended 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 year ended December 31, 2016	Transaction value is minimal for the Shiseido Group.
						Less than 0.1%	Cost of revenues of Mitsubishi Corporation on a consolidated basis for the fiscal year ended March 31, 2016	Transaction value is minimal for the Mitsubishi Corporation Group.

	Name	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
Audit & Supervisory Board Members (External)	**Eiko Tsujiyama**	Outside Director of ORIX Corporation	Office rent, etc.	ORIX Group	Shiseido Group	Less than 0.1%	Total amount of cost of sales and selling, general and administrative expenses of the Company on a consolidated basis for the fiscal year ended December 31, 2016	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 fiscal year ended March 31, 2016	Transaction value is minimal for the ORIX Group.
		Outside Corporate Auditor of LAWSON, INC.	Raw materials, etc.	LAWSON Group	Shiseido Group	Less than 0.1%	Total amount of cost of sales and selling, general and administrative expenses of the Company on a consolidated basis for the fiscal year ended December 31, 2016	Transaction value is minimal for the Shiseido Group.
						Less than 0.1%	Net sales of LAWSON, INC. on a consolidated basis for the fiscal year ended February 29, 2016	Transaction value is minimal for the LAWSON Group.
			Cosmetics, etc.	Shiseido Group	LAWSON Group	Approx. 0.2%	Consolidated net sales of the Company for the fiscal year ended December 31, 2016	Transaction value is minimal for the Shiseido Group.
						Approx. 1.0%	Consolidated cost of sales of LAWSON, INC. for 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 cost of sales and selling, general and administrative expenses of the Company on a consolidated basis for the fiscal year ended December 31, 2016	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 a fiscal year ended 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, and equity-method affiliates 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. The Company has established “Criteria for “Important Concurrent Position” assumed by Company’s directors, audit & supervisory board members and corporate officers.” The above information is provided in accordance with these criteria. The criteria are posted as items voluntarily disclosed relating to business report on the Company’s website:

Investors / General Meeting of Shareholders / Corporate Governance / General Meeting of Shareholders
(http://www.shiseidogroup.com/ir/account/shareholder/)

3 External director Ms. Yoko Ishikura retired as Outside Director of Lifenet Insurance Company in June 2016.

4 Audit & supervisory board member (external) Dr. Eiko Tsujiyama retired as Outside Audit & Supervisory Board Member of Mitsubishi Corporation in June 2016.

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

Position	Name	Major Activities
External Director	Yoko Ishikura	Ms. Ishikura attended 19 out of 19 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 Nomination Advisory Committee of the Company and a member of Remuneration Advisory Committee of the Company.
External Director	Shoichiro Iwata	Mr. Iwata attended 18 out of 19 Board of Directors meetings (Attendance rate: 94.7%). 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	Kanoko Oishi	Since assuming the office of external director in March 2016, Ms. Oishi attended 15 out of 15 Board of Directors meetings (Attendance rate: 100%). She made remarks as necessary based on her experiences and knowledge gained through her career in the business management inside and outside Japan as well as from a standpoint of active manager who is pushing forward patient-centered transformation of the medical industry, and fulfilled a supervisory function in regard to the management. She also served as a member of Nomination Advisory Committee and a member of Remuneration Advisory Committee of the Company.
External Director	Tatsuo Uemura	Mr. Uemura attended 18 out of 19 Board of Directors meetings (Attendance rate: 94.7%). 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 16 out of 19 Board of Directors meetings (Attendance rate: 84.2%) and 11 out of 14 Audit & Supervisory Board meetings (Attendance rate: 78.5%). 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 19 out of 19 Board of Directors meetings (Attendance rate: 100%) and 14 out of 14 Audit & Supervisory Board meetings (Attendance rate: 100%). 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 18 out of 19 Board of Directors meetings (Attendance rate: 94.7%), while 14 out of 14 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, 2016	As of January 1, 2017
Corporate Executive Officer	Yoichi Shimatani	Chief Research and Development Officer (R&D Administration, Cosmetics R&D, Cosmetics Value Development, Intellectual Property, Basic Research, Life Science Research, Quality Assessment)	Chief Research and Development Officer (R&D Administration, Cosmetics R&D, Cosmetics Value Development, Intellectual Property, Basic Research, Life Science Research, Quality Assessment)
Corporate Officer	Jun Aoki	Chief People Officer Department Director, Human Resources Department (Executive and External Relations, China Business Innovation Project) Member of Compliance Committee Chairman, Shiseido Liyuan Cosmetics Co., Ltd.	Chief People Officer Department Director, Human Resources Department Chief Creative Officer (Advertising and Design, China Business Innovation Project) Member of Compliance Committee Chairman, Shiseido Liyuan Cosmetics Co., Ltd.
Corporate Officer	Jean-Philippe Charrier	(Responsible for Asia Pacific Region) President, Shiseido Asia Pacific Pte. Ltd. Member of Compliance Committee	(Asia Pacific Region) President, Shiseido Asia Pacific Pte. Ltd. Member of Compliance Committee
Corporate Officer	Kentaro Fujiwara	Chairman and President, Shiseido China Co., Ltd. Member of Compliance Committee	(China Region) Chairman and President, Shiseido China Co., Ltd. Member of Compliance Committee
Corporate Officer	Takahiro Hayashi	Chief Creative Officer (Advertising and Design, Corporate Culture)	-
Corporate Officer	Katharina Höhne	Senior Vice President, Global Professional Business Department Director, Regional Business Steering	Senior Vice President, Global Professional Business Department Director, Regional Business Steering
Corporate Officer	Masaya Hosaka	Chief Technical Strategy Officer Chief Quality Officer (Technical Strategy, Regulatory Strategy, Quality Management, Frontier Science Business)	Chief Technical Strategy Officer Chief Quality Officer (Technical Strategy, Regulatory Strategy, Quality Management, Frontier Science Business)
Corporate Officer	Mitsuru Kameyama	Chief Information Officer, Global ICT Department Director, Global Information and Communication Technology Department	Chief Information Officer, Global ICT Member of Compliance Committee
Corporate Officer	Yasushi Kushida	Chief Supply Chain Officer (SCM, Production, Technology and Engineering, Purchasing, Kakegawa Factory, Osaka Factory, Kuki Factory) Chairman, Shanghai Zotos Citic Cosmetics Co., Ltd.	Chief Supply Chain Officer (SCM, Production, Technology and Engineering, Purchasing, Kakegawa Factory, Osaka Factory, Kuki Factory) Chairman, Shanghai Zotos Citic Cosmetics Co., Ltd.
Corporate Officer	Yoshiaki Okabe	Brand Director, SHISEIDO Brand Unit, Global Prestige Brands	Brand Director, SHISEIDO Brand Unit, Global Prestige Brands
Corporate Officer	Yoshihiro Shiojima	Chief Legal and Governance Officer (Compliance, Sustainability Strategy) Member of Compliance Committee	Chief Legal and Governance Officer (Compliance, Sustainability Strategy, Executive and External Relations) Member of Compliance Committee

Position	Name	Responsibilities	
		As of December 31, 2016	As of January 1, 2017
Corporate Officer	Mikiko Soejima	Chief Beauty Officer (Beauty Creation) Chief Beauty Officer, Shiseido Japan (Consumer Information, Japan Region]	Chief Beauty Officer (Beauty Creation) Chief Beauty Officer, Shiseido Japan (Beauty Consultant Representative, Beauty Consultation Planning, Consumer Center)
Corporate Officer	Shigekazu Sugiyama	Senior Vice President, Cosmetics Brands, Shiseido Japan President and Representative Director, Shiseido FITIT Co., Ltd.	(Japan Region) Representative Director, President, Shiseido Japan Co., Ltd. Member of Compliance Committee
Corporate Officer	Norio Tadakawa	Chief Finance Officer (Finance, Financial Management) Member of Compliance Committee	Chief Finance Officer (Finance, Financial Management, Investor Relations, Business Development) Member of Compliance Committee
Corporate Officer	Mari Tamura	Senior Vice President, Global Prestige Brands Member of Compliance Committee	Senior Vice President, Global Prestige Brands Member of Compliance Committee

Notes:

1. A Corporate officer who retired on December 31, 2016 is as follows.

Position	Name
Corporate Officer	Takahiro Hayashi

2. Mr. Jun Aoki and Mr. Shigekazu Sugiyama were promoted to corporate executive officer on January 1, 2017.

(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 rebuilding 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 rebuilding 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. 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			
	Basic remuneration	Performance-linked remuneration		Total
		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. There is no difference in the proportion of remunerations by remuneration type applied to directors based on whether a director has a representation right or otherwise.
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 only which is determined in accordance with their respective roles.

■ 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: There is no difference in the performance indicators and the weight of performance indicators applied to directors based on whether a director has a representation right or otherwise

■ **Long-term incentive-type remuneration**

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**

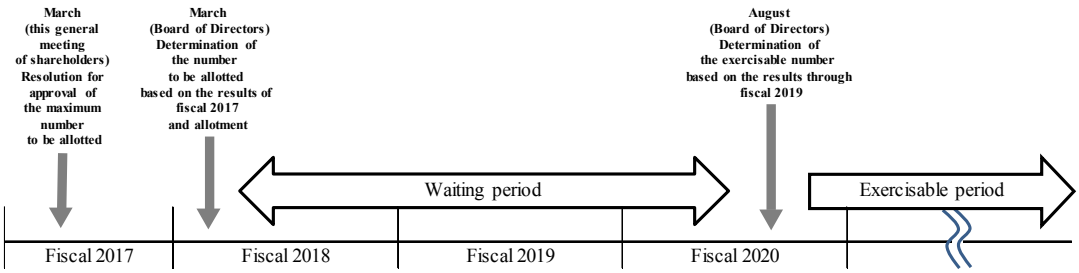
When stock acquisition rights are allotted

- 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**



■ **Framework to ensure objectivity, fairness and transparency of evaluation that serves as a basis of calculation for remuneration**

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. Unlike evaluations based on performance indicators such as consolidated net sales, personal evaluation is not a quantitative evaluation. It therefore requires a framework to ensure its objectivity, fairness and transparency.

To this end, the Company holds meetings of evaluation working group, which was established as a common deliberation body shared by Nomination Advisory Committee and Remuneration Advisory Committee to conduct overall business evaluation including the performance evaluation for President and CEO, and confirm appropriateness of the remuneration level. The evaluation working group also deliberates and reviews reappointment or replacement of President and CEO, playing an extensive role concerning appropriate appointment of President and CEO and determining incentives. The evaluation working group is comprised of external directors and external audit & supervisory board members as importance is put to the independence from President and CEO as well as business execution structure led by President and CEO.

Personal evaluation on corporate officers other than President and CEO (including those concurrently serve as directors) is performed by President and CEO, together with evaluation based on the performance indicators. Objectivity, fairness and transparency of this personal evaluation are ensured by Remuneration Advisory Committee monitoring its evaluation process and the evaluation approach.

3) Amount of Remuneration, etc. to Directors and Audit & Supervisory Board Members of the Fiscal Year Ended December 31, 2016

(Millions of yen)

	Basic Remuneration	Bonuses	Long-Term Incentive (Stock Option)	Total
Directors (7 persons)	272	120	50	443
External Directors among Directors (4 persons)	49	—	—	49
Audit & Supervisory Board Members (5 persons)	99	—	—	99
Audit & Supervisory Board Members (External) among Audit & Supervisory Board Members (3 persons)	36	—	—	36
Total	372	120	50	542

Notes:

1. Basic remuneration for directors has the ceiling amount of ¥30 million per month as per the resolution of the 89th ordinary general meeting of shareholders held on June 29, 1989. Basic remuneration for audit & supervisory board members has the ceiling amount of ¥10 million per month as per the resolution of the 105th ordinary general meeting of shareholders held on June 29, 2005.
2. The above amount of basic remuneration includes ¥23 million as basic remuneration for fiscal 2016 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.
3. The above amount to be paid as bonuses to directors for fiscal 2016 is subject to the approval of the Fifth 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 year among the stock options (stock acquisition rights) in the fiscal year, upon the approval of the ordinary general meeting of shareholders, in consideration of performance of duties by directors.
5. In addition to the above payments, there are other remuneration, etc. of ¥0.3 million recorded for the fiscal year ended December 31, 2016 as expenses associated with stock options granted to one director of the Company, at the time he served as corporate officer not holding the office of director.
6. 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 1 through 5).

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 Year Ended December 31, 2016

(Millions of yen)

	Basic remuneration	Bonuses	Long-term incentive (Stock option)	Total
Masahiko Uotani, Representative Director	129	77	29	236
Tsunehiko Iwai Representative Director	47	21	6	75
Toru Sakai, Representative Director	47	20	14	82

Notes:

1. The above amount of basic remuneration includes ¥23 million as basic remuneration for fiscal 2016 that one subsidiary paid through the Company to Mr. Toru Sakai, representative director, who served concurrently as the director of said subsidiaries.

2. The above amount to be paid as bonuses to directors for fiscal 2016 is subject to the approval of the Fifth Item of Business (Payment of Bonuses to Directors) as proposed at this ordinary general meeting of shareholders.
3. The amount of long-term incentive type remuneration (stock options) indicated above represents the expenses associated with the fiscal year among the stock options (stock acquisition rights) in the fiscal year, upon the approval of the ordinary general meeting of shareholders, in consideration of duties executed by directors.
4. None of the three directors above will be paid remunerations other than the remunerations described above (including those described in notes 1 through 3).

(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 year ended December 31, 2016	188
Total cash and other remuneration to be paid by the Company and its subsidiaries to the accounting auditor	227

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 year ended December 31, 2016" above.

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

The Audit & 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 period as well as the validity of both descriptions in the audit plan prepared by the Accounting Auditor during the fiscal year 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

Not applicable.

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 given in billions of JPY have been rounded to the nearest 0.1 billion, and other amounts 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, share of less than one unit have been omitted.

SHISEIDO

Consolidated Balance Sheets

(As of December 31, 2016)

(Millions of yen)

	December 31, 2016	December 31, 2015 (Reference)
ASSETS		
Current Assets:	**443,748**	**410,673**
Cash and Time Deposits	120,126	116,771
Notes and Accounts Receivable	136,768	127,201
Short-Term Investments in Securities	7,905	7,685
Inventories	115,672	105,928
Deferred Tax Assets	33,618	28,242
Other Current Assets	31,589	26,608
Less: Allowance for Doubtful Accounts	-1,933	-1,765
Non-current Assets:	**502,258**	**397,873**
Property, Plant and Equipment:	**156,194**	**134,281**
Buildings and Structures	58,478	58,793
Machinery, Equipment and Vehicles	14,980	13,905
Tools, Furniture and Fixtures	24,402	22,110
Land	36,604	29,989
Leased Assets	3,317	3,639
Construction in Progress	18,411	5,843
Intangible Assets:	**246,333**	**161,403**
Goodwill	59,795	59,430
Leased Assets	401	513
Trademarks	146,209	60,087
Other Intangible Assets	39,927	41,372
Investments and Other Assets:	**99,729**	**102,187**
Investments in Securities	24,899	27,434
Long-Term Loans Receivable	240	396
Long-Term Prepaid Expenses	13,377	12,692
Deferred Tax Assets	37,371	36,833
Other Investments	23,874	24,877
Less: Allowance for Doubtful Accounts	-33	-46
TOTAL ASSETS	**946,007**	**808,547**

	December 31, 2016	December 31, 2015 (Reference)
LIABILITIES		
Current Liabilities:	**246,687**	**206,784**
Notes and Accounts Payable	51,080	33,102
Electronically Recorded Obligations-Operating	32,312	29,213
Short-Term Debt	6,339	7,167
Commercial Papers	5,243	4,218
Current Portion of Long-Term Debt	3,230	5,739
Lease Obligations	1,744	1,870
Other Payables	43,453	37,090
Accrued Income Taxes	5,561	4,661
Provision for Sales Returns	12,948	14,799
Provision for Bonuses	22,110	18,480
Provision for Directors' Bonuses	99	55
Provision for Risk and Liabilities	2,024	1,192
Deferred Tax Liabilities	0	16
Other Current Liabilities	60,538	49,176
Non-current Liabilities:	**285,449**	**188,428**
Bonds	40,000	30,000
Long-Term Debt	62,196	35,432
Lease Obligations	1,826	2,184
Long-Term Payables	53,135	715
Net Defined Benefit Liability	94,489	83,656
Provision for Losses on Guarantees	350	350
Provision for Environmental Measures	376	377
Provision for Structural Reforms	—	990
Deferred Tax Liabilities	29,818	31,270
Other Non-current Liabilities	3,257	3,450
Total Liabilities	**532,137**	**395,212**
NET ASSETS		
Shareholders' Equity:	**392,033**	**366,999**
Common Stock	64,506	64,506
Capital Surplus	70,846	70,258
Retained Earnings	258,005	233,933
Less: Treasury Stock, at Cost	-1,325	-1,700
Accumulated Other Comprehensive Income	**930**	**24,664**
Unrealized Gains (Losses) on Available-for-Sale Securities, Net of Taxes	7,389	8,144
Foreign Currency Translation Adjustments	26,516	40,374
Remeasurements of Defined Benefit Plans	-32,975	-23,854
Stock Acquisition Rights	**818**	**863**
Non-Controlling Interests	**20,087**	**20,806**
Total Net Assets	**413,870**	**413,334**
TOTAL LIABILITIES AND NET ASSETS	**946,007**	**808,547**

SHISEIDO

Consolidated Statements of Income

(Fiscal Year from January 1, 2016 to December 31, 2016)

(Millions of yen)

	Fiscal Year	Previous Fiscal Period (Reference)
Net Sales	850,306	763,058
Cost of Sales	207,553	196,009
Gross Profit	**642,753**	**567,048**
Selling, General and Administrative Expenses	605,972	529,388
Operating Income	**36,780**	**37,660**
Other Income	4,149	4,100
Interest Income	771	1,172
Dividend Income	521	559
Equity in Earnings of Affiliates	260	149
Rental Income	776	669
Subsidy Income	624	730
Other	1,194	819
Other Expenses	3,754	4,172
Interest Expense	814	809
Foreign Exchange Loss	1,270	1,790
Other	1,669	1,571
Ordinary Income	**37,174**	**37,588**
Extraordinary Income	18,489	8,894
Gain on Transfer of Business	8,952	5,772
Gain on Sales of Property, Plant and Equipment	9,132	696
Gain on Sales of Investments in Securities	403	2,426
Extraordinary Loss	5,797	3,590
Impairment Loss	153	153
Structural Reform Expenses	4,037	1,485
Loss on Liquidation of Subsidiaries and Affiliates	—	812
Information Security Expenses	574	—
Loss on Sales and Disposal of Property, Plant and Equipment	1,010	1,132
Loss on Sales of Investments in Securities	0	0
Loss on Revaluation of Investments in Securities	21	6
Income before Income Taxes	**49,866**	**42,892**
Income Taxes – Current	17,507	15,267
Income Taxes – Deferred	-1,565	2,024
Net Income	**33,925**	**25,600**
Net Income Attributable to Non-Controlling Interests	1,823	2,389
Net Income Attributable to Shareholders of the Company	**32,101**	**23,210**

SHISEIDO

Reference: Consolidated Statements of Comprehensive Income

(Fiscal Year from January 1, 2016 to December 31, 2016)

(Millions of yen)

	Fiscal Year	Previous Fiscal Period (Reference)
Net Income	**33,925**	**25,600**
Other Comprehensive Income:		
Unrealized Gains (Losses) on Available-for-Sale Securities, Net of Tax	-813	1,690
Foreign Currency Translation Adjustments	-14,906	-9,173
Remeasurements of Defined Benefit Plans	-9,136	-4,468
Share of Other Comprehensive Income of Entities Accounted for Under the Equity Method	-90	-55
Total Other Comprehensive Income	-24,946	-12,005
Comprehensive Income	**8,978**	**13,594**
(Breakdown)		
Comprehensive Income Attributable to Shareholders of the Company	8,367	12,323
Comprehensive Income Attributable to Non-Controlling Interests	611	1,271

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, 2015 to December 31, 2015.

SHISEIDO

Consolidated Statements of Changes in Net Assets

(Fiscal Year from January 1, 2016 to December 31, 2016)

(Millions of yen)

	Shareholders' Equity				
	Common Stock	Capital Surplus	Retained Earnings	Treasury Stock, at Cost	Total Shareholders' Equity
Balance as of January 1, 2016	64,506	70,258	233,933	-1,700	366,999
Changes during the Fiscal Year					
Dividends from Retained Earnings			-7,983		-7,983
Net income Attributable to Shareholders of the Company			32,101		32,101
Acquisition of Treasury Stock				-6	-6
Disposal of Treasury Stock		11		380	392
Equity Transactions with Non-Controlling Interests and Others		575	-46		529
Net Change in Items Other than Shareholders' Equity					—
Total Change during the Fiscal Year	—	587	24,071	374	25,033
Balance as of December 31, 2016	64,506	70,846	258,005	-1,325	392,033

(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	Remeasure-ments of Defined Benefit Plans	Total Accumulated Other Comprehen-sive Income			
Balance as of January 1, 2016	8,144	40,374	-23,854	24,664	863	20,806	413,334
Changes during the Fiscal Year							
Dividends from Retained Earnings							-7,983
Net income Attributable to Shareholders of the Company							32,101
Acquisition of Treasury Stock							-6
Disposal of Treasury Stock							392
Equity Transactions with Non-Controlling Interests and Others							529
Net Change in Items Other than Shareholders' Equity	-755	-13,858	-9,120	-23,734	-44	-718	-24,497
Total Change during the Fiscal Year	-755	-13,858	-9,120	-23,734	-44	-718	535
Balance as of December 31, 2016	7,389	26,516	-32,975	930	818	20,087	413,870

Notes to the Consolidated Financial Statements

Basis of Presenting Consolidated Financial Statements

1. Scope of Consolidation

(1) Number of consolidated subsidiaries: 90

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

[Addition: 1 company]

Gurwitch UK Limited has been included in the scope of consolidation effective from the fiscal year under review following the new acquisition of shares during the fiscal year under review. Gurwitch Products, LLC. and GBP UK LLC. have been merged with Shiseido Americas Corporation by way of absorption in the fiscal year under review after the acquisition of new shares during the fiscal year under review.

[Exclusions: 2 companies]

Noms de Code S.A.S. was excluded from the scope of consolidation effective from the fiscal year under review following the transfer of shares held.

Bare Escentuals Canada, Inc. was excluded from the scope of consolidation effective from the fiscal year under review following completion of an absorption-type merger with Shiseido (Canada) Inc.

(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: 3

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

[Exclusion: 1 company]

Salle de Fete was excluded as an affiliate accounted for under the equity method effective from the fiscal year under review following the transfer of shares held.

(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. Fiscal Year of Consolidated Subsidiaries

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

4. 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 10–20 years
Software:	mainly 5 years
Customer relationships:	mainly 10 years
Trademarks:	mainly 10–15 years (except for those with indefinite useful lives)

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 Company and its consolidated subsidiaries provide a reserve for sales returns for future losses considering the past return ratios and market distributors' stock.

3) Provision for Bonuses

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

4) Provision for Directors' Bonuses

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

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.

(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 year.

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 year.

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, and assignment accounting treatment to foreign exchange forward contracts that meet the requirement of assignment accounting. The Company also applies integral accounting treatment (special accounting treatment, assignment accounting treatment) to interest rate and currency swap contracts 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.

(Supplementary Information)

Change in the effective statutory tax rate

Following the promulgation of the "Act for Partial Amendment of the Income Tax, etc." (Act No. 15 of 2016) and the "Act for Partial Amendment of the Local Tax Act, etc." (Act No. 13 of 2016) on March 29, 2016, the statutory effective tax rate used for the calculation of deferred tax assets and liabilities in the fiscal year under review was changed to 31% from 32% in the previous fiscal period.

The impact of this change on the consolidated financial statements in the fiscal year under review is immaterial.

Notes to Consolidated Balance Sheets

(1) Inventories

Merchandise and products	¥81,432 million
Work in process	¥5,657 million
Raw materials and supplies	¥28,583 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	¥13,161 million
Other investments (Guarantee deposit paid)	¥15,200 million
Investments in securities	¥1,155 million
Cash and time deposits	¥1,808 million
Machinery, equipment and vehicles, and tools, furniture and fixtures	¥0 million
Total	¥31,327 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	¥19,565 million

(3) Accumulated depreciation of property, plant and equipment ¥238,271 million

Notes to Consolidated Statements of Income

(1) Gain on transfer of business

Gain resulted from the transfer, etc. of intellectual property rights relating to Jean Paul GAULTIER fragrance.

(2) Gain on sales of property, plant and equipment

The gain on sales of property, plant and equipment mainly reflects the gain on sale of land of the Company's former Kamakura Factory.

(3) Impairment loss:

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

Use	Type of asset	Location
Idle assets, and others	Intangible assets, Other intangible assets, 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.

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 ¥153 million extraordinary loss. The recoverable amount was estimated based on the net sales value, which was assessed based on the expected selling price.

(4) 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.

(5) Information security expenses

Information security expenses refer to the costs incurred due to illegal access by a third party to the official online shopping website of a consolidated subsidiary of the Company. Expenses comprise the costs required to properly identify the causes, apologize to consumers and put in place countermeasures.

Notes to Consolidated Statements of Changes in Net Assets

(1) Shares issued and outstanding

Category and number of shares issued and outstanding as of December 31, 2016

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 March 25, 2016	Common stock	3,991	10	December 31, 2015	March 28, 2016
Board of Directors Meeting on August 9, 2016	Common stock	3,992	10	June 30, 2016	September 2, 2016
Total		7,983			

2) Resolution at the Ordinary General Meeting of Shareholders to be held on March 28, 2017 concerning dividends on shares of common stock made for the fiscal year ended December 31, 2016 but for which the effective date is after the end of the fiscal year.

Cash dividends to be paid:	¥3,992 million
Cash dividends per share:	¥10
Record date:	December 31, 2016
Effective date:	March 29, 2017
Funding source:	Retained earnings

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

Common stock 442 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 debt and commercial papers, which the Shiseido Group uses to procure funds for operating transactions, as well as long-term debt, bonds and lease obligations, which the Shiseido Group uses to fund investments and loans, capital expenditures and operating transactions. Long-term payables, which are mostly liabilities incurred in connection with the execution of a license agreement, are not exposed to foreign exchange risk and interest rate risk. Floating-rate debt is exposed to the risk of interest rate fluctuations. The Shiseido Group hedges this risk for specific long-term debt 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, 2016 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	120,126	120,126	—
(2)	Notes and accounts receivable (less allowance for doubtful accounts)	134,835	134,835	—
(3)	Short-term investments in securities and investments in securities			
	Available-for-sale securities	28,961	28,961	—
(4)	Notes payable, Electronically recorded obligations - operating, Accounts payable and Other payables	(126,845)	(126,845)	—
(5)	Short-term debt	(6,339)	(6,339)	—
(6)	Commercial papers	(5,243)	(5,243)	—
(7)	Bonds	(40,000)	(40,165)	-165
(8)	Long-term debt	(65,426)	(66,160)	-734
(9)	Lease obligations	(3,570)	(3,605)	-35
(10)	Derivative instruments			
	1) Hedge accounting not applied	(601)	(601)	—
	2) Hedge accounting applied	—	(22)	-22
(11)	Long-term payables	(53,135)	(53,135)	—

* 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 because these amounts are approximately the same.

(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 debt. The fair value of fixed-rate long-term debt 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.

(11) Long-term payables

Carrying value and fair value of long-term payables are measured and calculated as the present value discounted using the interest rate that is assumed to be applied when an additional loan is taken out from banks, etc. for future cash flows.

Per-Share Information

Net assets per share:	¥984.13
Net income per share:	¥80.41

Business Combinations

(Business combination)

Business combination through acquisition

Shiseido Americas Corporation, a subsidiary of the Company, signed an agreement with Alticor Inc. to acquire 100% of the membership interests in Gurwitch Products, LLC., a marketer of global prestige cosmetics and skincare brands on June 2, 2016, and acquired the shares on July 12, 2016.

1. Outline of the business combination

(1) Name and content of business of the acquired company

Name of the acquired entity: Gurwitch Products, LLC.
Content of business: Distribution of cosmetics under *Laura Mercier* and *RéVive* brand names

(2) Major reason for the business combination

In consistency with the Company's medium-to-long-term strategy VISION 2020 goal to accelerate global growth and its strategy to leverage regional strengths, assets and expertise for global benefit, the acquisition was carried out because *Laura Mercier*, which has a strong presence in the prestige makeup market, and prestige skincare brand *RéVive* are highly complementary to the Shiseido Group's portfolio of prestige makeup and skincare brands, and the combination is expected to provide the Shiseido Group with significant growth opportunities, expanded customer reach and an even stronger foothold in the fast-growing prestige makeup market.

(3) Effective date of business combination

July 12, 2016

(4) Legal form of business combination

Acquisition of shares in exchange for cash

(5) Name of the company after combination

No change

(6) Ratio of acquired voting rights

100%

(7) Major reason for the determination of the acquiring company

The determination was made because Shiseido Americas Corporation, a subsidiary of the Company, acquired the shares and cosmetics brands in exchange for cash.

2. Period for which the operating results of the acquired company are included in the consolidated financial statements

From July 12, 2016 to December 31, 2016

3. Breakdown of cost and consideration for the acquisition of the acquired company by type

Consideration for the acquisition	Cash	¥25,717 million
Cost		¥25,717 million

4. Content and amount of major acquisition-related costs

Advisory expenses and others: ¥576 million

5. Amount of goodwill arising from the business combination, reason for the goodwill, and amortization method and period

(1) Amount of goodwill arising from the business combination

¥6,628 million

(2) Reason for the goodwill

The goodwill arose from future excess earnings power that is expected from future business development.

(3) Amortization method and period

By straight-line method over 10 years

6. Amounts of assets received and liabilities assumed on the date of business combination, and their major components

Current assets	¥8,658 million
Non-current assets	¥12,396 million
Total assets	¥21,055 million
Current liabilities	¥1,965 million
Total liabilities	¥1,965 million

7. Amount allocated to intangible fixed assets other than goodwill and the breakdown by major type, and weighted average amortization period for all the intangible fixed assets and by major type

Breakdown by major type	Amount	Amortization period
Trademarks	¥7,836 million	Non-amortization
Customer-related assets	¥3,491 million	10 years

8. Approximate amount of impact on the consolidated statements of income for the fiscal year under review assuming that the business combination was completed on the first day of the fiscal year under review, and the calculation method

Net sales	¥9,926 million
Operating loss	¥184 million

(Method of calculating the approximate amount)
The approximate amount of impact is the difference between the amounts of net sales and profits and loss information calculated assuming that the business combination was completed on the first day of the fiscal year under review and the amounts of net sales and profits and loss information on the consolidated statement of income. In addition, the amortization is calculated by assuming the goodwill and other intangible assets recognized upon the business combination were incurred on the first day of the fiscal year under review.

This note has not received audit certification.

Other

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

SHISEIDO

Non-Consolidated Balance Sheets

(As of December 31, 2016)

(Millions of yen)

	December 31, 2016	December 31, 2015 (Reference)
ASSETS		
Current Assets:	**159,651**	**158,305**
Cash and Time Deposits	31,391	32,612
Notes Receivable	238	109
Accounts Receivable	71,044	77,046
Short-Term Investments in Securities	6,000	5,067
Merchandise and Products	11,060	9,832
Work in Process	2,819	2,709
Raw Materials and Supplies	12,660	8,991
Prepaid Expenses	1,612	2,150
Short-Term Loans Receivable	680	350
Other Accounts Receivable	17,105	14,708
Deferred Tax Assets	3,600	3,444
Other Current Assets	1,472	1,281
Less: Allowance for Doubtful Accounts	-35	—
Non-current Assets:	**461,332**	**422,074**
Property, Plant and Equipment:	**73,610**	**52,577**
Buildings	19,453	19,981
Structures	539	553
Machinery and Equipment	4,633	3,840
Vehicles	47	35
Tools, Furniture and Fixtures	5,280	4,969
Land	27,019	20,195
Leased Assets	2,011	2,008
Construction in Progress	14,624	992
Intangible Assets:	**7,622**	**7,538**
Patent Rights	22	27
Telephone Rights	124	124
Software	4,705	3,848
Software in Progress	703	1,317
Leased Assets	205	199
Other Intangible Assets	1,861	2,021
Investments and Other Assets:	**380,099**	**361,958**
Investments in Securities	20,358	22,384
Investments in Shares of Subsidiaries and Affiliates	313,287	288,883
Other Investment Securities of Subsidiaries and Affiliates	18,786	18,786
Capital Investments	736	736
Capital Investments in Subsidiaries and Affiliates	11,816	11,816
Long-Term Loans Receivable	3,195	4,726
Prepaid Pension Expenses	5,683	5,602
Long-Term Prepaid Expenses	500	332
Deferred Tax Assets	1,958	4,304
Other Investments	4,550	5,211
Less: Allowance for Doubtful Accounts	-776	-827
TOTAL ASSETS	**620,984**	**580,380**

	December 31, 2016	December 31, 2015 (Reference)
LIABILITIES		
Current Liabilities:	**122,261**	**145,061**
Notes Payable	9,861	843
Electronically Recorded Obligations-Operating	23,804	25,622
Accounts Payable	11,460	10,781
Current Portion of Long-term Debt	2,500	5,000
Lease Obligations	1,067	1,085
Other Accounts Payable	16,259	13,094
Accrued Expenses	469	507
Deposits Received	1,391	1,351
Deposits Received from Subsidiaries and Affiliates	48,604	79,690
Provision for Sales Returns	2,912	3,777
Provision for Bonuses	3,234	3,089
Provision for Directors' Bonuses	99	55
Other Current Liabilities	596	161
Non-current Liabilities:	**101,403**	**66,190**
Bonds	40,000	30,000
Long-Term Debt	42,500	15,000
Lease Obligations	1,190	1,164
Provision for Retirement Benefits	15,775	16,792
Provision for Losses on Guarantees	390	578
Provision for Environmental Measures	310	310
Provision for Structural Reforms	—	990
Other Non-current Liabilities	1,237	1,354
Total Liabilities	**223,665**	**211,251**
NET ASSETS		
Shareholders' Equity:	**389,627**	**360,751**
Common Stock	64,506	64,506
Capital Surplus	70,270	70,258
Additional Paid-In Capital	70,258	70,258
Other Capital Surplus	12	0
Retained Earnings:	256,175	227,685
Legal Reserve	16,230	16,230
Other Retained Earnings	239,944	211,455
Reserve for Advanced Depreciation of Non-current Assets	3,574	—
Reserve for Special Account for Advanced Depreciation of Non-current Assets	544	—
Retained Earnings Carried Forward	235,825	211,455
Less: Treasury Stock, at Cost	-1,325	-1,700
Valuation, Translation Adjustments and Others:	**6,872**	**7,513**
Unrealized Gains on Available-for-Sale Securities, Net of Taxes	6,872	7,513
Stock Acquisition Rights	**818**	**863**
Total Net Assets	**397,318**	**369,128**
TOTAL LIABILITIES AND NET ASSETS	**620,984**	**580,380**

SHISEIDO

Non-Consolidated Statements of Income

(Fiscal Year from January 1, 2016 to December 31, 2016)

(Millions of yen)

	Fiscal Year	Previous Fiscal Period (Reference)
Net Sales	202,774	165,148
Cost of Sales	127,973	81,432
Gross Profit	**74,800**	**83,715**
Selling, General and Administrative Expenses	67,832	74,199
Operating Income	**6,968**	**9,515**
Other Income	21,229	27,114
Interest Income	93	147
Dividend Income	15,120	21,653
Foreign Exchange Gain	—	148
Gain on Investment in Limited Partnerships	1,229	1,178
Royalty Income	3,328	2,972
Other	1,457	1,014
Other Expenses	1,729	1,386
Interest Expense	292	325
Provision of Allowance for Doubtful Accounts	35	—
Provision for Loss on Guarantees	—	228
Loss on Investment in Limited Partnerships	18	—
Foreign Exchange Loss	898	—
Other	485	833
Ordinary Income	**26,468**	**35,243**
Extraordinary Income	17,784	3,238
Gain on Sales of Shares of Subsidiaries and Affiliates	8,254	567
Gain on Liquidation of Subsidiaries and Affiliates	—	243
Gain on Sales of Property, Plant and Equipment	9,127	0
Gain on Sales of Investments in Securities	403	2,426
Gain on Cancellation of Lease Contracts	—	0
Extraordinary Loss	257	1,002
Structural Reform Expenses	105	—
Loss on Sales and Disposal of Property, Plant and Equipment	127	198
Loss on Sales of Investments in Securities	0	0
Loss on Revaluation of Investments in Securities	21	6
Loss on Revaluation of Shares in Subsidiaries and Affiliates	—	759
Loss on Cancellation of Lease Contracts	2	37
Income before Income Taxes	**43,995**	**37,479**
Income Taxes – Current	3,250	2,553
Income Taxes – Deferred	2,939	2,114
Net Income	**37,805**	**32,811**

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

SHISEIDO

Non-Consolidated Statements of Changes in Net Assets

(Fiscal Year from January 1, 2016 to December 31, 2016)

(Millions of yen)

	Shareholders' Equity			
	Common Stock	Capital Surplus		
		Additional Paid-In Capital	Other Capital Surplus	Total Capital Surplus
Balance as of January 1, 2016	64,506	70,258	0	70,258
Changes during the Fiscal Year				
Dividends from Retained Earnings				
Net Income				
Provision of Reserve for Reduction Entry				
Acquisition of Treasury Stock				
Disposal of Treasury Stock			11	11
Net Change in Items Other than Shareholders' Equity				
Total Change during the Fiscal Year	—	—	11	11
Balance as of December 31, 2016	64,506	70,258	12	70,270

(Millions of yen)

	Shareholders' Equity						
	Retained Earnings						
	Legal Reserve	Other Retained Earnings			Total Retained Earnings	Treasury Stock, at Cost	Total Shareholders' Equity
		Reserve for Advanced Depreciation of Non-current Assets	Reserve for Special Account for Advanced Depreciation of Non-current Assets	Retained Earnings Carried Forward			
Balance as of January 1, 2016	16,230	—	—	211,455	227,685	-1,700	360,751
Changes during the Fiscal Year							
Dividends from Retained Earnings				-9,316	-9,316		-9,316
Net Income				37,805	37,805		37,805
Provision of Reserve for Reduction Entry		3,574	544	-4,119	—		—
Acquisition of Treasury Stock						-6	-6
Disposal of Treasury Stock						380	392
Net Change in Items Other than Shareholders' Equity							
Total Change during the Fiscal Year	—	3,574	544	24,369	28,489	374	28,875
Balance as of December 31, 2016	16,230	3,574	544	235,825	256,175	-1,325	389,627

(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 January 1, 2016	7,513	7,513	863	369,128
Changes during the Fiscal Year				
Dividends from Retained Earnings				-9,316
Net Income				37,805
Provision of Reserve for Reduction Entry				—
Acquisition of Treasury Stock				-6
Disposal of Treasury Stock				392
Net Change in Items Other than Shareholders' Equity	-640	-640	-44	-685
Total Change during the Fiscal Year	-640	-640	-44	28,190
Balance as of December 31, 2016	6,872	6,872	818	397,318

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 year. 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 year.

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 year.

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.

(4) Significant Accounting for Hedges

Hedge accounting method

Deferral hedge accounting has been applied. The Company applies assignment accounting treatment to foreign exchange forward contracts that meet the requirement of assignment accounting, and integral accounting treatment (special accounting treatment, assignment accounting treatment) to interest rate and currency swap contracts 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.

Notes to Non-Consolidated Balance Sheets

(1) Accumulated depreciation of property, plant and equipment: ¥99,369 million

(2) Guarantees

(Millions of yen)

Warrantee	Guaranteed Amount	Liability Guaranteed
Shiseido Korea Co., Ltd.	1,420	Loans
Shiseido Professional Korea Co., Ltd.	96	Loans
Shiseido Americas Corporation	5,243	Commercial papers and others
Total	6,760	

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

Short-term receivables	¥87,701 million
Long-term receivables	¥3,077 million
Short-term payables	¥8,179 million

Note: Items presented separately on the non-consolidated balance sheets are excluded from the above.

Notes to Non-Consolidated Statements of Income

Transactions with Subsidiaries and Affiliates

Net sales	¥193,732 million
Purchases	¥21,572 million
Other operating transactions	¥7,341 million
Non-operating transactions (Note)	¥30,106 million

Note: Of the amount, ¥10,480 million worth of shares of the Company's subsidiary Shiseido Japan Co., Ltd. was transferred to the said company. As a result, ¥7,167 million was recorded in the non-consolidated statements of income as a gain on sales of shares in subsidiaries and affiliates.

Notes to Non-Consolidated Statements of Changes in Net Assets

Treasury Stock

(Thousand shares)

	Number of shares at January 1, 2016	Increase in shares in the year ended December 31, 2016	Decrease in shares in the year ended December 31, 2016	Number of shares at December 31, 2016
Common stock	899	2	201	700

Note 1: Shares of common stock held as treasury stock increased due to the purchase of 2 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 201 thousand shares and sale of 0 thousand shares in response to requests from less-than-one-unit shareholders.

Tax-Effect Accounting

(1) Principal components of deferred tax assets and deferred tax liabilities

(Millions of yen)

Deferred tax assets	
Loss on revaluation of shares in subsidiaries and affiliates	13,742
Provision for retirement benefits	3,128
Depreciation	2,230
Inventories	1,895
Provision for bonuses	1,122
Write-down of investments in securities and other investments	964
Provision for sales returns	94
Other	1,084
Subtotal	24,264
Less: Valuation allowance	-14,201
Total	10,062
Deferred tax liabilities	
Reserve for reduction entry of replaced property	-1,850
Unrealized losses on available-for-sale securities	-2,313
Unrealized losses on property, plant and equipment due to company split	-322
Asset retirement obligation	-17
Total	-4,503
Net deferred tax assets	5,558

(2) Change in the effective statutory tax rate

Following the promulgation of the “Act for Partial Amendment of the Income Tax, etc.” (Act No. 15 of 2016) and the “Act for Partial Amendment of the Local Tax Act, etc.” (Act No. 13 of 2016) on March 29, 2016, the statutory effective tax rate used for the calculation of deferred tax assets and liabilities in the fiscal year under review was changed to 31% from 32% in the previous fiscal period.

The impact of this change on the non-consolidated financial statements in the fiscal year under review is immaterial.

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 Transac-tions (Millions of yen)	Accounts name	Balance as of December 31, 2016 (Millions of yen)
Subsidiary	Shiseido Japan Co., Ltd.	Direct, 100%	Product sales Concurrent directors	Sales of cosmetics (Note 1)	51,301	Accounts receivable	23,003
				Deposit received (Note 2)	-	Deposits received from subsidiaries and affiliates	22,851
				Transfer of assets accompanying company split (Note 3)	2,688	-	-
				Transfer of liabilities accompanying company split (Note 3)	1,355	-	-
				Sales of shares in subsidiaries and affiliates (Note 4) Proceeds from sales Gain on sales	 10,480 7,167	 - -	 - -
Subsidiary	Shiseido FITIT Co., Ltd.	Direct, 100%	Product sales	Sales of cosmetics (Note 1)	22,257	Accounts receivable	8,350
Subsidiary	FT Shiseido Co., Ltd.	Direct, 100%	Product sales Concurrent directors	Sales of toiletry products (Note 1)	32,028	Accounts receivable	9,223
				Deposit received (Note 2)	-	Deposits received from subsidiaries and affiliates	3,653
Subsidiary	Shiseido International Inc.	Direct, 100%	Product sales	Sales of cosmetics (Note 1)	18,885	Accounts receivable	7,182
Subsidiary	Shiseido International Europe S.A.	Direct, 100%	No trade transactions	Deposit received (Note 2)	-	Deposits received from subsidiaries and affiliates	1,406

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.

Note 4: The amounts in sales of shares in subsidiaries and affiliates are determined through deliberation with the buyers, giving consideration to the net assets, etc. of Shiseido Japan Co., Ltd.

Amounts stated in the "Amount of transactions" column above do not include consumption tax, while balances stated in the "Balance as of December 31, 2016" column above include consumption tax (except for deposits received from subsidiaries and affiliates).

Per-Share Information

Net assets per share	¥992.99
Net income per share	¥94.70

Business Combinations

Transactions under common control

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 commenced its operation on January 1, 2016.

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).

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, 2017

The Board of Directors
Shiseido Company, Limited

KPMG AZSA LLC

Koichi Kohori (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, 2016 and for the period from January 1, 2016 to December 31, 2016 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 misstatement, 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, 2017

The Board of Directors
Shiseido Company, Limited

KPMG AZSA LLC

Koichi Kohori (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, 2016 and for the period from January 1, 2016 to December 31, 2016 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 misstatement, 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 117th business period (from January 1, 2016 to December 31, 2016), 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 report 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 regularly received reports from the directors and employees, etc., requested explanations from them as necessary, and expressed opinions, on the status of the construction and operation of the contents of the Board of Directors' resolutions regarding the development and maintenance of systems to ensure that the directors' performance of their duties complied with all laws and 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 systems necessary for ensuring the properness of operations of a corporate group comprised of a stock company and its subsidiaries, and the systems (internal control systems) developed 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 as 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, 2017

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)

SHISEIDO

Reference Document Concerning the General Meeting of Shareholders

1. Total Number of Voting Rights Held by Shareholders: 3,989,153

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 year ended December 31, 2016 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 year 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: ¥3,992,992,550

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

March 29, 2017

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)

	114th Business Term (4/1/2013 - 3/31/2014)	115th Business Term (4/1/2014 - 3/31/2015)	116th Business Term (4/1/2015 - 12/31/2015)	117th Business Term (Current term) (1/1/2016 - 12/31/2016)	
Annual cash dividends per share (Yen)	20	20	20	20	(P)
Annual dividends	7,968	7,975	7,981	7,985	(P)
Consolidated payout ratio (%)	30.5	23.7	34.4	24.9	(P)

Note: Annual cash dividends per share and annual dividends for the 117th Business Term (current term) are predicated on the approval of this item at the ordinary general meeting of shareholders to be held on March 28, 2017.

Consolidated Payout Ratio for the Current term

The Company positions fiscal 2017 as the final year for rebuilding the business foundation 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 strengthening of our organizational structure and so forth. Under the influence of these factors etc., with regard to the dividends of Retained Earnings for this business term, the total dividend for the fiscal year will be ¥20 per share and the consolidated payout ratio will be 24.9%, subject to approval for the proposal as drafted in the above. Based on the net income excluding extraordinary income such as gain on sales of property, plant and equipment (former Kamakura Factory), etc., it will be approximately 40% (39.8% in the Company's estimate). 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: Partial Amendment to the Articles of Incorporation

Following the enforcement on July 15, 2016, of the Cabinet Order for Partial Amendment to the Cabinet Order for the Designation of the Poisonous and Deleterious Substances (Cabinet Order No. 255 of 2016) related to the Poisonous and Deleterious Substances Control Act (Act No. 303 of December 28, 1950), glycolic acid and some cosmetics and other products containing the same over a certain concentration have been designated as deleterious substances. For the continuation of manufacturing, sale or import and export of the relevant cosmetics, the amendment requires procedures for obtaining approval from the administrative authorities, and thus the Company has implemented the required procedures. As a result, it is required that the "manufacture, sale, export and import of poisonous and deleterious substances" be specifically described under the provision of the Objectives in the Articles of Incorporation of the Company.

Accordingly, the Company will insert a new objective in (1) under the (Objectives) of Article 2 of the current Articles of Incorporation.

Contents of the amendment:

The content of the amendment is as follows:

(The amendment is underlined.)

Current Articles of Incorporation	Proposed Amendment
(Objectives) Article 2. The objectives of the Company shall be to engage in the following businesses: (1) Manufacture, sale, export and import of cosmetics, soap, detergents, dentifrice, medicine and quasi-medicine, reagents and pigments; (The rest is omitted)	(Objectives) Article 2. The objectives of the Company shall be to engage in the following businesses: (1) Manufacture, sale, export and import of cosmetics, soap, detergents, dentifrice, medicine and quasi-medicine, reagents, pigments, and poisonous and deleterious substances; (The rest is omitted)

Third 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 seven (7) 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. The four (4) candidates for external directors have fulfilled the Criteria in full. Overview of the criteria is stated in page 43 and the entire criteria is listed as a discretionary disclosure item relating to the business report on the Company website under “Investors / General Meeting of Shareholders / Corporate Governance / General Meeting of Shareholders / Notice of Convocation: the 117th Ordinary General Meeting of Shareholders” (http://www.shiseidogroup.com/ir/account/shareholder/).

Candidates for Directors

No.	Name	Current Position and Responsibilities, etc. at the Company	Attributes of the Candidate		
1	Masahiko Uotani	Representative Director President and CEO Chairman of the Board (Japan Region, China Region, Asia Pacific Region, Americas Region, EMEA Region, Travel Retail) Direct reporting organizations (Corporate Strategy, Innovation Design Lab.) Member of Nomination Advisory Committee Member of Remuneration Advisory Committee			
2	Tsunehiko Iwai	Representative Director Executive Vice President Assisting CEO, Chief Technology and Innovation Officer (Legal and Governance, Compliance, Sustainability Strategy, Executive and External Relations, Innovation for Value Creation Project) Direct reporting organizations (Corporate Communications, Corporate Culture, Internal Audit) Chairman of Compliance Committee			
3	Jun Aoki	Corporate Executive Officer Chief People Officer, Department Director, Human Resources Department Chief Creative Officer (Advertising and Design, China Business Innovation Project) Member of Compliance Committee Chairman of Shiseido Liyuan Cosmetics Co., Ltd.	Candidate for New Director		
4	Yoko Ishikura	External Director Member of Nomination Advisory Committee Member of Remuneration 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	External Director Member of Nomination Advisory Committee Member of Remuneration Advisory Committee		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)



- Number of shares of the Company owned
  14,200 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 year ended December 31, 2016
  19 out of 19 Board of Directors meetings (100%)
- Number of attendance at the Nomination Advisory Committee meetings of the Company for the fiscal year ended December 31, 2016
  5 out of 6 Nomination Advisory Committee meetings (83.3%)
- Number of attendance at the Remuneration Advisory Committee meetings of the Company for the fiscal year ended December 31, 2016
  6 out of 8 Remuneration Advisory Committee meetings (75.0%)

Career Summary, and Position and Responsibilities at the Company

Apr.	1977:	Joined the Lion Dentifrice Co., Ltd. (currently Lion Corporation)
Jan.	1988:	Manager, Citibank, N.A.
Apr.	1991:	Representative Director, Vice President of Kraft Japan Limited (currently Mondelēz 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
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
Jan.	2016:	Responsible for Corporate Strategy, Internal Audit, and Global Cosmetics and Personal Care Brands of the Company
Jan.	2017:	Responsible for Japan Region, China Region, Asia Pacific Region, Americas Region, Europe, Middle East and Africa Region, and Travel Retail of the Company [incumbent] Responsible for direct reporting organizations (Corporate Strategy, Innovation Design Lab.) 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 2016, he continuously exerted his strong leadership, and guided by the VISION 2020 medium- to long-term strategy, he worked to realize the vision of "From a Leader in Japan to a Winner Worldwide." To that end, he commenced full-fledged operation of all the regional headquarters and reinforced the Company's brands throughout the world, acquiring *Laura Mercier* brand and concluding the *Dolce&Gabbana* brand license agreement, among other achievements.

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

- 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 on 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

Shiseido will work towards the achievement of the VISION 2020 medium- to long-term strategy by full-fledged operation of the matrix organization, continuing to enhance its brand value, and steadily realizing the fruits of these efforts. Shiseido will continue our corporate mission "to inspire a life of beauty and culture." The Company will continue aiming to realize the vision of "From a Leader in Japan to a Winner Worldwide" and all Group employees will work as "One Shiseido" to achieve that goal. We will undertake the mandate given by our shareholders.

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



- Number of shares of the Company owned
  8,100 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 year ended December 31, 2016
  19 out of 19 Board of Directors meetings (100%)
- Number of attendance at the Nomination Advisory Committee meetings of the Company for the fiscal year ended December 31, 2016
  6 out of 6 Nomination Advisory Committee meetings (100%)
- Number of attendance at the Compliance Committee meetings of the Company for the fiscal year ended December 31, 2016
  2 out of 2 Compliance Committee meetings (100%)

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
Responsible for Technical Planning, Quality Management, and Frontier Science Business of the Company
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
Responsible for Regulatory Strategy of the Company
Responsible for Legal and Governance, Compliance [incumbent], and Sustainability Strategy of the Company
Chairman of Compliance Committee of the Company [incumbent]
Jan. 2017: Responsible for Assisting CEO of the Company [incumbent]
Responsible for Sustainability Strategy, and Executive and External Relations of the Company [incumbent]
Responsible for direct reporting organizations (Corporate Communications, Corporate Culture, Internal Audit) of the Company [incumbent]
Responsible for Innovation for Value Creation Project of the Company [incumbent]

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 the Chairman of Compliance 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, innovation, pharmaceuticals affairs and quality management
- 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 corporate governance
- Experience and knowledge on sustainability strategy

Special Interest between the Candidate and the Company

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

3. Jun Aoki (Date of birth: April 30, 1957)

Candidate for New Director



- Number of shares of the Company owned
  300 Shares
- Number of years in office of the Company as Director
  —
- Number of attendance at the Board of Directors meetings of the Company for the fiscal year ended December 31, 2016
  —
- Number of attendance at the Compliance Committee meetings of the Company for the fiscal year ended December 31, 2016
  2 out of 2 Compliance Committee meetings (100%)

Career Summary, and Position and Responsibilities at the Company

Apr. 1980: Joined Maki and Associates
Apr. 1991: Joined McKinsey & Company Inc. Japan Office
Associate Consultant
Jul. 1993: Engagement Manager of McKinsey & Company Inc. Japan Office
Jul. 1995: Senior Engagement Manager of McKinsey & Company Inc. Japan Office
Feb. 1999: CEO of BNP Paribas Cardif Japan
Nov. 2011: Head of International Human Resources of BNP Paribas Cardif (in France)
Nov. 2014: Corporate Advisor of the Company
Jan. 2015: Department Director, Human Resources Department of the Company
Responsible for Human Resources and Corporate Culture Reforms of the Company
Apr. 2015: Corporate Officer of the Company
Chief People Officer, Department Director, Human Resources Department of the Company [incumbent]
Jan. 2016: Responsible for China Business Innovation Project of the Company [incumbent]
Responsible for Executive and External Relations of the Company
Chairman of Shiseido Liyuan Cosmetics Co., Ltd. [incumbent]
Jan. 2017: Corporate Executive Officer of the Company [incumbent]
Chief Creative Officer of the Company [incumbent]
Responsible for Advertising and Design of the Company [incumbent]

Important Positions at Other Organizations Concurrently Held

None

Reasons for Nomination of the Candidate for Director

Mr. Jun Aoki worked at McKinsey & Company Inc. Japan Office where he primarily handled the formulation of business strategies, and was also involved with the pharmaceutical industry and the healthcare field. He subsequently served as Head of International Human Resources for BNP Paribas Cardif, where he worked on acquisition, development, and retention of the personnel necessary to conduct business operations in countries worldwide, handling the establishment of human resource systems and formulation of human resource strategies for 36 countries globally. Since joining the Company he has been responsible for supporting the design and establishment of the global human resource framework, and for formulating and implementing human resource strategies and systems for the Group. In addition, from fiscal 2016, he has been responsible for the China Business Innovation Project, working toward reforming Shiseido into a global marketing company.

Due to these facts the Board of Directors has newly 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. Aoki has experience, knowledge and professional information as follows:

- Experience and knowledge to the competent extent on human resources and personnel management
- Experience and knowledge on international business

Special Interest between the Candidate and the Company

There is no special interest between Mr. Jun Aoki and the Company.

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

Candidate for External Director
Candidate for Independent Director



- Number of shares of the Company owned
  600 Shares
- Number of years in office of the Company as External Director
  1 Year and 9 Months
- Number of attendance at the Board of Directors meetings of the Company for the fiscal year ended December 31, 2016
  19 out of 19 Board of Directors meetings (100%)
- Number of attendance at the Nomination Advisory Committee meetings of the Company for the fiscal year ended December 31, 2016
  6 out of 6 Nomination Advisory Committee meetings (100%)
- Number of attendance at the Remuneration Advisory Committee meetings of the Company for the fiscal year ended December 31, 2016
  8 out of 8 Remuneration Advisory Committee meetings (100%)

Career Summary, and Position and Responsibilities at the Company

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
Jun.	2014:	Outside Director, Sojitz Corporation [incumbent]
Jun.	2015:	External Director of the Company [incumbent]

Important Positions at Other Organizations Concurrently Held

Outside Director, Nissin Food Holdings Co., Ltd.*

Outside Director, Lifenet Insurance Company* (She retired the position in June 2016.)

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 Nomination Advisory Committee and Remuneration Advisory Committee, she attended the meetings of these Committees and actively expressed opinions.

She 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
- Experience and knowledge on corporate governance

Special Interest between the Candidate and the Company

Ms. Yoko Ishikura concurrently holds the office of Outside Director of Nissin Food Holdings Co., Ltd. ("Nissin Food"), and Outside Director of Sojitz Corporation ("Sojitz"), with which the Company has the following transactions.

Organization where Concurrent Position is Held	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
Nissin Food Holdings Co., Ltd.	Outsourcing business, etc.	Nissin Food Group	Shiseido Group	Less than 0.1%	Total amount of cost of sales and selling, general and administrative expenses of the Company on a consolidated basis for the fiscal year ended December 31, 2016	Transaction value is minimal for the Shiseido Group
				Less than 0.1%	Consolidated net sales of Nissin Food Co., Ltd. for the fiscal year ended March 31, 2016	Transaction value is minimal for Nissin Food Group
Sojitz Corporation	Outsourcing business, etc.	Sojitz Group	Shiseido Group	Less than 0.1%	Total amount of cost of sales and selling, general and administrative expenses of the Company on a consolidated basis for the fiscal year ended December 31, 2016	Transaction value is minimal for the Shiseido Group
				Less than 0.1%	Total amount of operating revenues of the Sojitz Corporation on a consolidated basis for the fiscal year ended March 31, 2016	Transaction value is minimal for Sojitz Group.

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

Candidate for External Director
Candidate for Independent Director



- Number of shares of the Company owned
  18,800 Shares
- Number of years in office of the Company as External Director
  10 Years and 9 Months
- Number of attendance at the Board of Directors meetings of the Company for the fiscal year ended December 31, 2016
  18 out of 19 Board of Directors meetings (94.7%)
- Number of attendance at the Nomination Advisory Committee meetings of the Company for the fiscal year ended December 31, 2016
  6 out of 6 Nomination Advisory Committee meeting (100%)
- Number at attendance of the Remuneration Advisory Committee meetings of the Company for the fiscal year ended December 31, 2016
  8 out of 8 Remuneration Advisory Committee meetings (100%)

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 11 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

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 cost of sales and selling, general and administrative expenses of the Company on a consolidated basis for the fiscal year ended December 31, 2016	Transaction value is minimal for the Shiseido Group.
			Less than 0.1%	Consolidated net sales of ASKUL Corporation for the fiscal year ended May 20, 2016	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 year ended December 31, 2016	Transaction value is minimal for the Shiseido Group.
			Approx. 0.1%	Consolidated cost of sales of ASKUL Corporation for the fiscal year ended May 20, 2016	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 20, 2016, ASKUL Corporation's net sales of cosmetics, etc. accounted for approximately 0.1% of its consolidated net sales.					Transactions in competition with organization where position is concurrently assumed have no impact on interests of shareholders

6. Kanoko Oishi (Date of birth: March 24, 1961)

Candidate for External Director
Candidate for Independent Director



- Number of shares of the Company owned
  400 Shares
- Number of years in office of the Company as External Director
  1 year
- Number of attendance at the Board of Directors meetings of the Company for the fiscal year ended December 31, 2016
  15 out of 15 Board of Directors meetings (100%)
- Number of attendance at the Nomination Advisory Committee meetings of the Company for the fiscal year ended December 31, 2016
  5 out of 6 Nomination Advisory Committee meeting (83.3%)
- Number at attendance of the Remuneration Advisory Committee meetings of the Company for the fiscal year ended December 31, 2016
  4 out of 5 Remuneration Advisory Committee meetings (80.0%)

Career Summary, and Position and Responsibilities at the Company

Apr. 1983: Joined Nippon Life Insurance Company
Aug. 1987: McKinsey & Company, Inc. (New York Office)
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
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]
Mar. 2016: External Director of the Company [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 experiences and knowledge gained through her career in business management inside and outside Japan as well as from a standpoint of active manager who is pushing forward patient-centered transformation of the medical industry. 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 Nomination Advisory Committee and Remuneration Advisory Committee, she attended the meetings of these Committees and actively expressed opinions.

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 continuously 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
- Experience and knowledge on corporate governance

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"), and External Board Member of Santen Pharmaceutical Co., Ltd. ("Santen"), with which the Company has the following transactions:

Organization where Concurrent Position is Held	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
Ezaki Glico Co., Ltd.	Snacks, etc. (mail order)	Ezaki Glico Group	Shiseido Group	Less than 0.1%	Total amount of cost of sales and selling, general and administrative expenses of the Company on a consolidated basis for the fiscal year ended December 31, 2016	Transaction value is minimal for the Shiseido Group.
				Less than 0.1%	Consolidated net sales of Ezaki Glico for the fiscal year ended March 31, 2016	Transaction value is minimal for Ezaki Glico Group.
Santen Pharmaceutical Co., Ltd.	Cosmetics, etc.	Shiseido Group	Santen Group	Less than 0.1%	Consolidated net sales of the Company for the fiscal year ended December 31, 2016	Transaction value is minimal for the Shiseido Group.
				Less than 0.1%	Cost of sales of Santen on a consolidated basis for the fiscal year ended March 31, 2016	Transaction value is minimal for Santen Group.

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

Candidate for External Director
Candidate for Independent Director



- Number of shares of the Company owned
  2,400 Shares
- Number of years in office of the Company as External Director
  10 Years and 9 Months
- Number of attendance at the Board of Directors meetings of the Company for the fiscal year ended December 31, 2016
  18 out of 19 Board of Directors meetings (94.7%)
- Number of attendance at the Nomination Advisory Committee meetings of the Company for the fiscal year ended December 31, 2016
  6 out of 6 Nomination Advisory Committee meeting (100%)
- Number of attendance at the Remuneration Advisory Committee meetings of the Company for the fiscal year ended December 31, 2016
  8 out of 8 Remuneration Advisory Committee meetings (100%)

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
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.
Sep. 2004: Professor, Faculty of Law, Waseda University [incumbent]
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, Faculty 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 the Chairman of Nomination Advisory Committee and as a member of Remuneration 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 11 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

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, Ms. Kanoko Oishi 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.

2. Independent Directors

   The Company has designated Ms. Yoko Ishikura, Mr. Shoichiro Iwata, Ms. Kanoko Oishi 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.

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.

4. Number of attendance at the Nomination Advisory Committee and the Remuneration Advisory Committee meetings

   The denominator provided for the Number of attendance at the Nomination Advisory Committee and the Remuneration Advisory Committee meetings for each relevant candidate for Director includes the four joint meeting of both committees held in Fiscal 2016.

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

The term of office of audit & supervisory board member (external), Mr. Akio Harada 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. The candidate for external audit & supervisory board member has fulfilled the Criteria in full. Overview of the criteria is stated in page 43 and the entire criteria is listed as a discretionary disclosure item relating to the business report on the Company website under “Investors / General Meeting of Shareholders / Corporate Governance / General Meeting of Shareholders / Notice of Convocation: the 117th Ordinary General Meeting of Shareholders” (http://www.shiseidogroup.com/ir/account/shareholder/).

Candidates for Audit & Supervisory Board Member

New Candidate
Candidate for External Audit & Supervisory Board Member
Candidate for Independent Audit & Supervisory Board Member



Hiroshi Ozu (Date of birth: July 21, 1949)

- Number of shares of the Company owned: 0 Shares
- Number of years in office of the Company as External Audit & Supervisory Board Member: —
- Number of attendance at the Board of Directors meetings of the Company for the fiscal year ended December 31, 2016: —
- Number of attendance at the Audit & Supervisory Board Members meetings of the Company for the fiscal year ended December 31, 2016: —

Career Summary and Position at the Company

Apr.	1974:	Public prosecutor of the Tokyo District Public Prosecutors Office
Jun.	2001:	Chief Prosecutor of the Saga District Public Prosecutors Office
Aug.	2002:	Public prosecutor of the Supreme Public Prosecutors Office
Jun.	2004:	Director-General of the Secretariat of the Minister of Ministry of Justice
Jun.	2006:	Director-General of the Criminal Affairs Bureau of Ministry of Justice
Jul.	2007:	Vice-Minister of Justice of Ministry of Justice
Jul.	2009:	Superintending Prosecutor of the Sapporo High Public Prosecutors Office
Dec.	2010:	Deputy Prosecutor General of the Supreme Public Prosecutors Office
Aug.	2011:	Superintending Prosecutor of the Tokyo High Public Prosecutors Office
Jul.	2012:	Prosecutor General of the Supreme Public Prosecutors Office
Sep.	2014:	Registered as attorney
Jun.	2015:	External Audit & Supervisory Board Member of MITSUI & CO., LTD. [incumbent] Outside Audit & Supervisory Board Member of TOYOTA MOTOR CORPORATION [incumbent]
Mar.	2016:	Representative Director of Shimizu Scholarship Foundation, general incorporated foundations [incumbent]

Important Positions at Other Organizations Concurrently Held

External Audit & Supervisory Board Member of MITSUI & CO., LTD.*
Outside Audit & Supervisory Board Member of TOYOTA MOTOR CORPORATION*
Representative Director of Shimizu Scholarship Foundation, general incorporated foundations
(* indicates a listed company)

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

Mr. Hiroshi Ozu 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.

Having held a series of important positions in the legal world, such as Vice-Minister of Justice at the Ministry of Justice and Prosecutor General at the Supreme Public Prosecutors Office, he has wide-ranging experience and knowledge focused on the legal field. He also serves as external audit & supervisory board member in other companies and possesses a wealth of experience and keen insight. 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 audit & supervisory board member. Accordingly, the Board of Directors has selected him as a candidate for external audit & supervisory board member.

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

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

Special Interest between the Candidate and the Company

Mr. Hiroshi Ozu concurrently holds the office of External Audit & Supervisory Board Member of MITSUI & CO., LTD. ("MITSUI"), and Outside Audit & Supervisory Board Member of TOYOTA MOTOR CORPORATION ("TOYOTA MOTOR"), with which the Company has the following transactions:

Organization where Concurrent Position is Held	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
MITSUI & CO., LTD.	Outsourcing business, etc.	MITSUI Group	Shiseido Group	Approx. 0.1%	Total amount of cost of sales and selling, general and administrative expenses of the Company on a consolidated basis for the fiscal year ended December 31, 2016	Transaction value is minimal for the Shiseido Group.
				Less than 0.1%	Total amount of operating revenues of MITSUI on a consolidated basis for the fiscal year ended March 31, 2016	Transaction value is minimal for MITSUI Group.
TOYOTA MOTOR CORPORATION	Automobile rental, etc.	TOYOTA MOTOR Group	Shiseido Group	Less than 0.1%	Total amount of cost of sales and selling, general and administrative expenses of the Company on a consolidated basis for the fiscal year ended December 31, 2016	Transaction value is minimal for the Shiseido Group.
				Less than 0.1%	Consolidated total amount of net sales of TOYOTA MOTOR for the fiscal year ended March 31, 2016	Transaction value is minimal for TOYOTA MOTOR 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. Upon appointment at the ordinary general meeting of shareholders, the Company and Mr. Hiroshi Ozu will enter into an agreement limiting his liability, under which his 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 will designate Mr. Hiroshi Ozu 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.

Fifth 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, 2016 excluding four (4) external directors, in the aggregate amount of ¥120.1 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 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 positions the three years from fiscal 2015 through fiscal 2017 to be the period for rebuilding 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 rebuilding 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. 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).

The directors, audit & supervisory board members and corporate officers remuneration policy is described on pages 62 to 68.

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

Sixth 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 Third 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 ¥127 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 1,100) 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 2017 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 2017 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, 2020 to February 28, 2033

(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 62 to 68 herein.

Long-Term Incentive Type Remuneration

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 function 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, 2016)
Number of subject shares (maximum number)	110,000 shares	0.02%
Number of shares to be issued upon exercise of stock acquisition rights as of December 31, 2016	646,500 shares	0.16%
Total	756,500 shares	0.18%

Note: The number of subject stock acquisition rights fluctuates due to the fair market value to be calculated. The maximum number, however, is 1,100.

- 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 Japan Exchange Group'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 / Investors / General Meeting of Shareholders / Corporate Governance / General Meeting of Shareholders / Notice of the Convocation: the 117th 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"

   "Criteria for Independence of External Directors and Audit & Supervisory Board Members"

   "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/)