

VISION 2020 and



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

VISION 2020 and Three-Year Plans



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

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

President and CEO Masahiko Uotani on Shiseido's Management Strategy

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Three-Year Plans



President and CEO Masahiko Uotani on Shiseido's Management Strategy



Masahiko Uotani
Representative Director
President and CEO
Shiseido Group CEO

■ Shiseido's Problems and Their Causes

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

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

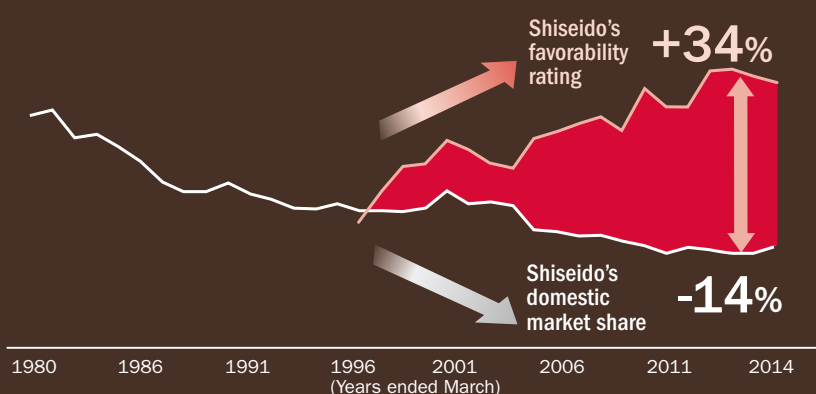
Figure 1 highlights a key problem. People may like Shiseido even better than they did 30 years ago, but our market share has been decreasing. Consumers are saying they do not buy our products even though they like us.

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

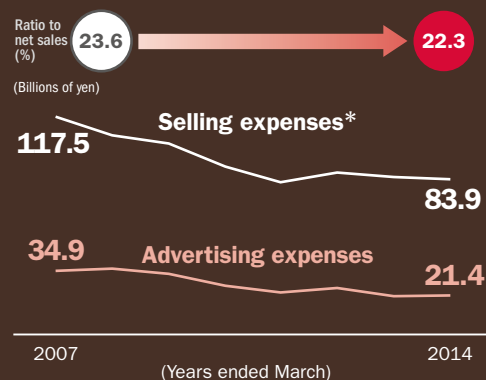
Our customer interface is the arena where we must solve these problems. During the past year, I discussed Shiseido and its problems with some 35,000 employees in Japan and overseas. I repeatedly heard comments like Shiseido cannot make decisions or respond to market changes quickly, and that the organization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

Facing reality

(Figure 1) Favorability Rating and Domestic Market Share



(Figure 2) Marketing Investment (Japan)



* Sample, rebate and promotional expenses

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

■ Consumer-Oriented Transformation

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

■ Overview of VISION 2020

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

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

Goal: Win in Japan and worldwide

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

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

(Figure 3) Targeted Outcomes and Roadmap for VISION 2020

2015 – 2017	2018 – 2020	2020	Creating the model for ensuring that Shiseido will remain vital for the next 100 years
Restructure the Business Foundation	New Strategy to Accelerate Growth		
Enhance brands	New brands (nurture/acquire)		
Increase marketing and R&D investment	Continue investment/Achieve returns		
Organizational/Personnel system reform	Build global system		
Strengthen China, Asia, TR* and EC businesses	Establish business in emerging countries/new areas		
Generate ¥30-40 billion from Groupwide structural reform to fund investment	Review and revise business models		
		Become a company supported and needed by society and consumers worldwide <ul style="list-style-type: none"> • Become a company that is full of energy for growth • Become a company that is brimming with youthfulness • Become a company that is a topic of conversation around the world • Become a company that young people adore • Become a company that is a blend of diverse cultures 	Net sales over ¥1 trillion Operating income over ¥100 billion ROE of 12% or more

* Travel Retail

Consumer-oriented in everything we do

■ VISION 2020 Strategies

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

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

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

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

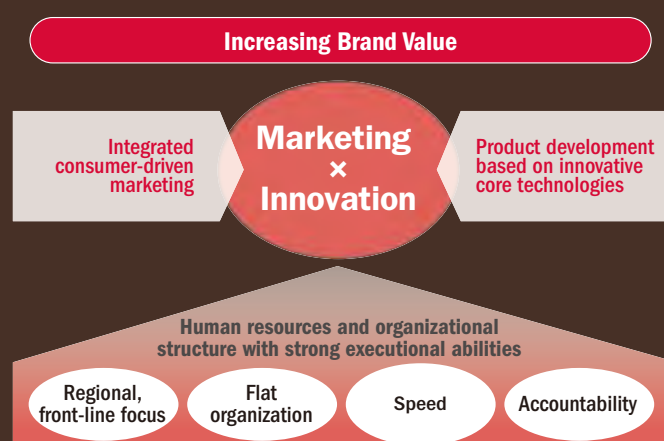
We will also transform our corporate culture to prevail against the competition. Our organization will be agile and unified because we will share the will to transform Shiseido through our own actions and the commitment to decisively take on challenges.

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

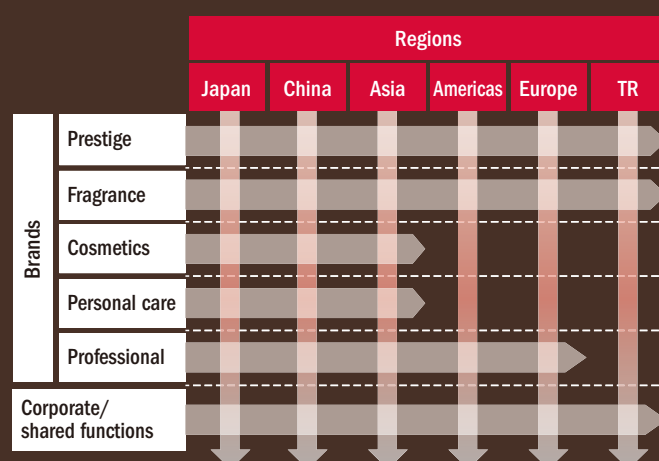
■ A Year of Initiatives and Results

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

(Figure 4) Key Strategies for Increasing Brand Value



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



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

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

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

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



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

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

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

Shiseido is changing

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



Global brand
SHISEIDO
ULTIMUNE



ELIXIR



MAQuillAGE



PRIOR



TSUBAKI



HAKU

■ Strategy 1: Create Strong Brands

Several strategies will accelerate our progress.

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

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

acquiring brands to help us satisfy consumer needs.

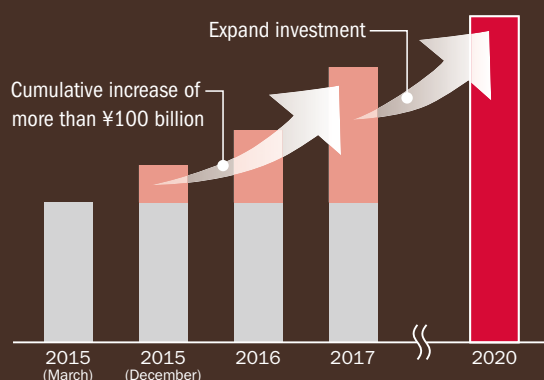
In the prestige category, we will concentrate worldwide on the global brand *SHISEIDO*, *bareMinerals*, *clé de peau BEAUTÉ* and *NARS*. The global brand *SHISEIDO* is particularly important in reengineering the value of Shiseido's brands. We will concentrate investments where they will generate potent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

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

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

Create strong brands

(Figure 7) Marketing Investment Plan



(Figure 8) Create Strong Brands

- Select brands to concentrate investment
- Restructure the brand portfolio



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

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

Change into an agile, unified organization

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

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

■ Strategy 2: Invest in Growth Businesses

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

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

■ Strategy 3: Build an Organization That Benefits from Diversity

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

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

(Figure 9) Motivate Beauty Consultants (BC)

Encourage recruiting of and promotion to regular employees

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



(Figure 10) Expand Travel Retail Business

Establish an independent organization in Asia

Enhance investment in sales counters



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



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

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

■ Strategy 4: Build the Foundation for Growth

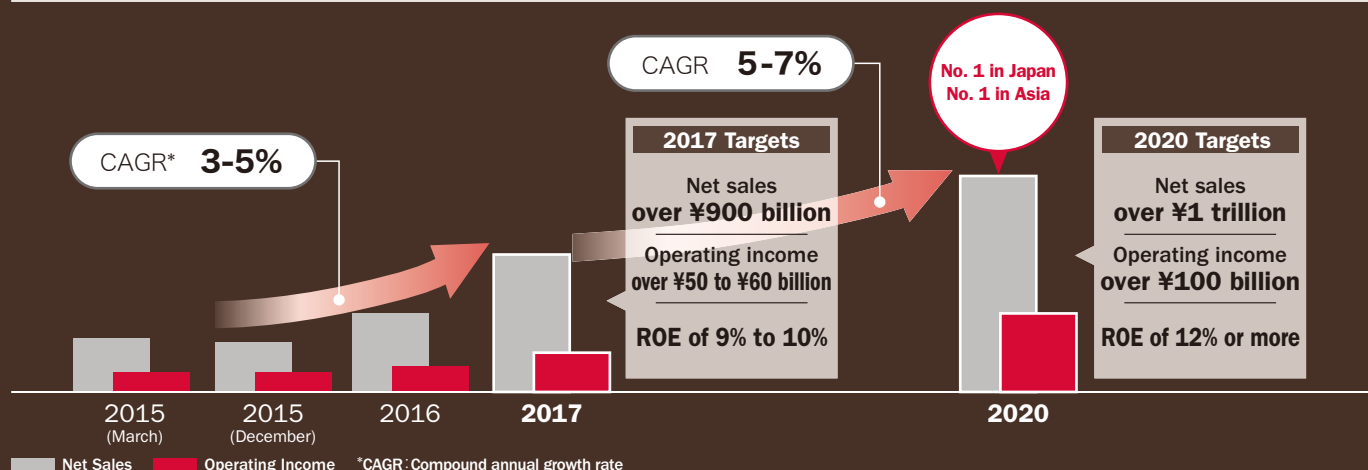
Another focus will be creating the foundation for value creation and growth over the medium and long term. One key to this strategy will be substantially increasing investment in research and development through 2017 by 40 percent compared with the year ended March 2015.

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

■ Numerical Targets of the Current Three-Year Plan

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

(Figure 11) Numerical Targets for 2017 and 2020



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



■ Commitment to the Future

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

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

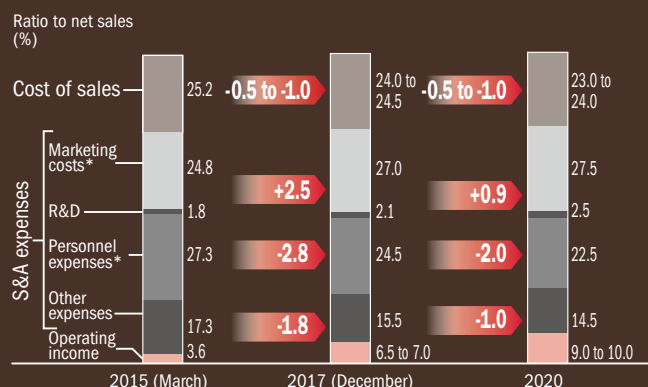
Building the model for the future Shiseido will test our

Resolute commitment to the future

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

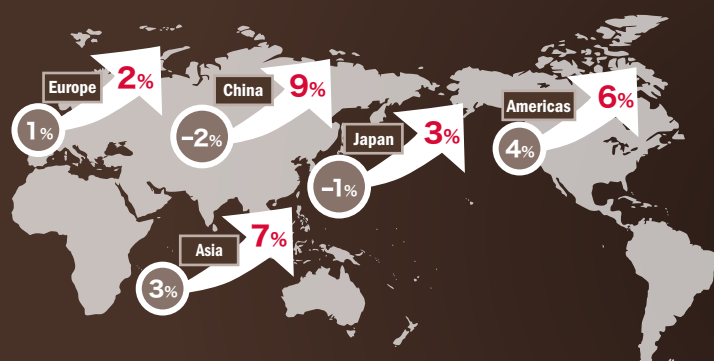
Shiseido is now in action. We ask for your support as we move forward.

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



(Figure 13) Sales Growth by Region*

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



*On a local currency basis

CFO Norio Tadakawa on Shiseido's Financial Strategy



Changing to Increase Corporate Value

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

Norio Tadakawa
Corporate Officer
Shiseido Group CFO

Better Management and Capital Efficiency

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

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

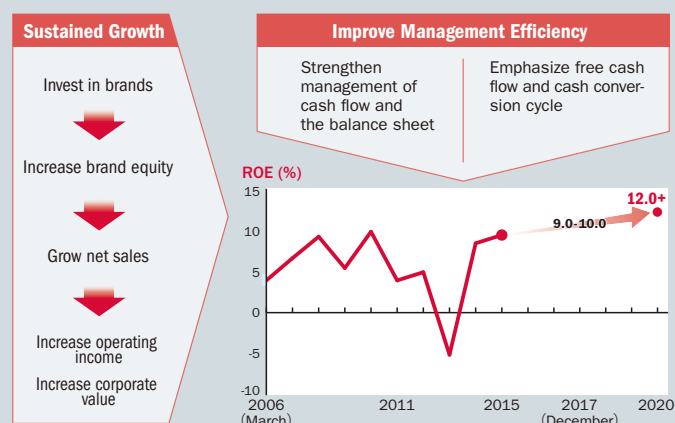
also compress the cash-to-cash cycle for receivables by managing accounts more rigorously in each country.

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

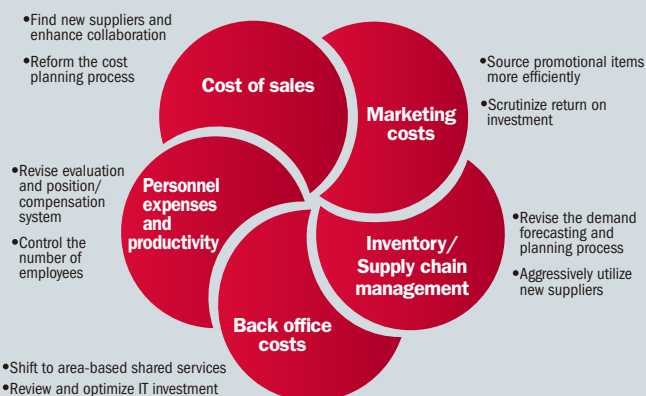
ROE should increase as a result of these initiatives. Our ROE targets are 9 to 10 percent for 2017 and 12 percent or more for 2020.

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

Increase in ROE (Sustained Growth and Improving Management Efficiency)



Promotion of Structural Reform



Cost Savings Will Fund Growth Investments

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

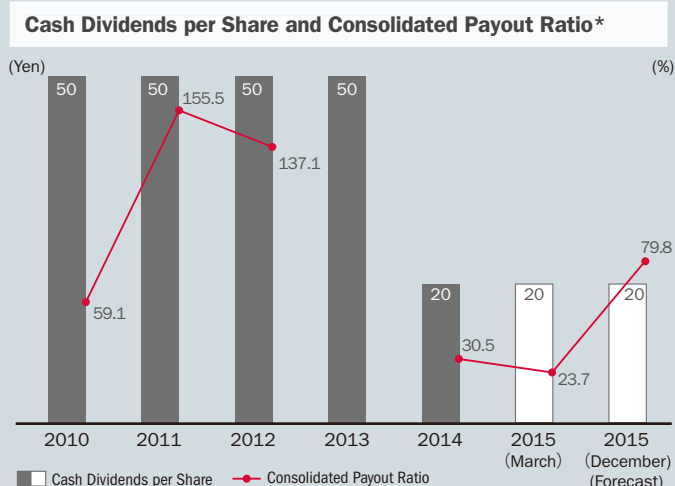
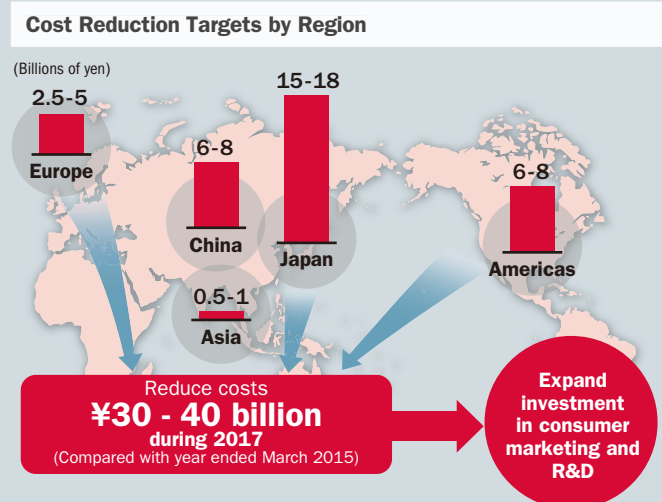
Improved Management Precision

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

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

Shareholder Returns

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



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