Corporate Governance Report

Last Update: December 27, 2018

Shiseido Company, Limited
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The corporate governance of Shiseido Company, Limited (the "Company") is described below.

I. Basic Views on Corporate Governance, Capital Structure, Corporate Profile and Other Basic Information

1. Basic Views

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.

[Reasons for Non-compliance with the Principles of the Corporate Governance Code] **Updated**

As of December 27, 2018, the Company has implemented each Principle of the Corporate Governance Code.

[Disclosure Based on the Principles of the Corporate Governance Code] **Updated**

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(December 27, 2018)
Descriptions of actions taken by the Company with respect to <Principle 1.4: Strategic Stockholdings> were updated. The Company reviewed some of the internal check processes for efforts to reduce strategic stockholdings.
Descriptions of actions taken by the Company concerning pension-fund investment with respect to <Principle 2.6: Roles of Corporate Pension Funds as Asset Owners> were added.
Descriptions of the Company's procedures in dismissing a President who concurrently assumes the role of CEO with respect to <Principle 4.3.2 and 3: Appointment of a Qualified CEO and Establishment of Procedures in Dismissing the CEO> were added. As a result, descriptions of <Supplementary Principle 4.1.3: Succession Plan of the President and CEO> were recategorized under another item.
In addition, with respect to <Principle 5.2: Establishing and Disclosing Corporate Strategies and Business Plans>, part of the basic capital policy that has already been disclosed was revised, and goals of the earning ability and capital efficiency were added to clarify the Company's corporate strategies on capital costs.
Updated Items are marked with a circle in front of the numbering.

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Initiatives for the Company's corporate governance are disclosed in convocation notices of general meetings of shareholders, annual securities reports, annual reports and others, in addition to this report.
Descriptions of the items disclosed based on each Principle of the Corporate Governance Code are as follows:

1. The Company's corporate philosophy, corporate strategies and business plans <Principle 3.1: Proactive Provision of Information>
   The Company's corporate philosophy, corporate strategies and business plans are contained and disclosed in the Company's Notice of Convocation of the 118th Ordinary General Meeting of Shareholders (pages 21 to 29).
   http://www.shiseidogroup.com/ir/shareholder/e1806shm/pdf/shm_0000.pdf

   In addition, the Company's corporate mission, "Our Mission," "Our Values" which defines a frame of mind that must be shared by each and every employee of the Shiseido Group in order to realize the mission, and "Our Way" and the "Shiseido Ethical Conduct Standards," both of which set out the standards of conduct for each and every employee of the Shiseido Group, are also stated in 2. of "Other" of this report.

2. Basic Policy on Corporate Governance <Principle 3.1: Proactive Provision of Information>
   The basic stance and basic policy on the Company's corporate governance are shown in 1. of "Basic Stance on Corporate Governance, Capital Structure, Corporate Attributes and Other Basic Information" in this report. In addition, reasons why we adopted the current corporate governance system are shown in 3. of the "Status of Management Structure for Management Decision-Making, Operational Execution and Supervising, and Other Corporate Governance Systems" in this report.

3. Separation of monitoring and execution functions <Supplementary Principle 4.1.1: Summary of Scope of Matters Delegated from the Board of Directors to the Management>
   The Company has specified matters to be determined by resolution of the Board of Directors in the Regulation on the Board of Directors. Such matters consists of items relating to the general meeting of shareholders, personnel/organization, account settlement stock/bonds, and stock acquisition rights, corporate property, etc., business management and others of the Shiseido Group, that are matters provided in the Companies Act and other laws and regulations, and any other important matters equivalent thereof. Meanwhile, with the aim of clarifying the allocation of responsibility for the business management and accelerating decision making by delegation of authority, the Company introduced a corporate officer system in 2001. Authority for making decisions on matters relating to business executions other than those specified in the Regulation of the Board of Directors has been delegated to the extent appropriate so that President and CEO can make decisions after deliberation at the Executive Committee, Meetings for Development of Medium-term/Annual Plans, and other meeting bodies.
   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 made revisions of matters that needed to be deliberated and decided at the meetings of the Board of Directors.

4. Diversity of Directors and Audit & Supervisory Board Members <Supplementary Principle 4.11.1: View on the Appropriate Balance between Knowledge, Experience and Skills, and Diversity and Size of the Board of Directors as a Whole>
   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.

5. Ratio of External Directors at the Board of Directors <Principle 4.8: Approach concerning the Ratio of External Directors at the Board of Directors and the Roadmap for the Implementation>
After extensive discussions at the Board of Directors were held with regard to the corporate governance of the Company during fiscal 2015 and also assessment of the effectiveness of the Board of Directors was performed, and in light of the decision that the Company will adopt the "monitoring board-type corporate governance", the Company established its view on the ratio of external directors at the Board of Directors.
In the Company's articles of incorporation, the maximum number of board members is set at 12. Respecting this upper limit and in consideration of the Company's business portfolio and scale, an optimum number of directors is elected such that they are able to appropriately supervise the management.
For external directors, the number is set at three or above to allow such members a certain degree of influence within the board. In addition, the Company has established the target of electing half or more of its directors from outside.
For selecting external directors and Audit & Supervisory Board members, high priority is given to independence. Our basic principle is that candidates of external directors and Audit & Supervisory Board members are required to meet the Company's independence criteria as well as possess high independence in mental attitude.

6.Criteria for Independence of "External Directors and Audit & Supervisory Board Members" <Principle 4.9: Independence Standards Aimed at Securing Effective Independence of Persons Who Will Become Independent Directors>
The Company established criteria for independence of external directors in 2012, which are included in the convocation notices of general meeting of shareholders and the like for disclosure. Specific descriptions can be found in the Internet Disclosure Accompanying the Notice of Convocation of the 118th Ordinary General Meeting of Shareholders (Voluntary Disclosure) (pages 2 to 5), and [Independent Directors] in 1. Organizational Composition and Operation of "Business Management Organization and Other Corporate Governance Systems regarding Decision-making, Execution of Business, and Oversight in Management" in this report.
http://www.shiseidogroup.com/ir/shareholder/e1806shm/pdf/shm_0007.pdf

○ 7. Policies and Procedures in Appointing and Dismissing the Senior Management and Nominating Candidates for Directors and Audit & Supervisory Board Members by the Board of Directors <Principle 3.1: Proactive Provision of Information, Supplementary Principle 4.3.2: Appointment of a Qualified President and CEO, Supplementary Principle 4.3.3: Establishment of Procedures in Dismissing the President and CEO>
In nominating candidates for directors and Audit & Supervisory Board members and appointing corporate officers, it is a policy of the Company to nominate or appoint appropriate persons who are able to fulfill their duties and responsibility, fully taking into consideration their personality and intellectuality and the like regardless of gender, age and nationality. In addition, the Company also takes into consideration "the importance of roles to fulfill in response to entrustment on management by shareholders" for candidates for directors, and "the importance of audit and functions of Audit & Supervisory Board members for the corporate management" for candidates for Audit & Supervisory Board members, in nominating them respectively.
Nomination of candidates for directors and appointment of corporate officers are determined upon resolution by the Board of Directors after the Company receives a report from the Nomination Advisory Committee chaired by an external director on whether or not the candidates are adequate.
In addition to following the procedure, appointment of President and CEO is further carefully reviewed by the Nomination Advisory Committee. The candidate for President and CEO is selected from both inside and outside of the Company without excluding all sorts of possibilities from the standpoint of realizing the corporate philosophy and corporate strategies of the Company, and is bound to be subject to deliberation at the Nomination Advisory Committee chaired by an external director and an evaluation

working group composed of external directors and external members of Audit & Supervisory Board, starting from this selecting stage. In a case where an appropriate person was appointed as the President and CEO through such processes, but the President and CEO cannot fulfill job responsibilities for unavoidable reasons, the person is dismissed after a resolution by the Board of Directors after careful review by the Nomination Advisory Committee and the evaluation working group. The evaluation working group assesses, during meetings that are held several times in a year, whether a President and CEO has fulfilled his/her duties and responsibilities, and the Nomination Advisory Committee deliberates the group's judgment at meetings.
For nomination of candidates for Audit & Supervisory Board members, the representative directors select candidates, and the Company receives a report from the Nomination Advisory Committee on whether or not the candidates are adequate. Then the Board of Directors determines the nomination of candidates for Audit & Supervisory Board members upon receiving consent of the Audit & Supervisory Board on submitting a proposal for the election to the ordinary general meeting of shareholders.

8. Explanations with Respect to the reasons for Nominations of Candidates for Directors and Audit & Supervisory Board Members by the Board of Directors <Principle 3.1: Proactive Provision of Information>
With respect to all candidates for directors and Audit & Supervisory Board members, the Company has clarified "Reasons for Nomination of the Candidate" in relevant proposals for the election of the Notice of Convocation of the Ordinary General Meeting of Shareholders (Reference Document). The "Reasons for Nomination of the Candidates" for six directors and one Audit & Supervisory Board member proposed for election at the 118th Ordinary General Meeting of Shareholders are shown below. In addition, reasons for nomination for election of four auditors & supervisory board members other than one member identified above out of five members in the office of the Audit & Supervisory Board members as of the conclusion of the 118th Ordinary General Meeting of Shareholders are also shown below.

[Directors]

Masahiko Uotani:
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 2017, 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 aimed to accelerate sales growth by undertaking bold structural reforms. He also pursued business selection and concentration, and further reinforced investments in areas where substantial results could be expected and in human resources to support overall reforms. As a result of these activities, the Company steadily regained earning power.
Due to these facts and the leadership that will enable him to pursue the three-year plan from fiscal 2018, the Board of Directors has continuously selected him as a candidate for director.
(The 118th Ordinary General Meeting of Shareholders)

Jun Aoki:
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.
(The 118th Ordinary General Meeting of Shareholders)

Yoichi Shimatani (newly appointed):

Since joining the Company, Mr. Yoichi Shimatani has handled work related to R&D and technology at Shiseido Research Labs (currently Shiseido Research Center), and possesses a wealth of experience in this field. After assuming the post of corporate officer, he has served as officer responsible for areas including innovative science and technology alliances, and has also been responsible for cosmetics value development and incubation, among other areas. He has thus contributed to the Company's growth.
Due to these facts the Board of Directors has newly selected him as a candidate for director.
(The 118th Ordinary General Meeting of Shareholders)

Yoko Ishikura:

Ms. Yoko Ishikura 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.
Due to these facts, the Board of Directors has decided to continuously select her as a candidate for external director.
(The 118th Ordinary General Meeting of Shareholders)

Shinsaku Iwahara (newly appointed):

Mr. Shinsaku Iwahara is a university professor and researcher specializing in legal studies, mainly with regard to companies and financial systems, with deep knowledge of law. He has also played important roles at the Legislative Council and Financial System Council, and has been involved in the establishment of the supervisory and examination systems of authorities such as the Financial Services Agency. He thus possesses a wealth of experience.
Mr. Iwahara has professional knowledge and experience as an expert in corporate governance, and by appointing him as an external director, the Company believes that the effectiveness of its Board of Directors can be further increased.
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.
Accordingly, the Board of Directors has decided to newly select him as a candidate for external director.
(The 118th Ordinary General Meeting of Shareholders)

Kanoko Oishi:

Ms. Kanoko Oishi 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.
Due to these facts, the Board of Directors has continuously selected her as a candidate for external director.
(The 118th Ordinary General Meeting of Shareholders)

[Audit & Supervisory Board Members]

Takeshi Yoshida (newly appointed):

Since joining the Company, Mr. Takeshi Yoshida has built up a career primarily in the field of personal care, and possesses a wealth of experience in the Cosmetics business in Japan and its administration as

Department Director of the Cosmetics Business Planning Department. In addition, he led the Cosmetics business in the Americas as Executive Vice President of Shiseido Americas Corporation, the holding company in the Americas. He also contributed to stable business operation for the Group by focusing on internal control as the Department Director of the Company's Internal Audit Department.
Furthermore, Mr. Yoshida has experience and knowledge in financing, accounting and taxation. Due to these facts the Board of Directors has decided to newly select him as a candidate for Audit & Supervisory Board member.
(The 118th Ordinary General Meeting of Shareholders)

Kyoko Okada:
In addition to her service in the Corporate Culture Department of the Company, Ms. Kyoko Okada has also experienced a variety of other departments including the CSR Department and the Institute of Beauty Science. She is familiar with the Company's intangible assets and related information, such as its information relating to beauty techniques and knowhow, the Company's history and corporate culture, and its support for external cultural endeavors. Ms. Okada therefore has ample knowledge in areas that complements the experience and knowledge of the other Audit & Supervisory Board members. The Company is of the opinion that Ms. Okada would be able to draw on this expertise to cooperate with the other Audit & Supervisory Board members in fulfilling the function of Audit & Supervisory Board member. Accordingly, the Board of Directors decided to select her as a candidate for Audit & Supervisory Board member.
(The 115th Ordinary General Meeting of Shareholders)

Nobuo Otsuka:
Mr. Nobuo Otsuka has ample knowledge and strong intellect as a doctor, as well as long experience in managing a medical corporation offering thoroughly patient-oriented services unbound by conventional modes of hospital operation. In these respects, he is fulfilling the function of Audit & Supervisory Board member well, for example by actively making statements as external Audit & Supervisory Board member of the Company.
Mr. Otsuka has not participated in management of companies other than as external Audit & Supervisory Board member. For the reasons stated above, however, the Company is of an opinion that he would be able to adequately achieve the role of external Audit & Supervisory Board member. Accordingly, the Board of Directors has continuously selected him as a candidate for external Audit & Supervisory Board member.
(The 115th Ordinary General Meeting of Shareholders)

Hiroshi Ozu:
Mr. Hiroshi Ozu has 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.
Due to these facts, the Board of Directors has selected him as a candidate for external Audit & Supervisory Board member.
(The 117th Ordinary General Meeting of Shareholders)

Eiko Tsujiyama:
Dr. Eiko Tsujiyama is a professor of the Faculty of Commerce of Waseda University and an expert in finance, accounting and tax issues qualified as certified public accountant. Dr. Tsujiyama currently holds the office of external director and external Audit & Supervisory Board member for several companies and has affluent experience and a high level of knowledge.
Dr. Tsujiyama has not participated in management of companies other than as external director and Audit & Supervisory Board member. For the reasons stated above, however, the Company is of an opinion that she would be able to achieve adequately the role of external Audit & Supervisory Board member. Accordingly, the Board of Directors has continuously selected her as a candidate for external Audit & Supervisory Board member. (The 116th Ordinary General Meeting of Shareholders)

○9. Succession Plan and Training for Directors, Audit and Supervisory Board Members and Corporate Officers <Supplementary Principle 4.1.3: Succession Plan of the President and CEO, Supplementary Principle 4.14.2: Training Policy for Directors and Audit & Supervisory Board Members>

The Company considers that it should strive to have a candidate successor for President and CEO selected under his or her own responsibility and authority, and that President and CEO should propose his or her own succession plan. In addition, the Nomination Advisory Committee, which performs certain functions of the Board of Directors, receives full reports from President and CEO on the succession plan and the specific nomination for successor, then exchanges opinions and discusses the matter in light of an evaluation to President and CEO from an independent perspective as well as the Company's management issues, and provides feedback. For the evaluation of the specific successor candidate, the evaluation working group judges whether the candidate is suitable.

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

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

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

10.Important Position at Other Organizations Concurrently Assumed by Directors and Audit & Supervisory Board Members <Supplementary Principle 4.11.2: Concurrent Posts Assumed by Directors and Audit & Supervisory Board Members>

Matters concerning important positions at other organizations concurrently assumed by directors and Audit & Supervisory Board members of the Company are shown in the Notice of Convocation of the 118th Ordinary General Meeting of Shareholders of the Company (page 55, pages 104 to 112, and page 114).

Also, the important positions at other organizations concurrently assumed by external directors and external Audit & Supervisory Board members and relationships between organizations and the Company are shown in the Notice of Convocation of the 118th Ordinary General Meeting of Shareholders of the Company (pages 57 to 59, pages 104 to 112, and page 114).

http://www.shiseidogroup.com/ir/shareholder/e1806shm/pdf/shm_0000.pdf

11. Information Exchange between External Directors and External Audit & Supervisory Board Members <Supplementary Principle 4.4.1: Coordination between the Audit & Supervisory Board Members and Audit & Supervisory Board, and External Directors, Supplementary Principle 4.8.1 and 2: Establishment of Framework for Information Exchange among Independent Directors/Establishment of Framework for Communication with Various Corporate Bodies>

The Company has elected a total of six external directors and audit & external supervisory board members: three external directors and three external Audit & Supervisory Board members with high degree of independence. To ensure that external directors and external Audit & Supervisory Board members can fully play their expected roles, the Company provides them with training with regard to the industry the Company belongs to, history, business overview and strategies and the like of the Company at the time they newly assume office, and the materials for meetings of the Board of Directors in advance. In addition to the "Board of Directors Member Meeting" consisting of all directors and Audit & Supervisory Board members that has been held as necessary for information exchange and discussions,

In addition, information sharing meetings are held between external directors and Audit & Supervisory Board members.

In addition, external directors and external Audit & Supervisory Board members exchange and share information and confirmed mutual recognition through lively discussions in the evaluation working group meeting. The evaluation working group was established as a common deliberation body shared by the Nomination Advisory Committee and the Remuneration Advisory Committee, and the group is comprised of external directors and external Audit & Supervisory Board members. The group's mission is 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.

12. Assessment of the Effectiveness of the Board of Directors <Supplementary Principle 4.11.3: Summary of Analysis and Evaluation concerning Effectiveness of the Board of Directors>

The Company conducted an evaluation concerning effectiveness of the Board of Directors in fiscal 2017 with the aim of identifying issues and improvements required to enhance effectiveness of the Board of Directors.

The main purposes of the evaluation in fiscal 2017 were to assess the activities of the Board of Directors for a year comprehensively and to confirm the progress of the tasks and initiatives that had been identified through the evaluation in fiscal 2015 and 2016. So the evaluation in fiscal 2017 was carried out by self-assessment method.

Anonymous questionnaires are conducted for all directors and Audit & Supervisory Board members to evaluate and analyze the activities of the Board of Directors, the Nomination Advisory Committee, the Remuneration Advisory Committee and the Audit & Supervisory Board and the support system by the secretariat. In order to draw out frank opinions and to ensure objective analysis, the secretariat of the Board of Directors asked external organizations to collect responses from the questionnaires, and the secretariat conducted analyzes using the data after aggregation.

As a result of this compilation and analysis, the secretariat evaluates that the Board of Directors in fiscal 2017 was in the following situation:

- The Board of Directors has established a sound relationship of trust with Representative Director, President and CEO, a person with ultimate responsibility for business execution, and, as a result, progress has been made as a monitoring board, and its supervisory function is further enhanced.
- Although improvements are progressing steadily on the agendas identified in the evaluation conducted in fiscal 2015 and 2016, it is necessary to continuously improve the items listed below:
    - CEO's succession plan
    - To see the importance of external directors in a fresh light and their succession plans
    - To ensure greater diversity in the board of directors
    - To strengthen communication between external directors and Audit & Supervisory Board (and its members)
- As new agendas, there is room for improvement about items listed below:
    - To enhance the secretariat system of the Board of Directors and the advisory committees, and to strengthen linkage with the secretariat of the Board of Corporate Auditors
    - To enhance the dissemination of information regarding the Nominating Advisory Committee and the Remuneration Advisory Committee to Audit & Supervisory Board (members)

In fiscal 2018, the Company will continue to work on improving these agendas including new ones, maintaining the institutional design of the Company with the Audit & Supervisory Board. The Company will strengthen the monitoring function of the Board of Directors utilizing the mechanism of the Nomination Advisory Committee and Remuneration Advisory committee.

13. Policies and Procedures in Determining the Remuneration of the Senior Management and Directors by the Board of Directors <Principle 3.1: Proactive Provision of Information>

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 and includes external professionals as the Committee members, 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 appropriate 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 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.

More details on the directors, Audit & Supervisory Board members and corporate officers' remuneration policy are shown for disclosure on the Notice of Convocation of the 118th Ordinary General Meeting of Shareholders of the Company (pages 62 to 69).

http://www.shiseidogroup.com/ir/shareholder/e1806shm/pdf/shm_0000.pdf

○14. Fundamental Approach to Capital Policy <Principle 1.3: 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. With regard to financing which supports our investment for future growth, we will implement timely financing to the best of our abilities, taking into account market conditions and other factors. We set a target of debt-to-equity ratio of 0.3 and interest-bearing debt to EBITDA ratio of 1.0 in order to maintain a single-A credit rating, which enables financing on favorable terms. However, considering future earning ability and capability to create cash flow, we will review these indices as well as the current approach to providing returns to shareholders timely, so as to optimize the capital structure that can contribute to further improvement in capital efficiency.

We aim to achieve total returns, comprising direct returns to shareholders through dividends and medium-to-long term share price gains. Based on this approach, our basic policy is to focus on making strategic investment for sustainable growth, thus aiming for maximization of corporate value. At the same time we will enhance capital efficiency exceeding capital costs, with a view to increasing dividends and our share price over the medium-to-long term.

Upon determining dividends, we will achieve long-term, stable and continuous enhancement of returns with emphasis given to consolidated business results and free cash flow, and set the minimum level of Dividend on Equity (DOE) of 2.5%, which we see as an indicator that reflects our capital policy. We will also buy back shares flexibly taking the market environment into consideration.

○15. Corporate Strategies Focused on Capital Costs <Principle 5.2: Establishing and Disclosing Corporate Strategies and Business Plans >

The Company aims to enhance our advantage globally in the prestige cosmetics field, with its top priority determined by the aforementioned capital policy. Toward 2020, the Company plans to invest more than 300 billion yen in the enhancement of the supply structure, including the building of a new factory, and marketing, which will increase total assets. Concerning cash and deposits, the Company aims to maintain the soundness of liquidity in hand, assigning priority to investment in growth and reduce the inventory to an appropriate level.

Through balance sheet management and cash flow management as outlined under the aforementioned capital policy, the Company aims to achieve more than 12% of return on invested capital (ROIC), a return that exceeds capital costs(WACC).

Business performance data of the most recent quarter and the corresponding corporate strategies are listed in the website below.

https://www.shiseidogroup.jp/ir/library/tanshin/?rt_bt=second-ir-mainmenu_001

(Website>Investors>IR Library>Consolidated Settlement of Accounts/Presentation)

○16. The Company's Policy with Regard to Reduction of Strategic Stockholdings <Principle 1.4: Policy with Regard to Strategic Stockholdings and Criteria for Exercising Voting Rights with Regard to Strategic Stockholdings>

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

- The Company conducts strategic stockholdings at the minimum level necessary only when it determines that such stockholdings would contribute to sustainable growth and mid- and long-term improvement of corporate value.
- The Company regularly examines whether the purpose of holdings and benefits from holdings are balanced with capital costs for each stock it holds, makes the Board of Directors verify the adequacy of the holdings, and discloses the results.
- When a company that holds the Company's shares for the purpose of strategic stockholdings wants to sell the shares, the Company should neither prevent the sales nor suggest that the Company would reduce transactions with the holding company.

As of the end of September 2018, the Company holds stocks of 30 companies as strategic stockholdings. The Company reduced strategic stockholdings by about 23% based on book value since the end of the previous fiscal year by selling all shares of three companies and some shares of two companies.

In addition, 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 relevant 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.

○17. Roles of Corporate Pension Funds as Asset Owners <Principle 2.6: Roles of Corporate Pension Funds as Asset Owners>

For adequate pension fund investments, the Company takes the following actions to perform its roles expected as an asset owner:

- The Company regularly convenes meetings of the asset-investment review conference, which consists of the corporate officer in charge of finance, the Department Director of the Human Resources Department, the Department Director of the Financial Department, board members of the pension fund, and others; at the meeting, the Company determines asset portfolios, investment policies, and investment products based on opinions and advice from external consulting firms.
- Based on the policy determined by the asset-investment review conference, the board member in charge of investment of the pension fund conducts asset investments and reports the results to the asset-investment review conference, the board of representatives, and the board of directors of the pension fund, who monitor investment results.
- The executive board members and the board member in charge of investment are selected from among candidates who have years of experience in corporate pension fund operations at other financial institutions. The members of the asset-investment review conference gain expertise by participating in seminars held by external consulting firms and other professional organizations.

18. Framework for Confirmation of Transactions with Related Parties <Principle 1.7: 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."

19. Communication with Investors <Principle 5.1: Policies concerning the Measures and Organizational Structures Aimed at Promoting Constructive Dialogue with Shareholders>

The Company established the Disclosure Policy, consisting of "Basic Policy on Information Disclosure," "Standards for Information Disclosure," "Method of Information Disclosure," "Quiet Periods," and "Forward-Looking Statements" in 2006. The Disclosure Policy was partially amended in order to include provisions concerning recognition of material information in January, 2018, and the amended policy is disclosed on the website of the Company.
http://www.shiseidogroup.com/ir/disclosure/policy/

Currently, the Company is aggressively implementing the initiatives described in 1. and 2. of "Implementation of Measures for Shareholders and Other Stakeholders" in this report, based on the Disclosure Policy, with the aim of appropriately providing both institutional investors (shareholders) and individual investors (shareholders) with information.
As we believe that the Company is expected to make further improvements in these various activities, from the standpoint of "promoting constructive dialogue," we are contiuously studying this point. We will inform you of results of the study in a timely manner.

2. Capital Structure

Foreign Shareholding Ratio	More than 30%

[Status of Major Shareholders]

Name / Company Name	Number of Shares Owned	Percentage (%)
The Master Trust Bank of Japan, Ltd. (Trust Account)	38,033,600	9.50
Japan Trustee Services Bank, Ltd. (Trust Account)	19,214,800	4.80
Mizuho Bank, Ltd.	15,626,732	3.90
BNYM TREATY DTT 15	11,726,686	2.93
Japan Trustee Services Bank, Ltd. (Trust Account 5)	7,103,700	1.77
STATE STREET BANK WEST CLIENT – TREATY 505234	6,636,907	1.65
THE BANK OF NEW YORK MELLON 140044	6,194,913	1.54
Association of Shiseido Employees' Investment in the Company's shares	6,158,832	1.53
Japan Trustee Services Bank, Ltd. (Trust Account 7)	6,085,500	1.52
STATE STREET BANK AND TRUST COMPANY 505225	5,635,687	1.40

Controlling Shareholder (except for Parent Company)	-
Parent Company	None

Supplementary Explanation
None.

3. Corporate Attributes

Listed Stock Market and Market Section	Tokyo Stock Exchange First Section
Fiscal Year-End	December
Type of Business	Chemicals
Number of Employees (consolidated) as of the End of the Previous Fiscal Year	More than 1000
Sales (consolidated) as of the End of the Previous Fiscal Year	From ¥100 billion to less than ¥1 trillion
Number of Consolidated Subsidiaries as of the End of the Previous Fiscal Year	From 50 to less than 100

4. Policy on Measures to Protect Minority Shareholders in Conducting Transactions with Controlling Shareholder

N/A

5. Other Special Circumstances which may have Material Impact on Corporate Governance

None.

II. Business Management Organization and Other Corporate Governance Systems regarding Decision-making, Execution of Business, and Oversight in Management

1. Organizational Composition and Operation

Organization Form	Company with *Kansayaku* Board

[Directors]

Maximum Number of Directors Stipulated in Articles of Incorporation	12
Term of Office Stipulated in Articles of Incorporation	1 year
Chairperson of the Board	President
Number of Directors Updated	6
Number of External Directors Updated	3
Number of Independent Directors Updated	3

External Directors' Relationship with the Company (1) Updated

Name	Attribute	Relationship with the Company*										
		a	b	c	d	e	f	g	h	i	j	k
Yoko Ishikura	Other											
Shinsaku Iwahara	Scholar											
Kanoko Oishi	Originally from other company											

* Categories for "Relationship with the Company"

* "○" when the director presently falls or has recently fallen under the category;
"△" when the director fell under the category in the past

* "●" when a close relative of the director presently falls or has recently fallen under the category;
"▲"when a close relative of the director fell under the category in the past

a. Executive of the Company or its subsidiaries
b. Non-executive director or executive of a parent company of the Company
c. Executive of a fellow subsidiary company of the Company
d. A party whose major client or supplier is the Company or an executive thereof
e. Major client or supplier of the listed company or an executive thereof
f. Consultant, accountant or legal professional who receives a large amount of monetary consideration or other property from the Company besides compensation as a director/*kansayaku*
g. Major shareholder of the Company (or an executive of the said major shareholder if the shareholder is a legal entity)
h. Executive of a client or supplier company of the Company (which does not correspond to any of d, e, or f) (the director himself/herself only)
i. Executive of a company, between which and the Company outside directors/*kansayaku* are mutually appointed (the director himself/herself only)
j. Executive of a company or organization that receives a donation from the Company (the director himself/herself only)
k. Others

External Directors' Relationship with the Company (2) Updated

Name	Designation as Independent Director	Supplementary Explanation of the Relationship	Reasons of Appointment
Yoko Ishikura	○	With regard to Ms. Yoko Ishikura, none of the relationship classification stated above (classification "a" – classification "k") applies to her. Ms. Ishikura's "Important Position of Other Organizations Concurrently Assumed" stated in the Companies Act are as follows: • Outside Director, Nissin Food Holdings Co., Ltd.	<Reasons for appointing as an external director and roles and functions in the Company> Ms. Ishikura has a high level of knowledge in international corporate strategy, based on which she has actively made statements at meetings of the Board of Directors. She has achieved as external director of the Company adequate role on supervising the execution of business. Also, as a member of the Company's Remuneration Advisory Committee and Nomination Advisory Committee, she attended the meetings of these

		• Outside Director, Sojitz Corporation • Professor Emeritus, Hitotsubashi University The Company considers not only the independence against the Company, but also other various viewpoints such as "Principal Occupation" when it estimates the importance of Ms. Ishikura's "Important Position of Other Organizations Concurrently Assumed."	committees and actively expressed opinions. <Status of meeting the standards for the independent directors and reason for appointing as independent director> Ms. Ishikura maintains full independence as none of the items (1) through (5) stated below applies. Furthermore, the Company sets forth the Criteria for Independence of "External Directors." Ms. Ishikura has fulfilled the Criteria in full. Hence Ms. Ishikura has been determined capable of sufficiently protecting the interests of the general shareholder and has been appointed independent director. (1) Corporate officer, etc. of a parent company or sister company; (2) A person whose main business partner is the Company, or a corporate officer, etc. thereof; a major business partner of the Company, or a corporate officer, etc. thereof; (3) A consultant, an accountant or a legal specialist receiving significant sums of money from the Company other than executive remunerations; (4) A principle shareholder of the Company; (5) A close relative of a person (excluding inconsequential persons) meeting either condition (a) or (b) below (a) person described in items (1) through (4); (b) A corporate officer of the Company or the Company's subsidiary

Shinsaku Iwahara	○	With regard to Mr. Shinsaku Iwahara, none of the relationship classification stated above (classification " a" – classification "k") applies to him. Mr. Iwahara's "Important Position of Other Organizations Concurrently Assumed" stated in the Companies Act are as follows: • Professor, Faculty of Law, Waseda University The Company considers not only the independence against the Company, but also other various viewpoints such as "Principal Occupation" when it estimates the importance of Mr. Iwahara's "Important Position of Other Organizations Concurrently Assumed."	<Reasons for appointing as an external director and roles and functions in the Company> Mr. Iwahara has been appointed external director to reflect his legal knowledge, particularly regarding the Companies Act and Financial Laws, to the management of the Company, as well as his knowledge and experiences in the area of corporate governance. <Status of meeting the standards for the independent directors and reason for appointing as independent director> Mr. Iwahara maintains full independence as none of the items (1) through (5) stated below applies. Furthermore, the Company sets forth the Criteria for Independence of "External Directors." Mr. Iwahara has fulfilled the Criteria in full. Hence Mr. Iwahara has been determined capable of sufficiently protecting the interests of the general shareholder and has been appointed independent director. (1) Corporate officer, etc. of a parent company or sister company; (2) A person whose main business partner is the Company, or a corporate officer, etc. thereof; a major business partner of the Company, or a corporate officer, etc. thereof; (3) A consultant, an accountant or a legal specialist receiving significant sums of money from the Company other than executive remunerations; (4) A principle shareholder of the Company; (5) A close relative of a person (excluding inconsequential persons) meeting either condition (a) or (b) below (a) person described in items (1) through (4); (b) A corporate officer of the Company or the Company's subsidiary

Kanoko Oishi	○	With regard to Ms. Kanoko Oishi, none of the relationship classification stated above (classification ”a” – classification “k”) applies to him. Ms. Oishi’s “Important Position of Other Organizations Concurrently Assumed” stated in the Companies Act are as follows: • 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. The Company considers not only the independence against the Company, but also other various viewpoints such as “Principal Occupation” when it estimates the importance of Mr. Uemura’s “Important Position of Other Organizations Concurrently Assumed.”	<Reasons for appointing as an external director and roles and functions in the Company> Ms. Oishi has many years of experience in managing businesses in Japan and overseas. Currently, she is primarily involved in efforts to transform the healthcare industry from the patient’s point of view. In addition, she has accumulated experience as an external director in multiple companies. We believe that Ms. Oishi can help to enhance the Company’s corporate value by leveraging this experience and knowledge, in addition to supervising management as an external director. <Status of meeting the standards for the independent directors and reason for appointing as independent director> Ms. Oishi maintains full independence as none of the items (1) through (5) stated below applies. Furthermore, the Company sets forth the Criteria for Independence of “External Directors.” Ms. Oishi has fulfilled the Criteria in full. Hence Ms. Oishi has been determined capable of sufficiently protecting the interests of the general shareholder and has been appointed independent director. (1) Corporate officer, etc. of a parent company or sister company; (2) A person whose main business partner is the Company, or a corporate officer, etc. thereof; a major business partner of the Company, or a corporate officer, etc. thereof; (3) A consultant, an accountant or a legal specialist receiving significant sums of money from the Company other than executive remunerations; (4) A principle shareholder of the Company; (5) A close relative of a person (excluding inconsequential persons) meeting either condition (a) or (b) below (a) person described in items (1) through (4); (b) A corporate officer of the Company or the Company’s subsidiary

Voluntary Establishment of Committee(s) Corresponding to Nomination Committee or Remuneration Committee	Established

Committee's Name, Composition, and Attributes of Chairperson

	Committee Corresponding to Nomination Committee	Committee Corresponding to Remuneration Committee
Committee's Name	Nomination Advisory Committee	Remuneration Advisory Committee
All Committee Members Updated	4	4
Full-time Members	0	0
Inside Directors	1	1
External Directors Updated	3	3
Outside Experts	0	0
Other	0	0
Chairperson	External Director	External Director

Supplementary Explanation Updated

<Nomination Advisory Committee>
The 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 2017, 7 meetings of the Nomination Advisory Committee were held. In addition to reporting on the selections of candidates for directors and audit & supervisory board members, the appointment of corporate officers, and the appointment of a CEO for the EMEA regional headquarters, etc., the committee discussed the view on an upper limit for the corporate officers' term of office, and abolition of the Counselor/Advisor system.

<Remuneration Advisory Committee>
The 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 2017, 8 meetings of the Remuneration Advisory Committee were held. In addition to discussing bonuses for the Company's directors and corporate officers for fiscal 2016, remunerations for the Company's individual directors and corporate officers for fiscal 2017, and a remuneration system for fiscal 2017, the committee discussed a revision to the remuneration system for the next three years.

[Audit & Supervisory Board Members *(Kansayaku)*]

Establishment of Audit & Supervisory Board (*Kansayaku* Board)	Established
Maximum Number of *Kansayaku* Stipulated in Articles of Incorporation	The Company doesn't set a ceiling on the number of corporate auditors
Number of *Kansayaku*	5

Cooperation among *Kansayaku*, Accounting Auditors and Internal Audit Departments

The Audit & Supervisory Board members receive reports on audit plans for audit system and schedule from the accounting auditors, and opinions are exchanged. The Audit & Supervisory Board members receive reports on audit results and its method from accounting auditors throughout the fiscal year.
The Audit & Supervisory Board members receive reports on audit plans and the results of audits and surveys from the Internal Auditing Department, and opinions are exchanged on necessary commitments.
In addition, representative directors and Audit & Supervisory Board members periodically hold meeting for exchanging opinions.

Appointment of External *Kansayaku*	Appointed
Number of Outside *Kansayaku*	3
Number of Independent *Kansayaku*	3

External *Kansayaku*'s Relationship with the Company (1)

Name	Attribute	Relationship with the Company*												
		a	b	c	d	e	f	g	h	i	j	k	l	m
Nobuo Otsuka	Other													
Hiroshi Ozu	Attorney at Law													
Eiko Tsujiyama	CPA													

* Categories for "Relationship with the Company"
* "○" when the director presently falls or has recently fallen under the category;
"△" when the director fell under the category in the past
* "●" when a close relative of the director presently falls or has recently fallen under the category;
"▲"when a close relative of the director fell under the category in the past

a. Executive of the Company or its subsidiary
b. Non-executive director or accounting advisor of the Company or its subsidiaries
c. Non-executive director or executive of a parent company of the Company
d. *Kansayaku* of a parent company of the Company
e. Executive of a fellow subsidiary company of the Company
f. A party whose major client or supplier is the Company or an executive thereof
g. Major client or supplier of the Company or an executive thereof
h. Consultant, accountant or legal professional who receives a large amount of monetary consideration or other property from the Company besides compensation as a *kansayaku*

i. Major shareholder of the Company (or an executive of the said major shareholder if the shareholder is a legal entity)
j. Executive of a client or supplier company of the Company (which does not correspond to any of f, g, or h) (the *kansayaku* himself/herself only)
k. Executive of a company, between which and the Company outside directors/*kansayaku* are mutually appointed (the *kansayaku* himself/herself only)
l. Executive of a company or organization that receives a donation from the Company (the *kansayaku* himself/herself only)
m. Others

External *Kansayaku*'s Relationship with the Company (2)

Name	Designation as Independent *Kansayaku*	Supplementary Explanation of the Relationship	Reasons of Appointment
Nobuo Otsuka	○	With regard to Mr. Nobuo Otsuka, none of the relationship classification stated above (classification " a" – classification "m") applies to him. Mr. Otsuka's "Important Position of Other Organizations Concurrently Assumed" stated in the Companies Act are as follows: • Chairman of Keiseikai Hospital Group The Company considers not only the independence against the Company, but also other various viewpoints such as "Principal Occupation" when it estimates the importance of Mr. Otsuka's "Important Position of Other Organizations Concurrently Assumed."	<Reasons for appointing as an external member of Audit & Supervisory Board and roles and functions in the Company> Mr. Otsuka has been appointed Audit & Supervisory Board member (external) in order to ensure objectivity and neutrality of auditing by Audit & Supervisory Board members, based on his experiences and knowledge as management executive of a medical corporation. Mr. Otsuka has expressed necessary views from an independent perspective. <Status of meeting the standards for the independent auditors and reason for appointing as independent auditor> Mr. Otsuka maintains full independence as none of the items (1) through (5) stated below applies. Furthermore, the Company sets forth the Criteria for Independence of "External Directors." Mr. Otsuka has fulfilled the Criteria in full. Hence Mr. Otsuka has been determined capable of sufficiently protecting the interests of the general shareholder and has been appointed independent auditor. (1) Corporate officer, etc. of a parent company or sister company; (2) A person whose main business partner is the Company, or a corporate officer, etc. thereof; a major business partner of the Company, or a corporate officer, etc. thereof; (3) A consultant, an accountant or a legal specialist receiving significant sums of money from the Company other than executive remunerations; (4) A principle shareholder of the Company;

			(5) A close relative of a person (excluding inconsequential persons) meeting either condition (a) or (b) below (a) person described in items (1) through (4); (b) A corporate officer of the Company or the Company's subsidiary
Hiroshi Ozu	○	With regard to Mr. Hiroshi Ozu, none of the relationship classification stated above (classification " a" – classification "m") applies to him. Mr. Ozu's "Important Position of Other Organizations Concurrently Assumed" stated in the Companies Act are as follows: • 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 • President of Criminal Justice Welfare Forum Oasis (general incorporated association) • President of Japan Criminal Policy Society The Company considers not only the independence against the Company, but also other various viewpoints such as "Principal Occupation" when it estimates the importance of Mr. Ozu's "Important Position of Other Organizations	<Reasons for appointing as an external member of Audit & Supervisory Board and roles and functions in the Company> Mr. Ozu has been appointed Audit & Supervisory Board member (external) in order to ensure objectivity and neutrality of auditing by Audit & Supervisory Board members, based on his experiences and knowledge in legal field. Mr. Ozu has expressed necessary views from an independent perspective. <Status of meeting the standards for the independent auditors and reason for appointing as independent auditor> Mr. Ozu maintains full independence as none of the items (1) through (5) stated below applies. Furthermore, the Company sets forth the Criteria for Independence of "External Directors." Mr. Ozu has fulfilled the Criteria in full. Hence Mr. Ozu has been determined capable of sufficiently protecting the interests of the general shareholder and has been appointed independent auditor. (1) Corporate officer, etc. of a parent company or sister company; (2) A person whose main business partner is the Company, or a corporate officer, etc. thereof; a major business partner of the Company, or a corporate officer, etc. thereof; (3) A consultant, an accountant or a legal specialist receiving significant sums of money from the Company other than executive remunerations; (4) A principle shareholder of the Company; (5) A close relative of a person (excluding inconsequential persons) meeting either condition (a) or (b) below (a) person described in items (1) through (4); (b) A corporate officer of the Company or the Company's subsidiary

		Concurrently Assumed.”	
Eiko Tsujiyama	○	With regard to Dr. Eiko Tsujiyama, none of the relationship classification stated above (classification ” a” – classification “m”) applies to her. Dr. Tsujiyama’s “Important Position of Other Organizations Concurrently Assumed” stated in the Companies Act are as follows: • Professor, Faculty of Commerce, Waseda University • Outside Director of ORIX Corporation • Outside Corporate Auditor of Lawson, Inc. • Outside Corporate Auditor of NTT DoCoMo, Inc. The Company considers not only the independence against the Company, but also other various viewpoints such as “Principal Occupation” when it estimates the importance of Dr. Tsujiyama’s “Important Position of Other Organizations Concurrently Assumed.”	<Reasons for appointing as an external member of Audit & Supervisory Board and roles and functions in the Company> Dr. Tsujiyama has been appointed Audit & Supervisory Board member (external) in order to ensure objectivity and neutrality of auditing by Audit & Supervisory Board members, based on her experiences and knowledge as management executive of a medical corporation. <Status of meeting the standards for the independent auditors and reason for appointing as independent auditor> Dr. Tsujiyama maintains full independence as none of the items (1) through (5) stated below applies. Furthermore, the Company sets forth the Criteria for Independence of “External Directors.” Dr. Tsujiyama has fulfilled the Criteria in full. Hence Dr. Tsujiyama has been determined capable of sufficiently protecting the interests of the general shareholder and has been appointed independent auditor. (1) Corporate officer, etc. of a parent company or sister company; (2) A person whose main business partner is the Company, or a corporate officer, etc. thereof; a major business partner of the Company, or a corporate officer, etc. thereof; (3) A consultant, an accountant or a legal specialist receiving significant sums of money from the Company other than executive remunerations; (4) A principle shareholder of the Company; (5) A close relative of a person (excluding inconsequential persons) meeting either condition (a) or (b) below (a) person described in items (1) through (4); (b) A corporate officer of the Company or the Company’s subsidiary

[Independent Directors/*Kansayaku*]

Number of Independent Directors/*Kansayaku* Updated	6

Matters relating to Independent Directors/*Kansayaku*

The Company establishes its own rules of "Criteria for Independence of External Directors/Audit & Supervisory Board Members" (the "Criteria") and "Insignificance Criteria for Omission of Description about Relationships between the Company and the External Directors/Audit & Supervisory Board Members in the Notification/Disclosure Documents" (the "Insignificance Criteria"), which is contingent upon the Criteria. In this report, some of the descriptions about the relationships between the Company and other organizations in which external directors/Audit & Supervisory Board members concurrently assume important position are omitted according to the Insignificance Criteria.

<Criteria for Independence of External Directors/Audit & Supervisory Board Members>

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

1. He/She is not nor has been an executive person[i] of the Company or an affiliated company[ii] (collectively the "Shiseido Group");
   In the case of an Audit & Supervisory Board members (external), in addition to the above, he/she has not been a non-executive director nor accounting advisor (in the case of accounting advisor being an artificial person, a staff in charge of the duty) of the Shiseido Group.
2. He/She does not fall under any of the following items for the current fiscal year and the last nine (9) fiscal years (all these fiscal years being referred to as the "Relevant Fiscal Years"):
   1) A counterparty which has transactions principally with the Shiseido Group[iii], or its executive person (including a person having once been executive officer for the Relevant Fiscal Years. The same is applicable to Items 2) to 4) of this Clause below);
   2) A principal counterparty of the Shiseido Group[iv], or its executive person;
   3) A large shareholder who holds or has held directly or indirectly 10% or more of the voting rights of the Company in the Relevant Fiscal Years or its executive person;
   4) An executive person of a company of which the Shiseido Group holds or has held directly or indirectly 10% or more of the total voting rights in the Relevant Fiscal Years;
   5) A consultant, accounting professional or legal professional who has been paid a large amount of money or other assets[v] in addition to the External Director's remunerations in the Relevant Fiscal Years. In addition, in the event that the accounting professional or legal professional is an organization such as artificial person or association, a person who belongs to such organization (including a person who has once belonged to such organization in the Relevant Fiscal Years. The same is applicable to Items 6 and 7 below of this Clause) is included.
   6) A person/organization who received donation of a large amount of money or other assetsv from the Shiseido Group in the Relevant Fiscal Years. In addition, in the event that those who received donation from the Shiseido Group are an organization such as artificial person or association, a person who belongs to such organization is included.
   7) An accounting auditor of the Company. In addition, in the event that the accounting auditor is an organization such as artificial person or association, a person who belongs to such organization is included.
3. He/She is not a spouse of the following person, relative in second or less degree, relative living in the same place or a person with whom living costs are shared, provided, however that Item 2) is applicable only to make judgment on the independence of an Audit & Supervisory Board members (external).
   1) An important person[vi] among executive persons of the Shiseido Group;
   2) Non-executive director of a company in the Shiseido Group;

3) A person falling under any of Items 1) to 4) of Clause 2; provided, however, that with respect to these executive persons, applicable only to the important person[vi].
4) A person falling under any of Items 5) to 7) of Clause 2; provided, however, that with respect to a person belonging to the organization, applicable only to the important persons[vii].

4. Any of the following situations that could be deemed as "Cross-Assumption of Offices of Directors, etc." is not applicable:
   1) In the event that the External Director of the Company or a candidate for the External Director of the Company currently assumes the office of an executive person, external director, corporate auditor or the office equivalent thereto[viii] of a company other than the Company, in Japan or overseas (the "Subject Company"), an executive person, an external director, corporate auditor (excluding the aforesaid External Director or candidate for the External Director) or person in the office equivalent thereto of the Shiseido Group assumes director (including an external director), executive officer, corporate auditor (including external corporate auditor), executive officer or person in the position equivalent thereto[viii] of the Subject Company.
   2) In the event that the External Director of the Company or a candidate for the External Director of the Company currently assumes the office of an executive person, director, officer or the office equivalent to director or officer of an artificial person or other organization (other than a company) (the "Subject Organization"), an executive person, an external director, corporate auditor (excluding aforesaid executive officer or candidate for External Director) or person in the office equivalent thereto of the Shiseido Group assumes the office of director, officer or person in the position equivalent thereto[ix] of the Subject Organization.
5. In addition to Clauses 1 to 4, there exist no circumstances in which duties imposed on an independent External Director are reasonably deemed not to be achieved.
6. It is presently expected that any event or matter stated in Clauses 1 to 5 would not occur or exist hereafter.

Note:

i. An "affiliated company" means the affiliated company stated in Article 2, Paragraph 3, Item 22 of the Ordinance on Company Accounting.
ii. An "executive person" means an executive director, executive officer, corporate officer, staff executing business of a company divided into interest (mochibun kaisha) (in the event of the staff being a artificial person, a person to discharge duties stated in Article 598, Paragraph 1 of the Companies Act), a person executing business of artificial person or organization other than a company and an employed person (an employee, etc.) of a artificial person or organization including a company.
iii. A "counterparty which has transactions principally with the Shiseido Group" means a person/organization falling under any of the following items:
   1) The counterparty or the counter party group (a consolidated group to which the company that has direct transactions with the Shiseido Group belongs to) (collectively the "counterparty")which provides or provided products or services to the Shiseido Group and the aggregate amount of transactions between the counterparty and the Shiseido Group exceeds Yen10 million per fiscal year, and which exceeds 2% of consolidated net sales of the counterparty (or if the counterparty does not prepare consolidated financial statement, non-consolidated net sales of the counterparty) for the Relevant Fiscal Years.
   2) The counterparty group to which the Shiseido Group is or was indebted to the counterparty group and the aggregate amount of indebtedness of the Shiseido Group exceeds Yen10 million as at the end of each fiscal year, and which exceeds 2% of consolidated total assets (or if the counterparty does not prepare consolidated financial statement, non-consolidated total assets of the counterparty) of the counterparty for the Relevant Fiscal Years.
iv. A "principal counterparty of the Shiseido Group" means a person/organization falling under any of the following items:
   1) The counterparty to which the Shiseido Group provides or provided products or services and the aggregate amount of transactions between the counterparty and the Shiseido Group exceeds ¥10 million per fiscal year, and which exceeds 2% of consolidated net sales of the Shiseido Group for the Relevant Fiscal Years.
   2) The counterparty to which the Company Group has account-receivable, advance and account due (collectively "account-receivable") and the aggregate amount of the account-receivable of

the Shiseido Group exceeds Yen10 million as at the end of each fiscal year, and which exceeds 2% of consolidated total assets of the Shiseido Group as at the end of the Relevant Fiscal Years.

3) A financial institution group (to which the direct lender belongs) from which the Shiseido Group borrows or borrowed and the aggregate amount of the borrowing exceeds 2% of consolidated total assets of the Shiseido Group as at the end of the Relevant Fiscal Years.

v. A "large amount of money or other assets" means in excess of Yen 10 million per fiscal year.

vi. An "important person" from among executive persons means a director (excluding external director), an executive officer, corporate officer, and employed person in the office of senior management not lower than general manager.

vii. An "important person" from among persons "belonging to the organization" stated in 5) and 7) in Clause 2 above means an officer such as certified public accountants belonging to audit corporation or accounting firm, lawyer (including so as to call associates) belonging to law firm, director and supervisor belonging to a judicial foundation, incorporated association, incorporated school and other artificial persons (collectively "Various Artificial Person") In the event that an organization to which a person belongs is not any of audit corporation, accounting firm, law firm and Various Artificial Person, a person who is deemed objectively and reasonably important equivalent to the persons stated above in this note by the organization.

viii. An "office of an executive person, external director, corporate auditor or the position equivalent thereto" includes the positions such as "Counselor", "Advisor", etc. assumed by retired director, retired corporate auditor, retired executive officer or retired corporate officer enabling them to give advice to the Company, in addition to an executive person defined in Note ii above, non-executive director (including external director), and corporate auditor (including external corporate auditor).

ix. The "office of director or person in the position equivalent thereto" includes the positions such as "Counselor", "Advisor", etc. assumed by retired director, retired councilor or retired supervisor enabling them to give advice to the subject organization, in addition to director, councilor or supervisor.

< Insignificance Criteria for Omission of Description about Relationships between the Company and the Eternal Directors/Audit & Supervisory Board Members in the Notification/Disclosure Documents >

Shiseido Company, Limited (the "Company") establishes its own rules of " Insignificance Criteria for Omission of Description about Relationships between the Company and the Eternal Directors/Audit & Supervisory Board Members in the Notification/Disclosure Documents" (the "Insignificance Criteria") in accordance with its own rules of "Criteria for Independence of External Directors/Audit & Supervisory Board Members" as described below. This Insignificance Criteria defines monetary amount standards by which the Company deems an external director and Audit & Supervisory Board member (collectively the "External Director") or a candidate for the External Director to axiomatically have sufficient independence against the Company and it is allowed to omit detailed descriptions in the notification documents and disclosure documents (collectively the "Notification Documents".) Descriptions about the independence of the External Directors in the Notification Documents are made according to this Insignificance Criteria and, in principle, some of the descriptions about the relationships between the Company and other organizations in which External Directors concurrently assume important position to be omitted according to this Insignificance Criteria. In addition, the "Relevant Fiscal Years" in this Insignificance Criteria means "the current fiscal year and the last nine (9) fiscal years."

1. Descriptions on "A principal counterparty of the Shiseido Group, or its executive person" and "A counterparty which has transactions principally with the Shiseido Group, or its executive person "

   The Company shall omit descriptions about the transactional relationships if all of transaction amount specified in the following 1) through 5) are smaller than Yen 10 million per year in the Relevant Fiscal Years.

   1) Total amount of transactions of providing products or services from a counterparty group to the Shiseido Group in each Relevant Fiscal Years
   2) Shiseido Group's total unpaid amount to a counterparty group at the end of each fiscal year of the Relevant Fiscal Years
   3) Total amount of transactions of providing products or services from Shiseido Group to a counterparty group in each Relevant Fiscal Years

4) Shiseido Group's total amount of trade receivable to a counterparty group at the end of each fiscal year of the Relevant Fiscal Years
5) Total amount of debt loan from a financial institution group at the end of each fiscal year of the Relevant Fiscal Years

2. Descriptions on "A consultant, accounting professional or legal professional who has been paid a large amount of money or other assets in addition to the External Director's remunerations"

   The Company shall omit descriptions about a consultant, accounting professional, or legal professional who has been paid some money from Shiseido Group in addition to the External Director's remunerations if the amount of payment is smaller than Yen 10 million per year in the Relevant Fiscal Years.

3. Descriptions on "A person/organization who received donation of a large amount of money or other assets"

   The Company shall omit descriptions about a person/organization who received donation from Shiseido Group if the amount of donation is smaller than Yen 5 million per year in the Relevant Fiscal Years.

4. Descriptions on "Relatives of the External Directors"

   The Company shall omit descriptions about relatives in fourth or more degree. However, descriptions about a relative living in the same place with the External Directors or a person with whom living costs are shared with the External Directors can not be omitted.

5. Descriptions on "Cross-Assumption of Offices of Directors, etc."

   The Company shall omit descriptions about "cross-assumption of offices of directors, etc. (*)" if ten years or more have passed after severing such situations.

   * In the event that the External Directors or a candidate for the External Director currently assumes the office of an executive person, external director, corporate auditor or the office equivalent thereto of a company other than the Company, in Japan or overseas (the "Subject Company"), an executive person, an external director, corporate auditor (excluding the aforesaid External Director or candidate for the External Director) or person in the office equivalent thereto of the Shiseido Group assumes director (including an external director), executive officer, corporate auditor (including external corporate auditor), executive officer or person in the position equivalent thereto of the Subject Company.
   And also in the event that the External Director of the Company or a candidate for the External Director of the Company currently assumes the office of an executive person, director, officer or the office equivalent to director or officer of an artificial person or other organization (other than a company) (the "Subject Organization"), an executive person, an external director, corporate auditor (excluding aforesaid executive officer or candidate for External Director) or person in the office equivalent thereto of the Shiseido Group assumes the office of director, officer or person in the position equivalent thereto of the Subject Organization.

[Incentives]

Incentive Policies for Directors	Introduced Performance-linked Remuneration and Stock Options

Supplementary Explanation

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>

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.

Recipients of Stock Options	Inside Directors and others (Corporate Officers)

Supplementary Explanation Updated

The Company grants stock options to executive directors and corporate officers of the Company who don't concurrently serve as director of the Company in order to have them share risks with its shareholders and to motivate balanced management from a medium-to-long-term perspective, not just a short-term focus. In addition, the Company grants stock options to corporate officers of Shiseido Japan Co., Ltd., a wholly owned subsidiary of the Company, for the same purpose.
The numbers of allotment of the Company's stock options for each allottees are determined based on the business performance and personal evaluations for the previous fiscal year. Therefore, part of the allottees may have retired from their respective positions at the time when stock options are allotted to them. However, the stock options are allotted as remuneration for business execution while the allottees are in the position of director or corporate officer of the Company/wholly owned subsidiary of the Company.

[Director Remuneration]

Disclosure of Individual Directors' Remuneration	Selected Directors

Supplementary Explanation Updated

Total amounts paid to non-external directors, external directors, Audit & Supervisory Board members, and Audit & Supervisory Board members (external) are separately disclosed of basic fixed remuneration, bonuses and stock options.
Amounts of remunerations, etc. paid to representative directors and directors whose total amount of remunerations, etc. exceeds Yen 100 million, by type of remuneration, are individually disclosed. (as from fiscal 2009)

Amount of remunerations, etc. of Directors and Audit & Supervisory Board Members for Fiscal 2017

(millions of yen)

	Basic remuneration	Bonuses	Stock Options	Total
Directors (7 persons)	270	222	93	585
External directors (4 persons)	58	-	-	58
Audit & Supervisory Board Members (65persons)	103	-	-	103
External members (3 persons)	38	-	-	38
Total	373	222	93	688

Notes:

1. The total amount of basic remuneration and bonuses paid to directors are not more than the ceiling amount of ¥2 billion (including the ceiling amount of ¥0.2 billion for remuneration for external directors) per annum, according to the resolution of the 118th annual general meeting of shareholder (March 27, 2018). 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 amount of long-term incentive type remuneration (stock options) indicated above represents the expenses associated with the fiscal year under review 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.
3. In addition to the above payments, there are other remuneration, etc. of ¥16 million recorded for the fiscal year ended December 31, 2017 as expenses associated with stock options granted to one director of the Company, at the time the director served as corporate officer not holding the office of director.
4. 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 3).

Amounts of remunerations, etc. of representative directors and directors whose total amount of remunerations, etc. exceeds 100 million yen, by type of remuneration for Fiscal 2017

(millions of yen)

	Basic remuneration	Bonuses	Stock Options	Total
Masahiko Uotani, Representative Director	127	179	69	377
Tsunehiko Iwai, Representative Director	46	22	23	92

Notes:

1. The amount of long-term incentive type remuneration (stock options) indicated above represents the expenses associated with the fiscal year under review 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.
2. None of the two directors above will be paid remunerations other than the remunerations described above.

Policy on Determining Remuneration Amounts and Calculation Methods Updated	Established

Disclosure of Policy on Determining Remuneration Amounts and Calculation Methods

<Basic principle on determining remuneration amounts and calculation method>

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.

< Directors, Audit & Supervisory Board members and corporate officers remuneration policy aligned to the Three-Year Plan of fiscal 2018 through fiscal 2020>

(Overview)
The Company has dedicated the three years from fiscal 2018 through fiscal 2020 to pursuing new strategies aimed at accelerating growth.
Meanwhile, because the three years from fiscal 2015 through fiscal 2017 have been positioned as the period for rebuilding the Company's business foundation, the Company has accordingly designed the directors, audit & supervisory board members and corporate officers remuneration policy for the three years so that directors, audit & supervisory board members and corporate officers will be motivated to implement drastic reformation as leaders of the transformation. In addition, the Company has also established incentives for its officers to strategically resolve challenges from a long-term growth perspective where necessary, although some challenges to be resolved may require actions that could negatively affect business performance data in the short term.
Beginning in fiscal 2018, the Company will also hasten growth by creating a virtuous cycle while continuing to pursue structural reforms. This will essentially involve adhering to the business structure prevailing up through fiscal 2017, while on the other hand designing the remuneration scheme to place more focus on the notion of "pay linked to the corporate mission," which constitutes a step beyond the notion of "pay for performance" whereby remuneration paid to an officer reflects his or her accomplishments. Under the notion of "pay linked to the corporate mission," the Company evaluates the extent to which long-term strategies reflecting its management approach and Corporate Philosophy have been achieved, in addition to considering net sales, operating income, and other quantitative financial results.
Under the new remuneration policy, the Company has increased the maximum rate of the annual bonus payment, meaning that its officers are now eligible for a larger annual bonus payment than before in the event that growth achieved greatly exceeds the objectives. Also, the long-term incentive-type remuneration, another component of performance-linked compensation, now involves providing stock compensation which is equivalent in monetary value to the annual bonus in principle. As such, performance-linked compensation as a whole is now more substantially linked to performance, given that the maximum rate of the annual bonus payment has been increased.

(Basic remuneration)
The Company designs to set basic remunerations in accordance with the role grades, which is set based on size and level of responsibility that respective officers are in charge, as well as the impact to business management of the group. In addition, within a same grade, an increase of the amount is allowed within a certain range in accordance with the performance of respective directors or corporate officers in the previous fiscal year (numerical business performance and personal performance evaluation). These allow the Company to ensure well-modulated basic remuneration as well, commensurate with their achievements of respective directors, Audit & Supervisory Board members and corporate officers.
For external directors and Audit & Supervisory Board members, the Company shall not pay the basic remuneration that has a certain allowance for increase, but pay the fixed remuneration which is fixed at a certain amount only in the same manner as in the past.

(Performance-linked remuneration)
The 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 on 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.

(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. Although on the one hand it is essential that the entire management team remains aware of matters involving net income attributable to owners of parent, on the other hand it's crucial that management not let the benchmark weigh too heavily on proactive efforts particularly involving future growth-oriented investment. As such, upon the Remuneration Advisory Committee deliberation, the Company has preliminarily established certain performance standards (thresholds) as described in the table below, with the evaluation framework designed so that the Remuneration Advisory Committee will consider the possibility of lowering the percentage amount of the annual bonus payment attributable to the whole group performance component of the total annual bonus, if results fall below the thresholds. In addition, as was the case for remuneration policy up to fiscal 2017, we set the individual performance evaluation of all directors and corporate officers in order to add the level of achievement regarding 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.

(Long-term incentive stock options)
Of the performance-linked remuneration, the Company imposes terms and conditions regarding performance on stock compensation-type stock options as long-term incentive-type remuneration on two occasions when the stock acquisition rights are allotted and the exercise period of the stock acquisition rights allotted starts.
When actually allotting the stock acquisition rights after obtaining an approval for the maximum number of stock acquisition rights to be allotted at the general meeting of shareholders, the Company shall increase or decrease the number of stock acquisition rights to be granted ranging from zero to the maximum number by using the evaluation indicators for annual bonus 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.
In fiscal 2018, the Company will continue to provide performance-linked stock options under its long-term incentive-type remuneration scheme, but will also keep considering the possibility of shifting to a stock compensation approach that would be better tailored to the Company's remuneration philosophy.

Detailed descriptions of the remuneration of the directors, Audit & Supervisory Board members and corporate officers remuneration policy are shown in the Notice of Convocations of the 118th Ordinary General Meeting of Shareholders of the Company (pages 62 to 69)
http://www.shiseidogroup.com/ir/shareholder/e1806shm/pdf/shm_0000.pdf

[Supporting System for Outside Directors and/or *Kansayaku*]

<External Directors> A section in charge of secretariat of the Board of Directors, the Nomination Advisory Committee and the Remuneration Advisory Committee is formed in the Company's Legal and Governance Department. The section provides external directors with various information and assists duties of external directors to ensure smooth operation. <External Members of Audit & Supervisory Board Members> Some employees of Internal Auditing Department of the Company are positioned to assist the Audit & Supervisory Board and members of Audit & Supervisory Board.

【Those who Resign from President and Representative Director etc.】 Updated

Name etc. of SeniorAdvisor/Advisor who is a Former President and Representative Director etc.

Name	Title	Role Content	Working Pattern/Conditions (Full time/Non-Full time, With/Without Compensation, Etc.)	Resignation Date from President, Etc.	Term of Office
Shinzo Maeda	Counselor	Assume positions of public/private entities other than the Shiseido Group	- Part time - With fixed compensation according to the Company's regulation - Without any fringe benefit	June 25th, 2014	Until June 30th, 2020
Hisayuki Suekawa	Counselor	Assume positions of public/private entities other than the Shiseido Group	- Part time - With fixed compensation according to the Company's regulation - Without any fringe benefit	March 31st, 2013	Until March 31st, 2019

Total Number of Senior Advisor/Advisor who is a Former President and Representative Director, etc. Updated	2

Other Matters Updated

We abolished the counselor/adviser system by resolution of the Board of Directors Meeting held on September 29, 2017. Under the previous counselor/advisor system, the term of office had been clearly established. In this circumstance, counselors/advisors had assumed the positions of public/private entities other than the Shiseido Group on the premise that the counselors/advisors would hold their office until the expiration of the term. Therefore, the Company decided that the term of office of the counselors/advisors who had been appointed to their current title before the abolition of the system will continue until the expiration of their term of office, taking into account the time required for the selection of their successors by the public/private entities in which the counselors/advisors assume the office.

2. Matters on Functions of Business Execution, Auditing, Oversight, Nomination and Remuneration Decisions (Overview of Current Corporate Governance System)

<Status of management and business execution (including the roles and functions of the external directors)>
(Board of directors and directors)
Composed of six members including three external directors and chaired by the president & CEO, the Board of Directors is small and able to make decisions quickly. The Board of Directors meets at least once a month to discuss all significant matters.
To obtain an outside point of view and further strengthen the Board of Directors' supervisory function in regard to business execution, the Company had appointed highly independent external directors in the fiscal 2006. Now the Company has three highly independent external directors.
In addition, two out of three directors aside from the external directors has built careers outside of Shiseido, ensuring diversity among the directors.
The term of office of directors is one year.

(Corporate officers and meetings for corporate officers are involved)
Through the adoption of a corporate officer system, the Company separated the supervisory functions of the Board of Directors from the business execution functions of corporate officers. The term of office of corporate officers is one year, and the term limit of corporate officers is four years per position and six years maximum in principle. For extension of the term of office, the matter shall be referred to the Nomination Advisory Committee, which will discuss and check the necessity and appropriateness of the extension, followed by disclosure of the relevant information.
The Company sets up the Executive Committee, in which corporate officers study and discuss about important business execution from various aspects before the final decisions, and the Meetings for Development of Medium-term/Annual Plans, in which corporate officers develop and resolve business plans and brand strategies. Thereby, the Company drives delegation of power for business execution by clarifying corporate officers' responsibilities and accelerating of business execution. The President & CEO chairs these two committees. In addition to the above, corporate officers hold Decision-Making Meetings of Corporate Officers to make decisions regarding the execution of business in their respective business divisions, as well as deliberate matters to be proposed to the Board of Directors and the Executive Committee.

(Advisory committees)
To promote transparency and objectivity in management, The Company established two committees to play an advisory role to the Board of Directors:
the Nomination Advisory Committee, which evaluates candidates for directors and corporate executive officers to make report to the Board of Directors, and
the Remuneration Advisory Committee, which makes report to the Board of Directors about the remuneration system and performance evaluation of directors and corporate officers.
Both committees are chaired by external directors to maintain objectivity.
The Nomination Advisory Committee deliberates about candidates for directors and Audit & Supervisory Board members. The committee also deliberates about appointment, promotion and demotion of corporate officers. In addition, the committee determines the limits on the terms of corporate executive officers as well as the rules for their promotion or demotion and retirement in order to enhance the capabilities of top management, and manages these policies in a highly transparent and impartial manner.
The Remuneration Advisory Committee deliberates about the remuneration system for directors and corporate officers as well as evaluation of their performance.

(Evaluation working group)
In the current 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 who 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 this evaluation process and the evaluation approach.

<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.

<Ratio of external directors at the board of directors>
After extensive discussions at the Board of Directors were held with regard to the corporate governance of the Company during fiscal 2015 and also assessment of the effectiveness of the Board of Directors was performed, and in light of the decision that the Company will adopt the "monitoring board-type corporate governance", the Company established its view on the ratio of external directors at the Board of Directors.
In the Company's articles of incorporation, the maximum number of board members is set at 12. Respecting this upper limit and in consideration of the Company's business portfolio and scale, an optimum number of directors is elected such that they are able to appropriately supervise the management.
For external directors, the number is set at three or above to allow such members a certain degree of influence within the board. In addition, the Company has established the target of electing half or more of its directors from outside.
For selecting external directors and Audit & Supervisory Board members, high priority is given to independence. Our basic principle is that candidates of external directors and Audit & Supervisory Board members are required to meet the Company's independence criteria as well as possess high independence in mental attitude.

<Actual composition of directors and Audit & Supervisory Board members>
Of six directors who are currently in office as of March 31, 2018, three directors (50.0%) are highly independent external directors who meet the criteria for independence of the external directors and Audit & Supervisory Board members of the Company. Other three directors who serve concurrently as corporate officers include two with career background as a management outside the Shiseido Group, and one with career background in the Shiseido Group. The directors include two females (33.3%).
Of five Audit & Supervisory Board members, three members (60.0%) are highly independent external Audit & Supervisory Board members and two are full-time members with career background in the Shiseido Group. The members include two female (40.0%).
Of the total eleven directors and Audit & Supervisory Board members, six members (54.5%) are highly independent external directors or external Audit & Supervisory Board members, and four members (36.4%) are female.

<Status of audits>
(Internal audit)

The Internal Auditing Department, which reports directly to the President, monitors the appropriateness of business execution, as well as effectiveness of internal controls throughout the Group, and reports the audit results to the Board of Directors and the Audit & Supervisory Board.
Furthermore, auditing for specialized areas, i.e. security, environment, information systems, are mainly conducted by the relevant departments.

(Audit & Supervisory Board members' audits and initiatives toward strengthening their functions)
Shiseido's Audit & Supervisory Board consists of two standing members and three highly independent external members. They monitor the legality and appropriateness of directors' performance by attending Board of Directors meetings and other important meetings. Additionally, three Audit & Supervisory Board member (external) offer advices, proposals and views from an independent perspective, based on their abundant experience and insight in their respective fields.
Representative directors and Audit & Supervisory Board members meet regularly to exchange opinions on actions that will resolve corporate governance issues. The Company maintains a framework to ensure that Audit & Supervisory Board members discharge their duties effectively, such as the assignment of staff dedicated to assisting them.

(Accounting audits)
The Company's accounting audit is conducted by KPMG AZSA LLC, an accounting auditor pursuant to the Companies Act and the Financial Instruments and Exchange Act
The names of certified public accountants that have conducted auditing and the name of auditing firm are as follows:

Name of auditing firm	Name of certified public accountant conducting audit operations	Continuous years of service
KPMG AZSA LLC	Koichi Kobori, Designated Limited Liability Partner	2 years
The same as the above	Ryoji Fujii, Designated Limited Liability Partner	5 years

Assistants for the accounting audits of the Company comprise certified public accountants and junior accountants.

(Mutual cooperation among internal audits, Audit & Supervisory Board members' audits, and accounting audits)
The Company, in order to improve the effectiveness and efficiency of the so-called three-pillar audit system (internal audits, Audit & Supervisory Board members' audits, and accounting audits), has been making efforts to enhance the mutual cooperation among the parties concerned by such means as arranging regular liaison meetings to report on audit plans and audit results as well as to conduct exchanges of opinions.

<Systems and schemes unique to Shiseido (Compliance Committee)>

The Compliance Committee, reporting directly to the President and CEO, is established. The committee comprises members elected group-wide. The Committee reports important issues figured out through the Committee's activities to the Board of Directors along with its results of activities.
The Compliance Committee establishes systems to promote the Shiseido Group's compliance and risk management. In addition, the Committee develops and executes the Shiseido Group's sustainability strategy aiming for the Shiseido Group's coexistence and co-prosperity with society and the Earth. These missions of the Committee are directly linked to business execution.

3. Reasons for Adoption of Current Corporate Governance System

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

III. Implementation of Measures for Shareholders and Other Stakeholders

1. Measures to Vitalize the General Shareholder Meetings and Smooth Exercise of Voting Rights

Updated

	Supplementary Explanations
Early Notification of General Shareholder Meeting	Shiseido makes every effort to distribute a convocation notice about 3 weeks prior to a general meeting of shareholders. For the 118th Ordinary General Meeting of Shareholders, the convocation of notice was distributed on March 9, 2018, 18 days prior to the Meeting. The Company disclosed the notice of convocations on its website before the date of mailing in light of earliest possible information service (Japanese: on February 28, English translation: on March 5.)
Scheduling AGMs Avoiding the Peak Day	In accordance with the change of the fiscal year-end of the Company, we held the 118th Ordinary General Meeting of Shareholders on March 27, 2018. The date is 2 days (2 business days) prior to the most concentrated date for AGMs of the Japanese companies whose fiscal year-end is December 31.
Allowing Electronic Exercise of Voting Rights	Since the 103rd Ordinary General Meeting of Shareholders in 2003, the Company has introduced the measure of exercising voting rights via website.
Participation in Electronic Voting Platform	Since the 106th Ordinary General Meeting of Shareholders in 2006, the Company has taken part in the Electronic Voting Platform operated and managed by ICJ, Inc.
Providing Convocation Notice in English	An English translation of the convocation of notice is prepared, distributed to foreign shareholders to the maximum extent, and posted on the Tokyo Stock Exchange's website as well as the Company's website.
Other	Starting from June 2008, the Company started disclosing the results of the exercise of voting rights. Starting from 2010, the Company disclosed the result of the exercise of voting rights on the Tokyo Stock Exchange's website, the Company's website, and the extraordinary reports through EDINET of the Financial Services Agency of Japan. In addition, as from fiscal 2015, the Company posts videos of the business report including a presentation by the chairman on the Company's website. The movies are available in Japanese and English language. http://www.shiseidogroup.com/ir/account/shareholder/

	The ordinary general meeting of shareholders is held using environmental friendly materials. Environmental friendly inks and papers are used for printed materials sent to shareholders, such as Notice of Convocation and Notice of Resolution, in order to contribute to protect the earth from global warming. The Company also uses recycled PET material for receipt number card distributed to attendees.

2. IR Activities

	Supplementary Explanations
Preparation and Publication of Disclosure Policy	Established the Disclosure Policy, consisting of "Basic Policy on Information Disclosure," "Standards for Information Disclosure," "Method of Information Disclosure," "Quiet Periods," and "Forward-Looking Statements" in 2006. The Disclosure Policy was partially amended in order to include provisions concerning recognition of material information in January, 2018, and the amended policy is disclosed on the website of the Company. http://www.shiseidogroup.com/ir/disclosure/policy/
Regular Investor Briefings for Individual Investors	Hold presentation meetings presented by CEO or other corporate officers, and these presentations are distributed via the Internet. In addition, the Company started the "Individual Shareholders Meeting", a regular meeting for exchanging opinions concerning shareholder relations of the Company with its individual shareholders (1st round: held in Osaka on February 9,2012, 2nd round: held in Nagoya on September 7, 2012, 3rd round: held in Fukuoka on February 8,2013, 4th round: held in Kobe on September 6,2013, 5th round: held in Saitama on February 6, 2014, 6th round: held in Nagoya on September 12, 2014, 7th round: held in Sapporo on February 20, 2015, 8th round: held in Yokohama on September 29, 2015, 9th round: held in Sendai on June 24, 2016) In fiscal 2017, we renewed our event to the Company Facilities Tour in order to further deepen our understanding of the Company. On June 20th, 2017, we held the first tour at the Kakegawa Factory and the Corporate Museum. The report of this event is posted on our corporate website, so that many shareholders can learn about our position, history, and culture of manufacturing.
Regular Investor Briefings for Analysts and Institutional Investors	Hold meetings twice a year when the Company announces about financial statements of full-year and the second Quarter.
Regular Investor Briefings for Overseas Investors	Hold meetings individually mainly in countries in North America, Europe and Asia.
Posting of IR Materials on Website	The following statutory and non-statutory reports and materials are posted on the Company's website: Notice of convocation of ordinary general meeting of shareholders, annual security reports (quarterly reports), timely disclosure materials, declaration for timely disclosure, references at financial result briefing, consolidated financial results for quarter, annual report and business report. http://www.shiseidogroup.com/ir/library/ In addition, we post Japanese and English version of movies of 2Q and 4Q financial results announcement meeting. Movies of financial results presentation and QA sessions are posted. http://www.shiseidogroup.com/ir/library/acc/

Establishment of Department and/or Manager in Charge of IR	Department in charge: Investor Relations Department Corporate Officer etc. in charge: Norio Tadakawa, Corporate Executive Officer, CFO Person in charge to contact: Harumoto Kitagawa, Department Director of Investor Relations Department
Other	Hold joint-meeting with and individually calling on domestic and foreign investors, in series, in addition to Financial Results Briefings (twice a year.)

3. Measures to Ensure Due Respect for Stakeholders

	Supplementary Explanations
Stipulation of Internal Rules for Respecting the Position of Stakeholders	Towards the realization of the Shiseido Group Corporate Philosophy "Our Mission, Values and Way", the Company established "Our Mission," which sets out the raison d'être, that is core to the Group. "Our Values" defines the value that must be held and share to realize "Our Mission." In addition, the Company established "Our Way" and "Shiseido Group Standards of Business Conduct and Ethics." "Our Way" defines what corporate actions should be taken in relation to stakeholders (customers, business partners, employees, shareholders, and society and the Earth) and sets out not only abiding by the laws of each country and region, internal rules and regulations of the Shiseido Group companies, but also the action standards for business conducts with highest ethical standards.
Implementation of Environmental Activities, CSR Activities etc.	The Shiseido Group's corporate social responsibility (CSR) activities follow the basic concept of "Our Way", which denotes action standards that each and every employee should take toward stakeholders based on the Shiseido Group corporate philosophy "Our Mission, Values and Way." The Company offers information in its Annual report and the form of CSR reports as part of its effort to inform stakeholders of its social responsibility. In the corporate website, the Sustainability pages (http://www.shiseidogroup.com/sustainability/) have been edited according to the following policies; - We introduce each activity according to the 7 core subjects of ISO26000 (Social Responsibility). - We have simplified the contents of reports on each page to make them easier to read. - We have also focused on overseas activities in order to enhance the Group's reports. - We disclose social responsibility/human resources result reports in lists. - Target period for the information included in this website is mainly for Fiscal 2016 (from January 1, 2016 to December 31, 2016). However, part of the information may be from prior to the said period or more recent than the period. - We have edited the website by using the United Nations Global Compact, Sustainability Reporting Guidelines G4 of GRI (Global Reporting Initiative), and ISO26000 (Social Responsibility) for reference. - The scope includes Shiseido Co. Ltd. and 96 Shiseido Group companies (subsidiaries) as of December 31, 2016. Notes have been added to data outside of the above scope.
Other	< Diversity in employees > Employees, who work for the Shiseido Group in various countries and regions worldwide, have diverse attributes, including nationality, gender, age,

	employment status and developmental challenges, as well as values and viewpoints, and we are promoting diversity on a global level. Since 90 percent of the Shiseido Group's customers are women, we focus on providing new products and services based on our understandings of women's values and current lifestyles. Our female employees, who account for approximately 80 percent of all the employees, must therefore play a central role in management and business activities. 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. In 2018, the ratio declined due to structural changes in the organization; however, the Company will continue to provide further support for the advancement of women in the workplace, aiming to increase the ratio to 40% by 2020. Specific efforts regarding gender equality, including support measures for the balancing of work and child-raising/at-home care of elderly family members, are described on our corporate website. http://www.shiseidogroup.com/sustainability/labor/diversity.html http://www.shiseidogroup.com/sustainability/labor/working.html

IV. Matters Related to the Internal Control System

1. Basic Views on Internal Control System and the Progress of System Development

The Company's Basic Policy regarding Internal Control Systems as of December 31, 2015 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," directly reporting to the President & CEO, shall be responsible for improving the quality of the Company by enhancing legitimate and fair corporate activities of the group, and risk management. The committee shall propose and report the plans and activities to the Board of Directors.

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

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

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

The results of audit shall be reported to directors and Audit & Supervisory Board members.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

2. Basic Views on Eliminating Anti-Social Forces

In the "Our Way," the Company has 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 Risk Management Department for the purpose of intensively collecting information and at the same time the Manual on how to cope with such power is revised on the intranet. Consulting with the local police offices for cooperation, the Company is a member of the "Conference on how to cope with particular violence" so that it strengths to collect outside information and the cooperation with outside organizations.

V. Other

1. Adoption of Anti-Takeover Measures

Adoption of Anti-Takeover Measures	Not Adopted

Supplementary Explanation

None.

2. Other Matters Concerning to Corporate Governance System

The internal system for ensuring the timely disclosure of our corporate information is described below.

To put into practice what we call Our Mission "We cultivate relationships with people, We appreciate genuine, meaningful values, We inspire a life of beauty and culture," it sets out our raison d'être that is core to the Shiseido Group, the Company defines the values that must be held and shared by each and every employee of the Shiseido Group, which we call Our Values (*1), and also has a code of conduct in relation to stakeholders of all types (customers, business partners, shareholders, employees, and society and the Earth), which we call Our way. (*2)
Our way contains, under the heading "Toward Shareholders," our declaration "We strive to continuously enhance the Shiseido Group's corporate value by making full use of its tangible, intangible, financial and other assets", "We comply with rules concerning corporate governance and internal controls, and follow proper accounting procedures" and "We place importance on dialogues with shareholders and investors, and strive to earn their trust" which serves as the basis of our corporate actions intended to gain trust from our valued shareholders and investors.

We also have the "Shiseido Disclosure Policy," (*3) which we established as a policy on the disclosure of management information to investors, etc.

Thus, everyone in the Shiseido Group is working sincerely on disclosing, in a timely and appropriate manner, facts that have a material impact on investment decision-making by investors and financial information.

Specifically, we set in place the following structures to treat material facts that have an impact on decision-making by investors, for facts of decisions made and financial information and for facts of actual events, respectively:

1. Facts of Decisions Made, Facts of Actual Events (excluding incidents, accidents and disasters) and Financial Information
In order to understand and identify what kinds of fact fall under the category of material fact, each place of business and each department of the Shiseido Group has put together a list of material facts under internal rules that reflect laws and regulations and listing rules and makes a judgment on a case-by-case basis whether or not a certain fact is a material fact.
In addition, when an applicable case is brought to the Board of Directors or Executive Committee, etc. for approval, the Investor Relations Department, a section responsible for the Tokyo Stock Exchange, checks whether or not it falls under the category of material fact in accordance with the Timely Disclosure Rules of

the Tokyo Stock Exchange, and the Corporate Strategy Department and Legal and Governance Department manages material facts.
On top of this framework for the clear representation of material facts, we have other frameworks for the timely disclosure in an appropriate fashion: the "Disclosure Meeting," which is held on a regular basis, and an "Examination Team," which is to be set up flexibly according to the specifics of the material fact. Its work involves not only the examination of the information subject to disclosure, but also the preparation and confirmation of the documents subject to disclosure.
It is after all those frameworks are drawn on that the Board of Directors or Executive Committee approves a case and decides to take an information disclosure action, immediately after which the information is disclosed in an appropriate manner through the Tokyo Stock Exchange.

2. The Company's System for Information Disclosure of Facts of Actual Events Such as Incidents, Accidents and Disasters
In preparation for addressing abrupt events, we have developed a framework under which the "Compliance Committee" gathers related departments to take emergency actions and ensure prompt disclosure actions.
Specifically, an "Emergency Conference" or "Ad Hoc Committee" will be organized in accordance with the Emergency Procedures Manual, which has been developed as internal rules. The level of risk involved is determined there and, depending on the level, an organ responsible for addressing it will be set up. For those of which level of risk falls under the category of material fact, an Emergency Task Force will be established in an attempt to take quick and appropriate disclosure actions.

For any business execution by each place of business and each department, the Internal Auditing Department strives to ensure and improve the fairness and transparency of our corporate management by performing stringent internal audits.

(*1)
Our Values

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

(*2)
Our Way

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

[With Consumers]
1. We consistently strive to research, develop, manufacture and sell safe and excellent products and services that deliver true satisfaction from the standpoint of consumers.
 1) We always place the highest priority on quality and safety to ensure the confidence of consumers. Moreover, we comply with our own stringent internal standards in addition to external regulations, and carry out safety assessments.
 2) We provide information that consumers need in a timely and appropriate manner. Furthermore, we clearly and accurately present and carefully explain information that consumers need when selecting products and services.
 3) We produce ethical, creative and appealing advertising that wins the support of consumers and helps them in selecting products and services.

2. We sincerely strive to enhance satisfaction and trust at all points of contact with consumers.
 1) We always treat consumers with a sense of appreciation and the spirit of OMOTENASHI.
 2) We handle consumer complaints sincerely and promptly.
 3) We take consumer feedback seriously, and use it to improve and develop products and services.

3. We continually strive to increase the value of all of the Shiseido Group's brands.
1) We earn trust and increase the value of the Shiseido Group's brands by thinking together with consumers about how we can help them achieve beauty and well-being. We also strive to increase brand value at stores and other points of consumer contact.
2) We manage intellectual property, which increases the value of the Shiseido Group's brands, to prevent infringement. We also respect the intellectual property rights of others.

[With Business Partners]
1. We select business partners properly, and engage in fair, transparent and free competition and appropriate business transactions.
1) We choose our clients, suppliers, outsourcing vendors and other business partners on the basis of their efforts to respect human rights, comply with laws, protect the environment and address social issues, as well as considerations such as quality and price.
2) We do not engage in unfair price fixing, collusion, dumping or any other actions that hinder free competition.

2. We do not provide or accept gifts or entertainment that may cause suspicion regarding our fairness.
1) We do not give or accept money or gifts in the course of our work with our business partners. Exceptions are seasonal and courtesy gifts given as a matter of custom, provided that such gifts are within socially acceptable limits.
2) We also keep meals and entertainment with our business partners within socially acceptable limits only.

3. We respect all of our business partners who share our aims, and work together with them toward sustained growth.
1) We maintain equitable relationships with our business partners, and do not apply coercive pressure.
2) We share our stance regarding fulfillment of social responsibility, including respect for human rights, compliance with laws and protection of the environment, with our business partners and encourage them to take their own voluntary initiatives.
3) We cooperate with our business partners in working to enhance the value of the Shiseido Group's brands.

[With Employees]
1. We respect the character and individuality of everyone in the work place, in all their diversity, and strive to develop and grow together.
1) We never engage in or tolerate discrimination on any basis including, but not limited to, race, color, gender, age, language, property, nationality or national origin, religion, ethnic or social origin, political or other opinion, disability, health status and sexual orientation, nor do we engage in or tolerate moral harassment, including sexual harassment and abuse of power.
2) We work together with our co-workers to fulfill our potential in our jobs.
3) We strive to maintain a dialogue with our co-workers, and are committed to their growth as well as our own.
4) We strive to conduct fair evaluations.

2. We work conscientiously and maintain a clear distinction between professional and private matters.
1) We properly manage confidential and personal information to prevent it from being leaked or lost, and do not use such information improperly.
2) We do not engage in businesses that compete with the Shiseido Group's products or services, or in any other actions that could negatively affect the Shiseido Group's business operations.
3) We do not use our authority or position to obtain personal entertainment or goods, and do not solicit cooperation in personal activities or provide favors to third parties.

3. We strive to create a safe, healthy work environment and enhance employees' comfort and sense of fulfillment.
1) We seek to make work environments safe, clean and healthy.
2) We strive to maintain and manage our physical and mental health, and to maintain an appropriate work/life balance.

[With Shareholders]

1. We strive to continuously enhance the Shiseido Group's corporate value by making full use of its tangible, intangible, financial and other assets.
 1) We manage assets properly, and use them appropriately and wisely for business purposes and contribution to society.
 2) We prudently assess investments and loans, and follow proper procedures when undertaking them.
 3) We comprehensively assess business risks and take proactive measures to preclude them. In the event of a crisis, we respond quickly to minimize loss, and work to prevent a recurrence.

2. We comply with rules concerning corporate governance and internal controls, and follow proper accounting procedures.
 1) We conduct accurate financial and tax accounting to ensure credibility.
 2) We maintain strong internal and external audit functions to conduct sound corporate management.
 3) We properly handle information that could affect our share price, and never engage in unfair transactions such as insider trading.

3. We place importance on dialogues with shareholders and investors, and strive to earn their trust.
 1) We deal with all shareholders and investors impartially and disclose accurate management information actively and promptly. We also build good, trusting relationships with shareholders and investors by incorporating their views in our corporate management.
 2) We properly conduct the general meeting of shareholders, the highest decision-making body of a company, to fulfill our accountability to shareholders.

[With Society and the Earth]
1. We abide by the laws of each country and region in which we operate, and maintain sound ethical behavior as well as respect human rights.
 1) We abide by the laws and respect the history, culture, customs and other aspects of each country and region in which we operate.
 2) We respect international laws including treaties. We never engage in human rights violations such as child labor or forced labor.
 3) 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.
 4) We strictly maintain fairness and a high level of transparency in our relationships with national and local government entities and officials, political parties and politicians.

2. We promote environmental initiatives in line with our own stringent standards, and consider biodiversity as we aim for a sustainable society in which humanity and the Earth coexist beautifully.
 1) We strive to mitigate climate change through efforts such as reducing emissions of CO2 and other greenhouse gases (GHG).We also manage chemical substances properly to prevent air, water and soil pollution.
 2) We strive to minimize waste in our business processes and in use by consumers, with emphasis on the 3Rs: reduce, reuse and recycle.
 3) We work to develop new products and services that bring out the beauty of consumers and are also eco-friendly.
 4) We proactively develop new technologies to balance environmental initiatives with our business activities.

3. We engage in a broad dialogue with society and strive to cooperate in solving social challenges.
 1) We strive to meet the expectations of global society through various activities, such as using the power of cosmetics to lift people's spirits and improve their quality of life, furthering the advancement of women, promoting the arts and culture, and conducting environmental activities.
 2) We work to deepen our interaction with communities where our affiliates are located and contribute to their development, thereby fulfilling our responsibility as a good corporate citizen.

(*3)
Shiseido Disclosure Policy

I. Basic Policy on Information Disclosure

Shiseido fully recognizes that the timely and appropriate disclosure of corporate information to investors forms the basis of a sound securities market. We will make constant efforts to improve our internal systems to ensure the prompt, accurate and fair disclosure of corporate information from an investor's viewpoint, and will focus on the timely and appropriate disclosure of corporate information to investors.

Through this timely and appropriate disclosure, we will endeavor to increase shareholder value by building favorable relationships with the capital market and incorporating market valuations in feedback to the management of the company.

II. Standards for Information Disclosure

1. Timely Disclosure of Material Information

We will disclose information in accordance with the Financial Instruments and Exchange Act, other legislation and the rules on timely disclosure as defined by the Tokyo Stock Exchange, on which Shiseido is listed. Additionally, material information will be determined by the information management officer (corporate officer in charge of disclosure) upon consultation with relevant departments within the company according to the contents of the information.

2. Voluntary Disclosure

Any information not required by the above rules on timely disclosure will be disclosed by us in light of timeliness and fairness if we consider it useful for investment decisions.

III. Method of Information Disclosure

The disclosure of the material information prescribed in the rules for timely disclosure and the voluntary disclosure of other useful information not required by the rules will be made through TDnet, a timely disclosure system provided by the Tokyo Stock Exchange. Information disclosed on TDnet is also disclosed promptly on the Shiseido website.

IV. Handling of Nonpublic Information and Response to Rumors

To avoid selective disclosure of nonpublic and voluntarily disclosed information to specific investors, we will manage information properly in accordance with internal rules for internal stakeholders involved with such information. In addition, when we recognize that certain rumors about the company are circulating that can significantly affect the capital market, we will disclose information promptly through channels such as “TDnet.”

V. Quiet Periods

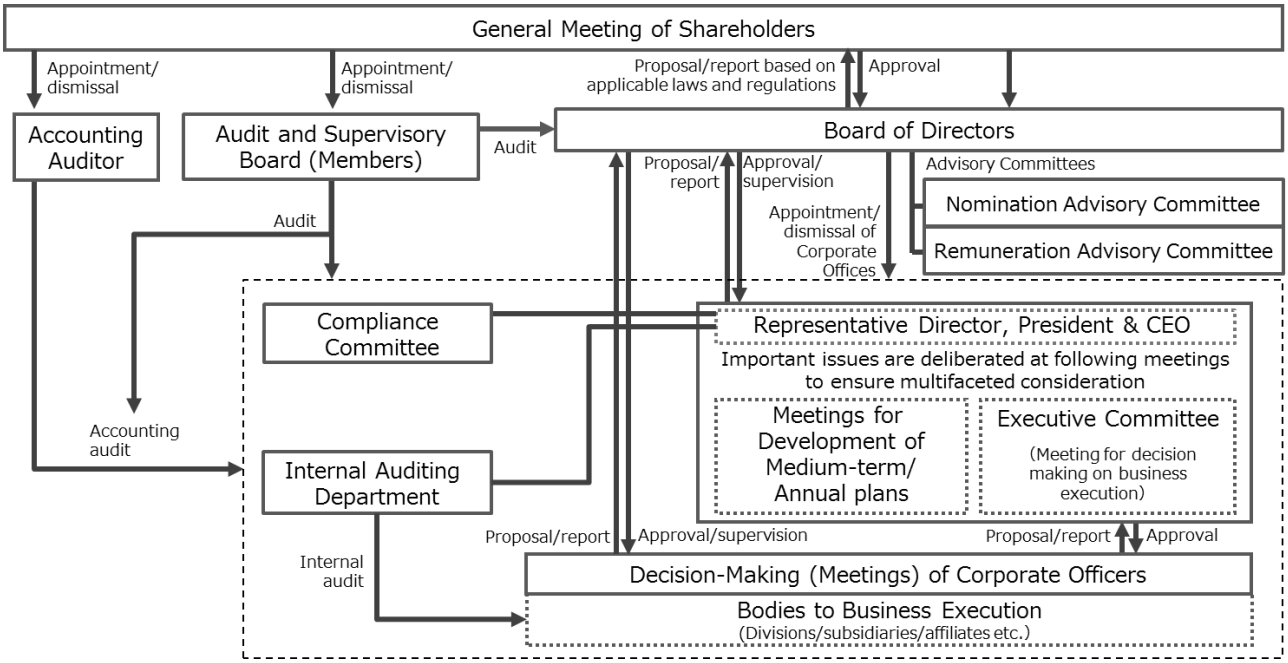
To prevent leaks of financial results before the announcement and to assure fairness, Shiseido observes a quiet period before the announcement of business results. The quiet period is from the day after the closing date※ to the date on which earnings are announced each quarter. During the quiet period, we do not answer inquiries or make any comments on business results. Should it prove necessary to make timely disclosure during the quiet period, Shiseido will do so under the rules on timely disclosure.

*The closing date of the fiscal year was March 31 but is December 31 from fiscal 2015.

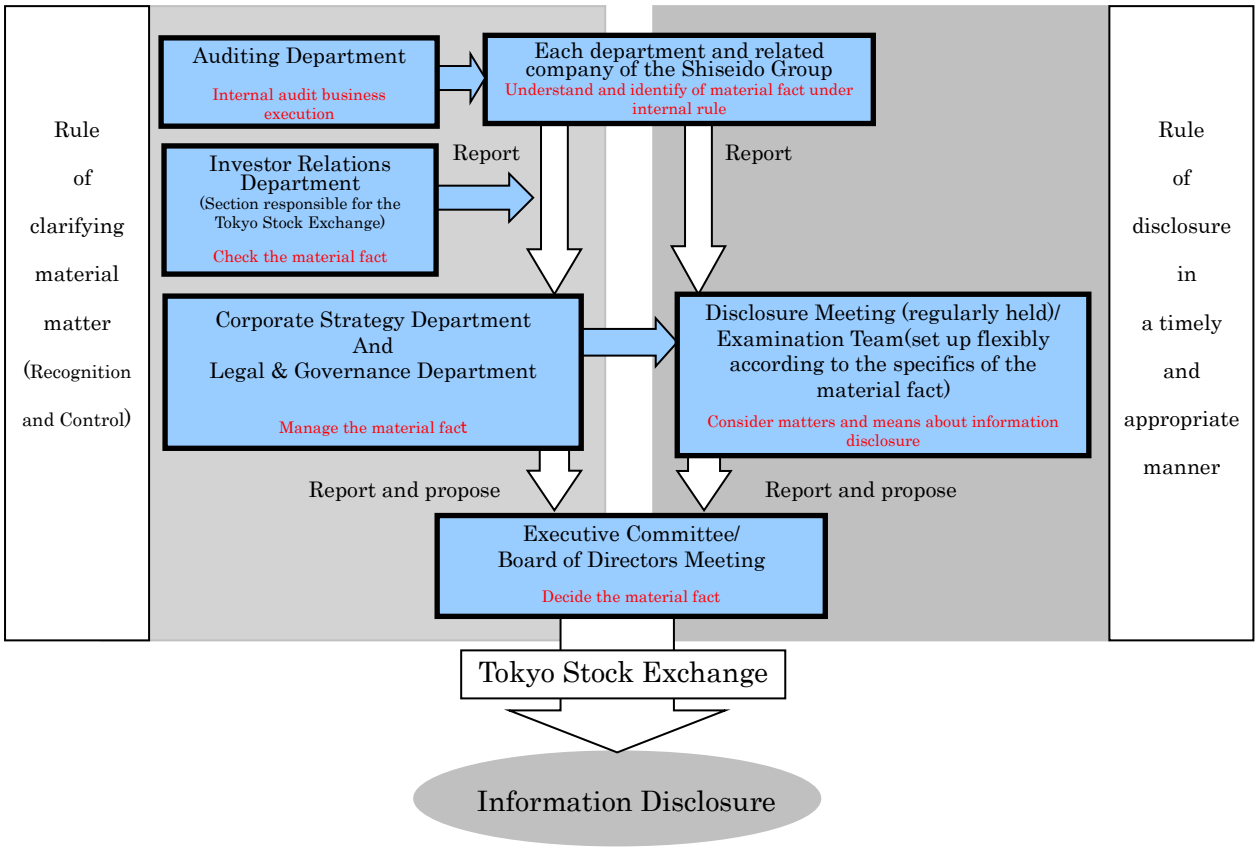
VI. Forward-Looking Statements

Statements of information disclosed by Shiseido that are not historic facts are forward-looking statements that reflect management's views and assumptions at the time of the announcement and management targets based on its plans. These forward-looking statements may involve risks and other uncertain factors, and the actual business results and performance may differ materially from the projections contained in these forward-looking statements.

<The Company's Corporate Governance Framework>



<The Company's System for Information Disclosure of Facts of Decisions Made, Facts of Actual Events (excluding incidents, accidents and disasters) and Financial Information>



<The Company's System for Information Disclosure of Facts of Actual Events Such as Incidents, Accidents and Disasters>

