SHISEIDO

Notice of Convocation

The 119th Ordinary General Meeting of Shareholders

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

SHISEIDO

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SHISEIDO

Securities Code: 4911
March 6, 2019

Notice of Convocation
The 119th Ordinary General Meeting of Shareholders

Dear Shareholders:

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

You are cordially invited to attend the 119th ordinary general meeting of shareholders of Shiseido Company, Limited (the "Company"). The meeting will be held as described on page 4.

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

Yours very truly,

Shiseido Company, Limited



Masahiko Uotani

Representative Director,
President and CEO

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

(VOTING PROCEDURE FOR REGISTERED SHAREHOLDERS IN JAPAN)[1]

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

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

SHISEIDO

PARTICULARS

Date and Time of the Meeting:

Tuesday, March 26, 2019 at **10:00 a.m.**

Place of the Meeting:

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

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

Matters to Be Dealt with at the Meeting:

Matters for Reporting:

Report on the business report, the consolidated financial statements and non-consolidated financial statements, and the results on the audits of consolidated financial statements by the accounting auditor and the Audit & Supervisory Board for the fiscal year ended December 31, 2018 (January 1, 2018 to December 31, 2018).

Matters for Resolution:

First Item of Business:	Dividends of Retained Earnings
Second Item of Business:	Election of Six (6) Directors
Third Item of Business:	Election of Two (2) Audit & Supervisory Board Members
Fourth Item of Business:	Introduction of Performance-Linked Stock Compensation as Long-Term Incentive-Type Remuneration (LTI) to Directors

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

Matters Related to Exercise of Voting Rights:

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

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

   Moreover, in the event one and the same shareholder exercises voting rights via website several times, the last exercise of voting rights via website shall be considered valid.

2. Requirement for exercise of voting rights through proxy

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

SHISEIDO

Business Report

(Fiscal Year from January 1, 2018 to December 31, 2018)

1. Matters Concerning the Shiseido Group

1.1 Business Overview

(1) Progress and Results

1) Overview

■ Progress and Results in the Fiscal Year Ended December 2018

In the fiscal year ended December 31, 2018, economic conditions in Japan continued along a path of moderate recovery. This included signs of a positive turnaround in consumer spending underpinned by improvement in employment and income gains. The domestic cosmetics market was firm, thanks to an ongoing overall trend of recovery and inbound demand supported by the continued increase in overseas tourists to Japan, but it was affected by typhoons and earthquakes from summer through fall. Meanwhile, in overseas cosmetics markets, growth in Europe remained weak with varied performance from country to country. While growth slowed in the Americas, China and the rest of Asia continued to expand steadily.

In the fiscal year ended December 31, 2015, the Shiseido Group (hereinafter "the Group") launched its medium-to-long-term strategy VISION 2020 in a bid to ensure that it remains vital for the next 100 years. In order to "Be a Global Winner with Our Heritage," we are shifting all of our activities toward a consumer-oriented focus and working to globally enhance our brand value.

The period is the first fiscal year in the final three-year period that represents Phase 2 of VISION 2020, and we have implemented a new strategy to accelerate growth. We worked on digitalization, developing new businesses, and generating new value through innovation as we continued substantial marketing investment focused on prestige brands. Cross-border marketing was implemented strategically in all regions in Asia, mainly to Chinese consumers, treating Japan, China, and Travel Retail (airport duty-free stores, and other such channels) as a single market. We also actively invested in human resources out of recognition that our human resources, which create all value, constitute the source of our growth.

As a result, net sales, operating profit, ordinary profit, and net profit attributable to owners of parent all reached record highs in the fiscal year. Net sales increased 8.8% year on year on a local currency basis. The prestige brands in which the Company has increased strategic investment drove overall results. This represents organic growth of 14% year on year excluding the impact of the sale of Zotos International, Inc. (hereafter "Zotos") and other factors in the previous fiscal year. When converted into Japanese yen, consolidated net sales reached ¥1,094.8 billion, 8.9% higher than the previous fiscal year.

Operating profit rose 34.7% year on year to ¥108.4 billion. This was mainly due to an increase in the operating margin accompanying the growth in sales and improvement in the cost structure due to strong performance of highly profitable prestige brands, among other factors.

Net profit attributable to owners of parent surged to ¥61.4 billion, an increase of 169.9% year on year. An extraordinary loss was recognized last fiscal year for an impairment loss on intangible assets and other assets of Bare Escentuals, Inc. in the U.S.

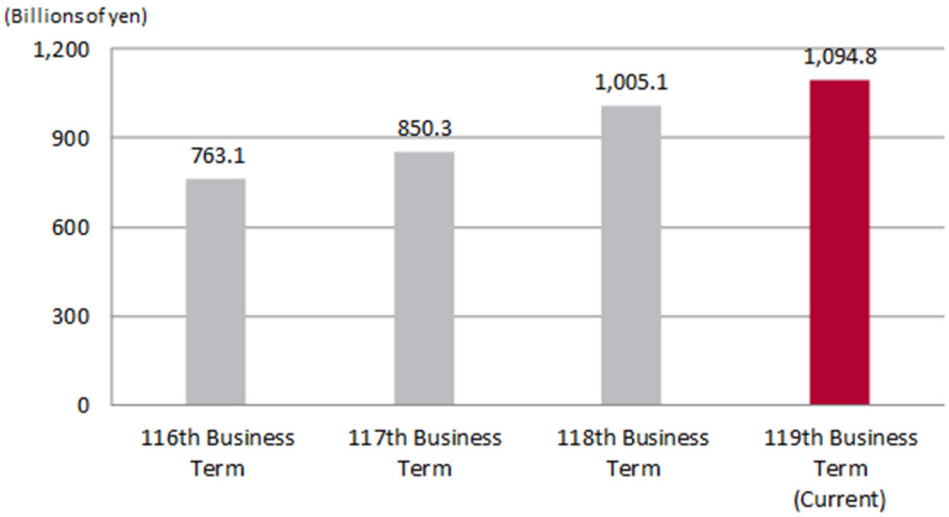
After achieving our VISION 2020 goal of more than ¥1 trillion in net sales last fiscal year, three years ahead of plan, this fiscal year we achieved our goal of more than ¥100 billion in operating profit two years early.

For the fiscal year, the consolidated operating profit margin was 9.9%. Consolidated ROE (return on equity) was 14.1%, and consolidated ROIC (return on invested capital) was 13.1%. The major foreign currency exchange rates applicable to income and expense accounting line items in the Company's financial statements are US$1: ¥110.4, €1: ¥130.4, and CNY1: ¥16.7 for the fiscal year.

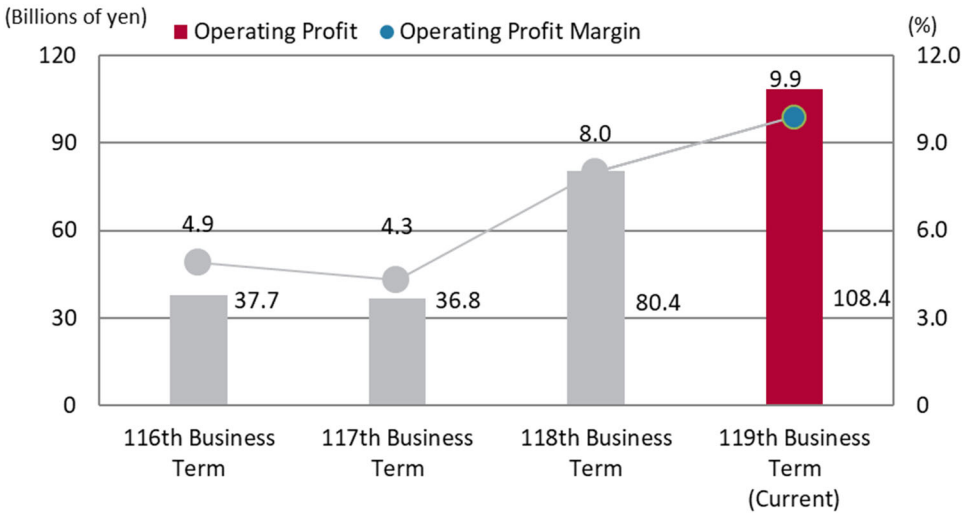
■ Consolidated Results

Net Sales

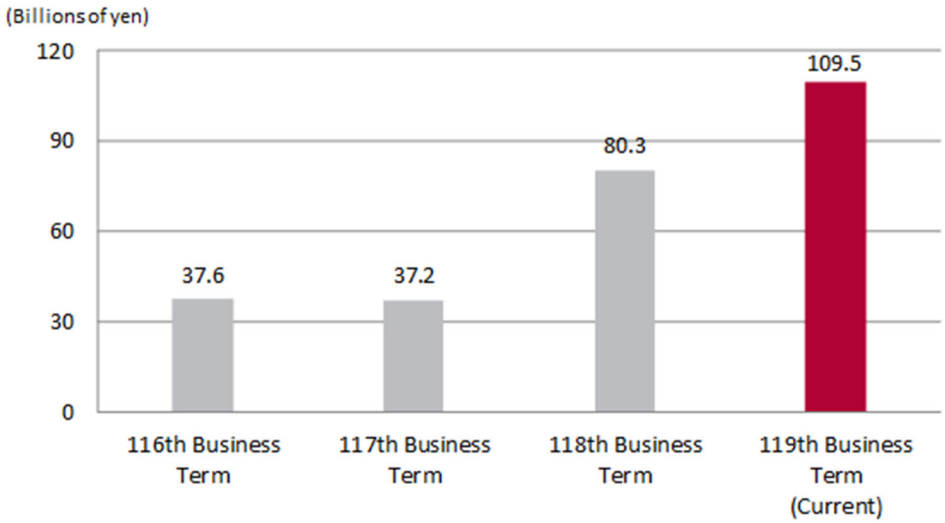
Fiscal 2018: **¥1,094.8 billion**
Year-on-year change: +8.9%
(Local currency basis: +8.8%)
Organic growth rate: +14%



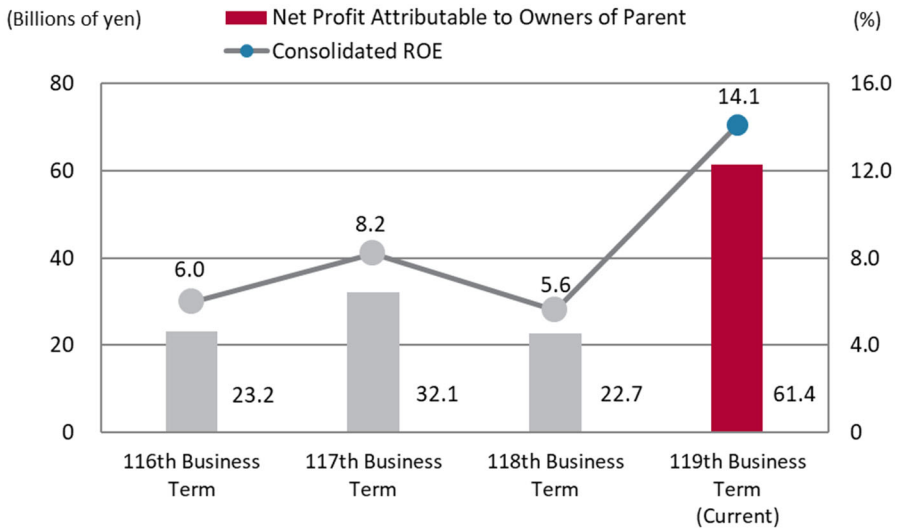
Operating Profit	Operating Profit Margin
Fiscal 2018: **¥108.4 billion** Year-on-year change: +34.7%	Fiscal 2018: **9.9%** Year-on-year change: +1.9 points



Ordinary Profit
Fiscal 2018: **¥109.5 billion** Year-on-year change: +36.3%

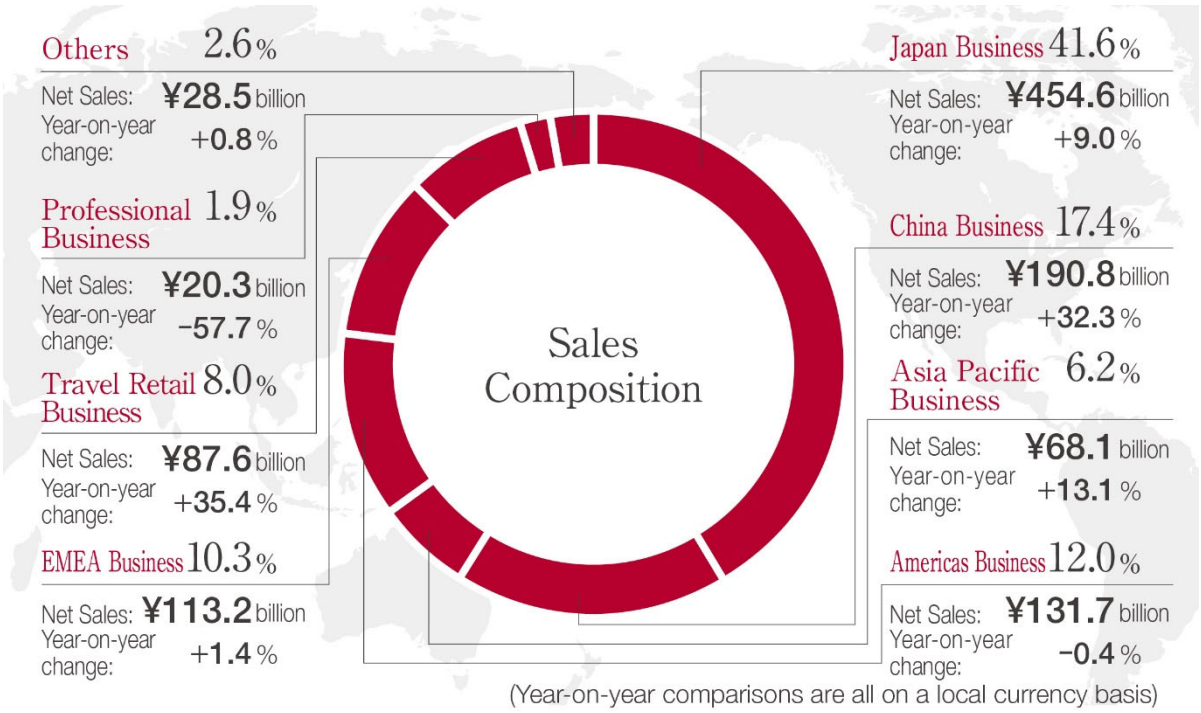


Net Profit Attributable to Owners of Parent	Consolidated ROE
Fiscal 2018: **¥61.4 billion** Year-on-year change: +169.9%	Fiscal 2018: **14.1%**



Note: In calculating consolidated ROE for the 116th Business Term, net profit attributable to owners of parent used as the numerator was for a period of 9 months for the Company and its subsidiaries that fall within the Company's scope of consolidation with a March 31 fiscal year-end, and 12 months for subsidiaries that fall within the Company's scope of consolidation with a December 31 fiscal year-end.

■ **Net sales by reportable segment**



■ **Operating profit (loss) by reportable segment (Billions of yen)**

	118th Business Term	119th Business Term (Current)	Percentage increase/decrease
Japan Business	78.2	91.4	+16.9%
China Business	11.3	24.5	+116.4%
Asia Pacific Business	7.2	7.8	+8.7%
Americas Business	-11.8	-14.8	—
Profit Before Amortization of Goodwill, etc.	-4.0	-9.5	—
EMEA Business	-5.8	-8.0	—
Profit Before Amortization of Goodwill, etc.	-4.1	-6.2	—
Travel Retail Business	15.0	17.6	+17.0%
Professional Business	3.0	0.8	-72.4%
Other	-8.0	-6.0	—

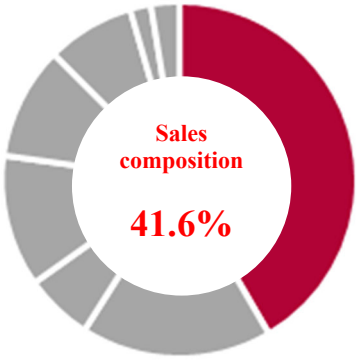
Notes:

1. In the fiscal year, the Company revised its reportable segment classification method in line with the Group's internal financial management structure. The fragrance business in the Asia Pacific region, which was previously included in the EMEA Business, is now included in the Asia Pacific Business. The travel retail fragrance business, which was previously included in the EMEA Business, is now included in the Travel Retail Business. *NAVISION* and *2e*, which were previously included in the Other segment, are now included in the Japan Business. We have also made some revisions to the categories used to monitor business performance. The business of some distributors for *NARS*, *bareMinerals*, and *LAURA MERCIER* in each region, which were previously included in the Americas Business, are now included in the Asia Pacific Business, the EMEA Business, or the Travel Retail Business. The results of IPSA Co., Ltd., which were previously included in the Japan Business, are now included in the Other segment.
2. The year-on-year percentages as stated have been prepared using the classification method subsequent to the change in reportable segments.
3. The Other segment includes head office administration departments, IPSA Co., Ltd., and manufacturing operations, as well as the activities of the Frontier Science business (cosmetic raw materials and pharmaceuticals), the Restaurant business, etc.

2) Activities by Business Segment

Japan Business

Growth of brands achieved due to increased investment in marketing with securing inbound demand





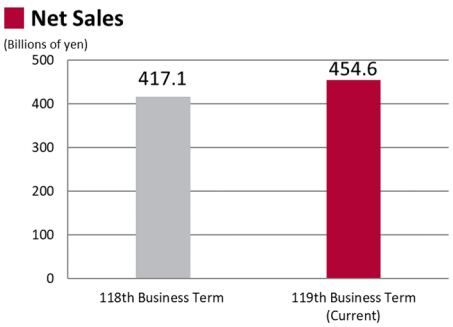
ELIXIR

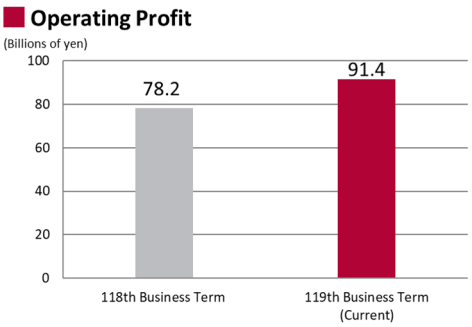
In the Japan Business, brands in the mid- to high-price range, which benefitted from increased investment in marketing, continued to perform well as sales to Japanese consumers expanded. We also secured steady inbound demand from overseas visitors to Japan by strengthening cross-border marketing throughout Asia. This caused growth to outstrip market growth substantially.

We continued to focus on sustainable growth in skincare, base makeup, and sun screen, the three skin-related segments which distinguish our company from its competitors. *ULTIMUNE* and makeup product renewals in *SHISEIDO*, combined with stronger marketing to young consumers, boosted sales substantially. *ELIXIR* wrinkle-reducing cream introduced last fiscal year helped reach new consumers, and expanded growth in sales of lotions and emulsions led to strong overall growth for the brand.

The factors mentioned above led to a 9.0% increase in sales in the Japan Business compared with the previous fiscal year, to ¥454.6 billion. Operating profit rose 16.9% year on year to ¥91.4 billion. This growth resulted from higher margins accompanying the growth in sales, a lowering COGS ratio, while strengthened investment in marketing.

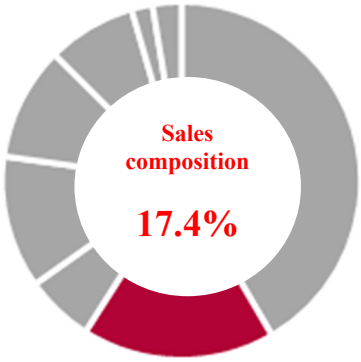
Net Sales: ¥454.6 billion Year-on-year change: +9.0%	Operating Profit: ¥91.4 billion Year-on-year change: +16.9%





China Business

Dramatic growth of "Made in Japan" brands and improved profitability



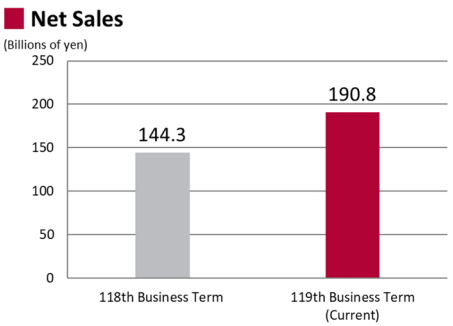


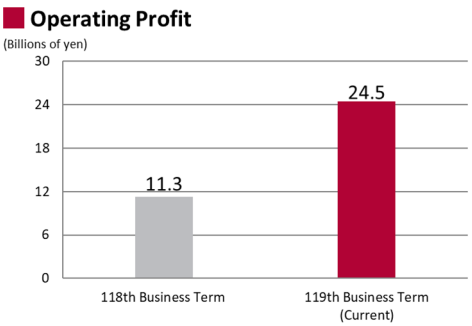
The *SHISEIDO* booth at an event in China

In the China Business, the strong performance of prestige brands such as *SHISEIDO*, *Clé de Peau Beauté*, *IPSA* and *NARS* continued. Sales of the "Made in Japan" cosmetics brands *ELIXIR* and *ANESSA* increased substantially. E-commerce sales recorded strong growth from the roll-out of digital marketing and stronger collaboration with major local Chinese online platforms, in addition to an aggressive launch schedule for products in the prestige and cosmetics categories. We pursued initiatives aimed at addressing the prevailing issue of improving the profitability of local cosmetic brands in China through greater investment in *AUPRES* in Tier 3 and 4 cities with high growth potential, as well as strengthening the self-selection type of sales channel for *Za* and *PURE&MILD*, whose conditions were revised in the last fiscal year.

The factors mentioned above resulted in sales growth of 32.3% year on year on a local currency basis, to ¥190.8 billion, an increase of 32.3% year on year, after conversion into yen. Operating profit grew 116.4% year on year to ¥24.5 billion. In addition to higher margins accompanying the increase in sales, this also reflected such factors as greater efficiency in marketing investment.

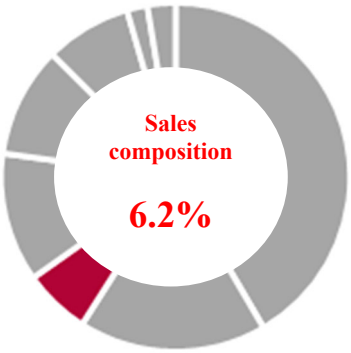
Net Sales: ¥190.8 billion Year-on-year change: +32.3% (Local currency basis: +32.3%)	Operating Profit: ¥24.5 billion Year-on-year change: +116.4%





Asia Pacific Business

Prestige brands drive growth
Expansion achieved in cosmetics and personal care categories



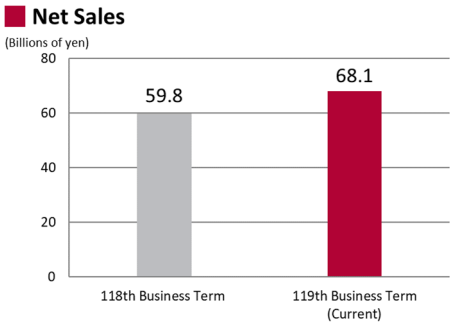


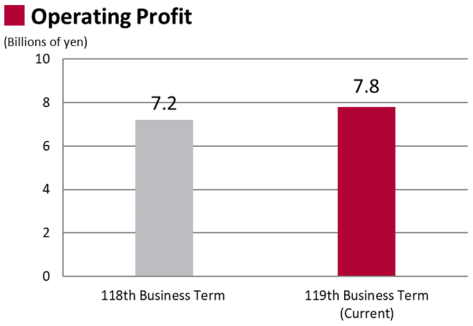
SENKA advertisement in Thailand

In the Asia Pacific Business, strong sales growth was recorded in the prestige brands *SHISEIDO*, *Clé de Peau Beauté*, and *NARS*, mainly in South Korea and Thailand. Sales in Southeast Asia were strong due to the expanded launch of free-standing stores of *NARS*. We enhanced marketing tailored to the differing preferences and lifestyles of consumers in each country and region in the cosmetics and personal care categories, and achieved sales growth in *SENKA*, which was launched as products exclusively for Asia, and *ANESSA*.

The above factors resulted in sales growth of 13.1 % year on year on a local currency basis, and 13.9% year on year to ¥68.1 billion when converted into yen. Operating profit rose 8.7% year on year to ¥7.8 billion, boosted by higher margins accompanying the growth in sales and other factors.

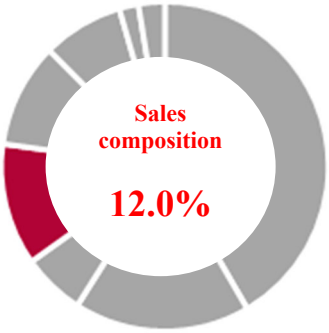
Net Sales: ¥68.1 billion Year-on-year change: +13.9% (Local currency basis: +13.1%)	Operating Profit: ¥7.8 billion Year-on-year change: +8.7%





Americas Business

Active investment in the areas of makeup and digital marketing



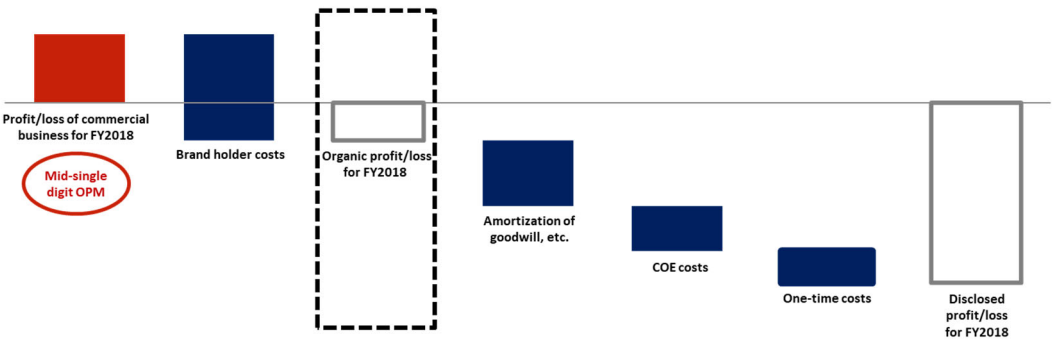


SHISEIDO makeup

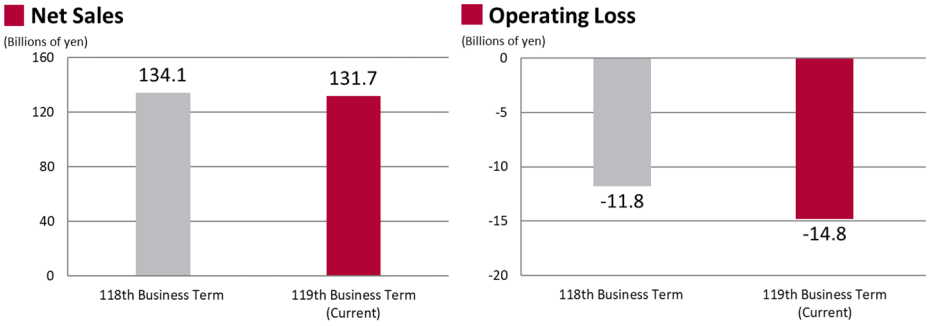
In the Americas Business, growth continued in prestige brands such as *SHISEIDO*, *NARS*, and *LAURA MERCIER* as we invested actively in the areas of makeup and digital marketing. The fragrance brand *Dolce&Gabbana* also performed well. We launched "THE POWER OF GOOD," a new marketing concept for *bareMinerals* based on a new brand strategy in an effort to rejuvenate the brand. Although sales declined compared with the previous fiscal year in step with the scheduled closure of unprofitable boutiques, we achieved the initial plan for the period in both sales and profit. We also acquired the Second Skin technology and its related business and assets from Olivo Laboratories, which has advanced technology in artificial skin generation, in January 2018. This acquisition was aimed at creating new value.

The above factors resulted in a sales decline of 0.4% year on year on a local currency basis, organic sales growth of 4% year on year excluding the impact of business transfer and other factors, and a sales decline of 1.8% year on year to ¥131.7 billion when converted into yen. The operating loss increased by ¥3.0 billion over the previous fiscal year to ¥14.8 billion. Broken down by function, the Americas Business consists of the commercial business in the Americas, the global-scale development as makeup brand holder function, and possession of the Center of Excellence (COE)* function that serves as the value creation base for makeup, digital, and technology. The Americas Business also assumes the cost of strategic investment in these global functions. The commercial business saw a mid-single digit operating profit margin, however, it is not yet profitable as it is now absorbing the cost of the brand holder function. Structural reforms of *bareMinerals* have been undertaken to improve profitability.

[Profit Structure of the Americas Business]



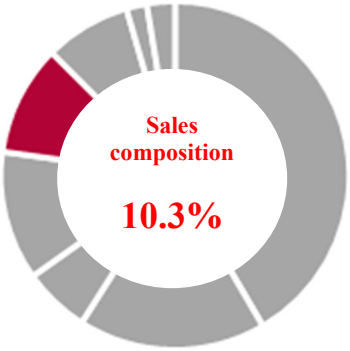
Net Sales: ¥131.7 billion Year-on-year change: -1.8% (Local currency basis: -0.4%) Organic growth rate: +4%	Operating Loss: -¥14.8 billion Year-on-year change: –



* "Center of Excellence" (COE) refers to Shiseido's global system for strategy formulation and product development in each category. Under this system, the region that is most advanced in each category on a global basis is designated as the Center of Excellence and leads strategy formulation and product development for that category. Japan is the COE for skincare, the Americas is the COE for makeup and digital, and EMEA is the COE for fragrances.

EMEA Business

Increased investment amid steady growth of *Dolce&Gabbana*



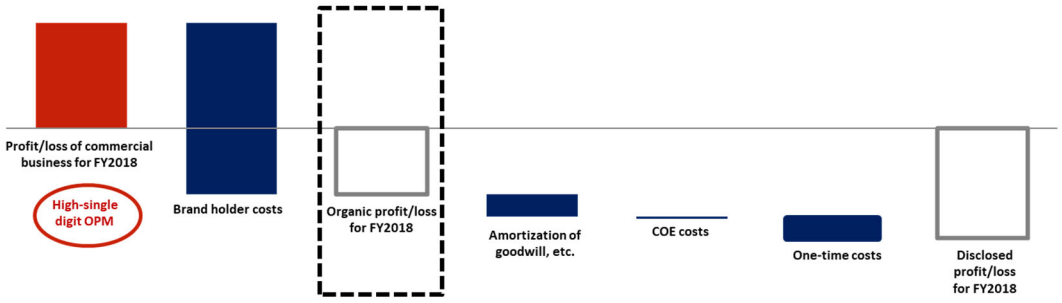


Dolce&Gabbana

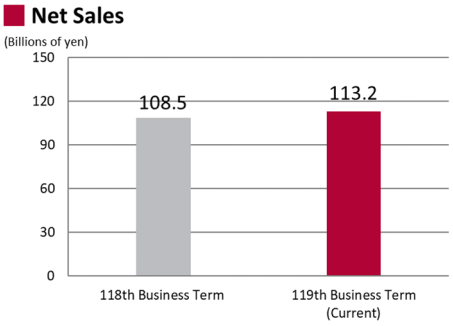
In the EMEA Business, sales of *Dolce&Gabbana* were strong, benefitting from the increased investment in marketing aimed at sustained growth expansion in growth potential, while sales of other fragrance brands declined compared to the previous fiscal year. *SHISEIDO* skincare products performed well, expanding market share, and *NARS* sales also continued to grow. Progress was also made on optimizing the organization, which was integrated in the European region, to improve profitability.

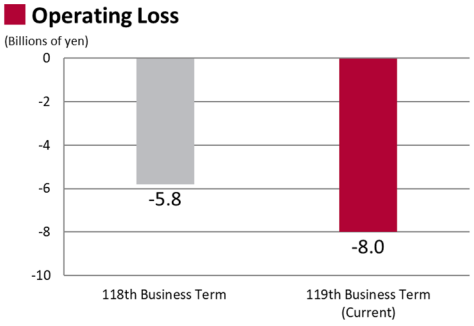
These efforts resulted in sales growth of 1.4% year on year on a local currency basis. Organic growth was 5% year on year excluding the impact of a business transfer and other factors, and sales rose 4.3% year on year to ¥113.2 billion when converted into yen. The operating loss increased by ¥2.2 billion compared to the previous fiscal year, to ¥8.0 billion. Broken down by function, the EMEA Business consists of the commercial business in EMEA, the fragrance brand holder function, and possession of the Center of Excellence function for fragrances. The EMEA Business also assumes the cost of strategic investment in these global functions. The commercial business saw a high-single digit operating profit margin, however, it is now absorbing the cost of the brand holder function, which has not yet become profitable. Profitability will be improved in the future through growth in sales.

[Profit Structure of EMEA Business]



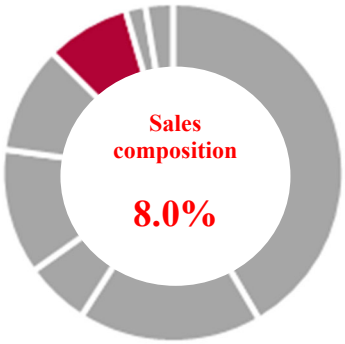
Net Sales: ¥113.2 billion Year-on-year change: +4.3% (Local currency basis: +1.4%) Organic growth rate: +5%	Operating Loss: -¥8.0 billion Year-on-year change: –

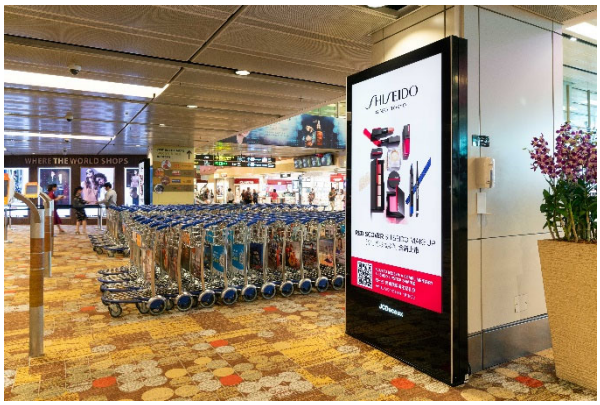




Travel Retail Business

Profitability remains high amid substantial growth driven by Asia with high profitability





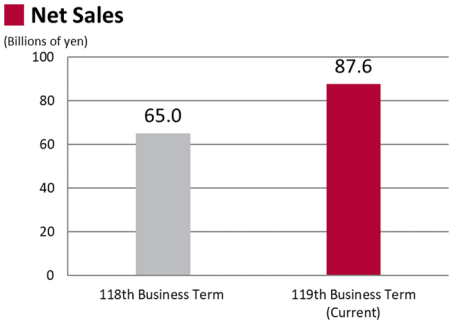
SHISEIDO advertising campaign at an airport

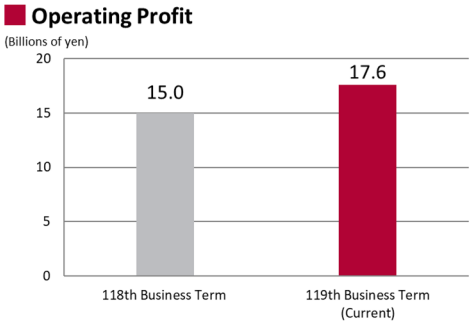
The Travel Retail Business (sale of cosmetics and fragrances through airport duty-free stores and other such channels) market is expanding with the increase in travelers, mainly in Asia. We are working actively to strengthen it as one of our most important businesses to further reinforce Shiseido's position in the global prestige domain because we recognize the potential for further growth of this business.

During the fiscal year, we actively engaged in marketing investment such as promotions and advertising in airports around the world. This resulted in continued high growth compared with the previous fiscal year in sales of *SHISEIDO*, *Clé de Peau Beauté*, *NARS*, and *ANESSA*, mainly in South Korea, China, Thailand, and other countries in Asia. To accelerate growth, we introduced new brands, worked to improve our retail excellence capabilities, and strengthened relationships with major operators.

These efforts resulted in sales growth of 35.4% year on year on a local currency basis. Organic growth was 40% year on year excluding the impact of a business transfer and other factors, and sales grew 34.7% year on year to ¥87.6 billion when converted into yen. Operating profit surged 17.0% year on year to ¥17.6 billion, due to higher margins accompanying growth in sales and other factors.

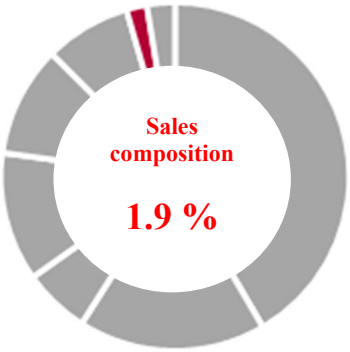
Net Sales: ¥87.6 billion Year-on-year change: +34.7% (Local currency basis: +35.4%) Organic growth rate: +40%	Operating Profit: ¥17.6 billion Year-on-year change: +17.0%





Professional Business

Accelerated growth in China and Asia Pacific regions





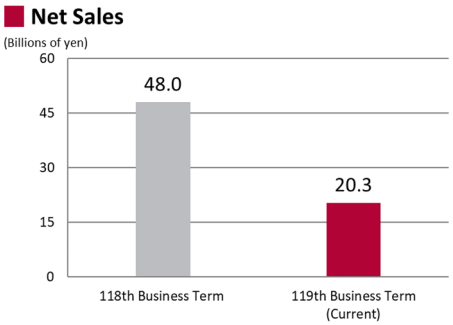
SHISEIDO PROFESSIONAL

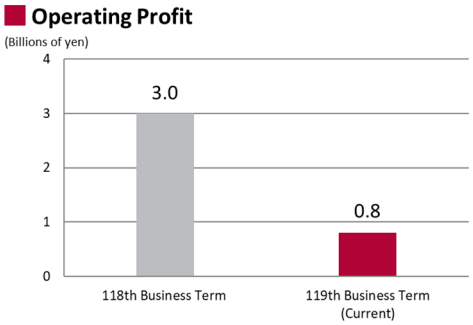
In the Professional Business, we sell professional products such as hair care, hair styling products, hair color, and hair-perming products to hair salons, and also operate directly-owned beauty salons in Japan and Thailand. During the fiscal year under review we worked to strengthen products and marketing with the intent of accelerating growth in China and the rest of Asia.

Last fiscal year, we sold all shares and related assets of our subsidiary, Zotos, which operated a global hair care business aimed at salons, to Henkel AG & Co. KGaA of Germany as part of a global business and brand portfolio restructuring.

These efforts resulted in a sales decline of 57.7% year on year on a local currency basis due to the sale mentioned above, organic growth of 1% year on year excluding the impact of a business transfer and other factors, and a 57.6% year on year decline in sales to ¥20.3 billion when converted into yen. Operating profit declined 72.4% year on year to ¥0.8 billion, as a result of the decline in margins accompanying the decrease in sales and other factors.

Net Sales: ¥20.3 billion Year-on-year change: -57.6% (Local currency basis: -57.7%) Organic growth rate: +1%	Operating Profit: ¥0.8 billion Year-on-year change: -72.4%





(2) Capital Expenditures

	Investment (Millions of yen)	Purpose of Investment
Property, Plant and Equipment	101,207	Renovation and renewal of production facilities Construction of Shiseido Global Innovation Center Acquisition of Kansai Integration Center (tentative name) construction site
Intangible Assets	16,837	Global expansion of core system
Long-Term Prepaid Expenses	8,172	Installations of sales counters and fixtures
Total	126,217	

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

(3) Financing

The Company did not arrange financing via long-term bank loans during the fiscal year.

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

(Millions of yen, unless otherwise noted)

	116th Business Term (4/1/2015 - 12/31/2015)	117th Business Term (1/1/2016 - 12/31/2016)	118th Business Term (1/1/2017 - 12/31/2017)	119th Business Term (Current term) (1/1/2018 - 12/31/2018)
Net Sales	763,058	850,306	1,005,062	1,094,825
Operating Profit	37,660	36,780	80,437	108,350
Operating Profit Margin (%)	4.9	4.3	8.0	9.9
Ordinary Profit	37,588	37,174	80,327	109,489
Net Profit Attributable to Owners of Parent	23,210	32,101	22,749	61,403
Net Earnings per Share (Yen)	58.17	80.41	56.95	153.74
Return on Equity (%)	6.0	8.2	5.6	14.1
Comprehensive Income	13,594	8,978	42,456	43,775
Total Assets	808,547	934,590	949,425	1,009,618
Net Assets	413,334	413,870	445,872	468,462
Net Assets per Share (Yen)	981.37	984.13	1,059.84	1,123.19
Equity Ratio (%)	48.4	42.0	44.6	44.4
Price/Earnings Ratio (Times)	43.5	36.8	95.6	44.8
Cash Flows from Operating Activities	60,529	59,129	95,392	92,577
Cash Flows from Investing Activities	-23,137	-70,640	-1,061	-103,112
Cash Flows from Financing Activities	-30,151	22,378	-53,117	-29,722
Cash and Cash Equivalents at End of Year/Period	104,926	113,122	156,834	111,767

Note: Summary of Non-Consolidated Profit and Assets

(Millions of yen)

	116th Business Term (4/1/2015 - 12/31/2015)	117th Business Term (1/1/2016 - 12/31/2016)	118th Business Term (1/1/2017 - 12/31/2017)	119th Business Term (Current term) (1/1/2018 - 12/31/2018)
Net Sales	165,148	202,774	220,407	270,789
Operating Profit	9,515	6,968	7,883	19,930
Ordinary Profit	35,243	26,468	23,778	42,163
Net Profit (Loss)	32,811	37,805	-55,232	37,613
Total Assets	580,380	620,984	582,589	674,102
Net Assets	369,128	397,318	334,665	352,688

(5) Capital Policy

1) Fundamental Approach to Capital Policy (As of December 31, 2018)

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 reinforcing its management of cash flows and its balance sheet.

The Company arranges financing making timely use of optimal financing methods taking into account the market environment and other factors, and accordingly targets a debt-to-equity ratio of 0.3 and an interest-bearing debt of EBITDA ratio of 1.0 in order to maintain a single-A credit rating which enables it to obtain financing on favorable terms. However, upon considering the Company's future earnings ability and capability to generate cash flows, we will review these indices in conjunction with the shareholder return policy in order to develop an optimal capital structure that contributes to further heightening capital efficiency.

Our total shareholder return policy emphasizes maximizing returns to shareholders through direct means in addition to generating medium- and long-term share price gains. Based on this approach, our fundamental policy is not only to give highest priority to strategic investments to realize sustainable growth for the purpose of maximizing corporate value but also enhance the efficiency of investment capital while focusing on capital cost, which will lead to medium-to-long-term increases in dividends and higher share prices.

We focus on consolidated performance and free cash flow in determining dividends, and have set a dividend on equity ratio (DOE) of 2.5% or higher as one indicator that reflects our capital policy to ensure stable and consistent growth in shareholder returns over the long term.

Our policy with respect to share buybacks is to remain flexible and make such decisions based on the market environment.

2) Profit Distribution

(Millions of yen, unless otherwise noted)

	116th Business Term (4/1/2015 - 12/31/2015)	117th Business Term (1/1/2016 - 12/31/2016)	118th Business Term (1/1/2017 - 12/31/2017)	119th Business Term (Current term) (1/1/2018 - 12/31/2018)	
Annual cash dividends per share (Yen)	20	20	27.50	45	(P)
Annual dividends	7,981	7,985	10,986	17,970	(P)
Consolidated payout ratio (%)	34.4	24.9	48.3	29.3	(P)
DOE (%)	2.0	2.0	2.7	4.1	(P)

Note: Annual cash dividends per share and annual dividends for the 119th Business Term (current term) are predicated on the approval of the First Item of Business (Dividends of Retained Earnings) as originally proposed at the ordinary general meeting of shareholders to be held on March 26, 2019.

(6) Issues to Address

1) Medium-to-Long-Term Strategy VISION 2020

The Company put in place a medium-to-long-term strategy, VISION 2020, positioning 2020 as a milestone and with a view to building a foundation that will enable the Company to remain vital for the next 100 years. By firmly positioning ourselves as a company transforming to "Be a Global Winner with Our Heritage," we focus all our activities on the consumer, enhancing marketing and innovation, and working to employ the diverse human resources and build the global organization to support these efforts. VISION 2020 sets forth aims to achieve by 2020: to be "a company filled with energy," "a company overflowing with youthfulness," "a company always much talked about around the world," "a company that the younger generation adores" and "a multi-cultural company."

Specifically, under VISION 2020, our strategy consists of two phases from 2015 to 2017 and from 2018 to 2020, the first of which are dedicated to rebuilding our business foundation, and the latter three years to pursuing new strategies to accelerate growth. We are moving forward with our activities while having steadily achieved the following milestones.

At the time of its formulation, the initial targets under VISION 2020 were net sales of ¥1 trillion or more, operating profit of ¥100 billion or more, and consolidated ROE of 12% or higher for 2020. We achieved our target for net sales three years ahead of plan in 2017 and our target for operating profit and consolidated ROE two years early in 2018. In March of last year, considering our growth momentum, aiming for further heights, at the stage of the announcement of the Three-Year Plan from 2018 to 2020, we revised the targets to net sales of ¥1.2 trillion or more, operating profit of ¥120 billion or more, and consolidated ROE of 14% or higher.

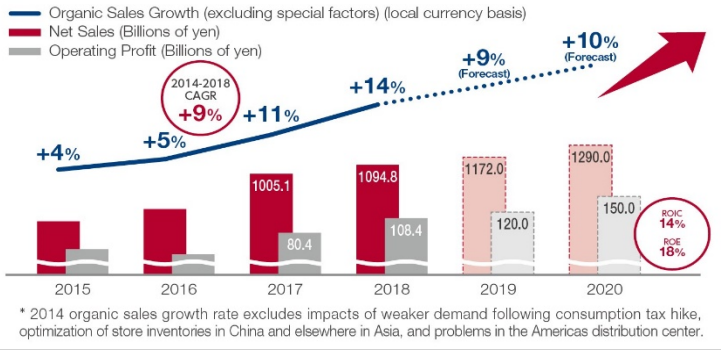
As we work toward the long-term realization of a true global beauty company—one that contributes to society by innovation, one that the younger generation aspires, and one that attracts diverse talents around the world—we are aiming for net sales of ¥2 trillion and operating profit of ¥300 billion.

2) Three-Year Plan from 2018 to 2020

In the three-year period from 2018 to 2020, we will implement the brand strategy to respond to the needs of every region's local consumers and implement even more active marketing investment than in the past. We aim to "Be a Global Winner with Our Heritage" through digital acceleration, synergy maximization with new technologies and brands that have now joined the Company, and by further increasing investment.

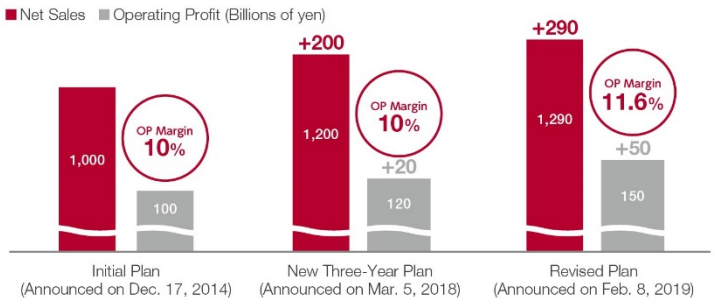
In February of this year, based on 2018 results, we announced plans for net sales of ¥1.172 trillion and operating profit of ¥120 billion in 2019, and net sales of ¥1.29 trillion and operating profit of ¥150 billion in 2020. Since the start of VISION 2020, results have constantly progressed in excess of plans, exceeding the plans announced last March.

[Revised Plan for 2019 and 2020 (Announced in February 2019)]



* 2014 organic sales growth rate excludes impacts of weaker demand following consumption tax hike, optimization of store inventories in China and elsewhere in Asia, and problems in the Americas distribution center.

[Progress Toward 2020 Targets]



Further selection and concentration of brands businesses

Based on our "Prestige First" Strategy, our top priority is globally enhancing the prestige category, a strong category for the Company that promises further expansion of growth and profitability. We will concentrate investment in *SHISEIDO*, *Clé de Peau Beauté*, *NARS*, *bareMinerals*, *IPSA*, *LAURA MERCIER*, and *Dolce&Gabbana* brands, working to realize growth.

In the Asian region starting with China, in addition to the prestige brands, among our cosmetics and personal care brands, we will concentrate on developing the "Made in Japan" brands of *ELIXIR*, *ANESSA*, and *SENKA*. In order to capture the needs of consumers in each market, we will expand our R&D, develop products with high added value, and collaborate with retailers, and thus, further enhance our brand capabilities.

Acceleration of digitization and new business development

Globally, we are enhancing digital marketing and e-commerce (EC). In EC, in addition to strengthening cooperation with major EC platforms around the world, we will integrate in-store consumer data at store fronts and promote CRM (customer relationship management). EC accounted for 8% of net sales in 2017, and we plan to increase that ratio to 15% by 2020 (40% in China). In order to elevate the business operation platform, while developing all employees' capabilities, we will also promote the seamless integration of business processes between the main headquarters and every regional headquarters, build an integrated IT platform and centralize the management of data.

For new business development, we will strengthen our solutions through personalization in order to provide value according to every consumer's individual needs. Furthermore, by combining digital technologies such as IoT with our existing businesses, we will create new products and services.

New value creation through innovations

By merging our own knowledge and experience with the capabilities of acquired brands and technologies together with the high expertise of talented people, we are exercising synergies. By doing so, we will not only produce innovation in cosmetics, but also build innovative business models and explore new frontiers such as artificial skin, hair and skin regeneration, and advanced beauty care. We will enhance our investment in the area of research and development, increasing our R&D-to-sales ratio to 3% by 2020, then to 4% in the future. The number of researchers will be increased to 1,500 by 2020.

In April 2019, the "Shiseido Global Innovation Center (S/PARK)," Shiseido's hub for global research and development, will begin operations at full scale at Minato Mirai 21 in Yokohama. By creating optimal value through integrating various knowledge, information, and technologies consolidated from leading-edge research facilities and other industries in and outside Japan, the Shiseido Global Innovation Center will realize cross-border and cross-industry innovation. The first and second floors will be dedicated to an experienced-based communication space where visitors can be inspired by beauty.



Shiseido Global Innovation Center
(Minato Mirai 21, Yokohama)

Talent and organization development to be a global winner: "PEOPLE FIRST"

To achieve value creation over the medium to long term, the Company sees the human resources that create all the Company's value as the source of growth, and proactively invests in their development. Specifically, we are implementing MBA programs targeting young people to develop global human resources that will be responsible for the future, while enhancing leadership training programs to develop management personnel. Furthermore, going forward, we plan to open training facilities at each of our regional headquarters for all our global employees. In January 2019, we opened a training facility in Singapore.

To promote the increased diversity of our human resources and create a platform to realize value creation, in October 2018, we made English our official language. Around 3,000 employees are currently participating in programs to improve their English skills. Furthermore, in order to accelerate diversity of our organization, we are creating a global talent database with unified standards to promote global mobility.

Further evolution of the global management model

In 2016, the Company launched a global matrix organization intersecting its five brand categories with its six regions. We transferred responsibility and authority to the CEOs of each of our regional headquarters, and by implementing marketing that matches the needs of our regional consumers and agile decision making, we are aiming for large global growth. At the same time, we established the "Centers of Excellence" (COE) to lead strategy formulation and product development in regions with global influence in their respective categories. Japan hosts the COE for skincare, the Americas for makeup and digital marketing, and EMEA for fragrances. From 2018, aiming to create new business models and accelerate cross-border marketing, we established a new hub in Shanghai, China and the "Shiseido Technology Acceleration Hub" in Boston, U.S. We aim to make these hubs for the creation of value by each of our regional headquarters and to share the knowledge gained in each region worldwide for use in our marketing.

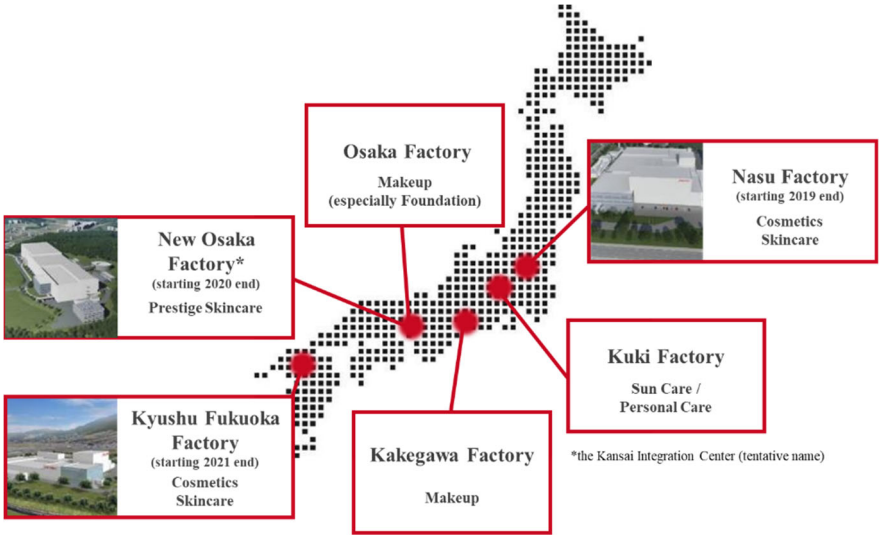
Strengthening production and supply capacity to support global growth

As a result of strengthening its competitive edge in order to achieve its medium-to-long-term strategy, VISION 2020, the Company is experiencing increasing demand in Japan and markets around the world. With the rollout of cross-border marketing initiatives, we are seeing growth in demand from overseas consumers who find strong value in high quality made-in-Japan cosmetics. Because of this, in addition to capital expenditure in the existing three factories in Japan, enhancing the human resources system, and largely streamlining production models in the short term, we are working to increase production by using cooperating third parties and improve the procurement of raw materials. Moreover, toward establishing a stable production system in the medium to long term, we are currently building two factories in Japan as new production hubs, aiming for full-scale operations of the Nasu Factory in 2019 and the completion of construction of the new Osaka Factory in 2020. On the premises of the new Osaka Factory, we will newly establish a distribution hub that combines distribution capabilities for Japan and overseas with product storage and shipping capabilities.

Furthermore, we decided to build a new production hub, the Shiseido Kyushu Fukuoka Factory (tentative name), in Kurume, Fukuoka. As a next-generation factory, in addition to utilizing IoT and cutting-edge technology, it will also serve as part of our BCP (business continuity plan). Serving mainly as a production factory for skincare products for the Japanese and overseas markets, we plan to begin full-scale operations in 2021. We expect the amount of investment to be approximately ¥40-50 billion.

With the completion of these factories, we will strengthen our domestic factory system to six factories, responding to demand not only in Japan, but also in China and Asia, and support sustainable growth based on the strength of production with high quality and Japanese craftsmanship.

[Expanding to Six Domestic Factories]



Improving profitability in EMEA and the Americas

To realize sustainable growth for the Group, we must globally expand Americas-originated makeup brands including *NARS* and *LAURA MERCIER*, as well as European-originated fragrance brands including *Dolce&Gabbana*. In the Americas regarding the makeup category and in EMEA regarding the fragrance category, we are working to steadily achieve sales growth in our sales business centered on our major brands and to increase profitability, and simultaneously to undertake structural reforms of *bareMinerals*.

Furthermore, to expand our global development, while strengthening investment in designers and creative staff as the brand holder, we will steadily increase ROI (return on investment).

In addition to this, by thoroughly strengthening our control of fixed costs incurred at both regional headquarters, we will realize a strong cost structure, aiming for double-digit operating profit margin in both regions in terms of organic profit without amortization of goodwill and the costs related to Center of Excellence, which takes on a headquarters function.

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

Establishment of the new Social Value Creation Division

The Company aims to be a company that grows sustainably with society for the next 100 years and that is trusted and needed by consumers and by society throughout the world. As such, we have set “The Most Trusted Beauty Company in the World” as our management policy. Toward the realization of this policy, to increase corporate value, we believe that increasing both economic value and social value is required. To do so, in January 2019, we integrated and reorganized the functions of the Sustainability Strategy Department and Corporate Culture Department and newly established the Social Value Creation Division with the intention to accelerate social value creation regarding the environment, society and culture.

In the new division, we have set up a “Sustainable Environment Department,” which handles environmental activities including ultraviolet rays and climate change, a “Diversity & Inclusion Department,” which takes charge of activities on women’s empowerment, gender equality and appearance care*, and an “Art & Heritage Department,” which promotes corporate culture activities, accelerating the Company’s initiatives to increase social value.

*Appearance care: Care for people who have deep concerns about their skin, or for those dealing with changes in their appearance caused by cancer treatment

Environmental initiatives

The Company believes that preserving the environment, which is intimately connected to people's lives, and promoting sustainable manufacturing are important initiatives for passing on a beautiful planet to the next generation. Our goal is to both grow our businesses and minimize environmental impact in our value chain not simply by addressing environmental concerns, but also by adding new value that impresses consumers. While providing attractive products and services, we will also raise awareness of and encourage consumer behavior that does not harm the environment.

The Company was the first Japanese company to participate in SPICE (Sustainable Packaging Initiative for CosmEtics). SPICE was jointly established in May 2018 by the major environmental sustainability consulting firm Quantis International S.A. and the French cosmetics company L'Oréal S.A. and has 14 member companies and five related groups (as of February 2019). Global cosmetic companies work together toward the common goal: "to collectively shape the future of sustainable packaging."

Through our participation in SPICE, Shiseido is developing a method to properly evaluate the technologies related to environmentally conscious packaging materials promoted by the Japanese cosmetics industry, while also aiming to build a new framework to encourage products using these technologies. At the same time, by proactively utilizing this framework, we will provide highly resource-efficient products to our consumers, working to enhance our sustainability initiatives throughout the cosmetics industry.

SPICE: Sustainable Packaging Initiative for CosmEtics

Further promotion of diversity and support of women's Empowerment

The Company promotes diversity in terms of nationality, gender, age, disabilities, and other attributes, and believes having employees with diverse ways of thinking and values will lead to the creation of new value and sustainable growth. One of our core missions is to take a leading role in improving the social standing of women and their empowerment, and we have implemented a variety of measures to help advance women's causes. In January 2017, the Company achieved its target for a 30% ratio of women in management positions in Japan, and that ratio is 30.2% as of January 2019. 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.

The Company is also pursuing a range of initiatives globally to support the advancement of women in society. We agree with the gender equality initiative being promoted by UN Women and are working to create awareness regarding the initiative.

In October of last year, continuing from 2017, we teamed up with UN Women to hold an event called "HeForShe* Aiming for a Society Where All People Can Succeed – Proposals from Generation Z," where students propose solution strategies for gender issues. The Company will continue to promote gender equality through these events with the younger generation, who will lead society in the future, aiming to realize a society where everyone can choose their own lifestyle and achieve their potential.

In support of HeForShe
UN Women Solidarity Movement for Gender Equality

"HeForShe," an initiative for gender equality that UN Women promotes

* A solidarity campaign for gender equality spread by UN Women globally since 2014 and grounded in the idea that all people, including men, need to stand together for a gender-equal society.

Contribute to activities that support culture and sports

The Company was an official supporter of "Japonismes 2018: Souls in Resonance," a festival held to showcase Japanese culture and arts, organized by the governments of Japan and France to commemorate 160 years of friendly relations between the two countries (organizing office: The Japan Foundation, hereinafter "Japonismes 2018"). In the eight months from July 2018 through February 2019 at around 100 locations mostly in Paris, Japonismes 2018 introduced Japan's diverse culture, from the beauty of ancient *jomon* artifacts to art making use of the latest technologies of modern Japan. By proactively supporting public-private collaborative events such as Japonismes 2018, the Company is contributing to introducing Japan's unique sense of beauty to the world as a company that has been a major driver in Japan's beauty industry.



Original decorative wrapping cloths (furoshiki) designed by the Company were provided to Japonismes 2018

The Company encourages people around the world to lead active and beautiful lifestyles by supporting sports activities that bring feelings of excitement and partnership to people. The Company has developed sunscreens and skin-brightening products, along with helpful information about how to protect the skin from ultraviolet rays while engaging in outdoor sports.

In 2015, we concluded an official partner contract with the Ladies Professional Golf Association (LPGA). We are supporting the LPGA's activities by providing our cosmetics to LPGA members starting with sunscreen, and by hosting beauty courses for new LPGA members, as well as helping to expand the popularity of golf as a lifetime sport which both men and women of any age can actively enjoy. Starting in 2019, we will host a new LPGA tour, the "Shiseido Anessa Ladies Open." We aim to hold a tour that showcases our sun care brand *ANESSA* as a symbolic brand that allows players to play to their full potential in the sun without concern for ultraviolet rays, and that allows visitors and spectators of any age, including juniors, to enjoy golf and sports even more than in the past.

ANESSA
SHISEIDO ANESSA LADIES OPEN

New LPGA tour "Shiseido Anessa Ladies Open" tournament logo

Through these activities the Company is continuing efforts to remain vital for the next 100 years, upholding its vision to "Be a Global Winner with Our Heritage." We ask our shareholders for their continued unwavering support.

1.2 Outline of the Shiseido Group (As of December 31, 2018)

(1) Principal Businesses of the Shiseido Group

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

(2) Major Business Hubs

Registered Head Office (Ginza Office): 5-5, Ginza 7-chome, Chuo-ku, Tokyo

Principal Business Office (Shiodome Office): 6-2, Higashi-Shimbashi 1-chome, Minato-ku, Tokyo

Factories:

Name	Location
Shiseido Kakegawa Factory	Kakegawa-shi, Shizuoka Pref.
Shiseido Osaka Factory	Higashi-Yodogawa-ku, Osaka-shi, Osaka Pref.
Shiseido Kuki Factory	Kuki-shi, Saitama Pref.
Shiseido Vietnam Inc.	Bien Hoa, Dong Nai Province, Vietnam
Shiseido Citic Cosmetics Co., Ltd.	Shanghai, China
Shiseido Liyuan Cosmetics Co., Ltd.	Beijing, China
Shanghai Huani Transparent Beauty Soap Co., Ltd.	Shanghai, China
Taiwan Shiseido Co., Ltd. Hsinchu Factory	Hsinchu County, Taiwan
Shiseido America, Inc. East Windsor Factory	East Windsor, New Jersey, U.S.A.
Shiseido International France S.A.S. Unité du Val de Loire	Ormes, Orléans, Loiret, France
Shiseido International France S.A.S. Unité de Gien	Gien, Loiret, France

Laboratories:

Name	Location
Shiseido Research Center (Global Innovation Center)	Tsuzuki-ku, Yokohama-shi, Kanagawa Pref.
Shiseido Cell-Processing & Expansion Center	Chuo-ku, Kobe-shi, Hyogo Pref.
Shiseido China Research Center Co.,Ltd. (China Innovation Center)	Beijing, China
Shiseido China Research Center Co.,Ltd., Shanghai Branch	Shanghai, China
Shiseido Asia Pacific Innovation Center	Singapore
Shiseido Americas Innovation Center	East Windsor, New Jersey, U.S.A.
Shiseido Technology Acceleration Hub	Boston, Massachusetts, U.S.A.
Shiseido Europe Innovation Center	Ormes, Orléans, Loiret, France

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

Company Name	Location	Paid-in Capital	Ownership Percentage of Voting Rights	Principal Business
Shiseido Japan Co., Ltd.	Chuo-ku, Tokyo	(million JPY) 100	% 100.0	Sale of cosmetics, etc.
FT Shiseido Co., Ltd.	Chuo-ku, Tokyo	(million JPY) 100	100.0	Sale of toiletries
The Ginza Co., Ltd.	Chuo-ku, Tokyo	(million JPY) 100	98.1	Sale of cosmetics, etc.
Shiseido Pharmaceutical Co., Ltd.	Chuo-ku, Tokyo	(million JPY) 100	100.0	Sale of over-the-counter drugs, etc.
Shiseido International Inc.	Chuo-ku, Tokyo	(million JPY) 30	100.0	Sale of cosmetics, etc.
Shiseido FITIT Co., Ltd.	Chuo-ku, Tokyo	(million JPY) 10	100.0	Sale of cosmetics, etc.
Shiseido China Co., Ltd.	Shanghai, China	(thousand RMB) 565,093	100.0	Holding company and sale of cosmetics, etc. in China
Shiseido Hong Kong Ltd.	Hong Kong, China	(thousand HKD) 123,000	100.0	Sale of cosmetics, etc.
Shiseido Liyuan Cosmetics Co., Ltd.	Beijing, China	(thousand RMB) 94,300	32.0 (65.0)	Production and sale of cosmetics, etc.
Taiwan Shiseido Co., Ltd.	Taipei, Taiwan	(thousand TWD) 1,154,588	51.0	Holding company and production and sale of cosmetics, etc. in Taiwan
Shiseido Asia Pacific Pte. Ltd.	Singapore	(thousand SGD) 49,713	100.0	Marketing of cosmetics and professional products and support for operating activities in Asia Pacific region
Shiseido Americas Corporation	Delaware, U.S.A.	(thousand USD) 403,070	100.0	Holding company and sale of cosmetics, etc. in Americas
Bare Escentuals Beauty, Inc.	Delaware, U.S.A.	(USD) 1	— (100.0)	Sale of cosmetics, etc.
Shiseido America, Inc.	New York, U.S.A.	(thousand USD) 28,000	— (100.0)	Production of cosmetics, etc.

Company Name	Location	Paid-in Capital	Ownership Percentage of Voting Rights	Principal Business
Bare Escentuals, Inc.	Delaware, U.S.A.	(USD) 0.01	— (100.0)	Holding company of Bare Escentuals Group
Beauté Prestige International S.A.	Paris, France	(thousand EUR) 32,937	— (100.0)	Sale of cosmetics, etc.
Shiseido Group Italy S.p.A.	Milan, Italy	(thousand EUR) 5,036	— (100.0)	Sale of cosmetics, etc.
Shiseido Group Germany GmbH	Düsseldorf, Germany	(thousand EUR) 8,700	— (100.0)	Sale of cosmetics, etc.
Shiseido (RUS), LLC.	Moscow, Russia	(thousand Russian ruble) 106,200	— (100.0)	Sale of cosmetics, etc.
Shiseido International France S.A.S.	Paris, France	(thousand EUR) 36,295	— (100.0)	Production of cosmetics, etc.
Shiseido Europe S.A.	Paris, France	(thousand EUR) 257,032	100.0	Holding company in Europe
Shiseido Travel Retail Asia Pacific Pte. Ltd.	Singapore	(thousand USD) 48	— (100.0)	Sale of cosmetics, etc.
Shiseido Professional Co., Ltd.	Chuo-ku, Tokyo	(million JPY) 250	100.0	Sale of beauty salon products, etc.
Shiseido Beauty Salon Co., Ltd.	Chuo-ku, Tokyo	(million JPY) 100	100.0	Operation of beauty salons
Shiseido Parlour Co., Ltd.	Chuo-ku, Tokyo	(million JPY) 100	99.3	Operation of restaurants, etc.
Shiseido Citic Cosmetics Co., Ltd.	Shanghai, China	(thousand RMB) 418,271	26.2 (92.6)	Production of cosmetics, etc.
Shiseido Vietnam Inc.	Dong Nai Province, Vietnam	(million VND) 1,061,993	100.0	Production of cosmetics, etc.
Selan Anonymous Association	Chiyoda-ku, Tokyo	(million JPY) 11,600	— [100.0]	Management of real estate, etc.

Notes:

1. Figures in parentheses ( ) in the Ownership Percentage of Voting Rights column include the share of indirect ownership. Those in brackets [ ] indicate share of related or approved parties.
2. As of January 1, 2019, Bare Escentuals Beauty, Inc. and Bare Escentuals, Inc. were merged into Shiseido Americas Corporation.

(4) Matters Concerning Employees of the Group

Business Category	Number of Employees		Comparison with the Corresponding Period of the Previous Fiscal Year	
Japan Business	11,818	[4,706]	+145	[-138]
China Business	8,138	[125]	+86	[+8]
Asia Pacific Business	3,248	[429]	+212	[+23]
Americas Business	4,063	[98]	-251	[+11]
EMEA Business	4,186	[532]	+336	[+112]
Travel Retail Business	218	[8]	+61	[+4]
Professional Business	1,080	[399]	-66	[-205]
Corporate staff	5,889	[1,812]	+679	[+23]
Total	38,640	[8,109]	+1,202	[-162]

Notes:

1. The number of employees shown is the number of full-time employees. The annual average number of temporary employees is shown in [ ]. Temporary employees include contract employees and part-time workers; dispatched employees are excluded.
2. As a revision of the reportable segment classification method was carried out, and partial changes to the aggregation method were made, the numbers of employees after these changes are shown above for the fiscal year under review and corresponding period of the previous fiscal year.
3. The ratio of female employees in the Shiseido Group worldwide is 83.1%, while in Japan the ratio is 83.0%.

(5) Main Supplies of Loans to the Group

Lender	Outstanding Balance
Mizuho Bank, Ltd.	24,126 million JPY 9,000 million KRW

2. Matters Concerning Shares Issued by the Company (As of December 31, 2018)

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

1,200,000,000 shares

(2) Number of Shares Issued and Outstanding:

400,000,000 shares (including 618,049 shares of treasury stock)

(3) Number of Shareholders:

65,457

(4) Principal Shareholders:

Shareholders	Investment in the Company	
	Number of Shares Held	Percentage of Shareholding
The Master Trust Bank of Japan, Ltd. (Trust Account)	(thousand shares) 45,250	% 11.33<11.31>
Japan Trustee Services Bank, Ltd. (Trust Account)	22,795	5.70<5.69>
BNYM TREATY DTT 15	11,915	2.98<2.97>
Mizuho Trust & Banking Co., Ltd. re-trusted to Trust & Custody Services Bank, Ltd. Employees Pension Trust for Mizuho Bank	10,000	2.50<2.50>
Japan Trustee Services Bank, Ltd. (Trust Account 5)	7,798	1.95<1.94>
Japan Trustee Services Bank, Ltd. (Trust Account 7)	7,100	1.77<1.77>
STATE STREET BANK WEST CLIENT-TREATY 505234	6,279	1.57<1.56>
THE BANK OF NEW YORK MELLON 140044	5,964	1.49<1.49>
JP MORGAN CHASE BANK 385151	5,897	1.47<1.47>
SSBTC CLIENT OMNIBUS ACCOUNT	5,856	1.46<1.46>

Notes:

1. Calculations of percentage of shareholding, including below Notes are based on the total number of issued and outstanding shares excluding treasury stock. Calculations of percentage of shareholding indicated in < > are based on the total number of issued and outstanding shares including treasury stock.
2. All shares held by The Master Trust Bank of Japan, Ltd. (Trust Account, Trust Account 5, and Trust Account 7) and Japan Trustee Services Bank, Ltd. (Trust Account) are in connection with the respective bank's trust business.
3. A report of amendment to large shareholdings from Mitsubishi UFJ Financial Group, Inc., that on October 15, 2018, it held 32,000 thousand shares through joint holdings (Percentage of shareholding: 8.01%), of which 24,833 thousand shares (6.21%) are held by Mitsubishi UFJ Trust and Banking Corporation, has been filed with the Director-General of the Kanto Finance Bureau.

   However, Mitsubishi UFJ Financial Group, Inc. has been excluded from the above principal shareholders, as the actual number of shares held by the said company has not been confirmed by the Company as of the end of the fiscal year.
4. A report of amendment to large shareholdings from Mizuho Bank, Ltd., that on October 22, 2018, it held 26,972 thousand shares through joint holdings (Percentage of shareholding: 6.75%), of which 15,832 thousand shares (3.96%) are held by Asset Management One Co., Ltd., has been filed with the Director-General of the Kanto Finance Bureau.

   However, Mizuho Bank, Ltd. has been excluded from the above principal shareholders, as the actual number of shares held by the said company has not been confirmed by the Company as of the end of the fiscal year.
5. A report of amendment to large shareholdings from BlackRock Japan Co., Ltd., that on November 21, 2018, it held 24,051 thousand shares through joint holdings (Percentage of shareholding: 6.02%), of which 8,130 thousand shares (2.03%) are held by BlackRock Japan Co., Ltd., has been filed with the Director-General of the Kanto Finance Bureau.

   However, BlackRock Japan Co., Ltd. has been excluded from the above principal shareholders, as the actual number of shares held by the said company has not been confirmed by the Company as of the end of the fiscal year.

6. A report of large shareholdings from Nomura Securities Co., Ltd., that on November 21, 2018, it held 20,023 thousand shares through joint holdings (Percentage of shareholding: 5.01%), of which 19,187 thousand shares (4.80%) are held by Nomura Asset Management Co., Ltd., has been filed with the Director-General of the Kanto Finance Bureau.

   However, Nomura Securities Co., Ltd. has been excluded from the above principal shareholders, as the actual number of shares held by the said company has not been confirmed by the Company as of the end of the fiscal year.

7. A report of amendment to large shareholdings from Sumitomo Mitsui Trust Bank, Limited, that on December 21, 2018, it held 28,236 thousand shares through joint holdings (Percentage of shareholding: 7.06%), of which 13,865 thousand shares (3.47%) and 10,370 thousand shares (2.59%) are held by Sumitomo Mitsui Trust Asset Management Co., Ltd. and Nikko Asset Management Co., Ltd., respectively, has been filed with the Director-General of the Kanto Finance Bureau.

   However, Sumitomo Mitsui Trust Bank, Limited has been excluded from the above principal shareholders, as the actual number of shares held by the said company has not been confirmed by the Company as of the end of the fiscal year.

   A report of amendment to large shareholdings from Sumitomo Mitsui Trust Bank, Limited, that on February 6, 2019, it held 27,736 thousand shares through joint holdings (Percentage of shareholding: 6.94%), of which 13,652 thousand shares (3.41%) and 10,084 thousand shares (2.52%) are held by Sumitomo Mitsui Trust Asset Management Co., Ltd. and Nikko Asset Management Co., Ltd., respectively, has been filed with the Director-General of the Kanto Finance Bureau.

3. Matters Concerning Shares Held by the Company (As of December 31, 2018)

(1) The Company's Policy with Regard to Reduction of Strategic Shareholdings:

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

- The Company holds the minimum amount of shareholdings necessary, only when it determines that such shareholdings would contribute to its sustainable growth and medium- to long-term improvement of corporate value.
- The Company periodically checks its individual shareholdings to see whether or not such shares are being held for the intended purpose and whether or not benefits associated with their ownership are commensurate with the associated cost of capital. The Board of Directors then verifies the appropriateness of maintaining ownership of such holdings and discloses circumstances attributable to any reduction of holdings.
- If the Company receives a request for sale from a company that holds the Company's shares as strategic shareholdings, the Company should neither prevent the sale nor imply that it would reduce transactions with the holding company.

As of December 31, 2018, the Company holds shares of strategic shareholdings (listed companies' stock) in 29 stocks, having reduced the book value of its holdings by approximately 21% from the end of the fiscal year 2017 by selling all of its holdings in four stocks and part of its holdings in two stocks in the fiscal year 2018.

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

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

If the Company wishes to confirm the intent of an item of business, etc., it will discuss the matter with the investee company in accordance with the purport of Japan's Stewardship Code and Japan's Corporate Governance Code.

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

Number of Companies	Amount on Balance Sheet
	(million yen)
75	14,338

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

Company	Number of Shares	Amount on Balance Sheet	Main Transaction	Purpose for Holding Shares
	(thousand shares)	(million yen)		
PALTAC CORPORATION	600	3,114	Product sales	To further facilitate operations
Mitsubishi UFJ Financial Group, Inc.	2,496	1,342	Financial transactions with the subsidiaries of the issuer	
TOPPAN PRINTING CO., LTD.	814	1,316	Purchase of product packaging and sales promotion materials	
Tokio Marine Holdings, Inc.	210	1,099	Insurance transactions with the subsidiaries of the issuer	
Dai Nippon Printing Co., Ltd.	435	1,001	Purchase of product packaging and sales promotion materials	
NIPPON FINE CHEMICAL CO., LTD.	670	689	Purchase of raw materials	
WACOAL HOLDINGS CORP.	219	624	Commissioned production transactions from the subsidiaries of the issuer	
Sompo Holdings, Inc.	154	578	Insurance transactions with the subsidiaries of the issuer	
PLANET, INC.	300	554	Outsourcing development of product distribution systems	
Seven & i Holdings Co., Ltd.	110	528	Product sales to the subsidiaries of the issuer	

Notes:

1. The Company does not hold shares for the purpose of realizing direct investment gains.
2. For the top 6 companies listed above, the amounts reported on the balance sheet exceed one percent of the amount of capital of the Company.
3. The Company has formulated “The Company’s Policy with Regard to Reduction of Strategic Shareholdings,” as described in page 33, under which the Board of Directors regularly verifies the appropriateness of holdings. In the fiscal year, the Company has reduced the book value of its holdings by approximately 21% from the end of the previous fiscal year by selling all of its holdings in 4 stocks and part of its holdings in 2 stocks.
4. In addition to the companies listed above, the 29 largest shareholdings of publicly listed companies in the amount on the balance sheet, which the Company holds for purposes other than realizing direct investment gains, are posted as items voluntarily disclosed relating to business report on the Company’s website: Investors / General Meeting of Shareholders / Corporate Governance / General Meeting of Shareholders (https://www.shiseidogroup.com/ir/account/shareholder/).

4. Matters Concerning Share Acquisition Rights (As of December 31, 2018)

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

Total number of shares that are the object of all share acquisition rights issued as of December 31, 2018 and the percentage thereof to the total number of shares issued and outstanding as of the same date, excluding treasury stock are as follows:

Total Number of Shares that are the Object of Share Acquisition Rights	Percentage of Total Number of Shares Issued and Outstanding (Excluding Treasury Stock)
Shares	%
420,900	0.10

These share acquisition rights were granted as stock options in order to link remuneration of the directors and corporate officers, etc. of the Company with an increase in its shareholder value on a long-term basis, while placing emphasis on their sharing interests with its shareholders. All stock options are stock compensation-type stock options whose amount payable is set at ¥1 when exercising share acquisition rights as one type of performance-linked remuneration for the remuneration system for directors and corporate officers since fiscal 2008.

The Company revised the directors, audit & supervisory board members and corporate officers remuneration policy in fiscal 2015, and implemented the revised procedure to increase or decrease the number of the stock compensation-type stock options as long-term incentive-type remuneration to be allotted by using the performance indicators for annual bonus after obtaining an approval for the maximum number to be allotted at the general meeting of shareholders and the business performance for the business year relevant to the remuneration is fixed.

The status of the share acquisition rights issued in the fiscal year 2018 as remuneration for fiscal year 2017 is shown below.

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

■ Share Acquisition Rights Issued during the Fiscal Year 2018

Issue Date of Share Acquisition Rights	Grantees of Share Acquisition Rights	Amount Paid for Share Acquisition Rights	Amount Contributed upon Exercise of Share Acquisition Rights	Exercise Period of Share Acquisition Rights	As of December 31, 2018	
					Holding Condition and Number of the Share Acquisition Rights	Class and Number of Shares to Be Issued Upon Exercise of Share Acquisition Rights
March 28, 2018	Directors, corporate officers, etc. of the Company 21 persons	6,615 yen	1 yen per share	From September 1, 2020 to February 28, 2033	Directors of the Company (excluding external directors) 3 persons 326 rights	Common stock of the Company 32,600 shares
					Corporate officers who do not serve as director of the Company 10 persons 204 rights	20,400 shares
					Directors and corporate officers of wholly-owned subsidiaries of the Company (excluding directors and corporate officers of the Company) 2 persons 30 rights	3,000 shares
					Others 6 persons 102 rights	10,200 shares

Note: The number of allotted share acquisition rights and allotted persons and class and number of shares to be issued upon exercise of the share acquisition rights are shown under “Holding Condition and Number of the Share Acquisition Rights” and “Class and Number of Shares to Be Issued Upon Exercise of Share Acquisition Rights” as of December 31, 2018.

■ Share Acquisition Rights Issued in the Past Fiscal Years

Issue Date of Share Acquisition Rights	Grantees of Share Acquisition Rights	Amount Paid for Share Acquisition Rights	Amount Contributed upon Exercise of Share Acquisition Rights	Exercise Period of Share Acquisition Rights	As of December 31, 2018	
					Holding Condition and Number of the Share Acquisition Rights	Class and Number of Shares to Be Issued Upon Exercise of Share Acquisition Rights
August 28, 2009	Directors and corporate officers of the Company 19 persons	1,468 yen	1 yen per share	From August 1, 2012 to July 31, 2019	Others 3 persons 62 rights	Common stock of the Company 6,200 shares
August 30, 2010	Directors and corporate officers of the Company 18 persons	1,757 yen	1 yen per share	From August 1, 2013 to July 31, 2020	Director of the Company (excluding external director) 1 person 39 rights	Common stock of the Company 3,900 shares
					Others 1 person 54 rights	5,400 shares
August 30, 2011	Directors and corporate officers of the Company 17 persons	1,294 yen	1 yen per share	From August 1, 2014 to July 31, 2026	Director of the Company (excluding external director) 1 person 53 rights	Common stock of the Company 5,300 shares
					Others 4 persons 206 rights	20,600 shares

Issue Date of Share Acquisition Rights	Grantees of Share Acquisition Rights	Amount Paid for Share Acquisition Rights	Amount Contributed upon Exercise of Share Acquisition Rights	Exercise Period of Share Acquisition Rights	As of December 31, 2018	
					Holding Condition and Number of the Share Acquisition Rights	Class and Number of Shares to Be Issued Upon Exercise of Share Acquisition Rights
August 30, 2012	Directors and corporate officers of the Company 19 persons	1,001 yen	1 yen per share	From August 1, 2015 to July 31, 2027	Director of the Company (excluding external director) 1 person 68 rights	Common stock of the Company 6,800 shares
					Others 6 persons 419 rights	41,900 shares
August 29, 2013	Directors and corporate officers of the Company 16 persons	1,434 yen	1 yen per share	From August 1, 2016 to July 31, 2028	Director of the Company (excluding external director) 1 person 38 rights	Common stock of the Company 3,800 shares
					Others 8 persons 364 rights	36,400 shares
August 28, 2014	Directors, corporate officers, etc. of the Company 18 persons	1,898.5 yen	1 yen per share	From August 1, 2017 to July 31, 2029	Director of the Company (excluding external director) 1 person 45 rights	Common stock of the Company 4,500 shares
					Corporate officers who do not serve as director of the Company 2 persons 68 rights	6,800 shares
					Director and corporate officer of wholly-owned subsidiaries of the Company (excluding director and corporate officer of the Company) 1 person 45 rights	4,500 shares
					Others 8 persons 391 rights	39,100 shares
March 30, 2016	Directors, corporate officers, etc. of the Company 18 persons	2,515.5 yen	1 yen per share	From September 1, 2018 to February 28, 2031	Directors of the Company (excluding external directors) 3 persons 233 rights	Common stock of the Company 23,300 shares
					Corporate officers who do not serve as director of the Company 3 persons 70 rights	7,000 shares
					Director and corporate officer of wholly-owned subsidiaries of the Company (excluding director and corporate officer of the Company) 1 person 26 rights	2,600 shares
					Others 7 persons 246 rights	24,600 shares

Issue Date of Share Acquisition Rights	Grantees of Share Acquisition Rights	Amount Paid for Share Acquisition Rights	Amount Contributed upon Exercise of Share Acquisition Rights	Exercise Period of Share Acquisition Rights	As of December 31, 2018	
					Holding Condition and Number of the Share Acquisition Rights	Class and Number of Shares to Be Issued Upon Exercise of Share Acquisition Rights
March 30, 2017	Directors, corporate officers, etc. of the Company 24 persons	2,990 yen	1 yen per share	From September 1, 2019 to February 29, 2032	Directors of the Company (excluding external directors) 3 persons 369 rights	Common stock of the Company 36,900 shares
					Corporate officers who do not serve as director of the Company 10 persons 344 rights	34,400 shares
					Directors and corporate officers of wholly-owned subsidiaries of the Company (excluding directors and corporate officers of the Company) 2 persons 48 rights	4,800 shares
					Others 9 persons 359 rights	35,900 shares

Notes:

1. The number of allotted share acquisition rights and allotted persons in the past fiscal years and class and number of shares to be issued upon exercise of the share acquisition rights are shown under “Holding Condition and Number of the Share Acquisition Rights” and “Class and Number of Shares to Be Issued Upon Exercise of Share Acquisition Rights” as of December 31, 2018.
2. Holding of the share acquisition rights as of December 31, 2018 by an audit & supervisory board member of the Company was granted during his term of office as a corporate officer and his term of office as a Director serving concurrently as a Corporate Officer.

5. Matters Concerning Status of Corporate Governance and Directors, Audit & Supervisory Board Members and Corporate Officers of the Company (As of December 31, 2018)

(1) Corporate Governance Policy

The Shiseido Group including the Company sets out "to inspire a life of beauty and culture" as its corporate mission, and defines 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 corporate governance, and strives to maximize medium- and long-term corporate and shareholder value through dialogues with all stakeholders, including "consumers," "business partners," "employees," "shareholders," and "society and the Earth." In addition, while fulfilling social responsibilities, the Company aims to achieve optimized distribution of values to respective stakeholders.

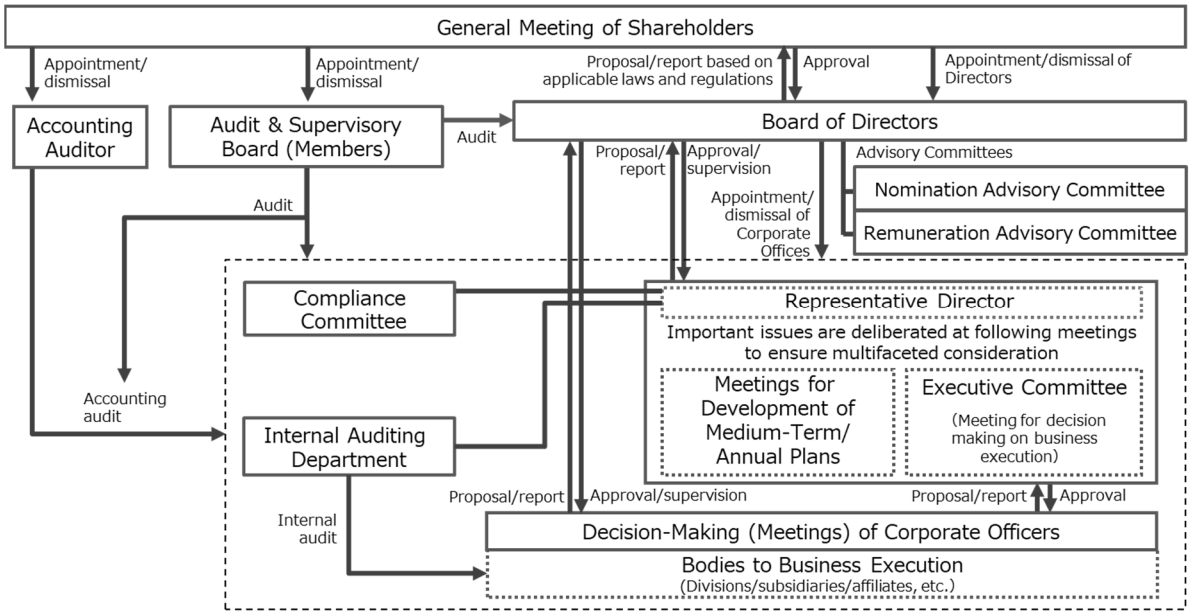
■ **Progress of Shiseido's Corporate Governance Policy**

Clarifying the allocation of responsibility	2001 Introduced the corporate executive officer system 2001 Introduced 1-year term for directors 2006 Set upper term limit per position 2006 Formulated rules governing demotions of corporate officers 2006 Lowered upper age limit per position for holding office 2017 Abolished the Counselor/Advisor system	Enhancing management transparency and soundness	2001 Established the Remuneration Advisory Committee 2005 Established the Nomination Advisory Committee
Reinforcing supervisory and auditing functions	2005 Increased number of external audit & supervisory board members from 2 to 3 2006 Invited external directors 2011 Increased number of external directors from 2 to 3 2012 Established criteria for independence 2015 Developed views on the ratio of external directors (establishing the target of electing half or more of the directors from outside) 2016 Increased number of external directors from 3 to 4 (3 external directors as of December 31, 2018)	Strengthening decision-making function	2001 Established Corporate Executive Officer Committee (currently Executive Committee) and Policy Meeting of Corporate Officers 2002 Reduced number of directors

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

1) Corporate Governance Framework of the Company

Corporate governance framework of the Company as of December 31, 2018 is as follows.



<Committees Associated with Corporate Officers>

Executive Committee:

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

Meetings for Development of Medium-Term/Annual Plans:

A meeting body that comprises corporate officers, regional headquarters presidents and others and is responsible for developing and resolving business plans and brand strategies.

<Advisory Committees to the Board of Directors>

Nomination Advisory Committee:

Makes reports to the Board of Directors on matters including the selection of candidates for directors and corporate officers and their promotions and demotions. In fiscal 2018, 5 meetings of the Nomination Advisory Committee were held. In addition to reporting on the selections of candidates for directors and audit & supervisory board members and the appointment of corporate officers, etc., the committee discussed partial changes of the corporate executive officer system.

(Chairman: External director Ms. Yoko Ishikura, Committee members: 2 external directors and 1 representative director)

Remuneration Advisory Committee:

Makes reports to the Board of Directors regarding the remuneration policy for directors, audit & supervisory board members and corporate officers as well as evaluation of their performance. In fiscal 2018, 8 meetings of the Remuneration Advisory Committee were held. In addition to discussing bonuses for directors and corporate officers for fiscal 2017, remuneration for individual directors and corporate officers for fiscal 2018, and the remuneration policy for fiscal 2018, the committee discussed the matter of adopting new long-term incentive-type remuneration that utilizes performance share units (PSUs).

(Chairman: External director Ms. Kanoko Oishi, Committee members: 2 external directors, 1 representative director and 1 external advisor)

<Committees under the Jurisdiction of President and CEO>

Compliance Committee:

To continue to be a Group that inspires a life of beauty and culture, the committee accurately grasps global and local social changes as well as the current situation within the Company, identifies management risk factors, and deliberates and decides on preventative measures and proposed countermeasures. The Compliance Committee reports risk-related issues, reviews recurrence prevention measures, reports whistleblown matters and matters raised for consultation, studies workplace culture for fundamental improvement measures of issues, monitors compliance-related activities and studies issues to improve. In fiscal 2018, we held 1 meeting of the Compliance Committee.

(Chairman: Representative Director, President and CEO Mr. Masahiko Uotani, Committee members: 14 members in total including corporate officers of the Company, regional headquarters presidents of the Americas, EMEA and Travel Retail, global general counsel, Observers: 2 full-time audit & supervisory board members)

Note: External director Ms. Yoko Ishikura, who chairs the Nomination Advisory Committee, is well-known by the name Ishikura, and that name is therefore presented here, but her name as recorded on the official family register is Ms. Yoko Kurita.

2) Reasons for Adopting the Current Framework

The Company has adopted the framework of a company with the audit & supervisory board system, which exercises the dual checking functions whereby business execution is supervised by the Board of Directors and audited for legality and appropriateness 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 corporate governance within the framework, the Company has incorporated superior functions of a company with a nominating committee, etc. and a company with audit and supervisory committee, 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 headquarters of Japan, China, Asia, the Americas, EMEA, and Travel Retail. Under the new management structure, the Board of Directors held repeated discussions with regard to an ideal state of the Company's corporate governance system that includes composition and operation of the Board of Directors. As a result, the Board of Directors concluded adopting the "monitoring board-type" would be appropriate to ensure sufficiently effective supervisory functions over the Shiseido Group overall, and resolved to implement the "monitoring board-type corporate governance" while leveraging advantages of the company with the audit & supervisory board system.

3) Diversity of Directors and Audit & Supervisory Board Members

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

When considering the diversity, it is a policy of the Company to appoint appropriate persons based on their personality and insight irrespective of gender, age, and nationality, etc., to stress not only diversity of these attributes, but also diversity in terms of tasks including professional knowledge and experiences in various fields related to the business management. In addition, the

Company has set a certain maximum term of office for external directors and external audit & supervisory board members in order to reflect their views, which are free from the Company's existing structure, to the management of the Company, and by allowing a handover period from long-serving external directors and audit & supervisory board members to newly-appointed external directors and audit & supervisory board members to ensure appropriate transition.

4) Ratio of External Directors at the Board of Directors

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

In the Company's Articles of Incorporation, the maximum number of directors is set at 12. Respecting this upper limit and in consideration of the Company's business portfolio and scale, an optimum number of directors are 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, high priority is given to independence. Our basic principle is that candidates of external directors and audit & supervisory board members are required to meet the Company's "Criteria for Independence of External Directors and Audit & Supervisory Board Members" as well as possess highly independent thinking.

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

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

In connection with selecting candidates for the external directors and audit & supervisory board members, the Company places emphasis on a high degree of independence of the candidate from the viewpoint of strengthening corporate governance and accordingly, the Company makes judgment on whether or not the candidate has a high degree of the independence in accordance with the Criteria.

The overview of the Criteria is as follows. The full text of the Criteria including specific numerical values is posted as items voluntarily disclosed relating to business report on the Company's website: Investors / General Meeting of Shareholders / Corporate Governance / General Meeting of Shareholders (https://www.shiseidogroup.com/ir/account/shareholder/).

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

i	He/She is not originally from Shiseido Company, Limited (the "Company") or an affiliated company (collectively the "Shiseido Group");
ii	He/She is not a principal counterparty of the Shiseido Group or originally therefrom;
iii	He/She is not a person whose principal counterparty is the Shiseido Group or originally therefrom;
iv	He/She is not a large shareholder of the Company or originally therefrom;
v	He/She is not an executive of a company whose large shareholder is the Shiseido Group or originally therefrom;
vi	He/She is not a lawyer, consultant or the like receiving a large sum of remuneration from the Shiseido Group;
vii	He/She is not a person receiving a large amount of donation from the Shiseido Group or originally therefrom;
viii	He/She is not an accounting auditor of the Company or originally therefrom;
ix	He/She has no one falling under i to viii above among their close relatives;
x	He/She does not belong to any company, etc. where such person is in a state of "cross-assumption of Offices of Directors, etc." with the Company;
xi	He/She is not in any other circumstances in which duties imposed on an independent External Director and Audit & Supervisory Board Member are reasonably deemed not to be achieved.

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

Of 6 directors who are currently in office as of December 31, 2018, 3 directors (50.0%) are highly independent external directors who meet the "Criteria for Independence of External Directors and Audit & Supervisory Board Members" of the Company. The other 3 directors who serve concurrently as corporate officers include two with career background in management outside the Shiseido Group, and 1 with career background in the Shiseido Group. The directors include 2 females (33.3%).

Of 5 audit & supervisory board members, 3 members (60.0%) are highly independent external audit & supervisory board members and 2 are full-time members with career background in the Shiseido Group. The members include 2 females (40.0%).

Of the total 11 directors and audit & supervisory board members, 6 members (54.5%) are highly independent external directors or external audit & supervisory board members, and 6 members are female (36.3%).

7) Succession for President and CEO

The Company considers that it should strive to have a candidate successor for the President and CEO selected under the President and CEO's own responsibility and authority, and that the 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 the 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 the 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, based on a candidate proposal selected by the President and CEO, the evaluation working group*, which consists of external directors and external audit & supervisory board members, makes a judgment from an independent and objective viewpoint as to whether the candidate is suitable. The function of the Nomination Advisory Committee, which includes the evaluation working group, is to perform an important function of the Board of Directors. Therefore, in principle the Board of Directors does not overturn the committee's judgement. Furthermore, when actually selecting the President and CEO's successor, the Nomination Advisory Committee deliberates fully on matters such as the final candidate and the process employed to select the final candidate, prior to reporting its opinion. The Board of Directors accords this report the utmost respect in passing a resolution regarding the selection.

In the event that there are problems when the Company's President and CEO selects the successor candidate, the Nomination Advisory Committee may take the leading role in the selection; however, this would be an extremely exceptional circumstance.

* Evaluation working group: A deliberation body to evaluate mainly nomination and remuneration of the President and CEO. The body's constituent and activities, etc. are described in page 67 "Framework to ensure objectivity, fairness and transparency of evaluation that serves as a basis of calculation for remuneration."

8) Succession and Training for Directors, Audit & Supervisory Board Members and Corporate Officers

The Company believes that it is important to have a succession plan for not only President and CEO 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 that in addition to appointing personnel having credentials required to serve as directors, audit & supervisory board members and corporate officers, it is also important to provide them with necessary training and information. The Company provides candidates for new directors and candidates for new audit & supervisory board members with training with regard to legal and statutory authorities and obligations, etc. utilizing training programs provided by external institutions as necessary. In addition, when a new external director or external audit & supervisory board member is scheduled to come on board, the Company provides training regarding the industry the Company operates business in, the history, business overview, strategy, etc. of the Company.

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

(3) Systems for Internal Control

The Company resolved to establish "Basic Policy regarding Internal Control Systems" at the Board of Directors meeting on May 12, 2006 in order to build a highly effective internal control system, and operates the internal control system prepared in accordance with the policy, making revisions as necessary.

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

"Basic Policy Regarding Internal Control Systems" of the Company and the Group 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 members.

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 Group Standards of Business Conduct and Ethics," 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 Group Standards of Business Conduct and Ethics," 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 Group Standards of Business Conduct and Ethics," so that environments for the formulation of detailed internal regulations of the Company will be created at every group company and business office.

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

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

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

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

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

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

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

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

Furthermore, with respect to the execution of important business, the relevant meeting etc. for decision making on business execution, consisting of corporate officers shall deliberate the business execution from various viewpoints.

The Board of Directors and the relevant meeting etc. for decision making on business execution shall confirm the status of development vis-à-vis the target and conduct necessary improvement measure.

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

Important documents such as minutes of the Board of Directors meetings and minutes of the relevant meeting etc. for decision making on business execution shall be managed pursuant to laws and regulations and the internal regulations of the Company and these important documents shall be presented to directors and audit & supervisory board members immediately whenever requested for inspection.

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

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

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

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

In the case of emergency, countermeasure headquarters shall be set up by the regional headquarters of the region where the emergency occurred, the Company, or both, pursuant to the situation, how serious the impact on the Group and other factors, and that headquarters shall take the countermeasures.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

The Company continues improving and operating the internal control system in accordance with the abovementioned Basic Policy, and operated the system in fiscal 2018 as described below. Overall status of maintenance and operation of the internal control system at the Company and subsidiaries are included in the scope of the audit by Audit & Supervisory Board (members) and monitored by the internal audit division.

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

- In the current term, the Risk Management Department started presenting reports on the Company's risk incidents at the Board of Directors meetings every quarter from June onwards. In October, the Company held Compliance Committee meetings to reaffirm the role of the committee, report on shared global risks for the Company and discuss them.
- At overseas locations, the Company appointed RMOs (Risk Management Officer) at each regional headquarters and BEOs (Business Ethics Officer) under the RMOs to take charge of overall risk management. The Risk Management Department cooperated with the RMOs and BEOs to promote knowledge of global rules for areas under the department's management, as well as the "Shiseido Group Standards of Business Conduct and Ethics" (Travel Retail in January 2018, Asia Pacific and Travel Retail in April, China and EMEA in November, and Asia Pacific in December).
- In January 2018, the Company revised its global rules, the "Compliance Rules Regarding Prevention of Bribery," and established local rules of the "Compliance Rules Regarding Prevention of Cartels" (China and EMEA). In Japan, the Company held training on harassment for management in March, training on corporate ethics for new recruits in April, training on risk management for newly appointed corporate officers in May, and training for all employees on harassment from September to November.
- In accordance with the "Audit Division Operation Manual (including the Regulations for Internal Audits)," the Company verified the status of establishment and operation of internal control in the overall Shiseido Group, from the perspectives of effectiveness and efficiency of business operations, reliability of financial reports and compliance with relevant laws, regulations, and internal rules, as well as safeguarding company assets.

<Measures for exclusion of anti-social forces>

The Company applied its preliminary screening system to all new suppliers and business partners of transactions above a prescribed amount of the Company, to all such suppliers and partners of Shiseido Japan Co., Ltd., and to all such suppliers and partners of affiliated companies. The Company conducted 2,346 preliminary screenings during the year. In December 2017, the Company introduced a preliminary screening system for new customers in the Group. The Company also conducted information gathering through seminars and so forth.

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

- On January 1, 2018, the Company appointed 15 corporate officers (including two who serve concurrently as representative directors) and six presidents of regional headquarters (including three who serve concurrently as corporate officers of the Company) and clarified the areas of responsibility for their respective execution of duties. Furthermore, to enhance the appropriateness and properness of final resolutions to be made by the Representative Director, President and CEO over important business execution following multifaceted reviews by relevant corporate officers, presidents of regional headquarters and others, the Company has established the Executive Committee and others (including the People Committee, Innovation Committee, and Supply Network Committee) and Meetings for Development of Medium-term/Annual Plans. At these meetings, the Company regularly receives reports from respective corporate officers on the status of progress towards targets.
- The Company has established a process by which each corporate officer and so forth makes their own discussions within their area of responsibility.

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

- The minutes of the Board of Directors meetings are prepared by the Legal and Governance Department and retained permanently, longer than the statutory retention period of 10 years. To make allowance for requests to view the minutes as part of the execution of shareholders' rights, the minutes are stored by the IR Department (the department responsible for dealing with shareholders). Minutes of important executive meetings such as the Executive Committee are prepared by the Corporate Strategy Department, which retains the minutes for 10 years or permanently. With regard to protection of information assets, the Company has developed and implemented the "Information System Usage Regulation," "Information System Controlling Regulation," "Information Asset Handling Regulation," "Confidential Information Controlling Regulation," "Privacy Rules," "Personal Information Protection Regulation" and "Specific Personal Information Handling Regulation" under "the Shiseido Group Information Security Management Policy." Furthermore, with regard to information disclosure, the company has developed and implemented the "Internal Regulation on Internal Information Management and Regulations on Transactions of Internal Personnel (Internal Regulations for Executives and Employees). In addition, the Company has created and implemented a "System for the Process for Disclosing Information about Decisions and Financial Results" and a "System for the Process for Disclosing Information about Incidents."
- With regard to important matters relating to every group company, the Company has arranged that corporate officers in charge of respective group company to report at the Executive Committee or the Board of Directors in compliance with the Regulation on the Board of Directors, as well as the Regulation on the Corporate Officers and the like.

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

- Overseas, the Company conducted risk assessments during the first half of 2018. In June 2018, a meeting of RMOs was held in Tokyo, where they discussed global and regional risks as well as measures to reduce them with relevant divisions. Risk assessments were updated every quarter and reported at Board of Directors meetings in June, September, and December.
- In Japan, risk managers have been appointed in 25 divisions of the Company and Shiseido Japan Co., Ltd. that are involved with incident response and at 12 affiliate companies to serve as contacts for communication from the Risk Management Department. This has created a support system for response operations to assist with incident control conducted by divisions and business sites where incidents occur.
- In November 2018, a liaison meeting for risk managers was held to provide an opportunity for them to share information about their roles and incidents. In June 2018, the Company formulated rules for labeling in China and Taiwan, and proposed them to brand holders and related divisions. In light of frequently occurring natural disasters, the local HQ emergency taskforce system was reformed and summarized in a manual, and HQ emergency taskforce drills were held in the Kanetsu and Kyushu regions.

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

- The Company has established the Audit & Supervisory Board Staff Group in the internal audit department directly supervised by Representative Director, President and CEO, to assist duties of Audit & Supervisory Board and audit & supervisory board members and has assigned three concurrently-assigned employees. The employees assist with gathering information and preparing materials needed for the audit & supervisory board members' audits and carry out secretariat duties for the Audit & Supervisory Board. In addition, in order to secure independence of the employees from the directors, etc. and to secure effectiveness of directions of audit & supervisory board members, decisions on matters relating to appointment, relocation, evaluation and other personnel related matters regarding the employees are made by the director of internal audit department, following consent of a full-time audit & supervisory board member.

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

- In addition to legally mandated attendance at Board of Directors meetings, the Company ensures that full-time audit & supervisory board members are offered opportunities to attend other important meetings for business executors, such as the Executive Committee, and the Compliance Committee as observers. Through these meetings, reports and information are provided to the audit & supervisory board members. In addition, upon request from an audit & supervisory board member, the Company provides materials and information.
- With respect to its whistle-blowing system, the Company has established the Reporting E-mail to Audit & Supervisory Board Members point of contact for in-house reporting, such that enables audit & supervisory board members to directly receive reports regarding incidents that could pose a threat of damaging people's trust in the Shiseido Group.

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

- The Company budgets expenses based on the annual activity plan at the beginning of every business year. There is also a rule in place that in case spending in excess of the budgeted amount becomes necessary, a request for additional budget may be made.

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

- The representative directors and audit & supervisory board members hold opinion exchange meetings as needed, and external directors and audit & supervisory board members hold information sharing meetings as needed. In addition, the accounting auditor and audit & supervisory board members hold opinion exchange meetings as needed, and also hold meetings on reporting accounting auditor's audit results on a quarterly basis. External directors also attended the meetings twice a year on a half-yearly basis to promote sharing of information as necessary. Full-time audit and supervisory board members receive reports monthly on the internal audits conducted by the internal audit division, which is the division responsible for internal auditing, and receive audit result reports of each domain semi-annually from the Quality Management Department, the Global ICT Department, the Risk Management Department, and the management support department of Shiseido Japan Co., Ltd.
- Three-party audit liaison meetings are held three times a year to enable audit & supervisory board members, the accounting auditor, and the internal audit division to share audit information. Furthermore, they also attend important meetings held by the executive division, such as Board of Directors and Executive Committee meetings, to check on the content of deliberations.

3) Framework for Confirmation of Transactions with Related Parties

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

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

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

(As of December 31, 2018)

Position	Name	Responsibilities at the Company
Representative Director President and CEO	Masahiko Uotani	Chairman of the Board Member of Nomination Advisory Committee Member of Remuneration Advisory Committee Chairman of Compliance Committee
Representative Director Corporate Executive Officer	Jun Aoki	Human Resources, Executive and External Relations, and Corporate Culture Member of Compliance Committee Chairman of Shiseido Liyuan Cosmetics Co., Ltd.
Director Corporate Executive Officer	Yoichi Shimatani	R&D Strategy, GIC* Integrated Operations, Cosmetics Value Development, Cosmetics R&D, Intellectual Property, Advanced Research, Incubation, Safety & Analytics Research
External Director <Independent>	Yoko Ishikura	Chairman of Nomination Advisory Committee Member of Remuneration Advisory Committee
External Director <Independent>	Shinsaku Iwahara	Member of Nomination Advisory Committee Member of Remuneration Advisory Committee
External Director <Independent>	Kanoko Oishi	Chairman of Remuneration Advisory Committee Member of Nomination Advisory Committee
Audit & Supervisory Board Member (Full-time)	Takeshi Yoshida	Observer of Compliance Committee
Audit & Supervisory Board Member (Full-time)	Kyoko Okada	Observer of Compliance Committee
Audit & Supervisory Board Member (External) <Independent>	Nobuo Otsuka	—
Audit & Supervisory Board Member (External) <Independent>	Hiroshi Ozu	—
Audit & Supervisory Board Member (External) <Independent>	Eiko Tsujiyama	—

(As of January 1, 2019)

Position	Name	Responsibilities at the Company
Representative Director President and CEO	Masahiko Uotani	Chairman of the Board Member of Nomination Advisory Committee Member of Remuneration Advisory Committee Chairman of Compliance Committee
Representative Director Executive Vice President	Yoichi Shimatani	Chief Innovation Officer Assisting the CEO in general corporate management Member of Compliance Committee
Director Executive Corporate Officer	Jun Aoki	Chief People Officer Chief Social Value Creation Officer Assisting the CEO in general corporate management Human Resources, Social Value Creation, Facility Management Member of Compliance Committee
External Director <Independent>	Yoko Ishikura	Chairman of Nomination Advisory Committee Member of Remuneration Advisory Committee
External Director <Independent>	Shinsaku Iwahara	Member of Nomination Advisory Committee Member of Remuneration Advisory Committee
External Director <Independent>	Kanoko Oishi	Chairman of Remuneration Advisory Committee Member of Nomination Advisory Committee
Audit & Supervisory Board Member (Full-time)	Takeshi Yoshida	Observer of Compliance Committee
Audit & Supervisory Board Member (Full-time)	Kyoko Okada	Observer of Compliance Committee
Audit & Supervisory Board Member (External) <Independent>	Nobuo Otsuka	—
Audit & Supervisory Board Member (External) <Independent>	Hiroshi Ozu	—
Audit & Supervisory Board Member (External) <Independent>	Eiko Tsujiyama	—

* GIC: Global Innovation Center

Notes:

1. There are 6 directors and 5 audit & supervisory board members as of December 31, 2018, of which 7 are male and 4 are female.
2. Ms. Yoko Ishikura, Mr. Shinsaku Iwahara and Ms. Kanoko Oishi are external directors as provided in Item 15 of Article 2 of the Companies Act of Japan.
3. Mr. Nobuo Otsuka, Mr. Hiroshi Ozu and Dr. Eiko Tsujiyama are audit & supervisory board members (external) as provided in Item 16 of Article 2 of the Companies Act of Japan.

4. The Company has designated Ms. Yoko Ishikura, Mr. Shinsaku Iwahara, Ms. Kanoko Oishi, Mr. Nobuo Otsuka, Mr. Hiroshi Ozu and Dr. Eiko Tsujiyama as Independent Directors/Audit & Supervisory Board Members as prescribed in Article 436-2 of the Securities Listing Regulations of the Tokyo Stock Exchange.

   All of these external directors and audit & supervisory board members (external) (collectively the "External Directors and Audit & Supervisory Board Members") meet the Company's "Criteria for Independence of External Directors and Audit & Supervisory Board Members" (Please refer to "Criteria for Independence of External Directors and Audit & Supervisory Board Members," posted as items voluntarily disclosed relating to business report on the Company's website: Investors / General Meeting of Shareholders / Corporate Governance / General Meeting of Shareholders (https://www.shiseidogroup.com/ir/account/shareholder/)) and have sufficient independency.

5. Director Mr. Yoichi Shimatani, director Mr. Shinsaku Iwahara and audit & supervisory board member Mr. Takeshi Yoshida were newly elected at the 118th ordinary general meeting of shareholders of the Company held on March 27, 2018, and assumed office as of the same date. Other directors were reelected at the same meeting and reassumed office.

6. Audit & supervisory board member (full-time) Mr. Takeshi Yoshida has had experience as the Department Director of the Internal Audit Department of the Company, and has respectable knowledge in finance and accounting. Dr. Eiko Tsujiyama, audit & supervisory board member (external), was a professor at the Faculty of Commerce, Waseda University until April 2018 and currently is an emeritus professor of the university. She is an expert in finance, accounting and tax issues qualified as a certified public accountant, and has respectable knowledge in finance and accounting.

(5) Matters Concerning Important Position at Other Organizations Concurrently Assumed by Directors and Audit & Supervisory Board Members

Position	Name	Important Position at Other Organizations Concurrently Assumed
External Director	Yoko Ishikura	Outside Director of Nissin Food Holdings Co., Ltd. Outside Director of Sojitz Corporation
External Director	Shinsaku Iwahara	Professor, Faculty of Law, Waseda University
External Director	Kanoko Oishi	CEO of MEDIVA Inc. CEO of Seeds 1 Co., Ltd. Outside Director of Ezaki Glico Co., Ltd. External Board Member of Santen Pharmaceutical Co., Ltd. External Director of Suruga Bank Ltd.
Audit & Supervisory Board Member (External)	Nobuo Otsuka	Chairman of Keiseikai Hospital Group
Audit & Supervisory Board Member (External)	Hiroshi Ozu	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 foundation) President of Criminal Justice Welfare Forum Oasis (general incorporated association) President of Japan Criminal Policy Society
Audit & Supervisory Board Member (External)	Eiko Tsujiyama	Outside Director of ORIX Corporation Outside Corporate Auditor of LAWSON, INC. Outside Audit & Supervisory Board Member of NTT DOCOMO, INC.

Notes:

1. The Company has established "Criteria for Important Concurrent Positions." The above information is provided in accordance with the criteria. The criteria are posted as items voluntarily disclosed relating to the business report on the Company's website: Investors / General Meeting of Shareholders / Corporate Governance / General Meeting of Shareholders (https://www.shiseidogroup.com/ir/account/shareholder/).
2. External Director Ms. Yoko Ishikura retired as Outside Director of Sojitz Corporation in June 2018.
3. External Director Ms. Kanoko Oishi retired as External Director of Suruga Bank Ltd. in June 2018.

(6) Outline of Execution of Liability Limitation Agreements

The Company established provisions in the Articles of Incorporation enabling the Company to enter into an agreement with external directors and audit & supervisory board members (external) limiting their liability for compensation of damages through a resolution at the 106th ordinary general

meeting of shareholders held on June 29, 2006 for the purpose of inducing external directors and audit & supervisory board members (external) to fully perform expected roles and enabling the Company to invite competent personnel.

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

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

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

Position and Name	Concurrent Position at Other Organizations	Important Position at Other Organizations Concurrently Assumed and Relationships Between Organizations and the Company				
		Transaction Matter, etc.	Vendor, Recipient of Supporting Money, etc.	Purchaser, Provider of Supporting Money, etc.	Percentage of Transaction Value	Value for Comparison
External Director Yoko Ishikura	Outside Director of Nissin Food Holdings Co., Ltd.	Outsourcing business, etc.	Nissin Food Group	Shiseido Group	Less than 1%	Total amount of cost of sales and selling, general and administrative expenses of the Company on a consolidated basis for the fiscal year ended December 31, 2018
					Less than 1%	Consolidated net sales of Nissin Food Holdings Co., Ltd. for the fiscal year ended March 31, 2018
	Outside Director of Sojitz Corporation	Outsourcing business, etc.	Sojitz Group	Shiseido Group	Less than 1%	Total amount of cost of sales and selling, general and administrative expenses of the Company on a consolidated basis for the fiscal year ended December 31, 2018
					Less than 1%	Total revenues of Sojitz Corporation on a consolidated basis for the fiscal year ended March 31, 2018
External Director Shinsaku Iwahara	Professor of Faculty of Law, Waseda University	The Company is engaged in joint studies, etc. on beauty and health with Waseda University. Mr. Shinsaku Iwahara is not involved in these joint studies.				
External Director Kanoko Oishi	CEO of MEDIVA Inc.	Outsourcing business, etc.	MEDIVA Group	Shiseido Group	Less than 1%	Total amount of cost of sales and selling, general and administrative expenses of the Company on a consolidated basis for the fiscal year ended December 31, 2018
					Less than 1%	Net sales of MEDIVA Inc. for the fiscal year ended December 31, 2018
	CEO of Seeds 1 Co., Ltd.	The Company has no special relationships of interest with Seeds 1 Co., Ltd.				
	Outside Director of Ezaki Glico Co., Ltd.	Snacks, etc. (mail order)	Ezaki Glico Group	Shiseido Group	Less than 1%	Total amount of cost of sales and selling, general and administrative expenses of the Company on a consolidated basis for the fiscal year ended December 31, 2018
					Less than 1%	Consolidated net sales of Ezaki Glico Co., Ltd. for the fiscal year ended March 31, 2018
	External Board Member of Santen Pharmaceutical Co., Ltd.	Cosmetics, etc.	Shiseido Group	Santen Pharmaceutical Group	Less than 1%	Consolidated net sales of the Company for the fiscal year ended December 31, 2018
					Less than 1%	Cost of sales of Santen Pharmaceutical Co., Ltd. on a consolidated basis for the fiscal year ended March 31, 2018
	External Director of Suruga Bank Ltd.	The Company has no special relationships of interest with Suruga Bank Ltd.				
Audit & Supervisory Board Member (External) Nobuo Otsuka	Chairman of Keiseikai Hospital Group	The Company has no special relationships of interest with Keiseikai Hospital Group.				

Position and Name	Concurrent Position at Other Organizations	Important Position at Other Organizations Concurrently Assumed and Relationships Between Organizations and the Company				
		Transaction Matter, etc.	Vendor, Recipient of Supporting Money, etc.	Purchaser, Provider of Supporting Money, etc.	Percentage of Transaction Value	Value for Comparison
Audit & Supervisory Board Member (External) Hiroshi Ozu	External Audit & Supervisory Board Member of MITSUI & CO., LTD.	Outsourcing business, etc.	MITSUI & CO. Group	Shiseido Group	Less than 1%	Total amount of cost of sales and selling, general and administrative expenses of the Company on a consolidated basis for the fiscal year ended December 31, 2018
					Less than 1%	Total revenue of MITSUI & CO., LTD. on a consolidated basis for the fiscal year ended March 31, 2018
	Outside Audit & Supervisory Board Member of TOYOTA MOTOR CORPORATION	Automobile rental, etc.	TOYOTA Group	Shiseido Group	Less than 1%	Total amount of cost of sales and selling, general and administrative expenses of the Company on a consolidated basis for the fiscal year ended December 31, 2018
					Less than 1%	Total net revenues of TOYOTA MOTOR CORPORATION on a consolidated basis for the fiscal year ended March 31, 2018
	Representative Director of Shimizu Scholarship Foundation	The Company has no special relationships of interest with Shimizu Scholarship Foundation.				
	President of Criminal Justice Welfare Forum Oasis (general incorporated association)	The Company has no special relationships of interest with Criminal Justice Welfare Forum Oasis (general incorporated association).				
	President of Japan Criminal Policy Society	The Company has no special relationships of interest with Japan Criminal Policy Society.				
Audit & Supervisory Board Member (External) Eiko Tsujiyama	Emeritus Professor of Waseda University	The Company is engaged in joint studies, etc. on beauty and health with Waseda University. Dr. Eiko Tsujiyama is not involved in these joint studies.				
	Outside Director of ORIX Corporation	Office rent, etc.	ORIX Group	Shiseido Group	Less than 1%	Total amount of cost of sales and selling, general and administrative expenses of the Company on a consolidated basis for the fiscal year ended December 31, 2018
					Less than 1%	Total amount of operating revenues of ORIX Corporation on a consolidated basis for the fiscal year ended March 31, 2018
	Outside Corporate Auditor of LAWSON, INC.	Raw materials, etc.	LAWSON Group	Shiseido Group	Less than 1%	Total amount of cost of sales and selling, general and administrative expenses of the Company on a consolidated basis for the fiscal year ended December 31, 2018
					Less than 1%	Net sales of LAWSON, INC. on a consolidated basis for the fiscal year ended February 28, 2018
		Cosmetics, etc.	Shiseido Group	LAWSON Group	Less than 1%	Consolidated net sales of the Company for the fiscal year ended December 31, 2018
					Approx. 1%	Consolidated cost of sales of LAWSON, INC. for the fiscal year ended February 28, 2018
	Outside Audit & Supervisory Board Member of NTT DOCOMO, INC.	Telecommu-nication services, etc.	NTT DOCO-MO Group	Shiseido Group	Less than 1%	Total amount of cost of sales and selling, general and administrative expenses of the Company on a consolidated basis for the fiscal year ended December 31, 2018
					Less than 1%	Total amount of operating revenues of NTT DOCOMO, INC. on a consolidated basis for the fiscal year ended March 31, 2018

Notes:

1. This table indicates important positions at other organizations concurrently assumed by external directors and external audit & supervisory board members, and the existence of relationships with the Company. Where transactions exist between such organizations and the Company, the table is intended to indicate that the transactions are minimal in

terms of scale, and where transactions exist that are in competition with organizations in which positions are concurrently assumed, the table is intended to indicate that the transactions have no negative impact on the interests of shareholders.

2. In the table, the name of the company group at which the external director and audit & supervisory board member holds a concurrent position includes that company itself, as well as parent companies, consolidated subsidiaries, equity method affiliates, etc. whose names are listed under the "Information on Affiliates" in "1. Overview of the Company" of "Part I. Information on the Company" in the Securities Report submitted by that company in the immediately preceding business year; similarly, "the Shiseido Group" includes Shiseido Company, Limited, as well as parent companies, consolidated subsidiaries, and equity-method affiliates whose names are listed under the "Information on Affiliates" in "1. Overview of the Company" of "Part I. Information on the Company" in the Securities Report submitted in the immediately preceding business year.
3. The Company has established "Criteria for stating the relationship between the Company and the organizations in which the Company's External Director holds "Important Concurrent Positions." The above information is provided in accordance with these criteria. The criteria are posted as items voluntarily disclosed relating to business report on the Company's website: Investors / General Meeting of Shareholders / Corporate Governance / General Meeting of Shareholders (https://www.shiseidogroup.com/ir/account/shareholder/)
4. External Director Ms. Yoko Ishikura retired as Outside Director of Sojitz Corporation in June 2018.
5. External Director Ms. Kanoko Oishi retired as External Director of Suruga Bank Ltd. in June 2018.

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

Position	Name	Major Activities
External Director	Yoko Ishikura	Ms. Ishikura attended 18 out of 18 Board of Directors meetings (Attendance rate: 100%). She made remarks from a broad standpoint of international corporate strategies and diversity as necessary and fulfilled a supervisory function in regard to the management. She also served as a member of Nomination Advisory Committee of the Company and a member of Remuneration Advisory Committee of the Company until March 2018, and has been serving as Chairman of Nomination Advisory Committee of the Company and a member of Remuneration Advisory Committee of the Company since April 2018.
External Director	Shinsaku Iwahara	Since assuming the office of external director in March 2018, Mr. Iwahara attended 13 out of 14 Board of Directors meetings (Attendance rate: 92.8%). Based on his knowledge in the area of the capital market, finance industry and corporate governance, in addition to his legal knowledge as a university professor specializing in legal research, he made remarks as necessary and fulfilled a supervisory function in regard to the management. Also, after assuming the office of external director, he served as a member of Nomination Advisory Committee of the Company and a member of Remuneration Advisory Committee of the Company.
External Director	Kanoko Oishi	Ms. Oishi attended 17 out of 18 Board of Directors meetings (Attendance rate: 94.4%). She made remarks as necessary based on her experiences and knowledge gained through her career in the business management inside and outside Japan as well as from a standpoint of active manager who is pushing forward patient-centered transformation of the medical industry, and fulfilled a supervisory function in regard to the management. She also served as a member of Nomination Advisory Committee of the Company and a member of Remuneration Advisory Committee of the Company until March 2018, and has been serving as Chairman of Remuneration Advisory Committee of the Company and a member of Nomination Advisory Committee of the Company since April 2018.
Audit & Supervisory Board Member (External)	Nobuo Otsuka	Mr. Otsuka attended 18 out of 18 Board of Directors meetings (Attendance rate: 100%) and 15 out of 15 Audit & Supervisory Board meetings (Attendance rate: 100%). Based on his experience and knowledge as a management executive of medical corporations, he made remarks as necessary and fulfilled an auditing function.

Position	Name	Major Activities
Audit & Supervisory Board Member (External)	Hiroshi Ozu	Mr. Ozu attended 18 out of 18 Board of Directors meetings (Attendance rate: 100%) and 15 out of 15 Audit & Supervisory Board meetings (Attendance rate: 100%). Based on his legal experiences and knowledge, he made remarks as necessary and fulfilled an auditing function.
Audit & Supervisory Board Member (External)	Eiko Tsujiyama	Dr. Tsujiyama attended 18 out of 18 Board of Directors meetings (Attendance rate: 100%) and 15 out of 15 Audit & Supervisory Board meetings (Attendance rate: 100%). Based on her experience and knowledge in finance, accounting and tax issues, she made remarks as necessary and fulfilled an auditing function.

Note: In 2018, two deemed resolutions of the Board of Directors were made pursuant to Article 370 of the Companies Act of Japan and Article 24 of the Company's Articles of Incorporation, in addition to the 18 Board of Directors meetings stated in the table. The directors eligible to participate in carrying out resolutions on items of business unanimously furnished their agreement with respect to the proposals regarding the deemed resolutions, and none of the audit & supervisory board members stated objections.

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

Position	Name	Responsibilities	
		As of December 31, 2018	As of January 1, 2019
Corporate Executive Officer	Shigekazu Sugiyama	Japan Region Representative Director, President, Shiseido Japan Co., Ltd. Member of Compliance Committee	CEO, Japan Region Representative Director, President, Shiseido Japan Co., Ltd. Member of Compliance Committee
Corporate Executive Officer	Norio Tadakawa	Chief Finance Officer Finance, Corporate Planning, Investor Relations, SN* Strategy, Production Technology, Supply & Purchasing, Global Business Support, Japan Business Support, Factories Member of Compliance Committee	Chief Supply Network Officer SN Strategy, Supply & Purchasing, Global Initiative, Demand & Supply Planning, Logistics, Production, Factories, Nasu Factory Establishment Member of Compliance Committee
Corporate Officer	Jean-Philippe Charrier	Asia Pacific Region President, Shiseido Asia Pacific Pte. Ltd. Member of Compliance Committee	CEO, Asia Pacific Region President, Shiseido Asia Pacific Pte. Ltd. Member of Compliance Committee
Corporate Officer	Kentaro Fujiwara	China Region Chairman and President, Shiseido China Co., Ltd. Member of Compliance Committee	CEO, China Region Chairman and President, Shiseido China Co., Ltd. Member of Compliance Committee
Corporate Officer	Katharina Höhne	Global Professional Business	Senior Vice President, Global Professional Business Member of Compliance Committee
Corporate Officer	Masaya Hosaka	SCM*, Purchasing, Production, Technology and Engineering, Factories, Frontier Science Business	–
Corporate Officer	Mitsuru Kameyama	ICT* Strategy & Platform, Global System Member of Compliance Committee	Chief Information Technology Officer Global ICT, Information Security Member of Compliance Committee
Corporate Officer	Yoshiaki Okabe	*SHISEIDO* Brand	Chief Brand Officer, brand *SHISEIDO*, Global Prestige Brands *SHISEIDO* Brand
Corporate Officer	Yoshihiro Shiojima	Legal & Governance, Risk Management, Sustainability Strategy, Regulatory Strategy, Quality Management Member of Compliance Committee	Chief Quality Officer Quality Management, Regulatory Strategy, Executive & External Relations Member of Compliance Committee
Corporate Officer	Mikiko Soejima	Beauty Creation	–
Corporate Officer	Yukari Suzuki	*Clé de Peau Beauté* Brand	Chief Brand Officer, *Clé de Peau Beauté*, Global Prestige Brands *Clé de Peau Beauté* Brand
Corporate Officer	Naomi Yamamoto	Creative	Chief Creative Officer Creative, Beauty Creation, Social Value Creation

* SN: Supply Network

* SCM: Supply Chain Management

* ICT: Information & Communication Technology

Notes:

1. Corporate officers who retired during the fiscal year and on December 31, 2018 are as follows:

Position	Name	Date of Retirement
Corporate Officer	Masaya Hosaka	December 31, 2018
Corporate Officer	Mikiko Soejima	December 31, 2018

2. Corporate officers who were designated as of January 1, 2019 are as follows:

Position	Name	Responsibilities
Corporate Officer	Michael Coombs	Chief Financial Officer Strategic Finance, Financial Accounting, Investor Relations, Business Development Member of Compliance Committee
Corporate Officer	Kiyomi Horii	Chief Beauty Strategy Officer
Corporate Officer	Terufumi Yorita	Chief Legal Officer Legal & Governance, Risk Management Member of Compliance Committee
Corporate Officer	Katsunori Yoshida	Chief Product Development Officer Cosmetics R&D, Package Development, Process Engineering Development

(10) Remuneration, etc. to Directors and Audit & Supervisory Board Members

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

The Company regards the directors, audit & supervisory board members and corporate officers remuneration policy as an important matter for 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 view.

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

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

1. contribute to realizing the 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 short-term views and wrongdoing; and
5. be designed as transparent, fair and reasonable from the viewpoint of accountability to stakeholders including shareholders and employees, and remuneration shall be determined through appropriate processes to ensure those points.

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

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

2) Amount of Remuneration, etc. to Directors and Audit & Supervisory Board Members for the Fiscal Year Ended December 31, 2018

Remuneration, etc. disclosed herein encompasses remuneration paid in fiscal 2018 and remuneration to be paid on the basis of performance until the end of fiscal 2018. Although the Company will update content of its long-term incentive-type remuneration(LTI) effective from fiscal 2019, its use of stock compensation-type stock options continues until the end of fiscal 2018. Details regarding stock compensation-type stock options until the end of fiscal 2018 are posted as items voluntarily disclosed relating to business report on the Company's website: Investors / General Meeting of Shareholders / Corporate Governance / General Meeting of Shareholders (https://www.shiseidogroup.com/ir/account/shareholder/)

(Millions of yen)

	Basic Remuneration	Bonus	Long-Term Incentive (Stock Option)	Total
Directors (9 persons)	281	212	102	597
External Directors among Directors (5 persons)	49	—	—	49
Audit & Supervisory Board Members (6 persons)	104	—	—	104
Audit & Supervisory Board Members (External) among Audit & Supervisory Board Members (3 persons)	39	—	—	39
Total	386	212	102	701

Notes:

1. Basic remuneration for directors has a ceiling of ¥2.0 billion annually (including a total of ¥0.2 billion or less for external directors) as per the resolution of the 118th ordinary general meeting of shareholders held on March 27, 2018. Basic remuneration for audit & supervisory board members has a ceiling 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 to be paid as bonuses to directors for fiscal 2018 indicated above is the amount that the Board of Directors has resolved to pay, such that is within the ceiling amount as stated above in Note 1. The sum total of the amount to be paid for the aforementioned bonuses and the amount paid as basic remuneration in fiscal 2018 is within the ceiling amount as stated above in Note 1.
3. The amount of long-term incentive-type remuneration (stock options) indicated above represents the expenses associated with the fiscal year among the stock options (share acquisition rights) in the fiscal year, upon the approval of the ordinary general meeting of shareholders, in consideration of duties executed by directors.
4. In addition to the above payments, other remuneration, etc. of ¥25 million was recorded for the fiscal year ended December 31, 2018 as expenses associated with stock options granted to two directors of the Company, at the time the directors served as corporate officers not holding the office of directors.
5. None of the directors or the audit & supervisory board members will be paid remuneration other than described above (including that described in notes 1 through 4).

3) Amounts of Remuneration, etc. of Representative Directors and Directors Whose Total Amount of Remuneration, etc. Exceeds ¥100 Million, by Type of Remuneration for the Fiscal Year Ended December 31, 2018

Remuneration, etc. disclosed herein encompasses remuneration paid in fiscal 2018 and remuneration to be paid on the basis of performance until the end of fiscal 2018. Although the Company will update the content of its LTI effective from fiscal 2019, its use of stock compensation-type stock options continues until the end of fiscal 2018. Details regarding stock

compensation-type stock options until the end of fiscal 2018 are posted as items voluntarily disclosed relating to business report on the Company's website: Investors / General Meeting of Shareholders / Corporate Governance / General Meeting of Shareholders (https://www.shiseidogroup.com/ir/account/shareholder/).

(Millions of yen)

	Basic Remuneration	Bonus	Long-Term Incentive (Stock Option)	Total
Masahiko Uotani, Representative Director	153	163	95	412
Jun Aoki Representative Director	44	25	7	77

Notes:

1. The above amount to be paid as bonuses to directors for fiscal 2018 is the amount that the Board of Directors has resolved to pay, such that is within the ceiling of ¥2.0 billion annually (including a total of ¥0.2 billion or less for external directors) as per the resolution of the 118th ordinary general meeting of shareholders held on March 27, 2018.
2. The amount of long-term incentive-type remuneration (stock options) indicated above represents the expenses associated with the fiscal year among the stock options (share acquisition rights) in the fiscal year, upon the approval of the ordinary general meeting of shareholders, in consideration of duties executed by directors.
3. In addition to the above payments, there are other remuneration, etc. of ¥6 million recorded for the fiscal year ended December 31, 2018 as expenses associated with stock options granted to Representative Director Jun Aoki at the time he served as corporate officer not holding the office of director.
4. None of the two directors above will be paid remuneration other than described above (including that described in notes 1 through 3).

4) Directors, Audit & Supervisory Board Members and Corporate Officers Remuneration Aligned to the Three-Year Plan for 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.

From fiscal 2018 through fiscal 2020, the Company will hasten growth by creating a virtuous cycle while continuing to pursue structural reforms, and will accordingly design 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 profit, and other quantitative financial results.

Furthermore, given that the Company has achieved some of its financial targets set forth in its VISION 2020 quantitative targets three years ahead of schedule, in 2018, it set new long-term targets of net sales of ¥2 trillion and operating profit of ¥300.0 billion, geared to further achieving sustainable growth over the long run with its sights set on goals further off into the future. As such, the Company will introduce performance-linked stock remuneration as a new long-term incentive-type remuneration (LTI), wherein performance share units will replace the existing stock compensation-type stock options, to take effect in fiscal 2019.

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

Rank as Corporate Officer	Composition of Remuneration for Directors and Corporate Officers			
	Basic Remuneration	Performance-Linked Remuneration		Total
		Annual Bonus	Long-Term Incentive-Type Remuneration	
President and CEO	46%	27%	27%	100%
Executive Vice President	54%–56%	22%–23%	22%–23%	
Corporate Executive Officer	54%–60%	20%–23%	20%–23%	
Corporate Officer	56%–64%	18%–22%	18%–22%	

Notes:

1. In this model, the basic remuneration amount is the median of the applicable role grade, and the amount paid for performance-linked remuneration is based on 100% of a reference amount determined by the Company. The proportions stated above may change depending on changes in the Company's performance and changes in the share price.
2. There is no difference in the proportion of remuneration by remuneration type applied to directors based on whether a director has a representation right or otherwise.
3. Because different remuneration tables will be applied depending on the role grade of respective directors and corporate officers, proportions of remuneration by remuneration type will vary even within a same rank.
4. A fixed amount of remuneration separately provided in accordance with roles such as Chairman of the Board is not included in the table.

■ Basic remuneration

The Company designs basic remuneration in accordance with role grades based on the size and level of responsibility of respective officers 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 the achievements of respective directors and corporate officers.

For external directors and audit & supervisory board members, the Company shall not pay basic remuneration that has a certain allowance for increase, but pay fixed remuneration only which is determined in accordance with their respective roles.

■ Performance-linked remuneration

The performance-linked remuneration consists of an "annual bonus" provided as an incentive for achieving goals of single fiscal years, and "stock compensation as long-term incentive-type remuneration" provided with the aims of establishing a sense of common interests with the shareholders and instilling motivation to achieve the goals over the medium to long term. Accordingly, it is designed to motivate the directors and corporate officers to manage business operations while being more conscious about the Company's performance and share price from the perspectives of not only a single year but also over the medium to long term.

Given that new long-term goals have been set, the Company will introduce a new long-term incentive-type remuneration (LTI) to take effect in fiscal 2019 to replace the stock compensation-type stock options that the Company provided up to and through fiscal 2018.

■ Annual bonus

Of the performance-linked remuneration, the Company has set evaluation items for the annual bonus 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 profit as common performance indicators across directors and corporate officers. Although it is essential that the entire management team remain aware of matters involving net profit attributable to owners of parent, it is crucial that management not let the benchmark weigh too heavily on proactive efforts particularly involving future growth-oriented investment and resolving challenges with our sights set on achieving long-term growth. 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.

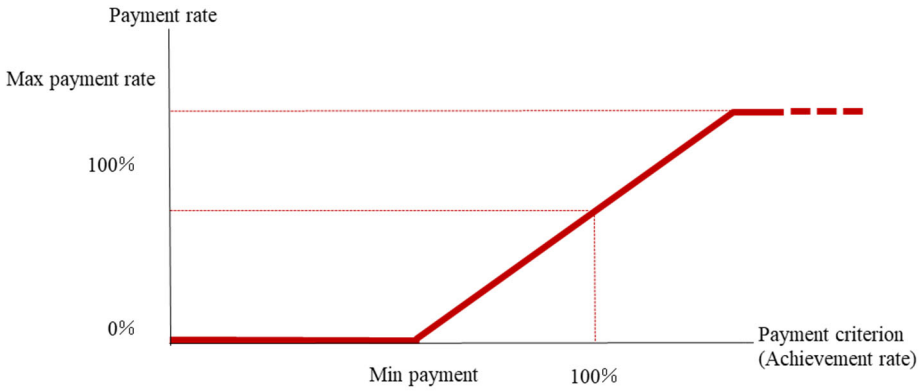
In addition, we set the individual performance evaluation of all directors and corporate officers in order to add the level of achievement regarding strategic goals that cannot be measured by the financial performance figures alone, such as efforts for restructuring of the business platform to realize sustainable growth, to evaluation criteria.

■ **Performance indicators and evaluation weights for annual bonus**

<table>
<tr><th rowspan="3">Evaluation Item</th><th rowspan="3">Performance Indicators</th><th colspan="8">Evaluation Weight</th></tr>
<tr><th rowspan="2" colspan="2">President and CEO</th><th colspan="4">Corporate Officers in Charge of Businesses</th><th colspan="2">Corporate Officers Other than Those in Charge of Businesses</th></tr>
<tr><th colspan="2">Regional Headquarters President</th><th colspan="2">Other</th><th colspan="2">CFO and Other</th></tr>
<tr><td rowspan="3">Whole Group Performance</td><td>Consolidated net sales</td><td>30%</td><td rowspan="2">70%</td><td>10%</td><td rowspan="2">20%</td><td>10%</td><td rowspan="2">20%</td><td>30%</td><td rowspan="2">70%</td></tr>
<tr><td>Consolidated operating profit</td><td>40%</td><td>10%</td><td>10%</td><td>40%</td></tr>
<tr><td>Net profit attributable to owners of parent</td><td colspan="8">If this amount ends up below the threshold, the Remuneration Advisory Committee will consider lowering the percentage amount of the payment attributable to the whole group performance component.</td></tr>
<tr><td>Performance of Business Unit in Charge</td><td>Business performance evaluation</td><td colspan="2">—</td><td colspan="2">50%</td><td colspan="2">50%</td><td colspan="2">—</td></tr>
<tr><td rowspan="2">Personal Evaluation</td><td rowspan="2">Level of achievement of strategic goals set individually</td><td colspan="8">30%</td></tr>
<tr><td colspan="8">Setting no more than five priority objectives which contribute to realizing long-term strategies reflecting the Company’s management approach and Corporate Philosophy.</td></tr>
</table>

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

■ **Rate of annual bonus payment model**



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

Whereas the long-term incentive-type remuneration effective through fiscal 2018 had been designed as a means of underpinning efforts to achieve VISION 2020, we have managed to achieve some VISION 2020 targets ahead of schedule. Given such, we have decided to overhaul the long-term incentive-type remuneration (LTI) so that it aligns with our long-term targets which have been newly set with our sights set on goals further off into the future. By not using performance

evaluation of single fiscal years, the LTI has been given a more clearly distinctive role from that of the annual bonus. Accordingly, the LTI has been designed with the aims of instilling motivation to create corporate value over the long term and establishing a sense of common interests with the shareholders.

Specifically, we will introduce performance share units to act as a type of performance-linked stock compensation while also discontinuing the stock compensation-type stock options which we have been granting thus far. However, our approach to instilling motivation to create corporate value over the long term through annual incentive payments will remain unchanged.

The LTI has been designed specifically in line with the purposes of introduction described below.

■ Purposes of introducing the LTI

The LTI is adopted for the purposes of establishing effective incentives for creating and maintaining corporate value over the long term, and ensuring that the directors' interests consistently align with those of our shareholders. To such ends, the LTI will help:

i) promote efforts to create value by achieving our long-term vision and strategic goals,

ii) curb potential damage to the corporate value and maintain substantial corporate value over the long-term,

iii) attract and retain talent capable of taking on leadership in business, and

iv) realize a "Global One Team" by fostering a sense of solidarity among management teams of the entire Shiseido Group and instill the consciousness of participating in the running of the Company.

Under the LTI, performance share units are adopted to act as a type of performance-linked stock compensation in lieu of the stock compensation-type stock options granted annually thus far. With respect to the Company's performance share units, the Company will allot a reference share unit to each of the eligible parties once every fiscal year, and on each annual allotment, the number of fiscal years that the payment relates to shall be one fiscal year. To make such allotments, the Company shall establish multiple performance indicators beforehand, and three fiscal years, including the fiscal year that the payment relates to, shall be used as the evaluation period. The Company shall use the respective achievement ratios of each performance indicator to calculate the payment rate after the end of the evaluation period, and it shall use the payment rate to increase or decrease the number of share units. The eligible parties shall be paid monetary remuneration claims and cash for the delivery of the shares of the Company's common stock of a number corresponding to the applicable number of share units, and then each eligible parties shall receive delivery of shares of common stock of the Company by paying all the monetary remuneration claims using the method of contribution in kind. The financial benefits ultimately gained by the eligible parties are linked not only to performance outcomes associated with the performance indicators, but also to the Company's share price. As such, the LTI substantially links the financial benefits with both performance and the Company's share price. Meanwhile, it features a fixed portion involving a set payment in addition to its performance-linked portion, thereby emphasizing the notion of consistently granting stock compensation to the eligible parties. As such, the LTI is designed to help eligible parties realize the aims of more robustly ensuring that their sense of interests consistently aligns with those of our shareholders, curbing potential damage to corporate value and maintaining substantial corporate value over the long term, and helping to attract and retain competent talent.

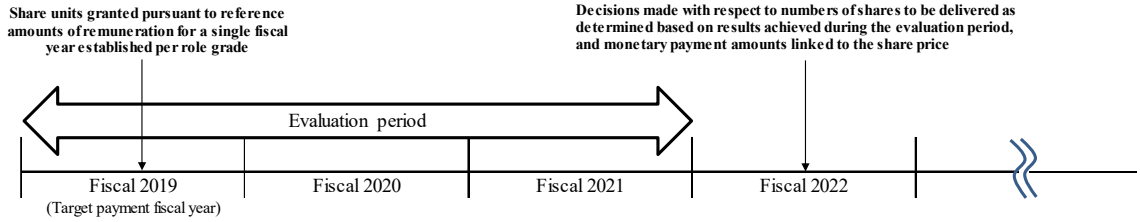
The performance indicators are determined by the Board of Directors upon the matter having been adequately deliberated on by the Remuneration Advisory Committee. To achieve our long-term targets, the performance indicators are configured so that the LTI underpins efforts to enhance our corporate value in terms of both economic value and social value. As such, the performance indicators include (as benchmarks to measure to economic corporate value): compound average growth rates (CAGR) of both consolidated net sales and consolidated operating profit; and (as benchmarks pertaining to social value) multiple internal and external indicators pertaining to the environmental, social and governance (ESG) with special emphasis placed on the area of "empowered beauty," in which we aim to achieve our notion of beauty innovation through providing support to others. Moreover, the performance indicators now also include consolidated

return on equity (ROE) which acts as an important benchmark for measuring corporate value from the perspective of establishing a sense of common interests with our shareholders.

Among the performance indicators, we have set target values and minimum values for each of the CAGR values for consolidated net sales and consolidated operating profit. Accordingly, the Company will apply the maximum percentage amount of payment attributable to each of the indicators in the event that the target values are achieved, and the Company does not make payment of the performance-linked portion with respect to each of those indicators in the event that performance falls short of the minimum values. As for the environmental, social and governance (ESG) indicators, upon having determined whether each of the multiple benchmarks have been achieved or not, we will set the maximum percentage amount of payment attributable to each of the benchmarks in the event that the targets have been achieved, and will not make payment of the performance-linked portion with respect to each of the benchmarks in the event that the targets have not been achieved. In terms of consolidated return on equity (ROE), as we deem it necessary to ensure that our focus on that benchmark doesn't excessively impede our active efforts with respect to investing in future growth and resolving challenges with our sights set on achieving long-term growth, we will set preliminary ROE targets at certain thresholds per deliberations carried out in that regard by the Remuneration Advisory Committee, and the committee will then discuss the notion of lowering the percentage amount of payment of the performance-linked portion in the event that consolidated ROE falls below such thresholds.

In addition, the LTI is designed with a view to the notion of extending payment to management teams at regional headquarters outside of Japan in the future, with the aim of realizing a "Global One Team" by fostering a sense of solidarity among management teams around the world and promoting a participatory approach to business.

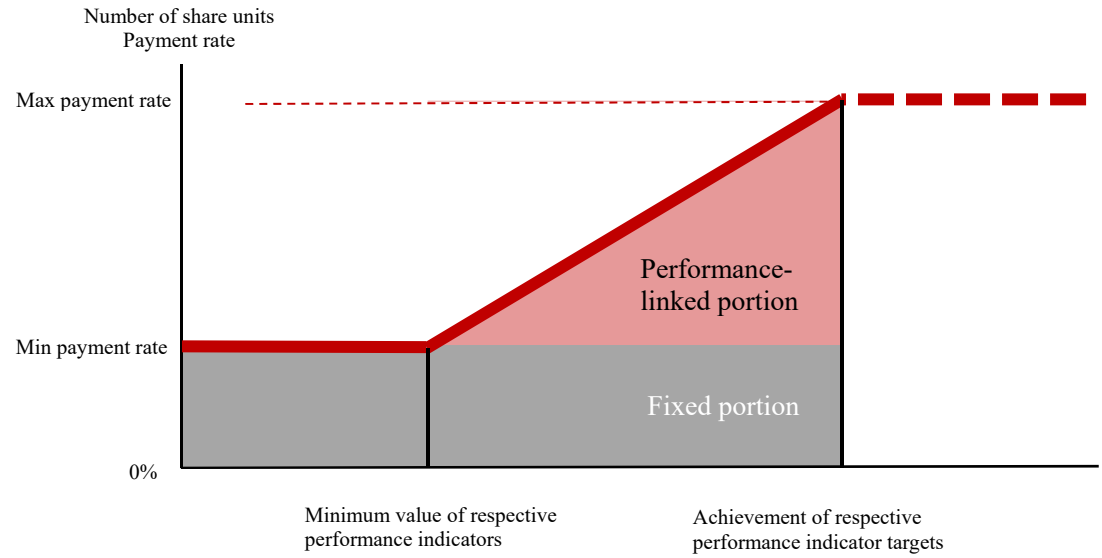
■ **LTI schedule**



■ **Performance indicators and evaluation weights for performance-linked portion of the LTI**

Evaluation Item	Performance Indicators	Evaluation Weight	
Economic Value Indicators	Consolidated net sales compound average growth rate (CAGR)	45%	100%
	Consolidated operating profit compound average growth rate (CAGR)	45%	
Social Value Indicators	Multiple internal and external indicators such as those related to environmental, social and governance (ESG) with focus on the area of "empowered beauty"	10%	
Economic Value Indicator	Consolidated ROE (return on equity)	If this ends up below the threshold, the Remuneration Advisory Committee will consider lowering the percentage amount of the payment attributable to the performance-linked portion.	

■ **Model for number of share units/payment rate for the LTI**



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

In the Company's directors, audit & supervisory board members and corporate officers remuneration policy, personal evaluation of each director and corporate officer has a significant impact on determination of the amount of remuneration including basic remuneration and annual bonus. 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 an evaluation working group, which was established as a common deliberation body shared by the Nomination Advisory Committee and Remuneration Advisory Committee to conduct overall business evaluation including the performance evaluation for President and CEO, and confirm the 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 the President and CEO and determining incentives. The evaluation working group comprises external directors and external audit & supervisory board members, as importance is placed on the independence from the President and CEO as well as business execution structure led by President and CEO.

Personal evaluation of 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 the Remuneration Advisory Committee monitoring this evaluation process and the evaluation approach.

(11) Matters Concerning Accounting Auditor

1) Name of Accounting Auditor

KPMG AZSA LLC

Notes:

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

2) Remuneration, etc. to the Accounting Auditor

(Millions of yen)

Category	Amount
Remuneration paid for services rendered as the accounting auditor for the fiscal year ended December 31, 2018	186
Total cash and other remuneration to be paid by the Company and its subsidiaries to the accounting auditor	227

Note: In the audit contract between the Company and its accounting auditor, remuneration paid for audits under the Companies Act and audits under the Financial Instruments and Exchange Act are not clearly distinguished and cannot be practically separated. Therefore, the total payment for both is shown in "Remuneration paid for services rendered as the accounting auditor for the fiscal year ended December 31, 2018" above.

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

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

4) Details of Services Other Than Audit

Not applicable.

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

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

Notes:

1. Amounts in this business report given in billions of JPY have been rounded to the nearest 0.1 billion, and other amounts have been rounded down to the nearest million JPY, thousand USD, thousand EUR, thousand RMB, thousand TWD, thousand SGD, or million VND. In the notation of 1,000 shares, share of less than one unit have been omitted.
2. In regard to the calculation of percentages, the ownership percentage of voting rights, the composition percentage of Directors and Audit & Supervisory Board Members and the attendance rate of the respective meetings are rounded down to one decimal place. In general, other amounts are rounded to one decimal place.
3. "-" in graphs and tables denotes loss, decrease, etc. or negative value.

SHISEIDO

Consolidated Balance Sheet

(As of December 31, 2018)

(Millions of yen)

	December 31, 2018	December 31, 2017 (Reference)
ASSETS		
Current Assets:	**512,684**	**526,245**
Cash and Time Deposits	125,891	166,698
Notes and Accounts Receivable	166,491	162,058
Short-Term Investments in Securities	—	7,781
Inventories	149,788	129,954
Deferred Tax Assets	29,690	25,467
Other Current Assets	42,811	36,012
Less: Allowance for Doubtful Accounts	-1,989	-1,727
Non-Current Fixed Assets:	**496,933**	**423,179**
Property, Plant and Equipment:	**235,185**	**158,681**
Buildings and Structures	87,607	58,156
Machinery, Equipment and Vehicles	22,188	17,808
Tools, Furniture and Fixtures	29,055	25,262
Land	49,795	36,971
Leased Assets	4,601	3,286
Construction in Progress	41,937	17,196
Intangible Assets:	**165,406**	**168,586**
Goodwill	12,610	12,166
Leased Assets	233	247
Trademarks	111,001	121,347
Other Intangible Assets	41,561	34,825
Investments and Other Assets:	**96,341**	**95,910**
Investments in Securities	23,026	26,280
Long-Term Loans Receivable	—	90
Long-Term Prepaid Expenses	15,363	13,991
Deferred Tax Assets	30,001	30,658
Other Investments	28,016	25,131
Less: Allowance for Doubtful Accounts	-66	-241
TOTAL ASSETS	**1,009,618**	**949,425**

	December 31, 2018	December 31, 2017 (Reference)
LIABILITIES		
Current Liabilities:	**339,940**	**291,379**
Notes and Accounts Payable	56,870	49,140
Electronically Recorded Obligations-Operating	45,422	37,892
Short-Term Debt	2,725	8,540
Current Portion of Long-Term Debt	730	731
Current Portion of Bonds	10,000	—
Lease Obligations	1,746	1,391
Other Payables	73,836	59,903
Accrued Income Taxes	20,129	25,032
Provision for Sales Returns	10,795	14,012
Refund Liabilities	4,741	—
Provision for Bonuses	30,782	25,019
Provision for Directors' Bonuses	211	119
Provision for Risk and Liabilities	471	2,005
Provision for Loss on Business Withdrawal	3,204	—
Other Current Liabilities	78,272	67,590
Non-Current Long-Term Liabilities:	**201,215**	**212,173**
Bonds	30,000	40,000
Long-Term Debt	28,105	28,835
Lease Obligations	2,469	1,966
Long-Term Payables	54,639	59,255
Net Defined Benefit Liability	76,877	73,745
Provision for Losses on Guarantees	350	350
Provision for Environmental Measures	144	260
Deferred Tax Liabilities	3,316	3,762
Other Long-term Liabilities	5,312	3,998
Total Liabilities	**541,156**	**503,552**
NET ASSETS		
Shareholders' Equity:	**451,427**	**406,121**
Common Stock	64,506	64,506
Capital Surplus	70,748	70,808
Retained Earnings	319,001	271,681
Less: Treasury Stock, at Cost	-2,829	-874
Accumulated Other Comprehensive Income	**-2,846**	**17,326**
Unrealized Gains (Losses) on Available-for-Sale Securities, Net of Taxes	4,992	8,664
Foreign Currency Translation Adjustments	15,645	28,726
Remeasurements of Defined Benefit Plans	-23,484	-20,064
Share Acquisition Rights	**952**	**874**
Non-Controlling Interests	**18,929**	**21,550**
Total Net Assets	**468,462**	**445,872**
TOTAL LIABILITIES AND NET ASSETS	**1,009,618**	**949,425**

SHISEIDO

Consolidated Statement of Profit

(Fiscal Year from January 1, 2018 to December 31, 2018)

(Millions of yen)

	Fiscal Year	Previous Fiscal Year (Reference)
Net Sales	1,094,825	1,005,062
Cost of Sales	231,928	231,327
Gross Profit	**862,896**	**773,735**
Selling, General and Administrative Expenses	754,545	693,298
Operating Profit	**108,350**	**80,437**
Other Income	7,113	3,547
Interest Income	1,227	882
Dividend Income	490	557
Equity in Earnings of Affiliates	301	284
Rental Income	734	743
Subsidy Income	2,783	10
Other	1,575	1,069
Other Expenses	5,974	3,658
Interest Expense	769	991
Foreign Exchange Loss	2,900	216
Other Interest on Debt	1,392	1,382
Other	910	1,068
Ordinary Profit	**109,489**	**80,327**
Extraordinary Gains	5,641	39,341
Gain on Sales of Property, Plant and Equipment	2,853	1,168
Gain on Sales of Investments in Securities	2,739	1,173
Gain on Transfer of Business	48	36,787
Gain on Sale of Shares in Subsidiaries and Affiliates	—	211
Extraordinary Losses	10,821	81,112
Loss on Sales and Disposal of Property, Plant and Equipment	1,698	2,181
Impairment Loss	—	70,922
Loss on Sales of Investments in Securities	—	27
Loss on Business Withdrawal	4,446	—
Structural Reform Expenses	3,739	4,479
Loss on Liquidation of Subsidiaries and Affiliates	936	136
Voluntary Product Recall-Related Expenses	—	3,233
Temporary Expenses Associated with Reforms to Human Resource Systems	—	130
Profit before Income Taxes	**104,310**	**38,555**
Income Taxes – Current	41,249	29,416
Income Taxes – Deferred	-1,844	-16,215
Net Profit	**64,905**	**25,355**
Net Profit Attributable to Non-Controlling Interests	3,501	2,606
Net Profit Attributable to Owners of Parent	**61,403**	**22,749**

SHISEIDO

Reference: Consolidated Statement of Comprehensive Income

(Fiscal Year from January 1, 2018 to December 31, 2018)

(Millions of yen)

	Fiscal Year	Previous Fiscal Year (Reference)
Net Profit	**64,905**	**25,355**
Other Comprehensive Income:		
Unrealized Gains (Losses) on Available-for-Sale Securities, Net of Tax	-3,600	1,166
Foreign Currency Translation Adjustments	-14,151	3,073
Remeasurements of Defined Benefit Plans	-3,373	12,890
Share of Other Comprehensive Income of Entities Accounted for Under the Equity Method	-4	-30
Total Other Comprehensive Income	-21,129	17,100
Comprehensive Income	**43,775**	**42,456**
(Breakdown)		
Comprehensive Income Attributable to Owners of Parent	41,230	39,145
Comprehensive Income Attributable to Non-Controlling Interests	2,544	3,310

SHISEIDO

Consolidated Statement of Changes in Net Assets

(Fiscal Year from January 1, 2018 to December 31, 2018)

(Millions of yen)

	Shareholders' Equity				
	Common Stock	Capital Surplus	Retained Earnings	Treasury Stock, at Cost	Total Shareholders' Equity
Balance as of January 1, 2018	64,506	70,808	271,681	-874	406,121
Changes during the Fiscal Year					
Dividends from Retained Earnings			-13,979		-13,979
Net Profit Attributable to Owners of Parent			61,403		61,403
Acquisition of Treasury Stock				-2,431	-2,431
Disposal of Treasury Stock		-55	-165	476	255
Equity Transactions with Non-Controlling Interests and Others		-4	61		57
Net Change in Items Other than Shareholders' Equity					—
Total Change during the Fiscal Year	—	-60	47,319	-1,954	45,305
Balance as of December 31, 2018	64,506	70,748	319,001	-2,829	451,427

(Millions of yen)

	Accumulated Other Comprehensive Income				Share Acquisition Rights	Non-Controlling Interests	Total Net Assets
	Unrealized Gains (Losses) on Available-for-Sale Securities, Net of Taxes	Foreign Currency Translation Adjustments	Remeasure-ments of Defined Benefit Plans	Total Accumulated Other Comprehen-sive Income			
Balance as of January 1, 2018	8,664	28,726	-20,064	17,326	874	21,550	445,872
Changes during the Fiscal Year							
Dividends from Retained Earnings							-13,979
Net Profit Attributable to Owners of Parent							61,403
Acquisition of Treasury Stock							-2,431
Disposal of Treasury Stock							255
Equity Transactions with Non-Controlling Interests and Others							57
Net Change in Items Other than Shareholders' Equity	-3,672	-13,081	-3,419	-20,172	78	-2,621	-22,715
Total Change during the Fiscal Year	-3,672	-13,081	-3,419	-20,172	78	-2,621	22,589
Balance as of December 31, 2018	4,992	15,645	-23,484	-2,846	952	18,929	468,462

Notes to Consolidated Financial Statements

Basis of Presenting Consolidated Financial Statements

1. Scope of Consolidation

(1) Number of consolidated subsidiaries: 77

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

[Addition: 1 company]

Shiseido Philippines Corporation was established as a subsidiary and has been included in the scope of consolidation effective from the fiscal year.

[Exclusions: 3 companies]

Bare Escentuals Germany GmbH was excluded from the scope of consolidation effective from the fiscal year following the absorption-type merger into Shiseido Group Germany GmbH.

Beauté Prestige International (Singapore) Ltd. and Shiseido United Kingdom were excluded from the scope of consolidation effective from the fiscal year due to their liquidation.

(2) Unconsolidated subsidiaries

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

(Reasons for excluding unconsolidated subsidiaries from the scope of consolidation)

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

2. Application of the Equity Method

(1) Affiliates accounted for under the equity method: 3

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

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

3. Fiscal Year of Consolidated Subsidiaries

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

4. Notes on Accounting Policies

(1) Valuation of Major Assets

1) Securities

Available-for-sale securities:

Securities with readily determinable fair value:

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

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

Securities without readily determinable fair value:

Primarily stated at cost, based mainly on the moving-average method.

Investments in limited partnerships are recorded as investments in securities, at the amount of interest in such partnerships calculated based on ownership percentage. Investment gain or loss is included in net profit or loss in proportion to the ownership interests in the net asset value of the partnership.

2) Inventories

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

(2) Depreciation of Major Assets

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

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

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

2) Intangible Assets (Excluding Leased Assets)

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

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

3) Leased Assets

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

4) Long-Term Prepaid Expenses

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

(3) Significant Provisions

1) Allowance for Doubtful Accounts

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

2) Provision for Sales Returns

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

3) Provision for Bonuses

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

4) Provision for Directors' Bonuses

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

5) Provision for Risk and Liabilities

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

6) Provision for Losses on Guarantees

The Company provides an allowance for estimated probable losses on guarantees based on the financial status of the parties for which guarantees have been provided.

7) Provision for Environmental Measures

The Company and its domestic consolidated subsidiaries provide a reserve for the estimated cost to treat polychlorinated biphenyl (PCB) waste as required by the Act on Special Measures Concerning Promotion of Proper Treatment of PCB Wastes.

8) Provision for loss on business withdrawal

To provide for losses related to the discontinuation of some brands and withdrawal from businesses, the amount of loss expected to be incurred in the future is recorded.

(4) Basis for Calculating Net Defined Benefit Liability

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

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

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

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

Unrecognized net actuarial gain or loss is primarily amortized from the following year on a straight-line basis over a 10-year period, which is shorter than the average remaining years of service of the eligible employees.

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

Receivables and payables denominated in foreign currencies are translated into Japanese yen at the exchange rate prevailing at the end of the consolidated fiscal year and resulting exchange gains and losses are included in net profit or loss for the fiscal year. The financial statements of overseas consolidated subsidiaries and affiliates are translated into yen at the exchange rate prevailing on the respective balance sheet dates of those subsidiaries for assets and liabilities. All income and expenses are translated at the average rate of exchange during the fiscal year and resulting translation adjustments are included in net assets as foreign currency translation adjustments and non-controlling interests.

(6) Significant Accounting for Hedges

Hedge accounting method

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

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

1) Consumption Taxes: The Company and its consolidated subsidiaries adopted the tax-exclusive method for consumption tax and regional consumption tax.

2) Application of Consolidated Taxation System: The Company and certain domestic consolidated subsidiaries applied a consolidated taxation system with the Company as the taxable parent company.

(Changes in Accounting Policies)

Group subsidiaries that have adopted IFRS standards have implemented IFRS 15, Revenue from Contracts with Customers, from the fiscal year.

Payments to some customers were previously recognized as selling, general and administrative expenses, but are deducted from net sales from the fiscal year.

The impact of these changes on profit and loss for the fiscal year is minor.

Moreover, the method of presentation in the consolidated balance sheet has changed with the application of this standard.

As a result, provision for sales returns has decreased by ¥4,741 million and refund liabilities has increased by ¥4,741 million in the consolidated balance sheet as of December 31, 2018 compared to the figures under the previous accounting standard.

Please note that the method of recognition adopted in applying this standard is to recognize the cumulative impact on the initial date of application as a transitional measure.

Notes to Consolidated Balance Sheet

(1) Inventories

Merchandise and products	¥103,941 million
Work in process	¥6,181 million
Raw materials and supplies	¥39,665 million

(2) Collateralized assets and loan liabilities

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

Cash and time deposits	¥1,783 million
Buildings and structures	¥12,396 million
Machinery, equipment and vehicles, and tools, furniture and fixtures	¥0 million
Investments in securities	¥1,155 million
Other investments (Guarantee deposit paid)	¥15,200 million
Total	¥30,535 million

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

Current portion of long-term debt	¥730 million
Long-term debt	¥18,105 million

(3) Accumulated depreciation of property, plant and equipment ¥221,193 million

Notes to Consolidated Statement of Profit

(1) Gain on transfer of business

Net proceeds from the sale of shares in Zotos International, Inc.

(2) Loss on Business Withdrawal

Expenses related to discontinuation of some brands and withdrawal from the commercial cosmetics sales business and other businesses.

(3) Structural reform expenses

Structural reform expenses mainly reflect the closure of the company stores of Bare Escentuals Beauty, Inc. and early retiree retirement premiums included in temporary expenses incurred as a result of ongoing structural reforms across all global regions.

(4) Loss on liquidation of subsidiaries and affiliates

A loss on liquidation of subsidiaries in China and Oceania.

Notes to Consolidated Statement of Changes in Net Assets

(1) Shares issued and outstanding

Class and number of shares issued and outstanding as of December 31, 2018

Common stock 400,000 thousand shares

(2) Dividends

1) Cash dividends paid

Resolution	Share Class	Cash Dividends Paid (Millions of yen)	Cash Dividends per Share (Yen)	Record Date	Effective Date
Ordinary General Meeting of Shareholders on March 27, 2018	Common stock	5,993	15.00	December 31, 2017	March 28, 2018
Board of Directors Meeting on August 8, 2018	Common stock	7,986	20.00	June 30, 2018	September 4, 2018
Total		13,979			

2) Resolution at the Ordinary General Meeting of Shareholders to be held on March 26, 2019 concerning dividends on shares of common stock made for the fiscal year ended December 31, 2018 but for which the effective date is after the end of the fiscal year

Cash dividends to be paid:	¥9,984 million
Cash dividends per share:	¥25.00
Record date:	December 31, 2018
Effective date:	March 27, 2019
Funding source:	Retained earnings

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

Common stock 242 thousand shares

Financial Instruments

1. Financial Instruments

(1) Policy for financial instruments

The Shiseido Group limits fund management to short-term deposits, investments in securities and other methods. As a matter of policy, the Shiseido Group procures funds using bank loans, commercial papers, bonds and other methods. The Shiseido Group uses derivatives to avoid the risk of foreign exchange rate fluctuations associated with receivables and payables denominated in foreign currencies and the risk of interest rate fluctuations associated with loans. The Shiseido Group limits the use of derivatives to the volume of receivables and payables and actual requirements, and do not engage in speculative transactions.

(2) Types of financial instruments, related risks and risk management system

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

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

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

Interest-bearing debt includes short-term debt and commercial papers, which the Shiseido Group uses to procure funds for operating transactions, as well as long-term debt, bonds and lease obligations, which the Shiseido Group uses to fund investments and loans, capital expenditures and operating transactions. Long-term payables, which are mostly liabilities incurred in connection with the execution of a license agreement, are not exposed to foreign exchange risk and interest rate risk. Floating-rate debt is exposed to the risk of interest rate fluctuations. The Shiseido Group hedges this risk for specific long-term debt by using derivatives (interest rate swap contracts and interest rate and currency swap contracts) to avoid the risk of interest rate fluctuations and fix interest payments.

Regarding derivatives, the Shiseido Group uses foreign exchange forward contracts and foreign currency options to hedge the risk of foreign exchange fluctuations associated with receivables and payables denominated in foreign currencies, and interest rate swap contracts to hedge the risk of fluctuations in interest rates associated with floating-rate debt, and interest rate and currency swap contracts to hedge the risk of foreign exchange fluctuations and fluctuations in interest rates associated with debt in foreign currencies.

The Shiseido Group executes and manages derivatives in accordance with the internal rules and regulations that prescribe transaction authority, and reduces credit risk by limiting counterparties to highly creditworthy financial institutions.

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

2. Fair Value of Financial Instruments

Fair value and variance with carrying value presented on the balance sheet as of December 31, 2018 are as follows. Unlisted equity securities, investments in limited partnerships and other instruments with fair values that are not readily determinable are not included in the following table.

(Millions of yen)

	Carrying Value*	Fair Value*	Variance
(1) Cash and time deposits	125,891	125,891	—
(2) Notes and accounts receivable (before deducting allowance for doubtful accounts)	166,491	166,491	—
(3) Short-term investments in securities and investments in securities			
Available-for-sale securities	17,529	17,529	—
(4) Notes payable, electronically recorded obligations-operating, accounts payable and other payables	(176,129)	(176,129)	—
(5) Short-term debt	(2,725)	(2,725)	—
(6) Bonds	(40,000)	(40,126)	-126
(7) Long-term debt	(28,835)	(28,836)	-0
(8) Lease obligations	(4,215)	(4,222)	-7
(9) Derivative instruments			
1) Hedge accounting not applied	179	179	—
2) Hedge accounting applied	—	(524)	-524
(10) Long-term payables	(54,639)	(54,639)	—

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

From the fiscal year, the carrying value on the consolidated balance sheet and the fair value of "notes and accounts receivable" are presented at amounts before deducting the allowance for doubtful accounts.

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

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

Carrying value is used for the fair value of these short-term items because these amounts are approximately the same.

(3) Short-term investments in securities and investments in securities

Short-term investments in securities are held as available-for-sale securities. Market prices on exchanges are used to determine the fair value of equity securities. Prices quoted by financial institutions are used to determine the fair value of bonds. Carrying value is used for the fair value of instruments with short-term maturities included in available-for-sale securities because these amounts are approximately the same.

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

Carrying value is used for the fair value of these short-term items because these amounts are approximately the same.

(6) Bonds

Fair value of bonds issued by the Company is calculated based on market prices.

(7) Long-term debt

Floating-rate long-term debt reflects market interest rates. In addition, fair value approximates carrying value because the Company's creditworthiness does not vary significantly after assuming long-term debt. Therefore, carrying value is used for the fair value of floating-rate long-term debt. The fair value of fixed-rate long-term debt is the discounted value of total principal and interest using an assumed interest rate on equivalent new borrowings.

(8) Lease obligations

The fair value of lease obligations is the discounted present value of total principal and interest using an assumed interest rate on equivalent new lease transactions.

(9) Derivative instruments

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

(10) Long-term payables

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

Per-Share Information

Net assets per share	¥1,123.19
Net earnings per share	¥153.74

Other

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

SHISEIDO

Non-Consolidated Balance Sheet

(As of December 31, 2018)

(Millions of yen)

	December 31, 2018	December 31, 2017 (Reference)
ASSETS		
Current Assets:	**207,434**	**186,823**
Cash and Time Deposits	23,140	33,956
Notes Receivable	96	141
Accounts Receivable	71,285	63,829
Short-Term Investments in Securities	—	6,000
Merchandise and Products	16,632	12,243
Work in Process	4,345	3,352
Raw Materials and Supplies	18,505	16,265
Prepaid Expenses	3,330	2,335
Short-Term Loans Receivable	918	276
Other Accounts Receivable	48,858	37,888
Deferred Tax Assets	5,985	5,041
Other Current Assets	14,334	5,494
Fixed Assets:	**466,667**	**395,765**
Property, Plant and Equipment:	**151,891**	**82,976**
Buildings	53,028	21,840
Structures	1,513	716
Machinery and Equipment	13,352	8,985
Vehicles	56	54
Tools, Furniture and Fixtures	6,711	5,912
Land	41,600	28,228
Leased Assets	2,601	1,832
Construction in Progress	33,027	15,404
Intangible Assets:	**15,843**	**9,135**
Patent Rights	18	11
Telephone Rights	124	124
Software	7,786	6,004
Software in Progress	6,165	1,194
Leased Assets	138	147
Other Intangible Assets	1,610	1,652
Investments and Other Assets:	**298,932**	**303,653**
Investments in Securities	15,348	21,254
Investments in Shares of Subsidiaries and Affiliates	240,287	239,431
Other Investment Securities of Subsidiaries and Affiliates	17,631	17,631
Capital Investments	485	509
Capital Investments in Subsidiaries and Affiliates	11,816	11,816
Long-Term Loans Receivable	1,765	2,128
Prepaid Pension Expenses	4,677	4,557
Long-Term Prepaid Expenses	664	853
Deferred Tax Assets	1,736	1,066
Other Investments	4,689	4,553
Less: Allowance for Doubtful Accounts	-170	-150
TOTAL ASSETS	**674,102**	**582,589**

	December 31, 2018	December 31, 2017 (Reference)
LIABILITIES		
Current Liabilities:	**262,542**	**179,142**
Notes Payable	9,522	1,275
Electronically Recorded Obligations-Operating	34,442	29,319
Accounts Payable	15,115	12,405
Short-Term Debt	9,427	—
Current Portion of Bonds	10,000	—
Lease Obligations	1,378	1,014
Other Accounts Payable	37,636	19,583
Accrued Expenses	1,329	678
Accrued Income Taxes	9,162	13,979
Deposits Received	1,644	1,469
Deposits Received from Subsidiaries and Affiliates	123,876	92,232
Provision for Sales Returns	3,504	2,704
Provision for Bonuses	5,099	4,040
Provision for Directors' Bonuses	211	119
Other Current Liabilities	192	319
Long-term Liabilities:	**58,871**	**68,781**
Bonds	30,000	40,000
Long-Term Debt	10,000	10,000
Lease Obligations	1,399	1,004
Provision for Retirement Benefits	15,716	15,906
Provision for Losses on Guarantees	350	350
Provision for Environmental Measures	71	195
Other Long-term Liabilities	1,334	1,325
Total Liabilities	**321,413**	**247,924**
NET ASSETS		
Shareholders' Equity:	**347,334**	**325,875**
Common Stock	64,506	64,506
Capital Surplus	70,258	70,313
Additional Paid-In Capital	70,258	70,258
Other Capital Surplus	—	55
Retained Earnings	215,398	191,929
Legal Reserve	16,230	16,230
Other Retained Earnings	199,168	175,699
Reserve for Advanced Depreciation of Fixed Assets	4,490	3,574
Reserve for Special Account for Advanced Depreciation of Fixed Assets	—	544
Retained Earnings Carried Forward	194,678	171,579
Less: Treasury Stock, at Cost	-2,829	-874
Valuation, Translation Adjustments and Others:	**4,402**	**7,916**
Unrealized Gains on Available-for-Sale Securities, Net of Taxes	4,402	7,916
Share Acquisition Rights	**952**	**874**
Total Net Assets	**352,688**	**334,665**
TOTAL LIABILITIES AND NET ASSETS	**674,102**	**582,589**

SHISEIDO

Non-Consolidated Statement of Operations

(Fiscal Year from January 1, 2018 to December 31, 2018)

(Millions of yen)

	Fiscal Year	Previous Fiscal Year (Reference)
Net Sales	270,789	220,407
Cost of Sales	159,559	139,096
Gross Profit	**111,230**	**81,310**
Selling, General and Administrative Expenses	91,300	73,426
Operating Profit	**19,930**	**7,883**
Other Income	24,046	17,108
Interest Income	94	86
Dividend Income	18,896	12,674
Gain on Investment in Limited Partnerships	1,206	1,195
Royalty Income	1,777	1,704
Other	2,071	1,447
Other Expenses	1,812	1,214
Interest Expense	557	242
Provision of Allowance for Doubtful Accounts	20	150
Loss on Investment in Limited Partnerships	14	12
Foreign Exchange Loss	596	515
Other	623	293
Ordinary Profit	**42,163**	**23,778**
Extraordinary Gains	3,464	4,242
Gain on Sales of Property, Plant and Equipment	755	2,295
Gain on Sales of Investments in Securities	2,709	1,173
Gain on Transfer of Business	—	576
Gain on Sales of Shares in Subsidiaries and Affiliates	—	196
Extraordinary Losses	768	79,205
Loss on Sales and Disposal of Property, Plant and Equipment	768	271
Loss on Revaluation of Shares in Subsidiaries and Affiliates	—	75,748
Loss on Sales of Investments in Securities	—	27
Voluntary Product Recall-Related Expenses	—	2,964
Temporary Expenses Associated with Reforms to Human Resource Systems	—	130
Loss on Liquidation of Subsidiaries and Affiliates	—	61
Loss on Cancellation of Lease Contracts	—	1
Profit (Loss) before Income Taxes	**44,859**	**-51,184**
Income Taxes – Current	7,780	5,271
Income Taxes – Deferred	-535	-1,223
Net Profit (Loss)	**37,613**	**-55,232**

SHISEIDO

Non-Consolidated Statement of Changes in Net Assets

(Fiscal Year from January 1, 2018 to December 31, 2018)

(Millions of yen)

	Shareholders' Equity			
	Common Stock	Capital Surplus		
		Additional Paid-In Capital	Other Capital Surplus	Total Capital Surplus
Balance as of January 1, 2018	64,506	70,258	55	70,313
Changes during the Fiscal Year				
Dividends from Retained Earnings				
Net Profit				
Reversal of Reserve for Special Account for Advanced Depreciation of Fixed Assets				
Provision of Reserve for Reduction Entry				
Acquisition of Treasury Stock				
Disposal of Treasury Stock			-55	-55
Net Change in Items Other than Shareholders' Equity				
Total Change during the Fiscal Year	—	—	-55	-55
Balance as of December 31, 2018	64,506	70,258	—	70,258

(Millions of yen)

	Shareholders' Equity						
	Retained Earnings					Treasury Stock, at Cost	Total Shareholders' Equity
	Legal Reserve	Other Retained Earnings			Total Retained Earnings		
		Reserve for Advanced Depreciation of Fixed Assets	Reserve for Special Account for Advanced Depreciation of Fixed Assets	Retained Earnings Carried Forward			
Balance as of January 1, 2018	16,230	3,574	544	171,579	191,929	-874	325,875
Changes during the Fiscal Year							
Dividends from Retained Earnings				-13,979	-13,979		-13,979
Net Profit				37,613	37,613		37,613
Reversal of Reserve for Special Account for Advanced Depreciation of Fixed Assets			-544	544	—		—
Provision of Reserve for Reduction Entry		915		-915	—		—
Acquisition of Treasury Stock						-2,431	-2,431
Disposal of Treasury Stock				-165	-165	476	255
Net Change in Items Other than Shareholders' Equity							—
Total Change during the Fiscal Year	—	915	-544	23,098	23,469	-1,954	21,458
Balance as of December 31, 2018	16,230	4,490	—	194,678	215,398	-2,829	347,334

(Millions of yen)

	Valuation, Translation Adjustments and Others		Share Acquisition Rights	Total Net Assets
	Unrealized Gains (Losses) on Available-for-Sale Securities, Net of Taxes	Total Valuation, Translation Adjustments and Others		
Balance as of January 1, 2018	7,916	7,916	874	334,665
Changes during the Fiscal Year				
Dividends from Retained Earnings				-13,979
Net Profit				37,613
Reversal of Reserve for Special Account for Advanced Depreciation of Fixed Assets				—
Provision of Reserve for Reduction Entry				—
Acquisition of Treasury Stock				-2,431
Disposal of Treasury Stock				255
Net Change in Items Other than Shareholders' Equity	-3,513	-3,513	78	-3,435
Total Change during the Fiscal Year	-3,513	-3,513	78	18,023
Balance as of December 31, 2018	4,402	4,402	952	352,688

Notes to Non-Consolidated Financial Statements

Significant Accounting Policies

(1) Valuation of Assets

1) Securities

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

Available-for-sale securities

Securities with readily determinable fair value:

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

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

Securities without readily determinable fair value:

Stated at cost, based on the moving-average method.

Investments in limited partnerships are recorded as investments in securities, at the amount of interest in such partnerships calculated based on ownership percentage. Investment gain or loss is included in net profit or loss in proportion to the ownership interests in the net asset value of the partnership.

2) Inventories

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

(2) Depreciation of Fixed Assets

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

Property, plant and equipment are depreciated using the straight-line method over the following estimated useful lives:

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

2) Intangible Assets (Excluding Leased Assets)

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

Software:	mainly 5 years

3) Leased Assets

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

4) Long-Term Prepaid Expenses

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

(3) Provisions

1) Allowance for Doubtful Accounts

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

2) Provision for Sales Returns

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

3) Provision for Bonuses

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

4) Provision for Directors' Bonuses

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

5) Provision for Retirement Benefits

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

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

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

Unrecognized net actuarial gain or loss is amortized from the following year on a straight-line basis over a 10-year period, which is shorter than the average remaining years of service of the eligible employees.

6) Provision for Losses on Guarantees

The Company provides an allowance for estimated probable losses on guarantees based on the financial status of the parties for which guarantees have been provided.

7) Provision for Environmental Measures

The Company provides a reserve for the estimated cost to treat polychlorinated biphenyl (PCB) waste as required by the Act on Special Measures Concerning Promotion of Proper Treatment of PCB Wastes.

(4) Significant Accounting for Hedges

Hedge accounting method

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

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

1) Consumption Taxes: The Company adopted the tax-exclusive method for consumption tax and regional consumption tax.

2) Application of Consolidated Taxation System: The Company applied a consolidated taxation system with the Company as the taxable parent company.

3) Accounting Treatment Related to Retirement Benefits: The method of accounting for unrecognized net actuarial gain or loss and unrecognized prior service cost related to retirement benefits is different from the method adopted in the consolidated financial statements.

Notes to Non-Consolidated Balance Sheet

(1) Accumulated depreciation of property, plant and equipment: ¥99,387 million

(2) Monetary receivables and payables from/to subsidiaries and affiliates (Note)

Short-term receivables	¥126,930 million
Long-term receivables	¥1,765 million
Short-term payables	¥23,185 million

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

Notes to Non-Consolidated Statement of Operations

Transactions with subsidiaries and affiliates

Net sales	¥263,471 million
Purchases	¥20,943 million
Other operating transactions	¥22,993 million
Non-operating transactions	¥22,775 million

Notes to Non-Consolidated Statement of Changes in Net Assets

Treasury stock

(Thousand shares)

	Number of shares at January 1, 2018	Increase in shares in the year ended December 31, 2018	Decrease in shares in the year ended December 31, 2018	Number of shares at December 31, 2018
Common stock	460	304	146	618

Note 1: Shares of common stock held as treasury stock increased due to the acquisition of treasury stock of 300 thousand shares and the purchase of 4 thousand shares in response to purchase demands for less than one unit.

Note 2: Shares of common stock held as treasury stock decreased due to exercise of stock options for 145 thousand shares and sale of 0 thousand shares in response to requests from less-than-one-unit shareholders.

Tax-Effect Accounting

Principal components of deferred tax assets and deferred tax liabilities

	(Millions of yen)
Deferred tax assets	
Loss on revaluation of shares in subsidiaries and affiliates	36,303
Provision for retirement benefits	3,422
Inventories	2,783
Depreciation	1,981
Provision for bonuses	1,789
Write-down of investments in securities and other investments	264
Provision for sales returns	243
Other	1,642
Subtotal	48,430
Less: Valuation allowance	-36,456
Total	11,973
Deferred tax liabilities	
Reserve for reduction entry of replaced property	-2,017
Unrealized losses on available-for-sale securities	-1,884
Unrealized losses on property, plant and equipment due to company split	-322
Asset retirement obligation	-28
Total	-4,251
Net deferred tax assets	7,721

Transactions with Related Parties

Subsidiaries, affiliates and other related parties

Type	Name	Voting Rights Held by Company (or held by others)	Relationship	Transactions	Amount of Transac-tions (Millions of yen)	Accounts Name	Balance as of December 31, 2018 (Millions of yen)
Subsidiary	Shiseido Japan Co., Ltd.	Direct, 100%	Product sales Concurrent directors	Sales of cosmetics (Note 1)	38,303	Accounts receivable	17,971
				Advance payment of expenses and others	-	Other accounts receivable	28,486
				Rendering of services (Note 1)	10,558		
				Royalty income and payments (Note 1)	18,494		
				Deposit received (Note 2)	-	Deposits received from subsidiaries and affiliates	81,340
Subsidiary	Shiseido FITIT Co., Ltd.	Direct, 100%	Product sales	Sales of cosmetics (Note 1)	19,659	Accounts receivable	8,020
Subsidiary	FT Shiseido Co., Ltd.	Direct, 100%	Product sales Concurrent directors	Sales of personal care products (Note 1)	23,126	Accounts receivable	6,968
				Deposit received (Note 2)	-	Deposits received from subsidiaries and affiliates	10,450
Subsidiary	Shiseido International Inc.	Direct, 100%	Product sales	Sales of cosmetics (Note 1)	15,128	Accounts receivable	6,923
Subsidiary	The Ginza Co., Ltd.	Direct, 98.1%	Product sales Concurrent directors	Deposit received (Note 2)	-	Deposits received from subsidiaries and affiliates	7,665
Subsidiary	Shiseido Americas Corporation	Direct, 100%	Product sales Concurrent directors	Borrowing of funds	-	Short-term debt to subsidiaries and affiliates	9,427
Subsidiary	Shiseido Europe S.A.	Direct, 100%	Product sales Concurrent directors	Deposit of funds (Note 2)	-	Deposits paid to subsidiaries and affiliates	7,611
Subsidiary	Shiseido Travel Retail Asia Pacific Pte. Ltd.	Indirect, 100%	Product sales	Sales of cosmetics (Note 1)	34,951	Accounts receivable	3,559
						Other accounts receivable	3,059

Note 1: Transaction Terms and Relevant Policies

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

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

Amounts stated in the “Amount of Transactions” column above do not include consumption tax, while balances stated in the “Balance as of December 31, 2018” column above include consumption tax (except for deposits received from subsidiaries and affiliates, short-term debt to subsidiaries and affiliates, and deposits paid to subsidiaries and affiliates).

Per-Share Information

Net assets per share	¥880.70
Net earnings per share	¥94.17

Other

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

Copy of the Accounting Auditor's Report (Consolidated)

Independent Auditor's Report

February 19, 2019

The Board of Directors
Shiseido Company, Limited

KPMG AZSA LLC

Koichi Kohori (Seal)
Designated Limited Liability Partner
Engagement Partner
Certified Public Accountant

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

We have audited the consolidated financial statements, comprising the consolidated balance sheet, the consolidated statement of profit, the consolidated statement of changes in net assets and the related notes of Shiseido Company, Limited as at December 31, 2018 and for the year from January 1, 2018 to December 31, 2018 in accordance with Article 444-4 of the Companies Act.

Management's Responsibility for the Consolidated Financial Statements

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

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, while the objective of the financial statement audit is not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position and the results of operations of Shiseido Company, Limited and its

consolidated subsidiaries for the period, for which the consolidated financial statements were prepared, in accordance with accounting principles generally accepted in Japan.

Other Matter

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

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

Copy of the Accounting Auditor's Report

Independent Auditor's Report

February 19, 2019

The Board of Directors
Shiseido Company, Limited

KPMG AZSA LLC

Koichi Kohori (Seal)
Designated Limited Liability Partner
Engagement Partner
Certified Public Accountant

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

We have audited the financial statements, comprising the balance sheet, the statement of operations, the statement of changes in net assets and the related notes, and the supplementary schedules of Shiseido Company, Limited as at December 31, 2018 and for the year from January 1, 2018 to December 31, 2018 in accordance with Article 436-2-1 of the Companies Act.

Management's Responsibility for the Financial Statements and Others

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

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements and the supplementary schedules. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the financial statements and the supplementary schedules, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the financial statements and the supplementary schedules in order to design audit procedures that are appropriate in the circumstances, while the objective of the financial statement audit is not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes

evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements and the supplementary schedules.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

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

Other Matter

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

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

Copy of the Audit & Supervisory Board's Report

Audit Report

With respect to the directors' performance of their duties during the 119th business period (from January 1, 2018 to December 31, 2018), The Audit & Supervisory Board has prepared this audit report after deliberations based on the audit reports prepared by each of the audit & supervisory board members, and hereby report as follows:

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

   (1) The Audit & Supervisory Board has established the audit policies, audit plans, etc. and received a report from each of the Audit & Supervisory Board members regarding the status of implementation of their audits and results thereof. In addition, the Audit & Supervisory Board has received reports from the directors, the corporate officers etc., and the accounting auditor regarding the status of performance of their duties, and requested explanations as necessary.

   (2) In conformity with the Audit & Supervisory Board member audit standards established by the Audit & Supervisory Board, and in accordance with the audit policies and audit plans, etc., each of the Audit & Supervisory Board members endeavored to facilitate a mutual understanding with the directors, the corporate officers, the internal audit division and other employees, etc., endeavored to collect information, maintain and improve the audit environment, and conducted the audits based on the methods described below.

      i) Each of the Audit & Supervisory Board members has attended the meetings of the Board of Directors and other important meetings, received reports on the status of performance of duties from the directors and the internal audit division and requested explanations as necessary, examined important approval/decision documents, and inspected the status of the corporate affairs and assets at the head office and other principal business locations. Also, with respect to the subsidiaries, each of the Audit & Supervisory Board members endeavored to facilitate a mutual understanding and exchanged information with the directors and the Audit & Supervisory Board members, etc. of each subsidiary and received from subsidiaries reports on their respective business as necessary.

      ii) Each of the Audit & Supervisory Board members regularly received reports from the directors and employees, etc., requested explanations from them as necessary, and expressed opinions, on the status of the construction and operation of the contents of the Board of Directors' resolutions regarding the development and maintenance of systems to ensure that the directors' performance of their duties complied with all laws and regulations and the articles of incorporation of the company and other systems that are set forth in Article 100, paragraphs 1 and 3 of the Ordinance for Enforcement of the Companies Act of Japan as systems necessary for ensuring the properness of operations of a corporate group comprised of a stock company and its subsidiaries, and the systems (internal control systems) developed based on such resolutions. With respect to the internal control related to the financial report, the Audit & Supervisory Board received reports regarding the assessment and status of their audits from the directors, the corporate officers, and KPMG AZSA LLC, and also requested explanations as necessary.

      iii) Each of the Audit & Supervisory Board members monitored and verified whether the accounting auditor maintained its independence and properly conducted its audit, received a report from the accounting auditor on the status of its performance of duties, and requested explanations as necessary. Each of the Audit & Supervisory Board members were notified by the accounting auditor that it had established a "system to ensure that the performance of the duties of the accounting auditor was properly conducted" (the matters listed in the items of Article 131 of the Company Accounting Regulations) in accordance with the "Quality Control Standards for Audits" (Business Accounting Council on October 28, 2005), and requested explanations as necessary.

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

2. Results of Audit

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

i) We acknowledge that the business report and the annexed specifications thereto fairly present the status of the Company in conformity with the applicable laws and regulations and the articles of incorporation of the company.

ii) We acknowledge that no misconduct or material fact constituting a violation of any law or regulation or the articles of incorporation of the company was found with respect to the directors' performance of their duties.

iii) We acknowledge that the Board of Directors' resolutions with respect to the internal control systems are appropriate. We did not find any matter to be mentioned with respect to the directors' performance of their duties concerning the internal control systems.

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

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

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

(3) Results of Audit of Consolidated Financial Statements

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

February 21, 2019

Audit & Supervisory Board of
Shiseido Company, Limited

Audit & Supervisory Board Member (Full-time)
Takeshi Yoshida (Seal)
Audit & Supervisory Board Member (Full-time)
Kyoko Okada (Seal)
Audit & Supervisory Board Member (External)
Nobuo Otsuka (Seal)
Audit & Supervisory Board Member (External)
Hiroshi Ozu (Seal)
Audit & Supervisory Board Member (External)
Eiko Tsujiyama (Seal)

SHISEIDO

Reference Document Concerning the General Meeting of Shareholders

1. Total Number of Voting Rights Held by Shareholders: 3,990,178

2. Items of Business and Reference Information:

First Item of Business: Dividends of Retained Earnings

The Company would like to propose the amount of dividends for the fiscal year ended December 31, 2018 as follows, taking into account the basic policy for returns to shareholder below, the consolidated financial results for the fiscal year, and future business development, among other factors.

If this proposal is accepted, total dividends per share for the fiscal year including the interim dividend will be ¥45, an increase of ¥17.5 from the previous fiscal year.

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

An amount per share of common stock of the Company: ¥25.00
The total amount thereof: ¥9,984,548,775

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

March 27, 2019

Basic Policy for Returns to Shareholder (As of December 31, 2018)

The Company's shareholder return policy targets total returns, comprising direct returns to shareholders through dividends and medium- and long-term share price gains. Based on this approach, our fundamental policy involves aiming to maximize corporate value which entails focusing on strategic investments for sustainable growth, while also enhancing efficiency of invested capital exceeding capital costs with a view to achieving medium- and long-term increases in dividends and share price.

Upon determining dividends, we aim to achieve long-term, stable and continuous enhancement of returns with emphasis given to consolidated business results and free cash flow, and accordingly set a minimum dividend on equity ratio (DOE) of 2.5% as an indicator that reflects our capital policy.

We will also take a flexible approach to buying back shares with consideration given to the market environment.

Trends of Dividends, etc.

(Millions of yen, unless otherwise noted)

	116th Business Term (4/1/2015 - 12/31/2015)	117th Business Term (1/1/2016 - 12/31/2016)	118th Business Term (1/1/2017 - 12/31/2017)	119th Business Term (Current term) (1/1/2018 - 12/31/2018)	
Annual cash dividends per share (Yen)	20	20	27.50	45	(P)
Annual dividends	7,981	7,985	10,986	17,970	(P)
Consolidated payout ratio (%)	34.4	24.9	48.3	29.3	(P)
DOE (%)	2.0	2.0	2.7	4.1	(P)

Note: Annual cash dividends per share and annual dividends for the 119th Business Term (current term) are predicated on the approval of this item of business at this general meeting of shareholders.

Second Item of Business: Election of Six (6) Directors

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

The term of office of six (6) directors will expire at the conclusion of this general meeting of shareholders. Thus, the Company cordially asks shareholders to elect six (6) directors including three (3) external directors in accordance with the provisions of the Articles of Incorporation in order to promote an agile management capable of responding appropriately to changes in management environment.

Policy and Process under Which Candidates for Directors Are Selected

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

Furthermore, the Company sets forth the Criteria for Independence of External Directors and Audit & Supervisory Board Members. The three (3) candidates for external directors have fulfilled the Criteria in full. Overview of the criteria is stated on pages 42 to 43 and the entire criteria is listed as a voluntary disclosure item relating to the business report on the Company's website under "Investors / General Meeting of Shareholders / Corporate Governance / General Meeting of Shareholders / Notice of Convocation: the 119th Ordinary General Meeting of Shareholders" (https://www.shiseidogroup.com/ir/account/shareholder/).

Candidates for Directors

No.	Name	Current Position and Responsibilities, etc. at the Company	Attributes of the Candidates
1	Masahiko Uotani	Representative Director President and CEO Chairman of the Board Member of Nomination Advisory Committee Member of Remuneration Advisory Committee Chairman of Compliance Committee	
2	Yoichi Shimatani	Representative Director Executive Vice President Chief Innovation Officer Assisting the CEO in general corporate management Member of Compliance Committee	
3	Jun Aoki	Director Executive Corporate Officer Chief People Officer Chief Social Value Creation Officer Assisting the CEO in general corporate management Human Resources, Social Value Creation, Facility Management Member of Compliance Committee	
4	Yoko Ishikura	External Director Chairman of Nomination Advisory Committee Member of Remuneration Advisory Committee	Candidate for External Director Candidate for Independent Director
5	Shinsaku Iwahara	External Director Member of Nomination Advisory Committee Member of Remuneration Advisory Committee	Candidate for External Director Candidate for Independent Director
6	Kanoko Oishi	External Director Chairman of Remuneration Advisory Committee Member of Nomination Advisory Committee	Candidate for External Director Candidate for Independent Director

Candidates for Directors



- Number of shares of the Company owned
  16,100 Shares
- Number of years in office of the Company as Director
  4 Years and 9 Months
- Number of attendance at the Board of Directors meetings of the Company for the fiscal year ended December 31, 2018
  18 out of 18 Board of Directors meetings (100%)
- Number of attendance at the Nomination Advisory Committee meetings of the Company for the fiscal year ended December 31, 2018
  5 out of 5 Nomination Advisory Committee meetings (100%)
- Number of attendance at the Remuneration Advisory Committee meetings of the Company for the fiscal year ended December 31, 2018
  8 out of 8 Remuneration Advisory Committee meetings (100%)

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

Career Summary, and Position and Responsibilities at the Company

Apr.	1977:	Joined the Lion Dentifrice Co., Ltd. (currently Lion Corporation)
Jan.	1988:	Manager, Citibank, N.A.
Apr.	1991:	Representative Director, Vice President, Kraft Japan Limited (currently Mondelēz Japan Limited)
May	1994:	Director, Executive Vice President and Chief Officer of Marketing, Coca-Cola (Japan) Co., Ltd.
Oct.	2001:	Representative Director, President, Coca-Cola (Japan) Co., Ltd. (Global Officer)
Aug.	2006:	Representative Director, Chairman, Coca-Cola (Japan) Co., Ltd.
Jun.	2007:	Representative Director, Chief Executive Partner, BrandVision Inc.
Aug.	2011:	Outside Director, ASKUL Corporation
Oct.	2012:	Director, Citibank Japan Ltd. (part time)
Apr.	2013:	Outside Chief Marketing Advisor of the Company
Apr.	2014:	President and CEO of the Company [incumbent]
		Chairman of CSR Committee of the Company
Jun.	2014:	Representative Director of the Company [incumbent]
Oct.	2018:	Chairman of Compliance Committee of the Company [incumbent]

Important Positions at Other Organizations Concurrently Held

None

Reasons for Nomination of the Candidate for Director

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

He continued working to implement our new strategy to accelerate growth geared to realizing the Company's transformation "Be a Global Winner with Our Heritage" again in 2018, which was the first fiscal year of the three-year second phase of the medium-to-long-term strategy VISION 2020. As a result, the Company posted new record highs with respect to net sales, operating profit and net profit attributable to owners of parent across the board, with both net sales and operating profit for fiscal 2018 having exceeded the record-high levels achieved in the previous fiscal year.

Due to these results and the leadership that enables him to promote reforms, the Board of Directors has continuously selected him as a candidate for director.

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

- Experience and knowledge to a competent extent in overall management
- Experience and knowledge to a competent extent in sales and marketing
- Experience and knowledge to a competent extent in international business
- Experience and knowledge to a competent extent in marketing and product development
- Experience and knowledge to a competent extent in the general consumer product industry
- Experience and knowledge in corporate governance

Special Interest between the Candidate and the Company

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

Message from the President

We have now reached the end of the initial fiscal year of the three-year second phase of the VISION 2020 medium-to-long-term strategy, which aims for the transformation of the Company "Be a Global Winner with Our Heritage." During this time, we have been accelerating digitalization, developing new businesses, and generating new value through innovation as we continued substantial marketing investment with a focus on our prestige brands. Moreover, we strategically engaged in cross-border marketing across the entire Asia region to capture Japan, China and Travel Retail (airport duty-free stores and other such channels) as one market with a focus mainly on Chinese consumers. We have been steadily producing positive results amid a market environment that has been prone to constant change. This situation accordingly calls for us to make swift managerial decisions to address such changes, rather than becoming lulled into complacency. Meanwhile, we are also moving forward in creating an environment conducive to innovation by placing focus on a people-first approach and efforts to enhance human resources to establish stronger foundations that will enable us to keep producing value in the long term. We believe that value generated through such initiatives will enable us to benefit society, which in turn will yield greater consumer satisfaction culminating in corporate growth that will allow us to provide returns to our shareholders. As such, we ask for the continued support of our shareholders and other stakeholders as we strive to achieve these goals going forward.



- Number of shares of the Company owned
  5,300 Shares
- Number of years in office of the Company as Director
  1 Year
- Number of attendance at the Board of Directors meetings of the Company for the fiscal year ended December 31, 2018
  14 out of 14 Board of Directors meetings (100%)

2. Yoichi Shimatani (Date of birth: August 11, 1956)

Career Summary, and Position and Responsibilities at the Company

Apr. 1979: Joined the Company
Jan. 2004: Director and President, Shiseido China Research Center Co., Ltd.
Apr. 2006: General Manager of Cosmetics Research & Development Center of the Company
Oct. 2007: General Manager of Skincare Development Center of the Company
Apr. 2010: Corporate Officer of the Company
Responsible for Marketing of Domestic Cosmetics Business and Domestic Non-Shiseido Brand Businesses
Apr. 2012: Responsible for Functional Food Research & Development, Innovative Science Research & Development, Research Administration and Technology Alliances of the Company
Apr. 2013: Responsible for Research & Development (Cosmetics and Innovative Science) of the Company
Apr. 2014: Responsible for Research & Development of the Company
Apr. 2015: Corporate Executive Officer of the Company
Chief Research and Development Officer
Jun. 2017: Responsible for R&D Strategy, GIC Integrated Operations, Cosmetics Value Development, Cosmetics R&D, Intellectual Property, Advanced Research, Incubation [incumbent], and Quality Assessment of the Company
Jan. 2018: Responsible for Safety & Analytics Research of the Company [incumbent]
Mar. 2018: Director of the Company
Jan. 2019: Representative Director of the Company [incumbent]
Executive Vice President of the Company [incumbent]
Chief Innovation Officer of the Company [incumbent]
Assisting the CEO in general corporate management of the Company [incumbent]
Responsible for Process Engineering Development, Package Development, and Frontier Science Business of the Company [incumbent]

Important Positions at Other Organizations Concurrently Held

None

Reasons for Nomination of the Candidate for Director

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 continuously selected him as a candidate for director.

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

- Experience and knowledge to a competent extent in technology, innovation and quality management
- Experience and knowledge to a competent extent in cosmetics and the related consumer product industry
- Experience and knowledge in marketing and product development

Special Interest between the Candidate and the Company

There is no special interest between Mr. Yoichi Shimatani and the Company.



- Number of shares of the Company owned
  1,200 Shares
- Number of years in office of the Company as Director
  2 Years
- Number of attendance at the Board of Directors meetings of the Company for the fiscal year ended December 31, 2018
  18 out of 18 Board of Directors meetings (100%)

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

Career Summary, and Position and Responsibilities at the Company

Apr.	1980:	Joined Maki and Associates
Apr.	1991:	Associate Consultant, McKinsey & Company Inc. Japan Office
Jul.	1993:	Engagement Manager, McKinsey & Company Inc. Japan Office
Jul.	1995:	Senior Engagement Manager, McKinsey & Company Inc. Japan Office
Feb.	1999:	CEO, BNP Paribas Cardif Japan
Nov.	2011:	Head of International Human Resources, BNP Paribas Cardif (in France)
Nov.	2014:	Corporate Advisor of the Company
Jan.	2015:	Department Director, Human Resources Department of the Company Responsible for Human Resources and Corporate Culture Reforms
Apr.	2015:	Corporate Officer of the Company Chief People Officer, Department Director, Human Resources Department
Jan.	2016:	Responsible for China Business Innovation Project of the Company Responsible for Executive and External Relations of the Company Chairman, Shiseido Liyuan Cosmetics Co., Ltd.
Jan.	2017:	Corporate Executive Officer of the Company [incumbent] Chief Creative Officer Responsible for Advertising and Design
Mar.	2017:	Director of the Company [incumbent]
Jan.	2018:	Representative Director of the Company Responsible for Human Resources, Executive and External Relations, and Corporate Culture
Jan.	2019:	Chief People Officer of the Company [incumbent] Chief Social Value Creation Officer of the Company [incumbent] Assisting the CEO in general corporate management of the Company [incumbent] Responsible for Human Resources, Social Value Creation, Facility Management of the Company [incumbent]

Important Positions at Other Organizations Concurrently Held

None

Reasons for Nomination of the Candidate for Director

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

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

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

- Experience and knowledge to a competent extent in human resources and personnel management
- Experience and knowledge to a competent extent in international business

Special Interest between the Candidate and the Company

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

Candidate for External Director
Candidate for Independent Director



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

- Number of shares of the Company owned
  1,000 Shares
- Number of years in office of the Company as External Director
  3 Years and 9 Months
- Number of attendance at the Board of Directors meetings of the Company for the fiscal year ended December 31, 2018
  18 out of 18 Board of Directors meetings (100%)
- Number of attendance at the Nomination Advisory Committee meetings of the Company for the fiscal year ended December 31, 2018
  5 out of 5 Nomination Advisory Committee meetings (100%)
- Number of attendance at the Remuneration Advisory Committee meetings of the Company for the fiscal year ended December 31, 2018
  8 out of 8 Remuneration Advisory Committee meetings (100%)

Career Summary, and Position and Responsibilities at the Company

Jul.	1985:	Joined McKinsey & Company Inc. Japan Office
Apr.	1992:	Professor, School of International Politics, Economics and Communication, Aoyama Gakuin University
Mar.	1996:	Director (part-time), Avon Products Inc.
Apr.	2000:	Professor, Graduate School of International Corporate Strategy, Hitotsubashi University
Feb.	2001:	Member, the Central Education Council
Apr.	2004:	Director (part-time), Vodafone Holdings K.K. (previously)
		Outside Director (part-time), Japan Post
Oct.	2005:	Vice President, the Science Council of Japan
Jun.	2006:	Outside Director, Mitsui O.S.K. Lines, Ltd.
Jan.	2008:	Member (part-time), the Council for Science and Technology Policy
Jun.	2010:	Outside Director, Nissin Food Holdings Co., Ltd. [incumbent]
		Outside Director, Fujitsu Limited
Apr.	2011:	Professor, Graduate School of Media Design, Keio University
Apr.	2012:	Professor Emeritus, Hitotsubashi University [incumbent]
Jun.	2012:	Outside Director, Lifenet Insurance Company
Jun.	2014:	Outside Director, Sojitz Corporation
Jun.	2015:	External Director of the Company [incumbent]
Apr.	2018:	Chairman of Nomination Advisory Committee of the Company [incumbent]

Important Positions at Other Organizations Concurrently Held

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

(* indicates a listed company)

Reasons for Nomination of the Candidate for External Director

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

She has a high level of knowledge in international corporate strategy, based on which she has actively made statements at meetings of the Board of Directors. She has achieved an adequate role on supervising the execution of business as external director of the Company.

Also, as a Chairman of the Company's Nomination Advisory Committee and a member of 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 fulfill adequately the role of external director. Accordingly, the Board of Directors has decided to continuously select her as a candidate for external director.

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

- Professional knowledge in international politics and economics
- Professional knowledge in international corporate strategy
- Experience and knowledge to a competent extent in corporate governance

Special Interest between the Candidate and the Company

Ms. Yoko Ishikura concurrently holds the office of Outside Director of Nissin Food Holdings Co., Ltd. ("Nissin Food"), and Outside Director of Sojitz Corporation ("Sojitz"), with which the Company has the following transactions (Retired as Outside Director of Sojitz in June 2018):

Organization where Concurrent Position is Held	Transaction Matter, etc.	Vendor, Recipient of Supporting Money, etc.	Purchaser, Provider of Supporting Money, etc.	Percentage of Transaction Value	Value for Comparison
Nissin Food Holdings Co., Ltd.	Outsourcing business, etc.	Nissin Food Group	Shiseido Group	Less than 1%	Total amount of cost of sales and selling, general and administrative expenses of the Company on a consolidated basis for the fiscal year ended December 31, 2018
				Less than 1%	Consolidated net sales of Nissin Food for the fiscal year ended March 31, 2018
Sojitz Corporation	Outsourcing business, etc.	Sojitz Group	Shiseido Group	Less than 1%	Total amount of cost of sales and selling, general and administrative expenses of the Company on a consolidated basis for the fiscal year ended December 31, 2018
				Less than 1%	Total amount of operating revenues of Sojitz on a consolidated basis for the fiscal year ended March 31, 2018



- Number of shares of the Company owned
  100 Shares
- Number of years in office of the Company as External Director
  1 Year
- Number of attendance at the Board of Directors meetings of the Company for the fiscal year ended December 31, 2018
  13 out of 14 Board of Directors meetings (92.8%)
- Number of attendance at the Nomination Advisory Committee meetings of the Company for the fiscal year ended December 31, 2018
  5 out of 5 Nomination Advisory Committee meetings (100%)
- Number of attendance at the Remuneration Advisory Committee meetings of the Company for the fiscal year ended December 31, 2018
  5 out of 5 Remuneration Advisory Committee meetings (100%)

5. Shinsaku Iwahara

Candidate for External Director
Candidate for Independent Director

(Date of birth: December 17, 1952)

Career Summary, and Position and Responsibilities at the Company

Aug.	1978:	Associate Professor, Faculty of Law, The University of Tokyo
Sep.	1981:	Visiting Researcher, Harvard Law School, U.S.A.
Dec.	1982:	Visiting Researcher, University of California, Berkeley, School of Law, U.S.A.
Sep.	1991:	Visiting Professor, Harvard Law School, U.S.A.
Nov.	1991:	Professor, Graduate School of Law and Politics, The University of Tokyo
Apr.	2003:	Member, Postal Services Policy Council
Jan.	2005:	Member, Business Accounting Council, Financial Services Agency
Apr.	2009:	Director, Financial Accounting Standards Foundation
Apr.	2010:	Member, Legislative Council, Ministry of Justice [incumbent], Chairman, Corporate Legislation Subcommittee, Legislative Council, Ministry of Justice
Apr.	2013:	Professor, Faculty of Law, Waseda University [incumbent]
Jun.	2013:	Professor Emeritus, The University of Tokyo [incumbent]
Jan.	2015:	Member and Chairman, Financial System Council, Financial Services Agency
Jul.	2017:	Adviser to Mori Hamada & Matsumoto [incumbent]
Mar.	2018:	External Director of the Company [incumbent]

Important Positions at Other Organizations Concurrently Held

Professor, Faculty of Law, Waseda University

Reasons for Nomination of the Candidate for External Director

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

He 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. Based on such knowledge and experience, he has been contributing toward improving the effectiveness of the Board of Directors of the Company by actively making statements at meetings of the Board of Directors.

Also, as a member of the Company's Nomination Advisory Committee and Remuneration Advisory Committee, he attended the meetings of these Committees and actively expressed opinions.

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 continuously select him as a candidate for external director.

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

- Professional knowledge in legal matters
- Professional knowledge in corporate governance

Special Interest between the Candidate and the Company

There is no special interest between Mr. Shinsaku Iwahara and the Company.

SHISEIDO

Candidate for External Director
Candidate for Independent Director



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

- Number of shares of the Company owned
  1,200 Shares
- Number of years in office of the Company as External Director
  3 Years
- Number of attendance at the Board of Directors meetings of the Company for the fiscal year ended December 31, 2018
  17 out of 18 Board of Directors meetings (94.4%)
- Number of attendance at the Nomination Advisory Committee meetings of the Company for the fiscal year ended December 31, 2018
  5 out of 5 Nomination Advisory Committee meetings (100%)
- Number at attendance of the Remuneration Advisory Committee meetings of the Company for the fiscal year ended December 31, 2018
  8 out of 8 Remuneration Advisory Committee meetings (100%)

Career Summary, and Position and Responsibilities at the Company

Apr.	1983:	Joined Nippon Life Insurance Company
Aug.	1987:	McKinsey & Company, Inc. New York Office
Nov.	1988:	McKinsey & Company, Inc. Tokyo Office
Jun.	2000:	CEO, MEDIVA Inc. [incumbent]
Jul.	2000:	CEO, Seinan MEDIVA Co., Ltd. (currently Seeds 1 Co., Ltd.) [incumbent]
Aug.	2001:	Outside Auditor, ASKUL Corporation
Aug.	2002:	Outside Director, ASKUL Corporation
Jun.	2010:	Outside Director, Astellas Pharma Inc.
Jun.	2015:	Outside Director, Ezaki Glico Co., Ltd. [incumbent]
		External Board Member, Santen Pharmaceutical Co., Ltd. [incumbent]
		External Director, Suruga Bank Ltd.
Mar.	2016:	External Director of the Company [incumbent]
Apr.	2018:	Chairman of Remuneration Advisory Committee of the Company [incumbent]

Important Positions at Other Organizations Concurrently Held

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

Reasons for Nomination of the Candidate for External Director

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

She has experiences and knowledge gained through her career in business management inside and outside Japan as well as from a standpoint of active manager who is pushing forward patient-centered transformation of the medical industry. She has achieved an adequate role on supervising the execution of business as external director of the Company.

Also, as a Chairman of the Company's Remuneration Advisory Committee and a member of Nomination 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 fulfill adequately the role of external director. Accordingly, the Board of Directors has continuously selected her as a candidate for external director.

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

- Experience and knowledge to a competent extent in overall management
- Experience and knowledge to a competent extent in the medical industry
- Experience and knowledge to a competent extent in corporate governance

Special Interest between the Candidate and the Company

Ms. Kanoko Oishi concurrently holds the office of CEO of MEDIVA Inc. ("MEDIVA"), Outside Director of Ezaki Glico Co., Ltd. ("Ezaki Glico"), and External Board Member of Santen Pharmaceutical Co., Ltd. ("Santen"), with which the Company has the following transactions:

Organization where Concurrent Position is Held	Transaction Matter, etc.	Vendor, Recipient of Supporting Money, etc.	Purchaser, Provider of Supporting Money, etc.	Percentage of Transaction Value	Value for Comparison
MEDIVA Inc.	Outsourcing business, etc.	MEDIVA Group	Shiseido Group	Less than 1%	Total amount of cost of sales and selling, general and administrative expenses of the Company on a consolidated basis for the fiscal year ended December 31, 2018
				Less than 1%	Net sales of MEDIVA for the fiscal year ended December 31, 2018
Ezaki Glico Co., Ltd.	Snacks, etc. (mail order)	Ezaki Glico Group	Shiseido Group	Less than 1%	Total amount of cost of sales and selling, general and administrative expenses of the Company on a consolidated basis for the fiscal year ended December 31, 2018
				Less than 1%	Consolidated net sales of Ezaki Glico for the fiscal year ended March 31, 2018
Santen Pharmaceutical Co., Ltd.	Cosmetics, etc.	Shiseido Group	Santen Group	Less than 1%	Consolidated net sales of the Company for the fiscal year ended December 31, 2018
				Less than 1%	Cost of sales of Santen on a consolidated basis for the fiscal year ended March 31, 2018

Notes:

1. Conclusion of liability limiting agreement

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

   Pursuant to these provisions the Company has entered into such agreement with each of Ms. Yoko Ishikura, Mr. Shinsaku Iwahara and Ms. Kanoko Oishi, under which his/her liability for compensation of damages is limited to the minimum limited liability amount provided in the laws and regulations.

2. Independent Directors

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

3. Incidents entailing violation of laws, regulations or articles of incorporation, or incidents otherwise entailing wrongful business practices occurring at another company where an external director candidate has served either as director, executive officer or audit & supervisory board member over the last five years, arising at such company during such tenure

   On October 5, 2018, the Financial Services Agency took administrative actions (partial business suspension order and business improvement order) with respect to Suruga Bank Ltd. where Ms. Kanoko Oishi served as External Director from June 2015 to June 2018. The reasons cited for the administrative actions included misconduct on share house loans and other investment real estate loans, business operations harming the interests of customers, and inappropriate financing for family companies. Although she had not been aware of the aforementioned incidents prior to them coming to light, she regularly furnished advice to Suruga Bank on a daily basis as an External Director of Suruga Bank from the perspective of compliance with laws and regulations and brought to its attention matters concerning its compliance with laws and regulations. Subsequent to the aforementioned incidents coming to light, Ms. Kanoko Oishi has been fulfilling her duties appropriately, such as by calling for an investigation of the facts of the matter, for a further strengthening and thorough approach to compliance, and for measures to be taken appropriate to prevent recurrence of such situations, as well as working to restore confidence in Suruga Bank.

4. Presentation of name

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

Third Item of Business: Election of Two (2) Audit & Supervisory Board Members

The term of office of full-time audit & supervisory board member, Ms. Kyoko Okada and external audit & supervisory board member, Mr. Nobuo Otsuka will expire at the conclusion of this general meeting of shareholders. Accordingly, it is proposed that two (2) audit & supervisory board members be elected.

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

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

Taking into consideration the importance of audit and functions of audit & supervisory board members for the corporate management, and the personality and intellectuality of candidates therefor, representative directors of the Company select appropriate individuals as candidates for audit & supervisory board members who are able to fulfill the duties of audit & supervisory board members 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 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.

Candidates for Audit & Supervisory Board Members

No.	Name	Current Position at the Company	Attributes of the Candidate		
1	Akiko Uno	Department Director responsible for Executive and External Relations	Candidate for New Audit & Supervisory Board Member		
2	Yasuko Goto	–	Candidate for New Audit & Supervisory Board Member	Candidate for External Audit & Supervisory Board Member	Candidate for Independent Audit & Supervisory Board Member

Candidates for Audit & Supervisory Board Members



Candidate for New Audit & Supervisory Board Member

1. Akiko Uno (Date of birth: October 14, 1960)

- Number of shares of the Company owned
  5,800 Shares
- Number of years in office of the Company as Audit & Supervisory Board Member
- Number of attendance at the Board of Directors meetings of the Company for the fiscal year ended December 31, 2018
- Number of attendance at the Audit & Supervisory Board Members meetings of the Company for the fiscal year ended December 31, 2018

Career Summary and Position at the Company

Apr. 1983: Joined the Company
Apr. 2008: Deputy Center Director, Beauty Solution Development Center of the Company
Apr. 2009: Deputy Department Director, Consumer and Social Relations Department of the Company
Apr. 2010: Deputy Center Director, Consumer Information Center, Shiseido Business Solutions Co., Ltd.
Apr. 2011: Deputy Center Director, Consumer Information Center of the Company
Jan. 2016: Center Director, Consumer Information Center, Shiseido Japan Co., Ltd.
Jan. 2019: Department Director responsible for Executive and External Relations of the Company [incumbent]

Important Positions at Other Organizations Concurrently Held

None

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

Since joining the Company, Ms. Akiko Uno has developed a career focused on areas such as analyzing cosmetics markets and developing sales channels through consumer surveys. In the Beauty Solution Development Center (previously), she subsequently played a leadership role in developing and operating the new realm of supervising appearance care with respect to providing support to all those with concerns regarding their appearances particularly due to side effects of medical treatments and aging, by providing them with makeup solutions that help them be true to themselves in their day-to-day lives. In the Consumer Information Center (currently Consumer Communication Center of Shiseido Japan Co., Ltd.), she supervised consumer services and risk management while also promoting development of the "Mirror System" for aggregating consumer feedback from all over the world, sharing worldwide consumer feedback within the Company, applying it to management and communicating to the individual departments in the Company.

As described above, she has strived to implement the Shiseido Group's CSR activities and risk management, and to build relationships with consumers. The Company is of the opinion that she would be able to fulfill functions of audit & supervisory board member drawing on such experience and knowledge. Thus, the Board of Directors has newly selected her as a candidate for audit & supervisory board member.

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

- Experience and knowledge in corporate social responsibility (CSR) activities
- Experience and knowledge to a competent extent in risk management
- Experience and knowledge to a competent extent in cosmetics and the related consumer product industry

Special Interest between the Candidate and the Company

There is no special interest between Ms. Akiko Uno and the Company.



- Number of shares of the Company owned
  0 Shares
- Number of years in office of the Company as External Audit & Supervisory Board Member
- Number of attendance at the Board of Directors meetings of the Company for the fiscal year ended December 31, 2018
- Number of attendance at the Audit & Supervisory Board Members meetings of the Company for the fiscal year ended December 31, 2018

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

2. Yasuko Goto (Date of birth: February 19, 1958)

Career Summary and Position at the Company

Apr.	1980:	Joined the Ministry of Transport
Jan.	1997:	General Manager, Planning Department, Kyushu District Transport Bureau, Ministry of Transport
Jul.	1998:	Director, Planning and Research Office of Tourism Department, Transport Policy Bureau, Ministry of Transport
Jan.	2001:	International Crisis Management Officer, Japan Coast Guard
Jul.	2003:	General Manager, Transport Consumer Policy Division, Policy Bureau, Ministry of Land, Infrastructure, Transport and Tourism (MLIT)
Jun.	2004:	Director, Tourism Promotion Bureau at New York, Tourist Bureau of Japan
Oct.	2005:	Deputy Governor, Yamagata Prefecture
Jul.	2008:	Director, Regional Transport Bureau of Hokuriku and Shinetsu Regions, MLIT
Aug.	2010:	Assistant Minister in charge of the Maritime Bureau, MLIT
Oct.	2011:	Director in charge of shared vessels, Japan Railway Construction, Transport and Technology Agency
Jul.	2013:	Director General, Policy Research Institute for Land, Infrastructure and Transport and Tourism, MLIT
Oct.	2014:	Advisor, Kyushu Railway Company
Jun.	2015:	Deputy Director General, Railway Operations Headquarters, Kyushu Railway Company Director General, Travel Services Headquarters, Kyushu Railway Company Managing Director, Deputy General Manager of Railway Operations Headquarters, Kyushu Railway Company General Manager, Tourism Business Headquarters, Kyushu Railway Company
Jun.	2017:	Managing Director, CFO in charge of the Treasury Department, Kyushu Railway Company
Jun.	2018:	Director, Audit and Supervisory Committee Member, Kyushu Railway Company [incumbent]

Important Positions at Other Organizations Concurrently Held

Director, Audit and Supervisory Committee Member, Kyushu Railway Company*
(* indicates a listed company)

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

Ms. Yasuko Goto was the first female career bureaucrat in the Ministry of Transport (currently the Ministry of Land, Infrastructure, Transport and Tourism (MLIT)) and served as Director of Tourism Promotion Bureau at New York of Tourist Bureau of Japan. Meanwhile, she has an extensive network having held a succession of various important posts including that of Deputy Governor of Yamagata Prefecture and Director General of the Policy Research Institute for Land, Infrastructure and Transport and Tourism. After retiring from MLIT, she had joined Kyushu Railway Company and assumed some important posts in charge of tourism business. After served as Managing Director & CFO, she was appointed as a member of the Audit and Supervisory Committee of Kyushu Railway Company and thus she has a certain amount of experience and knowledge in finance and accounting as well as in business management.

The Company determined that she could monitor the legality and adequacy of directors' execution of duties as a member of Audit & Supervisory Board utilizing her extensive experience. Thus, the Board of Directors has newly selected her as a candidate for external audit & supervisory board member.

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

- Experience and knowledge in finance and accounting
- Experience and knowledge in corporate governance

■ Experience and knowledge in overall management

Special Interest between the Candidate and the Company

Ms. Yasuko Goto concurrently holds the office of Director of Kyushu Railway Company, with which the Company has the following transactions:

Organization where Concurrent Position is Held	Transaction Matter, etc.	Vendor, Recipient of Supporting Money, etc.	Purchaser, Provider of Supporting Money, etc.	Percentage of Transaction Value	Value for Comparison
Kyushu Railway Company	Cosmetics, etc.	Shiseido Group	Kyushu Railway Company Group	Less than 1%	Consolidated net sales of the Company for the fiscal year ended December 31, 2018
				Less than 1%	Operating expenses and cost of sales of transportation of Kyushu Railway Company on a consolidated basis for the fiscal year ended March 31, 2018

Notes:

1. Conclusion of liability limiting agreement

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

   Upon appointment at this general meeting of shareholders, the Company will enter into such agreement with Ms. Yasuko Goto, under which her liability for compensation of damages is limited to the minimum limited liability amount provided in the laws and regulations.

2. Independent Officers

   The Company will designate Ms. Yasuko Goto as Independent Audit & Supervisory Board Member prescribed in Article 436-2 of the Securities Listing Regulations of the Tokyo Stock Exchange upon appointment at this general meeting of shareholders.

Fourth Item of Business: Introduction of Performance-Linked Stock Compensation as Long-Term Incentive-Type Remuneration (LTI) to Directors

This Item of Business is related to the long-term incentive-type remuneration (LTI) as a component of the performance-linked remuneration in remuneration, etc. to directors of the Company.

Thus far, the Company has supported the achievement of VISION 2020 through a so-called one-yen stock option policy as long-term incentive-type remuneration to directors, under which shares instead of cash are provided as remuneration, etc., and stock options with the exercise price of ¥1 per share are used as share acquisition rights for this purpose. The Company achieved some of the financial targets in VISION 2020 in fiscal 2017, three years ahead of schedule, and therefore, during fiscal 2018, established goals for further in the future and set a new long-term target aimed at further long-term, sustainable growth. The Company aims to improve corporate value in terms of both economic and social value over the long term, and we have revised our LTI and designed a new policy in order to promote the achievement of this goal.

Under the new LTI, the Company intends to replace the former one-yen stock option with performance share units, a type of performance-linked stock compensation, as described below, in order to give directors excluding external directors (the "Eligible Directors") additional motive to create corporate value over the long term and ensure they share interests with shareholders.

Under the LTI, the number of fiscal years that the payment relates to will be one fiscal year, and the Company will grant an initial reference allocation of share units to each Eligible Directors every fiscal year. Multiple performance indicators will be established in advance, covering an evaluation period of three fiscal years, including the fiscal year that the payment relates to, and after the evaluation period has ended, the percentage amount of payment will be calculated corresponding to the level of achievement of each performance indicator and the number of share units will be increased or decreased in accordance with the percentage amount of payment. Then, monetary remuneration claims for the delivery of the Company's common stock and cash will be paid in accordance with the number of share units to each Eligible Director. Each Eligible Director will receive delivery of the Company's common stock by providing all of the monetary remuneration claims as contributions in kind, and the amount to be paid in this case shall be based on the closing price of the Company's common stock on the Tokyo Stock Exchange on the business day preceding the date of resolution of the Board of Directors of the Company to issue or dispose of the said common stock (if no trades are made on this day, the closing price on the most recent preceding trading day) (the "share price at time of delivery"), and shall be determined by the Board of Directors within a range that is not especially advantageous for each Eligible Director subscribing to the Company's common stock.

The specific timing of payment and distribution of remuneration, etc. under the Policy to each Eligible Director will be determined by the Board of Directors, following deliberation by the Remuneration Advisory Committee chaired by an external director, but in regard to the total amount of monetary remuneration claims for the delivery of the Company's common stock and cash to be paid in accordance with the achievement rates, etc. of targets mainly relating to company performance as of the end of the three consecutive fiscal years starting from fiscal 2019 to Eligible Directors as remuneration, etc. for fiscal 2019 under the LTI, the Company cordially requests shareholders to approve a total maximum payment amount (the "maximum payment amount") of 41,000 shares of the Company's common stock multiplied by the share price at time of delivery (however, if all Eligible Directors forfeit their positions as directors or corporate officers of the Company or of subsidiaries of the Company as a result of restructuring or other events during the evaluation period, leading to payments of remuneration, etc. being made under the terms of the Policy before the end of the evaluation period, the closing price of the Company's common stock on the Tokyo Stock Exchange on the business day preceding the date of resolution of the Board of Directors concerning said payments shall be used (if no trades are made on this day, the closing price on the most recent preceding trading day)) and a maximum total number of shares of the Company's common stock to be delivered to Eligible Directors based on the LTI of 20,500 shares (the "maximum number of shares to be delivered"), with 50% of remuneration, etc. based on the LTI delivered to each Eligible Director as monetary remuneration claims for the delivery of the Company's common stock, in principle, and the remainder paid as cash, within the limits described above.

Currently the number of directors of the Company is six directors (including three external directors). If the Second Item of Business gets approved as originally proposed, the number of directors of the Company will be six directors (including three external directors), and the number of Eligible Directors will be three directors.

<Information Provided as Reference to Assist Understanding of the LTI>

Overview of the Company's Directors, Audit & Supervisory Board Members and Corporate Officers Remuneration Policy after the introduction of the LTI

The Company's directors, audit & supervisory board members and corporate officers remuneration policy has been designed by the Remuneration Advisory Committee chaired by an external director, and is a highly transparent system that incorporates objective perspectives. The remuneration of the directors, audit & supervisory board members and corporate officers comprises basic remuneration and performance-linked remuneration, which is linked to the achievement of management targets and share price, 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.

The Company's directors, audit & supervisory board members and corporate officers remuneration policy and basic remuneration paid to directors in fiscal 2018 and the annual bonus, etc. that the Company plans to pay on reflection of the performance evaluation of the same fiscal year are mentioned from page 60 through page 67.

Overview of the LTI

Under the LTI, each year, multiple performance indicators will be established in advance, covering an evaluation period of three fiscal years, including the fiscal year that the payment relates to, and after the evaluation period has ended, monetary remuneration claims for the delivery of the Company's common stock and cash corresponding to the level of achievement of these performance indicators, etc. will be paid as remuneration, etc.

The evaluation period with fiscal 2019 as the fiscal year that the payment relates to covers the three fiscal years from January 1, 2019 through December 31, 2021, and delivery of monetary remuneration claims for the delivery of the Company's common stock and payment of cash to Eligible Directors will take place after the evaluation period has ended, in principle. Furthermore, under the LTI, monetary remuneration claims for the delivery of the Company's common stock and cash will be paid in accordance with the level of achievement of performance indicators, etc., and therefore, at the time of the introduction of the LTI, it is undetermined whether or not this delivery or payment to each Eligible Director will take place, and the number of shares of the Company's common stock, the amount of monetary remuneration claims for delivery of the Company's common stock, and the amount of cash are also each undetermined.

In addition, in the event that the Company conducts a share split (including free distribution of the Company's stock) or share consolidation of the Company's common stock on or after the date of the resolution of this Item of Business, the Company will adjust both the number of shares of the Company's common stock (41,000 shares) used as the basis for the calculation of the above maximum payment amount and the maximum number of shares to be delivered (20,500 shares), and as a result determine the number of shares of the Company's common stock to be delivered to each Eligible Director, in accordance with the ratio of the split or consolidation.

Structure of the LTI

The specific structure of the LTI is as follows:

1) The LTI has a performance-linked portion and a fixed portion.
2) The Board of Directors will determine the performance indicators to be used in the LTI, performance-linked coefficients, and other performance indicators and percentage amount of the payment attributable to the level of achievement, etc. of each performance indicator, etc. required for the specific calculation of the number of shares, etc. to be delivered to each Eligible Director. An overview of the performance indicators to be used in the calculation of remuneration, etc. under the Policy for fiscal 2019 is shown in the table below. The targets for indicators related to economic value, consolidated net sales compound average growth rate (CAGR) and consolidated operating profit compound average growth rate (CAGR), are 8.0% and 15.8%, respectively, and if these targets are achieved, the maximum percentage amount of the payment attributable to each indicator will be applied. In addition, the lower limits for evaluation for the consolidated net sales compound average growth rate (CAGR) and consolidated operating profit compound average growth rate (CAGR) are 5.0% and 10.0%, respectively, and in the event that performance falls below these values, the performance-linked portion for each of these indicators will not be paid. These compound average growth rate indicators will each be calculated based on performance in fiscal 2017. In regard to indicators related to social value, the structure of the LTI is such that targets will also be similarly established for multiple internal and external environmental, social, and corporate governance (ESG)-related indicators, and the percentage amount of the payment will fluctuate according to the level of achievement of these targets. Although on the one hand it is essential that the Company remains aware of matters related to consolidated return on equity (ROE), on the other hand it is crucial that it does not permit such benchmarks to weigh too heavily on proactive initiatives to resolve such issues as those related to future growth-oriented investments and long-term expansion. As such, upon the Remuneration Advisory Committee deliberation, the Company has established certain performance standards (thresholds) in advance, with the evaluation framework designed so that the Remuneration Advisory Committee will consider lowering the percentage amount of the payment attributable to the performance-linked portion, if results fall below the thresholds.

Evaluation Item	Performance Indicators	Evaluation Weight	
Economic Value Indicators	Consolidated net sales compound average growth rate (CAGR)	45%	100%
	Consolidated operating profit compound average growth rate (CAGR)	45%	
Social Value Indicators	Multiple internal and external indicators such as those related to environmental, social, and governance (ESG) with focus on the area of "empowered beauty"	10%	
Economic Value Indicator	Consolidated ROE (return on equity)	If this ends up below the threshold, the Remuneration Advisory Committee will consider lowering the percentage amount of the payment attributable to the performance-linked portion.	

3) After the end of the evaluation period, the Board of Directors shall determine the number of shares of the Company's common stock to be allotted to each Eligible Director and the amount of cash to be paid, following deliberation by the Remuneration Advisory Committee, in accordance with the "Calculation Method for the Number of Shares of the Company's Common Stock to be Delivered and Amount of Cash to be Paid to Eligible Directors" described in the next paragraph, based on the percentage amount of the payment determined in accordance with the level of achievement of each performance indicator, etc. during the evaluation period.
4) Pursuant to a resolution by the Board of Directors, the Company will pay monetary remuneration claims for the delivery of the Company's common stock to each Eligible Director, in accordance with the number of shares of the Company's common stock to be allotted to each Eligible Director as determined in item 3), and each Eligible Director will receive delivery of the Company's common stock by providing all of the monetary remuneration claims as contributions in kind. Furthermore, the amount paid for the Company's common stock will be determined by the Company's Board of Directors within a range that is not especially advantageous for each Eligible Director subscribing to the Company's common stock.
5) Each Eligible Director will incur tax expenses in accordance with the delivery of the Company's shares as described in item 4), and therefore the Company will pay each Eligible Director an amount of cash determined in item 3) in addition to the monetary remuneration claims in item 4), in order to secure funds for these tax expenses.
6) Conditions for the delivery of shares to each Eligible Director and other details will be determined by the Board of Directors.

Calculation Method for the Number of Shares of the Company's Common Stock to be Delivered and Amount of Cash to be Paid to Eligible Directors

The Company will calculate the number of shares of the Company's stock to be delivered to each Eligible Director based on the formula in the below 1), and will calculate the amount of cash to be paid as tax funds to each Eligible Director based on the formula in the below 2).

1) Number of shares of the Company's common stock to be delivered to each Eligible Director (*3)
Reference number of share units (*1) × percentage amount of payment (*2) × 50%
2) Amount of cash to be paid to each Eligible Director (*3) (*4)
{(Reference number of share units (*1) × percentage amount of payment (*2)) − number of shares of the Company's common stock to be delivered to each Eligible Director based on the formula in item 1)} × share price at time of delivery

*1 For each fiscal year during the evaluation period, the Company will grant to each Eligible Director, as the reference number of share units, a number of share units obtained by dividing the reference amount determined by the Board of Directors in accordance with each Eligible Director's role grade by an amount determined by the

Board of Directors within a range that is not especially advantageous for each Eligible Director, based on the closing price of the Company's common stock on the Tokyo Stock Exchange on the trading day preceding the date of the resolution by the Board of Directors to grant share units (if there are no trades on this date, the closing price on the most recent preceding trading day) (however, fractions of less than one unit arising as a result shall be rounded down).

*2 The percentage amount of payment will fluctuate within a certain predetermined range via a method determined by the Board of Directors of the Company, in accordance with the level of achievement of each performance indicator described in the above "Structure of the LTI."

*3 In the event that the maximum number of shares to be delivered (20,500 shares) or the maximum payment amount will be exceeded by delivering the number of shares of the Company's common stock or paying the amount of cash calculated with the above formula, the Company will reduce the number of shares and amount of cash to be delivered or paid to each Eligible Director through proportional distribution or other reasonable method determined by the Board of Directors, such that the maximum number of shares to be delivered and the maximum payment amount are not exceeded.

*4 Any fractions of less than one yen arising as a result of the above calculation will be rounded down.

Conditions for Payment of Remuneration, etc. based on the Policy

The Company will pay remuneration, etc. based on the Policy to Eligible Directors who fulfill the following conditions at the end of the evaluation period. Delivery of the Company's common stock shall be conducted by issuing shares or disposing of treasury stock, and the Board of Directors shall determine the Eligible Directors to whom the Company's common stock will be delivered and matters related to subscription for the issuance of shares or disposal of treasury stock after the evaluation period has ended, in accordance with the below conditions 1) through 3) and the calculation method described above.

1) Eligible Directors must have served continuously in the position of director or corporate officer of the Company or a subsidiary of the Company during the evaluation period.
2) Certain illegal activities determined by the Board of Directors must not have occurred.
3) Any other conditions set forth by the Board of Directors as necessary to achieve the intent of the LTI must be fulfilled.

Treatment when Eligible Directors Retire

Even if an Eligible Director lose his/her position as a director or corporate officer of the Company or any of its subsidiaries during the evaluation period, such Eligible Director will be provided with the Company's common stock and/or cash prorated based on a reasonable method prescribed by the Board of Directors of no more than the maximum payment amount and the maximum number of shares to be delivered corresponding to the nature of the reason for loss of the aforementioned position in case that the reason for loss of position is a specific reason determined by the Board of Directors in advance, and the term of office prerequisites determined by the Board of Directors for his/her reason for loss of position for each specific reason are met (in principle such prerequisite is that during the entire period of the fiscal year that the payment relates to, he/she must have served in a position of director or corporate officer of the Company or any of its subsidiaries), and such delivery or payment shall be made at a timing determined by the Board of Directors. In addition, if as a result of the resignation of Eligible Directors, payments of remuneration, etc. are made under the terms of the Policy before the end of the evaluation period, the number of shares to be delivered or the amount paid to such Eligible Directors shall be computed using the closing price of the Company's common stock on the Tokyo Stock Exchange on the business day preceding the date of resolution of the Board of Directors of the Company concerning said payments (if no trades are made on this day, the closing price on the most recent preceding trading day).

Influence of Delivery of Shares to Eligible Directors based on This Item of Business on the Total Number of Shares Issued and Outstanding Is as Follows:

		Percentage of total number of shares issued and outstanding excluding treasury stock (As of December 31, 2018)
The upper limit on the total number of shares of the Company's common stock to be delivered to Eligible Directors based on this Item of Business (maximum number of shares to be delivered)	20,500 shares	0.005%
Total number of shares to be issued upon exercise of share acquisition rights as of December 31, 2018	420,900 shares	0.10%
Total	441,400 shares	0.11%

Note: The number of shares of the Company's common stock to be delivered to Eligible Directors based on this Item of Business will fluctuate due mainly to the reference number of share units and the percentage amount of payment. However, the maximum number of shares will be 20,500 shares.

- End -

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

The Company's Notice of Convocation of the Ordinary General Meeting of Shareholders is posted on the Company's website and on the Japan Exchange Group's website (https://www.jpx.co.jp/) (Japanese and English).

1. On the Company's website, the following are voluntarily disclosed by the Company in the column entitled "Home / Investors / General Meeting of Shareholders / Corporate Governance / General Meeting of Shareholders / Notice of Convocation: the 119th Ordinary General Meeting of Shareholders" (https://www.shiseidogroup.com/ir/account/shareholder/):

2. Items voluntarily disclosed on the Company's website relating to business report:

   "The 29 Largest Shareholdings of Publicly Listed Companies in the Amount on the Balance Sheet, Which the Company Holds for Purposes Other Than Realizing Direct Investment Gains"

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

   "Criteria for "Important Concurrent Position" Assumed by Company's Directors and Audit & Supervisory Board Members"

   "Criteria for Stating the Relationship between the Company and the Organizations in Which the Company's Directors and Audit & Supervisory Board Members Hold "Important Concurrent Positions"

   "Remuneration, etc. to Directors and Audit & Supervisory Board Members (Directors, Audit & Supervisory Board Members and Corporate Officers Remuneration Policy by Fiscal 2018)"

3. In cases that the attached documents and "Reference Document Concerning the General Meeting of Shareholders" are amended, the Company will announce the updated version on the Company's website.

   (https://www.shiseidogroup.com/ir/account/shareholder/)