Table of Contents

Message to shareholders

P02 **Message from the CEO**
Tackling market uncertainties for long-term growth

P05 **2019 Results**
Record-high net sales, operating profit and net profit in a challenging business environment

P07 **Initiatives for Growth**
Further growth of global brands

P10 **Sustainability**
Realize a sustainable, better world through social value creation

P12 **Corporate Governance**
“Diversity management” and “remuneration system for Directors and Corporate Officers balanced between short-term and long-term incentives”



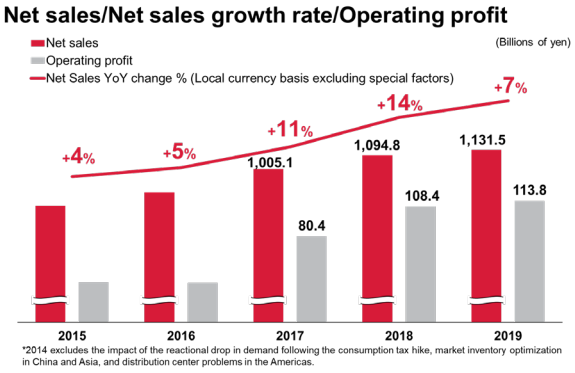
Message from the CEO

Tackling market uncertainties for long-term growth

Masahiko Uotani
Representative Director, President and CEO

We would like to express our deepest condolences to those who have suffered loss from the novel coronavirus outbreak, which has been mainly spreading in Wuhan City, Hubei Province of China, and sympathy to all whom it has affected. We sincerely wish for the situation to recover soon.





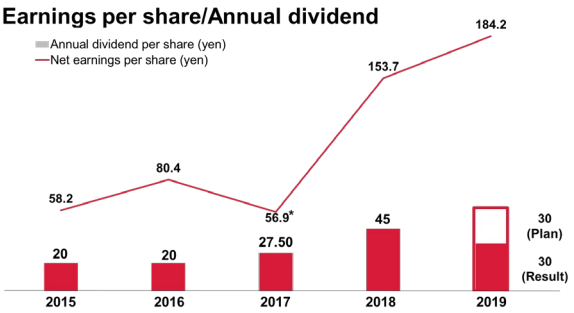
Record-high Net Sales, Operating Profit and Net Profit

In 2019, the external environment changed rapidly and macroeconomic uncertainty increased, which led to a more challenging management situation. Despite the environment, we delivered solid growth and achieved record-high net sales, operating profit and net profit. Moreover, we attained an operating profit margin exceeding 10%, which we had targeted from the start of our medium-to-long-term strategy VISION 2020.

Our global growth drivers are prestige brands, which we have been focusing on as part of our strategy. Among these, *SHISEIDO* became the first brand to achieve net sales exceeding ¥200 billion.

However, the Japan Business saw performance in the second half of 2019 deteriorate further than expected. In particular, we recognize that the most significant issue is the delay in reacting to changes in the values and purchasing behavior of Japanese consumers, while we have been responding to the increase in the number of inbound foreign tourists over recent years. As I also serve as President of Shiseido Japan, I will oversee alignment of the management of the Japan Business with headquarters and reinforce the value provided to consumers.

Meanwhile, as part of our long-term management, we are strengthening our ESG (Environmental, Social and Governance) initiatives. Our aim is to achieve our corporate mission of "BEAUTY INNOVATIONS FOR A BETTER WORLD," and to be a company that will remain vital for the next 100 years.



* Due to an impairment loss of Bare Escentuals, Inc.



Our corporate mission established in 2019

Future Outlook

The Company is currently carefully examining the impact of the novel coronavirus outbreak. Hence the impact is not yet incorporated in our current 2020 business forecast. In response to the changing circumstances, going forward, we plan to disclose a revised outlook reflecting the impact by the end of the first half at the latest.

In taking the countermeasures regarding the novel coronavirus outbreak, we put the health and safety of our customers and employees first. At this difficult time, we are also providing what support we can. On February 6, we launched the "Relay of love Project." We will reserve 1% of sales from Asian

Relay of love
爱心接力
SHISEIDO

爱心接力 Relay of love Project

markets for this project. These funds will be used to support initiatives such as medical and infection prevention measures, provision of our products, and volunteer activities to invigorate people. We want to support all of those in need in these difficult circumstances.

While the business environment is still uncertain, we will tackle this issue to achieve growth on a long-term perspective. We ask for your continued support going forward.

What is THE SHISEIDO PHILOSOPHY?

https://corp.shiseido.com/en/company/philosophy/

* Viewable on your smartphone or tablet via the QR code at right.



2019 Results

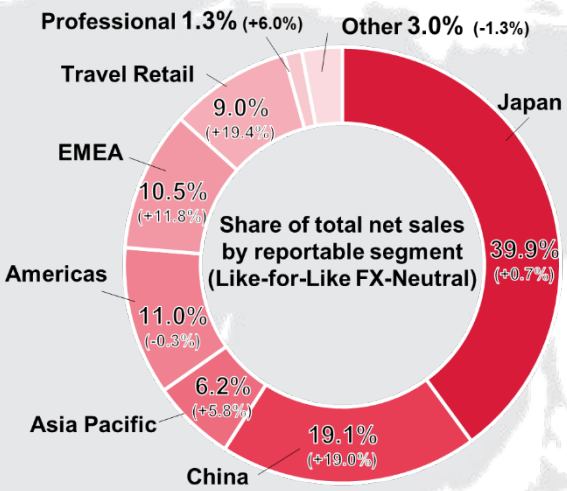
Business performance

Record-high Net Sales, Operating Profit and Net Profit

Net sales for 2019 were ¥1,131.5 billion, a year-on-year increase of 3.4%, resulting in a like-for-like growth rate of 6.8% when excluding special factors. Having invested in our prestige brands, the key growth drivers, we have achieved steady growth amid increasing uncertainties in a challenging business environment. By business segment, although Japan experienced unseasonable weather and a greater-than-expected decline in inbound demand, China, EMEA, and Travel Retail achieved double-digit like-for-like growth. Operating profit rose 5.1% year-on-year to ¥113.8 billion, due to higher margins accompanying growth in sales and other factors, which compensated for larger investments in marketing, research and development, and personnel. Net profit rose to ¥73.6 billion, an increase of 19.8% year-on-year, thanks to a decline in tax expenses and other factors on top of the increase in operating profit.

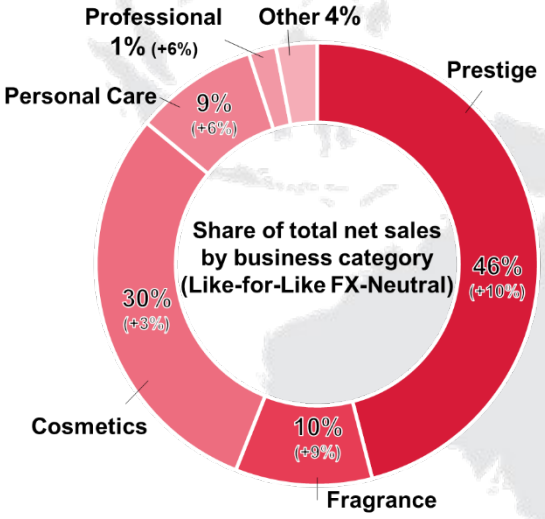
2019 Results

	(Billions of yen)	Year-on-year change
Net Sales	**1,131.5**	**+3.4%** (FX-neutral +5.7%) (Like-for-like growth +6.8%)
Operating Profit	**113.8**	**+5.1%**
Operating Profit Margin	**10.1%**	**+0.2 points**
Ordinary Profit	**108.7**	**-0.7%**
Extraordinary Gains (Losses)	**(1.4)**	
Net Profit Attributable to Owners of Parent	**73.6**	**+19.8%**



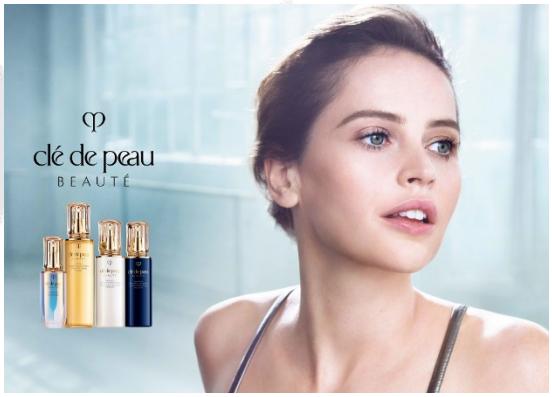
Reportable segment highlights

Japan	Amid a decline in inbound demand due to factors such as the strong yen and the impact of unseasonable weather, we continued to focus on the skin trinity category of skincare, base makeup, and sun care. *SHISEIDO* saw sales grow notably, driven by new products.
China	Made-in-Japan brands focused on prestige brands maintained significant growth, and e-commerce continued to perform solidly.
Asia Pacific	South Korea experienced difficult conditions, affected by changes in the market environment. However, Southeast Asia performed well.
Americas	Despite the difficult market environment, *SHISEIDO* and *Dolce&Gabbana* continued to grow. For *bareMinerals,* we continued to implement business structural reforms.
EMEA	New products in fragrance brands such as *Dolce&Gabbana* and *narciso rodriguez* contributed to sales growth.
Travel Retail	As a result of aggressive marketing investment, sales continued to grow significantly faster than in the previous fiscal year, mainly in Asia.





SHISEIDO



Clé de Peau Beauté

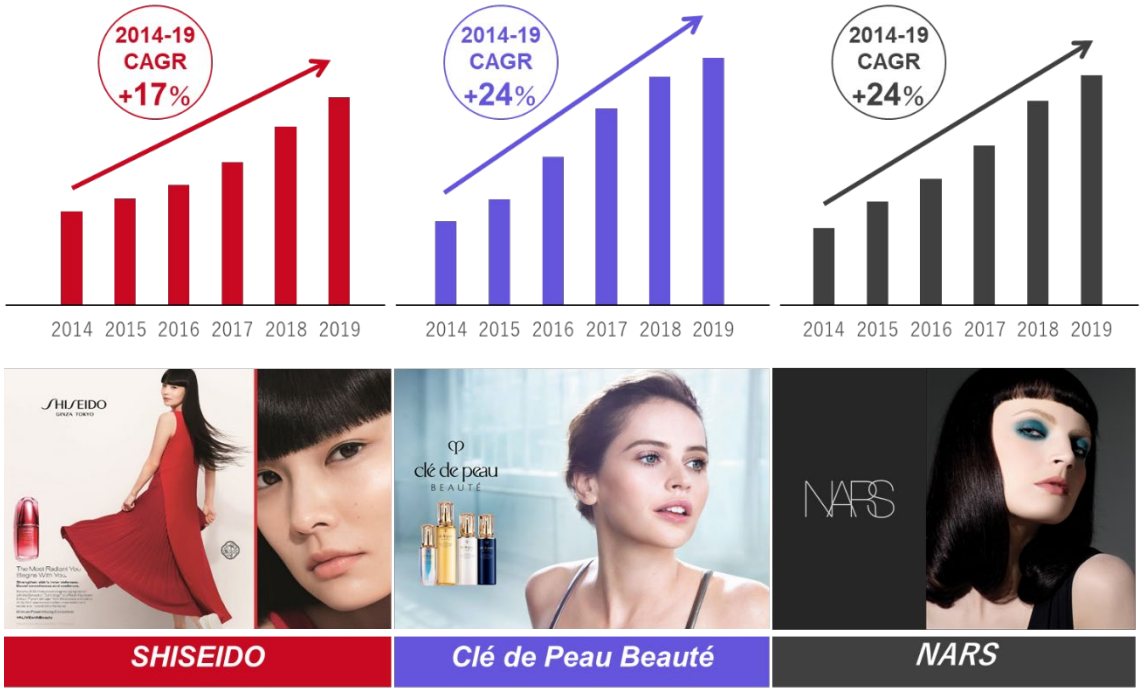


Initiatives for Growth

Further Growth in Prestige Brands

Through our Prestige First strategy, we are globally enhancing brands with growth and profitability potential. *SHISEIDO* especially expanded its business in 85 countries and regions around the world and has grown into a brand with sales of ¥200 billion. We will continue to promote the "selection and concentration" while grasping the needs of consumers in each region and achieve further growth in our signature brands, mainly *SHISEIDO*, *Clé de Peau Beauté* and *NARS* in the prestige category.

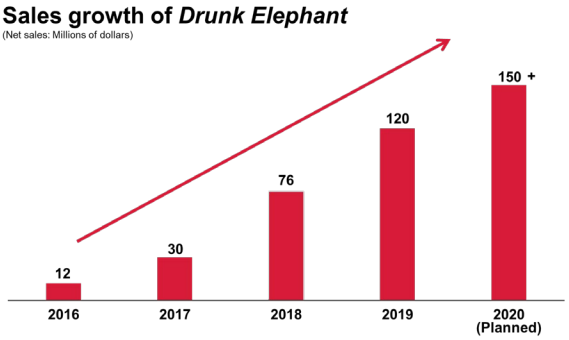
Net sales trends



Strengthening the Global Brand Portfolio

The Shiseido Group has been developing a variety of brands to respond to the consistently changing beauty needs of consumers around the world.

In November 2019, to achieve further growth, we acquired the prestige skincare brand *Drunk Elephant*, which is growing at an accelerated pace in the United States. Through this acquisition, we will capture a global trend for products that are "clean" for the human body as well as the environment, especially among young generations. Excellent digital marketing made the brand achieve sales exceeding ¥10 billion in 2019, just seven years after its founding.



In August 2019, we entered into a global exclusive licensing agreement with the U.S. lifestyle brand *Tory Burch* to expand our fragrance business. We will enrich the brand portfolio of the entire Group and improve the profitability of the Americas Business through the acquisition of prestige category brands that are highly profitable and have considerable growth potential for future global advancement.

On the other hand, our skincare brand *ELIXIR* and sun care brand *ANESSA* are enjoying solid growth, underpinned by high popularity primarily in Japan for many years. We will reinforce them as global brands originating from Japan and aim to further accelerate their growth in Asia as well as Europe and the Americas.



Drunk Elephant



Tory Burch



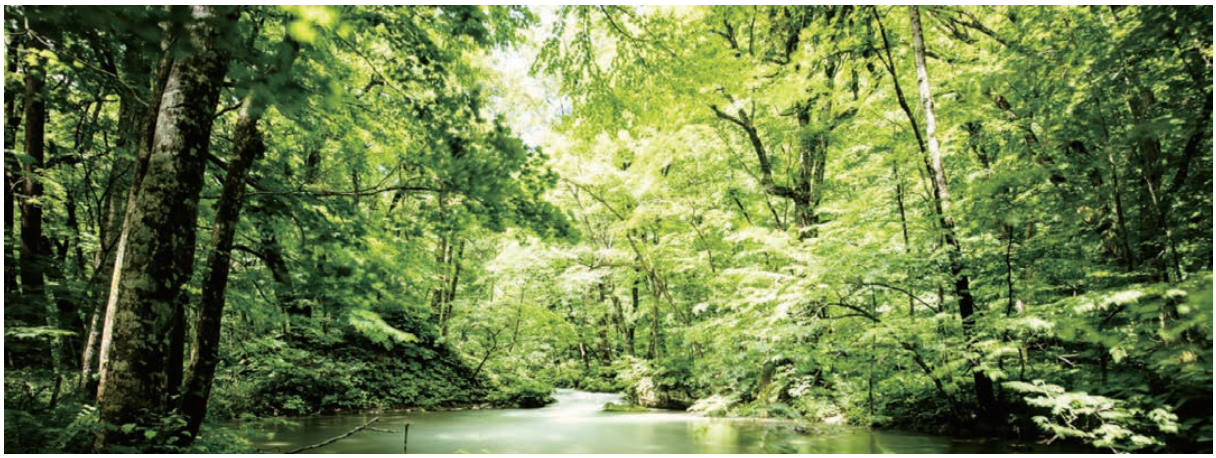
ELIXIR

Production Capability to Support Global Growth

We have 11 production bases globally, including Japan, Asia, Europe, and the Americas in order to meet demand around the world. In Japan, we established the Nasu Factory in Tochigi Prefecture in 2019, and we are also building factories in Ibaraki City, Osaka Prefecture, and Kurume City, Fukuoka Prefecture. We will establish a stable global production capability over the medium to long term while assessing demand around the world.



Nasu Factory



Sustainability

Our Sustainability Strategy

In 2019 we set a corporate mission of "BEAUTY INNOVATIONS FOR A BETTER WORLD." We certainly aim for further business growth as a company, and at the same time, the genuine mission of Shiseido is to offer solutions to social problems and achieve a sustainable society, helping people find happiness through our mainstay beauty business.

With a view to accelerating social value creation throughout the Company, in January 2019, we newly established the Social Value Creation Division. We gave consideration to a framework for creating social value as a beauty company, and selected Shiseido Group's materiality issues, and with our core focus on beauty, we revisited our definition of social value from the three perspectives of the environment, society, and culture.

Environment	Society	Culture
Protect Beauty	Empower Beauty	Inspire Beauty
Protect the beauty of the earth and the beauty of the people who call Earth home. Protect the beauty of all other life that exists on the earth as well.	**Motivate and empower all people who make up our society.**	**Use Japanese beauty to raise beauty awareness around the world and encourage the realization of beauty as a culture.**
◆ UV ray protection and care ◆ Eco-friendly packaging	◆ Gender equality ◆ Support for empowerment	◆ Leveraging Shiseido's cultural assets ◆ Communication of Japanese Beauty
◆ Reduction of environmental burden	◆ Business and human rights	

Learn more about Shiseido's approach to sustainability:
https://corp.shiseido.com/en/sustainability/about/
* Viewable on your smartphone or tablet via the QR code at right.

— ENVIRONMENT Protect Beauty

Support for Recommendations of the Task Force on Climate-related Financial Disclosures (TCFD)

In April 2019, the Company expressed its support for the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD), which was established by the Financial Stability Board (FSB). From here on, we will actively promote disclosure of information concerning both business risks and opportunities caused by climate change from such perspectives as strategy, risk management and governance based on the TCFD recommendations. We regard measures against climate change as one of the priorities. We will actively promote various environment-related measures including CO_2 emissions reduction, contributing to the achievement of a sustainable society.

TCFD TASK FORCE ON CLIMATE-RELATED FINANCIAL DISCLOSURES

— SOCIETY Empower Beauty

Appointment of First Chair of "30% Club Japan" Contributing to Increased Female Representation on Company Boards

The "30% Club Japan," which aims to increase female representation on company boards in Japan, launched in May 2019. Shiseido President and CEO Masahiko Uotani became its first chair and conveyed the message that "we recognize that Japan ranks 121st* in the Gender Gap Index, and believe that Japanese corporations are central in driving transformation throughout society." The "TOPIX Executives Meeting" was started at the end of 2019 to launch discussions on essential issues that hinder women's empowerment.

We achieved our target of 30% for the percentage of women in managerial positions in the Company in 2017, and we met our target for 45% of the Company's director and audit & supervisory board member positions to be held by women in 2019. As a longstanding, leading company in women's empowerment, we will continue contributing to eliminating the gender gap beyond the corporate framework.

* December 2019: Launch of "TOPIX Executives Meeting"



— CULTURE Inspire Beauty

First Shiseido-Takashimaya Art Exhibition "Shiseido Style"

The "Shiseido Style" exhibition was launched as the first exhibition involving collaboration between the Company and Takashimaya in the Main Building of Nihombashi Takashimaya Shopping Center, Tokyo in September 2019.





Corporate Governance - Diversity Management

Corporate Governance

- We define corporate governance as our “platform to realize sustainable growth through fulfilling the corporate mission.”
- We have adopted a double-check system whereby business execution is supervised by the Board of Directors with audit for legality and appropriateness by the Audit & Supervisory Board (Members) (a company with an audit & supervisory board system).

Skill Set Sought in Directors and Audit & Supervisory Board Members (Skill Matrix of the Members of the Board of Directors)

Board of Directors

Various viewpoints	Various backgrounds	Multilateral sophisticated expertise

Necessity of a Board comprised of members with these characteristics

When considering 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.

			
	Masahiko Uotani	Yoichi Shimatani	Jun Aoki
Position	Director	Director	Director (scheduled to retire)
Global management / Business strategy	◆	◆	◆
Marketing / Experience of the Company's business and the industry	◆	◆	
Technology / Innovation		◆	
ESG (Environmental / Social / Governance)	◆		◆
Legal affairs / Risk management			
Finance / Accounting / M&A			

			
	Yoko Ishikura	Shinsaku Iwahara	Kanoko Oishi
Position	External Director	External Director	External Director
Global management / Business strategy	◆		◆
Marketing / Experience of the Company's business and the industry			
Technology / Innovation			
ESG (Environmental / Social / Governance)	◆	◆	◆
Legal affairs / Risk management		◆	
Finance / Accounting / M&A		◆	

					
	Takeshi Yoshida	Akiko Uno	Yasuko Gotoh	Hiroshi Ozu	Eiko Tsujiyama
Position	Audit & Supervisory Board Member (Full-time)	Audit & Supervisory Board Member (Full-time)	Audit & Supervisory Board Member (External)	Audit & Supervisory Board Member (External)	Audit & Supervisory Board Member (External) (scheduled to retire)
Global management / Business strategy	◆		◆		
Marketing / Experience of the Company's business and the industry	◆	◆			
Technology / Innovation					
ESG (Environmental / Social / Governance)		◆	◆	◆	◆
Legal affairs / Risk management		◆		◆	
Finance / Accounting / M&A	◆		◆		◆

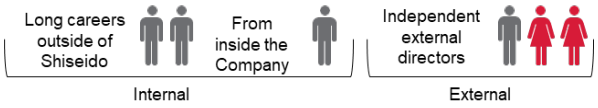
New Candidates Scheduled for Appointment at this General Meeting

				
	Yukari Suzuki	Norio Tadakawa	Yoshiaki Fujimori	Ritsuko Nonomiya
Position	Candidate for Director	Candidate for Director	Candidate for External Director	Candidate for External Audit & Supervisory Board Member
Global management / Business strategy	◆	◆	◆	◆
Marketing / Experience of the Company's business and the industry	◆	◆		
Technology / Innovation				
ESG (Environmental / Social / Governance)			◆	
Legal affairs / Risk management				
Finance / Accounting / M&A		◆	◆	◆

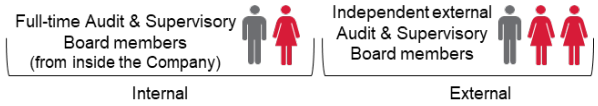
Maximum three main areas of expertise for each individual are indicated by the ◆.

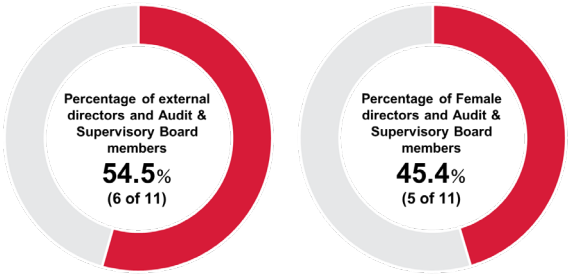
Our Governance by Numbers
(As of the end of December 2019)

6 directors



5 Audit & Supervisory Board members





Message from Chair of Nomination Advisory Committee

About Shiseido's Corporate Governance System

Yoko Ishikura,
External Director and
Chair of Nomination Advisory Committee



Shiseido's Board of Directors has adopted "monitoring board-type" corporate governance to ensure sufficiently effective supervisory functions over the Shiseido Group overall. We have considered the skills necessary to supervise a global organizational system, and assembled a team possessing those skills.

Discussions by the Board of Directors including External Directors have been lively. In response to the various agenda items that come up from the business execution side, in order to continuously improve corporate value, the Board members exchange views from various perspectives to arrive at conclusions.

Reappointment of President and CEO Uotani

The Nomination Advisory Committee in September 2019 recommended the reappointment of the Company's President and CEO, Mr. Masahiko Uotani, in view of the transformation achieved as well as his leadership and management approach shown to date. The Board of Directors subsequently resolved to reappoint Mr. Uotani. His term of office is five years from 2020 to 2024. President and CEO Uotani will lead the management with the aim of further enhancing corporate value while also focusing on developing and selecting successors through succession plans.

(Please refer to our corporate information website for further details: https://corp.shiseido.com/en/ir/governance/)

Corporate Governance - Remuneration System for Directors and Corporate Officers Balanced between Short-Term and Long-Term Incentives

Composition of Remuneration

Basic Remuneration	Annual Bonus	Long-Term Incentive
46-64%	27-18%	27-18%
The Company designs remuneration levels in accordance with role grades based on the level of responsibility of each director and corporate officer and the size of the impact on business management of the Group.	Performance evaluation on achievement of goals for a single fiscal year • Consolidated net sales, consolidated operating profit, performance of respective businesses, individual strategic goals • Performance indicator as the payment rate threshold: Net profit.	Performance evaluation on achievement of long-term goals • Economic value indicators: Consolidated net sales compound average growth rate (CAGR), consolidated operating profit compound average growth rate (CAGR) • Social value indicators: ESG • Performance indicator as the payment rate threshold: ROE

- Remuneration for directors and corporate officers is comprised of (1) basic remuneration as fixed remuneration and (2) annual bonus and long-term incentive as performance-linked remuneration.
- We introduced a role grade system; and the remuneration is designed such that the higher the role grade, the higher the ratio of the performance-linked component.
- Achieving performance in a single fiscal year and in the medium-to-long term are equally important. We set performance indicators for annual bonuses and long-term incentives that are fit-for-purpose over their respective time frames. These are designed to motivate directors and corporate officers to manage operations that realize growth not only over a single fiscal year but also over the medium-to-long term.
- Especially in regard to long-term incentives, with a view to improving and maintaining corporate value, we set indicators that can evaluate performance from the perspectives of both economic value and social value.

Our Long-Term Incentive Plan to Motivate Management in Promoting Medium-to-Long Term Growth

The Company introduced performance share units, a type of performance-linked stock remuneration (refer to the page on the right), for the purposes of establishing effective incentives for creating and maintaining corporate value over the long term, and establishing a sense of common interests with our shareholders. By doing so, we will promote the achievement of each of the below.

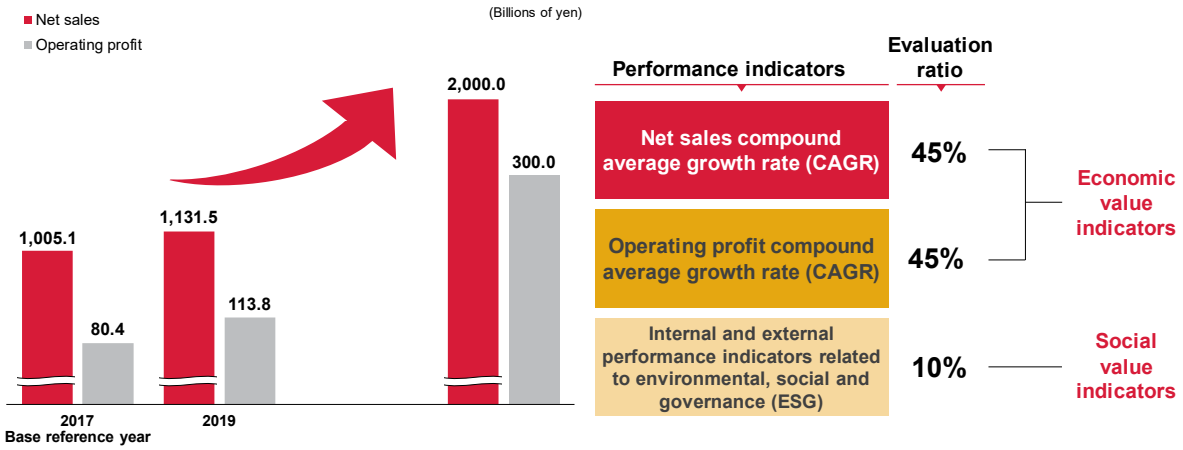
- **Purposes of introducing long-term incentive**



- **Performance evaluation indicators for long-term incentive plan**

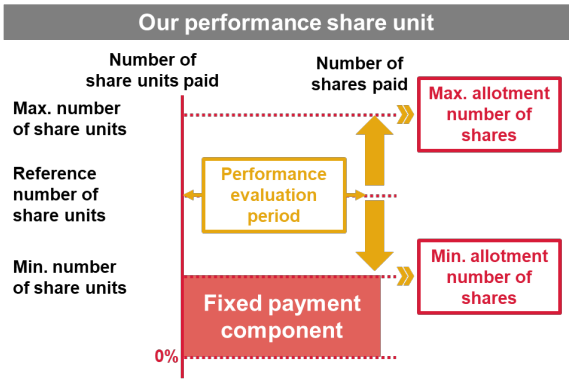
The Company has set long-term targets of consolidated net sales of ¥2 trillion and consolidated operating profit of ¥300 billion, and continuous and constant growth in sales and profit are necessary to achieve those targets. For that reason, we are using the compound average growth rate (CAGR) as a performance indicator to improve economic value. On the other hand, we are using internal and external performance indicators to continuously improve and advance performance from environmental, social and governance (ESG) viewpoints in the design to evaluate performance over the 3-year evaluation period.

Furthermore, consolidated ROE, an important indicator for shareholders, is an additional performance indicator for determining the threshold of the payment rate. If performance falls below the threshold, then the performance-linked component is not paid. In this way, we will maintain investment for growth and strict management decisions while ensuring a certain level of profits. We also expect this to promote further awareness of sharing common interests with shareholders among directors and corporate officers.



Performance share units

- Performance share units are a type of performance-linked stock compensation that involves the Company initially allotting a reference share unit* to eligible parties. The Company then increases or decreases the number of share units corresponding to the achievement ratios of each performance evaluation indicator within the evaluation period. Eligible parties are then paid shares of the Company's stock or equivalent monetary amounts corresponding to the number of share units determined. Performance share units are thus a type of plan that is more conscious about the share price and suitably reflects performance results in remuneration.
- Our performance share units are composed of two parts, which are a performance-linked component and a fixed payment component. In the performance-linked component, shares are paid with the number of shares increasing or decreasing in line with the reference number of share units, based on the compound average growth rates (CAGR) of both consolidated net sales and consolidated operating profit for the 3-year performance evaluation period, as well as the level of achievement on environmental, social and governance (ESG) targets as a non-financial performance indicator. The fixed payment component is not linked to performance, and its purpose is to share a sense of common interests with shareholders and to attract and retain capable talent.



*Share unit: units equivalent to shares after the evaluation period