



## **Notice of Convocation**

*The 118th 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.]

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## Notice of Convocation The 118th 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 118th 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)<sup>1</sup>

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).

<sup>1</sup> Please note that shareholders outside Japan shall not use these voting procedures.

## PARTICULARS

### **Date and Time of the Meeting:**

Tuesday, March 27, 2018 at **10:00 a.m.**

### **Place of the Meeting:**

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

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

### **Matters to Be Dealt with at the Meeting:**

#### **Matters for Reporting:**

Report on the business report and the consolidated financial statements, non-consolidated financial statements, and the results on the audits of consolidated financial statements by the accounting auditor and the Audit & Supervisory Board for the fiscal year ended December 31, 2017 (January 1, 2017 to December 31, 2017).

#### **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 One (1) Audit & Supervisory Board Member

Fourth Item of Business: Revision of the Amount of Compensation Payable to Members of the Board of Directors

Fifth Item of Business: Determination of Provision of Long-Term Incentive Type Remuneration to Directors

Contents and details of each item are described in the “Reference Document Concerning the General Meeting of Shareholders” on and after page 101.

### **Matters Related to Exercise of Voting Rights:**

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

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

Moreover, in the event the same and one 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.

# Business Report

(Fiscal Year from January 1, 2017 to December 31, 2017)

## 1. Matters Concerning Shiseido Group

### 1.1 Business Overview

#### (1) Progress and Results

##### 1) Overview

##### ■ Progress and Results in the Fiscal Year Ended December 2017

In the fiscal year ended December 31, 2017, 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 also firm thanks to a similar ongoing trend of recovery and inbound demand supported by the continued increase in overseas tourists to Japan. 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 VISION 2020 medium-to-long-term strategy in a bid to ensure that it remains vital for the next 100 years. To transform “from a leader in Japan to a winner worldwide,” we are shifting all of our activities toward a consumer-oriented focus and working to globally enhance our brand value. We have positioned the three years beginning from fiscal year 2015 as a period for rebuilding our business foundation to generate outstanding growth over the next three-year period commencing fiscal year 2018. In addition to undertaking aggressive investment activities, we have established the foundation to accelerate growth.

During the period under review, the Group increased investment in the prestige category, digital and e-commerce, and other categories where future sales growth can be expected. We also expanded investment in marketing aimed at achieving higher growth for *Laura Mercier*, a prestige brand focusing on makeup, which we acquired in 2016, and *Dolce&Gabbana*, a brand that mainly offers fragrances, with which we concluded a licensing agreement in the same year. The company also expanded borderless 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. To improve profitability, we implemented strict management of profit by business and brand and scaled back products that were not contributing sufficiently to sales and income. We also restructured our global business and brand portfolios and moved forward with such steps as the sale of Zotos International, Inc., a North American subsidiary.

As a result, net sales for the fiscal year under review reached ¥1,005.1 billion, an increase of 18.2% year on year to exceed ¥1 trillion, for the first time since the establishment of the Company. This resulted from global growth in the prestige market segment where the Company has increased strategic investment, and the cumulative effect of new brands added by the Group since last fiscal year. On a local currency basis, net sales increased 16.0% year on year.

Operating income rose 118.7% year on year to ¥80.4 billion, exceeding twice the amount of the last fiscal year. This was mainly due to an increase in the operating margin accompanying the growth in sales, improved efficiency in marketing investment and benefits derived from cost structure reform.

Net income attributable to owners of parent was ¥22.7 billion, a decrease of 29.1% year on year. This decrease resulted from the expense of voluntary recalls of some products and the recognition of an impairment loss on intangible and other assets related to Bare Escentuals, Inc. in the Americas as an extraordinary loss.

After we acquired Bare Escentuals, Inc. in 2010, we were not able to achieve brand growth as planned despite expansion of consumer contact points, enhancing product development, and various other steps. Fiscal year 2017 was the final year of the first phase of VISION 2020, a phase aimed at rebuilding the business foundation. Based on our management policy of “facing reality,” we examined the future potential of our business and brands closely in order to ensure that

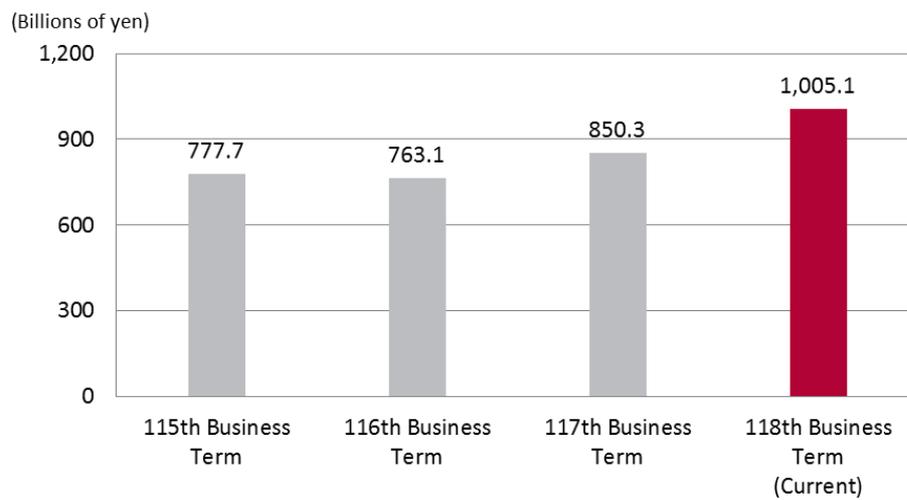
problems are handled without delay and to enable swift response. After careful deliberation by the Board of Directors on marketing and structural reforms and an achievable profit plan that reflects those reforms, the decision was made to recognize an extraordinary loss.

For the fiscal year under review, the consolidated operating profitability was 8.0%. Consolidated return on equity was 5.6%.

## ■ Consolidated Results

### Net Sales

Fiscal 2017: **¥1,005.1 billion**  
 Year-on-year change: +18.2%  
 (Local currency basis: +16.0%)

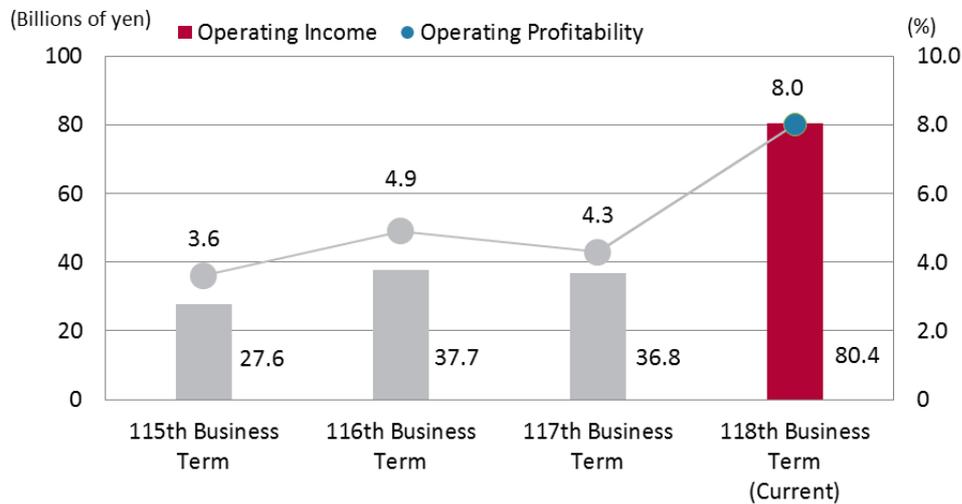


## Operating Income

Fiscal 2017: **¥80.4 billion**  
Year-on-year change: +118.7%

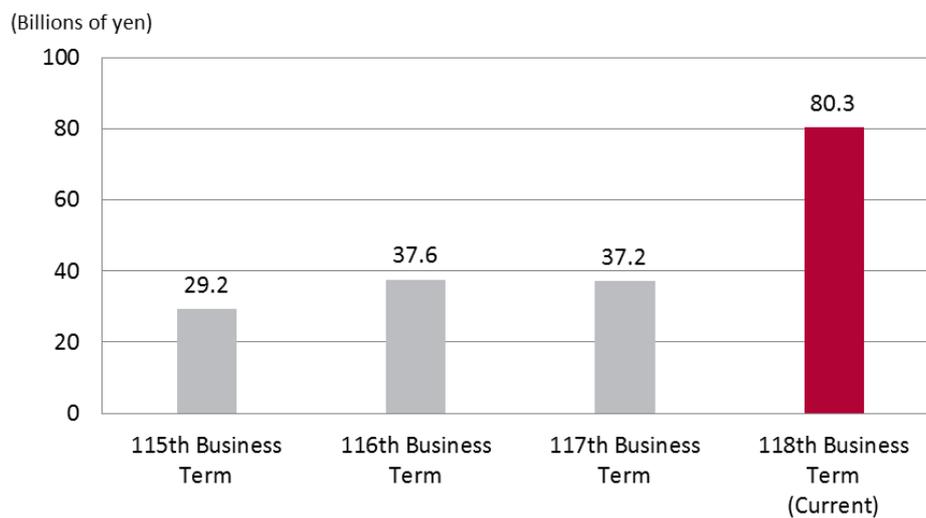
## Operating Profitability

Fiscal 2017: **8.0%**  
Year-on-year change: +3.7 points

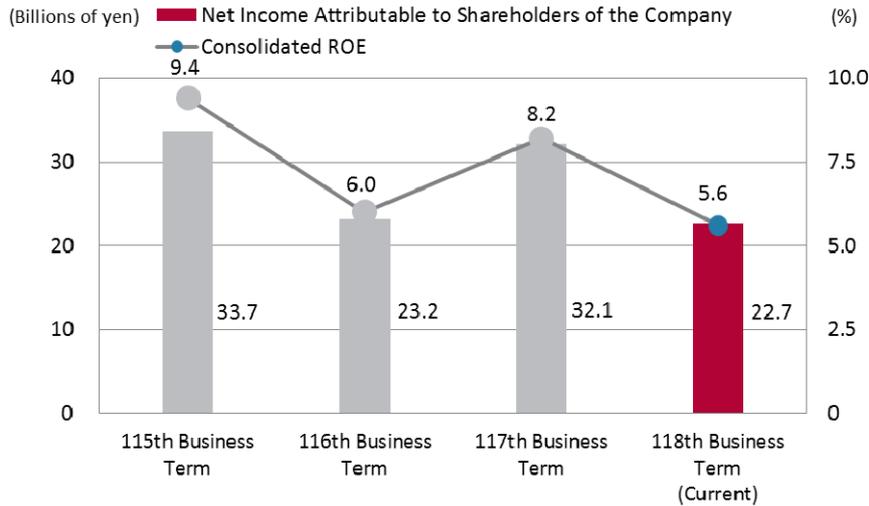


## Ordinary Income

Fiscal 2017: **¥80.3 billion**  
Year-on-year change: +116.1%



<p>Net income attributable to owners of parent</p> <p>Fiscal 2017: <b>¥22.7 billion</b></p> <p>Year-on-year change: -29.1%</p>	<p><b>Consolidated ROE</b></p> <p>Fiscal 2017: <b>5.6%</b></p>
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## ■ Net sales by reportable segment

**Others:** 1.4%

Net Sales: **¥14.3 billion**

Year-on-year change: **+2.3%**

**Professional Business:** 4.8%

Net Sales: **¥48.0 billion**

Year-on-year change: **+4.3%**

**Travel Retail Business:** 4.4%

Net Sales: **¥44.5 billion**

Year-on-year change: **+73.8%**

**EMEA Business:** 12.8%

Net Sales: **¥128.4 billion**

Year-on-year change: **+30.0%**

**Japan Business:** 42.9%

Net Sales: **¥431.0 billion**

Year-on-year change: **+13.1%**

**China Business:** 14.3%

Net Sales: **¥144.3 billion**

Year-on-year change: **+20.1%**

**Asia Pacific Business:** 5.4%

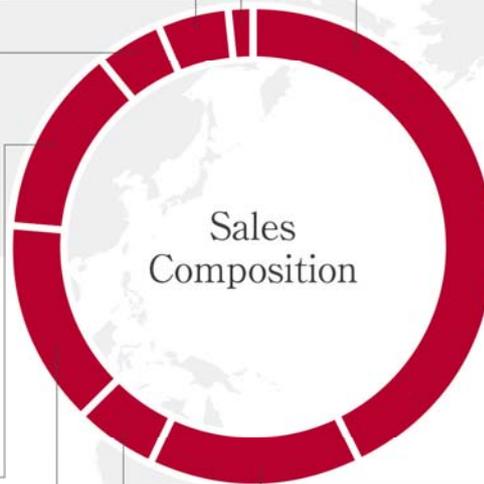
Net Sales: **¥54.2 billion**

Year-on-year change: **+11.2%**

**Americas Business:** 14.0%

Net Sales: **¥140.4 billion**

Year-on-year change: **+6.6%**



(Year-on-year comparisons are all on a local currency basis)

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

	117th Business Term	118th Business Term (Current)	Percentage increase/decrease
Japan Business	56.4	83.2	+47.6%
China Business	3.6	11.3	+212.2%
Asia Pacific Business	1.1	5.7	+439.5%
Americas Business	-12.8	-10.3	—
EMEA Business	-6.7	-3.2	—
Travel Retail Business	5.4	12.4	+130.3%
Professional Business	1.1	3.0	+168.1%
Others	-11.9	-12.9	—

Note: In calculating consolidated ROE for the 116th Business Term, net income 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.

## 2) Activities by Business Segment

In the fiscal year under review, the Company revised its reportable segment classification method in line with the Group’s internal financial management structure. As a result, reportable segment classifications have been changed to the “Japan Business,” “China Business,” “Asia Pacific Business,” “Americas Business,” “EMEA Business,” “Travel Retail Business,” and “Professional Business” segments.

### Japan Business

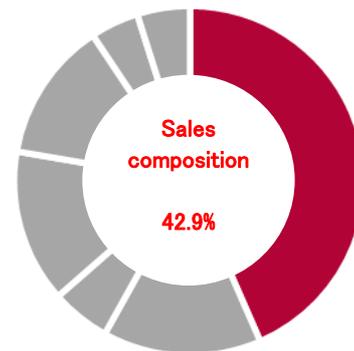
**Strong growth driven by high approval among Japanese consumers and overseas visitors to Japan**



ELIXIR SUPERIEUR Enriched Wrinkle Cream S (left)



SHISEIDO VITAL-PERFECTION Wrinklelift Deep Retinowhite 4 (right)



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 and the company greatly captured inbound demand from overseas visitors to Japan. This caused growth to outstrip market growth substantially. Our goal of achieving sustainable growth by focusing on skincare, foundation, and sun care, the three skin-related segments in which the company is strong, led to substantial growth in market share in each of those segments. Our focus on narrowing down the key brands and categories in the personal care segment to resolve certain issues and strengthening points of contact with consumers led to a rebound in sales and substantial improvement in profitability.

We also debuted the *Shiseido Facial Expression Project* in April 2017, an initiative to liberate women to show their intrinsic rich facial expressions, with our innovative wrinkle improvement technology that uses pure retinol as the active ingredient. The initial wrinkle-reducing product, ELIXIR SUPERIEUR Enriched Wrinkle Cream S, was launched in June, and SHISEIDO VITAL-PERFECTION Wrinklelift Deep Retinowhite 4, a second product that offers the benefits of both wrinkle reduction and skin brightening, was debuted in November. Combined sales (including China, the rest of Asia, and Travel Retail) of the two products reached 1.7 million units.

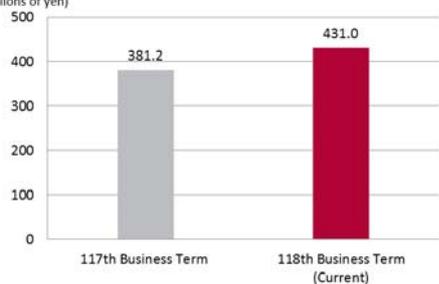
The factors mentioned above led to a 13.1% increase in sales in the Japan Business compared with the previous fiscal year, to ¥431.0 billion. Operating income rose 47.6 % year on year to ¥83.2 billion. This growth resulted from the effect of the cost structure reform and improvement in the efficiency of marketing investments, in addition to higher margins accompanying the growth in sales.

Net Sales: ¥431.0 billion  
Year-on-year change: +13.1%

Operating Income: ¥83.2 billion  
Year-on-year change: +47.6%

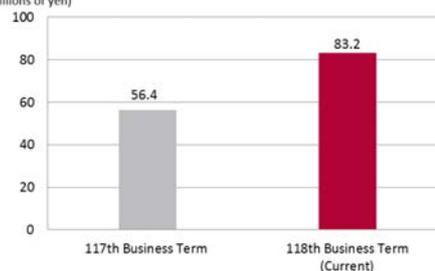
## Net Sales

(Billions of yen)



## Operating Income

(Billions of yen)

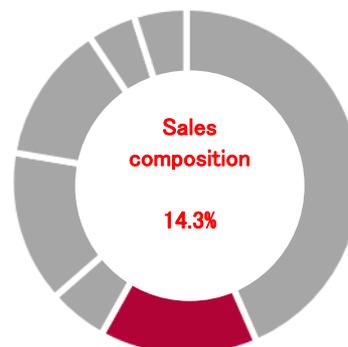


## China Business

### Great leap forward in prestige brands and expansion of e-commerce sales



Online shopping website in China

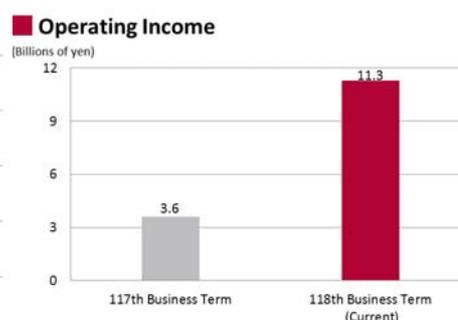
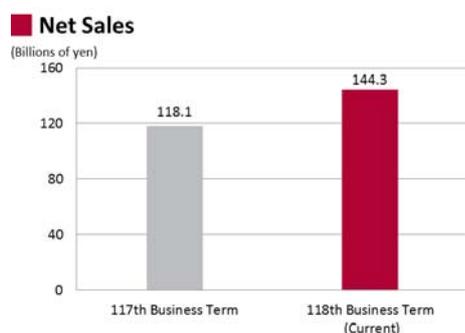


In the China Business, prestige brands such as *SHISEIDO*, *Clé de Peau Beauté*, and *IPSA* continued to record high growth by leveraging their appeal as products “made in Japan.” Growth in sales was also strong in the personal care category, driven by e-commerce sales. The majority of sales in the e-commerce segment has always been in personal care products, but sales have grown substantially due to the active launch of products in the prestige and cosmetics categories to capitalize on changes in consumer purchasing behavior, the roll-out of digital marketing, and greater collaboration with a major local online site operator. We also positioned the *ELIXIR* brand, which is produced in Japan, as a strategic brand to take advantage of a market environment in which an increasing number of consumers are perceiving value in products “made in Japan,” and increased efforts to expand sales of products matched to the lifestyles and preferences of local consumers. We worked to improve profitability in the cosmetics category by introducing a product upgrade of *AUPRES*, which resulted in sales growth over last fiscal year, and reinforced self-service selling channel of *Za* and *PURE&MILD*.

The factors mentioned above resulted in sales growth of 20.1% year on year on a local currency basis, to ¥144.3 billion, an increase of 22.2% year on year, after conversion into yen. Operating income grew 212.2% year on year to ¥11.3 billion. In addition to higher margins accompanying the increase in sales, this also reflected such factors as greater efficiency in marketing investment.

Net Sales: ¥144.3 billion  
 Year-on-year change: +22.2%  
 (Local currency basis: +20.1%)

Operating Income: ¥11.3 billion  
 Year-on-year change: +212.2%

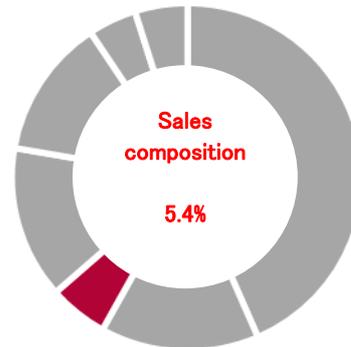


## Asia Pacific Business

Prestige brands drove double-digit growth and double-digit profitability



Clé de Peau Beauté Singapore



In the Asia Pacific Business, strong growth in sales of *Clé de Peau Beauté*, *NARS*, and other brands in the prestige category was recorded, mainly in South Korea, Thailand, and Taiwan. Sales of *Clé de Peau Beauté* were particularly strong in the flagship store opened in Singapore. In the cosmetics and personal care categories, sales growth was seen for *SENKA*, which benefitted from enhanced marketing tailored to the differing consumer preferences and lifestyles in each country and region, and for the sunscreen *ANESSA*, owing to an expansion of sales channels.

The above factors resulted in sales growth of 11.2 % year on year on a local currency basis, and 18.8% year on year to ¥54.2 billion when converted into yen. Operating income rose 439.5% year on year to ¥5.7 billion, boosted by improvement in the product mix and higher margins accompanying the growth in sales.

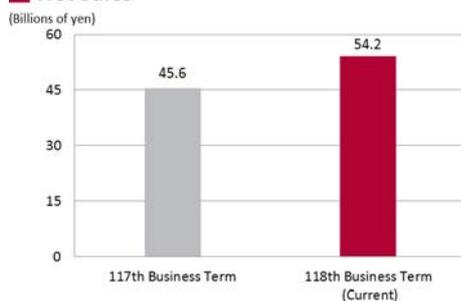
Net Sales: ¥54.2 billion

Year-on-year change: +18.8%  
(Local currency basis: +11.2%)

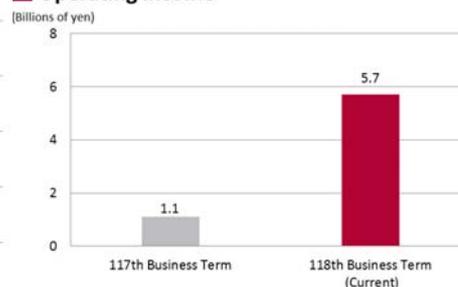
Operating Income: ¥5.7 billion

Year-on-year change: +439.5%

### Net Sales



### Operating Income

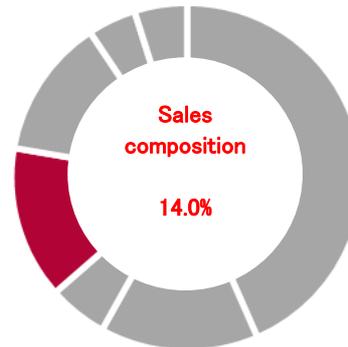


## Americas Business

Prestige brands sold well while the *bareMinerals* brand's reform began



Laura Mercier



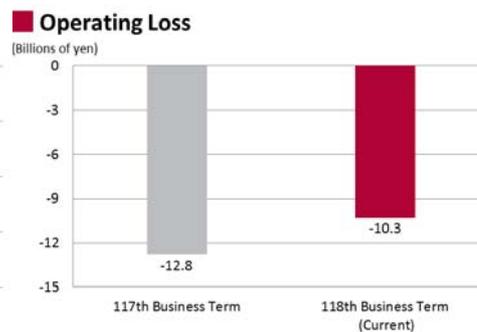
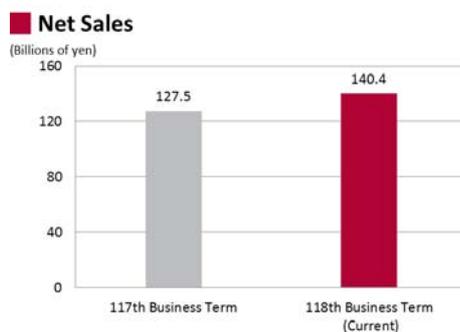
In the Americas Business, sales growth continued for brands in the prestige category such as *NARS* and *SHISEIDO*. We also increased marketing investment in the *Laura Mercier* brand that we acquired in fiscal 2016. Sales of the *bareMinerals* brand, which we are working to restructure, declined compared to last fiscal year due to the impact of department store closures and to increased competition in specialty stores.

To acquire leading technologies and human resources to expand the Group's potential, we acquired MATCHCo., a technology that determines the unique skin tone through a mobile app and uses the data to blend a perfectly matching custom foundation for each consumer. We also acquired Giaran, Inc., which possesses AI-based personalization technology.

The above factors resulted in sales growth of 6.6% year on year on a local currency basis, and 10.1% year on year to ¥140.4 billion when converted into yen. Despite the decline in *bareMinerals* sales, combined with an increase in costs associated with the Centers of Excellence and advance investment in *Laura Mercier* and digital marketing, the efficient use of expenditures and the beneficial increase in sales of *NARS* and *SHISEIDO* resulted in a ¥2.5 billion reduction in the operating loss from last fiscal year to ¥10.3 billion.

Net Sales: ¥140.4 billion  
 Year-on-year change: +10.1%  
 (Local currency basis: +6.6%)

Operating Loss: ¥10.3 billion  
 Year-on-year change: –

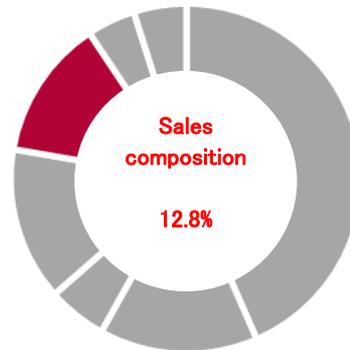


## EMEA Business

### Return to growth at *Dolce&Gabbana* and profitability improvement



*Dolce&Gabbana*



In the EMEA Business, we increased marketing investment in *Dolce&Gabbana*, for which we concluded a licensing agreement in fiscal 2016, in an effort to raise brand value. We also worked to create a more profitable business base by integrating the previously separate businesses of cosmetics and fragrances into one organization, and implementing other structural reforms such as integrating the back office and logistics systems.

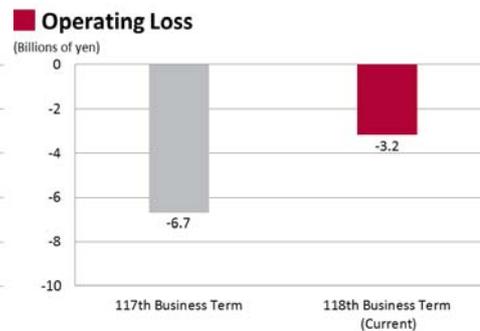
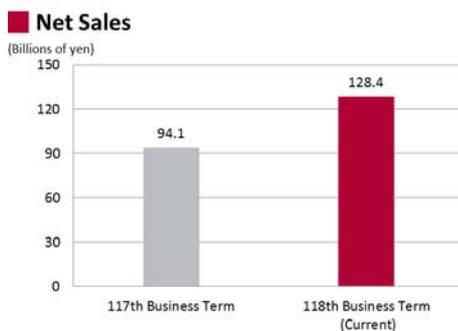
*Dolce&Gabbana* had been troubled by supply issues and so forth during the first three quarters, but returned to grow strongly in the fourth quarter.

To ensure sustainable growth expansion going forward, it is necessary to continue strengthening marketing investment. When the brand revival has been completed, profitability should be able to expand steadily.

Sales rose 30.0% year on year on a local currency basis, and 36.4% year on year to ¥128.4 billion when converted to yen. This increase resulted from a combination of steady growth in existing brands driven by *NARS* and the fragrance brand, *narciso rodriguez*, and the additive effect of *Dolce&Gabbana* sales. Operating loss declined by ¥3.5 billion over last fiscal year to ¥3.2 billion due to higher margins accompanying the increase in sales, despite the increase in marketing investment and other factors.

Net Sales: ¥128.4 billion  
Year-on-year change: +36.4%  
(Local currency basis: +30.0%)

Operating Loss: ¥3.2 billion  
Year-on-year change: –

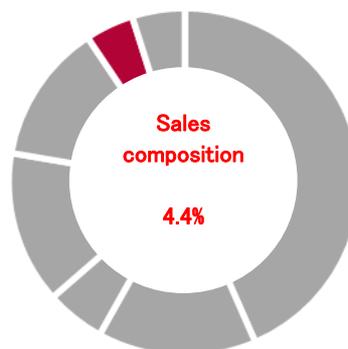


## Travel Retail Business

Sales of *Clé de Peau Beauté*, *NARS* and *ANESSA* doubled, driving dramatic growth in sales and profit



Airport duty-free store of Zurich



The Travel Retail Business (sale of cosmetics 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 under review, we actively engaged in promotions and advertising in airports around the world, introduced products exclusively available through travel retail channels, and strengthened our relationships with major retailers.

These efforts expanded sales per airport duty-free store, and resulted in substantially higher sales in South Korea, China, Thailand, and other countries in Asia. This resulted in sales growth of 73.8% year on year on a local currency basis, and growth of 79.3% year on year to ¥44.5 billion when converted to yen. Operating income soared 130.3% year on year to ¥12.4 billion on the back of such factors as improvement in productivity per store, in addition to a higher operating margin which accompanied the growth in sales.

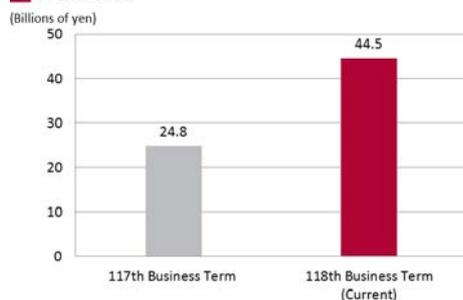
Net Sales: ¥44.5 billion

Year-on-year change: +79.3%  
(Local currency basis: +73.8%)

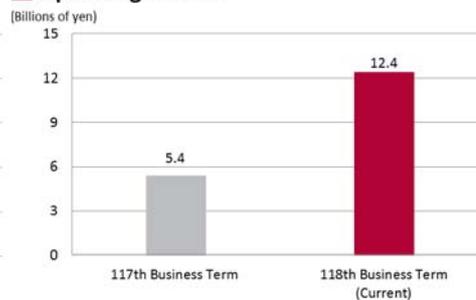
Operating Income: ¥12.4 billion

Year-on-year change: +130.3%

### Net Sales



### Operating Income

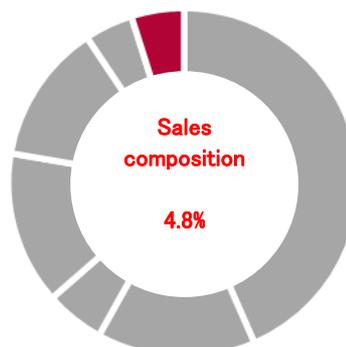


## Professional Business

Higher sales and income due to accelerated growth in the China and Asia Pacific regions



SHISEIDO PROFESSIONAL  
THE HAIR CARE AIRY FLOW Shampoo



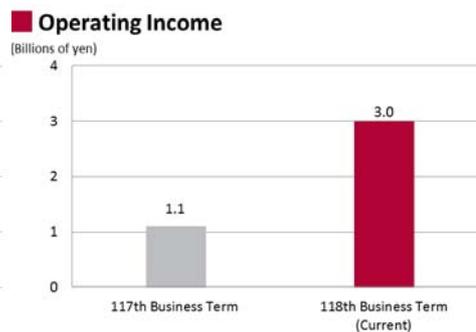
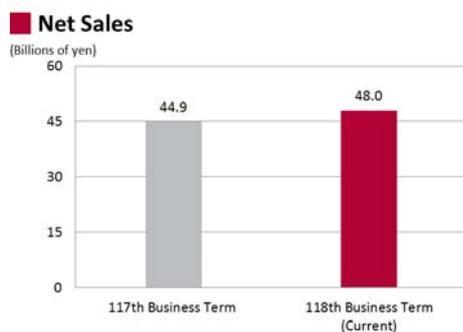
In the Professional Business, we sell professional products such as hair care, hair styling products, hair color, and hair-perming products to hair salons, and also operate directly-owned beauty salons in Japan and Thailand. During the fiscal year under review we worked to strengthen products and marketing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

These efforts resulted in sales growth of 4.3% year on year on a local currency basis, and 6.7% year on year to ¥48.0 billion when converted into yen. Operating income rose to ¥3.0 billion, an increase of 168.1% year on year, owing to improvement in the operating margin which accompanied the growth in sales.

In an effort to restructure our global business and brand portfolios, in December 2017, we sold our subsidiary, Zotos International, Inc., which operates a hair care business primarily in the Americas, to Henkel AG & Co. KGaA of Germany.

Net Sales: ¥48.0 billion  
Year-on-year change: +6.7%  
(Local currency basis: +4.3%)

Operating Income: ¥3.0 billion  
Year-on-year change: +168.1%



## (2) Capital Expenditures

	Investment (Millions of yen)	Purpose of Investment
Property, Plant and Equipment	32,457	Renovation and renewal of production facilities Construction of the new research laboratory, the Global Innovation Center Refurbishment of SHISEIDO THE STORE
Intangible Assets	10,005	Global expansion of supply chain systems
Long-term Prepaid Expenses	6,697	Installations of sales counters and fixtures
Total	49,160	

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

In the fiscal year under review, the Company obtained ¥10 billion in financing via bank loans to fund the construction of the Global Innovation Center.

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

(Millions of yen, unless otherwise noted)

	115th Business Term (4/1/2014 - 3/31/2015)	116th Business Term (4/1/2015 - 12/31/2015)	117th Business Term (1/1/2016 - 12/31/2016)	118th Business Term (Current term) (1/1/2017 - 12/31/2017)
Net Sales	777,687	763,058	850,306	1,005,062
Operating Income	27,613	37,660	36,780	80,437
Operating Profitability (%)	3.6	4.9	4.3	8.0
Ordinary Income	29,239	37,588	37,174	80,327
Net Income Attributable to Owners of Parent	33,668	23,210	32,101	22,749
Net Income per Share (Yen)	84.44	58.17	80.41	56.95
Return on Equity (%)	9.4	6.0	8.2	5.6
Comprehensive Income	70,668	13,594	8,978	42,456
Total Assets	823,636	808,547	934,590	949,425
Net Assets	409,369	413,334	413,870	445,872
Net Assets per Share (Yen)	970.00	981.37	984.13	1,059.84
Equity Ratio (%)	47.0	48.4	42.0	44.6
Price/Earnings Ratio (Times)	25.3	43.5	36.8	95.6
Cash Flows from Operating Activities	32,134	60,529	59,129	95,392
Cash Flows from Investing Activities	11,538	-23,137	-70,640	-1,061
Cash Flows from Financing Activities	-58,419	-30,151	22,378	-53,117
Cash and Cash Equivalents at End of Year/Period	100,807	104,926	113,122	156,834

Notes:

- Effective from the current term, certain changes have been made to the presentation method. In line with the aforementioned changes, deferred tax assets and the deferred tax liabilities data of the 117th business term (fiscal year ended December 31, 2016) has been restated.

2. Summary of Non-Consolidated Income and Assets

(Millions of yen)

	115th Business Term (4/1/2014 - 3/31/2015)	116th Business Term (4/1/2015 - 12/31/2015)	117th Business Term (1/1/2016 - 12/31/2016)	118th Business Term (Current term) (1/1/2017 - 12/31/2017)
Net Sales	241,099	165,148	202,774	220,407
Operating Income	19,074	9,515	6,968	7,883
Ordinary Income	39,933	35,243	26,468	23,778
Net Income (loss)	30,498	32,811	37,805	-55,232
Total Assets	601,186	580,380	620,984	582,589
Net Assets	346,843	369,128	397,318	334,665

## (5) Capital Policy

### 1) Fundamental Approach to Capital Policy (As of December 31, 2017)

The Company endeavors to maintain its shareholders' equity at a certain level in order to invest promptly and decisively when considered necessary in order to ensure sustainable growth. In addition, the Company regards free cash flow and the cash conversion cycle as important, and practices management focused on ensuring capital efficiency by improving its management of cash flows and its balance sheet.

The Company aims to maintain a financial standing that enables it to obtain financing on favorable terms by targeting a benchmark interest-bearing debt ratio of 25%. For large-scale investments that require financing, the Company will consider factors including business trends, financial condition and market environment to make timely use of the optimum financing method.

Our total shareholder return policy emphasizes maximizing returns to shareholders through direct means in addition to generating medium- and long-term share price gains. To this end, our fundamental policy is to deploy growth-oriented strategic investments to drive increases in earnings and improvements in capital efficiency. Our medium-term profit return objective is to achieve a consolidated dividend payout ratio of 40%. Our policy is to maintain dividend payments in a stable and consistent manner, and to act appropriately while considering free cash flow levels and the market environment with respect to share buybacks.

On March 5, 2018, the Company announced its new medium-term business plan covering the period from fiscal 2018 to fiscal 2020. It also plans to provide an overview, on the Company's website, of its new financial strategy including its capital policy on the Company's website.

### 2) Income Distribution

(Millions of yen, unless otherwise noted)

	115th Business Term (4/1/2014 - 3/31/2015)	116th Business Term (4/1/2015 - 12/31/2015)	117th Business Term (1/1/2016 - 12/31/2016)	118th Business Term (Current term) (1/1/2017 - 12/31/2017)
Annual cash dividends per share (Yen)	20	20	20	27.50 (P)
Annual dividends	7,975	7,981	7,985	10,986 (P)
Consolidated payout ratio (%)	23.7	34.4	24.9	48.3 (P)

Note: Annual cash dividends per share and annual dividends for the 118th Business Term (current term) are predicated on the approval of the First Item of Business (Dividends of Retained Earnings) at this ordinary general meeting of shareholders.

## (6) Issues to Address

### 1) Corporate Philosophy and Medium-to-Long-Term Strategy VISION 2020

#### Our Mission, Values and Way (Corporate Philosophy)

Our Mission, Values and Way (MVW) is the Shiseido Group corporate philosophy that every employee of the Shiseido Group shares regardless of their nationality and what affiliate or brand they represent. "Our Mission" defines the Company's underlying calling, which is "to inspire a life of beauty and culture." "Our Values" defines the values that must be held and shared by each and every employee of the Shiseido Group aiming to realize Our Mission. And, "Our Way" defines the actions that must be taken and shared by each and every employee of the Shiseido Group aiming to realize "Our Mission." Guided by this corporate philosophy and based on a "Think Global, Act Local" approach, we will inspire all consumers to a life of beauty and culture in this ever-changing world, and realize a sustainable society in which people find happiness through beauty. In these ways, we will deliver sustained improvements in corporate value.

## ■ Corporate Philosophy of the Shiseido Group

### Our Mission, Values and Way

資生堂グループ企業理念



### Our Mission

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

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

### Our Values

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

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

### Our Way

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

With Consumers  
お客さまとともに

With Business Partners  
取引先とともに

With Employees  
社員とともに

With Shareholders  
株主とともに

With Society and the Earth  
社会・地球とともに

## Medium-to-Long-Term Strategy “VISION 2020”

Underpinned by the Group’s corporate mission of “to inspire a life of beauty and culture,” the Company put in place a medium-to-long-term strategy, VISION 2020, positioning fiscal 2020 as a milestone and with a view to building a foundation that will enable the Company to remain vital for the next 100 years. VISION 2020 sets forth aims to achieve by fiscal 2020: to be “a company filled with energy,” “a company overflowing with youthfulness,” “a company always much talked about,” “a company that the younger generation adores” and “a multi-cultural company.”

By firmly positioning ourselves as a company transforming “From a Leader in Japan to a Winner Worldwide,” we center 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.

Specifically, under VISION 2020, our strategy will be stepped up in two three-year periods from fiscal 2015 to fiscal 2017, and from fiscal 2018 to fiscal 2020. The first three years will be dedicated to rebuilding our business foundation, and the latter three years to pursuing new strategies to accelerate growth. We will act in accordance with the road map below.

At the time of its formulation, the initial quantitative targets under VISION 2020 were consolidated net sales of ¥1 trillion or more, consolidated operating income of ¥100 billion or more, and ROE of 12% or higher for fiscal 2020. However, taking into consideration the momentum of growth acceleration, the Company has decided to increase these targets. The new quantitative targets for the second three years were announced in the new medium-term management plan on March 5, 2018. Details are available on the Company’s website from that date onward.

(<http://www.shiseidogroup.com/ir/>)

### ■ Roadmap toward fiscal 2020



## 2) Review of the first three years from fiscal 2015 to fiscal 2017

In the first three years from fiscal 2015 to fiscal 2017, positioned as a period for rebuilding the business foundation, the Company focused on speed and growth and on settling legacy issues. Meanwhile, to set the stage for future growth acceleration, the Company has swiftly and boldly conducted thorough management reforms. These include enhancing its brands through selection and concentration, aggressive investment in marketing and innovation, cost structure reforms, personnel training and organization reforms, strengthening its brand portfolio through M&As and license agreements, and building a global management system through the regional headquarters system.

### From Sell-In to Sell-Out Focus

The biggest change in these three years was a change from sell-in to sell-out focus. In prioritizing the Company's response to changes in consumers, the management focus was changed from sales to wholesalers and retailers to sales to consumers.

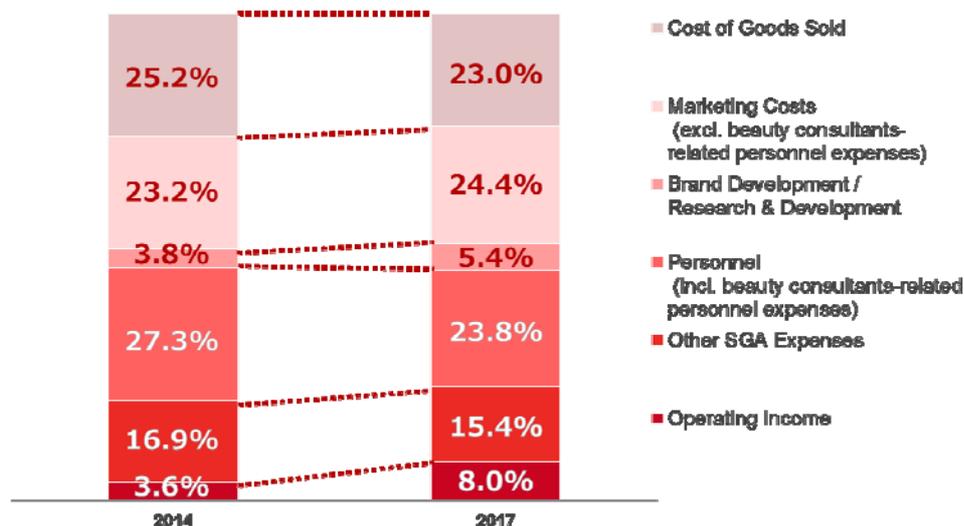
By increasing investment in marketing and R&D to raise brand capabilities, store sales increased and inventory turnover improved, leading to an increase in shipment sales and volume. As a result, cost structure improved as we worked to generate a virtuous cycle.

### Strengthening of marketing investment and transformation of cost structure

The Company focused on strengthening its brands, primarily in the prestige category, bolstering its cumulative marketing investment to over ¥110.0 billion over the three years from fiscal 2015 to fiscal 2017. To contribute these investment funds, the Group carried out ¥63.3 billion in cost structure reform over the first three-year period.

With the expansion of net sales through strengthening marketing investment, the ratios of cost prices, personnel expenses, and other expenses declined, while the ratio of marketing costs and others increased, and the cost structure improved significantly.

[Change in cost structure due to net sales increase (ratio of costs to net sales)]



### Matrix organization structure and setup of “Centers of Excellence”

The Company launched its global management structure in fiscal 2016. Under a matrix organization structure cross matching six regional headquarters with five brand categories, each regional headquarters has significant authority and responsibility to conduct regional management. By executing marketing activities matched to the needs of regional consumers and flexible decision-making, the Company aims to achieve significant growth globally.

Furthermore, the regions that have the greatest global influence in each category lead the Shiseido Group with initiatives ranging from collecting information to formulating global strategy and developing products, with skincare led by Japan, makeup and digital marketing led by the Americas, and fragrances led by Europe. The Company will strengthen this “Center of Excellence” system and create value across areas to use in global marketing activities.

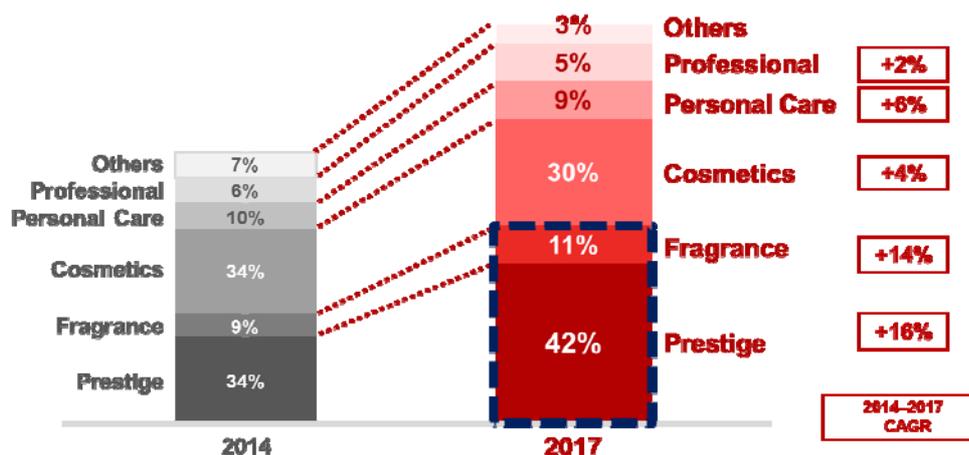
### “Prestige First” strategy and strengthening brand portfolio

To establish brand marketing as the central core of management, the Company introduced a brand manager system. Under this system, in strengthening its marketing investment, the Company will conduct selection and concentration of investment into the prestige category, where growth potential and profitability can be expected to expand. In addition to brands such as *SHISEIDO*, *Clé*

*de Peau Beauté*, and *NARS*, the Company will seek to strengthen its brand portfolio at the global level by increasing investment into *Laura Mercier*, which it acquired through M&A in 2016, and *Dolce&Gabbana*, for which it has concluded a license agreement.

As a result, the prestige category has led the Company's overall growth, with the combined net sales ratio of the prestige and fragrance domains in fiscal 2017 expanding to 53% of overall sales. Notably, the *SHISEIDO* brand has seen sales grow to over ¥130.0 billion, and *Clé de Peau Beauté* to over ¥100.0 billion. At the same time, the Company has made progress in divesting unprofitable businesses and reconsidering the portfolio at the global level, which led to the transfer of the Zotos business, among others.

### Regional sales ratio and compound annual growth rate



### Key efforts by region in past three years

#### <Japan>

Under Shiseido Japan, which was launched as a regional headquarters integrating head office and a sales company, all employees working in R&D, production, sales and other functions worked together to deliver brand value to consumers. This streamlined marketing approach has become firmly established, and the Company also thoroughly implemented brand-based management with consumer-oriented marketing and conducted a review of its sales channels. Furthermore, the Company engaged in borderless marketing in coordination with Japan, China and Travel Retail, with a focus on Chinese tourists, capturing a significant amount of inbound demand. As a result, *ELIXIR* achieved a net sales compound annual growth rate (CAGR) of 14% over the three-year period, the brand sales growing to over ¥50 billion. The personal care business also saw improvement in profitability, with the operating profit margin surpassing 10% due to selection and concentration and thorough cost management.

#### <China>

In China the Company shifted from head office-led to region-led operations, transferring business administration and marketing functions to its local operation, enhancing R&D functions, and so forth. In line with this change, the Company acquired highly capable local human resources and conducted bold marketing investments in areas of high growth potential such as prestige and e-commerce to realize a three-year net sales CAGR of 41% in the prestige domain. The result was due to growth in *SHISEIDO* and *Clé de Peau Beauté*, with additional contributions from *IPSA* and *NARS*, among others. Moreover, by building strategic partnerships with major local online sellers, the net sales ratio from e-commerce in the China business expanded to 26%. Furthermore, in the cosmetics category, for its dedicated Chinese brands, which had been struggling, the Company introduced a product renewal to *AUPRES* that resulted in sales growth of 5%, and also revamped the transaction system for *Za* and *PURE&MILD* to improve profitability.

#### <Asia Pacific>

The Company established a completely new regional headquarters in Singapore and sought to promote the potential of prestigious Japanese brands under locally led marketing. In South Korea, where the Company had previously struggled, it achieved growth despite adverse market

conditions, led by management with an expert knowledge of the local market.

#### <Americas>

The Company recruited highly professional talent who have abundant experience in the cosmetics industry, and integrated and reinforced its organization. With regard to Bare Escentuals, Inc., the Company acted by formulating a revival plan and posting an impairment loss, allowing it to face reality, handle problems without delay, and enable a swift response. Moving forward, under the leadership of the Americas regional headquarters CEO and a new president of Bare Escentuals, Inc. appointed in July 2017, the Company will complete these reforms, aiming for a sustainable recovery in sales and profits.

Moreover, to acquire promising cutting-edge technologies and talent by M&A and other means with a view to future growth, the Company acquired MATCHCo. and Giaran, Inc. in 2017 and the “Second Skin” business of Olivo Laboratories in January 2018. “Second Skin” is a technology for forming an artificial skin that immediately conceals wrinkles and sagging. The Company will deliver new value to consumers by combining this innovative technology with the Shiseido Group’s R&D capabilities and global marketing capabilities.

#### <EMEA>

The Company integrated overlapping cosmetics and fragrance organizations in each country in the region to form an organization capable of wielding synergies and established a regional headquarters for the Middle East. The Company also acquired a license to develop, produce, and sell fragrances and other items under the leading Italian brand *Dolce&Gabbana* and started operations. Under the EMEA regional headquarters CEO appointed in 2017, the Company recovered the supply chain and strengthened growth investment, and will now aim to improve profitability.

#### <Travel Retail>

The Company incorporated this business into its management strategy as a business with considerable growth potential, and relocated the regional headquarters to the fast-growing Asian region, namely Singapore. Talent with experience in the travel retail business was recruited to strengthen the organization. Having invested aggressively to increase recognition of prestige brands and strengthened its relationships with major retailers operating airport duty free stores around the world, the Company achieved a three-year net sales CAGR of 50% in the Travel Retail Business.

### **Strengthening innovation function**

The Company’s R&D capabilities have been accumulated for more than 100 years and have received high recognition externally. In the fiscal year under review, the Company again won an award at the Conference of the International Federation of Societies of Cosmetic Chemists (IFSCC), the world’s most authoritative meeting in the field of cosmetic science, for its research on “Development of a Shield Technology to Keep Off Air Pollutants.” This is the 7th consecutive year that the Company has received an IFSCC award, and its 25th award in total.

The Company will continue to strengthen investment in innovation with a view to maximizing its R&D capabilities at the global level. While the R&D-to-sales ratio was 1.8% in fiscal 2014, we will increase it to 2.5% in fiscal 2020, increasing also the number of researchers to about 1,500 worldwide.

The Company will strengthen the area of basic research, which supports future growth, as well as enhance its global R&D structure. In January 2017, we established the Asia Pacific Innovation Center in Singapore to respond accurately to consumer needs in the rapidly growing countries of Southeast Asia. We plan to complete construction of the Global Innovation Center, which will serve as the central hub for our global R&D bases at Minatomirai area, Yokohama city, in the end of 2018.

### **Supply chain management and quality control**

As a result of strengthening its competitive edge through management reforms in order to achieve its medium- to long-term strategy, VISION 2020, the Company is experiencing increasing demand globally, including in its home market of Japan. Furthermore, with the roll-out of borderless marketing that treats Japan, China, and Travel Retail as a single market, we are seeing growth in demand from consumers in and outside Japan who find strong value in high quality

“made-in-Japan” products. To meet this expansion in demand and secure future growth potential, we will establish a stable production system.

Specifically, we will take steps to expand production infrastructure and staff at our three existing domestic factories, while building a new factory in Ohtawara City, Tochigi Prefecture. The new factory is scheduled to begin skincare manufacturing operations in fiscal 2019. At the same time, we have increased the initially planned production capacity of the Osaka Factory, which is currently in preparation for construction, by 2.1 times, and we are promoting collaboration with suppliers to ensure a stable supply for the raw materials and containers needed for production. Through these actions, we will build a well-founded production system to support global growth over the medium to long term.

In terms of product quality, during the fiscal year under review we judged that certain products did not meet Company’s quality standard and conducted voluntary recalls of these products.

We conducted thorough internal investigations into the cause of these incidents and completely revised the internal structure to prevent a recurrence. In its activities, the Shiseido Group places the highest importance on consumer satisfaction through the provision of products of high quality and safety. We will strive even harder to ensure quality controls so that this kind of situation does not arise again in the future.

#### **“People First”: Development of human resources who can support global business**

The Company has achieved and executed these various reforms, but its greatest driving force is its employees. We have cultivated individuals who will continue to take on challenges without fear of failure and a corporate culture where they are accepted. We consider these people the main drivers of continued growth going forward.

The Company will strengthen its investment in human resource development as human resources and organizations that can support global growth are important to achieving value creation over the medium to long term. We will strengthen our development of training programs that can draw out the potential of employees and our recruitment of diverse human resources. By strengthening Shiseido through the capabilities of its people, we will create a winning organization that will prevail over competitors. Moreover, to facilitate smoother communication worldwide under our matrix organization structure, from October 2018 the Company will adopt English as its official language. Preparations are already underway, with approximately 1,700 employees working hard to strengthen their English language capabilities every day.

### **3) Three-Year Plan for Fiscal 2018 through Fiscal 2020**

In the second three years, from fiscal 2018 to fiscal 2020, the Company will work to secure its future growth. We will continue on with the successes and challenges from the first three years, engaging in “continuous enhancements” and “issues to tackle.”

“Continuous enhancements” include the global “Prestige First” strategy and sustaining and expanding growth and profitability in Japan. “Issues to tackle” include supply chain management and improving profitability in the Americas and EMEA.

The Company will continue and accelerate the growth momentum from the first three years, aiming to lift the operating profit margin above 10% by fiscal 2020.

The new medium-term management plan including the above was announced on March 5, 2018. Details are available from that date on the following website.

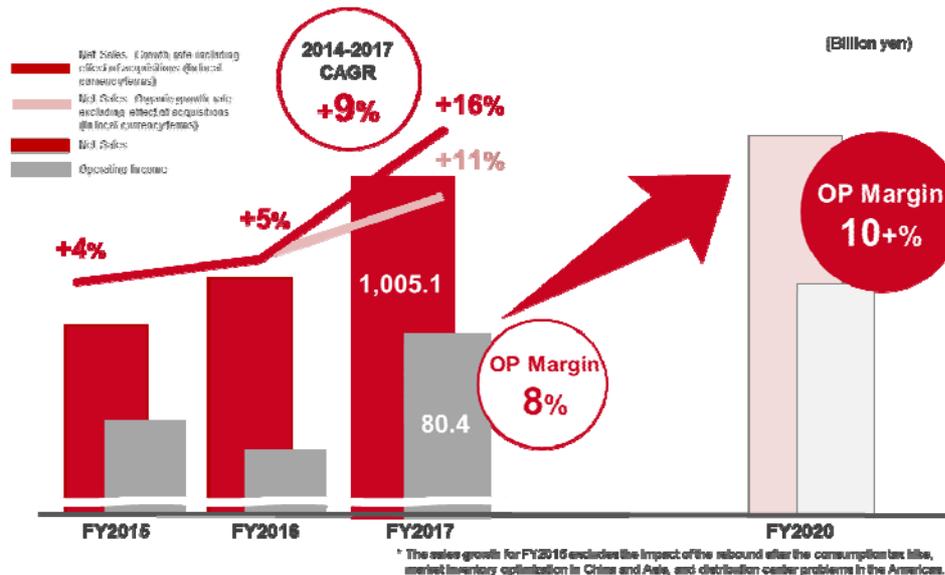
(<http://www.shiseidogroup.com/ir/>)

Ensuring Sustainable Growth

Continuous Enhancements	Issues to Tackle
<ul style="list-style-type: none"> <li>● Global “Prestige First” Strategy</li> <li>● Sustainable profitability in Japan</li> <li>● Significant improvement of profitability and acceleration of growth in China</li> <li>● Travel retail &amp; borderless marketing</li> <li>● Digital communication &amp; E-commerce</li> <li>● Technology × Innovation</li> <li>● Development of human resources and organizations</li> <li>● ESG management</li> </ul>	<ul style="list-style-type: none"> <li>● Supply chain management</li> <li>● Profitability in Americas                             <ul style="list-style-type: none"> <li>➢ Turnaround of “bareMinerals”</li> <li>➢ Building a new business model</li> </ul> </li> <li>● Profitability in EMEA                             <ul style="list-style-type: none"> <li>➢ Strengthening of fragrance brand portfolio</li> </ul> </li> </ul>

HUMBLE CONFIDENCE

Acceleration of Growth Momentum



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

Looking ahead to the next 100 years and beyond, the Company intends to grow with society as a global beauty company that stakeholders worldwide need and support. It is critical to Shiseido’s sustainable growth to take proactive initiatives that resolve social and environmental issues, particularly the Sustainable Development Goals (SDGs) adopted by the United Nations, and realize a healthy society over the long term.

The Company’s sustainability strategy is a growth strategy both for solving social and environmental problems and for business expansion. Our goal is to achieve a sustainable society that delights people through beauty. In this society, we consider sustainability is crucial for consumers, for the society to which they belong, and for the global environment, which supports people’s lives.



### Environmental initiatives

Shiseido believes that preserving the environment, which is intimately connected to people's lives, and promoting sustainable manufacturing, are 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.

Recently, stakeholders have become more concerned over violations of workers human rights and consideration for the environment in companies' raw materials procurement processes.

The Company established the "Shiseido Group Policy on Human Rights" last year and started initiatives in response to the UK Modern Slavery Act. We are working to visualize issues in the procurement process related to human rights, labor conditions, health and safety, and environmental protection throughout the entire value chain right back to raw materials production areas and cooperating with suppliers to resolve them.

### Further promotion of diversity and support of women's advancement

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 sustained growth. One of our core missions is to take a leading role in improving the social standing of women and their empowerment, and we have implemented a variety of measures to help advance women's causes. In January 2017, the Company achieved its target for a 30% ratio of women in management positions in Japan. In 2018, the ratio declined due to structural changes in the organization; however, the Company will continue to provide further support for the advancement of women in the workplace, aiming to increase the ratio to 40% by 2020.

The Company is also pursuing a range of initiatives globally to support the advancement of women in society. We agree with the gender equality campaign being promoted by the UN organization UN Women, and in October 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 this issue. 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 Japan, early detection and advances in treatment technology are allowing people to live longer as they battle with cancer. The number of people who continue to work while receiving outpatient treatment is increasing.

The Company is enabling cancer patients of any age and gender to live every day in their own way and with enthusiasm by providing methods to cover changes in their appearance using make-up. We also provide seminars and other initiatives to help cancer patients to balance treatment and work responsibilities.



Perfect Cover Foundation MV Series

\* A solidarity campaign for gender equality spread by the 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 has applied its ideal of creating new value in activities to support the arts and culture. The first president of the Company, Shinzo Fukuhara, opened the Shiseido Gallery (Chuo-ku, Tokyo) in 1919 to support the next generation of up-and-coming artists and in 1978 the Shiseido Art House (Kakekawa City, Shizuoka Prefecture) was opened. Through these and other facilities, the Company has proposed cutting-edge beauty ahead of the times by exhibiting various works and disseminating information.

In July 2017, for the first time the Company supported the “teamLab: A Forest Where Gods Live Art Exhibition presented by Shiseido” (hosted by Mifuneyama Rakuen (Takeo City, Saga Prefecture) and teamLab Inc.). The venue hosted artworks produced with the use of projection mapping and other technologies, including light and sound, and a joint production with WASO, the new brand *SHISEIDO* skincare line, to convey WASO’s concept of “All things beautiful come from nature.”



Left: “teamLab: A Forest Where Gods Live Art Exhibition presented by Shiseido”



Right: Tokyo Marathon 2017 ANESSA booth



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 beauty of skin while engaging in outdoor sports. Since 1979, it has operated its own female track and field club, the Shiseido Running Club, and since 2016 it has co-sponsored the Tokyo Marathon through the ANESSA brand that supports full enjoyment of leisure and sports while preserving women’s beauty.

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

## 1.2 Outline of the Shiseido Group (As of December 31, 2017)

### (1) Principal Businesses of the Shiseido Group

Segment	Main Business
Japan Business	Cosmetics business in Japan (sale of cosmetics, cosmetic accessories, and toiletries, etc.) and Healthcare business in Japan (production and 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	Production and sales 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
Shanghai Zotos Citic Cosmetics Co., Ltd.	Shanghai, China
Shiseido Liyuan Cosmetics Co., Ltd.	Beijing, China
Shanghai Huani Transparent Beauty Soap Co., Ltd.	Shanghai, China
Taiwan Shiseido Co., Ltd. Hsinchu Factory	Hsinchu 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 Asia Pacific Innovation Center (Taiwan Branch)	Hsinchu County, Taiwan
Shiseido Americas Innovation Center	East Windsor, New Jersey, 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 Cosmetics 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) 39,583	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) 1.00	— (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	Dusseldorf, 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.
Shanghai Zotos 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.

Note: Figures in parentheses ( ) in the Ownership Percentage of Voting Rights column include the share of indirect ownership. Those in brackets [ ] indicate share of related or approved parties.

#### (4) Matters Concerning Employees of the Group

Business Category	Number of Employees		Comparison with the Corresponding Period of the Previous Fiscal Year	
Japan Business	12,239	[4,878]	+1,201	[-1,259]
China Business	8,052	[117]	-571	[+22]
Asia Pacific Business	3,036	[406]	+39	[-34]
Americas Business	4,622	[87]	+527	[-46]
EMEA Business	3,542	[420]	+293	[+10]
Travel Retail Business	157	[4]	+67	[-1]
Professional Business	1,146	[604]	-719	[+34]
Corporate staff	4,644	[1,755]	+52	[+118]
Total	37,438	[8,271]	+889	[-1,156]

Notes:

1. The numbers of employees shown are full-time employees. Annual average numbers of temporary employees are shown in [ ]. Temporary employees include 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 83.8%, while in Japan the ratio is 83.4%.

#### (5) Main Supplies of Loans to the Group

Lender	Outstanding Balance
	24,673 million JPY
	7,200 million KRW
Mizuho Bank, Ltd.	5,500 thousand SGD
	40 thousand EUR

## 2. Matters Concerning Shares Issued by the Company (As of December 31, 2017)

### (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 460,033 shares of treasury stock)

### (3) Number of Shareholders:

42,604

### (4) Principal Shareholders:

Shareholders	Investment in the Company	
	Number of Shares Held	Percentage of Shareholding
	(thousand shares)	%
The Master Trust Bank of Japan, Ltd. (Trust Account)	38,033	9.51<9.50>
Japan Trustee Services Bank, Ltd. (Trust Account)	19,214	4.80<4.80>
Mizuho Bank, Ltd.	15,626	3.91<3.90>
BNYM TREATY DTT 15	11,726	2.93<2.93>
Japan Trustee Services Bank, Ltd. (Trust Account 5)	7,103	1.77<1.77>
STATE STREET BANK WEST CLIENT-TREATY 505234	6,636	1.66<1.65>
THE BANK OF NEW YORK MELLON 140044	6,194	1.55<1.54>
Association of Shiseido Employees' Investment in the Company's shares	6,158	1.54<1.53>
Japan Trustee Services Bank, Ltd. (Trust Account 7)	6,085	1.52<1.52>
STATE STREET BANK AND TRUST COMPANY 505225	5,635	1.41<1.40>

#### Notes:

- Calculations of percentage of shareholding, including below Notes are based on the total number of issued and outstanding shares excluding treasury stock. Calculations of percentage of shareholding indicated in < > are based on the total number issued and outstanding shares including treasury stock.
- All shares held by The Master Trust Bank of Japan, Ltd. (Trust Account) and Japan Trustee Services Bank, Ltd. (Trust Account) are in connection with the respective bank's trust business.
- The number of shares held by Mizuho Bank, Ltd., 15,626 thousand shares, include their holding of 5,626 thousand shares in its own name and holding by its employee pension trust of 10,000 thousand shares under a registered name, Mizuho Trust & Banking Co., Ltd. re-trusted to Trust & Custody Services Bank, Ltd. Employees Pension Trust for Mizuho Bank. A report of amendment to large shareholdings from Mizuho Bank, Ltd. that on October 6, 2017, it held 30,791 thousand shares through joint holdings (Percentage of shareholding: 7.70%), of which 15,626 thousand shares (3.91%) are held by Mizuho Bank, Ltd., has been filed with the Director-General of the Kanto Finance Bureau.
- A report of amendment to large shareholdings from Mitsubishi UFJ Financial Group, Inc., that on October 31, 2016, it held 29,639 thousand shares through joint holdings (Percentage of shareholding: 7.41%), of which 23,781 thousand shares (5.95%) are held by the Mitsubishi UFJ Trust and Banking Corporation, has been filed with the Director-General of the Kanto Finance Bureau. However, the Mitsubishi UFJ Trust and Banking Corporation has been excluded from the above principal shareholders, as the actual number of shares held by the said company has not been confirmed by the Company as of the end of the fiscal year.
- A report of amendment to large shareholdings from BlackRock Japan Co., Ltd., that on November 21, 2016, it held 20,041 thousand shares through joint holdings (Percentage of shareholdings: 5.01%), of which 6,512 thousand shares (1.62%) 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.
- A report of amendment to large shareholdings from the Sumitomo Mitsui Trust Bank, Ltd., that on August 21, 2017, it held 22,826 thousand shares through joint holdings (Percentage of shareholding: 5.71%), of which 14,102 thousand shares (3.52%) are held by the Sumitomo Mitsui Trust Bank, Ltd., has been filed with the Director-General of the Kanto Finance Bureau. However, the Sumitomo Mitsui Trust Bank, Ltd. has been

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

A report of amendment to large shareholdings from the Sumitomo Mitsui Trust Bank, Ltd., that on January 19, 2018, it held 23,990 thousand shares through joint holdings (Percentage of shareholding: 6.00%), of which 14,560 thousand shares (3.64%) are held by the Sumitomo Mitsui Trust Bank, Ltd., has been filed with the Director-General of the Kanto Finance Bureau.

### **3. Matters Concerning Shares Held by the Company (As of December 31, 2017)**

#### **(1) The Company's Policy with Regard to Strategic Stockholdings:**

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

1. In line with good corporate governance, the Company avoids being an inert stockholder in its strategic stockholdings.
2. The Company takes dividends and other returns into consideration and holds stocks only if they offer business benefits such as facilitating operations.
3. The Company regularly reviews its stockholdings, primarily from the perspective of business benefits and other advantages, and mainly curtails its holdings of stocks that have become less necessary.

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

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

If the Company wishes to confirm the intent of an item of business, etc., it will discuss the matter with the investee company if necessary.

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

Number of Companies	Amount on Balance Sheet
80	(million yen) 20,344

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

Company	Number of Shares	Amount on Balance Sheet	Main Transaction	Purpose for Holding Shares
PALTAC CORPORATION	(thousand shares) 600	(million yen) 3,084	Product sales	
Mizuho Financial Group, Inc.	12,229	2,502	Financial transactions with the subsidiaries of the issuer	
Mitsubishi UFJ Financial Group, Inc.	2,496	2,063	Financial transactions with the subsidiaries of the issuer	
TOPPAN PRINTING CO., LTD.	1,628	1,659	Purchase of product packaging and sales promotion materials	
ONO PHARMACEUTICAL CO., LTD.	585	1,536	Product sales	To further facilitate operations
Tokio Marine Holdings, Inc.	240	1,233	Insurance transactions with the subsidiaries of the issuer	
Dai Nippon Printing Co., Ltd.	435	1,095	Purchase of product packaging and sales promotion materials	
WACOAL HOLDINGS CORP.	219	781	Commissioned production transactions from the subsidiaries of the issuer	
NIPPON FINE CHEMICAL CO., LTD.	670	764	Purchase of raw materials	
Sompo Holdings, Inc.	154	676	Insurance transactions with the subsidiaries of the issuer	

Notes:

1. The Company does not hold shares for the purpose of realizing direct investment gains.
2. For the 10 companies listed above, the amounts reported on the balance sheet exceed one percent of the amount of capital of the Company.
3. In addition to the companies listed above, the 30 largest stockholdings of publicly listed companies in the amount on the balance sheet, which the Company holds for purposes other than realizing direct investment gains, are posted as items voluntarily disclosed relating to business report on the Company's website: Investors / General Meeting of Shareholders / Corporate Governance / General Meeting of Shareholders (<http://www.shiseidogroup.com/ir/account/shareholder/>).

**4. Matters Concerning Stock Acquisition Rights (As of December 31, 2017)**

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

Total number of shares that are the object of all stock acquisition rights issued as of December 31, 2017 and the percentage thereof to the total number of shares issued and outstanding as of the same date, excluding treasury stock are as follows:

Total Number of Shares That Are the Object of Stock Acquisition Rights	Percentage of Total Number of Shares Issued and Outstanding (Excluding Treasury Stock)
Shares 500,500	% 0.12

These stock acquisition rights were granted as stock options in order to link remuneration of the directors and corporate officers, etc. of the Company with an increase in its shareholder value on a long-term basis, while placing emphasis on their sharing interests with its shareholders. All stock options are stock-compensation type stock options whose amount payable is set at ¥1 when exercising stock 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 evaluation 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 stock acquisition rights issued in the fiscal year under review as remuneration for fiscal year 2016 is shown below.

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

### ■ Stock Acquisition Rights Issued during the Fiscal Year under Review

Issue Date of Stock Acquisition Rights	Grantees of Stock Acquisition Rights	Amount Paid for Stock Acquisition Rights	Amount Contributed upon Exercise of Stock Acquisition Rights	Exercise Period of Stock Acquisition Rights	As of December 31, 2017	
					Holding Condition and Number of the Stock Acquisition Rights	Class and Number of Shares to Be Issued Upon Exercise of Stock Acquisition Rights
March 30, 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 director) 3 persons 396 rights	Common stock of the Company 39,600 shares
					Corporate officers who do not serve as director of the Company 12 persons 421 rights	42,100 shares
					Corporate officers of wholly-owned subsidiaries of the Company (excluding director and corporate officers of the Company) 6 persons 157 rights	15,700 shares
					Others 3 persons 146 rights	14,600 shares

Note: The number of allotted stock acquisition rights and allotted person and class and number of shares to be issued upon exercise of the stock acquisition rights are shown on “Holding Condition and Number of the Stock Acquisition Rights” and “Class and Number of Shares to Be Issued Upon Exercise of Stock Acquisition Rights” as of December 31, 2017.

### ■ Stock Acquisition Rights Issued in the Past Fiscal Years

Issue Date of Stock Acquisition Rights	Grantees of Stock Acquisition Rights	Amount Paid for Stock Acquisition Rights	Amount Contributed upon Exercise of Stock Acquisition Rights	Exercise Period of Stock Acquisition Rights	As of December 31, 2017	
					Holding Condition and Number of the Stock Acquisition Rights	Class and Number of Shares to Be Issued Upon Exercise of Stock Acquisition Rights
August 28, 2009	Directors and corporate officers of the Company 19 persons	1,468 yen	1 yen per share	From August 1, 2012 to July 31, 2019	Director of the Company (excluding external director) 1 person 17 rights	Common stock of the Company 1,700 shares
					Others 3 persons 134 rights	13,400 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
					Corporate officer who does not serve as director of the Company 1 person 39 rights	3,900 shares
					Others 2 persons 73 rights	7,300 shares

Issue Date of Stock Acquisition Rights	Grantees of Stock Acquisition Rights	Amount Paid for Stock Acquisition Rights	Amount Contributed upon Exercise of Stock Acquisition Rights	Exercise Period of Stock Acquisition Rights	As of December 31, 2017	
					Holding Condition and Number of the Stock Acquisition Rights	Class and Number of Shares to Be Issued Upon Exercise of Stock Acquisition Rights
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
					Audit & supervisory board member of the Company 1 person 53 rights	5,300 shares
					Corporate officer who does not serve as director of the Company 1 person 53 rights	5,300 shares
					Others 5 persons 285 rights	28,500 shares
August 30, 2012	Directors and corporate officers of the Company 19 persons	1,001 yen	1 yen per share	From August 1, 2015 to July 31, 2027	Director of the Company (excluding external director) 1 person 68 rights	Common stock of the Company 6,800 shares
					Audit & supervisory board member of the Company 1 person 68 rights	6,800 shares
					Corporate officer who does not serve as director of the Company 1 person 68 rights	6,800 shares
					Others 5 persons 358 rights	35,800 shares

Issue Date of Stock Acquisition Rights	Grantees of Stock Acquisition Rights	Amount Paid for Stock Acquisition Rights	Amount Contributed upon Exercise of Stock Acquisition Rights	Exercise Period of Stock Acquisition Rights	As of December 31, 2017	
					Holding Condition and Number of the Stock Acquisition Rights	Class and Number of Shares to Be Issued Upon Exercise of Stock Acquisition Rights
August 29, 2013	Directors and corporate officers of the Company 16 persons	1,434 yen	1 yen per share	From August 1, 2016 to July 31, 2028	Director of the Company (excluding external director) 1 person 38 rights	Common stock of the Company 3,800 shares
					Audit & supervisory board member of the Company 1 person 38 rights	3,800 shares
					Corporate officers who do not serve as director of the Company 2 persons 76 rights	7,600 shares
					Others 9 persons 455 rights	45,500 shares
August 28, 2014	Directors, corporate officers, etc. of the Company 18 persons	1,898.5 yen	1 yen per share	From August 1, 2017 to July 31, 2029	Directors of the Company (excluding external director) 2 persons 303 rights	Common stock of the Company 30,300 shares
					Corporate officers who do not serve as director of the Company or its wholly-owned subsidiaries 6 persons 270 rights	27,000 shares
					Others 9 persons 697 rights	69,700 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 director) 3 persons 238 rights	Common stock of the Company 23,800 shares
					Corporate officers who do not serve as director of the Company or its wholly-owned subsidiaries 10 persons 286 rights	28,600 shares
					Others 5 persons 176 rights	17,600 shares

Notes:

1. The number of allotted stock acquisition rights in the past fiscal years and allotted person and class and number of shares to be issued upon exercise of the stock acquisition rights are shown on “Holding Condition and Number of the Stock Acquisition Rights” and “Class and Number of Shares to Be Issued Upon Exercise of Stock Acquisition Rights” as of December 31, 2017.
2. Holding of the stock acquisition rights as of December 31, 2017 by an audit & supervisory board member of the Company was granted during his term of office as a corporate officer and his term of office as a Director serving concurrently as a Corporate Officer.

## **5. Matters Concerning Status of Corporate Governance and Directors, Audit & Supervisory Board Members and Corporate Officers of the Company**

### **(1) Corporate Governance Policy**

The Shiseido Group including the Company sets out “to inspire a life of beauty and culture” as the corporate mission, and defines the corporate governance as our “platform to realize sustainable growth through fulfilling the corporate mission.”

The Company is committed to maintaining and improving management transparency, fairness and speed, by putting into practice and reinforcing the corporate governance, and strives to maximize medium- and long-term corporate and shareholder value through dialogues with all stakeholders, “consumers”, “business partners,” “employees,” “shareholders,” and “society and the Earth.” In addition, while fulfilling social responsibilities, the Company aims to achieve optimized distribution of values to respective stakeholders.

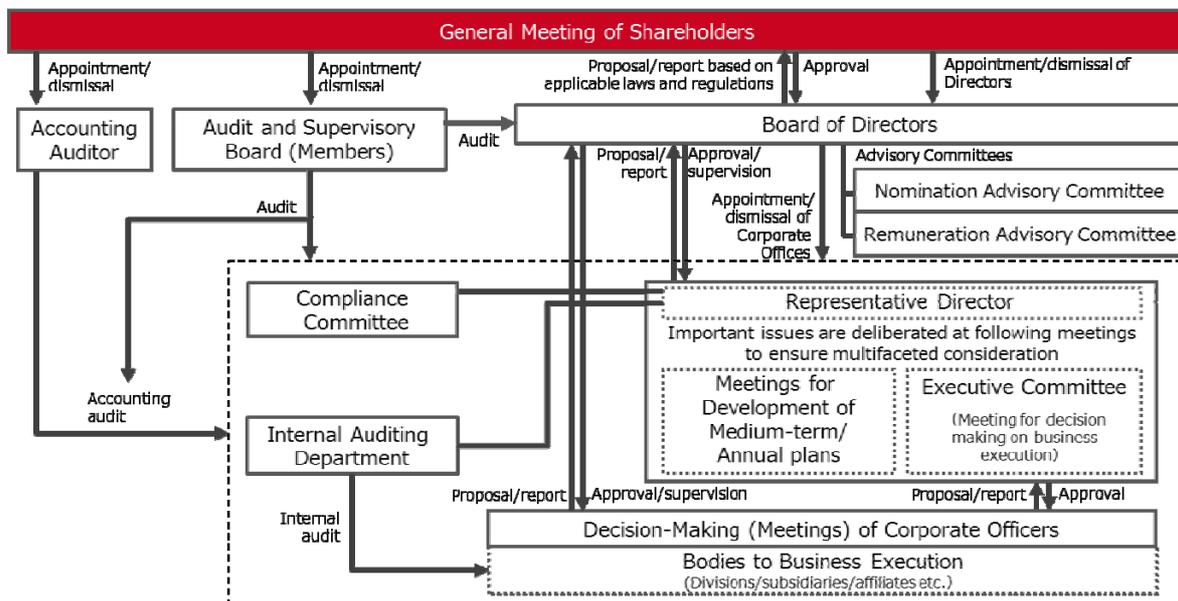
#### **■ Progress of Shiseido’s Corporate Governance Policy**

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

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

### 1) Corporate Governance Framework of the Company

Corporate governance framework of the Company as of December 31, 2017 is as follows.



#### <Committees Associated with Corporate Officers>

##### Executive Committee:

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

##### Meetings for Development of Medium-term/Annual Plans:

Meetings for Development of Medium-term/Annual Plans are the meeting body that comprises corporate officers and regional headquarters presidents and is responsible for developing and resolving business plans and brand strategies.

#### <Advisory Committees to the Board of Directors>

##### Nomination Advisory Committee:

Makes reports to the Board of Directors on matters including the selection of candidates for directors and corporate officers and their promotions and demotions. In fiscal 2017, 7 meetings of the Nomination Advisory Committee were held. In addition to reporting on the selections of candidates for directors and audit & supervisory board members, the appointment of corporate officers, and the appointment of a CEO for the EMEA regional headquarters, etc., the committee discussed the view on an upper limit for the corporate officers' term of office, and abolition of the Counselor/Advisor system.

(Chairman: Mr. Tatsuo Uemura, external director, Committee members: 3 external directors, 1 representative director)

##### Remuneration Advisory Committee:

Makes reports to the Board of Directors regarding the remuneration system for directors as well as evaluation of their performance. In fiscal 2017, 8 meetings of the Remuneration Advisory Committee were held. In addition to discussing bonuses for the Company's directors and corporate officers for fiscal 2016, remunerations for the Company's individual directors and corporate officers for fiscal 2017, and a remuneration system for fiscal 2017, the committee discussed a revision to the remuneration system for the next three years.

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

#### <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 whistleblowed matters and matters raised for consultation, studies workplace culture for fundamental improvement measures of issues, monitors compliance related activities and studies issues to improve. In fiscal 2017, we held 2 meetings of Compliance Committee.

(Chairman: Tsunehiko Iwai, Representative Director, Executive Vice President, Committee members: 10 members in total including corporate officers of the Company, regional headquarters presidents of the Americas, EMEA and Travel Retail, department director of Compliance Department, Observer: 2 full-time audit & supervisory board members)

## 2) Reasons for Adopting the Current Framework

The Company has adopted the framework of a company with the audit & supervisory board system, which exercises the dual checking functions over business execution by the Board of Directors and over the legality and effectiveness by the audit & supervisory board members. In order to maintain and improve management transparency, fairness and speed that are provided in the basic policy for the corporate governance within the framework, the Company has incorporated superior functions of company with the nominating committee, etc. and company with the audit & supervisory board system, etc., reinforcing supervisory functions of the Board of Directors.

Effective January 2016, the Shiseido Group has launched full-scale operations of a new matrix-type organizational system with five brand 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 overall Shiseido Group, and resolved to implement the "monitoring board-type corporate governance" while leveraging advantages of the company with the audit & supervisory board system.

## 3) Diversity of Directors and Audit & Supervisory Board Members

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

When considering the diversity, it is a policy of the Company to appoint appropriate persons based on their personality and insight irrespective of gender, age, and nationality, etc., to stress not only diversity of these attributes, but also diversity in terms of tasks including professional knowledge and experiences in various fields related to the business management. In addition, the Company has set a certain maximum term of office for external directors and external audit & supervisory board members in order to reflect their views, which are free from the Company's existing structure, to the management of the Company, and by allowing a handover period from long-serving external directors and audit & external supervisory board members to newly-

appointed external directors and audit & external supervisory board members to ensure appropriate transition.

#### **4) Ratio of External Directors at the Board of Directors**

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

In the Company’s Articles of Incorporation, the maximum number of directors is set at 12. Respecting this upper limit and in consideration of the Company’s business portfolio and scale, an optimum number of directors 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 high independence in mental attitude.

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

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

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

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

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

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

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

Of seven directors who are currently in office as of December 31, 2017, four directors (57.1%) are highly independent external directors who meet the “Criteria for Independence of the External Directors and Audit & Supervisory Board Members” of the Company. The other three directors who serve concurrently as corporate officers include two with career background in management outside the Shiseido Group, and one with career background in the Shiseido Group. The directors include two females (28.5%).

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

Of the total 12 directors and audit & supervisory board members, seven members (58.3%) are highly independent external directors or external audit & supervisory board members, and four members (33.3%) are female.

**7) Succession 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, the evaluation working group, which does not include the President and CEO as a member, judges 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. 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. 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.

**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 Company Group Is Ensured Duly to Be Conducted**

“Basic Policy regarding Internal Control Systems” of the Company and the Company 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 member.

In order to realize "Our Mission," which defines the Shiseido Group's corporate philosophy and business domains and sets out its raison d'être, the Company has established "Our Values," which must be held and shared by each and every employee of the Shiseido Group, and "Our Way" and the "Shiseido Ethical Conduct Standards," which sets out the action standards for business conducts with highest ethical standards, and promotes corporate activities that are both legitimate and fair. (\*)

The Company should establish a basic policy and rules in line with "Our Way" and the "Shiseido Ethical Conduct Standards," with which the whole Shiseido Group is required to comply. Every group company and business office shall be fully aware of this policy and rules, along with "Our Mission," "Our Values," "Our Way" and the "Shiseido Ethical Conduct Standards," so that environments for the formulation of detailed internal regulations of the Company will be created at every group company and business office.

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

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

For the purpose of detection and remediation of types of conduct within the Group that are in violation of laws, the Articles of Incorporation, and internal regulations of the Shiseido Group, the Company shall set up a hotline under the Compliance Committee, where Compliance Committee Chairman will be appointed as a contact 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 Efficiently to Be Performed**

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

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

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

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

The Company continues improving and operating the internal control system in accordance with the abovementioned Basic Policy, and operated the system in fiscal 2017 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 initiatives related to corporate ethics, at all overseas offices training materials on corporate ethics were distributed, and in Japan, ethics and risk management training was conducted for all Company directors, audit & supervisory board members and corporate officers, subsidiary and affiliate company presidents, and new recruits. In addition, similar training was conducted at overseas offices in two countries.
- The Company revised the "Personal Information Protection Regulation" applied to Group companies in Japan and conducted training for all Shiseido Group employees in the Japan region to ensure full awareness. We provided training on entertaining and gift at overseas business offices.
- In accordance with various regulations pertaining to internal auditing, the Company verified the status of establishment and operation of internal control in the overall Shiseido Group, 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 expanded the scope of Group companies in Japan that are subject to our preliminary screening system for suppliers and strengthened our initiatives to exclude anti-social forces.

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

- To enhance appropriateness and properness of final resolutions to be made by Representative Director, President and CEO over important business execution following multifaceted reviews by relevant corporate officers, presidents of regional headquarters and others, the Company has established Executive Committee and Meetings for Development of Medium-term/Annual plans. The Company regularly receives reports on status of the progress towards the goals of respective corporate officers.
- The Company reorganized the Executive Committee with a view to improving the efficiency of meeting operations and ensuring flexible decision making.

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

- It is specified to permanently maintain the minutes of the Board of Directors, longer than the statutory retention period of 10 years. In addition, the Company requires minutes of important meetings related to business executions to be retained for 10 years or permanently, depending on meeting bodies. With regard to protection of information assets, the Company developed and has implemented "Information System Controlling Regulation," "Confidential Information Controlling Regulation," "Personal Information Protection Regulation" and "Individual Numbers and Specific Personal Information Handling Regulation" under "the Shiseido Group Information Security Management Policy."
- With regard to reporting on important matters relating to every group company, the Company has arranged that corporate officers in charge of respective company to report at the Executive Committee or the Board of Directors in compliance with the Regulation on the Board of Directors, as well as the Regulation on the Corporate Officers and the like.

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

- The Company conducted risk assessments of the respective regional headquarters and held discussions on risk management in the Global Legal and Risk Management Conference. Moreover, the Company held Compliance Committee meetings and reported measures to reduce risk, and also strengthened its framework for communications when emergencies arise. When matters involving voluntary recalls of products arose during the fiscal year under review, the Company made the decision to recall some products upon having determined that they did not meet its quality standards, upon having held discussions under the President and CEO regarding countermeasures in the relevant departments. The Company drastically overhauled its quality control framework in order to prevent recurrence of such incidents.
- In the Company's departments involved in addressing risks, the risk managers who have been appointed as contacts for communications with the Compliance Department took action to resolve such matters at times when risk events emerged.

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

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

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

- With regard to the reporting system from directors and employees to the audit & supervisory board members, the Company ensures that full-time audit & supervisory board members are offered opportunities to attend the board of directors meeting as well and other important meetings for business executors such as Executive Committee and Compliance Committee, etc. as observers to make sure they are provided with reports and information through those meetings. In addition, upon request from an audit & supervisory board member, the Company provides materials and information.
- With regard to treatment of whistle-blowers who make a report to audit & supervisory board members, inside Japan, in combination with the Shiseido Consultation Office, Shiseido External Consultation Office and Compliance Committee hotline, the Company ensures all employees receive an information card on the office for whistle-blowing to audit & supervisory board members, and thereby are made aware that whistle-blowers will not be unfairly treated.

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

- The Company budgets expenses based on the annual activity plan at the beginning of every business year. There is also a rule in place that in case spending in excess of the budgeted amount becomes necessary, a request for additional budget may be made.
- During fiscal 2017, there was no such case as shortfall in the expense that required repayment of expenses afterwards.

**(8) Other Framework to Ensure That Audit & Supervisory Board Members Discharge Their Duties Effectively**

- The representative directors and audit & supervisory board members held opinion exchange meetings as needed, and external directors and audit & supervisory board members held information sharing meetings. In addition, the accounting auditor and audit & supervisory board members hold opinion exchange meetings as needed, and also hold meetings on reporting audit results on a quarterly basis. External directors also attended the meetings to promote sharing of information as necessary.
- Full-time audit & supervisory board members receive reports on internal auditing from internal audit division every month, and receive reports on internal auditing from the Quality Management Department and other necessary departments twice a year. In addition, full-time audit & supervisory board members hold liaison meetings of the group audit & supervisory board members, coordinating with audit & supervisory board members of the subsidiaries in Japan as necessary.

**3) Framework for Confirmation of Transactions with Related Parties**

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

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

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

(As of December 31, 2017)

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
Representative Director Executive Vice President	Tsunehiko Iwai	Chairman of Compliance Committee
Director Corporate Executive Officer	Jun Aoki	Chief People Officer, Department Director, Human Resources Department Chief Creative Officer (Human Resources, Advertising and Design, China Business Innovation Project) Member of Compliance Committee Chairman of Shiseido Liyuan Cosmetics Co., Ltd.
External Director <Independent>	Yoko Ishikura	Member of Nomination Advisory Committee Member of Remuneration Advisory Committee
External Director <Independent>	Shoichiro Iwata	Chairman of Remuneration Advisory Committee Member of Nomination Advisory Committee
External Director <Independent>	Kanoko Oishi	Member of Nomination Advisory Committee Member of Remuneration Advisory Committee
External Director <Independent>	Tatsuo Uemura	Chairman of Nomination Advisory Committee Member of Remuneration Advisory Committee
Audit & Supervisory Board Member (Full-time)	Yoshinori Nishimura	Observer of Compliance Committee
Audit & Supervisory Board Member (Full-time)	Kyoko Okada	Observer of Compliance Committee
Audit & Supervisory Board Member (External) <Independent>	Nobuo Otsuka	—
Audit & Supervisory Board Member (External) <Independent>	Hiroshi Ozu	—
Audit & Supervisory Board Member (External) <Independent>	Eiko Tsujiyama	—

(As of January 1, 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
Representative Director Corporate Executive Officer	Jun Aoki	Chief People Officer (Human Resources, Executive and External Relations, Corporate Culture) Member of Compliance Committee Chairman of Shiseido Liyuan Cosmetics Co., Ltd.
Director	Tsunehiko Iwai	—
External Director <Independent>	Yoko Ishikura	Member of Nomination Advisory Committee Member of Remuneration Advisory Committee
External Director <Independent>	Shoichiro Iwata	Chairman of Remuneration Advisory Committee Member of Nomination Advisory Committee
External Director <Independent>	Kanoko Oishi	Member of Nomination Advisory Committee Member of Remuneration Advisory Committee
External Director <Independent>	Tatsuo Uemura	Chairman of Nomination Advisory Committee Member of Remuneration Advisory Committee
Audit & Supervisory Board Member (Full-time)	Yoshinori Nishimura	Observer of Compliance Committee
Audit & Supervisory Board Member (Full-time)	Kyoko Okada	Observer of Compliance Committee
Audit & Supervisory Board Member (External) <Independent>	Nobuo Otsuka	—
Audit & Supervisory Board Member (External) <Independent>	Hiroshi Ozu	—
Audit & Supervisory Board Member (External) <Independent>	Eiko Tsujiyama	—

Notes:

- There are 7 directors and 5 audit & supervisory board members as of December 31, 2017, of which male are 8 and female are 4.
- Ms. Yoko Ishikura, Mr. Shoichiro Iwata, Ms. Kanoko Oishi and Mr. Tatsuo Uemura are external directors as provided in Item 15 of Article 2 of the Companies Act of Japan.

3. Mr. 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. Shoichiro Iwata, Ms. Kanoko Oishi, Mr. Tatsuo Uemura, 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 (<http://www.shiseidogroup.com/ir/account/shareholder/>)) and have sufficient independency.
5. Director Mr. Jun Aoki and external audit & supervisory board member Mr. Hiroshi Ozu were newly elected at the 117th ordinary general meeting of shareholders of the Company held on March 28, 2017, 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. Yoshinori Nishimura has had experience as the Department Director of the Financial Department of the Company and Chief Financial Officer of the Company, and has respectable knowledge in finance and accounting. Dr. Eiko Tsujiyama, audit & supervisory board member (external), is a professor at the Faculty of Commerce, Waseda University and an expert in finance, accounting and tax issues qualified as certified public accountant, and has respectable knowledge in finance and accounting.
7. External director Ms. Yoko Ishikura is well-known by the name Ishikura, and that name is therefore presented here, but her name as recorded on the official family register is Ms. Yoko Kurita.

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

Position	Name	Important Position at Other Organizations Concurrently Assumed
External Director	Yoko Ishikura	Outside Director of Nissin Food Holdings Co., Ltd. Outside Director of Sojitz Corporation Professor Emeritus of Hitotsubashi University
External Director	Shoichiro Iwata	President & Chief Executive Officer of ASKUL Corporation External Director of Minnano Wedding Co., Ltd.
External Director	Kanoko Oishi	CEO 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.
External Director	Tatsuo Uemura	Professor, Faculty of Law, Waseda University
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	Professor, Faculty of Commerce, Waseda University Outside Director of ORIX Corporation Outside Corporate Auditor of LAWSON, INC. Outside Audit & Supervisory Board Member of NTT DOCOMO, INC.

Notes:

1. The Company has established “Criteria for “Important Concurrent Position” assumed by Company’s directors, audit & supervisory board members and corporate officers.” The above information is provided in accordance with the criteria. The criteria are posted as items voluntarily disclosed relating to business report on the Company’s website: Investors / General Meeting of Shareholders / Corporate Governance / General Meeting of Shareholders (<http://www.shiseidogroup.com/ir/account/shareholder/>).

2. External Director Mr. Shoichiro Iwata retired as External Director of Minnano Wedding Co., Ltd. in December 2017.

**(6) Outline of Execution of Liability Limitation Agreements**

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

Pursuant to these provisions the Company concluded such an agreement with all of the 7 External Directors and Audit & Supervisory Board Members under which his/her liability for compensation of damages shall be limited to the minimum limited liability provided in the laws and regulations.

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

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

Position and Name	Concurrent Position at Other Organization	Important Position at Other Organizations Concurrently Assumed and Relationships Between Organizations and the Company				
		Transaction Matter, etc.	Vendor, Recipient of Supporting Money, etc.	Purchaser, Provider of Supporting Money, etc.	Percentage of Transaction Value	Value for Comparison
<b>External Director Yoko Ishikura</b>	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, 2017
					Less than 1%	Consolidated net sales of Nissin Food Holdings Co., Ltd. for the fiscal year ended March 31, 2017
	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, 2017
					Less than 1%	Total revenues of Sojitz Corporation on a consolidated basis for the fiscal year ended March 31, 2017
Professor Emeritus of Hitotsubashi University	The Company has no special relationships of interest with Hitotsubashi University.					
<b>External Director Shoichiro Iwata</b>	President & Chief Executive Officer of ASKUL Corporation	Stationeries, etc.	ASKUL 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, 2017
					Less than 1%	Consolidated net sales of ASKUL Corporation for the fiscal year ended May 20, 2017
		Cosmetics, etc.	Shiseido Group	ASKUL Group	Less than 1%	Consolidated net sales of the Company for the fiscal year ended December 31, 2017
					Less than 1%	Consolidated cost of sales of ASKUL Corporation for the fiscal year ended May 20, 2017
	ASKUL Corporation sells cosmetics, etc. and has a relationship with the Company consisting of transactions in competition. Consequently, the contents and maximum amounts of transactions between the Company and ASKUL Corporation are approved in advance at the Board of Directors along with matters pertaining to transactions with conflicts of interest, and the results are reported to the Board of Directors following the end of the business year of ASKUL Corporation. The amount of ASKUL Corporation's net sales of cosmetics, etc. in that period was less than 1% of the consolidated net sales of the Company, and in the fiscal year ended May 20, 2017, ASKUL Corporation's net sales of cosmetics, etc. accounted for less than 1% of its consolidated net sales.					
External Director of Minnano Wedding Co., Ltd.	The Company has no special relationships of interest with Minnano Wedding Co., Ltd.					
<b>External Director Kanoko Oishi</b>	CEO of MEDIVA Inc.	The Company has no special relationships of interest with MEDIVA Inc.				
	CEO of Seeds 1 Co., Ltd.	The Company has no special relationships of interest with CEO, Seeds 1 Co., Ltd.				
	Outside Director of Ezaki Glico Co., Ltd.	Snacks, etc. (mail order)	Ezaki Glico Group	Shiseido Group	Less than 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, 2017
Less than 1%					Consolidated net sales of Ezaki Glico Co., Ltd. for the fiscal year ended March 31, 2017	

Position and Name	Concurrent Position at Other Organization	Important Position at Other Organizations Concurrently Assumed and Relationships Between Organizations and the Company				Value for Comparison
		Transaction Matter, etc.	Vendor, Recipient of Supporting Money, etc.	Purchaser, Provider of Supporting Money, etc.	Percentage of Transaction Value	
<b>External Director Kanoko Oishi</b>	External Board Member of Santen Pharmaceutical Co., Ltd.	Cosmetics, etc.	Shiseido Group	Santen Pharmaceutical Co., Ltd.	Less than 1%	Consolidated net sales of the Company for the fiscal year ended December 31, 2017
	External Director of Suruga Bank Ltd.	The Company has no special relationships of interest with Suruga Bank Ltd.				
<b>External Director Tatsuo Uemura</b>	Professor, Faculty of Law, Waseda University	The Company is engaged in joint studies, etc. on beauty and health with Waseda University. Mr. Tatsuo Uemura is not involved in these joint studies.				
<b>Audit &amp; Supervisory Board Member (External) Nobuo Otsuka</b>	Chairman of Keiseikai Hospital Group	The Company has no special relationships of interest with Keiseikai Hospital Group.				
<b>Audit &amp; Supervisory Board Member (External) Hiroshi Ozu</b>	External Audit & Supervisory Board Member of MITSUI & CO., LTD.	Outsourcing business, etc.	MITSUI & CO., LTD. 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, 2017
					Less than 1%	Total revenue of MITSUI & CO., LTD. on a consolidated basis for the fiscal year ended March 31, 2017
	Outside Audit & Supervisory Board Member of TOYOTA MOTOR CORPORATION	Automobile rental, etc.	TOYOTA MOTOR CORPORATION 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, 2017
					Less than 1%	Total net revenues of TOYOTA MOTOR CORPORATION on a consolidated basis for the fiscal year ended March 31, 2017
	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.				
<b>Audit &amp; Supervisory Board Member (External) Eiko Tsujiyama</b>	Professor, Faculty of Commerce, Waseda University	The Company is engaged in joint studies, etc. on beauty and health with Waseda University. Dr. Tsujiyama is not involved in these joint studies.				
	Outside 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, 2017
					Less than 1%	Total amount of operating revenues of ORIX Corporation on a consolidated basis for the fiscal year ended March 31, 2017

Position and Name	Concurrent Position at Other Organization	Important Position at Other Organizations Concurrently Assumed and Relationships Between Organizations and the Company				
		Transaction Matter, etc.	Vendor, Recipient of Supporting Money, etc.	Purchaser, Provider of Supporting Money, etc.	Percentage of Transaction Value	Value for Comparison
<b>Audit &amp; Supervisory Board Member (External)</b> <b>Eiko Tsujiyama</b>	Outside Corporate Auditor of LAWSON, INC. 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, 2017
					Less than 1%	Net sales of LAWSON, INC. on a consolidated basis for the fiscal year ended February 28, 2017
		Cosmetics, etc.	Shiseido Group	LAWSON Group	Less than 1%	Consolidated net sales of the Company for the fiscal year ended December 31, 2017
					Approx. 1%	Consolidated cost of sales of LAWSON, INC. for the fiscal year ended February 28, 2017
	Outside Audit & Supervisory Board Member of NTT DOCOMO, INC.	Telecommunication services, etc.	NTT DOCOMO 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, 2017
					Less than 1%	Total amount of operating revenues of the NTT DOCOMO, INC. on a consolidated basis for the fiscal year ended March 31, 2017

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 “Important Concurrent Position” assumed by Company’s directors, audit & supervisory board members and corporate officers.” The above information is provided in accordance with these criteria. The criteria are posted as items voluntarily disclosed relating to business report on the Company’s website: Investors / General Meeting of Shareholders / Corporate Governance / General Meeting of Shareholders (<http://www.shiseidogroup.com/ir/account/shareholder/>)
4. External Director Mr. Shoichiro Iwata retired as External Director of Minnano Wedding Co., Ltd. in December 2017.

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

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.

Position	Name	Major Activities
External Director	Shoichiro Iwata	Mr. Iwata attended 17 out of 18 Board of Directors meetings (Attendance rate: 94.4%). Based on his views to the management of the Company, which are free from the Company's established structure, he made remarks from a standpoint of a manager in other industry as necessary and fulfilled a supervisory function in regard to the management. He also served as Chairman of Remuneration Advisory Committee of the Company and a member of Nomination Advisory Committee of the Company.
External Director	Kanoko Oishi	Ms. Oishi attended 16 out of 18 Board of Directors meetings (Attendance rate: 88.8%). She made remarks as necessary based on her experiences and knowledge gained through her career in the business management inside and outside Japan as well as from a standpoint of active manager who is pushing forward patient-centered transformation of the medical industry, and fulfilled a supervisory function in regard to the management. She also served as a member of Nomination Advisory Committee and a member of Remuneration Advisory Committee of the Company.
External Director	Tatsuo Uemura	Mr. Uemura attended 17 out of 18 Board of Directors meetings (Attendance rate: 94.4%). Based on his experiences and knowledge in the area of the capital market and corporate governance, in addition to his legal knowledge as a university professor specializing in legal research, he made remarks as necessary and fulfilled a supervisory function in regard to the management. He also served as Chairman of Nomination Advisory Committee of the Company and a member of Remuneration Advisory Committee of the Company.
Audit & Supervisory Board Member (External)	Nobuo Otsuka	Mr. Otsuka attended 18 out of 18 Board of Directors meetings (Attendance rate: 100%) and 14 out of 14 Audit & Supervisory Board meetings (Attendance rate: 100%). Based on his knowledge and experiences as a management executive of medical corporations, he made remarks as necessary and fulfilled a supervisory function.
Audit & Supervisory Board Member (External)	Hiroshi Ozu	Since assuming the office of external director in March 2017, Mr. Ozu attended 14 out of 14 Board of Directors meetings (Attendance rate: 100%) and 11 out of 11 Audit & Supervisory Board meetings (Attendance rate: 100%). Based on his legal experiences and knowledge, he made remarks as necessary and fulfilled a supervisory function.
Audit & Supervisory Board Member (External)	Eiko Tsujiyama	Dr. Tsujiyama attended 18 out of 18 Board of Directors meetings (Attendance rate: 100%) and 14 out of 14 Audit & Supervisory Board meetings (Attendance rate: 100%). Based on her experiences and knowledge in finance, accounting and tax issues, she made remarks as necessary and fulfilled a supervisory function.

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

Position	Name	Responsibilities	
		As of December 31, 2017	As of January 1, 2018
Corporate Executive Officer	Yoichi Shimatani	Chief Research and Development Officer R&D Strategy, GIC Integrated Operations, Cosmetics Value Development, Cosmetics R&D, Intellectual Property, Advanced Research, Incubation, Quality Assessment	Chief Research and Development Officer R&D Strategy, GIC Integrated Operations, Cosmetics Value Development, Cosmetics R&D, Intellectual Property, Advanced Research, Incubation, Safety & Analytics Research
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 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	Senior Vice President, Global Professional Business Global Professional Business	Senior Vice President, Global Professional Business Global Professional Business
Corporate Officer	Masaya Hosaka	SCM, Purchasing, Production, Technology and Engineering, Factories, Frontier Science Business	SN Strategy, Production Technology, Supply & Purchasing, Global Business Support, Japan Business Support, Factories, Frontier Science Business
Corporate Officer	Mitsuru Kameyama	Chief Information Officer, Global ICT Global ICT Member of Compliance Committee	Chief Information Officer, Global ICT Department Director, ICT Strategy & Platform Department ICT Strategy & Platform, Global System Member of Compliance Committee
Corporate Officer	Yasushi Kushida	Assisting Chief Supply Chain Officer Responsible for Special Mission Projects	–
Corporate Officer	Yoshiaki Okabe	Brand Director, <i>SHISEIDO</i> Brand Unit, Global Prestige Brands	Chief Brand Officer, <i>SHISEIDO</i> Brand Unit, Global Prestige Brands
Corporate Officer	Yoshihiro Shiojima	Chief Legal and Governance Officer Chief Quality Officer Legal & Governance, Compliance, Sustainability Strategy, Executive & External Relations, Quality Management Member of Compliance Committee	Chief Legal and Governance Officer Department Director, Legal & Governance Department Chief Quality Officer Legal & Governance, Risk Management, Sustainability Strategy, Regulatory Strategy, Quality Management Member of Compliance Committee Consumer Center, Shiseido Japan Co., Ltd.

Position	Name	Responsibilities	
		As of December 31, 2017	As of January 1, 2018
Corporate Officer	Mikiko Soejima	Beauty Creation Chief Beauty Officer, Beauty Consultant Representative, Beauty Consultation Planning, Consumer Information, Shiseido Japan Co., Ltd.	Chief Beauty Officer Beauty Creation Chief Beauty Officer, Shiseido Japan Co., Ltd. Beauty Consultation Planning, Beauty Consultant Representative, Consumer Center
Corporate Officer	Norio Tadakawa	Chief Finance Officer Finance, Financial Management, Investor Relations, Business Development Member of Compliance Committee	Chief Finance Officer Finance, Financial Management, Investor Relations, Business Development Member of Compliance Committee

Notes:

1. Corporate officer Yoshihiro Shiojima and Shiseido Japan Co., Ltd. corporate officer Mikiko Soejima took over joint responsibility for Shiseido Japan's Consumer Center on January 1, 2018.
2. Corporate officers who retired during the fiscal year under review and on December 31, 2017 are as follows:

Position	Name	Date of Retirement
Corporate Officer	Mari Tamura	April 30, 2017
Corporate Officer	Yasushi Kushida	December 31, 2017

3. Mr. Norio Tadakawa was promoted to corporate executive officer on January 1, 2018.
4. Corporate officers who were designated as of January 1, 2018 are as follows:

Position	Name	Responsibilities
Corporate Officer	Yukari Suzuki	Chief Brand Officer, <i>Clé de Peau Beauté</i> Brand, Global Prestige Brands
Corporate Officer	Naomi Yamamoto	Chief Creative Officer Creative

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

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

The Company regards the directors, audit & supervisory board members and corporate officers remuneration policy as an important matter for the corporate governance. Thus the directors, audit & supervisory board members and corporate officers remuneration policy of the Company is designed at the Remuneration Advisory Committee chaired by external directors based on the following basic philosophy, while incorporating objective points of views.

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

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

1. contribute to realizing corporate mission;
2. be designed to provide the amount of remuneration commensurate with the Company's capability to secure and maintain superior personnel;
3. be designed to reflect the Company's medium- to long-term business strategy, and designed to strongly motivate directors, audit & supervisory board members and corporate officers eligible for remuneration to bring medium- to long-term growth;
4. have a mechanism incorporated to prevent overemphasis on 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.

The Company adopted the directors, audit & supervisory board members and corporate officers new remuneration policy beginning in fiscal 2018, but its basic philosophy and the new policy overall remains unchanged.

**2) Amount of Remuneration, etc. to Directors and Audit & Supervisory Board Members of the Fiscal Year Ended December 31, 2017**

Remuneration, etc. disclosed herein has been determined based on the directors, audit & supervisory board members and corporate officers remuneration policy prevailing through fiscal 2017, and encompasses remuneration paid in fiscal 2017 and remuneration to be paid on the basis of performance through fiscal 2017. Directors, Audit & Supervisory Board Members and Corporate Officers Remuneration Policy by Fiscal 2017 is listed as a discretionary disclosure item relating to the business report on the Company website under "Investors / General Meeting of Shareholders / Corporate Governance / General Meeting of Shareholders / Notice of Convocation: the 118th Ordinary General Meeting of Shareholders" (<http://www.shiseidogroup.com/ir/account/shareholder/>).

Note that in the Fourth Item of Business (Revision of the Amount of Compensation Payable to Members of the Board of Directors) in this ordinary general meeting of shareholders, the Company is proposing to change the remuneration ceiling of the remuneration amount to be paid to Directors from a monthly amount to an annual amount, with the limit of this amount proposed to be in total ¥2.0 billion or less (including a total of ¥0.2 billion or less for External Directors), and to change to a system of paying Directors basic remuneration and bonuses within the aforesaid remuneration ceiling.

(Millions of yen)

	Basic Remuneration	Bonus	Long-Term Incentive (Stock Option)	Total
Directors (8 persons)	270	222	93	585
External Directors among Directors (4 persons)	58	—	—	58
Audit & Supervisory Board Members (6 persons)	103	—	—	103
Audit & Supervisory Board Members (External) among Audit & Supervisory Board Members (4 persons)	38	—	—	38
Total	373	222	93	688

## Notes:

1. Basic remuneration for directors has the ceiling amount of ¥30 million per month as per the resolution of the 89th ordinary general meeting of shareholders held on June 29, 1989. Basic remuneration for audit & supervisory board members has the ceiling amount of ¥10 million per month as per the resolution of the 105th ordinary general meeting of shareholders held on June 29, 2005.
2. The above amount to be paid as bonuses to directors for fiscal 2017 is the amount that the Board of Directors has resolved to pay subject to the Fourth Item of Business (Revision of the Amount of Compensation Payable to Members of the Board of Directors) as proposed at this ordinary general meeting of shareholders. The total amount of the amounts planned to be paid as the aforementioned bonuses, and the amounts paid as basic remuneration in fiscal 2017 shall have a ceiling of ¥2.0 billion after the Fourth Item of Business is approved.
3. The amount of long-term incentive type remuneration (stock options) indicated above represents the expenses associated with the fiscal year among the stock options (stock acquisition rights) in the fiscal year, upon the approval of the ordinary general meeting of shareholders, in consideration of performance of duties by directors.
4. In addition to the above payments, there are other remuneration, etc. of ¥16 million recorded for the fiscal year ended December 31, 2017 as expenses associated with stock options granted to one director of the Company, at the time the director served as corporate officer not holding the office of director.
5. None of the directors or the audit & supervisory board members will be paid remunerations other than the executive remunerations described above (including those described in notes 1 through 4).

### 3) Amounts of Remunerations, etc. of Representative Directors and Directors Whose Total Amount of Remunerations, etc. Exceeds 100 Million Yen, by Type of Remuneration for the Fiscal Year Ended December 31, 2017

Remuneration, etc. disclosed herein has been determined based on the directors, audit & supervisory board members and corporate officers remuneration policy prevailing through fiscal 2017, and encompasses remuneration paid in fiscal 2017 and remuneration to be paid on the basis of performance through fiscal 2017. Directors, Audit & Supervisory Board Members and Corporate Officers Remuneration Policy by Fiscal 2017 is listed as a discretionary disclosure item relating to the business report on the Company website under “Investors / General Meeting of Shareholders / Corporate Governance / General Meeting of Shareholders / Notice of Convocation: the 118th Ordinary General Meeting of Shareholders” (<http://www.shiseidogroup.com/ir/account/shareholder/>).

(Millions of yen)

	Basic Remuneration	Bonus	Long-Term Incentive (Stock Option)	Total
Masahiko Uotani, Representative Director	127	179	69	377
Tsunehiko Iwai Representative Director	46	22	23	92

## Notes:

1. The above amount to be paid as bonuses to directors for fiscal 2017 is the amount that the Board of Directors has resolved to pay subject to the Fourth Item of Business (Revision of the Amount of Compensation Payable to Members of the Board of Directors) being approved as proposed at this ordinary general meeting of shareholders.
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 (stock acquisition rights) in the fiscal year, upon the approval of the ordinary general meeting of shareholders, in consideration of duties executed by directors.
3. None of the two directors above will be paid remunerations other than the remunerations described above (including those described in notes 1 through 2).

#### 4) Directors, Audit & Supervisory Board Members and Corporate Officers New Remuneration Policy Aligned to the Three-Year Plan for Fiscal 2018 Through Fiscal 2020

##### ■ Overview

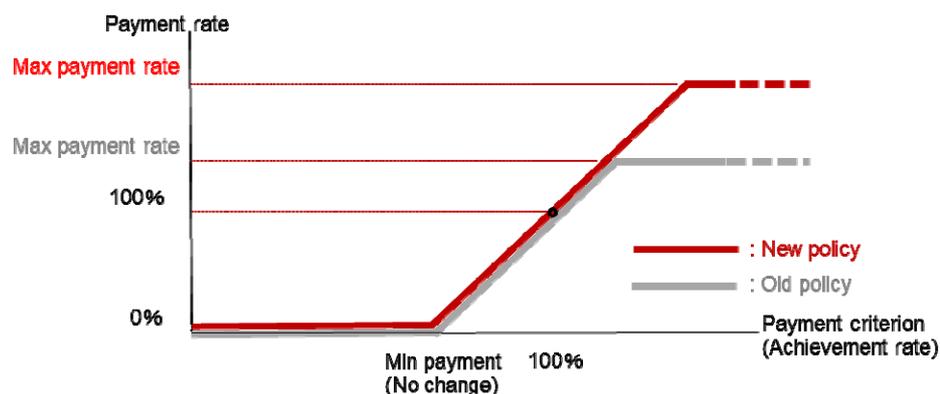
The Company has dedicated the three years from fiscal 2018 through fiscal 2020 to pursuing new strategies aimed at accelerating growth.

Meanwhile, because the three years from fiscal 2015 through fiscal 2017 have been positioned as the period for rebuilding the Company's business foundation, the Company has accordingly designed the directors, audit & supervisory board members and corporate officers remuneration policy for the three years so that directors, audit & supervisory board members and corporate officers will be motivated to implement drastic reformation as leaders of the transformation. In addition, the Company has also established incentives for its officers to strategically resolve challenges from a long-term growth perspective where necessary, although some challenges to be resolved may require actions that could negatively affect business performance data in the short term.

Beginning in fiscal 2018, the Company will also hasten growth by creating a virtuous cycle while continuing to pursue structural reforms. This will essentially involve adhering to the business structure prevailing up through fiscal 2017, while on the other hand designing the remuneration scheme to place more focus on the notion of "pay linked to the corporate mission," which constitutes a step beyond the notion of "pay for performance" whereby remuneration paid to an officer reflects his or her accomplishments. Under the notion of "pay linked to the corporate mission," the Company evaluates the extent to which long-term strategies reflecting its management approach and Corporate Philosophy have been achieved, in addition to considering net sales, operating income, and other quantitative financial results.

Under the new remuneration policy, the Company has increased the maximum rate of the annual bonus payment, meaning that its officers are now eligible for a larger annual bonus payment than before in the event that growth achieved greatly exceeds the objectives. Also, the long-term incentive-type remuneration, another component of performance-linked compensation, now involves providing stock compensation which is equivalent in monetary value to the annual bonus in principle. As such, performance-linked compensation as a whole is now more substantially linked to performance, given that the maximum rate of the annual bonus payment has been increased.

■ **Lifting of maximum rate of annual bonus payment (payment model diagram)**



■ **Proportion of remunerations by remuneration type for each rank of directors based on directors, audit & supervisory board members and corporate officers new remuneration policy**

Rank as corporate officer	Composition of remuneration for directors and corporate officers			Total
	Basic remuneration	Performance-linked remuneration		
		Annual bonus	Long-term incentive remuneration	
President and CEO	46%	27%	27%	100%
Executive Vice President	54%–56%	22%–23%	22%–23%	
Corporate Senior Executive Officer	54%–58%	21%–23%	21%–23%	
Corporate Executive Officer	54%–60%	20%–23%	20%–23%	
Corporate Officer	56%–64%	18%–22%	18%–22%	

Notes:

1. In this model, the basic remuneration amount is the median in the applicable role grade, and the achievement rate related to performance-linked remuneration is 100%.
2. There is no difference in the proportion of remunerations by remuneration type applied to directors based on whether a director has a representation right or otherwise.
3. Because different remuneration tables will be applied depending on the role grade of respective directors and corporate officers, proportions of remunerations by remuneration type will vary even within a same rank.
4. A fixed amount of remuneration separately provided in accordance with the roles such as the chairman of the Board is not included in the table.

■ **Basic remuneration**

The Company designs to set basic remunerations in accordance with the role grades, which is set based on size and level of responsibility that respective officers are in charge, as well as the impact on business management of the group. In addition, within a same grade, an increase of the amount is allowed within a certain range in accordance with the performance of respective directors or corporate officers in the previous fiscal year (numerical business performance and personal performance evaluation). These allow the Company to ensure well-modulated basic remuneration as well, commensurate with their achievements of respective directors, audit & supervisory board members and corporate officers.

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

## ■ Performance-linked remuneration

The performance-linked remuneration consists of an “annual bonus” provided based on annual business performance, and “stock options as long-term incentive-type remuneration,” designed to motivate the directors and corporate officers to manage business operation while being more conscious about the Company’s performance and share price from the perspectives of not only a single-year but also a medium to long term. In addition, the Company has ensured that the both remunerations are designed to further motivate them to resolve strategic challenges from a long-term perspective by adding the part of evaluation based on evaluation of personal performance.

In fiscal 2018, the Company will continue to provide performance-linked stock options under its long-term incentive-type remuneration scheme, but will also keep considering the possibility of shifting to a stock compensation approach that would be better tailored to the Company’s remuneration philosophy.

## ■ Annual bonus

The Company has set evaluation items for the annual bonus linked to performance in accordance with the scope respective directors and corporate officers are in charge of as described in the table below, in addition to the achievement rate of target consolidated net sales and consolidated operating income as common performance indicators across directors and corporate officers. Although on the one hand it is essential that the entire management team remains aware of matters involving net income attributable to owners of parent, on the other hand it’s crucial that management not let the benchmark weigh too heavily on proactive efforts particularly involving future growth-oriented investment. As such, upon the Remuneration Advisory Committee deliberation, the Company has preliminarily established certain performance standards (thresholds) as described in the table below, with the evaluation framework designed so that the Remuneration Advisory Committee will consider the possibility of lowering the percentage amount of the annual bonus payment attributable to the whole group performance component of the total annual bonus, if results fall below the thresholds. In addition, as was the case for remuneration policy up to fiscal 2017, we set the individual performance evaluation of all directors and corporate officers in order to add the level of achievement regarding strategic goals that cannot be measured by the financial performance figures alone, such as efforts for restructuring of the business platform to realize sustainable growth, to evaluation criteria.

## ■ Evaluation weights of annual bonus for directors

Evaluation item	Performance indicators	Evaluation weight									
		President and CEO		Corporate officers in charge of businesses				Corporate officers other than those in charge of businesses			
				Regional headquarters President		Other		CFO		Other	
Whole group performance	Consolidated net sales	30%	70%	10%	20%	10%	20%	30%	70%	30%	70%
	Consolidated operating income	40%		10%		10%		40%		40%	
	Net income attributable to owners of parent	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.									
Performance of business unit in charge	Business performance evaluation	—		50%		50%		—		—	
Personal evaluation	Level of achievement of strategic goals set individually	30%									
		Setting no more than five priority objectives which contribute to realizing long-term strategies reflecting the Company’s management approach and Corporate Philosophy.									

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

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

Of the performance-linked remuneration, the Company imposes terms and conditions regarding performance on stock compensation-type stock options as long-term incentive-type remuneration on two occasions when the stock acquisition rights are allotted and the exercise period of the stock acquisition rights allotted starts.

When actually allotting the stock acquisition rights after obtaining an approval for the maximum number of stock acquisition rights to be allotted at the general meeting of shareholders, the Company shall increase or decrease the number of stock acquisition rights to be granted ranging from zero to the maximum number by using the evaluation indicators for annual bonus for the immediately preceding fiscal year. In addition, we have introduced a mechanism that when the stock acquisition right exercise period starts, the exercisable number of stock acquisition rights may be determined according to the consolidated performance and other track records up to the immediately preceding fiscal year in the range of 30% to 100% of the allotted number, and thereby strengthen it to functions as incentives for improving medium- to long-term business performance and achieving the targets.

In fiscal 2018, the Company will continue to provide performance-linked stock options under its long-term incentive-type remuneration scheme, but will also keep considering the possibility of shifting to a stock compensation approach that would be better tailored to the Company’s remuneration philosophy.

■ **Terms and conditions regarding performance on long-term incentive-type remuneration**

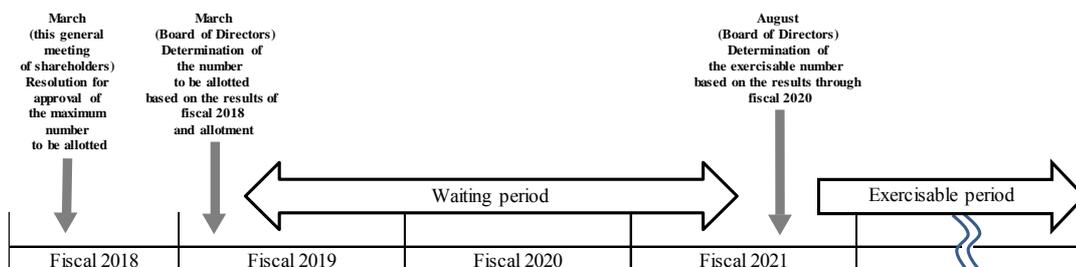
When stock acquisition rights are allotted

- Use the same indicators as used in calculating annual bonus to each officer. Indicators are consolidated business performance (consolidated net sales, consolidated operating income and net income attributable to owners of parent), evaluation of performance of business of which respective officers are in charge, and personal evaluation.
- Determine the number of stock acquisition rights to be allotted through deliberation by the evaluation working group.

When the exercise period of the stock acquisition rights allotted starts

- Calculate the growth rate of operating income by comparing the operating income for the fiscal years preceding and following the fiscal year in which the stock acquisition rights allotment date is included.
- Calculate the growth rates of operating income for the same fiscal years as above of companies such as Kao Corporation (Japan), L’Oreal S.A. (France) and Estee Lauder Companies Inc. (U.S.A.), which are the leading cosmetic companies in Japan and overseas and have been designated in advance as companies to be compared with.
- Based on the comparison of the growth rates of operating income between the Company and the companies for comparison, decide the number of stock acquisition rights allotted to each director or corporate officer that are exercisable.

■ **Schedule of allotment and exercise of long-term incentive-type remuneration**



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

In the current directors, audit & supervisory board members and corporate officers remuneration policy, personal evaluation of each director and corporate officer will have a significant impact on determination of the amount of all remunerations including basic remuneration, annual bonus and the long-term incentive-type remuneration. Unlike evaluations based on performance indicators such as consolidated net sales, personal evaluation is not a quantitative evaluation. It therefore requires a framework to ensure its objectivity, fairness and transparency.

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

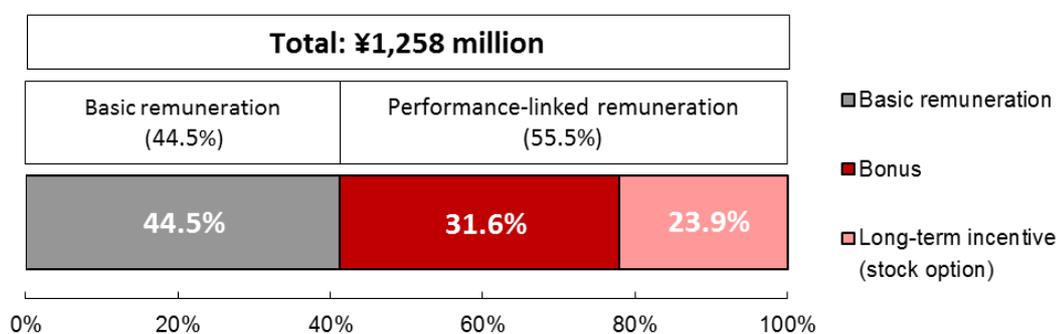
Personal evaluation on corporate officers other than President and CEO (including those who concurrently serve as directors) is performed by President and CEO, together with evaluation based on the performance indicators. Objectivity, fairness and transparency of this personal evaluation are ensured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

5) **Proportion of Each Type of Remuneration Paid to Directors Excluding External Directors for the Three-Year Period under the Three-Year Plan**

The chart below shows the proportion of each type of remuneration paid to directors (excluding external directors) for the period of the Company's Three-Year Plan for the fiscal years from 2015 to 2017. In fiscal 2017, the Company made rapid progress on initiatives and reforms to address management issues that were deemed necessary for achieving the long-term mission, achieving the net sales target three years ahead of schedule and record high operating income. This was reflected in a high level of performance-linked compensation, resulting in a high ratio of performance-linked compensation over the three-year period.

Bonuses include the amount to be paid subject to the approval of the Fourth Item of Business (Revision of the Amount of Compensation Payable to Members of the Board of Directors) at this ordinary general meeting of shareholders. The amount of performance-linked stock options provided as a long-term incentive to the Directors is limited to their remuneration for the relevant three-year period.

■ **Proportion of each type of remuneration paid during the three years from 2015 to 2017**



**(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, 2017	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, 2017” 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 Japan Corporate Auditors Association as a guide, and by way of necessary documents obtained from Directors, internal relevant departments and Accounting Auditor as well as interviews to obtain information from them, and determined that the fees, etc. of the Accounting Auditor 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 troubles to the Company for the reasons, among other things, that the accounting auditor violates its duties, negates its duties or behaves in a manner inappropriate as accounting auditor, the Audit & Supervisory Board shall dismiss the accounting auditor pursuant to Article 340 of the Companies Act. Furthermore, in addition, in the event that it is deemed that the accounting auditor is unable to carry out its duties duly or change of the accounting auditor to another audit firm is reasonably required to enhance the appropriateness of accounting audit, the Board of Directors shall submit a proposal to the general meeting of shareholders for the dismissal of the accounting auditor or not reappointing the accounting auditor in accordance with the resolution of the Audit & Supervisory Board on the proposal resolved in consideration of the opinion of the executive agency.

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.

**Consolidated Balance Sheet**  
(As of December 31, 2017)

(Millions of yen)

	December 31, 2017	December 31, 2016 (Reference)		December 31, 2017	December 31, 2016 (Reference)
<b>ASSETS</b>			<b>LIABILITIES</b>		
<b>Current Assets:</b>	<b>526,245</b>	<b>431,903</b>	<b>Current Liabilities:</b>	<b>291,379</b>	<b>246,687</b>
Cash and Time Deposits	166,698	120,126	Notes and Accounts Payable	49,140	51,080
Notes and Accounts Receivable	162,058	136,768	Electronically Recorded Obligations-Operating	37,892	32,312
Short-Term Investments in Securities	7,781	7,905	Short-Term Debt	8,540	6,339
Inventories	129,954	115,672	Commercial Papers	—	5,243
Deferred Tax Assets	25,467	21,773	Current Portion of Long-Term Debt	731	3,230
Other Current Assets	36,012	31,589	Lease Obligations	1,391	1,744
Less: Allowance for Doubtful Accounts	-1,727	-1,933	Other Payables	59,903	43,453
<b>Non-current Fixed Assets:</b>	<b>423,179</b>	<b>502,687</b>	Accrued Income Taxes	25,032	5,561
<b>Property, Plant and Equipment:</b>	<b>158,681</b>	<b>156,194</b>	Provision for Sales Returns	14,012	12,948
Buildings and Structures	58,156	58,478	Provision for Bonuses	25,019	22,110
Machinery, Equipment and Vehicles	17,808	14,980	Provision for Directors' Bonuses	119	99
Tools, Furniture and Fixtures	25,262	24,402	Provision for Risk and Liabilities	2,005	2,024
Land	36,971	36,604	Other Current Liabilities	67,590	60,539
Leased Assets	3,286	3,317	<b>Non-current Long-term Liabilities:</b>	<b>212,173</b>	<b>274,033</b>
Construction in Progress	17,196	18,411	Bonds	40,000	40,000
<b>Intangible Assets:</b>	<b>168,586</b>	<b>246,333</b>	Long-Term Debt	28,835	62,196
Goodwill	12,166	59,795	Lease Obligations	1,966	1,826
Leased Assets	247	401	Long-Term Payables	59,255	53,135
Trademarks	121,347	146,209	Net Defined Benefit Liability	73,745	94,489
Other Intangible Assets	34,825	39,927	Provision for Losses on Guarantees	350	350
<b>Investments and Other Assets:</b>	<b>95,910</b>	<b>100,158</b>	Provision for Environmental Measures	260	376
Investments in Securities	26,280	24,899	Deferred Tax Liabilities	3,762	18,402
Long-Term Loans Receivable	90	240	Other Long-term Liabilities	3,998	3,257
Long-Term Prepaid Expenses	13,991	13,377	<b>Total Liabilities</b>	<b>503,552</b>	<b>520,720</b>
Deferred Tax Assets	30,658	37,800	<b>NET ASSETS</b>		
Other Investments	25,131	23,874	<b>Shareholders' Equity:</b>	<b>406,121</b>	<b>392,033</b>
Less: Allowance for Doubtful Accounts	-241	-33	Common Stock	64,506	64,506
<b>TOTAL ASSETS</b>	<b>949,425</b>	<b>934,590</b>	Capital Surplus	70,808	70,846
			Retained Earnings	271,681	258,005
			Less: Treasury Stock, at Cost	-874	-1,325
			<b>Accumulated Other Comprehensive Income</b>	<b>17,326</b>	<b>930</b>
			Unrealized Gains (Losses) on Available-for-Sale Securities, Net of Taxes	8,664	7,389
			Foreign Currency Translation Adjustments	28,726	26,516
			Remeasurements of Defined Benefit Plans	-20,064	-32,975
			<b>Stock Acquisition Rights</b>	<b>874</b>	<b>818</b>
			<b>Non-Controlling Interests</b>	<b>21,550</b>	<b>20,087</b>
			<b>Total Net Assets</b>	<b>445,872</b>	<b>413,870</b>
			<b>TOTAL LIABILITIES AND NET ASSETS</b>	<b>949,425</b>	<b>934,590</b>

**Consolidated Statement of Income**  
(Fiscal Year from January 1, 2017 to December 31, 2017)

(Millions of yen)

	Fiscal Year	Previous Fiscal Year (Reference)
Net Sales	1,005,062	850,306
Cost of Sales	231,327	207,553
<b>Gross Profit</b>	<b>773,735</b>	<b>642,753</b>
Selling, General and Administrative Expenses	693,298	605,972
<b>Operating Income</b>	<b>80,437</b>	<b>36,780</b>
Other Income	3,547	4,149
Interest Income	882	771
Dividend Income	557	521
Equity in Earnings of Affiliates	284	260
Rental Income	743	776
Subsidy Income	10	624
Other	1,069	1,194
Other Expenses	3,658	3,754
Interest Expense	991	814
Foreign Exchange Loss	216	1,270
Other Interest on Debt	1,382	336
Other	1,068	1,332
<b>Ordinary Income</b>	<b>80,327</b>	<b>37,174</b>
Extraordinary Income	39,341	18,489
Gain on Sales of Property, Plant and Equipment	1,168	9,132
Gain on Sales of Investments in Securities	1,173	403
Gain on Transfer of Business	36,787	8,952
Gain on Sale of Shares of Subsidiaries and Affiliates	211	—
Extraordinary Loss	81,112	5,797
Loss on Sales and Disposal of Property, Plant and Equipment	2,181	1,010
Impairment Loss	70,922	153
Loss on Sales of Investments in Securities	27	0
Loss on Revaluation of Investments in Securities	—	21
Structural Reform Expenses	4,479	4,037
Voluntary Product Recall-Related Expenses	3,233	—
Loss on Liquidation of Subsidiaries and Affiliates	136	—
Temporary Expenses Associated with Reforms to Human Resource Systems	130	—
Information Security Expenses	—	574
<b>Income before Income Taxes</b>	<b>38,555</b>	<b>49,866</b>
Income Taxes – Current	29,416	17,507
Income Taxes – Deferred	-16,215	-1,565
<b>Net Income</b>	<b>25,355</b>	<b>33,925</b>
Net Income Attributable to Non-Controlling Interests	2,606	1,823
<b>Net Income Attributable to Owners of Parent</b>	<b>22,749</b>	<b>32,101</b>

**Reference: Consolidated Statement of Comprehensive Income**

(Fiscal Year from January 1, 2017 to December 31, 2017)

(Millions of yen)

	Fiscal Year	Previous Fiscal Year (Reference)
<b>Net Income</b>	<b>25,355</b>	<b>33,925</b>
Other Comprehensive Income:		
Unrealized Gains (Losses) on Available-for-Sale Securities, Net of Tax	1,166	-813
Foreign Currency Translation Adjustments	3,073	-14,906
Remeasurements of Defined Benefit Plans	12,890	-9,136
Share of Other Comprehensive Income of Entities Accounted for Under the Equity Method	-30	-90
Total Other Comprehensive Income	17,100	-24,946
<b>Comprehensive Income</b>	<b>42,456</b>	<b>8,978</b>
(Breakdown)		
Comprehensive Income Attributable to Owners of Parent	39,145	8,367
Comprehensive Income Attributable to Non-Controlling Interests	3,310	611

**Consolidated Statement of Changes in Net Assets**  
(Fiscal Year from January 1, 2017 to December 31, 2017)

(Millions of yen)

	Shareholders' Equity				
	Common Stock	Capital Surplus	Retained Earnings	Treasury Stock, at Cost	Total Shareholders' Equity
Balance as of January 1, 2017	64,506	70,846	258,005	-1,325	392,033
Changes during the Fiscal Year					
Dividends from Retained Earnings			-8,986		-8,986
Net Income Attributable to Owners of Parent			22,749		22,749
Acquisition of Treasury Stock				-17	-17
Disposal of Treasury Stock		43		468	511
Equity Transactions with Non-Controlling Interests and Others		-81	-87		-168
Net Change in Items Other than Shareholders' Equity					—
Total Change during the Fiscal Year	—	-37	13,675	450	14,088
Balance as of December 31, 2017	64,506	70,808	271,681	-874	406,121

(Millions of yen)

	Accumulated Other Comprehensive Income				Stock Acquisition Rights	Non-Controlling Interests in Consolidated Subsidiaries	Total Net Assets
	Unrealized Gains (Losses) on Available-for-Sale Securities, Net of Taxes	Foreign Currency Translation Adjustments	Remeasurements of Defined Benefit Plans	Total Accumulated Other Comprehensive Income			
Balance as of January 1, 2017	7,389	26,516	-32,975	930	818	20,087	413,870
Changes during the Fiscal Year							
Dividends from Retained Earnings							-8,986
Net Income Attributable to Owners of Parent							22,749
Acquisition of Treasury Stock							-17
Disposal of Treasury Stock							511
Equity Transactions with Non-Controlling Interests and Others							-168
Net Change in Items Other than Shareholders' Equity	1,275	2,210	12,910	16,395	55	1,462	17,913
Total Change during the Fiscal Year	1,275	2,210	12,910	16,395	55	1,462	32,002
Balance as of December 31, 2017	8,664	28,726	-20,064	17,326	874	21,550	445,872

## Notes to the Consolidated Financial Statements

### Basis of Presenting Consolidated Financial Statements

#### 1. Scope of Consolidation

##### (1) Number of consolidated subsidiaries: 79

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

[Addition: 4 companies]

MATCHCo. and JWALK, LLC have been included in the scope of consolidation effective from the fiscal year under review following the new acquisition of shares. In addition, KODOMOLOGY Co., Ltd. and Shiseido Group Middle East LLC have been included in the scope of consolidation effective from the fiscal year under review since they were established as subsidiaries. Giaran, Inc. has been merged with Shiseido Americas Corporation by way of absorption in the fiscal year under review after the acquisition of new shares during the fiscal year under review.

[Exclusions: 15 companies]

KINARI Inc., Shiseido Irica Technology Inc., Zotos International, Inc., Piidea Canada, Ltd., Joico Holdings B.V., Joico Laboratories Europe B.V., and Joico Belgium N.V. were excluded from the scope of consolidation effective from the fiscal year under review following the transfer of shares held.

The following companies were excluded from the scope of consolidation effective from the fiscal year under review following absorption-type mergers into other companies: Shiseido Information Network Co., Ltd. into Shiseido Japan Co., Ltd., Shiseido Professional Korea into Shiseido Korea Co., Ltd., Shiseido Spain S.A. into Beauté Prestige International S.A.U., Shiseido Europe S.A.S. into Beauté Prestige International S.A., Beauté Prestige International S.p.A. (Italy) into Shiseido Group Italy S.p.A., and Beauté Prestige International GmbH (Germany) into Shiseido Group Germany GmbH.

InterAct Co., Ltd. was excluded from the scope of consolidation effective from the fiscal year under review due to its liquidation.

Shiseido India Private Ltd. was excluded from the scope of consolidation effective from the fiscal year under review because it is not materially significant.

##### (2) Unconsolidated subsidiaries

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

(Reasons for excluding unconsolidated subsidiaries from scope of consolidation)

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

#### 2. Application of the Equity Method

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

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

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

### 3. Fiscal Year of Consolidated Subsidiaries

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

### 4. Notes on Accounting Standards

#### (1) Valuation of Major Assets

##### 1) Securities

Available-for-sale securities:

Securities with readily determinable fair value:

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

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

Securities without readily determinable fair value:

Primarily stated at cost, based mainly on the moving-average method. Investments in limited partnerships are recorded as investments in securities, at the amount of interest in such partnerships calculated based on ownership percentage. Investment gain or loss is included in net income or loss in proportion to the ownership interests in the net asset value of the partnership.

##### 2) Inventories

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

#### (2) Depreciation of Major Assets

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

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

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

##### 2) Intangible Assets (Excluding Leased Assets)

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

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

##### 3) Leased Assets

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

4) Long-Term Prepaid Expenses

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

(3) Significant Provisions

1) Allowance for Doubtful Accounts

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

2) Provision for Sales Returns

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

3) Provision for Bonuses

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

4) Provision for Directors' Bonuses

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

5) Provision for Risk and Liabilities

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

6) Provision for Losses on Guarantees

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

7) Provision for Environmental Measures

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

(4) Basis for Calculating Net Defined Benefit Liability

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

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

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

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

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

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

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

(6) Significant Accounting for Hedges

Hedge accounting method

Deferral hedge accounting has been applied. The Company applies special accounting treatment to interest rate swaps that meet the requirement of special accounting. 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.

(Supplementary Information)

- 1) Application of the Implementation Guidance on Recoverability of Deferred Tax Assets

The “Implementation Guidance on Recoverability of Deferred Tax Assets” (Accounting Standards Board of Japan Guidance No. 26, March 28, 2016) has been applied effective from the fiscal year under review.

- 2) Effect from Revision of U.S. Tax Code

A bill to revise the U.S. Tax Code was passed in the U.S. in December 2017, and commencing the financial year beginning on or after January 1, 2018, federal income tax rates were reduced from 35% to 21%. As a result of these tax revisions, deferred tax liabilities were reduced by ¥3,296 million, income taxes - deferred were reduced by ¥3,271 million, accrued income taxes increased by ¥158 million, income taxes - current increased by ¥157 million and foreign currency translation adjustments increased by ¥23 million.

(Changes in Method of Presentation)

- 1) The Company has applied the “Balance Sheet Classification of Deferred Tax” (Financial Accounting Standards Board (FASB) ASU 2015-17, November 20, 2015) effective from the fiscal year under review, and presents all deferred tax assets and liabilities of subsidiaries in the U.S. as investments and other assets or long-term liabilities. Amounts in the consolidated fiscal statements for the previous fiscal year have been reclassified to reflect this change in the method of presentation. Consequently, ¥11,845 million that was presented as “deferred tax assets” under current assets in the previous fiscal year has been reclassified to “deferred tax assets” under investments and other assets. Of this amount, ¥11,416 million has been offset by “deferred tax liabilities” under long-term liabilities.
- 2) “Other interest on debt,” which was included in “other” under “other expenses” in the previous fiscal year, has been presented separately effective from the fiscal year under review due to the increased materiality of the amount. Amounts in the consolidated fiscal statements for the previous fiscal year have been reclassified to reflect this change in the method of presentation. Consequently, ¥1,669

million that was presented in “other” under “other expenses” in the consolidated statement of income for the previous fiscal year has been reclassified as “other interest on debt” of ¥336 million and “other” of ¥1,332 million.

### **Notes to Consolidated Balance Sheet**

(1) Inventories

Merchandise and products	¥88,620 million
Work in process	¥5,450 million
Raw materials and supplies	¥35,884 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	¥1,815 million
Buildings and structures	¥12,709 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
<b>Total</b>	<b>¥30,881 million</b>

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	¥18,835 million

(3) Accumulated depreciation of property, plant and equipment ¥228,228 million

### **Notes to Consolidated Statement of Income**

(1) Gain on transfer of business

This gain is attributed mainly to the transfer of the shares of Zotos International, Inc. and related business assets.

(2) Gain on sales of shares of subsidiaries and affiliates

The gain is attributed to the transfer of KINARI Inc.

(3) Impairment loss:

The Company recognized impairment loss on the fixed assets of domestic and overseas subsidiaries.

Use	Type of asset	Location
Business-use assets	Goodwill, trademarks, other intangible assets, and buildings and structures	United States
Idle assets, and others	Other intangible assets, and others	China and others

The Shiseido Group's business-use assets are grouped according to the minimum independent cash-flow-generating unit, based on business classification. Idle assets are pooled according to individual property.

As a result, the goodwill, etc. recorded at the time Bare Escentuals, Inc. was acquired in the Americas business, which are considered among the business-use assets, was devalued to fair value after an impairment test based on U.S. accounting standards was performed, after consideration of all facts, including the fact that sales were trending below the plan. This impairment loss was recorded as an extraordinary loss. The breakdown is shown below. Primarily, fair value was determined by the income approach, and a discount rate of 10% was used.

Goodwill	¥43,195 million
Trademarks	¥23,711 million
Customer-related intangible assets	¥2,418 million
Buildings and structures, and others	¥1,548 million
Total	¥70,874 million

With respect to idle assets, and others, the Group's assets that are no longer expected to be used in the future have been devalued to their recoverable amount, resulting in a ¥48 million extraordinary loss. The recoverable amount was estimated based on the net sales value, which was assessed based on the expected selling price.

(4) Structural reform expenses

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

(5) Voluntary product recall-related expenses

The expenses reflect voluntary recalls of products that do not meet the Company's quality standards.

(6) Loss on liquidation of subsidiaries and affiliates

A loss on the ongoing liquidation of a subsidiary in India.

(7) Temporary expenses associated with reforms to human resource systems

Temporary expenses associated with the reorganization of the human resource systems of certain employees working at the Company's factories.

**Notes to Consolidated Statement of Changes in Net Assets**

(1) Shares issued and outstanding

Category and number of shares issued and outstanding as of December 31, 2017

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 28, 2017	Common stock	3,992	10.00	December 31, 2016	March 29, 2017
Board of Directors Meeting on August 9, 2017	Common stock	4,993	12.50	June 30, 2017	September 5, 2017
Total		8,986			

- 2) Resolution at the Ordinary General Meeting of Shareholders to be held on March 27, 2018 concerning dividends on shares of common stock made for the fiscal year ended December 31, 2017 but for which the effective date is after the end of the fiscal year.

Cash dividends to be paid:	¥5,993 million
Cash dividends per share:	¥15.00
Record date:	December 31, 2017
Effective date:	March 28, 2018
Funding source:	Retained earnings

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

Common stock	318 thousand shares
--------------	---------------------

**Financial Instruments**

1. Financial Instruments

(1) Policy for financial instruments

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

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

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

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

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

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

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

The Shiseido Group executes and manages derivatives within the limits of established internal rules and regulations, and reduces credit risk by limiting counterparties to highly creditworthy financial institutions.

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

## 2. Fair Value of Financial Instruments

Fair value and variance with carrying value presented on the balance sheet as of December 31, 2017 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	166,698	166,698	—
(2) Notes and accounts receivable (less allowance for doubtful accounts)	160,331	160,331	—
(3) Short-term investments in securities and investments in securities			
Available-for-sale securities	30,325	30,325	—
(4) Notes payable, Electronically recorded obligations - operating, Accounts payable and Other payables	(146,936)	(146,936)	—
(5) Short-term debt	(8,540)	(8,540)	—
(6) Bonds	(40,000)	(40,128)	-128
(7) Long-term debt	(29,566)	(29,566)	-0
(8) Lease obligations	(3,357)	(3,380)	-23
(9) Derivative instruments			
1) Hedge accounting not applied	53	53	—
2) Hedge accounting applied	—	(611)	-611
(10) Long-term payables	(59,255)	(59,255)	—

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

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

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

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

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

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

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

Carrying value approximates fair value for 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 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:	¥1,059.84
Net income per share:	¥56.95

### **Business Combinations**

(Business combination)

Business spin-off

The Group concluded an agreement on transferring the shares of its consolidated subsidiary, Zotos International, Inc. (hereinafter "Zotos"), which operates a professional hair care business globally, and related business assets to Henkel AG & Co. KGaA (hereinafter, Henkel) on October 26, 2017, and completed the sale of the business on December 28, 2017.

1. Reason for the Transfer:

The Group has been promoting a selection and concentration strategy in order to enhance its brand portfolio across the globe and drive growth under its mid- to long-term business strategy VISION 2020, with which the Group aims to "Be a Global Winner with Our Heritage." The Group's Professional business plays an important role in its brand portfolio, and it plans to concentrate and boost its investment in the professional market in Asia.

While pursuing the selection and concentration strategy, the Group underwent a thorough review with Henkel regarding the transfer of Zotos, which is based in North America and generates the majority of its sales from the North American market. As a result, it arrived at the conclusion that transferring Zotos to Henkel would be the best option for Zotos and the Group, and thus, decided to sign the transfer agreement.

2. Name of the Transferee:  
Henkel AG & Co. KGaA
3. Date of the Transfer:  
December 28, 2017
4. Outline of Transaction Including Legal Form:  
Share transfer for which consideration is funded only by cash
5. Name of the Subsidiary and Business Description:
- (1) Name: Zotos International, Inc.
- (2) Business Description: Manufacturing and distribution of professional hair care, hair color and styling products
6. Summary of Accounting Treatment Used:
- (1) Amount of gain on transfer  
Gain on transfer of business      ¥35,999 million
- (2) Book value of assets and liabilities related to the transferred business and main breakdown
- |                          |                        |
|--------------------------|------------------------|
| Current assets           | ¥11,578 million        |
| Fixed assets             | ¥11,647 million        |
| <u>Total assets</u>      | <u>¥23,225 million</u> |
| Current liabilities      | ¥3,752 million         |
| Long-term liabilities    | ¥987 million           |
| <u>Total liabilities</u> | <u>¥4,739 million</u>  |
- (3) Accounting treatment  
The difference between book value and sales price of the transferred shares, etc. is recorded in “Gain on transfer of business” under extraordinary income.
7. Reporting Segment of the Separated Business:  
Professional Business
8. Estimated Profit Related to the Separated Business Recorded in the Consolidated Statement of Income for the Fiscal Year under Review:
- |                  |                 |
|------------------|-----------------|
| Net sales        | ¥26,982 million |
| Operating income | ¥2,381 million  |

**Other**

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

## Non-Consolidated Balance Sheet

(As of December 31, 2017)

(Millions of yen)

	December 31, 2017	December 31, 2016 (Reference)		December 31, 2017	December 31, 2016 (Reference)
<b>ASSETS</b>			<b>LIABILITIES</b>		
<b>Current Assets:</b>	<b>186,823</b>	<b>159,651</b>	<b>Current Liabilities:</b>	<b>179,142</b>	<b>122,261</b>
Cash and Time Deposits	33,956	31,391	Notes Payable	1,275	9,861
Notes Receivable	141	238	Electronically Recorded Obligations-Operating	29,319	23,804
Accounts Receivable	63,829	71,044	Accounts Payable	12,405	11,460
Short-Term Investments in Securities	6,000	6,000	Current Portion of Long-term Debt	—	2,500
Merchandise and Products	12,243	11,060	Lease Obligations	1,014	1,067
Work in Process	3,352	2,819	Other Accounts Payable	19,583	16,259
Raw Materials and Supplies	16,265	12,660	Accrued Expenses	678	469
Prepaid Expenses	2,335	1,612	Accrued Income Taxes	13,979	—
Short-Term Loans Receivable	276	680	Deposits Received	1,469	1,391
Other Accounts Receivable	37,888	17,105	Deposits Received from Subsidiaries and Affiliates	92,232	48,604
Deferred Tax Assets	5,041	3,600	Provision for Sales Returns	2,704	2,912
Other Current Assets	5,494	1,472	Provision for Bonuses	4,040	3,234
Less: Allowance for Doubtful Accounts	—	-35	Provision for Directors' Bonuses	119	99
<b>Fixed Assets:</b>	<b>395,765</b>	<b>461,332</b>	Other Current Liabilities	319	596
<b>Property, Plant and Equipment:</b>	<b>82,976</b>	<b>73,610</b>	<b>Long-term Liabilities:</b>	<b>68,781</b>	<b>101,403</b>
Buildings	21,840	19,453	Bonds	40,000	40,000
Structures	716	539	Long-Term Debt	10,000	42,500
Machinery and Equipment	8,985	4,633	Lease Obligations	1,004	1,190
Vehicles	54	47	Provision for Retirement Benefits	15,906	15,775
Tools, Furniture and Fixtures	5,912	5,280	Provision for Losses on Guarantees	350	390
Land	28,228	27,019	Provision for Environmental Measures	195	310
Leased Assets	1,832	2,011	Other Long-term Liabilities	1,325	1,237
Construction in Progress	15,404	14,624	<b>Total Liabilities</b>	<b>247,924</b>	<b>223,665</b>
<b>Intangible Assets:</b>	<b>9,135</b>	<b>7,622</b>	<b>NET ASSETS</b>		
Patent Rights	11	22	<b>Shareholders' Equity:</b>	<b>325,875</b>	<b>389,627</b>
Telephone Rights	124	124	Common Stock	64,506	64,506
Software	6,004	4,705	Capital Surplus	70,313	70,270
Software in Progress	1,194	703	Additional Paid-In Capital	70,258	70,258
Leased Assets	147	205	Other Capital Surplus	55	12
Other Intangible Assets	1,652	1,861	Retained Earnings	191,929	256,175
<b>Investments and Other Assets:</b>	<b>303,653</b>	<b>380,099</b>	Legal Reserve	16,230	16,230
Investments in Securities	21,254	20,358	Other Retained Earnings	175,699	239,944
Investments in Shares of Subsidiaries and Affiliates	239,431	313,287	Reserve for Advanced Depreciation of Fixed Assets	3,574	3,574
Other Investment Securities of Subsidiaries and Affiliates	17,631	18,786	Reserve for Special Account for Advanced Depreciation of Fixed Assets	544	544
Capital Investments	509	736	Retained Earnings Carried Forward	171,579	235,825
Capital Investments in Subsidiaries and Affiliates	11,816	11,816	Less: Treasury Stock, at Cost	-874	-1,325
Long-Term Loans Receivable	2,128	3,195	<b>Valuation, Translation Adjustments and Others:</b>	<b>7,916</b>	<b>6,872</b>
Prepaid Pension Expenses	4,557	5,683	Unrealized Gains on Available- for-Sale Securities, Net of Taxes	7,916	6,872
Long-Term Prepaid Expenses	853	500	<b>Stock Acquisition Rights</b>	<b>874</b>	<b>818</b>
Deferred Tax Assets	1,066	1,958	<b>Total Net Assets</b>	<b>334,665</b>	<b>397,318</b>
Other Investments	4,553	4,550	<b>TOTAL LIABILITIES AND NET ASSETS</b>	<b>582,589</b>	<b>620,984</b>
Less: Allowance for Doubtful Accounts	-150	-776			
<b>TOTAL ASSETS</b>	<b>582,589</b>	<b>620,984</b>			

**Non-Consolidated Statement of Operations**  
(Fiscal Year from January 1, 2017 to December 31, 2017)

(Millions of yen)

	Fiscal Year	Previous Fiscal Year (Reference)
Net Sales	220,407	202,774
Cost of Sales	139,096	127,973
<b>Gross Profit</b>	<b>81,310</b>	<b>74,800</b>
Selling, General and Administrative Expenses	73,426	67,832
<b>Operating Income</b>	<b>7,883</b>	<b>6,968</b>
Other Income	17,108	21,229
Interest Income	86	93
Dividend Income	12,674	15,120
Gain on Investment in Limited Partnerships	1,195	1,229
Royalty Income	1,704	3,328
Other	1,447	1,457
Other Expenses	1,214	1,729
Interest Expense	242	292
Provision of Allowance for Doubtful Accounts	150	35
Loss on Investment in Limited Partnerships	12	18
Foreign Exchange Loss	515	898
Other	293	485
<b>Ordinary Income</b>	<b>23,778</b>	<b>26,468</b>
Extraordinary Income	4,242	17,784
Gain on Sales of Property, Plant and Equipment	2,295	9,127
Gain on Sales of Investments in Securities	1,173	403
Gain on Transfer of Business	576	—
Gain on Sales of Shares of Subsidiaries and Affiliates	196	8,254
Extraordinary Loss	79,205	257
Loss on Sales and Disposal of Property, Plant and Equipment	271	127
Loss on Revaluation of Shares in Subsidiaries and Affiliates	75,748	—
Loss on Sales of Investments in Securities	27	0
Loss on Revaluation of Investments in Securities	—	21
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	—
Structural Reform Expenses	—	105
Loss on Cancellation of Lease Contracts	1	2
<b>Income (Loss) before Income Taxes</b>	<b>-51,184</b>	<b>43,995</b>
Income Taxes – Current	5,271	3,250
Income Taxes – Deferred	-1,223	2,939
<b>Net Income (Loss)</b>	<b>-55,232</b>	<b>37,805</b>

**Non-Consolidated Statement of Changes in Net Assets**  
(Fiscal Year from January 1, 2017 to December 31, 2017)

(Millions of yen)

	Shareholders' Equity			
	Common Stock	Capital Surplus		
		Additional Paid-In Capital	Other Capital Surplus	Total Capital Surplus
Balance as of January 1, 2017	64,506	70,258	12	70,270
Changes during the Fiscal Year				
Dividends from Retained Earnings				
Net Loss				
Acquisition of Treasury Stock				
Disposal of Treasury Stock			43	43
Net Change in Items Other than Shareholders' Equity				
Total Change during the Fiscal Year	—	—	43	43
Balance as of December 31, 2017	64,506	70,258	55	70,313

(Millions of yen)

	Shareholders' Equity						
	Retained Earnings				Total Retained Earnings	Treasury Stock, at Cost	Total Shareholders' Equity
	Legal Reserve	Other 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, 2017	16,230	3,574	544	235,825	256,175	-1,325	389,627
Changes during the Fiscal Year							
Dividends from Retained Earnings				-9,013	-9,013		-9,013
Net Loss				-55,232	-55,232		-55,232
Acquisition of Treasury Stock						-17	-17
Disposal of Treasury Stock						468	511
Net Change in Items Other than Shareholders' Equity							—
Total Change during the Fiscal Year	—	—	—	-64,245	-64,245	450	-63,751
Balance as of December 31, 2017	16,230	3,574	544	171,579	191,929	-874	325,875

(Millions of yen)

	Valuation, Translation Adjustments and Others		Stock Acquisition Rights	Total Net Assets
	Unrealized Gains (Losses) on Available-for-Sale Securities, Net of Taxes	Total Valuation, Translation Adjustments and Others		
Balance as of January 1, 2017	6,872	6,872	818	397,318
Changes during the Fiscal Year				
Dividends from Retained Earnings				-9,013
Net Loss				-55,232
Acquisition of Treasury Stock				-17
Disposal of Treasury Stock				511
Net Change in Items Other than Shareholders' Equity	1,043	1,043	55	1,098
Total Change during the Fiscal Year	1,043	1,043	55	-62,653
Balance as of December 31, 2017	7,916	7,916	874	334,665

## Notes to the Non-Consolidated Financial Statements

### Significant Accounting Policies

#### (1) Valuation of Assets

##### 1) Securities

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

Available-for-sale securities

Securities with readily determinable fair value:

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

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

Securities without readily determinable fair value:

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

##### 2) Inventories

Inventories are 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 4–7 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 loss as compared to the balance of total receivables and the amount of uncollectible receivables estimated on an individual basis.

2) Provision for Sales Returns

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

3) Provision for Bonuses

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

4) Provision for Directors' Bonuses

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

5) Provision for Retirement Benefits

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

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

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

Unrecognized net actuarial gain or loss is 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 Financial Statements

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

- 2) Application of Consolidated Taxation System: The Company applied a consolidated taxation system.
- 3) Accounting Treatment Related to Retirement Benefits: The method of accounting for unrecognized net actuarial gain or loss and unrecognized prior service cost related to retirement benefits is different from the method adopted in the consolidated financial statements.

(Supplementary Information)

Application of the Implementation Guidance on Recoverability of Deferred Tax Assets

The “Implementation Guidance on Recoverability of Deferred Tax Assets” (Accounting Standards Board of Japan Guidance No. 26, March 28, 2016) has been applied effective from the fiscal year under review.

**Notes to Non-Consolidated Balance Sheet**

(1) Accumulated depreciation of property, plant and equipment: ¥99,386 million

(2) Guarantees

(Millions of yen)

Warrantee	Guaranteed Amount	Liability Guaranteed
Shiseido Korea Co., Ltd.	1,916	Loans
Total	1,916	

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

Short-term receivables	¥102,405 million
Long-term receivables	¥2,128 million
Short-term payables	¥8,571 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	¥212,902 million
Purchases	¥20,922 million
Other operating transactions	¥11,697 million
Non-operating transactions	¥17,457 million

**Notes to Non-Consolidated Statement of Changes in Net Assets**

Treasury Stock

(Thousand shares)

	Number of shares at January 1, 2017	Increase in shares in the year ended December 31, 2017	Decrease in shares in the year ended December 31, 2017	Number of shares at December 31, 2017
Common stock	700	4	245	460

Note 1: Shares of common stock held as treasury stock increased due to 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 245 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	36,721
Provision for retirement benefits	3,518
Inventories	2,359
Depreciation	2,049
Provision for bonuses	1,422
Write-down of investments in securities and other investments	342
Provision for sales returns	186
Other	1,507
Subtotal	48,106
Less: Valuation allowance	-36,866
Total	11,240
Deferred tax liabilities	
Unrealized losses on available-for-sale securities	-2,962
Reserve for reduction entry of replaced property	-1,833
Unrealized losses on property, plant and equipment due to company split	-322
Asset retirement obligation	-14
Total	-5,132
Net deferred tax assets	6,108

## 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 Transactions (Millions of yen)	Accounts Name	Balance as of December 31, 2017 (Millions of yen)
Subsidiary	Shiseido Japan Co., Ltd.	Direct, 100%	Product sales Concurrent directors	Sales of cosmetics (Note 1)	36,372	Accounts receivable	17,268
				Advance payment of other expenses	41,243	Other accounts receivable	18,318
				Rendering of services	9,864		
				Royalty income	8,059		
				Deposit received (Note 2)	-	Deposits received from subsidiaries and affiliates	56,140
Subsidiary	Shiseido FITIT Co., Ltd.	Direct, 100%	Product sales	Sales of cosmetics (Note 1)	17,256	Accounts receivable	6,654
Subsidiary	FT Shiseido Co., Ltd.	Direct, 100%	Product sales Concurrent directors	Sales of toiletry products (Note 1)	22,127	Accounts receivable	6,106
				Deposit received (Note 2)	-	Deposits received from subsidiaries and affiliates	8,039
Subsidiary	Shiseido International Inc.	Direct, 100%	Product sales	Sales of cosmetics (Note 1)	12,974	Accounts receivable	6,656
Subsidiary	The Ginza Co., Ltd.	Direct, 98.1%	Product sales Concurrent directors	Deposit received (Note 2)	-	Deposits received from subsidiaries and affiliates	8,181

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, 2017” column above include consumption tax (except for deposits received from subsidiaries and affiliates).

## Per-Share Information

Net assets per share	¥835.44
Net loss per share	¥-138.26

## 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 21, 2018

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 income, the consolidated statement of changes in net assets and the related notes of Shiseido Company, Limited as at December 31, 2017 and for the year from January 1, 2017 to December 31, 2017 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 21, 2018

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, 2017 and for the year from January 1, 2017 to December 31, 2017 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 118th business period (from January 1, 2017 to December 31, 2017), 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 27, 2018

Audit & Supervisory Board of  
Shiseido Company, Limited

Audit & Supervisory Board Member (Full-time)  
Yoshinori Nishimura (Seal)

Audit & Supervisory Board Member (Full-time)  
Kyoko Okada (Seal)

Audit & Supervisory Board Member (External)  
Nobuo Otsuka (Seal)

Audit & Supervisory Board Member (External)  
Hiroshi Ozu (Seal)

Audit & Supervisory Board Member (External)  
Eiko Tsujiyama (Seal)

## Reference Document Concerning the General Meeting of Shareholders

**1. Total Number of Voting Rights Held by Shareholders:** **3,991,753**

**2. Items of Business and Reference Information:**

### First Item of Business: Dividends of Retained Earnings

The Company would like to propose the amount of dividend for the fiscal year ended December 31, 2017 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, the total dividend per share for the fiscal year including the interim dividend will be ¥27.5, an increase of ¥7.5 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: ¥15.00  
The total amount thereof: ¥5,993,099,505

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

March 28, 2018

### Basic Policy for Returns to Shareholder (As of December 31, 2017)

The Company aims to achieve a maximum return to shareholders through direct means and also generating medium- and long-term share price gains. To this end, our fundamental policy is to make strategic investments that drive earnings growth while raising capital efficiency, which will lead to medium- and long-term increases in dividends and share price.

Our target for returns over the medium term is a consolidated payout ratio of 40 percent. Based on this target, we will prioritize payment of stable dividends while implementing share buybacks in a flexible manner.

### Trends of Dividends, etc.

(Millions of yen, unless otherwise noted)

	115th Business Term (4/1/2014 - 3/31/2015)	116th Business Term (4/1/2015 - 12/31/2015)	117th Business Term (1/1/2016 - 12/31/2016)	118th Business Term (Current term) (1/1/2017 - 12/31/2017)	
Annual cash dividends per share (Yen)	20	20	20	27.50	(P)
Annual dividends	7,975	7,981	7,985	10,986	(P)
Consolidated payout ratio (%)	23.7	34.4	24.9	48.3	(P)

Note: Annual cash dividends per share and annual dividends for the 118th Business Term (current term) are predicated on the approval of this item at the ordinary general meeting of shareholders to be held on March 27, 2018.

## **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 seven (7) 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 in page 44 to 45 and the entire criteria is listed as a discretionary disclosure item relating to the business report on the Company website under "Investors / General Meeting of Shareholders / Corporate Governance / General Meeting of Shareholders / Notice of Convocation: the 118th Ordinary General Meeting of Shareholders" (<http://www.shiseidogroup.com/ir/account/shareholder/>).

## Candidates for Directors

No.	Name	Current Position and Responsibilities, etc. at the Company	Attributes of the Candidate		
1	Masahiko Uotani	Representative Director President and CEO Chairman of the Board Member of Nomination Advisory Committee Member of Remuneration Advisory Committee			
2	Jun Aoki	Representative Director Corporate Executive Officer Chief People Officer (Human Resources, Executive and External Relations, Corporate Culture) Member of Compliance Committee Chairman of Shiseido Liyuan Cosmetics Co., Ltd.			
3	Yoichi Shimatani	Corporate Executive Officer Chief Research and Development Officer (R&D Strategy, GIC Integrated Operations, Cosmetics Value Development, Cosmetics R&D, Intellectual Property, Advanced Research, Incubation, Safety & Analytics Research)	Candidate for New Director		
4	Yoko Ishikura	External Director Member of Nomination Advisory Committee Member of Remuneration Advisory Committee		Candidate for External Director	Candidate for Independent Director
5	Shinsaku Iwahara	–	Candidate for New Director	Candidate for External Director	Candidate for Independent Director
6	Kanoko Oishi	External Director Member of Nomination Advisory Committee Member of Remuneration Advisory Committee		Candidate for External Director	Candidate for Independent Director

## Candidates for Directors

### 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 of Kraft Japan Limited (currently Mondelez Japan Limited)
- May 1994: Director, Executive Vice President and Chief Officer of Marketing of Coca-Cola (Japan) Co., Ltd.
- Oct. 2001: Representative Director, President of Coca-Cola (Japan) Co., Ltd. (Global Officer)
- Aug. 2006: Representative Director, Chairman of Coca-Cola (Japan) Co., Ltd.
- Jun. 2007: Representative Director, Chief Executive Partner of BrandVision Inc.
- Aug. 2011: Outside Director of ASKUL Corporation
- Oct. 2012: Director of Citibank Japan Ltd. (part time)
- Apr. 2013: Outside Chief Marketing Advisor of the Company
- Apr. 2014: President and CEO of the Company [incumbent]  
Chairman of CSR Committee of the Company
- Jun. 2014: Representative Director of the Company [incumbent]

#### Important Positions at Other Organizations Concurrently Held

None

#### Reasons for Nomination of the Candidate for Director

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

In fiscal 2017, he continuously exerted his strong leadership, and guided by the VISION 2020 medium- to long-term strategy, he worked to realize the vision of "From a Leader in Japan to a Winner Worldwide." To that end, he aimed to accelerate sales growth by undertaking bold structural reforms. He also pursued business selection and concentration, and further reinforced investments in areas where substantial results could be expected and in human resources to support overall reforms. As a result of these activities, the Company steadily regained earning power.

Due to these facts and the leadership that will enable him to pursue the three-year plan from fiscal 2018, the Board of Directors has continuously selected him as a candidate for director.

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

- Experience and knowledge to the competent extent on overall management
- Experience and knowledge to the competent extent on sales and marketing
- Experience and knowledge to the competent extent on international business

#### Special Interest between the Candidate and the Company

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

- Number of shares of the Company owned  
15,400 Shares
- Number of years in office of the Company as 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, 2017  
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, 2017  
6 out of 7 Nomination Advisory Committee meetings (85.7%)
- Number of attendance at the Remuneration Advisory Committee meetings of the Company for the fiscal year ended December 31, 2017  
8 out of 8 Remuneration Advisory Committee meetings (100%)

**Message from the President**

In the VISION 2020 medium- to long-term strategy, which aims for the transformation of the Company “From a Leader in Japan to a Winner Worldwide,” the former half spanning three years for rebuilding the business foundation has come to an end. Various efforts to enhance the brand value in the prestige category and other areas have been yielding results. In the three-year period starting in fiscal 2018 as the latter half aimed at implementing a new strategy to accelerate growth, we will further speed up the growth achieved in the first three years and work to establish a foundation to keep producing value in the long term, and we will undertake the mandate given by our shareholders.

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



- Number of shares of the Company owned  
1,000 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, 2017  
14 out of 14 Board of Directors meetings  
(100%)

### Important Positions at Other Organizations Concurrently Held

None

### Reasons for Nomination of the Candidate for Director

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

Due to these facts the Board of Directors has 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 the competent extent on human resources and personnel management
- Experience and knowledge to the competent extent on international business

### Special Interest between the Candidate and the Company

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

### 3. Yoichi Shimatani (Date of birth: August 11, 1956) Candidate for New Director



#### Career Summary, and Position and Responsibilities at the Company

- Apr. 1979: Joined the Company
- Jan. 2004: Director and President of 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 and Development of the Company
- Apr. 2015: Corporate Executive Officer of the Company  
Chief Research and Development Officer of the Company [incumbent]
- 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]

- Number of shares of the Company owned  
5,300 Shares
- Number of years in office of the Company as Director  
—
- Number of attendance at the Board of Directors meetings of the Company for the fiscal year ended December 31, 2017  
—

#### 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 newly selected him as a candidate for director.

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

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

#### Special Interest between the Candidate and the Company

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

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

Candidate for External Director

Candidate for Independent Director



##### Career Summary, and Position and Responsibilities at the Company

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

##### Important Positions at Other Organizations Concurrently Held

- Outside Director, Nissin Food Holdings Co., Ltd.\*
- Outside Director, Sojitz Corporation\*
- Professor Emeritus, Hitotsubashi University
- (\* indicates a listed company)

##### Reasons for Nomination of the Candidate for External Director

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

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

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

She has not participated in management of companies other than as external director and audit & supervisory board member. For the reasons stated above, however, the Company is of an opinion that she would be able to 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 on international politics and economics
- Professional knowledge on international corporate strategy
- Experience and knowledge to the competent extent on corporate governance

##### Special Interest between the Candidate and the Company

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

- Number of shares of the Company owned  
900 Shares
- Number of years in office of the Company as External Director  
2 Years and 9 Months
- Number of attendance at the Board of Directors meetings of the Company for the fiscal year ended December 31, 2017  
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, 2017  
7 out of 7 Nomination Advisory Committee meetings (100%)
- Number of attendance at the Remuneration Advisory Committee meetings of the Company for the fiscal year ended December 31, 2017  
8 out of 8 Remuneration Advisory Committee meetings  
(100%)

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, 2017
				Less than 1%	Consolidated net sales of Nissin Food Co., Ltd. for the fiscal year ended March 31, 2017
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, 2017
				Less than 1%	Total amount of operating revenues of the Sojitz Corporation on a consolidated basis for the fiscal year ended March 31, 2017

## 5. Shinsaku Iwahara

(Date of birth: December 17, 1952)

Candidate for New Director

Candidate for External Director

Candidate for Independent Director



### 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]  
 Jan. 2015: Member and Chairman, Financial System Council, Financial Services Agency [incumbent]  
 Jul. 2017: Adviser to Mori Hamada & Matsumoto [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.

Mr. Iwahara has professional knowledge and experience as an expert in corporate governance, and by appointing him as an external director, the Company believes that the effectiveness of its Board of Directors can be further increased.

He has not participated in management of companies other than as external director and audit & supervisory board member. For the reasons stated above, however, the Company is of an opinion that he would be able to achieve adequately the role of external director. Accordingly, the Board of Directors has decided to newly select him as a candidate for external director.

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 on legal matters
- Professional knowledge on corporate governance

### Special Interest between the Candidate and the Company

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

- Number of shares of the Company owned  
0 Shares
- Number of years in office of the Company as Director  
—
- Number of attendance at the Board of Directors meetings of the Company for the fiscal year ended December 31, 2017  
—

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

Candidate for External Director  
Candidate for Independent Director



### Career Summary, and Position and Responsibilities at the Company

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

### Important Positions at Other Organizations Concurrently Held

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

### Reasons for Nomination of the Candidate for External Director

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

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

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

For the reasons stated above, the Company is of an opinion that she would be able to 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 the competent extent on overall management
- Experience and knowledge to the competent extent on healthcare industry
- Experience and knowledge to the competent extent on corporate governance

- Number of shares of the Company owned  
1,000 Shares
- Number of years in office of the Company as External Director  
2 Years
- Number of attendance at the Board of Directors meetings of the Company for the fiscal year ended December 31, 2017  
16 out of 18 Board of Directors meetings (88.8%)
- Number of attendance at the Nomination Advisory Committee meetings of the Company for the fiscal year ended December 31, 2017  
7 out of 7 Nomination Advisory Committee meeting (100%)
- Number at attendance of the Remuneration Advisory Committee meetings of the Company for the fiscal year ended December 31, 2017  
8 out of 8 Remuneration Advisory Committee meetings (100%)

### Special Interest between the Candidate and the Company

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

Organization where Concurrent Position is Held	Transaction Matter, etc.	Vendor, Recipient of Supporting Money, etc.	Purchaser, Provider of Supporting Money, etc.	Percentage of Transaction Value	Value for Comparison
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, 2017
				Less than 1%	Consolidated net sales of Ezaki Glico for the fiscal year ended March 31, 2017
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, 2017
				Less than 1%	Cost of sales of Santen on a consolidated basis for the fiscal year ended March 31, 2017

#### Notes:

##### 1. Conclusion of liability limiting agreement

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

Pursuant to these provisions the Company has entered into such agreement with each of Ms. Yoko Ishikura, Mr. Shoichiro Iwata, Ms. Kanoko Oishi and Mr. Tatsuo Uemura, under which his/her liability for compensation of damages is limited to the minimum limited liability amount provided in the laws and regulations. Upon appointment at this ordinary general meeting of shareholders, the Company and Mr. Shinsaku Iwahara will enter into an agreement limiting his liability, under which his liability for compensation of damages is limited to the minimum limited liability amount provided in the laws and regulations.

##### 2. Independent Directors

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

##### 3. Presentation of name

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

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

The term of office of full-time audit & supervisory board member, Mr. Yoshinori Nishimura will expire at the conclusion of this ordinary general meeting of shareholders. Accordingly, it is proposed that one (1) audit & supervisory board member be elected.

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

**Policy and Process under Which the Candidates for Audit & Supervisory Board Member Are Selected**

Taking into consideration the importance of audit and roles of audit & supervisory board members for the corporate management, and the personality and knowledge of a candidate therefor, representative directors of the Company select an adequate person as a candidate and the Company receives a report from the Nomination Advisory Committee on whether or not the candidate is adequate. Then the Board of Directors determines the candidate for audit & supervisory board member upon receiving consent of the Audit & Supervisory Board on submitting a proposal for the election to the ordinary general meeting of shareholders.

## Candidate for Audit & Supervisory Board Member

**Takeshi Yoshida** (Date of birth: October 4, 1961)

New Candidate



### Career Summary and Position at the Company

- Aug. 1985: Joined Okura Keiei Keiri Gakuin Co., Ltd.
- Feb. 1992: Joined the Company
- Apr. 2009: General Manager of Cosmetics Business Planning Department, General Manager of Business Administration Group, Cosmetics Business Planning Department
- Apr. 2011: Executive Vice President, Shiseido Americas Corporation
- Oct. 2014: Department Director, Internal Audit Department
- Jan. 2016: Department Director, Business Planning Department, Shiseido Japan Co., Ltd.
- Jan. 2017: Director, Personal Care Planning Dept., FT Shiseido Co., Ltd.
- Jan. 2018: Responsible for Executive and External Relations of the Company [incumbent]

- Number of shares of the Company owned  
2,800 Shares
- Number of years in office of the Company as External Audit & Supervisory Board Member

### Important Positions at Other Organizations Concurrently Held

None

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

Since joining the Company, Mr. Takeshi Yoshida has built up a career primarily in the field of personal care, and possesses a wealth of experience in the Cosmetics business in Japan and its administration as Department Director of the Cosmetics Business Planning Department. In addition, he led the Cosmetics business in the Americas as Executive Vice President of Shiseido Americas Corporation, the holding company in the Americas. He also contributed to stable business operation for the Group by focusing on internal control as the Department Director of the Company's Internal Audit Department.

Due to these facts the Board of Directors has newly selected him as a candidate for audit & supervisory board member.

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

- Experience and knowledge to the competent extent on finance and accounting
- Experience and knowledge to the competent extent on cosmetics and the related consumer goods industry
- Experience and knowledge on international business

- Number of attendance at the Board of Directors meetings of the Company for the fiscal year ended December 31, 2017
- Number of attendance at the Audit & Supervisory Board Members meetings of the Company for the fiscal year ended December 31, 2017

### Special Interest between the Candidate and the Company

There is no special interest between Mr. Takeshi Yoshida and the Company.

#### **Fourth Item of Business: Revision of the Amount of Compensation Payable to Members of the Board of Directors**

At the 89th ordinary general meeting of shareholders (June 29, 1989), shareholders resolved to approve a remuneration ceiling for the remuneration of the Company's directors of ¥30 million per month, and this provision has remained valid until present. In the system in use until present, the aforesaid remuneration ceiling has been treated as the maximum total amount for the basic remuneration of directors, and when bonuses have been paid to directors, the maximum amount for these have up until now been proposed for approval separately at the ordinary general meeting of shareholders. In this item of business, the Company is proposing to change the limit for the amount of remuneration to be paid to directors from a monthly amount to an annual amount, with the limit of this amount proposed to be in total ¥2.0 billion or less (including a total of ¥0.2 billion or less for external directors), and to change to a system of paying directors basic remuneration and bonuses within the aforesaid remuneration limit. Under a system whereby bonuses are paid to directors from the aforementioned remuneration limit, the Company intends to adopt bonuses that are linked to the performance of fiscal 2017. As performance-linked remuneration is an unsuitable model for paying remuneration to external directors, who are independent from business execution, external directors shall only be paid basic remuneration.

Under the Company's remuneration policy for directors, audit & supervisory board members and corporate officers, the amount paid for directors' bonuses is directly linked to annual performance evaluation of the directors eligible to receive payment. Up until now, quantitative and qualitative evaluation and verification thereof on the circumstances of execution of operations and duties and the resulting achievements over the one year period have been carried out in the space of a very short period of time after the end of the fiscal year to fit in with the schedule of the convocation proceedings for the general meeting of shareholders, and the bonus payment amounts have been proposed at the general meeting of shareholders after going through the procedures required by the Remuneration Advisory Committee and the Board of Directors. This item of business is being proposed in order to further improve the effectiveness of this performance evaluation and enable the evaluation and verification process be given sufficient time and be carried out with certainty. Moreover, the aforementioned remuneration ceiling has been proposed after giving comprehensive consideration to past remuneration paid, the levels paid by other companies, and the Company's policies, etc. with respect to increasing the number of directors and increasing the diversity of directors.

At the Company, efforts are ongoing to improve functions related to corporate governance and enhance the functions of the Remuneration Advisory Committee, the evaluation working group, and the Board of Directors. Under the current system, which is the result of such efforts, the Board of Directors makes the final decision on the specific amounts of bonus payments after reflecting on the ordinary senior management evaluation by the Remuneration Advisory Committee and the evaluation working group. It is the judgment of the Company that this system has led to improvement in the effectiveness of performance evaluation and it is a system that is consistent with contemporary societal demand for corporate governance reform. The Company will continue to fulfill its accountability to shareholders regarding the disclosure of remuneration for directors, audit & supervisory board members and corporate officers by disclosing the directors, audit & supervisory board members and corporate officers remuneration policy and the record of past payments in the Business Report and the Annual Securities Report.

Note that, as has been the case up until now, the proposed revised amount for directors' remuneration does not include the salary portion of directors who concurrently serve as employees of the Company.

Currently the number of directors of the Company is seven directors (including four 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).

#### **Basic Principle of Director Remuneration System, etc.**

The directors, audit & supervisory board members and corporate officers remuneration policy of the Company is established by the Remuneration Advisory Committee, which is chaired by an external director, to maintain objectivity and high transparency. Remuneration to directors, audit & supervisory board members and corporate officers of the Company consists of a basic remuneration and a performance-linked remuneration (annual bonus and the long-term incentive-type remuneration) that fluctuates depending on

the achievement of management targets and share price. The Company sets remuneration levels by making comparisons with companies in the same industry or of the same scale in Japan and overseas and by taking the Company's financial condition into consideration.

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

Directors, Audit & Supervisory Board Members and Corporate Officers Remuneration Policy by Fiscal 2017 is listed on the Company website under "Investors / General Meeting of Shareholders / Corporate Governance / General Meeting of Shareholders / Notice of Convocation: the 118th Ordinary General Meeting of Shareholders" (<http://www.shiseidogroup.com/ir/account/shareholder/>). Details of the new remuneration policy covering the Three-Year Plan for Fiscal 2018 through Fiscal 2020 is described from page 65 through page 69. In addition, Director basic remuneration paid in Fiscal 2017 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 63 through page 65.

### **Design of Basic Remuneration for Directors and Calculation Criteria, etc. for Annual Bonus**

The Company designs basic remuneration for each superiority level of role that is set according to each director's, audit & supervisory board member's or corporate officer's scale of the areas they are in charge of, their responsibilities, and the degree of impact that their actions have on the Group's management.

The Company has set evaluation items for the annual bonus linked to performance in accordance with the scope respective directors and corporate officers are in charge of, in addition to the achievement rate of target consolidated net sales and consolidated operating income as common performance indicators across directors and corporate officers. We set the individual performance evaluation of all directors and corporate officers in order to add the level of achievement against the strategic goals that cannot be measured by the financial performance figures alone, such as efforts for restructuring of the business platform to realize sustainable growth, to evaluation criteria. Under these calculation standards, the Board of Directors decides on a bonus payment upon receipt of a report from the Remuneration Advisory Committee. With respect to bonuses of the Representative Director, President and CEO, the Board of Directors decides on a bonus payment upon the Remuneration Advisory Committee having furnished a report which takes into account specifics of deliberations on overall performance evaluation encompassing individual performance evaluations performed by the evaluation working group which was established as a common deliberation body shared by the Nomination Advisory Committee and Remuneration Advisory Committee.

### **Importance of Personal Evaluation in Performance Evaluation**

In both the remuneration policy for directors, audit & supervisory board members and corporate officers from fiscal 2015 through fiscal 2017 and the new remuneration policy for directors, audit & supervisory board members and corporate officers for the Three-Year Plan for fiscal 2018 through fiscal 2020, we set the personal evaluation so that on top of evaluation criteria, we can add the personal level of achievement against the strategic goals that cannot be measured by the financial performance figures alone, such as efforts for restructuring of the business platform to realize sustainable growth. So that director bonuses can suitably fulfill the role of providing motivation to realize sound and sustainable corporate growth, the Company places importance on appropriately implementing a quantitative and qualitative evaluation and verification process relating to the personal evaluation.

**Fifth Item of Business: Determination of Provision of Long-Term Incentive Type Remuneration to Directors**

This Item of Business is related to the long-term incentive type remuneration of the Company's performance-linked remunerations. Under this long-term incentive type remuneration, shares instead of cash will be provided to directors as remuneration. For this purpose, stock acquisition rights with the exercise price of ¥1 per share will be provided to directors as stock option.

The Company proposes to provide stock acquisition rights to three (3) directors (excluding external directors and subject to approval of the Second Item of Business), as remuneration for the purpose of inducing directors to share with shareholders awareness of the Company's profit and risks through fluctuation of share prices and enhance their volition to improve results of operations and raise the share price of the Company, by linking the maximization of long-term shareholders' value with directors' remuneration.

For this purpose, the Company cordially requests shareholders to approve allotting as remuneration stock acquisition rights, of which details are stated below, to directors of the Company within a total amount of ¥240 million. The total amount of stock acquisition rights is an amount obtained by multiplying the fair value of stock acquisition right by the total number of stock acquisition rights (not more than 1,500) to be allotted.

Stock acquisition rights for allotment as stock options concerning this item of business will be allotted after the consolidated performance for fiscal 2018 is finalized. In the allotment of stock acquisition rights, the number to be allotted will be determined by the Board of Directors based on the level of achievement of consolidated performance targets for fiscal 2018 within the maximum number and the maximum amount subject to the approval of this proposal. In addition, stock acquisition rights to be allotted are subject to the terms and conditions described in (4) below, the number of exercisable stock acquisition rights are designed to fluctuate depending on the level of achievement of performance targets as described in (4) 2).

In connection with the grant of stock acquisition rights, the payment amount per stock acquisition right will be fair value of stock acquisition right and the Company will be deemed to provide directors with an amount equivalent to the payment amount (i.e., the claim for remuneration). Directors will set off the payment amount with the claim for remuneration.

The Company does not schedule to grant stock acquisition rights to external directors due to remuneration of external directors consisting of only fixed remuneration.

**(1) The Number of Shares Which May Be Issued upon Exercise of Stock Acquisition Rights:**

The number of shares which may be issued upon exercise of one stock acquisition right will be 100 ordinary shares (the "Subject Number of Shares").

In the event that the Company is subject to adjustment of the Subject Number of Shares such as in case of share split (including free distribution of the Company's common stock) or share consolidation, the Company may adjust the Subject Number of Shares to the reasonable extent.

**(2) An Amount Contributed upon Exercise of Stock Acquisition Rights:**

An object contributed upon exercise of stock acquisition rights shall be cash and the amount shall be obtained by multiplying ¥1, which is the exercise price per share, by the Subject Number of Shares.

**(3) Exercise Period of Stock Acquisition Rights:**

From September 1, 2021 to February 28, 2034

**(4) Terms and Conditions of the Exercise of Stock Acquisition Rights:**

- 1) Any grantee is required to be in the office of director or executive officer when he or she exercises stock acquisition rights; provided, however, that the foregoing shall not be applicable in case of resignation due to the termination of the term or any other due reason.
- 2) The other terms and conditions of exercise of stock acquisition rights will be provided for in the “grant agreement of stock acquisition rights” to be made between the grantee and the Company.

**(5) Restriction on a Transfer of Stock Acquisition Rights:**

Any transfer of stock acquisition rights shall be subject to approval of the Board of Directors of the Company.

**(6) Other Details of Stock Acquisition Rights**

The Board of Directors will determine through its resolution with respect to details of items (1) to (5) and matters not stated in items (1) to (5).

**Directors, Audit & Supervisory Board Members and Corporate Officers Remuneration Policy Aligned to the Three-Year Plan for Fiscal 2018 through Fiscal 2020**

The Company launched a new Three-Year plan starting fiscal 2018. Taking this opportunity, we implemented changes to the directors, audit & supervisory board members and corporate officers remuneration policy to make it more closely linked to performance and responsibility of respective directors and corporate officers, based on the notion of “corporate mission-linked pay.” For details of the new directors, audit & supervisory board members and corporate officers remuneration policy for fiscal 2018 through fiscal 2020, please refer to pages 65 to 69 herein.

**Long-Term Incentive Type Remuneration**

Of the performance-linked remuneration, the Company imposes terms and conditions regarding performance on stock compensation-type stock options as long-term incentive-type remuneration on two occasions when the stock acquisition rights are allotted and the exercise period of the stock acquisition rights allotted starts.

When actually allotting the stock acquisition rights after obtaining an approval for the maximum number of stock acquisition rights to be allotted at the general meeting of shareholders, the Company shall increase or decrease the number of stock acquisition rights to be granted ranging from 0 to the maximum number by using the evaluation indicators for annual bonus for the immediately preceding fiscal year. In addition, we have introduced a mechanism that when the stock acquisition right exercise period starts, the exercisable number of stock acquisition rights may be determined according to the consolidated performance and other track records up to the immediately preceding fiscal year in the range of 30% to 100% of the allotted number, and thereby strengthen it to function as incentives for improving medium- to long-term business performance and achieving the targets.

**[Terms and conditions regarding performance on long-term incentive-type remuneration]**

When stock acquisition rights are allotted

- Use the same indicators as used in calculating annual bonus to each officer. Indicators to be used are consolidated business performance (consolidated net sales, consolidated operating income and net income attributable to owners of parent), evaluation of performance of business of which respective officers are in charge, and personal evaluation.
- Determine the number of stock acquisition rights to be allotted through deliberation by the evaluation working group.

When the exercise period of the stock acquisition rights allotted starts

- Calculate the growth rate of operating income by comparing the operating income for the fiscal years preceding and following the fiscal year in which the stock acquisition rights allotment date is included.
- Calculate the growth rates of operating income for the same fiscal years as above of companies such as Kao Corporation (Japan), L’Oreal S.A. (France) and Estee Lauder Companies Inc. (U.S.A.), which are the leading cosmetic companies in Japan and overseas and have been designated in advance as companies to be compared with.
- Based on the comparison of the growth rates of operating income between the Company and the companies for comparison, decide the number of stock acquisition rights allotted to each director or corporate officer that are exercisable.

**Linkage with Long-Term Performance**

Since the long-term incentive type remuneration of the Company is a system to continually pay to the subject directors in office every year, directors are entitled to payment of the long-term incentive remuneration during the term of office by continuously assuming the office as directors due to execution of suitable management. Also, the exercise period of stock acquisition rights always commences on and after two years after being granted. As a result, the long-term incentive type remuneration works as at least incentive for periods of the term of office as directors in future, plus certain period of time before the exercise period of stock acquisition rights.

Accordingly, stock acquisition rights subject to this Item of Business will fully work as incentive to directors to be granted stock acquisition rights, in order to encourage them to improve the long-term performance and share price appreciation, but not result in management aiming only for the short-term business performance.

**Influence of Stock Acquisition Rights Subject to This Item of Business on the Total Number of Shares Outstanding Is as Follows:**

		Ratio to total outstanding of shares excluding treasury stock (As of December 31, 2017)
Number of subject shares (maximum number)	150,000 shares	0.03%
Number of shares to be issued upon exercise of stock acquisition rights as of December 31, 2017	500,500 shares	0.12%
Total	650,500 shares	0.16%

Note: The number of subject stock acquisition rights fluctuates due to the fair market value to be calculated. The maximum number, however, is 1,500.

- End -

Note: In Article 361 of the Companies Act of Japan, financial benefits receivable as a consideration for the execution of duties from the Company such as remuneration and bonus of directors are defined as “remuneration, etc.,” and the term “remuneration, etc.” stated in this item of business is synonymous with such definition.

## **Information 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 (<http://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 the Convocation: the 118th Ordinary General Meeting of Shareholders" (<http://www.shiseidogroup.com/ir/account/shareholder/>):
  2. Items voluntarily disclosed on the Company's website relating to business report:
    - "The 30 Largest Stockholdings of Publicly Listed Companies in the Amount on the Balance Sheet, Which the Company Holds for Purposes Other Than Realizing Direct Investment Gains"
    - "Criteria for Independence of External Directors and Audit & Supervisory Board Members"
    - "Criteria for "Important Concurrent Position" assumed by Company's directors, audit & supervisory board members and corporate officers"
    - "Criteria for Stating the Relationship between the Company and the Organizations in Which the Company's Directors and Audit & Supervisory Board Members Hold "Important Concurrent Positions"
    - "Remuneration, etc. to Directors and Audit & Supervisory Board Members (Directors, Audit & Supervisory Board Members and Corporate Officers Remuneration Policy by Fiscal 2017)"
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.  
(<http://www.shiseidogroup.com/ir/account/shareholder/>)