



ANNUAL REPORT 2018

Digest

Shiseido Company, Limited

[For the period ended December 31, 2018]

SHISEIDO

For the sake of better dialogue with all of our stakeholders, including our shareholders and investors, we have summarized our efforts within our annual report to further improve corporate value over the medium to long term, which we have disclosed on our corporate website.

This report, *Annual Report 2018 (Digest)*, is a compact version of the annual report that we have disclosed on our corporate website and was created for those who wish to view a printed copy of the report.

We hope that this report helps promote better dialogue with all of our stakeholders.



Full Version (Web)

<https://www.shiseidogroup.com/report/>

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Message from the CEO

Major Business Categories and Brands at a Glance

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Beauty Innovation Model

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- Research and Development / Production and Supply Structure

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> This Report



Digest Version (PDF)

https://www.shiseidogroup.com/report/pdf/anu_digest.pdf

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Further information can be found on our corporate website:



Corporate website <https://www.shiseidogroup.com/>



- > Investor Relations
- > Brands
- > Sustainability
- > Innovation
- > About Us
- > Beauty / Art

<https://www.shiseidogroup.com/ir/>

<https://www.shiseidogroup.com/brands/>

<https://www.shiseidogroup.com/sustainability/>

<https://www.shiseidogroup.com/rd/>

<https://www.shiseidogroup.com/company/>

<https://www.shiseidogroup.com/beauty-art/>



OUR DNA

OUR DNA is the very essence of Shiseido. It has been passed down since our founding in 1872, and to this day – for every employee – it is at the core of everything we do.

PEOPLE FIRST

DIVERSITY

SCIENCE & ART

JAPANESE AESTHETICS

UNCOMPROMISING
QUALITY

OMOTENASHI

OUR PRINCIPLES (TRUST 8)

OUR PRINCIPLES serve as the working principles that every Shiseido employee must follow. These eight working principles – known as “TRUST 8” – are based on the idea that mutual trust is the key to succeeding in OUR MISSION.

THINK BIG

TAKE RISKS

HANDS ON

COLLABORATE

BE OPEN

ACT WITH INTEGRITY

BE ACCOUNTABLE

APPLAUD SUCCESS



Realizing happiness for all, through beauty

Masahiko Uotani

Representative Director,
President and CEO

May 2019



Strengthening Key Strategies to Accelerate Growth

Today, Shiseido is well on its transformation journey to become a truly global company, having achieved our VISION 2020 sales and profit targets three years and two years respectively ahead of our original plan.

Accordingly, we have launched the New Three-Year Plan, which comprises five key strategies: "Further Focus on Core Brand Businesses," "Acceleration of Digitalization," "New Value Creation through Innovations," talent and organization development called "PEOPLE FIRST," and a "New Global Business Foundation" Enhancing Supply Chain Capabilities.

Under the new plan, we aim to further accelerate our growth. Our initiatives have resulted once again in all-time high net sales and operating profit in 2018. Going forward, we will continue fostering growth to achieve the new, upward revised goals of VISION 2020.

In addition, we are now working hard toward achieving 2 trillion yen in sales and 300 billion yen in operating profit as ambitious long-term targets.

Contributing to the Creation of a Better Society through Our Businesses

I strongly believe that we are not in the business of simply selling cosmetics. Our corporate value is a synergistic combination of economic and social values.

We are engaged in the social purpose of giving people of all genders the joy, confidence, empowerment, and happiness to live their best lives. In other words, we are also in the business of changing the world and making society a better place.

With this in mind, we have launched our new mission statement, "BEAUTY INNOVATIONS FOR A BETTER WORLD."

Shiseido has delivered constant innovations since its foundation by evolving in step with beauty itself. Through these innovations and many more to come, we are contributing to society and the people of the future. Meanwhile, the Shiseido Global Innovation Center that opened in April is our value creation hub. From here, we will ambitiously and aggressively introduce new advances in beauty.

I am committed to our vision, "Be a Global Winner with Our Japanese Heritage," to continue sustainable growth and be vital for the next 100 years. We will be a leader in innovation and evolve while serving the diverse needs and values of people around the world.

Thank you for your ongoing support in our journey.

A handwritten signature in black ink, appearing to read 'Uotani'.

Masahiko Uotani

Representative Director,
President and CEO

Major Business Categories and Brands at a Glance

Main Regions of Availability

 Japan	 China	 Asia Pacific	 Americas	 EMEA	 Travel Retail
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Prestige

High-priced, high-added-value products sold through counseling, mainly in department stores and specialty stores

Share of total sales

45%

YoY sales growth¹

+16%



SHISEIDO



Clé de Peau Beauté



NARS



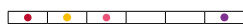
LAURA MERCIER



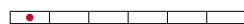
bareMinerals



IPSA



BENEFIQUE



Fragrance

High-priced fragrances created through collaboration with famous designers

Share of total sales

9%

YoY sales growth¹

+9%



Dolce&Gabbana



ISSEY MIYAKE



narciso rodriguez



¹ Local currency basis, excluding the impact of business transfers

² Hong Kong only

Note: In addition to our core business categories of Prestige, Fragrance, Cosmetics, Personal Care, and Professional, "Other" makes up 4% of sales. "Other" includes Shiseido Parlour and other businesses.

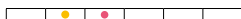
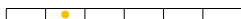
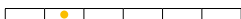
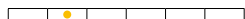
Mid- and low-priced cosmetics that consumers select themselves, primarily sold in drugstores and general merchandise stores. Counseling tailored to market, brand and channel characteristics also offered as needed

Share of total sales

31%

YoY sales growth¹

+12%



Personal Care

Low-priced skincare products, shampoo and other hair care products, as well as body care products, primarily sold in drugstores and general merchandise stores

Share of total sales

9%

YoY sales growth¹

+12%



Professional

Hair care and styling products, hair color products, perm products, and other products for hair salons

Share of total sales

2%

YoY sales growth¹

+4%



Facts & Figures

Net Sales

¥1,094.8 billion

YoY
↑ +8.9%

YoY on a local currency basis
↑ +8.8%

Organic net sales excl. impact of business transfer in 2018 and YoY change in LC
↑ +14%

Net sales grew 8.8% year on year on a local currency basis, driven by the prestige category which we continued to bolster strategic investments. On a yen basis, sales increased 8.9% year on year. In addition, net sales were up 14% year on year on an organic, local currency basis that excludes the impact of the business transfer carried out last year.

Operating Profit

¥108.4 billion

YoY
↑ +34.7%

Operating profit rose 34.7% year on year, due mainly to an increase in operating margin accompanying the growth in sales as well as the cost structure improvements that followed the strong performance of highly profitable prestige brands.

Operating Margin

9.9% YoY
↑ +1.9 percentage points

Accompanying the progress toward an ideal cost structure, the operating margin increased 1.9 percentage points year on year.

ROIC / ROE

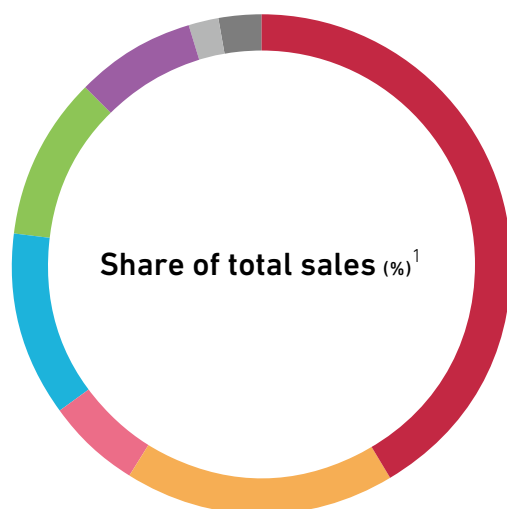
13.1%
FY2017 10.4%

14.1%
FY2017 5.6%

Following improvement in profitability, ROIC and ROE came to 13.1% and 14.1%, respectively, reaching the Company's 2020 targets two years ahead of schedule.

Net Sales by Business Segment¹

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



Japan

41.6%

Net Sales ¥454.6 billion

YoY + 9.0%

China

17.4%

Net Sales ¥190.8 billion

YoY + 32.3%

Asia Pacific

6.2%

Net Sales ¥68.1 billion

YoY + 13.1%

Americas

12.0%

Net Sales ¥131.7 billion

YoY - 0.4%¹

EMEA

10.3%

Net Sales ¥113.2 billion

YoY + 1.4%¹

Travel Retail

8.0%

Net Sales ¥87.6 billion

YoY + 35.4%

Professional

1.9%

Net Sales ¥20.3 billion

YoY - 57.7%

Other²

2.6%

Net Sales ¥28.5 billion

YoY + 0.8%

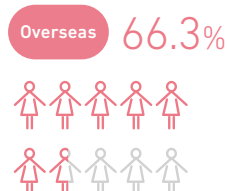
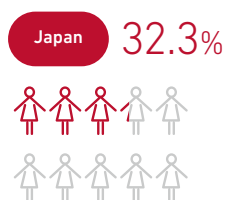
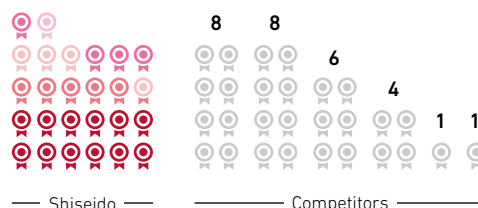
Countries and Regions Served

Approx. **120**Employees^{3, 4} /
Nationalities Employed⁴Approx. **46,000** /
Approx. **80**

Ranking in Japan and Asia

No.1Among Japanese /
Asian cosmetics
manufacturers for
annual sales in the
beauty category⁵WWD BEAUTY INC., THE 2018 TOP 100
(April 2019)Percentage of Female Leaders⁶

54.8%

Awards Received at IFSCC⁷ Congresses and Conferences⁸**26**

- Congress Award (Podium Presentation)
- Congress Poster Award
- Congress Award
- Conference Award (Podium Presentation)
- Conference Poster Award

> IFSCC Research Awards



1 Effective from 2018, the Company has revised its reportable segment classification method in line with the Group's internal management structure. As a result, the Asia Pacific-based fragrance business, which was previously recorded under the EMEA Business, is now recorded under the Asia Pacific Business; the Travel Retail fragrance business, which was also previously recorded under the EMEA Business, is now recorded under the Travel Retail Business; and the 2e and NAVISION businesses, which were previously recorded under the Other segment, are now recorded under the Japan Business. Some of the NARS, bareMinerals, and LAURA MERCIER product distribution operations conducted by distributors in each region, which were previously included in the Americas Business, are now included in the Asia Pacific Business, EMEA Business, and Travel Retail Business. In addition, the business results of IPSA Co., Ltd., which were previously included in the Japan Business, are now included in the Other segment. Year-on-year comparisons are stated in line with the new method of classification.

2 The Other segment includes head office administration departments, IPSA Co., Ltd., and manufacturing operations, as well as the activities of the Frontier Science business (cosmetic raw materials and pharmaceuticals), the Restaurant business, etc.

3 The number of employees includes full-time employees and temporary employees. Temporary employees include part-time workers. Dispatched employees are excluded.

4 As of January 1, 2019

5 Excluding food and daily necessities

6 As of December 31, 2018. This is the same definition for women in management positions as the one used by the Ministry of Health, Labour and Welfare.

7 Abbreviation for the International Federation of Societies of Cosmetic Chemists. The IFSCC is an organization that brings together cosmetic chemists from around the world in pursuit of cosmetic technology development that achieves greater functionality and safety.

8 As of December 2018

We will realize VISION 2020 and
enhance our presence as a global beauty company.

Since 2015, Shiseido has been making efforts under the medium-to-long-term strategy VISION 2020 in order to "Be a Global Winner with Our Heritage." In 2018, the Company embarked on the New Three-Year Plan of VISION 2020. With the New Three-Year Plan, which covers the period from 2018 to 2020, Shiseido has been promoting five key strategies, collectively referred to as "Building for the Future," aimed at achieving further growth.

Medium-to-Long-Term Strategy

VISION 2020



Overview of the New Three-Year Plan

2018-2020 Five Key Strategies: **Building for the Future**

- 1 Further Selection and Concentration of Brand Businesses
- 2 Acceleration of Digitization and New Business Development
- 3 New Value Creation through Innovation
- 4 Talent and Organization Development to Be a Global Winner: "PEOPLE FIRST"
- 5 New Global Management Model



2018 Results

Record Highs for Net Sales, Operating Profit, and Net Profit

Regarding our consolidated business performance in 2018, net sales rose 8.9% year on year, to ¥1,094.8 billion. On an organic basis that excludes such factors as the impact of the sales of Zotos International, Inc. in the previous year, net sales were up 14%, marking the second consecutive year of double-digit sales growth. In addition, operating profit grew significantly, up 34.7%, surpassing ¥100 billion for the first time in company history. Net profit surged 169.9%, to a record-high ¥61.4 billion, due to the absence of the impact of an impairment loss on intangible assets and other assets of Bare Escentuals, Inc., which was recorded in the previous year.

We have been accelerating our investment in our prestige brands. Among these brands, eight core brands have been driving robust growth, including "Made in Japan" brands, *ELIXIR* and *ANESSA*.

2018 Executive Summary

	(Billions of yen)	YoY change
Net Sales	1,094.8	+8.9% (Organic net sales YoY change +14%)
Operating Profit	108.4	+34.7%
Operating Margin	9.9%	+1.9 percentage points
Ordinary Profit	109.5	+36.3%
Extraordinary Income/Loss (Net)	-5.2	
Net Profit Attributable to Owners of Parent	61.4	+169.9%

Continuing to Realize Growth from 2019 Onward

In 2019, we aim for a net sales increase of 9% (local currency basis), to ¥1,172.0 billion, and an operating profit increase of 10.8%, to ¥120.0 billion.

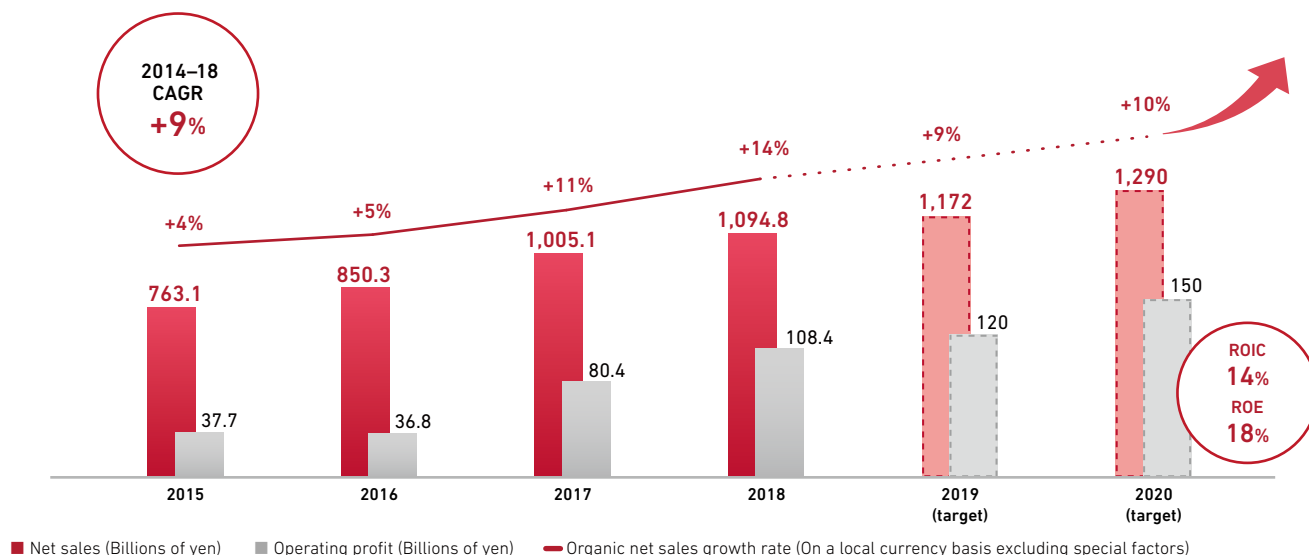
The outlook for the global economy in 2019 remains unclear due to the trade friction between the United States and China, among other factors. Amid such circumstances, we will bolster investment so that we are able to deliver sustainable growth not just in 2019 but in 2020 and beyond as well. Furthermore, by accurately monitoring the market environment, we will evolve to an organization that can grasp market changes in a prompt and flexible manner. We will also make efforts to reinforce our business foundation over the long term through bold investments as well as strengthening our P/L management and promoting management with a sense of urgency.

At the same time as our forecast for 2019, we have made upward revisions to our original targets for 2020. By 2020, we now target net sales of ¥1,290.0 billion, operating profit of ¥150.0 billion, and an operating margin of 11.6%.

2019 Full-Year Forecast

	(Billions of yen)	YoY change
Net Sales	1,172	+7.0% (YoY on a LC basis +9%)
Operating Profit	120	+10.8%
Ordinary Profit	120	+9.6%
Extraordinary Income/Loss (Net)	-2.5	
Net Profit Attributable to Owners of Parent	75.5	+23.0%

Securing Sustainable Growth



A Global Research and Development Structure for Creating New Value

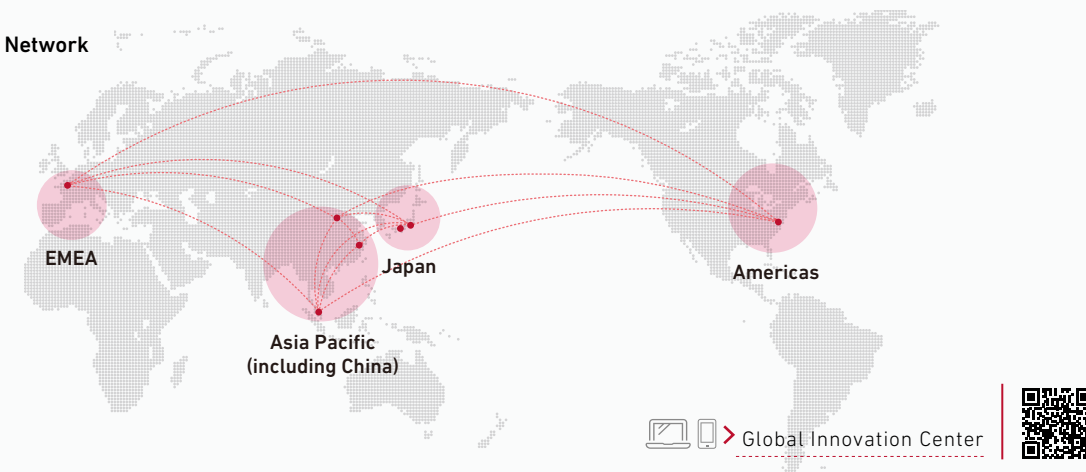
Shiseido has created new products, services, and markets by combining extensive insight and a wide variety of technologies cultivated over the nearly 100 years since its establishment with the creative ideas of researchers. This innovation for beauty creation provides us with a unique strength.

In April 2019, we opened the Shiseido Global Innovation Center (hereinafter, "GIC") in Japan. This new research center acts as an "urban open lab" for the creation of optimal value that integrates various kinds of insight, information, and technologies from cutting-edge research facilities and other industries in Japan and overseas. By doing so, the

GIC realizes innovation that goes beyond national and industrial boundaries. Going forward, we will promote a "hub-and-spoke network" centering on the GIC in Japan, which serves as a base for fundamental research and connects our research facilities around the world, which are pursuing value creation to meet local needs. Through this network, we will centralize global consumers and technology information and communicate new value to the world.

Particularly in recent years, we have been moving forward with the development of new domains, including personalization.

R&D Global Network



A Supply Chain That Supports Global Growth

Working to achieve our medium-to-long-term strategy, VISION 2020, we have taken steps to strengthen our competitiveness. As a result, we are experiencing increasing demand in Japan and markets around the world. In order to meet this growth in domestic and overseas demand, we are making efforts to strengthen our production system over the medium to long term.

To that end, we are currently building three new factories: the Nasu Factory, which is slated to begin operations by the end of 2019; the Osaka Ibaraki Factory, which is scheduled to be completed by the end of 2020; and the Fukuoka Kurume Factory. The Fukuoka Kurume Factory will serve as a next-generation factory in which we introduce cutting-edge facilities that leverages IoT. Construction of this factory is slated for completion at the end of 2021. The construction of the

factory in Fukuoka Kurume will also help us strengthen our BCP (Business Continuity Planning) response capabilities, while at the same time realize a production structure with even greater stability.

After Fukuoka Kurume Factory begins operations in 2021, our production structure will have grown to six domestic factories. Through collaboration between these six factories, we will realize an even more flexible and stable production structure in which we can swiftly shift production between factories in the event of a dramatic change in demand. Going forward, we will share and pass on our long-cultivated craftsmanship techniques at each factory. We will also work to enhance these techniques through the use of cutting-edge technologies.

Global Production Sites



Strategy by Region

Six Regional Headquarters and Our Global Management Structure



Shigekazu Sugiyama

President and CEO,
Shiseido Japan

Masahiko Uotani

Shiseido Group CEO

Kentaro Fujiwara

President and CEO,
Shiseido China

Jean-Philippe Charrier

President and CEO,
Shiseido Asia Pacific

Marc Rey

President and CEO,
Shiseido Americas

Franck Marilly

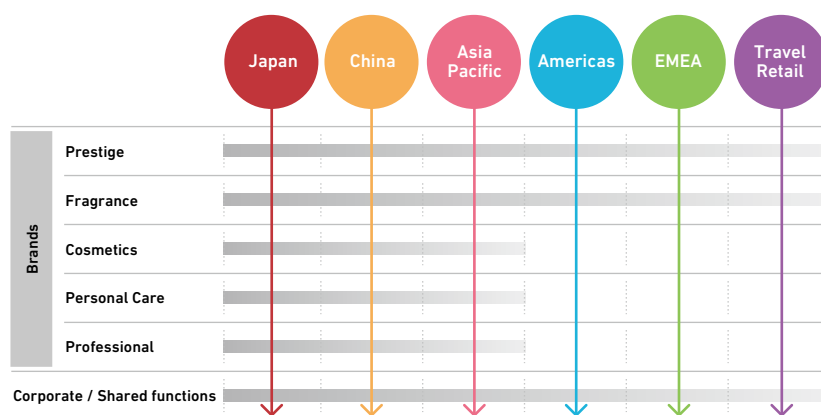
President and CEO,
Shiseido EMEA

Philippe Lesné

President and CEO,
Shiseido Travel Retail

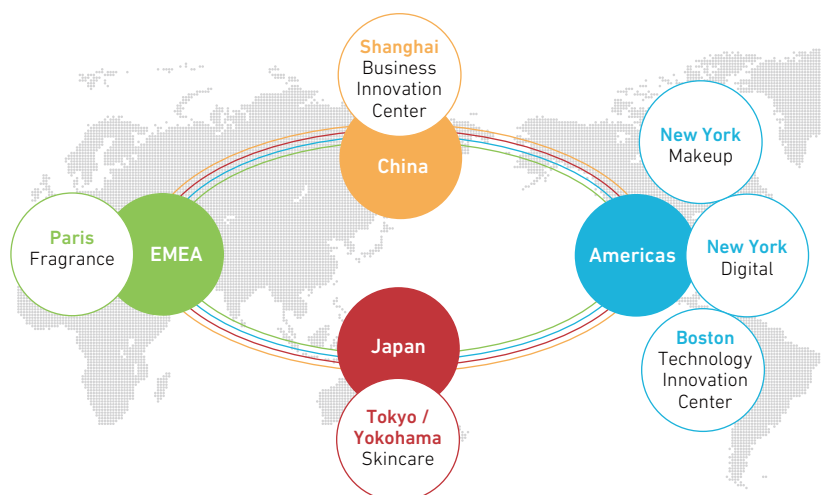
Region × Brand Matrix Organization

In 2016, we introduced a matrix organization that cross-matches six regions with five brand categories. The regional headquarters are responsible for and have authority over their respective businesses and, guided by a “Think Global, Act Local” approach, these headquarters implement marketing activities attuned to the needs of local consumers and flexible decision-making.



Centers of Excellence

At our Centers of Excellence, which contribute to future value creation, we collect information from regions that lead the way in each domain and conduct research accordingly. For example, we take the lead role on skincare in Japan, makeup and digital technologies in the Americas, and fragrances in EMEA. In this manner, we are leading the way in terms of formulating global strategies and product development. Going forward, we will share the knowledge we obtain at each Center of Excellence around the world.



Japan Business

Achieving the No. 1 Position in Japan

Review and Results of 2018

Although the cosmetics market in Japan has only grown at an annual rate of 1%, we realized 11% year-on-year sales growth at stores, allowing us to greatly expand our share in this market. Marketing investment in core areas contributed to this growth, while various brands such as *SHISEIDO*, which saw a renewal of the serum *Ultimune*, and *ELIXIR*, which saw a favorable performance in lotions and moisturizers, realized robust growth. In addition, we were able to firmly capture inbound demand by strengthening our cross-border marketing, which focuses on Japan, China, and Travel Retail as a single market.

Net Sales ¥454.6 billion
(YoY +9.0%)

Operating Profit ¥91.4 billion
(YoY +16.9%)

Operating Margin 18.8%

Vision 2020 Strategies



To solidify the No. 1 position in the Japanese market, we will continue to step up marketing investment in core brands such as *SHISEIDO* and *ELIXIR* as well as in the skin trinity category (skincare, base makeup, and sun care).

Furthermore, we will aim to create new markets by developing and introducing innovative products. By further promoting cross-border marketing through offering multi-lingual support at our stores, we will continue to capture inbound demand going forward, which is on an expansion trend.

China Business

Continuing Dramatic Growth through Aggressive Investment

Review and Results of 2018

Through aggressive marketing investment, our cosmetic brands in the China Business, including prestige brands such as *SHISEIDO* and *Clé de Peau Beauté*, and "Made in Japan" cosmetic brands such as *ELIXIR* and *ANESSA*, achieved significant growth. In addition, we realized substantial growth for our e-commerce channels by strengthening our digital marketing and collaboration with key digital players. For local Chinese brands, *AUPRES* continued to see growth, while profitability of *Za* improved thanks to our business structural reforms.

Net Sales ¥190.8 billion
(YoY +32.3%)
(YoY on a LC basis +32.3%)

Operating Profit ¥24.5 billion
(YoY +116.4%)

Operating Margin 12.8%

Vision 2020 Strategies



We will continue to reinforce marketing investment with a view to maintain and accelerate our growth in China. In particular, we will bolster our brand equity focused on *SHISEIDO*, *Clé de Peau Beauté*, *IPSA*, and others with the aim of speeding up growth in the prestige business.

Furthermore, we will ramp up investment in digital marketing and e-commerce. Going forward, we will continue to realize growth in China through such means as establishing a strategic team in Hangzhou together with a major e-commerce platformer with which we currently collaborate.

Asia Pacific Business

Accelerating the Growth of Prestige Brands and Cosmetics / Personal Care Brands

Review and Results of 2018

Prestige brands achieved significant growth, mainly in South Korea and Thailand. In particular, in the ASEAN region, we gradually expanded the opening of free-standing stores for our prestige brands, which contributed to solid sales growth. For cosmetics/personal care brands, we strengthened marketing activities that cater to consumer preferences and lifestyles, which differ by country and region. We also realized significant growth of *ANESSA* and *SENKA*, the latter of which includes products exclusive to Asia.

Net Sales ¥68.1 billion
(YoY +13.9%)
(YoY on a LC basis +13.1%)

Operating Profit ¥7.8 billion
(YoY +8.7%)

Operating Margin 11.1%

Vision 2020 Strategies



We will work to strengthen prestige brands and "Made in Japan" cosmetics/personal care brands. In the prestige category, we will diversify our contact points with consumers, which had been centered on department stores, and further expand such channels as free-standing stores and e-commerce.

Additionally, in the cosmetics/personal care category, we will reinforce our portfolio of "Made in Japan" brands, which have earned a high reputation with local consumers. We will also continue further collaboration with major e-commerce platformers. Growth in the markets of the Asia Pacific region has been remarkable and is expected to continue in the future, and we will expand focus areas accordingly.

Americas Business

Strengthening Core Brands through Active Investment in Digital Domains

Review and Results of 2018

Through aggressive marketing investment, net sales in the Americas Business increased 4% on a local currency basis excluding the impact of business transfers. Prestige brands continued to realize growth, with a solid performance in the fragrance brand *Dolce&Gabbana* as well. Meanwhile, the closing of unprofitable stores for *bareMinerals* had a negative impact on sales. Operating loss increased due to such factors as the strengthening of active marketing investment and the increase in costs associated with reinforcing organization of the Centers of Excellence, which will contribute to value creation in the future.

Net Sales ¥131.7 billion

(YoY -1.8%)

(YoY on a LC basis -0.4%)

(Actual YoY change in LC* +4%)

Operating Loss -¥14.8 billion

Operating Margin -8.7%

Vision 2020 Strategies



other retail sites by collaborating with major e-commerce platformers, among other initiatives.

Also, through such efforts as enhancing sales growth and reducing fixed costs, we will promote a gradual return to profitability. In regard to *bareMinerals*, we expect to complete the closure of unprofitable stores during 2019.

To build a strong position in the U.S. market, we will continue to accelerate the growth of *NARS* and *LAURA MERCIER* while taking steps to reinforce *SHISEIDO* and *Clé de Peau Beauté*. In addition to our existing channels, we will work to bolster sales through our owned e-commerce as well as

> Americas Earnings Structure P.16

EMEA Business

Accelerating the Growth of *Dolce&Gabbana* through Increased Marketing Investment

Review and Results of 2018

With the aim of realizing sustainable growth, we strengthened marketing investment in *Dolce&Gabbana*, which achieved a solid performance. Skincare products under the *SHISEIDO* brand also performed well, allowing us to increase our share. The commercial businesses saw high single-digit growth for operating profit. Meanwhile, the EMEA business as a whole remained negative in income, with an operating loss of ¥8.0 billion, due to the strengthening of marketing investment in order to enhance our brand equity.

Net Sales ¥113.2 billion

(YoY +4.3%)

(YoY on a LC basis +1.4%)

(Actual YoY change in LC* +5%)

Operating Loss -¥8.0 billion

Operating Margin -6.4%

Vision 2020 Strategies



In fragrances, we will continue to expand investment centered on *Dolce&Gabbana*. For cosmetics, we will aim to increase the awareness and equity of our prestige brands. We will also reinforce the presence of *SHISEIDO*, *Clé de Peau Beauté*, *bareMinerals*, *NARS*, and *LAURA MERCIER*, as well as strive to improve profitability resulting from growth in sales.

> EMEA Earnings Structure P.16

Travel Retail Business

Strengthening Position in the Global Prestige Market

Review and Results of 2018

We actively carried out marketing investment for advertising at airports and other promotions. As a result, we realized continued solid growth for *SHISEIDO*, *Clé de Peau Beauté*, *NARS*, and *ANESSA*, primarily in Asia. With the aim of accelerating growth, we actively promoted marketing investment, introduced new brands, and worked to improve our retail excellence capabilities. In addition, we strengthened our relationships with major operators of duty-free stores around the world.

Net Sales ¥87.6 billion

(YoY +34.7%)

(YoY on a LC basis +35.4%)

(Actual YoY change in LC* +40%)

Operating Profit ¥17.6 billion

(YoY +17.0%)

Operating Margin 20.0%

Vision 2020 Strategies



We view the Travel Retail Business as one of our most important businesses. In this business, we are working to further strengthen our position in the global prestige market.

Specifically, in addition to core brands *SHISEIDO* and *Clé de Peau Beauté*, we will develop other

brands such as *IPSA*, *NARS*, and *LAURA MERCIER*. We will also strengthen the opening of stores to respond to the increase in demand. Through digital communication, we will reinforce marketing geared toward travelers. We will also establish partnerships with major operators and enhance our retail excellence capabilities. In these ways, we will aim for further growth.

* Excluding the impact of business transfers



Message from the CFO

Transforming to be a global leader and driving sustainable growth of Shiseido

Michael Coombs

Corporate Officer
Chief Financial Officer



My mission is to transform the Shiseido finance function into a team of highly talented and nimble business partners and catalysts for change. My team needs to be constantly seeking out best practices and opportunities to be better, driving the sustainable growth of our business as value-adding partners to our operations across the globe. We will actively influence the future direction of the Company by developing and supporting appropriate growth strategies, including M&A. Our success depends on how quickly we can deliver key information and insights to relevant leaders, in real-time, leveraging the very latest technology and industry thinking.

I plan to drive corporate value by facilitating the right dialogue around how we optimize our business structure and systems, ensuring that we drive appropriate standards and industry-leading practices across our global business. I am also committed to building the capability to dynamically segment our business and provide multiple dimensions as to how we view and measure our performance.

I will also seek to promote constructive dialogue with our shareholders while ensuring that we focus on relevant financial return indices. Striking the right balance between capital investment, optimizing dividends, and paying down debt will continue to be a strong area of focus.

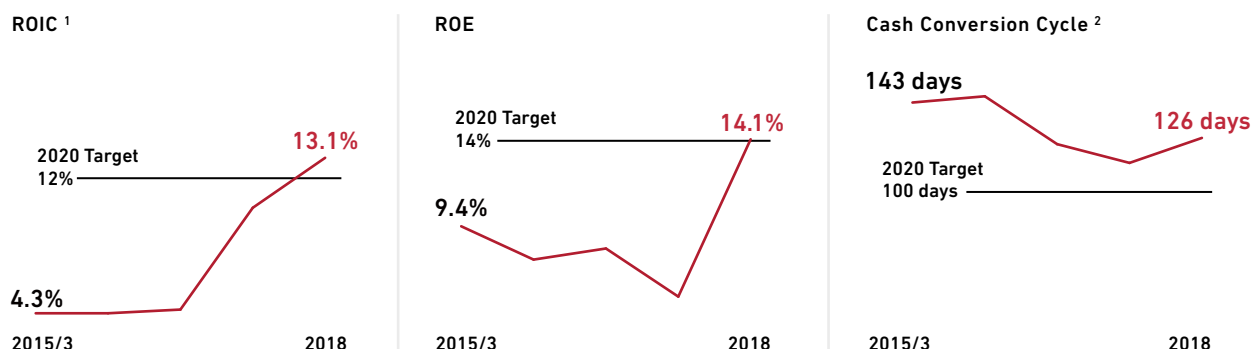
A stylized, handwritten signature in black ink that reads "M Coombs". The signature is fluid and cursive, with the first name "Michael" and last name "Coombs" clearly distinguishable.

Michael Coombs

Corporate Officer
Chief Financial Officer

Cash Flow Management to Increase Capital Efficiency

Reaching Our 2020 Targets for ROIC and ROE Two Years Ahead of Schedule



¹ ROIC (Return On Invested Capital) = Operating Income × (1 – Effective Tax Rate) / (Interest-bearing Debt + Equity)

² Cash Conversion Cycle (days) = Receivables Turnover Period (days) + Inventory Turnover (days) – Payables Turnover Period (days) (average of each indicator during the period is used)

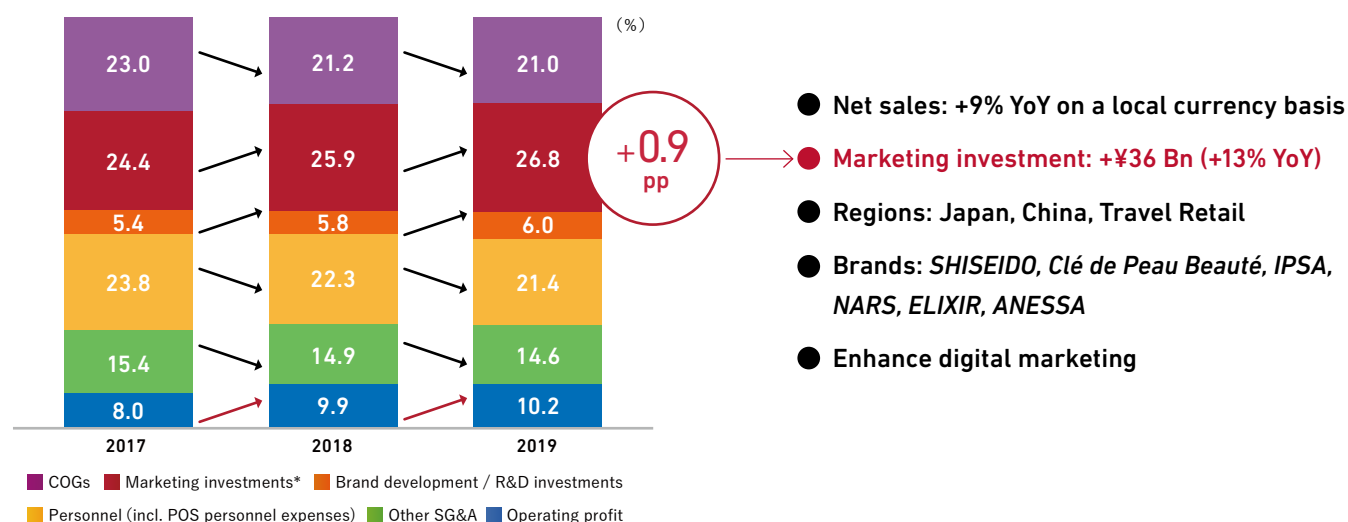
Our capital efficiency has improved significantly thanks to our robust business performance.

In 2018, we realized ROIC of 13.1% and ROE of 14.1%, thereby reaching our original 2020 targets for ROIC of 12% and ROE of 14%, both two years ahead of schedule. Meanwhile, we recorded a cash conversion cycle (CCC) of 126 days, which was longer than that of

the previous fiscal year, as we secured product and raw material inventories with the aim of minimizing out-of-stock situations. For 2020, we will strive to reach our CCC target of 100 days or less while continuing efforts to reduce SKUs and establish flexible production and supply capacity.

Moving Toward an Ideal Cost Structure

2019 Cost Structure Plan



* POS personnel and other expenses previously included as part of marketing investment have been reclassified as part of personnel expenses.

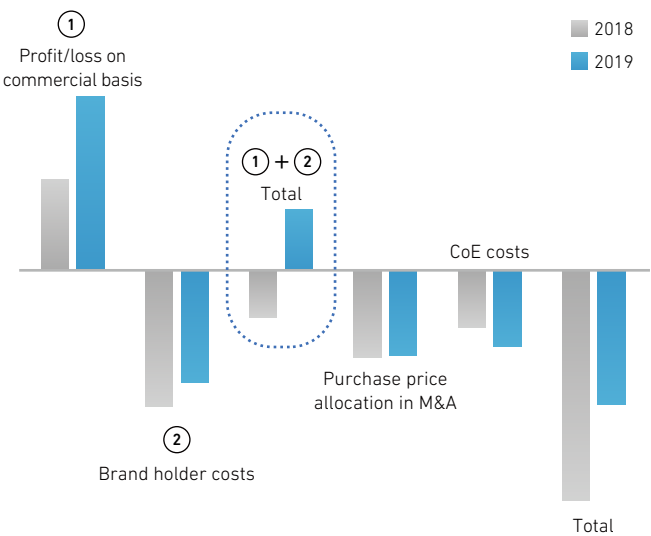
We are giving the utmost priority to maximizing profits through sustainable sales growth. In 2018, we continued to strengthen investment for growth in such areas as marketing and brand research and development. Also, in addition to revising our business portfolio, we realized sales increases centered on our prestige brands and skincare products, which have high profitability and high repeat purchase rates.

In this way, we significantly improved the cost of sales ratio. Furthermore, we are taking steps to appropriately control personnel and other SG&A expenses, which has also contributed to steady improvement in profitability.

In 2019, we will continue to aggressively invest in priority areas as we work to realize both sales growth and improved profitability.

Enhancing Profitability in the Americas and EMEA

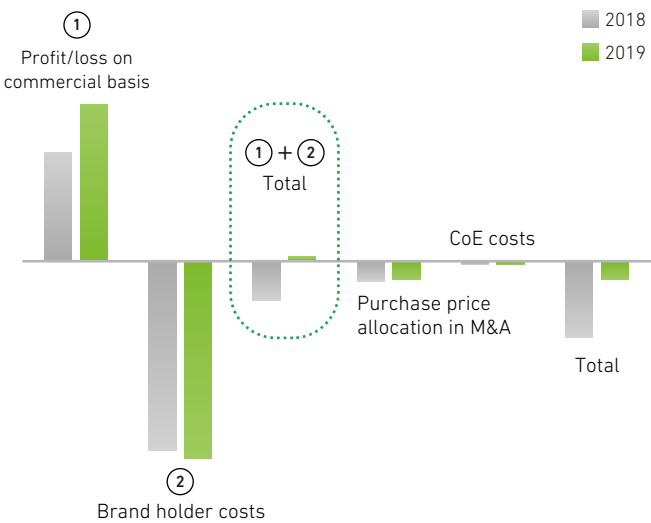
Americas Earnings Structure



To realize continuous growth, it is important that we steadily increase sales and enhance profitability from our commercial base. In both the Americas and EMEA, commercial based profits are positive (①). Meanwhile, total profit is low because of the large burden of brand holders cost related to *NARS*, *bareMinerals* and *LAURA MERCIER* in the Americas, and *Dolce&Gabbana* and other designer fragrance brands in EMEA (②). In 2019, we aim to increase profit based on the combined commercial profit and brand holder costs in each region (①+②).

Also, in order to expand further on a global scale, we will strengthen investment as a brand holder in brand development and

EMEA Earnings Structure



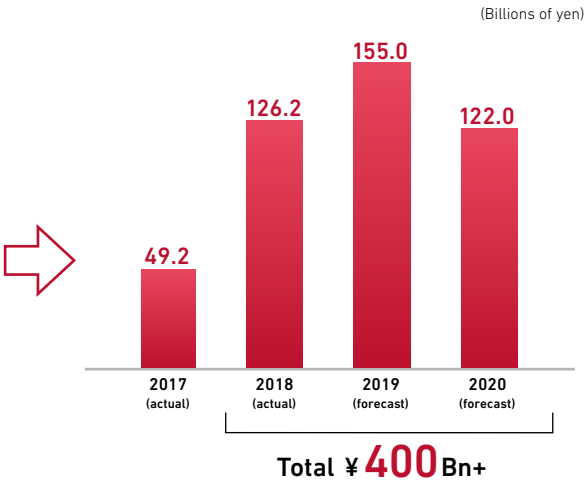
creative. Meanwhile, we will steadily raise ROI while working to shift investment toward digital marketing and strictly control the management of profits and losses by brand. At the same time, we will move forward with structural reforms to *bareMinerals* in the Americas.

Additionally, we will realize a robust cost structure by thoroughly managing fixed costs incurred at our regional headquarters in the Americas and EMEA. In 2020, we will aim for a double-digit operating margin on an organic basis that excludes such factors as amortization of goodwill recorded in the Americas and EMEA and cost related to Centers of Excellence, which are covered as a function of these headquarters.

Aggressive Investment for Sustainable Growth

Capital Expenditure Plan (2018–2020)

Supply chain	¥170 Bn+
R&D / Global Innovation Center	¥40 Bn+
Store counters	¥60 Bn+
Global IT	¥60 Bn+
Office-related	¥20 Bn+



Over the three-year period from 2018 to 2020, we plan to invest a cumulative total of over ¥400 billion. In particular, we will prioritize the strengthening of investment in supply chain management as we work to establish a supply capacity that can provide the appropriate amount of products at the appropriate time to respond to the

anticipated demand increases going forward. The funds for the majority of these investments will be coming from cash inflows generated from our core businesses and interest-bearing debt funding that leverages our financial structure, which we have gradually improved over time.

Our Vision for the Balance Sheet

To swiftly and decisively carry out investment for sustainable growth in a timely manner, we strive to maintain an appropriate level of shareholders' equity. To that end, we place emphasis on free cash flow and the CCC and are strengthening our cash flow and balance sheet management. In these ways, we are implementing management with a focus on capital efficiency.

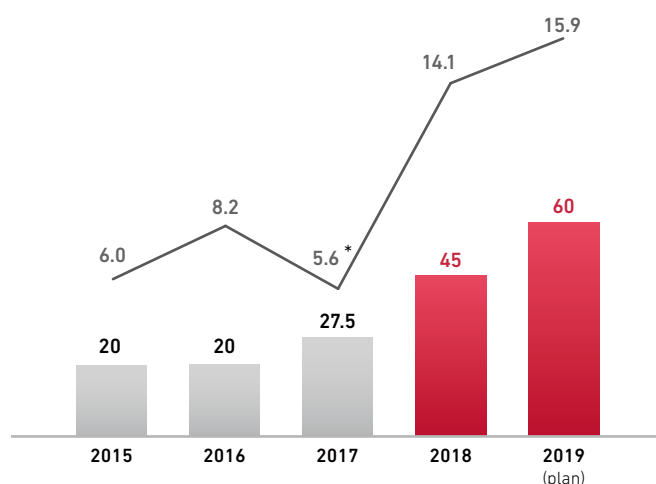
To ensure that we maintain a single-A credit rating, which allows us to raise funds under advantageous terms, we target a

debt-to-equity ratio of 0.3 and an interest-bearing debt to EBITDA ratio of 1.0. While doing so, we implement fund-raising activities that support future growth in a timely manner using optimal methods that give consideration to the market environment and other factors. However, to realize an optimal capital structure that helps further improve capital efficiency, we may periodically revise these targets, as well as our shareholder return policy, in consideration of profitability and our ability to generate cash flow.

Shareholder Return Policy

Realization of total returns comprising direct returns to shareholders and medium-to-long-term share price gains

Dividend per Share and ROE



■ Annual dividend per share (yen) — ROE (%)

* An impairment loss was recognized for Bare Escentuals, Inc.

In regard to the Company's shareholder return policy, we aim for total returns that comprise direct returns of profits to shareholders and medium-to-long-term share price gains. Based on this approach, we will emphasize strategic investment toward sustainable growth and aim to maximize corporate value. Meanwhile, we will adopt a basic approach of enhancing invested capital efficiency while considering the cost of capital, in order to increase dividends and share price over the medium to long term. In determining dividends, we will focus on our consolidated business results and free

cash flow as we work to realize stable and continuous shareholder returns over the long term that target a DOE (dividend on equity) ratio—which is a measure of capital policy—of 2.5% or higher. Also, we maintain an approach of flexibly buying back shares with consideration for the market environment. Guided by the above approaches, in 2019 we will increase our annual dividend per share to ¥60, the highest level ever. Through this dividend, we will expand our shareholder returns.

Fiscal 2019 dividend (plan)

Increase to **¥60** per share

- **Emphasis on consolidated business results and free cash flow**
- **Long-term, stable, and continuous dividend increase targeting DOE* of 2.5% or higher**

* Dividend on equity = ROE x Dividend payout ratio

Realizing a Sustainable Society through Social Value Creation

Jun Aoki

Director
Executive Corporate Officer



The Key to Sustainability is Creating Social Value

The Shiseido Group views consumer value as the starting point for all of its activities and has been proactively investing in marketing and innovation activities, as well as in the human resources that support these activities. By doing so, the Group has realized a recovery in performance that has far exceeded expectations.

Through these efforts, we have steadily created social value by providing products and services that resolve consumers' skin concerns. We believe that this social value creation is precisely what has allowed us to significantly improve our economic value.

As we celebrate our 147-year anniversary as a company, we aim to carry on the values and traditions that we have received from our predecessors for the next 100 years. To do so, the economic value that we create must be supported by social value to a greater extent than ever before.

Important stakeholders of the Company include the younger generation, who will oversee the future, as well as consumers, business partners, employees, and shareholders and other investors. These stakeholders need Shiseido to be an organization that values them from a medium-to-long-term perspective and creates meaningful value for society. They also need Shiseido to be a company that has the power to change the world. Furthermore, we recognize society and the global environment in which we exist are the stakeholders that we should value the most.

BEAUTY INNOVATIONS FOR A BETTER WORLD

Creating an Even Better Society

In 2019, we established our new corporate mission, "BEAUTY INNOVATIONS FOR A BETTER WORLD," in order to further commit ourselves to realizing a better society.

The name Shiseido comes from a passage in the ancient Chinese divination text *I Ching*. The passage reads, "Praise the virtues of the earth, that is where anything and everything is born from." In this way, the name Shiseido means to love and respect the earth, the global environment, and society.

Arinobu Fukuhara, the founder of Shiseido, aimed to enrich the lives of Japanese citizens by introducing new values originating from the West. In addition, Shinzo Fukuhara, the first president of Shiseido, laid the foundation for what the Company is today when he started a cosmetics business that perceived the advanced value being created in Western Europe from a distinctly Japanese point of view. The Company's existence today represents the results of our strong desire to create an enriched society.

Relevant SDGs and ESG Management as a Beauty Company

After establishing our new corporate mission, we gave consideration to a framework for creating social value as a beauty company that relates closely to this new mission. We believe that actions which are deeply rooted in the characteristics and strengths of our businesses will naturally become our core operations as a company.

Based on interviews and discussions with all of our stakeholders, we categorized issues from two perspectives: impact on society and impact on the Company's businesses. We then established an order of priority and selected 18 materiality issues. In addition, with our core focus on beauty, we redefined our definition of social value from the perspectives of the environment, society, and culture (ESC).

Social Value Creation Division Leads Activities Company-Wide

As made clear by the key domains of our activities, social value creation is not simply giving back a share of profits to society when profit increases. Social value creation is something all functions and divisions of the Company are constantly aware of and work to achieve through their activities. It is also something that is implemented across all divisions, from our brand and local sales divisions to our corporate divisions.

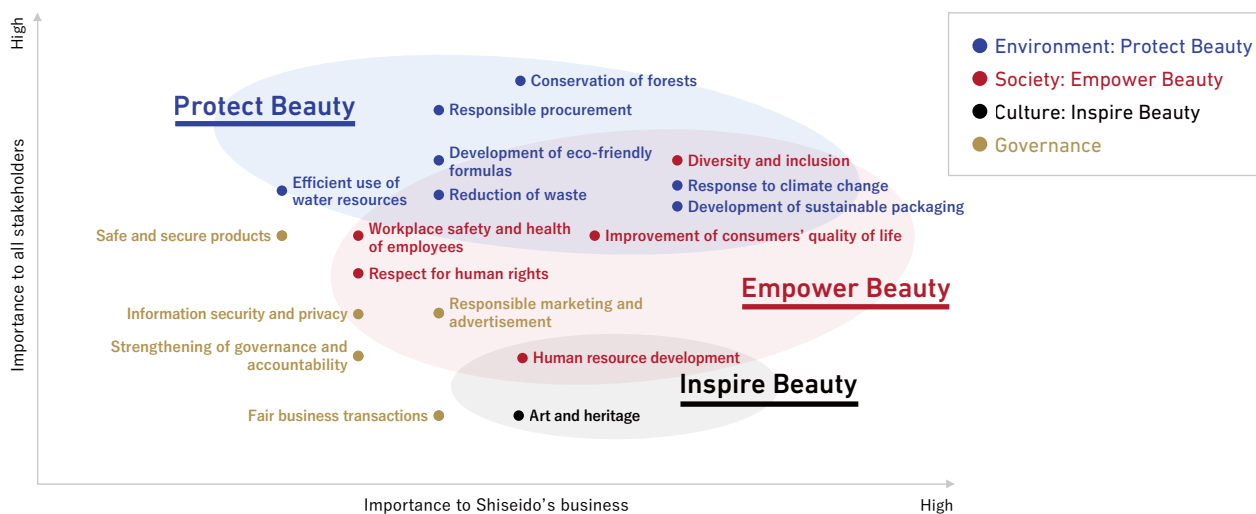
In 2019, we created the Social Value Creation Division to act as a conductor for all of the Company's activities. The Social Value Creation Division's role consists of five parts: (1) determining areas in which we should particularly focus our efforts; (2) establishing targets and KPIs that should be achieved Company-wide; (3) committing to the realization of these targets and KPIs both inside and outside the Company; (4) providing the necessary support while monitoring progress toward reaching targets and KPIs; and (5) raising awareness among our stakeholders, especially our employees.

The division has clear authority and responsibility regarding the constant creation of social value. Accordingly, we are able to lead activities across all divisions of the Company and raise awareness. The Social Value Creation Division will work together with all Group employees on a daily basis to realize "BEAUTY INNOVATIONS FOR A BETTER WORLD."

Jun Aoki

Director
Executive Corporate Officer

The Shiseido Group's Materiality Map (Revised in 2019)



Social Issues and SDGs / Eight Key Domains Addressed by Shiseido

Social Issues	Eight Key Domains for Our Activities	SDGs
Protect Beauty Protect our living, Beauty of the earth <p>Protect beauty of the earth and the beauty of the people who call Earth home. Protect the beauty of all other life that exists on the earth as well.</p>	<ol style="list-style-type: none"> Reducing environmental burden Protecting skin from UV rays and photoaging* Developing sustainable packaging <p>* Signs of aging caused by UV rays</p>	<p>Reduction of environmental burden</p> <p>UV ray protection and care</p> <p>Eco-friendly packaging</p>
Empower Beauty Empower our people, Beauty of the society <p>Motivate and empower all people who make up our society.</p>	<ol style="list-style-type: none"> Realizing gender equality and fairness Supporting empowerment through the strengths of cosmetics Business and human rights 	<p>Gender equality</p> <p>Support for empowerment</p> <p>Business and human rights</p>
Inspire Beauty Inspire our culture with Japanese beauty <p>Use Japanese beauty to raise beauty awareness around the world and encourage the realization of beauty as a culture.</p>	<ol style="list-style-type: none"> Embracing our heritage as a social asset and source of value creation Communicating aesthetics rooted in Japanese beauty 	<p>Utilization of Shiseido's cultural assets</p> <p>Communication of Japanese beauty</p>



Directors, Audit & Supervisory Board Members, and Corporate Officers



1 Masahiko Uotani

Representative Director
President and CEO

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

2 Yoichi Shimatani

Representative Director
Executive Vice President

1979: Joined the Company
2004: Director and President, Shiseido China Research Center Co., Ltd.
2006: General Manager of Cosmetics Research & Development Center of the Company
2007: General Manager of Skincare Development Center of the Company
2010: Corporate Officer of the Company Responsible for Marketing of Domestic Cosmetics Business and Domestic Non-Shiseido Brand Businesses
2012: Responsible for Functional Food Research & Development, Innovative Science Research & Development, Research Administration and Technology Alliances of the Company
2013: Responsible for Research & Development (Cosmetics and Innovative Science) of the Company
2014: Responsible for Research & Development of the Company
2015: Corporate Executive Officer of the Company
Chief Research and Development Officer
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
2018: Responsible for Safety & Analytics Research of the Company [incumbent]
2018: Director of the Company
2019: Representative Director of the Company [incumbent]
Executive Vice President of the Company [incumbent]
Chief Innovation Officer of the Company [incumbent]
Assisting the CEO in general corporate management of the Company [incumbent]
Responsible for Process Engineering Development, Package Development, and Frontier Science Business of the Company [incumbent]

3 Jun Aoki

Director
Executive Corporate Officer

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

4 Yoko Ishikura

External Director (Independent)¹

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

5 Shinsaku Iwahara

External Director (Independent)¹

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

6 Kanoko Oishi

External Director (Independent)¹

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

9 Yasuko Goto

External Audit & Supervisory Board Member
 (Independent Director)¹

1980: Joined Ministry of Transport
 1997: General Manager, Planning Department, Kyushu District Transport Bureau, Ministry of Transport
 1998: Director, Planning and Research Office of Tourism Department, Transport Policy Bureau, Ministry of Transport
 2001: International Crisis Management Officer, Japan Coast Guard
 2003: General Manager, Transport Consumer Policy Division, Policy Bureau, Ministry of Land, Infrastructure, Transport and Tourism (MLIT)
 2004: Director, Tourism Promotion Bureau at New York, Tourist Bureau of Japan
 2005: Deputy Governor, Yamagata Prefecture
 2008: Director, Regional Transport Bureau of Hokuriku and Shinetsu Regions, MLIT
 2010: Assistant Minister in charge of the Maritime Bureau, MLIT
 2011: Director in charge of shared vessels, Japan Railway Construction, Transport and Technology Agency
 2013: Director General, Policy Research Institute for Land, Infrastructure and Transport and Tourism, MLIT
 2014: Advisor, Kyushu Railway Company
 2015: Deputy Director General, Railway Operations Headquarters, Kyushu Railway Company Director General, Travel Services Headquarters, Kyushu Railway Company Managing Director, Deputy General Manager of Railway Operations Headquarters, Kyushu Railway Company General Manager, Tourism Business Headquarters, Kyushu Railway Company
 2017: Managing Director, CFO in charge of the Treasury Department, Kyushu Railway Company
 2018: Director, Audit and Supervisory Committee Member, Kyushu Railway Company [incumbent]
 2019: External Audit & Supervisory Board Member [incumbent]

7 Takeshi Yoshida

Audit & Supervisory Board Member

1985: Joined Okura Keiei Keiri Gakuin Co., Ltd.
 1992: Joined the Company
 2009: General Manager of Cosmetics Business Planning Department, General Manager of Business Administration Group, Cosmetics Business Planning Department
 2011: Executive Vice President, Shiseido Americas Corporation
 2014: Department Director, Internal Audit Department
 2016: Department Director, Business Planning Department, Shiseido Japan Co., Ltd.
 2017: Director, Personal Care Planning Department, FT Shiseido Co., Ltd.
 2018: Audit & Supervisory Board Member (standing) [incumbent]
 Audit & Supervisory Board Member [incumbent]

10 Hiroshi Ozu

External Audit & Supervisory Board Member
 (Independent Director)¹

1974: Public Prosecutor, Tokyo District Public Prosecutors Office
 2001: Chief Prosecutor, Saga Public Prosecutors Office
 2002: Public Prosecutor, Supreme Public Prosecutors Office
 2004: Deputy Vice-Minister, Ministry of Justice
 2006: Director-General, Criminal Affairs Bureau, Ministry of Justice
 2007: Vice-Minister, Ministry of Justice
 2009: Superintendent Public Prosecutor, Sapporo High Public Prosecutors Office
 2010: Deputy Prosecutor-General, Supreme Public Prosecutors Office
 2011: Superintendent Public Prosecutor, Tokyo High Public Prosecutors Office
 2012: Prosecutor-General, Supreme Public Prosecutors Office
 2014: Registered as Attorney
 2015: External Audit & Supervisory Board Member, MITSUI & CO., LTD. [incumbent]
 Outside Audit & Supervisory Board Member, TOYOTA MOTOR CORPORATION [incumbent]
 2016: Representative Director, Shimizu Scholarship Foundation, general incorporated foundation [incumbent]
 President of Criminal Justice Welfare Forum Oasis, general incorporated association [incumbent]
 2017: External Audit & Supervisory Board Member of the Company [incumbent]
 President of Japan Criminal Policy Society [incumbent]

8 Akiko Uno

Audit & Supervisory Board Member

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

11 Eiko Tsujiyama

External Audit & Supervisory Board Member
 (Independent Director)¹

1977: Lecturer, The College of Humanities, Ibaraki University
 1982: Visiting Fellow, Columbia Business School (United States)
 1985: Assistant Professor, School of Economics, Musashi University
 1993: Visiting Fellow, University of Cambridge (United Kingdom)
 1996: Dean, School of Economics, Musashi University
 2001: Visiting International Fellow, Financial Accounting Standards Board (United States)
 2003: Professor, School of Commerce and the Graduate School of Commerce, Waseda University
 2004: Professor, Faculty of Commerce, Waseda University [incumbent]
 2008: Outside Auditor, Mitsubishi Corporation
 2010: Outside Director, ORIX Corporation
 Dean, Graduate School of Commerce, Waseda University
 2011: Outside Auditor, LAWSON, INC. [incumbent]
 Outside Audit & Supervisory Board Member, NTT DOCOMO, INC. [incumbent]
 2012: External Audit & Supervisory Board Member of the Company [incumbent]
 2018: Professor Emeritus, Waseda University [incumbent]

Retired as of March 26, 2019:

Audit & Supervisory Board Member: Kyoko Okada

External Audit & Supervisory Board Member: Nobuo Otsuka

¹ Independent Director provided in Rule 436-2 of the Tokyo Stock Exchange Securities Listing Regulations

Consolidated Balance Sheets

Shiseido Company, Limited and Subsidiaries
As of December 31, 2017 and 2018

Thousands of
U.S. dollars

	Millions of yen		
	2017/12	2018/12	2018/12
ASSETS			
Current Assets:			
Cash and time deposits	166,698	125,891	1,135,073
Notes and accounts receivable	162,058	166,491	1,501,136
Short-term investments in securities	7,781	—	—
Inventories	129,954	149,788	1,350,536
Deferred tax assets	25,467	29,690	267,694
Other current assets	36,012	42,811	385,997
Less: Allowance for doubtful accounts	(1,727)	(1,989)	(17,933)
Total current assets	526,245	512,684	4,622,522
Fixed Assets:			
Property, Plant and Equipment:			
Buildings and structures	162,538	191,335	1,725,137
Less: Accumulated depreciation	(104,382)	(103,727)	(935,235)
Buildings and structures, net	58,156	87,607	789,892
Machinery, equipment and vehicles	81,175	84,055	757,866
Less: Accumulated depreciation	(63,367)	(61,867)	(557,812)
Machinery, equipment and vehicles, net	17,808	22,188	200,054
Tools, furniture and fixtures	81,783	81,024	730,538
Less: Accumulated depreciation	(56,520)	(51,968)	(468,560)
Tools, furniture and fixtures, net	25,262	29,055	261,969
Land	36,971	49,795	448,967
Leased assets	7,244	8,231	74,213
Less: Accumulated depreciation	(3,957)	(3,630)	(32,729)
Leased assets, net	3,286	4,601	41,484
Construction in progress	17,196	41,937	378,117
Total property, plant and equipment	158,681	235,185	2,120,503
Intangible Assets:			
Goodwill	12,166	12,610	113,695
Leased assets	247	233	2,100
Trademarks	121,347	111,001	1,000,820
Other intangible assets	34,825	41,561	374,727
Total intangible assets	168,586	165,406	1,491,353
Investments and Other Assets:			
Investments in securities	26,280	23,026	207,609
Long-term loans receivable	90	—	—
Long-term prepaid expenses	13,991	15,363	138,517
Deferred tax assets	30,658	30,001	270,498
Other investments	25,131	28,016	252,601
Less: Allowance for doubtful accounts	(241)	(66)	(595)
Total investments and other assets	95,910	96,341	868,641
Total Fixed Assets	423,179	496,933	4,480,506
Total Assets	949,425	1,009,618	9,103,038

	Millions of yen		Thousands of U.S. dollars
	2017/12	2018/12	2018/12
LIABILITIES			
Current Liabilities:			
Notes and accounts payable	49,140	56,870	512,758
Electronically recorded obligations—operating	37,892	45,422	409,539
Short-term debt	8,540	2,725	24,569
Current portion of long-term debt	731	730	6,581
Current portion of corporate bonds scheduled for redemption	—	10,000	90,163
Lease obligations	1,391	1,746	15,742
Other payables	59,903	73,836	665,728
Accrued income taxes	25,032	20,129	181,489
Reserve for sales returns	14,012	10,795	97,331
Refund liabilities	—	4,741	42,746
Accrued bonuses for employees	25,019	30,782	277,540
Accrued bonuses for directors	119	211	1,902
Provision for liabilities and charges	2,005	471	4,246
Provision for loss on business withdrawal	—	3,204	28,888
Other current liabilities	67,590	78,272	705,725
Total current liabilities	291,379	339,940	3,065,007
Long-Term Liabilities:			
Bonds	40,000	30,000	270,489
Long-term debt	28,835	28,105	253,403
Lease obligations	1,966	2,469	22,261
Long-term payables	59,255	54,639	492,642
Liability for retirement benefits	73,745	76,877	693,147
Allowance for losses on guarantees	350	350	3,155
Allowance for environmental measures	260	144	1,298
Deferred tax liabilities	3,762	3,316	29,898
Other long-term liabilities	3,998	5,312	47,894
Total long-term liabilities	212,173	201,215	1,814,218
Total Liabilities	503,552	541,156	4,879,235
NET ASSETS			
Shareholders' Equity:			
Common stock	64,506	64,506	581,606
Authorized: 1,200,000,000 shares as of December 31, 2017 and 2018			
Issued: 400,000,000 shares as of December 31, 2017 and 2018			
Capital surplus	70,808	70,748	637,886
Retained earnings	271,681	319,001	2,876,214
Treasury stock	(874)	(2,829)	(25,507)
Treasury stock: 460,033 shares as of December 31, 2017 and 618,049 shares as of December 31, 2018			
Total shareholders' equity	406,121	451,427	4,070,210
Accumulated Other Comprehensive Income:			
Unrealized gains (losses) on available-for-sale securities	8,664	4,992	45,009
Foreign currency translation adjustments	28,726	15,645	141,060
Accumulated adjustments for retirement benefits	(20,064)	(23,484)	(211,739)
Total accumulated other comprehensive income	17,326	(2,846)	(25,660)
Stock Acquisition Rights	874	952	8,583
Non-Controlling Interests in Consolidated Subsidiaries	21,550	18,929	170,669
Total Net Assets	445,872	468,462	4,223,803
Total Liabilities and Net Assets	949,425	1,009,618	9,103,038

Consolidated Statements of Income / Consolidated Statements of Comprehensive Income

Shiseido Company, Limited and Subsidiaries
For the fiscal years ended December 31, 2017 and 2018

CONSOLIDATED STATEMENTS OF INCOME

	Millions of yen		Thousands of U.S. dollars
	2017/12	2018/12	2018/12
Net Sales	1,005,062	1,094,825	9,871,292
Cost of Sales	231,327	231,928	2,091,136
Gross Profit	773,735	862,896	7,780,146
Selling, General and Administrative Expenses	693,298	754,545	6,803,218
Operating Profit	80,437	108,350	976,918
Other Income			
Interest income	882	1,227	11,063
Dividend income	557	490	4,417
Equity in earnings of affiliates	284	301	2,713
Rental income	743	734	6,617
Subsidy income	10	2,783	25,092
Other	1,069	1,575	14,200
Total other income	3,547	7,113	64,133
Other Expenses			
Interest expense	991	769	6,933
Foreign exchange loss	216	2,900	26,147
Other interest on debt	1,382	1,392	12,550
Other	1,068	910	8,204
Total other expenses	3,658	5,974	53,863
Ordinary Profit	80,327	109,489	987,187
Extraordinary Gains			
Gain on sales of property, plant and equipment	1,168	2,853	25,723
Gain on sales of investments in securities	1,173	2,739	24,695
Gain on transfer of business	36,787	48	432
Gain on sales of shares in subsidiaries and affiliates	211	—	—
Total extraordinary gains	39,341	5,641	50,861
Extraordinary Losses			
Loss on disposal of property, plant and equipment	2,181	1,698	15,309
Impairment loss	70,922	—	—
Loss on sales of investments in securities	27	—	—
Loss on business withdrawal	—	4,446	40,086
Structural reform expenses	4,479	3,739	33,712
Loss on liquidation of subsidiaries and affiliates	136	936	8,439
Voluntary product recall-related expenses	3,233	—	—
Temporary expenses associated with reforms to human resource systems	130	—	—
Total extraordinary losses	81,112	10,821	97,565
Profit before Income Taxes	38,555	104,310	940,492
Income Taxes — Current	29,416	41,249	371,914
Income Taxes — Deferred	(16,215)	(1,844)	(16,626)
Total Income Taxes	13,200	39,405	355,288
Net Profit	25,355	64,905	585,204
Net Profit Attributable to Non-Controlling Interests	2,606	3,501	31,566
Net Profit Attributable to Owners of Parent	22,749	61,403	553,629
Per Profit		Yen	U.S. dollars
Net profit — basic	56.9	153.7	1.38
— diluted	56.9	153.6	1.38
Cash dividend	27.5	45.0	0.40
Weighted Average Number of Shares (thousands)	399,466	399,409	

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	Millions of yen		Thousands of U.S. dollars
	2017/12	2018/12	2018/12
Net Profit	25,355	64,905	585,204
Other Comprehensive Income			
Unrealized gains (losses) on available-for-sale securities	1,166	(3,600)	(32,458)
Foreign currency translation adjustments	3,073	(14,151)	(127,589)
Adjustments for retirement benefits	12,890	(3,373)	(30,412)
Share of other comprehensive income of associates accounted for under the equity method	(30)	(4)	(36)
Total other comprehensive income (loss)	17,100	(21,129)	(190,505)
Comprehensive Income	42,456	43,775	394,689
(Breakdown)			
Comprehensive income attributable to owners of parent	39,145	41,230	371,742
Comprehensive income attributable to non-controlling interests	3,310	2,544	22,937

Consolidated Statements of Change in Net Assets

Shiseido Company, Limited and Subsidiaries
For the fiscal years ended December 31, 2017 and 2018

CONSOLIDATED STATEMENTS OF CHANGE IN NET ASSETS

	Thousands					Millions of yen				
	Number of shares of common stock	Common stock	Capital surplus	Retained earnings	Treasury stock, at cost	Unrealized gains (losses) on available-for-sale securities	Foreign currency translation adjustments	Accumulated adjustments for retirement benefits	Stock acquisition rights	Non-controlling interests in consolidated subsidiaries
Balance as of January 1, 2017	400,000	64,506	70,846	258,005	(1,325)	7,389	26,516	(32,975)	818	20,087
Cash dividend from retained earnings	—	—	—	(8,986)	—	—	—	—	—	—
Net profit attributable to owners of parent	—	—	—	22,749	—	—	—	—	—	—
Acquisition of treasury stock	—	—	—	—	(17)	—	—	—	—	—
Disposal of treasury stock	—	—	43	—	468	—	—	—	—	—
Equity transactions with non-controlling interests and others	—	—	(81)	(87)	—	—	—	—	—	—
Net changes of items other than shareholders' equity	—	—	—	—	—	1,275	2,210	12,910	55	1,462
Balance as of December 31, 2017	400,000	64,506	70,808	271,681	(874)	8,664	28,726	(20,064)	874	21,550
Cash dividend from retained earnings	—	—	—	(13,979)	—	—	—	—	—	—
Net profit attributable to owners of parent	—	—	—	61,403	—	—	—	—	—	—
Acquisition of treasury stock	—	—	—	—	(2,431)	—	—	—	—	—
Disposal of treasury stock	—	—	(55)	(165)	476	—	—	—	—	—
Equity transactions with non-controlling interests and others	—	—	(4)	61	—	—	—	—	—	—
Net changes of items other than shareholders' equity	—	—	—	—	—	(3,672)	(13,081)	(3,419)	78	(2,621)
Balance as of December 31, 2018	400,000	64,506	70,748	319,001	(2,829)	4,992	15,645	(23,484)	952	18,929

	Thousands					Thousands of U.S. dollars				
	Number of shares of common stock	Common stock	Capital surplus	Retained earnings	Treasury stock, at cost	Unrealized gains (losses) on available-for-sale securities	Foreign currency translation adjustments	Accumulated adjustments for retirement benefits	Stock acquisition rights	Non-controlling interests in consolidated subsidiaries
Balance as of January 1, 2018	400,000	581,606	638,427	2,449,562	7,880	78,117	259,002	180,903	7,880	194,301
Cash dividend from retained earnings	—	—	—	(126,039)	—	—	—	—	—	—
Net profit attributable to owners of parent	—	—	—	553,629	—	—	—	—	—	—
Acquisition of treasury stock	—	—	—	—	(21,918)	—	—	—	—	—
Disposal of treasury stock	—	—	(495)	(1,487)	4,291	—	—	—	—	—
Equity transactions with non-controlling interests and others	—	—	(36)	(549)	—	—	—	—	—	—
Net changes of items other than shareholders' equity	—	—	—	—	—	(33,107)	(117,942)	(30,826)	703	(23,631)
Balance as of December 31, 2018	400,000	581,606	637,886	2,876,214	(25,507)	45,009	141,060	(211,739)	8,583	170,669

Consolidated Statements of Cash Flows

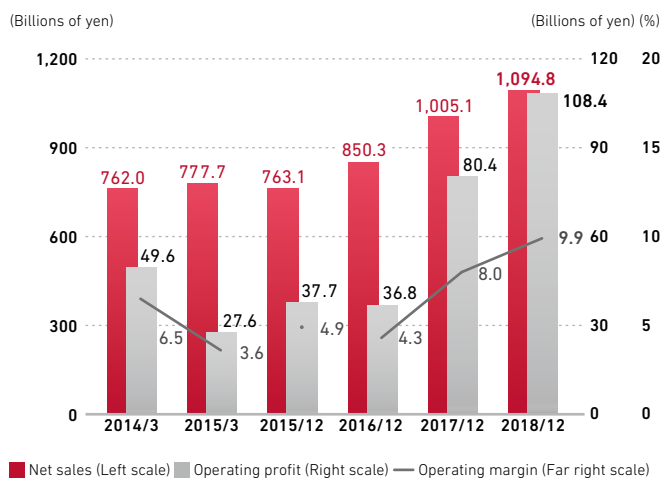
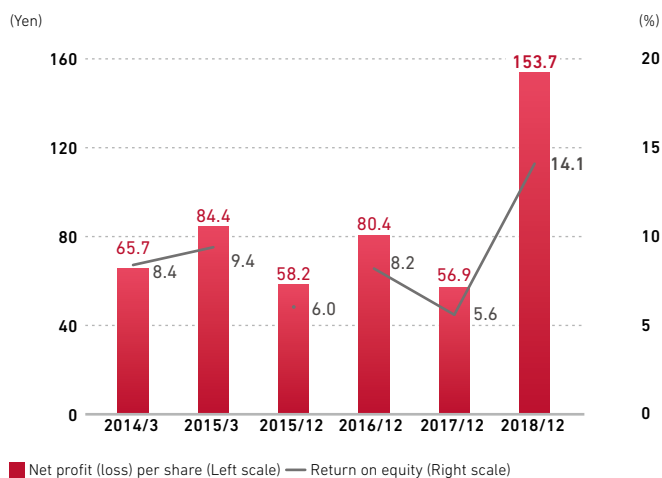
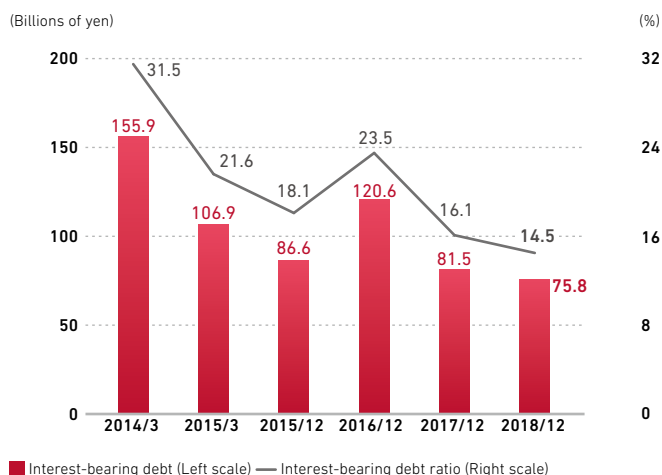
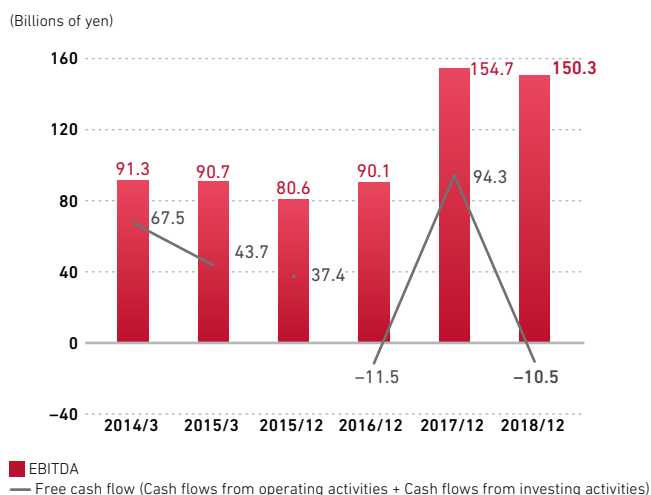
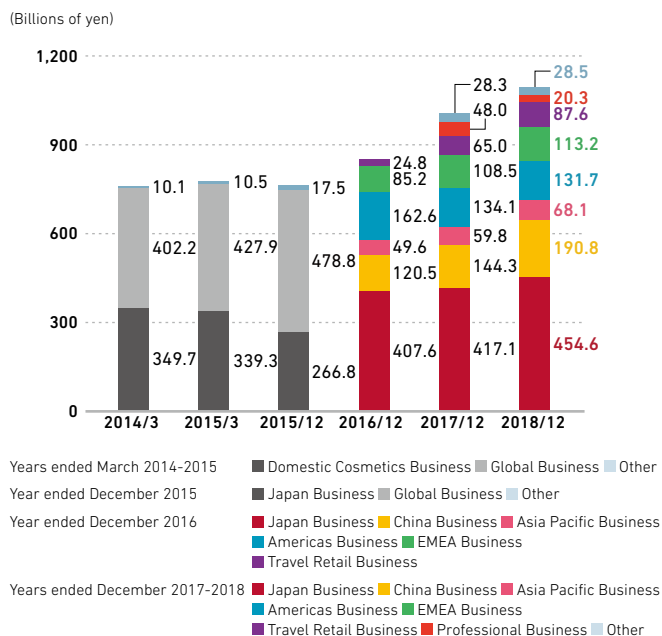
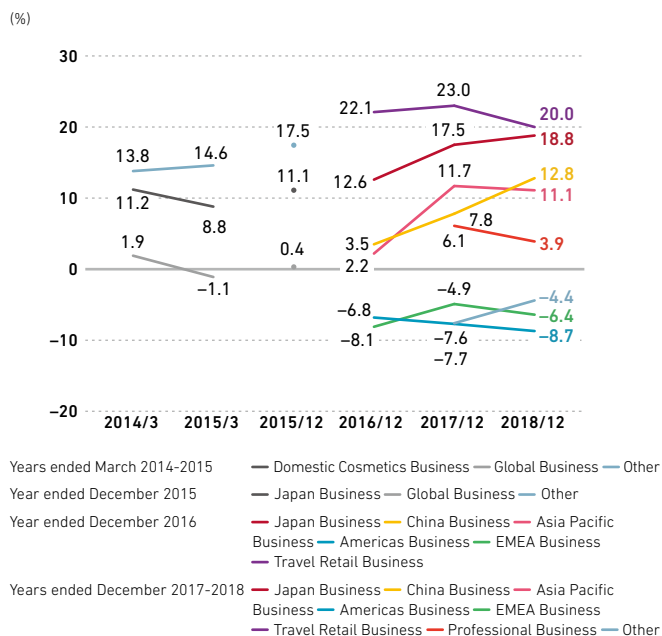
Shiseido Company, Limited and Subsidiaries
For the fiscal years ended December 31, 2017 and 2018

	Millions of yen		Thousands of U.S. dollars
	2017/12	2018/12	2018/12
Cash Flows from Operating Activities:			
Profit before income taxes	38,555	104,310	940,492
Depreciation and amortization	39,614	41,994	378,631
Amortization of goodwill	4,235	1,851	16,689
Impairment loss	70,922	—	—
(Gain) Loss on disposal of property, plant and equipment	1,013	(1,155)	(10,413)
(Gain) Loss on sales of investments in securities	(1,146)	(2,739)	(24,695)
(Gain) Loss on transfer of business	(36,787)	(48)	(432)
(Gain) Loss on sales of shares in subsidiaries and affiliates	(211)	—	—
Increase (Decrease) in allowance for doubtful accounts	17	176	1,586
Increase (Decrease) in reserve for sales returns	934	(2,977)	(26,841)
Increase (Decrease) in refund liabilities	—	4,860	43,819
Increase (Decrease) in accrued bonuses for employees	3,207	6,190	55,811
Increase (Decrease) in accrued bonuses for directors	19	91	820
Increase (Decrease) in provision for liabilities and charges	(207)	(1,453)	(13,100)
Increase (Decrease) in liability for retirement benefits	(2,472)	(1,991)	(17,951)
Increase (Decrease) in allowance for environmental measures	(115)	(116)	(1,045)
Increase (Decrease) in provision for loss on business withdrawal	—	3,204	28,888
Interest and dividend income	(1,439)	(1,718)	(15,490)
Interest expense	991	769	6,933
Other interest on debt	1,382	1,392	12,550
Equity in (earnings) losses of affiliates	(284)	(301)	(2,713)
(Increase) Decrease in notes and accounts receivable	(25,447)	(10,659)	(96,104)
(Increase) Decrease in inventories	(13,287)	(24,291)	(219,015)
Increase (Decrease) in notes and accounts payable	22,082	13,916	125,471
Other	4,916	4,939	44,531
Subtotal	106,494	136,245	1,228,428
Interest and dividends received	1,516	1,867	16,833
Interest paid	(984)	(795)	(7,167)
Interest paid on other debt	(1,736)	(1,392)	(12,550)
Income tax paid	(9,898)	(43,347)	(390,830)
Net cash provided by operating activities	95,392	92,577	834,703

Cash Flows from Investing Activities:			
Transfers to time deposits	(17,439)	(20,999)	(189,333)
Proceeds from maturity of time deposits	15,148	21,750	196,104
Acquisition of short-term investments in securities	(3)	—	—
Acquisition of investments in securities	(4)	(1,694)	(15,273)
Proceeds from sales of investment securities	1,922	4,664	42,052
Proceeds from transfer of business	53,549	606	5,463
Payments for acquisition of business	—	(2,250)	(20,286)
Acquisition of property, plant and equipment	(36,015)	(80,596)	(726,679)
Proceeds from sales of property, plant and equipment	1,703	4,352	39,239
Acquisition of intangible assets	(8,618)	(17,084)	(154,034)
Payments of long-term prepaid expenses	(6,581)	(8,108)	(73,104)
Payments for lease and guarantee deposits	(697)	(4,016)	(36,209)
Payment for acquisition of shares in a subsidiary resulting in a change in the scope of consolidation	(5,226)	—	—
Proceeds from sale of shares in a subsidiary resulting in a change in the scope of consolidation	500	—	—
Other	702	264	2,380
Net cash used in investing activities	(1,061)	(103,112)	(929,690)
Cash Flows from Financing Activities:			
Net increase (decrease) in short-term debt and commercial papers	(3,170)	(5,140)	(46,343)
Proceeds from long-term debt	10,000	—	—
Repayment of long-term debt	(45,762)	(730)	(6,581)
Repayment of lease obligations	(2,125)	(2,116)	(19,078)
Acquisition of treasury stock	(17)	(2,431)	(21,918)
Disposal of treasury stock	511	255	2,299
Cash dividends paid	(8,977)	(13,940)	(125,687)
Cash dividends paid to non-controlling interests	(2,390)	(4,112)	(37,075)
Repayment of long-term payables	(1,145)	(1,478)	(13,326)
Other	(39)	(27)	(243)
Net cash used in financing activities	(53,117)	(29,722)	(267,983)
Effect of Exchange Rate Changes on Cash and Cash Equivalents	2,498	(4,809)	(43,359)
Net Change in Cash and Cash Equivalents (Decrease)	43,711	(45,066)	(406,329)
Cash and Cash Equivalents at Beginning of Term	113,122	156,834	1,414,065
Cash and Cash Equivalents at End of Term	156,834	111,767	1,007,726

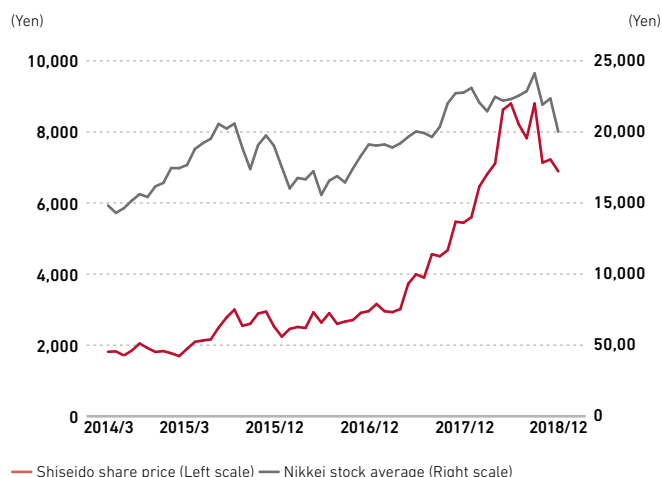

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Financial Value

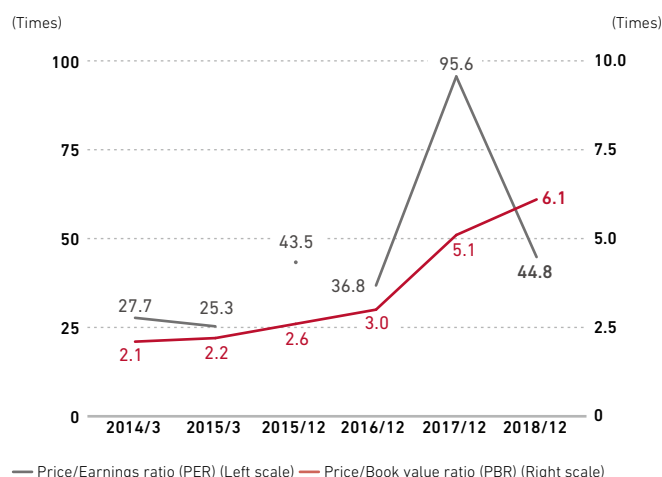
Net Sales, Operating Profit, and Operating Margin¹Net Profit (Loss) per Share² and Return on Equity³Interest-Bearing Debt and Interest-Bearing Debt Ratio⁴EBITDA⁵ and Free Cash FlowNet Sales by Reportable Segment^{1, 6, 7, 9, 10}Operating Profitability by Reportable Segment^{1, 6, 8, 9, 10}

Shareholder Value

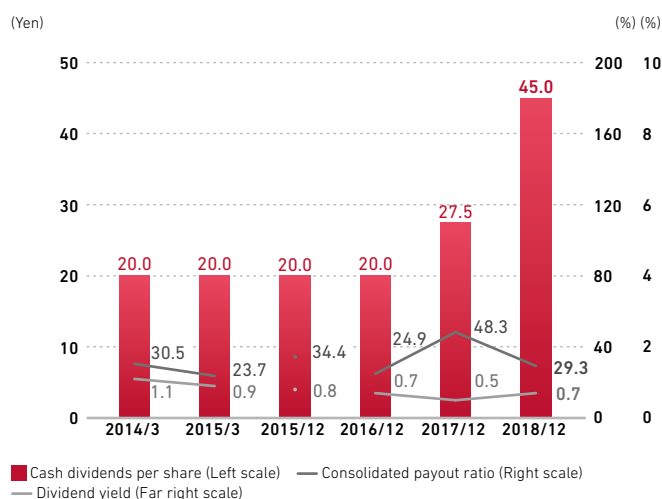
Shiseido Share Price & Nikkei Stock Average



Price/Earnings Ratio (PER)¹¹ & Price/Book Value Ratio (PBR)¹²



Cash Dividends per Share, Consolidated Payout Ratio & Dividend Yield¹³



1 The fiscal year ended December 31, 2015 is the 9 months from April 1, 2015 to December 31, 2015 for Shiseido and its consolidated subsidiaries in Japan and the 12 months from January 1, 2015 to December 31, 2015 for all other subsidiaries. On the website, it is referred to as "the year ended December 2015" in the text and as "2015/12" in tables, charts, and graphs.

2 Net profit (loss) per share is calculated before dilution based on the average number of shares outstanding during the fiscal year.

3 For calculating consolidated ROE for the year ended December 2015, the numerator used is net profit attributable to owners of parent for the nine months ended December 31, 2015 for Shiseido and its consolidated subsidiaries whose fiscal year ended in March, and for the 12 months ended December 31, 2015 for consolidated subsidiaries whose fiscal year ended in December.

4 Interest-bearing debt ratio = Interest-bearing debt / Invested capital* *Invested capital = Interest-bearing debt + Equity

5 EBITDA (Earnings before interest, tax, depreciation and amortization) = Income (loss) before income taxes + Interest expense + Depreciation and amortization expense + Impairment loss on goodwill and other intangible assets

6 Domestic Professional Division sales are included in the Global Business segment.

7 Net sales by reportable segment represent sales to external customers only and do not include intersegment/interarea sales or transfers.

8 Operating margin by reportable segment does not include eliminations/corporate.

9 The Company partially revised its reportable segment classification method effective from the year ended December 2015. Accordingly, the "Domestic Cosmetics Business" and "Global Business" segments were reclassified as the "Japan Business" and "Global Business" segments, respectively. Taking into account this change, certain subsidiaries previously included in the "Domestic Cosmetics Business" segment were reallocated to "Global Business" and "Other." Moreover, in order to accurately grasp actual operating results in each segment, the allocation method for certain expenses was also revised.

10 Effective from the year ended December 2016, the Company has revised its reportable segment classifications to the "Japan Business," "China Business," "Asia Pacific Business," "Americas Business," "EMEA Business," and "Travel Retail Business" segments, method in line with the Group's internal financial management structure.

Effective from the year ended December 2017, the Company revised its reportable segment classifications to the "Japan Business," "China Business," "Asia Pacific Business," "Americas Business," "EMEA Business," "Travel Retail Business," and "Professional Business" segments, in line with the Group's internal management structure. Segment information for the year ended December 2017 has been restated in line with changes in the method of classifying reportable segments in the year ended December 2018.

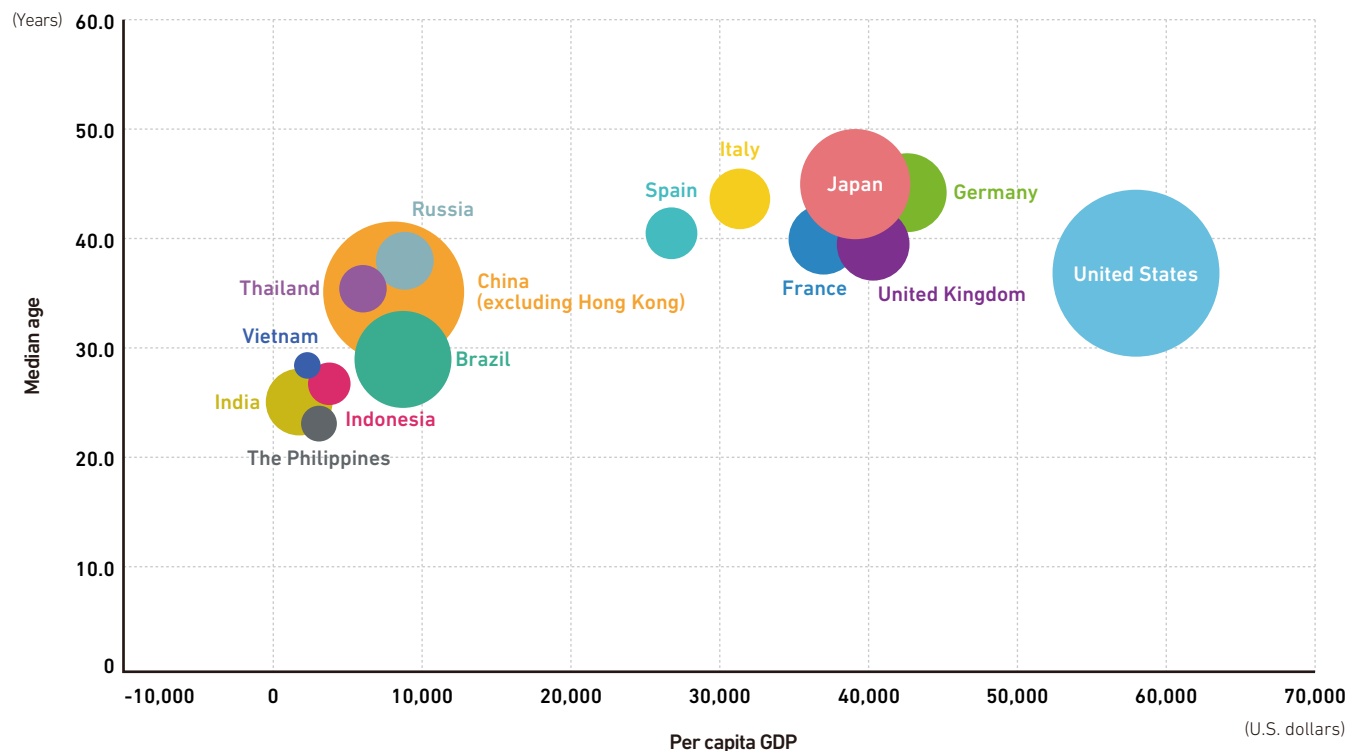
11 Price/Earnings ratio = Closing stock price at fiscal year-end / Net profit per share

12 Price/Book value ratio = Closing stock price at fiscal year-end / Net assets per share

13 Dividend yield = Cash dividends per share / Closing stock price at fiscal year-end



Beauty and Personal Care Markets by Country

Beauty and Personal Care Market Scale¹ by Country, Per Capita GDP, and Median Age²

Beauty and Personal Care Market Scale by Country and Population (2018)

Country	Beauty and Personal Care Market Scale (Millions of U.S. dollars)	Population (Millions)	Country	Beauty and Personal Care Market Scale (Millions of U.S. dollars)	Population (Millions)
United States	89,507	326.8	Italy	11,846	59.3
China (excluding Hong Kong)	62,007	1,415.0	Russia	10,253	144.0
Japan	37,547	126.4	Spain	8,975	46.4
Brazil	30,030	210.9	Thailand	6,588	69.2
Germany	20,172	82.3	Indonesia	5,240	266.8
United Kingdom	17,374	66.6	The Philippines	3,786	106.5
France	15,314	65.2	Vietnam	1,978	96.5
India	14,068	1,354.1			

Source for beauty and personal care market scale: Euromonitor International, as of April 16, 2019

Source for per capita GDP, median age, and population: "World Statistics 2019," Statistics Bureau, Ministry of Internal Affairs and Communications

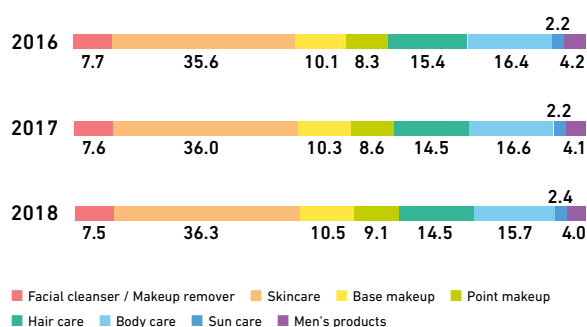
1 Circle size indicates beauty and personal care market scale.

2 The midpoint age separating the upper from the lower half of ages for each population ranked in order from the lowest to highest.

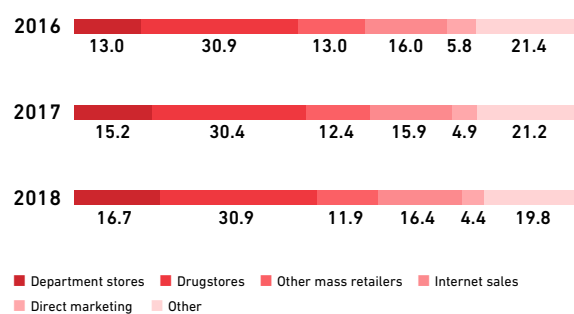
Please note that the relevant market data was compiled from data publicly available from several institutions and is not directly related to Shiseido's strategies. Also, annual data for each region is calculated based on local currencies translated into U.S. dollars at average 2018 exchange rates.

Domestic Cosmetics Market

Market Composition by Beauty Category (%)

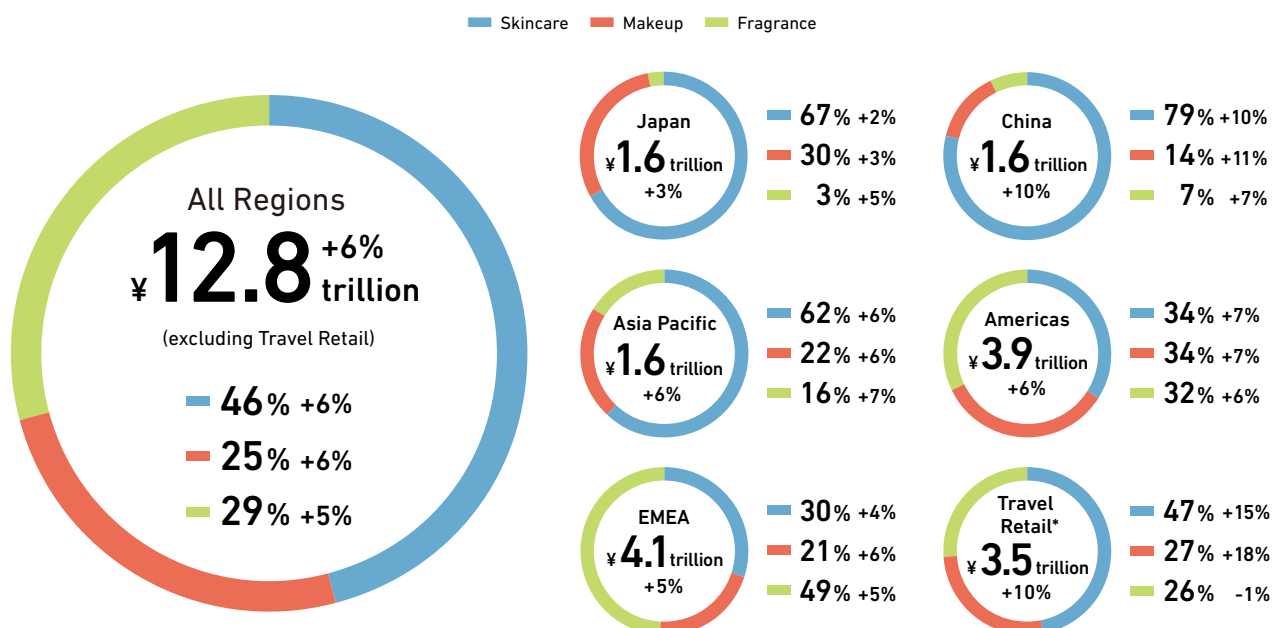


Market Composition by Channel (%)



Sources: Market composition by beauty category: as of March 2019 (according to research by Shiseido), general cosmetics market (defined by Shiseido), January 1, 2016 to December 31, 2018, comparison of purchases (value base) by beauty categories defined by Shiseido
Market composition by channel: as of March 2019 (according to research by Shiseido), general cosmetics market (defined by Shiseido), January 1, 2016 to December 31, 2018, comparison of purchases (value base) by channel defined by Shiseido

Prestige: Market Size and Projected Growth Rate in 2020



Sources: Euromonitor International 2017 edition (excluding Travel Retail)

Premium (skincare, sun care, color, fragrance)

Annual data for each region is calculated based on assumption by local currencies translated into Japanese yen at the average exchange rate for 2017.

* Travel Retail: Generation Research

Head Office

Shiseido Company, Limited
5-5, Ginza 7-chome, Chuo-ku
Tokyo 104-0061, Japan
Tel: +81-3-3572-5111

Founding

September 17, 1872

Incorporation

June 24, 1927

Capital

¥64,506,725,140

Number of Employees

38,640 [8,109]

Note: The number of employees shown denotes full-time employees.
Annual average number of temporary employees is shown in brackets. Temporary employees include part-time workers. Dispatched employees are excluded.

Fiscal Year-End

December 31

Shareholders' Meeting

The Ordinary General Meeting of Shareholders is held in late March.

Stock Listings

Common Stock:
Tokyo Stock Exchange (Code: 4911)
American Depositary Receipts:
U.S. Over-the-Counter

American Depositary Receipts

CUSIP: 824841407
Ratio (ADR:ORD): 1:1
Exchange: Over-the-Counter
Symbol: SSD0Y
Depositary: The Bank of New York Mellon
101 Barclay Street, 22W
New York, NY 10286, U.S.A.

Accounting Auditors

KPMG AZSA LLC

Share Registrar

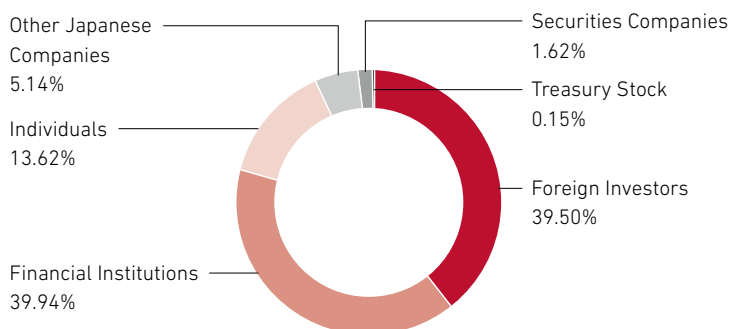
Sumitomo Mitsui Trust Bank, Limited
4-1, Marunouchi 1-chome,
Chiyoda-ku, Tokyo 100-8233, Japan

Number of Shareholders

65,457

Common Shares Issued and Outstanding

400,000,000 (including 618,049 in treasury stock)

Composition of Shareholders by Number of Shares**Composition of Shareholders (%)**

(By number of shares)	2017/12	2018/12
Foreign Investors	41.35	39.50
Financial Institutions	38.64	39.94
Individuals	12.83	13.62
Other Japanese Companies	5.00	5.14
Securities Companies	2.04	1.62
Treasury Stock	0.11	0.15
(By number of shareholders)	2017/12	2018/12
Foreign Investors	1.79	1.53
Financial Institutions	0.21	0.16
Individuals	96.57	96.97
Other Japanese Companies	1.34	1.24
Securities Companies	0.07	0.09
Treasury Stock	0.00	0.00

Principal Shareholders

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

Note: Calculations of percentage of shareholding are based on the total number of issued and outstanding shares excluding treasury stock.



For further information, please contact:

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