



ANNUAL REPORT 2019

Digest

Shiseido Company, Limited
[For the period ended December 31, 2019]



OUR MISSION is
BEAUTY INNOVATIONS FOR A BETTER WORLD

Editorial Policy / Contents

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 2019 (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://corp.shiseido.com/report/en/>

Message from the CEO

THE SHISEIDO PHILOSOPHY

Shiseido's Growth Strategy

— Business Strategy

— Regional Strategy

Japan Business

China Business

Asia Pacific Business

Americas Business

EMEA Business

Travel Retail Business

— Financial Strategy

Sources of Value Creation

— Research & Innovation

— Supply Network

— Messages from Brand Heads

For a Sustainable World

— Sustainability

Corporate Governance

— Features of Shiseido's Corporate Governance

— Message from an External Director

About Shiseido

— Business Categories and Brands

— Facts & Figures

— Value Chain

— Beauty Innovation Model

Data Section

— Financial and Non-Financial Highlights

— Market Data

— Consolidated Financial Statements (PDF)

> This Report

THE SHISEIDO PHILOSOPHY — 02

Message from the CEO — 03

Facts & Figures — 04

Business Categories and Brands — 06

Business Strategy — 08

Regional Strategy — 10

Financial Strategy — 14

Sustainability — 18

Research & Innovation — 20

Supply Network — 21

Corporate Governance — 22

Data Section

Historical Financial Summary — 26

Financial Highlights — 28

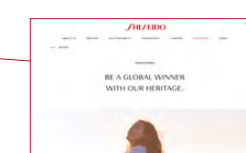
Market Data — 30

Corporate and Investor Information — 31

Further information can be found on our corporate website.



Corporate Website <https://corp.shiseido.com/en/>



> News Release <https://corp.shiseido.com/en/news/>
> Investors <https://corp.shiseido.com/en/ir/>
> Brands <https://corp.shiseido.com/en/brands/>
> Sustainability <https://corp.shiseido.com/en/sustainability/>
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> About Us <https://corp.shiseido.com/en/company/>

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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
ART & SCIENCE	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



Beauty Has the Power to Change the World

Masahiko Uotani
Representative Director, President and CEO





First of all, I would like to extend my heartfelt condolences to the families of the victims of COVID-19, and to express my warmest sympathy to all those who have found themselves in difficult circumstances because of this pandemic.

In 2019, Shiseido achieved robust growth despite an increasingly uncertain business environment: Continuing the trend of the previous year, our net sales, operating profit, and net profit reached record highs. Our operating margin climbed to 10.1%, hitting double digits for the first time. Our prestige brands, which we have been intensely focusing on, drove growth. In addition, we acquired the American skincare brand *Drunk Elephant* and worked at strengthening the global presence of our Japanese brands *ELIXIR* and *ANESSA*.

Crisis as a Transformation Opportunity

The impact of COVID-19 will most likely reverberate beyond 2020, reshaping consumer behavior and the entire beauty industry. Shiseido needs to swiftly adapt to this new reality and evolve into an even stronger company with a potential for further expansion. To that end, we position 2020 as a year to "Defend Business and Review Medium-Term Strategy" while in 2021-2022 we will concentrate our efforts on "Fundamental Reforms" in order to realize our VISION for 2023 and beyond with a resilient revenue base and a solid foundation for growth.

>  [View Details \(Slides from 2020 Q1 financial results announcement on May 12, 2020\)](#) 

BEAUTY INNOVATIONS FOR A BETTER WORLD

Shiseido is strengthening its global initiatives in ESG (environment, society, culture, and governance), which are aimed at solving social issues and creating a sustainable society where people can live in happiness.


In 2020, in response to the spread of COVID-19, we promptly launched the "Relay of Love Project." Additionally, we implemented a variety of support initiatives, such as producing a hand sanitizer specially developed for sensitive and rough skin and distributing it to medical institutions around the world.

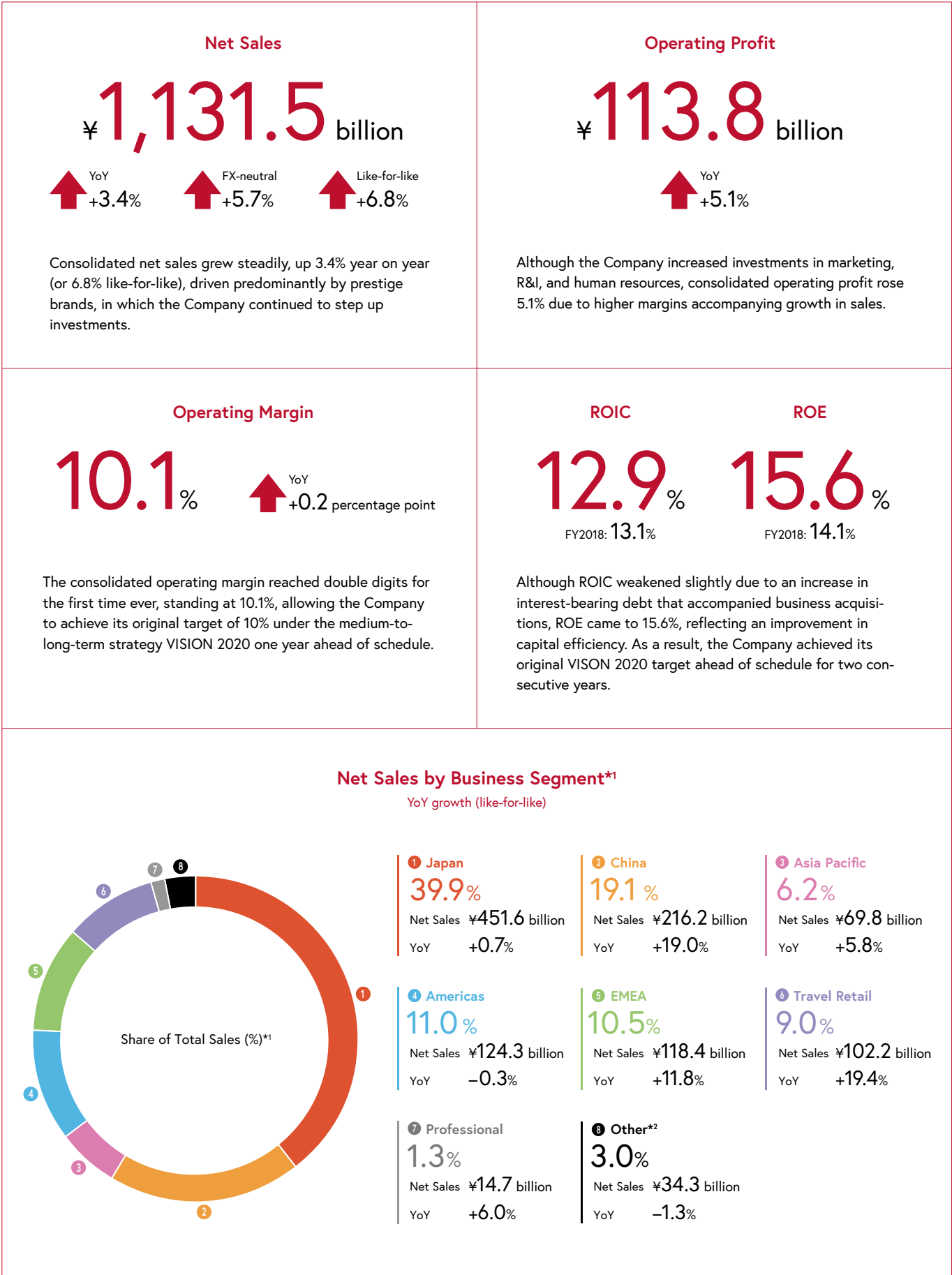
Beauty brings confidence and courage, joy and new energy to people. We believe that, in today's difficult environment, beauty can help reinvigorate society. That now more than ever it has the power to change the world.

Aiming to "Be a Global Winner with Our Heritage," we will research and develop beauty innovations that vigorously build new value. With this mission in mind, we will continue to make steadfast progress towards our goal as One Shiseido.

We look forward to the continued support of our shareholders and investors.

May 2020

Masahiko Uotani
Representative Director, President and CEO 



Main Regions of Availability	<div><div></div>Japan</div>	<div><div></div>China</div>	<div><div></div>Asia Pacific</div>	<div><div></div>Americas</div>	<div><div></div>EMEA</div>	<div><div></div>Travel Retail</div>
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Prestige

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



SHISEIDO



Clé de Peau Beauté



IPSA



NARS



Laura Mercier

*2



bareMinerals

*2



Drunk Elephant

*2



BENEFIQUE

Share of Total Sales
46%
YoY Sales Growth*1
+10%

Fragrance

Luxury fragrances created through collaborations with famous designers



Dolce&Gabbana

*2



ISSEY MIYAKE

*2



narciso rodriguez

*2






Tory Burch

Share of Total Sales
10%
YoY Sales Growth*1
+9%

*1 Like-for-like growth excluding the impacts of business transfers and changes in accounting standards, etc.
*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.

See also the Messages from Brand Heads of the major brands.

>   Messages from Brand Heads



Cosmetics

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
30%
YoY Sales Growth*1
+3%



ELIXIR



ANESSA




MAQuillAGE



HAKU



d program




REVITAL



PRIOR



AQUALABEL



INTEGRATE




AUPRES



urara



PURE&MILD



Za

Personal Care

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

Share of Total Sales
9%
YoY Sales Growth*1
+6%



SENKA



TSUBAKI

Professional

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


Share of Total Sales
1%
YoY Sales Growth*1
+6%



SHISEIDO PROFESSIONAL

The global spread of COVID-19 is causing a decline in consumption and changes in consumer purchasing behavior. Business economic activities are stagnating, and the environment differs considerably from our initial expectations. Going forward, business results may fluctuate significantly depending on the viral spread and regulatory measures taken by each country. It is therefore difficult to forecast the timing of recovery and the amount of impact on the Group's results.

Given such circumstances, the Company has withdrawn its consolidated forecast for FY2020 on May 12, 2020. We will provide a new forecast at the time of the second quarter results announcement (planned for August 6, 2020).

 [Consolidated Settlement of Accounts / Presentation Materials](#)



Medium-to-Long-Term Strategy

VISION 2020



Overview of the Three-Year Plan

2018 – 2020 Five Key Strategies:

Building for the Future

- 1 Further Selection and Concentration of Brands and Businesses
- 2 Acceleration of Digitalization / 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 Structure

Achieving Record-High Net Sales, Operating Profit, and Net Profit

2019 Results	(Billions of yen)	YoY change	Like-for-like*
Net Sales	1,131.5	+3.4%	+6.8%
Operating Profit	113.8	+5.1%	
Operating Margin	10.1%	+0.2 percentage point	
Ordinary Profit	108.7	−0.7%	
Extraordinary Income (Loss)	−1.4		
Net Profit Attributable to Owners of Parent	73.6	+19.8%	

* FX-neutral, excluding the impact of withdrawals from the amenity goods business in 2018 and the *FERZEA* and *Encron* brands in 2019, the application of U.S. accounting standard ASC 606 in 2019, and the acquisition of U.S. skincare brand *Drunk Elephant*

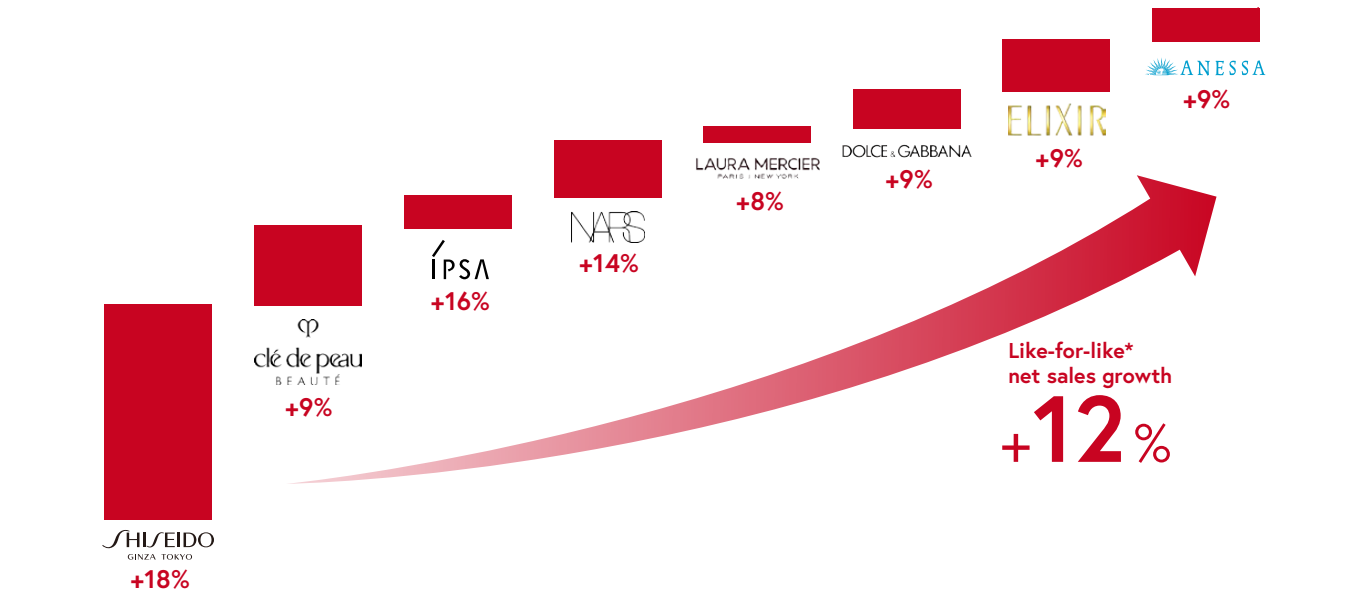
Regarding our consolidated business performance in 2019, despite the drastic changes and rising uncertainty in our business environment, net sales rose 3.4% year-on-year (6.8% like-for-like*), to ¥1,131.5 billion, driven by the growth of the prestige business, where we stepped up investments. Operating profit increased 5.1%, to ¥113.8 billion, and we achieved our target operating margin of more than 10% ahead of the schedule established at the start of our medium-to-long-term strategy VISION 2020. Net profit attributable to owners of parent surged 19.8%, to ¥73.6 billion, on the back of higher operating profit and reduced tax expenses, resulting in record-high net sales, operating profit, and net profit.

Prestige Brands Continue to Drive Growth

Accounting for nearly half of our consolidated net sales, prestige brands continue to act as a significant growth driver for our global business. Among these, brand *SHISEIDO* is offered in 85 countries and regions around the world and has grown into an over ¥200 billion brand. In addition, sales of our made-in-Japan cosmetics brands *ELIXIR* and *ANESSA* have continued to grow dramatically, particularly in Asia.

We will pursue further growth of our core brands through greater investments in marketing.

Achieving 12% Net Sales Growth from Eight Global Brands Combined



* Excluding the impact of foreign currency exchange and the application of U.S. accounting standard ASC 606 in 2019

Delivering Steady Results in China, EMEA, and Travel Retail Businesses

In the Japan Business, amid reluctant consumer spending after the consumption tax hike and sluggish inbound demand, we continued to focus on our "skin trinity" of skincare, base makeup, and sun care. In the China Business, prestige brands and made-in-Japan cosmetics brands such as *ELIXIR* and *ANESSA* continued to perform remarkably despite the difficult situation in the Hong Kong market. The Travel Retail Business, meanwhile, continued to grow mainly in Asia, owing to active investments in marketing.

The EMEA Business achieved a double-digit increase in net sales on the back of robust growth in the skincare and fragrance categories, where we stepped up investments. In the Americas Business, in light of the severe market environment, we continued efforts to improve profitability, including the closure of unprofitable *bareMinerals* boutiques.

 [VISION 2020, Three-Year Plan](#)



 [Business Strategy \(Full Version\)](#)



Regional Strategy

Region x Brand Global Matrix Organization



(From top left)

Philippe Lesné President and CEO Shiseido Travel Retail	Franck Marilly President and CEO Shiseido EMEA	Chiaki Tomita Global Vice President ANESSA Global Brand Unit	Barbara Calcagni President NARS Cosmetics Inc.	Masahiko Uotani Shiseido Group CEO, President and CEO Shiseido Japan
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Seika Teranishi Global Vice President ELIXIR Global Brand Unit	Yoshiaki Okabe Corporate Officer Chief Brand Officer SHISEIDO	Alexandra Papazian President Laura Mercier Cosmetics	Kentaro Fujiwara President and CEO Shiseido China
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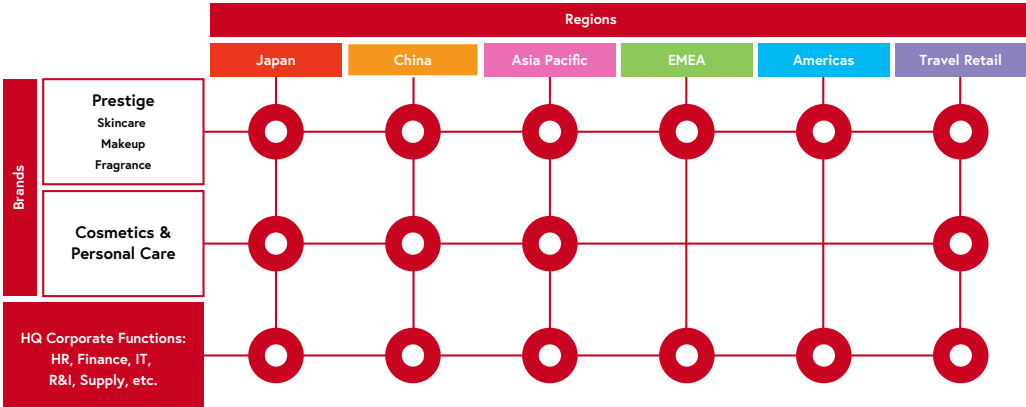
(From bottom left)

Audrey Briotet Global Brand Vice President Dolce&Gabbana Shiseido EMEA	Yukari Suzuki Director Executive Corporate Officer Chief Brand Officer, Clé de Peau Beauté, IPSA, THE GINZA and BAUM	Marc Rey President and CEO Shiseido Americas Chief Growth Officer Shiseido Group	Jill Scalamandre President bareMinerals and Buxom
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Since 2016, we have had in place a matrix organization that cross-matches six regions with brand categories. The regional headquarters are responsible for and have authority over their respective businesses. Guided by a "Think Global, Act Local" approach, these headquarters implement flexible decision-making and marketing activities attuned to the needs of local consumers.

At our Centers of Excellence, which contribute to future value creation, we collect information from regions that lead the way in each domain, conduct research, and formulate global strategies accordingly. For example, Japan hosts the Center of Excellence for skincare; the Americas, for makeup and digital technology; and EMEA, for fragrances. Moreover, we share the knowledge obtained at each Center of Excellence globally.

Region x Brand Global Matrix Organization



Enhancement of Brand Portfolio

In 2019, Shiseido concluded a long-term beauty partnership agreement for the distribution of *Tory Burch*, an American lifestyle brand, and acquired the American skincare brand *Drunk Elephant*.

Following changes in the competitive environment and diversifying consumer needs around the globe, brand value is becoming more important than ever. Accordingly, we are working to enhance our brand portfolio through such means as M&A and global brand development.

Drunk Elephant Skincare Brand

In 2019, we acquired the *Drunk Elephant* skincare brand, which is realizing rapid growth in the U.S.

Drunk Elephant boasts a tremendous presence in the clean market in the U.S., which emphasizes products that are good for both people and the environment. Furthermore, by capturing the changing values of a diverse group of consumers, including Millennials and Generation Z*, *Drunk Elephant* garners a high level of support through close personal communication with consumers by the brand's founder Tiffany Masterson as well as through digital marketing that leverages social media.

We will further enhance our brand portfolio with the addition of *Drunk Elephant*, which has exceeded sales of ¥10 billion in just seven years in the market and demonstrates a strong potential for growth. This acquisition will also help us fortify our earnings structure in the Americas Business, and we will utilize our cross-border network to expand this brand into global markets.

* A generation born in the second half of the 1990s and the 2000s. In addition to being known as "digital natives," this generation has a strong interest in environmental and social issues.



Tory Burch Lifestyle Brand

We concluded a long-term beauty partnership agreement with *Tory Burch* through Shiseido Americas Corporation, our headquarters for the Americas region. By doing so, we have acquired an exclusive license to globally develop, produce, market, and sell *Tory Burch* beauty products, which center on fragrances. Sales by Shiseido will commence in 2020.

Tory Burch is an American lifestyle brand that embodies the aesthetic and personal style of its executive chairman and chief creative officer of the same name, who launched the company in 2004. *Tory Burch* offers a wide range of products, including clothes, shoes, and handbags, at over 250 boutiques and over 3,000 department stores around the world, as well as through its official online store.

By adding *Tory Burch* to our prestige brands, we will not only enhance our brand portfolio, but also strengthen our fragrance business in the U.S. Furthermore, with this partnership we will aim to expand our consumer contact points in Japan, other countries in Asia, and in the Middle East, where *Tory Burch* has a high level of brand recognition.



Strengthening ELIXIR and ANESSA as Global Brands

The skincare brand *ELIXIR* and sun care brand *ANESSA* have enjoyed high demand from consumers, primarily in Japan, for many years, thus realizing continuous sales growth. Going forward, we will accelerate the expansion of these brands into the Asia Pacific, EMEA, and Americas regions and turn them into truly global brands originating in Japan.



ELIXIR



ANESSA

Japan Business

Driving the Growth of the Group through Stable Profit Generation

2019 Review

The cosmetics market in Japan grew at an annual rate of about 1% resulting from the consumption tax hike and stagnating demand from inbound tourists. Our net sales in the Japan Business rose 0.7% like-for-like*1, on par with the overall cosmetics market.

For brand *SHISEIDO*, the serum *Ultimune* and foundation products performed well, resulting in a significant increase in sales. Furthermore, *HAKU* and *d program* achieved robust performances with the launch of "Medicated Care-Hybrid Foundation" products, which condition the skin while promoting a more beautiful complexion and finish.



*1 Excluding the impact of business withdrawals

Net Sales	Operating Profit	Operating Margin
¥451.6 billion	¥91.1 billion	18.3%
YoY -0.6% Like-for-like*1 +0.7%	YoY -0.3%	

Key Strategies

As a global beauty company originating in Japan, we will strive to once again bolster the Japan Business.

We aim to enhance the profitability of the Japan Business and constantly improve it in the future. To that end, we will fortify our management and organizational structure to spur further reforms through closer collaboration between the global headquarters and the Japan Business. In addition, we will ensure that under this structure, challenges and improvement opportunities relayed by our employees in their consumer interactions are promptly communicated to and leveraged by management. In these ways, we will promote business activities that are better aligned with the preferences of consumers.

China Business

Accelerating Sales and Profit Growth through Made-in-Japan Brands

2019 Review

Demand for beauty products in China overall continued to be high. We maintained high sales growth for prestige brands such as *SHISEIDO*, *Clé de Peau Beauté*, *IPSA*, and *NARS*. The made-in-Japan cosmetics *ELIXIR* and *ANESSA* also realized significant growth.

In addition, we achieved substantial growth in e-commerce sales channels due to proactive digital marketing. In particular, we maintained high-level growth on Singles' Day, a Chinese shopping holiday that has been increasing in scale in recent years, due in part to the strong performance of exclusive online products.



Net Sales	Operating Profit	Operating Margin
¥216.2 billion	¥29.2 billion	13.5%
YoY +13.3% FX-neutral +19.0%	YoY +19.2%	

Key Strategies

To secure a high level of sales growth, we will concentrate investments primarily on prestige brands such as *SHISEIDO* and *Clé de Peau Beauté* as well as on the made-in-Japan brands *ELIXIR* and *ANESSA*. Also, while working to enhance our offline channels, we will strengthen our digital marketing activities and further reinforce e-commerce.

Asia Pacific Business

Maintaining Solid Performance of Prestige Brands and Expanding Growth in Southeast Asia

2019 Review

Amid an uncertain economic environment, Shiseido's prestige brands *Laura Mercier* and *Clé de Peau Beauté* continued solid performances. In addition, *ELIXIR*, *ANESSA*, and *Dolce&Gabbana* recorded significant growth. Although we faced challenging conditions in South Korea, performance in Southeast Asia held firm owing to the expansion of free-standing stores. We also achieved robust growth in cosmetics and personal care as a result of marketing strategies that cater to the characteristics of each country and region.



Net Sales	Operating Profit	Operating Margin
¥69.8 billion	¥7.4 billion	10.2%
YoY +2.5% FX-neutral +5.8%	YoY -4.9%	

Key Strategies

We will work to strengthen our prestige brands as well as made-in-Japan cosmetics and personal care brands. In terms of prestige brands, we will further expand sales channels such as free-standing stores and e-commerce.

Americas Business

Continued Initiatives to Improve Profitability amid Challenging Market Conditions

2019 Review

Although market conditions remained challenging, primarily in makeup, sales of *SHISEIDO* and *Dolce&Gabbana* continued to grow. For *bareMinerals*, we continued to move forward with structural reforms, including the closing of unprofitable boutiques. Additionally, we made efforts to fortify our brand portfolio in such ways as concluding a licensing agreement with *Tory Burch*, an American lifestyle brand, and acquiring *Drunk Elephant*, a fast-growing prestige skincare brand centered on the U.S. market.



*2 Excluding the impact from application of U.S. accounting standard ASC 606 and the acquisition of skincare brand *Drunk Elephant*

Net Sales	Operating Profit	Operating Margin
¥124.3 billion	-¥11.4 billion	-6.9%
YoY -5.6% FX-neutral -3.9% Like-for-like*2 -0.3%	YoY +¥3.4 billion	

Key Strategies

We will continue to reinforce the makeup brands *NARS* and *Laura Mercier* and accelerate the growth of the skincare brands *SHISEIDO* and *Clé de Peau Beauté*. For *bareMinerals*, we will remain committed to pursuing structural reforms while promoting a further shift toward digital.

Additionally, to achieve net sales growth, we will begin the full-scale rollout of *Drunk Elephant* and *Tory Burch*.

> Americas Business Profit Structure P.17

EMEA Business

Striving to Expand Growth and Steadily Improve Profits

2019 Review

Fragrance brands such as *Dolce&Gabbana* and *narciso rodriguez* helped drive growth in the EMEA Business, with new products recording robust sales. Additionally, *SHISEIDO* makeup performed favorably, and *NARS* continued to grow as well. In October 2019, we opened a dedicated *Clé de Peau Beauté* boutique in London, which got off to a solid start. Going forward, we will step up efforts to roll out *Clé de Peau Beauté* across Europe.



Net Sales	Operating Profit	Operating Margin
¥118.4 billion	-¥2.2 billion	-1.7%
YoY +4.6% FX-neutral +11.8%	YoY +¥5.8 billion	

Key Strategies

We will continue to invest in fragrance brands that are driving growth, such as *Dolce&Gabbana* and *narciso rodriguez*. Furthermore, we will focus on the cultivation of skincare brands, our area of strength, such as *SHISEIDO* and *Clé de Peau Beauté*.

> EMEA Business Profit Structure P.17

Travel Retail Business

Driving Growth in Asia and Maintaining High Profits

2019 Review

Travel Retail enjoyed a growing market centered on Asia following an increase in tourism. In line with this growth, Shiseido actively promoted marketing investments, particularly in airport advertising around the world. As a result, sales growth of core brands such as *SHISEIDO*, *Clé de Peau Beauté*, *NARS*, and *ANESSA* significantly outpaced that of the previous fiscal year, primarily in South Korea, China, Thailand, and other Asian countries and regions. In addition, with a view to further accelerating sales growth, we expanded the availability of *IPSA* and *ELIXIR* and worked to strategically reinforce store counters. As a result, net sales in the Travel Retail Business exceeded ¥100 billion.



Net Sales	Operating Profit	Operating Margin
¥102.2 billion	¥22.1 billion	21.5%
YoY +16.6% FX-neutral +19.4%	YoY +25.5%	

Key Strategies

We will continue to pursue proactive marketing investments in order to further strengthen our market position in the global prestige category. Additionally, in 2020 we integrated our duty-free operations in Japan into the Travel Retail Business to create a unified global framework. We will aim to achieve further growth by strengthening marketing activities for tourists through digital communication, establishing stronger partnerships with major operators, and bolstering our in-store service capabilities.


> Regional Strategy (Full Version)



Message from the CFO

Strengthening Our Real-Time Business Analytics Capabilities on a Global Scale to Further Enhance Decision-Making

Michael Coombs
Corporate Officer
Chief Financial Officer

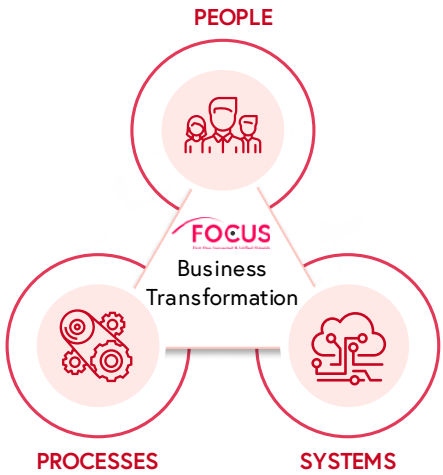


In 2019, Shiseido was able to realize record-highs for net sales, operating profit, and net profit. In 2020, the final year of VISION 2020, we will push forward with our business activities while keeping a sharp focus on the future under the tough market conditions.

As I commence my second year as CFO with Shiseido, I will leverage the realizations I have made over the past year to further improve our business operations. Strengthening Shiseido's real-time business analytics capabilities on a consolidated basis is one of the key priorities for my team in 2020. Our newly-established Business Transformation team is driving the design and gradual implementation of a globally shared IT platform. I can say with confidence that this new global platform, known as FOCUS, is a best-in-class system that offers standardized data and optimized processes. While having such capabilities is not necessarily a competitive advantage in today's environment, the absence of advanced, real-time business analytics can be an impediment to reaching our next milestone if not addressed with urgency.

Outstanding people, processes and systems are all key enablers of our success and are critical to raising Shiseido's overall performance and profitability to a level comparable with or ahead of our global peers. In order to promote our businesses at a speed that matches that of the changes in the business environment, we will become a data-enabled organization that is able to grasp global conditions in real time and accurately analyze data.

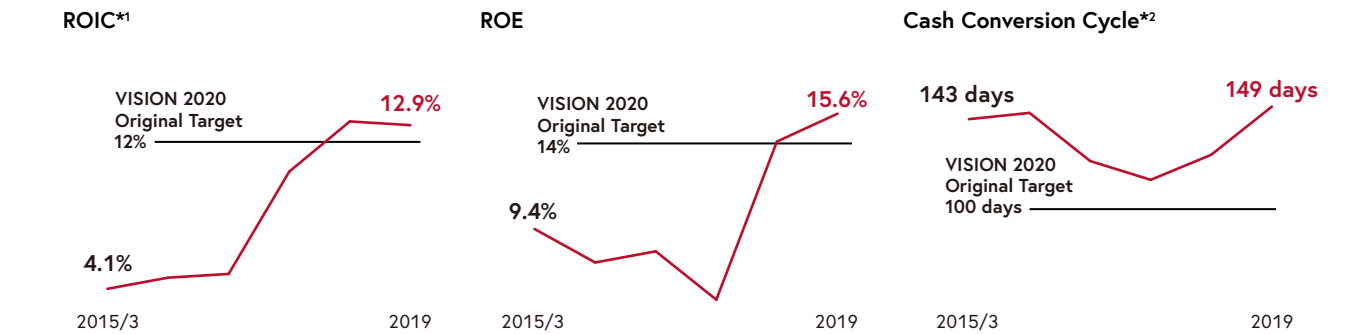
While forging ahead with FOCUS, we must remain conscious of the need to have a world-class team of finance professionals. With the aim of achieving an industry-leading cost structure, Shiseido is working to optimize its balance sheet, ensure disciplined cash allocation, and manage and improve its financial metrics. In 2020, we will continue to make the utmost effort to increase shareholder value.



Michael Coombs
Corporate Officer
Chief Financial Officer



Improving Capital Efficiency

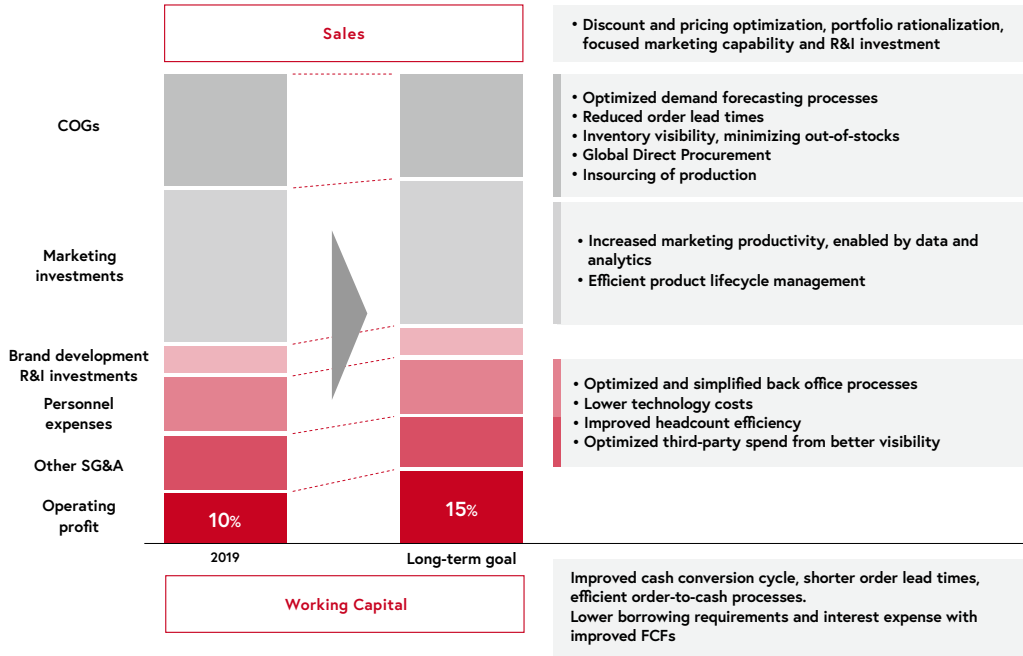


*1 ROIC (Return On Invested Capital) = Operating Profit × (1 – Effective Tax Rate) / (Interest-Bearing Debt + Equity)
*2 Cash Conversion Cycle (days) = Receivables Turnover Period (days) + Inventory Turnover (days) – Payables Turnover Period (days) (average of each indicator during the period is used)

In 2019, return on invested capital (ROIC) came to 12.9%, exceeding its VISION 2020 original target of 12% but representing a slight decline from the previous fiscal year due to the higher interest-bearing debt incurred from business acquisitions. Return on equity (ROE) was 15.6%, thereby also surpassing its VISION 2020 original target of 14%. As a result, both ROIC and ROE reached their targets ahead of schedule.

Meanwhile, we recorded a cash conversion cycle (CCC) of 149 days, which was longer than that of the previous fiscal year, owing to an increase in inventory. We will continue to do our utmost to establish a flexible production and supply capacity and achieve greater precision in our demand forecasts as we target a CCC of 100 days.

Unlocking Value across Our Business
Major System Transformation Under Way

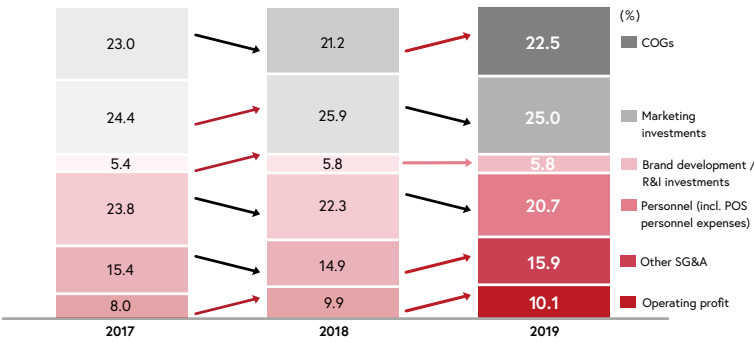


We established our new Business Transformation Department in 2019 and are proceeding with the development of a globally standardized IT platform called FOCUS. This platform will allow us to pursue shorter order lead times, a more refined demand-forecasting process, and higher marketing ROI.

In addition to revamping and innovating our IT systems, FOCUS will help us change all of our processes at Shiseido by merging together various personnel, processes, and systems with the intent of realizing our long-term target operating margin of 15% and sustainable growth in the future. Through FOCUS, we will fine-tune our ability to create value in all of our business.

Toward an Ideal Profit Structure

2019 Profit Structure



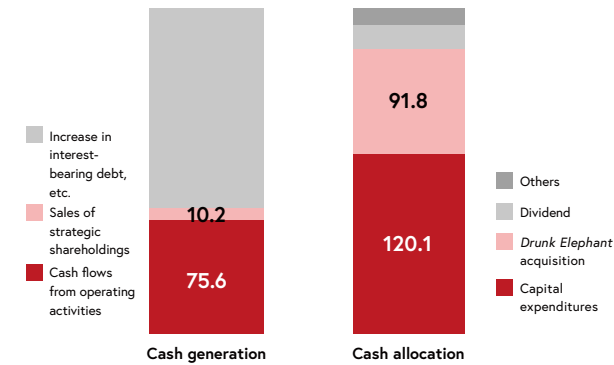
* Excludes the impact of withdrawals from the amenity goods business in 2018 and the *FERZEA* and *Encron* brands in 2019, the application of U.S. accounting standard ASC 606 in 2019, and the acquisition of U.S. skincare brand *Drunk Elephant*

Shiseido is placing its highest priority on maximizing profits by maintaining sales growth. Our marketing ROI has improved thanks to our efforts in optimizing costs according to shifts in the market environment and shifting investments toward digital marketing, in addition to continuous strategic investments in core brands. In 2019, the cost of sales ratio expanded primarily due to a rise in inventory and costs associated with the construction of our Nasu Factory, while the proportion of costs accounted for by other SG&A expenses also climbed owing to an increase in logistics costs, among other factors.

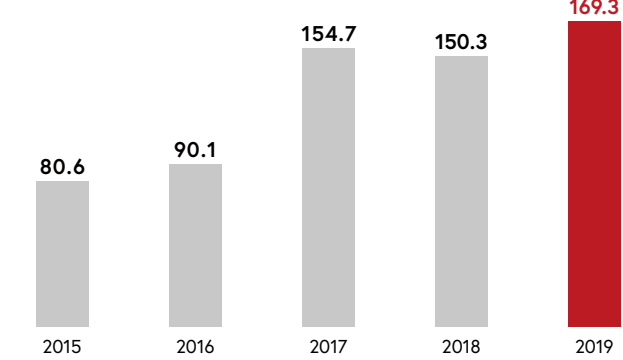
With our sights set on achieving further growth in net sales and profitability, we will continue to step up our investments in priority areas such as marketing, brands, and research and innovation, and move forward with cost-control measures.

Aggressive Investment for Sustainable Growth

Cash Generation & Allocation (Billions of yen)



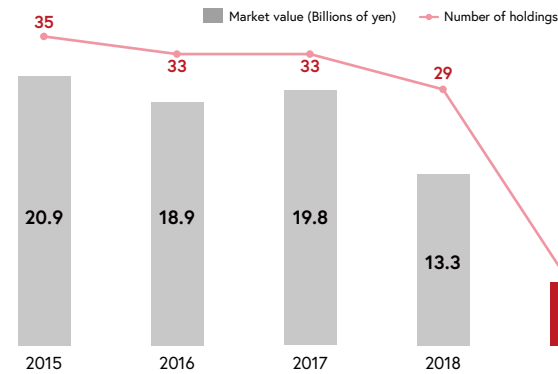
EBITDA (Billions of yen)



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

Strategic Shareholdings

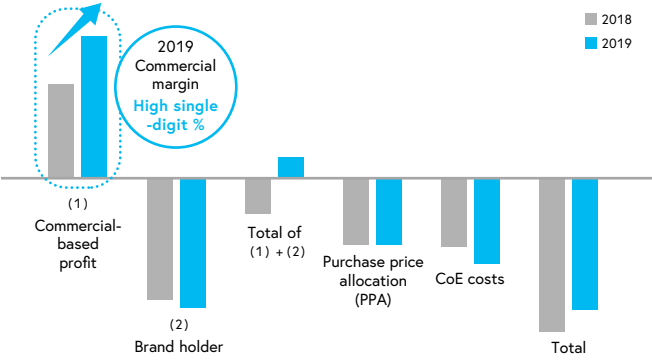
(Non-Consolidated, Listed Companies)



We solidly achieved the ability to generate cash through our businesses and realized a record-high EBITDA of ¥169.3 billion in 2019. In addition, we aggressively carried out investments with the goal of realizing long-term growth, such as through capital expenditures to boost our production capacity and the acquisition of U.S. skincare brand *Drunk Elephant*. At the same time, we have been gradually reducing strategic shareholdings to ensure more efficient use of capital, pursuant to the Corporate Governance Code. Going forward, based on a strict approach to cash allocation, we will continue to expand our cash generation capacity while stepping up investments geared toward sustainable growth, including investments to strengthen our supply structure, which has been an issue, and to promote the standardization of our IT systems on a global basis.

Achieving Steady Growth in the Americas and EMEA

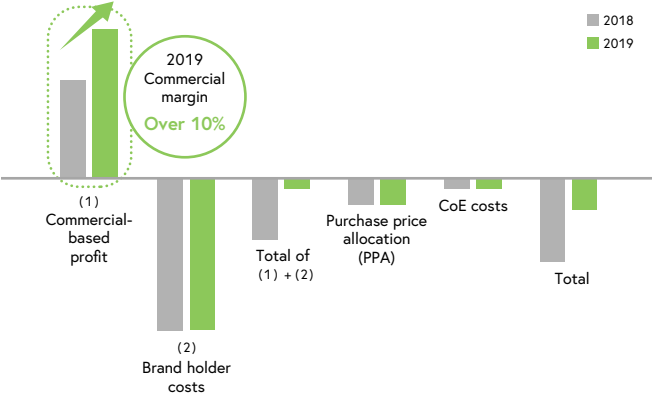
Americas Business Profit Structure*



* Excluding *Drunk Elephant*

Profitability in the Americas and EMEA Businesses, which we have been pursuing as a priority issue, is showing steady improvement. In the Americas Business, operating loss decreased by ¥3.4 billion year on year on a statutory basis. Commercial-based profit (1) rose substantially on the back of lower fixed costs due to structural reforms to *bareMinerals* as well as higher marketing ROI stemming from digitalization. Combining the higher aforementioned profit with brand holder costs (2) related to *NARS*, *bareMinerals*, *Laura Mercier*, and other U.S.-based brands, the Americas Business was able to return to profitability. Meanwhile, costs related to Centers of

EMEA Business Profit Structure



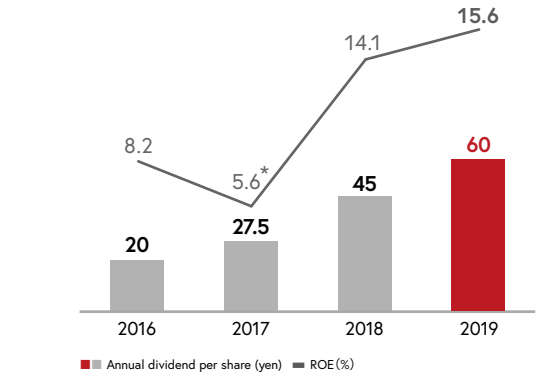
Excellence climbed as a result of strengthening global service functions such as the Technology Acceleration Hub, a research & innovation base for digital technologies.

In the EMEA Business, commercial-based profit (1) improved drastically owing to the favorable sales growth of fragrances. Combining this increased profit with brand holder costs (2) related to *Dolce&Gabbana* and other EMEA-based brands, the EMEA Business nearly reached the break-even point in terms of profitability, while operating loss therein improved by ¥5.8 billion year on year on a statutory basis.

Shareholder Return Policy

Realization of Total Returns Comprising Direct Income Gain and Medium-to-Long-Term Capital Gain

Dividend per Share and ROE



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

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 financing activities that support future growth in a timely manner using optimal methods taking into account the market environment and other factors. However, to realize an optimal capital structure that enables the pursuit of further improvements to 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 flows.

In regard to the Company's shareholder return policy, we aim for total returns that comprise direct income gain and

The global spread of COVID-19 is causing a decline in consumption and changes in consumer purchasing behavior. Business economic activities are stagnating, and the environment differs considerably from our initial expectations. Going forward, business results may fluctuate significantly depending on the viral spread and regulatory measures taken by each country. It is therefore difficult to forecast the timing of recovery and the amount of impact on the Group's results.

Given such circumstances, the Company has withdrawn its consolidated forecast for FY2020 on May 12, 2020. We will provide a new forecast at the time of the second quarter results announcement (planned for August 6, 2020).

As the Company withdrew its consolidated forecast for FY2020, it has also withdrawn the interim and year-end dividend forecast. A new dividend forecast will be announced at the same time as the financial results for the second quarter.


> Consolidated Settlement of Accounts / Presentation Materials

medium-to-long-term capital gain. Based on this approach, we will emphasize strategic investments toward sustainable growth and aim to maximize corporate value. Meanwhile, we intend to 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 of 2.5% or higher. Also, we maintain an approach of flexibly buying back shares with consideration for the market environment.

"Sustainable Beauty Initiative"

Realizing a Better World

Jun Aoki
Executive Corporate Officer
Chief Social Value Creation Officer



Since its founding in 1872, Shiseido has pursued unprecedented new value and worked to deliver it across society. The establishment of Japan's first Western-style private pharmacy, the introduction of the soda fountain, and the creation of the cosmetics business are all examples of how Shiseido has incorporated Western lifestyle practices and culture into Japanese society to realize new value.

The name "Shiseido" comes from a passage in the ancient Chinese divination text *Yi Jing*. The passage reads, "Praise the virtues of the earth, which nurtures new life and brings forth significant value." We have always felt that our ongoing business activities are only possible thanks to the abundance of nature and the sustainability of the environment. To that end, we firmly believe that our business activities must place importance on the creation of social value, in addition to economic value. We also believe that a sustainable society is a prerequisite for sustainable business. Guided by these beliefs, we are engaging in a broad range of activities to create a virtuous cycle for a better society.

This virtuous cycle is put into motion by our corporate mission, BEAUTY INNOVATIONS FOR A BETTER WORLD. Our sustainability strategy centers on ESG. "ESG" stands for "environment," "society," and "corporate governance" and is a concept on which modern society places value, while "C" represents "culture," a unique strength of Shiseido. Accordingly, we are working to promote the Sustainable Beauty Initiative, which aims to realize a better world, and have defined the following key areas that require our attention as a beauty company. See page 19 for the goals and specific strategies in each area.

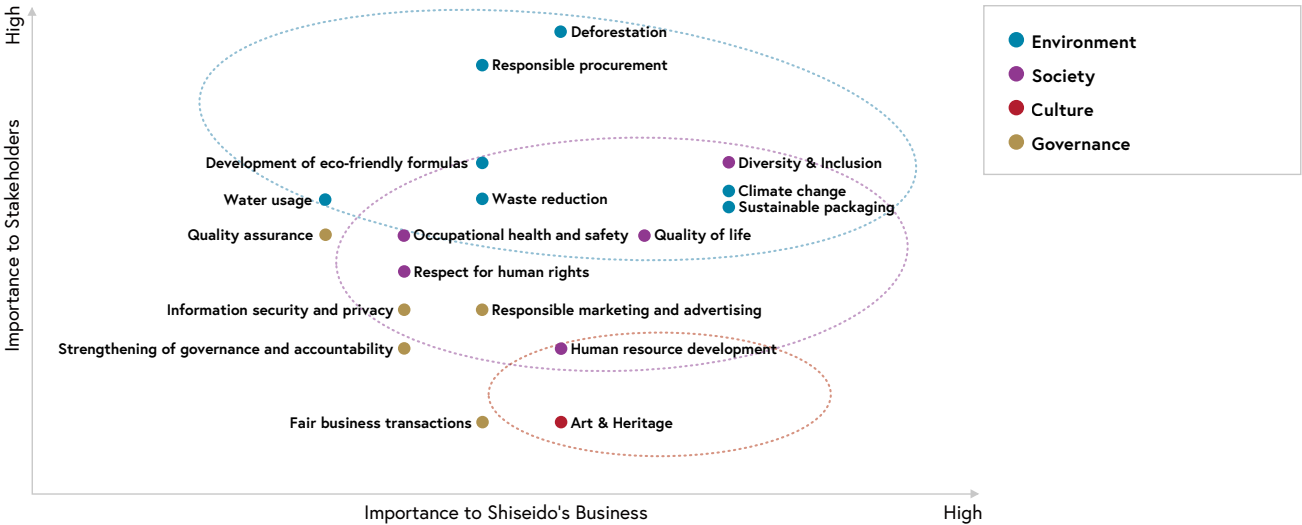
Positioning these efforts as important elements of its ESG management, Shiseido will strive to remain vital for the next 100 years and be the world's most trusted beauty company.

Shiseido's Material Issues

As a framework for creating social value unique to a beauty company, we defined the Shiseido Group's material issues in April 2019 based on interviews and discussions with our stakeholders.

Categorizing issues taking into consideration their impact on our stakeholders (consumers, business partners, employees, shareholders, and society and the earth) and their impact on the Company's businesses, we established an order of priority and selected 18 material issues. In addition, we revised our definition of social value from the perspectives of the environment, society, and culture. The details and positioning of each mapped issue are reviewed as necessary through discussions by the dedicated management board called the Sustainability Committee, etc.

The Shiseido Group's Materiality Map



Strategies Adopted by Shiseido and Corresponding SDGs

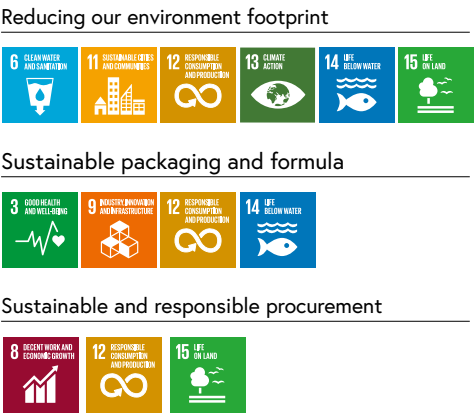
We promote the Sustainable Beauty Initiative and contribute to the achievement of the Sustainable Development Goals.

Clean Environment
Striving for the ideal of a global environment that supports lives of vibrancy.

In regard to environmental areas, we are focusing efforts on establishing targets and timelines for reducing our environmental footprint, such as CO₂ emissions, palm oil, paper, and water resources, as we aim to achieve further sustainable growth. For climate change, in particular, we expressed our support for the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD) in April 2019. In addition, we are strengthening initiatives such as reducing marine pollution through the development of eco-friendly packaging. Also, we continue to protect people's skin and bodies from the damage of UV rays by leveraging our sunscreen technologies, which have garnered high praise.



Related SDGs



Respectful Society
Advancing a society that embraces diversity through respect, and supports lives of beauty.

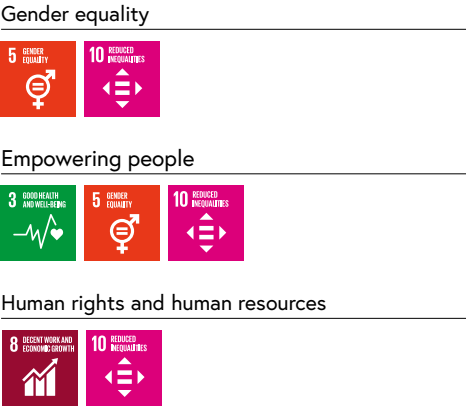
For social areas, President Masahiko Uotani has been appointed as the inaugural chair of the 30% Club Japan, a chapter aiming to boost female representation on company boards. We are working together with other companies in Japan to resolve issues that impede the empowerment of women.

Globally, we will expand activities to empower senior citizens and those with serious concerns about their skin and appearance, including changes in skin color caused by the side effects of cancer treatment, through the power of beauty.



2019 topic: The 30% Club Japan began its activities

Related SDGs



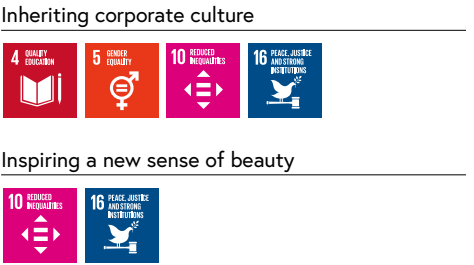
Enriched Culture
Creating new value to enrich culture by transforming beauty.

In areas related to culture, we will pass on our long-cultivated corporate culture and DNA to future Group employees, as we strengthen our unity through shared value and evoke our power to innovate that has enabled us to constantly transform in response to changing times. By doing so, we will explore and discover new aesthetic sensibilities and create new value through collaboration with our businesses.



2019 topic: Began issuing an English version of the Shiseido corporate culture magazine, *Hanatsubaki*, in Europe and the U.S.

Related SDGs



Continue to Create Value Going Beyond
Cosmetics through Research & Innovation

Yoichi Shimatani
Representative Director
Executive Vice President
Chief Innovation Officer



Shiseido has consistently pursued research & innovation activities on the latest technologies. Going forward, in addition to leveraging its long-cultivated cosmetic technologies that prioritize safety, Shiseido will continue to offer products with value exceeding that of conventional cosmetics. By doing so, we will realize Beauty Innovations that lead to new lifestyles for people around the world.

Strengths Cultivated Over Our 100-Year History

Since establishing the Testing Room in 1916, which handled product development and improvement, Shiseido has promoted research & innovation activities that combine Eastern and Western science with a focus on beauty. Throughout this history, we have cultivated three core strengths that cannot be easily imitated by our competitors.

The first strength is safety. We endeavor to research, develop, and manufacture products and services that truly satisfy our consumers and offer outstanding levels of safety, always with the consumer in mind. In addition to laws and regulations, we adhere to strict, independent safety standards to offer products that guarantee safety without compromise.

Another strength is our holistic anti-aging care technologies that focus substantially on inner beauty. For many years, we have been engaging in research based on Western science in a quest to clarify the cause-and-effect relationship between the inner body and skin, a relationship that closely pertains to the concepts of Eastern medicine. This kind of approach, which combines Eastern and Western ideas, has helped support our core skincare brands and enabled us to provide value that fundamentally differs from that offered by our competitors in Europe and the Americas.

The third strength is our sensibilities. Unlike pharmaceuticals, cosmetics need to establish a deep connection with the people who use them, including the comfort and enjoyment that comes from using cosmetics every day. Accordingly, we have placed importance on painstaking research into sensibilities to enhance product value. We are currently working from a neuroscientific and psychological perspective to establish technologies capable of creating high-quality textures that will enhance consumer desire to continue to use our products.



Progress of the Three-Year Plan (2018 to 2020)

Over the past three years, we have implemented strategic investments with a particular focus on reinforcing our fundamental research capabilities and fortifying our ability to develop cosmetics at overseas bases. Since 2019, we have been further evolving our conventional hub-and-spoke network*, transforming it into a multi-hub network where our eight research bases around the world, including the Global Innovation Center (GIC) established in April 2019, roll out their respective insight and research results on a global basis.



Global Innovation Center

* A network where fundamental research is primarily handled at laboratories in Japan and the results are extended overseas

Efforts to Realize Further Innovations

Our innovation strategy going forward will focus on the following three points. The first is engaging in thorough R&D activities focused on consumers to spur innovation. This will be done by leveraging the special features of the GIC, which is located in a major urban area, to promote co-creation initiatives and understand the latent needs of consumers regarding beauty.

The next point of our innovation strategy is to provide products and services that contribute to a sustainable society in order to deliver the true value of beauty. This will be realized through unique technological development and external collaboration, including in terms of developing packaging with minimal environmental impact, procuring eco-friendly raw materials, and developing new formulas.

The final point is the promotion of open innovation and the development of new products and services realized through such innovation. To create synergistic effects by combining our core strengths of safety, holistic anti-aging care technologies, and sensibilities with the insight and technologies of external organizations, we will take on challenges in new domains.

Additionally, we will focus on integrating digital technologies with the research we conduct at the GIC in order to respond to the personalization domain, which is expected to grow even further going forward.

We ask that you continue to look forward to the research & innovation activities of Shiseido as we work to realize BEAUTY INNOVATIONS FOR A BETTER WORLD.



From Supply Chain to Supply Network:
Realizing Further Sustainable Growth

Norio Tadakawa
Director
Executive Corporate Officer
Chief Supply Network Officer



Evolution from Supply Chain to Supply Network

Amid expanding business scale, strengthening our supply chain has become one of the most important issues for management. Therefore, we are making joint efforts with our raw material suppliers and out-sourced manufacturing partners to reinforce the supply chain and improve our product supply capabilities in the market. Furthermore, we believe that, in the ever-changing market environment, the ability to build an agile supply structure will be of crucial importance going forward. To that end, while precisely capturing the needs of consumers around the world, we will strengthen collaboration with our business partners, build a supply structure that is fast and flexible, and evolve our supply chain into a supply network.

Shiseido's Supply Network

We have four strengths in our supply network.

The first strength is the high level of quality recognized by consumers, resulting from the use of high-quality raw materials carefully selected based on Shiseido's quality standards as well as from our stringent inspection processes.

The second strength is sharing the technology and culture of craftsmanship cultivated in Japan with our overseas production bases. With this strength, we aim to enable production that meets the needs of each region as well as achieve flexible and stable production even in the event of an emergency or a significant fluctuation in demand.

The third strength is our technological capabilities that contribute to a sustainable society. Through this strength, we will pursue various environmentally focused efforts, including the production of eco-friendly packaging. At the same time, we will actively develop technologies that can steadily turn innovative raw materials into products.

Our human resources constitute the final strength. Human resources who take pride in their work at the Company and their ability to create high-quality products serve as the source of our value creation.

Global Supply Network



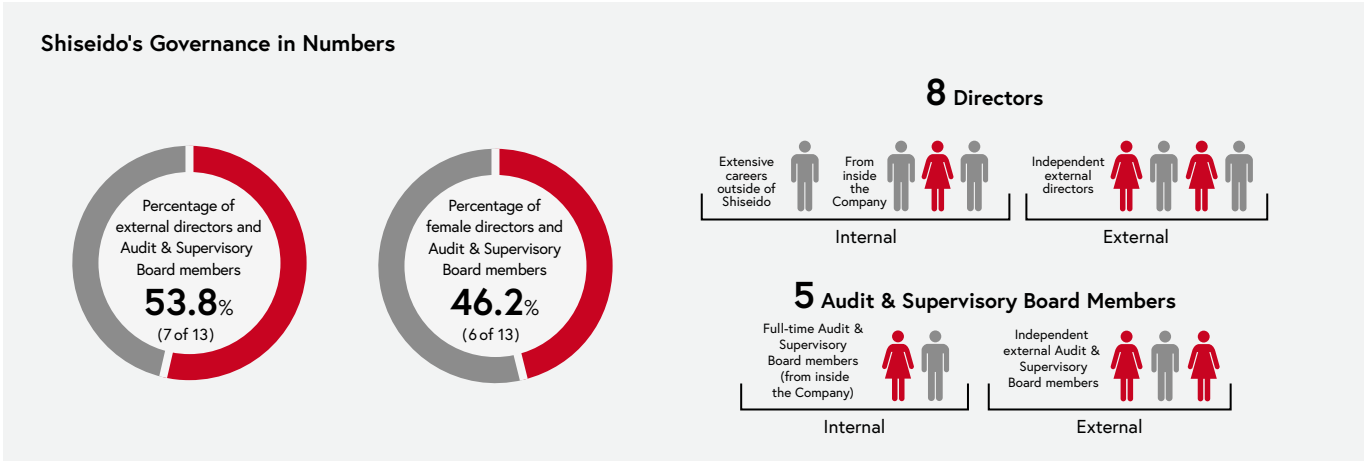
Directors and Audit & Supervisory Board Members



> Career Summaries

Features of Shiseido's Corporate Governance

Shiseido's basic policy on corporate governance defines governance as the "platform to realize sustainable growth by fulfilling the corporate mission." We strive to maximize medium-to-long-term corporate and shareholder value by implementing and reinforcing corporate governance to maintain and improve management transparency, fairness, and speed, and through dialogue with all stakeholders, from consumers, business partners, employees, and shareholders to society and the earth. At the same time, by fulfilling its responsibilities as a public entity of society, Shiseido works to optimize the value it delivers to respective stakeholders.



Current Structure

The Company has adopted a company with an audit & supervisory board organizational structure with double-check functions for business execution: supervision by the Board of Directors and audits by Audit & Supervisory Board members. In order to maintain and improve management transparency, fairness, and speed as per the Basic Policy for Corporate Governance, the Company has reinforced the supervisory function of the Board of Directors by incorporating outstanding functions, including those of a company with nominating committee and company with audit and supervisory committee, etc.

Effective January 2016, the Shiseido Group has launched a global matrix organization which cross-matches six regions with brand categories. Under this matrix organization, the global headquarters is responsible for supervising the overall Group and

providing necessary support, while many of the responsibilities and authorities that used to be retained by the Company are delegated to respective regional headquarters of Japan, China, Asia Pacific, the Americas, EMEA, and Travel Retail. The Board of Directors held repeated discussions with regard to an ideal state of the Company's corporate governance system under this matrix organization, including composition and operation of the Board of Directors. As a result, it concluded that adopting the monitoring board-type structure would ensure sufficient and effective supervisory functions over the Shiseido Group overall, and resolved to implement the monitoring board-type corporate governance while leveraging advantages of a company with an audit & supervisory board structure.

Skills and Expertise Required of Directors and Audit & Supervisory Board Members

Given that the Company requires directors and Audit & Supervisory Board members to supervise business execution and conduct decision-making on critical matters, it selects candidates based on their personality and insight, regardless of attributes such as gender, age, and nationality, as they must possess various viewpoints and backgrounds, in addition to diverse and sophisticated skills.

		Global management / Business strategy	Marketing / Experience of the Company's business and the industry	Technology / Innovation	ESG (Environment, Society, Governance)	Legal affairs / Risk management	Finance / Accounting / M&A
	Masahiko Uotani Representative Director, President and CEO	●	●		●		
	Yoichi Shimatani Representative Director, Executive Vice President	●	●	●			
	Yukari Suzuki Director, Executive Corporate Officer	●	●				
	Norio Tadakawa Director, Executive Corporate Officer	●	●				●
	Yoshiaki Fujimori External Director (Independent)	●			●		●
	Yoko Ishikura External Director (Independent)	●			●		
	Shinsaku Iwahara External Director (Independent)				●	●	●
	Kanoko Oishi External Director (Independent)	●			●		
	Takeshi Yoshida Audit & Supervisory Board Member	●	●				●
	Akiko Uno Audit & Supervisory Board Member		●		●	●	
	Yasuko Gotoh External Audit & Supervisory Board Member (Independent)	●			●		●
	Ritsuko Nonomiya External Audit & Supervisory Board Member (Independent)	●					●
	Hiroshi Ozu External Audit & Supervisory Board Member (Independent)				●	●	

● mark indicates principal areas of expertise (maximum 3 areas per person)

Executive Remuneration—A Remuneration System That Strikes a Balance between Short-Term and Long-Term Incentives

The Company regards the remuneration policy for directors, Audit & Supervisory Board members, and corporate officers as a matter of the utmost importance for corporate governance.

Remuneration for directors and corporate officers comprises basic remuneration and performance-linked remuneration. The Company sets appropriate executive remuneration levels by making comparisons with those of companies in the same industry or of the same scale in Japan and overseas, taking the Company's financial condition into consideration.

Composition of Executive Remuneration

Basic Remuneration	Annual Bonus	Long-Term Incentive
46–64%	18–27%	18–27%
The Company designs remuneration level in accordance with role grades based on the level of responsibility of each director and corporate officer and the size of the impact on business management of the Group	Performance evaluation on achievement of goals for a single fiscal year <ul style="list-style-type: none">Consolidated net sales, consolidated operating profit, performance of respective businesses, individual strategic goalsPerformance indicator as the payment rate threshold: Net profit	Performance evaluation on achievement of long-term goals <ul style="list-style-type: none">Economic value indicators: CAGR of consolidated net sales, CAGR of consolidated operating profitSocial value indicators: ESGPerformance indicator as the payment rate threshold: ROE

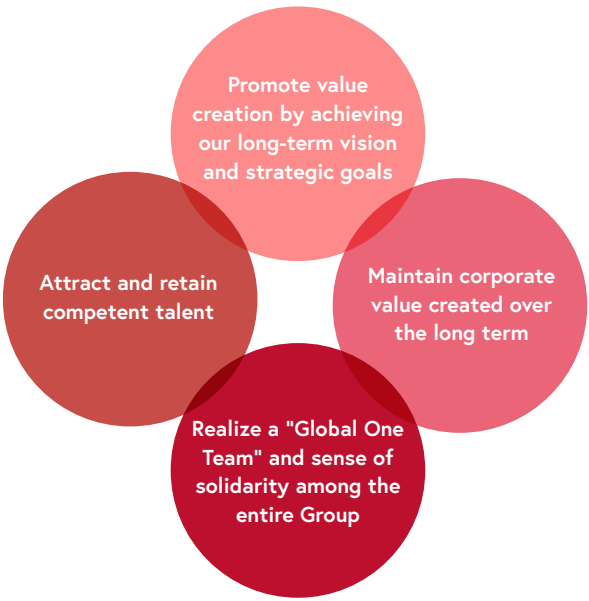
Key Points of the Remuneration System

- Comprises basic remuneration, which is offered as fixed remuneration, and annual bonuses and long-term incentives, which are offered as performance-linked remuneration
- Introduces a role grade system designed so that the higher the role grade the greater the ratio of the performance-linked component of remuneration
- Deems the achievement of performance targets in a single fiscal year and in the medium-to-long term to be of equal importance and sets performance indicators for annual bonuses and long-term incentives consistent with their respective objectives. The Company has designed these performance indicators to motivate directors and corporate officers to realize growth over not only a single fiscal year but also the medium-to-long term
- With particular emphasis on long-term incentives, sets indicators that can evaluate performance from the perspectives of both economic and social value, in order to maintain and improve corporate value

Shiseido's Long-Term Incentive Plan for Motivating Management to Promote Growth over the Medium-to-Long Term

Aim of Introducing the Long-Term Incentive Plan

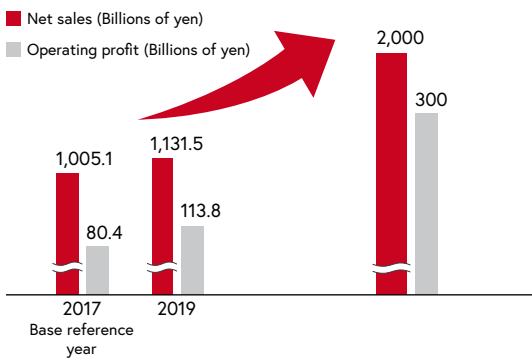
To establish effective incentives for creating and maintaining long-term corporate value and foster an awareness of the common interests we have with our shareholders, we have introduced performance share units, a type of performance-linked stock remuneration.



Performance Evaluation Indicators for the Long-Term Incentive Plan

The Company has set the long-term targets of net sales of ¥2 trillion and operating profit of ¥300 billion and recognizes that continuous and constant growth in sales and profits is necessary to achieve those targets. For this reason, we have established compound average growth rate (CAGR) as a performance indicator to improve economic value. We have also set internal and external performance indicators to improve and advance performance continuously from an ESG perspective, and we use these indicators as a mechanism for evaluating performance over a three-year period.

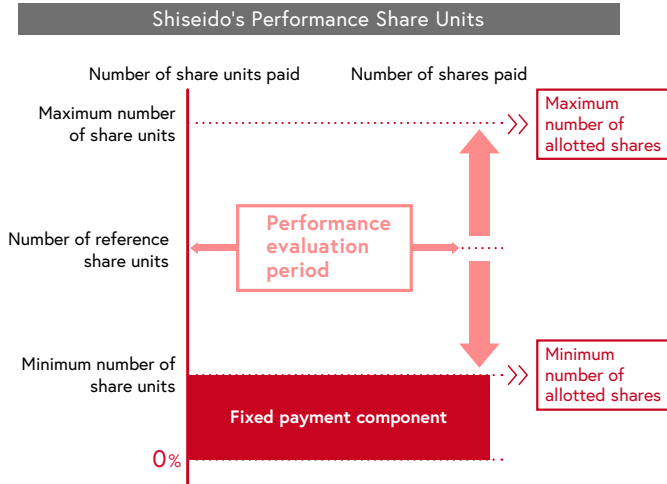
Furthermore, we have added consolidated return on earnings (ROE), an important indicator for shareholders, as a performance indicator for determining the payment rate threshold. If performance falls below the threshold, the Company does not pay the performance-linked component. Through these measures, we will ensure profits above a certain level while implementing investments for growth and robust decision-making. We also expect these measures to further heighten awareness among directors and corporate officers of the common interests we have with our shareholders.



Performance indicator	Evaluation ratio	
CAGR of net sales	45 %	Economic value indicators
CAGR of operating profit	45 %	
Internal and external indicators related to ESG	10 %	Social value indicators

Performance Share Units

- Performance share units serve as a type of performance-linked stock remuneration whereby the Company allots a reference share unit to eligible parties and increases or decreases the number of units in accordance with the achievement rate for performance evaluation indicators during the evaluation period. The Company then pays to eligible parties shares of the Company's stock or an equivalent monetary amount corresponding to the number of determined units. In this way, the system is suitable for fostering awareness of the Company's share price and reflecting performance results in remuneration.
- The Company's performance share units comprise two parts: a performance-linked component and a fixed payment component for the three-year performance evaluation period. As part of the performance-linked component, the Company pays shares after increasing or decreasing the number of reference share units in accordance with the compound average growth rate of both consolidated net sales and consolidated operating profit and with the achievement rates for ESG-related targets as a non-financial indicator. The fixed payment component is not linked to performance and is designed to foster an awareness of the common interests we have with our shareholders and secure and maintain superior personnel.



Share unit: units equivalent to shares after the evaluation period



Historical Financial Summary

Shiseido Company, Limited and Subsidiaries
For the fiscal years ended March 31, 2011 to December 31, 2019

	Millions of yen (Except per share data)									Thousands of U.S. dollars (Except per share data)	
	2011/3	2012/3	2013/3	2014/3	2015/3	2015/12	2016/12	2017/12	2018/12	2019/12	2019/12
Operating Results:											
Net sales	670,701	682,385	677,727	762,047	777,687	763,058	850,306	1,005,062	1,094,825	1,131,547	10,425,161
Cost of sales	168,692	162,989	166,783	189,559	196,433	196,009	207,553	231,327	231,928	254,844	2,347,927
Selling, general and administrative expenses	457,550	480,260	484,898	522,843	553,640	529,388	605,972	693,298	754,545	762,871	7,028,477
Operating profit	44,458	39,135	26,045	49,644	27,613	37,660	36,780	80,437	108,350	113,831	1,048,747
EBITDA	65,576	76,974	61,463	91,285	90,703	80,635	90,078	154,741	150,318	169,348	1,560,235
Net profit (loss) attributable to owners of parent	12,790	14,515	(14,685)	26,149	33,668	23,210	32,101	22,749	61,403	73,562	677,740
Financial Position:											
Total assets	739,120	720,707	715,593	801,346	823,636	808,547	934,590	949,425	1,009,618	1,218,795	11,228,993
Short-term interest-bearing debt	16,361	9,734	39,394	64,054	75,615	18,996	16,557	10,662	15,202	144,949	1,335,443
Long-term interest-bearing debt	181,155	175,418	145,274	91,864	31,281	67,617	104,022	70,801	60,574	103,159	950,423
Interest-bearing debt	197,517	185,153	184,669	155,918	106,897	86,613	120,580	81,463	75,776	248,108	2,285,866
Equity	307,269	290,494	287,069	338,561	386,860	391,664	392,963	423,447	448,580	496,437	4,573,770
Cash Flows:											
Cash flows from operating activities	67,586	52,599	42,040	84,320	32,134	60,529	59,129	95,392	92,577	75,562	696,167
Cash flows from investing activities	(30,303)	(20,668)	(25,534)	(16,799)	11,538	(23,137)	(70,640)	(1,061)	(103,112)	(202,823)	(1,868,647)
Cash flows from financing activities	(39,571)	(35,482)	(24,745)	(47,462)	(58,419)	(30,151)	22,378	(53,117)	(29,722)	113,678	1,047,337
Cash and cash equivalents at end of year	88,592	82,974	80,253	110,163	100,807	104,926	113,122	156,834	111,767	97,466	897,973
Per Share Data (In yen and U.S. dollars):											
Net profit (loss)	32.1	36.5	(36.9)	65.7	84.4	58.2	80.4	56.9	153.7	184.2	1.70
Net assets	772.1	729.9	721.2	849.4	970.0	981.4	984.1	1,059.8	1,123.2	1,242.9	11.45
Cash dividend	50.0	50.0	50.0	20.0	20.0	20.0	20.0	27.5	45.0	60.0	0.55
Weighted average number of shares outstanding during the period (thousands)	397,864	397,974	398,007	398,300	398,704	399,026	399,227	399,466	399,409	399,411	
Financial Ratios:											
Operating margin (%)	6.6	5.7	3.8	6.5	3.6	4.9	4.3	8.0	9.9	10.1	
Return on invested capital (%)	4.5	3.5	3.4	5.9	4.1	4.6	5.0	10.4	13.1	12.9	
Return on equity (%)	3.9	4.9	(5.1)	8.4	9.4	6.0	8.2	5.6	14.1	15.6	
Equity ratio (%)	41.6	40.3	40.1	42.2	47.0	48.4	42.0	44.6	44.4	40.7	
Interest-bearing debt to EBITDA ratio (times)	3.1	2.5	3.0	1.9	1.4	1.2	1.2	0.7	0.5	1.0	
Debt-equity ratio (times)	0.64	0.64	0.64	0.46	0.28	0.22	0.31	0.19	0.17	0.50	
Interest-bearing debt ratio (%)	39.1	38.9	39.1	31.5	21.6	18.1	23.5	16.1	14.5	33.3	
CCC (Cash Conversion Cycle) (days)	109	109	133	139	143	146	123	114	126	149	
Payout ratio (consolidated) (%)	155.5	137.1	—	30.5	23.7	34.4	24.9	48.3	29.3	32.6	
Dividend on equity (%)	6.1	6.7	6.9	2.6	2.2	2.1	2.0	2.7	4.1	5.1	
Number of employees at year-end	31,310	32,595	33,356	33,054	33,000	33,783	36,549	37,438	38,640	40,000	
Net sales per employee	21.4	20.9	20.3	23.1	23.6	22.6	23.2	26.8	28.3	28.3	

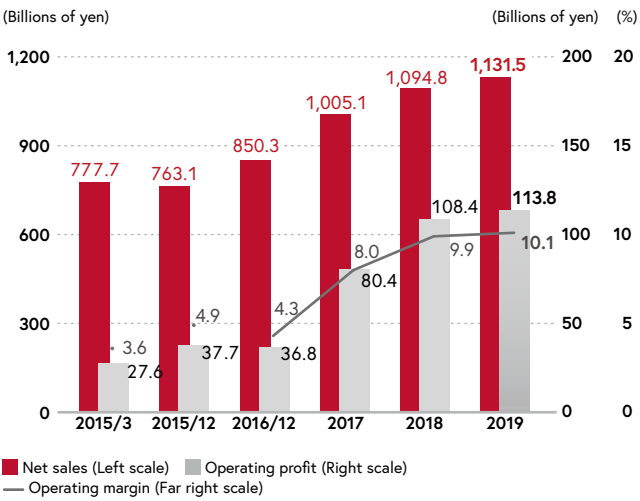
Notes: 1. The fiscal year ended December 31, 2015 is the nine months from April 1, 2015 to December 31, 2015 for Shiseido and its consolidated subsidiaries in Japan and the 12 months from January 1, 2015 to December 31, 2015 for all other subsidiaries. In this report, it is referred to as "the year ended December 2015" in the text and as "2015/12" in tables, charts, and graphs.
2. Amounts less than one million yen are omitted.
3. U.S. dollar amounts are converted from yen, for convenience only, at the rate of ¥108.54 = US\$1 prevailing on December 31, 2019.
4. EBITDA (Earnings before interest, taxes, depreciation and amortization) = Net income (loss) before income taxes + Interest expense + Depreciation and amortization expense + Impairment loss on goodwill and other intangible assets
5. Net profit (loss) per share (primary) is based on the average number of shares outstanding during the fiscal year. Net assets per share is calculated using the number of shares outstanding as of the balance sheet date. Net profit (loss) per share is calculated before dilution.
6. Return on invested capital = Operating profit × (1 – Tax rate*) / (Interest-bearing debt + Equity)**
* Tax rate = Total income tax / Profit before income tax ** (Interest-bearing debt + Equity) is the average of the beginning and the ending balances.
7. Interest-bearing debt to EBITDA ratio = Interest-bearing debt* / EBITDA * Interest-bearing debt is the average of the beginning and the ending balances.
8. Debt-equity ratio = Interest-bearing debt / Equity* * Equity = Total net assets – Stock acquisition rights – Non-controlling interests in consolidated subsidiaries
9. Interest-bearing debt ratio = Interest-bearing debt / Invested capital* * Invested capital = Interest-bearing debt + Equity

10. Cash Conversion Cycle (days) = Receivables turnover period (days) + Inventory turnover (days) – Payables turnover period (days) (average of each indicator during the period)
11. Dividend on equity = Return on equity × Payout ratio (Consolidated)
12. The number of employees at year-end does not include temporary employees.
13. Shiseido Group subsidiaries in Americas formerly recognized free samples and promotional items associated with marketing activities in stores as assets when acquired and expensed them after shipped to customers. However, effective from the fiscal year ended March 31, 2012 these subsidiaries began to expense these items when acquired in order to conform with the Group's accounting policies. As a result, the Shiseido Group retrospectively restated the consolidated financial statements for the fiscal year ended March 31, 2011, accordingly.
14. Effective from the fiscal year ended March 31, 2014, certain subsidiaries of the Shiseido Group retrospectively adopted a new standard for Employee Benefits (IAS 19, amended June 16, 2011) and changed the method for recognizing changes in net defined benefit obligation. The Shiseido Group applied this change retrospectively and restated the consolidated financial statements for the fiscal year ended March 31, 2013, accordingly.
15. From the fiscal year 2016, Shiseido has been recognizing payables associated with *Dolce&Gabbana*. For the fiscal year ended December 2019, the interest-bearing debt ratio including these payables was 37.5 percent, the debt-equity ratio was 0.60, and interest-bearing debt was ¥298,475 million.
16. In November 2015, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2015-17, "Income Taxes (Topic 740): Balance Sheet Classification of Deferred Taxes" ("ASU 2015-17"). The standard requires that deferred tax assets and liabilities be classified as non-current on the balance sheet rather than being separated into current and non-current. Effective from the first quarter of 2017, affiliates in the Americas have adopted ASU 2015-17 on a retrospective basis. Accordingly, the Company reclassified the current deferred taxes to non-current in the consolidated balance sheet as of December 31, 2016.

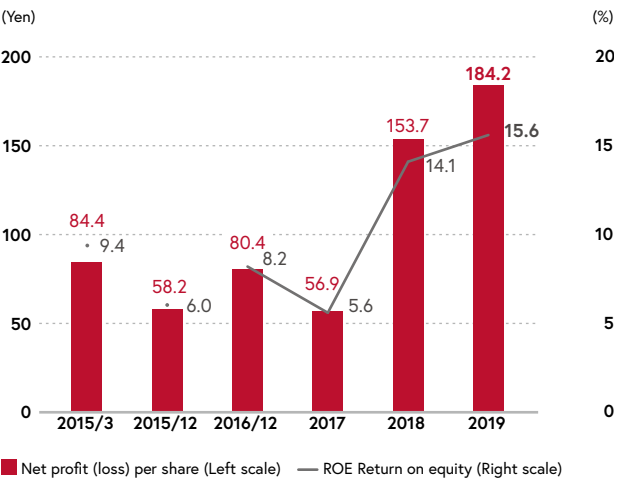
Financial Highlights

Financial Value

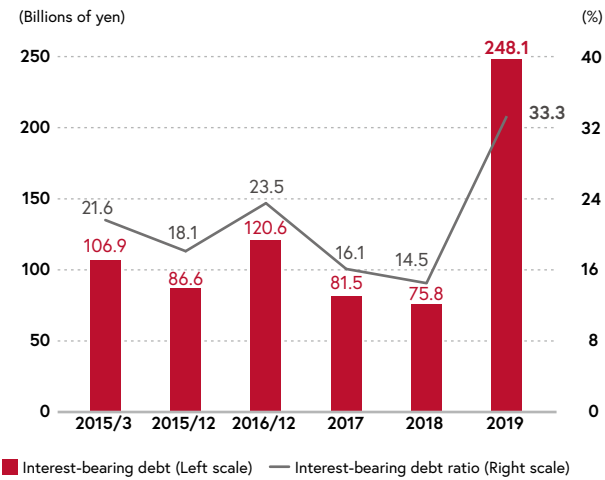
Net Sales, Operating Profit, and Operating Margin*1



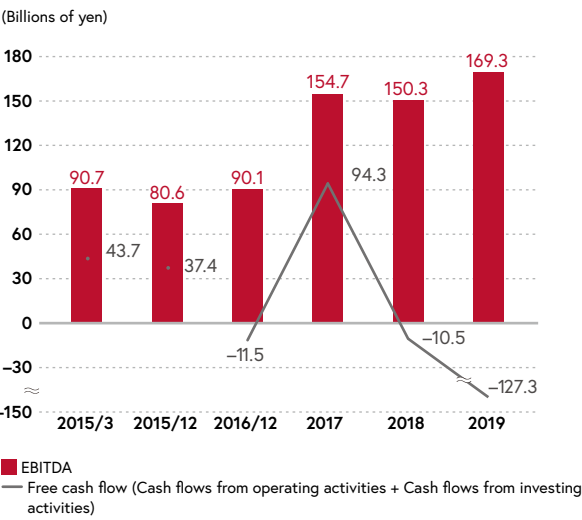
Net Profit (Loss) per Share*2 and Return on Equity*3



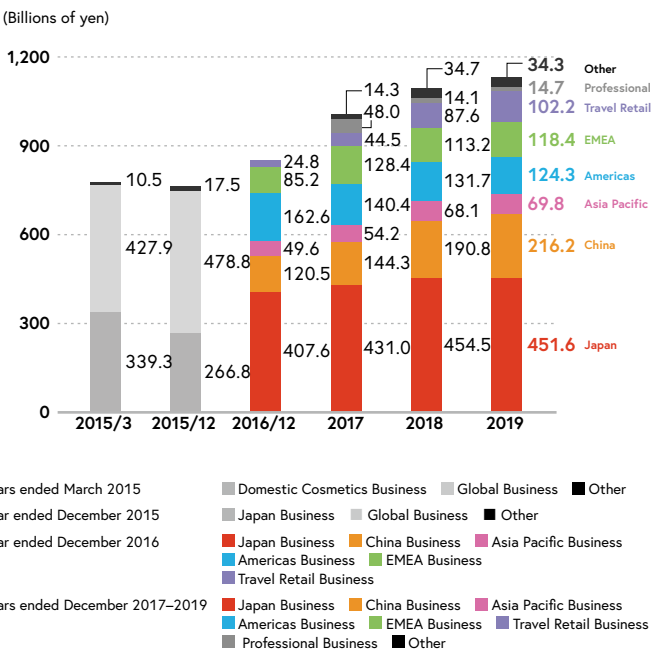
Interest-Bearing Debt and Interest-Bearing Debt Ratio*4



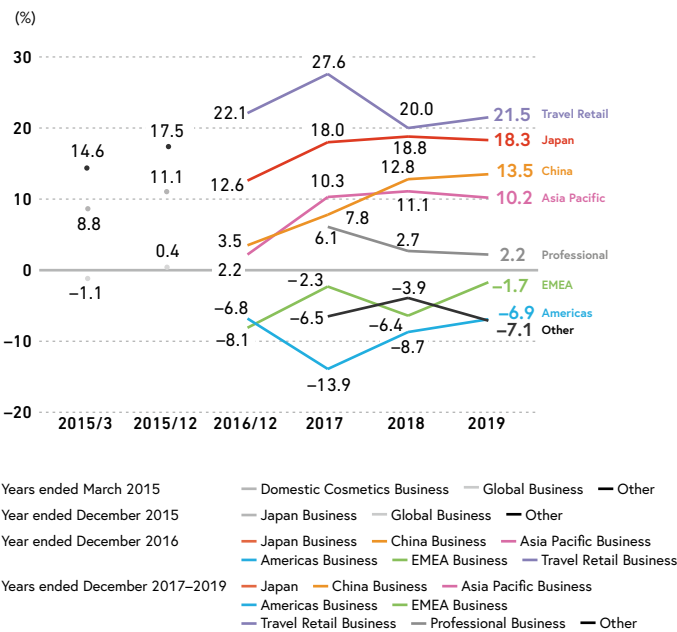
EBITDA*5 and Free Cash Flow



Net Sales by Reportable Segment*1 *6 *7 *9

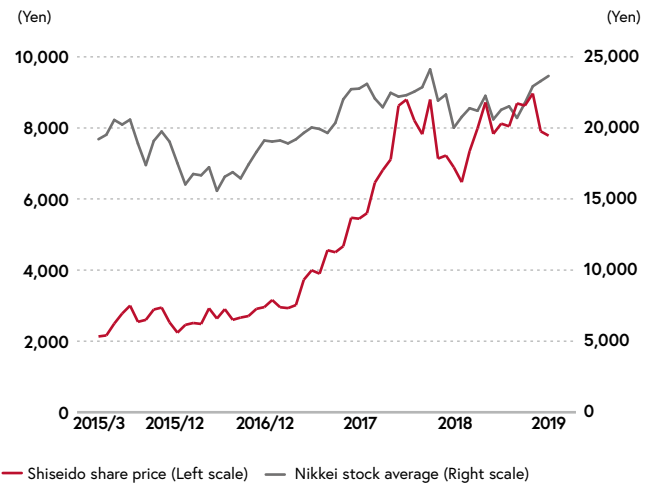


Operating Margin by Reportable Segment*1 *6 *8 *9

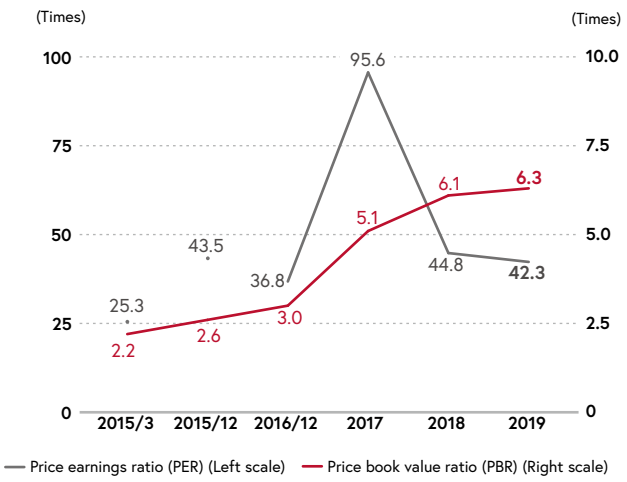


Shareholder Value

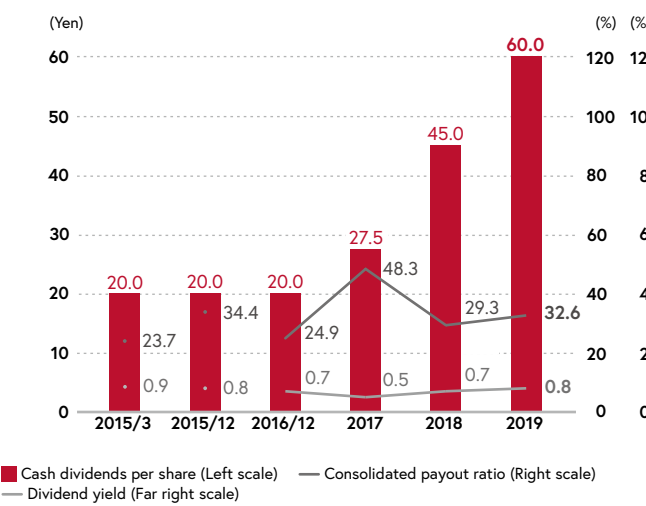
Shiseido Share Price*10 and Nikkei Stock Average



Price Earnings Ratio (PER)*11 and Price Book Value Ratio (PBR)*12



Cash Dividends per Share, Consolidated Payout Ratio and Dividend Yield*13



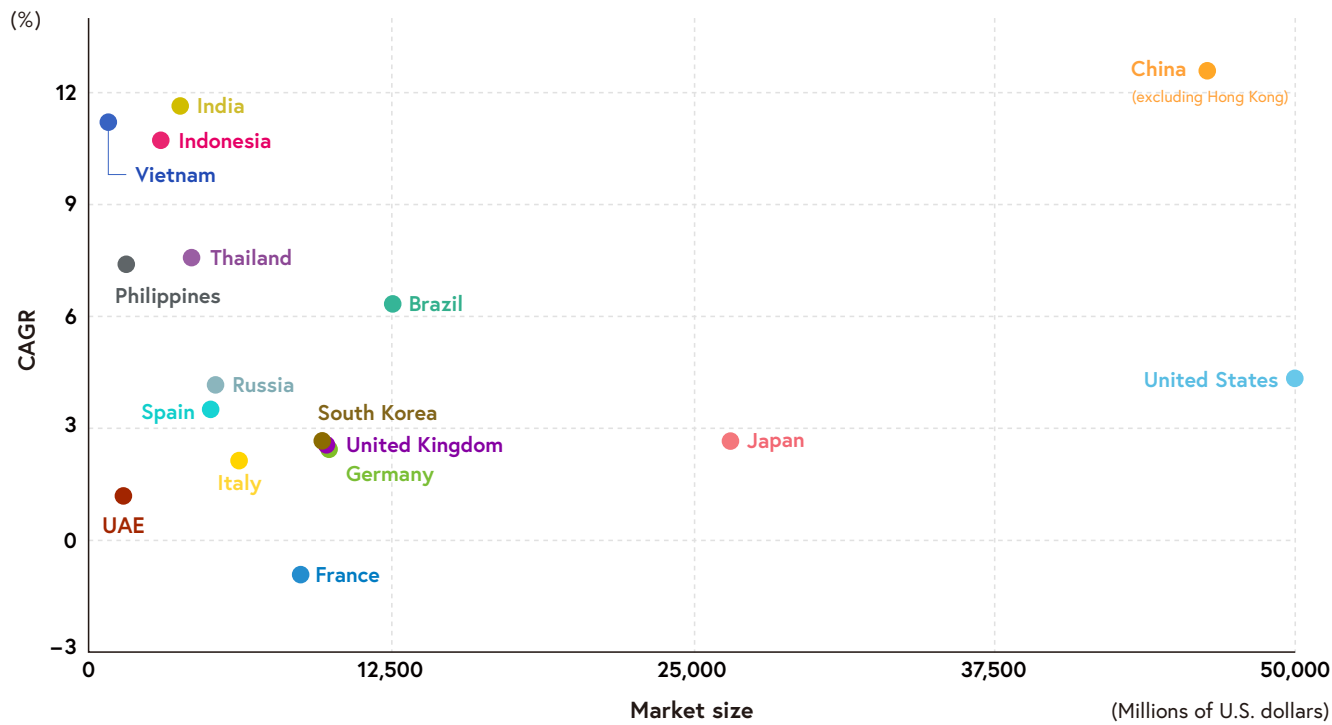
*1 The fiscal year ended December 31, 2015 is the nine months from April 1, 2015 to December 31, 2015 for Shiseido and its consolidated subsidiaries in Japan and the 12 months from January 1, 2015 to December 31, 2015 for all other subsidiaries.
*2 Net profit (loss) per share is calculated before dilution based on the average number of shares outstanding during the fiscal year.
*3 Consolidated ROE for the fiscal period ended December 31, 2015 is calculated using consolidated net income attributable to owners of parent for the year as the numerator and the average of equity at March 31, 2015 and December 31, 2015 as the denominator.
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 Shiseido Group has revised its reportable segment classification method in line with its amended internal management structure, effective from fiscal 2019. Shiseido Beauty Salon Co., Ltd., formerly included in the Professional Business, is now positioned in the Other segment. Shiseido Astech Co., Ltd. and Hanatsubaki Factory Co., Ltd., which previously fell under the Japan Business, are now included in the Other segment. Effective from the third quarter of fiscal 2018, IPSA Co., Ltd., which had been included in the Japan Business, was moved to the Other segment in accordance with the change in the Group's internal management structure. Segment data for fiscal 2018 reflect the above-mentioned change.
*10 Closing stock price at month-end
*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



Market Data

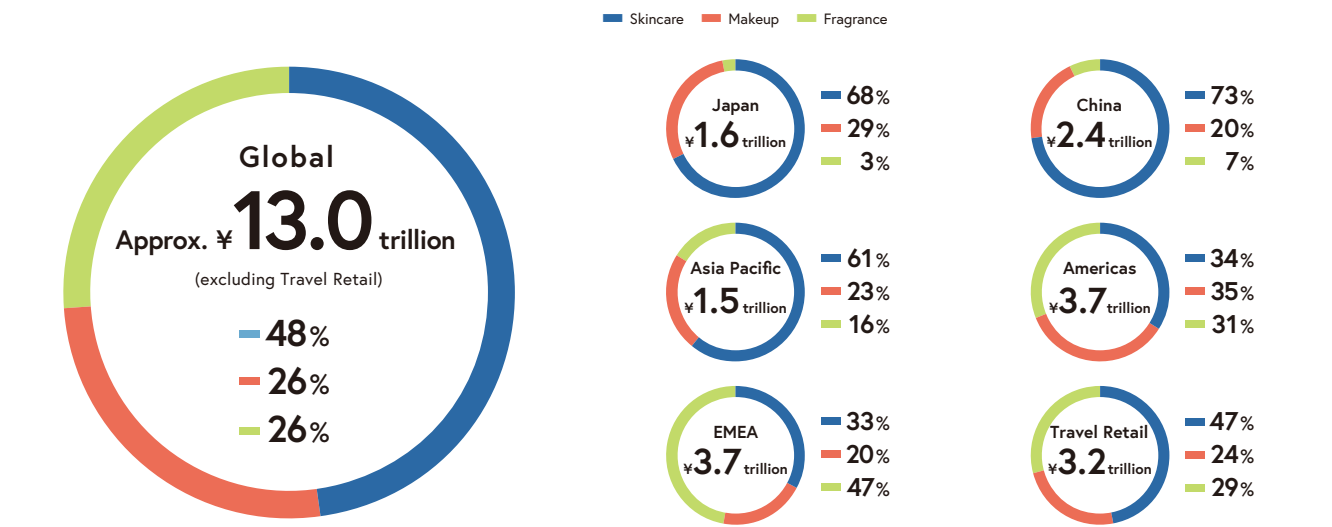
Beauty and Personal Care Market Scale by Country

Size of Cosmetics Market and CAGR 2015-19



* Euromonitor International 2019. Combined total of skin care, sun care, color cosmetics, fragrances categories. Figures based on local currencies for each country and region and translated into U.S. dollars at the average exchange rate for 2019

Prestige: Market Size and Composition in 2019



* Euromonitor International 2019 (excluding Travel Retail). Premium (skin care, sun care, color cosmetics, fragrances). Figures based on local currencies for each country and region and translated into Japanese yen at the average exchange rate for 2019. Travel Retail: Generation Research (2018 data)

Corporate and Investor Information (As of December 31, 2019)

Head Office

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

Founding

September 1872

Incorporation

June 1927

Capital

¥64,506 million

Number of Employees

40,000 (8,130)

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

Fiscal Year-End

December 31

The Ordinary General Meeting of

Shareholders

Held in late March.

Stock Listings

Common Stock: Tokyo Stock Exchange
(Code: 4911)

American Depositary Receipts:

U.S. Over-the-Counter (Code: SSDOY)

Accounting Auditors

KPMG AZSA LLC

Share Registrar

Sumitomo Mitsui Trust Bank, Limited

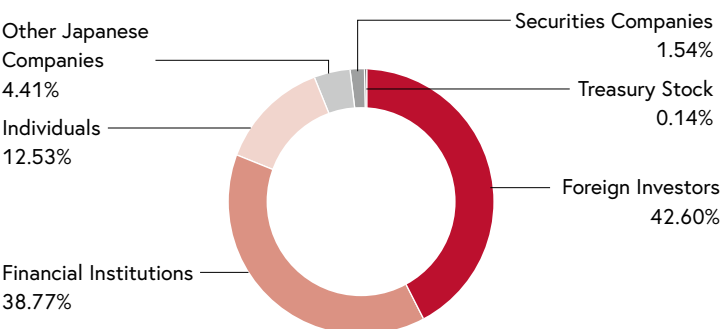
Number of Shareholders

61,402

Common Shares Issued and Outstanding

400,000,000 (including 564,455 in treasury stock)

Composition of Shareholders by Number of Shares



Composition of Shareholders

By number of shares	2018/12	2019/12
Foreign Investors	39.50%	42.60%
Financial Institutions	39.94	38.77
Individuals	13.62	12.53
Other Japanese Companies	5.14	4.41
Securities Companies	1.62	1.54
Treasury Stock	0.15	0.14

By number of shareholders	2018/12	2019/12
Foreign Investors	1.53%	1.68%
Financial Institutions	0.16	0.16
Individuals	96.97	96.85
Other Japanese Companies	1.24	1.19
Securities Companies	0.09	0.10
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)	45,436	11.37
Japan Trustee Services Bank, Ltd. (Trust Account)	23,330	5.84
BNYM TREATY DTT 15	12,189	3.05
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 7)	8,876	2.22
Japan Trustee Services Bank, Ltd. (Trust Account 5)	8,061	2.01
THE BANK OF NEW YORK 134104	7,537	1.88
SSBTC CLIENT OMNIBUS ACCOUNT	6,770	1.69
JP MORGAN CHASE BANK 385151	6,258	1.56
STATE STREET BANK WEST CLIENT - TREATY 505234	6,228	1.55

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