

(Translation)

February 21, 2019

Dear Sirs and Madams,

Name of Company: Shiseido Company, Limited  
Name of Representative: Masahiko Uotani  
President and CEO  
(Representative Director)  
(Code No. 4911; The First Section of the Tokyo Stock Exchange)  
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Vice President  
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(Tel: +81 3 3572 5111)

## **Notice on Introduction of Performance-Linked Stock Compensation as Long-Term Incentive-Type Remuneration (“LTI”)**

Notice is hereby given that Shiseido Company, Limited (the “Company”), by a meeting of its Board of Directors, will decide on the introduction of performance-linked stock compensation as long-term incentive-type remuneration (the “LTI”), a system wherein performance share units consisting of the Company’s common stock and cash are granted to directors excluding external directors of the Company (the “Eligible Directors”), and the Item of Business related to this LTI will be deliberated at the 119th Ordinary General Meeting of Shareholders (the “Shareholders’ Meeting”) to be held on March 26, 2019, as described below.

### **1. Purpose of Introduction of the LTI**

Thus far, the Company has supported the achievement of VISION 2020 enabling it to remain a vital Company for the next 100 years through a so-called one-yen stock option as long-term incentive-type remuneration to Directors. Under this scheme, shares instead of cash are provided as remuneration, etc., and stock options with the exercise price of ¥1 per share are used as stock acquisition rights for this purpose. The Company achieved some of the financial targets in VISION 2020 in fiscal 2017, three years ahead of schedule, and therefore, during fiscal 2018, established a long-term goal and set a new long-term target aimed at further long-term, sustainable growth. The Company aims to improve corporate value in terms of both economic and social value over the long term, and we have revised our long-term incentive-type remuneration and designed the new LTI in order to promote the achievement of this goal.

Under the new LTI, the Company intends to replace the former one-yen stock option with



performance share units, a type of performance-linked stock compensation, as described below, in order to give Eligible Directors incentive to create corporate value over the long term, fostering a shared awareness of profit with shareholders.

## **2. LTI Contents**

### **(1) Overview of the LTI**

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

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

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

### **(2) Structure of the LTI and Performance Indicators in Fiscal 2019**

The specific structure of the LTI and performance indicators in fiscal 2019 is as follows:

- 1) The LTI has a performance-linked portion and a fixed portion.
- 2) The Board of Directors will determine the performance indicators to be used in the LTI, performance-linked coefficients, and other indicators and percentage amount of the payment attributable to the level of achievement, etc. of each indicator, etc. required for the specific calculation of the number of shares, etc. to be delivered to each Eligible Director. An overview of the performance indicators to be used in the calculation of remuneration, etc. under the LTI for fiscal 2019 is shown in the table below. The targets for indicators related to economic value, consolidated net sales compound average growth rate (CAGR) and consolidated operating profit compound average growth rate (CAGR), are 8.0% and



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

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

- 3) After the end of the evaluation period, the Board of Directors shall determine the number of shares of the Company’s common stock to be allotted to each Eligible Director and the amount of cash to be paid, following deliberation by the Remuneration Advisory Committee, in accordance with the “Calculation Method for the Number of Shares of the Company’s Common Stock to be Delivered and Amount of Cash to be Paid to Eligible Directors” described in the next paragraph, based on the percentage amount of the payment determined in accordance with the level of achievement of each performance indicator, etc. during the evaluation period.
- 4) Pursuant to a resolution by the Board of Directors, the Company will pay monetary



remuneration claims for delivery of the Company's common stock to each Eligible Director, in accordance with the number of shares of the Company's common stock to be allotted to each Eligible Director as determined in item 3), and each Eligible Director will receive delivery of the Company's common stock by providing all of the monetary remuneration claims as contributions in kind. Furthermore, the amount paid for the Company's common stock will be determined by Board of Directors within a range that is not especially advantageous for each Eligible Director subscribing to the Company's common stock.

- 5) Each Eligible Director will incur tax expenses in accordance with delivery of the Company's shares as described in item 4), and therefore the Company will pay each Eligible Director an amount of cash determined in item 3) in addition to the monetary remuneration claims in item 4), in order to secure funds for these tax expenses.
- 6) Conditions for the delivery of shares to each Eligible Director and other details will be determined by the Board of Directors.

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

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

- 1) Number of shares of the Company's common stock to be delivered to each Eligible Director (\*3)

Reference number of share units (\*1) × percentage amount of payment (\*2) × 50%

- 2) Amount of cash to be paid to each Eligible Director (\*3) (\*4)

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

\*1 For each fiscal year during the evaluation period, the Company will grant to each Eligible Director, as the reference number of share units, a number of share units obtained by dividing the reference amount determined by the Board of Directors in accordance with each Eligible Director's role grade by an amount determined by the Board of Directors within a range that is not especially advantageous for each Eligible Director, based on the closing price of the Company's common stock on the Tokyo Stock Exchange on the trading day preceding the date of the resolution by the Board of Directors to grant share units (if there are no trades on this date, the closing price on the most recent preceding trading day) (however, fractions of less than one unit arising as a result shall be rounded down).

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



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

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

#### **(4) Conditions for Payment of Remuneration, etc. based on the LTI**

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

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

#### **(5) Treatment when Eligible Directors Retire**

Even if an Eligible Director lose his/her position as a director or corporate officer of the Company or any of its subsidiaries during the evaluation period, such Eligible Director will be provided with the Company's common stock and/or cash prorated based on a reasonable method prescribed by the Board of Directors, with no more than the maximum payment amount and number of shares to be delivered corresponding to the nature of the reason for loss of the aforementioned position in case that the reason for loss of position is a specific reason determined by the Board of Directors in advance, and the term of office prerequisites determined by the Board of Directors for his/her reason for loss of position for each specific reason are met (in principle such prerequisite is that during the entire period of the fiscal year that the payment relates to, he/she must have served in a position of director or corporate officer or any of its subsidiaries), and such delivery or payment shall be made at a timing determined by the Board of Directors.

In the event of payment of remuneration, etc. based on the LTI due to the retirement of an Eligible Director before the end of the evaluation period, payment calculation on the number of shares or amount of cash for the Eligible Director shall use the closing price of the Company's common stock on the Tokyo Stock Exchange on the business day preceding the date of resolution of



the Board of Directors (if no trades are made on this day, the closing price on the most recent preceding trading day).

(Reference)

The Company plans to introduce this LTI to the Corporate Directors and CEOs of regional headquarters, etc. based on the assumption the LTI will be approved at the Shareholders' Meeting to be held on March 26, 2019.

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