

(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)  
Contact: Harumoto Kitagawa  
Vice President  
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## **Notice on Stock Options (Stock Acquisition Rights) Fiscal 2018 Long-Term Incentive-Type Remuneration**

Notice is hereby given that Shiseido Company, Limited (the “Company”), by a meeting of its Board of Directors, has decided that the Company would make an offering of subscription for stock acquisition rights as stock options to its directors, excepting external directors, of the Company, corporate officers of the Company or its wholly owned subsidiaries, and individuals who were corporate officers of the Company or its wholly owned subsidiaries until December 31, 2018 (“Allottees”) pursuant to Article 236, Article 238 and Article 240 of the Companies Act of Japan, as described below.

The stock acquisition rights are stock options as long-term incentive-type remuneration under the executive remuneration policy of the Company.

[Executive Remuneration Policy of the Company Aligned to the Three-Year Plan for Fiscal 2018 Through Fiscal 2020]

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

From fiscal 2018 through fiscal 2020, the Company will hasten growth by creating a virtuous cycle while continuing to pursue structural reforms, and will accordingly design the remuneration scheme to place more focus on the notion of “pay linked to the corporate mission,” which constitutes a step beyond the notion of “pay for performance” whereby remuneration paid to an officer reflects his or her accomplishments. Under the notion of “pay linked to the corporate mission,” the Company evaluates the extent to which long-term strategies reflecting its management approach and Corporate Philosophy have been achieved, in addition to considering net sales, operating profit, and other quantitative financial results.

With regard to the stock acquisition rights, those for directors were approved as long-term incentive at the 118th Ordinary General Meeting of Shareholders held on March 27, 2018, as described below:

[Long-term Incentive-type Remuneration to the Directors]

Allottees of stock acquisition rights:	Three directors except external directors of the Company
Total number of stock acquisition rights to be allotted:	Not exceeding 1,500 rights (Number of shares to be issued or transferred for each stock acquisition right: 100 shares)
Cap on remuneration, etc. in respect of stock acquisition rights:	Not exceeding ¥240,000,000 per year

**[Terms and conditions regarding performance on the stock acquisition rights]**

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

When actually allotting the stock acquisition rights after obtaining approval for the maximum number of stock acquisition rights to be allotted at the general meeting of shareholders, the Company shall increase or decrease the number of stock acquisition rights to be granted within the range of 0% to 130% of the baseline by using the evaluation indicators for annual bonus for the immediately preceding fiscal year.

In addition, we employ a mechanism that when the stock acquisition right exercise period starts, the exercisable number of stock acquisition rights is determined according the consolidated performance and other track records up to the immediately preceding fiscal year in the range of 30% to 100% of the allotted number, and thereby we are reinforcing incentives for improving medium-to-long-term business performance and achieving targets.

When stock acquisition rights are allotted:

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

When the exercise period of the stock acquisition rights allotted starts:

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



## Description

To make the directors, corporate officers, etc. of the Company share with its shareholders merits and risks pertaining to its share prices and afford incentives to them to achieve much improved results and higher share prices, the Company intends to grant the Allottees, namely, its three directors, except external directors of the Company, and 15 corporate officers, etc. not concurrently serving as directors, a total of 18 persons, stock options as long-term incentive, using stock acquisition rights upon exercise of which one yen per share shall be contributed, for the fiscal year ended December 31, 2018.

The paid-in amount of the stock acquisition rights offered for subscription (the “Stock Acquisition Rights”) shall be a fair value as of the allotment date thereof. The Company shall grant remuneration in an amount equivalent to the paid-in amount to the Allottees on condition that such remuneration be offset against the obligations of all of such recipients to pay the paid-in amount.

### 1. Qualified Allottees of the Stock Acquisition Rights:

The Stock Acquisition Rights shall be allotted to a total of 18 persons: three directors, except external directors of the Company, and 15 corporate officers of the Company, not concurrently serving as directors, including those who were corporate officers of the Company until December 31, 2018 or who have entered into a commission contract with Shiseido Japan Co., Ltd., the Company’s wholly-owned subsidiary, or who had a commission contract with the Company until December 31, 2018.

### 2. Matters Confirmed with Regard to the Existence of Assets Necessary for Payment for Subscription to Be Made by the Expected Allottees:

The Company sees no issue with funds necessary for payment of the stock acquisition rights offered for subscription (the “Stock Acquisition Rights”) not only because such paid-in amount shall be a fair value as of the allotment date thereof but also because the Company shall grant remuneration in an amount equivalent to the paid-in amount to the Allottees on condition that such remuneration be offset against the obligations of all of such recipients to pay the paid-in amount.

### 3. Present Situations Pertaining to Expected Allottees:

The Company declared in the Group’s Standards of Business Conduct and Ethics that it does not have any relationships with individuals or organizations that engage in illegal activities such as threatening public order or safety, and it does not respond to any requests for money or services from such individuals or organizations. The Company has an administrative function in place in the Risk Management Department to control information in a centralized fashion and taking a range of measures including the improvement of manuals for risk handling via an intranet. It is stepping up efforts to gather external information and reinforce alliances by facilitating relationships with local police stations and joining organizations that facilitate the removal of anti-social forces. Obviously, in the course of such efforts, the Company seeks to confirm that directors, with the exception of external directors of the Company, corporate officers of the Company or its wholly owned subsidiaries as well as individuals who were corporate officers of the Company until December 31, 2018, do not have any relationships with antisocial forces, through such measures as requesting the submission of an officer’s present situation form in person to the Company. With respect to the Allottees, the Company submitted to the Tokyo Stock Exchange a letter of confirmation to indicate that three persons who were corporate officers of the Company or its wholly-owned subsidiaries until December 31 do not have any relationships with antisocial forces.



4. Total Number of Stock Acquisition Rights to Be Allotted:

Target	Number of rights
Directors except external directors of the Company: 3	1,500 rights
Corporate officers of the Company or its wholly owned subsidiaries: 12	2,100 rights
Individuals who were corporate officers of the Company or its wholly owned subsidiaries until December 31, 2018: 3	

The total number of Stock Acquisition Rights is the number of planned allotment. In the event that such total number decreases if any Allottee does not subscribe or otherwise, the decreased total number of Stock Acquisition Rights shall be the total number of Stock Acquisition Rights to be issued.

5. Class and Number of Shares to Be Issued or Transferred upon Exercise of the Stock Acquisition Rights:

The class of the shares to be issued or transferred upon exercise of the Stock Acquisition Rights shall be shares of common stock of the Company and the number of shares to be issued or transferred upon exercise of the Stock Acquisition Rights (the “Number of Object Shares”) shall be 100.

In the event that the Company makes a stock division (including free allocation of shares of common stock of the Company) or stock consolidation, the Number of Object Shares shall be adjusted in accordance with the following formula, with any fraction of one share occurring upon such adjustment discarded:

$$\begin{array}{r} \text{Number of Object} \\ \text{Shares} \\ \text{After Adjustment} \end{array} = \begin{array}{r} \text{Number of Object} \\ \text{Shares} \\ \text{Before Adjustment} \end{array} \times \begin{array}{r} \text{Division/Consolidation} \\ \text{ratio} \end{array}$$

In addition, upon the occurrence of any unavoidable event that requires adjustment to the Number of Object Shares, an adjustment shall be made thereto to the extent it is reasonable.

6. Amount of Property to Be Contributed upon Exercise of Each Stock Acquisition Right:

The amount of property to be contributed upon exercise of each Stock Acquisition Right shall be the amount of cash to be paid in for each of the shares to be delivered upon exercise thereof, which shall be 1 yen, multiplied by the Number of Shares.

7. Exercise Period of the Stock Acquisition Rights:

From September 1, 2021 to February 28, 2034

8. Matters Concerning Capital and Capital Reserve to Be Increased in the Event that the Company Issues Shares upon Exercise of the Stock Acquisition Rights:

- (i) In the event that the Company issues shares upon exercise of the Stock Acquisition Rights, the amount of capital to be increased shall be a half of the upper limit thereon calculated pursuant to Article 17, paragraph 1 of the Regulations on Corporate Accounts, with any fraction of one yen rounded upward to the nearest one yen.



- (ii) In the event that the Company issues shares upon exercise of the Stock Acquisition Rights, the amount of capital reserve to be increased shall be an amount obtained by deducting the amount of capital to be increased as set forth in item (i) above from the upper limit on the capital to be increased as set forth in item (i) above.

9. Restriction on Acquisition of the Stock Acquisition Rights by Transfer:

Any acquisition of the Stock Acquisition Rights by transfer shall be subject to the approval by resolution of the board of directors of the Company.

10. Conditions for Acquisition of the Stock Acquisition Rights:

In the event that a proposition for the approval of a merger or consolidation agreement under which the Company shall be merged or dissolved, an agreement of business transfer by a spin-off or plan for incorporation by a spin-off under which the Company shall be split up, or a share exchange agreement or share transfer plan under which the Company shall become a wholly-owned subsidiary is approved at a general meeting of shareholders of the Company (or a resolution for the approval thereof is adopted by the board of directors of the Company when such resolution by the general meeting of shareholders is not required), the Company may, as of a day separately specified by the board of directors of the Company, acquire all of the Stock Acquisition Rights then outstanding without consideration.

11. Policies on Voidance and Nullification of the Stock Acquisition Rights and the Details of Delivery of New Stock Acquisition Rights of Reorganizing Companies in Case of Reorganization:

In the event that the Company is merged or consolidated (as a result of which, the Company shall be dissolved), transfers business or incorporates a company by a spin-off, or makes a share exchange or share transfer (collectively, "Reorganization"), the Company shall, with regard to the Stock Acquisition Rights outstanding when the Reorganization becomes effective (the "Outstanding Stock Acquisition Rights"), deliver to any Allottee thereof stock acquisition rights of relevant corporations ("Reorganizing Companies") listed in Article 236, paragraph 1, item 8 (a) through (e) of the Companies Act, in accordance with the following conditions. In such case, the Outstanding Stock Acquisition Rights shall become null and void and the Reorganizing Companies shall newly issue stock acquisition rights, only if and when the delivery of stock acquisition rights of the Reorganizing Companies is stipulated in accordance with the following conditions in the relevant merger agreement, consolidation agreement, agreement of business transfer by a spin-off, plan for incorporation by a spin-off, share exchange agreement or share transfer plan:

- (i) Number of Stock Acquisition Rights of Reorganizing Company to Be Delivered:

The same number as that of the Outstanding Stock Acquisition Rights held by each Allottee thereof shall be delivered.

- (ii) Class of Shares of Reorganizing Company to Be Issued or Transferred upon Exercise of Stock Acquisition Rights:

Shares of common stock of the Reorganizing Company.

- (iii) Number of Shares of Reorganizing Company to Be Issued or Transferred upon Exercise of Stock Acquisition Rights:

The number of shares shall be determined in accordance with paragraph 5 above, by taking into account the conditions of the reorganization.

- (iv) Amount of Property to Be Contributed upon Exercise of a Stock Acquisition Right:



The amount of property to be contributed upon exercise of a stock acquisition right to be delivered shall be an amount obtained by multiplying by the number of shares of the Reorganizing Company to be issued or transferred upon exercise of each of the stock acquisition rights, which shall be determined as set forth in item (iii) above, the paid-in amount after Reorganization set forth below. The paid-in amount after Reorganization shall be one yen per share of the Reorganizing Company that can be delivered upon exercise of each stock acquisition right delivered.

(v) Exercise Period of Stock Acquisition Rights:

From later of the first day of the period during which the Stock Acquisition Rights set forth in paragraph 7 above are exercisable and the day on which the Reorganization becomes effective, to the last day of the period during which the Stock Acquisition Rights set forth in paragraph 7 above are exercisable.

(vi) Matters Concerning Capital and Capital Reserve to Be Increased in the Event that the Reorganizing Company Issues Shares upon Exercise of the Stock Acquisition Rights:

To be determined in accordance with paragraph 8 above.

(vii) Restriction on Acquisition of Stock Acquisition Rights by Transfer:

Any acquisition of stock acquisition rights by transfer shall be subject to the approval by resolution of the board of directors of the Reorganizing Company.

(viii) Terms and Conditions of the Acquisition of Stock Acquisition Rights:

To be determined in accordance with paragraph 10 above.

(ix) Other Terms and Conditions of the Exercise of Stock Acquisition Rights:

To be determined in accordance with paragraph 13 below.

12. Treatment of Fractions of a Share upon Exercise of the Stock Acquisition Rights:

For the purpose of delivery of shares to the Allottees who exercise the Stock Acquisition Rights, any fraction of one share shall be truncated.

13. Other Terms and Conditions of the Exercise of the Stock Acquisition Rights:

- (i) Any Allottee shall remain in office as director or corporate officer of the Company when he/she exercises the rights, unless he/she leaves office upon expiration of the term of office or due to any other good reason.
- (ii) If any Allottee waives his/her Stock Acquisition Rights, such Allottee shall not be entitled to exercise the Stock Acquisition Rights.
- (iii) If any Allottee dies prior to the expiration of the exercise period of the Stock Acquisition Rights, only one heir to such Allottee shall be entitled to succeed to his/her rights and no one can succeed to such heir.
- (iv) Any other terms and conditions such as terms and conditions regarding performance shall be governed by a “contract of allotting stock acquisition rights” to be entered into between the Company and the relevant Allottee of the Stock Acquisition Rights.



14. Paid-in Amount of a Stock Acquisition Right:

- (i) The paid-in amount shall be a fair value of a Stock Acquisition Right calculated in accordance with the Hull-White modified two-factor model, based on the closing price as of the allotment date thereof. (Please refer to the attachment for a specific calculation method of a fair value.) Daiwa Institute of Research Ltd. is a third-party organization from which the Company has been making a request with regard to the calculation of a fair value for the Stock Acquisition Rights, factoring in conditions specified in the guidelines for the issuance of the Stock Acquisition Rights.
- (ii) On day immediately preceding the first day of the exercise period of the Stock Acquisition Rights set forth in paragraph 7 above, any Allottee shall, in lieu of the payment of cash in the amount obtained by multiplying the paid-in amount of a Stock Acquisition Right set forth in item (i) above by the number of Stock Acquisition Rights allotted to such Allottee and exercisable on day immediately preceding the first day of the exercise period of the Stock Acquisition Rights set forth in paragraph 7 above among the Stock Acquisition Rights, offer to offset his/her remuneration receivable (equivalent to the amount obtained by multiplying the paid-in amount of a Stock Acquisition Right set forth in item (i) above by the number of Stock Acquisition Rights allotted to him/her and exercisable on the day immediately preceding the first day of the exercise period of the Stock Acquisition Rights set forth in paragraph 7 above), as resolved, at the meeting of the Board of Directors of the Company which is deemed to have been held on February 21, 2019, to be paid to him/her in consideration for performance of his/her duties on condition that he/she subscribe for the Stock Acquisition Rights and offset such remuneration receivable against the paid-in amount of the Stock Acquisition Rights, and in the event that the Allottee offers to do so, the Company shall accept the payment by such offset.
  - \* The paid-in amount will be publicized promptly when it is determined after the allotment of the Stock Acquisition Rights.

15. Allotment Date of the Stock Acquisition Rights:

March 27, 2019

16. Methods of Exercise of the Stock Acquisition Rights and Payment Therefor:

- (i) To exercise the Stock Acquisition Rights, a notice of exercise of Stock Acquisition Rights shall be submitted through the electromagnetic means specified by the Company.
- (ii) In addition to the submission of the notice of exercise of the Stock Acquisition Rights set forth in item (i) above, the aggregate Exercise Prices (the "Payment Amount") of the shares of common stock of the Company to be issued or transferred upon exercise of the Stock Acquisition Rights shall be paid in cash by transfer to the account specified by the Company with the payment handling place set forth in paragraph 17 below (the "Specified Account") no later than the date and time designated by the Company.

17. Payment Handling Place upon Exercise of the Stock Acquisition Rights:

Name: Mizuho Bank, Ltd., Ginza Branch

Address: 2-11, Ginza 4-chome, Chuo-ku, Tokyo

(or any successor bank to the bank or any successor branch to the branch for the time being)



18. Time when the Exercise of the Stock Acquisition Rights Shall Become Effective:

The exercise of the Stock Acquisition Rights shall become effective when the notice of exercise of Stock Acquisition Rights is received at the payment handling place and the payment amount set forth in paragraph 16, item (ii) above is credited to the specified account.

19. Handling of Matters when the Provisions Hereof Are Required to Be Read Otherwise or Other Measures Are Necessary:

In the event that these provisions are required to be read otherwise or other measures are necessary, the Company may make amendment to these provisions in respect of the relevant matters in such manner as considered appropriate by the Company in accordance with the provisions of the Companies Act of Japan and the purposes of the Stock Acquisition Rights and such amendment shall be an integral part of these provisions.

20. Procedures from the Perspective of a Corporate Code of Conduct:

The issuance of the stock acquisition rights does not require the Company to obtain an opinion from an independent third party or to undergo procedures for confirming the intent of shareholders, as specified under Article 432 of the Securities Listing Regulations of the Tokyo Stock Exchange, because (i) the dilution ratio is less than 25% and (ii) such issuance does not entail changes in controlling shareholders (no change in controlling shareholders is expected to occur even if all of the stock acquisition rights are exercised).

21. With regard to the stock acquisition rights, any other necessary matters shall entirely be left to the President and CEO, Representative Director. In addition, as described in paragraph 14, item (i) above, the paid-in amount of the Stock Acquisition Rights will be equal to the result of a calculation made by Daiwa Institute of Research Ltd., a third-party organization. Even so, prior to finalizing the paid-in amount, the Company will consult with its Audit & Supervisory Board and obtain its opinion as to whether or not such paid-in amount is legal, and confirm that it does not fall into the category of any specially favorable amount.

- End of News Release -

[Attachment] Method of Calculating the Paid-in Amount of a Stock Acquisition Right

(1) Generation of stock pricing theory

If time from grant to expiration ( $T$ ) is split into  $N$  time steps ( $\Delta t = T/N$ ) and the stock price at each time point  $i$  ( $0 \leq i \leq N$ ) is  $S_{i,j}$ , find two stock prices ( $S_{i+1,j}$ ,  $S_{i+1,j+1}$ ) at the next point in time  $i+1$  using the following equations.

$$S_{i+1,j+1} = S_{i,j} \cdot u \qquad S_{i+1,j} = S_{i,j} \cdot d$$

Where  $u$  is up-factor and  $d$  is down-factor and are expressed using volatility  $\sigma$  as:

$$u = e^{\sigma\sqrt{\Delta t}} \qquad d = e^{-\sigma\sqrt{\Delta t}}$$

(2) Calculation of option value

Based on the stock-pricing tree generated in (1), use the following equation to go back from time point  $i=N$  and find value  $f_{00}$  at time point  $i=0$ .

For  $i = N$

$$f_{N,j} = \max(S_{N,j} - K, 0)$$

For  $0 \leq i \leq N-1$

For  $i\Delta t \geq v$  (during exercise period)

For  $S_{i,j} \geq KM$

$$f_{i,j} = S_{i,j} - K$$

For  $S_{i,j} < KM$

$$f_{i,j} = (1 - \lambda\Delta t)e^{-r\Delta t} [pf_{i+1,j+1} + (1-p)f_{i+1,j}] + \lambda\Delta t \max(S_{i,j} - K, 0)$$

For  $i\Delta t < v$  (during vesting period)

$$f_{i,j} = (1 - \lambda\Delta t)e^{-r\Delta t} [pf_{i+1,j+1} + (1-p)f_{i+1,j}]$$

Where  $p$  is the risk-neutral probability, and expressed by the following equation.

$$p = \frac{e^{(r-b)\Delta t} - d}{u - d}$$

The parameters needed to find option value  $f_{00}$  are as follows.

- (1) Stock price at grant ( $S_{00}$ ) : Closing price of the Company's common stock in regular trading on the Tokyo Stock Exchange on March 27, 2019 (or if there is no closing price on this date, the closing price on the preceding day)
  - (2) Option strike price ( $K$ ) : 1 yen
  - (3) Time to expiration of option ( $T$ ) : 14.X years (XXXX/365 days)
  - (4) Vesting period ( $v$ ) : 2.X years (XXX/365 days)
  - (5) Volatility ( $\sigma$ ) : Volatility calculated based on the closing prices of the Company's common stock in regular trading every week over a period going back the time to expiration of option from grant
  - (6) Risk-free rate ( $r$ ) : Interest rate of government bonds with remaining time to maturity date equal to time to expiration of option
  - (7) Dividend yield ( $b$ ) : Per share dividend (actual dividend for the fiscal year ended December 31, 2018)  $\div$  Stock price at grant
  - (8) Exit rate ( $\lambda$ ) : Set at 0 in accordance with the Accounting Standard for Stock Options and the Guidance on Accounting Standard for Stock Options.
  - (9) Multiple of exercise price ( $M$ ) : Since the strike price is 1 yen, the multiple is set on the assumption of exercise provided the stock price is 2 yen or higher
  - (10) Number of steps ( $N$ ) : A value with sufficient convergence
- (Note) To be determined on March 27, 2019.