

Our Approach concerning Corporate Governance

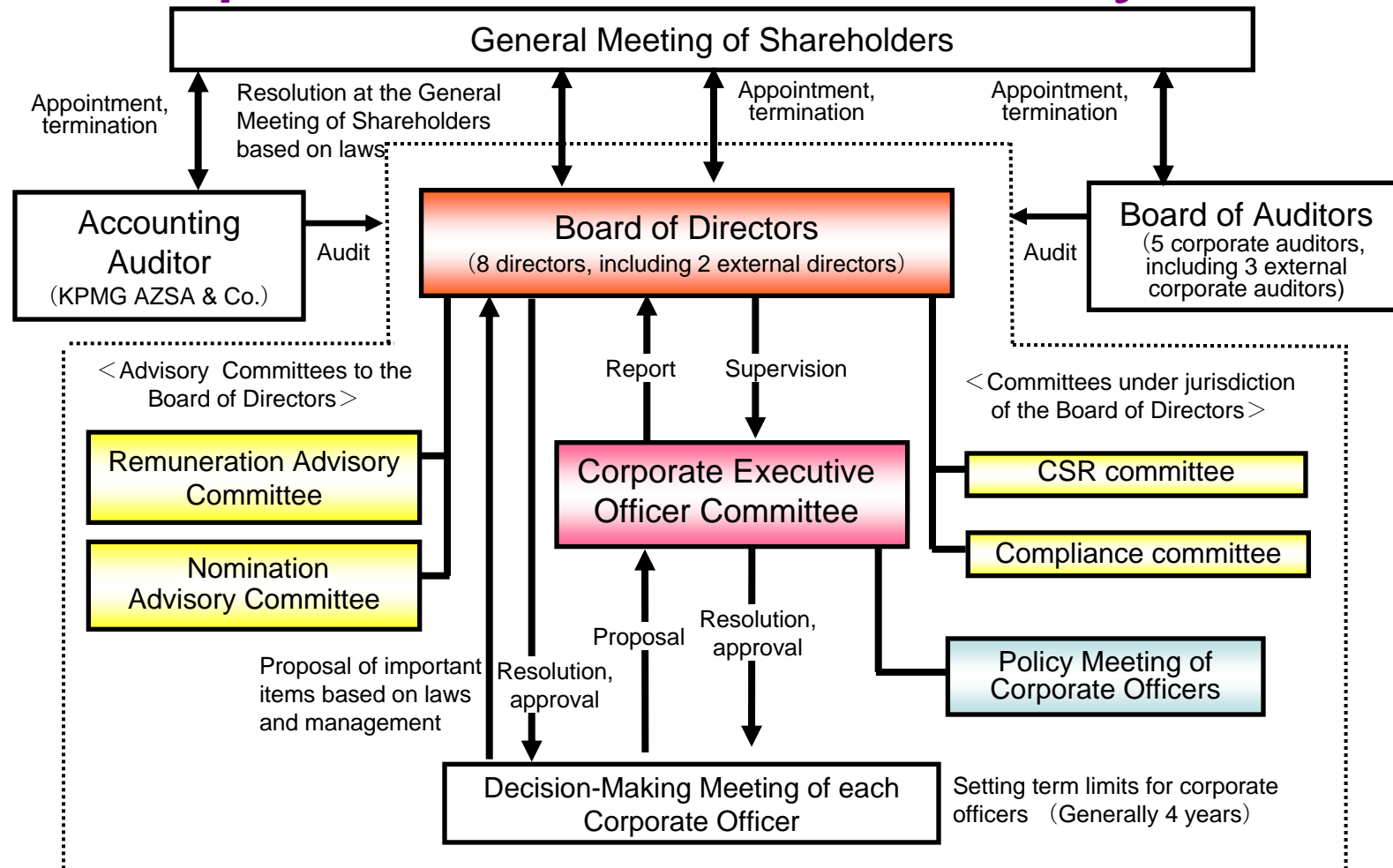
Yukihiro Saito
General Manager
Investor Relations Dept.
Shiseido Co., Ltd.

Shiseido Corporate Governance Policy

SHISEIDO is setting higher standard of corporate governance based on the understanding that maximizing corporate and shareholder value, fulfilling social responsibilities and achieving sustainable growth and development are key to maintaining support as a valuable company from all stakeholders(customers, business partners, shareholders, employees and society).

- Strengthening functions of the Board of Directors : Supervisory
- Adopting Corporate Executive Officer System : Executive function
- Strengthening audit function : Audit function
- Strengthening transparency and soundness of Management
: Transparency
- Strengthening the approach for sustainable development
: Sustainability

Corporate Governance System



Corporate Governance Transition

Clarifying allocation of responsibilities of directors/officers

Strengthening management of transparency and soundness

Transparency, Fairness, Speed of Management

Strengthening decision-making function

Strengthening supervisory and audit functions

Corporate Governance Transition

Clarifying allocation of responsibilities of directors/officers

2001 Adoption of a corporate executive officer system

2001 Limited the term of office of directors to one year

2006 Set the term limit of corporate officers per position
Four years +2 years→6 years maximum

2006 Formed rules governing demotions
for corporate officers

2006 Lower the retiring age of corporate officers per position

Strengthening decision-making function

2001 Corporate Executive Officer Committee
 and Policy Meeting of Corporate Officers

2002 Reduced the number of directors

Strengthening management transparency and soundness

2001 Established the Remuneration Advisory Committee

2005 Established the Director Nomination Advisory Committee

Strengthening supervisory and audit functions

2005 Increased the number of external corporate auditors from two to three

2006 Appointed two external directors

- Current structure of Board of Directors
 - 10 directors (including 2 external directors)
 - 5 auditors (including 3 external auditors)
- Diversity enhancement
 - a former director of a bureau of the Ministry of Health, *Labour* and Welfare
 - a former P&G executive officer
 - Including 2 external directors, 4 out of 10 are from lateral/external recruitment
 - Including 3 external auditors, 7 out of 15 attendees of the board are from lateral/external recruitment
 - it is necessary for external directors to bring diverse insights, experiences and skill for the board

- Highly independent external directors
Mr. Shoichiro Iwata, President and CEO of ASKUL Corporation
:The volume of commercial transaction between

Shiseido group and ASKUL Corporation is minimal
→Disclose the scale of business
attended all 14 board meetings held in FY2008
Mr. Tatsuo Uemura, Dean, School of Law, Waseda University
:No vested interest in Shiseido
attended 12 out of 14 board meetings held in FY 2008
- Three years experience as the external directors since June 2006

Remuneration committee/

Nomination Advisory Committee

- Remuneration Advisory Committee
Chairman : Mr. Shoichiro Iwata
Member : CEO, VP, CFO
Representative of the consulting firm
- Director Nomination Advisory Committee
Chairman : Mr. Tatsuo Uemura
Member : CEO, VP
- ◆ Special committee for reappointment of the president/CEO
The committee submitted a report to the board. The committee consisted of two external directors and one external auditor

Remuneration system for directors and auditors

- Increased the portion of performance-linked compensation from 50% in FY2008

40%	60%
Fixed compensation Basic compensation	Performance-linked compensation Bonuses/Mid-term incentives/Stock options

- Only fixed compensation for external directors and corporate auditors
- Short-term incentive = Bonuses
- The mid- and long-term incentives are designed as below

	Previous System	Current System (FY2008~)
Mid-term	<ul style="list-style-type: none"> 1 yen stock options Assessment criteria (Previous 3-Year Plan) 	<ul style="list-style-type: none"> Performance-linked cash Assessment criteria (New 3-Year Plan, business revenue, profit target)
Long-term	<ul style="list-style-type: none"> Current value stock options Exercise period of 10 years (waiting period 2 years) 	<ul style="list-style-type: none"> 1 yen stock options Exercise period of 10 years (waiting period 3 years)

Policy for Directors' Bonuses

- Bonuses to directors are performance-linked compensation on each fiscal year
- Submission of the proposal to the general meeting of shareholders. No aggregate fixed ceiling amount for directors' bonuses
- Grants 4 directors, excluding 2 external directors, linked with FY2008 business results
→Reflected by the decline of sales and profits, no bonus was paid to the President & Vice President

4. Remuneration for directors and auditors

Policy for Mid-term Incentives to Directors (Performance-linked Cash)

- Meet targets for 3-Year Plan
- Concerning directors (excluding external directors and Fisher)
 - Assessment Criteria: 10% of operating profit for the final year of 3-Year Plan
 - Upper limit: target achievement rate of 10% and above merits 150%
 - Lower limit: target achievement rate of below 90% merits 0%
- Concerning Carsten Fisher
 - To take charge of global business, the driver of growth in New 3-Year Plan
 - Assessment Criteria: Cumulative sales and profit of above business line for the 3 years
 - Upper limit: each sales/profit target achievement rate 110% and above merits 150%
 - Lower limit: sales target achievement rate of below 80%
profit target achievement rate of below 68% merits 0%
- Maximum payment (total): 900 millions

4. Remuneration for directors and auditors

Policy for Long-term Incentives (Stock Options) to Directors

- To define a common long-term interest with shareholders
- Long-term stock options
 - The exercise price per share be 1 yen
 - Equity compensation (provision of stock as bonuses in lieu of cash)
 - Exercise period of 10 years (waiting period 3 years)
 - Grantees of this year: 8 directors (excluding external directors)

Initiatives relating to the exercise of voting rights

•1998~	Foreign shareholder identification for enhanced shareholder communications
•2000~	Translation of Proxy material into English 2000~ (Summary) 2001~ (Full pages)
•2001~	Public disclosure of the Proxy Material on website (Japanese and English)
•2003~	Facilitation of electronic proxy voting
•2006~	Facilitation of proxy voting by mobile phone
•2007~	Participated in the TSE's electronic voting platform
•2008~	Public disclosure of the voting results

Disclosure of the AGM voting results

Began reporting the results of voting rights exercised at AGM from 2008 for more transparency

SHISEIDO COMPANY, LIMITED
The 108th Ordinary General Meeting of Shareholders
Report of Final Tally of Voting Rights Exercised

Number of shareholders holding voting rights: 24,800
Total number of voting rights held by shareholders: 399,609

	Voting rights prior to the date of the General Meeting of Shareholders (Prior Exercise)	Voting rights exercised by attendance at the General Meeting of Shareholders	Total voting rights exercised
Number of Shareholders	8,212	1,142	9,354
Number of voting rights exercised (exercise ratio)	285,511 (71.4%)	33,463 (8.3%)	318,974 (79.8%)

Matters for Resolution	Number of affirmative voting rights by Prior Exercise	Ratio of affirmative voting rights by Prior Exercise	Ratio of affirmative voting rights by Prior Exercise to the total voting rights exercised
First Item of Business: Dividends of Retained Earnings	284,160	99.5%	89.0%
Second Item of Business: Amendment to a Part of the Articles of Incorporation	283,825	99.4%	88.9%
Third Item of Business: Election of Eight (8) Directors	283,140 – 283,967	99.1 – 99.4%	88.7 – 89.0%
Fourth Item of Business: Election of One (1) Corporate Auditor	284,085	99.5%	89.0%
Fifth Item of Business: Payment of Bonuses to Directors	283,812	99.4%	88.9%
Sixth Item of Business: Determination of Provision of Medium-term Incentive Type Remuneration to Directors	282,583	98.9%	88.5%
Seventh Item of Business: Determination of Provision of Long-term Incentive Type Remuneration to Directors	236,776	82.9%	74.2%

All of the first through seventh items of business were approved and resolved by a great majority of the shareholders by Prior Exercise and by attendance at the General Meeting of Shareholders.

(Note) At the stage of Prior Exercise, all the items of business respectively met the requirements for adoption. Hence, at the Ordinary General Meeting of Shareholders, the tallying of affirmative and dissenting voting rights by the shareholders present thereat was omitted.

Integration of Investor Relations and Shareholders' meeting operations

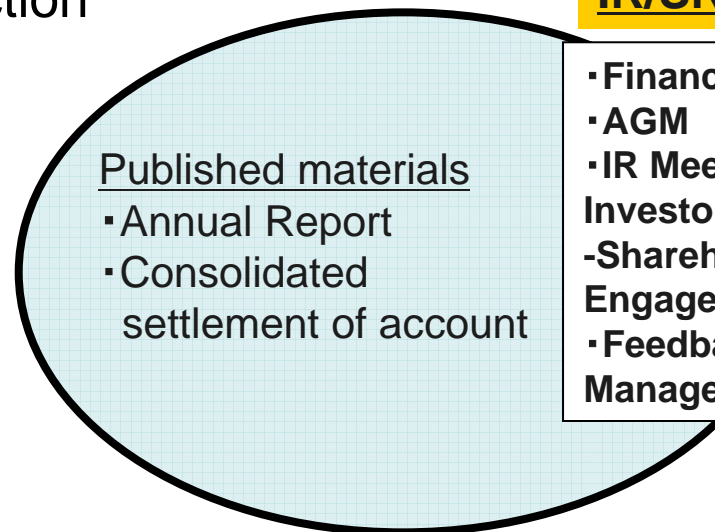
2006~ Integration of IR operations and Shareholder Relations (SR) operations

Integrated and consistent information flow from IR to AGM.

- Medium-term management plan
- Announcement of Financial Results
- Notice of Convocation • Business Report
- Proxy voting results • Annual Report

Strengthen the relationship with Institutional investors as shareholder

Investor Relations
function



IR/SR Activities

- Financial Disclosure
- AGM
- IR Meeting with Investors
- Shareholder Engagement
- Feedback to/from the Management

Shareholder
Relations function

Stock related practice
Dealing with
Companies Act, custody
service, stock option
etc.

