

ANNUAL REPORT 2012

Progress as a Global Player Representing Asia
with its Origins in Japan

[For the year ended March 31, 2012]

SHISEIDO



THIS MOMENT. THIS LIFE. BEAUTIFULLY.



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Shiseido celebrates 140 years in business in 2012.



On the Cover:

Tough and here for the long term, with plenty of potential to grow in the future. All the charm of a thriving 140-year old tree. Proud past, bright future. Shiseido keeps on keeping on.

Forward-Looking Statements

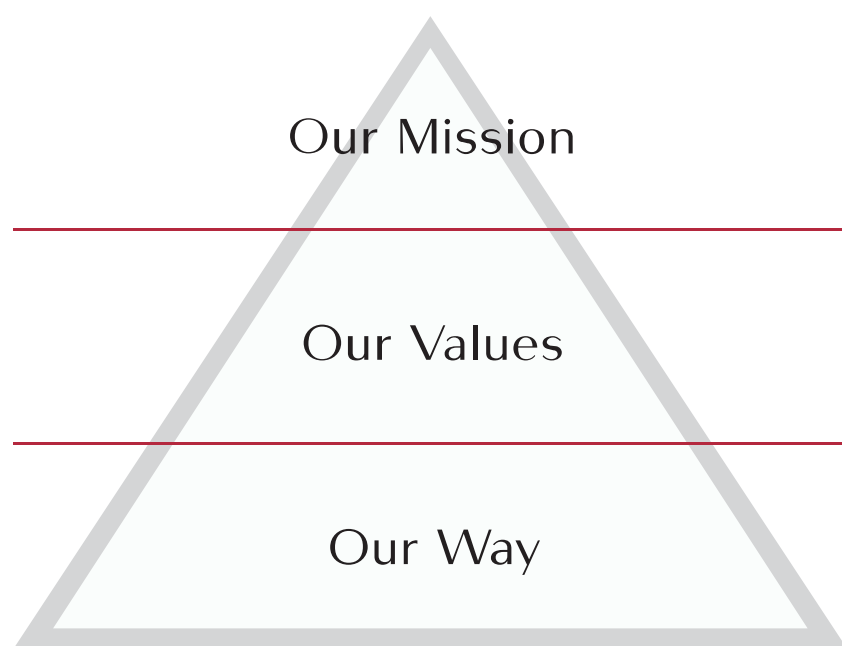
In this annual report, statements other than historical facts are forward-looking statements that reflect the Company's plans and expectations. These forward-looking statements involve risks, uncertainties and other factors that may cause actual results and achievements to differ from those anticipated in these statements.



Our Mission, Values and Way



Our Mission, Values and Way



Our Mission

We cultivate relationships with people

We appreciate genuine, meaningful values

We create beauty, we create wellness.

Our Values

In Diversity, Strength

In Challenge, Growth

In Heritage, Excellence

Our Way

Toward Consumers

Toward Business Partners

Toward Shareholders

Toward Employees

Toward Society and the Earth

Shiseido's Value Portfolio



SHISEIDO
140
Anniversary

Shiseido commenced operations as Japan's first Western-style pharmacy in Tokyo's Ginza district 140 years ago in 1872, a time when Chinese herbal remedies were the mainstream in Japan. The name Shiseido derives from a Chinese expression meaning "praise the virtues of the great Earth, which nurtures new life and brings forth new values." In line with this expression, Shiseido remains committed to its founding spirit of serving customers and contributing to the world through beauty by bringing together all things on Earth to create new value through Our Mission, which is Shiseido's *raison d'être*.

Shiseido has a 140-year history of innovation in its various activities to help people live beautifully. The value portfolio we have built up in creating beauty and wellness enhances our strengths.

Shiseido will continue to take on challenges to remain an outstanding company in the future.

Brand

140

Years in business

15 (#1 globally)

Number of top awards received at International Federation of Societies of Cosmetic Chemists (IFSCC) conferences and congresses

Over the 140 years since its founding, Shiseido has established a strong corporate brand by helping people live beautifully.

As one of the leading cosmetics companies in the world, Shiseido has built a solid position in global markets, and the Company's record of top technology awards demonstrates its world-leading position in cosmetics research and development.

Customers trust brands. The source of brand value is multifaceted, including elements such as technological capability, function, quality, safety, hospitality at sales counters and advertising, along with philosophy and history.

Strong brands are the key to Shiseido's growth. We continue to refine the value of the brand portfolio we have been building for many years.

Shiseido Makes History

Since launching our first cosmetic, *Eudermine*, we have focused on superior quality and high added value in continually creating cosmetics with new concepts and leading-edge beauty methods. With strong determination to deliver newer and richer sources of value as its cornerstone, Shiseido will strengthen its position as a leading brand in Japan and grow as a global prestige brand.



1897

Entered the cosmetics business by launching *Eudermine* lotion



1915

Shiseido's first president, Shinzo Fukuhara, designed the *HANATSUBAKI* trademark, which later become one of Shiseido's flagship symbols.

Note: Years in business and the number of top awards received at IFSCC conferences and congresses are as of March 31, 2012.



SHISEIDO
FUTURE SOLUTION LX

Business

44.3%

Overseas sales ratio

87

Number of countries and regions where Shiseido products are available

Shiseido has been expanding its business globally for more than 50 years. Steadily increasing the markets it serves over the years, Shiseido now sells its products in 87 countries and regions including Japan.

The hallmark of Shiseido's operations is continuous innovation to create unique value.

Approximately 90 years ago, we introduced our cosmetics sales store business model, a first in Japan, and have since built a strong network linking us with our stores and customers. In April 2012, we complemented our network by launching a breakthrough business model using the Internet in continuing to take on new challenges. The research and development underlying the strength of our products also continue to evolve, driven by our focus on advanced programs and technologies, which has brought achievements such as the development of numerous industry-leading skin brightening ingredients.

Shiseido Makes History

Shiseido has made great progress through innovation. In addition to establishing new systems such as the Shiseido chain store system in Japan, we built our strong position as a global player by developing overseas operations ahead of our competitors. We have been doing business in Asia for more than 50 years, and we celebrated our 30th anniversary in China in 2011.



1923

Initiated Shiseido chain stores, Japan's first voluntary chain store system. Introduced the system in China in 2004.



1957

Established Taiwan Shiseido Co., Ltd. and began full-scale overseas operations

Note: The overseas sales ratio is for the year ended March 2012. The number of countries and regions where Shiseido products are available is as of December 31, 2011. "Shiseido products" means the global brand **SHISEIDO**.

SHISEIDO



People

46,267

Shiseido Group employees worldwide

82.9%

Percentage of female Group employees in Japan

Our founding spirit is serving customers and contributing to society through beauty. This spirit lives on in Our Mission. Initiatives to realize it have involved building a spirit of *omotenashi* (hospitality), a unique asset, to develop our businesses and increase corporate value.

Shiseido comprises more than 40,000 employees with diverse attributes, including nationality, gender, age, and employment status, values and viewpoints. A corporate culture that values diversity, an unwavering commitment to our traditional beliefs, and people who constantly innovate are the sources of Shiseido's value.

Shiseido Makes History

Shiseido builds ties with customers through sales counter activities that introduce beauty methods tailored to the skin and tastes of each individual. Since introducing Miss Shiseido in 1934 with a mission to spread awareness of beauty, Shiseido has continuously worked to realize beauty through activities that touch the skin and the hearts of customers.

1934 Introduced Miss Shiseido, the predecessor to modern beauty consultants



2005 Included level of customer satisfaction with service in the evaluation of beauty consultant activities

Note: The number of Shiseido Group employees worldwide is as of March 31, 2012 (in Japan) and December 31, 2011 (outside of Japan), and includes temporary employees. The percentage of female Group employees in Japan is as of March 31, 2012.



Message from the President & CEO

Shiseido aims to become a global player representing Asia with its origins in Japan. In 2008, Shiseido drew up a 10-year roadmap with the goal for the year ending March 2018 of becoming a company with consolidated net sales in excess of ¥1 trillion and an overseas sales ratio of more than 50 percent that can consistently achieve operating profitability of 12 percent or higher and return on equity (ROE) of 15 percent or higher.

Our current Three-Year Plan culminating in the year ending March 2014 is Phase II of this roadmap, and has the theme of getting Shiseido into a growth trajectory. We are currently implementing four growth strategies supported by measures to reinforce our management base. Our top priorities are to revitalize the Domestic Cosmetics Business and accelerate globalization.

In the year ended March 2012, the first year of the Three-Year Plan, we aggressively invested in marketing for future growth in Japan and overseas. We achieved a number of successes as we implemented initiatives such as cultivating existing products and refining brand value. We intend to use the foundation we have built to generate solid growth in the year ending March 2013. Shiseido will continue

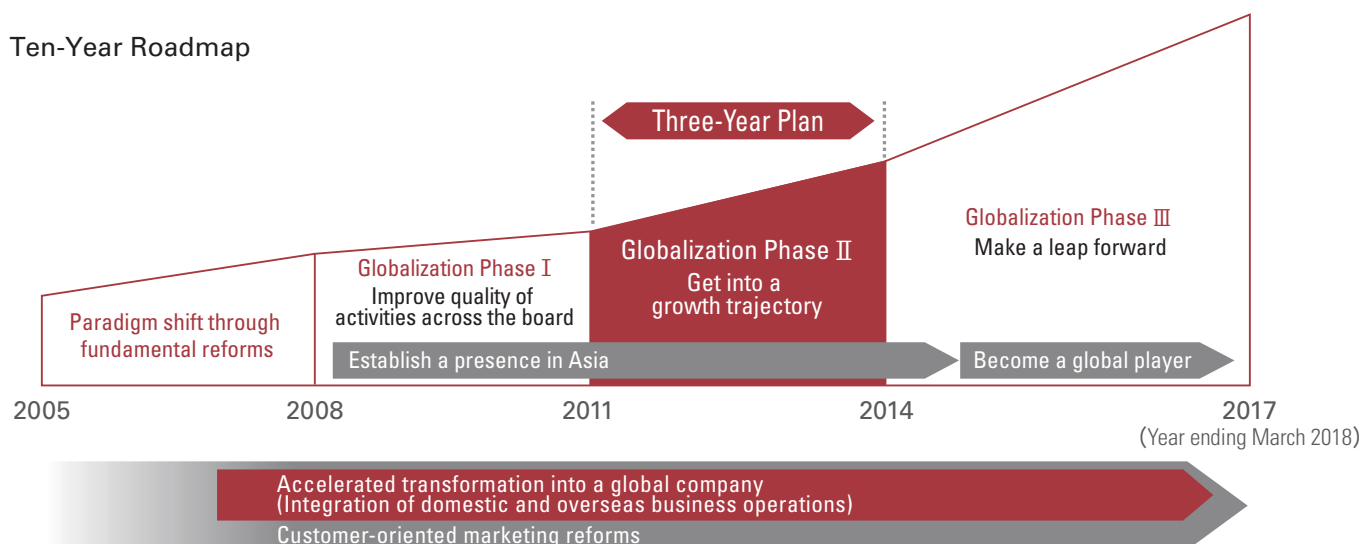
to invest aggressively for growth, and will implement fresh initiatives such as introducing a new business model in Japan.

In the year ending March 2013, Shiseido celebrates its milestone 140th anniversary. Since our founding, we have ceaselessly created new value in every area from product development and sales to sales counter hospitality and advertising in order to respond to the desire among people worldwide to be beautiful. Customers and communities worldwide recognize this value and have supported our progress, enabling us to continue our corporate activities over 140 years. Reaffirming my gratitude to customers and communities, I believe that I must carry on the Company's founding spirit while continuing to innovate so that Shiseido evolves and remains an outstanding company in the future.

Shiseido has always embraced innovation, progress and challenge. They are facets of our corporate culture. The only way that Shiseido can evolve is by integrating its cumulative strengths to continuously create new and richer value.

Shareholders and investors can look forward to further evolution from Shiseido. We are counting on your continued support.

Ten-Year Roadmap



Shiseido celebrates its 140th anniversary in the year ending March 2013. Integrating the strengths we have acquired, we will continuously create new and richer sources of value to evolve and remain an outstanding company.

July 2012

A handwritten signature in black ink, appearing to read 'H. Suekawa', with a long horizontal stroke extending to the right.

Hisayuki Suekawa
President & CEO
(Representative Director)



Business Overview (Year ended March 2012)

► Shiseido's Reportable Segments

Domestic Cosmetics Business

Domestic Cosmetics Division

■ Counseling



High- and mid-priced cosmetics products through beauty proposals mainly by beauty consultants using techniques including value-added counseling and “one-point counseling” (tips)

■ Self-Selection



Low-priced cosmetics that customers select by themselves at the point of sale

■ Toiletries



Shampoo, conditioner and other haircare products as well as body care products

Sales by Segment

Domestic Cosmetics Business
51.8%

Healthcare Division, Non-Shiseido and Others

Original brands of beauty foods and over-the-counter drugs as well as cosmetics brands that originate within the Shiseido Group but are not branded as Shiseido cosmetics products



► Domestic Cosmetics Business Sales Channels

The sales channels of the Domestic Cosmetics Business include voluntary chain stores, department stores, drugstores and general merchandise stores, and are divided into cosmetics sales store distribution and general product distribution. In addition, Shiseido launched a new business model using the Internet in April 2012. (Please refer to the Insight section, Taking on Challenges: A New Business Model, in Review of Operations: Domestic Cosmetics Business on pages 40 to 41 for more detail on Shiseido's new business model.)



Global Business

Overseas Cosmetics Division

■ Prestige



High-priced premium products with a high-quality, full-service image marketed through department stores and other channels. Led by the global brand *SHISEIDO*, our core cosmetics brands in overseas markets also include fragrance brands that originated in Europe.

■ Masstige



With a name coined from “mass” and “prestige,” masstige products are positioned as more expensive than mass-produced products, but more moderately priced than prestige products. Shiseido is aggressively marketing masstige products in China and other Asian markets expected to grow in the future.

Overseas and Domestic Professional Divisions

JOICO, *DECLÉOR*, *CARITA* and other brands for spas and salons in Japan and overseas

Others

The Frontier Science Division (manufacture and sale of cosmetics raw materials, medical-use pharmaceuticals and other products), restaurant operation and other activities

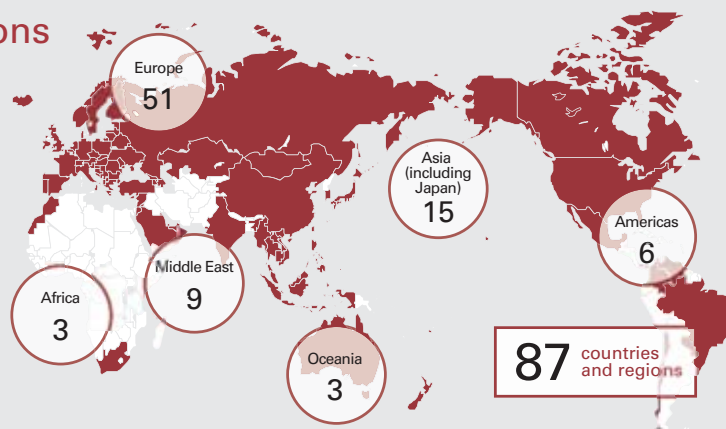
Global Business
46.9%

Others **1.3%**

► Shiseido's Global Operations

The global brand *SHISEIDO* was available in 87 countries and regions as of December 31, 2011, and overseas sales accounted for 44.3 percent of net sales for the year ended March 2012.

With four factories in Japan and 11 overseas, Shiseido is localizing production. Moreover, our R&D organization employs approximately 1,000 people at 10 bases worldwide, exemplifying our efforts to develop products that reflect regional characteristics.



Shiseido International France S.A.S.



Shiseido China Research Center Co., Ltd.



Vietnam factory



Shiseido America Research Center

Overview of Results

Shiseido Company, Limited, and Subsidiaries
For the years ended March 31, 2008 to 2012

► Highlights for the Year Ended March 2012

Net sales

+1.7 %

Net sales increased 1.7 percent year on year. Net sales in Japan were essentially on par with the previous fiscal year despite factors such as the Great East Japan Earthquake. Overseas sales continued to grow strongly, increasing 5.1 percent year on year on a yen basis and 11.9 percent on a local currency basis.

Overseas sales ratio

44.3 %

Overseas sales increased by double digits on a local currency basis in all regions, from the Americas and Europe to Asia and Oceania. The overseas sales ratio increased 1.4 percentage points to 44.3 percent.

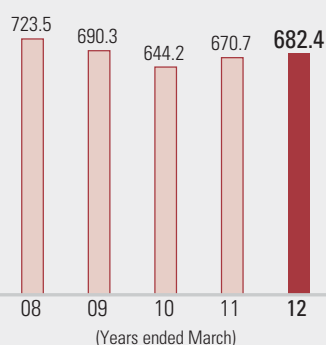
Operating income

-12.0 %

Operating income decreased 12.0 percent year on year largely because of marketing costs associated with energetic investment targeting sales growth in Japan and overseas.

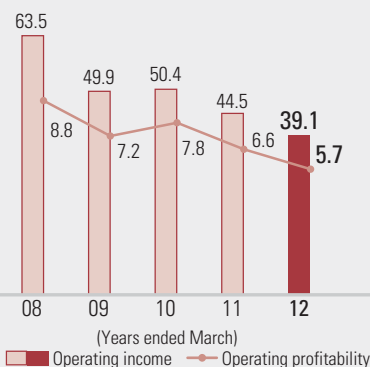
Net Sales

(Billions of yen)



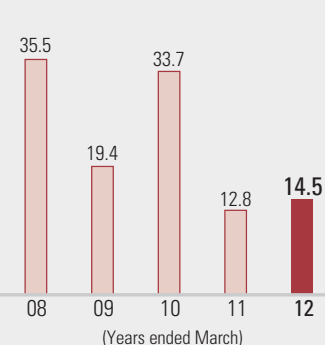
Operating Income / Operating Profitability

(Billions of yen / %)



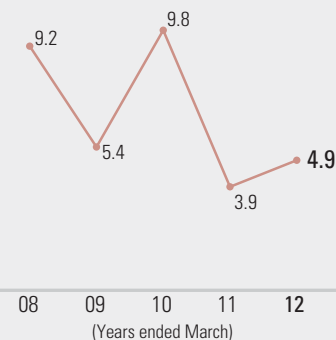
Net Income

(Billions of yen)



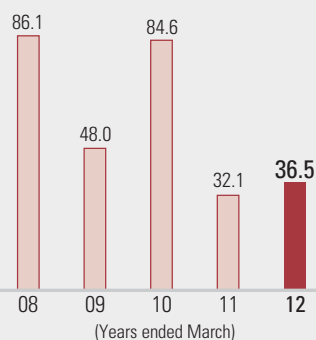
Return on Equity⁵

(%)



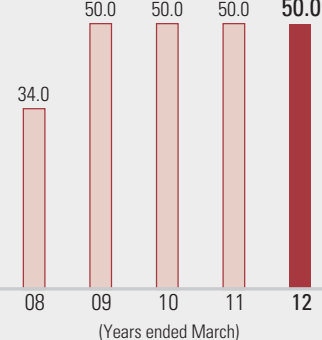
Net Income per Share (Primary)¹

(Yen)



Cash Dividends per Share

(Yen)



Notes: 1. Net income per share (primary) is calculated based on the average number of shares outstanding during the fiscal year. Net income per share is calculated before dilution.

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

3. Profitability by reportable segment and operating profitability by geographic area do not include eliminations/corporate.

4. Interest-bearing debt ratio = Interest-bearing debt ÷ Invested capital * * Invested capital = Interest-bearing debt + Total net assets

Return on equity (ROE)

4.9 %

ROE increased 1.0 percentage points year on year to 4.9 percent because of higher net income.

Interest-bearing debt ratio

37.9 %

The interest-bearing debt ratio decreased 0.3 percentage points to 37.9 percent because of repayment of debt.

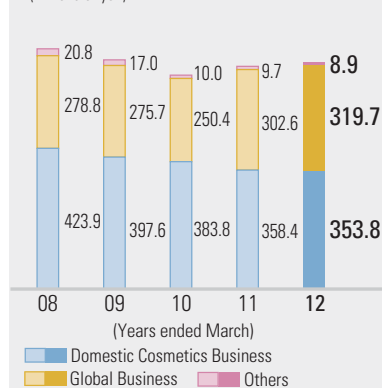
Cash dividends per share

¥50.0

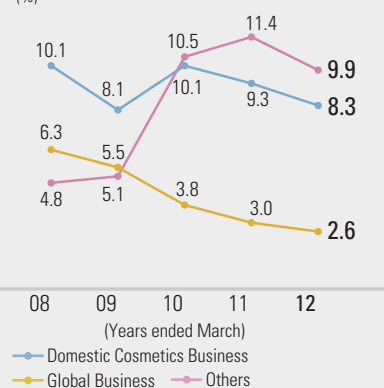
Emphasizing stable dividends, Shiseido paid annual cash dividends per share of ¥50.0, and the consolidated payout ratio was 137.1 percent.

Net Sales by Reportable Segment²

(Billions of yen)

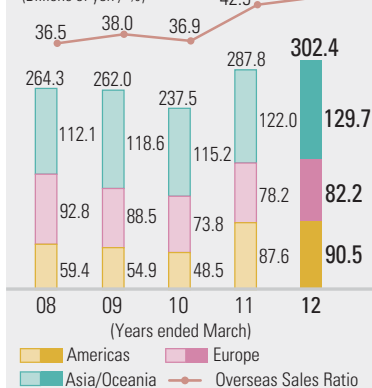
Profitability by Reportable Segment³

(%)

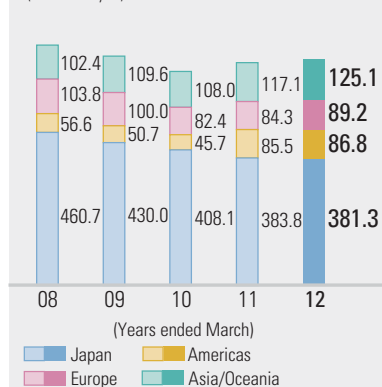


Overseas Sales / Overseas Sales Ratio

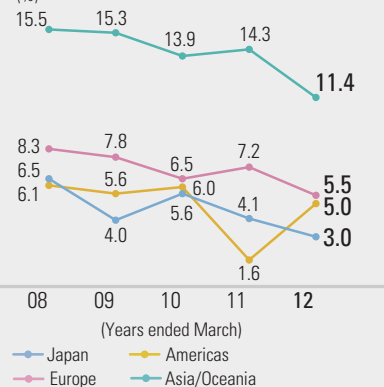
(Billions of yen / %)

Net Sales by Geographic Area²

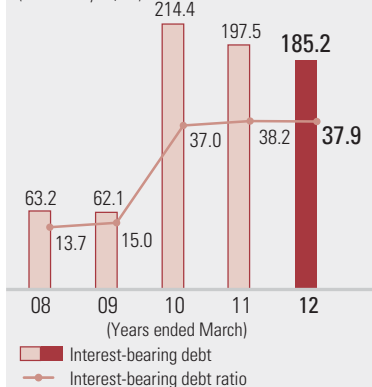
(Billions of yen)

Operating Profitability by Geographic Area³

(%)

Interest-bearing Debt / Interest-bearing Debt Ratio^{4, 5}

(Billions of yen / %)



5. Shiseido Group subsidiaries in the Americas formerly recognized samples and promotional items associated with marketing activities at stores as assets when acquired and expensed them when shipped to customers. However, effective the year ended March 2012 these subsidiaries began to expense these items when acquired as part of its efforts to standardize Group accounting policies. The Shiseido Group applied this change retrospectively and restated the consolidated financial statements for the year ended March 2011 accordingly.

Please refer to pages 80 to 81 for an in-depth 11-year summary of selected financial data.

| | Millions of yen (Except per share data) | | | | Thousands of dollars (Note 1) (Except per share data) | | YoY change |
|---|--|----------|-----------|---------------|--|-------------|---------------|
| | 2008 | 2009 | 2010 | 2011 (Note 3) | 2012 | 2012 | 2012/2011 |
| Operating Results and Financial Position: | | | | | | | |
| Net sales | ¥723,485 | ¥690,256 | ¥ 644,201 | ¥670,701 | ¥682,386 | \$8,307,597 | +1.7% |
| Cost of sales | 186,466 | 171,752 | 160,166 | 168,692 | 162,990 | 1,984,295 | -3.4 |
| Selling, general and administrative expenses | 473,554 | 468,590 | 433,684 | 457,551 | 480,261 | 5,846,859 | +5.0 |
| Operating income | 63,465 | 49,914 | 50,351 | 44,458 | 39,135 | 476,443 | -12.0 |
| EBITDA (Note 2) | 94,960 | 70,149 | 75,699 | 65,576 | 76,974 | 937,107 | +17.4 |
| Net income | 35,460 | 19,373 | 33,671 | 12,791 | 14,515 | 176,710 | +13.5 |
| Total assets (Note 3) | ¥675,864 | ¥606,569 | ¥ 775,446 | ¥739,120 | ¥720,708 | \$8,774,142 | -2.5 |
| Short-term liabilities (Note 4) | 38,653 | 27,601 | 112,693 | 16,362 | 9,735 | 118,517 | -40.5 |
| Long-term debt | 24,566 | 34,452 | 101,754 | 181,156 | 175,418 | 2,135,598 | -3.2 |
| Interest-bearing debt | 63,219 | 62,053 | 214,447 | 197,518 | 185,153 | 2,254,115 | -6.3 |
| Net assets (Note 3) | 399,739 | 351,951 | 365,208 | 320,127 | 303,716 | 3,697,541 | -5.1 |
| Net cash provided by operating activities | ¥ 75,308 | ¥ 42,768 | ¥ 69,432 | ¥ 67,587 | ¥ 52,600 | \$ 640,370 | — |
| Net cash used in investing activities | (5,803) | (28,158) | (204,885) | (30,304) | (20,668) | (251,619) | — |
| Net cash provided by (used in) financing activities | (95,883) | (32,283) | 120,359 | (39,572) | (35,482) | (431,970) | — |
| Cash and cash equivalents at end of year | 120,394 | 91,858 | 77,157 | 88,592 | 82,974 | 1,010,153 | — |
| Per Share Data (In yen and U.S. dollars): | | | | | | | |
| Net income (Note 5) | ¥ 86.1 | ¥ 48.0 | ¥ 84.6 | ¥ 32.1 | ¥ 36.5 | \$0.44 | +¥4.4 |
| Net assets (Notes 3 and 5) | 946.2 | 839.9 | 875.7 | 772.1 | 729.9 | 8.89 | -42.2 |
| Cash dividend | 34.0 | 50.0 | 50.0 | 50.0 | 50.0 | 0.61 | ±0.0 |
| Weighted average number of shares outstanding during the period (thousands) | 407,696 | 403,240 | 397,886 | 397,864 | 397,974 | — | — |
| Financial Ratios: | | | | | | | |
| Operating profitability (%) | 8.8 | 7.2 | 7.8 | 6.6 | 5.7 | — | -0.9 points |
| Return on assets (%) (Note 3) | 5.0 | 3.0 | 4.9 | 1.7 | 2.0 | — | +0.3 points |
| Operating ROA (%) (Notes 3 and 6) | 9.4 | 8.2 | 7.5 | 6.1 | 5.6 | — | -0.5 points |
| Return on equity (%) | 9.2 | 5.4 | 9.8 | 3.9 | 4.9 | — | +1.0 points |
| Equity ratio (%) (Note 3) | 56.6 | 55.6 | 44.9 | 41.6 | 40.3 | — | -1.3 points |
| Interest coverage ratio (times) (Note 7) | 39.1 | 23.6 | 45.4 | 32.8 | 27.3 | — | — |
| Debt equity ratio (times) (Notes 3 and 8) | 0.17 | 0.18 | 0.62 | 0.64 | 0.64 | — | — |
| Interest-bearing debt ratio (%) (Notes 3 and 9) | 13.7 | 15.0 | 37.0 | 38.2 | 37.9 | — | -0.3 points |
| Payout ratio (Consolidated) (%) | 39.5 | 104.1 | 59.1 | 155.5 | 137.1 | — | -18.4 points |
| Number of employees at year-end (Note 10) | 28,793 | 28,810 | 28,968 | 31,310 | 32,595 | — | +4.1% |
| Net sales per employee | ¥25.1 | ¥24.0 | ¥22.2 | ¥21.4 | ¥20.9 | \$254 | -2.3% |

Notes: 1. U.S. dollar amounts are converted from yen, for convenience only, at the rate of ¥82.14 = US\$1 prevailing on March 31, 2012.

2. EBITDA (Earnings before interest, tax, depreciation and amortization) = Income before income taxes + Interest expense + Depreciation and amortization

3. Shiseido Group subsidiaries in the Americas formerly recognized samples and promotional items associated with marketing activities at stores as assets when acquired and expensed them when shipped to customers. However, effective the year ended March 2012 these subsidiaries began to expense these items when acquired as part of its efforts to standardize Group accounting policies. The Shiseido Group applied this change retrospectively and restated the consolidated financial statements for the year ended March 2011 accordingly.

4. Short-term liabilities = Short-term debt + Current portion of long-term debt

5. Net income 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 income per share is calculated before dilution.

6. Operating ROA = (Operating income + Interest and dividend income) ÷ Total assets (Yearly average)

7. Interest coverage ratio = Net cash provided by operating activities ÷ Interest paid * * As stated in the statements of cash flows

8. Debt equity ratio = Interest-bearing debt ÷ Equity*








* Equity = Total net assets – Stock acquisition rights – Minority interests in consolidated subsidiaries

9. Interest-bearing debt ratio = Interest-bearing debt ÷ Invested capital*

* Invested capital = Interest-bearing debt + Total net assets

10. The number of employees at year-end does not contain temporary employees.

Major Events of the Year Ended March 2012

| | | |
|--|--|---|
| April 2011 Hisayuki Suekawa became President and CEO New Three-Year Plan announced | Hisayuki Suekawa became President and CEO, and Shiseido announced a new Three-Year Plan with the theme of getting into a growth trajectory as the second phase in becoming a global player representing Asia with its origins in Japan. |  |
| May 2011 “Cool Life Proposal” beauty proposal activities launched | We repurposed existing internal information on beauty, research and other topics and added it to sales counter activities to launch “Cool Life Proposal” beauty proposal activities in Japan. We subsequently implemented season-specific proposals in all channels for fall, winter and spring. |  |
| May 2011 30th anniversary of business in China | Shiseido held a ceremony to celebrate its 30th anniversary of business in China. We took this opportunity to launch the “Shiseido Future Beauty Project,” a program to support China’s next generation in the beauty arena. |  |
| September 2011 Major campaign conducted for Bare Escentuals | Shiseido announced a new message for Bare Escentuals, “BE A FORCE OF BEAUTY,” to celebrate the brand’s 35th anniversary and conducted a major campaign. |  |
| December 2011 Shiseido won top award at the 26th IFSCC* Conference | Held in Thailand, the 26th IFSCC Conference recognized the world’s best cosmetics research. Shiseido won the top Conference Award for its oral presentation, raising its total of top IFSCC awards to a world-leading 15. |  |
| March 2012 Shiseido won award at the 21st Grand Prize for the Global Environment Award | We received the Japan Business Federation Chairman’s Award at the 21st Grand Prize for the Global Environment Award because our efforts to preserve the Earth’s blessings were united with business activities. |  |
| March 2012 Shiseido selected as one of the 2012 World’s Most Ethical Companies | Shiseido was selected as one of the 2012 World’s Most Ethical Companies by the Ethisphere Institute, a U.S.-based international think tank dedicated to advocating best practices in business in such areas as corporate ethics and CSR. |  |

*International Federation of Societies of Cosmetic Chemists

Inclusion in Socially Responsible Investing Indexes (As of March 2012)

Numerous institutions involved in auditing socially responsible investing (SRI) have recognized Shiseido by including it in SRI indexes worldwide. As of March 2012, Shiseido remained a component of SRI indexes including the leading U.K. FTSE4Good Global Index and the Morningstar Socially Responsible Investment Index (MS-SRI) in Japan.



An Interview with the President & CEO

Shiseido aims to become a global player representing Asia with its origins in Japan. We must therefore leverage the foundation we have built and ceaselessly take on challenges to accelerate growth.

Hisayuki Suekawa
President & CEO
(Representative Director)



Q1

Please discuss Shiseido's results for the year ended March 2012, the first year of the Three-Year Plan.

Sales increased in line with our initial forecast, and operating income decreased because of our aggressive marketing investments for growth.

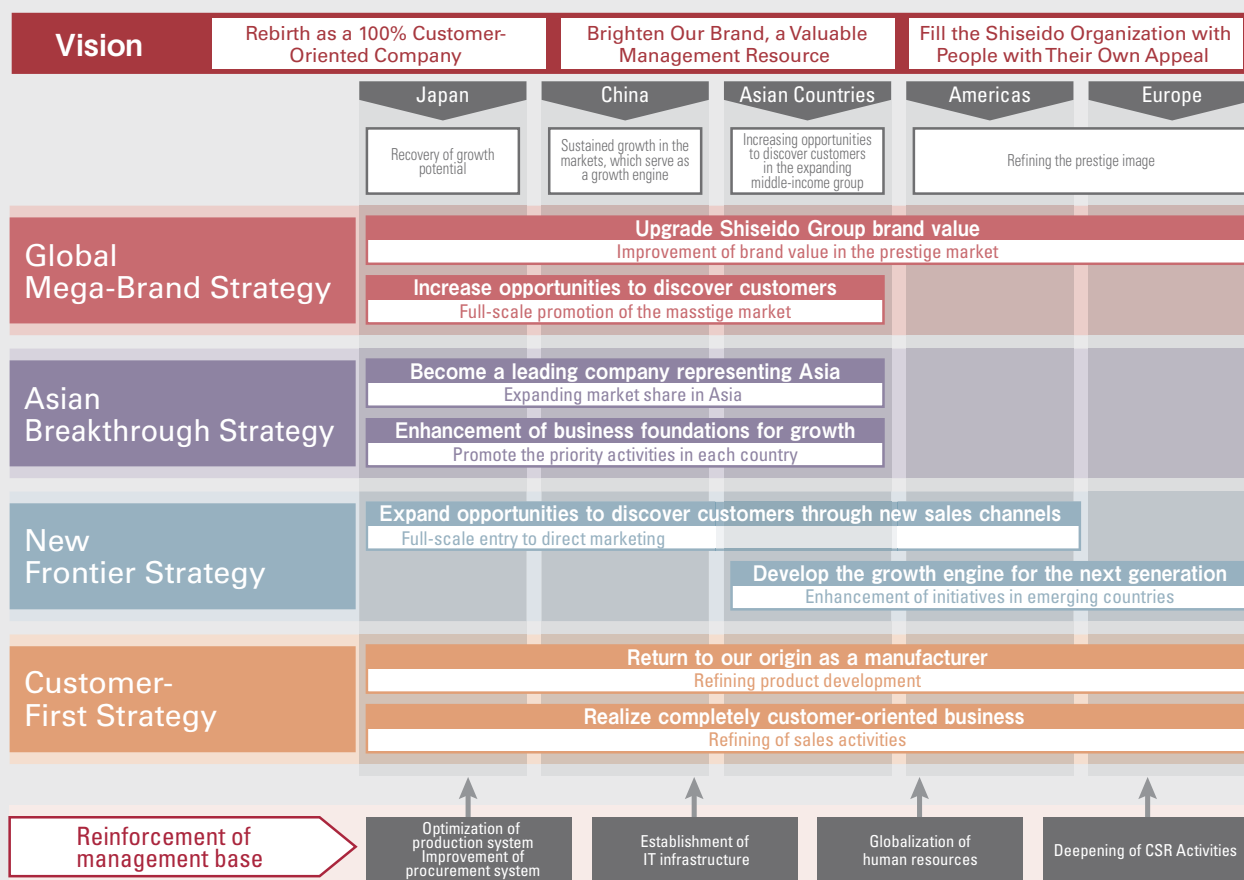
Our current Three-Year Plan has the theme of getting Shiseido into a growth trajectory. We are currently implementing four growth strategies supported by measures to reinforce our management base to revitalize the Domestic Cosmetics Business and accelerate globalization, which are our top priorities.

The year ended March 2012 was the first year of our current Three-Year Plan. We concentrated on turning around our domestic operations and made aggressive marketing investments for the future.

As a result, net sales increased 1.7 percent year on year, achieving our initial forecast. In Japan, where we reformed marketing and sales activities, sales edged down 0.8 percent due to the impact of the Great East Japan Earthquake and other factors. Overseas, we made steady progress in cultivating our brands, and the expanding Chinese market remained a growth driver. As a result, overseas sales increased 11.9 percent year on year on a local currency basis, and 5.1 percent on a yen basis.

Operating income decreased 12.0 percent year on year because of increased expenses, primarily marketing costs in Japan and overseas.

Overview of the Three-Year Plan



Q2

Please discuss the specific initiatives and successes in each business that enabled Shiseido to increase net sales according to plan in the year ended March 2012.

The Domestic Cosmetics Business undertook marketing reforms to depart from conventional marketing. The Global Business successfully cultivated brands.

During the year ended March 2012, the Domestic Cosmetics Business departed from conventional marketing that was overly dependent on new products and their promotion. Working to raise the quality of activities across the board, we selectively launched new products, reducing the number of launches by about one-half. This freed up manpower and costs for redeployment in R&D, sales activities, hospitality at sales counters and other components of our value chain. These marketing reforms enabled us to create multiple hit products including *Essence Glamorous Rouge* in the *MAQuillage* line, an overwhelming success that has sold more than one million units. Moreover, improved information compilation drove success. We reorganized our internal database of beauty, research and other information and combined it with sales counter activities to offer season-specific proposals. This and other initiatives helped us cultivate our existing products.

In the Global Business, brands with a presence in each of the world's regions have performed well, particularly the global mega-brands that we are focusing on cultivating. We are generating double-digit growth on a local currency basis in every region from

the Americas and Europe to Asia, including China. Competition with global peers is intensifying in China, our core market, so we concentrated the investment of resources there to strengthen human resources, marketing and other aspects of our business. As a result, we made steady progress in further strengthening our prestige business and expanding our masstige* business. The sales growth rate in China was in the mid-teens year on year, substantially outpacing growth in the overall market.

* A word coined from “mass” and “prestige.” Masstige products are positioned as more expensive than mass-produced products, but more moderately priced than prestige products.

Q3

How is Shiseido positioning the year ending March 2013? Please discuss the outlook for the current fiscal year.

The year ending March 2013 is a year to generate solid growth. We will use the foundation we built in the year ended March 2012 to accelerate growth and increase sales and earnings.

A year to generate solid growth – that’s how we are positioning the year ending March 2013. As the second year of our Three-Year Plan, it is a crucial time in which we will use the foundation we built in the year ended March 2012 to accelerate growth. We will continue to conduct activities that were successful in the year ended March 2012. This will help us achieve even greater successes as we undertake activities to generate unprecedented value, including the introduction of a new business model in Japan.

We forecast that net sales for the year ending March 2013 will increase 5.5 percent year on year to ¥720.0 billion as a result of factors including continued increases of investment in marketing costs in Japan and overseas. Looking at the components of net sales, we plan to increase domestic sales 3.4 percent and overseas sales 8.1 percent on a yen basis, and by 10 percent on a local currency basis.

We forecast that operating income will increase 11.2 percent year on year to ¥43.5 billion because of the increase in sales. We plan to increase marketing costs by a maximum of about ¥3.0 billion year on year in Japan and about ¥9.0 billion overseas.

► Performance Forecast for the Year Ending March 2013

(Billions of yen)

| | Year ended March 2012 (Actual) | Year ending March 2013 (Forecast) | Year-on-year change | Year-on-year change (Local currency basis*) |
|--------------------------------|-----------------------------------|--------------------------------------|------------------------|--|
| Net sales | 682.4 | 720.0 | +5.5% | +6% |
| Domestic sales | 380.0 | 393.0 | +3.4% | — |
| Overseas sales | 302.4 | 327.0 | +8.1% | +10% |
| Operating income | 39.1 | 43.5 | +11.2% | — |
| Net income | 14.5 | 22.0 | +51.6% | — |
| Overseas sales ratio | 44.3% | 45.4% | +1.1 points | — |
| Operating profitability | 5.7% | 6.0% | +0.3 points | — |

* Assumed exchange rates: ¥80 per U.S. dollar, ¥105 per euro, and ¥12.5 per Chinese yuan

Q4 What initiatives will Shiseido implement during the year ending March 2013 to address the key priorities of revitalizing and turning around Shiseido's business in Japan?

We will refine successful activities of the previous fiscal year to generate further successes while focusing on remaining issues involving major retailers such as drugstores and general merchandise stores.

In Japan, we will further strengthen our emphasis on selectively introducing new products and making our products perennial bestsellers. As in the year ended March 2012, we will continue to selectively launch highly competitive new products and cultivate existing products. In addition, we will energetically make season-specific proposals, which were very successful in the previous fiscal year. We also plan to develop beauty information for and make proposals in the senior market, in which volume is large and expected to expand further.

We will conduct even more intensive basic activities in each sales channel. In the year ended March 2012, for example, we conducted intensive activities including direct contact with customers' skin and use of beauty equipment at sales counters in the department store channel, which was expected to suffer from the impact of the earthquake and tsunami. As a result, sales in this channel increased year on year. We will further enhance such activities that leverage our strengths in each channel.

At the same time, we aim to increase sales at drugstores and general merchandise stores, where several issues have carried over from the year ended March 2012, such as numerous unwieldy policies. We have not fully revitalized our self-selection business, so it will be our focus as we take steps such as fortifying in-store promotions and providing samples via our website to turn around our brands and step up collaborative initiatives tailored to the unique characteristics of each major retailer.

Q5 What are the key points and aim of the recently introduced new domestic business model using the Internet?

The goals of the model are to address changing consumer purchasing behavior and achieve a turn-around in our domestic business, with the aim of expanding the number of regular Shiseido customers.

Introduced in April 2012, the new business model using the Internet is a core domestic initiative. The goals of this model are to address changing consumer purchasing behavior caused by rapid evolution in information technology and the advance of women into society, and to turn around the domestic cosmetics business. It is not simply an e-commerce model. It is an entirely new initiative designed to expand the number of regular Shiseido customers by using the strengths of the Internet and brick-and-mortar stores. We launched two websites. The first is Beauty & Co., a collaborative site featuring beauty- and health-related information as well as an online shopping mall. As of April 30, 2012, it had 28 corporate participants from fields including beauty, health care, medical care, fashion, relaxation and knowledge.

The other website is Shiseido's total beauty service website, watashi+ (pronounced

“watashi plus”). It meets a diverse array of customers needs with a broad menu of services that includes online shopping and web-based counseling along with brick-and-mortar retail store introduction and search. Moreover, we are gathering information via watashi+ and integrating it with purchase information collected at stores to build a customer database that will help increase sales at stores by supporting marketing promotions.

Both sites are up and running and are attracting visitors, with a high proportion of young women registering as members. We expect them to yield a steady stream of opportunities to discover new customers. (Please refer to Taking on Challenges: A New Business Model on pages 40 to 41 for more detail on this new business model.)

► Overview of the New Business Model



Q6

Strong growth continues in China. What are Shiseido’s planned initiatives there? Also, please discuss the masstige business in Asia.

In China, we are aiming to grow faster than the overall market by concentrating on further enhancing our presence. In the Asian masstige business, we will market aggressively.

During the year ending March 2013, we will continue to place top priority on the Chinese market in investing resources. We expect to achieve ¥100 billion in sales by investing aggressively with a focus on marketing to continue generating an annual sales growth rate in the mid-teens, which is greater than overall market growth. We will also maintain operating profitability above 10 percent.

We expect double-digit growth in the department store channel during the year ending March 2013. We will respond to expanding needs in the high-prestige category by introducing a premium line under the *AUPRES* brand at 150 top-ranked stores in terms of sales. We will also cultivate the global brand *SHISEIDO* by enhancing sales counter hospitality and renewing counters at major stores, while focusing more strongly on nurturing the top-end prestige brand *clé de peau BEAUTÉ*. These moves will enhance the prestige image of both brands.

In the steadily growing cosmetics specialty store channel, we will concentrate on further increasing sales per store in addition to the number of stores that handle our products with the aim of achieving double-digit sales growth and sustained earnings growth. We will continue to reinforce the *urara* brand sold only in this channel, and the *PURE&MILD* brand, while introducing *The Collagen* and skin-brightening drinks to

broaden our range of proposals for customers.

We see the Asian masstige category as a future growth driver, and will therefore strengthen our focus on television commercials and in-store visuals to build the cachet of the core masstige brand *Za*, especially in China and Thailand. We began producing *TSUBAKI* in China in December 2011 with a formulation adapted to local customer needs, and will enhance seasonal promotions for this brand. Moreover, the *SENKA*, *MAJOLICA MAJORCA* and *AQUALABEL* brands that have performed well in Taiwan and Hong Kong will launch in various Asian countries. With these initiatives, we plan to achieve double-digit growth during the year ending March 2013 in Asia, including China but excluding Japan.

Q7

In the year ending March 2013, how will Shiseido cultivate its prestige brands in global markets?

We will focus on global mega-brands as we enhance brand equity and expand regional coverage for brands with a presence in each area.

In the prestige category, we will continue to concentrate on strengthening the global brand *SHISEIDO*, *clé de peau BEAUTÉ* and *bareMinerals*, as well as designer fragrances and the makeup brand *NARS*.

First, for the global brand *SHISEIDO*, we will increase opportunities to discover new customers with emphasis on *Corrective Serum* in the *SHISEIDO BIO-PERFORMANCE* high-performance skincare line while enhancing the brand's prestige image through the *SHISEIDO FUTURE SOLUTION LX* premium skincare line. We have been energetically promoting *clé de peau BEAUTÉ* overseas, and will further refine this brand as we expand its presence in North America.

Next, we will energetically promote Bare Escentuals to achieve double-digit growth. While cultivating the *READY* makeup line launched in September 2011 within the flagship *bareMinerals* brand, we will fully develop synergies with Shiseido to expand category coverage into skincare. We are also looking to complement results in the key U.S. market with further growth in Japan, Hong Kong, the United Kingdom and Germany. In addition, the launch of *bareMinerals* in Brazil in June 2012 exemplifies our proactive initiatives in growth markets.

We will support our designer fragrance brands, which we primarily sell in Europe, by increasing the number of stores that carry them and the countries in which they are available. For *NARS*, we will build brand equity in ways such as opening directly operated stores and expanding country coverage to further increase sales, which continued to grow steadily in the year ended March 2012.

Q8

Please discuss progress toward the targets of the Three-Year Plan.

Achieving our target for operating income will be difficult. We therefore plan to push ahead with vigorous initiatives to reinforce earnings, such as drastically reforming our cost structure.

In April 2011, we announced that we would maintain and continue working to achieve our pre-earthquake targets of compound annual growth in sales of 6 percent or

higher on a local currency basis and operating profitability of 10 percent within three years.

Steadily implementing the measures I have already discussed have put the target for sales growth within reach.

On the other hand, although we currently expect to achieve operating profitability of 8 percent, meeting our target of 10 percent for operating profitability will be difficult. The initial assumptions under which we formulated the Three-Year Plan have changed for reasons including our ongoing need to invest in challenging markets in Asia such as Japan and China, and continued amortization of goodwill due to the delay in converging Japanese accounting standards with the International Financial Reporting Standards.

However, we are pushing ahead with initiatives to reinforce earnings to get as close as we can to achieving the targets of the Three-Year Plan. In particular, we plan to drastically reform our cost structure so that we can secure the investment resources required to prevail in our increasingly competitive businesses and maintain operating profitability of 10 percent. We plan to announce the details of specific plans as they become available.

Q9

What approach will Shiseido take in its focus on further reinforcing its management base to achieve continuous growth?

While spreading and entrenching Our Mission, Values and Way, which are the basis of all our activities, we will continue our proactive CSR activities and innovate our approach to corporate governance.

In this period of major management transformation, the Shiseido Group felt it needed guidelines that help all employees share the same *raison d'être*, values and spirit. We therefore formulated Our Mission, Values and Way (MVW) in 2011 as our corporate philosophy. Spreading and entrenching MVW throughout the Group is critically important because it is our homing beacon, guiding us as various changes take place in our operating environment going forward. I will lead the process of inculcating MVW among employees worldwide.

Shiseido also sees CSR as all corporate activities that put MVW into practice. We aim to create beauty and health for people through activities that address the issues and expectations of society.

We have determined three areas in which we can make an important contribution to society: women and cosmetics (beauty), culture, and the environment. In the year ending March 2013, we have launched the Mirai Tsubaki Project, in which all Shiseido Group employees throughout the world will conduct social contribution activities to deepen our relationship with customers and society.

Moreover, as a global company, we recognize that we must establish corporate governance that earns a high level of stakeholder trust and strengthen senior management to succeed in our competitive business. Accordingly, we will continue to implement corporate governance reforms that enhance management transparency, fairness and speed.

Q10 Cash dividends per share totaled ¥50.00 for the year ended March 2012, and the payout ratio was 137.1 percent. Please discuss future shareholder return policies.

Maximizing shareholder value is a primary management responsibility. Shiseido aims to provide substantial shareholder returns based on its total shareholder return policy.

The total shareholder return policy of Shiseido Co., Ltd. aims to maximize returns to shareholders through direct means and by generating medium- and long-term share price gains. To this end, our fundamental policy is to make strategic investments that drive earnings growth while raising capital efficiency, which will lead to medium- and long-term increases in dividends and share price. Shiseido's goal for returns over the medium term is a consolidated payout ratio of 40 percent. Based on this target, we will also prioritize payment of stable dividends while implementing share buybacks in a flexible manner.

Cash dividends for the year ended March 2012 were ¥50.00 per share, and the payout ratio was 137.1 percent. The high payout ratio reflected a temporary decrease in profit levels due to aggressive marketing investments. Given our performance forecast and commitment to stability, we plan to maintain cash dividends per share at ¥50.00 for the year ending March 2013. Going forward, the payout ratio is expected to approach our medium-term goal as we work to meet the targets of the Three-Year Plan.

Q11 What are your closing thoughts for shareholders and investors?

The opinions of our shareholders and investors drive us to devote ourselves to further evolution.

We intend to experience growth in the year ending March 2013, our second year of getting into a growth trajectory. I also expect Shiseido to proceed step by step toward becoming a global player representing Asia with its origins in Japan. The key in doing so will be stronger earnings. We will work to maximize shareholder value by drastically reforming our cost structure.

Since becoming president and CEO one year ago in April 2011, I have learned much through my dialogue with many people, including customers, shareholders and investors, employees in Japan and overseas, and victims of the Great East Japan Earthquake. Your opinions drive me, and they drive Shiseido.

Shiseido has built a superb value portfolio over 140 years in business. Count on us to continue creating new value as we further accelerate our efforts to make even greater progress in the future.



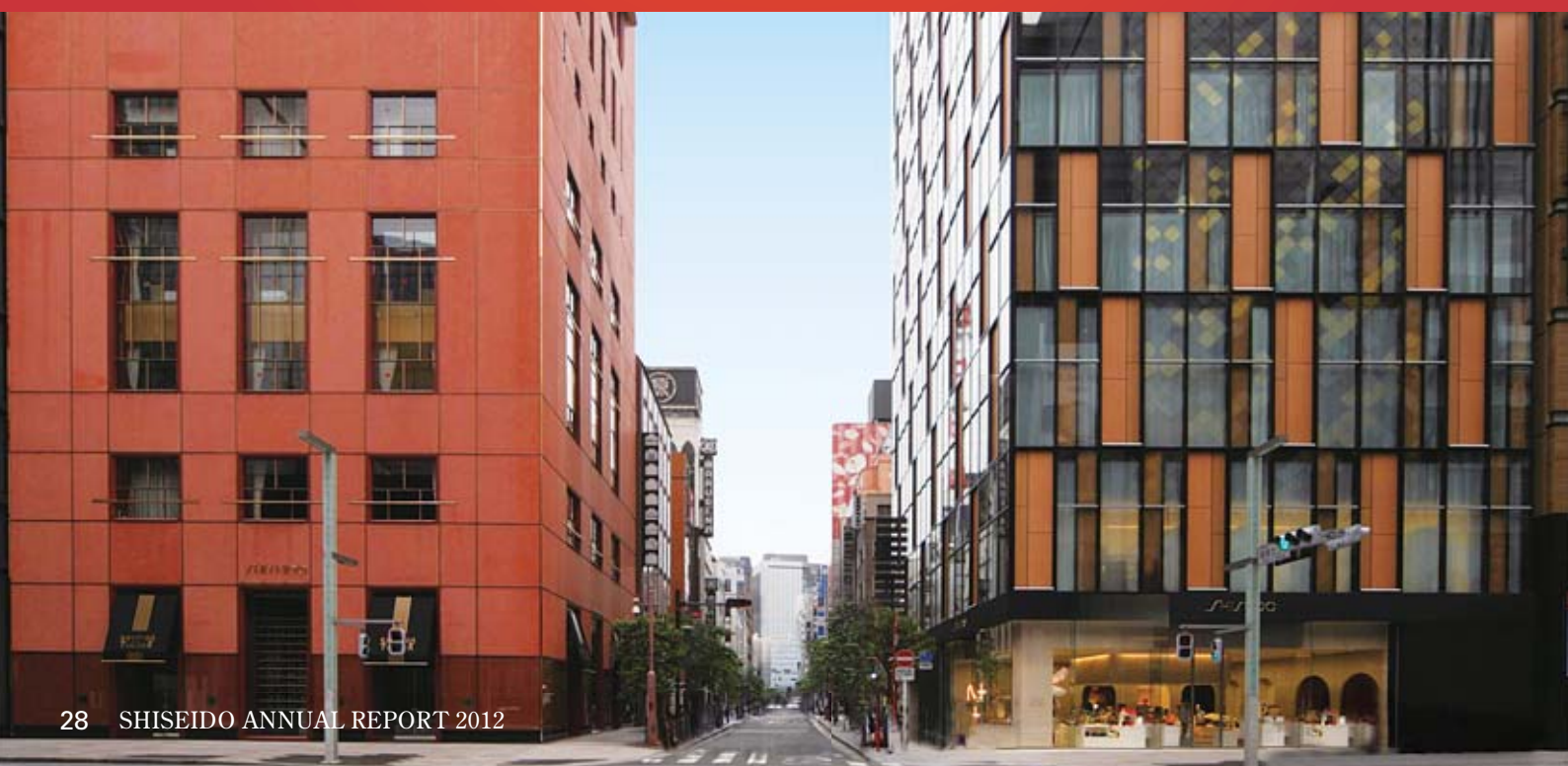


Feature

Shiseido's Next Era Has Begun

Celebrating 140 years in business, Shiseido is now heading into its next era. In this feature article, Shiseido's key people explore the value portfolio Shiseido has built up since its founding and discuss how the Company is now creating new value through innovative initiatives.

We hope readers will share our excitement about taking on the challenges of our next era.





Arinobu Fukuhara



Ginza in the 1870s



Tokyo Pharmacy Magazine advocated the separation of medical care and pharmaceutical dispensing

1872 Redefining Beauty

One hundred and forty years ago, Arinobu Fukuhara built on his experience working as chief pharmacist at a navy hospital to establish Shiseido, Japan's first Western-style pharmacy in the Ginza district of Tokyo. Concerned about the inferior medications then available to the public, he aspired to separate medical care and pharmaceutical dispensing in Japan.

Shiseido's first president, Shinzo Fukuhara, led Shiseido into the cosmetics business in 1897. The only cosmetics sold in Japan at that time, powder and lipstick, were simply for altering appearance. Dissatisfied with the status quo, Shiseido brought a fresh perspective to cosmetics. We formulated our products like pharmaceuticals because we strongly believed that the true value of cosmetics was in achieving healthy, beautiful skin. Based on this belief, Shiseido has developed with an unwavering philosophical commitment to high quality, innovation and authentic value. Millions of people have come to know and trust the Shiseido name as a result.

The origin of the company name "Shiseido" is a passage from the Chinese classic, *I Ching* (The Book of Changes): "praise the virtues of the great Earth, which nurtures new life and brings forth new values." Shiseido puts the intent of this passage into practice by discovering and creating new value. This is our founding spirit, and it continues unbroken as Our Mission, Shiseido's *raison d'être*.

美を紡ぐ Beauty Defines

2012 Our Continuing Dedication to Innovation

As we celebrate 140 years in business, first and foremost we are grateful for 140 years of support from customers and society. At the same time, we appreciate the efforts of our predecessors who helped Shiseido overcome various challenges.

We have sustained growth over many years by remaining true to our founding spirit while continuously innovating to adapt to the times.

Our 140th anniversary is a turning point. We need to increase corporate value and the value of our brands by once more focusing our energy on sharing our strengths with the world, such as the technological capabilities we have developed throughout our history and our involvement in society.

At this point, I would like to reaffirm my commitment to ensuring that Shiseido continues for another 140 years and beyond. To achieve that, we must respond flexibly to the changing times and economic environment while creating new value with the belief that the diversity we embrace will be fertile ground for the new Shiseido that will come forth. We cannot afford complacent satisfaction with the achievements of the past, but must continually take on challenges with the future in mind.

Our next era has begun. Shiseido will constantly innovate to achieve excellence in beauty.

Hisayuki Suekawa
Representative Director,
President & CEO





Ayao Yamana



A work by Yamana incorporating the arabesque design



Poster for the global brand
SHISEIDO (2012)

1877 Unique Beauty Begins to Evolve

Five years after its founding, Shiseido began framing its newspaper advertisements with an arabesque design. Symbolizing the richness and beauty of the human spirit, this design was to become the corporate symbol of Shiseido.

Fast forward to 1929. Ayao Yamana, a pioneer of Japanese graphic design, joined Shiseido. His first project was to draw the arabesque design by hand. The design was simple but its look changed completely with pen pressure. This tormented Yamana, who left Shiseido after three years.

Yamana later returned to Shiseido after gaining broad experience and becoming a representative Japanese graphic designer. He returned to drawing the arabesque design. A thousand times, then ten thousand times. His stubborn efforts dramatically transformed art nouveau arabesque into unique Shiseido beauty. Yamana created a stream of sublimely elegant works that captured society's attention and established the Shiseido style.

He said, "I finally get arabesque" two years before his death in 1978. His lifelong commitment to carrying on tradition and the continuous evolution of beauty is Shiseido in a nutshell.

2012 Continuous Evolution Defines Shiseido

The history of Shiseido cosmetics is the history of Japanese cosmetics. Our marketing systems have driven innovation in our businesses, and our original designs continue to define the times.

Shiseido design is not simply a picture. Drawing on commercial art, it communicates proposals to the people of the world.

In an age when newspaper advertising was the mainstream, Shiseido conveyed beauty with open space rather than cumbersome text. In tandem with the use of illustrations that referenced Western culture, this approach proposed Shiseido's image for cosmetics. We applied illustration techniques to photographs when photography became mainstream, and pioneered the use of original imagery to express proposals in the television age.

Shiseido style continues to evolve because we embrace new modes of expression as the world changes while honoring the style and intent of the creative minds that developed it over the years. It is the source of Shiseido's allure.

We will design lifestyles, lead with new approaches to communication, and create beauty and wellness for the future. The Advertising Creation Department's mission is to constantly evolve as Shiseido's beauty authority.

美を伝える Beauty Inspires

Katsuhiko Shibuya
Executive Creative Director
General Manager
Advertising Creation Department



1897

The Fusion of Chemistry and Cosmetics

Eudermine was the first lotion Shiseido launched. Supported by progressive technological innovation, it remains a perennial bestseller at stores worldwide.

Nagayoshi Nagai, the father of the Japanese pharmacy, developed this product. He set out to develop basic cosmetics with the core Shiseido conviction that they should be science-based and high quality, just like pharmaceuticals. He worked day and night to develop high-quality cosmetics, assiduously researching Japanese skin and focusing intensely on raw materials. In 1897, he finally completed Japan's first lotion founded on Western-style pharmacology.

The price of *Eudermine* was 2.5 times higher than conventional lotions of the time. However, the product was popular because of its high quality, and became popularly known as "Shiseido Red Water."

In 1916, Shiseido created the groundbreaking Testing Room in the Cosmetics Division to both develop products and ensure their quality. Shiseido made progress in research, subsequently building a broad portfolio of scientific knowledge and technology. Representative of Shiseido's boundless innovation, the development of *Hydrogen Peroxide Cucumber* paved the way for our skin-brightening lotion business.

The fusion of chemistry and cosmetics defines Shiseido's history of progress in R&D.



Nagayoshi Nagai



Eudermine



SHISEIDO FUTURE SOLUTION LX

2012

Consistent Global Leadership

Our R&D capabilities rank at the top of the global cosmetics industry. This is evident from our history of awards from the International Federation of Societies of Cosmetic Chemists (IFSCC), which is considered the World Cup of the cosmetics world. The number of top IFSCC awards that Shiseido has received is unmatched by its global competitors.

After extensive research, our team was the first in the world to solve a dermatological puzzle, thereby realizing the dream of customers for a half-century: strong skin that resists aging. We discovered that a rogue protein called serpin b3 causes rough skin and accelerates aging. After examining the skin of women in 18 countries, we realized that customers worldwide share this serpin b3 rogue protein. Loved worldwide, *SHISEIDO FUTURE SOLUTION LX* is a representative Shiseido skincare product that incorporates this knowledge.

Shiseido's R&D history is a series of challenges that has spanned more than 100 years. Meeting these challenges has given us a large body of original research data and knowledge that is the foundation for new product development. Shiseido is therefore doing all it can to further strengthen its R&D platform.

We need to please and delight customers in addition to satisfying their needs and wants. We must therefore harness the ceaseless flow of originality that runs through Shiseido. We undertake research each day firmly convinced that originality is the key to Shiseido's future growth.

美を究める
Beauty Reveals

Chika Katagiri, Ph.D.
Senior Scientist
Shiseido Research Center



1923

Retail Innovation

In the 1910s, Japan's cosmetics retailers were locked in a debilitating price war. Noboru Matsumoto, who was in charge of Shiseido management at the time, wanted to resolve this situation by introducing the chain store system he had learned about as a university student in New York with the aim of fair selling prices and profits. However, other manufacturers did not follow Shiseido's lead because no other industry in Japan had successfully introduced a chain store system.

Shop by shop, Matsumoto visited potential chain stores on foot to persuade them of the concept of and need for coexistence and mutual prosperity. Gradually, stores came around to Shiseido's thinking. As a result, we concluded voluntary chain store agreements with 2,000 stores, which was 10 times our initial plan. The Shiseido Cosmetics Chain Store System became Japan's first voluntary chain store system.

Shiseido then energetically launched new initiatives. In 1934, we introduced Miss Shiseido, the forerunner to our modern-day beauty consultants. In 1937, we established the Hanatsubaki Club to deepen our relationship with loyal customers. Shiseido has truly been a retail innovator in Japan.

Shiseido creates growth potential by continuously taking on challenges with high aspirations and passion.



Noboru Matsumoto



A Shiseido chain store



The watashi+ website

2012

Launching Further Reforms

Shiseido refines what it has built and evolves to ensure contemporary leadership.

Customer purchasing behavior is changing dramatically. People use the Internet to acquire information by themselves and comparison shop beyond category boundaries. We have accommodated these major changes in the market environment by taking on the challenge of a new business model that increases regular users of our products by unifying our existing store-based sales business with a platform business and direct marketing using the Internet. The platform business is called Beauty & Co., while the direct marketing business is called watashi+. Together, they will allow Shiseido to achieve the coexistence and mutual prosperity the Company values.

I want to achieve three goals with this new business model. One, I want Shiseido to build direct relationships with customers and use them to steadily deliver the value they generate. Two, I want Shiseido to evolve from the cosmetics business to the business of providing total beauty solutions. And three, I want Shiseido to build a new earnings structure.

I am totally committed to succeeding in this new challenge of innovating Japan's retail market.

(Please refer to the Insight section, Taking on Challenges: A New Business Model, in Review of Operations: Domestic Cosmetics Business on pages 40 to 41 for further detail on Shiseido's new business model.)



美で改革する

Beauty Changes

Tatsuomi Takamori
Director
Corporate Executive Officer

1957

Stepping Out into the World

Shiseido initiated full-scale overseas operations in 1957 by establishing a subsidiary in Taiwan. Subsequently, Shiseido accelerated its advance into Europe and the Americas, and started its business in China in 1981, well ahead of other companies. We have since continued to enhance our global presence.

We emphasize diversity and brand equity. This is the standout feature of Shiseido's global operations. A prime example is France, which welcomed Shiseido in 1980 and then became the starting point of our overseas prestige strategy. We created an image that integrated the mystery of the East with the technology of the West, then executed meticulous prestige marketing. We also rigorously selected only those stores that were amenable to Shiseido policies, and focused on maintaining superior service and quality. As a result, Shiseido has successfully differentiated itself from other companies, building a strong position as a prestige brand in France as well as in the markets of Europe and the Americas.

We create new value in the same way when we acquire a brand. For *CARITA*, *NARS*, *bareMinerals* and all other brands we have acquired, we retain brand identity while developing synergies to generate continuous strong growth.

Our corporate culture is a powerful foundation for growth because it values our origins and emphasizes diversity.



Shiseido France in 1980



NARS



bareMinerals

美が広がる

Beauty Builds

2012

Ranked among the Winners

Shiseido's overseas sales ratio is now 44.3 percent, and overseas employees account for 46.3 percent of total employees. Twenty years ago in the year ended March 1992, the overseas sales ratio was 6.5 percent, which really highlights the speed of our global development.

Shiseido's Global Business has generated average annual growth of 14 percent on a local currency basis over the past three years. It is our growth driver. We absolutely must accelerate globalization if we want to actualize the Three-Year Plan theme of getting Shiseido into a growth trajectory.

Our objective is to become a Global Multiple-Brand Company possessing multiple brands with annual sales of between ¥50 billion and ¥100 billion. In the prestige category, we are working to achieve our objective by providing value in the form of a rare and unique brand experience. In the masstige category, we are accelerating initiatives to discover even more customers in the expanding middle-income demographic. Moreover, we plan to concentrate on improved insight analysis and brand surveys to generate steady growth for all of our brands.

Brands are not equivalent to products. Product technology, features, sales counter hospitality, point of sale, philosophy and history are all important to a brand. Shiseido will create value, communicate it and continuously refine it to prevail in global markets.



Carsten Fischer

Representative Director
Corporate Senior Executive Officer

Review of Operations

Shiseido aims to build a powerful brand portfolio by combining global mega-brands developed on a priority basis to extend beyond regional boundaries and brands for which it is enhancing presence in specific regions.

Domestic Cosmetics Business ▶P.36

Domestic Cosmetics Division

Counseling



REVITAL GRANAS J



MAQuillAGE J C A



AQUALABEL J C A



ELIXIR SUPERIEUR
J C A U



BENEFIQUE J A



uno J C A



Integrate J A

Toiletries



SEA BREEZE J A



SUPER MILD J C A



ANESSA J C A

Healthcare Division



The Collagen J



CHOU-MEI-SOU J



IPSA J C A



ettusais J A

Non-Shiseido

Global Mega-

Prestige



Global brand
SHISEIDO
J C A U E



clé de peau BEAUTÉ
J C A U



Bare Escentuals
bareMinerals
J C* A U E

* In China, only Hong Kong

Brands

Masstige



Za

C A



SENKA

J C A



TSUBAKI

J C A E

Main Regions of Availability
(As of March 31, 2012)

Japan: J China: C Asian countries: A
North America: U Europe: E

Global Business ▶P.42

Overseas Cosmetics Division

Non-Shiseido



ISSEY MIYAKE

J C A U E



NARS

J C A U E



narciso rodriguez

J A U E

China



AUPRES C



D-Q C



urara C



PURE&MILD C

Overseas and Domestic Professional Divisions



Qi

J C A



JOICO

C A U



DECLÉOR

J C A U E

THE HAIR CARE
ADENOVITAL

J A



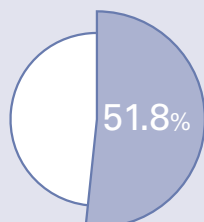
CARITA

J A U E

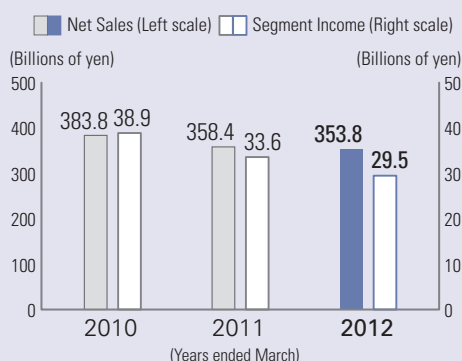


Domestic Cosmetics Business

Share of Total Net Sales



Net Sales / Segment Income



Sales by Division (Year Ended March 2012)

| | Sales (Billions of yen) | Percent change |
|-----------------------------|----------------------------|----------------|
| Counseling cosmetics | 181.4 | -0.7% |
| Self-selection cosmetics | 77.9 | -5.0% |
| Toiletries | 45.2 | +7.8% |
| Domestic Cosmetics Division | 304.5 | -0.7% |
| Healthcare Division | 14.9 | +2.8% |
| Others | 34.4 | -7.9% |
| Total | 353.8 | -1.3% |



clé de peau BEAUTÉ

One of our global mega-brands, *clé de peau BEAUTÉ* is a top-end prestige brand that has the largest sales volume of all brands in the Domestic Cosmetics Business. We are enhancing its potent presence in the high-priced cosmetics market in Japan while building sales in 10 countries overseas, with an emphasis on Asia and North America.

The Domestic Cosmetics Business manufactures cosmetics and toiletries for sale in Japan. In a difficult market affected by the Great East Japan Earthquake and other factors, the Domestic Cosmetics Business meticulously refined product value and sales counter activities to generate successes that will support future growth.

Business Overview

A leading company in Japan's cosmetics market, Shiseido generates sales in the counseling category centered on high- and mid-priced products by providing full and spot counseling (tips). Shiseido also operates in the self-selection category, in which customers freely select low-priced products by themselves, and in the toiletries category.

Shiseido's primary marketing channels for cosmetics include voluntary chain stores, department stores, general merchandise stores and drugstores. Among these channels, Shiseido leverages its advantages at voluntary chain stores and department stores that can provide the quality services and counseling the Company aims for.

The Healthcare Division markets various products including health and beauty foods and over-the-counter drugs. Its successes in building a strong position include the top share of the market for retail collagen supplements.

► Domestic Cosmetics Business Categories

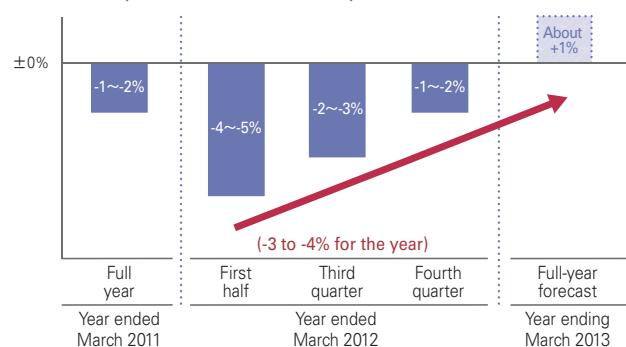
| Category | Products | Primary Channels | Main Brands |
|----------------|----------------------------|---|---|
| Counseling | High-priced cosmetics | Department stores, voluntary chain stores, general merchandise stores | The global brand <i>SHISEIDO</i> , <i>clé de peau BEAUTÉ</i> , <i>REVITAL GRANAS</i> , <i>BENEFIQUE</i> |
| | Mid-priced cosmetics | Drugstores, general merchandise stores, department stores, voluntary chain stores | <i>MAQuillage</i> , <i>ELIXIR</i> |
| Self-selection | Low-priced cosmetics | Drugstores, general merchandise stores, convenience stores | <i>AQUALABEL</i> , <i>uno</i> , <i>INTEGRATE</i> |
| Toiletries | Low-priced fine toiletries | Drugstores, general merchandise stores, convenience stores | <i>TSUBAKI</i> , <i>SENKA</i> , <i>SEA BREEZE</i> |

Market Environment

Against a backdrop of factors such as weak consumer sentiment and deteriorating economic conditions, the domestic over-the-counter cosmetics market has continued to contract. The impact of the Great East Japan Earthquake of March 2011 caused the market to contract significantly from the beginning of the year ended March 2012. Signs of a moderate recovery began to emerge from the second quarter, and the market had recovered to the level of the previous fiscal year by the fourth quarter. While uncertainties remain, moderate recovery is likely to continue. Shiseido expects the overall market to grow approximately 1 percent during the year ending March 2013.

The market structure has continued to polarize between high- and low-priced products, with the low-priced market continuing to expand. We expect market recovery to energize all price categories.

► The Domestic Over-the-Counter Cosmetics Market (Shiseido Estimate)*



* All figures are comparisons with the equivalent period of the previous year.

Overview of Performance in the Year Ended March 2012

During the year ended March 2012, Shiseido implemented marketing reforms and made progress in refining companywide activities. As a result, sales in the

Domestic Cosmetics Business segment were almost the same as in the previous fiscal year, decreasing only 1.3 percent year on year to ¥353.8 billion despite the challenging market conditions discussed above. Segment income (operating income) decreased 12.3 percent to ¥29.5 billion because Shiseido invested aggressively in marketing to generate sales growth.

Marketing investments increased ¥7.0 billion as initially planned, primarily to reinforce brands including *MAQuillage* and *TSUBAKI* and cover expenses for building the new business model launched in April 2012.



MAQuillage

A core total makeup line in the Domestic Cosmetics Business, *MAQuillage* targets the mid-priced cosmetics market. Sales of *Essence Glamorous Rouge*, launched in July 2011, have exceeded 1 million units, and *True Rouge*, launched in January 2012, was a major hit with 400 thousand units sold in its first month on the market.

Overview of Performance in the Year Ended March 2012: Domestic Cosmetics Division

During the year ended March 2012, a core focus was departing from conventional marketing styles that were too dependent on new products. Shiseido also worked exhaustively to refine product value and sales counter activities.

The key priority was halving new product launches by selectively introducing new products and working to make existing brands perennial bestsellers. We strongly promoted a policy of refraining from putting products on the market that customers would not appreciate. We were able to create multiple hit products by selectively launching highly competitive new products.

In cultivating existing brands, our customer-oriented proposals were highly successful because we strengthened information compilation capabilities companywide. Examples included “Cool Life Proposal” activities aimed at helping customers stay cool and comfortable in summer while saving electricity. We repurposed our extensive internal information and data regarding season-specific skin changes and variation in effects, editing it and using various media to communicate it to customers more effectively. Moreover, beauty consultants used the information and data in sales counter

activities to make proposals. Similar season-specific activities such as the “Healing Proposal” in autumn and the “Warm Winter Life Proposal” in winter effectively supported expanded sales of existing brands.

As a result of these activities, the sales growth rate of the top-end prestige brand *clé de peau BEAUTÉ* was in the mid-single digits. *TSUBAKI* generated double-digit sales growth, supported by renewed product formulations and communication. Other strong performers included the *MAQuillage* makeup mega-brand, which we have been enhancing as a perennial bestseller by pruning the number of core products, and the *INTEGRATE* self-selection makeup line, which benefited from continued popularity of its mascaras and eyeliners.

We also renewed our focus on basic activities in each channel. At department stores, we conducted intensive activities at sales counters, including direct contact with customers’ skin, the use of beauty equipment, and doing skincare and makeup for customers. Favorable results included a year-on-year increase in sales. Moreover, in the voluntary chain store channel, continuous activities under the PS Program* initiated in 2009 are generating steady results. For example, more than 250 participating stores increased sales 10 percent



BENEFIQUE

This brand is sold through voluntary chain stores. An aging care brand for all women who feel their skin has issues and needs rejuvenation, *BENEFIQUE* offers a broad lineup that includes skincare, esthetic, make-up and supplement care products.



SENKA

Shiseido created this skincare brand to meet customer needs for low-priced but highly functional products. A global mega-brand, *SENKA* is available in Japan's low-priced market and the Asian mass-tige market.

TSUBAKI

Since its launch in March 2006, *TSUBAKI* has become a leader in Japan's haircare market with cumulative shipments of more than 250 million units. A global mega-brand, *TSUBAKI* is available in eight countries including Japan, Russia and China.



or more year on year, while 130 stores have increased sales 30 percent or more over the past three years.

On the other hand, several tasks involving drugstores and general merchandise stores have carried over from the year ended March 2012, including dealing with numerous unwieldy policies and fully revitalizing skincare and men's cosmetics brands in the self-selection category.

As a result, sales in the Domestic Cosmetics Business segment decreased 0.7 percent overall compared with the previous fiscal year, as the decrease in sales in the self-selection category outweighed strong performance in the toiletries category and consistent year-on-year performance in the counseling category. Sales in the counseling category decreased 0.7 percent, sales in the self-selection category decreased 5.0 percent, and sales in the toiletries category increased 7.8 percent.

* A strategy for nurturing voluntary chain stores with growth potential that want to strengthen cooperation with Shiseido. The program involves the formulation of shared goals and focused execution of initiatives tailored to each store's unique characteristics.

Overview of Performance in the Year Ended March 2012: Healthcare Division

We added to our lineup of collagen-related products as competition intensified in this market. Complementing the mainstay *The Collagen* line of beauty supplements for enhanced skin regeneration, we launched *BENEFIQUE COLLAGEN ROYAL RICH* as part of the *BENEFIQUE* line sold exclusively in voluntary chain stores. As a result, overall Healthcare Division sales increased 2.8 percent year on year.

Initiatives for the Fiscal Year Ending March 2013

We will continue to conduct activities that were successful in the year ended March 2012 in areas such as refining product value and sales counter activities. This will help us achieve even greater success during the year ending March 2013. We will continue to reduce the number of new products launched. We will also promote seasonal beauty proposals by strengthening our information compilation capabilities in the expanding senior market in ways such as developing relevant beauty information and proposals. Tasks remain in the drugstore and general merchandise store channels, where we will step up collaborative initiatives with each retailer. In the self-selection category, we plan to fortify in-store promotions while providing samples via our website. The new business model using the Internet that we launched in April 2012 is aimed at supporting higher sales through online shopping, expanding the customer base and improving the rate of repeat store visits with mechanisms for deepening customer ties such as web-based counseling.

For the year ending March 2013, we forecast that sales in the Domestic Cosmetics Business segment will increase 3.3 percent year on year because we expect the cosmetics market to grow as it rebounds from the Great East Japan Earthquake. We also expect the policies discussed above along with continued investment in marketing for existing businesses and new business models to generate growth. Moreover, we forecast that operating income will increase because of higher marginal income from the increase in net sales.

Taking on Challenges: A New Business Model

► Overview of the New Business Model

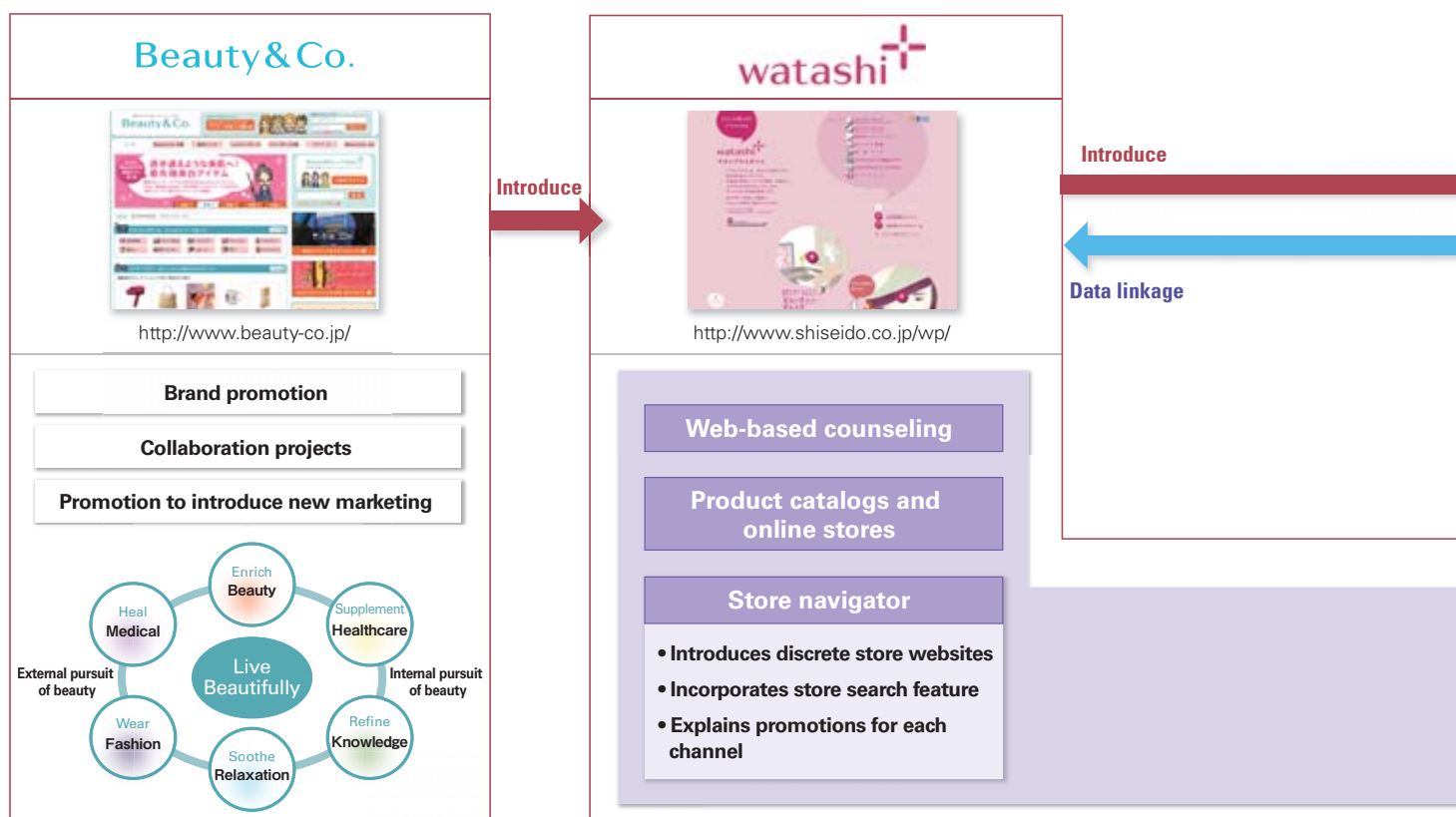
Rapid evolution in information technology and the advance of women in society are behind changes in customer purchasing behavior that include increased purchases of cosmetics through the Internet and direct marketing. Shiseido responded to these changes in April 2012 by launching a new approach to marketing that leverages the Internet. This business model encompasses two websites and our existing store network, leveraging the strengths of both the Internet and brick-and-mortar stores to create a framework for opportunities to discover customers and expand regular users of Shiseido products.



► Beauty & Co.: Website in Collaboration with Beauty and Health-Related Companies and Professionals

The name Beauty & Co. incorporates two concepts: “leading beautiful, enriched lives = Beauty” and “enterprises, professionals and users forming a group and cooperating with each other = Company”. As of April 30, 2012, a total of 28 companies shared the platform site, including Shiseido. These companies are from six fields, transcending industry boundaries. Geared to women, the site provides customers with broadly based content related to health and beauty, as well as product information. It also has a shopping mall that takes users to each company’s site. The site has received rave reviews for responding to the overall lifestyle needs of customers, largely enabled by the creation of new, high-value-added products and services through collaboration among participating companies. Beauty & Co. participants have therefore been able to discover customers they could not before.

► New Business Model Flow Chart



▶ watashi+: Shiseido's Total Beauty Service for Meeting Individualized Customer Needs

Customers come to the Shiseido corporate site watashi+ via Beauty & Co.

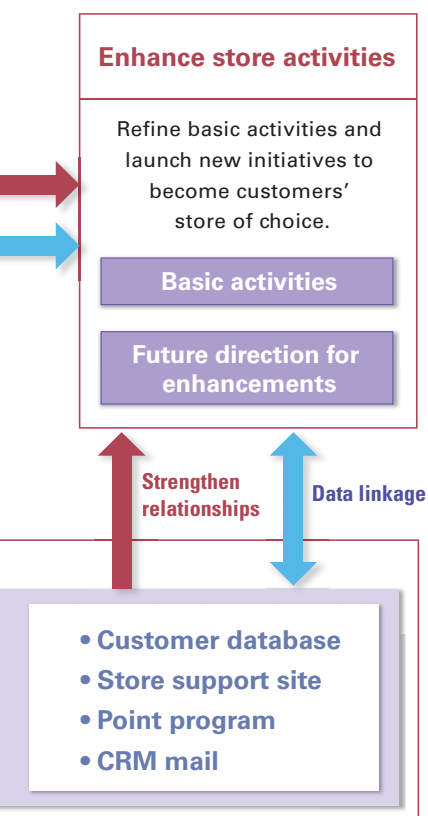
The name of this site refers to “providing various advantages = +” for “me (the customer) = *watashi*.” Customers can purchase approximately 2,600 items at this online store, which also features Shiseido's trademark counseling function in a web-based format. Thus watashi+ answers a wide array of customer desires and expectations.

In addition, the site's store navigator helps customers find suitable stores nearby where they can try out cosmetics colors and fragrances. Leveraging the unique features of the Internet and brick-and-mortar stores expands new customer discovery and further deepens our relationship with customers, which should stimulate business at stores.

▶ New Marketing That Expands Sales

The aim of this new business model is to increase sales both at sales counters in existing stores and online. A key point is that we are integrating information on customers acquired through watashi+ with purchasing information from stores to create a unique customer database. Using this database, we will strengthen customer relationship management (CRM)-based marketing to support sales promotion activities at stores. Activities will include providing customer analysis results to stores, operating a collaborative web and store point program and sending original e-mails.

Moreover, we will add further value to our database by leveraging the beauty and health information collected at Beauty & Co. This will allow us to provide new value and business opportunities to all stakeholders connected with the new business model.



Overview of watashi+ Web-Based Counseling

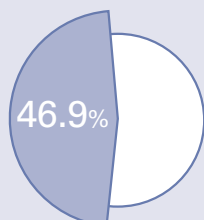
watashi+ offers two types of web-based counseling services that enable full-scale beauty consultation. In the Web BC counseling approach, beauty consultants with specialized knowledge and expertise advise how to resolve skin concerns and use cosmetics, and teach makeup techniques via the Internet. The beauty check approach allows customers to run a beauty self-diagnosis. Web BC counseling uses the Internet and phone calls to provide detailed lessons interspersed with demonstrations. Chat and illustrated explanations are also available.

These two types of counseling services allow customers to obtain beauty advice in a way that matches their lifestyles.

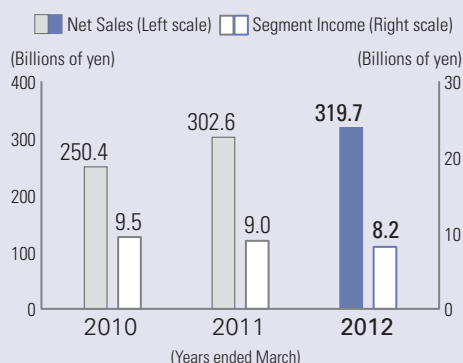


Global Business

Share of Total Net Sales



Net Sales / Segment Income



Sales by Division (Year Ended March 2012)

| | Sales (Billions of yen) | Percent change | Percent change (Local currency basis) |
|---|----------------------------|-------------------|---|
| Overseas Cosmetics Division | 278.2 | +6.3% | +13.0% |
| Overseas and Domestic Professional Divisions | 41.5 | +1.5% | +6.9% |
| Total | 319.7 | +5.6% | +12.2% |

Note: Exchange rates for major currencies for the year ended March 2012:
¥79.8 per U.S. dollar, ¥111.1 per euro, and ¥12.4 per Chinese yuan



The Global Brand SHISEIDO

Our flagship prestige brand, the global brand SHISEIDO is available in 87 countries and regions, including Japan. This global mega-brand has a potent lineup that includes the premium skincare line *SHISEIDO FUTURE SOLUTION LX* and the high-performance skincare line *SHISEIDO BIO-PERFORMANCE*.

The Global Business manufactures cosmetics for sale overseas and products for hair and beauty salons for sale in Japan and overseas. In the year ended March 2012, the Global Business continued to generate growth by cultivating its brands in prestige markets in Europe and the Americas, achieving further growth in China and expanding in the Asian masstige market.

Business Overview

The Overseas Cosmetics Division operates in a wide array of countries and regions. As of December 31, 2011, the global brand SHISEIDO was available in 87 countries and regions including Japan.

Shiseido operates in the prestige category in Europe and the Americas, centered on the global brand SHISEIDO. In addition, in the United States the make-up brand *NARS* has strong customer support, and *bareMinerals* has the leading share of the mineral foundation market with a unique business model that includes direct marketing via television and over-the-counter sales at retail outlets such as department stores and its own stores. In Europe, Shiseido's potent brands include the designer fragrances of Beauté Prestige International S.A.

Shiseido began doing business in China more than 30 years ago, well ahead of other companies. Shiseido's strong position draws support from powerful brands in the department store and cosmetics specialty store

► Trends in Overseas Cosmetics Markets (Shiseido Estimates)

| | Year ended March 2012 | Year ending March 2013 |
|----------------------|---|--|
| Europe | Low growth | Weak growth partly because of the risk that Europe's financial crisis will intensify |
| Americas | Solid growth | Continuing growth is forecast despite concerns |
| China | Economic growth slowed slightly, but the cosmetics market continued to grow faster than GDP | The cosmetics market will continue to grow faster than GDP |
| Asia excluding China | Moderate growth overall | Sustained moderate growth in Asia |

channels. (Please refer to the Insight section, Shiseido's Business in China: An Engine of Growth on pages 46 to 47 for further detail on Shiseido's business in China.)

The Overseas and Domestic Professional Divisions develop and sell products for salons and operate hair and esthetic spas and salons in Japan and overseas.

Market Environment

Growth varied widely among the national markets of Europe, but was generally low in the year ended March 2012. Growth is expected to be weak going forward because of the risk that Europe's financial crisis will intensify. On the other hand, growth was solid in the U.S. market, a trend that appears likely to continue. In China, economic growth slowed slightly, but the cosmetics market is expected to continue growing faster than GDP. Asian markets excluding China grew moderately, a trend that appears likely to continue.

Overview of Performance in the Year Ended March 2012

In this environment, the Global Cosmetics Division focused on cultivating its prestige brands, while aggressively developing its business in Asia with particular emphasis on China. As a result, sales increased 12.2 percent year on year on a local currency basis and 5.6 percent on a yen basis to ¥319.7 billion. By region, sales increased 10.7 percent in European markets, driven by the fragrance business. Sales increased 13.2 percent in the Americas, supported by the strong

performance of the global brand *SHISEIDO*, *bareMinerals* and *NARS*. Sales in Asian markets increased 11.7 percent driven by the Chinese market and growth in Taiwan's self-selection category. Consequently, Shiseido generated double-digit growth on a local currency basis in all regions from Europe and the Americas to Asia.

Segment income (operating income) decreased 9.0 percent to ¥8.2 billion because Shiseido made additional marketing investments mainly for operations in China and for Bare Escentuals.



bareMinerals

The primary brand of Bare Escentuals, *bareMinerals*, has an overwhelming share of the mineral foundation market in the United States, and is also sold in Japan and Hong Kong. *bareMinerals* has acquired regular customers through direct marketing via television and over-the-counter sales at department stores and its own stores. It is a global mega-brand.



NARS

In 2000, Shiseido acquired this makeup brand created by François Nars, who is dedicated to adding fun to makeup. Particularly powerful in the United States, this brand continues to expand.



ELIE SAAB

A designer fragrance brand by Beauté Prestige International, that is available in over 70 countries following a full-scale rollout in September 2011. Other Beauté Prestige International designer fragrances include *ISSEY MIYAKE* and *narciso rodriguez*.

Overview of Performance in the Year Ended March 2012: Overseas Cosmetics Division

The Overseas Cosmetics Division maintained growth, with a 13.0 percent year-on-year increase in sales on a local currency basis and a 6.3 percent increase on a yen basis.

Prestige

Shiseido moved to reinforce the presence of its brands in the prestige category during the year ended March 2012. Within the global brand *SHISEIDO*, global sales growth centered on the aging care line *SHISEIDO BENEFIANCE* and the premium skincare line *SHISEIDO FUTURE SOLUTION LX*. We achieved significant successes for the *bareMinerals* brand of Bare Escentuals, which joined the Shiseido Group in 2010, by focusing on increasing sales in the company's existing stores and running a large-scale campaign for the new solid-type *READY* makeup brand launched in September 2011. Moreover, sales of the makeup brand *NARS* grew significantly, mainly in North America, and sales were firm for the designer fragrance brands of Beauté Prestige International, including *ELIE SAAB*, which began full-scale sales in September 2011. Additionally, the travel retail business* performed

strongly. In the United States, we launched our online sales business in August 2011.

* Business involving duty-free shops at airports and elsewhere.

China

In the core Chinese market, we faced intensifying competition from global peers. In the department store channel, China-only brand *AUPRES* continued to perform strongly, supported by a renewal of its skin-brightening skincare line. Other highlights included growth in sales of *urara*, a dedicated brand sold only in cosmetics specialty stores, and *PURE&MILD*, a brand that targets middle-income earners. In addition, we launched our online sales business in September 2011 with a line of products exclusive to this channel. As a result, sales of our China business grew at a higher rate than the market as a whole.

Asian Masstige

In the Asian masstige category, sales of the comprehensive skincare and makeup brand *Za* increased. This brand targets middle-income earners in eight countries and regions through more than 6,000 stores. In addition, the *TSUBAKI* brand was launched in December 2011 with in-market production and designs adapted to the needs of Chinese women. Point-of-sale displays



Za

A global mega-brand for the Asian masstige market that targets middle-income earners. Shiseido is energetically promoting *Za* in Thailand, Taiwan and other Asian countries, and plans to launch the brand in Japan in September 2012.

AUPRES

Shiseido created this brand exclusively for department stores in China using its many years of research on topics such as climate and the skin of Chinese women. Sales have consistently increased since its launch in 1994, building a powerful position for *AUPRES* as a top-end national brand.



and television advertising aimed at powerful differentiation functioned in tandem to quickly expand brand awareness. As of March 31, 2012, the localized version of *TSUBAKI* was available in over 10,000 stores. Other highlights included steady progress in reinforcing operations in the Asian masstige category with the launch of the low-priced but highly functional *SENKA* brand in Taiwan and Hong Kong.

Emerging Countries

Shiseido is strengthening its initiatives in emerging countries with outstanding growth potential. Among them, sales increased in Russia, where sales have been favorable for the past several years. We also broadened regional coverage by initiating sales in Panama, Albania and Belarus.

Overview of Performance in the Year Ended March 2012: Overseas and Domestic Professional Divisions

The Overseas and Domestic Professional Divisions, which conduct businesses including the manufacture and sale of products for hair and beauty salons in Japan and overseas, increased sales 6.9 percent year on year on a local currency basis. In the hair product category,

a next-generation hair-growth treatment incorporating the active medicinal ingredient adenosine, *THE HAIR CARE ADENOVITAL*, was a major hit in Japan. Overseas, sales increased in the rapidly growing Chinese market. Sales also rose at Carita and Decl  r, which primarily sell products for esthetic and beauty salons and operate esthetic salons in Europe, and at Zotos, which primarily sells cosmetics for hair and beauty salons in North America.

Initiatives for the Year Ending March 2013

In the year ending March 2013, Shiseido will focus on cultivating six brands by investing in them aggressively under the Global Mega-Brand Strategy of the Three-Year Plan. In addition, we will further grow and expand business by continuing to cultivate our designer fragrance brands and the makeup brand *NARS* while prioritizing investment in China, our growth engine, as we strengthen our business in emerging countries. As a result, we expect sales in the Global Business segment to increase 8.1 percent year on year, with 10 percent growth on a local currency basis. We also expect operating income to increase despite continued investment in marketing.

Shiseido's Business in China: An Engine of Growth

► Thirty Years of Progress in China

Our business in China symbolizes Shiseido's growth. We have maintained annual double-digit sales growth in China, where sales have expanded to ¥89.1 billion for the year ended March 31, 2012. Our relationship with China began in 1981 when we started exporting cosmetics to Beijing. In 1983, we concluded an agreement with the city of Beijing to share production technology. The profound trust built in this relationship with Beijing is a cornerstone of Shiseido's business in China today.

In the 1990s, Shiseido established a joint venture with a Beijing government company and commenced business at high-end department stores. We then researched Chinese customers to launch the China-only brand *AUPRES*, which established our strong presence as a prestige brand in China.

The research we have conducted meticulously over 30 years on topics including the hair and skin of Chinese women, local climatic conditions and raw materials has become a powerful advantage.



In China, *AUPRES*, *urara* and other products are manufactured locally.

► A Channel-Specific Brand Strategy Builds Our Presence

In its China business, Shiseido is fully committed to a channel-specific brand strategy that matches products and marketing to customer needs in respective sales channels.

In the department store channel, Shiseido uses rigorous standards to limit the stores carrying its products to those best able to maximize its brand value. Based on these standards, we have increased the number of *AUPRES* sales counters to 1,010,¹ and the number of global brand *SHISEIDO* sales counters to 190.¹

In the cosmetics specialty store channel, we have been selling the *urara* brand specific to this channel, the *PURE&MILD* brand, and other products since 2004, when we leveraged the expertise acquired in Japan to launch the cosmetics specialty store business. We now have contracts with over 5,900¹ stores, and have been expanding mainly in inland areas.

In addition, we began online sales of a dedicated direct sales line of the *PURE&MILD* brand in September 2011 to serve the growing direct sales channel.

► The 30-Year History of Shiseido's Business in China

1981 Start of sales of about 60 imported products at large retail shops and hotels in Beijing



1983 First agreement to share production technology with the city of Beijing; this relationship continues to the fourth such agreement signed in 1991

1991 Establishment of Shiseido Liyuan Cosmetics Co., Ltd., a joint venture with the city of Beijing



1993 Start of production at Beijing Factory

1994 Launch of *AUPRES*, a brand exclusively for department stores in China



1998 Establishment of Shanghai Zotos Citic Cosmetics Co., Ltd. as a cooperative company



1999 Start of production at Shanghai Zotos Citic Cosmetics Co., Ltd. factory

2001 Establishment of Shiseido China Research Center Co., Ltd. in Beijing

2003 Establishment of Shiseido China Co., Ltd., a wholly owned subsidiary, in Shanghai

2004 Start of cosmetics specialty store business in China

2006 Launch of the *urara* brand exclusively for cosmetics specialty stores



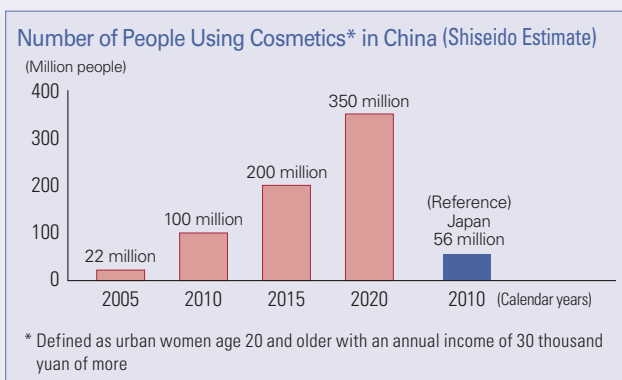
2010 Launch of the *D-Q* skincare cosmetics brand

Start of the professional business targeting high-end hair salons

► China Market Outlook: Further Growth

China's cosmetics market is currently valued at ¥1.7 trillion on a sales basis, and the number of people using cosmetics in China as of 2010 was about 100 million,² exceeding the number in Japan. Reflecting the country's GDP, growth of the Chinese cosmetics market is slowing. However, due to factors such as rising household income, we forecast that the number of people using cosmetics will increase to 350 million² in 2020. These and other data indicate enormous potential for further market growth.

Structurally, economic growth is forecast to support an increased preference for high-end products in the prestige category. Moreover, growth in the number of people using cosmetics is expected to expand the masstige market.



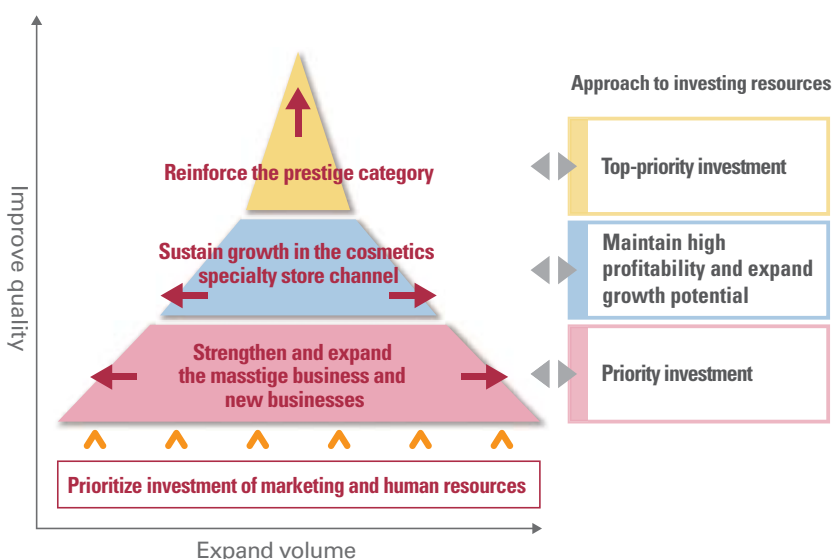
► Aiming for Faster Growth Than the Market

While the Chinese market is expected to continue to grow strongly, competition is intensifying because of aggressive marketing among competitors centered on the department store channel.

Given this situation, Shiseido will maintain its solid position and high rate of growth by energetically investing resources. In the prestige category, we will launch a premium line for the *AUPRES* brand and cultivate the top-end *clé de peau BEAUTÉ* brand while implementing initiatives such as enhancing beauty consultant hospitality. In the masstige category, we will reinforce marketing for the core *Za* brand and the *TSUBAKI* brand, which has begun a full-scale rollout based on in-market manufacturing. As a result, we plan to maintain the sales growth rate in the mid-teens during the year ending March 2013 while aiming for sales above ¥100 billion and maintaining operating profitability above 10 percent.

1. As of December 31, 2011
2. Shiseido estimate

► Initiatives in China during the Year Ending March 2013



We will introduce the premium line of the prestige brand *AUPRES* in 150 top-ranked stores.



In the masstige category, we will strengthen our focus on television commercials, special events and other promotions for the *TSUBAKI* brand.

Initiatives Based on Our Way

Corporate Social Responsibility
at Shiseido ▶ P. 49

Toward Consumers ▶ P. 50

Toward Business Partners ▶ P. 54

Toward Shareholders
Please refer to Corporate
Governance on pages 68 to 75

Toward Employees ▶ P. 55

Toward Society and
the Earth ▶ P. 57

Environmental Data ▶ P. 62

Social Data ▶ P. 63

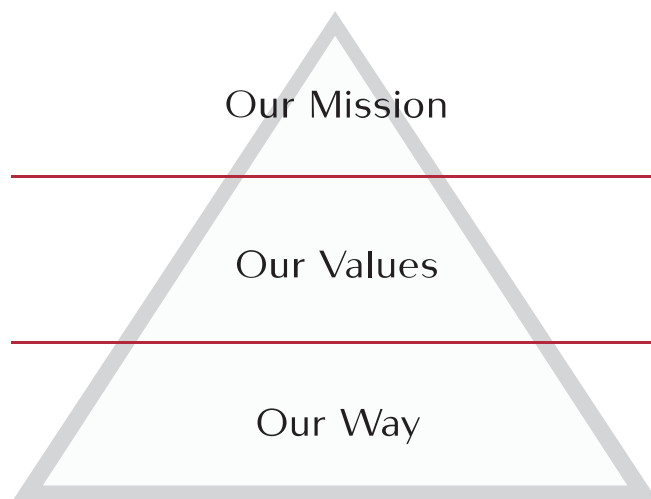
For further information regarding
our CSR activities, please refer to the
Social Responsibility section of the
Shiseido Group corporate website.
<http://group.shiseido.com/csr/>



It covers topics including Shiseido's latest CSR
activities, Stakeholder Dialogues, Third-Party
Evaluation, and GRI Guidelines balance sheet.



Our Mission, Values and Way



Our Mission, Values and Way (MVW) is the Shiseido Group corporate philosophy. It codifies the *raison d'être*, values and action standards that all Shiseido Group employees must always keep in mind. Shiseido believes that CSR is all corporate activities that put its corporate philosophy into practice and aims to realize a sustainable society through dialogue and cooperation with stakeholders.

The Our Way component of MVW defines our standards of action with respect to stakeholders, making it our CSR charter. This feature section covers specific Shiseido CSR activities by stakeholder, with a focus on areas of particular interest to shareholders.

Corporate Social Responsibility at Shiseido

Basic Policy

Shiseido believes that corporate social responsibility (CSR) is all corporate activities that put its corporate philosophy into practice, and has formulated the following basic CSR policy.

We aim to realize a sustainable society through dialogue and cooperation with stakeholders while also promoting management that contributes to the creation of people's beauty and health by developing activities that address social issues and meet expectations.

Our Way is the backbone of our activities. We formulated Our Way by drawing on various global standards, including the United Nations Global Compact, which we have participated in since 2004, and ISO26000. As pledges to society, Shiseido's CEO also endorses the United Nations declarations and guidelines for human rights, the environment and the empowerment of women. Moreover, we categorize specific activities as Fundamental CSR or Unique Shiseido CSR. The former involves legal compliance and business continuity and requires immediate implementation to minimize risk and protect corporate value, while the latter involves initiatives that increase corporate value and enable growth.



Numerous institutions involved in auditing socially responsible investing and corporate ethics hold the above approaches and specific activities in high regard. Shiseido was selected as one of the 2012 World's Most Ethical Companies* in March 2012.

* Announced by the Ethisphere Institute, a U.S.-based international think-tank dedicated to advocating best practices in business in such areas as corporate ethics and CSR. The Ethisphere Institute has audited approximately 1,000 companies in over 100 countries annually since 2007.

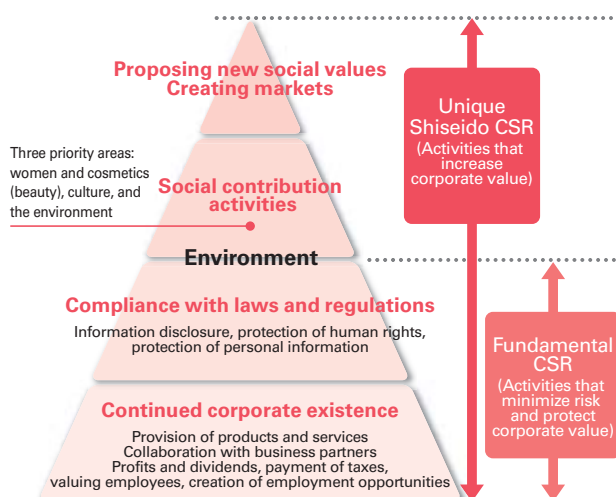


Future Initiatives

To steadily promote CSR, Shiseido uses a Plan-Do-Check-Act (PDCA) cycle led by the CSR Committee to uncover latent risks and opportunities and implement tasks for continual development and risk avoidance. We determine these tasks by meeting with ESG-related parties* in Japan and overseas to determine social demands and risks. In the year ended March 2012, we formulated a policy of collecting, aggregating and disclosing information based on GRI to the extent possible in order to facilitate understanding of nonfinancial information about topics such as ESG that are difficult to quantify. Shiseido will earn trust through dialogue with multiple stakeholders that clarifies its expectations, achievements and incomplete initiatives.

* ESG is an abbreviation for environment, society and governance. "ESG-related parties" refers to ESG survey institutions, ESG analysts and institutional investors.

► Shiseido CSR Domains



► Shiseido's CSR Tasks



We delineate and classify various CSR tasks by how they influence Shiseido's corporate brand value.

Toward Consumers

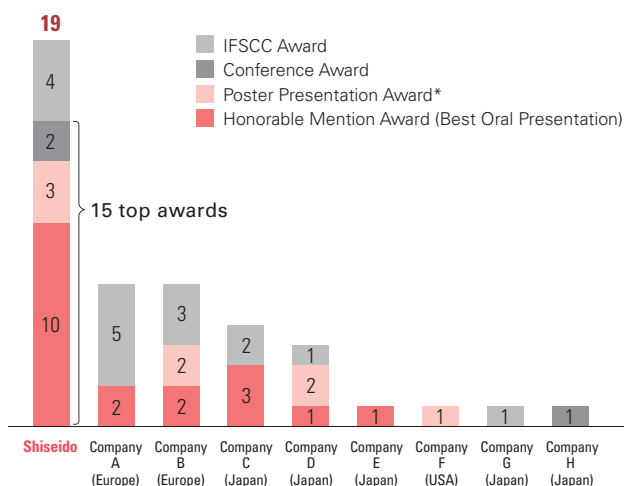
Customer-Oriented R&D and Manufacturing

Shiseido's R&D Strengths

Shiseido has 10 research bases in the five countries of Japan, France, the United States, China and Thailand, where approximately 1,000 researchers develop products based on regional characteristics including national traits, ethnic culture and customs, climate, and laws and regulations. Each base emphasizes three key aspects in conducting research: functionality that creates healthy, beautiful skin; sensitivity and sensations such as pleasant usability, scent, color and beauty methods; and most important, safety that allows consumers to use our products worry free. Our technologies cover a broad range of areas including basic research, product development, manufacturing techniques and quality assurance, and the knowledge that we have acquired through over more than a century of R&D is a powerful competitive advantage.

Exemplifying this strength is the Conference Award we received at the December 2011 International Federation of Societies of Cosmetic Chemists (IFSCC) Conference, which recognizes the world's best research in areas including cosmetics and skin. This was our 15th award from the IFSCC; no other cosmetics manufacturer anywhere in the world has received nearly as many.

▶ Number of Awards Received from IFSCC



* Awarded for best poster presentation and explanation of research results to Congress attendees

Furthermore, we incorporate these research findings in product development. For example, we applied the two-phase separation mechanism technology that won an IFSCC top award to create an advanced *MAQuillAGE* lipstick, which is a hit because it offers the formerly incompatible properties of luster/moisture and lasting color in a single product.

Focused on World-Class Safety

Shiseido focuses first and foremost on safety in its research. Participants in the World Summit on Sustainable Development

Shiseido's Strength in Skin-Brightening and Anti-Aging Research

Cutting-edge equipment enables us to quickly apply analytical data to skin-brightening technology development.



Shiseido has been at the forefront of skin-brightening research since launching the lotion *Hydrogen Peroxide Cucumber* in 1917. We have developed approximately one-third of the active skin-brightening ingredients used in Japanese cosmetics, including arbutin and stabilized vitamin C derivative. The results we have achieved by introducing advanced equipment and concentrating on being the first in the world to develop skin-brightening ingredients are particularly impressive given that the development of active ingredients typically takes about 10 years.

Moreover, Shiseido is concentrating on aging research so that people can grow older beautifully. We take multiple approaches in exploring the factors that cause skin to wrinkle and sag with age. Hyaluronic acid effectively helps the skin retain moisture, and we also discovered that vitamin A promotes the synthesis of hyaluronic acid. Furthermore, we have been investigating the mechanism by which ultraviolet rays damage collagen and elastin fibers, and are making progress in developing effective anti-aging pharmacological agents based on our findings.

held in Johannesburg in 2002 adopted the goal of using and producing chemicals by 2020 in ways that lead to the minimization of significant adverse effects on human health and the environment. With this international accord in mind, Shiseido's fundamental stance is not to sell products that adversely impact human health or the environment, based on information it has collected regarding domestic and international regulatory trends and chemical substance safety, and the latest scientific knowledge.

Specifically, all chemical substances included in cosmetics and containers shipped within the EU must be registered according to procedures specified by the European REACH Regulation. As a matter of course, we have complied with these procedures for all substances. Similar to our decision to stop using triclosan and phthalates in principle, we also quickly discontinued use of substances legally approved for ingredients and switch to alternative substances in the event that scientifically valid information of concern is reported. Given our focus on safety, as a matter of policy we do not use cosmetics raw materials scientifically judged to be derived from genetically modified organisms.

We only use raw materials we are convinced are safe, and perform patch tests and actual usage tests supervised by dermatologists. Positive reaction rates compiled for each cosmetics manufacturer from patch tests conducted by dermatologists are considered a measure of relative safety assurance levels among cosmetics market participants. Shiseido cosmetics have been reported to have the lowest positive reaction rates among the world's cosmetics manufacturers,* indicating a high level of safety.

Regarding control of chemical substances, Shiseido reports to the Japanese government as mandated by the Pollutant Release and Transfer Register Law (PRTR Law), while rigorously managing under its own auspices the use and disposal of chemical substances including raw materials and reagents. Shiseido also supports occupational health and safety by ensuring, through systemization and other means, that material safety data sheets are issued for semi-finished products containing chemical substances governed by regulations including the PRTR Law and the Industrial Safety and Health Act.

* Source: Fujimoto et al., "Patch Test Results in 492 Patients of Suspected Cosmetic Dermatitis (1996-2000)," *Environ. Dermatol.*, 9, 53-62, 2002.



Rigorous quality control in action

Safety Management in Manufacturing

Shiseido adheres to the quality standards set by global guidelines and conducts rigorous quality control in manufacturing cosmetics. Placing top priority on quality and safety so that customers can use our products with peace of mind, we have established Shiseido Good Manufacturing Practice (Shiseido GMP) as our internal standard for manufacturing in working to maintain and control quality.

We also comply with all items, including organization, education, training, shipment, production control and inspection, of the ISO22716 (Cosmetics GMP) international standards introduced in 2007. Our rigorous quality control allows us to manufacture and deliver safe, reliable, high-quality cosmetics products to consumers. We only use reliable raw materials, which we select by gathering information from around the world and meticulously confirming safety in categories including source, manufacturing method and purity/contamination.

Similarly, we ensure the safety and quality of our food and healthcare products by employing standards such as HACCP* and ISO22000 to rigorously control quality at every stage, from ingredient selection to commercialization, production and distribution. Customers can therefore use our products regularly with peace of mind.

* A set of food hygiene management techniques developed to ensure food safety in the U.S. space program.

Brands That Are Good for Society and the Earth

The values of customers who choose natural brands are changing. The desire among these customers to purchase products that are good for society and the environment, even if only in a small way, is growing stronger every year. Purchasing behavior linked to protecting the environment and creating bonds with society through products has been particularly striking since the Great East Japan Earthquake. The Shiseido Group has responded to these sentiments by initiating new marketing for several brands.

Animal Welfare Initiatives

Shiseido does not use animal testing in the development of finished cosmetics products. For raw materials, we avoid the use of animal testing except in cases in which it is legally required or no alternative is available for product safety assurance. Shiseido eliminated all in-house animal testing as of March 2011. In line with the leading initiative in this area, the

EU Cosmetics Directive, which is aimed at phasing out all animal testing by 2013, we are working toward the complete elimination of animal testing with a view to protecting animals while strictly maintaining safety so that customers can use our products without concern. Shiseido will work to achieve this goal quickly by promoting the development of alternatives through cooperation with domestic and overseas industry associations and organizations that validate alternative methods, such as the Japan Cosmetic Industry Association and the European Center for the Validation of Alternative Methods. We have also been exchanging opinions and holding discussions with experts, academics and humane societies, and intend to further promote collaborative initiatives with these stakeholders.

Case Study: Brands That Are Good for Society and the Earth

Soka-Mocka

Kinari Inc. handles online sales of *Soka-Mocka* brand products, which emphasize ingredients that provide the power of traditional Japanese plants to the skin and spirit of modern women. With *Soka-Mocka*, we go beyond simply using natural ingredients to focus on quality, region of manufacture and cultivation method. Examples include formulating cosmetics with raw materials such as organic citron and natural hot spring water that has an ideal balance of minerals. We make *Soka-Mocka* brand products with a focus on Japan's elemental forces, so we contribute to a Tohoku University reconstruction support project that aims to restore farmland damaged by the Great East Japan Earthquake.



In its 10th year, *Soka-Mocka* features fortified herbal ingredients.



All profits from sales of this original bag go to the Nanohana Project to restore farmland damaged by salt left by the tsunami.

DECLÉOR

The core of the *DECLÉOR* brand is essential oils and professional beauty treatments. The brand combines fragrances and textures to offer targeted skin solutions and unique sensory experiences. More than 25 percent of *DECLÉOR* products use natural ingredients supplied by small producers in Madagascar. However, the natural environment of this island is currently in peril, so Decléor S.A.S. has been engaged in environmental activities in Madagascar through a non-governmental organization (NGO) called ASMADA since fiscal 2008. Preserving Madagascar and its ability to produce essential oils will help nurture our brand identity. Our contribution to Madagascar includes our annual cooperation fund, as well as the development of eco-support products from which profits are donated to ASMADA. With the support of Decléor, ASMADA plants trees that produce essential oils and maintains infrastructure such as water systems. More than 100,000 trees have been planted in three years. In addition, our support in installing solar power systems (green energy) in primary schools has brought us letters of appreciation from Madagascar's government and local assemblies.



NGO ASMADA tree-planting activities

Customer Satisfaction and Trust

Hospitality toward Customers

Beauty consultants fulfill the crucial role of listening to customer requests at the sales counter and recommending products and beauty information according to each person's skin and cosmetics use. Aiming for high-quality counseling activities from our beauty professionals, in 1998 Shiseido was the first in the industry to implement an internal certification system for beauty knowledge and technology approved by the Ministry of Health, Labour and Welfare. From 2005, we moved to achieve 100% customer-oriented store activities by evaluating beauty consultant activities based on customer satisfaction with service, not sales. We share customer feedback with beauty consultants every month, review their activities and determine tasks ahead as a means of enhancing the quality of their hospitality and raising the level of customer satisfaction.

In regions other than Japan, beauty consultants create the spirit of *omotenashi* (hospitality) at sales counters to maximize customer satisfaction and expand the number of loyal customers. In addition, we conduct overseas customer surveys to further enhance hospitality. As in Japan, we use the results to formulate action plans and reflect them in workshops and on-the-job training.

We have also formulated the *Shiseido Beauty Consultant Omotenashi Credo*, a code of conduct shared by beauty consultants worldwide for use in day-to-day activities. In July 2012, we held the Shiseido Global Beauty Consultant Contest, a world-wide competition for beauty consultants involving cosmetic techniques and hospitality conducted once every four years. These activities help beauty consultants truly satisfy customers and regularly accumulate knowledge that encourages repeat store visits.



We have translated the *Shiseido Beauty Consultant Omotenashi Credo*, a digest of beauty consultant activities, into 26 languages for overseas circulation.



The awards ceremony for the 2008 Shiseido Global Beauty Consultant Contest (left) and poster for the July 2012 contest (right)



Initiatives to Incorporate Customer Feedback

Shiseido maintains customer loyalty by leveraging valuable information including customer consultation and requests to improve products and services.

In Japan, our Consumer Information Center receives approximately 120,000 inquiries and comments annually via toll-free calls, e-mail, letters and other means, and beauty consultants submit another 100,000 comments received at sales counters. We manage this data using our information system (Mirror System) and have organized it for shared use internally. Consumer Information Centers in China and Taiwan also respond uniformly to inquiries and comments while collecting and leveraging customer feedback. We have introduced this system in 19 countries, including Japan, with a particular focus on enhancing risk management through integrated collection and management of complaints and expressions of dissatisfaction.

These initiatives are designed to help us create value that engenders even greater satisfaction by deepening our knowledge of how customers feel about cosmetics and why they feel that way.

The Shiseido Group corporate website introduces the Mirror System for collecting and using customer feedback, representative products that reflect it, and other related information.

Shiseido Group corporate website: Analysis of Customer Feedback, Product Manufacturing That Reflects Customer Feedback

<http://group.shiseido.com/csr/challenge/customer/response.html>

Toward Business Partners

The Shiseido Group Supplier Code of Conduct

Definition and Implementation

Shiseido views all its suppliers as partners in the creation of new value, placing the highest importance on mutual understanding in collaborating with them in procurement activities, including those associated with researching, developing, producing and selling safe, outstanding products and services. Based on this approach, we referred to the United Nations Global Compact and the best practices of other progressive companies to formulate the Shiseido Group Supplier Code of Conduct in 2006 (revised December 2011). The code stipulates our standards for human rights, legal compliance, labor practices, the protection of intellectual property and confidentiality, environmental conservation, fair commercial transactions and compliance monitoring. All Shiseido Group companies use the code in selecting suppliers, in turn asking suppliers to comply with the code and ensure compliance among their own subcontractors in business associated with Shiseido Group companies. In this way, we distribute the code, educate our suppliers in Japan and overseas about it, and successively conclude purchasing contracts and memorandums of understanding (MoUs) to ensure compliance.

As of March 2012, the code covered approximately 700 suppliers in Japan. At overseas subsidiaries and affiliates,



The Shiseido Group Supplier Code of Conduct

we also provided guidance to approximately 1,400 companies. Procurement departments that purchase raw materials and components for our primary factories have exchanged MoUs concerning the code with main suppliers accounting for 99 percent of purchasing transaction volume, and we have obtained written consent from more than 1,000 companies outside Japan.

Compliance Monitoring

We maintain a qualitative awareness of compliance with the Shiseido Group Supplier Code of Conduct through regular surveys and face-to-face interviews in Japan and overseas covering systems for managing quality and order fulfillment, CSR initiatives and other items. In the event that we discover noncompliance with the code, we will demand rigorous corrective measures and provide guidance and support for their implementation. We discovered no noncompliance among suppliers covered by the code during the year ended March 2012, but one company in the past required rigorous corrective action.

Spreading and Entrenching Awareness of Purchasing Policies

Shiseido's purchasing policies involve integrating all of the Shiseido Group's capabilities with those of business partners in a spirit of mutual trust to jointly create new value and contribute to consumers and society. Procurement departments deepen understanding of these policies by holding annual purchasing policy sessions attended by approximately 140 companies. We also began holding sessions in China in the year ended March 2011, with approximately 140 companies participating.

► Transactions Subject to the Shiseido Group Supplier Code of Conduct

| Transactions | Purchased Items or Services |
|---|--|
| Items such as raw materials that are directly used for products | Raw fragrances, raw materials, etc. |
| Outsourced products | Cosmetics, beauty equipment, etc. |
| Sales support products | Small size samples, actual samples, etc. |
| Packaging | Containers, wrapping materials, package inserts, labels, outer cases, etc. |
| Outsourced sets | Outsourced set production, etc. |
| Promotional products | Printed matter (leaflets, catalogs, etc.), premiums, counter furnishings and accessories, BC activity tools, promotional event tools |



A purchasing policy session held in May 2012

Toward Employees

Diversity and Globalization

Approach to and Promotion of Diversity

More than 40,000 employees work for Shiseido at more than 100 subsidiaries and workplaces in many countries and regions worldwide. They have diverse attributes, including values, viewpoints, nationality, gender, age, employment status and developmental challenges.

Accordingly, Shiseido is implementing its crucial Gender Equality Action Plan and promoting diversity on a global level. Our aim is to facilitate work as well as make it satisfying by creating a corporate culture in which diverse employees are free to exercise their capabilities and create new value.

Specifically, we consider how our employees work in creating and implementing personnel systems and policies. We are also implementing the Gender Equality Action Plan to establish a corporate culture in which female leaders are continuously developed. At the same time, we offer Career Support Forums to provide training that encourages female employees to think about developing their careers with the aim of gaining independence and professional awareness. Other activities include the Shiseido Global Leadership Program for managers and employees of overseas subsidiaries, the hiring of physically and developmentally challenged individuals at the special subsidiary Hanatsubaki Factory Co., Ltd., and the use of the Chie-Tsubaki Work Improvement Proposal System for improving operations.

Empowering Global Human Resources

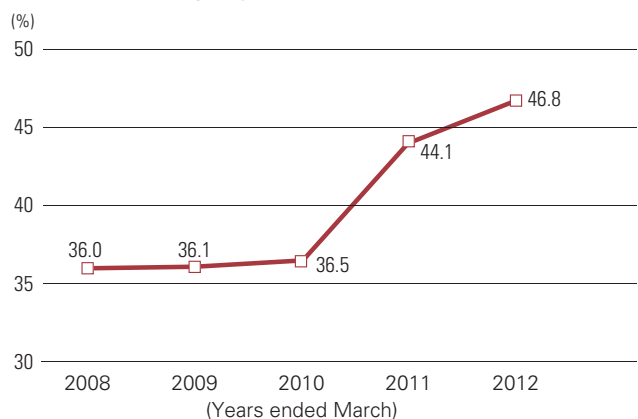
People who can accommodate various cultures and environments in providing business leadership from a global perspective are essential for Shiseido to become a global player representing Asia with its origins in Japan. We are therefore implementing a number of initiatives to nurture such talent.

Specifically, we have initiated a full-fledged global personnel strategy since formulating the Global Personnel Policy in 2008. Our current three objectives are:

- 1) effectively leverage Group-wide human resources
- 2) improve overseas subsidiary employees' motivation
- 3) improve the quality and efficiency of human resources systems and practices at overseas subsidiaries.

Another meaningful initiative currently in progress involves creating and implementing systems for nurturing human resources at overseas subsidiaries. We are working to further enhance career opportunities by building a human resource development program and a core human resources information system while promoting deployment and assignment that is not limited by national, regional or workplace boundaries.

▶ Ratio of Employees at Overseas Subsidiaries to Total Employees



The ratio of overseas employees expanded significantly in the year ended March 2011 with the addition of approximately 3,100 Bare Escentuals employees.

Nurturing Global Human Resources

Since its founding, Shiseido has been so committed to nurturing its human resources that people have called the Company “Shoseido” in a play on words that uses a quaint Japanese term for “student.” This aspect of our corporate culture has been passed down through our history and endures today, as reflected in the Declaration of Shiseido ‘Co-Excellence’ adopted in 2006. The declaration aims to cultivate people by linking the self-realization of workers and the growth of the Company.

Shiseido aims to globalize Japanese employees by providing global business training and career development programs to young and mid-career employees to continually nurture employees that can accommodate different cultures and understand global business. We also conduct the Shiseido Global Leadership Program to cultivate managers and employees at overseas subsidiaries.

In addition to these efforts to nurture human resources, in 2009 Shiseido established regional human resource development committees in Europe, North America, China and Asia.

These committees have begun discussing human resource development in their respective areas. The Shiseido Regional Leadership Program began in each region in 2011 to promote the development of future leaders at a regional level.



Regional human resource development committees discuss human resource development in their respective areas.

Achieving Gender Equality

Since 90 percent of its customers are women, Shiseido focuses on providing new products and services that reflect women's values and current lifestyles. Our female employees, who account for 80 percent of all our employees, must therefore play a central role in management and business activities. Accordingly, Shiseido has introduced a variety of support programs that balance work with childcare and nursing care since 1990.

Shiseido has been strengthening these initiatives since 2005 by planning and implementing the Gender Equality Action Plan (Phase I: April 2005 to March 2007; Phase II: April 2007 to March 2010). The three main components of the plan are: 1)



Kangaroom Shiodome, an in-house nursery school at the Shiodome Office, exemplifies the support Shiseido provides to help balance work with childrearing.

cultivating an organizational culture that seeks to change employees' awareness and actions by spreading the concept of gender equality within the Company; 2) training and promoting female leaders with a view toward accelerating participation of women in Company management; and 3) achieving work-life balance. The theme for activities under Phase III of the plan, which runs from April 2010 to March 2013, is firmly establishing a corporate culture in which female leaders are continuously developed. The specific action plan under this theme has two core initiatives: strengthening the appointment and promotion of female leaders and human resources development; and reviewing how employees work to raise productivity. We are providing opportunities for promoting awareness and networking through lectures by female directors and corporate officers, round table discussions, and lectures by role models from outside the Shiseido Group.

As a result, a corporate culture has taken root that balances work with childcare and nursing care and allows women to play an important role in the workplace. In 2011, Shiseido received the Work-Life Balance Award*, one of many achievements demonstrating the high regard external entities have for Shiseido's efforts to achieve gender equality.

* The Japan Productivity Center presents the Work-Life Balance Award to recognize effective promotion of work-life balance that is a model for other organizations.



Since 2010, Shiseido has been conducting Career Support Forums to provide management training that encourages female employees to think about developing their careers with the aim of gaining independence and professional awareness.



A Shiseido corporate officer gives a lecture at a Career Support Forum.

Toward Society and the Earth

Social Contribution Policies by Area

As stated in Our Way, Shiseido engages in a broad dialogue with society and strives to cooperate in solving social challenges as the basis for its social contribution activities.

Corporations cannot resolve all of the issues that global society presents. In undertaking social contribution activities, Shiseido has determined three core areas in which it can contribute using its unique strengths: women and cosmetics (beauty), culture, and the environment.

Women and Cosmetics (Beauty)

Since its founding, Shiseido has used the cumulative results of its research on beauty products and methods to help people achieve the beauty they desire. Our aim is to enrich people's hearts. A notable example is our active promotion of the SHISEIDO LIFE QUALITY BEAUTY PROGRAM, in which we provide our original products and methods to people with skin, physical and emotional concerns to enhance their quality of life (QOL). We conduct these activities primarily through SHISEIDO LIFE QUALITY BEAUTY CENTERS, as well as at voluntary chain stores, and department stores and medical institutions in Japan. In China and Taiwan, we conduct SHISEIDO LIFE QUALITY MAKEUP for people with serious skin concerns such as birthmarks, dark spots, vitiligo* and skin irregularities. We also visit places such as facilities for the

elderly and the developmentally challenged in Japan and abroad to conduct SHISEIDO LIFE QUALITY BEAUTY SEMINARS on skincare and makeup.

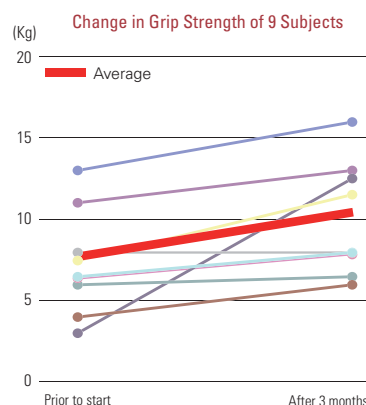
In addition, we have deployed the knowledge gained through seminars for the elderly to initiate the Shiseido Cosmetic Therapy Program for the Elderly, a fee-based social business that is developing a new market. Designed to improve the physical and mental functions of elderly people through skincare and makeup, the program has three missions. The first mission is to use the power of cosmetics to improve the QOL of elderly people who can no longer walk to stores as well as to provide lifelong beauty and health support for all women. The second mission is to build a new business model that can accommodate Japan and other countries with aging populations, such as China and Korea. The third mission is to provide a new venue for beauty consultants, who are cosmetics professionals. The use of cosmetics through this service strengthens the hand and finger muscles and helps prevent dementia by stimulating the cerebral activity of elderly women in ways such as helping them recall past events. We currently offer this business in Tokyo and neighboring prefectures, but plan to develop it into a major operation.

* Vitiligo is an acquired skin condition characterized by pigment loss causing white patches on the face, neck, hands, feet and other areas. Its cause is unknown.

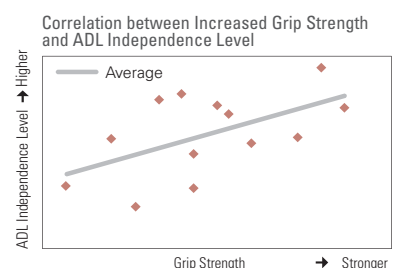


Shiseido Life Quality Beauty Seminar

► The Effect of the Shiseido Cosmetic Therapy Program for the Elderly



Shiseido investigated the correlation between grip strength, which is an indicator of bodily functions, and level of independence in activities of daily living (ADL), and found that ADL independence level increases with grip strength.



Culture

Aiming to contribute to a spiritually affluent society through support for the arts, Shiseido exhibits representative examples of the corporate culture it has cultivated to employees and the general public.

Founded in 1919, the Shiseido Gallery in Ginza, Tokyo is at the core of Shiseido's support for the arts. It has held more than 3,100 exhibitions that have given more than 5,000 artists the opportunity to display their work. Tsubaki-kai (Camellia Club) and Modern Craft exhibitions bring together new works by leading-edge contemporary artists, while exhibitions such as life/art, Shiseido Gallery Introducing Japanese Artists Living Abroad, Shiseido Gallery Annual, and shiseido art egg support the careers of young artists by providing space for them to display their works. Shiseido adds some of the works displayed at Tsubaki-kai exhibitions and other events to its own collection, which it houses and exhibits at Shiseido Art House in Kakegawa, Shizuoka Prefecture. In addition, Shiseido focuses on contemporary art in supporting artistic expression in fields including theater and dance. Shiseido employees also gather periodically for in-house art shows to enjoy leading-edge art and improve their aesthetics.



The Shiseido Corporate Museum collects and exhibits examples of Shiseido's corporate culture.



Founded in 1919, the Shiseido Gallery is Japan's oldest operating art gallery.

The Environment

Basic Policy for Environmental Activities

The name Shiseido derives from a Chinese expression meaning "praise the virtues of the great Earth, which nurtures new life and brings forth new values." In line with this expression, Shiseido has consistently shown consideration for the environment since its foundation, with gratitude and esteem for the bounty of the Earth. Placing environmental activities at the core of its management, Shiseido is now executing the Shiseido Earth Care Project, an environmental initiative involving all employees throughout the world. The mission of the project is to realize a sustainable society where humanity and the Earth's environment can coexist beautifully. In addition to basic environmental activities, which are obvious social responsibilities, the project is aimed at engendering a new lifestyle that links beauty and eco activities through active promotion of Shiseido's unique environmental policies.

In 1992, Shiseido formulated the Shiseido Eco Policy as a management policy regarding the environment. Subsequently, we accommodated the change in environmental issues from a product lifecycle perspective by establishing the Production Eco Standards and the Sales Promotion Tools Eco Standards to codify environmental initiatives for our products and sales promotion tools. We also formulated the Office Eco Standards with specific rules for addressing environmental issues in offices.

► Overview of Shiseido's Environmental Activities



Shiseido's Promise to Society

In November 2008, Shiseido expressed to the world its strong dedication to the environment by endorsing "Caring for Climate: The Business Leadership Platform," a climate change initiative spearheaded by the United Nations Global Compact.

In March 2009, Shiseido became the first company in the cosmetics industry in Japan to be certified as an "Eco-First Company" by Japan's Ministry of the Environment. The Eco-First Program was created by the Ministry of the Environment in April 2008 to encourage leading companies in each industry to further expand their environmental protection activities by having them make a commitment to the Minister for the Environment. In addition to reporting the progress of initiatives to the Ministry of the Environment, we regularly announce the results through the Shiseido Group corporate website and other channels.



Eco-First Commitment

Our Efforts on Global Environment Conservation as an Environmentally-Advanced Company

For 140 years, the Shiseido Group has been delivering beauty and wellness to our consumers by focusing on the blessings of the Earth as the sources of value making. Based on our corporate message of *"THIS MOMENT. THIS LIFE. BEAUTIFULLY,"* we will strive to realize a sustainable society where people and the Earth can beautifully live in harmony. Therefore, we will advance the following efforts with the "Shiseido Earth Care Project" as the base of all our activities.

1. We will proactively promote environment responsiveness of our products by also focusing on the 3 Rs (reduce, reuse, recycle) of containers and packaging.
2. We will proactively work on the conservation of the bounty of the Earth which is the sources of value making.
3. We will engage actively in providing environmental education to our employees to foster human resources that may contribute to the conservation of the bounty of the Earth.
4. We will proactively promote efforts to prevent global warming.

Reducing Environmental Burden

During the three years beginning the year ended March 2012, Shiseido is undertaking initiatives to reduce environmental burden, with emphasis on environmental friendliness throughout the product lifecycle and global reduction of CO₂ emissions.

Environmental friendliness throughout the product lifecycle is based on the Production Eco Standards, and includes initiatives at all stages, from research and development to product planning, procurement, production, distribution, sales and disposal. Specifically, we will switch to cosmetics product containers made of sugar cane-derived polyethylene, increase the number of refills available and expand the introduction of product packages that use bagasse paper made from sugar cane fiber residue left over in the juice extraction process. We are also moving to conserve water resources by reducing the amount of water we use.

Our activities to globally reduce CO₂ emissions have the following targets.

► Targets for Environmentally Friendly Products

| Initiative | Target |
|---|--|
| Utilization of plant-derived containers | We will switch over 70% of the polyethylene used in the Domestic Cosmetics Business from petroleum-derived polyethylene to plant-derived polyethylene by the year ending March 2021. |
| Acceleration of the shift to refills | We will make refills available for 100% of foundation (compact type)/face powder/jumbo sized shampoo and conditioner in the Domestic Cosmetics Business by the year ending March 2021. We will make refills available for over 70% of lotion/emulsion products (dispenser type). |
| Proactive utilization of bagasse paper | We will promote the switch to bagasse paper in new products and renewed products that use paper in the Domestic Cosmetics Business starting in 2012. |

► CO₂ Emission Reduction Targets

| Scope | | Base Year | Target Year | | Criteria |
|------------------------------------|------------------------------------|-----------------------|------------------------|------------------------|--------------------|
| | | | Year ending March 2014 | Year ending March 2021 | |
| CO ₂ Emission Reduction | Domestic Production facilities | Year ended March 2010 | 15% | 20% | Absolute amount |
| | Domestic Non-production facilities | | 5% | 14% | |
| | Overseas Production facilities | — | 20% | 23% | Compared with BAU* |
| | Overseas Non-production facilities | Year ended March 2010 | 4% | 11% | Absolute amount |

* Business as usual. Volume of CO₂ emitted assuming that particular reduction measures are not implemented.

Environmental Initiative Case Studies

Representative environmental initiatives carried out by Shiseido are introduced by number in the Shiseido Earth Care Project section of the Shiseido Group corporate website. As of March 31, 2012, case studies up to number 89 are available.

<http://group.shiseido.com/eco/>



No. 055-2

● Using Polyethylene Produced from Sugar Cane for *SUPER MiLD* Containers

In September 2011, Shiseido began using polyethylene produced from sugar cane for *SUPER MiLD* haircare brand product containers. This was the first time we used sugar cane-derived polyethylene for a domestic cosmetic or household product. Polyethylene produced from sugar cane now makes up about 96 percent of regular-size and jumbo-size bottles and about 34 percent of refills. We project this will reduce CO₂ emissions by about 235 tons annually compared with the use of petroleum-derived plastics.

SUPER MiLD products now display the for Shiseido Earth Care Project symbol, as will all products with containers that consist of more than 20 percent sugar cane-derived polyethylene or other plant-derived plastics by weight.



SUPER MiLD

No. 082

● Introduction of Wind Power Generation Facilities at Zotos International's Geneva Factory

In December 2011, hair salon product manufacturer Zotos International, Inc. began operating two large-scale wind power generators at its Geneva Factory in New York, U.S.A. Together, the generators are expected to produce approximately 6 million kWh of electricity annually, which is the largest amount of self-produced power among private companies in the State of New York and in the beauty industry in the United States. The operation of the wind power generators will meet about 60 percent of the Geneva Factory's annual electricity needs, meaning an expected reduction of about 60 percent in CO₂ emissions from electricity use. Zotos has already begun carbon offset initiatives, so the Geneva Factory operates as a zero CO₂ emissions facility as a result of wind power generation.



The Geneva Factory

No. 084

● Reducing the Amount of Plastics Used by Deploying *HAKU* Refill

We made a refill available for *HAKU Melanofocus W* brightening serum when we launched it in February 2011. This enabled a 60 percent reduction in the amount of plastic used in manufacturing the product container, or about 19 tons of plastics in the first year of sales. We designed the package for ease of replacement and for product safety and stability. We also met consumer requests for a container that allows visual confirmation of the amount of product remaining.



HAKU Melanofocus W container and refill

No. 088

● Reducing the Glass Bottle Weight and Employing Labels That Are Easy to Peel Off for *Pure White W* and *The Collagen Beauty Drinks*

We reduced the weight of the glass bottles for *Pure White W* and *The Collagen* products by about 10 percent because consumers had indicated that they throw out several empty bottles at a time and wanted them to be as light as possible. We project this will reduce CO₂ emissions by about 480 tons annually. Consumers also indicated that they did not want others to know what they were drinking and that they wanted to remove the labels before disposing of the bottles, but the labels were difficult to peel off. We responded to this feedback by switching to easily removable labels.



Pure White W

The Collagen line



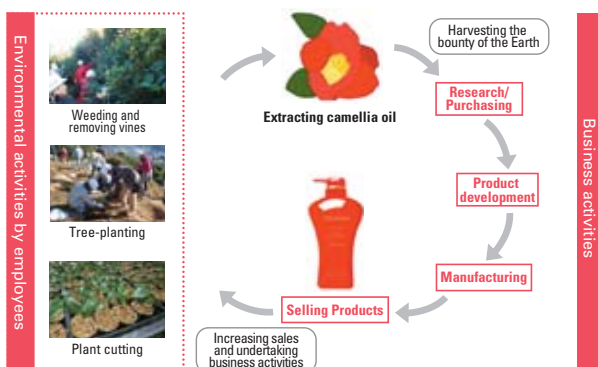
An easily removable label

Preserving Biodiversity

Shiseido bases its environmental activities on preserving the bounty of the Earth (biodiversity), the source of the value we create. In all of our business processes, we recognize that the bounty of the Earth is both crucial and limited, and that we must manage it rigorously so that it can be passed on to future generations.

In October 2011, Shiseido conducted camellia tree-planting and forestry activities in the Goto Islands in Nagasaki Prefecture. These islands produce the camellia oil used in the *TSUBAKI* haircare brand, which was renewed in June 2011. Employee volunteers undertook environmental activities such as planting camellia seedlings and removing undergrowth. Because these efforts showed gratitude for the bounty of the Earth while regenerating the local woodland, they received the Japan Business Federation Chairman's Award at the 21st Grand Prize for the Global Environment Award, which is sponsored by the Fujisankei Communications Group.

► Activities to Preserve the Bounty of the Earth United with Business Activities



Reconstruction Support Activities

Shiseido has been working to share its energy with the people of Tohoku since the Great East Japan Earthquake of March 2011. We have been conducting all support activities possible as a cosmetics company in line with changing seasons and living conditions.

In addition to donating money immediately after the earthquake, we supported the stricken area by providing shampoo that does not require water and other goods that were in high

demand. In subsequent beauty support activities unique to Shiseido, our beauty consultants provided skincare and makeup services free of charge. These activities continued after victims of the disaster moved from evacuation centers to temporary housing, with Shiseido volunteers providing hand and face massages, makeup and other services to more than 30 thousand people in Fukushima, Miyagi and Iwate prefectures. Comments from recipients of the services included "It feels like things have returned to normal," "I'm more cheerful," and "I feel more positive with lipstick on."

In early December 2011, we also provided support to brighten the New Year for people facing their first difficult winter after the earthquake. A total of about 200 employees visited shelters, going door to door to deliver about 12,000 cosmetics sets containing items needed in cold weather such as skincare and haircare items.

Shiseido conducted a wide range of other support activities as well. These included support for local media, including special disaster-related FM radio stations and community FM radio stations providing information to people in the disaster area, and a January 2012 photo exhibition in Sendai by Shiseido hair and makeup artists.

These activities reminded us that cosmetics enrich the heart while enhancing physical appearance. Many of the people we met also taught us that women have an intimate connection with cosmetics in their daily lives that gives cosmetics a power far greater than we had realized.

We as individuals will constantly consider what we can achieve in continuing to provide support for reconstruction.



For details on Shiseido's reconstruction support activities, please visit the Shiseido Aid Initiatives in the Wake of the Great East Japan Earthquake section of the Shiseido Group corporate website.

http://group.shiseido.com/csr/shien_support/

Environmental Data

Shiseido has reported the volume of energy used (input) and environmental load (output) determined through environmental accounting for the year ended March 2012.

The data was calculated and disclosed using GRI's G3 Sustainability Reporting Guidelines and the 2012 Environmental Reporting Guidelines issued by Japan's

Ministry of the Environment.

Shiseido will enhance the presentation of its environmental data to the greatest extent and raise the environmental awareness of employees as it works to further promote environmental activities.

► Environmental Performance Data

| | | Indicator | Scope | Year ended March 2011 | Year ended March 2012 |
|----------|---------|---|---------------------------|-----------------------|-----------------------|
| Japan | Inputs | Electric power (ten thousand kWh) | Production facilities | 3,776 | 3,384 |
| | | | Non-production facilities | 4,525 | 3,484 |
| | | City gas (ten thousand m ³) | Production facilities | 583 | 567 |
| | | | Non-production facilities | 132 | 103 |
| | | LPG (t) | Production facilities | 41 | 42 |
| | | | Non-production facilities | 0 | 0 |
| | | Fuel (kl) | Production facilities | 0 | 1 |
| | | | Non-production facilities | 10 | 78 |
| | Outputs | Steam (GJ) | Non-production facilities | 11,974 | 10,062 |
| | | Water (ten thousand m ³) | Production facilities | 85 | 85 |
| | | | Non-production facilities | 26,996 | 25,171 |
| | | CO ₂ (t) | Non-production facilities | 19,077 | 14,960 |
| | | SO _x (t) | Production facilities | 0 | 0 |
| | | NO _x (t) | Production facilities | 5 | 4 |
| | | Wastewater (ten thousand m ³) | Production facilities | 74 | 79 |
| | | BOD (t) | Production facilities | 20 | 17 |
| | | COD (t) | | 32 | 29 |
| | | Waste (t) | Production facilities | 4,474 | 4,189 |
| | | | Non-production facilities | 1,410 | 1,247 |
| | | Recycling ratio (%) | Production facilities | 100 | 100 |
| Overseas | Inputs | Electric power (ten thousand kWh) | Production facilities | 3,763 | 3,713 |
| | | | Non-production facilities | 670 | 660 |
| | | City gas (ten thousand m ³) | Production facilities | 380 | 425 |
| | | | Non-production facilities | 15 | 15 |
| | | LPG (t) | Production facilities | 53 | 75 |
| | | | Non-production facilities | 0 | 0 |
| | | Fuel (kl) | Production facilities | 24 | 2 |
| | | | Non-production facilities | 60 | 39 |
| | Outputs | Steam (t) | Production facilities | 4,627 | 4,006 |
| | | Water (ten thousand m ³) | Production facilities | 40 | 45 |
| | | | Non-production facilities | 28,177 | 23,322 |
| | | CO ₂ (t) | Non-production facilities | 2,952 | 2,252 |
| | | Waste (t) | Production facilities | 3,313 | 4,071 |
| | | | Non-production facilities | 584 | 581 |
| | | Recycling ratio (%) | Production facilities | 89 | 80 |

Note: Data for domestic non-production facilities includes small facilities that are subject to the Act concerning the Rational Use of Energy (the Energy Saving Act). Data for overseas non-production facilities includes major facilities only.

► Environmental Accounting

1. Environmental Protection Costs

(Unit: Millions of yen)

| Category | Main initiatives | Investment | Expenses |
|--|---|------------|----------|
| (1) Cost breakdown by operation | | 239 | 296 |
| (1) - 1. Pollution prevention | Water contamination, atmospheric pollution, etc. | 66 | 84 |
| (1) - 2. Global environmental protection | Promotion of energy conservation, measures to protect the ozone layer, etc. | 169 | 19 |
| (1) - 3. Recycling | Waste processing, recycling, wastewater re-use, material usage reduction, etc. | 3 | 194 |
| (2) Upstream and downstream costs | Costs associated with Recycling of Containers and Packaging Recycling Law, green procurement, product recycling, etc. | 0 | 327 |
| (3) Administrative costs | Personnel expenses (excluding R&D) for environmental management | 0 | 487 |
| (4) Research and development costs | R&D for environmentally friendly products, etc. (including personnel expenses) | 0 | 149 |
| (5) Social contribution costs | Support of environmental groups, disclosure of environmental information, environmental advertising, etc. | 0 | 71 |
| (6) Environmental remediation costs | Environmental remediation costs, etc. | 0 | 0 |
| (7) Other costs | | 0 | 0 |
| Total | | 239 | 1,331 |

2. Environmental Protection Outcomes

(Unit: Millions of yen)

| Outcomes | | Economic effect |
|--------------|--|-----------------|
| Earnings | Revenue from the recycling of waste generated in main business activities and the recycling of used products, etc. | 35 |
| Cost savings | From energy conservation | 86 |
| | Waste-related | 5 |
| | From resource conservation | 11 |
| | Other | 0 |
| Total | | 136 |

Environmental accounting period: April 1, 2011 - March 31, 2012
Scope: Domestic and overseas factories, domestic research centers and head office departments

Social Data

The following tables present personnel data in addition to data in the areas of women and cosmetics (beauty) and culture. Shiseido also presents more detailed information, GRI Guidelines balance sheet, and other information not included in this publication in the Social Responsibility section of

the Shiseido Group corporate website (<http://group.shiseido.co.jp/e/csr>) in order to deepen stakeholder understanding of Shiseido's CSR initiatives. We will further enhance data relevant to our social activities and personnel with the aim of providing easily understandable information to stakeholders.

► Data for Social Contribution Activities

| Area | Item | | Indicator | Unit | Year ended March 2011 | Year ended March 2012 | Scope |
|-------------------------------------|--|---------------------------------|--|------------------------------------|--------------------------|--------------------------|-----------------------|
| Women and Cosmetics (Beauty) | SHISEIDO LIFE QUALITY BEAUTY PROGRAM | LIFE QUALITY BEAUTY CENTERS | Number of countries and regions (number of centers) (Note 1) | Countries and regions (centers) | 3 (4) | 3 (5) | Japan and overseas |
| | | | Number of users | Persons | 1,479 | 1,660 | Japan and overseas |
| | | LIFE QUALITY BEAUTY SEMINARS | Number of seminars held | Times | 3,095 | 2,864 | Japan and overseas |
| | | | Number of participants | Persons | 47,919 | 43,946 | Japan and overseas |
| | | | Number of Beauty Volunteers ¹ participating | Persons | 3,515 | 2,697 | Japan |
| | Shiseido Children's Seminar ² | | Number of attendees (Note 2) | Persons | 810 | 1,432 | Japan |
| | Shiseido Running Club | | Number of running classes held | Times | 2 | 3 | Japan |
| | | | Number of lectures held outside the Company | Times | 2 | 6 | Japan |
| | Shiseido Female Researcher Science Grant | | Number of grant recipients | Persons | 10 | 10 | Japan |
| Culture | Shiseido Corporate Museum | | Number of exhibits | Exhibits | 2 | 3 | Japan |
| | Shiseido Gallery | | | Exhibits | 7 | 5 | Japan |
| | Shiseido Art House | | | Exhibits | 4 | 4 | Japan |
| Social Contribution by Employees | Shiseido Hanatsubaki Fund ³ | | Number of pledges (Note 3) | Pledges | 12,589 | 15,527 | Japan |

1. Beauty Volunteers are retired beauty consultants who provide activity support.

2. Shiseido Children's Seminars provide information to pre-adolescents on skin and hygiene and how to care for their changing skin correctly.

3. Shiseido Hanatsubaki Fund: Employees make donations from their wages and voluntarily participate in support activities. There are currently nine support groups.

Note 1: Japan (Tokyo); China (Shanghai, Hong Kong); Taiwan (Taipei, Kaohsiung).

Note 2: For fifth- and sixth-year elementary school children.

Note 3: 1 pledge = ¥100; pledge totals for March.

► Personnel Data

| Item | Unit | Year ended March 2011 | Year ended March 2012 | Includes | Remarks |
|--|---------|-----------------------|-----------------------|---|--|
| Number of employees | Persons | 44,287 | 46,267 | Group employees in Japan and overseas (including fixed-term contract employees) | Number of terminable contract employees is average for the year. |
| Average age | Years | 38.5 | 39.0 | Group employees in Japan (excluding fixed-term contract employees) | |
| Average years of service | Years | 14.8 | 15.3 | Group employees in Japan (excluding fixed-term contract employees) | |
| Hours worked (total hours worked annually per employee) | Hours | 1,812.8 | 1,813.5 | Group employees in Japan (excluding managers and fixed-term contract employees) | Scheduled working hours Year ended March 2011: 1,844.5 hours; Year ended March 2012: 1,852.5 hours |
| Ratio of female employees | % | 82.8 | 82.9 | Group employees in Japan (including fixed-term contract employees) | |
| Ratio of female leaders | % | 22.2 | 22.9 | Group employees in Japan | A leader is a manager with subordinates. |
| Employees rehired after retirement | Persons | 136 | 181 | Group employees in Japan | |
| Ratio of physically and developmentally challenged employees | % | 1.83 | 1.90 | Group employees in Japan | |
| Employees taking nursing care leave | Persons | 33 | 24 | Group employees in Japan (including fixed-term contract employees) | |
| Employees taking time off for nursing care | Persons | 21 | 18 | Group employees in Japan (including fixed-term contract employees) | |
| Employees taking childcare leave | Persons | 1,218 | 1,307 | Group employees in Japan (including fixed-term contract employees) | Including data for short-term childcare leave program |
| Employees taking time off for childcare | Persons | 1,415 | 1,681 | Group employees in Japan (including fixed-term contract employees) | |
| Kangaroo Staff ⁴ members | Persons | 1,417 | 1,534 | Group employees in Japan | A system of Shiseido Sales Co., Ltd. |

4. Kangaroo Staff members support retail activities during evening hours by filling in for beauty consultants who are taking time off to care for their children.

Shiseido's Management Structure



From left: (back) Akio Harada, Eiko Tsujiyama, Nobuo Otsuka, Yasuko Takayama, Toshio Yoneyama
(middle) Tatsuo Uemura, Shoichiro Iwata, Tatsuomi Takamori, Yoshinori Nishimura
(front) Shinzo Maeda, Hisayuki Suekawa, Carsten Fischer, Taeko Nagai

Board of Directors, Corporate Auditors and Corporate Officers

(As of June 26, 2012)

Directors



Shinzo Maeda

(Date of birth: February 25, 1947)

Representative Director, Chairman of the Board

1970 Joined Shiseido
1996 General Manager of New Cosmetic Marketing Department, Cosmetics Marketing Division
1997 General Manager of International Business Department (I) and International Strategic Marketing Department, International Operations Division
Chief Officer of Asia-Pacific Headquarters, International Operations Division
2000 General Manager of International Marketing Department, Self-Selection Products, Cosmenity Value Creation Division
2001 General Manager of Training Department, Cosmetics Strategic Planning Division
2003 General Manager of Corporate Planning Department
Director, Corporate Officer
2005 Representative Director [incumbent], President & CEO
2011 Chairman [incumbent]



Hisayuki Suekawa

(Date of birth: March 17, 1959)

Representative Director, President & CEO

1982 Joined Shiseido
2007 General Manager of the Business Planning Department
2008 Corporate Officer, General Manager of Corporate Planning Department
2009 Director
2010 Corporate Executive Officer
2011 Representative Director [incumbent], President & CEO [incumbent]



Carsten Fischer

(Date of birth: September 7, 1962)

Representative Director, Corporate Senior Executive Officer

Responsible for Global Business (International Business, China Business and Professional Business), Responsible for Americas
Chief Officer of International Business Division

1979 Joined Hans Schwarzkopf GmbH
1999 President and CEO, Wella Japan Co., Ltd.
2003 Executive Vice President, Wella AG Corporation
2004 President of Professional Care, and Corporate Officer, Procter & Gamble Company
2006 Corporate Advisor of Shiseido
2007 Corporate Executive Officer, Responsible for International Business [incumbent], Chief Officer of International Business Division [incumbent], Responsible for Professional Business [incumbent]
2008 Responsible for China Business [incumbent] Director
2010 Corporate Senior Executive Officer [incumbent]
2011 Chairman & CEO of Shiseido Americas Corporation [incumbent], Responsible for Americas [incumbent]
2012 Representative Director [incumbent]



Tatsuomi Takamori

(Date of birth: July 7, 1952)

Director, Corporate Executive Officer
Responsible for Domestic Cosmetics Business, Business Strategies and clé de peau BEAUTÉ Marketing Unit
Chief Officer of Domestic Cosmetics Business Division

1975 Joined Shiseido
2002 General Manager of International Marketing Department, Self-Selection Products
2003 General Manager of East Asia Operation Department, International Sales Division
2004 General Manager of China Strategic Planning Department, International Business Division
2006 Chief Officer of China Business Division
2007 Corporate Officer
2009 Director [incumbent]
2010 Corporate Executive Officer [incumbent], Responsible for Domestic Cosmetics Business and clé de peau BEAUTÉ Marketing Unit [incumbent], Chief Officer of Domestic Cosmetics Business Division [incumbent]
2012 Responsible for Domestic Cosmetics Business, Business Strategies [incumbent]



Yoshinori Nishimura¹

(Date of birth: June 28, 1955)

Director, Corporate Officer
Chief Financial Officer

Responsible for Finance, Investor Relations, Information System Planning
Responsible for Internal Control

1979 Joined Shiseido
2005 General Manager of Financial Department
2008 General Manager of Corporate Planning Department, Group Leader of Finance Strategy Group and General Manager of Financial Department of Shiseido Business Solutions Co., Ltd.
2009 President of Shiseido Deutschland GmbH
2011 Corporate Officer, Chief Financial Officer [incumbent], Responsible for Finance, Investor Relations and Information System Planning [incumbent], Responsible for Internal Control [incumbent]
2012 Director [incumbent]

Directors



Shoichiro Iwata²

(Date of birth: August 14, 1950)

External Director

1973 Joined Lion Fat and Oil Co., Ltd. (currently Lion Corporation)
1986 Joined Plus Corporation, Deputy General Manager of Product Development Division
1992 Head of ASKUL Business Project, Sales Division of Plus Corporation
1995 Manager of ASKUL Business Division, Plus Corporation
1997 Representative Director, President of ASKUL Corporation [incumbent]
2000 CEO of ASKUL Corporation [incumbent]
2006 External Director of Shiseido [incumbent], Chairman of Remuneration Advisory Committee of Shiseido [incumbent]



Taeko Nagai²

(Date of birth: January 30, 1938)

External Director

1960 Joined Japan Broadcasting Corporation (NHK)
1990 Manager of NHK Urawa Station
1993 Chief Commentator of NHK
1995 Retired from NHK
1997 Board Member of Setagaya Arts Foundation
2005 Vice Chairman of NHK
2008 Chairman of International Theatre Institute [incumbent]
2009 Vice President of Setagaya Arts Foundation [incumbent]
2010 Outside Director of Mitsui Chemicals, Inc. [incumbent]
2011 External Director of Shiseido [incumbent]



Tatsuo Uemura²

(Date of birth: April 19, 1948)

External Director

1977 Lecturer, Faculty of Law, The University of Kitakyushu
1979 Associate Professor, Faculty of Law, The University of Kitakyushu
1981 Associate Professor, School of Law, Senshu University
1986 Professor, School of Law, Senshu University
1990 Professor, College of Law and Politics, Rikkyo University
1997 Professor, School of Law, Waseda University [incumbent]
2003 Director, Center of Excellence - Waseda Institute for Corporation Law and Society Professor, Waseda Law School [incumbent]
2004 External Director, Jasdq Securities Exchange, Inc.
2006 External Director of Shiseido [incumbent] Chairman of Nomination Advisory Committee of Shiseido [incumbent] Dean of Faculty of Law and the School of Law, Waseda University
2008 Director, Global Center of Excellence - Waseda Institute for Corporation Law and Society [incumbent]
2012 Member of the Board of Governors of Japan Broadcasting Corporation (NHK) [incumbent] Auditor of the Audit Committee of NHK [incumbent]

Corporate Officers

Masaru Miyagawa

Corporate Executive Officer

Responsible for Marketing of Domestic Cosmetics Business, Healthcare Business and Domestic Non-Shiseido Brand Businesses

Yu Okazawa

Corporate Executive Officer

Responsible for Asian Breakthrough Strategy
Chief Officer of China Business Division and General Manager of Asia Pacific Sales Department

Michiko Achilles

Responsible for Public Relations, CSR, Environmental Affairs, Consumer Information, Corporate Culture Reforms and Advisory Committees to the Board of Directors (CSR Committee)

Kozo Hanada

Chief Officer of Professional Business Operations Division
President & CEO of Shiseido Professional Co., Ltd.

Kiyoshi Ishimoto¹

Responsible for Production, Purchasing and Logistics

Tsunehiko Iwai

Responsible for Technical Planning, Quality Management and Frontier Science Business

Asa Kimura

Responsible for Cosmetics Products Research & Development and Software Development

Director retired as of June 26, 2012: Director Kimie Iwata (Retired from position of Representative Director, Executive Vice President as of March 31, 2012)

Corporate auditor retired as of June 26, 2012: Corporate Auditor Reiko Kuroda

Corporate officer retired as of March 31, 2012: Corporate Officer Shoji Nishiyama

Corporate Auditors



Yasuko Takayama

(Date of birth: March 8, 1958)

Standing Corporate Auditor

1980 Joined Shiseido
2006 General Manager of Consumer Information Center
2008 General Manager of Consumer Relations Department
2009 General Manager of Social Affairs and Consumer Relations Department
2010 General Manager of Corporate Social Responsibility Department
2011 Standing Corporate Auditor [incumbent]



Toshio Yoneyama

(Date of birth: September 26, 1951)

Standing Corporate Auditor

1978 Joined Shiseido
2000 Chief Officer of Fine Chemical Division
2004 General Manager of Product Development Department, Cosmetics Business Division
2005 President of Institute of Beauty Sciences
2006 Corporate Officer
2008 Chief Officer of Healthcare Business Division
2010 Standing Corporate Auditor [incumbent]



Akio Harada²

(Date of birth: November 3, 1939)

External Corporate Auditor

2001 Prosecutor General
2005 External Corporate Auditor of Shiseido [incumbent]
External Corporate Auditor of Sumitomo Corporation [incumbent]
External Director of Seiko Holdings Corporation [incumbent]
2009 External Director of Japan Post Holdings Co., Ltd. [incumbent]
2010 External Director of Turnaround Initiative Corporation of Japan [incumbent]



Nobuo Otsuka²

(Date of birth: January 10, 1942)

External Corporate Auditor

1988 President and Director of Keiseikai Hospital
2007 External Corporate Auditor of Shiseido [incumbent]
2010 Chairman of Keiseikai Hospital [incumbent]



Eiko Tsujiyama^{1,2}

(Date of birth: December 11, 1947)

External Corporate Auditor

2003 Professor, School of Commerce and the Graduate School of Commerce, Waseda University [incumbent]
2008 Outside Corporate Auditor of Mitsubishi Corporation [incumbent]
2010 Outside Director of ORIX Corporation [incumbent]
Dean of the Graduate School of Commerce, Waseda University [incumbent]
2011 Outside Corporate Auditor of LAWSON, INC. [incumbent]
Outside Corporate Auditor of NTT DOCOMO, INC. [incumbent]
2012 External Corporate Auditor of Shiseido [incumbent]

Shigeto Ohtsuki

General Manager of Personnel Department

Tooru Sakai

General Manager of Corporate Planning Department

Chikako Sekine¹

General Manager of Beauty Consultation Planning Department
Responsible for Beauty Creation

Youichi Shimatani

Responsible for Functional Food Research & Development, Innovative Science Research & Development, Research Administration and Technology Alliances

Shigekazu Sugiyama¹

Responsible for Corporate Culture and Advertising Creation

Mitsuo Takashige

Responsible for Corporate Planning and General Affairs (Legal Affairs and Executive Affairs)

Ryuichi Yabuki

Responsible for Sales of Domestic Cosmetics Business
President & CEO of Shiseido Sales Co., Ltd.,
President & CEO of FT Shiseido Co., Ltd.

1. New appointment

2. Independent Director/Corporate Auditor required by Rule 436-2 of the Tokyo Stock Exchange Securities Listing Regulations

Corporate Governance

Corporate Governance Policy

Shiseido is setting higher standards 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 (consumers, business partners, shareholders, employees, society and the Earth).

Management and Execution Structure

Shiseido has selected a corporate auditor structure with double check functions for business execution: supervision by the Board of Directors and audits of legality and adequacy by the Board of Auditors.

Furthermore, Shiseido believes that as a global corporation it must establish corporate governance that earns a high level of stakeholder trust while also strengthening senior management in order to prevail against competitors. Shiseido has therefore worked to reform corporate governance in four areas: clarifying the allocation of responsibility, enhancing management transparency and soundness, reinforcing supervisory and auditing functions, and strengthening decision-making functions. Shiseido has strengthened these functions by establishing committees and a corporate

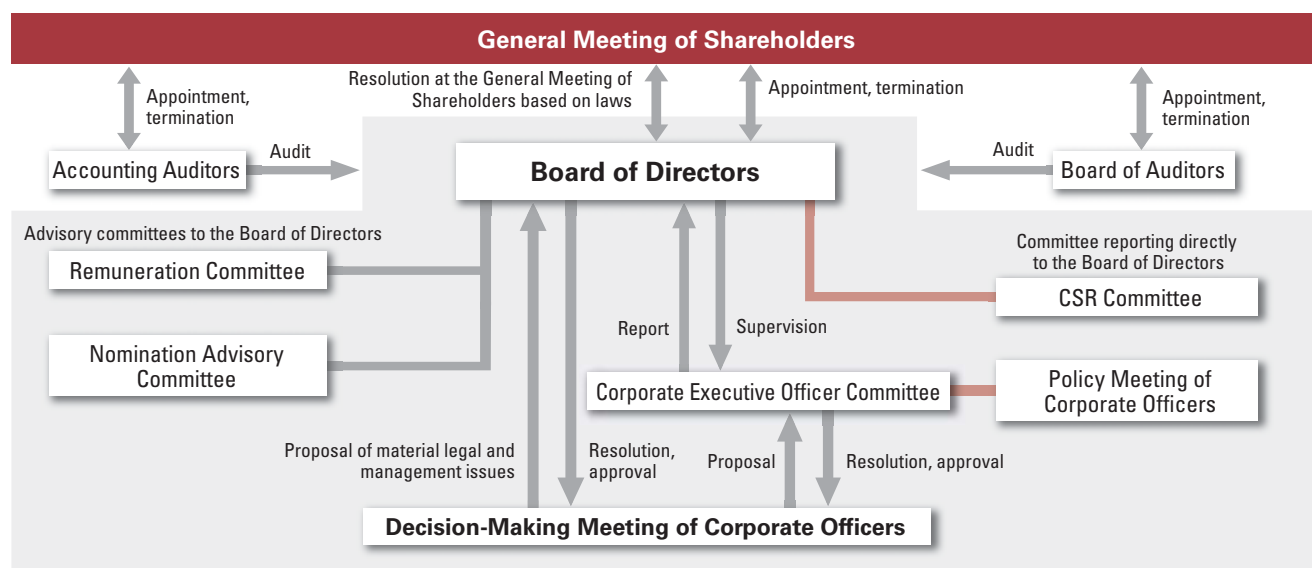
executive officer system as well as integrating these outstanding features of a company of committees with the corporate auditor structure.

The Board of Directors is composed of eight members, including three external directors. The small number of members facilitates rapid decision making. To further separate supervision and execution, the Chairman of the Company, who does not hold a concurrent position as a corporate executive officer, serves as Chairman of the Board of Directors. The Board of Directors meets at least once a month to discuss all significant matters. Fourteen Board of Directors' meetings were held in the year ended March 2012.

The adoption of a corporate executive officer system has separated the decision-making and supervisory functions of the Board of Directors from the business execution functions of corporate officers. The Corporate Executive Officer Committee, which acts as the final decision-making body regarding material issues, furthers the transfer of authority to corporate officers and accelerates operational decision-making. Shiseido's President & Chief Executive Officer chairs this Committee. In addition, the Policy Meeting of Corporate Officers is held at least once per year to discuss Shiseido's medium-to-long-term strategy and determine its direction.

The term of office of directors is one year, and the term limit of corporate officers is four years per position in principle and six years maximum.

► The Company's System for the Management and Execution of Business



To obtain an outside point of view and further strengthen the Board of Directors' supervisory function in regard to business execution, Shiseido appointed two external directors in June 2006, and added a third external director in June 2011. Having external directors has stimulated discussion at Board of Directors' meetings and strengthened its supervisory capabilities. Furthermore, Shiseido has established Criteria for Judging the Independence of External Directors and Auditors* to enable objective judgment of the independence of external directors and auditors. Based on these criteria, Shiseido has designated three external directors as independent directors and three external corporate auditors as independent corporate auditors pursuant to the Tokyo Stock Exchange's Securities Listing Regulations. In

addition, Shiseido is actively promoting diversity among directors in such ways as appointing women, foreign nationals and people who have built careers outside of Shiseido. Wide perspective and deep insight will promote objectivity and strengthen the Board's supervisory and decision-making functions. As of June 2012, seven, or 54 percent, of the 13 members of the Board of Directors and the Board of Corporate Auditors have built careers outside of Shiseido; three, or 23 percent, are women; and one, or 8 percent, is a foreign national.

* See page 70 for the detailed Criteria for Assessing the Independence of External Directors and Auditors.

► Progress of Shiseido's Corporate Governance Policy

Management Transparency, Fairness and Speed

Clarify allocation of responsibility

- 2001 Introduced corporate executive officer system
- 2001 Introduced 1-year term for directors
- 2006 Set upper term limit per position
- 2006 Formulated rules governing promotions and demotions for corporate officers
- 2006 Lowered upper age limit per position for holding office

In order to develop strong globally competitive management, Shiseido has set rules for promotion and demotion of directors and corporate officers and upper term limits per position to ensure that all directors and corporate officers maintain a high level of performance. In addition, Shiseido has lowered the maximum age limit. Moreover, the Company has significantly reduced the number of corporate officers to 18 at present in order to create a small, select group of corporate officers.

Enhance management transparency and soundness

- 2001 Established Remuneration Committee
- 2005 Established Nomination Advisory Committee

Anticipating further globalization, the Remuneration Committee revised the remuneration system in 2008 to increase the linkage between executive remuneration and the Company's performance and stock price. The Nomination Advisory Committee makes recommendations on director and corporate officer candidates. Its activities also include deliberation on the establishment of rules for the terms of corporate officers and extension of individual term limits.

Reinforce supervisory and auditing functions

- 2005 Increased number of external corporate auditors from 2 to 3
- 2006 Appointed external directors
- 2011 Increased number of external directors from 2 to 3
- 2011 Separated President & CEO from function of Chairman of the Board

To reinforce supervisory and auditing functions, Shiseido has brought in and increased the number of external directors and corporate auditors with a high degree of independence and diverse backgrounds. Criteria for assessing independence have been established and are publicly disclosed in various ways, including via the Shiseido Group corporate website and the Notice of Convocation of the Ordinary General Meeting of Shareholders. The President & CEO has been separated from the function of the Chairman of the Board.

Strengthen decision-making functions

- 2001 Established Corporate Executive Officer Committee and Policy Meeting of Corporate Officers
- 2002 Reduced number of directors

The Corporate Executive Officer Committee was established in 2001 to study key executive matters from multiple aspects. This committee meets three times a year in principle. Moreover, in 2002 the number of authorized directors was changed from seven or more to twelve or fewer. Setting an upper limit instead of a lower limit clarified the Company's move to reduce the number of directors.

Audit Structure

Shiseido's Board of Auditors consists of two standing corporate auditors and three external corporate auditors. Corporate auditors attend Board of Directors' meetings and other important meetings, where they actively voice their opinions. They also conduct accounting audits of the entire Shiseido Group and monitor the legality and adequacy of directors' performance.

Representative directors and corporate auditors meet regularly to exchange opinions and resolve corporate governance issues. Shiseido maintains a framework to ensure that corporate auditors discharge their duties effectively. For example, the Company arranges liaison meetings with the accounting auditors and the Internal Auditing Department in addition to assigning full-time staff to assist in audits. Corporate auditor attendance for the 14 Board of Auditors meetings held in the year ended March 2012 was

Criteria for Assessing the Independence of External Directors and Auditors

Shiseido Company, Limited ("the Company") judges external directors and external corporate auditors (collectively, "external directors/auditors") or external director/auditor candidates to be sufficiently independent from the Company if, as a result of the Company's research conducted to the maximum extent practical, the external director/auditor, or external director/auditor candidate, has been found to meet all of the following criteria:

1. A person who is not nor has ever been responsible for executing the business of the Company or its affiliated companies (collectively, "the Shiseido Group").

In the case of an external corporate auditor, in addition to the above, a person who has never been a non-executive director or accounting advisor of the Shiseido Group (or, if the accounting advisor is a corporate entity, a person who has never been responsible for executing business for the accounting advisor).

2. A person who does not fall under any of the following descriptions for the current or last nine (9) fiscal years (collectively referred to hereinafter as the "relevant fiscal years").
 - 1) A person of which the Shiseido Group is a major client or a person who executes business for said person (including persons who ever executed said person's business during the relevant fiscal years; the same applies to Items 2) to 4) of this paragraph, below).
 - 2) A major client of the Shiseido Group or a person who executes the business of said client.
 - 3) A major shareholder of the Company who directly or indirectly holds, or has held, 10 percent or more of the total voting rights of the Company, or a person who executes business for such shareholder, in the relevant fiscal years.
 - 4) A person who executes business for an entity in which the Shiseido Group directly or indirectly holds, or has held, 10% or more of the voting rights in the relevant fiscal years.
 - 5) A consultant, accounting professional or legal professional who has received a large amount of money or other assets other than remuneration as a director/auditor from the Shiseido Group during the relevant fiscal years. Or, if the consultant, accounting professional or legal professional is a corporate entity, association or other organization, a person belonging to said organization (including persons who have ever belonged to said organization during the relevant fiscal years; the same applies to Items 6 and 7 of this paragraph, below).
 - 6) A person who has received a large donation of money or assets from the Shiseido Group in the relevant fiscal years. Or, if the person is a corporate entity, association or other organization, a person belonging to such organization.
 - 7) An accounting auditor of the Company (including a person who has ever been an accounting auditor of the Company

during the relevant fiscal years). Or, if the accounting auditor is a corporate entity, association or other organization, a person belonging to such organization.

3. A person who is not a spouse, relative within the second degree, live-in relative or person sharing living costs, of any of the persons listed below, provided, however, that Item 2) is relevant only when judging the independence of an external corporate auditor.
 - 1) A key executive of the Shiseido Group.
 - 2) A non-executive director of a Shiseido Group company.
 - 3) A person described in Items 1) through 4) in Paragraph 2, provided, however, that with respect to persons executing business for such persons this item is limited to key persons.
 - 4) A person listed in Items 5) through 7) in Paragraph 2, provided, however, that with respect to persons belonging to such organizations this item is limited to key persons.
4. None of the interlocking relationships listed below apply.
 - 1) If an external director/auditor or external director/auditor candidate of the Company is currently serving as an executive, external director, corporate auditor, or in a position equivalent thereto, of another domestic or overseas company, an executive, external director, corporate auditor (excluding the external director/auditor or external director/auditor candidate himself/herself), or a person in a position equivalent thereto, in the Shiseido Group is concurrently serving as a director (including external director), executive officer, corporate auditor (including external auditor), executive officer, or in a position equivalent thereto, at the same company.
 - 2) If an external director/auditor or external director/auditor candidate of the Company currently executes business for or is a director or auditor, or in a position equivalent to director or auditor, of a corporate entity (excluding companies) or other organization outside the Company, a person who executes business for or who is an external director, corporate auditor (excluding the external director/auditor or external director/auditor candidate himself/herself), or in a position thereto, of the Shiseido Group is also serving as director or corporate auditor, or in a position equivalent thereto, at the same organization.
5. In addition to Paragraphs 1 through 4 above, no other circumstances exist in which the person could reasonably be judged unable to fulfill the duties of an independent director/auditor.
6. There are currently no expectations that any of Paragraphs 1 through 5 above will apply.

In addition to the above, monetary and other additional criteria are provided in detail in the notes, which are available under Notice of Convocation: the 112th Ordinary General Meeting of Shareholders in the IR section of the Shiseido Group corporate website (<http://group.shiseido.com/ir/shareholder/e1206shm/html/index.html>).

100 percent (except for one corporate auditor whose attendance rate was 85.7 percent). Attendance at Board of Directors meetings was 100 percent (except for one corporate auditor whose attendance rate was 78.5 percent).

Internal audits of the entire Group are conducted to ensure that business is executed in an appropriate manner, and audit results are reported to the Board of Directors and Board of Auditors.

Shiseido employs three types of audits: internal audits, audits by the corporate auditors, and accounting audits. To increase the effectiveness and efficiency of audits, Shiseido has been enhancing mutual cooperation among the parties concerned through means such as regular liaison meetings to report on audit plans and audit results and exchange opinions.

Committees

With a view to promoting transparency and objectivity in management, Shiseido has established two committees to advise the Board of Directors: the Remuneration

Committee, which makes recommendations on executive remuneration and performance evaluation Standards; and the Nomination Advisory Committee, which makes recommendations on director and corporate officer candidates and promotions. Both committees are chaired by external directors to maintain objectivity. Furthermore, the CSR Committee has been established as a committee that reports directly to the Board of Directors.

The CSR Committee covers all areas in which the Shiseido Group is expected to fulfill its corporate social responsibility (CSR). It monitors the demands and expectations of society and considers the direction for the Group's CSR activities. At the same time, it understands and assesses CSR issues and risks associated with management strategy and business operations and takes necessary countermeasures. Chaired by Shiseido's President & Chief Executive Officer, the CSR Committee is composed of members representing a broad cross-section of the Company, and also includes external experts. It submits proposals for and reports on action plans and their results to the Board of Directors.

Committees and Their Members

Advisory Committees to the Board of Directors

| Remuneration Committee | | Nomination Advisory Committee | |
|------------------------|--|-------------------------------|--|
| [Chair] | Shoichiro Iwata, External Director | [Chair] | Tatsuo Uemura, External Director |
| [Members] | Tatsuo Uemura, External Director | [Members] | Shoichiro Iwata, External Director |
| | Taeko Nagai, External Director | | Taeko Nagai, External Director |
| | Shinzo Maeda, Representative Director, Chairman of the Board | | Shinzo Maeda, Representative Director, Chairman of the Board |
| | Hisayuki Suekawa, Representative Director, President & CEO | | Hisayuki Suekawa, Representative Director, President & CEO |
| | Carsten Fischer, Representative Director, Corporate Senior Executive Officer | | Carsten Fischer, Representative Director, Corporate Senior Executive Officer |
| | Yoshinori Nishimura, Director, Chief Financial Officer | | |

Committee Reporting Directly to the Board of Directors

| CSR Committee | |
|---------------|--|
| [Chair] | Hisayuki Suekawa, Representative Director, President & CEO |
| [Members] | Carsten Fischer, Representative Director, Corporate Senior Executive Officer, Responsible for Global Business (International Business, China Business and Professional Business), Responsible for Americas, Chief Officer of International Business Division |
| | Tatsuomi Takamori, Director, Corporate Executive Officer, Responsible for Domestic Cosmetics Business, Business Strategies and clé de peau BEAUTÉ Marketing Unit, Chief Officer of Domestic Cosmetics Business Division |
| | Yoshinori Nishimura, Director, Corporate Officer, Chief Financial Officer, Responsible for Finance, Investor Relations, Information System Planning, Responsible for Internal Control |
| | Michiko Achilles, Corporate Officer, Responsible for Public Relations, CSR, Environmental Affairs, Consumer Information and Corporate Culture Reforms |
| | Tsunehiko Iwai, Responsible for Technical Planning, Quality Management and Frontier Science Business |
| | Shigeto Ohtsuki, Corporate Officer, General Manager of Personnel Department |
| | Tooru Sakai, General Manager of Corporate Planning Department |
| | Taeko Nagai, External Director |
| | Hajime Akatsuka, Chairman of the Central Executive Committee, Shiseido Labor Union |
| | Yoko Hayashi, External Member, Attorney at Law, Athena Law Office |
| | Mariko Kawaguchi, External Member, Chief Researcher, Research Division, Daiwa Institute of Research |
| | Yasuko Takayama, Standing Corporate Auditor |
| [Observer] | |

Remuneration to Directors, Corporate Officers and Corporate Auditors

Remuneration to directors and corporate officers consists of a basic fixed portion and a performance-linked portion that fluctuates depending on the achievement of management targets and share price. In principle, the performance-linked portion of the remuneration of directors other than external directors increases with their rank as corporate officers. Assuming full achievement of the targets for performance-linked remuneration (consolidated performance during the Three-Year Plan and each fiscal year of the plan; the performance of the business for which each director/corporate officer is responsible; and the individual performance assessment), which are used as the calculation standards, the proportion of each type of remuneration for each rank of corporate officer is indicated in the table below. The Chairman of the Company, who serves as Chairman of the Board, does not receive a bonus and is under a remuneration system that is different from the rank-based remuneration system, as he does not concurrently serve as a corporate executive officer and consequently does not directly engage in the execution of business. Furthermore, a separate remuneration system more closely linked to performance is

applied to Director and Corporate Senior Executive Officer Carsten Fischer, as he plays a central role in the Company's Global Business, which drives the Company's growth.

Performance-linked remuneration consists of a short-term incentive bonus based on annual consolidated results, medium-term incentive remuneration based on the achievement of the targets of the Three-Year Plan that commenced in the year ended March 2012, to be paid in cash at the culmination of the plan, and stock options as long-term incentive, primarily aimed at fostering a shared awareness of profits with shareholders. Performance-linked remuneration is designed to give directors and corporate officers a medium-to-long-term perspective, not just a single-year focus, and to motivate management to become more aware of Shiseido's performance and share price.

External directors receive only basic fixed remuneration because of the importance of a stance independent from business execution in their supervisory functions. Due to the nature of auditing, corporate auditors receive fixed basic remuneration only, to eliminate linkage with performance.

Basic remuneration for directors and corporate auditors is within the monthly remuneration limits decided by the General Meeting of Shareholders; performance-linked remuneration, including the short-term incentive bonus,

► Proportion of Each Type of Remuneration by Rank and Standards for Performance-Linked Remuneration (Assuming Full Achievement of All Performance Targets)

| | | Chairman | President & CEO | Executive Vice President | Corporate Senior Executive Officer | Corporate Executive Officer | Corporate Officer | Corporate Senior Executive Officer Carsten Fischer |
|---------------------------------|-----------------------|-------------------------|--------------------------|--------------------------|---|-----------------------------|-------------------|---|
| Fixed Remuneration | Basic Remuneration | 42% | 30% | 43% | 44% | 45% | 48% | 34% |
| | Calculation standards | Based on rank | | | | | | Individual |
| Performance-Linked Remuneration | Bonus (Short-term) | — | 23% | 22% | 21% | 21% | 21% | 22% |
| | Calculation standards | — | Consolidated performance | | Consolidated performance/Performance of relevant business/Individual performance assessment | | | |
| | Medium-term Incentive | 29% | 23% | 17% | 17% | 17% | 16% | 35% |
| | Calculation standards | Three-Year Plan targets | | | | | | Three-year performance targets of relevant business |
| | Long-term Incentive | 29% | 23% | 17% | 17% | 17% | 16% | 9% |
| | Calculation standards | Based on rank | | | | | | Individual |
| Total | | 100% | 100% | 100% | 100% | 100% | 100% | 100% |

► Remuneration to Directors and Corporate Auditors for the Year Ended March 2012

| | Basic | Short-Term Incentive Bonus | Medium-Term Incentive Remuneration | Long-Term Incentive Stock Options | Total |
|---------------------------------|-----------------|----------------------------|------------------------------------|-----------------------------------|-----------------|
| | Millions of yen | Millions of yen | Millions of yen | Millions of yen | Millions of yen |
| Directors (9 people) | 254 | 107 | — | 87 | 450 |
| External directors (3 of the 9) | 36 | — | — | — | 36 |
| Corporate auditors (6 people) | 96 | — | — | — | 96 |
| External auditors (3 of the 6) | 36 | — | — | — | 36 |
| Total | 350 | 107 | — | 87 | 546 |

Notes:

- Basic remuneration for directors has the ceiling amount of ¥30 million per month as per the resolution of the 89th Ordinary General Meeting of Shareholders held on June 29, 1989. Basic remuneration for corporate auditors has the ceiling amount of ¥10 million per month as per the resolution of the 105th Ordinary General Meeting of Shareholders held on June 29, 2005.
- Medium-term incentive remuneration of directors will be paid in a lump-sum payment for all years of the Three-Year Plan at the end of the plan based on the degree of achievement of plan targets. No incentive remuneration related to the current Three-Year Plan was paid during the year ended March 2012, as it was the first year of the plan.
- Long-term incentive remuneration (stock options) represents the total amount recorded in the year ended March 2012 as expenses associated with stock options (stock acquisition rights) granted after obtaining the approval of the General Meeting of Shareholders as compensation for performance of directors' duties.
- The above payment includes the amounts of the following remuneration, etc., paid to directors and corporate auditors.
 - Remuneration to one retired director
The Company paid ¥6 million in basic remuneration for the months April through June 2011 to one director who retired at the conclusion of the 111th Ordinary General Meeting of Shareholders held on June 24, 2011 and recorded ¥6 million for the year ended March 2012 as expenses associated with stock options granted to said director.
 - Remuneration to one retired corporate auditor
The Company paid ¥7 million in basic remuneration for the months April through June 2011 to one corporate auditor who retired at the conclusion of the 111th Ordinary General Meeting of Shareholders held on June 24, 2011.
- The following remuneration will be paid in addition to the above payments.
 - ¥1 million was recorded for the year ended March 2012 as expenses associated with stock options granted to three directors of the Company, at the time they served as corporate officers not holding the offices of directors.
 - Four subsidiaries of the Company paid ¥28 million as basic remuneration for the year ended March 2012 to one director of said subsidiaries who also served concurrently as a director of the Company.
 - ¥18 million was recorded as a final retirement payment to one director who retired at the conclusion of the 111th Ordinary General Meeting of Shareholders held on June 24, 2011 for the period in which he served as a corporate officer not holding the office of director. (Payment was based on the decision to grant final retirement payments accrued up until the abolition of the retirement bonus system for directors and corporate auditors in 2004).
 - ¥35 million was recorded as a final retirement payment to one corporate auditor who retired at the conclusion of the 111th Ordinary General Meeting of Shareholders held on June 24, 2011 for the period in which he served as a corporate officer not holding the office of director. (Payment was based on the decision to grant final retirement payments accrued up until the abolition of the retirement bonus system for directors and corporate auditors in 2004).

► Remuneration by Type to Representative Directors and Directors Whose Total Remuneration Exceeded ¥100 Million for the Year Ended March 2012

| | Basic | Short-Term Incentive Bonus | Medium-Term Incentive Remuneration | Long-Term Incentive Stock Options | Total |
|---|-----------------|----------------------------|------------------------------------|-----------------------------------|-----------------|
| | Millions of yen | Millions of yen | Millions of yen | Millions of yen | Millions of yen |
| Shinzo Maeda Representative Director | 49 | — | — | 18 | 67 |
| Hisayuki Suekawa Representative Director | 46 | 31 | — | 12 | 90 |
| Kimie Iwata Representative Director | 37 | 16 | — | 26 | 80 |
| Carsten Fischer Director | 53 | 47 | — | 16 | 117 |

Notes:

- Medium-term incentive remuneration and long-term incentive remuneration (stock options) are as stated in Notes 2 and 3 under "Remuneration to Directors and Corporate Auditors for the Year Ended March 2012" above.
- In addition to the amounts above, the following remuneration was paid.
 - Amount recorded for the year ended March 2012 as expenses associated with stock options granted to directors of the Company, at the time they served as corporate officers not holding the office of director.

| | |
|--|----------------------|
| Representative Director Hisayuki Suekawa | Less than ¥1 million |
| Director Carsten Fischer | Less than ¥1 million |
 - Four subsidiaries of the Company paid ¥28 million as basic remuneration for the year ended March 2012 to Director Carsten Fischer, who served concurrently as a director of said subsidiaries.

medium-term incentive remuneration and long-term incentive stock options, is also set on a case-by-case basis by resolution of the General Meeting of Shareholders.

■ Compliance

In April 2011, Shiseido newly established the Shiseido Group corporate philosophy Our Mission, Values and Way. Our Mission defines the Shiseido Group's corporate mission and business domains, and sets out our *raison d'être*. Our Values define the approach that must be shared by all employees of the Shiseido Group in order to realize Our Mission. Our Way promotes legitimate and fair business practices by defining standards for ensuring the highest level of ethical conduct.

Shiseido has established the CSR Committee, which reports directly to the Board of Directors and is responsible for improving the quality of the Company in ways such as promoting lawful and fair business practices throughout the Group as well as risk countermeasures. It submits proposals for and reports on action plans and their results to the Board of Directors.

To promote lawful and fair business activities at workplaces, the Company has assigned a Business Ethics Leader at each workplace in Japan and a Business Ethics Officer (BEO) and a Corporate Ethics Leader to assist the BEO at each affiliate overseas. In addition, the Company conducts regular workshops on corporate ethics. Business Ethics Leaders and BEOs report the plans for and the progress and results of corporate ethics activities at their respective workplaces to the CSR Committee.

In Japan, Shiseido has established the Shiseido External

Consultation Office at a law firm outside the Company for reporting and consultation, as well as the in-house Shiseido Consultation Office staffed with consultants, to facilitate early discovery and correction of conduct in the Group that violates laws, ordinances, the Company's Articles of Incorporation or other internal regulations. Outside Japan, a whistleblower hotline is provided at each subsidiary. In addition, the Shiseido Group Global Hotline is available in the CSR Committee for consultation on and reporting issues that cannot be resolved internally.

In internal control, Shiseido is promoting awareness and thorough enforcement of the Global Policy for Preventing Insider Trading, which applies to all Shiseido Group employees worldwide because the Company's stock can be traded outside of Japan in the form of American Depositary Receipts. Shiseido also enacted the Shiseido Group Social Media Policy in November 2011 in response to problems arising at various companies as a result of the expanding use of social media. In addition, Shiseido has set rules concerning bribery and is educating employees about them. Moreover, the Company conducts Groupwide internal audits to verify the soundness of business operations. The results of these audits are reported to directors and corporate auditors.

■ Dialogue with Shareholders and Investors

Shiseido is committed to timely and appropriate disclosure.

We emphasize dialogue with shareholders and investors to maintain accountability and work to increase corporate value by incorporating their opinions in management.

The President & Chief Executive Officer leads meetings

Discontinuation of Takeover Defense Measures

The 106th General Meeting of Shareholders held on June 25, 2006 adopted Introduction of Countermeasures to Large Acquisitions of Shiseido Co., Ltd. Shares (Takeover Defense). Subsequently, based on regulatory changes, a meeting of the Board of Directors held on April 30, 2008 resolved to discontinue the Takeover Defense, and the 108th General Meeting of Shareholders

approved its removal from the Articles of Incorporation.

Shiseido will generate and increase earnings for shareholders by steadily executing the Three-Year Plan, which will increase Shiseido's competitiveness in global markets and ability to generate sustained growth, and expand corporate value.

for institutional investors twice a year to present first-half and full year results, while members of the Investor Relations Department hold teleconferences twice a year to discuss first and third-quarter results. The President & Chief Executive Officer, Chief Financial Officer and members of the Investor Relations Department also visit investors in Japan and overseas and respond to requests for one-to-one meetings from institutional investors. In the year ended March 2012, Shiseido conducted more than 550 such meetings. In addition to IR meetings on topics such as business status and strategies, Shiseido also holds meetings on environmental, social and governance (ESG) themes to actively discuss non-financial information with investors.

In addition, the President & Chief Executive Officer leads meetings for individual investors twice a year to explain the Company's strategies and results, and Shiseido makes webcasts of presentations and question-and-answer sessions available on the Shiseido Group corporate website. Shiseido also conducts a survey once every six months, primarily of individual shareholders, and uses the results for

purposes such as improving disclosure materials. Furthermore, the Company holds small meetings for individual shareholders twice a year as a forum for individual shareholders to air their views regarding Shiseido's shareholder policies and communications.

Shiseido also collects investor opinions and puts them to use in management. The Investor Relations Department obtains shareholder and investor opinions from dialogues and communicates them within the Company in various ways, which contributes to management reforms. Specifically, investor opinions concerning management are analyzed to identify management issues, which are reported in a timely fashion. Every quarter, Shiseido also posts the *IR Report*, which presents the collected opinions of securities analysts, on the Company intranet. In addition, Shiseido conducts internal communication to convey investor evaluations of the Company to employees.

► Overview of Investor Relations Activities

| Activities | Details |
|--|--|
| For individual investors | <ul style="list-style-type: none"> • Twice-yearly information meetings led by the President & CEO and webcasts on the Shiseido Group corporate website • Twice-yearly meetings for individual shareholders and online report of meetings on the Shiseido Group corporate website • Shareholder surveys |
| For securities analysts and institutional investors | <ul style="list-style-type: none"> • Twice-yearly meetings led by the President & CEO to announce first-half and full-year results (teleconferences by members of the Investor Relations Department to announce first- and third-quarter results) • One-to-one meetings at Shiseido • One-to-one meetings with investors in Europe, North America, Asia, etc. • Visits to and exchange of views on ESG with domestic and overseas institutional investors, ESG evaluation organizations and asset owners |
| IR materials available on the Shiseido Group corporate website | <ul style="list-style-type: none"> • Notice of Convocation of the Ordinary General Meeting of Shareholders • Annual securities filing and quarterly reports (Japanese only) • Corporate Governance Report, Notice of Appointment of Independent Director/Auditor • Timely disclosure materials • Financial Results Briefing materials • Consolidated Settlement of Accounts • Annual Report • To Our Shareholders and Investors (Printed brochure for shareholders) (Japanese only) • CSR Report (website), non-financial information regarding ESG (website) |
| Other | <ul style="list-style-type: none"> • <i>IR Report</i>, analyzing investor opinions concerning management and reporting on management issues, is posted on Company intranet • Internal communication meetings to convey investor evaluations of Shiseido to employees |

Risk Management (CSR Management and Business Continuity Plan)

Fundamental Policy

Shiseido promotes CSR management with the aim of earning the trust of stakeholders for all its corporate activities, including its response to legal issues and risk. We have developed the unique CSR Action framework as a management tool for defining the tasks and risks that the Shiseido Group faces. We make sure to include projections of the social environment and international affairs as well as changes in domestic and international treaties and regulations. To do this, we look at risk from three perspectives: social requirements, risks Shiseido cannot or will not address, and risks Shiseido should address. Through this process, we determine the initiatives we should implement.

Promoting CSR Actions

In accordance with Our Way, Global Reporting Initiative (GRI) guidelines and ISO26000, Shiseido uses CSR Action as a CSR management tool to classify all survey results and other information obtained from institutions involved in socially responsible investing and CSR auditing into categories such as Corporate Governance, Human Rights, Labor Practices, Environment, Fair Business Practices, Consumer Issues, and Participation in and Development of Communities. We break these down into

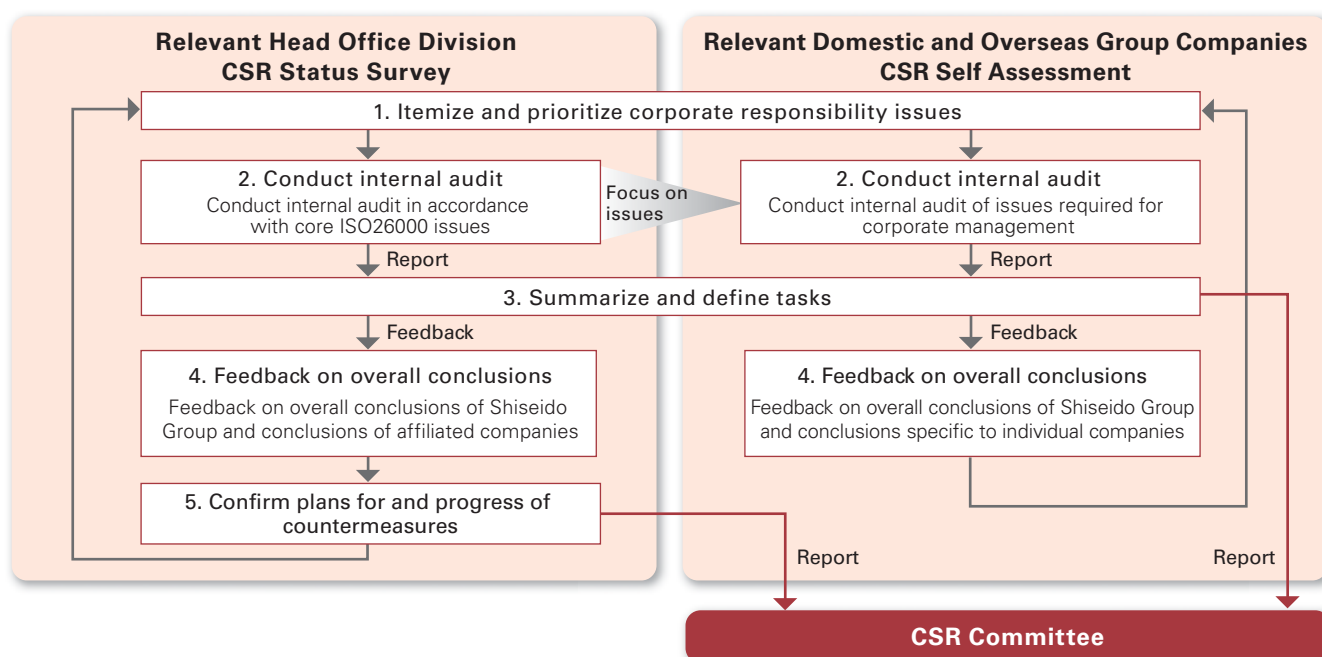
more detailed categories and scrutinize each one in terms of the Plan-Do-Check-Act cycle: Do we have a specific plan (Plan)? Do we have a system in place for action (Do)? Are we evaluating and validating (Check and Act)? Based on this review, we determine the initiatives we will implement. At the same time, Shiseido's subsidiaries and affiliates in Japan and overseas conduct self-assessments using the CSR Action items. Proposals to the CSR Committee are based on a careful examination of the tasks that the Shiseido Group should address as a whole and assessments derived from dialogue with multiple stakeholders.

During the year ended March 2012, the CSR Committee discussed matters including CSR Action results and items for review, an overview of the Great East Japan Earthquake and revision of the business continuity plan, and revision of CSR disclosure policies and clarification of internal procedures. These matters were subsequently reported to the Board of Directors. Shiseido will constantly ascertain society's perspective and operational exposure in working to respond to risks quickly and appropriately.

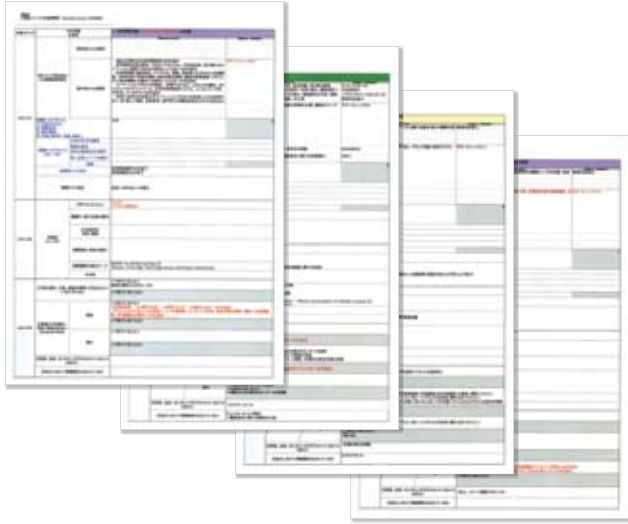
Business Continuity Plan (BCP)

Shiseido has established a policy for business continuity activities as a risk management policy. It has four facets: ensure the safety of employees and their families; protect

► CSR Action



► Itemized Verification Sheet



We have created an itemized checklist of risks and conduct audits from various perspectives for use in risk mapping.

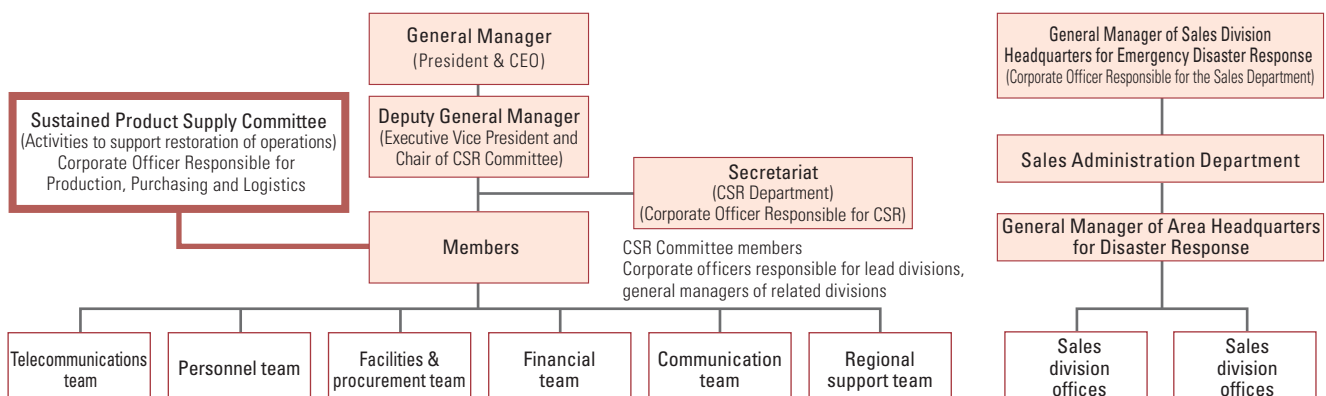
Company assets; continue operations; and earn the trust of stakeholders. While the BCP must respond to all disasters and risks that might halt operations, Shiseido categorizes disasters and risks into two distinct categories: those that cause sudden damage, and those that cause incremental damage over the long term. For these categories, we formulated the Earthquake Response BCP and the Infectious Disease Response BCP, respectively. For other risks that materialize, we will apply the relevant BCP according to the nature of the risk. Moreover, the risk management organization's three-tier structure – Countermeasure Headquarters, Countermeasure Project and Countermeasure Team – responds to risks that materialize according to risk severity.

When the Great East Japan Earthquake struck in March 2011, we responded based on the BCP we formulated in 2004 and subsequently revised several times. Specifically, immediately after the earthquake we established the organization for responding to an earthquake as provided in the BCP. It encompassed the Headquarters for Emergency Disaster Response at the head office with six action teams, led by the president as general manager and the executive vice president as deputy general manager, with CSR Committee members, corporate officers responsible for lead divisions, and general managers of related divisions as members. We also established the cross-divisional Sustained Product Supply Committee to study core product supply operations. For sales divisions, which are broadly based and encompass the largest number of employees, we created the Sales Division Headquarters for Disaster Response at the head office as a centralized clearinghouse in working to respond rapidly through cooperation with the Area Headquarters for Disaster Response for local units.

Subsequently, in August 2011 the CSR Committee discussed revisions to the BCP to address issues that surfaced as a result of the Great East Japan Earthquake. The committee amended the BCP by adding the creation of an employee first-responder manual, consideration for minorities, and the preservation of products in damage-stricken areas immediately following a disaster. Other committee activities included revising the organization and responsibilities of the Headquarters for Emergency Disaster Response at the head office and reorganizing the BCP so that the text is easier to understand.

* As of March 2011

► Organization Chart of the Headquarters for Emergency Disaster Response (at the time of the Great East Japan Earthquake)



Main Subsidiaries and Affiliates

| Company Name | Location | Paid-in Capital | Main Business ¹ | Equity ownership percentage ² |
|--|---------------------|---|--------------------------------|--|
| Shiseido Sales Co., Ltd. | Minato-ku, Tokyo | ¥100 million | Domestic Cosmetics Business | 100.0 |
| Shiseido FITIT Co., Ltd. | Chuo-ku, Tokyo | ¥10 million | | 100.0 |
| Shiseido International Inc. | Chuo-ku, Tokyo | ¥30 million | | 100.0 |
| The Ginza Co., Ltd. | Chuo-ku, Tokyo | ¥100 million | | 98.2 |
| FT Shiseido Co., Ltd. | Chuo-ku, Tokyo | ¥100 million | | 100.0 |
| Shiseido Pharmaceutical Co., Ltd. | Chuo-ku, Tokyo | ¥100 million | | 100.0 |
| Shiseido Americas Corporation | Delaware, U.S.A. | (Thousands of U.S. dollars) \$403,070 | Global Business | 100.0 |
| Shiseido America, Inc. | New York, U.S.A. | (Thousands of U.S. dollars) \$28,000 | | 100.0 (100.0) |
| Blush Holdings LLC | Delaware, U.S.A. | (U.S. dollars) \$100 | | 100.0 (100.0) |
| Bare Escentuals, Inc. | Delaware, U.S.A. | (U.S. dollars) \$0.01 | | 100.0 (100.0) |
| Bare Escentuals, Beauty Inc. | Delaware, U.S.A. | (U.S. dollars) \$1.00 | | 100.0 (100.0) |
| Zotos International, Inc. | Connecticut, U.S.A. | (Thousands of U.S. dollars) \$25,000 | | 100.0 (100.0) |
| Shiseido International Europe S.A. | Paris, France | (Thousands of euro) €256,133 | | 100.0 |
| Shiseido International France S.A.S. | Paris, France | (Thousands of euro) €36,295 | | 100.0 (100.0) |
| Shiseido Deutschland GmbH | Dusseldorf, Germany | (Thousands of euro) €5,200 | | 100.0 (100.0) |
| Shiseido Cosmetici (Italia) S.p.A. | Milan, Italy | (Thousands of euro) €2,400 | | 100.0 (100.0) |
| Shiseido Europe S.A.S. | Paris, France | (Thousands of euro) €9,000 | | 100.0 (100.0) |
| Beauté Prestige International S.A. | Paris, France | (Thousands of euro) €17,760 | | 100.0 (100.0) |
| Laboratoires Decléor S.A.S. | Paris, France | (Thousands of euro) €19,374 | | 100.0 (100.0) |
| Shiseido China Co., Ltd. | Shanghai, China | (Thousands of yuan) CNY565,093 | | 100.0 |
| Shanghai Zotos Citic Cosmetics Co., Ltd. | Shanghai, China | (Thousands of yuan) CNY418,271 | | 92.6 (72.6) |
| Shiseido Liyuan Cosmetics Co., Ltd. | Beijing, China | (Thousands of yuan) CNY94,300 | | 65.0 (33.0) |
| Shiseido Hong Kong Cosmetics Ltd. | Hong Kong, China | (Thousands of HK dollars) HKD123,000 | | 100.0 |
| Taiwan Shiseido Co., Ltd. | Taipei, Taiwan | (Thousands of NT dollars) NTD1,154,588 | | 51.0 |
| Shiseido Professional Co., Ltd. | Chuo-ku, Tokyo | ¥250 million | | 100.0 |
| Shiseido Beauty Salon Co., Ltd. | Chuo-ku, Tokyo | ¥100 million | | 100.0 |
| Shiseido Parlour Co., Ltd. | Chuo-ku, Tokyo | ¥100 million | Others | 99.3 |
| Selan Anonymous Association ³ | Chiyoda-ku, Tokyo | ¥11,600 million | | [100.0] |
| Other: 66 subsidiaries ⁴ | — | — | | — |
| (Equity-method affiliates): 3 companies | — | — | — | — |

Notes: 1. The segment name is noted in the Main Business column.

2. Numbers in parentheses include indirect equity ownership, and numbers in brackets represent ownership by parties with a close relationship or those in agreement with Shiseido.

3. A company of less than 50 percent equity ownership that is treated as a subsidiary because Shiseido is essentially in control.

4. Other subsidiaries is the sum of domestic subsidiaries as of March 31, 2012 and overseas subsidiaries as of December 31, 2011.

Management's Discussion and Analysis

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11-Year Summary of Selected Financial Data

Shiseido Company, Limited, and Subsidiaries
For the years ended March 31, 2002 to 2012

Millions of yen
(Except per share data)

| | 2002 | 2003 | 2004 | 2005 | 2006 |
|--|------|------|------|------|------|
|--|------|------|------|------|------|

Operating Results:

| | | | | | |
|--|----------|----------|----------|----------|----------|
| Net sales | ¥589,962 | ¥621,250 | ¥624,248 | ¥639,828 | ¥670,957 |
| Cost of sales | 157,140 | 170,702 | 166,299 | 168,636 | 176,884 |
| Selling, general and administrative expenses | 409,608 | 403,459 | 420,471 | 444,663 | 455,194 |
| Operating income | 23,214 | 47,089 | 37,478 | 26,529 | 38,879 |
| EBITDA (Note 2) | 412 | 66,827 | 82,341 | 29,043 | 58,963 |
| Net income (loss) | (22,768) | 24,496 | 27,541 | (8,856) | 14,436 |

Financial Position (At year-end):

| | | | | | |
|---------------------------------|----------|----------|----------|----------|----------|
| Total assets | ¥664,041 | ¥663,403 | ¥626,730 | ¥701,095 | ¥671,842 |
| Short-term liabilities (Note 3) | 25,685 | 55,117 | 47,678 | 25,213 | 12,786 |
| Long-term debt | 72,485 | 44,291 | 18,480 | 69,114 | 69,492 |
| Interest-bearing debt | 98,170 | 99,408 | 66,158 | 94,327 | 82,278 |
| Net assets | 357,948 | 364,728 | 385,336 | 369,957 | 387,613 |

Cash Flows:

| | | | | | |
|--|----------|----------|----------|----------|----------|
| Cash flows from operating activities | ¥ 36,517 | ¥ 66,848 | ¥ 47,074 | ¥ 52,434 | ¥ 21,812 |
| Cash flows from investing activities | (32,768) | (44,049) | (43,033) | (24,900) | (12,640) |
| Cash flows from financing activities | 21,221 | (12,211) | (45,884) | 17,421 | (29,959) |
| Cash and cash equivalents at end of year | 90,293 | 101,103 | 59,364 | 108,281 | 89,015 |

Per Share Data (In yen and U.S. dollars):

| | | | | | |
|---|----------|---------|---------|----------|---------|
| Net income (loss)(Note 4) | ¥ (54.6) | ¥ 58.0 | ¥ 64.9 | ¥ (21.5) | ¥ 34.4 |
| Net assets (Note 4) | 818.0 | 844.7 | 903.7 | 866.5 | 906.1 |
| Cash dividend | 16.0 | 20.0 | 22.0 | 24.0 | 30.0 |
| Weighted average number of shares outstanding during the period (thousands) | 416,708 | 419,580 | 414,723 | 414,219 | 412,855 |

Financial Ratios:

| | | | | | |
|--|--------|--------|--------|--------|--------|
| Operating profitability (%) | 3.9 | 7.6 | 6.0 | 4.1 | 5.8 |
| Return on assets (%) | (3.4) | 3.7 | 4.3 | (1.3) | 2.1 |
| Operating ROA (%) (Note 5) | 3.7 | 7.3 | 6.0 | 4.3 | 5.9 |
| Return on equity (%) | (6.4) | 7.0 | 7.6 | (2.4) | 3.9 |
| Equity ratio (%) | 52.1 | 53.3 | 59.8 | 51.2 | 55.7 |
| Interest coverage ratio (times) (Note 6) | 18.7 | 30.0 | 18.2 | 22.1 | 8.6 |
| Debt-equity ratio (times) (Note 7) | 0.28 | 0.28 | 0.18 | 0.26 | 0.22 |
| Interest-bearing debt ratio (%) (Note 8) | 21.5 | 21.4 | 14.7 | 20.3 | 17.5 |
| Payout ratio (Consolidated) (%) | — | 34.5 | 33.9 | — | 87.2 |
| Number of employees at year-end (Note 9) | 25,021 | 25,202 | 24,839 | 24,184 | 25,781 |
| Net sales per employee | ¥23.6 | ¥24.7 | ¥25.1 | ¥26.5 | ¥26.0 |

Notes: 1. U.S. dollar amounts are converted from yen, for convenience only, at the rate of ¥82.14 = US\$1 prevailing on March 31, 2012.

2. EBITDA (Earnings before interest, tax, depreciation and amortization) = Income before income taxes + Interest expense + Depreciation and amortization

3. Short-term liabilities = Short-term debt + Current portion of long-term debt

4. Net income 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.

5. Operating ROA = (Operating income + Interest and dividend income) ÷ Total assets (Yearly average)

6. Interest coverage ratio = Net cash provided by operating activities ÷ Interest paid* *Interest paid is as stated in the consolidated statements of cash flows.

Thousands of U.S. dollars
(Note 1)
(Except per share data)

| 2007 | 2008 | 2009 | 2010 | 2011 (Note 10) | 2012 | 2012 |
|----------|----------|----------|-----------|----------------|----------|-------------|
| ¥694,594 | ¥723,485 | ¥690,256 | ¥644,201 | ¥670,701 | ¥682,386 | \$8,307,597 |
| 185,533 | 186,466 | 171,752 | 160,166 | 168,692 | 162,990 | 1,984,295 |
| 459,056 | 473,554 | 468,590 | 433,684 | 457,551 | 480,261 | 5,846,859 |
| 50,005 | 63,465 | 49,914 | 50,351 | 44,458 | 39,135 | 476,443 |
| 78,036 | 94,960 | 70,149 | 75,699 | 65,576 | 76,974 | 937,107 |
| 25,293 | 35,460 | 19,373 | 33,671 | 12,791 | 14,515 | 176,710 |
| ¥739,833 | ¥675,864 | ¥606,569 | ¥775,446 | ¥739,120 | ¥720,708 | \$8,774,142 |
| 66,144 | 38,653 | 27,601 | 112,693 | 16,362 | 9,735 | 118,517 |
| 61,694 | 24,566 | 34,452 | 101,754 | 181,156 | 175,418 | 2,135,598 |
| 127,838 | 63,219 | 62,053 | 214,447 | 197,518 | 185,153 | 2,254,115 |
| 403,797 | 399,739 | 351,951 | 365,208 | 320,127 | 303,716 | 3,697,541 |
| ¥ 69,431 | ¥ 75,308 | ¥ 42,768 | ¥ 69,432 | ¥ 67,587 | ¥ 52,600 | \$ 640,370 |
| (18,483) | (5,803) | (28,158) | (204,885) | (30,304) | (20,668) | (251,619) |
| 1,837 | (95,883) | (32,283) | 120,359 | (39,572) | (35,482) | (431,970) |
| 145,260 | 120,394 | 91,858 | 77,157 | 88,592 | 82,974 | 1,010,153 |
| ¥ 60.9 | ¥ 86.1 | ¥ 48.0 | ¥ 84.6 | ¥ 32.1 | ¥ 36.5 | \$0.44 |
| 940.8 | 946.2 | 839.9 | 875.7 | 772.1 | 729.9 | 8.89 |
| 32.0 | 34.0 | 50.0 | 50.0 | 50.0 | 50.0 | 0.61 |
| 412,572 | 407,696 | 403,240 | 397,886 | 397,864 | 397,974 | |
| 7.2 | 8.8 | 7.2 | 7.8 | 6.6 | 5.7 | |
| 3.6 | 5.0 | 3.0 | 4.9 | 1.7 | 2.0 | |
| 7.4 | 9.4 | 8.2 | 7.5 | 6.1 | 5.6 | |
| 6.6 | 9.2 | 5.4 | 9.8 | 3.9 | 4.9 | |
| 52.5 | 56.6 | 55.6 | 44.9 | 41.6 | 40.3 | |
| 30.6 | 39.1 | 23.6 | 45.4 | 32.8 | 27.3 | |
| 0.33 | 0.17 | 0.18 | 0.62 | 0.64 | 0.64 | |
| 24.0 | 13.7 | 15.0 | 37.0 | 38.2 | 37.9 | |
| 52.6 | 39.5 | 104.1 | 59.1 | 155.5 | 137.1 | |
| 27,460 | 28,793 | 28,810 | 28,968 | 31,310 | 32,595 | |
| ¥25.3 | ¥25.1 | ¥24.0 | ¥22.2 | ¥21.4 | ¥20.9 | \$254 |

7. Debt-equity ratio = Interest-bearing debt ÷ Equity* *Equity = Total net assets – Stock acquisition rights – Minority interests in consolidated subsidiaries

8. Interest-bearing debt ratio = Interest-bearing debt ÷ Invested capital* *Invested capital = Interest-bearing debt + Total net assets

9. The number of employees at year-end does not contain temporary employees.

10. Shiseido Group subsidiaries in the Americas formerly recognized samples and promotional items associated with marketing activities at stores as assets when acquired and expensed them when shipped to customers. However, effective the fiscal year ended March 31, 2012 these subsidiaries began to expense these items when acquired as part of its efforts to standardize Group accounting policies. The Shiseido Group applied this change retrospectively and restated the consolidated financial statements for the fiscal year ended March 31, 2011 accordingly.

Operating Results and Financial Condition

Operating Results

Overview

During the fiscal year ended March 31, 2012, factors including the impact of the Great East Japan Earthquake that occurred in March 2011 and the yen's appreciation to historical highs created uncertainty about the future, resulting in subdued consumer sentiment. Consequently, the cosmetics market in Japan continued to contract despite signs of recovery apparent from October 2011.

In overseas markets, while the impact of the financial crisis and the high unemployment rate stunted growth in Europe, the United States market was solid, and markets in China and emerging countries continued to expand. As a result, growth continued in all overseas regions.

Shiseido has been aiming to become a global player representing Asia with its origins in Japan. During the fiscal year ended March 31, 2012, under the theme of getting into a growth trajectory, Shiseido launched a Three-Year Plan with four growth strategies: the Global Mega-Brand Strategy, the Asian Breakthrough Strategy, the New Frontier Strategy and the Customer-First Strategy. The fiscal year ended March 31, 2012, the first fiscal year of this plan, was positioned as a time for organizational reform. Shiseido implemented its four growth strategies through initiatives such as aggressive investment in marketing expenses to support future growth in Japan and overseas. In addition, with the aim of reinforcing our management base, we moved to optimize our production system and improve our procurement system, establish IT infrastructure, globalize human resources, and deepen CSR activities.

Devoting all of our strengths to these corporate activities during the fiscal year ended March 31, 2012 resulted in a number of achievements.

Domestic sales edged down 0.8 percent compared with the previous fiscal year amid ongoing overall market contraction caused by the changing market structure characterized by polarization toward high-priced and low-priced products since the financial crisis of 2008, as well as the impact of the Great East Japan Earthquake. Overseas sales increased 5.1 percent compared with the previous fiscal year despite the impact of the strong yen because of growth in Europe and the United States, together with continued high growth rates in Asian markets including China. As a result, consolidated net sales increased 1.7 percent compared with the previous fiscal year.

Operating income decreased 12.0 percent compared with the previous fiscal year because of aggressive marketing investments targeting growth in Japan and overseas, despite efforts to improve the cost of sales ratio and efficiently manage expenses.

Net income increased 13.5 percent compared with the previous fiscal year because significant extraordinary losses in the previous fiscal year did not recur, which compensated for the decrease in operating income and factors including the reversal of deferred tax assets resulting from a new corporate tax rate when Japan revised its tax code.

As a result, operating profitability for the fiscal year ended March 31, 2012 was 5.7 percent, return on equity (ROE) was 4.9 percent, and the overseas sales ratio was 44.3 percent.

Changes in Accounting Policies

Change in Accounting Policy for Samples and Promotional Items

Shiseido Group subsidiaries in the Americas formerly recognized samples and promotional items associated with marketing activities at stores as assets when acquired and expensed them when shipped to customers. However, effective the fiscal year ended March 31, 2012 the Shiseido Group began to expense these items when acquired as part of its efforts to standardize Group accounting policies.

Compared with the accounting policy prior to retrospective application, inventories and retained earnings (stated in the Consolidated Balance Sheets) in the fiscal year ended March 31, 2011 declined ¥1,725 million (\$21,001 thousand) and ¥1,064 million (\$12,954 thousand), respectively, while deferred tax assets (stated under current assets) increased ¥661 million (\$8,047 thousand). The cumulative effect of this change on net assets at the beginning of the fiscal year ended March 31, 2011 was a ¥1,064 million (\$12,954 thousand) reduction in retained earnings after restatement, reported in the Consolidated Statements of Changes in Net Assets. The change in policy is not reflected in the Consolidated Statements of Income and the Consolidated Statements of Comprehensive Income for the fiscal year ended March 31, 2011, because the balances of product samples and promotional items included within inventories have remained mostly unchanged and the differences in term-end balances are not deemed significant. Regarding the effect of the change on per-share data, compared with the previous accounting method net assets per share in the fiscal year ended March 31, 2011 decreased ¥2.7 (\$0.03).

Change in Method of Calculating Fully Diluted Net Income per Share

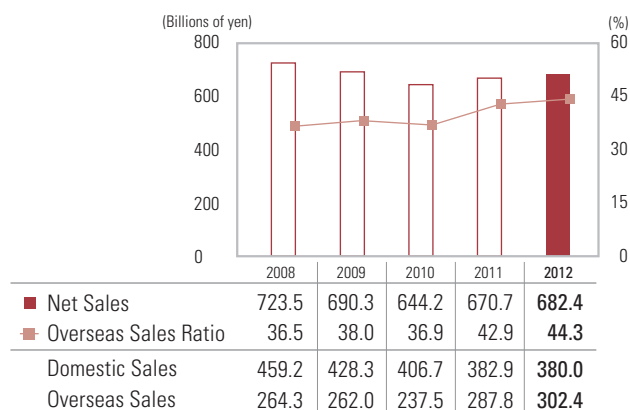
Effective from the fiscal year ended March 31, 2012, the Company applied "Accounting Standard for Earnings Per Share" (ASBJ Statement No. 2, June 30, 2010) and "Guidance on Accounting Standard for Earnings Per Share" (ASBJ Guidance No. 4, June 30, 2010).

In calculating diluted earnings per share, for stock options in which the right to exercise options is vested after a specified service period, the fair value of service expected to be provided to the Group in the future is added to the proceeds assumed to be received when options are exercised. Application of these accounting standards would have had a minimal effect on fully diluted net income per share in the fiscal year ended March 31, 2011, so the Company did not apply them retrospectively.

Net Sales

Net sales increased 1.7 percent compared with the previous fiscal year to ¥682,386 million (\$8,307,597 thousand), and increased 4.7 percent on a local currency basis. Domestic sales edged down 0.8 percent compared with the previous fiscal year amid ongoing overall market contraction caused by the changing market structure characterized by polarization toward high-priced and low-priced products since the financial crisis of 2008, as well as the impact of the Great East Japan Earthquake. Overseas sales increased 5.1 percent compared with the previous fiscal year despite the impact of the strong yen because of growth in Europe and the United States, together with continued high growth rates in Asian markets including China.

Net Sales/Overseas Sales Ratio



Cost of Sales and Selling, General and Administrative Expenses

Cost of Sales

Cost of sales decreased 3.4 percent compared with the previous fiscal year to ¥162,990 million (\$1,984,295 thousand). The ratio of cost of sales to net sales decreased 1.3 percentage points to 23.9 percent. A primary factor in the year-on-year decrease was the absence of inventory mark-to-market expenses incurred in the acquisition of Bare Escentuals and included in cost of sales in the previous fiscal year.

Selling, General and Administrative Expenses

Selling, general and administrative expenses (SG&A) increased 5.0 percent compared with the previous fiscal year to ¥480,261 million (\$5,846,859 thousand). The ratio of SG&A expenses to net sales increased 2.2 percentage points to 70.4 percent. Analysis of the major components of SG&A expenses is included in the following sections.

Marketing Costs

Marketing costs consist of advertising and promotional expenses. The ratio of marketing costs to net sales increased 2.0 percentage points to 23.5 percent. Advertising expenses for *MAQuillAGE* and *TSUBAKI* increased in Japan and promotional expenses increased overseas because Shiseido expanded investment in growth.

Personnel Expenses

The ratio of personnel expenses to net sales increased 0.2 percentage points to 23.9 percent. Primary reasons included the impact of increased personnel at subsidiaries in the Americas and China.

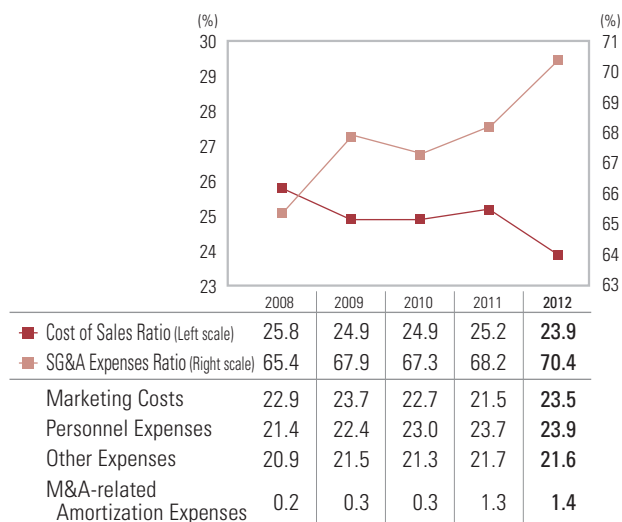
Other Expenses

The ratio of other expenses to net sales decreased 0.1 percentage points to 21.6 percent. Other expenses decreased in Japan, but increased overseas due to business expansion.

M&A-related Amortization Expenses

The ratio of amortization expenses associated with mergers and acquisitions to net sales increased 0.1 percentage points to 1.4 percent because goodwill and customer relationship intangible assets of Bare Escentuals were amortized over the 10-month period from the company's acquisition in the previous fiscal year until March 31, 2011, and over a 12-month period in the fiscal year ended March 31, 2012.

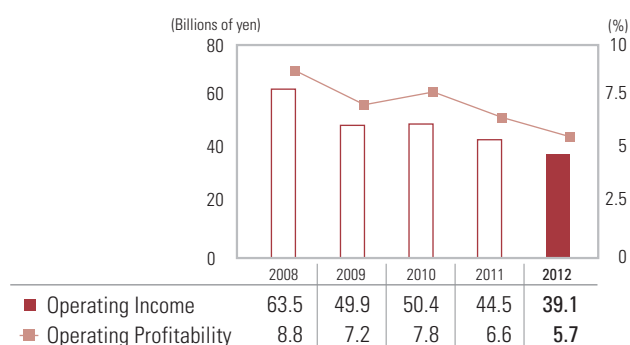
Cost of Sales Ratio/SG&A Expenses Ratio



Operating Income

Operating income decreased 12.0 percent compared with the previous fiscal year to ¥39,135 million (\$476,443 thousand) because of aggressive marketing investments targeting growth in Japan and overseas, despite efforts to improve the cost of sales ratio and efficiently manage expenses. Operating profitability decreased 0.9 percentage points to 5.7 percent.

Operating Income/Operating Profitability



Other Income (Expenses)

Net other expenses totaled ¥187 million (\$2,277 thousand), compared with net other expenses of ¥15,763 million for the previous fiscal year. Reflecting reduced interest expense because of repayment of debt in China and the United States, net interest expense, calculated as interest income less interest expense, totaled ¥1,101 million (\$13,404 thousand), compared with net interest expense of ¥1,497 million for the previous fiscal year.

Income before Income Taxes

Income before income taxes increased 35.7 percent compared with the previous fiscal year to ¥38,948 million (\$474,166 thousand).

Income Taxes, Including Deferred Taxes

Income taxes, including deferred taxes, increased 64.2 percent compared with the previous fiscal year to ¥21,889 million (\$266,484 thousand) because of the impact of the reversal of deferred tax assets resulting from a new corporate tax rate when Japan revised its tax code. The effective tax rate was 56.2 percent, compared with 46.4 percent in the previous fiscal year.

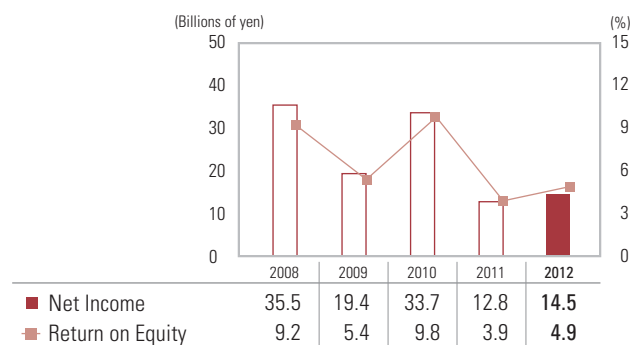
Minority Interests in Net Income of Consolidated Subsidiaries

Minority interests in net income of consolidated subsidiaries decreased 1.3 percent compared with the previous fiscal year to ¥2,544 million (\$30,972 thousand).

Net Income

Net income increased 13.5 percent compared with the previous fiscal year to ¥14,515 million (\$176,710 thousand). Net income per share increased to ¥36.5 (\$0.44) from ¥32.1 for the previous fiscal year. Return on equity increased 1.0 percentage points to 4.9 percent from 3.9 percent for the previous fiscal year because of higher net income.

Net Income/Return on Equity



Review by Reportable Segment

Domestic Cosmetics Business

Segment sales for the Domestic Cosmetics Business decreased 1.3 percent year on year to ¥353,789 million (\$4,307,146 thousand), a small year-on-year decrease given the challenging market conditions in the cosmetics business. Sales in the healthcare business were essentially unchanged year on year.

Domestic Cosmetics Division

In the Domestic Cosmetics Division, we worked exhaustively to raise product value and refine our customer-oriented proposals rather than focusing our efforts on new products. To raise product value, we reduced new product launches by about one-half by carefully selecting products we expected customers to strongly support. We also focused on cultivating existing products. Our customer-oriented proposals concentrated on customer lifestyle changes and latent needs. We proposed solutions to help customers lead comfortable lives, free of displeasure and dissatisfaction. Specifically, we supplemented our products and product lineups with information and communication programs to propose solutions geared to season-specific life experience in all channels. Examples included the "Cool Life Proposal," aimed at helping customers stay cool and comfortable while saving electricity in summer, followed by the "Healing Proposal" in autumn, the "Warm Winter Life Proposal" in winter, and the "Refreshing Life Proposal" in spring.

As a result, our core brands performed well. These included

the top-end prestige brand *clé de peau BEAUTÉ*; the *MAQuillage* total makeup brand, which we have been enhancing as a perennial bestseller by pruning the number of core products; the *INTEGRATE* self-selection makeup line, which benefited from continued popularity of its mascaras and eye liners; and the *TSUBAKI* haircare brand, for which we renewed both formulation and communication strategy. We also developed a new business model planned for launch in April 2012 that links the Internet with brick-and-mortar retail stores to create opportunities to discover new customers.

Healthcare Division

In the Healthcare Division, we added to our lineup of collagen-related products as competition intensified in this market. Complementing the mainstay *The Collagen* line of beauty supplements for enhanced skin regeneration, we launched *BENEFIQUE COLLAGEN ROYAL RICH* as part of the *BENEFIQUE* line sold exclusively in voluntary chain stores.

Segment income (operating income) for the Domestic Cosmetics Business segment decreased 12.3 percent compared with the previous fiscal year to ¥29,459 million (\$358,644 thousand) and segment profitability was 8.3 percent. Factors included lower marginal income due to lower sales and aggressive marketing investments targeting growth.

Global Business

Segment sales for the Global Business increased 5.6 percent compared with the previous fiscal year to ¥319,679 million (\$3,891,880 thousand), and increased 12.2 percent on a local currency basis. This segment continued to perform well in Europe and the United States and maintained strong growth in Asia, including China.

Overseas Cosmetics Division

In the prestige market, sales of the global brand *SHISEIDO* increased in various countries. Key performers included the *SHISEIDO BENEFIANCE* anti-aging line and the *SHISEIDO FUTURE SOLUTION LX* premium skincare line. Sales of the *NARS* makeup artist brand also increased substantially, especially in North America. In addition, Beauté Prestige International generated solid growth in sales of its designer fragrances, including the *ELIE SAAB* fragrance, which had a full-scale rollout launched in July 2011, and the travel retail business performed well. Moreover, our online sales business in the United States got off to a good start.

We achieved sustained growth of March 2010 acquisition Bare Escentuals's mineral-based makeup brand *bareMinerals* with enhanced sales efforts in existing North American stores

and the launch of *READY*, a new solid-type makeup.

In the core Chinese market, we faced intensifying competition from companies in Europe, the United States and other countries. In the department store channel, China-only brand *AUPRES* continued to perform well, supported by a renewal of its skin-brightening skincare line. In the cosmetics specialty store channel, *urara*, a dedicated brand sold only in this channel, and *PURE&MILD*, continued to perform well. Overall, our sales grew at a significantly higher rate than the market as a whole. In addition, our online sales business in China got off to a good start.

In the Asian masstige market, we increased sales of *Za*, a comprehensive skincare and makeup brand targeting middle-income earners. We also initiated a full-scale rollout of *TSUBAKI* in China, and introduced *SENKA*, a low-priced, highly functional skincare brand, in Taiwan and Hong Kong.

In emerging countries, we continued expanding sales in Russia. We also steadily expanded our business into new markets with initiatives including sales launches in Panama, Armenia and Belarus. As of December 31, 2011, the global brand *SHISEIDO* was available in 87 countries and regions, including Japan.

Overseas and Domestic Professional Divisions

THE HAIR CARE ADENOVITAL, a hair-growth treatment incorporating the active medicinal ingredient adenosine, was a major hit in Japan. Overseas, sales increased in the rapidly growing market of China. Three other Group companies also increased sales: Carita and Decléor, which sell products to esthetic and beauty salons, mainly in Europe; and Zotos International, which sells products to beauty salons, mainly in North America. As a result, sales of the Overseas and Domestic Professional Divisions grew steadily.

Segment income (operating income) for the Global Business decreased 9.0 percent compared with the previous fiscal year to ¥8,213 million (\$99,988 thousand) and segment profitability was 2.6 percent. Factors included aggressive marketing investments in growth markets, primarily China.

Others

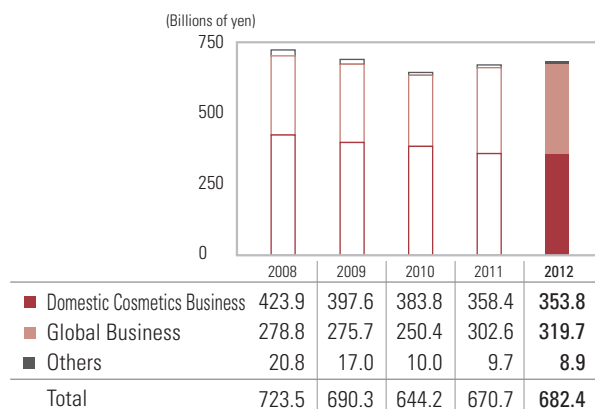
Sales in other businesses decreased 7.7 percent compared with the previous fiscal year to ¥8,918 million (\$108,571 thousand).

Frontier Science Division

Sales in the Frontier Science Division decreased compared with the previous fiscal year due to the September 2010 discontinuation of sales of certain medical-use pharmaceuticals that were not very profitable. However, sales were solid in Japan for bio-hyaluronic acid, a raw material for cosmetics and pharmaceuticals, and sales of *NAVISION*, a line of cosmetics created from beauty therapy research for medical institutions, also increased. In addition, a newly launched extension of the *2e* line of hypoallergenic cosmetics that Shiseido manufactures for medical institutions, *2e Baby Plus* for infants and children, was well received.

Segment income (operating income) from other businesses decreased 24.9 percent compared with the previous fiscal year to ¥1,381 million (\$16,813 thousand) and segment profitability was 9.9 percent. This was largely due to reduced marginal income resulting from lower sales.

Net Sales by Reportable Segment



Income by Reportable Segment

| (Billions of yen) | 2008 | 2009 | 2010 | 2011 | 2012 |
|-----------------------------|------|------|------|------|------|
| Domestic Cosmetics Business | 43.3 | 32.7 | 38.9 | 33.6 | 29.5 |
| Global Business | 17.8 | 15.4 | 9.5 | 9.0 | 8.2 |
| Others | 1.9 | 1.5 | 1.7 | 1.8 | 1.4 |

Profitability by Reportable Segment

| (%) | 2008 | 2009 | 2010 | 2011 | 2012 |
|-----------------------------|------|------|------|------|------|
| Domestic Cosmetics Business | 10.1 | 8.1 | 10.1 | 9.3 | 8.3 |
| Global Business | 6.3 | 5.5 | 3.8 | 3.0 | 2.6 |
| Others | 4.8 | 5.1 | 10.5 | 11.4 | 9.9 |

Note: Net profitability by reportable segment is calculated against sales for the segment, including intersegment sales.

Results by Geographic Area

Net Sales by Geographic Area

| (Billions of yen) | 2008 | 2009 | 2010 | 2011 | 2012 |
|-------------------|-------|-------|-------|-------|-------|
| Japan | 460.7 | 430.0 | 408.1 | 383.8 | 381.3 |
| Americas | 56.6 | 50.7 | 45.7 | 85.5 | 86.8 |
| Europe | 103.8 | 100.0 | 82.4 | 84.3 | 89.2 |
| Asia/Oceania | 102.4 | 109.6 | 108.0 | 117.1 | 125.1 |
| Outside Japan | 262.8 | 260.3 | 236.1 | 286.9 | 301.1 |

Operating Income by Geographic Area

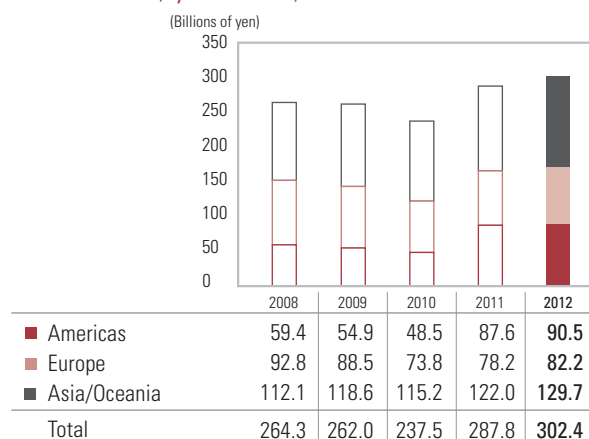
| (Billions of yen) | 2008 | 2009 | 2010 | 2011 | 2012 |
|-------------------|------|------|------|------|------|
| Japan | 31.8 | 18.4 | 24.0 | 16.7 | 12.5 |
| Americas | 4.0 | 3.3 | 3.2 | 1.6 | 4.8 |
| Europe | 9.0 | 8.3 | 5.6 | 6.4 | 5.2 |
| Asia/Oceania | 15.9 | 16.8 | 15.1 | 16.9 | 14.5 |
| Outside Japan | 28.9 | 28.4 | 23.9 | 24.9 | 24.5 |

Operating Profitability by Geographic Area

| (%) | 2008 | 2009 | 2010 | 2011 | 2012 |
|---------------|------|------|------|------|------|
| Japan | 6.5 | 4.0 | 5.6 | 4.1 | 3.0 |
| Americas | 6.1 | 5.6 | 6.0 | 1.6 | 5.0 |
| Europe | 8.3 | 7.8 | 6.5 | 7.2 | 5.5 |
| Asia/Oceania | 15.5 | 15.3 | 13.9 | 14.3 | 11.4 |
| Outside Japan | 10.4 | 10.3 | 9.6 | 8.2 | 7.7 |

Note: Operating profitability is calculated against sales for the geographical area, including interarea sales.

Overseas Sales (by Destination)



Liquidity and Capital Resources

Financing and Liquidity Management

Shiseido seeks to generate stable operating cash flow and ensure a wide range of funding methods, with the aims of securing sufficient capital for operating activities and maintaining sufficient liquidity and a sound financial position. We fund working capital, capital expenditures, and investments and loans needed for sustainable growth by supplementing cash on hand and operating cash flow with bank borrowings and bond issues.

One of our targets for short-term liquidity is to maintain cash on hand at a level of approximately 1.5 months of consolidated net sales. As of March 31, 2012, cash and time deposits together with short-term investments in securities totaled ¥93,839 million (\$1,142,428 thousand). It represented 1.7 months of consolidated net sales.

As of March 31, 2012, interest-bearing debt totaled ¥185,153 million (\$2,254,115 thousand), mainly reflecting fund procurement in connection with the acquisition of Bare Escentuals. Shiseido has diversified funding methods. These include an unused shelf registration in Japan for ¥80.0 billion of straight bonds. Moreover, Shiseido Co., Ltd. and two subsidiaries in Europe and the United States have established a syndicated loan program with unused commitments totaling \$280 million. A financial subsidiary in the United States has also established an unused commercial paper program totaling \$100 million.

As of March 31, 2012, Shiseido maintained a sufficient level of liquidity and a high level of financial flexibility as a result of its diversified funding methods.

Cash Flows

Cash and cash equivalents (net cash) as of March 31, 2012 totaled ¥82,974 million (\$1,010,153 thousand), a decrease of ¥5,618 million (\$68,395 thousand) compared with the previous fiscal year-end.

Cash Flows Summary

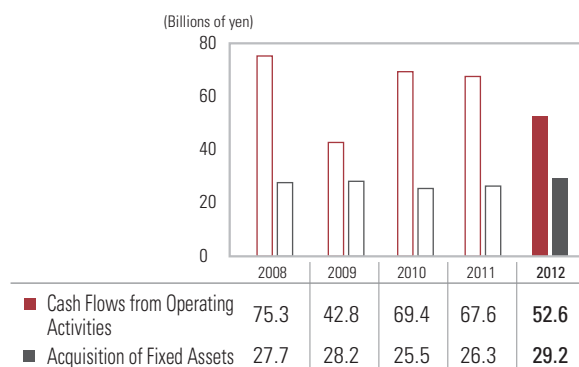
(Billions of yen)

| | 2010 | 2011 | 2012 |
|--|---------|--------|--------|
| Cash Flows from Operating Activities | 69.4 | 67.6 | 52.6 |
| Cash Flows from Investing Activities | (204.9) | (30.3) | (20.7) |
| Cash Flows from Financing Activities | 120.4 | (39.6) | (35.5) |
| Cash and Cash Equivalents at End of Year | 77.2 | 88.6 | 83.0 |

Cash Flows from Operating Activities

Net cash provided by operating activities totaled ¥52,600 million (\$640,370 thousand). Income before income taxes of ¥38,948 million (\$474,166 thousand), depreciation of ¥30,683 million (\$373,545 thousand) and amortization of goodwill of ¥5,519 million (\$67,190 thousand) contributed to cash provided by operations. Uses of cash included income taxes paid of ¥21,481 million (\$261,517 thousand) and an increase of ¥11,191 million (\$136,243 thousand) in working capital.

Cash Flows from Operating Activities/Acquisition of Fixed Assets (Property, Plant and Equipment + Intangible Assets + Long-term Prepaid Expenses)



Cash Flows from Investing Activities

Net cash used in investing activities totaled ¥20,668 million (\$251,619 thousand), due to factors including the acquisition of property, plant and equipment of ¥29,236 million (\$355,929 thousand) and net proceeds from maturity of time deposits of ¥5,061 million (\$61,614 thousand).

Cash Flows from Financing Activities

Net cash used in financing activities totaled ¥35,482 million (\$431,970 thousand), due to factors including cash dividend paid of ¥19,891 million (\$242,160 thousand) and repayment of long-term debt of ¥10,968 million (\$133,528 thousand).

Assets, Liabilities and Net Assets

Assets

As of March 31, 2012, total assets decreased 2.5 percent compared with the previous fiscal year-end to ¥720,708 million (\$8,774,142 thousand).

Current assets increased 0.6 percent compared with the previous fiscal year-end to ¥315,230 million (\$3,837,716 thousand). Non-current assets (fixed assets) decreased 4.8 percent compared with the previous fiscal year-end to ¥405,478 million (\$4,936,426 thousand) largely because of amortization of goodwill and customer relationship intangible assets associated with Bare Escentuals.

Liabilities

Total liabilities as of March 31, 2012 decreased 0.5 percent compared with the previous fiscal year-end to ¥416,992 million (\$5,076,601 thousand).

A detailed explanation of interest-bearing debt is available in Note 7. SHORT-TERM AND LONG-TERM DEBT of the Notes to the Consolidated Financial Statements.

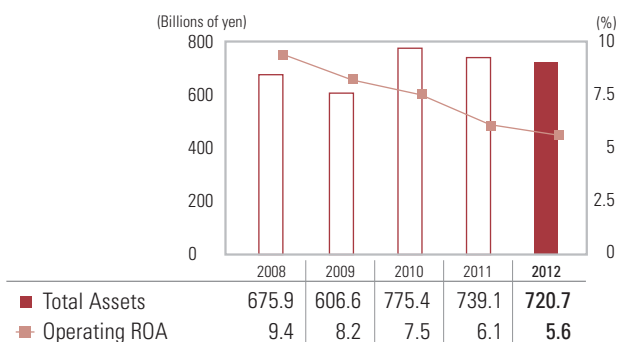
Net Assets

Total net assets as of March 31, 2012 decreased 5.1 percent compared with the previous fiscal year-end to ¥303,716 million (\$3,697,541 thousand).

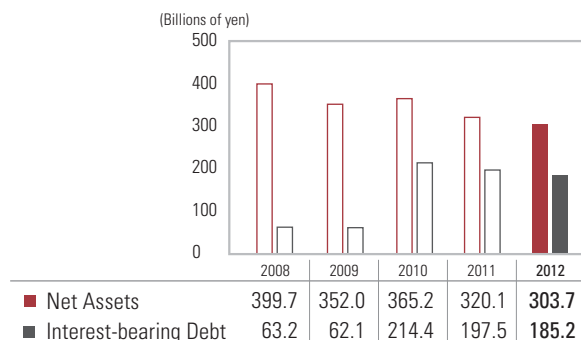
As a result, as of March 31, 2012 net assets per share decreased ¥42.2 (\$0.51) compared with the previous fiscal year-end to ¥729.9 (\$8.89). The equity ratio decreased 1.3 percentage points to 40.3 percent from 41.6 percent a year earlier.

Figures in the consolidated financial statements for the fiscal year ended March 31, 2011 have been retroactively restated as a result of changes in accounting policy.

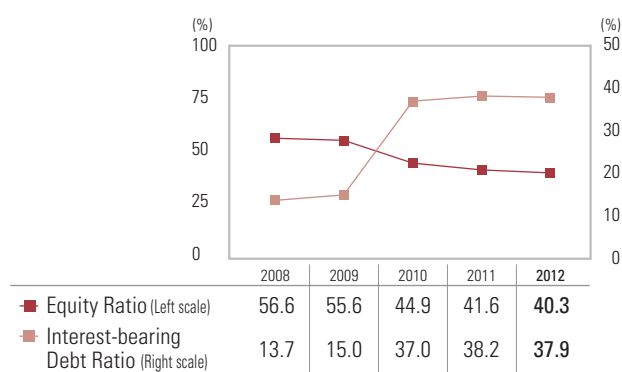
Total Assets/Operating ROA



Net Assets/Interest-bearing Debt



Equity Ratio/Interest-bearing Debt Ratio



Credit Ratings

Shiseido recognizes that it needs to maintain a certain level of credit rating to secure financial flexibility that is consistent with its capital/liquidity policies and to secure access to sufficient capital resources through capital markets. Shiseido has acquired ratings from Moody's Investors Service Inc. (Moody's) and Standard and Poor's (S&P) to facilitate fund procurement in global capital markets.

| | Moody's | S&P |
|------------|----------------------|---------------------|
| Long-term | A1 (Outlook: Stable) | A (Outlook: Stable) |
| Short-term | P-1 | A-1 |

(As of June 15, 2012)

Research and Development

To develop superior products and offer services that support global customers' beauty and health, Shiseido conducts R&D activities at locations worldwide, with two research centers in Yokohama, Kanagawa Prefecture, Japan, the Beauty Creation Research Center in Shinagawa Ward, Tokyo, Japan, and research facilities in the Americas (the United States), Europe (France), and Asia (China and Thailand). Shiseido's R&D activities earn high regard from organizations including the International Federation of Societies of Cosmetic Chemists (IFSCC), the world's most authoritative congress for cosmetic science and technology. At the IFSCC Conference 2011 held in December 2011 in Bangkok, Thailand, Shiseido won its 15th Conference Award, the most among the world's cosmetics manufacturers. This award demonstrates the leading position of Shiseido's R&D in the global cosmetics industry, and the high regard of the international community for the portfolio of technologies Shiseido has built for developing safe, high-quality products that customers can use confidently.

In the fiscal year ended March 31, 2012, R&D expenses for the Shiseido Group totaled ¥14,674 million (\$178,646 thousand), and represented 2.2 percent of net sales. R&D objectives, primary initiatives, results and expenses by reportable segment were as follows. R&D expenses include basic research costs and other expenses totaling ¥6,560 million (\$79,864 thousand) that cannot be allocated to specific businesses.

Domestic Cosmetics Business

Wishing to help customers have beautiful skin and beautiful lifestyles, Shiseido conducts research in basic dermatology and interface science. The broad range of Shiseido's R&D activities includes developing cosmetics ingredients, developing and evaluating products, developing beauty methods, and research into sensitivity and the senses.

During the fiscal year ended March 31, 2012, Shiseido applied its many years of research into skin surface moisture retention and barrier function to develop the *d program* brand. This research allowed Shiseido to be first in the world to discover an enzyme that provides critical support to the production of natural moisturizing factor (NMF), which is central to the core skin functions of moisture retention and providing a barrier against the outside world. Shiseido also elucidated the basic mechanism that maintains normal skin functions. These research results won the top Basic Research (Oral Presentation) Award at the 26th IFSCC Congress.

In addition, Shiseido developed a combined emulsion, sunscreen and makeup base that constantly supplies beauty components and moisture to the subcorneal layer while protecting the skin against UV rays and providing beauty care for blemishes, fine wrinkles and dryness. We deployed this beauty emulsion in *ELIXIR SUPERIEUR* and *ELIXIR WHITE* to deliver skin-beautifying effects that last until nightfall.

In makeup, we were the first in the world to create a two-phase separation mechanism technology for lipstick, which enabled the development of lipstick that is ideal because it succeeds at the difficult task of reconciling the formerly incompatible features of luster, moisture and durability. Applied in the *MAQuillage* makeup brand, this technology enables an ideal lipstick that delivers a new level of satisfaction in meeting women's needs because it lasts long yet provides luster, moisture and brilliant color from the moment it goes on. This breakthrough technology won the top Applied Research (Oral Presentation) Award at the 26th IFSCC Congress, demonstrating international regard for Shiseido's world-leading lipstick technology.

In haircare, we created *ADENOVITAL* for the dedicated salon brand *THE HAIR CARE*. It uses adenosine, an original hair growth compound found in the human body that took us 15 years to discover, and Japanese and Chinese medicinal herb ingredients that nourish beautiful hair. *ADENOVITAL* has received an enthusiastic response from the salon industry.

In the healthcare business, we discovered that a rare fruit, platinum berry (bog whortleberry), supports beauty by creating collagen without destroying beneficial collagen. We have confirmed in human studies that it ameliorates wrinkles. Shiseido was the first in the world to commercialize beauty foods containing platinum berry.

R&D expenses for the fiscal year ended March 31, 2012 in the Domestic Cosmetics Business segment totaled ¥5,188 million (\$63,160 thousand).

Global Business

Aiming for high quality in overseas cosmetics brands, Shiseido develops products from its unique and sophisticated science and its leading-edge technologies.

During the fiscal year ended March 31, 2012, a Shiseido discovery relevant to the skin facets that create overall skin texture, which is closely related to healthy, beautiful skin, showed that elastin fibers called oxytalan fibers support skin facets, and that oxytalan fibers decrease with age. Shiseido

elucidated the histological features of oxytalan fibers for the first time, and discovered three ingredients that are particularly effective at promoting oxytalan fiber production and suppressing reduction: L-hydroxyproline, raspberry extract and yeast extract. We then applied these findings in a high-performance skincare brand.

Moreover, we have deepened our research into the factors that cause parakeratosis, which earned international recognition by winning the Honorable Mention Award at the 24th IFSCC Congress. We have discovered that an increased amount of a rogue protein called serpin b3 causes cumulative damage in the epidermis, and even negatively affects the epidermal basement membrane and dermal layers. This mechanism accelerates the aging of skin. Shiseido also discovered that using the amino acid derivative 1-piperidine propionic acid in high concentrations is extremely effective in controlling the aging of skin. We have applied these findings in a full-strength aging care brand.

R&D expenses for the fiscal year ended March 31, 2012 in the Global Business segment totaled ¥2,697 million (\$32,834 thousand).

Others

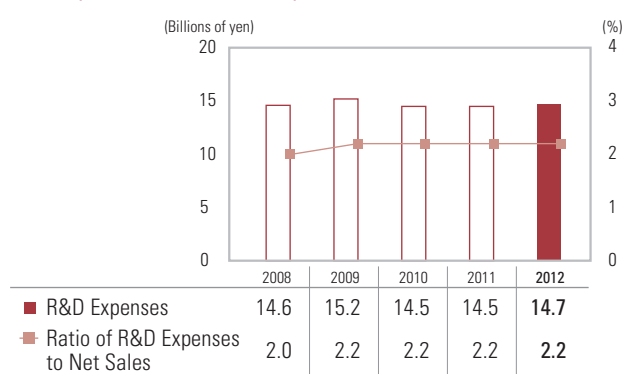
The Frontier Science Division conducts R&D in areas including medical-use pharmaceuticals, cosmetics and pharmaceutical

raw materials, chromatography, and beauty therapy cosmetics.

In pharmaceutical raw materials, Shiseido was first in Japan to manufacture hyaluronic acid using the fermentation method. We submitted an application for a European Pharmacopoeia monograph to the European Directorate for the Quality of Medicines and Healthcare, which recognized the high level of quality and issued a Certificate of Suitability in October 2011. Based on this certification, we will build this business globally.

R&D expenses for the fiscal year ended March 31, 2012 in other businesses totaled ¥229 million (\$2,788 thousand).

R&D Expenses/Ratio of R&D Expenses to Net Sales



Outlook for the Fiscal Year Ending March 31, 2013

In the fiscal year ending March 2013, Shiseido forecasts a year-on-year increase in net sales because of factors including a recovery in domestic sales, ongoing sales growth in Europe and the United States, and expanded sales in China and emerging countries. We forecast that the increase in marketing investments targeting growth in Japan and overseas will continue. However, we expect increased marginal income from higher net sales to support a year-on-year increase in operating income.

For the fiscal year ending March 31, 2013, Shiseido forecasts that consolidated net sales will increase 5.5 percent year on year to ¥720.0 billion, operating income will increase 11.2 percent to ¥43.5 billion, and net income will increase 51.6 percent to ¥22.0 billion.

Domestic Cosmetics Business

In the fiscal year ending March 31, 2013, we expect the domestic cosmetics market to recover moderately, despite

some uncertainty about the future. The Domestic Cosmetics Business segment will make beauty proposals tailored to each season while making products that earn customer loyalty in continuing to raise product value and refine marketing activities to increase sales. In addition, our new business model incorporating the Internet launched in April 2012. Taking these factors into account, we forecast a year-on-year increase in segment sales. We also forecast that segment operating income will increase year on year because increased marginal income from higher segment sales will compensate for continued marketing investments in existing businesses.

Global Business

We expect slower growth in the European cosmetics market due to the impact of the financial crisis, and continued growth in the United States cosmetics market, despite some uncertainty. In Asia, we forecast continued market growth,

especially in China. In this context, Shiseido will concentrate investment in six brands under its Global Mega-Brand Strategy, continue to foster its designer fragrances and makeup brands, give priority to the growth-engine Chinese market in allocating resources, and strengthen its business in emerging countries. We forecast that these and other strategies will drive a year-on-year increase in segment sales on a local-currency basis. We also expect a year-on-year increase in segment operating income, despite the effects of a continued increase in marketing investments.

Others

Going forward, Shiseido will continue reinforcing its presence in the Frontier Science Division, centered on cosmetics raw materials, medical-use pharmaceuticals, chromatography and cosmetics for medical institutions. Shiseido forecasts that segment sales and segment operating income will remain essentially unchanged year on year.

We base our predictions on exchange rates of ¥80 per U.S. dollar, ¥105 per euro, and ¥12.5 per Chinese yuan.

Shareholder Return Policy

The total shareholder return policy of Shiseido Co., Ltd. aims to maximize returns to shareholders through direct means and by generating medium- and long-term share price gains. To this end, our fundamental policy is to make strategic investments that drive earnings growth while raising capital efficiency, which will lead to medium- and long-term increases in dividends and share price. Shiseido's goal for returns over the medium term is a consolidated payout ratio of 40 percent. Based on this target, we will prioritize payment of stable dividends while

implementing share buybacks in a flexible manner. We will use the consolidated payout ratio as our target for distributions to shareholders to increase the reliability of shareholder returns by removing the unpredictable element of flexible share repurchases.

For the fiscal year ended March 31, 2012, Shiseido paid an annual cash dividend of ¥50 (\$0.61) per share, consisting of an interim and year-end dividend of ¥25 (\$0.30) per share each. The consolidated payout ratio was 137.1 percent.

Business and Other Risks

The various risks that could potentially affect the business performance and financial position of Shiseido are summarized below. We feel that these risks could have a major impact on investors' decisions. Items that deal with future events are based on our judgment as of June 26, 2012. Please note that the potential risks are not limited to those listed below.

1. Decrease in Value of the Corporate Brand

The corporate brand is shared by all Group companies in Shiseido's domestic and overseas business activities. We will continue working to enhance the value of this brand, but a decline in the brand's value from an unforeseen event could negatively affect Shiseido's business performance and financial position.

2. Customer Services

Shiseido places high priority on its relationships with customers. The Shiseido Group corporate philosophy "Our Mission,

Values and Way" clearly states that we shall act in a manner that earns the satisfaction and trust of customers, and we will continue working to ensure that all employees are aware of these standards. However, an unforeseen event could cause loss of such satisfaction and trust, leading to a decline in the value of Shiseido brands. Shiseido's business performance and financial position could negatively be affected as a result.

3. Strategic Investment Activities

When making decisions about investments in strategic markets, such as China and other Asian economies, mergers and acquisitions, and expansion in new businesses and new markets, Shiseido endeavors to collect sufficient information and undertake due diligence prior to making rational judgments. Due to various unforeseeable factors that may cause the operating environment to deteriorate, however, we may not achieve the results originally anticipated. This could negatively affect Shiseido's business performance and financial position.

4. The Competitive Environment of the Cosmetics Industry

Shiseido operates in the cosmetics industry, in which competition is intensifying on a global scale. Zero sum competition for share among Japanese cosmetics companies in the mature domestic market is intensifying because of factors including the expanding influence of global competitors in the prestige market, and the entry of new competitors from other industries. In addition, in overseas markets such as China and other Asian economies, which Shiseido has positioned as central to its growth strategy, the competitive environment is becoming increasingly challenging as global competitors are aggressively conducting mergers and acquisitions and expanding market share by executing marketing activities to raise consumer awareness of their brands. Consequently, inability to respond to this competitive environment effectively could negatively affect Shiseido's business performance and financial position.

5. Overseas Business Activities

As of March 31, 2012, Shiseido conducted business in 88 countries and regions (including Japan), and overseas sales account for a growing percentage of consolidated net sales each year, totaling 44.3 percent in the fiscal year under review. In the course of conducting overseas business, Shiseido's business performance and financial position could be negatively affected by various factors. These include the occurrence of sudden and unpredictable economic, political and social crises; terrorism, war and civil war; economic and civil upheaval resulting from the spread of contagious diseases such as new strains of influenza; and severe or abnormal weather.

6. Market Risk

Raw material prices

International market conditions affect the price of raw materials used in Shiseido products. Factors affecting market conditions include geopolitical risk, the impact on supply and demand from increasing demand in developing countries and speculative capital flows, weather abnormalities and changes in exchange rates. Shiseido constantly works to limit the impact of rising raw material prices by reducing cost of sales and other means. However, changes in market conditions and prices that exceed projections could negatively affect Shiseido's business performance and financial position.

Exchange rates

Export, import and other transactions denominated in foreign currencies expose Shiseido to foreign exchange rate risk. Although we hedge foreign exchange rate risk through means such as limiting export and import transactions by establishing production bases to serve local markets, we are unable to completely eliminate risk. Moreover, the financial statements of consolidated subsidiaries and equity affiliates domiciled overseas are denominated in local currencies that are translated into yen upon inclusion in the consolidated financial statements. This has the potential to exert a negative impact on operating performance if the yen appreciates versus foreign currencies when revenues exceed expenses. Moreover, Shiseido's investments in overseas subsidiaries and equity affiliates are subject to foreign currency translation adjustments that reduce shareholders' equity if the yen strengthens. Foreign exchange fluctuations that exceed assumptions could negatively affect Shiseido's business performance and financial position.

Share prices

As of March 31, 2012, Shiseido held investments in securities and is therefore exposed to the risk of changes in share price, which can increase or decrease unrealized gains or losses and expose Shiseido to the risk of loss on revaluation. In addition, a portion of the pension plan assets of Shiseido's retirement benefit plan is invested in shares with a market price. Lower share prices could therefore reduce pension plan assets and negatively affect operating performance by increasing retirement benefit expenses. Unforeseen situations such as this could negatively affect Shiseido's business performance and financial position.

7. Responding Appropriately to Market Needs

Shiseido's ability to develop and cultivate products and brands/lines and to conduct marketing activities that respond appropriately to market needs exerts a significant impact on its sales and earnings. To respond to market needs, we continuously develop appealing new products and brands/lines; reinforce and cultivate new and existing products and brands/lines through marketing activities; and withdraw existing products and brands/lines that no longer meet market needs. However, by nature these activities entail uncertainties that may prevent Shiseido from achieving its intended results, which could negatively affect Shiseido's business performance and financial position.

8. Specific Business Partners

Significant changes are taking place in retail and wholesale distribution channels in Shiseido's core domestic cosmetics business. Failure to respond effectively to these changes could negatively affect Shiseido's business performance and financial position.

9. Regulatory Risk

Shiseido is subject to a range of domestic and overseas legal provisions in the course of conducting its business. These include pharmaceuticals laws, as well as quality-related standards, environmental standards, accounting standards, and tax regulations. We aspire to be completely ethical based on legal compliance and corporate social responsibility. However, future regulatory changes or the establishment of unanticipated new regulations may limit Shiseido's activities, which could negatively affect Shiseido's business performance and financial position.

10. Material Litigation

In the fiscal year ended March 31, 2012, Shiseido was not involved in material litigation other than the litigation discussed in Notes to the Consolidated Financial Statements, "10. CONTINGENT LIABILITIES." In the future, unfavorable judgments resulting from material litigation could negatively affect Shiseido's business performance and financial position.

11. Information Security Risk

Shiseido takes various measures aimed at protecting its information assets, which include customers' personal information and industrial secrets. For example, in April 2005, the Personal Information Protection Law was fully enacted in Japan. In anticipation of this, Shiseido Co., Ltd. in March 2004 obtained Privacy Mark certification, a Japanese Industrial Standard that recognizes the appropriateness of a company's systems for protecting personal information. However, unforeseeable events, such as leakage of information due to unauthorized access, could negatively affect Shiseido's business performance and financial position.

12. Natural Disasters and Accidents

Shiseido has developed a business continuity plan covering issues critical to the continued operation of production bases, distribution bases, information systems and the head office to minimize loss due to interruption of production, distribution or sales resulting from the occurrence of a natural disaster or accident, such as a major earthquake. However, a natural disaster or accident that exceeds the assumptions of this plan and disrupts production, distribution or sales could negatively affect Shiseido's business performance and financial position.

Significant Accounting Estimates

Shiseido prepares its consolidated financial statements in accordance with accounting principles generally accepted in Japan. In preparing these financial statements, we select and apply accounting policies and necessarily make estimates that affect the presentation of reported amounts for assets, liabilities, revenue and expenses. We consider information including historical data in making rational estimates. However, due to the unpredictable nature of these estimates, actual results may vary.

Shiseido considers the following significant accounting policies to exert a large effect on key decisions regarding the estimates used in the consolidated financial statements.

Property, Plant and Equipment

Shiseido reviews fixed assets, primarily property, plant and equipment, for impairment whenever circumstances indicate that their carrying value may not be recoverable. Business-use assets are pooled by business division to estimate future

cash flow, and the net sales value of idle assets is estimated for each separate property. Based on these estimates, assets are devalued from book value to recoverable value. We consider information including estimates of future cash flow and recoverable value in making rational estimates. However, unpredictable factors could cause changes in underlying assumptions and estimates. This could change our estimates, decrease future cash flow and recoverable value, and require us to recognize impairment losses.

Goodwill, Trademarks and Other Intangible Assets

Shiseido reviews goodwill, trademarks and other intangible assets for impairment. Shiseido employs the opinions of external experts and other data in estimating fair value and examining impairment for goodwill, trademarks and other intangible assets. The discounted cash flow method primarily used to estimate fair value relies extensively on estimates and assumptions regarding future cash flow and discount

rate. These estimates and assumptions may significantly affect measurement and the amount of impairment recognized. We consider the estimates of fair value used for measuring impairment to be rational. However, unforeseen changes to underlying assumptions and estimates could occur. This could reduce fair value and require us to recognize impairment losses.

Securities

Shiseido recognizes loss on revaluation for securities reported as available-for-sale securities for which fair value or market price has fallen substantially below acquisition cost. Securities deemed recoverable are excluded. Securities with a fair value that is more than 50 percent below acquisition cost as of the balance sheet date are deemed unrecoverable. The recoverability of securities with a fair value from 30 to 50 percent below acquisition cost is evaluated according to the performance and financial condition of the issuing entity. Loss on revaluation is recognized for securities for which fair value is not available if market price has fallen to more than 50 percent below the acquisition cost due to the financial condition of the issuing entity. Securities deemed recoverable are excluded. We consider the estimates of recoverability to be appropriate. However, in the future the market price of securities deemed recoverable may decrease and the performance and financial condition of the issuing entity may deteriorate. This could require us to recognize loss on revaluation.

Deferred Tax Assets

Shiseido has established a valuation allowance for deferred tax assets deemed unrecoverable using appropriate deferred tax asset accounting. Historical data and future projections are used to evaluate the recoverability of deferred tax assets to sufficiently determine taxable status. We consider these to be appropriate. However, unpredictable factors could cause changes in underlying assumptions that could reduce or eliminate deferred tax assets. This could require us to provide additional allowances for deferred tax assets.

Retirement Benefits and Obligations

Shiseido's domestic retirement benefit plans consist primarily of corporate pension plans and termination allowance plans. Employee benefits and obligations are calculated based on assumptions including discount rate, employee turnover rate, mortality rate and projected rate of return on pension plan assets. These assumptions are revised annually. Discount rate and expected return on plan assets are critical assumptions in determining benefits and obligations. The discount rate is determined based on to the market rate as of

the balance sheet date for long-term fixed-rate bonds that carry little or no risk. Expected return on pension plan assets is determined based on an expected weighted-average return for the various types of assets held within the plan. We consider these assumptions to be appropriate. However, actual results may vary and changes in the underlying assumptions could occur. This could affect retirement benefits and obligations.

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Consolidated Financial Statements

CONSOLIDATED BALANCE SHEETS

Shiseido Company, Limited, and Subsidiaries
March 31, 2011 and 2012

| Millions of yen | | | | Thousands of U.S. dollars (Note 1) |
|--|---------|-----------|-----------|---------------------------------------|
| | Note | 2011 | 2012 | 2012 |
| ASSETS | | | | |
| Current Assets: | | | | |
| Cash and time deposits | 3, 4, 7 | ¥ 90,007 | ¥ 67,122 | \$ 817,166 |
| Short-term investments in securities | 3, 4, 5 | 15,051 | 26,717 | 325,262 |
| Notes and accounts receivable: | 4 | | | |
| Trade | | 102,998 | 112,874 | 1,374,166 |
| Unconsolidated subsidiaries and affiliates | | 5 | 1 | 12 |
| | | 103,003 | 112,875 | 1,374,178 |
| Less: allowance for doubtful accounts | | (939) | (935) | (11,383) |
| | | 102,064 | 111,940 | 1,362,795 |
| Inventories | 6 | 65,850 | 71,902 | 875,359 |
| Deferred tax assets | 9 | 27,319 | 19,861 | 241,794 |
| Other current assets | | 12,924 | 17,688 | 215,340 |
| Total current assets | | 313,215 | 315,230 | 3,837,716 |
| Investments and Other Assets: | | | | |
| | 17 | | | |
| Investments in securities | 4, 5, 7 | 26,242 | 26,176 | 318,675 |
| Investments in subsidiaries and affiliates | 4 | 1,273 | 1,220 | 14,853 |
| Prepaid pension expenses | 8 | 24,560 | 20,948 | 255,028 |
| Long-term prepaid expenses | | 9,744 | 9,659 | 117,592 |
| Deferred tax assets | 9 | 19,577 | 18,085 | 220,173 |
| Other investments | 7 | 27,233 | 25,949 | 315,912 |
| Total investments and other assets | | 108,629 | 102,037 | 1,242,233 |
| Property, Plant and Equipment, at Cost: | | | | |
| | 17 | | | |
| Buildings and structures | 7 | 160,045 | 158,246 | 1,926,540 |
| Machinery and equipment | 7 | 136,844 | 138,498 | 1,686,121 |
| Leased assets | | 9,818 | 8,707 | 106,002 |
| | | 306,707 | 305,451 | 3,718,663 |
| Less: accumulated depreciation | | (211,801) | (211,677) | (2,577,027) |
| | | 94,906 | 93,774 | 1,141,636 |
| Land | | 33,491 | 33,091 | 402,861 |
| Construction in progress | | 2,824 | 2,932 | 35,695 |
| Total property, plant and equipment | 20 | 131,221 | 129,797 | 1,580,192 |
| Intangible Assets: | | | | |
| | 17 | | | |
| Goodwill | 20 | 94,123 | 84,540 | 1,029,219 |
| Leased assets | | 348 | 613 | 7,463 |
| Trademarks | | 42,628 | 40,584 | 494,083 |
| Other intangible assets | | 48,956 | 47,907 | 583,236 |
| Total intangible assets | | 186,055 | 173,644 | 2,114,001 |
| Total Assets | | | | |
| | 20 | ¥ 739,120 | ¥ 720,708 | \$ 8,774,142 |

The accompanying notes are an integral part of the consolidated financial statements.

| | | Millions of yen | | Thousands of U.S. dollars (Note 1) |
|--|------|-----------------|----------|---------------------------------------|
| | Note | 2011 | 2012 | 2012 |
| LIABILITIES AND NET ASSETS | | | | |
| Current Liabilities: | | | | |
| Short-term debt | 4, 7 | ¥ 5,595 | ¥ 1,990 | \$ 24,227 |
| Current portion of long-term debt | 4, 7 | 10,766 | 7,745 | 94,290 |
| Notes and accounts payable: | 4 | | | |
| Trade | | 43,130 | 47,296 | 575,797 |
| Unconsolidated subsidiaries and affiliates | | 642 | 1,009 | 12,284 |
| | | 43,772 | 48,305 | 588,081 |
| Other payables | | 37,980 | 44,273 | 538,995 |
| Accrued income taxes | | 12,215 | 8,026 | 97,711 |
| Reserve for sales returns | | 11,447 | 11,065 | 134,709 |
| Accrued bonuses for employees | | 11,550 | 15,030 | 182,980 |
| Accrued bonuses for directors | | 374 | 396 | 4,821 |
| Provision for liabilities and charges | | 765 | 566 | 6,891 |
| Reserve for loss on disaster | | 923 | — | — |
| Deferred tax liabilities | 9 | 26 | 20 | 244 |
| Other current liabilities | | 24,263 | 27,303 | 332,396 |
| Total current liabilities | | 159,676 | 164,719 | 2,005,345 |
| Long-Term Liabilities: | | | | |
| Long-term debt | 4, 7 | 181,156 | 175,418 | 2,135,598 |
| Accrued retirement benefits | 8 | 41,286 | 42,089 | 512,405 |
| Allowance for losses on guarantees | | 350 | 350 | 4,261 |
| Allowance for environmental measures | | 495 | 487 | 5,929 |
| Deferred tax liabilities | 9 | 29,166 | 27,623 | 336,292 |
| Other long-term liabilities | | 6,864 | 6,306 | 76,771 |
| Total long-term liabilities | | 259,317 | 252,273 | 3,071,256 |
| Total Liabilities | | 418,993 | 416,992 | 5,076,601 |
| CONTINGENT LIABILITIES | | | | |
| NET ASSETS | | | | |
| Shareholders' Equity: | | | | |
| Common stock | 10 | | | |
| Authorized: 1,200,000,000 shares as of March 31, 2011 and 2012 | 11 | 64,507 | 64,507 | 785,330 |
| Issued: 400,000,000 shares as of March 31, 2011 and 2012 | | | | |
| Capital surplus | | 70,258 | 70,264 | 855,418 |
| Retained earnings | | 231,336 | 225,599 | 2,746,518 |
| Less: treasury stock, at cost | | (3,875) | (3,779) | (46,007) |
| Treasury stock: 2,052,792 shares as of March 31, 2011 and 2,002,324 shares as of March 31, 2012 | | | | |
| Total shareholders' equity | | 362,226 | 356,591 | 4,341,259 |
| Accumulated Other Comprehensive Income: | | | | |
| Unrealized gains (losses) on available-for-sale securities, net of taxes | 5 | 84 | 606 | 7,378 |
| Foreign currency translation adjustments | | (55,041) | (66,702) | (812,053) |
| Total accumulated other comprehensive income | | (54,957) | (66,096) | (804,675) |
| Stock Acquisition Rights | 12 | 591 | 668 | 8,133 |
| Minority Interests in Consolidated Subsidiaries | | 12,267 | 12,553 | 152,824 |
| Total Net Assets | | 320,127 | 303,716 | 3,697,541 |
| Total Liabilities and Net Assets | | ¥739,120 | ¥720,708 | \$8,774,142 |

CONSOLIDATED STATEMENTS OF INCOME

Shiseido Company, Limited, and Subsidiaries
For the fiscal years ended March 31, 2011 and 2012

| | | Millions of yen | | Thousands of U.S. dollars (Note 1) |
|---|---------------|-----------------|----------|---------------------------------------|
| | Note | 2011 | 2012 | 2012 |
| Net Sales | 20 | ¥670,701 | ¥682,386 | \$8,307,597 |
| Cost of Sales | | 168,692 | 162,990 | 1,984,295 |
| Gross profit | | 502,009 | 519,396 | 6,323,302 |
| Selling, General and Administrative Expenses | 13 | 457,551 | 480,261 | 5,846,859 |
| Operating income | 20 | 44,458 | 39,135 | 476,443 |
| Other Income (Expenses): | | | | |
| Interest and dividend income | | 1,400 | 1,523 | 18,541 |
| Interest expense | | (2,166) | (1,824) | (22,206) |
| Foreign exchange gain (loss) | | (590) | (604) | (7,353) |
| Equity in earnings of affiliates | | 33 | (122) | (1,485) |
| Gain (loss) on sales of investments in securities | 5 | (22) | (233) | (2,837) |
| Loss on revaluation of investments in securities | | (4,199) | (76) | (925) |
| Gain (loss) on sales and disposal of property, plant and equipment | | (609) | (90) | (1,096) |
| Impairment loss | 17, 20 | (458) | (96) | (1,169) |
| Loss on adjustment for changes of accounting standard for asset retirement obligations | | (844) | — | — |
| Purchasing-related expenses | | (1,233) | — | — |
| Loss on adjustment for changes of estimate for samples and promotional items | | (6,752) | — | — |
| Loss on disaster | 19 | (1,669) | — | — |
| Other, net | | 1,346 | 1,335 | 16,253 |
| | | (15,763) | (187) | (2,277) |
| Income before income taxes | | 28,695 | 38,948 | 474,166 |
| Income Taxes | 9 | | | |
| Current | | 18,615 | 13,954 | 169,881 |
| Deferred | | (5,287) | 7,935 | 96,603 |
| | | 13,328 | 21,889 | 266,484 |
| Income before minority interests | | 15,367 | 17,059 | 207,682 |
| Minority Interests in Net Income of Consolidated Subsidiaries | | (2,576) | (2,544) | (30,972) |
| Net income | | ¥ 12,791 | ¥ 14,515 | \$ 176,710 |
| | | Yen | | U.S. dollars (Note 1) |
| Per Share | 2 (9) | | | |
| Net income — basic | | ¥32.1 | ¥36.5 | \$0.44 |
| — fully diluted | | 32.1 | 36.4 | 0.44 |
| Cash dividend | | 50.0 | 50.0 | 0.61 |
| Weighted Average Number of Shares (thousands) | | 397,864 | 397,974 | |

The accompanying notes are an integral part of the consolidated financial statements.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

Shiseido Company, Limited, and Subsidiaries
For the fiscal years ended March 31, 2011 and 2012

| | Note | Millions of yen | | Thousands of U.S. dollars (Note 1) |
|---|------|-----------------|----------|---------------------------------------|
| | | 2011 | 2012 | 2012 |
| Income before Minority Interests | | ¥ 15,367 | ¥ 17,059 | \$ 207,682 |
| Other Comprehensive Income | | | | |
| Unrealized gains (losses) on available-for-sale securities, net of taxes | 5 | (1,003) | 562 | 6,842 |
| Foreign currency translation adjustments | | (32,565) | (12,145) | (147,858) |
| Share of other comprehensive income of associates accounted for using equity method | | (60) | (19) | (231) |
| Total other comprehensive income | 18 | (33,628) | (11,602) | (141,247) |
| Comprehensive Income | | (18,261) | 5,457 | 66,435 |
| (Breakdown) | | | | |
| Comprehensive income attributable to shareholders' equity | | (19,833) | 3,376 | 41,100 |
| Comprehensive income attributable to minority interests | | 1,572 | 2,081 | 25,335 |

The accompanying notes are an integral part of the consolidated financial statements.

CONSOLIDATED STATEMENTS OF CHANGES IN NET ASSETS

Shiseido Company, Limited, and Subsidiaries
For the fiscal years ended March 31, 2011 and 2012

| | Thousands | Millions of yen | | | | | | | |
|--|----------------------------------|-----------------|-----------------|-------------------|-------------------------|--|--|--------------------------|---|
| | Number of shares of common stock | Common stock | Capital surplus | Retained earnings | Treasury stock, at cost | Unrealized gains (losses) on available-for-sale securities, net of taxes | Foreign currency translation adjustments | Stock acquisition rights | Minority interests in consolidated subsidiaries |
| Balance as of April 1, 2010 | 410,000 | ¥64,507 | ¥70,258 | ¥259,064 | ¥(23,112) | ¥1,055 | ¥(23,448) | ¥430 | ¥16,454 |
| Cumulative effect of changes in accounting methods | — | — | — | (1,064) | — | — | — | — | — |
| Balance as of April 1, 2010 after restatement | — | — | — | 258,000 | — | — | — | — | — |
| Net income for the year ended March 31, 2011 | — | — | — | 12,791 | — | — | — | — | — |
| Cash dividend from retained earnings | — | — | — | (19,891) | — | — | — | — | — |
| Equity transactions with noncontrolling interests and others | — | — | — | (535) | — | — | — | — | — |
| Acquisition of treasury stock | — | — | — | — | (13) | — | — | — | — |
| Disposal of treasury stock | — | — | — | (150) | 371 | — | — | — | — |
| Retirement of treasury stock | (10,000) | — | — | (18,879) | 18,879 | — | — | — | — |
| Change in scope of consolidation | — | — | — | — | — | — | — | — | — |
| Change in unrealized gains (losses) on available-for-sale securities, net of taxes | — | — | — | — | — | (971) | — | — | — |
| Change in foreign currency translation adjustments | — | — | — | — | — | — | (31,593) | — | — |
| Issuance of stock acquisition rights | — | — | — | — | — | — | — | 161 | — |
| Increase in minority interests | — | — | — | — | — | — | — | — | (4,187) |
| Balance as of April 1, 2011 | 400,000 | 64,507 | 70,258 | 231,336 | (3,875) | 84 | (55,041) | 591 | 12,267 |
| Net income for the year ended March 31, 2012 | — | — | — | 14,515 | — | — | — | — | — |
| Cash dividend from retained earnings | — | — | — | (19,898) | — | — | — | — | — |
| Equity transactions with noncontrolling interests and others | — | — | — | (318) | — | — | — | — | — |
| Acquisition of treasury stock | — | — | — | — | (3) | — | — | — | — |
| Disposal of treasury stock | — | — | 6 | 0 | 99 | — | — | — | — |
| Retirement of treasury stock | — | — | — | — | — | — | — | — | — |
| Change in scope of consolidation | — | — | — | (36) | — | — | — | — | — |
| Change in unrealized gains (losses) on available-for-sale securities, net of taxes | — | — | — | — | — | 522 | — | — | — |
| Change in foreign currency translation adjustments | — | — | — | — | — | — | (11,661) | — | — |
| Issuance of stock acquisition rights | — | — | — | — | — | — | — | 77 | — |
| Increase in minority interests | — | — | — | — | — | — | — | — | 286 |
| Balance as of March 31, 2012 | 400,000 | ¥64,507 | ¥70,264 | ¥225,599 | ¥(3,779) | ¥606 | ¥(66,702) | ¥668 | ¥12,553 |

| | Thousands | Thousands of U.S. dollars (Note 1) | | | | | | | |
|--|----------------------------------|------------------------------------|-----------------|-------------------|-------------------------|--|--|--------------------------|---|
| | Number of shares of common stock | Common stock | Capital surplus | Retained earnings | Treasury stock, at cost | Unrealized gains (losses) on available-for-sale securities, net of taxes | Foreign currency translation adjustments | Stock acquisition rights | Minority interests in consolidated subsidiaries |
| Balance as of April 1, 2011 | 400,000 | \$785,330 | \$855,345 | \$2,816,362 | \$(47,176) | \$1,023 | \$(670,088) | \$7,195 | \$149,342 |
| Net income for the year ended March 31, 2012 | — | — | — | 176,710 | — | — | — | — | — |
| Cash dividend from retained earnings | — | — | — | (242,245) | — | — | — | — | — |
| Equity transactions with noncontrolling interests and others | — | — | — | (3,871) | — | — | — | — | — |
| Acquisition of treasury stock | — | — | — | — | (36) | — | — | — | — |
| Disposal of treasury stock | — | — | 73 | 0 | 1,205 | — | — | — | — |
| Retirement of treasury stock | — | — | — | — | — | — | — | — | — |
| Change in scope of consolidation | — | — | — | (438) | — | — | — | — | — |
| Change in unrealized gains (losses) on available-for-sale securities, net of taxes | — | — | — | — | — | 6,355 | — | — | — |
| Change in foreign currency translation adjustments | — | — | — | — | — | — | (141,965) | — | — |
| Issuance of stock acquisition rights | — | — | — | — | — | — | — | 938 | — |
| Increase in minority interests | — | — | — | — | — | — | — | — | 3,482 |
| Balance as of March 31, 2012 | 400,000 | \$785,330 | \$855,418 | \$2,746,518 | \$(46,007) | \$7,378 | \$(812,053) | \$8,133 | \$152,824 |

The accompanying notes are an integral part of the consolidated financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

Shiseido Company, Limited, and Subsidiaries

For the fiscal years ended March 31, 2011 and 2012

| | Note | Millions of yen | | Thousands of U.S. dollars (Note 1) |
|--|------|-----------------|----------|---------------------------------------|
| | | 2011 | 2012 | 2012 |
| Cash Flows from Operating Activities: | | | | |
| Income before income taxes | | ¥ 28,695 | ¥ 38,948 | \$ 474,166 |
| Depreciation | | 29,511 | 30,683 | 373,545 |
| Amortization of goodwill | | 5,204 | 5,519 | 67,190 |
| Impairment loss | | 458 | 96 | 1,169 |
| Loss on adjustment for changes of accounting standard for asset retirement obligations | | 844 | — | — |
| Purchasing-related expenses | | 1,233 | — | — |
| Loss on adjustment for changes of estimate for samples and promotional items | | 6,752 | — | — |
| Loss on disaster | | 1,669 | (923) | (11,237) |
| Increase (decrease) in allowance for doubtful accounts | | (53) | (11) | (134) |
| Increase (decrease) in reserve for sales returns | | (5) | (183) | (2,228) |
| Increase (decrease) in accrued bonuses for employees | | 455 | 3,705 | 45,106 |
| Increase (decrease) in accrued bonuses for directors | | 56 | 23 | 280 |
| Increase (decrease) in provision for liabilities and charges | | (79) | (140) | (1,704) |
| Increase (decrease) in accrued retirement benefits | | 1,517 | 1,004 | 12,223 |
| (Increase) decrease in prepaid pension expenses | | 4,180 | 3,612 | 43,974 |
| Interest and dividend income | | (1,400) | (1,523) | (18,541) |
| Interest expense | | 2,166 | 1,824 | 22,206 |
| Equity in earnings of affiliates | | (33) | 122 | 1,485 |
| (Gain) loss on sales of investments in securities | | 22 | 233 | 2,837 |
| Loss on revaluation of investments in securities | | 4,199 | 76 | 925 |
| (Gain) loss on sales and disposal of property, plant and equipment | | 609 | 90 | 1,096 |
| (Increase) decrease in notes and accounts receivable | | 3,323 | (12,716) | (154,809) |
| (Increase) decrease in inventories | | 728 | (8,102) | (98,636) |
| Increase (decrease) in notes and accounts payable | | (6,135) | 9,627 | 117,202 |
| Other | | 1,203 | 2,573 | 31,324 |
| Subtotal | | 85,119 | 74,537 | 907,439 |
| Interest and dividends received | | 1,431 | 1,472 | 17,920 |
| Interest paid | | (2,060) | (1,928) | (23,472) |
| Income taxes paid | | (16,903) | (21,481) | (261,517) |
| Net cash provided by operating activities | | 67,587 | 52,600 | 640,370 |
| Cash Flows from Investing Activities: | | | | |
| Transfers to time deposits | | (28,066) | (16,690) | (203,190) |
| Proceeds from maturity of time deposits | | 27,821 | 21,752 | 264,816 |
| Acquisition of short-term investments in securities | | (1,191) | (314) | (3,823) |
| Proceeds from sales of short-term investments in securities | | 942 | 576 | 7,012 |
| Acquisition of investments in securities | | (30) | (221) | (2,690) |
| Proceeds from sales of investments in securities | | 1,352 | 603 | 7,341 |
| Acquisition of property, plant and equipment | | (17,702) | (17,719) | (215,717) |
| Proceeds from sales of property, plant and equipment | | 987 | 1,677 | 20,416 |
| Acquisition of intangible assets | | (4,578) | (7,017) | (85,427) |
| Payments of long-term prepaid expenses | | (4,053) | (4,500) | (54,784) |
| Net proceeds from acquisition of shares in subsidiaries resulting in change in consolidation scope | | (752) | — | — |
| Net proceeds from acquisition of shares in subsidiaries | | (5,724) | — | — |
| Other | | 690 | 1,185 | 14,427 |
| Net cash used in investing activities | | (30,304) | (20,668) | (251,619) |
| Cash Flows from Financing Activities: | | | | |
| Net increase (decrease) in short-term debt | | (99,817) | (3,431) | (41,770) |
| Proceeds from long-term debt | | 100,022 | 650 | 7,913 |
| Repayment of long-term debt | | (15,700) | (10,968) | (133,528) |
| Acquisition of treasury stock | | (14) | (3) | (36) |
| Disposal of treasury stock | | 221 | 105 | 1,278 |
| Cash dividend paid | | (19,879) | (19,891) | (242,160) |
| Cash dividend paid to minority shareholders | | (4,405) | (1,944) | (23,667) |
| Net cash used in financing activities | | (39,572) | (35,482) | (431,970) |
| Effect of Exchange Rate Changes on Cash and Cash Equivalents | | (6,936) | (2,068) | (25,177) |
| Net Change in Cash and Cash Equivalents | | (9,225) | (5,618) | (68,396) |
| Cash and Cash Equivalents at Beginning of Year | 3 | 77,157 | 88,592 | 1,078,549 |
| Increase (Decrease) in Cash and Cash Equivalents due to the Change in Consolidation Scope of Subsidiaries | 3 | 20,660 | — | — |
| Cash and Cash Equivalents at End of Year | 3 | ¥ 88,592 | ¥ 82,974 | \$1,010,153 |

The accompanying notes are an integral part of the consolidated financial statements.

Notes to the Consolidated Financial Statements

Shiseido Company, Limited, and Subsidiaries

1. BASIS OF PRESENTING CONSOLIDATED FINANCIAL STATEMENTS

Accounting Principles and Presentation

The financial statements of Shiseido Company, Limited (the "Company") and its consolidated subsidiaries have been prepared in accordance with the provisions set forth in the Financial Instruments and Exchange Law and Companies Act and in conformity with accounting principles generally accepted in Japan. Therefore, application and disclosure requirements are different from International Financial Reporting Standards in certain respects.

Certain items presented in the consolidated financial statements filed with the Director of the Kanto Finance Bureau in Japan have been reclassified for the convenience of the reader.

Certain reclassifications have been made in the consolidated financial statements for the year ended March 31, 2011 to conform to the presentation for the year ended March 31, 2012.

Amounts in U.S. dollars are included solely for the convenience of the reader. The rate of ¥82.14 = US\$1 prevailing on March 31, 2012 has been used in translating the consolidated financial statements expressed in Japanese yen into U.S. dollars. Such translations should not be construed as representations that the Japanese yen amounts could be readily converted, realized or settled in U.S. dollars at this rate.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(1) Scope of Consolidation

The Company has 97 subsidiaries (companies over which the Company exercises control over operations) as of March 31, 2012 (97 as of March 31, 2011). The accompanying consolidated financial statements as of March 31, 2012 include the accounts of the Company and its 94 (95 as of March 31, 2011) significant subsidiaries (the "Companies").

The Company has 13 affiliates (companies that are not subsidiaries but over which the Company exercises significant influence) as of March 31, 2012 (14 as of March 31, 2011). Investments in 3 affiliates (3 as of March 31, 2011) are accounted for by the equity method as of March 31, 2012.

The Shiseido Group established Shiseido Professional Korea Co., Ltd. As a result, Shiseido Professional Korea Co., Ltd. is included in the scope of consolidation in the current fiscal year.

The Shiseido Group liquidated Shiseido Business Solutions Co., Ltd. and excluded it from the scope of consolidation in the current fiscal year. The Shiseido Group sold its shares of P.T. Prana Dewata Ubud and excluded it from the scope of the Company's consolidated financial statements.

The major consolidated subsidiaries are listed in "Main Subsidiaries and Affiliates" on page 78.

Since the fiscal year-end for certain consolidated subsidiaries is December 31, their financial statements as of that date are used in the preparation of the Company's consolidated financial statements. When significant transactions occur at those subsidiaries between their fiscal year end and the Company's fiscal year end, these transactions are included in the Company's consolidated financial statements.

Investments in 3 unconsolidated subsidiaries and 10 affiliates not accounted for under the equity method are stated at cost as they are immaterial to the consolidated financial statements.

The Company has adopted the "full fair value method" so that all of the assets and liabilities of the subsidiaries are marked to fair value as of the date of acquisition of control.

All significant intercompany balances and transactions have been eliminated in consolidation. All material unrealized profits included in assets resulting from intercompany transactions are eliminated.

(2) Inventories

Inventories are generally valued at cost, determined by the average method. (Carrying amount in the balance sheet is calculated with consideration of write-downs due to decreased profitability.)

(3) Property, Plant and Equipment (Excluding Leased Assets)

Buildings (excluding leasehold improvements) are depreciated using the straight-line method. Other tangible fixed assets are, in principle, depreciated using the declining-balance method at the Company and its domestic consolidated subsidiaries and the straight-line method at overseas consolidated subsidiaries. Major fixed assets in Japan are depreciated over specific useful lives based on durability, level of deterioration, and special characteristics, which represent an approximate 20-30% reduction from useful lives utilized for tax purposes.

(4) Intangible Assets (Excluding Leased Assets)

Intangible assets are mainly amortized using the straight-line method over the following estimated useful lives:

Software: 5 years, mainly

Customer relationships: 10 years, mainly

(5) Leased Assets

Finance leased assets that are not deemed to transfer ownership of the leased property to the lessee are depreciated using the straight-line method over the period of the lease, with zero residual value.

(6) Long-Term Prepaid Expenses

Long-term prepaid expenses are primarily amortized using the straight-line method.

(7) Goodwill

Amortization of goodwill is determined on a case by case basis and is generally amortized using the straight-line method over a period not exceeding 20 years.

(8) Securities

The Company and its domestic consolidated subsidiaries categorize their existing securities as available-for-sale securities. Those securities with market prices are carried at fair value prevailing at the fiscal year-end, with net unrealized gains and losses, net of taxes, reported separately in net assets. The cost of securities sold is mainly calculated using the moving-average method. If fair value is not available, securities are carried at cost, which is determined mainly by the moving-average method. Investments in limited partnerships are recorded as investments in securities at the amount of interest in such partnerships calculated based on ownership percentage. Investment gain or loss is included in net income or loss in proportion to the ownership interests in the net asset value of the partnership.

Securities with remaining maturities of one year or less and securities that are recognized as cash equivalents are classified as short-term investments in securities. Those with maturities extending beyond one year are included in investments in securities as non-current assets.

(9) Net Income and Cash Dividend per Share

Net income per share of common stock is based on the weighted average number of shares of common stock outstanding during each year. The computation of fully diluted net income per share of common stock reflects the maximum possible dilution that could occur if securities or other contracts to issue common stock were exercised or converted into common stock or resulted in the issuance of common stock.

Cash dividend per share shown for each year in the consolidated statements of income represent the dividend declared as applicable to the respective year, rather than that paid in each year.

(10) Accounting for Consumption Tax

In Japan, consumption tax is imposed at a flat rate on all domestic consumption of goods, assets and services (with certain exemptions). The consumption tax withheld upon sales is recorded as a liability. Consumption tax, which is paid by the Company and its domestic consolidated subsidiaries on purchases of goods, assets and services, is offset against the balance withheld, and the net amount is subsequently paid to the national government.

Transactions subject to consumption taxes are recorded at amounts exclusive of consumption taxes.

(11) Allowance for Doubtful Accounts

The Company and its domestic consolidated subsidiaries provide an allowance for doubtful accounts based on the historic percentage of actual bad debt losses against the balance of total receivables and the amount of uncollectible receivables estimated on an individual basis. Overseas consolidated subsidiaries record the allowance based primarily on the amount of uncollectible receivables estimated on an individual basis.

(12) Reserve for Sales Returns

The Companies provide a reserve for sales returns for future losses considering the past return ratios and market distribution status.

(13) Accrued Bonuses for Employees

The Companies provide accrued bonuses for employees based on the estimated amounts to be paid in respect of the fiscal year. This reserve includes bonuses for corporate officers who are non-Board members, for whom the calculations are the same as those described in Accrued Bonuses for Directors.

(14) Accrued Bonuses for Directors

The Companies provide accrued bonuses for members of the Board of Directors who concurrently serve as corporate executive officers based on the estimated amounts to be paid in respect of the fiscal year.

(15) Provision for Liabilities and Charges

To provide for losses due to legal risks, product guarantee risks, tax risks, and other factors, certain overseas consolidated subsidiaries record provisions, the amount of which is based on estimated losses to be incurred considering the likelihood of such losses in the future.

(16) Reserve for Loss on Disaster

The Company and certain domestic consolidated subsidiaries have provided reserves mainly for expenses associated with products damaged by the Great East Japan Earthquake using estimates of future expenditures.

(17) Accrued Retirement Benefits

The Companies have obligations to pay retirement benefits to their employees and, therefore, the Company, its domestic consolidated subsidiaries and certain overseas consolidated subsidiaries provide accrued retirement benefits based on the estimated amount of projected benefit obligation and the fair value of plan assets.

Unrecognized prior service cost is primarily amortized on a straight-line basis over a 10-year period, which is shorter than the average remaining years of service of the eligible employees. Unrecognized net actuarial gain or loss is primarily amortized from the following year on a straight-line basis over a 10-year period, which is shorter than the average remaining years of service of the eligible employees.

(18) Allowance for Losses on Guarantees

The Company provides an allowance for estimated probable losses on guarantees based on the financial status of the parties for which guarantees have been provided.

(19) Allowance for Environmental Measures

The Company and its domestic consolidated subsidiaries reserve the estimated cost to treat polychlorinated biphenyl (PCB) waste as required by the “Act on Special Measures Concerning Promotion of Proper Treatment of PCB Wastes” (Act No. 65 of 2001).

(20) Foreign Currency Translation

Receivables and payables denominated in foreign currencies are translated into Japanese yen at the exchange rate prevailing on the respective balance sheet dates, and resulting exchange gains or losses are included in net income or loss for the fiscal year.

Investments in unconsolidated subsidiaries and affiliates denominated in foreign currencies are translated at the historical exchange rates prevailing at the time of the transaction.

(21) Derivatives and Hedging Activities

The Companies use derivatives such as foreign exchange forward contracts, foreign currency options, interest rate swap contracts, and interest rate and currency swap contracts to reduce market risks and maintain stable profits. The Companies limit their use of foreign exchange forward contract-related derivative transactions to the amounts of foreign currency denominated receivables and payables, and do not use derivatives for speculative trading.

The Companies execute and manage derivatives within the limits of established internal rules and regulations, and reduce credit risk by limiting counterparties to highly creditworthy financial institutions.

Derivatives are carried at fair value with gains or losses recognized in the consolidated statements of income. For derivatives used for hedging purposes, gains or losses on derivatives are deferred until recognition of the hedged transactions.

Also, if interest rate swap contracts are used as a hedge and meet certain hedging criteria, the interest rate swaps are not remeasured at market price, and the amount to be received under the interest rate swap contract is added to or deducted from the interest on the liabilities for which the swap contract was executed (special accounting). And if interest rate and currency swap contracts are used as a hedge and meet certain hedging criteria, the interest rate and currency swap contracts are not remeasured at market price, and the amount to be received under the interest rate and currency swap contracts is added to or deducted from the interest on the liabilities for which the swap contracts are executed, and the liabilities denominated in foreign currencies, for which the interest rate and currency swap contracts are executed, are translated at the contracted rate (integral accounting).

The Companies’ policy is to evaluate the effectiveness of derivatives used for hedging purpose based on either the difference between the accumulated amount of cash flows from the hedging instrument and from the corresponding hedged item or variance between the market value of the hedging instrument and the hedged item. However, measurement of hedge effectiveness is not considered necessary for interest rate swap contracts that meet the requirements for special accounting and interest rate and currency swap contracts that meet the requirements for integral accounting.

(22) Foreign Currency Determined Financial Statements

Financial statements of overseas consolidated subsidiaries and affiliates that are denominated in foreign currencies are translated into Japanese yen at the exchange rates prevailing at the respective balance sheet dates of those subsidiaries for assets and liabilities, and at the historical exchange rates for shareholders’ equity. All income and expense amounts are translated at the average rates of exchange during the fiscal year of those subsidiaries and affiliates.

The resulting translation adjustments are included in net assets as foreign currency translation adjustments and minority interests.

(23) Definition of “Cash and Cash Equivalents” in Consolidated Statements of Cash Flows

Cash and cash equivalents as shown in the consolidated statements of cash flows are composed of cash in hand, readily available time deposits, and short-term investments with maturities of 3 months or less at the time of purchase that are exposed to insignificant risk of change in value.

(24) Practical Solution on Unification of Accounting Policies Applied to Foreign Subsidiaries for Consolidated Financial Statements

The Company has applied “Practical Solution on Unification of Accounting Policies Applied to Foreign Subsidiaries for Consolidated Financial Statements” (ASBJ Practical Issues Task Force No. 18, February 19, 2010), and necessary modifications have been made for consolidation.

(25) Application of Consolidated Taxation System

Effective from the current fiscal year, the Company and certain domestic consolidated subsidiaries applied a consolidated taxation system.

(26) Change in Accounting Policy for Samples and Promotional Items

Shiseido Group subsidiaries in the Americas formerly recognized samples and promotional items associated with marketing activities at stores as assets when acquired and expensed them when shipped to customers. However, effective the fiscal year ended March 31, 2012 these subsidiaries began to expense these items when acquired as part of its efforts to standardize Group accounting policies. The Shiseido Group applied this change retrospectively and restated the consolidated financial statements for the fiscal year ended March 31, 2011 accordingly.

Compared with the accounting policy prior to retrospective application, inventories and retained earnings (stated in the Consolidated Balance Sheets) in the fiscal year ended March 31, 2011 declined ¥1,725 million (\$21,001 thousand) and ¥1,064 million (\$12,954 thousand), respectively, while deferred tax assets (stated under current assets) increased ¥661

million (\$8,047 thousand). The cumulative effect of this change on net assets at the beginning of the fiscal year ended March 31, 2011 was a ¥1,064 million (\$12,954 thousand) reduction in retained earnings after restatement, reported in the Consolidated Statements of Changes in Net Assets. The change in policy is not reflected in the Consolidated Statements of Income and the Consolidated Statements of Comprehensive Income for the fiscal year ended March 31, 2011, because the balances of product samples and promotional items included within inventories have remained mostly unchanged and the differences in term-end balances are not deemed significant. Regarding the effect of the change on per-share data, compared with the previous accounting method net assets per share in the fiscal year ended March 31, 2011 declined ¥2.7 (\$0.03).

(27) Application of Accounting Standard for Accounting Changes and Error Corrections

The Company applied "Accounting Standard for Accounting Changes and Error Corrections" (ASBJ Statement No. 24, December 4, 2009) and "Guidance on Accounting Standard for Accounting Changes and Error Corrections" (ASBJ Guidance No. 24, December 4, 2009) for accounting changes or error corrections from the beginning of the current fiscal year.

(28) Change in Method of Calculating Fully Diluted Net Income per Share

Effective from the current fiscal year, the Company applied "Accounting Standard for Earnings Per Share" (ASBJ Statement No. 2, June 30, 2010) and "Guidance on Accounting Standard for Earnings Per Share" (ASBJ Guidance No. 4, June 30, 2010).

In calculating diluted earnings per share, for stock options in which the right to exercise options is vested after a specified service period, the fair value of service expected to be provided to the Group in the future is added to the proceeds assumed to be received when options are exercised. Application of these accounting standards would have had a minimal effect on fully diluted net income per share in the fiscal year ended March 31, 2011, so the Company did not apply them retrospectively.

(29) Accounting Standards Issued but Not Yet Adopted

- "Revised Accounting Standard for Consolidated Financial Statements" (ASBJ Statement No. 22, March 25, 2011)
- "Revised Guidance on Disclosures about Certain Special Purpose Entities" (ASBJ Guidance No. 15, March 25, 2011)
- "Revised Guidance on Determining a Subsidiary and an Affiliate" (ASBJ Guidance No. 22, March 25, 2011)
- "Revised Control Criteria and Influence Criteria to Investment Associations" (ASBJ Practical Issues Task Force No. 20, March 25, 2011)

① Overview

Certain special purpose entities were not considered subsidiaries of their investors or the companies that transferred assets to them. However, under the "Revised Accounting Standard for Consolidated Financial Statements" (ASBJ Statement No. 22) and the above-noted guidances and practical solution, this only applies to companies that transfer assets to special purpose entities.

② Expected Application Date

The Company expects to apply these accounting standards from the fiscal year beginning April 1, 2013.

③ Effect of Application of Accounting Standards

The Company will not consolidate additional subsidiaries as a result of application of the "Revised Accounting Standard for Consolidated Financial Statements" (ASBJ Statement No. 22) and the above-noted guidances and practical solution.

As a result of application of "Revised Accounting Standard for Consolidated Financial Statements," separate presentation of non-recourse debt is required.

As of March 31, 2011, non-recourse debt accounted for ¥800 million (\$9,740 thousand) of the current portion of long-term debt of ¥10,766 million (\$131,069 thousand) and for ¥24,050 million (\$292,793 thousand) of long-term debt of ¥181,156 million (\$2,205,454 thousand). The assets collateralizing non-recourse debt totaled ¥34,538 million (\$420,477 thousand) and consisted of buildings and structures totaling ¥16,606 million (\$202,167 thousand), guarantee deposits totaling ¥15,200 million (\$185,050 thousand) in other investments in investments and other assets, investments in securities totaling ¥1,512 million (\$18,408 thousand), cash and time deposits totaling ¥1,218 million (\$14,828 thousand), and machinery and equipment totaling ¥2 million (\$24 thousand).

As of March 31, 2012, non-recourse debt accounted for ¥800 million (\$9,740 thousand) of the current portion of long-term debt of ¥7,745 million (\$94,290 thousand) and for ¥23,250 million (\$283,053 thousand) of long-term debt of ¥175,418 million (\$2,135,598 thousand). The assets collateralizing non-recourse debt totaled ¥33,855 million (\$412,162 thousand) and consisted of buildings and structures totaling ¥15,927 million (\$193,901 thousand), guarantee deposits totaling ¥15,200 million (\$185,050 thousand) in other investments in investments and other assets, investments in securities totaling ¥1,512 million (\$18,407 thousand), cash and time deposits totaling ¥1,214 million (\$14,780 thousand), and machinery and equipment totaling ¥2 million (\$24 thousand).

3. CASH FLOW INFORMATION

The reconciliation of cash and time deposits shown in the consolidated balance sheets and cash and cash equivalents shown in the consolidated statements of cash flows as of March 31, 2011 and 2012 is as follows:

| | Millions of yen | | Thousands of U.S. dollars (Note 1) |
|--|-----------------|---------|------------------------------------|
| | 2011 | 2012 | 2012 |
| Cash and time deposits | ¥ 90,007 | ¥67,122 | \$ 817,166 |
| Short-term investments in securities | 15,051 | 26,717 | 325,262 |
| Total | ¥105,058 | ¥93,839 | \$1,142,428 |
| Time deposits with maturities exceeding 3 months | (14,834) | (9,517) | (115,864) |
| Debt securities with maturities exceeding 3 months | (1,632) | (1,348) | (16,411) |
| Cash and cash equivalents | ¥ 88,592 | ¥82,974 | \$1,010,153 |

The Company accounted for the components of the purchase price of Bare Escentuals, Inc., which became a consolidated subsidiary on March 8, 2010, on a provisional accounting treatment at March 31, 2010. The purchase price allocation was finalized in the fiscal year ended March 31, 2011. Cash and cash equivalents that increased in relation to this are recorded as "Increase (Decrease) in Cash and Cash Equivalents due to the Change in Consolidation Scope of Subsidiaries." Note 21. BUSINESS COMBINATIONS provides additional detail.

Significant non-cash transactions are as follows:

The amounts of assets and obligations related to finance lease transactions that were newly recorded in the fiscal year ended March 31, 2011 are ¥1,415 million and ¥1,415 million for lease assets and lease obligations, respectively. The amounts of assets and obligations related to finance lease transactions that were newly recorded in the current fiscal year are ¥1,973 million (\$24,020 thousand) and ¥1,973 million (\$24,020 thousand) for lease assets and lease obligations, respectively.

4. FINANCIAL INSTRUMENTS

(1) Financial Instruments

① Policy for financial instruments

The Companies limit fund management to short-term deposits, investments in securities and other methods. As a matter of policy, the Companies procure funds using bank loans, commercial paper, bonds and other methods. The Companies use derivatives to avoid the risk of foreign exchange rate fluctuations associated with receivables and payables denominated in foreign currencies and the risk of interest rate fluctuations associated with loans. The Companies limit the use of derivatives to the volume of receivables and payables and actual requirements, and do not engage in speculative transactions.

② Financial instruments content, risks and risk management system

Notes and accounts receivable are exposed to customer credit risk. The Companies avoid this risk by managing settlement date and amount due for each counterparty.

Investments in securities, primarily the equity securities of corporations with which the Companies do business, are exposed to the risk of fluctuations in market price. The Companies avoid this risk by periodically examining market prices and the financial condition of the issuing entities.

Notes and accounts payable are due within one year.

Interest-bearing debt includes short-term borrowings and commercial paper, which the Companies use to procure funds for operating transactions, as well as long-term borrowings, bonds and lease obligations, which the Companies use to fund investments and loans, capital expenditures and operating transactions. Floating-rate debt is exposed to the risk of interest rate fluctuations. The Companies hedge this risk for specific long-term borrowings by using derivatives (interest rate swap contracts and interest rate and currency swap contracts) to avoid the risk of interest rate fluctuations and fix interest payments.

The Companies use foreign exchange forward contracts and foreign currency options to hedge the risk of foreign exchange fluctuations associated with receivables and payables denominated in foreign currencies and interest rate swap contracts to hedge the risk of interest rate fluctuations associated with floating-rate debt, and interest rate and currency swap contracts to hedge the risk of foreign exchange fluctuations and fluctuations in interest rates associated with debt in foreign currencies. (21) Derivatives and Hedging Activities in Note 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES explains hedge accounting, hedging instruments and methods, hedging policy, hedged items, and assessment of hedging effectiveness.

The Companies execute and manage derivatives within the limits of established internal rules and regulations, and reduce credit risk by limiting counterparties to highly creditworthy financial institutions.

Payables and interest-bearing debt are exposed to liquidity risk that the Companies manage in ways such as preparing monthly capital deployment reports.

③ Supplemental information on the fair value of financial instruments

The Companies calculate the fair value of financial instruments based on market prices, or by using reasonable estimates when market prices are not available. These estimates include variable factors, and are subject to fluctuation due to changes in the underlying assumptions. The contract amounts of the derivatives discussed in Note 16. DERIVATIVE FINANCIAL INSTRUMENTS below are not an indicator of the market risk associated with derivative transactions.

(2) Fair Value of Financial Instruments

Fair value and variance with carrying value presented on the balance sheets are as follows. Fair values that are not readily determinable are not included in the following table. (See *2 for additional information.)

| Millions of yen | | | |
|---|--------------------|----------------|----------|
| | 2011 | | |
| | Carrying value (*) | Fair value (*) | Variance |
| ① Cash and time deposits | ¥ 90,007 | ¥ 90,007 | — |
| ② Notes and accounts receivable (less allowance for doubtful accounts) | 102,064 | 102,064 | — |
| ③ Short-term investments in securities and investments in securities Available-for-sale securities | 31,982 | 31,982 | — |
| ④ Notes and accounts payable | (81,752) | (81,752) | — |
| ⑤ Short-term bank borrowings | (5,595) | (5,595) | — |
| ⑥ Bonds | (90,000) | (90,112) | ¥ (112) |
| ⑦ Long-term borrowings from banks and other financial institutions | (96,847) | (95,025) | 1,822 |
| ⑧ Lease obligations | (5,075) | (5,159) | (84) |
| ⑨ Derivative instruments | | | |
| i. Hedge accounting not applied | (38) | (38) | — |
| ii. Hedge accounting applied | — | (2,556) | (2,556) |

| Millions of yen | | | |
|---|--------------------|----------------|----------|
| | 2012 | | |
| | Carrying value (*) | Fair value (*) | Variance |
| ① Cash and time deposits | ¥ 67,122 | ¥ 67,122 | — |
| ② Notes and accounts receivable (less allowance for doubtful accounts) | 111,940 | 111,940 | — |
| ③ Short-term investments in securities and investments in securities Available-for-sale securities | 43,806 | 43,806 | — |
| ④ Notes and accounts payable | (92,578) | (92,578) | — |
| ⑤ Short-term bank borrowings | (1,990) | (1,990) | — |
| ⑥ Bonds | (90,000) | (90,764) | ¥ (764) |
| ⑦ Long-term borrowings from banks and other financial institutions | (88,752) | (86,624) | 2,128 |
| ⑧ Lease obligations | (4,412) | (4,500) | (88) |
| ⑨ Derivative instruments | | | |
| i. Hedge accounting not applied | (201) | (201) | — |
| ii. Hedge accounting applied | — | (2,875) | (2,875) |

Thousands of U.S. dollars (Note 1)

| | 2012 | | |
|---|--------------------|----------------|------------|
| | Carrying value (*) | Fair value (*) | Variance |
| ① Cash and time deposits | \$ 817,166 | \$ 817,166 | — |
| ② Notes and accounts receivable (less allowance for doubtful accounts) | 1,362,795 | 1,362,795 | — |
| ③ Short-term investments in securities and investments in securities Available-for-sale securities | 533,309 | 533,309 | — |
| ④ Notes and accounts payable | (1,127,076) | (1,127,076) | — |
| ⑤ Short-term bank borrowings | (24,227) | (24,227) | — |
| ⑥ Bonds | (1,095,690) | (1,104,991) | \$ (9,301) |
| ⑦ Long-term borrowings from banks and other financial institutions | (1,080,497) | (1,054,590) | 25,907 |
| ⑧ Lease obligations | (53,713) | (54,785) | (1,071) |
| ⑨ Derivative instruments | | | |
| i. Hedge accounting not applicable | (2,447) | (2,447) | — |
| ii. Hedge accounting applicable | — | (35,001) | (35,001) |

*Liabilities are in parentheses. Derivative transactions are presented as net amounts receivable or payable, with net amounts payable in parentheses.

*1: Method for calculating the fair value of financial instruments, securities and derivative transactions

- ① Cash and time deposits; ② Notes and accounts receivable
Carrying value is used for fair value for these short-term items because these amounts are approximately the same.
- ③ Short-term investments in securities and investments in securities
Short-term investments in securities are held as available-for-sale securities. Market prices on exchanges are used to determine the fair value of equity securities. Prices quoted by financial institutions are used to determine the fair value of bonds. Carrying value is used for fair value for instruments with short-term maturities included in available-for-sale securities because these amounts are approximately the same.
- ④ Notes and accounts payable; ⑤ Short-term bank borrowings
Carrying value approximates fair value for these short-term items.
- ⑥ Bonds
Fair value of bonds issued by the Company is calculated based on market prices.
- ⑦ Long-term borrowings from banks and other financial institutions
Floating-rate long-term borrowing reflects market interest rates. In addition, fair value approximates carrying value because the Company's creditworthiness does not vary significantly after assuming long-term borrowings. Therefore, carrying value is used for fair value of floating-rate long-term borrowing. Fair value of fixed-rate long-term borrowing is the discounted value of total principal and interest using an assumed interest rate on equivalent new borrowings.
- ⑧ Lease obligations
The fair value of lease obligations is the discounted present value of total principal and interest using an assumed interest rate on equivalent new lease transactions.
- ⑨ Derivative instruments
Please refer to Note 16. DERIVATIVE FINANCIAL INSTRUMENTS.

*2: Fair values that are difficult to determine as of March 31, 2011 and 2012.

| | Millions of yen | | Thousands of U.S. dollars (Note 1) |
|---|-----------------|----------------|---------------------------------------|
| | 2011 | 2012 | 2012 |
| | Carrying value | Carrying value | Carrying value |
| Shares of subsidiaries and affiliates | ¥1,273 | ¥1,220 | \$14,853 |
| Unlisted equity securities | 8,160 | 8,090 | 98,490 |
| Investment in limited partnership, etc. | 1,151 | 996 | 12,126 |

Market prices do not exist for these items, or the cost of estimating future cash flows is considered prohibitive. These items are not included in ③ Short-term investments in securities and investments in securities, because their fair values are not readily determinable.

Notes to the Consolidated Financial Statements

*3: The carrying value of monetary assets as of March 31, 2011 and 2012

| Millions of yen | | | | |
|---|-----------------------|----------------------------------|------------------------------------|--------------------|
| | 2011 | | | |
| | Due in 1 year or less | Due after 1 year through 5 years | Due after 5 years through 10 years | Due after 10 years |
| Cash and time deposits | ¥ 90,007 | — | — | — |
| Notes and accounts receivable | 102,064 | — | — | — |
| Short-term investments in securities and investments in securities | | | | |
| Available-for-sale securities with maturity (Corporate bonds) | 555 | ¥ 300 | — | ¥4,500 |
| Available-for-sale securities with maturity (Investment trust) | 5,438 | — | — | — |
| Available-for-sale securities with maturity (Investment in limited partnership, etc.) | 155 | 996 | — | — |
| | ¥198,219 | ¥1,296 | — | ¥4,500 |

| Millions of yen | | | | |
|---|-----------------------|----------------------------------|------------------------------------|--------------------|
| | 2012 | | | |
| | Due in 1 year or less | Due after 1 year through 5 years | Due after 5 years through 10 years | Due after 10 years |
| Cash and time deposits | ¥ 67,122 | — | — | — |
| Notes and accounts receivable | 111,940 | — | — | — |
| Short-term investments in securities and investments in securities | | | | |
| Available-for-sale securities with maturity (Corporate bonds) | 18,000 | ¥ 300 | — | ¥4,500 |
| Available-for-sale securities with maturity (Investment trust) | 2,655 | — | — | — |
| Available-for-sale securities with maturity (Investment in limited partnership, etc.) | 179 | 817 | — | — |
| | ¥199,896 | ¥1,117 | — | ¥4,500 |

| Thousands of U.S. dollars (Note 1) | | | | |
|---|-----------------------|----------------------------------|------------------------------------|--------------------|
| | 2012 | | | |
| | Due in 1 year or less | Due after 1 year through 5 years | Due after 5 years through 10 years | Due after 10 years |
| Cash and time deposits | \$ 817,166 | — | — | — |
| Notes and accounts receivable | 1,362,795 | — | — | — |
| Short-term investments in securities and investments in securities | | | | |
| Available-for-sale securities with maturity (Corporate bonds) | 219,138 | \$ 3,652 | — | \$54,785 |
| Available-for-sale securities with maturity (Investment trust) | 32,323 | — | — | — |
| Available-for-sale securities with maturity (Investment in limited partnership, etc.) | 2,179 | 9,947 | — | — |
| | \$2,433,601 | \$13,599 | — | \$54,785 |

5. SECURITIES

The acquisition cost, carrying amount, and gross unrealized gains and losses for securities stated at fair value by security type at March 31, 2011 and 2012 are as follows:

Available-for-sale securities:

| | Millions of yen | | | |
|-------------------|-----------------|-----------------|------------------------|-------------------------|
| | 2011 | | | |
| | Cost | Carrying amount | Gross unrealized gains | Gross unrealized losses |
| Equity securities | ¥ 9,645 | ¥11,025 | ¥2,245 | ¥ 865 |
| Bonds | 5,845 | 4,682 | 8 | 1,171 |
| Other | 16,256 | 16,275 | 116 | 97 |
| | ¥31,746 | ¥31,982 | ¥2,369 | ¥2,133 |

| | Millions of yen | | | |
|-------------------|-----------------|-----------------|------------------------|-------------------------|
| | 2012 | | | |
| | Cost | Carrying amount | Gross unrealized gains | Gross unrealized losses |
| Equity securities | ¥ 9,751 | ¥11,533 | ¥2,685 | ¥ 903 |
| Bonds | 4,800 | 3,783 | — | 1,017 |
| Other | 28,399 | 28,490 | 194 | 103 |
| | ¥42,950 | ¥43,806 | ¥2,879 | ¥2,023 |

| | Thousands of U.S. dollars (Note 1) | | | |
|-------------------|------------------------------------|-----------------|------------------------|-------------------------|
| | 2012 | | | |
| | Cost | Carrying amount | Gross unrealized gains | Gross unrealized losses |
| Equity securities | \$118,712 | \$140,407 | \$32,688 | \$10,993 |
| Bonds | 58,437 | 46,055 | — | 12,382 |
| Other | 345,739 | 346,847 | 2,362 | 1,254 |
| | \$522,888 | \$533,309 | \$35,050 | \$24,629 |

* Loss on revaluation for securities stated at fair value was recognized in the amounts of ¥1,587 million and ¥7 million (\$85 thousand) for the years ended March 31, 2011 and 2012, respectively.

Also, loss on revaluation for securities stated at cost was recognized in the amounts of ¥2,608 million and ¥66 million (\$804 thousand) for the years ended March 31, 2011 and 2012, respectively.

Proceeds from sales, and gross realized gains and losses from the sale of available-for-sale securities in the years ended March 31, 2011 and 2012 are as follows:

| | Millions of yen | | Thousands of U.S. dollars (Note 1) |
|-----------------------|-----------------|--------|------------------------------------|
| | 2011 | 2012 | 2012 |
| Proceeds from sales | ¥2,294 | ¥1,180 | \$14,366 |
| Gross realized gains | 177 | 26 | 316 |
| Gross realized losses | 199 | 259 | 3,153 |

6. INVENTORIES

Inventories held by the Companies as of March 31, 2011 and 2012 are as follows:

| | Millions of yen | | Thousands of U.S. dollars (Note 1) |
|----------------------------|-----------------|---------|------------------------------------|
| | 2011 | 2012 | 2012 |
| Goods | ¥45,667 | ¥49,564 | \$603,409 |
| Work in process | 3,066 | 3,651 | 44,448 |
| Raw materials and supplies | 17,117 | 18,687 | 227,502 |
| | ¥65,850 | ¥71,902 | \$875,359 |

7. SHORT-TERM AND LONG-TERM DEBT

Short-term and long-term debt as of March 31, 2011 and 2012 are as follows:

| | Millions of yen | | Thousands of U.S. dollars (Note 1) |
|--|-----------------|----------|---------------------------------------|
| | 2011 | 2012 | 2012 |
| Short-term bank borrowings (weighted average interest rate 6.39%) | ¥ 5,595 | ¥ 1,990 | \$ 24,227 |
| Short-term debt | ¥ 5,595 | ¥ 1,990 | \$ 24,227 |
| Long-term borrowings from banks and other financial institutions (Borrowings due within one year, weighted average interest rate 1.88%) | 8,509 | 5,915 | 72,011 |
| (Borrowings due after one year, weighted average interest rate 0.63%) | 88,338 | 82,836 | 1,008,473 |
| 0.65% unsecured yen bonds due in December 2014 | 50,000 | 50,000 | 608,717 |
| 0.55% unsecured yen bonds due in June 2015 | 40,000 | 40,000 | 486,974 |
| Lease obligations | | | |
| (Borrowings due within one year, weighted average interest rate 2.94%) | 2,257 | 1,830 | 22,279 |
| (Borrowings due after one year, weighted average interest rate 3.17%) | 2,818 | 2,582 | 31,434 |
| | ¥191,922 | ¥183,163 | \$2,229,888 |
| Less: portion due within one year | (10,766) | (7,745) | (94,290) |
| Long-term debt | ¥181,156 | ¥175,418 | \$2,135,598 |

The aggregate annual maturities of long-term debt as of March 31, 2012 are as follows:

| For the years ending March 31 | Millions of yen | Thousands of U.S. dollars (Note 1) |
|-------------------------------|-----------------|---------------------------------------|
| 2013 | ¥ 7,745 | \$ 94,290 |
| 2014 | 31,196 | 379,791 |
| 2015 | 55,763 | 678,877 |
| 2016 | 45,525 | 554,237 |
| 2017 | 5,154 | 62,747 |
| 2018 and thereafter | 37,780 | 459,946 |
| | ¥183,163 | \$2,229,888 |

Assets pledged as collateral as of March 31, 2011 and 2012 are as follows:

| | Millions of yen | | Thousands of U.S. dollars (Note 1) |
|---------------------------|-----------------|---------|---------------------------------------|
| | 2011 | 2012 | 2012 |
| Buildings and structures | ¥16,606 | ¥15,927 | \$193,901 |
| Other investments | 15,200 | 15,200 | 185,050 |
| Investments in securities | 1,512 | 1,512 | 18,407 |
| Cash and time deposits | 1,218 | 1,214 | 14,780 |
| Machinery and equipment | 2 | 2 | 24 |
| | ¥34,538 | ¥33,855 | \$412,162 |

The above assets are pledged as collateral for derivative transactions (interest rate swaps) and the following collateralized liabilities as of March 31, 2011 and 2012:

| | Millions of yen | | Thousands of U.S. dollars (Note 1) |
|-----------------------------------|-----------------|---------|---------------------------------------|
| | 2011 | 2012 | 2012 |
| Current portion of long-term debt | ¥ 800 | ¥ 800 | \$ 9,740 |
| Long-term debt | 24,050 | 23,250 | 283,053 |
| | ¥24,850 | ¥24,050 | \$292,793 |

8. ACCRUED RETIREMENT BENEFITS

The Company and its domestic consolidated subsidiaries have contributory funded pension plans, unfunded termination allowance plans, defined contribution plans and retirement benefit prepayment plan. In some cases, additional voluntary retirement benefits are paid when an employee retires. These are accounted for as retirement benefit expenses when incurred.

Also, certain overseas consolidated subsidiaries have defined benefit pension plans, unfunded termination allowance plans and defined contribution plans.

The reconciliation of projected benefit obligations, plan assets, funded status of the pension benefit plans, prepaid pension expenses and accrued retirement benefits recognized in the accompanying balance sheets as of March 31, 2011 and 2012 is as follows:

| | Millions of yen | | Thousands of U.S. dollars (Note 1) |
|--|-----------------|------------|---------------------------------------|
| | 2011 | 2012 | 2012 |
| Projected benefit obligations | ¥(205,565) | ¥(207,512) | \$(2,526,321) |
| Fair value of plan assets | 159,368 | 159,254 | 1,938,812 |
| Funded status of the pension benefit plans | (46,197) | (48,258) | (587,509) |
| Unrecognized net actuarial loss | 30,816 | 27,474 | 334,478 |
| Unrecognized prior service cost | (1,345) | (357) | (4,346) |
| Net retirement benefit obligation | ¥ (16,726) | ¥ (21,141) | \$ (257,377) |
| Prepaid pension expenses | 24,560 | 20,948 | 255,028 |
| Accrued retirement benefits | ¥ (41,286) | ¥ (42,089) | \$ (512,405) |

The net periodic pension benefit costs for the years ended March 31, 2011 and 2012 are as follows:

| | Millions of yen | | Thousands of U.S. dollars (Note 1) |
|------------------------------------|-----------------|---------|---------------------------------------|
| | 2011 | 2012 | 2012 |
| Service cost | ¥ 8,116 | ¥ 8,162 | \$ 99,367 |
| Interest cost | 5,099 | 5,136 | 62,527 |
| Expected return on plan assets | (6,362) | (6,360) | (77,429) |
| Amortization of net actuarial loss | 7,899 | 6,422 | 78,184 |
| Amortization of prior service cost | (1,783) | (1,100) | (13,392) |
| Net periodic pension benefit cost | ¥12,969 | ¥12,260 | \$149,257 |

The discount rate used to determine the actuarial present value of projected benefit obligations as of March 31, 2011 and 2012 is mainly 2.5%. The expected rate of return on plan assets of those plans as of March 31, 2011 and 2012 is mainly 4.0%. Allocation of pension benefits to each year of service of the employees is based on the "benefits/years-of-service" approach, whereby the same amount of benefits is allocated to each year. Certain overseas consolidated subsidiaries have adopted the corridor approach for the amortization of actuarial gains and losses.

9. INCOME TAXES

Income tax applicable to the Company and its domestic consolidated subsidiaries consist of corporation, inhabitants' and enterprise taxes. The statutory income tax rate is 41.0% for the fiscal years ended March 31, 2011 and 2012.

Reconciliations between the statutory tax rate and the effective tax rate for the fiscal years ended March 31, 2011 and 2012 are as follows:

| | 2011 | 2012 |
|---|-------|-------|
| Statutory tax rate | 41.0% | 41.0% |
| Increase (decrease) due to: | | |
| Permanently nondeductible expenses | 1.7 | 1.4 |
| Dividend income not taxable | 4.4 | 0.7 |
| Unrealized intercompany profit | 6.5 | 9.2 |
| Adjustment of deferred tax assets for enacted changes in tax laws and rates | — | 7.1 |
| Effects of realignment of subsidiaries | (0.6) | — |
| Tax credits | (3.8) | (1.4) |
| Differences of tax rates for overseas consolidated subsidiaries | (4.5) | (1.7) |
| Valuation allowance | (0.5) | (3.0) |
| Others | 2.2 | 2.9 |
| Effective tax rate | 46.4% | 56.2% |

Deferred tax assets and liabilities (both current and non-current) as of March 31, 2011 and 2012 are as follows:

| | Millions of yen | Thousands of U.S. dollars (Note 1) | |
|---|-----------------|---------------------------------------|-----------|
| | 2011 | 2012 | 2012 |
| Deferred tax assets: | | | |
| Inventories | ¥ 9,203 | ¥ 8,249 | \$100,426 |
| Depreciation | 7,015 | 3,761 | 45,788 |
| Unrealized intercompany profit in inventory and property, plant and equipment | 6,818 | 2,213 | 26,942 |
| Accrued expenses | 4,777 | 5,318 | 64,743 |
| Accrued retirement benefits | 6,294 | 7,307 | 88,958 |
| Accrued bonuses for employees | 4,240 | 4,639 | 56,477 |
| Write-down of investments in securities and other investments | 5,076 | 3,767 | 45,861 |
| Tax losses carried forward | 3,146 | 1,513 | 18,420 |
| Reserve for sales returns | 1,562 | 1,469 | 17,884 |
| Accrued enterprise tax | 570 | 243 | 2,958 |
| Other | 3,915 | 4,528 | 55,125 |
| Total gross deferred tax assets | 52,616 | 43,007 | 523,582 |
| Less: valuation allowance | (4,132) | (3,117) | (37,948) |
| Total deferred tax assets | ¥48,484 | ¥39,890 | \$485,634 |
| Deferred tax liabilities: | | | |
| Goodwill and other intangible assets | ¥28,158 | ¥25,393 | \$309,143 |
| Special tax-purpose reserve | 967 | 832 | 10,129 |
| Unrealized gains (losses) on available-for-sale securities | 258 | 511 | 6,221 |
| Removal cost of asset retirement obligation | 124 | 94 | 1,145 |
| Undistributed earnings of overseas consolidated subsidiaries | 621 | 727 | 8,851 |
| Other | 652 | 2,030 | 24,714 |
| Total deferred tax liabilities | ¥30,780 | ¥29,587 | \$360,203 |
| Net deferred tax assets | ¥17,704 | ¥10,303 | \$125,431 |

Shiseido Group subsidiaries in the Americas formerly recognized samples and promotional items associated with marketing activities at stores as assets when acquired and expensed them when shipped to customers. However, effective the fiscal year ended March 31, 2012 these subsidiaries began to expense these items when acquired as part of its efforts to standardize Group accounting policies. The Shiseido Group applied this change retrospectively and restated the consolidated financial statements for the fiscal year ended March 31, 2011 accordingly.

Retrospective application to the balance sheets as of March 31, 2011 reduced inventories by ¥1,725 million (\$21,001 thousand), and increased deferred tax assets in current assets by ¥661 million (\$8,047 thousand).

Following the promulgation on December 2, 2011 of the "Act for Partial Revision of the Income Tax Act, etc. for the Purpose of Creating Taxation System Responding to Changes in Economic and Social Structures" (Act No. 114 of 2011) and the "Act on Special Measures for Securing Financial Resources Necessary to Implement Measures for Reconstruction following the Great East Japan Earthquake" (Act No. 117 of 2011), the corporate tax rate was changed for fiscal years beginning on or after April 1, 2012, and the Special Reconstruction Corporation Tax was imposed for fiscal years beginning in the period from April 1, 2012 to March 31, 2015.

Consequently, the effective statutory tax rate used to measure deferred tax assets and liabilities related to temporary differences expected to reverse during fiscal years beginning on or after April 1, 2012 until March 31, 2015 changed from 41 percent to 38 percent. Also, the effective statutory tax rate used to measure deferred tax assets and liabilities related to temporary differences expected to reverse during fiscal years beginning on or after April 1, 2015 will be changed from 41 percent to 36 percent.

As a result of these changes, net deferred tax assets (after deducting deferred tax liabilities) as of March 31, 2012 decreased ¥2,743 million (\$33,394 thousand), while income taxes-deferred and unrealized gains on available-for-sale securities, net of taxes, increased ¥2,783 million (\$33,881 thousand) and ¥40 million (\$487 thousand), respectively.

10. CONTINGENT LIABILITIES

None applicable

11. NET ASSETS

Under Japanese laws and regulations, the entire amount paid for new shares must be designated as common stock. However, a company may, by a resolution of the Board of Directors, designate an amount not exceeding one half of the price of the new shares as additional paid-in capital, which is included in capital surplus.

Under the Japanese Companies Act ("the Act"), in cases where dividend distribution of surplus is made, the lesser of an amount equal to 10% of the dividend or the excess, if any, of 25% of common stock over the total of additional paid-in capital and legal earnings reserve, must be set aside as additional paid-in capital or legal earnings reserve. Legal earnings reserve is included in retained earnings in the accompanying consolidated balance sheets. Under the Act, both legal earnings reserve and additional paid-in capital used to eliminate or reduce a deficit generally require a resolution of the shareholders' meeting.

Additional paid-in capital and legal earnings reserve may not be distributed as dividends. Under the Act, all additional paid-in capital and legal earnings reserve may be transferred to other capital surplus and retained earnings under certain conditions. The maximum amount that the Company can distribute as dividends is calculated based on the non-consolidated financial statements of the Company in accordance with the Act. Under the Act, companies can pay a dividend at any time during the fiscal year in addition to the year-end dividend upon resolution at the shareholders' meeting. For companies that meet certain criteria such as: (1) having a Board of Directors, (2) having accounting auditors, (3) having a Board of Corporate Auditors, and (4) the term of service of the directors is prescribed as one year rather than two years as the normal term by its articles of incorporation, the Board of Directors may declare a dividend if the company has prescribed so in its articles of incorporation.

A semiannual interim dividend may also be paid once a year upon resolution by the Board of Directors if the articles of incorporation of the company so stipulate. Cash dividends charged to retained earnings during the fiscal year were the year-end cash dividend for the preceding fiscal year and the interim cash dividend for the current fiscal year.

Appropriations are not accrued in the consolidated financial statements for the corresponding period, but are recorded in the subsequent accounting period after shareholders' meeting approval has been obtained.

Retained earnings at March 31, 2012 include amounts representing year-end cash dividend of ¥9,950 million (\$121,135 thousand), ¥25.0 (\$0.30) per share, which was approved at the shareholders' meeting held on June 26, 2012.

12. STOCK OPTION PLAN

Summarized information on the stock options granted as of March 31, 2012 is as follows:

① Stock option plan approved by the shareholders on June 27, 2002

| | Stock options granted on July 16, 2002 | Total |
|--|---|----------------|
| Number of shares for options granted | 578,000 shares | 578,000 shares |
| Number of shares for options outstanding | 196,000 shares | 196,000 shares |
| Exercise price | ¥1,669 | |
| Exercisable period | July 1, 2004 - June 26, 2012 | |

② Stock option plan approved by the shareholders on June 27, 2003

| | Stock options granted on July 31, 2003 | Total |
|--|---|----------------|
| Number of shares for options granted | 878,000 shares | 878,000 shares |
| Number of shares for options outstanding | 104,000 shares | 104,000 shares |
| Exercise price | ¥1,287 | |
| Exercisable period | July 1, 2005 - June 26, 2013 | |

③ Stock option plan approved by the shareholders on June 29, 2004

| | Stock options granted on July 26, 2004 | Total |
|--|---|------------------|
| Number of shares for options granted | 1,004,000 shares | 1,004,000 shares |
| Number of shares for options outstanding | 455,000 shares | 455,000 shares |
| Exercise price | ¥1,427 | |
| Exercisable period | July 1, 2006 - June 28, 2014 | |

④ Stock option plan approved by the shareholders on June 29, 2005

| | Stock options granted on July 28, 2005 | Total |
|--|---|----------------|
| Number of shares for options granted | 261,000 shares | 261,000 shares |
| Number of shares for options outstanding | 246,000 shares | 246,000 shares |
| Exercise price | ¥1,481 | |
| Exercisable period | July 1, 2007 - June 28, 2015 | |

⑤ Stock option plan approved by the shareholders on June 29, 2006 and resolved by the Board of Directors on July 31, 2006.

| | Stock options granted on August 23, 2006 | Stock options granted on August 23, 2006 | Total |
|--|---|---|----------------|
| Number of shares for options granted | 67,000 shares | 74,000 shares | 141,000 shares |
| Number of shares for options outstanding | 67,000 shares | 74,000 shares | 141,000 shares |
| Exercise price | ¥2,300 | ¥2,300 | |
| Exercisable period | August 1, 2008 - July 30, 2016 | August 1, 2008 - July 30, 2016 | |

⑥ Stock option plan approved by the shareholders on June 26, 2007 and resolved by the Board of Directors on July 31, 2007.

| | Stock options granted on August 23, 2007 | Stock options granted on August 23, 2007 | Total |
|--|---|---|----------------|
| Number of shares for options granted | 81,000 shares | 78,000 shares | 159,000 shares |
| Number of shares for options outstanding | 81,000 shares | 78,000 shares | 159,000 shares |
| Exercise price | ¥2,615 | ¥2,615 | |
| Exercisable period | August 1, 2009 - July 30, 2017 | August 1, 2009 - July 30, 2017 | |

⑦ Stock option plan approved by the shareholders on June 25, 2008 and resolved by the Board of Directors on July 31, 2008.

| | Stock options granted on August 21, 2008 | Stock options granted on August 21, 2008 | Total |
|--|---|---|---------------|
| Number of shares for options granted | 46,000 shares | 40,000 shares | 86,000 shares |
| Number of shares for options outstanding | 18,000 shares | 30,000 shares | 48,000 shares |
| Exercise price | ¥1 | ¥1 | |
| Exercisable period | August 1, 2011 - July 30, 2018 | August 1, 2011 - July 30, 2018 | |

⑧ Stock option plan approved by the shareholders on June 24, 2009 and resolved by the Board of Directors on July 31, 2009.

| | Stock options granted on August 28, 2009 | Stock options granted on August 28, 2009 | Total |
|--|---|---|----------------|
| Number of shares for options granted | 81,400 shares | 53,500 shares | 134,900 shares |
| Number of shares for options outstanding | 81,400 shares | 53,500 shares | 134,900 shares |
| Exercise price | ¥1 | ¥1 | |
| Exercisable period | August 1, 2012 - July 31, 2019 | August 1, 2012 - July 31, 2019 | |

⑨ Stock option plan approved by the shareholders on June 25, 2010 and resolved by the Board of Directors on July 29, 2010.

| | Stock options granted on August 30, 2010 | Stock options granted on August 30, 2010 | Total |
|--|---|---|----------------|
| Number of shares for options granted | 59,100 shares | 46,800 shares | 105,900 shares |
| Number of shares for options outstanding | 59,100 shares | 46,800 shares | 105,900 shares |
| Exercise price | ¥1 | ¥1 | |
| Exercisable period | August 1, 2013 - July 31, 2020 | August 1, 2013 - July 31, 2020 | |

⑩ Stock option plan approved by the shareholders on June 24, 2011 and resolved by the Board of Directors on July 29, 2011.

| | Stock options granted on August 30, 2011 | Stock options granted on August 30, 2011 | Total |
|--|---|---|----------------|
| Number of shares for options granted | 90,800 shares | 63,600 shares | 154,400 shares |
| Number of shares for options outstanding | 90,800 shares | 63,600 shares | 154,400 shares |
| Exercise price | ¥1 | ¥1 | |
| Exercisable period | August 1, 2014 - July 31, 2026 | August 1, 2014 - July 31, 2026 | |

13. RESEARCH AND DEVELOPMENT EXPENSES

Research and development expenses are expensed as incurred.

Research and development expenses, which are included in selling, general and administrative expenses, totaled ¥14,467 million and ¥14,674 million (\$178,646 thousand) for the fiscal years ended March 31, 2011 and 2012, respectively. There are no research and development expenses included in total manufacturing expenses for the fiscal years ended March, 31, 2011 and 2012.

14. TRANSACTIONS WITH RELATED PARTIES

The Company received ¥11 million from Yasuhiko Harada, then Director, Corporate Senior Executive Officer of the Company, in connection with the exercise of new stock acquisition rights (stock options) in the fiscal year ended March 31, 2011.

There are no transactions with related parties in the fiscal year ended March 31, 2012.

15. ACCOUNTING FOR LEASES

The Companies have various lease agreements whereby the Companies act both as a lessee and a lessor.

(1) Finance leases

Non-ownership-transfer finance lease transactions

① As lessee:

Leased assets mainly consist of mold tools, fixtures for sale, and software.

② As lessor:

None applicable

(2) Operating leases

Lease obligation under operating leases at March 31, 2011 and 2012 are as follows:

| | Millions of yen | | Thousands of U.S. dollars (Note 1) |
|---|-----------------|---------|---------------------------------------|
| | 2011 | 2012 | 2012 |
| ① As lessee: | | | |
| The scheduled maturities of future lease rental payments on such non-cancelable lease contracts are as follows: | | | |
| Due within one year | ¥ 3,910 | ¥ 4,234 | \$ 51,546 |
| Due after one year | 19,532 | 17,460 | 212,564 |
| | ¥23,442 | ¥21,694 | \$264,110 |
| ② As lessor: | | | |
| The scheduled maturities of future lease rental payments on such non-cancelable lease contracts are as follows: | | | |
| Due within one year | ¥ 214 | ¥ 214 | \$ 2,605 |
| Due after one year | 5,886 | 5,672 | 69,053 |
| | ¥6,100 | ¥5,886 | \$71,658 |

16. DERIVATIVE FINANCIAL INSTRUMENTS

The contract amount, estimated fair value and unrealized gain (loss) of the derivative instruments as of March 31, 2011 are as follows:

① Derivatives that do not meet the criteria for hedge accounting

| | Millions of yen | | | |
|---------------------------------------|-----------------|--------------------------|-------------------------|---------------------------|
| | 2011 | | | |
| | Contract amount | | | |
| | Total | Settled over one year | Estimated fair value | Unrealized gain (loss) |
| Foreign exchange contracts: Put US\$ | ¥4,498 | — | ¥4,522 | ¥(24) |
| GBP | 1,300 | — | 1,288 | 12 |
| AU\$ | 62 | — | 66 | (4) |
| Foreign exchange contracts: Call US\$ | 1,198 | — | 1,219 | 21 |
| EUR | 425 | — | 423 | (2) |
| Interest rate swap contracts: | | | | |
| To receive variable/to pay fixed | 1,629 | — | (41) | (41) |
| | — | — | — | ¥(38) |

② Derivatives that meet the criteria for hedge accounting

| Millions of yen | | | |
|---|-----------------|-----------------------|----------------------|
| | 2011 | | |
| | Contract amount | | Estimated fair value |
| | Total | Settled over one year | |
| Interest rate and currency swap contracts: | | | |
| To receive variable U.S.\$/to pay fixed yen | ¥25,000 | ¥25,000 | ¥(2,149) |
| Interest rate swap contracts: | | | |
| To receive variable/to pay fixed | 24,850 | 24,050 | (407) |

The contract amount, estimated fair value and unrealized gain (loss) of the derivative instruments as of March 31, 2012 are as follows:

① Derivatives that do not meet the criteria for hedge accounting

| Millions of yen | | | | |
|---------------------------------------|-----------------|-----------------------|----------------------|------------------------|
| | 2012 | | | |
| | Contract amount | | | Unrealized gain (loss) |
| | Total | Settled over one year | Estimated fair value | |
| Foreign exchange contracts: Put US\$ | ¥3,501 | — | ¥3,661 | ¥(160) |
| GBP | 1,456 | — | 1,511 | (55) |
| AU\$ | 77 | — | 82 | (5) |
| Foreign exchange contracts: Call US\$ | 600 | — | 618 | 18 |
| EUR | 302 | — | 303 | 1 |
| Interest rate swap contracts: | | | | |
| To receive variable/to pay fixed | — | — | — | — |
| | — | — | — | ¥(201) |

| Thousands of U.S. dollars (Note 1) | | | | |
|---------------------------------------|-----------------|-----------------------|----------------------|------------------------|
| | 2012 | | | |
| | Contract amount | | | Unrealized gain (loss) |
| | Total | Settled over one year | Estimated fair value | |
| Foreign exchange contracts: Put US\$ | \$42,622 | — | \$44,570 | \$(1,948) |
| GBP | 17,726 | — | 18,395 | (669) |
| AU\$ | 937 | — | 998 | (61) |
| Foreign exchange contracts: Call US\$ | 7,305 | — | 7,524 | 219 |
| EUR | 3,677 | — | 3,689 | 12 |
| Interest rate swap contracts: | | | | |
| To receive variable/to pay fixed | — | — | — | — |
| | — | — | — | \$(2,447) |

② Derivatives that meet the criteria for hedge accounting

| Millions of yen | | | |
|---|-----------------|-----------------------|----------------------|
| | 2012 | | |
| | Contract amount | | Estimated fair value |
| | Total | Settled over one year | |
| Interest rate and currency swap contracts: | | | |
| To receive variable U.S.\$/to pay fixed yen | ¥25,000 | ¥22,500 | ¥(2,610) |
| Interest rate swap contracts: | | | |
| To receive variable/to pay fixed | 24,050 | 23,250 | (265) |

| Thousands of U.S. dollars (Note 1) | | | |
|---|-----------------|-----------------------|----------------------|
| | 2012 | | |
| | Contract amount | | Estimated fair value |
| | Total | Settled over one year | |
| Interest rate and currency swap contracts: | | | |
| To receive variable U.S.\$/to pay fixed yen | \$304,358 | \$273,923 | \$(31,775) |
| Interest rate swap contracts: | | | |
| To receive variable/to pay fixed | 292,793 | 283,053 | (3,226) |

17. IMPAIRMENT LOSS

To assess impairment, the Companies pool their business-use assets separately from their idle assets.

Business-use assets are generally pooled according to the minimum independent cash-flow-generating unit, based on business classification. Idle assets are pooled according to each separate property. Business-use assets mainly have been devalued from book value to recoverable value, with the differences reported as other expenses. Idle assets whose market values have declined, mainly due to be sold, have been devalued from book value to recoverable value, with the differences reported as other expenses. Recoverable values are calculated according to estimated net sale values, which are mainly based on their expected sale value.

Impairment losses for the years ended March 31, 2011 and 2012 are as follows:

| | Millions of yen | Thousands of U.S. dollars (Note 1) | |
|--------------------------------|-----------------|------------------------------------|---------|
| | 2011 | 2012 | 2012 |
| Domestic | | | |
| Business-use assets: | | | |
| Buildings and structures, etc. | ¥ 79 | — | — |
| Machinery and equipment | 1 | — | — |
| Idle assets: | | | |
| Land | 11 | — | — |
| Buildings and structures, etc. | 8 | ¥19 | \$ 231 |
| Machinery and equipment | 10 | — | — |
| Overseas | | | |
| Long-term prepaid expenses | 82 | — | — |
| Buildings and structures, etc. | 264 | — | — |
| Machinery and equipment | 3 | — | — |
| Software | — | 77 | 938 |
| | ¥458 | ¥96 | \$1,169 |

18. OTHER COMPREHENSIVE INCOME

The components of other comprehensive income including reclassification adjustments and tax (expense) or benefit are as follows:

| | Millions of yen | Thousands of U.S. dollars (Note 1) |
|---|-----------------|------------------------------------|
| | 2012 | 2012 |
| Unrealized gains (losses) on available-for-sale securities, net of taxes: | | |
| Increase (decrease) during the fiscal year | ¥ 838 | \$ 10,202 |
| Reclassification adjustments | (6) | (73) |
| Amount before tax | 832 | 10,129 |
| Tax (expense) or benefit | (270) | (3,287) |
| Subtotal | ¥ 562 | \$ 6,842 |
| Foreign currency translation adjustments: | | |
| Increase (decrease) during the fiscal year | ¥(11,945) | \$(145,423) |
| Reclassification adjustments | (200) | (2,435) |
| Subtotal | ¥(12,145) | \$(147,858) |
| Share of other comprehensive income of associates accounted for using equity method: | | |
| Increase (decrease) during the fiscal year | ¥ (19) | \$ (231) |
| Total other comprehensive income | ¥(11,602) | \$(141,247) |

19. LOSS ON DISASTER

Loss on disaster represents the costs and expenses that were incurred as a result of the Great East Japan Earthquake.

The amounts recorded in the fiscal year ended March 31, 2011 mainly consist of the provision for reserve for loss on disaster of ¥923 million and the fixed costs incurred during the period of emergency shutdown that occurred subsequent to the disaster of ¥215 million.

There is no loss on disaster during the fiscal year ended March 31, 2012.

20. SEGMENT INFORMATION

(1) General information about reportable segments

With respect to its reportable segments, the Company is able to obtain discrete financial data from among its component units. Accordingly, its segments are subject to regular review in order to assist decision-making on allocation of managerial resources and evaluation of business performance by the Board of Directors.

The Company's main business is the production and sale of cosmetics. Under a business structure classified according to domestic and global regions, various business departments in the head office formulate comprehensive strategies and promote business activities. Consequently, the Company has classified its operations into two segments along geographical lines: Domestic Cosmetics Business and Global Business.

The Domestic Cosmetics Business segment includes the domestic cosmetics business (production and sale of cosmetics, cosmetics accessories, and toiletries), the healthcare business (production and sale of health & beauty foods and over-the-counter drugs), and the production and sale of non-Shiseido-brand products and mail-order products, etc.

The Global Business segment covers the overseas cosmetics business (production and sale of cosmetics, cosmetics accessories, and toiletries) and the domestic and overseas professional business (production and sale of beauty salon products), etc.

(2) Basis of measurement for reported segment sales, profit or loss, segment assets and other material items

The accounting treatment method for the Group's reported business segments is generally the same as described in 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES. Also, segment income is based on operating income.

The prices of intersegment transactions and transfers are determined by price negotiations based on the Company's submission of preferred prices after taking market conditions into account.

(3) Information about reported segment sales, profit or loss, segment assets and other material items

Segment information as of and for the fiscal years ended March 31, 2011 and 2012 are as follows:

| Millions of yen | | | | | | |
|--|-----------------------------|-----------------|----------|----------|--------------|----------|
| | 2011 | | | | | |
| | Domestic Cosmetics Business | Global Business | Others*1 | Subtotal | Adjustment*2 | Total |
| Net Sales | | | | | | |
| Sales to outside customers | ¥358,408 | ¥302,633 | ¥ 9,660 | ¥670,701 | — | ¥670,701 |
| Intersegment sales or transfers | 1,829 | 2,480 | 6,428 | 10,737 | ¥(10,737) | — |
| Total | ¥360,237 | ¥305,113 | ¥16,088 | ¥681,438 | ¥(10,737) | ¥670,701 |
| Segment Income *3 | ¥ 33,573 | ¥ 9,026 | ¥ 1,838 | ¥ 44,437 | ¥ 21 | ¥ 44,458 |
| Segment Assets *4 | ¥212,505 | ¥423,363 | ¥47,439 | ¥683,307 | ¥ 55,813 | ¥739,120 |
| Other Items | | | | | | |
| Depreciation and Amortization | ¥ 15,351 | ¥ 12,918 | ¥ 1,205 | ¥ 29,474 | ¥ 37 | ¥ 29,511 |
| Amortization of Goodwill | ¥ 142 | ¥ 5,062 | — | ¥ 5,204 | — | ¥ 5,204 |
| Increase in Tangible and Intangible Fixed Assets | ¥ 11,175 | ¥ 15,686 | ¥ 350 | ¥ 27,211 | — | ¥ 27,211 |

| Millions of yen | | | | | | |
|--|-----------------------------|-----------------|----------|----------|--------------|----------|
| | 2012 | | | | | |
| | Domestic Cosmetics Business | Global Business | Others*1 | Subtotal | Adjustment*2 | Total |
| Net Sales | | | | | | |
| Sales to outside customers | ¥353,789 | ¥319,679 | ¥ 8,918 | ¥682,386 | — | ¥682,386 |
| Intersegment sales or transfers | 2,049 | 2,290 | 5,086 | 9,425 | ¥ (9,425) | — |
| Total | ¥355,838 | ¥321,969 | ¥14,004 | ¥691,811 | ¥ (9,425) | ¥682,386 |
| Segment Income *3 | ¥ 29,459 | ¥ 8,213 | ¥ 1,381 | ¥ 39,053 | ¥ 82 | ¥ 39,135 |
| Segment Assets | ¥210,319 | ¥406,674 | ¥45,392 | ¥662,385 | ¥58,323 | ¥720,708 |
| Other Items | | | | | | |
| Depreciation and Amortization | ¥ 15,184 | ¥ 14,383 | ¥ 1,079 | ¥ 30,646 | ¥ 37 | ¥ 30,683 |
| Amortization of Goodwill | ¥ 142 | ¥ 5,377 | — | ¥ 5,519 | — | ¥ 5,519 |
| Increase in Tangible and Intangible Fixed Assets | ¥ 17,458 | ¥ 16,486 | ¥ 357 | ¥ 34,301 | — | ¥ 34,301 |

Thousands of U.S. dollars (Note 1)

| | 2012 | | | | | |
|--|-----------------------------|-----------------|-----------|-------------|--------------|-------------|
| | Domestic Cosmetics Business | Global Business | Others*1 | Subtotal | Adjustment*2 | Total |
| Net Sales | | | | | | |
| Sales to outside customers | \$4,307,146 | \$3,891,880 | \$108,571 | \$8,307,597 | — | \$8,307,597 |
| Intersegment sales or transfers | 24,945 | 27,879 | 61,919 | 114,743 | \$(114,743) | — |
| Total | \$4,332,091 | \$3,919,759 | \$170,490 | \$8,422,340 | \$(114,743) | \$8,307,597 |
| Segment Income *3 | \$ 358,644 | \$ 99,988 | \$ 16,813 | \$ 475,445 | \$ 998 | \$ 476,443 |
| Segment Assets | \$2,560,494 | \$4,950,986 | \$552,618 | \$8,064,098 | \$ 710,044 | \$8,774,142 |
| Other Items | | | | | | |
| Depreciation and Amortization | \$ 184,855 | \$ 175,104 | \$ 13,136 | \$ 373,095 | \$ 450 | \$ 373,545 |
| Amortization of Goodwill | \$ 1,729 | \$ 65,461 | — | \$ 67,190 | — | \$ 67,190 |
| Increase in Tangible and Intangible Fixed Assets | \$ 212,540 | \$ 200,706 | \$ 4,346 | \$ 417,592 | — | \$ 417,592 |

*1. "Others" include businesses not included in the other units of segment reporting. These include the frontier science business (production and sale of cosmetics raw materials, medical-use drugs, medical cosmetics, etc.) and the restaurant business, etc.

*2. Below is a description of adjustments.

(1) The "Segment Income" adjustment refers to intersegment transaction eliminations.

(2) The "Company-wide assets (not allocated to specific segments)" included in the "Segment Assets" adjustment line as of March 31, 2011 and 2012 were ¥58,430 million and ¥60,888 million (\$741,271 thousand), consisting mainly of assets not belonging to specific segments (cash and time deposits, short-term investments in securities, investments in securities, etc.) and assets related to administrative operations. Moreover, the "Intersegment eliminations" included in the "Segment Assets" adjustment line as of March 31, 2011 and 2012 were ¥2,617 million and ¥2,565 million (\$31,227 thousand).

(3) The "Depreciation and Amortization" adjustment refers to depreciation expenses related to companywide assets and intersegment eliminations. Long-term prepaid expenses are included in "Depreciation and Amortization" and "Increase in Tangible and Intangible Fixed Assets."

*3. Segment income is adjusted for Operating Income described in the Consolidated Statements of Income.

*4. Shiseido Group subsidiaries in the Americas formerly recognized samples and promotional items associated with marketing activities at stores as assets when acquired and expensed them when shipped to customers. However, effective the fiscal year ended March 31, 2012 these subsidiaries began to expense these items when acquired as part of its efforts to standardize Group accounting policies. The Shiseido Group applied this change retrospectively and restated the consolidated financial statements for the fiscal year ended March 31, 2011 accordingly. The change in policy has been applied retrospectively to the Consolidated Financial Statements for the fiscal year ended March 31, 2011. Compared with the previous accounting method, segment assets of the Global Business in the fiscal year ended March 31, 2011 declined ¥1,064 million (\$12,954 thousand).

(Related Information)

For the fiscal year ended March 31, 2011

a. Information on products and services

Because sales to outside customers in the cosmetics business exceed 90% of net sales of the consolidated statements of income, the Company omits this description.

b. Geographical information

① Net sales

| Millions of yen | | | | | | |
|-----------------|----------|---------|---------|----------------|---------|----------|
| 2011 | | | | | | |
| Japan | Americas | | Europe | Asia / Oceania | | Total |
| | | U.S.A. | | | China | |
| ¥382,866 | ¥87,590 | ¥77,430 | ¥78,193 | ¥122,052 | ¥81,016 | ¥670,701 |

* Classification of net sales is determined by country or geographical location.

② Tangible fixed assets

| Millions of yen | | | | | | |
|-----------------|----------|---------|--------|----------------|--|----------|
| 2011 | | | | | | |
| Japan | Americas | | Europe | Asia / Oceania | | Total |
| | | U.S.A. | | | | |
| ¥93,345 | ¥13,220 | ¥13,150 | ¥7,583 | ¥17,073 | | ¥131,221 |

Notes to the Consolidated Financial Statements

For the fiscal year ended March 31, 2012

a. Information on products and services

Because sales to outside customers in the cosmetics business exceed 90% of net sales of the consolidated statements of income, the Company omits this description.

b. Geographical information

① Net sales

| Millions of yen | | | | | | |
|-----------------|----------|---------|---------|----------------|---------|----------|
| 2012 | | | | | | |
| Japan | Americas | | Europe | Asia / Oceania | | Total |
| | | U.S.A. | | | China | |
| ¥379,963 | ¥90,485 | ¥77,643 | ¥82,220 | ¥129,718 | ¥89,144 | ¥682,386 |

| Thousands of U.S. dollars (Note 1) | | | | | | |
|------------------------------------|-------------|-----------|-------------|----------------|-------------|-------------|
| 2012 | | | | | | |
| Japan | Americas | | Europe | Asia / Oceania | | Total |
| | | U.S.A. | | | China | |
| \$4,625,797 | \$1,101,595 | \$945,252 | \$1,000,974 | \$1,579,231 | \$1,085,269 | \$8,307,597 |

* Classification of net sales is determined by country or geographical location.

② Tangible fixed assets

| Millions of yen | | | | | | |
|-----------------|----------|---------|--------|----------------|--|----------|
| 2012 | | | | | | |
| Japan | Americas | | Europe | Asia / Oceania | | Total |
| | | U.S.A. | | | | |
| ¥91,472 | ¥13,303 | ¥13,246 | ¥7,460 | ¥17,562 | | ¥129,797 |

| Thousands of U.S. dollars (Note 1) | | | | | | |
|------------------------------------|-----------|-----------|----------|----------------|--|-------------|
| 2012 | | | | | | |
| Japan | Americas | | Europe | Asia / Oceania | | Total |
| | | U.S.A. | | | | |
| \$1,113,611 | \$161,955 | \$161,261 | \$90,820 | \$213,806 | | \$1,580,192 |

(4) Information about segment loss on impairment of fixed assets

For the fiscal year ended March 31, 2011

| Millions of yen | | | | |
|------------------------------------|-----------------------------|-----------------|--------|-------|
| 2011 | | | | |
| | Domestic Cosmetics Business | Global Business | Others | Total |
| Loss on impairment of fixed assets | ¥102 | ¥354 | ¥2 | ¥458 |

For the fiscal year ended March 31, 2012

| Millions of yen | | | | |
|------------------------------------|-----------------------------|-----------------|--------|-------|
| 2012 | | | | |
| | Domestic Cosmetics Business | Global Business | Others | Total |
| Loss on impairment of fixed assets | ¥11 | ¥85 | ¥0 | ¥96 |

| Thousands of U.S. dollars (Note 1) | | | | |
|------------------------------------|-----------------------------|-----------------|--------|---------|
| 2012 | | | | |
| | Domestic Cosmetics Business | Global Business | Others | Total |
| Loss on impairment of fixed assets | \$134 | \$1,035 | \$0 | \$1,169 |

(5) Information about segment unamortized goodwill

For the fiscal year ended March 31, 2011

| Millions of yen | | | | |
|---|-----------------------------|-----------------|--------|---------|
| 2011 | | | | |
| | Domestic Cosmetics Business | Global Business | Others | Total |
| Balance at the end of the current fiscal year | ¥1,561 | ¥92,562 | — | ¥94,123 |

For the fiscal year ended March 31, 2012

| Millions of yen | | | | |
|---|-----------------------------|-----------------|--------|---------|
| | 2012 | | | |
| | Domestic Cosmetics Business | Global Business | Others | Total |
| Balance at the end of the current fiscal year | ¥1,419 | ¥83,121 | — | ¥84,540 |

| Thousands of U.S. dollars (Note 1) | | | | |
|---|-----------------------------|-----------------|--------|-------------|
| | 2012 | | | |
| | Domestic Cosmetics Business | Global Business | Others | Total |
| Balance at the end of the current fiscal year | \$17,275 | \$1,011,943 | — | \$1,029,218 |

21. BUSINESS COMBINATION

For the fiscal year ended March 31, 2011

(Application of the purchase method)

On March 8, 2010, the Company completed a tender offer through its acquisition subsidiary, Blush Acquisition Corporation (BAC), to acquire all the outstanding shares of common stock of Bare Escentuals, Inc. (Bare Escentuals) with cash. Following the acquisition, BAC implemented a short-form merger under Delaware law with Bare Escentuals, which is the surviving company.

The Company accounted for the components of the purchase price of Bare Escentuals, which became a consolidated subsidiary, on a provisional accounting treatment at March 31, 2010. The purchase price allocation was finalized in the fiscal year ended March 31, 2011.

(1) Purchase price of the acquired company

| | |
|--|------------------------|
| Cash paid to acquire tendered shares | US\$1,633,296 thousand |
| Cash paid to purchase the stock options of Bare Escentuals employees | US\$66,970 thousand |
| Contingent consideration | US\$30,411 thousand |
| Total acquisition price | US\$1,730,677 thousand |

(2) Accounting for contractually obligated contingent consideration

① Contingent consideration

Contingent consideration consists of contractually stipulated payments after a specified period from the fiscal year ending March 31, 2012.

② Accounting policy

The Shiseido Group recognized the contingent consideration discussed above in accordance with accounting standards generally accepted in the United States

(3) Goodwill recognized, reason for recognition, and amortization method and period

① Goodwill recognized

¥91,503 million

② Reason for recognition

The goodwill resulted from reasonable estimates of future excess earnings, including expected synergies, of the acquired company as a result of anticipated business development

③ Amortization method and period

20 years using the straight-line method

(4) Period for which the acquired company's financial results are included in the consolidated financial statements

From March 8, 2010 to December 31, 2010

(5) Summary of assets and liabilities assumed at date of business combination

| | |
|-----------------------|------------------|
| Current assets | ¥34,690 million |
| Non-current assets | ¥179,800 million |
| Total assets | ¥214,490 million |
| Current liabilities | ¥5,701 million |
| Long-term liabilities | ¥52,305 million |
| Total liabilities | ¥58,006 million |

Significant intangible assets other than goodwill acquired in the business combination included in the acquisition price were as follows.

| | |
|--|-----------------|
| Customer relationships (amortized over 10 years) | ¥40,300 million |
| Trademarks (mostly not subject to amortization) | ¥39,985 million |

Note: The yen amounts in the table above are calculated using the rate of ¥90.42 to US\$1, the rate in effect as of the date of the business combination. Accordingly, the amount of goodwill recorded as a result of this business combination and included in the consolidated balance sheets is different from the amount of the goodwill reported in Note (3) ① above.

(6) Estimated impact on the consolidated statements of income for the fiscal year ended March 31, 2011 if the business combination had been completed as of the beginning of the fiscal year ended March 31, 2011

| | |
|----------------|----------------|
| Net sales | ¥8,099 million |
| Operating loss | ¥190 million |

(Estimate methodology and main assumptions)

- ① Estimated impact on sales and income is the difference between the sale and income of the acquired company and the Company's consolidated income statements assuming the business combination had been completed as of the beginning of the fiscal year ended March 31, 2011. This impact includes the amortization of customer relationship intangible assets and goodwill from January 1, 2010 until the date of business combination. Advisory fees that Bare Escentuals paid to its financial advisors and the cost of purchasing the stock options of Bare Escentuals employees paid by Bare Escentuals during the period from January 1, 2010 to the date of business combination are not included.
- ② The above yen amounts are calculated using the rate of ¥90.71 to US\$1, the average exchange rate for the period from January 1, 2010 to March 31, 2010.
- ③ These notes have not been audited.

For the fiscal year ended March 31, 2012

None applicable

22. SUBSEQUENT EVENT

None applicable

Independent Auditor's Report



To the Shareholders and Board of Directors of
Shiseido Company, Limited:

We have audited the accompanying consolidated financial statements of Shiseido Company, Limited and its consolidated subsidiaries, which comprise the consolidated balance sheets as at March 31, 2012 and 2011, and the consolidated statements of income and comprehensive income, statements of changes in net assets and statements of cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in Japan, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatements, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in Japan. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our judgement, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, while the objective of the financial statement audit is not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Shiseido Company, Limited and its consolidated subsidiaries as at March 31, 2012 and 2011, and their financial performance and cash flows for the years then ended in accordance with accounting principles generally accepted in Japan.

Convenience Translation

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended March 31, 2012 are presented solely for convenience. Our audit also included the translation of yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made on the basis described in Note 1 to the consolidated financial statements.

KPMG AZSA LLC

Tokyo, Japan
June 26, 2012

Milestones

| | |
|------|---|
| 1872 | Arinobu Fukuhara founded Shiseido Pharmacy, Japan's first Western-style pharmacy |
| 1897 | Entered the cosmetics business with the launch of <i>Eudermine</i> skin lotion, which applied Western pharmaceutical theory for the first time in Japan |
| 1902 | Introduced Soda Fountain (currently Shiseido Parlour) within the Shiseido Pharmacy in Ginza |
| 1915 | Shinzo Fukuhara, Arinobu Fukuhara's third son, was appointed as the first president The <i>HANATSUBAKI</i> logo adopted as the Company trademark |
| 1916 | Established the Design Department (currently Advertising Creation Department) and Laboratory (currently Shiseido Research Center) |
| 1923 | Introduced the voluntary Shiseido Cosmetics Chain Store System |
| 1927 | Became a joint stock company and introduced a sales company system |
| 1934 | Miss Shiseido (currently beauty consultants) debuted |
| 1937 | Founded the Camellia Club for loyal Shiseido customers |
| 1949 | Listed on the Tokyo Stock Exchange |
| 1957 | Commenced sales in Taiwan |
| 1961 | Shiseido's first campaign-style promotion, for the <i>Candy Tone</i> line |
| 1965 | Established Shiseido Cosmetics (America) Ltd. (currently Shiseido Americas Corporation) |
| 1967 | Reintroduced the <i>MG5</i> brand as Japan's first total line of products for men |
| 1968 | Established Shiseido Cosmetici (Italia) S.p.A. |
| 1973 | Opened a French restaurant, L'Osier, which earned a three-star rating in the Michelin Guide from 2007 to 2009 |
| 1980 | Established Shiseido France S.A. (currently Shiseido Europe S.A.S.) and Shiseido Deutschland GmbH |
| 1981 | Initiated sales in Beijing, China |
| 1988 | Acquired U.S.-based Zotos International, Inc. |
| 1990 | Established Beauté Prestige International S.A. in France |
| 1996 | Launched <i>clé de peau BEAUTÉ</i> |
| 1998 | Launched <i>Za</i> |
| 2000 | Acquired U.S.-based <i>NARS</i> brand, and France-based Laboratoires Decléor S.A.S. joined the Shiseido Group |
| 2004 | Announced participation in the United Nations Global Compact |
| 2006 | Launched <i>TSUBAKI</i> and established SHISEIDO LIFE QUALITY BEAUTY CENTER |
| 2009 | Launched Shiseido Earth Care Project environmental activities in which all Shiseido Group employees participate |
| 2010 | Acquired Bare Escentuals, Inc. Launched <i>SENKA</i> |
| 2011 | Established the Shiseido Group corporate philosophy, Our Mission, Values and Way |

Investor Information

(As of March 31, 2012)

Number of Shareholders

72,244

Common Shares Issued and Outstanding

400,000,000 (including 2,002,324 in treasury stock)

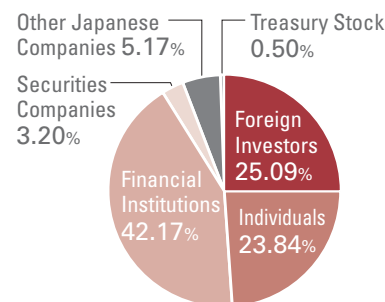
Principal Shareholders

| Shareholders | Number of shares held (thousands) | Percentage of shareholding |
|--|-----------------------------------|----------------------------|
| The Master Trust Bank of Japan, Ltd. (Trust Account) | 28,832 | 7.24 |
| Mizuho Bank, Ltd. | 23,526 | 5.91 |
| Japan Trustee Services Bank, Ltd. (Trust Account) | 16,715 | 4.19 |
| The Bank of New York Mellon as Depositary Bank for Depositary Receipt Holders* | 11,855 | 2.97 |
| Asahi Mutual Life Insurance Company | 11,744 | 2.95 |
| Shiseido Employees' Stockholding | 9,694 | 2.43 |
| NIPPONKOA Insurance Company, Ltd. | 8,477 | 2.13 |
| Mitsui Sumitomo Insurance Company, Limited | 8,000 | 2.01 |
| Nippon Life Insurance Company | 7,798 | 1.95 |
| SSBT OD05 OMNIBUS ACCOUNT - TREATY CLIENTS | 7,769 | 1.95 |

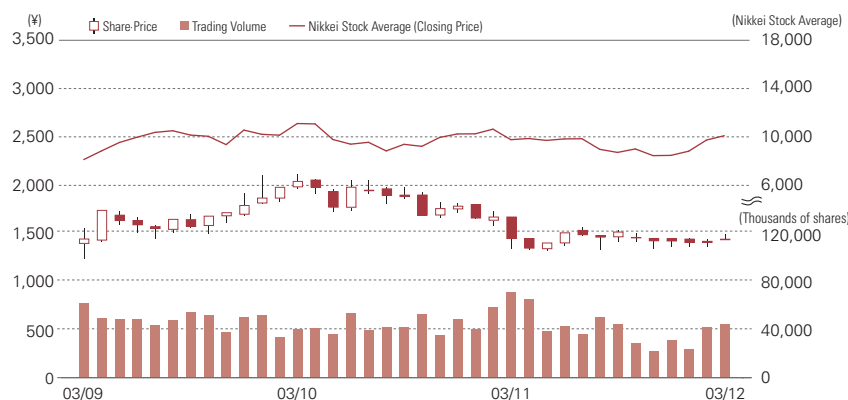
Calculations of percentage of shareholding are based on the total number of issued and outstanding shares and treasury stock.

* The Bank of New York Mellon as Depositary Bank for Depositary Receipt Holders is an owner of record for The Bank of New York Mellon, a depositary for American depositary receipts.

Composition of Shareholders



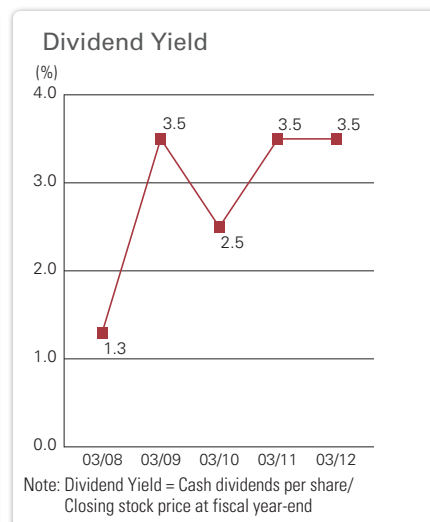
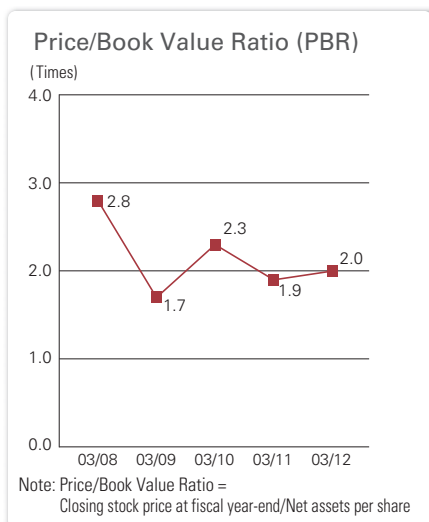
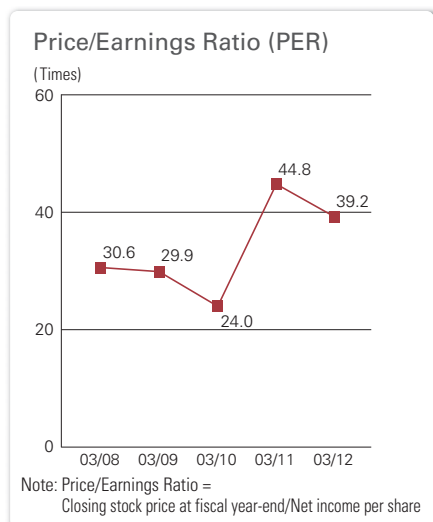
Monthly Share Price Range and Trading Volume



Composition of Shareholders (%)

| (By number of shares) | 2011 | 2012 |
|-----------------------------|-------|-------|
| Foreign Investors | 25.81 | 25.09 |
| Individuals | 22.90 | 23.84 |
| Financial Institutions | 43.14 | 42.17 |
| Securities Companies | 2.44 | 3.20 |
| Other Japanese Companies | 5.18 | 5.17 |
| Treasury Stock | 0.51 | 0.50 |
| (By number of shareholders) | 2011 | 2012 |
| Foreign Investors | 0.76 | 0.67 |
| Individuals | 97.80 | 98.01 |
| Financial Institutions | 0.27 | 0.25 |
| Securities Companies | 0.11 | 0.08 |
| Other Japanese Companies | 1.03 | 0.97 |
| Treasury Stock | 0.00 | 0.00 |

Stock Price Indicators



Corporate Information

(As of March 31, 2012)

Head Office

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

Foundation

September 17, 1872

Incorporation

June 24, 1927

Capital

¥64,506,725,140

Number of Employees

32,595 [13,672]

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

Fiscal Year-End

March 31

Shareholders' Meeting

The Ordinary General Meeting of Shareholders is normally held in June in Tokyo.

Stock Listings

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

American Depositary Receipts

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

Accounting Auditors

KPMG AZSA LLC

Share Registrar

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

For further information, please contact Investor Relations Department

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Website

Shiseido Group Corporate Website
<http://group.shiseido.com/>

Investor Relations Website
<http://group.shiseido.com/ir/>



This mark certifies use of the Certificate of Green Electricity through Solar Power provided by Tuvalu-Forest Corporation.

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SHISEIDO